

It's all about shots and their effectiveness

By Gustavo Medeiros

Global Covid-19 cases declined and the vaccination gap between Emerging Markets (EM) and developed markets (DM) narrowed further. The Coronavac vaccine reduced mortality by 97% in a study in Uruguay. Rainfall in Taiwan alleviated the drought, thereby reducing the risk of further supply chain disruptions. China will now allow every family to have up to three children from two previously. There was better than expected economic data in Brazil and mixed data from India. Indonesia's finance minister set a fiscal consolidation target despite the challenges posed by the pandemic. Malaysia announced a second national lockdown albeit less stringent than the first one. In Peru, polls pointed to a technical tie between presidential candidates Castillo and Fujimori one week prior to the run-off. Chile eyed more revenues from the copper sector and issued Eurobonds to pay for a new round of support worth 4% of gross domestic product (GDP). The G7 released a statement condemning Belarus' hijacking of a Ryanair flight.

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	13.4	—	3.85%	S&P 500	20.1	—	1.20%
MSCI EM Small Cap	12.2	—	3.53%	1-3yr UST	0.15%	—	0.05%
MSCI Frontier	11.7	—	0.43%	3-5yr UST	0.81%	—	0.20%
MSCI Asia	14.6	—	3.82%	7-10yr UST	1.62%	—	0.39%
Shanghai Composite	11.8	—	3.43%	10yr+ UST	2.30%	—	1.09%
Hong Kong Hang Seng	9.4	—	2.59%	10yr+ Germany	-0.19%	—	0.71%
MSCI EMEA	10.3	—	2.84%	10yr+ Japan	0.68%	—	-0.01%
MSCI Latam	10.9	—	3.21%	US HY	4.03%	296 bps	0.36%
GBI-EM-GD	4.95%	—	0.86%	European HY	3.04%	352 bps	0.33%
China GBI-EM GD	3.14%	—	1.11%	Bloomberg-Barclays	1.12%	-50 bps	0.27%
ELMI+	2.42%	—	0.62%	VIX Index*	16.76	—	-3.39%
EM FX spot	—	—	0.52%	DXY Index*	89.82	—	-0.03%
EMBI GD	4.96%	329 bps	0.45%	EURUSD	1.222	—	-0.24%
EMBI GD IG	3.28%	155 bps	0.43%	USDJPY	109.49	—	0.65%
EMBI GD HY	7.08%	547 bps	0.46%	CRY Index*	205.7	—	4.83%
CEMBI BD	4.35%	296 bps	0.22%	Brent	70.1	—	2.08%
CEMBI BD IG	3.12%	174 bps	0.24%	Gold	1,910	—	0.59%
CEMBI BD HY	5.96%	457 bps	0.20%	Bitcoin	36,977	—	-1.78%

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

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- **Coronavirus:** The number of worldwide Covid-19 cases per million people declined to 64 on 30 May from 105 at the end of April. The decline in cases in India, Europe, and the United States (US) more than compensated for an increase in cases in South America, Malaysia, Philippines, and Indonesia. South American cases per million rose to 315 as of 30 May from 283 in 30 April, but deaths declined to 8 per million from 9.5 per million over the same period. The odd combination of higher cases and lower deaths are a result of the accelerated vaccination drive across Latin America and the effectiveness of the shots.

The vaccination gap between EM and DM continues to narrow rapidly. UBS, the bank, estimates that EM is on track to vaccinate 67% of its population by the end of the year, up from an estimate of around 30% as of the end of March. DM countries are expected to inoculate 91% of their adult populations by the end of the year, up from 72% at the end of March. Last week, the UAE, Brazil, China, Hungary, South Korea, and Malaysia saw the sharpest accelerations in the pace of vaccinations. Vaccines are now available for all individuals 45 years of age or older in the Sao Paulo state in Brazil. Younger population profiles allow EM countries to vaccinate the most vulnerable population with at least one dose faster than DMs. The increased pace of vaccinations in EM has allowed EM local currencies to outperform as market participants increasingly anticipate an economic rebound due to rising mobility on a sustainable basis.

