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Could early EM rate hikers be wrong in raising rates too fast?

Macro focus: EM's (i) more commodity-intensive CPI baskets relative to DM; (ii) the less willingness of EM central banks to look through non-core inflationary pressures; and (iii) EMs' lower credibility endowment, has all meant EMs' monetary policies have got ahead of DM economies. Whilst EM central banks that hike with conviction may reassure markets, should policy overstate inflationary forces then it could lead to macro-volatility and reversals – we flag those most at risk.

FX views: EM FX weakness accelerated last week touching back within touching distance of the lowest levels against the USD since the initial draconian lockdowns in spring 2020 – a number of Fed officials including Fed Vice Chair Clarida have signalled over the past week the Fed could consider speeding up the pace of QE tapering at the next FOMC meeting, raising taper tantrum risks for EM FX.

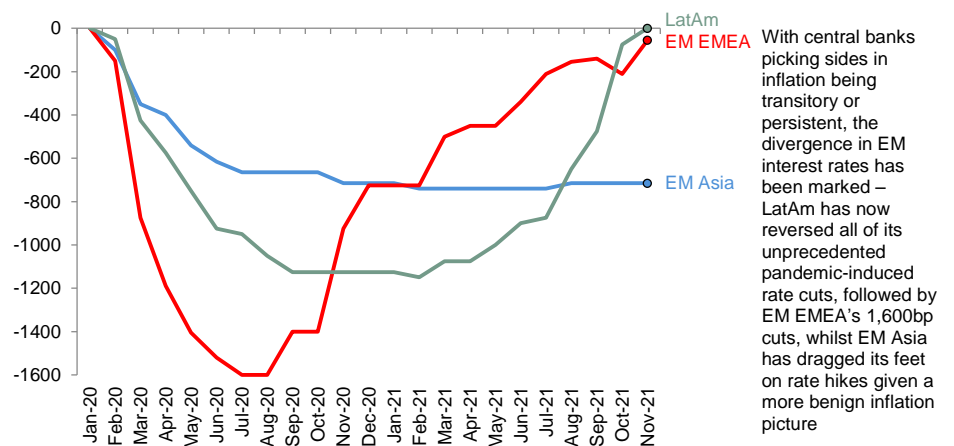
Week in review: Over the previous week, Turkey cut rates by 100bp and hinted at further easing in December, Hungary hiked its one week repo by 30bp and deposit rate by 70bp, South Africa commenced its policy normalisation with a 25bp hike and CEE Q3 2021 GDP surprised to the downside.

Week ahead and calendar: In a thin calendar week ahead, we have Israel's rate decision (on hold at 0.10%) and weekly Russian inflation (which we do not normally preview but do so given the CBR's current sensitivity to this weekly series).

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 continued to flow back into EMs last week (USD0.9bn) with risk-on sentiment spurring investors preferences towards riskier equities over bonds.

CHART OF THE WEEK: EM INTEREST RATE HIKING DIVERGENCE CONTINUES
 CUMULATIVE CHANGES IN POLICY INTEREST RATES (BASIS POINTS), REBASED 0 = JANUARY 2020



Source: Bloomberg, EM Central Banks, MUFG Research

Macro focus

Could early EM rate hikers be wrong in raising rates too fast?

Whilst a central bank that hikes with conviction may reassure markets, the exercise is not straightforward and not without risks

The sharp acceleration in commodity (energy and food) prices, base effects and reopening reverberations (i.e., one-off price increases in the sectors that have been most affected by lockdowns), has pushed EM inflation sharply higher this year. This has propelled a host of EM central banks, predominantly in LatAm and EM EMEA, into tightening mode, with the current hiking pace being faster and more front-loaded than previous cycles. Whilst a central bank that hikes with conviction may reassure markets by confronting inflationary forces and supporting capital inflows, the exercise is not straightforward and not without risks.

We have catalogued a length prospects for EMs stemming from higher inflation and a rise in DM rates from a multitude of angles

We have catalogued at length prospects for EMs stemming from higher inflation and a rise in DM, notably Fed, rates from a multitude of angles. To recap, we have examined the implications of higher US inflation for EMs (see [here](#)), how EM central banks are navigating the spike in domestic inflation (see [here](#)), which ones are turning more hawkish on rates to stymie inflationary pressures (see [here](#)) and the impact on each EM asset class from higher US rates (see [here](#)). What's more, we have deliberated why we believe this time around the Fed's tapering strategy will lead to more "tension" than "tantrum" across EMs (see [here](#)), and in related vein we have analysed the scale and magnitude of the Fed's tapering strategy on the pace of growth in global liquidity and in-turn EM fund flows (see [here](#)). Finally, we most recently examine the impact of EMs stemming from an earlier Fed tightening strategy in light of a slowdown in EM growth (see [here](#)).

