

## EHSAN KHOMAN

Head of Emerging Markets Research  
– EMEA

DIFC Branch – Dubai  
T: +971 (4)387 5033  
E: [ehsan.khoman@ae.mufg.jp](mailto:ehsan.khoman@ae.mufg.jp)

## LEE HARDMAN

Currency Analyst

Global Markets Research  
Global Markets Division for EMEA  
T: +44(0)20 577 1968  
E: [lee.hardman@uk.mufg.jp](mailto:lee.hardman@uk.mufg.jp)

## PAUL FAWDRY

Head of Emerging Markets FX Desk

Emerging Markets Trading Desk  
T: +44 (0)20 7577 1968  
E: [paul.fawdry@uk.mufg.jp](mailto:paul.fawdry@uk.mufg.jp)

## MUFG Bank, Ltd.

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## Balancing IMF SDRs, Fed's tapering and COVID-19 across emerging markets

**Macro focus:** Whilst not a game changer for most EMs, the IMF's USD650bn Special Drawing Rights (SDR) offers much-needed breathing space on external and fiscal funding requirements. Meanwhile, EMs are having to contend with continued COVID-19 headwinds, downside risks to the global economy, inflation uncertainty as well as prospects on the Fed's tapering strategy which has an explicit impact on the pace of growth in global liquidity and in-turn EM fund flows.

**FX views:** Emerging market currencies have continued to stage a strong rebound over the past week lifting our MUFG EM FX index to the highest level since early in July – dovish Fed guidance and deteriorating US data flows are weighing on US short rates and the US dollar, providing relief for EM FX.

**Trading views:** While we have a bullish outlook for EM FX, we expect greater divergence to come through as countries differ with regards their COVID-19 strategies and CB's response to high inflation becoming more pronounced.

**Week in review:** Over the previous week, the aggregate EM EMEA PMI edged slightly lower in August, Turkish GDP was sequentially weaker in Q2 2021 whilst Turkish August inflation surprised to the upside, and UAE credit growth rose in June.

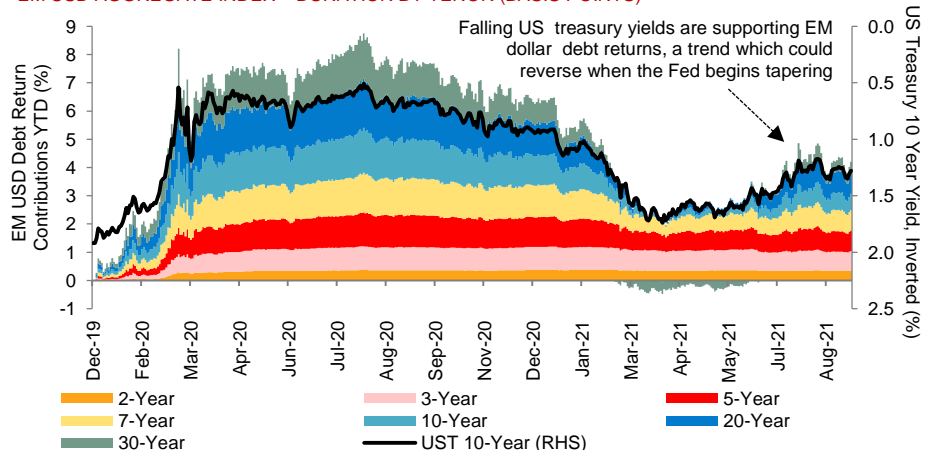
**Week ahead and calendar:** In a busy week ahead, a host of inflation readings are will be released (Czech Rep, Egypt, Hungary, Romania and Russia), meanwhile rate decisions are due in Poland and Russia, and finally South Africa Q2 2021 GDP.

**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:** Net capital flows into EMs were positive for the second consecutive week (USD0.9bn), led by equity flows (USD0.9bn) offsetting bond flows (USD-0.1bn).

### CHART OF THE WEEK: EM DURATION GAINS TO REVERSE ON FED TAPERING

EM USD AGGREGATE INDEX – DURATION BY TENOR (BASIS POINTS)



Source: Bloomberg, MUFG Research

## Macro focus

### Balancing IMF SDRs, Fed's tapering and COVID-19 across emerging markets

IMF adds what the Fed's taper takes away for EMs, with ongoing lingering COVID-19 uncertainties

Global markets and in particular, emerging markets (EM), are having to navigate with ongoing COVID-19 headwinds, downside risks to the global economy, inflation uncertainty and the approaching US Federal Reserve's (Fed) tapering of asset purchases. Meanwhile, the IMF has recently offered an unprecedented USD650bn Special Drawing Rights (SDR) allocations to member countries, which is set to offer moderate relief for EM external and funding requirements.

#### IMF's USD650bn SDR allocation offers EMs much-needed breathing space

EMs received USD275bn of the new SDRs – constituting 0.7% of GDP and 42% of the SDR total

After much deliberations, a USD650bn IMF SDR allocation – the largest in history – was credited to members countries on 23 August in proportion to their existing quotas at the IMF (see [here](#)). EMs received USD275bn of the new SDRs allocation (42% of the total). However, the allocations were uneven, ranging between 0.2% and 2.1% of GDP for major EMs. China received the largest allocation in nominal terms, with an SDRs distribution of USD41.5bn, followed by India and Russia, both of which saw fresh allocations of ~USD18bn. From a percentage of GDP perspective, Saudi Arabia, was the largest recipient with 2.1% of GDP (USD13.6bn), followed by Hungary (1.7% of GDP; USD2.6bn) and Malaysia (1.5% of GDP; USD5.0bn).

Frontier markets, notably in SSA, have gained materially from the SDRs

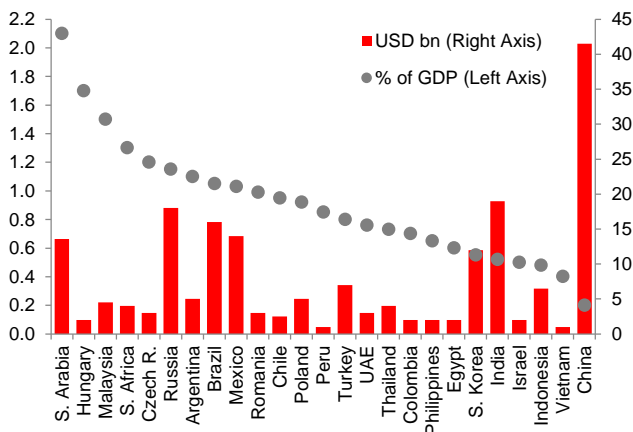
Despite that the new SDRs are negligible in size to matter for most larger EMs, those countries that classify within frontier markets (FM) status have gained materially. Specifically, within the Sub-Saharan Africa (SSA) region, Liberia and Zambia received new SDR allocations of USD0.3bn (USD10.5% of GDP) and USD1.3bn (6.9% of GDP), respectively, whilst South Africa received USD4.2bn (1.4% of GDP).

IMF SDRs will increase EMs FX reserves but is met by an equal increase in longer-term debt liabilities

The SDRs increase countries' international reserves. Critically though, the rise in reserves would be met by an equal increase in longer-term debt liabilities, implying that the new SDRs allocation is not going to change the level of net foreign assets. Our bottom-up estimates signal that SDRs have created an increase in EM FX reserves amounting to 3.9% on average, although there are considerable heterogeneity across economies. Notable increases are witnessed in Turkey (10.9%), Ghana (9.8%), Kazakhstan (9.6%) and Argentina (8.9%), whilst the impact

#### IN USD TERMS, CHINA IS THE LARGEST RECIPIENT OF THE IMF SDR'S; SAUDI IS THE LARGEST IN % OF GDP

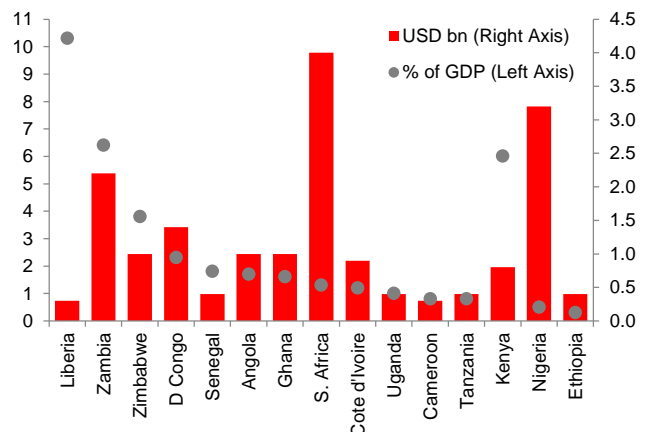
IMF'S NEW SDR ALLOCATION BY MAJOR EM'S (USD BN; % OF GDP)



Source: IMF, MUFG Research

#### IN FRONTIER MARKETS SUCH AS SUB-SAHARAN AFRICA IS WHERE SDR'S WILL HAVE THE GREATEST IMPACT

IMF'S NEW SDR ALLOCATION IN MAJOR FM'S (USD BN; % OF GDP)



Source: IMF, MUFG Research

of the reserves would be the smallest for Israel (0.8%), given the sizable FX reserves that stand at ~50% of Israel's GDP.

