EMTA

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20th Anniversary 1990-2010

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EMTA's 20th Anniversary

After a year or more of informal meetings (organized by Peter Geraghty) to discuss the impending restructurings by Mexico and Venezuela under the Brady Plan (which culminated in the development of confirmation forms for spot trades), the traders of what was then known as LDC debt, with some encouragement from banking regulators (notably Gerry Corrigan), decided in mid-1990 to organize themselves as a trade association to promote greater efficiency, transparency and professionalism in their trading market. The resulting LDC Debt Traders Association was formed by representatives of eleven firms on December 11, 1990 (within two years its name was changed to the hipper Emerging Markets Traders Association). The new Association's first Board of Directors (chaired by Nick Rohatyn) was comprised of the following:

Nicolas Rohatyn (Morgan Guaranty Trust)
Peter Geraghty (NMB Bank)
Kathy Galbraith (Chase Manhattan)
Stephen Dizard (Salomon Brothers)
Alex Rodzianko (Manufacturers Hanover Trust)
Peter Drittel (Bear Stearns)
Manuel Mejia-Aoun (Merrill Lynch)
Rick Haller (Morgan Grenfell)
Hugo Verdegaal (Citibank)
Neil Allen (Bankers Trust)
Robert Trisciuzzi (Bank of Tokyo)

Just a quick glance at their firm affiliations gives a good indication of some of the many changes that have occurred in the financial industry over the past 20 years.

By 1993, EMTA's Volume Survey showed that market trading volumes had increased over ten-fold, NAFTA had been signed and EMTA had issued its Code of Conduct and first when-issued trading forms (for Brazil).

EMTA's 20th Anniversary (continued)

The first decade of EMTA's existence was characterized by the development of many market practices (who can forget Kathy Galbraith's definitive declarations that consensus had been reached?), standard documentation for trading loans, bonds and options, and trading infrastructure (including a matching service and clearing corporation) to keep pace with the rapid growth of the trading markets, followed by the speed bump of the Tequila Crisis and then a severe contraction in the EM debt industry in the wake of the Asian and Russian debt crises of 1997-98.

A list of Significant Market Events and EMTA Projects from 1990 to date is available here.

From a market standpoint, EMTA's second decade was much less of a roller-coaster and, despite notable defaults (and restructurings) in Ecuador and Argentina, saw Mexico, Brazil and Russia (among others) achieve investment-grade ratings. Official reserves waxed and original sin waned. Much about the Emerging Markets debt trading industry has now mainstreamed, and if we were to be formed this year, our name might be the Frontier Markets Traders Association (or possibly the PIIGS Watchers TA). Trading volumes recovered strongly, and the influence of credit and FX derivatives grew, throughout the early years of the 21st Century. In what might have been unthinkable a decade ago, today we watch contagion wash across Europe, much in the way it did across LatAm and other Emerging Markets in the 1980's and 1990's.

As good as the past ten years have been in so many respects, few will ever forget the painful memories of September 2001.

To help mark EMTA's 20th anniversary year, prior issues of this year's Bulletin have featured a series of articles on the early periods of EMTA's history. The market developments and related EMTA activities in the period 1990-98 were summarized in the following three articles:

(1) "EMTA's Beginnings" by Bruce Wolfson, a long-time EMTA Director and General Counsel of The Rohatyn Group;
(2) "EMTA's Early Years (1992 and 1993): EMTA Emerges as an Independent Trade Association for the Emerging Markets Trading Industry" by Thomas Winslade, EMTA's Executive Director from 1991-93; and
(3) "EMTA 1994-98: The Golden Years of EM Debt Trading?" by Michael M. Chamberlin, EMTA's current Executive Director.

This series continues this Quarter with Michael Chamberlin's perspective on the evolution of the EM trading markets and EMTA's agenda during the years from 1999 until the onset of the subprime mortgage crisis and global recession in 2007-08. Formerly a Partner at Shearman & Sterling with a law practice split between public and private sector Latin American debt restructurings and capital market transactions, he led Shearman & Sterling's representation of the international banking community in Mexico's pioneering restructuring under the Brady Plan and worked on many financings, refinancing and debt swaps in the 1980's and early 1990's before becoming EMTA's Executive Director in early 1994.

EMTA's 20th Year—A Look Back to:

EMTA 1999 to 2007: The EM Debt Trading and Investment Market Matures and Mainstreams"

The views expressed in this series of articles are personal views only, and do not represent official EMTA views or necessarily reflect the views of any of its member firms.

EMTA's 20th Anniversary (continued)

At the time, the Asian financial crisis and Russian meltdown in August 1998 resulted in a big setback for the EM debt trading and investment industry. Asset values and debt trading volumes plummeted, and investor confidence in the Emerging Markets fell considerably. Among other things, these events changed EMTA's priorities, resulting in several important new projects, greater emphasis on certain existing ones, and the postponement of several others. As always, however, setbacks lead to new opportunities, and from these events soon came a gradual and strong recovery of the EM debt markets that, supported by a long period of low interest rates and continuing economic and financial reforms and reserves accumulation in many EM countries, continued for nearly a decade. The EM debt markets grew, matured and prospered, and the overall period from 1999 through 2007, despite a shock or two, was generally characterized by a strengthening of many EM economies and a steady mainstreaming of the EM debt markets into the broader capital marketplace. With this mainstreaming came a much broader class of new investors in the EM debt markets and debate about the adequacy of the architecture for resolving financial crises in the Emerging Markets.

During this time, EMTA diversified its activities to keep pace with the evolution of the marketplace, incorporated a new class of market participants into its membership—the EM buyside—and added a variety of investor-oriented activities to its more traditional sellside agenda.

Please Click Here for the full text of Michael Chamberlin's article, "EMTA's 20th Year—A Look Back to: EMTA 1999 to 2007: The EM Debt Trading and Investment Market Matures and Mainstreams".