Gauging whether EM hikers have been right in front-loading monetary policy

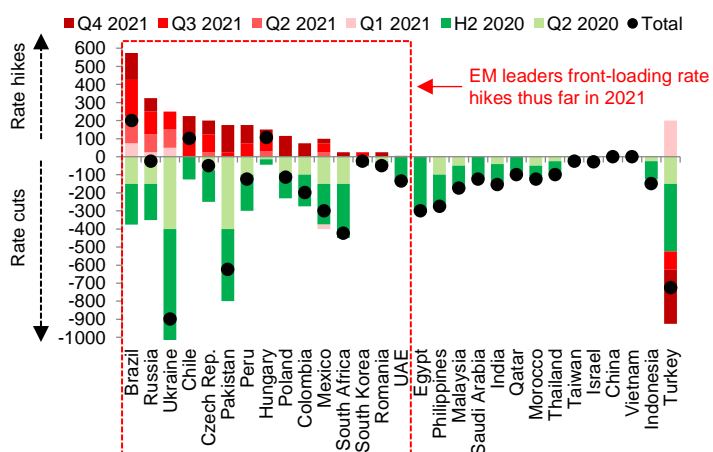
We build on the series of the implications of EMs from higher inflation and rates this week by examining whether those EM central banks that have been front-loading rate hikes could be overstating inflationary forces. It is largely expected that EM monetary policies will be ahead of developed markets (DM) in the context of rising price pressures given their (i) more commodity-intensive CPI baskets relative to DM; (ii) the less willingness of EM central banks to look through non-core inflationary pressures; and (iii) EMs' lower credibility endowment. In this context, we endeavour to gauge whether early EM hikers have been right in front-loading monetary policy.

LatAm and EM EMEA lead, EM Asia lag on current higher rates

EM monetary policy leaders – those in the camp of front-loaded rate normalisation paths by initiating rate hikes early and at a speed of tightening that has been in line

MONETARY POLICY NORMALISATION IS INCREASINGLY TAKING HOLD ACROSS EM'S WITH MARKED LEADERS

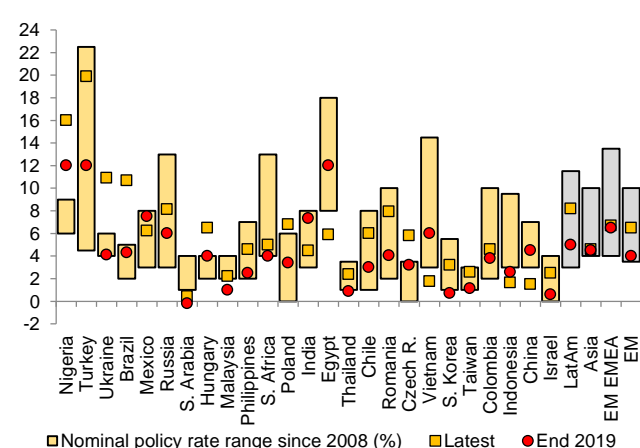
CHANGE IN EM INTEREST RATES BY TIME PERIOD (BASIS POINTS)



Source: Bloomberg, EM Central Banks, MUFG Research

EM INFLATION REMAINS CLOSE/ABOVE TARGET – EM CENTRAL BANKS HAVE BEEN PROACTIVE TO HIKE

EM INFLATION (% Y/Y), CENTRAL BANK TARGET RANGE (%)



Source: Bloomberg, EM Central Banks, MUFG Research

with historical hiking cycles – have mostly been rewarded by markets with risk assets performing well. In EM EMEA, the Czech Republic, Hungary, Russia, Ukraine are already several months into their hiking cycles, with Poland recently (and aggressively) joining the camp. For LatAm, Brazil remains the standout EM, proactively hiking since March. Also, Mexico, Chile, Colombia and Peru have all turned to hikes following hawkish impulses. Meanwhile, a more benign inflationary backdrop has meant that EM Asia (bar South Korea) have had the space to be more patient by maintaining rates in this cycle – though we believe EM Asia will join the march to higher rates in 2022.

Stagflation trepidation is top of mind and with it the assessment of the output gap in the context of disinflationary pressures

With stagflation trepidation – portmanteau of slowing growth and rising inflation – increasingly top of mind for EM (see [here](#)), how central banks should react to a slowdown in GDP is a major challenge for central banks. With our expectations that EM real GDP growth will slow from 6.7% in 2021 to 5.3% next year, the anticipation is that declines in output will be disinflationary. However, as a large share of the declines in output are related to supply considerations, this challenges the output gap as an indicator of inflationary pressures.

FX and fiscal considerations are also pivotal to EM central banks reaction functions

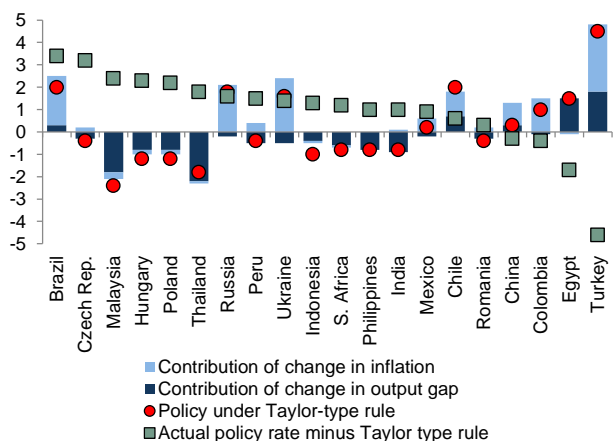
Part of the reaction function of EM central banks beyond inflation has been their responses to currency depreciations. Brazil, Russia and Ukraine have acted resolutely given the extent of the depreciation in their currencies. Meanwhile, Turkey, Colombia and Thailand have been the least reactive. Beyond the currency, there are instances when markets are apprehensive about the sensitivity of EM's fiscal position that policymakers are forced to respond. Given the impact of the pandemic on government finances, such a transmission mechanism is vital across EM central banks. The evidence suggests that Brazil, South Africa and Mexico are most vulnerable to such developments in the context of rate hikes.

