EMTA

Bulletin

3rd Quarter 2003 Volume 2003: No. 3

EMTA 2003 London Summer Forum

Over 200 Emerging Markets professionals attended EMTA's Sixth Annual Summer Forum in London. Deutsche Bank hosted the Forum on Tuesday, June 17, 2003.

EMTA Vice Chair John Cleary (Invesco) welcomed attendees to the event, outlined some of EMTA's recent endeavors, including its bond documentation charts analyzing collective action clauses, and EMTA's new Volume Surveys on NDFs and Credit Derivatives. Cleary also highlighted the superior performance of Emerging Markets debt in comparison to other asset classes.

Prospects for Argentina, Turkey Debated

Jerome Booth (Ashmore Investment Management) deftly moderated the discussion, polling panelists for their opinions on the attractiveness of Argentine debt at current price levels. David Sekiguchi (Deutsche Bank) remarked that one would have to "make pretty optimistic assumptions to find value in Argentine debt." However, Sekiguchi added that the results of the Uruguayan debt exchange might augur well for a successful Argentine restructuring if the government was able to achieve a 3 to 4 ½% primary surplus.

Booth countered that he was "not convinced" that Argentina could successfully restructure in the near future because of both "the fiscal irresponsibility hard-wired into the Constitution…and a willingness and ability by the President to change the rules if they don't suit him." Booth continued that a "strong argument" could be made that it is not in Argentina's interest to undergo the restructuring process until they can alter the federal government's revenue sharing arrangement with the provinces. "Argentina's credibility, if they restructure this year and then blow up again in another three years, would be even worse," he affirmed.

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Tel. (646) 637-9100 360 Madison Avenue, New York, NY 10017 Fax (646) 637-9128
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Trade Association for the Emerging Markets

EMTA Summer Forum (continued)

As for Turkey, Arnab Das (Dresdner Kleinwort Wasserstein) affirmed that Turkey had “three anchors;” its relationships with the US and with the IMF and the prospect of EU accession. Recent performance has not been “particularly encouraging, but nevertheless they have managed to keep it together,” according to Das. However, he remained concerned by the domestic debt situation. Das argued that the US will continue to be an advocate for Turkey vis-à-vis the multilateral institutions, but that its support will be tempered.

Alex Garrard (UBS Investment Bank) acknowledged he was more bearish. “Without a Herculean effort on the structural reform front, I don’t see how fiscal targets and growth targets that are required as a minimum for debt sustainability are remotely compatible,” he commented.

Panel Reflects on Last Year’s Pessimism on Brazil

Sell-Side speakers also reflected on the strongly negative sentiment concerning Brazil expressed at the previous year’s Summer Forum. Larry Brainard (WestLB) reasoned that the market had failed to recognize the fact that the local market was financeable as long as funds did not flow out of Brazil, the Central Bank was successful in rolling over local debt, and the local bid remained strong (with Brazilian investors quickly adopting a constructive view of the new Lula government).

Das commented that the failure lay not in economic analysis but in political analysis, and a misperception that a Lula victory would lead to a “wholesale change of economic policies and a dramatic shift to the left.” The market failed to foresee that Lula would steer Brazil to the center, as “the mainstream of Brazilian politics is not on the hard left but in the center of the political spectrum.”

Booth opined that the most interesting aspect of the Brazilian events of last year was that, in contrast to what one might expect, a widely-discussed Brazilian meltdown was “a self-fulfilling prophesy that actually didn’t pan out.” Normally, Booth pointed out, “If 95% of Wall Street thinks a country is going to go, then it is going to go.” The fact that Brazil was “too good a credit to actually collapse” was a positive lesson for the market, according to Booth.

Sekiguchi conceded that the adjustment of balance of payments - not only reducing the current account deficit but also reducing it without generating a major recession - demonstrated that the economy was more flexible than he had believed, and marked an important economic development.

The panel also touched on a number of additional topics, such as new capital inflows (Booth declared the pipeline remained “huge”), rumors of a Mexican credit upgrade, and panelist opinions on general changes in the market over recent years (with Brainard and Das stressing the greater diversification of the market and reduced risk of contagion).

EMTA Summer Forum (continued)

Mark Franklin (Citigroup Investments) prefaced his sixth consecutive moderation of the London investor panel with an observation that the previous panel seemed to believe that the market would continue to rally, given the caveats of Argentina and Turkey. However, he voiced skepticism that the market could continue to outperform as it had in previous months.

Brazil Still Likely to Outperform…but not at Previous Rates

Following the sell side comments on Brazil, Franklin sought investor opinions on Brazilian risks in a low growth scenario, noting recent progress on financial, tax and pension reforms, while also underscoring the country's previous reliance on FDI and cautioning that such flows were unlikely to support the country this year. Michael Sonner (DIT, and also an EMTA Board Director) doubted that Brazilian assets could return another 20%, but affirmed that Brazil remains an important part of his asset strategy and that Brazilian debt would still outperform. The Lula administration surprised critics on the upside, Sonner noted, and the "locals have really come back...and are giving strong support." Brett Diment (Deutsche Asset Management) found more value in local instruments and NDFs (the real is still "extremely undervalued," he opined) but he remained "indifferent" on external debt issues. Diment forecast an aggressive rate-cutting stance by the COPOM, down to "around 18%" in 2003.

Simon Treacher (Blue Bay Asset Management) remarked that, just as some analysts had become overly sanguine with their predictions for Brazilian GDP in the past, now they might have become too pessimistic in their outlooks. He suggested that investor confidence in the previous economic team might have also been overstated. Treacher speculated an investor could still reasonably expect a contraction of 100 bps in Brazilian paper. AIG Investment Management's Monika Machon echoed positive sentiment on Brazil and seconded Diment's prediction that the COPOM would aggressively lower rates.

Investors Lack Confidence in Turkey

As for Turkey, Treacher dismissed talk of the Turkish convergence trade as "complete and utter nonsense," commenting that Turkish accession to the EU is not likely to happen in the foreseeable future. Machon quipped that if she "could forecast Turkish bond movements, I could probably retire." Turkey has surprised the market on the upside but further upside seemed limited as leaders seem to be pursuing conflicting policies, she commented, while acknowledging possible "noises, and maybe even action" on privatization and IMF reforms. Machon acknowledged that although she did not forecast massive tightening, she would be uncomfortable not owning Turkish debt.

