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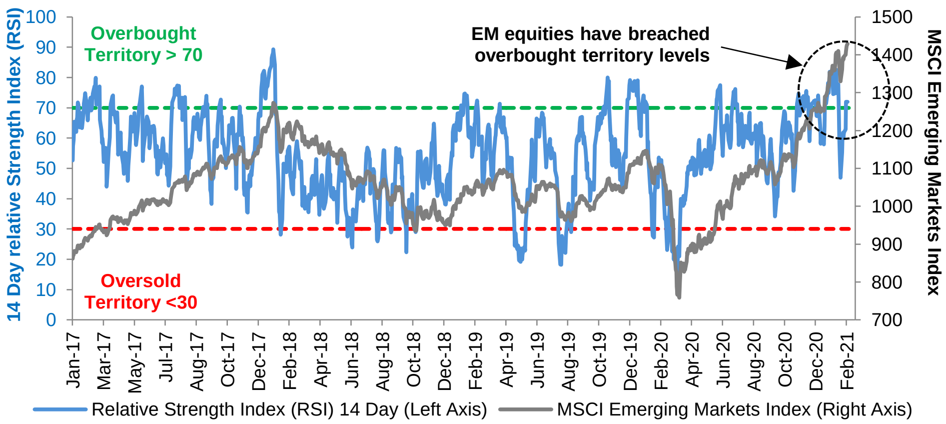
What could end the bullish EM party early?

CHART OF THE WEEK: EMERGING MARKET EQUITY BENCHMARK HAS RISEN TO A RECORD HIGH BUT CONTINUES TO DISPLAY SIGNS OF OVERHEATING

MSCI EMERGING MARKET (MXEF) INDEX AND MXEF 14 DAY RELATIVE STRENGTH INDEX (RSI)



Source: Bloomberg, MUFG Research

Macro focus

What could end the bullish EM party early?

Investing in EM is never without risks and we highlight four headwinds that could end the bullish EM party early in 2021

MUFG's base case for emerging markets (EM) in 2021 reflects a broadening and deepening global economic recovery that should lead to EM outperformance given the high cyclical sensitivity of EM assets (see here and here). Across global markets, EM assets embed most tangibly a combination of (i) cyclicality, (ii) commodity exposure, (iii) China sensitivity and (iv) pockets of deep value, all of which could be in favour through the course of 2021. These tailwinds, in tandem with a (i) recalibration of the US back towards the rules-based global trading system, (ii) loose US financial conditions, (iii) a robust outlook for EM capital flows (risk-on appetite, rising reserves and relatively cheap currencies) and (iv) our weak USD expectations, all provide support for the EM asset complex. Notwithstanding our broad bullish EM perspective, investing in EMs is never without risks, and we are however not ready to lower our guard completely. We highlight four headwinds that remain on the horizon:

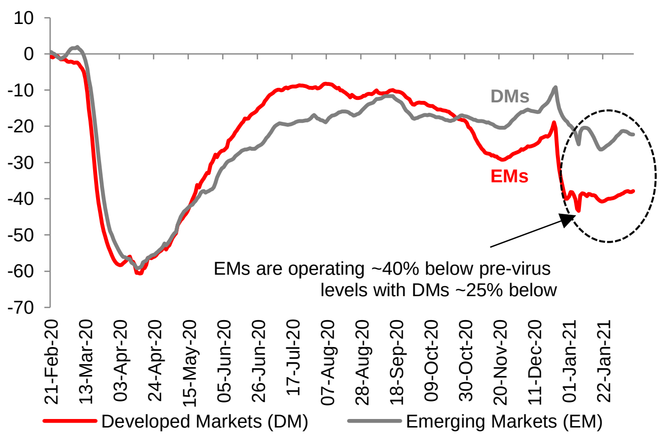
1. COVID-19 setbacks. Still lingering apprehensions surrounding virus mutation, fresh restrictions, vaccine inefficacy and issues surrounding inoculation – especially given that EMs are at the back of the global queue on vaccine rollout.
2. EM risk premium. Following an aggressive easing cycle last year, EM's risk premium cushion is very low (if not negative in terms of real rates), leaving it vulnerable to any premature pullback in global liquidity.
3. Limited policy room. The unprecedented monetary and fiscal loosening in navigating the virus last year, leaves very limited room for additional policy support from EM should that be needed, with fiscal financing needs and debt service ratios currently at elevated levels.
4. Inflation risks. Inflation risks for EMs should not be overlooked – EMs are a lot more vulnerable to the recent precipitous uptrend in global commodity prices and EM corporates are also keen to beef up their margins after last year's recessionary levels.

COVID-19 setbacks are ever present

Front of mind is the risk of a disappointment in the vaccine-led global economic recovery stemming from COVID-19 setbacks. Whilst the latest COVID-19 case counts appears to demonstrate an easing, elongated lockdowns and mobility restrictions could complicate the outlook. What's more, there are still lingering

RECENT COVID-19 SETBACKS HAVE WEIGHED ON HIGH FREQUENCY ACTIVITY INDICATORS

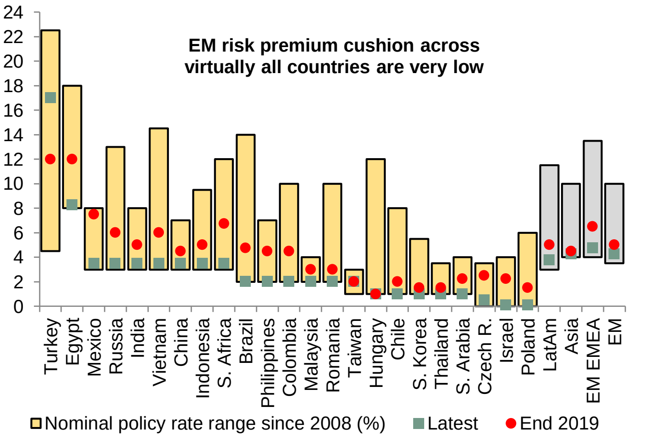
GOOGLE MOBILITY TRENDS – RETAIL AND RECREATION



Source: Google, ourworldindata.org, MUFG Research

MONETARY POLICY RATES HAVE DECLIN TO THEIR LOWEST LEVELS ON THE BACK OF AGGRESSIVE EASING

MONETARY POLICY RANGES, END 2019 AND LATEST (%)



Source: EM Central Banks, MUFG Research apprehensions surrounding the prospects of virus mutations, fresh restrictions, vaccine inefficacy and issues surrounding inoculation, whilst a significant deal will depend on a swift vaccine rollout with many EMs currently at the back of the global queue.

EM's risk premium has declined following last year's unprecedented easing cycle

The lack of risk premium in EMs is another headwind, following the extraordinary easing cycle last year. Total cumulative rate cuts by EM Central Banks was at 3,275bps – even after the net 500bps hike from the Central Bank of Turkey), in 2020, while there were also QE-like monetary operations to enhance the overall liquidity in the system. This has brought EM's risk premium cushion to very low levels, if not negative in terms of real interest rates, leaving many large EMs susceptible to any premature pullback in global liquidity. Although not our core scenario, even a minor repricing of the monetary policy outlook in developed markets (DM), such as the Fed's first rate hike or even a tapering of QE levels, and/or higher DM rates could undoubtedly pressurised the EM asset complex.

