EMTA
TRADE ASSOCIATION FOR THE EMERGING MARKETS

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Contents Include:

EMTA Resumes Limited In-Person Events

EMTA resumed limited in-person events starting in late October 2021, holding Seminars on post-election Peru (New York City), the outlook for the EM corporate bond market (Boston) and the Argentine midterm elections (New York City). A summary of each event is included in this Bulletin.

We were happy to see many of our Members at these events, which were held in accordance with strict safety protocols in order to keep everyone safe.

EMTA hopes to expand its 2022 calendar of in-person Seminars to other cities, including London, depending on health conditions.

Because of the popularity of its Webinar series, EMTA will continue to hold broadcast events as well.

BRL Effective Date is Dec 3

On December 3, 2021, updated terms for BRL, CLP, COP and PEN NDF and NDO non-deliverable FX forward, currency option and cross currency transactions are scheduled to become effective. This will be the result of an almost two year project by EMTA's BRL Working Group and EMTA Staff. The updates included the removal of a key, but controversial, term in the BRL forms – the Exchange Rate Divergence provision – and a change in all of the BRL, CLP, COP and PEN forms from a 30 day Valuation Postponement Period to a 14 day Valuation Postponement Period.

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EMTA Annual Meeting Broadcast on December 1st and 2nd

EMTA's Annual Meeting will be broadcast in two parts in 2021, on December 1st and 2nd, featuring panel discussions on the outlook for the EM asset class in 2022.

The first part will feature a Buy-Side panel moderated by David Lubin of Citi and can be viewed on Wednesday, December 1, 2021 at 10 a.m. NYC time and 3 p.m. London time. Joining Lubin on the panel will be Pablo Goldberg (BlackRock), Tina Vandersteel (GMO), Hari Hariharan (NWI Investment Management) and Jim Barrineau (Schroders Investment Management).

The following day, December 2, 2021, EMTA will broadcast a Sell-Side panel, also at 10 a.m. NYC time and 3 p.m. London time. The Sell-Side panel will be moderated by JPMorgan's Joyce Chang, who will be appearing at the EMTA Annual Meeting for the 26th consecutive year. The panel will also feature Christian Keller (Barclays), Claudio Irigoyen (BofA Securities), Drausio Giacomelli (Deutsche Bank) and Alberto Ramos (Goldman Sachs).

EMTA Members may view both sessions at no cost. There is an attendance fee of $495, per session, for employees of Non-member firms. For more information, please contact Jonathan Murno at jmurno@emta.org.

The event is being sponsored by Citi.

Continued Progress Needed in South Africa, Say EMTA Panelists

The need for further economic progress was underscored during EMTA's Webinar on the Economic Outlook for South Africa. Broadcast on Tuesday, November 16, 2021, the event drew 200 viewers. Standard Bank sponsored the program, with the additional support of Barclays and Citi.

Elna Moolman (Standard Bank) steered her panel through a series of topics, starting with reactions to the recently released Medium-Term Budget Policy Statement. In her introduction, Moolman observed that Finance Minister Godongwana was signaling continuity on efforts on fiscal consolidation and curbing expenses, rather than tax increases. Nevertheless, investors appeared focused on risks such as public sector wages growth despite the government's plan to avoid increases, and slippage such as that which followed popular protests in July.

Barclay's Michael Kafe agreed that the public wage bill was a concern for investors. He praised former Minister Mboweni for having done the "heaving lifting" to restrain wage bill increases, and ventured that the government would prevail in legal challenges brought by unions. However, he cautioned that plans to avoid wage bill increases for the next three years would be a challenge, and a more likely result was a 4.5% increase in the third year, which would still be tolerable for the market. Instead, EM investors would be more worried by the costs of social grants, he stated.

On another expenditure issue, Mokgatla Madisha (Sanlam Investments liked government signals of a much higher hurdle for SOE support, following years of SOE mismanagement. Still there are SOEs that are critical to the South African economy which will request financial aid, and "they will have to show their value to society in a much greater way." From a portfolio manager's point of view, Madisha reasoned that, with almost non-existent rights for creditors, there would be limited investor enthusiasm in such assets until a major turnaround occurred.

Matrix Fund Managers' Carmen Nel discussed potential private sector involvement in the energy and transport sectors, and believed South African growth of 2.5% to 3% was achievable if the reform program was well implemented. However, "ideology is a big question mark; is the government really ready to stand back to give the private sector space?" She admitted frustration that the "low-hanging fruit," such as the spectrum auction, had been delayed by political infighting, and specified that more progress would have to be made for her to adopt an optimistic stance.

South Africa Webinar (continued)

Foreign investors who really know South Africa recognize that policy is going in the right direction, and they are aware of the political restraints in making economic progress, reasoned Citi's Luis Costa. The results of the recent local elections only underscored the political challenges the Ramaphosa administration will face during the rest of its term, he added. On the positive side, South African CPI was under downward pressure, rather than the "totally out of control" inflation in many other EM countries, and this increased the attractiveness of South African local bonds.

Moolman solicited comments on the country's credit ratings. "There is a small chance that Moody's may move the outlook on its Ba2 rating from negative to stable, but that is not my base case," replied Nel, who referred to the fragile state of the fiscal accounts and Moody's interest in the pace of reforms. The market continued to price South Africa as a double-B credit and she herself thought enough had been done to stabilize the rating. Nel cautioned, however, that (while also not her base case) the government should understand the much higher costs of funding, and market access issues, if further reform delay, greater unemployment and socioeconomic pressures resulted in South Africa being downgraded to the single-B level. Nonetheless, Nel concluded that, "it's difficult to be bearish on South African local debt given its high real yields, especially when compared to EM peers."

Madisha believed that South African inflation could trend around the midpoint of the SARB's official 3% to 6% target. While he acknowledged both rising global inflation and increases in the prices of South African goods, the local service sector has been dragged down by rents (a result of high unemployment), and local demand trailed other countries. The SARB could reduce its inflation target to 3% at some point, which would send a positive sign to the market, he noted.

Kafe forecast inflation at around 5.5% in Q1 2022 and 4% by Q4 2022. He didn't see a strong case for rate hikes for the near future, and eschewed fears of a double-digit tariff increase from Eskom. He expected that hikes would not start until 2H 2022, and that only two would occur next year.

In contrast, Costa believed there was a strong enough case for SARB rate hikes now, while stressing that market expectations of 200 bps of rate hikes over the next twelve months were excessive. In Costa's view, the primary motivation for hikes this year would be for the SARB to signal its willingness to converge to other global rates. Two spaced out hikes were possible in 2022, in his estimation. Nel expected the Bank would hike rates shortly, even if she did not recommend it, based on SARB discomfort with negative real rates, and by possible fears of being behind the EM curve if upcoming inflation prints surprise on the upside. Finally, Moolman revealed her own view that the SARB would not hike rates now, but saw it as a very close call.

The government's loss in local elections was also a panel topic. Nel reminded viewers that election cycle spending surges do not happen in South Africa because the budget cycle and the political cycle were divided. However, as the government became more concerned by the possibility of further losses, it could adopt populist non-spending measures such as a wealth tax to offset grants. The local election loss may help raise the focus on local service delivery, she added. Madisha saw the election results from the prism of the need for more growth and more jobs, and "while we worry about debt ratios, the market will give the government some latitude if it believes that spending will be smarter, and will generate sustainable growth."

Going forward, "until we see the implementation of structural reforms that we have all parroted for years, South African growth will be constrained to the 1-2% range," Kafe lamented. "While we have seen some progress, it needs to get a lot deeper."

Costa was given the last word on what could be done to move his view on South Africa to a more bullish tone. For him, a successful sale of spectrum would be enough to "open a bottle of champagne." The government was not looking into an empty field, and there was low-hanging fruit ready to be collected.

China's "Common Prosperity Drive" and What Investors May Need to Know

On November 10, 2021, Rob Carnell (ING Bank) moderated a webinar discussion ("*China's Common Prosperity Drive" and What Investors May Need to Know*) with panelists Brad Gibson (AllianceBernstein), Bo Zhuang (Loomis Sayles), Wei Yao (Société Générale) and Leonard Kwan (T. Rowe Price). ING Bank N.V. was the lead sponsor of the webinar. EMTA Members Société Générale and Tradeweb provided additional support for the webinar.

Carnell (ING) launched the panel with a request for the panelists to provide their high-level view of China's *"Common Prosperity Drive"* policy initiative.

Gibson's initial observations were that the *Common Prosperity Drive* initiative is both deeply structural and redistributive (thus, "common") in nature with more significance than China's preceding policies like *One Belt One Road* and *Dual Circulation*. Gibson noted the regulatory reform push already underway into certain sectors (on-line gaming, education, tech and children, for example) as an indication of the seriousness of China's intentions in this new effort.

Agreeing with Gibson's characterization of the *Common Prosperity Drive* as a redistributive exercise, Zhuang added that the key to the policy will be in its implementation and the way in which China works to achieve its "Common" goal. The "devil is in the details", said Zhuang. Zhuang further noted that the policy aims at redistribution of not only wealth and income but also opportunity (importantly including aspects of Chinese society like urban versus rural and eastern and western China disparities) and also supports a populist-socialist political agenda of the Chinese government in extending its longevity to an unusual third term. Zhuang predicted that the Common Prosperity Drive would likely benefit fixed income and credit markets in China but would have a less positive effect on equity markets.

Kwan noted that economic inclusion of the middle class is key and emphasized the intended social and economic gains and the anticipated elevation of, and resulting stability for, the Chinese middle class as the essence of the *Common Prosperity Drive*. Its policies are, he stated, intended to increase the social and economic share the middle class will have going forward in Chinese society, and will address issues like monopolies, housing, employee rights, education and healthcare. Kwan commented that giving the *Common Prosperity Drive* initiative an "ESG overlay" (its social pillar, specifically) has been a useful way for his firm to analyze the implications of the policy.

China Webinar (continued)

Yao's emphasis differed a bit: she offered her perspective that "Prosperity" is the key element. Notwithstanding the goals of wealth redistribution, Yao stated that the Chinese government is not abandoning its goal of doubling its GDP per capita in 15 years but is focusing on developing growth driven by productivity (rather than unproductive investment like housing and some infrastructure). Yao pointed to the "olive-shaped income distribution" model shared by President Xi as a good illustration of its economic redistribution goals.

