

South Korean exports stronger than expected

By Gustavo Medeiros

South Korean exports, a key leading indicator for global manufacturing, rose more than expected in the first 20 days of July. Russia hiked policy rates by 100bps. India's leading economic indicators have improved since mid-May as Covid-19 cases stabilised. Peru's electoral court confirmed Pedro Castillo as next President. Malaysia and Ecuador accelerated the purchase of Covid-19 vaccines. Brazilian expenditures improved structurally. Argentina's budget deficit widened less than expected, due to extraordinary revenues. China announced specific measures to boost the birth rate. Colombia submitted a tax reform to parliament. Mexican inflation was higher than expected.

Emerging Markets	Next year forward PE/Yield	Spread over UST	P&L (5 business days)
MSCI EM	12.7	–	-2.08%
MSCI EM Small Cap	12.2	–	-0.88%
MSCI Frontier	11.5	–	-0.71%
MSCI Asia	14.1	–	-2.19%
Shanghai Composite	11.2	–	0.44%
Hong Kong Hang Seng	9.6	–	-3.09%
MSCI EMEA	9.8	–	-0.73%
MSCI Latam	9.5	–	-1.68%
GBI-EM-GD	4.94%	–	-0.49%
China GBI-EM GD	2.99%	–	0.15%
ELMI+	3.06%	–	-0.43%
EM FX spot	–	–	-0.66%
EMBI GD	4.89%	354 bps	-0.07%
EMBI GD IG	3.13%	172 bps	-0.04%
EMBI GD HY	7.20%	590 bps	-0.11%
CEMBI BD	4.23%	311 bps	-0.01%
CEMBI BD IG	2.94%	183 bps	0.09%
CEMBI BD HY	5.89%	475 bps	-0.14%

Global Backdrop	Next year forward PE/Yield/Price	Spread over UST	P&L (5 business days)
S&P 500	20.5	–	1.97%
1-3yr UST	0.20%	–	0.07%
3-5yr UST	0.69%	–	0.26%
7-10yr UST	1.25%	–	0.23%
10yr+ UST	1.90%	–	0.21%
10yr+ Germany	-0.42%	–	1.09%
10yr+ Japan	0.65%	–	-0.07%
US HY	3.84%	289 bps	0.07%
European HY	3.19%	358 bps	0.01%
Bloomberg-Barclays	1.01%	-24 bps	0.08%
VIX Index*	17.20	–	-1.25%
DX Index*	92.84	–	-0.05%
EURUSD	1.178	–	-0.16%
USDJPY	110.28	–	0.75%
CRY Index*	216.6	–	4.02%
Brent	73.3	–	6.76%
Gold	1,809	–	-0.21%
Bitcoin	38,494	–	20.98%

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

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South Korea: Exports rose at a yoy rate of 32.8% in the first 20 days of July from 29.5% yoy in May, while imports rose by 46.1% yoy from 29.1% yoy over the same period. Both beat consensus expectations. Exports and imports of semiconductors, oil products and autos led the increase. In other news, the National Assembly approved KRW 32trn extra spending to support industries and households affected by the pandemic, as well as invest in vaccination and prevention campaigns and regional economic revitalisation.

Russia: The Central Bank of Russia (CBR) hiked policy rates by 100bps to 6.5%, in line with consensus expectations, following hikes of 50bps in the previous two meetings. CBR increased its 2021 growth forecast to a range of 4.0% to 4.5% from 3.0% to 4.0% in its previous forecast, while the 2021 key policy rate forecast moved from 6.5% to 7.1%, which incorporates the possibility of another hike at the September meeting, depending on the evolution of inflation. The year-to-date cumulative rate of inflation was unchanged at 4.6% on the week ending in 19 July, which is only 30bps higher than the average of the past 10 years, suggesting that inflation is likely to end the year around 6.0%, which is close to but within the upper band of 4.0% + 2.5%.

India: Several leading indicators such as Google mobility, power demand and labour participation rates have accelerated strongly since mid-May, consistent with economic activity roughly 5% below pre-pandemic levels. In pandemic related news, the vaccination rate has stagnated to 3.7 million doses per day on average in July as the number of new Covid-19 cases has stabilised to 39k per day last week (23 cases per million people). This means that India's case numbers sit well below the worldwide 7-day moving average of 68 cases per million. In corporate news, shares of food delivery company Zomato surged 65.8% on the day of listing, valuing the company at USD 13.3bn.