Limited policy room to manoeuvre

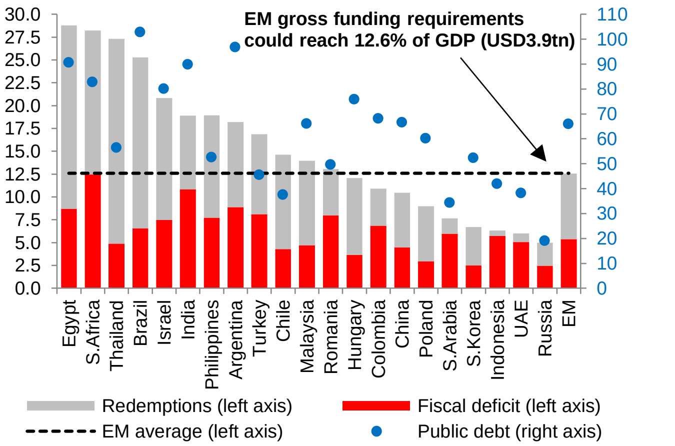
In line with DMs, EM Central Banks have also been aggressive with their policy easing last year, aiming to ease financial conditions to support economic activity. Such unprecedented monetary and fiscal loosening signals that there is now limited room for additional policy support should that be needed. In addition, the fiscal financing needs will likely remain high in 2021, with our estimates indicating that gross borrowing requirements will remain considerable which in addition to fiscal deficits, implies significant public sector redemptions in 2021. According to our estimates, EM gross borrowing requirements could reach 12.6% of EM GDP (USD3.9tn), in 2021, from an estimated 11.3% of EM GDP (USD3.4tn), in 2020. The rise in EM public debt is now accentuated by foreign investors' cautious appetite for local currency bonds.

Inflation risks are increasing

Finally, EM inflation risks are on the rise. First, EMs are more vulnerable to the recent rise in global food prices, which have reached the highest level since 2014 (see here). Moreover, the base effects from last year's oil price collapse will increase the pass-through effects of energy costs various components of the CPI basket. Separately, money supply has witnessed a surge last year, given the QE-like bond purchasing programmes, which could lead to inflationary risks given the expectation of accelerating economic activity. Also, EM corporates are also keen to beef up their margins after last year's recessionary levels, and thus the increase in producer prices (as input prices are rising faster than output prices) could be passed onto individuals through higher consumer prices.

GROSS BORROWING REQUIREMENTS REMAIN SIZABLE ADDING PRESSURE TO ALREADY HIGH DEBT LEVELS

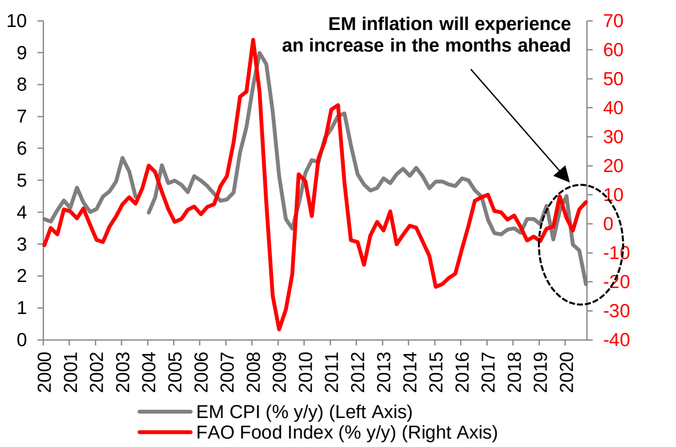
GROSS BORROWING REQUIREMENTS IN 2021 (% OF GDP)



Source: EM Central Banks, IMF, MUFG Research

HIGHER FOOD PRICES, ALONGSIDE HIGHER ENERGY COSTS, WILL FEED INTO HIGHER EM INFLATION

EM CPI (% Y/Y) AND FAO FOOD INDEX (% Y/Y)



Source: EM Official Statistics, FAO, MUFG Research

FX views

EM FX: Soft start to the year challenges bullish outlook for EM FX

EM FX rebounds after weakness in January. ZAR has almost fully reversed losses from start of year when US yields rose sharply

EM currencies have staged a modest rebound over the past week following a softer January. EM currency gains have been led by the CLP (+1.8% vs USD), the KRW (+1.5%), ZAR (1.0%) and RUB (+0.7%). While the Latam currencies of the ARS (-0.5%) and BRL (-0.2%) continue to underperform. The release of the weaker non-farm payrolls and US CPI reports for January have both helped to dampen the USD's upward momentum at the start of this year. At the same time Chair Powell has reiterated that the Fed will be in no rush to tighten rates (click here) helping to maintain a supportive environment for EM FX. The ZAR was one of the hardest hit currencies thus far in 2021 as long-term UST yields rose sharply but it has now largely reversed its losses. A similar picture is evident for foreign purchases of South African bonds which have picked up strongly after the sell off at the start of January.

EM assets have been outperforming so far this year

EM currencies are deriving support from the relative outperformance of EM assets. MSCI's emerging market equity index has hit a new record high over the past week, and now stands just over 10% above levels at the end of last year. In contrast, the YTD gains for the MSCI's developed (World) equity market index have been more modest at just over 4%. Emerging market equity indices have clearly been outperforming developed market equity indices since the middle of last year. It is the longest period of outperformance since January 2016 to March 2018. On that occasion EM FX also outperformed the USD. At the same time, JPMorgan's EMBI Global spread has continued to narrow and has now almost returned to pre-COVID shock levels at the start of last year.

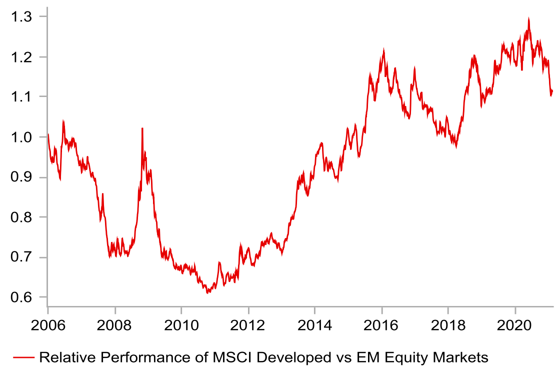
Capital inflows into EM remain strong although slowdown in equity inflows highlights that recovery remains precarious

The IIF has highlighted that capital flows into EMs have remained strong so far in 2021. The IIF estimated that EM securities attracted around USD53.5 billion of inflows in January. They cautioned though that inflows into EM equities excluding China had slowed (USD6 billion) but that was more than offset by the fourth largest monthly inflow into EM debt markets (USD29bn excluding China) over the last 18 months. Weakness in EM equity flows was concentrated at the end of January but have since picked up in February – debt flows have has continued to strengthen.

Key FX take away: Maintaining a bullish outlook for EM FX but recent weakness highlights risks

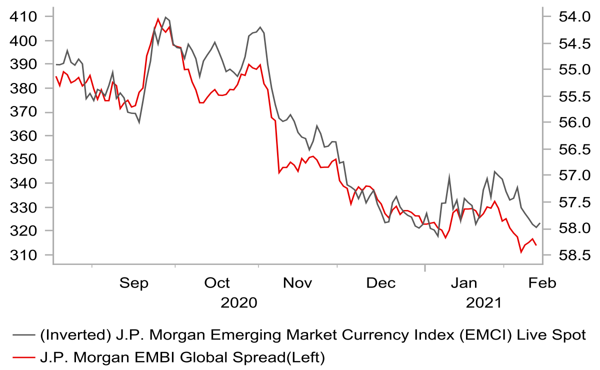
In these circumstances, we continue to maintain bullish outlook for EM FX (click here). However, it is clear that our bullish outlook is not without the risk of setbacks along the way as we've already seen at the start of the year. It remains notable that the performance of Latam currencies continues to lag other emerging market currencies during the recovery from the COVID shock.

