

# China advances towards 'technology singularity'

By Gustavo Medeiros

Chinese scientists said they have developed a super quantum computer which performs calculations up to 100 trillion times faster than existing technology. China also discussed policy changes to consider financial asset prices as a part of the overall inflation picture. In Asia, PMI surveys hit all-time highs. Brazilians shunned extremist politicians in recently concluded municipal elections. The result of the Romanian elections was inconclusive, resulting in a hung parliament. Poland appeared to signal room for compromise with European Union (EU) in Budget talks by not wanting to use its veto power against the EU. Parliaments in Chile and Peru voted to allow further withdrawals from local pension systems. Turkish GDP rebounded more than expected. Nigeria devalued the Naira marginally. The parliament in the Philippines cut company taxes in a bid to attract foreign investment. Argentina's President Alberto Fernandez spoke to US President-elect Joe Biden and Brazilian President Jair Bolsonaro.

Emerging Markets	Next year forward PE/Yield	Spread over UST	P&L (5 business days)
MSCI EM	14.8	–	1.66%
MSCI EM Small Cap	13.7	–	2.62%
MSCI Frontier	11.8	–	0.86%
MSCI Asia	15.8	–	1.08%
Shanghai Composite	13.2	–	1.07%
Hong Kong Hang Seng	8.7	–	-1.53%
MSCI EMEA	11.1	–	2.00%
MSCI Latam	13.6	–	5.80%
GBI-EM-GD	4.33%	–	1.61%
ELMI+	1.36%	–	1.28%
EM FX spot	–	–	1.40%
EMBI GD	4.67%	362 bps	0.66%
EMBI GD IG	2.78%	168 bps	-0.07%
EMBI GD HY	7.15%	615 bps	1.53%
CEMBI BD	4.17%	336 bps	0.46%
CEMBI BD IG	2.86%	206 bps	0.16%
CEMBI BD Non-IG	6.04%	523 bps	0.90%

Global Backdrop	Next year forward PE/Yield/Price	Spread over UST	P&L (5 business days)
S&P 500	21.6	–	1.72%
1-3yr UST	0.15%	–	0.00%
3-5yr UST	0.41%	–	-0.14%
7-10yr UST	0.95%	–	-0.86%
10yr+ UST	1.71%	–	-2.80%
10yr+ Germany	-0.55%	–	-0.95%
10yr+ Japan	0.00%	–	0.10%
US HY	4.39%	377 bps	0.86%
European HY	3.42%	401 bps	0.69%
Barclays Ag	0.89%	-6 bps	0.31%
VIX Index*	20.79	–	-0.05%
DXY Index*	90.79	–	-1.08%
EURUSD	1.2128	–	1.46%
USDJPY	104.13	–	0.15%
CRY Index*	159.89	–	-1.08%
Brent	49.1	–	3.17%
Gold spot	1839	–	3.52%

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

## Emerging Markets

- **China:** Chinese scientists announced last week they built a super quantum computer, which performs certain computations 100 trillion times faster than the world's most advanced supercomputers today. If confirmed, this would mark an important leap forward towards the so-called 'technology singularity', which is the point at which artificial intelligence learning becomes continuous and accelerates beyond speeds which humans are able to follow.<sup>1</sup>

In other Chinese news, the former governor of the People's Bank of China (PBOC) Zhou Xiaochuan wrote an article arguing that asset prices ought to be factored in when considering inflation, noting he is still thinking about ways to include asset prices in inflation indices. If China goes down this road, it would be an important step in reducing the risk of financial asset bubbles and preventing monetary policy, inadvertently or otherwise, from pushing income inequality higher. In other monetary news, Chinese retailer JD.com will start to accept digital RMB as payment for purchases. The wider adoption of digital currency for payment purposes in China would allow for interesting innovations. For example, China was able to roll out a digital cash coupon during the coronavirus shock, which expired after a certain period if the money had not been spent, thus allowing for more efficient fiscal policy.

In negative news, the United States (US) Lower House of Congress approved a bill that may ultimately push Chinese companies out of US exchanges unless US regulators are allowed to review Chinese financial audits. American investors may therefore have to find indirect ways to invest in companies from the second largest economy in the world.

