



WEDNESDAY JUNE 7, 2023

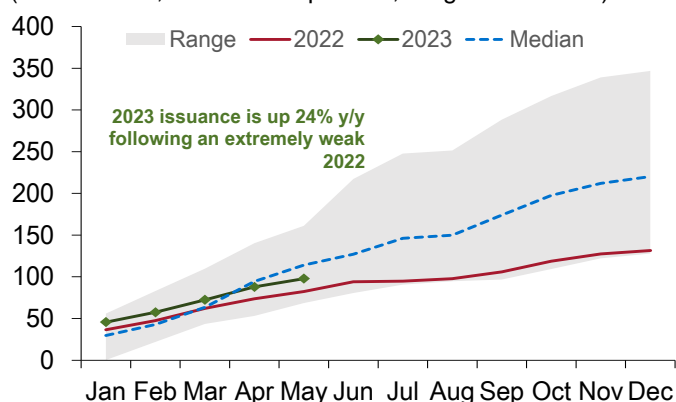
MAY HIGHLIGHTS:

- **Total EM issuance decreased to \$11.1 bn in May** (from \$16.6 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 relatively soft issuance since**. Total issuance is up 9% y/y (19% y/y ex. CHN corp.) after a historically weak 2022.

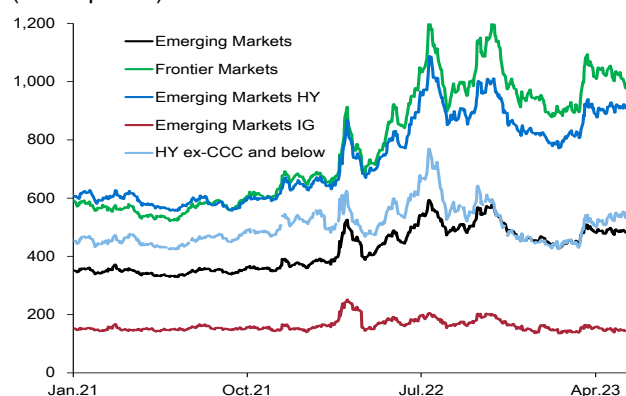
Sovereign issuance fell to \$6.9 bn, dominated by Saudi Arabia. May issuance was below average, with just three sovereign hard currency issuers. Saudi Arabia issued \$6 bn in 6- and 10yr USD notes, with an average coupon of 4.4%. Indonesia issued \$0.8 bn in yen denominated samurai bonds. Romania reopened a euro denominated bond for \$0.1 bn. Peru and Chile also issued international bonds in local currency, not included in the totals above. **Sovereigns rated A or above have accounted for 32% of YTD issuance.**

- **Corporate issuance slowed to \$4.2 bn (from \$7.3 bn) for the slowest YTD pace of the last decade.** EM ex. CHN issued \$3 bn, with China adding \$1.2 bn. **Chinese corporates have not topped \$2 bn in monthly volume in nearly a year (avg \$10 bn in '18-21)**, with weakness in real estate persisting. Quasi sovereigns contributed much of the corporate supply in May led by China's Export Import Bank, Mamoura (UAE), and Nogaholding (Bahrain). Analysts have attributed weak issuance to several factors, including recent macro uncertainty, limited refinancing needs and generally weak demand, as well as more favorable domestic financing.
- **Credit spreads tightened 20 bps in May, led by lower rated issuers, while investment grade (IG) sovereigns are near historical lows.** High yield (HY) excluding CCC and below narrowed close to 20 bps, but remains ~60 bps wider YTD. Frontier spreads fell 85 bps. Among the laggards, Ecuador moved +183 bps, with large price moves following a debt-for-nature swap that Moody's classified a "distressed exchange", and political turmoil that drove a negative outlook change by Fitch.
 - **Ratings:** Rating momentum has become becoming more balanced in recent months. Fitch upgraded El Salvador to CCC+ (median CCC+) and Moody's upgraded Oman to Ba2 (median BB). Moody's downgraded Bangladesh to B1 (median BB-), and Fitch downgraded Egypt to B (median B). (See Annex)
- **Hard currency fund outflows have continued for 11 consecutive weeks, with weekly outflows averaging a steady \$0.8 bn over the last month.** YTD returns of 2.3% have been driven primarily by moves in Treasury bonds, though spreads were a small tailwind over the last month as well.
- **Market remains open for IG issuers, but high coupons and limited refinancing needs may temper supply in the new few months.** Coupons on dollar bonds remain high compared to history, and sovereigns that can, may try to be patient in anticipation of Fed policy easing down the line. Bond maturities are muted through the rest of the year, with a small uptick in September, before accelerating in 2024. Nevertheless, analysts see Chile, Uruguay, Paraguay (HY) and Oman (HY) as potential issuers.

