EMTA
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Contents Include:

Is Jurisdiction Change on Governing Law an Answer to Concerns over NY and English Law?

Legislative proposals to address perceived imperfections in the restructuring process for sovereign bonds issued under NY law have been made in Albany, and such proposals are expected to come in the UK for English law-governed bonds. Opinion on whether such legislation will be helpful or harmful to sovereign capital markets is divided. The EMTA Webinar panel "Proposed NY and UK Legislation: Is Jurisdiction Change on Governing Law a Possible Answer?" on September 22, 2023 will canvass such legislation.

Dennis Hranitzky (Quinn Emanuel Urquhart & Sullivan) will moderate 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.

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Prospects for a Milei Victory Analyzed at EMTA Panel on Argentina

(See page 6 for the story)

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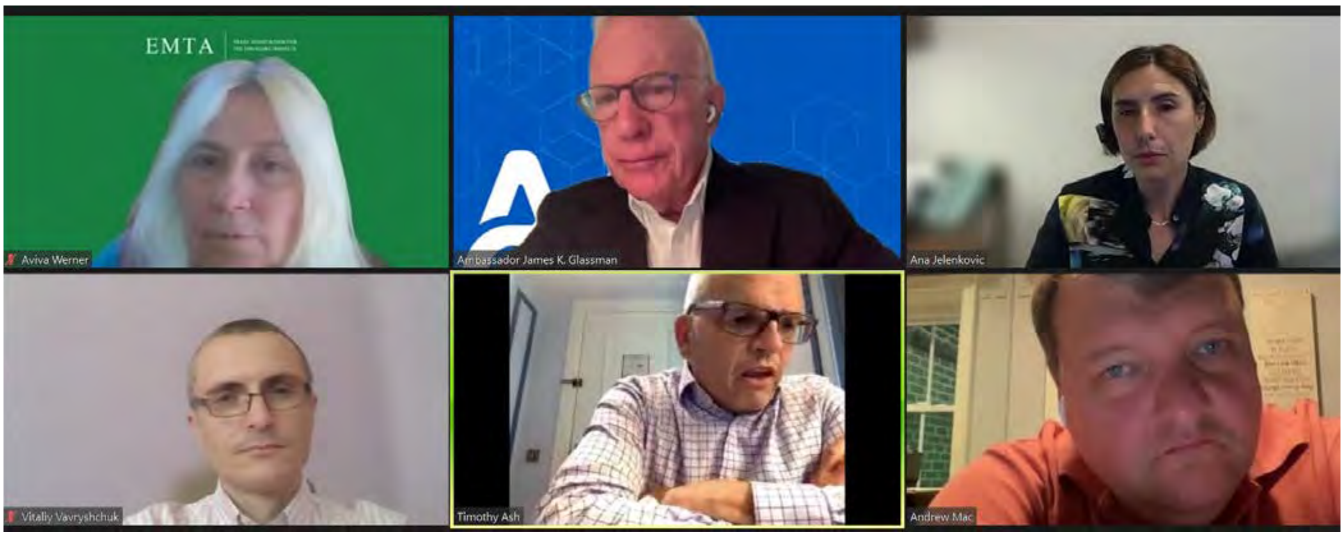
Ukraine Conflict Must End Before Significant Foreign Money is Deployed

EMTA's Webinar on July 17, 2023, relating to the Challenges and Opportunities in connection with Ukraine's Post-War Reconstruction addressed the rebuilding of Ukraine (including revitalizing its economy and attracting investment) with the necessary involvement of the Ukrainian government, foreign governments and aid programs, international investors and Ukraine's private sector. SCM sponsored the panel.

Ambassador James K. Glassman (Former Under Secretary of State for Public Diplomacy and Public Affairs and Advisor to SCM) moderated the panel with Vitaliy Vavryshchuk (ICU), Ana Jelenkovic (Marathon Asset Management), Timothy Ash (RBC BlueBay Asset Management) and Andrew Mac (Advisor to Ukrainian President Zelenskyy) as panelists.



Glassman remarked on the fortuitous timing of the panel discussion relating to how recovery will work and where investments will go, given the recent NATO meeting in Vilnius, Ukraine talks with the EU on a specific recovery plan, the UK Recovery Conference with representatives from 59 countries and 400 businesses and the individual efforts underway to plan a recovery for Ukraine (e.g., a widespread discussion among the USAID, World Bank, cities in Europe and private businesses (including those destroyed by Russia) at a meeting last month entitled "Mariupol Reborn" to plan a revival of Mariupol).

Mac responded to Glassman's question of what investors want to see after the war ends with a resounding first step of "geopolitical and physical security," a step that investors want to see if they make any investment in any region of the world. This was also seriously discussed at the Vilnius conference where it was the main topic. The documents resulting from such a conference were encouraging, in his view, but this was only the first step. If the war ends without a substantive clear security guarantee for Ukraine, investors will not be interested in pursuing any investments, regardless of any political or legal positive developments. A frozen conflict situation (like what we've had since 2014 for Ukraine) without clarity on security will likely lead to more conflict in the region in 5-10 years based on what occurred post-2014. The only real security guarantee (as President Zelenskyy also noted) is NATO membership. Mac envisions, after the conflict ends, investment in Ukraine commencing (with investors confident in putting their

Ukraine Webinar (continued)

money into the country) if next year there will be a historic summit in Washington to discuss these issues, with indications that NATO membership will be fast-tracked for Ukraine, and a serious roadmap towards membership. The rule of law will be the next step to be addressed.

Jelenkovic responded from the fixed income investor perspective that bondholder prices support Mac's view on security being the first necessary step toward investment, and the need for more certainty. Investors will have the previous restructuring in mind, together with prior growth and fundamentals, before they turn to what policy changes are necessary. Integrating with Europe would be, of course, hugely beneficial. There will be less "domestic policy ambiguity" post-war. Attention will turn to the constraints to investment and growth that existed before the invasion, as well as the topic of reparations. Bond prices did move upward on a limited basis with positive news (like the recent NATO meeting where a path to Ukraine's membership was discussed (albeit with no specific timeline), the previous restructuring date announcement, fiscal and monetary policy changes, etc.). Many investors are on the sideline for now. The market will have to weigh the risks post-war (and what that really means). Ukraine's bonds have limited trading now, although the country remains eligible on the index (unlike Russia and Belarus).

Glassman turned to Ash and his article "It's time to get creative on Ukraine's debt" on the roles of the public and private sectors in Ukraine's recovery, coincidentally published on the date of the Webinar discussion. Ash echoed prior panelists' remarks that Ukraine first had to win this war and obtain security guarantees and NATO membership. Then the peace had to be won, while building Ukraine "well and quickly." This is the most important geopolitical project, in his view, since 1991. Ukraine needs to be self-sustaining. The private sector won't do the heavy lifting; the public sector will have to provide most of the funding. The hope is that post-war there will be a regime change (although it's likely there will be slow improvements). The issue of the $6 billion in debt relief will come next, with Ukraine needing market access rather quickly, with new money flows into the country as a potential solution. He believes that bondholders can become whole by participating in such new money financing. This will also encourage a speedy restructuring solution with relatively favorable treatment for creditors (thus avoiding an Iraq-type situation).

Ash then discussed the topic of Russian frozen assets. In his view, Russia (and not bondholders) was responsible for Ukraine's rebuilding. Why would there be excessive haircuts proposed in a restructuring while $400 billion in Russian frozen assets were available in various global jurisdictions? Why should western pensioners and taxpayers be so adversely affected, despite the Russia property rights argument? In any event, any restructuring talks were difficult while the war was ongoing.

Vavryshchuk addressed what planning can be done before the war ends. He stated that the Ukraine government made clear that the reconstruction of the economy should start immediately, that there was no sense in waiting years before there was any resolution to the war. The economy must operate now, this is critical; the people need decent jobs and the government needs to collect taxes to finance the war effort. The government is busily talking to foreign governments to raise funds before the winter starts (e.g., for its energy infrastructure that was destroyed by the Russian missile strikes). The economy is currently struggling to recover. The government's long-term 2023 estimate is that it needs at least $14 billion to ensure a working economy.

Ukraine Webinar (continued)

Glassman noted that at a London conference Blinken pledged $.5 billion from the US towards Ukraine's energy infrastructure. He questioned if there was an opportunity now for the private sector to aid in the recovery. Vavryshchuk replied that money was needed now to "patch the gaps" since there was a huge risk that the electrical system would be again destroyed by the Russians, but he doubted that investors would be interested in allocating money to Ukraine, given the huge security risks. Therefore, at this point, monies had to come from IFIs and western governments. Glassman raised the issue of insurance guarantees from the government to encourage private investment. Vavryshchuk responded that the World Bank and Ukraine were discussing an insurance framework (and that was an argument for investing in 2023/24), but the vast majority of businesses want the security risk to be close to zero before investing. "War insurance is not a panacea for the majority of investors looking at Ukraine;" the war must be over before they will think about investing.

Glassman asked whether we have to wait before the war is over before making investments into Ukraine. Jelenkovic responded that this was a complicated matter. A de-risking of investment to attract private capital was needed. While multilateral banks have for years tried (unsuccessfully) to attract private investment into Ukraine's infrastructure even before the war, she envisions that there is first a need for concessional capital from the multilateral banks and IFIs to help with this "risk/return equation," and they need to play a key role as a catalyst to private investment.

Mac noted that there may be something to do before the war ends to a limited degree to the extend a part of the country (like the west) is unaffected physically now, but he agreed that, for Ukraine's economic development and growth, the IFIs needed to lead the way to give investors guarantees (although they were not willing to provide political risk assurances; instead, they were looking for more "mundane environments"). A G7 project to develop an insurance fund for political risk before the conflict ends was a possibility, but it seems that "it's easier for western allies to write checks than think about these kind of structures."

Jelenkovic remarked that it was important to highlight what is actually happening, that this is a different war than the post-Communist war of the last few decades. Here there is a large-scale destruction of infrastructure, with cities tragically destroyed and unlivable, much of the population in poverty and one-third of the economy wiped out. However, there is groundwork being laid for recovery on all fronts. There are bilateral talks and the IMF is galvanizing support since there is more visibility on the topic (vs the piecemeal approach of last year). Ukraine's FX reserves are at an all-time high ($40 billion in the middle of a war) and the European Commission is proposing a $50 billion fund. On the ground, the government is engaging in reform efforts and policy changes that were started before the war that were an obstruction to growth and investment. This is a different starting point in terms of the amount of money needed to physically rebuild, as well as the preparations already in place domestically and abroad.

To buttress Jelenkovic points, Glassman noted that Ukraine's private sector is still operating fairly robustly, despite a 30% decline in GDP (which is better than expected). DTEK built the biggest windfarm in Eastern Europe. He also highlighted that in Ash's article the debt to GDP ratio is currently 80% (also better than expected, lower than it was in 2017).

Ukraine Webinar (continued)

Responding to whether there are any historical analogues to the situation in Ukraine, Vavryshchuk stated that the private sector is fully operational and the economy was on a path to recovery with 4-6% growth, with de-accelerating inflation. He agreed that this was a different scenario than other countries that experienced a war and whose economies collapsed. A prospective Ukraine EU/NATO membership was a powerful incentive for the government to move forward to implement reforms in line with EU legislation, without waiting for the war to end. The Ukrainians have "an ambitious plan and much to show the EU" when negotiations will hopefully start by the end of 2023.

Glassman questioned whether the Ukraine government would "flex its muscles' or try to control large sectors of the economy after the war. Jelenkovic responded that the risks and constraints for long-term foreign capital "investability" before the war are still there – lack of consensus on judicial reform and other domestic policies, lack of transparency, oligarchic structure, looser environment for investor protections relating to bankruptcy, and issues with a legal framework –, but there are also many positives – recent anti-corruption/fraud and corporate governance efforts, a resource-rich country, fast growth, proximity to Europe, a very educated population, potential for high value sectors, and a move away from an agricultural/minerals-based economy.

