

Weekly Emerging Markets Review

WEEK ENDING SEPTEMBER 22ND, 2016

Market Technicals

Emerging market (EM) dollar-pay spreads decreased by sixteen basis points (bps) to 328 bps over US Treasuries, while local debt yields declined by ten bps to 6.15%. The US dollar-pay JP Morgan EMBI Global Diversified returned +15.0%, while the local currency JP Morgan GBI EM Global Diversified returned +17.7% (year-to-date through September 22, 2016).

News

In Uruguay, second quarter GDP printed 1.4% y/y; though subdued, it surprised consensus expectations (0.4% y/y) to the upside. Stronger electricity production, following a drought last year, was a key driver of growth. In Argentina, second quarter GDP exhibited a stronger-than-expected contraction, printing -3.4% y/y, with weakness in investment being a key detractor (-4.9% y/y). Q2-16 growth was also released by a number of smaller economies with Senegal expanding +5.7% y/y, activity in Georgia increasing 3.0% y/y, and Ukrainian growth registering 1.4% y/y.

Turning to monetary policy, the central bank of Hungary left its policy rate unchanged at 0.9%, as expected. In Africa, the South African Reserve Bank (SARB) maintained its policy rate unchanged at 7%, in line with consensus. The central bank noted that inflation was now within its 3-6% target band, but that there were some upside risks in the coming months. Nigeria and Ghana also maintained their benchmark rates unchanged at 14% and 26%, respectively. In contrast, the central bank of Kenya delivered a 50 bps rate cut (to 10%) citing a deceleration in inflation, stable FX dynamics, and weak private sector credit growth.

Bank Indonesia delivered 25 bps in easing, bringing its policy rate to 5%. Its board noted that there was space for more accommodative policy against a backdrop of subdued inflation, a controlled current account deficit, and FX stability. In Turkey, the central bank held its policy rate steady at 7.25% but cut the ceiling of its interest rate corridor by 25bps, to 8.25%. Authorities made reference to the slowdown in domestic demand in the third quarter, citing the negative impact of lower tourist revenues.

In rating news, Hungary was upgraded to 'BBB-' by S&P, with the rating agency citing an improvement in the country's fiscal discipline, better growth prospects, and a stronger external position. The move follows Fitch's decision to upgrade Hungary to investment grade in May 2016. In Nigeria, S&P downgraded the sovereign to 'B' from 'B+'. In its opinion, the rating agency highlighted weaker economic activity and elevated debt service costs. Last, S&P downgraded Venezuela's state-owned oil company PDVSA from 'CCC' to 'CC' on the company's decision to launch an exchange offer that the agency has classified as distressed. PDVSA is strategically important to Venezuela, providing the country with its primary source of foreign exchange.

US Dollar-Denominated EM Bonds (in bps)

Spreads	09/22/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
EMBI Global Div	328	415	353	308	257	404
Investment Grade	201	268	222	203	149	275
BB-rated	272	364	328	324	228	333
B-rated	477	576	462	668	669	870

Local Currency-Denominated EM Bonds (in %)

Yields	09/22/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
GBI-EM Global Div	6.15	7.09	6.50	6.85	5.45	6.57
Brazil	11.32	15.99	12.59	12.32	8.16	10.58
Indonesia	7.09	8.92	7.96	8.73	5.75	6.57
Turkey	9.04	10.66	7.95	10.02	6.38	10.28

Source: JP Morgan