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Targeting the "level" or "growth" of GDP post-virus and how this influences EMs

Macro focus: With the pandemic moving into the rear view mirror, there is a growing debate whether policymakers should target for the pre-virus trajectory of the "level" of GDP or the pre-virus trajectory of GDP "growth". The former is geared towards developed markets (DM), the latter in emerging markets (EM). We view this stems to less monetary and fiscal policy space in EMs, which channels into earlier interest rate hikes and tighter fiscal policy – at face value, this is positive for EM fixed income markets, though more mixed for EM equities.

FX views: EM FX remains under selling pressure on the whole but divergences have opened up between high yielders – China growth concerns and hawkish G10 central banks creating more challenging backdrop for EM FX.

Trading views: EMs are now moving from in front to behind DM in the rate cycle which is a core reason why we are starting to get more neutral on EM positioning – another reason is that we are becoming wary of the intraday volatility in EM FX.

Week in review: Over the previous week, Turkey started its easing cycle earlier than expected with 100bp in cuts, Hungary raised rates by 15bp with further hikes on the table, South Africa kept rates on hold and Lebanon's new government is in focus.

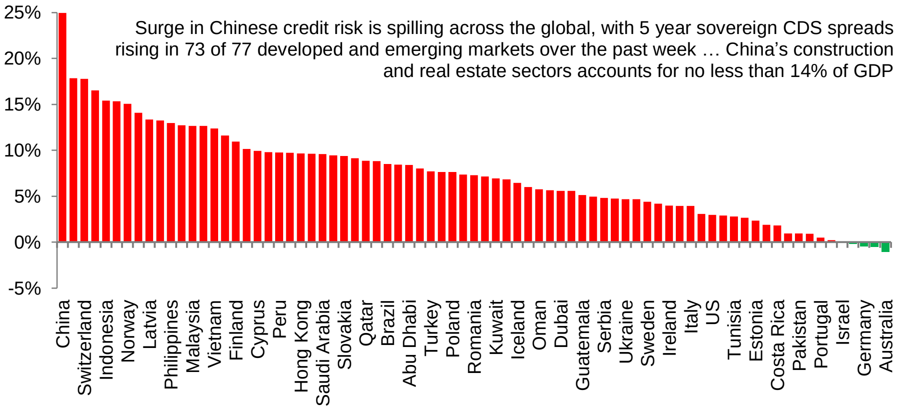
Week ahead and calendar: In the coming week, PMI's for September will be released which will gauge the health of recovery amongst corporates and the Czech National Bank is set to hike by 50bp to 1.25%.

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: EM capital flows inflows fell last week (USD-2.8bn) – top of mind is Evergrande (and Chinese property market concerns), and the Fed's looming taper.

CHART OF THE WEEK: SOVEREIGN CREDIT PROTECTION CRUSHED BY CHINA

5 YEAR CDS SPREADS (% CHANGE WEEK-TO-DATE)



Source: Bloomberg, MUFG Research

Macro focus

Targeting the "level" or "growth" of GDP and how this influences EMs

"Level" of GDP geared towards DMs; "growth" of GDP geared towards EMs

With the pandemic moving into the rear view mirror, there is now a debate on what type of recovery policymakers should target. Reaching the real GDP level from just before COVID-19 hit is often used as the reference point. However, there is not really any reason why policymakers should aim for a "level" of activity that was a function of circumstances and fundamentals at a time in the past. As the impediments to activity are not the result of any financial or other excess, there is no reason to view that the pre-virus trajectory of GDP is unsustainable. An alternative perspective is that policymakers should not take into account GDP levels, but in fact guide the economic back to its potential "growth" path. EMs are primarily geared towards targeting the pre-virus trajectory of GDP "growth" whilst DMs the "level" of GDP. For EMs this is due to reduced policy space, which has resulted in higher interest rates and lower fiscal deficits. For global markets, this is positive for EM fixed income investors, though more mixed for EM equities.

DMs expected to catch-up to pre-virus levels by 2024, EMs catch-up does not occur in the medium-term

Contextualising this further, DMs on aggregate are expected to have caught up with their pre-virus trajectory of GDP by Q2 2022, according to the our forecasts. The implication of this catch-up by DM is that they will need a substantial overshoot of growth relative to pre-virus forecasts in order to make up for lost GDP. For the EM aggregate, this catch-up never occurs and the overshoot in EM growth relative to pre-virus forecasts is thus much more moderate.

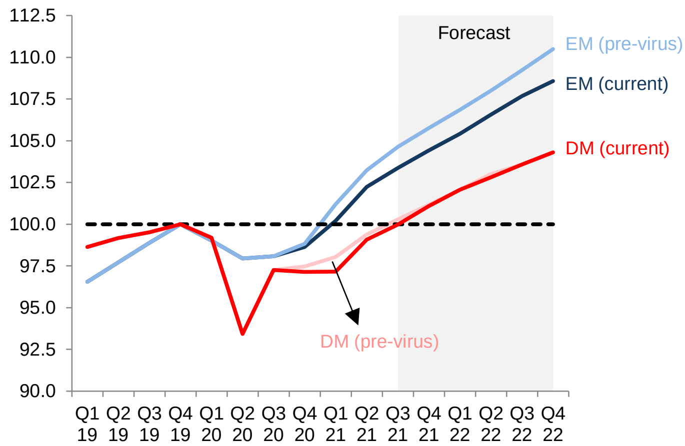
Importance of examining monetary and fiscal policy in the content of "growth" of GDP

Less monetary and fiscal policy space in EMs are at the heart of these estimates:

1. Monetary policy. Inflation expectations are less anchored in EMs than they are in DMs, given the importance of actual, realised inflation in EMs as expectations in EM are sensitive to inflation outcomes (but this is not the case in DMs). Consequently, EM central banks require to be more reactive to inflation outcomes, as inflation expectations are part and parcel of the mechanism that determines future inflation outcomes. On the other hand, DMs, can look through inflation outcomes as long as they are assured that expectations aren't altered considerably. At the current juncture, this enables DMs to transitorily overlook spikes in inflation and leave monetary

ECONOMIC RECOVERY IN DM'S IS ON TRACK TO RETURN THE "LEVEL" OF GDP TO PRE-VIRUS BY Q1 2022

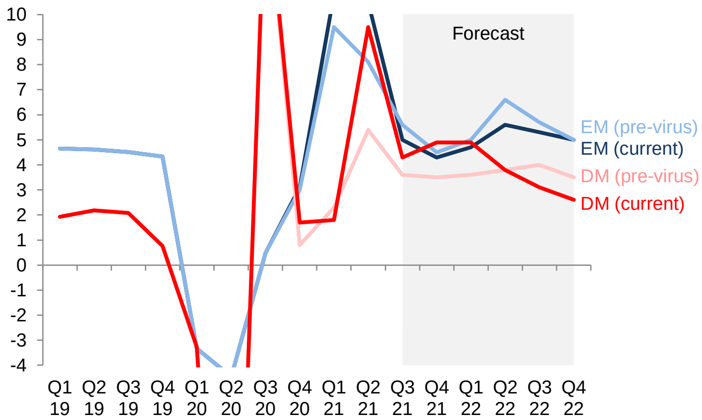
DM AND EM, REAL GDP LEVEL INDEX, 100 = Q4 2019



Source: IMF, MUFG Research

EM'S ARE SET TO RETURN TO THEIR PREVIOUS GDP "GROWTH" TRAJECTORY BY Q4 2022

DM AND EM, REAL GDP GROWTH (% Y/Y)



Source: IIF, MUFG Research

policy looser for longer compared to EMs.

