EMTA

Bulletin

2nd Quarter 2007 Volume 2007: No. 2

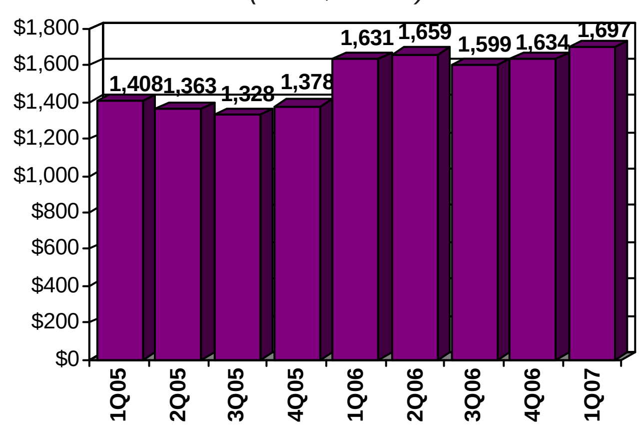
EMTA Survey: Emerging Markets Debt Trading at US$1.697 Trillion for First Quarter

Market participants reported trading US$1.697 trillion in Emerging Markets fixed income instruments in the first quarter of 2007. This represents a 4% increase on both first quarter 2006 volume (US$1.631 trillion) and fourth quarter 2006 volume (US$1.634 trillion). EM debt turnover in the first quarter of 2007 represented the highest quarterly reported volume since EMTA began compiling the statistics in 1997. Previously, the highest recorded level of trading activity was in the second quarter of 2006, when trading volumes reached US$1.658 trillion for the quarter (and US$6.523 trillion for the full year). (EMTA's data is collected and reported on the basis of the nominal value of instruments traded, and not on their market value).

"The rise of first quarter 2007 volume shows the ongoing appetite for Emerging Markets debt," according to H. David Spegel, Global Head of Emerging Markets Strategy at ING Financial Markets LLC. However, Spegel expressed surprise that, with a 17% increase in new debt issuance in the first quarter compared to the same period last year, volumes were not even higher. "This may reflect the period of uncertainty from the end of February to mid-March, which may have depressed trading activity on a year-on-year comparison," he stated.

Aggregate Trading Volume

(in US$billions)



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Tel. (646) 637-9100 360 Madison Avenue, New York, NY 10017 Fax (646) 637-9128

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Trade Association for the Emerging Markets

EMTA Volume Survey (continued)

Local Market Volumes at US$1.025 Trillion

Local instrument trading accounted for US$1.025 trillion in Survey activity, or 60% of reported turnover. This compares with US$787 billion in the first quarter of 2006 (a 30% increase), when local markets accounted for 48% of total turnover; and with US$935 billion in the fourth quarter of 2006 (a 10% increase), when local instrument trading accounted for 57% of Survey volume. The most frequently traded local instruments, according to Survey participants, were those from Mexico (US$336 billion), Brazil (US$111 billion), South Africa (US$101 billion), Turkey (US$95 billion) and Argentina (US$74 billion).

In contrast to the increase in local markets instruments, Eurobond volumes, at US$639 billion, declined 19% compared to first quarter 2006 trading (US$787 billion), and were down 4% compared to the fourth quarter of 2006 (US$664 billion). Spegel speculated that the decline in Eurobond trading might be tied to increased investor use of derivative products rather than cash bonds for short-term tactical trading decisions. Eurobond volumes accounted for 38% of Survey volume in the first quarter, down from 48% in the same quarter last year and 41% in the fourth quarter of 2006. The most active Eurobonds remained the Brazil 2040 bond (US$72 billion in turnover), Russia 2030 bond (US$40 billion), Turkey 2030 bond (US$22 billion) and the Venezuela 2027 issue (US$17 billion).

Corporate Trading Share Inches Forward

Although the vast majority of Eurobond trading is still composed of sovereign issues, corporate bond turnover remains at near record levels. Trading volume in corporate instruments stood at US$150 billion in the first quarter, vs. US$116 billion in the first quarter of 2006 (a 29% increase) and US$143 billion in the fourth quarter of 2006 (a 5% increase). This corporate activity accounted for 9% of overall trading for second straight quarter, vs. a 7% share in the first quarter of 2006.

The ongoing increase of corporate bond issuance relative to the declining trend for sovereign issues suggests that corporate bond trading volume, particularly that related to the primary launch, will likely increase further. However, unless corporate issue sizes increase—the average corporate issue size is US$400m, vs. US$1bn for sovereigns—it is likely that overall secondary market turnover will decline as new bonds are put away in vaults rather than flipped in the market," Spegel commented. The most frequently traded corporate issues were those from Russia (US$24 billion), Mexico (US$22 billion), Brazil (US$20 billion), Argentina (US$12 billion) and India (US$8 billion).

Options and warrant trading stood at US$28 billion in the first quarter, down 34% on a year-on-year basis. Loan trading stood at US$3 billion, and Brady bond volumes dropped to US$2 billion following additional early redemptions.

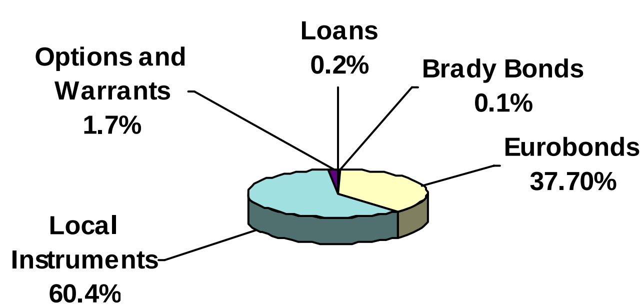
Mexican and Brazilian Trading Dominate

At US$407 billion, Mexican debt was the most frequently traded instruments in the EMTA Survey. This represents a 33% increase in volume compared to US$306 billion in the first quarter of 2006 and a 3% increase on fourth quarter 2006 volume of US$394 billion. 83% of Mexican trading involved local treasury instruments. Turnover in Mexican debt accounted for 24% of Survey volume.

Brazilian instrument turnover stood at US$277 billion. This compares with US$444 billion in trading in the first quarter of 2006 (a 37% decline) and was almost unchanged from fourth quarter 2006 volume. Brazilian volume included US$137 billion in sovereign Eurobond trades, US$111 billion in local instrument turnover and US$20 billion in corporate Eurobond volume. Brazilian activity accounted for 16% of Survey activity.

For a copy of EMTA's First Quarter 2007 Volume Survey, please contact Jonathan Murno at jmurno@emta.org or (44-207) 996-3165.

Volume by Type of Instrument, 1Q 2007



Speakers at London Winter Forum Shrug Off Day's Decline

EMTA's Winter Forum was held in London on January 28, 2007. Over 125 industry professionals attended the event, which was hosted by JP Morgan. Despite market turbulence during the day, attendance was strong and speakers brushed off concerns that the sell-off augured a larger market decline.

Effects of US Slow-Down on EMs

Will Oswald of JP Morgan moderated a panel of Sell-Side research gurus, and began by asking speakers to discuss Emerging Market vulnerability to a slowdown in US economic growth. Standard Bank's Francis Beddington opined that Latin countries, particularly Mexico, were the most exposed. However, Beddington suggested that in addition to recent focus on China and India, the next eight most-populated emerging countries are home to one billion people and a $2 trillion economy. "There are other growth poles around, so I think a modest US slowdown can be weathered," he stated, while warning that if US growth declined less than one percent, the markets will come under pressure.

Kasper Bartholdy (Credit Suisse) agreed that there was a big difference between 0% US economic growth and 2% growth. Bartholdy reasoned that whether one believed that a close correlation between Emerging Market bond spreads and the US corporate market was fundamentally warranted or not, such a link does exist, and thus a US recession—and subsequent corporate defaults—would have a negative impact on EM bond spreads. However, Credit Suisse's view is that US growth would accelerate during 2007 and "we don't think the scariest scenario is the most likely scenario," he noted.

Deutsche Bank's Marc Balston acknowledged that, with a forecast of 2% growth, his institution was the most bearish one the panel vis-à-vis the US economy. He concurred with the previous speakers that unless the US completely fails to meet expectations, there should be no dramatic effects on EM economies. Balston added that indirect effects could prove more important, such as declining commodity pricing if a US slowdown dramatically affected the Chinese economy.

"We don't buy the gross slowdown story," stressed Tim Ash of Bear Stearns, who shrugged off the day's market sell-off to "one data release and a Greenspan comment that was taken out of context." Prompted to discuss the impact of possible increased risk aversion in the event of a US recession, Ash admitted that Turkey's 8% current account deficit was a source of vulnerability, and expressed concern that record high portfolio flows could "leave very quickly," citing the upcoming presidential election as a possible catalyst.

New Money and New Opportunities?

The panel discussed asset class inflows and their implications. Bartholdy noted that with sovereign debt stock shrinking, new inflows will naturally move into corporate and local currency debt. Oswald referred to recent JP Morgan research, which showed that pension funds, insurance companies, Central Banks and others were still "massively" underinvested in Emerging Market debt; specifying for example that while pension fund holdings rose 33% between 2002 and 2005, their allocations to EM rose by only 6% during the same period.

Balston highlighted a global shift towards increased propensity to save in both G-7 and emerging countries, which is prompting a change in asset pricing in terms of risk premium. He described the previous trend of Asian Central Banks putting FX reserves into US treasuries as being supplanted a new one of oil exporters looking for the higher returns offered by equities and Emerging Markets.

