EMTA
TRADE ASSOCIATION FOR
THE EMERGING MARKETS

Bulletin - 4Q 2023 Volume 2023: No. 4

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EMTA Annual Meeting Speakers Discuss EM Outlook for 2024

The challenges facing the EM debt industry in an era of high US rates was a key theme of EMTA's 2023 Annual Meeting. Nearly 275 EMTA Members listened as panels discussed the outlook for US rates, inflation, and the opportunities for EM investors. The event took place on Wednesday, November 29, 2023 at BofA Securities' headquarters in New York City.

(continued on page 4)

Argentina's Next Economic Team Needs to Offer Results Instead of a Charm Offensive

With the results in both Argentina's PASO and first presidential round surprising investors, EMTA organized Forums in both London and New York to discuss market expectations for the final round, which was ultimately won by outsider candidate Javier Milei. The London event was sponsored by Balanz Capital with the additional support of Barclays, and was held on Wednesday, November 1, 2023, before some polls showed Massa losing his lead.

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Tel. (646) 676-4290 405 Lexington Ave., Suite 5304 New York, NY 10174
www.emta.org

EMTA Board Meeting Held on September 19, 2023

EMTA's Board met on September 19, 2023 via Zoom. Thomas Clarke (Citi) was confirmed as a Director following nomination by his firm.

EMTA's Board Executive Committee for 2023 was confirmed as follows:

Co-Chairs

Mark L. Coombs (Ashmore Investment Management) James Banghart (J.P. Morgan Chase)

Vice Chairs

Brian Weinstein (Bank of America) Thomas Clarke (Citi)
Luis Mendes (Deutsche Bank) Ricardo Mora (Goldman Sachs)
Dean Menegas (Spinnaker Capital)

Agenda items included a report on EMTA's finances, its events calendar, and EMTA's projects in the fixed income and FX and currency derivatives areas.

Against a budgeted net total surplus of $19,000, EMTA's net total surplus for 2022 was $92,835, due in part to strong membership dues and events revenues.

EMTA's budget for 2023 shows an operating surplus of $14,150, with factors considered including the reduction in board assessments approved in late 2022, as well as some increases in IT expenses and investment income.

Notable in the Board's discussion of FX derivatives was the impending ISDA/EMTA effort to revise the current global FX and derivatives architecture (see page 40 of this bulletin).

EMTA Members with questions on the Board Meeting are welcome to contact Board Co-Secretaries, Leslie Payton Jacobs at lpjacobs@emta.org or Aviva Werner at awerner@emta.org.

Election of EMTA's Board of Directors

In addition to the topics discussed at the Annual Meeting on November 29, 2023 (see page 1), in accordance with EMTA's By-Laws, Directors to EMTA's Board were also elected by vote of the Full, Associate and Buy-Side Members. As required by the By-Laws, the Directors are divided into two classes (whose terms expire in alternate years).

The following Directors (listed with respective firms) were elected at the Annual Meeting to serve for two years (2024 and 2025):

Peter Marber	Aperture Investors
Brian Weinstein	Bank of America
Amer Bisat	BlackRock
Thomas Clarke	Citi
Luis Mendes	Deutsche Bank
Ricardo Mora	Goldman Sachs
Herbert Filho	Morgan Stanley
Patrick Campbell	Morgan Stanley Investment Management
Ammar Aziz	NatWest Markets
Dean Menegas	Spinnaker Capital
Pasquale Calabro	UBS

The following Directors (listed with respective firms) are continuing to serve in 2024 (the second year of their two-year term):

Mark L. Coombs	Ashmore Investment Management
Peter Feola	Barclays
Elena Isaico	BNP Paribas
Jens Nystedt	EMSO
Tim Gill	Fidelity Investments
Tina Vandersteel	GMO
Omar Takriti	HSBC Bank
Christopher Kelly	Invesco
James Banghart	J.P. Morgan Chase
Fernando Phillips	Marathon
Michael Baptista	MarketAxess
Pramol Dhawan	PIMCO
Gordon Daley	Standard Chartered Bank

Annual Meeting (continued)

Claudio Irigoyen (BofA Securities) set the scene with a discussion of the US outlook. "Data releases in the US have been much stronger than expected, and many have been surprised by how much inflation has come down despite the continued economic strength," he observed, with apparently consensus now that the US can avoid a recession and instead undergo a soft landing.

In response, GMO's Tina Vandersteel explained that her firm was a value manager and thus didn't make portfolio decisions based on economic outlooks. That said, she noted that inflation did appear on a downwards trajectory, with the wages perhaps stickier than goods.

Irigoyen addressed the debate on whether the neutral rate of interest has moved higher, and asked if speakers were concerned about fiscal policy, given the political difficulties of fiscal consolidation, "whether Democrat or Republican, in the US or the EU." BlackRock's Amer Bisat responded that, as for the neutral rate of interest, "honestly, I don't know…and I'm in good company…Jay Powell doesn't know either." He cited the wide range of intractable, slow-moving factors that determine the rate. Analyzing the weighted range of possibilities, Bisat believed that, currently, nominal interest rates "are where they should be." T. Rowe Price's Samy Muaddi added that being a rates strategist was a difficult job, and that for an EM investor the shape of the yield curve is much more important than "waiting for confirmation from the US rates market to take risk in EM…that's not going to lead to a very successful outcome."

Hari Hariharan (NWI Management) called attention to the comments made the previous day by FOMC hawk Waller that appeared to open the door to rate cuts. "We need to divine this," and understand exactly what Waller is looking at to prompt his recent remarks. Hariharan acknowledged being "petrified" about the US fiscal situation; "the ratings agencies are beginning to sniff it."

On China, Irigoyen highlighted the several challenges going forward and the bearish market sentiment. Did panelists still see opportunities in the PRC? According to Hariharan, China has demonstrated through its actions that the Western investor base is no longer important to the country, so foreign investors are now focusing on how quickly they can disengage. He offered two solutions for the Chinese economic malaise – (1) helicopter money to Chinese residents that can be used for consumption only (not savings), or (2) a return to a capitalist model that allows the yuan to depreciate, unleashing a disinflationary supply shock to the world. However, Beijing's actions in the opposite direction make the country "in a nutshell, uninvestable."

Muaddi agreed, although by using the different rationale that the likely outlets for losses from the $45 trillion in post-GFC credit creation were the ADR markets and HY bonds. For Bisat, the question was whether the increased debt burden in China because of the property sector was setting up a Minsky moment that would bring down the entire global market, or whether it would be a slowly-progressing disease.

As for 2024, Vandersteel saw local debt as attractive, considering possible Fed rate cuts and consensus that the dollar was expensive. Muaddi agreed, while noting that the local market call has been a recurring theme in recent years that hasn't worked out. The BB credit market was "mostly picked over" by January, and opportunities in the pond of distressed debt were not big enough for client portfolios, in his analysis.

Annual Meeting (continued)

"Resilience is the most overused word of the year," declared JPMorgan's Joyce Chang as she opened the event's second panel, with EM economic growth not reflected in returns which failed to surpass other asset classes. She polled sell-side speakers for their views on when the Fed would pivot, their expectations for rate cuts, and opinions on whether a recession could be avoided. For context, Chang displayed a slide of the speakers' forecasts for key economic variables in 2024, available on the EMTA website at https://www.emta.org/media/geslcz35/final_2024-emta-sell-side-forecast-table.pdf.

Barclay's Christian Keller replied that they forecasted "one quarter of slightly negative growth in the US, but not enough to cause a recession." His firm's view on rate cuts was out of consensus, he acknowledged, with a call for the first cut only in December 2024. The risk of Europe falling into a deep recession have receded, although "the region it is still not a great growth story." On China, "we are in the camp that bad news is good news" because of the increasing pressure for greater official stimulus if economic performance continues to disappoint.

Dirk Willer (Citi) confirmed that his firm anticipates a US recession in mid 2024, and was seeing deterioration in the labor market as a signal. Citi expects 100 bps in rate cutting to begin in July. Drausio Giacomelli offered the Deutsche Bank viewpoint of a moderate recession, with 175 bps in rate cuts in 2024 starting in June. His firm's forecast of 0.2% European growth next year may now be at risk following the recent German court ruling striking down the re-allocation of unused pandemic era debt. Deutsche Bank was more constructive on China, expecting stimulus measures to be adopted, and a target of at least 4.5% (and 4.7% in 2024).

Alberto Ramos expressed the panel's most bullish forecast on behalf of Goldman Sachs. "We expect the US economy to grow 2.2% in 2024 and outperform expectations again, a full point above current consensus," he stated. He added that Goldman's view on the Chinese economy was also slightly more positive than most Street estimates. Ramos believed that US rate cuts would probably be delayed until 4Q 2024, with a 25 bp rate cut per quarter until 2Q 2026, for a terminal rate of 3.75% (also higher than most estimates, he pointed out). Finally, Chang offered her own house view that JPMorgan was less convinced of a soft landing, and any recession that plays out could drag out to 1H 2025. JPMorgan anticipated 100 bps in cuts starting in 2H 2024, and saw the dollar as "incredibly overvalued," but unlikely to face a major correction.

Would flows return on EM debt next year? "EM is running out of excuses on flows…before it was because all of the money was going to China, then the excuse was that the dollar hadn't turned yet," observed Willer. Panelists agreed that rates on US treasury bills pose a significant hurdle for EM to conquer. Ramos believed EM returns could be "in high-single, low-double digits - nothing spectacular," with inflows possible at year-end, when his firm expects US rate cuts and a moderate weakening of the US dollar. Finally, Chang envisioned $20 billion in net inflows next year, which she characterized as "tiny in the global scheme of things, because there is competition with other asset classes offering similar returns."

Annual Meeting (continued)

The panel turned to specific EM credits. For Giacomelli, the most important development in Argentina was that the debate has moved towards the political center. He advised the incoming team not to be too aggressive on reforms to avoid triggering the backlash that confronted former president Macri. Keller advised clients that they had time before they should invest in Turkey. “Don’t be a hero, it’s not ‘buy the rumor, sell the fact’ but rather ‘wait for the facts’”. That implied waiting for inflation to peak in 2Q, the March elections to have passed and for Erdogan to show that he continues to support the Central Bank policy. Ramos favored Argentina on regime change, but stressed governability is a huge issue. He added that “you don’t choose dollarization, dollarization chooses you!”

Cape Town Panel Focuses on South African Growth, Ramifications of ’24 Elections

Speakers at EMTA’s Forum on the Economic and Political Outlook for South Africa in Cape Town covered a wide range of topics, including the country’s potential growth, election risks, and the USD/ZAR FX rate. The event, held on November 16, 2023, was sponsored by Standard Bank, with the additional support of Citi, Deutsche Bank and Rand Merchant Bank.

Moderator Elna Moolman opened the first session with a request for panelist views on the global outlook. Nishan Maharaj (Coronation Fund Managers) acknowledged he was slightly more pessimistic than market consensus, expecting inflation to be stickier than most market participants. He didn’t see the first rate cut by the US FOMC until 2H 2024, and most likely in the 4Q.

Rashaad Tayob (Foord Asset Management) underscored that even though the soft landing scenario has been generally accepted by the market, a hard landing could not yet be ruled out. In that case, any earlier-than-expected Fed pivot would pose a downside risk to the dollar. Carmen Nel (Terebinth Capital) expected the EU and UK to go into recession next year, with the US entering a slowdown.

Moolman underscored that investors must always be wary of election risks, and polled her panel for views on South Africa’s 2024 elections. “Far too many people depend upon the ANC for their livelihood, and they won’t put their jobs at risk…I don’t think the ANC is in as much danger as the polls suggest,” asserted Tayob, who was pleased the government has not turned to pre-election stimulus. However, he underscored his concern for the next generation of ANC leaders.

Moolman followed up if speakers expected there was political will to reduce spending. “The short answer is no,” according to Nel. She then reiterated comments she had made at previous EMTA panels that “it’s not the quantity of spending that is the issue in South Africa, it’s the quality and that it’s badly managed in some areas…if we fix that, the spending won’t be so much of a concern.”

Nel envisioned South African growth picking up to 1.5% in 2024, as most of the country’s trading partners exit slowdowns next year, “so it’s very important is what happens in China.” South Africa has “effectively stagnated since 2015, but will likely do better than her 0% growth forecast this year. She expressed concern about the sustainability of South African growth. Maharaj highlighted the structural changes that were prerequisites for increased growth.

“Load shedding kills the vibe,” according to Tayob; “no one wants to put a cent in this country at stage 6, and I don’t see ANC policies pushing us to the highest levels of sustainable growth.” He expressed disappointment that neither Ramaphosa nor Finance Minister Godognwana “appear to be troubled” by sub-par growth and don’t seem to react to what the markets are telling them.

Cape Town (continued)

Moolman stated that her firm saw the rand as fairly valued, and asked if panelists agreed. Nel believed the ZAR was fairly valued at 17 to 18, with a US hard landing pushing down the dollar. She speculated that the rand could reach 17 next year, but the election results would be a strong factor, “and I don’t see it at 16.”

Deutsche Bank’s Danelee Masia served as moderator for the event’s second panel. She initiated her session by asking speakers where they stood on the spectrum of bears to bulls on South Africa.

Citi’s Gina Schoeman prefaced her remarks by stating, “it’s hard to ever label yourself super-bullish on South Africa,” before sketching a positive case for 2024. She predicted 1H would be a rollercoaster, while there was reason for optimism if both consumer spending and investment “had legs.” Schoeman cautioned that, “I’m not going to tell you that growth is going to shoot up, but consensus appears to be in the 1.3% to 1.6% range for growth next year,” with inflation, the elections and demand for renewables all key factors.

Isaah Mhlanga (Rand Merchant Bank) also espoused a cautiously optimistic tone. Consumers were likely to benefit from moderating inflation and rate cuts. He spoke enthusiastically about the potential of the private sector, emphasizing that growth forecasts are underestimating energy reforms. Logistical issues with Transnet need to be resolved (“it’s a question of when, not if”), which will remove a constraint on growth. The upside risk to growth also depended on whether Eskom could reduce load shedding; “most corporates can deal with stage 3.”

“Optimistic might be too strong a word for me; I’d say I’m constructive near-term,” countered Jonathan Myerson of Visio Fund Management. In his view, the direction of travel was more important than the absolute number, and Myerson highlighted that South African growth would defy the global trend next year.

Masia discussed concerns over sticky inflation, observing that any hope of returning to the 3% target band last year has clearly dissipated. Schoeman pointed out that even early-mover Central Banks have backed off from rate cuts. Her estimate for inflation was 4.5% in 2024. “I don’t think the SARB will tolerate 5.5%... maybe 4.5% to 5%, but not higher than that.” Mhlanga seconded the call for 4.5% to 5%, “but you need an anchor, and fiscal policy is not that anchor.” For Myerson, the question was whether inflation can be kept at 4.5% when the debt/GDP ratio peaks around 78%.

