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Ashmore

EM PMI's continued to outperform DM

By Gustavo Medeiros

The outperformance of EM economies widened in October, according to the Markit IHS PMI surveys. China announced it will aim to double the size of its economy by 2035 as Ali Baba delayed its IPO due to regulatory constraints. Turkey replaced both the central bank governor and the finance minister. The Brazilian Senate approved the Central Bank Independence Bill. Argentina's finance minister said the Treasury will not request further advances from the Central Bank until the end of the year. Poland announced further mobility restrictions. Malaysia unveiled its 2021 budget with a lower fiscal deficit and a strong expected economic rebound. The IMF recommended a different fiscal policy mix for Mexico. Good news in Kenya where the IMF announced it is negotiating a new economic programme to support the country's public finances. Economic growth surprised to the upside in Chile. Ethiopia declared a state of emergency as the military was deployed in the Tigray region.

Emerging Markets	Next year forward PE/Yield	Spread over UST	P&L (5 business days)
MSCI EM	14.1	–	6.62%
MSCI EM Small Cap	12.1	–	5.58%
MSCI Frontier	12.5	–	1.28%
MSCI Asia	15.1	–	6.01%
Shanghai Composite	13.1	–	2.72%
Hong Kong Hang Seng	8.9	–	7.56%
MSCI EMEA	10.4	–	8.79%
MSCI Latam	12.1	–	11.24%
GBI-EM-GD	4.34%	–	3.71%
ELMI+	1.45%	–	2.01%
EM FX spot	–	–	2.84%
EMBI GD	4.93%	403 bps	2.28%
EMBI GD IG	2.81%	186 bps	1.66%
EMBI GD HY	7.83%	698 bps	3.05%
CEMBI BD	4.47%	379 bps	0.88%
CEMBI BD IG	2.97%	229 bps	0.66%
CEMBI BD Non-IG	6.63%	594 bps	1.19%

Global Backdrop	Next year forward PE/Yield/Price	Spread over UST	P&L (5 business days)
S&P 500	20.7	–	7.36%
1-3yr UST	0.15%	–	-0.01%
3-5yr UST	0.36%	–	0.04%
7-10yr UST	0.82%	–	0.31%
10yr+ UST	1.60%	–	0.81%
10yr+ Germany	-0.63%	–	-0.37%
10yr+ Japan	0.00%	–	0.35%
US HY	5.01%	442 bps	2.11%
European HY	4.28%	500 bps	1.60%
Barclays Ag	0.88%	6 bps	1.30%
VIX Index*	24.86	–	-13.16%
DXY Index*	92.23	–	-1.90%
EURUSD	1.1891	–	2.26%
USDJPY	103.49	–	1.31%
CRY Index*	147.70	–	2.97%
Brent	40.4	–	3.75%
Gold spot	1958	–	3.41%

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

Emerging Markets

- **Global PMIs and coronavirus:** The IHS Markit Composite PMI for Emerging Market (EM) countries rose to 54.5 in October from 53.0 in September, while the DM PMI rose to 52.7 from 51.9 over the same period.

Within EM, Brazil, India, and China were the main outperformers, whereas Mexico lagged due to its weak fiscal response to the coronavirus pandemic shock. In DM, the US PMI surprised to the upside, but Eurozone and UK PMI's moderated due to mobility restrictions as a consequence of the second wave of coronavirus. EM PMI's experienced a shallower decline and a stronger rebound than DM PMIs in 2020 as shown in Figure 1.

The outperformance was aided initially by China's early economic recovery, but more recently it has been due to strong rebounds in EM ex-China. EM outperformance versus DM is likely to increase further, in our view, as the number of coronavirus cases continue to increase in Europe and the US, while it is declining in South America and India, aided in part by rising temperatures in the Southern Hemisphere, as per Figure 2.[1]

[1] See: *'US and EU coronavirus cases spike in contrast with trends in South America and Asia'*, Weekly investor research, 26 October 2020.