EMTA London Winter Forum (continued)

"It's not an issue where the next bit of money is coming from; for me, the problem seems to be that there is too much liquidity out there already and we're struggling to manage that and find assets for investors," commented Ash. He questioned whether current spread levels adequately compensate investors, and emphasized that EM corporates concerned him the most. "There is probably about $100 billion of corporate borrowing out of Russia next year and its very difficult for analysts in that market to keep up with that," he observed, adding "Nigerian banks coming to the market at 9½%? Something just doesn't feel right."

Beddington, asked to analyze opportunities in sub-Saharan Africa for some of the new inflows, conceded that recent moves into such debt was "a function of the search for yield in global liquidity; however to a degree the world has been underweight Africa for too long." Balance sheets have been repaired through HIPC debt relief and commodity price increases, and some countries have consistently grown 6-9% over the past five years. Furthermore, these markets have low correlations to other EM assets, Beddington reminded attendees, with exotic African currencies relatively unfazed by recent sell-offs, although illiquidity remains an issue. While most investors have first looked to local markets in Africa, equity markets show "much more promise." Beddington cited Nigeria as an example; at current official estimates of GDP per capita of $1,000 (a number he implied was "a trifle too convenient" just before an election), one is starting to see a take-off in services, the development of the middle class, demand for mortgages, etc. On the other hand, Beddington warned there are exceptions, "the Seychelles borrowing $300 million in a $700 million economy strikes me as imprudent."

After the EMBI

While there has been a general move towards absolute return funds in recent years, fund managers like to have benchmarks for comparison purposes, according to Bartholdy. Some hedge funds do peer comparisons; and while others create benchmarks out of existing specialized indices, there is probably still a need for benchmarks which mix asset classes, he reasoned. "One area where the benchmarking is underdeveloped seems to be the EM corporate debt market, where I think there's still some work to be done," he concluded. Oswald concurred that there are many questions being asked about how a corporate bond index should be constructed.

Balston noted that no benchmark "captures the imagination" as the EMBI did in the first decade of the market. Whereas the daily performance of the EMBI once immediately captured what was happening in the market, this is no longer the case due to the diversity in local markets. In addition, whereas the EMBI spread once gave a simple tool for valuing the market, and identified what an investor was paid to take on extra risk, an index of local markets will be unable to serve those functions. In the future, more total return funds and possibly more peered-benchmarking are likely, Balston predicted.

EM Post-"Original Sin"

Discussing the ramifications of the move towards sovereign issuances in local currency-denominated debt rather than Eurobonds, Bartholdy pointed out that this has been very positive for the market in general as it has not only reduced the vulnerability of countries' debt/GDP ratio to shifts in the real exchange rate "but it has also genuinely reduced the risk that a default will happen in the first place." Bartholdy expressed sympathy for countries which try to prevent excessive and rapid currency appreciation as a result of increased foreign participation.

EMTA London Winter Forum (continued)

Following up, Beddington offered the example of South Africa, whose officials, in contrast to China, have "basically concluded there is nothing they can do about it, so they focus on inflation and take appropriate responses." He concurred with Bartholdy in expressing sympathy for the motives of countries such as Egypt which restrict foreigners from buying money market instruments.

Balston noted ironically, "we used to complain that EM sovereigns couldn't issue in domestic markets…now we are complaining that they've borrowed from us domestically and it's all owned by foreigners!" While acknowledging the risk of foreign capital outflow, he also pointed out that the countries most successful in replacing their foreign debt stock with local-currency obligations were those with reasonable current account surpluses.

As for panelist favorites, Ash believed that investor's calls on Turkey might prove pivotal this year and expressed surprise at the lack of market focus on the upcoming presidential and parliamentary elections. He referred to himself as a short-term bear but sees potential in light of improvements in public finance. Ash argued that there are still "funky" stories out there that are not well covered but are potentially lucrative investments, citing Bosnia as a recent precedent. He spoke positively on Ukraine ("basically a commodity story"), Argentina, Brazil and Colombia.

Beddington saw Turkey as cheaply-priced. He also was optimistic about the long-end of the Israeli curve, as well as Egyptian and Nigerian trades ("a very poorly understood country with a presidential election which in my view will be a complete non-event."). Bartholdy was also bullish on Turkish debt and thought Argentine debt and the short-end of the Brazilian curve were attractive on the day's weakness. He seconded Beddington's optimism on Nigeria and Egypt.

The Egyptian pound also appealed to Balston, as did Turkish lira though funded through South African rand rather than dollars (he recommended this as a way to hedge out some systemic EM risk). He also offered Kazakh tenge and select Argentine assets (including GDP warrants but not NY-law dollar bonds) as favored investments.

The event's Sell-Side panelists accurately predicted that Ecuador would not default on its upcoming external debt payment, as it has repeatedly threatened in the months prior to the Forum. "Ecuador realized it wasn't a cost-free exercise," surmised Balston who despite expressing confidence that a default was not in the cards for 2007, would not rule out a failure to pay in 2008. Oswald agreed, seeing next year as potentially more an ability to pay issue rather than willingness to pay. Panelists were unanimous in predicting that as a default would not be completely unexpected, market ramifications would be limited.

An Investor panel followed, with Aberdeen Asset Management's Brett Diment chairing the discussion once again. Diment polled investors to see if they agreed with the previous panel that the market's sell off in the previous days represented a buying opportunity. Jerome Booth (Ashmore Investment Management) conceded he probably "sounded like a broken record…but institutional are massively underweight" and he continues to expect strong inflows will support the asset class. Simon Treacher of BlueBay Asset Management also saw the sell-off as a buying opportunity.

EMTA London Winter Forum (continued)

New Inflows, and Where the Money Will Go

On inflows, "you're going to hear the same thing year in, year out hopefully…I think I said last year and the year before that I have never seen flows like this," Treacher observed. He added that some of BlueBay's new mandates come from investors who have not previously ventured into external debt, and confirmed that much of these funds are being interested in local currency or corporate portfolios. John Carlson of Fidelity emphasized that most new opportunities would be in the EM corporate arena, and saw additional upside in equities, which his mandates also include.

Booth stated that while the bulk of Ashmore's inflows are from pension funds, 10% of his firm's assets under management are Central Bank or other government funds. He expected in three to five years that his firm would have more funds invested in local currency debt than dollar-denominated paper, a shift from current allocations, where dollar debt outnumbers local instruments by a 2:1 margin. Some of his investors were expressing interest in taking entire corporate debt issues, possibly one day disintermediating investment banks (Treacher later revealed his interest in owning an entire corporate issue if he likes the story).

How will performance in these new inflows be measured? Booth "didn't envy" the job of index creators, but would welcome an attempt to create a corporate bond index. Diment stressed that "rightly or wrongly, clients do want managers to manage themselves against a benchmark" and "we're not quite there yet" in having appropriate corporate or local bond indices.

Limited Use of Derivatives

Diment questioned investors on what roles derivatives play in their portfolios. Treacher responded that with recent buybacks affecting the liquidity of external debt stocks, credit default swaps (CDS) are "where the liquidity is," although specifying that portfolio mangers are probably better being long high-coupon Brazil bonds rather than Brazilian CDS because of eventual buybacks.

Booth acknowledged that Ashmore's use of derivatives was limited, thought it uses CDS in the local currency area, as well as non-deliverable forwards (NDFs). There is little need to hedge currency risk because "if we don't like currency risk, we sell the whole thing." Carlson's portfolios, like fellow panelists, were long-only and do not use derivatives. Diment tends to use CDS "reasonably actively." Diment and Treacher both voiced concerns on more complicated derivative instruments, and suggested that investment bank fees on these assets were not always clear.

Favorite Local Market, Corporate Plays Discussed

Carlson viewed Turkey, Colombia and Sri Lanka as the most attractive local market investments. Treacher disagreed with Sri Lanka but joked it would probably be too late now in any case. For him, there are local markets opportunities in the Dominican Republic, Uruguay and Argentina and for "the first time in twenty years," he was bullish on Turkey, although he had recently taken profits. He suggested shorting the rand and Kazakh tenge.

Booth chose Russia and Turkey as potentially profitable local market investments. "Brazilians just haven't worked out that they are a low inflation country; they still don't believe it and that includes everybody in the central bank." Brasilia will have to move more aggressively to cut rates in order to alter their debt dynamics and get an investment-grade rating. He predicted that sell side forecasts of year-end rates will prove to be too cautious, arguing that in fact they will be cut to levels below street consensus. Diment agreed on Brazil, and added Egypt and Thailand (due to a low correlation, among other factors) as favorites.

EMTA London Winter Forum (continued)

In the corporate arena, new issues from Turkey, Latin America and Asia were of interest to Booth. He highlighted the possibility of Chinese yuan-denominated corporates, noting official interest in developing the local markets. Treacher looks for M&A targets when sifting through Russian corporate issues. He stressed the need for more corporate bond analysts to cover the myriad of issues in the market, as well as the need to understand bond covenants. Carlson eyed certain sectors in Russian, Brazilian and Argentine corporates but declared that liquidity as a key factor in his investment decision. “The part of the market that really excites me the most, and I haven’t seen much of it lately, is the distressed market in corporates,” he announced. Diment concluded the topic by mentioning that corporates represent 10 to 15% of total risk, mainly in Argentine and selected Russian issues.

Panelists Not Expecting an Ecuador Default

Treacher’s assertion at the EMTA Annual Meeting in December 2006 that Ecuador would not default “caused me no end of problems—I was inundated by calls from clients, the press, even the *Evening Standard* called!” He criticized street research on Ecuador earlier in the winter, and thanked one investment bank’s dramatic report for prompting fire sales of Ecuadorian debt, while BlueBay was a buyer. Treacher reasoned that at the end of the day, Quito had always planned to pay despite the demagoguery. Carlson agreed with Treacher’s Ecuador call, while adding a caveat that external debt would be serviced as long as oil remains at current levels. Being less of an oil bull, Carlson expected to revisit Ecuador in 2008 when both willingness and ability to pay could be issues.

