



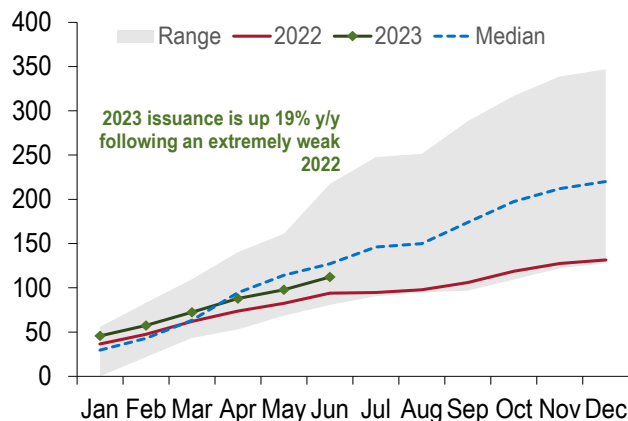
WEDNESDAY JULY 12, 2023

JUNE HIGHLIGHTS:

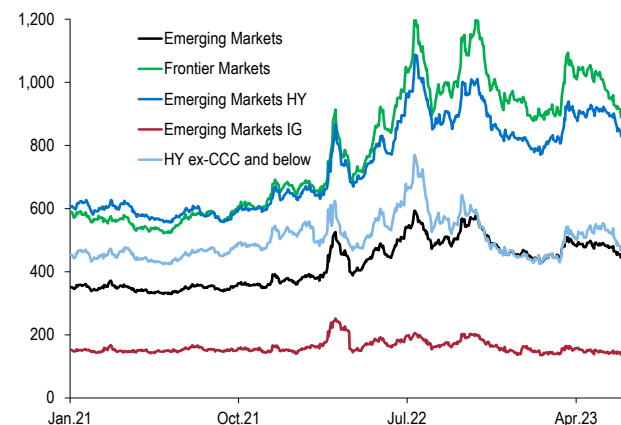
- **Total EM issuance increased to \$15 bn (from \$11.1 bn)**, led by stronger corporate issuance, while sovereign issuance remained fairly steady at just under \$7 bn. Sovereign and corporate issuance (ex. China) YTD is somewhat below the historical median, as a very strong January for sovereigns has been offset by fairly pedestrian issuance since. Total issuance is up 9% y/y (19% y/y ex. CHN corp.) after a historically weak 2022.
- **Sovereign issuance edged lower to \$6.8 bn**, led by \$3 bn in sustainability linked bonds from Chile, both euro and dollar denominated. Two frontiers issued, though both are BB rated and have spreads trading below 300 bps. Paraguay issued a \$0.8 bn euro denominated note maturing in 2033, with Guatemala is \$1 bn due in 2036. Albania also issued \$0.6 bn, while Croatia issued \$1.5 bn in euro denominated notes abroad. **Sovereigns rated A or above have accounted for 33% of YTD issuance.** Sovereign issuance of \$83 bn YTD is up 42% y/y, which is the 50th percentile since 2011, though remains about 20% below the 2017-2021 average.
- **Nonfinancial corporate issuance rose to \$8.2 bn, the best since Jan. 22**, though aggregate net corporate issuance has broadly remained negative as amortizations and buybacks outweighed new supply. EM ex. CHN delivered \$7.7 bn, with quasi sovereigns contributing half the total. Petrobras (Brazil) and Ecopetrol (Colombia) issued \$1.25 bn and \$1.5 bn respectively. Chinese corporate issuance was less than \$1 bn and has not reached \$2 bn in monthly volume in a year (avg \$10 bn in '18-21), with weakness in real estate persisting.
- **Secondary market spreads tightened 50 bps in June, led by lower rated and distressed issuers. Investment grade sovereigns continue to trade near historical lows.** High yield excluding CCC and below narrowed more than 60 bps, but remains ~30 bps wider YTD. Frontier spreads fell 130 bps, led by distressed issuers, notably Pakistan (-1078 bps), Suriname (-290 bps), Bolivia (-193 bps), El Salvador (-187 bps), and Egypt (-155 bps).
 - **Ratings:** Fitch upgraded Uruguay to BBB (median BBB), Argentina to CC (median CC), and Pakistan to CCC (median CCC), while initiating coverage on Tanzania with a B+ rating. Tunisia was downgraded by Fitch to CCC- (median CCC), while Belarus was downgraded by Moody's to C. (See Annex)
- **Hard currency fund outflows have continued for 20 consecutive weeks, albeit at a modest pace.** Outflows are just under 2% of AUM. YTD returns of 2.9% have been driven primarily by spreads, with Treasuries paring gains in recent weeks.
- **Market remains open for issuers with stronger fundamentals, but issuance is likely to remain sluggish.** The recent sell off in Treasuries and limited refinancing needs may suppress issuance for most sovereigns in the next few months. Moreover, the bifurcation of the asset class has broadly continued, and a number of lower rated frontier issuers still struggle with market access. Nevertheless, according to market analysts, potential issuers included Uruguay (which has already started investor calls), Qatar, Colombia, and Turkey.

