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WEEKLY INVESTOR RESEARCH

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Large EM Eurobond issuance in January on increased demand from crossover investors

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A total of USD 115bn of Eurobonds were issued by Emerging Market (EM) issuers in January, buoyed by higher demand from crossover investors. The Brazilian government had its chosen leaders elected for both parliamentary chambers, demonstrating it has enough political clout to vote through economic reforms. The first round of the presidential election in Ecuador had no clear winner. Ukraine purged foreign television channels and expelled parliamentarians linked to Russia. Argentina's shale oil production hit a record high and tax revenues increased in real terms. The Reserve Bank of India kept the policy rate unchanged. The Peruvian Constitutional Tribunal nullified the public pension withdrawal bill approved last year. In Russia, the leader of the opposition Alexei Navalny was sentenced to more than 2.5 years of additional prison time.

Emerging Markets	Next year forward PE/Yield	Spread over UST	P&L (5 business days)
MSCI EM	14.3	–	4.96%
MSCI EM Small Cap	11.5	–	4.68%
MSCI Frontier	10.6	–	2.17%
MSCI Asia	15.5	–	4.99%
Shanghai Composite	12.1	–	0.38%
Hong Kong Hang Seng	9.3	–	3.15%
MSCI EMEA	9.9	–	2.48%
MSCI Latam	12.3	–	5.53%
GBI-EM-GD	4.28%	–	0.32%
ELMI+	2.28%	–	0.14%
EM FX spot	–	–	0.21%
EMBI GD	4.67%	341 bps	0.56%
EMBI GD IG	2.93%	160 bps	-0.29%
EMBI GD HY	6.90%	570 bps	1.53%
CEMBI BD	4.13%	316 bps	0.35%
CEMBI BD IG	2.87%	191 bps	0.08%
CEMBI BD Non-IG	5.84%	488 bps	0.70%

Global Backdrop	Next year forward PE/Yield/Price	Spread over UST	P&L (5 business days)
S&P 500	19.7	–	4.67%
1-3yr UST	0.11%	–	0.00%
3-5yr UST	0.47%	–	-0.09%
7-10yr UST	1.19%	–	-0.63%
10yr+ UST	2.00%	–	-2.45%
10yr+ Germany	-0.45%	–	-1.50%
10yr+ Japan	0.00%	–	0.03%
US HY	4.03%	333 bps	0.70%
European HY	3.30%	378 bps	0.77%
Barclays Ag	0.92%	-27 bps	-0.74%
VIX Index*	20.87	–	-12.22%
DXY Index*	91.06	–	0.08%
EURUSD	1.2035	–	-0.21%
USDJPY	105.52	–	0.56%
CRY Index*	181.39	–	7.19%
Brent	59.9	–	6.28%
Gold spot	1814	–	-2.50%

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

Emerging Markets

- **Eurobonds:** EM sovereigns and companies issued USD 115.2bn of Eurobonds in January 2021, which is similar to the total amount issued in January 2020, but far above the USD 68.0bn average during the month over the last five years. The large volume of issuance was a response to strong demand from crossover investors, who increased their allocations to EM debt due to the low yield available for bonds in developed markets (DM). The issuance also covers outlays for some USD 44bn of debt repayments (principal and coupons) in January, resulting in USD 71bn of net issuance. Asian issuers accounted for USD 59bn of supply, while issuers in Eastern Europe, Middle East & Africa (EMEA) and Latin America issued USD 28bn each. A total of USD 40bn was issued by sovereigns, USD 75bn by corporates and 59% of all new bonds were rated investment grade. We expect issuance to pick up in the high yield universe as credit spreads tighten in a V-shaped global economic recover which should allow EM sovereigns and companies to refinance debt at more favourable terms.