Panelist opinions on whether Argentina would re-open its debt exchange were divided. “Not this year, it’s as simple as that,” stated Booth. Carlson thought a re-opening was possible – “we’ll probably strike a deal and in some ways we’ll bail out those who didn’t jump the first time.” He reminded participants of Treacher’s 2006 remark that those who didn’t tender their bonds should not be allowed to run money, and reaffirmed his sympathy with that viewpoint.

Debt not Aid for Africa?

Diment asked panelists if they had any exposure to Africa. Carlson cited lack of liquidity for venturing into Africa beyond Egypt and South Africa. Treacher revealed he has been a small buyer of Nigeria. Booth suggested a new economic framework was needed for the continent, speaking of the need to get international aid agencies “out of the way.” Booth offered Rwanda as an example of a country with improved fiscal performance and with no debt overhang, but with 50% of its government budget provided condition-free by relief organizations. “That’s exactly what *we* should be providing,” he stressed, “*not* the aid agencies.” He continued, “what we are talking about is making a lot of people in the aid business unemployed and saving the tax payer a lot of money and taking countries off the welfare check.” He proposed that an international multilateral organization draft a set of conditions that must be met by African nations before sovereigns could tap the bond markets with Brady-style collateral. Currently, the markets don’t work, according to Booth, because the issue size of African bonds is generally very small, limiting the appeal to “wackier hedge funds” who are quick to unload the bonds at sign of any problem.

EMTA London Winter Forum (continued)

Panelist Recommendations

At the close of the panel, Treacher reiterated his interest in Ecuador. "If I get my coupon this year I make 12%, that's all that matters to me…how many points must it go down before I lose money, its just basic math," he stated. He also likes Venezuela, especially when Chavez rhetoric, which he dismisses, causes spreads to widen. Treacher favors countries that actively manage their liabilities such as Brazil and shuns those such as Indonesia which look at him "as if I am completely mad" when he brings up the topic at investor meetings. Carlson spoke enthusiastically about Brazilian equities and Turkish rates.

Booth declined to list specific picks but acknowledged that Ashmore's largest exposure is with Brazil, including the equity side. He urged investors to sell US treasuries, because "that's risky, there is a flat curve, you're not being paid for the risk, the dollar could weaken, and frankly it looks more volatile than Emerging Market debt." He called for investors to adopt a new outlook which does not automatically assume G-7 debt is less risky than their EM counterparts. Comparing Russia to Italy, he note the latter's lackluster growth, high debt to GDP ratio, "and a very possible scenario where they get downgraded a couple more notches and the ECB doesn't accept their bonds as collateral…a little bit worse on the fiscal side, a bit of employment and there's a real discussion politically about leaving the euro…So you tell me as a fixed income investor, that's safer than Russia, with its huge FX reserves, appreciating currency, a huge need for foreign investment, etc.?".

In response to audience questions, Booth noted that there was no relationship between spread tightening and his firm's performance, and suggested that some investors are focusing on the wrong part of the picture. He used an escalator as a metaphor for fund performance. When one goes up the escalator; he philosophized, "we all get very worried when we're getting close to the summit and what we'll do at the top when spreads are very tight." Instead, one should focus on what is driving the motor of the escalator—which would reveal that the same force will drive the motor for another 30 years, he concluded.

Putin's Legacy Discussed at EMTA Spring Forum in NYC

Veteran market guru Larry Brainard (Trusted Sources) delivered a special presentation at EMTA's Spring Forum. The event, hosted by Bear Stearns, took place on April 19, 2007 in New York City and was attended by over 100 market participants.

Brainard's presentation focused on the legacy of Russia's President Vladimir Putin, and an analysis of his potential successors. Russia's presidential elections will be held in March 2008.

Brainard began by asking whether it matters who is elected president after Putin. Many analysts have argued that Putin will continue to exercise some sort of influence after his successor takes office, and Brainard agreed that "it is very clear that he will continue to have a very significant impact and influence on political developments."

Brainard stressed that "the most significant aspect of his term was his achievement of stability," clarifying that stability from Putin's viewpoint meant "reasserting federal authority and state control of strategic sectors of the economy…some above board, a lot below board." In addition, Putin will also leave office with a reassertion of Russia's role in world affairs. Finally, he has improved Russia's financial picture.

A second argument for ignoring the upcoming vote is that crucial financial stability is under the control of the Finance Ministry rather than the president; and the new 3-year budget "essentially fixes all the major projects that the next president will have to continue." Brainard discussed innovations in the budget which, one could argue, will insure the power of the Finance Ministry.

Political control is actually based elsewhere than in the presidential office according to a third argument that the elections are meaningless; "conspiracy theories" abound concerning ex-KGB agents and others who missed out on the first wave of privatizations and now are hungry to get back in power. Individuals motivated by the uncertainty of property rights fear a new president could undercut them, according to this reasoning.

Brainard switched gears and then argued for the importance of the outcome of the presidential race. "Stability does not in and of itself guarantee a dynamic longer-term growth in the economy," he asserted.

Secondly, "the stakes are very high," with the economy in need of "serious reform" to sustain growth, reform that would likely arise under a new leader. Brainard discussed the "calculated gamble" Putin appears to be making in moving Russia towards controlled political competition. Such limited political competition entails less stability but less risk; the question remains will it work and can Putin succeed in controlling the opening of the democratic process.

Brainard discussed the two leading presidential candidates who have emerged in this controlled political liberalization, Dimitri Medvedev, a pragmatic modernizer and Sergei Ivanov, more of a man in the "traditional Russian mold, a tough patriot." It remains to be seen whether Putin will endorse a successor, and Brainard argued that it is probably advantageous that he resist doing so, as he would quickly cast himself as a "lame duck" (which he also avoids as long as there is some discussion of a third term, Brainard noted).

EMTA NYC Spring Forum (continued)

Trusted Sources' view is that Medvedev is the most likely election winner. At 42, he reached adulthood during the final years of the USSR, with his perspective affected by the fact that his early professional life took place during the turbulence of 1991. Medvedev has experience in the private sector and has had a similar kind of training as Putin. While Medvedev continues to lead in polls, Ivanov's numbers are rising as he becomes better-known. If Medvedev wins, he will "clearly have a significant impact, particularly in the area of reform…he is very clearly a modernizer," according to Brainard.

There are reasons for optimism with a Medvedev victory, Brainard concluded. International reserves continue to grow, the balance sheet remains strong and public debt has declined. Finally he referred to a recent opinion poll on Putin's tenure which showed that the commonly held view among Russians is that the president's main achievement was to strengthen the country's standing in international affairs, while opinion on raising living standards were divided. Putin also enters his last months in office with an approval rating of roughly 80%, which Brainard contrasted to other G-7 leaders. "We may disagree on whether what he is done in the economy is good or bad or indifferent, but it is true to say that he very much reflects the wishes of the Russian people," he ended.

A panel discussion of Emerging Markets experts moderated by Bear Stearn's Carl Ross followed the keynote presentation. In his introductory remarks, Ross noted that since Bear Stearns began hosting the Spring Forum several years, the tone has been one of "caution and disbelief at where spreads are, with a general consensus that there is no value in sovereign debt." Ross countered that there has been a major shift in thinking, with the market now convinced that spreads can go even tighter despite record levels that have already been achieved.

David Spegel (ING Financial Markets) provided an analysis of the short-lived market correction in February, as well as risks to the market. He concluded "any sell-off remains a buying opportunity, the supply-demand mismatch is too favorable." Spegel highlighted that the increased issuance of lower-rated corporate debt has not been matched by an increase in corporate debt analysts on the street monitoring that credit risk.

Bear Stearns' Alberto Bernal admitted his surprise that Mexican President Calderon was able to pass a "decent—not good, but decent" pension reform through Congress. However he reiterated a market perform rating on Mexico based on current spreads.

Jim Barrineau (Alliance Bernstein) announced he was more bearish on Ecuador than most sell-side analysts. "Even if they pay the coupon in May, it is clear that fundamentals have deteriorated," he stated. He also praised Colombia's actions to shift debt-issuance from dollar-denominated to COP-denominated obligations.

Other panel topics addressed by the panel included the ramifications of central bank accumulation of foreign reserves for EM portfolio managers, which Barrineau labeled the "single issue that matters in Emerging Markets – nothing else matters in the least – no policy decisions, no political reforms, it's all about reserves and liquidity." He warned that those avoiding local currencies because of concerns of a correction are more likely to be un-employed than to be employed next year.

EMTA NYC Spring Forum (continued)

The panel concluded with analyst recommendations. Spegel spoke enthusiastically about corporates generally despite the concerns he had raised earlier. Barrineau asserted he was more optimistic than the consensus view on Brazilian rate cuts. “But I don’t know what to do with that, because if you are not long by now, you have missed an awful lot of the party,” he stated. Michael Gavin (Citadel Investment Group) spoke in favor of both Indonesian currency and credit plays, and was also bullish on Latin currencies in general. Bernal was bullish on Argentine GDP warrants.

Asking the panel for thoughts on the marketplace in five years, Barrineau ventured that with an investment grade-rated Brazil, EM will become a subset of global investing and will cease to be considered a separate asset class. Gavin suggested Colombia spreads will be tighter than Mexico. Spegel forecast that there would be an increasing scarcity premium on EM sovereigns, and Mexico would be A-rated. Bernal speculated that there would a currency union between Ecuador, Venezuela, Bolivia and Cuba.