Overview

1. Pace of Sovereign and Corporate Issuance (USD billions, ex. CHN corporates, range since 2011)



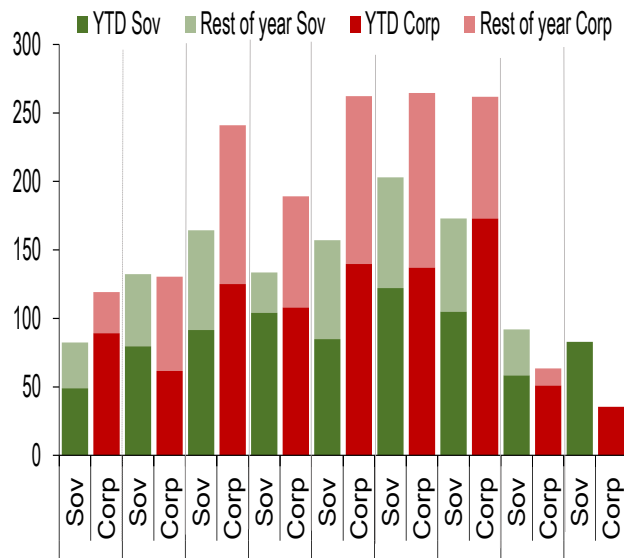
2. Emerging and Frontier Market Spreads (Basis points)



Issuance Detail: Emerging Market Corporates and Sovereigns

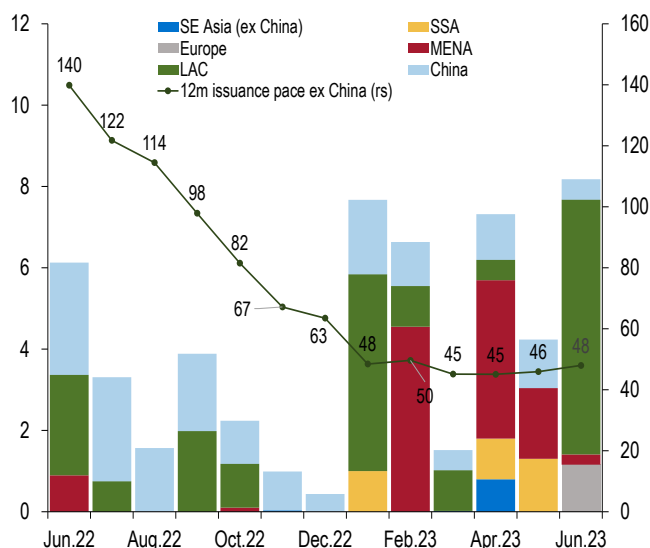
Corporate issuance has slowed further in 2023, while sovereign issuance continues to near 2022's issuance levels largely due to a historically weak 2022

Chart 3. Sovereign and Corporate Issuance History
(USD billions)