2. Fiscal policy. The combination of the global economic rebound as countries continue to reopen as well as higher commodity prices, have resulted in marked improvements in the fiscal and debt position of EMs – most impressive progression have been commodity producers, notably all GCC economies, Brazil, Russia and South Africa. As with monetary policy, there are linkages between loose fiscal policy and inflation. First, higher demand resulting from fiscal stimulus, channelling into higher prices. The World Bank's analysis has found that increases in debt levels lead to higher inflation expectations in EMs, likely given that markets expect the government to monetise the debt and/or deficits. Second, through interest rates, higher policy rates should also channel into higher debt servicing costs for the government. In this regard, an improvement to debt dynamics from higher growth and inflation is partly offset by higher rates. Indeed, an increase in debt that leads to de-anchoring of expectations would have a central bank increasing rates.

Current account surpluses are significant for EMs

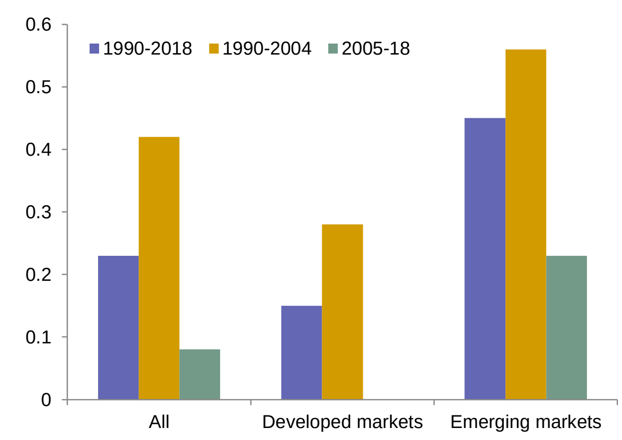
A noteworthy aspect of the current state of affairs is that the recovery is taking back against the backdrop of current account surpluses in most EMs. The rationale as to why this is significant is that current account surpluses historically offer EM policymakers some buffer protection from having to tighten earlier than they might wish to do so. Theoretically, the process is that EM inflow dependent economies need to either raise rates or reduce risk premia in order to keep capital flowing. EM commodity producers who have witnessed large windfalls this year, were the first ones to tighten policy – Brazil, Chile, Mexico and Russia. We believe there are two considerations to bear in mind –part of the rationale why current account balances are higher than usual in EMs is that demand had collapsed during the pandemic.

Front-loading EM interest rate hikes alongside tighter fiscal policy, yields a better EM's risk-return profile, which is positive for EM fixed income investors

From a global markets perspective, front-loading EM interest rate hikes alongside tighter fiscal policy, yields a better EM's risk-return profile, which is positive for EM fixed income investors that optimise for countries with relatively high yields and low financing requirements. This is especially the case if policy stays loose for longer in DMs. Having said that, this policy mix is also likely to indicate lower economic growth, or at least capped growth to make up for pandemic-induced losses. As such, from an equity perspective, which is sensitive to the growth trajectory, investor returns are likely to be more mixed. Looking ahead, tighter and more coordinated policy will enhance the flexibility of policy space and in-turn lead to higher growth.

INFLATION EXPECTATIONS IN EM'S ARE MORE SENSITIVE TO ACTUAL INFLATION PRINTS THAN IN DM'S

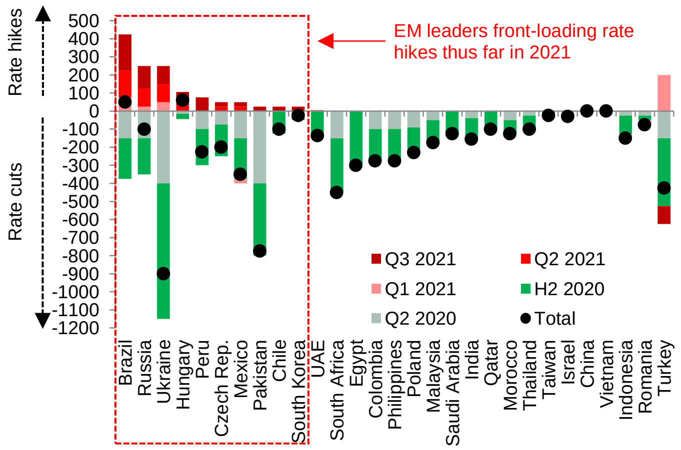
ALL, DM AND EM SENSITIVITY OF INFLATION EXPECTATIONS TO INFLATION SHOCKS (PPT)



Source: Bloomberg, World Bank, 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, EM Central Banks, MUFG Research

FX views

EM FX: Headwinds from China growth concerns & hawkish G10 central banks

EM FX remains under selling pressure on the whole but divergences have opened up between high yielders.

Emerging market currencies on the whole remain under selling pressure. Our EM FX index of 20-equally weighted EM currencies against the USD has fallen back to within touching distance of year to date lows from 20th August. Performance has been more mixed though across EM currencies over the past week. The worst performing EM currencies have been the TRY (-2.1% vs. USD), ZAR (-1.8%), and HUF (-1.5%). At the other end of the spectrum, the best performing EM currencies have been the RUB (+1.1% vs USD) and the MXN (+0.3%).

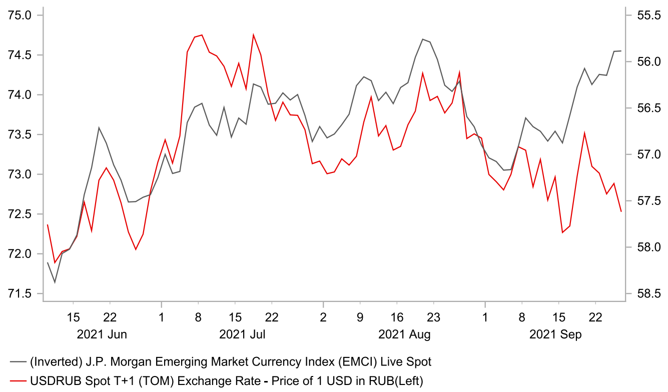
China growth concerns & hawkish G10 central banks creating more challenging backdrop for EM FX.

The external environment remains challenging for emerging market currencies in the near-term given building concerns over the outlook for global growth from ongoing supply-side constraints, and downside risks to growth in China more specifically from a likely Evergrande default which is expected to weigh on the domestic real estate sector. So far the CNY has continued to remain stable against the USD, and is trading at close to five year highs according to the CFETS RMB index. It is helping to dampen the negative spill-overs to the FX market more broadly. The CNY devaluation between June and September 2018 triggered sharp sell offs for other Asian (INR -7.5%, IDR -6.8%, & MYR -3.9%) and EM currencies (ZAR -10.3% & BRL -7.0%). At the same time, the hawkish policy updates from the BoE and Fed have triggered sharp adjustments higher in US yields especially at the long end of the curve which is creating an additional headwind for EM FX. The Fed has signalled plans for a faster taper than expected and opened the door more for rate hikes from late next year.

