

EM starts Covid-19 vaccination programmes

By Gustavo Medeiros

The African Union secured 270m doses of covid-19 vaccines independently of the COVAX alliance. Turkey administered more than 700k doses of vaccine in only four days as Brazil starts vaccinating its population only minutes after two vaccines were granted national regulatory approval. India also started the world's largest vaccination campaign with a target of inoculating 300m people by August this year. Indonesia's President Joko Widodo 'Jokowi' was the first to receive the CoronaVac vaccine. Chinese economic data surprised to the upside as President Xi Jinping struck an unusual optimistic tone in a speech. Chile announced the purchase of USD 12bn in the spot FX market to replenish foreign exchange reserves. Ecuador secured a cheap USD 3.5bn credit line from a US institution. Angola received a new IMF tranche and obtained better terms on its Chinese loans. In Taiwan, TSMC reported stronger than expected results and issued positive forward guidance. Russia detained opposition candidate Alexey Navalny. Malaysia declared a state of emergency. The Romanian central bank unexpectedly cut the policy rate. Uganda's President Museveni was elected president for a sixth term in an election without the presence of international observers.

Emerging Markets	Next year forward PE/Yield	Spread over UST	P&L (5 business days)
MSCI EM	13.9	–	0.34%
MSCI EM Small Cap	11.3	–	-0.33%
MSCI Frontier	10.6	–	1.25%
MSCI Asia	15.0	–	0.50%
Shanghai Composite	12.3	–	-0.10%
Hong Kong Hang Seng	9.0	–	3.33%
MSCI EMEA	10.2	–	0.79%
MSCI Latam	12.5	–	-2.23%
GBI-EM-GD	4.31%	–	-0.23%
ELMI+	2.17%	–	-0.29%
EM FX spot	–	–	-0.13%
EMBI GD	4.77%	360 bps	-0.66%
EMBI GD IG	2.89%	165 bps	-0.15%
EMBI GD HY	7.24%	612 bps	-1.25%
CEMBI BD	4.16%	325 bps	-0.04%
CEMBI BD IG	2.90%	199 bps	0.02%
CEMBI BD Non-IG	5.95%	504 bps	-0.12%

Global Backdrop	Next year forward PE/Yield/Price	Spread over UST	P&L (5 business days)
S&P 500	19.6	–	-1.46%
1-3yr UST	0.14%	–	0.02%
3-5yr UST	0.45%	–	0.09%
7-10yr UST	1.09%	–	0.12%
10yr+ UST	1.84%	–	0.21%
10yr+ Germany	-0.54%	–	0.16%
10yr+ Japan	0.00%	–	0.10%
US HY	4.18%	350 bps	0.12%
European HY	3.39%	401 bps	0.06%
Barclays Ag	0.87%	-22 bps	-0.35%
VIX Index*	24.34	–	2.78%
DXI Index*	90.81	–	0.35%
EURUSD	1.2078	–	-0.60%
USDJPY	103.74	–	-0.50%
CRY Index*	175.25	–	1.90%
Brent	54.8	–	-1.56%
Gold spot	1839	–	-0.27%

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

Emerging Markets

- Covid-19:** The African Union secured 270m doses of covid-19 vaccines with at least 50m doses available from April to June 2021. The vaccines will be supplied by Pfizer, Johnson and Johnson, and AstraZeneca.¹ They will be distributed in proportion to the size of each country's population. The African Exim bank will support the initiative with USD 2bn funding on behalf of member states. In addition to the vaccines provided by the African Union, there will also be vaccines supplied to African countries by COVAX, an alliance originally launched by France, the European Union, and the World Health Organization and operated by Gavi, the global vaccine alliance, to ensure adequate supply of vaccines to African countries on a fair basis. Last week, it was reported that Egypt will receive vaccine doses covering 20% of the country's needs from Gavi by the end of January.
- Turkey:** The Ministry of Health announced more than 700k people were vaccinated in just four days, a record pace of inoculations thanks to the country's experience in vaccination campaigns and good health infrastructure. In economic news, the current account deficit widened to USD 4.1bn in November from USD 0.3bn in October, taking the cumulative year to November deficit to USD 35.2bn compared to a surplus of USD 9.6bn in 2019. Foreign direct investment declined to USD 0.3bn, and portfolio flows were positive to the tune of USD 1.3bn inflow in November. This compares to USD 0.4bn and USD 1.9bn in October, respectively. The yoy rate of industrial production rose to 11.0% in November from 10.4% yoy in October, surprising consensus expectations to the upside.