EM EQUITIES OUTPERFORM EARLY IN 2021



Source: Bloomberg, Macrobond, MUFG GMR

EM BOND SPREAD CONTINUES TO TIGHTEN



Source: Bloomberg, Macrobond, MUFG GMR

Week in review

Inflation talk is heating up: we see material pass-through from PPIs to CPIs in EMs

Inflation is increasingly becoming top of mind

Inflation has been a growing worry for investors globally. While it is not a new concern, concerns have recently intensified given that the US is likely to pour USD1.9tn on what will look like a hot, reopening economy. We are increasingly becoming concerned about inflation apprehensions particularly in EMs (see here). The reason is that CPI baskets in EM have much larger commodity shares than developed markets, and both energy and food prices have been surging. Importantly, the current increase in commodity prices is already higher than it was in 2016 (back then on the back of the China stimulus). In annualised terms, the commodity price rises are likely to continue, both due to the base effects but also due to continued strong demand. This signals to us that, on the PPI level, EM will likely see further significant price rises. For monetary policy, the key question is to what extent the PPI pressure will pass-through into higher CPIs. EM Central Banks must hope that the pass-through has fallen over time, maybe similar to the pass-through from FX. However, the evidence for a falling sensitivity of CPIs to PPIs is not robust – indeed, the most recent spikes in PPIs have still led to a pickup in CPIs. Our examination leads us to suggest that at current PPI levels, CPIs can rise by ~80-100bps, and this is assuming PPI is constant (in fact it will likely continue to increase).

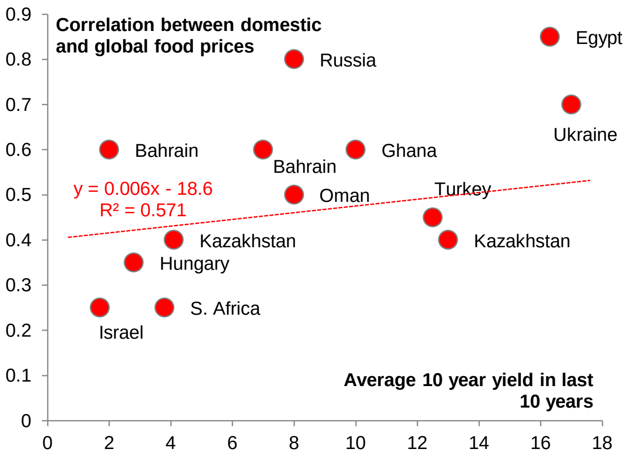
Russia: CBR on hold at 4.25% but hawkish messaging was unexpected

Russia on hold but hawkish signals prompts us to reassess the timing of rate cuts

The Central Bank of Russia (CBR) kept its key rate at 4.25%, in line our (and consensus) expectations. What was surprising however was the CBR's statement, which turned more hawkish. The CBR replaced its previous statement that disinflationary risks will "not prevail in 2021 as much as before" with "disinflationary risks no longer prevail over a one-year horizon". With this, the CBR also changed its rates guidance from "the Board will assess the subsequent developments and the existence of a potential for additional key rate reduction" to it "will determine the timeline and pace of a return to neutral monetary policy", removing the implicit cutting bias and potentially introducing a hiking bias. However, Governor Nabiullina was clear in the press conference that the CBR did not discuss hikes and expects monetary policy to remain accommodative throughout 2021. We make two core

EM HIGH YIELDERS COMPRISE HIGHER SENSITIVITY TO GLOBAL FOOD PRICES …

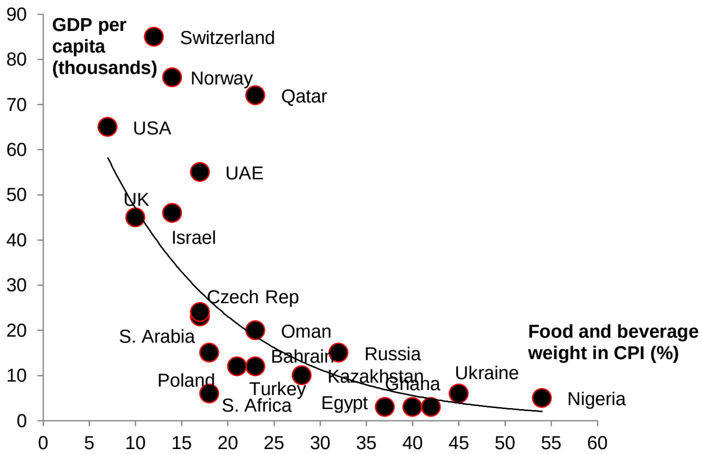
CORRELATION BETWEEN FOOD AND BEVERAGE INFLATION VS. GLOBAL FOOD PRICES – BASED ON THE LAST TEN YEARS



Source: National Official Sources, MUFG Research

… WITH A HIGHER SHARE OF FOOD IN THE CPI BASKET IN EM HIGH YIELDERS GIVEN LOWER DEVELOPMENT

GDP PER CAPITA (USD, THOUSANDS) VS. FOOD WEIGHT IN CPI (%)



Source: IMF, National Official Sources, MUFG Research observations from the CBR meeting. First, the change in guidance is primarily a function of the CBR becoming more confident in the recovery – while it did maintain its 2021 growth forecast unchanged at 3-4%, it raised its forecasts for domestic demand and exports compensating the impact on GDP with an assumption of significantly higher import growth. Second, whilst the CBR raised its 2021 end-year inflation forecast form the October projection of 3.5-4% to 3.7-4.2%, we believe the change is backward-looking. After the November 2020 food price shock, we continue to forecast Russia's inflation rate will peak at 5.3% y/y this month, and thereafter fall to 4.3% y/y by June, 3.8% y/y by September and then to 3.0% y/y by year-end, when the base effects from the 2020 depreciation ebbs away. From a monetary policy perspective, whilst our conviction remains that the rate cutting cycle is not complete, the timing of cuts is more challenging to predict and we now assume rates remaining on hold this year, followed by a 25bp cut in Q1 2022 (we previous assumed 75bps in cumulative cuts in 2021).

Turkey: current account deficit narrows more than anticipated in December

Turkey's current account narrowed in December and will likely narrow further throughout 2021

Standing at USD3.2bn, Turkey's current account deficit in December came in narrower than the consensus forecast (USD3.7bn) and our projection (USD3.5bn). The improvement was largely due to the performance of the goods trade balance. As part of the end-year revisions, the November current account deficit was revised narrower, from USD4.1bn to USD3.6bn. Net financial inflows were very strong, at USD9.2bn – USD3.2bn due to banks reducing their currency and deposits abroad, USD2.3bn due to Eurobond issuance, USD2.0bn due to inflows into local government debt. As inflows were more than enough to finance the current account deficit, reserves increased by USD6.7bn. On a 12 month rolling basis, The current account deficit was USD36.7bn in 2020 (~5% of GDP). Going forward, we expect this to narrow to 3.5% of GDP as gold imports normalise, imports slow down with tighter credit conditions and services exports partially recover. However, higher oil prices and activity running at an elevated rate (barring the most recent retail sales volume print) signals that risks are for a wider deficit print this year.

