

## Global PMIs shows supply chain bottlenecks persist

By Gustavo Medeiros

Global PMIs declined, dragged down by Covid-19 delta variant concerns as supply chain bottlenecks kept price pressures. The Brazilian Congress approved a tax reform as the government aims for a steep fiscal consolidation. Chinese economic activity disappointed, suggesting policy easing is afoot while India's tax revenues and GDP growth surprised to the upside. Chile hiked its policy rate by 75bps to 1.5%. Egypt GDP surprised to the upside. Mexican remittances were higher than expected. Romania's government coalition suffered a minor setback. Venezuela received a technical mission from a Chinese oil company seeking a commercial agreement to extract oil & gas. Nigeria signalled later and lower Eurobond issuance in 2021 is likely.

Emerging Markets	Next year forward PE/Yield	Spread over UST	P&L (5 business days)
MSCI EM	12.8	–	3.42%
MSCI EM Small Cap	11.9	–	2.91%
MSCI Frontier	12.5	–	0.47%
MSCI Asia	14.2	–	3.65%
Shanghai Composite	11.6	–	1.69%
Hong Kong Hang Seng	9.0	–	3.82%
MSCI EMEA	9.8	–	2.60%
MSCI Latam	9.3	–	-1.07%
GBI-EM-GD	5.04%	–	1.17%
China GBI-EM GD	2.93%	–	0.61%
ELMI+	2.81%	–	1.11%
EM FX spot	–	–	1.27%
EMBI GD	4.80%	341 bps	0.56%
EMBI GD IG	3.03%	159 bps	0.23%
EMBI GD HY	6.85%	551 bps	0.90%
CEMBI BD	4.21%	303 bps	0.18%
CEMBI BD IG	2.88%	172 bps	0.15%
CEMBI BD HY	5.80%	460 bps	0.23%

Global Backdrop	Next year forward PE/Yield/Price	Spread over UST	P&L (5 business days)
S&P 500	20.5	–	0.62%
1-3yr UST	0.21%	–	0.02%
3-5yr UST	0.79%	–	0.08%
7-10yr UST	1.33%	–	-0.07%
10yr+ UST	1.95%	–	-0.63%
10yr+ Germany	-0.36%	–	-1.39%
10yr+ Japan	0.66%	–	-0.01%
US HY	3.77%	279 bps	0.41%
European HY	3.05%	342 bps	0.16%
Bloomberg-Barclays	1.04%	-29 bps	0.29%
VIX Index*	16.41	–	0.02%
DXI Index*	92.18	–	-0.47%
EURUSD	1.187	–	0.63%
USDJPY	109.79	–	0.10%
CRY Index*	220.1	–	0.94%
Brent	71.8	–	-2.15%
Gold	1,827	–	0.92%
Bitcoin	51,713	–	6.69%

