

Coronavirus in Latin America: is it as bad as the media portray?

By Gustavo Medeiros

The number of coronavirus cases is increasing again in Latin America, one of the few regions where the spread of the virus is still accelerating. However, we believe that media reports are excessively negative. The International Monetary Fund (IMF) approved a USD 5bn loan to Ukraine. Argentina reversed its decision to nationalise the bankrupt soybean processing company Vicentin after private sector's concerns. China's aggregate financing was solid in May, buoyed by local government bond issuance. Mexico's ruling party proposed to merge regulatory bodies for key industries. The Central Bank of Belarus took Belgazprombank into temporary administration. South Korean exports declined at a slower pace in May. Inflation declined to the lowest levels in more than 20 years in Brazil.

Emerging Markets	Next year forward PE/Yield	Spread over UST	P&L (5 business days)
MSCI EM	12.2	–	-1.53%
MSCI EM Small Cap	10.9	–	-1.02%
MSCI Frontier	12.1	–	0.02%
MSCI Asia	12.8	–	-1.08%
Shanghai Composite	10.3	–	-0.19%
Hong Kong Hang Seng	7.5	–	-2.30%
MSCI EMEA	10.2	–	-2.09%
MSCI Latam	12.0	–	-4.66%
GBI-EM-GD	4.61%	–	-1.39%
ELMI+	2.23%	–	-0.86%
EM FX spot	–	–	-1.55%
EMBI GD	5.63%	486 bps	-0.05%
EMBI GD IG	3.22%	240 bps	0.07%
EMBI GD HY	9.03%	830 bps	-0.19%
CEMBI BD	5.05%	445 bps	0.52%
CEMBI BD IG	3.44%	284 bps	0.78%
CEMBI BD Non-IG	7.42%	682 bps	0.16%

Global Backdrop	Next year forward PE/Yield/Price	Spread over UST	P&L (5 business days)
S&P 500	18.8	–	-4.73%
1-3yr UST	0.18%	–	0.09%
3-5yr UST	0.31%	–	0.49%
7-10yr UST	0.67%	–	1.53%
10yr+ UST	1.41%	–	4.34%
10yr+ Germany	-0.44%	–	3.61%
10yr+ Japan	0.00%	–	0.50%
US HY	6.77%	611 bps	-1.39%
European HY	5.66%	607 bps	-0.89%
Barclays Ag	0.99%	32 bps	0.73%
VIX Index*	36.09	–	11.57%
DXY Index*	97.16	–	0.54%
EURUSD	1.1254	–	-0.33%
USDJPY	107.09	–	1.10%
CRY Index*	134.32	–	-4.66%
Brent	37.6	–	-7.75%
Gold spot	1727	–	1.76%

