

The OECD revises EM GDP growth forecasts higher

By Gustavo Medeiros

The Organisation for Economic Co-operation and Development (OECD) revised its estimate of global gross domestic product (GDP) growth higher following recent stronger than expected economic data. In Brazil, economists revised their 2021 GDP growth forecasts higher by a large magnitude following strong growth in Q1 2021. In Mexico, exit polls suggests the governing coalition lost its two-thirds supermajority in the congress. In Peru, Keiko Fujimori holds a razor thin advantage with nearly 90% of the votes counted, but her lead is narrowing as rural votes are counted. China's Vice Premier Liu He met with United States (US) Treasury Secretary Janet Yellen in another bid to improve bilateral relations. The Russian Finance Minister said the Sovereign Wealth Fund aims to sell all Dollar positions in favour of the Euro, Renminbi, and gold. The Reserve Bank of India pledged to keep policy accommodative while mobility restrictions are in place. Tax revenues surprised to the upside in Ecuador. In Turkey, President Recep Tayip Erdogan drove the Lira down again after he said the central bank must cut policy rates soon.

Emerging Markets	Next year forward PE/Yield	Spread over UST	P&L (5 business days)
MSCI EM	13.4	–	1.60%
MSCI EM Small Cap	12.2	–	1.87%
MSCI Frontier	11.6	–	1.24%
MSCI Asia	14.5	–	0.82%
Shanghai Composite	11.7	–	-0.09%
Hong Kong Hang Seng	9.2	–	0.30%
MSCI EMEA	10.4	–	2.29%
MSCI Latam	11.0	–	4.90%
GBI-EM-GD	4.92%	–	0.88%
China GBI-EM GD	3.17%	–	-0.76%
ELMI+	2.30%	–	0.17%
EM FX spot	–	–	0.57%
EMBI GD	4.93%	329 bps	0.30%
EMBI GD IG	3.27%	158 bps	0.15%
EMBI GD HY	7.03%	545 bps	0.48%
CEMBI BD	4.32%	297 bps	0.19%
CEMBI BD IG	3.10%	175 bps	0.17%
CEMBI BD HY	5.93%	458 bps	0.21%

Global Backdrop	Next year forward PE/Yield/Price	Spread over UST	P&L (5 business days)
S&P 500	20.1	–	0.73%
1-3yr UST	0.15%	–	-0.01%
3-5yr UST	0.79%	–	0.08%
7-10yr UST	1.57%	–	0.40%
10yr+ UST	2.25%	–	0.93%
10yr+ Germany	-0.21%	–	0.69%
10yr+ Japan	0.69%	–	-0.20%
US HY	4.01%	297 bps	0.35%
European HY	2.97%	342 bps	0.35%
Bloomberg-Barclays	1.12%	-45 bps	0.07%
VIX Index*	16.42	–	-0.32%
DXY Index*	90.16	–	0.13%
EURUSD	1.216	–	-0.52%
USDJPY	109.49	–	-0.08%
CRY Index*	210.3	–	4.52%
Brent	71.5	–	3.17%
Gold	1,887	–	-1.04%
Bitcoin	36,286	–	-3.87%

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

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- Global economy:** The OECD revised its global growth forecast higher. According to the new projection, global GDP will return to pre-Covid levels by Q2 2021, which is two quarters earlier than OECD expected in its December 2020 projection. In OECD's upside risk scenario, the world economy will be back to the pre-Covid growth path by Q2 2022. Emerging Markets (EM) had already regained pre-Covid levels of activity in Q4 2020, two quarters earlier than the previous projection. The new forecast shows EM GDP will be 4.5% higher than Q4-2019 levels by Q4-2021, up from 1.6% in the December forecast.¹
- Brazil:** The yoy rate of real GDP growth was 1.0% in Q1 2021 compared to -1.1% yoy in Q4 2020. This was 0.5% yoy higher than the consensus expectation. GDP is now back to pre-pandemic levels. The median expectation for 2021 GDP growth had already been revised up to 4% prior to before the upside surprise from 3% in a survey carried out on 15 April. As such, the 2021 consensus growth forecast for Brazil may well soon converge towards 5%, in our view. On the supply-side, agriculture expanded at a yoy rate of 5.2%, while services declined 0.8% on a yoy basis. On the demand side, investment surged at a yoy rate of 17.0%, while household and government consumption declined at rates of 1.7% yoy and 4.9% yoy, respectively. Despite the recovery, the output gap in Brazil remains at around 3% of GDP, which suggests that wholesale inflationary

¹ See <https://www.oecd.org/economic-outlook/>

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pressures are unlikely to pass through to consumers. In other news, the National Automobile Association (Fenabrave) announced that car and light vehicle sales jumped 210% on a yoy basis in May to 189k vehicles, which was 19k higher than average monthly car sales in the previous five years. On the other hand, industrial production dropped 1.3% in April, which was nevertheless an improvement relative to the 2.4% contraction recorded in March, albeit worse than consensus expectations.