FX reserves have in fact already been rising owing to a recovery in EM portfolio inflows as well as improved external balances

A core motivation of the IMF's new SDRs allocation is a response to the pandemic that aims to provide a boost to reserve buffers. Though, many EMs have already built up some buffer, as FX reserves have been on the rise, thanks to a recovery in portfolio flows along with still improved external balances. On the back of stronger economic activity following last year's COVID-19-led recession, in tandem with a supportive global liquidity backdrop, cumulative portfolio flows into EM have reached USD217bn so far in 2021, according to the Institute of International Finance (IIF). In addition, despite the economic growth recovery this year, the change in current account balances has witnessed an improvement, thanks to the positive terms of trade shock from higher commodity prices witnessed for most of 2021.

SDRs will improve market access and reduce borrowing costs for EMs

Beyond boosting FX reserves, the new SDR allocations will bolster the policy space across EMs, enabling macro policy decisions that would have otherwise not been available. In addition, the SDR distribution could help, ceteris paribus, market access and reduce borrowing costs, as well as ease external financing constraints given they can be exchanged for freely usable currency. Guidance from the IMF signals that SDRs could be used to mitigate the impact of the pandemic, boost reserve levels, support counter-cyclical fiscal policy and help ease financing constraints by reducing reliance on external debt or costly public debt levels.

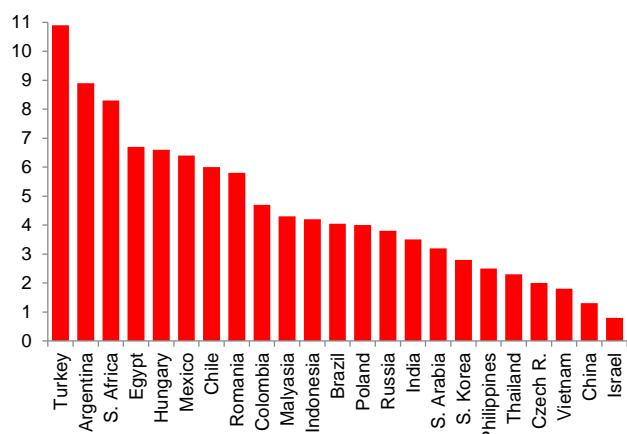
SDRs could be utilised to cover upcoming FX denominated debt redemptions across the EM space

Moreover, EMs may also consider the potential to use the new SDR allocation to ease upcoming financing pressures, particularly on the external/FX side of the balance sheet. To put this into context, FX denominated EM debt coming due over the next 12 months stands at ~USD740bn (2.3% of total EM GDP), with significant redemptions towards the end of year-end and H1 2022. Based on our modelling estimates, the SDRs injection could cover more than the upcoming FX denominated maturing debt in Hungary, while the coverage could reach 75% in both Brazil and Mexico, and nearly 65% for Czech Republic. That said, the new SDRs allocation would have rather limited coverage for the upcoming FX denominated debt redemptions in countries including Egypt (20%), Turkey (16%) and the UAE (8%).

Conditional on being designed right, more SDRs will greatly benefit EMs

On net, the IMF's SDR allocations will not change the EM macro outlook considerably but does matter for quite a number of non-systemic EM countries. Importantly, allocating the new round of SDRs avoids the stigma of normal IMF lending programmes. Indeed, many EMs appear to have avoided asking the IMF for

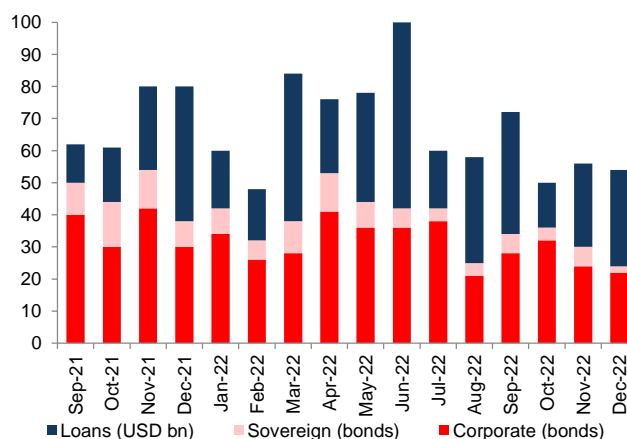
TURKEY, ARGENTINA AND SOUTH AFRICA WILL HAVE THE MOST IMPACT ON THEIR RESERVES FROM SDR'S IMF'S NEW SDR ALLOCATION BY MAJOR EM'S (% OF FX RESERVES)



Source: Bloomberg, EM Central Banks, IMF, MUFG Research

SDR'S COULD ALLEVIATE SOME OF THE PRESSURES OF HIGH LEVELS OF FX DENOMINATED DEBT DUE

FX DENOMINATED EM DEBT DUE OVER THE 12 MONTHS (USD BN)



Source: Bloomberg, IMF, MUFG Research

help during this pandemic because of concerns over both the political cost of turning to the Fund and the reforms that it asks for in exchange. As an act of money creation, rather than lending, there is no such “quid pro quo” with creating new SDRs. A caveat that the utilisation of SDRs is not cost free given members will pay interest if SDR holdings are below their total allocation – the cost may be offset by the return on their use, for instance, if there are savings from paying off debt at higher rates.

*COVID-19 challenges across EMs linger*

COVID-19 uncertainties are rising across EMs, which is spreading into lower economic activity

Whilst SDRs are fresh liquidity that offers much-needed breathing space on external and fiscal funding needs, the amounts are too small to make a difference for major EMs. As such, in crude terms, the SDR allocation is only a stop-gap that would gain EM some time, given the market focus has once again shifted towards COVID-19 globally as well as the impending Fed tapering. There has been a marked pick-up in new COVID-19 cases globally, and notably across the EM spectrum, led by the delta variant, and this is leading to increasing apprehensions about the pace of recovery in global economic activity. Indeed, the EM PMI composite fell back into contractionary territory, from 52.0 in July to 49.3 in August – lowest reading since April 2020.

Traffic light is not red yet for EMs despite a slowdown in growth

Despite signs of some momentum loss globally, the traffic light is not red yet. First and foremost, EM activity should benefit from the ongoing vaccination programmes and further global reopenings, even though this could be delayed in certain parts. We also see a better European outlook, which would be very supportive for EMs, given the strong trade and capital ties between them (see [here](#)). Second, the risk premium that was eroded during the pandemic is coming back fast as more EM economies tighten monetary policy, front-loading rate hikes even though inflationary pressures are mostly cost- push in nature(see [here](#)). Third, EM external positions are robust and in some cases getting even stronger, particularly for the commodity producers (see [here](#)). It is not only the trade balance but also remittances that are solid for many EMs. We have for long been arguing that the gap between large terms-of-trade gains and commodity FX performance should close. We believe this story still has legs and will favour some EM FX unless commodities collapse or the USD soars.

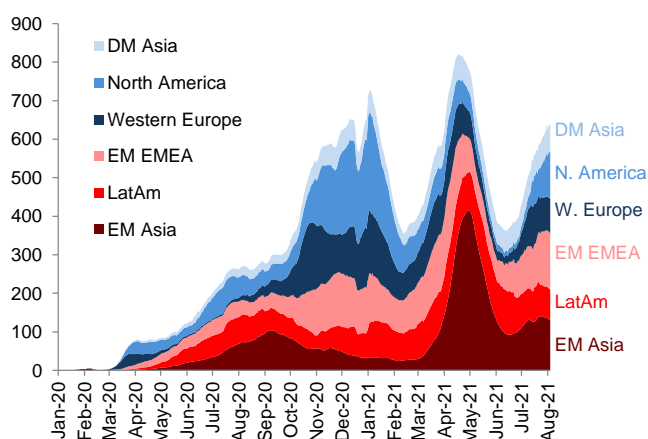
*Impact of the Fed’s tapering strategy on EMs*

Fed’s looming tapering will slowdown the pace of global liquidity growth

After a less hawkish than expected Jackson Hole, EMs have witnessed a near-term runway of outperformance. However, we are cognisant that the global liquidity backdrop will eventually become less supportive as the Fed inches towards tapering

**EM’S CURRENTLY CONSTITUTE ~55% OF THE WORLD’S CURRENT THIRD WAVE OF COVID-19**

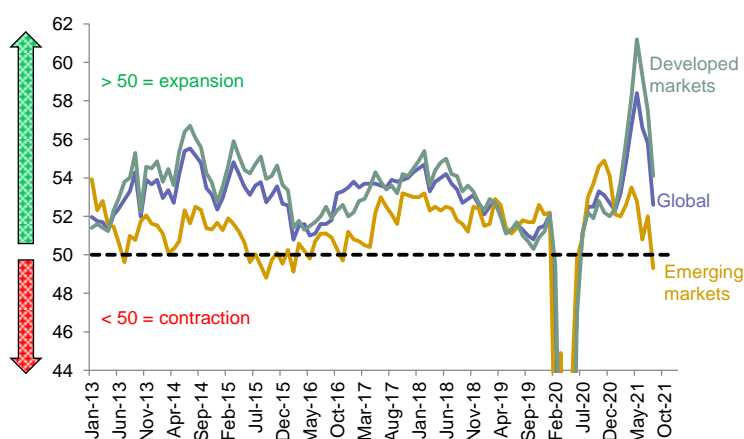
DAILY COVID-19 CASES, 7 DAY MOVING AVG (THOUSANDS)



Source: ourworldindata.org, MUFG Research

**EM ECONOMIC ACTIVITY AS MEASURED BY PMI’S HAS FELL INTO CONTRACTIONARY TERRITORY IN AUGUST**

COMPOSITE PMI’S – GLOBAL, DM, EM (1-100; 100 = HIGHEST)



Source: Google, ourworldindata.org, MUFG Research

its monthly USD120bn (USD80bn Treasury securities and USD40bn agency securities) asset purchases. Whilst the Fed's communication strategy has become more delicate – relative to the “taper tantrum” episode of 2013 – there was limited new guidance on the start date, pace and duration of tapering. This has major implications for global liquidity, which in-turn impacts fund flows into EMs, with 9 to 12 months lag based on our modelling estimates.

