

A new Constitution in Chile: written by fully elected Constitutional Assembly this time

By Gustavo Medeiros

Lawmakers took an important step to de-escalate protests in Chile after agreeing on a time-frame for a new Constitution to be written. Economic activity rebounds in Brazil, Turkey and Russia. China unveils more reform initiatives. Ecuador to submit urgent fiscal adjustment bill after congress rejected economic reform package. The economies of India, Czech Republic and Romania slow. A small number of protesters took to the street in Venezuela against Nicolas Maduro. Algerians protest against presidential candidates.

Emerging Markets	Next year forward PE/Yield	Spread over UST	P&L (5 business days)	Global Backdrop	Next year forward PE/Yield/Price	Spread over UST	P&L (5 business days)
MSCI EM	12.0	–	-1.49%	S&P 500	17.2	–	0.94%
MSCI EM Small Cap	11.2	–	-0.98%	1-3yr UST	1.63%	–	0.17%
MSCI Frontier	11.2	–	0.41%	3-5yr UST	1.67%	–	0.37%
MSCI Asia	12.7	–	-2.10%	7-10yr UST	1.85%	–	0.70%
Shanghai Composite	10.5	–	-2.46%	10yr+ UST	2.33%	–	1.59%
Hong Kong Hang Seng	7.8	–	-4.20%	10yr+ Germany	-0.32%	–	1.42%
MSCI EMEA	9.5	–	-0.15%	10yr+ Japan	-0.08%	–	0.08%
MSCI Latam	12.8	–	-1.76%	US HY	5.71%	379 bps	-0.13%
GBI-EM-GD	5.20%	–	-0.44%	European HY	3.83%	423 bps	-0.09%
ELMI+	4.34%	–	-0.28%	Barclays Ag	1.43%	-42 bps	0.51%
EM FX spot	–	–	-0.45%	VIX Index*	12.41	–	0.34%
EMBI GD	5.18%	331 bps	0.06%	DXY Index*	97.91	–	-0.29%
EMBI GD IG	3.63%	173 bps	0.41%	EURUSD	1.1060	–	0.19%
EMBI GD HY	7.30%	546 bps	-0.35%	USDJPY	108.99	–	0.03%
CEMBI BD	5.09%	332 bps	0.16%	CRY Index*	181.00	–	0.02%
CEMBI BD IG	3.73%	195 bps	0.23%	Brent	63.3	–	1.72%
CEMBI BD Non-IG	7.03%	526 bps	0.07%	Gold spot	1459	–	0.22%

Note: Additional benchmark performance data is provided at the end of this document. *See last page for index definitions.

Emerging Markets

- Chile:** Lawmakers representing 90% of the congress agreed a mechanism to deliver a new constitution, taking a big step towards ending weeks of protests. A Constitutional Assembly (CA) will be formed in October next year in order to draft the document. A referendum will be held to decide the composition of the CA. The choices will be either a newly elected CA or a mix between current members of parliament (50%) and elected new representatives (50%). The new constitution will be the first written by a democratically elected government in the history of the country. Chilean stocks rebounded 10% in Dollar terms as the Chilean Peso rebounded more than 3% last Friday.
- Brazil:** Economic activity indicators surprised on the upside. The service sector expanded by 1.2% seasonally adjusted (sa) in September. In the same month, retail Sales expanded by a rate of 2.1% on a yoy basis, with nine out of ten sectors rebounding. Lastly, the Central Bank monthly real GDP growth indicator increased by 2.1% on a yoy basis in September, from -0.7% yoy in August. In other news, the government unveiled a provisional measure to reduce payroll taxes to new employees under 29 years old. The programme is expected to generate 1.8 million jobs until December 2022, and comprise measures such as allowing work on Sundays and public holidays, microcredit, and boosting inclusion for people with disabilities.
- China:** Reform initiatives abound in China. Last week, 31 provinces introduced Hukou reform goals to be achieved in 2020. Hukou is the system allowing for the rural population to migrate to the cities with full residence, employment and social security rights. Some 34 million Chinese are expected to be granted immigration rights in three provinces alone: Guangdong, Henan and Shaanxi. The State Council also announced the acceleration of state-owned enterprise reforms to boost competitiveness and innovation. In other news, monetary policy remains marginally stimulative. Money supply measured by M2 was stable at a yoy rate of 8.4% in October. The central bank also cut the 7-day reserve repo rate from 2.55% to 2.5% and announced a CNY 180bn open

