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EMTA SURVEY: EMERGING MARKETS DEBT TRADING OVER US$1 TRILLION IN FIRST QUARTER 2004

Bullish First Quarter Spurs Heavy Brazilian Volumes

NEW YORK, June 1, 2004—Emerging Markets debt trading totaled over US$1.045 trillion in the first quarter of 2004, according to a new report published by EMTA, the trade association for the Emerging Markets debt trading and investment community. Results from EMTA's First Quarter 2004 Debt Trading Volume Survey show volumes increased 3% from fourth quarter 2003 levels of US$1.015 trillion, and were up 25% vs. the US$839 billion reported in the first quarter of 2003.

Arturo Porzecanski, Head of Emerging Markets Sovereign Research at ABN Amro in New York commented, "First quarter data revealed a growing concentration in Brazilian instruments, especially Brazilian Brady's and Eurobonds, which grew to represent 42% of total turnover excluding local market instruments, up from less than 38% in the fourth quarter and the first quarter of 2003." Porzecanski attributed the increase in Brazilian volumes, as well as increased volumes in other non-investment grade countries such as Argentina, Ecuador and Turkey, to "the bullish environment that characterized most of the first quarter, which encouraged heavy trading in the riskiest of bonds."

In fact, trading in Brazilian instruments surpassed volumes of any other instruments for the first time since the third quarter of 2000. Brazilian volumes stood at US$299 billion, a 38% increase vs. fourth quarter levels of US$217 billion and a 75% increase compared to the first quarter of 2003 (US$170 billion). Brazilian turnover increased throughout each asset category, with Brazilian sovereign Eurobond volumes up 65% to US$142 billion, Brazilian Brady volume up 4% to US$77 billion, Brazilian local instruments up 57% to US$43 billion and options on Brazilian debt up 12% to US$22 billion. Brazilian market share equaled 29% of total overall volume, vs. 21% in the previous quarter. Brazil's C-

Bond and 2040 Bond were the two most frequently traded individual instruments, at US$69 billion and US$66 billion in turnover, respectively.

In contrast, investment-grade rated Mexican instrument trading retreated 36% compared to the previous quarter and stood at US$246 billion (vs. US$383 billion). Survey participants reported a 45% decline in their trading of Mexican local instruments, to US$177 billion in the first quarter vs. US$318 billion in the fourth quarter of 2003 (and US$210 billion in the first quarter of 2003). Mexican instrument volumes dropped to second place in the Survey.

Russian volumes remained in third place, at US$74 billion. This compares with US$63 billion in reported activity in the previous quarter and US$64 billion in first quarter 2003 trading. Russian transactions accounted for 7% of total Survey volume.

Trades in Turkish instruments were fourth, at US$52 billion (vs. US$37 billion in the fourth quarter. South African volume was fifth, at US$45 billion compared with US$41 billion in the previous quarter.

Survey participants also reported a notable increase in Argentine instrument volumes, up 106% quarter-on-quarter to US$35 billion (and up 389% from US$7 billion in the first quarter of 2003). Argentine instrument trading stood in 8th place overall, up from 13th place in the fourth quarter.

Eurobonds at 47% of Volume, Local Instruments 41%

Eurobond volume stood at US$486 billion, compared to US$367 billion in the previous quarter (a 32% increase) and US$276 billion in the first quarter of 2003 (up 76%). Brazilian instruments accounted for nearly one-third of all Eurobonds (US$157 billion including corporate issues), followed by Mexican (US$63 billion), Russian (US$60 billion), Turkish (US$37 billion) and Argentine issues (US$30 billion).

Eurobond trading accounted for 47% of total reported volumes, with 38% of all turnover in sovereign issues and 8% in corporate debt. Porzecanski remarked that, “with a record amount of new bond issuance, estimated at $54 billion in the first quarter, more than double what Emerging Market issuers placed in the first quarter of 2003 or 2002, it is no wonder that turnover excluding local market instruments increased by more than 20% relative to the fourth quarter of 2003, and by over 40% when compared to the first quarter of 2003.”

Results from the EMTA Survey also showed that total corporate Eurobond trading reached its highest level in six years at US$80 billion (vs. US$61 billion in the fourth quarter). “The bullish environment that prevailed at the time encouraged trading in corporate bonds, the liquidity of which usually is inversely related to the general level of bond spreads,” Porzecanski noted.

Survey respondents reported US$430 billion in local instrument trading, vs. US$509 billion in fourth quarter volumes (a 15% decrease) and US$405 billion in the first quarter of 2003 (a 6% increase). This was attributed to a large decrease in Mexican local instrument volumes, which fell to US$177 billion in the first quarter from US$318 billion in the previous quarter, and was only partially offset by increases in local instrument trading in Brazilian, South African and Polish instruments. Local instrument volumes accounted for 41% of total Survey volume, vs. 50% in the fourth quarter of 2003.

Brady bond trading stood at US$87 billion, or 8% of overall volume, and was virtually unchanged from the previous quarter (US$86 billion), while down 21% from first quarter 2003 Brady volume of US$110 billion. Option trading stood at US$38 billion vs. US$44 billion in the prior quarter and represented 4% of total volumes. Loan trading, at US$4 billion, accounted for less than 1% of Survey volume.

Turnover Remaining at High Levels?

Despite speculation that higher US Treasury yields and upcoming Federal Reserve interest rate hikes are dampening interest in the Emerging Markets asset class, Porzecanski believes that volume levels -- as opposed to bond prices -- have not yet felt any spillover effect. "Our impression is that turnover levels have held up quite well so far in this second quarter, despite the widening of bond spreads and the drop in new issuance activity. However, there has been a further concentration in the trading of a few instruments involving Brazil," he observed.

EMTA's Survey includes turnover in Brady bonds, sovereign and corporate bonds, local instruments, debt options, warrants and loans issued by over 90 emerging countries. 67 firms involved in Emerging Markets debt trading participated in the Survey. EMTA also recently released separate Surveys of 2003 Annual Emerging Markets NDF and Credit Derivatives markets trading.

For a copy of EMTA's First Quarter 2004 Debt Trading Volume Surveys, as well as EMTA's 2003 NDF or Credit Derivatives Surveys, please contact Jonathan Murno at jmurno@emta.org or at +(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.