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For Immediate Release

EMTA SURVEY:
EMERGING MARKETS DEBT TRADING RISES TO US$4.645 TRILLION IN 2004

Fourth Quarter Volume at US$1.260 Trillion

NEW YORK, February 28, 2005—Market participants reported trading US$4.645 trillion face amount of Emerging Markets debt in 2004, according to the Annual Volume Survey report released today by EMTA, the industry trade association for the Emerging Markets. This represents a 17% increase over 2003 trading of US$3.973 trillion, and is the highest annual volume since 1997, when EMTA reported US$5.915 trillion in EM debt turnover.

EMTA also announced that fourth quarter 2004 trading activity in Emerging Markets debt instruments stood at US$1.26 trillion. This represents a 6% decline compared with the US$1.341 trillion reported in the previous quarter, but a 24% increase vs. fourth quarter 2003 volume of US$1.015 trillion.

Joyce Chang, Head of Global Currency, Emerging Markets and Commodities Research at JP Morgan, noted that improving fundamentals in emerging countries, such as better creditworthiness and oil windfalls, contributed to strong trading volumes in 2004. She predicted that ratings upgrades, which escalated in the fourth quarter of 2004 and first quarter of 2005, will prompt additional capital inflows into the asset class this year.

“Strategic inflows into Emerging Markets should remain high at around US$10 billion this year, similar to 2004, while, on the supply side, issuance needs are very manageable, with approximately 50% of this year's financing needs already raised in the international capital markets,” she predicted. Chang observed that coupon and amortization payments due this year are US$12 billion higher than last year, and she maintained that this should provide a further boost to the asset class in 2005.

Brazilian Trading Leads at US$1.382 Trillion

Trading in Brazilian debt instruments totaled US$1.382 trillion in 2004 vs. US$909 billion in 2003, a 52% increase. Brazilian trading accounted for 30% of total reported trading, and such instruments were the most frequently traded assets in the EMTA Survey. While sovereign bonds accounted for the largest portion of Brazilian trading (US$557 billion, or 40%, of turnover), activity in the country's local debt was markedly higher than during the previous year. Volume in Brazilian local instruments (which include LTNs) reached US$459 billion in 2004, a 500% increase over 2003's US$76 billion in volume. Chang remains optimistic on the prospects for Brazil, and in particular its currency, asserting that "strong growth, the current account surplus and carry—taken together—still make the real one of the most compelling trades in Latin America."

In contrast to the sharp rise in Brazilian asset volumes, Mexican trading was down 17% year-on-year. As a result Mexican instruments fell from the top position in 2003 to the second most frequently traded in 2004. Market participants reported Mexican volumes of US$1.077 trillion in 2004, compared with US$1.304 trillion the prior year. The decline in Mexican volumes was largely due to a 23% contraction in Mexican local instrument trading, at US$807 billion in 2004 vs. US$1.042 trillion the previous year.

Russian trading totaled US$357 billion in 2004, up 24% vs. US$288 billion in 2003. Russian instruments, the third most frequently traded instruments in 2004, accounted for 8% of total reported trading. The Russian 2030 bond alone accounted for 51% of Russian volumes.

Other frequently traded countries include Turkey (US$236 billion), South Africa (US$232 billion), Poland (US$193 billion), Argentina (US$164 billion), Singapore (US$145 billion) and Venezuela (US$133 billion).

Eurobonds, Local Market Trading Nearly Even at 45% of Volume

Eurobond volumes, at US$2.114 trillion, were up 42% vs. reported trading of US$1.486 trillion the previous year, and accounted for 45% of Survey volume (vs. 37% in 2003). Survey participants reported trading US$293 billion in the Brazilian 2040 bond, followed by US$181 billion in the Russian 2030 bond and US$73 billion in Turkey's 2030 issue.

Local market trading stood at US$2.094 trillion in 2004, vs. US$1.837 trillion the previous year, a 14% increase. Local instrument trading accounted for 45% of total reported volume, compared with 46% in the previous two years. In addition to the Mexican and Brazilian local instrument volumes, respondents reported trading US$148 billion in South African local debt, US$115 billion in Polish local instruments and US$94 billion in Singaporean local bonds.

Chang expects that 2005 will likely be remembered as the year local markets returned to the center of investor attention. “Institutional investors expanded their activities in local markets in 2004, and this will continue next year as the weaker US dollar has driven more portfolio flows from core markets into Emerging Markets,” she stated. Chang observed that the recent addition of South African and several Central European local currency bonds to the Global Aggregate indices is effectively forcing many US investment managers to add such holdings to their portfolios.

Brady bond volumes (three-quarters of which was Brazil C-Bond trading) accounted for 6% of overall Emerging Markets trading in 2004, at US$292 billion, continuing a long downward trend. Option and warrant trades (US$132 billion) comprised 3% of Survey volume, and loan assignments accounted for less than 1% of reported trading (at US$12 billion).

Inflows into Local Markets, Select Corporates Expected

Chang is not overly concerned that market focus on US FOMC policy will hurt Emerging Markets debt. “Even in the context of rising US rates, the search for yield pickup and diversification will motivate further interest from G-10 bond and macro-hedge funds,” she stated. However, after three consecutive years of double-digit returns, Chang advises that “2005 is the year to look beyond external debt, and this year local markets, along with select Latin and Russian corporate debt issues, are the most likely to outperform.”

EMTA’s Survey includes EM secondary market trading activity in sovereign and corporate bonds, local instruments, Brady bonds, debt options, warrants and loans from over 90 Emerging Markets countries.

For a copy of EMTA’s Fourth Quarter and 2004 Annual Debt Trading Volume Surveys, please contact Jonathan Murno at jmurno@emta.org or at +1 (646) 637-9105.

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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. EMTA’s Debt Trading Volume Survey includes data provided by over 70 major international broker-dealers, banks and investors.