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



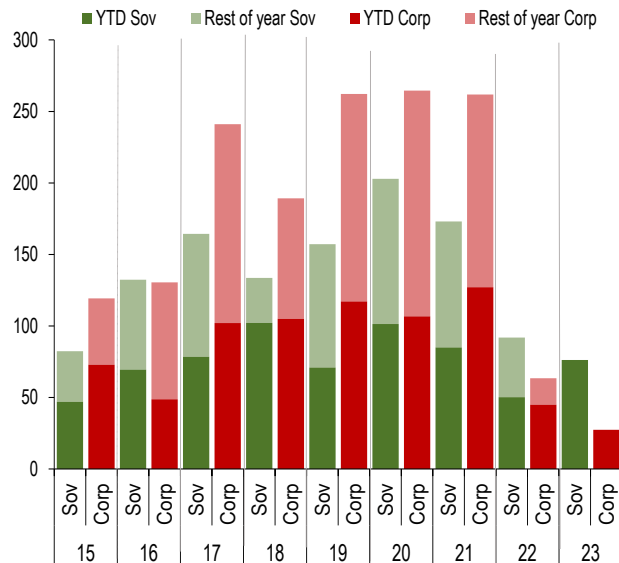
2. Emerging and Frontier Market Spreads
(Basis points)



Issuance Detail: Emerging Market Corporates and Sovereigns

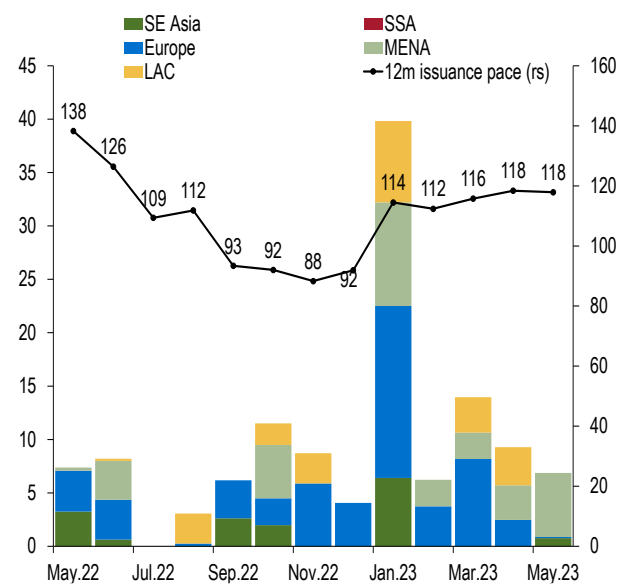
Corporate issuance has slowed further in 2023, while sovereign issuance is up over 50% y/y--largely due to a historically weak 2022

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



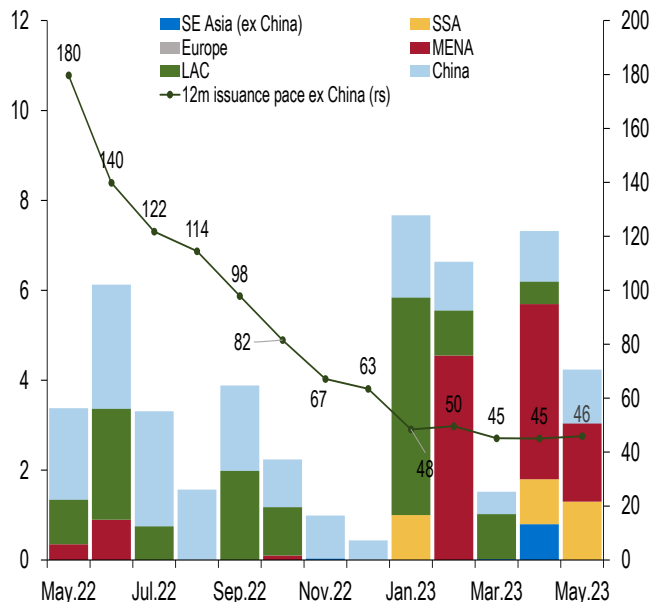
Three sovereigns issued \$6.9 bn, led by Saudi Arabia with \$6 bn, along with Romania and Indonesia

