Summary

The recent positive momentum in US stocks and USDJPY continued in the past week on hopes of continuing recovery in the US economy and successful escape for deflation in Japan. Supply-side data continued to disappoint, however. Speculation about phasing down of Quantitative Easing by the Fed helped to push US treasury yields close to 2%. Both Emerging Markets fixed income and equities weakened over the past week, while currencies also gave up some of their recent gains in the context of Dollar strength. We summarise the key global and Emerging Markets events of the past week.

Global

Data releases in the United States over the past week continued recent trends with strength in housing, weakness in manufacturing, and stable consumption. The NAHB housing market index rose to 44 in May compared to median expectations of 43. Industrial production disappointed at -0.5% in April versus -0.2% expected. Capacity utilisation in American industry also declined slightly to 77.8% in April versus 78.3% expected. The index of manufacturing in the state of New York (Empire) also disappointed at -1.4 for May versus 4.0 expected. Finally, business inventories grew at a slower pace than expected. Despite the broad softening going on in manufacturing, the US consumer is maintaining a decent pace of spending. Retail sales rose 0.1% mom, which exceeded expectations (-0.3%), though the ex-auto measure was closer to expectations (falling 0.1% versus an expected decline of 0.2%). On the fiscal side, the effects of sequestration began to make themselves felt with a stronger than expected outturn on the Federal budget balance.

Elsewhere in the HIDCs, Europe's growth numbers disappointed. The Euro-area recorded negative 0.2% growth in Q1, which means that it's GDP is now 1% smaller than a year ago. Recent weakness has been concentrated in the so-called 'core' countries, which have not reformed, including Germany and France, though the growth data from Italy also disappointed. The UK government pushed forward a proposed referendum on EU membership. Spain had a very successful bond auction, which ensured that it has met 50% of the 2013 financing requirements.

Latin America

Brazil: Published slightly stronger than expected retail sales for the month of March. While core retail sales contracted in the first quarter the most recent prints have been positive suggesting a possible turning point. Also in Brazil, Petrobras, the national oil company, issued bonds to the tune of USD11bn across a variety of benchmark tenors.

Venezuela: The Maduro government is working over the system for providing foreign exchange to the private sector in a bid to improve economic activity. As part of this effort the government also announced increases in the price ceilings on dairy products, beef, and chicken. The efforts to stimulate growth are likely to produce only short-term benefits. These benefits are probably intended to offset the negative effects of lower government spending as the Maduro administration tries to bring the public finances onto a more stable footing after recent heavy election related spending.

Colombia: The central bank left rates unchanged, but the accompanying statement was not hawkish, which suggests that BanRep could cut again if the upcoming data is weak. Foreign direct investment declined by 6.5% yoy in the January - April period.

Uruguay: Unemployment rose to 6.6% from a low of 6.1% in February.

Asia

Malaysia: GDP in Q1 expanded at a pace of 4.1% yoy, which was lower than expected (5.5%). Domestic demand remained strong, but exports were softer in line with global weakening. Bank Negara left policy rates unchanged at 3.0% in line with expectations.

China: Central government revenues declined 2.2% yoy in April, the second consecutive monthly decline, though the rate of decline halved from last month. Supply side data disappointed slightly, but remained much stronger than almost any other country on earth. April industrial production increased 9.3% yoy, while investment rose 20.6% yoy. Retail sales came in line with market expectations at 12.8% yoy in April. Real estate investment picked up at a solid 21.1% yoy pace in April. Policy makers signaled that there would be no significant change in direction of policy. Inflation continues to remain very muted at 2.4%.

Continued overleaf

Ashmore

Asia

India: Wholesale price inflation in April surprised strongly to the downside at just 4.9% yoy, while core inflation slipped to less than 3%. But large volumes of gold imports as importers took advantage of lower prices resulted in a wider than expected trade deficit (USD17.8 billion versus USD14 billion expected).

Indonesia: The central bank left rates unchanged at 5.75%. The Ministry of Planning announced intentions to hike the subsidised gasoline prices, a development which will temporarily increase headline inflation.

Pakistan: Unofficial results pointed to a victory for the Pakistan Muslim League led by Nawaz Sharif in the general election.

South Korea: The central bank cut base rates by 25bp to 2.5% following a 6 months pause. Unemployment dropped to 3.1% in April.

Eastern Europe, Africa, and Middle East

Poland: Consumer prices in April rose marginally faster than expected at 0.8% versus 0.7% expected, while GDP for Q1 was up 0.1% (in line with expectations).

Russia: Central bank left key interest rates unchanged.

Czech Republic: Q1 GDP was softer than expected at -1.9% yoy.

Hungary: GDP in Q1 was also softer than expected, falling 1.5% on a year-on-year basis, while inflation was in line at 1.7% yoy.

Turkey: Unemployment was lower than expected at 10.5% of the labour force.

Israel: Monetary policy committee cut policy rates by 25bps to 1.5%. They also introduced a new mechanism to slow the appreciation of the currency as natural gas production ramps up. CPI inflation, meanwhile, slowed to an annual pace of 0.8% in April from 1.3% in March.

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