Mhlanga expressed concern about a lack of political will to curtail spending, highlighting the 0.6% increase in February expenses vs. the budgeted 2% contraction. “If they couldn’t reduce spending outside of an election year, cuts next year are much more unlikely,” he stated. Schoeman suggested that the implementation of spending cuts may be a function of pre-election polls.

Cape Town (continued)

On private sector participation in investment in the economy, Mhlanga observed that, “in the ex-energy sector, we haven’t even recovered to the pre-Covid era.” Private sector involvement in the energy sector was a confidence game, “and the load shedding issue needs to be addressed.” The change in direction should be acknowledged, and gave him reason for increased confidence. Less optimistic, Myerson feared that the government remained suspicious of the private sector.

As for politics, “there is a degree of ‘2024 is our 1994’ floating around in South Africa, for the younger generation who didn’t live in the pre-1994 era; and they are voting quite differently,” said Mhlanga. His base case was that the ANC would govern without the EFF or DA parties, and “it’s quite conceivable they can win a majority again.” If the party fails to get 45% of the vote, he anticipated a market sell off, even if the eventual government policies adopted are “decent.”

Moderator Masia concurred that the market would rally should the ANC gain an absolute majority, as “foreign investors seem to fear a complete shutdown of the economy.” Schoeman stressed the importance of the turnout of rural voters for the ANC. Polls seem to indicate the ANC would win between 47% and 52% of the vote, with investors wanting certainty for the next five years, rather than risks such as the budget not getting passed. Schoeman believed the market consensus was that the ANC would enter a “reasonable coalition with a small party,” if need be.

Myerson retorted that, “the government until now has been a total failure, I’m not sure why their victory next year should inspire investor confidence.” He added that the overall strategy was “only to fix things when they break.” Masia believed that the silver lining is in the number of parties and independents contesting next year. Not only does it place more pressure on the ANC to deliver on reform agendas, but it may create additional optionality for the ANC, should they fall short of the majority vote.

Masia asked if a further credit downgrade was possible. Myerson’s base case was that the country’s outlook would be downgraded, but that “the situation is fixable if reform proposals are actually followed.”

On the rate outlook, Schoeman conceded that her call for 25 bps in cuts every other meeting starting in May until a reduction of 100 bps was achieved was not a “high conviction” forecast, and would bring monetary policy back to neutral. Mhlanga expected cumulative cuts of 75 bps between July and November 2024, with geopolitics (including the US election, and concerns over a spreading of the conflict in Gaza) among the major risks.

Other topics covered by the panel included South Africa’s sukuk issue, and whether disappointing coalition governments in South African provinces and municipalities augured poorly for a national level coalition government.

Johannesburg Panel Focuses on Growth, South African Elections

The effects of load shedding, the upcoming elections and a possible coalition government, and when the SARB might begin to cut rates were all part of the discussion at EMTA's Forum on the Economic Outlook for South Africa, held in Johannesburg on November 14, 2023. Standard Bank sponsored the event, with additional support from Deutsche Bank.

Moderator Elna Moolman (Standard Bank) first led the panel through a discussion of the global framework. "Have US rates peaked? I wish I could give an answer with high conviction," stated Victor Mphaphuli (Stanlib). Nonetheless, US yields have become quite attractive after years in negative territory. Mphaphuli expected yields to trend lower over the next twelve months, down to 3.0% or lower in the event of a hard landing, and between 3.5 to 3.75% in the event of a soft landing. Mphaphuli noted that both DM and EM forecasting has become harder because the playbook used now differs from the framework used in the past with central banks emphasizing data dependency.

On the hard landing/soft landing debate, Deutsche Bank's Danelee Masia reasoned that, "when an economy cracks, it's usually because of pressure from job losses that cause a significant collapse in consumption." This cycle was unlikely to follow that pattern because of the large number of early retirements, prompting a shortfall in working age participants in the labor force. Her firm expects a mild recession, with Europe further along the path of an economic slowdown than the US.

James Turp (Sanlam Investors) offered his view on the ZAR, stressing that he didn't expect a sustained rally in the currency until economic growth and the fiscal deficit improved. "Good news is that there are indications that things are moving in the right direction, such as today's employment data, and improving energy availability…but is it sufficient to build a case for investment in South Africa, because that is the recipe to get the rand stronger?" Turp cautioned that portfolio managers need to be nimble to short-term developments, and he cautioned that geopolitical risk seemed to be increasing.

Kanyane Matlou (Terebinth Capital) reviewed the effects of load shedding on economic growth. "We've seen encouraging improvements in recent weeks, but we want to see more signs that it's sustainable." The private sector has helped the energy sector, although it may take 2-3 years to make up for what Eskom has lost, he reasoned. Matlou saw South African growth at 1 to 1.5% in 2024, with structural issues continuing to restrain economic expansion for the foreseeable future.

Johannesburg (continued)

Panelists addressed positioning in the run up to South Africa's elections next year. Mphaphuli acknowledged that elections are always a concern for investors, and pointed out fears that the ANC will adopt populist measures in the run-up to the vote. "However, I'm encouraged that that hasn't happened so far" he commented. His base case was that the ANC could fall somewhere between 45% and 50% which could still allow them to form a coalition government. A big drop to 40% as indicated by some polls could bring some complications on coalition politics like we are seeing playing out in the local government sphere. Turp's base case was that the elections go "relatively well" for the ANC, while warning that politicians' "laser focus" on the upcoming vote could lead to policy paralysis in the coming months.

On Transnet, Matlou saw the involvement of the private sector in resolving the company's issues as a potential positive surprise. The government was unlikely to give Transnet all that they asked for; "they will need to do a bit of self-help," he stated.

The SARB was "probably done" with hikes, according to Matlou, who believed 75 bps in cuts could begin in May. Masia argued that action could be taken before Fed cuts because South African real rates will become quite constrictive. Even 100 bps in cuts would still leave South African rates neutral to slightly constrictive, in her analysis.

Argentina (continued)

Ezequiel Zambaglione (Balanz Capital) served as moderator in London, asking speakers' analysis of the election results to date, and their predictions for the final round. Barclays' Pilar Tavella agreed that the market has been surprised twice now, but candidate Massa appeared to have the upper hand going into the final vote. For Milei to emerge victorious, he would have to convince 60% of Juntos por el Cambio (JxC) voters to support him; "not impossible, but not easy." Tavella listed as critical factors the support of former President Macri, as well as the turnout for a vote taking place after a holiday weekend, which she described as favoring Massa due to lower participation.

"If you had asked me one or two months ago, it would have seemed impossible for Massa to win…it's almost unthinkable that he can, being the incumbent with 300%+ annualized inflation," she stated. In any event, the election was likely to be very close and likely to be decided by no more than a few percentage points.

HSBC Global Asset Management's Martin Soler acknowledged Massa "put the Peronist machinery at work," and drove up voter turn-out as compared to the PASO round. In Soler's analysis, Milei's campaign may have lost steam as fear of the unknown driven by FX market gyrations seemed to have capped his performance. On the other hand, Soler cited reports of increasing critical goods shortages, long gas lines in Buenos Aires, and surgeons unable to get the supplies needed for bypass surgery since the first round. "It's hard to envision that those sorts of developments don't influence voters," he underscored.

The de facto breakup of the JxC coalition after the first round has weighed against Milei, according to RBC BlueBay Asset Management's Graham Stock. "Massa can just stay on the sidelines and not interfere, while Milei is possibly losing his identity in the race," he stated. If Milei adopts a more moderate tone, "he would become just another politician," and harm his image as the outsider-disrupter. "How could the current Finance Minister come out on top in this election, given the poor economy? It's because Milei is promising worse inflation, and it was shrewd of Massa to call attention to the proposed bus fare hike with posters in the transit system." Stock saw momentum on Massa's side.

William Blair's Marco Ruijer argued that Massa was able to move towards the center as he won the first round without depending on Peronist radicals. In his assessment, Massa would be stronger if he maintained a centrist posture; "if he shows too much affinity to the Kirchner wing, he will likely lose." It would then be up to Massa to "clean up the mess his government made" and adopt measures to restore trust and credibility with the IMF, including a credible fiscal adjustment.

A President Massa will no longer have the option of adopting a "muddle through" approach, in Stock's view. Investors may find reason for optimism though in the fact that all candidates have addressed the need for a fiscal adjustment in 2024. Stock agreed that "the IMF won't listen to Massa's promises again," and that he would need to take action to restore credibility.

Argentina (continued)

Ruijer reminded attendees of Argentina's history of non-compliance with previous IMF accords, "and bondholders should be thinking of the reactions to headlines should Argentina go into arrears, even if there is mostly upside with pricing in the 20s." He offered his assessment that adjustments in the first year of a new Argentine administration aren't that difficult; the problems may come if inflation peaks around midterm elections in year two. He stressed that the IMF would not consider new disbursements until the new administration demonstrated progress from structural reforms.

Tavella's base case was that the Chinese swap would cover Argentina's near-term IMF payments to avoid arrears and that it would seek a new IMF program in Q124. An arrears scenario is a risk but there are incentives on both sides to reach an agreement. She expected that, assuming a Massa victory, he would renegotiate a new IMF program in Q1, but the Fund will demand as prior actions a devaluation of the peso and improvements on the fiscal account and would no longer demonstrate the leniency it had in the past. Tavella reasoned that the risk that the Fund would adopt an even more stringent stance was likely offset by its concern of being blamed for another crisis. "With Massa, the issue is not governability, it is his commitment, and that will be tested down the road; with Milei it's more of a governability issue," she summarized.

Ruijer considered a future Eurobond restructuring likely, with Buenos Aires attempting to be "as friendly as possible," but that the government would need to show evidence of a fiscal adjustment. He calculated that, in order to provide a reasonable coupon compared to current UST yields, a haircut of greater than 50% was implied.

Stock anticipated a rally in Argentine paper if Milei won, as it could represent a center-right coalition built with Macri, and with Macri economic team members possibly joining the new administration. In addition, a Massa defeat could also be interpreted as Cristina de Kirchner's final exit from the political scene. On the other hand, a Massa victory with the hiring of more centrist economists ("if he can get it past the party's left-wing") would demonstrate a movement of the Peronist party, which would also be well-received. "But any rally would be short-lived, it's the new policies that are more important," he emphasized.

The panel conducted a port-mortem on Bullrich's candidacy from the JxC. "She was a weak candidate who didn't speak to the key issues, but, most importantly, the party argued the whole time and showed its division," according to Stock. For Tavella, Bullrich lacked the charisma needed in a deeply polarized society. Speakers agreed that the collapse of Bullrich in the first round had opened the door to a greater role for Macri.

Speakers also concurred that dollarization was increasingly less likely, due to the lack of support in Congress, and Milei's failure to secure a win in the first round. "He would be better off abandoning it now; he won't lose core supporters, and he may gain new voters afraid of it," advised Ruijer.

Argentina (continued)

Ruijer cautioned investors that, no matter who wins, “the charm offensive is coming with whoever is the next finance minister; they have no alternative,” declared Ruijer. “However, execution will speak louder than a charming new finance minister.”

A week later, on November 8, 2023, EMTA held a similar Forum in New York City. This event was sponsored by PPI, with additional support from BancTrust, and occurred as several polls showed a tightening of the race.

“Massa is a well-known quantity to the market, with a penchant for over-promising,” stated PPI’s Walter Stoeppelwerth in opening remarks. He asked his speakers what actions would need to be taken to convince the market that his interests were in alignment with theirs.

BlackRock’s Pablo Goldberg responded that, while Massa has been well-known by the market for many years, it remained unclear “which Massa we will get if he wins…a more orthodox Massa or the continuation of some of the populist measures adopted recently – he has been trying to convince us that past performance is not indicative of future performance.” A President Massa would have to first restore his credibility with the Fund, while the market will also demand “prior actions” from Argentina to rebuild trust. Goldberg dismissed Massa’s hints of a gradualist approach, should he win, as unrealistic given the needs of the economy, as well as his assumption of a coming-together of Argentine society; in contrast, “I think the polarization has widened.”

Ramiro Blazquez (BancTrust) revealed that, based on the simulations his firm has run, Milei had a small edge, while acknowledging that the race was too close to call. Blazquez argued that Milei would not have an easy path earning credibility with his fiscal plan, which would involve higher taxes to companies and high net worth individuals. On the other hand, Blazquez refuted the apparent consensus (expressed at the London panel) that Massa would have an easier path on governability as “overdone; there will be a tug of war between Massa and the Kirchner wing over spending cuts.”

How should investors play Argentine debt, asked Stoeppelwerth? PIMCO’s Lupin Rahman recalled that, in the past, Argentina had a greater role in EM portfolios because of the scarcity of HY assets, but now it competes with a wide variety of newcomers. “With the current political risk, we are thinking less about the country’s fundamentals, and more about how each candidate can navigate the political realities, and so we see Argentina as more of a ‘trade’ and less of an ‘investment,’” she affirmed. Even if the new government was able to “check all the boxes,” with an IMF rapprochement, successful output from the Vaca Muerta oil field and lessened social division, “it gives pause to real-money firms like ours that all this progress could be overturned in the next elections.”

Argentina (continued)

EMSO Asset Management's Jens Nystedt observed that Argentine debt seemed to be trading in a "reasonable range, with neither compelling arguments to go long or short; it's a super interesting and liquid credit, but we don't see any urgency to do anything now." Long-term, Nystedt saw reasons for optimism on Argentina's potential. "Reasonable policies could make the country work," he maintained, while pointing out that the amount of time spent by the industry as a whole analyzing Argentine bonds was not yet matched with the returns it has paid.

The panel focused on what economic polices Argentina could adopt to lure longer-term investments rather than opportunistic trades. Goldberg offered that, while "we will have to see who Milei surrounds himself with, his victory could be seen as Argentina finally rejecting the Kirchner model." In any case, "we need to see delivery" for the country to attract longer-term investment.

In Blazquez's analysis, "both candidates could fail miserably, and hyperinflation cannot be ruled out; while social tolerance for reform becomes lower each time." He recalled the U-turn of the economy when former President Menem launched his plan against the hyperinflation of the 1990s. "We don't know what will happen; it could be that a very bad trade now becomes a good medium-term investment."

Rahman stressed that it was not any one item that could be used to argue the case for long-term investment in Argentina. "For me, it is an alignment of interests of the Argentine population, the political class and the IMF; can the new president move these three pillars together to make the policy adjustment that is needed?"

Changes in FX policy, a better harvest and having net positive reserves could convince investors a Eurobond default is off the table in 2025, suggested Nystedt. On the other hand, "dollarization would be a significant mistake—maybe not even possible legally—and that would make us stay away."

If a new restructuring occurred, it could be more cumbersome than in the past, opined Goldberg. He contrasted current conditions to those of the last default. "The lender of last resort is already in the country, everyone is in the game, and there is not much scope for new money." Goldberg emphasized that the last restructuring's unleashing of a century bond was hardly likely to be repeated if a new default occurred.