Sonner described Turkish debt as fairly priced due to the number of potential risks; there would probably not be a ‘'disaster" but support for the debt was mainly based on geo-politics which were not enough of a reason for him to buy. "At the end of the day, the IMF and Turkey will reach an agreement" but not before there is a lot of "playing politics," Sonner predicted. Sonner noted he was avoiding Turkish debt.

EMTA Summer Forum (continued)

Panelists Assess Argentina, Venezuela and Philippines

Treacher scoffed at Argentine debt prices, saying the market was incorrectly pricing in "primary surpluses that have never been achieved before, and will probably never be achieved." He stressed, "Personally I don't buy the story" and commented that he preferred debt that paid coupons to work-out situations. Machon concurred that most investors prefer to receive coupons rather than the unknown of a credit restructuring. "I am not a buyer of Argentina here," stated Machon, who conceded that recent talk of a faster-than-expected restructuring offer might prove her wrong. "I still don't like it," she concluded.

According to Diment, the Street is placing too much emphasis on Argentine politics and should be focusing more on economics. Diment argued that Argentina should not be treated as a basket case economy, "it has a lot of human capital, a lot of infrastructure, and a cheap real exchange rate" and Argentines have massive amounts of cash offshore and in mattresses. Sonner remained skeptical on Argentina, citing the continued issue with tax revenue sharing. "The trends do not look so compelling," he cautioned.

Venezuela is "by far the cheapest credit out there by a long, long way," according to Treacher who admitted it had not been the greatest trading credit over the past year. Diment was positive on Venezuela as well, saying owning both Argentina and Venezuela is not especially risky due to their low cross-correlation. Sonner confirmed he was shunning the credit because of the plethora of "open questions" regarding the country's future direction as well as oil prices and the need for fiscal adjustment.

Franklin also solicited panelist comments on Philippine debt. Diment replied that relative to its credit fundamentals, the Philippines was "trading tight", but recent tax revenue and fiscal deficit numbers were better than expected. Sonner observed that portfolio managers wishing to diversify into Asia were often led to Philippines as countries such as South Korea may not be considered "pure Emerging Markets countries," yet it was not attractive to him at current levels.

Franklin concluded the panel with a comment that, while the amount of money under management in the EMs has skyrocketed over the past decade, liquidity in the trading market has not. He warned that he fears he has recently seen "Christmas future" appear in three instances: upon return from the Milan IADB meetings, he informed the audience, two of three dealers declined to quote $500 million in Turkish 2030 bonds for him at 3 pm; a 12-day rally of 12% in the Brazil 2040 subsequently gave up 70% of the rally in two days; and generally there is an inability to get large quotes on "non-generic assets." Franklin cautioned that this suggests that any event that "sets the market off – rate rises, a lack of economic growth or door number three," could significantly raise risk premia.

EM Debt Trading at Highest Quarterly Level in Five Years

Second Quarter 2003 EM Debt Trading Volume at US$1.086 Trillion

Emerging Markets debt trading volume reached its highest quarterly level in five years, standing at US$1.086 trillion for the second quarter of 2003, according to EMTA's Second Quarter 2003 Debt Trading Volume Survey. The quarterly trading figure was the highest since participants reported trading $1.391 trillion in the second quarter of 1998, prior to the August 1998 Russian crisis, which resulted in a sharp drop in Emerging Markets debt trading.

Volume levels increased 29% from the US$839 billion in the first quarter of 2003 and by nearly the same percentage from the $841 billion in the second quarter of 2002. Survey participants reported increased trading across the board in Emerging Markets assets, with few exceptions, most of which were issues from investment-grade rated Asian countries.

Jonathan Bayliss, Managing Director and Global Head of Quantitative Strategy at J.P. Morgan, attributed the sharp increase in second quarter bond trading to a number of factors. "The prolonged rally earlier this year had encouraged greater participation from tactical asset allocators and momentum investors; however, many of these investors were shaken out by the increased volatility in the market in May and June," he commented. Bayliss also noted that trading volume had been pushed upwards by increased trading by hedge funds, the closure of several CBOs, large inflows from new investors prompting greater demand for Emerging Markets assets, and a surge in Eurobond issuance at the end of the quarter, with "the highest issuance of B and BB assets in two years."

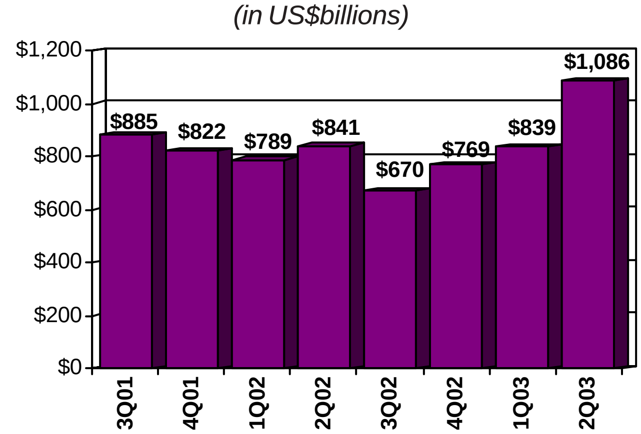
Mexican Debt Trading at US$331 Billion, Up 24% from First Quarter

Leading the pack for the eleventh consecutive quarter was trading in Mexican debt instruments, at US$331 billion, up 24% from US$266 billion in the first quarter. More than three-quarters of Mexican volumes were composed of trades in local Mexican treasury instruments, including Pagares (US$164 billion) and Bondes (US$58 billion). Trading in the country's sovereign Eurobonds totalled US$60 billion, a 47% increase from US$40 billion in the first quarter. Mexico's Brady Bonds, making their penultimate appearance in the Survey before the last remaining issues were redeemed on July 28, accounted for less than US$2 billion in volumes.

Trading in Brazilian debt, the second most frequently traded assets, rose 58% to US$269 billion, from US$170 billion in the previous quarter, and rose 18% compared with the US$228 billion Survey participants reported in the second quarter of last year. Brazil's C-Bonds remained the most frequently traded individual bond, with volume increasing 17% to US$84 billion, vs. US$72 billion in the first quarter, although turnover actually decreased 18% compared to second quarter 2002 volume of US$102 billion. Brazilian sovereign Eurobond volumes were up 150% on a quarter-on-quarter basis to US$90 billion from US$36 billion, with Survey participants reporting US$22 billion in Brazil's 2040 bond (vs. US$8 billion in the first quarter).

