

# Weekly Emerging Markets Review

WEEK ENDING AUGUST 25TH, 2017

## Market Technicals

EM sovereign spreads tightened five basis points (bps) to 302 bps over U.S. Treasuries, while EM local currency yields declined two bps to 6.06%. The U.S. dollar-pay JP Morgan EMBI Global Diversified returned +8.3%, while the local currency JP Morgan GBI EM Global Diversified returned +13.7% (year-to-date through August 24, 2017).

## News

In Malaysia, GDP increased by 5.8% y/y in Q2-17, surprising expectations for a 5.4% y/y expansion. Malaysian growth has picked up after bottoming out at 4% in mid-2016. Thai Q2-17 GDP was also stronger than expected, registering an increase of 3.7% y/y, up from the 3.3% y/y printed in Q1-17. In Peru, Q2-17 GDP posted a 2.4% y/y increase, in line with expectations. In sequential terms (quarter-over-quarter), Peruvian economic activity accelerated after a lackluster first quarter. Chilean Q2-17 was slightly softer than expected, coming in at 0.9% y/y. Domestic demand was on the stronger side, with consumption holding up well.

In monetary policy developments, the central bank of Indonesia (Bank Indonesia) cut its reference rate by 25 bps, to 4.5%; the move was unexpected. In its statement, Bank Indonesia indicated that inflation was within target and that growth was more modest than anticipated. Elsewhere, in Hungary, the central bank held its policy rate unchanged at 0.9%, in line with expectations. The Hungarian central bank has been on hold for fifteen months.

In ratings news, Moody's lowered Tunisia's rating from 'Ba3' to 'B1,' leaving the sovereign outlook on 'negative.' The downgrade reflects a deterioration in Tunisia's fiscal metrics, external imbalances, and a weaker institutional backdrop. Moody's also downgraded Azerbaijan from 'Ba1' to 'Ba2,' but left the sovereign outlook at 'stable.' Moody's signaled that lower oil prices and declining production had weighed on Azerbaijan's fiscal standing and economic strength. It also highlighted the country's weak banking system.

In political developments, the U.S., Mexico, and Canada completed the first round of NAFTA renegotiations last weekend. Policymakers on all sides have moved to expedite negotiations due to a heavy electoral calendar in Mexico and, later, in the United States. In Angola, Presidential elections were held this week, paving the way for the first change in the executive in 38 years. Though current President Dos Santos is stepping down, his party will remain in power after winning 61% of the vote.

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

Spreads	08/24/17	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	255	322	364	328	324	228
B-rated	433	503	576	462	668	669

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

Yields	08/24/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	6.06	6.79	7.13	6.50	6.85	5.45
Brazil	8.98	11.10	16.03	12.59	12.32	8.16
Indonesia	7.14	8.03	8.92	7.96	8.73	5.75
Turkey	10.62	10.91	10.62	7.95	10.02	6.38