In other EM sovereign news, Bloomberg reported the United States (US) is leaning towards supporting a USD 500bn increase in International Monetary Fund (IMF) Special Drawing Rights (SDR) to USD 11.7bn (equivalent to a 4.5% increase). The increase in SDRs should benefit small EM countries the most, according to a report by the Peterson Institute for International Economics.[1]

[1] See: https://www.piie.com/blogs/realtime-economic-issues-watch/imfs-special-drawing-rights-rescue#:~:text=Second%2C%20the%20allocation%20of%20%24500,at%20the%20end%20of%202019.&text=Consequently%2C%20an%20allocation%20of%20%24500,by%2010%20percent%20or%20more

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Emerging Markets

- Brazil: The government's preferred candidates to lead both houses of parliament were elected. This opens a window for a legislative agenda with a focus on economic reforms before the 2022 presidential election starts to dominate the political agenda. Both Senate leader Rodrigo Pacheco and Lower House leader Arthur Lira pledged to focus on a pro-reform agenda. Both were elected with support from several politicians, who have historically voted with the government in exchange of influence, so the government will need to work smartly to get reforms approved. Finance Minister Paulo Guedes met with Pacheco and committed to extend the income transfer payment programme in a fiscally responsible way, meaning in exchange for expenditure cuts elsewhere. In order to cut expenditure, the government will have to approve a constitutional amendment as most revenues are earmarked for priority areas. In other Brazilian news, the yoy rate of producer prices inflation increased to 26.6% in December from 23.1% in January. This reflects higher commodity prices and a weak currency, which have kept the food and industrial components of producer prices under pressure. Industrial production (IP) was up 8.2% in yoy terms in December from 2.6% yoy in November, while January manufacturing PMI declined to 56.5 from 61.5 in December. Services PMI went down to 48.9 from 53.5 over the same period. In corporate news, mining company Vale agreed to pay BRL 37.7bn (USD 7bn) to cover social and environmental liabilities incurred after a dam broke in the city of Brumadinho in the State of Minas Gerais in January 2019.

- Ecuador: The first round of presidential elections was closely contested and the final result is not clear as of the time of writing. With 96.81% of the ballots counted, Andrés Arauz leads with 32.23% of votes followed by Yaku Perez (19.71%), Guillermo Lasso (19.65%), and Xavier Hervas (16.01%). A run-off election between the two front runners will be held on 11 April as no candidate reached the 40% minimum share of votes to win outright in the first round. Arauz is backed by former President Rafael Correa. He supports renegotiating the IMF deal to reduce the pace of fiscal consolidation, but will probably keep most of the reforms implemented by outgoing President Lenin Moreno. If so, that would be deemed positive, in our view. Perez has strong support from indigenous groups. His platform supports the environment, including a ban in mining and scaling back oil production. He has also pledged to walk away from the IMF. Lasso and Hervas are both businessman from Guayaquil.

- Ukraine: Three television channels linked to a politician close to Russian President Vladimir Putin were shut down after President Volodymyr Zelenskiy imposed a five-year blackout to the '112', 'NewsOne', and 'ZIK' channels. Allegedly, they broadcast pro-Russian propaganda and have strong links to Russia. The politician, Member of Parliament Oleksandr Dubinsky was expelled from Parliament after he became the target of US sanctions for being "part of a Russia-linked foreign influence network" that promotes "fraudulent and unsubstantiated allegations". It is the first time that US sanctions on individuals have had meaningful political repercussions within Ukraine.

- Argentina: Oil production in the Vaca Muerta shale fields rebounded to 124k barrels per day in December. This is the highest level of output since the start of shale oil production, aided by an aggressive capex program. Argentina's current account moved to a USD 0.4bn surplus in December, which implies a cumulative surplus of USD 0.3bn for 2020 compared to USD 6.3bn in 2019. The trade balance posted a USD 8.5bn surplus in 2020 compared to USD 23.4bn in the prior year. Tax collection was 6.2% higher in real yoy terms in January.

- India: The Reserve Bank of India kept the policy rate unchanged at 4.0% in line with consensus expectations. The monetary policy committee highlighted the intention to keep "… the accommodative stance as long as necessary – at least during the current financial year and into the next financial year". In other news, the trade deficit narrowed to USD 14.8bn in January from USD 15.4bn in December.

- Peru: The Constitutional Tribunal invalidated a public pension "withdrawal" bill, which was approved last year and would have allowed individuals to receive pension payments from the government. The court ruled that January payments shouldn't be returned but incoming early payments to pensioners from February onwards will cease. The total cost of the payments could have amounted to PEN 15bn (USD 4.3bn or 1.9% of GDP) this year. In economic news, the yoy rate of consumer prices index (CPI) inflation rose to 2.7% in January from 2.0% yoy in December, led by food prices.