Aggregate Trading Volume

(in US$billions)



EMTA Volume Survey (continued)

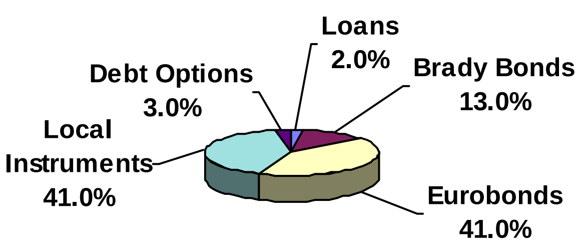
Participants also reported a 145% quarter-on-quarter increase in volume in Argentine debt instruments, at US$17 billion vs. US$7 billion. Analysts attributed some of this volume to increased speculation concerning the timing of an Argentine debt rescheduling.

Eurobond Volumes Up 60% to US$443 Billion

Aggregate Eurobond trading surged 60% to US$443 billion, from US$276 billion in the first quarter, and exceeded overall local instrument trading for the first time in over three years. Eurobond volumes accounted for 41% of overall trading in the second quarter (vs. 33% in the prior three months), with sovereign issues composing 80% of total Eurobond turnover. Russia's 2030 Bond was the most frequently traded individual Eurobond, with US$35 billion in volume, followed by the Brazil 2040 Bond and Turkey 2030 Bond (US$13 billion).

Local instrument trading totaled US$440 billion, a 9% increase over first quarter volume of US$405 billion. Local market instruments also accounted for 41% of volumes. In addition to Mexican local instruments, Survey participants also reported trading US$37 billion in South African local instruments, US$23 billion in Hong Kong local issues, and a similar amount in Polish local treasuries.

Volume by Type of Instrument 2Q 2003



Trading in Brady Bonds stood at US$143 billion (representing 13% of volumes), options US$36 billion (a 3% share) and loan instruments US$24 billion (2% of volume).

65% of volumes consisted of Latin American debt instruments, with 13% each in Eastern European and Asian instruments. African trading accounted for 5% of turnover, and 4% of trading was in Middle Eastern assets.

Inflows Remain Strong, But on Smaller Scale

Bayliss believes that inflows into the asset class will remain strong in the third quarter of 2003, but on a lesser scale than during the second quarter. "In particular, I expect a decline in mutual fund inflows," he predicted.

For a copy of EMTA's Second Quarter 2003 Debt Trading Volume Survey, please contact Jonathan Murno at jmurno@emta.org or at (646) 637-9105.

Second Quarter 2003 EM NDF and Credit Derivative Volumes Double

Volumes in Emerging Markets Non-Deliverable Forwards (NDFs) and Credit Derivatives rose strongly in the second quarter of 2003, according to Surveys released by EMTA on August 18, 2003. Survey participants reported trading US$320 billion in NDFs, an 84% increase from the US$174 billion reported in the first quarter. In addition, US$49 billion of Credit Derivative volume was reported, an increase of 111% from first quarter trading of US$23 billion.[1]

Dramatic Rises in Several Latin NDF Markets

In EMTA's NDF Survey, market participants reported trading of at least double their first quarter volume in more than half the currencies surveyed. Increases in Peruvian Sol (US$8.5 billion) and Colombian Peso (US$5.9 billion) volume were most dramatic, with quarter-on-quarter volume surges of nearly 2400% and 1700%, respectively.

Volumes in several Asian currencies were comparatively weaker, but with several showing volume increases of approximately 20%. Volumes in two NDF traded currencies-the Indonesian Rupiah and Venezuelan Bolivar-declined.

South Korean Won NDFs remained the most frequently traded NDF, with US$109 billion in volume in the second quarter (vs. US$86 billion in the first quarter). Survey respondants also reported trading US$65 billion in Brazilian Real NDFs and US$49 billion in Chilean Peso NDFs.

NDFs are synthetic forward contracts for currencies that foreign investors are not able to settle in local forward markets due to illiquidity or regulatory, transferability or other restrictions. Unlike a conventional forward, an NDF is normally settled in US dollars, based on the difference between the contracted NDF forward rate and the prevailing spot rate, and involves no physical exchange of the underlying currency at maturity.

[1] EMTA's NDF and Credit Derivatives Surveys were initiated in the First Quarter of 2003, based upon volume reports from 18 and 22 Survey participants, respectively. For the Second Quarter, reports were received from 21 and 22 participants, respectively. Thus, a portion of the significant increase in volumes in the NDF Survey was due to the addition of new Survey participants, while there was some variation in the firms which participated in both Credit Derivatives Surveys. Accordingly, while the basic credibility of the Surveys' results is increasing, specific comparisons between time periods may not yet be wholly valid.

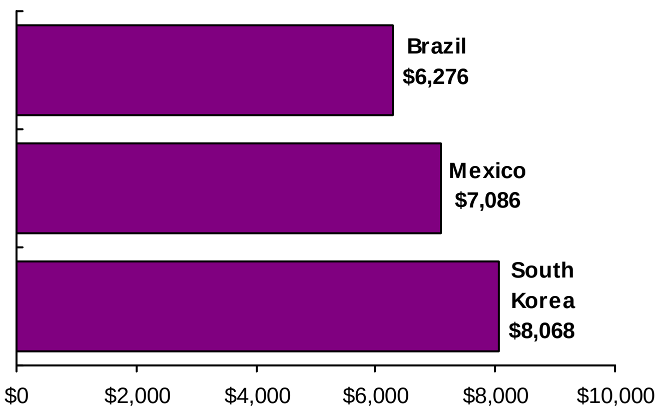
EM NDF and Credit Derivatives Surveys (continued)

Credit Derivatives Market Buoyed by New Investors, New Index

Emerging Market Credit Derivative volumes increased almost without exception in the second quarter. South Korea dominated this market as well, with participants reporting US$8 billion in transactions, followed by US$7 billion in Mexican Credit Derivatives, and US$6.3 billion in Brazilian instruments.

EM Credit Derivatives

(in US$millions)



Jonathan Bayliss, Managing Director and Global Head of Quantitative Strategy at J.P. Morgan, noted that the Credit Derivatives market is "broadening out, with more real money managers doing their first-ever Credit Derivatives trades." Bayliss added that investment managers are using Credit Derivatives to reduce their US interest rate exposure while maintaining their spread duration exposure, and volume has picked up because of the increased volatility in the US Treasury market.

Market participants also cited the recent launch of the EMDI Credit Default Index (since renamed as the TRAC-X EM) has given investors a new tool with which to take directional market views. Bayliss admitted that the unveiling of the EMDI triggered "more trading activity than we had expected."

