

Weekly Emerging Markets Review

WEEK ENDING FEBRUARY 17TH, 2017

Market Technicals

Sovereign spreads tightened four basis points (bps) to 313 bps over U.S. Treasuries, while EM local sovereign yields increased two bps to 6.64%. The U.S. dollar-pay JP Morgan EMBI Global Diversified returned +2.6%, while the local currency JP Morgan GBI EM Global Diversified returned +4.2 % (year-to-date through February 16, 2017).

News

In monetary policy news, the Chilean central bank left its policy rate unchanged at 3.25%. The move was in line with expectations and follows 25 bps of easing in January. Similarly, in Indonesia, Bank Indonesia kept its benchmark rate steady at 4.25%, in line with market consensus. In its statement, the central bank underscored that growth was firming (5% in 2016) while inflation remained under control. The Egyptian central bank maintained its policy rate unchanged at 14.75%. In the aftermath of a large depreciation in November, and a consequent spike in inflation, the central bank tightened by 300 bps. In its recent statement, the central bank noted that, following the transitory shock, inflation was expected to decelerate moving forward.

Turning to economic activity, there were a number of flash Q4-16 GDP prints coming out of Central and Eastern Europe. Romania's economic growth was the strongest at 4.7% y/y. Polish fourth quarter GDP printed an expansion of 2.7% y/y, while GDP growth in Hungary and the Czech Republic registered 1.6% y/y and 1.7% y/y, respectively. Elsewhere in Eastern Europe, Ukrainian economic activity picked up in Q4, printing 4.7% y/y from 2.1% in the third quarter.

Malaysian Q4-16 GDP increased by 4.5%; private consumption continued to support growth while investment showed signs of improving momentum after a sluggish third quarter. In Peru, the country's high frequency economic activity proxy pointed to an expansion of 3.3% y/y in December. This implies growth of 2.9% y/y in Q4-16, a moderation from 4.4% y/y expansion in the third quarter.

In political news, Ecuador is scheduled to hold presidential elections this weekend. The candidate from the incumbent's left-leaning Alianza Pais party, Lenin Moreno, retains a lead. However, with Moreno's momentum slowing, there are doubts about whether he will be able to win enough votes (40% of votes plus a 10 percentage point lead over his nearest competitor) to secure a first round victory.

US Dollar-Denominated EM Bonds (in bps)

Spreads	2/16/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
EMBI Global Div	313	342	415	353	308	257
Investment Grade	182	205	268	222	203	149
BB-rated	283	322	364	328	324	228
B-rated	480	503	576	462	668	669

Local Currency-Denominated EM Bonds (in %)

Yields	2/16/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
GBI-EM Global Div	6.64	6.79	7.13	6.50	6.85	5.45
Brazil	10.09	11.10	16.03	12.59	12.32	8.16
Indonesia	7.78	8.03	8.92	7.96	8.73	5.75
Turkey	10.81	10.91	10.62	7.95	10.02	6.38

Source: JP Morgan