EMTA

Bulletin

2nd Quarter 2006 Volume 2006: No. 2

Brazil Local Markets, Investor Programs, Veny Warrant Netting Top EMTA's Agenda for 2006

This Bulletin describes EMTA's major activities over the second quarter, as well as an ambitious agenda for the remainder of 2006.

In a quarter that saw considerable volatility return to the Emerging Markets, EMTA's Volume Survey reported secondary market trading activity at a high level not seen since EMTA first began recording trading volumes quarterly in 1997. With $1.631 trillion in trading activity during the first quarter, EM trading for the year could be on track to exceed the $6 trillion reported for 1997. Local market instruments accounted for 48% of overall Survey volumes (up 22% over the first quarter of 2005) and Brazilian instruments led all other countries with 27% of reported trading (for a more detailed analysis of trading activity in the first quarter, see page 2).

Consistent with these trends, on May 12 EMTA announced a collaboration with ANDIMA, Brazil's leading financial trade association, and initiated a series of presentations on opportunities in Brazil's local markets. EMTA's collaboration with ANDIMA is expected to lead to several additional program events later this year in London and possibly the Far East (for further information about EMTA's local markets initiative, see page 4). In addition to the Brazil presentations, on June 7 EMTA held the first of a series of investor-oriented panel presentations—focusing on How a Ratings Agency Brings a Country Out of Default—intended to explore lessons from recent experience (including Argentina's 2005 restructuring) that could be used to make the EM trading and investment market more transparent and efficient. Over the remaining course of 2006, EMTA panels are expected to look at such additional topics as GDP Instruments, Enforcement under the FSIA, Does Enforceability Matter?, Whither the Sovereign Restructuring Process? and the Appropriate Role of the Official Sector (for more, see EMTA Panel Explores Implications of Partial Sovereign Restructurings on page 6).

Last, but not least, this Bulletin describes EMTA's most recent activities to help clean up the backlog in transfers of Venezuelan Oil Obligations, including an intensive reconciliation effort by the major dealers and an imminent netting program that could set the stage for more progress in both Venezuela and Nigeria warrants by year-end (see page 5).

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Trade Association for the Emerging Markets

EMTA Survey: Emerging Markets Debt Trading Surges

First Quarter Trading at US$1.631 Trillion

Emerging Markets debt trading stood at US$1.631 trillion in the first quarter of 2006, according to the quarterly survey conducted by EMTA released on May 25, 2006. This represents an 18% jump in volume compared with US$1.377 trillion in the fourth quarter of 2005, and a 15% increase on first quarter 2005 volume of US$1.416 trillion.

EMTA noted that this was the highest level ever recorded since it began publishing quarterly surveys in 1997. Paulo Leme, Managing Director and Director of Emerging Markets Research at Goldman Sachs, commented, "In the first quarter of 2006, developments in Emerging Markets reflected the bullish sentiment about global financial markets and large liquidity, in part driven by large savings in countries running large current account surpluses, such as those among oil exporters."

Brazil Volume at US$444 Billion

Survey participants reported trading US$444 billion in Brazilian debt instruments. This represents a 24% increase over both fourth quarter 2005 (US$357 billion) and first quarter 2005 (US$359 billion) volumes. The country's 2040 bond alone contributed US$143 billion in turnover, and accounted for more than half (54%) of all Brazil sovereign Eurobond trades. In addition, Survey respondents reported volumes of US$133 billion in Brazil local instruments (vs. US$98 billion in the previous quarter) and US$19 billion in corporate Eurobonds (vs. US$11 billion in the previous quarter). Brazil trading accounted for 27% of overall Survey volume, a slight increase from its 26% share in the fourth quarter.

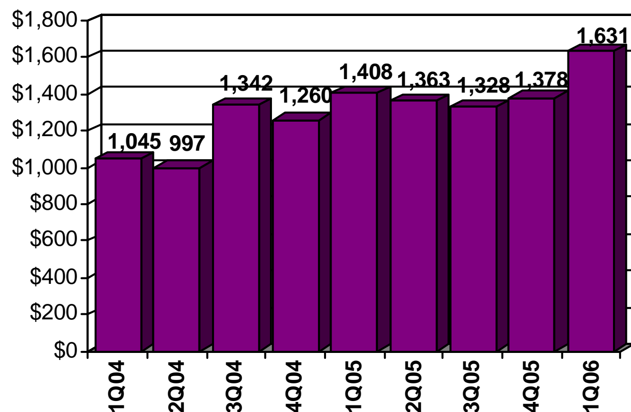
Leme noted that "Brazil was one of the main destinations of both dedicated and non-dedicated investment flows into Emerging Markets because of high real interest rates, the ongoing easing cycle by Brazil's Central Bank, and market speculation of a further appreciation of the Brazilian real, as the surplus in the balance of payments continued to rise in Brazil during this period."

Mexican Volumes at US$306 Billion

Mexican instruments were the second most frequently traded, according to Survey participants. Trading in Mexican debt stood at US$306 billion in the first quarter, compared with US$225 billion in the previous quarter (a 36% increase) and US$301 billion in the first quarter of 2005 (up 2%). Local instruments accounted for 82% of Mexican volume, at US$250 billion, vs. US$183 billon in the previous quarter and US$225 billion in the first quarter of 2005. Mexican turnover accounted for 19% of total Survey volume, compared with a 17% share in the fourth quarter.

The third most frequently traded Survey instruments were those from Argentina, with trading of US$122 billion in the first quarter. In contrast with the general trend, Argentine volumes actually declined 3% vs. fourth quarter 2005 trading of US$126 billion. However, first quarter 2006 trading was 83% above the US$67 billion turnover in first quarter 2005, prior to the country's restructuring. Argentine volume accounted for 7% of total trading.

Aggregate Trading Volume
(in US$billions)



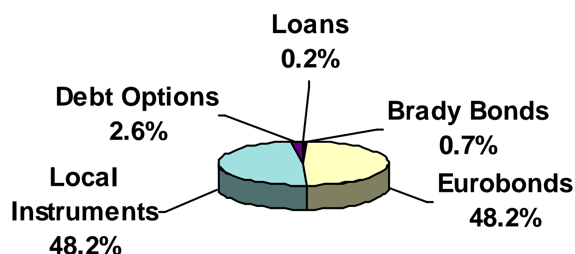
EMTA Volume Survey (continued)

Eurobonds and Local Instrument Volumes Almost Equal at US$787 Billion

Eurobond volume rose to US$787 billion in the first quarter, a 14% increase over fourth quarter 2005 trading of US$691 billion and up 17% compared with first quarter 2005 volume of US$673 billion. 84% of Eurobond trading involved sovereign issues, with corporate debt accounting for 15% of Eurobond volumes (1% were not specified). The most frequently traded individual Eurobonds, after the Brazil 2040 bond, were the Russia 2030 bond ($49 billion in volume), the Turkey 2030 bond ($25 billion), the Brazil 2018 bond ($22 billion) and Poland's new issue due in 2016 ($15 billion). Eurobonds accounted for 48% of Survey volume.

Local markets volumes were only marginally less than Eurobond volumes, also at US$787 billion. This compares with US$643 billion in the fourth quarter (a 22% increase) and US$668 billion in the first quarter of 2005 (up 18%). The most frequently traded local instruments were issued by Mexico (US$250 billion in trading), Brazil ($133 billion), Poland (US$72 billion), South Africa (US$61 billion) and Turkey (US$60 billion). 48% of Survey volume was turnover in local instruments.

Volume by Type of Instrument 1Q 2006



Leme pointed out that a major theme of the first quarter was the use of increased balance of payment surpluses by a number of countries to fund sizable external debt buybacks or prepayment of multilateral, bilateral, and external bonded debt. As a result, Leme stated, "the reduction in the stock of outstanding external debt boosted exposure to local bond markets." Leme also highlighted increased investor demand for longer-dated local paper in countries such as Brazil and Mexico, describing an "intensified schism between local and foreign investors, with locals seeking the front end of the curve, and foreigners seeking the long end."

As for other instruments, options and warrant trading totaled US$42 billion. Brady Bond turnover stood at US$12 billion, with Brazil and Venezuela announcing additional early redemptions of Brady issues during the first quarter. Loan assignments totaled US$3 billion.

EMTA's Survey includes secondary market trading activity in sovereign and corporate Eurobonds, local treasury bonds and other instruments (such as Brady bonds, debt options, warrants and loans) from over 90 Emerging Markets countries. 66 major dealers, banks and money management firms worldwide participated in the Survey.

Limited Effects of Latin Election Calendar on Volumes

Leme believes that so far the heavy 2006 electoral calendar has had a very limited effect on Emerging Markets debt trading. "If liquidity remains ample," he suggested, "technicals are likely to dominate political factors in local markets; however, as Central Banks in the US, Europe, Japan, and Asia continue with their tightening cycle, there is a risk that political fundamentals may weigh more heavily in a world of reduced risk appetite for Emerging Market securities."

For a copy of EMTA's First Quarter 2006 Debt Trading Volume Survey, please contact Jonathan Murno at jmurno@emta.org or (44-207) 996-3165.

Local Markets

Consistent with EMTA's mission to promote the development and integration of Emerging Markets economies into the global capital markets, in 2005 EMTA initiated a series of events aimed at providing the market with a forum to explore various local markets issues. Early presentations included on October 19, 2005, **"Opportunities and Pitfalls in Emerging Markets Restructurings"** with Steve Kargman as guest speaker; and on January 25, 2006, **"Mexico Mortgage-Backed Securities – Should Mexico Adopt the Danish Model?"** with Alan Boyce of Soros Fund Management and John Rogers of Strasburger & Price as guest speakers.

Focus on Brazil

On May 12, in view of Brazil's recent debt reprofiling activities, and increasing investor interest in Brazil local markets, EMTA hosted a panel presentation entitled, **"Brazil Capital Markets"**.

Attended by approximately 170 people and unexpectedly spilling into an overflow room at EMTA's offices at 360 Madison Avenue, the meeting began with the announcement by Michael Chamberlin, EMTA's Executive Director, of the signing that morning of an agreement between EMTA and ANDIMA, Brazil's National Association of Financial Institutions, to collaborate on projects, activities and initiatives intended to further the development of Brazil's local markets. Michael Chamberlin commented on behalf of the EMTA community that "[i]n the last several years, as investment activity in the Emerging Markets has steadily grown, global investors have shown increasing interest in local market investment opportunities throughout the Emerging Markets. Nowhere has this been more apparent than in Brazil which, in addition to a strong track record of sound economic policy, has been moving rapidly to change its debt profile from dollar instruments to local currency." ANDIMA's president, Alfredo Penteado de Morães, likewise commented that "[our] most important target is to boost the liquidity and the transparency of the secondary market of private and public bonds." For the text of EMTA's press release regarding this collaboration with Andima, please Click Here.

