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Navigating sticky inflation and inflation expectations

Macro focus: Inflation and inflation expectations across EMs is progressively becoming sticky. Thanks not only to relentlessly rising commodity prices but disconcertingly higher core inflation is risking a wage-price spiral. Furthermore, EMs are having to defend an FX price spiral as tighter US monetary policy leads to currency depreciation. In a world geared towards de-globalisation, de-carbonisation and higher debt levels, there is increasing conviction in the narrative that EM inflation could easily channel into structurally higher inflationary levels in the years to come.

FX views: EM FX has come under great selling pressure over the past week amidst broad-based USD strength with two main drivers behind the concerns. First, markets have been encouraged to keep pricing in even more aggressive tightening from the Fed and other DM central banks. Second, heightened concerns over the outlook for global growth have been driven by the risk of further COVID disruptions in China.

Week in review: A formal Russian sovereign default now looks inevitable on 5 May as Russia's Ministry of Finance considers its obligation of its 4 April bond payment (made in RUB against what bond contracts allow) fulfilled. The Central Bank of Turkey announced a series of adjustments to its reserve requirement rules to bolster macroprudential levers to support financial stability and promote liraisation.

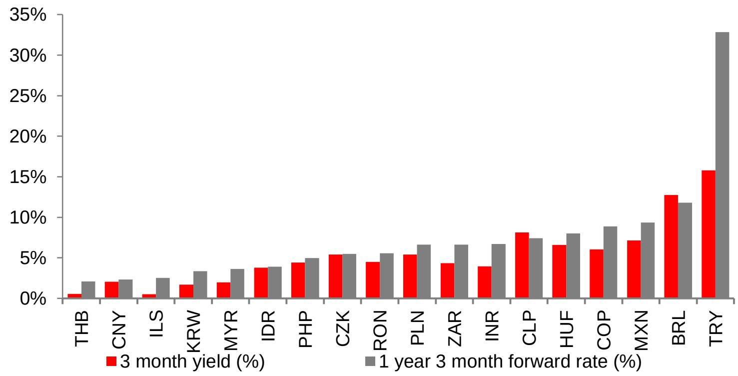
Week ahead and calendar: We expect the Central Bank of Russia to cut rates by 200bp to 15% given its increasing confidence surrounding the financial stabilisation despite the risk of additional sanctions. Hungary is set to hike base rates by 100bp to 5.40%. The Central Bank of Turkey is set to revise its inflation profile higher.

Forecasts at a glance: We continue to expect the easing of pandemic effects to supporting recoveries, although the going will get tougher in EMs – key risks stem from a tightening in global financial conditions and a lower gear in China.

Core indicators: EM witnessed capital outflows of USD-2.7bn last week, driven by equity outflows (USD-2.6bn) and debt outflows (USD-0.1bn), owing to the Ukraine war, Chinese lockdowns and tightening in global liquidity conditions (see here).

CHART OF THE WEEK: INTEREST RATE SWAPS SIGNAL TIGHTER EM POLICY

3 MONTH YIELD VS 1Y3M SWAP RATE ACROSS MAJOR EMERGING MARKETS (%)



Interest rate forwards are pricing in higher 3 month yields in 16 of 18 major EMs over the next 12 months with Brazil and Chile the only outliers. Combined assets under management (AUM) at the 5 largest EM local currency bond ETFs are down 42% from their December 2019 peak and now account for less than 1% of all outstanding debt

Source: Bloomberg, MUFG Research

Macro focus

Navigating sticky inflation and inflation expectations

Inflation is becoming sticky and entrenched across the EM space

Inflation data across the emerging market (EM) complex continues to rise and surprise to the upside. The vast array of inflation shocks in recent months may begin to have a damaging impact on inflation expectations with the persistence of core inflation suggesting that CPI may be more stickier than it might otherwise be given rising risks of wage pressures. Also, the risk of capital outflows from EM as the Fed tightens signals that FX pass-through to inflation in EM might re-emerge as a theme given the fact that inflation is already a central challenge.