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



Corporate supply slowed to \$4.2 bn, led by quasi sovereigns, while Chinese issuance remains very weak.

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



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

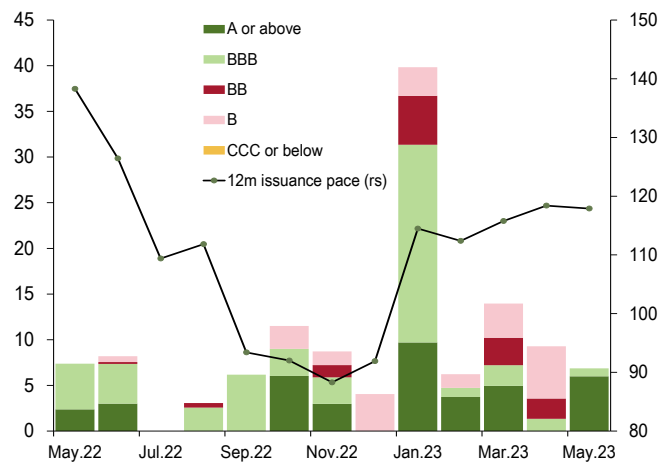
Chart 6. Country Sovereign Issuance Totals
(USD billions)

Issuer	2021	2022	2023	Mar-23	Apr-23	May-23
Saudi Arabia	10.0	5.0	15.7	-	-	6.0
Poland	-	5.1	8.7	5.0	-	-
Turkey	10.0	13.0	7.4	2.2	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	0.5	-	-
Indonesia	12.2	8.2	3.7	-	-	0.8
Philippines	6.0	4.8	3.0	-	-	-
Morocco	-	-	2.5	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	1.8	-	-
Dominican Republic	2.5	3.6	1.8	-	-	-
Serbia	3.2	-	1.7	-	-	-
Bulgaria	-	2.2	1.6	-	-	-
Costa Rica	-	-	1.5	1.5	-	-
Egypt	6.8	0.5	1.5	-	-	-
Jordan	-	0.6	1.2	-	1.2	-
United Arab Emirates	10.9	4.2	1.0	-	-	-
North Macedonia	0.8	-	0.5	0.5	-	-
Mongolia	1.0	-	0.4	-	-	-

Issuance Detail

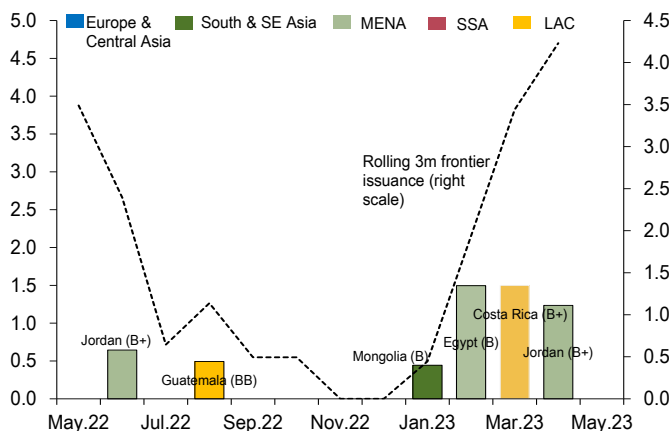
Only investment grade sovereigns issued in May.

