

# Weekly Emerging Markets Review

WEEK ENDING FEBRUARY 10TH, 2017

## Market Technicals

Sovereign spreads tightened three basis points (bps) to 318 bps over U.S. Treasuries, while EM local sovereign yields fell four bps to 6.61%. The U.S. dollar-pay JP Morgan EMBI Global Diversified returned +2.6%, while the local currency JP Morgan GBI EM Global Diversified returned +3.3% (year-to-date through February 8, 2017).

## News

In monetary policy news, the central bank of Mexico (Banxico) hiked its policy rate by 50 bps to 6.25%. Banxico's statement highlighted the central bank's objective of anchoring expectations in the context of accelerating inflation. Headline inflation reached 4.7% y/y in January, driven largely by higher energy prices (following a very politically controversial gasoline price hike). In Peru, the central bank (BCRP) stood pat at 4.25%, matching market consensus. The BCRP has left its policy rate unchanged for the last year.

In Europe, the central of Poland held its reference rate unchanged at 1.5%, as expected. In its press release, the central bank noted that despite the recent acceleration in inflation, price pressures were contained due to moderate wage growth and slack in the economy. Similarly, in India, the central bank remained on hold at 6.25%. The decision was unexpected, with a majority of market participants calling for an additional 25 bps in easing. The Indian MPC noted that its stance was consistent with its goal of bringing medium-term inflation to within its target band of 4% +/- 2%. Separately, in China, international reserves dipped slightly below the psychologically important \$3 trillion level; this is a first since 2011.

In Indonesia, Q4-16 economic activity figures indicated that the economy expanded by 4.9% y/y in the fourth quarter, leaving calendar year growth at 5%.

Political noise in Romania continued to generate headlines. Attempts by the country's new government to roll back prior anti-corruption efforts have backfired. Following days of protests that brought hundreds of thousands of people out on the street, the country's justice minister, a key proponent of the roll-back, bowed to opposition pressure and resigned.

Moody's downgraded Costa Rica's sovereign rating by one notch to Ba2 and left the country's outlook on 'negative.' The rating agency highlighted concerns about fiscal deterioration, which has resulted in high deficits and a growing public debt burden. Fitch downgraded the Tunisian sovereign to 'B+' from 'BB;,' the outlook on the country is 'stable.' In its decision, Fitch cited security risks, weakened economic performance, as well as growing fiscal and external vulnerabilities.

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

Spreads	2/9/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
EMBI Global Div	318	342	415	353	308	257
Investment Grade	183	205	268	222	203	149
BB-rated	290	322	364	328	324	228
B-rated	492	503	576	462	668	669

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

Yields	2/9/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	6.61	6.79	7.13	6.50	6.85	5.45
Brazil	10.06	11.10	16.03	12.59	12.32	8.16
Indonesia	7.77	8.03	8.92	7.96	8.73	5.75
Turkey	10.77	10.91	10.62	7.95	10.02	6.38

Source: JP Morgan