

# Weekly Emerging Markets Review

WEEK ENDING DECEMBER 16TH, 2016

## Market Technicals

Emerging market (EM) dollar-pay spreads tightened seven basis points (bps) to 342 bps over US Treasuries, while local debt yields increased ten bps to 6.82%. The US dollar-pay JP Morgan EMBI Global Diversified returned +8.9%, while the local currency JP Morgan GBI EM Global Diversified returned +8.1% (year-to-date through December 15, 2016).

## News

In monetary policy news, most emerging market central banks maintained their policy rates unchanged this week. The central bank of Chile stood pat at 3.5%, marking twelve months on hold. The decision was largely in line with expectations, with the language in the central bank's communique turning more dovish against the backdrop of lackluster activity. In Peru, the central bank continued to be on hold at 4.25%. In its statement, the board noted that while twelve month ahead inflation expectations had increased marginally, inflation is forecast to end 2017 near 2%, the mid-point of the inflation target. In Asia, Bank Indonesia maintained its policy rate unchanged at 4.75%.

The exception was in Mexico. The central bank (Banxico) raised rates by 50 bps (to 5.75%) in the wake of the Federal Reserve's decision to raise rates by 25 bps. Banxico's hike was larger than expected and marks 250 bps in monetary policy tightening in 2016. In its press release the board emphasized an acceleration in inflation as a primary driver behind its decision.

In China, November high frequency activity data pointed to a continuation of positive growth momentum, with retail sales expanding by 10.8% y/y and industrial production increasing by 6.2% y/y. In Turkey, Q3-16 GDP registered a larger than expected contraction of 1.8% y/y following a revision to the country's national account data. On the demand side, household consumption was a drag on growth, decreasing by 3.2% y/y.

In ratings news, Fitch changed the outlook on Mexico's 'BBB+' rating to 'negative,' citing the uncertainty associated with U.S. elections, weak growth, and increasing public debt. Fitch also put Chile's 'A+' sovereign rating on 'negative' outlook, highlighting a weakening trend in the country's balance sheet. In Ghanaian presidential elections, the opposition candidate Nana Akufo-Addo of the NPP unseated incumbent John Mahama (of the NDC). Additionally, the opposition NPP gained a majority in parliament. In other political developments, social democrats (PSD) swept Romanian parliamentary elections in a landslide victory. Despite the change in guard, there is no expectation for a shift in policy direction.

## US Dollar-Denominated EM Bonds (in bps)

Spreads	12/15/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
EMBI Global Div	342	415	353	308	257	404
Investment Grade	201	268	222	203	149	275
BB-rated	321	364	328	324	228	333
B-rated	511	576	462	668	669	870

## Local Currency-Denominated EM Bonds (in %)

Yields	12/15/16	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	11.37	16.03	12.59	12.32	8.16	10.58
Indonesia	8.06	8.92	7.96	8.73	5.75	6.57
Turkey	11.15	10.62	7.95	10.02	6.38	10.28

Source: JP Morgan