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For Immediate Release

EMTA SURVEY:
THIRD QUARTER 2003 EMERGING MARKETS DEBT TRADING AT US$1.033 TRILLION

Volumes Remain Above US$1 Trillion for Second Consecutive Quarter

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NEW YORK, November 17, 2003—Emerging Markets debt trading volume stood at US$1.033 trillion in the third quarter of 2003, according to EMTA's just-published Debt Trading Volume Survey. Although volume declined 5% from the US$1.086 trillion reported in the previous quarter, overall trading activity remained at levels last seen prior to the 1998 Russian debt crisis.

Arnab Das, Global Head of Emerging Markets Research and Strategy at Dresdner Kleinwort Wasserstein, observed that new money is still flowing into Emerging Markets debt instruments. "Mandates continue to come into Emerging Markets because of high Sharpe Ratios and expectations that global policy rates will remain low," he explained. However, Das cautioned that while secondary volumes will probably remain high, they are unlikely to revert to the levels of the 1996-97 boom years, "both because banks are less willing to carry balance sheet risk, and because the massive, amortizing Brady-type bonds one would normally receive from sovereign default restructurings are being replaced by a series of substantial but comparatively smaller, less liquid bullet bonds across well-populated spread curves."

Mexican, Brazilian Turnover Dominate

Mexican volumes stood at US$324 billion, vs. US$331 billion in the prior quarter and US$195 billion in the third quarter of 2002, and represented 31.4% of all volumes reported by Survey participants. Mexican local instruments accounted for the majority of Mexican trading, at US$263 billion (or 81% of Mexican turnover). Mexican instruments remained the most frequently traded (as they have since the third quarter of 2000).

24.5% of reported volume consisted of Brazilian debt instruments, which stood at US$253 billion (down 6% from US$269 billion in the second quarter, while up 64% from US$154 billion in the third quarter of 2002 when some investors were concerned about the possibility of a Brazilian default). Brazilian C-Bond volumes stood at US$72 billion, down 14% from US$84 billion in the third quarter, but up 5% from third quarter 2002 volume of US$69 billion. Brazilian assets were the second most frequently traded Emerging Markets debt instruments.

Third most frequently traded were Russian debt instruments, accounting for 8.2% of volumes at US$85 billion, up 12% from the previous quarter (US$76 billion) and up 63% from the third quarter of 2002 (US$52 billion). Das opined that the recent upgrade of Russia's sovereign credit rating to investment grade by Moody's would "eventually open up that country to more investors; some of this has happened already, though the Yukos affair has given people some pause." Das speculated that after the March 2004 presidential election, "a semblance of normality will return, validating the recent price recovery, and over time, we expect dedicated investors to get more heavily into Russian corporates, while crossover investors become more active in the sovereign."

Venezuelan volumes stood at US$40 billion, rising for the fifth consecutive quarter (from US$36 billion and US$33 billion in the last two quarters, respectively). Volumes were fairly evenly divided between Venezuelan Brady debt and Eurobonds, both at approximately US$19 billion. "Venezuela, to a significant degree, has benefited from both global factors--high oil prices, low rates and continued funds inflows--and some easing of domestic political and financial pressures," Das remarked. "Political risk is, and will remain, high as long as the Chavez issue is unresolved, but we expect investors will continue to take exposure to Venezuela, sustaining trading volumes, as capacity to pay remains high, and doubts about willingness are being eased," Dab stated. Venezuelan instruments accounted for 3.9% of total reported volumes and were the fourth most frequently traded, up from seventh in the second quarter.

Argentine volumes stood at US$12 billion, a 30% decrease from second quarter trading of US$18 billion, but up 196% over third quarter 2002 volume of $4 billion. Survey respondants reported volumes of US$7 billion in sovereign Eurobonds and US$3 billion in corporate Eurobonds, with lesser trading in local instruments and Bradys. "There must clearly be some optimists, but we are not in this camp," affirmed Das. He continued that current debt valuations might be "way too high" because of a "lack of a strong fiscal effort to recapitalize local banks, which constrains the fiscal resources to pay coupons on the debt to be restructured." Argentine instruments ranked 13th in terms of volume and accounted for 1.2% of total volumes.

Local Markets Near 47% of Volume, Eurobonds at 39%

46.8% of volumes involved trades of local markets instruments, with reported turnover of US$484 billion in the third quarter (vs. US$440 billion in the previous quarter, a 10% increase). Mexican local instrument trading led the field (US$263 billion), followed by local treasury instruments issued by South Africa (US$33 billion), Brazil (US$32 billion), Singapore (US$30 billion) and Poland (US$25 billion).

Eurobond market share equaled 38.7% of total trading. Survey participants reported trading US$400 billion in Eurobonds, including US$335 billion in sovereign issues (down 6% from the previous quarter) and US$59 billion in corporate issues (a decline of 23% quarter-on-quarter). Russia's 2030 bond dominated Eurobond volumes at US$53 billion, followed by US$25 billion in turnover in the Brazil 2040 bond, US$17 billion in the Turkey 2030 bond, US$10 billion in Venezuela's 2027 issue and US$6 billion in Brazil's 2024 bond.

Brady bond trading continued to decline, accounting for US$116 billion (vs. US$143 billion in the second quarter), an 11.3% share of overall trading. Option trading totaled US$29 billion, or 2.8% of reported volume. Loan trading stood at US$4 billon, a 0.4% share of Survey turnover.

Corporate and Local Instrument Trading Likely to Increase

"Local markets and corporates are likely to be of increasing interest to EM investors in the future," suggested Das, who acknowledged that such forecasts from other analysts in the past had proven premature. "In a world of floating FX regimes, significant external and fiscal adjustment, and hence falling sovereign supply and risks, investors will need to find excess returns by reaching out the credit curve into corporates." With sovereigns reducing their net external indebtedness, Das believes that corporate issuers will be better able to borrow abroad.

Local instruments will be boosted by increasing use of the local currency market by sovereign issuers to better match themselves currency-wise with respect to assets and liabilities, reasoned Das. "With floating FX rates, this should be very different than in the 1990s when fixed FX regimes meant limited, or even no, freedom in monetary policy," stated Das, who stressed that under the floating rate regimes of most EM countries, governments have an additional adjustment tool, reducing the risk of debt crises.

For a copy of EMTA's Third Quarter 2003 Debt Trading Volume Survey, 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.