Ashmore

Coronavirus fears are justified, but likely to be a buying opportunity

By Gustavo Medeiros

Fears over the spread of the Coronavirus have impacted global markets. The uncertainty of the development of the virus justifies the fears. Still, Chinese and international authorities' reactions have been bold and fast, reducing the risk of a big pandemic spreading globally, rendering the current sell-off a likely buying opportunity, in our view. Argentina registers a record trade surplus as the Province of Buenos Aires extends the deadline by another ten days for investors to accept a principal extension. Lebanon announced a new cabinet. Trade numbers improved in South Korea, Thailand and Ecuador. In Brazil, BNDES announced the intention to sell a significant position in Petrobras shares. Angola tightened measures against corruption amidst the so-called 'Luanda leaks'. The Office of Foreign Assets Control (OFAC) blocked holders of PDVSA 20 bonds to enforce their claim to CITGO collateral until April 2020. The Central Bank of Malaysia cut the policy rate by 0.25% in a move, which was a surprise to the market.

Emerging Markets	Next year forward PE/Yield	Spread over UST	P&L (5 business days)
MSCI EM	11.5	–	-2.39%
MSCI EM Small Cap	10.8	–	-0.79%
MSCI Frontier	11.1	–	0.36%
MSCI Asia	12.1	–	-2.82%
Shanghai Composite	9.6	–	-3.17%
Hong Kong Hang Seng	7.5	–	-3.89%
MSCI EMEA	9.4	–	-1.78%
MSCI Latam	12.6	–	-1.05%
GBI-EM-GD	5.09%	–	0.08%
ELMI+	3.50%	–	-0.47%
EM FX spot	–	–	-0.40%
EMBI GD	4.85%	313 bps	0.04%
EMBI GD IG	3.43%	168 bps	0.46%
EMBI GD HY	6.76%	508 bps	-0.44%
CEMBI BD	4.74%	312 bps	0.25%
CEMBI BD IG	3.50%	188 bps	0.36%
CEMBI BD Non-IG	6.46%	484 bps	0.09%

Global Backdrop	Next year forward PE/Yield/Price	Spread over UST	P&L (5 business days)
S&P 500	17.1	–	-0.63%
1-3yr UST	1.46%	–	0.20%
3-5yr UST	1.46%	–	0.50%
7-10yr UST	1.65%	–	1.04%
10yr+ UST	2.10%	–	2.31%
10yr+ Germany	-0.34%	–	1.81%
10yr+ Japan	0.00%	–	0.73%
US HY	5.29%	356 bps	-0.42%
European HY	3.33%	364 bps	-0.13%
Barclays Ag	1.34%	-31 bps	0.59%
VIX Index*	14.56	–	2.24%
DXY Index*	97.83	–	0.22%
EURUSD	1.1036	–	-0.43%
USDJPY	109.05	–	1.04%
CRY Index*	175.75	–	-6.49%
Brent	59.3	–	-9.02%
Gold spot	1578	–	1.12%

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

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- **Argentina:** Managing Director of the International Monetary Fund (IMF), Kristalina Georgieva, said she had "very constructive" conversations with the new leadership in Argentina. Kristalina's priorities are similar to President Alberto Fernandez, namely the "need to restore the economy and to address the increase in poverty that has affected negatively many Argentinians". The government announced an 11.6% increase in pensions, in line with the pre-existing formula. However, all pensioners will receive the same increase in nominal terms, meaning the lower-income segments of the population will receive a greater increase in percentage terms.

  At the same time, capital spending in the government budget was cut by 0.2% of Gross Domestic Product (GDP). Altogether, the government is targeting a primary surplus in 2020. The primary deficit was 0.4% of GDP in 2019 in line with IMF targets and better than the market had expected, thanks to 0.6% of GDP of extraordinary revenues. Official statistics revealed a USD 2.2bn trade surplus in December, bringing the cumulative 2019 trade surplus to USD 16.0bn compared to a USD 3.7bn deficit in 2018.

