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For Immediate Release

EMTA SURVEY: EMERGING MARKETS DEBT TRADING RISES TO US$1.408 TRILLION IN FIRST QUARTER OF 2005

Emerging Markets Debt Volumes at Highest Levels Since 1997

NEW YORK, May 26, 2005—Emerging Markets debt trading stood at US$1.408 trillion in the first quarter of 2005, 35% greater than first quarter 2004 trading, according to a report released today by EMTA, the trade association for the Emerging Markets debt industry. EMTA also noted that first quarter 2005 volumes, which also represented a 12% increase from fourth quarter activity, represented the highest industry turnover levels since late 1997.

"The Survey's results show that trading in higher-beta countries, such as Brazil and Turkey, gained at the expense of higher-grade countries like Mexico and Russia," noted Arnab Das, Global Head of Emerging Markets Research and Strategy at Dresdner Kleinwort Wasserstein. He attributed this "shift in Emerging Market bond activity to investor preference for yield and diversified, uncorrelated returns," while noting that the Emerging Markets debt class continues to benefit from the global macro environment—"cheap money in the G-3; a weak US dollar, which is contributing to buoyant commodity and energy export prices; high growth in China and India, which is linked to the strong US consumption, and is contributing to strong global demand for commodity and energy exports from other emerging countries; and a generally restrained borrowing appetite among Latin and other emerging sovereigns despite these extremely favorable conditions."

Brazilian Volume at US$350 Billion, Mexican Turnover at US$301 Billion

The Survey's participants, which include 66 major dealers, banks and money management firms, reported trading US$350 billion in Brazilian debt instruments. This represents a 17% increase on first quarter 2004 turnover of US$298 billion (and a 12% increase vs. fourth quarter trading of US$312 billion). Brazilian assets accounted for 25% of total reported volume, and stood as the most frequently traded assets in the EMTA Survey.

Sovereign Eurobond trades (US$199 billion) made up 57% of Brazilian trading volumes, with Brazil's 2040 bond, the industry benchmark, alone accounting for US$119 billion in trading (34% of Brazilian trades). Trading of Brazilian local instruments stood at US$103 billion, a 142% gain compared to US$43 billion in the first quarter of 2004.

Mexican debt instruments were the second most frequently traded instruments, according to the Survey. Participants traded US$301 billion in Mexican instruments in the first quarter, 23% above first quarter 2004 levels of US$246 billion, though 7% less than the US$324 billion they reported in the fourth quarter. This was primarily due to fluctuations in local instrument volumes, which increased 27% to US$225 billion from US$177 billion in the first quarter of 2004, but which declined 12% from US$255 billion in the fourth quarter. Mexican instruments accounted for 21% of volume, vs. 24% in the first quarter of 2004.

Turkish debt instrument volume reached its highest level in an EMTA quarterly Survey, as it more than doubled, to US$146 billion from US$52 billion in the first quarter of 2004 (up 179%) and US$65 billion (a 123% increase) in the fourth quarter. As a result, turnover in Turkish debt jumped three notches to become the third most frequently traded instruments. The majority of Turkish activity involved local instruments (at US$110 billion). Turkish trading accounted for 10% of total Survey volume, vs. 5% in the first quarter of 2004.

Russian activity stood at US$95 billion, 29% above first quarter 2004 levels (US$74 billion), though off 9% from fourth quarter trading of US$105 billion. Russian trading fell to the fourth most frequently traded instruments, and accounted for 7% of reported volumes. Das commented that Russia's recent decision to prepay its Paris Club debt highlights its desire to avoid new external debt issues, and speculated that "there could be a 'crowding-in' of Russian corporate debt as investors seek to participate in the macro performance of the Russian economy."

Other frequently traded countries include Poland (US$82 billion), South Africa (US$80 billion), Argentina (US$67 billion), Singapore (US$44 billion), Venezuela (US$38 billion) and South Korea (US$25 billion).

Eurobond Trades Increase 38%, Local Market Turnover Up 55%

Eurobond volumes stood at US$674 billion, up 38%, vs. first quarter 2004 activity of US$486 billion and up 15% compared to US$587 billion in the fourth quarter. Eurobonds accounted for 48% of Survey volume (vs. 47% in the first quarter of 2004). In addition to the US$119 billion in Brazil 2040 trades, Survey participants also reported volumes of US$48 billion in Russia's 2030 bond and US$19 billion in Turkey's 2030 bond.

Turnover in local markets instruments amounted to US$668 billion, a 55% increase compared with US$430 billion in the first quarter of 2004 and up 15% compared to US$582 billion in the fourth quarter. Frequently traded local instruments were those from Mexico (US$225 billion), Turkey (US$110 billion), Brazil (US$103 billion), Poland (US$49 billion) and South Africa (US$41 billion). Local instrument trading also accounted for 48% of Survey activity, an increase from 41% in the first quarter of 2004.

Das observed that a number of emerging countries are relying less on external debt issuance and instead emphasizing their domestic markets. "For example, Mexico is shifting external debt into its growing local markets, where local pension fund and foreign investor demand has enabled significant yield curve extension, along with Mexico's growing reputation for keeping inflation in check, thanks to tight fiscal and monetary policy," he stated. He expects that a falling supply of new sovereign debt issues would continue to "crowd investors into local markets as well as corporate bonds."

Brady bond volumes (the majority of which were Brazil C-Bond trades) stood at US$37 billion, or 3% of trading, as the supply of Brady issues continues to decline via exchanges or early redemptions. Survey participants also reported US$26 billion in options and warrants trades (2% of trading) and US$3 billion in loan assignments (less than 1% of volume).

EMTA's Survey includes secondary market trading activity in sovereign and corporate bonds, local instruments, Brady bonds, debt options, warrants and loans from over 90 Emerging Markets countries.

For a copy of EMTA's First Quarter 2005 Debt Trading Volume Surveys, please contact Jonathan Murno at jmurno@emta.org or at +1 (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 110 member firms worldwide, has published its Volume Surveys since 1992. EMTA's Debt Trading Volume Survey includes data provided by 66 major international broker-dealers, banks and investors.