



# Emerging Markets DCM – Trends in 2015

October 2015



# Key Headlines in 2015 from selected Emerging Markets countries / regions

Emerging Markets have been affected by several headline factors, including growth fears, FX risks, political risks, falling commodity prices and corruption scandals...

## CHINA

- Two surprise interventions by the Bank of China in August caused uncertainty over the economic health of the country. Additionally, devaluation has caused a large slide in Chinese Equity indices, with the Shanghai Composite falling from 4000 mid August to 3434 currently
- Concerns over the Chinese economy sparked wide scale global equity volatility with large fluctuations seen on a daily basis since August, including those in developed markets
- A Chinese slowdown potentially affected the decision by the US to postpone rate hikes

## BRAZIL

- Brazil has been affected by a downgrade of the Sovereign credit rating to Baa3/BB+ due to weak economic performance and lack of political consensus on fiscal reform, combined with a large debt burden and a deterioration in debt affordability
- Additionally, the largest Oil & Gas producer, Petrobras has been affected by a corruption scandal bringing other Brazilian issuers into question from investors. Petrobras was downgraded to BBB- from BBB as a result
- A slide in commodity prices have affected the economy given that a large percentage of Brazils GDP comes from commodity exports

## RUSSIA

- GDP has contracted 4.6% in Q2 2015, the largest fall since 2009 driven by challenging external political conditions
- Russia has suffered from one of the highest inflation rates within Emerging Markets with a current rate of 15.7% aided by the devaluation of the currency which has fallen 35% since October 2014
- The large devaluation has however helped private sector corporates if they are paid in foreign currency and have costs in Rouble allowing them to record increases in revenues
- Several ratings downgrades (Moody's: A2 to Ba1, S&P: BBB- to BB+) experienced by the Sovereign has also lead to state owned/linked corporates being downgraded even if there has not been a significant fall in their financial performance

## MIDDLE EAST

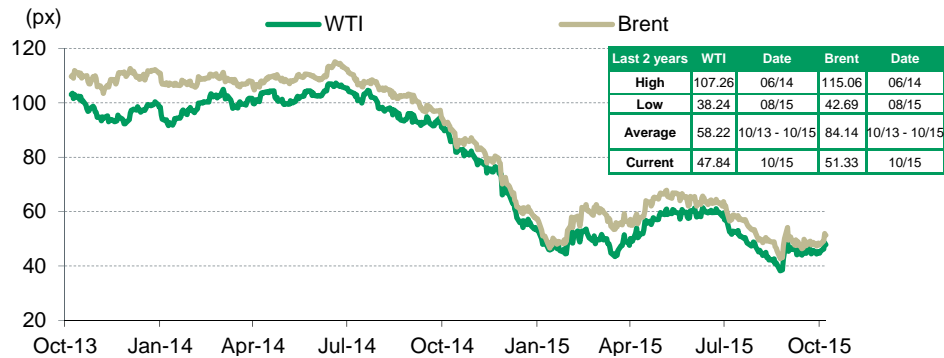
- Decrease in Oil & Gas prices have heavily affected the Middle East given this regions high dependence on this sector
- Political issues In the region remain a constant threat, although the GCC remains stable, surrounding countries are experiencing armed conflicts and terrorism
- A slide in oil prices has lead to a decrease in bank deposits affecting the typical GCC bank term structures. Regional banks are looking to other sources of funding such as bank capital in order to stay adequately capitalised