Our examinations finds Czech republic as a core EM which is most at risk of hiking rates too fast, whilst Brazil's fiscal vulnerabilities also leave it exposed

Whilst EM central banks that hike with conviction may reassure markets, should policy overstate inflationary forces then it could lead to macro-volatility and reversals. Our examination leads us to conclude that the Czech Republic – which has been one of the leading EM EMEA countries in normalising policy – is most at risk where policy not only exceeds the neutral rate, but the current hawkish rhetoric will likely lead to further rate hikes in the months ahead. Separately, despite being the first EM central bank to hike rates this year, Brazil's acute fiscal vulnerabilities may not compensate the market's comfort drawn from raising rates early. Finally, EMs that have been late to the party and have yet to commence policy normalisation, such as Egypt, investors remain sufficiently compensated in the context of the risk-reward value proposition.

A GREATER VARIATION IN EM POLICY RESPONSES THAN SHIFTS IN MACRO CONDITIONS WOULD PREDICT

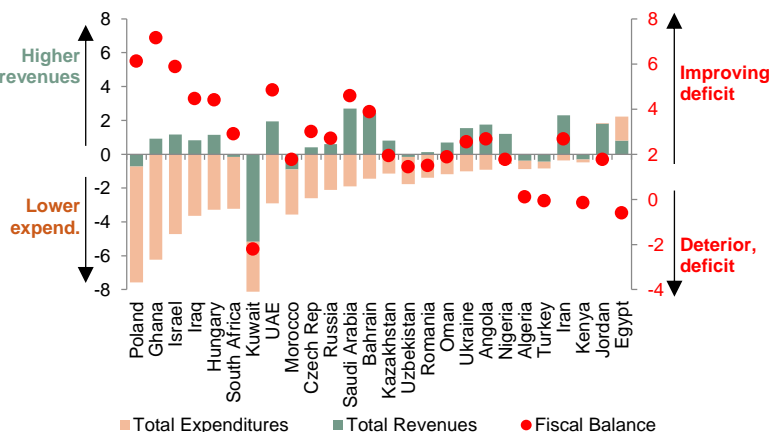
EM MONETARY POLICY RATES RELATIVE TO TAYLOR TYPE RULE (%)



Source: Bloomberg, Oxford Economics, MUFG Research

EM FISCAL DEFICITS WILL REMAIN SEQUENTIALLY TIGHTER IN 2021

CONTRIBUTIONS OF EXPENDITURES AND REVENUES TO CHANGE IN FISCAL DEFICITS, PP CHANGE FROM 2020 TO 2021 (% OF GDP)



Source: Bloomberg, EM Statistical Offices, MUFG Research

FX views

EM FX: Downside risks for EM FX continue to build

EM FX sell off accelerates as lows from last year come back into view.

Emerging market currency weakness has accelerated over the past week resulting in our EM FX index against the USD falling back to within touching distance of the lowest levels since the initial negative COVID shock from March and April 2020. EM FX weakness has been broad-based but has been particularly acute for the TRY (-10.2% vs. USD), CLP (-3.9%), ZAR (-3.4%), BRL (-2.7%), PLN (-2.4%), RUB (-2.1%), HUF (-1.8%) and CZK (-1.7%). Emerging market currencies continue to face headwinds from the ongoing hawkish Fed policy shift.

Fed signals faster QE taper is under consideration increasing risk of taper tantrum like hit to EM FX.

A number of Fed officials including Fed Vice Chair Clarida have signalled over the past week that the Fed could consider speeding up the pace of QE tapering at the next FOMC meeting on 14/15th December. It increases the risk that EM FX could be hit by another taper tantrum like event. Recent data releases have provided reassurance that the US economy is rebounding strongly after the slowdown in Q3, and inflation is set to surprise significantly to the upside in Q4. It provides encouragement for market participants to price in more Fed hikes into 2022. President Biden is also expected to announce his pick for Fed Chair in the week ahead. Incumbent Jerome Powell remains the favourite for a 2nd term. A surprise decision though to pick Fed Governor Lael Brainard could at least offer some temporary relief for EM FX.

