

EM PMIs recover close to 50 as EM equities outperform

By Gustavo Medeiros

EM PMI's rose close to 50 in June as EM equities outperformed DM equities last week. Argentina released a new exchange offer valid until 5 August. China cut policy rate benchmark for small business loans. High frequency data improved sharply in Brazil. Colombia cut rates. India current account registered the first quarterly surplus in 13 years. Remittances improved in Mexico. Russians voted on referendum allowing President Putin to run in the 2024 and 2030 elections. Nigeria hikes fuel prices in line with the existing price mechanism that eliminated subsidies. South African external accounts surprised on the upside. China approved a new security law for Hong Kong.

Emerging Markets	Next year forward PE/Yield	Spread over UST	P&L (5 business days)
MSCI EM	12.9	–	3.66%
MSCI EM Small Cap	11.3	–	3.49%
MSCI Frontier	12.3	–	0.10%
MSCI Asia	13.6	–	3.70%
Shanghai Composite	11.8	–	6.18%
Hong Kong Hang Seng	8.2	–	4.00%
MSCI EMEA	10.2	–	1.28%
MSCI Latam	12.5	–	5.20%
GBI-EM-GD	4.52%	–	0.48%
ELMI+	2.29%	–	0.41%
EM FX spot	–	–	0.49%
EMBI GD	5.41%	467 bps	0.92%
EMBI GD IG	3.05%	225 bps	0.77%
EMBI GD HY	8.77%	807 bps	1.10%
CEMBI BD	4.91%	435 bps	0.19%
CEMBI BD IG	3.35%	279 bps	0.24%
CEMBI BD Non-IG	7.25%	668 bps	0.12%

Global Backdrop	Next year forward PE/Yield/Price	Spread over UST	P&L (5 business days)
S&P 500	19.3	–	1.55%
1-3yr UST	0.16%	–	0.03%
3-5yr UST	0.31%	–	0.11%
7-10yr UST	0.70%	–	0.05%
10yr+ UST	1.46%	–	-0.23%
10yr+ Germany	-0.43%	–	-1.04%
10yr+ Japan	0.00%	–	-0.44%
US HY	6.62%	600 bps	0.05%
European HY	5.43%	595 bps	0.18%
Barclays Ag	0.95%	25 bps	0.17%
VIX Index*	27.68	–	-4.54%
DXI Index*	96.92	–	-0.62%
EURUSD	1.1287	–	0.53%
USDJPY	107.70	–	0.07%
CRY Index*	140.60	–	5.23%
Brent	43.1	–	3.33%
Gold spot	1773	–	0.20%

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

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The aggregate Markit EM manufacturing PMI rose to 49.6 in June from 45.4 in May. Asia Composite PMI rose to 48.5 in June from 43.3 in May. The rebound on the diffusion index suggests a stronger than anticipated economic recovery over the coming months. The equity market seems to agree: MSCI Emerging Markets rose 3.4% last week, outperforming the DM stocks with the MSCI World up 3.2%. On the country level, China, Hong Kong, India, Thailand, and Chile rose more than 3% whereas Brazil, Russia and Hungary stocks declined between 0.7% and 1.8% in USD terms.

- Argentina:** The government published a press release with a revised offer (the fourth) to bondholders of existing debt. The offer includes a higher average coupon, reduces the nominal haircut to 3% and settles the unpaid interest on existing instruments in a new 1% 2030 bond. Investors have until 4 August to accept the offer. In other news, the official EMAE activity indicator declined at a yoy rate of 26.4% in April after -17.5% yoy in March with construction, hotels and restaurant sectors dropping 86% yoy.
- China:** The PBoC cut policy rates for relending and rediscounting lines by 25bps to 2.25% and 2.0%, respectively, effectively lowering the cost for loans to small and medium enterprises. The PMI surveys surprised on the upside in June with the manufacturing PMI inching up to 50.9 from 50.6 in May. New export orders accounted for the bulk of the improvement as hiring and re-stocking remained at cautious levels. The services PMI increased to 54.4 from 53.6 in April, but the Caixin service PMI showed a stronger rebound to 58.4 in June from 55 in May.
- Brazil:** High frequency mobility data suggests a stronger than expected economic recovery with traffic in large cities rising to pre-coronavirus levels in June. The primary fiscal deficit (before interest expenses) rose to BRL 127bn (1.8% GDP) in May as the government said it spent BRL 398bn year to date on measures to support the economy and healthcare. Finance Minister Paulo Guedes extended the distribution of BRL 600 per month

