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Broader but slower emerging market hiking cycle

Macro focus: EM monetary policy leaders – those in the camp of front-loaded rate normalisation paths by initiating rate hikes early and at a speed of tightening that has been in line with historical hiking cycles – have been rewarded by markets over the last six months with their risk assets performing well. Our inflation models signal that rate increases will broaden across a host of EMs over the next twelve months. However, the pace of rate increases will slow as inflationary pressures either peak in some economies, or remains at benign levels in others.

FX views: After a less hawkish than expected Jackson Hole, EM FX appears to have a near-term runway for outperformance, notably for BRL, ZAR, THB and TRY. In a data-heavy week ahead, EM FX will be driven by a host of EM PMI readings for August, US non-farm payrolls and scattered CPI prints. Also, month end trading could implicate liquidity and flow dynamics adding market volatility across EM FX.

Trading views: A dovish Jackson Hole allows a window for EM outperformance. Historically cheap valuations relative to developed markets alongside flows that have been negative for some time are key reasons to remain constructive on the EM story.

Week in review: Over the previous week, Hungary hiked rates (30bps to 1.50%) as expected, Kuwait's consumer spending slowed in July to the lowest rate since November 2020 and South Africa's unemployment rate hit a record high (34.2%).

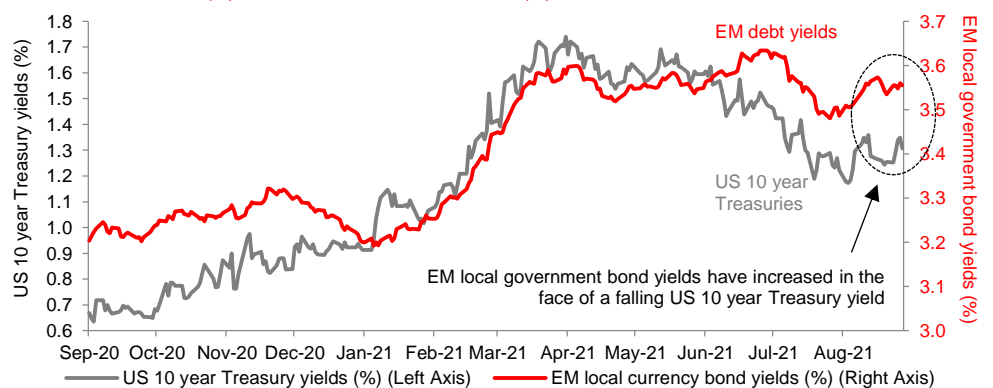
Week ahead and calendar: In a busy week ahead, PMIs will be released for major EMs in August, whilst we get inflation readings for August in Turkey, and Turkey will also publish its Q2 2021 GDP estimate.

Forecasts at a glance: We expect full year EM EMEA growth of 4.3% (consensus 4.1%), reflecting the view that post-vaccine reopenings, accommodative fiscal policies, pent-up savings and limited scarring effects will support the recovery.

Core indicators: Notwithstanding delta variant concerns, a weaker USD and renewed risk-on appetite led to a rebound in EM capital flows (USD1.2bn) for the first time in three weeks (EM equity [USD1.4bn w/w] and bond funds [USD-0.2bn]).

CHART OF THE WEEK: EM BOND YIELDS DECOUPLE FROM US TREASURIES

EM BOND YIELDS (%) AND US 10 YEAR TREASURIES (%)



Macro focus

Broader but slower emerging market hiking cycle

More EMs to begin tightening monetary policy but at a more moderate pace relative to early hikers

EM early hikers have been rewarded by markets

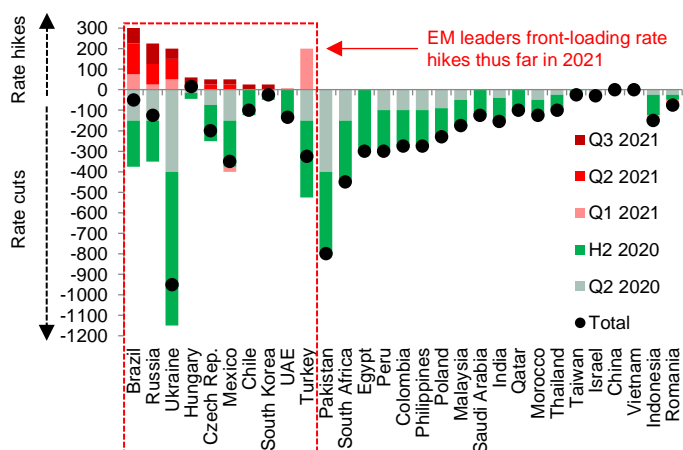
EMs that have not hiked as of yet are mainly due to virus uncertainties and slow vaccination rates as well as idiosyncratic factors

The EM hiking cycle that started in early March, is now six months old. Monetary policy leaders – those in the camp of front-loaded rate normalisation paths by initiating rate hikes early and at a speed of tightening that has been in line with historical hiking cycles – have been rewarded by markets with risk assets performing well. Our inflation models signal that rate increases will broaden across a host of EMs over the next twelve months. However, the pace of rate increases will slow as inflationary pressures either peak in some, or remains at benign levels in others.

EM monetary policy leaders – those that are in the camp of front-loaded rate normalisation paths by initiating rate hikes recently, with markets rewarding such proactive tightening – are increasingly gaining traction. In EM EMEA, Czech Republic, Russia, Turkey and Ukraine are already several months into front-loaded hiking cycles – although we caution that the neo-Fisherite rebellion narrative could push Turkey towards a premature easing cycle in Q4 2021 – see [here](#)). What's more, the Czech Republic and Hungary have combined rate hikes with hawkish forward guidance. For LatAm, Brazil remains the stand-out EM, proactively hiking since March. Also, Mexico, Chile and Peru have all turned to hikes following hawkish impulses. Meanwhile, in Asia, the monetary policy narrative has shifted for South Korea, with policymakers cautiously hiking over the previous week.

Monetary policy normalisation for all other EMs though could be delayed given virus uncertainties and slow vaccination rates and, with it, dampening hopes of a speedy economic recovery. In terms of those EMs that have taken a different course, China is of note, recently implementing a reserve requirement ratio (RRR) cut and some additional liquidity provisions. Separately, Thailand has kept a dovish bias of late. Others have a more neutral stance, such as Malaysia and Poland, remain behind the curve. This still delays the inevitable scaling back of liquidity provisions and rate rises, and not only during a less accommodative Fed, but also when EM peers have already embarked on a tightening cycle. Such a delay runs the risk of building up in term premium and steeper curves, at least for EM high yielders. Indeed, the front-end of the many EM rates curve implies a solid degree of tightening by the end of 2022, and most have implied rates that reflect a return to the average policy rate over the

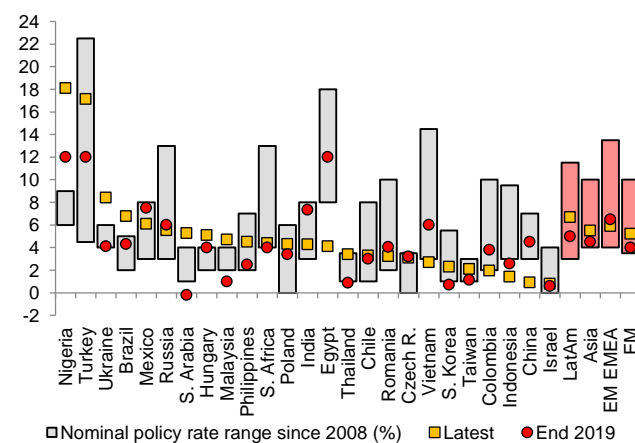
MONETARY POLICY NORMALISATION INCREASINGLY TAKING HOLD ACROSS EM'S, WITH SEVERAL LEADERS CHANGE IN EM INTEREST RATES BY TIME PERIOD (BASIS POINTS)



Source: Bloomberg, MUFG Research

EM INFLATION HAS BEEN SURGING IN RECENT MONTHS BUT MOST REMAIN WITHIN CENTRAL BANK TARGETS

EM INFLATION: CENTRAL BANK TARGETS, END 2019 AND LATEST (%)



Source: Bloomberg, EM Central Banks, MUFG Research

past five years. Such an implied policy path of normalisation though needs to be validated by EM central bank action or certain EMs run the risk of being more susceptible to a disorderly exist of accommodative policy and inflation becoming unhinged beyond just temporary bottleneck surges in prices.