Gibson noted that the *Common Prosperity Drive* policy will not override China's *Dual Circulation* framework but is a continuation of China's long-term goals to become less dependent on a range of foreign technologies and to propel the middle class into a position where the domestic economy will be able to generate most of China's growth. This dovetails with Yao's perspective that the next phase for China will be to generate more efficient growth, and not growth at any cost.

Carnell asked for some reaction to the lower growth rate that is largely predicted for China. Yao cautioned against undervaluing the widely expected on-average 4.5% growth rate for China, given the significant, negative external factors it faces in the foreseeable future, which include ageing demographics, overcoming its debt misallocations, over-leveraging, US-China geo-political tensions, and other significant challenges. Yao predicts that with a few years of needed de-leveraging and overcoming external factors, China could find itself in a very stable place. But, if China fails to succeed in its *Common Prosperity Drive*, "…it could be Japan's lost decades all over again," rued Yao.

With its emphasis on long-term quality growth, productive growth and not growth at all costs, Carnell then asked, can China realistically sustain that over decades and avoid a "Japanification?"

Zhuang pointed out that China's goal for decades has been long term growth sustainability, but that it has not succeeded so far. The *Common Prosperity Drive* is its current effort to implement the fiscal reform needed for long-term growth sustainability, which if implemented successfully, would cement the political aspirations of the current Chinese leadership for greater political longevity, reaching out into 2035.

Carnell asked Kwan whether the emphasis placed by China on quality of growth resonates positively with investors, or whether investors view that emphasis as an additional and possibly negative consideration when making investment decisions in China. Kwan said that transitioning from investment-led growth to consumption-driven grown will result in lower growth overall, but China's economy ultimately will be more resilient. To get there, a period of adjustment will be needed along with a revision of current business models. Previous business models benefitted certain industries at the expense of others. While growth has been the anchor economic philosophy in China for many years, the Common Prosperity Drive presents a different paradigm and the "guardrails may need to be wider," says Kwan.

Rob noted some speculation among the investment community of whether China could be pulled out of some of the Asian indices as a result of the implementation of its *Common Prosperity Drive* but Zhuang speculated that given the Chinese government's ultimate goal to divert credit away from the property market and into other sectors (like hard tech), this will be a zero-sum game and would not necessarily lead a negative credit impact for China.

Turning to monetary policy issues, Carnell asked how tolerant the PBOC is likely to be on real yields and inflation issues, and how the PBOC will compare to the West in this regard. Gibson noted that the PBOC has been consistent in its support for positive real yields and is likely to be far less tolerant than other central banks for looser measures. Neither will the PBOC experiment with inflation, predicted Gibson,

China Webinar (continued)

noting the potential for negative social impacts of rising inflation and the problems that could cause for the Chinese government in an election year. Gibson compared the predicted 3-5% inflation over the next 1-5 years in the West versus 1-3% for China during the same time and noted his firm's forecast of 2% inflation for China by the end of 2022.

Addressing Carnell's question on prospects for the RMB, Gibson identified himself as bullish on the RMB given the long-term structural forces that will work in its favor. Contributing to his view that the RMB is likely to appreciate are that China is likely to outgrow the US in the medium term with a productivity-led growth model and its strong trade surplus. Yao agreed that RMB appreciation is likely as a long-term prospect, but cautioned that, in the medium term, there will be some downward pressure on the RMB as other central banks globally begin to tighten up their monetary policies.

Carnell asked the panelists for more color on the potential impact on equity markets in China and Zhuang reiterated his caution that the *Common Prosperity Drive*, and the social equity it is intended to implement, will result in an effective and structural growth cap on the equity markets ("You can make money" says Zhuang, "but you cannot aggressively make money…."). Gibson differed, and offered that that Chinese equity markets, in the long term, are likely to prosper and benefit from the redeployment of investments that are currently held in the property sector. Retirement and pension money needs to be invested somewhere, explained Gibson, reiterating that the equity markets are a beneficiary of the expected deleveraging in the property markets.

Some speculate that the *Common Prosperity Drive* will depress competition in China, mentioned Rob and he queried whether this was, indeed the case, or would it open up the playing field for smaller companies?

Expressing that current antitrust measures by the Chinese government are, in theory, beneficial for smaller business, Yao continued that the *Common Prosperity Drive* implementation measures are, in practice, very harsh and might harm entrepreneurship and dampen innovation. However, Yao declared herself hopeful that this current aggressive regulatory stance, might temper over time and ultimately lead to a positive impact on the equity markets.

Carnell steered the panel in the direction of exploring the risks associated with the *Common Prosperity Drive*, in particular, "what could go wrong?" he asked.

In response, Kwan saw risk in the current lack of specificity ("broad brush stroke" approach) in the directives being issued to implement the *Common Prosperity Drive*, which create a great deal of uncertainty for market participants as well as in China's pivot risk to the extent that the initiative is not successful. The *Common Prosperity Drive* is a very high-level, single-direction exercise for a behemoth economy, and he questioned China's ability to change direction if the Policy is not successfully implemented.

Zhuang saw risk from the impending change in tax policy, capital flight from China, a dampening of the entrepreneurship spirit and a possible industrial relocation all of which could create deflationary pressures on the Chines economy, echoing Yao's concern expressed earlier, that if China's *Common Prosperity Drive* is unsuccessful, "Japan could be the future of China."

Responding to Carnell's question about the impact on China's pension markets, Gibson noted that China may need a "fully functioning equity market" to absorb the cash that the Chinese government hopes to leverage out of the property market and emphasized that a stable equity market is an attractive source of

China Webinar (continued)

return should not be discounted. “While not likely to be modeled on the US economy, China’s economy could be developed more along the lines of other economies like Germany”, he noted. “Both require a proper equity market.”

Carnell asked the panelists to focus on which, if any, other sectors of the Chinese economy might next find themselves to be at risk for drawing the ire of China’s government. Zhuang offered that no one specific industry is clearly at risk but offered as a guideline: “Don’t step on China’s toes,’ meaning that anyone actively contradicting the clear social, economic or geo-political goals of China might attract its negative attention. Kwan reached back to his “ESG lens” to try to differentiate “extractive” from “inclusive” sector practices with the property sector as an example of the former and industries such as utilities, renewables, tech, hardware, engineering among others as falling into the latter, more positively perceived category. He noted that the property sector is likely to remain important but that it needs to become more stable and resilient and if it does, it might become more like a utility in the Chinese economy.

Yao agreed with Zhuang that it is “more about the behavior” than the sector itself but added that she saw two dimensions to the calculus that investors might make in assessing sectors: the short-term policy and regulatory risk to the sector and the long-term prospects for the sector in terms of profitability and utility to China.

Finally, prompting the panel to acknowledge and discuss the “elephant in the room”, Rob asked whether the fears that China’s property sector would devolve into an LTC or Lehman-like financial crisis were credible? Yao remarked China’s financial markets are “not free” and that the Chinese Government has more ability to manage liquidity issues and price corrections than Western governments; that being the case, she continued, the difference is not the severity of the event which will, in fact, be similar to a Lehman or an LTC, but the much slower speed at which it unfolds and there is, in her opinion, a high risk of a hard landing.

Further, Kwan noted that he believes that the property sector is now investible. In his view, the sector has longevity because it is very important to China and while the offshore market has lost confidence in the sector, more importantly, the onshore market, which is more significant, has not.

Finally summary thoughts of the panelists regarding the *Common Prosperity Drive* include: “long-term in nature with policy intentions that are good, but challenges in its implementation and whether that implementation will be rule-of-law based and thus more predictable --- or not? (Zhuang); “Short-term pain, long-term gain”; China will be in “unchartered territory” and “short-term worried but long-term hopeful” (Gibson); the short term will be ‘bumpy” as China transitions to new growth drivers and more clarity is needed from China (Kwan); “the next few weeks will be critical as it brings the first make or break moment for China, but that “the most intense phase of the policy implementation may already be behind China” (Yao).

EMTA Forum Speakers Remain Pessimistic on Argentine Outlook After Midterm Elections

The effects of Argentina's midterm elections on the economy was the subject of an EMTA Forum, held in-person on Monday, November 8, 2021 in New York City. TPCG sponsored the event, with additional support from Amherst Pierpont, Eurasia Group and MarketAxess. 85 market participants attended.

Juan Manuel Pazos (TPCG), serving as moderator, asked speakers for their interpretations of the PASO vote and its implications for the midterms, which was held days later and confirmed a defeat for the government. "Maybe more important than the actual results is that this will be a defeat for Kirchnerismo," declared Amherst Pierpont's Siobhan Morden, who speculated that the movement could be destroyed in the 2023 presidential vote. On the other hand, the current government will still have two years left to its term, and Morden didn't anticipate a resignation or pragmatic reaction by Vice President Cristina Fernandez de Kirchner.

Emso Asset Management's Patrick Esteruelas referred to a wide range of recent polls, while commenting that the results could split the current governing coalition's marriage of convenience. In his view, it wasn't clear whether the Kirchner faction would become an opposition party in Congress, "or ride it out, because the pork is just too significant to ignore."

Daniel Kerner (Eurasia Group) affirmed that any expectation of an about-face by Cristina was fanciful. Education, rising inflation and deteriorating real wages were the main election issues, and Kerner found it unlikely the government could recover from the vote. The bottom line was that President Fernandez would not break from Cristina, and all politicians will turn to turf-defending mode as the 2023 elections approached. In his analysis, both the government and the opposition have their own incentives to maintain the status quo for the next two years.

Finally, industry veteran Hans Humes (Greylock Capital Management) announced that, "anyone who came here today to hear an optimistic take will be disappointed." Cristina's political heirs Axel Kiciloff and her own son Maximo could suffer huge defeats in the midterms, he ventured. Although a resounding defeat of the government in the midterm vote could lead to a market bounce, Humes cautioned that the reaction by Cristina was more important than the actual results.

Pazos asked panelists for views on a potential IMF deal. Despite market consensus that the elections had been the reason for a delayed IMF deal, Esteruelas argued that in fact "the government and the IMF are planets apart on what constitutes a sustainable program." As an example, Buenos Aires has proven obsessed with eliminating the surcharge on its outstanding loan, rather than the larger picture. The question was not whether there would be a "convergence of will, but whether both sides have any other options other than a marriage of convenience."

Argentina Event (continued)

According to Kerner, ultimately the US (now focused on China and Covid-19) would decide whether the IMF would once again break precedent and agree to an Argentine loan, although he was "very skeptical that there will be a deal before the situation gets much worse." On the Argentine side, Cristina views the IMF as "a political tool….and evil," and a deal would force the Argentine Congress to go on record as agreeing to unpopular measures such as cutting pensions.