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



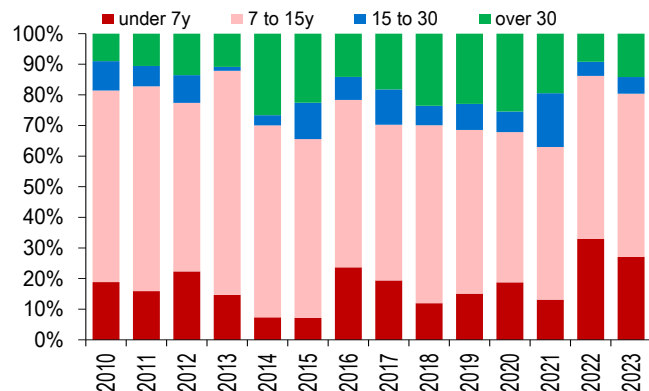
No frontier issuers in May.

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



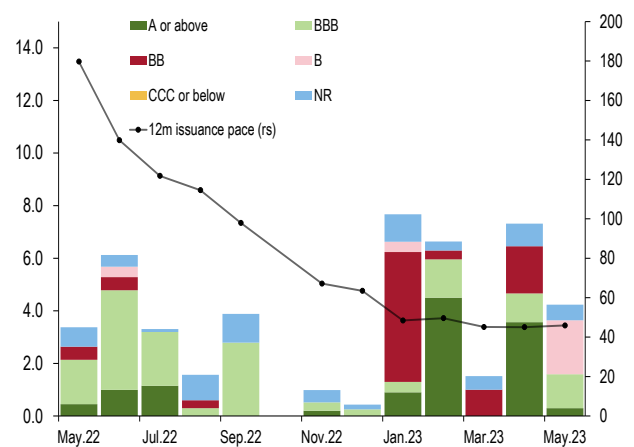
Average maturity has increased in 2023, but remains low by historical standards.

Chart 11. EM Sovereign Issuance by Maturity
(Percent)



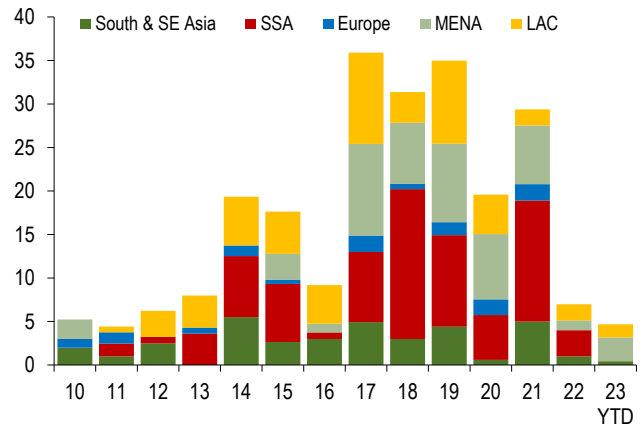
First Quantum Minerals (Zambia/Canada) accounted for the high yield issuance in May

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



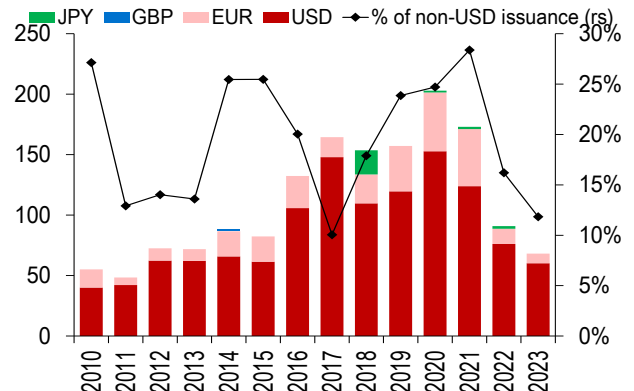
Four frontiers have issued in 2023 for \$4.7bn YTD in a continuation of the weak market dynamics seen in 2022.