EMTA Board Meeting on May 2, 2007

EMTA's second Board Meeting for 2007 was held on May 2 at the offices of J.P. Morgan Chase in New York City and London, with the usual video and teleconferencing links.

Elected to the Board at the beginning of the meeting were Sandy White (MarketAxess), who replaced his colleague, Dennis Rodrigues; Alejandro Vollbrechthausen (Goldman) , who replaced his colleague, Greg Tebbe; and Paul Reilly (Merrill Lynch), who replaced his colleague, Juan del Azar.

Mr. Chamberlin, EMTA's Executive Director, took a moment to reflect on Juan's extraordinary service over the years to EMTA and to the EM trading industry. Juan is leaving Merrill after 16 years there; before moving to their buy-side last year, he was Merrill's head of EM sales, trading and origination. Juan has served on EMTA's Board since 1997, making him one of EMTA's longest serving Directors. He was an EMTA Vice Chair in 1999 and served as one of EMTA's three Co-Chairs from 2000-2006. During this time, noted Chamberlin, Juan was tireless in promoting the interests of the EM trading industry.

In addition, Ruth Laslo (UBS) was elected a Vice Chair of EMTA's Board, and Matthew Clinton (Lehman) was elected a Co-Chair.

In addition to reviewing EMTA's final results for 2006 (showing a surplus of $477,682, as compared with the surplus of $462,000 preliminarily reported at the last Board meeting, against an original 2006 budget of $110,000 and a 2005 surplus of $205,000), and EMTA's preliminary results for the first quarter of 2007 (showing no significant variations from budget), the Board also discussed the trade settlement backlog in Nigeria's Payment Adjustment Rights and in Venezuela's Oil Obligations (see pages 20 and 21), as well as trade association convergence and the possible expansion of EMTA's Volume Survey to include the CDS market.

The next meeting of EMTA's Board is tentatively scheduled to be held on July 11, 2007.

Special Events

EMTA Panels Explore Implications of Partial Restructurings

On June 4, 2007, EMTA hosted two panels that reviewed current trends in South America, and particularly Argentina's financial recovery in the context of record growth and some lingering distractions and then examined whether or not Argentina's restructuring and recovery strategy is an attractive or viable precedent for other countries. Panelists included representatives from American Task Force Argentina, American University, FH International Financial Services and RGEMonitor.

Click Here for a copy of the agenda and Click Here for Introductory Remarks by Michael M. Chamberlin, EMTA Executive Director.

This presentation continues EMTA's series on Sovereign Debt Restructurings and their Implications, which was initiated on June 7, 2006 (How a Ratings Agency Brings a Country out of Default) and has included later events in NYC and/or London on October 5 and 12 (Enforcement Against Sovereigns in the US and Elsewhere) and December 5, 2006 (Official Sector Implications).

Focus on Brazil

In view of continuing investor interest in Brazil's local markets, EMTA hosted on May 30, 2007 a panel presentation - A Shortcut to Local Markets in Brazil - addressing macroeconomic issues and equity and interest rate derivatives. Panelists included representatives from Banco Itaú, Unibanco and Banco Votorantim. This presentation follows last year's discussions (May 12, 2006 in NYC and October 16, 2006 in London), which focused on opportunities and challenges in Brazil's financial markets and featured presentations by Banco Itaú, Unibanco, Banco Votorantim and Banco Pactual, as well as by ANDIMA and by CETIP, Brazil's central security depositary. Last year's panelists discussed such issues as local instrument liquidity in Brazil, clearing and settlement issues, legal and tax implications, as well as derivatives and futures issues.

EMTA's Seminar, Côte d'Ivoire After the Peace: Finding the Path to Recuperation and Debt Sustainability

This seminar, sponsored by UBS, to be held in London on July 18, 2007 will bring together representatives of the official and private sectors for an in-depth analysis of the country and its best path forward to debt sustainability. The seminar aims to inform our members of the progress that is being made to reintegrate the Côte d'Ivoire into the international community after years of civil war, focusing in particular on how private creditors might be affected. A representative of the Côte d'Ivoire Finance Ministry will deliver a keynote address (to be confirmed). Moderator: Alex Garrard (UBS).

This event, part of EMTA's Focus on Africa series, follows on the success of Focus on Africa—Nigeria's Financial Markets (London, November 9, 2006, sponsored by Standard Bank). The series will also present the EMTA Africa Workshop – Financing African Development Post-HIPC: What Role for the Private Sector? to be held in London in September and sponsored by Standard Bank. This event contemplates a more general review of sub-Saharan Africa and the relationship between official and private sector finance in the developmental process.

EMTA's Second Corporate Bond Forum Held in New York

EMTA continued its Corporate Bond Forum series in New York on Wednesday, May 9, 2007. ING Financial Markets sponsored the event, which was held at the Parker Meridien Hotel. This follows EMTA's initial Corporate Bond Forum, held in London in January 2007 (see EMTA's First Quarter 2007 bulletin).

In introductory remarks, EMTA Board Director and ING Global Head of EM Strategy H. David Spegel stressed the importance of corporate bond issues in the EM marketplace. Spegel noted that such debt issues now accounting for 40% of the tradable universe, up from a 10% share in 2000, and that there are currently 1,100 corporate issuers with outstanding bonds.

Vincent Truglia of Moody's Investors Service delivered the Forum's keynote presentation, discussing both his agency's methodology for rating corporate bonds and the circumstances necessary for a corporate to pierce the sovereign ceiling. Truglia began his presentation with an overview of EM corporate bond ratings, noting that Moody's currently rates 448 EM corporates.

Truglia noted that Moody's has allowed an individual security—though not an issuer—to pierce the sovereign foreign-currency ceiling since 2001. In May 2006 Moody's revised its sovereign rating methodology. Previously a country's sovereign rating almost always equaled its foreign-currency government bond rating; this was based on an assumption of a 100% probability of a general foreign-currency debt payment moratorium following a sovereign foreign-currency default. However recent historical examples such as Belize, the Dominican Republic, Moldova, Pakistan, Russia, Ukraine and Uruguay did not include a general moratorium on foreign currency-debt payments, with only Argentina's default resembling the "old-style" defaults of the 1970s and 1980s. Moody's new methodology has thus evolved to address recent default history, new reality, and the agency now factors in both the country's foreign-currency default probability and the probability of a subsequent general foreign currency payment moratorium in formulating its country ceiling.

Bonds are still allowed to pierce a country's ceiling under the revised methodology, but an important (and admittedly controversial) pre-requisite is that the bonds be "marketable" and sold under foreign law, thereby decreasing the sovereign's ability to influence local institutions. The agency determines whether an issue can be rated higher than its sovereign by an analysis of the government's foreign-currency bond rating, the probability of a moratorium following a sovereign default, the special circumstances of the issuer and the issuer's creditworthiness, i.e. its local currency bond rating.

Click Here for slides from Truglia's speech.

Truglia's presentation was followed by a panel discussion of EM corporate experts. ING's Warut Promboon moderated the session, beginning by asking Anne Milne (Deutsche Bank) to discuss the effects of global liquidity on the asset class. Milne noted that EM corporates have benefited from increased allocations from the buy-side, and by the decline of sovereign issuance in recent years. Spread differentials on higher- and lower-rated issues are quite low due to the increased appetite for corporates in general. Milne commented that a decrease in liquidity could affect corporate pricing in different ways, depending on the trigger event; however, while "marginal players could leave, core players would still support the asset class."

Corporate Bond Forum (continued)

Alfredo Chang of GE Asset Management added that liquidity has allowed many issuers to come to market that would not have markets access in less benign conditions, or at least not at such tight spreads. More recent investors lack the "battle scars" of the Asian crisis, he noted. Chang called for increased research coverage of corporate issuers, suggesting that the growth in issuers will become an industry issue.

Katherine Renfrew (TIAA-CREF) acknowledged that with such compressed spreads, it is not easy to decide where to invest. "When you are not paid appropriately for the additional risk of a company, we are not buyers," she stated. However she acknowledged that there are some cases where she might reconsider an issue on price dips that had originally been passed on. Renfrew specified that corporates comprise 45% of her portfolio.

Panelists discussed risks to the sector. Renfrew voiced concerns regarding crowded trades, and the potential for "not sticky" crossover investors to hold a greater share of EM corporates. Promboon reminded the audience of the Ocean Grand debacle, stressing the importance of "doing one's homework." Chang underscored that a portfolio manager must be patient in the quest for the "right package," i.e. a bond that comes at the right price with acceptable covenants.

Aaron Holsberg of ABN Amro forecast that issuance trends in the second half of the year would largely mirror those in the first half. "We have borrowers coming out of the woodwork to take advantage of market conditions," he noted, predicting that lower-rated credits and new issuers will comprise an increasing percentage of new debt as some previous issuers have been upgraded and are accessing capital via the syndicated loan market. Holsberg advised investors that in order to find value, one must "roll up your sleeves and do the credit work."

Turning to audience questions, sell side speakers agreed that rhetoric by Venezuelan president concerning possible nationalizations and a withdrawal from the IMF would not serve as a trigger event for a sell-off and that a compromise would be reached. Other topics included a comparison of corporate governance on a regional level, with speakers praising improvements in Brazil and Mexico and suggesting that transparency in Latin America compares favorably to other areas. Finally, one speaker noted that corporate bond analysts are so flooded with work on new issue analysis that there is little time left to develop a corporate bond index that would have wide appeal.