<sup>1</sup> [https://en.wikipedia.org/wiki/Technological\\_singularity](https://en.wikipedia.org/wiki/Technological_singularity)

## Emerging Markets

In economic news, the Caixin Manufacturing PMI survey rose to 54.9 in November from 53.6 in October with the diffusion index accelerating to 56.4 from 54.1 over the same period, which points to a broadening of the economic recovery. Growth momentum as measured by new orders minus stocks of finished goods also remained elevated, which indicates further acceleration in the near future. Exports rose by 21.1% on a yoy basis in November driven by demand from both the US and EU, whereas imports climbed 4.5% on a yoy basis resulting in a record trade surplus of USD 75.4bn.

- **EM Asia PMIs:** PMI surveys across Asia ex-Japan rose 0.2 points to reach an all-time high of 53.1 in November. Most of the increases came from China, Indonesia, Taiwan, and South Korea, while Indian PMI dropped 2.5 points to a still robust 56.3. All Asian countries had PMIs that were consistent with economic expansion with the sole exceptions of Malaysia and the Philippines. For further details, see the Snippets section.
- **Brazil:** Far-left parties, including the PT Party and far right candidates backed by President Jair Bolsonaro, fared poorly in November's municipal elections, failing to win control in any major cities in Brazil. Instead, centrist parties, such as PSDB, PMDB, and DEM will be in charge of most major cities, where some 84 million people (or 40% of population) live. Among the centrist parties, PSDB lost the support of 12m voters and now controls cities with a combined population of 34m, while DEM gained 10m voters to now control cities with a combined population of 24.4m people. In economic news, foreign investors bought USD 4.4bn of local bonds in October, making this month the first month of solid inflow since March. Total non-resident holdings of local debt now stand at USD 81bn. In economic news, the rate of real GDP growth rebounded to 7.7% in Q3 2020 after contracting 9.6% in Q2 2020, while industrial production expanded 1.1% in October after a 2.8% expansion in September.

On the fiscal front, the energy regulator ANEEL announced an early return of a surcharge to electricity bills starting immediately (from 2021 as originally expected). This amounts to an unwinding of a subsidy, which will likely raise the level of consumer prices by around 0.4% to 0.5%. In other fiscal news, the National Treasury achieved a surprising primary surplus of BRL 3.0bn in October due to better fiscal numbers at regional government level. The 12 months running fiscal deficit is 14% of GDP, or 9.1% of GDP before interest expenses. In corporate news, in its latest business plan Petrobras, the state oil giant, announced a target to reduce gross debt to USD 67bn by the end of 2021 from USD 80bn in Q3 2020. The company's aim is to bring the debt stock to USD 60bn over the long term.

- **Romania:** With 98% of votes counted, the market-friendly PNL party heading the current minority government received 26.1% of the total votes, trailing the more populist PSD party, which received 30.6% of votes. Prime Minister Ludovic Orban said he was confident in PNL's ability to continue to lead a minority government with the support of smaller parties. PNL is pushing against a 40% increase in pensions, which was approved by PSD during their period in office from 2017 to 2019.
- **Poland:** Prime Minister Jaroslaw Gowin said a Polish veto of the EU Budget would hurt both Poland and other EU countries. Poland's concession suggests that the EU may yet find a solution to enable passage of the EU Budget. Poland and Hungary have been threatening to veto the EU Budget over Brussels' insistence that all EU countries follow EU laws. Poland and Hungary are under investigation by the EU for undermining the independence of courts, media, and non-government organisations. In economic news, the yoy rate of CPI inflation declined by 0.1% to 3.0% in November.
- **Chile:** The Lower House approved a second withdrawal from pension plans (AFPs). The bill imposes some restrictions on withdrawals, such as taxes on withdrawals by high earners. The bill also needs to pass a final vote in the Senate before receiving presidential sanction. The Central Bank of Chile announced a repo programme to purchase up to USD 8.5bn of government bonds by May 2021 in order to allow for an orderly liquidation of pension system assets. In other news, industrial production rose 1.7% mom (seasonally adjusted, non-annualized) in October, which was the fourth consecutive monthly increase.
- **Peru:** Congress approved an opposition-sponsored bill authorising people under 65 years of age to withdraw up to PEN 4,300 (USD 1,200) from the public pension system. Peru's pension system is funding on a pay-as-you-go basis. People over 65 years of age, who contributed for less than 20 years, but have not yet received a pension will be eligible to claim their contributions back. The Ministry of Finance estimates that the bill will cost PEN 16bn (USD 4.4bn, or 2.2% of GDP), if fully implemented. The government says it will challenge the bill in the Supreme Court. This could take several months, during which time, pensioners can request withdrawals, some of which may be processed before the court's final decision.
- **Turkey:** The rate of real GDP growth rebounded by 15.6% in Q3 2020 to reach 6.7% on a yoy basis, beating consensus expectations. Growth was led by household consumption and investment. The yoy rate of consumer prices index (CPI) inflation rose to 14.0% in November from 11.9% in October. Elevated inflation is putting pressure on the Central Bank of Turkey to tighten policy at the December meeting.

