FINANCIAL MARKET UPDATE November 2003

International Capital Markets Department
Global Markets Analysis Division
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Data as of November 14, 2003 or as noted

Encouraged by abundant global liquidity, strong economic growth, low inflation, and the improving credit quality of borrowers in both mature and emerging markets, investors have increasingly favored riskier assets. As a result, credit spreads on mature and emerging markets have narrowed, the cost of default protection has fallen, global equity markets have rallied strongly since their trough in March, and equity market volatility is low.

Stronger global growth and low risk-free interest rates are providing a positive external environment for emerging markets. Investors also appear comforted by the direction of macroeconomic policies in a number of key emerging markets. Primary issuance by emerging market borrowers has risen, but remains commensurate with demand. Many countries have taken advantage of strong investor demand to prefinance borrowing targeted for 2004. Expectations for stronger global growth and corporate earnings have helped rekindle interest in emerging market equities. Investors are also attracted to local fixed income markets in some emerging markets by the prospect of currency gains and in anticipation that improved confidence and reduced inflationary pressure will permit further policy interest rate declines.

These developments are consistent with the improving credit quality and earnings potential normally associated with stronger economic growth. The low interest rate environment is also boosting the net present value of many assets. There remains, nevertheless, a risk that the momentum of flows into risky assets induced in part by low policy rates in the major financial centers will push valuations to levels that are not fully justified by the fundamentals. For the moment, markets are anticipating that stronger global growth will be accompanied by only a moderate increase in interest rates as inflationary pressure remains muted and currency movements orderly. In that case, the main elements underpinning asset valuations—expectations for continued improvements in credit quality and low risk-free interest rates—would remain intact. If, however, short-term interest rates are perceived to need to rise substantially faster than the moderate pace now anticipated, long-term bond yields could overshoot. Furthermore, if global growth remains driven largely by the United States, the need for substantial foreign purchases of U.S. assets will increase. An increase in the risk premium demanded by foreigners on U.S. assets would thus be another potential source of market volatility, as a declining dollar could be accompanied by rising bond yields. In the emerging markets, valuations also risk becoming stretched. Moreover, the level and structure of the debt of a number of emerging market countries continue to pose vulnerabilities that would be more starkly exposed in a less favorable external financial environment. In addition, social and political instability pose potential risks to policy continuity in some emerging market countries. For the present, however, market participants expect emerging markets to continue to be supported by favorable investor sentiment and stronger global growth.

The Financial Market Update is an online bulletin that covers developments in both mature and emerging markets. It complements the IMF's Global Financial Stability Report, a print publication that is published twice a year. This update covers developments through the end of the third quarter of 2003.

Markets Expect a Gradual Shift Toward Tightening in the Major Financial Centers

Yield curves in Japan, the euro area, the United Kingdom and the United States remain steep. In the case of United States—where the benchmark yield curve is particularly steep and interest rates adjusted for current inflation rates are negative out through maturities of three years—investors are discounting an eventual moderate shift toward tightening. Similar expectations for a gradual increase in short-term interest rates are evident in the euro area and Japan. However, with the exception of Japan and the United Kingdom, the path of future short-term interest rates in the major markets remains below that discounted at the beginning of the year (Figures 1-4).

Figure 1. Three-Month Eurodollar LIBOR Strip Curve
(in percent per annum)

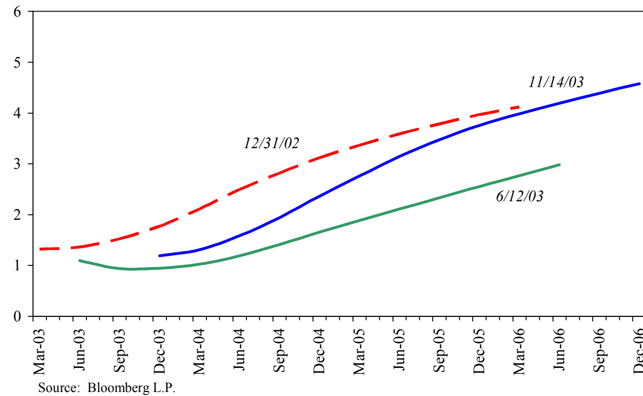


Figure 2. Three-Month Euribor Strip Curve
(in percent per annum)

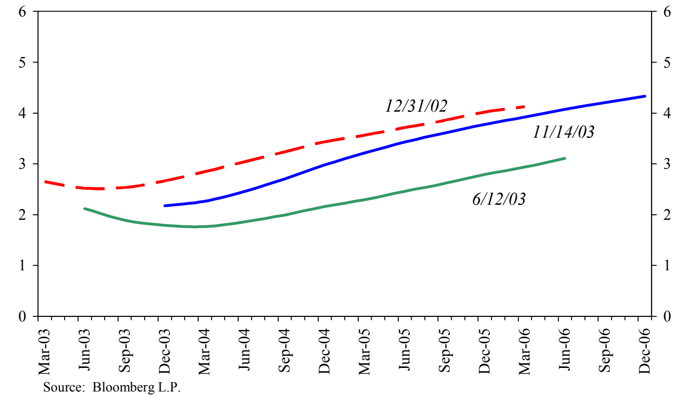


Figure 3. Three-Month Eurosterling LIBOR Strip Curve
(in percent per annum)

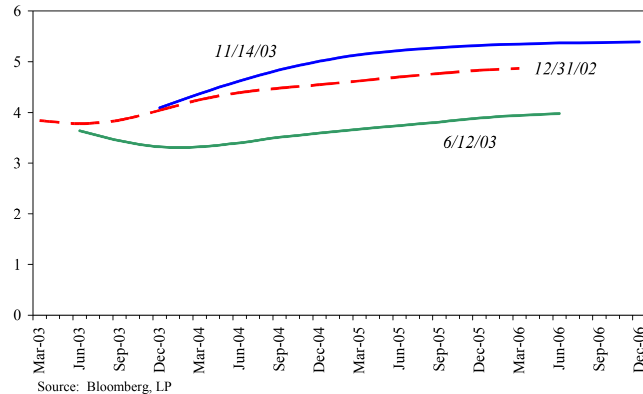
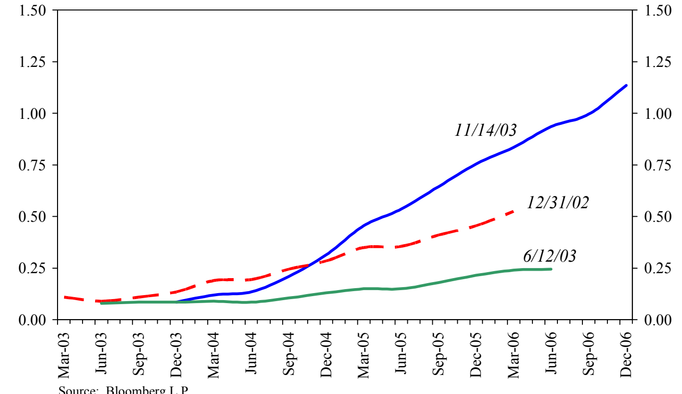
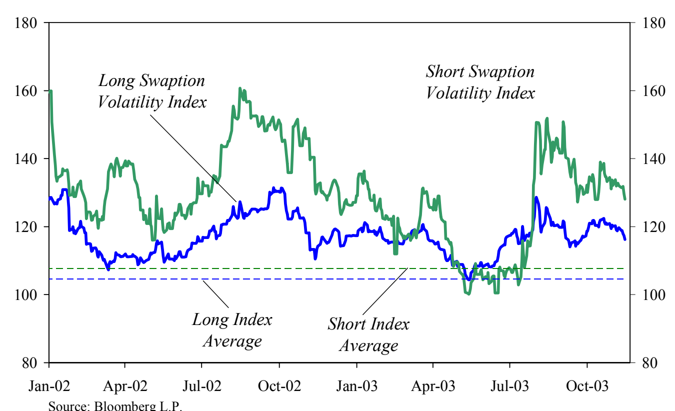


