

Weekly Emerging Markets Review

WEEK ENDING OCTOBER 12TH, 2018

Market Performance

On the week, EM sovereign spreads widened 17 basis points (bps) to 356 bps over U.S. Treasuries, while EM local currency yields increased 5 bps to 6.78%. The U.S. dollar-pay J.P. Morgan EMBI Global Diversified returned -4.58%, while the local currency J.P. Morgan GBI-EM Global Diversified returned -9.43% (year-to-date through October 11, 2018).

News

The first round of Brazilian presidential elections on October 7 revealed a strong showing by right-wing candidate Jair Bolsonaro of the Social Liberal Party. Bolsonaro received 46% of the vote, while Fernando Haddad, representing the left-leaning Worker's Party, received 29%. With neither candidate crossing the 50% threshold for victory, the vote will proceed to a second round on October 28, though Bolsonaro appears likely to win. Markets have responded favorably to these political developments as Bolsonaro and his advisors are generally associated with market-friendly economic policy.

China's economic policy and U.S.-China relations remained in focus. The People's Bank of China continued to free up domestic liquidity by easing reserve requirement ratios for banks a further 100 basis points. Officials have been implementing both fiscal and monetary measures to support growth in the face of trade tariffs and softer economic activity. Contrasting expectations for a slowdown, Chinese exports for September showed a pick up to 14.3% year-over-year (y/y); it's anticipated that exports will slow as the U.S. tariff policy escalates. On the political front, the U.S. government maintained that China is interfering in upcoming U.S. elections, while it appeared that President Trump and Chinese leader Xi Jinping may meet during next month's G20 meetings in Buenos Aires.

In Peru, the central bank maintained its policy rate at 2.75% as officials see potential risks to the growth recovery, while inflation remains at the low end of the 1-3% target range.

US Dollar-Denominated EM Bonds (in bps)

Spreads	10/11/18	12/29/17	12/31/16	12/31/15	12/31/14	12/31/13
EMBI Global Div	356	282	342	415	353	308
Investment Grade	184	156	205	269	222	203
BB-rated	317	239	322	359	328	324
B-rated	538	385	503	579	462	668

Local Currency-Denominated EM Bonds (in %)

Yields	10/11/18	12/29/17	12/31/16	12/31/15	12/31/14	12/31/13
GBI-EM Global Div	6.78	6.14	6.79	7.13	6.50	6.85
Brazil	9.27	9.01	11.10	16.03	12.59	12.32
Indonesia	8.74	6.63	8.03	8.92	7.96	8.73
Turkey	21.39	11.94	10.91	10.62	7.95	10.02

Source: JP Morgan