Affonso Pastore, Former President, Central Bank of Brazil to Speak at EMTA Annual Meeting

Former Central Bank of Brazil President Affonso Pastore will deliver the keynote address at EMTA's Annual Meeting, which will take place in New York City on Thursday, December 2, 2010. The event will be hosted by Citigroup. Dr. Pastore served as Brazil's Central Bank president from 1983-85 and is a noted economic analyst. Earlier this year, he delivered the keynote address at EMTA's Sao Paulo forum to a standing-room only crowd.

All EMTA Members are encouraged to attend.

The annual event's traditional sellside and investor panels will focus on EM prospects in the context of current market conditions. Joyce Chang (JPMorgan) will moderate the sell-side panel, which will include Daniel Tenengauzer (Bank of America Merrill Lynch), Piero Ghezzi (Barclays Capital), Kasper Bartholdy (Credit Suisse), Drausio Giacomelli (Deutsche Bank) and Paulo Leme (Goldman Sachs).

The investor panel will be led by Citi's David Lubin, who will poll leading fund managers on their expectations for 2011. Speakers will include Tulio Vera (Bladex Asset Management), Dave Rolley (Loomis Sayles), Hari Hariharan (NWI Investment Management) and Eric Fine (Van Eck G-175 Strategies).

Attendance for members is complimentary; non-members may attend at a registration fee of $1,000.

For further information concerning EMTA's Annual Meeting, please contact Jonathan Murno at jmurno@emta.org.

EMTA Forums

Argentina's Economic and Political Future Debated at EMTA Presentation

Argentina's economic and political future was debated at a special EMTA event, "Argentina: Pros and Cons", on Friday, November 5, 2010. The lunchtime event was held at the Global Financial Conference Center adjacent to EMTA offices in New York City and drew approximately 100 attendees.

EMTA's Executive Director Michael Chamberlin welcomed attendees with a brief review of Argentina's importance to the EM marketplace, despite its roller-coaster performance over the years. He noted that today's presentation was another opportunity to look at Argentina from different points of view. While measuring Argentina's capacity to pay was much more objective than measuring its willingness, Argentina's willingness to pay was obviously linked to its capacity to pay.

Arturo Porzecanski, currently a Professor of International Economics and International Finance at American University, and previously a senior economist at several EM sell-side firms, delivered a paper on how the market should react to a potential new Argentine sovereign debt issue, as the country appears to be emerging from its sovereign default of 2001. Click Here for Porzecanski's paper entitled "Should Argentina Be Welcomed Back?".

Photo: Jaeil Lee

In his remarks, Porzecanski noted that Argentina had been making progress towards a return to the capital markets "after being shunned for almost a decade" since its default. Recent issuances by provinces and municipalities appeared to augur a return to the markets by the sovereign (as addressed by Argentine Undersecretary Adrian Cosentino at EMTA's Fall Forum, see related story).

"At first sight, it would appear that Argentina has come a long way from its troubled past," he observed, detailing improvements in per capita income, unemployment numbers, export earnings and FX reserves. Financial ratios that are usually used to assess sovereign creditworthiness also seemed to have greatly improved. However, such apparent improvements in the Argentine financial condition mask reality, Porzecanski argued. "It would be naïve to rush to the conclusion that Argentina is a creditworthy or relatively safe place to invest," he declared.

Porzecanski specified that the current and previous administrations have spent their revenue windfalls, leaving scant resources to support current or any potentially new public debt. In addition, the "accuracy and integrity" of official inflation data has long been questioned by investors, he reminded attendees. Not only have institutions been undermined by the government, but current fiscal, monetary and exchange-rate policies were in fact "unsound and destabilizing."

Questions concerning the accuracy of official date underscore Argentina's "lack of transparency." The country is the only member of the G-20 which was not currently allowing the IMF to conduct an Article IV review. Furthermore, it is the only G-20 government in arrears to the Paris Club. Porzecanski warned that any eventual Paris Club restructuring would likely result in a haircut for current London Club debtholders, due to the Club's "comparable treatment" principle.

Should Argentina be welcomed back to the international capital markets? "Despite the allure of high yields, investors are well-advised to approach Argentine fixed-income and equity investment and trading opportunities with extreme caution, because they embody substantial market and default risks" he concluded.

Following Porzecanski's comments, Guillermo Mondino (Barclays Capital) moderated a panel discussion of Argentina's prospects. "Was Argentina's current situation, as a country neither headed for default nor investment grade, sustainable?" he asked.

Argentina (continued)

Javier Kulesz of UBS investment Bank viewed this as ultimately a political question, “and politics in Argentina is very fluid.” Kulesz acknowledged that he was a strong advocate of the country’s economic fundamentals, noting “there is no reason Argentine spreads are 400-500 bps over Peru and Brazil…that additional risk is linked to politics.” He saw upside for Argentina if administrative and policy changes were made.

“There is no question that fundamentals are strong, but sustainability is open to question,” stated Patrick Esteruelas (Moody’s Investor Services). Esteruelas argued that Argentina is increasingly dependent on a favorable international economic climate. As for a potentially more market-friendly government, Esteruelas stressed that although the market seemed to be pricing in an increased possibility of political change, there were also other interpretations of the effect of President Kirchner’s death on the country’s future.

Hans Humes (Greylock Capital Management) viewed Argentina’s prospects in the medium- to long-term as now being “extraordinarily good.” Humes stated that much of the country’s previous bad behavior vis-à-vis investors was directly tied to the Kirchner presidency. Any domestic corporation that had been able to survive the “distorted economic policies” would be well-positioned going forward, he believed. Humes agreed that Argentina was undervalued compared to neighbor Brazil, although volatility was probably likely.

Kulesz agreed, noting that Argentina’s problems with Judec arbitrations, the IMF and the Paris Club could get fixed with great upside ”and that Argentina has the commodities that you want to export”.