EMTA's NDF Survey covered trading in 14 currencies by 21 major international broker-dealers, banks and investors. Its Survey on the Credit Derivatives market includes trading in 40 countries by 22 market participants.

For a copy of EMTA's Second Quarter 2003 NDF and Credit Derivatives Trading Surveys, please contact Jonathan Murno at jmurno@emta.org or at (646) 637-9105.

EM Code of Conduct Proposed to Supplement CAC's

This past winter, EMTA and a group of six other financial trade associations (EMCA, IIF, SIA, TBMA, IPMA and ISMA) proposed a Marketable Bond Package, which included model collective action clauses (or CAC's), as well as a draft proposal for a 'Code of Conduct' for Emerging Markets debtors and creditors and official sector institutions such as the IMF. The Package was intended as a market-friendly alternative to the IMF's Sovereign Debt Restructuring Mechanism (SDRM), which was proposed by the IMF in November 2001 in their effort to involve private sector creditors 'more effectively' in the resolution of financial crises in the Emerging Markets. In the past six months, many Emerging Markets countries (led by Mexico, and now including Brazil, South Korea, South Africa, Uruguay, Belize and Venezuela) have issued bonds with NY-law CAC's that in some respects are less investor-oriented than the marketable CAC's included in the trade association Package. Nevertheless, these bond issues have been generally well-received by the marketplace.

EMTA has worked to develop a form for summarizing the terms of CAC bonds (the form was included in the Marketable Bond Package) based upon IPMA's existing architecture for the launch of new issues in the Euromarkets, and has prepared and posted a number of the completed summaries on its website. Even a quick review of these summaries shows significant variations in the terms of CAC bonds issued to date. Among these variations, the percentage vote necessary to amend payment terms ranges from 75% (the % recommended in the mid-2002 G-10 report (or 'Quarle's report') and adopted by Mexico) and 85% (essentially the % recommended in the Marketable Bond Package and later used by Brazil and Venezuela). Various factors (ease of interpretation, e.g.) may support a trend toward greater uniformity in CAC terms, but others (such as differences in credit quality) may justify the maintenance of certain variations, or 'tiers'.

Various members of the official sector (as exemplified by several proposals made by the Banque de France) continue to support the development of a Code of Conduct to supplement CAC's as part of their broader effort to bring what they believe would be 'greater order' to the resolution of sovereign debt crises. Others (perhaps including US Treasury), as well as various debtor countries, seem skeptical or at least reserved in their support for the development of a Code of Conduct. At this point, the private sector itself appears to encompass a wide spectrum of views about whether a Code of Conduct is desirable or practical (ranging from hostility (the Code is a 'backdoor' SDRM), through suspicion to cautious support to outright championing). Over this past summer, there has been some confluence of the Banque de France and Marketable Bond Package proposals, and IIF has been leading an effort to determine whether agreement can be reached on the broad principles for such a Code. A series of meetings (hosted variously in recent months by the Bank of England (June in London), Banque de France (late July in Paris) and IIF (early September in NYC)) have resulted in a general outline of some basic parameters, but also have sharpened the focus on several important differences of opinion.

There appears to be a fragile working consensus that a voluntary Code that clarifies the roles and describes the expectations and prescribes some 'best practices' for the debtor countries, the official sector and various components of the private sector could bring a measure of greater transparency and certainty to the prevention and resolution of financial crises in the Emerging Markets. Despite several drafting efforts, various disagreements about breadth, substance and details have thus far prevented preparation of anything that purports to represent a consensus view of what such a Code should look like. The series of meetings intended to further explore these issues is expected to continue, with the next one scheduled to occur contemporaneously with the upcoming gathering of finance officials and market participants in Dubai in late September.

EM Code of Conduct Proposed to Supplement CAC's (continued)

Thus far, EMTA has cautiously supported these efforts to develop a voluntary Code of Conduct, in part because of its potential value in clarifying expectations and in part because of the lurking possibility of an involuntary alternative. Accompanying this cautious support has been a sense (at least on the part of EMTA's executive director) of skepticism about whether the effort to develop a Code of Conduct will in fact ever come to fruition or, if it does, bring any practical benefits to the marketplace. A third consideration that has led to EMTA's somewhat reluctant participation in the process of developing a Code of Conduct has been the appreciation that EMTA should be very careful about devoting substantial resources to a project that seems so abstract, amorphous and time-consuming.

Unfortunately, the same factor that makes such a Code most desirable (the apparent gulf in expectations between debtor countries, the official sector and the private sector regarding each other's behavior in preventing and resolving crises) is the same reason that seems to make it unlikely that such a Code can be successfully developed. Also complicating the consensus-building effort is the obvious need for any such Code to be not only voluntary, but also flexible enough to accommodate a case-by-case approach to resolving differing financial crises.

Most recently, EMTA's executive director has advanced the following positions regarding any Code (as personal views only):

(1) The primary emphasis of any Code should be on crisis prevention, an area that deserves continuing attention and is of potentially greater benefit to the marketplace.

(2) In any prescriptions regarding crisis resolution, it would be useful to distinguish between a pre-default scenario, where a better case can be made for giving the debtor more flexibility in dealing with its financial situation, and post-default, where non-payment alone seems to justify imposing more structure on the procedures for clearing up the default and resolving the sovereign's financial crisis. This distinction may help reinforce the proper incentive to avoid, rather than need to cure, a default.

(3) Even in the post-default scenario, it may be too difficult to develop a consensus regarding definitive rules to guide a sovereign's response to a financial crisis best addressed on a case-by-case basis. Better than a counter-productive effort to prescribe substantive rules in a vacuum, it may be preferable to focus on the framework for the process that should be followed to allow an appropriate case-by-case approach to be developed and implemented by the debtor country and its creditors.

(4) One important procedural guideline that should be explored that would help ensure a more level playing field after a substantial payment default has occurred, is to articulate as best practice that a debtor country should then (if it has not already) recognize an appropriate creditor committee. Such recognition should include a satisfactory expense reimbursement arrangement, but need not mandate any specific prescription about whether that committee is a negotiating or consultative body. Any such specific role should be left for determination on a case-by-case basis by such committee and the debtor country.

For further information regarding this area, or to provide your input, please contact Michael M. Chamberlin at mchamb@emta.org or (646) 637-9100.