Mac added that the reform process will never end, as in every society (although, even with an ambitious reform agenda, Ukraine managed 60-70% implementation of that agenda), and the judicial process is the most difficult to regulate since it's self-regulating and often "the last to go" in post-Communist societies, with vested interests clinging to power. When the war ends, Ukraine's society can debate what kind of judiciary it wants, the political process will be restarted with elections for the presidency and parliament, and judicial reform will hopefully follow.

Vavryshchuk indicated that 4 of the 5 largest banks are owned and controlled by the government and they're doing well, despite the war. However, there are no obstacles for those banks to be privatized. That is a good indicator that the government is not trying to control all sectors or oppose competition. Mac stated that he didn't think an investor would get good market value now by purchasing any bank; the war has to end first (although there is a long-term play to privatize, but it will come several years after the conflict ends).

Relating to questions from the audience, the consensus of the panel was that equity flows (and just debt) as "low-hanging fruit" were necessary, although there are constraints and challenges, such as a ban on land sales and a reduced population after the war for labor needed for those infrastructure projects. Ukraine would prefer western investors to other regional players. Restructuring, haircuts and high exit yields are uncertain and Ukraine doesn't want a hard default. Other groups may join the G7 recent statement on security guarantees and that no frozen assets will be returned until Russia pays Ukraine for reparations.

Argentina UK (continued)

While not forecasting anti-establishment candidate Javier Milei's surprise PASO victory, speakers at an EMTA's Argentina Forum on Wednesday, June 28, 2023, did not rule it out as a possibility. The panel agreed that a muddle through was probable until elections, but dramatic action would then be needed to bolster the economy. The event, held in London, was sponsored by Balanz Capital with the additional support of DCI Group.

Ezequiel Zambaglione (Balanz Capital) chaired the discussion, first requesting that speakers provide their thoughts on the Argentine macroeconomic climate. Esther Law (Amundi) described the FX situation as "dire; it's a very tricky situation." Investors remained focused on the upcoming elections, with "a fair amount of distress" already reflected in bond prices. She added that, just prior to the event, bond prices had been boosted by the announcement of Economy Minister Massa representing the Peronists in the electoral battle, rather than a more radical candidate. A post-election depreciation of the peso could further stoke inflation, which has already reached triple digits, she warned.

"If there is one possible sign that is encouraging, it's possibly the PBoC swap or maybe the IMF putting in a little hard currency to stop the situation from becoming out of control," reasoned Martin Soler (HSBC Global Asset Management). His base case was for a muddling through until the elections, although bond-holder and IMF payments represented possible hurdles.

Graham Stock (RBC BlueBay Asset Management) concurred that a "muddle-through" was the most likely scenario, while acknowledging the possibility of a breakdown and larger economic crisis. With the markets, the multilateral institutions, and neighbor Brazil all unwilling to lend to Argentina new money, the country has instead continued to print pesos, fueling inflation. The agreement with the Fund had been delayed as Massa sought a deal greater than a traditional lend-and-extend operation.

Kevin Ivers (DCI Group) interpreted Massa's candidacy for the Peronists as evidence of the waning influence of Vice President Cristina de Kirchner, as well as a concession that she could not win the race herself. Massa had seized the electoral mantle in a moment of internal Peronist party strife, "but he has very little chance of winning--he is running with 100%+ inflation, and that's a sign on his back." Ivers added that, "Peronism is realigning, it's like a new species evolving."

Ivers cautioned attendees not to write off Milei's candidacy, despite pre-PASO polls showing both declining support and a high rejection rate. Milei was a channel for the expression of "extreme discontent with the status quo," and it was questionable if a moderate candidate could win in the current economic climate. However, Milei's "incoherent manifesto," and his inability to gain a Congressional majority meant that, if elected, "there would be four years of reality show hysteria" with no actual legislation being passed.

The market hoped for a Juntos por el Cambio victory, according to Stock, because, thus far, it was the only party with a credible economic program. On the other hand, Massa might feel liberated to announce more market-friendly proposals closer to the vote; or Milei could hire respected economists to his team. Stock argued that Juntos would have to quickly unite behind either Bullrich or Larreta following the PASO vote, or risk being left behind, as Milei's anti-incumbency candidacy "could catch fire." Moderator Zambaglione suggested that many Argentines might vote for Milei in the PASO to signal their discontent, before returning to a less extremist candidate in the presidential vote should Milei pull off a primary upset.

Argentina UK (continued)

Regardless of who wins the presidency, “it has to be painful,” declared Law, as the new government will have to consolidate the fiscal accounts and liberalize FX policy. The next president must act quickly, and endure popular protests, to set up a possible “aligning of the stars” next year, especially if there were an improved agricultural harvest. The floor on hard currency debt of around 20 could be breached in unexpected political outcomes, she opined.

“Like the cartoon character, whoever wins the presidency will be entering office holding a bomb with a short fuse,” maintained Soler. Shock therapy will be needed, including a credible fiscal plan, the elimination of various subsidies, and actions taken to anchor inflation expectations. Social cohesion will be a challenge, as Argentines will face real wage cuts, subsidy cuts and high inflation. Should Massa pull off a surprise victory, he could face pressure from the Cristina wing to attempt a more moderate adjustment, “…but there is no more room left for that.”

Stock sketched out an optimistic case. After years of discussion of Argentina’s energy potential, “it’s finally coming to fruition,” with the country eventually exporting gas to Brazil. Furthermore, a normal harvest next year could add another $20 billion to export earnings. Such inflows following the announcement of a new fiscal plan could “make it look like it’s working, and boost confidence in Argentina…and it’s all about confidence.” Stock stressed the need for progress prior to the 2025 midterms, in order to give the new government breathing room to pursue additional reforms. Ivers reinforced the point by reminding attendees of the Peronist’s history of “destabilizing governments that they don’t participate in.”

Panelists saw Argentine external debt retreating to the 20s in a Massa victory, with Soler speculating that “low to mid 40s” was possible in a Juntos por el Cambio presidential and legislative victory. Stock predicted a “significant knee jerk” drop in bond prices if either Milei or Massa were to win, while envisioning routes both candidates could yet take to gain market credibility.

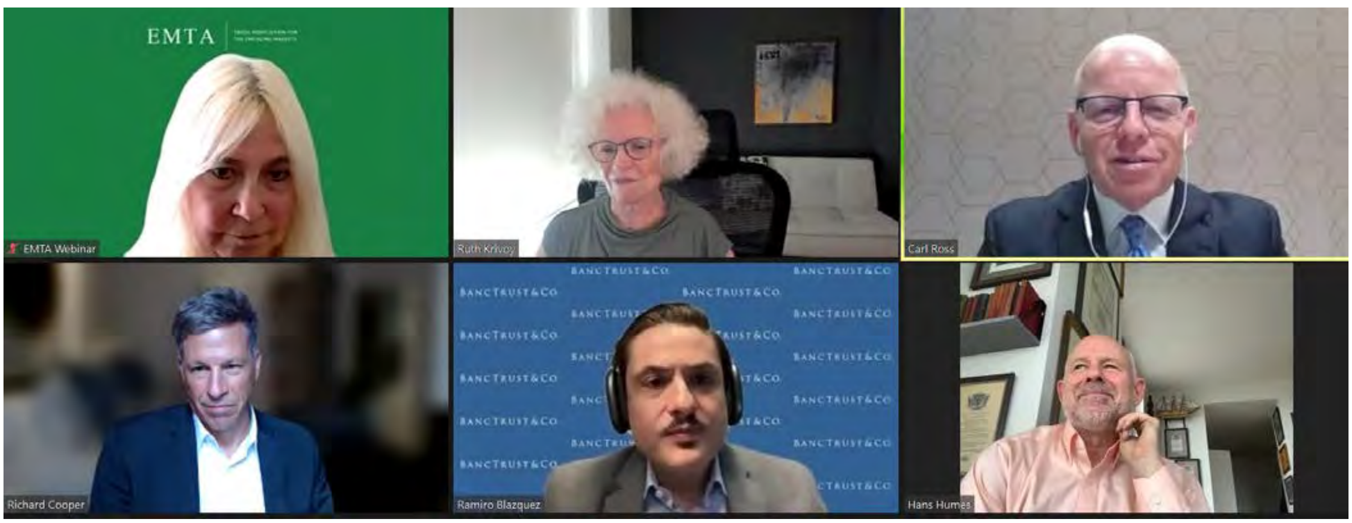
Venezuelan Political and Legal Developments Difficult to Assess While Maduro in Power

EMTA's Webinar on Venezuela's Legal and Political Developments on June 20, 2023 addressed Venezuelan domestic political events and geopolitical development following the recent PDVSA/Citgo litigations and explored steps toward a potential easing of US sanctions and possible restructuring efforts.

Ramiro Blazquez (BancTrust) moderated the panel with Richard Cooper (Cleary Gottlieb Steen & Hamilton), Carl Ross (GMO), Hans Humes (Greylock Capital Management) and Ruth Krivoy (Sintesis Financiera and Venezuela Country Consultant, GlobalSource Partners, Inc.) as panelists.

BancTrust sponsored the panel, with additional support from Cleary Gottlieb Steen & Hamilton.

Blazquez asked Krivoy and Humes how the recent resignation of top Venezuelan Electoral Council Board members would influence the negotiations, and if they thought that Maduro would use these resignations as a tool to obtain further concessions. Also, he questioned what level of transparency in elections will be expected and recognized by the EU and others in the international community.



Krivoy responded that the answer to the essential question of what to expect from the Maduro government in terms of negotiations and concessions is "nothing…for now." The Maduro government has no desire to negotiate at all, with sanctions relief not a powerful enough incentive to come to the table because negotiations would have to focus on judicial reform, electoral guarantees, political prisoners, electoral timetable, etc. He's "too weak to make any concessions at all to anyone anywhere." He has low approval ratings and a disgruntled Chavismo base. Moreover, the El Aissami crisis is not over yet and all internal communications within Chavismo seem to have broken down. He needs to "pulverize the opposition, deepen the risks within it, sabotage the primary election and demoralize voters." He wants bilateral negotiations with the US, and doesn't want the opposition or Norwegian facilitators as witnesses at the table. While some back channels with the US seem to be working, things are not moving and time works against him – people are unhappy with the economy moving into a recession and the government having little room to maneuver; sanctions removal could raise revenues, but for now this is not a strong enough incentive to have an effect on election concessions and, in any event, won't have an immediate effect. The current message the government is sending is: "this is a war and all sanctions must be lifted." His moves are radical and also tactical, but, for how long, no one knows.

Venezuela Webinar (continued)

The EU found the 2021 elections acceptable, but political repression and violence may "illegitimize" the 2024 elections even if they follow the same rules as the 2021 elections. The recently deposed Electoral Board came out of a 2021 agreement to have two respected opposition members and three Chavistas on the Board, and worked well in favor of 2021 elections where the opposition did well, but Maduro doesn't want to replicate that and needs a weaker Board with unconditional Chavistas and a friendly opposition member. He wants to disrupt the opposition primaries, which is why we currently have the state of play with the election of new Board members. The primary elections are thrown into a turmoil and will have to be "self-managed" by the opposition with a probable low turnout and unlikely single candidate to emerge for the 2024 elections.

Humes agreed with Krivoy that there was a schism in the Chavismo with in-fighting and an effort toward a "maximalist all or nothing, winner take all, approach" (although he didn't share her views on the Norwegians not being as helpful to Maduro, given that the team was helpful in the Colombia situation and one of the key Norwegians even moved to Caracas full-time).

However, any commentary or political forecast made now may not pan out. With Roger Carstens in Caracas now, political prisoners may be brought back, and the bilateral talks between Maduro and the US have probably gone further than people expected. There is likely a lot of behind-the-scenes work being done and it is telling that there is little to no communication from the top level people in the US Administration, suggesting something bigger is going on. It may be premature to be alarmist about Chavistas that may resign; there may be an opening up of a re-formation, and Maduro has expressed a willingness to engage with the US. Therefore, in Humes' view, it is better to be neutral than pessimistic, with optimism being difficult at this point.