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

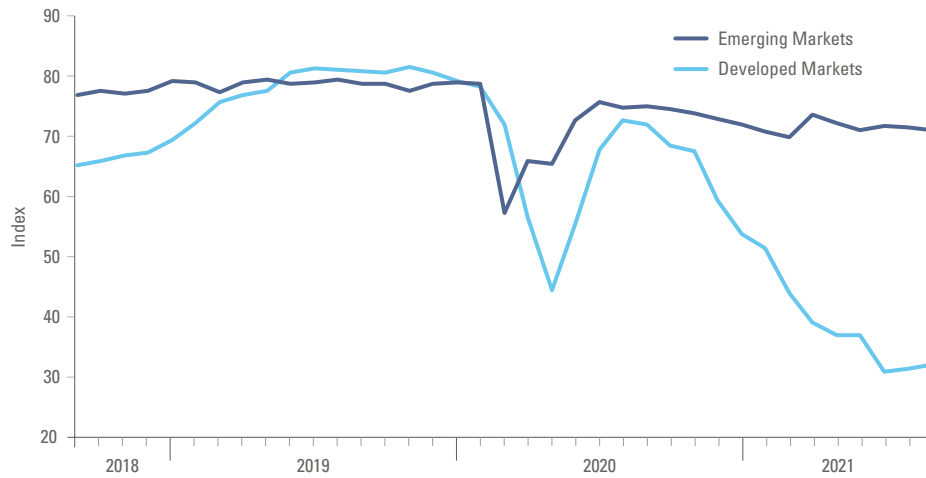
### Geopolitics

**Manufacturing PMIs:** The Markit global manufacturing PMI declined 1.3 points to 54.1 in August as the developed markets (DM) manufacturing PMI dropped 1.6 to 58.3 and Emerging Markets (EM) were down 1.0 to 49.6. The manufacturing PMI declined in most EM countries with Vietnam, Philippines, India and Brazil declining more than 3.0 to 40.2, 46.4, 52.3 and 53.6 respectively. Manufacturing PMIs rose only in four EM countries: South Africa (+14.4 to 57.9), Indonesia (+3.6 to 43.7), Malaysia (+3.3 to 43.4) and Turkey (+0.1 to 54.1).

The Manufacturing PMI surveys remain distorted by supply chain disruptions mostly in DM. The delivery time index stayed close to its historical low in DM at 26.0 while it was stable at a more moderate 45.6 in EM as per Figure 1. Similarly, the prices paid index remained extremely elevated in DM at 80.1 higher than EM's 59.5 level in August as per figure 2. Thus, the price components of the PMI survey are still driving PMIs artificially high in DM, whilst contributing towards lower PMIs in EM as per Figure 3.

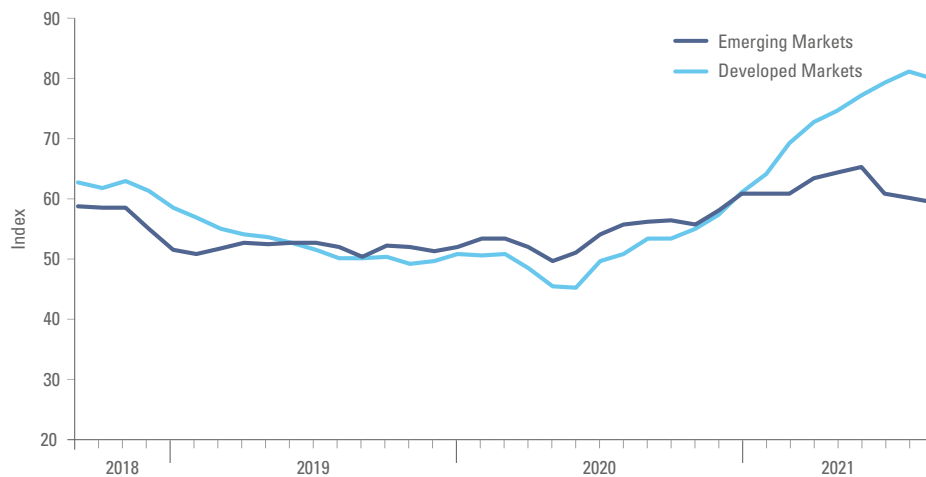
## Geopolitics

Fig 1: **Markit Manufacturing PMI supplier's delivery times**



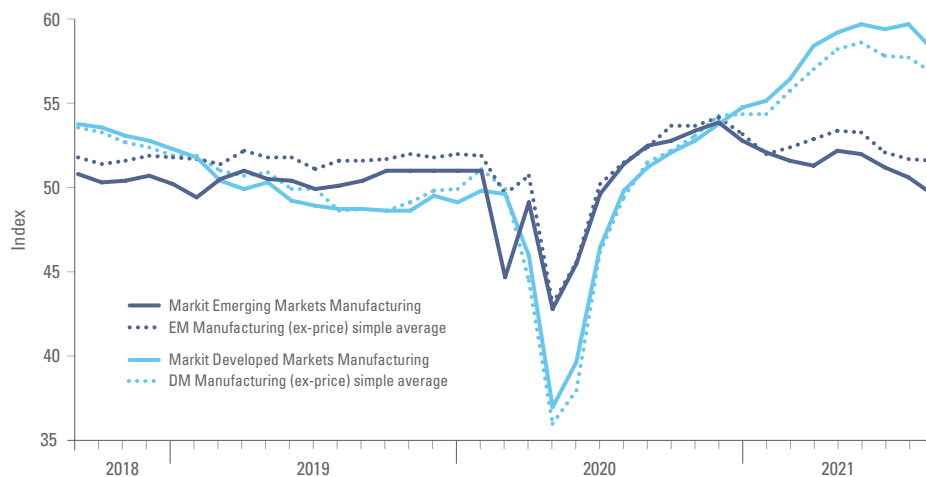
Source: Markit, Bloomberg, Ashmore. Data as at August 2021.