The panel concluded with speaker recommendations. Holsberg stated that it was difficult for a researcher to recommend any "100 bp ideas, it's more like 25 bp ideas." He joked that the best thing a portfolio manager could do was to pick the "right new issue…*and* get allocated!" Milne, while advising that current returns are below the level where she likes to make recommendations, suggested Cemex perpetual bonds and Argentine corporates as worth a look.

Renfrew spoke positively on TAM and Gol, arguing that Brazilian airlines do not face the labor issues that have beleaguered their US counterparts. She specified that the Egyptian telecom firm Orascom was an issue that she had originally passed on, but which might be worth a second look. Chang expressed interest in the short end of Kazakh bank issues, Brazilian meatpackers, and concurred with Hoslberg on Isa Capital of Brazil and the Mexican entertainment company CIE.

"The EM corporate bond market is dynamic and its evolution is exciting," summarized Promboon as he invited attendees to attend a cocktail reception with a magnificent 42nd floor view of Central Park.

Special Events (continued)

Asian Development Bank Chief Economist Discusses the Region's Economic Outlook at EMTA Special Meeting

EMTA members heard a special presentation by Ifzal Ali, the Asia Development Bank's Chief Economist, at EMTA's offices on Wednesday April 4, 2007. His topic: the outlook for Asian growth in 2007.

Dr. Ali began with an overview of Asia's "stunning" economic growth in 2006, with GDP rising 8.3% (the highest in over a decade), while countries such as China, India, Singapore and South Korea amassed over $400 billion in foreign exchange reserves. The region continues to face many challenges, however, and Dr. Ali emphasized that "future development hinges on the use of Asia's most valuable resource – its people."

International economic conditions remain broadly favorable, with oil prices expected to drift downwards if current tensions with Iran are reduced. Interest rates are likely to decline in the second half of the year, with growth moderating while remaining positive. Potential risks which could derail Asian economies include a sharp slowdown in the US, growing protectionist sentiments, geopolitical risks such as a spike in oil prices, and domestic political threats in a number of countries. Dr. Ali also cautioned his audience not to discount the potential economic disruption of an avian flu pandemic, reminding them of the severity of the effects of SARS.

Turning to a review of individual economies, Dr. Ali noted that the official growth forecast of 7.5% by the People's Republic of China (PRC) is probably not feasible and that instead GDP would increase 9%. He highlighted Beijing's recent announcement that it would begin to actively manage a portion of its foreign exchange reserves. "The buildup of reserves was a backlash to the 1997 crisis, but this has gone too far, and the opportunity costs of holding reserves as they are now is too high," he stated.

While it is unclear how the PRC will set up its asset management system, the Asian Development Bank estimates that $550 billion could be safely invested in new securities. Ali does not expect a dramatic change in policy soon and expects that initially a much smaller amount will be invested. "They will start with baby steps and won't plunge in in a hurry," he remarked, stressing that large losses would raise a credibility issue for the government.

Indian GDP grew 9.2% in 2006, the highest level in almost two decades, but Ali noted that "huge infrastructural bottlenecks" pose a continuing problem for New Delhi. Inflation is being fueled by rapid credit expansion, which the ADB expects will be combated by additional interest rate hikes. The country's lagging agricultural sector also remains a key challenge.

Other countries Dr. Ali discussed in his presentation included Pakistan, whose need to develop human capital and improve the country's educational levels is even more acute than India's; Vietnam, whose essential tasks include providing small and medium-sized enterprises with access to credit, overcoming the shortage of skilled labor (especially in the export industries), and increasing the efficiency of investment; and the Philippines ("the country is suffering from under-investment as a result of political instability.")

Dr. Ali Presentation (continued)

Following his formal remarks, Dr. Ali responded to a number of questions from meeting attendees. He criticized preferential trade agreements, saying that smaller countries would be marginalized as a result of "rules of origin" decisions made by more powerful countries. In addition, he observed that "the jury is still out" on Chinese non-performing loans because the rapid growth of credit suggests that unless the turnaround of state-owned enterprises continues the issue could continue.

Dr. Ali was promoted to Chief Economist of the ADB in 2002 after 18 years in positions including Deputy Treasurer, Senior Economist, Senior Strategic Planning Officer, and Assistant Treasurer in the Financial Policy Division. He holds a Ph.D. in Economics from Johns Hopkins University (1976).

EMTA members may Click Here for access Dr. Ali's presentation on the EMTA website.

EMTA's Summer Forum Set for June 28

EMTA's Tenth Annual Summer Forum will be held on Thursday, June 28, 2007. Merrill Lynch will host the event at its office at 2 King Edward Street, London, in the Ground Floor Auditorium.

At press time, confirmed speakers included Brett Diment (Aberdeen Asset Management), Jerome Booth (Ashmore Investment Management), Paul McNamara (Augustus Asset Managers), Simon Treacher (BlueBay Asset Management), David Lubin (Citigroup), Arnab Das (Dresdner Kleinwort), Helene Williamson (F&C Asset Management), Victoria Miles (JP Morgan) and Tulio Vera (Merrill Lynch).

The Forum will begin at 2:30 p.m. and will include two panel discussions focusing on recent trends in Emerging Markets debt, political and economic developments in Emerging Market economies, and prospects for the asset class. The event will be followed by a cocktail reception.

EMTA members received invitations to the event, including the full agenda, in early June. Attendance for EMTA members is complimentary; the non-member registration fee is US$500.

For further information, please contact Jonathan Murno at jmurno@emta.org or (44-207) 996-3165.

Special Events (continued)

2007 Annual London Benefit Set for October 26, 2007

The 2007 Emerging Markets Benefit Ball will return to the Old Billingsgate Market in London on Friday, October 26, 2007. The evening's theme will be Russia.

Benefit organizers noted that the event continues to draw increasing corporate support. At press time, Standard Bank, MarketAxess, RBS Renaissance Capital and Dresdner Bank have confirmed as the event's Gold Tier sponsors. UBS has confirmed as a Silver Tier sponsor and additional sponsors are expected to be confirmed shortly.

Tickets are expected to go on sale in mid-June. As the event has sold out consistently since 2004, attendees are urged to act quickly to avoid disappointment. Last year's ball was attended by 1,000 EM professionals and the event will be limited to 1,000 attendees this year as well.

Please contact Emma McClintock at emcclintock@bluebay.com, Judith Wheelan at wheelan@googlemail.com, Verena Mladek at vmladek@dkib.com, Mike Cook at mcook@tradingaccount.co.uk or Jonathan Murno at jmurno@emta.org if you would like more information about corporate sponsorships.

2007 Annual NYC Benefit Set for December 5, 2007; Beneficiaries Selected

The 2007 Emerging Markets Charity Benefit (EMCB) will be held on Wednesday, December 5, 2007 at the Sheraton Hotel's Metropolitan Ballroom on West 53rd Street in New York City. The Planning Committee decided on the 2007 venue after an exhaustive search of over 25 potential locations in March and April 2007. The move to the Sheraton was prompted in part by the need for a larger space; all 520 seats to the 2006 sold out weeks before the event last year.

At the EMCB's May 8, 2007 meeting, Committee members also voted to narrow a list of twelve nominated beneficiaries down to seven semi-finalists after reviewing the annual reports, financial statements and other documents. Following presentations by each semi-finalist at a meeting held on June 4 regarding its mission statement and proposed use of the proceeds, the Committee voted to select all seven as beneficiaries of the 2007 Benefit.

The EMCB's mission statement is to fund organizations with budgets of under $5 million which promote sustainable development such as health and education projects in emerging countries. The 2006 benefit raised $499,000 which was distributed earlier this year; this compares to $340,000 which was disbursed from both the 2004 and 2005 events.

The EMCB continues to welcome new members. If you are interested in joining the Planning Committee, please contact Jonathan Murno of EMTA at jmurno@emta.org.

Bond & Warrant Trading & Settlement

Multilateral Netting for Nigeria Payment Adjustment Rights and Trilat Offset for Venezuela Oil Obligations

In June, EMTA sponsored and operated a Multilateral Netting Facility for Nigeria Payment Adjustment Rights (together with the warrant cash payments related thereto) and a Trilat Offset Facility for Venezuela Oil Obligations (together with the warrant cash payments related thereto). Six market participants successfully completed the netting and offset of deliveries and payments with an aggregate gross value (net of residual unsettled positions) of approximately US$54 million, which represents significant progress in the EM trading industry's ongoing effort to clear the longstanding settlement backlog for Nigeria's and Venezuela's Warrants. The two facilities follow several years of intensive activity by the dealer community to reconcile their trading records internally, with the industry clearing systems and with each other. EMTA invites all market participants with outstanding positions in these instruments to join in this effort to reconcile trading positions and address outstanding settlement backlogs that date back to the early 1990's.

The Nigeria Multilateral Netting Facility was designed to settle the Rights deliveries by cash-settlement at a price of $220 per Right delivery (as well as related warrant cash payments). The Venezuela Offset Facility was designed for use in situations where each of the three parties was submitting the same amount of Warrant deliveries (including the related warrant cash payments) against each other in a three-party circle, so that the effect of the Facility is merely to offset the circle of deliveries against each other, thus leaving no residual positions among the three parties with respect to the deliveries submitted (it being understood that parties may have unsubmitted Warrant deliveries between them that would be unaffected). As a result of the mutual offsetting, no deliveries are actually required to effect settlement.

During the course of collecting data for its multilateral facilities (which have proven difficult to complete), EMTA has become aware of many opportunities for firms to reduce risk and facilitate settlement by entering into trilateral arrangements that should prove much easier to complete due to their relative simplicity. Accordingly, EMTA is actively encouraging market participants to assist in identifying such trilateral opportunities.