Photo: Jaeil Lee

Mondino asked speakers to debate a motion that opposition political parties secretly envied Kirchner’s policies and would do little to change the economic regime if the external environment remained favorable, growth remained at high levels, and inflation did not surpass 30%. Kulesz disagreed, arguing that a new administration would likely improve the accuracy of its official economic numbers, and would welcome the IMF in to conclude an Article IV review. He didn’t perceive Argentina as having “substantial default risk,” declaring that it was not in the same economic predicament it had faced earlier in the decade, nor that of Greece in 2010.

Esteruelas agreed that “the scale of the problem is not that great…it is not a Venezuela-sized problem.” Humes contrasted Buenos Aires’ confrontational approach during the first debt tender offer to its more recent tender, which “was handled much better with a different crew.” For Humes, most of the concerns expressed by Porzecanski would be addressed by any new administration.

Porzecanski pointed out that all EM boats were rising in an era of high commodity prices and investor search for yield. “What would happen when these tides stopped coming in?” he asked. The international environment would play a strong role in President Fernandez de Kirchner’s bid for re-election. In addition, any new administration would face potential social unrest if it tries to cut any subsidies.

Discussing Argentina’s ability to pay, Esteruelas noted that the average debt burden until 2012 was $14 billion, vs. $50 billion in FX reserves, which made debt service “highly manageable.” Kulesz opined that signs of willingness to pay were now “quite strong,” as was their current capacity.

The hold-out issue would continue, predicted Humes, although he speculated that the goal of major hold-outs was economic in nature, and not to establish legal precedent. “I am not sure what the price is” to clear the transaction, he added. Although governments generally paid off holdouts, Kulesz doubted the current government would write a check, especially for such a large amount, “…and this might take more than one new administration to address.”

With issues such as holdouts and ICSID judgments, was there rating upgrade potential for Argentina? Esteruelas commented that the higher rating that the country’s economic condition would normally support was being adversely affected because of the issues of weak institutions, Paris Club arrears, willingness to pay and concerns over manipulated government data. “A return of market confidence on the quality of official data is likely to weigh heavily on Argentina’s rating going forward.”

Argentine Finance Undersecretary Speaks at EMTA Fall Forum

Argentina's Undersecretary of Finance Adrian Cosentino and Peter Dattels of the IMF Capital Markets Department were keynote speakers at EMTA's Fall Forum. The event, which attracted 125 market professionals, was held at EMTA's midtown Manhattan office on Tuesday, October 19, 2010. Bulltick Capital sponsored the event.

In his remarks, Undersecretary Cosentino delivered an overview of Argentina's recent financial performance. He described the country's strong growth, with official government growth estimates of 8.9% for 2010. The country also had achieved trade and current account surpluses over recent years, he noted.

Cosentino highlighted the moderate level of external debt, with the country's debt to GDP ratio now at 17%, while also pointing out the low level of (36%) of official obligations owned by private creditors. 43% of government debt is in Argentine pesos, with only 22% of debt maturing within two years, he observed. With 92% of the debt defaulted on by Argentina in 2001 now exchanged for new bonds, the country is now less exposed to litigation from holdout creditors.

Looking forward, the Undersecretary noted that 2010 financing needs are almost all now completed and given the solid fiscal situation expected for next year, any potential market transaction would depend on timing and market conditions.

Argentina's goals going forward include continuing the process of sovereign financial normalization, deepening the local capital market and supporting the secondary market for Argentine sovereign debt, and continuing liability management.

A second presentation at the event was made by Peter Dattels, a division chief in the IMF's Monetary and Capital Markets Department. Dattels briefed attendees on sovereign risks and the outlook for global financial stability.

Dattels noted that sovereign debt and gross financing needs through 2011 are large. He reviewed the vulnerabilities of developed countries, noting that each case is unique and stressing that each of the peripheral European countries has its own specific challenges. These strains continue despite official sector support, including the coordinated EU/ECB/IMF aid package. Stresses on the sovereign level are tied to challenges in the banking sector in a complex series of interactions.

On the positive side, banks have recognized the majority of their expected write-downs ($1.7 trillion of an anticipated $2.2 trillion) and capital ratios in the US and Europe have improved since the onset of the crisis. However, the process of balance sheet repair and reform remain unfinished business, and financial systems in many countries are still vulnerable to funding disruptions. These vulnerabilities are most pronounced in the euro area.

Emerging Markets have been mostly insulated from spillovers from weaknesses in developed economies due to their strong fundamentals. Dattels cited the differential in developed country and EM growth, fiscal, and external accounts, and highlighted the general improvement in EM credit ratings, while developed country ratings have worsened. Relatively favorable EM fundamentals have prompted a reallocation of assets towards EM, and such inflows could continue.

Fall Forum (continued)

The surge in inflows into EM has led to appreciating EM currencies and spread compression in local bond markets. In response, authorities in some countries are intervening in the FX markets and adopting unorthodox policy measures.

Policy priorities for developed countries entail tackling fiscal challenges in the medium-term, as well as reducing contingent liabilities. The financial sector should continue to restructure weaker banks, address capital challenges, while retaining access to public financial support if and when necessary. For EM countries, managing rising and potentially volatile capital inflows will remain on top of the agenda for officials.

The event concluded with a panel discussion moderated by Bulltick Capital's Alberto Bernal, who opened the session by asking panelists to discuss the global economy, potential risks and the mood of the marketplace.

Gramercy's Gunter Heiland observed that the recent IMF/World Bank Annual Meetings were much more crowded than normal. However, despite the potential for over-enthusiasm, "the general mood was not euphoric; and it is a good sign that people were cognizant that EM prices could decline, it wasn't just a lot of froth and frenzy." Heiland asserted, however, that "at the end of the day, the investor should follow growth… and growth is in the EMs."

The takeaway from the Washington meetings, according to Gray Newman of Morgan Stanley, was that both developed countries and EMs were looking at each other to be the driver of growth, causing him some concern.

Luis Oganes (JPMorgan) noted that inflows into the EM fixed income asset class will likely exceed the current forecast of $75 billion in 2010, as they have already reached $65 billion so far this year. The majority of these funds are going into local markets.