- Mexico:** The Morena party of President Andres Manuel Lopez Obrador (AMLO) lost its supermajority (more than 2/3 of seats) in Congress in the 6 June mid-term election, according to the exit poll by INE. The poll shows Morena getting between 190 and 203 seats in the 500-member congress, down from 256 today, so still a strong majority. AMLO's allies in the Verde and PT parties are likely to get between 75 and 89 seats, according to the poll, while the opposition PAN and PRI parties are likely to get between 169 and 192 votes. The stronger showing by the opposition parties would enable them to block future constitutional amendments. The result is positive to the extent it fosters policy stability, in our view.
- Peru:** The latest official result with 87.7% of votes counted shows Fujimori leading with 50.6% of the votes vs. 49.4% of Castillo. However, Keiko's advantage is likely to narrow further as rural votes are counted. In fact, the quick count exit poll by IPSOS shows a Pedro Castillo winning with 50.2% of the votes against 49.8% for Keiko Fujimori. In practice, both Fujimori and Castillo will struggle to approve any meaningful measures due to extreme congress fragmentation. In other news, Lima consumer prices index (CPI) yoy inflation rate was 2.5% in May, up from 2.4% yoy in April, while core CPI inflation was 0.2% higher in May, or 1.8% yoy.
- China:** US Treasury Secretary Janet Yellen and Chinese Vice Premier Liu He held two virtual calls last week where they "candidly exchanged views on issues of mutual concern, and expressed willingness to maintain communication". The Biden administration pledged to streamline the blacklist of companies connected to China's defence and surveillance technology sectors by moving responsibility from the US Congress to the Treasury Department. This suggests a more pragmatic approach in relations with China, in our view. President Xi Jinping asked the media and diplomats to soften the 'aggressive stance' in order to expand China's circle of friends. In regulatory news, China stepped up pressure on financial institutions in a bid to limit property speculation, although loans to the property sector expanded at a yoy rate of 10.5% in April, which is the lowest rate in eight years, according to Liang Tao, the Vice Chairman of the China Banking and Insurance Regulatory Commission (CBIRC). In economic news, car sales rose at a yoy rate of 0.5% in May, rebounding from -10.7% yoy in the first 20 days of May, which points to ongoing destocking. Destocking in the auto industry is a global phenomenon as supply chain shortages come face to face with rising demand. Auto production is likely to move higher as soon as the supply chains are normalised. The Caixin Services purchasing managers' index (PMI) declined to 55.1 in May from 56.3 in April. Nominal exports rose by 27.9% on a yoy basis in May from 32.2% yoy in April, while imports surged 51.1% yoy from 43.1% yoy over the same period. China's trade surplus increased to USD 45.5bn in May from USD 42.9bn in April.
- Russia:** Russian Finance Minister Anton Siluanov said the country's Sovereign Wealth Fund (SWF) would fully divest its holdings of US dollars (USD) to arrive at a portfolio with 40% of assets in EUR, 30% in CNY, 20% in gold, and 5% in JPY and GBP. This decision implies that the SWF will have to dispose of some USD 40bn, but this should have little near-term market impact as the Central Bank of Russia will likely acquire the Dollar as a hedge for future Eurobond repayments. In other news, authorities detained opposition politician Dmitry Gudkov and opposition activist Andrei Pivovarov. Gudkov was detained for not repaying a commercial lease agreement in 2015-2017.
- India:** The Oxford Stringency Index, which measures countrywide mobility restrictions, held steady at 82, which is the level that has prevailed since mid-May. This compares to 58 in March. Lower mobility caused the services PMI to decline to 46.4 in May from 54.0 in April. Against this backdrop, the Reserve Bank of India (RBI) kept all policy rates unchanged and pledged to maintain a loose policy stance for as long as required in order to sustain real GDP growth, while keeping inflation with the target range. In other news, the monsoon season started in the southwest of India with a higher than average rainfall in the first three days of June. The central and north parts of India are also receiving favourable rainfall. This bodes well for inflation, which is usually lower when rains are good.
- Ecuador:** Tax revenues rose at a yoy rate of 33.4% in May, while expenditures declined by 38.7% yoy to bring the cumulative primary surplus for the January-May 2021 period to 0.2% of GDP compared to a deficit of 0.6% of GDP over the same period of 2020. The result implies some fiscal consolidation from higher revenues, but the bulk of the reduction in expenditures were due to one-off lower transfers to sub-national governments. In other news, the yoy rate of CPI inflation was -1.1% in May compared to -1.5% yoy in April.
- Turkey:** President Recep Tayyip Erdogan said it is "imperative" that the central bank cut policy rates. Erdogan said he spoken with the central bank governor citing July and August as targets for action. Erdogan repeated his misguided monetary policy mantra that "If we remove the burden of interest rates from investments and costs, then we will enter a calmer environment because it's the interest rates that cause cost inflation". Erdogan's verbal intervention led the Lira to underperform all major EM currencies, selling-off more than 2% last week, when EM currencies in general rallied by 0.6%.