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



Non-dollar denominated issuance has been low in 2023 despite the recent samurai bond from Indonesia

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)

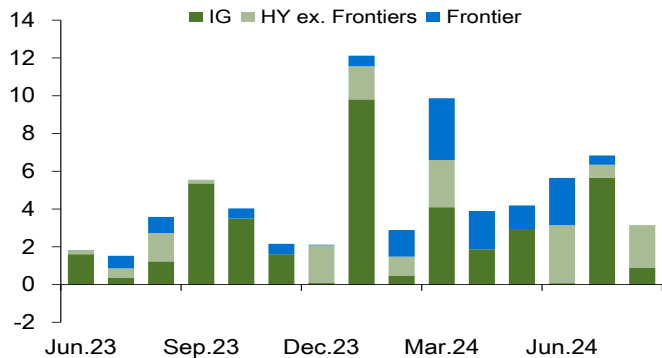
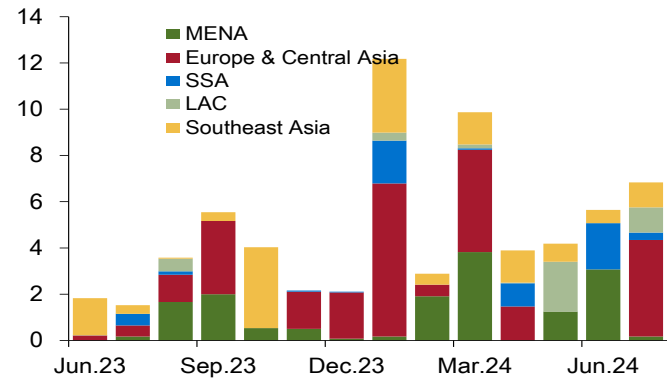


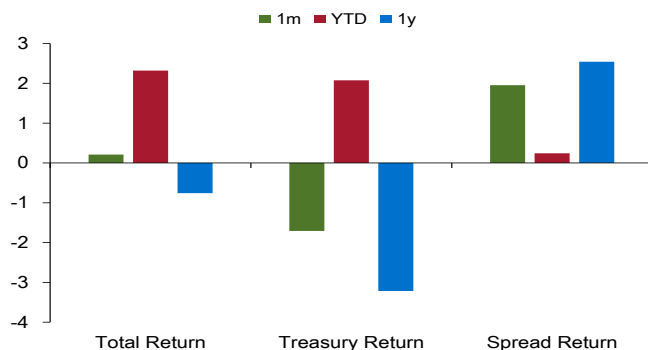
Chart 14. EM Sovereign Amortizations by Region
(US billions)



Fund Flows and Bond Returns

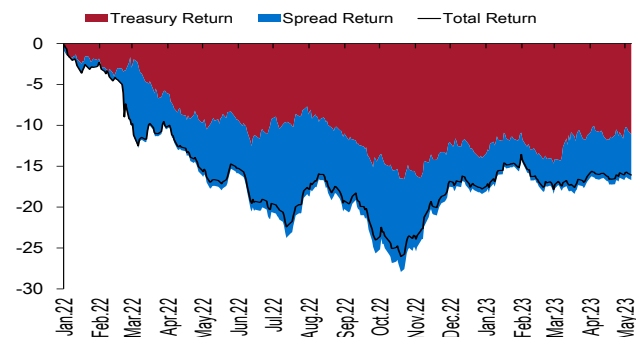
Tightening spreads helped drive incremental returns over the last month

Chart 15. Sovereign Hard Currency Bond Returns
(percent)



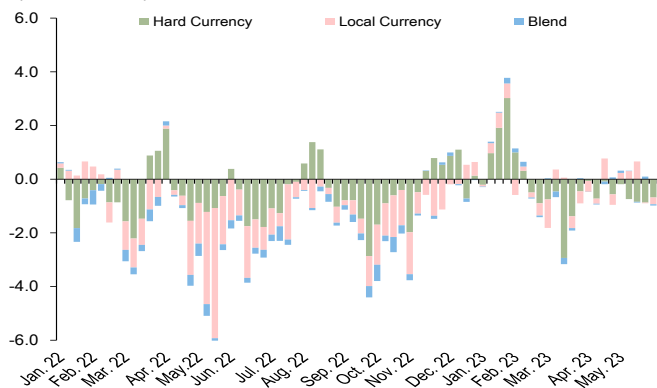
Since 2022, losses on hard currency sovereign bonds have been substantial

