

EMERGING MARKETS

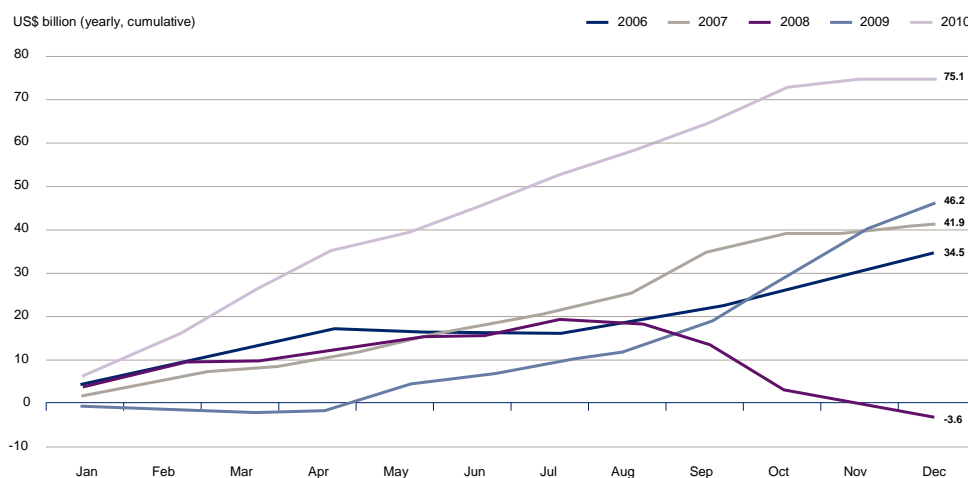
Emerging market debt: The opportunity set

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The consensus trade

2010 inflows into EM debt funds reached a record breaking US\$75 billion.



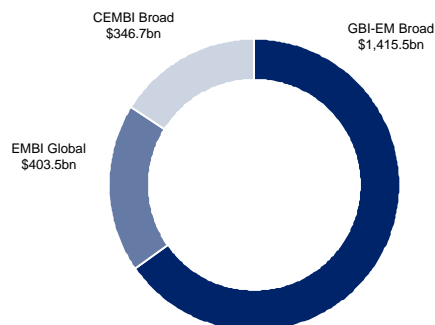
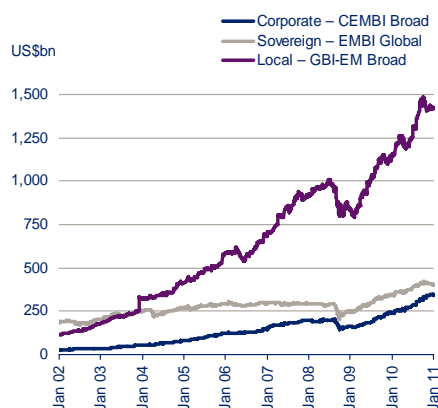
Source: JP Morgan, Jan 11

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EMD has evolved over the past decade

EM local debt market capitalization now more than triple the size of EM external debt

GBI-EM Broad 65%,
EMBI Global 19%,
CEMBI Broad 16%

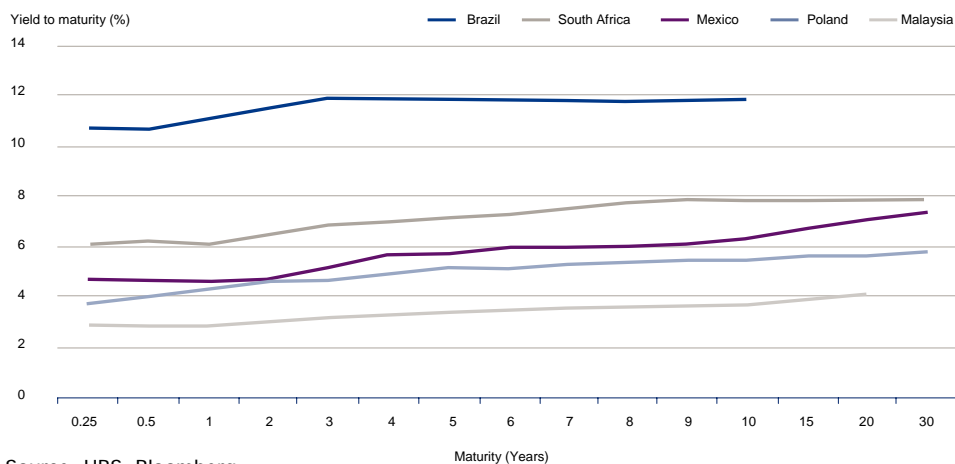


Source: JP Morgan, 31 Jan 2011

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Development of local markets reduced risks in EM world

