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EMTA SURVEY: EMERGING MARKETS DEBT TRADING AT US$1 TRILLION IN SECOND QUARTER 2004

Volumes Decline Slightly in Wake of Interest Rate and Oil Price Concerns

LONDON, August 18, 2004—Emerging Markets debt trading stood at US$997 billion for the second quarter of 2004, according to the quarterly Volume Survey report released by EMTA, the industry trade association for the EM trading and investment community. This represents a 5% decrease from the US$1.046 trillion reported in the first quarter and an 8% decrease compared with the US$1.086 trillion reported in the second quarter of 2003. However trading in the first half of 2004 ran 6% above 2003 levels, at US$2.043 trillion vs. US$1.925 trillion.

Paulo Leme, Managing Director at Goldman Sachs, noted that the decrease in trading volumes was matched by a retreat in asset prices. “After rallying strongly in 2003 and the beginning of the first quarter, Emerging Markets debt sold off during the second quarter of 2004 because of growing concerns about higher US interest rates and higher oil prices,” he stated.

Brazilian debt instruments continued to be the most frequently traded instruments for the second consecutive quarter according to the EMTA Survey. Participants reported trading US$325 billion in Brazilian debt, a 9% increase from the first quarter (US$298 billion) and a 21% increase vs. second quarter 2003 (US$269 billion). Leme noted that Brazilian fixed income securities had sold off early in the quarter because of “growing concerns about changes in economic policy ahead of this fall’s elections in Brazil and the effects of higher interest rates on financing prospects.” Following a successful effort by Brasilia to reassure investors about the continuity of policies, and as US Treasury markets stabilized, prices on Brazilian instruments recovered in tandem with the broader market, according to Leme.

Volumes in Brazilian local instruments rose considerably, up 197% to US$126 billion from US$43 billion in the first quarter. Leme attributed this to “the continued search for higher carry trades in emerging local markets which allowed trading of Brazilian local debt instruments to rise while the volumes in hard current debt declined.” (In fact volumes in Brazil’s C-Bond, which remained the industry’s most frequently traded asset overall, decreased 5% to US$65 billion from US$69 billion in the previous quarter). Brazilian debt trading accounted for 33% of total EM trading.

In contrast to the overall growth in Brazilian debt turnover, Mexican volumes declined 17% to US$204 billion from US$246 billion in the previous quarter (and were down 38% vs. US$331 billion in the second quarter of 2003). This was largely attributable to a 24% decline in Mexican local instrument trading, which fell to US$134 billion from US$177 billion in the previous quarter (a 24% decline). Mexican volumes accounted for 21% of total reported trading.

Russian volumes remained in third place, at US$73 billion, a 1% contraction compared to US$74 billion in the first quarter (and down 4% from US$76 billion in the second quarter of 2003). Russian transactions accounted for 7% of total Survey volume. Turkish volumes stood in fourth place at US$57 billion (up 8% vs. US$53 billion in the first quarter and up 58% from US$36 billion in the second quarter of 2003), and accounted for 6% of total EM trading.

Argentine bond trading stood at US$46 billion, vs. US$35 billion in the prior quarter, and vs. US$18 billion in the second quarter of 2003. Argentine instruments rose to the fifth most frequently traded instruments. Leme noted, “The sharp increase in trading volumes on Argentine debt simply reflects base effects on what are still very relatively low trading volumes.” He attributed the “illusory jump in turnover” to “positioning ahead of any announcements about changes to the Dubai terms that could be made as part of an Argentine debt restructuring.”

Venezuelan volumes declined 21% vs. the previous quarter to US$27 billion during the run up to the election to recall President Hugo Chavez. Venezuelan volumes accounted for 3% of total EM volumes.

Eurobonds at Second Highest Quarterly Survey

Eurobond volume stood at the second highest level ever reported in a quarterly report despite declining 5% to US$463 billion (from US$486 billion in the first quarter). The Brazilian 2040 bond was the most frequently traded Eurobond, at US$54 billion, followed by the Russian 2030 bond (US$43 billion), Turkish 2030 bond (US$20 billion) and Venezuelan 2027 bond (US$8 billion). Survey participants reported that 85% of their Eurobond trading included sovereign issuances (with the remaining 15% attributable to corporate bonds). Eurobond volumes accounted for 46% of total Survey turnover.

Local instrument trading stood at US$426 billion vs. US$430 billion in the second quarter (a 1% decline) as the sharp increase in Brazilian local instruments offset a decline in Mexican local instrument trading (down 24% to US$134 billion). While Brazilian and Mexican debt accounted for the majority (61%) of local instrument trading, participants also reported trading US$23 billion in Polish local debt, US$22 billion in South African local debt and US$19 billion in Singaporean local debt. Local instrument trades accounted for 43% of reported volumes.

Brady bonds accounted for 8% of overall EM trading, at US$80 billion. Options and warrants claimed a 3% share (US$26 billion) and loan transactions accounted for less than 1% of reported trading (at US$2 billion).

EMTA's Survey includes EM secondary market trading activity in sovereign and corporate bonds, local instruments, debt options, warrants and loans issued by over 90 emerging markets countries. 73 firms involved in Emerging Markets debt trading participated in the Survey.

For a copy of EMTA's Second Quarter 2004 Debt Trading Volume Surveys, please contact Jonathan Murno at jmurno@emta.org or at +(44) 20 7996-3165.

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NOTE TO EDITORS:
Founded in 1990, EMTA (formerly the Emerging Markets Traders Association) is a not-for-profit corporation dedicated to promoting the orderly development of fair, efficient and transparent trading markets for Emerging Markets instruments, and the integration of the Emerging Markets into the global financial marketplace. EMTA, with over 100 member firms worldwide, has published its Volume Surveys since 1992. EMTA's Debt Trading Volume Survey includes data provided by over 70 major international broker-dealers, banks and investors.