¹ See <https://edition.cnn.com/2021/01/14/africa/vaccine-africa-intl/index.html>

Emerging Markets

- Brazil:** The full results of the trial of Sinovac's CoronaVac vaccine were unveiled with a 50.4% efficacy rate, which is lower than other vaccines. This is because the Butantan institute, which organised the trials, adopted a broader standard for counting symptomatic cases than other trials. In fact, the vaccine was shown to be effective in preventing 78.0% of mild cases requiring treatment and 100% of serious cases requiring hospitalisation.² On Sunday, just minutes after the national healthcare regulator Anvisa approved both CoronaVac and the vaccine developed by Oxford/Astra Zeneca for emergency use, the government of Sao Paulo started vaccinating nurses and doctors. The national vaccination campaign formally starts on 20 January, which is earlier than initial forecast due to the government's strategy of targeting a broader range of vaccines. In economic news, the yoy rate of inflation surprised to the upside at 4.5% from 4.3% in November. Higher inflation prompted the director of the Central Bank of Brazil, Bruno Serra, to say that rate hikes are possible in 2021. Retail sales rose 0.6% in November from 2.1% in October with most of the slowdown coming from lower consumption of food, beverage, and supermarket items.
- India:** The world's largest national vaccination campaign has kicked off in India. The programme aims to administer 300k doses per day in order to inoculate 300m out of India's population of 1.3bn by August. There was good economic news in that consumer prices index (CPI) inflation on a yoy basis declined to 4.6% in December from 6.9% in November. The precipitous drop was led by food prices, which reached a 16-month low of 3.9% yoy. Core CPI inflation declined 20bps to 5.7%. Industrial production declined 1.9% in November after rising very strongly in October (4.2%). In corporate news, Indian technology companies reported strong results with revenues and earnings generally surprising to the upside as businesses in India have been forced to adopt new technological solutions due to the coronavirus crisis. Lower transportation costs and a weaker USD also helped to improved margins.
- Indonesia:** President Joko Widodo was the first individual to receive the CoronaVac shot in an attempt to boost confidence in the vaccine. Indonesia is aiming to vaccinate 1.5m medical workers by the end of February as the nation has secured 18m shots of CoronaVac and 50m doses of other vaccines.³ The trade balance narrowed to a 2.1bn surplus in December from USD 2.6bn in November as imports rose 12.8% and exports rose 9.1% during the month. Capital goods imports were strong, which is often an early sign of a pick-up in capital investment.
- China:** President Xi Jinping issued an upbeat assessment of China's future in a gathering of leaders last week stating that "the world is undergoing profound changes unseen in a century, but time and the situation are in our favour".⁴ Xi's optimism stands in marked contrast with the state of disarray in US politics one week after protesters stormed Capitol Hill in Washington D.C. In Chinese economic news, real GDP growth surprised to the upside at 6.5% on a yoy basis in Q4 2020 from 4.9% in Q3 2020, thus bringing the 2020 annual GDP growth rate to 2.3%. High frequency activity data remained strong in December as fixed asset investment rose 2.9% yoy (from 2.6% yoy in November), manufacturing expanded 10.3% yoy (from 12.5% yoy), industrial production was up 2.8% yoy (from 2.3% yoy), the service sector expanded 7.7% yoy (from 8.0% yoy), and retail sales grew 4.6% yoy (from 5.0% yoy). Exports rose 18.1% on a yoy basis in December from 21.1% yoy in November, while imports rose 6.5% yoy from 4.5% in the previous months, both indicators surprising consensus expectations to the upside. The strong data is particularly encouraging in the context of moderating credit numbers. Total social financing declined to CNY 1.72tn in December from CNY 2.13tn in November as new bank lending declined to CNY 1.26tn from CNY 1.43tn, reflecting lower shadow financing and corporate bond issuance.
- Chile:** The central bank announced the launch of a USD 12bn foreign exchange (FX) purchase programme via daily auctions of USD 40m over the next 15 months. The programme aims to restore FX reserves lost during 2019-2020 pandemic. The central bank clarified that it may change the parameters of the programme if financial conditions change. The Chilean peso depreciated 2.5% immediately after the news and closed the week 3.1% weaker.
- Ecuador:** The government has obtained a USD 3.5bn credit line from the US Development Finance Corporation at a reduced rate of Libor + 2.8% in order to repay more expansive credit lines and support the recovery of the real economy. In economic news, non-oil exports rose 11% on a yoy basis in the first 11 months of 2020 to USD 13.7bn. Finance Minister Mauricio Pozo said that the 2021 Government Budget will shrink to USD 32.0bn (a 10% decline) from USD 35.5bn in 2020 in a bid to allow more room for the private sector in the economy.
- Angola:** The International Monetary Fund (IMF) completed the fourth review of Angola's adjustment programme and approved a disbursement of USD 488m, thus bringing cumulative lending to USD 3bn of a programme total of USD 4.5bn. The Minister of Finance said China had granted a 3-year grace period on repayments of its USD 20bn Angolan loan book.
- Taiwan:** Semi-conductor behemoth TSMC reported better than expected Q4 2020 earnings as revenues rose 40% on a yoy basis and earnings expanded 23% yoy. Gross margins expanded to 54% thanks to cost reductions. Smartphone revenues rose 20% on a yoy basis, which was a strong outperformance relative to the initial consensus expectation. The company increased its capex guidance from USD 17.2bn to USD 26.5bn, a 54% yoy

