

Weekly Emerging Markets Review

WEEK ENDING DECEMBER 2ND, 2016

Market Technicals

Emerging market (EM) dollar-pay spreads were roughly flat at 362 basis points (bps) over US Treasuries, while local debt yields were also steady at 6.90%. The US dollar-pay JP Morgan EMBI Global Diversified returned +8.2%, while the local currency JP Morgan GBI EM Global Diversified returned +7.0% (year-to-date through December 1, 2016).

News

The decision by OPEC to cut oil production by 1.2 million barrels per day caught markets off guard and led to a significant rally in oil prices mid-week. Although the key countries involved were thought to be having difficulties reaching an agreement, they were ultimately able to get participation from all major members as well as from non-OPEC countries like Russia.

Brazil's third quarter growth came at -2.9% year-over-year (y/y), and stayed in contractionary territory on a quarter-over-quarter basis at -0.8%. Consumption and fixed investment remained negative during the quarter. Also in Brazil, the central bank chose to continue easing its policy rate, moving to 13.75% from 14%. The accompanying statement acknowledged that the environment for emerging markets may be less benign going forward.

India published third quarter GDP growth of 7.3% y/y, slightly below consensus estimates. The service sector (+8.9% y/y) remains the key driver of growth, while manufacturing (+7.1% y/y) also performed well. However, India's manufacturing Purchasing Managers' Index data for November showed a decline to 52.3 from 54.4. It's likely that India will see a temporary growth slowdown in the fourth quarter and early 2017 due to the government's recent decision to switch out large amounts of currency in the heavily cash-driven economy.

Other PMI data from emerging markets were mixed. China was a notable positive surprise, with the government's manufacturing reading rising to 51.7, versus an estimate decline to 51.0. Manufacturing PMIs in Russia and Poland also increased and surprised to the upside at 53.6 and 51.9, respectively. Mexico's manufacturing PMI registered the most downside, with a larger than expected decline to 49.4 (from 50.7) taking the reading into contractionary territory.

President Putin announced that Maxim Oreshkin would assume the post of Minister of the Economy. Though the thirty-four year old is not believed to have much political clout, Oreshkin is seen as a technocratic appointment who will advocate for fiscal discipline.

US Dollar-Denominated EM Bonds (in bps)

Spreads	12/1/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
EMBI Global Div	362	415	353	308	257	404
Investment Grade	212	268	222	203	149	275
BB-rated	338	364	328	324	228	333
B-rated	554	576	462	668	669	870

Local Currency-Denominated EM Bonds (in %)

Yields	12/1/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
GBI-EM Global Div	6.90	7.13	6.50	6.85	5.45	6.57
Brazil	11.72	16.03	12.59	12.32	8.16	10.58
Indonesia	8.15	8.92	7.96	8.73	5.75	6.57
Turkey	10.90	10.62	7.95	10.02	6.38	10.28

Source: JP Morgan