Transitory vs permanent inflation debate across EMs continues – we remain in the transitory camp

From a macro standpoint, inflation still remains elevated across EMs. A confluence of higher commodity prices, base effects, reopening reverberations and fast-recovering developed markets (DM) demand have driven headline inflation rates sharply higher in recent months. This development, in conjunction with the rapid improvement in global growth prospects (we believe that the delta variant will delay, not derail, the global rebound), has led to market apprehensions surrounding the question of whether the inflation spike is transitory and will normalise after a few months, or becoming permanent and we enter a prolonged period of elevated price pressures. In our view, in what will likely transpire as a positive development, we believe that EMs are approaching peak inflation concerns, as commodity prices begin to stabilise and core inflation starts to roll off as supply-side constraints ease. On net, we do not expect a long-lasting uptrend in inflation and envisage price pressures diminishing once the disruptions in supply chains are restored.

EM inflation is broadly set to ease from now onwards

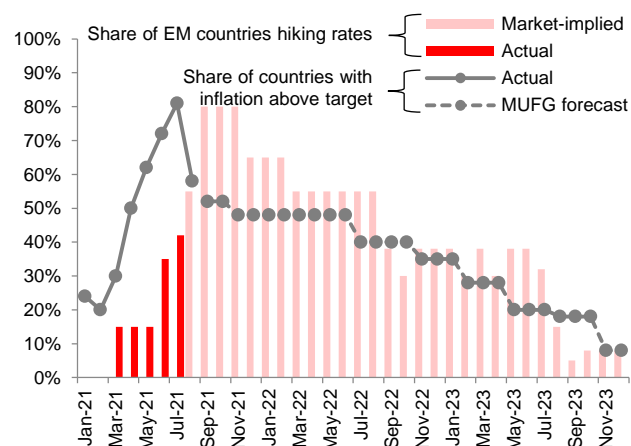
Our inflation models suggest that EM inflation is broadly set to ease from here onwards. Granted, we have modestly revised our 2021 EM CPI forecasts up to 4.1% y/y from 3.4% y/y (in April) (see [here](#)), with risks skewed to the upside. On a quarterly basis, we forecast EM inflation ending the year at 3.9% y/y from 4.2% y/y in Q3 2021. Even though gaps to central bank targets (i.e. current CPI minus central bank inflation targets) are currently reasonably high all across the board in EMs, and a measure of short-term momentum (3m/3m changes in CPI indices) still indicates upside risk, forecasted CPI trends indicate a lot of easing in inflation measures as we go into Q4 2021, this year and into 2022. For instance, in South Africa, the currently high measure of short-term momentum is somewhat offset by the forecasted implied easing of domestic inflation measures. Brazil and Turkey stand out as significant potential easing in medium-term CPI over the next 6-9 months, as short-term upside momentum eases. On a regional basis, LatAm seems to have the lowest pipeline pressures versus EM EMEA and EM Asia. Poland, Czech Republic, Egypt and Indonesia stand out as still challenging inflation profiles over the next 6-9 months.

EM rate hikes to broaden

Notwithstanding our inflation models suggesting pricing pressures will fade in the months ahead, from a monetary policy standpoint, pressure on EM central banks will continue to build to initiate (or continue) tightening. However, declining sequential

PEAK EM INFLATION LIKELY TO COINCIDE WITH HIGHER MARKET-IMPLIED RISK OF MONETARY TIGHTENING

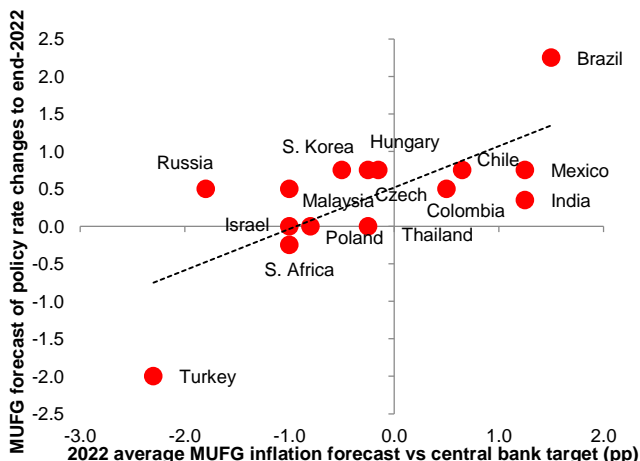
EM CENTRAL BANK HIKE AND INFLATION, % SHARES OF TOTAL



Source: Bloomberg, EM Central Banks, MUFG Research

WHERE RATES REMAINS LOW, THE 2022 INFLATION OUTLOOK REMAINS KEY FOR MONETARY POLICY

EM CENTRAL BANK POLICY AND INFLATION IN 2022 (PP)



Source: Bloomberg, EM Central Banks, MUFG Research

price pressures and favourable base effects should mean that the urgency created by the inflation surprises of the last few months might gradually decline. In this context, it is possible that the hiking cycles of those central banks that have so far been on the side-lines through 2021 (especially in Asia) will be more moderate relative to the mostly frontloaded tightening delivered by this year's early hikers. Should current market pricing rely on a benign inflation outlook for 2022, this would also clearly constitute an important source of risk.

The pace of EM rate hikes will slow relative to early rate hikers

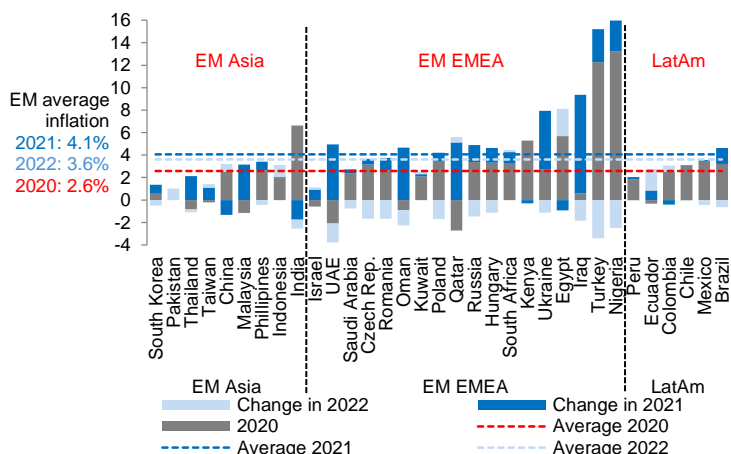
Our expectations of monetary policy action across EM economies in the year ahead are conditional on the assumptions of how quickly inflation is likely to return to target. Likely candidates to join the tightening group over this period potentially include Poland, Colombia and India. However, early hikers, including Brazil, Russia and the Czech Republic – where the speed of tightening has been in line with or in some cases faster than historical hiking cycles – are likely to slow the pace of hikes or pause in the months ahead. Of course, should it become evident that price formation mechanisms have deteriorated more than expected across EM since the initial virus outbreaks, and inflation remain relatively sustained in 2022, there is a possibility that even the current conservative market pricing might turn out to have been excessively complacent with the latest spot data – indeed, EM inflation in July readings have brought an overwhelming majority of upside inflation surprises.