Rahman called attention to the composition of Argentina's debt, and that it is now largely senior IFI obligations with a smaller amount in Eurobonds. "With the IMF, development banks, Chinese and other bilaterals ahead of us, Eurobond holders should expect much harsher treatment, and that needs to be considered, even if there is a reasonable chance that a restructuring can be avoided." Nystedt added that any restructured bond would need to have a significant coupon, "not a 1% step-up," and a value recovery instrument tied to GDP or some other metric to allow investors to share in any upside.

"I don't think Argentina has a debt problem—it depends on the policy mix," declared Blazquez. With the right policies, and the development of the lithium industry and Vaca Muerta, a default can be avoided, in his view.

The panel debated the market reaction to the election of either candidate. While their analyses were different, most expected only moderate market responses to either outcome.

The panel concluded with moderator Stoeppelwerth announcing his own take that, should Massa prevail, "he will be the most powerful leader in two decades," and fiscal adjustment will be "entirely possible."

EMTA Panel Makes the Case for EM Corporates Despite Disappointing YTD Returns

Challenges to the asset class notwithstanding, speakers at EMTA's EM Corporate Bond Forum in New York City maintained that value remains for EM corporate investors. Speakers reviewed the impacts of LatAm elections, the collapse of the Chinese property sector and other factors while suggesting opportunities. The event was hosted by Fitch Ratings on October 25, 2023, with the additional support of BofA Securities.

Anne Milne (BofA Securities) began by asking speakers for their reactions to Massa's surprise victory in the first round of the Argentine elections, which had just taken place before the Forum. Celina Apostolo Merrill (BlackRock) stated that polls in general can be limited in their accuracy, and it's hard to predict either candidate's ultimate success. In a Milei victory, it would be unclear if his campaign promises would be feasible, including dollarizarion. PGIM Fixed Income's Aayush Sonthalia expressed his view that, no matter who was elected, the macroeconomic trajectory was unlikely to change, although several Argentine corporate issues have nonetheless "held up well." Fitch Ratings' Saverio Minervini stressed the potential of Vaca Muerta, with "energy the only game in town to get Argentina out of this crisis. He added that "there is more and more stress on Argentine corporates due to restrictions to make payments, and this is reflected in our CCC-ratings on the sector."

Speakers agreed that it was too early to predict the future in Venezuela, as election progress was, at best, unclear. However, GMO's Mustafa Ulukan praised US officials for removing sanctions on secondary market trading of Venezuelan debt, calling the previous ban "a haphazard policy response" that penalized savers and asset managers, rather than the Maduro regime. Minervini highlighted that the Venezuelan oil industry was in dire need of massive infrastructure investment after years of neglect, and cautioned against unrealistic expectations of a quick ramp-up in oil exports.

Milne confirmed that her firm had downgraded its initial 10% return forecast for EM corporate debt in 2023 several times. Performance is now about flat for the year, with negative total returns expected currently in Brazil, Mexico and China. She polled panelists to see if they were more optimistic. Sonthalia reasoned that the current yield of around 8% was "not a bad entry point" on a medium-term basis, especially as the average credit quality of the EM corporate index is high BB. However, he warned investors that we may experience outflows for "another quarter or two, until the macro stresses and geopolitical crises are calmed down, or resolved."

Corporate NY (continued)

Merrill stated that, despite the current challenges of "higher for longer," it was premature to expect ongoing outflows from the EM corporates asset class. The quality and composition of industry indices compares favorably to that of a decade ago, with "most C-suite executives now more sophisticated and, recognizing the opportunity of historical low rates, have refinanced a sizeable portion of their debt in 2020-21. The challenge for portfolio managers is to highlight to clients that we can build portfolios that avoid problematic areas like China property sector and the unpredictability of geopolitical outbreaks, and most importantly, the high quality of EM corporates trading at a premium over their DM counterparts. Merrill revealed that her firm has had an increasing number of RFPs for EM corporates especially from yield-buyers. Ulukan reminded attendees that investors often chase past performance, putting EM corporates at a disadvantage, despite the excess spread and diversification it offers.

Milne brought up the impact of populist leaders on corporate issues. Minervini described the effects of Petro's election on several Colombian energy and utility firms, with regulatory changes making some assets uninvestable. Similarly, actions taken by President AMLO to put the brakes on energy reform has reduced investment into Mexico, and is overhanging the country's growth.

Merrill hoped that the winner of Mexico's 2024 presidential election would be more pragmatic than her predecessor, leaving room for additional investment. On Pemex, Sonthalia reasoned that the next president would have no choice but to support the company, due to its dependence on the oil producer. Sonthalia didn't anticipate a formal sovereign guarantee, but rather a continuance of the ad hoc measures to keep the company solvent. "It will be more of the same for the next 3 to 5 years," he concluded. Minervini pointed out that support to Pemex from the sovereign will surpass the country's tax receipts from the oil giant by 2025.

On China, Sonthalia ventured that negative news flow may have peaked, with better-than-expected 3Q GDP numbers, making the official 2023 target of 5% achievable. He acknowledged that some clients have excluded Chinese assets from their mandates, and that Chinese HY debt including the property sector were "pretty much uninvestable; some big bonds have just disappeared." While he would remain cautious overall on Chinese corporates, he still saw pockets of opportunity in the broader region

Other topics covered by panelists included the GCC corporate market, which Merrill expected to be a source of future issuance as the region attempted to diversify from oil exports. She saw Turkey benefiting from more orthodox policy and the technical underweight of most fund managers. Minervini believed that the worst was likely behind us in Brazilian corporates, barring another Americanas-type scandal. He informed audience members that, previously, Brazilian issues had accounted for approximately half of Fitch's ratings downgrades ytd as a result of high local rates and inflation.

Concluding the panel, Milne called attention to the number of great companies in the EM corporate market. EM sovereigns had reacted quicker to the financial meltdown, and EM policymakers have had a better grasp on the macroeconomy. While higher US rates, the collapse of the Chinese property sector and sanctions on Russia were not helping, she emphasized that opportunities remained in EM corporates.

Indian Economic Growth and Chinese Economic Malaise Reviewed in Singapore

The EMTA Forum in Singapore 2023 was held on October 19, 2023 at the Raffles Hotel and hosted by long-time event supporter, ING Bank. The Forum featured two back-to-back panels and a sit-down luncheon for its attendees, courtesy of ING Bank. EMTA gratefully acknowledges the additional event support provided by BNP Paribas, HSBC, Moody's Investors Services and REDD Intelligence.

Moderated by Rob Carnell (ING Bank), Panel One of the Forum *(Risks and Prospects for Investing in South/Southeast Asia)*, which included Adam McCabe (abrdn), Celeste Tay (Blackrock), Christian de Guzman (Moody's Investors Services), and Shilpa Singhal (Schroders), did a deep dive into the economics and economies of South/Southeast Asia.

A quick survey by moderator Carnell to set the external backdrop for the discussion showed that a notable percentage (34%) of attendees predicted a "higher-for-longer" rates environment. Against that backdrop, Singhal and McCabe both emphasized the resilience they see in the region, McCabe commenting that monetary policy responses in South/Southeast Asia have been "judicious" and have created an "ecosystem" where resilience has been possible (adding that intra-regional trade links have bolstered that resilience). McCabe added that the Fed approach to monetary policy execution seems to have turned from active rate-setting into more talk and an expectations-management phase. Tay feels that a landing is an inevitability, but not necessarily a hard one, but that one will come ("I do not believe in an antigravity world").

Turning to geopolitics, Carnell asked how the situation in the Middle East might affect South/Southeast Asia or whether it was insulated. Singhal noted that Asia as an oil importing region has a level of dependence on the Middle East and, as a consequence, will be vulnerable to sharp oil price increases if they materialize. She tempered that by noting that Asia is a more "sheltered" part of the EM markets and exposure in Asia is more directly impacted by rates volatility than the Middle East conflict.

The panelists moved to India's prospects as the next "powerhouse" in Asia, with Singhal and McCabe taking a largely constructive view on India's economy and its progress ("with some effort and some luck, the stars are aligned") (Singhal) and Tay and de Guzman being more cautionary. Thirty percent of the audience agreed that India could be the next Asia powerhouse.

Singhal inventoried India's structural reforms (importantly, tax reforms), increased financial access in more segments of the economy ("small things add up," she said), improvements in infrastructure, changes in India's approach to monetary policy and currency flexibility, a "cleaned up" balance sheet, India's government bonds being slated for inclusion in the GBI-EM Index and a current windfall with

Singapore (continued)

oil imports at a discount all as positive tailwinds for India as it moves into the future. De Guzman took a more muted perspective noting that India's sovereign rating had been higher previously and while India has seen a number of positive changes, these have only benefitted India "at the margins." Consequently, de Guzman sees India as still in a weak fiscal position ("deficits are still wide") and not yet clearly in upgrade territory. Tay cited structural issues as still bogging India down, including India's lack of skilled labor, the complexity of both its tax system and its land acquisition and ownership system. Tay also noted that India continues to be exposed to global cyclicals and questioned what index inclusion would actually mean for India.

McCabe noted that, with respect to its currency, the RBI seems to want to use reserves to dampen volatility in the rupee more than manage the rate and that policy conditions don't seem to support "taking the foot off the break" as yet. McCabe sees possible future latitude for the RBI, policy-wise, and their neutral policy rate could be lower once the impact of recent structural reforms seeps in.

Turning to the region as a whole, Carnell once again polled the audience asking which sovereign in South/Southeast Asia is most likely to be upgraded; the audience identified Indonesia as the most likely candidate. From a ratings perspective, de Guzman offered that both the cyclical and the structural need to be examined, and that while Indonesia has benefited recently from cyclical factors, he questioned whether these benefits are really the result of the recent commodity boom ("more work needs to be done") or ultimately structural. He offered that he does not now see any current candidates for an upgrade but does not dismiss the possibility of a downgrade in the ASEAN Region. Singhal described Indonesia is well-positioned on energy transition and with a monetary policy environment that has improved and identified Thailand as her second choice (the "Chinese tourists are finally back, and things are improving"). Tay agreed that Thailand and Indonesia have good potential.

Turning to fiscal policy issues, Carnell inquired about countercyclical stimulus and which South/Southeast Asia country would be most likely to deploy. De Guzman offered that growth is holding up well in South/Southeast Asia, so such measures may not be needed, but if so, he offered that the pair, Indonesia and Thailand are best positioned to push out fiscal stimulus.

On the question of exposure by regional banks to slowing China and/or to general interest rate risk, de Guzman saw little direct exposure and only some indirect exposure ("direct exposure to China is immaterial and manageable"). ASEAN generally is a beneficiary of the "China-plus-one" strategy despite the slowdown, McCabe affirmed.

Take-aways from the panel on the ESG topic included: "energy transition is critical to all analyses now", "risk-return was the traditional driver of growth, but ESG is now a driver", South/Southeast Asia is very exposed to climate risks" and "ESG has scores, not ratings," noting carbon transition and physical climate risks.

Singapore (continued)

Following the first panel discussion, the second panel of the EMTA Forum in Singapore tackled Asia's largest economy, China, in its panel discussion titled: *"China: Risk On? Risk Off?"* The panel was moderated by Pin Ru Tan of HSBC Bank and included panelists Prashant Singh (Neuberger Berman), Yii Hui Wong (Blackrock), Zhi Wei Feng (Loomis Sayles) and Sid Mathur (BNP Paribas).

Tan asked the panelists to assess China's short-term issues, launching in with questions on post-COVID growth, possible flattening of growth altogether, USD/CNY directionally and monetary easing. Tan noted that, despite predictions of strong growth for 2023 following China's post-COVID re-opening, the Chinese economy grew only a little more than 5%.

Mathur offered that the market has misunderstood China's policy objective; that while people assumed that the policy was growth, Chinese policy had, in recent years, shifted to addressing economic vulnerabilities and focusing on more inclusive growth. Government turnover in China has slowed the policy changes, he noted.

Tan posited that market expectations that savings, pent-up during the pandemic, would naturally flow back into the market, boosting it when it re-opened, had proved not to be true. Surprisingly, a PBoC survey showed savings rates in 2023 as high as they were before the re-opening. Feng suggested that for the Chinese consumer to feel comfortable spending, they must feel comfortable with job security, wealth growth potential, value appreciation, etc. Spending on the small things has resumed but larger investment decisions seem to be held in abeyance, she noted. This psychology, she continued, will put a continued damper on growth. Feng reminded the audience that policy makers in China have a long horizon. Wong largely agreed with the slow return of Chinese consumer confidence and spending and its effect on economic growth.

Has growth bottomed with better prospects ahead, then asked Tan? Singh agrees with "slower-for-longer" growth for China, noting that "past excesses have to be paid for and a prolonged slowdown is ahead."

Turning to USD/CNY, Mathur noted that, recently, CNY strength had improved a bit, but US exceptionalism will continue to mean a strong dollar, and Mathur sees a fairly range-bound USD/CNY rate until the US outlooks shifts or China delivers meaningful policy stimulus, it will remain that way.

Will Chinese soon begin to introduce monetary easing, asked Tan? Singh believes the structural issues in China of high leverage, property market risk, income and jobs outlook are simply too large to be solved by monetary policy measures alone.

Singapore (continued)

With respect to the property sector, Feng pronounced the property sector a long-term issue for China with the likely end result being that the property sector will look more like a public utility than an investment opportunity. Wong agreed with Feng's assessment of the property sector problems as a long-term issue for China, noting the vastly decreased market demand, some increased activity in the secondary market and lack-lustre activity in the primary market at present. Wong predicts that the SOE property developers will continue to gain market share.

Wong also noted the rise of newer industries and new entrants in China including tech, energy and auto manufacturing, which appeal to the local governments. With time, the LGU's with their lower financing costs are poised to reap rewards of these new market dynamics, believes Wong.

Is a "Japanification" of China possible? queried Tan, to which Mathur responded, "Yes, but with Chinese characters." Mathur noted that it is very possible that China could face similar issues of prolonged low growth, inflation and low interest rates. What distinguishes China from Japan is China's centralized decision-making and much less extreme circumstances, continued Mathur. Feng jumped in to point out that the renminbi, importantly is a controlled currency (unlike the yen) and that execution is once again the key with China. Singh noted how different the geopolitics are for China than for Japan, and that this affects Chinese policy levers.

Turning to possible recent changes in policymaking in China and the upcoming Third Plenum, Mathur noted that it was as yet unannounced which could indicate policy paralysis and lack of clear direction. Two other Chinese government meetings to watch carefully, continued Mathur, are the National Financial Congress and the so-called "Two Sessions" meetings in March 2024.

Insofar as asset allocation observations go, Wong favored the onshore market ("has outperformed", "volatility is low" with an "upward sloping yield curve"). Feng noted value in certain Chinese property sector bonds at 5% or less and is waiting for the likely recovery of the property market, Prashant pressed himself bearish on the tail risks and the lack of clear compensation for those risk, as well as being concerned with the looming impact of geopolitics ("is China un-investable?").