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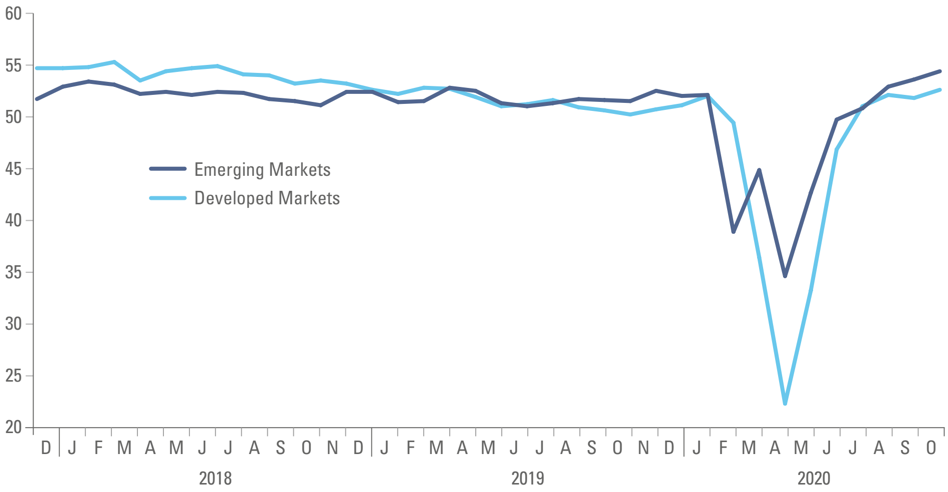
Emerging Markets

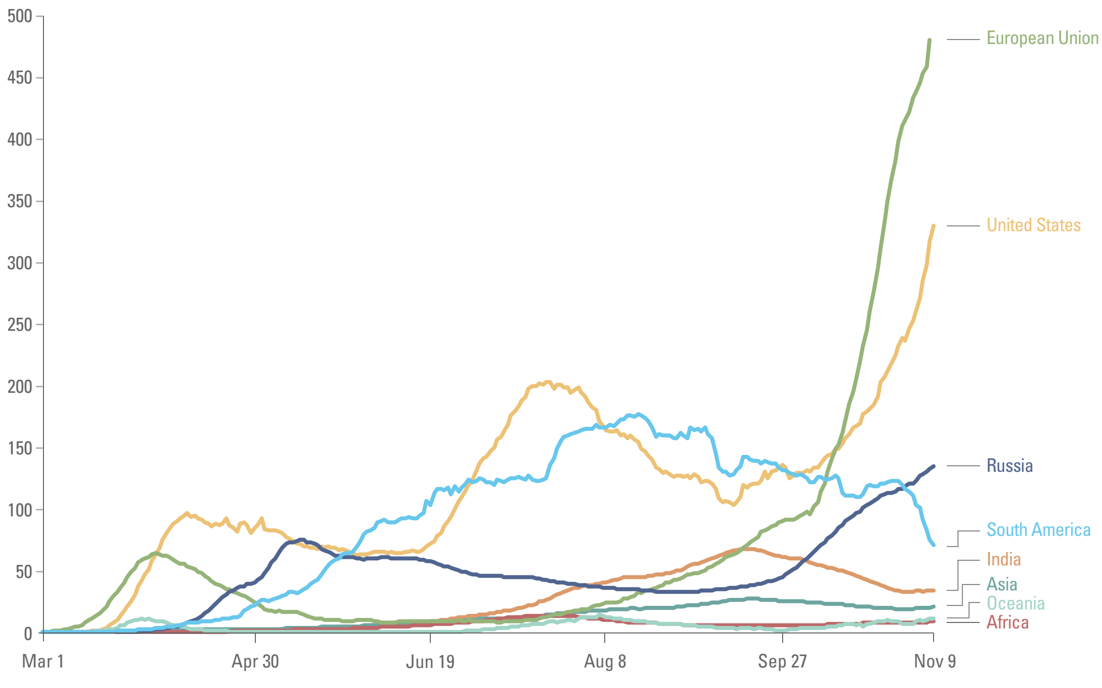
Fig 1: **IHS: Markit Composite PMI**



Source: Bloomberg, Ashmore. Data as at October 2020.

Fig 2: **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, Ashmore. Data as at 9 November 2020.

- **China:** China unveiled the first guidelines of the 14th Five Year Plan, which focus on delivering high quality growth through innovation and economic reforms. The main economic objectives are: (1) achieving High Income status by 2024; and, (2) doubling GDP in real terms by 2035. China's economy would have to expand by approximately 4.0% per year to achieve the first goal and by 4.5% to 5.0% per year to achieve the second goal. President Xi Jinping pledged to increase imports of goods to USD 22tn over the next decade as China keeps opening its economy up and cuts the size of the negative list for technology imports.