Regional inflation: prices up in Czech Rep and Romania, flat in Hungary

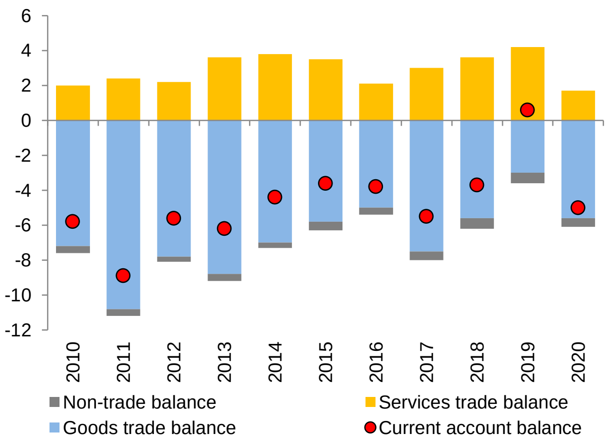
Mixed January inflation readings in CEE

Last week witnessed inflation prints across central and eastern Europe (CEE):

1. Czech Republic. Headline inflation in the Czech Republic edged down from 2.3% y/y in December to 2.2% y/y in January, significantly higher than our

TURKEY'S CURRENT ACCOUNT WAS IN DEFICIT TERRITORY IN 2020 GIVEN WEAKER GOODS/TRADE

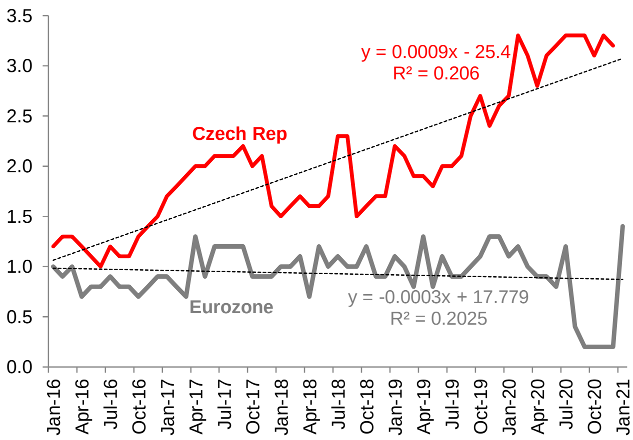
TURKEY CURRENT ACCOUNT BALANCE AND COMPOSITION (% OF GDP)



Source: Bloomberg, CBRT, MUFG Research

STARK SPREAD BETWEEN CZECH AND EUROZONE INFLATION IN RECENT YEARS

CZECH REP. AND EUROZONE CORE CPI (% Y/Y)



Source: Bloomberg, CNB, Eurostat, MUFG Research (and consensus forecasts of 1.7% y/y), and the Czech National Bank's (CNB) (1.7% y/y) expectations significantly to the upside. The upside surprise was driven by higher food inflation. From a rates perspective, the large upside surprise to inflation is still broadly in line with our forecast towards a hawkish direction. Our estimates remains for the CNB to start normalising policy rates before year-end with one 25bp hike in Q4 2021 and 75bp of cumulative hikes in 2022, with the risks skewed towards more tightening and an earlier start to the tightening cycle, especially if inflation does not moderate over the first months of 2021 as we expect (see here).

2. Romania. Inflation in Romania increased precipitously increasing from 2.1% y/y in December to 3.0% y/y in January, materially above expectations (our and consensus forecasts was for 2.4% y/y). The increase was driven by a strong increase in energy price inflation with core inflation in fact falling from 2.9% y/y to 2.7% y/y. Looking ahead, we expect headline inflation to continue to rise to average 3.5% y/y in 2021 from 2.6% y/y in 2020 though higher prices are being driven by non-core items, and we expect core inflation to decline from 3.0% y/y in 2020 to 2.2% y/y this year. At its last meeting, the National Bank of Romania (NBR) cut its key policy rate by 25bp to 1.25%, and we project the NBR to leave rates on hold until 2022.
3. Hungary. Headline inflation in Hungary was unchanged again at 2.7% y/y in January, in line with our (and consensus) expectations. The component breakdown signalled that there were offsetting contributions from non-core items, while underlying inflation measures were slightly stronger in January. Looking ahead, we expect relatively benign underlying inflation dynamics, but administrative price changes and sharp base effects in energy inflation in the first half of 2021 point to elevated headline inflation volatility in the near term. Set against this, we think that the Central Bank of Hungary (MNB) will remain cautious and keep the gap between the one-week deposit rate (0.75%) and the base rate (0.60%) throughout 2021.
4. Egypt. Headline inflation in Egypt surprised to the downside, falling from 5.4% y/y in December to 4.4% y/y in January, on the back of falling food prices (once again) – the largest and most volatile component of the CPI index. We believe medium-term inflationary pressures will remain subdued due to three main factors: (i) structurally lower food inflation, (ii) a strong Pound (EGP), and (iii) a moderate negative output gap. Our expectation that inflation will stabilise at ~5% y/y in the medium term (lower end of the Central Bank of Egypt's (CBE) inflation target of 7% ± 2pp). This reinforces our view that the CBE is likely to cut rates by up to 100bps this year.

South Africa: state of the nation address breeds relief and risks

South Africa's budget to push for speedier fiscal consolidation and reduced borrowing but debt sustainability still requires reforms

South African President Ramaphosa's state of the nation address last week affirmed a commitment to infrastructure spend, state-owned enterprise (SOE) reforms and more timely inoculation against COVID-19 virus. Buoyant tax revenues in recent months have given the near-term fiscal outlook a much-needed boost, and provide scope for a swifter pace of consolidation when Finance Minister Mboweni, outlines the Budget on 24 February. Combined with robust financing and the substantial build-up of cash, this should allow the government to reduce bond issuance, and meet some short-term spending needs around COVID-19 economic risks and the vaccine rollout. Also, it also offers scope to postpone some of the proposed tax increases, given the counterproductive impact of tax hikes in recent years. Importantly, it also gives us greater confidence around the medium-term outlook, especially if the government implements the ZAR300bn (USD21bn) of wage-led spending cuts outlined in the Medium-Term Budget Policy Statement (MTBPS) over the next three years. We remain conservative, though with an improved starting point and larger tax base, we see scope for the deficit to narrow to 8.8% of GDP next year.

Week ahead

Turkey: CBRT to keep rates on hold at 17% and reiterate hawkish stance

Turkey to remain on hold

The Central Bank of Turkey (CBRT) is set to meet on 18 February and we expect it to keep policy rates on hold at 17.0% (in line with consensus). The January monetary policy committee (MPC) statement and Governor Agbal's hawkish comments, which have strengthened the CBRT's tightening bias, were well received by the markets. We view that the CBRT's laser focus on its determination to maintain a tight stance for an extended period and its intention to carry out additional tightening if needed bode well for supporting the current positive sentiment among investors. Having said that, the challenges stemming with the unwinding of the robust monetary expansion and the secular nature of the deterioration in inflation dynamics leaves little scope for policy slippage. With this, our expectation is that the recovery in the Lira (TRY) as well as the improvement in the risk premium are likely to lead the CBRT to keep rates on hold this week. We would caution that risks are tilted for higher rates in the near-term, should inflation continue to surprise to the upside and market pressure builds on the CBRT to act. As we catalogued following last month's CBRT's policy announcement, we continue to believe markets would welcome the further restoration of macroeconomic stability through a carefully calibrated and credible CBRT strategy to bolster FX reserves – part of which was welcomed by Governor Agbal's communication last week that it will increase the CBRT's reserves through auctions, de-dollarisation in domestic settlements as well as stable/strong capital inflows.