Figure 4. Three-Month Euroyen LIBOR Strip Curve
(in percent per annum)



Short-term rates are generally expected to rise, but the degree of tightening is subject to considerable uncertainty. This uncertainty is reflected in the implied volatility of options on short- and long-term U.S. interest rates, which have increased since the beginning of the year and are above long-term average levels (Figure 5).

Figure 5. Dollar Index Swaption Volatility Index



Real yields on inflation-linked bonds in the euro area, the United Kingdom, and the United States have risen from the lows touched in mid-June when markets were concerned about the possibility of deflation in the United States (Figure 6). Nevertheless, despite the improved global growth outlook, real yields remain at low levels. **Low real yields point to possible market doubts about the sustainability of stronger global growth. They also imply that investors are using a low risk-free real yield as the base for assessing the valuation of other assets, including in particular equities**.

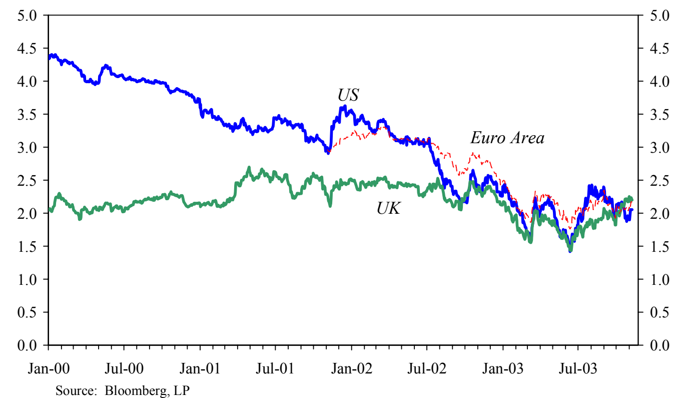


Figure 6. Inflation-Indexed 10-Year Government Bond Yields
(In percent per annum)

In contrast to real yields on indexed-linked bonds, which have declined since the beginning of the year, inflation expectations—as proxied by the spread between the real yield on inflation-indexed bonds and the nominal yield on their conventional counterparts—have increased (Figure 7). **So far, the increase in inflation expectations has been muted, and markets continue to hold the view that the eventual tightening cycle will be gradual and not disrupt asset prices.**

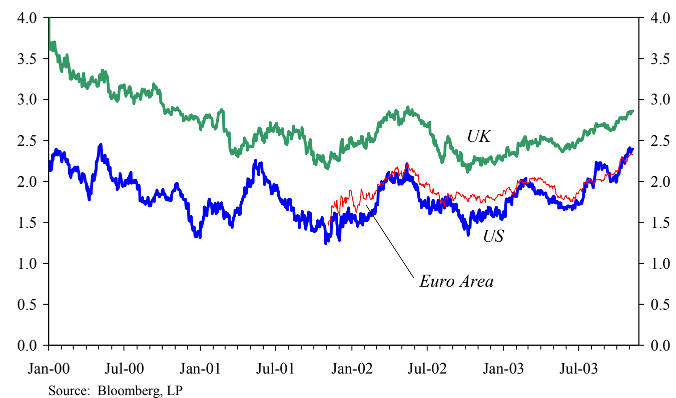


Figure 7. Long-Term Inflation Expectations
(Yield differential between nominal & inflation-indexed government bond yields, in percent)

Low Policy Rates and Abundant Global Liquidity Are Influencing Investor Behavior

Investors are reaching further out along the risk spectrum. While part of this apparent increase in investor appetite for risky assets is driven by improved fundamentals, the stance of monetary policy in the major financial markets is also a driving force.

Low short-term interest rates create incentives to invest in risky assets and to boost leverage. If short-term rates remain low over a prolonged period, asset prices could be pushed to levels that are not fully justified by fundamentals. Moreover, investors searching for yield may be tempted to invest in assets without fully appreciating

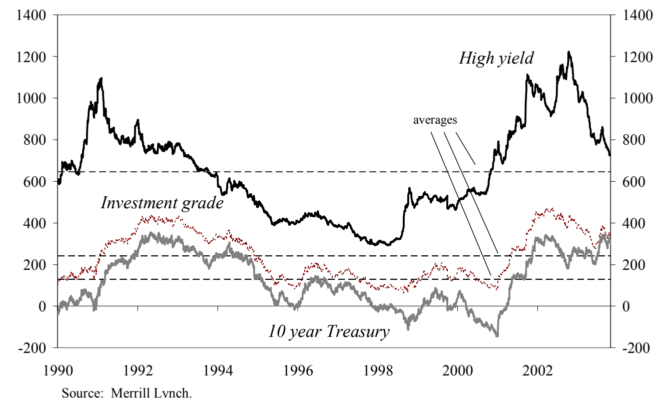
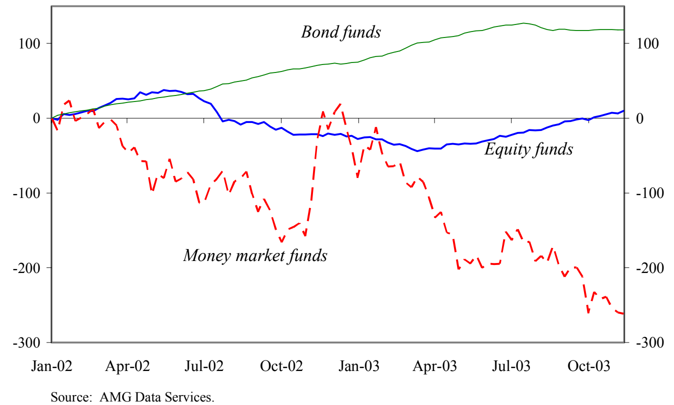


Figure 8. Spread of U.S. Corporate Bond Yields over LIBOR
(In basis points)

their risk. Such investments may appear particularly beguiling when market volatility is low and the true extent of their riskiness is easier to overlook. Notwithstanding the substantial compression of credit spreads on mature and emerging market bonds, the yields on such securities remain well above the cost of borrowed funds (Figure 8). **Asset valuations based on a low cost of funding will appear less attractive as short-term interest rates increase**.