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Peru: The electoral authority confirmed Pedro Castillo as Peru's new president. Castillo will assume office in the 28 July. He has pledged to call a constitutional referendum asking the population if they would like to form a constituent assembly to draft a new constitution. However, the Peruvian constitution requires a congress majority to approve the holding of a referendum, which may prove hard to achieve given the fragmentation of parliament.¹

Malaysia: Prime Minister Muhyiddin Yassin is looking to increase the vaccination rate to 500k doses a day and set a target of fully vaccinating the entire adult population by October. As of 17th July, Malaysia had vaccinated 29.5% of its population, of which 16.8% are fully vaccinated. In economic news, the yoy rate of consumer prices index (CPI) inflation dropped to 3.4% in June from 4.4% yoy in May, lower than consensus expectations and back to the 2.5% to 4.0% inflation target range. Industrial production (IP) declined 3.4% in May due to tighter mobility restrictions, dragging the yoy rate lower to 26.0% in May from 50.1% yoy in April. In other news, ratings agency Fitch affirmed Malaysia's sovereign rating at 'BBB+' with a stable outlook.

Ecuador: The government reported it will receive 20.5 million Covid-19 vaccines, which is enough to immunise 68% of the adult population by August. Furthermore, the government expects 32 million vaccines by December and is working to buy more vaccines for 2022. In economic news, total exports year to May rose to USD 10.1bn (9.8% of GDP). Oil exports rose at a yoy rate of 92% in January-May (oil makes up 34% of total exports), while non-oil exports rose 9.5% yoy, to USD 6.6bn. The cumulative trade surplus year to May rose to USD 1.4bn (1.4% of GDP) compared to USD 0.9bn in the same period of 2020.

Brazil: Folha de Sao Paulo, a local newspaper, reported that the Federal Government's expenditures are in an unprecedented trend of decline as the replacement of retired civil servants has reached a historical minimal. There are currently 208k public employees, down from 331k in 2007. The trend has accelerated since the approval of a ceiling on public spending in 2015. While costs are lower, the quantity and quality of public service may also be impacted. The weekly trade surplus was unchanged at USD 2.0bn in the week ending in 18 July. Tax collections declined to BRL 137.2bn in June from BRL 142.1bn, which was BRL 2.8bn below consensus expectations. Lastly, the yoy rate of CPI inflation rose to 8.6% in July from 8.1% in June, 0.1% above consensus expectations.

Argentina: The primary budget deficit widened to ARS 153bn in June after a surplus of ARS 26bn in May, resulting in a H1 2021 deficit of ARS 208bn. However, ARS 90bn of extraordinary revenues from high net worth individuals aided June's result, which means the fiscal accounts structurally deteriorated by a larger extent than suggested by the headline figure. The trade surplus narrowed to USD 1.1bn in June from USD 1.6bn in May, in line with consensus expectations. The economic activity index declined 2.0% in May after a 1.2% drop in April.

China: The Communist Party and State Council released a document supporting measures to boost birth rates in line with the three-child policy. The specific measures to be pursued include abolishing social costs for couples that have more than two children, "vigorously" developing inclusive childcare services and reducing the costs of childbirth, parenting and education. In other news, China imposed sanctions on US individuals, including former commerce secretary Wilbur Ross in response to recent US sanctions on Chinese officials in Hong Kong. In other foreign policy news, Reuters reported the United Kingdom (UK) is looking to remove China General Nuclear Power Group from all future projects in the country.

Colombia: The government submitted its new tax bill to congress. The bill envisages COP 15.2trn of new revenues (c. 1.4% of GDP) mostly via higher taxation on corporates and better tax collection. The new version of the bill was broadly in line with market expectations. In other news, the trade deficit narrowed to USD 1.0bn in May from USD 1.5bn in April, in line with consensus expectations.

Mexico: The yoy rate of CPI inflation inched higher to 5.75% in the first week of July, from 5.74% yoy in the same period of June, 0.1% above consensus expectations. Higher inflation is likely to motivate the central bank to hike interest rates at its next meeting in August. In other news, the yoy rate of retail sales slowed to 29.7% in May from 30.1% in April, 1.2% above consensus.

Snippets:

- **Costa Rica:** Congress approved a bill required under the program with the International Monetary Fund (IMF), thus facilitating the first disbursement under the Extended Funding Facility (EFF).
- **Egypt:** The government raised gasoline prices by 3%, which is a positive step for fiscal sustainability.
- **Ethiopia:** Despite strong opposition from its neighbours, Ethiopia completed the second filling of the Great Ethiopia Renaissance Dam last week.
- **Ghana:** The yoy rate of producer price inflation (PPI) index declined to 10.1% in June from 11.8% in April.
- **Hungary:** Prime Minister Viktor Orban announced a referendum to push back against an EU law guaranteeing sexual rights (LGBTQ law).