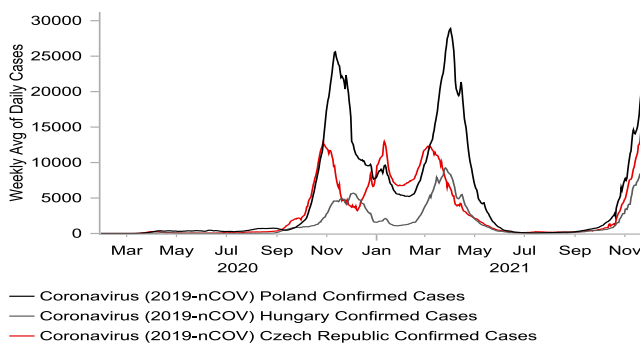
CBRT leaves TRY in free fall. Spill-over risks limited so far. Geopolitical tensions between Russia and the West are back in focus as well.

The accelerated sell-off for EM FX has been reinforced by negative risk events in emerging markets. The CBRT's decision to continue lowering rates and to signal further cuts are on the table at their next meeting in December have seen the TRY remain in free fall. We remain wary of negative spill-overs to other EM FX especially other high yielders if the situation continues to intensify although the impact has been mainly Turkey-focused so far. At the same time, geopolitical risks between Russia and the West have re-heightened and pose some downside risks for EM FX. The RUB is in the process of pricing back in a higher geopolitical risk premium.

Sharp pick-up in COVID cases heading into winter adds to downside risks for Central European currencies.

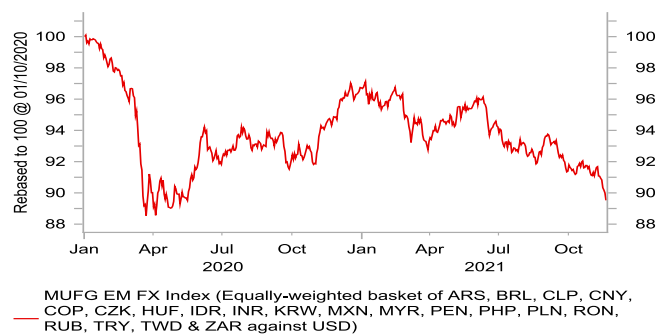
The rising tensions between the West and Russia could already be having some negative spill-over impact on central European currencies as well. They are also facing downside risks from recent domestic COVID developments. New cases in the region have surged higher over the past month, and have now reached their highest levels in the Czech Republic since the pandemic started. Market participants have become fearful that restrictions on activity will need to be tightened more significantly over the winter. Even last week's decision from the NBH to tighten policy more aggressively has failed to prevent the HUF falling to a record low against the EUR.

COVID CASES PICKING UP SHARPLY IN EUROPE



Source: Bloomberg, Macrobond & MUFG Research

EM FX IS TESTING COVID LOWS FROM 2020



Source: Bloomberg, Macrobond & MUFG Research

Week in review

EM capital flows: equities remain the most preferred asset class

Inflation continues to be the major concern across EMs with aggressive rate hikes ongoing

Inflation continues to be the major concern across EMs. Price pressures remain high, given persisting supply chain problems, higher food and energy prices, as well as the lagged impact from the increase in producer prices. The deterioration in inflation outlook has already led to a normalisation of monetary policy with cumulative rate hikes by EM central banks totalling ~2000bp since the beginning of the year. Most recently, South Africa joined the tightening club with the central bank hiking its policy rate (by 25bp) for the first time since December 2018. The only exception in policy normalisation is Turkey, where the central bank cut the policy rate for the third consecutive month last week, and signalled its easing cycle might end next month. Meanwhile, current market pricing signals EM central banks are not done with rate hikes in the near term with market-implied policy rates demonstrating investors expecting the aggregate EM policy rate to rise a further 200bp over the next 12 months, which, if realised, would be the most aggressive tightening cycle of the last decade.

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 USD0.9bn driven solely by equity flows with debt flows flat. From a 28 day rolling average perspective, EM equity and bond flows have now pivoted into positive territory for the last eight trading days. Meanwhile, from an asset class performance perspective, all metrics continue to point to underperformance year-to-date bar EM FX – a testament that conditions remain less favourable across the EM complex.

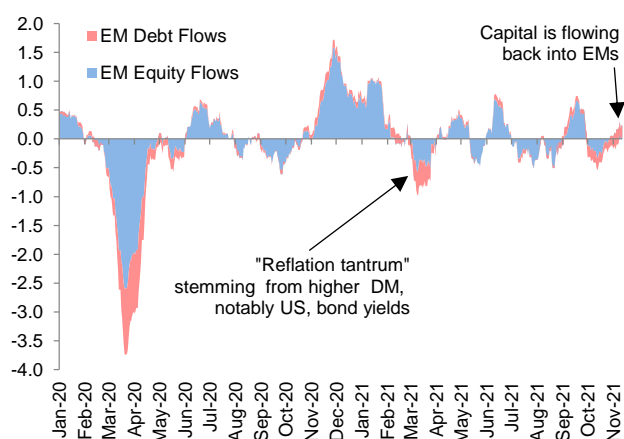
Turkey: CRBT cuts rates by 100bp and hints at further easing in December

Turkey eases rates by 100bp – in line with our (and consensus) expectations, taking rates to 15.00%

