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MUFG Bank, Ltd.
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Taking stock of EM sovereign credit ratings in the new normal

Macro focus: We take stock of EM credit rating developments throughout the pandemic, flagging countries where rating developments could turn positive due to relatively strong fundamentals, as well as countries which are at risk of downgrades due to the delta variant and delayed reopenings, as markets begin to form new contours of normality towards a post-virus equilibrium. Our analysis signals that Angola, Poland, Qatar, Russia, Saudi Arabia and Ukraine have the most potential in terms of rating upgrades in the next 12-24 months, whilst Romania, South Africa, Tunisia and Turkey are most at risk to credit downgrades during the same period.

FX views: Broad-based USD rebound following recent hawkish comments from Fed officials is weighing on EM FX – we expect the low volatility trading environment to continue in the week ahead, and have recommended a short EUR/RUB trade idea (see here) to take advantage of favourable conditions for carry trades.

Trading views: Last week's price action and speeches by policymakers showed that there will be a lot of disparity going forward to how policymakers navigate elevated inflation levels – near-term, we see reasons for Asian underperformance.

Week in review: Over the previous week, Russia raised rates (25bp) with further hikes on the table, South Africa Q2 GDP increased faster than expected (1.2% q/q), and a host of EM inflation readings for August printed higher than expected.

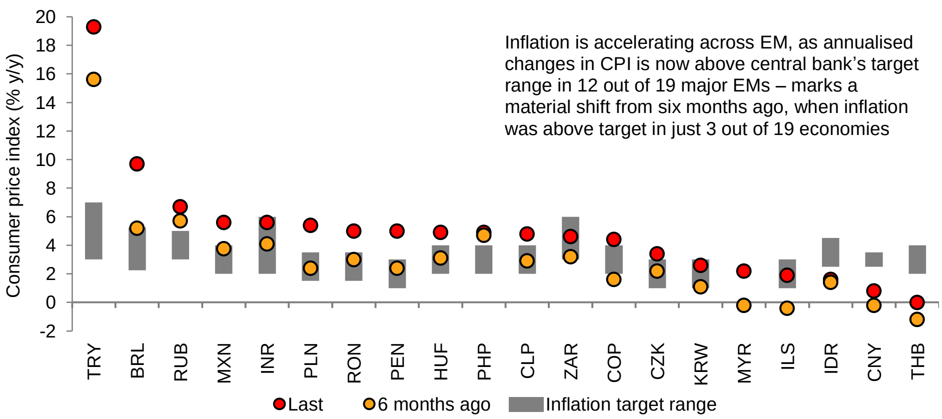
Week ahead and calendar: In a quiet week ahead, we get Egypt rates, Israel will print its August inflation and Turkey will release its July current account balance.

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: Weekly capital flows into EMs rose to the highest level since November – equity flows rose USD11.2bn and bond flows increased USD1.8bn.

CHART OF THE WEEK: INFLATIONARY IMPULSES ACCELERATES ACROSS EM'S

EM INFLATION AND EM CENTRAL BANK INFLATION TARGET RANGE, % Y/Y



Source: Bloomberg, MUFG Research

Macro focus

Taking stock of EM sovereign credit ratings in the new normal

Large-scale EM sovereign downgrades throughout COVID-19

The pandemic has sparked a stern downgrade EM credit cycle. However, recent developments have been mixed, with upgrades in parts of Africa, further downgrades in EM Asia and Latin America, whilst the MENA region has been left unchanged.

Changes in sovereign outlooks are key to gauge credit rating adjustments

To assess a forward-looking trajectory for credit ratings, we can draw on changes in rating outlooks, which tend to be more frequent than rating changes. Honing in on the outlook revisions that did not involve a rating change, our examinations finds that, while rating outlooks deteriorated sharply for most of 2020, this year they have broadly been net neutral across the three main rating agencies. While in recent months, outlooks have been revised to negative in countries such as, Ghana and Sri Lanka, rating agencies have also reversed COVID-19 related negative outlook revisions, for instance in Saudi Arabia, and upgraded outlooks to positive in Ukraine.

With the pandemic moving into the rear-view mirror, the prospect for more positive rating actions will materialise

From a credit ratings outlook perspective, 26% of EM sovereigns currently have a negative outlook from at least two rating agencies. This represents a decline from 31% in late 2020, but is still above the pre-virus share of around 15%. However, from a historical perspective, when we examine rating upgrades and downgrades by Moody's, S&P and Fitch since 2008 across 104 EM sovereigns, we find that, while 83% of EM sovereign downgrades across the three main rating agencies tend to follow negative outlook revisions, 34% of upgrades did not have a positive outlook prior to being upgraded. As such, with rating agencies beginning to reverse some of their virus-related negative revisions, more positive rating actions will materialise.

The pandemic witnessed a swifter and greater magnitude of downgrades relative to other recessionary periods

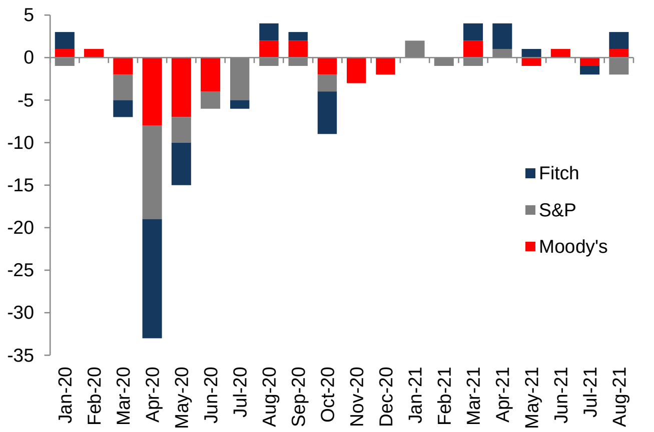
From a credit ratings per se perspective, whilst last year's downgrade cycle was of both a swifter and greater magnitude than in previous recessions, and critically downgrades continued even as activity rebound, this year rating adjustments have been more varied. On the one hand, rating downgrades have transpired in Colombia and Tunisia, whilst Gabon and Kazakhstan have been upgraded.

