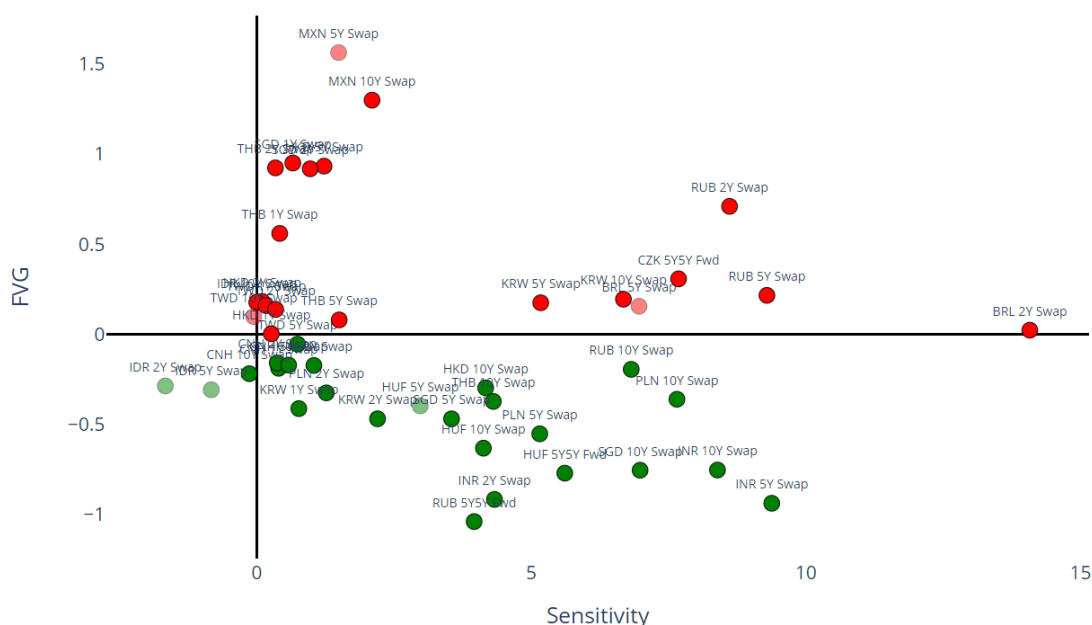


US bond sell-off: What's the impact on EM Rates?

- While Chairman Powell seems relaxed about recent moves in the long end of the US Treasury market, it does raise increasing concerns for EM debt markets. More specifically, **which EM rates markets are most sensitive to the gyrations in US bond markets?**

Sensitivity to UST 10Y Yield



- The standout is India. Indian yields across the curve - [2y](#), [5y](#) & [10yrs](#) - are highly sensitive to US bond yields. Moreover they are low versus macro fair value. On this snapshot, **India is the most vulnerable EM rates mkt to an ongoing bear move in US yields.**
- Next most vulnerable is [5y5y Russia](#) - not as sensitive but the richest in valuation terms. Currently one sigma (28.5bp) too low versus macro model value.
- There are, of course, other drivers at work. INR & RUB yields both need credit spreads to stay tight for example. But it is worth noting that Fed QT Expectations features as a top driver in all these models. All the above want ongoing QE / are vulnerable to rising US rate vol & a taper tantrum scenario.

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