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WEEKLY INVESTOR RESEARCH

Ashmore

Summary

A sudden 20 basis points jump in treasury yields is creating some divergence in performance across asset classes. Equities have, for the most part, continued their march upwards and are out-performing credit. With global growth picking up and the most immediate policy risks (e.g. debt ceiling) being pushed back, the habitual 'risk-on / risk-off' pattern is less effective and correlation between stocks and credits has been decreasing.

Global

Macro data has supported the view of a stronger global economy, driven by Emerging Markets, helped by the US below par recovery, but with Europe still on crutches. Last Thursday's jobless claims number, the lowest since November 2007 at +330k, and Friday's announcement that the House Republicans approved legislation suspending the debt limit until May 19, triggered a 20 basis points sell-off in US 10-year treasuries to a local high of 2.03% yesterday. December Durable Goods Orders also posted a strong headline number at 4.6%, although the composition was less impressive. Conversely, the preliminary Q4 GDP number came in at a very disappointing -0.1%, but the market took comfort from the details of the report: negative surprise was attributed to inventories and defence spending, while business investment was a strong 8% annualised. Yesterday's FOMC made no changes to policy rates and confirmed the committee's dovish disposition. The statement was in line with the GDP report: underneath a temporary soft patch in economic activity, business investment is strong and global economic uncertainty has receded.

In Europe, sentiment was initially supported by a larger-than-expected €137bn repayment in LTRO funds by European banks. However, economic data has been less positive: the UK's Q4 GDP surprised negatively at -0.3% qoq (0.0% yoy); Spain's Q4 GDP also came in below expectations at -0.7% qoq (-1.8% yoy) and Italian business confidence declined to 88.2 (prev. 88.9). A scandal around hidden losses at Banca Monte di Paschi is adding to political uncertainty in the country. Germany's unemployment and IFO numbers suggested that the Q4 slump in activity may have stabilised. However, the weakness of the JPY and the recent strengthening in EUR may become a bigger problem for German exporters this year. EUR has appreciated 8% vs. JPY since the start of the year – and 30% since its June lows. Apart from the bid by Japanese investors, the EUR is supported by the fact that the ECB is the least dovish of the large global central banks - the early LTRO repayments mean that its balance sheet is effectively shrinking.

In this context, Emerging Markets bonds and currencies have been facing some temporary headwinds: the sovereign external debt index (EMBI GD) was down 1.1% over the last week (the investment grade index is down 1.4%); Corporate credit, which is less treasury sensitive, was down 0.7%. Local Currency indices have done slightly better and are up 0.1% on the week but EMFX has not performed in such a strong market for equities. Again JPY weakness is an important headwind as JPY becomes the funding currency of choice as opposed to USD. EMEA currencies are out-performing against the USD, in sympathy with the EUR, while Asian currencies are lagging.

Latin America

In Colombia, the Banrep increased the target level of FX intervention to $30m per day, and also cut its reference rate 25bp to 4.0%, which provides some stimulus while lowering the sterilisation cost; In Mexico, the trade balance surprised on the upside in December and led to upward revisions in 2012 growth forecasts to c. 4.0%. The Brazilian Central Bank decided to roll U$ 1.8bn in long BRL swaps, triggering the currency to move from 2.03 to 1.98.

Continued overleaf

Asia

India's RBI cut its Repo rate by 25 basis points to 7.75% as expected, and lowered the banks' cash reserve ratio (CRR) by 25bp to 4.0%. The RBI also revised its GDP growth forecast for FY 12-13 to 5.5% yoy from 5.8%. In **Taiwan**, economic momentum is accelerating, Q4 GDP printed 3.4% yoy vs. 3.0% expected, helped by net exports and the incipient upturn in the global electronics cycle; Thailand's Industrial Production fell 3.1% mom in December but it still up 23.4%oya. **Philippines** Q4 GDP data came in at a robust 6.8%, fuelled by strong private consumption and investment. Korean December data was positive as industrial production had the fourth consecutive expansion, growing 1% mom as investments rebounded 9.9% mom and construction 5.8% mom.

Eastern Europe, Africa, and Middle East

Poland's 2012 GDP slowed to 2.0% yoy, in line with expectations, which reflects a sharp fall in domestic demand and fixed asset investment to stall speed, caused notably by a 2% fiscal consolidation achieved during the year. In **South Africa**, the SARB policy rate was left unchanged at 5.0%. In **Turkey**, the CBRT's quarterly inflation report, which followed the previous week's rate cut decision, confirmed that the Central Bank is comfortable with medium term inflation risks but remains preoccupied with financial stability concerns. The **Hungarian** MPC cut rates by 25bps, as expected, but tried to appease market concerns by excluding unconventional policy tools ahead of the change in leadership at the bank in March. **Ukraine's** Q4 GDP growth came in lower than expected at -2.7%yoy, hit by net exports, causing 2012 growth to slow to 0.2% from 5.2% in 2011.

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