Issued: 19 October 2020

WEEKLY INVESTOR RESEARCH

EM to contribute the largest share of global GDP growth in the next five years, according to the IMF

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The IMF reported that the largest share of global GDP growth over the next five years is expected to come from EM. Argentina marginally increased interest rates in a vague attempt to control USD purchases. China posted strong trade balance and credit creation. India unveiled a moderate fiscal expansion to support the economy. Indonesia announced electric vehicle battery companies intend to invest USD 20bn in new projects in the country. Oman introduced a 5% VAT tax to shore up its fiscal accounts. Zambia entered the grace period after missing a coupon payment on its 2024 Eurobond. Malaysia and Czech Republic announced social distancing measures to contain coronavirus surges.

Emerging Markets	Next year forward PE/Yield	Spread over UST	P&L (5 business days)
MSCI EM	13.7	–	0.15%
MSCI EM Small Cap	11.8	–	-0.95%
MSCI Frontier	12.8	–	0.35%
MSCI Asia	14.6	–	0.27%
Shanghai Composite	12.7	–	1.97%
Hong Kong Hang Seng	8.5	–	3.05%
MSCI EMEA	10.2	–	-0.93%
MSCI Latam	12.1	–	-1.34%
GBI-EM-GD	4.45%	–	-0.73%
ELMI+	1.55%	–	-0.51%
EM FX spot	–	–	-0.85%
EMBI GD	4.98%	416 bps	0.02%
EMBI GD IG	2.79%	191 bps	0.68%
EMBI GD HY	8.06%	729 bps	-0.80%
CEMBI BD	4.50%	390 bps	0.10%
CEMBI BD IG	2.97%	237 bps	0.23%
CEMBI BD Non-IG	6.66%	606 bps	-0.09%

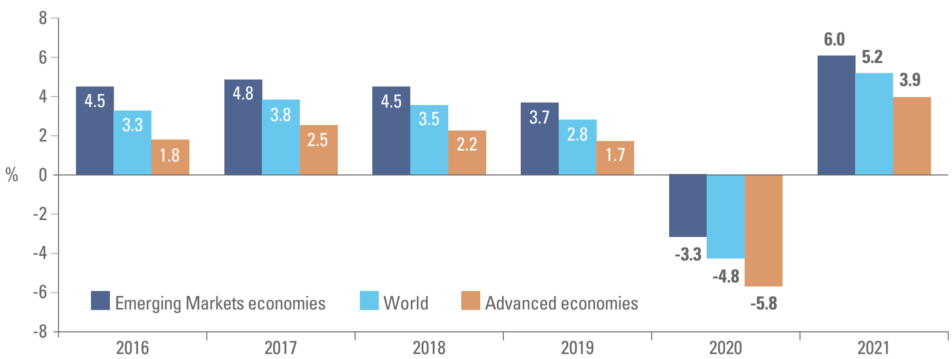
Global Backdrop	Next year forward PE/Yield/Price	Spread over UST	P&L (5 business days)
S&P 500	20.7	–	0.21%
1-3yr UST	0.15%	–	0.01%
3-5yr UST	0.33%	–	0.03%
7-10yr UST	0.76%	–	0.14%
10yr+ UST	1.54%	–	0.75%
10yr+ Germany	-0.62%	–	1.65%
10yr+ Japan	0.00%	–	0.14%
US HY	5.33%	471 bps	0.21%
European HY	4.52%	536 bps	-0.11%
Barclays Ag	0.88%	12 bps	0.10%
VIX Index*	27.41	–	1.05%
DXY Index*	93.72	–	0.65%
EURUSD	1.1710	–	-0.86%
USDJPY	105.42	–	-0.09%
CRY Index*	151.48	–	0.26%
Brent	42.9	–	2.78%
Gold spot	1908	–	-0.88%

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

Emerging Markets

- **IMF GDP growth forecasts:** The IMF still sees a much smaller negative growth shock in EMs in the 2020 and 2021 period than in DMs (Figure 1), according to the recently released World Economic Outlook. The IMF revised its 2020 growth forecast for DMs to -5.8% from -8.0%, while revising the forecast for EM countries down marginally to -3.3% from -3.0%. However, in 2021 the IMF expects a much stronger bounce-back for EMs than for DMs. All considered, the IMF continues to see EM weathering the coronavirus shock in far better shape (economically) than DMs.

Fig 1: **Global, EM and DM real GDP growth rates in 2020 and 2021**



Source: Ashmore, IMF. Data as at October 2020. IMF forecasts.

