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**MUFG Bank, Ltd.**

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## 2021 EM review: stagflation trepidation

**Macro focus:** Nobody thought it would be easy, but it is hard to imagine 2021 ending up so challenging for EMs, with stagflation trepidation – portmanteau of slowing growth and rising inflation – top of mind for the best part of the year. Risk sentiment has been on a rollercoaster ride for months, faced with a myriad of challenges such as continued COVID-19 headwinds, downside growth risks, rising inflation and inflation volatility, a less supportive global liquidity backdrop, the tapering of asset purchases by developed market central banks, a lower gear in China, a resurgent US dollar, inexorably elevated commodity prices and a leg up in core bond yields.

**FX views:** Our EM FX baskets hit new record lows vs the USD in 2021. Fed policy expectations have proven to be a consistent headwind for EM FX performance for most of this year. However, broad-based EM FX weakness does though mask a vast divergence in performance between the best and worst performing EM currencies, with CNY and RUB best performers whilst TRY and LatAm have underperformed.

**Trading views:** Our first take for trades in 2022 suggests that the EM complex continues to be bearish with bullish motivations scarce for next year. That provides us with a good reason to be bullish as no one is expecting a good year in EM.

**Week in review:** Over the previous week, Poland hikes rates (+50bp), S&P revised Turkey's outlook from stable to negative, inflation in November eased in Egypt (5.5% y/y) but rose in Russia (8.4% y/y) and the Czech Rep. (6.0% y/y) and South Africa's Q3 GDP (-1.5% q/q) surprised to the downside.

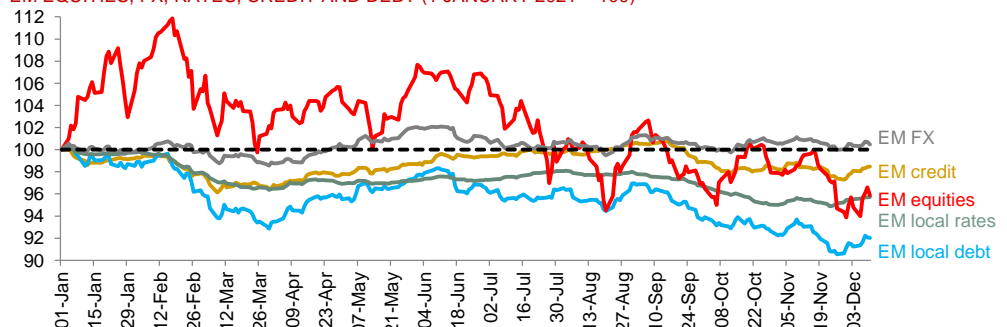
**Week ahead and calendar:** For the week ahead and the rest of 2021, we have rate decisions in Hungary (+40bp), Turkey (-100bp), Russia (+100bp), Egypt (on hold) and Czech Rep. (+50bp), as well as South Africa inflation (5.7% y/y) for November.

**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:** Investors preference has been to favour DM over EM in 2021, due to a worsening inflation-growth trade off, and shifts in the global rates outlook.

### CHART OF THE YEAR: ALL EM ASSETS (BAR FX) UNDERPERFORMED IN 2021

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



Source: Bloomberg, MUFG Research

# Macro focus

## 2021 EM review: stagflation trepidation

### MOMENTUM IN EM HAS BEEN WITH THE BEARS IN 2021

Our (and markets) bullish expectations for EMs at the outset of 2021 has been increasingly trimmed

Stagflationary pressures continue to remain front and centre

As we near the end of 2021, EM growth has turned more challenging (and more heterogeneous) than at the outset of the year. Monetary and fiscal policy has played a vital role in supporting growth since the onset of the virus but with policy tightening, these tailwinds are turning into headwinds. Inflation has been driven sharply higher across many EMs by a confluence mix of higher commodity prices, base effects, re-opening reverberations and fast-recovering developed markets (DM) demand.

The fear of stagflation – the worrisome mix of slowing growth and rising inflation – crept into conversations as inflation reaches ten year highs in many EMs, and comparisons with the 1970s are rife. Negative supply-side shocks, of which we are increasingly experiencing, are particularly taxing for EMs. The pressure continues to build against a backdrop of global trade tensions and virus-related disruptions in supply-chains, but also the spike in commodity prices – which are especially inflationary in EMs – and the tightening in global liquidity as DM central banks head towards normalisation of ultra-loose monetary policy.

### ECONOMIC GROWTH: MULTIPLE NEGATIVE SUPPLY SHOCKS

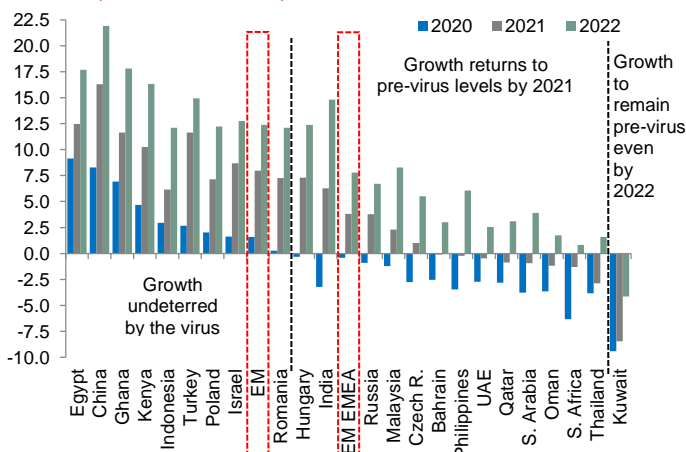
Headwinds abound surrounding economic growth

EMs have been fronting multiple supply-side shocks in 2021. Such supply pressures are stagflationary with more volatile inflation dynamics, sizable funding needs and limited room to boost growth, notably at this point in the cycle. Whilst an imperfect comparison, markets have drawn parallels with the 1970s, marked by a series of oil shocks, leading to sharp price rises, as well as disruptions to energy supply. Throughout 2021, however, the negative supply shocks have been more broader:

1. **Retrogressive globalisation trends and trade tensions.** Long running trade frictions between the US and China which were already present prior to COVID-19, have caused higher production costs. Also, our examination suggests that there is a negative correlation between the level of trade openness and inflation, implying that the lower the level of trade openness

### DESPITE EM RETURNING TO PRE-VIRUS GDP GROWTH LEVELS, THERE REMAINS LARGE HETEROGENEITY

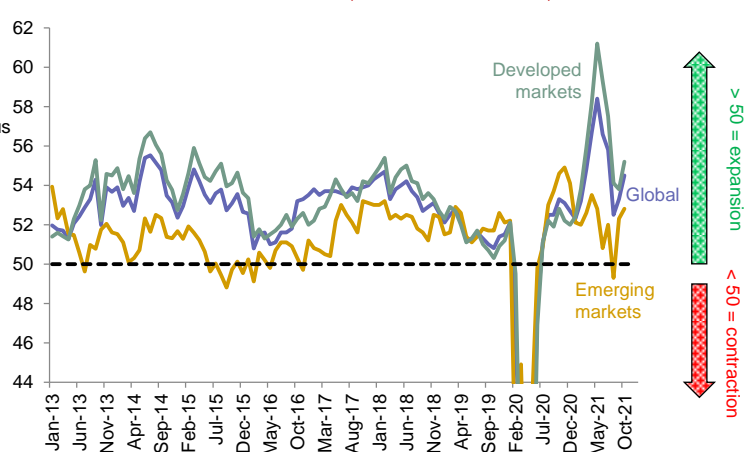
REAL GDP (% CHANGE VS 2019)



Source: EM Statistical Offices, IMF, MUFG Research

### GLOBAL PMI'S NOTABLY EM'S HAVE BEEN HIT HARD BY PANDEMIC-RELATED SUPPLY DISRUPTIONS

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



Source: Google, ourworldindata.org, MUFG Research

- (which has been the case for EMs as a whole since 2010), the higher the level of price pressures on average (given more integrated supply chains).
- COVID-19 supply disruptions.** There has been a shortages of both goods and labour across a broad range of EM sectors for months, which has forced factories to halt production temporarily, as well as extended the delivery times not only in DM but also in EM (as highlighted in the latest PMI supplier delivery times component).
  - Rising commodity prices.** Whilst higher commodity prices have been a boon for EM commodity exporters, an increasing risk lies in inflation and on external positions for energy importers given that the share of energy remains relatively high in CPI baskets.
  - From tailwinds to headwinds for monetary and fiscal policies.** Monetary and fiscal policy played an important role in supporting growth in EM economies last year and the early part of this year. However, as this easing has begun to go into reverse, these tailwinds will turn into headwinds for most EMs, dragging on growth rates in 2022.
  - Less supportive global liquidity backdrop.** The decelerating pace in global liquidity – measured by the growth in the balance sheets of the Fed, ECB, BoJ and BoE – will become less supportive for EMs through weakening capital inflows (with a 9 to 12 months lag according to our estimates), alongside tighter financial conditions and weaker economic activity.

### INFLATION: SIGNIFICANTLY HIGHER FOR PERSISTENTLY LONGER

Inflation has been the dominant theme in 2021

Headline inflation rates have been driven sharply higher across EMs this year by a potent combination of higher commodity prices (both food and energy), base effects and re-opening reverberations (i.e., one-off price increases in the sectors that have been most affected by lockdowns). This has led CPI reaching its near-highest levels since 2010 for most major EMs, with the only real exceptions coming from Asia, where price pressures remain broadly muted, given the weaker consumption dynamics. We expect inflation in most EMs to peak towards the end of 2021 or in early 2022 due to base effects from commodity prices turning deflationary, easing supply-chain bottlenecks and fading impact of the reopening of economies.