Fed's tapering strategy is leading to a delicate balancing act across EMs

Finally, EMs remain highly sensitive to any US Federal Reserve (Fed) guidance. As expected, Fed Chair Powell, at the annual Jackson Hole symposium last week endorsed the idea that tapering is likely to be announced before year-end, with the caveat that any prospective decision remains subject to uncertainties related to the pandemic and to the evolution of the labour market. He did not spell out the precise timing on tapering, which was unsurprising given the FOMC did not appear to reach a consensus on this issue at the July meeting. Notwithstanding this neutral message, the Fed's hawkish pivot since its 16 June FOMC meeting has had reverberations across EMs – we recently examined the impact on EM assets from higher US rates (see [here](#)). There is a now delicate balancing act for EM central banks between (i) keeping monetary policy loose to stimulate delicate reopenings; (ii) being vigilant to the risks of inflation, especially second-round effects, as well as capital flows; and (iii) not lagging in policy shifts by DM central banks and tightening by other EM peers that could lead to arbitrage positioning. The EM real rate cushion, while increasing, may still be insufficient to stem the risks of a much more hawkish Fed, which could amount to a sharp reversal of capital flows. This is not our base case and this risk is also in part mitigated as EMs' external balances are in healthy shape.

2021 WILL WITNESS A PICKUP IN INFLATION IN MOST EM'S BUT 2022 WILL EXPERIENCE A MODERATION

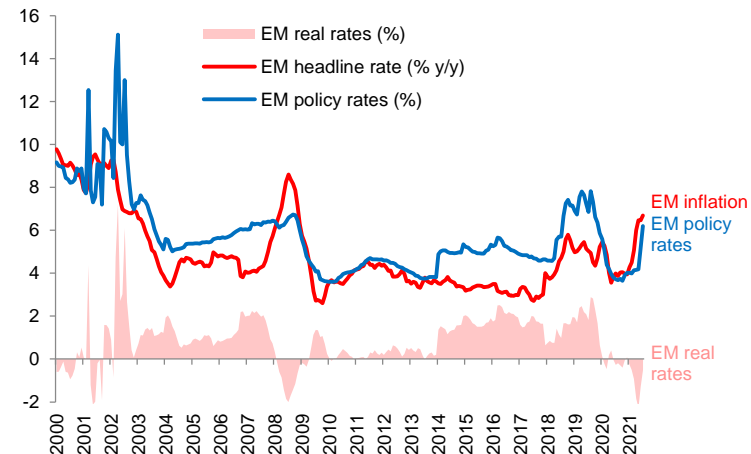
HEADLINE INFLATION IN MAJOR EM'S (% Y/Y)



Source: Bloomberg, EM Central Banks, MUFG Research

EM REAL RATES REMAIN NEGATIVE THOUGH HIKES AND (LIKELY) EBBING INFLATION WILL REVERSE THE TREND

EM WEIGHTED AVERAGE POLICY RATES (%) VS EM CPI (% Y/Y)



Source: Bloomberg, EM Central Banks, MUFG Research

FX views

EM FX: Powell sticks to the script paving the way for EM FX outperformance

Balanced-to-dovish Fed Chair Powell speech during the Jackson Hole symposium

Fed Chair, Jerome Powell, stuck to the script of the July FOMC meeting minutes in last week's speech at the Jackson Hole symposium. He reiterated that the Fed could start to taper asset purchases this year "if the economy evolved broadly as anticipated", stating that there had been substantial further progress on the inflation target and "clear progress" on the employment front. However, he stressed that the Fed would be watching data in the coming weeks and the risks posed by the COVID-19 delta variant to the economy.

EM FX set to outperform near-term

EM FX has historically tended to weaken into Jackson Hole, only to unwind the depreciation over the subsequent trading days. After a less hawkish than expected Jackson Hole, EM FX appears to have a near-term runway for outperformance. The dovish market reaction to Jackson Hole paved the way for EM buying in particular (outperformance vs USD was seen BRL, ZAR, THB, TRY, among others).

EM PMI, US non-farm payrolls and several inflation readings will be key this week

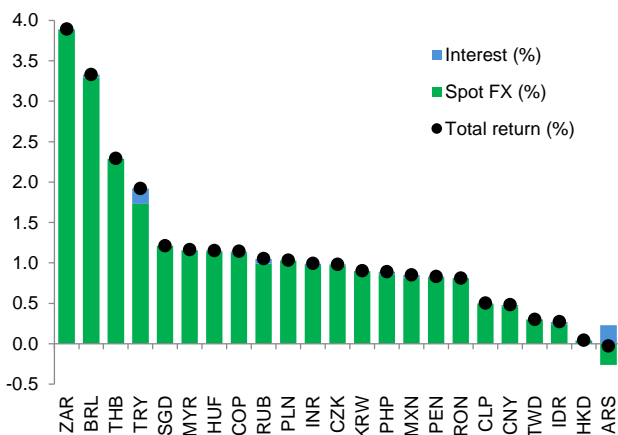
Having said that, there will be several catalysts that could warp this narrative this week. This includes a host of EM PMI data as well as the all-important US non-farm payrolls report for August. The former, notably the China PMI, will act as an early bellwether for broader EM growth, while the latter will offer more insight on the timing of a taper announcement expected before year-end. Beyond this, scattered CPI figures in South Korea, Indonesia, Turkey and Poland will offer guidance on EM FX. South Korean data will be especially relevant in light of the central bank's decision to cautiously hike over the previous week.

Central Bank of Chile and month-end liquidity and flow dynamics are additional factors to watch in EM FX

On rate decisions, all eyes will be on Chile this week, with expectations of a 50bp hike to 1.25%. Whilst, the current pace of normalisation has aimed at 25bps increases, economic growth has been robust and the policy rate is still expansionary, with some market participants signalling that the authorities do have room to tighten faster. Hiking now would be prudent given the risk of de-anchored inflation expectations, and rising price pressures linked to a weaker CLP. As a final observation, we flag that month's end could implicate liquidity and flow dynamics. Alongside an already busy docket of events, this could add to market volatility and prompt more choppiness than usual across the EM FX space.

DOVISH MARKET REACTION TO JACKSON HOLE PAVED THE WAY FOR EM FX OUTPERFORMANCE LAST WEEK

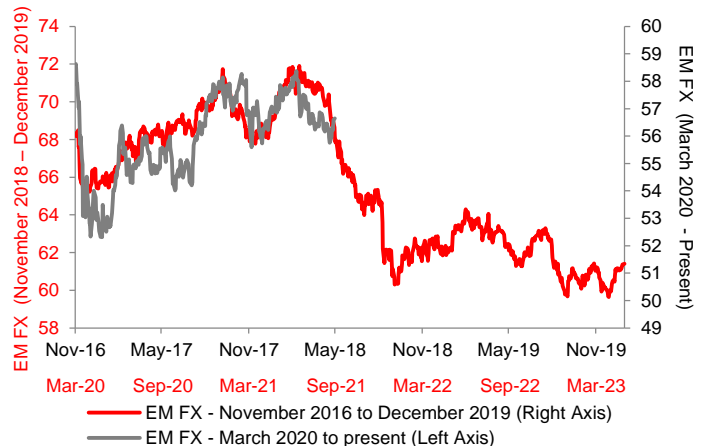
EM FX SINCE 16 JUNE 2021 (TOTAL, SPOT AND INTEREST RETURNS, %)



Source: Bloomberg, MUFG Research

WILL EM FX WEAKEN AS IT DID IN 2018? CURRENT PERFORMANCE BEARS SIMILAR HALLMARKS

EM FX (NOV-2016 – DEC-2019) AND EM FX (MAR-2020 – PRESENT)



Source: Bloomberg, MUFG Research

Trading views

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Trading views: Passing of Jackson Hole creates a small window of outperformance

The passing of Jackson Hole allows a window for EM outperformance, those hit hardest before looks most likely to recover...

Historically cheap valuations to developed markets alongside a flow picture that has been negative for a while are two key reasons for being optimistic on EMFX.

But there are usually reasons why things are cheap and the growth catalysts to turn this around seem very lacking once again..

