

## Coronavirus cases may be peaking worldwide

By Gustavo Medeiros

The number of coronavirus cases may have peaked worldwide last week. The Brazilian Central Bank hiked its policy rate by 75bps to 3.5%. The Chilean Congress passed two populist bills to increase taxes on copper. Chinese economic data surprised to the upside. Thailand's headline inflation was higher than expected, but core inflation remained subdued. The Colombian government proposed a new tax reform. In Ecuador, president-elect Guillermo Lasso appointed his new Finance Minister. Mexican remittances rose to another record level in March. EM inflation rose on seasonal and base effects.

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	13.1	–	0.10%	S&P 500	20.5	–	1.26%
MSCI EM Small Cap	11.6	–	0.05%	1-3yr UST	0.15%	–	0.05%
MSCI Frontier	10.4	–	1.21%	3-5yr UST	0.78%	–	0.28%
MSCI Asia	14.2	–	-0.72%	7-10yr UST	1.59%	–	0.49%
Shanghai Composite	11.3	–	-0.68%	10yr+ UST	2.30%	–	0.50%
Hong Kong Hang Seng	9.2	–	-1.03%	10yr+ Germany	-0.22%	–	0.41%
MSCI EMEA	10.0	–	2.91%	10yr+ Japan	0.65%	–	0.10%
MSCI Latam	10.9	–	6.14%	US HY	3.91%	289 bps	0.29%
GBI-EM-GD	4.90%	–	1.66%	European HY	3.06%	356 bps	0.06%
China GBI-EM GD	3.17%	–	0.33%	Bloomberg-Barclays	1.11%	-48 bps	0.64%
ELMI+	2.31%	–	0.86%	VIX Index*	16.69	–	-1.92%
EM FX spot	–	–	1.28%	DX Index*	90.24	–	-0.70%
EMBI GD	4.97%	332 bps	0.68%	EURUSD	1.216	–	0.77%
EMBI GD IG	3.27%	156 bps	0.59%	USDJPY	108.83	–	-0.22%
EMBI GD HY	7.13%	553 bps	0.78%	CRY Index*	207.0	–	7.21%
CEMBI BD	4.33%	297 bps	0.37%	Brent	68.6	–	1.60%
CEMBI BD IG	3.11%	175 bps	0.33%	Gold	1,835	–	2.33%
CEMBI BD HY	5.98%	461 bps	0.43%	Bitcoin	59,001	–	3.85%

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

### Emerging Markets

- Coronavirus:** The number of coronavirus cases may have peaked worldwide on 29 April at 105.9 cases per million (7-day average). Case numbers had declined to 100.7 cases per million by 8 May. Case numbers continued to decline in Colombia, Chile, and the Philippines and now seem to show signs of stabilisation in India and Brazil as well. In India specifically, the number of daily deaths is expected to reach a peak by next week before declining to low levels by the end of July, according to the Institute for Health Metrics and Evaluation (IHME), an independent global health research centre at the University of Washington.<sup>1</sup> The number of deaths worldwide is likely to peak over the next week as well according to IHME.

Several Emerging Markets (EM) as well as developed countries continue to make progress in vaccinating their population. Last week, Kazakhstan, Italy, Hong Kong, Germany, Peru, Czech Republic, Colombia, New Zealand, Spain and China accelerated the pace of vaccinations, whereas the pace of vaccinations is now declining in countries that have already inoculated large shares of their populations like Chile, the United Arab Emirates (UAE), the United States (US), and the United Kingdom (UK). Brazil experienced a decline in the vaccination pace last week, but the outlook is improving as the number of doses available will significantly increase from 16.5m in March and April to more than 30m from May to September. Brazil is now ranked 5th in terms of the number of jabs (44m), behind China (280m), the US (247m), India (156m) and the UK (49m).

- Brazil:** The Brazilian Central Bank increased the policy rate by 75bps to 3.50%, in line with consensus expectations. The monetary authority signalled that it will hike another 75bps at the next meeting to be held in 45 days' time, suggesting a frontloaded tightening cycle. The yield on 2-year and 10-year government bonds rose by 24bps and 28bps to 6.70% and 9.30%, respectively, thus retaining the yield curve's steep profile.