The IMF is fully cognizant of Argentina's failure to adhere to all previous programs over the past two decades, noted Humes, and a potential departure by Economy Minister Guzman would only prompt further delays. Morden described the current Argentina – IMF situation as a game of chicken, and would not rule out an Argentine default to the Fund. However, the most likely scenario was a moderation of the Argentine position and Cristina being sidelined, as a protracted IMF default "was not something the country could survive."

While it would be extremely difficult, Kerner believed that the government had the ability to make an IMF deal socially viable if it wanted. He specified as an example that the opposition would support a move to normalize energy pricing despite domestic pushback, and resources could gradually be moved towards fiscal consolidation. Humes reasoned that the demonization of the IMF was a card Cristina may want to use for political gain.

Esteruelas warned attendees not to underestimate the challenges of the actual construction of a deal, even if there was political will. Record high soybean prices and the one-time effect of the wealth tax have narrowed the fiscal gap more than it normally would have been, and the IMF can't expect fiscal adjustments in 2023 due to the elections. The IMF will want subsidy removals and a more expedited FX adjustment. "The challenges to putting together even a 'light' IMF program are not small at all," he stressed.

On the exchange rate, panelists concurred that a shift in FX policy was likely. The preferential FX rate for tourists demonstrated the government's desperation, noted Morden, who believed that an accelerated crawling peg was likely ("they have no time; they are running out of money"). Esteruelas found it "difficult to see a steady, orderly devaluation without a firm anchor in place." He added that any FX adjustment would be highly contractionary due to the export sector's relatively small size. Kerner attributed the problem to the "fact that no one is really in charge, and no one knows what to do; unless either Cristina or President Fernandez totally takes over after the elections, disorder is almost inevitable."

As for growth, Morden stated that Argentina continued to suffer from the "legacy of macro imbalances from the Kirchner era," as well as disappointing FDI inflows under Macri. Esteruelas underscored that a painful adjustment was a prerequisite for growth, and that investors were unwilling to take yet another leap of faith given Argentina's lack of credibility with the market.

"Even the opposition is thinking of a magical solution," lamented Kerner. Eventually, the lack of resources and absence of alternatives will force the government's hand, but that point hasn't yet been reached. Despite abundant natural resources and a well-educated population, "Argentina can't seem to get out of its own way," stated Humes. A retreat to isolationism was not a practical solution, he added.

Finally, the panel discussed Argentine debt valuations. FOMO was not a factor for Esteruelas, who advised investors to consider Argentina a range trade. Morden recommended investors consider debt ex-sovereign with carry, while warning prices may not yet have reached a nadir. The reaction of the Kirchner wing of the Peronists, and whether it adopted a constructive, moderate approach, was key to any bet, concluded Humes.

Boston PMs Search for Value in EM Corporates Following Evergrande Affair

The sell-off in the Chinese HY corporate sector after Evergrande's near default, as well as potential opportunities in the EM corporate asset class, were among the topics of EMTA's Corporate Bond Forum in Boston on Wednesday, November 3, 2021. The event, which was sponsored by BofA Securities, was EMTA's first in-person Boston event in two years.

Anne Milne, Head of EM Corporate Research at BofA Securities, opened the session by summarizing 2021 as a volatile year, with general EM corporate spread compression--especially for IG paper--and overall positive excess returns. More recently, EM HY corporates spreads had widened as a result of the Evergrande affair, as well as concerns on Argentina, Brazil and Turkey. Milne polled panelists for what had surprised them most in 2021.

"We thought we were 'crying wolf' over the Chinese property market for years, but it finally happened," replied Robert Sanchez-Dahl (Manulife Investment Management). He warned that further deterioration in the sector was possible, while venturing that the fact that some defaults had finally occurred might be positive for the sector in the long term (and not strictly negative).

Loomis, Sayle's Nada Oulidi's list of unforeseen positive developments included the low default rates (excluding China) witnessed during the ongoing pandemic, rising energy prices, "coordinated and effective policy responses by the major EM economies to Covid-19," and the outperformance of Turkish bonds, despite concerns over politics, inflation, and unorthodox monetary policy. Negative surprises included the rise of far-left ideology in several Latin American countries, most notably Peru.

Akbar Causer (Eaton Vance Management) added that the resilience of many EM corporates to a new "work from home" world had been welcomed, and that NPLs on bank balance sheets were less than his initial fears. The "astonishing" pace of the sell-off in the Chinese property sector was among his negative surprises.

Finally, Sam Epee-Bounya of Wellington Management was impressed by the quick rebound of EM corporates from their lows, and the performance of several sectors including telecoms. A painful surprise was Argentina. "I had low expectations, but, even so, I was disappointed," he stated. In his analysis, many well-managed Argentine corporates were constrained by weak government policies ("don't underestimate the complexity of what Argentine management teams have to deal with"). The drawing-out of the Brazilian election cycle to over a year, and the lack of flexibility of Nigerian policymakers with the naira FX rate and continued emphasis on an import substitution model of growth also concerned him.

Next, Milne acknowledged her own cautious outlook for the asset class, despite strong fundamental factors, including high commodity and energy prices. She asked panelists for their 2022 performance expectations.

Corporate Boston Event (continued)

Epee-Bounya recognized that finding value was not an easy task. Even those Chinese corporate issues that might be attractive on a stand-alone basis remained subject to the political backdrop. Similarly, even with strong oil prices, rhetoric from President Bolsonaro left Petrobras vulnerable to featuring in daily headlines.

"There is still room for spread compression for the asset class as a whole, but country selection will be key," stressed Oulidi. She anticipated an uneven recovery that would hinge on further immunization progress, and the appropriate timing of withdrawal of policy support. Many EM countries are currently grappling with high inflation and must strike the right balance between rate hikes and growth, she noted. In addition, geopolitics, social protests and elections could also affect performance.

Candidates for spread compression included those which had most recently widened, in Ouilidi's view, "but tightening probably won't be massive." She offered the example of moderation by the Castillo administration leading to narrowed Peruvian spreads. In addition, there may well be "babies thrown out with the bathwater" in the Chinese HY sector, but one must avoid "standing in front of the train of Chinese policies."

"No matter how much time I spend on it, Chinese HY is one of the toughest sectors in our asset class," Causer declared, citing transparency issues and the lack of downside protection. However, a well-timed trade could provide a huge P&L boost; so despite all the unknowns, the sector was hard to ignore. He cautioned that, conversely, there was likely some overpricing in higher-rated developers because of investor flight to quality.

Sanchez-Dahl argued that transparency with Chinese developers had not improved, and that offshore bondholders would always find themselves structurally subordinated "at the end of the line" behind domestic interests, suppliers, and onshore creditors. Overseas creditors could see their maturities extended for "a very long time, with no recourse." He expressed potential interest in IG credits, but saw little rationale to add new positions soon.

The panel then addressed several specific countries. Oulidi praised the management of the large private sector Turkish corporates issuing in the international debt market and the general success of the country's vaccination program. "Tourist" investors have already fled following concerns over politics and interest rate policy, leaving the bonds with good technical support from the EM-dedicated funds that remained. Sanchez-Dahl voiced his concerns. He worried that Turkish banks "all seem to report similar asset quality numbers, such as those for NPLs, while bank regulators have again extended forbearance measures this time to year-end." He also noted that Turkish corporates generally derived a lot of their business regionally, which was supportive, but didn't strictly reflect the health of the Turkish economy.

On Pemex, Epee-Bounya urged Mexican authorities to discontinue its verbal and smaller financial support in favor of a more comprehensive solution which would include a $60 billion direct capital injection into Pemex to materially reduce the company's gross debt. radical, big-bang solution of a $60 billion lifeline. Sanchez-Dahl expressed skepticism that President AMLO would take such a bold move, and would stick to its less than optimal path of just putting patches as needed. The failure to address long-term issues would lead to Mexico eventually converging to Pemex's wider spreads, not vice versa. Milne seconded the view that Mexico was more likely to maintain its piecemeal efforts rather than tackle a more permanent solution.

Sanchez-Dahl expressed a constructive view on GCC corporate fundamentals, especially strategic assets such as energy-related, ports and water treatment companies. Oulidi favored the Gulf credits as well, citing strong sovereign balance sheets, petrodollar inflows, and the demand for long-dated IG paper from insurance companies. She anticipated continued strong issuance.

Rhetoric from Castillo Likely to Continue in Peru – But Constraints May Prevent Major Damage

EMTA returned to in-person events on Monday, October 28, 2021 with a Seminar on the Economic Outlook for Peru under the new Castillo administration. The event, held in New York City, was sponsored by BancTrust with the additional support of Fitch Ratings and Santander.

Since the election, President Castillo has alternated between popularist rhetoric and a more market-friendly approach in his public comments, observed Ramiro Blazquez (BancTrust) who moderated the panel. He asked speakers how much damage the new government could cause in the economy.

Nuveen's Alejandro Rivera reminded attendees of the country's recent political instability, especially in regard to the presidency. The addition of the pandemic to the political turmoil had resulted in a polarized election, and the eventual Castillo victory. Rivera envisioned Castillo seeking a middle ground, which may lead to an AMLO-type administration. The popular demand for reducing social inequalities and increasing social expenditures should not be ignored by investors, as Castillo will need to deliver results, although Rivera did not expect spending to "get out of control." Finally, Rivera cautioned that, "it is clear that the mining sector will be a source of revenue," and investors should monitor any legislation to that end.

Mike Moran (Santander) ventured that the best way to describe Peru currently is that it is a country with significant and substantial tail risks, with the "hangover" of 2021 potentially running into 2022-23. The current political uncertainty has a material impact because it harms business confidence, and unanswered questions on the regulatory backdrop remain. The low inflation environment in Peru has helped real incomes, but Moran didn't expect that to continue. Similarly, growth rates this year are unlikely to be sustainable once the 2020 base effects are washed out.

Aaron Gifford (T. Rowe Price) agreed that a significant number of tail risks existed, but reasoned that catastrophes would be avoided because of constitutional checks and political fragmentation ("not only in Congress, but even in Castillo's party, as we've seen with the cabinet reshuffle"). Gifford characterized Castillo's victory as a protest vote, rather than the extension of a mandate to carry out the radical plans espoused during the campaign.