Bottom-up macro fundamentals modelling framework offers us guidance on which EMs will witness credit rating changes

To contextualise the scale of the scarring COVID-19 will have on EM sovereign ratings as the global economic recovery its taking hold, we parameterise a bottom-up modelling framework which incorporates macro fundamentals such as trend GDP growth, inflation, fiscal and current account balances, public debt as well as a host of

EM RATING OUTLOOKS MARKEDLY DETERIORATED IN 2020 BUT 2021 IT HAS BEEN NET NEUTRAL

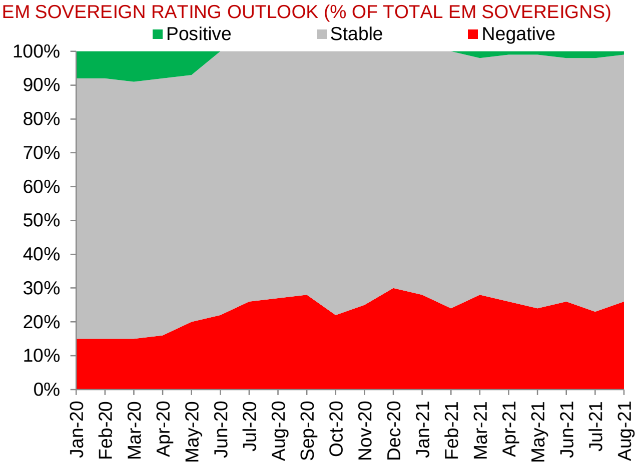
EM SOVEREIGN OUTLOOK CHANGES – DOWNGRADES AND UPGRADES



Source: Moody's, S&P, Fitch, MUFG Research

26% OF EM SOVEREIGNS COMPRISE A NEGATIVE OUTLOOK FROM AT LEAST TWO RATING AGENCIES

EM SOVEREIGN RATING OUTLOOK (% OF TOTAL EM SOVEREIGNS)



Source: Moody's, S&P, Fitch, MUFG Research governance indicators derived from the World Bank. Our findings suggest that credit ratings are broadly in sync with those suggested by our modelling framework, with the average EM rating remaining at BB (where it has persisted since 2014).

Africa is best positioned as a region for upgrades, followed by EM Asia, whilst the MENA region will remain mainly unchanged

Looking ahead, conditional on the COVID-19 delta variant proving transitory and the global economic recovery gains traction, our analysis suggests that there are upside potential for EM sovereign credit ratings, albeit with considerable heterogeneities. Across EM regions, Africa has been downgraded the most since the onset of the pandemic, and also has the most potential for upgrades, according to our models. This is followed by EM Asia which has seen downgrades during COVID-19, with the region adequately positioned for upgrades. Meanwhile, the MENA region – which relies on the cyclical recovery, primarily firm oil prices as well as tourism and trade flows – are expected to have their ratings maintained at current levels, although some idiosyncrasies exist.

Our expectations is that six EM sovereigns are most likely to witness credit rating upgrades over the next 12-24 months

More broadly at the EM country level, the economies that we find have the most upside in terms of rating upgrades over the next 12-24 months are:

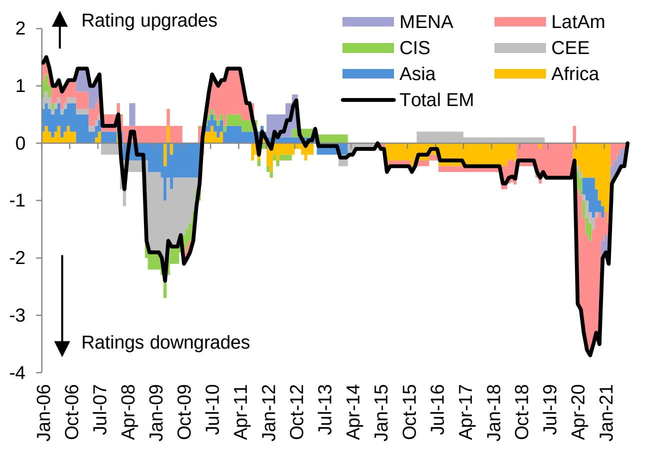
1. Angola. With higher oil prices and an IMF programme, Angola could be upgraded out of the CCC bucket.
2. Poland. Notwithstanding ongoing inflation risks, the speedy vaccine rollout and ample policy flexibility, offers space for Poland to be upgraded.
3. Qatar. Not only is Qatar the only GCC country to likely print a fiscal surplus this year, but the ending of regional standoff back in January 2021, suggests that the country is a solid candidate for a ratings upgrade.
4. Saudi Arabia. Following the Fitch outlook upgrade to stable in July 2021, alongside rapid rebalancing and robust economic activity suggests that Saudi Arabia could be upgraded further over the near-term.
5. Russia. Our framework suggests that Russia's fundamentals warrant the sovereign to be upgraded, but we acknowledge that there is an element of geopolitical risks embedded into the ratings that our models do not capture.
6. Ukraine. Fitch revised the outlook to positive last month, and our estimates suggest that Ukraine's fundamentals are better than its B-rated peers.

We model four core EM sovereigns that could be at risk of credit rating downgrades

Beyond the above prospective rating upgrades, there are those countries that could witness downgrades if the global economic recovery stalls. Front of mind of those most vulnerable are those with external funding susceptibilities, fiscal constraints and still subject to heavy COVID-19 mobility restrictions. Romania, South Africa, Tunisia and Turkey are most at risk to credit downgrades.

EM RATINGS MOMENTUM HAS WORSENED DURING THE PANDEMIC RELATIVE TO OTHER DOWNTURNS

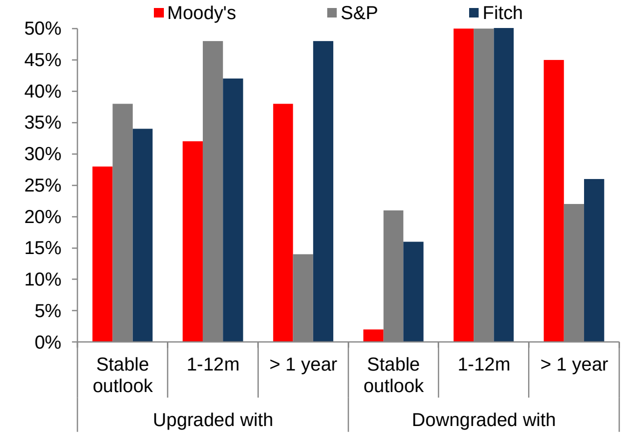
EM SOVEREIGN RATING MOMENTUM (12 MONTH MA OF CHANGES)



Source: Moody's, S&P, Fitch, MUFG Research

A LARGE SHARE OF EM SOVEREIGNS DID NOT HAVE A POSITIVE OUTLOOK BEFORE BEING UPGRADED

SHARE OF EM SOVEREIGN UPGRADES/DOWNGRADES SINCE 2008



Source: Moody's, S&P, Fitch, MUFG Research

FX views

EM FX: High yielders hold up better amidst broad-based USD rebound

Broad-based USD rebound weighs on EM FX but high yielders hold up better.