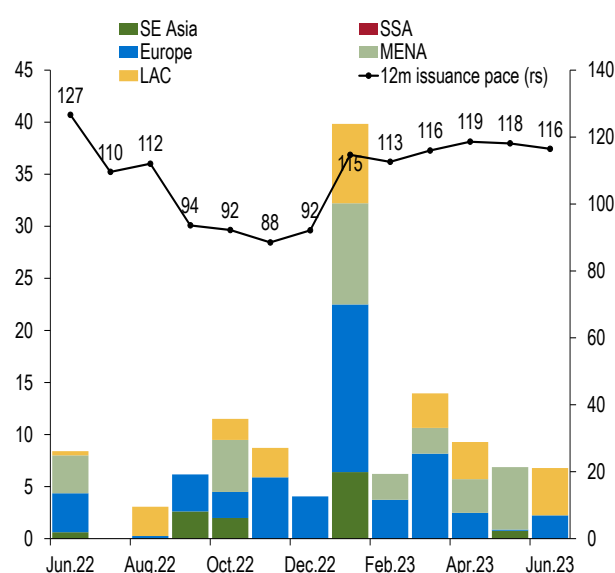
Corporate supply picked up from May's levels to \$8.2 bn, while Chinese issuance remains very weak.

Chart 5. Corporate Hard Currency Issuance by Region
(USD billions)



Five sovereigns issued \$6.8 bn, led by Chile with \$3 bn, along with Paraguay, Guatemala, Albania and Croatia.

Chart 4. EM Sovereign Hard Currency Issuance by Region
(USD billions)



Saudi Arabia has accounted for nearly 20% of sovereign issuance in 2023

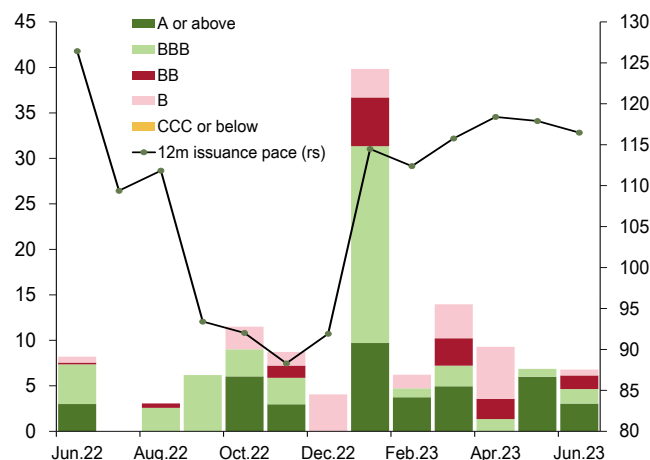
Chart 6. Country Sovereign Issuance Totals
(USD billions)

Issuer	2021	2022	2023	Apr-23	May-23	Jun-23	Jul-23
Saudi Arabia	10.0	5.0	15.7	-	6.0	-	-
Poland	-	5.1	8.7	-	-	-	-
Turkey	10.0	13.0	7.4	2.5	-	-	-
Romania	8.2	8.5	6.1	-	0.1	-	-
Mexico	9.1	7.3	5.3	1.3	-	-	-
Hungary	5.3	5.2	4.6	-	-	-	-
Indonesia	12.2	8.2	3.7	-	0.8	-	-
Chile	15.5	7.0	3.0	-	-	3.0	-
Philippines	6.0	4.8	3.0	-	-	-	-
Morocco	-	-	2.5	-	-	-	-
Brazil	2.2	-	2.2	2.2	-	-	-
Bahrain	4.0	-	2.0	2.0	-	-	-
Colombia	6.1	1.3	1.8	-	-	-	-
Panama	4.7	4.0	1.8	-	-	-	-
Dominican Republic	2.5	3.6	1.8	-	-	-	-
Serbia	3.2	-	1.7	-	-	-	-
Croatia	2.4	1.4	1.6	-	-	1.6	-
Bulgaria	-	2.2	1.6	-	-	-	-
Costa Rica	-	-	1.5	-	-	-	-
Egypt	6.8	0.5	1.5	-	-	-	-
Jordan	-	0.6	1.2	1.2	-	-	-
Guatemala	1.0	0.5	1.0	-	-	1.0	-

Issuance Detail

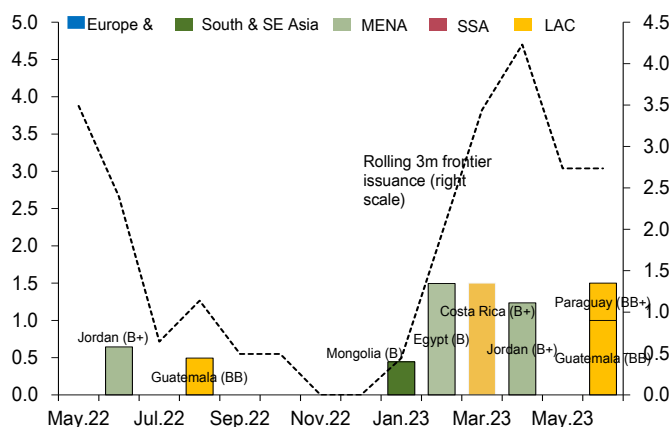
Investment grade sovereigns continue to lead the way, accounting for 100% of issuance in May and 70% in June.