The panel discussion began with a comprehensive overview by Alfredo Penteado de Morães, of the Brazilian financial markets and led into more specific discussion by the panelists of local instrument liquidity in Brazil, clearing and settlement issues, as well as legal and tax issues. Focusing largely on the fixed income markets in Brazil, the two and a half hour meeting included individual presentations by several of EMTA's new Brazilian members, Banco Pactual, Banco Itaú and Banco Votorantim, as well as by CETIP, Brazil's central security depositary. Following the meeting, many of the guests lingered for lunch at EMTA's offices, taking advantage of the opportunity to meet and pursue further discussions with the individual presenters.

The meeting was well-attended and well-received by the audience and feedback from the EMTA membership supports a second such meeting, refined to reflect audience and participant feedback, which is currently scheduled to be held in London in the Fall.

Copies of the presentations by each of the speakers can be found in the New Developments section of EMTA's website (May 12, 2006 entry) or by Clicking Here.

Netting Facility for Venezuela Oil Warrants

On February 15, EMTA announced that it was proposing to sponsor a Multilateral Netting Facility to address the long-standing backlog in the settlement of transactions in Venezuela Oil Obligations entered into before January 2, 2002 (the "Warrants"). Eventually, the Facility is expected to clear the existing backlog of Warrant settlements, which dates back to the early 1990's.

The first phase of this netting project has been an intensive effort by the dealer community to reconcile their warrant positions internally, with the clearing systems and with each other. The second step, now expected to be taken on or before June 30, is for the major dealers to initiate a series of coordinated bilateral netdowns with each other (without settlement). This series of bilateral netdowns would continue, as needed, until the industry is ready and able to complete a multilateral netting later this year.

In addition to the effort of the dealer community to reconcile and net down positions, EMTA is also still hosting monthly calls to discuss reconciliation among a broader group of Member firms that are not participating in weekly netting calls among the major dealers.

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 so that 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.

Also, to aid the market in its efforts at reconciliation, EMTA is requesting that firms send EMTA contact information (including telephone number and e-mail address) for their customers and custodians, as well as for the person(s) at their firm responsible for the reconciliation. EMTA's compiled list of such contacts will be distributed to the firms that contribute such information.

For further information about the Warrants, please Click Here for EMTA's Revised Primer (February 22, 2006); questions and comments about the proposed Facility may be directed to Aviva Werner at awerner@emta.org or (646) 637-9110.

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The April 15, 2006 Oil Obligations payment was made on April 17 to holders of record as of March 31, 2006, and EMTA recommended that trades be settled 'ex-dividend' on March 29. Click Here for the Fiscal Agent's notice regarding the payment's calculation.

The Oil Obligations came 'into the money' for the first time as of October 15, 2004. That payment was made on March 3, 2005 to holders of record as of March 1, 2005. The April 15, 2005, October 15, 2005 and April 15, 2006 payments were made on time.

Venezuela Redemptions

Venezuela redeemed its Par and Discount Bonds, Series A, due 2020 on April 18, 2006 (for the Par Bonds) and April 27, 2006 (for the Discount Bonds). Click Here for the Fiscal Agent's notice and Click Here for the Press Release.

Venezuela also redeemed its Par and Discount Bonds, Series B, due 2020 on May 18, 2006 (for the Par Bonds) and May 31, 2006 (for the Discount Bonds). Click Here for the Fiscal Agent's notice.

EMTA Panel Explores Implications of Partial Sovereign Restructurings

On June 7, EMTA initiated a series of investor-oriented panel presentations designed to explore issues of relevance to investors in today's Emerging Markets and to promote greater transparency and efficiency in the EM trading and investment marketplace. While the initial panel presentation focused on the Implications of Partial Sovereign Restructurings, presentations later this year in NYC and London are expected to explore GDP Instruments, Enforcement Under the FSIA, Does Enforceability Matter?, Whither the Restructuring Process?, and the Role of the Official Sector.

EMTA Executive Director Michael Chamberlin introduced the June 7 program by contrasting the commercial bank restructurings of the 1980's and early 1990's with the recent Argentine bond restructuring. In particular, he noted that while earlier restructurings had generally included a critical mass of 95% or more of the applicable debt, Argentina's restructuring, while relieving a substantial debt burden, had left outstanding about $20 billion in defaulted claims, with a substantial amount of unsatisfied court judgments. This distinction alone, and the continuing legal risks faced by Argentina, raised the question of whether Argentina would be able to leave its debt problems behind and return to the voluntary markets. This in turn raised questions about whether the existing legal framework for enforcing sovereign claims and restructuring them promoted the efficient functioning of the market. Chamberlin concluded his introduction by noting that EMTA's purpose in presenting the panel, which was intended to be the first of a series of investor-oriented panel presentations by EMTA, was to explore what, if anything, had been learned in recent years that could be used to strengthen the EM marketplace and make it more transparent and efficient.

Lisa Schineller of Standard & Poor's initiated the panel discussion by describing S&P's approach toward bringing Argentina out of default and explaining that ratings were intended to be forward-looking appraisals of the country's capacity and willingness to meet its obligations. Though Argentina's untendered bonds continue to be rated D, Argentina generally was taken out of SD (initially to B- in June 2005, and more recently to B) because it was no longer meaningful to focus on the default. Although Argentina's recent track record does bear on the agency's appraisal of willingness to pay, and continuing litigation risk was taken into consideration (the untendered bonds effectively being treated as a contingent liability), Argentina's current rating reflects a judgment that such risks had abated somewhat, and that even if collection efforts were successful, Argentina's public finances were unlikely to be disrupted and it had sufficient resources to meet its obligations. When asked if Argentina would have been rated higher had it dealt with the holdout creditors, she said maybe not. Asked if there were any qualitative factors that would effectively impose a ceiling on Argentina's rating should its economy continue to improve, she responded that it was premature to discuss that as a possibility. In this regard, Schineller noted that in the long history of sovereign debt default and restructuring, partial or complete repudiation was not without precedent.

Asked if he believed that Argentina faced a significant litigation risk from its holdout creditors, Professor Hal Scott from Harvard replied that he wished they did, but realistically he thought they did not. He explained that this was due to a number of factors, the most important being that the current legal framework was not very friendly to creditors. Among other things, he pointed out the irony that the US legal system creates very strong contractual rights, but then makes it very difficult for creditors to enforce them. In addition, he noted that courts have shown an unwillingness to upset the restructuring 'applecart', especially when, as recently, creditor governments (such as the US) have intervened on the side of the debtor countries.

Commenting on the apparent trend of debtor countries like Argentina structuring their new issues as local markets transactions, in part to shield them from legal actions, Professor Scott remarked that Argentina law didn't look so bad now in view of recent developments under NY law. He concluded by expressing his view that the lack of a significant litigation risk for Argentina was undesirable, mainly because he thought that, while not free from

Implications of Partial Sovereign Restructurings (continued)

doubt, on balance the presence of holdout creditors with significant enforcement rights imposed a form of discipline on debtors and tended to 'improve the deal' for the benefit of all creditors. It was unclear to him whether or not the market could itself impose much in the way of discipline in the absence of stronger creditor enforcement rights, particularly given the prevailing investment climate in which historically low interest rate levels had encouraged such massive inflows into the EM asset class.

Michael Straus of Straus & Boies, a long-time advocate of stronger creditor rights, pointed out that one of the original purposes of the FSIA was to de-politicize the granting of immunity to foreign sovereigns in the US courts and thereby make the judicial process more transparent and objective. Previously, the courts often relied on positions taken by the State Department, which tended to inject an element of arbitrariness into judicial proceedings. Unfortunately in his view, recent reliance by US courts on amicus curiae briefs filed by the US government tended to undo the more objective approach that the FSIA was designed to establish.

Whitney Debevoise of Arnold & Porter, who has a well-established practice of representing major sovereigns, noted that those concerned about the current state of creditor rights in the US courts needed to look at the broader overall picture of how current enforcement rights compare with the situation that existed before the enactment of the FSIA, as well as enforcement possibilities in other countries, such as Germany. He said that he had 'crocodile tears' for creditors who knew full well before they made their investments what the enforcement limitations were. Comparing the legal framework for sovereigns with domestic corporate debtors, he also expressed his view that there were insufficient incentives or mechanisms for collective action by creditors to negotiate solutions.

Several panelists, including Michael Straus and Professor Scott, argued in favor of a new approach toward the allocation of payments when a sovereign went into default, one that imposed an obligation on the sovereign to make payments proportionally to all creditors. Such an approach might come from a newly designed pari passu clause, new legislation, or a more expansive reading of the existing clause along the lines of the interpretation that had for a time been applied in the Belgian courts. Mark Rosenberg of Sullivan & Cromwell noted that even the broadest interpretation would mean that a creditor seizing funds receives only a proportional share of the seized assets and expressed doubt that any new legislation would be effective with respect to bond offerings made before the date of the legislation. Several other panelists, as well as several members of the audience, challenged the more expansive interpretation of the pari passu clause as unwarranted, and also questioned whether a more expansive clause would be workable. While agreeing to disagree in various respects, most panelists seemed to concur that the current clauses, as traditionally interpreted, were not particularly clear or meaningful. Asked from the floor why the current clauses had not been changed, several panelists observed that some had been changed, while others had not, reflecting in part that there was a lack of consensus about whether or not such changes were desirable and also that there were not clear mechanisms for making such changes in bond documentation.

Several panelists, including Michael Straus, Mark Rosenberg and Jim Kerr, reviewed various developments in the application of the FSIA, concluding that recent interpretations of what was commercial property eligible for attachment in the US had imposed 'high hurdles' to creditors seeking the enforcement of judgments.