FX & Derivatives: NDF Update

Brazil

EMTA continued its review of the current BRL NDF template architecture into the summer, culminating in the delivery on August 14, 2003 to the market of a proposal to address the possibility (admittedly more remote than it seemed last year) of a long-term market closure in Brazil. The elements of the proposal include

- retaining BRL PTAX (BRL09) as the first Settlement Rate Option,
- adding Price Materiality as another Disruption Event,
- adopting as the first Disruption Fallback Settlement a new EMTA BRL Industry Survey Rate, adopting Valuation Postponement as the second Disruption Fallback (with a maximum of 30 days of postponement),
- adopting as the third Fallback Disruption a new EMTA BRL Indicative Survey,
- retaining Calculation Agent Determination as the final Disruption Fallback, and
- including New York City and any of Sao Paulo, Brasilia or Rio de Janeiro as Relevant Cities for determining a Business Day for Valuation Date purposes.

The EMTA BRL Industry Survey contemplates a twice-daily polling of onshore dealers, weighting the results of the two polls differently in the calculation of the rate, in an effort to approximate the PTAX rate as closely as possible while the new EMTA BRL Indicative Survey largely reflects the Argentine Indicative Survey.

Latin America - General

On June 23, 2003, EMTA published its NDF Market Practice No. 32, which recommended that the market uniformly extend the “Drop-dead Date” of 8 days then existing in most NDF/NDO contracts to the longer 30-day deferral period for NDF and NDO transactions across all NDF-traded currencies in Latin America. This Market Practice harmonized all other NDF-traded currencies in Latin America with the ARS and VEB models. These additional currencies included the Brazilian Real, Colombian Peso, Chilean Peso and Peruvian Sol. To implement this, EMTA sponsored a protocol for its Members inviting them to sign on to a multilateral amendment to implement this provision. Market response was favorable and a current list of signatories to the multilateral amendment can be seen by EMTA members at Standard Documentation, FX/Derivatives Documentation, Institutions Signing Multilateral Amendment Agreement Effective June 23, 2003.

Activities and Services

Rate Quotation Information

EMTA currently provides its members access to primary and/or back-up rate quotations for the Russian Ruble (in conjunction with the CME) and for ARS/USD. Click on Activities and Services, Market Data for this information.

NDF Market Practices

Members Only requiring further or background information in the NDF area generally may review the applicable Market Practices in the NDF Market Practices area of EMTA’s website.

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

Bond & Warrant Trading & Settlement

Mexico Bond Redemption

On July 28, 2003, Mexico redeemed its entire remaining outstanding principal amount of Collateralized Fixed Rate Bonds due 2019 (LRA, SSF and DGU Par Series) at par, plus accrued interest to the Redemption Date. The Bonds, together with their attached Value Recovery Rights, Series G through Q, have been cancelled (the Series B-F VRR's were not subject to the redemption because their Separation Dates had already passed and they had become detached from the Bonds; the Series A VRR's expired on June 30, 2003). With this redemption, Mexico became the first country to retire all of its Brady bonds. Click Here for the Redemption Notice.

Mexico VRR Payment

The June 30, 2003 payment was made to Series A VRR holders of record as of June 13, 2003, and EMTA recommended that trades be settled 'ex-dividend' on June 11. Click Here for the Fiscal Agent's notice regarding the VRR payment's calculation.

The September 30, 2003 payment (if any) is expected to be made to Series B VRR holders of record as of September 15, 2003, and EMTA recommended that trades be settled 'ex-dividend' on September 11. Click Here for the Fiscal Agent's notice regarding the VRR payment's calculation.

Numerous claims among market participants for this payment, as well as for previous payments, are expected.

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

Venezuela Buyback

Following in the footsteps of Mexico, on July 30, 2003, Venezuela announced that it would purchase approximately $3.8 billion of its outstanding Brady bonds. Click Here for the Venezuela Press Release.

Iraq

The Office of Foreign Assets Control of the U.S. Treasury has issued an interpretative guidance on the trading of Iraqi commercial or sovereign debt. Click Here for the OFAC Guidance.

Argentina and Brazil Bonds

EMTA has previously distributed Primers on Argentina USD Par and Discount Bonds and on Brazil's most heavily traded Brady Bonds (Par and Discount Bonds, C-Bonds, EI Bonds and Debt Conversion Bonds).

The Primers detail principal and interest payment terms; release of interest collateral provisions; redemption and repurchase provisions; cross-default and cross-acceleration provisions; and provisions relating to bondholder meetings (including minimum percentage requirements necessary to change non-payment terms).

Click Here for the Argentina Primer and Click Here for the Brazil Primer.

The Fiscal Agent has notified holders that no collateral is remaining for interest payments on Argentina's Par Bonds (including the May 31, 2003 interest payment). Click Here for the Fiscal Agent Notice.

On September 2, 2003, the Fiscal Agent announced that the 25% voting threshold had been met to release interest collateral to pay the May 31, 2003 interest payment on the Argentina USD Discount Series L Bonds. Click Here for the notice of the Fiscal Agent's request to FRBNY, as Collateral Agent, for the release of interest collateral on the Discount Bonds. The Fiscal Agent set September 18, 2003 as the new Record Date and September 25 as the new Payment Date for the interest collateral proceeds on the Bonds.

Bond & Warrant Trading & Settlement (continued)

Venezuela Oil Obligations and Nigeria Payment Adjustment Warrants

Fails in settlements of Venezuela's Oil Obligations and Nigeria's Payment Adjustment Warrants (collectively, "Warrants"), which accompany their respective Bonds, have been a continuing problem, similar to the VRR fails in Mexico.

Adequate and accurate reconciliation among market participants continues to be the key to resolving disputes regarding failed Warrant transfers.

Market participants are strongly encouraged to continue their efforts to reconcile internally and with their counterparties their individual accumulated failed Warrant transfers, so that net bilateral positions can be ascertained and settled. In addition, EMTA encourages EMCC members to work with EMCC in pairing off as many failed trades as possible so that any buy-ins of those failed trades can be executed for much lower net Warrant trade amounts.

Click Here for EMTA's Primer on Venezuela's Oil Obligations, including the formula for determining the number of Oil Obligations related to USD Par and Discount Bonds. No payments have yet become due on the Oil Obligations.

Click Here for EMTA's Primer on Nigeria's Payment Adjustment Warrants, including the formula for determining the number of Payment Adjustment Warrants related to Bonds and a history of prior payments.

As of publication date, the May 15, 2003 Payment Adjustment Warrants payment had still not been made to holders of record as of April 30, 2003. Click Here for the Fiscal Agent's Notice regarding the payment's calculation.

Numerous claims among market participants for this payment (when and if made), as well as for previous payments, are expected.