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

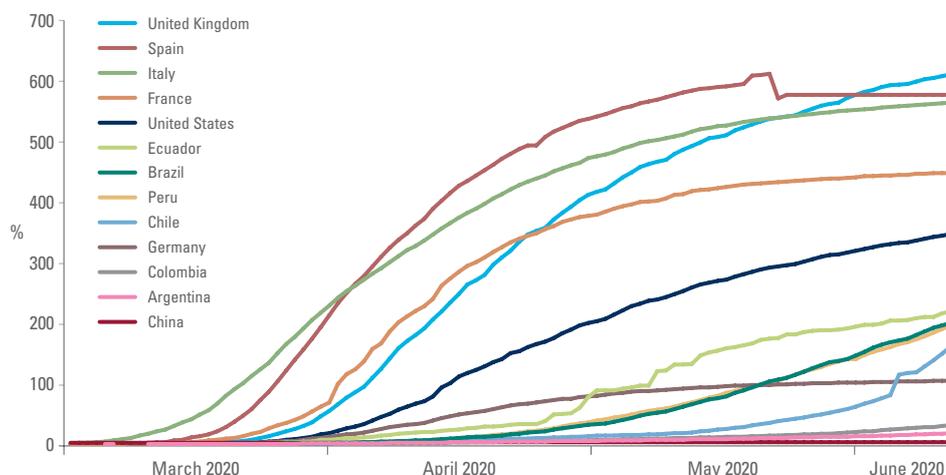
Emerging Markets

- **Coronavirus in Latin America:** The media has given attention to the fact that the coronavirus epidemic is still increasing in Latin America, while it is in decline in in Asia and Europe. The late surge in Latin America should not be too surprising, however. The coronavirus originated in Asia and has been travelling westwards. Latin America is one of the less connected regions of the world, so likely to be impacted last.

Despite the negativity, Latin America is actually doing better than Europe or the US in terms of total number of deaths per million inhabitants. Figure 1 shows that Argentina and Colombia have similar deaths per million to China, while another four Latin American countries (Chile, Peru, Brazil and Ecuador) have between 162 and 220 deaths per million. In all cases, this is far better than the US with 349 deaths per million and a sample of large European countries with between 450 and 614 deaths per million, depending on country. While the curves are still rising in Latin America, the levels are so much lower in the region and is still likely to fare better than Europe once the illness has run its course, in our view.

Emerging Markets

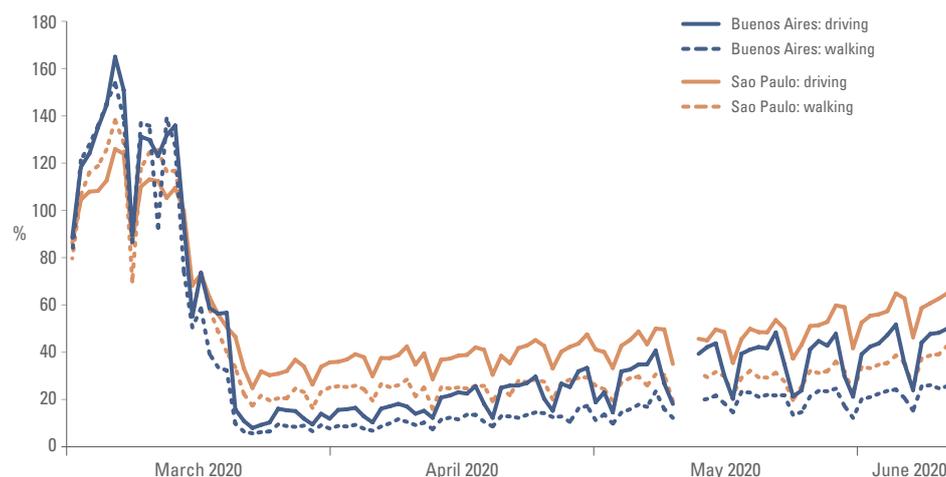
Figure 1: Cumulative confirmed COVID-19 deaths per million people



Source: Source: Our World in Data: <https://ourworldindata.org/coronavirus-data> Ashmore as at 12 June.

Having said that, there are notable differences in disease incidence within Latin America, which may be due to differences in enforcement of social distancing policies. Latin American countries introduced social distancing policies immediately after European countries started to adopt lockdown policies. However, the policies have been implemented with different degrees of effectiveness. Argentina implemented the strictest social mobility policy in Latin America and President Alberto Fernandez even sent the army into slums to enforce lockdowns. According to the World Health Organisation (WHO) Argentina has had just 18 deaths per million as of 14 June. By contrast, Brazil's policy response was marred by a dispute between President Jair Bolsonaro, who favoured keeping the economy open, and local governors, who preferred lockdowns. Brazil has recorded 197 deaths per million, as of 14 June, according to the WHO. Figure 2 shows a sample of change in vehicular and pedestrian routing requests since 13 January from Apple devices in Buenos Aires and Sao Paulo. Using mobility on the large cities as a proxy for the country, one could infer that Buenos Aires's stricter containment policies vis-à-vis Sao Paulo led to a much lower incidence of the virus. Buenos Aires strict controls on its "barrios populares" (working-class neighbourhoods) led to only 370 deaths (24 per million) across the city on the 13 June¹ whereas Sao Paulo had 5,623 deaths (450 per million).²

Figure 2: Apple Mobility: Sao Paulo vs. Buenos Aires



Source: <https://www.apple.com/covid19/mobility> Ashmore as at 12 June 2020 (13 January 2020 = 100).