Chart 7. Sovereign Hard Currency Issuance by Rating
(USD billions; Percent)



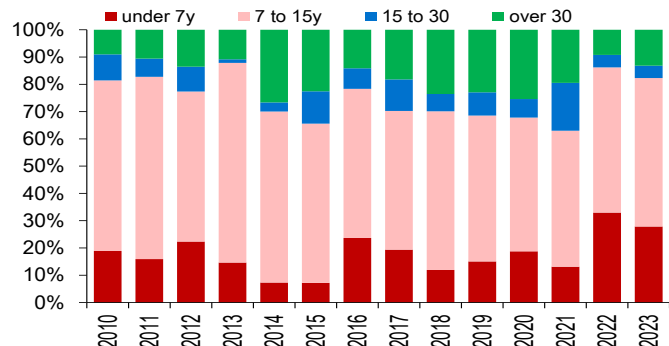
Guatemala and Paraguay issued in June, though both issuers trade with spreads below 300 bps.

Chart 9. Frontier Sovereign Issuance by Rating
(USD billions)



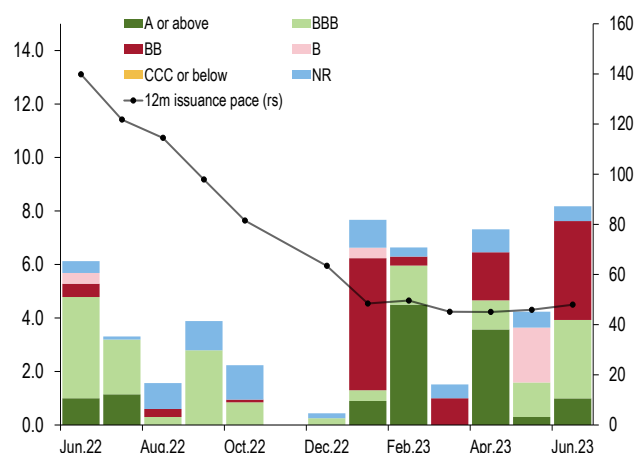
Average maturity has increased in 2023, but remains low by historical standards.

Chart 11. EM Sovereign Issuance by Maturity
(Percent)



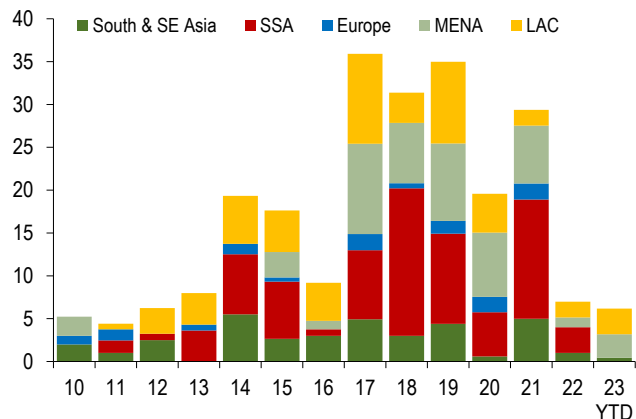
High yield issuance in June recovered, led by quasi sovereigns, Petrobras and Ecopetrol

Chart 8. Corporate Hard Currency Issuance by Rating
(USD billions)



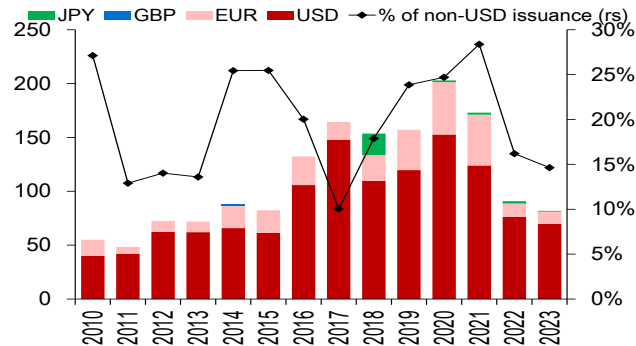
Six frontiers have issued in 2023 for \$6.2bn YTD in a continuation of the weak market dynamics seen in 2022.

