



Data as of November 12, 2004 or as noted

Low yields and low volatility have been the hallmarks of major financial markets throughout much of the year. This combination has encouraged investors to take risk, especially in the credit markets, leading to low credit spreads and a very receptive environment for new emerging market bond issuance. However, the combination of low short-term interest rates and low bond market volatility has encouraged leveraged positions in the credit markets, raising the risk that credit spreads have been unduly compressed. Moreover, increased concerns over the heavy reliance of the United States on continued capital inflows to finance its large external current account deficit have resulted in a decline of the dollar.

Overview

Major bond, currency, and equity markets have remained trendless, trading in narrow ranges throughout much of the year. Actual market volatility and the volatility implied by options on a range of financial assets have stayed low. Government bond yields in the United States, the euro area, and Japan have been anchored at low levels by market expectations for continued monetary accommodation, moderating growth momentum, and limited inflationary pressure. Strengthened corporate balance sheets have reduced default risk and contributed to a compression of credit spreads in U.S. and European corporate bond markets. This compression has been reinforced by a quest for yield on the part of investors whose appetite for credit risk has been whetted by low short-term interest rates and low market volatility. Equity prices, however, have remained little changed since the beginning of the year, notwithstanding the improvement in credit quality, as earnings momentum is slowing and profit margins are expected to fall. The dynamic of improved credit fundamentals and a quest for yield is also manifest in the emerging bond market, where spreads and spread volatility have remained low, notwithstanding a surge in issuance by emerging market borrowers.

Renewed concerns over the size and persistence of the long-standing U.S. current account deficit caused the dollar to depreciate through the narrow trading ranges that had prevailed through early October, raising expectations for further decline. Despite these concerns, however, large portfolio inflows appear to have continued, albeit at a slower pace than in the first half of 2004. As these flows have been destined largely to U.S. government and corporate bond markets, they have contributed to keeping yields and credit spreads low.

In stark contrast to the relative calm in financial markets, oil and other commodity prices have been volatile. Imponderable geopolitical risks, limited excess capacity, and strong global demand combined to boost oil prices to unexpected highs through October, though prices have moderated since. While there is considerable market uncertainty over the prospects for oil prices, futures

markets suggest expectations that high prices may persist. High oil prices are widely seen as a tax on consumption that is more likely to dampen growth than boost inflation. The perceived risks to economic growth from higher oil prices are mitigated, however, by the lower energy intensity of major economies and—compared with previous oil shocks—the relatively modest increase in real prices experienced this year.

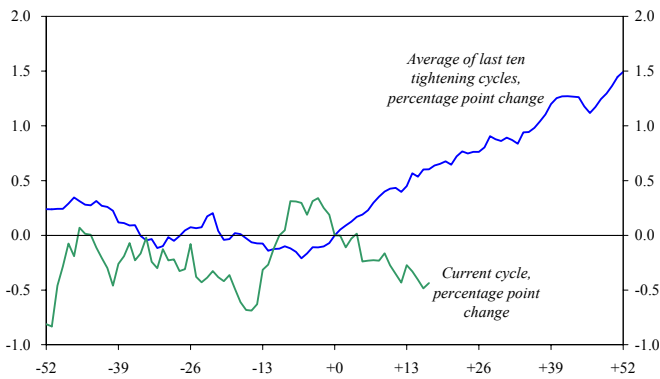
Despite the relative calm that has characterized major financial markets and the favorable external financing environment experienced by emerging market borrowers throughout much of the year, a number of risks merit attention.

- Spreads in mature and emerging credit markets have been compressed to low levels. While much of this compression reflects a significant improvement in credit quality, low short-term interest rates and low financial market volatility have provided powerful inducements to seek yield in the credit markets. With corporate and emerging market bond valuations stretched, there is a risk of a snap back if current investor expectations for continued low short-term interest rates, strong but moderating growth, limited inflationary pressure, and continued low market volatility become shaken. There is a further risk that a credit event in a particular firm or sector could cascade through the credit markets, sending spreads higher. So far, however, two sources of potential market turbulence—allegations of market manipulation by insurance brokers and the possibility of a downgrade to subinvestment grade of major U.S. automobile producers—have been easily weathered.
- There is a risk that expectations for continued low interest rates in the major financial centers may be cast in doubt. Market participants may, for example, be underestimating inflationary risks. U.S. treasury bond yields are well below levels that might be expected, given the pace of economic growth, and long-term market-based inflation expectations appear to have been little affected by the sharp increase in oil and commodity prices experienced this year. A sudden upward shift in interest rate expectations would trigger substantial deleveraging across asset classes. Credits spreads would surge, including for emerging markets. The ensuing increased volatility could strain investors who have sold derivatives to generate fee income by providing “insurance” against adverse market moves to other market participants.
- Concerns over the size, composition, and sustainability of the flows needed to finance the large and growing U.S. external current account deficit have resurfaced in recent weeks. Implied currency option volatility has also increased, albeit modestly. Markets expect the dollar to decline over the medium term, and do not appear to attach a high probability to a disorderly decline, given expectations for strong U.S. productivity growth and the prospect of renewed intervention and continued demand for U.S. assets by Asian central banks. If, however, the dollar were to fall rapidly, there could be important ripple effects in other asset markets. Such a decline would likely send U.S. treasury yields higher, reduce risk appetite, encourage an unwinding of carry trades, and send credit spreads on mature and emerging market bonds higher. An unwinding of carry trades could also spread to emerging local debt markets.