Marco Santamaria commented that his firm AllianceBernstein continues to see a steady stream of clients looking to invest in EM because of recent performance and for diversification purposes. He pointed out that hard currency returns year-to-date are approximately 16%, although the vast majority of that could be attributed to returns on US Treasuries.

Bernal polled participants on their predictions for a new round of quantitative easing by the US FOMC. The panel largely concurred on expectations of $100 billion being injected into the system each month, but that its impact would be modest.

"It is a stop-gap measure, to prevent things from getting worse, from back-sliding , but it alone is not enough to get things going again," Heiland summarized. Santamaria expressed the most skepticism among the speakers on the potential success of quantitative easing, "and although I understand why it is supposed to work in theory, it didn't really work the first time, so I am not sure it will work now." Bernal added his own view that the Fed is in fact trying to push the UK and EU Central Bank to print money as well, to avoid a sharp appreciation of their currencies.

Fall Forum (continued)

There was also general agreement that currency wars would not translate into trade wars. “There is a lot of rhetoric now, but after the US elections, politicians will come to their senses,” Oganes opined. Santamaria reasoned that other steps could be taken first, such as imposing new capital controls or more active fiscal tightening, before resorting to trade wars.

In discussing a potential Greek default, Santamaria argued that timing would prove crucial. If a default occurred after EU economies have rebounded from their current sluggishness, the after-effects would be easier to absorb. In addition, if a restructuring occurred along Uruguayan lines, i.e., with an extension of maturities and no cut in principal, its potential contagion would also be more limited.

Underscoring the importance of timing, Heiland pointed out that Greece had benefited from reaching a crisis when fears of contagion to other EU countries was strong, and thus being able to get strong support. As the world economy improves, and the potential for a Greek default to be absorbed becomes greater, the outlook for support becomes less clear. Further, Athens had work to do to change a cultural bias against tax payment, he challenged.

Discussing decoupling, Santamaria asserted that it was not possible for EM countries to grow if the US was showing negative growth. However, it would be possible for respectable or even handsome EM growth if the US economy had at least positive growth numbers. Other panelists agreed, while also pointing out that financial markets decoupling was a myth.

Panelists were asked to look into their crystal ball for 2015 and make a prediction. Heiland and Oganes differed on Latin commodity dependence- Oganes asserted that Latin countries were not taking the correct steps to reduce their dependence on commodities, and believed their over-reliance on such exports would be unchanged in 2015. On the other hand, Heiland argued that progress would be made to produce more high tech goods.

Newman called Mexico “under-banked” and “under-drilled” and expected improvements in the banking and oil exploration sectors. Santamaria warned that the situation in Venezuela could be “dire.” Finally Bernal spoke positively on the potential for Mexico to defeat its drug lords, and to pass energy, fiscal and labor reforms.

Several panelists thought the EMBI+ could tighten an additional 40 basis points to approximately 240 by year-end (with Oganes’ JPM view of 250-275 the least bullish). “With Veny spreads representing 20% of the index, your call is really a call on Veny spreads,” Santamaria commented.

The event concluded with a cocktail reception.

Speakers at EMTA Singapore Forum Discuss QE2 and Its Effects on Asian Economies

EMTA's Fifth Annual Forum in Singapore was held at the Fullerton Hotel on Wednesday October 27, 2010. About 150 market participants attended the lunchtime event, which was sponsored by ING.

Tim Condon of ING steered the event's sell-side panel discussion. First on Condon's agenda was the global market outlook and potential currency squabbles. JPM's David Fernandez noted that the market was anxiously awaiting the details of the US FOMC's latest quantitative easing program (QE2). The potential for subsequent dollar weakness was large, and "a lot of what we will be doing next year will be watching for Asian Central Bank intervention to stop rapid currency appreciation," he stated.

UBS' Nizam Idris argued that the expected results of the then-upcoming US mid-term elections had not yet been priced into the market, and that political uncertainty in the US could derail the global recovery. "Monetary policy can only do so much, and fiscal stimulus is not going to happen," he asserted. He underscored the IMF's newfound acceptance of capital controls, and advised that investors should expect such measures to be enacted.

Sanjay Mathur of RBS doubted that Asian central banks would refrain from intervening to prevent FX appreciation. If the QE2 tally is much bigger than expected, and inflows into Asian FX also larger than expected, there could be market disruption, he cautioned.

Martin Hohensee (Deutsche Bank) joined others in arguing that US Treasuries were not in bubble territory. He added that the US FOMC's appetite for QE2 would also likely be larger than the original program it would unveil. Fernandez added that with the continued strength in EM prices, his firm's newly-increased forecast of EM issuance in 2010 would likely be exceeded.

Panelists stressed that recent inflows into EM marked a long-term structural shift to the asset class. "The flows into EM are sticky, they are something we have to get used to, and they are only a fraction of what could be," noted Hohensee. Idris countered, however, that the relative lack of liquidity of EMs compared to developed countries would eventually prove a concern.

The nascent "dim sum" or CNH market (yuan-denominated bonds issued in Hong Kong) was debated. Fernandez called the program "the acceleration of a plan that Beijing would have preferred to do gradually, but this is the cost of an outdated regime." He predicted the market would garner increased attention in the coming year.

Hohensee viewed the CNH market as a petri dish for Chinese authorities. It could be used by hedge funds for arbitrage opportunities, would eventually decrease the importance of the Hong Kong dollar, and provide greater investment opportunities for foreigners.

Condon recalled last year's discussion on "market darling" Indonesia. The country's status as a market favorite was not completely justified according to Mathur. "A more stable –though not ideal—political structure and a stabilization of the balance of payments," were positive factors, but he expressed skepticism on a "behind-the –curve" Central Bank, the debt being a "crowded trade" and a potentially inflationary economy.

Fernandez reminded attendees of his 2009 assertion that "if you are bullish on Indonesia, don't go to Djakarta." However, he reflected that in fact, "they are broadly getting things right, and we don't expect significant policy errors." Indonesia was not on his list of potential capital-control imposers.