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for low-income families for two additional months. The trade surplus increased to USD 7.5bn in June from USD 4.5bn in May. Industrial production rose 7.0% in May after declining 26.3% between March and April. The seasonally adjusted unemployment rate rose to 12.5% in May from 12% in April surprising on the downside due to a strong decline in the participation rate to 56.8% in May from above 61%.

- **Colombia:** The central bank cut the policy rate by 25bps to 2.5% with two out of the seven members voting for a larger 50bps cut. Governor Juan Jose Echavarria signalled further rate cuts of similar magnitude in future meetings, noting that keeping policy rates at negative levels for a 'prudent' period of time is acceptable. CPI inflation declined to a yoy rate of 2.2% in June from 2.9% in May, the lowest level since January 2014. The manufacturing PMI rose to 54.7 in June from 37.2 in May.
- **India:** The current account swung to a USD 0.6bn surplus in Q1 2020, the first in 13 years, from a USD 2.6bn deficit in Q4 2019. The PMI manufacturing increased to 47.2 in June from 30.8 in May. In other news, the Indian government banned 59 Chinese apps, including TikTok and WeChat in retaliation to the conflict in Kashmir.
- **Mexico:** Remittances from Mexicans living abroad rose by 18.1% in May to USD 3.4bn, bringing year to date remittances 10.4% higher than the same period in 2019. The budget results came in better than expected with the January to May accumulated fiscal deficit at 0.7% of GDP. Tax revenues rose by 2.1% on a yoy basis, in spite of the slower economic activity. In other news, the approval rate of President Andres Manuel Lopez Obrador declined to 56% in June from 60% in the previous month¹ while his disapproval rate rose to 42% from 37% over the same period as 65% of the respondents disapproved his handling of the economy.
- **Russia:** A total of 78% of voters approved a constitutional reform which allows President Vladimir Putin to run for president for another two six-year terms from 2024. Other changes include defining marriage as a relationship between a man and woman and disallowing persons in 'important positions' in government from holding foreign citizenship or residency permit in other countries.
- **Nigeria:** Fuel prices increased to NGN144 per litre last week suggesting the new pricing mechanism have indeed eliminated fuel subsidies. Nigeria joined India, Ecuador and other EM countries in taking advantage the dip in oil prices to cut costly fuel subsidies. In another key reform development, Finance Minister Zainab Ahmed said she was working with the CBN to unify the NGN exchange rates, a pre-condition for the World Bank to extend loans worth USD 1.5bn.
- **South Africa:** Both economic activity and external accounts surprised on the upside. The current account swung to a ZAR 70bn surplus in Q1 2020 after a ZAR 68bn deficit in Q4 2019. May's trade balance had the first surplus in 17 years, at ZAR 15.9bn from a ZAR 35bn deficit in April. The Absa manufacturing PMI rose to 53.9 in June from 49.8 in April as GDP growth contracted by 0.1% on a yoy basis in Q1 2020, from -0.5% yoy in Q4 2019.
- **Hong Kong:** The Chinese parliament approved a new security law for Hong Kong including a harsher punishment for crimes threatening the Chinese government and allowing extradition of prisoners to the mainland. In other news, retail sales contracted by a yoy rate of 32.8% in May, a slight improvement from 36.1% yoy in April and 42.1% yoy in March. PMI rose to 49.6 in June from 43.9 in May.