Blazquez referred to "the big elephant in the room," transitional justice, if Maduro doesn't win the 2024 elections, with the recent developments regarding the CNE as an attempt to take negotiations to the Petro vs Mexico camp that has a more friendly and proactive view on transitional justice and a potential amnesty. Humes shared Blazquez's view, but stated that Mexico doesn't have as much of an interest or political stake in Venezuela as others may have (like Petro or Brazil). "It would be impossible for high level government officials to passively lose an election if their well-being is not assured" (given the overhang of ICC charges and bounty on their head), so some form of amnesty was needed. With those amnesty discussions, the CNE machinations may not have as negative a pall as they would have otherwise.

Krivoy clarified that the Norwegians are not the problem, having played a "significant and positive role in all stages"; rather, she agreed with Humes that the structure of the Mexico talks is "outdated and exhausted, with no room within the framework to move forward." Petro offers a different camp, with a role that is affected by the ELN negotiations and the need for Maduro to be involved to make the peace process prosper. Latin leaders would like to see Maduro move into the mainstream of democratic elections, making clear to him that they wouldn't like to see a repeat of the 2018 experience. She agrees that Carstens' visit is significant, with the government's tactics to be taken into account, but the topic of a transitional justice, in her view, is on the medium-term horizon; now of immediate concern is who will remain on top, how Maduro deals with Chavismos infighting and his low approval rating.

Venezuela Webinar (continued)

Blazquez noted that nothing has been done with the implementation of the $3.2 billion UN fund that could be plowed into, and would jump start, the economy, thus supportive of Maduro. Without these funds, he doesn't have a good chance of winning the election in a clean or relatively transparent manner and further radicalization may occur. Humes thought the implementation of the UN Fund at this point was not a real factor or precondition to anything, and solutions were offered to flagged problems in implementation. Krivoy thought it unlikely that the full amount of the funds even exists at this point, that small amounts are scattered all over (with risks of funds being seized as they move) and Maduro didn't even want the money since it meant that funds were being disbursed by NGOs and managed by the UN, not under his control. She also didn't think the funds were a big stimulus impact on the economy, and it may create an unhealthy expectation that funds will flow because it's been activated for humanitarian uses.

Ross spoke about the cost/benefit analysis that autocratic dictators engage in with the goal of being President for life. There is “low-hanging fruit” if Maduro can “somehow credibly minimally guarantee a free and fair election and win;” he can “set himself up for life,” although it may be too risky for him if he won in that way. Oil production increasing and a smaller population could, on the other hand, be very powerful for him.

Blazquez then turned to the legal issue of whether there was a possibility of a tolling agreement supported by both the Chavistas and opposition and recognized by the US, given the looming expiry of litigation rights. Cooper provided some background. The vast majority of Venezuela's bond debt was governed by NY law, which requires parties to act within six years of a breach of contract to preserve their rights with respect to such breach, otherwise those claims will be barred from being asserted. Since the first payment default occurred in October 2017, that means the deadline is October 2023 for the first applicable statute of limitations (SOL) for non-payment of interest on certain bonds (the first 6th year anniversary of non-payment of principal has not yet occurred, therefore, the SOL is not yet triggered on any principal payment). With differing bonds across different issuers, how claims may be pursued varies. Sovereign bond claims can be asserted directly and holders don't need to go through the fiscal agent (so no “free-riders”), while unmatured PDVSA bond claims should be pursued by the trustee for such bonds who can bring claims on behalf of all such bondholders. He stated that his firm represents the largest bondholder group and their views reflect the sentiment of the vast majority of bondholders - they would prefer not to be forced into suing. However, they have fiduciary duties and responsibilities to their investors and they will assert their claims unless an effective and enforceable tolling arrangement is in effect.

The Maduro Administration made a unilateral announcement of a tolling agreement, but because it is not currently recognized by the US government it is not effective in US courts. The opposition or 2015 National Assembly can take a similar step (although they haven't thus far), but due to the ambiguity in US policy, it probably has to be an unequivocal act of the National Assembly to make investors comfortable that they can rely on it.

In Cooper's view, there is a little chance that the National Assembly will act in concert with the Maduro regime for obvious reasons; however, they may act independently given that it will benefit the people of Venezuela. Depending upon how things play out, creditors may insist that any tolling understanding or announcement receive explicit recognition by the US government that such an agreement is the act of the recognized government of Venezuela. He also emphasized that people have underestimated the impact

Venezuela Webinar (continued)

on any future debt restructuring of this topic by not addressing the issue of these claims. There are potentially $150 billion plus in claims due to accrued interest and acceleration, and that, if creditors pursue these claims and obtain judgments, it would vastly complicate any future restructuring of Venezuelan and PDVSA debt. Policy-makers in Venezuela and the US are not treating this topic seriously enough; the old interim Venezuelan government could have avoided this, but chose not to – it would be a shame if that same mistake was repeated, he said.

In response to a question on how tolling would affect bond prices, Cooper stated he didn't think it would have much of an impact; Ross asserted that tolling is an important signal that the debt is recognized, so it might affect prices; and Humes stated that any time-barred instrument would sell at a further discount, but the trade ban has much more of an impact on prices.

Blazquez remarked that sanctions have driven Venezuelan bond prices to extremely low levels, and he was wondering whether distressed funds may have purchased a blocking position in the event of a restructuring. Cooper responded that only those outside the US can purchase these bonds due to a sanctions policy on secondary market trading that no one believes serves any interest other than to hurt U.S. investors. Venezuela bonds have old-style CACs, without the cross-class cramdown, but some non-US investors may have acquired sufficient amounts to block a restructuring. PDVSA bonds don't have CACs, so there's a question as to how those bonds will ultimately be restructured.

Blazquez asked about the three pending NY bills proposed, but not enacted, in the last session (although they may be resurrected in the Fall session when the legislature resumes), that require various changes to NY law that may implicate sovereign and quasi–sovereign debt restructurings, including one law that would introduce an opt-in, collective action restructuring mechanism for all NY law governed debt. If and when a Venezuelan and PDVSA restructuring takes place, if enacted, would those laws have any application to the Venezuelan situation?

Cooper responded that the opt-in bill is seriously flawed and he doesn't see most sovereigns utilizing it since (1) it doesn't contain a bankruptcy-type stay that prevents parties from taking action, (2) if enacted, it would be subject to years of litigation, including possibly violating various provisions of the US Constitution if applied retroactively, and thus not aid in an expeditious restructuring process, (3) in order to file, the sovereign must be working with the IMF (which Venezuela is not doing now) and it also must submit to a monitor that plays a role appointed by the NY governor (in contradistinction to NY courts deciding a narrow legal question) and (4) there's a poorly defined provision about new borrowings being approved by a majority of creditors, which could potentially limit sovereigns from raising new money while they're in restructuring negotiations (which will last years given the legal challenges the legislation will generate). Furthermore, if enacted, the bill would likely lead most creditors (and even many sovereigns) to have their contracts governed by Delaware or English law or the law of another jurisdiction rather than having to absorb the risk premium (in the form of higher pricing) that will come with NY law governed sovereign instruments. He suggests that a better alternative (if a statute is imposed at all) is the enactment of a treaty that countries could opt into at the federal level (a similar mechanism — the SDRM — was pursued and failed in the early 2000's).

Venezuela Webinar (continued)

Blazquez noted that the sanctions resulting in secondary market trading restrictions have affected investors adversely and have proven useless in having any material financial impact on the Maduro administration or in modifying his behavior. Ross agreed, stating that the sanctions were effectively on the bondholders, not the government, as a "kitchen sink" approach to having a maximum pressure campaign on Maduro. With the passage of time, policymakers in DC have grown to understand that the sanctions are in no real way on Maduro or the Venezuelan people. He hopes we're getting closer to seeing their removal. Off the record, the policymakers acknowledge that the sanctions don't make much sense. How often in the realm of public policy do we get the chance to help one party without hurting anyone else (a Pareto improvement)? Seems like a no-brainer, he posits. But, unfortunately, the current caustic tone of politics in DC makes it risky for policymakers to potentially go out on a limb and eliminate sanctions on secondary market trading. "And, the risks become greater as every day passes and we get closer to elections; the sense of hopefulness is tempered by this political calendar." He hopes reason will prevail, and, if sanctions are continued, they only apply to primary issuances, as most investors realize their efficacy to "starve the country because of its malfeasance." In response to a question relating to normalization, he noted that the upcoming "nasty US election cycle" complicates matters as there's bipartisan hatred of Venezuela presently, but Humes countered that both parties agree that Florida is unique and no one wants another Cuba close to the US, so there's a "glimmer of hope for a path forward."

Blazquez questioned whether the US government (OFAC) would lift restrictions and allow for the sale of CITGO stock as compensation to US investors whose rights were damaged by Venezuela in light of hope for possible political normalization and the outlook of negotiations. He also questioned the timing of the sale, whether the value of the stock would be large enough to settle all the claims and whether the claims would be pari passu.

Cooper responded that it is difficult to predict whether the US government would grant a license for the sale, particularly without identified buyers. What the US has done is signal its approval for pre-sale activities, including the Special Master starting the sale process. The US will review who the buyer may be (not Russian or Chinese, of course) and then decide whether to issue a License. Those with strategic lobbying power may get the License or the administration may come to the view that Citgo is lost to Venezuela at this point and it should make its decision without regard to other possible considerations. What is clear in the US is that "first in line is first in right," in the sense that those with $4.5 billion in judgments (including Crystallex) will likely get the proceeds of the sale first, then others will get in the queue if they have judgments and attachments. Whatever valuation Citgo stock has, and whether US courts decide that creditors get paid from the sale proceeds, doesn't mean Venezuela has totally lost Citgo even though it seems that there's no equity left that it will be able to retain after a sale. There may be commercial arrangements that make sense so that Citgo can retain some value from an eventual sale that possibly could contribute (from an operational perspective) to the future recovery of the country. However, there is still no recognized government, the National Assembly doesn't have control over the sale proceeds and creditors are not at the table. Therefore, it's rather unclear when and if the sale will occur.

Humes noted that, whatever the payout is at current valuations, the company was developed and depended on Venezuelan crude, so Citgo without that access is not worth what it was or could have been had it had that access again.

Venezuela Webinar (continued)

Blazquez emphasized that the key issue was to understand the seniority of the differing layers of bondholders' debt claims since the value of those claims can exceed the proceeds from the Citgo sale or the value of the company, and there may not be enough left to satisfy all the 2020 bondholders, thus creating a conflict among bondholders. Cooper stated that the Second Circuit sent a case relating to the validity of the 2020 bonds back to the NY Court of Appeals, so it depends on how some specific legal issues will be resolved (i.e., whether the 2020 bonds and collateral shares that secure them are enforceable). The US government has to give a License for enforcement of the collateral pledge, if the claim is not otherwise satisfied. Assuming that the Trustee and Collateral Agent are victorious in the pending legal issues, then those claims should get satisfied ahead of other claims and judgment creditors.

Blazquez asked how an opposition government would be different than Chavismo regarding treatment of debt, and, besides politics, what are the other main sources of risk on the debt restructuring outlook. Ross responded that most bonds were issued pre-Maduro, so the opposition couldn't really argue illegitimacy. The institutional, economic decline in Venezuela occurred when Maduro became President. If the opposition wins, there are more avenues to a low-cost restructuring. Even if sanctions are removed, the bonds won't increase much in value, so any future government can obtain lots of debt relief and set itself up for future financing. He hoped that, whatever the outcome, a restructuring will be done in everyone's interests. In terms of other risks, litigation is a big one; the more time that elapses without a tolling agreement or negotiation with creditors, the greater the risks of lawsuits, which complicate a restructuring (as Cooper noted earlier). One of the unintended consequences of a ban on secondary market trading is more disparate holders with differing utility functions (with the Venezuela example as the most extreme of late) that will probably make a smooth restructuring in the medium-term much more difficult.