## Emerging Markets

- **Nigeria:** The Central Bank of Nigeria allowed NGN to weaken in the 'Investors and Exporters' window to 394 from 380. The official exchange rate remains at NGN 380 per Dollar, while NGN trades above 500 on the parallel market due to shortages of foreign currency in the system. In other news, more than 100 civilians were killed in the Borno State last week in a blow to President Muhammadu Buhari, who claims to have stabilised the security situation in the country.
- **Philippines:** The Senate approved a bill to reduce the corporate income tax rate gradually from 30% to 20% by 2027. The Senate bill also rationalises loss-making investment schemes and creates new incentives for private sector investment. The yoy rate of CPI inflation rose to 3.3% in November from 2.5% in October, thereby surprising consensus expectations to the upside due to an increase in food prices as a result of recent typhoons.
- **Argentina:** President Alberto Fernandez met with the US President-elect Joe Biden and discussed the economic situation in Latin America and bilateral relations. Fernandez also met with Brazilian President Jair Bolsonaro. The two leaders pledged to set aside their differences and focus on the future. This was the first contact between the two heads of state since October 2019 when Fernandez was elected. Tax collection in real terms slowed to a yoy rate of 0.5% in November from 5.0% yoy in October on the back of a lower yoy rate of VAT revenue collection (13.5% yoy, adjusted for inflation).

### Snippets:

- **Colombia:** The national rate of unemployment declined to 14.7% in October from 15.8% in September compared to an average of 10% to 11% before the pandemic. The Central Bank of Colombia kept the policy rate unchanged at 1.75% in line with consensus expectations. The current account deficit narrowed to 2.7% of GDP in Q3 2020 from 3.0% in Q2 2020 and 4.3% in 2019.
- **Ecuador:** Pollster Cedatos published its latest survey showing that the outcome of the February 2021 presidential elections is still wide open with 67% of respondents saying they are still undecided. In response to the question about who they would vote for market friendly candidate Guillermo Lasso received 18% of voting intentions followed by Andres Arauz (the candidate backed by Rafael Correa) with 11%.
- **Egypt:** The current account deficit widened to USD 3.8bn in Q2 2020 from USD 1.1bn in Q2 2019 as tourism revenue plummeted to USD 0.3bn from USD 3.2bn over the same period.
- **Ethiopia:** Prime Minister Abiy Ahmed said military operations in the Tigray region have ceased after the city of Mekelle was taken by the army.
- **Ghana:** Presidential elections are taking place today between incumbent President Nana Akufo-Addo and former President John Mahama.
- **India:** Markit's PMI declined to 56.3 in November from 58.9 in October. The still very elevated levels of the index imply economic expansion, led by export orders and strong demand for consumer goods. Services PMI declined marginally to 53.7 in November from 54.1 in October. The Reserve Bank of India (RBI) kept the repo policy rate unchanged at 4.0% as inflation remains above the 4.0% target, but RBI pledged to keep ample liquidity in the system in order to revive growth.
- **Indonesia:** Markit's PMI survey rose to 50.6 in November from 47.8 in October. The yoy rate of CPI inflation rose to 1.6% in November from 1.4% yoy in October, while core CPI inflation was unchanged at 1.7% yoy.
- **Kenya:** The National Treasury said it would reverse VAT and corporate tax cuts on 1 January 2021. This is a welcome step towards fiscal consolidation, which should help Kenya gain support from the IMF.
- **Malaysia:** Fitch downgraded Malaysia's sovereign rating to BBB+ with a stable outlook.
- **Mexico:** Chief of Staff Alfonso Romo resigned from his post, but will continue in his role as the government's main liaison with the private sector.
- **Russia:** The Manufacturing PMI survey was down to 46.3 in November from 46.9 in October. The yoy rate of CPI inflation rose to 4.4% in November from 4.0% in October. The Central Bank of Russia now looks likely to keep rates unchanged at 4.25% as long as inflation is above its' the 4.0% target.
- **South Africa:** The latest budget outturn released on 30 November shows a cumulative fiscal deficit of ZAR 416bn (8.5% of GDP) in the 2020-21 financial year, which is lower than expected, mainly due to better than expected tax revenues.
- **South Korea:** The Markit Manufacturing PMI survey rose to 52.9 in November from 51.2 in October. The yoy rate of daily exports rose 6.3% in November from 5.4% yoy in October, led by semiconductors, leaving the trade surplus stable at USD 5.9bn in November. The rate of CPI inflation rose to 0.6% on a yoy basis in November from 0.1% yoy in October.