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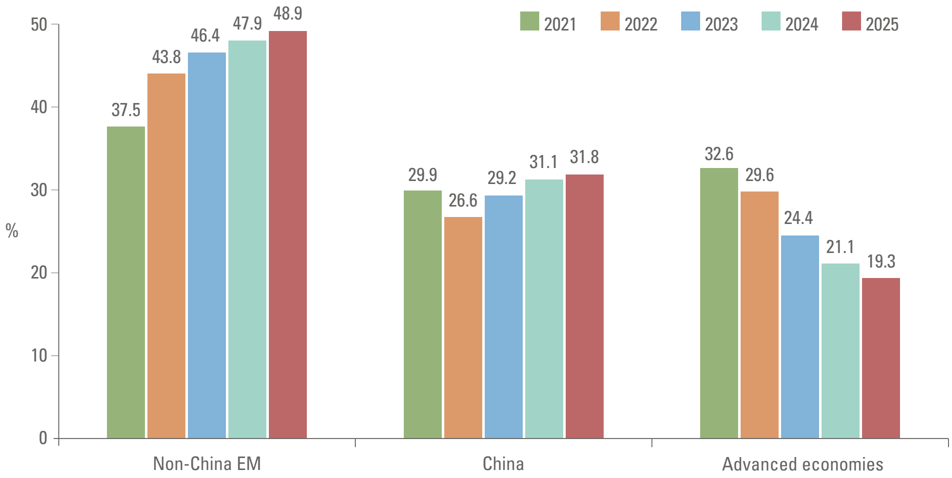
Emerging Markets

Looking to the medium term outlook, the IMF expects a larger contribution to global growth from EM countries than from DM countries. Non-China EM's growth contribution is set to rise every single year out to 2025, from 21% of global growth next year to 32% of global growth by 2025. China will be a steady source of global growth with around a 33% contribution, while DMs will see their contribution to global growth decline from 48% next year to 31% by 2025. The numbers above are considering the global growth contribution based on the nominal USD exchange. After adjusting the growth contributions to a purchasing-parity power (PPP) exchange rate, which captures the cost of goods and services more accurately across countries, the picture is even more favourable to EM.

On a PPP-adjusted basis, non-China EM's growth contribution is set to rise every year out to 2025, from 38% of global growth next year to 49% of global growth by 2025. China will contribute around 30%, while DM's contribution to global growth will decline from 33% next year to just 19% by 2025. In other words, China already contributes more to global growth than all DMs put together while non-China EM will contribute 2.5 times more to global growth than DMs combined by 2025, after adjusting for PPP.

Fig 2: **Contributions to global growth (% of global growth) based on PPP adjusted country weights**



Source: Ashmore, IMF. Data as at October 2020. IMF forecasts.

It is important to make one caveat when looking at economic forecasts: such forecasts are never accurate reflections of the future. However, they are still useful indicators because IMF economists are professional and have access to excellent data which is comparable across countries.

- Argentina: CPI inflation rose by 2.8% (36.6% yoy) in September after 2.7% in August. The central bank increased the 1-day repo rate by 300bps to 30% and cut the Leliq rate by 100bps to 36%. The authority also increased its 30-day deposit rate to 39.8% per year for individuals and 37.1% for non-individuals, thus taking real deposit rates to positive levels in ex-post terms. However real rates are still at deeply negative levels on an ex-ante basis as inflation expectations for 12m ahead hover around 50%. Negative real rates and the absence of a credible medium term fiscal consolidation program are likely to keep FX reserves under pressure, in our view.

- China: The yoy rate of real GDP growth rose to 4.9% in Q3 2020 from 3.2% yoy in Q2 2020, a small miss versus consensus expectations. High frequency data surprised to the upside with September's fixed asset investment up 0.9% on a yoy basis, of which property was 5.6% yoy while retail sales and industrial production rose 3.3% yoy and 6.9% yoy respectively. China's external accounts remains resilient as exports rose at a yoy rate of 9.9% in September driven by healthcare equipment and consumer goods, whereas imports increased 13.2% yoy due to strong domestic demand. Foreign investors bought USD 20bn of Chinese bonds in September, roughly the same pace as in August. Credit expansion remains solid with total aggregate financing at RMB 3.5bn in September, marginally down from RMB 3.6bn in August. New loans rose to RMB 1.9bn in September from RMB 1.3bn in August. CPI inflation surprised consensus expectations to the downside at a yoy rate of 1.7% in September from 2.4% yoy in August, as food prices declined faster than expected while PPI inflation declined to -2.1% on a yoy basis in September from -2.0% yoy in August, remaining in deflationary territory due to weak oil prices

- India: The government announced further INR 400bn (0.2% of GDP) of fiscal measures, increasing the overall 2020 fiscal expansion to 1.7% of GDP. The yoy rate of CPI inflation rose to 7.3% in September from 6.7% in August mostly due to higher food and fuel prices. The wholesale WPI index rose 1.3% on a yoy basis in September from 0.2% yoy in August. The yoy rate of industrial production improved to -7.8% in August from -10.4% yoy in July with demand for durable goods increasing the most.