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As for vaccine effectiveness, a study conducted in Uruguay showed the Chinese Coronavac shot reduced mortality by 97%. This result is similar to that of a study by Indonesia health officials some weeks ago. Of the 713k individuals vaccinated with Coronavac in Uruguay, 5.4k were infected; of which 19 underwent intensive care unit (ICU) interventions, and only 6 individuals died. The same study found that of 149k people receiving the Pfizer shot some 691 were infected, while 1 individual went to ICU and 8 died. Unlike many Western governments, which have hoarded vaccines for use by their own populations, China has provided vaccine to many EM countries. The effectiveness of the Chinese vaccine is therefore very positive news, in our view.

- **Taiwan:** The government lifted restrictions on the use of water after more than 100 millimetres of rain fell in the water reservoirs feeding the country's hydroelectric system. The rainfall lowers the risk of supply disruptions in the all-important semiconductor industry.
- **China:** President Xi Jinping said he was "allowing every couple to have three children and implementing related support policies to improve the population structure." The introduction of the more flexible policy with respect to children follows the 2020 census, which showed evidence of a declining birth rate in China. In economic news, the non-manufacturing purchasing managers' index (PMI) rose 0.3 to 54.2 in May, led by the construction sub-item, which surged 2.7 to 60.1, while the manufacturing PMI declined 0.1 to 51.0. The manufacturing PMI breakdown was negative with prices rising 5.9 to 72.8 and final prices rising 3.3 to 60.6, while new orders declined 2.1 to 48.3. The employment component was down 0.7 to 48.9. Industrial profits rose at a yoy rate of 47% in April from 92% yoy in March. On the monetary policy front, the PBoC announced a 2% hike to the reserve requirement ratio (RRR) for FX deposits to 7%. This was the first effective move to curb RMB appreciation. Before the RRR hike the PBoC said the RMB is neither a tool to stimulate exports (via RMB depreciation) nor an instrument to offset higher import prices (via RMB appreciation). In other news, the province of Guangdong locked a neighbourhood down after new cases increased to around 46 cases in a day.
- **Brazil:** Economic data was better than expected. The current account surplus reached USD 5.7bn in April following a deficit of USD 4.0bn in March. The primary fiscal surplus rose to BRL 24.3bn in April from BRL 5.0bn in March, thereby allowing the ratio of net debt to GDP to decline to 60.5% from 61.3% over the same period. Finance Minister Paulo Guedes said the government is in the process of reviewing their GDP growth forecast above 4% and the primary deficit to less than 3% of GDP. Consumer confidence rose to 76.2 in May from 72.5 in April. The yoy rate of consumer prices index (CPI) inflation rose to 7.3% in the first two weeks of May from 6.2% in the same period in April, but this was lower than expected, according to the Bloomberg consensus. In other news, the government said it will consider rationing water and electricity to avoid energy blackouts as a drought is lowering water levels in the main dams that support the country's hydroelectric system. Brazil obtains two-thirds of the country's energy from hydroelectric plants.
- **India:** The yoy rate of GDP growth was 1.6% in Q1 2021, up from 0.4% yoy in Q4 2020. Gross value added (GVA) expanded at 3.7% from 1.0% over the same period.¹ The fiscal deficit improved to INR 79tn in April from INR 416tn in March. The number of Covid-19 cases per million declined to 134.7 on 30 May from a peak of 280.5 on 10 May. Lower case numbers are allowing several states to ease mobility restrictions. On the other hand, manufacturing PMI slowed sharply to 50.8 in May from 55.5 in April.
- **Indonesia:** Finance Minister Sri Mulyani Indrawati said the fiscal deficit would decline to 2.7% - 2.9% of GDP by 2023 from 4.5% - 4.9% in 2022. Indrawati said the fiscal consolidation will require gradual tax increases, including a carbon tax and increasing the income tax rate to 35% from 30% for individuals earning more than IDR 5bn (USD 349k) per year. A multi-tier value added tax (VAT) with higher rates for luxury items and lower rates for basic consumption items as well as digital taxes are also under consideration. In other news, Bank Indonesia kept its policy rate unchanged at 3.5%, while lowering the limit of credit card interest rates from 2.0% to 1.75% per month.
- **Malaysia:** The government introduced a lockdown from 1 June to 14 June after Covid-19 cases per million increased to 236 as of 30 May from 93 as of 30 April. The lockdown is more lenient in terms of mobility restriction than Malaysia's first lockdown in the sense that 18 segments of manufacturing and agricultural production will remain operational. Economic reopening will take place during an 8-week period starting on 15 June. The government will provide only MYR 5bn (0.3% of GDP) worth of fiscal injection as part of a MYR 40bn package of measures (mostly moratoriums on loans) to compensate for the second lockdown. In other news, the trade surplus declined to MYR 20.5bn in April from MYR 24.2bn in March, which was better than the MYR 19.2bn consensus expectation.
- **Peru:** The average of two polls by IPSOS and Datum showed that presidential candidate Pedro Castillo's lead over Keiko Fujimori declined to 1.5% (43.9% vs. 42.4%), a *de facto* technical tie, given the margin of error in the polls. The difference in polls was 5.0% last week. A presidential debate over the weekend had no clear winner with both candidates promising more fiscal transfers to the population. Last week militants from the leftist Shining Path group killed 16 people, including 2 children in a remote coca-producing region. The police found pamphlets encouraging Peruvians to refrain from voting in the 6 June run-off. The attack may have reflected badly on Castillo, who is rumoured to have had links with the Shining Path in the past.