The impact of low short-term interest rates is evident in the continued large net withdrawal of funds from money market mutual funds in the United States. In contrast, flows into bond mutual funds—including high-yield corporate and emerging market bond funds—have been positive. But the pace of such inflows has slowed since July, largely reflecting a reduction in flows to high grade and government bond funds (Figure 9). Flows into equity mutual funds, in contrast, have increased in the course of the year, as favorable first quarter profit reports helped underpin expectations for corporate earnings growth.

Figure 9. Cumulative Net Flows to U.S. Mutual Funds
(In billions of U.S. dollars)

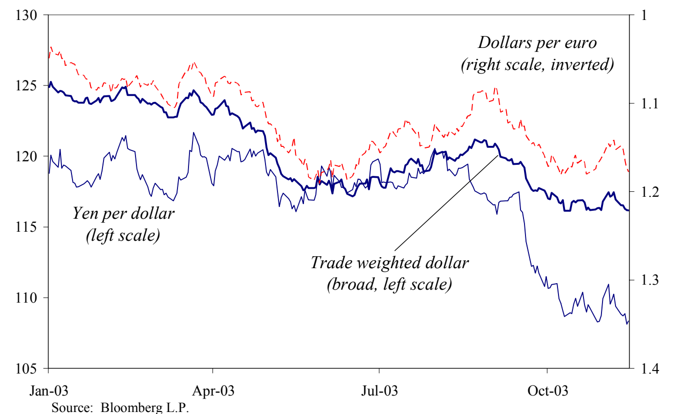


Source: AMG Data Services.

Weakness of the Dollar Reinforced by G-7 Communiqué

Markets consider the dollar to be in an extended period of decline. The dollar stabilized in the middle of the year as poor euro area economic data dragged the euro lower, but this proved temporary, and subsequent positive economic and financial developments in the United States have not changed the widely held market view that the dollar must decline further over the medium term as part of the process of correcting global imbalances (Figure 10).

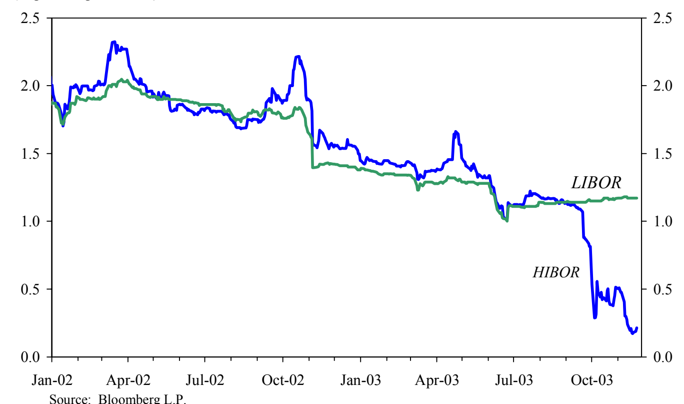
Figure 10. U.S. Dollar Performance



Source: Bloomberg L.P.

The G-7 communiqué introduced a new dynamic into currency markets. Unlike earlier in the year, Asian currencies are now playing a larger role in the dollar's adjustment. The yen has since moved to a new, more appreciated, trading range. Expectations of an eventual appreciation of the Chinese yuan and the Hong Kong dollar have been reflected in forward currency markets. Speculative flows have

Figure 11. Hong Kong SAR Interest Rates: HIBOR vs. LIBOR
(In percent per annum)

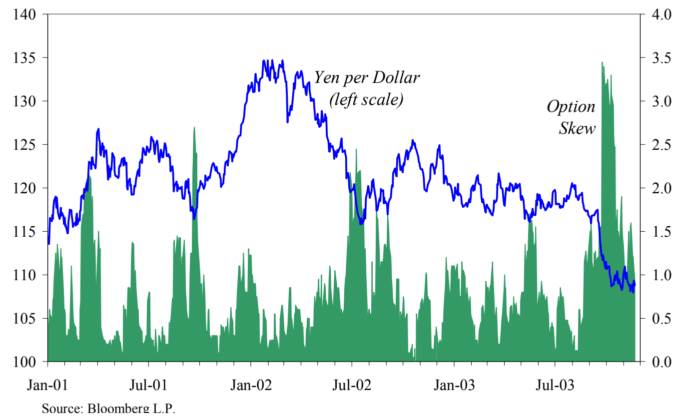


Source: Bloomberg L.P.

pushed the Hong Kong SAR inter-bank offered rate (HIBOR) well below LIBOR (Figure 11).

Investors are positioned in the expectation of further dollar decline. In the options market, expectations remain skewed in favor of a further appreciation of the yen, although this bias is down from September's peaks (Figure 12). On futures markets, speculative accounts are holding relatively large net short positions on the U.S. dollar. The bulk of these short dollar positions mirror long yen positions.

Figure 12. Yen Developments

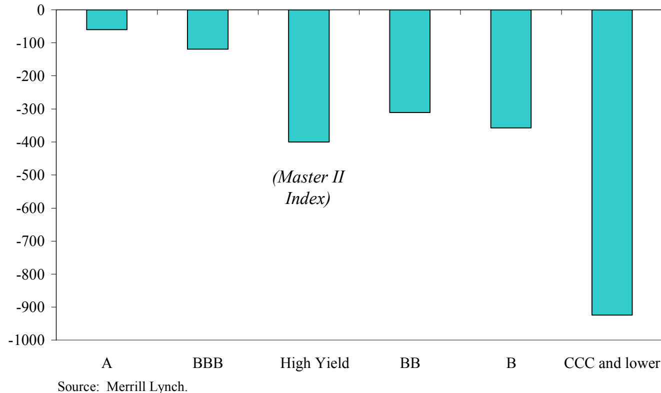


Source: Bloomberg L.P.

Improved Credit Quality Reflected in Marked Spread Compression

The search for yield and a noticeable strengthening of corporate balance sheets and earnings prospects have contributed to much-reduced credit spreads on corporate bonds in the United States and Europe. Taking advantage of the low-yield environment and strong investor demand, U.S. corporations have raised substantial new financing. The vast majority of this issuance has been used for refinancing and balance sheet repair. Stronger balance sheets and increasing earnings have contributed to a decline in default rates and an improving trend in the direction of ratings changes by credit rating agencies. As is normal at the early stages of a recovery, spread compression has generally been most marked at the lower-end of the credit spectrum (Figure 13). While the outlook on corporate profitability remains positive, there may be risks to the sustainability of current corporate bond valuations.