The passing of Jackson Hole has allowed EM currencies to recover a significant amount of recent losses. Most have now managed to seek small gains for the month of August. Furthermore while the likes of BRL and ZAR looked dicey at times, we passed August without any (semi-traditional) EM currency event. As we thought last week the mere passing of the JH event would be taken as a positive for EM on merely the fact it would lower future vol. The fact that US yields were marked down post the event should be even more helpful for carry.

The big positive for EM from here is all on the valuation and flow side. The current discount of EM indices versus their developed market peers is at significant wides, historical levels in some cases. Furthermore the flow picture for EM has been quite negative for a while now. While nominal values of foreign ownership of EM indices may seem close to record levels, when looked in the correct way (% of mkt cap or outstanding) they are significant lower than the last time Fed decided to taper. So from a med term investment point of view it seems quite positive for people to get back into EM.

However for this to work there needs to be a catalyst. Here the short term picture continues to look quite negative to us. The market may have ignored China's PMI data but the pick-up in delta variant concerns from that region is hard to ignore. Furthermore, inflation may be transitory as many hope but seeing headlines like today's from Poland of 5 year high inflation hardly inspires us to be long EM. While developed market currencies may respond positively to high inflation prints we're not sure all EM will react this way. As such we will use this window to be selectively long EM but will be careful at which countries we include. In Asia we like Singapore, especially ahead of the MAS meeting, and KRW. We think these two could work well vs RMB if we get a policy signal from China over wanting a weaker currency. In EMMEA RUB is our preferred play, while in LatAm we can be long BRL here given the carry but would be wary closer to 5.

The overall reason for owning EM seems to be muted market vol and developed markets keeping liquidity on tap that little bit longer. That is definitely a tradeable theme that we can ride. However for us to get really bullish on EM we are really looking for growth to come back. In this regard we are not yet particularly optimistic and as such feel the med term underperformance of EM may continue somewhat longer.

Week in review

EM capital flows: stronger USD and risk-off spurring capital out of EMs

Capital flowed back into EMs for the first time in three weeks

Fed Chair Powell's broadly neutral messages during last week's Jackson Hole symposium appeared to have bought on a revival in risk appetite, with major cross-assets in positive territory following his speech. Powell endorsed the idea that it would be appropriate for the Fed to start tapering asset purchases this year but no details on the composition and duration were set out. The US dollar (USD) broad index extended losses which bodes well for EM fund flows, given the historical negative correlation between EM fund flows and the level of the USD. Turning to last week's IIF funds flows data, capital flowed back into EMs last week for the first time in three weeks – equities inflows totalled USD1.4bn, capital continued to flow out of EM debt which totalled USD-0.2bn.

EM's are in a stronger positions vis-à-vis the 2013 taper tantrum

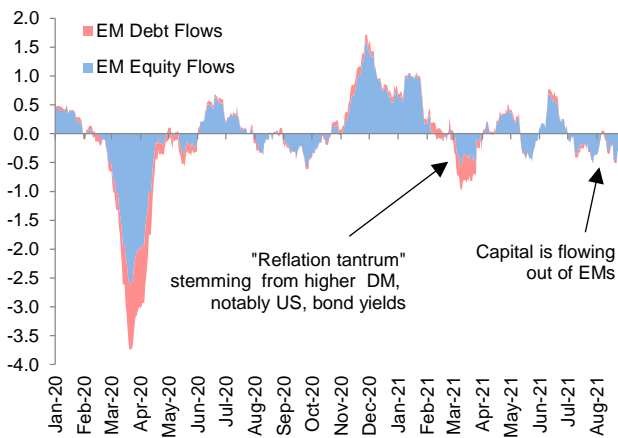
Given the construed Fed's neutral stance last week, it is a tad early to gauge whether or not there will be tangible ramifications from the Fed's current strategy. However, there are factors that reduce the risk of that. Indeed, some EM central banks are pre-empting the Fed this time around, while external positions are much stronger compared to 2013, alongside ample FX reserves (see [here](#) and [here](#)). In addition, EM activity should benefit from ongoing vaccination programmes and opening up of the global economy, even though this could be delayed in certain parts of the world.

Our constructive EM thesis offers reasons to expect stronger capital inflows for the remainder of 2021

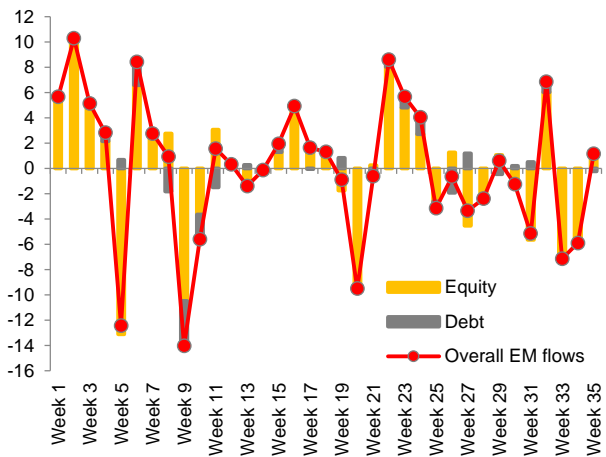
Our annual thesis advocated that EMs may get worse before they get better but a strong global recovery would lead to EM outperformance given the higher cyclical sensitivity of EM assets (see [here](#)). Granted, the focus in the global reflation narrative has pivoted firmly towards inflation over growth, however this does not change the fact that global economic activity is recovering (notwithstanding COVID-19 delta variant apprehensions) – see [here](#) and [here](#). So far the US has been leading the recovery, thanks to a combination of swift vaccinations, and significant fiscal stimulus measures by the new US administration. That said, it's Europe where activity data keeps surprising on the upside (see [here](#)), and the ECB's latest forecasts point to better growth prospects in both 2021 and 2022. Stronger recovery in Europe should bode well for EM, as the region is still the largest market for EM exports on an aggregate basis, as well as the largest provider of capital. Taken together, this offers reasons to be remain constructive that EMs will witness more inflows in H2 2021.

DESPITE HIGHER EM RATES, THE RISK-OFF MOOD IS DRIVING CAPITAL (28 DAY ROLLING BASIS) OUT OF EM'S EM EQUITY AND DEBT FLOWS (USD BN), 28 DAY MOVING AVERAGE

EM WEEKLY CAPITAL FLOWS HAVE OSCILLATED IN THE SUMMER – LATEST READING IS FOR NET INFLOWS EM EQUITY AND DEBT FLOWS (USD BN), WEEKLY AVERAGE



Source: IIF, MUFG Research



Source: IIF, MUFG Research

Hungary: MNB hikes rates by 30bp as expected and remains hawkish

Hungary has now hiked rates for three consecutive meetings

The National Bank of Hungary (MNB) hiked rates for the third consecutive time, taking its key policy rate from 1.20% to 1.50%, in line with our (and consensus) expectations. The statement following the announcement last week continued to remain hawkish, with the Monetary Policy Committee (MPC) reiterated that tightening is necessary to maintain price stability and in order to limit second-round effects from the inflation overshoot. In conjunction, the MPC guided markets that further tightening until the inflation outlook stabilises around target of 2-4%. In addition, the MNB formally announced a reduction in the weekly target of government bond purchases from HUF60bn to HUF50bn, though in the past month it had lowered its weekly purchases to around HUF54bn already. Looking ahead, we expect the MNB to continue its hiking cycle, but slow the pace of tightening from the 21 September meeting (when macroeconomic forecasts will be updated). In particular, we expect a further 45-60bp of hikes this year, with policy rates reaching 1.95-2.10% by year-end.

Kuwait: slower consumer spending but overall levels remains robust

Private consumption in Kuwait slows but remains at benign levels

Notwithstanding a monthly increase of 4% m/m, Kuwait's consumer spending growth decelerated to 18% y/y in July – the lowest rate since November 2020. Rising consumer spending continues to be one of the core drivers of the post-virus recovery, buttressed by renewed debt repayment deferrals for Kuwaiti borrowers, as well as a recent pick-up in consumer loans. Going forward, with the continued successful COVID-19 vaccination rollout and further reopening of the economy as well as easing in travel restrictions, consumer spending is expected to remain robust.