Emerging Markets

market operation injection. Economic data surprised on the downside. Industrial production (IP) declined at a yoy rate of 4.8% in October from 5.8% yoy in September. Over the same period, fixed asset investments declined to a yoy rate of 5.2% from 5.4% and retail sales dropped to 7.2% on a yoy basis from 7.8% yoy.

- Turkey:** Economic data was better than expected across the board. The current account recorded a USD 2.5bn surplus in September, taking the last 12 months surplus to USD 5.9bn. The current account excluding gold and energy imports improved to USD 47.7bn over the last 12 months, compared to just USD 3.3bn for the 12 months ending in September 2018. Tourism revenue was the main contributor with a 22% yoy rate of increase in September. Industrial output increased at a 3.4% yoy rate in September. The 12 month cumulative budget deficit widened to 2.6% GDP in October, from 2.4% GDP in the previous month. The deficit number is flattered by an extraordinary transfer from the Central Bank equivalent to around 2% of the GDP. In other news, the meeting between Turkish President Recep Tayyip Erdogan and US President Donald Trump failed to resolve Turkish-US differences over the Russian S-400 anti-missile defence mechanism. The US president described the matter as one that raises 'serious challenges'.
- India:** IP declined by a yoy rate of -4.3% in September compared to a -1.4% yoy contraction in August. The slowdown was broad based, driven primarily by capital goods sector. CPI inflation increased to 4.6% on a yoy basis in October from 4.0% yoy in September led by higher food prices. However, the rate of core inflation dropped by 3.4% on a yoy basis, which is the lowest level in a decade mainly due to lower prices for transport and regulatory charges.
- Hong Kong:** The US Congress may look to suspend Hong Kong's special economic status under US law if China deploy forces against protestors. China's President Xi Jinping supported Hong Kong's government and police saying that dealing with the unrest is an urgent task. He added that protests 'seriously challenge' the 'one country, two systems' principle by which the semi-autonomous city has been governed since independence from the United Kingdom. Protests turned even more violent last week with arrows and other weapons being used against the police, who responded with live ammunition in a few cases.
- Venezuela:** Thousands of people took to the streets last Saturday in protest both against and in favour of the government of President Nicolas Maduro. It was the third attempt by National Assembly leader Juan Guaido to pressure the Maduro administration to relinquish power. However, the relatively small number of people participating in the protests reflects general protest fatigue and fear of repression. Large segments of the population opposed to Maduro have also left the country.
- Czech Republic:** Consumer Price Index (CPI) inflation was unchanged in October at a 2.7% yoy rate, in line with expectations. The first estimate of Q3 2019 real GDP growth slowed to 2.5% on a yoy basis from 2.8% yoy in Q2 2019. In other news, between 200k and 300k people took to the streets in protests against Prime Minister Andrej Babis seeking his resignation over alleged conflicts of interest between his businesses and public office.
- Romania:** IP declined at a rate of -4.8% yoy in September, marginally improving from -6.3% yoy in August. Mining and energy recovered, but the manufacturing sector contracted further. Poor external demand from the Eurozone and low competitiveness were the main culprits for the manufacturing slowdown. Real GDP growth also surprised on the downside at 3.0% yoy in Q3 2019, from 4.4% yoy in the previous quarter. The consensus expectation was 3.8% yoy.
- Ecuador:** The congress voted against a reform package increasing revenues by 0.7% GDP over the next two years, a pre-condition in the IMF program, and granting the central bank independence by law. President Lenin Moreno announced last Sunday the government will present a new urgent economic bill focusing on tax issues. A separate bill will address the monetary and fiscal codes.
- Algeria:** Protesters hit the street in Algiers after the five candidates were unveiled for presidential elections scheduled for 12 December 2019. All five are seen as part of the current political establishment with two former Prime Ministers leading the polls.