In other economic news, the Caixin PMI rose to 55.7 in October from 54.5 in September with the bulk of the recovery driven by service PMI, which rose to 56.8 from 54.8. The current account balance moderated to a robust USD 94.2bn surplus in Q3 2020 from USD 110.2bn in Q2 2020. Exports surged 11.4% on a yoy basis in October, while imports rose 4.7% yoy. Ironically, most of the export growth (+20% yoy) came from the US as demand for personal protective equipment and electronic products increased. This highlights the US dependency on China's imports for a number of strategic products. In the commodity space, iron ore and oil imports remained in positive growth on a yoy basis, but the volume of copper imports declined (-13% yoy).

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Emerging Markets

In corporate news, the Ant IPO was delayed as Chinese regulators decided to rein in potential excessive exuberance over China's FinTech companies. For now, this represents a setback for Ant's aggressive expansion plans. Under current rules, FinTech companies, such as Ant, can lend money to small businesses and individuals and then securitise 98% of the loans to large Chinese banks, enabling them to keep only 2% of the loan-book risk on their own balance sheet. This is now being changed. Regulators now demand that FinTech companies hold at least 30% of the risk on their own balance sheets, thus both increasing the capital requirements for the transactions and creating incentives for FinTechs to focus on lending to sound counterparts. The new rules are designed to avoid the creation of bubbles. The rules will still allow FinTechs to extend credit to the parts of the economy, which are not well served by big banks, albeit in a more balanced way. Since the new regulations represent a material change to Ant's capital and thus its growth expectations, it is the right decision to postpone the IPO. The decision also protects millions of new minority shareholders that would otherwise be exposed to a different economic model than prior to IPO. Ali Baba shares declined 1.6% last week despite posting strong results on Q3 2020 as revenues rose at a yoy rate of 30% and rose earnings 37% yoy.

- Turkey: President Recep Tayyip Erdogan appointed Naci Agbal to the post of Governor of the Central Bank of Turkey (CBT). Finance Minister Berat Albayrak also resigned for health reasons. Agbal was the Finance Minister from 2015 to 2018 and will be responsible for reining in TRY depreciation. This can only be achieved in a sustainable way by reverting to an orthodox monetary policy framework and curbing excessive monetary expansion. Encouragingly, Agbal's first statement emphasised that the *"primary objective of the CBT is to achieve and maintain price stability, and the bank will decisively use all policy tools in pursuit of its price stability objective".* Last week, CBT stopped providing funding through its overnight lending facility and hiked the one-week lira swap rate to 13.25% from 11.75%, bringing the weighted average cost of funding up to 13.99%. The yoy rate of CPI inflation rose to 11.9% in October from 11.8% yoy in September as core CPI inflation rose to 11.5% yoy from 11.3% yoy over the same period. In other news, the Manufacturing PMI surprised to the upside by rising to 53.9 in November from 52.8 in October.

- Brazil: The Senate approved the Central Bank Independence Bill, which is a key institutional reform that has been in the legislative pipeline for years. The law still needs to be approved by the Lower House of Congress. If approved, central bank governors will be limited to two 4-year mandates, which will start two years after presidential elections, thus guaranteeing monetary policy continuity during transitions of power. In less positive news, the Lower House overturned the presidential veto, which had removed payroll tax breaks for 17 sectors of the economy next year. Some BRL 10bn of revenues will be forgone as a result. In economic news, industrial production rose (IP) 2.6% in September, taking the indicator to the same level as before the coronavirus pandemic shock. Consumer prices index (CPI) inflation rose to 3.9% on a yoy basis in October from 3.1% yoy in September due to higher prices for food, household goods, and personal expenses. Inflation is likely to surprise to the upside in 2020, but the large output gap and labour market slack should keep inflation subdued over the medium term, in our view.

- Argentina: The Economy Ministry said it will not request advances from the Central Bank of the Republic of Argentina until the end of the year. To be successful and sustainable, the measure will have to be followed by a solid fiscal consolidation as Argentina has been funding the majority of its liabilities from central bank monetisation. The government last week started to issue USD-denominated debt in the local market to fund the deficit and raise Dollars, thus violating the government's own pledge to maintain debt sustainability. Tax collections declined by 1.5% in real terms in October (but rose by 5.7% on a yoy basis due to base effects). In other news, CPI inflation rose 2.9% in the month of October as food prices rose close to 7.0% as a result of the weaker currency and the lack of a credible monetary anchor.

