Argentina’s Finance Secretary Bausili Discusses Efforts to Stabilize the Economy at EMTA Forum in Buenos Aires

Argentina’s Secretary of Finance Santiago Bausili delivered the keynote speech at EMTA’s Annual Forum in Buenos Aires on Tuesday, May 14, 2019. The event was sponsored by Refinitiv, with the additional support of AdCap, and drew an audience of over 200 EM professionals. Bausili’s address followed weeks of heightened concern that the Macri administration would lose the presidential election to former President Cristina Fernandez de Kirchner.

(continued on page 7)

Venezuela and Russia Sanctions Status to be Discussed at London Venue

Following on EMTA’s well-attended Special Seminar in New York on February 28, 2019, EMTA will hold a similar Special Seminar “Venezuela and Russia Sanctions: An Update” on September 9, 2019 at Davis Polk & Wardwell’s London offices.

Jeanine McGuinness (Davis Polk & Wardwell) will moderate the panel, with Matthew Townsend (Allen & Overy), Fulvio Italiani (D’Empaire), Peter Harrell (Prospect Global Strategies), Taylor Ruggles (Office of Sanctions Policy and Implementation, U.S. State Department), and a market representative as additional panelists.

BancTrust & Co. will be the lead sponsor.
EMTA Monitors Venezuela Sanctions

Increased activity in the sanctions area has engendered various OFAC-related material (including FAQs), which are all available in the Venezuela area of EMTA's website (https://www.emta.org/template.aspx?id=5019) and which EMTA Members are encouraged to visit frequently as EMTA monitors events in Venezuela.

The Venezuela Creditor Committee also requests help in approaching OFAC to relax secondary market trading restrictions. Click Here for more information on this effort.

Information on the JPMorgan Index Watch Note on Venezuela can be accessed by Clicking Here.

Following on EMTA's well-attended Special Seminar in New York on February 28, 2019, EMTA's Special Seminar: Venezuela and Russia Sanctions: An Update will be held on September 9 in London (see page 1 for more information).

EMTA Monitors Russia Sanctions

Various OFAC-related material is available in the Russia area of EMTA's website (https://www.emta.org/template.aspx?id=5021), which EMTA Members are encouraged to visit frequently as EMTA monitors events in Russia.

Following on EMTA's well-attended Special Seminar in New York on February 28, 2019, EMTA's Special Seminar: Venezuela and Russia Sanctions: An Update will be held on September 9 in London (see page 1 for more information).

Mozambique Reaches Agreement in Principle on Restructuring Terms

Mozambique has come a long way from the Ministry of Finance's first presentation in October 2016 to bondholders forming in November 2016. While a failure to pay engendered EMTA's 'flat' Market Practice recommendation in January 2017, a number of fits and starts occurred in the following 2 years that finally culminated in an agreement in principle regarding the restructuring of the 2023 Notes. For the Mozambique Ministry of Economy and Finance Press Release relating to such agreement in principle, please Click Here (with the Portugese Version to be accessed by Clicking Here.)

Trinidad Petroleum Holdings Bondholder Committee Indicates its Support of the Amended Exchange Offer

For more information on the effort of Trinidad Petroleum Holdings’ Bondholders to organize themselves, please Click Here. At first, the bondholders did not support the consent solicitation (Click Here for the Press Release), but then they acknowledged an extension and are seeking a dialogue with the company (Click Here for the Press Release).

Most recently, TPHL announced entry into the Exchange Support Agreement and an extended expiration date (Click Here for the Press Release) and the Bondholder Committee indicated its support of the Amended Exchange Offer (Click Here for the Press Release).
Prolonged US-China Trade War Now Base Case, Say EMTA Panelists in Frankfurt

Panelists at EMTA’s Annual Forum in Frankfurt feared that US-China trade disputes could be more serious, and last longer, than originally believed. Bank of America Merrill Lynch, Moody’s Investors Service and Standard Chartered all co-sponsored the event, which was held on Tuesday, June 4, 2019. 50 market participants attended.

Christian Kopf (Union Investment) revealed that, “we don’t expect any short-term agreement at [the G-20 meeting in] Osaka,” and highlighted the power-shift to hardliners within the American administration. In his analysis, the US-China trade war was less about commerce and more about Washington preventing China becoming a global super-power, thus leaving little appetite for a co-operative approach.

Concurring that chances for a quick fix were low, and that the conflict could be protracted because both countries had strengths, Nicolas Schlotthauer (DWS) suggested that the economic effects may not yet be fully factored in. One possible result would be that China would focus more on domestic growth drivers, and overall the uncertainty could affect risk sentiment.

Standard Chartered’s Philippe Dauba-Pantanacce highlighted growing inflexibility on both sides, with the US administration about to shift to re-election mode. Washington will increasingly feel political pressure from corporate America, which has largely remained silent to date, as well as US consumers who are increasingly focused on Chinese exports at discount fashion and household goods stores. A deal remained possible, however, if leaders agreed to aspirational statements that allowed for papering over areas of disagreement.

Finally, moderator David Hauner of Bank of America Merrill Lynch commented that, at his firm’s recent credit conference in Miami, the bearish view on the trade war was clearly investors’ new base case, replacing a prior lack of concern. The threat of tariffs on Mexico may have been orchestrated to deflect attention from the US-China spat, he added.

Dietmar Hornung (Moody’s Investors Service) reviewed the global credit cycle, stating “it’s clear that it’s very mature.” The vast majority of EM credits have stable outlooks on his firm’s ratings, while those with negative outlooks vastly outnumber upgrade candidates. Hornung acknowledged that Turkey was especially vulnerable, even after two credit downgrades in 2018, and, while Mexico’s outlook is at the “stable” level, “the ‘outlook on the outlook’ is negative.” In contrast, momentum in Czech Republic, Slovakia, Slovenia and Croatia was positive.
Frankfurt (continued)

Hauner worried that chances of a conflict with Iran were underestimated by market participants, and asked whether speakers agreed. Dauba-Pantanacce saw the chances of war exploding as low, and argued that it was not in Tehran’s interest to have an open conflict, as other regional actors were too powerful. Instead, it continued to the asymmetric confrontations via proxies, including “drawing Saudi Arabia into its ‘Vietnam’ in Yemen.” Iran’s current strategy was to gain time until the 2020 US elections, while the wide variety of responses by its Gulf neighbors meant that “the GCC is dead as a political construct.” The withdrawal of US waivers on Iranian oil exports (in addition to production losses in Libya and Venezuela) could result in 3 million bpd being removed from the markets, with China the sole remaining oil client of the Islamic Republic, “and it has less appetite.”

Panelists debated potential returns for the remainder of 2019. Schlotthauer preferred external EM debt, especially non-IG paper, over local, on a risk-adjusted basis. Kopf speculated that another 2-3% of performance was possible for the EMBI Global, with a 370 bps year-end forecast, and preferred EM IG paper. The dollar was likely to weaken with Fed cuts starting in the fall, leading to “decent performance” in EM local paper in 2H.

Hauner closed the panel after a discussion of specific credits. Kopf expressed a bearish view on Argentina, warning that its citizens will have to pay taxes to service the huge amounts of debt borrowed by the Macri administration. “The whole thing is a bit of a disaster, with the IMF addressing gender-inequality in the agreement, instead of focusing on economics,” he stated. He saw the peso as having overshot fair value, and would not short the currency.

Schlotthauer reasoned that a more cautious stance on Mexico was now warranted. “It’s hard to see how the fiscal numbers will work out; and now we have increased uncertainty in government policy and the plan to build new oil refineries,” he concluded.
EMTA Zurich Panel Covers US-China Trade Dispute, Brazil and More

Trade wars remained very much on the mind of EM investors, according to speakers at EMTA’s Annual Forum in Zurich. The event was held on Thursday, June 6, 2019 and was sponsored by MarketAxess, with additional support provided by Balanz Capital and Sberbank. Ezequiel Zambaglione (Balanz Capital) moderated the event’s panel discussion, which drew an audience of 50 market participants.

The effects of the US-China trade war had still not completely filtered through to the real economy, observed Wouter Van Overfelt (Vontobel Asset Management). In his view, the IMF’s estimate that trade wars could shave off 50 bps of global growth could prove optimistic, and second-round effects were hard to assess at this point. “In the end, someone will have to pay for it; it’s like a tax, and that is negative, as taxes are distortive,” he stated, underscoring the fact that “global trade is not zero-sum.” Van Overfelt speculated that Brazil and Argentina might benefit from an increase in soybean prices, with Mexico also a beneficiary generally.

GAM Investment’s Dorthe Nielsen reasoned that Vietnam, Taiwan and Malaysia were also likely to profit if the US-China trade war continues. Industries such as furniture, hardware and office supplies could easily be moved from China to neighboring countries, she noted, adding that Argentina’s income would increase due to heightened soybean prices, even if its own sales to China remained flat.

Theo Holland (Fisch Asset Management) painted a mixed picture, with Brazil and Chile suffering from decreased Chinese demand for commodities, although he anticipated further stimulus by Beijing to prove a mitigating factor. If such a stimulus occurred, CEMEA steel producers would be likely beneficiaries, he stated.