Peru Event (continued)

“We’ve witnessed deteriorating conditions in Peru for a long time now,” commented Fitch Ratings’ Richard Francis, referring to the revolving-door presidency and dismissal of congress in recent years. The deterioration of governance highlighted weak Peruvian institutions, he noted. The uncertainty of whether Castillo would even get his cabinet approved demonstrated the president’s weakness, and signaled his ability to pass significant legislation through congress was questionable. Constitutional changes seemed unlikely as of now, but Francis could not completely rule out the possibility, as public support could be built. Whether the administration could allay the fears of the business community was also unknown, and such uncertainty will “put a huge dent in private investment.” Yet despite all the negatives, Peru’s below 40% debt/GDP ratio provided some cushion, he concluded.

Blazquez inquired about Peru’s ratings trajectory. Francis confirmed his firm now rated Peru BBB with a stable outlook, following its recent one-notch downgrade. “Some deterioration in governance can happen at that level,” he stated, while warning that, should the debt/GDP ratio rise above 50%, and more substantial governance issues arise, downwards rating pressures would resume.

Rivera believed the government would try to close the fiscal deficit of 3 to 4% via taxation and “was not too concerned about the fiscal account.” He envisaged an AMLO-type model of weak growth but relative fiscal discipline. “It’s not the best model, but it’s also not the worst,” he concluded.

Blazquez explored the possibility of further depreciation of the PEN. Moran highlighted the pattern of dollarization by local corporations and households over the past year, with the central bank being the only real USD seller. “Until we see a more meaningful change in these patterns, the trend is for the sol to depreciate – not to 6 or 7 per dollar, but perhaps to 4.15 or 4.20 per dollar.”

Gifford disagreed, saying he “would take the other side of that trade.” While acknowledging all the panel’s concerns, Gifford argued that Castillo understands the repercussions of macroeconomic imbalances, and he hoped that the worst news was already out (“although a gas field nationalization or a constitutional change could change that”). He estimated fair value for the sol at “closer to 3.5 per dollar than to 4; it’s one of the cheapest currencies in EM.” The credibility of the central bank governor Velarde and “some decent recent appointments,” were among the factors that gave him relative confidence.

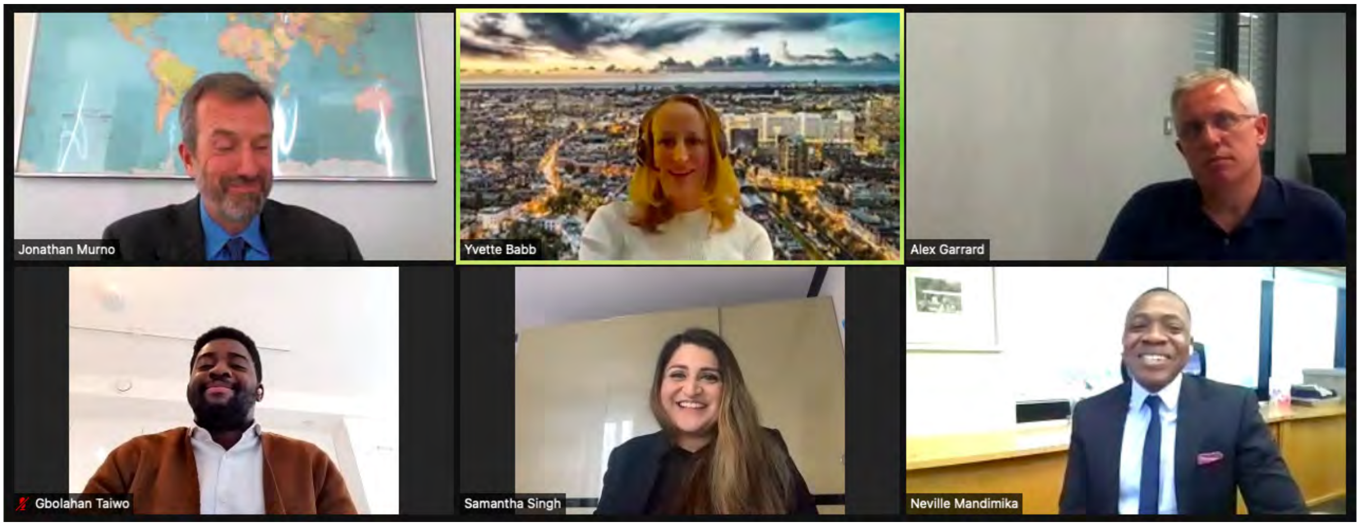
The governor had a “tough road ahead,” according to Rivera, who expected Velarde would need to take an aggressive stance with rates to stabilize the inflation outlook. Gifford’s own sense was that gradual tightening would occur, to pre-pandemic levels. Moran warned against complacency; “the market may have underestimated how sticky inflation can be,” citing food and transportation costs.

Another big unknown, Gifford added, was the future of the private pension system – i.e., whether another withdrawal will be allowed, and if Castillo carries out a move to a public pension system. Francis thought a major pension fund overhaul was unlikely; “even the right isn’t calling for that.”

The panel concluded with Blazquez asking how much Castillo was trying to accomplish versus how much he was trying to energize his base. “We will see a lot of back and forth with Castillo; the political rhetoric is just something we will have to get used to,” Rivera commented.

Zambian Election a Game Changer According to EMTA Panelists

Speakers on EMTA's Webinar on the Economic Outlook for Zambia concurred that the election of--and smooth transition of power to--President Hichilema has been a game changer. Over 200 EMTA Members viewed the broadcast on Thursday, October 21, 2021. The Webinar was sponsored by Rand Merchant Bank, with additional support from Absa Bank and JPMorgan.Rand Merchant Bank's Neville Mandimika, returning as Webinar moderator, started the session by asking speakers if the recent rally in Zambian bond pricing was justified. In response, Samantha Singh (Absa Bank) reviewed Zambia's



economic woes over the past five years, including weather problems, electricity issues, and rising debt levels. In contrast, the transition of power to President Hichilema, who had campaigned on plans to expedite talks with foreign creditors, engage with the IMF, and fight corruption suggests "a lot of promise" for a country that had previously had such a "scary macroeconomic backdrop." She added that a clearer policy towards the mining sector was also a cause for optimism.

William Blair's Yvette Babb agreed that Zambia had recently suffered both from external shocks and by factors under government control, such as the deterioration of fiscal accounts and the mismanagement of public funds. The good news, she asserted, was that, "the election of Hichilema was clearly a vote against the mismanagement of the economy." In her assessment, the government should focus on adopting "cost-reflective tariffs" in the energy sector, enacting a stable tax regime and "providing more comfort on the investment climate," specifically towards mining companies. Supportive copper prices, a current account surplus, the IMF's special SDR allocation and foreign portfolio inflows all are helping to "paint a much better macroeconomic backdrop," she reasoned.

Amia Capital's Alex Garrard agreed that initial signs from the new administration were positive. He was encouraged by the new president's comments thus far that seem to "indicate a fairer regime for foreign operators in the mining sector."

Singh noted that the imminent unveiling of the new budget would be a test for the new administration, and a credible budget could strengthen investor confidence. The government will have to delicately balance its pandemic response and protecting Zambia's most vulnerable citizens, while also supporting the economic recovery. Singh hoped to see progress in the budget on subsidies and transfers, and ventured that the new budget would offer a preview of the new policy towards the mining sector.

Zambia Webinar (continued)

JPMorgan's Gbolahan Taiwo predicted growth this year could be above 2%, and around 2.8% next year. This factored in progress on SOE, mining sector and electricity reforms. He observed that the vaccination program has started, and the Covid-19 caseload was starting to decline.

Mandimika next moved to "the elephant in the room --the external debt story." He asked if speakers were satisfied with the latest information on Zambia's debt stock. Babb called the most recent accounting "very comprehensive and detailed," and believed in its accuracy. She recognized that there had been confusion in the past over the non-inclusion of loans that have been contracted but not yet dispersed.

Garrard maintained that the "hidden debt furor that had been dramatized in the tabloid press" had been the result of a misunderstanding of when contracted debt enters official debt stock figures, but believed that this is now better understood. Acknowledging fears of a repeat of Mozambique's non-disclosed loans, Garrard insisted that, with the IMF and Lazard working on the numbers for a year, "more information is available now on Zambia than on many other countries."

Further Zambian spread compression was possible, Garrard opined, even after the post-election price adjustment. "The upside is obviously arithmetically reduced, but the downside is now dramatically curtailed," he declared. In contrast to the previous administration, which failed to contact investors after the November 2020 default, the new government has engaged with creditors and a "good rapport" has been established. While other short-term SSA opportunities existed, "in terms of risk-reward, I find few comparable situations to Zambia," citing its "radically transforming economic agenda."

Singh did not anticipate local debt's inclusion in the country's restructuring and maintained a positive outlook on local debt. Babb also saw the risk/reward ratio on local debt as remaining attractive, with a more credible monetary policy under the returning Central Bank governor. While foreign ownership in the local market could be a vulnerability, Babb assigned a low probability to the risk of a mass exodus promoted by an external shock. "This is one of the most attractive carry trades in Sub-Saharan Africa," she affirmed. Taiwo also voiced enthusiasm, commenting that his forecast of double-digit inflation until 2023 meant more monetary policy action would be needed.

Questions remained on Zambia's eventual restructuring. Taiwo believed that a 20% debt haircut was possible under the Common Framework initiative, but the sort of deal that would be reached with Chinese creditors was unknown. In addition, the distinction between concessional and non-concessional Chinese loans would be "an interesting bridge to cross," according to Garrard, and more important than the difference between official and unofficial debt.