Singapore (continued)

Concluding on top recommendations, Fernandez predicted a tougher year for EM assets. Indonesia and India were among top picks, and the Philippines were under-owned, “though we are not saying it will be a strong performer.”

Mathur recommended the SGD as well as EM equities. Inflation could surprise on the upside in 2011, especially if a weak dollar leads to significant increases in commodity prices. Hohensee spoke enthusiastically on the Indian corporates as well as the currency, as well as Chinese property issues (specifically inland and newer-urban areas).

Idris recommended China, India and Indonesia based on a “muddle through” global economy. He also liked the INR on a longer-term basis.

Investors shared the relative optimism of the sell-side panel during a discussion chaired by Aaron Low of Lumen Advisors. Low questioned speakers for their thoughts on negative real rates in Asia and how long they could last.

Barry Field of Ashmore Investment Management opined that negative real rates could last into 2011. He also reviewed the likely effects of QE on Asian markets--higher interest rates in EM countries and lower bond spreads; a growing corporate market as companies take advantage of cheap capital; and capital control imposition in high growth countries.

The Rohatyn Group’s Goetz Eggelhoefer concurred that negative real rates would continue but eventually Central Banks would not be able to drag their heels. He reminded participants that Asian Central Banks had started raising rates in Q1, but became jittery with developments in the EU, and postponed further action while monitoring developments. “Going forward will be different, there will be less political uncertainty once the US midterm elections occur, and Central Banks will have to address considerable inflationary pressures,” he stated.

Rajeev De Mello (WAMCO) predicted that Central Banks would have to enact capital controls following the G-20 summit. He also expected tightened fiscal policy.

Liew Tzu Mi of Government of Singapore Investment Corporation underscored that another major paradigm shift was occurring in EM countries. “The era of high growth with disinflation in EM is over,” she declared. The move in emerging countries to domestic consumption-led growth, replacing their historical export-led growth, is inflationary, “so one needs to think more about inflation protection; or to select companies that have the power to pass on increased costs to consumers.”

De Mello echoed other speakers in asserting that allocations to EM would continue. Liew argued that, on a GDP-weighted basis, investors should have much more exposure to EM assets, “but some portfolio managers still have the mindset that our market is risky.” Field added that increased allocations to the asset class are a time-consuming process with “trustees, consultants, a culture of ‘backside-covering,’” but suggested investors should be concerned by the large exposures they currently have to developed countries.

Most investor speakers could point out no obvious bubbles, while they acknowledged that loose US monetary policy could spur such a development. However Eggelhoefer expressed a concern that local currency Asian bond markets were starting to “look frothy.” He specified that the amount of foreign ownership of Indonesian bonds is now four times previous peaks, and “the exit is extremely small.” While declining to specify a time frame for any market selloff, he predicted “it will end in tears.”

Singapore (continued)

The panel concluded with asset recommendations and top market risks. Field voiced interest in Chinese and Russian equities, and second- and third-tier Chinese cities properties. Eggelhoefer viewed the SGD as a reasonable trade for 2011 and also found equities appealing. De Mello liked Indian bonds and Asian currencies. Moderator Low recommended Malaysia, Indonesia and Thailand.

Risks discussed by investor speakers included a “double dip” recession, a G-10 sovereign debt crisis, the expiration of US tax cuts, faster-than-expected inflation that forces faster Asian central bank tightening, and capital controls-- especially if imposed “relentlessly.”

Hong Kong Speakers Highlight Nascent Dim Sum Market, Agree QE2 in US Will Lead to Cash Inflows to Asia

EMTA’s Fifth Annual Forum in Hong Kong was held on Friday, October 29, 2010 at the JW Marriott Hotel. ING sponsored the lunchtime event. About 100 market participants attended including portfolio managers, research analysts and salespeople.

Tim Condon (ING) led the discussion, asking panelists to discuss the outlook for the global economy. There was general consensus amongst speakers on a benign international environment, with US monetary policy benefitting Asian economies and leading to continued streams of cash inflows.

Johanna Chua (Citigroup) observed that the market had been “in a frenzy” recently, with original estimates that the US FOMC’s upcoming quantitative easing program could reach as high as US$1 trillion. Chua believed that the market was subsequently digesting lower money-printing expectations.

Following the controversial comments by Brazilian Finance Minister Mantega, panelists also addressed fears of currency wars. Suvir Mukhi (Income Partners) downplayed the risk of a currency war, rationalizing that such an event was neither in the interest of Washington, DC nor Beijing. Chinese inflation would lead to a real appreciation of the yuan and reduce Chinese competitiveness.

Chua predicted that in a dollar-flooded market, investors would be tempted to take on more risk. She stated that the history of sudden large inflows into emerging countries has not been pretty,” and central bankers were justified in their concerns to control potential “hot money.”

The potential for the “dim sum” or CNH market (yuan-denominated bonds issued in Hong Kong) was also a panel topic. There was general agreement that the nascent CNH market is a step towards convertibility of the Chinese yuan (CNY) –albeit just an initial move; as it is offshore, it would remain separate and distinct from the CNY. Mukhi forecast that the dim sum market could grow exponentially, as banks, state agencies and later corporates take advantage of it to issue debt.

Chander noted the explosive growth of this market already in the three months since inception, and described it as potentially reaching $1 trillion in size within 5-7 years. “The Chinese will want to keep the CNY from being convertible, at least for a while,” he underscored.

Condon reminded participants of their correct call on “market darling” Indonesia at the 2009 event. Panelists unanimously concurred that Indonesia could be awarded investment grade ratings in 2011. “I think it is priced in already,” observed Chua.

Hong Kong (continued)

On a structural note, the future bodes well for EM, panelists agreed. Macquarie Fund Management's John Bugg offered his assessment that "the world is waking up to the fact that the Asian markets are strong; in contrast, developed countries have structural problems that won't be fixed in a hurry." Bugg argued that growth assets must be used to fund pension liabilities, and the "2% returns in developed countries don't do that."

