

## Korean exports are still performing well

By Gustavo Medeiros

South Korean exports increased at a healthy pace in the first 20 days of June. The Brazilian Central Bank hiked policy rates by 75bps to 4.25% and opened the door for an even faster pace of hikes in order to anchor inflation expectations. Chinese economic data was softer than expected. Russia agreed a 5-year extension of the Strategic Arms Reduction Treaty with the United States (US) in a cordial meeting between both presidents of the two countries. Indian inflation surprised to the upside. Turkey kept its policy rate unchanged at 19%. Colombia unveiled a long-term fiscal framework. Ratings agency Standard & Poor's (S&P) kept Mexico's sovereign rating unchanged at 'BBB' (negative outlook). Inflation declined faster than expected in Argentina. Indonesia's trade surplus improved further. Costa Rica's Congress approved a controversial public employment bill.

Emerging Markets	Next year forward PE/Yield	Spread over UST	P&L (5 business days)	Global Backdrop	Next year forward PE/Yield/Price	Spread over UST	P&L (5 business days)
MSCI EM	13.3	–	-1.44%	S&P 500	19.8	–	-1.87%
MSCI EM Small Cap	12.1	–	-1.05%	1-3yr UST	0.27%	–	-0.22%
MSCI Frontier	12.0	–	-0.44%	3-5yr UST	0.86%	–	-0.57%
MSCI Asia	14.5	–	-1.17%	7-10yr UST	1.40%	–	-0.08%
Shanghai Composite	11.6	–	-2.07%	10yr+ UST	1.98%	–	2.20%
Hong Kong Hang Seng	9.7	–	-0.55%	10yr+ Germany	-0.20%	–	0.42%
MSCI EMEA	10.1	–	-2.78%	10yr+ Japan	0.67%	–	-0.38%
MSCI Latam	10.6	–	-1.51%	US HY	3.96%	286 bps	-0.07%
GBI-EM-GD	5.01%	–	-2.42%	European HY	2.98%	338 bps	-0.06%
China GBI-EM GD	3.21%	–	-0.78%	Bloomberg-Barclays	1.13%	-27 bps	-0.99%
ELMI+	2.67%	–	-1.84%	VIX Index*	20.70	–	5.05%
EM FX spot	–	–	-2.05%	DXY Index*	92.24	–	1.71%
EMBI GD	4.87%	336 bps	-0.36%	EURUSD	1.187	–	-2.05%
EMBI GD IG	3.18%	162 bps	0.07%	USDJPY	109.91	–	0.10%
EMBI GD HY	7.05%	559 bps	-0.82%	CRY Index*	205.9	–	-6.39%
CEMBI BD	4.22%	292 bps	0.03%	Brent	73.6	–	1.06%
CEMBI BD IG	3.02%	172 bps	0.03%	Gold	1,777	–	-4.65%
CEMBI BD HY	5.82%	451 bps	0.03%	Bitcoin	34,501	–	-10.77%

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

### Emerging Markets

**South Korea:** Exports expanded at a yoy rate of 29.5% in the first 20 days of June (33.7% yoy after adjusting for business days). This compares to 53.3% yoy in the same period in May. Exports were 12% above May 2019 levels. Imports rose at a yoy rate of 29.1% in the first 20 days of June compared to 36.0% yoy in May. Semi-conductor exports were strong. South Korean exports are an important leading indicator of global economic activity. The strong performance of Korean exports suggests that global trade activity remains robust.

**Brazil:** The Central Bank of Brazil (BCB) hiked the Selic policy rate by 75bps to 4.25%. BCB's statement opened the door for further rate hikes at the next meeting should inflation expectations deteriorate further. BCB's hawkish stance implies a Selic rate between 6.5% and 7.5% by year-end, which would be consistent with a neutral policy stance. In other news, the Senate approved the privatisation of utility company Eletrobras. The bill needs Congressional approval in a final vote. Petrobras announced the sale of its 37.5% share of the distribution company BR Distribuidora. The sale is a positive step for fuel price governance, in our view. President Jair Bolsonaro pledged to pay BRL 300 per month as part of the income transfer programme known as 'Bolsa Familia', but the government's economic team is working on a smaller increase between BRL 190 to BRL 250. The total fiscal cost would be BRL 19bn in 2022. The risk of populist policies is increasing in the coming months as Bolsonaro seeks to position himself as an attractive alternative to former President Luis Inacio Lula da Silva, who is expected to run for president in September 2022.

