

Weekly Emerging Markets Review

WEEK ENDING JULY 7TH, 2017

Market Technicals

EM sovereign spreads widened seven basis points (bps) to 316 bps over U.S. Treasuries, while EM local currency yields were flat at 6.25%. The U.S. dollar-pay JP Morgan EMBI Global Diversified returned +5.4%, while the local currency JP Morgan GBI EM Global Diversified returned +8.9% (year-to-date through July 6, 2017).

News

India rolled out its much-anticipated Goods and Services Tax on July 1, marking the fruition of one Prime Minister Narendra Modi's major reform priorities. The reform is designed to streamline India's complicated tax system, improve consumer efficiency and increase government revenues.

Purchasing Managers' Index (PMI) data for June were released in several countries. The closely-watched Caixin manufacturing PMI reading in China came in above expectations at 50.4, improving from 49.6 in May.

In Brazil, manufacturing PMI declined to 50.5 (from 52.0), and the data also softened in Russia (to 50.3), South Africa (to 46.7), Indonesia (to 49.5) and India (to 50.9). In contrast, Mexico's manufacturing PMI improved to 52.3; the data also moved higher in Poland (to 53.1), Turkey (to 54.7) and Thailand (to 50.4).

Among monetary policy decisions, Egypt surprised analysts by hiking its key rate by 200 basis points to 18.75%. The tightening was in response to a recent reduction in fuel price subsidies that is expected to push up already-high inflation. Poland's central bank held rates at 1.5%, and Governor Glapinski stated that he expects the policy rate to remain unchanged through 2018. In Romania, the central bank left rates steady at 1.75%; inflation remains below the target band, despite having picked up somewhat recently. The Bank of Thailand held the benchmark rate at 1.5%, with inflation projections falling despite improving growth prospects.

Moody's took negative credit actions in Gabon and Qatar. In Gabon, Moody's lowered the sovereign rating to B3 from B1, citing large fiscal financing needs. Qatar's Aa3 rating was moved to negative outlook in light of the conflict between Qatar and neighboring countries, which may extend for several months.

US Dollar-Denominated EM Bonds (in bps)

Spreads	07/07/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
EMBI Global Div	316	342	415	353	308	257
Investment Grade	178	205	268	222	203	149
BB-rated	274	322	364	328	324	228
B-rated	470	503	576	462	668	669

Local Currency-Denominated EM Bonds (in %)

Yields	07/07/17	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	9.56	11.10	16.03	12.59	12.32	8.16
Indonesia	7.35	8.03	8.92	7.96	8.73	5.75
Turkey	10.65	10.91	10.62	7.95	10.02	6.38

Source: JP Morgan