

Weekly Emerging Markets Review

WEEK ENDING FEBRUARY 2ND, 2017

Market Technicals

Sovereign spreads tightened five basis points (bps) to 320 bps over U.S. Treasuries, while EM local sovereign yields fell six bps to 6.66%. The U.S. dollar-pay JP Morgan EMBI Global Diversified returned +1.8%, while the local currency JP Morgan GBI EM Global Diversified returned +3.0 % (year-to-date through February 2, 2017).

News

As widely anticipated, Fitch downgraded Turkey's credit rating to BB+/stable from BBB-/negative, stating that political and security developments were taking a toll on the economy and institutional credibility. Fitch joined Moody's and S&P (unsolicited), which had already moved the country below investment grade. Fitch also lowered El Salvador's rating to B/negative from B+/stable, citing the fiscal challenges that had arisen in the wake of a breakdown in dialogue between the two major political parties.

Romanian politics garnered attention as large public protests broke out in response to a government decree that rolled back anti-corruption legislation and pardoned inmates serving minor sentences. The ruling Social Democrat party, which has seen many of its politicians investigated or jailed for graft, appears likely to maintain the decree despite the protests, given the party's strong showing in recent parliamentary elections.

Mexico released its preliminary fourth quarter GDP figure, which showed an expansion of 0.6% quarter-over-quarter, in line with expectations. The services and primary sectors registered growth, while the industrial sector was flat. The GDP print suggested that Mexico's full-year 2016 growth was 2.3%, down modestly from 2.5% in 2015. Poland also released preliminary full-year 2016 GDP data that showed growth of 2.8%, down from 3.9% in 2015. Private consumption was the main driver of output last year, while fixed investment contracted.

The Central Bank of Russia chose to hold its key rate steady at 10%, despite inflation moving steadily lower towards the bank's 4% target. Officials have cited the domestic economic recovery as well as external political and economic uncertainty as reasons to maintain a hawkish bias.

Several emerging markets reported manufacturing PMI data for January. China remained in expansionary territory, reporting a figure slightly above consensus at 51.3. Brazil's manufacturing PMI fell to 44 from 45.2 the prior month, while Mexico registered modest increases to 50.8 (Markit series) and 49.0 (government series). India and Indonesia manufacturing PMIs both came at 50.4; each country improved from readings below 50 in December. Poland and Russia manufacturing PMIs also ticked higher to 54.8 and 54.7, respectively.

US Dollar-Denominated EM Bonds (in bps)

Spreads	2/2/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
EMBI Global Div	320	342	415	353	308	257
Investment Grade	186	205	268	222	203	149
BB-rated	294	322	364	328	324	228
B-rated	491	503	576	462	668	669

Local Currency-Denominated EM Bonds (in %)

Yields	2/2/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	6.66	6.79	7.13	6.50	6.85	5.45
Brazil	10.33	11.10	16.03	12.59	12.32	8.16
Indonesia	7.85	8.03	8.92	7.96	8.73	5.75
Turkey	10.75	10.91	10.62	7.95	10.02	6.38