  Imports declined by 25% on a yoy basis in 2019 whereas exports rose by 5.4% yoy. Argentinian sovereign bond prices drifted lower as the maturity extension offer by the Province of Buenos Aires failed to win the required 75% acceptance from bond holders. In response, the Province extended the deadline for accepting the offer to 31 January 2020, which is still inside the 10-day grace period for clearing missed principal payments. A local newspaper quoted an unnamed government source suggesting the government will ask for a four-year maturity extension alongside either a 50% coupon reduction or a 15% principal haircut. Anonymous declarations may be

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employed to gauge the market's reaction to various measures. Both restructuring scenarios imply a significantly higher net present value relative to where bonds are currently priced in by the market.

- Lebanon: Prime Minister Hassan Diab announced a new cabinet with 20 ministers composed of specialists and not including any members of parliament. Hezbollah played a crucial role in the formation of Diab's government. The cabinet will now be under considerable pressure to unveil reforms to deal with the country's economic crisis. New Finance Minister Ghazi Wazni said that he does not see a devaluation of the Lebanese Pound (LBP) in the short term. The currency appreciated from LBP 2,500 to the US Dollar to LBP 2,000 in the black market but remains significantly undervalued versus the official exchange rate, which is sitting at 1,500 LBP to the Dollar. The minister also said he is requesting USD 5.0bn in soft loans from foreign partners in order to fund purchases of food, fuel and medicine. The country will need further financial commitments in order to stabilise confidence in its financial system and the economy. French President Emmanuel Macron pledged to "do everything" to help Lebanon escape the current crisis and asked the Lebanese Cabinet to demonstrate Lebanon's commitment to institutional reforms.

- South Korea: Chips up, ships down. Exports for the first 20 days of January declined at a yoy rate of 0.2%, which was better than the 2.0% yoy decline in December. Semiconductor exports surged at a yoy rate of 8.7% after contracting at a yoy rate of 16.7% in December. The rebound for the semiconductor sector is also evident in Taiwan and China, supporting expectations of a tech-led growth rebound in Asia. On the other hand, exports of ships declined by 42.1% on a yoy basis following a 51.2% yoy decline in December. GDP growth rose to 2.2% on a yoy basis in Q4 2019 compared to 2.0% yoy in Q3 2019.

- Brazil: The yoy rate of consumer prices inflation (CPI) inflation rose to 4.3% in the first half of January, up from 3.9% yoy in December. The increase was entirely due to base effects. Core inflation also edged higher to 3.2% yoy from 3.1% yoy in December. Petrobras announced another cut of 4.1% for diesel prices and 1.5% for gasoline prices following cuts of 3% on the 14 January. In other news, BNDES, the state development bank, announced that it is selling its entire position in Petrobras shares, worth about BRL 23.5bn (USD 5.6bn). The sale will take place in February via a secondary public offering. Historically, 40% to 70% of Brazilian public offering are taken up by foreign investors. BNDES's sale could thus generate an inflow between USD 2.0bn and USD 3.5bn. The offer should also boost Brazil's fiscal accounts as BNDES will repay 60% of its earnings – including earnings from share sales – in the form of dividends as the government is BNDES sole shareholder.

- Ecuador: November's trade balance improved with exports rising by 13% on a yoy basis, driven by a 21% yoy increase in non-oil exports, whereas imports declined by 13% yoy. The resulting trade surplus was USD 350m. President Lenin Moreno and Finance Minister Martinez had a "constructive meeting" with the IMF Chief Georgieva in Davos.

- Angola: Angola significantly improved its ranking in Transparency International's corruption perceptions index, moving up from 165th place to 146th. This follows President Lourenco's anti-corruption drive, which includes the recovery of USD 5.0bn of assets in the sovereign wealth fund. The fight against corruption got wind in its sails last week when hundreds of thousands of documents implicating Isabel dos Santos in fraud and embezzlement were made public by the International Consortium for Investigative Journalists. The episode has now been named the 'Luanda leaks'. Isabel dos Santos is the former CEO of the National Oil Company Sonangol and daughter of former president Jose Eduardo dos Santos.

- Venezuela: The Office of Foreign Assets Control (OFAC) maintained the freeze on any corporate actions pertaining to CITGO Petroleum until 22 April. The majority of CITGO shares have been pledged to holders of Petroleos de Venezuela (PDVSA) 2020 bonds. The state-owned oil company defaulted on the third 25% principal payment of the PDVSA 2020 bond in October 2019 after losing control of the subsidiary to opposition leader Juan Guaido.