Figure 13. Spread Compression in U.S. Corporate Bonds by Rating Category
(Year to date, in basis points)

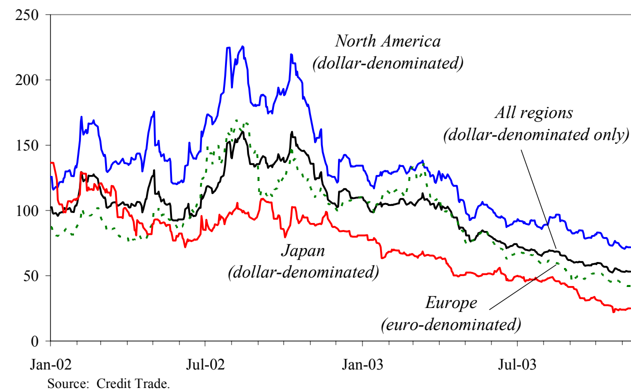


Source: Merrill Lynch.

The spreads on credit default swaps (CDS) for corporate issuers followed the same broad pattern as those on bonds. CDS spreads—the cost of insurance against default by the bond issuer—have declined this year (Figure 14).

As in other credit cycles, stronger global growth has benefited the weakest credits most. As a result, the cost of insurance

Figure 14. Credit Default Swap Spreads
(In basis points, senior debt, 5-year protection)

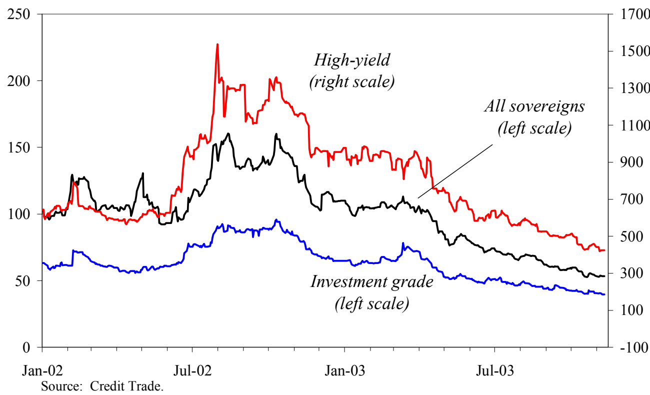


Source: Credit Trade.

against default by issuers rated below investment grade has fallen particularly sharply (Figure 15). The difference in spread between high-yield and investment-grade issuers has narrowed considerably in the process.

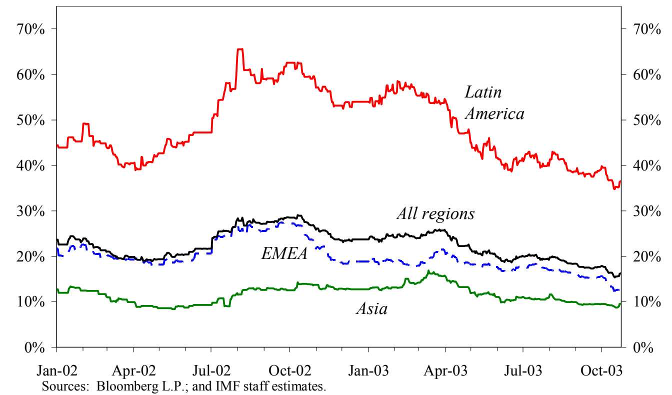
Markets perceive a much lower probability of default among emerging markets. The average five-year default probability implied by the spreads on a range of emerging market CDS is about half that expected 12 months ago. The decline has been driven mainly by the reduction in default probabilities on Latin American sovereign issuers (Figure 16).

Figure 15. Sovereign Credit Default Swap Spreads
(In basis points, U.S. dollar-denominated, 5-year protection)



Source: Credit Trade.

Figure 16. Default Probabilities Implied by Credit Default Swap Spreads
(In percent, average 16 emerging market senior debt CDS, 5-year protection, 40% recovery rate)

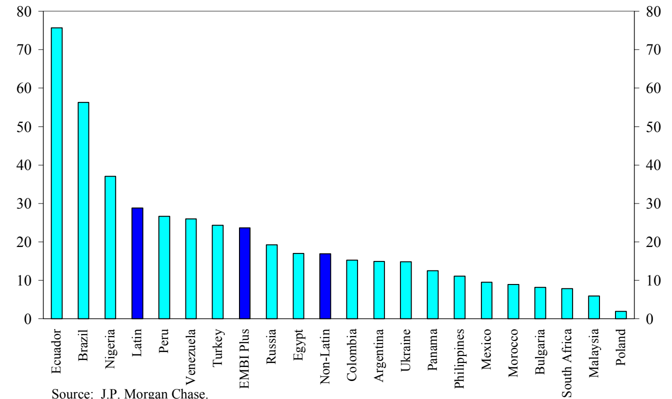


Sources: Bloomberg L.P.; and IMF staff estimates.

Emerging Market Bonds Buoyed by Flows and Fundamentals

The external financing environment for emerging markets has been favorable. As in the case of other credit markets, high-yielding emerging market bonds have generated much stronger returns than their high-grade counterparts year-to-date (Figure 17).

Figure 17. Emerging Market Debt Returns
(In percent, 2003 to date)

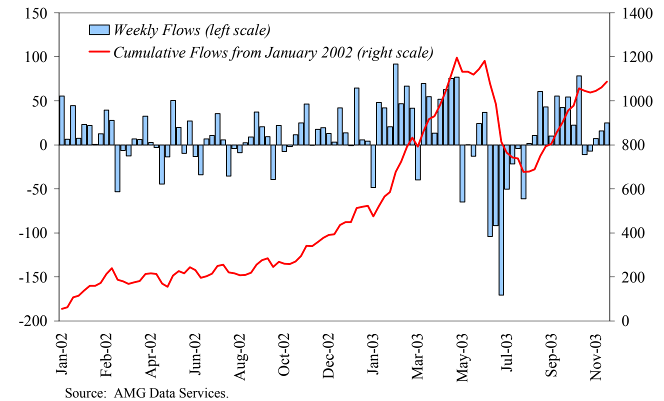


Source: J.P. Morgan Chase.

Inflows from institutional investors into the secondary market for emerging market bonds are supporting spread compression. Emerging market bonds are benefiting from a long track record of strong risk-adjusted returns and low correlations with other asset classes. These characteristics are encouraging institutional investors to consider allocating a small part of their portfolios to emerging market bonds. Market participants report that the pipeline of new flows remains substantial. In addition, investors whose domain is typically the corporate bond market have allocated part of their portfolio to emerging market bonds on an opportunistic basis. In contrast to the institutional investor flows that are driven by a longer term investment decision-making process, crossover investor flows are quicker to react to current market

developments. Hedge funds are also becoming increasingly active in emerging markets, although their significance in the market is considerably less than in 1997. Retail inflows to emerging market mutual funds have resumed following a brief period of heavy withdrawals during June/August that coincided with a sell-off in the U.S. treasury market (Figure 18).