Major Government Bond Markets Anticipate Moderating Growth and Benign Inflation

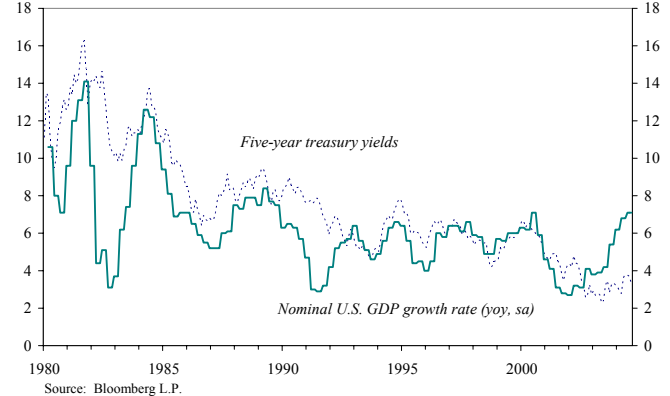
Since mid-June, when G-3 government bond yields peaked for the year and the U.S. tightening cycle began, markets have moderated their expectations for growth and the pace of monetary tightening. Expectations for moderating growth, benign inflation, and a gradual removal of monetary accommodation, coupled with the limited borrowing of the U.S. corporate sector and the high demand by foreigners for U.S. bonds, have all contributed to the low interest rate environment in the United States, despite the high budget deficit. In contrast to previous tightening cycles, yields on 10-year U.S. treasuries have fallen—not risen—in the weeks following the first increase in the Federal funds rate (Figure 1). As a result, U.S. treasury bond yields are unusually low considering the pace of nominal GDP growth (Figure 2). Government benchmark yield curves in the United States and the euro area have flattened since the beginning of the year as short-term interest rates have increased and longer-term yields have fallen, a further sign of moderating growth expectations. In Japan, high oil prices prompted a reversal of much of the increase in government bond yields and yield curve steepening seen earlier in the year.

Figure 1. U.S. Tightening Cycles: Movement in Ten-Year Treasury Note
(In weeks before and after first Fed rate increase)



Sources: J.P. Morgan Chase & Co.; and IMF staff estimates.

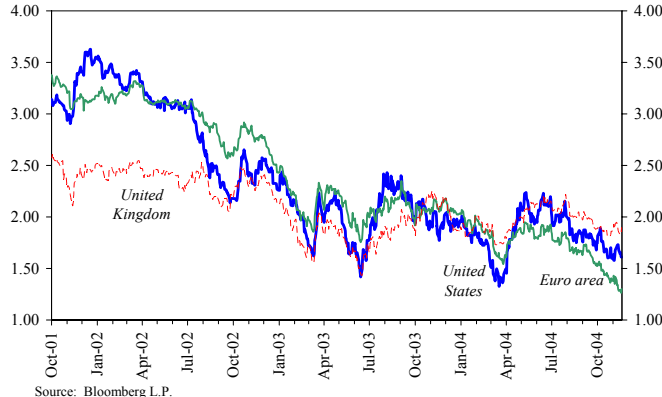
Figure 2. U.S. Economic Growth and Treasury Yields
(In percent)



Source: Bloomberg L.P.

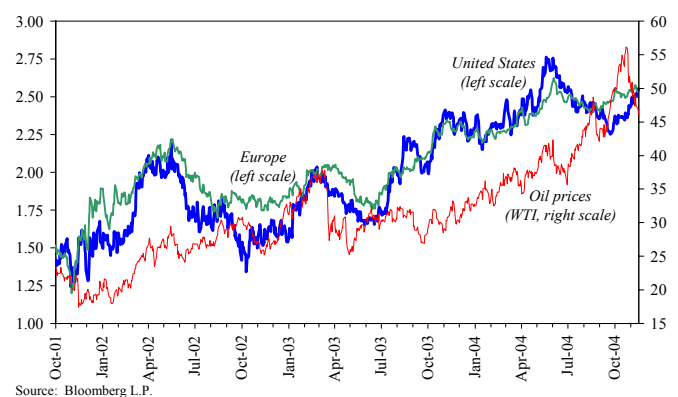
Declining real yields on inflation-linked bonds account for the bulk of the fall in U.S. and European government bond yields since mid-June (Figure 3). The market's long-term inflation

Figure 3. Inflation-Indexed Bond Yields
(In percent)



Source: Bloomberg L.P.

Figure 4. Long-Term Inflation Expectations and Oil Prices
(Ten-year nominal yields less inflation-indexed yields, in percent)



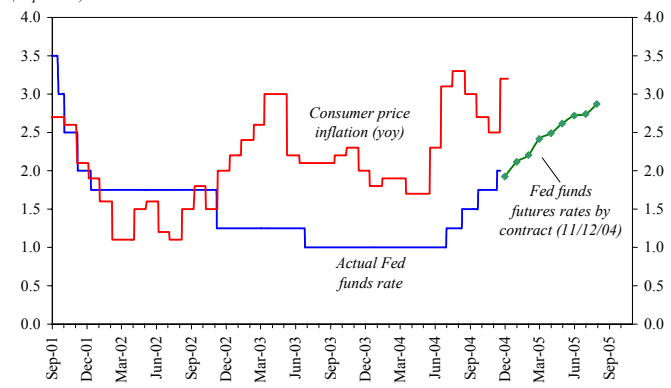
Source: Bloomberg L.P.

expectations—calculated as the yield differential between inflation-indexed bonds and their conventional counterparts—have remained little changed, notwithstanding the sharp increase in oil and other commodity prices since June (Figure 4).

The movements of inflation-linked and conventional government bonds in the United States and Europe since mid-June suggest that the market is firmly of the view that higher oil prices are more likely to dampen growth than boost inflation. Although growth momentum is expected to continue, the pace of economic growth is seen to have peaked, and could be further slowed by persistent high oil prices. With the major economies operating at less than full capacity and corporate profit margins relatively high, markets are expecting corporations to absorb the impact of higher input costs. Given these expectations, the immediate—knee-jerk—response to higher oil prices has been to push U.S. and European government bond yields and equity prices lower. Falling oil prices have triggered the opposite response.