## Emerging Markets

- **Sri Lanka:** Fitch downgraded Sri Lanka's sovereign credit rating to CCC from B- citing the prospect of challenging external debt repayments over the medium term
- **Thailand:** The Manufacturing PMI survey declined to 50.4 in November from 50.8 in October. The yoy rate of CPI inflation rose to -0.4% in November from -0.5% yoy in October due to higher energy prices with the rate of core CPI inflation unchanged at 0.2% yoy.
- **Uruguay:** The yoy rate of CPI inflation declined to 9.6% in November, which is the slowest pace of inflation since April. The slowdown in inflation was due to lower food prices.
- **Venezuela:** With 80% of votes counted, the government-affiliated parties received 68% of votes on parliamentary election disputed last weekend, according to the electoral council. The election was marked by low turnout as only one third of Venezuelans said they were willing to vote. The result was rejected by Canada, Colombia, Brazil and the U.S. due to unfair conditions.

## Global backdrop

- **Coronavirus:** The 7-day moving average of Covid-19 fatalities in the US hit 2.6k on 5 December as the 7-day moving average of cases rose to 223k. Fatalities in the US now exceed the previous peak in April. The number of daily confirmed cases per million people surged to 592 on 5 December, which is three times higher than the previous peak in July. Meanwhile, the number of cases per million people in Europe declined to 260 from 384 at its peak on 8 November and rose to 144 in South America compared to 92 cases per million people at the low on 5 November.
- **US:** The rising number of coronavirus cases and fatalities in the US is now becoming visible in the economic data. Labour market data disappointed with non-farm payrolls rising 245k in November compared to 610k in October. This was materially lower than the consensus expectation of 475k new jobs. The unemployment rate declined to 6.7% from 6.9%, but this was due to a decline in the labour force participation rate to 61.5% from 61.7%. The ISM manufacturing survey also declined more than consensus expectations to 57.5 in November from 59.3 in October, while the ISM services survey declined to 55.9 from 56.6 over the same period. Markit's Manufacturing PMI survey was unchanged at 56.7. Pending home sales declined 1.1% in October after a 2.0% contraction in September, disappointing consensus expectations for a small rise. Meanwhile, the trade deficit actually widened to USD 63.1bn in October from USD 61.1 in September. On the policy front, Speaker of the House, Nancy Pelosi and Senate Minority Leader Chuck Schumer agreed on a USD 908bn economic relief package. This is much smaller than the USD 2.5tn package originally requested prior to the presidential election and closer in size to the package originally proposed by Republicans. President-elect Joe Biden said he will not remove tariffs imposed on China anytime soon. All these factors justify pessimism about the US economic outlook for the foreseeable future.
- **UK:** Bank of England's Chief Economist Andy Haldane said inflation may rise more than expected due to the combination of coronavirus vaccines and massive fiscal stimulus efforts. Haldane added that the unprecedented expansion of global central bank balance sheets has blurred the lines between monetary and fiscal policy as governments now depend on central banks to finance fiscal deficits. Haldane's risk assessment sits uneasily alongside record low government bond yields. Mike Saunders, another member of the monetary policy committee, said he was in favour of taking the policy rate below 0% in clips of 0.1%
- **EU:** The yoy rate of CPI inflation was unchanged at -0.3% in November with core inflation stable at 0.2% yoy. In Germany, car production surged 12% in November, surpassing pre-covid levels. The unemployment rate in Germany also declined 0.1% to 6.1% in November despite mobility restrictions.
- **Oil:** The Organisation of Petroleum Exporting Countries (OPEC) agreed to a new approach to managing the price of oil. Production will be cut or increased by 0.5m barrels per day every month, depending on the market conditions. The new approach is designed to make OPEC more flexible given the highly uncertain economic outlook amidst a second wave of the coronavirus cases and the improving prospect of vaccines. Oil prices recovered to close to USD 50 per barrel in response to the news, aided in part by strong demand from China, India, and the US. The oil futures curve flattened to backwardation a sign that inventory levels are normalising.