Figure 18. Flows into U.S.-Based Emerging Market Debt Mutual Funds
(In millions of U.S. dollars)

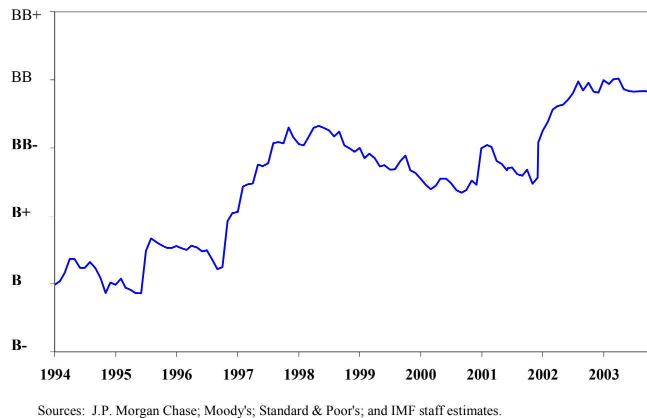


Source: AMG Data Services.

Fundamental factors have also been key in attracting investors to emerging markets. Measures to address high debt levels and potentially unstable debt structures, boost reserves, and adapt exchange rate arrangements to the degree of capital account openness have improved investor perceptions of the creditworthiness of emerging market issuers.

There has been a secular improvement in the credit rating of emerging market issuers (Figure 19). After a lull earlier in the year, a series of credit rating upgrades in the third quarter reinforced this longer term trend. The average rating of emerging market issuers is now firmly anchored at double B. This improved credit quality is likely to accelerate some of the structural changes in the investor base for the emerging bond market that are already underway. In that case, the investor base would likely consist increasingly of crossover investors as the emerging debt market gradually becomes better integrated within the global fixed-income universe.

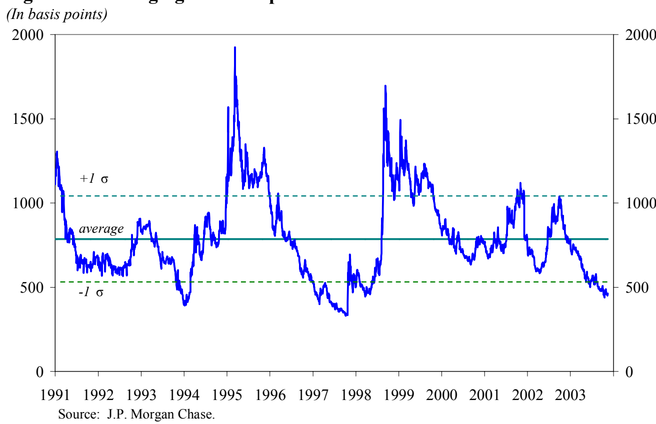
Figure 19. Emerging Market Credit Quality



Sources: J.P. Morgan Chase; Moody's; Standard & Poor's; and IMF staff estimates.

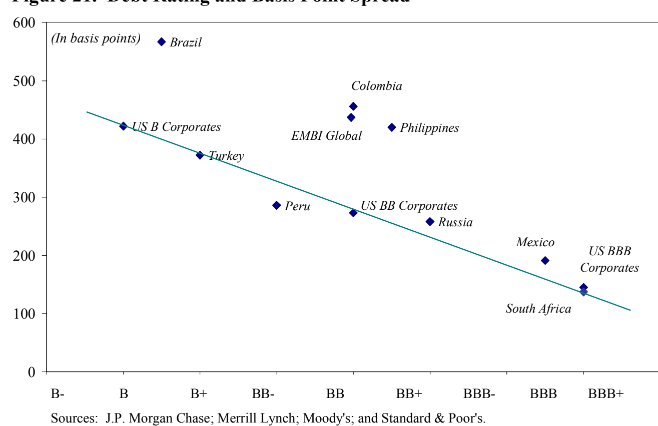
Offsetting these positive factors, emerging bonds risk becoming overvalued. Credit spreads are near historic lows in most emerging market countries. For the market as a whole, the spread on the EMBI+ index is well below its long-run average (Figure 20). However, emerging market bonds still compare favorably with similarly rated mature corporate bonds (Figure 21). Nevertheless, there are signs that investors are increasingly favoring higher yielding emerging market credits, as only these are seen to be offering an opportunity for further spread compression.

Figure 20. Emerging Market Spreads
(In basis points)



Source: J.P. Morgan Chase.

Figure 21. Debt Rating and Basis Point Spread



Sources: J.P. Morgan Chase; Merrill Lynch; Moody's; and Standard & Poor's.

Improved Prospects for Global Recovery Support Equity Market Performance

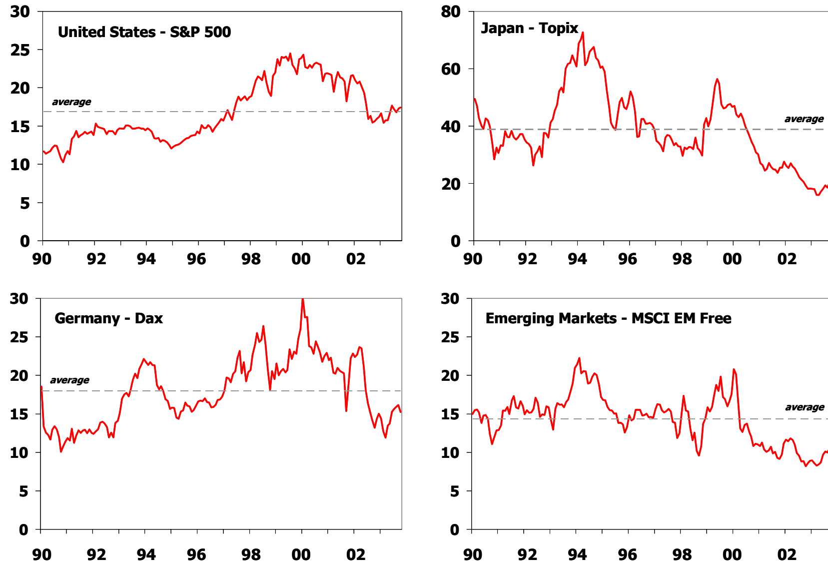
Global equity markets have rebounded sharply since March, largely in response to an improved outlook for corporate earnings and progress in strengthening balance sheets in the mature markets. The implied volatility of options on European and U.S. equity markets is low, suggesting that investors expect earnings to continue to support equity market performance.