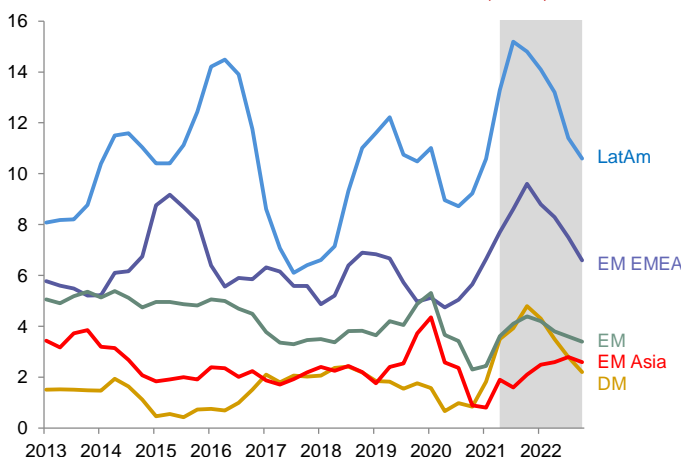
### MONETARY POLICY: MORE MATURE TIGHTENING CYCLE

Policy tighten has been broadening

EM rates turned higher early in 2021, and over the past year we have witnessed a

#### MARKED DIVERGENCE IN INFLATION ACROSS EM BUT ALL BAR EM ASIA WILL LIKELY PEAK IN Q1 2022

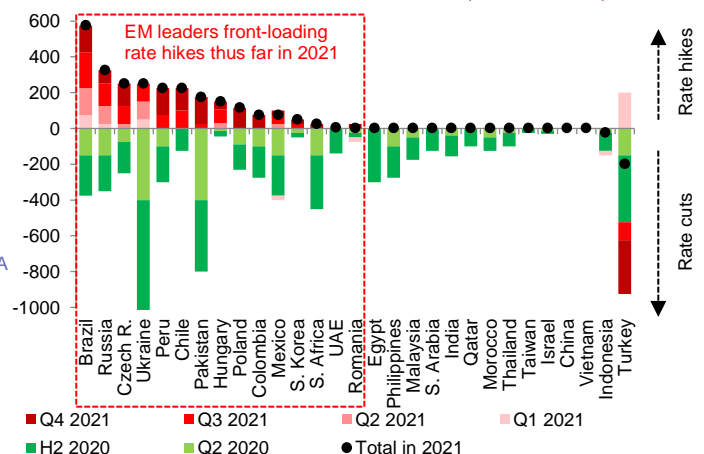
HEADLINE INFLATION ACROSS EM REGIONS AND DM (% Y/Y)



Source: Bloomberg, EM Central Banks, MUFG Research

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

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



Source: Bloomberg, EM Central Banks, MUFG Research

hiking cycle that has been faster and more front-loaded than previous cycles. A combination of (i) EMs comprising more commodity-intensive CPI baskets relative to DMs and (ii) EM central banks being less willing to look through non-core inflationary pressures, has prompted additional hiking biases across the EM space. Concerns over rising inflationary pressures, the potential de-anchoring of inflation expectations and in some cases, market concerns over the sustainability of fiscal policy has been front and centre of EM central banks attention. With inflation above target in an increasing number of countries, several EM central banks has been propelled to hike proactively, even if they found it difficult to disentangle permanent and transitory shocks.

Monetary policy normalisation has not been uniform with each economy in a different stage of the economic cycle despite similarities in emerging from the pandemic

What has been evident is that EMs remain on different paths with regard to the tightening (or loosening) of monetary conditions as a result of varying inflation dynamics. Looking ahead, EM interest rates will continue to rise (and broaden to EM Asia) but critically driven more by concerns about capital flight – given tightening global financial conditions – than inflation. Though there are some exceptions – Brazil, Mexico and Russia – which were among the first to kick-off the EM monetary normalisation cycle and will be likely to be among the first countries to ease in 2022.

EM external balances remain in good shape, even in high yielding economies

### EXTERNAL BALANCES: HEALTHY SHAPE WITH ROOM FOR FX GAINS

Setting aside global factors, relative to much of the post-Global Financial Crisis (GFC) 2008-09 period, EM external balances are significantly healthier (even among many high yielding countries that traditionally run current account deficits). Crucially, the improvement in flows (the current account) has also translated into an improvement in the stock position – reserves coverage of external financing needs has strengthened in most major EMs (even among many high-yielding EMs that traditionally run current account deficits) and, therefore, the EM complex is less reliant on external financing. Among EM low-yielders, we expect almost all EMs to keep or regain current accounts that are well above sustainable levels in 2022, leaving plenty of space for their currencies to appreciate as interest differentials rise.

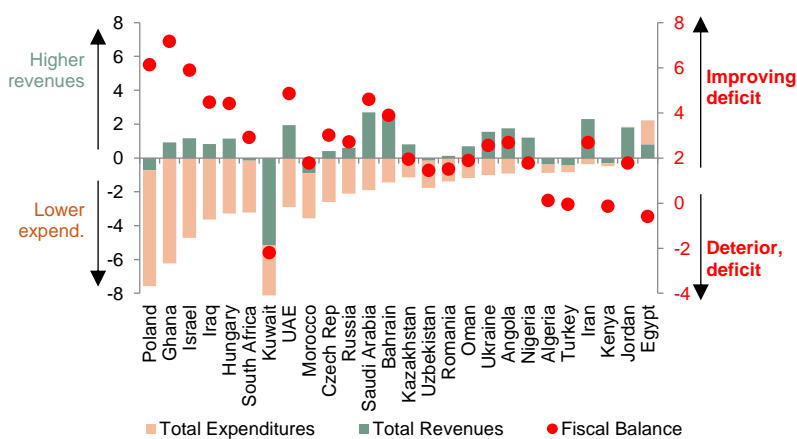
EM fiscal deficits have remained tighter but long-lasting scars linger

### FISCAL BALANCES AND DEBT: LOWER FUNDING NEEDS BUT SCARS

With EM growth improving this year, fiscal financial needs have been lower with fiscal risks broadly diminished, particularly for EM commodity exporters that have

#### EM FISCAL DEFICITS HAS REMAINED SEQUENTIALLY TIGHTER IN 2021

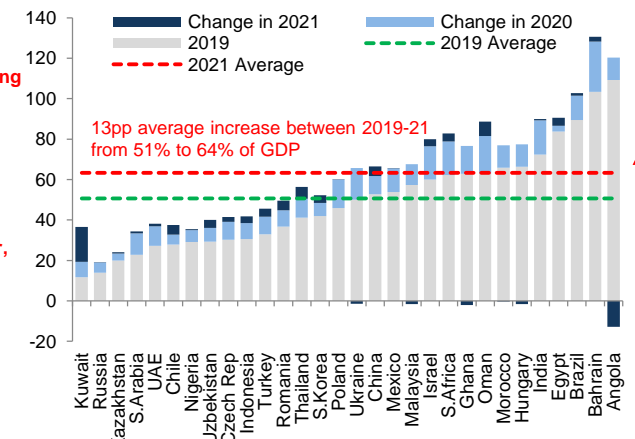
CONTRIBUTIONS OF EXPENDITURES AND REVENUES TO CHANGE IN FISCAL DEFICITS, PP CHANGE FROM 2020 TO 2021 (% OF GDP)



Source: Bloomberg, EM Statistical Offices, MUFG Research

#### EM DEBT PROFILE CONTINUES TO RISE WITH 2021 LEADING TO FURTHER INCREASES

EM PUBLIC DEBT 2019-21 (% OF GDP)



Source: Bloomberg, IMF, MUFG Research

experienced marked gains. More broadly however, the significant deterioration of fiscal balances and public debt build-up across EMs is a legacy that will confront markets and challenge policymakers for years to come. For most EM economies, returning fiscal balances to pre-virus levels is likely to be a multiyear endeavour. Reversing the sharp increase in debt will likely take even longer (if it ever happens). After all, the historical record shows that large fiscal expansions seldom fully mean-revert, increasing the EM risk premium commanded by investors. Granted, the probability of full-blown near-term EM debt crises is low and contained given below-neutral real rates and stronger external balances. Moreover, most of the increase in EM public debt has taken place in local currency, which reduces the risk of an abrupt external funding halt. However, most EMs will face a painful adjustment of fiscal balances in the aftermath of the virus.

### OVERALL: STAGFLATION HAS SIGNALLED EM CAUTION IN 2021

Robust recovery ran out of steam in EMs but we do not believe it will be another lost decade for the complex

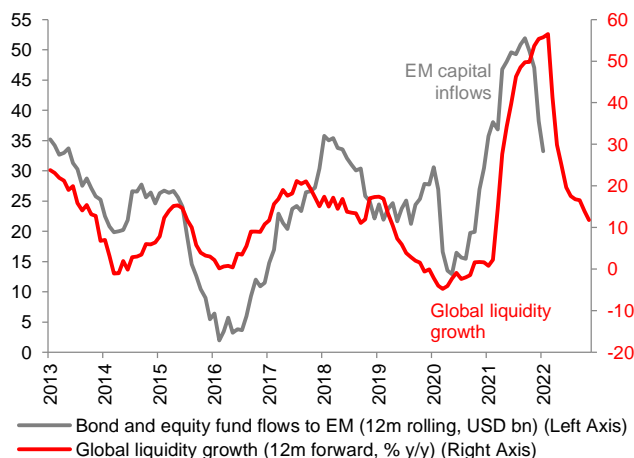
The strong, swift rebound from the pandemic ran out of steam in EMs over most of 2021, causing investors to recalibrate whether this will be another lost decade for EM. There are core differences between the recovery after the GFC and the rebound from COVID-19 across EMs. First, the CRB Commodity Price Index has emerged from a ten year bear market and should not be susceptible to another bear market collapse while the world undertakes infrastructure spending and begins the transition to a more greener energy equilibrium. Second, the Bloomberg EMFX index, which dropped in tandem with commodities after 2011, has reached a record low point and should be supported by gains in terms of trade caused by rising commodity prices.