Badly timed CBRT rate cut weighs heavily on TRY and brings forward much anticipated correction lower. On the other hand, the RUB is still benefitting from favourable carry conditions & rising energy prices.

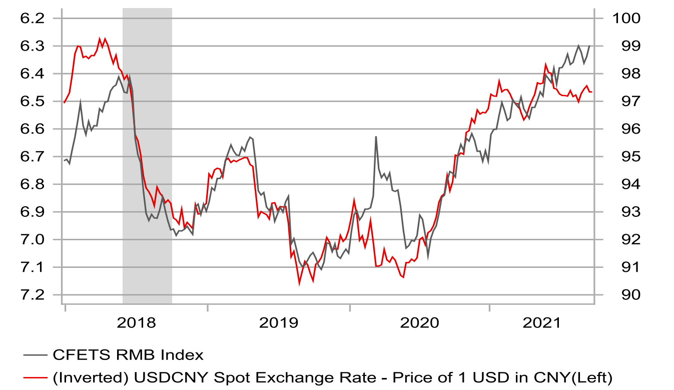
In this light last week's decision by the CBRT (click here) to begin lowering rates was badly timed and triggered a sharp adjustment lower for the TRY which has hit a new record low against the USD. We still believe that the TRY is overvalued and likely to continue to correct lower towards the IIF's fair value estimate of around 9.5000 as the CBRT lowers rates further. While nominal yields remain high in Turkey, after adjusting for inflation, real yields have become more negative leaving the TRY vulnerable to further weakness. The recent outperformance of the RUB and MXN highlights though that carry trades can still perform well selectively while market volatility remains relatively low. We continue to recommend a short EUR/RUB trade idea (click here) which is also benefitting from upward pressure on energy prices reflecting tight supply conditions.

RUB HAS BEEN OUTPEFORMING RECENTLY



Source: Bloomberg & MUFG Research

CNY STABILITY IS DAMPENING EM FX SPILL-OVERS



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: Rising yields and rising volatility makes us neutral EM for the first time in a while.

Last week was the first time in a while that developed market central banks were more hawkish than their EM counterparts.

For the first time in a while, last week saw EM central bankers be more dovish than their developed market counterparts. This was not just the Fed signalling an earlier and quicker tapering than had been expected. Bank of England saw the market aggressively reprice its UK rate expectations. On the EM side it was not only Turkey that surprised us with their 100bps cut. South Africa did not make the hawkish pivot we had expected while NBH lowered the pace of hikes in Hungary. The fact that EM are now moving from in front to behind DM in the rate cycle is one reason why we are starting to get neutral on EM. This is especially the case as inflation seems to be of equal concern in both places.

Volatility is starting to pick up which in itself is bad for carry trades

Another reason that we are becoming wary is the intraday volatility we are starting to see in EMFX. While this may be short term and soon correct it seems that even with the market having little positioning in EMFX, there are few providers of USD supply whenever we have slight risk off moves. USDZAR is the classic in this regard having seen a move from 14.65 to around 15.00 in the 48hrs following the Fed. PHP has seen a 2% depreciation following comments by the CB that expectations of a weaker peso by local businesses were rational. Individually both these moves could be justified but overall it adds to our growing belief that market is getting a bit nervy. With US yields continuing to rise we expect more of this volatility and the right tail is starting to look more susceptible. The return of the nice "middle of the dollar smile" seems a bit unlikely particularly as we don't see the positive catalyst from more liquidity. In these situations it pays to be a bit more defensive.

Waiting for Golden Week to pass before entering RMB short, SGD short looks more interesting on increasing Covid worries.

Like normal, as soon as the headlines over Evergrande pick up the problem seems to decrease in market importance. So far bond payments have been honoured and given the pricing of shares/bonds it does not seem like there is a huge amount of systematic risk from it. However for us it does again highlight how out of place China FX is with the fundamental backdrop. Golden week is closely upon us and current carry for the 30th Sept – 8th October run is around 70 pips. While this was lower than previously being priced it is still a lot of carry for a currency with such low vol. Thus we will wait for this to pass before embarking on a RMB short position that could well extend to a lot of Asia FX given the importance of RMB as an anchor for EMFX. While we had been bullish SGD before we're no longer sure it merits such a level on the NEER ahead of MAS given the rising COVID-19 caseload in Asia. Furthermore if a country as vaccinated as Singapore is issuing return to "work from home" notices then all of the region should be on high alert for more COVID-19 setbacks.

Week in review

EM capital flows: outflows due to Evergrande concerns and the Fed's taper

EMs navigated a busy week with global growth concerns, Evergrande and broader Chinese property market uncertainty and the looming Fed's taper on the table

Last week witnessed one of the busiest periods across EMs. The initial part of the week was driven by rising apprehensions surrounding global growth, issues stemming from Evergrande and the broader Chinese property market, and the looming Fed tapering. Towards the end of the week, the Fed FOMC decision heralded the long-awaited tapering of its asset purchases, as Fed Chair Powell said that criteria for tapering had been all but met. Also, the FOMC made upward revisions to its "dot plot" and now sees a faster normalisation in policy rates. Median projections for end-2023 and end-2024 were 1.0% (up from 0.6%) and 1.8%, respectively, both of which are well above what is currently priced in the markets. As for EMs, although the short-term impact could be positive, given that one of the main uncertainties surrounding the EM outlook is now out of the way, the medium-to-longer-term impact will be a function of (i) the pace of tapering and (ii) market pricing of rate hikes by the Fed. The former would broadly determine the pace of growth in global liquidity growth (see here), while the latter would define the cost of funding.

Aggregate flows left EMs for the second consecutive week

From an capital flows perspective, investors decreased their overall EM exposure for the second consecutive ending 24 September. According to IIF data, fund flows out of EMs totalled USD2.8bn (most since week ending 20 August), of which was primarily driven by an equal magnitude of debt outflows (USD1.4bn) and equity funds (USD1.4bn). Having said that, from a 28 day rolling average perspective, inflows into EM equity and bond funds in fact continued to rise into further positive territory. From an asset class performance perspective, EM FX is now the only instrument which demonstrates a higher year-to-date performance.