Chart 10. Frontier Sovereign Issuance by Region
(USD billions)



Non-dollar denominated issuance continues to be low in 2023

Chart 12. EM Sovereign Issuance by Currency
(Percent)



Upcoming Amortizations

Bond redemptions will remain muted until September, with a further pick up in 2024. Among frontiers, Nigeria (July), Tunisia (October), and Egypt (November) have large upcoming payments.

Chart 13. EM Sovereign Maturities by Rating
(US billions)

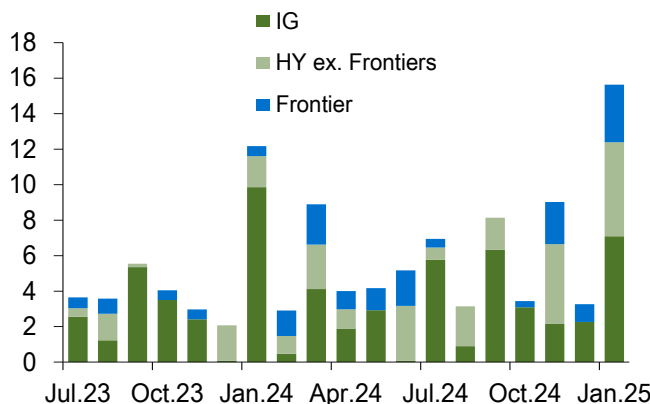
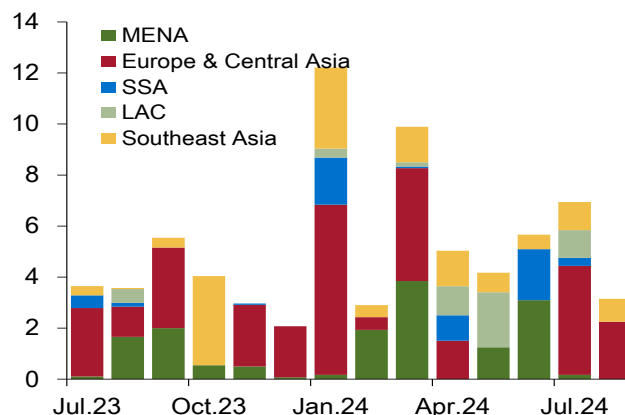


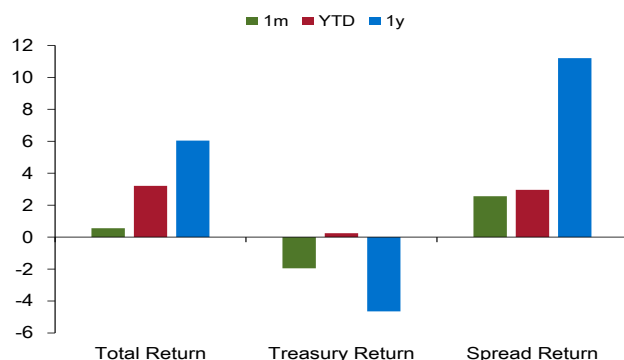
Chart 14. EM Sovereign Amortizations by Region
(US billions)



Fund Flows and Bond Returns

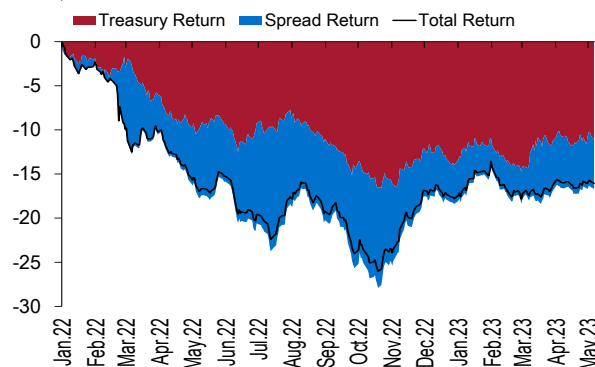
Tightening spreads helped drive incremental returns over the last month