Zambaglione shifted to the market’s focus on Brazil’s proposed pension reform bill. Nielsen noted that the bill’s passage had been delayed to the 2H of 2019, and stressed the importance of greater certainty for Brazilian businesses. In her analysis, other reforms in Brazil were just as important. If the Supreme Court allows Petrobras to make divestitures, there will be a great advance on privatization efforts; and progress on infrastructure reforms would have a more immediate impact than the longer-term pension changes.

There has never been a better chance for pension reform to get passed in Brazil,” opined Credit Suisse Asset Management’s Gonzalo Borja. With disappointing 1Q growth and the chance of a recession, the Bolsonaro administration will want to avoid being part of a “long history of over-promising and under-delivering in Brazil; investors want to see some results.” Holland looked forward to the day after pension reform was adopted, so “we can concentrate on other economic drivers.”
Zurich (continued)

Ekaterina Sidorova (Sberbank) reviewed the outlook for the Russian economy, which she described as having “good fundamentals, but with heightened geopolitical tensions.” Sanctions on new issuance meant that existing hard-currency sovereign debt had the technical boost of scarcity value. While the US Congress has discussed additional sanctions on Russia, her base case was that, “we don’t see any obvious triggers, and don’t expect any changes to the existing sanctions for the next one or two years.” She pointed out that Russian corporates recently resumed hard currency debt issuance, and sovereign issuance in the local currency market has been strong so far.

Holland maintained a generally constructive outlook on Russia, while cautioning that the sanctions on Rusal “weren’t thought through, and a similar situation could happen again.” Borja saw Russian paper as “super tight” and welcomed new issues. Nielsen lauded Russian corporates for prudence in their liability management when the ruble had depreciated. “Most are stronger than before the crisis...but the tail risk is not knowing what Trump will do next.”

Similarly, Holland praised Turkish corporates for their response to a weaker lira. “Turkish management teams are among the best; they’ve been through this before,” he commented. However, he remained concerned by rising youth unemployment in Turkey, and noted that the odds of President Erdogan applying for IMF aid were “highly remote.” He pondered whether the opposition would be strengthened by a re-vote of the Istanbul mayoralty, or whether “Erdogan will not hold an election he cannot win.”

Van Overfelt agreed that Turkish banks and corporates “are extremely well-managed; they know how to handle a crisis. I don’t think there will be bank failures.” IMF assistance was thus not essential, while Central Bank reliability continued to be a concern. Borja warned that US sanctions were still possible due to the purchase of Russian military hardware.

Zambaglione delivered his projection of Argentina’s upcoming presidential election, estimating the odds of President Macri’s re-election at 50/50. If Macri wins, spreads would not be lower than 550-600 bps as the macro economy continues to be challenging, and “he will have one to two years to show progress on reforms, considering the macro situation will not be unsustainable.” Under a Fernandez-Fernandez presidency, the best case would be for a new IMF accord, after a “difficult and long negotiation,” with bonds at 40-45 cents. Borja recommended selling Argentine paper “when you can, not when you want.” Holland believed a case could be made for select Argentine corporates, such as YPF and utilities, “but liquidity is not your friend there.”

The panel concluded with a discussion of industry themes. “Many people in our asset class didn’t even know what ESG meant 12 months ago, but there has been a very rapid movement on this topic, which is clearly here to stay,” asserted Borja. Holland argued that corporate bond managers should have been focusing already on corporate governance [i.e. the G in ESG], “so I push back on that a bit.”

Sidorova referred to the increasing amount of euro-denominated debt and a trend towards de-dollarization. Nielsen noted that the move to passive, ETF funds was a less important factor for the EM corporate market. Van Overfelt addressed MIFID II and saw the evolution of its effects as still not 100% clear, and would be important to monitor. Finally, several speakers acknowledged the increased role for GCC paper following its inclusion into the EMBI Global indices.
Buenos Aires (continued)

In his remarks, Bausili stressed the actions Argentina had taken to stabilize its financial markets. He acknowledged that, in April, “the market was telling us that there was concern over President Macri’s chances for re-election...and this administration realizes the sensitivity that exists.” Thus, Argentina’s economic and political officials were focused on working together to reduce future policy uncertainty.

To this end, the government has proposed a 10-point agreement with opposition leaders to prevent deterioration in the country’s fiscal accounts and to fight inflation, as it seeks to reassure skittish investors. In addition, Bausili also called attention to the relaxation of IMF rules, which now permit the country’s Central Bank to intervene in the local FX market to defend the peso. This, he highlighted, was also an “important move,” which should also provide a level of comfort for investors.

“Argentina’s debt load is not at unsustainable levels, especially if the political scenario permits reforms that can foster growth,” Bausili emphasized. He argued that the market was currently pricing in a worst-case scenario, but that, if reforms were allowed to proceed, a more positive future was possible.

The event also included a discussion featuring investor and sell-side analysts. Moderator Claudia Zuchovichki of the Buenos Aires Bolsa de Comercio polled the audience for year-end views on Argentine country risk, and results revealed that a vast majority expected a better economic environment by December 31. Marcos Buscaglia (Alberdi Partners) offered 50/50 odds on whether dollar-denominated bonds were in jeopardy by stating, “it depends on who wins the Presidential elections.” Neuberger Berman’s Gorky Urquieta cautioned that Argentine investors would face a “high level of uncertainty” at least until August’s primary elections, and recommended that market participants resist the temptation of believing that either a ceiling or a floor had been reached, depending on one’s ultimate election forecast.

“We believe firmly that the trend is to Macri’s re-election,” stressed AdCap’s Paula Gandara. She highlighted the important role of the Argentine Central Bank, which was now able to make “use of its firepower” to stabilize the peso, and thus prevent a full-blown crisis. However, a cautious approach was imperative, and rollovers of local debt would likely decrease.

Alec Kersman (PIMCO) seconded the recommendation of a “cautious approach; it’s premature to say the economy is going to improve. Recovery so far has been shallow and is likely to continue to be gradual, given domestic and external uncertainties, and tactical peso trades might make sense.” While his base case was “constructive,” a series of “unforced errors have increased our concerns.” He hoped for a “path that is described clearly and then followed; if so, we will hang on to our positions.”

Pablo Albina (Schroders) lamented the low levels of CDS hedging on Argentine bonds. “Everyone has lost money on Argentina,” he added, while also expressing concern at the general lack of liquidity in some Argentine paper. Panic sales of Argentine assets were still possible, and Central Bank purchases of the peso would be critical in avoiding a spiraling effect.”
Buenos Aires (continued)

Speakers noted that IMF credibility could be questioned if the Argentine recovery program fails. Urquijeta suggested that the previous peso trading band might have been “too wide, almost an enticement to participants to test it.” Buscaglia hoped that stability in the peso and food prices might be possible in the short-term.

Addressing the prospects for neighboring Brazil, Albina was encouraged by the “political class change” in recognizing the need for substantial pension reform. Kersman declared that the “steps that have to be accomplished are many,” and hinted that local bullishness may be overdone. Buscaglia saw a pattern in right-wing governments now experiencing difficulty in reform passage, contrasting the current situation in countries such as Brazil and Chile with the experience of leaders in the 1990s who had an easier path to push structural reforms.

[Editor’s note: Surprising many, several days after the Forum, the ex-president announced that she would run for the vice-presidential, rather than presidential, office.]

Speakers Stress Need for Growth, Pension Reform at EMTA Sao Paulo Forum

Pension reform and Brazil’s disappointing growth rate dominated the discussion at EMTA’s latest Forum in Sao Paulo, held on Thursday, May 16, 2019. MarketAxess sponsored the event, with additional support from Fitch Ratings and XP Securities.

“Pension reform is very important, but, even if the bill passes, Brazil’s debt profile will continue to deteriorate. Pension reform is not enough—Brazil needs to grow,” declared moderator Rafael Guedes (Fitch Ratings) in his opening remarks.

Alexandre Schwartsman (Schwartsman & Associados) questioned the ability of the Bolsonaro administration to make progress on the country’s economic future, arguing that the president “was totally unprepared for the job, and driven by an ideological agenda, rather than a pragmatic one.” In addition, he criticized Congressional politicians for engaging in a game of musical chairs, rather than working together cohesively to improve the country’s outlook. With that background, “something [on pension reform] will pass… it’s just not clear how watered-down it will be.”

Western Asset Management’s Adatao Lima believed pension reform savings of 800 billion to 1 trillion reals over ten years were needed. He sensed growing disappointment in the market (he himself had anticipated bill passage by May), and didn’t expect savings of greater than 700 billion, which he noted was in line with the Street.

Marcelo Cirne de Toledo (Bradesco Asset Management) expressed a more optimistic outlook. In his view, pension savings of 500 billion were reasonable and feasible, and could be approved in the first round by September. In addition, reforms by Brazilian states and cities would supplement this figure.