Legal and Framework Issues on Sovereign Debt Addressed in London

EMTA's Seminar "EM Legal and Framework Issues Surrounding Sovereign Debt" on June 16, 2023 in London addressed the G20 Common Framework for Debt Treatments beyond the DSSI as it related to recent restructurings (including transparency and comparability of treatment); the legal and political challenges to confiscating Russian assets for Ukraine's benefit; the 3 proposed NY statutes on restructuring sovereign debt that did not pass in the last legislative session (but could remain a concern); and debt for nature swaps.

Deborah Zandstra (Clifford Chance) moderated the panel with AJ Mediratta (Greylock Capital Management), Timothy Ash (RBC BlueBay Asset Management) and Ian Clark (White & Case) as panelists.

Clifford Chance hosted the panel in its London offices, and support was provided by White & Case.

Zandstra provided some background on the Common Framework principles, a G20/Paris Club debt initiative based on debt services suspension and designed to provide debt relief for low income countries in particular need. She remarked on the objective of bringing China, a significant creditor of EM sovereigns, into this Common Framework tent further, together with the official sector and private sector creditor committees.

Mediratta, who has spearheaded some recent creditor committees at Greylock, concurs that bringing China into the fold in this last decade has been challenging in a world where western institutions may no longer dominate the sovereign debt restructuring landscape.

For example, in the Zambian context, China gave financial assurances almost two years ago, but there has been no visible progress since then getting to an MOU and it appears that the IMF will be reviewing its approach to Financing Assurances in light of this. He conjectured that, due to this now 3-year process (with its attendant human suffering component), if delays continued, the restructuring may have to be negotiated bilaterally or take the Suriname route, where China is treated as a hold-out.

With Ghana, financial assurances were also provided, but in an unusual fashion, whereby China refused to negotiate directly with the Paris Club or the Fund and instead negotiated bilaterally with Ghana and had them present terms to the Fund on a "take it or leave it" stance. Even though domestic debt was largely given a free ride in the past due to its relatively small size, that is now changing given how much is held by foreign investors. It appears, going forward, that a domestic debt restructuring will also be part of the process, though this will be an extremely contentions and complicated local process. Zandstra commented that this is a narrow case and the CAC cramdown may not be advisable in this context.

Sovereign Debt London (continued)

In addition, Mediratta deemed some of the official sector comparability of treatment assumptions in the Zambian and Ghana processes as "very arbitrary, with no real justification for the discount rates in the Fund model," and, frankly, creditors have every right to reject these assumptions if they feel they're unreasonable. In fact, in Ghana, creditors may be completely justified in questioning why they are being lectured to by the Paris Club, the "French mafia," when the PC's creditor amounts represent such a small percent of the overall debt stock.

Suriname, noted Mediratta, was not a member of the Common Framework, but reached agreement with its creditors nevertheless, with the IMF agreement finalized a few weeks later. This was accomplished without financial assurances, with China being viewed as a holdout and the Fund proceeding under its LIOA (Lending Into Official Arrears) policy exemption. He stated that the Fund needed to recognize the realities of the geopolitical environment, with either the fallback of its Executive Director expressing "non-objection," (a "fuzzier, we will work with you" approach) or the Fund stating that the country is acting in good faith and will receive funds on that basis. Zandstra noted that, beyond agreeing better official sector coordination routes, she was concerned that changes to discount rate methodologies used in comparability of treatment determinations looms as a large topic for discussion amongst all stakeholders, including the private sector, with insufficient market response.

In summary, Mediratta claimed that the Global Sovereign Debt Roundtable meeting on June 15 was a nice exercise and dialogue is always welcome, but these roundtables thus far are just highlighting the long-standing tension and mistrust between the official and private sectors.

Clark saw the same set of problems in all current and recent cases, whether they were part of the Common Framework or not – namely, creditor coordination. With "heterogeneity multiplied," a variety of new actors with differing interests attempting to work within the existing architecture was not easy. Unlike corporate bankruptcies, there are no set of common rules to manage the insolvency of countries, thus leading to delays and untimely and ineffective resolutions, with "finger-pointing," and focus on China and problems obtaining its buy-in to carry its fair share of the burden. He posited that the China issues comprised a mix of bureaucratic factors relating to their not understanding how the mechanisms are supposed to work and looking solely to their own interests, coupled with geopolitical factors. He claimed that the creditors were willing to find speedy solutions, but they are held back by the restructuring architecture and by the official sector and the IMF that are relatively slow to act.

For example, for Suriname, it took more than 3 years to restructure the debt of a relatively small country even though they were willing to make fiscal changes. Similarly, it took Zambia 3 years to restructure, despite its political willingness to do so. In the Sri Lanka case (not a Common Framework country), the bondholder committee was very frustrated and provided their own "financial assurances." Zandstra noted that, in advising the sovereign she wished the negotiations were quicker, but finally financial assurances were obtained from China (the geopolitics of regional interests may also have played a part).

Unfortunately, the reaction in the public sector to these delays resulted in proposed NY legislation getting traction because it's easier to point the finger at vulture funds and private creditors, Clark surmised. The problem, however, arises from inconsistent application by the official sector, not the private sector, Clark noted.

Sovereign Debt London (continued)

Zandstra was in favor of using all available routes to communicate and engage with countries – diplomatic, IMF Executive Director, management at Chinese lending institutions, etc. – to get restructurings done. With China, it was not a matter of sophistication, but rather a need to engage people in all the right institutions within China to move the discussion forward. She summarized the June 15 Global Sovereign Debt Roundtable as raising important points on (1) comparability of treatment for countries not eligible for the Common Framework and (2) private creditor metric to calculate the NPV of pre- and post-restructured debt. Clark referred to 3 criteria to assess value, which quantitative rules should be applied flexibly and worked on assiduously, rather than saying that comparability of treatment (which is inherently ambiguous) is being abused by the private sector. Even this approach may not solve the holdout problem if bondholders feel there's insufficient flexibility.

Ash spoke about the Ukraine Recovery Conference and how every case had different restructuring dynamics. Ukraine has a balance of payments problem, with many quasi-entities being paid. The lack of consistency shows a lack of coordination. He hopes for a better process when all come back to the table after the state of conflict, and he is "massively bullish" on Ukraine. The frozen Russian assets (which he hopes will be used to rebuild Ukraine) demonstrate an upside in growth and recoveries. A GDP-linked instrument would be welcomed by the market. (He mentioned that it was "insane" in the 2015 restructuring for there to be a cap on payments.) He was adamant that "Ukraine's recovery is paramount, with the need to restructure a national security issue, the biggest since WWII. The West will not pay for reconstruction, so we need to find the money elsewhere, it has to be done. Laws have to be changed or we risk failure and political instability in Ukraine and a populist battle against the West. We are idiots if we think it's OK for Russia to bomb Ukraine and we would have to pay [for reconstruction], especially when there are available Russian assets to sell." Or, we can use innovative solutions, such as using the proceeds of the Russian asset sale as collateral to support private sector contributions in addition to the grants/donor funding and multilateral/EU support being provided for Ukraine bonds.

Zandstra thought a social bond for example linked to health, or education, structured by way of blended finance, etc. would be acceptable to the market, but Ukraine was still in a state of conflict, so it may be too early to start discussing options. Freezing Russian assets was one thing, but appropriating them would raise many points of law for a rules-based system. Central Bank immunity had been at the heart of the financial architecture for decades and measures that cut across this would need to be carefully thought through pre a war reparations context. Any action should be "within the law," unless we opt to change the law.

Clark agreed with Ash that western creditors shouldn't have to pay for the restructuring of Ukraine's economy. The $400 billion in Central Bank reserves in the West have to be used to fund the Ukraine rebuild, the West should insist on that. However, it is also important for the rule of law to be respected. At the conclusion of the war, the reserves should be used as leverage. The way we use the bonds are important as seizing the assets will be a big challenge. For post-war reconstruction, we need a G7 program, complemented by private sector involvement and a coherent IMF program. Maybe a deferred payment plan was advisable instead of a full-blown restructuring in order to create sustainable debt. It will be difficult to expect a DSA, we need other alternatives.

Sovereign Debt London (continued)

Ash deemed the China lenders "profligate" with crazy policies vs the private sector that has constructive approaches to restructuring, trying to get countries back in the market and "cautious since the market thinks in results." What is clear from the Common Framework is that really there are no common debt obviously this is critical given their stock of outstanding debt in EMs is larger than the Paris Club's. The difficulties in recent debt restructurings around the Common Framework, and the fact that resolution is now taking much longer, are in itself good reasons for other debt distressed countries to try and avoid the debt restructuring route - see Pakistan, Tunisia and perhaps Egypt. Currently, there are countries on the precipice of default that "don't want to get stuck in the no-man's land of the Common Framework."

Zandstra then turned to other civic social initiatives as the next peak of interest, including ESG. In addition, the mindset that "all debt is bad, as are all creditors" needs to be adjusted. Debt incurred responsibly could support developmental aspirations and energy transition/climate risk mitigation needs. She also discussed the bills currently proposed in the NY Legislature relating to: (1) an SDRM-style restructuring program to change NY state banking law, (2) champerty and (3) limiting recoveries. She recounts being told by various stakeholders that the Article 7 NY law banking law amendment will "go away," but this has not been the case and there has not been enough consultation or analysis of unforeseen consequences. Discussing contractual provisions innovations as part of the Sovereign Debt Roundtable instead of something so fundamental to the system as the NY bills is problematic because events may overtake and have unintended consequences. Instead of going away, it seems other initiatives are being added. Letters are being sent by some groups and lobbying activities are being funded to counteract and promote these proposed laws, but conversation among all stakeholders is what is really required. The issue of Federal vs State powers is also quite interesting, and NY as the governing law in many contracts will be used in such a fashion that debtors and creditors will likely choose UK or other law to avoid the negative and substantial ramifications of these proposed NY bills, none of which have passed to date, but are not wholly dead. She encouraged the market to take more of an interest, lest these bills be re-enacted at the next session.

Clark viewed the NY initiatives being driven by a frustration with the pace of restructurings, the Ukraine conflict, etc. There is "greater consciousness" of these problems and an emotive response driven by politics, not a rational discussion of what's best for the sovereign debt market. The fundamental changes to the enforceability of contracts under NY law must be closely watched by investors. Similar solutions are being advocated in the UK, along with coordination with NY authorities, but, for now, they are being rejected in the UK. Clark agrees that, if the NY Assembly even passes one of these proposed laws, it would benefit the UK significantly. Zandstra added that the UK was thus far responding in a balanced way by reviewing the areas of contracts where payment terms can be changed without unanimous consent (MVPs in loans) and Climate Resilient Debt Clauses available on ICMA's website. Had these initiatives not occurred, there would have been increased pressure to enact the types of bills that some NY legislators have proposed.

Mediratta commented that some thought Treasury would intervene, but that has not yet occurred. Not all investors are treating the NY bills seriously. Whether the change from NY to English (or other) law was going to occur is not yet clear, but hard and fast rules imposed by the NY legislation was indeed a big problem.

Sovereign Debt London (continued)

Clark mentioned that most bonds contain aggregated CACs through ICMA's recommended language, and, once the percentage is reached, can be implemented with a high degree of participation. There are still some bonds without any CACS (and those restructurings are more likely to be subject to holdout creditors), or those without aggregated CACs (i.e., in Lebanon where percentages were calculated for each series, so a substantial number of holders were not forced to give up some rights).

Zandstra raised the issue of transparency as a policy to be upheld, a pillar of what should be done and what will make a difference, with an understanding of what comparability of treatment will entail. Sharing of information through an NDA or otherwise is paramount. Keeping the dialogue going, inviting parties to meetings, etc. can result in a more expeditious resolution.

