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Emerging market implications from COP26

Macro focus: Global negotiators signed a historic "Glasgow Climate Pact" at COP26 which ended in overtime but last-minute wordsmithing by China and India watered down a commitment to axe coal and end fossil fuel subsidies. We take stock of the implications for emerging markets on what was agreed, and examine how greater debt transparency could entice climate and broader ESG investments.

FX views: EM FX selloff has continued, reinforced by last week's stronger than expected US CPI reading for October – EM FX rates have been much more strongly correlated to US short rates than longer-term rates over the past month, which remains a headwind EM FX more broadly.

Trading views: The trading window for EM outperformance looks shut for us now – two factors, namely, positioning and low EM FX volatility, are keeping us from going all out short EM.

Week in review: Over the previous week, October inflation rates in the Czech Republic, Hungary and Romania all printed above expectations, likely spurring further rate hikes by their respective central banks, and South Africa's mid-term budget accentuated fiscal strength and focused on structural reforms.

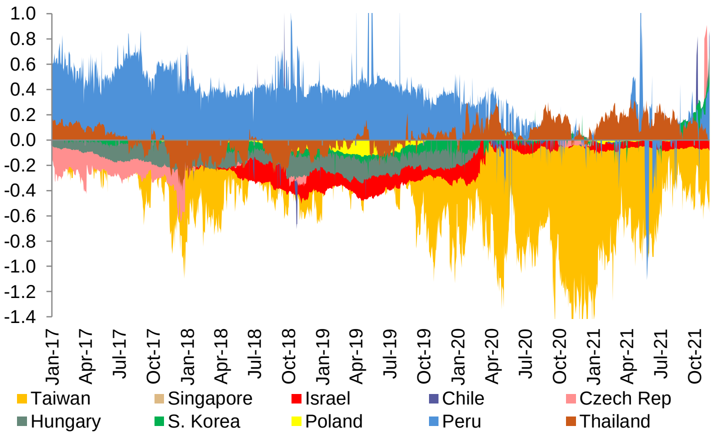
Week ahead and calendar: In the coming week, we have rate decisions in Hungary (+70bp to 2.50%), South Africa (+25bp to 3.75%) and Turkey (-100bp to 15.00%), South Africa's inflation rate for October (5.3% y/y) and flash Q3 GDP estimates in Hungary (7.8% y/y) and Romania (9.6% y/y).

Forecasts at a glance: The recovery in EM economies continued at a robust pace during H1 2021 – though peak growth has passed, strong DM growth and the easing of pandemic effects, should support EM recoveries over the remainder of the year.

Core indicators: Capital flowed back into EMs last week (USD1.7bn) with the Fed's long-awaited tapering of its balance sheet having a muted effect thus far.

CHART OF THE WEEK: FUNDING CURRENCIES FIND RELIGION ACROSS EM

EM LOW-YIELDING FUNDING CURRENCIES: CARRY TO VOLATILITY (3 MONTHS)



Inflation is forcing the hand of policy officials across low-yielding EM economies, leaving Taiwan and Israel as the only two countries with negative sloping forward curves – diminishing the appeal of funding currencies in Latin America and Central and Eastern Europe (CEE)

Source: Bloomberg, MUFG Research

Macro focus

Emerging market implications from COP26

"Glasgow Climate Pact" will have far reaching impacts on DMs and EMs

Negotiators from almost every country in the world convened at the UN COP26 (31 October – 12 November) climate summit in Glasgow to thrash out a deal to curb global warming and accelerate the shift to cleaner economies. Nearly 40,000 people participated in the two-week summit, which ended in overtime on 14 November with leaders signing up to the "Glasgow Climate Pact" after last-minute talks. What has been agreed will have material implications for both developed (DM) and emerging (EM) markets in the years to come.

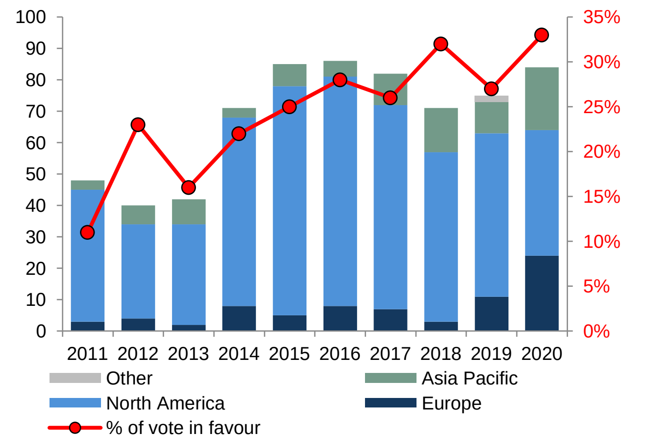
Main outcomes of COP26

The key snapshots of the most important outcomes at COP26:

1. Coal and fossil fuels. In a first, the subject of coal and fossil fuels has been included. The agreement asks countries to "accelerate efforts towards" phasing down "unabated coal power" — referring to power plants that do not use technology to capture their CO2 emissions. It also calls for an end to "inefficient" fossil fuel subsidies, though without specifying a timeline for when this will happen. The clause also "recognises" the need for support for workers in those sectors to find other jobs. This paragraph caused eleventh-hour tensions, when India and China watered down the coal wording from "phase out" to "phase down".
2. Climate finance. The agreement notes with "deep regret" that DMs missed their 2020 target of providing USD100bn a year to help EMs, and commits them to raise at least that amount, annually, through to 2025.
3. Adaptation. DMs are asked to "at least double" their support for adaptation measures, which will help EMs prepare for climate change, by 2025, compared to 2019 levels. This would imply that adaptation funding could be around USD40bn annually, from USD20bn in 2019.
4. Carbon markets. This is one element of the "Paris rule book" that has finally been closed. The rules will create a market for units representing emissions reductions that countries can trade, under so-called Article 6. Although many of the loopholes have been closed, some legacy credits will be permitted in the system for a limited time. While many EMs had pushed for a mandatory levy to be imposed on all the credits, to go towards funding for adaptation, DMs opposed the move. The final agreement includes a

SHAREHOLDERS ARE PUSHING COMPANIES TO EMBRACE THE ENERGY TRANSITION

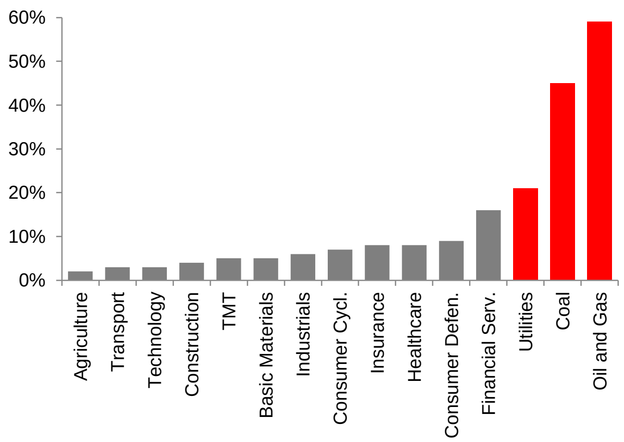
NUMBER OF CLIMATE SHAREHOLDER PROPOSALS VS % VOTES



Source: Bloomberg, UK COP26, MUFG Research

THE CLIMATE TARGETED FOCUS ON THE ENERGY INDUSTRY FROM SHAREHOLDERS IS NOTABLY ACUTE

% OF CLIMATE-RELATED SHAREHOLDER PROPOSALS BY INDUSTRY (%)



Source: Bloomberg, UK COP26, MUFG Research voluntary commitment for countries to contribute to this fund.

