

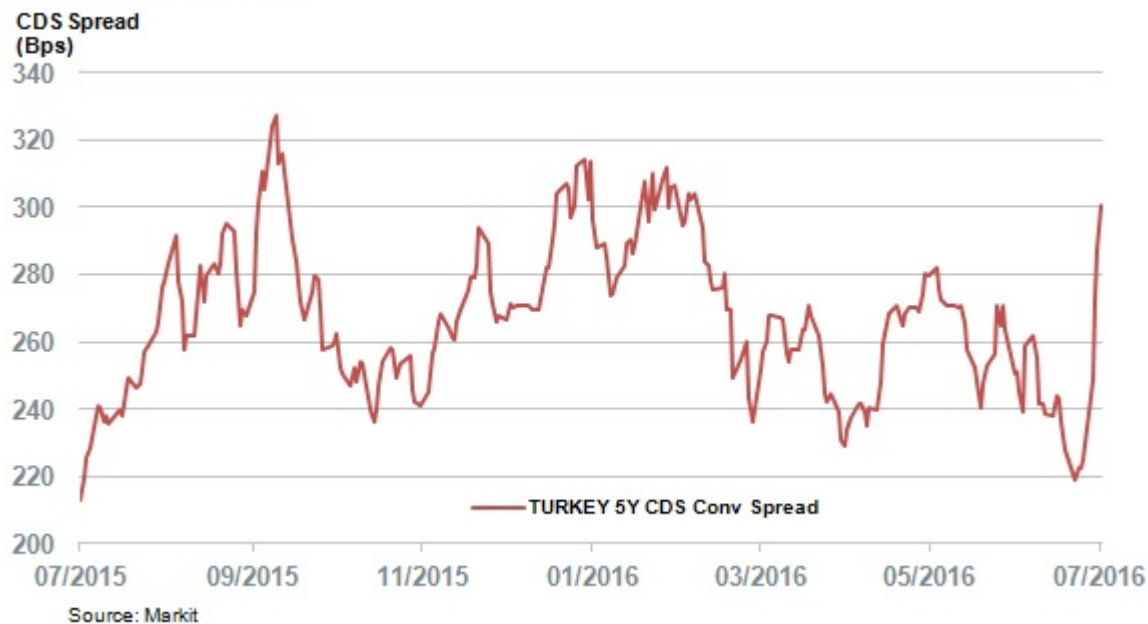
Markit Recap – 7/18/2016

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Last week's failed Turkish coup, and the resulting crackdown, has spooked holders of Turkey's dollar denominated government bonds. Gauged by Turkey's CDS spread, the market's perceptions of the country's credit risk has jumped by more than a quarter from its close on Thursday. Turkey's spreads hit 290bps on July 21, the widest level since February.

The majority of the recent widening has happened since Monday's close, which shows that the market is equally worried about the escalating scale of the crackdown as well as any direct impact from the coup.

Turkey CDS Spread



Despite the recent surge in spreads, Turkish CDS are still way off the levels seen after last year's inconclusive elections when spreads reached 327bps.

This surging credit risk has seen the average spread of the 25 dollar denominated Turkish government bonds (which make up the Markit iBoxx USD Emerging Markets Sovereigns index) jump by 31bps from the end of June. Investors are now requiring 3% of extra yield over US treasuries in order to hold dollar denominated Turkish bonds, a number in line with that required by holders of Croatian and Brazilian dollar denominated bonds.

Turkey's surging spreads are not reflective of investor sentiment in the wider emerging market world as only four of the 68 constituent countries of the iBoxx USD Emerging Markets Sovereigns index have seen their average spreads widen in July so far.

This trend has ensured that the asset class is now trading 21bps tighter to US treasuries with the index now spread below the 300bps mark for the first time since August of last year.

While you could be excused for thinking that Turkey's recent upheaval could be enough to put a pause to the seemingly insatiable appetite for emerging market bonds, especially since Turkey is the largest constituent of the iBoxx USD Emerging Markets Sovereigns index with a 9.6% weight, the Markit ETF analytics database has seen no signs of this. In fact, investors poured nearly \$400m into the 48 emerging market bond ETFs in the two trading days since the coup, extending the asset class's inflow streak to 15 days.

These inflows were enough to take the year to date inflow total for emerging market exposed bonds ETFs to \$8.5bn, overtaking 2012's record setting inflows.

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