

Weekly Emerging Markets Review

WEEK ENDING SEPTEMBER 22ND, 2017

Market Technicals

EM sovereign spreads widened three basis points (bps) to 291 basis points over U.S. Treasuries, while EM local currency yields were steady at 5.95%. The U.S. dollar-pay J.P. Morgan EMBI Global Diversified returned +8.9%, while the local currency J.P. Morgan GBI EM Global Diversified returned +15.5% (year-to-date through September 21, 2017).

News

Bank Indonesia opted to cut its policy rate for a second consecutive month, moving to 4.25% from 4.5%, acting against consensus that it would remain on hold. Officials have been on a prolonged easing cycle since the beginning of 2016, as they see inflation moving sustainably lower and credit growth as relatively weak. The National Bank of Hungary continued with unconventional monetary easing; while the base rate was maintained at 0.9%, the bank moved overnight deposit rates further into negative territory to -0.15% from -0.05%. The cap on short-term deposit facilities was also lowered, as the bank reiterated its goal of attempting take steepness out of the yield curve. Policymakers see inflation undershooting their preferred target through 2019.

After cutting in its prior meeting, the South African Reserve Bank unexpectedly chose to maintain its benchmark rate at 6.75%, versus forecasts that they would continue easing. In the Philippines, the central bank held rates at 3%, against a backdrop of strong growth and contained inflation.

Argentina's GDP growth continued to recover, with year-over-year (y/y) output expanding at 2.7% in the second quarter, up from 0.4% in the first quarter. Smaller economies Georgia and Senegal also reported solid second quarter GDP figures. Georgia grew 4.7% y/y; sectors including construction, restaurants and hotels, and mining registered strong performance. In Senegal, growth picked up to 6.4% y/y, with notable contributions from the agriculture and construction sectors.

S&P lowered China's credit rating to A+ from AA-, citing the country's increased leverage over time. The move was widely expected, and the downgrade brings S&P's rating in line with Moody's and Fitch.

US Dollar-Denominated EM Bonds (in bps)

Spreads	09/21/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
EMBI Global Div	291	342	415	353	308	257
Investment Grade	164	205	269	222	203	149
BB-rated	249	322	359	328	324	228
B-rated	412	503	579	462	668	669

Local Currency-Denominated EM Bonds (in %)

Yields	09/21/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	5.95	6.79	7.13	6.50	6.85	5.45
Brazil	8.48	11.10	16.03	12.59	12.32	8.16
Indonesia	6.77	8.03	8.92	7.96	8.73	5.75
Turkey	10.81	10.91	10.62	7.95	10.02	6.38

Source: JP Morgan