Chart 15. Sovereign Hard Currency Bond Returns
(percent)



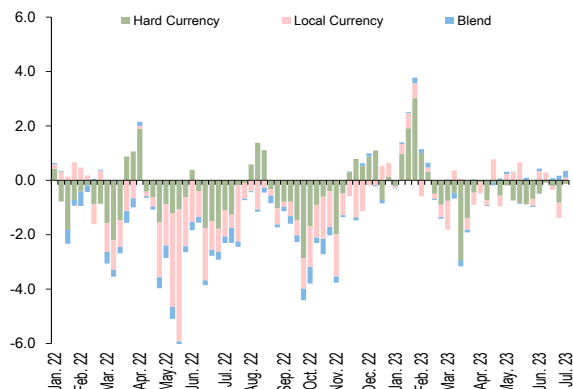
Since 2022, losses on hard currency sovereign bonds have been substantial

Chart 16. Sovereign Hard Currency Bond Returns
(percent, cumulative)



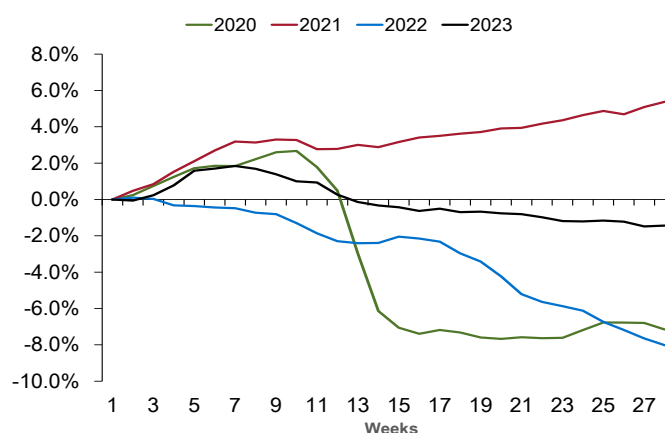
Hard currency fund outflows have continued at a slower pace, averaging \$0.3 bn over the last 4 weeks

Chart 17. ETF and Mutual Fund Flows
(US billions)



Outflows remain modest as a share of AUM

Chart 18. Hard Currency Fund Flows (percent of AUM, cumulative, by year)



Sovereign Spreads on Hard Currency Bonds

Spreads for distressed issuers tightened sharply, with Ecuador the main laggard.

Chart 19. Major Laggards and Gainers Last Month on Credit Spreads (Basis points; restricted to issuers with spreads below 2500)

Top-10 Leaders			Top-10 Laggards		
Country	Change in spreads	Latest spread	Country	Change in spreads	Latest spread
Pakistan	(1,078)	2,185	Jamaica	(19)	207
Suriname	(290)	1,305	Chile	(16)	128
Bolivia	(193)	1,108	Indonesia	(16)	126
El Salvador	(187)	1,118	Uruguay	(16)	96
Mozambique	(158)	1,045	Qatar	(15)	89
Egypt	(155)	1,219	United Arab Emirates	(15)	115
Mongolia	(134)	408	India	(12)	133
Cameroon	(116)	819	Philippines	(11)	98
Senegal	(112)	539	Saudi Arabia	(8)	120
Turkey	(95)	458	Malaysia	(6)	91
Nigeria	(80)	701	China	(4)	6
Kenya	(73)	713	Vietnam	(1)	92
South Africa	(56)	350	Poland	0	134
Namibia	(56)	265	Kuwait	4	25
Georgia	(54)	268	Iraq	20	544

The share of EM sovereign issuers in the benchmark index trading at distressed levels (spreads >1000 bps) stayed near 25%, with close to 35% having yields above 10%.