Corporate earnings have risen in the mature markets, exceeding expectations in part due to earlier write-offs and conservative forecasts. Markets expect U.S. corporate profits to continue to rise next year, although at more normal rates. There are signs that capital expenditure by the U.S. corporate sector is increasing, spurred by rising profits and cash flows, strengthened balance sheets, and signs of stronger economic growth. In Europe, corporate free cash flow has increased, progress in deleveraging continues, and there is little pressure on firms to increase dividends. As a result, market analysts consider that European firms are also well placed to increase investment as demand increases. The improved financial position of European corporations could also fuel increased merger and acquisition activity aimed at restructuring and consolidation in key sectors. Foreign inflows into the Japanese equity market have been strong, reflecting expectations for improved economic growth and corporate earnings, as well as the prospect of currency gains. The appreciation of the yen, however, has hurt the share prices of firms heavily dependent on exports.

The financial sector has also performed well, particularly U.S. banks. Securitization has removed from bank balance sheets many assets that would have previously been held throughout the economic cycle. This along with stronger risk management practices have resulted in much lower provisions by major banks compared with previous cyclical downturns. The earlier decline in loan growth appears to be stabilizing with the recovery, even in Germany. Bank shares in Europe and the United States have strengthened during the market upturn. European insurance companies are also gaining favor as refocused business lines and cost cutting have helped boost profits, and balance sheets have shown modest improvement.

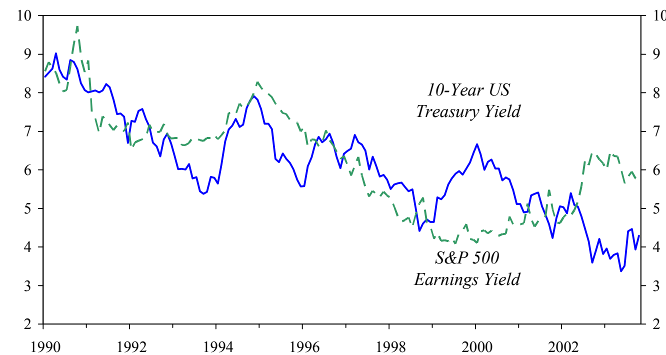
The increase in equity prices raises valuation concerns. Forward price/earnings (P/E) ratios in mature and emerging markets are at or below their 13-year averages (Figure 22). However, this period includes the lofty valuations of the bubble years, suggesting that those average levels should be viewed with caution. When the earnings yield of the U.S. equity market based on prospective earnings is compared with yields on 10-year U.S. treasuries, equity market valuations appear more favorable (Figure 23). This favorable valuation measurement depends on earnings forecasts being vindicated and yields remaining low. While the prospects for the former appear solidly in place, there is relatively greater uncertainty surrounding the future level of bond yields.

Figure 22. 12-Month Forward Price/Earnings Ratios



Source: I/B/E/S.

Figure 23. 10-Year US Treasury Yield vs. S&P 500 Earnings Yield (using earnings forecasts)
(In percent per annum)

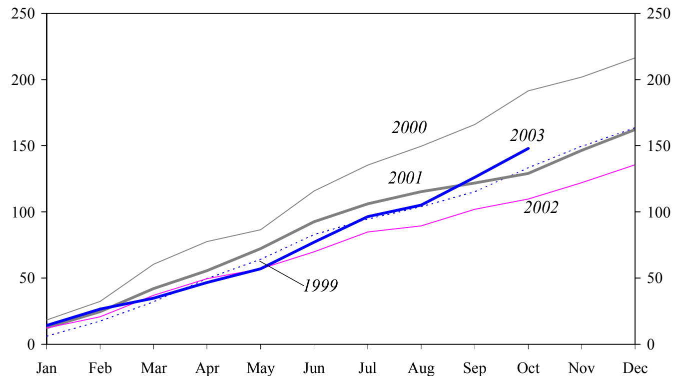


Sources: Bloomberg L.P.; and I/B/E/S.

Strong Investor Demand Has Facilitated Increased Emerging Market Primary Issuance

Gross funding by emerging markets on international capital markets surged in the third quarter, raising cumulative annual issuance to above levels witnessed in the last two years (Figure 24). Primary bond market volumes were robust, supported by a rebound in corporate issuance in Asia and Latin America, as issuers sought to take advantage of relatively low financing costs. Equity issuance revived from near-collapse in the first two quarters of 2003, and reached levels reminiscent of those

Figure 24. Cumulative Gross Annual Issuance of Bonds, Loans, and Equity
(In billions of U.S. dollars)

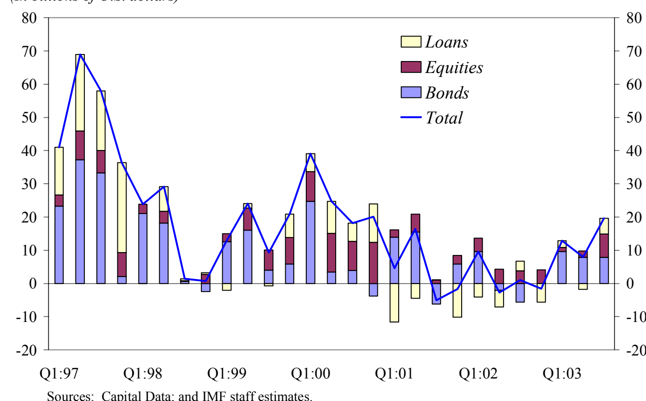


Source: Capital Data.

witnessed prior to the bursting of the equity price bubble. Syndicated loan commitments built on a strong second quarter, buoyed by lending to the Emerging Europe, Middle East, and Africa region. Lenders remained reluctant to extend financing in Latin America, however.

Low financing costs, receptive investors, and expectations that interest rates will rise over the medium term have helped spark a marked increase in bond issuance this year. Issuers have increasingly sought to pre-finance 2004 funding requirements. Moreover, many new bond issues have been associated with liability management aimed at improving the maturity profile and terms of external debt. As a result, notwithstanding sizable amortization payments, third quarter net issuance has increased from the low levels of the previous two years (Figure 25 and Table 1). The pace of net issuance accelerated in October. For the rest of the year, however, bond issuance is expected to subside largely as a result of seasonal factors.

Figure 25. Quarterly Net Issuance
(In billions of U.S. dollars)



Sources: Capital Data; and IMF staff estimates.

The issuer mix has changed markedly with new corporate bond placements up sharply. In addition, the widely held expectation of a weaker dollar has strengthened the incentive to issue in dollars. Around 87 percent of third-quarter new issues were dollar-denominated, compared with only some 70 percent earlier in the year.

The second half of 2003 has confirmed that collective action clauses (CACs) are developing into an industry standard for bonds issued under New York law.

Equity Issuance Rebounds to Pre-Bubble Levels

The surge in emerging market equity prices since April triggered a sharp pickup in primary market activity to levels reminiscent of those prior to the bursting of the equity price bubble. Placements from Asian firms continued to dominate, accounting for 98 percent of all total new issuance. Firms in Taiwan Province of China were particularly active issuers of equity. Issuance in the final quarter of 2003 shows signs of being stronger still.