¹ For the difference between GDP and GVA, see: <https://lms.indianeconomy.net/glossary/gva-vs-gdp/>

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- **Chile:** A new round of fiscal support to families and small companies will cost 4% of GDP and will be financed by higher copper revenues and a planned USD 5bn Eurobond issue. In economic news, the unemployment rate declined to 10.2% in April from 10.4% in March, which was better than consensus expectations. Copper production declined to 468k tons in April from 492k tons in March. April retail sales and manufacturing production rose at yoy rates of 44.0% and 5.9%, respectively, from 23.8% yoy and 3.9% yoy in March.
- **Belarus:** A statement from the G7 group of governments condemned in the strongest terms the hijack of a Ryanair flight last week. The statement said the G7 will “enhance efforts, including through further sanctions as appropriate, to promote accountability for the actions of the Belarusian authorities”. Reuters reported that Turkey pushed its North Atlantic Treaty Organisation (NATO) allies into watering down the official reaction to the incident.² Russia also extended support to Belarus, including fresh financing.

Snippets:

- **Colombia:** The approval rate of President Ivan Duque declined to 18% last week from 21% in April, according to a telephone survey of 1,200 people by the Invarmer pollster. Following a recent sovereign downgrade by S&P Fitch announced a review of Colombia’s sovereign rating in the next two months.
- **Czech Republic:** The combined consumer and business confidence surveys improved to 8.4 in May from 2.9 in April.
- **Ghana:** The central bank cut its policy rate to 13.5% from 14.5%, against the consensus expectation of no change, after inflation declined to 8.5% in April, the lowest levels in 12 months.
- **Hungary:** The central bank kept its policy rate unchanged at 0.6%, in line with consensus expectations, but indicated monetary policy tightening will begin shortly. The unemployment rate rose to 4.4% in April from 4.0% in March.
- **Israel:** The leader of the right wing Yamina party, Naftali Bennett, said he is working to join opposition leader Yair Lapid in order to form a government to oust Benjamin Netanyahu after 12 years in power.
- **Kenya:** The yoy rate of CPI inflation rose to 5.9% in May from 5.8% in April. The central bank kept its policy rate unchanged at 7.0%.
- **Mexico:** The trade surplus improved to USD 1.5bn in April following a deficit of USD 3.0bn in March. The yoy rate of GDP growth declined by 3.6% in Q1 2021 from -3.8% in Q4 2020. The unemployment rate rose to 4.7% in April from 3.9% in March, but the yoy pace of economic activity improved to 0.8% in March from -5.0% in February. The bi-weekly rate of CPI inflation declined to a yoy rate of 5.8% on 15 May from 6.1% yoy in the first two weeks of April.
- **Oman:** Protesters took to the street against economic hardship, leading the government to announce 32k new job positions of which 12k will be in the public sector. The hiring spree contradicts the government’s early retirement programme, which aimed at reducing current spending by making the public sector wage bill smaller.
- **Poland:** The yoy rate of industrial output rise was 44.5% in April compared to 18.9% yoy in March, while retail sales were up 25.7% on a yoy basis from 17.1% yoy over the same period. The unemployment rate declined to 6.3% in April from 6.4% in March.
- **Romania:** The unemployment rate rose to 5.7% in April from 5.5% in March.
- **South Korea:** Exports surged by a yoy rate of 45.6% in May from 41.1% yoy in April, slightly softer than consensus expectations. The yoy rate of industrial production (IP) rose to 12.4% in April from 4.4% yoy in March. However, in sequential terms IP declined 1.6% mom in April following a decline of 0.9% in March. Semiconductors and auto production retreated while commodity-related products improved.
- **Thailand:** The current account deficit widened to USD 1.3bn in April from USD 0.8bn in March as the trade surplus narrowed to USD 2.4bn from USD 3.4bn over the same period, with imports increasing at a faster pace than exports. Car sales declined to 58k in April from 80k in March, which was slightly lower than the 65k average of the five years prior to 2020.
- **Zambia:** The yoy rate of CPI inflation rose to 23.2% in May from 22.7% yoy in April, the highest level in 18 years, due to food prices.