Chart 20. Share of Distressed Issuers in EM Bond Index (share, 3 week average)

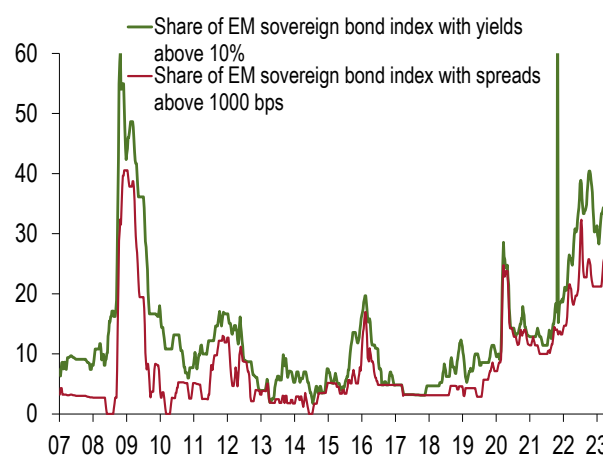
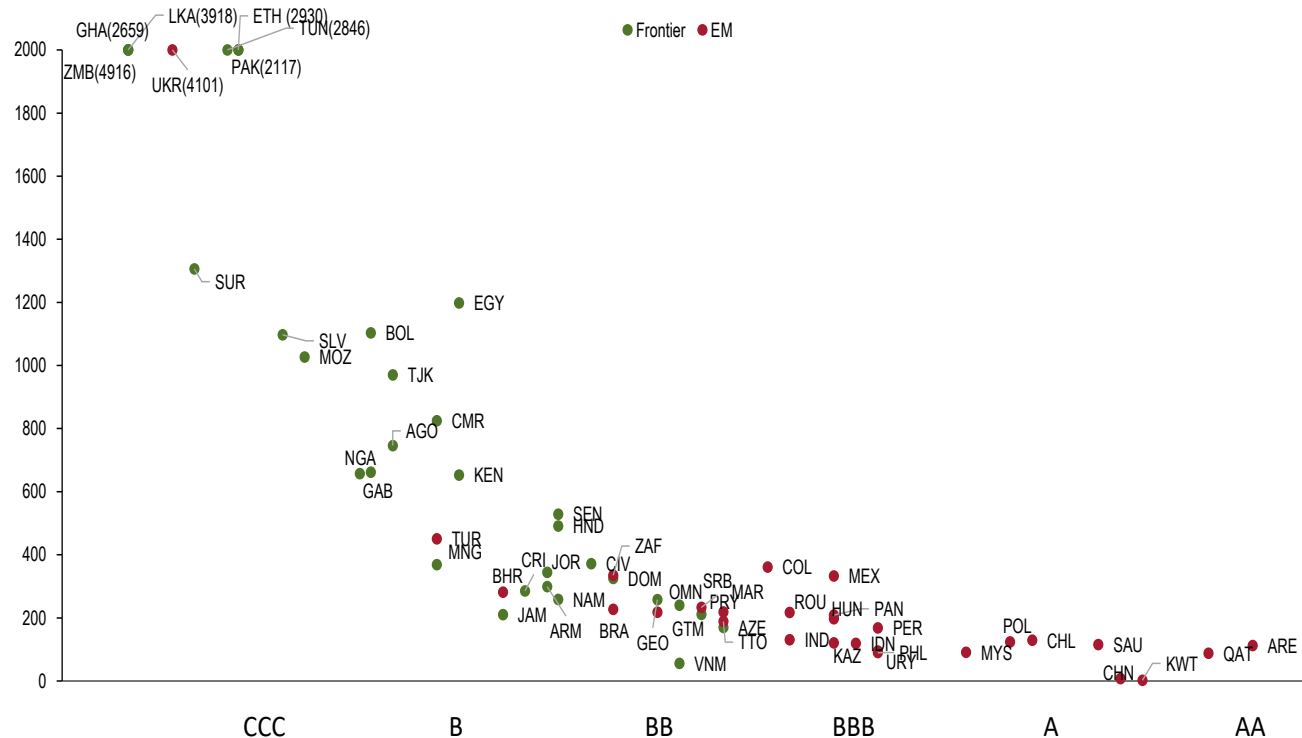