Fig 2: **Markit Manufacturing PMI prices paid**



Source: Markit, Bloomberg, Ashmore. Data as at August 2021.

Fig 3: **Markit Manufacturing PMI**



Source: Markit, Bloomberg, Ashmore. Data as at August 2021.

## Geopolitics

**Covid-19:** Coronavirus cases are accelerating in both the United States (US) and United Kingdom (UK), but hospitalisations are close to the peak in the US, while only around one-quarter of its peak in the UK, which suggests the vaccines are effective against serious cases. However, the recent surge in cases and hospitalisations in Israel (which vaccinated most of its population faster) suggests the level of antibodies does decline over time, which means 'booster' doses are increasingly inevitable.

The Governor of the State of São Paulo and presidential candidate João Doria announced it would start offering booster doses for the elderly population from 6 September and 60-69 year old individuals will receive their booster doses from 4-10 October. São Paulo has double-jabbed 50% of its total population, a higher rate of vaccination than the US.

Meanwhile, the most important impact of the delta-variant has actually come from Asia's 'zero tolerance' policy. The lockdowns imposed in China and Vietnam have led to a sharp increase in shipping costs and exacerbated the shortage of semiconductors and other essential items in the global supply chain. The bottlenecks are noticeable in the continuous long delivery times and higher prices paid for suppliers in the Manufacturing PMI surveys across Asia, as well as anecdotally by global auto manufacturers. Therefore, Asia's zero tolerance policy may lead to more 'transitory' inflation, which increases the risk that the global economy goes from a 'V-shaped' recovery reflation to stagflation. Anchoring expectations becomes important to avoid these supply chain transitory pressures to become entrenched, which explains why EM CB's have been much more hawkish. On the other hand, the Federal Reserve has opted to remain behind the curve, leading to increased risks of 1970s style stagflation, which we have highlighted since late last year.<sup>1</sup>

## Emerging Markets

**Monetary policy next week:** Next week the Central Bank of Russia may hike its policy rate by a final 50bps to 7.0% and the Central Bank of Peru is likely to hike its policy rate by 50bps to 1.0%. The National Bank of Poland may discuss tapering its bond-purchasing programme whilst Bank Negara Malaysia is likely to keep policy rates unchanged at 1.75%.

**Brazil:** The Lower House of Congress approved the income tax reform bill that increases dividend tax from 0% to 15% and the royalty for mining companies to 5.5% from 4.0%, a small impact for the mining industry at current prices. The bill also cuts corporate tax to 18% from 25%. Whilst the bill is likely to be revised and changed in the Senate, it is positive that Congress is pushing for structural reforms in spite of the spat between the three government powers: The Executive, Legislative and Judiciary branches are discussing a solution for the larger than usual payments of disputed government debt (precatórios) imposed by the Supreme Court. A solution involving the repayment of disputed debt in instalments would be positive, reducing fiscal risks. Overall, the government aims to reduce the primary fiscal deficit to less than 1.0% of GDP in 2022 from less than 2.0% of GDP in 2021, a large consolidation from the 9.4% of GDP primary deficit in 2020. Inflation is likely to peak only in September, after higher electricity prices, as expensive thermoelectric power plants had to be switched on in lieu of hydroelectric plants, which have been impacted by a severe drought.

In economic news, the yoy rate of CPI inflation declined 2.2% to 31.1% in August industrial production dropped by 1.3% in July (consensus -0.7%) and real GDP growth contracted 0.1% in Q2 2021, slightly below consensus. The budget deficit improved to BRL 55.4bn in July from BRL 75.6bn in June, as net debt to GDP dropped 0.6% to 60.3%, both lower than consensus. The unemployment rate dropped 0.5% to 14.1% and the trade surplus improved to USD 7.7bn in August from USD 7.4bn in July.

