25 January 2012

EM Bond Snapshot

Turkey climbs up the ranks

Following the Christmas period, our *EM Bond Snapshot* is back in action in 2012! While we had ended 2011 beset by the ongoing euro-area debt crisis, the current year has so far shown some cautious signs of investor confidence returning to the markets. This cautious optimism is also reflected in our first run of EM Bond Snapshot in 2012 and the generally positive expected returns across the covered countries.

While Turkey stands out as the single biggest up-mover in our allocation, South Africa now joins Hungary in the underweight category.

Overweights: Turkey, Russia, Poland

Turkey dominates the peer group in the latest allocation with the largest overweight (15.8%). While Turkish yields continue to experience high volatility and continued inflationary pressures skew risks to the upside, the likely peaking of the current account deficit and our expectations of normalisation in the lira following steep losses in H2 11 create good scope for gains on the currency front. Russia also moves up in the allocation ladder (4.7%), as elevated oil prices provide support for the rouble. We also continue to like Poland (4.6%) – decent growth dynamics combined with clear determination to achieve greater fiscal discipline have provided Poland with its relative edge over the its CEE peer group members.

Neutral: Brazil & Mexico

We remain neutral (at about +5/-5% region) in our allocation for both Latin American countries (1.8% for Brazil and -3.8% in Mexico).

Underweight: Hungary, South Africa

We remain underweight on Hungary (-11.9%) for the third consecutive allocation. With all major rating agencies having downgraded Hungary to non-investment grade and with the Hungarian government engaged in what so far appears to be rather rocky talks with IMF and EU officials, the worst looks to be over on the surface. We remain, however, cautious of these prospects and await more concrete signs of a turnaround in confidence.

We have also moved significantly lower in our allocation for South Africa (-11.2%). In our last publication, we drew attention to rising inflationary pressures as the key risk factor from the yields perspective and it is primarily the creeping materialisation of this risk in an otherwise broadly disinflationary emerging markets environment that has motivated our revised allocation.

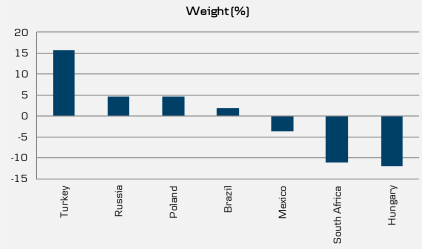
More on our country views can be seen in the latest *Emerging Markets Briefer*. The following table gives an overview of our EM Bond Snapshot, along with recommended bonds.

EM Bond Snapshot Overview

Country	Weight (%)	Over-/underweight (%)	Bond	Currency	ISIN code	Yield	S&P
Turkey	16.5	15.8	KFW 8 4/14	TRY	XS0612210772	8.68%	AAA
Russia	15.0	4.7	EBRD 6 1/2 02/15	RUB	XS0587030528	6.17%	AAA
Poland	14.9	4.6	POLGB 5 10/13	PLN	PL0000102836	4.55%	A
Brazil	14.5	1.8	EBRD 9.5 11/13	BRL	XS0460362808	7.26%	AAA
Mexico	13.7	-3.8	IBRD 6.5 09/13	MXN	XS0451394331	3.98%	AAA
South Africa	12.7	-11.2	EIB 8.5 11/14	ZAR	XS0203909485	6.86%	AAA
Hungary	12.6	-11.9	HGB13E 7.5 10/13	HUF	HU0000402466	8.25%	BB+

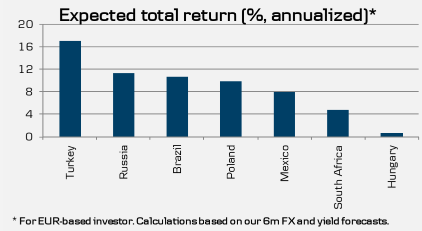
Source: Bloomberg and Danske Markets

EM Bond snapshot over/underweight



Source: Reuters EcoWin and Danske Markets

EM Bond snapshot expected returns



Source: Reuters EcoWin and Danske Markets

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Disclosure

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