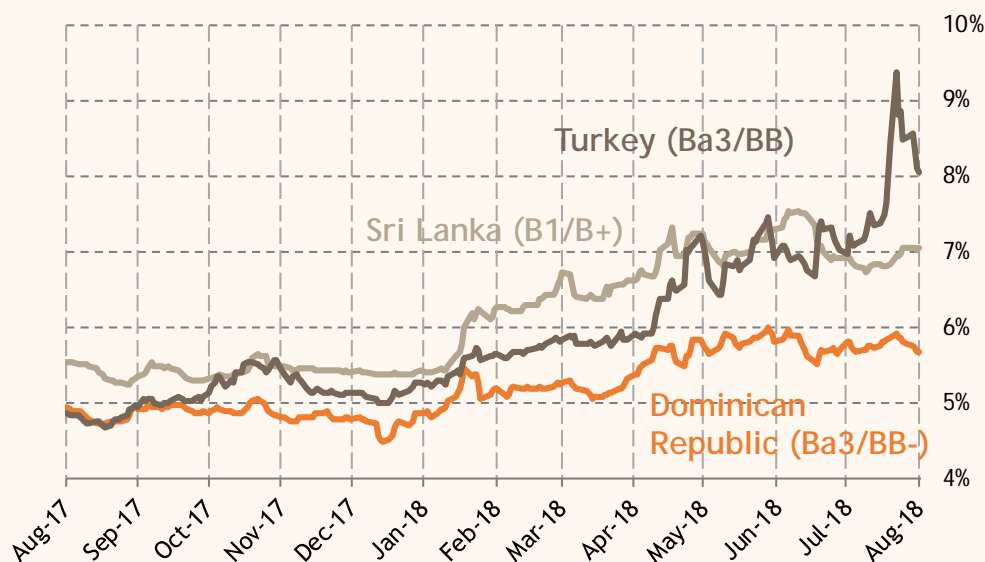


Key Economic Figures/Events of the Week

- The news about the escalating US-China trade war continues to put a significant pressure on the global financial markets. This week, though, the sentiment improved on the back of reports about a potential meeting between the leaders of the United States and China at the G20 summit in November to resolve the trade dispute between the two countries. Meanwhile, on 23 August, the USA and China exchanged tariffs on USD 16 billion worth of goods. Bilateral negotiations are underway.
- At the same time, investor hopes for an early stabilisation in Turkey did not come true as a national court rejected the appeal to release the American pastor Andrew Brunson. The US Government had threatened earlier to impose large sanctions on Turkey unless Ankara frees Mr Brunson. The Turkish lira weakened and once again closed above 6 against the US dollar. As a reminder, Moody's announced last Friday (17 August) a one-notch downgrade of Turkey's sovereign ratings to Ba3 with no effect on the markets as Turkish bonds are already trading at par with B/B- issuers.

Yield to maturity in 2027 for government Eurobonds of

Turkey, Sri Lanka and Dominican Republic



- The theme of US sanctions, this time against Russia, continued on Tuesday (21 August) when the US Treasury announced additional sanctions against three Russian companies, two Russian citizens and six vessels flying its flag because of cooperation with North Korea. Also, the continued discussions of additional measures caused VEB Eurobonds to depreciate by 5-7% in view of rumours that the bank could find itself on the SDN list. This week, the bonds have recovered half of the losses in the absence of bad news. Our portfolios do not carry Russian banks' bonds that could prove to be the most exposed if the sanctions tighten.
- The transcript of the FED meeting on 1 August published on 22 August showed that the Committee has no intention to change the pace of rate hikes, in line with market expectations. The regulator expressed concern about the import tariffs imposed, noting, however, that it will be waiting for the evidence of economic slowdown before taking any remedial actions.

- Treasury yields fell and the US dollar weakened after US President Donald Trump criticised the head of the Federal Reserve for raising interest rates. Thus, UST10 yield decreased by 3 bps over the week to 2.83%, while euro strengthened against the US currency to 1.1540 as at the end of Thursday, 23 August.

Weekly Investment Insights

- PhosAgro (Baa3/BBB-/BBB-), Russian phosphate-based fertilizer producer, announced results for 2Q18, beating analyst expectations in operating profit thanks to rouble depreciation. PhosAgro like most exporters has the major part of costs in RUB, while most prices are in USD. As a result, the debt burden (net debt / EBITDA ratio) went down to 2x. We believe the company's bonds have price upside potential as soon as the general news flow becomes more favourable, and continue to hold its bonds due to 2023.
- PT Perusahaan Listrik Negara (Persero) (Baa2/BBB-/BBB). S&P, an international credit rating agency, upgraded the long-term credit rating of the Indonesian state power company PT Perusahaan Listrik Negara to an investment grade of BBB-. The decision reflects the agency's belief that the Indonesian government oversees the company, strictly controls its financial obligations and is ready to provide timely assistance in a critical situation. This did not lead to a change in market prices, as the company had already received investment-grade ratings from two other agencies. Our portfolios hold a small portion of this issuer's bonds, which boast low volatility and weak correlation with the rest of the bond market.

Strategy

We have continued monitoring the markets and took no active steps given our fully invested portfolios. The summer lull is coming to an end as the buyers are becoming more active, which means autumn might bring stabilisation to the markets.

We hope you find this information useful and will be glad to answer your questions

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