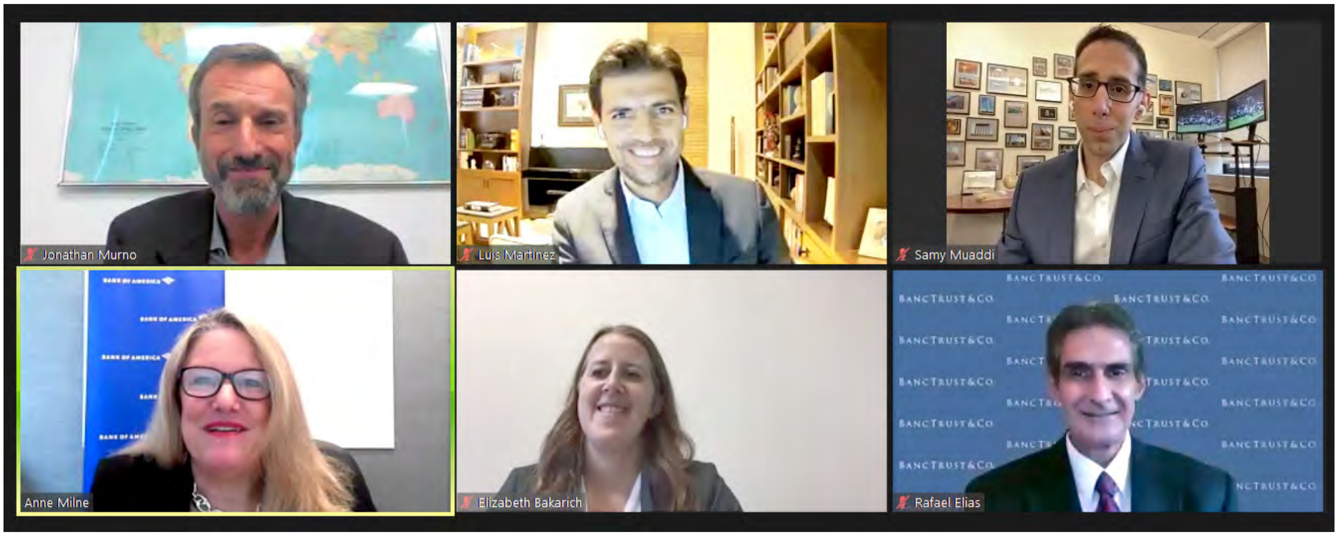
Mandimika concluded the panel by addressing ESG issues. Babb noted that recent governance issues included the prior mismanagement of public funds and the non-negligible risk that the previous president would not step down. As for social issues, the new president had campaigned on a pledge to improve health and education, which will "prove quite a challenge" to balance with fiscal consolidation efforts. Finally, on the environmental front, Babb noted that Zambia remains heavily reliant on its water sources for agriculture and electricity, thus making it vulnerable to climate change.

"It's just as important that we have a redistributive element to the budget [as it addresses fiscal issues]," stressed Garrard. "The government will have to spend heavily on society if it wants to survive beyond one term."

In final comments, panelists concluded that Zambia is on a much better path than it was one year ago. "The stars are lining up for Zambia," summarized Singh, with the delivery of a "credible budget" the next major test. "If the president can fulfill his promises, we could see significant progress," added Taiwo.

Evergrande's Collapse and Pemex's Lifeline Evaluated on EMTA Corporate Bond Webinar

The EM corporate bond market has proven volatile in 2021, with generally positive returns on both the IG and HY side (with Chinese HY being a notable exception), stated chair Anne Milne (BofA Securities) in her introductory comments on EMTA's Webinar on the EM Corporate Bond Market. The event took place on Thursday, September 23, 2021. BofA Securities and MarketAxess sponsored the event, with additional support provided by BancTrust and S&P Global Ratings. The Webinar attracted 200 viewers across the globe.



Milne opened the session by polling her panel for the biggest market surprises and disappointments year-to-date. For AllianceBernstein's Elizabeth Bakarich, the biggest unexpected developments for EM corporate portfolio managers included the election of President Castillo in Peru and the near-collapse of Huarong in China. A disappointment, but not unexpected, was the dismissal of Turkey's respected Central Bank president, and the return to the "old tricks" of Turkish rate cuts in an inflationary environment.

Samy Muaddi (T. Rowe Price) chastised the EM debt industry for what he characterized as the greatest disappointment in 2021 -- "allowing the Evergrande situation to happen. Betting against Chinese policy-makers is usually a good way to lose money." The front-page headlines of the company's collapse "tarnishes the [EM] brand, and diverts focus from the good things about our industry."

The pace of the global recovery was a positive surprise for S&P Global Ratings' Luis Martinez. EM corporate metrics have improved much more quickly than he had expected, with approximately two-thirds already recovered (although leisure and non-essential consumption would take more time to return to pre-pandemic levels). However, Latin America's medium-term growth prospects were not particularly strong, and remained a challenge for political leaders.

Finally, BancTrust's Rafael Elias expressed positive surprise by the lack of defaults in the LatAm corporate space, "and how many companies managed to stay current and weather the storm." More recently, Argentina's PASO elections and the strength of the opposition had proven popular with the markets; "this will serve to prevent government radicalization." On the other hand, the Morena party's control of so many governorships in the Mexican midterms was disappointing. "Mexicans still don't see the damage that AMLO is doing to the country, and it signals that it will be difficult for the opposition to win the 2024 presidential elections," he stated.

Corporate Bond Webinar (continued)

Milne noted that a coupon payment on an Evergrande Eurobond was due the same day as the Webinar, with the Chinese corporate sector "shaken up" by both the Evergrande and Huarong payment difficulties. She asked how investors factored this into their decision-making process. [Editor's Note: the interest payment was not made.]

Muaddi voiced frustration. "The situation was a telegraphed and controlled detonation that you could have seen two years ago," he replied. Offshore investors and A-class equity shareholders would be low on the list of priorities that Beijing would protect in the company's default, he reasoned. "Grandparents who didn't get their apartments, Evergrande's suppliers and onshore banks would get priority…Sometimes we as investors consider ourselves the center of the narrative, but maybe we need to understand better where we stand in context," he asserted. Furthermore, investors should anticipate "perhaps half a dozen additional defaults in the sector."

Bakarich, who expressed her concerns on Evergrande at last year's EM Corporate Webinar, agreed that the company's possible default was well-telegraphed, and Chinese officials have been "gearing up for this." China's stated "Common Prosperity" goals suggests continued weakness in the property sector, although Beijing may loosen its controls to avoid a systemic failure that would also trap stronger property companies, she reasoned.

Milne pointed out that her colleagues had recently reduced their Chinese growth estimates (to 5.3% from 6.2% in 2022, and to 5.8% from 6% in 2023). They would be closely monitoring Evergrande's payments to suppliers, and the potential spillover effect to a larger universe domestically, including to commodity pricing such as industrial metals (though less so for oil).

Mexico's increasing support for Pemex was also a major Webinar theme. "AMLO has been very vocal in his support for Pemex," and the company itself is asserting official support for its short-term debt obligations, Elias reminded viewers. The rebound in oil pricing in 2021 represented a bit of a paradox for the company, as the government taxes the oil company so highly (a discussion of Pemex taxation also occurred during EMTA's September 14, 2021 Webinar on Mexico – see page 23). The bottom line, Elias emphasized, was that, "any way you look at it, Pemex is a bankrupt company, kept afloat by the knowledge that the government will pay bondholders and suppliers." A reduced tax regime could dramatically alter the picture, he argued; "imagine how much they could accomplish if they could use that money for oil exploration."

Martinez pointed out that for decades his firm has maintained the Mexican sovereign and Pemex credit ratings at the same level. Acknowledging that this decision is frequently questioned, especially given the spread differential, Martinez nonetheless described that S&P was "very comfortable" with this view. AMLO's assertion that Pemex's debt IS Hacienda's debt ("while not a binding commitment, a reflection of how the government sees Pemex") and the tangible support it continues to provide only buttress this view, he affirmed. Judged as a standalone, Pemex would fall into the CCC+ category, and, as a contingent liability, it represents an "important risk" to the sovereign's own rating, although Martinez did not see this as an immediate concern. (He later noted that Mexico's BBB rating has had a negative outlook for an extended period and a decision on whether to downgrade the credit or affirm its BBB level would happen "at some point.")

Corporate Bond Webinar (continued)

Speakers affirmed the importance of ESG in the EM Corporate market. The increased adoption of ESG considerations translated into "our clients making us better, advancing us forward," declared Muaddi. Bakarich highlighted ESG's influence on altering trajectories, such as Eskom's attempts to reduce its dependence on coal. Investors' ability to engage with companies that might have poor track records can still make a low-ESG rated corporate investable.

Speakers saw opportunities continuing in EM corporates in 2022. "The alpha stream is still durable and not just in carry; there is ample work for us to do," opined Muaddi, who recommended continued EM corporate sector allocations on a relative basis. Bakarich saw the greatest opportunities in Asia, "if you can withstand the volatility and do the research." Confirmation of the PASO results in the November elections in Argentina could lead to "another wave of optimism and 'real money' inflows," according to Elias. Further progress on vaccination would result in more companies resuming growth, Martinez stated.

Webinar Explores Effects of Slow Vaccination and Fed Tapering in Sub-Saharan Africa

The effects of the slow vaccination rollout and potential Fed tapering were among the topics addressed at EMTA's Webinar on the Economic Outlook for Sub-Saharan Africa (SSA), held on Wednesday, September 22, 2021. Over 200 EMTA Members and guests viewed the program, which was sponsored by ICBC Standard Bank with the additional support of Rand Merchant Bank and S&P Global Ratings.

Jibran Qureishi (Standard Bank), returning as Webinar chair, polled speakers for their views on the amount of damage that would be caused by the limited vaccine rollout across the continent. How would it affect growth, he asked?

Rand Merchant Bank's Neville Mandimika replied that, while one must be concerned about the lack of access to vaccines across Africa, the reported low case rates vis-à-vis other continents must be taken into consideration. Investors should remain on guard for the possibilities of mutations, as well as pandemic-related supply chain constraints that could suppress growth. He noted that several West African nations such as Senegal and Cote d'Ivoire were thus far faring better than others (e.g., South Africa), in terms of economic damage resulting from Covid-19.

Ravi Bhatia (S&P Global Ratings) concurred that the pandemic's economic effects had thus far proven less damaging to Africa than to other regions around the globe. He cautioned that SSA nations rely on rapid growth to keep their fiscal houses in order, and that the low immunization rate was a reason for concern.

T Rowe Price's Roy Adkins feared that, as vaccine supply to SSA increased, vaccine hesitancy would become an issue. "My concern is that the vaccine rollout will be slow, and will go into 2023," he stated, with knock-on effects on debt sustainability. Finally, Aberdeen Standard Investments' Kevin Daly expressed disappointment that immunizations in SSA would fall well below targets, although the financial markets continued to show strong demand for SSA issuers.

On the effects of potential Fed tapering, Adkins argued that, "opportunities will arise from those with stronger balance sheets." HY sovereigns would be vulnerable, and "the market will trade liquidity." Mandimika recommended a defensive stance; "the comparisons to 2013 are thin so it's not clear how the market will react," even if such a Fed move had been "well telegraphed." A litmus test could be provided by market reception to a new Egyptian bond that was expected to launch shortly, in his view.