**China:** The Federation of Logistics Composite PMI declined 3.5 to 48.9 in August as services PMI dropped by 5.8 to 47.5. Economic data weakness may lead authorities to end monetary, fiscal and regulatory policy tightness. Last week provided more signs that the regulatory pressures are near an end for big technology companies after Alipay agreed to sell part of its data operations to state owned companies, easing concerns of monopolies in key industries operated by the private sector. A more thoughtful usage of big data may allow for broader benefits across society, in our view. Furthermore, Alibaba announced CNY 100bn (USD 15.5bn) donation for "common prosperity" causes. In other news, the sentiment of cement producers from Southern China rebounded with more than 90% of producers expecting property and infrastructure demand to rise in September, according to a survey by Bank of America. The higher sentiment contrasts with disappointing sales of residential properties in July and August, suggesting fears of systemic risks in the construction sector are exaggerated, in our view.

<sup>1</sup> See <https://www.project-syndicate.org/commentary/america-facing-1970s-style-stagflation-threat-by-kenneth-rogooff-2021-08> and <http://www.ashmoregroup.com/insights/research/2021-outlook-seven-themes-post-vaccine-world>

## Emerging Markets

**India:** Leading indicators continue to point to strong economic activity with goods and services tax (GST) revenues steady at INR 1.10trn in August, down marginally from INR 1.16trn in July but 6.8% higher than in the same period in 2019. In other news, the trade deficit widened to USD 13.9bn in August from USD 11.0bn in July as exports declined 6.6% while imports rose 1.3%. The yoy rate of real GDP growth rose to 20.1% in Q2 2021 from 1.6% yoy in Q1 2021, slightly ahead of consensus.

**Chile:** The *Banco Central de Chile* (BCCh) hiked its policy rates by 75bps to 1.5% last week, 25bps higher than consensus. The central bank increased its inflation forecasts for 2021 and 2022 to 5.7% (from 4.4%) and 3.5% (from 3.1%) due to: (a) the fourth pension fund withdrawal proposal, (b) expansion of emergency transfers and (c) political uncertainties leading to higher pass-through from currency weakness to inflation. In political news, a poll by Criteria Research showed two pragmatic candidates leading vote intentions for presidential elections to be held on 21 November. The centre-left candidate Gabriel Boric leads with 25% of vote intentions whilst centre-right Sebastian Sichel has 19%. Yansa Provoste stands at 11%. In economic news, the yoy rate of IP dropped to 4.8% in July from 6.0% yoy in June, 2.5% lower than consensus while the unemployment rate dropped 0.6% to 8.9% in July. The yoy rate of retail sales slowed to 62.2% in July from 65.6% yoy in June.

**Egypt:** Preliminary indicators show real GDP growth rose more than 3.0% in the 2021 fiscal year<sup>2</sup> after expanding by a yoy rate of 7.7% in Q2 2021, which is 2.0% higher than government and consensus estimates. A rebound in the hospitality, natural gas, electricity and construction sectors led the upside surprises in economic activity. In another positive development, Siemens signed a USD 4.5bn long-term investment contract for a high-speed rail link covering the major port cities of Ain Sokhna, Alexandria and Marsa Matrouh.

**Mexico:** Foreign exchange remittances from Mexicans living abroad rose to USD 4.5bn in July, USD 0.2bn higher than consensus while the budget deficit widened to MXN 243bn in July from MXN 231bn in June. In political news, President Andres Manuel Lopez Obrador (AMLO) is seeking an agreement with the United States (US) government, which has recently sent immigrants back to Mexico while their court cases are pending. AMLO is also trying to clarify rules of origin for the auto industry.

**Romania:** The ruling government led by liberal Prime Minister Florin Citu suffered a setback after the junior centrist partner USR-Plus dropped out of the coalition following the dismissal of Justice Minister Stelian Ion and a RON 50bn (EUR 12bn) infrastructure scheme to modernise less developed villages was announced. The investments are key not only for economic development, but also to keep political coherence ahead of Citu's Liberal Party leadership contest on 25 September, as Mayors support the measures. Citu is likely to opt for a minority government with the Democratic Alliance of Hungarians in Romania instead of seeking a broader alliance with the Socialist Party as he said the coalition still have enough votes to defend a no-confidence attempt by the opposition.

**Venezuela:** China National Petroleum Corporation (CNPC) sent technical and commercial personnel to Venezuela in order to reactivate its activities in the country. In 2016, CNPC was one of the country's largest foreign oil producers at 170 thousand barrels per day before US sanctions limited the ability of the company to extract oil. In other news, the President of the National Assembly Jorge Rodriguez confirmed the discussions between the government and the opposition.