With growth moderating and inflation benign, markets have reduced their expectations for the pace of central bank tightening. The market expects the Fed funds rate to be 2¼ percent at the end of this year (Figure 5). However, looking out to the end of 2005, participants predict a Fed Funds rate of 3 percent, suggesting that the Federal Reserve will choose not to hike at several of the Federal Open Market Committee (FOMC) meetings next year. The Fed funds rate is thus expected to remain below the current rate of headline consumer price inflation throughout much of 2005.

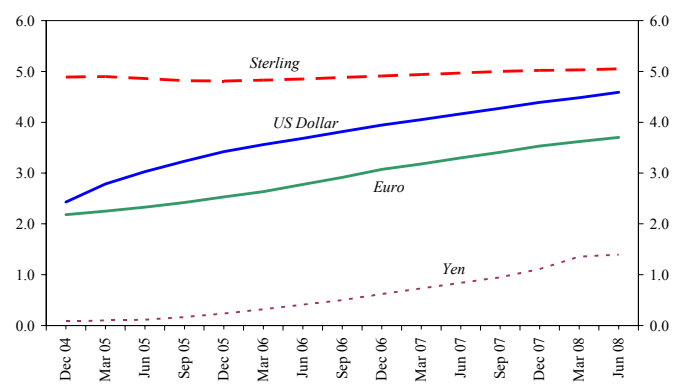
Figure 5. Federal Funds Futures and Consumer Price Index
(In percent)



Source: Bloomberg L.P.

In the euro area, high oil prices, the strength of the euro, and weak economic data, especially from France and Germany, have led the market to expect that the ECB will not raise benchmark rates until well into 2005 (Figure 6). Indeed, some market analysts point to the possibility that the ECB may cut rates. In the case of the United Kingdom, futures markets are pricing in declining short-term interest rates. In Japan, earlier speculation about the modalities for an exit from the zero interest rate policy has been put aside as the authorities have stressed the need first to see a sustained increase in core prices.

Figure 6. Three-Month LIBOR Futures Strip Curves
(In percent, as of November 12, 2004)

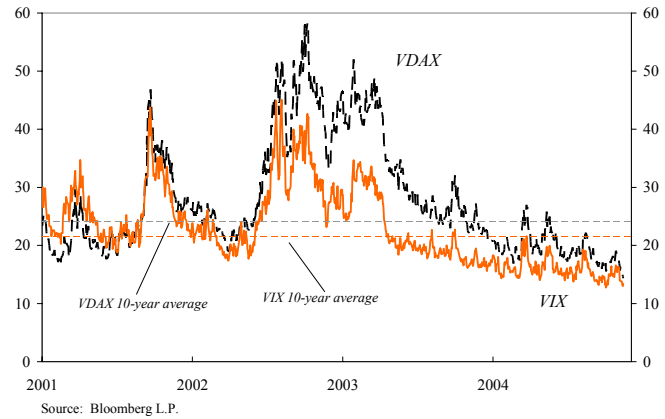


Source: Bloomberg L.P.

Major Equity Markets Are Anticipating Moderating Earnings Growth

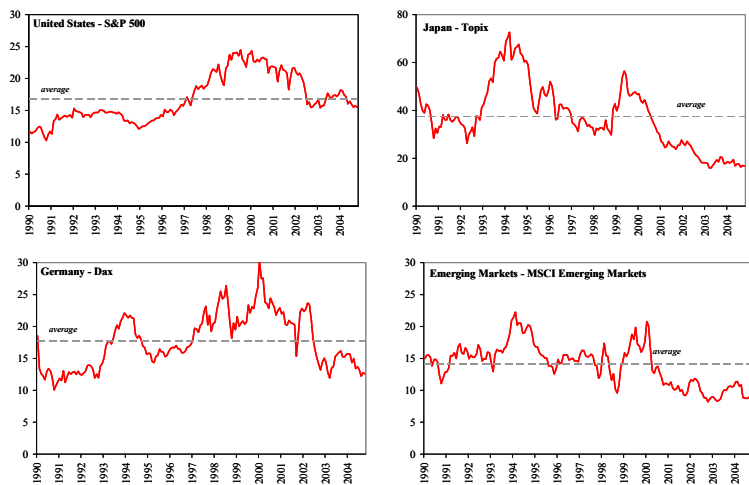
Mature equity markets have remained largely range-bound this year, reflecting moderating earnings momentum and rising oil prices. Earnings growth is seen to have peaked, and firms are expected to encounter slower revenue growth and narrower profit margins. Trendless trading and relatively supportive valuation levels have contributed to low implied volatility on equity options (Figure 7).

Figure 7. Equity Volatility Indices



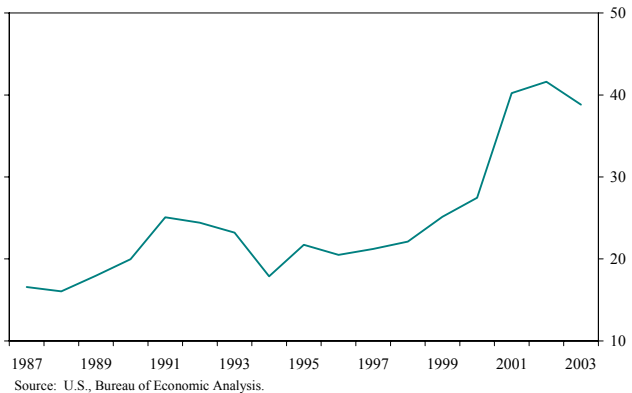
Nevertheless, earnings are expected to remain solid and expectations of a continued low interest rate environment are supporting equity valuations. Price/earnings ratios (on a 12-month forward basis that values expected earnings) are below long-term averages in the major markets (Figure 8).

Figure 8. Price/Earnings Ratios



The earnings of the financial sector have been bolstered by low interest rates. Several brokers have generated earnings from proprietary trading that have partially compensated for lower revenue from bond and equity underwriting and lower customer trading volumes. The financial sector, including the financial activities of nonfinancial institutions, accounted for a high proportion of total profits of U.S. corporations in the third quarter (Figure 9). A change in the interest rate environment could therefore have a larger-than-usual impact on corporate profitability.