Chander pointed out that sovereigns such as Brazil and Indonesia already trade inside Italy; and that the share of global investments in EM is below EM's share of global GDP. "This structural shift in investments from developed markets to EM is permanent," he declared.

Talk of market bubbles was largely discounted. Chua cited credit upgrades and strong balance sheets as justifying EM equity pricing; and also believed fundamentals supported commodity pricing levels. Panel members expressed little anxiety on fixed income levels-- "we see a good year in fixed income in 2011, though not as good as in 2009 or 2010," Mukhi stated.

What are the risks in the market? "In buying Asian FX, you are betting against Central Bank intervention," stated Chua, who added that some central bankers (e.g. those in India, Philippines, and Singapore) appeared to be more tolerant of appreciation than others. Chua also cited political risk/protectionism, excessive leverage, and an expiration of tax cuts in the US ("which would have a temporary effect, though not a Lehman effect.")

Chander would monitor food pricing, noting this was not currently priced into the market while having been a market concern in recent years. Oil rising over $100 per barrel, and a more aggressive China (perhaps taking a more belligerent stance on islands whose ownership is disputed with Japan) could also disrupt the market.

How Asian central banks can absorb new inflows of cash remains an issue, according to Mukhi. A property bubble rising from such inflows remained something to watch. Capital controls might not be sufficient to fight sudden dramatic inflows, "people will pay those costs," he added. Finally, inflation was a potential concern for Bugg, although he acknowledged this was not something that was "worrying me too much."

The panel concluded with top investment recommendations for the next twelve months. Chua advised attendees to buy the KRW, SGD and Philippine peso. Additionally, Chinese equities "have lagged and have some catch-up potential." Mukhi spoke enthusiastically on Chinese properties, as well as the Shanghai equity index and gold. Bugg gave a third vote to Asian equities, especially airline and utility stocks.

On a contrarian note, Chander believed peripheral Europe now offers opportunities. "I would consider 5-7 year Greek bonds."

Emerging Market Benefit NYC to Follow EMTA Annual Meeting

Members of the Emerging Markets Charity Benefit (EMCB) Planning Committee are finalizing plans for the industry's New York annual EM charity fundraiser. The event is slated for Thursday, December 2, 2010 immediately following EMTA's Annual Meeting. It will again be held at the Marriott Marquis Hotel in Times Square.

Tickets to the event went on sale in July and tables sold out quickly. Over 500 market participants will attend. In 2009, the EMCB distributed $407,000 to Emerging Markets charities, and organizers hope to surpass that total this year.

The Benefit will include a silent auction. Prizes include: use of holiday homes in Belize, Sun Valley and Maine; a private tour of the Metropolitan Museum; a sightseeing flight up the Hudson River; tickets to the Metropolitan Opera, plus Knicks and Rangers games; passes to a taping of Good Morning America; a Gucci watch, fine wine, golfing outings and much more.

In addition, attendees may purchase raffle tickets for the chance to win a week's stay in Playa del Carmen, Mexico. Other raffle prizes include a gift certificate to Del Frisco's restaurant and a bottle of Dom Perignon.

The five beneficiaries of the 2010 event are:

- **Empower**, which connects the Emerging Markets community with local organizations providing tools and resources to enable at-risk young people to lead healthy and productive lives www.empowerweb.org;
- **Fonkoze**, which offers micro finance services aimed at improving the economic and social conditions in Haiti www.fonkoze.org;
- **NESST**, which provides financial and capacity-building support to social enterprises in Central Europe and Latin America www.nesst.org;
- **Orphaned Starfish Foundation**, which works with orphans and disadvantaged children throughout Latin America www.orphanedstarfish.org; and
- **WorldFund**, which promotes education in Latin American www.worldfund.org.

The Planning Committee continues to welcome new Committee members for the 2011 event. Please contact Jonathan Murno of EMTA at jmurno@emta.org for more information.

GDP-Linked Bonds: A Dialogue with the Market

As described in the 3Q EMTA Bulletin, EMTA is following up on the suggestion made at a meeting of the Commonwealth Secretariat in June for more dialogue by the private sector regarding the use of counter-cyclical financial instruments (for example GDP-linked bonds) that could be useful to ease financial stress in certain emerging markets, or more generally for a variety of issuers.

We have been collecting comments from market participants on a number of issues relating to these types of instruments and would welcome more input. Please contact Leslie Payton Jacobs at lpjacobs@emta.org for a copy of the most recent memorandum summarizing market participant feed-back, or for more information about this initiative.

Bond & Warrant Trading & Settlement

Venezuela Oil Obligations Payment

The October 15, 2010 Oil Obligations payment was made to holders of record as of September 30, 2010, and EMTA recommended that trades be "ex-dividend" on September 28. Click Here for the Fiscal Agent notice regarding the calculation of payment.

Nigeria Payment Adjustment Rights Payment

Click Here for the Fiscal Agent notice regarding the calculation of the November 15, 2010 payment.

Uruguay VRR Payment

Click Here for the Fiscal Agent's notice regarding the July 1, 2010 VRR payment's calculation of zero.

To date, no payments have ever become due on these VRRs.

* * * * *

Please note that all EMTA Documents may be found in the Documentation area of EMTA's website (http://www.emta.org/doc.aspx), including EMTA Primers for Warrants and Market Practices. For further information, please visit the New Developments area of EMTA's website or contact Aviva Werner at awerner@emta.org.