- Malaysia: Bank Negara, Malaysia's central bank, surprised the market by cutting the overnight policy rate by 0.25% to 2.75%. The monetary policy committee's statement said that the cut is a "pre-emptive measure to secure the improving growth trajectory amidst price stability". CPI inflation increased to 1.0% on a yoy basis from 0.9% yoy in November.

- Russia: The central government achieved a 1.8% of GDP fiscal surplus in 2019, which was lower than the 2.8% of GDP surplus recorded in 2018, but higher than both the consensus expectation and the government's own target. Non-oil revenues reached 11.3% of GDP from 10% of GDP in 2018 on the back of VAT hikes and efficient tax management. We believe the new Cabinet announced last week will reduce the fiscal surplus in favour of growth, mainly by increasing investment and redistributing income. Industrial production improved by 2.1% on a yoy basis in December from 0.3% yoy in November

- Mexico: Economic activity remained stagnant with GDP growth declining by 1.2% on a yoy basis in November after declining at a yoy rate of 0.8% in October. In spite of weak growth, the unemployment rate fell to 3.1% on a seasonally adjusted basis in December, significantly lower than 3.5% in November and also lower than

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expected. CPI inflation rose by 3.2% on a yoy basis in the first two weeks of January from 3.0% yoy in the previous period, in line with expectations. A low level of business confidence is keeping growth subdued, in spite of a record low unemployment rate.

- Thailand: The Bank of Thailand (BOT) eased the loan-to-value for new mortgages, partially reversing measures introduced in April 2019, which led to a deceleration in housing market. BOT is focussing on growth and signalled a 0.25% cut in the policy rate at the upcoming meeting on 5 February. Exports declined at a yoy rate of 1.3% in December, which was an improvement relative to the 7.4% yoy drop in November. The trade surplus increased to USD 0.6bn in December from 0.5bn in November.

- Taiwan: GDP growth accelerated to 3.4% on a yoy basis in Q4 2019 from 3.0% yoy in Q3 2019, beating consensus expectations of no growth. Capital spending and private consumption were the main contributors to the positive growth surprise. Industrial production rose by 6.0% on a yoy basis in December from 1.8% yoy in November, almost twice as high as the consensus forecast.

Snippets:

- Bolivia: Former president Evo Morales held a rally for thousands of people in a football stadium in Buenos Aires, Argentina, where he claimed that he had won the presidential election in October last year, in spite of ample evidence of fraud.
- Colombia: Largely peaceful protests against the government resumed last Tuesday, albeit with much lower participation than last year's protests. The government estimates that 20,000 people took part compared to 200,000 last November. In spite of protests, consumption remained strong, supporting the economy. GDP growth slowed only marginally to 2.9% on a yoy basis in November from 3.2% yoy in October.
- Hong Kong: Moody's downgraded Hong Kong's credit rating to Aa3 (equivalent to AA-) from Aa2 (AA) on the grounds that ongoing protests illustrate lower than previously estimated institutional capacity.
- Indonesia: Bank of Indonesia (BI) kept the seven-day reverse repo policy rate unchanged at 5.0% as expected. Governor Perry Warjiyo noted that the growth cycle seems to be improving due to both domestic and external conditions and forecast GDP growth in the 5.1% to 5.5% range in 2020.
- Oman: The budget deficit reached USD 4.9bn in the first eleven months of 2019, which is an increase of 1% compared to the same period in 2018. Fiscal policy is the main challenge facing the new Sultan.
- Philippines: GDP growth accelerated to 6.4% on a yoy basis in Q4 2019 from 6.0% yoy in Q3 2019, in line with market expectations.
- Serbia: JP Morgan, the investment bank, placed Serbian local bonds on a positive watch for potential inclusion in the GBI EM GD local currency bond index, in spite of the fact that custodians still face challenges in opening local accounts. Serbia's weight after inclusion would be between 0.15% and 0.30% of the index.
- Singapore: CPI inflation rose to 0.8% on a yoy basis in December from 0.6% yoy in November, slightly higher than expected. Industrial production declined by 0.7% on a yoy basis in December, which amounted to a strong rebound from the 8.9% yoy contraction in November. The recovery was driven by electronics.
- South Africa: CPI inflation rose to a yoy rate of 4.0% in December from 3.6% yoy in November. This was in line with consensus expectations. The South African Reserve Bank business cycle increased to 104.4 in November from 103.9 in October.
- Sri Lanka: The government repealed a bank tax implemented by the previous government, thereby compounding already serious fiscal problems.
- Uruguay: The Uruguayan central bank has purchased at least USD 60m in the foreign exchange market to avoid excessive currency appreciation. Foreign investors are adding local exposure in response to government reforms.