## TURKEY

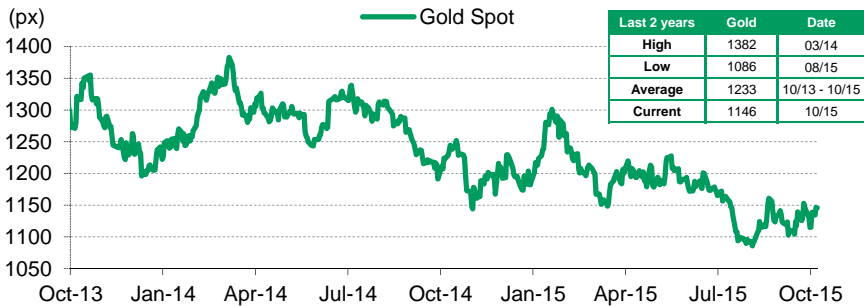
- Political problems in Turkey have persisted, with opposition to the conservative Erdogan government by secular groups such as the Kurdish and Christian minorities within the country. Upcoming elections in November further add to uncertainty
- Islamic state bombings in Turkey such as those in Ankara have the potential to add significant instability to the country and its borders
- The Lira has been devalued over the course of the year driven by inflation, TRY/USD has fallen 19.4% YTD

# Oil, commodity prices in free fall... Driving Emerging Markets FX down

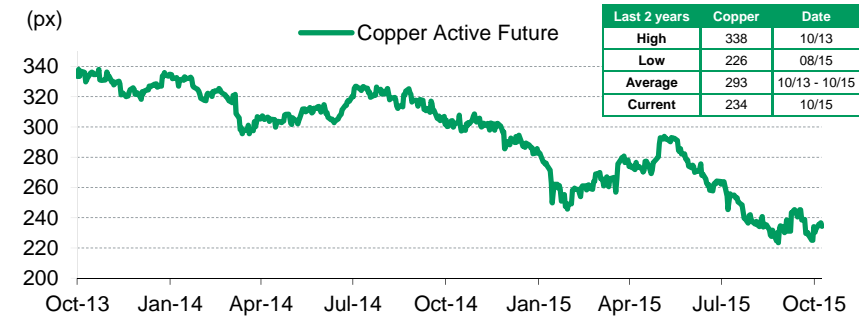
