

US and EU coronavirus cases spike in contrast with trends in South America and Asia

By Gustavo Medeiros and Jan Dehn

The second waves of the coronavirus cases gathered strength in US and Europe in contrast with lower case numbers in South America and Asia. The Polish current account balance improved to a record level. Brazil signed three bilateral agreements with the United States. Thailand registered a record trade surplus amidst continuing calls for the resignation of the Prime Minister. The Chinese government indicated that RMB strength is justified by fundamentals, thus opening the door for further appreciation. In Lebanon, Saad Hariri was named Prime Minister. Zambia postponed the date for a vote on a debt standstill proposal. Argentina's fiscal and external accounts deteriorated further. Nigerian protests intensified after the military shot protesters in Lagos. Turkey kept policy rates unchanged. Oman issued USD 2bn of Eurobonds amidst economic uncertainty. The Peruvian parliament called for a new impeachment motion against the president. Chileans vote to start the process of reforming the country's constitution.

Emerging Markets	Next year forward PE/Yield	Spread over UST	P&L (5 business days)
MSCI EM	13.7	–	1.11%
MSCI EM Small Cap	12.1	–	1.15%
MSCI Frontier	12.7	–	-0.06%
MSCI Asia	14.6	–	0.85%
Shanghai Composite	12.5	–	-1.73%
Hong Kong Hang Seng	8.6	–	2.12%
MSCI EMEA	10.3	–	1.37%
MSCI Latam	12.1	–	3.70%
GBI-EM-GD	4.44%	–	0.88%
ELMI+	1.69%	–	0.59%
EM FX spot	–	–	0.73%
EMBI GD	5.14%	421 bps	-1.07%
EMBI GD IG	2.92%	194 bps	-1.18%
EMBI GD HY	8.23%	736 bps	-0.93%
CEMBI BD	4.56%	387 bps	-0.13%
CEMBI BD IG	3.03%	235 bps	-0.28%
CEMBI BD Non-IG	6.71%	601 bps	0.08%

Global Backdrop	Next year forward PE/Yield/Price	Spread over UST	P&L (5 business days)
S&P 500	20.5	–	-0.51%
1-3yr UST	0.15%	–	-0.02%
3-5yr UST	0.36%	–	-0.14%
7-10yr UST	0.81%	–	-0.69%
10yr+ UST	1.61%	–	-2.04%
10yr+ Germany	-0.57%	–	-0.99%
10yr+ Japan	0.00%	–	-0.16%
US HY	5.33%	468 bps	0.16%
European HY	4.48%	524 bps	0.33%
Barclays Ag	0.92%	11 bps	0.07%
VIX Index*	27.55	–	0.14%
DXI Index*	92.92	–	-0.50%
EURUSD	1.1833	–	0.43%
USDJPY	104.89	–	0.51%
CRY Index*	150.68	–	-0.79%
Brent	40.8	–	-4.18%
Gold spot	1899	–	-0.58%

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

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- Coronavirus:** A second wave of coronavirus cases in Europe and the United States is forcing new mobility restrictions and outright lockdowns, boding poorly for growth going forward. In Europe, some 285 new cases per million have now been registered compared to 55 cases per million people at the peak of the first wave on 9 April this year. Spain announced a national night-time curfew and Italy will shut cinemas, swimming pools, theatres, and gyms, whereas bars, restaurants and cafes will have to close by 6pm. Protesters took to the streets in Rome against the new social distancing measures. The United Kingdom, Czech Republic, Netherlands, Belgium, and other countries have already announced mobility restrictions in response to the rising number of cases, which are now weighing on the healthcare infrastructure. The new mobility restrictions are likely to worsen the performance of the global economy relative to what is current expected. Strict mobility restrictions have been avoided thus far as fatality rates are lower than in the first wave. This may possibly be due to milder forms of the virus and the fact that a younger demographic is now becoming infected as well as better treatment protocols. In the United States, cases per million people has now surpassed 200, which is the same level as at the peak of the first wave in July 2020.

In contrast to the developments in Europe and the United States, cases numbers in South America moderated to 119 new cases per million from 176 cases per million at its peak on 15 August. The lower trend coincides with the beginning of the spring in the summer hemisphere, but could also be related to some level of herd immunity

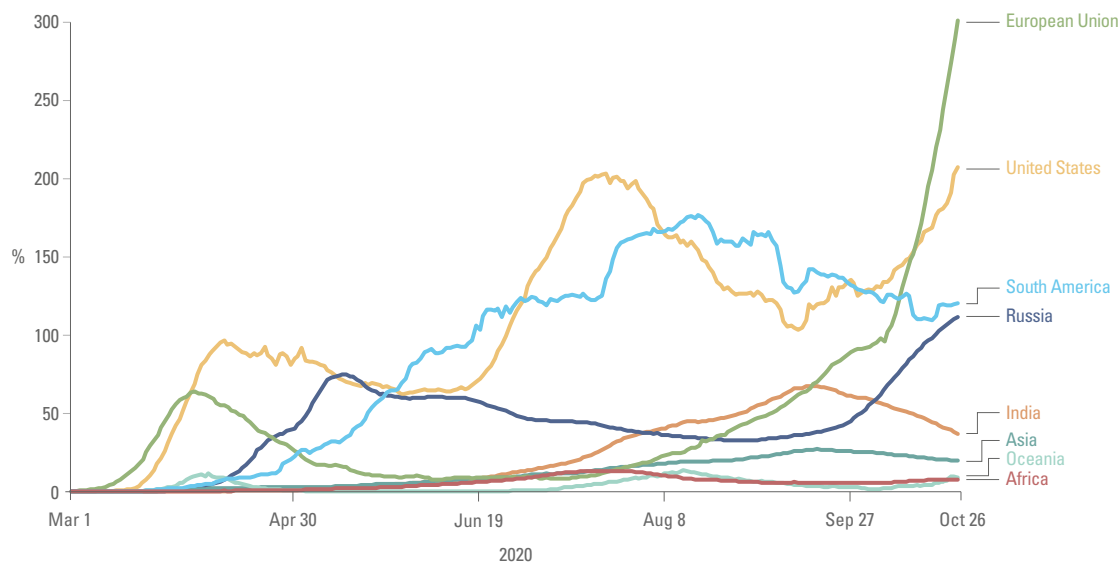
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after a large number of cases were registered across the continent. A similar profile of decline in cases is also evident in India, although India also has much lower cases on a per capita basis than Europe, United States, and Latin America as shown in Figure 1.

Fig 1: Daily new confirmed COVID-19 cases per million people

Shown is the rolling 7-day average.

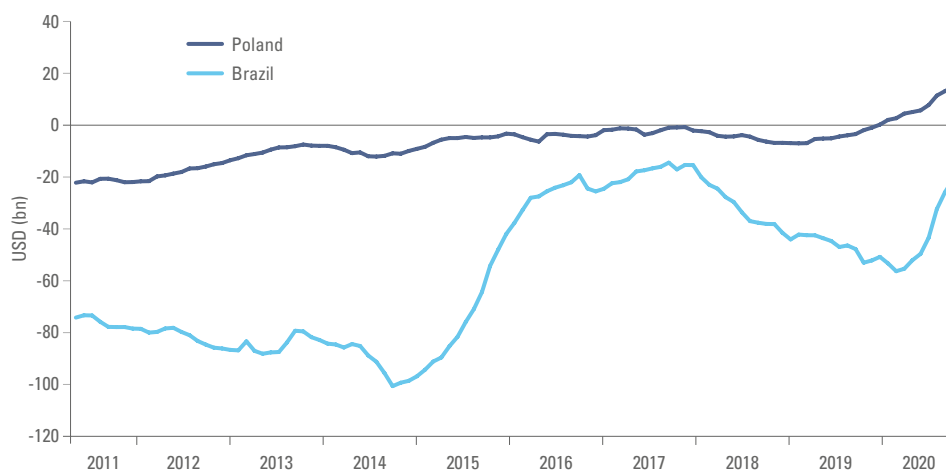
The number of confirmed cases is lower than the number of actual cases; the main reason for that is limited testing



Source: Our World in Data. European CDC – Situation update worldwide. Data as at 26 October 2020.

- Poland:** Economic data points to resilient macroeconomic fundamentals. The cumulative current account surplus over the past 12 months rose to a record USD 15.4bn compared with a deficit of USD 3.4bn in the same period last year as per Figure 2. The yoy rate of industrial production was 5.9% in September, up from 1.5% yoy in August, while the rate of retail sales growth rose to 2.7% yoy from 0.4% yoy over the same period in August. The labour market also remained solid, supported by government measures. The unemployment rate was stable at 6.1% and wages rose by 5.6% on a yoy basis in September.
- Brazil:** Brazil signed three bilateral agreements with the US on trade facilitation, regulation, and anti-corruption practices. The US Administration offered long-term loans to Brazil in order to encourage competition against Huawei's 5G network products in the country. Brazilian telecom companies signalled their preference for Huawei equipment given its compatibility with existing infrastructure as well as lower cost and better quality. In economic news, the rate of CPI inflation rose to 3.5% on a yoy basis in the first 15 days of October from 2.7% yoy in the same period in September. The current account surplus narrowed to USD 2.3bn in September from 3.5bn in August. Despite the monthly surplus, the 12-months cumulative current account remained at a USD 20.6bn deficit, albeit at the lowest level since 2017 (Figure 2). Foreign direct investment (FDI) rose to USD 1.6bn in September from 1.4bn in the previous month, taking the 12-months cumulative FDI to USD 50bn.

Fig 2: 12-months current account balances for Poland and Brazil



Source: Bloomberg, Ashmore.

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- Thailand:** Exports declined at a yoy rate of 3.9% in September, but imports declined at a faster rate of 9.1% yoy resulting in a USD 2.2bn trade surplus for the month, or USD 22.3bn over the past 12 months. This is the largest trade surplus on record since 1991. Leaders of a mass student demonstration against the Royal family broadened with demands for Prime Minister Prayuth Chan-ocha to resign.
- China:** China's 5th Plenum will be held from 26th to 29th October when Beijing will unveil its strategic plan for the 2021-25 period. Ahead of the meeting, the Governor of the People's Bank of China (PBOC), Yi Gang, and the spokesperson from the State Administration of Foreign Exchange (SAFE), Wang Chunying, both said the recent appreciation of the Renminbi (RMB) is justified by interest rate differentials and fundamentals, thus opening the door for further RMB strength against the Dollar. China's Vice President Wang Qishan said Beijing will focus more on economic self-reliance and financial risk, warning the financial sector should avoid speculation and bubbles.¹ In corporate news, Huawei announced that it has stockpiled enough semiconductors to be able to roll out 5G technology at least until the end of 2021.² In other news, China announced sanctions on companies selling weapons to Taiwan, including Boeing Defence and Lockheed Martin.
- Lebanon:** Saad Hariri was renamed as Prime Minister of Lebanon after 65 members of parliament backed his nomination. Hariri served as Prime Minister twice before from 2009 to 2011 and from 2016 to 2019. He vowed to quickly form a new cabinet of nonpartisan specialists to implement structural reforms.
- Zambia:** The government postponed a meeting to decide on a debt-standstill proposal to 13 November, which is the last day of the grace period for payments on its 2024 sovereign bond. Rating agency S&P downgraded Zambia to Selective Default (SD) after the government said it plans to stop paying commercial creditors. Bloomberg reported that a key group of investors holding 40% of Eurobonds abstained from voting rather than outright rejecting the debt-standstill. Bondholders are asking Zambia to commit to fiscal reforms within the framework of an IMF programme as a condition for accepting the standstill and subsequent debt restructuring. However, President Edgar Lungu has been avoiding difficult reforms for years and now faces a difficult re-election campaign in 2021. In related news, the utility power Zesco announced that it is seeking advisers for restructuring its debt. There is little transparency in Zesco's numbers, but it is known that the company has been suffering since it was asked to sell energy at subsidised prices following a drought in 2015. The drought led to increased energy costs due to a sharp reduction in hydroelectric energy supply.
- Argentina:** The primary fiscal deficit widened to ARS 167.2bn (0.6% of GDP) in September, from ARS 89.5bn in August. The larger deficit result takes the ytd fiscal deficit to ARS 1.7tn, or 4.9% of GDP compared to the surplus of 0.1% of GDP recorded at the same time last year. The trade surplus narrowed to USD 584m in September from USD 1,436m in August as imports rose and exports declined.
- Nigeria:** Protests intensified and turned violent in places across Nigeria despite a government imposed curfew. Protests began after the murder of a civilian by the police, but have since developed into wider demands for better governance. The Nigerian army opened fire against protesters in the upscale Lekki area of Lagos last week, leading to a further intensification of protests. Looting of government food warehouses was also reported on social media. The situation is concerning as the Nigerian army is not deemed large enough or sufficiently organised to restore order should the protests continue to grow.
- Turkey:** The Central Bank of Turkey (CBT) kept the 1-week and overnight policy rates unchanged at 10.25% against the median average expectation for a 175bps hike. However, CBT still tightened policy through widening the interest rate corridor, specifically increasing the lending rate by 150bps to 14.75%, which enables the CBT to contain some of the pressure on the Turkish lira (TRY). However, this morning TRY resumed its weakening trend by breaking through 8.0 lira to the Dollar. TRY is underperforming other EM currencies, which rallied 0.8% against the US dollar last week.
- Oman:** The Sultanate of Oman issued USD 2bn of new 2027 and 2032 bonds after announcing a 5% hike in VAT in a bid to mend the public finances. The issuance was anchored by local investors, but underperformed in its first days of trading as market participants do not believe that the VAT hike is enough to stabilise the fiscal situation.
- Peru:** The level of political noise in Peru rose last week after three political parties presented a new motion for impeachment of President Martin Vizcarra, accusing him of bribery. The impeachment motion is unlikely to pass, in our view, as Congress already rejected a similar motion presented by a larger number of parliamentarians a few months ago. In other news, the government said it would veto a second round of early withdrawals from private pension funds if a similar proposal currently being discussed in Congress is approved.

¹ See: <https://www.scmp.com/news/article/3106947/china-will-focus-self-reliance-and-cutting-financial-risk-says-vice-president>

² See: <https://www.bloomberg.com/news/articles/2020-10-22/huawei-outhustles-trump-by-stockpiling-chips-needed-for-china-5g>

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- **Chile:** Chile is heading into an intensely political period after some 78% of voting Chileans supported a new constitution, which will be formulated by a constituent assembly composed of 100% newly elected members. The main implication, for now, is that very little activity other than constitutional business will take place in Chile until after plebiscite on a new constitution, which is scheduled for June 2022. Members of the constitutional assembly will be elected on 21 April 2021. The new constituent assembly starts work in May 2021 and completes its work in June 2022. The new constitution takes effect from July 2022. Between now and then, Chile will also hold primaries for presidential and legislative elections in July 2021. These elections will take place in November/December 2021. The new government will take office in March 2022.

Snippets:

- **Belarus:** The opposition called for mass strikes from 26 October after President Alexander Lukashenko refused to resign eleven weeks after a disputed election.
- **Bolivia:** President-elect Luis Arce said he will renegotiate gas export contracts signed by previous President Jeanine Añez. Arce was Bolivia's Finance Minister from 2006 to 2017 and again in 2019 under former President Evo Morales.
- **Bulgaria:** Prime Minister Boiko Borisov tested positive for covid-19. Borisov said he was experiencing mild symptoms and is self-isolating.
- **Hungary:** The National Bank of Hungary kept its policy rate unchanged at 0.6% in line with consensus expectations.
- **Kuwait:** Parliament unanimously passed a bill, which gives the government a one year deadline to reduce the country's large expatriate population. Prime Minister Sheikh Sabah Al-Khalid Al-Sabah said in June that expatriate numbers should be cut in half, bringing it to 30% of the population.
- **Malaysia:** The yoy rate of CPI inflation was unchanged at a deflationary -1.4% level in September with core CPI inflation declining to +1.0% yoy from +1.1% yoy in August.
- **Mexico:** The bi-weekly CPI index rose to a yoy rate of 4.1% in the first 15 days of October from 3.9% yoy in the same period of September due to an increase in food prices and sticky services inflation. Retail sales declined at a yoy rate of 10.8% in August from -12.5% yoy in July.
- **Russia:** The Central Bank of Russia kept the policy rate unchanged at 4.25% in line with consensus expectations. President Vladimir Putin said on Sunday that he saw no criminal activity in Hunter Biden's businesses in Ukraine. This marked a rare public disagreement with US President Donald Trump.
- **South Korea:** Daily exports increased at a seasonally adjusted yoy rate of 5.9% in the first 20-days of October, after adjustment for the number of working days. Exports to China and the US declined by a yoy rates of -4.6% and -2.3%, respectively, while exports to the EU rose at a yoy rate of 13.8%.

Global backdrop

- **US:** With less than 10 days until the presidential election, opposition candidate Joe Biden leads the popular vote by a wide 8% margin, which gives him an 87% chance of winning the election, according to fivethirtyeight.³ However, the odds of the Democrats winning a majority in the Senate declined to 60% as of 25 October from a peak of 70% on 3 October, according to PredictIt.⁴ A Republican majority in the Senate would pose a challenge to approval of reforms, including a green energy transition, a larger fiscal package, and the infrastructure plans envisaged by the Democratic Party leadership. Furthermore, a Republican Senate could complicate matters in case of a disputed election,⁵ which is possible given President Trump's declarations and record numbers of postal votes. In total, some 60m people have already cast their votes across the US, which is equivalent of 43% of the entire turnout in 2016. Of these, some 40m people have voted by post. About half of the total votes have come from states with party registration data, of which, 49% of voters are registered Democrats, 28% Republicans, and 23% have no party affiliation.⁶ In Florida, 6m people have cast their votes early, which is equivalent to 60% of the total turnout in 2016. A total of 43% of Florida's early voters in are registered Democrats, 36% Republicans, and 21% have no party affiliation.

In other news, Axios reported a poll by NewsWhip showed that a New York Post anti-Biden story about his son, Hunter Biden, triggered 4.7m social media interactions during the week of 12-19 October. The story could change the opinion of undecided voters in key swing states similar to the Hillary Clinton e-mail episode in 2016. Facebook and Twitter tried in vain to stop the spread of the New York Post article, which exposes the social media giants to potential attack from a future Biden Administration.

³ See <https://projects.fivethirtyeight.com/2020-election-forecast/>

⁴ See <https://www.predictit.org/markets/detail/4366/Which-party-will-control-the-Senate-after-2020-election>

⁵ See <https://www.economist.com/by-invitation/2020/10/23/lawrence-douglas-on-what-happens-if-trump-rejects-the-election-result>

⁶ See <https://www.economist.com/by-invitation/2020/10/23/lawrence-douglas-on-what-happens-if-trump-rejects-the-election-result>

Global backdrop

In US economic news, the news was generally positive. Initial jobless claims declined to 787k in the week ending on 17 October from 842k in the previous week (revised down from 898k), while continuing claims dropped to 8.4m people in the week ending on 10 October from 9.4m in the previous week (also revised lower from 10m). In the housing market, existing home sales rose to a 14-year high of 6.5m in September from 6.0m in August, while housing starts were stable at 1.4m. Building permits rose from 1.5m to 1.6m over the same period. Services PMI rose to 56.0 in October from 54.6 in the previous month, but manufacturing PMI was in line with expectations.

- EU:** The European Union issued the first EUR 17bn bonds under the 'Support to mitigate Unemployment Risks in Emergency (SURE)' programme, placing USD 10bn of 10-year bonds at -0.24% yield and USD 7bn of 20-year bonds at 0.13% yield. Total demand was EUR 233bn, which highlights the appetite for diversification from US Treasuries and the desire for a pan-European bond. The new bonds mark an important step in positioning the EUR to absorb more assets from reserve managers. Alongside increased demand for RMB, the new bonds pose a challenge to the dominance of the US dollar (USD) within the context of global reserve currencies. In European economic news, the Euro area composite PMI declined 1.1 points in October to 49.4 as the acceleration of covid-19 cases led to increased restrictions across countries. New orders declined 2.1 points to 48.5 and export orders were unchanged at 51.4. On the other hand, Markit's preliminary October PMI for the Eurozone improved to 54.4 in October from 53.7 in September, although services activity was weaker than expected.
- UK:** The Great British Pound rose as odds of a disorderly Brexit process declined after the UK and European Union restarted negotiations. The talks have been extended to 28 October, according to Bloomberg.

Benchmark performance

Emerging Markets	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
MSCI EM	5.11%	5.11%	4.11%	12.99%	3.38%	8.43%
MSCI EM Small Cap	3.59%	3.59%	1.29%	7.61%	-0.59%	4.07%
MSCI Frontier	3.52%	3.52%	-5.42%	0.25%	-1.20%	4.18%
MSCI Asia	5.02%	5.02%	10.90%	20.80%	5.55%	9.82%
Shanghai Composite	1.88%	1.88%	9.98%	14.05%	1.36%	1.45%
Hong Kong Hang Seng	7.78%	7.78%	-5.76%	0.72%	-0.35%	2.81%
MSCI EMEA	2.30%	2.30%	-17.94%	-12.85%	-4.00%	0.54%
MSCI Latam	7.70%	7.70%	-31.01%	-26.87%	-9.07%	2.24%
GBI EM GD	1.92%	1.92%	-4.52%	-2.32%	1.23%	4.17%
ELMI+	1.54%	1.54%	-2.52%	-0.76%	0.43%	2.13%
EM FX Spot	1.42%	1.42%	-9.91%	-8.52%	-5.83%	-3.37%
EMBI GD	0.48%	0.48%	-0.03%	1.63%	3.55%	5.62%
EMBI GD IG	0.59%	0.59%	6.42%	7.47%	6.88%	6.73%
EMBI GD HY	0.34%	0.34%	-7.49%	-5.21%	-0.23%	4.27%
CEMBI BD	0.71%	0.71%	3.31%	4.90%	4.83%	5.96%
CEMBI BD IG	0.48%	0.48%	5.12%	5.90%	5.64%	5.48%
CEMBI BD Non-IG	1.01%	1.01%	0.76%	3.41%	3.72%	6.81%

Benchmark performance

Global Backdrop	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
S&P 500	3.14%	3.14%	8.88%	17.53%	12.71%	13.04%
1-3yr UST	-0.06%	-0.06%	3.05%	3.39%	2.66%	1.79%
3-5yr UST	-0.28%	-0.28%	5.92%	6.00%	4.06%	2.78%
7-10yr UST	-1.17%	-1.17%	10.13%	9.21%	6.43%	4.26%
10yr+ UST	-3.26%	-3.26%	17.39%	15.03%	10.77%	7.47%
10yr+ Germany	0.79%	0.79%	8.20%	3.98%	8.05%	5.51%
10yr+ Japan	-0.25%	-0.25%	-2.11%	-2.45%	1.83%	2.87%
US HY	1.58%	1.58%	2.21%	4.51%	4.54%	6.52%
European HY	1.35%	1.35%	-2.11%	-0.03%	1.40%	3.74%
Barclays Ag	0.53%	0.53%	6.28%	6.58%	4.39%	3.98%
VIX Index*	4.47%	4.47%	99.93%	117.79%	143.81%	80.18%
DXY Index*	-1.02%	-1.02%	-3.59%	-5.02%	-1.78%	-4.06%
CRY Index*	1.47%	1.47%	-18.89%	-15.52%	-18.96%	-21.63%
EURUSD	0.95%	0.95%	5.38%	6.58%	1.29%	7.05%
USDJPY	0.61%	0.61%	3.52%	3.86%	8.44%	15.35%
Brent	-0.27%	-0.27%	-38.12%	-34.15%	-31.13%	-14.09%
Gold spot	0.04%	0.04%	24.69%	27.17%	49.45%	63.03%

*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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