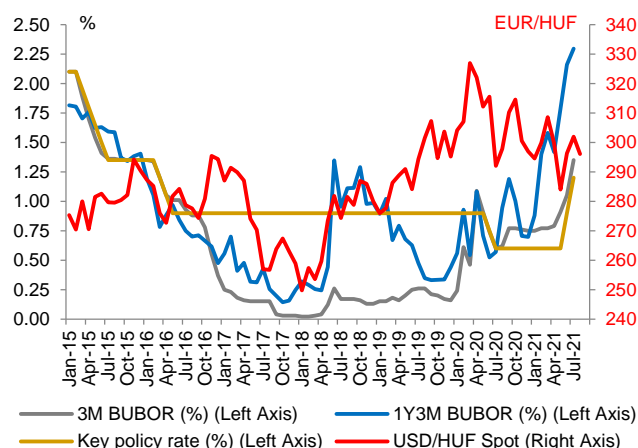
South Africa: unemployment rate hits new highs

South Africa's unemployment rate rose to 34% in Q2 2021

South Africa's headline unemployment rate reached a new high of 34.2% in Q2 2021, up from 32.6% in the Q1 2021. Total unemployment now stands at 7.8m – up by about 1.2m on 2019 levels. The increase was driven by a 1.1pp rise labour force participation to 57.5% as 530,000 people entered or re-joined the labour force, although there was also a 0.4% decline in employment to 14.9m, marking the second successive quarterly drop in employment. This latest data point highlights the severe situation on the job creation front, especially rising long-term unemployment that risk deepening the labour market scars from the COVID-19 shock. Looking ahead, indications of labour scarring accentuates the country's prevailing structural unemployment concerns as extended periods of inactivity result in de-skilling and exacerbate re-employment prospects.

HUNGARY HIKES RATES IN LINE WITH EXPECTATIONS AND MAINTAINS A HAWKISH STANCE

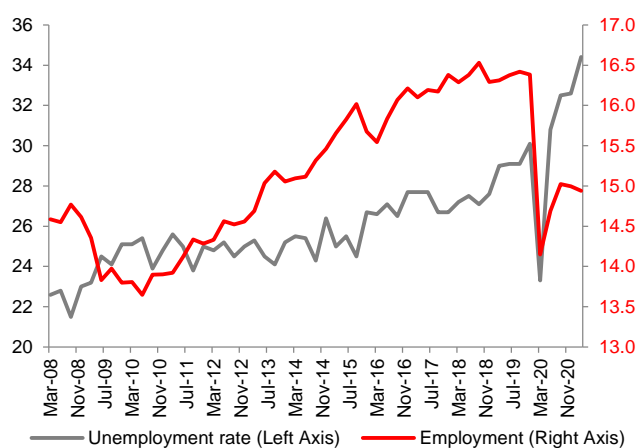
HUNGARY INTEREST RATES (%) AND EUR/HUF



Source: Bloomberg, MNB, MUFG Research

SOUTH AFRICAN UNEMPLOYMENT IS AT A RECORD HIGH – ONE IN THREE ARE NOW JOBLESS

SOUTH AFRICA UNEMPLOYMENT RATE (%), EMPLOYMENT (MILLIONS)



Source: Bloomberg, Statistics South Africa, MUFG Research

Week ahead

PMIs: mixed readings expected for August but on the whole higher

PMIs to increase in June

Whilst the overall EM EMEA PMI reading remained in expansionary territory, rising by 1.0ppt in May (52.8 on a PPP-weighted basis), we expect the June print to demonstrate an even further recovery given the ongoing reopenings, an easing in COVID-19 cases and accelerated vaccine rollouts spurring activity. We anticipate across the board improvements, especially in Turkey following an easing of restrictions following the latest bout of mobility restrictions in May. For the oil exporting countries of the MENA region, we expect the improvement in sentiment buoyed by rising energy prices and robust vaccine inoculations, to offer further strength across corporates in June.

Turkey: Q2 2021 GDP to moderate on a sequential basis

Turkey's real GDP growth to sequentially moderate to 1.3% q/q in Q2 2021

Turkey is set to release its Q2 2021 real GDP growth estimates on 1 September with caution in interpretation warranted. Large-scale base effects will signal a sharp increase in the year-on-year (y/y) figures – we estimate it rising from 7.0% in Q1 2021 to 21.7% y/y in Q2 2021 (consensus 21.0% y/y). However, it is prudent to monitor sequential, i.e. quarter-on-quarter, growth rates to decipher a clearer picture of economic growth trends. We anticipate real GDP growth to moderate from 1.7% q/q in Q1 2021 to 1.3% q/q in Q2 2021 (consensus 1.0% y/y). Turkey's high frequency data signal some deterioration in economic activity in April and May, mainly on the back of mobility restrictions as COVID-19 cases surged. However, encouragingly June witnessed a marked progress. Beyond this, a host of other micro related figures (such as industrial production, retail sales and PMIs) suggests that domestic demand contracted further in Q2 2021. Having said that, overall GDP growth remains in positive territory thanks to strong export growth. After a 0.6% q/q expansion in Q1 2021, retail sales volume contracted by 0.6% q/q in Q2 2021. Industrial production growth slowed from 2.7% q/q in Q1 2021 to 1.6% q/q in Q2 2021. What's more, retail sales volume contracted amid expanding industrial production and the improvement in the trade balance suggests that net exports will be the main contributor to growth, whereas domestic demand will contract, similar to the first quarter. Looking ahead, we price in economic growth of 6.3% in 2021 from 1.6% last year, predominantly reflecting large base effects.

Turkey: inflation to ease in August with rate cuts now likely in Q4 2021




















Turkish inflation likely peaked in July 2021

Inflation in Turkey is expected to fall from 18.95% y/y in July to 18.75% y/y in August (consensus 18.73% y/y) owing to lower energy prices and due to the consumption tax cut for vehicles. Absent any unforeseen shocks, we forecast that inflation likely peaked in July but higher food prices still pose a risk. Looking ahead, we expect inflation to continue easing on the back of base effects, especially in November and December and end the year at 16.2% y/y. This compares with the Central Bank of Turkey's (CBRT) July inflation report which foresees a higher inflation trajectory (year-end inflation now at 14.1% y/y from 12.2% y/y in the April Inflation Report). The CBRT did not alter its forward-looking guidance, which commits to keeping the policy rate at a level above inflation. This guidance is rather general, as it does not stipulate by how much the policy rate should exceed inflation – at the current juncture, inflation as of July 2021 stands at 18.95% y/y, whilst the one-week repo rate is 19.00%.

Turkish rate cuts remain on our base case before year-end

As we have continuously catalogued (see [here](#) and [here](#)), from an aerial perspective, under a more conventional monetary framework, the ongoing deterioration in the inflation picture would likely require policy tightening. However, given the credit-fuelled, economic growth at all costs strategy of the CBRT, we continue to believe that the next rate move will be a cut, most likely in Q4 2021, possibly in November, when base effects are set to pull inflation down slightly. Our base case forecast is for a cumulative 200bp cut before year-end, likely in two 100bp steps in November and December, taking the policy rate to 17.0%. The risk is skewed towards earlier easing, particularly if inflation starts to moderate sooner than expected (our forecast is for a rise in September to 19.3% y/y but to fall to December to 16.0% y/y) and the Lira (TRY) does not come under any significant pressure.