The panel concluded with some discussion of the appropriate role of the official sector, and particularly the IMF, in resolving sovereign crises. Whitney Debevoise remarked that one apparent difficulty in Argentina had been that the official sector had not correctly signaled what level of debt relief was required and what level of creditor

Implications of Partial Sovereign Restructurings (continued)

acceptance was necessary. Other panelists agreed, but an IMF representative noted from the floor that the IMF, which has recently been criticized by Argentina for its handling of the crisis, was constrained by the lack of an existing program with Argentina, and was therefore not able to exercise much influence in resolving the crisis. Professor Scott noted that early on in the crisis the IMF had sufficient leverage, but had apparently declined or been unable to exert it.

Summarizing the discussion, Michael Chamberlin noted that, just as the favorable economic environment had bolstered the performance of Argentina's economy, it may also have made investors generally more tolerant of the apparent erosion of creditor rights. Perhaps with the passing of time, and changes in the current economic climate, the market might become more discriminating and inclined to impose some form of discipline on debtor conduct. In any event, the panel had succeeded in covering a wide range of issues relating to the balancing of debtor and creditor rights that would merit further review in subsequent EMTA programs.

EMTA Winter Forum

EMTA's Annual Winter Forum was held in London on Tuesday February 28, 2006. JP Morgan hosted the event, which drew over 150 attendees, in the landmark Great Hall building on the River Thames.

In his introductory remarks, EMTA Co-Chair Mark Coombs (Ashmore Investment Management) reminded attendees of recent EMTA accomplishments and urged those in the audience who had not yet become EMTA members to consider becoming part of the trade association. He also recommended that, with the continued strength in the markets, those firms currently recruiting new employees take advantage of EMTA's Job Opportunities website page.

Joyce Chang (JP Morgan) projected a slide of key economic forecasts in initiating a panel of sell side experts. Chang joked that her colleagues might have to revise their predictions on 2006 returns, supplied only days earlier, as a result of late-breaking announcements by several EM sovereigns of early redemptions and debt buybacks. Chang noted that when she moderated the EMTA Annual Meeting sell side panel two months earlier, her own firm had produced the most aggressive EMBI+ forecast at 250; in comparison, Winter Forum panelist estimates now ranged between 170 and 200. Chang contrasted current EMBI+ levels with forecasts made at the 2005 Winter Forum, when the consensus view was that the EMBI+ would be at 350 a year later.

Panel Upbeat on Inflows into EM Debt

Chang polled sell side panelists for their thoughts on the sources of asset class inflows, how the inflows will be allocated, and what the prognosis is for sovereign debt given the flurry of buyback announcements. BCP's Walter Molano opined that global investors now recognize the ascendance of China and India, with resulting increase in demand for raw commodities; this has led to increased inflows into Emerging Market commodity-producers from Asian and more conservative investors. Molano speculated that the industry would move gradually to a Euroclear-able local instrument market.

Kaspar Bartholdy (CSFB) described the asset class' newfound "acceptability," with inflows from large G-7 pension funds, as well as EM and G-7 Central Banks that no longer see the asset class as exotic. Addressing concerns that there could be a rotation of funds flowing out of debt and into equities, "it is clear that there are individual funds that are doing that, and in particular some of the hedge funds have been doing that for a while, but in aggregate, we are seeing massive inflows into EM debt and EM equity, and that is likely to continue throughout this year," Bartholdy affirmed. Tim Ash (Bear Stearns) stressed that as the Emerging Market debt industry becomes more centered on local markets and corporate bonds, there is a more pronounced need for corporate credit research.

Deutsche Bank's Marc Balston noted that increased demand from buyers such as Asian central banks and Japan Post, combined with sovereign buybacks and the limited amount of outstanding debt, all created a demand-supply imbalance. Balston believes that it is hard to determine whether there is a reallocation between EM debt and equity because both are receiving massive amounts of new inflows, and both continue to benefit from positive publicity. A small potential risk is that negative developments in EM equities could carry over into debt, he noted. Balston concurred with Molano that the increased role of local markets, and the move away from a benchmark-centered external debt market, would lead to decreased correlation.

Chang noted that current inflows were the most diversified in recent memory. Asian retail, Asian central bank, Middle East petrodollars, and US pension funds (now free to invest in non-investment grade instruments in the wake of the US auto sector downgrades) are serving as the sources of new inflows, with these new investors much less sensitive to US Treasury movements.

Winter Forum (continued)

Complacency Debated

Turning to a discussion of global liquidity, Chang asked analysts to discuss how an end to "easy money" could affect the EM industry, and if the market had become too complacent in not fearing the possible ramifications. Chang also solicited panelist opinions on what geopolitical risks could derail EM momentum.

Ash argued that EM fundamentals have improved dramatically over recent years and their vulnerability to US rates has decreased as a result. "The key risk remains growth—that the US economy slows and that would have a big impact on Latin America, but we are generally bullish on G-3 growth," he affirmed. Ash acknowledged that risk factors such as avian flu and terrorism were hard to quantify, but noted that the tourism industries of Turkey and North African countries had proven "remarkably resilient" following terrorist incidents, adding that terrorism was no longer viewed as the exclusive preserve of 'unstable Third World countries.'"

Bartholdy speculated that only a "very sharp slowdown in the global economy or a serious pickup in inflation risk would throw us off course in Emerging Markets debt." For Bartholdy, the asset class's greatest vulnerability is an event which drives up oil pricing substantially and affects global growth, and in his view the most likely cause of such a spike would be military intervention related to Iran's nuclear research program.

Balston agreed that only a "massive change" in the global environment or dramatic change in oil supply could throw the asset class off track. Avian flu could be contained regionally and have substantial implications on that area, most likely to be in the emerging world; or it could be on a global scale and harm global growth, thus also hurting EM economies.

Molano speculated that liquidity would remain high for a long period of time. He added that with the rise of the Chinese economy, the yuan could become the new international reserve currency. As the yuan is not fully convertible but is pegged to the dollar, many of China's trading partners are holding dollars in its stead; once the yuan is freely floated and convertible, there will be a dramatic change in liquidity. However as the Chinese do not currently want to accept such leadership, the status quo will persist for some time. For Molano, anti-globalization forces in the G-7 are a greater immediate concern; if the US and European countries took steps to stop the globalization process, it would prove the "death knell for EMs."

Chang also expressed concern about US protectionist sentiments. She noted that dramatic effect of SAARS on the Chinese GDP growth and refused to rule out the possibility that avian flu could also cause substantial harm in the emerging world.

Panel Reviews Turkey, Hungary and Latin Election Cycle

The panel also addressed political and economic factors in the major EMEA economies. Bartholdy commented that, from a long-term perspective, Turkish policymakers should probably be concerned by the strength of the lira. However from a short-term investor perspective, the recent build-up in FX reserves at the Central Bank could lead to a debt buy-back and "abstaining from international issuance."

"There has been a shift in emphasis on Turkey," added Balston. "We used to worry about their fiscal position and their ability to pay the debt; now we have moved positively to worrying about structural issues and economy-wide issues, and this shows what progress Turkey has made." Ash emphasized the country's robust export growth and large inflows of foreign direct investment, which he believes are better attributed to the country's fundamentals than to a bet on its EU accession prospects.

Winter Forum (continued)

Balston was skeptical about the prospects for fiscal reforms in Hungary, stating "there seems be no appetite from the likely winners of the upcoming elections to implement any reforms." He also speculated that the country's credit ratings could be lowered.

Chang also asked panelists to discuss upcoming Latin elections. Most panelists opined that regardless of who proved victorious, no major policy U-turns would result, although optimism for future reforms under incoming governments was notably muted. Ash pointed out that his team was "relatively sanguine" about a Humala presidency in Peru, noting that the candidate's economic policy advisor had worked to develop the domestic yield curve under Pedro Pablo Kuczynski. Bartholdy countered that it was still an open question whether the advisor would really be part of a Humala government.

Based on their comments during the discussion, panelist recommendations were of little surprise. Molano and Bartholdy concurred that Argentine GDP warrants were an attractive investment, with Molano recommending that investors avoid shorting in general.

Ash spoke positively on Turkey, Bosnia and Serbia while Balston conceded he was being "dull" by selecting Hungary as an asset to avoid. Bartholdy urged investors to think twice about some Middle Eastern credits, including Iraq, in light of concern over military intervention in Iran.

Investor Panel Confident in "Sticky," "Quality" Inflows

Brent Diment of Aberdeen Asset Management moderated the event's second panel of leading investors. Diment got things rolling by noting that inflows into the asset class were an important driver of recent performance. He asked the panel to enlighten the audience on the sources of these flows, and what new investors are expecting in terms of returns.

John Carlson (Fidelity Investments) replied that while he's seeing a lot of inflows, from a broad geographic range, there's been at least one substantive change over the last couple of years. "The investors giving us money now are investment-grade focused, so they are looking at the asset class with a different set of eyes and a different set of objectives than, historically, people like myself have," he commented. Carlson added, "We've looked at it with equity-like returns, equity-like volatility; the new investors come in with the expectation that the story that's played out over the last 10 years is going to continue." But Carlson believes the new investors will stay in this market because the credits seem inexpensive to them, in contrast to managers with 15-year hindsight who deem them expensive.

Simon Treacher of BlueBay Asset Management concurred that recent inflows involve "sticky" money from "quality" accounts. "We're in a position now where it's easy to attract hedge fund money, so we can effectively turn that down and focus more on the long-only portfolios," he stated. Treacher noted that the development of the new JP Morgan local markets index has also boosted inflows into the asset class.

Ashmore Investment Management's Jerome Booth also stressed the "stickiness" of new inflows. "These new institutional investors are very slow and very sticky, because the allocation, unlike to emerging equity or private equity, is coming out of fixed income," he noted. Booth asserted that new inflows "have nothing to do with spreads, and nothing actually to do with fundamentals in Emerging Markets—it's got everything to do with a push factor, which is unfunded pension liabilities." Booth noted that most pension funds in the US must return 8% or 9% to meet their liabilities. They are unlikely to get this from the US equity market, he believes, nor from the US Treasury market. Peer group pressure has also helped, according to Booth,

Winter Forum (continued)

as one pension fund manager tells his/her colleagues about EM investments. Finally, consultants have to start learning about the asset class; in the 1990's it was considered esoteric, and demanded lots of work—and thus was easy to reject. Unless conditions change dramatically (e.g. unfunded liabilities go away, other major asset classes offer superior performance, a prejudice against Emerging Markets returns, volatility in the asset class increases, or global liquidity decreases) inflows are unlikely to slow down.