Select EM local currency yield curves*

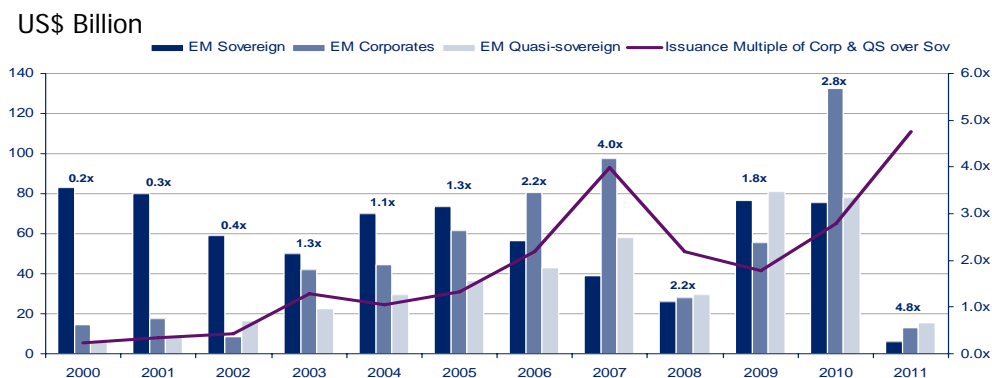


Source: UBS, Bloomberg

* Data markers represent available yields

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EM corporate issuance double sovereign issuance



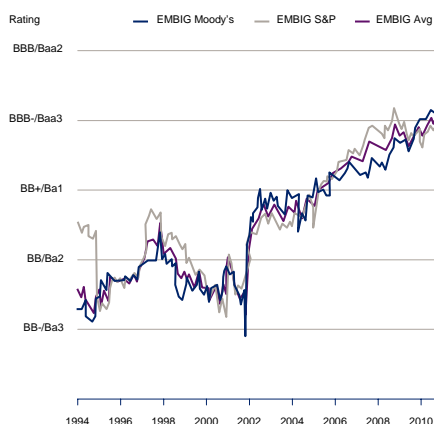
The EM corporate bond market is increasingly relevant as issuance has been double that of sovereigns over the past few years; a natural consequence of EM sovereigns with improving credit fundamentals and less funding needs, and corporates in those countries now a compelling credit story and able to issue debt in capital markets

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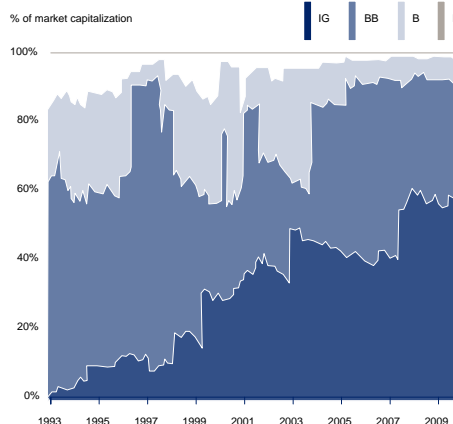
Source: JP Morgan, Jan 11 – For illustrative purposes only

