

Weekly Emerging Markets Review

WEEK ENDING AUGUST 26TH, 2016

Market Technicals

Emerging market (EM) dollar-pay spreads widened two basis points (bps) to 337 bps over US Treasuries, while local debt yields increased by ten bps to 6.25%. The US dollar-pay JP Morgan EMBI Global Diversified returned +14.3%, while the local currency JP Morgan GBI EM Global Diversified returned +16.3% (year-to-date through August 26, 2016).

News

In politics, South African Finance Minister, Pravin Gordham, is being investigated for actions he took when he was head of the country's tax agency. South African assets have sold off, with investors fearing that this is an attempt by President Zuma to sideline Minister Gordham due to political differences. In Colombia, the government and the FARC, a separatist group, announced that they reached a peace agreement. The accord could potentially end a civil conflict that has lasted over 50 years. It is due to be voted upon in a plebiscite on October 2nd.

In Mexico, second quarter GDP was released, pointing to an expansion of 2.5% y/y. However, on a sequential basis, growth was slightly negative. The supply-side breakdown suggests that growth was concentrated in the tertiary sector (services) while the industrial sector continued to struggle. In Peru, second quarter GDP expanded by 3.7% y/y, supported by strong performance in the mining sector. In the Dominican Republic, the central bank reported that the economy expanded by a robust 8.7% y/y in Q2-16, a pick up from the Q1-16 expansion of 6.1% y/y.

The Reserve Bank of India (RBI) named a successor, Urijt Patel, to replace outgoing governor Raghuram Rajan. Patel is believed to be a strong replacement, quieting some concerns following Rajan's unexpected decision to step down in September 2016. In Turkey, the central bank kept its benchmark rate unchanged at 7.5% but reduced the ceiling of its interest rate corridor by 25 bps to 8.5%. Elsewhere, the Hungarian central bank maintained its benchmark rate steady at 0.9%, a decision that was in line with expectations.

Turning to ratings news, S&P changed its outlook on Mexico's 'BBB+' credit rating to 'negative'. S&P underscored that Mexico's structural reform agenda had failed to deliver higher growth which had, in turn, weighed on the country's fiscal outlook. Last Friday, Fitch affirmed Turkey's LT foreign debt currency rating at 'BBB-' but changed its outlook to 'negative.' In its press release, the rating agency highlighted elevated political risks in the wake of a recent coup attempt. Similarly, in Ecuador, Fitch affirmed the sovereign's 'B' rating but changed the outlook to 'negative,' pointing to a deteriorating growth and fiscal outlook.

US Dollar-Denominated EM Bonds (in bps)

Spreads	08/26/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
EMBI Global Div	337	415	353	308	257	404
Investment Grade	204	268	222	203	149	275
BB-rated	283	364	328	324	228	333
B-rated	488	576	462	668	669	870

Local Currency-Denominated EM Bonds (in %)

Yields	08/26/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
GBI-EM Global Div	6.25	7.09	6.50	6.85	5.45	6.57
Brazil	11.65	15.99	12.59	12.32	8.16	10.58
Indonesia	7.20	8.92	7.96	8.73	5.75	6.57
Turkey	9.34	10.66	7.95	10.02	6.38	10.28

Source: JP Morgan