Weekly calendar

	Country	Day	GMT	Indicator/Event	Period	MUFG Forecast	Consensus	Previous	Market Moving
	Kenya	31/08/2021	---	CPI, % y/y	Aug	---	6.4%	6.4%	!!
	Czech Rep	31/08/2021	08:00	Real GDP, % y/y	Q2-21P	7.9%	7.9%	7.8%	!!
	Poland	31/08/2021	09:00	CPI, % y/y	Jul	5.1%	5.1%	5.0%	!!!
	Poland	31/08/2021	09:00	Real GDP, % y/y	Q2-21F	---	---	10.9%	!!
	Russia	31/08/2021	17:00	Retail Sales, % y/y	Jul	---	5.0%	10.9%	!!
	Russia	31/08/2021	17:00	Unemployment, %	Jul	0.10%	0.10%	0.10%	!!!
	Russia	01/09/2021	07:00	PMI Manufacturing	Aug	---	---	5.9%	!!!
	Romania	01/09/2021	07:00	Unemployment, %	Jul	---	---	5.2%	!!
	Poland	01/09/2021	08:00	PMI Manufacturing	Aug	57.2	56.6	57.6	!!!
	Hungary	01/09/2021	08:00	Real GDP, % y/y	Q2-21F	---	---	17.9%	!!
	Hungary	01/09/2021	08:00	PMI Manufacturing	Aug	---	---	55.6	!!!
	Turkey	01/09/2021	08:00	Real GDP, % y/y	Q2-21	21.7%	21.0%	7.0%	!!!
	Turkey	01/09/2021	08:00	PMI Manufacturing	Aug	---	---	54.0	!!!
	Czech Rep	01/09/2021	08:30	PMI Manufacturing	Aug	60.4	60.7	62.0	!!!
	Nigeria	01/09/2021	09:45	PMI Manufacturing	Aug	---	---	55.4	!!!
	S. Africa	01/09/2021	10:00	PMI Composite	Aug	1.50%	1.50%	1.20%	!!!
	Turkey	02/09/2021	08:00	CPI, % y/y	Aug	---	18.8%	17.2%	!!!
	Kenya	02/09/2021	08:30	PMI Manufacturing	Aug	---	---	50.6	!!
	Ghana	02/09/2021	10:00	PMI Manufacturing	Aug	---	---	49.7	!!

Source: Bloomberg, 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	0.32	-3.82	3.51	-10.61	-13.72	-8.54	-2.06	-9.18	-6.73
	Czech Rep.	7.80	-6.50	5.12	0.27	-7.30	-4.29	6.00	-0.68	-0.53
	Egypt	3.46	2.84	3.51	-7.41	-6.90	-6.38	-4.17	-3.82	-3.40
	Greece	-3.36	-9.50	4.12	0.57	-8.99	-3.01	-2.73	-7.74	-4.47
	Hungary	-2.10	-6.10	3.90	-2.05	-8.28	-3.86	-3.49	-1.57	-0.85
	Iraq	4.43	-12.06	2.53	0.86	-17.53	-13.06	1.12	-12.65	-12.06
	Israel	-1.00	-5.89	4.87	-3.91	-12.94	-7.05	5.17	3.55	3.50
	Jordan	1.96	-5.00	3.40	-5.98	-9.14	-7.37	-8.39	-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	3.06	-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	1.00	-6.97	4.92	-4.13	-7.79	-6.02	-3.96	-7.28	-5.22
	Nigeria	0.51	-4.28	1.70	-4.76	-6.74	-4.97	-3.49	-3.65	-2.02
	Oman	-0.83	-10.00	-0.55	-7.06	-18.71	-16.82	-4.94	-14.57	-12.90
	Poland	10.90	-3.56	4.60	-0.74	-10.46	-4.34	1.02	3.03	1.77
	Romania	-0.20	-4.80	4.57	-4.56	-9.59	-8.08	-9.87	-5.27	-4.51
	Qatar	-2.50	-4.48	2.52	4.93	3.03	3.33	-27.24	-0.60	2.57
	Russia	-0.62	-4.12	2.82	1.92	-5.29	-2.57	1.11	1.17	1.83
	Saudi Arabia	1.50	-4.80	4.10	-4.45	-10.56	-7.75	-0.33	-4.80	4.57
	South Africa	-3.20	-8.00	3.00	-2.27	-9.32	-6.09	1.39	-1.62	-1.79
	Turkey	7.01	-0.90	4.80	-5.65	-7.88	-7.93	0.00	-3.66	-0.89
	Ukraine	-2.20	-7.20	3.00	-2.04	-7.81	-5.25	1.27	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	0.60	2.80	2.30	2.25	2.25	2.25	0.377	0.377	0.377
	Czech Rep.	3.40	2.70	2.20	0.75	0.50	1.00	25.520	21.110	20.100
	Egypt	5.40	4.40	4.90	8.25	7.25	7.25	0.064	15.590	16.520
	Greece	1.35	0.69	0.88	0.00	0.00	0.00	1.180	1.280	1.2600
	Hungary	4.60	4.00	2.50	1.50	1.00	12.50	296.030	294.300	285.70
	Iraq	7.40	1.00	1.50	4.00	4.00	4.00	1460.000	1460.000	1460.000
	Israel	1.90	0.80	0.60	0.10	0.10	0.10	3.226	3.240	3.200
	Jordan	1.84	1.41	6.50	3.25	3.25	3.25	0.709	0.709	0.709
	Kenya	6.40	6.00	5.00	7.00	7.00	7.00	109.780	116.330	115.400
	Kuwait	3.12	2.30	2.50	1.50	1.50	1.50	0.301	0.301	0.302
	Lebanon	100.64	85.45	32.30	2.75	2.75	2.75	1512.700	1512.700	1520.000
	Libya	4.56	15.12	15.12	3.00	3.00	3.00	4.524	4.524	4.434
	Morocco	2.20	0.80	1.20	1.50	1.50	1.50	8.892	8.700	8.800
	Nigeria	17.40	16.60	12.10	11.50	11.50	11.50	411.230	398.000	405.200
	Oman	2.19	2.30	1.20	0.34	0.34	0.34	0.385	0.385	0.385
	Poland	5.00	3.80	2.10	0.10	0.10	0.25	3.880	3.705	3.4900
	Romania	4.95	3.40	2.60	1.25	1.25	1.50	4.185	4.115	4.0700
	Qatar	3.13	0.60	1.50	1.00	1.00	1.00	3.642	3.642	3.642
	Russia	6.46	5.20	3.20	6.50	5.75	4.50	73.543	73.250	68.000
	Saudi Arabia	0.40	3.20	1.60	0.50	0.50	0.50	3.751	3.751	3.752
	South Africa	4.60	4.00	3.60	3.50	3.75	4.75	14.723	14.750	15.800
	Turkey	18.95	15.10	11.60	19.00	14.00	14.00	8.354	9.250	8.200
	Ukraine	10.20	8.30	5.40	8.00	8.00	8.00	26.892	29.950	28.900
	UAE	-0.38	-0.50	1.20	0.65	0.65	0.65	3.673	3.673	3.673

Core indicators
























EM EMEA sovereign bond yields (%)