The worst two performing emerging market currencies over the past week have been the TRY (-2.1% vs. USD) and CLP (-2.0%) while other high yielding currencies of the ZAR (0.4%), MXN (0.2%), and RUB (0%) have held up better amidst a broad-based USD rebound. Recent hawkish comments from Fed officials including New York Fed President Williams have downplayed the importance of the weaker August NFP report and suggested that the Fed remains on track to announce plans to begin tapering QE later this year. The comments have helped to support the USD. A WSJ report has also suggested that the Fed is set to consider plans at next week's FOMC meeting that could bring an end to QE by the middle of next year. A sooner start and/or faster pace of tapering poses upside risks for the USD going forward.

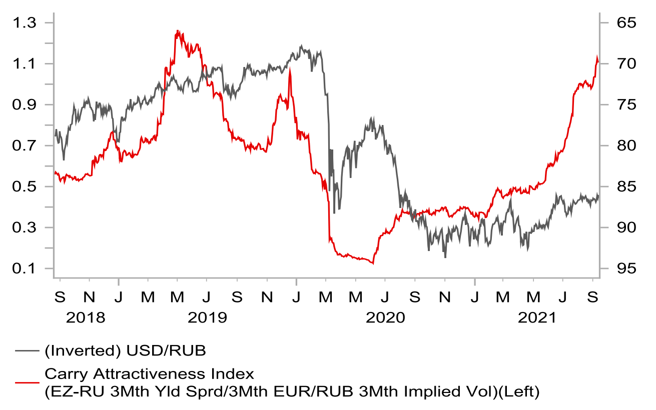
RUB to benefit from favourable carry conditions. Rising yields and falling RUB volatility boost carry appeal.

At the current juncture, we are not expecting the Fed to shake up market expectations as soon as at the September FOMC meeting. Most major FX rates and US rates are currently trading within narrow ranges. We expect the low volatility trading environment to continue in the week ahead, and have recommended a short EUR/RUB trade idea (click here) to take advantage of favourable conditions for carry trades. The CBR's decision to raise rates by only 25bps last week does not materially alter our bullish outlook for the RUB. The overall tone of the policy update remained hawkish. Governor Nabiullina stated that more than one rate hike is possible and the key rate may go above 7.00%. The higher yields on offer in Russia and declining RUB volatility are making it more attractive as a carry currency. We do not expect any market implications from the Russian Lower House elections from 17th-19th September. On the other hand, we still favour the EUR as a funding currency despite last week's hawkish ECB decision to moderately taper PEPP purchases in Q4.

Reversal of recent TRY outperformance. CBRT placing more focus on for core inflation as real policy rate is back in negative territory.

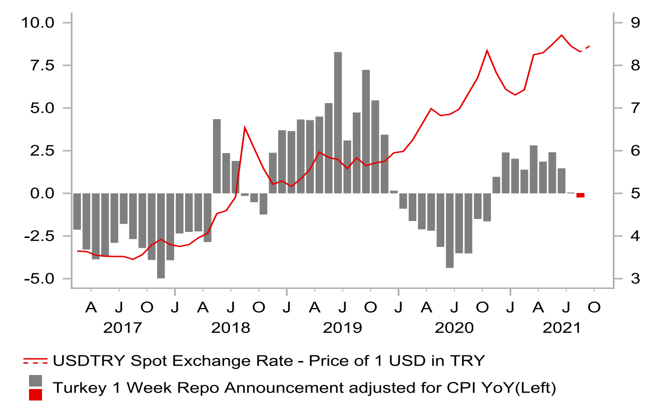
The TRY suffered the biggest turnaround in fortunes last week with USD/TRY rising sharply back up to the 8.5000-level after failing to break below the 8.3000-level in recent weeks. In part it reflects a reversal of TRY outperformance from July and August, and also more unease over the inflation outlook in Turkey. Headline inflation unexpectedly accelerated to 19.25% in August resulting the in the real policy rate moving into negative territory. The CBRT signalled last week though that they are unlikely respond by raising rates further and are placing more focus now on core inflation which eased to 16.76% in August. It leaves the TRY vulnerable to further weakness if headline inflation continues to pick up and the CBRT stands pat.

IMPROVING CARRY ATTRACTIVENESS OF RUB



Source: Bloomberg, Macrobond & MUFG Research

REAL POLICY RATE IS NEGATIVE AGAIN IN TURKEY



Source: Bloomberg, MUFG Research

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

Last week's price action and speeches by policymakers showed that there will be a lot of disparity going forward to how policymakers face high inflation

We talked in last week's note that going forward we expected to see more divergence amongst EM policymakers and their reaction to high inflation. This would in turn mean that trading EMFX would be much more of an RV trade than straight bet on usual risk factors such as DXY movements. The last few days have given more credence to this hypothesis. The largest sign of this was in Turkey where the CB governor signalled in a speech that they would no longer be focusing on headline inflation but rather switch to core, and effectively dropping the pledge to keep positive real rates in Turkey.

Reasons for Asian underperformance the EMFX complex are starting to add up notably

Within this framework we continue to see Asia underperform. Firstly it continues to be at the worse end of the scale of countries dealing with COVID-19. While the relative situation is rapidly improving with places like Singapore seeing vaccination rates as high as anywhere in the world. It is the case that Asian's earlier strategy of suppression of COVID-19 puts it in a bad place when the world tries to move to living with COVID-19. Secondly the Chinese crackdown on regulatory matters relating to technology and education etc is not due to economic reasons but rather social aims. This means that China will be a lot slower to react to any growth slowdown that may come from this, and may completely ignore any asset price fall in in stocks for example. Thus we can see Chinese growth (and therefore Asian) underperforming other places. Thirdly there appears to be growing unease in China/US relations. While Biden's call with XI may have been a stop brake to further deterioration the tension is still quite high especially if the US goes through and renames its Taiwan rep office. The final reason to be bearish Asia is due to the commodity boom we are seeing. With the exception of IDR, Asia is a net commodity importer. The commodity boom is getting more headlines as prices continue to climb and we're not sure market is correctly pricing the T-O-Ts effects that we can start to see. Overall it keeps up long high yield EM (ex Turkey) with likes of BNRL, MXN and Rub vs shorts in RMB and the region.

