

# Weekly Emerging Markets Review

WEEK ENDING DECEMBER 9TH, 2016

## Market Technicals

Emerging market (EM) dollar-pay spreads tightened thirteen basis points (bps) to 348 bps over US Treasuries, while local debt yields fell eighteen bps to 6.72%. The US dollar-pay JP Morgan EMBI Global Diversified returned +9.5%, while the local currency JP Morgan GBI EM Global Diversified returned +9.6% (year-to-date through December 8, 2016).

## News

Against expectations of a 25 basis point cut, the Reserve Bank of India (RBI) chose to hold the benchmark reverse repo rate steady at 5.75%. Lower inflation and the hit to economic activity from the government's currency swapping exercise had prompted analysts to call for a continuation in the easing cycle. However, the RBI chose to take a more cautious approach, and it views any near term economic slowdown as temporary. The National Bank of Poland maintained the base rate steady at 1.5%, as expected. Officials are in an extended holding pattern as inflation remains below target and growth has softened recently.

Mexico held a successful fourth (and final) phase of the first round of its energy sector liberalization. The government found bidders for eight of the ten deep water fields it had on auction, a better result than expected. Global energy players CNOOC, Statoil, BP, Total, Chevron and Exxon Mobile were among the buyers.

China released a series of monthly data points for November. Consumer and producer price inflation readings came above consensus at 2.3% year-over-year (y/y) and 3.3% y/y, respectively. Stable to rising commodity prices appear to be a driver of bringing input prices out of negative territory. Foreign exchange reserves fell more than anticipated to \$3.051 trillion. While part of the decline is attributed to valuation effects (given that reserves include euro, yen and pound assets), the drop is also seen as evidence of continued capital outflows. Trade data showed exports and imports rising 0.1% y/y and 6.7% y/y, versus expectations both readings would contract; stronger imports caused the trade surplus to ease to \$44.6 billion.

South Africa's third quarter GDP growth was published at 0.7% y/y, in line with expectations. On a quarterly basis, the expenditure side GDP figures showed resilient consumption and a less negative impulse from fixed investment, while net exports were a significant drag.

Korea's parliament voted to impeach President Park Geun-hye, who has faced protests for running the country under the heavy influence of a non-elected family friend. In addition, she has been seen as too closely linked to the country's elite corporate class. The decision to officially remove Park will go to the Constitutional Court, which can take up to six months to rule; Prime Minister Hwang Kyo-ahn will take over as interim leader.

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

Spreads	12/8/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
EMBI Global Div	348	415	353	308	257	404
Investment Grade	203	268	222	203	149	275
BB-rated	330	364	328	324	228	333
B-rated	531	576	462	668	669	870

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

Yields	12/8/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
GBI-EM Global Div	6.72	7.13	6.50	6.85	5.45	6.57
Brazil	11.26	16.03	12.59	12.32	8.16	10.58
Indonesia	7.77	8.92	7.96	8.73	5.75	6.57
Turkey	10.85	10.62	7.95	10.02	6.38	10.28