

# Weekly Emerging Markets Review

WEEK ENDING OCTOBER 6TH, 2017

## Market Technicals

EM sovereign spreads narrowed 9 basis points (bps) to 282 bps over U.S. Treasuries, while EM local currency yields increased 2 bps to 6.04%. The U.S. dollar-pay J.P. Morgan EMBI Global Diversified returned +9.3%, while the local currency J.P. Morgan GBI EM Global Diversified returned +13.95% (year-to-date through October 5, 2017).

## News

In Colombia, the central bank (Banrep) stood pat at 5.25%, marking a pause in its easing cycle. Year to date, Banrep has delivered 225 bps in rate cuts. Similarly, in India, the central bank remained on hold at 6.0%. While the monetary authority revised its inflation outlook modestly higher, it lowered its 2017/2018 growth projections to 6.7% from 7.3%. In Poland, the central bank also left its benchmark policy rate unchanged at 1.5%, in line with market expectations. The Polish central bank has kept rates steady since 2015. Similarly, the Romanian central bank remained on hold at 1.75%, in line with consensus expectations.

In Ecuador, second quarter growth printed an expansion of 3.3% y/y, up from the 2.6% y/y growth registered in Q1-17. In Costa Rica, second quarter GDP came in 4.0% y/y, in line with the print saw in the first quarter. In Saudi Arabia, Q2-17 GDP registered -1% y/y, with activity dragged down by a contraction in oil and natural gas (-2.5% y/y).

There were a number of sovereigns that came to market this week. In Latin America, Mexico issued \$1.9 billion of a new thirty year benchmark 2048 bond, while Brazil opened a tender for some of its higher coupon bonds and issued \$3 billion of a 2028 bond. Other sovereign issues included \$10 billion coming from Abu Dhabi (which issued five, ten, and thirty year bonds) and a \$1 billion Jordanian thirty year bond.

In ratings news, S&P upgraded El Salvador from 'Selective Default' to 'CCC+' after the country's legislature passed a pension reform that would reprofile its pension debt (CIP). The reform was a rare demonstration of political unity in El Salvador and, as part of the agreement, will allow the liquidity-constrained government to raise additional financing. On October 3, the Ukrainian parliament passed a pension reform, marking an important milestone in the government's agreement with the IMF. Ukraine has a \$17.5 billion IMF credit line though the most recent disbursement has been delayed because of the sovereign's failure to meet program objectives.

## US Dollar-Denominated EM Bonds (in bps)

Spreads	10/05/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
EMBI Global Div	282	342	415	353	308	257
Investment Grade	158	205	269	222	203	149
BB-rated	240	322	359	328	324	228
B-rated	401	503	579	462	668	669

## Local Currency-Denominated EM Bonds (in %)

Yields	10/05/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	6.04	6.79	7.13	6.50	6.85	5.45
Brazil	8.72	11.10	16.03	12.59	12.32	8.16
Indonesia	6.82	8.03	8.92	7.96	8.73	5.75
Turkey	10.95	10.91	10.62	7.95	10.02	6.38

Source: JP Morgan