

# Weekly Emerging Markets Review

WEEK ENDING SEPTEMBER 2ND, 2016

## Market Technicals

Emerging market (EM) dollar-pay spreads widened by five basis points (bps) to 342 bps over US Treasuries, while local debt yields increased by three bps to 6.28%. The US dollar-pay JP Morgan EMBI Global Diversified returned +14.0%, while the local currency JP Morgan GBI EM Global Diversified returned +14.7% (year-to-date through September 1, 2016).

## News

In Brazil, the impeachment trial of Dilma Rousseff officially came to a close with the senate voting her guilty of budget violations by a margin of 61 to 20. Michel Temer, who was Rousseff's Vice President, will serve out the remainder of her term. The next election is in 2018. Temer is expected to continue working to correct Brazil's fiscal imbalances, though he faces a challenging political environment. Brazil also reported second quarter GDP growth of -3.8% year-over-year (y/y), an improvement from -5.4% y/y in the first quarter. Following several quarters of contraction, investment turned positive on a sequential basis, while consumption remained weak. Finally, Brazil's central bank maintained the Selic rate at 14.25% but made changes to the accompanying policy statement that suggested it was open to beginning an easing cycle.

Second quarter growth figures for India, Colombia, and Nigeria came below consensus forecasts. India reported a 7.1% y/y expansion, lower than estimates of 7.6%, with softer performance in agriculture and mining offset by strong growth in services and manufacturing. Colombia's 2.0% y/y growth was below the 2.3% estimate; the mining, utilities and transport sectors were the weakest during the period. Nigeria's economy moved into a recession with its second consecutive quarter of GDP contraction; economic activity contracted by 2.1% y/y after -0.4% y/y in the prior quarter.

In August, emerging market manufacturing PMI numbers slipped modestly, to 50.1 from 50.4 in July. In China, the Caixian manufacturing PMI declined to 50, from 50.6 in July. Additionally, negative prints were notable in South Africa (-4.7 pts) and Turkey (-0.6 pts). The bright spot was in Asia, with Indonesia's PMI increasing 2 pts (to 50.4) and India's up by 0.8 pts to 52.6.

Colombia's central bank held its policy rate at 7.75%, pausing after a cumulative 325 bps of rate hikes that have been enacted over the past year in response to high inflation and current account deterioration.

Gabon held presidential elections over the weekend, with results showing that the incumbent, Ali Bongo, had defeated opposition candidate Jean Ping by a slim margin of 49.85% to 48.16%. However, Ping disputed the vote tally as independent observers reported a lack of transparency in the polling. In Venezuela, thousands of people marched demanding that President Maduro allow a recall referendum on his presidency. Against a backdrop of hyperinflation, severe recession, insecurity, and far reaching goods shortages, Maduro's government is deeply unpopular. To date, his administration has used administrative measures to stall the recall referendum process.

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

Spreads	09/01/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
EMBI Global Div	342	415	353	308	257	404
Investment Grade	209	268	222	203	149	275
BB-rated	286	364	328	324	228	333
B-rated	498	576	462	668	669	870

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

Yields	09/01/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
GBI-EM Global Div	6.28	7.09	6.50	6.85	5.45	6.57
Brazil	11.57	15.99	12.59	12.32	8.16	10.58
Indonesia	7.22	8.92	7.96	8.73	5.75	6.57
Turkey	9.47	10.66	7.95	10.02	6.38	10.28