## Benchmark performance

Emerging Markets	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
MSCI EM	3.82%	15.79%	14.71%	23.74%	6.56%	12.02%
MSCI EM Small Cap	3.15%	17.06%	14.46%	21.98%	2.86%	7.44%
MSCI Frontier	1.99%	7.29%	-1.98%	1.61%	-0.40%	5.38%
MSCI Asia	3.34%	14.78%	21.24%	30.37%	8.23%	12.97%
Shanghai Composite	1.56%	7.07%	15.58%	22.49%	3.79%	1.80%
Hong Kong Hang Seng	0.75%	13.10%	-1.11%	7.72%	1.19%	5.65%
MSCI EMEA	3.68%	13.37%	-9.06%	-2.49%	-1.56%	5.29%
MSCI Latam	7.82%	29.92%	-16.77%	-9.75%	-1.69%	7.14%
GBI EM GD	1.85%	7.89%	1.07%	4.59%	3.08%	5.73%
ELMI+	1.47%	5.34%	1.13%	3.27%	1.27%	3.18%
EM FX Spot	1.64%	6.09%	-5.76%	-3.28%	-4.41%	-2.11%
EMBI GD	0.80%	4.66%	4.12%	6.40%	4.89%	6.68%
EMBI GD IG	-0.02%	2.15%	8.06%	8.85%	7.18%	7.32%
EMBI GD HY	1.78%	7.77%	-0.63%	3.28%	2.25%	5.88%
CEMBI BD	0.35%	3.28%	5.95%	6.95%	5.71%	6.69%
CEMBI BD IG	0.07%	1.95%	6.65%	7.15%	6.14%	6.00%
CEMBI BD Non-IG	0.74%	5.17%	4.90%	6.58%	5.13%	7.81%

Global Backdrop	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
S&P 500	2.18%	10.35%	16.49%	21.07%	14.07%	14.32%
1-3yr UST	-0.03%	-0.03%	3.08%	3.25%	2.75%	1.88%
3-5yr UST	-0.18%	-0.34%	5.87%	5.82%	4.18%	2.94%
7-10yr UST	-0.87%	-1.90%	9.33%	8.47%	6.15%	4.38%
10yr+ UST	-2.83%	-4.63%	15.73%	12.99%	9.46%	7.49%
10yr+ Germany	-0.73%	0.27%	7.64%	5.01%	7.20%	6.03%
10yr+ Japan	0.08%	0.01%	-1.86%	-1.68%	1.71%	2.98%
US HY	0.79%	5.31%	5.96%	8.04%	5.91%	7.84%
European HY	0.63%	5.29%	1.70%	2.85%	2.75%	4.38%
Barclays Ag	0.31%	2.23%	8.08%	8.52%	4.65%	4.59%
VIX Index*	1.07%	-21.16%	50.87%	52.64%	104.63%	31.25%
DXY Index*	-1.18%	-3.30%	-5.81%	-7.08%	-3.21%	-7.98%
CRY Index*	-0.10%	7.67%	-13.94%	-11.75%	-13.32%	-10.46%
EURUSD	1.46%	3.46%	8.01%	9.69%	2.81%	11.77%
USDJPY	0.15%	1.34%	4.27%	4.36%	8.30%	18.36%
Brent	3.17%	19.90%	-25.61%	-23.75%	-21.06%	20.55%
Gold spot	3.52%	-3.01%	20.87%	26.07%	47.02%	70.95%

\*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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