EMs have accumulated a series of shocks in recent quarters and its becoming more challenging for inflation expectations to overlook the risk of inflation persistence

Historically, EM inflation expectations are more sensitive to an increase in current inflation than is the case in developed market (DM) economies. At face value, that does not necessarily have to be a major concern if there's some global force that is likely to shift inflation expectations lower. However, the current state of affairs suggests otherwise. At least for now, inflation surprises are elevated, and elevated inflation surprises spur elevated inflation expectations. Inflation expectations are likely to be more susceptible, the more inflationary shocks there are. Since EMs have accumulated a series of shocks in recent quarters, such as a tightening in global liquidity conditions, enduring supply chain frictions and relentless upward shocks to commodity prices – it's becoming more challenging for inflation expectations to overlook the risk of inflation persistence.

Core inflation is increasingly a challenge for EMs with higher wage pressures mounting

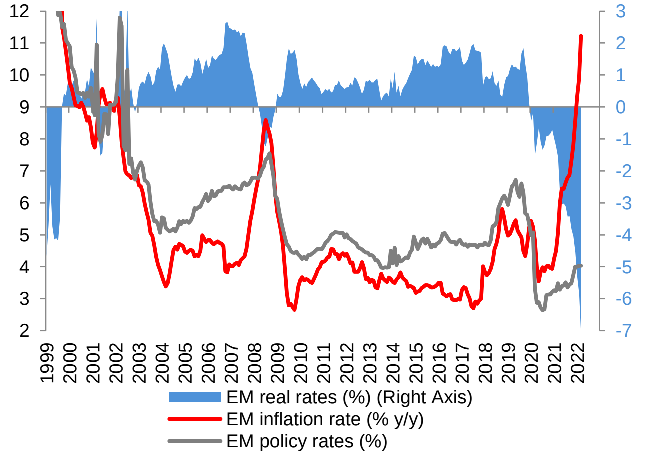
A central challenge for EMs in the current environment relative to elevated inflation levels in the past on the back of a commodity price shock is that core inflation is also elevated. Although the gap between headline and core inflation is high, rising volatile energy and food components are passing through into core prices, with clear signs of second-round inflationary pressures building, in which inflation gets embedded in wage demands and other contracts. Granted, no major EM labour market is rigorously stretched as the US wherein the ratio of job openings to individuals seeking work is significantly high. Having said that, we view that at a minimum relentlessly high EM inflation, combined with rising inflationary expectations, can invigorate higher wage pressures.

EM central banks have been proactive but price pressures are global

A central premise behind our optimism at the start of 2022 that EM inflation may peak then decelerate in the back half of the year was because so many EM central banks had begun the path of monetary policy normalisation early in 2021 by raising rates to

EM INFLATION HAS WITNESSED AN UNPRECEDENTED SURGE, WITH CURRENT LEVELS AT 20 YEAR HIGHS

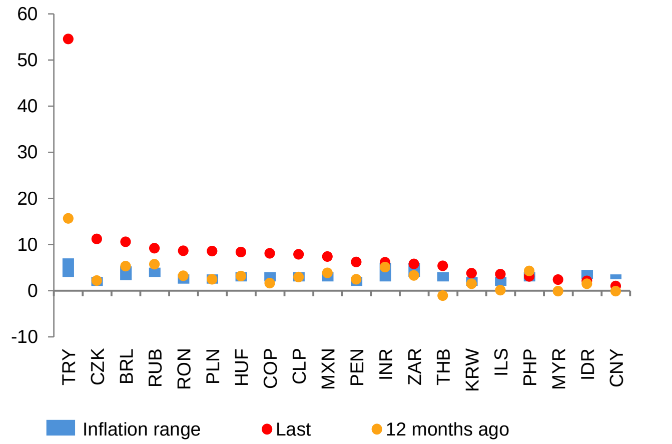
EM WEIGHTED NOMINAL RATES (%), REAL RATES (%), INFLATION (% Y/Y)



Source: Bloomberg, EM Central Banks, MUFG Research

INFLATION IS RUNNING HOT WITH CPI ABOVE CENTRAL BANK TARGES IN 15 OF 19 MAJOR EM'S

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



Source: Bloomberg, EM Central Banks, MUFG Research address the inflation challenge early (see here). However, most of the inflationary pressures last year stemmed from global factors which is high even as domestic price pressures have been low. Thus, should DM inflation, especially US inflation, remain obstinately high, then that is likely to transmit inflationary pressures through to EM in spite of the monetary tightening that's already occurred. This in turn further puts inflation risks on EMs given the effects of DM monetary tightening on capital flows and EM FX, and ultimately on EM inflation dynamics.