GDP Q4 2020: sequential growth in Israel, Hungary, Romania and Ukraine

A host of regional Q4 2020 GDP data this week

This week sees a host of Q4 2020 GDP prints in the EM EMEA region:

1. Ukraine (15 February). We forecast growth to continue to recover, rising from -3.5% y/y in Q3 2020 to -0.5% y/y in Q4, above the consensus forecast of -0.8% y/y. For the full year, this quarterly outturn would suggest slight upside risk to our forecast for growth of -3.9% in 2020, consistent with the view that the economy has weathered the virus relatively better than its past experience with shocks and comparatively to peer EM economies. The driving force is the robust rebound in high frequency indicators, led by the recovery in the industrial sector as well as buoyant consumption and retail trade levels. Going forward, whilst Q1 GDP will be pulled down the winter mobility restrictions, we envisage a robust recovery from the spring and project GDP growth of 4.4% this year (consensus 3.6%).
2. Hungary (16 February). Partial lockdown measures imposed in November will have acted as a drag on growth, with our forecasts for GDP to print at a -5.1% y/y (consensus -5.6% y/y). Looking ahead, there remains considerable uncertainty surrounding rollout of vaccines despite coordination at the EU level, but we maintain our expectation for a strong rebound this year (5.4%; consensus 4.4%).
3. Romania (16 February). Better-than-expected retail sales and industrial production is likely to have led GDP to register a smaller annualised decline – our forecast is for -5.8% y/y – than consensus expectations of -6.3% y/y.
4. Israel (16 February). With the introduction of the second (and draconian) lockdown at the end of September 2020, consumption indicators pertaining to credit card spending and store sales, has counterbalancing a host of other high frequency indicators – PMIs, business tendency survey and the state of the economy index – which put together signals that GDP is likely to have declined -2.5% y/y (consensus -2.6% y/y).

January inflation releases: anchored in Poland, Israel, Saudi Arabia and South Africa

Regional inflation data for January

This week also sees a host of inflation data for January across the EM EMEA region:

1. Poland (15 February). We forecast inflation to decline from 2.4% y/y in December to 2.2% y/y in January (consensus 2.4% y/y). A core driver will be the implications of the recent administrative price changes, such as electricity price increases, on the overall headline figure. We continue to expect relatively benign underlying inflation dynamics in 2021, and view that the National Bank of Poland (NBP) will look through any adjustments in inflation (the Polish Statistical Office is currently reviewing the CPI weights).
2. Israel (15 February). Our expectations is for the headline inflation rate to remain unchanged at -0.7% y/y in January, although we expect CPI to begin picking up entering positive territory from May onwards as positive base effects will filter through. However, inflation will likely remain below the Bank of Israel's (BoI) 1-3% inflation target range for a considerable period. Whilst Israel's phoenix-like vaccination rollout will boost consumption and with it growth, the material spare capacity in the economy will keep domestic inflationary pressures in check. The Shekel (ILS) has depreciated by ~4% following the announcement last month from the BoI that it will expand its FX purchases to USD30bn this year. Whilst material, it will likely only reverse a negligible worth of ILS appreciation, and hence our expectations is for externally driven inflationary pressures to remain subdued.
3. Saudi Arabia (16 February). Inflation is like to have remained elevated in January with weaker food and housing inflation expected to offset further increases in health inflation. We view that the ramifications of the tripling in VAT to 15% in July 2020 will continue to keep the headline rate elevated until mid-2021, spurred on by robust domestic demand momentum given the country's success in controlling the spread of the virus.
4. South Africa (17 February). Headline inflation is expected to rise from 3.1% y/y in December to 3.3% y/y in January – with our expectation that core inflation is unchanged, also at 3.3% y/y. Food and energy inflation is likely to have been a key driver of inflation upwards last month but will likely begin to ebb away in the months ahead.

Weekly calendar

	Country	Day	GMT	Indicator/Event	Period	MUFG Forecast	Consensus	Previous	Market Moving
	Romania	15/02/2021	---	Current	Dec	---	4.7% y/y	-2.2% y/y	!!
	Poland	15/02/2021	09:00	CPI, % y/y	Jan	2.2% y/y	2.4% y/y	2.4% y/y	!!!
	Czech Rep.	15/02/2021	09:00	Current account balance, CZK bn	Dec	---	CZK2.9bn	CZK18.3bn	!!
	Poland	15/02/201	13:00	Current account balance, EUR m	Dec	---	EUR1000m	EUR1725m	!!
	Ukraine	15/02/2021	14:30	Real GDP, % y/y	Q4 2020	-0.5% y/y	-0.8% y/y	-3.5% y/y	!!!
	Israel	15/02/2021	16:30	CPI, % y/y	Jan	-0.7% y/y	-0.6% y/y	-0.7% y/y	!!!
	Nigeria	16/02/2021	---	CPI, % y/y	Jan	---	16.1% y/y	15.8% y/y	!!!
	S. Arabia	16/02/2021	---	CPI, % y/y	Jan	---	---	5.3% y/y	!!!
	Romania	16/02/2021	07:00	Real GDP, % y/y	Q4 2020	-5.8% y/y	-6.3% y/y	-5.7% y/y	!!!
	Hungary	16/02/2021	08:00	Real GDP, % y/y	Q4 2020	-5.1% y/y	-5.6% y/y	-4.6% y/y	!!!
	Israel	16/02/2021	11:00	Real GDP, % y/y	Q4 2020	-2.5% y/y	-2.6% y/y	39.7% y/y	!!!
	South Africa	17/02/2021	08:00	CPI, % y/y	Jan	3.3% y/y	31.% y/y	5.4% y/y	!!!
	South Africa	17/02/2021	08:00	Core CPI, % y/y	Jan	3.3% y/y	3.3% y/y	3.8% y/y	!!!
	Poland	17/02/2021	09:00	Gross average wages, % y/y	Jan	---	5.1% y/y	6.6% y/y	!!
	South Africa	17/02/2021	11:00	Retail sales, % y/y	Dec	---	2.3% y/y	-4.0% y/y	!!
	Poland	18/02/2021	09:00	Industrial production, % y/y	Jan	---	1.0% y/y	11.2% y/y	!!
	Turkey	18/02/2021	11:00	Interest rate announcement, %	Feb	17.00%	17.00%	17.00%	!!!
	Russia	18/02/2021	16:00	Retail sales, % y/y	Jan	---	-3.0% y/y	-3.6% y/y	!!
	Russia	18/02/2021	16:00	Unemployment, %	Jan	---	6.0%	5.9%	!!
	Poland	19/02/2021	09:00	Retail sales, % y/y	Jan	---	-5.0% y/y	-0.8% y/y	!!