Snippets:

- **Bahrain:** The Eurobond issued in May drove the central bank foreign asset positions to USD 1.8bn in May, the equivalent of one month of import, from USD 0.8bn in April.
- **Chile:** Economic activity declined by 15.3% on a yoy basis in May after a 14.1% yoy decline in April and retail sales were down 28.7% from 31.3% over the same period. The unemployment rate increased to 11.2% in May from 9.0% in April.
- **Dominican Republic:** Businessman Luis Abinader won Sunday's presidential election with 53% of the votes against 35% from Gonzalo Castillo, the candidate backed by the incumbent president. Mr. Abinader backs reforms in the energy sector, tax system and recapitalisation of the central bank.
- **Egypt:** The trade deficit declined to USD 2.4bn in April representing a 45% drop on a yoy basis as imports slowed faster than exports.
- **Ethiopia:** Protesters took to the streets in the Oromia region after the killing of Hachalu Hundessa a well-known singer and symbol of the Oromo ethnic group resistance.
- **Indonesia:** CPI inflation declined to 2.0% on a yoy basis in June from 2.2% yoy in May while core CPI inflation slowed to 2.2% yoy from 2.7% yoy over the same period.
- **Kenya:** CPI inflation declined at a yoy rate of 4.6% in May from 5.5% yoy in April. GDP growth rate slowed to 4.9% in Q1 2020 from 5.5% in Q4 2019.

¹ <https://www.elfinanciero.com.mx/nacional/aprobacion-de-amlo-baja-a-56-a-dos-anos-de-su-triunfo>

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- **Peru:** The yoy rate of CPI inflation declined to 1.6% in June from 1.8% yoy in May.
- **Poland:** CPI inflation rose to 3.3% on a yoy basis in June from 2.9% yoy in May against consensus expectations of a small decline.
- **South Korea:** Industrial production declined 6.7% in May after 6.7% decline in April. The increase of electronic goods production was more than compensated by the decline in automobiles and other products. CPI inflation was unchanged at -0.3% on a yoy basis as the core CPI inched up to 0.6%.
- **Thailand:** The yoy rate of CPI inflation increased to -1.6% in June from -3.4% driven by a one-off increase in electricity prices as the government subsidy programme expired. Core CPI inflation inched down to -0.1% on a yoy basis in June.
- **Turkey:** CPI inflation rose by 12.6% on a yoy basis in June from 11.4% yoy in May as core CPI inflation increased to 11.6% in from 10.3% yoy over the same period, both higher than consensus expectations. The trade deficit declined to USD 3.4bn in May from USD 4.6bn in April, in line with expected.
- **Ukraine:** Central Bank Governor Yakiv Smoliy unexpectedly resigned from his position citing political pressure. His resignation came amidst the pricing of USD 1.75bn Eurobond, which was postponed by the finance minister until clarity can be restored.
- **Venezuela:** Oil production declined 32% to 422 mbod (thousands of barrels per day) in June, the sixth consecutive month of decline. The UK High Court denied President Nicolas Maduro access to USD 1bn of gold reserves deposited in the Bank of England questioning the legitimacy of the government.

Global backdrop

- **US:** Economic activity surprised on the upside for the third consecutive week. In the labour market, nonfarm jobs rose by 4.8m in June driving the unemployment to 11.1% from 13.3% in May. The PMI surveys improved with the ISM manufacturing rising to 52.6 in June from 43.1 in May as the production and new order components rose above 55. The Markit PMI survey rose to 49.8 in June from 39.8 in May. Pending home sales rebounded by 44.3% in May after dropping 20.8% in March and 21.8% in April. The conference board consumer survey rose to 98.1 in June from 85.9 in May. The trade balance widened to USD 54.6bn in May from USD 49.8bn in April as exports declined faster than imports. High frequency data deteriorated marginally with credit card spending from JP Morgan Chase and Bank of America down by a yoy rate of 12.9% and 3.8% respectively for the week ending on 27 June. In other news, Senate leader Mitch McConnell said he will focus on the next coronavirus package after the 4th July holiday aiming to get it approved in both houses of congress before the August break.
- **EU:** The core CPI inflation index inched up to 0.8% on a yoy basis. Germany retail sales bounced 13.9% higher in May after declining 6.5% in April despite large shops were still closed early in the month.
- **Japan:** The unemployment rate inched to 2.9% in May from 2.6% in April.