In addition to its bilateral and multilateral documentation and the trilateral facility mentioned above (which could be tailored for Nigeria's Warrants), EMTA is also pleased to offer documentation providing for trilateral position reduction and settlement for both Venezuela and Nigeria Warrants, appropriate for use in situations where the three parties comprise an ABC chain and wish to "step out" the intermediary party (party B in the ABC chain), with the result that party A's former delivery to B (and party B's delivery to C) is replaced by A's delivery directly to C. The resulting delivery may be made contemporaneously or deferred, as parties A and C prefer. This would be a Trilateral Netting (Step-Out).

In each case, documentation for multilateral netting, trilat offset or trilat step-out is accompanied by a Summary and User's Guide that has been prepared by EMTA in an effort to ensure that such documentation is easily understood by parties, potential parties and by others. In particular, the Summary and User's Guide should be helpful in avoiding potential misunderstandings by non-parties by clearly stating that transactions not submitted into the Facilities are unaffected.

Market participants interested in pursuing this opportunity to enter into Trilateral arrangements should contact Aviva Werner (awerner@emta.org) with the specific information regarding the three parties that would benefit from the arrangement.

Bond & Warrant Trading & Settlement (continued)

Nigeria Payment Adjustment Rights

On March 29, 2007, Nigeria announced the results of its cash tender offer for the Rights at $220 per Right. For the full text of this announcement, Click Here.

Since January 2007, EMTA has hosted weekly conference calls (and, before January, monthly calls) to encourage reconciliation and netting among the participants on the calls (including custodians and buy-side clients), and has distributed a suggested form of Bilateral Netting Agreement (together with a User's Guide). A suggested form of Trilateral Netting Agreement (together with a User's Guide) is also available upon request.

EMTA has encouraged firms to identify counterparties with whom they can enter into Trilateral Netting Agreements. If any firm needs any help in doing so, please contact Aviva Werner at awerner@emta.org to discuss netting opportunities.

In the interests of an orderly settlement of any netting arrangements between counterparties relating to the Rights, EMTA proposed a Market Advisory on April 25, 2007, which includes the following calculation:

For trades entered into before November 1, 2002:

- For those trades entered into with a contractual settlement date on or before October 31, 2000, the total dividend payments to date on each related Payment Adjustment Right are $78.934706.
- For those trades with a contractual settlement date on or after November 1, 2000, parties should consult the Record Dates in the Market Advisory for guidance as to what payments should be included.

For the full text of this Market Advisory, which sets forth the basis for such calculated amounts, Click Here. Since the posting of the Market Advisory, Nigeria has made another semi-annual payment in the amount of $15; therefore, for those trades entered into with a contractual settlement date on or before October 31, 2000, the total dividend payments to date on each related Payment Adjustment Right are $93.934706.

EMTA wishes to remind all market participants that substantial efforts should be made, and sufficient resources should be devoted, to continue to fully reconcile internally and with their counterparties (including with custodians) their individual accumulated failed Nigeria Right transfers, so that net bilateral positions can be ascertained and settled and the reconciliation effort can be completed in a timely manner. In the meantime, in the interests of an orderly market, a certain amount of patience and forbearance in dealing with counterparties is likely to contribute a great deal more to the successful resolution of the overall settlement backlog than the aggressive pursuit of individual payment and settlement claims.

To assist market participants in better understanding the Nigeria Rights, and the background of the settlement and payment backlog, EMTA has prepared a Revised Primer (June 6, 2007) which includes the formula for determining the number of Rights related to the Bonds and a history of prior payments.

Click Here for the Fiscal Agent notice regarding the calculation for the May 15, 2007 payment.

Bond & Warrant Trading & Settlement (continued)

Venezuela Oil Obligations

Similar to the effort in Nigeria, for Venezuela Warrants there has also been an intensive effort by the dealer community to reconcile their warrant positions internally, with the clearing systems and with each other.

Since early 2006, EMTA has hosted weekly conference calls to encourage reconciliation and netting among the participants on the calls (including custodians and buy-side clients), and has distributed a suggested form of Bilateral Netting Agreement (together with a User's Guide). A form of Trilateral Netting Agreement (together with a User's Guide) is also available upon request.

EMTA has encouraged firms to identify counterparties with whom they can enter into Trilateral Netting Agreements. If any firm needs any help in doing so, please contact Aviva Werner at awerner@emta.org to discuss netting opportunities.

In the interests of an orderly settlement of any netting arrangements between counterparties relating to the Warrants, EMTA has calculated that the total dividend payments to date on each Warrant are $15.013356085. For the full text of this Market Advisory, which sets forth the basis for this calculated amount, Click Here (please note that the Market Advisory refers to an amount of $12.013356085 – this does not include the subsequent payment made by Venezuela on April 16, 2007 for $3).

EMTA wishes to remind all market participants that substantial efforts should be made, and sufficient resources should be devoted, to continue to fully reconcile positions with their counterparties (including with custodians) so that the overall reconciliation effort can be completed in a timely manner. In the meantime, as in the case of Nigeria, in the interests of an orderly market, a certain amount of patience and forbearance in dealing with counterparties is likely to contribute a great deal more to the successful resolution of the overall settlement backlog than the aggressive pursuit of individual payment and settlement claims.

For further information about the Warrants, please Click Here for EMTA's Revised Primer (June 6, 2007), which includes the formula for determining the number of Warrants related to the Bonds and a history of prior payments.

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The April 15, 2007 Oil Obligations payment was made on April 16 to holders of record as of March 30, 2007, and EMTA recommended that trades be settled "ex-dividend" on March 28. Click Here for the Fiscal Agent's notice regarding the payment's calculation.

Mexico VRR Payment

The March 31, 2007 payment was made on April 2 to Series E VRR holders of record as of March 16, 2007, and EMTA recommended that trades be settled "ex-dividend" on March 14. Click Here for the Fiscal Agent's notice regarding the VRR payment's calculation.

The June 30, 2007 payment is expected to be made on July 2 to Series E VRR holders of record as of June 15, 2007, and EMTA recommended that trades be settled "ex-dividend" on June 13 . (A copy of the Fiscal Agent's notice regarding the VRR payment's calculation will be published in the New Development's area of EMTA's website as soon as it is made available.)

Click Here for EMTA's Revised Primer on Mexico VRR's.

Uruguay VRR Payment

Click Here for the Fiscal Agent's notice regarding the January 1, 2007 VRR payment's calculation of zero. To date, no payments have ever become due on the VRRs.

Philippines Redemption

Philippines redeemed its Principal Collateralized Interest Reduction Bonds on May 1, 2007. Click Here for the Fiscal Agent's notice.

FX & Currency Derivatives

EMTA Publishes NDO Documentation

On April 20, 2007, EMTA published a User's Guide to Documenting Non-Deliverable Currency Option Transactions. The User's Guide includes standard terms for non-deliverable currency option transactions, which are designed to be used with any currency, and an illustrative form of a long-form confirmation and a short-form confirmation for a BRL/USD currency option transaction. The User's Guide describes the various provisions in the standard terms and indicates how to incorporate the provisions of the Template Terms for Non-Deliverable Forward FX Transactions for various currencies. Click Here for the NDO User's Guide.

Non-Dollar Settled Non-Deliverable Forward FX Transactions Standardization Project Underway

A working group has been organized to address the need to standardize documentation and market practices for non-deliverable forward FX transactions that settle to currencies other than the US Dollar. An initial meeting of the working group was hosted at the offices of EMTA member UBS in London on February 27, 2007 and several conference calls have subsequently been held to advance the project. EMTA was invited by the EFMLG to its meeting in Frankfurt on March 27, 2007 to discuss the documentation project (see below) and EMTA was pleased to be able to initiate some industry coordination on the project. The working group is in the process of defining issues for resolution and preparing an initial draft of documentation (not yet available for member review). EMTA Members with questions regarding this project, or EMTA Members interested in this documentation group, should contact Leslie Payton Jacobs at lpjacobs@emta.org.

Documentation Project for VND/USD and PKR/USD Template Terms Underway

New template terms are being developed for non-deliverable forward FX transactions for the Vietnamese Dong (VND) and the Pakistani Rupee (PKR). Discussion is still open as to whether to develop standardized terms for the Thai Baht as well. Draft documentation will be posted on EMTA's website when it is available. EMTA Members with questions regarding this project, or EMTA Members interested in this documentation group, should contact Leslie Payton Jacobs at lpjacobs@emta.org.

EMTA FX and Currency Derivative Market Practice Update

On April 13, 2007, EMTA published FX and Currency Derivative Market Practice No. 42 (Recommended FX and Currency Derivative Market Practice for Non-Deliverable Currency Option Transactions – see first paragraph above).

On April 30, 2007, EMTA published FX and Currency Derivative Market Practice No. 43 (Recommended FX and Currency Derivative Market Practice for CLP/USD Non-Deliverable Forward FX and Currency Option Transactions with Scheduled Valuation Dates of May 31 and June 1, 2007)

EMTA Liaises with European Financial Market Lawyer's Group

EMTA was invited by the European Financial Market Lawyers Group ((the "EFMLG") to its March 27, 2007 meeting. At the meeting, held at the offices of the European Central Bank in Frankfurt, EMTA addressed the members of the EFMLG regarding EMTA's activities in the emerging markets foreign exchange area, and in particular, focused on its current project to introduce some standardization into the non-USD- dollar segment of the NDF market. The EFMLG voted to continue to monitor the project setting the stage for a productive and meaningful line of communication and for possible coordination on topics of mutual interest in the future between EMTA and the EFMLG.