Source: Bloomberg and MUFG Research

Forecasts at a glance

EM EMEA economic growth, fiscal balance and current account balance

	Real GDP (%, y/y)			Fiscal balance (% of GDP)			Current account (% of GDP)		
	Latest	2020	2021	Latest	2020	2021	Latest	2020	2021
Bahrain	-9.24	-3.82	3.51	-10.61	-13.72	-8.54	-2.06	-9.18	-6.73
Czech Rep.	-5.00	-6.50	5.12	0.27	-7.30	-4.29	4.91	-0.68	-0.53
Egypt	-4.26	2.84	3.51	-7.41	-6.90	-6.38	-4.17	-3.82	-3.40
Greece	-11.01	-9.50	4.12	0.57	-8.99	-3.01	-2.73	-7.74	-4.47
Hungary	-4.60	-6.10	3.90	-2.05	-8.28	-3.86	-2.08	-1.57	-0.85
Iraq	4.43	-12.06	2.53	0.86	-17.53	-13.06	1.12	-12.65	-12.06
Israel	-1.50	-5.89	4.87	-3.91	-12.94	-7.05	5.41	3.55	3.50
Jordan	1.96	-5.00	3.40	-5.98	-9.14	-7.37	-8.50	-6.80	-5.68
Kenya	5.37	1.05	4.67	-7.73	-8.39	-8.53	-5.82	-4.90	-5.39
Kuwait	0.43	-5.92	3.74	5.38	-23.20	-15.83	0.08	-2.81	-1.31
Lebanon	-6.90	-25.00	-9.20	-10.50	-16.53	---	-27.45	-16.33	-9.60
Libya	9.89	-66.65	76.02	2.19	-102.94	-43.22	-0.30	-59.76	-22.44
Morocco	-7.20	-6.97	4.92	-4.13	-7.79	-6.02	11.66	-7.28	-5.22
Nigeria	-3.62	-4.28	1.70	-4.76	-6.74	-4.97	-3.45	-3.65	-2.02
Oman	-0.83	-10.00	-0.55	-7.06	-18.71	-16.82	-4.94	-14.57	-12.90
Poland	-1.50	-3.56	4.60	-0.74	-10.46	-4.34	1.16	3.03	1.77
Romania	-5.66	-4.80	4.57	-4.56	-9.59	-8.08	-10.15	-5.27	-4.51
Qatar	-4.50	-4.48	2.52	4.93	3.03	3.33	-27.37	-0.60	2.57
Russia	-2.93	-4.12	2.82	1.92	-5.29	-2.57	0.88	1.17	1.83
Saudi Arabia	-4.60	-4.80	3.40	-4.45	-10.56	-7.75	1.30	-4.80	4.57
South Africa	-6.00	-8.00	3.00	-2.27	-9.32	-6.09	1.40	-1.62	-1.79
Turkey	6.70	-0.90	4.80	-5.65	-7.88	-7.93	0.00	-3.66	-0.89
Ukraine	-3.50	-7.20	3.00	-2.04	-7.81	-5.25	1.76	4.32	-3.02
UAE	1.70	-5.20	4.50	-0.76	-9.90	-5.05	1.92	3.55	7.49

EM EMEA inflation, interest rates and FX

	Inflation (% y/y, average)			Policy interest rates (%)			FX (against USD)		
	Latest	2020	2021	Latest	End-2021	End-2022	Latest	End-2021	End-2022
Bahrain	-1.60	2.80	2.30	2.25	2.25	2.25	0.377	0.377	0.377
Czech Rep.	2.20	2.40	2.20	0.25	0.25	0.25	25.735	19.840	20.100
Egypt	4.30	6.18	7.89	11.06	11.06	11.06	0.064	15.590	16.520
Greece	-2.32	0.69	0.88	0.00	0.00	0.00	1.212	1.280	1.2600
Hungary	2.70	3.39	3.04	0.60	0.60	0.60	295.710	277.300	285.70
Iraq	3.20	1.00	1.50	4.00	4.00	4.00	1460.000	1460.000	1460.000
Israel	-0.69	0.17	0.50	0.10	0.10	0.50	3.252	3.240	3.200
Jordan	-0.35	1.41	6.50	3.25	3.25	3.25	0.709	0.709	0.709
Kenya	5.70	5.00	5.00	7.00	7.00	7.00	109.450	116.330	115.400
Kuwait	2.95	2.30	2.50	1.50	1.50	1.50	0.302	0.303	0.302
Lebanon	145.84	85.45	32.30	2.75	2.75	2.75	1507.000	1512.000	1520.000
Libya	4.56	15.12	15.12	3.00	3.00	3.00	4.449	4.472	4.434
Morocco	-0.30	0.80	1.20	1.50	1.50	1.50	8.945	8.700	8.800
Nigeria	15.80	12.69	11.15	11.50	11.50	11.50	381.000	398.000	405.200
Oman	-1.42	3.40	3.00	0.95	0.95	0.95	0.385	0.385	0.385
Poland	2.40	2.27	1.91	0.10	0.10	0.10	3.711	3.461	3.4900
Romania	2.99	2.50	2.67	1.25	1.25	1.25	4.022	3.992	4.0700
Qatar	-1.29	1.81	2.88	1.00	1.00	1.00	3.641	3.641	3.642
Russia	5.19	3.25	3.20	4.25	4.25	4.25	73.706	68.830	68.000
Saudi Arabia	5.30	3.70	2.01	0.50	0.50	0.50	3.751	3.751	3.752
South Africa	3.10	3.88	4.30	3.50	3.50	3.50	14.548	14.800	15.800
Turkey	14.97	11.93	11.37	17.00	17.00	18.00	0.142	7.400	8.2000
Ukraine	6.10	5.98	5.70	6.00	6.00	6.00	27.938	29.950	28.900
UAE	-2.09	1.50	2.00	0.60	0.60	0.60	3.673	3.673	3.673

Core indicators

EM EMEA sovereign bond yields (%)

	Maturity	15-Jan	22-Jan	29-Jan	05-Feb	12-Feb	Change in yield (basis points) Week	MTD	YTD
Bahrain	10 years	2.90	2.86	2.83	2.54	2.51	-2.67	-32.21	-46.26
Czech Rep.	10 years	1.04	1.04	1.11	1.20	1.21	1.48	10.16	19.04
Egypt	9 years	5.13	5.12	5.12	4.93	4.94	0.73	-17.98	-1.08
Greece	8 years	0.53	0.58	0.57	0.55	0.53	-1.65	-3.38	1.77
Hungary	8 years	1.77	1.72	1.72	1.77	1.78	1.02	6.06	10.38
Israel	8 years	0.13	0.13	0.13	0.12	0.11	-0.13	-1.53	-2.61
Jordan	5 years	3.56	3.65	3.49	3.40	3.53	13.13	4.03	-9.49
Kenya	7 years	5.31	5.25	5.21	4.85	4.91	6.18	-29.96	-23.32
Kuwait	6 years	1.27	1.27	1.24	1.26	1.29	3.45	4.66	15.65
Lebanon	9 years	51.63	52.63	53.61	52.04	52.00	-3.89	-161.26	219.20
Morocco	11 years	1.66	1.66	1.61	1.57	1.65	8.03	4.33	-8.01
Nigeria	9 years	5.98	5.98	6.08	5.80	5.89	8.60	-19.33	-8.14
Oman	9 years	5.67	5.53	5.24	4.90	5.02	12.05	-22.07	-45.79
Poland	8 years	-0.14	-0.13	-0.14	-0.14	-0.14	-0.63	-0.49	-0.61
Romania	7 years	1.11	1.12	1.08	1.03	0.98	-4.53	-10.17	-13.41
Qatar	9 years	1.72	1.77	1.72	1.75	1.73	-1.24	1.09	9.57
Russia	5 years	1.76	1.79	1.74	1.73	1.70	-3.02	-3.41	-0.37
Saudi Arabia	8 years	2.03	2.07	2.03	2.00	2.00	-0.31	-3.17	10.05
South Africa	9 years	4.52	4.49	4.52	4.25	4.29	3.92	-22.92	0.16
Turkey	7 years	5.20	5.14	4.92	4.73	4.76	3.27	-15.17	-10.89
Ukraine	8 years	6.17	6.09	6.19	5.74	5.89	14.69	-30.71	-0.07
Abu Dhabi	7 years	1.31	1.29	1.29	1.28	1.29	1.27	0.81	5.27
Dubai	8 years	2.53	2.54	2.45	2.40	2.45	4.39	-0.72	-14.85