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Emerging Markets

- Indonesia: The government announced an agreement with electric vehicles (EV) battery makers totalling USD 20bn of investment.[1] Batteries are by far the most important component of an EV as its cost of production per kilowatt-hour determines the competitiveness of the automaker. In economic news, Bank Indonesia kept its policy rate unchanged at 4.0% in a bid to maintain financial stability. Trade data was stronger than expected with exports declining 0.5% yoy basis in September and imports down 18.9% yoy leading to a USD 2.4bn trade surplus during the month. Exports of manufactured and agriculture products rose on a yoy basis by 6.6% and 16.2% respectively.

- Oman: In a key step to rebalance a large fiscal deficit, the government announced a 5% value-added tax (VAT) will be introduced from April 2021. Essential food and medical goods as well as educational and financial services will be exempt from the levy. A few months ago, Saudi Arabia increased its own VAT to 15% from 5%. In other news, S&P downgraded Oman's sovereign rating to B+ (stable outlook) due to a material weakening on the country's debt levels over the last three years. The downgrade was expected as Oman had a negative outlook on its previous BB- ratings.

- Zambia: The government missed a USD 42.5m coupon payment on its USD 1bn 2024 bond. Finance Minister Bwalya Ng'andu said he was following the advice of the country's economic advisors to treat all debtors equally (pari passu) during its restructuring exercise. Investors denied a request by the Zambians to defer its coupon payments due to little clarity on fiscal consolidation, IMF engagement and bilateral debt re-profiling.

- Czech Republic: The government announced all schools, bars and restaurants will be closed until early November when outdoor gatherings are limited to 6 people. The number of daily new cases climbed sharply to 7.3k on average in the week ending on 16 October from 2.2k daily cases in the last week of September. Protesters took to the streets in Prague to protest the new restrictions.

- Malaysia: The government announced social distancing measures in specific areas of Kuala Lumpur that are most affected by the coronavirus. Malaysia registered only 576 daily new cases on average in the previous 7-days to the 16 of October, but that is around 3x higher than its first wave peak in early April.

Snippets:

- Bolivia: Interim president Jeanine Áñez conceded Socialist Luis Arce won the election after exit polls shows Mr. Arce winning in a landslide. Luis Arce was the candidate backed by former president Evo Morales.
- Brazil: The service sector expanded by 2.9% in August, the third monthly expansion, but remains 10% lower than pre-crisis levels.
- Chile: The central bank kept its policy rate unchanged at 0.5% in line with consensus expectations.
- Morocco: Government debt is likely to rise to 76% of GDP in 2020 after roughly three years of stability at 65% of GDP.
- Mozambique: The government published proposals for the creation of a Sovereign Wealth Fund to manage up to USD 96bn in estimated gas revenues.
- Nigeria: Nationwide protests against police brutality continued across Nigeria even after the government announced the replacement of its special anti-robbery squad (SARS), accused of excessive violence. The protesters demand deeper police reforms and better public management.
- Peru: Economic activity rose 2.4% in August after a 7.5% increase in July, but remains 11.7% below the economic level in January.
- Russia: Industrial production declined 0.5% in September, but the Russian statistical bureau increased the IP series resulting in 4.3% higher levels than previous record.
- South Korea: The Bank of Korea kept its policy rate unchanged at 0.5% in line with consensus expectations. The unemployment rate rose to 3.9% in September from 3.2% in August.
- Thailand: The government announced a state of emergency in Bangkok in response to large protests against the royal family which started more than a month ago. Social gatherings will be restricted to five people.

