



Emerging Markets: 'Shaken but still standing'...

'Decoupling – the notion that movements in emerging markets correlate minimally, if at all, with those in mature markets' has often been a topic of debate over the past year. At the onset of the financial meltdown, even for a brief moment, it seemed that many of the emerging markets, especially in Asia and Latin America, might emerge unscathed. As the events of the subsequent global recession unfolded, the sobering reality was that the contagion of the economic crisis in the advanced economies had spread to the economies of emerging markets throughout Africa and Asia. With just two weeks until 2009 comes to an end and approximately two and a half years since the beginning of 'Global Financial Crisis', deemed by leading economists as the worst financial crisis since the one related to the Great Depression of the 1930s, it appears that the recession in many emerging economies may have been shallower than predicted.'

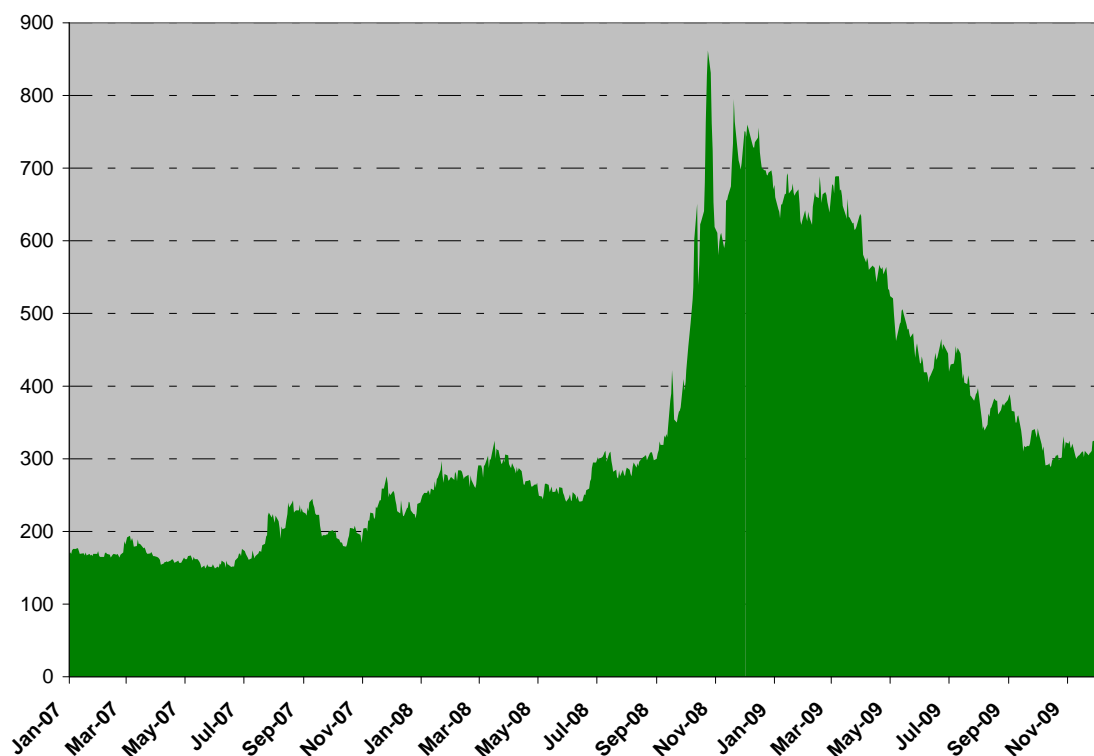
Without a significant improvement in the job markets in developed economies thus far, a more sustainable reversal in the global economy cannot be achieved. However, we are now witnessing an expanding global economy coupled with improved financial conditions. Indeed, according to the International Monetary Fund (IMF), 'emerging and developing economies are generally further ahead on the road to recovery, led by a resurgence in Asia as the recent rebound in commodity prices and supportive policies are helping many of these economies.' The emerging economies are expected to expand almost 5% in 2010, up from a modest 1.75% in 2009 'driven mainly by China, India and a number of other emerging Asian economies.'

By the second half of the year, it was clear that the focus of key policy-makers was still on boosting economic growth in the midst of a fragile global environment. Indeed, with a favourable inflation outlook, central banks throughout the emerging markets left key policy rates unchanged as they assessed the impact of the aggressive wave of interest rate cuts for the year so far with the exception of Colombia and Turkey. Whilst we expect policy interest rates to remain steady into the first of quarter of 2010, we anticipate more restrictive monetary policies in mid-2010 as optimism with respect to growth in the global economy boosts demand and international commodity prices trend upwards.

