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Vangie Bhagoo, Senior Analyst (Research) vangie.bhagoo@mycmmb.com

Emerging Markets Flourish

The backlash of the financial and subsequent economic crisis was felt in every corner of the globe, with many countries plunged into the abysmal state of economic depression. Millions of people lost their jobs and consumer wealth was severely eroded. The impact was felt across the board, but the advanced countries bore the brunt of it. Even though 'decoupling' is inevitable by the very nature of globalization, it seems as though the extent to which it holds has diminished. Indeed, emerging and developing countries have shown tremendous resilience to the extent that through the worst of the global slump, it was these countries which buttressed the global economy. Many emerging markets have been able to accumulate wealth by taking advantage of the favorable economic conditions of the pre-crisis era when commodity prices hit record highs and global credit and financial markets thrived. These conditions provided the ideal backdrop for emerging countries to flourish.

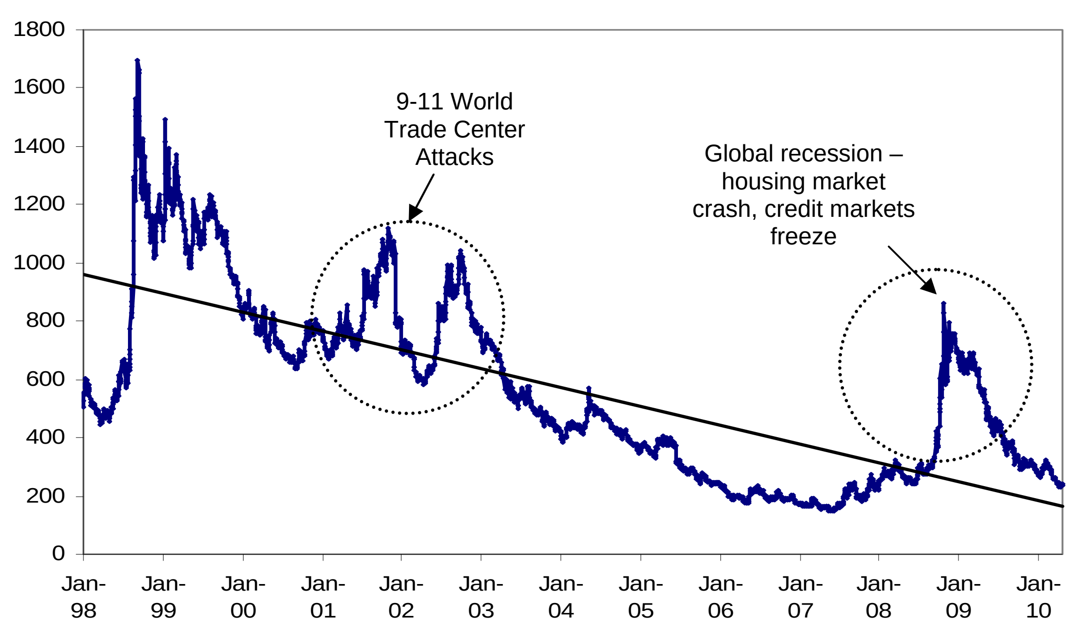
The year 2009 proved to be a challenge to say the least, but it was clear that without the support of the emerging markets, the international economy would have been deeper in the red. Growth of 1.7% in the emerging and developing countries for the year stymied further declines in global GDP, which recorded a 1.1% contraction. Dragging on global economic activity was the weak performance of the advanced economies, which collectively shrank 3.4% for the same period. Over the year, public sector intervention has supported demand and helped to temper systemic risks. Arguably, it was the synchronized efforts of governments worldwide which assisted the international economy to pull back from the economic precipice.

Since the latter half of 2009, there have been signals that the worst of the global collapse may be over and the international economy may be staging what can cautiously be considered a nascent recovery. Even amid uncertainties regarding the sustainability of the recovery, the emerging and developing countries are trekking further ahead on the road to recuperation, which is largely being led by the Asian giants. Higher commodity prices as well as strong policy responses to the crisis of the preceding year would have helped these emerging markets to come out on top. According to the International Monetary Fund (IMF), advanced economies are forecasted to expand at a marginal 1.3% in 2010, while the emerging markets are forecasted to rise at a significant rate of 5.1%, compared to 1.7% growth in 2009. Additionally, the IMF notes that the rebound is driven by China, India and a number of other emerging Asian economies. Furthermore, policy stimulus and improvements in global trade and financial conditions are supporting other emerging markets' recovery.

It is evident that more than likely, emerging market countries will be the first to reverse the expansionary policies adopted in 2008 – 2009, as higher commodity prices and buoyant internal demand drives price pressures and the need to rein inflationary expectations. Added to this mix, is the lagged impact of these highly expansionary fiscal and monetary policies on aggregate demand, which will at some point create an imbalance in the economy and has the potential to fuel inflation further. Many emerging markets, particularly in the Latin American region operate within a rigid inflation targeting regime, so that if inflation creeps outside their desired range, the possibility of rate hikes are quite high.