		Maturity	30-Jul	06-Aug	13-Aug	20-Aug	27-Aug	Change in yield (basis points)		
								Week	MTD	YTD
	Bahrain	10 years	2.47	2.44	2.47	2.45	2.38	-7.53	-8.50	-59.63
	Czech Rep.	10 years	1.61	1.61	1.80	1.78	1.77	-1.21	16.03	74.75
	Egypt	9 years	5.72	5.76	5.81	5.73	5.60	-12.51	-11.30	65.38
	Greece	8 years	0.35	0.29	0.28	0.29	0.39	10.47	4.43	-12.52
	Hungary	8 years	2.15	2.14	2.22	2.19	2.45	26.56	30.74	78.12
	Israel	8 years	0.16	0.15	0.14	0.12	0.13	0.82	-2.67	-1.16
	Jordan	5 years	3.97	3.98	3.93	3.87	3.78	-9.19	-19.37	15.10
	Kenya	7 years	5.29	5.26	5.23	5.21	5.09	-11.56	-19.90	-4.56
	Kuwait	6 years	1.28	1.27	1.28	1.24	1.27	2.68	-1.31	13.47
	Lebanon	9 years	56.50	56.57	58.93	58.46	49.10	-936.10	-740.28	-71.21
	Morocco	11 years	2.09	2.09	2.10	2.10	2.11	0.75	1.95	37.61
	Nigeria	9 years	6.31	6.31	6.42	6.58	6.43	-15.25	12.00	46.11
	Oman	9 years	4.97	4.90	4.93	5.06	4.92	-13.78	-4.76	-55.42
	Poland	8 years	-0.09	-0.11	-0.11	-0.15	-0.16	-1.06	-6.93	-2.14
	Romania	7 years	1.08	0.98	0.96	0.94	0.95	0.91	-13.18	-16.67
	Qatar	9 years	2.26	2.23	2.25	2.15	2.20	4.31	-6.25	56.01
	Russia	5 years	1.69	1.65	1.68	1.70	1.75	4.32	5.35	-2.08
	Saudi Arabia	8 years	2.06	2.03	2.07	2.00	2.06	5.98	-0.79	15.54
	South Africa	9 years	4.02	4.02	4.10	4.20	4.08	-11.82	6.13	-5.52
	Turkey	7 years	5.47	5.56	5.50	5.51	5.32	-19.00	-15.23	44.64
	Ukraine	8 years	6.39	6.33	6.31	6.36	6.16	-19.50	-22.56	21.30
	Abu Dhabi	6 years	1.38	1.36	1.37	1.28	1.36	8.02	-2.03	11.51
	Dubai	8 years	2.52	2.53	2.52	2.51	2.52	0.74	0.16	-7.60

EM EMEA equity market (index)






















		23-Jul	30-Jul	06-Aug	13-Aug	20-Aug	27-Aug	Change (%)		
								Week	MTD	YTD
	Bahrain	1,579	1,597	1,615	1,631	1,638	1,666	1.70	4.31	11.82
	Czech Rep.	126,147	125,675	121,633	120,701	116,643	120,678	3.46	-0.92	1.40
	Egypt	10,647	10,742	10,723	10,885	10,938	11,114	1.61	3.46	2.48
	Greece	858	878	896	900	899	914	1.76	2.94	13.03
	Hungary	47,757	47,528	49,746	50,317	52,289	51,069	-2.33	5.06	21.45
	Israel	1,661	1,687	1,694	1,699	1,722	1,766	2.58	4.40	17.82
	Jordan	2,135	2,093	2,062	2,015	2,016	2,049	1.67	-1.83	23.66
	Kenya	179	177	175	181	186	187	0.68	5.45	23.07
	Kuwait	6,543	6,543	6,543	6,612	6,617	6,813	2.96	3.52	22.84
	Lebanon	658	658	658	658	658	658	0.00	9.43	60.02
	Morocco	9,870	9,937	10,099	10,217	10,254	10,397	1.40	4.02	13.14
	Nigeria	38,791	38,791	38,928	39,448	39,550	39,486	-0.16	2.43	-1.95
	Oman	4,018	4,018	3,994	4,006	3,991	3,966	-0.62	-1.60	8.40
	Poland	2,242	2,246	2,272	2,284	2,285	2,324	1.70	3.12	17.13
	Romania	11,913	11,809	11,802	12,101	12,138	12,390	2.07	4.57	26.35
	Qatar	10,708	10,708	10,858	10,916	10,983	11,082	0.90	3.06	6.19
	Russia	3,723	3,782	3,811	3,877	3,925	3,887	-0.96	3.07	18.19
	Saudi Arabia	10,934	10,934	11,162	11,325	11,322	11,180	-1.25	1.52	28.66
	South Africa	60,502	62,369	62,750	63,489	61,609	61,393	-0.35	-2.32	12.90
	Turkey	1,361	1,361	1,414	1,411	1,450	1,458	0.60	4.69	-1.25
	Ukraine	525	525	525	525	526	526	0.00	0.27	5.34
	Abu Dhabi	7,065	7,244	7,405	7,594	7,663	7,652	-0.14	4.56	51.67
	Dubai	2,744	2,752	2,813	2,815	2,825	2,901	2.70	4.90	16.42

EM EMEA FX against USD*

		23-Jul	30-Jul	06-Aug	13-Aug	20-Aug	27-Aug	Change (%)		
								Week	MTD	YTD
	USD Index	92.912	92.174	92.800	93.035	93.496	92.686	-0.87	0.56	3.06
	Bahrain**	0.379	0.379	0.379	0.379	0.379	0.379	0.00	0.08	-0.13
	Czech Rep.	21.788	21.482	21.599	21.533	21.848	21.638	-0.96	-0.72	-0.75
	Egypt	15.674	15.699	15.699	15.699	15.699	15.699	0.00	0.00	-0.31
	Greece***	1.177	1.187	1.176	1.180	1.170	1.180	0.83	-0.63	-3.45
	Hungary	306.130	301.900	300.890	298.740	299.400	296.030	-1.13	1.98	0.31
	Israel	3.269	3.231	3.224	3.213	3.238	3.229	-0.27	0.08	-0.49
	Jordan**	0.711	0.711	0.711	0.711	0.711	0.711	0.00	0.00	-0.24
	Kenya	108.696	108.696	0.009	0.009	0.009	0.009	0.00	1.10	1.10
	Kuwait	0.301	0.301	0.301	0.301	0.301	0.301	0.00	-0.15	0.78
	Lebanon	1,516.27	1,508.11	1,515.50	1,507.83	1,514.96	1,512.70	-0.15	-0.30	0.15
	Morocco	8.958	8.903	8.954	8.955	8.986	8.892	-1.05	0.13	0.20
	Nigeria	411.280	411.100	411.240	411.050	411.230	411.230	0.00	-0.03	-3.26
	Oman**	0.387	0.387	0.387	0.387	0.387	0.387	0.03	0.03	0.39
	Poland	3.756	3.758	3.758	3.758	3.758	3.757	-0.02	0.02	-0.08
	Romania	4.182	4.141	4.177	4.163	4.219	4.185	-0.81	-1.04	-4.94
	Qatar**	3.719	3.728	3.721	3.716	3.713	3.709	-0.09	0.49	-0.33
	Russia	73.758	73.147	73.474	73.227	74.272	73.543	-0.98	-0.54	1.18
	Saudi Arabia**	3.756	3.758	3.758	3.758	3.758	3.757	-0.02	0.02	-0.08
	South Africa	14.850	14.602	14.631	14.735	15.295	14.723	3.89	-0.82	-0.19
	Turkey	8.553	8.454	8.632	8.524	8.496	8.351	1.73	1.23	-10.91
	Ukraine	3.751	3.750	3.750	3.751	3.750	3.751	0.01	-0.01	0.03
	UAE**	3.674	3.674	3.674	3.674	3.674	3.674	0.00	-0.01	0.04

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)