**Fed's tapering is not all bad for EMs**

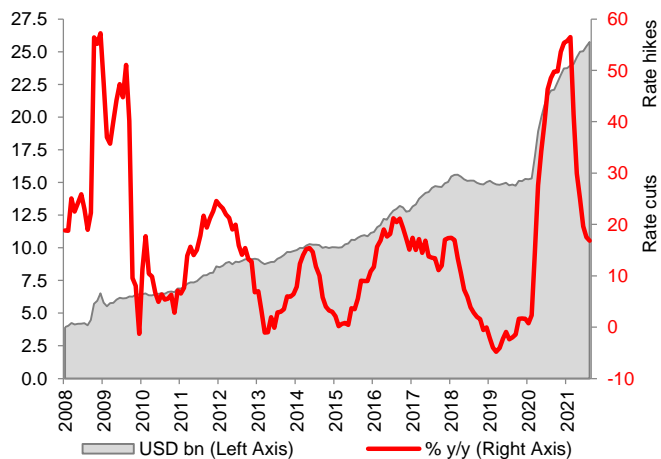
As such, the Fed's taper presents considerable drawbacks for the EM outlook in the remainder of 2021, with a pick-up in volatility and associated capital outflows firmly on the table. Indeed, gyrations in markets and uncertainty around the timing of US policy normalisation have contributed to EM volatility. However, the actual Fed's taper (and to some extent ECB tapering) could mark the beginning of a different regime. There is a possibility that the new 2024 dots at the September FOMC might surprise market expectations on the hawkish side. By definition, hawkish surprises from US policy would be a headwind for EMs but, on aggregate, we believe EM assets, notably in the rates space, will show some resilience. While the sharpest moves higher in EM bond yields over the last ten years (aside from the volatility of March 2020) have taken place around the 2013 “taper tantrum”, we view that the shock of the eventual taper announcement should be relatively more muted this time around, with the upcoming policy normalisation already well-telegraphed and markets positioned accordingly – and we view this should also hold for EMs given the risk premia accumulated over the past few months (in the high-yield space at least).

**Numerous EMs have begun to normalise rates to increase the risk premium ahead of the Fed's tapering of asset purchases**

Numerous EMs have begun to hike rates to stem their inflationary pressures as well as to pre-empt a repeat of the “taper tantrum” in 2013 by increasing the risk premium (see [here](#) and [here](#)). 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 have 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. With this in mind, our focus is on countries where external balances are strong, economic policy is prudent and where the risk premium on offer is getting more attractive. Top of mind are Israel, Egypt, Saudi Arabia, the UAE and much of the CEE economies, notably Poland.

**PACE OF GLOBAL LIQUIDITY HAS MARKEDLY SLOWED WHICH WILL HAVE AN IMPACT ON EM FUND FLOWS**

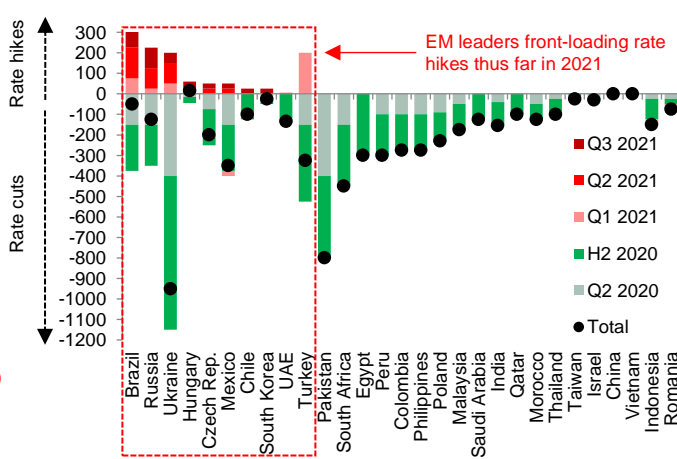
SUM OF FED, ECB, BOJ AND BOE BALANCE SHEETS (USD TN; % Y/Y)



Source: G4 (Fed, ECB, BoJ and BoE), MUFG Research

**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

## FX views

### EM FX: Relief for EM FX set to continue in near-term as US economy slows

EM FX continues to rebound as concerns over global growth outlook and Fed tightening plans ease for now

Emerging market currencies have continued to stage a strong rebound over the past week lifting our MUFG EM FX index to the highest level since early in July. The best performing emerging market currencies over the past week have been the ZAR (+2.8% vs. USD), CLP (+1.9%), PLN, (+1.6%), and CZK (+1.4%). Only the BRL (-0.2%) and PEN (-0.3%) have weakened marginally against the USD. The relief rebound for EM FX since the lows from 20<sup>th</sup> August reflects both an easing of more acute concerns over the global growth outlook and Fed tightening plans.

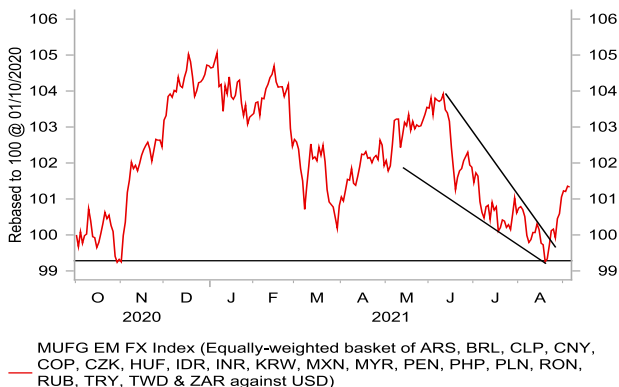
Dovish Fed guidance & deteriorating US data flow weighs on US short rates & USD providing relief for EM FX

Investor risk sentiment has improved as evident by global equity indices rising to fresh record highs and Bloomberg's commodity index rising back within touching distance of year to date highs. At the same time short-term US yields have dropped back as market participants have scaled back further expectations for Fed rate hikes as soon as next year. Our EM FX correlation analysis (see [here](#)) has shown that correlations with US short rates have become stronger, and have been the strongest over the past month for USD/RUB (+0.54), USD/ZAR (+0.46) and USD/MXN (+0.44). The deteriorating US economic data flow including the much weaker NFP report for August is helping to dampen downside risks for EM FX from higher US rates and a stronger USD in the near-term.

Stronger growth & inflation continues to encourage expectations for tightening monetary policy in Central Europe. NBP under pressure to outline plans for tighter policy.

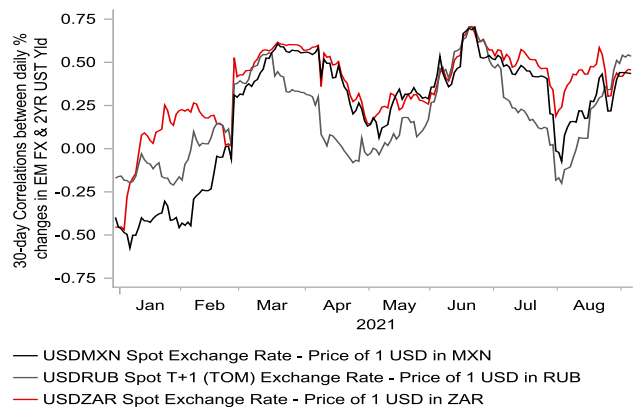
The Central European currencies of the CZK, HUF and PLN have outperformed in recent weeks as the headwind from a weaker EUR has eased, and expectations for further domestic monetary tightening have continued to build. The ECB's upcoming policy meeting poses the main event risk for the EUR in the week ahead. We expect the ECB to maintain the faster pace of PEPP purchases in Q4 in line with the consensus view, but there is a material risk of a slowdown in purchases that could trigger further EUR and CEE-3 strength against the USD in the week ahead. The NBP also meets, and market participants will be watching closely for any further signs of a shift to tighter policy. With inflation comfortably above the NBP's 2.5% ± 1pp target (currently 5.4% y/y in August), and our expectation that inflation will likely remain above 5.0% y/y for the rest of 2021, this will add to pressures on the NBP to begin tightening policy. Governor Glapinski continues to push back though against rate hike expectations as early as this year. The November MPC meeting when economic projections are updated could provide a better pivot point.

### EM FX RELIEF REBOUD IS UNDERWAY



Source: Bloomberg, Macrobond & MUFG Research

### STRONGER EM FX CORRELATIONS TO US SHORT RATES



Source: Bloomberg, MUFG Research

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## Trading views

**Disclaimer:** "Trading views" offers an overview of what our professional traders and desk analysts are watching in the markets, their commentary and views are theirs alone and are not intended to be construed as investment advice. This material is intended to be of general interest only and should not be considered a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy. The information provided in this material is not intended as a complete analysis of every material fact regarding any country, region or market.

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### Trading views: Expecting EMFX outperformance but with a lot more divergence

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With Fed's sept meeting no longer looking EMFX seems to have more room to outperform...