FX price spiral risks akin to the 1980s

Beyond the concern of wage price pressures, EMs are confronting exchange rate price pressures. As DM monetary policy tightens, this increases risk aversion towards EMs, which then leads capital outflows from EMs weakening nominal exchange rates, placing additional pressure on inflation – with the most pressure on those most vulnerable to the largest outflows. Case in point is the early 1980s, wherein the Fed tightened monetary policy precipitously, which triggered capital outflows from EMs and thereafter began a debt crisis with considerable FX depreciation. Granted, compared to the 1980s, EMs are in a healthier position. External financing needs are lower, FX reserves are stronger, inflation targeting is widespread and currencies are broadly not overvalued. Though, we recognise the risks and flag that if one adds a large currency depreciation to an economy that is already dealing with accelerated inflation, it is comprehendible to envisage that exchange rate pass-through to CPI may be higher too. As a result, we anticipate the inflation effects of FX depreciation are worth factoring into EM prospects at the current juncture.

De-globalisation, de-carbonisation and higher debt levels suggests that EM inflation could easily channel into structurally higher inflationary levels in the years to come

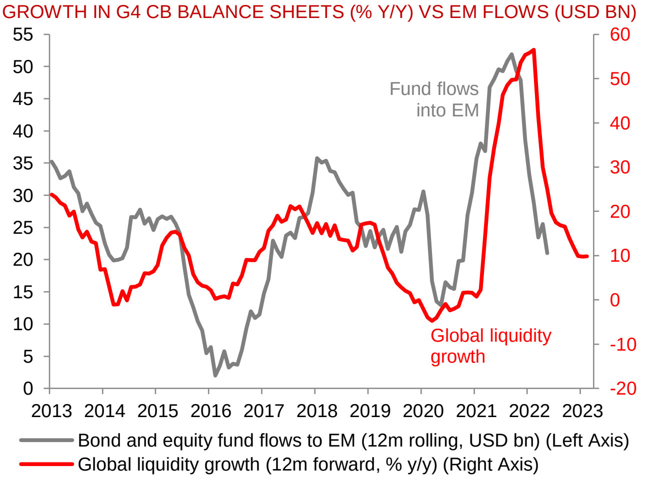
In a world geared towards de-globalisation, de-carbonisation and higher debt levels, there is increasing conviction in the narrative that EM inflation could easily channel into structurally higher inflationary levels in the years to come. If rising protectionism limits EM's trade openness, then inflation expectations could become more sensitive. Equally, rising public debt is likely to raise the sensitivity of inflation expectations, and public debt ratios have indeed been shocked upwards in recent years. Hence, as de-globalisation rises and public debt rises, inflation is a stickier problem.

Prospects of inflation and inflation expectations becoming sticky across the EM complex is a core risk

Overall, inflation and inflation expectations across EMs is progressively becoming sticky. Thanks not only to relentlessly rising commodity prices but disconcertingly higher core inflation is risking a wage-price spiral. Furthermore, EMs are having to defend an FX price spiral as tighter US monetary policy leads to currency depreciation. Beyond this potential drag on growth, EM assets might be need to trade at a greater structural discount due to inflation uncertainty with a higher risk premium attached to inflation forecasts that needs to be reflected in the price.

DEVELOPED MARKET CENTRAL BANKS TAPERING HAS LED TO A COLLAPSE IN EM CAPITAL INFLOWS

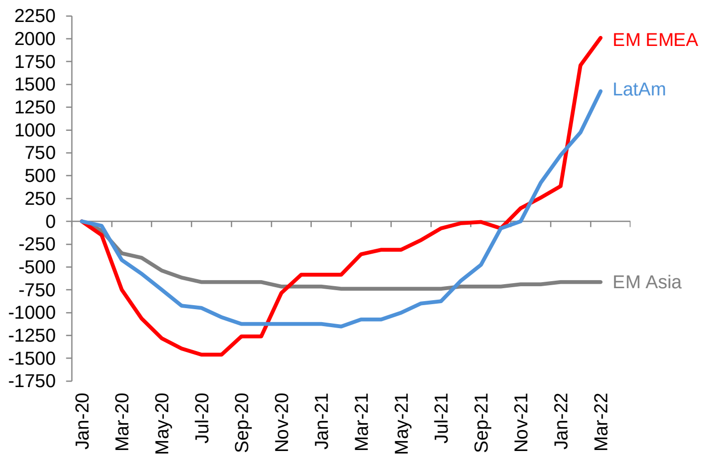
GROWTH IN G4 CB BALANCE SHEETS (% Y/Y) VS EM FLOWS (USD BN)