² See: <https://www.bbc.com/news/world-latin-america-55642648>

³ See: <https://www.straitstimes.com/asia/se-asia/indonesian-president-jokowi-receives-covid-19-jab-starting-national-vaccination-drive>

⁴ See: <https://www.bloomberg.com/news/articles/2021-01-12/upbeat-xi-says-time-on-china-s-side-as-turmoil-grips-u-s?ref=zUof49Z1>

Global backdrop

increase as TSMC expects the smartphone industry to grow 10% in 2021. Revenue growth guidance for the 2020-25 period was raised to 15% per year from 5% previously. This suggests that TSMC is expecting to win greater market-share following the announcement some months ago that Intel is considering a halt in the manufacture of chips in order to focus on design.

- **Russia:** Opposition leader Alexey Navalny was detained by the Russian police in Moscow moments after arriving on a flight from Germany for violating the conditions of parole from an old embezzlement case. The arrest came five months after Navalny was poisoned with the nerve agent Novichok in Siberia. In economic news, the yoy rate of CPI inflation rose to 4.9% in December from 4.4% yoy in November. Food prices were 7.4% higher on yoy basis in December compared to 6.7% yoy over the same period last month.
- **Malaysia:** The King of Malaysia declared a state of emergency from 12 January to 1 August following a sharp rise in covid-19 cases which is threatening the healthcare system. The government announced new controls on movement in regions accounting for 67% of the economy and 58% of the country's population. The state of emergency will also prevent early elections from taking place. To offset the impact of mobility restrictions on the economy, Prime Minister Muhyiddin Yassin announced MYR 15bn (c. 1% of GDP) in economic assistance during 2021.
- **Romania:** The Central Bank of Romania cut the policy rate by 25bps to 1.25% in an unscheduled meeting last week due to falling inflation and a worsening of the coronavirus situation. The yoy rate of CPI inflation was unchanged at 2.1% in December as the cumulative 2020 current account deficit widened to USD 9.8bn in November from USD 8.8bn in October.
- **Uganda:** Incumbent President Yoweri Museveni won a sixth term in office with official results giving him a 59% to 35% advantage over opposition leader Bobi Wine. US and EU election observers cancelled plans to monitor the election due to government obstruction. Wine rejected the election result.