Benchmark performance

Emerging Markets	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
MSCI EM	4.00%	4.00%	-6.09%	0.16%	3.43%	4.21%
MSCI EM Small Cap	3.51%	3.51%	-9.61%	-5.99%	-1.56%	-0.25%
MSCI Frontier	0.65%	0.65%	-15.19%	-11.14%	-1.72%	0.08%
MSCI Asia	4.13%	4.13%	-0.75%	5.27%	5.17%	5.65%
Shanghai Composite	5.68%	5.68%	4.61%	6.81%	2.01%	-0.93%
Hong Kong Hang Seng	5.80%	5.80%	-5.70%	-2.80%	3.51%	-0.36%
MSCI EMEA	1.95%	1.95%	-19.74%	-18.21%	-2.19%	-1.44%
MSCI Latam	4.61%	4.61%	-32.14%	-29.76%	-5.68%	-1.82%
GBI EM GD	0.59%	0.59%	-6.34%	-2.79%	1.47%	2.50%
ELMI+	0.50%	0.50%	-4.87%	-3.27%	0.32%	0.91%
EM FX Spot	0.62%	0.62%	-10.39%	-10.97%	-5.78%	-4.88%
EMBI GD	0.84%	0.84%	-1.95%	0.75%	3.88%	5.40%
EMBI GD IG	0.68%	0.68%	3.83%	8.61%	6.83%	6.24%
EMBI GD HY	1.02%	1.02%	-8.67%	-7.89%	0.48%	4.38%
CEMBI BD	0.20%	0.20%	0.04%	3.67%	4.57%	5.14%
CEMBI BD IG	0.12%	0.12%	2.06%	5.57%	5.17%	4.95%
CEMBI BD Non-IG	0.31%	0.31%	-2.77%	0.99%	3.77%	5.44%

Global Backdrop	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
S&P 500	0.98%	0.98%	-2.13%	7.40%	11.05%	10.77%
1-3yr UST	-0.02%	-0.02%	2.99%	4.15%	2.69%	1.85%
3-5yr UST	-0.04%	-0.04%	5.99%	7.15%	4.13%	3.03%
7-10yr UST	-0.14%	-0.14%	10.98%	12.40%	6.75%	5.06%
10yr+ UST	-0.34%	-0.34%	20.79%	24.49%	11.88%	9.42%
10yr+ Germany	-0.71%	-0.71%	5.12%	2.73%	7.46%	6.13%
10yr+ Japan	-0.21%	-0.21%	-2.32%	-3.25%	1.79%	3.47%
US HY	0.73%	0.73%	-3.09%	0.58%	3.57%	4.88%
European HY	0.23%	0.23%	-5.71%	-3.04%	1.04%	2.90%
Barclays Ag	0.16%	0.16%	3.15%	4.21%	3.97%	3.67%
VIX Index*	-9.04%	-9.04%	100.87%	120.21%	146.70%	64.86%
DXY Index*	-0.49%	-0.49%	0.55%	-0.38%	1.16%	0.64%
CRY Index*	1.90%	1.90%	-24.32%	-22.10%	-20.19%	-37.39%
EURUSD	0.39%	0.39%	0.52%	0.64%	-1.16%	1.91%
USDJPY	0.12%	0.12%	0.82%	0.91%	5.21%	13.78%
Brent	4.74%	4.74%	-34.70%	-32.90%	-10.41%	-23.77%
Gold spot	-0.57%	-0.57%	16.46%	26.95%	44.94%	51.30%

*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.

Contact

Head office

Ashmore Investment Management Limited

61 Aldwych, London
WC2B 4AE

T: +44 (0)20 3077 6000

 @AshmoreEM

www.ashmoregroup.com

Bogota

T: +57 1 316 2070

Dubai

T: +971 440 195 86

Dublin

T: +353 1588 1300

Jakarta

T: +6221 2953 9000

Mumbai

T: +9122 6269 0000

New York

T: +1 212 661 0061

Riyadh

T: +966 11 483 9100

Singapore

T: +65 6580 8288

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