EMD Now an investment grade asset class

EMBIG reached IG early in 2010



EM Sovereign debt has shown steady improvement in credit quality

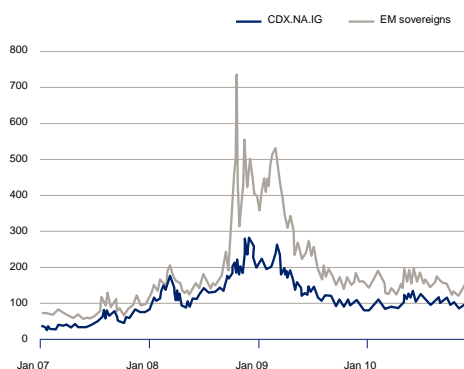


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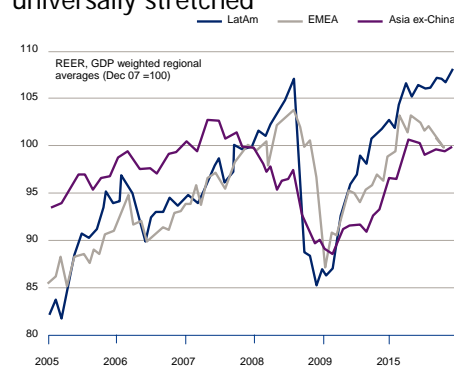
Source: JP Morgan, Oct 2010

Does EMD offer value?

Reasonable credit valuations



EM currency valuations not universally stretched



Note: 'EM sovereign' represent is the simple average for Brazil, Colombia, Indonesia, Hungary, Korea, Mexico, Philippines, Poland, Russia, South Africa and Turkey

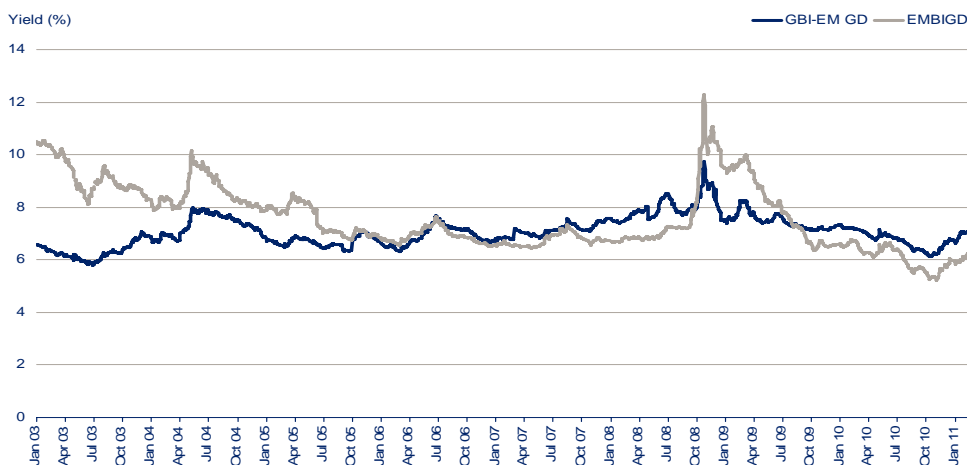
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Source: Bloomberg, Barclays Capital, Dec 10

Source: BIS, Barclays Capital, Dec 10

Local currency debt offers higher yield than hard currency

Local yields looking even more appealing



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Source: JP Morgan, Feb 11

Generally higher real yields than in developed markets

Local yields looking even more appealing

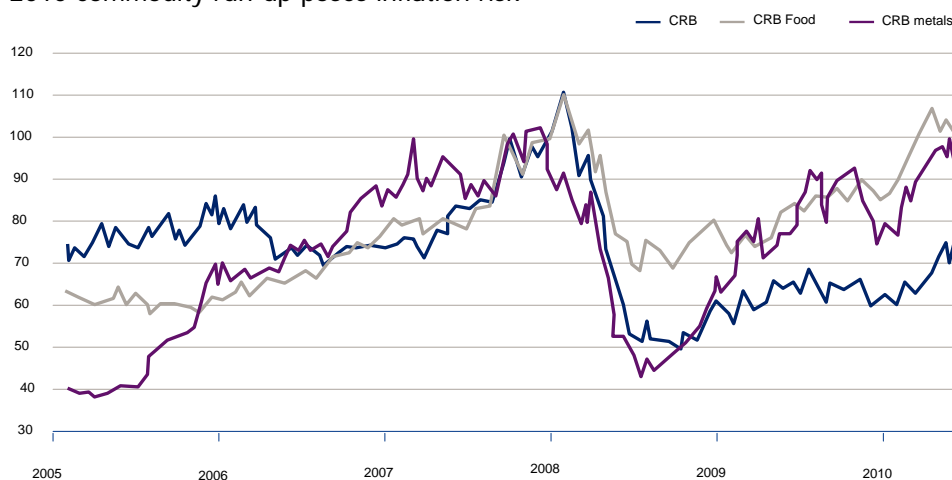
Country	10 Year Bond Yield (%)	Inflation yoy (%)	Real yield	Credit rating S&P
Brazil	12.7	6.0	6.7	BBB+
Colombia	8.3	3.4	4.9	BBB+
Egypt	13.1	10.8	2.3	BBB-
Hungary	7.5	4.0	3.5	BBB-
Indonesia	8.9	7.0	1.9	BB+
Malaysia	4.1	2.2	1.9	A+
Mexico	7.5	3.8	3.7	A
Peru	6.1	2.2	3.9	BBB+
Poland	6.4	3.8	2.6	A
Russia	7.8	9.6	-1.9	BBB+
South Africa	8.4	3.7	4.7	A+
Thailand	3.7	3.0	0.7	A-
Turkey	9.2	4.9	4.3	BB
US	3.6	1.6	2.0	AAA
UK	3.8	4.0	-0.2	AAA
Germany	3.2	2.0	1.2	AAA
Japan	1.3	0.0	1.3	AA

