

Weekly Emerging Markets Review

WEEK ENDING JUNE 30TH, 2017

Market Technicals

EM sovereign spreads narrowed seven basis points (bps) to 308 bps over U.S. Treasuries, while EM local currency yields widened three bps to 6.25%. The U.S. dollar-pay JP Morgan EMBI Global Diversified returned +6.3%, while the local currency JP Morgan GBI EM Global Diversified returned +10.7% (year-to-date through June 29, 2017).

News

Ghana's first quarter GDP growth registered a robust 6.6% y/y expansion, above the 4.1% y/y increase in Q4-16. The outturn was supported by a strong acceleration in the industrial sector, which grew by 11.5% y/y. In Vietnam, Q2-17 GDP printed 6.2% y/y, an uptick from the 5.1% y/y print in Q1-17.

In Asia, central banks remained on hold. The Sri Lankan Central Bank maintained its policy rate unchanged at 8.75%. In its statement, it noted that inflation pressures had begun to moderate, a trend that they expect to continue through year end. In the Philippines, the central bank left its benchmark rate unchanged at 3.0% y/y, citing an absence of price pressures, with inflation anchored within the central bank's 3% (+/-1%) band. Elsewhere, the Brazilian Monetary Council lowered its 2019 and 2020 inflation floor to 4.25% and 4.0%, respectively. The 2017 inflation target is 4.5% +/- 1.5%.

In political news, Brazil's attorney general formally filed charges of passive corruption against President Michel Temer. The accusations will be reviewed by Congress. However, there is a high hurdle for temporarily removing Temer from office; two thirds of the house would have to vote in favor of allowing a trial against him.

In ratings news, S&P lowered Ecuador's sovereign rating to 'B-' from 'B,' the country outlook is stable. In its statement, S&P highlighted a deterioration in the Ecuador's fiscal positions and its significant financing needs.

US Dollar-Denominated EM Bonds (in bps)

Spreads	06/29/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
EMBI Global Div	308	342	415	353	308	257
Investment Grade	176	205	268	222	203	149
BB-rated	268	322	364	328	324	228
B-rated	454	503	576	462	668	669

Local Currency-Denominated EM Bonds (in %)

Yields	06/29/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	6.25	6.79	7.13	6.50	6.85	5.45
Brazil	9.74	11.10	16.03	12.59	12.32	8.16
Indonesia	7.14	8.03	8.92	7.96	8.73	5.75
Turkey	10.44	10.91	10.62	7.95	10.02	6.38

Source: JP Morgan