## Brent and WTI Oil Price development



## Spot Gold Price development

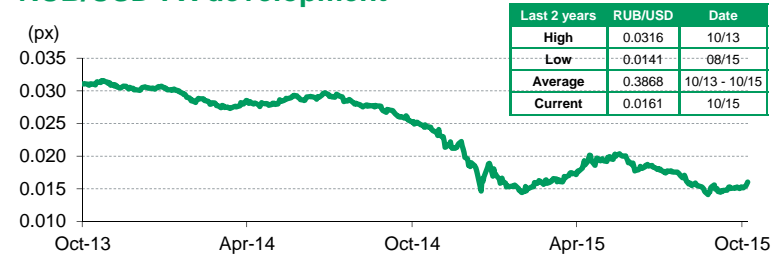


## COMEX Copper USD Futures Price development

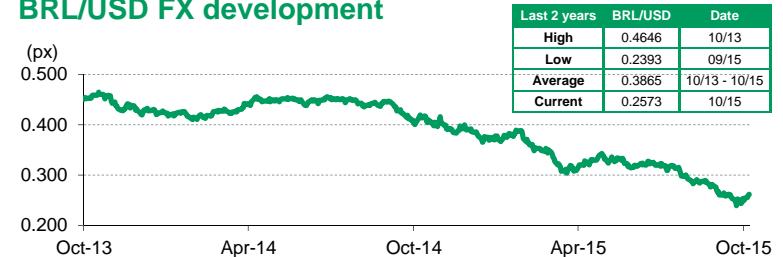


Source: Bloomberg as of 25<sup>th</sup> October 2015

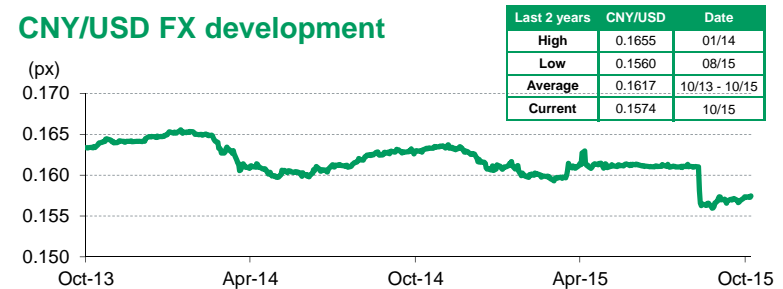
## RUB/USD FX development



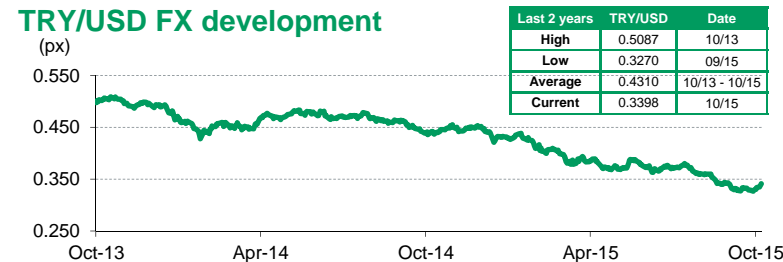
## BRL/USD FX development



## CNY/USD FX development



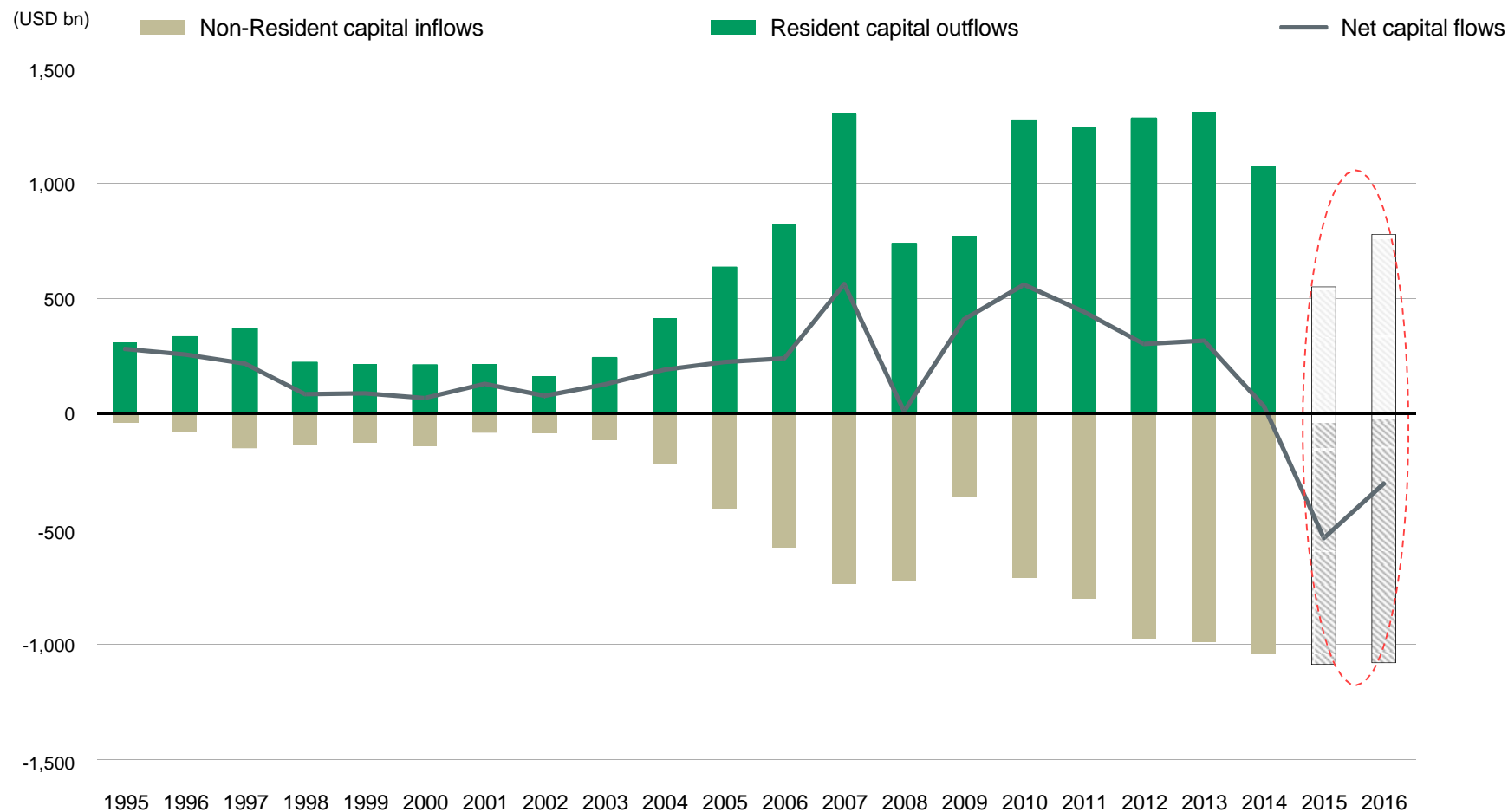
## TRY/USD FX development



# For the first time in a decade there were significant net outflows from EM

Structural issues in a number of EM countries are triggering historically high capital outflows