Our conviction is one of caution for EMs in 2022 given lower growth and still elevated inflation

Looking ahead, our conviction is one of caution for EMs in 2022. EM growth in aggregate should moderate but still print above its pre-pandemic pace in 2022, following a strong but incomplete rebound in 2021. However, growth will be de-synchronised and will rotate from those further along reopening their economies (LatAm and a majority of EM EMEA – both decelerating towards trend growth) to those at earlier stages of reopenings (EM Asia – which is set to lead in 2022). Meanwhile, EM inflation, which caused much of the tightening cycle in 2021, is set to peak then moderate, with base effects from commodity prices turning deflationary, alongside easing supply-chain bottlenecks. Finally, EM rates will continue to rise (and broaden to EM Asia) but critically driven more by concerns about capital flight – given tightening global financial conditions – than inflation. We will offer a comprehensive assessment of our 2022 EM outlook in the first week of the new year.

### DEVELOPED MARKET CENTRAL BANKS TAPERING IS COLLAPSING EM CAPITAL INFLOWS

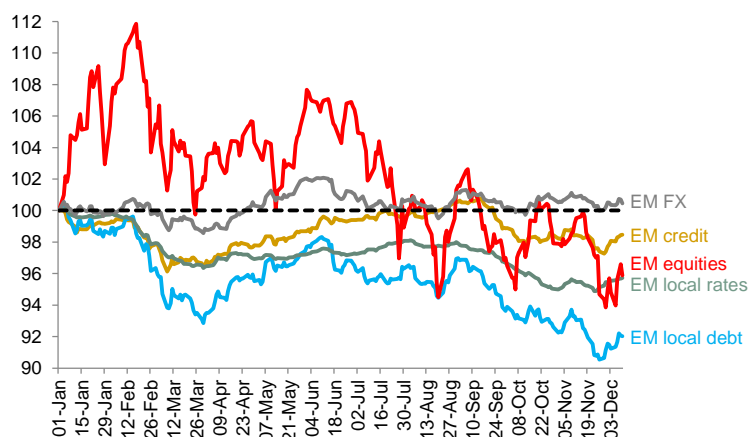
GROWTH OF FED, ECB, BOJ AND BOE BALANCE SHEETS (% Y/Y) VS. EM FUND FLOWS (USD BN)



Source: Bloomberg, G4 Central Banks, IIF, MUFG Research

### ALL EM ASSET CLASSES (BAR EM FX, ALBEIT MARGINALLY) HAVE UNDERPERFORMED YEAR-TO-DATE

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



Source: Bloomberg, MUFG Research

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## FX views

### EM FX: Optimism for EM FX performance in 2021 quickly faded

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EM FX baskets hits new record low vs USD

It has been another tough year for EM FX with selling pressure intensifying heading into year end. Our own EM FX index has just fallen to new record lows against the USD breaking below the previous lows from the peak of the initial negative COVID shock in early 2020 – currently declining by ~9% YTD. It takes the cumulative decline for our EM FX index to 13% over the last couple of years during the pandemic. Investor optimism at the start of this year that the strengthening global recovery, continuation of loose policies (fiscal & monetary), higher commodity prices and more favourable policies under President Biden would support a further rebound for EM FX this year did not last long. EM FX has trended weaker through most of 2021.

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Fed policy expectations have provided consistent headwind for EM FX performance

The first wave of the EM FX sell-off coincided with the sharp move higher in long-term US yields in the opening months of this year as the 10-year UST yield almost doubled to hit a peak of close to 1.8%. The main trigger for higher long-term US yields was the door opening for bigger US fiscal stimulus after the Biden administration surprisingly secured control of the Senate. The US rate shock and stronger USD triggered a period of weaker capital flows into EM, and renewed fears of a repeat of the taper tantrum from 2013. Those fears have come back in focus again since the summer as short-term US yields have become unanchored from the lower bound reflecting building speculation that the Fed will have to speed up policy tightening in response to more elevated and persistent US inflation. The Fed has recently dropped their view that higher inflation is transitory. We expect the Fed to double the pace of QE tapering this week, and to signal that multiple rate hikes could be delivered next year. The policy rate will need to be moved closer to the Fed's estimate of the neutral rate of 2.50%. The sharp adjustment higher in yields at the short end of the US curve has further encouraged broad-based USD strength heading into year end. In tandem, the strength of the global recovery has lost upward momentum since the middle of this year putting a dampener on demand for EM FX.

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CNY & RUB top performers. CNY has defied expectations to weaken on back on China slowdown

Broad-based EM FX weakness does though mask a vast divergence in performance between the best and worst performing EM currencies. At one extreme the best performing EM currencies have been the CNY (+2.6% vs. USD YTD), TWD (+1.8%) and RUB (+1.4%) which have even managed to outperform the USD this year. The CNY has continued to strengthen despite the loss of growth momentum in China and fears over a sharper slowdown in the real estate sector. Policymakers have been in

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### EM FX HAS TRENDED LOWER DURING 2021



Source: Bloomberg, Macrobond & MUFG GMR

action over the past week to try to dampen upward pressure on the CNY by setting weaker daily fixes, and instructing banks to hold more foreign currency as reserves at the PBoC. The reserve requirement for foreign currency was increased for the second time this year by 2 percentage points to 9.00%. The last 2 percentage point hike was back in mid-June. It highlights that policymakers remain concerned that there is too much USD liquidity that has contributed to USD/CNY falling to a year to date low this year of 6.3424. The ongoing virus disruption has helped to boost demand for goods exported from China and resulted in their trade surplus with the US rising to new record high. China's trade surplus has totalled USD388bn over the last twelve months to October, and compares to surplus of USD 318bn in year up to October 2019 prior to the virus. It is a supportive development for a stronger CNY.

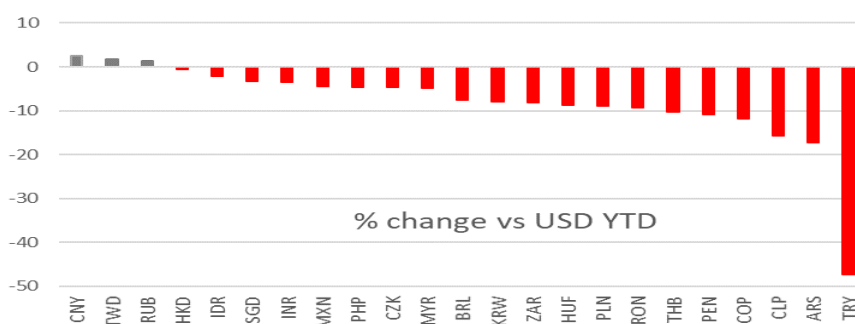
Geopolitical risk comes back to haunt RUB but fundamentals remain supportive

The RUB has also been supported by favourable domestic fundamentals. The RUB has benefitted both from the sharp rebound in the price of oil which has fully reversed the initial plunge lower in early 2020, and the higher yields on offer in Russia as the CBR has reinforced their inflation fighting credentials amongst EM central banks. Nevertheless, USD/RUB is still trading much higher than pre-pandemic levels of around the 65.000-level. The RUB's recovery has been disrupted recently by renewed tensions between Russia and the West. It has prompted market participants to price back in a higher geopolitical risk premium into the RUB. The threat of another Russian military invasion into Ukraine continues to loom as a significant downside risk for the RUB heading into next year even after the US and other Western leaders threatened that there would be a high financial price to pay for Russian aggression. Price action from 2018 highlights that the RUB could fall sharply if tensions intensify.

TRY and LatAm FX underperform – still waiting for some light at end of tunnel for TRY

In contrast, the worst performing EM currencies this year have been the TRY (-47% vs USD YTD) and LatAm currencies of the ARS, (-17%), CLP (-15.8%), COP (-11.8%) and PEN (-10.9%). Even after this year's sharp sell-off there is still no clear trigger yet in sight that could lead to a turnaround for the TRY. Policymakers in Turkey remain committed to maintaining inappropriately loose policies that have triggered the loss of confidence in the TRY. At the best the intervention in recent weeks will only temporarily slow further TRY weakness unless there is a dramatic turnaround in policy settings. Turkey is running the risk of a balance of payments crisis, and the TRY is currently in overshoot mode. The situation appears likely to get worse before it gets better. Fortunately, there have been only limited negative spill-overs to other EM FX so far. It has been notable that LatAm currencies have failed to derive support from the sharp commodity price rebound in 2021. The strength in their terms of trade have been more than offset by negative domestic concerns including risks posed politics, public finances and greater economic scarring from the virus.

### BIGGEST WINNERS & LOSERS DURING 2021



Source: Bloomberg, Macrobond & MUFG GMR

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## Trading views

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### Trading views: 2022 looks bleak for EM, which signals it probably won't be?

