

# Weekly Emerging Markets Review

WEEK ENDING OCTOBER 7TH, 2016

## Market Technicals

Emerging market (EM) dollar-pay spreads narrowed eleven points (bps) to 328 bps over US Treasuries, while local debt yields widened two basis points to 6.20%. The US dollar-pay JP Morgan EMBI Global Diversified returned +14.4%, while the local currency JP Morgan GBI EM Global Diversified returned +16.7% (year-to-date through October 6, 2016).

## News

In a highly publicized plebiscite vote, a majority of Colombians rejected the peace agreement that the government had secured with the country's largest remaining separatist group, the FARC. The government's failure to gain popular approval for the accord was a political upset for the Santos administration which had been negotiating the terms of the deal since 2012. In Brazil, the first round of municipal elections was held last weekend. The results were a setback for the PT, impeached President Dilma Rousseff's political party. Members of the PT, including former-President Lula da Silva, have been tied to a large-scale corruption racket known as the "Car Wash" (Lava Jato) scandal.

In monetary policy news, the Colombian central bank unanimously decided to leave its policy rate unchanged at 7.75%, in line with expectations. This marks the central bank's second month on pause following a hiking cycle that was initiated in late-2015. Similarly, in Poland, the central bank maintained its policy rate unchanged at 1.5%. In India, the central bank eased 25 bps points, to 6.25%, under its new central bank governor Urjit Patel. In its statement, the board made reference to weak global growth and noted that price pressures, particularly those related to food, were attenuated in August. In an unexpected move, central bank of Kazakhstan cut its benchmark interest rate 50 bps, to 12.5%, against a backdrop of a stronger currency and signs that inflation is stabilizing.

In Ecuador, second quarter GDP was released, printing a more modest contraction (-2.2%) versus the 3% y/y decline in activity reported in the first quarter. In El Salvador, Q2-16 GDP increased at 2.5% y/y, with the agricultural and services sector performing well. In Guatemala, growth expanded by 3.4% y/y in Q2-16, supported by private consumption. Last, in Ghana, second quarter GDP printed 2.5% y/y, a notable slowdown versus Q1-16 (4.8% y/y). The deceleration was driven by weak performance in the industrial sector, which contracted 5% y/y on lower mining/oil production.

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

Spreads	10/6/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
EMBI Global Div	328	415	353	308	257	404
Investment Grade	203	268	222	203	149	275
BB-rated	276	364	328	324	228	333
B-rated	482	576	462	668	669	870

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

Yields	10/6/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
GBI-EM Global Div	6.20	7.13	6.50	6.85	5.45	6.57
Brazil	10.99	16.03	12.59	12.32	8.16	10.58
Indonesia	7.13	8.92	7.96	8.73	5.75	6.57
Turkey	9.13	10.62	7.95	10.02	6.38	10.28