- **Ukraine:** The IMF approved a USD 5bn loan as part of a new newsstand-by programme after almost a year of negotiations. Consumer Prices Index (CPI) inflation declined to 1.7% on yoy basis in May from 2.1% yoy in April. This is the lowest inflation print since 2014. Lower inflation and associated lower funding costs allowed the National Bank of Ukraine (NBU) to cut the policy rate to 6% from 8%, or 100bps below the consensus expectation. NBU's statement after announcing the decision to cut the policy rate suggests that the central bank is near to the end of the easing cycle after a total of 750bps of cuts.

¹ See <https://www.buenosaires.gov.ar/coronavirus/noticias/actualizacion-de-los-casos-de-coronavirus-en-la-ciudad-buenos-aires>

² See <https://brasil.io/covid19/>

Emerging Markets

- Argentina:** President Alberto Fernandez reversed the decision to nationalise Vicentin, a soybean processing plant and trading company, after the export industry chamber and other private sector entities expressed “deep concern” over the transaction. The company filed for bankruptcy last year after accumulating more than USD 1.5bn of debt and controls around 20% of Argentina’s soy exports, representing a significant influence over the currency market. In other news, CPI inflation declined to 43.3% on a yoy basis in May from 45.6% yoy in April.
- China:** Aggregate financing reached RMB 3.2tn in May, up from RMB 3.1tn in April. At RMB 1.0trn, local government bond issuance accounted for a large part of total financing. The government has increased the quota for local government issuance to RMB 3.75tn of which RMB 2.15tn has so far been issued, mostly to finance infrastructure investment in a bid to stabilise growth. Economic data was marginally weaker than consensus expectations in May with industrial production rising at a yoy rate of 4.4% (versus the 5.0% median expectation), fixed asset investment rose at a yoy rate of 3.9% yoy (versus 4.9% yoy expected), and retail sales declined at a yoy rate of 2.8% (versus -2.3% yoy expected). Infrastructure investment rose at a rate of 10.9% on a yoy basis in May compared to a 4.8% yoy rate in April, while new home sales increased 9.7% on a yoy basis in May from 2.1% yoy in April. On the inflation front, the yoy rate of CPI inflation declined to 2.4% in May from 3.3% yoy in April, mostly due to falling pork prices. The Producer Prices Index (PPI) inflation rate declined to -3.7% on a yoy basis from -3.1% yoy in April. PPI deflation reflects the sharp decline in commodity prices and slower domestic demand. In other news, Beijing reported an increase in the number of locally transmitted coronavirus from Xinfadi, a wholesale market, where 45 asymptomatic cases tested positive out of a sample of 517.
- Mexico:** The ruling Morena Party proposed a constitutional reform to merge the country’s autonomous energy, telecom, and anti-trust regulators. The proposed merger is aimed at cutting costs, but may also adversely impact the ability of regulators to offer checks and balances independently of the central government. President Andres Manuel Lopez Obrador said the private pension system has been harmful to the country and pledged to backtrack the reform, which led to its creation. In other news, industrial production declined by 25.1% in April, which was significantly lower than the consensus expectation of a 15.1% decline. CPI inflation was stable at 2.8% on a yoy basis. Core inflation inched higher to 3.6% in May from 3.5% in April. Both measures surprised the consensus expectation to the downside.
- Belarus:** The third largest bank in the country, Belgazprombank was taken into temporary administration by the Belarusian Central Bank, vowing to protect the interest of depositors. The bank was until recently headed by Viktor Babariko, a presidential contender in the upcoming presidential election scheduled for August, whose companies were raided last week over alleged involvement in illegal activities. Belgazprombank is owned by Gazprom and Gazprombank of Russia.
- South Korea:** Daily exports declined by 9.8% on a yoy basis on the first ten days of June, which was a strong improvement from the 23.7% yoy decline in May. Exports to EU, US and Japan declined by less sequentially than in previous months, particularly with respect to petroleum products and auto parts. The unemployment rate rose to 4.5% in May from 3.8% in April, surprising consensus analysts’ forecasts to the upside due to an expanding labour force.
- Brazil:** The yoy rate of CPI inflation declined to 1.9% in May from 2.4% yoy in April. This is the lowest inflation reading in Brazil since 1999, when BRL operated under a crawling peg regime. President Jair Bolsonaro reversed an earlier decision to suspend the release of timely coronavirus statistics.

