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WEEKLY INVESTOR RESEARCH

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African finance ministers say support from multilateral organisations should not disrupt access to international capital markets

By Gustavo Medeiros

The finance ministers of 16 African countries requested a two year suspension of payments to debt owed to International Financial Institutions (IFIs), but said debt relief should not be conditional upon suspension of payments on Eurobonds. Argentina received three counterproposals in response to the initial debt exchange offer. India approved fiscal measures to support the economy worth 10% of GDP. The Ecuadorian congress approved two important economic reform bills. China's credit creation remained robust. Indonesia reviewed its 2020 fiscal deficit estimates by 1.2% of GDP. Brazil's healthcare Minister resigned after clashing with the president. Angola FX reserves were unchanged despite lower oil prices. Banco de Mexico cut the policy rate by 50bps to 5.5%. Pakistan received a commitment of USD 4bn in loans from IFIs as foreign workers' remittances remained robust in April.

Emerging Markets	Next year forward PE/Yield	Spread over UST	P&L (5 business days)
MSCI EM	11.1	–	-1.11%
MSCI EM Small Cap	9.7	–	-0.85%
MSCI Frontier	10.4	–	-2.36%
MSCI Asia	11.7	–	-0.86%
Shanghai Composite	10.3	–	-0.91%
Hong Kong Hang Seng	7.5	–	-1.85%
MSCI EMEA	9.1	–	-1.44%
MSCI Latam	10.2	–	-5.11%
GBI-EM-GD	4.67%	–	-0.38%
ELMI+	2.76%	–	-0.40%
EM FX spot	–	–	-0.64%
EMBI GD	6.50%	579 bps	0.83%
EMBI GD IG	3.85%	310 bps	0.44%
EMBI GD HY	10.57%	991 bps	1.36%
CEMBI BD	5.82%	527 bps	0.68%
CEMBI BD IG	3.84%	330 bps	0.55%
CEMBI BD Non-IG	8.85%	831 bps	0.86%

Global Backdrop	Next year forward PE/Yield/Price	Spread over UST	P&L (5 business days)
S&P 500	17.7	–	-2.20%
1-3yr UST	0.14%	–	0.02%
3-5yr UST	0.30%	–	0.08%
7-10yr UST	0.64%	–	0.36%
10yr+ UST	1.33%	–	1.55%
10yr+ Germany	-0.53%	–	0.16%
10yr+ Japan	0.00%	–	-0.16%
US HY	8.17%	757 bps	-0.67%
European HY	7.37%	770 bps	-0.44%
Barclays Ag	1.07%	43 bps	-0.05%
VIX Index*	31.89	–	3.91%
DXY Index*	100.36	–	0.13%
EURUSD	1.0819	–	0.11%
USDJPY	107.17	–	-0.46%
CRY Index*	124.75	–	0.01%
Brent	33.5	–	13.20%
Gold spot	1760	–	3.66%

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

Emerging Markets

- **Africa:** The finance ministers of 16 African countries signed an op-ed piece in the francophone newspaper *Jeune Afrique*[1] requesting a two year suspension of debt repayments to IFIs. In the same article, they highlighted the importance of Eurobond markets in the funding of infrastructure and other development projects and argued that debt relief from IFIs should not be conditional upon countries interrupting repayments on commercial debt. We agree with the thrust of the op-ed.[2] Imposition of a suspension of payments on Eurobonds as pre-condition for forbearance from IFIs would carry high implementation risks and increase the risk premium for frontier economies permanently, in our view. The op-ed was signed by the finance ministers of Angola, Cameroon, Djibouti, Egypt, Ethiopia, Gambia, Ghana, Kenya, Mali, Namibia, Niger, Rwanda, Senegal, Seychelles, Sierra Leone and Tunisia.
- **Argentina:** The federal government received three counterproposals to its debt restructuring offer from different investor groups with negotiations likely to extent through next week. The Buenos Aires Province failed to repay a USD 150m amortisation due on 1 May within the grace period, but extended its debt exchange offer until 26 May. Investors are unlikely to accelerate the Buenos Aires bonds in default while negotiating with the Province, in our view. The rate of CPI inflation declined to 45.6% on a yoy basis in April from 48.4% in March.