## Emerging markets' capital flows

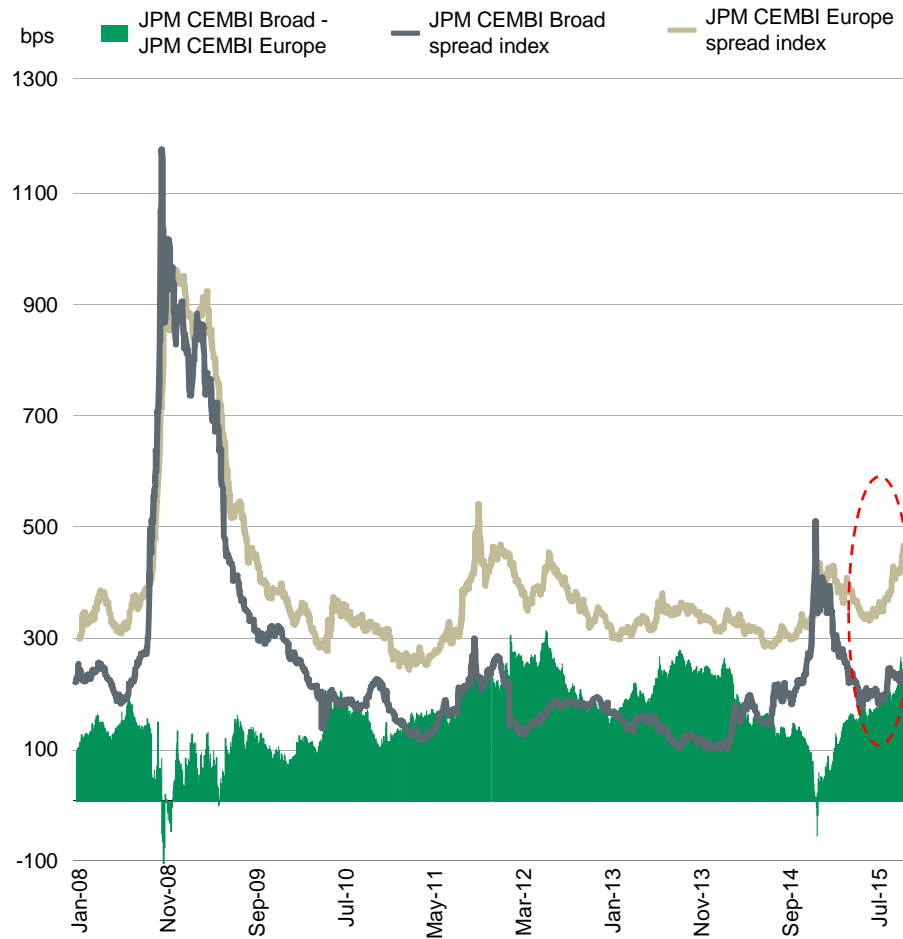


Source: IIF, EPFR

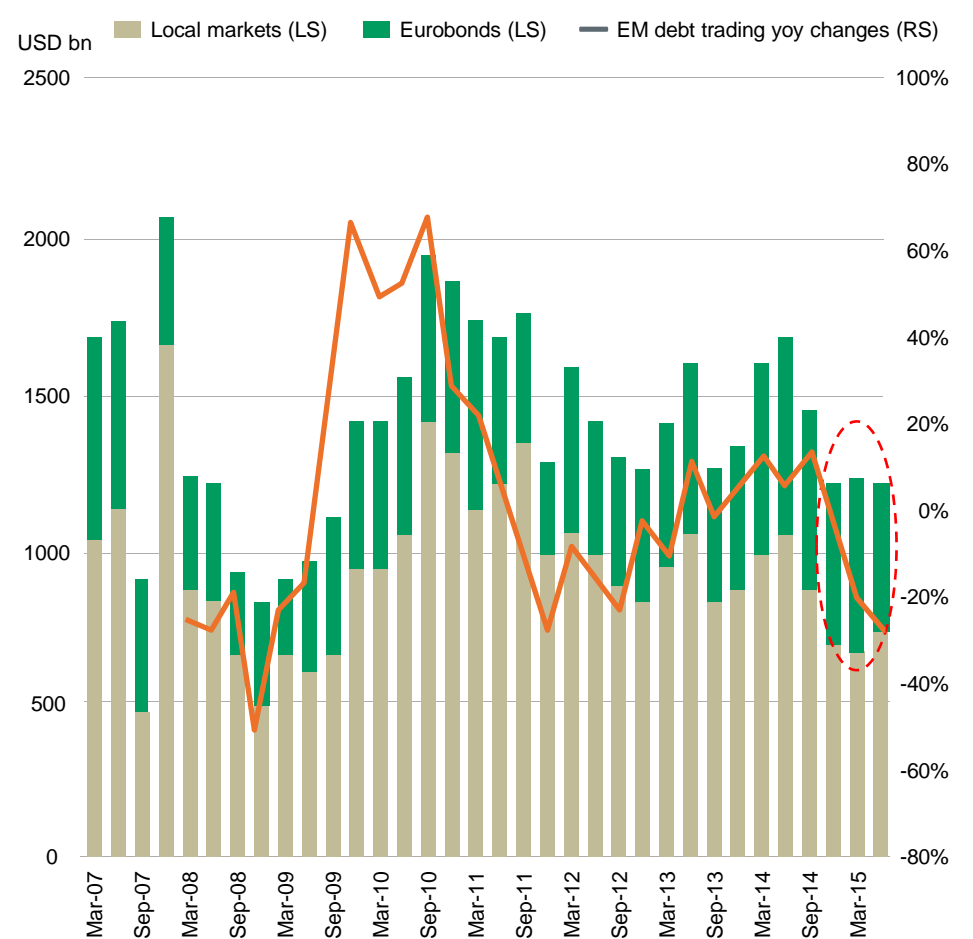
# Markets have reprised as credit spreads rose sharply in Q2/Q3 2015

As market liquidity has deteriorated, mostly due to regulatory issues, EM bond trading is experiencing the sharpest contraction since 2008 / 09. However, current spread levels are far from a crisis scenario...