5. Mitigation. By the end of next year, countries are requested to improve their 2030 national climate targets. Pledges now put the world on course for between 2.5°C and 2.7°C of warming by the end of the century, far from the 2015 Paris climate accord goals, which aim to limit global warming to well below 2°C, ideally 1.5°C, since pre-industrial times.

EM ESG debt issuance is on the rise

With ESG issues and the need for a "just transition" top of the international financial policy agenda at COP26, sustainable debt markets have continued to pass major milestones. Global sustainable debt issuance surpassed USD1tn during the first three quarters of 2021 and is now on track to reach almost USD1.5tn in 2021, against USD720m in 2020. For EMs there has been a sharp rise in ESG-labelled debt issuance, with around USD170bn of sustainable debt issued during the first three quarters of 2021, up from USD75bn in 2020. From a country composition perspective, China, India, Chile, Pakistan and Romania are the largest EM issuers.

The pandemic has driven EM debt levels higher

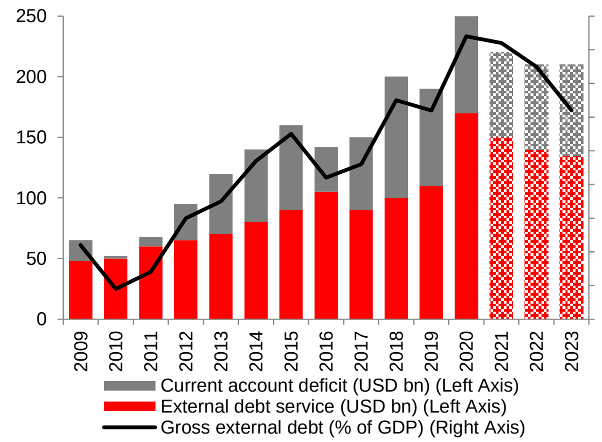
Discounting the recent IMF's SDR allocations (see here), total capital flows are expected to rise from ~USD600bn in 2020 to ~USD700bn this year, and remaining broadly at that level in 2022, according to the IIF. This is well the pre-virus peak of over USD800bn in 2019. This recovery in capital flows is expected to be driven by portfolio debt and cross-border banking flows, also reflecting a rise in debt across many EMs. Indeed, total debt in EMs (excluding China) reached a fresh high of some USD36tn in H1 2021 – up over USD3tn since the onset of the pandemic, with the build-up in external debt of EMs, notably frontier markets (FMs) notably acute.

Enhance debt visibility across EMs can entice climate and broader ESG investments

Whilst the IMF's SDR allocations should offer breathing room, apprehensions persist for more vulnerable FMs that are still at high risk of/or already in debt distress. Increasing interest burdens in some FMs are constraining fiscal space and limiting the scope for countercyclical fiscal policy. Also, procuring comprehensive data on public debt in EMs is still a major hurdle for investors, and can have a negative impact on credit ratings, which in turn weighs on investor appetite and translate into higher borrowing costs. While essential, the need for transition finance and funding for Sustainable Development Goals (SDGs) will propel EM government spending and public debt ratios higher over the coming years. Against this, adequate integration of ESG considerations into debt management practices and debt workouts will be vital to ensure that EMs have steady and affordable access to international debt markets. This will in turn enable climate finance flows to these vulnerable countries which has been a major theme at COP26 as a support for "just transition".

EM EXTERNAL FINANCING NEEDS REMAIN ELEVATED AND ARE ABOVE PRE-PANDEMIC LEVELS

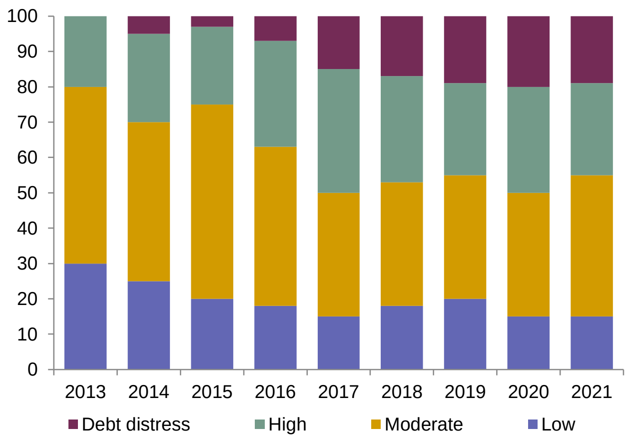
EM EXTERNAL FINANCING NEEDS (USD BN, % OF GDP)



Source: Bloomberg, IIF, IMF, MUFG Research

MORE THAN HALF OF EM'S FACE HIGH DEBT VULNERABILITIES

EM DEBT SHARE – LOW, MODERATE, HIGH AND IN DEBT DISTRESS (%)



Source: Bloomberg, IIF, IMF, MUFG Research

FX views

EM FX: Inflation shock is keeping EM FX on the back foot

EM FX sell off continues more broadly. The BRL and Asia FX have performed better so far this month. Return of geopolitical risks take some of shine of RUB.

The downward trend for emerging market currencies against the USD has been reinforced over the past week following the release of the much stronger than expected US CPI report for October. It has resulted in our EM FX index falling to fresh year to date lows against the USD. Emerging market currency weakness has been most evident for the TRY (-3.2% vs. USD), HUF (-2.8%), PLN (-2.2%), ZAR (-2.1%) and RUB (-1.5%). The RUB has started to lose some of its shine in the near-term in response to the pick-up in tensions between Russia and the West over border tensions with the Ukraine and Poland. At the opposite end of the spectrum the BRL (1.6% vs USD) and Asian currencies have outperformed. The best performing Asian currencies have been the THB (+1.0%), KRW (+0.4%) and IDR (+0.3%)

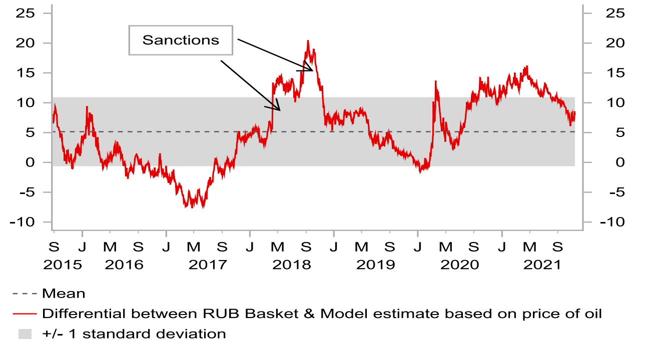
Another big upside US inflation creates more unease. USD/RUB & USD/ZAR have had tightest correlations to short-term US rates.

Higher inflation remains a key focus for emerging market investors. US inflation surprised significantly to the upside for the third consecutive month this year in October. It has prompted the US rate market to speculate that the Fed will have to speed up the pace of tightening. Over the past month, EM FX rates have been much more strongly correlated to US short rates than longer-term rates. USD/RUB and USD/ZAR have had the strongest correlations to 2-year UST yields, and USD/BRL the least. Rising US rates and a stronger USD remain headwinds for EM FX more broadly. There are a large number of Fed speaks in the week ahead whose comments will be scrutinized for any signs a further hawkish shift in Fed policy.

EM central banks remain under pressure to deliver tighter policy. The CBRT continues to remain an exception. NBH and SARB to raise rates in week ahead but unlikely trigger sustained strengthening of domestic currencies.