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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.

E M T A

Bulletin

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 noteworthy industry topics. In recent weeks, EMTA has made the following additions to the Key Industry Views area of EMTA's website:

- "Restructuring Sovereign Debt: The Case for Ad Hoc Machinery." September 15, 2003 - Lex Rieffel (Brookings Institution Press).
- "The Class Action Threats to Sovereign Workouts." July 2003 - Whitney Debevoise and David Orta (Arnold & Porter). Posted with permission of International Financial Law Review.
- "Brazil's Current Policy Mix Must Be Backed by Structural Reform for Growth Prospects to Strengthen." July 25, 2003 - Lisa M. Schineller and Helena Hessel (Standard & Poor's).
- "Credit Quality Continues to Improve in Emerging Markets." July 23, 2003 - Dianne Vazza and Devi Aurora (Standard & Poor's).
- "Beware the Conventional Wisdom about the Market Outlook." June 25, 2003 - Larry Brainard (WestLB). Commentary on EMTA's 2003 Summer Forum in London.
- "International Financial Crises: Challenges Remain in IMF's Ability to Anticipate, Prevent, and Resolve Financial Crises." June 16, 2003 - General Accounting Office.

New Developments

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

- September 19, 2003 - EM Sovereign Bond Documentation Chart for Venezuela.
- September 18, 2003 - District Court Decisions in EM Ltd. vs.The Republic of Argentina.
- September 16, 2003 - Calculations for Payments on Mexico VRR's, Series B, Announced.
- September 15, 2003 - EMTA Annual Fall Forum in New York City to be Held on October 9, 2003.
- September 15, 2003 - Effective September 12, 2003 The Bank of Thailand Imposes Capital Controls in Respect of the Thai Baht.
- September 15, 2003 - "Restructuring Sovereign Debt: The Case for Ad Hoc Machinery." September 15, 2003 - Lex Rieffel, Study Funded in Part by EMTA and IPMA.
- September 3, 2003 - Citibank, as Fiscal Agent, Requests FRBNY, as Collateral Agent, to Release Interest Collateral on Argentina's USD Discount Series L Bonds. Record Date of September 18 and Payment Date of September 25 Expected.
- August 28, 2003 - Argentina's INDEC Releases Reports on Super Market Sales, Shopping Center Sales and Construction Activity.
- August 25, 2003 - EM Sovereign Bond Documentation Charts for Brazil and Guatemala.
- August 20, 2003 - Invitation and Booking Form for Emerging Markets Benefit Dinner to be Held in London October 2, 2003.
- August 19, 2003 - Emerging Markets Benefit Limited Announces Plans to Revive London Charity Dinner for Emerging Markets Debt Industry.
- August 18, 2003 - EMTA 2Q 2003 NDF Volumes at US$320 Billion; Credit Derivatives at US$49 Billion.
- August 18, 2003 - Fiscal Agent Notice that No Collateral Remains for Interest Payments on Argentina's Par Bonds (Including May 31, 2003 Interest Payment).

EMTA is paperless.
Visit
www.emta.org
for the
latest information.

New Developments (continued)

- August 15, 2003 - EMTA Recommends Early Close Today at 9:30 am (NYC time).
- August 15, 2003 - EMTA Expects NYC Trading Market to be Open Today Despite Power Outage.
- August 14, 2003 - EMTA Announces 2Q 2003 Debt Trading Volume Stood at US$1.086 Trillion.
- August 14, 2003 - Brady Bond Holiday Schedule for UK Summer Bank Holiday and US Labor Day.
- August 8, 2003 - Argentina's INDEC Releases Reports on Consumer Price Index and Basic Food Index (July 2003).
- August 7, 2003 - Mexico VRR, Series B, Record Date of September 15 and Payment Date of September 30 Expected. Trades are 'Ex-Dividend' on September 11. Calculations for Payments on the VRR's will be Announced by the Fiscal Agent Shortly.
- August 4, 2003 - EMCC Temporary Rebate.
- August 1, 2003 - Argentina's AFIP Releases Report on Tax Collection (July 2003).
- July 31, 2003 - Argentina's INDEC Releases Report on Employment and Poverty Statistics (May 2003).
- July 31, 2003 - Argentina's INDEC Releases First Half 2003 Foreign Trade Statistics.
- July 30, 2003 - Venezuela BuyBack of Brady Bonds.
- July 24, 2003 - Argentina Releases National Treasury Accounts (June 2003).
- July 18, 2003 - Treasury's OFAC Issues Interpretive Guidance on Trading of Iraqi Commercial or Sovereign Debt.
- July 18, 2003 - Argentina's INDEC Releases Economic Activity Index (June 2003).
- July 17, 2003 - EM Sovereign Bond Documentation Chart for Morocco.
- July 7, 2003 - Argentina's INDEC Releases Consumer Price Index and Basic Food Index (June 2003).
- July 1, 2003 - Citibank Clarifies No Principal Payment on Mexico VRRs, Series A, Expired on June 30, 2003.
- July 1, 2003 - Argentina's INDEC Releases Report on Tax Collection (June 2003).
- June 27, 2003 - Argentina's INDEC Releases Report on 1Q 2003 Balance of Payments.
- June 27, 2003 - Argentina's INDEC Releases Reports on Supermarket Sales, Shopping Centers Sales and Construction Activity.
- June 26, 2003 - Argentine Ministry of Economy Issues Communiqué to Its Creditors.
- June 25, 2003 - Argentina's INDEC Releases Report on Economic Activity Index (May 2003).
- June 23, 2003 - EMTA publishes its NDF Market Practice No. 32 extending the "Drop-dead Date" from 8 to 30 days for Non-Deliverable FX and Currency Option Transactions in Various Latin American Currencies. Members Only can view this NDF Market Practice by Clicking Here.
- June 19, 2003 - Brady Bond Holiday Schedule for US Independence Day Holiday.
- June 19, 2003 - Argentine Ministry of Economy Releases Report on First Quarter 2003 GDP.
- June 18, 2003 - EM Sovereign Bond Documentation Charts for Belize and Ukraine.
- June 16, 2003 - Calculations for Payments on Mexico VRR's, Series A, Announced.
- June 16, 2003 - Mexico's Ministry of Finance Announces It Will Call LRA, SSF, DGU and DMK Par Bonds. (Mexico Becomes First Country to Retire Entire Brady Issuance.)
- June 12, 2003 - EMTA's Second Quarter Bulletin is Now Available in our Bulletin Section.
- June 12, 2003 - EM Sovereign Bond Documentation Charts for Brazil and Mexico.