<sup>1</sup> See [https://covid19.healthdata.org/india?view=resource-use&tab=trend&resource=all\\_resources](https://covid19.healthdata.org/india?view=resource-use&tab=trend&resource=all_resources)

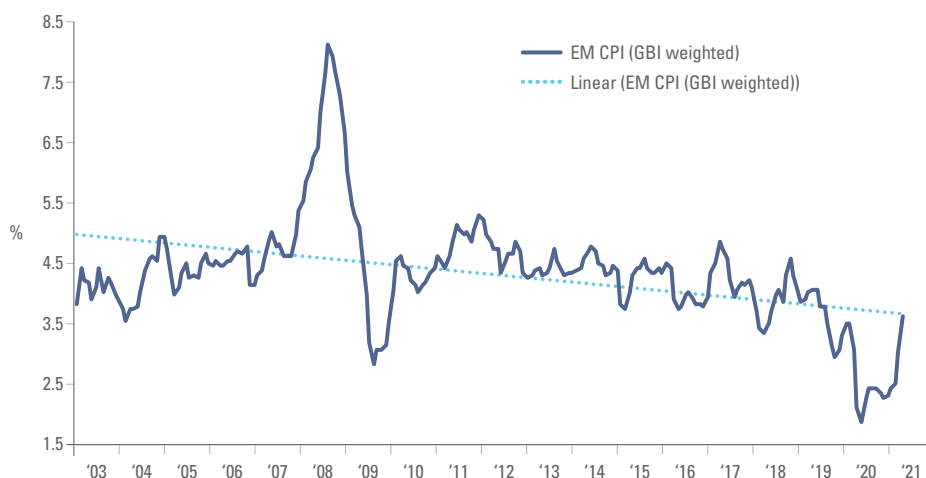
## Emerging Markets

The Brazilian Real was the best performing currency in EM last week, rising 3.8% to 5.24 versus the Dollar, aided in part by the normalisation of interest rates, partly due to the good news on slowing coronavirus cases and the expected faster pace of vaccinations in the coming months. In economic news, the yoy rate of industrial production rose 10.5% in March from 0.4% yoy in February, while retail sales rose 2.4% yoy versus -3.8% yoy over the same period, both outperforming consensus expectations.

- Chile:** Congress approved two bills, which increase taxes on mining companies. The first bill introduced a 3% flat tax on sales of copper and lithium, while the second bill introduced marginal windfall tax rates between 15% and 75% on sales depending on the level of copper prices. Both bills need to pass a Senate vote and President Sebastián Piñera has already pledged to challenge the legality of the bills at the Supreme Court. If approved the new taxes would pose serious challenges for miners in the largest copper producing country in the world. In economic news, the March economic activity survey rose to a yoy rate of 6.4% from -2.2% yoy in February. The trade surplus increased to USD 2.0bn in April from USD 0.5bn in March as exports increased and imports declined. The yoy rate of consumer prices index (CPI) inflation rose to 3.3% in April from 2.9% in March, slightly above consensus expectations.
- China:** Economic data was stronger than expected. The trade surplus improved to USD 42.8bn in April from USD 13.8bn in March. Exports increased at a yoy rate of 32.3% (higher than expected), while imports were 43.1% higher yoy (in line with expectations). The current account surplus declined to USD 75.1bn in Q1 2021 from USD 123.8bn in Q4 2020, but much larger than the USD 2bn surplus on average since 2016. The Caixin Services purchase managers' index (PMI) rose to 56.3 in April from 54.2 in March, better than consensus expectations.
- Thailand:** The yoy rate of CPI inflation surged to 3.4% in April from -0.1% yoy in March, above consensus expectations at 2.5% yoy. The upside surprise was caused by volatile prices for fuel and food, while the yoy core CPI inflation rate rose to only 0.3% from 0.1% yoy over the same period. The Bank of Thailand (BoT) kept its policy rate unchanged at 0.5%, in line with consensus expectations.
- Colombia:** Recently appointed Finance Minister José Manuel Restrepo said the government will target COP 14tn (1.3% of GDP) in new revenues from a revamped tax reform, which avoids tax increases for low and middle income classes and focuses more on spending cuts than a previous version of the tax reform, which was rejected after protests. Restrepo said both the government and the Congress have the goal of keeping Colombia's investment grade rating. In spite of the change in tax reform, protesters remained on the streets across large cities in Colombia.
- Ecuador:** President Guillermo Lasso appointed Simon Cueva as Minister of Finance. Cueva previously worked in the International Monetary Fund (IMF) from 1999 to 2006. He has also worked in the Central Bank of Ecuador and has a good relationship with the multilateral institutions. In other political news, the indigenous party Pachakutik formalised a pact with the left of centre Izquierda Democrática (ID) party, which gives them 45 out of the 137 seats in the National Assembly (NA). At the same time, ID leader Javier Hervas denied that a deal has been struck with the another leading opposition party, Union por la Esperanza led by Andrez Arauz, which controls 48 seats in the NA.
- Mexico:** Remittances from Mexicans living abroad rose to USD 4.2bn in March from USD 3.2bn in February. Remittances in March 2020 were USD 4.0bn. The yoy rate of CPI inflation rose to 6.1% in April from 4.7% in March, in line with consensus expectations. A section of a rail overpass in Mexico City collapsed killing dozens of people and injuring hundreds. The accident poses a political challenge to President Andres Manuel Lopez Obrador and the Morena party, which have been in charge of Mexico City since 2000.
- EM inflation:** About half of EM countries have reported April inflation numbers. Inflation in EM is picking up due to base effects following the sharp contraction in activity last year. However, the yoy rate of CPI inflation (weighted by JP Morgan's local bond market index, the GBI-EM GD) has so far just returned to its trend as shown in Figure 1. It is likely that the yoy rate of CPI inflation rises above the trend line as all countries report April inflation data due to seasonal effects as well as higher commodity prices and weaker currencies over the last 12 months, but inflation should remain on a downward path in EM, in our view.