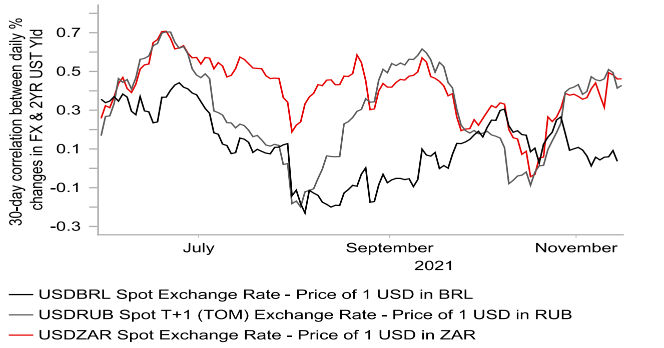
Inflation continues to surprise to the upside in emerging market economies as well. Over the past week, it was revealed that headline inflation reached a 13-year high of 5.8% in Czech Republic, 6.5% in Hungary, and 7.9% in Romania. We expect inflation in South Africa to rise to 5.3% in the week ahead. We expect inflation pressures to encourage the NBH to speed up tightening and deliver a larger 70bps hike in the week ahead. At the same time, we expect the SARB to start their own tightening cycle by delivering a 25bps hike. While a larger hike will offer more support for the HUF that has fallen back close to year to date lows, it is unlikely to be sufficient to trigger a sustained reversal higher. Similarly, the ZAR has recently been trading closer to year to lows as the negative impact of higher US yields offset support from last week's well received South African budget. The budget showed a significantly improved outlook for the public finances and a commitment to structural reforms. One clear exception to the tightening trend has been the CBRT who we expect to deliver another 100bps cut this week. It is contributing to continued sharp TRY sell off.

RUB RISK PREMIUM IS MUCH SMALLER NOW



Source: Bloomberg, Macrobond & MUFG Research

CORRELATIONS TO SHORT-TERM US RATES



Source: Bloomberg, Macrobond & MUFG Research

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: The window for outperformance seems to have closed post US CPI but a lack of volatility is helping EMFX

The trading window for EM outperformance looks shut for us now

Following the Fed and ECB decisions, we had expected a window where EMFX could outperform. The US CPI (and China PPI) have though firmly shut this window in our view. While policy makers seem to be pushing back on market pricing it does not seem the market is done with testing the resolve. From an EM angle the moves in CEE have taught us that CBs can move very quickly in this environment and that if you are waiting for a change in rhetoric you are probably too late. Furthermore an element of "do as I do not as I say" has been clear in trading some of these markets especially in Poland. Thus we don't dispute that the market can push DM rate pricing further and in such an environment we will trade neutral/defensively.

Two factors – positioning and low EMFX vol are keeping us from going all out short EM

Two factors are keeping us from going all out bearish. Firstly positioning in EM is very light. Alongside this (and as a result) valuations are very cheap. Thus certainly from a long term perspective on many EM assets we would be better buyers given the current discounts here relative to DM. Secondly, and most importantly, the increased rate pricing has not spilt over to higher volatility in FX. We would view EMFX vol the most important gauge for us to be outright bearish in EM right now. While it is clear that there will be serial correlation between higher Vol and lower EMFX, it does surprise us how little risk premia there is out there currently. Every so often there are a few sessions of concern such as the move in MXN leading up to the Fed. However, it seems to soon fade. Given we've had VAR shocks in the rates markets we would have thought FX volaility would be well supported as people are forced to reduce positions in other markets. This though has not happened. A symbol of this can be seen in Turkey where the breach of 10.00 has seen very little spillover.

EM CBs will continue to provide rates volatility in the week ahead

While FX vol may frustrate there is still plenty going on in the curves and this week will be another week where we can expect things to move post central bank meetings. Hungary and Turkey will certainly move on rates with the latter potentially cutting between 100 &200bps. Of most interest to us will be SARB and whether South Africa becomes the latest bank to start the hiking cycle. Certainly a lot of bullishness is building into ZAR with last week's budget helping sentiment. While we ae positive on the currency from a RV perspective especially against other high yielders the curve out further looks too rich to us with 9s 12 ZAR forwards pricing a yield around 5.5% against day to day going through 3.50%. This is too steep and we would look to be long ZAR into SARB but received this area of the curve.

Week in review

EM capital flows: inflows into both EM equity and bond funds

Inflationary pressures have been building across EMs during October

Last week has brought the inflationary concerns back to the fore, as the data showed that headline CPI rose much higher than expectations in almost all economies that disclosed their price data. Particularly worth highlighting is the sharp rise in the US CPI inflation, from 5.6% y/y in September to 6.2% y/y in October, on the back of broad-based increases in some of the most important household expenditures, such as rent, food, energy and vehicles. This was the highest inflation print in more than 30 years. Meanwhile headline CPI inflation has also surged quite aggressively in EMs, such as in Brazil, China, Chile, Czech Republic, Hungary, Poland, Romania and Russia, in October, largely reflecting the rise in food and energy prices, as well as the lagged impact from the increase in producer prices. As a result of these sharp increases, annual inflation reached its highest level in more than 10 years in LatAm and EM EMEA regions, though it still remains at moderate levels in Asia.

Inflation has been a central theme that we have discussed throughout 2021

We have been cataloguing inflationary risks pretty much since the beginning of the year, noting that if the "benign" of reflation theme was growth, the "vindictive" was inflation (see here and here). Moreover, we have also highlighted that inflation might be higher and stickier in EM, given the adaptive inflation expectations, as well as closing output gaps (see here). The latest inflation prints highlight these risks, and warrant a more cautious stance on the EM inflation front.

EM capital flowed back into EMs last week following a heavy calendar on October inflation readings

According to IIF data, fund flows into EMs totalled USD1.7bn driven by equity flows (USD1.3bn) as well as to a lesser extent debt flows (USD0.4bn). From a 28 day rolling average perspective, EM equity and bond flows have now pivoted into positive territory. Meanwhile, from an asset class performance perspective, all metrics are pointing to underperformance year-to-date bar EM FX – a testament that conditions remain less favourable across the EM complex.

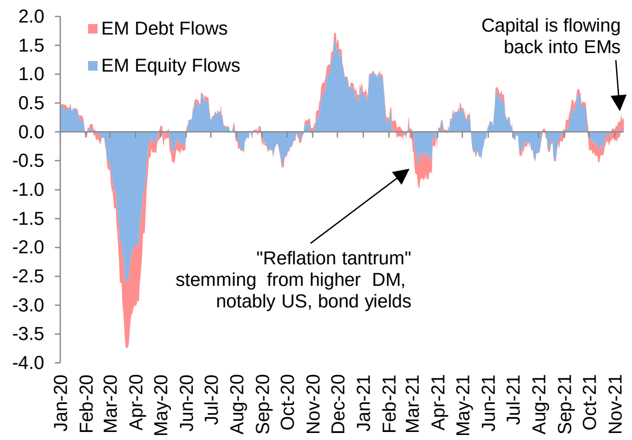
Czech Rep.: inflation continues to increase – now at the highest since 2008

Czech Republic's inflation levels is now at 13 year highs at 5.8% y/y in October

Headline inflation in the Czech Republic reached a 13 year high in October, rising from 4.9% y/y to 5.8% y/y, above both our and consensus expectations of 5.5% y/y. The increase was primarily driven by outsized contributions from the housing component (which comprises utility costs) and transportation. Whilst a detailed sub-