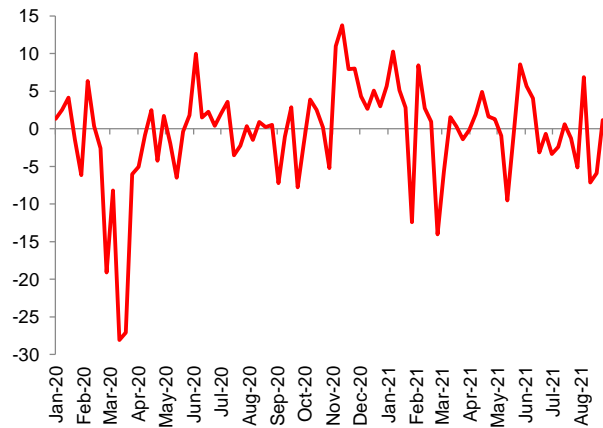
		23-Jul	30-Jul	06-Aug	13-Aug	20-Aug	27-Aug	Change in yield (basis points)		
								Week	MTD	YTD
	Bahrain	236.36	246.74	255.40	254.80	259.66	259.91	0.25	9.71	19.09
	Czech Rep.	33.08	33.10	30.15	30.12	30.13	30.35	0.22	0.36	-5.39
	Egypt	358.07	355.79	356.79	357.48	359.04	356.65	-2.39	-3.32	17.61
	Greece	71.30	71.23	71.91	71.54	72.51	73.80	1.30	0.82	-27.61
	Hungary	40.39	40.70	49.63	49.97	50.48	50.48	0.00	0.84	-9.74
	Israel	40.39	40.70	39.24	42.52	42.53	42.53	-0.01	2.03	-3.70
	Kenya	281.13	282.04	282.00	320.15	320.88	322.32	1.44	39.26	-18.96
	Kuwait	49.50	50.02	49.98	49.99	50.00	50.00	0.00	0.01	5.77
	Morocco	99.91	99.82	103.91	104.03	104.14	104.21	0.07	1.38	-8.11
	Nigeria	324.73	325.15	325.11	345.04	363.02	364.92	1.90	39.81	28.78
	Oman	252.33	255.00	253.03	253.82	253.78	252.84	-0.94	2.07	-108.76
	Poland	48.03	48.04	49.23	48.40	49.00	49.23	0.23	1.22	-8.66
	Romania	89.93	89.93	86.91	86.91	86.91	87.94	1.04	1.04	3.05
	Qatar	41.81	42.17	43.09	43.18	42.69	42.03	-0.66	-1.31	3.62
	Russia	86.00	86.04	87.52	84.57	86.54	80.66	-5.88	-6.72	-5.26
	Saudi Arabia	55.15	55.66	56.59	54.38	53.90	52.47	-1.43	-4.26	-12.94
	South Africa	195.10	207.57	205.94	201.66	207.54	191.60	-15.94	-13.12	-12.58
	Turkey	379.69	383.94	394.27	382.87	389.08	369.78	-19.31	-14.63	65.39
	Ukraine	403.16	418.70	418.44	419.85	408.68	400.75	-7.93	-25.92	12.12
	Abu Dhabi	41.51	41.30	42.32	42.53	42.05	42.11	0.06	-0.94	3.74
	Dubai	88.39	89.03	91.18	90.17	90.43	90.84	0.41	-0.60	-21.23

Source: Bloomberg, MUFG Research

EM capital flows

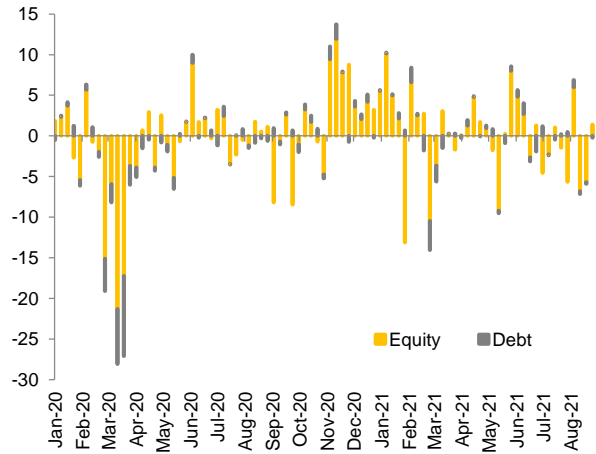
WEEKLY TOTAL EM INFLOWS OF USD1.2BN – 27 AUGUST

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



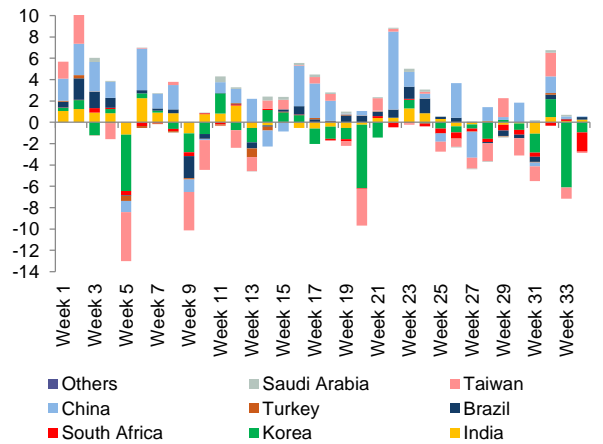
WEEKLY EM INFLOWS FROM EQUITY (USD1.4BN) WHILST DEBT OUTFLOWS (USD-0.2BN) – 27 AUGUST

WEEKLY DEBT AND EQUITY FLOWS (USD BN)



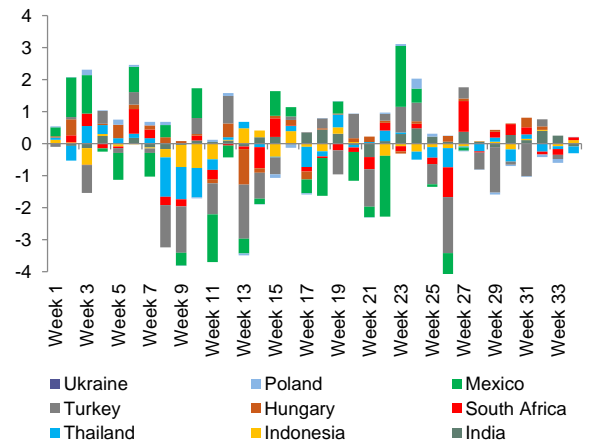
SOUTH AFRICA (USD-1.8BN) LED WEEKLY EQUITY OUTFLOWS – 27 AUGUST

WEEKLY PORTFOLIO FLOWS BY COUNTRY, WEEK 1 = JANUARY 2021 (EQUITY) (USD BN)



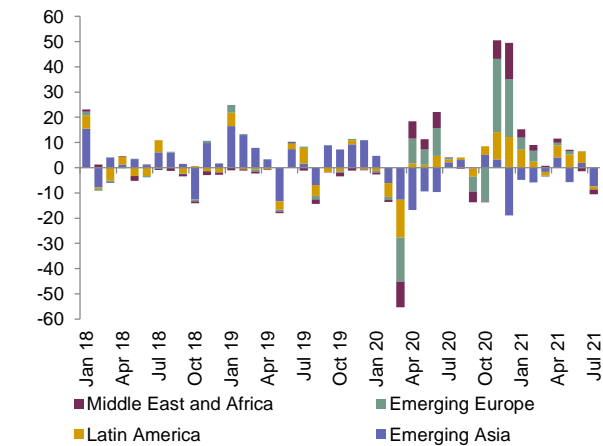
THAILAND (USD-0.2BN) LED EM DEBT OUTFLOWS LAST WEEK – 27 AUGUST

WEEKLY PORTFOLIO FLOWS BY COUNTRY, WEEK 1 = JANUARY 2021 (DEBT) (USD BN)



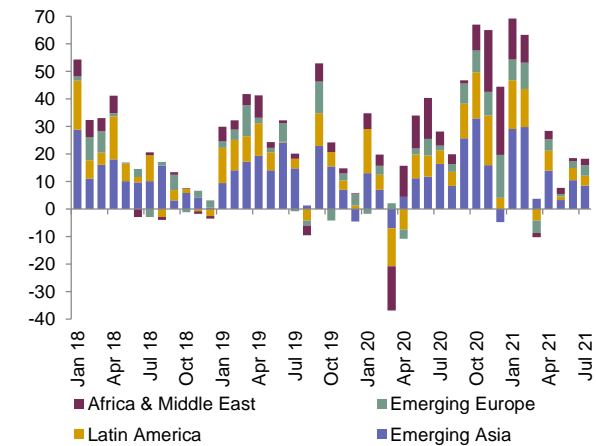
EM EQUITY FLOWS TOTALLED USD-10.5BN IN JULY, LED BY EM ASIA (USD-7.3BN) AND MENA (USD-1.9BN)

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



EM DEBT FLOWS TOTALLED USD18.2BN IN JULY, LED BY EM ASIA (USD8.5BN) AND EM EMEA (USD3.8BN)

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



Source: Bloomberg, IIF, MUFG Research

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