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WEEKLY INVESTOR RESEARCH

Ashmore

Summary

The past two weeks has seen a significant discrepancy emerge between equity market valuations and the underlying trends in the data for the HIDCs (Heavily Indebted Developed Countries), notably the United States. However, without an obvious trigger for a correction in the market and with central banks continuing to signal willingness to prop up markets with more monetary easing there is no indication yet of a correction. Meanwhile, in Emerging Markets the strong disinflationary impulses continue to justify lower policy rates resulting in strong returns for local bonds in the context of stable FX.

Global

The strongest performing asset class in Emerging Markets over the past week was equities, up 2.2% with the Shanghai composite rising 3.1%. In Fixed Income, the best performing asset class was local currency bonds, which returned 1.1% over the past week. Other asset classes also performed well. External sovereign debt was up 30bps with high yielders returning 65bps on the week. Corporate dollar debt rose 26bps, also with high yielders performing better (0.61bps). Emerging Market currencies were marginally higher (7bps), led by Latin America (+35bps). The backdrop for this performance was one of relative light news on the global stage. Sentiment remained positive following last week's better than expected US payrolls number, despite the fact that the labour market in the United States is not showing strong growth, while other indicators, notably manufacturing, have recently shown renewed weakness. However, the absence of clearly definable tail risk trigger and strong signals from central banks across the HIDCs that they are ready to take further action to support markets in the face of cyclical weakness have been sufficient for markets to dismiss the broader economic picture. In Germany both industrial production and factory orders were stronger than expected. The most important policy news to come out of Europe was a story that the ECB may consider measures to revive the market for asset-backed securities in a bid to help small and medium sized industries. This type of initiative would very much be in the realm of 'second-best' solutions: Europe's banking system is technically insolvent, but recapitalisation of the system looks unlikely for political reasons. US stock markets rose to new highs, up 3.2% on the week. The Dax rose 4.3%. In bond markets, the US 10 year bond yield rose to 1.77%, while Bund yields in Germany rose to 1.27%. The EUR rose 0.7% over the past week to 1.32, while JPY rose versus the USD to 98.98. Copper prices were up 1.7%, soybeans 1.3%, and gold 0.34% over the past week. Oil prices have stabilised from their recent dive. Brent is now trading at $104.34 per barrel, up 4.4% on the week.

Latin America

In Brazil, the consumer price index (IPCA) printed 0.55% mom, which was above market the consensus of 0.48%. On a yoy basis, however, inflation moderated slightly to 6.49% versus the 6.5% top of the central bank's target range. Core inflation, however, rose to near 6%. In Mexico, the government continues to reform with a vote expected shortly on measures to increase competition in the banking system. Mexico also reported robust investment data, while Fitch upgraded the sovereign's debt rating to BBB+ with positive outlook from BBB previously. Finally, Agustin Carstens, Head of the central bank, maintained a dovish tone in a press conference against the backdrop of expectations of further declines in inflation in the second half of this year. President Enrique Peña Nieto renewed the 'Pact for Mexico' agreement with the main opposition parties, a key ingredient required for passage of reforms. In Chile, inflation dropped 0.5% mom in April versus a decline of 0.1% expected. The annual inflation rate in Chile is now just 1%. In Venezuela, local press reports noted that the government is planning to issue up to USD5bn in bonds, possibly including liability management in PDVSA. The return to dollar bond financing operations would, if confirmed, not be entirely surprising following the departure of Jorge Giordani from the past of Finance Minister.

Continued overleaf

Asia

In China, the fix for CNY reached a now post-crisis strong point versus the dollar over the past week amidst news of stronger trade data, lower inflation, and measures to fight currency speculation. China's exports grew by 14.7% yoy in April versus consensus expectations of 9.2%. Import growth was 16.8% yoy. The effect was to take the trade balance to positive at USD18.2bn in April after it fell into negative territory in March. Following new reporting requirements for exporters, however, the strong trade data should be discounted somewhat, in our view. Inflation in China was reported at 2.4% yoy with higher than expected food prices, and lower than expected non-food elements. In the Philippines, April's CPI print surprised on the downside by rising only 2.6% yoy compared with 3.2% yoy in the previous month. Taiwan's exports and imports both declined in April, down 1.9% yoy and 8.2% yoy, respectively. Korea's central bank cut rates by 25bps, thus bringing the policy rate to 2.5%.

Eastern Europe, Africa, and Middle East

In Poland, the central bank cut rates by 25bps to 3.0%, while maintaining a dovish tone in the subsequent press conference. In Russia, CPI inflation rose in the month of April to 7.2% yoy from 7.0% yoy in March in line with market expectations. In the Czech Republic, industrial production contracted marginally in March (-0.2% mom) following a hefty 1.5% mom expansion in February. By contrast, Hungarian industrial production continued to expand in March, increasing 0.4% mom compared to +0.1% mom in February. In Turkey, industrial production expanded at a pace of 1.4% yoy, also in March. This was softer than expected, but followed strong prints in both February and January of this year.

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