Source: Bloomberg, BoE, BoJ, ECB, Fed, IIF, MUFG Research

SHEER VELOCITY OF FRONT-LOADED RATE RISES ACROSS EM EMEA AND LATAM HAS BEEN SIGNIFICANT

CUMULATIVE INTEREST RATE CHANGE (%, REBASED 0 = JANUARY 2020)



Source: IIF, MUFG Research

FX views

EM FX: Building concerns over global growth weigh down on EM FX

Asian and LatAm FX adjusting lower against USD as global growth concerns continue to build

EM currencies have come under greater selling pressure over the past week amidst broad-based USD strength. The hardest hit EM currencies have been the commodity-related currencies of the ZAR (-6.3% vs. USD), COP (-3.2%), BRL (-3.0%) MXN (-2.8%), and the CLP (-2.4%). At the same time, the relatively sharp weakening of the CNY (-2.9%) stands out as well which has had a negative spill-over impact on other Asian currencies in particular for the MYR (-2.3%) and KRW (-1.2%). The weakness in emerging market currencies reflects more concern over downside risks to the outlook for global growth. It has even triggered a correction lower for commodity prices over the past week alongside the ongoing sell offs in global bond and equity markets. Bloomberg's commodity index has fallen by around 7% from the recent peak.

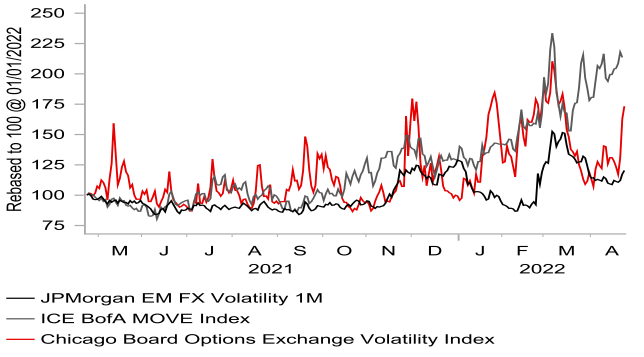
The increasingly fast pace of expected monetary tightening is becoming more challenging for markets to digest

There have been two main drivers behind the heightened concerns over the outlook for global growth. Firstly, market participants have been encouraged to keep pricing in even more aggressive policy tightening from the Fed and other DM central banks that is proving more challenging for markets to digest. The US rate market has now moved to almost fully price in four consecutive larger 50ps hikes from the Fed up to the September FOMC meeting, and the terminal policy rate has risen towards 3.25%. At the same time hawkish comments from ECB officials have encouraged European rate market participants to fully price in a 25bps hike by 21 July meeting and at least two more 25bp hikes by year end. The ongoing tightening of global financial conditions is continuing to trigger capital outflows from emerging markets. According to IIF data, EMs witnessed capital outflows of USD-2.7bn in the latest week.

Risk of further COVID-related disruption in China is adding to global growth concerns & providing additional headwind for EM FX performance

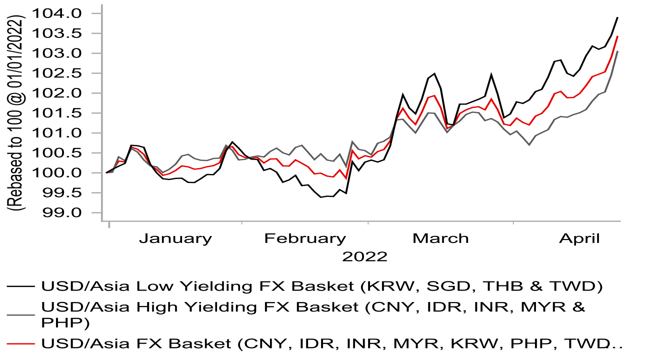
Secondly, heightened concerns over the outlook for global growth have been driven by the risk of further COVID disruption in China. It has been reported over the weekend that Beijing has sealed off dozens of residential compounds and told inhabitants of the eastern district of Chaoyang to be tested three times this week after dozens of infections were found. The developments have sparked fears that Beijing could follow Shanghai into a lockdown as the Chinese government is still sticking to their zero-COVID strategy. New COVID cases in Shanghai have been falling but it still recorded 19,455 new cases on Sunday. The heightened risk of further restrictions being imposed is reinforcing expectations for a bigger growth slowdown in Q2, and for 2022 as whole. The renminbi has weakened sharply over the past week alongside the cyclical slowdown and loss of yield advantage which is encouraging speculation that policy makers could use CNY weakness to provide more support for the economy.