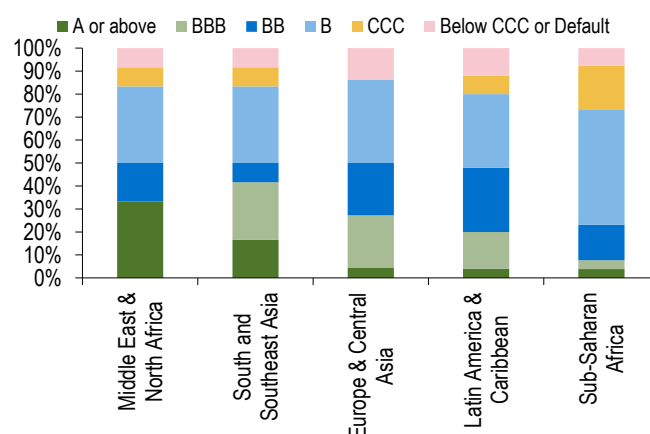
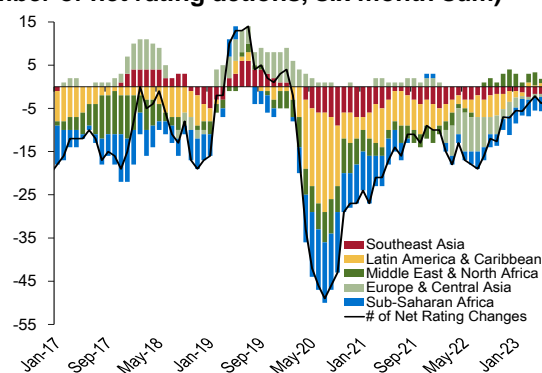
Chart 21. Spreads by Rating and Country (basis points, median rating)



Annex

Annex Table 1. Issuance Coupons by Rating, USD bonds (percent)

Maturity (yrs)	A or above			BBB			BB			B		
	<7	7 to 15	>15	<7	7 to 15	>15	<7	7 to 15	>15	<7	7 to 15	>15
Jan.21		2.4	3.3		2.4	3.6	4.9	4.3	5.9	4.8	5.1	6.3
Feb.21										3.9	5.9	7.5
Mar.21			3.5		3.2	3.7				3.0	7.9	8.9
Apr.21		2.1	3.1		3.3	4.2	2.8					
May.21		2.5	3.1		4.4							
Jun.21				1.5	2.3	3.8	4.3	4.8		4.3	5.4	
Jul.21		2.6	3.1		2.7	3.2				6.0	7.1	8.9
Aug.21												
Sep.21		1.9	3.1		2.1	3.2	3.7	4.7		5.8	6.7	8.5
Oct.21	1.0	1.9	2.9	3.0	3.6			5.2				
Nov.21			3.3								4.8	
Dec.21												
Jan.22	2.8	3.5	4.0	3.0	3.5	4.5	3.8				8.0	
Feb.22							5.8			7.3	7.5	
Mar.22			4.3	3.2	3.6	4.3				8.6	8.4	
Apr.22							5.9	7.3			8.8	
May.22				4.8	5.4							
Jun.22		4.1	5.0		5.4							
Jul.22												
Aug.22					5.4			5.3				
Sep.22				4.2	4.7	5.5						
Oct.22	5.3	5.5		5.2	5.7	6.0				9.8		
Nov.22	5.5	5.8		6.4	7.6		8.0			9.9		
Dec.22										9.9		
Jan.23	4.8	4.9	5.0	5.5	5.9	6.4	6.3	7.0			9.4	
Feb.23					6.5					10.9		
Mar.23		4.9	5.5	6.1	6.3	6.9	6.0	6.5		9.4	6.6	
Apr.23						6.3		6.0		7.5	7.7	
May.23	4.2	4.3										
Jun.23		5.0	5.3				6.2					

Annex Table 2. Ratings by Region
(share by rating and region)**Annex Table 4. Net Ratings Updates**
(number of net rating actions, six month sum)**Annex Table 4. Latest Ratings Actions**

	New Median rating	Latest			End May. 23		
		S&P	Fitch	Moody's	S&P	Fitch	Moody's
Argentina	CC	CCC-	CCu	Ca	CCC-	Cu	Ca
Belarus	C	SD	RD	Cu	SD	RD	Cau
Pakistan	CCC	CCC+	CCC	Caa3	CCC+	CCC-	Caa3
Tunisia	CCC	NR	CCC-	Caa2	NR	CCC+	Caa2
Tanzania, United Republic of	B+		B+	B2u			B2u
Uruguay	BBB		BBB	Baa2		BBB-	Baa2

Note: Annex Table 4 incorporates S&P, Fitch, and Moody's ratings agencies. Size of ratings adjustment not reflected; a ratings change by any agency counts as "1".