Speakers acknowledged the natural reluctance of society to reduce benefits. “Opposition politicians will say off-mic that they know reform is needed, but Brazilian society doesn’t want to work more,” stated moderator Guedes. “We are ordering dinner and dessert even if we don’t know if we can pay for it,” Schwartsman concurred.
Sao Paulo (continued)

Daniel Cunha (XP Securities) observed that debt sustainability hasn’t been an issue for Brazil in recent years because of the US Fed policy of low interest rates. “US monetary policy could not be more supportive…although the US-China trade wars are not helpful,” he commented. Cunha forecast debt/GDP could reach 200% if pension reform is not accomplished, and would eventually force the hand of Brazilian leaders (“history shows that you may need to feel some pain before you take your medicine”).

Lima discussed his sense of increased cautiousness by international investors vis-à-vis Brazil. “They want to see some deliverables” after the recent crises in Argentina and Turkey. “At least our current account deficit is not at 4-5%, but investors want to see some reform,” he added.

Several speakers believed that, with inflation under control, COPOM could cut rates in order to boost growth. Toledo noted that Central Bank communications indicate a greater likelihood of rate cuts after reform passage, although they were possible beforehand as well. Cunha expected the SELIC to remain at 6.5% at year-end, with the Central Bank unwilling to take a risk of a sharp drop in the real if reform passage fails.

However, Cunha emphasized, “bottlenecks to growth in Brazil are mostly structural rather than circumstantial,” and rate cuts alone would not lead to a sharp improvement in the economy. Privatization, education and deregulation had to be tackled, he stated. Speakers also noted that, without action, the spending ceiling will soon be tested. “But, if they really succeed in passing the $1.3 trillion in pension savings, you wouldn’t even need the spending cap anymore because you would be on a more sustainable path,” concluded Schwartzman.
EMTA Survey: Emerging Markets CDS Trades at US$505 Billion in First Quarter

Second Highest Reported Quarterly Volume Since Report Began in 2009

Emerging Markets CDS trading stood at US$505 billion in the first quarter of 2019, according to a Survey of 12 major dealers released on June 12, 2019 by EMTA, the EM debt trading and investment industry trade association. This was 3% higher than the US$488 billion reported in the first quarter of 2018, and 41% above the US$357 billion in reported transactions in the fourth quarter.

EMTA noted that this was the second highest reported quarterly volume since it began collecting CDS volumes from Board firms in 2009.

The largest CDS volumes in the Survey during the quarter were those on Brazil, at US$61 billion. EMTA Survey participants also reported US$49 billion in Mexican CDS; Chinese volumes followed at US$45 billion.

The EMTA Survey also included volumes on nine corporate CDS contracts, with the highest reported quarterly volume on Pemex (at approximately US$2.5 billion).

For a copy of EMTA's First Quarter 2019 CDS Trading Volume Survey, please contact Jonathan Murno at jmurno@emta.org or + (1) 646 676-4293.
Déjà Vu at EMTA Spring Forum?

Much of the global backdrop remained the same as in 2018, commented John H. Welch (HSBC Securities USA Inc) as he opened EMTA’S Spring Forum on Wednesday, May 8, 2019 in New York City. US-China trade wars continued, the Brexit saga remained unresolved, the future of North American free trade was unclear, all contributing to a sense of déja vu; while, on the other hand, new leaders in Brazil and Mexico, and an upcoming election in Argentina, added new ingredients to the mix. The event drew 125 market participants and was hosted by HSBC Securities USA Inc., with the additional support of MarketAxess.

Armando Armenta (UBS) revealed his base case that cooler heads would prevail in Beijing and Washington, DC. However, if a full trade war exploded, 50 bps would be shaved off global growth. He expected US growth between 2 and 2.5% in 2019, eschewing the possibility of US growth “falling off a cliff and prompting a global recession.” Armenta highlighted that Chinese stimulus efforts, now based more on tax cuts than infrastructure spending, were notably different from its previous moves in terms of both size and composition. He concluded that EM was likely to trade sideways, and recommended “good” high yielding currencies as offering the greatest defense against pressure on EMFX.

PGIM’s Todd Petersen concurred that eventually a Sino-American deal would be completed, “although we might go through a period of confusion for a while.” The “game changer” for EM in 2019 was the suspension of the US FOMC hiking cycle, with future Fed rate cuts even a possibility. Citi’s Dirk Willer went further, anticipating US rate cuts by year-end, while HSBC Asset Management’s Olga Yangol was more cautious, suggesting that it could still be “premature” to speak of Fed easing.

Welch reiterated his déja vu theme in turning panel focus to Turkey and Argentina. “The Argentines have pulled out every tool from the macro textbook,” stated Yangol. While the outlook was uncertain, inflation prints and presidential candidate declarations would be key focuses for market participants. “This could definitely unravel,” she warned. Willer suggested there could be better buying opportunities if bond prices overshot on the downside as the election approached. Armenta underscored the importance of taming inflation, and expressed concern that, if the Fund “cannot save Argentina, given that they have done everything right, what good is the IMF for?”
Spring (continued)

Panelists contrasted the fact that there was no “expiration date” to negative news from Ankara, while, in Argentina, the presidential election would serve in many ways as a deadline. Petersen acknowledged that US sanctions on Turkey due to weapons purchases were a “clear possibility,” while remaining convinced that despite risks from the pressure on reserves, the sovereign balance sheet was solid, and a credit event on external bonds was unlikely “It’s a matter of your pain threshold, because it will probably get worse before it gets better, but spread levels are attractive,” he summarized.

There was still room for spread compression in Brazil, in Armenta’s view, with yields not fully reflecting the potential for positive surprise news on pension reform, and on-going market anxiety on the administration’s ability to deliver. Willer had observed decreasing client talk on pension reform, suggesting to him that it was increasingly becoming a base case. Moderator Welch also foresaw “significant” pension reform passage, highlighting the lack of opposition party grandstanding in the special committee. In contrast, Yangol adopted a more conservative outlook, and argued that the downside risks that a reasonable reform package would be adopted have been underestimated. “I’d hesitate to go all-in on credit and rates,” she concluded.

Petersen drew parallels between Brazil and South Africa, underscoring their common low debt levels, and disappointing growth. The ANC would need to capture 55% of the May 8 vote in order to continue with reforms [Editor’s note: as they did] and, if so, a significant cut in the number of ministerial positions would be a welcomed sign of progress. Petersen stressed the need for reform at Eskom, and labor and energy reforms generally. “Moody’s has given them a pass [in not cutting South African debt to junk levels], but a year from now, unless they make progress, they will get downgraded,” he stated, adding that, while the country was “not a default candidate, it was a slowly bleeding credit.” Less equivocal, Willer predicted the country would lose its last IG rating.

Following the panel, speakers responded to audience questions. Petersen and Willer debated whether ESG principles should be applied to historical EM data, questioning how new trajectories in countries like Ukraine should be judged. Petersen also called investor attention to the inclusion of GCC external debt and Chinese local paper into industry indices, and the potential further diversification of the asset class as more local debt becomes Euroclearable. Yangol predicted that portfolio managers will need to ascertain how AI will be integrated into their investment-making process.
Global Conditions Continue To Support EM, EMTA Los Angeles Panel Concludes

In opening comments at EMTA’s Forum in Los Angeles, moderator Sebastian Vargas (Barclays) observed that the combination of dovish Central Banks, “not too hot, not too cold” oil pricing, and economic data suggesting a gradual improvement in the Chinese economy have formed a constructive environment for EM debt. The event, which was held on Thursday, May 2, 2019, was sponsored by MarketAxess. Barclays and Mizuho Securities USA LLC provide additional support.

Vargas polled the event’s speakers for their thoughts on whether Chinese growth would be enough to sustain current valuations, given industry consensus that EM growth generally was weakening. Mizuho Securities USA Inc.’s Jeff Norton, giving a personal rather than firm viewpoint, offered his assessment that investors will likely be disappointed by recent downward revisions to Mexican growth this year, while the Brazilian recovery was taking longer than expected. He concluded that, “Latin American growth will likely underwhelm for the rest of the year,” even if Chinese stimulus was successful.

TCW’s Blaise Antin opined that, while Chinese stimulus measures were better to have than not, their domestic focus would have less of a spillover effect on EM. With the US Fed and the ECB pivoting to dovish stances, and making clear rates were unlikely to rise, the outlook for EM debt was “certainly better than it was three months ago, but it doesn’t mean total return prospects for the rest of 2019 are exciting; they’re just okay, and largely reflecting carry and maybe a little bit of spread compression.”

Kristin Ceva judged current spreads to be fair, with EM sovereign fundamentals “relatively supportive.” She recommended, however, that “it might be time to take some chips off the table, especially for EM countries that have rallied strongly.” Finally, Valerie Ho (DoubleLine) added that technicals were supportive of EM debt, and “we continue to see inflows into the asset class; thus holding your position makes sense.” Pushed by Vargas as to what developments could make portfolio managers more likely to take profits, speakers listed a deceleration of growth and a return to US rate hikes as possible catalysts.