Snippets:

- **Argentina:** CPI inflation was 4.0% in December compared to 3.2% in November. The inflation print was in line with consensus expectations and means that inflation was 36.1% for 2020 as a whole. This is less than the inflation rate of 53.8% recorded in 2019, but still massively out of line with inflation rates in most major EM issuers. Core CPI inflation was 4.9% in December, up from 3.9% in November.
- **Bangladesh:** The government said that Covid-19 vaccinations will start in early February.
- **Colombia:** The mayor of Bogota announced a full lockdown during the weekend in order to ease pressure on ICU bed utilisation rates which now exceed 90%.
- **Czech Republic:** The yoy rate of CPI inflation declined to 2.3% in December from 2.7% yoy in November. Retail sales declined by 9.2% on a yoy basis in November after falling 3.7% yoy in October, while the current account surplus rose to CZK 18.3bn from CZK 7.8bn over the same period.
- **Ghana:** The Ministry of Finance issued a tender for co-managers of the 2021 Eurobond programme with a deadline of 22 January, suggesting a possible bond issue in Q1 2021.
- **Israel:** The central bank announced an increase in purchases of FX reserves in a bid to weaken the currency, leading to a 2.4% decline in ILS over the week. As of this morning, Israel has vaccinated more than 27% of its population, which makes the country the world leader followed by United Arab Emirates and Bahrain.
- **Kenya:** The current account deficit narrowed to 4.7% of GDP in November from 5.4% of GDP in October.
- **Mexico:** Industrial production expanded 1.1% in November after 1.8% in October, surprising consensus expectations to the upside.
- **Nigeria:** Crude oil production declined by 155k barrels per day (b/d) to 1.17m b/d in December due to OPEC mandated production cuts. The yoy rate of CPI inflation rose to 15.8% in December from 14.9% yoy in November due to rising core inflation and food prices.
- **Peru:** The central bank kept policy rates unchanged at 0.25% in line with consensus expectations.
- **Poland:** The National Bank of Poland kept its policy rate unchanged at 0.1% in line with consensus expectations, but signalled it stands ready to intervene in the FX market depending on market conditions.
- **Singapore:** Non-oil domestic exports rose 6.8% in December after declining 5.5% in November thanks to strong electronics and specialised machinery exports.
- **South Korea:** The unemployment rate rose to 4.6% in December from 4.1% in November due to tighter mobility restrictions imposed by the government.

Global backdrop

- United States (US):** President elect Joe Biden unveiled a USD 1.9trn stimulus plan containing an additional pay cheque of USD 1.4k per citizen, a doubling of the minimum wage to USD 15 per hour, USD 50bn in grants to small business, USD 350bn in support for states and local governments as well as funding for schools, testing, and vaccine distribution. Biden also raised the prospect of higher taxes when he said that “we will pay for them by making sure that everyone pays their fair share.” The additional funding is already facing opposition from conservative Republican parliamentarians and could cause the economy to overheat as real disposable personal income is already expanding at the faster rate in 30 years on the back of previously announced income transfers.⁵ The Chairman of the Federal Reserve Jerome Powell said the Federal Reserve was “far from considering an exit” of its asset purchasing programme and pledged to avoid premature talks of monetary tightening to order to avoid market disruptions. His remarks struck a similar tone as comments by Vice-chairman Richard Clarida and FOMC member Lael Brainard, thus reinforcing the impression that the FOMC will maintain a dovish stance throughout 2021.

US economic news was mixed to disappointing. Retail sales declined 0.7% in December from -1.4% in November although somewhat in contradiction to this Bank of America’s leading indicator of card spending rose 9.7% yoy in the seven days ending on 9 January. Bank of America’s data shows that recipients of government stimulus cheques have increased their spending at a yoy rate of 20.0% since 1 January with the greatest rate of spending among low income groups. Another positive data print was industrial production, which rose 1.6% in December from 0.5% in November. The yoy rate of CPI inflation rose 0.2% to 1.4% in December led by food and energy prices as core CPI was unchanged at 1.6% yoy. On the other hand, the University of Michigan consumer sentiment softened to 79.2 in a preliminary January reading from 80.7 in December. The labour market also softened as initial jobless claims rose to 965k in the week ending in 9 January from 784k in the previous week and continuing claims rose to 5.3m in the week ending in 2 January from 5.1m prior.