With non-farms out of the way we expect EMFX to continue to rally. Lower (and falling) vols alongside a Fed that will no longer see Sept as a live meeting should see inflows continue into the EM universe, especially given that market positioning in EM is relatively neutral. While the ECB may provide a hawkish turn this week, this could still help EMFX by keeping DXY under pressure. Even if ECB tightened slightly, the global liquidity taps are still turned very much switched on. Furthermore it would not surprise us if we see increased policy support come in from China given the slowing economic situation there, based in part due to China's "zero COVID-19 approach". This policy support may offset any contagion concerns from Evergrande fallout as well. Risk markets may get nervy with schools and offices reopening in the West over the next two weeks, however as long as there is not new news on the mutation front we try to look past any scary headlines that emerge and stay bullish EMFX.

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The next period should bring significant divergence for EMFX due to differences in COVID-19 strategy and response to high inflation

We though feel that this period of EM strength will bring with it significant divergence. Two factors are at play here. Firstly, the COVID-19 strategy of each country with those employing a "zero COVID-19 strategy" set to see significantly lower relative growth to those taking a "living with COVID-19 approach". Secondly, and more importantly, will be the central bank reaction function to inflation pressures being seen around the world. While Poland's NBP governor may be correct when he stated today that monetary policy can do little about supply side inflation, it is also correct to point out that at some point when you have inflation at 20yr high and running significantly above the target rate it does start to impact inflation expectations.

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We are looking to own those currencies where CBs will react to higher inflation prints.

So far the market is rather benign to high inflation. The fact that most of the EM universe have significant negative real rates does not seem to have affected market's thinking. Korea, one of the most hawkish CBs in EM currently, saw no fx gain from its recent rate hike. While TRY has managed to recover all its losses and more from its huge 19.25% inflation print last week. We though feel that markets will start to focus more on this area and will start rewarding CBs that react more to the higher inflation print. It is why we favour SGD vs CNH into October's MAS meeting, why we continue to like RUB outperformance and while we feel PLN underperformance vs CZK and HUF will continue until we see a definitive change of stance from Polish CB. Today's comments by NBP's Glapinski don't suggest the turn will come this week.

## Week in review

### EM capital flows: stronger equity inflows offsetting debt outflows

Net capital flows into EMs were positive for the second consecutive week

Whilst the summer period is normally characterised as a period of low volatility and muted market action, it has been anything but the case EM investors. There was a pick-up in financial market volatility, with a roller coaster ride in EM risk sentiment, as investors had to deal with renewed COVID-19 headwinds and rising growth concerns, as well as elevated inflation uncertainty. The impending Fed tapering also had an impact on sentiment, given it has direct implications for the pace of growth in global liquidity (see *macro focus* section above). The twin challenges of COVID-19 and the Fed taper are likely could present considerable risks of drawbacks for the EM outlook in the remainder of 2021. As such, we prefer to focus on countries where external balances are strong, economic policy is prudent and where the risk premium on offer is getting more attractive. From a broader asset allocation perspective, investor preference would appear to remain for EM equities, as well as preference of external debt over domestic debt. From an capital flows perspective, investors increased their overall EM exposure last week, with USD0.9bn flowing into EMs, driven entirely by equity inflows (USD0.9bn), which offset negligible debt outflows (USD-0.1bn), according to IIF data.

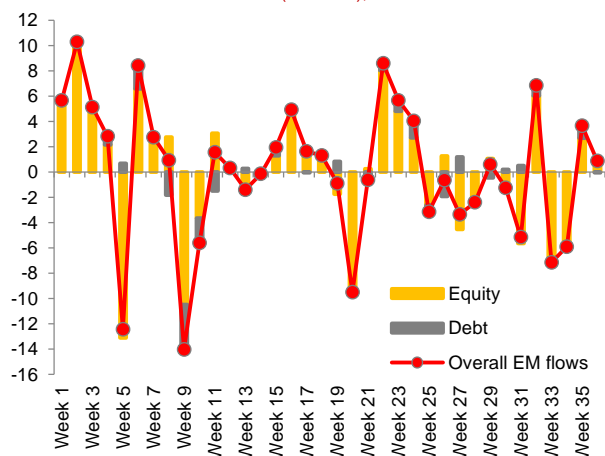
### PMIs: mixed readings in August across EM EMEA but overall slightly lower

PMIs decreased in August following given rising COVID-19 pressures but there idiosyncrasies are currently large

The aggregate EM EMEA PMI decreased from 53.1 in July to 52.6 in August (on a PPP weighted basis). However, large heterogeneities persist. The stand out was South Africa, where the PMI rose to 57.9 in August from 43.5 in July (given the unrest across the country). PMIs in Turkey (54.0 in July to 54.1 in August) and Hungary (55.8 in July to 55.9 in August). Elsewhere in the region, there was a broad-based decline, with Nigeria recording the largest decrease in its PMI, from 55.4 in July to 52.2 in August. The Poland (57.6 in July to 56.0 in August) and Czech Republic (62.0 in July to 61.0 in August). Meanwhile, Russia's PMI continued to decline, from 47.5 in July to 46.5 in August – the weakness is especially pronounced in export orders, which is being affected by the slowdown in China. Across the MENA region, Saudi Arabia (55.8 in July to 54.1 in August) and the UAE (54.0 in July to 53.8 in August), both witnessed a slowdown – Saudi activity growth weakened amid a softer rise in new orders whilst the UAE witnessed strong output growth which drove the fastest rise in employment since January 2018. Finally, rising demand and

### EM WEEKLY CAPITAL FLOWS HAVE OSCILLATED IN THE SUMMER – LATEST READING IS FOR NET INFLOWS

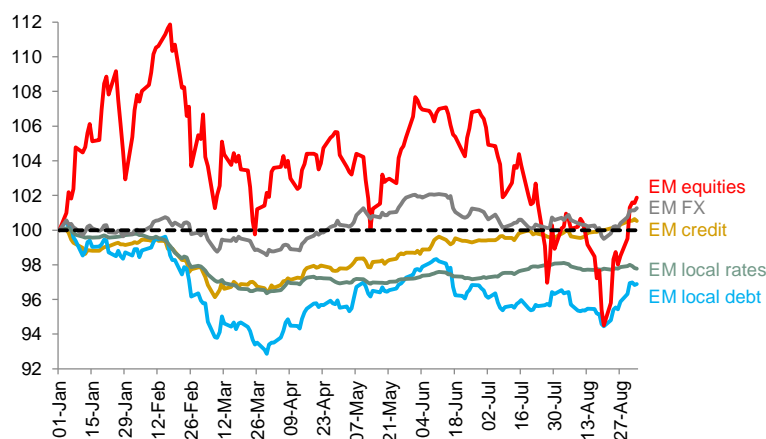
EM EQUITY AND DEBT FLOWS (USD BN), WEEKLY AVERAGE



Source: IIF, MUFG Research

### EM ASSET CLASS PERFORMANCE REMAINS MIXED – EQUITIES ARE NOW THE BEST PERFORMER

EM EQUITIES, FX, RATES, CREDIT AND DEBT (1 JANUARY 2021 = 100)



Source: Bloomberg, MUFG Research



inflationary pressures led an increase in purchasing activity in Egypt (49.1 in July to 49.8 in August).

**Turkey: Q2 2021 GDP faster on an annualised basis, but slower sequentially**

Turkey Q2 2021 GDP needs to be examined sequentially to gauge the performance outside annualised base effects

Real GDP growth rate in Turkey rose from 7.2% y/y in Q1 2021 to 21.7% y/y (MUFG 21.6% y/y, consensus: 21.0% y/y) on the back of marked base effects. As these base effects make interpreting the year-on-year GDP figures challenging, it's prudent to examine sequential (quarter-on-quarter) figures to decipher the true performance of growth in the country. The sequential GDP growth rate slowed down from 2.2% q/q in Q1 2021 to 0.9% q/q in Q2 2021, marginally below the consensus expectation of 1.0% q/q but above our expectation of +0.5% q/q. Whilst Turkey is among the world's fastest growing economies, and GDP data has long since surpassed pre-pandemic levels, the authorities are reluctant to let growth cool, embarking on yet more credit support under the Credit Guarantee Fund. This should ensure economic activity remains robust, as substantiated by the latest PMI data, with domestic demand continuing to lead the recovery. However, these developments will likely reinforce price and financial stability risks. Looking ahead, increased political uncertainties as we near the 2023 elections, ongoing uncertainty surrounding the virus as well as elevated interest rates as well as FX volatility eclipse the near-term outlook. With this in mind, we revise our 2021 real GDP growth forecast to 8.7% (from 7.3% previously), on the back of a stronger-than-expected growth performance so far this year, alongside upward historical revisions.