Vargas led the panel through a discussion of major EM elections. Ceva predicted that, if the far-left surpasses a 15% share of the South African vote, market concerns were likely to increase. The country needs to address land reform (which could be accomplished without expropriating private property), SOE reform (most notably lack of investment and CAPX at Eskom), and allocate perhaps $30 billion in infrastructure improvements. Eventually education and corruption must be addressed, and the number of government ministries must be reduced. Antin ventured that Moody’s has given the country a temporary reprieve from a junk rating, allowing President Ramaphosa time to “do something.”

“The most important thing [Turkey] can do… is to do nothing,” declared Antin, in analyzing post-election Turkey. He described Istanbul as “a city that doesn’t feel like an EM city, but the policy mix in Turkey is among the worst type of EM policies…and it doesn’t feel like the Central Bank is independent.” If current rates were maintained, state banks were permitted to raise deposit rates (to keep pressure off the lira), and the Istanbul election results were allowed to stand, this would be the best outcome for the country; “they should let the recession run its course and re-balance,” he affirmed. In such a case, inflation should be “a lot lower in twelve months, and that, plus a credible monetary policy, will attract investors,” he added. However, he concluded, officials were unlikely to be so patient.
Los Angeles (continued)

Antin admitted that carry on Turkish paper is attractive, “but I keep press reports of the intolerance of dissent on my desk to resist the temptation.” Also stopping him was the memory of the Finance Minister Albayrak’s IMF presentation, “which could not have not been worse.” Ceva argued that the risk of US sanctions on Turkey was greater than on Russia. “Turkey has no friends in Congress, and the geopolitical outlook is worsening,” she stated.

Investor concern over the Argentine elections was also addressed. “The IMF program was the right prescription, but we are probably 8-24 months away from a recovery, which is not helpful for President Macri’s re-election chances,” according to Ho. Furthermore, sell-offs of the Argentine peso was creating a negative cycle. In her analysis, the market was hoping for a new Cambiemos candidate, while its worst fear was a return by former President CFK, “especially if she reworked the IMF accord.”

Moderator Vargas expressed his own view that it was positive that market complacency has been shaken, and valuations had become “more realistic.” He suggested that, even under a CFK victory, “reverses may be higher than market speculation.” In addition, “it’s not clear to me that if she wins, there will be a radicalization of the economy, with one of the factors being her lack of a majority in Congress.”

As for Ukraine, Antin commented that the direction that newly-elected President Zelensky will take is still unclear, and there was some concern about his campaign’s financial support, even if indirect, from the country’s leading oligarch. He reasoned that an investment case for Ukraine could be based on the fact that Russian aggression has upgraded the country on the West’s priority list, there is a greater-than-even chance that Kiev will get at least one IMF review done this year (and, given the lack of alternatives, a new program is introduced after the parliamentary elections), the population is mostly pro-West, and the 2019 financing gap is moderate. Antin was not without reservations, including the lack of land reform, but called himself “marginally positive.”

Ho expressed skepticism of the new AMLO administration’s 4% growth target being achievable in Mexico. Momentum is slowing, she noted, and revenue from Pemex is likely to decrease going forward. AMLO has demonstrated fiscal conservatism, but it remained unclear how he will react and how strongly will he push forward on his social policies when the financial picture deteriorates. Ho cautioned that, “if the market sees him moving away from his fiscal conservatism, it will raise concerns.” Norton concurred, stressing that AMLO should focus on violence and corruption, which have tremendous costs on the economy. He seconded concerns over Pemex and its potential spillover effects on the sovereign, while warning that, “a Pemex downgrade shouldn’t be the reason for monetary policy.”

Ceva concurred that the new economic team has thus far surprised the market on the positive side, “but how long will AMLO continue to listen to these guys?” she pondered. Because he sees himself as a transitional figure, Ceva thought it possible that the mission to accomplish his social goals could lead to the adoption of a VAT. Finally, Antin called attention to the risk that the US Congress would not vote on, or would reject, the USMCA trade accord; additionally, the risk of Trump withdrawing from NAFTA should also be taken into consideration.

Finally, Norton emphasized that the Street was lowering Brazilian growth forecasts to approximately 1.7% in 2019 and 2.5% in 2020. Pension reform approval under the new Bolsonaro administration “will help at the margin, but investors are looking for the pre-2015 growth rate that was fueled by massive credit expansion, and a return to those growth rates is unlikely in the next few years.”
EMTA Boston Panel Hopes for Low US Rates, Macro Growth Tailwind

Oppenheimer & Co’s Nathalie Marshik led a panel discussion at an EMTA Forum in Boston held on Thursday, April 25, 2019. Eaton Vance hosted the event, which was sponsored by MarketAxess, with additional support from Oppenheimer & Co and TPGC. 50 market participants attended the event.

Marshik summarized that EM spreads have tightened in 2019, as consensus built that the US FOMC would remain on hold with any rate actions. While the IMF has lowered its growth forecasts, US/China trade jitters had decreased for the 1Q, and a gentle rebound in the oil price has helped exporters.

Industry veteran Dave Rolley (Loomis Sayles) pointed out that the best-case scenario for EM debt was a growing US economy, but one not strong enough to prompt rate hikes, with the rest of the world catching up. “A case of a macro growth tailwind, combined with easier financing—that is the ideal situation for EM,” he declared. The Fed faced a “very high” hurdle to hike rates, although it was possible if growth rose across the globe.

Rolley saw European growth as the most significant risk to the global economy. However, while the market is increasingly anticipating a US-China trade deal, “the Iran waiver issue is a problem,” he warned; “if there is no waiver for China, there will be a very interesting conversation, and this could de-rail the whole agreement.”

Marshik then turned to individual economies. TPGC’s Juan-Manuel Pazos commented that the market now expects some sort of pension reform to be passed in Brazil by year-end. However, the Bolsonaro administration is trying to “ram it through,” rather than reach a political consensus with the opposition, which complicates passage.

Fidelity’s Jonathan Kelly expressed cautious optimism on Mexico, which he characterized as an “easier story” than the other major Latin economies. While the decision to cancel the new Mexico City airport, the management of Pemex and the statist economy are among long-term negative factors, “we still see Mexico as a solid credit story, if not an exciting one.” Rolley seconded a lack of enthusiasm for Pemex, expressing concerns with the company’s plan to build a new refinery while its existing refinery still had excess capacity, in addition to a bloated workforce. “Pemex has only gotten worse and its oil output has declined,” he concluded.

As for Argentina, Juan-Manuel Pazos (TPGC) reminded attendees that the country’s initial 2018 IMF program included “everything you could hope for; and it lasted a mere 45 days.” Once the program proved to be insufficient, he faulted the country’s second IMF accord for “failing to acknowledge that 2019 is an electoral year.” In Pazos’ view, the market had underestimated the chance of a CFK return, and the current Fund deal doesn’t provide enough tools for the Macri administration to combat market volatility.

While new polls show CFK could win the race, Pazos believed they could be temporary blips, and could be drowned out by future positive developments. For example, there could be the initial signs of the economy rebounding from a nadir, and “the oxygen is starting to be deprived” from inflation. In addition, CFK’s approval rating (at around 35%) was not in itself enough to guarantee a victory, and, while Macri’s disapproval rate has shot up, it hasn’t been as consistently high as that of the former president.

Kelly blamed the Macri administration for its failing to grasp the seriousness of the economic deterioration last year. In his view, the Fund program wasn’t unreasonable, nor was the country’s debt/GDP level; “however, political risk is a problem.” The fact that a new crisis is occurring six months before the elections gives the Macri
Boston (continued)

team time, and the market may now be over-estimating the possibility of a CFK victory (which he estimated to be 25%). While a return to power by CFK is likely to be a disaster, it doesn’t have to be—"her choice of a cabinet would indicate whether she would adopt a conciliatory approach or whether she would be in full attack," he reasoned.

On Venezuela, Pazos briefly observed that sanctions make it very difficult to trade the country’s debt. The outlook was likely a “protracted situation,” with Guiado possibly forcing Maduro to either arrest him or "make a mistake."

Marshik then turned the panel to CEMEA topics, asking first for reaction to the Ukrainian election. Michael Cirami (Eaton Vance) highlighted the lack of clear policy from President-elect Zelensky, but “if the choice was between either him or corrupt officials, it’s probably worth the gamble, and potentially a refreshing change.” Initial signs from Zelensky were positive, such as a reference to working with the IMF, and the possibility of adding officials who are known to investors to the incoming administration. Maintenance of the status quo in the Crimea, as in separatist regions in Georgia, is an acceptable solution from an investor point of view. Kelly agreed, while adding that the new president’s relations with oligarch Ihor Kolomoisky would be something worth monitoring.

Talk of a rebellion in Turkey’s ruling AKP party was overdone, in Cirami’s analysis, as President Erdogan is not yet weakened enough for any serious challenge. Erdogan is pragmatic, but changes gears quickly, “and the inability for us to get inside his head makes it a challenge for an investor.” Cirami hoped more disclosure on FX reserves was forthcoming after the recent controversy. Kelly deemed the Turkish economy fundamentally a “good one,” although with cross-currents, and an on-going battle between fiscal progress and corporate weakness.