Snippets:

- Argentina:** Consumer prices rose by 3.3% mom in October, which was below the consensus expectation of 3.9% mom and lower than the 5.9% mom inflation rate recorded in September. It will be interesting to watch inflation behaviour from November when a freeze for administered prices imposed after the primary election is lifted.
- Colombia:** The economy expanded at a rate of 3.3% yoy in Q3 2019 from 3.0% in the previous quarter, in line with consensus. Retail sales, public services and the financial sector contributed positively to growth, but the external demand remained a detractor.
- Croatia:** CPI inflation declined to a rate of 0.6% yoy in October from 0.8% yoy in September.

Emerging Markets

- **Egypt:** The Central Bank cut the main policy interest rate by 1% to 13.25% in line with expectations. The unemployment rate increased to 7.8% in Q3 2019 from 7.5% in the previous quarter.
- **Ghana:** The rate of CPI inflation inched up to 7.7% yoy in October from 7.6% in the previous month. In other news, the independent African oil company Springfield Group announced two deep-water oil field discoveries containing 1.2bn barrels of crude.
- **Hungary:** Real GDP growth on a yoy basis surprised on the upside at 5.0% in Q3 2019 from 4.9% yoy in Q2 2019.
- **Indonesia:** The trade balance printed USD 160m surplus in October, from a USD 160m deficit in the previous month. Overall on a year to date basis the trade account remains close to neutral with imports slowing faster than exports.
- **Lebanon:** Former finance minister and businessman Mohammad Safadi was invited to become the next Prime Minister, but withdrew his candidacy due to pressure from protesters in the streets.
- **Malaysia:** Real GDP growth slowed to 4.4% on a yoy basis in Q3 2019 from 4.9% yoy in Q2 2019 in line with expectations. Private consumption expanded at a 7% yoy rate, but investment and exports were weak.
- **Mexico:** IP was unchanged in October relative to previous month, which is consistent with an annualised decline of -1.8% yoy. Construction led the slowdown. The central bank cut the policy rate by 0.25% to 7.5% as expected with two members voting for a more aggressive 0.5% cut as inflation remains slow.
- **Peru:** September's monthly real GDP growth estimate surprised on the downside with a 2.2% yoy rate from 3.4% yoy in August. The service and fishing sectors were strong, which may be pointing to a recovery in growth going forward. Mining activity declined at a 3.3% yoy, mainly due to recent strikes.
- **Philippines:** The central bank kept the policy rate unchanged at 4.0% in line with expectations. The central bank also kept its 2020 and 2021 CPI inflation forecasts unchanged at 2.9%.
- **Poland:** Real GDP growth slowed to a yoy rate of 3.9% in Q3 2019 from 4.6% in Q2 2019.
- **Russia:** Real GDP growth increased to a yoy rate of 1.7% in Q3 2019 from 0.9% yoy in the previous quarter, in line with expectation.
- **Serbia:** CPI inflation declined to a 1.0% yoy rate in October from 1.1% yoy in September. The market has expected inflation to be a full 0.5% higher, yoy.
- **Singapore:** Exports of non-oil goods fell by a yoy rate of 12.3% in October, from an 8.1% yoy decline in September. The market expected a decline of 10% yoy. Non-electronic exports was the main detractor.
- **Slovakia:** IP declined at a yoy rate of -2.5% in September from -8.1% yoy in August, a negative surprise relative to expectations. Car production was the main detractor. Real GDP growth slowed to a rate of 1.3% yoy in Q3 2019 from 2.2% yoy in Q2 2019.
- **South Africa:** Mining output increased 1.5% in September, which was above consensus expectation of 0% mom. Retail sales came in line with expectations, rising by a yoy rate of 0.2% in September.
- **South Korea:** The unemployment rate inched up to 3.5% in October from 3.4% in September. The increase was entirely due to a rise in the labour participation rate from 63.1% to 63.3%. Overall, the Korean economy created 412K new jobs in October compared to 348K in September, mainly in the health and social welfare sectors.
- **Sri Lanka:** Former defence minister Gotabaya Rajapaksa was elected president with 52.25% of the vote, beating his main opponent Sajith Premadasa by more than 10%.
- **Thailand:** Real GDP growth expanded by a rate of 2.4% yoy in Q3 2019, lower than 2.7% expected, driven by a -1.5% contraction on a yoy basis in manufacturing and a slowdown in construction to a rate of 2.7% yoy from 3.4% yoy. Agriculture, mining and services accelerated from previous quarter.
- **Ukraine:** Real GDP expanded by a rate of 4.2% yoy in Q3 2019, which was higher than 3.7% consensus expectation, but marginally lower than 4.7% yoy in Q2 2019. The upside surprise was driven mainly by agriculture and domestic consumption.