Week in review

EM capital flows: strongest weekly EM inflows since November 2020

EMs stand to gain from ECB tapering given an improving European outlook bodes well for EMs as a whole

EM investors might be fixated on Fed's 21-22 September FOMC meeting for details on the looming tapering, but in Europe, tapering has already commenced, as the ECB changed its language regarding the Pandemic Emergency Purchase Programme (PEPP) from "significantly higher" to "moderately lower" at its latest rate setting meeting. The ECB had already reduced the pace of purchases through the summer, suggesting that last week's announcement only makes official what has already happened. Moreover. asset purchases will continue under the regular Asset Purchase Programme (APP), which should continue to keep overall financing conditions supportive in the region. Looser financial conditions along with stronger activity in Europe are two factors that could support EM given that the region is still the biggest export destination. Also the region is the larger capital provider for EM, and European funds have the highest exposure to EM assets (see here). Our earlier analysis on EM returns suggested that these factors can act as a balancing factor and bolster EM returns.

Net capital flows into EMs were the highest since November 2020

From an capital flows perspective, investors increased their overall EM exposure in the week ending 3 September to the highest level since November 2020. According to IIF data, total inflows reached USD13.0bn, of which was primarily driven by equity flows (USD11.2bn), whilst debt flows (USD1.8bn) were also at benign levels. From a 28 day rolling average perspective, inflows into EM equity and bond funds pivoted into positive territory for the first time since early August – a testament that the investors are increasingly positioning themselves into EMs. From an asset class performance perspective, EM equities continue to perform best, followed by EM FX – both of which are higher year-to-date.

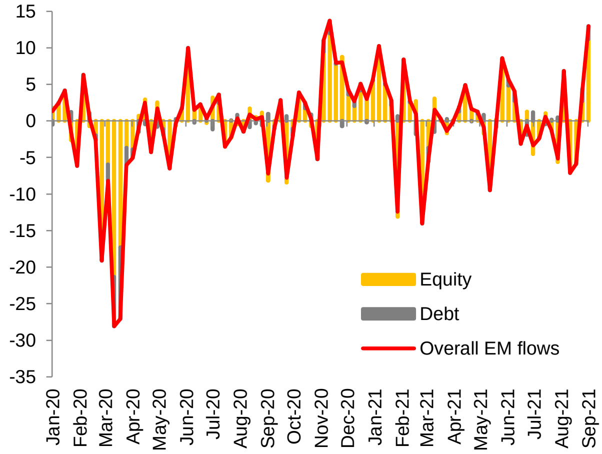
Russia: CBR hikes by less than expected (25bp), with further hikes possible

Russia hikes rates for the fifth time in 2021 but the end of the hiking cycle could come in October

The Central Bank of Russia (CBR) increased its key rate by 25bp from 6.5% to 6.75%, against our (and consensus) forecast of a 50bp hike. The communication post-meeting was similar in rhetoric to the July meeting and was less hawkish in tone despite last week's upside inflation surprise. What was different was the slight change in the language on forward guidance from "if the situation develops in line with its baseline scenario", then the CBR "will consider the necessity of further key

EM WEEKLY CAPITAL FLOWS SURGED TO THE MOST SINCE NOVEMBER 2020 ON A MORE DOVISH FED

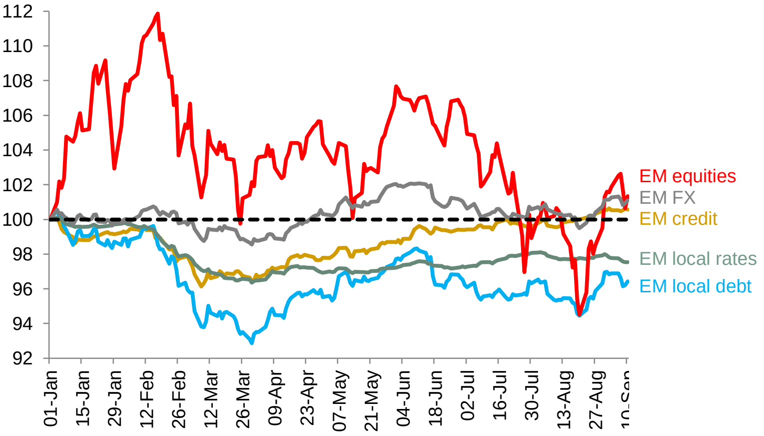
EM EQUITY AND DEBT FLOWS (USD BN), WEEKLY AVERAGE



Source: IIF, MUFG Research

EM ASSET CLASS PERFORMANCE REMAINS MIXED – EM EQUITIES AND EM REMAIN THE BEST PERFORMERS

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



Source: Bloomberg, MUFG Research

rate increase at its upcoming meetings", to the CBR will hold "open the prospect for further key rate rises". Governor Nabiullina declared that there was still space for "not only one, but several hikes" going forward and restated that their rate guidance also leaves space for the rate to go above 7.0% later this year. Given the CBR's interest rate guidance that rates would rise to 6.5-7.1% on average for the last five months of the year, a hike to 7.0% was seen by us and consensus as the final hike of the cycle. However, given inflation is still outpacing the CBR's forecast sequentially, we believe the CBR was not ready to give that indication to markets and wanted to maintain flexibility in its strategy. Going forward, our expectation is for a further 25bp hike in October to 7.0% which could end the hiking cycle.

South Africa: Q2 GDP rises faster than expected but Q3 levels to moderate

South Africa Q2 2021 GDP rose faster than expected

The South African economy grew by 1.2% q/q in Q2 2021, registering a moderate pick-up in growth from the 1.0% q/q gain in Q1 2021. On an annual basis, the economy expanded by 19.3% y/y (MUFG 16.6% y/y; consensus 17.8% y/y), from a revised 2.6% contraction in Q1 2021 (-3.2% previously). In the expenditure breakdown of GDP, domestic demand growth moderated but the contribution from net exports turned significantly positive as exports surged. On the supply side, agriculture and services sectoral growth rebounded and mining output remained robust, while manufacturing and construction output contracted. Given the upside surprise to our forecast as well as the positive backward revision to the Q1 2021 GDP estimate, we revise up our GDP forecast for 2021 from 4.6% to 5.1% (factoring in a moderation in Q3 2021 growth given the social unrest in July hampered businesses and dislocated trade flows).