**Turkey: upward surprise to inflation in August with real rates now negative**

Turkish inflation rises to 19.25% y/y in August, pushing real rates negative at -0.25% for the first time since October 2020

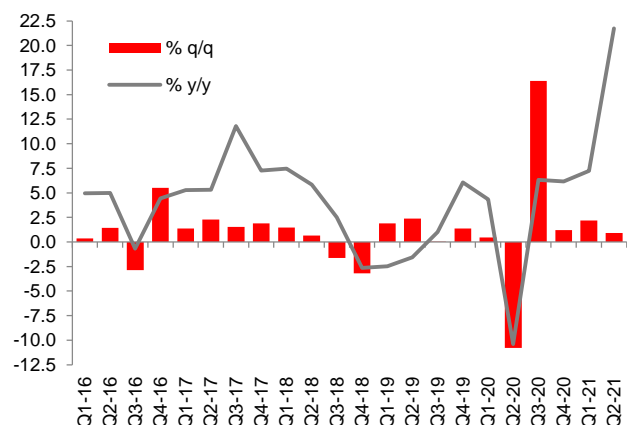
Inflation in Turkey increased from 19.0% y/y in July to 19.25% y/y, above our (18.75% y/y) and consensus (18.80% y/y) expectations. Importantly, the rationale as to why we had anticipated a lower inflation reading is that we had expected a temporary decline in the headline rate after special consumption taxes for some vehicles were reduced. However, while prices in the private transportation vehicles category did fall by 2.7% m/m, this was more than offset by a 3.2% m/m increase in food prices, which now stand at 29% y/y. This is the highest reading since Q2 2019 and marked strong gains in processed and unprocessed foods. Producer price inflation (PPI), meanwhile, rose by 2.8% m/m and the annual rate rose from 44.9% y/y to 45.5% y/y.

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

The Central Bank of Turkey (CBRT) has been offering market guidance since the second quarter that it will keep the policy rate (19.00%) above the inflation rate (now

**TURKISH Q2 2021 GDP FIGURES NEED TO BE EXAMINED USING SEQUENTIAL, NOT ANNUALISED, RATES**

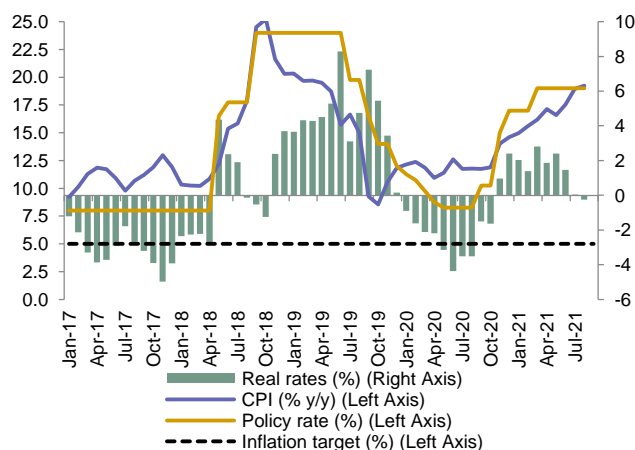
TURKEY REAL GDP (% Y/Y AND % Q/Q)



Source: Bloomberg, TurkStat, MUFG Research

**TURKEY REAL RATES FALL INTO NEGATIVE TERRITORY FOLLOWING THE CONTINUING SURGE IN INFLATION**

TURKEY INFLATION AND TARGET (% Y/Y), POLICY AND REAL RATES (%)



Source: Bloomberg, TurkStat, MUFG Research

19.25% y/y). Nevertheless, the CBRT has been focusing on the expected fall in inflation in Q4 2021 in its recent communication, and we view that it will look through the recent inflation overshoot and keep rates unchanged at its 23 September meeting, unless the Turkish Lira (TRY) comes under significant pressure. Indeed, the verbal communication in the 1 September investor presentation moved away from this somewhat, with policymakers now putting more emphasis on core inflation dynamics. Looking ahead, we maintain our base case for a cumulative 200bp cut in the one week repo rate before year-end, likely in two 100bp steps in November and December, taking the policy rate to 17.00% – we are firmly of the view that the credit-fuelled, economic growth at all costs strategy of the CBRT warrants an easing bias. Core to watch will be the communication post the 23 September rate meeting for any pivot in rhetoric that signals the CBRT believes that there is, or there will be, a material improvement in core inflation dynamics, which could skew the easing cycle to commence in October.

#### **UAE: credit growth rises with World Expo set to offer a boost to growth**

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#### **UAE lending rises with the recovery gaining momentum**

A host of banking sector data signals that the UAE's recovery is gaining shape towards a post-virus equilibrium. Total credit increased by 0.6% m/m in June 2021, bringing the increase to 0.4% q/q for Q2 2021 as a whole, which marks the first positive growth rate since the height of the initial lockdowns in Q2 2020. A survey by the Central Bank of the UAE (CBUAE) suggests that domestic credit requirements are easing into Q3 2021. In addition, UAE interbank rates and credit costs have trended lower and liquidity measures have improved, further boosting prospects for a credit impulse across the economy. The print indicates that since the CBUAE launched its Targeted Economic Support Scheme (TESS) in Q2 2020, total claims on the overall public sector have risen by USD34.0bn while funding to the rest of the economy has contracted by USD9.5bn. On the whole, aggregated real economic growth data for the UAE are infrequent, however we take comfort in the CBUAE's latest readings suggests that the recovery continues in earnest. This view is heightened by robust PMI readings (in firm expansionary territory since December 2020) and buttressed by the successful COVID-19 vaccination programme as well as the prospect of the much-anticipated World Expo in October 2021 lifting travel and tourism inflows.

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## Week ahead

### Poland: NBP to keep rates on hold but communication may be hawkish

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#### Poland to keep rates on hold at 0.10%

Whilst our expectation is that the National Bank of Poland (NBP) will maintain rates on hold at 0.10% this week, continued stronger than expected inflation readings set the stage for more hawkish expectations heading into the meeting. The Monetary Policy Committee (MPC) has distanced itself from major CEE regional peers in taking a more benign view of the inflation trajectory, believing that the current overshoot is transitory and driven by supply-side inflationary pressures that are outside the scope of domestic monetary policy. From this, the NBP raised its 2021 inflation forecasts materially in the July meeting but importantly left its official communication regarding the policy outlook unchanged. With inflation comfortably above the NBP's 2.5% ± 1pp target (currently 5.4% y/y in August), and our expectation that inflation will likely remain above 5.0% y/y for the rest of 2021, this will add to pressures to NBP to act. We envisage that the November meeting could be more opportune for a pivot in rhetoric given it will correspond with the update of the NBP's macroeconomic projections.

### Russia: CBR to raise rates by 50bp to 7.0% – and likely the final hike

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#### Russia to raise rates by 50bp to 7.0%

The Central Bank of Russia (CBR) is set to hike rates by 50bp to 7.0% in our (and consensus) expectations. We also believe this will be the end of the current hiking cycle. The CBR's own guidance on rates for this year, which was confirmed by Deputy Governor Zabotkin last week, is broadly consistent with rates rising by up to 50bp before year-end. Looking ahead, we view that the CBR will stay on hold for the remainder of the year, as the front-loaded hiking cycle will impact inflation expectations over the coming months. With inflation set to fall back to ~3% by Q2 2022 in our view, we believe this will lead to the CBR reversing its hiking cycle with rates falling back to 4.5% – the midpoint of the CBR's estimate of neutral levels.

### Inflation: Czech Rep, Egypt, Hungary, Romania and Russia CPI for August

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#### A host of inflation readings in August

This week will witness a host of inflation readings across EM EMEA for August 2021:

1. **Czech Republic.** We (and markets) expect inflation to rise from 3.4% y/y in July to 3.6% y/y in August. A rise in energy prices alongside base effects is likely to drive the headline rate higher. Going forward, we expect headline inflation to remain elevated and rise in the months ahead, peaking in December at 4.0% y/y, when base effects will thereafter begin to ebb.
2. **Egypt.** Our expectation is for inflation to elevate from 5.5% y/y in July to 6.2% y/y in August. This will be likely driven by higher food prices as well as the July hike of fuel and gas prices, which is likely to have been felt in August as well. As we have regularly stated (see [here](#)), our expectation remains that rate cuts remain on the table with 100bp of easing likely in Q1 2022, conditional on inflation remaining in-check and the current account deficit begins to narrow on the back of higher tourism inflows.
3. **Hungary.** Inflation in Hungary is set to rise from 4.6% y/y in July to 4.8% y/y in August (consensus 4.7% y/y), driven by higher food and energy prices. Going forward, our expectation is that inflation will peak in October at 5.1% y/y, driven by base effects in core inflation as well as robust reopening effects.
4. **Romania.** Inflation is set to rise further in Romania from 5.0% y/y in July to 5.1% y/y in August (consensus 5.2% y/y), on the back of higher energy prices. As in Hungary, we expect inflation in Romania to peak in October at

5.2% y/y when base effects in energy prices peak.

5. **Russia.** Following an unchanged inflation reading of 6.5% y/y in July, we forecast inflation to increase to .8% y/y in August (consensus 6.7% y/y), driven predominantly by higher food prices. Going forward, we believe that August will mark the peak in inflation although the headline rate is expected to fall to only 5.9% y/y by December 2021, in our view.














### **South Africa: Q2 2021 GDP to disappoint on moderated domestic demand**

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#### **South Africa economic growth to mark a slowdown in Q2 2021**

Real GDP for Q2 2021 in South Africa is set to expand by 16.6% y/y (consensus 17.8% y/y) from -3.2% y/y in Q1 2021. High frequency data signals that domestic demand growth moderated following a robust Q1 2021 outturn, which will more than offset the positive contribution expected from net exports. The recent rebasing of GDP implied an 11% upward revision to the level of nominal GDP in 2020 and led the real GDP growth in 2020 to be revised higher to -6.4% from -7.0% earlier. This methodological adjustment suggests us to now projects a 2021 GDP estimate of 2.3% from 2.0% earlier.