## Emerging Markets

**China:** Economic data surprised to the downside last week. The yoy rate of retail sales growth was just 12.4% in May compared to 17.7% yoy in April, while industrial production rose 17.8% in yoy terms in May compared to 20.3% yoy in April. Fixed asset investments rose 15.4% in yoy terms, down from 19.9% yoy the previous month. Property investment was 18.3% higher than the year before compared to 21.6% yoy the previous month. The slowdown, albeit a bit faster than expected, does not change the overall narrative of a strong recovery of the Chinese economy. China continues to display healthy levels of real GDP growth in spite of a slowdown in the credit impulse, suggesting a more sustainable growth profile. In political news, the North Atlantic Treaty Organisation (NATO) released a statement mentioning the “importance of peace and stability” in the Taiwan Strait. NATO leaders also called for a new study into the origins of Covid-19. China has consistently rebuffed unsubstantiated claims that Covid-19 was made in a lab in China. China also pushed back against allegations that China poses a threat to the West, noting that “Global decisions are no longer dictated by small group of countries”. In other news, Chinese house prices rose in 62 out of the 70 largest cities in May, unchanged from April.

**Russia:** President Vladimir Putin met with his US counterpart Joe Biden in a 4-hour summit where both sides adopted a more conciliatory tone. They agreed to extend the Strategic Arms Reduction Treaty (START) for another five years and return their ambassadors to each other’s countries. Both countries agreed to distribute Covid-19 vaccines globally. Russia has already exported the Sputnik V vaccine to over 70 countries despite limited supplies. In other news, Russia extended mobility restrictions until the 29 June after an increase in the number of cases of the delta variant of the coronavirus in Moscow.

**India:** The yoy rate of consumer prices index (CPI) inflation rose to 6.3% in May from 4.3% yoy in April, 90bps above consensus expectations. Core CPI inflation was 6.6% yoy – the highest level in 7 years. The wholesale prices index (WPI) rose at a yoy rate of 12.9% in May from 10.5% yoy in April, which was 50bps below consensus expectations. In other news, the minutes of the monetary policy committee meeting of the Reserve Bank of India (RBI) revealed a willingness to prioritise the growth recovery, which means the policy rate is likely to remain unchanged until the end of the year.

**Turkey:** The Central Bank of Turkey (CBT) kept its policy rate unchanged at 19.0% in line with consensus expectations. In political news, there was no break-through in relations between the US and Turkey when President Joe Biden and Turkey’s President Recep Tayyip Erdogan met last week. However, the conversation was cordial. Erdogan said “there is no problem with the US that we can’t solve”. He also said that it was possible to secure the area around Kabul Airport in Afghanistan, but that “US diplomatic, logistical and financial support is important”.

**Colombia:** The government’s Medium Term Fiscal Framework showed the 2021 fiscal deficit at 8.6% of GDP compared to 7.8% of GDP in 2020. The government plans to reduce the fiscal deficit to 7.0% in 2022 and 4.7% in 2023, leading to a peak in the debt/GDP ratio to 67.5% in 2023. This compares to 60.4% last year. Ratings agency Fitch said it would review Colombia’s ‘BBB-’ sovereign rating (negative outlook) within the next month. Last month S&P downgraded Colombia to sub-investment grade. A downgrade from Fitch would force investment grade ratings-constrained investors to sell their Colombian bonds. In other news, President Ivan Duque extended monthly Covid-19 relief payments worth COP 160k to close to 3 million families until August.