Inflation in August: higher in Czech, Egypt, Hungary, Romania and Russia

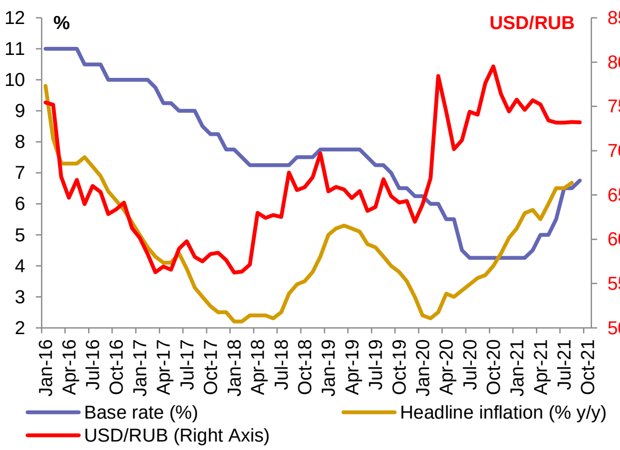
A host of inflation readings in August printed higher

Inflation rose across Czech Republic, Egypt, Hungary, Romania and Russia in August:

1. Czech Republic. Headline inflation in Czech Republic increased sharply in August, from 3.4% y/y in July to 4.1% y/y, significantly above our (and consensus) expectations, of 3.6% y/y. The increase was broad-based, with positive contributions from all categories and core inflation rising from 3.0% y/y to 3.7% y/y. Our expectation is that headline inflation will continue to rise in the months ahead, peaking at 4.5% y/y in December, before declining thereafter. From a monetary policy perspective, the Czech National Bank (CNB) has taken a more hawkish view of the rise in inflation than most EM

HIGHER RUSSIAN INFLATION HAS LED TO RATE HIKES BUT THE HIKING CYCLE COULD END NEXT MONTH

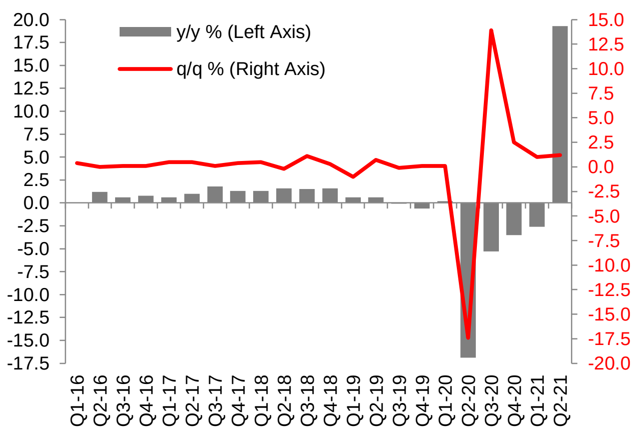
RUSSIA BASE RATE (%), INFLATION (% Y/Y) AND USD/RUB



Source: Bloomberg, CBR, MUFG Research

SOUTH AFRICA GDP GROWTH ROSE FASTER THAN EXPECTED IN Q2 2021

SOUTH AFRICA REAL GDP GROWTH (% Q/Q; % Y/Y)



Source: Bloomberg, Statistics South Africa, MUFG Research central banks erring on the side of price rises being less transitory – the CNB has communicated the inflation increases as reflecting broader pricing pressures. We expect the CNB to raise rates by a further 25bp at its next meeting on 30 September, but risks are skewed for a 50bp hike.

2. Egypt. Headline inflation in Egypt increased from 5.5% y/y in July to 5.7% y/y in August, higher than our expected 6.2% y/y rise. With muted influences from the volatile food and energy components, the uptick was primarily driven by base effects. The benign August inflation print lowers our trajectory going forward and we expect the headline rate to edge below the Central Bank of Egypt's (CBE) 5% ± 2 ppt band in the coming months, which supports our view that rate cuts remain on the table with 100bp of easing likely by Q1 2022.
3. Hungary. Headline inflation in Hungary increased by 0.3pp to 4.9% y/y, slightly ahead of our forecast of 4.8% y/y (consensus 4.7% y/y). The main drivers of the inflation increase were higher fuel and food inflation, though core items were also firm on the month, with durable goods pointing to upside pressures. While the gap between the Hungary National Bank (MNB) near-term forecast and realised inflation was unchanged on the month, it remains high at 0.7pp implying that the MNB will likely make a considerable upward revisions to its inflation projections at the next 21 September meeting. With this in mind, we expect the MNB to deliver 30bp in hikes in each of its next three meetings, taking the policy rate to 2.4%.
4. Romania. Romanian inflation increased from 4.9% y/y in July to 5.2% y/y in August in line with consensus expectations but above our projection of 5.1% y/y. The increase was broad based, but primarily driven by strong rises in the volatile energy and food components. Going forward, we expect inflation to remain higher for longer as the combination of higher energy prices, base effects and reopening effects will drive prices higher. We expect inflation to peak in November at 5.6% y/y and declining thereafter. From a monetary policy perspective, the National Bank of Romania (NBR), maintained its policy rate at 1.25%, in line with our (and consensus) expectations.
5. The NBR also revealed a new inflation report in which its inflation forecasts have been "revised considerably upwards in the short term and to a lower extent in the latter part of the projection horizon". While it reiterated the role of external volatile components (mainly energy and food), the report also states that core inflation measures display relatively high underlying pressures.
6. 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. Headline inflation in Russia increased from 6.5% y/y in July to 6.7% y/y in August in line with our consensus expectations, but slightly below our forecast of 6.8% y/y. As expected, food prices accounted for a large part of the increase, (up 0.4ppt to 8.9% y/y). Looking ahead, our estimates signal that the peak in inflation will be in October at 6.9% y/y, and will fall thereafter (ending 2021 at 5.8% y/y). More broadly, we are of the view that inflation will prove transitory and prices will return to ~3.0% y/y by mid-2022 (close to pre-virus levels).

Week ahead

Egypt: CBE to keep rates on hold but cuts are likely in the months ahead

Egypt to keep rates on hold at 0.10%

With the August CPI print signalling well contained price levels in Egypt (see *week in review* section above), the Central Bank of Egypt (CBE) is expected to leave the deposit and lending rates at 8.25% and 9.25%, respectively – marking the seventh consecutive time for unchanged rates. This leaves real rates at 255bps – one of the highest in EMs – close to the level the CBE had previously suggested as its neutral rate. Whilst this may be strengthening capital inflows and propping up the Egyptian Pound (EGP) at a time of elevated global uncertainty, tight domestic financial conditions signal a potential drag on economic growth and on government finances through higher domestic debt service. The yield on treasury bills has nudged lower over the summer, but the wedge with the policy rate remains very wide of ~5%, compared with a long-term average of ~2%, and with the currency holding flat, the high yield continues to draw offshore portfolio flows, which will likely remain a crucial source of funding until current account pressures ease. With this in mind, the CBE is likely to ease (we price in 100bp of cumulative cuts) by Q1 2022.