- European Union (EU) and the United Kingdom (UK):** The Christian Democratic Union of Germany (CDU) party elected Armin Laschet as its new leader defeating Friedrich Merz with 521 votes to 466 votes. Laschet was backed by current Chancellor Angela Merkel as he supports most of her policies. Laschet’s challenge will be to lead the CDU to a good result in state elections on 14 March 2020 in which case his chances of becoming Germany’s next Chancellor improve significantly. CDU is in coalition with CSU (Christian Social Union of Bavaria). In German economic news, the German economy contracted 5.0% in 2020, better than the -5.2% consensus expectations. It is also business as usual in Italy, where the government coalition broke down after Mateo Renzi’s party resigned. The Italian parliament is based on a proportional representation system with a low 3% threshold for parties to gain seats.⁶ This system historically led to relatively fragile coalitions that break frequently, wherefore Italy has had more than one government per year on average since 1945. This is different from so-called ‘first past the post’ systems in the UK or US, where governments tend to last longer. On the other hand, policies tend to be more stable in proportional representation systems due to the difficulty in mobilising coalitions in favour of very large policy changes.

Benchmark performance

Emerging Markets	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
MSCI EM	5.18%	5.18%	5.18%	22.06%	6.69%	16.94%
MSCI EM Small Cap	2.69%	2.69%	2.69%	20.82%	2.48%	11.24%
MSCI Frontier	3.60%	3.60%	3.60%	3.77%	-0.64%	8.81%
MSCI Asia	5.75%	5.75%	5.75%	28.52%	8.86%	17.57%
Shanghai Composite	2.69%	2.69%	2.69%	18.13%	3.95%	6.58%
Hong Kong Hang Seng	5.42%	5.42%	5.42%	4.20%	0.66%	10.86%
MSCI EMEA	3.17%	3.17%	3.17%	-4.48%	-2.77%	10.52%
MSCI Latam	1.28%	1.28%	1.28%	-11.12%	-3.22%	12.14%
GBI EM GD	-0.93%	-0.93%	-0.93%	1.84%	1.68%	7.07%
ELMI+	-0.30%	-0.30%	-0.30%	1.21%	0.42%	4.09%
EM FX Spot	-0.56%	-0.56%	-0.56%	-5.15%	-5.44%	-1.08%
EMBI GD	-1.46%	-1.46%	-1.46%	2.89%	4.46%	7.14%
EMBI GD IG	-1.46%	-1.46%	-1.46%	6.67%	6.96%	7.54%
EMBI GD HY	-1.47%	-1.47%	-1.47%	-1.68%	1.68%	6.62%
CEMBI BD	-0.31%	-0.31%	-0.31%	5.72%	5.82%	7.21%
CEMBI BD IG	-0.47%	-0.47%	-0.47%	6.12%	6.17%	6.18%
CEMBI BD Non-IG	-0.09%	-0.09%	-0.09%	5.10%	5.35%	8.90%

⁵ See: <https://fred.stlouisfed.org/series/DSPIC96>

⁶ See: <https://www.merriam-webster.com/dictionary/proportional%20representation>

Benchmark performance

Global Backdrop	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
S&P 500	0.38%	0.38%	0.38%	16.65%	12.68%	17.20%
1-3yr UST	-0.03%	-0.03%	-0.03%	3.04%	2.80%	1.83%
3-5yr UST	-0.27%	-0.27%	-0.27%	5.55%	4.32%	2.71%
7-10yr UST	-1.29%	-1.29%	-1.29%	7.47%	6.25%	3.79%
10yr+ UST	-3.74%	-3.74%	-3.74%	10.49%	9.12%	6.23%
10yr+ Germany	-0.49%	-0.49%	-0.49%	7.25%	8.28%	5.47%
10yr+ Japan	-0.10%	-0.10%	-0.10%	-1.37%	1.65%	2.45%
US HY	0.35%	0.35%	0.35%	6.80%	6.09%	9.28%
European HY	0.49%	0.49%	0.49%	2.03%	2.85%	5.20%
Barclays Ag	-0.82%	-0.82%	-0.82%	8.26%	4.32%	4.41%
VIX Index*	6.99%	6.99%	6.99%	101.16%	99.18%	-9.92%
DXY Index*	0.97%	0.97%	0.97%	-6.96%	0.35%	-8.23%
CRY Index*	4.44%	4.44%	4.44%	-4.18%	-10.74%	9.57%
EURUSD	-1.14%	-1.14%	-1.14%	8.86%	-1.32%	10.89%
USDJPY	0.47%	0.47%	0.47%	-5.85%	-6.63%	-11.58%
Brent	5.77%	5.77%	5.77%	-15.51%	-20.95%	91.91%
Gold spot	-3.13%	-3.13%	-3.13%	17.82%	38.57%	68.88%

*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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