[1] https://www.jeuneafrique.com/943055/economie/tribune-aucun-pays-ne-doit-avoir-a-choisir-entre-sauver-des-vies-et-rembourser-des-dettes/

[2] See: *'The well-meaning misguided G20 proposal'*, Market Commentary, 7 May 2020.

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Emerging Markets

- **India:** Prime Minister Narendra Modi announced a package of economic support for the economy worth 10% of GDP. Only about one tenth of the package is fiscal support. The rest is in the form of government guarantees for loans to small and medium-sized businesses, including immediate cash disbursements, as well as other liquidity and monetary support. Finance Minister Nirmala Sitharaman also unveiled incentive measures and deregulation for the agricultural sector, including the removal of stock regulations pertaining to exports and deregulation of distribution, thus allowing farmers to sell good across the country. In other news, industrial production declined by 16.7% on a yoy basis in March following a rise of 4.5% yoy in February. Consumer Prices Index (CPI) inflation inched lower to 5.8% on a yoy basis in April from 5.9% yoy in March.

- **Ecuador:** Congress approved two economic bills over the weekend. The first bill includes a provision that allows labour contracts to be changed, as long as both employees and employers agree. The second bill enhances the fiscal planning code, a pre-condition for a new agreement with the IMF. In order to guarantee the reforms approval, the government removed a series of tax hikes from the original bill, whilst maintaining the key elements required by the IMF. In other news, the Andean Development Fund (CAF) approved two new loans to Ecuador totalling USD 400m with USD 50m earmarked for the healthcare system and another USD 350m for economic support.

- **China:** Credit expansion was more substantial than expected in April with aggregate finance expanding at a yoy rate of 12.2% versus 11.7% yoy in March. The increase in finance was led by the corporate sector. Industrial production increased at a rate of 3.9% on a yoy basis in April after contracting 1.1% yoy in March. However, retail sales remained weak (-7.5% yoy in April after -15.8% yoy in March). Fixed asset investment was closely in line with expectations at -10.3% yoy. The National Bureau of Statistics in China noted that the Chinese economy "hasn't returned to normal level," and that there are "pent-up demand effects" reflected in the broadly stronger data. The yoy rate of CPI inflation dropped to 3.3% in April from 4.3% yoy in March, which was mostly due to lower food price increases with pork prices starting to fall. The rate of Producer Price Index (PPI) inflation declined to -3.1% on a yoy basis in April from -1.5% yoy in March.

- **Indonesia:** Finance Minister Sri Mulyani Indrawati updated the fiscal deficit estimate to IDR 1tn, or 6.3% of GDP from a previous estimate of 5.1% of GDP due to lower tax collections and higher expenditures. In other news, the external accounts improved with April trade surplus at USD 0.5bn on a seasonally adjusted basis. Imports declined faster than exports due mainly to lower demand for capital goods and fuel.

- **Brazil:** Retail sales declined by 1.2% on a yoy basis in March after a 4.7% yoy increase in February, thus outperforming the consensus expectation of a 3.9% yoy decline. Sales of apparel and stationery products had the steepest drop, whereas food and other supermarket goods increased. The output of the service sector contracted by 6.9% in the month of March after a 1.0% decline in February. Healthcare Minister Nelson Teich resigned less than a month after assuming office due to disagreements with President Jair Bolsonaro over policies to contain the coronavirus outbreak and methods to treat those infected. A poll from CNT/MDA showed that the disapproval rate for the Bolsonaro administration increased to 43.4% in May from 31% in January. The number of people rating the administration either good or excellent declined modestly to 32% from 34.5%.

- **Angola:** FX reserves were unchanged at USD 16.4bn in March, despite sharply lower oil prices starting in February. President Joao Lourenco mentioned he is due to speak with Chinese President Xi Jinping to accelerate the debt restructuring in a way that safeguard both countries interests. China is the largest single creditor to Angola with an estimated USD 22bn of outstanding debt.