[1] https://www.bnef.com/news/862337

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Global backdrop

- **Coronavirus:** France, Spain, Italy and the UK announced further restrictions on social gatherings as the number of coronavirus daily cases rose to 3x the levels of the first wave of contagion across Europe. In spite of the restrictions, mobility statistics suggests people continued to return to work in September, but reduced their social interactions after work.
- **US:** The labour market deteriorated as initial jobless claims rose to 898k in the week ending in 10 October from 845k claims in the previous week. The increase in claims could be related to layoffs, which have increased as the hospitality sector continues to suffer from mobility restrictions but also could be due to administrative issues. The government of California paused its claims reporting due to backlog and fraud issues, adding uncertainty about the situation at the national level. Continuing claims declined to 10m in the week ending on 3 October from 11.2m in the previous week. The decline in continuing claims could be attributed to either an improvement in the labour market or people exhausting their eligibility for regular unemployment state benefits. The yoy rate of CPI inflation rose to 1.4% in September from 1.3% in August. Retail sales rose 1.9% in September from 0.6% in August but industrial production was 0.6% lower after rising 0.4% over the same period. Mixed data from forward-looking business surveys was reported, as the Philadelphia Fed business outlook declined to 10.5 in October from 14.0 in September, but the Empire Manufacturing survey rose to 32.3 from 14.8 over the same period.

  In other news, a total of 22m votes were already cast by mail last week according to the U.S. Election Project (USEP), the equivalent of 16% of all votes counted in the 2016 presidential elections. There are 240m people eligible to vote, but pundits expect 150m votes cast this year, which would be the highest percentage voter turnout in almost 100 years.
- **EU:** Industrial production rose 0.7% in August after increasing 5.0% in July and 7.1% in June, but remains 5.8% below pre-pandemic levels.

Benchmark performance

Emerging Markets	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
MSCI EM	3.96%	3.96%	2.96%	12.55%	2.52%	8.27%
MSCI EM Small Cap	2.41%	2.41%	0.14%	8.35%	-1.12%	3.85%
MSCI Frontier	3.58%	3.58%	-5.37%	0.67%	-0.99%	4.26%
MSCI Asia	4.13%	4.13%	9.96%	19.81%	4.92%	9.80%
Shanghai Composite	3.68%	3.68%	11.91%	14.62%	1.98%	1.94%
Hong Kong Hang Seng	5.54%	5.54%	-7.72%	-2.13%	-1.36%	2.58%
MSCI EMEA	0.92%	0.92%	-19.05%	-11.74%	-5.40%	0.04%
MSCI Latam	3.86%	3.86%	-33.46%	-27.59%	-10.77%	1.55%
GBI EM GD	1.04%	1.04%	-5.35%	-1.72%	0.62%	3.67%
ELMI+	0.95%	0.95%	-3.09%	-0.48%	0.08%	1.85%
EM FX Spot	0.69%	0.69%	-10.56%	-8.23%	-6.30%	-3.80%
EMBI GD	1.57%	1.57%	1.05%	2.80%	3.88%	5.84%
EMBI GD IG	1.80%	1.80%	7.69%	8.81%	7.26%	6.93%
EMBI GD HY	1.28%	1.28%	-6.62%	-4.25%	0.03%	4.52%
CEMBI BD	0.84%	0.84%	3.44%	5.42%	4.89%	6.07%
CEMBI BD IG	0.77%	0.77%	5.41%	6.30%	5.71%	5.60%
CEMBI BD Non-IG	0.94%	0.94%	0.68%	4.10%	3.77%	6.90%

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Benchmark performance

Global Backdrop	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
S&P 500	3.67%	3.67%	9.44%	18.75%	13.02%	13.62%
1-3yr UST	-0.04%	-0.04%	3.07%	3.42%	2.66%	1.79%
3-5yr UST	-0.14%	-0.14%	6.08%	6.12%	4.08%	2.76%
7-10yr UST	-0.48%	-0.48%	10.90%	9.90%	6.51%	4.32%
10yr+ UST	-1.25%	-1.25%	19.83%	17.10%	11.11%	7.82%
10yr+ Germany	1.79%	1.79%	9.28%	5.56%	8.11%	5.80%
10yr+ Japan	-0.09%	-0.09%	-1.95%	-2.72%	1.84%	2.94%
US HY	1.41%	1.41%	2.04%	4.58%	4.60%	6.62%
European HY	1.02%	1.02%	-2.43%	-0.20%	1.37%	3.79%
Barclays Ag	0.46%	0.46%	6.21%	6.80%	4.14%	3.73%
VIX Index*	3.94%	3.94%	98.91%	92.35%	172.74%	82.98%
DXY Index*	-0.18%	-0.18%	-2.77%	-3.66%	0.48%	-1.27%
CRY Index*	2.00%	2.00%	-18.47%	-13.81%	-17.71%	-23.00%
EURUSD	-0.10%	-0.10%	4.28%	5.01%	-1.06%	3.43%
USDJPY	0.10%	0.10%	3.00%	3.00%	6.77%	13.32%
Brent	4.71%	4.71%	-35.03%	-27.84%	-25.07%	-11.79%
Gold spot	0.53%	0.53%	25.30%	28.52%	48.17%	62.80%

*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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