

Weekly Emerging Markets Review

WEEK ENDING SEPTEMBER 16TH, 2016

Market Technicals

Emerging market (EM) dollar-pay spreads widened by twenty basis points (bps) to 344 bps over US Treasuries, while local debt yields increased by twelve bps to 6.26%. The US dollar-pay JP Morgan EMBI Global Diversified returned +13.1%, while the local currency JP Morgan GBI EM Global Diversified returned +15.4% (year-to-date through September 15, 2016).

News

In China, high frequency data in August were solid, with industrial production (+6.3% y/y), retail sales (+10.6% y/y), fixed investment (+5.7% y/y), and, most importantly, aggregate credit growth coming in stronger than expected. In Paraguay, economic activity accelerated in the second quarter. Real GDP increased by 6.2% y/y, with electricity and manufacturing being the largest contributors to the outturn. This marked an uptick from the 1.5% y/y expansion registered last quarter. In Panama, Q2-16 growth increased 5.2% y/y, an acceleration versus the 4.6% expansion in Q1-16. Drivers of growth included financial intermediation, construction, and mining activity.

Turning to monetary policy, the central bank of Thailand left its policy rate unchanged at 1.5%, citing a gradual recovery in growth. The decision was largely expected, with the Bank of Thailand remaining on hold for the last eleven months. In Chile, the central bank also stood pat, leaving the policy rate at 3.5%, in line with expectations. In its statement, the board's tone was broadly neutral. The Russian central bank lowered its policy rate by 50 bps, to 10%, marking the monetary authority's second rate cut this year. In its statement, the board indicated that it was unlikely that there would be further easing in the remainder of the year. Last, in Ukraine, the central bank cut its policy rate by 50 bps to 15%.

In ratings news, S&P downgraded Rwanda's credit rating from 'B+' to 'B', highlighting the sovereign's growing external vulnerabilities. S&P expects the Rwandan current account deficit to register 16% of GDP this year and the external debt burden to increase. Separately, the International Monetary Fund (IMF) approved a \$1 billion disbursement for Ukraine under the country's \$17.5 billion Extended Fund Facility (EFF) arrangement. The distribution comes after a one-year delay in IMF fund disbursements due to the country's challenging political backdrop.

US Dollar-Denominated EM Bonds (in bps)

Spreads	09/15/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
EMBI Global Div	344	415	353	308	257	404
Investment Grade	211	268	222	203	149	275
BB-rated	289	364	328	324	228	333
B-rated	503	576	462	668	669	870

Local Currency-Denominated EM Bonds (in %)

Yields	09/15/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
GBI-EM Global Div	6.26	7.09	6.50	6.85	5.45	6.57
Brazil	11.71	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