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Global backdrop

Concerns over the outbreak of a coronavirus epidemic with origin in the city of Wuhan in China increased last week, leading to a sell-off in Asian stocks and oil and a rally in government bonds and gold. There are fears that the outbreak could have a negative impact on growth.

The virus belongs to the same family of virus as the SARS epidemic which impacted travelling and consumption across Asia in Q3 2011. The first case was identified on the 8 January, and, so far, 2,700 cases have been diagnosed and as many as 80 deaths confirmed as of 6am European time on Monday, but the number is likely to rise. The city of Wuhan and other large cities in the Hubei Province in China are in quarantine, disrupting travel during the important Chinese Lunar New year celebration, which started on Saturday 25 January. Chinese authorities said Sunday the situation "wasn't yet" under control. The virus has also spread outside China, with fewer than ten cases confirmed in Hong Kong, Taiwan, Thailand, Malaysia, Japan, South Korea, Australia, France and the US. So far, the "Wuhan flu" seems to be less aggressive than SARS. The latter killed close to 10% of those infected (700 deaths out of 8,000 infected). Still, the uncertainty surrounding the possibility of virus mutation or more aggressive human-to-human contamination, is likely to keep financial markets volatile, in the near term. The virus has a long, two week, incubation period before symptoms are developed, raising the possibility of people carrying the virus without knowledge.

Importantly, Chinese and international authorities have been much more willing to acknowledge the issue and take steps to contain the transmission of the virus than in 2003. Given the thorough attention and care dedicated to combating the illness, the impact on global GDP growth will most likely be transient, and the recent market volatility will be a buying opportunity, in our view.

Meanwhile, US President Donald Trump's lawyers filed a 171-page document attacking both the form and the substance of the ongoing impeachment probe. They argue that Trump's offence (using US money to dig dirt on Joe Biden) is not impeachment material. We are not lawyers and won't opine on the merits of their arguments. But the fact is that the impeachment process is intensely political, so real-world facts, legislation and procedures matter far less than the political calculus. For a president to face impeachment, the Opposition needs three ingredients: (a) low presidential approval rates in the population; (b) broad-based frustration in the business community; and (c) a majority of member of Congress against the president. At the moment, all three factors work in Trump's favour. His approval rates keep hovering in the 40%-50% range, most businesses are thriving and fear a radical version of the Democratic Party more than Donald Trump. Lastly, the vast majority of Republicans in the Senate remain firmly behind the president.

The Democrats know impeachment is unlikely to succeed. Their strategy is to use the impeachment process to expose Trump's amoral and misguided actions, which they see as incompatible with American values. The problem for the Democrats is that this strategy backfired in the 2016 presidential campaign, when Trump used the accusations against him to get more visibility (free ads).

In other news, the IMF published an update for the World Economic Outlook (WEO) in which they lowered global growth projections to 2020 and 2021 by 0.2% and 0.1% to 3.3% and 3.4% respectively. The growth revision is at odds with better economic activity data, particularly from Asia and Europe.

In Europe, the latest economic data corroborates a scenario of global economic recovery. The Markit Manufacturing PMI survey also improved to 47.8 in January from 46.3 in December. The sub-indicators also pointed to a healthy outlook with forward-looking future output indicators rising to 61.2 from 59.3 while new orders rose to 51.1 from 50.9. Services PMI declined from 52.2 to 52.8, however. The overall better than expected PMI numbers are consistent with the German Finance Ministry's decision to increase the German 2020 GDP growth forecast to 1.1%-1.2% versus market expectations around 0.6%. Eurozone core CPI surprised on the upside at 1.3% in December.

In Italy, Prime Minister Luigi Di Maio resigned as head of M5S party, leading to new elections last Sunday. In the election, the right-wing populist Five Star Party was heavily defeated by the centre-left coalition of Prime Minister Giuseppe Conte, which took 51% of the votes and will form a new government. The result significantly lowers tail risks leading Italian 10yr bonds to rally 0.17% to 1.06%.

