

Weekly Emerging Markets Review

WEEK ENDING JANUARY 27TH, 2017

Market Technicals

Sovereign spreads were roughly flat at 326 basis points (bps) over U.S. Treasuries, while EM local sovereign yields were also stable at 6.72%. The U.S. dollar-pay JP Morgan EMBI Global Diversified returned +1.2%, while the local currency JP Morgan GBI EM Global Diversified returned +1.2 % (year-to-date through January 26, 2017).

News

Several central banks held their first policy meetings of 2017, with Turkey garnering the most attention in light of the rapid depreciation of the lira. The Central Bank of Turkey chose to tighten monetary policy via the overnight lending rate (raising it 75 bps to 9.25%) and the late liquidity window (hiking the rate 100 bps to 11%), while leaving the benchmark and overnight borrowing rates unchanged at 8% and 7.25%, respectively. The move highlighted the central bank's desire to use unconventional monetary policy to combat currency weakness, in particular given a softer domestic growth environment.

The South African Reserve Bank chose to keep the policy rate steady at 7%, as expected. Officials noted upside risks to inflation and modestly increased their inflation assumptions for 2017, though they also stated that rate hikes were not discussed. The National Bank of Hungary kept rates unchanged at 0.9%, and reiterated that it would continue to consider unconventional easing if needed. Policymakers don't see inflation coming back to their 3% target until mid-2018. In Nigeria, the central bank left its key rate flat at 14%. Inflation has been high due to last year's currency devaluation, but officials expressed a dovish bias based on poor domestic growth.

The Philippines' fourth quarter GDP expanded 6.6% year-over-year, bringing full year 2016 growth to 6.8% and marking a pick-up from 5.9% in 2015. The underlying data showed that government consumption has been a significant growth driver.

New issue momentum remained in place and was met with solid market demand. A \$4 billion deal from Egypt was the highlight among sovereigns, while diverse corporate issuance included the Central American Bottling Corporation, Kernel (Ukrainian agriculture), Embraer (Brazilian aircraft maker), Vedanta (Indian metals and oil & gas) and Rusal (Russian aluminum).

US Dollar-Denominated EM Bonds (in bps)

Spreads	1/26/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
EMBI Global Div	326	342	415	353	308	257
Investment Grade	192	205	268	222	203	149
BB-rated	303	322	364	328	324	228
B-rated	492	503	576	462	668	669

Local Currency-Denominated EM Bonds (in %)

Yields	1/26/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	6.72	6.79	7.13	6.50	6.85	5.45
Brazil	10.47	11.10	16.03	12.59	12.32	8.16
Indonesia	7.79	8.03	8.92	7.96	8.73	5.75
Turkey	11.11	10.91	10.62	7.95	10.02	6.38