CAPITAL IS FLOWING BACK INTO EM'S – ALBEIT NEGLIGIBLY – ON A 28 DAY ROLLING BASIS

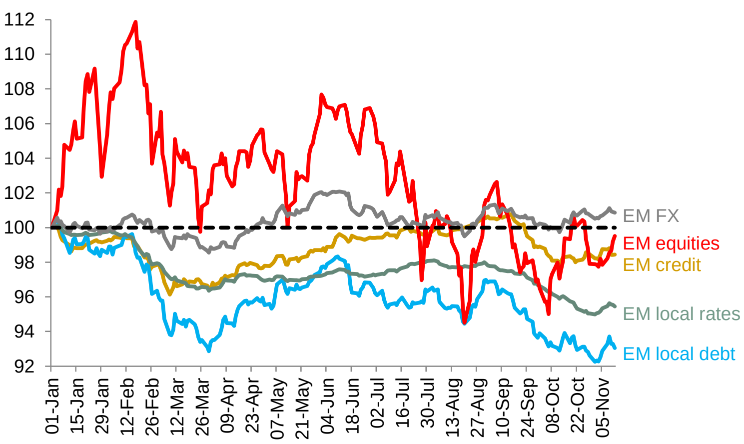
EM EQUITY AND DEBT FLOWS (USD BN), 28 DAY ROLLING AVERAGE



Source: IIF, MUFG Research

ALL EM ASSET CLASSES (BAR EM FX) CONTINUE TO UNDERPERFORM YEAR-TO-DATE

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



Source: Bloomberg, MUFG Research

component breakdown is not available at this stage but the Czech Statistical Office commented that both energy costs and price of maintenance services increased sharply, which was partially caused by October 2020 base effects. Furthermore, transport inflation accelerated from 9.6% y/y to 11.6% y/y as prices of motor cars and fuel increased, partially reflecting a broad spillover from the uptrend in commodity prices. Inflation also increased in the clothing and footwear category from +9.4%yoy to +10.5%yoy in October.

Our base case is for 50bp in tightening in December with another cumulative 100bp in tightening in 2022, taking rates to 2.75% by end-2022

From a monetary policy perspective, the Czech National Bank (CNB) appears set to hike further, citing risk of expectations de-anchoring as the main reason for the sharp front-loaded tightening. On our estimates, we expect inflation to rise from 5.8% y/y in October to a peak of 6.8% y/y in February 2022, before declining considerably by end-2022. Given much higher inflation and the limited response of the Czech Koruna (CZK) to the rate increases implemented by the CNB to date, further material tightening appears likely in the months ahead.

Hungary: inflation rises above expectations again with more hikes expected

Inflation in Hungary rises to 6.5% y/y in October with more hikes on the table

Headline inflation rose above expectations in Hungary, from 5.5% y/y to 6.5% y/y, exceeding our (6.3% y/y), consensus (6.2% y/y) and the National Bank of Hungary's (MNB) short-term forecast (5.2%-5.4% y/y). The rise was driven by food and fuel inflation, in addition to continued upward pressures from core goods, with overall core inflation rising by 0.7pp to 4.7% y/y. At face value, the October reading marks a considerable overshoot of the MNB's September inflation forecast, and raises the possibility that the MNB could deviate and hike by more than its recent 15bp iterative – our base case is for 70bp in hikes taking the policy rate to 2.5%, with the MNB likely following the path set out by the central banks in Poland and the Czech Republic by aggressively front-loading policy normalisation. Though we acknowledge that the MNB could continue with a gradual (i.e 15bp hike), on the condition that inflation could peak soon as the large fuel price contributions begins to ebb, returning headline CPI towards 4% by end-2022 (upper bound of the MNB's 2-4% target band).

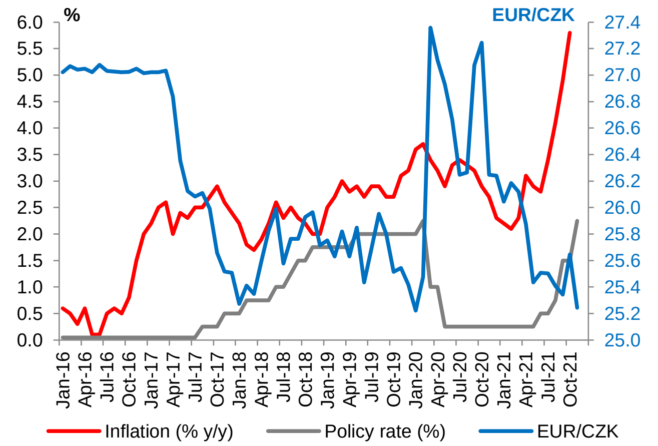
Romania: inflation accelerates in October owing to higher energy prices

Inflation in Romania accelerates sharply to 7.9% y/y in October

Headline inflation in Romania accelerated from 6.3% y/y in September to 7.9% y/y in October, surprising our (7.2% y/y) and consensus (7.0% y/y) expectations significantly to the upside. The increase was driven by a large spike in energy prices, wherein fuel and electricity costs increased by 27.3%y/y. Beyond energy, the other

CZECH INFLATION RISES WITH A 13 YEAR HIGH IN OCTOBER 2021, WITH MORE RATE HIKES ON THE TABLE

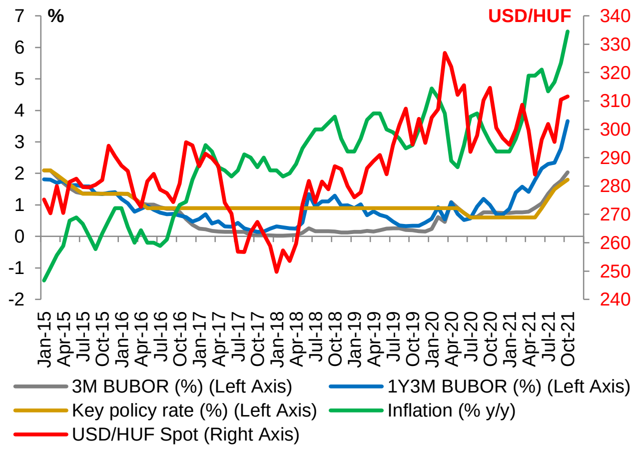
CZECH REPUBLIC POLICY RATE (%), INFLATION (% Y/Y) AND EUR/CZK



Source: Bloomberg, CNB, 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

major sub-components also contributed positively, albeit by less than the contribution from energy prices. Core inflation (ex food, energy, tobacco and regulated prices) increased from 3.0% y/y in September to 3.3% y/y in October – highest level in ten years. Going forward, given further significant increases in domestic energy prices in the pipeline, we expect inflation to rise significantly further in the months ahead, peaking at more than 9% y/y around the turn of the year before declining thereafter.

Rates in Romania remain skewed to the upside

Last week, the National Bank of Romania (NBR) increased its key policy rate by 25bp to 1.75%, surprising our and consensus expectation to the downside – expectations were for 50bp in hikes due to the sharp rise in inflation, in conjunction with the front-loaded hiking cycle in Romania's CEE peers. However, the Monetary Policy Committee (MPC) stated that it would maintain firm control over money market liquidity and it raised the upper band of its interest rate corridor by 50bp (providing it with scope to tighten money market rates by more than 25bp). Given significantly higher inflation in the coming months, we expect the NBR to implement significant further tightening, raising official rates to 3.50% next year.