In contrast to the more expected wrap up with "favorite investment picks", Tan asked the panelists to take a break from the dismal science to offer a reading or viewing recommendation on China. Panelists' picks included: China's Economy: "What Everyone Needs to Know" (Arthur Kroeber) (2020) and "On China" (Princeton University Series) (Mathur), "The College Entrance Exam" (Documentary, YouTube) (Feng); "Still Life" (Docudrama) (Singh) and Kuang Biao (Television) (Wong) and "American Factory") (Film) (Tan).

EMTA Hong Kong Panel Addresses Chinese Economic Fizzle and Drying Up of Eurobond Issuance

Chinese economic growth, geopolitical tensions, near-shoring, and the contraction of the Asian Eurobond new issuance market dominated the discussion at EMTA's first post-pandemic Forum in Hong Kong. The event was held on Tuesday, October 17, 2023 with over 75 market participants in attendance. The LSEG Group hosted the EMTA meeting, with S&P Global Ratings providing additional support.

Moderator Joyce Bing (abrdn) initiated the panel by polling speakers for views on the global economic outlook. Louis Kuijs (S&P Global Ratings) apologized in advance for offering the "quite boring" baseline scenario of a US soft landing, with a gradual decline of US inflation, although he warned of "many risks that could put a spanner in the works." PIMCO's Stephen Chang largely agreed, while referring to the above-consensus September CPI as possibly causing the Fed "a lot of anxiety." There remained a "strong chance" of an additional Fed hike, with rates likely to remain "higher for longer" to prevent inflation spiraling out of control.

Eric Liu (AllianceBernstein) reminded attendees it wasn't too long ago that the world was awash in negative-yielding bonds. He believed Asian issuers would increasingly turn to local debt markets, rather than dollar-denominated debt, because of their relatively lower rates. Chang predicted that inflows won't return to EM debt until global macro conditions improve, and the Fed begins to cut interest rates.

Bing observed that the initial euphoria following the Chinese reopening last year has given way to fears that the economy is losing steam, and asked for speaker opinions of the Chinese growth trajectory. Chang replied that Chinese growth has closely tracked official targets historically, although recent figures had been "more volatile than usual." On the day before China's 3Q GDP data beat market expectations, Chang affirmed that the official 2023 goal would likely be achieved, while 2024 growth was less clear (he noted Street estimates of around 4.5%). Continuing issues in the property sector, uncertainty regarding stimulus measures, and decreased US demand for Chinese exports were all challenges to be addressed.

Liu seconded that growing 5% in 2023 "won't be a problem, but 2024 is an open question." After the encouraging signs of the Golden Week holiday, there seemed to be an almost "bipolar" economy, with strong demand for "affordable" luxury, juxtaposed with weakness in the property sector. The government has changed its use of stimulus, now subsidizing consumption (demand), rather than supply as in the past.

Hong Kong (continued)

Bing next raised recent volatility in the renminbi. Leonard Kwan (T. Rowe Price) observed that Beijing had political reasons to anchor expectations, wanting the Chinese currency to have an increased role in the international economy, and for the yuan to be seen as a store of value. An ideal solution would be for a natural weakening of the US dollar, although he recognized that was less likely as a result of "higher for longer" US rates. In Kuijs' assessment, a further weaking of the yuan wasn't justified on a valuation basis, and he expressed sympathy with Beijing's concerns that a further decline could spark capital outflows. He noted he would be more alarmed should the dollar strengthen significantly.

A reduction in US-China tension was possible in the next two months, according to Chang. The war in the Gaza Strip was serving as a more pressing issue, while recent meetings between US and Chinese officials have helped each side "to see the human faces of each other." On the other hand, elections in Taiwan and the US could create new frictions, especially as adopting a hawkish stance on China was a bipartisan US position, and US legislation on Chinese tech and AI will discourage FDI inflows into China. "Tensions will remain, but they will ebb and flow, with Biden attempting to establish a floor," he stated. "Fundamentally, it's hard to see substantive improvement in the US-China rivalry, although tensions have calmed down recently," Kuijs concurred.

Kwan anticipated additional defaults in the Chinese housing sector, although the "value destruction is behind us." Measures to promote the sector have been "marginally effective, but clearly demand is slowing down, due to demographic and other issues." Offshore debt holders remain "lower" on the list of Beijing's priorities. Liu argued that current projects would be completed to prevent social unrest, but raised doubts if supply would be soaked up by real demand. Restrictions on the sector would be gradually reduced until the market reached equilibrium, in his analysis.

Kuijs observed that Chinese economic weakness had a knock-on effect on all its Asian trading partners, with India and the Philippines the least vulnerable due to their comparatively lower trade relations with China. While much has been written about reshoring, Kuijs affirmed that, "we are still waiting to see it in India's macro data, while there has been evidence of greater FDI inflows into Malaysia and Indonesia. Kwan noted that, while ASEAN countries should theoretically be beneficiaries of "de-risking," there is also limited data demonstrating this is occurring. "These countries don't yet have enough capacity; delivering on that narrative will take a lot of time to materialize."

The panel concluded with a discussion of "is China uninvestable?" For Liu, the days of "buying anything in China and watching it rally" are over; nowadays, many investors are shying away from Chinese debt. He saw this, however, as opening up potential opportunities. Chang also acknowledged that the pool of clients seeking China exposure has decreased, as the risks have become much more apparent. Kwan conceded that some who have left China will never return. He believed that eventually there will be another bull market in China – "you just don't know when." He cited the large number of Chinese that could still be lifted up the economic ladder, and subsequently have disposable income to spend. "Deleveraging was very painful in the US in 2008, now it's China's turn…but if you stay away, you will miss that next opportunity."

EMTA's APAC Working Group Meets in Hong Kong

Lawyers from several EMTA Member firms meet in Hong Kong for the first time since 2019 chaired by Leslie Payton Jacobs.

Hospitality for the meeting was provided by Goldman Sachs at its offices in Central.

The Working Group reviewed current EMTA FX work streams which included discussion of EU benchmark issues, Indian onshore NDF trading capability, and possible updates to the 1998 FX and Currency Option definitions among others.

EMTA's APAC Working Group Meets in Singapore

Clifford Chance hosted the annual meeting of the EMTA APAC Working Group lawyers based in Singapore which was attended by many of the Working Group.

Clifford Chance provided an overview of current issues of interest and EMTA's Leslie Payton Jacobs followed with an overview of the current work streams of EMTA in the FX area, which EU benchmark issues, Indian onshore NDF trading capability, and possible updates to the 1998 FX and Currency Option definitions among others.

Stalled Momentum in Nigeria As Early Enthusiasm for Tinubu Administration Wanes

High hopes for Nigeria's new government following surprise announcements on fuel subsidy and FX reforms and the change in the Central Bank governor have given way to a more cautious outlook, according to speakers on EMTA's Webinar on the Economic Outlook on Nigeria, broadcast on Thursday, October 5, 2023. Nearly 300 viewers watched the program, which was sponsored by BancTrust with additional support from Morgan Stanley and Standard Chartered.

"Momentum seems to have stalled, and local confidence has decreased in recent weeks; there is a notable slowdown in business activity," noted panel chair Ayodeji Dawodu (BancTrust). The Lagos-based speaker noted that the main question remained how much pain Nigerians would endure before they began to see benefits.

Artisan Partners' Unoma Okolo declared that the removal of fuel subsidies and the credibility-restoring changes at the central bank were the major achievements for the Tinubu administration thus far. "These were good starting points, but a lot needs to be done, and the attempts on the fx adjustment have clearly been botched," she commented. "Eight years of disfunction needed to be followed by a strategy to let the market find a clearing level for the fx," but the administration has failed in that. While Okolo was impressed by several members of the new cabinet, she questioned its size, especially as many were "merely cronies, and not the technocrats the country needs."

The fx adjustment in June seemed to initially indicate a move to a more flexible regime, observed Samir Gadio (Standard Chartered), but liquidity had not improved. In addition, there remains much heavy lifting to be done to structurally transform the Nigerian economy, including fixing the power situation and improving the ease of doing business.

T. Rowe Price's Roy Adkins praised officials for "bold and decisive initial attempts" to address the fx and fuel subsidy issues, but he faulted the sequencing of reforms as being "less than impressive." Morgan Stanley's Neville Mandimika agreed with fellow panelists' critiques, but emphasized that "the situation was acute, and the country moved very, very quickly—they should be commended for that."

Speakers believed that the strong relationship between President Tinubu and Central Bank governor Cardoso could be an asset. Okolo expressed concerns over a recent Central Bank policy paper that mighty suggest a need for a greater understanding of economics, "but Cardoso is a massive improvement from his predecessor; maybe he can convince the president of the need to sustain the pain for longer in order

Nigeria Webinar (continued)

to improve the country's long-term financial health, such as by raising local rates." Cardoso's previous experience in local institutions may help him get buy-in from the Nigerian banking sector, according to Mandimika. "In the past regime, it wasn't clear that the president and central bank governor were on the same page, but there is a need for them to pull together now in the same direction to reach their goals," he added. Gadio envisioned the new teamwork and its improved communication aiding on the fx policy side, and good relations also with the finance ministry will help in coordinating on raising rates.

The panel did not foresee an imminent return of foreigners to the local debt market. "We have to be realistic. US rates at 5% makes investment even in liquid EMs a challenge," reasoned Gadio. Mandimika concurred that the bar is "exceptionally high," with Nigerian real rates negative, in comparison to high DM rates and even "potentially interesting" rates in SSA sovereigns, such as Zambia, Ghana and South Africa. "Nigeria will need to raise rates much higher to compete with its peers, and that will take thick skin," he concluded.

Asked how to unlock fx market liquidity, Adkins characterized it as a perfect Catch-22. "In order to improve fx liquidity, you need to raise confidence," he stated. He speculated that either a hike in local rates, or a funded IMF program, could be ways to address the fx issue and boost confidence. Past impediments to repatriate hard currency continue to overhang Nigeria today; "this history needs to be removed from investors' minds; it needs to be easy for foreigners to move money in and out of Nigeria."

While the panel agreed with Adkins that an IMF accord would be a great step to boost confidence, none saw it as likely. Okolo attributed it a "2% possibility--I fear that if you hear they go to the IMF, you should worry because it will only be due to a significant worsening of the economy." Gadio pointed out that, in 1985, there were newspaper articles describing the IMF's calls for a devaluation and a removal of fuel subsidies, and the situation hadn't changed over the decades. Adkins deemed Nigeria approaching the IMF would be a "textbook case" of solving near-term liquidity issues, but remained blocked by a stigma and political repercussions (although he raised the possibility an IMF deal might even make reforms easier politically). A muddle-through approach was more likely and could also be successful, albeit not the ideal, solution, according to panel speakers.

The panel responded to audience questions on oil production. "Security improvements could boost production, but increases would be small and not a panacea; what is really needed is structural reforms," argued Mandimika. Adkins voiced disappointment that Tinubu had not already acted to decrease oil theft, and revealed that his own projections assumed no increase in output. ("But if they can fix that, it would really help the FX liquidity issue.") Okolo saw perhaps 100,000 more barrels could be sold with theft prevention, but the medium-term and beyond required better infrastructure and exploration, etc. Gadio seconded the need for industry investment, but questioned oil industry investment appetite in a world shifting to greener energy sources.

Finally, Dawodu was pressed to further discuss his own assessment. "The second fuel price hike prompted local sentiment to take a nose dive, with a notable decline in movement in Lagos and a sense of lower business activity." He believed the government still had political will, but future strategy was not clear, and communications issues remained. "Now that the cabinet is in place, let's see what the plan is," he concluded.

Sanctions from US/UK Regulatory and Dealer Perspectives Addressed

The EMTA Seminar panel "Update on EM Sanctions" on September 28, 2023 in Shearman & Sterling's London office discussed the escalation of sanctions on Russian entities, a changing sanctions landscape in Africa and possible new sanctions approaches in Venezuela.

Thomas Donegan (Shearman & Sterling) moderated the panel discussion, with Dean Tyler (BancTrust), Daniel Drake (UK Foreign, Commonwealth & Development Office) and Blake Pritchett (US State Department) as additional speakers. Additional support was provided by BancTrust.

Drake defined the framework from the UK perspective. The Money Laundering Act of 2018 (as the transition legislation and relatively untested) provided the power to embellish the overall architecture, implementation and enforcement of a sanctions regime in the areas of transportation, trade and financial sanctions. Any amendments were aligned with other UK government policies. These powers in the FCDO are different than those of OFAC or the US State Department. In the Russian context (with 20 pieces of legislation added in the last 18 years), Drake stated that there was a particular need to assert economic pressure on Putin and the Kremlin. He believes that many in the UK understand the individual costs necessary to end the war. Sanctions are designed so that the impact is greater on the target, carving out areas which will have the most significant consequences, without a risky "all-out ban". The General and individual Licenses are meant to provide clarifying advice and guidance, while ensuring implementation with a range of steps, and attempting to manage consequences and inevitable impacts. There are "massive long-term implementation challenges" in using economic pressures on a country. He noted a 50 million Sterling infusion into the FCDO to improve enforcement.

Donegan acknowledged that there was a balancing act from a public policy perspective as to which targets to choose for sanctions, and asked Drake what the financial industry can do to promote the FCDO's objectives. Drake responded that the FCDO was keen to have an improved relationship with the private sector, with outreach and information sharing to identify potential trends and understand the concerns. He mentioned that, in 2022, there was a "red alert" as Russian technologies were ramping up, so tackling trades in that environment was particularly problematic, but that's where compliance laws are useful. It was important to reduce the burden that businesses bear in a sanctions environment. The FCDO was open to feedback; concerns do not "go into a black hole".

Pritchett explained that most understand the US Treasury Department's role since OFAC was familiar to those practicing law. OFAC has most of the authorities from the President to impose sanctions; currently there are 35 different sanctions programs. The U.S. State Department is also involved in defining US policy towards various countries and fitting the sanctions regime into those policies; thus, there are two agencies that drive policies in the US. However, in some instances, such as the Russia sanctions program, the President has delegated the authority to impose sanctions to both agencies.

Sanctions (continued)

After investigating, sanctions are enacted by the agencies on targeted sectors to change their behavior. General and Special Licenses (which are drafted by the Treasury Department in close consultation with the State Department) are meant to provide guidance and mitigate the impacts on US Persons. The Justice Department is involved in enforcement actions.

He listed Iran, North Korea, Russia, Belarus (because of its support for the Russia invasion) and some hot spots in Africa as primary focuses presently, with Russia as the largest focus. He noted that the US is working to minimize disruptions of sanctions on key markets and sectors (such as energy), while being cognizant of food insecurity that may have worldwide effects. With other allied sanctions in the UK and EU, US sanctions are meant to impose accountability and costs on sanctioned nations. He mentioned that, in 2022, the US imposed 2275 unique sanctions designations (a significant escalation from 2021's 743), mostly due to Russia's 1698 designations, accounting for 74% of OFAC's designations. He acknowledged the huge compliance burden on the financial sector, and, like Drake, stated that open dialogue and engagement with the private sector to understand what's working, the "pain points" and what's confusing was crucial in fine-tuning the US sanctions policies.