South Africa’s elections “don’t matter,” according to Cirami, as the country “simply can’t grow under current policies.” Hope that the last transfer of power would prompt economic growth has not materialized, with the ruling ANC unlikely to change the dynamic “in any way, and a lot of low-hanging fruit that was not plucked.” In addition, the massive issues at Eskom could soon become a sovereign risk issue, and needs to be addressed urgently.

Rolley echoed concerns on Eskom, noting that power failures continue despite a massive labor force. The company’s technology is way outdated, and even if the government proceeded with a plan to reduce 10,000 to 15,000 jobs, “they would face labor issues or even industrial sabotage.” While the company won’t “go away, it needs to be rebuilt from scratch.” He concurred that a solution to future South African growth was difficult to see, and predicted that the ZAR would gradually weaken.

The general upswing in oil prices was benefitting GCC exporters, Cirami stated, and EM investors should focus on the group’s more vulnerable credits, Bahrain and Oman. Reforms (albeit slower than optimal) and the “Saudi put” supported Bahrain’s outlook, while the case for Oman was weakened by a failure to implement the VAT and its decision to sell off “crown jewels.”

In response to audience questions following the panel, Rolley argued that occasional forced selling by passive investors, who “sell indiscriminately and pro-rata,” create opportunities for both sovereign and corporate investors, especially with dealers who eschew carrying inventory. In addition, ESG could play an increasing role in the market, especially with state pensions’ interest in a climate change rating, in Rolley’s view. He added that the inclusion of Chinese and Indian local debt in industry indices would also have a profound effect on EMD managers. Finally, Cirami called for a re-evaluation of the EMD asset class, when countries such as AA-rated Kuwait are added to the EMBI. “Throwing all these countries together is a disservice to EMD investors,” he asserted.
Outlook for Argentina Elections Featured at EMTA Seminar in New York

The outlook for Argentina as it heads into presidential elections was discussed at EMTA’s Special Seminar in New York on April 4, 2019. The panel was moderated by Pablo Goldberg (BlackRock) and the panelists were Alejandro Cuadrado (BBVA), Kevin Ivers (DCI Group), Patrick Esteruelas (EMSO) and Todd Martinez (Fitch Ratings). The event was sponsored by Puente, with additional support provided by BBVA, Fitch Ratings and Market-Axess.

Goldberg wondered that, while congress was in session voting on an opposition-led bill to freeze tariffs and add measures affecting fiscal accounts, does the Argentine political class get the urgency to carry on with current economic rebalancing? The country was facing a dichotomous election – how bad was the Cristina case and how good is the Macri case, is it a 2 or 3 horse race, what happens if Cristina doesn’t run (is that bullish or bearish for the market)? In addition, he questioned what the key variables are for the macro point of view that can help investors handicap the election odds; what the credit ratings would be after the election – “is the borrowing dynamics so bad that substantial risk remains”; what are the legal and political scenarios; do provincial elections matter; and, finally, what are the investment implications of all of the above.

Picking up on the macro outlook and responding to Goldberg’s queries on whether inflation will ever come down and whether the current monetary program is an anchor or “kiss of death”, Cuadrado focused on the growth perspective and its implications for the potential outcome of the election, which was a “complicated case”, with Macri “trying to play out a shallow recession, the recovery is nevertheless challenging. GDP is expected to contract 1.2% vs. 2.5% last year, and, while there was a “statistical drag”, agriculture (with its strong harvest) will provide a boost while some other industries were likely bottoming out (although he questioned how much would trickle down to the rest of the economy).

Despite the relatively low employment impact, lower real wages (with extra members of the family looking for jobs) and poverty increase will also imply a slow recovery and clouded political scenario. Cuadrado believes that some stats may be improving, but “it’s certainly difficult to lift spirits”. As for inflation (which he sees as a tax on the poor), the tendency is to hope it’s lower “next month” with a 35% base for this year and risks to the upside (now at 52%). This deceleration will not be fast enough. He concluded by stating that both the New York and London base case is for Macri to renew a second term, but that the situation is certainly challenging and that uncertainty will continue to build. In that regard he continues to look at the peso as the short-term variable affecting inflation and electoral mood.

With relatively low unemployment (also having to do with a low labor-intensive need at this point), this is a “laggard indicator” since it’s coupled with lower real wages (with extra members of the family looking for jobs), thus employment numbers will take longer to recover. Cuadrado believes, “it’s difficult to lift spirits where the stats are improving, but realistically not so much”. As for inflation (which he thought was a tax on the poor), the tendency is to hope it’s lower “next month” with a 35% goal (now at 52%) and that it will decease fast enough (but it probably
Argentina (NY) (continued)

won’t). He concluded by stating that both New York and London expected Macri for the second term, despite the current recession and administration applying fiscal stringency because it has to.

Ivers tackled the political arena – what are the incentives for Cristina to run or not run, is there an upside for her or is she just trying to prevent a massive downside? While he predicts a Macri election, it is still too early, “an eternity”, to know for sure with the possible external shocks, IMF waiver, inflation and poverty rates that are “dismal” and fact that he’s not a Peronist. With the June 22 deadline approaching for others to state their candidacies, “is Macri really in trouble or will he get re-elected”? He posited that Cristina was the most logical opponent, and it appears she is gearing up due to the intensifying narrative being constructed in the pro-Cristina media outlets (“like reading Pravda in the 80’s”). The entire definition of her political career has been to “gain, retain or not lose power”. Constructing and molding her current “epic narrative” against Macri (and engaging in a “battle of economic models with him”) appears to be her best chance at “muddying the field” in court, bringing her trials into the political arena to stay out of jail, despite there being little to no chance she’s innocent (hence the drama with her daughter happening to take ill in Cuba, a place with no extradition treaty). Running makes sense for her as attention is diverted from her corruption charges; if she wins, that’s just icing on the cake, but not wholly necessary for her end goal. In short, Ivers doesn’t see a strategy where she doesn’t run, since the downside for that option is probably greatest.

As for Macri, Ivers posits that he is more unpopular personally than his Cambiemos coalition, as he represents “hopes being raised and promises made”, but not yet delivered. Macri has no majority in congress, “so what can he get done that all believe needs to be done”? At its core, there was a failure to communicate as he hasn’t projected himself as a leader; he must make a shift in his image. This weakness opens up space for a third candidate to emerge – Lavagna is the current focus for the media – although Ivers doesn’t see a path where Lavagna gets to the second round. For example, Buenos Aires province represents about 40% of the population, and Lavagna will face off with the formidable political machines of Peronism (Cristina Kirchner and Sergio Massa both mobilizing there), as well as the Cambiemos machine backing Governor Maria Eugenia Vidal and Macri in key municipalities, so there is little space for Lavagna to break through. Even in the heartland provinces, Macri and his coalition will have challenges, which neither Cristina nor Lavagna have yet proven they can fully exploit. And, even though Lavagna’s raison d’etre for running is policy, he does not appear to be a presidential candidate that can amass sufficient support, thus it’s not really a bona fide 3-person race. Argentina is not Brazil, so there is little room for an outsider; its political establishment is not gutted, it’s just as strong as ever.

Martinez explained that the election was key, which was why Fitch decreased its sovereign rating to a negative outlook. With rates as high as they are (another key factor for the credit rating) and a concern about fx controls, Argentina didn’t have a “sustainable monetary system”. The agency looks at political continuity and, while the election may look binary, there are still “vectors of risk” with violence and negative market reaction for a non-Macri president to get an IMF deal. While a Macri win may look like a difficult achievement at this point, it “pales in comparison to what he needs to accomplish”; he is dispensing “emergency medicine, [which is] not a good steady diet for the economy”. Even with tariffs and cutting fiscal spending to the bone, there are further challenges for Macri, more difficult things need to get done. For example, pension reform was needed back in 2017 when he won, but it’s unclear if congressional support and provincial government and local buy-in will emerge.
Argentina (NY) (continued)

Wondering if Argentina has an illiquidity or solvency problem, Martinez comes out on the solvency side, with the need for more heroic measures, IMF DSA being too optimistic, uncertainty over the high appreciation of the peso and sovereign borrowing more than expected. A weaker currency can have a greater effect, there is a need to repay debt (which will be in dollars and thus a negative), thus aggravating the sustainability issue. If Cristina were to win, it’s not clear she’d want to scrap the IMF program (or maybe review the revenue side more than the spending side), although he predicts great market wrath if she did. In any event, he concluded that the “heroic nature of the fiscal adjustments that needed to be made, regardless of who became the president” makes it too complicated at present to judge.

Esteruelas reviewed the differing scenarios for spreads based on alternate election wins. With Macri as “the devil we know”, there are still significant adjustments of the debt stock. On the other hand, there don’t seem to be a “dramatic order of risks”, especially if Lavagna wins (“his policy prognosis is ultra-conservative with a ‘dirty float’”). If Cristina or a Cristina “acolyte” wins, even if they were willing to work within the IMF program, the risk is definitely much higher, with rapid dollarization following. Even accounting for the fact that the peso was devalued in 2018, there are still a lot of pesos in time deposits, half in the hands of retail that can create fx volatility, where one may see an fx run turning into a bank run, which then collapses the remote dream of outside funding. This self-fulfilling prophecy is more likely in the Cristina scenario. He concluded by stating that, even if one assigns a 20% chance of Cristina winning, there’s still an issue for the economy and its recovery. If Cristina left the race, it would be better for the market. Macri not running is not a viable scenario since it’s a demonstration of weakness that he wouldn’t want to acknowledge, and, furthermore, who would run in his place? There was a “powerful reverse coattails effect when he did win in 2015. Macri has been able to consistently outperform his numbers because people around him have made it possible”.

