

# Weekly Emerging Markets Review

WEEK ENDING SEPTEMBER 1ST, 2017

## Market Technicals

EM sovereign spreads compressed by two basis points (bps) to 300 basis points (bps) over U.S. Treasuries, while EM local currency yields declined three bps to 6.04%. The U.S. dollar-pay JP Morgan EMBI Global Diversified returned +9.0%, while the local currency JP Morgan GBI EM Global Diversified returned +14.7% (year-to-date through August 31, 2017).

## News

In monetary policy news, the Colombian central bank cut its reference rate by 25 bps to 5.25%, bringing cumulative easing to 250 bps since December 2016. The move was in line with expectations but split; two directors voted to cut by 50 bps and one voted to leave the policy rate unchanged.

Turning to growth, Brazil's second quarter GDP data suggested that the economy has begun to recover after a two year recession. Economic activity expanded by a modest 1.0% quarter-over-quarter (saar), with private consumption turning positive for the first time in nine quarters (+5.6% q/q saar). In the Dominican Republic, the central bank reported that growth in H1-17 decelerated to 4.0% y/y, down from 5.3% y/y in H1-16. Over the period, construction activity was the laggard, contracting 2.7%. In Asia, Indian Q2-17 GDP was much weaker than expected, coming in at 5.7% y/y versus expectations for a 6.5% y/y expansion. On the high frequency side, China released its August manufacturing PMI print which, at 51.7, surprised expectations to the upside following weaker July activity data.

In a surprising decision, the Kenyan Supreme Court nullified the August 8th presidential election which led to the victory of the incumbent, Uhuru Kenyatta. The court ruled that the vote had been electronically manipulated and has ordered that a new election take place within 60 days.

Credit rating actions continued, with Moody's upgrading Ukraine one notch to Caa2 and improving the outlook to positive. The agency cited the country's structural reform agenda and stronger external accounts. Moody's also downgraded Lebanon one notch to B3 on account of the country's large and increasing debt burden. S&P removed its "negative watch" warning on Brazil's BB rating, while leaving the overall outlook at negative. S&P sees modest reform momentum continuing into 2018, despite volatile politics. Fitch became the third agency to lower Qatar to AA-, from AA, on account of the country's weakened external profile in the months since it was sanctioned by several regional peers. Last, Fitch downgraded Venezuela from CCC to CC, in the wake of additional U.S. sanctions against sovereign that seek to undermine new financing for the Maduro government.

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

Spreads	08/31/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
EMBI Global Div	300	342	415	353	308	257
Investment Grade	171	205	268	222	203	149
BB-rated	253	322	364	328	324	228
B-rated	427	503	576	462	668	669

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

Yields	08/31/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	6.04	6.79	7.13	6.50	6.85	5.45
Brazil	8.90	11.10	16.03	12.59	12.32	8.16
Indonesia	6.96	8.03	8.92	7.96	8.73	5.75
Turkey	10.58	10.91	10.62	7.95	10.02	6.38