Ashmore

Weekly Investor Research

20 December 2012

Head Office:

London:
T: +44 20 3077 6000

Other Locations:

Beijing:
T: +86 10 5764 2601

Bogota:
T: +57 1 347 0649

Istanbul:
T: +90 212 349 40 00

Melbourne:
T: +61 0 3 9653 9524

Moscow:
T: +74 9566 04258

Mumbai:
T: +91 22 6608 0000

New York:
T: +1 212 661 0061

Washington:
T: + 1 703 243 8800

Sao Paulo
T: +55 11 3556 8900

Singapore:
T: +65 6580 8288

Tokyo:
T: +81 0 3 6860 3777

Ashmore Investment Management Limited
61 Aldwych London
WC2B 4AE
T: +44 20 3077 6000

Bloomberg Page:
Ashmore <GO>

Fund Prices:
Bloomberg, FT.com, Reuters, S&P, Lipper

Website:
www.AshmoreGroup.com

Summary: Global market sentiment was choppy due to lingering uncertainty about the US fiscal cliff issue. Still, Emerging Markets sovereign debt produced small positive returns, despite a sell-off in US treasuries. Higher spread corporate high yield debt rallied more, up 44bps since Friday last week. Emerging Markets currencies also rose strongly, clocking up 34bps this week. Local Currency bonds returned 49bps, while the strongest performance in Emerging Markets last week was in equities, up 94bps.

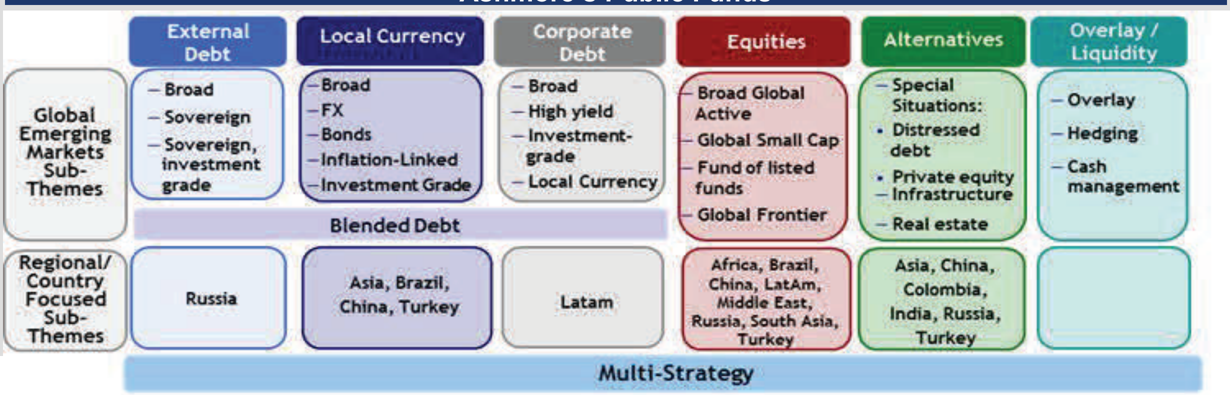
Global: US stock markets rose early in the week on optimism that House Republicans and the White House would reach a deal on the fiscal cliff. Sentiment weakened later in the week when talks appeared to stall following a declaration from House Republicans that they would proceed with a vote on the so-called Plan B, a proposal not acceptable to the White House. Our base case is that a deal will eventually be struck, either late this year or in early January after tax rises and spending cuts have actually taken place. But it is not possible to rule out a far worse scenario. The challenge facing Congress in dealing with the fiscal cliff issue highlights two important points, in our view. First, the US Congress is likely to struggle to address any of the important long-term fiscal issues facing the US. Second, the recent performance of the EU 27 member states in moving forward on issues such as bank regulation, Greek debt restructuring, and fiscal reforms almost look impressive in comparison. The bigger picture, however, is that both Europe and the US face serious challenges in the coming years and investors should not consider bonds in these HIDCs (Heavily Indebted Developed Countries) to be 'risk free'. The fiscal cliff issue also matters to Emerging Markets, but mainly as a potential source of asset price volatility. We believe investors should aim to exploit any such temporary volatility to add to positions in Emerging Markets, particularly given the modestly brighter backdrop for global growth going into 2013. Over the past week, US stocks rose 1.6%, while 10 year US treasuries continued their sell-off, rising from 1.70% on Friday to a peak of 1.82% mid-week, now 1.78%. EURUSD also continued the recent rally, briefly trading above 1.33, now 1.3220. The US treasury market and the US dollar price action is worth noting: Positive sentiment weakens both. Surely, the direction of travel over the medium term as the HIDCs slowly overcome their enormous problems will be for far more of the same. In other developments, weaker US housing data softened the outlook for Q4 growth to just north of 2%, while manufacturing in the New York area also weakened. In Europe, the Eurozone current account balance continued to improve. The Eurozone current account now has a 1.8% of Eurozone GDP surplus, up from -0.7% of GDP in 2008. Standard and Poor's, the ratings agency, raised Greece's sovereign debt rating to B- (stable) from selective default. Germany IFO was stronger than expected. In Japan, Abe Shinzo of the LDP won the election on a message of active policies to achieve higher inflation, thus echoing the broader sub-text of policies in other HIDCs. In Italy, the immediate focus is the passage of the budget, which will likely give rise to Prime Minister Monti's resignation and early elections.