Syndicated Lending Revives

Net lending to the emerging markets has rebounded sharply from levels of the past two years. Regional developments during the third quarter diverged markedly as net lending boomed in EMEA and to a lesser extent in Asia, but contracted in Latin America.

FDI Inflows Lag

Data on foreign direct investment (FDI) to emerging markets suggest that net inflows remain weak. For the year as a whole, net FDI flows are expected to be some 10 percent lower than 2002, and about 27 percent less than 1999, when flows related to privatizations helped boost the total. FDI flows to Latin America are expected to decline this year by almost 20 percent from 2002.

Conclusion: Valuations, Rising Rates, and the Dollar Pose Potential Vulnerabilities

Asset prices and lower credit spreads have been fueled by a combination of easy global monetary conditions and improved fundamentals in the form of improved earnings and stronger balance sheets. For the present, markets anticipate that both of these conditions—easy money and stronger fundamentals—will persist over a prolonged period. This favorable outlook is subject to three main risks.

First, there is a risk that a prolonged period of low interest rates will lead to excessive asset valuations, as investors are pushed out along the risk spectrum in a quest for yield. Investors in mature and emerging credit markets are increasingly favoring higher yielding credits, as only these credits are seen to be offering an opportunity for further spread compression. In the emerging markets, interest in local markets has increased, attracted by potential currency gains, high yields and, in some cases, expectations of further interest rate cuts on an improved outlook for inflation. In addition, some investors that typically invest in fixed income securities are making opportunistic investments in equities. In some cases, investors may not be correctly assessing the riskiness of their investments.

There is a further risk that the eventual shift to global tightening will be more abrupt than now anticipated. Such a change in investor perceptions could undercut asset valuations and contribute to market volatility. If government bond yields in the United States and other mature markets were to spike, it is possible that credit spreads would also rise, increasing the cost of capital to mature and emerging market borrowers.

Finally, there is a risk that the dollar's decline could be sharper than anticipated. Speculative short dollar positions remain at high levels, despite favorable economic and financial developments. If global growth remains led primarily by the United States, the already large external imbalances will rise further, and the dependence of the United States on foreign flows will increase.

A decline in the dollar driven by a drop in foreign portfolio inflows would reverberate in other asset markets. The share of foreign ownership of U.S. assets is already at record levels (Figure 26). Foreign portfolio inflows into the United States have become increasingly dominated by bond flows, and net equity flows have become negative (Figure 27). The changing composition of these flows in part reflects the growing magnitude of intervention proceeds in total flows, the lingering wariness of foreign equity investors following the bursting of the U.S. equity bubble and, possibly, an earlier recovery of the risk appetite of U.S. investors who have increasingly been purchasing Asian equities. With U.S. inflows dominated by purchases of fixed income securities, a sustained reduction in inflows could result in a combination of higher bond yields and a weaker dollar.

Figure 26. Share of U.S. Securities Owned by Foreign Residents
(In percent of total)

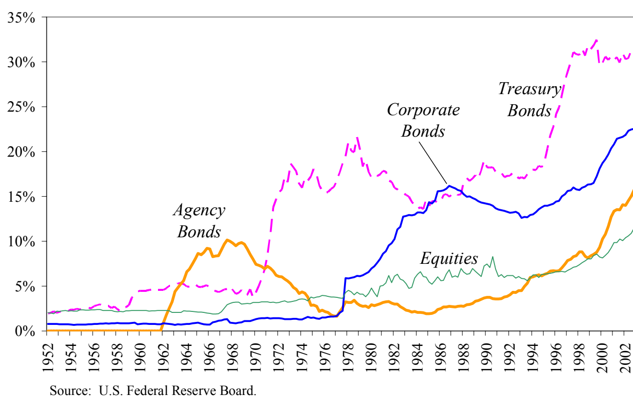


Figure 27. Net Purchases of U.S. Securities by Foreign Residents
(In billions of U.S. dollars per month)