- **Mexico:** Banco de Mexico cut the policy rate by 50bps to 5.5%, which was in line with the median expectation of economists, but less than what was priced into the interest rates market. The central bank has maintained a more hawkish stance than most other central banks, despite the economic slowdown caused by the coronavirus. In other news, the Social Security Institute reported 555k jobs losses in April, the largest number of job losses on record, after some 130k jobs were lost in March. Construction and Mining were the most heavily impacted sectors. Average wages rose by 5.7% on a yoy basis in April as most jobs were lost by low-income workers, reducing the proportion of low income jobs vis-à-vis higher income jobs.

- **Pakistan:** The World Bank and the Asian Development Bank agreed to provide USD 4bn in budget and balance of payments support over the next 18 months. Remittances from Pakistani workers abroad remained resilient at USD 1.8bn in April, up 1% on a yoy basis following a 9% yoy increase in March. In other news, the central bank cut the policy rate to 8% from 9%.

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Emerging Markets

Snippets:

- **Colombia:** Banco de la Republica (Banrep) bought COP 0.8tn of government debt in the secondary market and COP 2.0tn directly from the Treasury in April. Banrep also purchased COP 3.4tn of private bonds and sold USD 0.7bn USDCOP via non-deliverable forward contracts. Real GDP growth expanded by 1.1% on a yoy basis in Q1 2020, from 3.5% in Q4 2019.
- **Costa Rica:** Fitch downgraded Costa Rica's sovereign rating to 'B' and changed the outlook to negative from stable.
- **Czech Republic:** The yoy rate of CPI inflation declined to 3.2% in April from 3.4% yoy in March.
- **Dominican Republic:** Fitch maintained the country's rating at 'BB-', but moved the outlook to negative from stable.
- **Egypt:** The International Monetary Fund (IMF) approved USD2.8bn (1% of GDP) in emergency financial assistance.
- **Ghana:** The central bank left the benchmark policy rate unchanged at 14.50%. The rate of CPI inflation rose to 10.6% on a yoy basis from 7.8% yoy in March. The increase was mostly due to higher food prices.
- **Kenya:** The IMF announced that Kenya has requested a disbursement of USD 739m under the rapid credit facility. The Fund's debt sustainability analysis shows that Kenya is at high risk of debt distress.
- **Malaysia:** GDP growth expanded by 0.7% on a yoy basis in Q1 2020 from 3.6% yoy in Q4 2019. This was better than the consensus expectation of a 1.0% yoy contraction. Industrial production declined by 4.9% on a yoy basis in March after expanding at a yoy rate of 5.8% in February.
- **Poland:** The National Bank of Poland has purchased PLN 72bn (3.2% of GDP) of government bonds since mid-March. Quantitative Easing (QE) policies are a welcome addition to the toolkit of Emerging Markets (EM) central banks, because QE allows them to lean against liquidity tightening that tends to occur during exogenous shocks.
- **Romania:** CPI inflation declined to 2.7% on a yoy basis in April from 3.1% yoy in March. This was the lowest reading since 2007.
- **Saudi Arabia:** King Salman and US President Trump agreed on the importance of maintaining stability in global energy markets and re-affirmed defence ties despite the redeployed of US military assets away from the Gulf Corporation Council region.
- **Singapore:** Non-oil domestic exports in Singapore rose by 9.7% on a yoy basis in April, led by pharma and semi-conductors exports, much stronger than consensus expectations of a 5% yoy contraction.
- **South Korea:** Job losses increased to 467k in April from 196k in March, which was the worst labour market performance in 21 years. However, the unemployment rate was stable at 3.8% in April due to a large decline in labour force participation. Thailand: Thailand real GDP growth contracted by a yoy rate of 1.8%, less than the 3.9% consensus expectations
- **Thailand:** The yoy rate of GDP growth declined 1.8% in Q1 2020 from 1.5% growth in Q4 2019. The data was better than consensus expectations for a 3.9% yoy fall due to resilient private consumption.
- **Turkey:** The current account deficit widened to USD 4.9bn in April from USD 1.2bn in March.
- **Ukraine:** Parliament approved a new banking law last week, paving the way for a USD 5bn disbursement under the IMF's extended fund facility program.
- **Uruguay:** The Debt Management Office (DMO) announced a 2020 primary deficit target of USD 1.5bn compared to USD 0.9bn in 2019. The DMO plans to borrow USD 5.4bn this year, including USD 1.5bn from IFIs. The government's financing needs are USD 4.6bn, so reserves should increase by USD 0.8bn.
- **Zambia:** The IMF confirmed that Zambia has requested both a formal program and a rapid financing instrument and indicated that the country is eligible for both types of assistance.