## Emerging Markets

Fig 1: CPI inflation (% change, yoy)



Source: Ashmore, Bloomberg, JP Morgan. Data as at end of April 2021.

Although they can appear volatile in USD terms – mainly due to the instability of the Dollar – EM local bond markets have in fact delivered solid returns since the start of the Fed hiking cycle in late 2015, despite Covid-19. Figure 2 shows annualised returns for EM local bond markets as well as US Treasuries and EM external debt since the start of 2016. EM local bonds delivered 8.48% annualised return in Dollar terms over this period, which far exceeds the return on both US 5-year and US 10-year Treasuries (3.87% and 5.14%, respectively). Only EM external sovereign debt has performed better (9.29% annualised return). These numbers illustrate the power of real yields over time; a reminder to long-term investors to discount EM short-term volatility when making investment decisions.

Fig 2: Returns since 2016

	Returns		
	2020	2021 ytd	Annualised since 2016
	<b>Government bonds</b>		
<b>EM local currency bonds</b>	<b>2.69%</b>	<b>-2.98%</b>	<b>8.48%</b>
3-5yr UST	7.38%	-0.71%	3.87%
<b>EM external debt (USD)</b>	<b>5.26%</b>	<b>-1.76%</b>	<b>9.29%</b>
7-10yr UST	10.72%	-4.32%	5.14%

Source: Ashmore, Bloomberg, JP Morgan. Data as at 10 May 2021.

### Snippets:

- **Argentina:** The government and the opposition agreed to postpone the mid-term elections to 14 November due to the second wave of the covid-19 pandemic.
- **Costa Rica:** The Inter-American Development Bank (IADB) approved a USD 500m loan for budgetary support.
- **Egypt:** The yoy rate of CPI inflation declined to 4.1% in April from 4.5% yoy in March.
- **India:** IHS Markit's services PMI declined to 54.0 in April from 54.6 in March, a very mild drop considering the ongoing second wave of the coronavirus currently afflicting India.
- **Indonesia:** The yoy real GDP growth rate of Indonesia improved to -0.7% in Q1 2021 from -2.2% yoy in the previous quarter.
- **Malaysia:** The yoy rate of industrial production rose 9.3% in March from 1.5% yoy in February. Sales of manufactured goods increased by 15.3% yoy in April from 6.4% yoy in March. Bank Negara Malaysia kept its policy rate unchanged at 1.75% in line with consensus expectations.
- **Peru:** A third poll conducted by Datum in 5-6 May showed the gap between the two candidates contesting the second round in the presidential election in June, Pedro Castillo and Keiko Fujimori, narrowing to a 5% margin (41% vs. 36%) from 15% in a poll conducted on 15-16 April (41% versus 26%). The share of undecided voters remains high at 42% compared to 49% in the earlier poll.