The US is also at the same time involved in defending human rights (for example, sanctions against human trafficking and anti-democratic actions/interference in elections), anti-competitive practices and cybersecurity, and also trying to promote accountability for corruption in sanctioned countries. There is usually a clear policy intent (with broad thematic projects) that sanctions are meant to address. He also said there should not be much guesswork about the US intent of its actions; the US does not want to be vague and opaque, and, therefore, publishes advisories to aid the market. The "key takeaway" is that the Treasury and State Departments are very interested in hearing the private sector's concerns since implementation relies upon it.

Donegan commented that there is a strong partnership, broad alliance and collaboration between the US and UK, and Blake attested to the information sharing between the two countries (for example, at the initial Russian invasion there were weekly calls to coordinate policy). Both Drake and Pritchett conveyed that they understood that any gaps or conflicting guidance was difficult for the private sector. While not perfect, the agencies try to work in alignment to "use the tools of economic pressure". Drake stated that the US, UK and EU "fulcrum" had greater impact if they acted collectively, and the level of alignment was "pretty incredible", given how the different systems work.

In response to Donegan's question on how the private sector was navigating the impact on sanctions, Tyler replied that sanctions on EM countries have an effect on both issuers and investors. In 2014, with the Russia sanctions, there was a "massive transfer of wealth" relating to US and UK investors that had previously provided financing to Russia. With the "ever-changing nature of Russia sanctions", reaction of the private sector was varied. The 2014 sanctions didn't de-couple investors from Russia. With limited resources in firms' compliance and risk departments, the advice at first was to stop all dealings with Russia. However, that was probably not the desire of the US and UK agencies that implemented the sanctions. Rather, the policy was to orderly unwind transactions and stop new money flows. The complexity of transacting in this environment was apparent. The bridges among the clearing systems (Euroclear, DTCC and Clearstream) collapsed and different pricing of Russian assets as a result of this collapse led to devaluation of the Russian assets, with US investors holding assets in DTCC suffering the most.

Sanctions (continued)

Sanctions on Central Banks also changed the landscape. Venezuela in the last 5-6 years was also affected by sanctions, with a huge devaluation and a disruption in the value of investments. Trade sanctions affect firms' credit analysis. Immigration sanctions close the doors of employment. He questioned whether sanctions on Cuba have achieved their purpose, with "the bad guys of today even worse than the bad guys of yesterday". While there are no sanctions on China, there are sanctions on Chinese entities. He concluded by stating that EM countries need financing for their development and growth, and there have been massive outflows as a result of sanctions. He cautioned that the "clock is ticking" and, if firms don't get back to investing in these countries within a certain amount of time, then investment may never return. Massive fines on BNP for evading sanctions scared many firms, and the growth in compliance at firms is due to over-regulation, in his opinion.

Donegan questioned how implementation of sanctions could be improved. Drake responded that he had a team of analysts reviewing the overall macro impact, making projections and amending incentives to have the strongest impact (for example, on Russia's war machine). The Russia situation is "complicated and unprecedented" as payments are trapped in clearing system chains.

Pritchett stated that sanctions were only one policy tool. Each sanctions project has unique goals, so sanctions can't be evaluated generically to determine their efficacy. Sanctions alone may not change policies in these countries; diplomacy is also very important. Sanctions are meant to be targeted to specific situations, unintended consequences are carefully reviewed and whether exemptions are warranted (e.g., to provide humanitarian aid to the Syrian population) are also discussed. He admitted that sanctions are not designed to be permanent; rather, they're designed with a specific purpose in mind, and the administration regularly reviews and calibrates its actions. If there's a behavior change or circumstances change, then sanctions will be amended. Every case is taken seriously.

In Venezuela, for example, the sanctions are against the Maduro regime, which undermines democracy and human rights and mismanages its economy. The core US objective is to promote the restoration of democracy there (while supporting the opposition in their negotiations), and it is paying close attention to what Maduro does, and will adjust its programs, as appropriate.

Donegan then turned to the Russia frozen assets topic. Drake commented that this was the subject of an active debate in the G7, with many of the assets held in Euroclear. It is likely that sanctions will be kept in place until Russia pays damages to support the Ukraine recovery. There are a number of complex legal questions. He acknowledges the difficult operating environment for those foreign firms still in Russia. Pritchett noted that last year Congress allowed the US to take forfeited assets at the conclusion of a legal process, and that Congress continues to debate this issue.

"Higher for Longer" a Roadblock to Sub-Saharan African Access to Capital Markets

The effects of "higher for longer" global rates, the lack of market access for sub-Saharan African (SSA) sovereigns, and the outlooks for Kenya, Nigeria and Ghana were among the themes explored at EMTA's 11th Annual Forum on Sub-Saharan Africa. The standing-room only event was hosted by ICBC Standard Bank in London on Wednesday, September 27, 2023. BofA Securities and Rand Merchant Bank provided additional support for the event.

Jibran Qureishi (Standard Bank) initiated the session by asking speakers how and when SSA sovereigns could regain market access in the "higher for longer" backdrop. Would an eventual Fed rate- cutting program be enough for a change to a more positive risk sentiment overall?

Yvette Babb (William Blair) cited double-digit current yields for most SSA sovereign Eurobonds, and affirmed that a prerequisite for renewed market access was at least a stabilization in US treasuries. "I'd like to believe that we are close to the end of the rate hiking cycle, that US rates will be lower a year from now—and not because of a hard landing," she stated. Combined with at least minimal growth and an end to EMD outflows, Babb foresaw a possible return of risk appetite and the compression of HY vs IG spreads. Those countries with "credible policies" would outperform.

BofA Securities' Tatonga Rusike concurred that an end to Central Bank rate hikes would have to occur before SSA regained market access, with his firm calling for one additional increase before a pivot to cuts in 2H 2024. Countries which could potentially boast of reforms such as Nigeria, Angola and Senegal could be among the first to be able to issue new debt. Rusike did not anticipate any near-term SSA defaults. In general, SSA "Eurobond market access can be delayed—but not denied—until 2024, since there are mostly small payments coming up, with the big one being Kenya next year," he commented.

"The times have shifted, but the thinking in many SSA countries hasn't," cautioned RMB's Samantha Singh. She feared that some SSA finance ministry officials may not totally understand the repercussions of a lack of capital market access. Kevin Daly (abrdn) sounded an even greater alarm. "Our base case is that there will be no market access for these countries next year…and there could be several credit events over the next several years," as countries continued to suffer from the overhang of Covid and inflation.

Qureishi requested panelist expectations on Ghana's restructuring. Abrdn's view was that a Ghana deal in 2023 (and before next year's elections) was "ambitious", according to Daly, with the IMF's bearish assumption for the fx rate the main sticking point. A contingent instrument was a possible solution being discussed, he added. Babb seconded that a deal will "be more problematic as we get closer to elections," while Rusike reminded attendees of "the precedents of deviations from the fiscal consolidation path in previous election cycles." Singh pointed out that Ghana had beaten her firm's growth estimates recently, and stressed credit should be given for progress on the fiscal side. Yet, an IMF MoU before the next review in November seemed "slightly ambitious" in her analysis.

SSA (continued)

The panel offered their assessments of the new Tinubu administration in Nigeria. Daly noted that the finance ministry has named fx liquidity and increased oil production as their two main goals at recent investor presentations, and voiced optimism. “The direction of travel is positive, after being negative for the past 8 years,” he stated, encouraged that oil production was on the rise, and monetary and fiscal policy were back in alignment.

“I do sense that investors are willing to be optimistic–let’s see if they are able to deliver; let’s see real clear plans,” opined Babb, who suggested that further spread compression was questionable in the absence of additional economic progress. The initial surprise of earlier-than-expected reforms has transitioned into a pause, “but we are hearing the right noises,” said Singh. “If oil production increases, it’s a structural change to the economy,” affirmed Rusike, with the budget boosted by the removal of fuel subsidies and a potential reduction in pipeline theft. The November OPEC meeting could reveal further clues, in his opinion.

Referring to Kenyan President Ruto’s call for a new financial architecture, and the mixed messages on debt restructuring by officials, Qureishi sought comments on whether the ’24 bond would be repaid. While recognizing recent “changes in the narrative, and fiscal slippage,” Daly led the panel in arguing that Nairobi would make full repayment. Singh listed the potential and expected inflows from the multilateral organizations, and cited the new IMF representative’s recognition of Kenya’s regional importance, as reasons to expect the payment would occur, while acknowledging messages from the country’s DMO “that haven’t been welcomed.” Babb seconded that the country hadn’t “done itself any favors with mixed messaging on their objectives,” while also expecting a muddling through. “They have a tendency to perennially overpromise and underdeliver on the fiscal front, and they need to stop doing that,” she concluded. Rusike ventured that the IMF might even step up support if Kenya demonstrated reform progress.

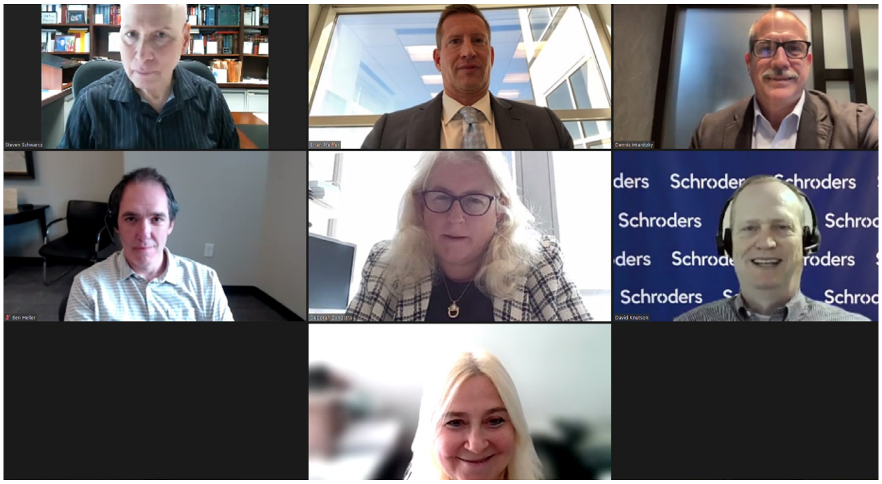
Rusike responded to the warning by Moody’s that a partial buyback, below par, of Kenya’s debt could trigger a default action. “The success of a Eurobond is not at issuance, but when it is repaid in full and on time,” he declared, noting the ratings agencies could deem below-par partial buybacks of lower-rated sovereigns as distressed because of their assumption that the issuer would default if the exchange wasn’t successful. He noted South Africa’s allocation to Eskom as a case which avoided any such trigger.

Qureishi urged Kenyan representatives and the ratings agencies to have further dialogue on the issue, citing buy-backs in Mongolia, Gabon and Oman that had not triggered default ratings. He recommended a buy-back be carried out with funds from new external borrowing, as “paying the ‘24s out of reserves in the absence of market access, or a partial buy-back, is a terrible idea.” In his analysis the country’s economic officials have no plans for a restructuring. While the ’24s were likely to be repaid, he advised there would be “challenges,” with future large maturities if fiscal consolidation efforts are not intensified.

Finally, the panel addressed political risk concerns. Babb emphasized the differences between Gabon and the francophone Sahelian countries which had recently suffered coups, and urged attendees not to extrapolate turbulence in the Sahel to other African countries (e.g., Cote d’Ivoire and Senegal). Daly revealed his firm had bought back Gabonese debt on weakness, expecting a strong willingness to pay under the new government, while recognizing that “it’s not super liquid and not a credit for everyone’s liking.” Singh admitted she was more concerned about elections in Senegal and Cote d’Ivoire over the next two years rather than contagion from recent coups.

Proposed NY Legislation Debated at EMTA Webinar

The EMTA Webinar panel "Proposed NY and UK Legislation: Is Jurisdiction Change on Governing Law a Possible Answer?" on September 22, 2023 reviewed legislative proposals to address perceived imperfections in the restructuring process for sovereign bonds issued under NY law (which proposals may also be seen in the UK for English law-governed bonds).



Dennis Hranitzky (Quinn Emanuel Urquhart & Sullivan, which sponsored the event) moderated the panel discussion, with Deborah Zandstra (Clifford Chance), Steven Schwarcz (Duke University Law School), Ben Heller (HBK Investments), David Knutson (Schroders Investment Management Limited and The Credit Roundtable) and Brian Pfeiffer (White & Case) as additional speakers.

Professor Schwarcz (an architect of one of the legislative proposals – the sovereign restructuring bill (sometimes called the "Model Law") - introduced in Albany) provided a brief overview of the topic. He referred to two bills that are intended to impact about half of the world's sovereign debt contracts, which are governed by NY law. The main objective of the sovereign debt restructuring bill is to solve the collective action or hold-out problem, whereby a minority could hold up a reasonable restructuring by demanding a higher proportional share of the recovery. The hold-outs in his estimation are typically "vulture funds" that purchase the debt at a deep discount and try to extract a near par amount from issuers by buying a blocking position to prevent a restructuring.

The bill that Schwarcz was responsible for introducing (and sponsored by NY Communities for Change, Partners in Health and others) would insert an arrangement into sovereign debt contracts that permits a super-majority of a given class of creditors in aggregated voting to override dissenting creditors (similar to Section 1126(c) of the US Bankruptcy Code that is used for corporate debtors to achieve the same goal). The bill also provides for DIP (debtor-in-possession) financing, recognizing that sometimes the IMF might not have sufficient capacity or political will to provide it.

The second bill sponsored by Jubilee and Oxfam would provide an "outcome restraint" on restructuring, such that private creditors must provide as much relief to debtors as official creditors (specifically the US government) provide. Both bills purport to attempt to help debtor states by reducing their debt burden, with the first discussed bill using a consensus process vs the second bill using a fiat process.

Schwarcz also mentioned the issue of whether the proposed legislation violates the Contracts Clause of the US Constitution, prohibiting states from retroactively impairing private contracts, given that NY law (as amended by the legislation) would apply super-majority voting retroactively to all sovereign debt contracts caught by the legislation. He posited that New York State has two justifications to enact the sovereign debt restructuring bill: "police power" and the fact that the impairment to parties' rights would not be "significant". (Although he noted that the second ("outcome restraint") bill would only have the police power justification.)