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Global backdrop

- **US:** Industrial production (IP) declined 11.2% in April, which is the largest decline on record. IP was down 4.5% in March. The yoy rate of CPI inflation fell to just 0.3% in April, which is the lowest number since October 2015. CPI inflation was 1.5% yoy in March and 2.5% yoy in January. The rate of PPI inflation declined to -1.2% on a yoy basis in April from 0.7% in March, which was below the consensus expectation of a 0.4% yoy decline. Initial jobless claims remained elevated at 3.0m new applications in the week ending on 09 May, but lower than 3.2m recorded in the previous week. Continuous claims rose by 0.5m to 22.8m in the week ending on 02 May. Retail sales declined by an unprecedented 16.4% in April following an 8.3% decline in March. On the positive side, the University of Michigan consumer sentiment survey increased marginally from 73.7 to 71.8, which is the first increase since February. Most of the improvement came from the part of the survey that assesses current conditions, while expectation about the future continued to worsen.

- **Monetary policy:** Federal Reserve (Fed) Chairman Jerome Powell said he believes the economy will take time to gain traction. Mr Powell said the Fed will continue to stimulate the economy and called for the US Treasury to implement more fiscal stimulus. Mr. Powell and Bank of England Governor Andrew Bailey said that they will continue to stimulate the economy primarily via asset purchases rather than by cutting interest rates to negative territory. Negative interest rates have delivered mixed results in Scandinavia, Europe and Japan. The Riskbank of Sweden was the first to cut rates below 0% in 2015 and increased interest rates to zero last year. However, earlier in the week, Minneapolis Fed President Neel Kashkari said "there are other tools we would go to first" before implementing negative rates, a sign the Fed may implement the policy in the future, should further monetary policy easing be necessary. From 15 Feb to 13 May, the Fed purchased USD 2.8bn in securities, mostly US Treasuries. The Fed also started buying private debt via ETFs last week and its balance sheet will continue to expand to help fund the growing US fiscal deficit and to provide liquidity to the banking sector. The Fed would benefit from yield compression if rates were to go negative in the future.

- **Trade:** President Donald Trump stepped up his anti-China rhetoric in his continuing bid to detract the public's attention away from his mishandling of the coronavirus crisis. The Department of Commerce issued orders for US companies to refrain from buying Huawei components after 13 August and to ban Huawei from buying semi-conductors from US companies. Politicising the coronavirus issue increases the risk of protectionism, which, alongside extraordinary fiscal and monetary policy expansions, can lead to lower trend growth and potentially higher future inflation.

- **UK:** The UK government announced an exit strategy from lockdown with manufacturing and construction workers allowed to return on 13 May. However, shops and schools will not reopen until at least June. The furlough scheme wherein the UK government pays 80% of the salary of any employee up to a maximum of GBP 2.5k per month was extended until end-July. In the meantime, Brexit negotiations failed to make any progress last week. The main contention points include level playing field provisions in areas such as workers' rights, environment, taxes and state subsidies as well as fishing rights and how to govern the new agreements. The risk of a disruptive break in trade talks is increasing as polls suggest a significant number of voters oppose an extension of the transition period, which ends on 31 December 2020.

- **EU:** IP declined by 11.3% in the month of March after a 0.1% decline in February. Transport was down 26% and textile production down 17%. Electronic and pharma production expanded 4.1% and 5.8%, respectively.