The Central Bank of Turkey (CBRT) cut its policy rate by 100bp to 15.00%, in line with our (and consensus) expectations. In justifying its rate cut, the CBRT once again referred to its analyses that demand factors affected by monetary policy are only partially contributing to current inflation, core inflation developments and supply shocks. The CBRT's assessment of the inflation outlook was little changed from last month, with the rate setters once again arguing that the recent acceleration in inflation is likely to be largely transitory as it is driven by supply-side constraints, increases in food, energy, and administered prices, as well as demand developments. The policymakers expect the temporary effects to fade only in Q3

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

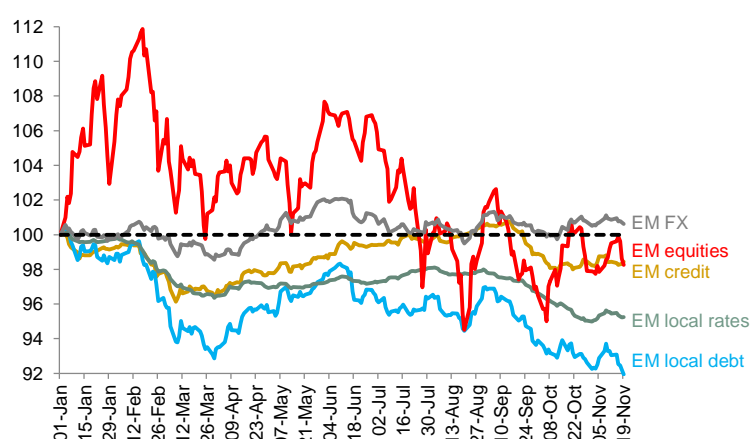
EM EQUITY AND DEBT FLOWS (USD BN), 28 DAY ROLLING AVERAGE



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

2022. In line with this, the CBRT amended its forward guidance to signal that the easing cycle might end next month. On net, the CBRT has pushed through 400bps of easing over the past three months and appears to feel comfortable cutting rates in an environment where inflation is close to 4x the official 5% target, the Turkish Lira (TRY) is under growing acute market pressure, global inflationary pressures continue to mount, and a large number of EM peers are tightening policy.

Turkey to ease by another 100bp taking policy rates to 14.00% next month

Our base case is that the authorities' preference for low rates will bring another 100bp of cuts in December to bring to an end the current easing cycle at 14.00%. However, we believe that the current policy easing bias is not manageable with accommodative monetary policy at a time when inflation is running 4x above the official target strengthening demand-led price pressures, causing fresh cost-led pressures through a weaker TRY and in-tandem creating stronger inflation inertia through higher inflationary expectations. Indeed, 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. We believe that policy rates should be increased as output is already above capacity and with the ex-ante real policy rate already sharply negative – given a policy rate of 15.00% against 12 month ahead inflation expectations of 15.8% y/y – this increases dollarisation and financial stability risks.

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

Paradoxically, the authorities desired effects of a credit fuelled at all cost strategy through lower rates may swiftly translate into inflation rather than growth through a vicious cycle wherein inflation spirals into such high levels that spurs an increase in dollarisation and TRY depreciation. We believe that the breakout of this feedback loop to only transpire with higher rates, and base case 300bp in hikes in H2 2022 (taking the policy rate from 14.00% to 17.00%), in parallel with the commencement of Fed rate hikes. Ultimately, this will 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.

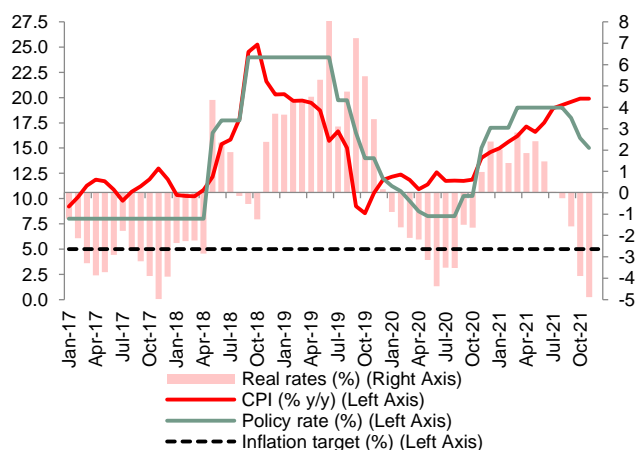
Hungary: MNB hikes one week repo by 30bp and deposit rate by 70bp

Hungary raises rates with further hikes firmly on the table

The National Bank of Hungary (MNB) stepped up its tightening pace to 30bp (taking the policy rate to 2.10%), in line with consensus, but undershooting our forecast for a 70bp hike. The MNB's statement remained hawkish, guiding for a longer hiking cycle