## EM corporate spreads increased in 2015



## EM Trading volumes fell by almost 30% year on year

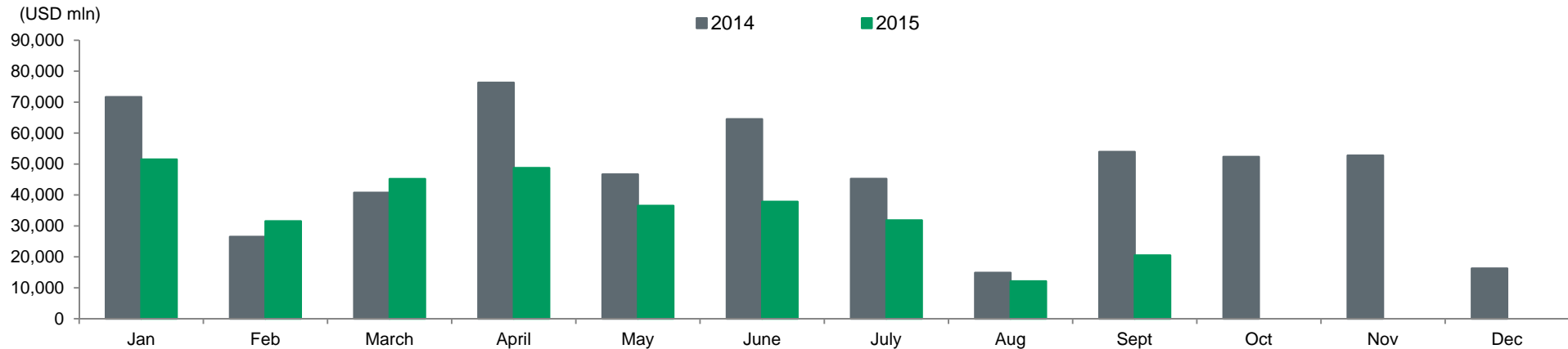


Source: JPM, Bloomberg, iBoxx,

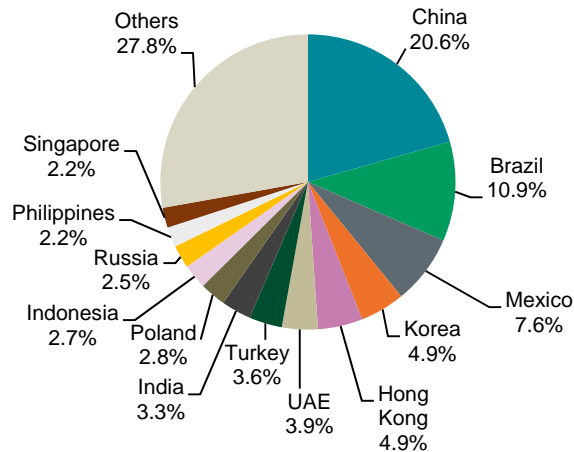
Source: EMTA

# Emerging Markets primary market new issue volumes fell sharply in 2015

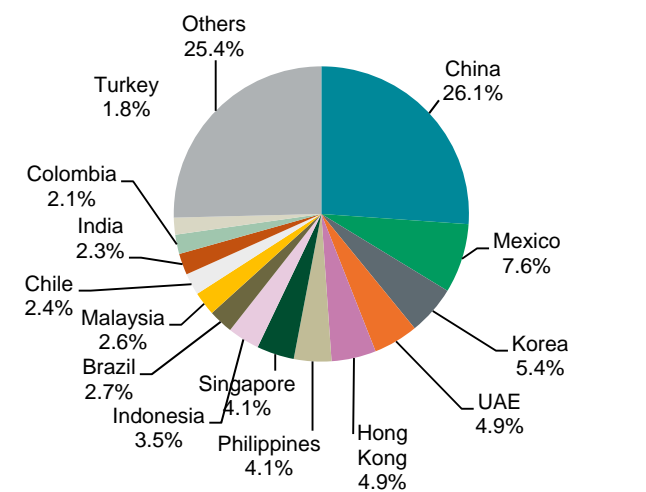
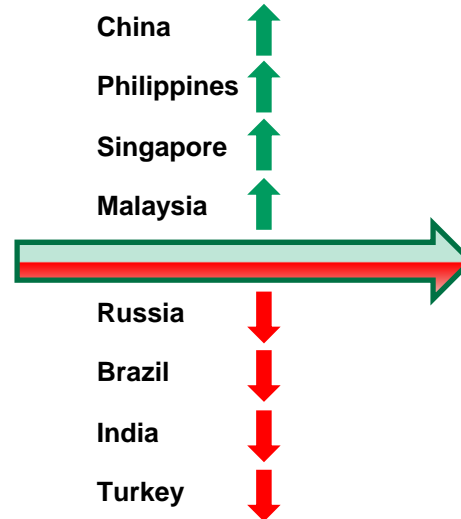
While September saw the return of primary market supply from EM borrowers after a pronounced August lull amid China-led volatility, the continuing concerns affecting global markets meant that the monthly totals fell well short of the historically busy post-summer period...



