

Weekly Emerging Markets Review

WEEK ENDING SEPTEMBER 29TH, 2017

Market Technicals

EM sovereign spreads were flat at 291 basis points (bps) over U.S. Treasuries, while EM local currency yields increased 7 bps to 6.02%. The U.S. dollar-pay J.P. Morgan EMBI Global Diversified returned +8.8%, while the local currency J.P. Morgan GBI EM Global Diversified returned +13.7% (year-to-date through September 28, 2017).

News

Several central banks met this week, and each maintained its policy stance. Banco de Mexico held its overnight rate at 7%, saying that inflation had likely reached its ceiling and not expecting recent natural disasters to have an impact on longer term inflation outcomes. After hiking for the first time in eight years in August, the Czech National Bank opted to maintain its key rate at 0.25%. The Board was split, with three members preferring to tighten further. The bank has moved to a hawkish bias as growth and wages have moved higher. Despite calls from the government to ease policy amid below-target inflation and currency appreciation, the Bank of Thailand left its benchmark rate steady at 1.5%.

Having tightened policy earlier in 2017, the Central Bank of Egypt was on hold at 18.75%, as it expects a significant decline in inflation in coming months. Nigeria's central bank held rates at 14%, balancing a weak domestic growth environment with elevated inflation. The Bank of Ghana maintained its policy rate at 21%, against expectations it would continue with an easing cycle; officials have cut 500 basis points in recent meetings as inflation has trended lower. Ghana also reported second quarter GDP growth of 9.0% year-over-year, driven by a jump in oil production.

The Central Bank of Sri Lanka left its lending and deposit facility rates unchanged at 8.75% and 7.25%, respectively; monetary policy has been tightened in recent quarters given relatively high inflation. In Pakistan, monetary authorities also left rates steady at 5.75%, as they see growth picking up to 6% in 2018, while inflation should remain contained.

Honduras saw its second credit rating upgrade in recent months, with Moody's moving up one notch to B1. The country continues to make gains based on improved fiscal performance and strengthening institutions.

US Dollar-Denominated EM Bonds (in bps)

Spreads	09/28/17	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	163	205	269	222	203	149
BB-rated	249	322	359	328	324	228
B-rated	415	503	579	462	668	669

Local Currency-Denominated EM Bonds (in %)

Yields	09/28/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	6.02	6.79	7.13	6.50	6.85	5.45
Brazil	8.58	11.10	16.03	12.59	12.32	8.16
Indonesia	6.88	8.03	8.92	7.96	8.73	5.75
Turkey	10.89	10.91	10.62	7.95	10.02	6.38

Source: JP Morgan