

Weekly Emerging Markets Review

WEEK ENDING OCTOBER 13TH, 2017

Market Technicals

EM sovereign spreads widened 2 basis points (bps) to 285 bps over U.S. Treasuries, while EM local currency yields increased 2 bps to 6.06%. The U.S. dollar-pay J.P. Morgan EMBI Global Diversified returned +9.4%, while the local currency J.P. Morgan GBI EM Global Diversified returned +13.69% (year-to-date through October 12, 2017).

News

In monetary policy news, the Central Bank of Peru (BCRP) left its policy rate unchanged at 3.5%. The decision follows a 25 bps cut last month, which brought cumulative easing to 75 bps this year. In its statement, the BCRP noted that inflation was within its target band and that economic activity was expected to pick up due to higher investment spending. In Kazakhstan, the central bank also maintained its benchmark rate steady at 10.25% after three cuts this year. It announced that it would intervene in the FX market to support the tenge.

The International Monetary Fund (IMF) released its semi-annual World Economic Outlook (WEO), modestly revising up its global growth projections (+0.1%) for 2017 and 2018. The IMF estimates that global growth will print 3.6% in 2017 and 3.7% in 2018. It highlighted that advanced economies were largely behind the upward revision in 2017 while emerging markets drove the revisions in 2018.

In ratings news, Fitch upgraded El Salvador to 'B-' from 'CCC.' The move follows S&P's decision last week to move the sovereign from 'Selective Default' to 'CCC+' after the Salvadoran government announced a pension reform that would reprofile its pension debt (CIP). Elsewhere, Belarus was upgraded by S&P to 'B' from 'B-.' The rating agency noted that Belarus's growth was stronger than expected and its outlook for foreign financing was positive.

The Mexican peso (MXN) was the worst performing currency on the week (-2%) and on the month (-6.6%). Some of this is attributed to NAFTA renegotiations between Canada, the U.S., and Mexico. The fourth round of negotiations commenced this week amidst heightened rhetoric coming from the United States. Internal political noise in Mexico also contributed to currency dynamics, with Margarita Zavala, the wife of former-President Calderon, announcing she would split from the political party PAN and run independently. This move is thought to give an edge to leftist candidate Andres Manuel Lopez Obrador (AMLO).

US Dollar-Denominated EM Bonds (in bps)

Spreads	10/12/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
EMBI Global Div	285	342	415	353	308	257
Investment Grade	161	205	269	222	203	149
BB-rated	244	322	359	328	324	228
B-rated	400	503	579	462	668	669

Local Currency-Denominated EM Bonds (in %)

Yields	10/12/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	6.06	6.79	7.13	6.50	6.85	5.45
Brazil	8.65	11.10	16.03	12.59	12.32	8.16
Indonesia	6.90	8.03	8.92	7.96	8.73	5.75
Turkey	11.21	10.91	10.62	7.95	10.02	6.38

Source: JP Morgan