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For Immediate Release

EMTA SURVEY:
EMERGING MARKETS DEBT TRADING
AT OVER US$6.5 TRILLION IN 2006

Highest Annual EM Trading Turnover Ever, with Local Markets Accounting for 57% of Total Volume

NEW YORK, February 20, 2007—Emerging Markets debt trading reached its highest annual level ever in 2006, according to a report published today by EMTA, the Emerging Markets debt industry trade association. Participants in EMTA's Annual Survey of Emerging Markets debt trading reported volume of over US$6.5 trillion in 2006, a 19% increase compared with the US$5.5 trillion reported in 2005. Trading volumes exceeded the nearly US$6 trillion recorded in 1997, when local markets accounted for only 26% of overall EM trading activity.

EMTA also released the results of its Fourth Quarter 2006 Survey, which showed that trading stood at US$1.634 trillion in the final months of last year, compared with US$1.378 trillion in the fourth quarter of 2005 (a 19% increase) and US$1.599 trillion in the third quarter of 2006 (a 2% increase).

Joyce Chang, Global Head of Emerging Markets Research, Foreign Exchange and Commodities at JPMorgan, observed that "the Emerging Markets investor base has evolved from one of highly active, short-term traders into one comprising more stable, buy-and-hold investors," adding that high-grade crossover accounts now account for more than half of sovereign debt volume at her firm, compared with a 10% share in 1998. Thus, according to Chang, the growth in Emerging Market volume has been supported by strategic inflows from a broader investor pool than in the past; life insurance companies, central banks, pension funds and retail investors are all included.

Local Markets Instruments at US$3.687 Trillion

At US$3.687 trillion, local markets instruments easily reached their highest annual level since EMTA began publishing its Survey in 1992; this compares with US$2.593 trillion in 2005 (a 42% increase). Such transactions accounted for 57% of reported volume, vs. a 47% share in 2005 and 45% in 2004. Local markets hit an all-time high share of 64% in the third quarter of 2006—perhaps a result of rebounding risk appetite in the aftermath of the market's May sell-off—but leveled off at 57% in the fourth quarter. The most frequently traded local markets instruments were Mexican local treasuries, at US$1.253 trillion (compared with US$697 billion in 2005), followed by Brazilian local instruments (US$518 billion), South African local instruments (US$342 billion), Polish local instruments (US$288 billion) and Turkish local instruments (US$285 billion).

Chang noted that the increase in local markets volumes reflect a 60% growth in outstanding domestic debt stock, and predicts that this could grow by 15-20% annually "for the foreseeable future." She observed that 40% of new inflows into the Emerging Markets debt asset class are destined for local currency funds.

Eurobond Market Share Declines

Eurobond volumes stood at US$2.675 trillion in 2006, a 1% increase on 2005 volume of US$2.637 trillion. Eurobond market share declined to 41% of Survey trading in 2006, vs. a 48% share the previous year. The most frequently traded Eurobonds were those issued by Brazil (US$860 billion), Russia (US$296 billion), Mexico (US$277 billion), Argentina (US$203 billion) and Turkey (US$180 billion). The most frequently traded individual issues were the Brazil 2040 bond (US$478 billion), the Russia 2030 bond (US$175 billion), the Turkey 2030 bond (US$95 billion), Brazil's 2018 A-bond (US$66 billion) and Argentina's Discount bond (US$59 billion).

"The shift to local market trading and away from external Eurobond activity is a result of aggressive liability management by sovereigns to reduce the stock of external debt," Chang commented. JPMorgan is currently forecasting a net reduction in sovereign external debt of US$17 billion in 2007 as coupon and amortization payments exceed new issuance, and anticipates that this trend will continue in future years.

While sovereign issues accounted for the vast majority of Eurobond trading, 17% of Eurobond transactions included corporate bonds, vs. a 12% share in 2005. Chang observed that liquidity remains the main risk for Emerging Markets corporates as the corporate market "remains dominated by smaller, less liquid issues."

Mexican and Brazilian Trading Dominate

Mexican instruments were the most frequently traded Emerging Markets debt instruments, according to the EMTA Survey. Mexican volume stood at US$1.534 trillion in 2006, compared with US$905 billion in 2005. At 82% of Mexican trades, local instruments accounted for the bulk of Mexican transactions. Turnover in Mexican debt accounted for 24% of total volumes, an increase from a 17% share in 2005.

Bucking the general trend, Brazilian volumes decreased in 2006 to US$1.424 trillion, down 8% compared with US$1.554 trillion in 2005. Survey participants reported a 20% increase in Brazilian local markets transactions and a 28% increase in Brazilian corporate trades, but these were offset by a decline in Eurobond trades (most notably a decrease of nearly US$100 billion in Brazil 2040 volume). Brazilian instruments were the second most frequently traded instruments in 2006, with a 22% market share (compared with 28% of 2005 volumes). Chang speculated that the Brazilian decline might be due to the fact that "the country's credit quality improved tremendously in 2006 and volatility dropped substantially, providing fewer trading opportunities."

Options trades stood at US$124 billion in 2006, vs. US$133 billion in 2005. Options market share remained at 2% in 2006. Loan trading stood at US$15 billion in 2006, unchanged from 2005 levels and less than 1% of volume.

Brady bond volumes declined to a mere US$23 billion in 2006, compared with US$108 billion in the previous year, as early redemptions and exchange offers continued to dramatically reduce the stock of outstanding Brady debt. Brady transactions, which accounted for half of Emerging Markets debt trading a decade ago, stood at less than 1% of 2006 volume.

EMTA's Survey includes secondary market trading activity in sovereign and corporate Eurobonds, local treasury bonds and other instruments (Brady bonds, debt options, warrants and loans) from over 90 Emerging Markets countries. 71 major dealers, banks and investment firms worldwide participated in the Annual Survey.

For a copy of EMTA's Fourth Quarter 2006 and 2006 Annual Debt Trading Volume Surveys, please contact Jonathan Murno at jmurno@emta.org or +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 135 member firms worldwide, has published its Annual Volume Surveys since 1992 and Quarterly Surveys since first quarter 1997.