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- **Philippines:** The yoy rate of CPI inflation was unchanged at 4.5% in April, lower than consensus expectations, but higher than the central bank's 2.0% to 4.0% inflation target band. The rate of core CPI inflation declined to 3.3% yoy in April from 3.5% yoy in March.
- **South Korea:** The yoy rate of CPI inflation rose to 2.3% in April from 1.5% yoy in March, mostly on the back of higher tuition fees and fuel prices. The yoy rate of core CPI inflation rose 1.4% from 1.0% yoy over the same period.
- **Sri Lanka:** Sri Lanka's foreign exchange reserves rose USD 421m to USD 4.5bn due to a USD 500m loan from China Development Bank. Today the Korean Exim Bank announced it has agreed on a USD 500m concessional loan with a 40-year repayment period.
- **Taiwan:** Exports surged at a yoy rate of 38.7% in April from 27.1% yoy in March, while imports expanded by 26.4% yoy from 27.0% over the same period.
- **Turkey:** Central Bank of Turkey kept its policy rate unchanged at 19% in line with consensus expectations. The unemployment rate declined to 13.1% in March from 13.2% in February (revised from 13.4%).
- **Uruguay:** The yoy rate of CPI inflation declined to 6.8% in April from 8.3% yoy in March, thus returning to the central bank's 3.0% to 7.0% target band.

## Global backdrop

- **Commodities:** Broad commodity prices increased 7.2% last week buoyed by strong oil and metal prices. Copper prices were up 7.8% last week alone, reaching an all-time high. China's strong trade data suggests demand is likely to remain solid, while legislation in both Peru and Chile, the two largest producers accounting for close to 50% of all production, threatens to reduce incentives for companies to invest in new projects. Oil prices were supported by a larger than expected drawdown of crude inventories in the US as driving season approaches.

- **United States:** Economic activity disappointed with the Citibank surprise index declining to 19.2 from 42.0 in the previous week. Non-farm payrolls increased by only 226k in April, which was much softer than the consensus expectations of 1 million new jobs and lower than the downward revised payroll number of 770k in March (revised down from 916k). The US unemployment rate rose to 6.1% in April from 6.0% in March. By contrast, other elements of the US job market report suggests the labour market is hot. Average hourly earnings rose at yoy rate of 0.3% in April against -0.4% expected, the average workweek increased, and the number for people working part-time for economic reasons declined. A few weeks ago, the Fed reported that the number of small businesses struggling to fill new jobs was running at the highest level on record. It is possible that the generous stimulus checks granted by the government act as a disincentive for the population to accept jobs that pay around the minimum wage. If so, companies may have to increase wages to motivate workers to return to the labour market. The US Secretary Janet Yellen disputed this thesis, with reference to state-level data, which shows that job growth is faster in states where the ratio of the claimants' weekly benefit amount to the claimants' average weekly wage (so-called UI replacement rate) is higher.

Despite the very low payroll number, the yields on 10-year and 30-year US Treasury bonds ended higher on Friday, although yields were lower for the week as a whole. The curve steepened as front-end yields declined on the expectation that the Federal Reserve will keep monetary policy accommodative for longer. Other economic data were mixed. The ISM manufacturing index declined to 60.7 in April from 64.7 in March, converging to IHS Markit's PMI, which also declined to 60.5 from 60.6 over the same period. The IHS Markit's services PMI rose to 64.7 in April from 63.1 in March. Durable goods orders also firmed up to 0.8% in March versus 0.5% in February, while factory orders increased to 1.1% in April from -0.5% in March. The US trade deficit widened to USD 74.4bn in March from USD 70.5bn in February.

