

Ships blocked, chips scarce

By Gustavo Medeiros

A large containership blocked the Suez Canal last week, disrupting global trade. Taiwan announced further water restrictions due to a long drought which risks exacerbating the supply of semiconductors. Indonesia announced investments in the electric vehicles industry. The Brazilian Congress pressured the government to take measures to control the covid-19 pandemic. The United States and the European Union sanctioned two Chinese officials for alleged human right abuses and China retaliated. Argentina quit the Lima Group. South Africa, Mexico and Colombia kept policy rates unchanged. Russia accelerated the pace of vaccinations against Covid-19. The Chilean capital Santiago went into a full lockdown.

Emerging Markets	Next year forward PE/Yield	Spread over UST	P&L (5 business days)
MSCI EM	13.4	–	-2.15%
MSCI EM Small Cap	10.9	–	-1.08%
MSCI Frontier	9.9	–	-0.78%
MSCI Asia	14.6	–	-1.98%
Shanghai Composite	11.5	–	0.40%
Hong Kong Hang Seng	9.8	–	-2.82%
MSCI EMEA	9.8	–	-1.60%
MSCI Latam	11.0	–	-3.62%
GBI-EM-GD	5.01%	–	-1.84%
China GBI-EM GD	3.15%	–	-0.38%
ELMI+	2.73%	–	-1.14%
EM FX spot	–	–	-1.53%
EMBI GD	5.23%	349 bps	-0.03%
EMBI GD IG	3.36%	156 bps	0.51%
EMBI GD HY	7.64%	596 bps	-0.65%
CEMBI BD	4.46%	301 bps	0.02%
CEMBI BD IG	3.19%	174 bps	0.28%
CEMBI BD HY	6.17%	471 bps	-0.33%

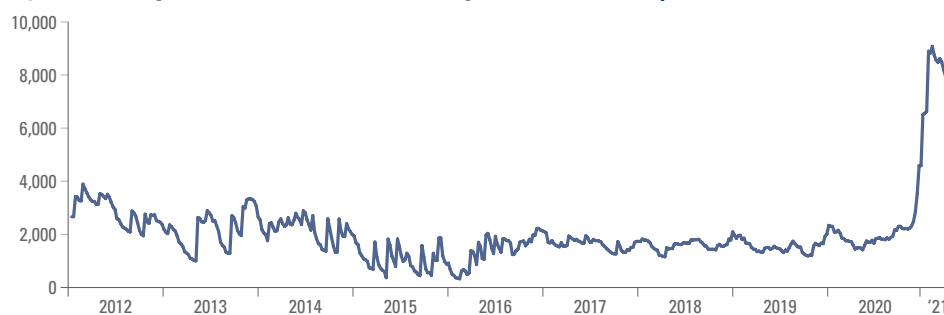
Global Backdrop	Next year forward PE/Yield/Price	Spread over UST	P&L (5 business days)
S&P 500	20.0	–	1.58%
1-3yr UST	0.14%	–	0.03%
3-5yr UST	0.85%	–	0.15%
7-10yr UST	1.65%	–	0.49%
10yr+ UST	2.35%	–	1.37%
10yr+ Germany	-0.35%	–	1.17%
10yr+ Japan	0.64%	–	0.63%
US HY	4.35%	325 bps	0.63%
European HY	3.20%	374 bps	0.14%
Bloomberg-Barclays	1.13%	-52 bps	-0.07%
VIX Index*	18.86	–	-2.09%
DXY Index*	92.83	–	1.09%
EURUSD	1.178	–	-1.29%
USDJPY	109.45	–	0.55%
CRY Index*	187.7	–	-1.06%
Brent	63.2	–	-2.26%
Gold	1,728	–	-0.66%
Bitcoin	55,002	–	0.82%

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

Emerging Markets

- Suez Canal:** A containership the size of the Empire State building got stuck sideways in the Suez Canal on Tuesday last week, blocking one of the world’s most important arteries of global trade. As of Sunday, more than 300 cargo ships were blocked from passing through the canal with some shippers re-routing via the longer route to Europe around Africa. The incident has destabilised further an already disrupted market for global shipping, which has seen cost of freight from Shanghai to Rotterdam rise by 345% compared to the same period in 2020 (Figure 1). The impact of the Suez Canal incident is likely to be transitory, in our view. Indeed, at the time of writing there are reports that the stricken ship has been refloated, pointing to the likelihood of a resumption of normal activity in the Suez Canal within a relatively short time.¹

Fig 1: WCI Shanghai to Rotterdam Container Freight Benchmark Rate per 40 Foot Box



Source: Bloomberg, Ashmore as at 25 March 2021.