Booth echoed the sell side panel that the more likely threats to the asset class are factors such as protectionism or the rise of anti-globalization sentiment. Central Banks, Japanese pension funds and German insurance companies have just "put their toe in the water; there's a whole swathe of countries out there that have also got unfunded liabilities, and they've only just started doing it," Booth concluded.

Five years ago, when one attempted to sell Emerging Markets in Japan, one would have been met by a "polite bow and smile," according to Anders Faergemann of AIG. "These same investors are now calling *us*, and they want to get invested not only in external debt but in local currency debt," he remarked.

External vs. Local Debt

Diment inquired how the panelists were structuring their risk. He also asked whether the asset class would continue to exist in the next four years, or, for example, would EM corporates just be added to the high-yield desks, and Brazil be included on the FX desk.

Faergemann responded that the asset class is here to stay, but whether there will be much external debt to be traded is a valid question. Investors in external debt will hold on to any paper they have. On the other hand, Faergemann pointed out that local markets might be more interesting as "there'll still be volatility there." He referred to inexperienced players coming into the market right now that will face a sell-off at some point; he will be watching to see how they react. His portfolio is evenly divided between hard currency and local currency debt, "but it's only moving in one direction," he stated.

Ashmore manages $12 billion in dollar debt, $4.5 billion in local currency debt, and $4 billion in special situations, estimated Booth. He predicted that in five years, his firm would mostly be doing local currency and private equity/special situations. Booth also expects that in five years, investors will be putting money into private equity, real estate, mortgage-backed securities, etc. While some investors complain of a "lack of paper," Booth highlighted the massive potential of Chinese companies.

Treacher defended external debt, while conceding that he was a "dinosaur." He voiced some concern regarding volatility in local markets debt. Finally, Treacher noted that although he had spent his career by making money in external debt, he now believes that "we may be at the start of a 20-year EM equity run."

Carlson agreed with Treacher that the future might well belong to EM equity, citing the credit improvement on the debt side. These credit improvements, in terms of ratings upgrades—but more importantly corporate governance, FDI and the institutionalization of the processes—makes a better equity market. Carlson also concurred with Treacher that the external debt market is going to stay, and echoed Booth's comments that market participants would benefit from more fully developed capital markets in developing economies. "There's a future for all sorts of investors, because the Emerging Markets are in a different part of the macroeconomic cycle than the US and Western Europe; they're on the upswing," he affirmed.

Winter Forum (continued)

Panel Sanguine on Asset Class Outlook

Diment asked panelists what risks keep them up at night and what could derail recent euphoria in the market. Treacher downplayed geopolitical risks ("the Philippines proves whenever you get a military coup, buy it, it always works!") but cited a contraction of global liquidity as a greater risk to the market.

Carlson's base case of a benign, low-inflation, growth environment supported Emerging Markets bonds and equities. While acknowledging there are always risks to the asset class, he viewed most of them as unlikely and difficult to hedge against. Booth referred to his earlier comments on the "push" factor for new money to enter the markets. He also stressed that for every potential risk, there were opportunities for investors. Moderator Diment expressed his own concern that a hard landing in China, which has been such a driver of many emerging economies, could negatively affect the market.

The panel then turned to several region-specific discussions. First up was Latin America. Booth spoke positively on Brazil while criticizing the Central Bank for cutting interest rates too slowly. History prevents Ashmore from taking a long-term view on Argentina, according to Booth, but he was comfortable with the short-end of the curve and private equity. Faergemann alluded to the Argentine market as being relatively illiquid in times of market moves, and added that its neighbor Brazil "could hardly be in better economic shape."

"Brazil is an investment-grade credit for all intents and purposes," Treacher asserted. He also repeated his previous EMTA forum criticism of hold outs of the Argentine debt restructuring. "If you held out, you should not be in this asset class," he declared, calling the GDP warrants the "cheapest thing you have ever been given free in Emerging Markets!" Diment preferred local-law Argentine bonds in case of attachment issues from holdout creditors. He offered limited praise for Argentine authorities for having "learned about fiscal policy" after the country's debt crisis.

African debt markets were next on the panel agenda. Treacher preferred private equity situations in Africa to African local markets, while conceding that "I'm sure someone will prove me wrong." Carlson's view on the ZAR was "constructive from a range-trading standpoint." He was a keen investor in Egyptian local treasury bills last year, but has moved on to local corporates. Booth declined to reveal his investments in Africa, stating "that's the really interesting stuff!"

In Asia, Treacher saw the Indonesian rupiah as "still offering value" and admitted to being a trader of Philippines debt ("it really is the new Brazil '40 – you basically just buy it when people are getting suicidal about things that don't matter too much.") Carlson announced he was constructive on Philippine debt both local and external, while differing from Treacher in that he saw external debt as a long-term story rather than a trading opportunity. Booth had positive comments on Indonesia and the Philippines, and was optimistic on opportunities in India and China. Ashmore's largest exposure in Asia is concentrated in special situations, with FX a close second, he stated. Faergemann thought a gradual appreciation of the Chinese renminbi was possible, "though whether that will matter to the market, I don't know," he admitted.

Winter Forum (continued)

Liquidity Concerns Limit Exposure to EM Corporates

"At Ashmore, we do very little corporates," Booth informed the audience explaining that this was due to the firm's focus on liquidity management. However, in the future, Booth expected this would change. 5% of Carlson's portfolio is in corporates, with small positions in any one issue because of his similar concern for liquidity. Carlson expressed interest in wireless as well as steel company issues.

Treacher took the opportunity to praise corporate bond analysts, who he declared have a much harder job than sovereign bond analysts. "It's a hard market, having to look at 50 or 60 situations a week," he observed.

Panelist Picks Vary Widely

Diment concluded the panel with the traditional request for panelist picks. Carlson reiterated many of his earlier comments, recommending Argentine GDP warrants, Philippine external debt and Egyptian corporates. Treacher also returned to his earlier theme of de-emphasizing political factors in selecting Ukraine (asserting that the low debt/GDP ratio matters more than the elections). He thought the Latin real estate market offered opportunities, and would be willing to short Peru while cautioning that "every once in a while a short will kill you."

Booth declared that the BRL was an obvious choice and refused to short anything in Emerging Markets. He thought that 2006 would offer more alpha opportunities than 2005, based on his expectation of FX volatility resulting from the end of the Fed fund tightening cycle, as well as election-related market movements. Faergemann's selection included the Brazilian, Turkish and Indonesian currencies.

Kaufmann of World Bank Institute Delivers Keynote at EMTA Spring Forum

On April 20, 2006, at the midtown New York offices of Bear Stearns, Daniel Kaufmann, director of Global Programs at the World Bank Institute, addressed EMTA's Spring Forum attendees on "The Link Between Good Governance and Economic Growth in the Emerging Markets."

Kaufmann opened his presentation by outlining some common assumptions about governance that he intended to challenge: that it's impossible to measure and/or analyze; that it's important but has improved vastly over the years; that good governance and control of corruption are luxuries that a country can enjoy only once it achieves a certain level of wealth; that less developed countries are, by definition, poor and corrupt; that public-sector bureaucrats are always the source of corruption; that the corporate sector is a passive entity being acted upon by state policies; and that country-wide governance is not linked to financial market prospects at all.

"It's imperative nowadays," asserted Kaufmann, "to move well beyond the so-called Washington consensus" of a decade ago, in which the US Treasury, the IMF and the World Bank agreed on the main macroeconomic reforms that were required in Emerging Markets. "Macroliberalization and privatization were the main mantras, which in my belief still apply," he stated. But because there was no focus on governance and corruption, many countries that did implement the Washington consensus have lagged behind.

Kaufmann's analytical framework holds that governance is a set of traditional institutions by which authority in a country is exercised. The three main components of the set can each be broken down into two measurable indicators: the political component, consisting of democratic accountability and the absence of violence and terrorism (which leads to overall political stability); the economic component, comprising effective government policies plus the quality of the regulatory framework; and institutional respect, measured by the rule of law in everyday life and control of corruption.

The speaker emphasized that this framework gives perspective to the issue of corruption control as only one dimension out of six, which is important because, Kaufmann suggested, "one doesn't fight corruption by fighting corruption. Corruption is mostly a symptom; an outcome of institutional failings in other areas," such as freedom of the press, the civil service, overregulation, or rule of law.

Gathering and Analyzing Empirical Data on Governance

Kaufmann informed the audience that the World Bank Institute team collects data from 37 different sources from all over the world. An advanced statistical method called an observed component model aggregates all the sources in the most efficient way to minimize margins of error. The method itself gives different weight to different data sources, so that the more reliable sources with a higher signal-to-noise rate get greater weight. "This method allows the data to speak," observed Kaufmann. "We as analysts make no discretionary decisions whatsoever; there is no US-centric or Eurocentric bias," he noted.

With allowance for reasonable margins of error, the countries of the world resolve themselves into five main statistical groupings. Kaufmann drew his audience's attention to a world map showing levels of corruption control. "What immediately jumps at the eye is another debunking of myth: the tendency we have to generalize, saying the less-developed countries are all corrupt, and the rich world is the least corrupt," he stressed. Kaufmann then pointed out that countries such as Botswana and Chile are actually less corrupt than some European countries. "Obviously, on average, the richer countries have better control of corruption, but it's very important to get to the specifics and not to generalize," he emphasized.

Spring Forum (continued)

Next, Kaufmann took on the assumption that governance has improved over recent years, along with macroeconomic indicators such as inflation rates. His data on governance showed overall stagnation, or in some cases, worse governance than in prior periods. "For example, in terms of rule of law, many countries in Latin American have not just stagnated, they have deteriorated, and they are lower than the average for Emerging Markets. So obviously there's an enormous challenge in this," he commented. Kaufmann believes that lack of progress in governance "has become an increasingly binding constraint on unleashing the potential for development in some countries."

"The good news," continued the speaker, "is that these averages are the outcome of enormous variance; even in a short period of time—6 to 8 years—we see in the data a group of countries that have significantly improved in governance." There are about 25 countries worldwide, including Croatia, Mozambique and Colombia, which have improved during this period. "The traditional view is that it takes generations for institutions to improve. Of course, one doesn't go overnight from the institutions of Gabon to those of Norway, but meaningful improvement can take place in 6 to 8 years," he noted.

Does Good Governance Matter?