## Weekly calendar

|                                                                                     | Country    | Day        | GMT   | Indicator/Event         | Period | MUFG Forecast | Consensus | Previous | Market Moving |
|-------------------------------------------------------------------------------------|------------|------------|-------|-------------------------|--------|---------------|-----------|----------|---------------|
|    | Romania    | 07/09/2021 | 07:00 | Real GDP, % y/y         | Q2-21P | ---           | 13.0%     | 13.0%    | !!!           |
|    | S. Africa  | 07/09/2021 | 10:30 | Real GDP, % y/y         | Q2-21  | 16.6%         | 17.8%     | -3.2%    | !!!           |
|    | Poland     | 08/09/2021 | ---   | Monetary Policy Meeting | Sep    | 0.1%          | 0.1%      | 0.1%     | !!!           |
|    | Hungary    | 08/09/2021 | 08:00 | CPI, % y/y              | Jul    | 4.8%          | 4.7%      | 4.6%     | !!!           |
|    | Russia     | 08/09/2021 | 17:00 | CPI, % y/y              | Aug    | 6.8%          | 6.7%      | 6.5%     | !!!           |
|    | Egypt      | 09/09/2021 | ---   | CPI, % y/y              | Aug    | 6.2%          | ---       | 5.5%     | !!!           |
|    | Ukraine    | 09/09/2021 | 12:00 | Monetary Policy Meeting | Sep    | 8.0%          | 8.5%      | 8.5%     | !!!           |
|    | Ukraine    | 09/09/2021 | 13:30 | CPI, % y/y              | Aug    | ---           | 10.2%     | 10.2%    | !!!           |
|    | Oman       | 10/09/2021 | ---   | CPI, % y/y              | Aug    | ---           | ---       | 2.2%     | !!!           |
|    | Romania    | 10/09/2021 | 07:00 | CPI, % y/y              | Aug    | 5.1%          | 5.2%      | 4.9%     | !!!           |
|    | Czech Rep. | 10/09/2021 | 08:00 | CPI, % y/y              | Aug    | 3.6%          | 3.6%      | 3.4%     | !!!           |
|   | Russia     | 10/09/2021 | 11:30 | Monetary Policy Meeting | Sep    | 7.0%          | 7.0%      | 6.50%    | !!!           |
|  | Russia     | 10/09/2021 | 17:00 | Real GDP, % y/y         | Q2-21P | 10.3%         | 10.3%     | -0.7%    | !!!           |

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  | 5.09                       | 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  | 1.94                       | 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      | 0.30                       | 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     | 25.375           | 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     | 1.188            | 1.280    | 1.2600   |
|                                          | Hungary      | 4.60                       | 4.00  | 2.50  | 1.50                      | 1.00     | 12.50    | 292.420          | 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     | 3.205            | 3.240    | 3.200    |
|                                          | Jordan       | 1.84                       | 1.41  | 6.50  | 3.25                      | 3.25     | 3.25     | 0.709            | 0.709    | 0.709    |
|                                          | Kenya        | 6.60                       | 6.00  | 5.00  | 7.00                      | 7.00     | 7.00     | 110.130          | 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     | 1514.890         | 1512.700 | 1520.000 |
|                                          | Libya        | 4.56                       | 15.12 | 15.12 | 3.00                      | 3.00     | 3.00     | 4.514            | 4.524    | 4.434    |
|                                          | Morocco      | 2.20                       | 0.80  | 1.20  | 1.50                      | 1.50     | 1.50     | 8.856            | 8.700    | 8.800    |
|                                          | Nigeria      | 17.40                      | 16.60 | 12.10 | 11.50                     | 11.50    | 11.50    | 411.620          | 398.000  | 405.200  |
|                                          | Oman         | 2.19                       | 2.30  | 1.20  | 0.34                      | 0.34     | 0.34     | 0.385            | 0.385    | 0.385    |
|                                          | Poland       | 5.40                       | 3.80  | 2.10  | 0.10                      | 0.10     | 0.25     | 3.793            | 3.705    | 3.4900   |
|                                          | Romania      | 4.95                       | 3.40  | 2.60  | 1.25                      | 1.25     | 1.50     | 4.162            | 4.115    | 4.0700   |
|                                          | Qatar        | 3.13                       | 0.60  | 1.50  | 1.00                      | 1.00     | 1.00     | 3.641            | 3.642    | 3.642    |
|                                          | Russia       | 6.50                       | 5.20  | 3.20  | 6.50                      | 5.75     | 4.50     | 72.732           | 73.250   | 68.000   |
|                                          | Saudi Arabia | 0.40                       | 3.20  | 1.60  | 0.50                      | 0.50     | 0.50     | 3.750            | 3.751    | 3.752    |
|                                          | South Africa | 4.60                       | 4.00  | 3.60  | 3.50                      | 3.75     | 4.75     | 14.313           | 14.750   | 15.800   |
|                                          | Turkey       | 19.25                      | 15.10 | 11.60 | 19.00                     | 14.00    | 14.00    | 8.324            | 9.250    | 8.200    |
|                                          | Ukraine      | 10.20                      | 8.30  | 5.40  | 8.00                      | 8.00     | 8.00     | 26.885           | 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 | 06-Aug | 13-Aug | 20-Aug | 27-Aug | 03-Sep | Change in yield (basis points) |        |         |
|                                   |          |        |        |        |        |        | Week                           | MTD    | YTD     |
| Bahrain                           | 10 years | 2.44   | 2.47   | 2.45   | 2.38   | 2.37   | -0.17                          | -4.80  | -59.77  |
| Czech Rep.                        | 10 years | 1.61   | 1.80   | 1.78   | 1.77   | 1.77   | 0.31                           | 0.89   | 75.07   |
| Egypt                             | 9 years  | 5.76   | 5.81   | 5.73   | 5.60   | 5.51   | -9.86                          | -3.19  | 55.53   |
| Greece                            | 8 years  | 0.29   | 0.28   | 0.29   | 0.39   | 0.47   | 8.20                           | 2.65   | -4.29   |
| Hungary                           | 8 years  | 2.14   | 2.22   | 2.19   | 2.45   | 2.57   | 11.96                          | 9.94   | 90.02   |
| Israel                            | 8 years  | 0.15   | 0.14   | 0.12   | 0.13   | 0.13   | 0.57                           | 0.37   | -0.60   |
| Jordan                            | 5 years  | 3.98   | 3.93   | 3.87   | 3.78   | 3.72   | -5.30                          | -1.70  | 9.79    |
| Kenya                             | 7 years  | 5.26   | 5.23   | 5.21   | 5.09   | 4.84   | -25.38                         | -9.66  | -29.98  |
| Kuwait                            | 6 years  | 1.27   | 1.28   | 1.24   | 1.27   | 1.24   | -3.02                          | -1.66  | 10.48   |
| Lebanon                           | 9 years  | 56.57  | 58.93  | 58.46  | 49.10  | 48.51  | -58.41                         | -44.19 | -129.62 |
| Morocco                           | 11 years | 2.09   | 2.10   | 2.10   | 2.11   | 2.08   | -2.62                          | -1.57  | 34.94   |
| Nigeria                           | 9 years  | 6.31   | 6.42   | 6.58   | 6.43   | 6.22   | -21.39                         | -7.61  | 24.76   |
| Oman                              | 9 years  | 4.90   | 4.93   | 5.06   | 4.92   | 4.83   | -8.83                          | -4.33  | -64.27  |
| Poland                            | 8 years  | -0.11  | -0.11  | -0.15  | -0.16  | -0.18  | -2.21                          | -0.38  | -4.39   |
| Romania                           | 7 years  | 0.98   | 0.96   | 0.94   | 0.95   | 0.98   | 3.45                           | 5.23   | -13.23  |
| Qatar                             | 9 years  | 2.23   | 2.25   | 2.15   | 2.20   | 2.12   | -7.28                          | -2.78  | 48.73   |
| Russia                            | 5 years  | 1.65   | 1.68   | 1.70   | 1.75   | 1.72   | -2.63                          | -2.30  | -2.01   |
| Saudi Arabia                      | 8 years  | 2.03   | 2.07   | 2.00   | 2.06   | 1.99   | -6.13                          | -2.77  | 9.43    |
| South Africa                      | 9 years  | 4.02   | 4.10   | 4.20   | 4.08   | 3.95   | -12.94                         | -6.42  | -18.44  |
| Turkey                            | 7 years  | 5.56   | 5.50   | 5.51   | 5.32   | 5.31   | -0.79                          | 5.86   | 43.85   |
| Ukraine                           | 8 years  | 6.33   | 6.31   | 6.36   | 6.17   | 5.98   | -18.11                         | -6.18  | 3.19    |
| Abu Dhabi                         | 6 years  | 1.36   | 1.37   | 1.28   | 1.36   | 1.35   | -0.97                          | 2.01   | 10.52   |
| Dubai                             | 8 years  | 2.53   | 2.52   | 2.51   | 2.52   | 2.51   | -1.21                          | -0.92  | -8.85   |






