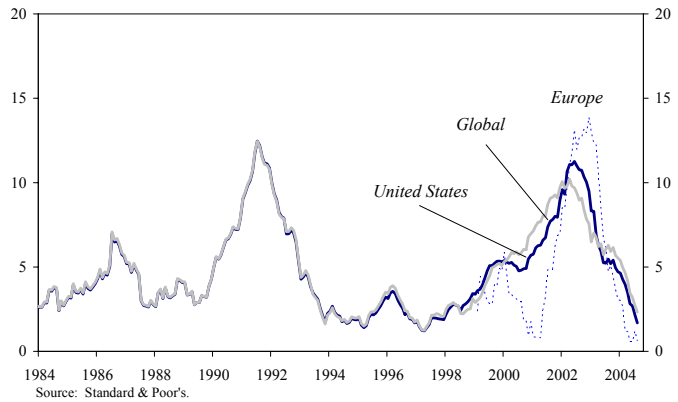
Figure 9. U.S. National Income and Product Accounts: Share of Financial Profits (As a percent of total)



Corporate Credit Spreads in the United States and Europe Have Fallen to Low Levels

Credit quality in the corporate sector has continued to improve (Figure 10). Strong free cash flow and solid, if slowing, profitability has permitted a broad de-leveraging of the corporate sector, as firms have paid down debt and returned funds to shareholders—through higher or special dividends and through share buybacks—rather than undertake new investment. As a result, issuance levels, especially by high-grade borrowers, have been low. Improved credit quality has been reflected in lower default rates. However, current default rates are close to normal cyclical lows and may have little room to decline further. Some ratings agencies are beginning to forecast a modest increase in default rates early next year from current low levels.

Figure 10. Corporate Default Rates
(In percent)



These fundamental improvements in credit quality have been complemented by a continued quest for yield, resulting in a continued compression of credit spreads (Figures 11 and 12). The low level of market volatility across asset classes has encouraged carry trades and other forms of leverage to boost yield. In particular, there has been increased use of credit derivatives to establish leveraged credit positions. Such positions increase the possibility that an unanticipated credit event could trigger broad-based spread widening, to the extent that they have been used for speculative purposes, rather than to hedge positions in cash markets.

Figure 11. High Grade Corporate Spreads
(In basis points)

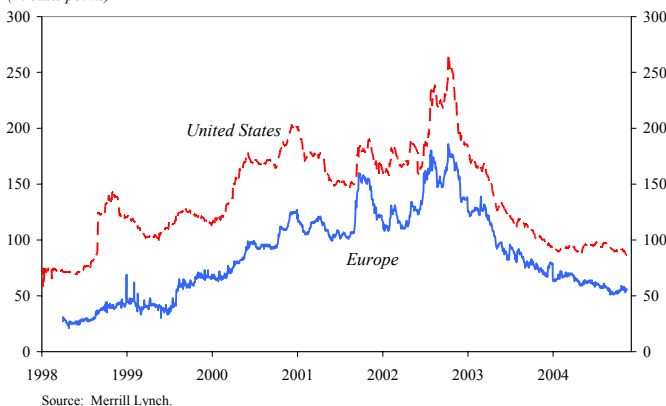
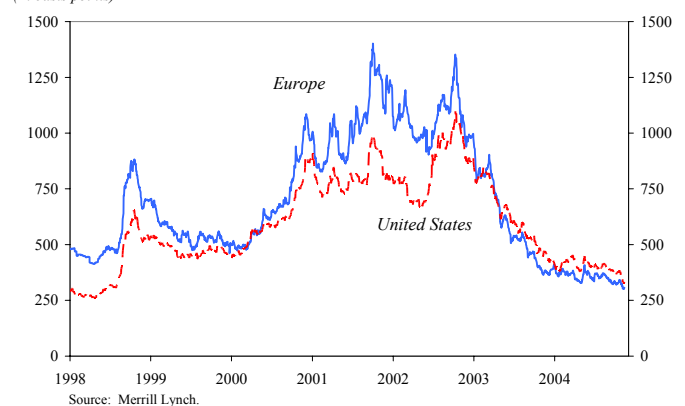


Figure 12. High Yield Corporate Spreads
(In basis points)



So far, however, the corporate bond market has proven quite resilient. Allegations of market manipulation in the insurance sector led to a temporary spike in corporate bond spreads issued by insurance companies. There were initial fears that the difficulties of insurers—large holders of corporate bonds—could lead to wider disruption in corporate bond markets if insurers were pressured to sell bond holdings to raise cash. In addition, the credit quality of the U.S.

automobile sector, a major issuer of corporate bonds, poses another risk. Both Ford and General Motors are currently in the lowest investment grade rating. Both firms are large issuers of corporate bonds and their bonds are included in many credit derivatives. A downgrade to below investment grade would likely require some institutional investors to sell their holdings, triggering an unusual level of trading activity and possibly turbulence in the corporate bond market.

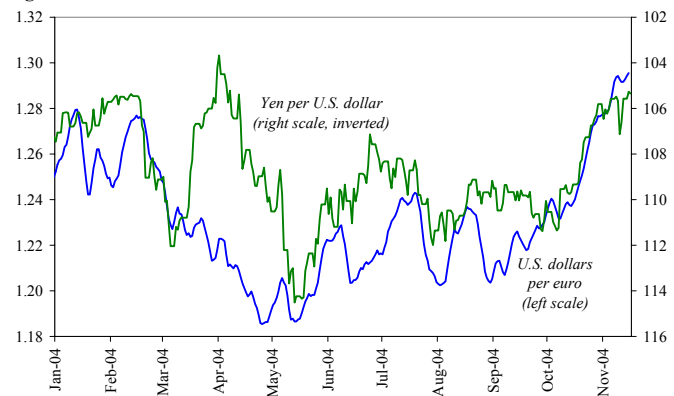
Global Imbalances and Currency Markets

From March through early October, **major currencies were mostly trendless**, moving within narrow ranges. However, the U.S. dollar has since weakened against major currencies with the euro rising to an all-time high in early November, and commodity and higher-yielding currencies—the rand, the Canadian and Australian dollars—strengthening amid rising commodity prices (Figure 13).