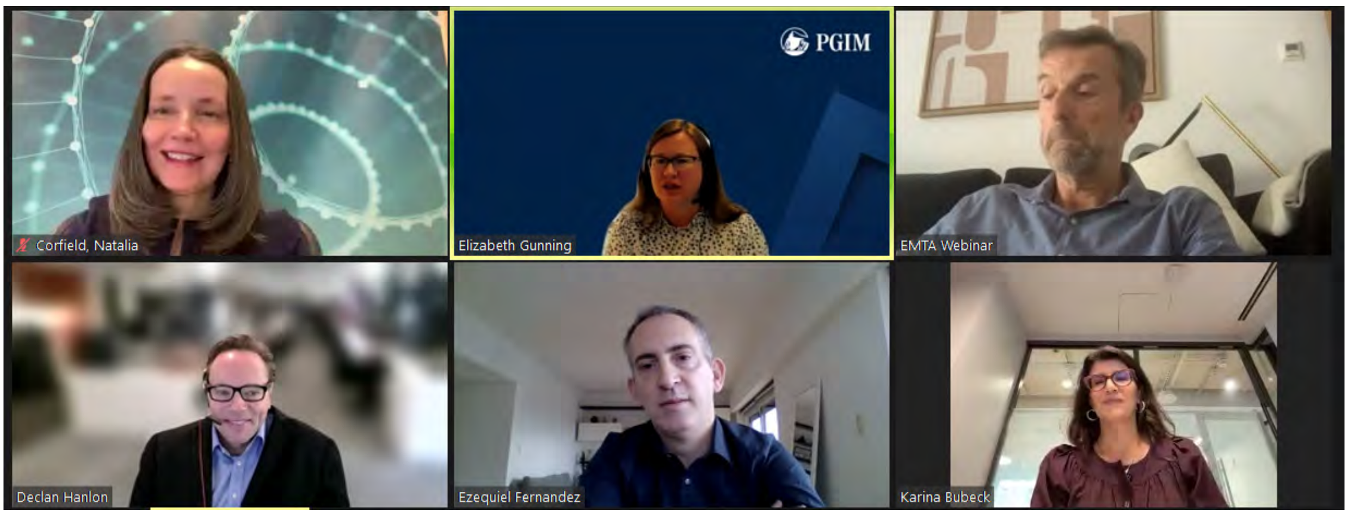
Mediratta added that most countries wait too long to restructure, and should default earlier. The rich and poor in those countries stay the same, while the middle class disappears. The IMF should participate, the banking system needs to be stabilized. Most restructurings should be able to be completed within 12-18 months. An engagement process should be pre-emptively organized by creditors, with financial advisors hired. He stated that he's not blind to the challenges, but hopes that these avenues are pursued, which are in the best interests of bondholders and sovereigns alike.

Zandstra concluded that debt for nature programs do well in balancing environmental issues with debt relief. These are highly structured transactions that are designed to access different investor bases.

Opportunities Exist, But Caution Warranted, Say EM Corporate Bond Experts

Opportunities exist in the EM corporate market, while caution is warranted, and liquidity remains an important factor, according to speakers on EMTA's Webinar on the 2H 2023 EM Corporate Outlook. The event was broadcast on Tuesday, July 25, 2023, with over 150 EMTA Members watching the live stream. JPMorgan sponsored the discussion, with additional support provided by Balanz Capital and Santander Corporate & Investment Banking.

JPMorgan's Natalia Corfield led the discussion, observing that a main takeaway from a recent European client trip was the defensive position adopted by many corporate bond portfolio managers. "It seemed that clients want to avoid credits they don't know well, after the hiccups earlier this year, and are sticking to liquid credits that they can get in and out of easily." She polled Webinar speakers for their current risk appetite.



Karina Bubeck (Nuveen) described her view as "prudently positive" for the 2H. This was based on DM/EM growth divergence (as highlighted in the IMF's recent report), the relatively improving inflation outlook for EM, the growing consensus for a soft landing (or lack of recession) in the US, and recent new issuances. Combined, these factors could increase crossover appetite into EM, and make EM corporate refinancing easier. Bubeck suggested that value might be found in Israeli tier 2 banks, Indian renewables, Indonesian quasi sovereigns, Brazilian agriculture, and sector leaders in Brazil with a history of public debt issuance.

PGIM Fixed Income's Elizabeth Gunning also adopted an optimistic but cautious tone. She acknowledged that "recent market stumbles" have caused a retrenchment from her firm's more aggressive approach in the past. "We are open to the selective pick up of issues which we think are mispriced, and we do consider the market to be cheap, with pockets of value in BBB or BB rated issues," she stated. Of potential interest were Mexican or Indian firms that could benefit from nearshoring, or those companies which could benefit from the US Inflation Reduction Act. As for liquidity, "we generally stick to liquid names, but we would consider giving up a little bit of liquidity if we are being appropriately compensated."

Declan Hanlon (Santander Corporate & Investment Banking) offered his assessment that "the appetite for risky credit has gone from 'poor' to 'terrible,' with credits rated below BB 'persona non grata.'" Bond sell-offs following bad news have been much more exaggerated than normal, he added.

Corporate Webinar (continued)

Following several unexpected market developments this year, Corfield asked panelists if they remained concerned about future defaults. "The answer to that is a strong yes," declared Hanlon, citing the ramp up in borrowing costs, the rising inability of issuers to pass through higher costs to customers, and the end of the free money era, all of which could pose a refinancing challenge for some credits. He expected that Brazil and Mexico would be the geographical source of the most defaults due simply to the fact that they had been the source of the highest number of new issuers since 2019; and that lower-rated debt with exposure to commodities would be the source of most payment crises by sector.

Ezequiel Fernandez (Balanz Capital) maintained that EM corporates had good fundamentals generally, so "we are not scared of a systemic event, although there are definitely some cases that we are monitoring." He seconded that there may be some additional Brazilian corporates which might face repayment challenges and indicated concern on the power generation and telecom sectors in Chile.

Bubeck commented that, "it's hard to think of another Russia/Ukraine-type event that will result in a lot of unexpected defaults; and I don't see any major macro issue that would lead to, say, a 10% default rate in EM corporates." She expressed curiosity about a possible past-through effect to EM from defaults in the US HY market. Finally, she referenced the pick-up in maturities in 2024, led mostly by Chinese IG companies; and cautioned that any unexpected refinancing issues there could cause her to rethink her view. Gunning concurred with most speakers that the default rate would tick up, but that it would mainly affect small issuers already perceived to be "quite vulnerable," and much more obvious default risks.

JPMorgan has become less concerned with LatAm political risk than earlier this year, and Corfield asked if her panel shared that view. "Political risks have moderated, and get fewer headlines…but they haven't faded," emphasized Gunning, who cited the recent resumption of street protests in Peru as an example.

Bubeck reminded viewers that, "we are always caught up in surprises in EM," such as the forced resignation of President Lasso in Ecuador. She was also monitoring protests in Peru, as well as President Petro's reaction to Colombia's upcoming legislative elections. In her assessment, political news could either present buying opportunities, or be more serious concerns, and she underscored the overall declining security situation in LatAm as potentially posing a longer-term threat to growth and asset class inflows.

Addressing the strong returns in Argentine corporates ytd, Fernandez conceded that the return of high inflation, fiscal deficits and capital controls made it seem like "ground hog day in Argentina." He judged current valuations as expensive, with FX controls and dollar availability a major issue for several firms. "The expectation that the new government will go fast on fiscal reforms, and slow on removing capital controls—the opposite of the Macri government's approach—is negative for those Argentine corporates without dollar access," he warned.

On Pemex, Hanlon reasoned that the company's weak ESG profile has gradually reduced technical support for the credit, and also called attention to the wide spread over the sovereign despite the generally assumed sovereign support. Mexican government of support of $30 billion on upstream operations has led to "a slight increase in production at best; and, long-term, the governments band-aid approach won't last." While Pemex would likely be able to tap the market this year, a more systemic approach, such as a UMS-sponsored issue, could be needed in the future when amortizations increase. Hanlon's base case would be for a Morena government to succeed President AMLO and to continue his Pemex support, "but they will need to do something new."

Optimism for EM Debt−and Skepticism on Erdogan's Policy Reversals−Expressed at EMTA Summer Forum

An informal show-of-hands poll at the outset of EMTA's 26th Annual Summer Forum in London revealed that a majority of attendees were optimistic about 2H 2023 EM returns, although a number of speakers remained unconvinced of a fundamental turnaround in the Turkish economy. The event was held on Wednesday, June 14, 2023, and drew a capacity crowd of over 150 market participants. BofA Securities hosted the Forum, with additional support from BBVA, Fitch Ratings, JPMorgan, and REDD Intelligence/ CEIC Data.

David Hauner (BofA Securities) moderated the event's first discussion, with speakers also generally constructive on the asset class, expecting local-currency debt to outperform hard-currency paper. Eoghan McDonagh (Allianz Global Investors) deemed taking advantage of the local rate easing cycle would be a key theme in the 2H, while several speakers offered local-currency return forecasts in the mid to upper single digits.

Hauner asked panelists what effects China's recent stimulus measures would have on EM. Robert Simpson (Pictet Asset Management) replied that structurally, Chinese growth was on the downside, and that it had also disappointed on a cyclical basis. Spillover effects to EM have been weak as Beijing was no longer targeting the investment-led growth that had boosted commodity pricing in the past. He likened recent Chinese rate cuts to "a bit of pushing on the string" in terms of economic impact. Finally, Simpson affirmed that, while the official 5% growth target was "not seriously under threat," economic expansion in 2024 and 2025 was unclear.

We can't call that repo rate cut 'real stimulus,'" seconded Didier Lambert (JPMorgan Asset Management), who also saw China achieving target growth in 2023, due to carryover from last year. "The key for future growth is confidence, and the question is, will China need to go back to supporting the housing market," he stated. Lambert believed that EM could thrive in an environment of a 7.50 CNH/USD FX rate if the PBOC continued to control the yuan's depreciation.

Summer Forum (continued)

On Turkey, McDonagh suggested the market "may have gotten ahead over its skis," with its optimism on the appointment of a new economic team. "Has anyone shown that Erdogan now wants orthodoxy?" he pondered, fearing that the situation was "now rife for U-turns, based on history." Hauner pressed to see at what level of domestic rates he might change his mind, but McDonagh declared "it didn't really matter," since, after a short honeymoon period, Erdogan could reverse policy once again. Simpson estimated that rate hikes to 40-50% were necessary, "but they probably won't get anywhere near that." More likely, he predicted that officials in Ankara would hike rates to a level which would alleviate, but not entirely dismiss, market concerns.

Despite positive surprises in Q1, South Africa now faced headwinds due to worsening load shedding and the Russian arms sales scandal, McDonagh noted. Simpson countered that the market may be under-estimating the potential for new electricity generation (especially with new independent power producer licenses), while acknowledging the 2024 elections risk. Should the ANC need to form a coalition government and align itself with the EFF, "this would be very bad for sentiment."

Stephanie Ouwendijk (Franklin Templeton) reviewed opportunities in distressed debt. In her assessment, C- and D-rated credit spreads have doubled since Covid and were not justified on fundamental bases such as debt/GDP levels. El Salvador's 2022 debt buy-backs "significantly reduced rollover risks and improved the fiscal accounts with reduced interest costs…we think the 2025 bonds are completely manageable." Ethiopia was a liquidity issue, not a solvency concern, she maintained, and recently paid its coupon. Despite its application for Common Framework treatment, Ouwendijk ventured that there was a possibility (albeit small, she admitted) of repayment at par and, if not, a friendly debt exchange.

Ouwendijk highlighted the influence of geopolitics on some distressed credits as well. Tunisia's bonds would benefit from the EU's desire to avoid a refugee crisis, with IMF talks likely to resume in the 2H. The yen-denominated bonds specifically offer attractive risk/reward. She also expected the IMF's return to Pakistan after elections and questioned the lack of a price differential with Sri Lanka ("it doesn't make sense"). On the other hand, Ghana and Sri Lanka were priced at recovery levels, offering little upside, although a VRI structure in a Zambian debt deal could offer some marginal pick up ("though not a high conviction trade").