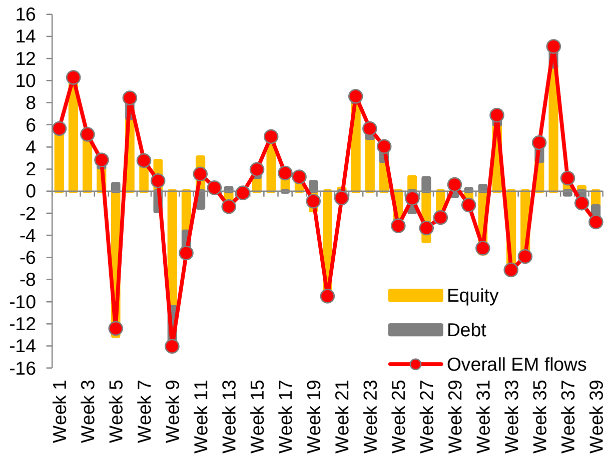
Turkey: CBRT credibility under strain with a surprise rate cut (more to come)

Turkey begins the process of monetary easing earlier than expected

In an unexpected move, the Central Bank of Turkey (CBRT) cut the policy rate by 100bp to 18%, against our (and consensus) expectations, at the September MPC last week (see here). In the statement accompanying the rate decision, the CBRT defended its decision by stressing the temporary nature of the recent increase in inflation and a higher-than-expected contractionary impact of its tight policy stance on commercial loans. While reiterating a pledge to achieve price stability, Governor Kavcioglu removed his commitment to maintain the policy rate above inflation – the

EM CAPITAL FLOWED OUT OF EM'S LAST WEEK DRIVEN BY CONCERNS ON EVERGRANDE AND THE FED'S TAPER

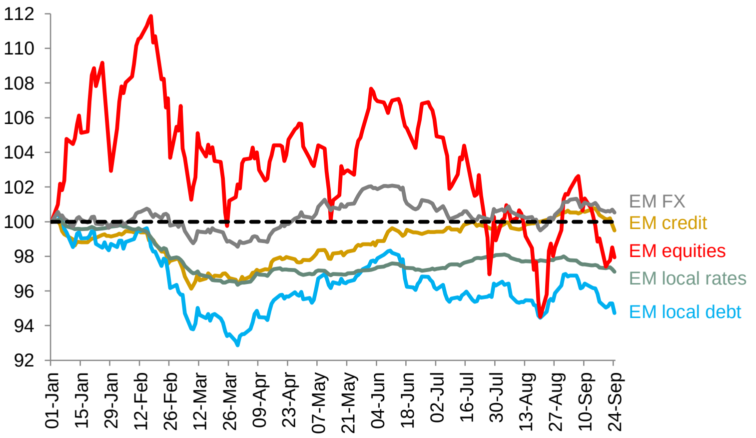
EM EQUITY AND DEBT FLOWS (USD BN), WEEKLY AVG YEAR-TO-DATE



Source: IIF, MUFG Research

EM ASSET CLASS PERFORMANCE REMAINS MIXED – EM FX REMAINS ONLY OUTPERFORMER

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



Source: Bloomberg, MUFG Research

rate cuts pushes real rates now in deeper negative territory (-1.25%), with headline inflation at 19.25% y/y as of August. There is now an increasing likelihood that Turkey begins to decouple for its emerging market peers as real rates go further into negative territory and inflation expectations risk becoming unanchored.

Turkey begins the process of monetary easing earlier than expected

Heading into the meeting, our expectations was that the performance and potential reaction of the Turkish Lira (TRY) would be a key driver of the monetary policy decision and that the CBRT would not want to disappoint the market with a premature cut. Indeed, lower reserve buffers, alongside a more challenging macroeconomic backdrop (notably higher inflation and increased dollarisation), were signalling that the possible adverse consequences of a premature easing (or refraining from tightening if needed) are likely to be greater currently, as compared with similar episodes in the past. Having said that, we had catalogued (see here) that expectations of a rate cut have been rising given the CBRT's recent pivot towards focusing more on core inflation and supply shocks, especially given the recent stability of the TRY. Going forward, the direction of CBRT policy is clear with today's move opening the floor for further easing. Before the meeting, our base case was for a cumulative 200bp in cuts before year-end. Whilst we maintain this magnitude of easing, we believe risks are skewed for more cuts, especially given base effects are set to ebb out of headline inflation in November and December.

Focus remains on credit-fuelled economic growth

Overall, the "credit-fuelled, economic growth at all costs" strategy of the authorities had signalled that rate cuts were always on the table. Today's action validates this positon. The policy priority is evidently now firmly on boosting economic activity with an eye on the 2023 elections, with price and financial stability now playing second fiddle. With this, the unorthodox argument that low interest rates causes low inflation dubbed the "neo-Fisherite Rebellion" will increasingly come front of mind in the months ahead, which could bring into question the CBRT's credibility, and ultimately weaken Turkish credit metrics and risk assets.

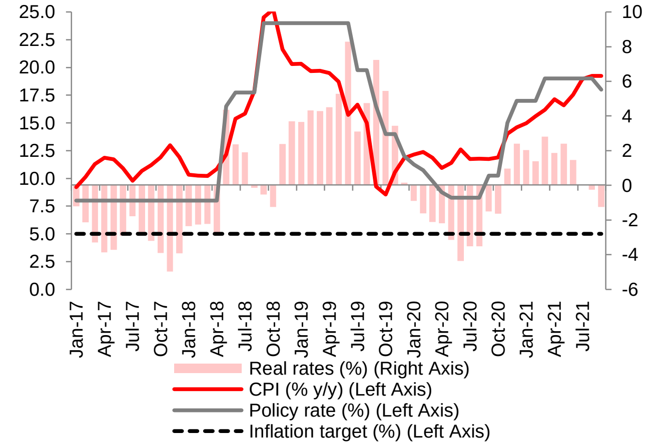
Hungary: MNB raises rates by 15bp with further hikes on the table

Hungary raises rates by 15bp in line with our expectations to take the policy rate to 1.65% – fourth consecutive hike

The Hungarian National Bank (MNB) hiked its key policy rate by 15bp to 1.65%, in line with our expectations (consensus was for a 25bp increase). The Monetary Policy Committee (MPC) maintained that upside inflationary risks continue to persist, warranting further policy tightening that should continue at a monthly pace. However, given rising uncertainties from the pandemic, it decided to slow the pace of tightening from 30bp per meeting to 15bp. Importantly, the MNB also updated its

CBRT COMMENCES ITS EASING CYCLE WITH REAL RATES NOW DEEPER INTO NEGATIVE TERRIOTRY

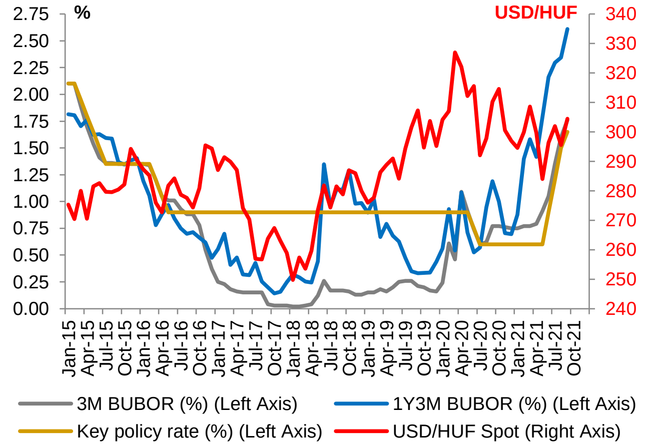
TURKEY NOMINAL AND REAL RATES (%) VS. INFLATION (% Y/Y)



Source: Bloomberg, CBRT, MUFG Research

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

HUNGARY INTEREST RATES (%) VS. EUR/HUF



Source: Bloomberg, MNB, MUFG Research

macroeconomic projections that portray a higher inflation profile in the near term – it flagged that inflation is likely to rise further in the months ahead, exceeding 5.0% y/y until year-end. Looking ahead, our expectation is that the MNB will continue with 15bp hikes in the next two meetings in October and November, with rates reaching 1.95% by year-end, with risks to the upside should inflation surprise to the upside or if the Hungarian Forint (HUF) depreciates that warrants the MNB to tighten by a higher magnitude.