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Source: S&P, Bloomberg, 17 Feb 11

Risks: QE2, strong growth and now MENA crisis

2010 commodity run-up poses inflation risk



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Source: Bloomberg, Dec 10

More noise about capital controls, but will they work?

The muted effect of the IOF on the BRL



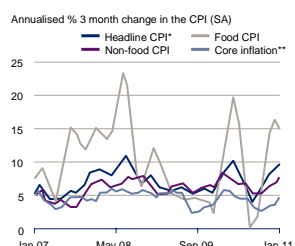
Inflows into Brazil in 2010

Inflows into Brazil in 2010	\$
Corporate FX bond insurances	62.6bn
FDI	48.5bn
Equities	37.7bn
Fixed income	14.6bn

Source: Central Bank of Brazil.
Deutsche Bank, Jan 11

EM inflation – food for thought

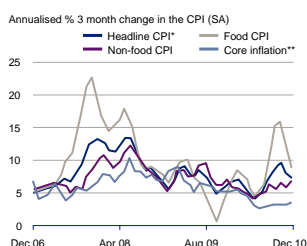
Latin America CPI-inflation* Emerging Europe, Middle East and Africa CPI-inflation*



* The aggregates in this chart exclude Argentina. The seven countries that are taken into account and weighted by 2009 nominal GDP are Brazil, Chile, Colombia, Ecuador, Mexico, Peru and Venezuela

** Core inflation excludes food, energy and regulated prices; only for a selected subset of four of the eight Latin American countries listed above, including Brazil, Chile, Mexico and Peru

Source: Haver Analytics®, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse, Feb 11

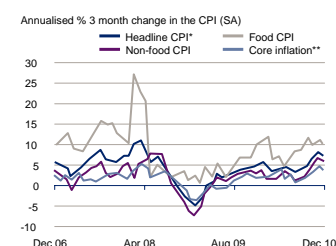


* The 12 countries that are taken into account and weighted by 2009 nominal GDP are Czech Republic, Egypt, Hungary, Israel, Kazakhstan, Nigeria, Poland, Romania, Russia, South Africa, Turkey and Ukraine

** Core inflation excludes food, energy and regulated prices; only for a selected subset of nine of the 12 EMEA countries listed above, including Czech Republic, Hungary, Israel, Kazakhstan, Nigeria, Poland, Russia, South Africa and Turkey

Source: Haver Analytics®, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse, Feb 11

Non-Japan Asia CPI-inflation*



* The nine countries that are taken into account and weighted by 2009 nominal GDP are China, Hong Kong, India, Indonesia, Korea, Philippines, Singapore, Taiwan and Thailand. For India, the price index used is the WPI

** Core inflation excludes food, energy and regulated prices; only for a selected subset of six of the eight non-Japan Asian countries listed above, including China, India, Korea, Philippines, Taiwan and Thailand. For India, the price index used is the WPI

Source: Haver Analytics®, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse, Feb 11

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