Kaufmann then addressed the relationship between good governance and prospects for growth. His data and that of other analysts have led to a significant finding called "the 300% development dividend of good governance." Essentially, an improvement in governance—rule of law, or control of corruption—will raise a nation's per capita income by almost 300% in the long run. Further, the amount of improvement needed to yield that result is not unrealistically large—just one standard deviation, which is one-fifth of the difference between the worst in the world and the best.

Kaufmann stressed that good governance leads to higher income, and not the reverse. "We find no evidence for the politically correct notion that if only emerging economies magically got more income—from higher prices of oil, or just more aid—that in itself would automatically lead to improvement in governance, to control of corruption," he declared, adding that improving governance requires sustained effort and political will.

Statistical analysis shows that the correlation between control of corruption and a country's competitiveness in the world marketplace is .90. "When a country improves governance and begins to control corruption, the competitiveness of the country increases by an average of 30 rung positions," noted Kaufmann.

Governance and Investment

To see how much governance matters directly to investment firms, his team looks at data from enterprise surveys. When asked "from your perspective, what are the most important obstacles to operations and growth?" official corruption and bureaucratic red tape were among the top answers for most countries. In Latin America, for example, both infrastructure and tax regulation are areas of concern, but far less than corruption.

"It's very important, when analyzing or advising a country, to unbundle these concepts of governance and corruption, and the new methods of measurement allow us to do that," stated Kaufmann. Again taking Latin America as an example, the primary business concerns of some years ago—petty bribery, getting a license or export permits or connections to utilities—have been replaced by procurement corruption and judicial corruption.

Spring Forum (continued)

"State capture," in which extremely powerful and wealthy firms basically purchase the policies and laws of the state, is a huge issue in other areas—the former Soviet Union being the prime example. "Let's not mince words," proclaimed Kaufmann. "We find through this data that some multinationals are not behaving in a manner consistent with improving governance in emerging economies.... A significant minority are not abiding by the recent OECD anti-bribery convention."

The link between control of corruption and financial market volatility is particularly strong in Emerging Market nations. Not surprisingly, where there is poor control of corruption there is more insider trading, and thus more volatility in the stock market. Another explanation for market volatility may be herding, in which corruption and lack of transparency lead investors to mimic each other's behavior without regard to rational expectations or hard information. This leads to wider swings one way or the other.

Reviewing the literature on the links between governance issues and Emerging Markets, Kaufmann said that in misgoverned, opaque countries there's not only a decrease in foreign direct investment, but the whole composition of investment changes—it's much more skewed to short-term and volatile capital because there's less willingness to commit for the long term. "A financial crisis when an emerging economy is liberalizing its financial market is much less likely the more transparency and better governance there is," noted the speaker. The rule of law in property rights institutions matter not only for investment growth but also for financial market development. Listening to domestic investors is the best predictor fur upcoming financial crises, he believes. In countries where there's a high percentage of misgovernance and corruption, the firms themselves say there is much greater fragility in the banking system.

There is also evidence that not only is focusing on capital market development important in understanding the governance situation in a country, but the relationship also works the other way around. Making a conscious effort to increase foreign investment can have a healthy, disciplining effect on a nation's governance as firms that are being approached for capital support often demand transparency.

In his concluding remarks, Kaufmann emphasized that governance issues can have a short-term effect on market volatility, but the more important impact is on sustained growth over a 5 to 10 year period.

Investor Panel Discusses "Abundance" in Emerging Markets

Kaufmann's presentation was followed by a panel discussion moderated by Carl Ross of Bear Stearns. In his opening remarks he recalled that at the time of the last Spring Forum a year earlier, the market was in the midst of a sell-off and most of the panelists were quite bearish. A couple of the panelists thought the returns for the remainder of 2005 (April – December) would be in the 0–2% range, well below actual returns. "It's all good, yet we continue to have a pervasive feeling of uneasiness – but everybody seems to have trouble figuring out where the risks are and what the vulnerabilities are," said Ross

Gray Newman of Morgan Stanley was invited by Ross to speak about the current atmosphere for Latin America. "We are still in the midst of abundance," he proclaimed, with abundance defined as liquidity, risk appetite, and the relationship between them. "The way I look at it is abundance is permitting the region to move in two different directions. Inflation is coming down, yields are compressing, fiscal prudence has improved, currencies are strengthening, rates are falling, and spreads are as tight as ever at the end of the Fed tightening cycle," he stated. The negative side is that Venezuela is ever-closer to a direct conflict with the U.S., poverty remains high, education levels trail East Asia, and equality remains a major issue, Newman noted.

Spring Forum (continued)

Newman declared himself "positive in the near term," chiefly because of Brazil, which has doubled reserves in the last 12 months, eliminated dollar-linked debt, brought net public external debt to near zero, and attempted to bring foreigners into local markets. "I hear people say it's all about flows coming into Emerging Markets, and I think that misses the point of what some of these countries are doing with the flows—improving duration, reducing their vulnerability to dollar obligations. But when I look 3 or 4 years farther down the road, I run into the example of Mexico," he commented, describing it as an investment-grade country which did what the market prompted it to do, and yet "half the country is still living at poverty level." Newman pointed out that abundance has been good for rates and for domestic credit. "But abundance isn't enough—and it leads to complacency," he warned. Mexico and Brazil have shown they are able to withstand negative shocks, but Newman concluded by expressing concerns that these countries will use their newfound abundance in a way that will help build conditions for sustainable growth.

Ross then requested Mike Gagliardi of HSBC Halbis to address the importance of politics and election cycles in Emerging Markets, especially Latin America. Gagliardi replied that there's always a great deal of volatility, even mayhem, surrounding presidential elections there. In some of the smaller countries, such as Ecuador and Bolivia, electoral "craziness" is irrelevant to trading, according to Gagliardi. But in the larger countries, election upheavals have a lot more impact; the political process creates economic shock.

Turning to Gray Newman's thoughts on abundance, Gagliardi noted that not only is abundance not enough, it also runs out. "It's been relatively easy to do the right thing, but we're not pricing in the obvious signals that it's not trickling down to the lower classes." He cautioned that it's only a matter of time before this abundance of liquidity starts to wane, and stated that he'll be "less sanguine" about the politics when that happens.

Ross asked Gagliardi and Newman to name the countries they considered most vulnerable due to complacency, or abundance masking underlying fundamentals. Both considered Argentina and Venezuela as the obvious candidates, despite "aggressive" pricing of their debt by the market.

The Role of Exotic Credits in EM Portfolios Discussed

Tackling the subject of less-mainstream credits, Mike Conelius (T. Rowe Price) remarked that one reason exotics are a good investment for smaller firms like his is that large firms are prevented from investing there due to capacity constraints. "Another reason is this market is expensive, even more than last year. The repricing of the majors is largely over, so if you want to add value and reduce risk in a portfolio, you need to move to some of the second-tier names," he commented. Conelius described his strategy as taking significant positions in smaller countries while generally ignoring the benchmark; he specified that basing a portfolio on current industry benchmarks is not a particularly successful strategy and called for broader indices that would combine local and hard currency debt. According to Conelius, about 45% of his investments are in non-benchmark securities, and he noted he had invested in Jamaica, Iraq and Serbia. Conelius cautioned however, that such investments must be based on fundamentals because liquidity can be an issue in smaller credits.

Ross asked Gagliardi, "our mentor and our sage in these matters," for his views on current market trends. Gagliardi joined Conelius in stressing the value of unusual opportunities such as off-the run credits, and mentioned Paraguay and Iceland as countries he had recently bought for the first time. Gagliardi also expects the CDS market to continue to grow, he stated.

Spring Forum (continued)

In searching for alpha, “we have to continue to look in every nook and cranny for opportunity, because buying a Brazil 40 or any of the other generic things—a lot of that’s done,” Gagliardi noted. He stressed that investors must look at every asset class, country, region, as well as at derivative instruments.

Risk Factors

David Spegel of ING Financial Markets was invited to discuss key risk factors in the marketplace. Spegel stressed that it’s important to distinguish between short- and long-term market risks. “In the short term, the substantial rise in US Treasury yields—the 10-year yield has risen 45 basis points in a month and a half—is a risk that hasn’t yet been priced in,” he suggested. The likelihood of a Fed fund rate rise to 5¼ by next September, the steepening of the Treasury curve, and the heavy election schedules in Latin America also constitute short-term risks.

“Contagion effects are a more serious risk for me, and more medium-term,” Spegel continued. “There are far more corporates than there ever were, and credit risks there are not as heavily monitored as they are for sovereigns—which is one reason why corporate spreads continue to trade wider than sovereigns on a ratings-by-ratings basis.” In terms of dealer risk limits, there is not much capacity to absorb the amount of corporate paper that could be unloaded on the market, which may result in some contagion risk, Spegel commented.

As for long-term risks, Spegel first observed that credit risks are improving for Emerging Markets while deteriorating for the core high-yield markets. There are two long-term risk factors that do worry Spegel. The first is a rise in protectionism, although “the fact that we have elections coming up in November may be the reason we’re hearing more protectionist rhetoric in the US; I’m not sure we’re really going to make good on the most serious threats.” For Spegel, the most serious risk to global growth is oil prices. At the moment, high prices reflect growth, particularly in Asia, rather than supply risks as they have in the past; incremental oil demand from Asian credits and average annual oil prices are almost perfectly correlated. “I would look at any threat of action against Iran, or greater production cuts in Nigeria, as a threat to global growth and to commodity prices, which would be unfavorable for EM credit, as well as for FDI movement into EM. Spegel concluded that “a rise in oil prices toward $100 per barrel, which would affect global growth and the potential for US interest rates to spike even higher than 5.5%, would pressure our asset class overall.”

The investor panelists were asked if, in light of all these risks, they were seeing anything suggesting reduced inflows into EM debt. Conelius noted that there had been some periods of outflows in his retail fund, but that on the institutional side “I am tired of writing RFPs!” Pensions, with a 10-15 year time horizon, see small declines in the markets as buying opportunities.

Gagliardi concurred, stating “The face of the world has changed since these guys started getting involved.” He then joked that when the large pension funds put a small part of their portfolios into EM debt, “we’re almost irrelevant.”

Spring Forum (continued)

Mixed Opinions on 2006 Returns

Ross asked for panelist picks over the next year. Newman opined that Brazilian interest rates could decline to 14% in 2006, and even lower by the Spring Forum in 2007. "That provides opportunities beyond the curve, in domestic names, equity markets, mortgages, accounts receivables, etc." he advised.