McDonagh expressed concern over Egypt. The IMF would likely "give the country a pass" as long as it demonstrated some effort on privatizations, although it might insist on the further devaluation of the pound. "Authorities have been saying they will take action for 24 months, but now we need to see some action," he emphasized.

Ouwendijk praised Nigerian officials for removing fuel subsidies as well as FX policy changes, but cautioned that the market may be overly optimistic. "These are good steps, but we need to see a lot more… there is a history of us being disappointed" with Nigeria.

With the consensus trades of Brazilian, Mexican and CE-3 local debt outperforming ytd, was it time to take profits? No, Lambert responded, "exiting those trades would be leaving the party when the music is just getting started," as the rate cutting cycle in those countries is just beginning.

Summer Forum (continued)

The event's second panel was chaired by abrdn's Edwin Gutierrez, who continued with the Turkish theme, polling speakers whether the new team would be given enough reins to transform the economy. "The scope of work is massive," observed Emre Peker (Eurasia Group), and the delegating of complete autonomy for at least three years would be needed to succeed.

Fitch Ratings' Paul Gamble (whose firm rates Turkey as a B with a negative outlook) advised that there could be "a little bit of [ratings] upside if you think policy can hold for a while," noting that "bad policies have taken the rating down." Gamble reminded attendees of previous policy reversals; thus, the new team establishing credibility would take time.

Tufan Comert (Garanti BBVA Securities) anticipated that rates would be raised somewhat as a signal to investors of a change in policy, while pointing out that local elections in March 2024 could limit more dramatic increases. Forecasts of record tourist arrivals should also help the economy, he added, and a credit event was unlikely.

"All my Turkish friends told me not to believe it," commented JPMorgan's Luis Oganes. He then offered some reasons for a more constructive outlook–a more secure Erdogan, fresh from electoral victory, may give more time to Finance Minister Simsek to deliver, as well as the failure of previous policies to generate growth. "Who knows? We wouldn't rule out a turnaround story, though we are skeptical too; maybe there is a reason to be cautiously optimistic."

Speakers concurred that Erdogan would continue to balance East and West. Western political support for Turkey would remain because of its military power, aid to Ukraine and other factors, according to Oganes. Comert pointed out Turkey's production of cheap drones for Ukraine, while it offers Russia a path around sanctions; other links with Russia also included the $5 billion swap agreement and its strong Russian tourist arrivals. Gamble called attention to Turkey's stepping in to fill Russia's historic role in Central Asia, and envisioned Turkish actions to smooth relations with the West, including Sweden. Finally, Peker asserted that Erdogan's greatest accomplishments were in the foreign policy realm, and opined that he would continue to align with each actor on a transactional basis.

Summer Forum (continued)

The effects of US policy on China were also debated. “The EU and US both stand to lose if they ‘de-risk’ or spark a trade war with China, Peker believed. The G-7 was moving towards a more united front on critical materials, AI and nuclear power, “but it will take a while and be laborious.” Gamble argued that, while there could be de-risking, decoupling “was just not possible—it would be too disruptive.”

Oganes revealed that a Chinese deceleration would not affect JPMorgan’s LatAm growth forecasts, because Chinese growth had not been included in the first place. “Strong commodity prices play a part, but not all of it has to do with China.” Gamble listed Mexico, Poland, Hungary, and Serbia as countries that could benefit from friend-shoring.

Turning to debt restructuring and the Common Framework, Gamble didn’t see a new mechanism “coming to the rescue.” He cited the record number of EM sovereigns (13) rated by Fitch at the CCC or D levels, with the average EM sovereign rating at his firm now at BB-. Oganes insisted that an ad hoc approach to debt restructurings need not be negative, with the Common Framework initiative aspirational, and recognizing that China merited a seat at the table. “We need to stop focusing on the means and focus on the goal—a dose of reality and pragmatism will go a long way and will address the risk that countries could be in default permanently.”

Gutierrez ended the panel by requesting turnaround candidates. Comert recognized Turkey’s potential should the economic team truly make long-lasting progress; “it could be the trade of the decade!” Oganes underscored that the consensus underweight on Turkish debt could lead to strong technical support.

Other turnaround candidates in Oganes’ view included post-election Argentina (with the caveats that painful shock therapy would be needed, and that election polling revealed no clear frontrunner), Nigeria and Egypt (“paths to redemption are possible,” including depreciation of the Egyptian pound and privatizations).

Speakers at Argentina Forum in NYC Discuss Elections, Debt Restructuring

The presidential race, the desirability of a debt restructuring, and the likely economic agenda of the next administration were among the topics addressed during EMTA's Forum on Argentina's Economic and Political Outlook, held in New York City on Wednesday, June 7, 2023. The event drew a standing-room only crowd of over 150 market participants. Tradeweb and PPI sponsored the program, with the additional support of Bank of America and Barclays.

Moderator Walter Stoeppelwerth (PPI) opened the session by asking speakers if the current administration could avoid economic disaster, especially given the recent drought. Pilar Tavella (Barclays) characterized Argentina as a country facing short-term risks, notably IMF funding, while offering medium-term potential, specifically in the energy sector, while having "relatively manageable" external debt levels. Her base case was that the country would reach an agreement with the Fund, although the country's shortage of dollars remained problematic.

Sebastian Rondeau (BofA Securities) acknowledged the risk of a return to 1980's style hyperinflation, although this was not his base case. He agreed that an IMF deal would be concluded, and hoped that, with the Chinese swap line and a possible decline in imports, inflation could be held relatively steady. Key risks included a standoff with the Fund, or the departure from the government of Economy Minister Massa. Moderator Stoeppelwerth offered his own view that, "a key question is what concession will the IMF extract from Massa for the money—it can't be a freebie, and we hope the IMF gives them more homework on the tariff side."

Moving to politics, Stoeppelwerth noted that the Street had deemed the election as Juntos por el Cambio's to lose, until the recent surge of outsider candidate Milei. "We are at peak uncertainty for both the economy and politics," observed Matias Silvani (GoldenTree Asset Management), who anticipated more clarity after the June 24 candidacy deadline. Silvani argued that, despite election-related rhetoric, a victorious Milei would hire "good people" in his administration and credited his candidacy for shifting the economic conversation to the right (and introducing dollarization as an issue). Silvani didn't expect a fracturing of the Juntos por el Cambio alliance, while pointing out that all candidates must recognize that the next administration will inevitably again be a coalition government.

Tavella asserted high inflation has led to stronger calls for stabilization and is also responsible for shifting the economic discussion rightwards. "This opens up the idea to the country of a deeper change in the

Argentina NY (continued)

the economy and creates opportunities." Under a Juntos administration, she expected a gradual lifting of capital controls but quicker fiscal adjustment progress, with governability a key concern due to factors including low real wages.

On market conditions, Hans Humes (Greylock Capital Management) opined that Argentine debt had turned from an investment to a trade pre-pandemic and remains weighed down by technical factors such as trapped long positions and EM debt outflows generally. However, "given how pessimistic things have been for so long, it's hard to be pessimistic now." Humes also underscored energy sector potential, "if one can get through the noise."

What sequence of events were necessary to give investors the confidence to "jump in with both feet" on Argentine debt? Silvani replied it depends on what type of investor and their investment time horizon, while venturing that, of 5 stages of the market (status quo, hope, change, implementation, and delivery), Argentina might be transitioning from the "hope" to "change" stages. In any case, one must believe in light at the end of the tunnel, especially as fundamentals are likely to get worse before they improve. While he declined to espouse a "10 out of 10" support for Argentine paper, "I think it deserves a position." Silvani added that real money accounts were in the "show me" stage and were unlikely to buy Argentine bonds until actual policy implementation, when prices would have already moved higher.

Humes agreed that added visibility from the June 24 candidacy deadline and the PASO vote will offer more clarity on the country's political direction. While there was broad consensus for the need to change the country's FX regime, hyperinflation or popular unrest could prompt exits by portfolio managers. "I think there is room for optimism—but that is the mid-20's, not in the 40's," he concluded. Silvani anticipated that Argentine debt would remain a range-bound trade, not an investment, until there was more information on the economic stabilization plan.

Stoeppelwerth stressed that the Vaca Muerta oil field could be a game changer, and asked if others were puzzled by debt prices not reflecting that. Tavella reiterated that short-term IMF uncertainty was overhanging the credit, and, once that fog was lifted, investors could shift their focus to the energy sector potential ("I am very constructive."). Rondeau was heartened that support for energy production "has risen above political differences," and was widespread among political leaders, and pointed out its importance in IMF debt sustainability discussions.

A comprehensive debt restructuring was not a necessity, according to both Humes and Silvani, who recommended a liability management exercise as preferable, given the relatively small bondholder payments due in the next two years. Humes suggested a blue bond might also be a desirable option. "You might not be able to take out a significant amount of debt, but it may help the dialogue with the IMF, and be good PR," Humes ventured.

The panel concluded on a note of cautious optimism. Tavella recommended the next administration take the necessary harsh economic measures quickly to have a better chance of success than the Macri government. She added that the new government's mandate will be an important factor, as would the failure of the Peronists to make the final round.

Silvani maintained that Argentine political coalitions were often based on convenience, not ideological alignment, or policy consensus. However, he saw a popular cry for change from all sides of the political spectrum, "and, bottom line, I do see change coming."

US Sanctions Policies on Russia, Venezuela and China Addressed

Escalation of sanctions on Russian entities, changing sanctions landscapes in China, Nicaragua and Africa, and possible new sanctions approaches in Venezuela, present unique challenges to policy-makers and to Emerging Markets investors. What has changed and what may be around the corner? This EMTA Seminar "Update on EM Sanctions" on May 24, 2023 in New York provided a timely update on US sanctions by a panel composed of leading legal practitioners in the area of OFAC regulations and a U.S. government official.

Chase Kaniecki (Cleary Gottlieb Steen & Hamilton) moderated the panel, with Will Schisa (Davis Polk & Wardwell) and Jim Mullinax (US State Department) as panelists.

Cleary Gottlieb Steen & Hamilton hosted and supported the panel in its NY offices, and additional support was provided by Davis Polk & Wardwell.

Mullinax gave an overview of the growing role of the State Department in connection with sanctions, which role stemmed from a dual delegation of policy and targeting powers (whereby the Treasury Department had statutory authority for issuing sanctions) while working with the Treasury Department in crafting appropriate global sanctions, as well as sanctions on various countries. For Emerging Markets in particular where the sanctions risk may be greater, sanctions are used as a tool to achieve specific US foreign policy objectives by changing behavior or encouraging certain conduct. The goal is not to be punitive and the implementation is targeted. When certain results are achieved, sanctions can be reduced or eliminated.

The rest of the panel discussion encompassed a tour of various countries and the reactions of Kaniecki and Schisa to the sanctions imposed on such countries and the types of questions they encountered from their clients.

Russia

The sanctions program has been in place for a long time, but went into overdrive when Russia invaded Ukraine in February 2022. The first time Russia invaded in 2014 did not elicit a super-aggressive sanctions regime. Now it is more expansive by (1) identifying (a) various persons who politically and economically may help Putin and (b) sectors of the economy, and (2) most importantly, aiming to discourage further invasion. Sanctions are meant to be targeted to restrict funds available to Putin, and focused on technology that may be used on the battlefield rather than agriculture which may adversely affect the Russian people and other populations around the globe.

Sanctions (continued)

While acknowledging that "the landscape is more solidified now," Kaniecki discussed the way that these broader comprehensive measures affected his clients (especially with respect to the investment and trading ban and "exiting Russia").