**Mexico:** Ratings agency S&P kept Mexico’s sovereign rating unchanged at ‘BBB’ with a negative outlook, citing risks associated with Pemex, the state oil company. In other news, a study commissioned by the municipality of Mexico City found flaws in the construction of the rail lines, which led to an accident in May, which killed 26 people. Foreign Relations Minister Marcelo Ebrad, who was the city’s mayor during the construction of the railway, remain in the spotlight of investigations.

**Argentina:** The monthly rate of CPI inflation declined to 3.3% in May from 4.1% in April, below consensus expectations of 3.8%. The yoy rate of CPI inflation rose to 49.5% from 46.3% yoy over the same period. Finance Minister Martin Guzman said the country had to expand its economy at the same time that the government pursues fiscal stability. It remains unclear how this is possible, given the government’s unfriendly policies towards investors and the private sector.

**Indonesia:** The trade surplus improved to USD 2.4bn in May from USD 2.3bn in April, in line with consensus expectations. In other news, Bank Indonesia (BI) kept its policy rate unchanged at 3.5%, in line with consensus expectations. BI kept an accommodative stance in the press briefing and called on banks to cut lending rates further.

**Costa Rica:** Congress approved the public employment bill with 32 votes in favour and 15 against it. The bill will go to Constitutional Court for assessment before returning to Congress for a second vote, which requires 38 votes in favour. The public employment bill is one of the most important pieces of legislation agreed with the new IMF package.

## Emerging Markets

### Snippets:

- **Ecuador:** The trade surplus in the first four months of 2021 rose to USD 1.0bn as exports and imports expanded at yoy rates of 22.7% and 18.5%, respectively.
- **Egypt:** The Central Bank of Egypt kept its policy rate unchanged at 8.25% in line with consensus expectations. The trade deficit widened to USD 3.1bn in April from USD 2.7bn in March.
- **Iran:** The conservative candidate and current Chief Justice of Iran Ebrahim Raisi won the presidential election, which was marked by low turnout (48.8%) and high ballot spoiling (3.7 million). Most centrist candidates were barred from running.
- **Israel:** Israeli Prime Minister Naftali Bennett could find it difficult to reach agreement on a political programme, given extremist coalition partners with disparate views. The Biden administration is returning to the Obama-era strategy of seeking a balance of power within the Middle East to enable the US to focus more of its military and intelligence resources on Asia.
- **Kenya:** The government announced a freeze on civil servant wages for two years in order to improve the government's finances. Kenya issued a USD 1bn 12-year Eurobond at 6.3% yield, with more than USD 5bn of demand from investors.
- **Nigeria:** The yoy rate of CPI inflation declined to 17.9% in May from 18.1% yoy in April.
- **Peru:** The Hotels & Restaurants Association of Peru said that restaurants are likely to recover 30% of sales due to an increase in capacity and reduction of curfew hours due to come into effect from today.
- **South Africa:** Retail sales declined 0.8% in April after a 4.5% drop in March, below consensus expectations.
- **Taiwan:** The Central Bank of Taiwan kept its policy rate unchanged at 1.125%, in line with consensus expectations.
- **Uganda:** The central bank cut its policy rate by 50bps to 6.5% saying inflation is likely to remain below the 5% target in the near term and lower rates are necessary to support the economic recovery.

## Global backdrop

**United States:** The Federal Reserve kept interest rate and its asset-purchasing programme unchanged in line with expectations, but the Fed's communication was more hawkish than expected. The Fed's median projection of the unemployment rate was lowered to 4.5% by the end of 2021 and 3.8% by the end of 2022 as participants expected the fast pace of vaccinations to support the economy. The dot plot chart showed that most committee members expect at least one rate hike by 2023 (the average expectation is two rate hikes), while seven members saw the need to increase interest rates once in 2022. Federal Reserve Chairman Jerome Powell said that supply bottlenecks are worse than expected, causing "transitory" inflationary pressures in the face of pent-up demand as the economy reopens. Powell also said the Federal Open Markets Committee (FOMC) is prepared to change its stance of monetary policy should inflation expectations increase. The FOMC talked about tapering of its quantitative easing (QE) programme for the first time. On the other hand, Powell downplayed the importance of the dot plot saying it was "just forecasts" and "no-one knows the state of the economy in the future". He highlighted that the Fed's policy stance will remain accommodative even after an initial rate increase.