The gradual improvement in the perceived riskiness of the emerging markets can be traced since the beginning of the year as evidenced by emerging markets' spreads, measured by the JP Morgan Emerging Markets Bond Index Plus EMBI+ Index (refer to Figure 1). The EMBI+ is a liquid US-dollar emerging markets debt benchmark that tracks total returns for actively traded external debt instruments in emerging markets and which gives an indication of the riskiness of emerging market debt. The Index has persistently trended downwards over the past year reaching its lowest at 291 basis points (bps) on 9 October, breaking the 300 bps mark and reaching levels not seen since October 2008. For the year, the EMBI+

Index has declined a significant 371 bps from its peak to 306 bps at the time of writing. Over the past year, we witnessed drastic broad-based positive performances in emerging markets' bonds as a result of the growing optimism that the global economy is on its way to recovery coupled with the gradual up-tick in international commodity prices. Indeed, the price of oil averaged US\$78.15 for the month of November compared to US\$41.92 in January 2009. Whilst we are of the view that this downward trend in emerging markets' spreads will continue going forward, we expect that these will continue to remain volatile and move in synch with market sentiment and economic data.

Figure 1: EMBI+ Spread 2007-2009



Source: CMMB Research Center, Bloomberg

Closer to home, 'Latin American and Caribbean countries are recovering from the global crisis, but at different rates, and growth is expected to return to the region as a whole in 2010' - according to the International Monetary Fund. The region is expecting negative growth of 2.50% in 2009 largely due to contractions seen in the beginning of the year whilst a modest expansion of 3% is anticipated in 2010. Naturally, the pace of recovery will vary among the economies depending on their vulnerability to the international market coupled with the policy frameworks in place. Of key importance going forward, is the recent run-up in international commodity prices which will bode well for the exporting countries of Brazil, Colombia and Mexico whilst on the flipside negatively impact the energy-importing economies of the Caribbean.

As Nicolas Eyzaguirre of the IMF puts it, 'the question, now that the worst of the storm is behind us, is how to adjust policies to the new reality of a more sluggish global economy and still provide conditions for growth and poverty alleviation.' No doubt, the effects of the global economic crisis will have implications for the region in the years to come in terms of lower growth and the key 'challenges will include replenishing fiscal buffers, prioritizing public expenditures, and promoting faster trend growth and poverty reduction in a tougher economic climate', all in the context of slowing

government coffers. Even in light of this fact, 'the performance of Latin America and the Caribbean countries was better in this crisis than previous ones, according to the IMF, due to efforts made over the past decade to strengthen their economies.'

The dynamic duo of China and India are emerging faster and stronger from the global crisis than any other region, as they are 'leading the world out of recession.' Meantime 'Global growth is projected to reach about 3% in 2010, following a contraction in activity of about 1% in 2009.' Whilst most agree that the global economy is on route to recovery, some are of the opinion that some indicators point to a temporary rebound raising the question of how far will it go? Certainly, it is too soon to tell the direction of the global economy however, according to forecasts, 'the current rebound will be sluggish, credit-constrained, and, for quite some time, jobless.'

FINANCIAL & ECONOMIC INDICATORS

As at 10 December, 2009

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	88.20	88.26
Euro	1.47	1.51
Jamaica	89.08	89.54
Guyana	204.20	204.90

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	70.54	76.46
Natural Gas (US\$/mmbtu)	5.02	4.55
Gold (US\$/Troy Ounce)	1,131.00	1,207.60

Eurobond Indices (As at 10-12-09)

Lehman Brothers Global Aggregate Index (Return % YTD)	9.47
JP Morgan EMBI+ (Basis points)	303
JP Morgan Central America and Caribbean Index (CACI) (YTD return %)	34.46

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
United States	0.14	0.12
Euro Zone	1.00	1.00
Japan	0.09	0.10
Brazil	8.75	8.75
Trinidad	5.75	5.75
Jamaica	12.50	12.50
Barbados	2.50	2.50

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	0.03	0.04
US 10-Yr Treasury	3.56	3.39
3-month UK Libor	0.61	0.61
Japan 90-day T-Bill	0.28	0.28
Brazil 90-day T-Bill	8.65	8.68
TT 90-day T-Bill	1.43	1.44
Jamaica 90-day T-Bill	15.99	15.99
Barbados 90-day T-Bill	3.55	3.48

Sources: Bloomberg, J.P. Morgan, CMMB, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, www.lehman.com

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