| EM EMEA equity market (index) |         |         |         |         |         |         |            |       |       |
|-------------------------------|---------|---------|---------|---------|---------|---------|------------|-------|-------|
|                               | 30-Jul  | 06-Aug  | 13-Aug  | 20-Aug  | 27-Aug  | 03-Sep  | Change (%) |       |       |
|                               |         |         |         |         |         |         | Week       | MTD   | YTD   |
| Bahrain                       | 1,586   | 1,615   | 1,631   | 1,638   | 1,662   | 1,661   | -0.09      | 0.92  | 11.46 |
| Czech Rep.                    | 125,675 | 121,633 | 120,701 | 117,165 | 120,818 | 116,933 | -3.22      | -1.56 | -1.75 |
| Egypt                         | 10,746  | 10,723  | 10,885  | 10,938  | 10,950  | 11,096  | 1.33       | -0.43 | 2.31  |
| Greece                        | 883     | 896     | 900     | 899     | 914     | 915     | 0.07       | -0.88 | 13.11 |
| Hungary                       | 48,286  | 49,746  | 50,317  | 52,289  | 51,094  | 52,255  | 2.27       | 0.55  | 24.28 |
| Israel                        | 1,692   | 1,694   | 1,699   | 1,722   | 1,767   | 1,773   | 0.30       | 0.85  | 18.26 |
| Jordan                        | 2,132   | 2,062   | 2,015   | 2,016   | 2,003   | 2,059   | 2.80       | -0.13 | 24.25 |
| Kenya                         | 177     | 175     | 181     | 186     | 187     | 179     | -4.14      | -1.57 | 17.99 |
| Kuwait                        | 6,543   | 6,543   | 6,612   | 6,651   | 6,703   | 6,791   | 1.31       | 0.06  | 22.45 |
| Lebanon                       | 658     | 658     | 658     | 658     | 658     | 658     | 0.00       | -0.30 | 56.68 |
| Morocco                       | 9,913   | 10,099  | 10,217  | 10,254  | 10,288  | 10,378  | 0.88       | 0.62  | 12.93 |
| Nigeria                       | 38,928  | 38,928  | 39,448  | 39,546  | 39,461  | 39,261  | -0.51      | 0.11  | -2.51 |
| Oman                          | 3,994   | 3,994   | 4,006   | 3,991   | 3,959   | 3,972   | 0.32       | 0.12  | 8.55  |
| Poland                        | 2,246   | 2,272   | 2,284   | 2,285   | 2,325   | 2,381   | 2.39       | 0.54  | 20.00 |
| Romania                       | 11,809  | 11,802  | 12,101  | 12,138  | 12,275  | 12,313  | 0.31       | 1.12  | 25.57 |
| Qatar                         | 10,858  | 10,858  | 10,916  | 10,996  | 11,166  | 11,062  | -0.93      | -0.28 | 6.00  |
| Russia                        | 3,782   | 3,811   | 3,877   | 3,925   | 3,887   | 4,002   | 2.96       | 2.11  | 21.67 |
| Saudi Arabia                  | 11,162  | 11,162  | 11,325  | 11,345  | 11,063  | 11,336  | 2.47       | 0.15  | 30.45 |
| South Africa                  | 62,369  | 62,750  | 63,489  | 61,609  | 61,212  | 60,107  | -1.81      | -1.53 | 10.53 |
| Turkey                        | 1,414   | 1,414   | 1,411   | 1,450   | 1,453   | 1,469   | 1.06       | -0.23 | -0.55 |
| Ukraine                       | 525     | 525     | 525     | 526     | 526     | 526     | 0.00       | 0.00  | 5.34  |
| Abu Dhabi                     | 7,106   | 7,405   | 7,594   | 7,695   | 7,684   | 7,637   | -0.61      | -0.62 | 51.37 |
| Dubai                         | 2,774   | 2,813   | 2,815   | 2,862   | 2,888   | 2,913   | 0.90       | 0.36  | 16.91 |

## EM EMEA FX against USD\*

|                                                                                    |                | 23-Jul   | 30-Jul   | 06-Aug   | 13-Aug   | 20-Aug   | 27-Aug   | Change (%) |       |        |
|------------------------------------------------------------------------------------|----------------|----------|----------|----------|----------|----------|----------|------------|-------|--------|
|                                                                                    |                |          |          |          |          |          |          | Week       | MTD   | YTD    |
|   | USD Index      | 92.174   | 92.800   | 92.518   | 93.568   | 92.686   | 92.035   | -0.70      | -0.64 | 2.33   |
|   | Bahrain**      | 0.379    | 0.379    | 0.379    | 0.379    | 0.379    | 0.379    | 0.05       | -0.08 | -0.18  |
|   | Czech Rep.     | 21.482   | 21.599   | 21.533   | 21.848   | 21.638   | 21.355   | -1.31      | 0.77  | 0.56   |
|   | Egypt          | 15.699   | 15.699   | 15.699   | 15.699   | 15.699   | 15.699   | 0.00       | 0.00  | -0.31  |
|   | Greece***      | 1.187    | 1.176    | 1.180    | 1.170    | 1.180    | 1.188    | 0.72       | 0.60  | -2.75  |
|   | Hungary        | 301.900  | 300.890  | 298.740  | 299.400  | 296.030  | 292.420  | -1.22      | 1.06  | 1.55   |
|   | Israel         | 3.231    | 3.224    | 3.213    | 3.238    | 3.229    | 3.204    | -0.77      | 0.11  | 0.28   |
|   | 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       | 0.00  | 1.10   |
|   | Kuwait         | 0.301    | 0.301    | 0.301    | 0.301    | 0.301    | 0.301    | 0.00       | 0.00  | 0.83   |
|   | Lebanon        | 1,508.11 | 1,515.50 | 1,507.83 | 1,514.96 | 1,512.70 | 1,514.89 | 0.14       | -0.24 | 0.01   |
|   | Morocco        | 8.903    | 8.954    | 8.955    | 8.986    | 8.892    | 8.856    | -0.40      | 0.67  | 0.61   |
|   | Nigeria        | 411.100  | 411.240  | 411.050  | 411.230  | 411.230  | 411.620  | 0.09       | -0.11 | -3.36  |
|   | Oman**         | 0.387    | 0.387    | 0.387    | 0.387    | 0.387    | 0.387    | -0.08      | 0.00  | 0.47   |
|   | Poland         | 3.758    | 3.758    | 3.758    | 3.758    | 3.757    | 3.757    | 0.01       | -0.02 | -0.09  |
|   | Romania        | 4.141    | 4.177    | 4.163    | 4.219    | 4.185    | 4.162    | -0.53      | 0.39  | -4.43  |
|   | Qatar**        | 3.728    | 3.721    | 3.716    | 3.713    | 3.709    | 3.698    | -0.30      | 0.29  | -0.03  |
|   | Russia         | 73.147   | 73.474   | 73.227   | 74.272   | 73.543   | 72.732   | -1.10      | 0.70  | 2.31   |
|   | Saudi Arabia** | 3.758    | 3.758    | 3.758    | 3.758    | 3.757    | 3.757    | 0.01       | -0.02 | -0.09  |
|   | South Africa   | 14.602   | 14.631   | 14.735   | 15.295   | 14.723   | 14.313   | 2.87       | 1.48  | 2.67   |
|   | Turkey         | 8.454    | 8.632    | 8.524    | 8.496    | 8.351    | 8.324    | 0.32       | -0.08 | -10.62 |
|   | Ukraine        | 3.750    | 3.750    | 3.751    | 3.750    | 3.751    | 3.750    | -0.01      | 0.01  | 0.04   |
|  | UAE**          | 3.674    | 3.674    | 3.674    | 3.674    | 3.674    | 3.674    | 0.00       | 0.00  | 0.05   |

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      | 246.74 | 255.40 | 254.80 | 259.66 | 259.91 | 252.35 | -7.56                          | 2.06  | 11.53   |
|  | Czech Rep.   | 33.10  | 30.15  | 30.12  | 30.13  | 30.35  | 30.16  | -0.19                          | -0.21 | -5.58   |
|  | Egypt        | 355.79 | 356.79 | 357.48 | 359.04 | 356.65 | 352.20 | -4.45                          | -2.64 | 13.16   |
|  | Greece***    | 71.23  | 71.91  | 71.54  | 72.51  | 73.80  | 73.79  | -0.02                          | -0.83 | -27.63  |
|  | Hungary      | 40.70  | 49.63  | 49.97  | 50.48  | 50.48  | 51.09  | 0.61                           | 0.60  | -9.13   |
|  | Israel       | 40.70  | 39.24  | 42.52  | 42.53  | 42.53  | 42.00  | -0.52                          | -0.20 | -4.22   |
|  | Kenya        | 282.04 | 282.00 | 320.15 | 320.88 | 322.32 | 318.09 | -4.24                          | -0.96 | -23.19  |
|  | Kuwait       | 50.02  | 49.98  | 49.99  | 50.00  | 50.00  | 50.03  | 0.03                           | 0.02  | 5.80    |
|  | Morocco      | 99.82  | 103.91 | 104.03 | 104.14 | 104.21 | 101.32 | -2.89                          | 1.07  | -11.00  |
|  | Nigeria      | 325.15 | 325.11 | 345.04 | 363.02 | 364.92 | 364.91 | -0.01                          | -0.08 | 28.77   |
|  | Oman         | 255.00 | 253.03 | 253.82 | 253.78 | 252.84 | 245.01 | -7.83                          | -0.25 | -116.59 |
|  | Poland       | 48.04  | 49.23  | 48.40  | 49.00  | 49.23  | 48.50  | -0.73                          | -0.57 | -9.39   |
|  | Romania      | 89.93  | 86.91  | 86.91  | 86.91  | 87.94  | 88.92  | 0.98                           | 0.98  | 4.03    |
|  | Qatar        | 42.17  | 43.09  | 43.18  | 42.69  | 42.03  | 40.73  | -1.30                          | -0.74 | 2.32    |
|  | Russia       | 86.04  | 87.52  | 84.57  | 86.54  | 80.66  | 77.92  | -2.74                          | -1.33 | -8.01   |
|  | Saudi Arabia | 55.66  | 56.59  | 54.38  | 53.90  | 52.47  | 49.99  | -2.48                          | -1.22 | -15.42  |
|  | South Africa | 207.57 | 205.94 | 201.66 | 207.54 | 191.60 | 183.71 | -7.89                          | -2.97 | -20.47  |
|  | Turkey       | 383.94 | 394.27 | 382.87 | 389.08 | 369.78 | 366.80 | -2.98                          | 0.07  | 62.41   |
|  | Ukraine      | 418.70 | 418.44 | 419.85 | 408.68 | 400.75 | 388.32 | -12.43                         | -7.70 | -0.31   |
|  | Abu Dhabi    | 41.30  | 42.32  | 42.53  | 42.05  | 42.11  | 40.91  | -1.21                          | -0.38 | 2.53    |
|  | Dubai        | 89.03  | 91.18  | 90.17  | 90.43  | 90.84  | 90.00  | -0.83                          | -0.88 | -22.06  |