The yields on 2-year US Treasuries (UST) rose 11bps to 0.25%, while the 10-year UST bond yield declined 1bp to 1.44%. Break-even inflation priced into 2-year inflation-linked bonds (TIPS) declined 6bps to 2.66%, leaving real interest rates 15bps higher at -2.44%. This compares to -2.81% in mid-May. Even so, real rates are still much below the previous lows over the last 20 years at -2.00%. Higher nominal yields at the short end of the curve pushed the Bloomberg Dollar Index (BBDXY) 2.0% higher to a level more than 10% above the last time the 2-year real interest rates was at -2.0%. Therefore, we believe the current spike in the US Dollar is a good sell signal for the Dollar and a buying opportunity for non-Dollar currencies.

In economic news, the New York Fed's Empire manufacturing index declined to 17.4 in June from 24.3 in May, 1.8 standard deviations lower than consensus expectations. New orders declined to 16.3 from 28.9 and delivery times increased to 30 days from 24 days, the longest lag since the inception of the series in 2001. Some 79.8% of respondents reported higher prices paid in June, which is only marginally lower than in May (83.5%). Forward-looking indicators improved with 47.7% of respondents reporting better general business conditions in June compared to 36.6% in May. Meanwhile, 41.1% reported more hiring ahead compared to 37.7% in the previous month. The Philadelphia Fed Business Outlook survey deteriorated to 30.7 in June from 31.5 in May.

## Global backdrop

Housing data was also weaker than expected. Housing starts rose to 1.57 million in May from 1.52 million in April, while building permits declined to 1.68 million from 1.73 million over the same period. Mortgage applications rebounded 4.2% in the week ending on 11 June after declining 3.1% in the previous week. Industrial production rose 0.8% in May from 0.1% in April and retail sales declined 1.3% in May after rising 0.9% in April. US labour market data disappointed with initial jobless claims rising 412k in the week ending in 12 June compared to 375k in the previous week while continuing claims were unchanged at 3.5 million in the week ending in 5 June.

In regulatory news, Biden named Lina Khan to lead the Federal Trade Commission. Khan is a law professor from Columbia University and a critic of the competition-eroding practices adopted by powerful technology companies.

**United Kingdom:** Jobless claims declined by 93k in April as the March data was revised to -56k (from -15k), the lowest number since 1996. Average weekly earnings rose at a yoy rate of 5.6% in April compared to 4.6% yoy in March, the highest increase in salaries since 2007.

**European Union:** The yoy rate of CPI inflation rose to 2.0% in May from 1.6% yoy in April, matching consensus expectations. Construction output declined 2.2% in April after rising by 4.1% in March, leading the yoy rate up to 42.3% from 20.0% over the same period. In political news, Marine Le Pen's party received less support than expected in regional elections in France last Sunday, while more mainstream conservative parties gained.

**Commodities:** The Refinitiv Core Commodity Index (CRY) declined 3.0% in response to hawkish US monetary policy messages. Copper prices declined 8.5% after China said it would start selling physical reserves of copper directly to producers in order to satisfy pent up demand. Oil outperformed by rising 1.1% last week due to larger than expected drawdowns of both crude and distillate inventories. Corn prices declined 7.1% after the US government pledged to waive the requirement of mixing ethanol with gasoline at refineries, thereby increasing the availability of corn crops to food. Chinese steel output rose at a yoy rate of 6.3% in May compared to 14.2% yoy in April.