- Poland: Prime Minister Mateusz Morawiecki announced further mobility restrictions by shutting cultural activities and closing shopping malls and other non-essential stores, adding that a full lockdown would be the next step in 10 days, should the number of coronavirus cases not abate. In economic news, the National Bank of Poland (NBP) kept the policy rate unchanged at 0.1% in line with consensus expectations. The NBP adjusted the GDP growth expectation to -3.6% in 2020 and +2.7% in 2021 from -5.7% and +4.4% previously. The CPI inflation forecast was upgraded to 3.5% in 2020 and 2.5% in 2021 from 3.3% and 1.3% respectively.

- Malaysia: The government released the 2021 Budget proposal, which forecasts a fiscal deficit of 5.4% of GDP in 2021. This compares to the 6.0% of GDP fiscal deficit expected in 2020. The government also upgraded its GDP growth forecast to 7.0% in 2021 after a -4.5% expected contraction in 2020. In other news, the Bank Negara kept its policy rate unchanged at 1.75%, while the yoy rate of IP rose 1.0% in September from 0.2% yoy in August.

- Mexico: The International Monetary Fund (IMF) recommended that Mexico change the economic mix strategy in response to the coronavirus outbreak by increasing fiscal support for the economy and reducing fiscal transfers to Pemex. In economic news, 84k cars were sold in October, from 78k in September, taking the yoy growth level to -21.2% yoy from -22.8% yoy. Consumer confidence rose 1.4 points to 37.6 in October, the best level since March.

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Emerging Markets

- **Kenya:** There was good news for fiscal stability in Kenya as the IMF confirmed that it is negotiating a new economic programme with the government. In economic news, the current account deficit declined to 5.0% of GDP in the 12 months to September 2020 from 5.4% of GDP in the previous year as a drop in tourism revenue was more than offset by a decline in fuel imports and a pickup in agricultural exports. Kenya's PMI rose to 59.1 in October from 56.3 in September. President Uhuru Kenyatta announced mobility restrictions, including reduced restaurant and bar hours as new covid-19 cases rose 40% from the previous month.

- **Chile:** Economic activity surprised to the upside as the IMACEC monthly GDP proxy rose 5.1% in September. The yoy rate of CPI inflation declined by 10bps to 3.0% in October, surprising consensus expectations to the upside. The Ministry of Finance announced that it will sell up to USD 2.5bn in November after selling USD 1.5bn in October (less than the USD 3.0bn limit) bringing FX sales to USD 12.9bn in 2020.

- **Ethiopia:** Prime Minister Abiy Ahmead declared a state of emergency after deploying the military in the Tigray region. This follows attacks on federal troops by the Tigray People's Liberation Front (TPLF). The TPLF was the leading party in the coalition that emerged as the winner of the long civil war from 1974 to 1991 and held power until 2018 when Prime Minister Ahmed assumed power after forming a new coalition, leading to fears of a descent to violence again.

Snippets:

- **Colombia:** The yoy rate of CPI inflation declined to 1.8% in October from 2.0% yoy in September as core CPI inflation moderated to 1.4% yoy from 1.6% yoy over the same period.
- **Czech Republic:** The Czech National Bank kept its policy rate unchanged at 0.25%. IP surprised consensus expectations to the upside, falling by 1.5% on a yoy basis in September compared to a decline of 8.0% yoy in August.
- **Egypt:** The IHS Markit PMI index rose to 51.4 in October from 50.4 in September suggesting the non-oil private sector has expanded at the fastest pace in six years.
- **Hungary:** The yoy rate of IP surprised to the upside, rising 2.2% in September from -2.0% yoy in August
- **India:** The trade deficit widened to USD 8.8bn in October from USD 2.7bn in September as imports accelerated in sequential terms and exports moderated. The services PMI rose to 54.1 in October from 49.8 in September as mobility gradually normalised.
- **Indonesia:** Real GDP growth contracted by 3.5% on a yoy basis in Q3 2020, which was a small improvement from the 5.3% yoy decline in Q2 2020, but nevertheless surprised to the downside relative to the consensus expectation. Consumer confidence declined to 79.0 in October from 83.4 in September. This is the second time since 2008 that consumer confidence is below 80 as mobility restrictions continue to weigh on the economy.
- **Ivory Coast:** The Electoral Commission declared incumbent President Alassane Ouattara as winner with 94% of the votes cast and a 53.9% turnout. This is a convincing turnout, which will boost the government's legitimacy, despite the main opposition candidates boycotting the election.
- **Lebanon:** The US imposed sanctions for alleged corruption on former Foreign Minister Gibran Basil, an influential member of the Lebanese political establishment.
- **Nigeria:** The Dangote Group said they expect the completion of its oil refinery by the end of 2021. The new site is expected to refine 650k barrels of oil per day, thereby more than doubling Nigeria's refining capacity. This should significantly reduce Nigeria's dependency on imported refined oil products.
- **Philippines:** The yoy rate of CPI inflation rose 2.5% in October from 2.4% yoy in September led by food prices. IP was down 11.9% on a yoy basis in September, the lowest reading since March, while the trade deficit narrowed to USD 1.7bn in September from USD 1.8bn in August.
- **Russia:** The yoy rate of CPI inflation rose to 4.0% in October from 3.7% in September, in line with consensus expectations.
- **South Africa:** The ABSA manufacturing PMI rose to 60.9 in October from 58.5 in September, while the Standard Bank PMI rose to a more modest 51.0 from 49.3 over the same period. Electricity consumption declined -2.1% on a yoy basis in September from -0.4% yoy in August.
- **South Korea:** The yoy rate of CPI inflation declined to 0.1% in October from 1.0% in September as one-off state subsidies on phone bills expired.
- **Taiwan:** Exports rose by a yoy rate of 11.2% in October, surprising consensus expectations to the upside despite the moderation of exports of chips due to the ban on Huawei, leading to a record trade surplus of USD 7.5bn from USD 7.1bn in September. The central bank is closely monitoring inflows to the local markets and its impact on TWD appreciation.

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Emerging Markets

- **Thailand:** The yoy rate of CPI inflation increased to -0.5% in October from -0.7% in September as core CPI rose 0.2% yoy in October from 0.3% yoy in the previous month.
- **Uruguay:** The yoy rate of CPI inflation declined to 9.7% in October from 9.9% in September. The central bank kept its policy rate unchanged at 4.5%

Global backdrop

- **US:** Former Vice President Joseph Biden won the 2020 presidential election. With 148.2m votes counted, Biden won 290 Electoral College votes, against 214 for President Donald Trump. Georgia and North Carolina are still too close to call, with the former likely to be won by Biden and the latter by Trump. Despite losing the election by a large number of Electoral College votes, President Trump refused to concede as lawsuits and/or vote recounts are likely in Arizona, Nevada, Michigan, Pennsylvania, and Georgia. The President's campaign also said it planned to ask for a recount in Wisconsin.[2] Challenging the votes puts at risk a smooth transition of power by leaving the door open for potential clashes between Republican and Democrat voters as well as impeding Biden's team in the transition to executive power. Furthermore, Senate control is currently split 48-50 in favour of Republicans with two seats disputed in the State of Georgia and set for a run-off on 5 January. This leaves a narrow possibility of a 50-50 split Senate, which would allow the Democrats to gain the majority as the Vice President can vote in case of a tied vote.

On the monetary policy front, the Fed made no changes to any of its monetary policy instruments, but signalled that it stands ready to increase the size, composition, and duration of its asset purchase programme. Federal Reserve Chairman Jerome Powell insisted that the economy still needs further fiscal stimulus for a speedy recovery. Powell also said the renewal of the various emergency lending facilities (including the one that allows the Fed to buy corporate bonds) will have to be discussed with the Treasury. The facility expires on 31 December this year.

In economic news, the labour market surprised to the upside overall. Non-farm payrolls rose to 638k in October after 672k in September, as private payrolls rose to 906k from 892k over the same period, despite jobless claims and weak ADP data earlier in the week. The unemployment rate dropped to 6.9% in October from 7.9% in September even as labour force participation increased to 61.7% from 61.4% previously and hourly earnings rose by 4.5% yoy. The resilient labour market data suggests that the economy needs a more targeted fiscal stimulus for sectors of the economy that are suffering the most rather than broad-based paychecks distributed indiscriminately across the population. The trade deficit narrowed marginally to USD 63.9bn in September from USD 67.0bn in August. Markit's Composite PMI rose to 56.3 in October from 55.5 in September driven by the Service PMI, which rose to 56.9 from 56.0 over the same period. ISM Manufacturing rose even faster to 59.3 in October from 55.4 in September as the new orders survey rose to 67.9 and prices paid to 65.5. Lastly, factory and durable goods orders came in line with expectations in September at 1.1% and 1.9%, respectively.