Israel: August inflation to hit an 8 year high but rates to remain unchanged

Israel's inflation rate to rise in August but price levels remain in-check

Israel's inflation rate is expected to rise from 1.9% y/y in July to 2.2% in August – marking the highest reading since July 2013. Our forecasts suggest that Israel's inflation rate will remain slightly above 2%, the midpoint of the Bank of Israel's (BoI) 1-3% inflation target range for the rest of this year. Having said that, ebbing base effects as well as lower oil prices will likely drive inflation lower next year. From a monetary policy perspective, the BoI has stated that it will continue to conduct a very accommodative monetary policy for a prolonged time, using a range of tools as necessary, including the interest rate tool. With this backdrop, we do not anticipate the BoI to raise its policy rate before end 2022 at the earliest.

Turkey: current account to remain in deficit in July despite higher tourism

A host of inflation readings in August

Leading indicators signal that Turkey's current account balance will register a deficit of USD0.5bn in July. This outturn is expected to be driven by a deficit in the goods balance (USD3.2bn) and a flattish income balance amid a surplus in the services (USD2.5bn) and secondary income balances (USD0.2bn). Notwithstanding a higher energy bill, we view that the current account deficit is likely to narrow to about 2.4% of GDP this year from 5.2% in 2020, owing to softer core and gold imports as well as a partial recovery in tourism flows.

Weekly calendar

	Country	Day	GMT	Indicator/Event	Period	MUFG Forecast	Consensus	Previous	Market Moving
	Turkey	13/09/2021	08:00	Current account balance, USD bn	Jul	USD-0.5bn	USD-0.5bn	USD-1.1bn	!!
	Israel	14/09/2021	11:00	Real GDP, % y/y	Q2-21P	---	---	15.4% q/q	!!
	Israel	14/09/2021	16:30	CPI, % y/y	Aug	2.2%	2.2%	1.9%	!!!
	Nigeria	15/09/2021	---	CPI, % y/y	Aug	17.1%	17.0%	17.4%	!!
	Ghana	15/09/2021	---	Real GDP, % y/y	Q2 21	---	---	3.1%	!!
	Poland	15/09/2021	09:00	CPI, % y/y	Aug F	---	---	5.4%	!!!
	Egypt	16/09/2021	---	Monetary policy meeting, %	Sep	8.25%	---	8.25%	!!!
	Nigeria	17/09/2021	---	Monetary policy meeting, %	Sep	---	---	11.50%	!!!

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.	4.10	2.70	2.20	0.75	0.50	1.00	25.336	21.110	20.100
Egypt	5.70	4.40	4.90	8.25	7.25	7.25	0.064	15.590	16.520
Greece	1.88	0.69	0.88	0.00	0.00	0.00	1.181	1.280	1.2600
Hungary	4.90	4.00	2.50	1.50	1.00	12.50	296.330	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	3.202	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	109.820	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	1509.200	1509.200	1520.000
Libya	4.56	15.12	15.12	3.00	3.00	3.00	4.515	4.515	4.434
Morocco	2.20	0.80	1.20	1.50	1.50	1.50	8.931	8.700	8.800
Nigeria	17.40	16.60	12.10	11.50	11.50	11.50	411.080	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	3.847	3.705	3.4900
Romania	5.25	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	6.68	5.20	3.20	6.75	5.75	4.50	73.197	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	14.209	14.750	15.800
Turkey	19.25	15.10	11.60	19.00	14.00	14.00	8.470	9.250	8.200
Ukraine	10.20	8.30	5.40	8.50	8.50	8.50	26.732	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	13-Aug	20-Aug	27-Aug	03-Sep	10-Sep	Change in yield (basis points) Week	MTD	YTD
Bahrain	10 years	2.47	2.45	2.38	2.37	2.35	-2.89	-5.20	-62.68
Czech Rep.	10 years	1.80	1.78	1.77	1.77	1.88	10.87	11.76	85.93
Egypt	9 years	5.81	5.73	5.60	5.51	5.49	-1.33	-4.56	54.17
Greece	8 years	0.28	0.29	0.39	0.47	0.49	1.40	4.05	-2.88
Hungary	8 years	2.22	2.19	2.45	2.57	2.62	4.74	14.72	94.80
Israel	8 years	0.14	0.12	0.13	0.13	0.14	0.82	1.22	0.25
Jordan	5 years	3.93	3.87	3.78	3.72	3.74	1.24	-0.46	11.03
Kenya	7 years	5.23	5.21	5.09	4.84	4.94	9.80	0.12	-20.20
Kuwait	6 years	1.28	1.24	1.27	1.24	1.25	1.12	-0.53	11.61
Lebanon	9 years	58.93	58.46	49.10	48.51	44.65	-386.42	-430.60	-516.03
Morocco	11 years	2.10	2.10	2.11	2.08	2.08	-0.56	-2.11	34.40
Nigeria	9 years	6.42	6.58	6.43	6.22	6.25	3.44	-4.17	28.20
Oman	9 years	4.93	5.06	4.92	4.83	4.79	-4.76	-9.06	-69.00
Poland	8 years	-0.11	-0.15	-0.16	-0.18	-0.17	0.58	0.21	-3.81
Romania	7 years	0.96	0.94	0.95	0.98	1.03	4.27	9.46	-9.01
Qatar	9 years	2.25	2.15	2.20	2.12	2.12	-0.18	-2.99	48.52
Russia	5 years	1.68	1.70	1.75	1.72	1.74	1.67	-0.60	-2.14
Saudi Arabia	8 years	2.07	2.00	2.06	2.00	2.02	2.62	-0.12	12.08
South Africa	9 years	4.10	4.20	4.08	3.95	3.99	4.11	-2.27	-14.29
Turkey	7 years	5.50	5.51	5.32	5.31	5.33	1.97	7.82	45.81
Ukraine	8 years	6.31	6.36	6.17	5.98	6.09	10.58	4.41	13.78
Abu Dhabi	6 years	1.37	1.28	1.36	1.35	1.36	1.46	3.44	11.95
Dubai	8 years	2.52	2.51	2.52	2.51	2.51	0.20	-0.71	-8.64

EM EMEA equity market (index)