South Africa: SARB keeps rates on hold in a unanimous decision

South Africa still in a holding pattern on rates

The South African Reserve Bank (SARB) kept its policy rate unchanged at 3.50%, in line with our (and consensus) expectations. The decision was unanimous among Monetary Policy Committee (MPC) members, which comes as a dovish surprise to us somewhat given elevated inflationary pressures. The SARB's inflation forecasts were little changed and show headline CPI staying close to the 4.5% midpoint over the forecast period, helped by inflation expectations that were unchanged in Q3 2021 and remain well anchored (note the MPC sees inflation risks skewed to the upside). Looking ahead, we still expect the SARB to begin the path of policy normalisation before year-end, tightening rates by 25bps in November amid upside inflation risks, rising inflation expectations, as well as growing confidence that the hit to activity from July's unrest will prove short-lived. However, we acknowledge that risks are skewed for rates staying on hold until 2022, as the MPC did articulate that it envisages the better anchored inflation expectations as potentially keeping rates lower for longer with future decisions remaining data dependent and sensitive to global risks.

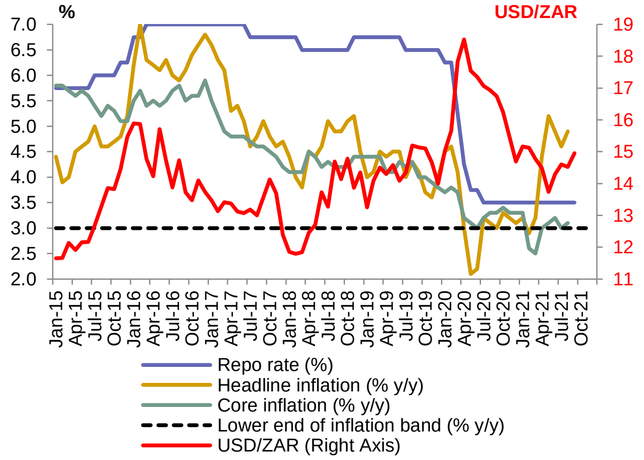
Lebanon: new government with overcoming structural complexities in focus

What the Lebanese roadmap could look like

The prospects for some basic steps needed to support economic stabilisation have improved somewhat under the new government led by Prime Minister Mikati. First step will require IMF consultations amongst others, to begin to map out a comprehensive and credible recovery strategy that deals with (i) the financial system at large and (ii) the speed and scale of reforms (fiscal, financial, monetary, economic and political). A second step requires a coordinated framework with creditors to restructure the public debt profile that remains one of the largest in the world. These two steps could lead to a formal IMF programme and unlock bilateral/multilateral funding (notably financial pledges made at the CEDRE conference in 2018). From a global markets perspective, what restructuring could look like remains the most pressing challenge and specifically what recovery values will be attached to bonds (scale of haircut vis-à-vis market valuations).

SOUTH AFRICA MAINTAINS RATES DESPITE ELEVATED INFLATION LEVELS

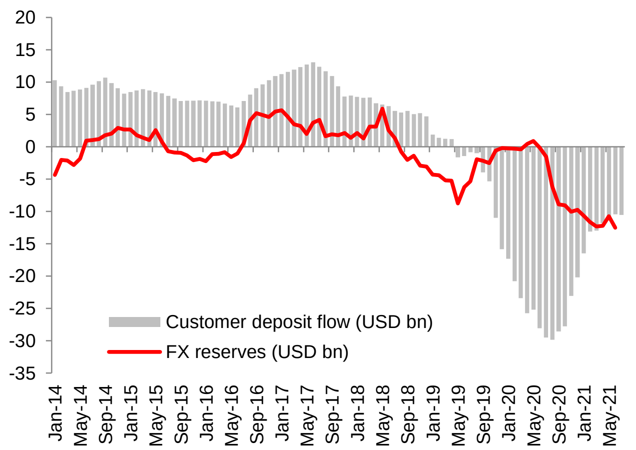
SOUTH AFRICA INFLATION AND TARGET (% Y/Y), RATES (%) VS. USD/ZAR



Source: Bloomberg, CBE, MUFG Research

LEBANON'S CUSTOMER DEPOSITS AND FX RESERVES HAVE COLLAPSED SINCE Q4 2019

LEBANON DEPOSITS AND FX RESERVES, 1 YEAR ROLL CHANGE (USD BN)



Source: Bloomberg, BdL, MUFG Research

Week ahead

PMIs: higher readings expected for September owing to ongoing reopenings

PMIs to increase in September

Purchasing Managers' Indices (PMIs) for the Czech Republic, Hungary, Poland, Russia, Turkey and South Africa will be released this week with our expectations that the aggregate EM EMEA PMI level will print higher on further easing in mobility restrictions, despite rising China concerns. In August, the aggregate EM EMEA PMI (on a PPP-weighted basis) decreased by 0.5 to 52.6 driven by declines in Nigeria (from 55.4 to 52.2), Poland (from 57.6 to 56.0), Czech Republic (from 62.0 to 61.0) and Russia (from 47.5 to 46.5). What's more there was weakness across the two core MENA countries (Saudi Arabia from 55.8 to 54.1; UAE from 54.0 to 53.8). In particular, for the oil exporting countries of the MENA region, we expect the improvement in sentiment buoyed by rising energy prices and robust vaccine inoculations, to offer further strength across corporates in September.

Czech Republic: CNB to likely raise rates by 50bp with more to follow

Czech Republic is expected to hike rates by 50bp to 1.25%

Following the material upside surprise to inflation in August and hawkish commentary by several Monetary Policy Committee (MPC) members in response to that, we are in line with consensus in forecasting the Czech National Bank (CNB) to hike by 50bp to 1.25%. Both headline and core inflation rose sharply in August, from 3.4% y/y to 4.1% y/y and from 3.0% y/y to 3.7% y/y, respectively. Apart from base effects and elevated commodity prices, the data displays pockets of high inflation in sectors most affected during the pandemic.