¹ See: *'China and the US to work together in fight against climate change'*, Weekly investor research, 19 April 2021.

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- **Indonesia:** Bank Indonesia (BI) kept its policy rate unchanged at 3.5%, in line with consensus expectations as Governor Perry Warjiyo pushed back against policy normalisation, highlighting BI's "pro-growth" policy stance for 2021.
- **Ivory Coast:** Ratings agency Fitch upgraded Ivory Coast's sovereign rating to 'BB-', with a stable outlook.
- **Paraguay:** The central bank kept its policy rate unchanged at 0.75%, but signalled that rates would be raised over the next meetings.
- **Poland:** The yoy rate of industrial output declined to 18.4% in June from 29.8% in May, while retail sales dropped to 13.0% yoy in June from 19.1% yoy in May, both in line with consensus expectations. The unemployment rate dropped 0.2% to 5.9% over the same period.
- **South Africa:** The South Africa Reserve Bank kept its policy rate unchanged at 3.5%, in line with consensus expectations. The yoy rate of CPI inflation declined to 4.9% in June from 5.2% in April, 0.1% above consensus expectations, while core CPI inflation rose 0.1% to 3.2% yoy.
- **Singapore:** The yoy rate of CPI inflation was unchanged at 2.4% in June.
- **Sri Lanka:** Ratings agency Moody's placed Sri Lanka's Caa1 sovereign rating under review for downgrade.
- **Taiwan:** The yoy rate of IP rose to 18.4% in June from 16.7% yoy in May and 5.9% above consensus expectations with semiconductors, machinery and equipment production leading IP higher.
- **Thailand:** The trade surplus rose to USD 950m in June from USD 800m in May, slightly below consensus expectations as both exports and imports surprised to the upside.
- **Tunisia:** President Kais Saied fired Prime Minister Hichem Mechichi and froze parliament after large protests in Tunis against the deterioration of living standards and poor management of Covid-19 crisis.
- **Turkey:** Russia and Turkey discussed the delivery of a second round of S-400 anti-missile systems, according to Russian sources. The US threatened additional sanctions targeting individuals should Turkey purchase more weapons from Russia.
- **Ukraine:** The National Bank of Ukraine (NBU) hiked the policy rate by 50bps to 8.0% due to a "significant increase in inflationary pressures" and signalled that there could be another rate hike before year-end. The NBU kept the real GDP growth forecast for 2021 unchanged at 3.8%.
- **Venezuela:** The United States (US) government extended until 21 October a measure protecting shares in Citgo Petroleum, a US-based refinery owned by Petroleos de Venezuela (PDVSA) from holders of the PDVSA 8.5% 2020 bond. The shares were pledged as guarantee in the event of default. PDVSA defaulted on the 2020 bonds in November 2019, after making two principal repayments totalling 50% of the original value of the principal.

Global backdrop

Commodities: The National Development and Reform Commission (NDRC) of China said it would continue releasing reserves of non-ferrous metals to relieve companies' cost pressures. NDRC released 50,000 tons of aluminium, 20,000 tons of copper and 30,000 tons of zinc through auctions directly to metal manufacturers in early July. The announcement of further sales did not have a large impact on prices as copper and aluminium prices rose around 1.0%, while zinc declined 1.0% last week. On the other hand, iron-ore prices declined nearly 10% to USD 193 at the SGX Singaporean Exchange as floods in China's Henan province affected steel output. In other news, Arabica Coffee prices surged to USD 193.5 from USD 150.0 as a frost in Brazil's coffee belt threatens to reduce deliveries. Crop recovery may take years, according to Reuters.²

United States: There was mixed economic data last week. Initial jobless claims rose to 418k in the week of 17 July (69k above consensus expectations) from 368k in the previous week. Continuing claims were unchanged at 3.2 million in the week of 10 July. Mortgage applications declined 4.0% in the week of 16 July after surging 16.0% in the previous week. Housing starts rose 1.64 million in June from 1.55 million in May (+6.3%), but building permits declined to 1.60 million from 1.68 million (-5.1%) over the same period. Existing home sales rose 1.4% in June after declining 1.2% in May. Markit's Manufacturing PMI rose to 63.1 in the July preview from 62.1 in the previous month, but services PMI declined to 59.8 from 64.6 over the same period, pushing the composite PMI reading below expectations.