EM Issuance by Country (Jan-Sept) 2014



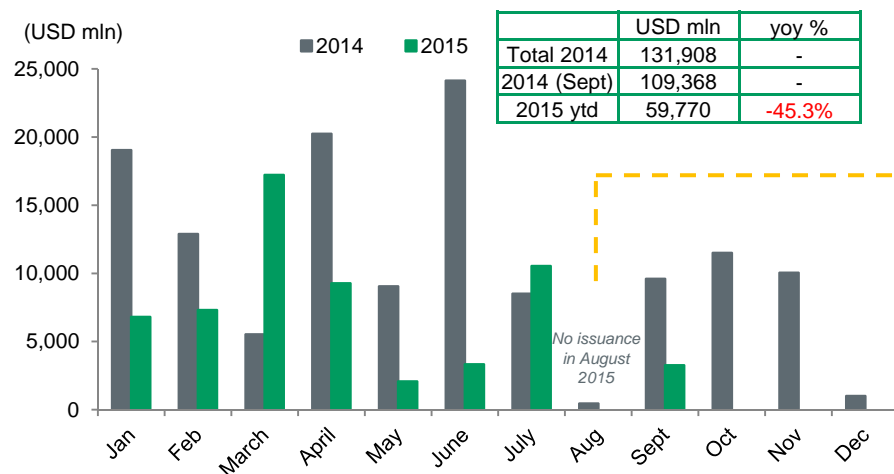
EM Issuance by Country (Jan-Sept) 2015



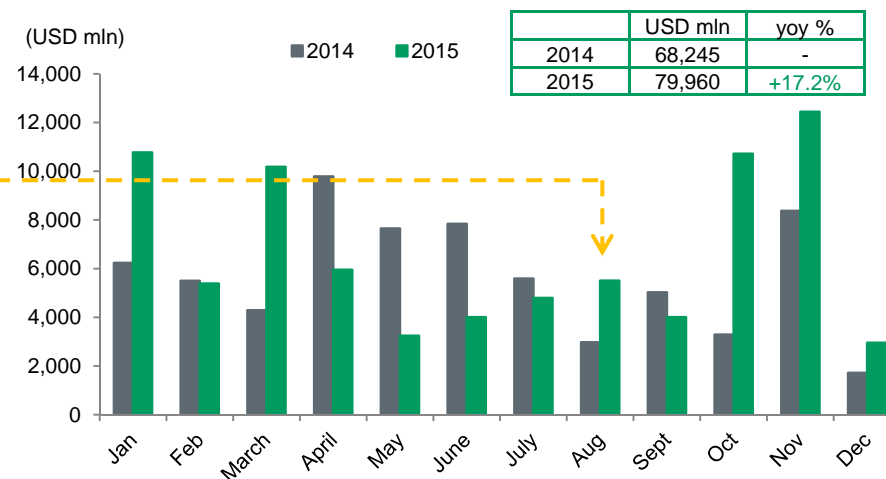
Source: Dealogic, BondRadar, Cbonds

# CEEMEA new issuance & redemptions – Where does the money flow?

## CEEMEA Primary Issuance 2014 & 2015 ytd



## CEEMEA Redemptions for 2014 & 2015



- The CEEMEA region mustered just USD 3.26 billion of new issuance in September, a level similar to low monthly marks from earlier this year despite a decent number of names having mandated roadshows during the month. The slow month followed an August that saw zero CEEMEA supply meaning that the Q3 total amounted to a paltry USD 13.8 billion, which is lower than the USD 14.6 billion in Q2 and the lowest quarter since 2011

## Where does the EM investor money flow?

- It seems that CEEMEA investors are about to be swamped by billions of dollars in cash, helping to sustain a market-beating rally
- Holders of the securities will be looking for a place to re-invest USD 26.11 billion of payments they will get from maturing bonds in the 4Q. This year, instead of buying new bonds from the same companies looking to refinance, investor may need to turn to existing securities on the secondary market
- Thus - will the scarcity factor help boost CEEMEA Eurobonds?

Source: Cbonds as of 30<sup>th</sup> September, Dealogic as of 10<sup>th</sup> October

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