¹ See <https://news.sky.com/story/suez-canal-breakthrough-as-huge-container-ship-partially-refloated-12259837>

Emerging Markets

- Taiwan:** The government introduced water restrictions due to the worst drought in 56 years cutting water supply to individual users in some counties starting on 6 April.² The semiconductor producer TSMC, a global leader, has announced that it will seek to obtain water from tanker trucks. The drought may exacerbate a global shortage of computer chips, which has so far impacted carmakers and pushed the prices of technology goods higher. In other news, the yoy rate of Industrial Production (IP) rose 2.0% in February from 19.0% in January. The rise was lower than the consensus expectations, but export orders remained very strong with a 48.5% yoy increase in February compared to yoy growth of 49.3% in January.
- Indonesia:** Hyundai announced a USD 1.5bn investment in an electric vehicle plant in Indonesia, targeting 250k vehicles production capacity. The minister of State Owned Enterprises Erick Thohir said Indonesia is seeking as much as USD 17bn from foreign investors including South Korea's LG Chem and China's Contemporary Amerex Technology Co to create a nickel-battery production centre for electric cars. The plan is to build a 140 gigawatt hour (GWh) capacity production by 2030. In other news, at least 19 worshippers were injured during an explosion in a Christian Cathedral in the city of Makassar on Palm Sunday. President Joko Widodo called the bombing a terrorist attack.
- Brazil:** The leader of the Lower House, Arthur Lira, said that pandemic control and a solid vaccination campaign are top priorities. Lira's statement came a few days after economists and business leaders sent a public "open letter to society" calling for better coordination of efforts to fight the pandemic at Federal level.³ In other news, the Supreme Court ruled that Judge Sergio Moro was not impartial in his prosecution of Lava Jato cases, thereby potentially nullifying verdicts in a number of corruption cases. In economic news, the current account deficit narrowed to USD 2.3bn in February (from USD 7.1bn in January), taking the deficit to USD 6.9bn (0.5% of GDP) over the last 12 months. Foreign direct investment (FDI) surprised to the upside at USD 9.0bn in February and USD 39.8bn (2.8% of GDP) over the past 12 months. The yoy rate of consumer prices index (CPI) inflation rose to 5.5% in the first 15-days of March from 4.6% yoy in February, while the yoy rate of core CPI inflation rose to 3.3% from 3.1% over the same period. Both inflation prints were in line with consensus expectations. Industrial confidence declined 3.7 to 104.2 in March.
- China:** The United States (US), United Kingdom (UK) and Canada joined the European Union (EU) in imposing sanctions on a small number of Chinese officials for alleged human rights abuses against Uyghurs in Xinjiang. Beijing retaliated by sanctioning US, Canadian and UK citizens and summoning the EU ambassador to China. In economic news, China's current account surplus moderated to USD 124bn in Q4 2020 from 130bn in Q3 2020, while the yoy pace of industrial profits spiked sharply to 178.9% the January-February period compared to 20.1% yoy in December and 4.1% yoy for 2020 as a whole, aided in part by base effects.
- Argentina:** Argentina left the Lima Group, a multilateral body formed by Latin American countries to find a peaceful solution to the humanitarian crisis in Venezuela. Argentina's government said that the economic blockade supported by the Lima Group only served to worsen the humanitarian crisis. Finance Minister Martin Guzman and the International Monetary Fund (IMF) said they have reached a common understanding on several areas including inflation, exports and capital market developments. Their press statement was issued just one day before Vice President Cristina Kirchner said that Argentina was unable to meet its IMF obligations, an attempt to shore up the government's approval rates which has been suffering due to a poor economy and the pandemic. In economic news, the primary fiscal deficit narrowed to ARS 18.8bn in February, which is 31% lower in nominal terms than at the same time last year, mainly due to higher revenues (up 49% in yoy terms compared to the 41% yoy increase in CPI inflation over the period).
- South Africa:** The South Africa Reserve Bank (SARB) kept its policy rate on hold at 3.5% in line with consensus expectations. SARB adjusted its expectation for inflation to a peak of 4.9% in yoy terms during Q2-2021 from 4.5% yoy previously due to higher oil prices. SARB then sees inflation declining to 4.3% yoy by year-end. The yoy rate of CPI inflation declined to 2.9% in February from 3.2% yoy in January, lower than the 3.1% yoy consensus expectation.
- Mexico:** The Central Bank of Mexico ('Banxico') kept the key monetary policy interest rate unchanged at 4.0%, in line with consensus expectations. Banxico revised its inflation forecast higher and now sees core CPI declining to around 3.5% by Q2 2022. The yoy rate of CPI inflation reached 4.1% in the first 15 days of March from 3.7% yoy in the previous month, thus rising above the ceiling of the inflation target of 4.0%. The trade surplus rose to USD 2.7bn in February from a deficit of USD 1.2bn in January. The yoy rate of retail sales declined 7.6% in January after falling 5.9% yoy in December.
- Colombia:** The Colombian Central Bank kept the policy rate unchanged at 1.75%. The Colombian government presented a tax reform to parliament with a larger than expected 2.2% of GDP increase in new revenues, mostly via a reduction in VAT exemptions and higher personal and corporate income taxes. The higher tax burden will be partially offset by an increase in social spending of 0.9% of GDP.