The financial markets have recognized the strength and resilience of emerging markets throughout the years and these countries' asset prices have reflected this confidence. With many of these countries able to progress to the level of 'investment grade' status, the risk associated with emerging markets has fallen considerably over the years. The EMBI+ Index, which gives an indication of riskiness of emerging market debt, tightened markedly over the past decade or so. Figure 1 shows the EMBI index since 1998, and while extremely volatile, the trend (black line in figure 1) is clear. Over the years, investors have become more comfortable with this asset class, and the major reason is the economic strength and prosperity which these countries have achieved over the years. In 2001, around the time of the last economic recession, spreads on emerging market assets rose by about 200 basis points but consistently trended downwards, tightening by about 450 basis points, reaching a low of 150 basis points in June/ July 2007. Many believed that these lows were unsustainable and a correction was imminent. No sooner said than done, in August 2007, the housing market bubble burst, plunging the global economy into disarray and leading investors to shed risky emerging market securities. This was just the beginning of the crisis. Spreads widened to around 850 basis points during the final quarter of 2008, before tightening by about 600 basis points to its current level of just above 230 basis points. The extent of the narrowing in spreads during the 2008-2009 period indicates just how resilient emerging markets are now, compared to about 10 years ago.

FIGURE 1: EMBI+ Index: Emerging Markets' Perceived Riskiness (Basis points)



Source: Bloomberg, CMMB Research Center

Despite the uncertainties of the Greece fiscal crisis, and the possible impact upon the recovery process, emerging markets continue to perform commendably. Data from EPFR Global shows that emerging market bond funds took in US$1.28 billion in the third week of April 2010, second only to the previous week's record of US$1.8 billion of inflows. So far this year, funds focused on developing economies' bonds have attracted US$11.6 billion, more than the record annual total of US$9.7 billion set in 2005. Emerging-market bonds yielded investors a 5.6% return this year, according to JPMorgan's EMBI Global Diversified Index, the broadest gauge of markets in 39 countries. This performance far outshines the performance of the advanced countries. According to Bank of America Merrill Lynch's indices, U.S. Treasuries advanced 1.5% and European debt rose 1.6%.

Emerging market currencies have also staged a remarkable rally for the past year and a half. Since the beginning of 2009, these currencies have outpaced the developed countries' currencies. The table 1 shows the top 10 performing currencies against the US dollar for the period January 2009 – 22 April 2010. More than half of the top performing currencies worldwide were emerging markets. Despite the fact that many countries maintained extremely low interest rates during this period, the demand for local currency-denominated debt particularly performed well. The Brazilian real is at the top of the list, returning 31% over the period, followed by the Australian dollar, which advanced 26% against the US dollar. With the prospects of increased pressures to raise interest rates sooner in some of the developing countries, like Brazil, currencies should continue to gain strength.

TABLE 1: Top 10 performing currencies: January 2009 – April (22) 2010

Currency	Returns
Brazilian Real	31.32%
Australian Dollar	26.20%
Uruguay Peso	25.71%
South African Rand	24.66%
Chilean Peso	22.82%
Indonesian Rupiah	22.23%
New Zealand Dollar	21.26%
Canadian Dollar	19.86%
South Korean Won	19.23%
Norwegian Krone	16.07%

Source: Bloomberg, CMMB Research Center

The recovery in the emerging markets is expected to far outstrip that of the advanced markets and is expected to lead the global expansion. According to the IMF, 'stronger economic frameworks and swift policy responses have helped many emerging economies to cushion the impact of the unprecedented external shock and quickly re-attract capital flows'. The fact of the matter is that these economic giants are simply too big to ignore – they collectively account for about 70% of the world's population, 46% of land mass and 31% of global GDP. A major risk to the favorable outlook of emerging markets and indeed, the global economy recovery is the Greece fiscal crisis. Nonetheless, as concerns about the Greece fiscal predicament eases over time, this should help to diminish volatility in the financial markets and will bolster confidence in the global recovery. Even though globalization and trade links will always allow for systemic risks, the fact of the matter is that emerging markets have been and will continue to be resilient against external shocks. This flexibility will continue to be facilitated by the strong macroeconomic fundamentals and the countries' impressive ability to quickly adapt to changes. These characteristics of emerging markets will guarantee that they remain an attractive asset category in investors' portfolios.

FINANCIAL & ECONOMIC INDICATORS
As at 22 April 2010

Exchange Rate/US$	Closing Value	Previous Week
Yen	93.49	93.03
Euro	1.33	1.36
Jamaica	89.33	89.33
Guyana	204.20	204.40

Commodity Prices	Closing Value	Previous Week
Crude oil (US$/bbl)	83.70	85.51
Natural Gas (US$/mmbtu)	3.95	4.16
Gold (US$/Troy Ounce)	1,141.50	1,159.25

Eurobond Indices (As at 15-04-10)

JP Morgan EMBI+ (Basis points)	244
JP Morgan Central America and Caribbean Index (CACI) (YTD return %)	8.53

Policy Interest Rates (%)	Closing Value	Previous Week
United States	0.25	0.25
Euro Zone	1.00	1.00
Japan	0.10	0.10
Brazil	8.65	8.65
Trinidad	5.00	5.00
Jamaica	10.50	10.00
Barbados	2.50	2.50

Market Interest Rates (%)	Closing Value	Previous Week
US 90-day T-Bill	0.15	0.15
US 10-Yr Treasury	3.77	3.83
3-month UK Libor	0.66	0.65
Japan 90-day T-Bill	0.28	0.28
Brazil 90-day T-Bill	9.50	9.45
TT 90-day T-Bill	1.28	1.28
Jamaica 90-day T-Bill	10.18	10.18
Barbados 90-day T-Bill	3.32	3.32

Sources: Bloomberg, J.P. Morgan, CMMB Research Center, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados