

Asia forms the world's largest trading block, centred on China

By Gustavo Medeiros

China and South Korea signed the Regional Comprehensive Economic Partnership (RCEP) free trade agreement with 13 other Asian countries. India announced further targeted fiscal stimulus aimed at export-oriented sectors. Argentina unveiled fiscal tightening measures that bring an IMF deal closer. Armenia signed a cease fire agreement with Azerbaijan in Nagorno-Karabakh. The Peruvian parliament impeached President Martin Vizcarra. Turkey appointed a new finance minister. An arrest warrant for corruption was issued to ANC Secretary General Ace Magashule in South Africa. The Mexican central bank kept interest rates unchanged. Brazil's finance minister said further fiscal transfers will be needed in case of a second wave of coronavirus.

Emerging Markets	Next year forward PE/Yield	Spread over UST	P&L (5 business days)
MSCI EM	14.1	–	1.03%
MSCI EM Small Cap	12.4	–	2.34%
MSCI Frontier	12.7	–	1.91%
MSCI Asia	15.1	–	0.81%
Shanghai Composite	12.9	–	-0.06%
Hong Kong Hang Seng	8.8	–	0.45%
MSCI EMEA	10.7	–	3.23%
MSCI Latam	12.3	–	3.70%
GBI-EM-GD	4.37%	–	0.40%
ELMI+	1.88%	–	0.44%
EM FX spot	–	–	0.41%
EMBI GD	4.81%	384 bps	1.02%
EMBI GD IG	2.77%	175 bps	0.37%
EMBI GD HY	7.56%	664 bps	1.82%
CEMBI BD	4.38%	363 bps	0.73%
CEMBI BD IG	2.93%	219 bps	0.36%
CEMBI BD Non-IG	6.43%	568 bps	1.24%

Global Backdrop	Next year forward PE/Yield/Price	Spread over UST	P&L (5 business days)
S&P 500	21.1	–	2.21%
1-3yr UST	0.18%	–	-0.06%
3-5yr UST	0.40%	–	-0.22%
7-10yr UST	0.89%	–	-0.74%
10yr+ UST	1.64%	–	-1.82%
10yr+ Germany	-0.55%	–	-1.14%
10yr+ Japan	0.00%	–	-0.27%
US HY	4.99%	435 bps	0.46%
European HY	3.98%	461 bps	1.20%
Barclays Ag	0.91%	2 bps	-0.47%
VIX Index*	23.10	–	-4.48%
DXY Index*	92.59	–	-0.14%
EURUSD	1.1847	–	0.29%
USDJPY	104.54	–	-0.80%
CRY Index*	151.86	–	2.70%
Brent	43.2	–	1.96%
Gold spot	1888	–	1.34%

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

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- **China:** The Regional Comprehensive Economic Partnership (RCEP) free trade agreement was signed last weekend. RCEP involves ten South East Asian countries (ASEAN¹) plus China, South Korea, Japan, Australia, and New Zealand. The deal eliminates quotas and tariffs on 65% of goods traded within the region. The countries in question account for close to one third of global GDP. RCEP also introduces common rules-of-origin, which should support the deepening of regional supply chains. In addition, RCEP addresses non-tariff barriers in areas such as services, investment, e-commerce, competition rules, government procurement rules, and intellectual property.

In Chinese economic news, total social financing (TSF) declined to RMB 1.4bn in October from RMB 3.5bn in September as new loans declined to RMB 690m from RMB 1.9bn over the same period, in line with consensus expectations. Most of the decline was seasonal as TSF rose in yoy terms to 13.7% from 13.5% yoy in September. China's yoy rate of CPI inflation declined to 0.5% in October from 1.7% yoy in September, while the rate of PPI inflation was stable at -2.1% yoy. Economic activity maintained strong momentum in October with yoy rates of expansion of industrial production (IP), fixed asset investment, and retail sales of 6.9%, 1.8%, and 4.3%, respectively compared to 6.9%, 0.8% and 3.3% in September. China's service sector accelerated the most; from 5.4% yoy in September to 7.4% yoy in October. China unveiled a raft of antitrust measures to boost the oversight of technology companies. The new regulations focus on risks related to cyber security,

¹ The 10 ASEAN members are: Brunei-Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

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data protection, and monopolistic practices. China is seeking to balance economic development by protecting smaller businesses after a rapid surge in e-commerce from around 25% of total retail sales before the coronavirus shock to close to 30% today. In foreign policy news, the US banned US persons from investing in Chinese companies associated with the military starting 11 January 2021. Companies on the list include AVIC, China State Shipbuilding, Huawei, CRCC, China General Nuclear Power, China Communications Construction Company, ChemChina, Sinochem, China State Construction Group and China Three Gorges Corporation.

- India:** The government announced fiscal measures worth some INR 2.7tn (1.3% of GDP) to boost urban consumption and manufacturing. Of the total amount, INR 1.5tn will be disbursed to export sectors over the next five years as India seeks to move into a position, where the country can benefit from further manufacturing diversification away from China. The immediate cost to the Indian treasury will be INR 1.2tn (0.6% of GDP), thus bringing the 2020-21 fiscal deficit to 7.0% of GDP. In other economic news, the yoy rate of CPI inflation reached 7.6% in October from 7.3% in September, surprising consensus expectations to the upside due to food price inflation, while the wholesale price index (WPI) rose in line with expectations (+1.5% yoy). Industrial production (IP) rebounded to 0.2% on a yoy basis in September from -8.0% yoy in August. In political news, the ruling BJP party retained control of Bihar state by winning the local election, highlighting the strength of President Narendra Modi at regional level.
- Argentina:** Economy Minister Martin Guzman unveiled measures to lower the fiscal deficit. The measures focus on eliminating subsidies, de-indexing both social security benefits the minimum taxable income from inflation as well as unfreezing the prices of public utilities. The measures are painful from a social perspective in the short term, but could lead to genuine fiscal consolidation if implemented in full. The monthly rate of CPI inflation jumped to 3.8% in October from 2.8% in September, bringing the yoy rate of inflation to 37.2%. Food prices led the increase in inflation with a rise of 4.8% in October compared to an average monthly increase of 2.6% in the prior three months. Guzman said Argentina will seek an extended fund facility (EFF) programme with the International Monetary Fund (IMF). The government wishes to re-profile its IMF debt repayment profile through a 4.5-year grace period. The EFF will not involve new funding. The EFF news is a positive development to the extent that it ushers in structural reforms, although it is unclear how IMF will ensure compliance in the absence of the leverage provided through regular disbursements.
- Armenia:** Prime Minister Nikol Pashinyan signed an agreement with Azerbaijan and Russia to end the war over Nagorno-Karabakh. The cease fire was reached only days after Azeri forces captured the strategic city of Shusha. The agreement sets a timeline for the staged withdrawal of Armenian troops from districts outside Nagorno-Karabakh via a corridor to be guarded by Russian troops. Thousands of people took to the streets in the Armenian capital city of Yerevan to demand the resignation of the Prime Minister after the peace deal was signed.
- Peru:** President Martin Vizcarra was impeached after a total of 105 members of parliament voted in favour of an impeachment motion with only 19 members voting against. Vizcarra denied charges of involvement in corruption, but indicated that he would accept the verdict of parliament. This was the second attempt to oust Vizcarra, who is one of the most popular presidents in Peru's recent history. The leader of the parliament, Manuel Merino, assumed the Presidency and appointed a pragmatic cabinet, but public anger over Vizcarra's ouster led to widespread and violent protests, which in turn forced Merino to resign after just five days in office. Prior to resigning, Merino selected Prime Minister Antero Floris-Araoz, a former Treasury vice-minister under President Alan Garcia to lead a pragmatic cabinet. This may reduce the risk of populist policies being approved by parliament ahead of the next presidential term, which commences in Q3-2021. The interim cabinet will continue working until the political uncertainty is resolved, according to the government. The next presidential elections is schedule for 11 April 2021.
- Turkey:** President Recep Tayyip Erdogan picked Lutfi Elvan to be the country's next finance minister. Elvan served as minister under three AK party Prime Ministers and acted as development minister under Erdogan until 2018. He also served as the chairman of a parliamentary committee responsible for vetting and approving central government budgets. President Erdogan said he was ready to "swallow a bitter pill" in order to stabilise financial conditions, thus signalling the possibility of more independent management of the economy by the Central Bank of Turkey and the Treasury.
- South Africa:** ANC Secretary General Ace Magashule was served an arrest warrant on several corruption charges last week. President Cyril Ramaphosa opted to avoid direct confrontation within its own party by allowing the corruption charges to be served by country's courts. A clean-up of the ANC would boost the chances of successful economic reforms, in our view.
- Mexico:** The Mexican Central Bank kept the policy rate unchanged at 4.25%, which was a surprise since the consensus expectation was for a 25bps cut. IP expanded at a yoy rate of -3.1% in September, which was a marked improvement from -9.2% yoy recorded in August, while vehicle production rose to 348k in October from 301k in September. Stronger economic activity was also reflected in the job market, which created 201k new

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jobs in October compared to 114k in September. The yoy rate of CPI inflation rose to 4.1% in October from 4.0% in September. Fitch kept Mexico's sovereign rating unchanged at BBB- with a stable outlook citing resilient tax revenues in spite of lower revenues from the oil sector. Fitch expects the stock of Federal Government debt to rise to 50% of GDP in 2020, which is in line with BBB median. External debt constituted 26% of the government's total debt stock.

Brazil: Finance Minister Paulo Guedes said that further transfers of income to the population would be necessary in case of a second wave of coronavirus cases, thus stoking fears of further fiscal instability in 2021. The seven-day moving average of new covid-19 cases declined from 46k on 30 July to 16k on 6 November, but has since increased to 28k (as of 14 November). In economic news, the yoy rate of retail sales rose 7.3% in September from 6.1% yoy in August.

Snippets:

- **Angola:** The police dispersed protesters during Independence Day celebrations in Luanda.
- **Chile:** The Lower House of Congress approved a bill that allows a second withdrawal of 10% of pension funds this year. The bill needs Senate approval to be implemented.
- **Czech Republic:** The yoy rate of CPI inflation declined to 2.9% in October from 3.0% in September. GDP growth surprised to the upside.
- **Egypt:** The yoy rate of CPI inflation rose to 4.5% in October from 3.7% in September, but remains well below the lower bound of the central bank's inflation target band of 6% to 12%. The Central Bank of Egypt cut the monetary policy rate by 50bps to 8.25% in line with consensus expectations.
- **Ethiopia:** The government said that peace talks with the local government in Tigray are possible subject to the release of captive Federal Government officials and the destruction of regional military equipment.
- **Ghana:** An opinion poll by the Centre for Democratic Development showed 65% of Ghanaians have faith in the ruling New Patriotic Party compared to just 50% for the opposition. The poll is good news for President Nana Akufo-Addo's re-election bid in the election scheduled for 7 December 2020.
- **Hong Kong:** Fifteen members of the opposition resigned from Parliament last Wednesday after China disqualified four lawmakers, who were deemed to be disloyal to Beijing.
- **Hungary:** The yoy rate of CPI inflation declined to 3.0% in October from 3.1% in September, while GDP growth surprised to the upside at a yoy rate of -4.6% in Q3 2020 compared to -13.6% in Q2 2020. The central bank kept the policy rate unchanged at 0.6%.
- **Indonesia:** Exports dropped by a yoy rate of 3.3%, but imports receded by 26.9% yoy, which resulted in a large USD 3.6bn trade surplus in October. This is the largest monthly trade surplus in ten years.
- **Ivory Coast:** President Alassane Ouattara met with the leader of the main opposition party Henri Konan Bedie as both pledged to set differences aside in the name of national peace. It was an important step towards political stability following Ouattara's victory in October's presidential election. The election was boycotted by Bedie and other opposition leaders.
- **Malaysia:** Real GDP growth was 18.3% qoq in Q3 2020 compared to -16.5% qoq in Q2 2020. This implies a yoy rate of growth of -2.7%, which was higher than expected. The economic recovery was broad-based, but mobility restrictions introduced from the 14 October and further intensified on 9 November poses a threat to the economy going into Q4 2020.
- **Pakistan:** Remittances were stable at USD 2.3bn in October, a 14% increase on a yoy basis. Foreign exchange reserves rose USD 550m to USD 19.9bn in the week ending on 6 November.
- **Philippines:** Real GDP expanded 35.9% qoq annualised in Q3 2020 from -47.4% in Q2 2020. This was equivalent to an 11.5% contraction in yoy terms, which was a downside surprise relative to consensus expectations.
- **Poland:** Real GDP growth was 7.7% qoq in Q3 2020 after a 9.0% qoq contraction in Q2 2020, thus bringing the yoy rate of GDP growth to -1.6%.
- **Romania:** The central bank kept the policy rate unchanged at 1.5%, as the yoy rate of CPI inflation declined to 2.2% in October from 2.5% in September. The current account deficit widened to USD 7.7bn in September from USD 5.8bn in August. Real GDP growth rebounded to a yoy rate of -6.0% in Q3 2020 from -10.3% yoy in Q2 2020.
- **Russia:** The trade surplus rose to USD 10.1bn in September from USD 3.7bn in August, surprising the consensus expectation of USD 4.8bn. The current account accumulated a USD 29.9bn surplus between January and October despite the precipitous decline in oil prices.