² See <https://www.reuters.com/world/exclusive-turkey-pushed-nato-allies-into-softening-outrage-over-belarus-plane-2021-05-27/>

Global backdrop

- **Commodities:** The Thompson Reuters broad commodity index (CRY) rose 4.8% last week, led by industrial metals as copper rose 3.8%, nickel was up 7.9%, and iron ore surged 9.1%. Oil prices rose 2.1% to USD 70.1 as a continuous increase in demand more than offset the risk of increased supply starting in Q3 2021, in case a deal is struck between the West and Iran. Last week, the US crude oil, gasoline, and distillate inventories all declined more than expected. A similar drawdown of inventories is likely to take place in Europe and EM as mobility rebounds thanks to the acceleration of vaccination campaigns. In spite of higher oil prices, the Baker Hughes US rig count only increased to 359 in the last week of May, which is an improvement from 172 rigs at the lows on 14 August 2020, but far less than the 888 rigs in operation at the highs in November 2018, when oil prices were not far from current levels. The lower rig count in the face of rising demand and higher oil prices suggests that producers may not be motivated to increase output on account of a backlash against fossil fuel production by the Biden administration. The price action for agricultural commodities was mixed with coffee and sugar rising 8.2% and 4.1%, respectively, while the prices of wheat, live cattle, and corn declined 1.6%, 1.5% and 0.4%, respectively.
- **United States:** US economic activity is no longer uniformly surprising to the upside. The Citibank Surprise Index declined to 4.4 on 31 May, which is the lowest level in 12 months. The April reading was 42.0 at the end of April and 86.5 at the end of February. In contrast the Citibank Inflation Surprise Index rose to the highest level on record at 70.7 from 19.8 in December 2020. The previous highs for the inflation surprise index were around 35 in March 2001 and September 2008. The core personal consumption expenditure (PCE) deflation index surprised to the upside at a yoy rate of 3.1% in April, from 1.9% yoy in March, the highest level since 1992, but the median PCE inflation calculated by the Cleveland Fed was unchanged at 2.0%.³ Durable goods orders declined 1.3% in April after rising 1.3% in March, but most of the drop came from the volatile transportation orders sub-item, which indicates that new orders for core capital goods (ex- aircraft and defence) rose 2.3%. Initial jobless claims declined to 406k in the week ending in 22 May from 444k in the previous week, while continuing claims declined to 3.64m in the week ending on 15 May from 3.74m in the previous week. Mortgage applications declined 4.2% in the week of 21 May. Lastly, the Conference Board consumer confidence index declined to 117.2 from 117.5.
- **Eurozone:** In Germany, the IFO business climate survey rose to 99.2 in May from 96.6 in April, while the IFO expectations survey rose to 102.9 from 99.2 over the same period. The yoy rate of GDP growth in Germany contracted 1.8% in Q1 2021 from -1.7% in Q4 2020, but rose to 1.2% yoy from 1.5% yoy over the same period in France. French manufacturing confidence improved to 107 in May from 104 in April. In Italy, manufacturing confidence rose to 110.2 in May from 106.0 in April, while consumer confidence rose to 110.6 from 102.3 over the same period. The Euro Area aggregate sentiment survey jumped 4 points to 114.5 in May, which is 10 points higher than the levels prior to last year's recession. The yoy rate of CPI inflation rose in most European countries as per Figure 1.