Markets have renewed their focus on the large financing needs of the U.S. external accounts and domestic savings imbalances. While the volume of flows has remained substantial, flows in August and September were below the levels of the first half of the year. The magnitude of foreign portfolio flows and their heavy concentration in U.S. government and corporate bonds have contributed to low government yields and corporate credit spreads. Net flows into U.S. equity markets have remained weak, however (Figure 14).

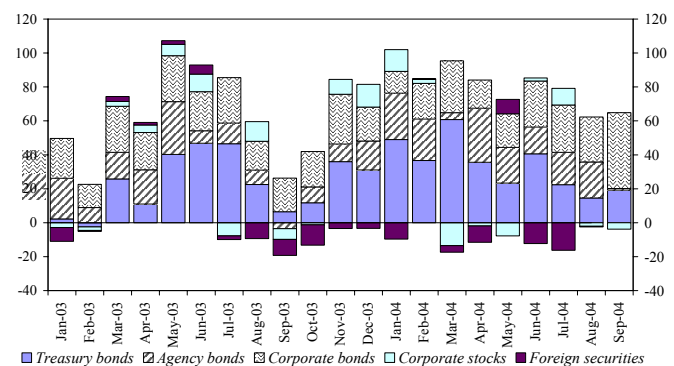
Asian currencies have appreciated against the dollar, although not to the extent of the euro. There has been some renewed speculation that China may revalue its currency sometime during 2005, reflected in the move of nondeliverable forward markets (Figure 15). Nonetheless, most participants believe that China will maintain its peg, and that

Figure 13. U.S. Dollar vs. Euro and Yen



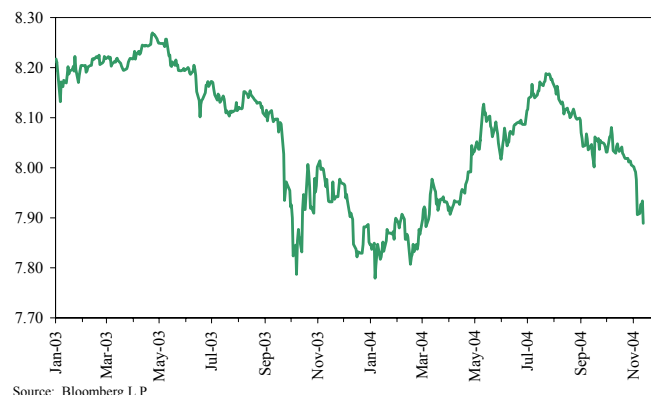
Source: Bloomberg L.P.

Figure 14. Net Purchases of Long-Term U.S. Securities
(In billions of U.S. dollars)



Source: U.S. Treasury Department, Treasury International Capital System.

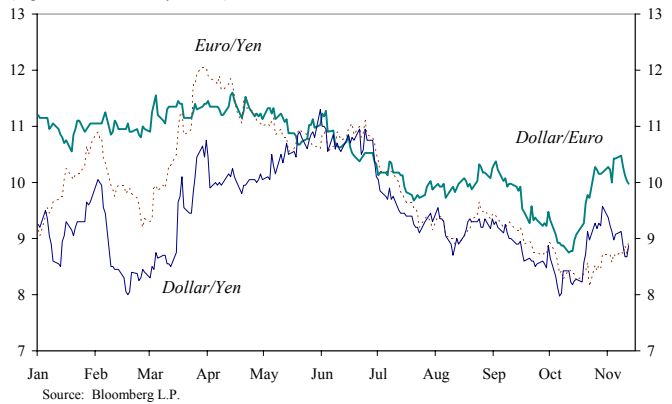
Figure 15. Chinese Yuan: Twelve-Month Forward Rates
(In national currency per U.S. dollar)



Source: Bloomberg L.P.

other Asian central banks are likely to intervene into the foreign exchange market in support of the dollar, limiting the extent to which the U.S. dollar would adjust against Asian currencies. With market participants refocusing on the potential for global imbalances to create tension in currency markets in the period ahead, **currency volatility has begun to rise, albeit from low levels** (Figure 16).

Figure 16. Currency Volatilities
(In percent, three-month forwards)



Financial Markets Have Been Characterized by Low Volatility

Financial markets—in stark contrast to commodity markets—have experienced relatively low levels of volatility and trendless trading throughout much of the year (Figure 17). Volatility has been pushed down by a number of factors. Stronger corporate balance sheets have worked to reduce equity and bond market volatility. Firms with lower levels of debt, lower borrowing costs, and earnings that are ample to cover their interest payments pose a low risk of default. These lower default probabilities have made corporate bonds more attractive, and helped dampen the volatility of equity prices (Figure 18). Low interest rates and abundant liquidity have also weighed on volatility as funds have flowed into riskier assets, helping to compress spreads. Finally, investors, including hedge funds, have sold options (effectively shorting volatility) as a source of income in the low interest rate environment. Selling options in this way can be seen as another manifestation of the quest for yield in an environment of low risk-free interest rates.