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We feel China have made a strong statement on FX with RMB gains vs the USD harder to come by now and much lower carry expected from the trade

Two things stood out for us last week. Firstly the moves by China to stem the move down in USDRMB and secondly the potential link between higher US yields and higher USD. In both cases we are not sure if this is a temporary break in recent trends or game changers, the jury seems still out. On China the fact that the policy action was taken after a significant multi year break in USDCNH again highlights that for all the official talk over a RMB basket, there is still greater weighting given to the USDRMB rate than there should be. Especially given the fact exports are continuing to perform well. This again speaks to the fact that in many Emerging markets the FX rate against the USD is so much more important due to its prevalence in external debt for EM countries and also the signalling effect the USDEM FX rate has for the average citizen. We feel China's policy actions backed by a weaker fix suggest a fairly strong statement. We would now expect RMB gains vs the USD to be harder to come by and are looking at shorting RMB vs USD. Alongside this we think authorities will continue to add a lot of local liquidity into the system looking for looser policy. This will also help drag implieds lower taking out a lot of the carry in the short USDRMB trade. Day to day funding has gone from 4.5 to 1.5 pips in the last week alone. We feel this continues and would advocate received RMB positions especially into Wednesday's MLF rollover and Fed decision.

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We are not sure the variant changes too many market trends. Paying positions in CEE is though one area that may be to be re thought

The second theme of the week was the disconnect between US yields and general dollar performance. On this we are much more wary and feel the break may have simply been positions being unwound in the wake of the mini omnium sell off. While we are not overlay bearish the new variant we do think the effect will only be to further the recent trends over the last year. With the exception of Israel and Chile, EM will continue to be last in line for any boosters and the US exceptionalism story should get another boost especially versus the lockdowns in Europe. Where we see greatest opportunity is in receiving CEE curves as we feel further lockdowns will significantly harm the paying positions in these currencies particularly given the aggressive pricing that has been built in. We would note however that trends here are quite strong so would be tactical.

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The year ahead trades would likely be all negative EM. The reasons to be bullish EM for 2022 seem rather scarce to us. That provides us with a good reason to be bullish.. no one is expecting a good year in EM

This time of year people start looking ahead for trades in 2022. It seems to us that from now until end of Jan the year ahead consensus trades do well before turning round abruptly at some point. Last year we and the street were bullish EM for 2021. Unfortunately the further waves of Covid alongside the rise of inflation meant little of this way correct. Where there has been EM outperformance like in China it has been more down to BOP factors and carry rather than any positive growth outturn. This year looks likely to be the opposite with most wary of EM outperformance in an environment of rising US yields. We think this is fair and will certainly continue to play EM from the short side as we get into the new year. This weeks Fed meeting certainly has the capacity to change or accelerate this view. However, we cant get but think how wrongly bearish we were last year and will definitely look to be more flexible in positioning January onwards. The reasons to be bullish EM for 2022 seem rather scarce to us. *This though could be the singular most important reason to be so. There is not much expectation for a good year.*



## Week in review

### EM capital flows: preference has been to favour DM over EM in 2021

Investors have increasingly trimmed their expectations for EM prospects with preference firmly on the side of DMs

The end of the year is almost around the corner and it is becoming fairly clear that EMs have failed to meet the optimism from the beginning of the year (see *macro focus* section above). Indeed, almost all EM assets have underperformed their DM peers, on the back of a worsening inflation-growth trade off, along with a shift in the global monetary policy outlook. Of note is the deep underperformance of EM equities that are down by ~2% year-to-date against ~16% gains from DMs.

Capital flowed out of EMs last week, driven solely from equities

According to IIF data, capital flowed out of EMs last week (USD-0.5bn) – driven entirely by equity flows. From a 28 day rolling average perspective, EM equity and bond flows have remained in positive territory since the beginning of November but it remains to be seen whether this momentum will be sustained given rising COVID-19 concerns and the Fed's aggressive tapering strategy. 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.

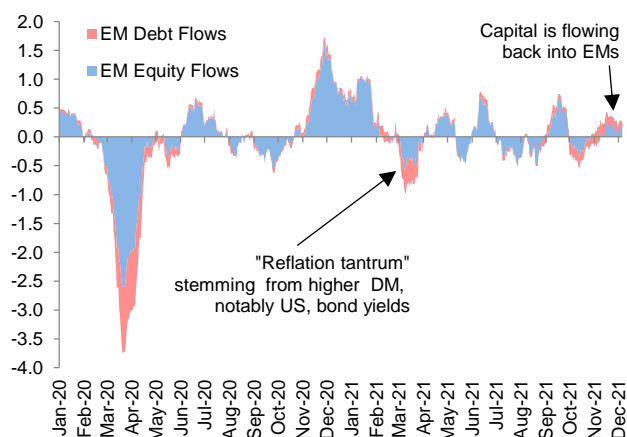
### Poland: NBP hikes by 50bp to 1.75% (as expected) with more to come

Poland continued its monetary policy normalisation with 50bp in hikes with NBP Governor Glapinski signalling further hikes are on the table

In line with our (and consensus) expectations, the National Bank of Poland (NBP) hiked its key policy rate by 50bp to 1.75%. In the official communication, the Monetary Policy Committee (MPC) reiterated that policy tightening is necessary to limit potential second-round effects from the current inflation overshoot, even if the overshoot remains driven by factors that lie outside the control of monetary policy. Furthermore, in contrast to the last two MPC meetings, the official statement contained guidance emphasising that the NBP's decisions in the coming months will be aimed at reducing inflation, although qualifying that it would also depend on broader economic conditions. NBP Governor Adam Glapinski signalled that the MPC sees room for further rate increases but was caveated by guidance that the NBP is not in a tightening cycle and that there remains significant uncertainty surrounding the economic outlook. Having said that, the latest communication contrasts with recent MPC meetings in containing more explicit hawkish guidance. NBP Governor Glapinski also hinted that tightening would likely proceed at a pace similar to that in the last meeting. Looking ahead, as we expect inflation to rise further from its 7.7%

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

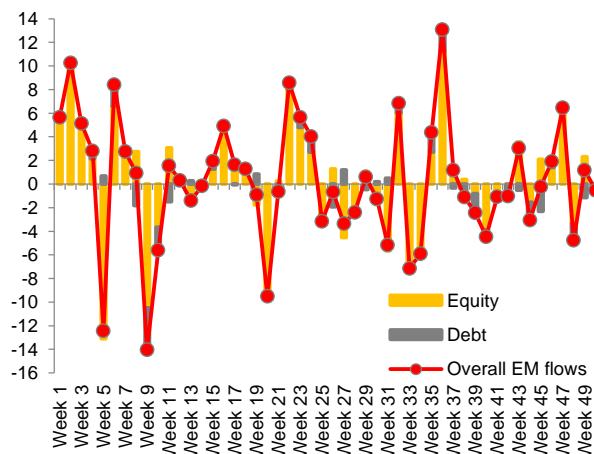
EM EQUITY AND DEBT FLOWS (USD BN), 28 DAY ROLLING AVERAGE



Source: IIF, MUFG Research

### EM CAPITAL FLOWS HAS BEEN MORE MIXED ON A WEEKLY (7 DAY BASIS), DRIVEN BY RISK-ON AND OFF

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



Source: IIF, MUFG Research

y/y November print to 81% y/y in December (and for the subsequent decline in inflation to be gradual), we base case the NBP to continue tightening policy in the coming months and forecast rates to reach 3.00% by March 2022. Although the recent deterioration in the pandemic situation in Poland presents downside risks to activity, we expect the NBP to squarely focus on bringing inflation under control.

### Turkey: S&P revises the credit outlook to negative from positive

S&P revises Turkey's outlook to negative from stable, affirming ratings at BB-

Following Fitch Ratings downgrade of Turkey's sovereign to negative from stable on 2 December, S&P followed suit on 10 December with the same action, affirming the sovereign rating at BB-. According to S&P, the current monetary easing and significant Turkish Lira depreciation will further weigh on inflation, which could peak at about 25-30% y/y in early 2022. Meanwhile, S&P projects it will also lead to net general government debt increasing by an additional 8% of GDP in 2021, compared with its previous expectation. Encouragingly, S&P believes that domestic residents will retain confidence in the Turkish financial sector while banks also maintain access to foreign funding – in particular, via syndicated loans – but external risks are rising.

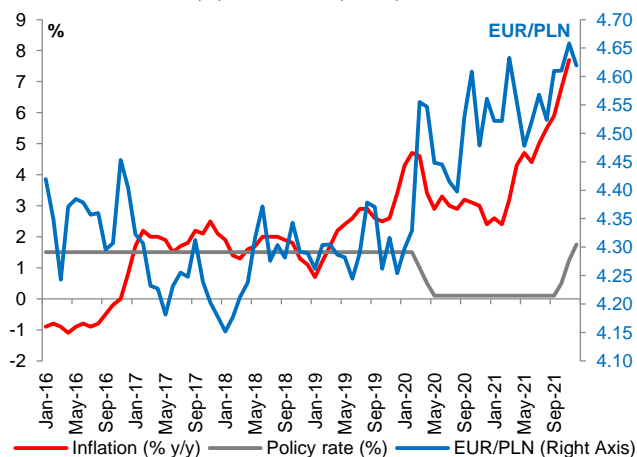
### Egypt: inflation eases in November with CBE expected to hold firm for now

Egypt inflation eases in November

Egypt's inflation rate decreased from 6.3% y/y in October to 5.5% y/y in November, driven by a large negative contribution from food inflation. Of note has been the USD strength and a stable EGP/US exchange rate which has led to an appreciation in the nominal effective exchange rate (NEER) since September, placing downward pressure on import prices. Looking ahead, we expect inflation to rise moderately in the coming months but remain at contained levels owing to both low FX volatility and favourable base effects. Switching gears, external financing conditions have deteriorated somewhat in recent weeks, largely driven by exogenous factors (relating to market concerns over stagflation (see [here](#))). Having said that, Egypt has underperformed other EM high-yielders, and we view this partly reflects its relative external vulnerability with the current account deficit widening to 4.6% of GDP in FY 2020/21. While we expect this to narrow to 2.8% of GDP in the current fiscal year, rising amortisations will likely keep the external financing requirement elevated. This places Egypt's dependence on external borrowing and portfolio investment at a time of uncertain global risk appetite into sharp focus. Although we model this financing outlook as manageable, and that the sovereign has adequate buffers to absorb near-term financing shocks, and to maintain EGP stability, we view external conditions as not conducive to a near-term easing in monetary policy, notwithstanding there being a strong economic case in favour of cuts.

