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For Immediate Release

EMTA SURVEY: THIRD QUARTER 2002 EMERGING MARKETS DEBT TRADING AT US$670 BILLION

Down 24% from Third Quarter of 2001
Steepest Volume Declines in Riskier Assets

NEW YORK, November 12, 2002—Emerging Markets debt trading volume stood at US$670 billion for the third quarter of 2002, according to EMTA's Third Quarter 2002 Debt Trading Volume Survey. This compares with US$841 billion in the previous quarter (a 20% decrease), and US$885 billion in the third quarter of 2001 (a decrease of 24%). EMTA noted that, while the third quarter is often one of the slowest trading quarters of the year, trading volumes during the period this year were at the lowest level reported to EMTA in over two years.

Alberto Ades, Managing Director and Director of Emerging Markets Bond and Currency Research at Goldman Sachs, attributed the reduced activity to greater investor caution in the global financial markets, asserting that "low volumes are characteristic of high risk aversion." In addition, he noted that bond exchange offers, which have increased Emerging Markets trading levels in the recent past, did not occur during the third quarter as a result of market speculation regarding the Brazilian presidential race and economy.

Jim Barrineau, Vice President of Research at Alliance Capital, also suggested that the reduction in volumes might be linked to recent proposals by G-7 officials to create a new Sovereign Debt Restructuring Mechanism (SDRM) to resolve Emerging Markets debt crises. While acknowledging that it was probably impossible to determine what specific percentage of the recent reduction in trading volumes was attributable to the official sector's SDRM stance, Barrineau commented that, "Washington's recent actions are not only working to reduce trading levels but also effectively discouraging new capital flows to developing nations ."

Participants in EMTA's Survey indicated substantially decreased volumes in riskier countries such as Brazil (down 32% qoq), Venezuela (down 53% qoq) and Ecuador (down 45% qoq) while reporting that their trading of higher-rated countries rose or declined less sharply (South African debt volumes rose 14%, while Russian and Mexican volumes were down 13% and 15%, respectively). EMTA noted this trading pattern mirrored portfolio recommendations from several market strategists.

Mexican, Brazilian Instruments Remain Most Frequently Traded

With US$195 billion in third quarter turnover, Mexican debt remained the most frequently traded instruments. Turnover in local treasury instruments, which account for three-fourths of Mexican instrument trading, stood at US$143 billion, contracting 7% from US$154 billion in the previous quarter and 42% from third quarter 2001 volume of US$246 billion. Mexican eurobond trading, at US$34 billion, declined 40% from the US$56 billion Survey participants reported in the second quarter.

Brazilian volumes shrunk by almost one-third vs. the previous quarter, but remained the second most frequently traded assets. Third quarter volumes stood at US$154 billion, compared to US$227 billion in the previous quarter (and US$172 billion in the third quarter of 2001). Volume decreases were consistent throughout Brazilian instruments, with C-Bond volume off 33% to US$69 billion from US$102 billion, Brazilian eurobond trading down 40% at US$34 billion (including Brazil 2040 Bond trading of US$9 billion, down 44%) and local instrument trading declining by 37%.

EMTA noted that several analysts recommended that investors cut exposure to Brazil during the third quarter. Ades commented, "We have stayed underweight on Brazil for the most of the past seven or eight months on the view that the macro challenges facing Brazil, including weaker capital flows, lower growth and rising net public debt, were independent of the winner in the elections." He added, however, that most investors made any adjustments to their investment strategy decisions on Brazil by August and "we have not seen massive changes in strategy from them since."

South African Volumes Rise, Mild Decrease in Russian Trading

South African volumes (at US$57 billion) were third most frequently traded, the highest volume ranking ever for such instruments. Survey participants reported trading US$50 billion in South African debt in the second quarter and US$37 billion in the third quarter of 2001. Volumes remain largely comprised of local instrument trading (US$45 billion), or 79% of all South African trading.

Trading of Russian assets declined 13% to US$52 billion in the third quarter vs. US$60 billion in the second quarter. Russian 2030 Bond trading accounted for the majority of Russian turnover at US$31 billion (down 18% qoq). Ades suggested that reduced volumes in Russian trading may be related to the generally low amount of trading done by hedge funds during the third quarter, stating "they tend to be quite active in Russia."

Volume in Venezuela Off 53%

Venezuelan volumes dropped by 53% vs. the previous quarter as political tension remained high following the April coup and countercoup. “Fundamentals in Venezuela are still quite weak,” opined Ades, “and a number of accounts refuse to play in the credit.” Ades equated owning Venezuelan debt to being “long two options: one on oil and one on a resolution of the political impasse.” Turnover in Venezuelan debt declined to US$16 billion from US$34 billion in the second quarter and from US$20 billion in the third quarter of 2001.

Argentine volumes contracted further to US$4 billion, down from US$7 billion in the second quarter (a 25% decrease) and US$87 billion in the third quarter of 2001 (a 95% decline). Analysts attribute this to the continued elusiveness of an IMF agreement, or any other significant positive development in the country since its announcement last December that it would default on outstanding foreign debt.

Local market volumes accounted for 48% of total Emerging Markets trading, the highest share ever in EMTA’s quarterly report. 32% of volumes were in Eurobonds, compared with a 36% share in the previous quarter. Brady bonds accounted for 15% of volumes with 4% of trading in options and 2% in loans.

Remaining Cautious on EM Outlook

Going forward, Ades remains careful in his view on Emerging Markets debt. “We are still cautious about Brazil, and political prospects are still quite unclear in Argentina, Ecuador and Venezuela,” said Ades, who believes that a possible recovery in the US equity market is “pretty much all we expect in terms of good news.” Thus, Ades continues to recommend a portfolio which is biased against high yielding, high beta Emerging Markets credits.

For a copy of EMTA’s Third Quarter 2002 Debt Trading Volume Survey, please contact Jonathan Murno at jmurno@emta.org or at +(212) 908-5022.

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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, which has over 100 member firms worldwide, has published its Volume Surveys since 1992.