- Russia: Opposition leader Alexei Navalny was sentenced to 2 years and 8 months of jail time on top of time served for parole violations while he was in coma in Germany following a poisoning attempt. A poll by the Levada Centre conducted just prior to Navalny's sentencing showed that President Vladimir Putin's approval rate was broadly stable at 64%, down from 65% in November, although Putin is losing support among younger Russians (down 17% to 51%).[2]

[2] See: https://www.reuters.com/article/us-russia-politics-navalny-idUSKBN2A429G?taid=601c25fc8a9b7e0001b3fe52&utm_campaign=trueAnthem:+Trending+Content&utm_medium=trueAnthem&utm_source=twitter

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Emerging Markets

Snippets:

- **Chile:** The Central Bank's economic activity index rose 3.5% in December after 1.1% in November, taking the yoy rate to -0.4%. Business confidence improved to 54.4 in January from 48.0 in December. Total vehicle sales declined to 25k from 28k over the same period.
- **China:** The Caixin Services purchasing managers index (PMI) declined to 52.0 in January from 56.3 in December due to slower winter activity and an increase in covid-19 cases. Since then, the number of confirmed covid-19 based on the 7-day moving average has declined from 191 cases per day in 21 January to 54 cases as of 6 February.
- **Cuba:** Labour Minister Marta Elena Feito announced the expansion of the list of authorised private businesses from 127 to more than 2,000. This means that only a small number of sectors now remained reserved solely for the state.
- **Czech Republic:** The Czech National Bank kept its policy rate unchanged at 0.25%. Governor Jiri Rushnok said the first rate hike may come later than forecast, but the board still struck a hawkish tone. Board member Dedek said they would not sacrifice the inflation target by keeping monetary policy loose for any longer than required.
- **Egypt:** The Central Bank kept deposit and lending policy rates at 8.25% and 9.25%, respectively. This was in line with consensus expectations. In other news, remittances from Egyptians living abroad rose to a record USD 27.1bn in the first eleven months of 2020.
- **Ghana:** The Central Bank of Ghana kept the policy rate unchanged at 14.5%, in line with consensus expectations. Governor Ernest Addison said strong fiscal consolidation in 2021 now looks unlikely following the 11.4% fiscal deficit recorded in 2020.
- **Hong Kong:** Retail sales declined by 13.2% on a yoy basis in December after declining 4.1% yoy in November.
- **Indonesia:** Real GDP growth was 10.7% higher in Q4 2020, leading to a full-year contraction of 2.1% in 2020.
- **Kuwait:** Fitch affirmed Kuwait's sovereign rating at 'AA' with a negative outlook.
- **Malaysia:** The government extended mobility restrictions to 18 February as the number of covid-19 cases continued to increase.
- **Mexico:** Remittances from Mexicans living abroad rose to USD 40.6bn in 2020, an 11.4% increase from the previous year.
- **Panama:** Fitch downgraded Panama's sovereign credit rating to 'BBB-' with a negative outlook. Three months ago S&P Ratings affirmed the country's 'BBB' rating with a stable outlook, while Moody's maintains a 'Baa1' rating (equivalent to 'BBB+' in the methodology of the other two agencies). Moody's has had Panama on a negative outlook since October 2020.
- **Philippines:** The yoy rate of CPI inflation rose to 4.2% in January from 3.5% yoy in December. January inflation was the highest in a year, led by food prices.
- **Saudi Arabia:** The unemployment rate declined to 8.5% in December from 9.0% in November.
- **South Africa:** The Treasury said the year-to-date tax shortfall in December was 10.6% yoy. This is far lower than the Treasury's previous estimate of 17.9%.
- **Thailand:** The yoy rate of CPI inflation was unchanged at 0.3%.
- **Turkey:** The yoy rate of CPI inflation rose to 15.0% in January from 14.6% in December, while core CPI inflation increased by 1.2% to 15.5% yoy.
- **Uruguay:** The yoy rate of CPI inflation declined sharply to 8.9% in January from 9.4% in December. The January inflation print was lower than consensus expectations. In other news, the non-monetary public sector primary deficit was 2.2% of GDP in 2020 compared to 0.5% in 2019.