SPILL-OVERS FROM HIGHER US RATE VOL



Source: Bloomberg, Macrobond & MUFG Research

ASIA FX WEAKNESS BECOMING MORE EVIDENT



Source: Bloomberg, Macrobond & MUFG Research

Week in review

EM capital flows: investors continue to withdraw capital from EM funds

Another weak of bleak EM returns centred on a downward revision to global growth by the IMF, Chinese COVID concerns and the war in Ukraine

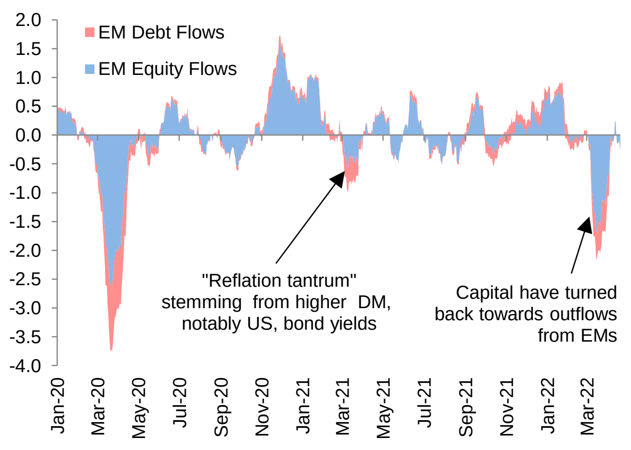
This was another week of bleak returns for EM assets. Investor sentiment deteriorated further due to continued re-pricing of tighter monetary policy by DM central banks and ongoing tightening of financial conditions. Moreover, downward revisions to global economic activity by the IMF (World Economic Outlook, 19 April 2022), along with rising COVID challenges in China and the ongoing war in Ukraine continues to add to the bleak market mood. Among all the external headwinds, we are most concerned by the pivot in the monetary policy outlook, as it will likely have the most acute implications on global liquidity conditions as well as economic activity. Markets are already pricing nearly 250bp of hikes from the Fed, while the pricing for European Central Bank (ECB) implies that the policy rate would turn decisively positive by the end of the year. This signals that one of the main drivers of EM returns, namely looser financial conditions, is unlikely to be as supportive as it was back in late 2020 and parts of 2021. Having said that, there are still some positive bottom-up stories, and we like to take selective, calculated risk in EM. We stick to the winners from elevated commodity prices and to those with responsible macro policies, hence offering a sizeable risk premium (see here).

EMs witnessed another week of capital outflows (USD-2.7bn) in the week ending 22 April, owing to broader contagion from the geopolitical crisis as well as ongoing tightening in global liquidity conditions

According to IIF data, EMs witnessed capital outflows of USD-2.7bn, driven by equity outflows (USD-2.6bn) and debt outflows (USD-0.1bn). The rationale has been broadly consistent over weeks – broader contagion from the geopolitical crisis as well as ongoing tightening in global liquidity conditions (see here, here and here). We acknowledge that potential adverse tail risks stemming from the conflict are rising which may yet translate into deeper and more prolonged disruptions. With this, whilst 2021 is well behind us, it's legacy is likely to stay with us, as most of the factors that had an impact on the investing environment and fund flows are likely to stay in 2022, at least in the first half (see here). Among those, the most concerning factor for fund flows is the waning global liquidity – the pace of growth in global liquidity has already rolled over, and we are witnessing the pullback in the pace of EM fund flows already. Barring seasonal effects, it is likely that EM fund flows will be less pronounced in 2022 relative to 2021 (see here). Finally, from an asset markets perceptive, historically, EM credit outperforms into Fed lift-offs, but this time around EM local rates is doing better.