NY Legislation (continued)

Hranitzky asked Knutson for his real money lending to sovereign perspective on the legislative proposals, and what he thought their impact would be on sovereign capital markets. Knutson explained that the market was segmented into investment grade and high yield, and further segmented by distressed debt client demand and resources within firms' abilities and expertise. Since not every investor firm has the interest to hold distressed paper, it's advisable to sell to a firm that can manage the process. His main concern is for liquidity for his clients. If there are no investors, the bid would essentially be a "charity bid" from the issuer, which is not efficient for the market. In looking at some of the sovereign indentures, he doesn't think that investors "come in with a heavy hand"; in fact, there's a struggle for creditors to get together. In his view, it's best for the borrower to be "healthy", such that extracting too many concessions on pricing or maturity is not advisable. Therefore, the legislative proposals are not needed since creditors are already doing a good job of managing sovereign debt restructurings.

Hranitzky raised the issue of past UK legislation in this area (albeit narrower in scope), and asked Zandstra for her view on whether she thought new UK legislation would be introduced in the near future. She stated that the UK did legislate narrowly in this space in the past in support of the HIPC Initiative by passing in 2010 the Debt Relief Developing Countries Act intended to prevent commercial creditors from recovering against HIPC countries in the English courts a portion of their debt in excess of the sustainable levels stated in the HIPC Initiative. This Act was meant not just to limit recoveries, but to deter creditors from litigating against HIPC countries.

Most recently, there was an inquiry by the UK Parliament's House of Commons International Development Committee on Debt Relief in Low Income Countries, which included two recommendations. One was the need of the UK government to consult on introduction of legislation to compel or incentivize private creditors by prohibiting countries facing debt distress from being sued by private creditors for a sum greater than those creditors had received had they participated in the Common Framework, or agree to be bound by an agreement that was supported by at least two-thirds of the creditors. The UK government rejected both proposals, arguing that the UK Treasury had multiple ways to speak to the private sector, that the G20 and Paris Club have through the Common Framework established the principles of participating in restructurings on at least as favorable terms as bilateral creditors, and that the UK government was in favor of continuing to enhance market-based solutions and contracts. The UK has also led on the technical work to formulate template CACs equivalent (MVPs) into loan contracts and has provided for payment deferrals and a "breathing space" for pandemic or climate-related reasons that prevent issuer payments.

The second recommendation was that the UK government should engage in bilateral talks with NY lawmakers. That recommendation was also rejected on the basis that it regularly engaged with the US government on international debt issues (although debt transparency topics may be addressed). Therefore, no current steps are being taken under the current Prime Minister (despite some lobbying efforts); this may change with elections in the upcoming years.

Hranitzky mentioned that both Zandstra and Heller have been involved for many years in improving sovereign debt restructuring processes, including efforts to address the hold-out issue, with Zandstra involved in the private sector response to the G20 Common Framework and Zandstra and Heller involved in the ICMA working group that developed the current generation of CACs for sovereign bonds.

Zandstra doesn't see the NY proposals, as drafted, as being "additive" or having gone through a rigorous process of consultation. The CACs approach was based on consultation and aggregation across multiple

NY Legislation (continued)

series of bonds, and it has been refined with pari passu language excluding the ratable payment interpretation (after extensive consultation with various groups and legal scholars as to enforceability and to avoid the risk of any challenges under both NY and English law). The IMF, ICMA and other bodies supported the CAC clauses, leading to their quick adoption in sovereign bond contracts.

Debt Service Suspension Initiative (DSSI) is an example of what results when there's insufficient consultation with the private sector and others (with little private sector participation). She posited that public sector collective action was needed, not private sector changes since the private sector has shown itself capable of coming together and organizing itself into bondholder committees and engaging legal and financial advisors, relatively quickly and is not perceived as the problem.

The on-going work of the Global Sovereign Debt Roundtable, which is looking at how to implement the Common Framework more effectively, is also looking at how to improve official sector collaboration. So, she concludes, the NY bill is "out of kilter" to where we are now. The focus should be on comparability of treatment principles and aggregated CAC clauses with their more predictable application, not introducing uncertain legislation that undermines the efforts of the IMF, G20 and Paris Club to improve sovereign debt restructuring. Investors will likely seek a more predictable legal system and outcome rather than relying on uncertainties related to the proposed NY legislation.

Heller stated that it should be recognized that the sovereign debt market has had an "impressive amount of evolution and adaptation" through the Common Framework and contractual reforms. In the early 2000's, there mostly was a unanimity requirement in contracts to change any economic terms, which engendered the SDRM (Sovereign Debt Restructuring Mechanism) proposal by Krueger. Neither borrowers nor lenders were in favor of the SDRM, which didn't seem to balance the interests of maintaining capital flows to countries at a reasonable price and creating a viable path to restructuring. The "multilateral effort encompassing debtors, creditors and policymakers with a lot of moving pieces" to pursue a model contractual reform regime has been working thus far, even during Covid, with "swift restructurings in Ecuador and Argentina without any holdouts," even during the Russian invasion with debt relief for Ukraine and progress in Zambia.

A vast majority of contracts now have aggregated CACs with more flexibility for different kinds of restructurings, and creditor committees have shown progress. The small holdout will not derail the Sri Lanka restructuring talks even if it wins in court. Heller claims that "executing a deliberate ex ante holdout strategy under the latest generation CAC regime is a big gamble, requiring 25% of the debt holders [to veto new terms, which, if they did, would indicate that the deal is not a fair one; this 25% veto was not seen since the Argentina deal in 2005]".

"It has never really been about vulture holdouts", Heller posited about the Rivera bill, but rather it's about empowering anti-debt activists or bilateral creditors with political, rather than economic, agendas to cram-down all bondholders, not just vulture funds. The working group did not have any US state legislators because they weren't interested parties. In his view, Albany, "by threatening to stick its oar in", has rendered NY "unfit" since it's not a solid enough jurisdiction to provide predictability in sovereign borrowing and lending. "It's not about whether the law passes, but rather about having to play "whack-a-mole" with the legislature and having to deal with susceptibility to activist pressure and "ethnic diaspora politics". Creditors can always lend under local law, but the rationale to resort to external law is for judicial and legal certainty, which would be lacking if the NY proposed laws were adopted.

NY Legislation (continued)

Schwarcz, in response to Zandstra's comments, stated that the NY legislation would only purport to address the private claims, and not impede on what the official sector creditors are doing in terms of the Common Framework or governmental or quasi-governmental agreements. The NY legislation would not, as Zandstra claimed, undermine the efforts of the IMF, G20, or Paris Club to improve sovereign debt restructuring. To the contrary, it would improve it and provide much greater certainty to the debt restructuring process. In response to Heller's "list of horribles", the consensus approach in the proposed law would only essentially create the legal equivalent of aggregate-voting contractual CACs, where they don't currently exist. Schwarcz claims that research shows a trillion of outstanding sovereign debt contracts lack enhanced CACs with aggregated voting against similar debt (and some of those contracts don't have any CACs), so, in his view, the hold-out problem is more prevalent than suggested by opponents of the bills.

In response, Zandstra noted her support for aggregated CACs, but the proposed model NY law does much more than that in not taking into account the "refined sequencing" in sovereign debt restructurings or the IMF's role, the Paris Club and private sector creditors, and ignores the current architecture with comparability of treatment. It's "too simplistic" to claim the proposed bill only affects one creditor class. Issuers can always include aggregated CACs in their contracts, but, if they chose not to, this NY legislation would impose it on them forcibly, which needs to be thought through quite carefully.

Schwarcz countered that the Model Law would not affect comparability of treatment; that was to be determined by the official creditors amongst themselves through the consensus approach of the Common Framework.

Hranitzky stated that there may be an endless stream of bills (not just the three that were discussed on the panel) and this uncertainty leads to rumors he's heard that some creditors in recent negotiations have proposed introducing trigger provisions in new contracts to change the governing law from NY if one or more of these bills is passed in Albany.

Pfeiffer echoed Hranitzky's statement regarding rumors, having been in sovereign debt negotiations on the issuer side and participated in various conferences and initiatives on this topic. Sovereigns are concerned about the intended and unintended consequences of the legislation. In the last 5-6 years, the sovereign restructuring process has been complicated and there have been delays as the IMF, Paris Club, official sector, China and other bilaterals are also part of the process, with a variety of subject matters and incentives. The need now is to think through how to improve the restructuring process generally and shorten the timeline to completion. Given the model CACs that have been implemented in so many sovereign bond contracts and the attendant infrastructure of those provisions, the problem is no longer the creditor hold-out issue. Should the legislation pass, sovereigns may ask for major material concessions from bondholders in the context of new formulated documents that everyone will be particularly focused on. The concern is whether the contract will hold up in light of the NY proposed bills. In order to "protect themselves from the unknown", issuers in relation to Reserved Matters may ask for 50% (instead of the current 75%) creditor agreement to change certain key provisions of the contract, with a "pre-agreement" to change or automatic change of the governing law away from NY if the proposed legislation passes.

Bondholders may turn to the UK for English law (especially since legislative efforts similar to NY's have stalled) since it's the easier path (and with the added benefit of having English law already in many sovereign bond contracts). However, if issuers or creditors want US law, then Texas, Florida or Delaware may be better options than New York for reliability. Whether we'll see new provisions in the next restructuring

NY Legislation (continued)

talks will come down to whether bondholders feel strongly about the topic and whether there's no cost to the issuer in doing so.

Hranitzky pointed out that the movement in the UK toward a Labour candidate may create continued bondholder anxieties that proposals similar to NY's may prevail.

Knutson reiterated that NY law is the current "Gold Standard" for predictability; its opposite is uncertainty of outcome, which will increase costs and prevent investors from entering into those kind of NY law governed contracts. The proposals will distort the market in unintended ways. Taking a complex sovereign restructuring and putting it in the hands of inexperienced actors would be disastrous.

Heller stated that, until recently, creditor focus was on economic, not legal, terms. After the 2020 Ecuador restructuring, more attention was paid to the different trust indenture provisions. Now the regime change and potential volatility of the Albany bills has engendered more focus and awareness, and has placed this issue of jurisdiction "front and center". We can't "unsee this problem". Even though creditors don't relish abandoning NY law, there's support for programming contracts to move to another jurisdiction for governing law at the holders' discretion. This is not "jurisdiction shopping", but rather a need to bail out of NY law to a place that is not subject to similar political and ideological pressures.

Schwarcz reiterated that the legislative changes would not increase costs. To the contrary, by increasing the certainty in the sovereign debt restructuring process, they would decrease the cost of borrowing. The more one has super-majority aggregate voting to resolve the collective action problem, the lower the cost of capital (and he points to empirical evidence in a reputable scholarly publication). And, even if the legislative changes increased costs of borrowing, those costs would not be increased more than costs related to the enhanced or aggregated CACs. The proposed laws were meant to create fair and reasonable restructurings.

Hranitzky noted that the panel has broad views on the amount of risk premium involved. Knutson's view is that, if sovereigns want to amend legacy contracts that lack effective CACs, that should be done through market agreement (that would add value to investors), not through arbitrary legislative cram-down measures, which are unfair. Costs should go up as legal uncertainty goes up, especially for countries sliding into the distressed zone. If there's "no exit", that will be a high bar for investors to get involved in that particular issuer market. A lower number of buyers will result in a higher risk premium. In addition, the vast majority of investors wants to decrease the timeline for restructurings since a delay in restructurings will increase costs to investors, especially real money investors.

Heller distinguished between the Model Law proposed by Schwarcz vs the question of the volatility of the legal regime in NY. If the only bill were the Model Law, with some modifications, then maybe it wouldn't be as worrisome since that bill is similar to enhanced CACs. But, if other bills continue to be proposed, that would be problematic since it would speak to the volatility of NY's legal regime and, therefore, could increase borrowing costs. Investors may decide not to play if the rules of the game will, in the future, be arbitrarily changed in Albany.

Zandstra reiterated that what Schwarcz is proposing is more than a legislative introduction of enhanced CACs, and it doesn't fit into the existing architecture. She strongly believes that the topic needs to be addressed with the G7, US Treasury, IMF, Paris Club and all stakeholders, which has not yet occurred

NY Legislation (continued)

(although Schwarcz countered that they are in the process or will be held with Treasury and the IMF and others). She reiterated that it's "crucial" that these discussions take place, given the current "ecosystem that has to work together" and especially since the foreseeable and negative consequences of the NY bills are currently perceived as very large. With the significant funding needs for some of the sovereigns, it could end up being detrimental to these issuers in the end, rather than beneficial (no matter what the public interest intentions and mindset are for these NY bills).

Pfeiffer distinguished between sovereign and corporate debt restructurings in one major way: the rights and abilities and leverage of bondholders are much, much less in the sovereign context where creditor tools are limited since the sovereign can't be forced into bankruptcy, nor can its assets be easily seized. Litigation is also seldom used and, of late, there has not been much litigation. He expected that the sovereign debt investment mandates of some investors will diminish as a result of the uncertainty of NY bills. So, if less investors will stay in the sovereign space, the costs will increase for issuers.

Hranitzky, who represents "splinter investor groups", mentioned that he would not be surprised if trigger clauses to a particular alternative law or stack of diverse laws away from NY governing law would become popular, as some non-NY law governed bonds would be deemed more creditworthy, lacking the legal volatility of the NY law governed bonds, and thus providing creditors with better treatment in a restructuring.

Zandstra replied that, in fact, this would lead to a risk of fragmentation in the market, with different bondholders holding different governing law bonds with different interests, thus making restructurings even more difficult and delayed. Also, there's a question of whether those different state laws support the same legal analysis as NY CACs and NY pari passu clauses. Such fragmented markets would not be a positive contribution or result and would add a layer of complexity to the existing regime. It would still be preferable for creditors to "have a say" in restructurings than have a third-party cram-down a result.

Knutson reiterated that uncertainties or vulnerabilities in indentures will lead to cheap pricing of those assets, with the weaker credit sovereign having a greater discount, which may be material for many investors.

Heller admitted that the fragmentation was not preferable, but still better than being under a legal regime that was not reliable.

Schwarcz concluded by saying that the Model Law bill may be tweaked and limited to only those contracts that don't have aggregated CACs, and he welcomed reactions from the panel.

Pfeiffer stated that it could be a constructive step in the right direction, but once NY starts to interfere, or be seen to interfere, with contract rights, the concern is where it will stop; will there be another interference coming? Also, the more practical concern is that a number of indentures will, in the normal course, be superseded by refinanced terms (which will include CAC), so the so-called hold-out problem will continue to "take care of itself".