² See <https://www.techspot.com/news/89062-taiwan-introduces-further-water-restrictions-amid-drought-potentially.html>

³ See <https://www.reuters.com/article/us-health-coronavirus-brazil-idUSKBN2BE1ND>

Emerging Markets

- **Russia:** President Vladimir Putin called all Russians to get vaccinated as quickly as possible after receiving his first jab. In other news, Russia said it will start its first market for trading carbon credits next year in the remote Far East region of Sakalin, a bid to make the region carbon neutral by 2025. The scheme will be complemented by a quota system whereby polluters are required to buy carbon credits if they emit more than the allowed amount of carbon. Emission trading systems, if well designed, are efficient ways to limit carbon emissions.
- **Chile:** Capital city Santiago went into full lockdown due to an increase in cases in intensive care units among the younger unvaccinated part of the population. The Constitutional Commission of the Lower House agreed to hold a vote to approved a third round of pension fund withdrawals. Rating agency Standard & Poor's (S&P) downgraded the sovereign credit rating to 'A' from 'A+' and kept the outlook stable. S&P sees Chile's public finances as structurally weaker due to the impact of the coronavirus pandemic.

Snippets:

- **Costa Rica:** S&P kept Costa Rica's sovereign rating at 'B' with a negative outlook. The negative outlook reflects the possibility of a failure to implement the conditionality required under the recently agreed IMF deal with the country.
- **Czech Republic:** The Czech National Bank kept its policy rate unchanged at 0.25% in line with consensus expectations.
- **Egypt:** The trade deficit narrowed marginally to USD 3.2bn in January from USD 3.3bn in December.
- **Ghana:** The government started a roadshow to issue as much as USD 5bn in Eurobonds to finance the 2021 fiscal deficit and liability management. The central bank kept policy rate unchanged at 14.5%.
- **Hong Kong:** The yoy rate of CPI inflation declined to 0.3% in February from 1.9% yoy in January.
- **Hungary:** The National Bank of Hungary kept the policy rate unchanged at 0.6%, noting that headline inflation is likely to temporarily rise to around 5.0% yoy in April, above the 4.0% inflation target ceiling. The current account surplus declined to USD 185m in Q4 2020 from USD 667m in Q3 2020.
- **Kenya:** Remittances from Kenyans living abroad rose 19% on a yoy basis to USD 260m in February.
- **Malaysia:** The government announced a MYR 20bn (1.3% of GDP) fiscal stimulus package, which raises the 2021 fiscal deficit to 6.0% of GDP (compared to the 5.4% of GDP deficit originally envisaged in the original budget). The yoy rate of CPI inflation rose to 0.1% in February from -0.2% yoy in January.
- **Nigeria:** The Nigerian Central Bank kept its policy rate unchanged at 11.5% in line with consensus expectations despite rising inflationary pressures.
- **Peru:** Leading presidential candidate Yonhy Lescano said mining companies were not yielding enough revenue for Peru as he pledged to engage in a dialogue with mining companies to implement a profit sharing mechanism in accordance with international standards.
- **Philippines:** The Central Bank of the Philippines (CBP) kept its policy rate unchanged at 2.0% in line with consensus expectations. CBP increased its 2021 inflation forecast to 4.2%, which is higher than the 2.0% to 4.0% inflation target range.
- **Poland:** The unemployment rate was unchanged at 6.5% in February, in line with consensus expectations.
- **Saudi Arabia:** The government proposed a cease-fire under the supervision of the United Nations (UN) to end the war in Yemen. The initiative is dependent on Iran-backed Houthis' acceptance.
- **Singapore:** The yoy rate of IP expanded 16.4% in February, in line with consensus expectations. This compares to 9.2% yoy in January. The yoy rate of CPI inflation rose to 0.7% in February from 0.2% yoy in January due to higher services costs and petrol prices.
- **Thailand:** The trade surplus rose to USD 7m in February from a deficit of USD 202m in January, although this was lower than the median expectations for a USD 1.5bn surplus. Exports declined at a yoy rate of 2.6% while imports rose 22.0% yoy. The Central Bank of Thailand kept its policy rate unchanged at 0.5%.