Snippets:

- Chile:** CPI inflation dropped to 2.8% on a yoy basis in May from 3.4% yoy in April led by a decline in food and energy prices. Core inflation was down to 2.1% on a yoy basis in May from 2.3% yoy in April.
- Colombia:** CPI inflation surprised on the downside at 2.9% on a yoy basis in May from 3.5% in April. Central Bank of Colombia Governor Juan José Echavarría communicated the central bank’s intention to keep the real policy rate at slightly negative levels in order to stimulate the economy. The central bank expects inflation to remain between 1% and 3% in 2020.
- Costa Rica:** S&P downgraded the country’s sovereign rating by one notch to ‘B’ and maintained a negative outlook.
- Czech Republic:** CPI inflation rose to 2.9% on a yoy basis in May from 2.6% in April, mostly driven by higher tobacco, alcohol, and food prices. Industrial production declined by 33.7% in April from -12.5% in March as the economy was impacted by the economic slowdown in Germany.
- Egypt:** The yoy rate of CPI inflation declined to 4.7% yoy in May from 5.9% yoy in April. Core CPI inflation declined to 1.5% on a yoy basis in May from 2.5% yoy in the previous month. The government announced that South Sinai’s seaside resorts will re-open for foreign tourists from 1 July despite rising coronavirus cases. As of 13 June, Egypt has had 43k cases and 1.5k confirmed deaths.

Emerging Markets

- **Ethiopia:** Parliament approved an extension of the prime minister's tenure, when it ends in October by postponing elections which were originally scheduled for August due to the coronavirus. New elections will be held within one year after the coronavirus outbreak is no longer deemed to be a public health concern.
- **Ghana:** CPI inflation inched up to 11.3% on a yoy basis in May from 10.6% yoy in April.
- **Guatemala:** The IMF approved a USD 594m rapid financing instrument (RFI).
- **Hungary:** The yoy rate of CPI inflation declined to 2.2% in May from 2.4% yoy in April. Core CPI dropped to 4.0% on a yoy basis in May from 4.3% yoy in April.
- **India:** S&P kept India's sovereign credit rating unchanged at 'BBB- with stable outlook, arguing that India would stage a strong economic recovery post-coronavirus and referring to the country's solid external position, which partly compensates for the wider fiscal deficit. Foreign exchange reserves rose to USD 501.7bn on 5 June as foreign direct investment remained strong at USD 4.5bn in April. The trade deficit narrowed to a 4-year low of USD 6.8bn in April. The Wholesale Price Index (WPI) inflation declined to -3.2% on yoy basis in May against consensus expectations for a 1.2% drop.
- **Indonesia:** The trade surplus was USD 2.1bn in May as exports declined at a yoy rate of 28.9%, mainly driven by lower mining and manufactured goods exports, while imports declined at a yoy rate of 42.2%, led by lower capital goods imports, raw materials, and consumer goods.
- **Namibia:** The yoy rate of GDP growth slowed to -0.8% in Q1 2020 from 2.3% yoy in the previous quarter. Inflation rose to a yoy rate of 2.1% in May from 1.6% yoy in April.
- **Malaysia:** Industrial production declined by 32.0% on a yoy basis in April, which was a surprise relative to the consensus expectation of a 15.4% yoy drop.
- **Oman:** Press reports suggest that the Gulf Cooperation Council (GCC) is considering extending financial support to the Sultanate of Oman. It was also reported that the Sultan of Oman is in talks with Qatar about financing.
- **Senegal:** The Ministry of Finance issued a statement confirming Senegal's acceptance of the G20 debt relief initiative, which would save the country around USD 160m until the end of 2020.³ The government reiterated its commitment to continue to meet all contractual obligation with the private sector creditors.
- **South Africa:** Business confidence declined to 5 points in Q2 2020 from 18 points in Q1, thus marking an all-time low for the indicator. Mining production declined by 47.3% on a yoy basis in April after dropping 18% yoy in March as coronavirus-induced shutdowns have closed several mines.
- **Sri Lanka:** Gross official foreign exchange reserves declined by USD 700m to USD 6.5bn on 29 May as tourism and remittances declined.