Figure 17. Implied Volatilities
(In percent)

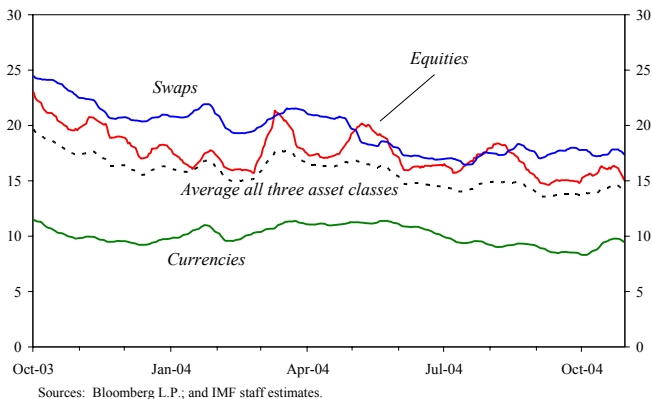
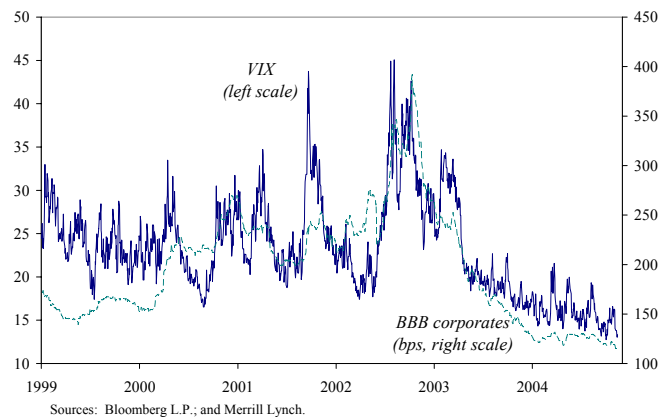


Figure 18. VIX and BBB Rated Spreads



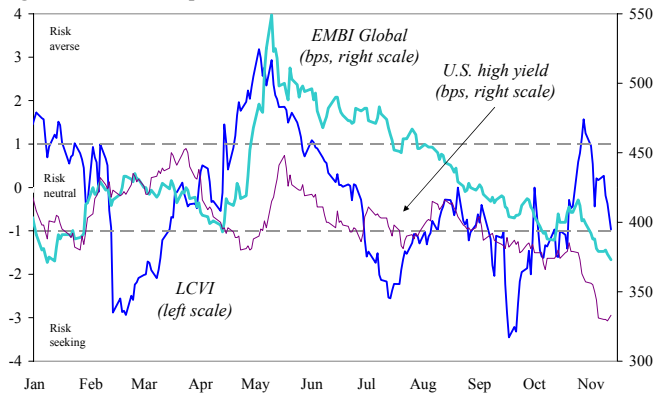
However, the low level of implied future volatility remains above actual market volatility. The gap between implied and actual volatilities has been positive, and rising over recent months, although still below highs seen earlier this year. This suggests that many market participants do not fully accept that the factors driving volatility down are here to stay. They are therefore

tending to price options with some degree of risk margin in case actual volatility were to suddenly return to levels more in line with historical norms.

Emerging Market Bonds Benefit from Global Credit Spread Compression

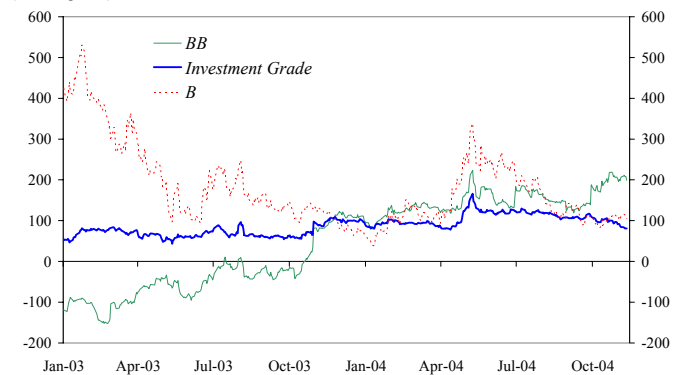
Emerging market credit spreads have continued to narrow to near historical lows, reflecting abundant global liquidity, a benign external environment, and improved fundamentals (Figure 19). As in the case of other financial markets, emerging market spread volatility has been relatively subdued throughout much of the year—with the exception of a spike in April and May when markets adjusted to the prospect of higher U.S. interest rates—and remains below its historical average. The quest for yield and the surge in oil prices have compressed spreads on higher-yielding emerging market countries, particularly oil exporters, more than on investment grade countries.

Figure 19. Risk and Spread Environment



Sources: J.P. Morgan & Chase Co., and Merrill Lynch.

Figure 20. Differentials Between Corporate and Emerging Market Spreads (In basis points)



Sources: J.P. Morgan Chase & Co., and Merrill Lynch.

While emerging market credit spreads are quite narrow relative to history, they remain above comparably rated U.S. corporate bonds (Figure 20). The spread differential between investment grade corporates and emerging markets has remained stable, while the differentials for B and BB rated credits have widened marginally. This comparison, however, begs the question of whether credit spreads, and indeed risk-free interest rates, have been compressed to artificially low levels.

Improved economic fundamentals continue to contribute to the strength of emerging market debt. Solid, if slowing, global growth, improving fiscal balances, strong trade surpluses, and higher reserve levels have improved credit quality and lowered default risk. Since the beginning of the third quarter, eight countries in the EMBIG universe have received ratings upgrades (against no downgrades) including key subinvestment grade countries Turkey, Brazil, and Venezuela; the latter two received upgrades from all three major ratings agencies.

Technical factors have also supported emerging market debt. The third quarter saw a pickup in overall inflows. Long-term “strategic” inflows into the asset class remained robust and are expected to reach \$10 billion for the year, and remain strong next year. Net inflows from U.S.-

based dedicated emerging market debt funds resumed in the third quarter, though there have been modest outflows in October. On the supply side, the fact that external emerging market financing needs for 2004 have largely been completed, combined with large amortization and coupon payments, is expected to provide technical support in the near term.

Although difficult to assess precisely, the degree of leverage in the asset class appears to be on the increase, even if below previous highs. While there is evidence that the sell-off in April and May led investors to reduce their more highly leveraged positions, these positions appear to have since been rebuilt.