Ivers chimed in that there’s no clear mandate for reform, no matter who wins. Goldberg stated that there was no silver bullet here to significantly improve macroeconomic variables before the elections, and, given that there is no “space for reforms today, from now until the election the only game-changer for investors is if Cristina decides not to run”, thus eliminating the biggest concern that panelist have manifested they have.
Saudi Arabia, Oman and Bahrain Dominate EMTA Dubai Forum Discussion

Following recent events in New York and London focusing on GCC inclusion in the EMBI, EMTA returned to Dubai to host its Annual Forum on March 20, 2019. The event was sponsored by MarketAxess with 100 market participants in attendance. Additional support for the program was provided by Bank of America Merrill Lynch, BNP Paribas, Fitch Ratings, Goldman Sachs and HSBC.

Bank of America Merrill Lynch’s Jean-Michel Saliba moderated the event’s first panel, asking Jan Friederich (Fitch Ratings) to review the Saudi Arabian outlook. Friederich observed that the investment impact was limited because “we were always skeptical about FDI inflows; the potential for investment in the country remains relatively limited.” In his analysis, the two parts of Saudi economic reform were fiscal consolidation and diversification, “and those two are to some extent contradictory.”

Goldman Sachs’ Farouk Soussa described the 2019 Saudi budget as unrealistic, and argued that financing needs would be approximately $60 billion, twice as large as the official forecast. Thus, he cautioned, debt investors were subject to “massive” supply risk not already factored into prices.

BNP Paribas’ Mohamed Abdelmeguid pointed out that, “the government’s commitment to spending targets has weakened somewhat significantly in recent years,” and predicted that the fiscal deficit would widen from 2018. On the positive side, the imposition of new taxes and other revenue-raising measures would reduce Riyadh’s dependence on oil (with oil accounting for 71% of government revenue last year, vs. 87% in 2014). “That is good progress,” he concluded.

Saliba solicited views on Bahrain, following the “Saudi put,” which had recently prevented an economic crisis. “I’m not as excited about it as market pricing suggests; I don’t think the Bahrainis are taking enough measures,” affirmed Razan Nasser (HSBC). She stressed that the pension and subsidy reforms haven’t been passed into law, “and the VAT has plenty of exemptions in it.” With fx reserves covering just three weeks of imports, Nasser characterized the credit as “fundamentally weak,” propped up only by a common market view of it acting as a proxy for Saudi Arabia.

Friederich acknowledged that his firm’s BBB-rating on Bahrain incorporated expectations of GCC support, which he reminded attendees was less complicated than IMF financing (e.g., it did not necessitate public Article IV reports). Without such assistance, he conceded, the country’s rating could be “at least” one level lower. And while the country’s economic plan was insufficient, he was encouraged by a change in reform momentum.

“I’m generally skeptical,” declared Soussa, while simultaneously stressing that the benefit of the doubt should be given to Bahrain’s technocrats, who “are clear on their commitment, and on what needs to be done.” The VAT adoption was incomplete, but would change dynamics and could foster other achievements. Civil service worker retirements were a positive long-term development, despite additional short-term costs.

Saliba referred to the market’s relief that Oman has slashed its external borrowing plans, and asked if this justified increased confidence. Soussa calculated that Muscat would borrow $2–2.5 billion of its $8 billion in financing needs externally this year. The Omanis had a credible plan for 2019, “but it’s not clear if there is a plan for 2020.” He expressed concern at “a great deal of inertia, a lack of a sense of urgency in realigning public finances, which are troubling developments.” Purchases could be justified on a technical basis, but he warned investors that Oman could be a “deteriorating” story.
Dubai (continued)

Concurring, Abdelmeguid foresaw a “muddling through” scenario in 2019, but anticipated the need for future GCC support to support Oman’s external position, despite sufficient local-currency reserves to plug the fiscal deficit. “It’s the external position (vis-à-vis the wide current account deficit and high external debt) that is more troubling than the fiscal deficit,” he stated. Friederich highlighted that Oman has more potential sources of funding than Bahrain, including Iran and Qatar. In Nasser’s estimation, “support can come from anyone, even China, or no one; and nothing can be said with certainty.” Soussa reasoned that Oman wouldn’t be able to accept aid from both Qatar and Saudi Arabia, but could try to leverage offers against one another.

Saliba directed panelists towards Egypt. Fitch’s positive outlook “shows we were impressed by the pace, scale and entrenchment of the reforms,” according to Friederich. In his view, the IMF program had support from senior politicians, the outlook for tourism was improving (with flights from Russia to Egypt’s beaches possibly resuming soon), and investor confidence would be boosted if a new IMF deal followed the expiration of the current agreement. For Soussa, a key indicator would be official tolerance of a weaker pound. He predicted a total rate cutting of 400 bps would be possible in 2019, despite concerns of its inflationary effect. Abdelmeguid’s forecast of Egyptian rate cuts was a less aggressive 200-300 bps in 2019.

Nasser was requested to address the soft landing in the UAE and the lack of an economic recovery. While there was limited official data on quarterly GDP or the balance of payments, the economic data that is published shows slowing, but still positive, growth, she noted. Nasser voiced her concern that 20% increases in supply in the hotel and retail space sector were coming on line, but the government has not addressed cost or competitiveness issues.

Finally, speakers offered their assessments on whether Qatar’s jumbo issuances signified the end of the impact of the GCC-Qatar dispute. Nasser compared recent inflows to the outflows that had occurred following the boycott’s initial announcement. Abdelmeguid regretted the missed opportunity for economic diversification, and instead Qatar’s increased reliance on LNG production.

Industry veteran Dino Kronfol (Franklin Templeton) moderated the event’s second panel of international and Middle East-based portfolio managers. To set the stage, he polled speaker for their US rate forecasts; panelists were unanimous in their dovish expectations.

Tim Gill (Fidelity Investment Management) commented, “I would be surprised to see the 10-year UST at 3% by year-end; and, if it does, it would probably be because of good global growth so that would be a positive backdrop—but I don’t see that.” Waha Capital’s Mohamed El Jamal rationalized that the market’s strong reaction in December “told the Fed that the last hike was too much, so the bar to the next hike is very high.” Jamil Koudim (LF Funds) agreed that the Fed would remain on hold for the foreseeable future, with the dollar unlikely to rise significantly. FOMC Chair Powell’s emphasis has changed noticeably, added Markus Schneider (AllianceBernstein), and now focuses on the inflation targets which have not yet been hit.

Options diverged on the effects of GCC inclusion into the EMBI indices. “This is a hugely important development; people will be obliged to buy new issues from the region, and this demand will be sticky,” stated Schneider. In contrast, Gill admitted he was “less excited about this; this will eat away at some alpha for us.” He believed most real money managers remained underweight “because better opportunities for total return exist in EM.” Lastly, Gill highlighted that the EMBI index will now be even more predominantly investment-grade rated, which may make it easier to beat. El Jamal labeled this the “second inning, or early phase,” of the GCC inclusion story, agreeing that many investors are still underweight. Beirut-based Koudim underscored that Lebanon is among the many losers of the GCC inclusion story, being one of many credits currently in the index whose weighting would be reduced.
Dubai (continued)

Cautious optimism was the general view on Lebanon. While acknowledging financial issues, Schneider saw Lebanese debt as attractive on a valuations basis. Political leaders were “generally on board” with the reform program, and Saudi funding could supplement CEDRE donations. Gill expressed confidence that the 2019 bonds would be paid, and the technocrats he met on a recent research trip “had the right talking points, including the need for electric sector reforms.” Koudim emphasized that, “everything in Lebanon takes time…but we need to see action by summer.” Deposit resilience has proven strong, eliminating the risk of a run on the Central Bank, he added. Moderator Kronfol ’s own view was that the chances of “significant changes” in the Lebanese economy were low, “but I hope I’m wrong.” He urged Beirut to consider a voluntary debt restructuring.

Several investors maintained a more positive outlook on Bahrain than their sell-side counterparts. El Jamal called it “the most compelling EM story—there is a significant reform story along with political buy-in, and technically not a lot of supply in the pipeline.” Schneider agreed, calling attention to the progress made in communicating with investors compared to a “disastrous” approach last year.

A holdout was Gill, who didn’t find Bahraini valuations compelling. He preferred to focus on Oman, which “really needs to get serious; they have done almost nothing on reforms.” The failure to start fiscal consolidation under the Sultan’s reign will make it even more difficult for his successors, in his analysis. He agreed with sell-side speakers who didn’t anticipate 2019 credit risks, while withholding judgement on 2020. El Jamal speculated that the Sultan might not want austerity interwoven into his legacy, while warning that Omani’s fiscal path was unsustainable without reforms.

