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For Immediate Release

EMTA SURVEY: SECOND QUARTER 2001 EMERGING MARKETS DEBT TRADING AT US$864 BILLION

Market Volatility Keeps Volumes at High Levels

NEW YORK, August 2, 2001—Trading in Emerging Markets debt instruments stood at US$864 billion in the second quarter of 2001, according to EMTA's Second Quarter 2001 Debt Trading Volume Survey. This represents a 5% decrease from the US$913 billion Survey participants reported in the first quarter of 2001, although trading was 27% higher than the US$681 billion reported in the second quarter of 2000.

Trading in the first half of 2001 thus stood at US$1.776 trillion, up 24% from US$1.429 trillion in the first half of 2000. EMTA Survey participants reported annual trading volume of US$2.846 trillion in Emerging Markets debt last year.

Tulio Vera, Managing Director and Head of Emerging Markets Debt Research at Merrill Lynch, named several reasons for the high level of trading volumes, most of which related to recent market turbulence rather than any new appetite for Emerging Markets paper. Vera noted that increased volatility due to concerns over the Argentine and Turkish economies has led to instances of illiquidity and dislocations which “have offered up more relative-value and arbitrage situations,“ while some market participants have attempted to take advantage of the volatility and “trade the ranges.” Furthermore, Vera commented that local investors “have been active traders of the market and taken less of a buy-and-hold attitude,“ while “the volatility and uncertainty resulting from problematic fundamental conditions in some countries have led to more activity on the part of hedge funds.”

Mexican Instruments Most Frequently Traded

For the third consecutive quarter, Mexican obligations were the most frequently traded debt instruments, accounting for 30% of total volume. Survey participants reported trading US$262 billion in Mexican debt (a 22% decrease vs. US$335 billion in the first quarter but still nearly double the US$138 billion reported in the second quarter of 2000). Many investors have seen Mexico as a “safe haven” recently; in addition, its investment grade rating from Moody’s means it has a larger investment base than non-investment grade countries.

Brazilian instruments were the second most frequently traded instruments at US$178 billion, virtually unchanged from the US$180 billion reported in the first quarter (although down 9% from the US$196 billion in the second quarter of 2000.) The third most frequently traded were Argentine instruments, which reached their highest quarterly level in three years, at US$119 billion vs. US$117 billion in the previous quarter (and up 42% vs. US$83 billion in the second quarter of 2000).

Local Markets Volume at US$335 Billion; Eurobond Trading at US$330 Billion

Total reported turnover in local markets instruments and eurobonds were nearly identical, at US$335 billion and US$330 billion respectively (and 39% and 38% shares of trading, also respectively). Local instrument trading continued to be largely composed of Mexican debt (US$199 billion), which accounted for 59% of all local instrument trading. Other frequently traded local instruments were those issued by South Africa (US$25 billion), Poland (US$16 billion), Brazil (US$16 billion) and Singapore (US$15 billion).

Russian issues were the most frequently traded eurobonds, up 31% to US$66 billion in the second quarter from US$51 billion in the previous quarter. Next were Brazilian eurobonds (US$63 billion) and Argentine eurobonds (US$52 billion). Despite US$1.6 billion in new issuance in Lebanese debt in the first six months of 2001, Survey respondents reported a mere US$479 million in Lebanese eurobond turnover.

The overall market share for Brady Bonds stood at 19%, slightly higher than its 17% share in the first quarter, but well below the 27% share it held in the second quarter of 2000. Brady Bond turnover has generally decreased over time as outstanding Brady debt is exchanged or otherwise retired, but during the quarter, “actual and potential debt exchanges [including Argentina’s recent mega-swap] have led to increased volumes in the Bradys,” noted Vera.

Survey respondents also reported trading US$26 billion in options and US$7 billion in loans.

Trading More Concentrated in Benchmarks

Brazil’s C-Bond remained the leading industry instrument in terms of volume, with US$63 billion in volume. The Argentine FRB accounted for US$47 billion in turnover, and Survey participants traded US$38 billion worth of Russia’s 2030 bond. Vera commented that “as market conditions became more uncertain during the quarter, participants lost conviction, and trading volumes became highly concentrated in these more liquid benchmark issues. Investors sought the more liquid instruments as a means of expressing their lack of conviction and in order to be able to trade in and out of the market more easily." Turnover in the top three individual assets accounted for 17% of all volume in the second quarter, vs. 13% of trading in the prior quarter.

Russia and Ecuador Turnover Increases; Turkish Volumes Down 29%

Volume levels rose in Russia and Ecuador, countries which defaulted in 1998 and 1999, respectively, but which have recently been recommended by a number of analysts. Russian volumes rose 27% to US$77 billion from US$61 billion in the first quarter (and up 42% vs. second quarter 2000 volume of US$54 billion.) Vera observed that some of the increase in Russian volumes could be attributed to the "increased presence of Europeans in the market."

Ecuadorian trading rose 47% from the previous quarter to US$7.6 billion from US$5.2 billion (and up more than 400% from the US$1.4 billion reported in the second quarter of 2000).

Meanwhile, volumes in Turkish instruments continued to decline to their lowest level in four years in the aftermath of the recent crisis in the Turkish economy. Trading in Turkish local instruments, a former market favorite, declined to US$3.8 billion following the depreciation of the Turkish lira and in anticipation of a local debt restructuring. Overall Turkish volume (US$17 billion) was down 29% vs. the previous quarter.

Survey participants reported trading US$2.3 billion worth of Mexican Value Recovery Rights (based on underlying face value). After lengthy debate, EMTA issued a market practice in February recommending that the Rights, which may entitle the holder to a cash payment based on the price of Mexican oil exports, be traded separately from the Brady Bonds to which they were originally attached.

For a copy of EMTA's Second Quarter 2001 Debt Trading Volume Survey, please contact Jonathan Murno at (212) 908-5000.

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NOTE TO EDITORS:
Founded in 1990, the 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 annually since 1992 and quarterly since 1997.