Global backdrop

- Coronavirus:** The worldwide number of coronavirus cases is once again rising. The seven-day moving average increased to 69 cases per million from 46 cases per million on 20 February. On a regional basis, the EU had the most new cases (366 cases per million, from 207 in 20 February), while South American cases per million rose sharply to 261 from 166 in 20 February. North America saw a small decline in cases to 125 per million (from 138 in the 20 February). In Europe, the rise in cases was particularly severe in Sweden, France, Czech Republic, Hungary, Poland, Bulgaria and Estonia, where cases jointly increased by more than 500 confirmed cases per million people on a 7d ma basis. In South America, Brazil, Chile, Uruguay and Peru have seen more than 300 cases per million people on a moving average basis over the past seven days.

The pace of vaccinations accelerated significantly in Russia, China, India, Indonesia, Singapore, Brazil and Hong Kong last week. EM countries are therefore on track to vaccinate 30% of their populations by the end of 2021. China's vaccination pace tripled to 32% of its population per year, while Russia's pace quadrupled to a pace consistent with 54% of the population per year. In comparison, developed economies are on track to vaccinate 72% of their populations by the end of 2021 as US President Joe Biden pledged to double the vaccination target to 200m people during his first 100 days in office. The US Centre for Disease Control and Prevention said that 91.7m citizens (27.6% of the US population) have received at least one dose of the vaccine and 50.1m people (15.1% of the population) have received two shots.⁴ A total of 39.3m people above the age of 65 years (71.8% of the age group) has received at least one dose of the vaccine.

- United States:** President Joe Biden will announce this week his infrastructure investment plan to reboot the economy. The plan is likely to be worth as much as USD 3tn. The measures will most likely require tax increases, which could prove far more difficult to approve than the recent USD 1.9tn stimulus. Economic data surprised to the downside as the Citibank Surprise Index declined to 24.4 on 26 March from 41.0 in the previous week, which is the lowest level since April 2020. Durable goods orders declined 1.1% in February from a 3.5% increase in January with overall shipments declining 3.5%. New home sales declined to 775k in February from 948k in January, below consensus expectations. The trade deficit narrowed by USD 3bn to USD 86.7bn in February, in line with consensus expectations. On the other hand, the labour market got stronger as initial jobless claims declined to 684k in the week ending on 20 March from 781k in the previous week and continuing claims declined to 3.9m in the week ending on 13 March from 4.1m prior. Economic surveys also improved at the margin: Markit's services purchasing managers index (PMI) rose to 60.0 in March from 59.8 in February, the manufacturing PMI rose to 59.0 in March from 58.6 in February. The University of Michigan consumer confidence survey was revised up to 84.9 in March from the preliminary reading of 83.0. Total credit card spending reported by Bank of America increased 45% yoy and 23% from two years ago for the week ending on 20 March as recipients of fiscal stimulus cheques accelerated their spending.

- United Kingdom:** Bank of England chief economist Andy Haldane said the UK economy will have a "rip roaring" recovery if consumers spent just a fraction of the savings they have accumulated during the pandemic.⁵

- European Union:** The German IFO business survey rose 3.9 to 96.6, led by a 5.4 increase in the expectations component which hit 100.4. The current conditions component rose 2.4 to 93.0. The Euro area composite PMI rose by 3.7 to 52.5 in March, which was better than consensus expectations as the manufacturing PMI rose by 4.5 to 62.4. German Finance Minister Olaf Scholz introduced a supplementary budget, which increases the fiscal deficit in 2021 to EUR 240bn (6.7% of GDP) from EUR 60bn (1.7% of GDP). This compares to a fiscal deficit of EUR 130bn last year.