Conelius predicted the EMBI+ could be at 180, assuming Fed funds at 5%, oil at between $60-70 per barrel and Lula is re-elected. Recent sell-offs in assets such as NTNs and Iceland might present current opportunities; on the other hand Conelius didn't think owning Venezuelan debt would pay off in the next year. Spegel forecast that the EMBI+ would be at 190, supported by "the wall of institutional investor money that's fueled by the ongoing recycling of petrodollars and high savings in Asia, as well as the pension reforms seen across the board." Peru looked cheap to Spegel, "particularly in the 5-year portion of the curve," as does Philippine paper of the same maturity. Spegel also likes the Brazilian real, while acknowledging the potential election-related risks.

"Little to no change in the spread on the EMBI," Gagliardi predicted. However investors will still get double-digit returns on their portfolios by looking at local markets as well as EM equities and FX.

Ross offered his own forecast of an EMBI+ at 200 at year-end. "The possibility of a 5.50% or even a 6% ten-year implies a pretty flat return between now and year-end, at least in the dollar debt," he commented.

Emerging Markets in 2011?

To conclude, Carl Ross asked the panelists to make a prediction or two about how the Emerging Markets will look five years from now. Spegel speculated that global imbalances will persist, Asian surpluses will decline, savings will rise and there will have been some currency adjustments. In addition, he offered his assessment that "the IMF as we know it will not be around; it will have been restructured into something more of a research shop."

Gagliardi had an even broader take on the question: "There'll be just two 'gunslingers' left in the world, us and China….There'll be such a fight over the resources we both need, I hope it doesn't turn into anything more than just an economic struggle," he cautioned. He also admitted to pure hopefulness that sub-Saharan Africa will catch up with other emerging economies

Conelius predicted that over the next 5 years, Chavez will continue to be a problem, "though hopefully just for Venezuela" as the country's luck will run out even if oil pricing remains at high levels. Equity, as opposed to fixed income, will become even more important to smaller managers than it is now, as the large managers become overburdened with capacity, which will impinge on their performance.

Finally, tongue planted firmly in cheek, Gray Newman prophesied that "as the inevitable convergence of the two economies continues," today's discussion of Mexicans immigrating to the U.S. will be replaced by discussion of "baby boomers moving to retirement villas and health care facilities in Mexico, where the climate is better, costs are lower, and service is still possible."

EMTA Board Meeting on April 26, 2006

EMTA's second Board Meeting for 2006 was held on April 26 at the offices of J.P. Morgan Chase in New York City and Merrill Lynch in London, with the usual video and teleconferencing links.

Elected to the Board at the beginning of the meeting was Carey Lathrop (Citigroup), who replaced his colleague, Saroosh Shambayati.

In addition to reviewing EMTA's final results for 2005 (showing a surplus of approximately $205,000, as compared with a budgeted surplus of approximately $45,000) and EMTA's preliminary results for the first three months of 2006 (which appear to be were on track with the 2006 Budget, which aims for a projected surplus of approximately $110,000), the Board also reviewed EMTA's plans to hold a conference on Brazil's capital markets (see page 4) and engaged in an extended discussion of the trade settlement backlog in Venezuela's Oil Obligations and EMTA's proposed Netting Facility (see page 5).

Rodolfo Fischer, EMTA's new Director from Banco Itau, expressed his enthusiasm for the Brazil forum and commended EMTA's sponsorship of it at such an important time in Brazil's plans to increase foreign investment in its capital markets. Mr. Chamberlin noted that EMTA's sponsorship was intended to signal the importance of Brazil's local markets to the EM trading and investment community and EMTA's commitment to looking ahead to the future of EM trading and investment.

Equally important to the EM community is resolving the settlement backlog for Venezuela oil warrants. Mr. Chamberlin reported that the major dealers had made considerable progress in their intensive effort to reconcile their trading positions with each other, and were close to being able to begin to net down their claims.

Mr. Machiavelo and his senor internal legal counsel reported on the status of certain litigation brought against HSBC. Other Directors also commented on the status of claims that had been asserted against their institutions. In view of such litigation, and the increasing interest of the industry's regulators, it was the consensus of the Board that the Warrant Operations group should establish target dates as soon as possible for the completion of the netting facility. In view of the importance of resolving this long-standing and potentially contentious issue, the Board extended its discussion and deferred any action on several other pending agenda items.

The next meeting of EMTA's Board is scheduled to be held on July 6, 2006.

Bond & Warrant Trading & Settlement

Nigeria Payment Adjustment Warrants

Fails in settlements of Nigeria's Payment Adjustment Warrants ("Warrants") have also been a continuing problem, similar to the VRR fails in Mexico and the Oil Obligations fails in Venezuela. These difficulties have now become more acute with the recent increase in world oil prices, payments made on the Warrants and increase in their market value, and are unfortunately compounded by the unavailability of some settlement system position reports. Past experience with other instruments (including Venezuela's Oil Obligations) also tends to show that market-wide settlement backlogs often cannot be effectively addressed in piecemeal, but instead require market-wide solutions.

As a result, the dealer community, acting through EMTA, is engaged in developing an action plan to reduce these settlement difficulties and to clear the resulting settlement backlog. Adequate and accurate reconciliation among market participants continues to be the key to resolving disputes regarding failed Warrant transfers.

Following on the model of Venezuela, the first step in developing this plan for Nigeria is an intensive effort by the dealer community over the next several months to ensure that their trading positions are reconciled internally and with the applicable clearing firms and settlement systems. This reconciliation effort is being reviewed monthly through EMTA-hosted conference calls among its Member firms, with a view to preparing the dealer community for a netdown in the Fall.

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 Warrant transfers, so that net bilateral positions can be ascertained and settled and the reconciliation effort can be completed in a timely manner. This reconciliation process is necessary as a precondition to permit the development and implementation of any comprehensive solution (such as a global multilateral netting facility) to the settlement backlog. Though the ultimate strategy to address the overall settlement and payment backlog has not been finally decided, EMTA expects to operate a multilateral netting facility for the Nigeria Warrants as soon as substantial progress has been made on a comparable netting facility for the Venezuela Warrants.

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. As EMTA recommended on March 6, 2006:

(1) All dealers should commit appropriately sufficient resources to the effort to reconcile their trading positions internally and with their applicable settlement systems; and

(2) In the interests of an orderly market, all market participants should recognize that, until this reconciliation is substantially completed, the aggressive pursuit of individual payment and settlement claims may be counter-productive to the effort to address the overall settlement backlog.

Click Here for the full text of this EMTA Market Practice regarding the Warrants and payments thereon.

Also, to aid the market in its efforts at reconciliation, EMTA is requesting that firms send EMTA contact information (including telephone number and e-mail address) for their customers and custodians, as well as for the person(s) at their firm responsible for the reconciliation. EMTA's compiled list of such contacts will be distributed to the firms that contribute such information.

Bond & Warrant Trading & Settlement (continued)

To assist market participants in better understanding the Nigeria Warrants, and the background of the settlement and payment backlog, EMTA has prepared a Revised Primer (February 22, 2006) which includes the formula for determining the number of Warrants related to the Bonds and a history of prior payments.

* * * * *

Click Here for the Fiscal Agent's notice regarding the May 15, 2006 payment's calculation.

The Warrants came 'into the money' for the first time on November 15, 2000 and then again on May 15, 2001. The May 15, 2001 payment was made on November 15, 2001 with default interest (no separate payment was due for the November 15, 2001 period). No further payments were due until November 15, 2004. The November 15, 2004 payment was made (with default interest) on April 14, 2005 to Payment Adjustment Warrant holders of record as of March 30, 2005. The May 15, 2005 payment was made on May 16, 2005, the November 15, 2005 payment was made on time and the May 15, 2006 payment was made on May 16, 2006.

Brazil Redemption

Brazil redeemed its remaining Brady bonds on April 15, 2006. Click Here for the Fiscal Agent's notice.

Panama Redemption

Panama will redeem all of its Brady bonds (Par, Discount, Interest Reduction and PDI Bonds) on July 17, 2006. Click Here for the Fiscal Agent's notice.

Uruguay Redemption

Uruguay will redeem its Series A Fixed Rate Notes on July 2, 2006. Click Here for the Fiscal Agent's notice.

Ecuador Partial Redemption

Ecuador partially redeemed its 12% Bonds due 2012 on May 15, 2006. Click Here for the Fiscal Agent's notice.

Philippines Redemption

Philippines redeemed its Series B Interest Reduction Bonds due 2017 on June 1, 2006. Click Here for the Fiscal Agent's notice.

Lebanon

Lebanon cancelled the cash portion if its recent Eurobond Exchange Offer. Click Here for the Press Release. For a copy of the Southern District Court decision in Libancell v. Lebanon, Click Here.

Mexico VRR Payment

The March 31, 2006 payment was made to Series D VRR holders of record as of March 16, 2006, 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, 2006 payment is expected to be made to Series D VRR holders of record as of June 15, 2006, 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.)

The VRRs have been 'in the money' for the last 15 consecutive quarterly payment periods (the last time no payment was due on the VRRs was September 30, 2002).

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

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For further information, please visit the New Developments area of EMTA's website or contact Aviva Werner at awerner@emta.org or (646) 637-9110.

FX & Currency Derivatives

EMTA Issues FX and Currency Derivatives Market Practice No. 39

On May 17, 2006, EMTA issued its FX and Currency Derivatives Market Practice No. 39 which recommended an amendment to the term "Settlement Date" contained in the various template terms published by EMTA for non-deliverable FX transactions. This amendment to the language clarifies that when the Valuation Date for a transaction is adjusted, whether as a result of the occurrence of an Unscheduled Holiday or a Valuation Postponement, the Settlement Date is likewise adjusted. This change was made to all of the EMTA recommended template terms, including those jointly sponsored by EMTA, the Foreign Exchange Committee (FXC) and the Singapore Foreign Exchange Market Committee. Implementation of FX and Currency Derivatives Market Practice No. 39 involved amending the template terms for ten currencies and adding explanatory practice notes to several User's Guides. Click Here for a copy of this Market Practice.