### POLAND HIKES BY 50BP BUT WITH INFLATION SET TO CONTINUE RISING, FURTHER INCREASES ARE LIKELY

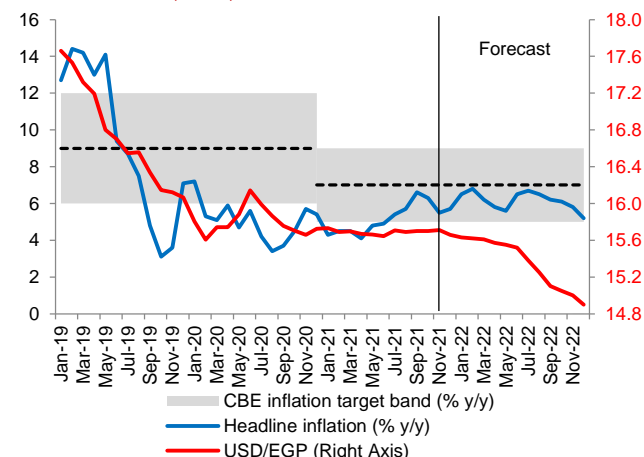
POLAND POLICY RATE (%), INFLATION (% Y/Y) AND EUR/PLN



Source: Bloomberg, NBP, MUFG Research

### EGYPT INFLATION EASES IN NOVEMBER WITH THE CBE LIKELY TO STAY ON HOLD FOR NOW

EGYPT INFLATION (% Y/Y), CBE INFLATION TARGET BAND AND USD/EGP



Source: Bloomberg, CBRT, MUFG Research

## Russia: inflationary pressures deepens in November

Russian inflation rose from 8.1% y/y in October to 8.4% y/y in November, which could mark the peak in inflation with a moderate decline from this month onwards

Russian headline inflation increased once again, from 8.1% y/y in October to 8.4% y/y in November, slightly higher than our expectations for a 8.3% y/y reading but in line with consensus. When examining the details, headline inflation momentum has fallen but price pressures have broadened with core inflation above headline, increasing significantly to 8.7% y/y from 8.0% y/y in October. The largest contributions came from the services and food. Looking ahead, we expect inflation to moderate into year-end with the Central Bank of Russia (CBR) set to hike by 100bp on 17 December in a bid to re-anchor inflation expectations. The recent depreciation of the Russian Rouble amid geopolitical tensions may provide an additional reason for the CBR to hike given the importance of the FX transmission channel in curbing inflation.

## Czech Rep.: inflation continues its relentless march higher in November

Czech inflation reached 6.0% y/y in November from 5.8% y/y in October, with peak likely in February 2022

Czech Republic's headline inflation continues to increase, with the latest reading rising from 5.8% y/y in October to 6.0% y/y in November – against our expectation of a slight decline to 5.6% y/y but in line with consensus, and markedly higher than the Czech National Bank's (CNB) November Inflation Report forecast (4.9% y/y). The increase was recorded despite the imposition of a temporary waiver of VAT on electricity and natural gas prices in November and December. According to the Czech Statistical Office, the waiver contributed to a 1.0ppt reduction in annualised terms, and this discounting this temporary impact and holding all things constant, headline inflation would have risen closer to 7.0% y/y. Going forward, we expect inflation to rise significantly further in the coming months, rising to a peaking at 7.4% y/y in February, when most of the increase in wholesale prices for electricity and gas will feed through to CPI – note that household energy prices in the Czech Republic are usually adjusted in January and February. At its most recent policy meeting, the CNB Monetary Policy Committee (MPC) sent a clear signal that it is prepared to move ahead of market pricing to ensure the stabilisation of inflation expectations, in the face of these inflationary pressures and with inflation expectations at risk of de-anchoring. With this, and given our inflation forecasts, our expectations is that Czech rates to increase from 2.75% to 4.00% by March 2022, before easing towards the end of next year.

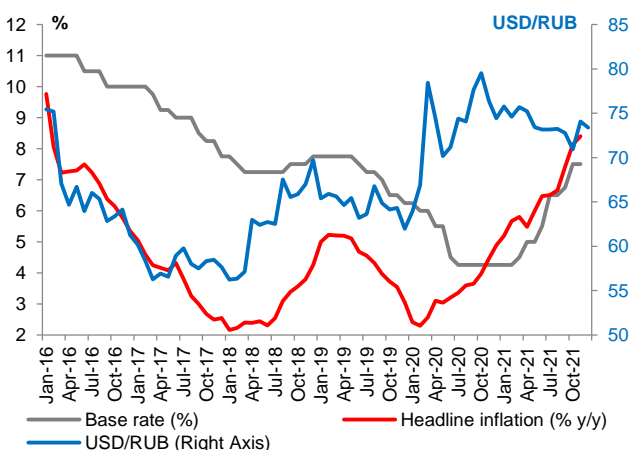
## South Africa: Q3 2021 GDP surprises materially to the downside

South Africa's Q3 2021 GDP wanes

South Africa's real GDP growth declined from a revised 1.1% q/q in Q2 2021 to -

### RUSSIAN INFLATION RISES FURTHER IN NOVEMBER WITH THE CBR SET TO HIKE BY 100BP THIS WEEK

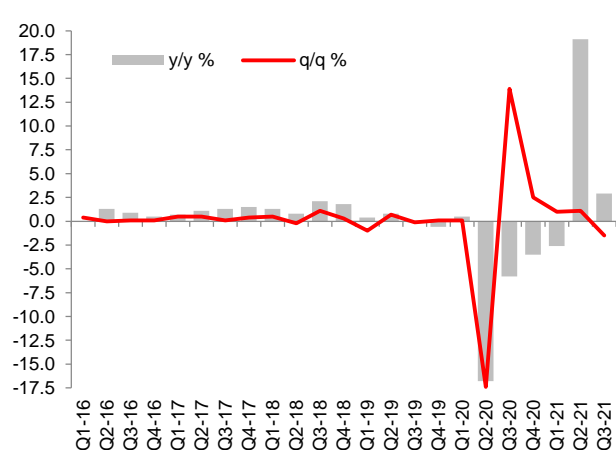
RUSSIA POLICY RATE (%), INFLATION (% Y/Y) AND USD/RUB



Source: Bloomberg, CBR, MUFG Research

### SOUTH AFRICA'S Q3 REAL GDP CONTRACTS OWING TO THE PANDEMIC AND JULY'S SOCIAL UNREST

SOUTH AFRICA REAL GDP (% Q/Q AND % Y/Y)



Source: Bloomberg, Statistics South Africa, MUFG Research

1.5% q/q in Q3 2021 – we had forecast -0.6% q/q (consensus -1.0% q/q). In annualised terms, this corresponds to a 5.8% q/q contraction in Q3 2021, significantly sharper than the South African Reserve Bank's (SARB) estimate of 2.5% published in its November Monetary Policy Committee (MPC) statement. In the expenditure breakdown of GDP, domestic demand contracted broadly, while net exports turned negative. On the supply side, agriculture posted the greatest contraction (-13.6% q/q) followed by trade (-5.5% q/q) and manufacturing (-4.2% q/q). This has been attributed to the third wave of the pandemic, which peaked in July, and the social unrest which also took place in the same month. Looking ahead, we expect near-term activity to bounce on stronger consumer spending, but see broader downside growth risks from COVID-19, energy shortages, job losses, and lower commodity prices. As such, factoring in the downside surprise to market expectations as well as the negative backward revision to the Q2 GDP estimate, we have revised our 2021 GDP forecast down from 5.1% to 4.5%, and our 2022 GDP estimate from 2.2% to 1.9%.

### **Hungary: MNB continued its fourth consecutive weekly deposit rate hike**

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Hungary widens the divergence between the one week deposit rate and the base rate – it explains this as its reaction to heightened external risks, likely with an aim to prop-up the currency

At its weekly tender, the National Bank of Hungary (MNB) delivered a 20bp hike to the one week deposit rate, raising rates to 3.30%. This is now the fourth consecutive weekly hike and implies a cumulative rate increase of 150bp over a month. It also now marks a 120bp gap relative to the base rate, and the MNB explained the divergence between the official policy rate (currently at 2.10%) and the one week deposit rate – the rate currently anchoring short-term market rates – as responding to increased external risks, which we believe is anchored by exchange rate developments. Looking ahead, we expect the one week deposit rate to be shaped by exchange rate developments, and for the MNB to tighten as much as necessary to stabilise the exchange rate. On net, we view that the divergence between the base rate and the one week deposit rate could undermine the MNB's commitment to policy tightening from the perspective of the market. This may then continue to weigh on the Hungarian Forint (HUF) which the MNB explicitly has identified as a monetary policy transmission tool. Besides policy credibility, the other key risks to bear in mind are further inflation surprises and the uncertainty surrounding policy moves of DM central banks.