Global backdrop

- **US:** The strong relief rally in equity markets from mid-March came to a sudden stop last week with the volatility index VIX spiking above 40 as markets grappled with an acceleration of coronavirus cases in several states in the US. Markets also reacted negatively to comments by Federal Reserve Chairman Jerome Powell, which, though dovish, were also seen as bearish about the US economic outlook. The Fed committed to keeping the policy rate unchanged until at least the end of 2022, in addition to keep expanding its holdings of treasuries and mortgage backed securities. Powell said the Fed was considering the adoption of yield curve controls, but questioned the effectiveness of the policy. Powell pledged to "do whatever we can for as long as it takes". The dovish stance of the Fed could reinforce the emerging trend of weakness for the USD once market volatility subsides again.

Political risks also contributed to market nervousness last week as President Donald Trump's approval ratings continued to slide. Democratic Party candidate Joe Biden pledged to reverse half of the 2017 Tax Cuts and Jobs Act, which is one of Trump's main policy achievements. A full reversal of the tax cut would reduce the 2021 earnings per share estimate for companies in the S&P 500 by USD 20 from USD 170 to USD 150, according to Goldman Sachs. We believe that even if the coronavirus situation continues to worsen in some US states, it will most likely eventually be contained by regional rather than national lockdowns. Both monetary and fiscal policy are likely to remain at extraordinary accommodative levels, in our view. Members of the US administration are currently discussing a fourth fiscal stimulus package.

³ Statement in French: <https://www.sentresor.org/communique-de-presse-sur-la-participation-de-la-republique-du-senegal-a-linitiative-de-suspension-du-service-de-la-dette-issd/>

Global backdrop

In other news, continuing jobless claims declined to 20.93m in the week ending in 29 May from 21.27m the previous week. Initial jobless claims declined by 460k to 1.54m for the week ending 6 June, which was slightly better than expected. However, the claims data points to worse labour market conditions than implied by the much better than expected non-farm payroll report for June. US CPI inflation dropped to 0.1% on a yoy basis in May from 2.5% yoy in January. The yoy rate of core CPI inflation was down to 1.2% in May from 2.4% yoy in February.

- Coronavirus:** Several pharmaceutical companies are reporting good progress in the development of a vaccine against coronavirus. Last week the Chinese company Sinovac reported positive results in phase 1 and 2 testing of a vaccine. Sinovac also announced a partnership with a Brazilian drug maker to start phase 3 trials in the country.
- European Union (EU):** Reuters reported that the European Central Bank (ECB) is preparing to launch a bad bank, which will buy unpaid loans from the banking sector in order to keep the banking system strong as the coronavirus pushes up default rates. If confirmed, the scheme would complement substantial fiscal expansion packages in individual EU member states as well as the bold proposals to issue debt at EU level in order to stimulate the recovery from the coronavirus crisis in Europe.⁴ These measures, if implemented, would allow for a faster rebound post coronavirus as well as provide a more robust toolkit for the EU to deal with future crises. Finally, we note that the German economy racked up its first trade deficit for more than forty years in April. Exports dropped 23.6% and imports declined 14.9%.

