

# Weekly Emerging Markets Review

WEEK ENDING JULY 28TH, 2017

## Market Technicals

EM sovereign spreads tightened six basis points (bps) to 300 bps over U.S. Treasuries, while EM local currency yields were largely unchanged at 6.15%. The U.S. dollar-pay JP Morgan EMBI Global Diversified returned +7.1%, while the local currency JP Morgan GBI EM Global Diversified returned +12.6% (year-to-date through July 27, 2017).

## News

In Latin America, the Argentine central bank left its policy rate unchanged at 26.25%. It noted that July's inflation was likely to print higher than June's. In Brazil, the central bank cut its benchmark rate by 100 bps to 9.25%, as expected. The unanimous decision comes in the context of a sharp deceleration in inflation, which registered 3% y/y in June. The Colombian central bank delivered a 25 bps rate cut this week, lowering its policy rate to 5.5%. The central bank has reduced its reference rate by 225 bps from the recent peak in December 2016.

Elsewhere, the Russian Central Bank took a breather from its easing cycle, leaving its policy rate at 9%. In its statement, the board noted that it sees room for further rate cuts in H2-17. Similarly, in Turkey, the central bank maintained all of its key policy rates unchanged, in line with expectations. Its benchmark repurchase rate stands at 8%. In Ghana, the central bank reduced its benchmark rate by 150 bps, to 21%, noting that the disinflation process is likely to continue through the end of the third quarter.

Turning to politics, Pakistani Premier Nawaz Sharif was forced to resign following a Supreme Court decision disqualifying him from holding office. Sharif was serving his third term. The ruling is connected to a probe into the sources of Sharif's wealth after damaging information emerged in the Panama papers.

In other developments, tensions continued to build in Venezuela where the President, Nicolas Maduro, is moving forward with a "constituent assembly" that is being charged with rewriting the country's constitution. The move has been interpreted as a power grab, with the U.S. considering a wide array of sanctions. Separately, the U.S. is moving closer to imposing additional sanctions on Russia, with a bipartisan bill being sent to President Trump. The legislation will codify – and potentially enhance – the sanctions regime against Russia previously put in place through Executive Orders.

## US Dollar-Denominated EM Bonds (in bps)

Spreads	07/27/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
EMBI Global Div	300	342	415	353	308	257
Investment Grade	165	205	268	222	203	149
BB-rated	251	322	364	328	324	228
B-rated	443	503	576	462	668	669

## Local Currency-Denominated EM Bonds (in %)

Yields	07/27/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	6.15	6.79	7.13	6.50	6.85	5.45
Brazil	9.00	11.10	16.03	12.59	12.32	8.16
Indonesia	7.24	8.03	8.92	7.96	8.73	5.75
Turkey	10.54	10.91	10.62	7.95	10.02	6.38

Source: JP Morgan