

Weekly Emerging Markets Review

WEEK ENDING NOVEMBER 18TH, 2016

Market Technicals

Emerging market (EM) dollar-pay spreads widened seven basis points (bps) to 357 bps over US Treasuries, while local debt yields increased nineteen bps to 6.82%. The US dollar-pay JP Morgan EMBI Global Diversified returned +8.3%, while the local currency JP Morgan GBI EM Global Diversified returned +9.3% (year-to-date through November 17, 2016).

News

U.S. President-elect Trump's policy stances remain unclear, with hints of moderation versus campaign promises. Notwithstanding, EM currencies have been universally weaker, with the Mexican peso (-9.9%) and the South African rand (-7.9%) underperforming since the November 8th election. Brazil's central bank addressed Trump-related currency weakness this week by supporting the BRL through FX swaps; it also bought back local currency bonds. Mexico's central bank (Banxico) hiked rates by 50 bps in response to the significant currency weakness following Trump's victory and inflation concerns. Among emerging markets, Mexico has the strongest trade linkages with the United States.

Other large emerging market central banks remained on hold including the Bank Indonesia (4.75%) and the Chilean central bank (3.5%). In other monetary news, India's discontinuation of high-denomination rupee notes picked up steam: within a week, 3.5 trillion rupees out of 15 trillion outstanding had been deposited in banks or exchanged. The initiative is meant to encourage formalization in the economy and financial sector intermediation.

Turning to growth, a proxy indicator for 3rd quarter GDP in Peru pointed to a 4.4% y/y expansion, exceeding last quarter's 3.7% figure. In the Philippines, growth continues to be robust, increasing 7.1% y/y, above survey expectations of 6.7% y/y. Investment remained solid, growing by 20% y/y. Elsewhere in Asia, Malaysia's Q3-16 GDP printed +4.3% y/y, up from 4% y/y in Q2-16. In Chile, Q3-GDP expanded by 1.6% y/y, with government and private consumption being the principal drivers of activity. Russia's Q3-GDP contracted slightly less than consensus estimates at -0.3% y/y vs. -0.4% y/y while the Polish Q3-16 GDP flash pointed to a slightly weaker-than-expected expansion of 2.5% y/y.

After the Colombian population rejected an initial peace agreement with the FARC in early-October, the government released a revised deal. The FARC is the largest remaining guerilla group in the country. The path forward looks to be ratification in the Colombian Congress, an uncertain endeavor. In ratings developments, Fitch upgraded the Dominican Republic to 'BB-' from 'B+', reflecting strong growth, a reduction in external vulnerabilities, and greater fiscal prudence. The Dominican Republic is now rated 'BB-' by S&P and Fitch.

US Dollar-Denominated EM Bonds (in bps)

Spreads	11/17/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
EMBI Global Div	357	415	353	308	257	404
Investment Grade	212	268	222	203	149	275
BB-rated	319	364	328	324	228	333
B-rated	512	576	462	668	669	870

Local Currency-Denominated EM Bonds (in %)

Yields	11/17/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
GBI-EM Global Div	6.82	7.13	6.50	6.85	5.45	6.57
Brazil	11.65	16.03	12.59	12.32	8.16	10.58
Indonesia	7.98	8.92	7.96	8.73	5.75	6.57
Turkey	10.57	10.62	7.95	10.02	6.38	10.28

Source: JP Morgan