FX & Currency Derivatives

Cross-Currency NDF Working Group Meetings Are in Full Swing

The EMTA Cross Currency NDF Working group, constituted at the request of the FXC, has been meeting since the spring regarding the standardization of practices for cross-currency non-deliverable FX transactions with a view toward eliminating market disagreements over basic contractual terms and increasing efficiency and transparency in settlements and trade processing with increased automation as an important goal. The group has representatives from the trading, legal and operations departments of a number of market participants in order to include the necessary spectrum of viewpoints on the topic. The group has struggled with finding an acceptable way to balance the interests of having flexibility to meet client needs and with meeting regulatory concerns for more standardization and automation. Among the areas of greatest discussion have been whether or not agreement can or should be reached on specific rate sources and standardizing applicable business day conventions and settlement formulas. In addition, the group faces the task of reducing these discussions to an architecture and documentation infrastructure that will settle well into, and be completely compatible with, the existing dollar-settled architecture for NDFs and NDOs (including Master Confirmation Agreements). Currently, the 1998 FX and Currency Option Definitions are lacking a number of needed terms and definitions to support the development of documentation architecture; those will need to be addressed with as little disruption as possible to the existing definitions and market practices. The working group has been looking at a first draft of a proposal to address these many issues and conversations will need to continue. Going forward, there will also be a need to broaden the conversation among other industry groups to ensure adequate input into the project and a broad based comfort and consensus with the result.

Input Needed To Advance Latam Inflation Index NDS Efforts

This working group, comprising representatives from EMTA and ISDA member organizations, has been discussion the best to advance the goal of standardization for Latin American inflation-indexed non-deliverable swaps. The inflation indices targeted by this group include ARS-CER, CLP-UF, COP-UVR, PEN-VACU and MXN-UDI.

The group currently is focusing on the development of standard definitions for the inflation indices mentioned above; however, input is very much needed to develop this standardized language. EMTA Members with suggestions are encouraged to share them and those with greater interest in this topic are invited to join this working group.

Nigerian Naira NDF Proposal Issued

After several months of work, the EMTA African Currency Working Group has developed a proposal for standardized market practices and documentation for non-deliverable forward FX transactions for the Nigerian Naira. This proposal has been distributed to the EMTA membership for review and comment and draft documentation can be found on EMTA's website in the FX and Currency Derivatives Documentation area of the EMTA website. This proposal includes standardized language for the currency and rate source to be added to Annex A to the 1998 FX and Currency Option Definitions, a set of Template Terms to be used for documenting transactions and a survey rate methodology for a back up rate source in the event the recommended primary rate source is unavailable. After consultation with the FMDA (Financial Markets Dealers Association) in Nigeria, the working group decided to recommend the rate produced by that group as the recommended primary rate source (the so-called "NAIFIX" rate). In addition, the proposal outlines both Disruption Events and Fallbacks, a Deferral Period of 14 days, and largely follows the models previously set forth by EMTA for other currencies. Comments are requested by December 10, 2010.

* *

For further information regarding the above, as well as FX & Currency Derivatives matters generally, please contact Leslie Payton Jacobs at lpjacobs@emta.org or (301) 838-4552.

EMTA Members:
To obtain a password for the Members Only area, please CLICK HERE

Website Updates and Additions

Key Industry Views

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

To submit materials for posting to this area, please contact EMTA by email at jmurno@emta.org.

- "Irish Woes Should Speed Europe's Default Plan." November 15, 2010 - Nouriel Roubini (NYU).
- "All Cart and No Horse." November 10, 2010 - Richard Segal (Knight Libertas).
- "CNH – Dim Sum-ised?" November 2, 2010 – Nizam Idris and Sid Mathur (UBS).

New Developments

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

- November 22, 2010 - Items Available for Silent Auction at the Emerging Markets Charity Benefit to be Held in New York on December 2, 2010.
- November 17, 2010 - Holiday Schedule for EM Bond Trades for US Thanksgiving Day Holiday.
- November 15, 2010 - EM Charity Benefit NYC – Raffle Information.
- November 14, 2010 - Statement by the IMF Mission to Iceland.
- November 11, 2010 - Moody's Upgrades China's Foreign-Currency Government Bond Rating from A1 to Aa3.
- November 5, 2010 - "Should Argentina be Welcomed Back?" - Report by Arturo Porzecanski (American University) at EMTA's Special Seminar "Argentina: Pros and Cons".
- November 5, 2010 - Fitch Upgrades Ecuador's Foreign-Currency Issuer Default Rating from CCC to B-.
- November 1, 2010 - Affonso Pastore to Deliver Keynote Address at EMTA's Annual Meeting on December 2, 2010.
- November 1, 2010 - Fiscal Agent Notice Regarding November 15, 2010 Payment on Nigeria Payment Adjustment Rights.
- October 27, 2010 - Holiday Schedule for EM Bond Trades for US Veterans' Day Holiday.
- October 22, 2010 - EMTA Special Seminar: Argentina: Pros and Cons to be Held on November 5, 2010 in NYC.
- October 19, 2010 - Presentation by Peter Dattels, International Monetary Fund, at EMTA Fall Forum.
- October 13, 2010 - Argentine Undersecretary of Finance, Adrián E. Cosentino, Will Deliver a Keynote Address at EMTA's Fall Forum on October 19, 2010. Sponsored by Bulltick Capital Markets.
- October 7, 2010 - EMTA's Third Quarter Bulletin is Now Available in our Bulletin Section.
- October 7, 2010 - Calculations for Payments on Venezuela Oil Obligations Announced.

Website (continued)

Reminders: Visit the *Employment, From the Market* and *Litigation* areas

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

Because of the difficult employment environment resulting from the credit crunch, EMTA has revised the Job Opportunities area of its website to include both:

- listings of employment opportunities in the EM trading and investment community posted (for a fee) by prospective employers (Job Opportunities); and
- summary resumes posted (free of charge) by individuals seeking employment positions in the EM trading and investment industry (Jobs Wanted).

For the sake of accommodating individual preferences and sensitivities, postings may contain as much, or as little, detail as desired, and initial contact between prospective employers and employees may be arranged through EMTA.

The Job Opportunities/Employment area includes opportunities and applicants from around the globe in 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.

To post an employment opportunity, please contact Jonathan Murno of EMTA at (646) 289-5413 or at jmurno@emta.org. To post a summary resume, please contact Suzette Ortiz of EMTA at (646) 289-5414 or at sortiz@emta.org.

Litigation is where various court decisions and related litigation materials are posted that may be of interest to the EM trading and investment community. Cases can be viewed alphabetically in the more comprehensive List of Cases, as well as by specific subject matter category in reverse chronological order. If you are aware of any pertinent information which would be useful to post here, please contact Aviva Werner at awerner@emta.org or (646) 289-5412.