The ECB kept all policy rates and its QE programme unchanged in the first meeting with Christine Lagarde at the helm. In the press conference, Lagarde brushed-off suggestions that the ECB will rush into raising interest rates to positive levels even though the Riksbank of Sweden has brought its policy rate up to zero in order to reduce any adverse impact of negative rates on banks. Lagarde clarified that discussions pertaining to the structural review of ECB policies could take at least one year. The ECB will be reviewing the formulation of price stability and the methods and instruments to deliver price stability alongside implications for financial stability, employment and environmental sustainability. Lagarde cautioned investors against assuming that ECB policies would be on autopilot in 2020, emphasising that ECB's actions are data dependent.

In Japan, Bank of Japan (BOJ) kept monetary policy unchanged with Governor Kuroda increasing his forecast for Japanese growth thanks to fiscal stimulus. BOJ continues to guide for a steeper curve to boost profitability in the banking industry, which is an essential part of the transmission channel of monetary policy.

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Benchmark performance

Emerging Markets	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
MSCI EM	0.46%	0.46%	0.46%	12.88%	10.13%	5.32%
MSCI EM Small Cap	1.36%	1.36%	1.36%	9.54%	5.82%	3.02%
MSCI Frontier	1.94%	1.94%	1.94%	15.68%	7.45%	3.65%
MSCI Asia	0.78%	0.78%	0.78%	14.38%	11.30%	6.13%
Shanghai Composite	-2.41%	-2.41%	-2.41%	18.15%	0.55%	-0.28%
Hong Kong Hang Seng	-1.71%	-1.71%	-1.71%	6.57%	8.12%	1.58%
MSCI EMEA	-0.29%	-0.29%	-0.29%	7.46%	5.78%	2.73%
MSCI Latam	-0.72%	-0.72%	-0.72%	4.25%	7.90%	4.37%
GBI EM GD	-0.14%	-0.14%	-0.14%	10.08%	6.32%	2.35%
ELMI+	-0.34%	-0.34%	-0.34%	3.35%	3.69%	1.81%
EM FX Spot	-1.24%	-1.24%	-1.24%	-2.23%	-1.63%	-4.27%
EMBI GD	0.95%	0.95%	0.95%	12.02%	6.49%	6.24%
EMBI GD IG	1.15%	1.15%	1.15%	15.32%	7.43%	5.51%
EMBI GD HY	0.72%	0.72%	0.72%	8.76%	5.51%	7.26%
CEMBI BD	1.42%	1.42%	1.42%	12.27%	6.40%	6.08%
CEMBI BD IG	1.18%	1.18%	1.18%	12.28%	6.10%	4.95%
CEMBI BD Non-IG	1.74%	1.74%	1.74%	12.23%	6.87%	8.01%

Global Backdrop	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
S&P 500	2.10%	2.10%	2.10%	27.23%	15.32%	12.20%
1-3yr UST	0.28%	0.28%	0.28%	3.83%	1.91%	1.37%
3-5yr UST	0.75%	0.75%	0.75%	6.09%	2.78%	2.00%
7-10yr UST	1.91%	1.91%	1.91%	10.53%	4.59%	2.65%
10yr+ UST	4.60%	4.60%	4.60%	20.08%	8.38%	3.80%
10yr+ Germany	2.69%	2.69%	2.69%	10.30%	6.11%	3.96%
10yr+ Japan	0.13%	0.13%	0.13%	3.98%	2.68%	3.52%
US HY	0.28%	0.28%	0.28%	10.67%	6.05%	6.12%
European HY	0.47%	0.47%	0.47%	9.55%	4.12%	4.53%
Barclays Ag	0.44%	0.44%	0.44%	6.73%	4.09%	2.50%
VIX Index*	5.66%	5.66%	5.66%	-16.42%	37.62%	-15.45%
DXY Index*	1.49%	1.49%	1.49%	2.12%	-2.69%	4.05%
CRY Index*	-5.40%	-5.40%	-5.40%	-2.73%	-9.14%	-19.35%
EURUSD	-1.72%	-1.72%	-1.72%	-3.49%	3.15%	-2.79%
USDJPY	-0.43%	-0.43%	-0.43%	0.19%	5.55%	8.09%
Brent	-10.12%	-10.12%	-10.12%	-3.76%	6.84%	19.60%
Gold spot	3.64%	3.64%	3.64%	21.09%	32.49%	22.30%

*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.

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