

Weekly Emerging Markets Review

WEEK ENDING AUGUST 4TH, 2017

Market Technicals

EM sovereign spreads widened two basis points (bps) to 302 bps over U.S. Treasuries, while EM local currency yields narrowed seven bps to 6.08%. The U.S. dollar-pay JP Morgan EMBI Global Diversified returned +7.7%, while the local currency JP Morgan GBI EM Global Diversified returned +13% (year-to-date through August 3, 2017).

News

In Asia, the Central Bank of India (RBI) delivered a 25 bps cut, leaving the repurchase rate at 6%. In its decision, the board noted that inflation prints had fallen to historic lows and that upside risks to inflation had faded or failed to materialize. Elsewhere in Asia, the Sri Lankan central bank held rates steady at 7.25%, in line with expectations. In the Czech Republic, the central bank hiked 20 bps, to 25 bps. This was the central bank's first rate hike since 2008; the move comes amidst a backdrop of firming growth. In contrast, the central bank of Romania held its policy rate unchanged at 1.75%, in line with expectations.

In Mexico, the Q2-17 flash GDP print was released, pointing to a 2.4% quarter-over-quarter (seasonally adjusted annualized) expansion, only a hair below the 2.7% q/q saar recorded in Q1-17. Mexico's growth forecasts have been revised up in recent months (to 2% for 2017), in the context of more resilient high frequency data. In China, official PMI figures eased modestly in July, with the manufacturing PMI printing 51.4 and the non-manufacturing PMI coming in at 54.5.

In political news, the Venezuelan government, led by President Nicolas Maduro, hosted a vote last Sunday to elect representatives for a "constituent assembly." Maduro's decision to form this assembly, which will allow him to consolidate power, has been condemned internationally. In the aftermath of the vote, the U.S. announced personal sanctions against Maduro. In Ecuador, President Moreno moved to strip his Vice President, Jorge Glas, of his authority due to corruption allegations.

Turning to issuance, the Iraqi sovereign placed \$1 billion 2023 dollar-denominated bonds at 6.75%. Colombia also came to market for \$1.4 billion, tapping its 2027 dollar bond at 155 bps over U.S. Treasuries. In ratings news, Moody's downgraded Oman to Baa2 from Baa1, with its rating outlook on 'negative.' Moody's highlighted Oman's failure to adjust sufficiently to lower oil prices. Separately, Fitch changed the outlook on Mexico's 'BBB+' sovereign rating to 'stable' from 'negative.' For Mexico, this is the second rating outlook that has been upgraded in as many months; in July, S&P changed its 'negative' outlook on the Mexican sovereign to 'stable.'

US Dollar-Denominated EM Bonds (in bps)

Spreads	08/03/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
EMBI Global Div	302	342	415	353	308	257
Investment Grade	171	205	268	222	203	149
BB-rated	252	322	364	328	324	228
B-rated	441	503	576	462	668	669

Local Currency-Denominated EM Bonds (in %)

Yields	08/03/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	6.08	6.79	7.13	6.50	6.85	5.45
Brazil	8.84	11.10	16.03	12.59	12.32	8.16
Indonesia	7.22	8.03	8.92	7.96	8.73	5.75
Turkey	10.56	10.91	10.62	7.95	10.02	6.38