

Weekly Emerging Markets Review

WEEK ENDING NOVEMBER 4TH, 2016

Market Technicals

Emerging market (EM) dollar-pay spreads widened thirteen basis points (bps) to 346 bps over US Treasuries, while local debt yields were four bps wider at 6.37%. The US dollar-pay JP Morgan EMBI Global Diversified returned +13.1%, while the local currency JP Morgan GBI EM Global Diversified returned +15.4% (year-to-date through November 3, 2016).

News

In Mexico, the advance third quarter GDP release pointed to an expansion of 2% y/y. In line with the recent trends, economic activity was supported by the services sector. In Europe, preliminary estimates indicated that the Serbian economy grew by 2.5% y/y, modestly outperforming consensus expectations for 2.2% growth. Emerging market manufacturing PMI data were a touch stronger in October, with the EM Markit PMI at 50.9 versus 50.1 in September. At 51.2, China's manufacturing PMI data surprised expectations to the upside, with the new orders component of the print exhibiting strength.

Turning to monetary policy, the Russian central bank remained on hold at 10% in October, in line with Governor Nabiullina's commentary in September suggesting that interest rates would remain unchanged through year end. In Sri Lanka, the central bank stood pat at 8.5% for the third consecutive month. In Colombia, the central bank (Banrep) maintained its policy rate unchanged at 7.75%, though its statement struck a more dovish tone against a backdrop of weaker economic activity and decelerating inflation. Elsewhere in Latin America, the central bank in the Dominican Republic hiked 50 bps to 5.5%.

In ratings news, S&P raised Pakistan's long-term foreign currency rating to 'B' from 'B-'. In its statement, S&P noted that following the completion of a three year IMF program, improved economic policy has strengthened the country's external and fiscal positions. In other news, Egyptian authorities announced that it would let the Egyptian pound float and simultaneously tightened its monetary policy rate by three hundred basis points. The move was followed by a ~45% depreciation of the currency to nearly 16 per dollar. Against a backdrop of FX depreciation pressures, the move is viewed as credit positive and linked to Egypt's engagement with the IMF following the staff-level agreement for \$12 billion.

US Dollar-Denominated EM Bonds (in bps)

Spreads	11/03/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
EMBI Global Div	346	415	353	308	257	404
Investment Grade	205	268	222	203	149	275
BB-rated	310	364	328	324	228	333
B-rated	497	576	462	668	669	870

Local Currency-Denominated EM Bonds (in %)

Yields	11/03/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
GBI-EM Global Div	6.37	7.13	6.50	6.85	5.45	6.57
Brazil	11.16	16.03	12.59	12.32	8.16	10.58
Indonesia	7.49	8.92	7.96	8.73	5.75	6.57
Turkey	9.72	10.62	7.95	10.02	6.38	10.28

Source: JP Morgan