CBRT HAS CUT RATES BY 400BP IN THREE MONTHS WITH REAL RATES NOW DEEP IN NEGATIVE TERRITORY

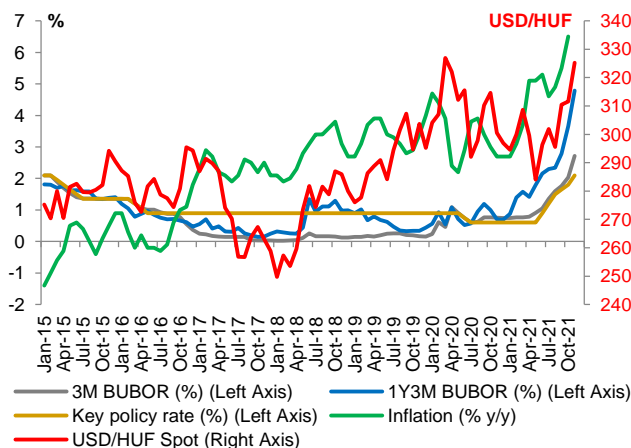
TURKEY NOMINAL AND REAL RATES (%) VS. INFLATION (% Y/Y)



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

given stronger than expected inflation data and that inflationary risks remained skewed to the upside. The MNB also signalled that further tightening will proceed at a monthly pace until the inflation outlook stabilises and inflationary risks become balanced. Separately, the MNB increased its one week deposit rate on 18 November, currently the marginal rate anchoring short-term rates, by 70bp to 2.50%, 40bp higher than it set its policy rate (2.10%). The deviation is not a surprise – at the 16 November meeting the MNB had indicated that it would raise the deposit rate above the policy rate in response to “external market risk” (i.e., to counteract the recent depreciation pressures on the Hungarian Forint [HUF]). Looking ahead, our forecast signals that the MNB will raise its policy rate to 3.00% by Q2 2022, and we anticipate the magnitude of which the MNB tightens a function of the short-term inflation trajectory and the HUF.

South Africa: SARB commences policy normalisation with a 25bp hike

South Africa commences its rate hiking cycle with a 25bp increase to 3.75%

The South African Reserve Bank (SARB) hiked its policy rate by 25bp to 3.75% in a split 3-2 decision among Monetary Policy Committee (MPC) members, in line with our expectations – consensus forecast was evenly split between on hold and a 25bp hike. The MPC’s inflation forecast revisions were moderate (the headline forecast for 2022 was raised from 4.2% to 4.3% and core decreased from 3.8% to 3.7%) and all remain below the midpoint of the 3-6% target range. This is despite a hawkish shift in assumptions and a much less benign global inflationary backdrop. The statement’s tone was relatively balanced, juxtaposing a moderate domestic inflation outlook (albeit with risks tilted to the upside) and a subdued medium-term growth outlook (with risks to the downside) against a pro-inflationary external environment. Looking ahead, we forecast a further 75bp hike in rates next year, taking the policy rate to 4.50% – we are more dovish than the SARB’s models (rates rising to 5.17% in 2022).

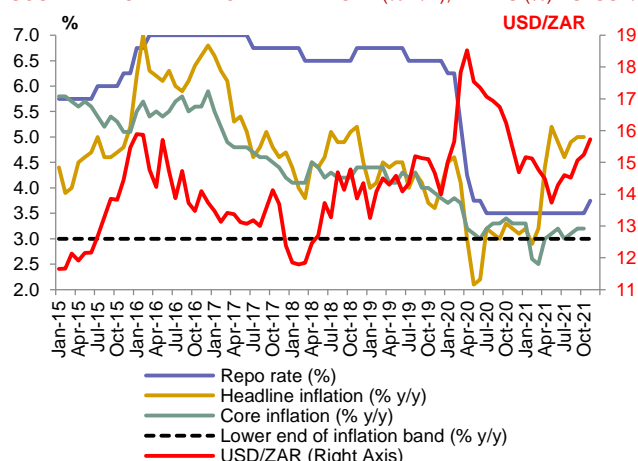
CEE: Q3 2021 surprises to the downside in Hungary and Romania

Downside Q3 2021 GDP surprises in Hungary and Romania

According to the flash estimates, GDP has continued to expand on a sequential basis in Hungary and Romania in Q3 2021, although the pace has slowed down considerably and surprised expectations to the downside. In Hungary, GDP grew by 6.1% y/y in Q3, below our (7.8%) and consensus expectations (7.3%). In Romania, Q3 GDP grew by 7.2% y/y, surprising our (9.6%) and consensus (9.7%) expectations to the downside. Growth in these two economies was weaker in Q3 than elsewhere in the CEE region, though looking at the pattern of growth since the trough in Q2 2020, Poland, Hungary and Romania have all recovered relatively rapidly, while the Czech Republic has lagged significantly.

