E M T A

360 Madison Ave., 18th fl.
New York, NY 10017

646 637-9100
646 637-9128 Fax

Contact: Jonathan Murno
EMTA
(646) 637-9105
jmurno@emta.org

For Immediate Release

EMTA SURVEY: FIRST QUARTER 2003 EMERGING MARKETS DEBT TRADING AT US$839 BILLION

EMTA Releases First Surveys on NDF, Credit Derivative Volumes

NEW YORK, May 14, 2003—Emerging Markets debt trading volume stood at US$839 billion in the first quarter of 2003, according to EMTA's First Quarter 2003 Debt Trading Volume Survey. Volume levels increased somewhat from the US$768 billion in the fourth quarter of 2002 (a 9% increase) and US$789 billion in the first quarter of 2002 (a 6% increase).

In addition to its Survey on Emerging Markets debt instruments, which has been published since 1992, EMTA also released its first reports on Emerging Markets non-deliverable forward (NDFs) and credit derivative volumes. With trading in these two derivative instruments reaching US$174 billion and US$23 billion respectively, EMTA Survey participants reported a total of over US$1 trillion in Emerging Markets bond and derivative trading in the first quarter.

"Flight to Quality" Reversed in Bond Trading, Volume in Higher Yielding Credits Increases…

Arturo Porzecanski, Managing Director and Head of Emerging Markets Economics and Debt Strategy at ABN Amro, observed that the major theme of first quarter bond trading was a reversal of the "flight to quality" that had occurred in the previous quarter. "The first quarter survey results show mostly decreased turnover in the lower-yielding but higher-quality credits such as Malaysia, Mexico, Russia and South Korea," commented Porzecanski, "and increased debt-trading activity involving mainly the higher-yielding but lower-quality credits such as Brazil, Colombia, Ecuador, Turkey and Venezuela." Porzecanski attributed the trend to increased market confidence in the Lula administration in Brazil, which pleasantly surprised the market by adopting orthodox economic measures and announcing its intentions to implement fiscal reforms. “As fears of a looming default in Brazil receded earlier this year,” Porzecanski stated, “new as well as traditional investors became more comfortable with our asset class, more tolerant of credit risk, and more attracted by the high yields on offer.”

Brazilian volumes of US$170 billion rose 34% on a quarter-on-quarter basis (US$127 billion in the fourth quarter of 2002) while decreasing 14% on a year-on-year basis (US$199 billion). Brazilian C-Bonds remained the most frequently traded individual Emerging Markets instrument, with volume increasing 32% from the previous quarter (to US$72 billion from US$54 billion in the fourth quarter).

Notable volume increases also were reported in the trading of non-investment grade rated Venezuela (up 71% to US$33 billion from US$19 billion in the fourth quarter), Ecuador (up 66% to US$5 billion), Colombia (a 25% increase to US$12 billion) and Turkey (up 27% to US$31 billion). Volume in debt from Uruguay, which launched an exchange offer last month in an effort to avoid default, rose 14% to over US$1 billion.

…While “Safe Haven” Credit Trading Declines

In contrast to the general turnover increase in the higher-yielding credits, Mexican volumes, at US$266 billion, were down 15% vs. fourth quarter volume of US$312 billion, but increased 24% compared with first quarter 2002 turnover of US$214 billion. However, Mexican debt remained the most frequently traded debt instruments. Mexican local instruments accounted for the majority of Mexican volumes, at US$210 billion.

Among other “safer” credits, Russian volumes were down 4% to US$64 billion (from US$67 billion in the fourth quarter and US$65 billion in the first quarter of 2002). Turnover in investment grade rated South Korean and Malaysian debt were both down 9%, at US$18 billion and US$12 billion respectively. South African volumes bucked the general trend among “safe haven” credits and rose 8% to US$24 billion.