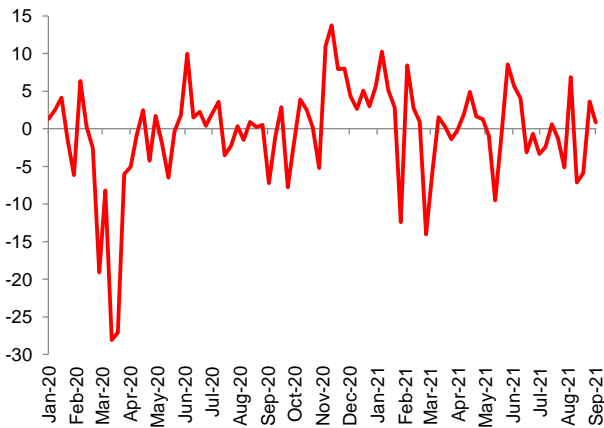
Source: Bloomberg, MUFG Research



# EM capital flows

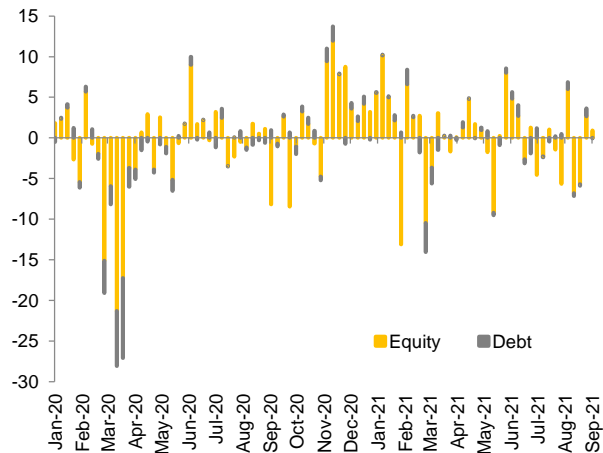
## WEEKLY TOTAL EM INFLOWS OF USD0.9BN – 03 SEPTEMBER

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



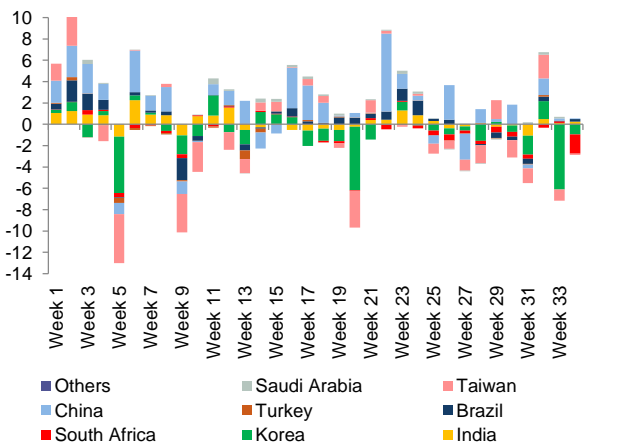
## WEEKLY EM INFLOWS FROM EQUITY (USD0.9BN) WHILST DEBT OUTFLOWS (USD-0.1BN) – 03 SEPTEMBER

WEEKLY DEBT AND EQUITY FLOWS (USD BN)



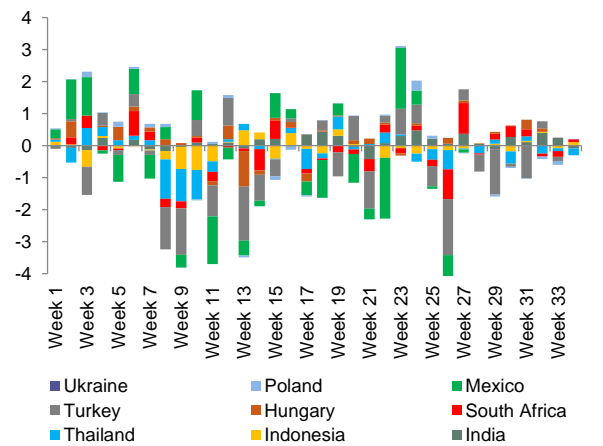
## TAIWAN (USD0.8BN) LED WEEKLY EQUITY INFLOWS – 03 SEPTEMBER

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



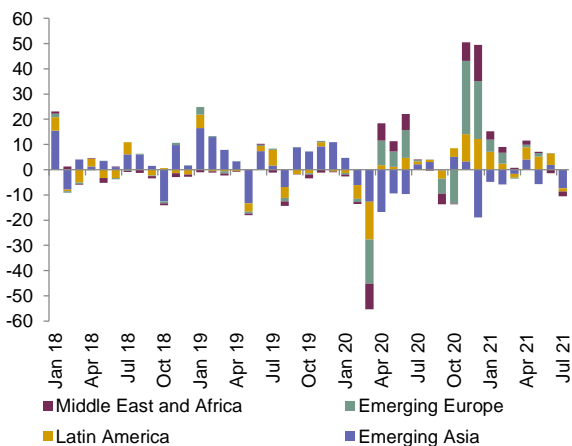
## THAILAND (USD-0.1BN) LED EM DEBT OUTFLOWS LAST WEEK – 03 SEPTEMBER

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



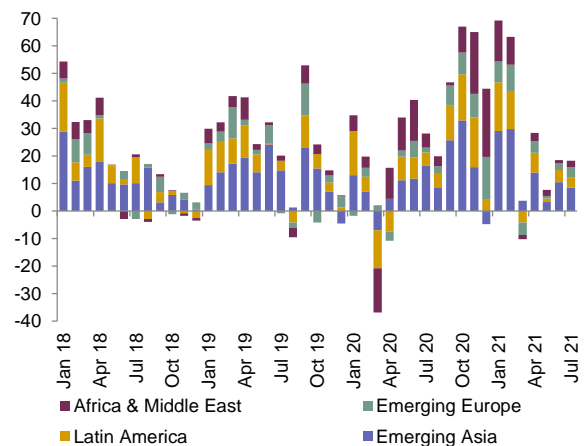
## EM EQUITY FLOWS TOTALLED USD-10.5BN IN JULY, LED BY EM ASIA (USD-7.3BN) AND MENA (USD-1.9BN)

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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# Research

## London:

**MR DEREK HALPENNY**

*Head of Research, Global Markets EMEA  
& International Securities*

E: derek.halpenny@uk.mufg.jp

**MR LEE HARDMAN**

*Currency Analyst*

E: lee.hardman@uk.mufg.jp

**MS MOMOKO MIYACHI**

*Research Assistant*

E: momoko.miyachi@uk.mufg.jp

## Shanghai:

**MR MARCO SUN**

*Chief Financial Markets Analyst*

E: wu\_wun@cn.mufg.jp

## Hong Kong:

**MS LIN LI**

*Head of Global Markets Research Asia*

E: lin\_li@hk.mufg.jp

## Dubai:

**MR EHSAN KHOMAN**

*Head of Emerging Markets Research – EMEA*

E: ehsan.khoman@ae.mufg.jp

## Tokyo

**MR MINORI UCHIDA**

*Tokyo Head of Global Markets Research*

E: minori\_uchida@mufg.jp

**MR TOSHIYUKI SUZUKI**

*Senior Market Economist*

E: toshiyuki\_4\_suzuki@mufg.jp

**MR TAKAHIRO SEKIDO**

*Chief Japan Strategist*

E: takahiro\_sekido@mufg.jp

**MS SUMINO KAMEI**

*Senior Analyst*

E: sumino\_kamei@mufg.jp

**MR TEPPEI INO**

*Senior Analyst*

E: teppei\_ino@mufg.jp

**MR TOMOKI HIRAMATSU**

*Research Assistant*

E: tomoki\_hiramatsu@mufg.jp

## Singapore:

**MS SOOK MEI LEONG**

*Asean Head of Global Markets Research*

E: leongsm@sg.mufg.jp

**MS SOPHIA NG**

*Analyst*

E: sophia\_ng@sg.mufg.jp

## Sao Paulo:

**MR CARLOS PEDROSO**

*Senior Economist*

E: cpedroso@br.mufg.jp

**MR MAURICIO NAKAHODO**

*Economist*

E: mnakahodo@br.mufg.jp

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