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



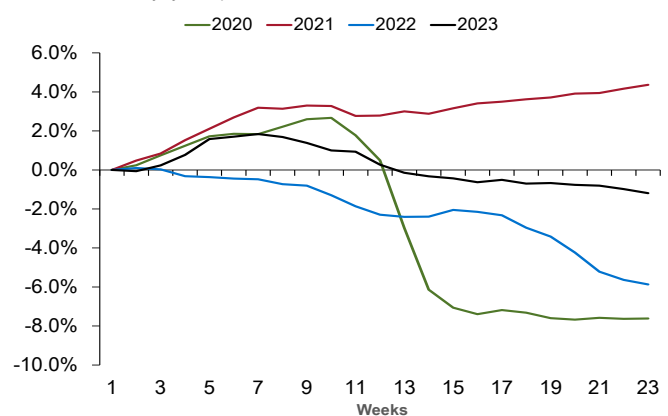
Hard currency fund outflows have continued, averaging \$0.8 bn over the last 4 weeks

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



Outflows remain modest as a share of AUM but have started to accumulate.

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



Sovereign Spreads on Hard Currency Bonds

Spreads generally tightened, with Mongolia and Ecuador the key laggards.

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
Suriname	(488)	1,576	United Arab Emirates	6	118
Kenya	(239)	743	Saudi Arabia	7	116
Tajikistan	(189)	994	Dominican Repb.	7	356
Gabon	(143)	682	Uruguay	8	104
Bolivia	(142)	1,280	Hungary	10	217
Nigeria	(141)	742	Qatar	12	92
Vietnam	(81)	72	Poland	13	123
El Salvador	(79)	1,276	Paraguay	17	228
Angola	(74)	730	Guatemala	23	252
Egypt	(62)	1,301	South Africa	24	372
Ivory Coast	(56)	406	Iraq	26	496
Honduras	(48)	529	Turkey	31	517
Mozambique	(41)	1,172	Serbia	32	261
Namibia	(29)	292	Mongolia	66	507
Colombia	(22)	392	Ecuador	183	1,923

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)

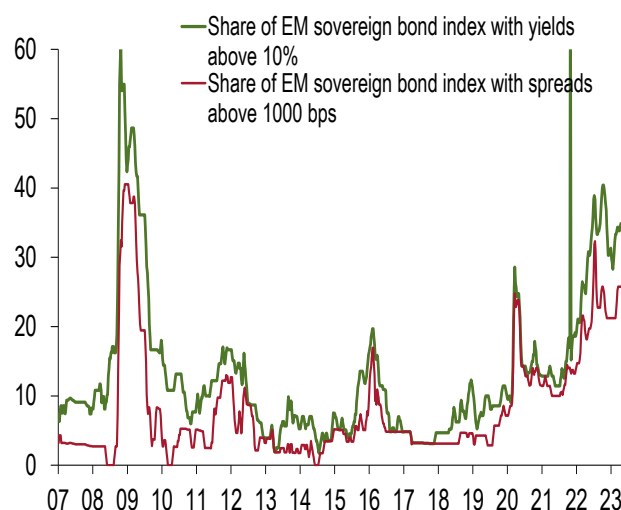
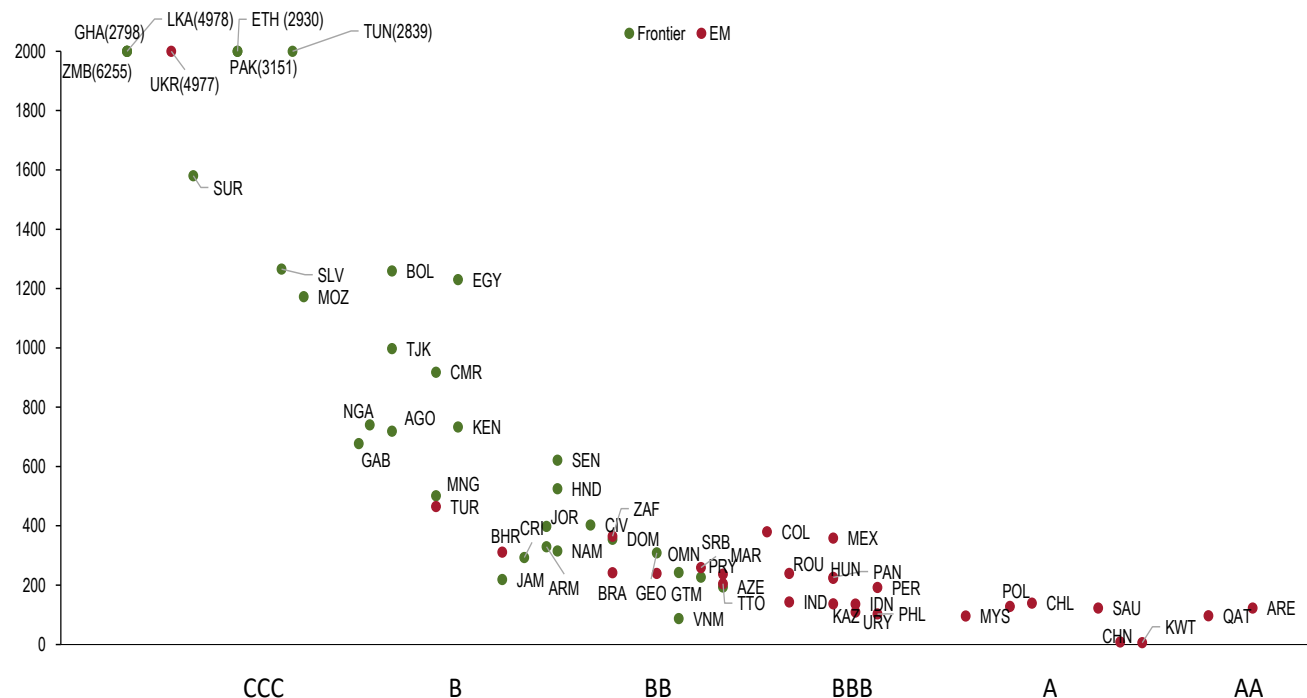