New Book on Restructuring Sovereign Debt

EMTA is pleased to announce the release of "Restructuring Sovereign Debt: The Case for Ad Hoc Machinery" by Lex Rieffel. This study, funded in part through grants by EMTA and the International Primary Market Association (IPMA), is an important contribution to the literature regarding the history, theory and practice of modern sovereign debt restructuring, presenting a comprehensive and compelling case for continuing the ad hoc approach to resolving sovereign financial crises in the Emerging Markets.

As Jacques de Larosiere (adviser to the chairman, BNP Paribas, and former IMF managing director) states, the book is "a true masterpiece dealing with one of the most complex and topical issues of international finance, [covering] not only the detailed history of the different debt crises but also [analyzing] the evolution of the specific instruments and methods which have been used to resolve these problems. For students, researchers, practitioners, issuers, creditors, and international financial organizations, this book will provide an invaluable treasure of information and reflection."

In the words of William Rhodes (Citigroup senior vice chairman and Citibank chairman) "[Rieffel] successfully makes the argument that the case-by-case process is the only realistic approach to sovereign debt restructuring...[and he] reminds us that successful agreements depend on ever-closer cooperation among all parties, including borrower countries, creditor countries, multilateral agencies, and private creditors."

Click Here to place your order for a copy of this outstanding contribution to the literature of Emerging Markets finance.

Other Industry Projects/Initiatives

EMCC Caps Margins

EMCC has struggled for years with several issues involving the high cost of collateralizing trading positions and the allocation of such costs as between dealers and brokers. EMCC's Risk Advisory Committee recently adopted a package of measures that would cap the margin charged to brokers through PruWex at $50 million and substantially reduce the total collateral required from all participants.

In anticipation of the SEC's approval of the package, EMCC proposed a temporary rebate for IDB members or members whose only use of EMCC is to clear for IDB's. EMCC would reimburse such participants' costs associated with deposit requirements in excess of $50 million. The reimbursement is retroactive to May 1, 2003. The SEC approved EMCC's margin cap on August 19, 2003. For a full text of the EMCC proposal, Click Here. For further information on this topic, please visit EMCC's website, www.e-m-c-c.com.

EMTA Asked to Review NASD Complaint

The NASD has asked that EMTA review a Complaint against a small securities firm, alleging, among other things, violations of the registration and anti-fraud provisions of the Federal securities laws, misleading advertising statements and excessive markups, all relating to sales of Brady (and Aztec) bonds to retail clients.

EMTA has limited its comments specifically to the inaccuracies in the description of the Brady bonds in the Complaint and did not provide any views on the trading of such instruments with retail clients. EMTA has clarified to the NASD that its membership is composed of leading broker-dealers, commercial and investment banks and asset management firms, and that, so far as it is aware, the EM fixed income market that it services in the US is overwhelmingly institutional.

For further information, please contact Aviva Werner at awerner@emta.org or (646) 637-9110.

Miscellany

Final Disbursements made from 2002 Emerging Markets Charity Benefit

Final disbursement checks were issued to the three beneficiaries of the 2002 Emerging Markets NYC Charity Benefit on July 25, 2003. The net profits from the event totaled $162,858.93 and was divided between EMPower, Save the Children and World Wildlife Fund. The Emerging Markets debt community has raised almost $2 million for charities through its annual benefit since its original inception.

Planning for the 2003 NYC benefit, which has been scheduled for Thursday, December 4, 2003, in order to coincide with EMTA's Annual Meeting, has already begun. The Benefit Committee has visited a number of possible venues, reduced the cost of tables for the 2003 event to $5,000, and recommended that 2003 beneficiaries include EMPower, Pro Mujer and World Education and Development Fund. Both EMPower and World Education and Development Fund were founded by former Emerging Markets professionals, while Pro Mujer's Board of Directors includes a number of Emerging Markets professionals.

The Committee continues to welcome new members who are interested in assisting with the event. Those interested are urged to contact Denise Simon at the Atlantic Company at (646) 364-2312, Sue Waterbury of Goldman Sachs at (212) 902-5789 or Jonathan Murno at EMTA at (646) 637-9105.

Miscellany (continued)

EM Debt Community to Hold Charity Dinner in London

The Emerging Markets Benefit Limited, a newly-formed company comprised of leading members of the Emerging Markets debt industry, has announced plans to resurrect the London trading and investment community's charity dinner last held in April 2002.

Simon Treacher, Director at BlueBay Asset Management stated, "It's fantastic news that the industry charity dinner is being revived, as so many of us in the Emerging Markets debt industry are concerned with raising the standard of living in emerging countries." Treacher added that the Benefit Committee was especially proud of having located a unique venue for this year's event, and, "I think people attending will be excited at the evening's entertainment as well."

The gala will be held on October 2, 2003 at Billingsgate, the elegant 19th C listed building situated on the banks of the River Thames overlooking Tower Bridge. In addition to a formal dinner, the event will also include a champagne reception, a charity auction and live entertainment. EMTA will be sponsoring the event.

Proceeds from the event will benefit Cotlands, an organization working with abused, neglected or HIV-infected children in South Africa; Task Brasil, whose projects seek to improve the lives and support the needs of children and pregnant teenage girls living on the streets in Brazil; and the BBC Children in Need Appeal, which works to improve the lives of disadvantaged children living in the UK.

Elaine Skinner, EM trader at WestLB, noted that the initial response to the announcement that the London charity event would be revived was overwhelming. "Based on the feedback we have received so far, we expect demand for tickets to be oversubscribed, and the limited number of tickets to sell quickly." Skinner added that many Emerging Markets professionals have volunteered their time to help organize the event; the law firm of Slaughter and May has provided pro bono legal advice on the formation of the new company running the benefit.

The London Emerging Markets debt community has raised over £1.9 million since its first charity benefit was held in 1994.

Tickets are priced economically at £195.

For further information on the London charity event, please contact Elaine Skinner or Paul Charman at WestLB in London at (011-44207) 020-3069, Clare Turnbull and Brigitte Dowsett at Bear Stearns at (011-44207) 516-6088 or Jonathan Murno at EMTA at (646) 637-9105 or (011-44207) 545-3196.

* *

While EMTA is not affiliated with, and does not officially support, any particular charitable organization, EMTA does believe in promoting and giving greater visibility to the industry's most worthy efforts to support charitable and other public service activities throughout the Emerging Markets.