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## Week ahead

### **Hungary: MNB to raise base rates by 40bp to 2.50% and signal more hikes**

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Hungary to raise its base rate by 40bp with further tightening on the table

On 14 December, the National Bank of Hungary (MNB) is set to raise the base rate by 40bp to 2.50% (consensus 30bp to 2.40%), and to signal further tightening in the months ahead. There is significant uncertainty surrounding the potential magnitude of the rate change, however, as the MNB has also been tightening policy at weekly increments via its one week deposit facility, delivering a cumulative 150bp in four consecutive steps over the past month, from 1.80% to 3.30% (see *week in review* section above). In its last meeting, the MNB explained the divergence between the official policy rate (currently at 2.10%) and the one week deposit rate – the rate currently anchoring short-term market rates – as responding to increased external risks affecting the Hungarian Forint (HUF). Importantly, given that this week's meeting coincides with the quarterly forecast updates, the MNB will also announce changes to its unconventional policy measures. Given recent communication by MNB Governor Matolcsy, we expect that the Monetary Policy Committee (MPC) will announce a further reduction or a potential complete phasing out of the bond purchase programme. Looking ahead, while on our projections inflation will begin to decline gradually (after increasing in November from 6.5% y/y to 7.4% y/y), it will likely remain uncomfortably above the MNB's target at least until Q2 2022. This, coupled with depreciation pressures on the HUF, likely implies that the MNB will continue tightening policy and maintain a squarely hawkish tone – our base case is for rates to reach 4.00% by March 2022. In parallel, we expect that the MNB will also maintain its one week deposit rate above the base rate, with the extent of that spread determined by developments in the HUF.

### **South Africa: inflation to increase markedly in November**

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South Africa's inflation rate is set to rise from 5.0% y/y in October to 5.7% y/y in November

On 14 December, South Africa's inflation data is set to signal a significant increase, from 5.0% y/y in October to 5.7% y/y in November (consensus 5.5% y/y). This predominantly reflects a steep increase in petrol price inflation which we anticipate to more than offset a moderation in food inflation. We forecast that core inflation will pick up somewhat – from 3.2% y/y in October to an estimated 3.4% y/y in November, owing to base effects.

### **Egypt: CBE to maintain rates given a less favourable external environment**

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Hungary to raise its base rate by 40bp with further tightening on the table

On 16 December, the Central Bank of Egypt (CBE) will likely maintain rates on hold (our and consensus expectations) at 8.25%. This is despite the fall in inflation from 6.3% y/y in October to 5.5% y/y in November (see *week in review* section above). The CBE has not followed its EM peers in hiking policy this year given inflation has comfortably remained within the CBE's 7% ± 2ppt band. Real rates in Egypt are among the highest globally and are acting as a drag on real growth in the country and as such there is in fact an economic rationale to ease rates. In line with our forecast trajectory, the CBE also expects inflation to stay well within its target band in 2022 as per its recent monetary policy report while expecting seeing upside risks stemming from commodity prices.

### **Turkey: CBRT to deliver 100bp in cuts to 14.00% – likely the trough**

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Turkey to deliver 100bp in cuts this week but this will likely signal the trough in rates

On 16 December, the Central Bank of Turkey (CBRT) is expected to lower rates by 100bp to 14% – our forecasts are in line with consensus. With output running above capacity – both on our and the CBRT's projections – and inflation rising rapidly since the beginning of the year, conventional wisdom would signal that the policy rate

should have been increased long before the current cutting cycle began in September. With inflation and inflation expectations rising sharply following the recent Turkish Lira (TRY) sell-off, real rates have gone further into negative territory (-6.3%). Given this and increasingly de-anchored expectations, we view the need to tighten policy is even more severe now. However, despite the challenging inflation outlook and the secular deterioration in price dynamics, the authorities appear resolute in maintaining a low rate policy. We believe it is critical to highlight that our forecast for a 100bp cut this week follows from the authorities' communication on what they are expected to do, rather than on any economic modelling – our examination squarely rests that a significantly tighter monetary stance is needed to anchor expectations and promote price stability.

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**Our base case is for the CBRT to reluctantly reverse course and hike by 600bp in 2022**

Looking ahead, in our base case (see [here](#)), we believe the CBRT will reluctantly reverse course and hike by 600bp from a tough of 14% to 20% by end-2022. We view that even such reversal will not be suffice to reduce inflation towards single digits but will be enough to maintain financial stability and bring stability to the currency. Having said that, we recognise the challenge in forecasting policy decisions, asset prices and the TRY in the near-term, which is even higher than usual given this cycle is different from previous bouts of volatility. Indeed, the low visibility on the monetary policy front and the sharp rise in FX volatility magnify the risks associated with our rate forecast in both directions. What is clear that that we expect locals will tap renewed cheap loans as they continue to dollarise, compounding pressure on the currency, while eyeing investment opportunities in hard assets such as real estate and gold. We do not rule out a balance of payments crisis and/or disorderly TRY depreciation which could trigger mild restrictions on locals to discourage FX transactions.

#### **Russia: CBR to hike by 100bp to 8.50% which may signal the end of hikes**

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**Russia to hike by 100bp to 8.50% and our base case is that this will mark the end of the hiking cycle**

On 17 December, the Central Bank of Russia (CBR), is expected to raise rates by 100bp to 8.50% (we are in line with consensus). We view that this hike will likely signal the end of rate hikes, with inflation likely to turn in annualised terms from the December 2021 reading. To put the current context into perspective, whilst the level of inflation in November (8.4% y/y) was not much higher than we or the CBR had expected, the fact that it is driven by core inflation matters for the persistence of the shock and thus the outlook. Governor Nabiullina stated last week that year-end inflation may run above the 7.4%-7.9% y/y CBR forecast but that the Monetary Policy Committee (MPC) will look beyond one-off factors. The recent depreciation of the Russian Rouble (RUB) amid geopolitical tensions may provide an additional reason for the CBR to hike significantly given the importance of the FX channel in curbing inflation. Going forward, our base case is for the CBR to maintain rates at 8.5% and begin to ease rates materially from Q2 2022 onwards as inflation begins to considerable fall – however, we acknowledge that the external environment will matter especially for Russia given its degree of openness vis-à-vis other EMs.















#### **Czech Rep.: CNB to deliver further hikes but will slow the pace of increases**

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**Czech Republic is set to raise rates by a further 50bp to 3.25% on 22 December**

On 22 December, the Czech National Bank (CNB) is set to continue on its hiking path, raising rates by 50bp to 3.25%. This would be a marked slowdown from the 125bp hike delivered on 4 November – the largest since 1997. At its most recent policy meeting, the CNB Monetary Policy Committee (MPC) sent a clear signal that it is prepared to move ahead of market pricing to ensure the stabilisation of inflation expectations, in the face of these inflationary pressures and with inflation expectations at risk of de-anchoring – note the CNB's estimated neutral rate is 3.0%. With this, our base case is that Czech rates will rise by 50bp to 3.25% and increase by a further 75bp in Q1 2022, before easing towards the end of next year.

## Weekly calendar

	Country	Day	GMT	Indicator/Event	Period	MUFG Forecast	Consensus	Previous	Market Moving
	Romania	13/12/2021	07:00	CPI, % y/y	Nov	---	8.2%	7.9%	!!
	Turkey	13/12/2021	07:00	Industrial production, % y/y	Oct	---	8.6%	8.9%	!!
	Hungary	14/12/2021	13:00	Monetary policy meeting, %	Dec	2.5%	2.4%	2.1%	!!!
	Nigeria	15/12/2021	---	CPI, % y/y	Nov	---	15.4%	16.0%	!!
	Ghana	15/12/2021	---	CPI, % y/y	Nov	---	11.2%	11.0%	!!
	S. Africa	15/12/2021	08:00	CPI, % y/y	Nov	5.7%	5.5%	5.0%	!!!
	Poland	15/12/2021	13:00	CPI, % y/y	Nov F	---	---	7.7%	!!
	Russia	15/12/2021	16:00	Real GDP, % y/y	Q3-21 P	---	---	4.3%	!!
	Israel	15/12/2021	16:30	CPI, % y/y	Nov	2.7%	2.5%	2.3%	!!!
	Egypt	16/12/2021	---	Monetary policy meeting, %	Dec	8.25%	8.25%	8.25%	!!!
	Turkey	16/12/2021	11:00	Monetary policy meeting, %	Dec	14.00%	14.00%	15.00%	!!!
	Israel	16/12/2021	11:00	Real GDP, % q/q	Q3-21 P	---	---	2.4%	!!
	Russia	17/12/2021	10:00	Monetary policy meeting, %	Dec	8.50%	8.50%	7.50%	!!!
	Czech Rep.	22/12/2021	08:30	Monetary policy meeting, %	Dec	3.25%	---	2.75%	!!!