**Coronavirus:** The G7 group of nations pledged to donate 1 billion vaccines to the COVAX programme, including 500 million doses from the US and 100 million from the UK government. The importance of a global vaccination plan is obvious, but has only become pressing more recently as the re-opening of developed economies has been hampered by sharp increases in new, more aggressive, Covid-19 variants that originated in unvaccinated parts of the world.

## Benchmark performance

Emerging Markets	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
MSCI EM	-0.93%	3.92%	6.25%	39.98%	10.09%	14.06%
MSCI EM Small Cap	1.41%	10.27%	18.75%	63.06%	10.74%	12.43%
MSCI Frontier	1.15%	12.38%	13.29%	37.07%	7.45%	7.84%
MSCI Asia	-1.22%	2.48%	5.18%	39.26%	10.39%	15.34%
Shanghai Composite	-2.00%	3.12%	2.20%	22.85%	7.74%	6.50%
Hong Kong Hang Seng	-1.82%	-1.95%	0.18%	11.20%	0.18%	8.80%
MSCI EMEA	-1.17%	7.06%	15.75%	35.63%	6.86%	8.19%
MSCI Latam	1.82%	14.11%	8.10%	39.55%	5.98%	7.67%
GBI-EM-GD	-1.65%	3.08%	-3.81%	5.72%	4.06%	3.83%
China GBI-EM GD	-1.49%	2.77%	3.08%	11.62%	na	na
ELMI+	-1.62%	1.60%	-1.01%	6.02%	1.88%	2.50%
EM FX spot	-1.66%	1.74%	-1.93%	3.52%	-3.05%	-2.54%
EMBI GD	0.91%	4.24%	-0.49%	8.14%	6.92%	5.34%
EMBI GD IG	1.18%	2.77%	-2.68%	3.45%	8.03%	5.48%
EMBI GD HY	0.60%	5.92%	2.05%	13.89%	5.59%	5.12%
CEMBI BD	0.67%	1.92%	1.11%	8.73%	7.47%	5.95%
CEMBI BD IG	0.64%	1.43%	-0.29%	5.54%	7.11%	5.06%
CEMBI BD HY	0.70%	2.58%	3.00%	13.23%	7.90%	7.30%

## Benchmark performance

Global Backdrop	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
S&P 500	-0.81%	5.21%	11.70%	35.85%	16.64%	17.20%
1-3yr UST	-0.23%	-0.10%	-0.15%	0.08%	2.75%	1.63%
3-5yr UST	-0.46%	0.24%	-1.10%	-0.76%	4.29%	2.14%
7-10yr UST	0.87%	2.52%	-3.37%	-4.07%	6.11%	2.50%
10yr+ UST	4.43%	7.34%	-7.16%	-8.99%	8.75%	3.73%
10yr+ Germany	1.84%	-0.09%	-6.34%	-3.32%	5.16%	1.90%
10yr+ Japan	0.20%	0.58%	-0.19%	-0.31%	1.02%	-0.19%
US HY	0.70%	2.10%	2.96%	12.85%	7.01%	7.49%
European HY	0.65%	1.67%	3.54%	11.59%	4.17%	4.75%
Bloomberg-Barclays Agg	-0.84%	1.36%	-3.16%	2.72%	4.34%	2.47%
VIX Index*	23.51%	6.70%	-9.01%	-41.06%	41.39%	12.01%
DXY Index*	2.45%	-1.07%	2.56%	-5.52%	-2.77%	-1.89%
CRY Index*	0.08%	11.30%	22.68%	49.20%	5.89%	6.62%
EURUSD	-2.90%	1.05%	-2.88%	5.43%	2.29%	5.45%
USDJPY	-0.39%	0.64%	-6.01%	-2.77%	0.05%	-4.81%
Brent	6.22%	15.88%	42.14%	74.52%	0.79%	45.46%
Gold	-6.78%	3.82%	-6.17%	1.28%	40.08%	40.02%
Bitcoin	-7.12%	-41.54%	20.69%	268.67%	413.24%	4,973.72%

\*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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