Schisa agreed that we're in a more stable environment where "we're settling into a world where anything related to Russia" requires some scrutiny, attention and worry to an extent. The fallout from a "shift to a massive sanctions regime" requires extrication from investments there and a concern that EU and other sanctions are not wholly aligned specifically with those of the US. Plugging those gaps and bringing various US, EU and other sanctions into more technical alignment is crucial as many companies operate in multiple jurisdictions. He cautioned against "getting creative" if an act is not in the spirit of the sanctions since the "letter of the sanctions will probably catch up; tread carefully." He also raised the issue of the Russia exit tax, which impacts divestment and commented that OFAC was backlogged with specific license requests on this topic. OFAC may be prioritizing these requests, but it's still "a bit of a mess." Firms will unavoidably lose part or all of their investments in Russia, but that is part of the risk of investing there.

Kaniecki indicated that many companies don't want to get anywhere "near the line," and are conservative in their compliance with law (and their interpretation of it). They may continue some unprohibited operations and will pivot and react, as needed.

China

There's been a change in the past 20 years, whereby China welcomed foreign investment before, but now is more hostile to it. The way the US approaches China is different than its approach to Russia (where the US is less entangled) in the sanctions context. The Taiwan topic also complicates matters. The U.S. currently has limited sanctions authorities related to the PRC, mostly focused on democracy and human rights and China's military/civil fusion strategy.

Kaniecki stated that companies were more reactive in the Russia sanctions context and are becoming more proactive when it comes to China. Expecting the exact same US sanctions regime playbook in China that was used for Russia is not necessarily advisable, given the differing circumstances surrounding each of the countries.

Schisa suggested learning from the Russia experience (albeit "the specifics won't track") with the following major takeaway - map out and plan up-front the differing possible sanctions scenarios. Reviewing the Chinese anti-foreign sanctions law against what approach the US may take in response is a useful exercise. US has taken a different approach in China by looking at export controls, which limit access to advanced technology that supports military development. The US has used a more targeted approach in China that is less disruptive to its economy, rather than a comprehensive embargo.

Kaniecki added that it will be interesting to see how the US responds after Taiwan, and how far each country will go to test each other's further sanctions. He agrees with the "tread carefully" approach in Russia vs. the "be more proactive" one in China.

Sanctions (continued)

Venezuela

In Venezuela, the sanctions are targeted against the Maduro regime and his human rights abuses. The US goal is to promote a return to a democratic process with free and fair elections, leading to a potential loosening of sanctions if certain criteria are met, not a punishment approach (particularly when it concerns humanitarian assistance to the Venezuelan people).

Kaniecki raised the recent court case that led to a US announcement that it won't object to the sale of Citgo assets to satisfy a portion of the plaintiffs' claim (even though that sale will not nearly cover such claim). Kaniecki also noted that the US likely wants to see some progress "generally speaking" before it lifts some of the sanctions.

Schisa agreed that there were opportunities for loosening of sanctions, but it very much depends on "the facts on the ground." One doesn't want to "be last in line," though one "should not have expectations of immediate gratification." The broad definition of the "Venezuelan government" causes implementation challenges even with General Licenses and carve-outs. He hopes there are improvements and technical changes even in the absence of a broader loosening of sanctions.

Nicaragua and Africa

Undermining democracy and enriching cronies are behaviors that the US is attempting to modify. Like in Venezuela, sanctions in Nicaragua are targeted against Ortega and his family that are running the country as their fiefdom. Gold and the misuse of natural resources is a unifying factor in both Nicaragua and Africa (e.g., Sudan and Ethiopia). Establishing processes for civilian-led governments is key.

1998 FX and Currency Option Definitions – Where to Now?

In 1998, EMTA and ISDA jointly published 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 in an effort 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.

Given the linkage between the 1998 Definitions and the EMTA Template Terms, EMTA Members responding to the survey should consider how they would like the post-amendment architecture for NDFs and NDOs to look and how amendments they support could change the day-to-day processes for standardizing documentation, documenting, and trading for these currency derivatives.

EMTA Members with specific questions about the survey itself or any potential plans to update the 1998 Definitions are invited to contact ISDA directly or may contact Leslie Payton Jacobs at (lpjacobs@emta.org).

Annex A Updated June 30, 2023

EMTA and ISDA updated Annex A to the 1998 FX and Currency Derivatives Definitions on June 30, 2023 to implement a discrete small collection of "clean-up", but needed, updates The updates included language changes to the separate SFEMC Indicative Survey Rate sources definitions for the CNY, IDR, INR, MYR, PHP and TWD currencies following a review and the subsequent update by the SFEMC of its methodology (see the SFEMC website for a more extensive explanation of the changes). Additional changes include the addition of a new currency, related financial center and rate source definition for the Uzbekistani Soum, the removal of the Croatian Koruna as a currency and some updates to the Sierra Leonian Leone definition in anticipation of its redenomination at the end of the year.

FX and Currency Derivatives Industry Associations Continue Joint Efforts on Benchmark Legislation Challenges

EMTA had joined the International Swaps and Derivatives Association (ISDA), the European Association of Corporate Treasurers (EACT), the Futures Industry Association (FIA) and the Global Financial Markets Association (GFMA) ("The Associations") in responding to the European Commission's Call for Evidence on the 'Review of the scope and third-country regime of the Benchmark Regulation on March 29, 2023. This a continuation of EMTA efforts to work with ISDA and GFXD staff members to further their joint efforts to address the challenges the industry is facing with respect the implementation of the EU Benchmark Regulations and the use of Third Country benchmarks by the industry. Recently, EMTA and several sister trade associations (ISDA, ASIFMA, EACT, FIA and GFXD) have been looking at providing commentary to the UK authorities in respect of the UK benchmarks legislation, which is substantially the same as the EU Benchmarks and raises the same concerns, especially as regards the regulation of third country benchmarks.

Uzbekistani Soum Template Terms Republished

On June 30, 2023, EMTA republished the UZS February 1, 2023, NDF Template Terms for the Uzbekistani Soum to remove a long-form rate source definition for the Soum with a reference to such rate source definitions as included in Annex A on June 30, 2023. Likewise, terms for the new currency and financial center were up streamed from the Template Terms into Annex A. Notwithstanding, no substantive changes were made to the Templates and thus no amendments to outstanding contracts are necessary. EMTA Members were invited to use the updated Template at their convenience.

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. Several EMTA members have suggested that EMTA could be helpful to the industry in developing a standard form of contract to be used for these contracts. 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.

NY Legislation Proposed Affecting Sovereign Bond Restructurings Governed by New York Law

There are several bills pending in the NYS legislature which, if enacted, would have serious implications for the enforcement of sovereign debt governed by NY law. These bills are similar to those previously introduced into the legislature in 2021, which were the subject of an EMTA webinar on May 4, 2021. An EMTA Compendium regarding these bills, including a summary of the May 4, 2021 panel discussion can be accessed by Clicking Here.

Several trade associations, including IIF and ICMA, have recently issued public statements opposing this proposed legislation which may be accessed by Clicking Here.

The following three law firms and their respective primary drafters have addressed all three proposed bills:

Dennis Hranitzky (Quinn Emanuel Urquhart & Sullivan), whose White Paper can be accessed by Clicking Here, Deborah Zandstra (Clifford Chance), whose Client Briefing: Sovereign Debt Restructuring can be accessed by Clicking Here and Richard Cooper (Cleary Gottlieb Steen & Hamilton), whose Alert Briefing can be accessed by Clicking Here.

An EMTA Webinar on September 22 will explore this topic further, including moving the governing law from NY or UK to Texas or Florida. See page 1 for more information.

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

Holiday Schedules Issued

EMTA circulated the list of 2023 US and UK Annual Holidays in December 2022 in conjunction with the SIFMA distribution of such Annual Holidays, and, prior to each US and UK Holiday, EMTA sends to Members the relevant settlement schedule in connection with such Holidays. These can all be viewed under: https://www.emta.org/activities-and-services/holiday-and-settlement-schedules/.

For more 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.

Boston Seminar to Focus on Frontier Credits

EMTA will return to Boston with a Forum on Frontier Markets on Thursday, September 21, 2023. Artisan Partners will serve as host and lead sponsor of the event, which will start at 3:30 pm at their office at 53 State Street. The Forum will cover credits in Latin America, Africa and Asia.

Unoma Okolo (Artisan Partners) will chair the panel. Joining her on the podium will be Shantall Tegho (Fidelity Management and Research), Eamon Aghdasi (GMO), Raul Gallegos (Morgan Stanley) and Roberto Sifon-Arevalo (S&P Global Ratings).

Invitations were sent to all EMTA Members, who may register for the event at www.emta.org. Non-members may also attend, with a US$495 registration fee.

Additional support for the program is provided by Morgan Stanley and S&P Global Ratings.

For more information, please contact Jonathan Murno at jmurno@emta.org.

Legislation (continued)

If such legislation is enacted in NY or in the UK, some have proposed that trigger provisions be included in new sovereign bonds that would permit an amendment by bondholder vote to change the governing law to Florida, Texas or Delaware. A comparison of salient provisions under the laws of the New York, Texas, Florida and Delaware will be provided to attendees.

The event will be sponsored by Quinn Emanuel Urquhart & Sullivan.

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

EMTA's Sub-Saharan African Forum Returns to London on September 27, 2023

EMTA's Forum on the Sub-Saharan African Economic Outlook will take place in London on Wednesday, September 27, 2023. ICBC Standard will serve as host and lead sponsor of the event, which will start at 3:30 pm at their office at 20 Gresham Street.

Jibran Qureishi (Standard Bank) will lead a discussion on challenges and opportunities in the region, with topics expected to include the Zambian restructuring process, speculation on a possible Kenyan or Ethiopian restructuring, reform prospects in Nigeria, and the run-up to Ghana's 2024 elections. Confirmed panellists include Kevin Daly (abrdn), Tatonga Rusike (BofA Securities), Sam Singh (Rand Merchant Bank) and Yvette Babb (William Blair).

Invitations were sent to all EMTA Members, who may register for the event at www.emta.org. Non-members may also attend, with a US$495 registration fee.

Additional support for the program is provided by BofA Securities and Rand Merchant Bank.

For more information, please contact Jonathan Murno at jmurno@emta.org.

EM Sanctions to be Discussed in London

Escalation of sanctions on Russian entities, a changing sanctions landscape in Africa and possible new sanctions approaches in Venezuela present unique challenges to policymakers and to Emerging Markets investors. What has changed and what may be around the corner? This will be a unique opportunity for you to ask questions on how sanctions work generally, as well as their effect on the aforementioned countries. This EMTA Seminar will provide a timely update on US, UK and EU sanctions by a panel composed of US and UK government officials, a leading legal practitioner and a leading sell-side firm representative.

The event will be held on Thursday, September 28, 2023, and hosted and sponsored by Shearman & Sterling, with additional support from BancTrust.

Thomas Donegan (Shearman & Sterling) will moderate the panel discussion, with Dean Tyler (BancTrust), Daniel Drake (UK Foreign, Commonwealth & Development Office) and Blake Pritchett (US State Department) as additional panelists.

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

EMTA to Host Webinar on First Days of the New Nigerian Administration

The initial reform efforts of the new Tinubu administration in Nigeria will be the focus of an EMTA Webinar, to be broadcast on Thursday, October 5, 2023. BancTrust will sponsor the program.

Leading the discussion will be BancTrust's Ayodeji Dawodu. Confirmed speakers include Unoma Okolo (Artisan Partners), Neville Mandimika (Morgan Stanley), Samir Gadio (Standard Chartered) and Roy Adtkins (T. Rowe Price).

Invitations will be sent to all EMTA Members, who may register for complimentary attendance at www.emta.org. Non-members may also attend, with a US$495 registration fee.

Additional support for the program is provided by Morgan Stanley and Standard Chartered.

For more information, please contact Jonathan Murno at jmurno@emta.org.

EMTA Annual Forum in Hong Kong

EMTA is pleased to resume, in-person, its Annual Forum in Hong Kong, which had been suspended since 2020.