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.	2.80	-6.50	5.12	0.27	-7.30	-4.29	6.00	-0.68	-0.53
	Egypt	1.85	2.84	3.51	-7.41	-6.90	-6.38	-4.17	-3.82	-3.40
	Greece	16.29	-9.50	4.12	0.57	-8.99	-3.01	-2.70	-7.74	-4.47
	Hungary	6.10	-6.10	3.90	-2.05	-8.28	-3.86	-4.59	-1.57	-0.85
	Iraq	4.43	-12.06	2.53	0.86	-17.53	-13.06	1.12	-12.65	-12.06
	Israel	4.10	-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	-8.57	-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	15.20	-6.97	4.92	-4.13	-7.79	-6.02	-3.96	-7.28	-5.22
	Nigeria	4.03	-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	-4.38	-14.57	-12.90
	Poland	5.10	-3.56	4.60	-0.74	-10.46	-4.34	1.09	3.03	1.77
	Romania	7.20	-4.80	4.57	-4.56	-9.59	-8.08	-10.07	-5.27	-4.51
	Qatar	4.00	-4.48	2.52	4.93	3.03	3.33	-27.24	-0.60	2.57
	Russia	10.34	-4.12	2.82	1.92	-5.29	-2.57	1.11	1.17	1.83
	Saudi Arabia	6.80	-4.80	4.10	-4.45	-10.56	-7.75	-0.39	-4.80	4.57
	South Africa	19.30	-8.00	3.00	-2.27	-9.32	-6.09	1.22	-1.62	-1.79
	Turkey	21.73	-0.90	4.80	-5.65	-7.88	-7.93	0.00	-3.66	-0.89
	Ukraine	2.40	-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.	5.80	2.70	2.20	2.75	0.50	1.00	25.712	21.110	20.100
	Egypt	6.30	4.40	4.90	8.25	7.25	7.25	0.064	15.590	16.520
	Greece	3.41	0.69	0.88	0.00	0.00	0.00	1.132	1.280	1.2600
	Hungary	6.50	4.00	2.50	2.10	1.00	12.50	325.810	294.300	285.70
	Iraq	7.30	1.00	1.50	4.00	4.00	4.00	1460.000	1460.000	1460.000
	Israel	2.30	0.80	0.60	0.10	0.10	0.10	3.191	3.240	3.200
	Jordan	1.61	1.41	6.50	3.25	3.25	3.25	0.709	0.709	0.709
	Kenya	6.50	6.00	5.00	7.00	7.00	7.00	112.400	116.330	115.400
	Kuwait	3.17	2.30	2.50	1.50	1.50	1.50	0.303	0.302	0.302
	Lebanon	173.57	85.45	32.30	2.75	2.75	2.75	1510.710	1510.670	1520.000
	Libya	4.56	15.12	15.12	3.00	3.00	3.00	4.614	4.556	4.434
	Morocco	1.70	0.80	1.20	1.50	1.50	1.50	9.233	8.700	8.800
	Nigeria	16.00	16.60	12.10	11.50	11.50	11.50	414.330	398.000	405.200
	Oman	3.35	2.30	1.20	0.44	0.44	0.44	0.385	0.385	0.385
	Poland	6.80	3.80	2.10	1.25	1.25	0.25	4.163	3.705	3.4900
	Romania	7.94	3.40	2.60	1.75	1.75	1.50	4.374	4.115	4.0700
	Qatar	4.28	0.60	1.50	1.00	1.00	1.00	3.642	3.642	3.642
	Russia	8.13	5.20	3.20	7.50	5.75	4.50	75.609	73.250	68.000
	Saudi Arabia	0.80	3.20	1.60	0.50	0.50	0.50	3.752	3.751	3.752
	South Africa	5.00	4.00	3.60	3.75	3.75	4.75	16.286	14.750	15.800
	Turkey	19.89	15.10	11.60	15.00	14.00	14.00	12.366	9.250	8.200
	Ukraine	10.90	8.30	5.40	8.50	8.50	8.50	27.138	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	12-Nov	19-Nov	26-Nov	03-Dec	10-Dec	Change in yield (basis points)		
							Week	MTD	YTD
Bahrain	10 years	2.60	2.38	2.46	2.48	2.68	19.77	-40.55	-29.02
Czech Rep.	10 years	2.74	2.84	2.84	2.75	2.61	-14.00	-13.52	158.16
Egypt	9 years	6.83	6.71	6.75	6.91	7.53	62.73	70.94	258.43
Greece	8 years	0.98	0.79	0.91	0.86	0.96	10.29	-1.62	44.70
Hungary	8 years	3.55	3.57	3.61	4.12	4.24	11.82	69.13	256.88
Israel	8 years	0.29	0.26	0.28	0.26	0.26	-0.19	-3.03	11.53
Jordan	5 years	3.97	3.91	4.05	4.19	4.60	40.63	62.16	96.92
Kenya	7 years	5.73	5.60	5.58	5.63	6.05	42.28	32.85	91.48
Kuwait	6 years	1.64	1.55	1.67	1.68	1.75	7.02	10.59	61.41
Lebanon	9 years	46.65	50.64	53.86	55.55	57.82	227.17	1117.76	801.56
Morocco	11 years	2.40	2.32	2.36	2.42	2.67	25.28	26.49	93.44
Nigeria	9 years	6.95	6.95	7.05	7.24	7.83	58.91	87.51	186.07
Oman	9 years	4.79	4.71	4.88	5.02	5.33	31.71	54.12	-14.33
Poland	8 years	0.31	0.14	0.19	0.14	0.19	5.28	-11.56	32.90
Romania	7 years	1.43	1.33	1.36	1.46	1.61	14.56	17.38	49.18
Qatar	9 years	2.29	2.21	2.27	2.30	2.37	6.85	8.36	73.45
Russia	5 years	1.91	1.87	1.98	2.15	2.42	27.49	50.92	-5.84
Saudi Arabia	8 years	2.26	2.15	2.23	2.22	2.26	4.54	0.50	36.30
South Africa	9 years	4.47	4.22	4.36	4.50	4.97	47.41	50.44	83.71
Turkey	7 years	6.27	5.64	5.85	6.23	6.73	49.55	45.52	185.49
Ukraine	8 years	6.80	6.77	7.09	7.34	8.40	105.97	160.07	245.07
Abu Dhabi	6 years	1.76	1.80	1.70	1.77	1.82	5.16	6.23	57.75
Dubai	8 years	2.52	2.48	2.50	2.52	2.65	12.29	13.16	5.25

EM EMEA equity market (index)									
	05-Nov	12-Nov	19-Nov	26-Nov	03-Dec	10-Dec	Change (%)		
							Week	MTD	YTD
Bahrain	1,710	1,736	1,775	1,788	1,787	1,745	-2.36	0.09	17.11
Czech Rep.	107,735	105,705	103,412	107,595	102,949	102,224	-0.70	-1.23	-14.11
Egypt	11,195	11,257	11,676	11,588	11,413	11,276	-1.21	-1.27	3.97
Greece	906	907	908	918	918	859	-6.42	-4.36	6.17
Hungary	55,121	54,781	54,915	53,389	51,549	50,961	-1.14	-5.97	21.20
Israel	1,852	1,862	1,881	1,875	1,895	1,859	-1.91	0.48	24.01
Jordan	2,111	2,125	2,116	2,092	2,087	2,059	-1.37	-2.94	24.22
Kenya	176	176	175	171	171	165	-3.38	-7.41	8.32
Kuwait	6,977	7,035	7,172	7,292	7,265	6,929	-4.63	-2.52	24.93
Lebanon	658	658	658	658	658	658	0.00	0.24	52.26
Morocco	10,794	10,992	10,991	10,802	10,771	10,697	-0.69	-2.66	16.39
Nigeria	41,250	41,790	41,975	43,707	43,456	43,308	-0.34	3.02	7.54
Oman	3,981	4,050	4,061	4,037	4,033	4,118	2.12	1.06	12.56
Poland	2,443	2,405	2,380	2,367	2,317	2,143	-7.52	-10.89	8.02
Romania	12,750	12,749	12,825	12,780	12,763	12,177	-4.59	-3.39	24.19
Qatar	11,856	11,666	11,886	12,012	11,994	11,464	-4.42	-2.56	9.85
Russia	4,288	4,230	4,185	4,172	4,149	3,811	-8.15	-8.17	15.87
Saudi Arabia	11,904	11,808	11,686	11,858	11,837	10,822	-8.57	-7.53	24.54
South Africa	60,347	60,874	61,877	61,538	63,481	62,411	-1.69	2.64	14.77
Turkey	1,433	1,519	1,547	1,624	1,707	1,776	4.06	16.71	20.29
Ukraine	526	526	523	523	523	523	0.00	-0.57	4.70
Abu Dhabi	7,876	7,854	7,966	8,230	8,269	8,300	0.37	5.53	64.51
Dubai	2,857	2,864	3,109	3,107	3,255	3,006	-7.63	4.97	20.65

**EM EMEA FX against USD\***

		05-Nov	12-Nov	19-Nov	26-Nov	03-Dec	10-Dec	Change (%)		
								Week	MTD	YTD
	USD Index	93.642	94.123	94.320	95.178	96.031	96.089	0.06	2.09	6.84
	Bahrain**	0.380	0.379	0.379	0.379	0.379	0.379	0.00	0.08	-0.11
	Czech Rep.	22.049	22.198	21.823	22.049	22.529	22.714	0.82	-2.27	-5.45
	Egypt	15.699	15.699	15.699	15.723	15.699	15.723	0.16	0.16	-0.16
	Greece***	1.164	1.156	1.157	1.145	1.129	1.132	0.24	-2.09	-7.36
	Hungary	313.110	311.570	310.260	320.400	325.280	325.810	0.16	-4.37	-8.86
	Israel	3.208	3.164	3.111	3.108	3.094	3.191	3.14	-0.84	0.69
	Jordan**	0.710	0.709	0.711	0.709	0.711	0.711	0.00	0.20	-0.24
	Kenya	111.111	111.111	0.009	0.009	0.009	0.009	0.00	1.12	3.37
	Kuwait	0.303	0.303	0.303	0.303	0.303	0.303	0.00	-0.43	0.10
	Lebanon	1,511.47	1,511.32	1,510.79	1,507.75	1,510.84	1,510.71	-0.01	0.01	0.28
	Morocco	9.054	9.083	9.078	9.129	9.207	9.233	0.27	-1.62	-3.50
	Nigeria	414.260	413.950	414.400	413.480	414.110	414.330	0.05	-0.09	-3.99
	Oman**	0.387	0.387	0.387	0.387	0.387	0.387	0.03	0.05	0.49
	Poland	3.758	3.758	3.756	3.757	3.757	3.757	0.00	0.02	-0.07
	Romania	4.248	4.281	4.278	4.323	4.385	4.374	-0.24	-2.14	-9.06
	Qatar**	3.672	3.672	3.670	3.670	3.673	3.672	-0.03	-0.02	0.67
	Russia	70.319	70.938	71.268	72.909	73.481	75.609	2.90	-6.18	-1.58
	Saudi Arabia**	3.758	3.758	3.756	3.757	3.757	3.757	0.00	0.02	-0.07
	South Africa	14.827	15.241	15.053	15.328	15.727	16.286	-3.43	-6.42	-9.77
	Turkey	9.609	9.607	9.692	9.999	11.288	12.337	-8.50	-22.13	-39.69
	Ukraine	3.751	3.751	3.751	3.751	3.751	3.752	0.01	-0.01	0.01
	UAE**	3.674	3.674	3.674	3.674	3.674	3.674	0.00	-0.01	0.03