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- **Singapore:** Chinese internet giant Tencent reported an increase in revenues of 29% on a yoy basis and a 32% yoy increase in profits. The results were driven mostly by a strong expansion in online gaming and FinTech.
- **South Korea:** The unemployment rate increased to 4.2% in October from 3.9% in September, partially driven by higher labour force participation rate (62.4% from 62.2%) as the economy stabilised.
- **Thailand:** Bank of Thailand allowed banks to resume dividend payments, albeit limiting payments to, between last year's pay-out ratio and 50% of current year profit. In economic news, the qoq rate of real GDP growth increased to 6.5% in Q3 2020 from -12.1% in Q2 2020, thus taking the yoy rate of real GDP growth to -6.4%, which was a positive surprise relative to the expectation of -8.8% yoy.
- **Zambia:** The government defaulted on a USD 42.5m coupon payment on its USD 1bn 2024 Eurobond after the end of the grace period last Friday. Finance Minister Bwalya Ng'andu said an IMF team, including the director for Africa, is expected in Lusaka in December.

Global backdrop

- **Coronavirus:** In a very positive development in the fight against coronavirus, Pfizer announced vaccine trial results with more than 90% efficacy in preventing covid-19. The Pfizer vaccine can be ready for emergency use as early as late November, but for public use only by late March. Pfizer still needs to prove their vaccine is safe for human use. This is expected by the third week of November. To be effective, however, the vaccine needs to be frozen at -80 degrees Celsius, which poses significant logistical challenges. Moderna is expected to announce the effectiveness of its own vaccine, which may not need as low storage temperatures. At the same time, Eli Lilly's antibody therapy has been granted emergency-use authorisation by US drug regulators. In the US, the evolution of the number of covid-19 cases are consistent with a doubling of cases every two weeks as hospitalisations hit new highs. The State of New York imposed additional mobility restrictions, but most States and local governments remain hesitant to re-impose shutdowns. Europe's experience suggests that further lockdowns may be unavoidable.
- **US:** Attorney General William Barr ordered federal prosecutors from the US Justice Department to investigate alleged voting irregularities although investigations of alleged voting fraud is usually responsibility of local governments. Barr said federal prosecutors could investigate "if there are clear and apparently-credible allegations of irregularities". A lawyer from Barr's team resigned after the memo. Senate leader Mitch McConnell said Trump was 100% right to look into irregularities. At the same time, President Trump fired Defence Secretary Mark Esper, who refused to use active-duty forces to quell protests. He named Christopher Miller, the Director of the National Counterterrorism Centre, as acting Pentagon chief. The Department of Homeland Security called the election "the most secure in American history".

Boston Fed President Eric Rosengren said the Fed will be more patient before raising rates and flagged worries about financial stability and commercial real estate. The Fed's Vice Chairman for Supervision Randal Quarles said he does not expect the economy to recover to pre-virus levels until late 2022 or early 2023. Both speakers backed more fiscal support from the US Treasury. In economic news, the yoy rate of CPI inflation declined to 1.2% in October from 1.4% yoy in September as core CPI inflation came to 1.6% yoy from 1.7% yoy over the same period as lodging and apparel prices declined more than expected.