Going forward, Porzecanski believes that the trends observed in first quarter bond trading are being repeated in the current quarter. “High-yielding, lower-quality credits are still catching most of the attention of dealers and investors -- particularly given the impetus of new money being allocated to our asset class, “ he remarked. With bond yields remaining at low levels in Europe, Japan and the United States, and the main Emerging Market countries continuing to pursue mostly sound economic policies, “our asset class will continue to benefit from increased turnover and higher prices, with the high-yielders outperforming the low-yielders," he predicted.

US$174 Billion in NDF Transactions Reported

Survey participants reported total trading of US$174 billion in Emerging Market NDFs - synthetic forward contracts for currencies that foreign investors are not able to settle in local forward markets due to regulatory, transferability or other restrictions. Unlike a conventional forward, an NDF is settled in hard currency (primarily US dollars) based on the difference between the contracted NDF forward rate and the prevailing spot rate, and, in order to comply with regulatory requirements, involves no physical exchange of the underlying currency at maturity.

South Korean NDF contracts alone accounted for half of total reported NDF trading, at US$87 billion. Jaime Roblesgil, Managing Director for Emerging Markets Foreign Exchange and Local Currency at Citigroup, commented, “there is a lot of investor interest in the Korean won because of the size of the Korean economy, but most people avoid local settlement because it is a highly regulated environment, and trade the currency with NDFs.”

Brazilian NDF volumes stood at US$33 billion (a 19% share); Chilean and Taiwanese NDFs each totaled US$16 billion (9% shares); and Chinese volumes reached US$10 billion (5% of the market).

EMTA asked Survey participants to report their NDF volumes in 14 countries, and respondents were asked to report the total amount of NDF contracts bought and/or sold, converted to US dollars on the date of the trade, using the forward rate of the contract.

Credit Derivatives Volume at US$23 Billion

Participants also reported trading over US$23 billion in credit derivatives in the first quarter of 2003 in EMTA’s initial credit derivatives volume survey. The credit derivatives survey covered 34 Emerging Markets countries, with participants reporting the face amount of credit default swaps, total return swaps, collateralized debt obligations and credit-linked notes.

Mohammed Grimeh, Managing Director at Lehman Brothers, noted that, while the Emerging Markets credit derivatives market remains small in comparison to bonds, and represents only a small percentage of overall credit derivatives trading, the market has grown exponentially over the past six years. “In 1997, Emerging Market credit derivative volume was close to zero; the EMTA survey shows that now we are talking about a market that could reach $100 billion in annual turnover in 2003,” he asserted. Grimeh added that Emerging Markets credit derivative volume has been growing consistently, while options volumes, though stabilizing in recent years, remain at only 20-30% of levels recorded in 1997 and 1998.

South Korean transactions also dominated the credit derivative market, with over US$4 billion, or 19% of all credit derivatives volumes. Grimeh attributed this to the scarcity of South Korean debt instruments, and Asian debt issues in general, and stated that some investors trade credit derivatives as a surrogate for debt instruments.

Mexican credit derivatives totaled US$3.6 billion (11% of volumes), followed by Brazil (US$2.4 billion and also an 11% share), Russia (US$1.9 billion and 8% of volume) and Singapore (US$1.6 billion and 7% of volume).

Grimeh observed that while credit derivative volume is less than one-tenth the volumes reported by Survey participants in sovereign debt trading, “there is more growth to come as investors become more comfortable with the products.”

For a copy of EMTA's First Quarter 2003 Debt Trading Volume Survey, or EMTA's Surveys on NDFs and Credit Derivatives, please contact Jonathan Murno at jmurno@emta.org or at +(646) 637-9105.

***

NOTE TO EDITORS:
Founded in 1990, EMTA (formerly the Emerging Markets Traders Association) is a not-for-profit corporation dedicated to promoting the orderly development of fair, efficient and transparent trading markets for Emerging Markets instruments, and the integration of the Emerging Markets into the global financial marketplace. EMTA, with over 100 member firms worldwide, has published its Volume Surveys since 1992.