2005 Barrier Option Supplement Updated

On May 5, 2006, the 2005 Barrier Option Supplement to the 1998 FX and Currency Option Definitions, originally published in December 2005, was updated by its co-sponsors, EMTA, ISDA and the FXC. These amendments, both of a technical nature, clarify how to incorporate the Barrier Option Definitions found in the 2005 Supplement into the documentation for a transaction, and also clarify the conventions for stating the currency pairs found in the Currency Pair Matrix which is published with the 2005 Supplement. Click Here for an updated version of the 2005 Supplement.

Update on CLP, COP and PEN Template Terms

In December 2005, EMTA posted draft documentation for CLP, COP and PEN template terms and related documentation and invited EMTA Members to comment on these drafts. Final drafts of these documents have been posted on EMTA's website and are pending approval by the FX and Currency Derivatives Working Group. When that is obtained, EMTA will issue a market practice recommending the use of these forms and they will be published in final form on EMTA's website. Click Here to see the final drafts.

Changes to Chinese Renminbi and Korean Won Rate Source Definitions

This Spring, minor changes were made to the rate source definitions for Chinese Renminbi and Korean Won that are found in Annex A to the 1998 FX and Currency Option Definitions. On March 6, EMTA issued Recommended FX and Currency Derivatives Market Practice No. 37 in respect of the Chinese Renminbi rate source definition and on April 3, EMTA issued Recommended FX and Currency Derivatives Market Practice No. 38 addressing the change to the Korean Won rate source definition. In each case, the amendment addressed a change in the expected publication or reporting time for the rate quote. Click Here for Market Practice No. 37 and Click Here for Market Practice No. 38.

NDF Master Agreement Work Continues

Discussions continue among EMTA, the FXC and The Foreign Exchange Joint Standing Committee (FXJSC) of the Bank of England regarding development of a master agreement for NDF trading. A draft of this agreement will be made available to EMTA members for review shortly.

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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.

Website Updates & Additions

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

Key Industry Views

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

- "Argentina: Quasi-Par Bonds Start Trading Today." June 2, 2006 - Igor Arsenin, Paul Fage, Donato Guarino, Linan Liu and Carola Sandy (Credit Suisse).
- "Mexico: Economic Policies and Challenges for the Next Sexenio." May 19, 2006 - Paulo Leme (Goldman Sachs).
- "EM Debt Beat Major Debt Markets Since Inception." April 19, 2006 - Jane Brauer (Merrill Lynch).
- "Success of Brady Plan Marked in Early Bond Retirements." April 6, 2006 - Matthew Cowley (Dow Jones Newswires). Posted with Permission from Dow Jones Newswires.
- "Cote d'Ivoire: If Peace Holds What Happens Next?" March 31, 2006 - Francis Beddington (Standard Bank).
- "LatAm Politics: On to the Bigger Votes." March 24, 2006 - Pablo Goldberg, Felipe Illanes, David Beker and Alejandro Cuadrado (Merrill Lynch).
- "CNY: Higher Risk of 'Loose Money' Translating to 'Loose Credit.'" March 22, 2006 - Qing Q. Wang, Steve Wang and Lawrence Goodman (Bank of America).
- "EM Issuance: Bye Bye Brady." March 7, 2006 - Elena Tulloch, Jane Brauer and Anjali Prakash (Merrill Lynch).
- "The Winter of Our Contentedness: EM Views in the EMTA London Forum." March 1, 2006 - Arnab Das (Dresdner Kleinwort Wasserstein).
- "Everyone Still Loves EM: A Report on the EMTA Winter Forum." March 1, 2006 - Agata Urbanska (ING Wholesale Banking).
- "Bondholder Litigation against Argentina Grows." February 22, 2006 - Pablo Morra (Goldman Sachs).
- "Emerging Markets as an Asset Class: New Realities." February 28, 2006 - Tulio Vera and Dany Naierman (Merrill Lynch).

New Developments

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

- June 7, 2006 - EMTA Special Seminar on "'Partial' Sovereign Restructurings and Their Implications":
  - Introductory Remarks by Michael M. Chamberlin, EMTA Executive Director
  - Featured Speaker, Lisa Schineller from Standard & Poor's, on Bringing a Sovereign Debtor Out of Default
  - Summary of Panel Discussions by Michael M. Chamberlin, EMTA Executive Director
- June 5, 2006 - EM Ltd. v. Argentina.
- June 2, 2006 - Panama to Redeem all Par, Discount, Interest Reduction and PDI Bonds - Fiscal Agent Notice.
- May 25, 2006 - EMTA Announces 1Q 2006 Debt Trading Volume Stood at US$1.631 Trillion.
- May 24, 2006 - Moody's Raises Foreign Currency Country Ceilings Reflecting Revised Methodology.
- May 17, 2006 - Holiday Schedule for EM Bond Trades for US Memorial Day and UK Spring Bank Holidays.
- May 16, 2006 - EMTA to Host a Special Seminar on "'Partial' Sovereign Restructurings and Their Implications" in New York City on June 7, 2006.
- May 12, 2006 - Special Presentation on Brazil's Capital Markets
  - Presentation by ANDIMA
  - Presentation by Banco Pactual S.A.
  - Presentation by Banco Votorantim S.A.
  - Presentation by Banco Itau, S.A.
  - Presentation by CETIP

Website (continued)

- May 12, 2006 - EMTA and ANDIMA Collaborate to Facilitate Foreign Investment in Brazil's Local Capital Markets.
- May 5, 2006 - Fitch Upgrades Dominican Republic Long-Term Foreign Currency Rating to B.
- May 1, 2006 - Fiscal Agent Notice Regarding May 15, 2006 Payment on Nigeria Payment Adjustment Rights.
- April 26, 2006 - Philippines to Redeem Interest Reduction Bonds – Fiscal Agent Notice.
- April 24, 2006 - Southern District Court Decision in Libancell v. Lebanon.
- April 24, 2006 - EMTA Summer Forum in London to be Held on July 6, 2006. Details TBA.
- April 19, 2006 - Holiday Schedule for EM Bond Trades for UK May Day Bank Holiday.
- April 13, 2006 - Venezuela to Redeem Par and Discount Series B Bonds - Fiscal Agent Notice.
- April 12, 2006 - EMTA to Hold a Special Presentation on "Brazil's Capital Markets" in New York City on May 12, 2006.
- April 12, 2006 - Press Release Issued by Lebanon's Finance Ministry Concerning Cancellation of Cash Portion of Eurobond Offer.
- April 10, 2006 - Calculations for Payments on Venezuela Oil Obligations Announced.
- April 10, 2006 - Ecuador to Partially Redeem 2012 Bonds - Fiscal Agent Notice; April 28 Record Date.
- April 7, 2006 - Southern District of New York Decision in Kensington International Limited v. Societe Nationale des Petroles du Congo, BNP Paribas, et al.
- April 6, 2006 - Texas District Court Decision in AF-Cap, Walker Int'l and Nat'l Union Fire Insurance Co. of Pittsburgh v. Congo and Congo Holdings Inc.
- April 5, 2006 - Holiday Schedule for EM Bond Trades for Good Friday/Easter Monday Holidays.
- March 31, 2006 - Ivory Coast Press Release.
- March 29, 2006 - EM Sovereign Bond Charts for Ecuador and Macedonia.
- March 28, 2006 - Venezuela Oil Obligations Record Date of March 31 and Payment Date of April 17 Expected. Trades are "Ex-Dividend" on March 29. Calculations for Payments on the Oil Obligations will be Announced by the Fiscal Agent Shortly.
- March 27, 2006 - Second Circuit Decision in Capital Ventures International v. Argentina.
- March 27, 2006 - UK Court Decision in Essar Steel Limited v. The Argo Fund Limited.
- March 23, 2006 - EMTA Spring Forum in New York to be Held on April 20, 2006.
- March 23, 2006 - Standard & Poor's Upgrades Argentina's Long-Term Rating to B.
- March 17, 2006 - Venezuela to Redeem Par and Discount Series A Bonds - Fiscal Agent Notice.
- March 17, 2006 - Calculations for Payments on Mexico VRR's, Series D, Announced and Revised Primer.
- March 8, 2006 - Brazil Redeems Remaining Brady Bonds.
- March 6, 2006 - EMTA Market Practice Recommendation regarding Nigeria Payment Adjustment Warrants.
- March 2, 2006 - Italian Bondholder Association (TFA) Announces ICSID Proceeding against Argentina (in Italian).
- March 1, 2006 - EMTA Spring Forum in New York to be Held in April. Date and details to be announced.
- February 28, 2006 - EMTA Winter Forum Sell Side Panel - Market Views on Key Variables for 2006.
- February 28, 2006 - Standard & Poor's Upgrades Brazil's Long-Term Foreign Currency Rating to BB.
- February 25, 2006 - Venezuela Announces Plans to Retire All Outstanding Par and Discount Bonds.
- February 24, 2006 - Southern District Court of NY Decisions in Suits against Argentina by Greylock, Exposito and Colella and FFI Fund.
- February 24, 2006 - German Court Decision Against Argentina: Press Release (German), Press Release (Unofficial Translation) and Judgment (Unofficial Translation).
- February 23, 2006 - Brazilian Treasury Statement on Brady Bonds.
- February 23, 2006 - New Emerging Markets-Focused Rating Agency Announced: International Ratings Group.

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 other items, 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 in specific subject matter categories 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.

Special Events

EMTA's Summer Forum Set for July 6

EMTA's Ninth Annual Summer Forum will be held on Thursday, July 6, 2006. 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 Jerome Booth (Ashmore Investment Management), Simon Treacher (BlueBay Asset Management), Arnab Das (Dresdner Kleinwort Wasserstein), Susanne Gahler (F&C Asset Management), Phil Poole (HSBC), Rob Drijkoningen (ING Investment Management), William Oswald (JP Morgan), Tulio Vera (Merrill Lynch), Amer Bisat (Rubicon) and Francis Beddington (Standard Bank).

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.

Africa Opportunities

Africa - Land of Investment Opportunities? Watch this Space! Beginning in late 2006 and throughout 2007, EMTA will be focusing on investing in Africa as we seek to highlight opportunities in what many would consider the final frontier for Emerging Markets investors. Starting with a seminar on Nigeria's local debt markets, already attracting a large number of foreign investors, EMTA will also explore investment opportunities and challenges in North Africa (notably Egypt) and the Middle East, and look broadly at how the continent can finance development in a post-HIPC world. If you would like more information or would like to recommend topics of interest for EMTA's focus on Africa, please contact Starla Griffin at sgriffin@emta.org or (44-207) 996-3165.