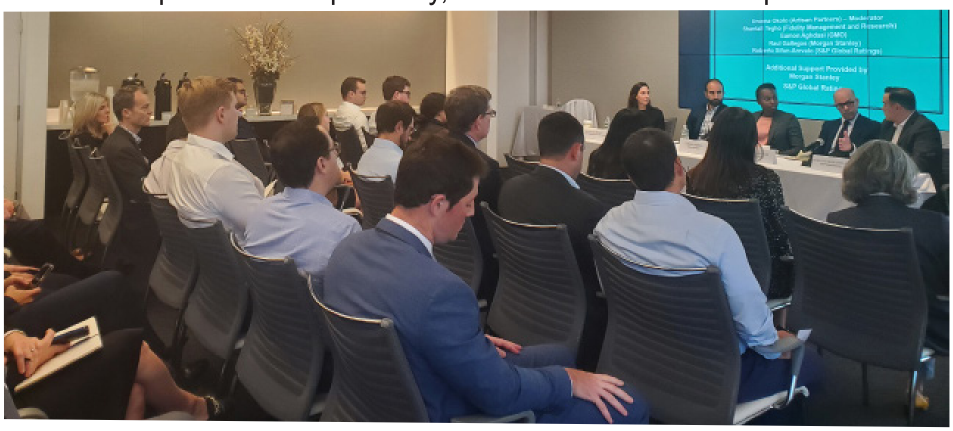
Heller's reaction to Schwarcz's modification was that the NY bill may still lead to volatility, and that further consultation with borrowers and lenders was necessary since he was very worried about activists and ethnic pressure groups infiltrating the process with other legislation down the pike.

Hranitzky noted that the next scheduled session of the NY legislature was going to be in the New Year, although a special session may be convened earlier.

Frontier Markets Changing Fast, Panelists Agree

Boston was the venue for the EMTA Forum on Frontier Credits, held in the offices of host Artisan Partners, on Thursday, September 21, 2023. Moderator Unoma Okolo (Artisan Partners) steered panelists Shantall Tegho (Fidelity Management and Research), Eamon Aghdasi (GMO), Raul Gallegos (Morgan Stanley) and Roberto Sifon-Arevalo (S&P Global Ratings) through a thorough discussion of the status of frontier markets.

A “frontier market,” as characterized by the panelists, generally exhibits one or more attributes of “under-coverage,” lack of financial data and information, illiquidity, being “under-owned” and, consequently, with excess risk premium. Importantly, lack of access to the capital markets results in many frontier markets needing to rely on alternative funding sources. Okolo challenged the panelists to address whether these criteria are still the case in the context of the forward-looking risks of weaker balance sheets, higher-for-longer US rates, a tougher financing environment and quite possibly, deteriorating global geopolitics.



On balance, the panelists all agreed that “under-coverage” is less often the case these days, as there is more and more industry coverage of traditionally thought-of “frontier markets.” Sifon-Arevalo noted that frontier markets historically have not had access to the capital markets and thus funding for them often comes from alternate sources.

Sifon-Arevalo noted the frontier credit attractiveness historically has been the high yield, strong balance sheets and comparatively low debt-to-GDP ratios. But, he conceded, things have begun to change in the frontier credit space.

Given all those negatives, Okolo queried, what is the argument for owning a frontier credit today? Tegho noted that spreads within frontier markets are trading wider than historical averages but conceded that spreads are narrowing now. Sifon-Arevalo commented that yield is still elevated in the frontier space and some credits still have relatively low debt-to-GDP ratios with comparatively strong balance sheets. He did note that many of these features are changing fast. What has not changed, agreed the panelists, is the continued lack of transparency in frontier markets.

Gallegos noted the government of El Salvador (high debt service, said Gallegos) is currently “adjusting” its policies, but felt that the government in El Salvador is “pushing the envelope” in some spheres, as it copes in an environment of high debt service and low growth potential.

The consensus seemed to be that the next few coupons of the El Salvadorean bond issue are secure, but that high interest rates and “hype” around the credit may not ultimately bode well. President Bukele’s recent statements seemed to concern a few of the panelists; Gallegos pronounced debt service and balance sheet as clear risks for El Salvador. Aghdasi expressed concerns with what he feels are unorthodox (“quirky”) ideas by the El Salvador government and sees a “stairs-up-elevator-down” risk for El Salvador.

Boston (continued)

Turning to the frontier market, Pakistan, Okolo asked whether payment of the 2024's is at risk (the "elevator analogy is apt", she agreed). Tegho felt that the risks are "enormous" in Pakistan. She conceded that current IMF numbers indicate that the 2024's can be paid, and noted the Pakistan government willingness to pay, but while the 2024's look secure, the fate of the 2025's will depend on whether the country secures a longer-term program with the IMF after next year's elections. She noted that the current "caretaker" government seems to have support from the Army, but that situation remains fragile and requires a close eye.

Roberto informed that S&P's rating for Pakistan is CCC+ and agreed that "Pakistan will pay [the 2024's] but problems and political complexities loom for Pakistan in the next six months." He also felt that, to the upside, the Pakistan Government has a strong willingness to pay.

With capital markets financing out of reach for many frontier credits, Okolo asked what kinds of alternate financing sources are realistically available for frontier credits. Raul confirmed that Ecuador and Belize have funding sources other than the capital markets. Per the panelists, alternate funding sources for frontier credits can include syndicated loan financing activity (in some African countries), multilateral funding for a number of frontier credits, and bilateral funding (like Chinese loans, in particular) for others; Tegho noted "interesting" GCC activity in this sphere and that Chinese loans seemed to have "deteriorated." Gallegos added that their own domestic markets can be an alternative funding source for frontier credits.

Turning to Kenya, the panelists all felt that the IMF support for Kenya has been "unconditional." Tegho reiterated that there seems to be unconditional support from multilateral institutions and because of this level of support, the probability of default is over-stated in the short term. However, she caveated, the news over the prior few weeks had been a source of tension.

But, Sifon-Arevalo noted, governments in frontier markets are starting to come to terms with the fact that they may need to tap domestic capital markets and accept higher financing costs as, going into the future, alternate financing sources may be drying up. But it may mean going for double-digit funding, he warned.

Ahgdasi offered his view that Belize will never borrow in the capital markets. He is optimistic about IMF's willingness to fund countries like Belize which are frozen out of the Eurobond market but thought it possible that the risk premium for certain credits could come down, making capital market financing possible in some cases, albeit expensive.

More focus by the panelists on the IMF plans for individual frontier markets led to a consensus that the newer "borrower friendly" IMF is inconsistent in its treatment among frontier market credits, with some countries seemingly receiving more latitude than others (an example being Kenya).

Post-restructuring frontier markets have met with different fates, with some succeeding and some not. A lack of meaningful reform was offered up as one reason. On one hand, buybacks are a "reasonable liability management exercise" in Sifon-Arevalo's view. Gabon (a buyback at par) was relatively well received, but a prospective Kenya buyback, on the other hand, met with investor disapproval, due to a perception of a lack of reserves to fund the buyback.

Some final comments on alternative funding sources are that China as a lender "will not play the pari passu" game with investors and that China seems to be less "generous" with investors now.

1998 FX and Currency Option Definitions – Time for an Update?

In 1998, EMTA and ISDA co-sponsored the publication of a set of standardized terms and definitions to help the market more efficiently document trades in FX and currency derivatives. These definitions, titled the "1998 FX and Currency Option Definitions," were a product of an extensive industry collaboration, and were published along with Annex A thereto and the User's Guide to the 1998 FX and Currency Option Definitions. These standard terms were intended to be used in conjunction with any of the ISDA, IFEMA or FEOMA master agreement architectures. After its publication, it quickly became apparent that Annex A, as originally published, needed an immediate overhaul to provide the industry with a meaningful vocabulary for the documentation of non-deliverable FX and currency option derivative transactions, and Annex A was republished in its entirety shortly thereafter. The User's Guide was intended to provide a meaningful record of the history and industry considerations leading to the publication of the 1998 Definitions.

Alongside this industry effort, in 2000, a small and dedicated EMTA working group was formed to provide the industry with recommended standard terms for the transaction of a newly emerging product, non-deliverable FX forwards. This effort was driven in large part by the need to reduce a significant backlog of settlements engendered by non-standardized documentation. Over the next 20+ years, EMTA continued to focus on and respond to the need for standardized terms to regularize FX trading terms in newly emerging markets and ensuring that these recommended terms continue to be compatible for use with the 1998 Definitions. As of 2023, EMTA has published terms for non-deliverable trading in more than 20 currencies and issued 99 market practice recommendations related to those terms.

Since 1998, many amendments and additions to the 1998 Definitions and to Annex A have been made to keep pace with the evolving nature of trading FX and currency derivatives. As examples, various additions, supplemental booklets, and restatements have been made to the 1998 Definitions to respond to the needs of the industry and to enable, and make more efficient, trading in newly emerging FX and currency derivative products.

However, the baseline 1998 Definitions themselves have stayed largely intact for the last 25 years. Over the last several years, with the pace of developments in the industry accelerating, industry interest has sharpened in examining whether and how much of that architecture continues to serve the industry adequately or whether updates are needed. ISDA distributed a survey to its membership, which EMTA likewise forwarded to the EMTA Membership, asking their respective memberships if and to what extent the 1998 Definitions need amending. The memberships were asked if the 1998 Definitions should be amended radically with structural changes or amended to update substantive provisions but largely to retain the existing structure. In addition, the survey asked the respondents to consider how, if amended, to best implement the changes as a process matter. Input on specific substantive matters was also requested. Survey responses to date have been robust and helpful and have given both EMTA and ISDA staff a great deal to consider in mapping out an appropriate path forward.

Discussions on updating the 1998 Definitions between the co-sponsors are currently taking place with input from their respective memberships. Considerations include the potential time needed for a project of this scope, whether the project should involve a full restructuring of the 1998 Definititions or a more targeted update of substantive provisions, the necessity of coordination with other industry participants, digitization goals, and importantly, the endgame implementation process. With input from their respective memberships, the co-sponsors will need to articulate the ultimate goals of the project as well as the process for managing the update project and its implementation. In particular, EMTA will need to ensure that the emerging markets considerations are adequately incorporated into the 1998 Definitions so as to facilitate trading of EM FX and currency derivatives.

EMTA Members are invited to contact Leslie Payton Jacobs at (lpjacobs@emta.org).

Indian Rupee Market Opens to the Door to Onshore NDFs

Recent changes in India's derivatives regulations have opened the door to the onshore transaction of non-deliverable FX forwards to be settled in Indian rupees. Following the request of several Asia-based EMTA Member firms, EMTA has begun to work with its APAC Lawyers Group to identify possible terms for a standardized form of contract. EMTA Members with an interest in this effort are invited to join the working group and should reach out to Leslie Payton Jacobs.

Information on the relevant Indian legislation can be found in the New Developments in the FX and Currency Derivatives area (link below under "Resources").

Resources

As a reminder, EMTA's website offers its Members many FX-relevant resources:

Draft Documentation for current EMTA FX projects can be found HERE.
EMTA FX Market Practices can be found HERE.
Current Recommended Template Terms can be found HERE.
User's Guides and Guidance Notes can be found HERE.
New Developments in the FX and Currency Derivatives area can be found HERE.
Multilateral Amendments and Documentation Protocols can be found HERE.

Comments?

Please direct comments and questions on all FX and Currency Derivatives matters to Leslie Payton-Jacobs at lpjacobs@emta.org.

Zambia Restructuring Falters

Despite the announcement of an agreement in principle on October 26, 2023 and the anticipated successful Zambia restructuring of its debt* after many months of collaborative discussions between Zambia and the Zambia External Bondholder Steering Committee, the deal was suspended due to a number of factors (including comparability of treatment and as more specifically addressed in the Committee's Press Release). This was disappointing for its own sake, as well as in view of its possible implications more generally regarding the G20 common framework.

Click Here for the Press Release.

For further information, please contact Aviva Werner at awerner@emta.org.

Suriname Completes its Restructruring

Suriname announced the completion of its restructuring on December 6, 2023.

Click Here for the Republic's Press Release.

Suriname obtained on November 3 the instructions and consents required to exchange and/or modify 100% of the aggregate principal amount outstanding of each series of its 9.875% Notes due 2023 and the 9.25% Notes due 2026.

Formerly, Suriname's Euronote Creditor Committee supported the upcoming restructuring of Suriname's Notes.

Click Here for the Committee's Press Release and Click Here for the Republic's Press Release announcing the Exchange Offer.

For further information, please contact Aviva Werner at awerner@emta.org.

* (i) $750,000,000 5.375% Notes due 2022, (ii) $1,000,000,000 8.5% Notes due 2024 and (iii) $1,250,000,000 8.97% Amortizing Notes due 2027.

Wilton Park Conference Addressed Sovereign Debt Restructurings

EMTA Staff members Jonathan Murno and Aviva Werner participated in a two-day roundtable workshop in London, exploring options on EM debt restructurings.

The event gathered high-level private and public sector representatives, as well as experts from outside government in a participatory dialogue to discuss the challenges facing Emerging Market countries in debt distress, and to identify solutions for more efficient and effective debt restructuring processes. It encompassed participants from creditor countries and companies, alongside low or lower-middle income Emerging Market countries with high levels of debt. The resulting report provided a summary of the key issues and policy recommendations that emerged during the conference proceedings.

Click Here for the Wilton Park Report.

For further information, please contact Aviva Werner at awerner@emta.org.

Market Practice Recommended for Naftogaz Bonds

On August 11, 2022, EMTA recommended "flat" trading of various Ukraine corporate bonds, including Naftogaz, as defaults started to become more prevalent after the Russian invasion (Click Here for the Market Practice).

More recently, market participants requested that this Market Practice should be reviewed as it affects Naftogaz bonds, and EMTA consulted with its Bond Working Group.

Some participants in the Bond Working Group wanted to trade the new restructured 2025 bonds with accrued interest, while others felt that the deferral of the January 2024 payment signaled complications in calculating such accrued interest. Bloomberg was also receiving conflicting information from the market, and its screens reflected the confusion. After a number of email exchanges, the market agreed to a consensus approach on the 2025 bonds, and flat trading continued for such bonds. EMTA and Bloomberg worked together to address this topic as speedily as possible so that liquidity would not be adversely affected.

Naftogaz's 2028 bonds are not current so "flat" trading was also ascribed to them. And, to make "flat" trading apply to all Naftogaz bonds, the 2026 bonds were also added to that bucket.

Therefore, folllowing consultations with major market participants, EMTA recommended that all trades of Naftogaz 2025, 2026 and 2028 Bonds entered into on or after October 3, 2023 should, unless otherwise agreed, trade "flat".

Click Here for the Market Practice recommendation.

The Bond Working Group agreed to revisit this topic, as needed.

For further information, please contact Aviva Werner at awerner@emta.org.

EM Corporate Bond Outlook Panel in Boston Set for January 16, 2024

EMTA's EM Corporate Forum returns to Boston on Tuesday, January 16, 2024. The event will include a discussion of the 2024 outlook for EM corporate bonds.

Anne Milne (BofA Securities) will lead the discussion. At press time, confirmed speakers also included Akbar Causer (Eaton Vance/MSIM), Saverio Minervini (Fitch Ratings) and Declan Hanlon (Santander).

EMTA Members may register for the event online at www.emta.org.

There is a registration fee of US$695 for Non-members. The event is sponsored by BofA Securities with the additional support of Fitch Ratings and Santander.

Please contact Jonathan Murno at jmurno@emta.org for more information.