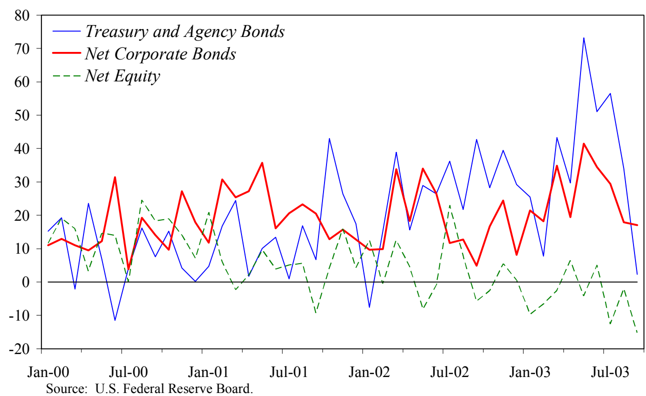


Table 1. Emerging Market Financing

	2000	2001	2002	2001				2002				2003								
				1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	Jul	Aug	Sep	Oct	Nov	YTD 1/
									(in billions of US dollars)											
GROSS ISSUANCE BY ASSET	**216.4**	**162.1**	**135.6**	**42.2**	**50.5**	**29.2**	**40.2**	**37.0**	**32.9**	**32.1**	**33.6**	**34.8**	**42.2**	**49.0**	**19.4**	**8.7**	**20.9**	**21.8**	**0.4**	**148.3**
Bonds	80.5	89.0	61.6	26.8	28.8	11.7	21.7	22.2	15.9	8.8	14.7	20.1	25.3	23.4	7.6	4.1	11.7	13.6	0.4	82.9
Equities	41.8	11.2	16.4	2.3	5.3	1.0	2.6	4.1	4.3	3.8	4.1	1.2	2.0	7.0	5.1	0.3	1.7	4.8	0.0	15.0
Loans	94.2	61.9	57.6	13.1	16.4	16.4	15.9	10.7	12.7	19.5	14.8	13.5	14.9	18.6	6.7	4.3	7.6	3.4	0.0	50.4
GROSS ISSUANCE BY REGION	**216.4**	**162.1**	**135.6**	**42.2**	**50.5**	**29.2**	**40.2**	**37.0**	**32.9**	**32.1**	**33.6**	**34.8**	**42.2**	**49.0**	**19.4**	**8.7**	**20.9**	**21.8**	**0.4**	**148.3**
Asia	85.9	67.5	53.9	19.6	22.8	7.5	17.6	13.3	11.9	14.1	14.6	12.9	15.5	22.9	10.2	3.2	9.5	12.7	0.4	64.3
Latin America	69.1	53.9	33.4	15.2	15.4	11.4	11.9	11.9	8.3	6.1	7.1	7.8	11.3	8.6	4.5	1.7	2.4	5.3	0.0	33.0
Europe, Middle East, Africa	61.4	40.8	48.3	7.4	12.4	10.4	10.7	11.9	12.7	11.9	11.8	14.2	15.4	17.5	4.7	3.8	9.0	3.9	0.0	51.0
AMORTIZATION BY ASSET	**114.2**	**147.9**	**129.2**	**37.6**	**34.1**	**34.2**	**41.9**	**27.5**	**35.6**	**31.1**	**35.1**	**22.0**	**34.2**	**29.4**	**9.2**	**8.4**	**11.9**	**9.1**	**n.a.**	**n.a.**
Bonds	52.2	60.0	59.8	12.9	13.3	17.9	15.9	12.6	18.0	14.5	14.7	10.5	17.5	15.6	4.0	5.8	5.8	3.4	n.a.	n.a.
Equities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n.a.	n.a.
Loans	62.0	88.0	69.4	24.7	20.9	16.3	26.1	14.8	17.6	16.6	20.4	11.5	16.7	13.8	5.2	2.6	6.0	5.7	n.a.	n.a.
AMORTIZATION BY REGION	**114.2**	**147.9**	**129.2**	**37.6**	**34.1**	**34.2**	**41.9**	**27.5**	**35.6**	**31.1**	**35.1**	**22.0**	**34.2**	**29.4**	**9.2**	**8.4**	**11.9**	**9.1**	**n.a.**	**n.a.**
Asia	57.0	66.5	56.1	22.2	13.8	14.7	15.8	12.3	14.9	13.7	15.3	8.2	11.9	14.4	4.1	3.1	7.2	2.6	n.a.	n.a.
Latin America	32.3	45.9	41.2	10.7	8.7	11.8	14.7	8.3	11.5	10.5	10.9	7.6	10.1	8.0	2.7	3.8	1.5	4.4	n.a.	n.a.
Europe, Middle East, Africa	24.9	35.5	31.9	4.7	11.7	7.7	11.4	6.9	9.2	6.9	8.9	6.2	12.1	7.0	2.4	1.5	3.1	2.1	n.a.	n.a.
NET ISSUANCE BY ASSET	**102.2**	**14.2**	**6.4**	**4.6**	**16.4**	**-5.0**	**-1.7**	**9.6**	**-2.7**	**1.1**	**-1.5**	**12.8**	**8.0**	**19.6**	**10.2**	**0.3**	**9.1**	**12.7**	**n.a.**	**n.a.**
Bonds	28.3	29.1	1.8	13.9	15.5	-6.2	5.8	9.6	-2.1	-5.7	0.0	9.6	7.8	7.9	3.6	-1.7	5.9	10.2	n.a.	n.a.
Equities	41.8	11.2	16.4	2.3	5.3	1.0	2.6	4.1	4.3	3.8	4.1	1.2	2.0	7.0	5.1	0.3	1.7	4.8	n.a.	n.a.
Loans	32.1	-26.1	-11.8	-11.6	-4.4	0.1	-10.2	-4.1	-5.0	2.9	-5.6	2.0	-1.8	4.7	1.5	1.7	1.5	-2.3	n.a.	n.a.
NET ISSUANCE BY REGION	**102.2**	**14.2**	**6.4**	**4.6**	**16.4**	**-5.0**	**-1.7**	**9.6**	**-2.7**	**1.1**	**-1.5**	**12.8**	**8.0**	**19.6**	**10.2**	**0.3**	**9.1**	**12.7**	**n.a.**	**n.a.**
Asia	28.9	1.0	-2.2	-2.7	9.0	-7.2	1.9	1.0	-3.0	0.4	-0.7	4.7	3.6	8.5	6.1	0.0	2.3	10.1	n.a.	n.a.
Latin America	36.9	7.9	-7.8	4.5	6.7	-0.5	-2.8	3.6	-3.2	-4.4	-3.8	0.2	1.2	0.6	1.8	-2.1	0.9	0.9	n.a.	n.a.
Europe, Middle East, Africa	36.5	5.3	16.4	2.7	0.7	2.6	-0.8	5.0	3.5	5.0	3.0	8.0	3.3	10.5	2.3	2.3	5.8	1.8	n.a.	n.a.
SECONDARY MARKETS																				
Bonds:																				
EMBI+ (spread in bps) 2/	756	731	765	784	766	1,005	731	598	799	903	765	671	547	506	532	504	506	470	456	456
Merrill Lynch High Yield (spread in bps)	871	734	802	757	736	915	734	623	809	890	802	696	554	483	488	477	483	415	396	396
Salomon Broad Inv Grade (spread in bps)	89	78	62	89	80	77	78	69	73	75	62	55	51	57	63	61	57	50	51	51
US 10 yr. Treasury Yield (yield in %)	5.12	5.05	3.82	4.92	5.41	4.59	5.05	5.40	4.80	3.60	3.82	3.80	3.52	3.94	4.41	4.47	3.94	4.30	4.44	4.44
Equity:										*(in percent)*										
DOW	-6.2	-7.1	-16.8	-8.4	6.3	-17.5	15.7	3.8	-11.2	-17.9	9.9	0.0	12.4	3.2	2.8	2.0	-1.5	1.4	0.1	17.6
NASDAQ	-39.3	-21.1	-31.5	-25.5	17.4	-30.5	29.9	-5.4	-20.7	-19.9	13.9	0.0	21.0	10.1	6.9	4.3	-1.3	-0.3	2.0	47.6
MSCI Emerging Market Free	-31.8	-4.9	-8.0	-6.2	3.1	-23.4	28.4	10.7	-9.0	-16.8	9.8	0.0	22.2	13.5	6.0	6.5	0.6	-1.2	1.8	42.6
Asia	-42.5	4.2	-6.2	-0.1	-1.6	-22.1	36.1	14.9	-6.3	-17.0	4.9	0.0	21.4	14.9	8.9	6.7	-1.1	-2.8	1.4	41.3
Latin America	-18.4	-4.3	-24.8	-3.5	7.1	-24.7	23.0	7.1	-22.0	-24.7	19.6	0.0	22.6	12.4	4.8	4.1	3.1	0.0	2.8	50.6
Europe/Middle East	-23.4	-17.7	-9.1	-22.0	4.5	-26.1	36.8	0.2	-11.0	-6.5	9.1	0.0	35.2	9.3	-3.3	9.4	3.3	-0.9	3.2	51.8

Sources: Bloomberg L.P.; Capital Data; J.P. Morgan Chase; Morgan Stanley Capital International; Salomon Smith Barney; and IMF staff estimates.

1/ Issuance data (net of US trust facility issuance) are as of November 4, 2003 close-of-business London and Secondary markets data are as of November 7, 2003 cob New York.

2/ On April 14, 2000 the EMBI+ was adjusted for the London Club agreement for Russia. This resulted in a one-off (131 basis points) decline in average measured spreads.