	06-Aug	13-Aug	20-Aug	27-Aug	03-Sep	10-Sep	Change (%) Week	MTD	YTD
Bahrain	1,594	1,631	1,638	1,662	1,661	1,666	0.36	1.28	11.86
Czech Rep.	121,633	120,701	117,165	118,724	119,396	114,286	-4.28	-3.78	-3.98
Egypt	10,810	10,885	10,938	10,950	11,144	11,037	-0.96	-0.96	1.77
Greece	903	900	899	914	918	901	-1.84	-2.39	11.39
Hungary	49,830	50,317	52,289	51,094	51,947	52,756	1.56	1.51	25.47
Israel	1,690	1,699	1,722	1,767	1,768	1,794	1.47	2.08	19.69
Jordan	2,036	2,015	2,016	2,003	2,060	2,075	0.73	0.66	25.24
Kenya	175	181	186	187	182	180	-1.20	-1.20	18.43
Kuwait	6,543	6,612	6,651	6,768	6,787	6,805	0.27	0.27	22.70
Lebanon	658	658	658	658	658	658	0.00	2.15	60.52
Morocco	10,099	10,217	10,254	10,288	10,324	10,477	1.48	1.57	14.00
Nigeria	38,928	39,448	39,546	39,450	39,220	38,922	-0.76	-0.76	-3.35
Oman	3,994	4,006	3,991	3,959	3,967	3,964	-0.07	-0.07	8.34
Poland	2,272	2,284	2,285	2,325	2,371	2,361	-0.44	-0.31	18.99
Romania	11,802	12,101	12,138	12,275	12,302	12,402	0.81	1.85	26.48
Qatar	10,858	10,916	10,996	11,135	11,093	11,079	-0.13	-0.13	6.16
Russia	3,811	3,877	3,925	3,887	3,971	4,003	0.80	2.14	21.70
Saudi Arabia	11,162	11,325	11,345	11,157	11,255	11,343	0.78	0.21	30.53
South Africa	62,750	63,489	61,609	61,212	60,750	58,176	-4.24	-4.69	6.98
Turkey	1,414	1,411	1,450	1,453	1,474	1,439	-2.40	-2.27	-2.57
Ukraine	525	525	526	526	526	526	0.00	0.00	5.34
Abu Dhabi	7,405	7,594	7,695	7,665	7,685	7,820	1.75	1.76	54.99
Dubai	2,813	2,815	2,862	2,903	2,900	2,897	-0.10	-0.21	16.25

EM EMEA FX against USD*

	06-Aug	13-Aug	20-Aug	27-Aug	03-Sep	10-Sep	Change (%) Week	MTD	YTD
USD Index	92.800	92.518	93.496	93.062	92.035	92.582	0.59	-0.05	2.94
Bahrain**	0.379	0.379	0.379	0.379	0.379	0.380	0.05	-0.13	-0.24
Czech Rep.	21.599	21.533	21.848	21.638	21.355	21.448	0.44	0.33	0.12
Egypt	15.699	15.699	15.699	15.699	15.699	15.699	0.00	0.00	-0.31
Greece***	1.176	1.180	1.170	1.180	1.188	1.181	-0.56	0.04	-3.29
Hungary	300.890	298.740	299.400	296.030	292.420	296.330	1.34	-0.27	0.21
Israel	3.224	3.213	3.238	3.229	3.204	3.201	-0.11	0.22	0.39
Jordan**	0.711	0.711	0.711	0.711	0.711	0.711	0.00	0.00	-0.24
Kenya	108.696	109.890	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	0.02	0.85
Lebanon	1,515.50	1,507.83	1,514.96	1,512.70	1,514.89	1,509.20	-0.38	0.14	0.38
Morocco	8.954	8.955	8.986	8.892	8.856	8.931	0.85	-0.17	-0.24
Nigeria	411.240	411.050	411.230	411.230	411.620	411.080	-0.13	0.02	-3.23
Oman**	0.387	0.387	0.387	0.387	0.387	0.387	0.08	-0.08	0.39
Poland	3.758	3.758	3.758	3.757	3.757	3.758	0.01	-0.03	-0.10
Romania	4.177	4.163	4.219	4.185	4.162	4.185	0.54	-0.15	-4.94
Qatar**	3.721	3.716	3.713	3.709	3.698	3.696	-0.05	0.34	0.02
Russia	73.474	73.227	74.272	73.543	72.732	73.197	0.64	0.06	1.66
Saudi Arabia**	3.758	3.758	3.758	3.757	3.757	3.758	0.01	-0.03	-0.10
South Africa	14.631	14.735	15.295	14.723	14.313	14.209	0.73	2.22	3.42
Turkey	8.632	8.524	8.496	8.351	8.324	8.472	-1.75	-1.82	-12.18
Ukraine	3.750	3.751	3.750	3.751	3.750	3.751	0.01	0.00	0.03
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)

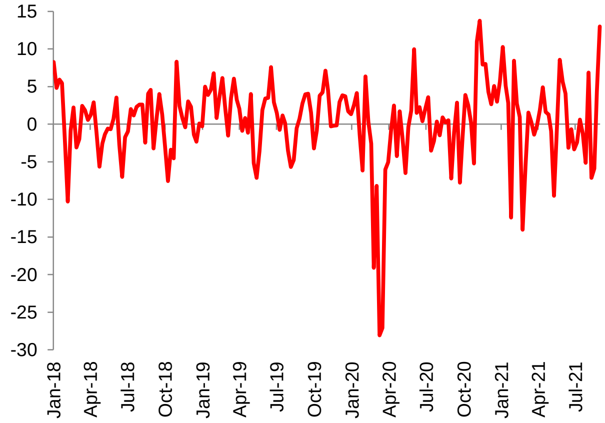
	06-Aug	13-Aug	20-Aug	27-Aug	03-Sep	10-Sep	Change in yield (basis points) Week	MTD	YTD
Bahrain	255.40	254.80	259.66	259.91	252.35	257.72	5.37	7.43	16.90
Czech Rep.	30.15	30.12	30.13	30.35	30.16	30.23	0.07	-0.14	-5.51
Egypt	356.79	357.48	359.04	356.65	352.20	354.33	2.13	-0.51	15.30
Greece	71.91	71.54	72.51	73.80	73.79	73.07	-0.72	-1.54	-28.34
Hungary	49.63	49.97	50.48	50.48	51.09	51.11	0.01	0.61	-9.11
Israel	39.24	42.52	42.53	42.53	42.00	40.71	-1.29	-1.49	-5.51
Kenya	282.00	320.15	320.88	322.32	318.09	312.19	-5.89	-6.85	-29.09
Kuwait	49.98	49.99	50.00	50.00	50.03	49.30	-0.73	-0.71	5.07
Morocco	103.91	104.03	104.14	104.21	101.32	100.04	-1.29	-0.22	-12.29
Nigeria	325.11	345.04	363.02	364.92	364.91	364.86	-0.05	-0.13	28.72
Oman	253.03	253.82	253.78	252.84	245.01	243.63	-1.38	-1.63	-117.98
Poland	49.23	48.40	49.00	49.23	48.50	49.09	0.59	0.02	-8.81
Romania	86.91	86.91	86.91	87.94	88.92	88.92	0.00	0.99	4.04
Qatar	43.09	43.18	42.69	42.03	40.73	39.59	-1.14	-1.88	1.18
Russia	87.52	84.57	86.54	80.66	77.92	75.94	-1.98	-3.31	-9.98
Saudi Arabia	56.59	54.38	53.90	52.47	49.99	48.38	-1.61	-2.83	-17.03
South Africa	205.94	201.66	207.54	191.60	183.71	180.92	-2.79	-5.77	-23.26
Turkey	394.27	382.87	389.08	369.78	366.80	364.84	-1.96	-1.89	60.45
Ukraine	418.44	419.85	408.68	400.75	388.32	389.71	1.39	-6.32	1.08
Abu Dhabi	42.32	42.53	42.05	42.11	40.91	39.56	-1.35	-1.72	1.19
Dubai	91.18	90.17	90.43	90.84	90.00	87.92	-2.08	-2.96	-24.15