Latin America: In Brazil, Finance Minister Mantega announced rising gas prices and new fiscal measures to help new industries. Capital controls were eased further by lowering reserve requirements on short dollar positions, while strong FDI inflows continued. On a 12-month rolling basis, FDI now stands at 2.9% of GDP, or USD66.5bn (greater than the current account deficit). A court in Ghana released an Argentinean ship from detention after rejecting a petition from holdout investors for confiscation. The US government also positioned itself on the side of the Argentinean government with a writ to the New York Appeals Court. In Venezuela, uncertainty continues to surround President Chavez's health and whether he will be able to attend his own inauguration on 10 January. In Colombia, the parliament made a last minute u-turn to approve a significant lowering of the withholding tax rate on foreign investments into the local bond market. The rate was reduced to 14%. Earlier parliament had discussed a 25% tax rate.

Asia: South Korean voters elected Park Geun Hye as Korea's first ever female president. She won a strong mandate for market-friendly policies to improve the economic performance of the country. Taiwan's central bank left rates unchanged at 1.875%. The outlook on the sovereign bond rating of the Philippines was raised to positive by Standard and Poor's.

Eastern Europe, Africa, and Middle East: **Angola, Nigeria, and Ghana** announced plans to issue up to $3.75bn of sovereign bonds in 2013 as the region continues to integrate into global capital markets. Output from Ghana's Jubilee oil field reached 105K barrels per day in December from 85K barrels per day in November. Ghanaian producer prices also dropped to 15.8% yoy in November from 19.6% in October. In **South Africa**, President Jacob Zuma was re-elected ANC leader with a strong mandate as ANC rejected nationalisation of mines. The central bank in the **Czech Republic** left rates unchanged at 0.05%. **Russia** auctioned 7 and 15 year OFZ bonds. **Turkey**'s central bank left lending rates unchanged, but lowered the one-week repo rate by 25bps, while at the same time raising reserve requirements by 50bps. **Hungary**'s central bank cut rates by 25 bps to 5.75%. The slowdown in **Poland** continued following a weaker than expected industrial production number.

Ashmore's Public Funds



No part of this article may be reproduced in any form, or referred to in any other publication, without the written permission of Ashmore Investment Management Limited © 2012

This document is issued by Ashmore Investment Management Limited (Ashmore), which is authorised & regulated by the Financial Services Authority. The information and any opinions contained in this document have been compiled in good faith, but no representation or warranty, express or implied, is made as to accuracy, completeness or correctness. Save to the extent (if any) that exclusion of liability is prohibited by any applicable law or regulation, Ashmore, its officers, employees, representatives and agents expressly advise that they shall not be liable in any respect whatsoever for any loss or damage, whether direct, indirect, consequential or otherwise however arising (whether in negligence or otherwise) out of or in connection with the contents of or any omissions from this document. This document does not constitute an offer to sell, purchase, subscribe for or otherwise invest in Units of any Fund referred to above and is not intended to provide advice on the merits of investing in any particular fund. The value of the Units may fall as well as rise and investors may not get back the amount originally invested. With the exception of the SICAV fund, Ashmore's public funds are only available to persons defined as Professional Clients and Eligible Counterparties under the rules of the Financial Services Authority of the United Kingdom. Prospective investors should obtain and review the Scheme Particulars or other offering documents relating to the units or shares of any Fund, including the description of risk factors/investment considerations contained in the Scheme Particulars or other offering documents, prior to making any decision to invest in such Units or Shares. The funds are offshore and not regulated in the United Kingdom.