EMTA Tracking OFAC Sanctions for EM Countries

OFAC-related materials are available in the country-specific Markets areas of EMTA's website referenced below. EMTA Members are encouraged to visit these frequently as EMTA tracks events in those countries.

Balkans Region	https://www.emta.org/markets/markets-a-g/balkans-region/
Burma	https://www.emta.org/markets/markets-a-g/burma-myanmar/
Iran	https://www.emta.org/markets/markets-h-o/iran/
North Korea	https://www.emta.org/markets/markets-h-o/korea/
Russia	https://www.emta.org/markets/markets-p-z/russia/
Sudan	https://www.emta.org/markets/markets-p-z/sudan/
Syria	https://www.emta.org/markets/markets-p-z/syria/
Ukraine	https://www.emta.org/markets/markets-p-z/ukraine/
Venezuela	https://www.emta.org/markets/markets-p-z/venezuela/
Zimbabwe	https://www.emta.org/markets/markets-p-z/zimbabwe/

For further information, please contact Aviva Werner at awerner@emta.org.

Resources

As a reminder, EMTA's website offers its Members many Fixed Income relevant resources:

New Developments can be found HERE.
Market Practices can be found HERE.
Documentation can be found HERE.
Caselaw can be found HERE.

Comments?

Please direct comments and questions on all Fixed Income matters to Aviva Werner at awerner@emta.org.

EMTA Survey: Second Quarter Emerging Markets Debt Trading at US$1.311 Trillion

Volume Level with Second Quarter 2022

Emerging Markets debt trading volumes stood at US$1.311 trillion in the second quarter of 2023, according to a report released on September 25, 2023 by EMTA. This is equal to the same amount reported in the second quarter of 2022, and down 19% from first quarter 2023 volume of US$1.619 trillion.

Local Markets Instruments at 71% of Volume

Turnover in local markets instruments stood at US$928 billion in the second quarter of 2023, accounting for 71% of total reported volume. This compares to US$834 billion in the second quarter of 2022 (an 11% increase) and US$1.064 trillion in the first quarter (down 13%).

Mexican instruments were the most frequently traded local markets debt in the second quarter of 2023, at US$268 billion. Other frequently-traded local instruments were those from Brazil (US$173 billion), China (US$107 billion), India (US$99 billion) and South Africa (US$65 billion).

Eurobond Volumes at US$381 Billion

Eurobond trading stood at US$381 billion in the second quarter of 2023. This compares with US$474 billion in the second quarter of 2022 (down 20%) and US$535 billion in the first quarter, representing a 29% decrease.

66% of Eurobond activity involved sovereign debt issues in the second quarter of 2023, with Survey participants reporting US$252 billion in sovereign Eurobond turnover. This compared to a 65% share of Eurobond activity in the previous quarter, when such volumes stood at US$345 billion.

Corporate Eurobond trading stood at US$128 billion in the second quarter of 2023, accounting for 33% of total Eurobond activity (vs. a 35% share in the previous quarter). Sovereign Eurobond activity accounted for 20% of overall Survey volumes, with corporate trading at 10% of total turnover.

The most frequently traded Eurobonds in the second quarter of 2023 were, according to Survey participants, Argentina's 2030 and 2035 US dollar bonds (with volumes of US$4.2 billion and US$3.8 billion respectively), Brazil's 2033 bond (US$3.5 billion), Turkey's 2030 bond (US$3 billion), and Mexico's 2053 bond (US$2.2 billion in turnover).

In addition to local markets bonds, and sovereign and corporate Eurobonds, the Survey also includes turnover in warrants, options and loans. Survey participants reported US$1.4 billion in warrant and option trades during the quarter and US$213 million in loan assignments.

Debt Survey (continued)

Mexican, Brazilian and Chinese Instruments Most Frequently Traded Overall

Mexican instruments were the most frequently traded instruments overall, according to Survey participants, with US$297 billion in turnover, and compared to US$268 billion reported in the second quarter of 2022 (up 11%). Mexican volumes represented 23% of overall volumes.

Brazilian instruments were the second most frequently traded instruments in the EMTA report, at US$191 billion, according to Survey participants. This represents an 18% increase on the US$163 billion reported in the second quarter of 2022. Brazilian volumes accounted for 15% of total reported volumes.

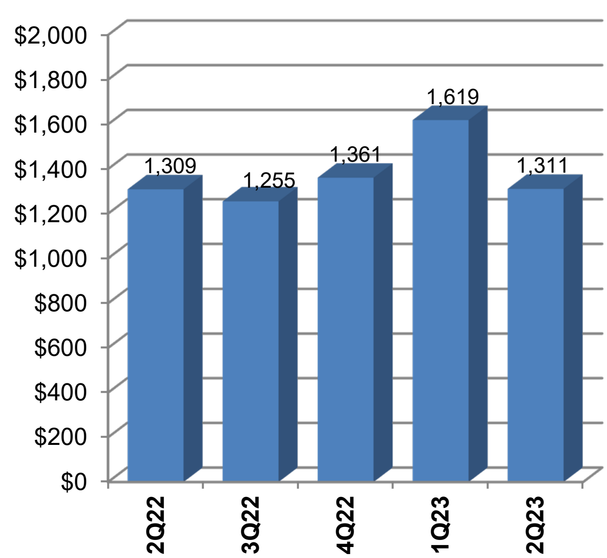
Third were Chinese assets, whose volume stood at US$127 billion. This compares to US$136 billion in the second quarter of 2022 (down 7%) and US$136 billion in the first quarter (down 6%). Chinese instrument trading accounted for 10% of Survey volume.

Other frequently traded instruments were securities from India (US$110 billion) and South Africa (US$78 billion).

EMTA's Survey includes trading volumes in debt instruments from over 90 Emerging Market countries, as reported by 32 leading investment and commercial banks, asset management firms and hedge funds.

For a copy of EMTA's Second Quarter 2023 Debt Trading Volume Survey, please contact Jonathan Murno at jmurno@emta.org.

Figures in Billions of US Dollars



EMTA Survey: Emerging Markets CDS Trades at US$215 Billion in Second Quarter

Volumes Down 24% vs. 2q 2022

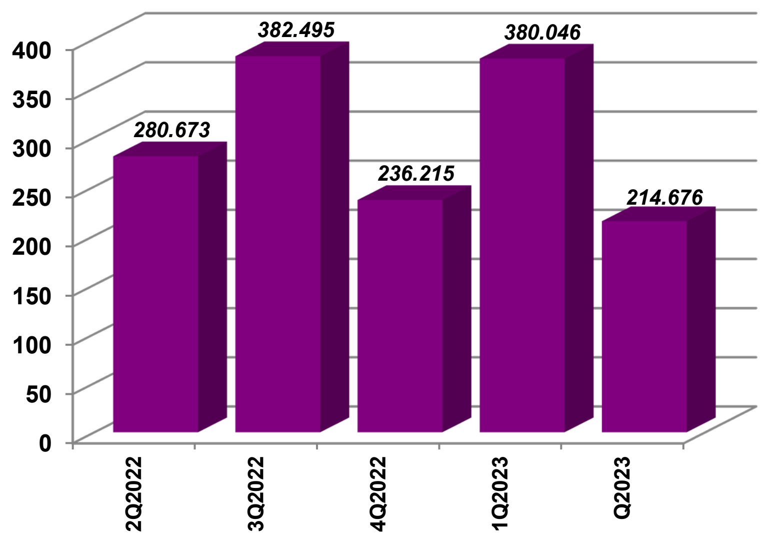
Emerging Markets CDS trading stood at US$215 billion in the second quarter of 2023, according to a Survey of 10 major dealers released on September 21, 2023 by EMTA. This represented a 24% decrease compared to the US$281 billion reported in the second quarter of 2022, and a 44% decrease compared to reported first quarter 2023 volumes of US$381 billion.

The largest CDS volumes in the Survey during the first quarter were those on Turkey, at US$35 billion. EMTA Survey participants also reported US$29 billion in South African CDS contracts, and US$13 billion in Brazilian CDS.

The EMTA Survey also included volumes on nine corporate CDS contracts, with the highest reported quarterly volume on Pemex (at US$2 billion).

For a copy of EMTA's Second Quarter 2023 CDS Trading Volume Survey, please contact jmurno@emta.org.

Figures in Billions of US Dollars



Membership Update

EMTA warmly welcomed three new members during the Fourth quarter of 2023.

- **BMI, A Fitch Solutions Company**
- **Duquesne**
- **Liquidnet Europe Limited**

EMTA's Members include over 170 banks, broker-dealers, money management firms, hedge firms, law firms, other service providers and others.

EMTA membership benefits include access to the EMTA website and to EMTA's staff, invitations to EMTA's many events around the globe at no cost, eligibility to participate in working groups or other EMTA initiatives, and much more.

If you are interested in EMTA membership, or if you know of prospective members, please contact Jonathan Murno at jmurno@emta.org or (646) 676-4293 or Suzette Vaccaro at svaccaro@emta.org or (646) 676-4294.

Information on the different categories of membership and annual dues may also be found on the EMTA website at www.emta.org.

EMTA is your Forum

Questions arise from time to time about EMTA's policies regarding views expressed in items posted on its website or by speakers or panelists at EMTA events.

For the record, EMTA, by long-standing custom, does not necessarily endorse such views. Items posted on EMTA's website and speakers and panelists at EMTA events are selected because EMTA believes that they will be of topical interest to its Members and to the broader market, and will contribute to the free exchange of views and information in the marketplace.

EMTA is always interested in market feedback on the effectiveness of its website, events and activities generally. Please take the time to let us know whether or not you agree with what you see on our website or hear at one of our events and, most importantly, whether there is something that EMTA should be doing, or doing differently, to better serve the EM marketplace.

Stay in Touch to Stay Current!

If you have recently changed emails or moved offices, please update your information by visiting https://netforumpro.com/eWeb/DynamicPage.aspx?Site=EMTA.

EMTA Jobs Page

EMTA is providing information on current industry positions of possible interest to members of the EM trading and investment community. Both “Jobs Offered” and “Positions Wanted” information are available to EMTA Members and other market participants.

This information can be found on EMTA’s website at www.emta.org (see “Employment” on EMTA’s home page).

We encourage you to pass along this information to former colleagues seeking employment in the EM debt industry, and, if your institution is looking for an EM professional, please consider posting available job positions with us.

To post a summary resume, please contact Suzette Vaccaro at svaccaro@emta.org.

EMTA Members:
To obtain a password for the Members Only area, please
Click Here

Website Updates

EMTA publishes a wide range of materials relevant to participants in the Emerging Markets industry.

Please take time to visit these areas on our website:

New Developments (information about EMTA projects and other industry developments).

Upcoming Events (the registration site for EMTA seminars and conferences).

Membership (information on membership and EMTA Member Institutions).

Documentation (standard documentation and market practices for fixed income and FX products).

Key Industry Views (key industry perspectives and market commentary).

From the Market (items submitted to EMTA that may be of interest to the Emerging Markets industry participants).

Emerging Markets Caselaw (court decisions and related litigation materials (including amicus briefs)).

Employment (industry positions currently available for Members of the Emerging Markets industry).

EMTA is on LinkedIn!

EMTA is happy to announce that we are now on LinkedIn.

Follow us on LinkedIn as an additional way to keep up-to-date on EMTA projects and upcoming events. We invite all EMTA Members to connect with us at: https://www.linkedin.com/company/emta-inc.

As always, we thank you for your support.

EMTA Hotlines

Topic	Contact	Telephone
Bond/Loan Trading	Aviva Werner	(646) 676-4292
Corporate Bonds	Jonathan Murno/Leslie Payton-Jacobs/ Aviva Werner	(646) 676-4293/(646) 676-4290 ext. 6/ (646) 676-4292
Credit Derivatives	Leslie Payton-Jacobs/Aviva Werner	(646) 676-4290 ext. 6/(646) 676-4292
EM Litigation/Arbitration	Aviva Werner	(646) 676-4292
EMTA Events	Jonathan Murno/Nadine Simonelli	(646) 676-4293/ (646) 676-4295
EMTA Governance/Board/Policy	Michael Chamberlin	(646) 676-4290
EMTA Membership	Jonathan Murno/Suzette Vaccaro	(646) 676-4293/4294
FX Derivatives	Leslie Payton-Jacobs	(646) 676-4290 ext. 6
International Financial Architecture	Aviva Werner	(646) 676-4292
Investor Rights	Aviva Werner	(646) 676-4292
Legal/Compliance	Aviva Werner	(646) 676-4292
Library and Archive Requests	Evelyn Ramirez	(646) 676-4290
Local Markets	Leslie Payton-Jacobs/Aviva Werner	(646) 676-4290 ext. 6/(646) 676-4292
OFAC Sanctions	Aviva Werner	(646) 676-4292
Volume Surveys	Jonathan Murno	(646) 676-4293
Warrants/VRR's	Aviva Werner	(646) 676-4292
Website	Suzette Vaccaro	(646) 676-4294

EMTA staff can also be reached through the general telephone number (646) 676-4290, at the following email addresses or through EMTA's website (www.emta.org).

Michael Chamberlin	mchamberlin@emta.org
Jonathan Murno	jmurno@emta.org
Leslie Payton-Jacobs	lpjacobs@emta.org
Evelyn Ramirez	eramirez@emta.org
Nadine Simonelli	nsimonelli@emta.org
Suzette Vaccaro	svaccaro@emta.org
Aviva Werner	awerner@emta.org

EMTA Calendar

Wed., Nov. 1	**EMTA Forum on Argentina** **Sponsored by Balanz Capital** **International Institute for Strategic Studies** **6 Temple Place** **London WC2R 2PG**
Wed., Nov. 8	**EMTA Forum on Argentina** **Sponsored by PP Inversiones** **ISDA Conference Center** **10 East 53rd Street, 8th Floor** **(between Madison and Fifth Avenues)** **New York City**
Tues., Nov. 14	**EMTA Johannesburg Forum** **Sponsored by Standard Bank** **30 Baker Street** **Rosebank**
Thurs., Nov. 16	**EMTA Cape Town Forum** **Sponsored by Standard Bank** **88 Southern Cross Drive** **Bel Ombre**
Wed., Nov. 22	Recommended 2:00 p.m. (NYC) Early Market Close
Thurs., Nov. 23	Recommended Market Close (NYC/London) Thanksgiving Day
Fri., Nov. 24	Recommended 2:00 p.m. (NYC) Early Market Close
Wed., Nov. 29	**EMTA Annual Meeting** **Hosted by Bank of America** **One Bryant Park** **New York City**
Fri., Dec. 22	Recommended 2:00 p.m. (NYC) Early Market Close
Mon., Dec. 25	Recommended Market Close (NYC/London) Christmas Day
Tues., Dec. 26	Recommended Market Close (London) Boxing Day
Fri., Dec. 29	Recommended 2:00 p.m. (NYC) Early Market Close
Mon., Jan. 1, 2024	Recommended Market Close (NYC/London) New Year’s Day (2024)