We anticipate four MPC members to vote in favour of a 50bp hike

In August, Governor Rusnok said the CNB was ready to raise rates at each of its meetings before the end of the year, but even that, at a 25bp rate, would leave it some 20bp short of the Q4 2021 implied rate average. The August inflation figure has put paid to that cautious stance. CNB Board member Holub said he was leaning towards a 50bp hike in September and was open to another 50bp in November if the updated macroeconomic forecast called for it. Deputy Governor Mora also indicated a possible 50bp hike in September, but spoke of frontloading hikes rather than changing the cumulative scale (the current CNB forecast sees the policy rate averaging 1.91% in Q4 2022 and 2.02% in 2023). Second Deputy Governor Nidetzky was more hawkish, stating the CNB needed a reason to stop the hiking cycle, not one to continue it, and that he broadly agreed with market pricing of 100bp in hikes before the end of the year. Finally, MPC member Benda also confirmed his support for a 50bp hike recently. These four votes appear to are expected to confirm the 50bp hike in September.

Our forecast is for an additional 50bp in hikes in Q4 2021 (likely in November) with the CZK trajectory key to watch

Looking ahead, there is still much uncertainty surrounding the magnitude of the hike in November and, more importantly, the magnitude of hikes in 2022. We forecast 50bp in Q4 2021, taking the policy rate to 1.75%, likely in November should sentiment shift further in favour of frontloading rate hikes. Key to watch will be the trajectory of the Czech Koruna (CZK) to rate hikes over the near-term.

Weekly calendar

Country	Day	GMT	Indicator/Event	Period	MUFG Forecast	Consensus	Previous	Market Moving
Ghana	27/09/2021	---	Monetary policy meeting, %	Sep	13.50%	13.50%	13.50%	!!
Kenya	28/09/2021	13:00	Monetary policy meeting, %	Sep	7.00%	7.00%	7.00%	!!
Czech Rep	30/09/2021	08:00	Real GDP, % y/y	Q2-21F	--	8.2%	8.2%	!!!
Czech Rep	30/09/2021	13:30	Monetary policy meeting, %	Sep	1.25%	1.25%	0.75%	!!!
Russia	30/09/2021	14:00	Current account banks (USD bn)	Q2-21F	---	---	USD19.9bn	!!
Russia	23/09/2021	---	Monetary policy meeting, %	Sep	3.50%	3.50%	3.50%	!!!
Poland	23/09/2021	12:00	Monetary policy meeting, %	Sep	19.00%	19.00%	19.00%	!!!
Russia	01/10/2021	08:00	PMI manufacturing	Sep	---	---	46.5	!!!
Poland	01/10/2021	08:00	PMI manufacturing	Sep	55.5	54.8	56.0	!!!
Hungary	01/10/2021	08:00	PMI manufacturing	Sep	---	54.4	55.9	!!!
Turkey	01/10/2021	08:00	PMI manufacturing	Sep	---	---	54.1	!!!
Czech Rep	01/10/2021	08:30	PMI manufacturing	Sep	57.9	58.3	61.0	!!!
Poland	01/10/2021	09:00	CPI, % y/y	Sep P	5.5%	5.5%	5.5%	!!
S. Africa	01/10/2021	10:00	PMI manufacturing	Sep	---	55.3	57.9	!!!
Russia	01/10/2021	17:00	Retail sales, % y/y	Aug	---	4.9%	4.7%	!!
Russia	01/10/2021	17:00	Unemployment, %	Aug	---	4.5%	4.5%	!!

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	5.61	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	1.22	-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	1.35	4.32	-3.02
UAE	1.70	-5.20	4.50	-0.76	-9.90	-5.05	2.44	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	25.418	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	1.172	1.280	1.2600
Hungary	4.90	4.00	2.50	1.65	1.00	12.50	304.460	294.300	285.70
Iraq	7.40	1.00	1.50	4.00	4.00	4.00	1460.000	1460.000	1460.000
Israel	2.20	0.80	0.60	0.10	0.10	0.10	3.198	3.240	3.200
Jordan	2.01	1.41	6.50	3.25	3.25	3.25	0.708	0.708	0.709
Kenya	6.60	6.00	5.00	7.00	7.00	7.00	110.380	116.330	115.400
Kuwait	3.12	2.30	2.50	1.50	1.50	1.50	0.301	0.301	0.302
Lebanon	137.75	85.45	32.30	2.75	2.75	2.75	1512.650	1512.650	1520.000
Libya	4.56	15.12	15.12	3.00	3.00	3.00	4.533	4.533	4.434
Morocco	0.80	0.80	1.20	1.50	1.50	1.50	8.992	8.700	8.800
Nigeria	17.00	16.60	12.10	11.50	11.50	11.50	413.310	398.000	405.200
Oman	2.19	2.30	1.20	0.42	0.42	0.42	0.385	0.385	0.385
Poland	5.50	3.80	2.10	0.10	0.10	0.25	3.930	3.705	3.4900
Romania	5.25	3.40	2.60	1.25	1.25	1.50	4.225	4.115	4.0700
Qatar	2.95	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	72.747	73.250	68.000
Saudi Arabia	0.27	3.20	1.60	0.50	0.50	0.50	3.751	3.751	3.752
South Africa	4.90	4.00	3.60	3.50	3.75	4.75	14.953	14.750	15.800
Turkey	19.25	15.10	11.60	18.00	14.00	14.00	8.884	9.250	8.200
Ukraine	10.20	8.30	5.40	8.50	8.50	8.50	26.701	29.950	28.900
UAE	-0.02	-0.50	1.20	0.65	0.65	0.65	3.673	3.673	3.673

Core indicators

EM EMEA sovereign bond yields (%)

	Maturity	27-Aug	03-Sep	10-Sep	17-Sep	24-Sep	Change in yield (basis points) Week	MTD	YTD
Bahrain	10 years	2.45	2.38	2.37	2.35	2.50	15.72	-48.60	-46.98
Czech Rep.	10 years	1.78	1.77	1.77	1.88	1.98	9.62	21.40	95.58
Egypt	9 years	5.73	5.60	5.51	5.49	5.99	49.78	45.26	103.98
Greece	8 years	0.29	0.39	0.47	0.49	0.51	2.02	6.07	-0.87
Hungary	8 years	2.19	2.45	2.57	2.62	2.73	11.25	25.93	106.01
Israel	8 years	0.12	0.13	0.13	0.14	0.18	3.94	5.14	4.16
Jordan	5 years	3.87	3.78	3.72	3.74	3.86	12.04	11.54	23.03
Kenya	7 years	5.21	5.09	4.84	4.94	5.31	37.16	37.28	16.96
Kuwait	6 years	1.24	1.27	1.24	1.25	1.31	5.92	5.37	17.51
Lebanon	9 years	58.46	49.10	48.51	44.65	42.10	-254.77	-685.35	-770.78
Morocco	11 years	2.10	2.11	2.08	2.08	2.20	11.80	9.65	46.15
Nigeria	9 years	6.58	6.43	6.22	6.25	6.66	41.35	37.14	69.50
Oman	9 years	5.06	4.92	4.83	4.79	5.10	31.08	21.97	-37.97
Poland	8 years	-0.15	-0.16	-0.18	-0.17	-0.12	5.24	5.47	1.45
Romania	7 years	0.94	0.95	0.98	1.03	1.05	2.42	11.90	-6.56
Qatar	9 years	2.15	2.20	2.12	2.12	2.21	9.13	6.12	57.64
Russia	5 years	1.70	1.75	1.72	1.74	1.82	7.80	7.23	-2.62
Saudi Arabia	8 years	2.00	2.06	2.00	2.02	2.10	7.81	7.67	19.87
South Africa	9 years	4.20	4.08	3.95	3.99	4.29	29.38	27.10	15.08
Turkey	7 years	5.51	5.32	5.31	5.33	6.07	73.77	81.63	119.61
Ukraine	8 years	6.36	6.17	5.98	6.09	6.40	30.81	35.24	44.61
Abu Dhabi	6 years	1.28	1.36	1.35	1.36	1.61	25.10	28.59	37.10
Dubai	8 years	2.51	2.52	2.51	2.51	2.55	4.50	3.79	-4.14