Miscellany (continued)

EMTA Autumn Forum set for Oct. 9 at UBS

EMTA's Autumn Forum, featuring a panel of esteemed market analysts, will be held on Thursday, October 9, 2003 at UBS' offices at 1285 Avenue of the Americas (at 51st Street), 14th Floor, NYC.

The panel will be moderated by UBS' Michael Gavin. Additional speakers include Lacey Gallagher (CSFB), Dave Rolley (Loomis Sayles), Tulio Vera (Merrill Lynch) and Ruggero de'Rossi (Oppenheimer Funds).

Invitations will be sent to EMTA Members shortly.

For more information, please contact Jonathan Murno at (646) 637-9105 or jmurno@emta.org.

EMTA Staff Addition

EMTA is very pleased to welcome back Starla Cohen for a return engagement, effective September 15, as Managing Director - Europe. For the immediate future, Starla, who previously served on EMTA's staff from March 1996 to December 2001, will be focused on developing EMTA's European activities and membership. Since last with EMTA, Starla has written a book about the sometimes similar, sometimes differing perceptions and expectations of teenaged girls around the world. Currently based in Paris, where she lives with her husband, Peter Griffin, a Shearman & Sterling partner, Starla can be reached at scohen@emta.org or (011-331) 4418-9005.

EMTA Membership Update

EMTA's newest members include **BankOne**, **Cappadocia Investments**, **EBS**, **Exotix** and **Miller Tabak Roberts Securities**. If you are interested in EMTA membership, or if you know of prospective members, please contact Starla Cohen at scohen@emta.org or (011-331) 4418-9005, Jonathan Murno at jmurno@emta.org or (646) 637-9105, 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 Website Update

EMTA is pleased to announce that, starting September 2003, we have added a Cultural Events section to our website. From time to time, EMTA receives information on upcoming cultural events, which might be of interest to our emerging markets friends, as well as others. This area will be located in the Activities & Services section and will serve as a posting board for functions, both entertaining and interesting.

If you know of any functions to be added, please contact Suzette Ortiz at sortiz@emta.org or (646) 637-9106. Please take advantage of this opportunity to enhance your cultural experience. Enjoy! Click Here to visit the Cultural Events section.

EMTA Hotlines

Topic	Contact	Telephone
Argentina	Michael Chamberlin/Aviva Werner	(646) 637-9100/9110
Burden-Sharing/CAC's/SDRM	Michael Chamberlin	(646) 637-9100
Clearing Corp. (EMCC)	Keith Kanaga (EMCC)	(212) 855-1675
Code of Conduct	Michael Chamberlin	(646) 637-9100
Corporate Governance	Michael Chamberlin	(646) 637-9100
EM Benefits	Jonathan Murno	(646) 637-9105
EM Bond Charts	Michael Chamberlin/Aviva Werner	(646) 637-9100/9110
EMTA Membership	Starla Cohen/Jonathan Murno/ Suzette Ortiz	(011-331) 4418-9005/(646) 637-9105/ (646) 637-9106
EMTA Website	Suzette Ortiz	(646) 637-9106
FX/NDFs/Derivatives	Leslie Payton Jacobs/Starla Cohen	(646) 637-9103/(011-331) 4418-9005
Global Equities	Bruce Wolfson (Bear)	(212) 272-2571
Investor Rights	Michael Chamberlin	(646) 637-9100
Legal/Compliance	Aviva Werner	(646) 637-9110
Loan Trading	Aviva Werner	(646) 637-9110
Local Markets	Aviva Werner/Starla Cohen	(646) 637-9110/(011-331) 4418-9005
Market Information/Research	Jonathan Murno	(646) 637-9105
Market Practices	Aviva Werner	(646) 637-9110
Market Price & Volume Data	Jonathan Murno	(646) 637-9105
Multilateral Netting	Aviva Werner	(646) 637-9110
Paris Club	Starla Cohen/Jonathan Murno	(011-331) 4418-9005/(646) 637-9105
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 our website.

Michael Chamberlin	mchamb@emta.org
Starla Cohen	scohen@emta.org
Donald Goecks	dgoecks@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., July 3	Recommended 2:00 p.m. (NYC) Market Close
Fri., July 4	Recommended Market Close (NYC) Independence Day Recommended 12:00 Noon (London) Market Close
Mon., Aug. 25	Recommended Market Close (London) Summer Bank Holiday
Fri., Aug. 29	Recommended 2:00 p.m. (NYC) Market Close
Mon., Sept. 1	Recommended Market Close (NYC) Labor Day Recommended 12:00 Noon (London) Market Close
September*	**EMTA Board Meeting (NYC/London)**
Wed., Sept. 17	Legal and Compliance Group Meeting - 12:00 Noon Global Financial Markets Conference Center 360 Madison Avenue, 18th Floor (NYC)
Thurs., Oct. 2	**2003 Emerging Markets Benefit Charity Ball (London)**
Thurs., Oct. 9	**EMTA Autumn Forum** **UBS, 1285 Avenue of the Americas (NYC)**
Fri., Oct. 10	Recommended 2:00 p.m. (NYC) Market Close
Mon., Oct. 13	Recommended Market Close (NYC) Columbus Day Recommended 12:00 Noon (London) Market Close
November*	**EMTA Board Meeting (NYC/London)**
Mon., Nov. 10	Recommended 2:00 p.m. (NYC) Market Close
Tues., Nov. 11	Recommended Market Close (NYC) Veterans Day Recommended 12:00 Noon (London) Market Close
Wed., Nov. 19	Legal and Compliance Group Meeting - 12:00 Noon Global Financial Markets Conference Center 360 Madison Avenue, 17th Floor (NYC)
Wed., Nov. 26	Recommended 2:00 p.m. (NYC) Market Close
Thurs., Nov. 27	Recommended Market Close (NYC) Thanksgiving Day Recommended 12:00 Noon (London) Market Close
Fri., Nov. 28	Recommended 2:00 p.m. (NYC) Market Close
Thurs., Dec. 4**	**EMTA Annual Meeting** **2003 EM Benefit (NYC)**
Wed., Dec. 24	Recommended 2:00 p.m. (NYC) Market Close
Thurs., Dec. 25	Recommended Market Close (NYC/London) Christmas Day
Fri., Dec. 26	Recommended Market Close (London) Boxing Day
Wed., Dec. 31	Recommended 2:00 p.m. (NYC) Market Close
Thurs., Jan. 1, 2004	Recommended Market Close (NYC/London) New Year's Day

* **Date TBA**
** **Details TBA**