Sub-Saharan Africa Webinar (continued)

Bhatia speculated that the firmer establishment of the frontier sector could result in a swift return of buyers in any sell-off, as widened spreads beckoned investor attention. However, he warned that, in some cases, increased interest costs could prove unsustainable. “Some will muddle through, and some will crash,” he concluded.

“The Fed has done a much better job in telegraphing [the tapering] so it won’t be a shock like the last time,” said Daly. On the other hand, continued dependence on external bond issuance could be an issue for some countries should market participants become more discerning in what sovereigns they will finance. Daly specified Ghana as an SSA country that might be at risk to a market shut-out, and could be forced to seek alternative sources of funding, such as from the IMF.

“The Ghanaian government has unshakeable—but misplaced—confidence in both their own growth prospects and in the market’s willingness to finance them,” declared Adkins. However, a relatively light external amortization schedule for the next few years meant near-term risks were more concentrated in the rollover of domestic debt. Bhatia discussed Ghana’s “perennial problem of fiscal blowouts,” acknowledging his unease, despite higher oil prices and a controlled wage bill. His firm rates Ghana B- with a stable outlook. Mandimika called for improved communication to the market by Ghanaian officials. An IMF accord would ensure continued market access, he believed.

Qureishi turned to increased investor focus on ESG considerations. Daly lauded Benin’s ESG sovereign issuance, and anticipated ample demand for SSA ESG paper. Even sovereigns on ESG exclusion lists could nonetheless have ESG-dedicated paper carved out as exceptions, he ventured. “The market will develop, but it will be slow,” in his view, while adding that, “there has been some noise about a green issue coming out of Nigeria, but it hasn’t happened so far.”

“ESG isn’t a fad; it is a structural change to the market,” affirmed Adkins. There were “growing pains” and ESG scores would need to be “normalized” to reflect income level differences. The direction of travel was an important consideration in SSA issuances, he stressed.

Investor interest in ESG is moving to center stage, agreed Bhatia, which adds pressure to countries with large hydrocarbon and oil industries. Mandimika suggested that SSA’s need for job creation may take the front seat at some Ministries until it is clearer that ESG promotes growth and employment, and that, “ESG might not be high on the priority list for oil producers.”

Panelists shared an optimistic view on Zambia following the smooth transition of power. “This is a game changer; President Hichilema seems to have a vision…and we are all hopeful for change,” Daly maintained. Hichilema’s interest in addressing mining industry taxation and restructuring outstanding debt could bring in new foreign investment, and there were growing expectations that investors would be part of a dialogue with the new government, rather than “being rebuffed” as in the past.

Mandimika foresaw possible additional spread compression on Zambian local paper with IMF progress, despite lower liquidity and the lack of clarity on the treatment of obligations owed to China. S&P’s SD rating on Zambian foreign-currency debt remains in force, Bhatia reminded viewers, while he echoed hope for progress under the new government.

Sub-Saharan Africa Webinar (continued)

As for Nigeria, panelists saw the IMF SDR allocation and the Eurobond issuance that also appeared imminent on the date of Webinar as buying time for increasing the country's refining capacity. Once the country was able to wean imports of refined fuel, then progress can be made on cutting fuel subsidies and liberalizing the FX market.

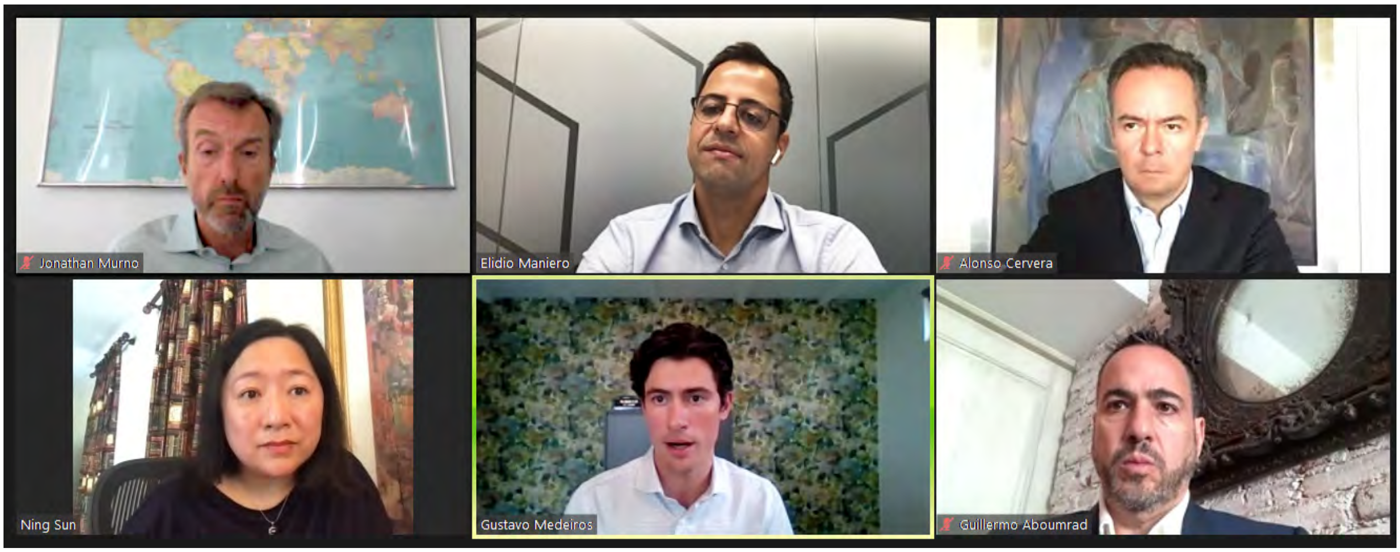
On Kenya, Adkins remained concerned by fiscal consolidation, commenting that the IMF's plan was "not particularly ambitious" in that respect. Kenya's upcoming election remained a concern for Bhatia, following past election-related violence, and S&P had recently cut its foreign-currency rating to the B level. "But the IMF program helps," he added.

Pushed by fellow speakers, Nairobi-based Qureishi offered his own assessment. He predicted IMF leniency on targets, and cautioned investors not to expect fiscal consolidation in an election year. Positive factors included robust remittances despite the pandemic, and resilient growth despite election concerns.

EMTA Webinar: Mexican Growth Buoyed by U.S. Stimulus – For Now

Monetary and fiscal policy, growth prospects and political outlook were the main topics on EMTA's latest Webinar on Mexico, held on Tuesday, September 14, 2021. Over 200 EMTA Members viewed the discussion, which was sponsored by BNP Paribas, with additional support provided by Credit Suisse and Santander.

In his opening remarks, moderator Elidio Maniero (BNP Paribas) observed that Mexico's service sector is rebounding in tandem with the economic reopening, although supply bottlenecks and fiscal austerity may continue to constrain GDP. He then invited panelists for their views on growth prospects.



Guillermo Aboumrad (Santander) offered his forecasts of 6.2% growth in 2021, and 3% expansion in 2022, which he acknowledged were within Street consensus. Aboumrad pointed out that Mexican growth prospects lagged stronger forecasts for those LatAm countries which had adopted fiscal stimulus during the pandemic, notably Peru, Brazil, Colombia and Chile. He maintained that Mexico's economy was expanding not because of domestic fiscal support, but largely because of the stimulus package adopted by its northern neighbor; and that, once US support fades, Mexico would likely return to its pre-pandemic growth rate that had averaged 2.4% between 2013-2018. Aboumrad expressed concern that, had it not been for the US, credit ratings agencies would have already started to question Mexico's medium-term fiscal sustainability.

Credit Suisse's Alonso Cervera described the "scars" resulting from the lack of fiscal support, and feared many sectors would struggle to return to pre-pandemic norms. He expressed disappointment that Mexican growth has always been "on the low side" and could worsen over the medium term as "the economy limps going forward." However, there should also be resiliency as the vaccination campaign continues and total immunity increases, he stated.

Turning to the newly-released budget, Cervera reminded viewers that President AMLO has demonstrated a clear commitment to fiscal austerity since taking office, and investors should expect status quo in fiscal policy over the final three years of his term. The new budget confirms that neither revenues nor expenditures are expected to increase as a percentage of GDP over the next five years. "This is a very inertial budget, with no major changes in taxes or spending," he commented. Cervera praised the government's plans to slowly begin taxation of the informal sector in 2022. "It's not the fancy IMF-type taxation recipe, but it's a move to gradually include the informal sector, and that's very welcome."

Mexico (continued)

AIG's Ning Sun voiced a longer-term concern over a widening gap between Mexico's tax revenue and rising spending needs. However, for the near term, she agreed that the status quo was likely to be maintained on fiscal policy. Sun believed Mexico's credit rating was secure for now, as fiscal austerity kept Mexico's debt/GDP ratio lower than many similarly rated credits.

Gustavo Medeiros (Ashmore Group) deemed growth expectations in the 2022 budget to be on the optimistic side. "Oil production numbers are always inflated; what is interesting is that oil price expectations in the budget are conservative, so that leaves some upside potential."

Maniero referred to consistent government declarations of support for Pemex, in addition to its reduced tax rate in the 2022 budget. How could Pemex's issues be solved without harming the sovereign's own rating? Medeiros attributed Pemex's troubles to a long history of over taxation, in contrast to the lower tax rates paid by its counterparts in Argentina, Brazil and Colombia. This "too high for too long" tax burden has hindered capital expenditures and resulted in decreased operational capabilities. Furthermore, deep-water auctions that had been initiated by the Pena Nieto administration were frozen by President AMLO, forcing Pemex to retreat to traditional oil fields, and sluggish operations. Medeiros concluded that Pemex would remain an ongoing problem for the sovereign, but that drama would be averted.

Even if a future administration re-opens deep-water exploration, Medeiros reasoned it would need to address increased investor focus on ESG, and not just focus on fossil fuel production. Sun warned that Pemex's "doing nothing" to address ESG concerns—in contrast with actions taken by Petrobras and Ecopetrol--would eventually result in difficulties accessing capital. Thus, she urged corporate officials to develop an ESG strategy.

Aboumrad asserted that, in principle, it "made sense to pay to reduce Pemex's expensive debt with a cheaper source like the IMF SDR allocation," before reviewing the legal hurdles of both Banxico rules and the Constitution to such a move. He believed that AMLO would not overcome the regulations under the current Central Bank governor, but could attempt to do so under its new incoming governor next year. While this may be good for Pemex, it could prompt questions about Banxico's autonomy.