The EMTA Annual Forum in Hong Kong will be held October 17, 2023 at the LSEG Offices, ICBC Tower in Central, Hong Kong.

Panelists will be announced.

For more information, please contact Leslie Payton Jacobs at lpjacobs@emta.org.

EMTA Annual Forum in Singapore

The EMTA Annual Forum in Singapore will be held on October 19, 2023 at the Raffles Hotel under the lead sponsorship of ING Bank.

The Forum is a sit-down luncheon with two back-to-back panels, the first, discussing the South and Southeast Asia markets and the second focusing on the role of China in Asia's economy. Secondary sponsors of the event include HSBC, Moody's and ISI Markets.

Confirmed panelists for the event include Adam McCabe (Abrdn), Celeste Tay (Blackrock), Rob Carnell (ING), Pin Ru Tan (HSBC) and Prashant Singh (Neuberger Berman). Additional panelists will be announced.

Rob Carnell (ING) and Pin Ru Tan (HSBC) will moderate the two panels.

For more information, please contact Leslie Payton Jacobs at lpjacobs@emta.org.

South African Economic and Political Outlook to be Reviewed in Johannesburg, Cape Town

Standard Bank will again host EMTA's annual events in Johannesburg and Cape Town, where the outlook for South Africa, including the upcoming 2024 elections and their implications on the South African economy, will be discussed.

The Johannesburg event will take place on Tuesday, November 14, 2023 at Standard Bank's headquarters at 30 Baker Street in Rosebank. Elna Moolman (Standard Bank) will lead the discussion featuring James Turp (Absa Asset Management) and Danelee Masia (Deutsche Bank). Additional speakers will be announced shortly. Deutsche Bank is providing additional support for the program.

Next up is the Cape Town Forum on Thursday, November 16, 2023. This will be held at The Forum at 88 Southern Cross Drive, Bel Ombre. Elna Moolman (Standard Bank) and Danalee Masia (Deutsche Bank) will split moderating duties, along with panelists Gina Schoeman (Citi) and Isaah Mhlanga (Rand Merchant Bank).

Additional speakers for this event, which is also being supported by Citi, Deutsche Bank and Rand Merchant Bank, will also be announced shortly.

Invitations will soon be sent to all EMTA Members, who may register for the events at www.emta.org. Non-members may also attend, with a US$495 registration fee.

For more information, please contact Jonathan Murno at jmurno@emta.org.

BofA Securites Hosts EMTA Annual Meeting on November 29

EMTA's Annual Meeting will take place on Wednesday, November 29, 2023. The event will be hosted in-person for the first time by BofA Securities at One Bryant Park in midtown New York City. 300 EM professionals are expected to attend.

As in prior years, the agenda includes 2 panels of EM experts, one moderated by BofA's Claudio Irigoyen and composed of investor speakers, followed by JPMorgan's Joyce Chang leading a sell-side analyst discussion. (This will mark Chang's 28th consecutive appearance at the EMTA Annual Meeting.) The panels will focus on the outlook for EM debt in 2024 after the challenges of the current year.

At press time, confirmed speakers also included Christian Keller (Barclays), Amer Bisat (BlackRock), Drausio Giacomelli (Deutsche Bank), Alberto Ramos (Goldman Sachs) and Hari Hariharan (NWI Management).

Invitations will be sent to all EMTA Members, who may attend at no cost.

There is an attendance fee of $1000 for employees of Non-member firms.

For more information, please contact Jonathan Murno at jmurno@emta.org.

EMTA Survey: First Quarter Emerging Markets Debt Trading At US$1.619 Trillion

Volume Up 8% vs First Quarter 2022

Emerging Markets debt trading volumes stood at US$1.619 trillion in the first quarter of 2023, according to a report released on June 29, 2023 by EMTA. This represents an 8% increase on the US$1.493 trillion reported in the first quarter of 2022.

Local Markets Instruments at 66% of Volume

Turnover in local markets instruments stood at US$1.064 trillion in the first quarter of 2023, accounting for 66% of total reported volume. This compares to US$914 billion in the first quarter of 2022 (a 16% increase) and US$1 trillion in the fourth quarter (a 6% increase).

Mexican instruments were the most frequently traded local markets debt in the first quarter of 2023, at US$304 billion. Other frequently-traded local instruments were those from Brazil (US$217 billion), China (US$100 billion), India (US$87 billion) and South Africa (US$67 billion).

Eurobond Volumes at US$536 Billion

Eurobond trading stood at US$536 billion in the first quarter of 2023. This compares with US$578 billion in the first quarter of 2022 (down 7%) and US349 billion in the fourth quarter of last year, representing a 53% increase.

64% of Eurobond activity involved sovereign debt issues in the first quarter of 2023, with Survey participants reporting US$345 billion in sovereign Eurobond turnover. This compared to a 62% share of Eurobond activity in the previous quarter, when such volumes stood at US$217 billion.

Corporate Eurobond trading stood at US$190 billion in the first quarter of 2023, accounting for 35% of total Eurobond activity (vs. a 38% share in the previous quarter). Sovereign Eurobond activity accounted for 21% of overall Survey volumes, with corporate trading at 12% of total turnover.

The most frequently traded Eurobonds in the first quarter of 2023 were, according to Survey participants, Argentina's 2030 bond (with volume of US$6 billion), Turkey's 2033 bond (US$5 billion), Argentina's 2035 bond US$4.5 billion), Saudi Arabia's 2033 bond (US$4 billion) and Mexico's 2035 bond (US$3.9 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$950 million in warrant and option trades during the year and US$18 billion 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$353 billion in turnover, and compared to US$250 billion reported in the first quarter of 2022 (up 41%). Mexican volumes represented 22% of overall volumes.

Brazilian instruments were the second most frequently traded instruments in the report, at US$240 billion, according to Survey participants. This represents a 25% increase on the US$191 billion reported in the first quarter of 2022. Brazilian volumes accounted for 15% of total reported volumes.

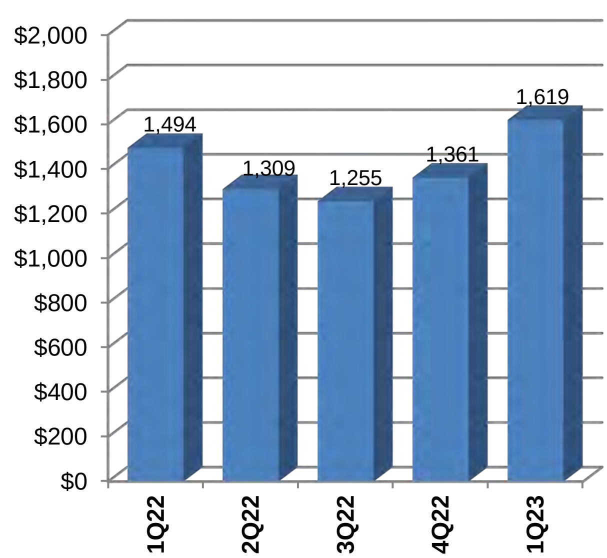
Third were Chinese assets, whose volume stood at US$136 billion. This compares to US$181 billion in the first quarter of 2022 (down 25%) and US$122 billion in the fourth quarter (up 11%). Chinese instrument trading accounted for 8% of Survey volume.

Other frequently traded instruments were securities from India (US$101 billion) and South Africa (US$82 billion).

EMTA's Survey includes trading volumes in debt instruments from over 90 Emerging Market countries, as reported by 33 leading investment and commercial banks, asset management firms and hedge funds.

For a copy of EMTA's First 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$380 Billion In First Quarter

Volumes Down 13% vs. 1Q 2022

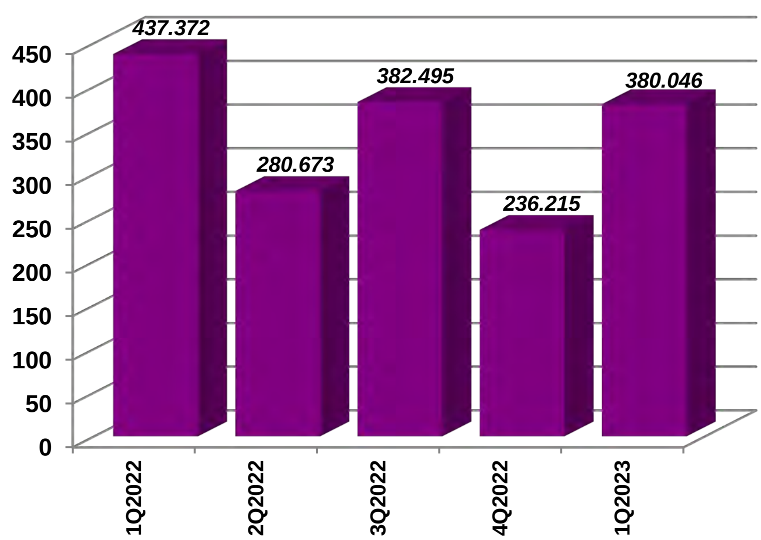
Emerging Markets CDS trading stood at US$380 billion in the first quarter of 2023, according to a Survey of 10 major dealers released today on June 27, 2023, by EMTA. This represented a 13% decrease compared to the US$437 billion reported in the first quarter of 2022.

The largest CDS volumes in the Survey during the first quarter were those on South Africa, at US$49 billion. EMTA Survey participants also reported US$41 billion in Turkish CDS contracts, and US$25 billion in Mexican 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 First Quarter 2023 CDS Trading Volume Survey, please contact jmurno@emta.org.

Figures in Billions of US Dollars



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.

Africa Region	https://www.emta.org/markets/markets-a-g/africa/
Balkans Region	https://www.emta.org/markets/markets-a-g/balkans-region/
Belarus	https://www.emta.org/markets/markets-a-g/belarus/
Burma	https://www.emta.org/markets/markets-a-g/burma-myanmar/
Congo	https://www.emta.org/markets/markets-a-g/congo/
Iran	https://www.emta.org/markets/markets-h-o/iran/
Lebanon	https://www.emta.org/markets/markets-h-o/lebanon/
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/

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

Membership Update

EMTA warmly welcomed **ICE Data Services Europe Limited** during the Third quarter of 2023.

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

Thurs., July 13	**EMTA Webinar: Ukraine’s Post-War Reconstruction - Challenges and Opportunities** **Sponsored by SCB**
Tues., July 25	**EMTA Webinar: 2H 2023 Outlook for EM Corporate Bonds** **Sponsored by J.P. Morgan**
Mon., August 28	Recommended Market Close (London) Summer Bank Holiday
Mon., Sept. 4	Recommended Market Close (NYC/London) Labor Day
Tues., Sept. 19	**EMTA Board Meeting**
Thurs., Sept. 21	**EMTA Forum on Frontier Credits (Boston)** **Sponsored by Artisan Partners** **53 State Street**
Fri., Sept. 22	**EMTA Webinar: Proposed NY and UK Legislation: Is Jurisdiction Change on Governing Law a Possible Answer?** **Sponsored by Quinn Emanuel Urquhart & Sullivan**
Wed., Sept. 27	**EMTA Forum: Economic and Political Outlook for Sub-Saharan Africa** **Sponsored and Hosted by ICBC Standard** **20 Gresham Street** **London EC2V 7JE**
Thurs., Sept. 28	**EMTA Seminar: Update on EM Sanctions (London)** **Sponsored by Shearman & Sterling** **9 Appold Street** **London EC2A 2AP**
Thurs., Oct. 5	**EMTA Webinar on Nigeria** **Sponsored by BancTrust**
Mon., Oct. 9	Recommended Market Close (NYC/London) Columbus Day
Tues., Oct. 17	**EMTA Hong Kong Forum** **LSEG Offices** **ICBC Tower** **Central Hong Kong**
Thurs., Oct. 19	**EMTA Singapore Forum** **Sponsored by ING** **Raffles Hotel** **1 Beach Road**
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)