

Weekly Emerging Markets Review

WEEK ENDING OCTOBER 14TH, 2016

Market Technicals

Emerging market (EM) dollar-pay spreads widened nine basis points (bps) to 337 bps over US Treasuries, while local debt yields increased 7 bps to 6.27%. The US dollar-pay JP Morgan EMBI Global Diversified returned +13.9%, while the local currency JP Morgan GBI EM Global Diversified returned +15.4% (year-to-date through October 13, 2016).

News

The International Monetary Fund (IMF) released its latest World Economic Outlook, which updates the Fund's outlook for global growth. The IMF left its growth projection for 2016 unchanged at 3.1% and expects a modest pick up to 3.4% in 2017. Underlying the figures, the IMF revised down advanced economy growth to 1.6% for 2016 (previously 1.8%). In contrast, the economic expansion for emerging markets was revised up to 4.2% (previously 4.1%).

Data from China sent mixed signals to investors. September trade data highlighted continued weakness in global trade; exports contracted 10% year-over-year (y/y), while imports fell 1.9% y/y. Against this, upside inflation surprises were seen as a positive indication of economic health. Consumer prices increased 1.9% y/y, while producer prices moved to positive territory (+0.1% y/y) for the first time since early 2012.

In Peru, the central bank matched expectations by leaving the policy rate steady at 4.25%. After a series of hikes in late 2015 and early 2016, officials have paused as inflation expectations appear to be easing back towards the center of the 1-3% target.

Thailand's King Bhumibol, the world's longest serving monarch, passed away on October 13. King Bhumibol was widely revered by Thai society and seen as a stabilizing force. The Prime Minister announced that the King's son, Crown Prince Maha Vajiralongkorn, would assume the throne. However, Vajiralongkorn does not enjoy his father's reputation, which could have implications for Thai politics in coming years.

South African politics took another turn as the National Prosecuting Authority brought a charge of fraud against Finance Minister Pravin Gordhan and asked him to appear in court on November 2. Many observers believed the charge was without merit and politically motivated, viewing it as an attempt by forces aligned with President Jacob Zuma to sideline Gordhan's influence in public sector expenditure matters. This marks the latest in a series of conflicts between Zuma allies and the National Treasury, which has created volatility in South African assets.

US Dollar-Denominated EM Bonds (in bps)

Spreads	10/13/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
EMBI Global Div	337	415	353	308	257	404
Investment Grade	207	268	222	203	149	275
BB-rated	284	364	328	324	228	333
B-rated	492	576	462	668	669	870

Local Currency-Denominated EM Bonds (in %)

Yields	10/13/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
GBI-EM Global Div	6.27	7.13	6.50	6.85	5.45	6.57
Brazil	10.94	16.03	12.59	12.32	8.16	10.58
Indonesia	7.21	8.92	7.96	8.73	5.75	6.57
Turkey	9.46	10.62	7.95	10.02	6.38	10.28

Source: JP Morgan