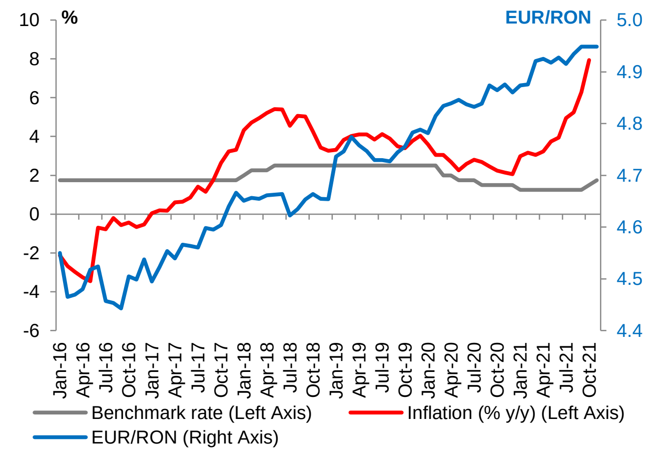
South Africa: mid-term budget flags fiscal strength and structural reforms

South Africa's mid-term budget policy statement (MTBPS) accentuates fiscal strength and focuses on structural reforms

Finance Minister Godongwana presented the Mid-Term Budget Policy Statement (MTBPS) to parliament last week, improving fiscal projections and emphasising structural reform, while at the same time continuing to signal an expenditure-led fiscal consolidation that brings the primary expenditure to GDP ratio to below pre-pandemic levels. The updated fiscal projections narrow the estimated deficit for the current fiscal year by 1.5pp from 9.3% to 7.8% of GDP and by around 1pp in both FY2022/23 and FY2023/24, achieving a primary balance by FY2024/25 and stabilising debt at 78% of GDP by mid-decade (revised down from 81% previously). Godongwana projects around 1pp of GDP stronger revenue in the next two fiscal years (after 2pp of GDP revenue outperformance this year) and indicated an intention to spend half of the projected revenue windfall on new expenditure items (to be specified in the February budget). On structural reforms, the speech emphasised infrastructure (rail/ports), spectrum (digitalisation), tourism (e-visas), and the energy sector. On net, high commodity prices and strong corporate tax receipts provide fiscal breathing space and narrow the budget deficit in South Africa. However, this may prove short-term relief as spending strains related to public wages, social grants and state-owned enterprises bailouts skew risks of the additional revenues being spent. This could in-turn lead to tepid fiscal consolidation, and an ongoing push higher in debt levels over the medium-term.

SURGE IN ROMANIAN INFLATION OWING TO HIGHER ENERGY PRICES WILL LEAD TO HIGHER RATES

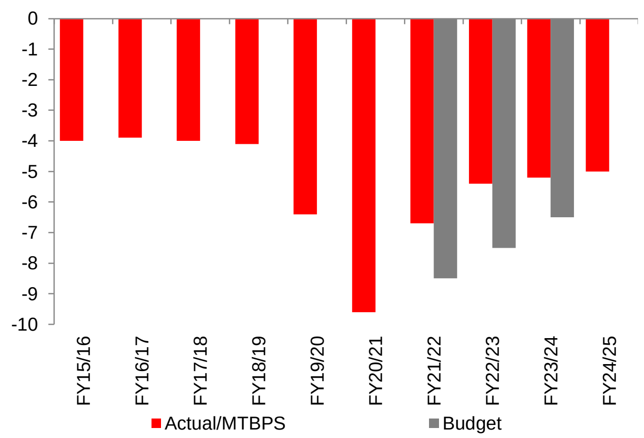
ROMANIA POLICY RATE (%), INFLATION (% Y/Y) AND EUR/RON



Source: Bloomberg, NBR, MUFG Research

SOUTH AFRICA'S FISCAL CONSOLIDATION PLANS AIMS TO NARROW THE DEFICIT OVER THE MEDIUM-TERM

SOUTH AFRICA FISCAL BUDGET BALANCE (% OF GDP)



Source: South Africa National Treasury, MUFG Research

Week ahead

Turkey: CBRT to maintain its easing bias – our base case is for 100bp in cuts

Turkey to ease by another 100bp taking policy rates to 15.00%

The Central Bank of Turkey (CBRT) will meet on 18 November, with our (and consensus) expectations for the Monetary Policy Committee (MPC) to reduce its policy rate by 100bp to 15.00%. However, we flag substantial risks in either direction. The laser focus of the CBRT remains skewed for additional cuts, especially given the downside surprise to core inflation (16.8% y/y; consensus 17.9% y/y) in October. Having said that, the rapid depreciation of the Turkish Lira (TRY) – flirting at the 10 handle to the USD – may lead the CBRT to slow the pace of its cuts and thus it would not be unprecedented for the MPC to either cut by 50bp or indeed keep rates on hold this month. More broadly, given the increasingly de-anchored expectations and the financial conditions tightening across the world, we view that easing policy entails risks of further dollarisation and TRY weakness, as well as adding to the inflationary pressures. On net, a confluence of elevated inflation expectations and the risk premium, in tandem with continued subdued prospects for capital inflows warrants a strong case against further monetary easing. Though, given the October MPC statement and Governor Kavcioglu's comments during the Inflation Report presentation leads us to hold conviction that additional easing is expected.

Our base case is for a reversal in policy cuts in 2022 with 400bp of hikes likely in H2 2022

Looking ahead, with inflation running close to 20% y/y – 4x the official target (5% y/y), we view the current policy mix as unsustainable and rates will need to rise in 2022 to anchor expectations, foster price stability and stabilise the TRY. Absent this, a weaker international reserve position and a more challenging macroeconomic backdrop than before the pandemic indicates that the adverse consequences of a relaxed monetary stance are likely to be dearer than compared with similar historical incidences. From this, our base case is for 400bp of hikes for the back half of 2022, from a tough of 15.0% back to 19.0%, in parallel to the Fed raising the Federal Funds target rate.

Hungary: MNB to accelerate its hikes – our base case is for 70bp in hikes

We view Hungary will accelerate its hiking cycle in line with CEE peers with our base case of a 70bp increase taking the policy rate to 2.50%

The National Bank of Hungary (MNB) will meet on 16 November at a time when regional CEE peers – Czech Republic and Poland – are grappling to keep up with the unprecedented surge in inflation. With this backdrop in mind, we expect the MNB to follow the path set out by its regional CEE peers and deliver out of consensus (15bp) hikes of 70bp, taking the policy rate to 2.50%. The MNB has been an early EM hawk, endeavouring to remain ahead of the curve this year, kicking off its tightening cycle early in June, with three consecutive 30bp hikes. Though, the pivot to a 15bp hike in September would seem premature given the continued deterioration in the inflation outlook. Though, we acknowledge that the MNB could continue with its modest 15bp hikes, on the conditional that inflation could peak soon as the substantial fuel price contribution begins to ebb, returning headline CPI towards 4% by end-2022 (upper bound of the MNB's 2-4% inflation target). On net however, we base case that the MNB will likely follow in the Czech Republic's and Poland's pathways to step up the pace of tightening.