Surging Primary Issuance into a Receptive Market

Emerging market gross issuance is set for one of the strongest years on record.

The near-record pace of issuance was facilitated by healthy investor appetite stemming from the search for yield (Figure 21 and Table 1).

Besides the high volume of issuance, the primary emerging bond market has seen two noteworthy developments. First, **the share of euro-denominated bond issuance has increased** (Figure 22). This increase reflects in part renewed demand for emerging market bonds from European institutional investors. The increase in euro-denominated issuance represents a welcome diversification of funding sources. Second, **some emerging market bond issuers—notably Colombia and Uruguay—issued bonds denominated in local currencies on international capital markets.** These issues, although small in size and limited in number, mark steps toward overcoming what has been termed as the “original sin” of emerging markets: the inability to issue international bonds in their own currencies.

Figure 21. Cumulative Gross Annual Issuance of Bonds, Loans, and Equity (In billions of U.S. dollars)

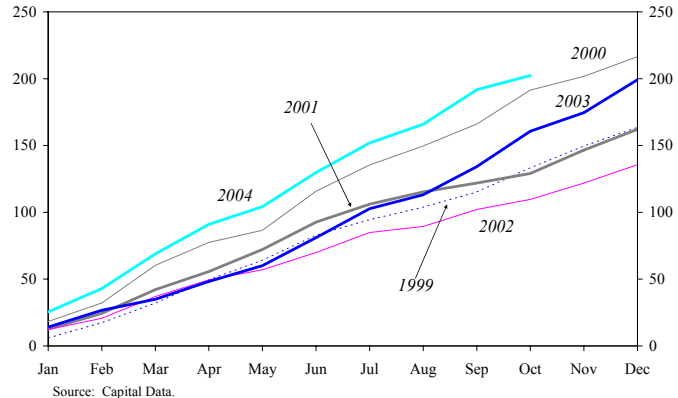
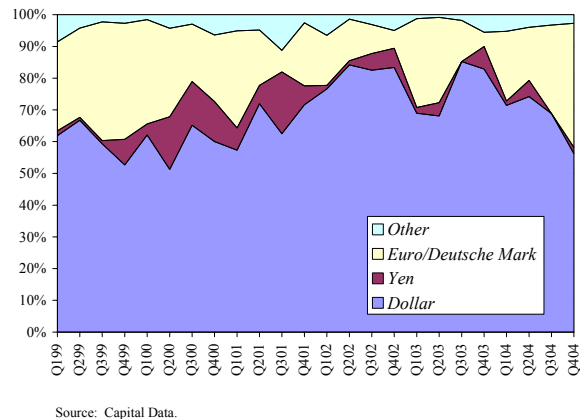


Figure 22. Emerging Market Bond Issuance by Currency



The supportive financing conditions have allowed for the virtual completion of 2004 external bond financing requirements as well as substantial and early pre-funding for 2005 (Table 2). Through end-October, Latin American issuers are estimated to have completed about one third of their total external bond issuance plans for 2005. Thus, with part of the estimated

gross sovereign external bond issuance plans for 2005 having already been pre-financed, the market would appear to have ample capacity to absorb next year's expected issuance of nearly \$40 billion, especially when compared with the \$52 billion of sovereign bonds already placed in 2004 through end-October.