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Snippets:

- **Argentina:** Real tax collection rose by 15.6% on a yoy basis in May.
- **Colombia:** The current account deficit widened to 3.8% of GDP in Q1 2021 from 3.4% of GDP in Q4 2020.
- **El Salvador:** President Nayib Bukele pledged to introduce legislation to adopt bitcoin as legal tender, alongside the Dollar.
- **Indonesia:** The yoy rate of CPI inflation rose to 1.7% in May from 1.4% yoy in April, 0.1% higher than consensus expectations. Core inflation rose to a yoy rate of 1.4% from 1.2% yoy over the same period.
- **Iran:** The Israeli Defense Minister Gantz travelled to Washington to lobby against the revival of the Iran nuclear deal.
- **Philippines:** The yoy rate of CPI inflation was unchanged at 4.5% in May, in line with consensus expectations.
- **Romania:** In good environmental news, the Romanian government aims to phase out coal power by 2032. Today, Romania gets 17% of all energy from coal fired power stations. The government also plans to raise its target share of renewable energy in the energy matrix to 59% by 2030 from 42% currently.²
- **Saudi Arabia:** Energy Ministry said the International Energy Agency's oil demand scenario for 2050 is "not serious" and pledged to increase oil production over the next decades in order to take market share from private western companies as they cut capital expenditure.³
- **South Korea:** The yoy rate of CPI inflation rose to 2.6% in May from 2.3% in April, in line with consensus expectations. Core CPI inflation increased to a yoy rate of 1.5% from 1.4% yoy over the same period.
- **Sri Lanka:** Rating agency S&P confirmed Sri Lanka's sovereign rating at 'CCC+'.
- **Thailand:** The yoy rate of CPI inflation dropped to 2.4% in May from 3.4% in April, 0.9% lower than consensus expectations.
- **Uruguay:** The yoy rate of CPI inflation declined to 6.6% in May from 6.8% in April.

Global backdrop

- **G7:** The G7 group of the large developed economies agreed on a 15% minimum global corporate tax rate. The new rules would allow governments to levy taxes on companies, whose offshore subsidiaries earn the bulk of their profits in countries, where the tax rate is less than 15%. The G7 now needs to both approve the tax changes in their own legislatures and convince other countries to adopt the same measure following by implementation, which could take years, in our view.
- **United States:** In a surprising announcement, the Federal Reserve (Fed) pledged to sell its USD 13.8bn holding of corporate bonds. The Fed does not usually intervene in corporate bonds, but it received temporary permission to do so by Congress last year in order to sooth the Covid-related liquidity crisis of 2020. Disposal should have little impact on the market as the volume is very small compared with the overall market size, but the decision is still an important signal, in our view.

In economic news, the labour market surprised to the downside with nonfarm payrolls rising just 559k in May, which was an improvement compared to April (278k), but more than 100k below consensus expectations. As such, this was the second consecutive payroll downside miss relative to expectations. The unemployment rate declined to 5.8% in May from 6.1% in April, partially due to a 0.1% reduction in labour force participation (61.6%). Average hourly earnings rose at a yoy rate of 2.0% compared to 0.4% yoy in the previous month, or 0.4% higher than consensus expectations. After gaining 14.7m jobs in 13 months, the US labour market still employs some 7.5m fewer people than prior to the pandemic.

In other economic news, the Institute of Supply Management (ISM) manufacturing index rose to 61.2 in May from 60.7 in April, while Markit's Manufacturing PMI rose to 62.1 from 61.5 over the same period. ISM prices paid moderated to a still elevated 88.0 in May from 89.6 in April. The ISM Services index rose to 64.0 in May from 62.7 in April, while Markit's Services PMI rose to 70.4 from 70.1 over the same period. Durable goods orders declined 1.3% in April, the same level as March, while factory orders declined 0.6% in April after falling 1.4% in March. Mortgage applications declined 4.0% in the week of 28 May after -4.2% in the previous week. This week the most important data point will be the release of the May CPI print on the 10 June. The median survey expectation is for an increase in yoy headline CPI inflation to 4.7% from 4.2% in April, while the yoy rate of core CPI inflation is expected to hit 3.4%, which is the highest level since 1993.