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Global backdrop

- **Coronavirus:** The Lancet, a scientific magazine, published a study showing that the Russian coronavirus vaccine Sputnik V has a 91.6% efficacy rate. Several EM countries, including Hungary, Argentina and Mexico have approved the Russian vaccine for emergency use. The Brazilian sanitary agency has requested further information before a possible approval of the vaccine. Israel will gradually start to re-open its economy starting next week. South Africa announced the halt of a planned rollout of the AstraZeneca vaccine following a trial which showed weak efficacy against the local strain of the virus.

- **Oil:** The Brent oil benchmark price rose to 60 Dollars per barrel last week. Brent is now trading 210% from the lows in April last year. OPEC+ indicated that the oil market will continue to be in deficit throughout 2021. A Bloomberg report citing Kayrros satellite data said Chinese inventories declined to 856m barrels in December from 1bn barrels last September.[3] The OPEC+ signal and lower Chinese inventories compensated higher than expected oil inventories in the US. The US Department of Energy reported oil inventories dropped only 994k in the last week of January versus 2.3m expected. On the other hand, gasoline inventories rose to 4.5m versus 1.5m expected.

- **United States (US):** In economic news, non-farm payrolls rose 49k in January after declining 227k in December (revised down from -140k). The disappointment was mostly due to weakness in the leisure and hospitality sectors, which jointly lost 61k jobs in January after losing 536k jobs in December. The unemployment rate declined to 6.3% from 6.7% due to a decline in the active labour force. Manufacturing ISM moderated to 58.7 in January from 60.5 in December, but Markit's manufacturing PMI rose 0.1 points to 59.2. ISM prices paid rose to 82.1 from 77.6, which is the highest level since 2011, pointing to possible inflationary pressures ahead. Services industry surveys improved with ISM rising 1.5 points to 58.7, while PMI services rose 0.8 to 58.3. Durable goods increased 0.5% in December after 0.2% in November and factory orders declining marginally to 1.1% from 1.3% over the same period. The US trade deficit declined to USD 66.6bn from USD 69.0bn the prior month. Construction spending rose 1.0% in December after rising 1.1% in November.

The Congressional Budget Office (CBO) expects US real GDP to return to pre-pandemic levels by mid-2021. This forecast incorporates only USD 900bn fiscal stimulus. Despite the expectation of a strong economic rebound, US Treasury Secretary Janet Yellen repeated her call for Congress to "act big" to bridge temporary weakness and avoid economic scarring. US fiscal spending initiatives continue to mushroom with no discussion of how to pay for the spending. Last week, Republican Senator Mitt Romney proposed an early payment of USD 4.2k per child up to 6 years of age and USD 3k payments for children up to 17 years of age. The annual cost would be USD 66bn per annum.[4] House leader Chuck Schumer has asked for USD 50k student loan forgiveness with a one-off costs of USD 650bn.[5] Former IMF Chief Economist Olivier Blanchard joined former US Treasury Secretary Larry Summers in calling the USD 1.9bn package stimulus package proposed by President Joe Biden "excessive".[6] The main problem, in our view, is that none of these proposals address the significant structural problems in the economy; they only lead to one-off booms in income, which in turn adds to the already significant savings created following the USD 900bn stimulus package approved in December.

- **European Union (EU):** Former European Central Bank (ECB) Governor Mario Draghi gained the support of key political actors in Italy to form a technocrat government which will be responsible for spending EUR 200bn in fiscal transfers from the Europe Union. During his period in charge of ECB, Draghi always argued that structural reforms need to complement monetary stimulus. Draghi's government is therefore likely to be a mix of technocrats and influential politicians. The next election is scheduled for early 2023. In other news, the leader of Germany's CDU Party Armin Laschet said that Germany must "secure its energy supply" by completing the Nord Stream 2 pipeline from Russia.