Fig 1: EU harmonised CPI inflation (% yoy)

Country	May	Survey	April
Germany	2.4%	2.3%	2.1%
Spain	2.4%	2.4%	2.0%
France	1.8%	1.8%	1.6%
Italy	1.3%	1.4%	1.0%

Source: Bloomberg, JP Morgan.

³ See <https://www.clevelandfed.org/en/our-research/indicators-and-data/median-pce-inflation.aspx>

Benchmark performance

Emerging Markets	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
MSCI EM	2.36%	4.92%	7.27%	51.50%	10.02%	14.31%
MSCI EM Small Cap	2.53%	8.74%	17.10%	74.80%	9.24%	12.17%
MSCI Frontier	4.11%	11.22%	12.11%	37.47%	6.76%	8.11%
MSCI Asia	1.25%	3.77%	6.51%	51.99%	10.75%	15.50%
Shanghai Composite	5.02%	5.23%	4.29%	29.70%	7.79%	6.76%
Hong Kong Hang Seng	1.09%	-0.14%	2.04%	18.38%	0.65%	8.87%
MSCI EMEA	5.83%	8.32%	17.12%	43.66%	5.58%	8.46%
MSCI Latam	8.04%	12.07%	6.17%	48.89%	3.37%	7.97%
GBI-EM-GD	2.50%	4.81%	-2.19%	8.39%	3.53%	4.69%
China GBI-EM GD	2.36%	4.32%	4.63%	12.88%	—	—
ELMI+	1.62%	3.27%	0.62%	9.00%	1.96%	3.10%
EM FX spot	1.91%	3.45%	-0.27%	6.24%	-3.17%	-1.93%
EMBI GD	1.06%	3.30%	-1.39%	10.31%	5.83%	5.39%
EMBI GD IG	0.68%	1.57%	-3.81%	3.36%	7.33%	5.49%
EMBI GD HY	1.48%	5.29%	1.43%	19.16%	4.12%	5.23%
CEMBI BD	0.65%	1.25%	0.44%	10.89%	7.02%	5.98%
CEMBI BD IG	0.45%	0.78%	-0.93%	6.71%	6.86%	5.10%
CEMBI BD HY	0.91%	1.87%	2.28%	16.89%	7.21%	7.34%

Global Backdrop	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
S&P 500	0.70%	6.07%	12.61%	40.30%	18.03%	17.17%
1-3yr UST	0.09%	0.13%	0.08%	0.26%	2.79%	1.76%
3-5yr UST	0.34%	0.70%	-0.64%	-0.39%	4.32%	2.45%
7-10yr UST	0.61%	1.63%	-4.20%	-5.15%	5.60%	2.73%
10yr+ UST	0.45%	2.79%	-11.10%	-13.56%	6.81%	3.71%
10yr+ Germany	-0.25%	-2.07%	-8.03%	-5.23%	3.77%	2.28%
10yr+ Japan	0.02%	0.38%	-0.39%	-1.11%	0.97%	-0.01%
US HY	0.30%	1.39%	2.25%	14.96%	7.13%	7.40%
European HY	0.27%	1.01%	2.87%	14.33%	4.02%	4.53%
Bloomberg-Barclays Agg	0.94%	2.21%	-2.35%	4.47%	4.37%	3.11%
VIX Index*	0.00%	-13.61%	-26.33%	-39.08%	8.62%	18.11%
DXY Index*	-0.24%	-3.66%	-0.13%	-8.19%	-4.61%	-5.91%
CRY Index*	0.00%	11.21%	22.59%	55.54%	1.41%	10.50%
EURUSD	-0.05%	4.19%	0.03%	9.74%	4.81%	9.23%
USDJPY	-0.08%	-1.11%	6.04%	1.77%	-0.05%	-0.05%
Brent	1.10%	10.29%	35.29%	82.88%	-8.74%	40.95%
Gold	0.19%	11.87%	0.64%	9.83%	47.67%	57.50%
Bitcoin	0.78%	-37.28%	27.52%	281.99%	397.16%	6,799.94%

*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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