- **Eurozone:** The centre-right CDU party of Angela Merkel scored a decisive victory in the election in the small former East-German state of Saxony-Anhalt, according to exit poll by Infratest dimap.⁴ CDU increased its lead in the state by garnering close to 36% of votes compared to 30% in 2016. Support for far-right AfD fell to 22%, which

² Bloomberg New Energy Finance, June 2021. <https://www.bnef.com/shorts/11413>

³ Bloomberg New Energy Finance, June 2021. <https://www.bnef.com/news/929873?e=News%20Watch:sailthru>

Global backdrop

is 2% lower than in 2016. The opposition SPD received 8.3% of the votes, while the Green Party got 6.5%. The result suggests CDU leader Armin Laschet is in a strong position to get most votes in the national election in September, which should put him into position to form a coalition government with either the SPD or the Greens. In other news, Markit's Eurozone manufacturing PMI increased to 63.1 in May from 62.8 in April, while the services PMI rose to 55.2 from 55.1. The Euro Area estimate for yoy CPI inflation rose to 2.0% in May from 1.6% yoy in April, while core CPI inflation was 0.9% yoy versus 0.7% yoy over the same period. Euro Area retail sales declined 3.1% in April after rising 3.3% in March, mainly due to mobility restrictions introduced across the continent.

Benchmark performance

Emerging Markets	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
MSCI EM	0.43%	5.35%	7.71%	42.99%	9.32%	14.14%
MSCI EM Small Cap	1.27%	10.13%	18.59%	65.95%	9.52%	12.24%
MSCI Frontier	1.14%	12.49%	13.39%	36.73%	6.64%	8.10%
MSCI Asia	-0.21%	3.53%	6.26%	42.71%	9.94%	15.30%
Shanghai Composite	-0.52%	4.69%	3.75%	25.99%	7.65%	6.48%
Hong Kong Hang Seng	-0.58%	-0.72%	1.45%	12.21%	-0.31%	8.47%
MSCI EMEA	1.75%	10.22%	19.17%	38.16%	4.97%	8.30%
MSCI Latam	4.14%	16.71%	10.56%	38.60%	4.18%	8.15%
GBI-EM-GD	0.66%	5.50%	-1.54%	6.15%	3.67%	4.48%
China GBI-EM GD	-0.89%	3.40%	3.70%	12.54%	-	-
ELMI+	-0.06%	3.21%	0.56%	6.89%	1.83%	2.95%
EM FX spot	0.42%	3.89%	0.14%	3.79%	-3.11%	-2.05%
EMBI GD	0.30%	3.61%	-1.09%	8.71%	6.17%	5.27%
EMBI GD IG	0.15%	1.72%	-3.67%	2.87%	7.47%	5.35%
EMBI GD HY	0.48%	5.79%	1.92%	15.98%	4.68%	5.12%
CEMBI BD	0.19%	1.44%	0.63%	9.62%	7.17%	5.94%
CEMBI BD IG	0.17%	0.95%	-0.76%	6.21%	6.93%	5.07%
CEMBI BD HY	0.21%	2.08%	2.50%	14.45%	7.48%	7.26%

Global Backdrop	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
S&P 500	0.64%	6.76%	13.34%	38.06%	17.62%	17.25%
1-3yr UST	-0.02%	0.11%	0.06%	0.32%	2.83%	1.71%
3-5yr UST	0.00%	0.70%	-0.64%	-0.05%	4.46%	2.34%
7-10yr UST	0.19%	1.83%	-4.02%	-3.78%	5.95%	2.53%
10yr+ UST	0.55%	3.36%	-10.61%	-9.60%	7.57%	3.31%
10yr+ Germany	0.39%	-1.51%	-7.68%	-2.08%	4.39%	2.07%
10yr+ Japan	-0.20%	0.18%	-0.59%	-0.78%	0.98%	-0.03%
US HY	0.28%	1.67%	2.53%	12.90%	7.13%	7.44%
European HY	0.35%	1.37%	3.23%	12.17%	4.11%	4.54%
Bloomberg-Barclays Agg	-0.13%	2.08%	-2.48%	4.12%	4.44%	2.74%
VIX Index*	-2.03%	-15.36%	-27.82%	-33.03%	35.37%	16.87%
DXY Index*	0.14%	-3.30%	0.25%	-6.99%	-3.51%	-3.91%
CRY Index*	2.23%	13.70%	25.33%	51.32%	5.42%	9.28%
EURUSD	-0.52%	3.69%	-0.44%	7.69%	3.09%	7.09%
USDJPY	-0.08%	-1.11%	6.04%	0.98%	-0.19%	1.97%
Brent	3.17%	12.56%	38.07%	69.08%	-7.50%	39.04%
Gold	-1.04%	10.50%	-0.59%	11.10%	45.48%	51.71%
Bitcoin	-1.10%	-38.46%	25.14%	272.83%	373.70%	6,181.31%

*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.

⁴ See <https://www.dw.com/en/germany-cdu-fends-off-far-right-afd-in-saxony-anhalt-state-election/a-57794426>

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