SOUTH AFRICA HIKES RATES FOR THE FIRST TIME IN THREE YEARS TO COUNTER ELEVATED INFLATION

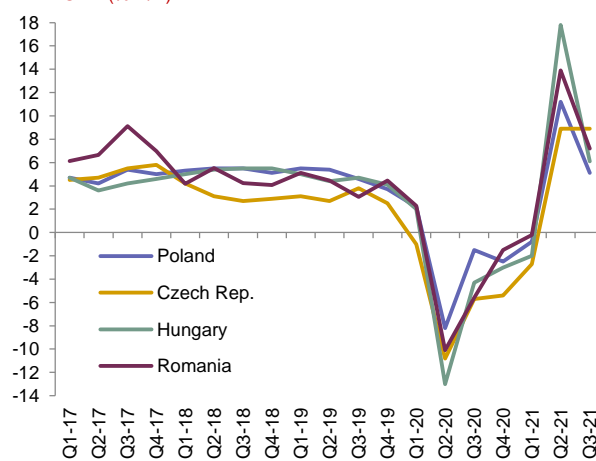
SOUTH AFRICA INFLATION AND TARGET (% Y/Y), RATES (%) VS. USD/ZAR



Source: Bloomberg, SARB, MUFG Research

Q3 GDP SURPRISES TO THE DOWNSIDE IN HUNGARY AND ROMANIA BUT RECOVERY IS STRONG IN THE CEE

REAL GDP (% Y/Y)



Source: Bloomberg, CEE Official Statistics, MUFG Research

Week ahead

Israel: Bol to leave policy rates on hold at 0.10%

Israel to maintain rates at 0.10%








The Bank of Israel (BoI) is expected to leave rates on hold at 0.10% when it meets on 22 November. Since the last Monetary Policy Committee (MPC) meeting, the October inflation reading suggested a 0.2pp decline in the headline rate to 2.3% y/y, Q3 2021 GDP has surprised to the downside and the Israeli Shekel (ILS) has appreciated more than 5% in nominal terms. The confluence of these factors signals an unlikely change in stance with rates firmly on hold. Looking ahead, we expect inflation to remain elevated for the next three months, before falling below the midpoint of the BoI's 1-3% inflation target range by H2 2022.

Russia: weekly inflation readings to offer guidance on the underlying rate

Russian inflation

Russia will publish its weekly headline inflation print and breakdown on 24 November and, while we normally do not preview the weekly prints, there is currently an unusual degree of focus on these releases given the Central Bank of Russia's (CBR) sensitivity to inflation dynamics. If the momentum remains the same as last week with higher readings continuing, then this would suggest a headline inflation reading north of 8% y/y in November, spurring upside risks to the 25bp of risk we forecast next month.

Weekly calendar

| | Country | Day | GMT | Indicator/Event | Period | MUFG Forecast | Consensus | Previous | Market Moving |
|---|---------|------------|-------|------------------------------|--------|---------------|-----------|----------|---------------|
|  | Ghana | 22/11/2021 | --- | Monetary policy meeting (%) | Nov | 14.50% | 14.50% | 14.50% | !! |
|  | Israel | 22/11/2021 | 14:00 | Monetary policy meeting (%) | Nov | 0.10% | 0.10% | 0.10% | !!! |
|  | Nigeria | 23/11/2021 | --- | Monetary policy meeting (%) | Nov | 11.50% | 11.50% | 11.50% | !! |
|  | Poland | 23/11/2021 | 09:00 | Retail sales, % | Oct | --- | 12.8% | 11.1% | !! |
|  | Russia | 24/11/2021 | 16:00 | Industrial production, % y/y | Oct | --- | 5.8% | 6.8% | !! |
|  | Russia | 24/11/2021 | 16:00 | CPI, % y/y (weekly) | 22-Nov | --- | --- | 0.18% | !! |
|  | Poland | 25/11/2021 | 09:00 | Unemployment, % | Oct | --- | 5.5% | 5.6% | !! |

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 | 22-Oct | 29-Oct | 05-Nov | 12-Nov | 19-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)

| | | 15-Oct | 22-Oct | 29-Oct | 05-Nov | 12-Nov | 19-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*

| | | 15-Oct | 22-Oct | 29-Oct | 05-Nov | 12-Nov | 19-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)

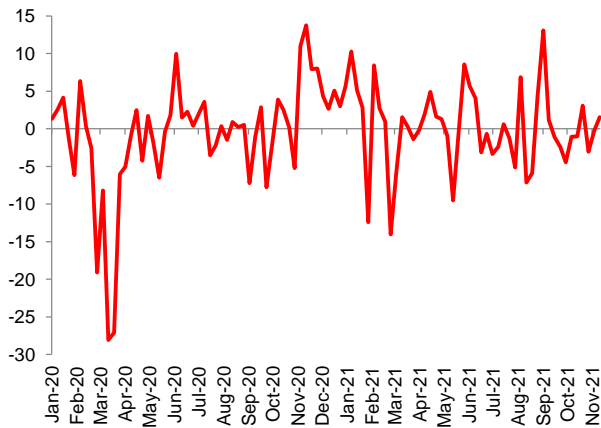
| | | 15-Oct | 22-Oct | 29-Oct | 05-Nov | 12-Nov | 19-Nov | Change in yield (basis points) | | |
|--|--------------|--------|--------|--------|--------|--------|--------|--------------------------------|--------|--------|
| | | | | | | | | Week | MTD | YTD |
| | Bahrain | 252.35 | 257.72 | 251.18 | 278.55 | 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