- **EU:** Retail sales declined 2.0% in September after a 4.0% rise in August, still sitting approximately 1.0% above the pre-pandemic levels. The indicator is likely to decline faster over the coming months as mobility restrictions are reintroduced in Europe. German IP rose 1.6% in September from 0.7% in August, keeping the indicator still 8% below the pre-pandemic levels. The German government's first round of lockdowns will not affect industry, but lower demand may still result due to lower consumer and business confidence as mobility restrictions tighten.

- **UK:** The Bank of England announced it will be buying GBP 150bn of UK gilts until the end of 2021, a larger than expected total programme, but scattered across a longer time horizon, in effect reducing the average pace of monthly purchases by 25%. The main objective of the programme is to keep the gilt market functioning even as the fiscal deficit widens towards 20% due to the pandemic shock.

[2] See: https://ballotpedia.org/Ballotpedia%27s_2020_Election_Help_Desk:_Tracking_election_disputes,_lawsuits,_and_recounts

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Benchmark performance

Emerging Markets	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
MSCI EM	6.62%	8.84%	7.83%	12.86%	4.12%	9.59%
MSCI EM Small Cap	5.58%	5.00%	2.67%	7.34%	-0.51%	4.59%
MSCI Frontier	1.28%	2.35%	-6.49%	-1.68%	-0.98%	3.62%
MSCI Asia	6.01%	8.98%	15.12%	19.62%	6.13%	10.94%
Shanghai Composite	2.72%	2.95%	11.13%	13.81%	1.64%	0.64%
Hong Kong Hang Seng	7.56%	11.75%	-2.29%	0.49%	0.76%	3.91%
MSCI EMEA	8.79%	4.34%	-16.30%	-12.62%	-3.22%	1.89%
MSCI Latam	11.24%	9.99%	-29.54%	-25.67%	-7.56%	2.94%
GBI EM GD	3.71%	4.15%	-2.44%	-0.28%	2.60%	4.96%
ELMI+	2.01%	2.44%	-1.66%	-0.14%	0.88%	2.59%
EM FX Spot	2.84%	2.92%	-8.58%	-7.09%	-4.88%	-2.77%
EMBI GD	2.28%	2.25%	1.73%	3.43%	4.22%	6.03%
EMBI GD IG	1.66%	1.75%	7.64%	9.13%	7.16%	7.09%
EMBI GD HY	3.05%	2.87%	-5.16%	-3.25%	0.85%	4.72%
CEMBI BD	0.88%	1.14%	3.75%	5.19%	4.98%	6.03%
CEMBI BD IG	0.66%	0.92%	5.57%	6.44%	5.77%	5.63%
CEMBI BD Non-IG	1.19%	1.45%	1.20%	3.37%	3.90%	6.72%

Global Backdrop	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
S&P 500	7.36%	4.50%	10.32%	16.25%	12.80%	13.05%
1-3yr UST	-0.01%	-0.05%	3.06%	3.37%	2.67%	1.88%
3-5yr UST	0.04%	-0.23%	5.98%	6.13%	4.04%	3.01%
7-10yr UST	0.31%	-0.99%	10.33%	9.78%	6.30%	4.68%
10yr+ UST	0.81%	-2.22%	18.65%	17.18%	10.54%	8.35%
10yr+ Germany	-0.37%	1.61%	9.08%	6.40%	7.91%	6.39%
10yr+ Japan	0.35%	0.07%	-1.79%	-1.95%	1.66%	3.01%
US HY	2.11%	2.63%	3.27%	5.44%	4.96%	6.83%
European HY	1.60%	1.84%	-1.63%	0.26%	1.36%	3.63%
Barclays Ag	1.30%	1.39%	7.20%	7.85%	4.70%	4.58%
VIX Index*	-34.61%	-5.73%	80.41%	105.97%	136.76%	50.48%
DXY Index*	-1.93%	-1.77%	-4.32%	-6.23%	-2.35%	-6.82%
CRY Index*	2.05%	-0.54%	-20.50%	-18.52%	-23.02%	-21.94%
EURUSD	2.10%	1.44%	5.90%	7.72%	2.16%	10.53%
USDJPY	1.13%	1.97%	4.92%	5.34%	9.38%	18.99%
Brent	7.93%	-1.27%	-38.74%	-35.32%	-36.76%	-14.33%
Gold spot	4.23%	3.18%	28.59%	34.50%	52.16%	79.62%

*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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