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)**

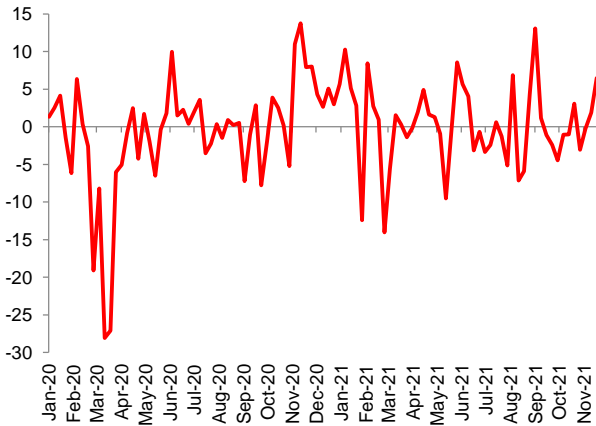
		05-Nov	12-Nov	19-Nov	26-Nov	03-Dec	10-Dec	Change in yield (basis points)		
								Week	MTD	YTD
	Bahrain	304.90	295.73	268.40	270.66	274.04	287.47	13.43	3.82	46.65
	Czech Rep.	34.34	34.17	34.27	34.30	34.80	34.61	-0.19	1.90	-1.13
	Egypt	467.48	468.08	445.43	459.90	468.11	487.22	19.12	7.17	148.19
	Greece	74.21	86.64	85.85	95.18	99.33	112.69	13.36	37.76	11.28
	Hungary	54.29	53.86	53.37	53.34	52.42	54.88	2.47	1.01	-5.34
	Israel	43.03	43.35	41.69	41.14	38.18	39.66	1.48	-4.05	-6.56
	Kenya	366.85	387.58	387.47	388.10	419.16	423.05	3.89	68.96	81.78
	Kuwait	50.64	50.64	50.70	48.88	49.17	50.16	0.99	-3.80	5.93
	Morocco	101.01	101.91	100.25	97.01	95.90	98.99	3.08	-6.54	-13.34
	Nigeria	422.64	430.48	429.96	430.07	430.24	455.78	25.55	22.49	119.64
	Oman	254.93	249.31	247.90	247.72	252.99	261.84	8.85	-4.24	-99.76
	Poland	50.88	50.85	51.63	52.40	54.11	54.13	0.02	4.63	-3.77
	Romania	74.80	74.78	79.87	79.86	79.84	81.36	1.52	-14.61	-3.53
	Qatar	43.18	44.15	40.16	40.22	40.41	44.57	4.16	1.05	6.15
	Russia	82.96	82.82	81.86	94.95	102.74	122.30	19.56	34.63	36.38
	Saudi Arabia	50.04	50.88	46.25	47.06	46.56	53.04	6.49	-0.15	-12.37
	South Africa	211.61	212.84	197.19	195.38	205.77	249.14	43.38	35.70	44.97
	Turkey	462.33	449.78	402.28	406.77	446.39	502.42	56.03	69.48	198.03
	Ukraine	417.09	416.03	415.52	451.06	490.75	551.03	60.28	111.95	162.40
	Abu Dhabi	42.72	44.29	39.69	39.90	39.32	43.51	4.20	0.27	5.14
	Dubai	90.79	92.19	88.15	88.95	89.62	90.66	1.04	-4.93	-21.41

Source: Bloomberg, MUFG Research

# EM capital flows

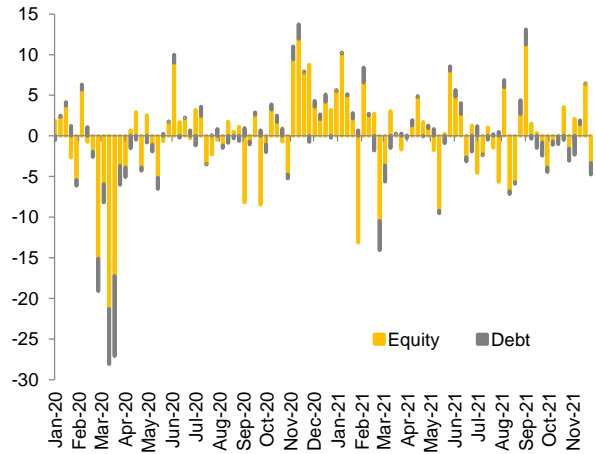
## WEEKLY TOTAL EM INFLOWS OF USD1.7BN – 26 NOVEMBER

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



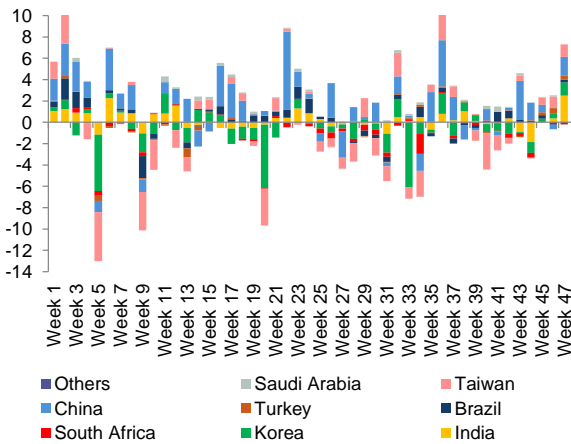
## WEEKLY EM INFLOWS FROM EQUITY (USD1.3BN) AND DEBT INFLOWS (USD0.4BN) – 26 NOVEMBER

WEEKLY DEBT AND EQUITY FLOWS (USD BN)



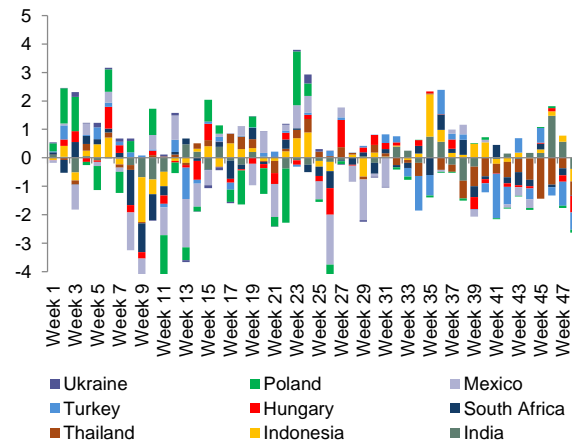
## SOUTH KOREA (USD0.6BN) LED WEEKLY EM EQUITY INFLOWS – 26 NOVEMBER

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



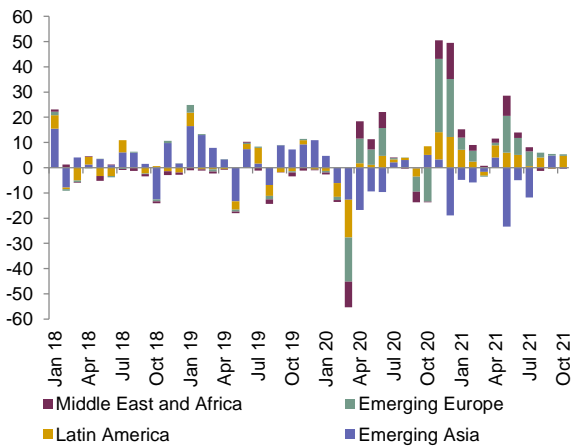
## INDIA (USD0.6BN) LED EM DEBT INFLOWS OFFSET BY THAILAND (USD-0.4BN) LAST WEEK – 26 NOVEMBER

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



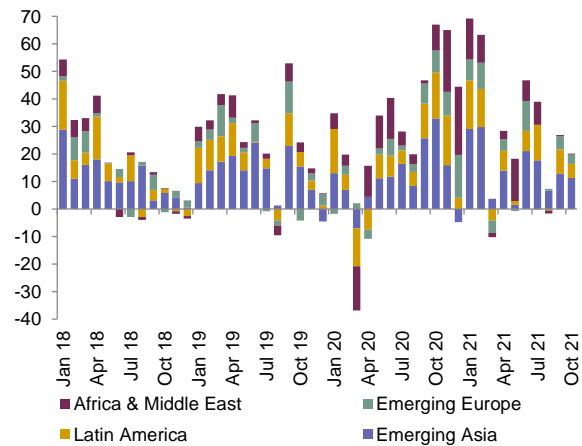
## EM EQUITY FLOWS TOTALLED USD4.8BN IN OCTOBER, LED BY LATAM (USD4.7BN)

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



## EM DEBT FLOWS TOTALLED USD20.1BN IN OCTOBER, LED BY EM ASIA (USD11.2BN) AND LATAM (USD5.2BN)

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



Source: Bloomberg, IIF, MUFG Research

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