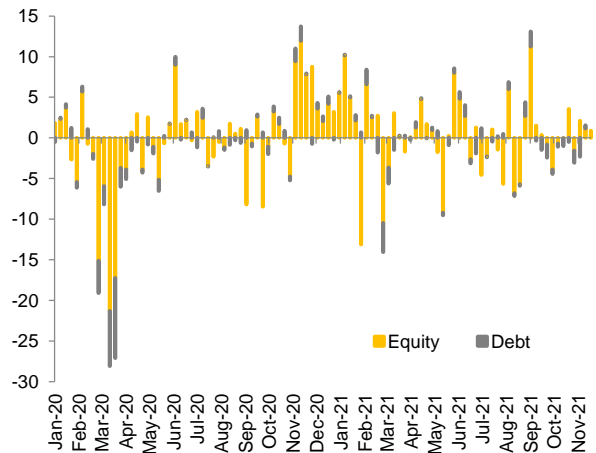
WEEKLY TOTAL EM INFLOWS OF USD0.9BN – 19 NOVEMBER

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



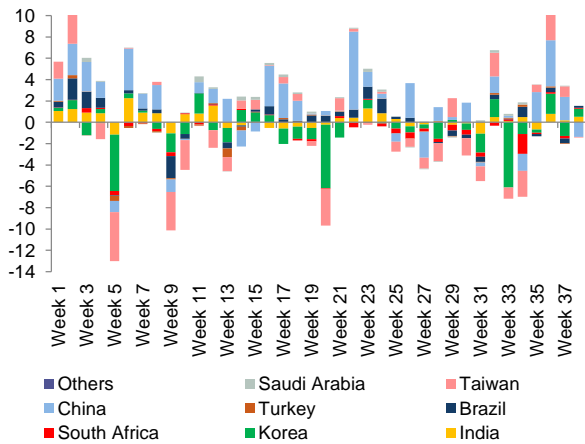
WEEKLY EM INFLOWS FROM EQUITY (USD1.3BN) AND DEBT INFLOWS (USD0.4BN) – 12 NOVEMBER

WEEKLY DEBT AND EQUITY FLOWS (USD BN)



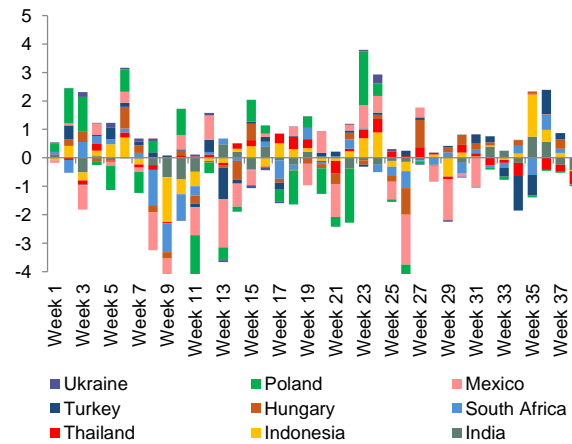
TAIWAN (USD1.1BN) LED WEEKLY EM EQUITY INFLOWS – 12 NOVEMBER

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



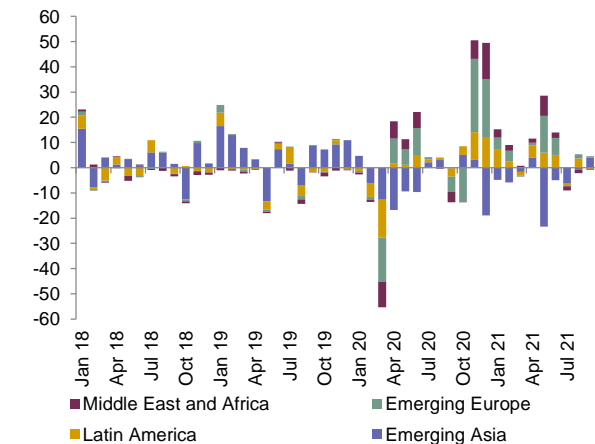
INDIA (USD1.5BN) LED EM DEBT INFLOWS LAST WEEK – 12 NOVEMBER

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



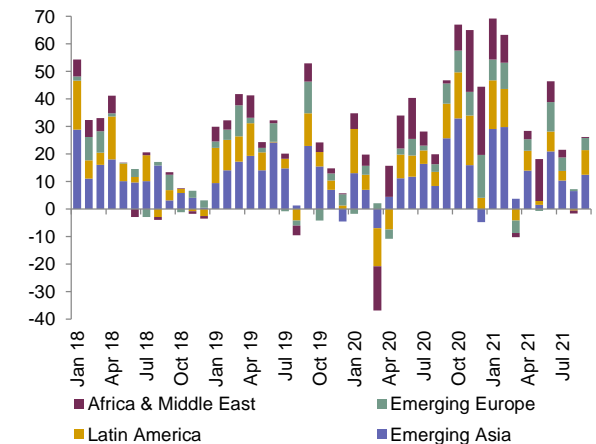
EM EQUITY FLOWS TOTALLED USD3.6BN IN SEPTEMBER, LED BY EM ASIA (USD4.1BN) AND EM EMEA (USD0.5BN)

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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