Europe: Euro area composite PMI rose to 60.6 in July from 59.5 in June, 0.6 above consensus expectations. Manufacturing PMI declined 0.8 to 62.6, but services PMI rose 2.1 to 60.4. Consumer confidence declined to -4.4 in July from -3.3 in June. The European Central Bank (ECB) kept its policy rates unchanged with the deposit and lending facility rates at -0.5% and 0.25% respectively, in line with consensus expectations.

² See <https://www.reuters.com/article/coffee-global-supplies/brazil-coffee-frost-sparks-default-fears-crop-recovery-may-take-years-idUSL8N20Y6FS?edition-redirect=uk>

Emerging Markets

Emerging Markets	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
MSCI EM	-4.31%	-4.31%	2.82%	24.23%	9.81%	11.40%
MSCI EM Small Cap	-0.50%	-0.50%	19.27%	49.27%	12.81%	11.18%
MSCI Frontier	-2.08%	-2.08%	12.60%	37.66%	7.15%	8.85%
MSCI Asia	-4.39%	-4.39%	1.70%	23.65%	10.92%	12.74%
Shanghai Composite	-0.39%	-0.39%	4.03%	8.93%	9.95%	5.67%
Hong Kong Hang Seng	-7.06%	-7.06%	-6.44%	-2.12%	0.53%	5.42%
MSCI EMEA	-1.90%	-1.90%	13.97%	28.17%	5.16%	6.31%
MSCI Latam	-3.04%	-3.04%	5.73%	26.98%	2.22%	4.42%
GBI-EM-GD	-1.15%	-1.15%	-4.49%	2.31%	3.42%	3.07%
China GBI-EM GD	0.98%	0.98%	4.11%	11.44%	na	na
ELMI+	-1.11%	-1.11%	-1.71%	3.92%	1.69%	2.13%
EM FX spot	-1.70%	-1.70%	-3.25%	0.85%	-3.61%	-3.02%
EMBI GD	0.42%	0.42%	-0.25%	4.62%	6.19%	4.52%
EMBI GD IG	0.57%	0.57%	-1.90%	0.46%	7.64%	4.89%
EMBI GD HY	0.25%	0.25%	1.67%	9.74%	4.51%	4.06%
CEMBI BD	0.36%	0.36%	1.65%	7.14%	7.30%	5.57%
CEMBI BD IG	0.55%	0.55%	0.41%	4.13%	7.01%	4.81%
CEMBI BD HY	0.12%	0.12%	3.33%	11.39%	7.65%	6.72%

Global Backdrop	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
S&P 500	2.74%	2.74%	18.40%	38.45%	18.40%	17.39%
1-3yr UST	0.12%	0.12%	0.03%	0.15%	2.77%	1.66%
3-5yr UST	0.60%	0.60%	-0.45%	-0.39%	4.46%	2.26%
7-10yr UST	1.56%	1.56%	-1.88%	-3.37%	6.64%	2.73%
10yr+ UST	2.93%	2.93%	-5.22%	-10.79%	9.70%	3.70%
10yr+ Germany	3.84%	3.84%	-3.21%	-1.61%	5.75%	2.27%
10yr+ Japan	0.88%	0.88%	0.57%	0.63%	1.49%	-0.08%
US HY	0.32%	0.32%	3.95%	11.55%	7.32%	6.90%
European HY	0.25%	0.25%	3.72%	10.42%	4.17%	4.35%
Bloomberg-Barclays Agg	0.71%	0.71%	-2.52%	1.24%	4.54%	2.68%
VIX Index*	8.65%	8.65%	-24.40%	-33.44%	41.68%	31.80%
DXY Index*	0.43%	0.43%	3.22%	-1.69%	-2.06%	-4.45%
CRY Index*	1.50%	1.50%	29.08%	51.42%	11.08%	19.52%
EURUSD	-0.65%	-0.65%	-3.57%	0.25%	1.19%	7.23%
USDJPY	-0.75%	-0.75%	6.81%	4.66%	-0.85%	5.37%
Brent	-2.49%	-2.49%	41.43%	69.04%	-1.72%	63.27%
Gold	2.19%	2.19%	-4.71%	-6.86%	47.95%	37.01%
Bitcoin	11.30%	11.30%	32.76%	289.00%	372.99%	5,767.99%

*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, DX Y and CRY which are shown as percentage change.

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