Issued: 25 April 2013

WEEKLY INVESTOR RESEARCH

Ashmore

Summary

Global-wide data releases over the past few weeks point to a manufacturing slowdown following two strong quarters. While the inventory adjustment-driven ups and down of the global manufacturing cycle do not change the underlying economic environment they can have a significant impact on sentiment and asset prices. As the data has weakened the expectations of yet further easing by HIDC (Heavily Indebted Developed Countries) central banks which has helped to sustain asset prices, but the combination of elevated asset prices and weakening fundamentals raises the odds of a downside correction. Such a correction would be a good time to add to Emerging Market positions, in our view.

Global

Both Europe and the United States produced much weaker than expected macroeconomic data in the past week. In the United States, there was a particularly disappointing durable goods report for March, which showed capital spending down 5.7% mom versus a medium expectation of -3.0%. Core durable goods, which are less sensitive to big ticket transport-related items was also substantially weaker than expected (-1.4% mom versus a median forecast of +0.5% mom). Existing home sales also disappointed. In Europe, the ECB's quarterly Lending Survey shows that Euro area banks have tightened credit conditions further for both businesses and households over the last three months. Europe's most serious structural weakness is its undercapitalised banks, in our view. In Germany, the IFO headline index declined to 104.4, down from 106.7, compared with consensus expectations of 106.2. This follows very weak German PMI numbers earlier in the week. The weakness in German data in particular this week caused a re-pricing of expectations of a rate cut from the ECB. Thus, we see yet another iteration of what has now become the central tenet common-place in HIDC policy circles, namely to address underlying structural growth weaknesses with ever more monetary easing. This helps to sustain asset prices, but does not address the underlying issues and is ultimately unsustainable. In other global developments, the Bank of England announced an extension to the Funding for Lending Scheme (FLS), while Italy elected a president, whose main leverage over the political parties is the threat of calling fresh elections.

Latin America

Brazil's current account recorded a USD6.8bn deficit in March, but FDI continues to finance this deficit. In fact, FDI was better than expected at US$5.7 bn in March. In a continuation of the government's active policy of stimulating specific sectors, the past week saw taxes cuts for ethanol and chemical sectors. S&P, the ratings agency, upgraded the rating of the **Colombian** foreign debt from BBB- to BBB on the back of the many fiscal reforms, which have been implemented during the Santos administration. **Colombia's** long-standing problem of inflexible fiscal accounts has been significantly reduced in the past few years, giving the government the ability to undertake counter-cyclical fiscal policy, and thus stabilising the business cycle. In **Mexico**, consumer prices fell 0.09% in the first half of April, largely in line with market expectations, while core inflation was lower than expected at 0.05%. **Mexico's** Senate approved an important reform of the country's oligopolistic telecommunications market, but we expect the pace of reforms to slow in the coming months as the country gears up for Senate elections in July. We then expect the reform momentum to return with emphasis on fiscal and energy reforms in the second half of this year. In **El Salvador**, the stock of total public debt shrank 0.9% to US$14.37 bn in February from US$14.49 bn in December. The trend of declining public debt generalises to other Emerging Market countries. According to JP Morgan, the average Emerging Market sovereign debt to GDP ratio will decline to 32.7% this year from 34.4% in 2012. In contrast, the average HIDC debt to GDP ratio is expected to rise from 109.9% last year to 112.7% in 2013. **Costa Rica** tapped the global bond markets in a heavily over-subscribed transaction. **Panama** also locked in long-term money at low yields. And **Paraguay's** new government indicated its intention to tap global markets for up to USD2.5bn over the next 5 years. In **Venezuela**, Central Bank governor Nelson Merentes was appointed to the post of finance minister, a post he has previously held. Merentes is widely regarded as more market friendly than his predecessor Jorge Giordani.

Continued overleaf

Asia

Korean first-quarter GDP expanded by 0.9% yoy, which was well ahead of both the previous print (0.3% yoy) and market expectations (0.7% yoy). Despite the on-going global slowdown in manufacturing Chinese PMI remained in expansion territory though it slowed month on month. The print was 50.5, weaker than the expected 52. In other developments in China, the property market picked up pace on the back of resilient loan support in the first quarter, and the government announced cuts to gasoline and diesel prices by 4.6% and 5.2% starting 25 April. Inflation pressures, which are already low, are therefore likely to fall further, also aided by a recent pick-up in the appreciation of the CNY-fix versus the US dollar. Taiwan's March IP report disappointed, falling at a pace of 3.3% yoy versus the consensus expectation of +1.8% yoy. Export orders were also softer in a sign that the pace of global manufacturing is slowing. In Indonesia, President Yudhoyono said the government plans to take steps to cut energy subsidies as soon as next week.

Eastern Europe, Africa, and Middle East

Serbia political parties agreed to normalise relations with Kosovo in a landmark deal, which should pave the way for active talks on European Union membership. The EU Commission immediately recommended opening of talks with Serbia about membership. In Hungary, the National Bank cut the policy interest rate by 25bps, which takes the base rate to 4.75%. In Morocco, a shortfall in tax revenues and escalating subsidy costs are placing the government under increased pressure to bring forward new amendments to the compensation fund. In South Africa, ESKOM, the electricity utility, called for further investment to enhance its operational capacity. An IMF mission is scheduled to visit Egypt next week in the context of the weak external balances. By contrast, Kenya's foreign exchange reserves rose to USD4.6bn or a strong 4.2 months of import cover.

Contact Information

Head Office

Ashmore Investment Management Limited
61 Aldwych, London
WC2B 4AE
T: +44 (0)20 3077 6000

www.ashmoregroup.com

Other Locations

Beijing
T: +86 10 5764 2601

Bogota
T: +57 1 347 0649

Jakarta
T: +6221 2953 9000

Istanbul
T: +90 212 349 40 00

Melbourne
T: +61 0 3 9653 9524

Moscow
T: +74 9566 04258

Mumbai
T: +91 22 6608 0000

New York
T: +1 212 661 0061

Washington
T: +1 703 243 8800

Sao Paulo
T: +55 11 3556 8900

Singapore
T: +65 6580 8288

Tokyo
T: +81 03 6860 3777

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 © 2013.

Important information: This document is issued by Ashmore Investment Management Limited (Ashmore), which is authorised and regulated by the Financial Services 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. This document does not constitute an offer to sell, purchase, subscribe for or otherwise invest in Units of any Fund referred to above and is not intended to provide advice on the merits of investing in any particular Fund. The value of the Units may fall as well as rise and investors may not get back the amount originally invested. With the exception of the SICAV fund, Ashmore's public Funds are only available to persons defined as Professional Clients and Eligible Counterparties under the rules of the Financial Services Authority of the United Kingdom. Prospective investors should obtain and review the Scheme Particulars or other offering documents relating to the Units or Shares of any Fund, including the description of risk factors/investment considerations contained in the Scheme Particulars or other offering documents, prior to making any decision to invest in such Units or Shares. The Funds are offshore and not regulated in the United Kingdom.