EM EMEA equity market (index)

	08-Jan	15-Jan	22-Jan	29-Jan	05-Feb	12-Feb	Change (%) Week	MTD	YTD
Bahrain	1,451	1,459	1,453	1,457	1,465	1,462	-0.18	-0.03	-1.85
Czech Rep.	122,386	123,481	118,329	118,883	119,725	119,429	-0.25	3.79	0.35
Egypt	10,952	11,453	11,655	11,579	11,619	11,507	-0.97	-0.34	6.10
Greece	820	794	797	754	764	776	1.54	3.55	-4.07
Hungary	43,085	44,876	44,250	43,552	44,016	43,389	-1.42	-0.29	3.19
Israel	1,541	1,594	1,613	1,599	1,603	1,609	0.35	2.22	7.31
Jordan	1,677	1,722	1,708	1,718	1,722	1,731	0.53	0.24	4.45
Kenya	154	158	156	157	157	164	4.33	5.42	7.83
Kuwait	5,537	5,656	5,687	5,748	5,701	5,697	-0.07	-1.44	2.72
Lebanon	658	661	658	658	658	658	0.00	2.98	3.33
Morocco	9,179	9,226	9,383	9,503	9,581	9,418	-1.71	-0.66	2.48
Nigeria	40,591	40,963	41,099	42,169	42,000	40,440	-3.71	-4.65	0.42
Oman	3,699	3,639	3,748	3,649	3,604	3,556	-1.31	-2.65	-2.80
Poland	2,074	2,032	1,953	1,988	1,941	1,937	-0.19	-0.56	-2.36
Romania	9,989	10,309	10,313	10,308	10,391	10,492	0.98	1.80	7.00
Qatar	10,678	10,914	10,736	10,545	10,472	10,508	0.34	0.33	0.69
Russia	3,371	3,491	3,423	3,342	3,343	3,427	2.50	4.58	4.20
Saudi Arabia	8,737	8,899	8,876	8,807	8,543	9,036	5.77	3.83	3.98
South Africa	58,006	58,736	58,969	58,084	57,829	60,674	4.92	5.87	11.57
Turkey	1,522	1,547	1,552	1,498	1,534	1,538	0.32	4.41	4.18
Ukraine	499	499	499	514	521	521	0.06	1.46	4.27
Abu Dhabi	5,164	5,267	5,611	5,642	5,675	5,666	-0.15	1.30	12.30
Dubai	2,626	2,702	2,736	2,697	2,713	2,623	-3.30	-1.17	5.26

EM EMEA FX against USD*

	08-Jan	15-Jan	22-Jan	29-Jan	05-Feb	12-Feb	Change (%) Week	MTD	YTD
USD Index	89.826	90.772	90.238	90.455	91.042	90.480	-0.62	-0.11	0.60
Bahrain**	0.379	0.379	0.379	0.379	0.378	0.378	0.00	0.05	0.08
Czech Rep.	21.414	21.662	21.450	21.465	21.402	21.239	-0.76	1.06	1.11
Egypt	15.699	15.649	15.723	15.723	15.699	15.601	-0.62	-0.78	-0.94
Greece***	1.222	1.208	1.217	1.214	1.205	1.212	0.61	-0.13	-0.79
Hungary	294.200	298.390	293.750	294.540	296.490	295.710	-0.26	-0.40	0.42
Israel	3.188	3.265	3.272	3.284	3.289	3.252	-1.10	0.97	-1.21
Jordan**	0.709	0.709	0.709	0.709	0.709	0.710	0.06	-0.06	-0.11
Kenya	109.890	109.890	0.009	0.009	0.009	0.009	0.00	0.00	1.10
Kuwait	0.303	0.303	0.303	0.303	0.303	0.302	-0.21	0.18	0.31
Lebanon	1,520.00	1,517.50	1,516.00	1,508.00	1,512.00	1,507.00	-0.33	0.07	0.53
Morocco	8.832	8.925	8.930	8.947	8.986	8.945	-0.45	0.02	-0.40
Nigeria	387.950	386.500	381.500	381.000	381.000	381.000	0.00	0.00	4.41
Oman**	0.389	0.388	0.389	0.388	0.388	0.388	-0.08	0.08	0.13
Poland	3.754	3.753	3.753	3.753	3.753	3.753	-0.01	0.01	0.03
Romania	3.986	4.035	4.006	4.016	4.047	4.022	-0.60	-0.15	-1.10
Qatar**	3.671	3.670	3.664	3.664	3.667	3.665	-0.07	-0.01	0.88
Russia	73.927	73.630	75.296	75.746	74.651	73.706	-1.27	2.77	0.96
Saudi Arabia**	3.754	3.753	3.753	3.753	3.753	3.753	-0.01	0.01	0.03
South Africa	15.439	15.231	15.148	15.161	14.844	14.548	-2.00	4.22	1.01
Turkey	7.352	7.473	7.417	7.308	7.058	7.035	-0.33	3.88	5.76
Ukraine	3.752	3.751	3.751	3.751	3.751	3.751	-0.01	0.00	0.02
UAE**	3.675	3.675	3.675	3.675	3.675	3.675	-0.01	0.01	0.01

Note: * Exchange rate quoted as amount of USD per currency in line with market convention, other exchange rates are amount per USD; ** 12 month forward given pegged against USD; *** EUR per USD

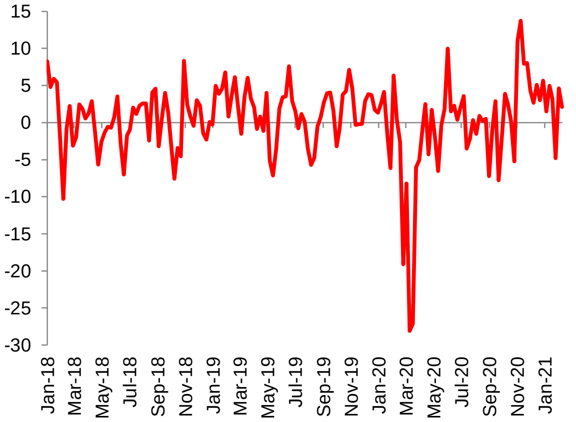
EM EMEA 5 year CDS spreads (basis points)