FX & Currency Derivatives (continued)

"Multilateral" Master NDF Documentation in the Works

Following on the December 2006 publication of the NDF Master Agreement, a document designed to be used between two market counterparties, work to produce a form of master NDF agreement that may be used on a multilateral basis has continued. The multilateral form of the NDF master agreement is being designed to be adapted for use by service provider organizations within systems that accommodate processing of NDF trades.

Economic Terms Guide for SWIFT MT300 Messages Awaiting Publication

An Economic Terms Guide for SWIFT MT300 Messages is being prepared to supplement the December 2006 NDF Master Confirmation. Click Here for the draft Economic Terms Guide.

Non-Deliverable Swap Documentation Progresses

Capitalizing on renewed member interest in the project to standardize documentation for non-deliverable swaps, on March 13, 2007 EMTA and ISDA issued a second draft of a non-deliverable swap agreement for the review and comment of the working group. The draft is posted on EMTA's website and may be downloaded by EMTA Members. Click Here to see a draft of the EMTA-ISDA Non-deliverable Swap Agreement.

Which Non-Deliverable Currencies Need Attention Now?

Despite the full docket of projects listed above, EMTA is always interested in hearing from its members on the market's ongoing needs for documentation or market practices. Recently, we have been hearing a little about the need for some attention in the markets for Ukrainian, Egyptian and Kazakh currencies. Please tell us what you think; are any of these markets now liquid enough to merit the time and attention by EMTA required to standardize practices and documentation? Please e-mail Leslie Payton Jacobs with any viewpoints on this (lpjacobs@emta.org).

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For further information regarding the above, as well as FX and Derivatives matters generally, please contact Leslie Payton Jacobs at lpjacobs@emta.org or (646) 637-9103.

EMTA Members: To obtain the password for the Members Only area, please e-mail sortiz@emta.org

Website Updates and Additions

Key Industry Views

EMTA continues to recognize publications by leading research analysts and others that highlight noteworthy industry topics. In recent weeks, EMTA has made the following additions to the Key Industry Views area of EMTA's website:

- "Trends in EM Debt Trading Activity." May 25, 2007 - H. David Spegel (ING Financial Markets).
- "Global EM Issuance Trends and Outlook." May 23, 2007 - H. David Spegel (ING Financial Markets).
- "Venezuela: Should I Stay or Should I Go (from the IMF)?" May 10, 2007 - Pablo Goldberg, Jane Brauer, Anjali Prakash (Merrill Lynch).
- "Size and Structure of the EM Debt Universe." April 27, 2007 - Dany Naierman, Elena Tulloch, Jane Brauer (Merrill Lynch).
- "Some Private Sector Views on Country Debt Restructuring." March 7, 2007 - Michael M. Chamberlin (EMTA).
- "EMTA Survey Shows 19% Increase in Trading Volume." February 21, 2007 - Jane Brauer (Merrill Lynch).
- "2006 EM Corporate Trading Volumes." February 22, 2007 - Anne Milne (Deutsche Bank).

New Developments

These and other recent news items can be found in the New Developments area of EMTA's website.

- June 11, 2007 - EMTA Annual Summer Forum in London to be Held on June 28, 2007.
- June 7, 2007 - Netting and Offset Facilities Completed for Nigeria and Venezuela Warrants.
- June 6, 2007 - Revised Primers for Venezuela Oil Obligations and Nigeria Payment Adjustment Warrants.
- June 5, 2007 - Moody's Upgrades Panama's Country Ceiling from Baa1 to A3.
- May 31, 2007 - EM Ltd. and NML Capital v. Argentina Petition for Writ of Certiorari.
- May 30, 2007 - Special Presentation: "A Shortcut to Local Markets in Brazil"
  - Presentation by Itaú Corretora
  - Presentation by Unibanco Brazil
  - Presentation by Banco Votorantim S.A.
- May 23, 2007 - Seguros Caracas de Liberty Mutual v. Goldman Sachs.
- May 22, 2007 - EMTA Announces 1Q 2007 Debt Trading Volume Stood at US$1.697 Trillion.
- May 16, 2007 - EMTA to Hold a Special Presentation "The Argentina Precedent: Will Others Follow?" in NYC on June 4, 2007.
- May 16, 2007 - Holiday Schedule for EM Bond Trades for US Memorial Day and UK Spring Bank Holidays.
- May 16, 2007 - Standard & Poor's Upgrades Brazil's Long-Term Sovereign Credit Rating from BB to BB+.
- May 16, 2007 - Mexico VRR, Series E, Record Date of June 15 and Payment Date of July 2 Expected. Trades are 'Ex-Dividend' on June 13. Calculations for Payments on the VRR's will be Announced by the Fiscal Agent Shortly.
- May 15, 2007 - EMTA to Hold a Special Presentation "A Shortcut to Local Markets in Brazil" in NYC on May 30, 2007.
- May 15, 2007 - Moody's Downgrades Cerro Negro - Merrill Lynch Commentary.

Website (continued)

- May 14, 2007 - Moody's Downgrades Cerro Negro from B1 to B3.
- May 11, 2007 - Fiscal Agent Notice Regarding May 15, 2007 Payment on Nigeria Payment Adjustment Rights.
- May 10, 2007 - Fitch Upgrades Brazil's Long-Term Foreign Currency from BB to BB+.
- May 9, 2007 - Save the Date for EMTA's Special Presentation: A Shortcut to Local Markets in Brazil.
- May 9, 2007 - "Rating EM Corporate Bonds and Piercing the Sovereign Ceiling." Presentation by Vincent J. Truglia (Moody's Investors Service) at EMTA Corporate Bond Forum.
- May 2, 2007 - Venezuela Statement Regarding IMF and IBRD Membership.
- May 2, 2007 - Moody's Upgrades Dominican Republic's Foreign-Currency Bond Rating from B3 to B2.
- April 25, 2007 - Holiday Schedule for EM Bond Trades for UK May Day Bank Holiday.
- April 25, 2007 - EMTA Advisory Regarding Nigeria Payment Adjustment Warrants and Related Payments on Payment Adjustment Rights.
- April 24, 2007 - EMTA Corporate Bond Forum in New York, Sponsored by ING Financial Markets LLC, to be Held on May 9, 2007.
- April 19, 2007 - "Putin's Political Legacy: Stability or Sclerosis?" Presentation by Larry Brainard, Trusted Sources, at EMTA Spring Forum.
- April 13, 2007 - EMTA publishes FX and Currency Derivative Market Practice No. 42, recommending the use, effective April 20, 2007, of standardized terms to document non-deliverable currency option transactions.
- April 13, 2007 - Whitney Debevoise Approved as US Executive Director at World Bank.
- April 10, 2007 - Philippines to Redeem Interest Reduction Bond - Fiscal Agent Notice.
- April 9, 2007 - EMTA Spring Forum, Hosted by Bear Stearns, to Be Held on April 19, 2007 in New York.
- April 5, 2007 - Calculations for Payments on Venezuela Oil Obligations Announced.
- April 4, 2007 - "Developing Asia, Sustaining Growth," Presentation by Dr. Ifzal Ali at Special EMTA Meeting.
- April 4, 2007 - Venezuela Oil Obligations Record Date of March 30 and Payment Date of April 16 Expected. Trades are "Ex-Dividend" on March 28. Calculations for Payments on the Oil Obligations will be Announced by the Fiscal Agent Shortly.
- March 29, 2007 - Nigeria Announces Results of Tender Offer for Oil Warrants.
- March 29, 2007 - Standard & Poor's Upgrades Poland's Long-Term Foreign Currency Rating from BBB+ to A-.
- March 27, 2007 - Holiday Schedule for EM Bond Trades for Good Friday/Easter Monday Holidays.
- March 16, 2007 - Calculations for Payments on Mexico VRRs, Series E, Announced.
- March 15, 2007 - Nigeria Press Release Regarding Warrant Tender Offer.
- March 14, 2007 - EM Ltd. and NML Capital v. Argentina Motion for Notice of Offering.
- March 14, 2007 - EM Ltd. and NML Capital v. Argentina Motion to Stay.
- March 5, 2007 - Dr. Ifzal Ali, Chief Economist of the Asian Development Bank, to Speak at EMTA on April 4.
- March 5, 2007 - Standard & Poor's Upgrades Colombia's Long-Term Foreign Currency Rating to BB+.
- March 2, 2007 - The Bank Of Thailand Issues Measures to Prevent Thai Baht Speculation.
- March 1, 2007 - Congo Press Release Relating to London Club Meeting.
- February 28, 2007 - EMTA Winter Forum Sell Side Panel - Market Views on Key Variables.
- February 27, 2007 - EMTA's First Quarter Bulletin is Now Available in our Bulletin Section.
- February 26, 2007 - Nigeria Launches Tender Offer for Warrants.
- February 20, 2007 -Belize Closes Exchange Offer with 98% of Eligible Debt Tendered.

Website (continued)

Reminders: Visit the *From the Market*, *Litigation* and *Job Opportunities* areas

There are a few relatively new areas of EMTA's website: From the Market in the Activities and Services area, Litigation in the EM Background area and Job Opportunities.

From the Market contains items submitted to EMTA that are deemed of general interest to the Emerging Markets trading and investment community. Decisions to post items are at EMTA's discretion, and the responsibility for content of each posted item lies solely with its author. Items in a variety of formats such as articles, opinions, transcriptions, and graphics, among others, are appropriate for this area. To submit postings to this area, please contact Suzette Ortiz at sortiz@emta.org or (646) 637-9106.

