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EMTA SURVEY: EMERGING MARKETS DEBT TRADING NEARLY US$4 TRILLION FOR 2003

Volumes in the Final Quarter at US$1 Trillion

NEW YORK, February 19, 2004—Emerging Markets debt trading volume stood at US$3.973 trillion in 2003, according to EMTA's just-published 2003 Annual Debt Trading Volume Survey. This represents a 29% increase in trading levels compared to the US$3.068 trillion reported by Survey participants in 2002, and is the highest level of annual trading since 1998, when fallout from the Asian and Russian financial crises resulted in a sharp and extended contraction in the Emerging Markets debt industry.

Fourth quarter 2003 volumes stood at US$1.015 trillion, down slightly from US$1.033 trillion in the third quarter, but 32% higher than US$768 billion in the fourth quarter of 2002. EMTA noted that quarterly volumes have now remained above the US$1 trillion mark for three consecutive quarters.

Joyce Chang, Head of Global Currency, Emerging Markets and Commodities Research at JP Morgan, stated, "Emerging Markets have benefited from record inflows as investors shift from a more opportunistic to strategic approach to investing." Chang added that "the structural rotation since early 2003 out of equities and into fixed income has boosted demand for higher-yielding credit products," and noted that the rally in commodity prices and an earlier-than-anticipated awarding of an investment-grade rating to Russia further boosted interest in the Emerging Market asset class.

Mexican Local Instrument, Brazilian Bond Turnover Dominate

Mexican instruments remained the most frequently traded instruments for the third consecutive year. Mexican volumes stood at US$1.304 trillion in 2003, or about one-third of total reported volume (up from 31% in 2002). Mexican volumes rose 37% vs. US$949 billion in 2002. On a quarterly basis, Mexican turnover reached US$383 billion in the fourth quarter of 2003, up 18% vs. third quarter volumes of US$324 billion. Mexico, the first country to issue Brady bonds in 1990 also became the first country to fully pay off its Brady issues in 2003.

Turnover in Mexican instruments remained highly concentrated in purchases or sales of local treasury instruments (US$1.042 trillion), with such trading alone accounting for 26% of total Emerging Markets volume. Chang observed that the Mexican government has "deliberately shifted its focus from external financing to deepening its local markets and extending local debt maturities."

Survey respondents reported trading US$909 billion in Brazilian debt in 2003, a 29% increase from 2002 volume of US$707 billion. Despite the annual increase, volume in Brazilian instruments declined steadily during the last three quarters of 2003, from a high of US$269 billion in the second quarter down to US$217 billion in the fourth quarter. The benchmark C-Bond led this trend, standing at US$59 billion in the fourth quarter, down 18% from third quarter turnover of US$72 billion and off 29% from US$84 billion in the second quarter. On an annual basis, C-Bond levels dropped slightly to US$287 billion, a one per cent decline from 2002 volume of US$289 billion. Brazilian instrument turnover accounted for 23% of total reported trading, unchanged from 2002.

Russian instruments were the third most frequently traded, at US$288 billion, accounting for 7% of total volumes. This compares with US$245 billon in 2002 (an 18% increase), when Russian volumes had an 8% market share. The majority of Russian trades included the Russian 2030 bond, of which Survey participants reported trading US$149 billion in 2003 vs. US$137 billion in 2002 (a 9% increase).

South African volumes, at US$158 billion (down 4% from US$164 billion in 2002), were the fourth most frequently traded instruments in 2003. Turkish instrument trading rose 71% to US$142 billion in 2003 from US$83 billion in 2002 and were the fifth most frequently traded assets.

Local Markets At 46% of Volume, Eurobonds at 37%

Local instruments turnover stood at US$1.837 trillion in 2003, accounting for 46% of total reported volume. This represents a 30% increase from local markets volume in 2002 (US$1.411 trillion). Although the vast majority of local instrument trading involved Mexican instruments, market participants also reported trading US$108 billion in South African local instruments, US$99 billion in Polish local debt and US$87 billion in Singapore local instruments. On a quarterly basis, local instrument share of Emerging Markets volume ranged from 41% of trading in the second quarter to just over 50% in the fourth quarter.

Eurobond trading represented 37% of annual volume, its highest annual level. US$1.486 trillion worth of Eurobonds were traded in 2003, vs. US$1.063 trillion in 2002, a 40% increase. 82% of Eurobond trading included sovereign issues, with 17% in corporate issues (and a small amount of unspecified trades). Brazilian issues dominated Eurobond trading (US$361 billion), followed by Russian (US$248 billion), Mexican (US$241 billion) and Turkish issues (US$114 billion).

Brady bond trading continued to decline as outstanding debt was bought back or exchanged for new issues; Brady debt accounted for US$456 billion in 2003 (vs. US$459 billion in 2002), and a 12% share of overall trading in 2003, although market share dropped consistently from 13% in the first quarter to 9% in the fourth quarter. Option trading totaled US$138 billion, or 4% of reported volume. Loan trading stood at US$58 billon, a 2% share of Survey turnover.

Market to Retrench in 2004?

Strong volume in 2003 was accompanied by a large rally in the asset class, with the benchmark EMBI Global Index returning 26% for the year. In fact, in a recent research report JP Morgan noted that Emerging Markets debt has provided annualized returns of 15% since 1991.

However, Chang cautioned that the strong rally in Emerging Markets debt at the end of 2003 and into the first weeks of 2004, “has left Emerging Markets valuations at levels that were priced to perfection,” and that the market is now consolidating. Chang is predicting a flat return for Emerging Markets debt in 2004.

For a copy of EMTA’s 2003 Fourth Quarter and 2003 Annual Debt Trading Volume Surveys, please contact Jonathan Murno at jmurno@emta.org or at +(646) 637-9105.

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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.