EM EMEA equity market (index)

	20-Aug	27-Aug	03-Sep	10-Sep	17-Sep	24-Sep	Change (%) Week	MTD	YTD
Bahrain	1,611	1,638	1,662	1,661	1,665	1,698	1.96	3.20	13.98
Czech Rep.	120,701	117,165	118,724	116,677	113,413	113,283	-0.11	-4.63	-4.82
Egypt	10,739	10,908	10,950	11,144	11,090	10,638	-4.07	-4.54	-1.91
Greece	894	899	914	918	905	873	-3.58	-5.42	7.92
Hungary	50,290	52,289	51,094	51,947	52,515	51,454	-2.02	-0.99	22.37
Israel	1,711	1,722	1,767	1,768	1,773	1,798	1.44	2.31	19.96
Jordan	2,000	2,016	2,003	2,060	2,058	2,071	0.64	0.44	24.96
Kenya	181	186	187	182	179	178	-0.52	-2.48	16.90
Kuwait	6,612	6,651	6,768	6,813	6,804	6,878	1.09	1.34	24.02
Lebanon	658	658	658	658	658	658	0.00	-5.09	49.14
Morocco	10,217	10,254	10,288	10,324	10,360	10,676	3.05	3.51	16.18
Nigeria	39,448	39,546	39,450	39,184	39,251	38,962	-0.74	-0.66	-3.25
Oman	4,006	3,991	3,959	3,974	3,960	3,929	-0.80	-0.96	7.37
Poland	2,284	2,285	2,325	2,371	2,365	2,299	-2.77	-2.91	15.89
Romania	12,101	12,138	12,275	12,302	12,347	12,441	0.76	2.17	26.88
Qatar	10,916	10,996	11,135	11,096	11,063	11,314	2.27	1.99	8.41
Russia	3,877	3,925	3,887	3,971	4,017	4,038	0.52	3.04	22.78
Saudi Arabia	11,325	11,345	11,157	11,311	11,408	11,337	-0.62	0.16	30.47
South Africa	63,489	61,609	61,212	60,613	60,036	57,643	-3.99	-5.56	6.00
Turkey	1,411	1,450	1,453	1,474	1,434	1,385	-3.43	-5.94	-6.23
Ukraine	525	526	526	526	526	526	-0.04	-0.04	5.30
Abu Dhabi	7,594	7,695	7,665	7,649	7,628	7,775	1.92	1.17	54.10
Dubai	2,815	2,862	2,903	2,917	2,907	2,832	-2.60	-2.44	13.65

EM EMEA FX against USD*

	20-Aug	27-Aug	03-Sep	10-Sep	17-Sep	24-Sep	Change (%) Week	MTD	YTD
USD Index	92.518	93.496	92.686	92.225	92.582	93.327	0.80	0.76	3.77
Bahrain**	0.379	0.379	0.379	0.379	0.380	0.380	0.05	-0.18	-0.29
Czech Rep.	21.533	21.848	21.638	21.355	21.448	21.686	1.11	-0.77	-0.97
Egypt	15.699	15.699	15.699	15.699	15.699	15.699	0.00	0.00	-0.31
Greece***	1.180	1.170	1.180	1.188	1.181	1.172	-0.80	-0.75	-4.06
Hungary	298.740	299.400	296.030	292.420	296.330	304.460	2.74	-2.93	-2.47
Israel	3.213	3.238	3.229	3.204	3.201	3.199	-0.05	0.26	0.44
Jordan**	0.711	0.711	0.711	0.711	0.711	0.711	0.00	0.00	-0.24
Kenya	109.890	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	-0.08	0.75
Lebanon	1,507.83	1,514.96	1,512.70	1,514.89	1,509.20	1,512.65	0.23	-0.09	0.16
Morocco	8.955	8.986	8.892	8.856	8.931	8.992	0.68	-0.85	-0.91
Nigeria	411.050	411.230	411.230	411.620	411.080	413.310	0.54	-0.52	-3.75
Oman**	0.387	0.387	0.387	0.387	0.387	0.387	0.00	-0.08	0.39
Poland	3.758	3.758	3.757	3.757	3.758	3.759	0.03	-0.07	-0.14
Romania	4.163	4.219	4.185	4.162	4.185	4.225	0.95	-1.09	-5.84
Qatar**	3.716	3.713	3.709	3.698	3.696	3.684	-0.33	0.67	0.35
Russia	73.227	74.272	73.543	72.732	73.197	72.747	-0.61	0.68	2.29
Saudi Arabia**	3.758	3.758	3.757	3.757	3.758	3.759	0.03	-0.07	-0.14
South Africa	14.735	15.295	14.723	14.313	14.209	14.953	-4.98	-2.87	-1.73
Turkey	8.524	8.496	8.351	8.324	8.472	8.886	-4.66	-6.39	-16.27
Ukraine	3.751	3.750	3.751	3.750	3.751	3.751	0.01	0.00	0.02
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)