Turning to inflation and monetary policy, Cervera expected a single remaining rate hike in September 2021. "I know I get push back from clients when I say this, but I don't think we have an inflation problem in Mexico," he stated, referring to consensus inflation expectations of 3.6-3.7% in 2022. He added that incoming Banxico Governor Herrera's Twitter comments suggest the new Board will have a more dovish approach. Aboumrad expected two more hikes in 2021, then a period of stable rates until the Fed begins its own tightening cycle.

Medeiros argued that the Mexican peso had benefitted from strong remittances following the US fiscal stimulus, and had outperformed other EM currencies. This was unlikely to continue if US growth slows and US fiscal consolidation occurs in 2022. Sun acknowledged her firm expects to maintain its overweight position on Mexican debt. "It's a highly predictable administration, and as investors we like that," she affirmed.

Cervera and Sun agreed that Mexico's midterm elections had increased checks and balances in the current administration, with AMLO's plans on Constitutional reforms less likely to be approved. Aboumrad ventured that there was still a 60-65% chance that Morena would win the 2024 presidential election, despite the loss of its Congressional supermajority in the midterms. AMLO will need to be more friendly to the private sector if he wants to retain support in the middle class, he reasoned, while the opposition will need to present an alternative vision.

BRL (continued)

This brings the Valuation Postponement period for these four currencies in line with the rest of the templates EMTA currently supports. Accordingly, from and after December 3, it is recommended that market participants use the updated forms which may be found on the EMTA website in its Standard Documentation area.

As an important part of the above exercise, and in line with standard EMTA practices for introducing updates to its the Template Terms, legacy contracts were addressed through an amendment process administered by EMTA. This amendment process (like others previously administered by EMTA) provided that EMTA Members could, if they chose, sign a Multilateral Amendment which provided for the simultaneous amendment of covered legacy contracts as of the scheduled Effective Date between all signers. The Effective Date of the newly updated Templates and the Effective Date of the Multilateral Amendment were both scheduled for December 3, 2021, in order to reduce basis in the market and minimize both operational and desk complexities. By the end of the subscription period, 40 EMTA Member firms, some with multiple trading entities and/or affiliates, had signed the Multilateral Amendment Agreement. Other EMTA Members --- and other market participants --- proceeded by bilateral amendment of their legacy contracts.

Readers wishing a more in-depth description of the project are invited to read the extensive summary included in EMTA's 2021 Third Quarter Bulletin (CLICK HERE).

CLICK HERE to see the new Templates.

FX and Currency Derivatives

Additions Made to Cross Currency NDF and NDO Forms

At the suggestion of the EMTA APAC Lawyers Group, EMTA published an additional six sets of Cross Currency Template Terms for specific Asian currency pairs, which are published on the EMTA website. These currency pairs are KRW/EUR and TWD/EUR NDF forms as well as INR/EUR, KRW/EUR, KRW/GBP and KRW/JPY NDO forms.

New EMTA Market Practices were not required in connection with these sets of Templates as the terms for all Cross Currency Templates were previously expressed in, and are fully in conformity with, EMTA Market Practices Nos. 56-63 as described in the *User's Guide to Documenting Non-Deliverable Cross Currency FX and Currency Option Transactions dated May 31, 2011 (updated as of January 22, 2018)* (together with any currency-specific market practices that might have been issued subsequent to May 2011).

CLICK HERE to see these Templates.

VND and PKR NDFs -- Member Input Needed

Recent EMTA Member inquiries have been received about reinstating the VND/USD and PKR/USD Template Terms for NDFs and NDOs. EMTA and the SFEMC as joint sponsors had withdrawn the recommendation on standard terms for these two currencies in conjunction with a larger exercise involving several of the Asian currencies' NDF standards in 2014. Consequently, these Templates were removed from the list of current recommended currency pair terms.

In response to what appears to be increasing liquidity in these two markets, Member input is now requested on the need to reinstate recommended standard terms for these currencies. A similar inquiry with its membership has been initiated by the SFEMC. EMTA Members may contact EMTA or the SFEMC with any input.

Sponsorship Change for Asian Currency Template Terms for NDFs

The Asian Currency NDF Templates (INR, IDR, KRW, MYR, PHP and TWD) for NDFs recently have been updated to reflect the withdrawal by the Foreign Exchange Committee (FXC) as a sponsor of those Template. As a consequence, EMTA and the Singapore Foreign Exchange Market Committee are now the only two sponsors of this documentation. Importantly, there are no changes to the terms of the Templates, substantive or otherwise. This change is only in the sponsorship of the documentation. As a result, no action is required by market participants with respect to their use of the Templates either as a forward-looking or legacy contract matter.

NDF-Hedged Non-Deliverable Cross Currency Swaps and Risk-Free Rates

A small EMTA working group formed in the early fall at the instigation of several EMTA Member firms to bring some industry focus to identify possible new market practices for Latam American currency cross currency swaps given the need to move away from use of LIBOR rates and also which would be compatible with the incorporation of risk free rates. EMTA reached out to ISDA to coordinate this effort as it has several times in the past on areas where a joint approach would best serve the interests of their respective memberships. A draft proposal has been prepared and is being circulated by both ISDA and EMTA for input as well as consideration of whether the proposed practice might also be suitable for markets other than Latin America.

EMTA Members with questions on this project are invited to contact Leslie Payton Jacobs for a copy of the proposal.

Members Conducting a High-Level Review of the EMTA Template Terms

In the late spring, a group of EMTA Members began discussions on the current structure of the EMTA Template Terms to explore whether there are ways in which these forms of contracts can be strengthened to mitigate the risks attendant to an industry-wide Calculation Agent Determination scenario. These risks, which were an unforeseen consequence of the regulatory responses following the LIBOR scandal (by leading to the removal of the fallback survey mechanisms in the Template), were illustrated by the disruption to FX contracts in the Ukraine market in 2014 and again in Argentina in 2019 following the trigger of the Exchange Rate Divergence provision. Several other industry groups and industry participants (including the FMLG, the FXC and the GFMA) have also undertaken discussions involving the disruption fallback waterfall currently reflected in the EMTA Template Terms and ways to mitigate basis risk between clearing houses in a scenario where Calculation Agent Determinations are required.

Resources

As a reminder, EMTA's website offers its Members many FX-relevant resources:

Draft Documentation for current EMTA FX projects can be found HERE.
EMTA FX Market Practices can be found HERE.
Current Recommended Template Terms can be found HERE.
User's Guides and Guidance Notes can be found HERE.
New Developments in the FX and Currency Derivatives area can be found HERE.
Multilateral Amendments and Documentation Protocols can be found HERE.

Comments?

Please direct comments and questions on all FX and Currency Derivatives matters to Leslie Payton Jacobs (lpjacobs@emta.org).

Suriname Awaits IMF Program

As previously reported, on June 14, the Creditor Committee announced that a requisite majority of holders have exercised the Termination Trigger on the basis that Suriname has "failed to negotiate in good faith the terms of the debt restructuring," and because the Committee was concerned that the IMF Staff Level Agreement with the Suriname authorities on April 29 was finalized by Suriname without due input from its bondholders. The exercise of the Termination Trigger results in the legal consequences set out in the terms of the Eurobonds, including to reinstate certain payment and other obligations deferred under the Consent Solicitation launched by Suriname in March 2021.

On June 21, Suriname concluded that the Termination Trigger on the Notes had not been exercised.

On October 22, Suriname issued a Press Release, claiming that it was still waiting for its program to be considered by the IMF executive board. Click Here for the Press Release.

Earlier this year, Suriname was on a better course, announcing that it has extended the expiration date of its previously announced solicitation of consents, seeking to amend its 2023 and 2026 Notes. The Suriname Creditor Committee expressed its support for the Third Consent Solicitation, and Suriname announced the successful results of its Consent Solicitations. All now await the IMF decision as the Suriname saga continues.

EMTA Monitoring Other Emerging Market Debtor Developments

Many Emerging Market countries are currently facing extraordinary pressures, whether as a result of COVID-19, or whether the virus' economic and other impact has hastened an already weak underpinning in various countries. Notwithstanding these reasons, a number of Emerging Market nations are struggling to make payments in a timely manner at this time and may be seeking debt relief from the private and public sectors.

EMTA will continue to post relevant information in the New Developments area its website as events unfold, and will continue to monitor this restructuring landscape.

EMTA Tracking OFAC Sanctions for EM Countries

OFAC-related materials are available in the country-specific Markets areas of EMTA's website referenced below. EMTA Members are encouraged to visit these frequently as EMTA tracks events in those countries.

Burundi	https://www.emta.org/markets/markets-a-g/burundi/
Cambodia	https://www.emta.org/markets/markets-a-g/cambodia/
Ethiopia	https://www.emta.org/markets/markets-a-g/ethiopia/
Iran	https://www.emta.org/markets/markets-h-o/iran/
Lebanon	https://www.emta.org/markets/markets-h-o/lebanon/
Libyia	https://www.emta.org/markets/markets-h-o/libya/
Nicaragua	https://www.emta.org/markets/markets-h-o/nicaragua/
Russia	https://www.emta.org/markets/markets-p-z/russia/
Somalia	https://www.emta.org/markets/markets-p-z/somalia/
Syria	https://www.emta.org/markets/markets-p-z/syria/
Venezuela	https://www.emta.org/markets/markets-p-z/venezuela/
Yemen	https://www.emta.org/markets/markets-p-z/yemen/

Resources

As a reminder, EMTA's website offers its Members many Fixed Income relevant resources:

New Developments can be found HERE.
Market Practices can be found HERE.
Documentation can be found HERE.
Caselaw can be found HERE.

Comments?

Please direct comments and questions on all Fixed Income matters to Aviva Werner at awerner@emta.org.