Special Events (continued)

New York EM Benefit Disburses $340,000 and Picks 2006 Beneficiaries

Checks representing final disbursements for the 2005 New York Emerging Markets Charity Benefit (EMCB) were issued in May 2006 to the four charities selected as the 2005 industry charity gala beneficiaries. Total disbursements equaled $339,149, nearly matching the amount of funds raised the previous year. Funds were raised by sales of tables, ads, and auction items, as well as a $101,000 donation from the MarketAxess Charity Trading Day held last September.

EMPower, the organization founded by former Emerging Markets professionals, received the largest grant, which totaled $135,660. In addition, grants of $67,830 each were awarded to ProMujer, the Resource Foundation and World Education & Development Fund.

The EMCB Benefit Committee held meetings earlier this Spring to evaluate the nine EM charities nominated as potential beneficiaries for the industry's 2006 charity gala. The Committee reviewed the annual reports and financial statements provided by the nominated beneficiaries, and selected five semi-finalists at its April 26 meeting. These semi-finalists were interviewed by the Committee on May 8, 2006.

As a result, the Committee voted to select the following four charities as 2006 beneficiaries:

- EMPower, a grassroots charity which funds a number of health and education programs around the globe www.empowerweb.org;
- NESST, which provides financial and capacity-building support to social enterprises in Central Europe and Latin America www.nesst.org;
- Trickle Up, which works to alleviate poverty by providing seed capital for people in EM countries to start small businesses www.trickleup.org; and
- Water Partners International, which works to promote health in LatAm, Africa and Asia by increasing access to safe drinking water www.water.org.

Based on the positive feedback it received, the Committee has confirmed that the 2006 Benefit will again be held at Capitale on Wednesday, December 6, 2006. Once again, the event will immediately follow EMTA's Annual Meeting.

The Committee continues to invite the participation of new members. Please contact Jonathan Murno at jmurno@emta.org or (44-207) 996-3165, if you are interested in helping plan and market the 2006 event.

Special Events (continued)

London EM Benefit Disburses £240,000

Emerging Markets Benefit, Ltd., (EMBL) the organization in charge of the London charity benefit, recently issued checks totaling £240,000 ($448,800) to four organizations working to improve health and education in Emerging Countries. The beneficiaries included Cotlands, which works with HIV/AIDS-affected children in South Africa and Task Brasil, which provides support and vocational training to street children in Rio de Janeiro. EMBL also awarded grants to SOS Children to fund education in Jamaica, and to Health Unlimited for its health and education projects in Guatemala and Peru.

EMBL Co-Chairs Elaine Skinner-Reid and Jonathan Murno both made visits to beneficiaries in April 2006. Skinner-Reid returned to Cotlands in Johannesburg, where she met with children in both the hospice and sanctuary who have benefited from EMBL's previous donations. Murno opened Task Brasil's new shelter for teenage street children in Rio de Janeiro, while also visiting the infants and pregnant teenagers Task Brasil shelters.

The EMBL committee has scheduled this year's London benefit, which will be held at the Grosvenor Hotel for Friday, October 6, 2006. Tables for ten will go on sale in late June 2006. The 910 seats for the 2005 event sold out in two business days so firms interested in attending are advised to act quickly. The event will again be sponsored by MarketAxess' Charity Trading Day, as well as by Standard Bank.

The EMBL continues to welcome new sponsors and individuals interested in working on the event. For further information, please contact co-chairs Elaine Skinner-Reid (Elaine.Skinner-Reid@rbccm.com), Emma McClintock (emma.mcclintock@bb.com.br) or Jonathan Murno (jmurno@emta.org) or (44-207) 996-3165.

Miscellaneous

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. Data for the Debt Trading Survey is collected quarterly, and 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 these purposes, 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.

EMTA Membership Update

EMTA's newest Members include:

Calyon
Clifford Chance
Elliott Associates
FH International Asset Management
Finisterre Capital
Greylock Capital
Kargman Associates
Mondrian Investment Partners
Montreux Capital Management
Natexis Banques Populaires
Pershing LLC
RBC Financial Group
Straus & Boies
TD Securities Ltd. (Toronto Dominion Bank)
Thames River Capital Inc.
TMP/Cash Craft Asset Management.

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
Argentina	Aviva Werner	(646) 637-9110
Burden-Sharing/CAC's/SDRM	Michael Chamberlin	(646) 637-9100
Clearing Corp. (LCH.Clearnet)	Michael Chamberlin/Starla Griffin	(646) 637-9100/(44-207) 996-3165
EM Benefit Events	Jonathan Murno	(44-207) 996-3165
EM Bond Charts	Aviva Werner	(646) 637-9110
EM Principles	Michael Chamberlin	(646) 637-9100
EMTA Code of Conduct	Michael Chamberlin	(646) 637-9100
EMTA Membership	Starla Griffin/Jonathan Murno/Suzette Ortiz	(44-207) 996-3165 (same for SG/JM) (646) 637-9106
EMTA Website	Suzette Ortiz/Jonathan Murno	(646) 637-9106/(44-207) 996-3165
FX/NDF's/Derivatives	Leslie Payton Jacobs/Starla Griffin	(646) 637-9103/(44-207) 996-3165
Global Equities	Bruce Wolfson (Rohatyn Group)/Starla Griffin	(212) 984-2907/(44-207) 996-3165
Investor Rights	Michael Chamberlin	(646) 637-9100
Legal/Compliance	Aviva Werner	(646) 637-9110
Loan Trading	Aviva Werner	(646) 637-9110
Local Markets	Starla Griffin	(44-207) 996-3165
Market Information/Research	Jonathan Murno	(44-207) 996-3165
Market Practices	Aviva Werner	(646) 637-9110
Market Price & Volume Data	Jonathan Murno	(44-207) 996-3165
Netting	Aviva Werner	(646) 637-9110
Paris Club	Starla Griffin	(44-207) 996-3165
Repos/Securities Lending	Aviva Werner	(646) 637-9110
Warrants/VRR's	Aviva Werner	(646) 637-9110

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
Jonathan Murno	jmurno@emta.org
Suzette Ortiz	sortiz@emta.org
Leslie Payton Jacobs	lpjacobs@emta.org
Aviva Werner	awerner@emta.org

EMTA Calendar

Thurs., April 20	**NY Spring Forum** **Bear Stearns** **383 Madison Avenue (NYC)**
Wed., April 26	**EMTA Board Meeting (NYC/London)**
Mon., May 1	Recommended Market Close (London) May Day Bank Holiday
Fri., May 12	**Brazil Special Meeting - 10:00 a.m.** **Brazil's Capital Markets** **Global Financial Markets Conference Center** **360 Madison Avenue, 17th Floor (NYC)**
Fri., May 26	Recommended 2:00 p.m. (NYC) Early Market Close
Mon., May 29	Recommended Market Close (NYC/London) Memorial Day/Spring Bank Holiday
Wed., June 7	**Investor Seminar - 12:00 Noon** **'Partial' Sovereign Restructurings And Their Implications** **Global Financial Markets Conference Center** **360 Madison Avenue, 17th Floor (NYC)**
Mon., July 3	Recommended 2:00 p.m. (NYC) Early Market Close
Tues., July 4	Recommended Market Close (NYC) Independence Day Recommended 12:00 Noon (London) Early Market Close
Thurs., July 6	**London Summer Forum** **Merrill Lynch** **2 King Edward Street (London)** **EMTA Board Meeting (NYC/London)**
Wed., July 12	**Investor Seminar - 12:00 Noon** **Roundtable Discussion: GDP-Linked Securities - The Investor Viewpoint** **Global Financial Markets Conference Center** **360 Madison Avenue, 18th Floor (NYC)**
Mon., Aug. 28	Recommended Market Close (London) Summer Bank Holiday
Fri., Sept. 1	Recommended 2:00 p.m. (NYC) Early Market Close
Mon., Sept. 4	Recommended Market Close (NYC) Labor Day Recommended 12:00 Noon (London) Early Market Close
Wed., Sept. 20	**Legal and Compliance Seminar - 12:00 Noon** **Global Financial Markets Conference Center** **360 Madison Avenue, 17th Floor (NYC)**
Thurs., Sept. 21	**EMTA Board Meeting (NYC/London)**

EMTA Calendar (cont)

Wed., Sept. 27*	**Brazil Special Meeting (London)** **Brazil's Capital Markets**
October*	**Legal and Compliance Seminar - 12:00 Noon** **Global Financial Markets Conference Center** **360 Madison Avenue, 18th Floor (NYC)**
Fri., Oct., 6	**2006 Emerging Markets Benefit (London)**
Fri., Oct. 6	Recommended 2:00 p.m. (NYC) Early Market Close
Mon., Oct. 9	Recommended Market Close (NYC) Columbus Day Recommended 12:00 Noon (London) Early Market Close
Thurs., Oct. 12*	**Investor Seminar (London)** **'Partial' Sovereign Restructurings And Their Implications**
Thurs., Oct. 19	**NY Fall Forum** **UBS** **1285 Avenue of the Americas (NYC)**
Thurs., Nov. 2*	**EMTA Far East Forum (Singapore)**
Wed., Nov. 15*	**Investor Seminar (London)** **Focus on Africa**
Wed., Nov. 15	**Legal and Compliance Seminar - 12:00 Noon** **Global Financial Markets Conference Center** **360 Madison Avenue, 18th Floor (NYC)**
Wed., Nov. 22	Recommended 2:00 p.m. (NYC) Early Market Close
Thurs., Nov. 23	Recommended Market Close (NYC) Thanksgiving Day Recommended 12:00 Noon (London) Early Market Close
Fri., Nov. 24	Recommended 2:00 p.m. (NYC) Early Market Close
Wed., Dec. 6	**EMTA Annual Meeting** **Citigroup, 388 Greenwich Street (NYC)** **2006 Emerging Markets Benefit (NYC)**
Fri., Dec. 22	Recommended 2:00 p.m. (NYC) Early Market Close
Mon., Dec. 25	Recommended Market Close (NYC) Christmas Day Recommended 12:00 Noon (London) Early Market Close
Tues., Dec. 26	Recommended Market Close (London) Boxing Day
Fri., Dec. 29	Recommended 2:00 p.m. (NYC) Early Market Close
Mon., Jan. 1, 2007	Recommended Market Close (NYC/London) New Year's Day (2007)

* **Details TBA**