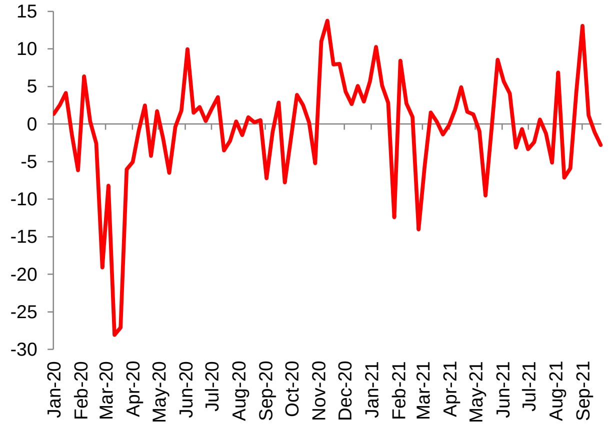
	20-Aug	27-Aug	03-Sep	10-Sep	17-Sep	24-Sep	Change in yield (basis points) Week	MTD	YTD
Bahrain	259.66	259.91	252.35	257.72	251.18	278.55	27.37	28.25	37.73
Czech Rep.	30.13	30.35	30.16	30.23	30.00	32.97	2.97	2.60	-2.78
Egypt	359.04	356.65	352.20	354.33	368.91	424.97	56.06	70.13	85.94
Greece	72.51	73.80	73.79	73.07	71.67	75.58	3.91	0.97	-25.84
Hungary	50.48	50.48	51.09	51.11	49.56	53.43	3.86	2.93	-6.79
Israel	42.53	42.53	42.00	40.71	40.05	42.92	2.87	0.72	-3.30
Kenya	320.88	322.32	318.09	312.19	314.12	320.71	6.59	1.66	-20.57
Kuwait	50.00	50.00	50.03	49.30	47.80	51.03	3.23	1.02	6.80
Morocco	104.14	104.21	101.32	100.04	100.40	103.92	3.52	3.67	-8.40
Nigeria	363.02	364.92	364.91	364.86	364.79	383.35	18.56	18.36	47.21
Oman	253.78	252.84	245.01	243.63	236.55	265.35	28.80	20.09	-96.26
Poland	49.00	49.23	48.50	49.09	46.37	50.03	3.67	0.96	-7.86
Romania	86.91	87.94	88.92	88.92	82.88	88.90	6.03	0.97	4.02
Qatar	42.69	42.03	40.73	39.59	39.08	43.64	4.56	2.18	5.23
Russia	86.54	80.66	77.92	75.94	76.46	86.52	10.06	7.27	0.59
Saudi Arabia	53.90	52.47	49.99	48.38	47.23	54.06	6.84	2.86	-11.35
South Africa	207.54	191.60	183.71	180.92	186.24	204.48	18.24	17.79	0.30
Turkey	389.08	369.78	366.80	364.84	386.57	422.76	36.19	56.03	118.37
Ukraine	408.68	400.75	388.32	389.71	380.20	414.89	34.70	18.87	26.26
Abu Dhabi	42.05	42.11	40.91	39.56	38.86	43.63	4.77	2.35	5.26
Dubai	90.43	90.84	90.00	87.92	86.65	93.06	6.41	2.18	-19.01

Source: Bloomberg, MUFG Research

EM capital flows

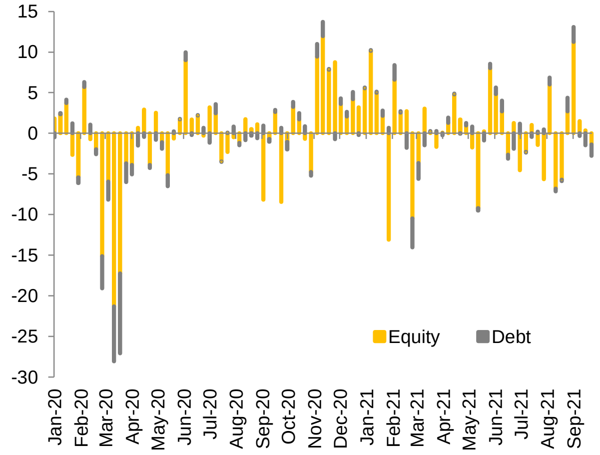
WEEKLY TOTAL EM OUTFLOWS OF USD-2.8BN – 24 SEPTEMBER

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



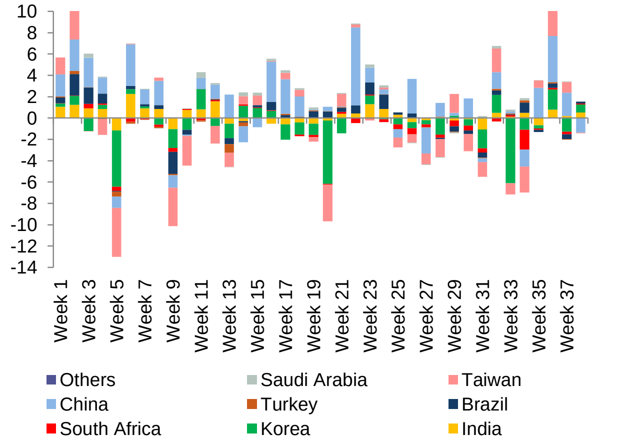
WEEKLY EM OUTFLOWS FROM EQUITY (USD-1.4BN) AND DEBT OUTFLOWS (USD-1.4BN) – 24 SEPTEMBER

WEEKLY DEBT AND EQUITY FLOWS (USD BN)



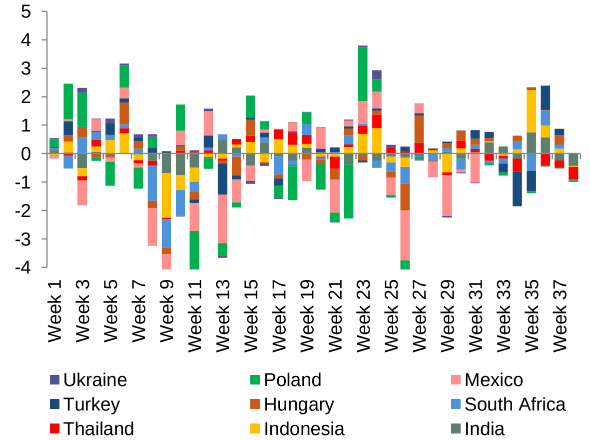
TAIWAN (USD-1.2BN) LED WEEKLY EM EQUITY OUTFLOWS – 24 SEPTEMBER

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



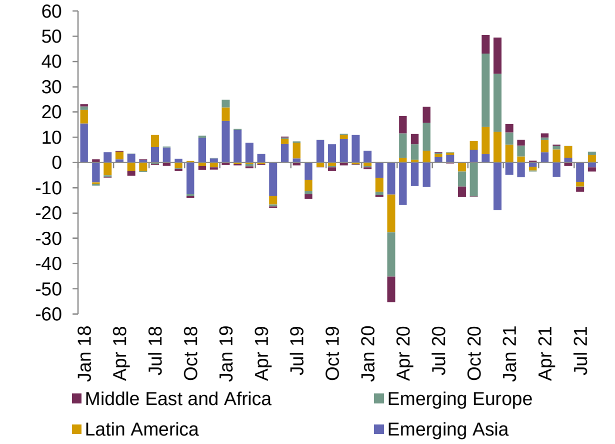
THAILAND (USD-0.7BN) AND INDIA (USD-0.3BN) LED EM DEBT OUTFLOWS LAST WEEK – 24 SEPTEMBER

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



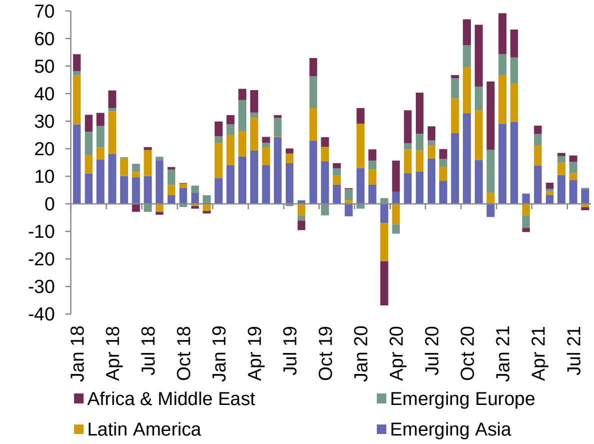
EM EQUITY FLOWS TOTALLED USD0.8BN IN AUGUST, LED BY LATAM (USD3.0BN) AND EM EMEA (USD1.4BN)

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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