

# Weekly Emerging Markets Review

WEEK ENDING AUGUST 19TH, 2016

## Market Technicals

Emerging market (EM) dollar-pay spreads tightened five basis points (bps) to 335 bps over US Treasuries, while local debt yields declined by two bps to 6.14%. The US dollar-pay JP Morgan EMBI Global Diversified returned +14.6%, while the local currency JP Morgan GBI EM Global Diversified returned +18.4% (year-to-date through August 18, 2016).

## News

In Zambia, the results of the closely-contested presidential elections were released, with incumbent, President Lungu, winning a second term. In light of Lungu's narrow margin of victory and opposition challenges, the results are being reviewed by Zambia's constitutional court. Separately, in the Dominican Republic, President Medina was inaugurated to a second term. Medina won reelection in a landslide election (62% of the vote) in May 2016 and has stated that he plans to deepen electricity and fiscal reforms.

Emerging markets continued to release second quarter GDP data. In the Philippines, economic activity expanded by a robust 7% y/y, driven by a strong outturn in services (+8.4% y/y). Elsewhere in Asia, Thailand's Q2-16 growth (+3.5% y/y) came in slightly better than expectations. In Israel, Q2-16 growth surprised to the upside, accelerating to 2.6% y/y. Economic activity was supported by buoyant private consumption (+6.7% y/y). Last, in Chile, Q2-16 GDP came in above consensus but remained tepid. Growth increased by 1.5% y/y but posted a modest contraction on a sequential basis (-1.4 quarter-over-quarter saar). The manufacturing and mining sectors lagged over the period.

Turning to monetary policy, Bank Indonesia (BOI) altered its monetary policy framework. It is now using the seven day reverse repo rate, at 5.25%, as its policy rate. BOI also reduced its interest rate corridor to 75 bps above and below its policy rate, from 175 bps above and 75 bps below. The Bank of Mongolia raised its policy rate 450 bps, to 15%, in a bid to defend the currency after concerns about the country's external liquidity position triggered outflows.

In ratings news, Moody's downgraded Mongolia from 'B1' to 'B2.' It left the sovereign on negative outlook in the context of poor external liquidity, aggressive fiscal expenditure, and loose monetary policy. El Salvador was also downgraded by Moody's to 'B1' from 'Ba3,' and remained on negative outlook. Moody's cited a deterioration in the country's debt profile along with liquidity concerns linked to the government's inability to reach an agreement with Congress allowing for international issuance.

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

Spreads	08/18/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
EMBI Global Div	335	415	353	308	257	404
Investment Grade	202	268	222	203	149	275
BB-rated	283	364	328	324	228	333
B-rated	487	576	462	668	669	870

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

Yields	08/18/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
GBI-EM Global Div	6.14	7.09	6.50	6.85	5.45	6.57
Brazil	11.61	15.99	12.59	12.32	8.16	10.58
Indonesia	7.03	8.92	7.96	8.73	5.75	6.57
Turkey	9.41	10.66	7.95	10.02	6.38	10.28

Source: JP Morgan