South Africa: SARB to commence its monetary policy normalisation path

South Africa is expected to commence its rate hiking cycle with a 25bp increase to 3.75%

The South African Reserve Bank (SARB) will meet between 16-18 November, and announced its rate decision on 18 November during a press conference. We expect the SARB to commence its monetary policy normalisation path this week as inflation is on the rise (5.0% y/y in October and expected to continue rising and peak in May 2022 at 6.4% y/y), and an increasing list of upside risks, namely, weakening currency, higher energy prices other EM central banking peers already commencing their hiking cycles and an increasingly hawkish Fed. As such, we base case a 25bp hike this week, taking the policy rate to 3.75%. A 25bp hike will not be a surprise but the aggressive market pricing would be moderated by a potential split Monetary Policy Committee (MPC) vote for a hike. Looking ahead, we view that the SARB will like rates by a cumulative 75bp by end-2022, taking the policy rate to a terminal rate of 4.25%, though highlight that the MBC remains heavily data-dependent which could alter the timing and magnitude of hikes.

South Africa: inflation to rise sharply in October due to higher energy prices

South Africa inflation to rise sharply in October

Headline inflation in South Africa is expected to rise from 5.0% y/y in September to 5.3% y/y in October (consensus 5.0% y/y), owing to the pass-through of higher energy costs. Within core inflation, we expect a relatively elevated pace of sequential price growth observed in the past two months to be maintained, as services price inflation remains elevated on the back of economy reopening effects. Still, given a favourable base effect we expect that core inflation in annual terms will remain flat at 3.2% y/y.

CEE: Q3 2021 GDP growth to remain strong despite supply chain disruptions

Flash estimates of Hungary and Romania real GDP to be released

Q3 2021 GDP flash estimates will be printed in Hungary and Romania on 16 November. We forecast Q3 GDP to grow at 7.8% y/y in Hungary (consensus 7.3% y/y) and 9.6% y/y in Romania (consensus: 9.5% y/y). We continue to see room for catch-up growth in the CEE as the economy continues to normalise, with the recovery most advanced in Hungary, Romania, and Poland but lagging in the Czech Republic. High-frequency indicators show that retail sales have continued to record positive sequential growth in Q3 in both Hungary and Romania. The recent resurgence of COVID-19 cases across in the region introduces near-term downside risks, with some regional divergence in the exposure to this risk, given varying levels of vaccinations (with ~60% fully vaccinated in Hungary and ~30% in Romania). In addition, supply-chain disruptions could also act as a drag on growth, especially in the manufacturing sector. On net, with emerging near-term downside risks related to the pandemic, slowing global demand, as well as the impact of significant and front-loaded policy tightening seen across the region, 2022 is likely to be more challenging for economic growth.

Weekly calendar

	Country	Day	GMT	Indicator/Event	Period	MUFG Forecast	Consensus	Previous	Market Moving
	Nigeria	15/11/2021	---	CPI, % y/y	Oct	---	16.2%	16.6%	!!
	Poland	15/11/2021	09:00	CPI, % y/y	Oct F	---	---	6.8%	!!
	Ukraine	15/11/2021	13:30	Real GDP, % y/y	Q3-21P	---	4.4%	5.7%	!!
	Romania	16/11/2021	07:00	Real GDP, % y/y	Oct	9.6%	9.7%	13.9%	!!
	Hungary	16/11/2021	08:00	Real GDP, % y/y	Oct	7.8%	7.3%	17.9%	!!
	Israel	16/11/2021	11:00	CPI, % y/y	Oct	7.2%	7.0%	6.3%	!!!
	Hungary	16/11/2021	13:00	Monetary policy meeting (%)	Nov	2.50%	2.10%	1.80%	!!!
	S. Africa	17/11/2021	08:00	CPI, % y/y	Oct	5.3%	5.0%	5.0%	!!!
	Russia	17/11/2021	16:00	CPI, % y/y	Nov-15	---	---	0.1% w/w	!!!
	Russia	17/11/2021	16:00	Real GDP, % y/y	Q3-21 A	5.2%	4.4%	10.5%	!!
	S. Africa	18/11/2021	---	Monetary policy meeting (%)	Nov	3.75%	3.50%	3.50%	!!!
	Turkey	18/11/2021	11:00	Monetary policy meeting (%)	Nov	15.00%	15.50%	16.00%	!!!

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	1.50	0.50	1.00	25.431	21.110	20.100
Egypt	6.60	4.40	4.90	8.25	7.25	7.25	0.064	15.590	16.520
Greece	2.21	0.69	0.88	0.00	0.00	0.00	1.157	1.280	1.2600
Hungary	5.50	4.00	2.50	1.65	1.00	12.50	311.730	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	3.233	3.240	3.200
Jordan	2.01	1.41	6.50	3.25	3.25	3.25	0.709	0.709	0.709
Kenya	6.90	6.00	5.00	7.00	7.00	7.00	110.750	116.330	115.400
Kuwait	3.12	2.30	2.50	1.50	1.50	1.50	0.302	0.302	0.302
Lebanon	137.75	85.45	32.30	2.75	2.75	2.75	1510.250	1510.670	1520.000
Libya	4.56	15.12	15.12	3.00	3.00	3.00	4.558	4.556	4.434
Morocco	0.80	0.80	1.20	1.50	1.50	1.50	9.056	8.700	8.800
Nigeria	17.00	16.60	12.10	11.50	11.50	11.50	413.090	398.000	405.200
Oman	2.08	2.30	1.20	0.42	0.42	0.42	0.385	0.385	0.385
Poland	5.80	3.80	2.10	0.50	0.50	0.25	3.978	3.705	3.4900
Romania	5.25	3.40	2.60	1.50	1.50	1.50	4.277	4.115	4.0700
Qatar	2.95	0.60	1.50	1.00	1.00	1.00	3.641	3.642	3.642
Russia	7.40	5.20	3.20	6.75	5.75	4.50	71.876	73.250	68.000
Saudi Arabia	0.27	3.20	1.60	0.50	0.50	0.50	3.750	3.751	3.752
South Africa	4.90	4.00	3.60	3.50	3.75	4.75	14.928	14.750	15.800
Turkey	19.58	15.10	11.60	18.00	14.00	14.00	8.963	9.250	8.200
Ukraine	11.00	8.30	5.40	8.50	8.50	8.50	26.349	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	15-Oct	22-Oct	29-Oct	05-Nov	12-Nov	Change in yield (basis points) Week	MTD	YTD
Bahrain	10 years	2.35	2.36	2.50	2.68	2.69	1.49	-19.70	-28.00
Czech Rep.	10 years	1.88	2.00	1.98	2.10	2.09	-0.43	0.38	107.03
Egypt	9 years	5.49	5.53	5.99	6.40	6.58	18.34	29.01	162.94
Greece	8 years	0.49	0.50	0.51	0.52	0.58	6.49	4.22	6.90
Hungary	8 years	2.62	2.72	2.73	2.94	3.14	19.58	26.85	146.34
Israel	8 years	0.14	0.14	0.18	0.22	0.26	4.70	5.23	12.22
Jordan	5 years	3.74	3.72	3.86	4.09	4.25	16.10	21.12	62.79
Kenya	7 years	4.94	4.99	5.31	5.38	5.66	27.95	31.77	52.35
Kuwait	6 years	1.25	1.26	1.31	1.39	1.37	-2.36	-6.40	23.63
Lebanon	9 years	44.65	42.30	42.10	42.33	42.06	-27.19	-8.13	-774.60
Morocco	11 years	2.08	2.08	2.20	2.36	2.43	7.49	10.23	70.04
Nigeria	9 years	6.25	6.29	6.66	6.85	6.98	13.31	18.35	101.06
Oman	9 years	4.79	4.81	5.10	5.13	5.16	2.13	-2.62	-32.01
Poland	8 years	-0.17	-0.16	-0.12	-0.09	-0.02	7.47	7.06	11.89
Romania	7 years	1.03	1.03	1.05	1.20	1.32	11.87	21.60	20.69
Qatar	9 years	2.12	2.15	2.21	2.26	2.19	-0.32	2.32	355.63
Russia	5 years	1.74	1.74	1.82	1.90	1.95	5.68	7.60	-3.39
Saudi Arabia	8 years	2.02	1.98	2.10	2.16	2.21	4.96	8.73	31.33
South Africa	9 years	3.99	4.13	4.29	4.47	4.48	0.13	6.32	33.93
Turkey	7 years	5.33	5.70	6.07	6.13	6.12	-0.43	5.08	125.21
Ukraine	8 years	6.09	6.01	6.40	6.75	6.70	-4.84	9.00	74.86
Abu Dhabi	6 years	1.36	1.39	1.61	1.63	1.82	19.08	20.28	57.87
Dubai	8 years	2.51	2.50	2.55	2.55	2.59	4.31	3.68	-0.63