The website's latest addition, Litigation, is where various legal cases are posted that may be of interest to the EM trading and investment community. Cases can be viewed alphabetically in the more comprehensive List of Cases, as well as by specific subject matter category in reverse chronological order. If you are aware of any pertinent information which would be useful to post here, please contact Aviva Werner at awerner@emta.org or (646) 637-9110.

The Job Opportunities area includes positions currently available around the globe for members of the EM trading and investment community. We especially encourage you to pass along the address of this site to former colleagues who are currently seeking positions in the EM debt industry. If your firm is interested in posting a job listing on the website, please contact Jonathan Murno at jmurno@emta.org or (44-207) 996-3165.

Miscellaneous

Latin Finance Offer for EMTA Members

On March 13, 2007, EMTA announced a special offer to EMTA members, in partnership with Latin Finance magazine. Free one-year subscriptions to Latin Finance were made available to the first 100 EMTA members who submitted faxed requests. EMTA is pleased to be able to offer its members occasional discounts to events and industry publications as additional benefits of membership.

In addition, EMTA has reserved 10 free one-year subscriptions to the first 10 *new* members who join EMTA. As of press time, several subscriptions for *new* member firms were still available. Please contact Jonathan Murno (jmurno@emta.org) or (44-207) 996-3165 or Starla Griffin (sgriffin@emta.org) or (44-207) 996-3165 if you would like more information on EMTA membership.

Miscellaneous (continued)

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 our Members and to the broader market and will contribute to the expression and free exchange of views and information in the marketplace.

EMTA is always interested in getting market feedback on the effectiveness of our 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 important, whether there is more that EMTA should be doing, or doing differently, to better serve the EM marketplace.

Information for Volume Survey Participants

As a reminder, EMTA collects volume data from market participants for its Debt Trading Volume Surveys on a quarterly schedule. EMTA contacts its survey participants approximately one week before the end of each quarter. Look for the EMTA Volume Survey e-mails!

If you are not currently a participant in the EMTA Volume Survey and believe you can contribute data for this purpose, or wish to find out more about being a survey participant, please contact Jonathan Murno at jmurno@emta.org or (44-207) 996-3165. Individual Survey responses are kept strictly confidential.

SAVE THE DATE!
Wednesday, December 5, 2007

EMTA Annual Meeting

Annual NYC EM Charity Benefit

EMTA Membership Update

EMTA's newest Members include:

- Banco Industrial
- Brazilian Mercantile & Futures Exchange
- D.E. Shaw
- Debevoise & Plimpton
- Dechert
- London Diversified Fund Management
- MARS Capital Associates Limited
- Wellington Management Company

If you are interested in EMTA Membership, or if you know of prospective Members, please contact Michael M. Chamberlin at mchamberlin@emta.org or (646) 637-9101, Starla Griffin at sgriffin@emta.org or (44-207) 996-3165, Jonathan Murno at jmurno@emta.org or (44-207) 996-3165 or Suzette Ortiz at sortiz@emta.org or (646) 637-9106. Also, in the Membership area of EMTA's website, we offer information about our various Membership categories and benefits and about how to join the Association.

EMTA Hotlines

Topic	Contact	Telephone
Asia	Jonathan Murno/Leslie Payton Jacobs	(44-207) 996-3165/(646) 637-9103
Burden-Sharing/CAC's	Michael Chamberlin	(646) 637-9100
Clearing Corp.	Michael Chamberlin/Starla Griffin	(646) 637-9100/(44-207) 996-3165
Corporate Bonds	Jonathan Murno/Leslie Payton Jacobs/ Aviva Werner	(44-207) 996-3165/(646) 637-9103 (646)637-9110
EM Bond Charts	Aviva Werner	(646) 637-9110
EM Charity Benefits	Jonathan Murno	(44-207) 996-3165
EM Litigation	Aviva Werner	(646) 637-9110
EMTA Annual Meeting	Jonathan Murno	(44-207) 996-3165
EMTA Governance	Michael Chamberlin	(646) 637-9100
EMTA Quarterly Forums	Jonathan Murno	(44-207) 996-3165
EMTA Rate Quotation Services	Leslie Payton Jacobs	(646) 637-9103
FX and Currency Derivatives	Leslie Payton Jacobs	(646) 637-9103
International Financial Architecture	Michael Chamberlin	(646) 637-9100
Investor Issues	Michael Chamberlin	(646) 637-9100
Legal/Compliance	Aviva Werner	(646) 637-9110
Library and Archive Requests	Evelyn Ramirez	(646) 637-9108
Loan and Bond Trading	Aviva Werner	(646) 637-9110
Local Markets	Aviva Werner/Leslie Payton Jacobs/ Starla Griffin	(646) 637-9110/9103 (44-207) 996-3165
Market Information/Research	Jonathan Murno	(44-207) 996-3165
Membership	Jonathan Murno/Starla Griffin/ Suzette Ortiz	(44-207) 996-3165/same for JM/SG (646) 637-9106
Netting: Multilateral Netting Facilities	Aviva Werner	(646) 637-9110
Paris Club	Starla Griffin	(44-207) 996-3165
Press Inquiries	Michael Chamberlin/Jonathan Murno	(646) 637-9100/(44-207) 996-3165
Repos/Securities Lending	Aviva Werner	(646) 637-9110
Volume Survey	Jonathan Murno	(44-207) 996-3165
Warrants/VRR's	Aviva Werner	(646) 637-9110
Website	Suzette Ortiz	(646) 637-9106

EMTA staff can also be reached through the general telephone number (646) 637-9100, at the following e-mail addresses or through EMTA's website (www.emta.org).

Michael Chamberlin	mchamberlin@emta.org
Starla Griffin	sgriffin@emta.org
Angelique Guerra	aguerra@emta.org
Leo Hsu	lhsu@emta.org
Jonathan Murno	jmurno@emta.org
Suzette Ortiz	sortiz@emta.org
Leslie Payton Jacobs	lpjacobs@emta.org
Evelyn Ramirez	eramirez@emta.org
Aviva Werner	awerner@emta.org

EMTA Calendar

Thurs., April 19	**Spring Forum** **Bear Stearns** **383 Madison Avenue (NYC)**
Wed., May 2	**Board Meeting (NYC/London)**
Mon., May 7	Recommended Market Close (London) May Day Bank Holiday
Wed., May 9	**Corporate Bond Forum** **Sponsored by ING Financial Markets LLC** **Parker Meridien Hotel, 118 W 57th St (NYC)**
Fri., May 25	Recommended 2:00 p.m. (NYC) Early Market Close
Mon., May 28	Recommended Market Close (NYC/London) Memorial Day/Spring Bank Holiday
Wed., May 30	**A Shortcut to Local Markets in Brazil** **Global Financial Markets Conference Center** **360 Madison Avenue, 17th Fl. (NYC)**
Mon., June 4	**The Argentina Precedent: Will Others Follow?** **Global Financial Markets Conference Center** **360 Madison Avenue, 17th Fl. (NYC)**
Thurs., June 28	**Summer Forum** **Merrill Lynch** **2 King Edward Street (London)**
Tues., July 3	Recommended 2:00 p.m. (NYC) Early Market Close
Wed., July 4	Recommended Market Close (NYC) Independence Day Recommended 12:00 Noon (London) Early Market Close
Wed., July 11	**Board Meeting (NYC/London)**
Wed., July 18	**Focus on Africa/Côte d'Ivoire After the Peace: Finding the Path to Recuperation and Debt Sustainability (London)** **Sponsored by UBS**
Mon., Aug. 27	Recommended Market Close (London) Summer Bank Holiday
Fri., Aug. 31	Recommended 2:00 p.m. (NYC) Early Market Close
September*	**Focus on Africa/Africa Roundtable: Financing African Development Post-HIPC: What Role for the Private Sector? (London)** **Sponsored by Standard Bank**
Mon., Sept. 3	Recommended Market Close (NYC) Labor Day Recommended 12:00 Noon (London) Early Market Close

* **Details TBA**

EMTA Calendar (cont)

Wed., Sept. 19	**Board Meeting (NYC/London)**
Mon., Sept. 24*	**EMTA Hong Kong Forum**
Wed., Sept. 26*	**EMTA Singapore Forum**
October*	**Fall Forum (NYC)**
Fri., Oct. 5	Recommended 2:00 p.m. (NYC) Early Market Close
Mon., Oct. 8	Recommended Market Close (NYC) Columbus Day Recommended 12:00 Noon (London) Early Market Close
Fri., Oct. 26	**2007 Emerging Markets Benefit (London)**
Fri., Nov. 9	Recommended 2:00 p.m. (NYC) Early Market Close
Mon., Nov. 12	Recommended Market Close (NYC) Veterans' Day Recommended 12:00 Noon (London) Early Market Close
Wed., Nov. 21	Recommended 2:00 p.m. (NYC) Early Market Close
Thurs., Nov. 22	Recommended Market Close (NYC) Thanksgiving Day Recommended 12:00 Noon (London) Early Market Close
Fri., Nov. 23	Recommended 2:00 p.m. (NYC) Early Market Close
Wed., Dec. 5	**EMTA Annual Meeting** **Citigroup, 388 Greenwich Street (NYC)**
	2007 Emerging Markets Benefit (NYC)*
Mon., Dec. 24	Recommended 2:00 p.m. (NYC) Early Market Close
Tues., Dec. 25	Recommended Market Close (NYC/London) Christmas Day
Wed., Dec. 26	Recommended Market Close (London) Boxing Day
Mon., Dec. 31	Recommended 2:00 p.m. (NYC) Early Market Close
Tues., Jan. 1, 2008	Recommended Market Close (NYC/London) New Year's Day (2008)

* **Details TBA**