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 importantly, whether there is something that EMTA should be doing, or doing differently, to better serve the EM marketplace.

Miscellaneous

EMTA Membership Update

EMTA's newest members include:

- **Esemplia Emerging Markets**
- **Linklaters**

If you are interested in EMTA Membership, or if you know of prospective Members, please contact Jonathan Murno at jmurno@emta.org or (646) 289-5413 or Suzette Ortiz at sortiz@emta.org or (646) 289-5414.

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.

Information for Volume Survey Participants

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

If you are not currently a participant in the EMTA Volume Survey and believe you can contribute data for this purpose, or wish to find out more about being a survey participant, please contact Jonathan Murno at jmurno@emta.org or (646) 289-5413. Individual Survey responses are kept strictly confidential.

Misc

Sadly, Starla Griffin, EMTA's former Managing Director in Europe, left EMTA effective November 30 to pursue other interests.

Since 1996, Starla has worked with great skill on many FX, Local Markets and policy matters and most recently has spearheaded EMTA's work regarding the African capital markets.

We are sorry to see Starla go, but wish her continued success in all of her future endeavors, including those involving Africa and other Emerging or Frontier Markets.

Save the Date

Tuesday, January 25, 2011

Corporate Bond Forum (London)

Sponsored by ING

(information and invitations to follow)

EMTA Hotlines

Topic	Contact	Telephone
Asia	Jonathan Murno/Leslie Payton Jacobs	(646) 289-5413/(301) 838-4552
Bond/Loan Trading	Aviva Werner	(646) 289-5412
Clearing Corp.	Michael Chamberlin	(646) 289-5410
Corporate Bonds	Jonathan Murno/Leslie Payton Jacobs/ Aviva Werner	(646) 289-5413/(301) 838-4552/ (646) 289-5412
Credit Derivatives	Leslie Payton Jacobs/Aviva Werner	(301) 838-4552/(646) 289-5412
EM Bond Charts	Aviva Werner	(646) 289-5412
EM Charity Benefits	Jonathan Murno	(646) 289-5413
EM Litigation	Aviva Werner	(646) 289-5412
EMTA Annual Meeting/Forums	Jonathan Murno	(646) 289-5413
EMTA Governance	Michael Chamberlin	(646) 289-5410
FX and Currency Derivatives	Leslie Payton Jacobs	(301) 838-4552
International Financial Architecture	Michael Chamberlin	(646) 289-5410
Investor Rights	Michael Chamberlin/Aviva Werner	(646) 289-5410/5412
Legal/Compliance	Aviva Werner	(646) 289-5412
Library and Archive Requests	Evelyn Ramirez	(646) 289-5415
Local Markets	Aviva Werner/Leslie Payton Jacobs	(646) 289-5412/(301) 838-4552
Market Information/Research	Jonathan Murno	(646) 289-5413
Membership	Jonathan Murno/Suzette Ortiz	(646) 289-5413/5414
Netting Facilities	Aviva Werner	(646) 289-5412
Paris Club	Michael Chamberlin	(646) 289-5410
Repos/Securities Lending	Aviva Werner	(646) 289-5412
Volume Surveys	Jonathan Murno	(646) 289-5413
Warrants/VRR's	Aviva Werner	(646) 289-5412
Website	Suzette Ortiz	(646) 289-5414

EMTA staff can also be reached through the general telephone number (646) 289-5410, at the following e-mail addresses or through EMTA's website (www.emta.org).

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Aviva Werner	awerner@emta.org

EMTA Calendar - 4th Quarter 2010

Fri., Oct. 1	**Emerging Markets Benefit London** **Grosvenor House Hotel** **Park Lane (London)**
Mon., Oct. 11	Recommended Market Close (NYC) Columbus Day Recommended 12:00 Noon (London) Early Market Close
Tues., Oct. 19	**Fall Forum (NYC)** **Global Financial Conference Center** **360 Madison Avenue, 17th Floor (NYC)** **Sponsored by Bulltick Capital**
Wed., Oct. 27	**EMTA Singapore Forum** **Fullerton Hotel** **1 Fullerton Square (Singapore)** **Hosted by ING Commercial Bank**
Fri., Oct. 29	**EMTA Hong Kong Forum** **JW Marriott** **Pacific Place, 88 Queensway (Hong Kong)** **Salon 6 - Level 3 JW Marriott Ballroom** **Hosted by ING Commercial Bank**
Fri., Nov. 5	**Special Seminar: Argentina: Pros and Cons (NYC)** **Global Financial Conference Center** **360 Madison Avenue, 17th Floor (NYC)**
Thurs., Nov. 11	Recommended Market Close (NYC) Veterans' Day Recommended 12:00 Noon (London) Early Market Close
Wed., Nov. 24	Recommended 2:00 p.m. (NYC) Early Close
Thurs., Nov. 25	Recommended Market Close (NYC) Thanksgiving Day Recommended 12:00 Noon (London) Early Market Close
Fri., Nov. 26	Recommended Market Close (NYC) Thanksgiving Recommended 12:00 Noon (London) Early Market Close
Thurs., Dec. 2	**EMTA Annual Meeting** **Citigroup, 388 Greenwich Street (NYC)** **2010 Emerging Markets Benefit (NYC)** **New York Marriott Marquis** **Broadway Lounge** **1535 Broadway (NYC)**
Thurs., Dec. 23	Recommended 2:00 p.m. (NYC) Early Market Close
Fri., Dec. 24	Recommended Market Close (NYC) Christmas Day (observed)
Mon., Dec. 27	Recommended Market Close (London) Christmas Day (observed)
Tues., Dec. 28	Recommended Market Close (London) Boxing Day
Fri., Dec. 31	Recommended 2:00 p.m. (NYC) Early Market Close
Mon., Jan. 3, 2011	Recommended Market Close (London) New Year's Day (2011)