EM EMEA equity market (index)

	08-Oct	15-Oct	22-Oct	29-Oct	05-Nov	12-Nov	Change (%) Week	MTD	YTD
Bahrain	1,666	1,660	1,673	1,693	1,703	1,701	-0.13	-0.27	14.18
Czech Rep.	116,677	115,361	113,794	114,064	111,107	112,833	1.55	1.67	-5.20
Egypt	11,114	11,135	11,188	10,499	10,447	10,645	1.90	1.22	-1.84
Greece	917	905	904	894	866	893	3.03	3.15	10.34
Hungary	51,830	52,515	52,318	51,298	52,005	53,956	3.75	2.08	28.32
Israel	1,767	1,773	1,794	1,807	1,794	1,798	0.20	-0.26	19.92
Jordan	2,071	2,058	2,074	2,067	2,073	2,091	0.85	0.85	26.16
Kenya	182	178	180	178	177	176	-0.78	-1.40	15.59
Kuwait	6,813	6,786	6,839	6,845	6,875	6,884	0.13	0.28	24.12
Lebanon	658	658	658	658	658	658	0.00	1.76	51.88
Morocco	10,324	10,360	10,480	10,542	10,733	10,715	-0.17	-0.07	16.60
Nigeria	39,184	39,205	38,968	38,853	38,859	40,868	5.17	1.61	1.48
Oman	3,974	3,970	3,962	3,917	3,952	3,969	0.43	0.67	8.48
Poland	2,371	2,365	2,355	2,334	2,291	2,411	5.24	4.36	21.53
Romania	12,302	12,347	12,288	12,301	12,615	12,818	1.60	1.36	30.72
Qatar	11,096	11,076	11,111	11,178	11,386	11,553	1.46	0.59	10.70
Russia	3,971	4,017	4,066	4,031	4,058	4,238	4.43	3.28	28.85
Saudi Arabia	11,311	11,456	11,411	11,271	11,369	11,566	1.73	0.61	33.10
South Africa	60,613	59,379	58,230	56,938	57,784	58,839	1.83	1.69	8.20
Turkey	1,474	1,434	1,424	1,407	1,392	1,398	0.44	-0.60	-5.33
Ukraine	526	526	526	526	526	526	0.00	0.00	5.30
Abu Dhabi	7,649	7,771	7,824	7,782	7,752	7,730	-0.28	0.41	53.21
Dubai	2,917	2,907	2,885	2,844	2,817	2,774	-1.55	-2.53	11.30

EM EMEA FX against USD*

	08-Oct	15-Oct	22-Oct	29-Oct	05-Nov	12-Nov	Change (%) Week	MTD	YTD
USD Index	92.035	92.582	93.195	93.085	94.035	94.067	0.03	-0.17	4.59
Bahrain**	0.379	0.380	0.380	0.380	0.380	0.379	-0.08	0.05	-0.18
Czech Rep.	21.355	21.448	21.637	21.686	21.834	21.975	0.65	-0.41	-2.28
Egypt	15.699	15.699	15.723	15.699	15.723	15.699	-0.16	-0.16	-0.31
Greece***	1.188	1.181	1.173	1.172	1.160	1.157	-0.23	-0.10	-5.30
Hungary	292.420	296.330	301.050	304.460	308.110	311.730	1.17	-0.42	-4.74
Israel	3.204	3.201	3.208	3.199	3.216	3.231	0.48	-0.22	-0.56
Jordan**	0.711	0.711	0.711	0.711	0.711	0.709	-0.20	0.20	-0.04
Kenya	109.890	109.890	0.009	0.009	0.009	0.009	0.00	0.00	2.22
Kuwait	0.302	0.302	0.302	0.302	0.302	0.302	0.00	0.02	0.55
Lebanon	1,514.89	1,511.52	1,518.51	1,510.67	1,510.67	1,510.25	-0.03	0.10	0.31
Morocco	8.856	8.931	8.984	8.992	9.058	9.056	-0.02	0.04	-1.61
Nigeria	411.620	411.080	412.300	413.310	413.260	413.090	-0.04	-0.01	-3.70
Oman**	0.387	0.387	0.387	0.387	0.387	0.387	0.08	0.00	0.34
Poland	3.757	3.758	3.758	3.759	3.759	3.758	-0.01	0.02	-0.12
Romania	4.162	4.185	4.220	4.225	4.265	4.277	0.28	-0.10	-7.00
Qatar**	3.698	3.696	3.695	3.684	3.681	3.672	-0.25	0.24	0.68
Russia	72.732	73.197	72.879	72.747	72.743	71.876	-1.19	1.22	3.53
Saudi Arabia**	3.757	3.758	3.758	3.759	3.759	3.758	-0.01	0.02	-0.12
South Africa	14.313	14.209	14.718	14.953	14.884	14.928	-0.29	0.94	-1.56
Turkey	8.324	8.472	8.641	8.886	8.859	8.969	-1.23	-0.85	-17.05
Ukraine	3.750	3.751	3.750	3.751	3.751	3.750	-0.01	0.01	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)

