

# Weekly Emerging Markets Review

WEEK ENDING AUGUST 11TH, 2017

## Market Technicals

EM sovereign spreads widened seven basis points (bps) to 310 bps over U.S. Treasuries, while EM local currency yields increased four bps to 6.1%. The U.S. dollar-pay JP Morgan EMBI Global Diversified returned +7.4%, while the local currency JP Morgan GBI EM Global Diversified returned +12.4% (year-to-date through August 10, 2017).

## News

In monetary policy developments, the Central Bank of Mexico (Banxico) kept its policy rate unchanged at 7%, a unanimous decision in line with expectations. Banxico noted that inflation, which has surged to 6.4% y/y, was due to peak, converging to the 3% inflation target midpoint by end-2018. Similarly, the Central Bank of Peru (BCRP), maintained its benchmark policy rate unchanged at 3.75%. The decision marks a pause in the BCRP's easing cycle; it has delivered 50 bps in rate cuts since May due to an unexpected slowdown in activity. The central bank of Philippines also maintained its overnight rate steady at 3%, as expected. The monetary board noted that the inflation path continues to be within the central bank's target range, though the balance of risks were toward higher inflation.

In Indonesia, Q2-17 GDP was released, printing a 5% y/y expansion, in line with the outturn registered in the first quarter of the year. Growth in private consumption has continued to be solid, expanding by 5% consistently since Q4-15. In Russia, the preliminary Q2-17 GDP print pointed to an expansion of 2.5% y/y, beating consensus expectations for 1.7% y/y growth. This is the strongest GDP print seen in the last three years, and an acceleration from the 0.5% y/y increase in economic activity recorded in Q1-17. In China, July trade data were modestly weaker than expected, with exports increasing by 11.2% y/y (versus consensus of 14.8%) and imports increasing by 14.7% y/y (versus consensus of 22.6%).

Turning to politics, South African President Zuma narrowly survived a no confidence vote held earlier this week by the nation's parliament. If Zuma had lost, he would have been forced to resign. Elsewhere in Africa, Kenya hosted presidential elections on August 8th. Results are not official though the incumbent, Uhuru Kenyatta, appears to have a firm lead in the polls. In Latin America, Argentina is due to hold primaries on Sunday, ahead of its October midterm elections. The results will be closely watched as the October midterms are seen as a referendum on the Macri government's performance. In ratings news, Fitch lowered Chile's sovereign rating from 'A+' to 'A,' noting that the downgrade reflects prolonged economic weakness which has taken a toll on the sovereign's balance sheet.

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

Spreads	08/10/17	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	176	205	268	222	203	149
BB-rated	259	322	364	328	324	228
B-rated	449	503	576	462	668	669

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

Yields	08/10/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	6.10	6.79	7.13	6.50	6.85	5.45
Brazil	9.08	11.10	16.03	12.59	12.32	8.16
Indonesia	7.18	8.03	8.92	7.96	8.73	5.75
Turkey	10.72	10.91	10.62	7.95	10.02	6.38