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Markit Research
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Greece and other emerging markets

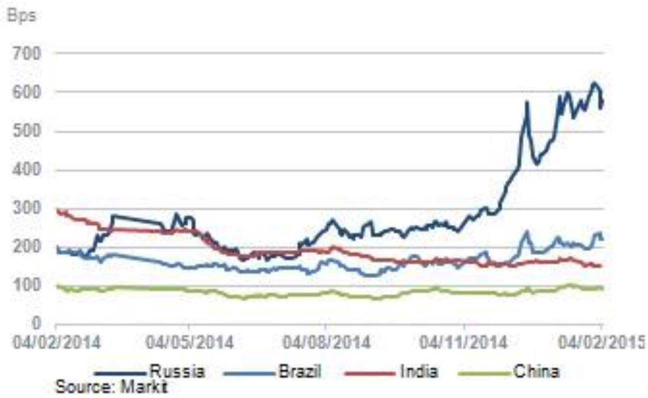
Greece continues to hog the headlines but sovereigns in the developing world are seeing plenty of action

— Brazil is trading with an implied rating of 'BB'
— Russia's spreads are determined by the oil price and geopolitical developments
— Emerging markets are set to remain the most heavily traded names

Greece was relegated to "emerging market" status by several index providers last year, and its recent turmoil seems to justify the reclassification. But the ongoing problems in the Hellenic Republic shouldn't overshadow issues in sovereigns more familiar to EM investors.

Brazil saw its CDS spreads widen by more than 20bps to 234bps after the government revealed that its budget deficit was twice as large as consensus forecasts. The shortfall is now the largest since the series began in 2001 (though the sovereign's spreads are nowhere near the 1,200bps levels reached in that year). The government is implementing fiscal reforms in an effort to stave off a downgrade to junk. But the CDS market indicates that it will be difficult to maintain an investment grade rating – Markit's implied rating for Brazil is 'BB'.

Brazil is among the most liquid names in the CDS universe, regularly ranking in the top three credits by volume, according to DTCC data. However, Russia topped the table last week and is the clear underperformer of the BRIC countries. Its spreads hit 627bps on January 30, the widest level for almost five years, amid concerns about an escalation of the conflict in Ukraine and the falling oil price. There was some respite in recent days with a modest recovery in the price of crude, with spreads touching 560bps. But the volatile geopolitical situation and likelihood of the oil price staying low means that Russia remain on the radar of bearish investors in 2015.



Source: Markit

China and India, in comparison, are stellar sovereign credits. The latter country has performed strongly over the past year following a change in government, and China CDS trades around the respectable 100bps level. But the world's largest economy has considerable structural problems that could weigh on its credit standing in the coming years, particularly overinvestment in the inflated property market. This issue tends to flare up intermittently in the broader market, and certainly has the potential to do so again this year.

Greece may be garnering all the attention at the moment, and will no doubt continue to do so until the current impasse is resolved. But emerging market sovereigns will remain the most heavily traded CDS names in what promises to be an interesting 2015.

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