

Weekly Emerging Markets Review

WEEK ENDING SEPTEMBER 9TH, 2016

Market Technicals

Emerging market (EM) dollar-pay spreads tightened seventeen basis points (bps) to 325 bps over US Treasuries, while local debt yields fell by fourteen bps to 6.14%. The US dollar-pay JP Morgan EMBI Global Diversified returned +15.2%, while the local currency JP Morgan GBI EM Global Diversified returned +18.0% (year-to-date through September 8, 2016).

News

The Mexican government announced that Secretary of Finance Luis Videgaray would be replaced by José Antonio Meade. The cabinet reshuffle came amid reports that Videgaray was responsible for encouraging President Peña Nieto's recent meeting with US presidential nominee Donald Trump, which was viewed unfavorably by Mexican citizens. Late in the week, Meade, a former finance secretary and respected technocrat, presided over Mexico's 2017 budget reading, which seeks to tighten the budget and deliver a primary surplus of 0.4% of GDP.

Turkey's second quarter GDP growth figure came below consensus at 3.1% year-over-year (y/y). On a sequential basis, the softer print was due to weakness in private consumption, private investment and negative net exports. Second quarter growth in South Africa came at 3.3% on a seasonally adjusted annualized basis, moving up year-over-year growth to a still-weak 0.6%. The better than expected figure was driven by improvement in the mining and manufacturing sectors.

China released data showing better trade figures and slower inflation in August. Exports registered a decline of 2.8% y/y, while imports increased by 1.5% y/y; both results were ahead of expectations. Consumer price inflation eased to 1.3% y/y from 1.8% y/y the prior month, driven by a softening in the food component; core inflation declined to 1.6% y/y, from 1.8% y/y.

Central banks in Poland, Malaysia and Peru held rates steady at 1.5%, 3.0% and 4.25%, respectively. Polish officials stated that rate hikes were not anticipated until late 2017, as prices gradually move away from deflation back towards the 2.5% inflation target. Malaysian policymakers see contained price pressures and solid domestic demand, but maintained their concerns about global growth. In Peru, inflation expectations for 2016 recently fell back under the top end of the central bank's 1-3% inflation target band.

US Dollar-Denominated EM Bonds (in bps)

Spreads	09/08/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
EMBI Global Div	325	415	353	308	257	404
Investment Grade	196	268	222	203	149	275
BB-rated	270	364	328	324	228	333
B-rated	477	576	462	668	669	870

Local Currency-Denominated EM Bonds (in %)

Yields	09/08/16	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	11.52	15.99	12.59	12.32	8.16	10.58
Indonesia	7.06	8.92	7.96	8.73	5.75	6.57
Turkey	9.20	10.66	7.95	10.02	6.38	10.28

Source: JP Morgan