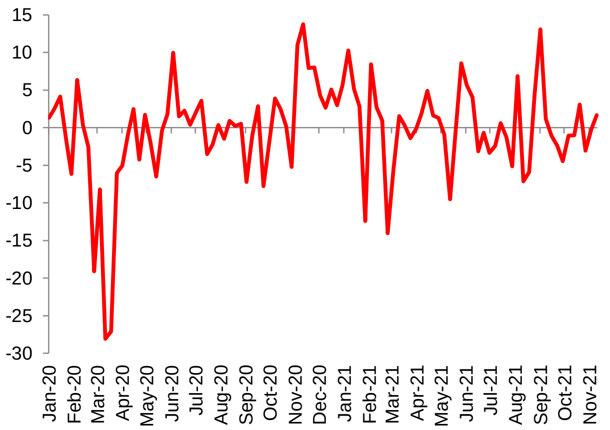
	08-Oct	15-Oct	22-Oct	29-Oct	05-Nov	12-Nov	Change in yield (basis points) Week	MTD	YTD
Bahrain	252.35	257.72	251.18	278.55	288.97	294.90	5.93	11.25	54.08
Czech Rep.	30.16	30.23	30.00	32.97	29.67	34.05	4.38	1.34	-1.69
Egypt	352.20	354.33	368.91	424.97	466.39	466.67	0.28	-13.39	127.63
Greece	73.79	73.07	71.67	75.58	74.51	76.22	1.72	1.29	-25.19
Hungary	51.09	51.11	49.56	53.43	53.77	57.11	3.35	3.24	-3.11
Israel	42.00	40.71	40.05	42.92	43.30	44.47	1.17	0.76	-1.76
Kenya	318.09	312.19	314.12	320.71	354.12	370.22	16.10	16.13	28.94
Kuwait	50.03	49.30	47.80	51.03	49.96	50.65	0.69	-3.31	6.42
Morocco	101.32	100.04	100.40	103.92	106.45	106.33	-0.12	0.81	-5.99
Nigeria	364.91	364.86	364.79	383.35	438.73	461.46	22.73	28.16	125.32
Oman	245.01	243.63	236.55	265.35	265.53	267.92	2.39	1.84	-93.68
Poland	48.50	49.09	46.37	50.03	48.72	49.68	0.96	0.19	-8.21
Romania	88.92	88.92	82.88	88.90	95.97	104.30	8.33	8.33	19.42
Qatar	40.73	39.59	39.08	43.64	44.59	44.06	-0.53	0.54	5.64
Russia	77.92	75.94	76.46	86.52	88.87	85.92	-2.95	-1.75	0.00
Saudi Arabia	49.99	48.38	47.23	54.06	53.36	54.23	0.87	1.04	-11.18
South Africa	183.71	180.92	186.24	204.48	212.41	213.80	1.39	0.35	9.62
Turkey	366.80	364.84	386.57	422.76	435.12	437.19	2.07	4.25	132.81
Ukraine	388.32	389.71	380.20	414.89	451.88	433.00	-18.89	-6.08	44.37
Abu Dhabi	40.91	39.56	38.86	43.63	43.94	43.98	0.05	0.75	5.61
Dubai	90.00	87.92	86.65	93.06	94.91	95.53	0.62	-0.05	-16.53

Source: Bloomberg, MUFG Research

EM capital flows

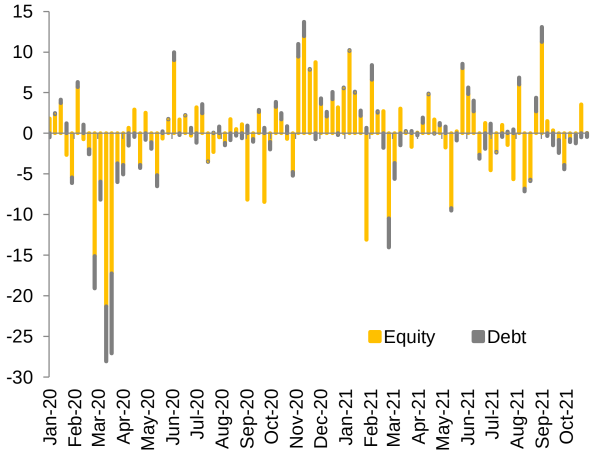
WEEKLY TOTAL EM INFLOWS OF USD1.7BN – 12 NOVEMBER

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



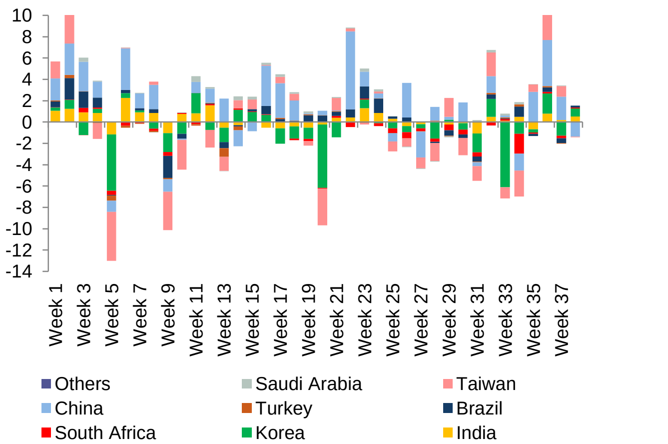
WEEKLY EM INFLOWS FROM EQUITY (USD1.3BN) AND DEBT INFLOWS (USD0.4BN) – 12 NOVEMBER

WEEKLY DEBT AND EQUITY FLOWS (USD BN)



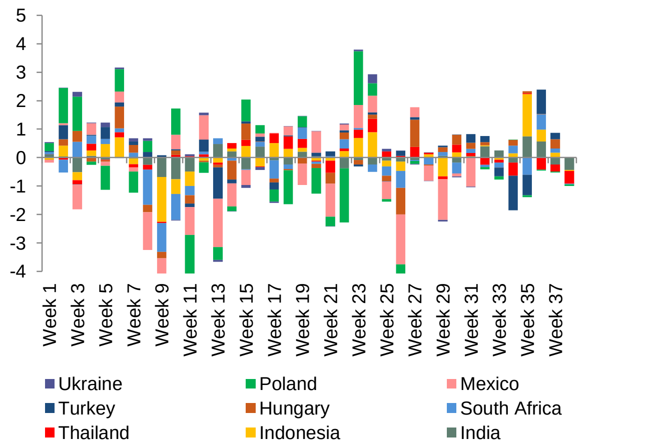
TAIWAN (USD1.1BN) LED WEEKLY EM EQUITY INFLOWS – 12 NOVEMBER

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



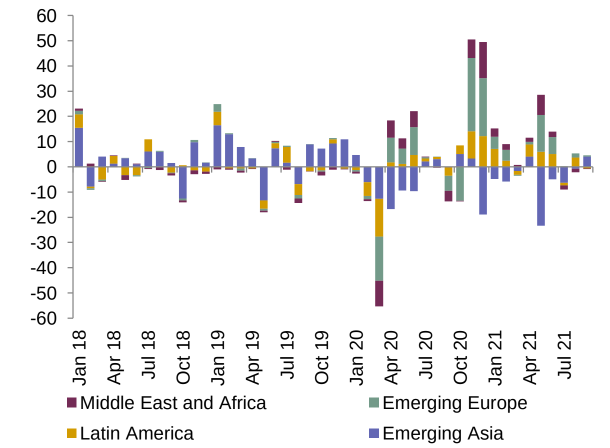
INDIA (USD1.5BN) LED EM DEBT INFLOWS LAST WEEK – 12 NOVEMBER

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



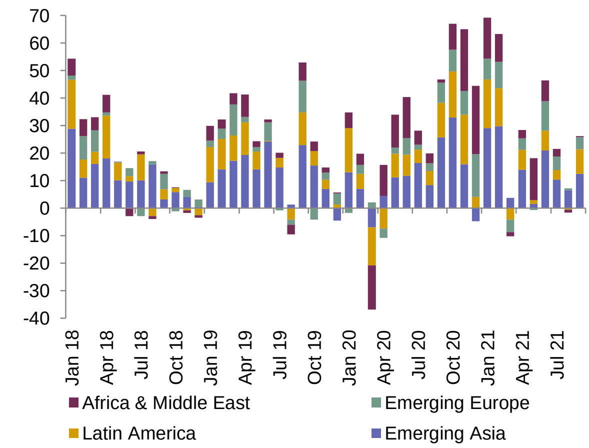
EM EQUITY FLOWS TOTALLED USD3.6BN IN SEPTEMBER, LED BY EM ASIA (USD4.1BN) AND EM EMEA (USD0.5BN)

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



EM DEBT FLOWS TOTALLED USD26.2BN IN SEPTEMBER, LED BY EM ASIA (USD12.5BN) AND LATAM (USD8.9BN)

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



Source: Bloomberg, IIF, MUFG Research

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