Concluding where the event started –a discussion of Saudi Arabia--Koudim argued Saudi spreads were too tight based on a likely wider-than-projected government budget deficit (due to spending). El Jamal countered that those who bought the overall reform story should accept occasional missteps as long as the main reform plan was followed. Given the supply outlook, Gill saw Saudi Arabia as less appealing than other MENA credits, and while he would be willing to consider the Aramco deal (which occurred just over a month after the EMTA Forum), he didn’t agree with the latter’s goal of pricing through the sovereign credit.

Audience questions prompted a discussion of ESG factors. El Jamal recognized that local funds were behind in adopting the ESG frameworks increasingly of interest to Western accounts. Gill noted that, for those investors eschewing fossil fuels, MENA credits could be problematic.
London Panel Debates Outlook for Turkey

The economic challenges facing Turkey were the subject of an EMTA Special Seminar, held in London on Wednesday, March 6, 2019. The event was sponsored by Standard Chartered, with the additional support of Bank of America Merrill Lynch, Barclays and MarketAxess. Over 100 market professionals attended.

Opening the session, moderator Kaushik Rudra (Standard Chartered) reviewed the country’s current economic environment, including the pain imposed on Turkish society from high rates and a weaker lira. He polled speakers for views on whether the economy had reached a nadir, and whether authorities had adopted the right policy mix in place to extricate Turkey from its recession.

“I’ve always been amazed by Turkey’s ability to bounce back, but this time it feels different,” responded Tim Ash (BlueBay Investment Management). Turkish banks have suffered a great amount of damage, and an L-shaped recovery was a possibility. The Central Bank has continued along a road of “uber-orthodoxy” since the 625 bp rate hike last year, and President Erdogan has refrained from calling for rate cuts, which both boded well. On the other hand, “price controls worry me; if you distort food markets, farmers won’t plant, and then you have problems down the road,” he stated. Ash ventured that, unlike Argentina which he judged to have more serious fundamental issues, the road for Turkey could be “pretty ok…but the macro policies would have to be textbook.”

For Christian Keller of Barclays, it was unclear if AKP losses in the municipal elections would transmit “a message to return to orthodoxy.” The Turkish recovery to date had been assisted by a supportive global environment, including a dovish FOMC and ECB, stabilizing global growth and oil prices which haven’t risen too dramatically. John Carlson (Fidelity Investment Management) hesitated to rule out that the worst was over for Turkey. “I’m not sure where we are in the cycle; it’s not the first time Turkey has gone through this, and it won’t be the last time.”

Bank of America Merrill Lynch’s Ali Dhalomool, the panel’s corporate specialist, forecast an L-shaped recovery for the banking sector; “it will take years for banks to get through their NPL issues.” However, the market’s concerns for Turkish bank liquidity last fall now seem to have tempered, as local banks have proven their ability to access the global markets (although, in his view, they would not be in a rush to do so, especially those with no exposure to foreign-currency loans). Well-managed Turkish corporates remained attractive investments, although he recommended avoiding a simplistic strategy of focusing on exporters and avoiding domestic-focused companies.

Rudra followed up on speaker predictions of future CBT policy direction and its effects on the economy. Ash believed that inflation could stay under control (and even decline significantly by 3Q) if the central bank were to maintain current rates through the 1H of 2019. Trust and credibility were key, and the market was still trying to determine who was running monetary policy.

Carlson voiced even greater confidence that inflation would improve by 3Q. For him, the “only fly in the ointment is that all Turkey’s exports go to Europe, and the European outlook is weak.” Keller foresaw annual inflation at 15-16%, with rate cuts likely to start in June 2019.
Turkey (continued)

Turning to geopolitics, Carlson called attention to Turkey’s unique location as a NATO state bordering Russia, as well as in the troubled Middle East, which he saw as a significant asset. He acknowledged that, at EMTA’s Istanbul Forum in September 2018, he had argued that Turkey was re-orienting itself towards the East. “I was wrong, perhaps, or maybe I’m just early.” Carlson argued that a multi-polar world was evolving, with Turkey a regional power.

Ash speculated that a face-saving compromise could be found on the NATO member’s decision to buy Russian military hardware; and that while EU accession was “clearly dead in the water,” Ankara would seek to replicate whatever deal the UK concludes on Brexit. He suggested that, despite appeals to the East, only Qatar provided funding during the 2018 financial crisis, a lesson for President Erdogan. “Turkish trade and investment are focused on the West,” he affirmed.

Finally, Keller raised concerns that, as Turkey plays various actors against each other, “at some point it may overplay its card,” although more conciliatory actions were possible once the municipal elections were completed.
22nd Annual EMTA Summer Forum to be Held in London on June 25, 2019

EMTA's 22nd Annual Summer Forum will be held in London on Tuesday, June 25, 2019. The event will once again be hosted by Bank of America Merrill Lynch at its office at 2 King Edward Street, beginning at 2:15 pm.

The Forum will feature a panel discussion of EM investors moderated by David Hauner of Bank of America Merrill Lynch. Confirmed panelists are Jan Dehn (Ashmore Investment Management), Sergio Trigo Paz (BlackRock), John Carlson (Fidelity Investments) and Marcelo Asselin (NN Investment Partners).

Didier Lambert (JPMorgan Asset Management) will moderate the event's sell-side panel. This panel will feature Marcelo Carvalho (BNP Paribas), Luis Costa (Citi), Drausio Giacomelli (Deutsche Bank) and Phoenix Callen (Societe Generale).

Complimentary invitations were e-mailed to EMTA Members in May (there is a registration fee of US$695 for Non-members).

For further information, please contact Jonathan Murno at jmurno@emta.org.

UBS to Host EMTA Fall Forum on September 16th in New York City

EMTA's Fall Forum, hosted by UBS, will take place on Monday, September 16, 2019. The event will take place at UBS' offices at 1285 Avenue of the Americas (at 51st Street) in New York City.

The event will include a panel of speakers moderated by UBS' Rafael de la Fuente. Additional speakers will be announced shortly.

Invitations will be sent to EMTA Members, who may attend at no cost. There is an attendance fee of $695 for employees of Non-member firms.

For more information, please contact Jonathan Murno at jmurno@emta.org.

ICBC Standard to Sponsor EMTA’s Eighth Sub-Saharan African Forum in London

ICBC Standard will host EMTA’s Eighth Forum on Sub-Saharan Africa. The event will take place on Tuesday, September 24, 2019, at the ICBC Standard office at 20 Gresham Street in London.

Phumelele Mbiyo (Standard Bank) will once again lead a panel discussion on challenges and opportunities in the region. Additional speakers will be announced shortly.

Invitations will be sent to all EMTA Members, who may register for the event at www.emta.org. Non-members may also attend, with a US$695 registration fee.

In addition to the panel discussion, the Forum event will also include a cocktail reception.

For more information, please contact Jonathan Murno at jmurno@emta.org.
Membership Update

EMTA warmly welcomed **NN Investment Partners** as its newest Member during the Second quarter of 2019.

EMTA’s Members include over 170 banks, broker-dealers, money management firms, hedge firms, law firms, other service providers and others.

EMTA membership benefits include access to the EMTA website and to EMTA’s staff, invitations to EMTA’s many events around the globe at no cost, eligibility to participate in working groups or other EMTA initiatives, and much more.

If you are interested in EMTA membership, or if you know of prospective members, please contact Jonathan Murno at jmurno@emta.org or (646) 676-4293 or Suzette Ortiz at sortiz@emta.org or (646) 676-4294.

Information on the different categories of membership and annual dues may also be found on the EMTA website at www.emta.org.

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EMTA Notifies Members of Warrant Payments

EMTA has routinely monitored information on various warrants issued in Brady bond exchanges. During the second quarter of 2019, EMTA notified its Members of the payment amount and payment date of May 15, 2019 in respect of Nigeria warrants.

This information can be found on EMTA’s website in the New Developments area (http://www.emta.org/newdev.aspx), as well as in the individual relevant countries’ Market pages (http://www.emta.org/markets.aspx).

For further information, please contact Aviva Werner at awerner@emta.org.

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EMTA Is Your Forum

Questions arise from time to time about EMTA’s policies regarding views expressed in items posted on its website or by speakers or panelists at EMTA events.

For the record, EMTA, by long-standing custom, does not necessarily endorse such views. Items posted on EMTA’s website and speakers and panelists at EMTA events are selected because EMTA believes that they will be of topical interest to our Members and to the broader market and will contribute to the free exchange of views and information in the marketplace.

EMTA is always interested in getting market feedback on the effectiveness of our website, events and activities generally. Please take the time to let us know whether or not you agree with what you see on our website or hear at one of our events and, most importantly, whether there is something that EMTA should be doing, or doing differently, to better serve the EM marketplace.
Website Updates

EMTA publishes a wide range of materials relevant to participants in the Emerging Markets industry. Please take time to visit these areas on our website:

- **New Developments** (information about EMTA projects and other industry developments).
- **Upcoming Events** (the registration site for EMTA seminars and conferences).
- **Membership** (information on membership and EMTA Member Institutions).
- **Documentation** (standard documentation and market practices for fixed income and FX products).
- **Key Industry Views** (key industry perspectives and market commentary).
- **From the Market** (items submitted to EMTA that may be of interest to the Emerging Markets industry participants).
- **Litigation** (court decisions and related litigation materials (including amicus briefs)).
- **Employment** (industry positions currently available for Members of the Emerging Markets industry).

