



# Portfolio Manager Perspectives

## BlueBay Emerging Market Debt Update

### Weekly Update

December 13, 2018

#### Holding onto Fundamentals

It was another volatile week for risk assets as the constructive outcomes from the G20 were challenged by the arrest of Huawei's CFO. Developed market equities continued to suffer and core rates rallied on the week with a combination of growth concerns and Brexit fears weighing on the market. Meanwhile, EM local markets continued to post positive returns as investors begin to factor in a weaker US dollar for 2019. OPEC did its bit for the oil price later in the week, promising cuts of 1.2 million barrels per day beginning in January for six months. This led to a small rally in crude and likely set a floor for the first half of next year.

#### In EM News:

- The arrest of Huawei's CFO, Wanzhou Meng, for potential violations of Iranian sanctions threw major doubt over the recent trade truce negotiated between China and the US at the recent G20 meetings. The timing of the arrest was particularly unfortunate as earlier in the week China had made positive comments supporting the truce and had begun to take concrete steps towards implementing some of the compromises agreed upon.

- India's rupee underperformed as the Reserve Bank of India (RBI) kept rates unchanged and suggested a more dovish stance, and as relations between the government and the RBI remained strained, with the subsequent resignation of the RBI governor adding further uncertainty to the policy mix.
- In an upside surprise, South Africa printed a respectable 2.2% annualised for September GDP as it emerged from a 0.4% contraction in the prior quarter.
- In Brazil, inflation came in lower than expected which allowed local rates to outperform but the currency continued to suffer as it remains a cheap short for investors who are hedging longs elsewhere in Brazil.
- Argentina's central bank removed the 60% floor for the benchmark interest rate at the same time as announcing a slower pace of adjustment to the currency band as it gains confidence in the inflation outlook.

#### In EM Corporates News:

- The Mexican government launched a buyback offer for USD1.8 billion of bonds which were issued to finance construction of the new Mexican airport. The tender range was set to 90-100, while

#### Weekly Market Performance as of 12/7/2018

	Total return 1 week	Total return MTD	Total return QTD	Total return YTD	Spread change 1 week	Spread change MTD	Spread change QTD	Spread change YTD	Spread	Yield
Hard currency corp	0.40%	0.18%	-0.47%	-2.12%	8	34	51	84	344	6.08%
Hard currency corp - IG	0.41%	0.37%	-0.33%	-1.40%	8	31	46	61	238	5.03%
Hard currency corp - HY	0.39%	-0.08%	-0.66%	-3.04%	7	42	67	129	506	7.79%
Hard currency sov	0.84%	0.41%	-1.75%	-4.74%	3	32	63	113	398	6.87%
Local currency corp	0.53%	2.00%	-0.37%	-2.16%	2	18	15	(18)	149	7.88%
Local currency sov	0.37%	3.19%	1.17%	-7.07%	n/a	n/a	n/a	n/a	n/a	6.63%
Local currency sov - rates	0.03%	1.74%	1.67%	1.91%	n/a	n/a	n/a	n/a	n/a	n/a
Local currency sov - FX	0.35%	1.42%	-0.49%	-8.82%	n/a	n/a	n/a	n/a	n/a	n/a

#### Movers and shakers on the week

	Sovereign credit	Corporate credit	EM FX	Local rates			
Azerbaijan	2.36%	Transport	1.24%	Colombia	2.87%	Mexico	0.68%
El Salvador	1.98%	Infrastructure	0.59%	Argentina	1.34%	Colombia	0.58%
Sri Lanka	1.85%	TMT	0.55%	Russia	1.15%	Thailand	0.50%
Argentina	-0.27%	Consumer	0.27%	Turkey	-0.76%	Peru	-0.64%
Suriname	-0.35%	Financial	0.26%	Indonesia	-1.17%	South Africa	-0.69%
Mozambique	-1.19%	Pulp & Paper	0.05%	South Africa	-1.33%	Turkey	-1.45%

pre-tender the bonds were trading in the 75-80 range. Bondholders have formed a group and are now likely to try and negotiate a better deal given there are USD6 billion of bonds outstanding; the treatment of the outstanding stub post tender is therefore, in our view, equally as important as the tender offer itself.

- Speculation grew in South Africa around a possible transfer of ZAR100 billion of debt from a South African utility onto the sovereign balance sheet. This put pressure on all South African assets.
- An airline tie-up deal was suspended by a Brazilian court which is a negative in the short term, although we do expect the deal to ultimately be approved.

#### Outlook:

Very little has changed from the way we saw the world in last week's outlook. There is a little more uncertainty around trade following the Huawei incident and a little less uncertainty around oil prices now that OPEC has acted.

The market also appears less certain around the US growth outlook, but we remain relatively sanguine on next year's recession risk and still expect the Fed to be able to hike at certain points next year, despite hikes being all but priced out of the 2019 Eurodollar strip.

Currently, fundamentals do not, in our view, support the negative price action we are seeing across many assets, which suggests that it is technicals that are driving the price action. We therefore maintain a constructive stance on EM risk, despite expecting market volatility to continue as positions get flushed out into year-end.

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