EMTA Survey: Emerging Markets CDS Trades At US$349 Billion In Third Quarter

Volumes Down 11% vs. 3Q 2020

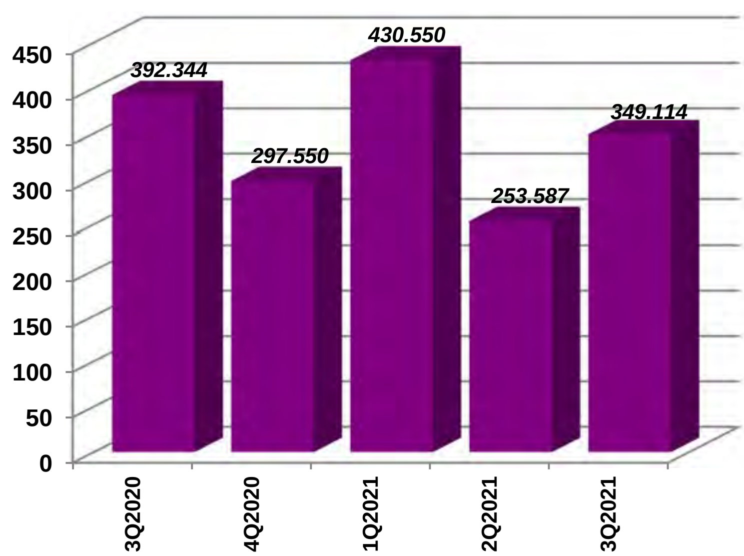
Emerging Markets CDS trading stood at US$349 billion in the third quarter of 2021, according to a Survey of 12 major dealers released on November 24, 2021 by EMTA. This represented an 11% decline compared to the US$392 billion reported in the third quarter of 2020.

The largest CDS volumes in the Survey during the first quarter were those on China, at US$40 billion. EMTA Survey participants also reported US$35 billion in Indonesian CDS and US$26 billion in both Mexican and South African CDS contracts.

The EMTA Survey also included volumes on nine corporate CDS contracts, with the highest reported quarterly volume on Petrobras (at US$971 million).

For a copy of EMTA's Third Quarter 2021 CDS Trading Volume Survey, please contact jmurno@emta.org.

Figures in Billions of US Dollars



EMTA Survey: Second Quarter Emerging Markets Debt Trading At US$1.354 Trillion

Volume Down 3% vs Second Quarter 2020

Emerging Markets debt trading volumes stood at US$1.354 trillion in the second quarter of 2021, according to a report released today by EMTA on September 29, 2021. This represents a 3% increase on the US$1.311 trillion reported in the second quarter of 2020.

Local Markets Instruments at 60% of Volume

Turnover in local markets instruments stood at US$813 billion in the second quarter of 2021, accounting for 60% of total reported volume. This compares to US$768 billion in the second quarter of 2020 (a 6% increase) and US$787 billion in the first quarter (a 3% increase).

Mexican instruments were the most frequently traded local markets debt in the second quarter of 2021, at US$148 billion. Other frequently-traded local instruments were those from Brazil (US$130 billion), China (US$92 billion), South Africa (US$55 billion) and India (US$50 billion).

Eurobond Volumes at US$536 Billion

Eurobond trading stood at US$536 billion in the second quarter of 2021. This equals volume in the second quarter of 2020 and compares to US$585 billion in the first quarter, representing an 8% decrease.

63% of Eurobond activity involved sovereign debt issues in the second quarter of 2021, with Survey participants reporting US$337 billion in sovereign Eurobond turnover. This compared to a 62% share of Eurobond activity in the previous quarter, when such volumes stood at US$364 billion.

Corporate Eurobond trading stood at US$195 billion in the second quarter of 2021, accounting for 36% of total Eurobond activity (vs. a 37% share in the previous quarter). Sovereign Eurobond activity accounted for 25% of overall Survey volumes, with corporate trading at 14% of total turnover.

The most frequently traded Eurobonds in the second quarter of 2021 were, according to Survey participants, Argentina's 2030, 2038 and 2035 bonds (respectively US$11 billion, US$9 billion and US$6 billion in volume), followed by Brazil's 2030 bond (US$4 billion in turnover) and Argentina's 2041 bond (US$3.5 billion in trading). Petrobras's 2051 bond (at US$2 billion) was the most frequently-traded EM corporate bond, according to participants.

In addition to local markets bonds, and sovereign and corporate Eurobonds, the Survey also includes turnover in warrants, options and loans. Survey participants reported US$106 million in warrant and option trades during the quarter and US$4.5 billion in loan assignments.

Debt Survey (continued)

Mexican, Brazilian and Chinese Instruments Most Frequently Traded Overall

A Mexican instruments were the most frequently traded instruments overall, according to Survey participants, with US$194 billion in turnover, and compared to US$229 billion reported in the second quarter of 2020 (down 15%). Mexican volumes represented 14% of overall volumes.

Brazilian instruments were the second most frequently traded instruments in the EMTA report, at US$169 billion, according to Survey participants. This represents an 41% increase on the US$120 billion reported in the second quarter of 2020. Brazilian volumes accounted for 12% of total reported volumes.

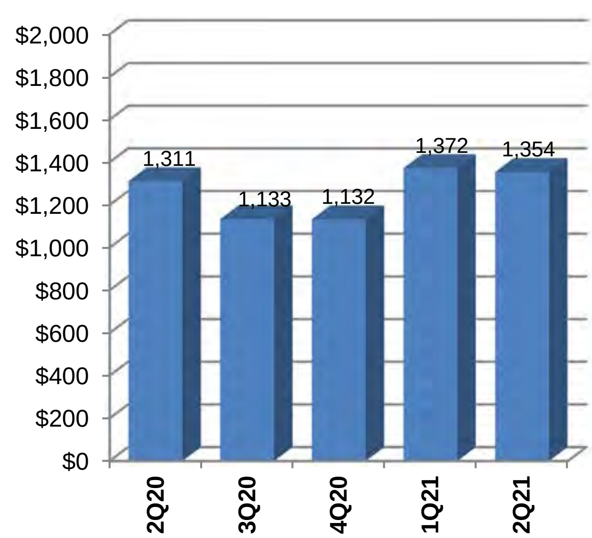
Third were Chinese assets, whose volume stood at US$141 billion. This compares to US$93 billion in the second quarter of 2020 (up 51%) and US$151 billion in the first quarter (down 6%). Chinese instrument trading accounted for 10% of Survey volume.

Other frequently traded instruments were securities from South Africa (US$64 billion) and India (US$59 billion).

EMTA's Survey includes trading volumes in debt instruments from over 90 Emerging Market countries, as reported by 36 leading investment and commercial banks, asset management firms and hedge funds.

For a copy of EMTA's Second Quarter 2021 Debt Trading Volume Survey, please contact Jonathan Murno at jmurno@emta.org.

Figures in Billions of US Dollars



EMTA is on LinkedIn!

EMTA is happy to announce that we are now on LinkedIn.

Follow us on LinkedIn as an additional way to keep up-to-date on EMTA projects and upcoming events. We invite all EMTA Members to connect with us at: https://www.linkedin.com/company/emta-inc.

As always, we thank you for your support.

Stay in Touch to Stay Current!

If you have recently changed emails or moved offices, please update your information by visiting https://netforumpro.com/eWeb/DynamicPage.aspx?Site=EMTA.

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 its 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 market feedback on the effectiveness of its 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.

EMTA Members:
To obtain a password for the Members Only area, please
Click Here

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).

Emerging Markets Caselaw (court decisions and related litigation materials (including amicus briefs)).

Employment (industry positions currently available for Members of the Emerging Markets industry).

EMTA Jobs Page

EMTA is providing information on current industry positions of possible interest to members of the EM trading and investment community. Both "Jobs Offered" and "Positions Wanted" information are available to EMTA Members and other market participants.

This information can be found on EMTA's website at www.emta.org (see "Employment" on EMTA's home page).

We encourage you to pass along this information to former colleagues seeking employment in the EM debt industry, and, if your institution is looking for an EM professional, please consider posting available job positions with us.

To post a summary resume, please contact Suzette Ortiz of EMTA at +1 (646) 676-4294 or at: sortiz@emta.org.

EMTA Hotlines

Topic	Contact	Telephone
Bond/Loan Trading	Aviva Werner	(646) 676-4292
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Corporate Bonds	Jonathan Murno/Leslie Payton Jacobs/ Aviva Werner	(646) 676-4293/(646) 676-4290 ext. 6/ (646) 676-4292
Credit Derivatives	Leslie Payton Jacobs/Aviva Werner	(646) 676-4290 ext. 6/(646) 676-4292
EM Litigation/Arbitration	Aviva Werner	(646) 676-4292
EMTA Events	Jonathan Murno	(646) 676-4293
EMTA Governance/Board/Policy	Michael Chamberlin	(646) 676-4290
EMTA Membership	Jonathan Murno/Suzette Ortiz	(646) 676-4293/4294
FX Derivatives	Leslie Payton Jacobs	(646) 676-4290 ext. 6
International Financial Architecture	Aviva Werner	(646) 676-4292
Investor Rights	Aviva Werner	(646) 676-4292
Legal/Compliance	Aviva Werner	(646) 676-4292
Library and Archive Requests	Evelyn Ramirez	(646) 676-4290
Local Markets	Leslie Payton Jacobs/Aviva Werner	(646) 676-4290 ext. 6/(646) 676-4292
OFAC Sanctions	Aviva Werner	(646) 676-4292
Volume Surveys	Jonathan Murno	(646) 676-4293
Warrants/VRR's	Aviva Werner	(646) 676-4292
Website	Leo Hsu	(646) 676-4290

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).

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Aviva Werner	awerner@emta.org

EMTA Calendar

Wed., Nov. 10	**EMTA Webinar on China (Asia time)** **Sponsored by ING Bank**
Thurs., Nov. 11	Recommended Market Close (NYC/London) Veterans Day
Tues., Nov. 16	**EMTA Webinar: Economic Outlook for South Africa** **Sponsored by Standard Bank**
Thurs., Nov. 18	**EMTA Webinar on South East Asia (Asia time)** **Sponsored by ING Bank**
Wed., Nov. 24	Recommended 2:00 p.m. (NYC) Early Market Close
Thurs., Nov. 25	Recommended Market Close (NYC/London) Thanksgiving Day
Fri., Nov. 26	Recommended 2:00 p.m. (NYC) Early Market Close
Wed., Dec. 1	**EMTA Webinar: 2021 EMTA Annual Meeting Part I: Buy Side Panel** **Sponsored by Citi**
Thurs., Dec. 2	**EMTA Webinar: 2021 EMTA Annual Meeting Part II: Sell Side Panel** **Sponsored by Citi**
Thurs., Dec. 23	Recommended 2:00 p.m. (NYC) Early Market Close
Fri., Dec. 24 (observed)	Recommended Market Close (NYC) Christmas Day
Mon., Dec. 27 (observed)	Recommended Market Close (London) Christmas Day
Tues., Dec. 28 (observed)	Recommended Market Close (London) Boxing Day
Fri., Dec. 31	Recommended 2:00 p.m. (NYC) Early Market Close
Mon., Jan. 3, 2022 (observed)	Recommended Market Close (London) New Year’s Day (2022)