- **United Kingdom:** The Bank of England kept its policy rate unchanged at 0.1%, but made no mention of negative rates in the minutes. The tone was more hawkish than expected.[7] In other news, UK applied to join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), which already includes Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. Thailand, South Korea, and China have indicated they are also interested in joining the CPTPP.

[3] See: https://www.bnnbloomberg.ca/china-s-crude-stockpiles-at-1-year-low-amid-global-drawdown-1.1558208
[4] See: https://www.bloomberg.com/opinion/articles/2021-02-05/romney-s-child-allowance-would-upend-welfare?sref=zUof49Zi
[5] See: https://www.politico.com/news/2021/02/04/schumer-biden-student-loan-debt-466054
[6] See: https://twitter.com/ojblanchard1/status/1358122330329927680?s=20
[7] See: https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2021/february-2021

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Benchmark performance

Emerging Markets	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
MSCI EM	4.96%	8.09%	8.09%	31.28%	7.77%	16.64%
MSCI EM Small Cap	4.68%	4.77%	4.77%	28.39%	3.86%	11.21%
MSCI Frontier	2.17%	2.56%	2.56%	5.31%	0.12%	7.79%
MSCI Asia	4.99%	9.18%	9.18%	40.01%	10.23%	17.96%
Shanghai Composite	0.38%	0.67%	0.67%	26.99%	2.50%	7.19%
Hong Kong Hang Seng	3.15%	7.67%	7.67%	14.54%	-1.23%	11.81%
MSCI EMEA	2.48%	3.63%	3.63%	-0.29%	-2.31%	8.42%
MSCI Latam	5.53%	-1.56%	-1.56%	-12.33%	-4.70%	9.84%
GBI EM GD	0.32%	-0.76%	-0.76%	2.33%	1.50%	6.23%
ELMI+	0.14%	-0.43%	-0.43%	2.26%	0.22%	3.65%
EM FX Spot	0.21%	-0.76%	-0.76%	-4.05%	-5.68%	-1.59%
EMBI GD	0.56%	-0.54%	-0.54%	3.08%	5.19%	7.00%
EMBI GD IG	-0.29%	-1.52%	-1.52%	5.27%	7.41%	7.14%
EMBI GD HY	1.53%	0.60%	0.60%	0.20%	2.72%	6.79%
CEMBI BD	0.35%	0.28%	0.28%	5.75%	6.22%	7.17%
CEMBI BD IG	0.08%	-0.06%	-0.06%	5.85%	6.55%	6.14%
CEMBI BD Non-IG	0.70%	0.74%	0.74%	5.52%	5.77%	8.85%

Global Backdrop	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
S&P 500	4.67%	3.60%	3.60%	18.69%	15.82%	17.92%
1-3yr UST	0.00%	0.03%	0.03%	2.82%	2.85%	1.77%
3-5yr UST	-0.09%	-0.20%	-0.20%	4.97%	4.53%	2.55%
7-10yr UST	-0.63%	-1.71%	-1.71%	5.74%	6.71%	3.33%
10yr+ UST	-2.45%	-5.97%	-5.97%	5.73%	9.59%	5.14%
10yr+ Germany	-1.50%	-2.77%	-2.77%	2.25%	7.96%	4.05%
10yr+ Japan	0.03%	-0.53%	-0.53%	-2.46%	1.47%	1.76%
US HY	0.70%	1.04%	1.04%	7.71%	6.60%	9.40%
European HY	0.77%	1.31%	1.31%	2.83%	3.30%	5.36%
Barclays Ag	-0.74%	-1.61%	-1.61%	7.01%	4.10%	3.92%
VIX Index*	-36.93%	-8.26%	-8.26%	34.91%	-37.63%	-19.73%
DXY Index*	0.53%	1.25%	1.25%	-7.72%	0.93%	-5.70%
CRY Index*	4.13%	8.10%	8.10%	6.62%	-5.41%	12.96%
EURUSD	-0.83%	-1.49%	-1.49%	10.30%	-1.73%	7.52%
USDJPY	0.80%	2.20%	2.20%	-3.88%	-2.96%	-8.92%
Brent	7.18%	15.62%	15.62%	9.95%	-7.59%	82.15%
Gold spot	-1.81%	-4.43%	-4.43%	15.40%	37.57%	52.56%

*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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