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Stay Current to Stay in Touch!

EMTA Hotlines

<table>
<thead>
<tr>
<th>Topic</th>
<th>Contact</th>
<th>Telephone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>Jonathan Murno/Leslie Payton Jacobs</td>
<td>(646) 676-4293/(301) 838-4552</td>
</tr>
<tr>
<td>Asia</td>
<td>Jonathan Murno/Leslie Payton Jacobs</td>
<td>(646) 676-4293/(301) 838-4552</td>
</tr>
<tr>
<td>Bond/Loan Trading</td>
<td>Aviva Werner</td>
<td>(646) 676-4292</td>
</tr>
<tr>
<td>CNH</td>
<td>Leslie Payton Jacobs</td>
<td>(301) 838-4552</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td>Jonathan Murno/Leslie Payton Jacobs/Aviva Werner</td>
<td>(646) 676-4293/(301) 838-4552/</td>
</tr>
<tr>
<td>Credit Derivatives</td>
<td>Leslie Payton Jacobs/Aviva Werner</td>
<td>(301) 838-4552/(646) 676-4292</td>
</tr>
<tr>
<td>EM Charity Benefits</td>
<td>Jonathan Murno</td>
<td>(646) 676-4293</td>
</tr>
<tr>
<td>EM Litigation</td>
<td>Aviva Werner</td>
<td>(646) 676-4292</td>
</tr>
<tr>
<td>EMTA Annual Meeting/Forums</td>
<td>Jonathan Murno</td>
<td>(646) 676-4293</td>
</tr>
<tr>
<td>EMTA Governance/Board/Policy</td>
<td>Michael Chamberlin</td>
<td>(646) 676-4290</td>
</tr>
<tr>
<td>EMTA Membership</td>
<td>Jonathan Murno/Suzette Ortiz</td>
<td>(646) 676-4293/4294</td>
</tr>
<tr>
<td>FX Derivatives</td>
<td>Leslie Payton Jacobs</td>
<td>(301) 838-4552</td>
</tr>
<tr>
<td>International Financial Architecture</td>
<td>Aviva Werner</td>
<td>(646) 676-4292</td>
</tr>
<tr>
<td>Investor Rights</td>
<td>Aviva Werner</td>
<td>(646) 676-4292</td>
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<tr>
<td>Legal/Compliance</td>
<td>Aviva Werner</td>
<td>(646) 676-4292</td>
</tr>
<tr>
<td>Library and Archive Requests</td>
<td>Evelyn Ramirez</td>
<td>(646) 676-4290</td>
</tr>
<tr>
<td>Local Markets</td>
<td>Aviva Werner/Leslie Payton Jacobs</td>
<td>(646) 676-4292/(301) 838-4552</td>
</tr>
<tr>
<td>Market Information/Research</td>
<td>Jonathan Murno</td>
<td>(646) 676-4293</td>
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<tr>
<td>Netting Facilities</td>
<td>Aviva Werner</td>
<td>(646) 676-4292</td>
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<tr>
<td>OFAC Sanctions</td>
<td>Aviva Werner</td>
<td>(646) 676-4292</td>
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<tr>
<td>Paris Club</td>
<td>Aviva Werner</td>
<td>(646) 676-4292</td>
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<tr>
<td>Repos/Securities Lending</td>
<td>Aviva Werner</td>
<td>(646) 676-4292</td>
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<tr>
<td>Volume Surveys</td>
<td>Jonathan Murno</td>
<td>(646) 676-4293</td>
</tr>
<tr>
<td>Warrants/VRR’s</td>
<td>Aviva Werner</td>
<td>(646) 676-4292</td>
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<tr>
<td>Website</td>
<td>Suzette Ortiz</td>
<td>(646) 676-4294</td>
</tr>
</tbody>
</table>

EMTA staff can also be reached through the general telephone number (646) 676-4290, at the following email addresses or through EMTA’s website ([www.emta.org](http://www.emta.org)).

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Evelyn Ramirez eramirez@emta.org
Nadine Simonelli nsimonelli@emta.org
Aviva Werner awerner@emta.org
<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
</table>
| Thurs., April 4 | EMTA Special Seminar on Argentina (NYC)  
Sponsored by Puente  
ISDA Conference Center  
10 East 53rd Street, 8th Floor  
(between Madison and Fifth Avenues) |
| Thurs., April 18 | Recommended 2:00 p.m. (NYC) Early Market Close                                   |
| Fri., April 19  | Recommended Market Close (NYC/London) Good Friday                                |
| Mon., April 22  | Recommended Market Close (London) Easter Monday                                |
| Thurs., April 25 | EMTA Forum in Boston  
Sponsored by MarketAxess  
Hosted by Eaton Vance  
2 International Place |
| Thurs., May 2   | EMTA Forum in Los Angeles  
Sponsored by MarketAxess  
Wiltshire Loft  
700 Wiltshire Blvd. |
| Mon., May 6     | Recommended Market Close (London) May Day                                        |
| Wed., May 8     | EMTA Spring Forum (NYC)  
Hosted by HSBC Securities USA Inc.  
452 Fifth Avenue (at 40th Street) |
| Tues., May 14   | EMTA Forum in Buenos Aires  
Sponsored by Refinitiv  
Hilton Hotel  
Macacha Guemes 351  
Puerto Madero |
| Thurs., May 16  | EMTA Forum in Sao Paulo  
Sponsored by MarketAxess  
Blue Tree Premium Hotel  
Avenida Brigadeiro  
Faria Lima |
| Fri., May 24    | Recommended 2:00 p.m. (NYC) Early Market Close                                |
| Mon., May 27    | Recommended Market Close (NYC/London) Memorial Day/Spring Bank Holiday            |
| Tues., June 4   | EMTA Forum in Frankfurt  
Steigenberger Frankfurter Hof  
Am Kaiserplatz |
| Thurs., June 6  | EMTA Forum in Zurich  
Sponsored by MarketAxess  
Steigenberger Bellerive au Lac  
Utoquai 47 |
| Tues., June 25  | Summer Forum (London)  
2:15 p.m.  
Hosted by Bank of America Merrill Lynch  
2 King Edward Street |
Calendar (continued)

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
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<tbody>
<tr>
<td>Wed., July 3</td>
<td>Recommended 2:00 p.m. (NYC) Early Market Close</td>
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<tr>
<td>Thurs., July 4</td>
<td>Recommended Market Close (NYC/London) Independence Day</td>
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<tr>
<td>Mon., August 26</td>
<td>Recommended Market Close (London) Summer Bank Holiday</td>
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<tr>
<td>Mon., Sept. 2</td>
<td>Recommended Market Close (NYC/London) Labor Day</td>
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<tr>
<td>Sept./Oct.*</td>
<td>EMTA Corporate Bond Forum (NYC)</td>
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</tbody>
</table>
| Mon., Sept. 9         | EMTA Special Seminar on Russian and Venezuela Sanctions (London)  
                       | Sponsored by BancTrust & Co.                          |
                       | Hosted by Davis Polk & Wardwell London LLP            |
                       | 5 Aldermanbury Square, 9th Floor                      |
| Mon., Sept. 16        | Fall Forum (NYC)                                       |
                       | Hosted by UBS                                          |
                       | 1285 Avenue of the Americas, 14th Fl.                 |
                       | (at 51st Street)                                       |
| Tues., Sept. 24       | EMTA Forum on Sub-Saharan Africa (London)              |
                       | Hosted by ICBC Standard                                |
                       | 20 Gresham Street                                      |
| Oct./Nov*             | EMTA Corporate Bond Forum (Boston)                     |
| Mon., Oct. 14         | Recommended Market Close (NYC/London) Columbus Day     |
| Mon., Oct. 21*        | EMTA Forum in Singapore                                |
| Wed., Oct. 23*        | EMTA Forum in Hong Kong                                |
| Mon., Nov. 11         | Recommended Market Close (NYC/London) Veterans’ Day    |
| Wed., Nov. 27         | Recommended 2:00 p.m. (NYC) Early Market Close        |
| Thurs., Nov. 28       | Recommended Market Close (NYC/London) Thanksgiving Day |
| Fri., Nov. 29         | Recommended 2:00 p.m. (NYC) Early Market Close        |
| Wed., Dec. 4          | EMTA Annual Meeting (NYC)                              |
                       | Hosted by Citi                                         |
                       | 388 Greenwich Street                                   |
| Tues., Dec. 24        | Recommended 2:00 p.m. (NYC) Early Market Close        |
| Thurs., Dec. 26       | Recommended Market Close (London) Boxing Day           |
| Tues., Dec. 31        | Recommended 2:00 p.m. (NYC) Early Market Close        |

*Details TBA