- **EU:** IP contracted 0.4% in September after expanding 0.6% in August mostly due to the retracement in Italian and Irish IP which had rebounded strongly in prior months.
- **UK:** There was weak economic data in the UK. The rate of real GDP growth was 15.5% qoq in Q3 2020, but the market had expected better after the contraction of 19.8% qoq in Q2 2020. The rate of unemployment rose by 243k in the three months through September. This took the unemployment rate to 4.8%, which is the highest in three years.

Benchmark performance

Emerging Markets	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
MSCI EM	7.72%	9.96%	8.93%	16.73%	4.71%	10.64%
MSCI EM Small Cap	8.05%	7.46%	5.08%	11.98%	0.50%	5.81%
MSCI Frontier	3.21%	4.30%	-4.71%	0.01%	-0.18%	3.99%
MSCI Asia	6.87%	9.86%	16.05%	23.53%	6.40%	11.90%
Shanghai Composite	2.65%	2.88%	11.06%	16.61%	1.03%	0.68%
Hong Kong Hang Seng	8.04%	12.25%	-1.85%	4.23%	0.45%	4.76%
MSCI EMEA	12.31%	7.71%	-13.60%	-8.67%	-1.92%	3.48%
MSCI Latam	15.35%	14.05%	-26.93%	-19.17%	-5.69%	4.13%
GBI EM GD	4.12%	4.56%	-2.05%	1.93%	2.87%	5.15%
ELMI+	2.46%	2.89%	-1.22%	1.12%	1.06%	2.80%
EM FX Spot	3.26%	3.33%	-8.21%	-5.54%	-4.72%	-2.59%
EMBI GD	3.32%	3.29%	2.76%	5.03%	4.79%	6.40%
EMBI GD IG	2.03%	2.13%	8.04%	9.96%	7.50%	7.31%
EMBI GD HY	4.93%	4.74%	-3.43%	-0.81%	1.66%	5.26%
CEMBI BD	1.61%	1.87%	4.50%	6.01%	5.43%	6.29%
CEMBI BD IG	1.02%	1.28%	5.95%	6.94%	6.08%	5.79%
CEMBI BD Non-IG	2.45%	2.71%	2.45%	4.63%	4.54%	7.16%

Global Backdrop	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
S&P 500	9.74%	6.82%	12.77%	18.07%	13.70%	14.37%
1-3yr UST	-0.05%	-0.09%	3.02%	3.34%	2.68%	1.85%
3-5yr UST	-0.09%	-0.36%	5.85%	6.13%	4.09%	2.91%
7-10yr UST	-0.12%	-1.42%	9.86%	9.80%	6.39%	4.49%
10yr+ UST	-0.06%	-3.07%	17.62%	17.34%	10.69%	8.05%
10yr+ Germany	-1.51%	0.45%	7.83%	5.44%	7.97%	5.76%
10yr+ Japan	0.07%	-0.20%	-2.06%	-1.34%	1.64%	2.94%
US HY	2.60%	3.12%	3.76%	6.04%	5.41%	7.24%
European HY	2.82%	3.06%	-0.45%	1.40%	2.02%	3.91%
Barclays Ag	0.82%	0.91%	6.69%	7.79%	4.58%	4.41%
VIX Index*	-39.24%	-12.40%	67.63%	91.70%	96.43%	27.20%
DXY Index*	-1.54%	-1.38%	-3.94%	-5.52%	-1.43%	-6.89%
CRY Index*	4.93%	2.26%	-18.26%	-16.10%	-19.33%	-18.10%
EURUSD	1.72%	1.08%	5.64%	7.00%	0.66%	10.86%
USDJPY	-0.11%	-0.89%	-3.75%	-3.81%	-7.54%	-15.13%
Brent	15.40%	5.57%	-34.50%	-31.71%	-29.55%	-2.98%
Gold spot	0.49%	0.12%	24.44%	28.31%	47.65%	74.37%

*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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