**Nigeria:** The Finance Minister said the next Eurobond issuance was likely to happen only in one month's time with the expected size around USD 3bn – half of the country's external needs – as the other half would be borrowed from banks and international financial institutions. In other news, oil production declined by 90k barrels per day (bpd) in August to 1.4m bpd, which is below its 1.6m bpd quota with the Organisation of Petroleum Exporting Countries (OPEC).

### Snippets:

- **Colombia:** The central bank agreed to exchange the USD 2.8bn proceeds from the IMF special drawing rights (SDRs) with the Treasury against local bonds, lowering the country's external financing needs at low cost. In economic news, the yoy rate of CPI inflation rose to 4.4% in August from 4.0% in July, 0.2% above consensus.
- **Czech Republic:** Real GDP growth rose 1.0% in Q2 2021 from 0.6% in Q1 2021, 0.4% above consensus.
- **Guinea:** The President of Guinea was detained during a military coup over the weekend as the constitution was suspended and the borders closed, according to Bloomberg. The instability could put pressure on aluminium prices, as Guinea is the second largest bauxite producer globally with 22% of production.

<sup>2</sup> Egypt's 2021 fiscal year from June 2020 to June 2021.

## Emerging Markets

- **Hungary:** Real GDP growth was unchanged at 2.7% in Q2 2021.
- **Indonesia:** The yoy rate of CPI inflation rose 0.1% to 1.6% in August while core CPI declined 0.1% to 1.3% yoy.
- **Peru:** The ratings agency Moody's downgraded Peru sovereign rating by one notch to Baa1 with a stable outlook, in line with S&P and Fitch (BBB+). In economic news, the yoy rate of CPI inflation rose to 5.0% in August from 3.8% yoy in July, 1.0% above consensus.
- **Poland:** The yoy rate of CPI inflation rose 0.4% to 5.4% in August, 0.3% above consensus. Real GDP growth rose 2.1% in Q2 2021 from 1.9% in Q1 2021.
- **Russia:** The unemployment rate declined 0.3% to 4.5% in July and the yoy rate of retail sales dropped to 4.7% in July from 10.9% in June.
- **South Africa:** The trade surplus narrowed to ZAR 37.0bn in July compared to 54.5bn in June.
- **South Korea:** Exports rose by 1.4% in August after declining 2.4% in July. The yoy rate of industrial production growth dropped to 7.9% in August from 11.5% yoy in July and the yoy rate of CPI inflation was unchanged at 2.6% in August, 0.2% above consensus.
- **Thailand:** The trade balance declined to USD 3.4bn in July from USD 3.9bn in June as exports declined USD 1bn to USD 22.6bn while imports declined USD 0.2bn to USD 19.2bn. In other news, the yoy rate of CPI inflation dropped 0.5% to zero in August, 0.3% below consensus.
- **Turkey:** The yoy rate of CPI inflation rose 0.3% to 19.3% in August, 0.5% above consensus while PPI inflation rose by 0.6% to 45.5%. The yoy rate of real GDP growth rose to 21.7% in Q2 2021, 0.7% above consensus, supported by private consumption and net exports. The trade deficit widened to USD 4.3bn in July from 2.9bn in June, in line with consensus.

## Global backdrop

**United States:** The labour market data corroborated the concerns over stagflation, fuelled by supply chain problems amidst excessive large fiscal and monetary policy stimulus. The non-farm payroll survey had only 235k new jobs created in August after 1,053k in July, missing consensus by 490k. However, the yoy rate of average hourly earnings rose 0.2% to 4.3% the unemployment rates declined 0.2% to 5.2%, which suggests the labour market remains tight in spite of low employment creation. In other economic news, pending home sales declined 1.8% in July after dropping 2.0% in June and the Dallas Fed manufacturing activity survey dropped to 9.0 in August from 27.3 in July (14.0 below consensus). Lastly, factory orders rose 0.4% in July, less than 1.5% in the previous month and durable goods orders declined 0.1% for the second month in July.