- **Coronavirus:** When the coronavirus outbreak began to spread, the vast majority of countries decided to follow the lead of China, Italy and Spain in ordering far-reaching lockdowns. However, there is not sufficient scientific evidence to conclude that this was the best way of dealing with the pandemic in all countries. The Health Chief at Unicef, Dr. Stefan Peterson, cautioned that blanket lockdowns in many low and middle-income countries could prove ineffective and lead to an increased risk of children dying from other diseases. Ghana was one of the first countries to recognise the ineffectiveness of blanket lockdowns. It lifted the lockdown two weeks ago accompanied by increased testing capacity and improved care for the most vulnerable. We believe the Ghanaian way could prove to be a model for other low and middle-income countries.[3]

[2] For a detailed discussion of why cases numbers and mortality associated with coronavirus may be structurally lower in EM countries than in developed countries see: *'Status update: Coronavirus and EM fixed income in 2020'*, Market Commentary, 29 April 2020.

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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	-2.50%	6.45%	-18.63%	-8.60%	-1.03%	-0.14%
MSCI EM Small Cap	-1.74%	11.97%	-23.13%	-16.23%	-6.67%	-4.54%
MSCI Frontier	-1.24%	5.39%	-22.67%	-14.53%	-3.84%	-2.31%
MSCI Asia	-2.07%	6.71%	-12.87%	-3.50%	1.79%	1.79%
Shanghai Composite	0.37%	4.39%	-5.87%	0.00%	-0.19%	-5.85%
Hong Kong Hang Seng	-3.38%	1.11%	-13.13%	-6.81%	1.41%	-3.50%
MSCI EMEA	-3.12%	7.48%	-28.94%	-22.57%	-7.30%	-5.44%
MSCI Latam	-7.68%	-1.84%	-46.58%	-38.49%	-14.88%	-8.29%
GBI EM GD	0.06%	3.98%	-11.84%	-2.45%	-0.39%	0.23%
ELMI+	-0.91%	0.21%	-8.29%	-4.38%	-0.80%	-0.44%
EM FX Spot	-1.26%	-0.15%	-14.44%	-13.17%	-7.37%	-6.68%
EMBI GD	2.51%	4.82%	-9.21%	-2.53%	1.38%	3.50%
EMBI GD IG	1.51%	3.87%	-1.78%	7.16%	5.18%	4.72%
EMBI GD HY	3.90%	6.12%	-17.70%	-13.11%	-2.97%	2.03%
CEMBI BD	1.34%	5.49%	-5.24%	0.93%	2.89%	3.87%
CEMBI BD IG	1.05%	4.55%	-1.78%	4.38%	4.11%	3.99%
CEMBI BD Non-IG	1.75%	6.90%	-9.95%	-3.80%	1.21%	3.75%

Global Backdrop	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
S&P 500	-1.54%	11.08%	-10.70%	2.46%	8.14%	8.35%
1-3yr UST	0.07%	0.21%	2.97%	5.12%	2.70%	1.85%
3-5yr UST	0.20%	0.45%	5.84%	8.97%	4.15%	2.96%
7-10yr UST	0.14%	0.79%	11.02%	16.32%	6.98%	4.76%
10yr+ UST	-0.38%	1.64%	22.88%	34.35%	13.71%	9.00%
10yr+ Germany	-1.31%	1.95%	7.13%	10.28%	7.80%	5.52%
10yr+ Japan	-0.70%	-0.15%	-0.99%	0.67%	2.24%	3.60%
US HY	-0.03%	4.47%	-8.78%	-3.41%	1.74%	3.40%
European HY	-1.01%	5.29%	-11.72%	-7.39%	-1.03%	1.36%
Barclays Ag	-0.89%	1.06%	0.73%	4.99%	3.61%	2.60%
VIX Index*	-6.62%	-40.44%	131.42%	99.81%	117.53%	150.51%
DXY Index*	1.36%	1.33%	4.12%	2.41%	2.54%	6.52%
CRY Index*	6.44%	2.43%	-32.86%	-31.08%	-31.65%	-45.92%
EURUSD	-1.24%	-1.92%	-3.52%	-3.12%	-2.56%	-4.38%
USDJPY	-0.01%	-0.34%	-1.33%	-2.63%	-3.87%	-10.68%
Brent	32.73%	47.49%	-49.18%	-53.55%	-36.13%	-49.39%
Gold spot	4.36%	11.60%	16.01%	37.74%	41.13%	43.62%

*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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