Source: Bloomberg, MUFG Research

EM capital flows

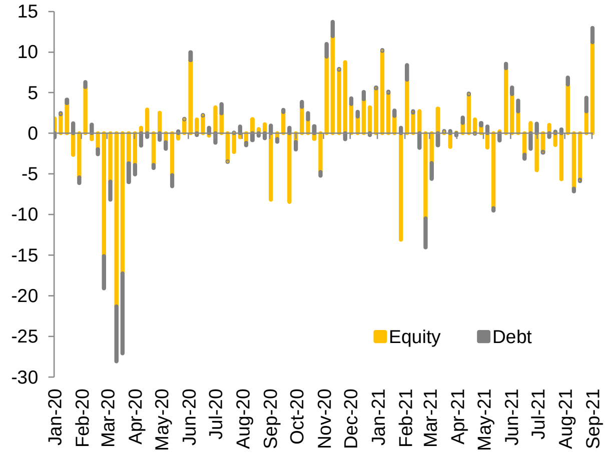
WEEKLY TOTAL EM INFLOWS OF USD13.0BN – 10 SEPTEMBER

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



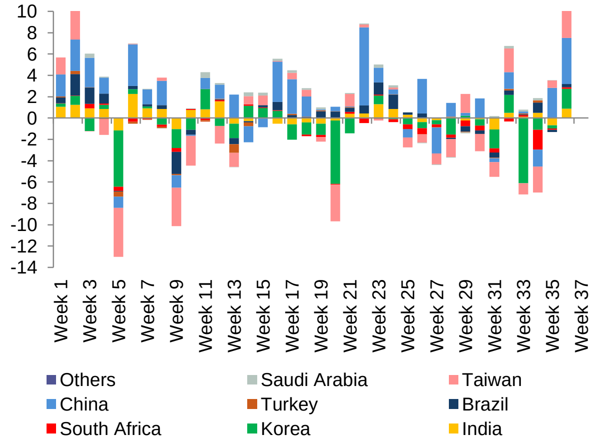
WEEKLY EM INFLOWS FROM EQUITY (USD11.2BN) AND DEBT INFLOWS (USD1.8BN) – 10 SEPTEMBER

WEEKLY DEBT AND EQUITY FLOWS (USD BN)



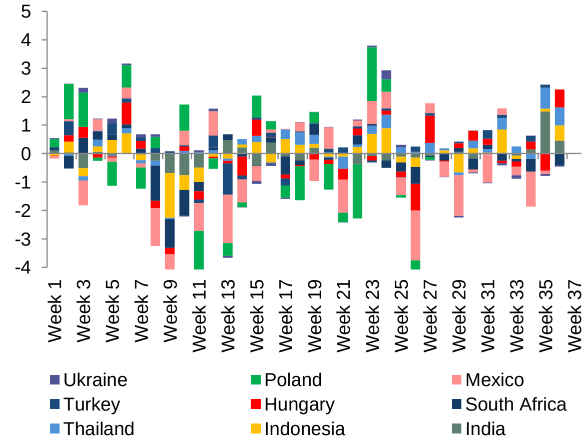
CHINA (USD4.3BN) AND TAIWAN (USD3.3BN) LED WEEKLY EM EQUITY INFLOWS – 10 SEPTEMBER

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



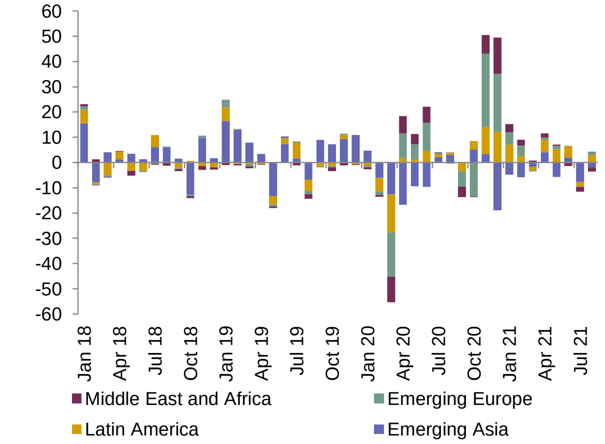
INDIA (USD0.6BN) AND INDONESIA (USD0.5BN) LED EM DEBT INFLOWS LAST WEEK – 10 SEPTEMBER

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



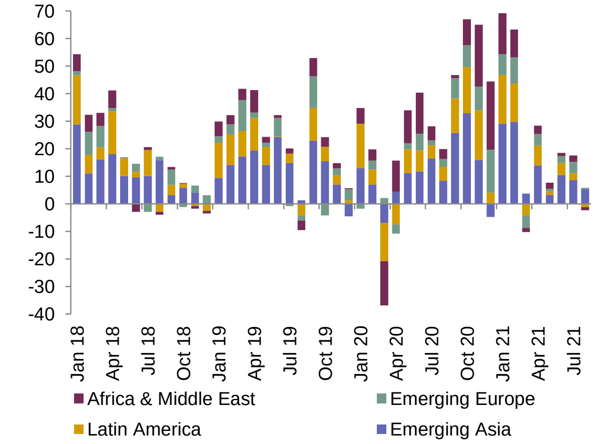
EM EQUITY FLOWS TOTALLED USD0.8BN IN AUGUST, LED BY LATAM (USD3.0BN) AND EM EMEA (USD1.4BN)

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



EM DEBT FLOWS TOTALLED USD3.5BN IN AUGUST, LED BY EM ASIA (USD5.4BN) AND EM EMEA (USD0.5BN)

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



Source: Bloomberg, IIF, MUFG Research

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