Global backdrop

Mixing business with politics is a bad idea. That was the conclusion of the board of the USD 600bn Federal Retirement Thrift Investment Board, which opted to invest in the MSCI All Country World Ex-US Index, in spite of political pressure to exclude China from the equity benchmark index. We agree. Investing based on political dogma is likely to drive returns lower over the long term.

US President Donald Trump failed to announce a specific date for signing the so-called Phase One trade deal with China when he spoke at the Economic Club of New York last week. Instead, he threatened to increase tariffs if a deal was not reached. Over the last weekend, China's Vice Premier Liu He said he had a 'constructive' call with US Treasury Secretary Steve Mnuchin. Other members of the US administration signalled a very high probability of a deal. The Federal Reserve (Fed) Chairman Jerome Powell and other speakers pledged to maintain the policy rate at current levels. Fed Vice Chairman Richard Clarida argued that allowing a persistent overshoot of the inflation target would be appropriate, given inflation has remained below target for a long period of time.

The broadly dovish tone from FED members is supported by the softness of recent economic data. Inflationary pressures were subdued in October with CPI inflation rising marginally to a yoy rate of 1.8% from 1.7% yoy in September, but core inflation slowed to 2.3% yoy from 2.4% yoy previously. Core PPI inflation also declined to a rate of 1.5% yoy from 1.7% yoy in September. In the labour market, 225k people claimed jobless benefits for the first time during the week ending on 9 November, which was an increase of 14K compared to the previous week. Slower growth in retail sales, manufacturing and capital spending are important trends to watch going forward, in our view.

Germany reported positive real GDP growth of 0.1% in Q3 2019, thereby beating an expectation of contraction and avoiding a technical recession. Consumer spending and government outlays were behind the better than expected outcome, but investment in machinery and equipment declined.

In the UK, Brexit Party leader Nigel Farage unilaterally pulled more than 300 candidates from districts contested by the Conservative Party, thus reducing the risk of splitting the pro-Brexit vote ahead of the December general election.

Benchmark performance

Emerging Markets	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
MSCI EM	0.68%	4.94%	11.42%	10.12%	10.63%	3.99%
MSCI EM Small Cap	-0.36%	3.48%	5.58%	5.95%	5.17%	1.42%
MSCI Frontier	0.90%	1.72%	12.54%	10.23%	7.77%	0.58%
MSCI Asia	0.63%	5.21%	11.44%	10.25%	10.94%	5.36%
Shanghai Composite	-1.29%	-0.47%	18.76%	11.02%	-1.16%	5.31%
Hong Kong Hang Seng	-1.03%	2.20%	6.86%	2.50%	7.61%	3.20%
MSCI EMEA	2.07%	4.95%	10.86%	10.27%	8.88%	0.45%
MSCI Latam	-2.99%	1.33%	7.96%	8.03%	9.48%	1.36%
GBI EM GD	-0.93%	1.94%	9.95%	12.59%	6.38%	1.02%
ELMI+	-0.25%	1.80%	3.23%	4.60%	3.68%	0.60%
EM FX Spot	-0.79%	1.19%	-1.33%	-1.03%	-1.67%	-5.72%
EMBI GD	-0.38%	-0.10%	12.88%	14.23%	6.39%	5.49%
EMBI GD IG	-0.57%	-0.26%	14.92%	17.25%	7.06%	5.27%
EMBI GD HY	-0.14%	0.09%	10.79%	11.16%	5.68%	5.63%
CEMBI BD	0.01%	0.86%	11.59%	12.05%	6.08%	5.25%
CEMBI BD IG	-0.19%	0.16%	11.71%	12.90%	5.65%	4.70%
CEMBI BD Non-IG	0.29%	1.85%	11.40%	10.90%	6.79%	6.05%