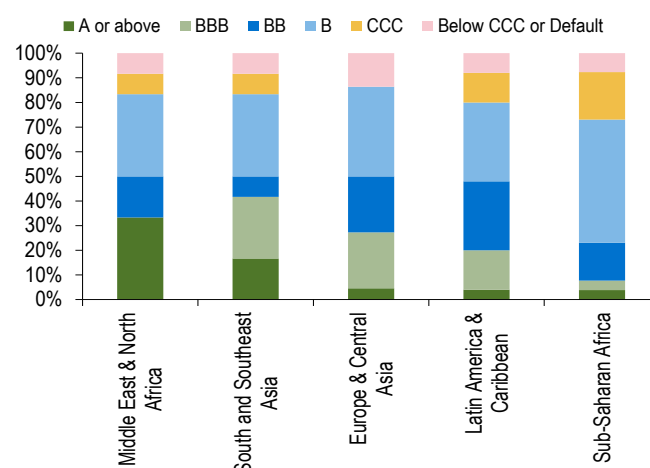
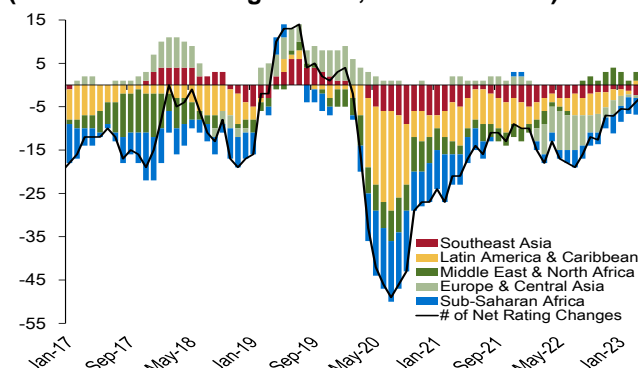
Chart 21. Spreads by Rating and Country (basis points, median rating)



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	4.3	4.5										

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 Apr. 23		
		S&P	Fitch	Moody's	S&P	Fitch	Moody's
El Salvador	CCC+	CCC+	CCC+	Caa3	CCC+	CC	Caa3
Egypt	B	B	B	B3 *	B	B+	B3
Oman	BB	BB	BB	Ba2	BB	BB	Ba3
Bangladesh	BB-	BB-	BB-	B1	BB-	BB-	Ba3 *

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".