## Summary

Markets traded erratically due to perceived rising risks in the financial and political spheres of Europe as downside risks to currencies in HIDCs (Heavily Indebted Developed Countries) continue to become more evident.

## Global

US higher frequency data is still improving with better than expected ISM Manufacturing and University of Michigan Consumer confidence data. US payrolls came in line with expectations, but the previous numbers were revised higher by 50,000 jobs. After the US Congress managed to roll the debt ceiling until May, the market has turned its attention to European politics, where recent developments added uncertainty. Specifically, in Italy former Prime Minister Silvio Berlusconi's centre-right coalition gained ground in the polls on the back of a campaign promising property and other tax cuts. Meanwhile, in Spain Mr. Rajoy was dragged into an illegal party finance scandal, which threatens to eat away at his popularity, which is already battered by sky-high unemployment and a fragile economic outlook. On the data front, European Manufacturing PMI failed to surprise, but banks were affected by a new wave of weaker than expected earnings on account of asset write-downs. The government of The Netherlands nationalised SNS Reaal – its fourth-largest bank – at a cost of EUR 3.7bn to Dutch taxpayers. SNS Reaal had high levels of exposure in Spanish assets. At the same time, the parliament of Ireland rushed to liquidate Anglo Irish Bank after an attempt to cut a deal with the ECB to replace EUR 28bn of its costly promissory notes leaked in the press.

US equities were flat on the week, while European equities declined 3%. US 10 year Treasury yields retraced from a 2.06% high to 1.97% and Italian and Spanish bonds widened 20-30bps with the 10 year now flirting with the 5.5% mark. Italian bonds also increased between 7 and 25bps with the 10 year bond now at 4.55%. The Euro was flat around 1.355 levels while the JPY weakened more 2.2% at 93.80.
The ECB and the BoE will announce their monetary policy committee meeting decision today. The ECB maintained the benchmark rate at 0.75% and ECB deposit facility rate at 0%. Mr. Draghi is expected to deliver a somehow more dovish impression at the 2:30 press conference, potentially commenting on the Euro strength. In England, the BoE kept the key rate at 0.5% and pledged to maintain the target for bond purchases at £375bn by reinvesting future gilts redemption. The market will be paying more attention to the BoE's future governor Mr. Carney's testimony in congress in which the current Bank of Canada governor left a less dovish impression by mentioning that an exit strategy from ultra-low monetary policy should be designed.
In Asia, geopolitical tensions between Japan and China escalated after the revelation that a Chinese Navy targeted a Japanese warship with its weapons radar last month.

In this context, Emerging Markets bonds continued to face some temporary profit-taking. The sovereign external debt index (EMBI GD) was down 0.7% over the last week; Corporate credit was down 0.8%. Local currency indices have done better and the GBI-EM is up 0.5% on the week, while the ELMI+ climbed 0.2%. The MSCI Emerging Markets was down 0.5%. For another week, JPY weakness proved to be an important headwind, particularly to Emerging Market Asian currencies, as JPY remains the funding currency of choice as opposed to USD. EMEA and Latin American currencies out-performed against the USD, in sympathy with the EUR while Middle East and African currencies recovered from recent lows.

## Latin America

In **Brazil**, CPI came slightly higher than expected at 0.86% mom, moving the annualised inflation to 6.15%; In **Colombia**, on the other hand, inflation surprised to the downside, as the annualised number reached 2.0% (vs. 2.22% expected). December's monthly economic activity in **Chile** rose by 4.7% vs. 3.7% expected. The Peruvian Central bank stepped up US Dollar purchases in the FX markets in an attempt to reduce the PEN appreciation pace.

*Continued overleaf*

## Asia

India's government speed-up economic reforms and privatisation resulted in the announcement of the intention to sell a stake of state-controlled power company NTPC in an attempt to achieve the 5.3% fiscal deficit target. Consumer prices in Thailand rose 3.39%, about 10bps below expectations while Indonesian inflation surprised to the upside at 4.57%. South Korean exports in January rose by 11.8%. The Chinese official PMI came at 50.4 (vs. 51 expected), while HSBC China PMI was better than expected at 52.3.

## Eastern Europe, Africa, and Middle East

Poland cut interest rates by 25bps to 3.75% as largely expected in order to smooth out the economic deceleration motivated by Western European slowdown. Romania kept rates unchanged at 5.25%. In Turkey, inflation came above expectations at an annualised rate of 7.31%. The Hungarian PMI came better than expected at 55.9 while rumours regarding the announcement of the Central Bank Governor added volatility to the HUF. The Czech National Bank maintained its base rate at 0.05%, while Governor Singer's comments gave a lower probability to currency interventions which benefited the Czech Krona. Uganda kept its benchmark interest rates at 12%. South Africa manufacturing production declined more than expected by 2.2% mom (up 2.0% yoy). The level of FX reserves in Egypt dropped to U$ 13.6bn at the end of January – below the important level of three months 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

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