Benchmark performance

Emerging Markets	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
MSCI EM	6.23%	16.90%	-10.65%	-1.06%	2.08%	2.98%
MSCI EM Small Cap	7.88%	25.87%	-13.59%	-7.73%	-3.06%	-1.61%
MSCI Frontier	1.46%	14.59%	-15.92%	-10.74%	-1.70%	-0.50%
MSCI Asia	6.44%	14.66%	-6.38%	3.95%	3.51%	4.13%
Shanghai Composite	2.64%	6.68%	-3.81%	2.65%	-0.07%	-8.85%
Hong Kong Hang Seng	3.48%	3.78%	-10.83%	-2.94%	2.04%	-3.07%
MSCI EMEA	5.07%	21.03%	-19.98%	-16.16%	-2.69%	-1.24%
MSCI Latam	10.44%	25.06%	-31.94%	-27.67%	-5.03%	-2.08%
GBI EM GD	1.59%	11.04%	-5.85%	0.94%	1.33%	2.59%
ELMI+	1.55%	4.20%	-4.64%	-1.81%	0.21%	0.91%
EM FX Spot	1.79%	5.67%	-9.45%	-8.94%	-5.76%	-4.84%
EMBI GD	2.41%	11.06%	-3.80%	1.07%	3.01%	5.09%
EMBI GD IG	0.57%	7.72%	1.86%	8.50%	5.96%	5.93%
EMBI GD HY	4.76%	15.54%	-10.39%	-7.20%	-0.38%	4.07%
CEMBI BD	2.09%	10.44%	-0.80%	4.40%	4.31%	4.98%
CEMBI BD IG	1.46%	7.83%	1.30%	6.24%	4.98%	4.82%
CEMBI BD Non-IG	2.99%	14.29%	-3.72%	1.79%	3.40%	5.25%

⁴ See: '[US-China tensions increase](#)', Weekly investor research, 1 June 2020.

Benchmark performance

Global Backdrop	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
S&P 500	-0.01%	18.19%	-4.98%	7.74%	9.93%	9.96%
1-3yr UST	-0.05%	0.16%	2.92%	4.40%	2.68%	1.89%
3-5yr UST	-0.09%	0.41%	5.81%	7.65%	4.03%	3.12%
7-10yr UST	-0.35%	0.49%	10.68%	13.54%	6.47%	5.08%
10yr+ UST	-0.71%	-0.59%	20.19%	26.68%	11.89%	9.08%
10yr+ Germany	-0.44%	-0.16%	4.91%	5.27%	6.41%	5.95%
10yr+ Japan	-0.31%	-0.63%	-1.47%	-1.95%	1.99%	3.78%
US HY	1.66%	10.92%	-3.15%	1.73%	3.54%	4.81%
European HY	2.10%	11.91%	-6.17%	-1.78%	0.86%	2.74%
Barclays Ag	0.75%	3.18%	2.84%	5.36%	3.69%	3.52%
VIX Index*	31.19%	-32.59%	161.90%	136.19%	231.10%	134.50%
DXY Index*	-1.21%	-1.91%	0.80%	-0.43%	-0.28%	2.48%
CRY Index*	1.57%	10.29%	-27.70%	-23.16%	-22.26%	-39.64%
EURUSD	1.38%	2.58%	0.22%	0.25%	0.95%	-0.25%
USDJPY	0.69%	0.64%	1.39%	1.38%	3.60%	15.27%
Brent	6.54%	65.52%	-42.97%	-39.30%	-19.78%	-39.88%
Gold spot	-0.17%	8.10%	13.43%	28.93%	37.84%	45.35%

*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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