⁴ See <https://covid.cdc.gov/covid-data-tracker/#vaccinations>

⁵ See <https://www.bloomberg.com/news/articles/2021-03-24/boe-s-chief-economist-says-rip-roaring-recovery-is-possible?sref=zUof49Zi>

Benchmark performance

Emerging Markets	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
MSCI EM	-2.20%	1.50%	1.50%	57.34%	6.27%	13.00%
MSCI EM Small Cap	0.66%	6.74%	6.74%	87.71%	5.37%	10.15%
MSCI Frontier	-0.06%	0.46%	0.46%	37.06%	-1.33%	6.61%
MSCI Asia	-2.80%	2.34%	2.34%	58.76%	8.79%	14.59%
Shanghai Composite	-2.58%	-1.57%	-1.57%	26.55%	5.42%	5.12%
Hong Kong Hang Seng	-2.50%	2.12%	2.12%	20.68%	0.33%	8.94%
MSCI EMEA	2.22%	5.34%	5.34%	44.79%	-1.58%	6.29%
MSCI Latam	2.72%	-7.03%	-7.03%	37.70%	-6.37%	4.84%
GBI-EM-GD	-3.09%	-6.70%	-6.70%	11.83%	-0.78%	3.73%
China GBI-EM GD	-0.80%	0.42%	0.42%	8.19%	na	na
ELMI+	-1.34%	-2.49%	-2.49%	7.84%	-0.53%	2.45%
EM FX spot	-1.81%	-3.69%	-3.69%	4.95%	-6.45%	-2.85%
EMBI GD	-0.61%	-4.20%	-4.20%	15.57%	4.44%	5.27%
EMBI GD IG	-0.37%	-5.06%	-5.06%	8.93%	6.63%	5.53%
EMBI GD HY	-0.89%	-3.21%	-3.21%	24.30%	1.98%	4.92%
CEMBI BD	-0.56%	-0.72%	-0.72%	18.99%	6.25%	6.27%
CEMBI BD IG	-0.58%	-1.54%	-1.54%	12.92%	6.38%	5.33%
CEMBI BD HY	-0.52%	0.39%	0.39%	28.10%	6.08%	7.76%

Global Backdrop	Month to date	Quarter to date	Year to date	1 year	3 years	5 years
S&P 500	4.40%	6.19%	6.19%	53.71%	16.51%	16.54%
1-3yr UST	0.01%	-0.02%	-0.02%	0.48%	2.84%	1.78%
3-5yr UST	-0.27%	-1.12%	-1.12%	-0.03%	4.25%	2.42%
7-10yr UST	-1.88%	-5.21%	-5.21%	-4.46%	5.42%	2.67%
10yr+ UST	-4.34%	-12.93%	-12.93%	-14.52%	6.72%	3.48%
10yr+ Germany	0.21%	-5.50%	-5.50%	-1.18%	5.72%	3.02%
10yr+ Japan	1.77%	-0.53%	-0.53%	-1.66%	1.00%	0.45%
US HY	-0.12%	0.58%	0.58%	27.22%	6.78%	8.06%
European HY	0.49%	1.72%	1.72%	25.61%	3.61%	4.73%
Bloomberg-Barclays Agg	-1.49%	-4.04%	-4.04%	5.80%	2.87%	2.99%
VIX Index*	-32.52%	-17.10%	-17.10%	-71.22%	-5.56%	36.47%
DXY Index*	2.15%	3.22%	3.22%	-5.63%	2.97%	-2.45%
CRY Index*	-1.42%	11.88%	11.88%	51.54%	-3.91%	9.48%
EURUSD	-2.45%	-3.59%	-3.59%	6.61%	-4.24%	4.32%
USDJPY	2.70%	6.00%	6.00%	1.57%	2.84%	-2.87%
Brent	-4.49%	21.93%	21.93%	153.35%	-10.12%	61.37%
Gold	-0.37%	-8.99%	-8.99%	6.48%	30.33%	39.06%
Bitcoin	20.43%	89.68%	89.68%	749.11%	674.87%	13,154.66%

*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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