**Eurozone:** The yoy rate of CPI inflation increased 0.8% to 3.0% in the August flash estimate, the highest level in one decade and 0.3% above consensus whilst core CPI rose by 0.9% to 1.6% yoy (0.1% above consensus). The yoy rate of PPI inflation rose 1.9% to 12.1% in July, 1.0% above consensus. Next week the European Central Bank (ECB) may start reducing its monthly bond-purchasing programme from EUR 80bn to USD 60bn.

**Japan:** Prime Minister Yoshihide Suga announced he would not run for the leadership of the ruling Liberal Democratic Party (LDP) scheduled for 29 September, pledging to dedicate the rest of his time in office to fighting the Covid-19 pandemic. Suga's popularity declined due to the recent Covid-19 wave which started two weeks after the Tokyo Olympic Games. The new LDP leader will face a general election by the end of November.

## Benchmark performance

Emerging Markets	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
MSCI EM	0.56%	-3.69%	3.50%	21.30%	10.72%	10.72%
MSCI EM Small Cap	0.69%	0.60%	20.59%	43.37%	13.43%	10.83%
MSCI Frontier	0.80%	3.08%	18.53%	32.09%	10.84%	9.95%
MSCI Asia	0.76%	-4.61%	1.49%	18.10%	11.06%	11.80%
Shanghai Composite	1.07%	0.73%	5.20%	8.05%	12.14%	5.50%
Hong Kong Hang Seng	1.24%	-11.97%	-11.38%	-3.97%	-1.61%	2.83%
MSCI EMEA	0.78%	4.31%	21.19%	38.72%	9.19%	7.45%
MSCI Latam	-2.08%	-5.24%	3.33%	27.86%	3.73%	3.37%
GBI-EM-GD	0.07%	0.41%	-2.98%	4.00%	5.96%	3.11%
China GBI-EM GD	0.25%	1.99%	5.16%	11.12%	-	-
ELMI+	0.29%	0.51%	-0.10%	4.93%	3.09%	2.28%
EM FX spot	0.28%	-0.26%	-1.82%	2.51%	-1.65%	-2.81%
EMBI GD	0.17%	1.57%	0.90%	3.31%	6.96%	4.46%
EMBI GD IG	0.01%	1.28%	-1.20%	0.16%	7.68%	4.82%
EMBI GD HY	0.32%	1.86%	3.31%	6.98%	6.03%	3.98%
CEMBI BD	0.05%	0.98%	2.27%	5.77%	7.70%	5.39%
CEMBI BD IG	0.05%	1.05%	0.91%	3.02%	6.98%	4.66%
CEMBI BD HY	0.06%	0.86%	4.09%	9.61%	8.59%	6.47%

Global Backdrop	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
S&P 500	0.31%	5.81%	21.94%	33.23%	18.11%	17.96%
1-3yr UST	-0.01%	0.15%	0.06%	0.12%	2.65%	1.68%
3-5yr UST	-0.02%	0.52%	-0.53%	-0.63%	4.22%	2.27%
7-10yr UST	-0.11%	1.49%	-1.94%	-3.50%	6.18%	2.76%
10yr+ UST	-0.39%	3.03%	-5.13%	-9.53%	9.00%	3.74%
10yr+ Germany	-0.70%	2.79%	-4.18%	-2.46%	5.05%	2.17%
10yr+ Japan	-0.03%	0.86%	0.55%	0.92%	1.83%	0.65%
US HY	0.19%	1.09%	4.74%	10.17%	7.15%	6.69%
European HY	0.13%	0.90%	4.40%	9.09%	4.22%	4.07%
Bloomberg-Barclays Agg	0.24%	1.16%	-2.09%	0.67%	4.67%	2.56%
VIX Index*	-0.42%	3.66%	-27.87%	-46.63%	12.01%	36.52%
DXY Index*	-0.48%	-0.27%	2.50%	-0.58%	-2.99%	-2.78%
CRY Index*	0.89%	3.15%	31.18%	47.04%	15.98%	21.68%
EURUSD	0.54%	0.19%	-2.90%	0.47%	2.12%	5.60%
USDJPY	0.16%	1.18%	-5.91%	-3.18%	0.87%	-6.96%
Brent	-1.59%	-4.39%	38.67%	68.38%	-6.10%	51.99%
Gold	0.74%	3.11%	-3.53%	-5.24%	52.42%	35.72%
Bitcoin	9.14%	51.49%	80.89%	404.79%	705.86%	8,385.90%

\*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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