Table 1. Emerging Market Financing

	2000	2001	2002	2003	2003				2004				Year to			
					1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr. ¹	Sep.	Oct.	Nov. ¹	Date ¹
<i>(In billions of U.S. dollars)</i>																
GROSS ISSUANCE BY ASSET	216.4	162.1	135.6	199.3	35.0	46.0	53.2	65.1	69.0	60.8	62.0	30.2	26.1	24.7	5.6	222.0
Bonds	80.5	89.0	61.6	98.8	20.1	27.9	24.6	26.1	40.0	28.6	29.4	14.1	15.7	12.1	2.1	112.2
Equities	41.8	11.2	16.4	28.3	1.2	2.0	7.1	18.0	13.1	10.4	5.6	7.0	1.8	4.7	2.4	36.1
Loans	94.2	61.9	57.6	72.2	13.7	16.1	21.5	20.9	15.9	21.9	27.0	9.0	8.6	7.9	1.1	73.8
GROSS ISSUANCE BY REGION	216.4	162.1	135.6	199.3	35.0	46.0	53.2	65.1	69.0	60.8	62.0	30.2	26.1	24.7	5.6	222.0
Asia	85.9	67.5	53.9	88.0	12.9	15.7	25.1	34.3	33.1	29.6	23.7	16.0	9.0	11.7	4.2	102.4
Latin America	69.1	53.9	33.4	42.8	7.8	12.1	9.1	13.8	13.5	9.3	14.2	4.5	8.2	4.5	0.0	41.6
Europe, Middle East, Africa	61.4	40.8	48.3	68.5	14.3	18.2	19.1	17.0	22.3	21.9	24.0	9.8	8.9	8.4	1.3	78.1
AMORTIZATION BY ASSET	114.3	148.0	129.3	124.2	22.1	34.3	29.6	38.2	38.4	33.2	31.9	19.6	9.8	9.8	n.a.	123.1
Bonds	52.2	60.0	59.8	61.8	10.5	17.5	15.6	18.2	25.0	17.9	17.1	11.0	5.1	5.8	n.a.	65.9
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	n.a.	0.0
Loans	62.1	88.0	69.5	62.4	11.6	16.8	14.0	20.0	13.5	15.3	14.7	8.6	4.6	4.0	n.a.	47.5
AMORTIZATION BY REGION	114.3	148.0	129.3	124.2	22.1	34.3	29.6	38.2	38.4	33.2	31.9	19.6	9.8	9.8	n.a.	123.1
Asia	57.1	66.5	56.2	49.4	8.3	12.0	14.5	14.7	16.1	13.2	11.9	8.1	4.6	3.6	n.a.	44.8
Latin America	32.3	45.9	41.2	40.8	7.6	10.1	8.0	15.1	12.7	13.4	10.6	7.2	3.6	3.6	n.a.	40.3
Europe, Middle East, Africa	24.9	35.5	31.9	33.9	6.2	12.2	7.1	8.4	9.6	6.6	9.4	4.3	1.6	2.7	n.a.	28.3
NET ISSUANCE BY ASSET	102.2	14.2	6.4	75.1	12.9	11.7	23.6	26.8	30.6	27.6	30.1	10.6	16.3	14.8	n.a.	119.5
Bonds	28.3	29.1	1.8	37.0	9.6	10.4	9.0	8.0	15.1	10.7	12.3	16.8	10.6	6.2	n.a.	44.3
Equities	41.8	11.2	16.4	28.3	1.2	2.0	7.1	18.0	13.1	10.4	5.6	6.4	1.8	4.7	n.a.	33.7
Loans	32.1	-26.1	-11.8	9.8	2.1	-0.7	7.5	0.9	2.4	6.6	12.3	7.9	4.0	3.9	n.a.	25.2
NET ISSUANCE BY REGION	102.2	14.2	6.4	75.1	12.9	11.7	23.6	26.8	30.6	27.6	30.1	10.6	16.3	14.8	n.a.	119.5
Asia	28.8	0.9	-2.3	38.5	4.7	3.7	10.6	19.6	17.0	16.3	11.8	12.6	4.4	8.2	n.a.	53.4
Latin America	36.9	7.9	-7.8	1.9	0.2	2.0	1.0	-1.3	0.8	-4.0	3.6	5.5	4.6	0.9	n.a.	1.3
Europe, Middle East, Africa	36.5	5.3	16.4	34.6	8.1	6.0	12.0	8.5	12.7	15.3	14.7	13.1	7.3	5.8	n.a.	48.5
SECONDARY MARKETS																
Bonds:																
EMBI Global (spread in bps) 2/	735	728	725	403	626	515	486	403	414	482	409	373	409	399	373	373
Merrill Lynch High Yield (spread in bps)	890	795	871	418	757	606	543	418	438	404	384	364	384	364	333	364
Merrill Lynch High Grade (spread in bps)	200	162	184	93	156	120	110	93	94	97	91	87	91	90	87	87
US 10 yr. Treasury Yield (yield in %)	5.12	5.05	3.82	4.25	3.80	3.52	3.94	4.25	3.84	4.58	4.12	4.18	4.12	4.03	4.18	4.18
Equity:																
<i>(In percent)</i>																
DOW	-6.2	-7.1	-16.8	25.3	-4.2	12.4	3.2	12.7	-0.9	0.8	-3.4	4.6	-0.9	-0.5	5.1	0.8
NASDAQ	-39.3	-21.1	-31.5	50.0	0.4	21.0	10.1	12.1	-0.5	2.7	-7.4	9.9	3.2	4.1	5.6	4.1
MSCI Emerging Market Free	-31.8	-4.9	-8.0	51.6	-6.8	22.2	13.5	17.3	8.9	-10.3	7.4	7.2	5.5	2.2	5.0	12.4
Asia	-42.5	4.2	-6.2	47.1	-9.3	21.4	14.9	16.3	7.6	-12.2	4.2	6.4	4.0	0.9	5.5	4.7
Latin America	-18.4	-4.3	-24.8	67.1	-0.9	22.6	12.4	22.4	6.2	-9.2	16.6	7.3	7.9	2.5	4.7	20.7
EMEA	-22.3	-20.9	4.7	62.7	-5.3	23.7	9.3	11.7	13.2	-7.4	7.8	8.7	6.9	4.3	4.2	22.9

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

1/ Gross issuance data (net of US trust facility issuance) are as of November 9, 2004 close-of-business London, and net issuance data as of October 31, 2004. Secondary markets data are as of November 12, 2004.

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.

Table 2. Sovereign External New Issuance Estimates in 2005 (US\$ mn)¹

	Requirement	Funded	Remaining
Argentina	-	-	-
Bahrain	-	-	-
Belize	-	-	-
Brazil	6,000	1,200	4,800
Bulgaria	-	-	-
Chile	600	-	600
China	1,000	-	1,000
Colombia	1,500	500	1,000
Costa Rica	-	-	-
Croatia	850	-	850
Dominican Republic	-	-	-
Ecuador	-	-	-
Egypt	-	-	-
El Salvador	250	-	250
Estonia	-	-	-
Guatemala	-	-	-
Hungary	2,400	-	2,400
Iran	-	-	-
Indonesia	500	-	500
Israel	750	-	750
Jamaica	-	-	-
Jordan	-	-	-
Latvia	-	-	-
Lebanon	2,000	-	2,000
Lithuania	-	-	-
Malaysia	500	-	500
Mexico	2,000	1,500	500
Morocco	500	-	500
Pakistan	500	-	500
Panama	300	-	300
Peru	1,000	-	1,000
Philippines	1,800	-	1,800
Poland	4,800	-	4,800
Qatar	-	-	-
Romania	600	-	600
Russia	3,000	-	3,000
Slovak Republic	1,205	-	1,205
Slovenia	-	-	-
South Africa	1,000	-	1,000
South Korea	1,000	-	1,000
Sri Lanka	-	-	-
Thailand	500	-	500
Trinidad & Tobago	-	-	-
Turkey	5,500	-	5,500
Ukraine	1,000	-	1,000
Uruguay	-	-	-
Venezuela	3,000	790	2,210
Vietnam	-	-	-
Asia	5,800	-	5,800
Emerging Europe	18,355	-	18,355
Latin America	14,750	4,783	9,967
Middle East & Africa	5,250	-	5,250
Total	44,155	4,783	39,372

Source: J.P. Morgan Chase & Co.

¹As of October 31.