	08-Jan	15-Jan	22-Jan	29-Jan	05-Feb	12-Feb	Change in yield (basis points) Week	MTD	YTD
Bahrain	233.66	242.54	239.68	247.41	237.10	239.27	2.16	-8.14	-1.56
Czech Rep.	36.18	36.20	35.38	35.30	35.24	35.23	-0.01	-0.07	-0.51
Egypt	321.34	322.23	321.06	339.44	325.39	320.49	-4.90	-18.96	-18.55
Greece	94.57	97.82	97.41	95.84	88.68	81.82	-6.86	-14.02	-19.60
Hungary	60.20	60.21	60.21	60.20	59.77	59.77	0.00	-0.43	-0.45
Israel	44.88	46.29	42.13	41.22	40.36	40.37	0.02	-0.85	-5.85
Kenya	325.09	323.47	323.91	326.94	314.45	304.04	-10.41	-22.90	-37.24
Kuwait	45.23	45.23	45.23	45.73	45.73	44.23	-1.50	-1.50	0.00
Morocco	108.67	112.63	105.00	113.41	109.03	109.04	0.01	-4.38	-3.29
Nigeria	309.39	309.39	309.35	310.96	329.43	329.57	0.14	18.62	-6.57
Oman	352.33	362.95	334.29	335.75	338.99	341.21	2.22	5.33	-20.40
Poland	58.85	58.61	50.47	48.11	48.93	48.25	-0.68	0.14	-9.65
Romania	86.73	87.09	83.90	83.90	82.89	82.90	0.00	-1.01	-1.99
Qatar	42.46	45.09	45.01	44.66	41.37	41.05	-0.32	-3.61	2.63
Russia	86.14	89.49	95.49	95.96	83.31	85.64	2.33	-10.33	-0.28
Saudi Arabia	64.30	68.32	68.39	67.14	62.09	62.57	0.47	-4.58	-2.84
South Africa	219.14	229.66	228.65	227.69	203.14	208.18	5.04	-19.51	4.00
Turkey	311.75	331.58	330.23	310.96	285.96	290.74	4.78	-20.23	-13.65
Ukraine	366.02	379.58	372.68	377.61	354.07	367.61	13.54	-10.01	-21.03
Abu Dhabi	42.53	44.90	44.93	44.64	41.22	41.34	0.13	-3.29	2.97
Dubai	109.47	110.00	114.81	114.35	109.15	100.99	-8.17	-13.36	-11.08

EM capital flows

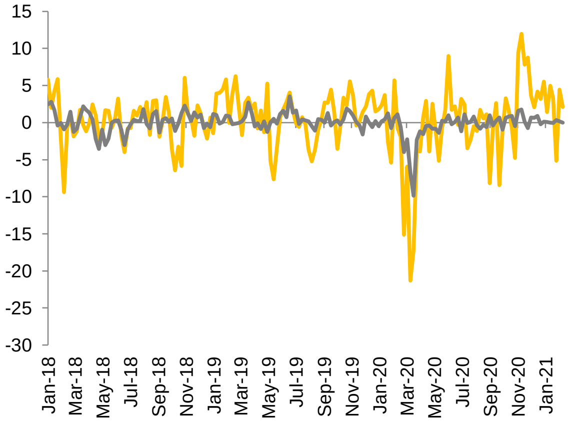
WEEKLY TOTAL EM INFLOWWS OF USD2.1BN – 12 FEBRUARY

TOTAL WEEKLY PORTFOLIO FLOWS (DEBT AND EQUITY) (USD BN)



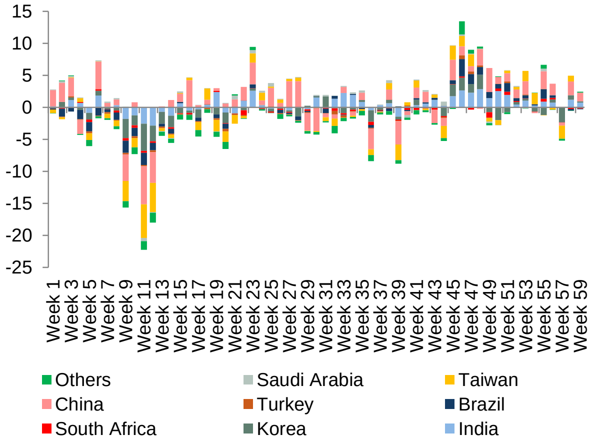
WEEKLY EM INFLOWS FROM EQUITY (USD2.1BN) WHILST DEBT INFLOWS WERE FLAT (USD0.0BN) – 12 FEBRUARY

WEEKLY DEBT AND EQUITY FLOWS (USD BN)



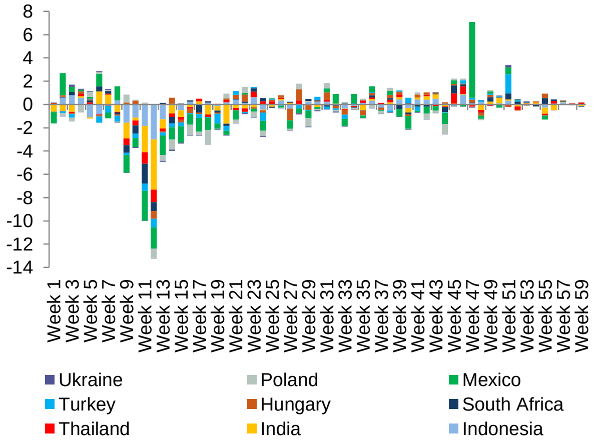
CHINA (USD1.4BN) AND INDIA (USD0.5BN) LED WEEKLY EQUITY OUTFLOWS – 12 FEBRUARY

WEEKLY PORTFOLIO FLOWS BY COUNTRY SINCE JANUARY 2020 (EQUITY) (USD BN)



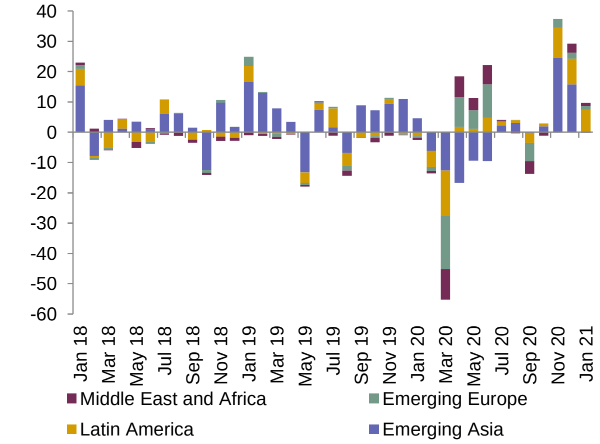
THAILAND (USD0.2BN) LED WEEKLY DEBT INFLOWS – 12 FEBRUARY

WEEKLY PORTFOLIO FLOWS BY COUNTRY SINCE JANUARY 2020 (DEBT) (USD BN)



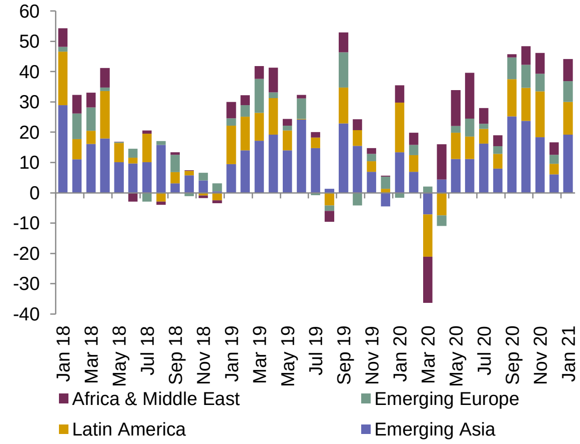
LATIN AMERICA LED (USD7.5BN) EQUITY FLOWS FOLLOWED BY EM EUROPE (USD1.3BN) – JANUARY

MONTHLY PORTFOLIO FLOWS BY COUNTRY (EQUITY) (USD BN)



EMERGING ASIA LED (USD19.2BN) DEBT FLOWS FOLLOWED BY LATAM (USD10.8BN) – JANUARY

MONTHLY PORTFOLIO FLOWS BY COUNTRY (DEBT) (USD BN)



Source: Bloomberg, IIF, MUFG Research

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