- **United Kingdom:** The Scottish National Party (SNP) won the majority of seats in the Scottish parliament, but fell short of an absolute majority. SNP leader Nicola Sturgeon will form a coalition government with the Green Party as both parties are in favour of another independence referendum. The last Scottish independence referendum was held in September 2014 when 55% of Scottish voters opted to remain in the United Kingdom. Since the last vote, however, the United Kingdom voted to leave the European Union (EU), which has not gone down well in pro-EU Scotland. In other UK news, the Bank of England kept policy rates unchanged at 0.1% and kept the pace of asset purchases at GBP 895bn, in line with consensus expectations. Chief Economist Andy Haldany voted to reduce the stock of purchases to GBP 845bn as the monetary policy committee upgraded its 2021 real GDP growth forecast to 7.25% from 5.0% and raised the 2021 CPI inflation forecast to 2.5% from 2.0%.
- **Eurozone:** The yoy rate of retail sales increased to 12.0% in March from -1.5% in February. The yoy rate of producer prices index (PPI) inflation rose to 4.3% in March from 1.5% in February, in line with consensus expectations. German factory orders rose 3.0% on a mom basis in March from 1.4% mom in February.

## Benchmark performance

Emerging Markets	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
MSCI EM	0.10%	2.60%	4.90%	53.97%	8.67%	13.89%
MSCI EM Small Cap	0.05%	6.11%	14.27%	78.47%	8.17%	11.48%
MSCI Frontier	1.21%	8.12%	8.99%	40.44%	3.40%	7.57%
MSCI Asia	-0.72%	1.75%	4.42%	51.19%	10.12%	15.46%
Shanghai Composite	-0.81%	-0.61%	-1.50%	21.91%	5.40%	5.60%
Hong Kong Hang Seng	-1.03%	-2.24%	-0.11%	14.21%	0.23%	9.05%
MSCI EMEA	2.91%	5.33%	13.89%	49.88%	3.39%	7.64%
MSCI Latam	6.14%	10.10%	4.29%	66.35%	-0.42%	6.40%
GBI-EM-GD	1.66%	3.96%	-2.98%	14.27%	2.27%	3.96%
China GBI-EM GD	0.33%	2.25%	2.55%	8.67%	-	-
ELMI+	0.86%	2.50%	-0.13%	11.17%	1.33%	2.63%
EM FX spot	1.28%	2.81%	-0.89%	10.27%	-4.05%	-2.52%
EMBI GD	0.68%	2.91%	-1.76%	15.14%	5.99%	5.36%
EMBI GD IG	0.59%	1.47%	-3.90%	7.34%	7.58%	5.43%
EMBI GD HY	0.78%	4.56%	0.73%	25.33%	4.18%	5.22%
CEMBI BD	0.37%	0.98%	0.17%	14.18%	6.92%	5.98%
CEMBI BD IG	0.33%	0.67%	-1.04%	8.95%	6.87%	5.08%
CEMBI BD HY	0.43%	1.38%	1.80%	21.84%	6.98%	7.38%

Global Backdrop	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
S&P 500	1.26%	6.67%	13.24%	49.33%	18.76%	17.76%
1-3yr UST	0.05%	0.09%	0.04%	0.20%	2.89%	1.71%
3-5yr UST	0.28%	0.64%	-0.71%	-0.42%	4.50%	2.34%
7-10yr UST	0.49%	1.51%	-4.32%	-5.20%	5.92%	2.59%
10yr+ UST	0.50%	2.84%	-11.05%	-14.49%	7.66%	3.64%
10yr+ Germany	0.37%	-1.28%	-7.46%	-6.05%	5.19%	2.44%
10yr+ Japan	0.10%	0.46%	-0.31%	-1.44%	1.07%	-0.08%
US HY	0.29%	1.38%	2.24%	19.47%	7.08%	7.72%
European HY	0.06%	0.80%	2.66%	17.94%	3.71%	4.61%
Bloomberg-Barclays Agg	0.64%	1.91%	-2.64%	5.44%	4.17%	2.75%
VIX Index*	-10.32%	-13.97%	-26.64%	-40.35%	26.15%	22.45%
DXY Index*	-1.14%	-3.21%	0.34%	-9.52%	-2.60%	-4.29%
CRY Index*	3.61%	11.89%	23.34%	65.92%	1.19%	14.80%
EURUSD	1.14%	3.64%	-0.49%	12.49%	2.03%	6.90%
USDJPY	-0.44%	-1.71%	5.40%	1.09%	-0.52%	-0.40%
Brent	2.07%	8.03%	32.51%	121.63%	-11.40%	50.79%
Gold	3.71%	7.43%	-3.35%	8.05%	38.82%	44.94%
Bitcoin	3.85%	0.07%	103.48%	583.18%	548.88%	12,881.13%

\*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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