Benchmark performance

Global Backdrop	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
S&P 500	2.87%	5.10%	26.69%	16.62%	14.96%	11.11%
1-3yr UST	-0.09%	0.24%	3.32%	4.38%	1.73%	1.32%
3-5yr UST	-0.39%	-0.09%	5.09%	7.27%	2.34%	2.08%
7-10yr UST	-1.04%	-0.88%	8.88%	12.91%	3.59%	3.17%
10yr+ UST	-2.40%	-3.24%	15.89%	23.61%	6.63%	5.41%
10yr+ Germany	-1.15%	-4.11%	12.36%	14.94%	5.23%	6.01%
10yr+ Japan	-1.16%	-1.80%	4.27%	6.58%	1.63%	4.08%
US HY	0.13%	0.41%	11.86%	9.44%	6.55%	5.29%
European HY	0.38%	0.22%	8.94%	6.61%	4.22%	4.34%
Barclays Ag	-0.89%	-0.23%	6.07%	8.54%	3.39%	2.09%
VIX Index*	-6.13%	-23.58%	-51.18%	-31.59%	-3.42%	-10.46%
DXY Index*	0.58%	-1.47%	1.81%	1.50%	-3.26%	11.81%
CRY Index*	2.32%	4.06%	6.60%	-3.36%	-1.17%	-31.91%
EURUSD	-0.77%	1.44%	-3.42%	-3.47%	4.46%	-11.74%
USDJPY	-0.93%	-0.77%	0.61%	3.17%	1.76%	7.16%
Brent	5.01%	4.06%	17.57%	-5.26%	34.98%	-19.40%
Gold spot	-3.53%	-0.78%	13.85%	19.21%	20.80%	22.08%

*VIX Index = Chicago Board Options Exchange SPX Volatility Index. *DXY Index = The Dollar Index. *CRY Index = Thomson Reuters / CoreCommodity CRM Commodity Index.

Source: Bloomberg, JP Morgan, Barclays, Merrill Lynch, Chicago Board Options Exchange, Thomson Reuters, MSCI, total returns.

Figures for more than one year are annualised other than in the case of currencies, commodities and the VIX, DXY and CRY which are shown as percentage change.

Contact

Head office

Ashmore Investment Management Limited

61 Aldwych, London WC2B 4AE

T: +44 (0)20 3077 6000

[@AshmoreEM](#)

www.ashmoregroup.com

Bogota

T: +57 1 316 2070

Dubai

T: +971 440 195 86

Dublin

T: +353 1588 1300

Jakarta

T: +6221 2953 9000

Mumbai

T: +9122 6269 0000

New York

T: +1 212 661 0061

Riyadh

T: +966 11 483 9100

Singapore

T: +65 6580 8288

Tokyo

T: +81 03 6860 3777

Other locations

Lima

Shanghai

Bloomberg page

Ashmore <GO>

Fund prices

www.ashmoregroup.com

Bloomberg

FT.com

Reuters

S&P

Lipper

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 © 2019.

Important information: This document is issued by Ashmore Investment Management Limited (Ashmore), which is authorised and regulated by the Financial Conduct 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. Past performance is not a reliable indicator of future results. This document does not constitute and may not be relied upon as constituting any form of investment advice and prospective investors are advised to ensure that they obtain appropriate independent professional advice before making any investment.