CAPITAL IS SHARPLY FLOWING OUT OF EM'S ON A 28 DAY ROLLING BASIS ON HEIGHTENED RISK AVERSION

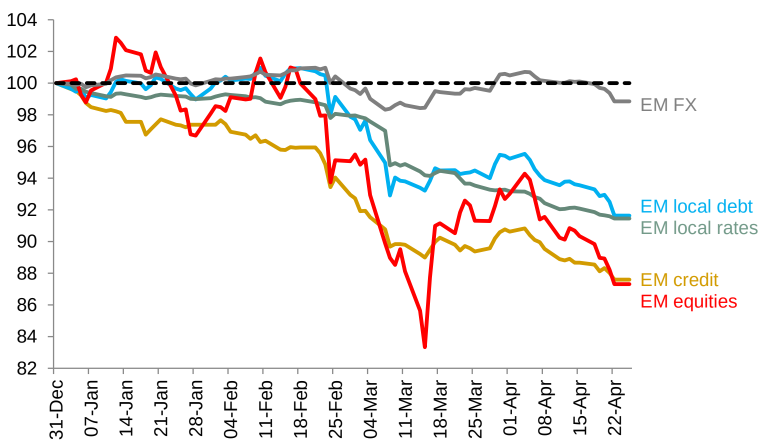
EM EQUITY AND DEBT FLOWS (USD BN), 28 DAY ROLLING AVERAGE



Source: Bloomberg, IIF, MUFG Research

SELL-OFF ACROSS ALL MAJOR EM ASSET CLASSES CONTINUES GIVEN CONFLICT AND THE HAWKISH FED

EM EQUITIES, FX, RATES, CREDIT AND DEBT (1 JANUARY 2022 = 100)



Source: Bloomberg, MUFG Research

South Africa: inflation rises to 5.9% y/y in March with rate hikes to continue

Headline inflation in South Africa rises by 0.2ppts to 5.9% y/y in March owing to higher energy and core price pressures

Headline inflation rose from 5.7% y/y in February to 5.9% y/y in March (slightly below our and consensus expectations of 6.0% y/y), while core increased from 3.5% to 3.8% (slightly above our and consensus forecasts of 3.8% y/y). Petrol inflation and alcohol as well as tobacco prices were the main drivers of the increase, with core inflation also rising. Factoring into consideration this outturn, combined with the government's temporary reduction in the fuel levy in April and May, and the delay in some medical insurance premium increases until later in the year, we forecast headline CPI averaging 5.9% y/y in 2022 and 4.8% in 2023. The risks to our inflation outlook remain skewed to the upside, including higher fuel and food prices, elevated producer prices both globally and locally, and upside pressures from rising inflation expectations and unit labour costs.

Turkey: CBRT announces adjustments to its reserve requirement policy

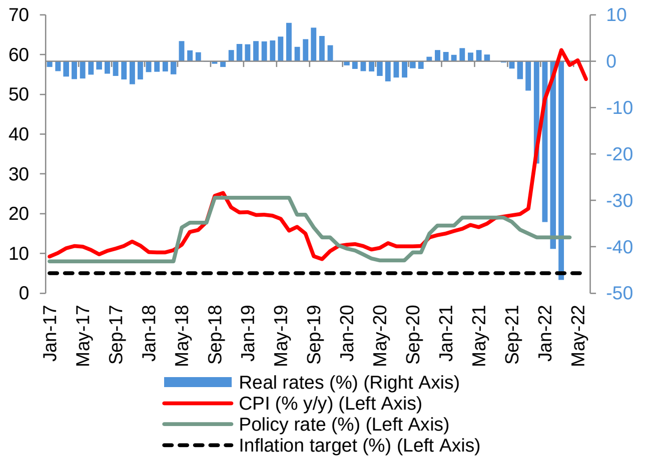
Turkey revises reserve requirement rules on loans

On 23 April, the Central Bank of Turkey (CBRT) made a number of adjustments to its reserve requirement rules with the objective to bolster its macroprudential levers to support financial stability and promote liraisation. According to the CBRT's statement:

1. Certain loans will now be subject to reserve requirements, in addition to the standard reserve requirements on deposits.
2. Commercial loans, which have been extended in four week periods since 1 April 2022, shall be subject to a reserve requirement of 10% of the said loans during the maintenance periods of four weeks.
3. For banks with a loan growth rate above 20% by 31 May 2022 compared to 31 December 2021 – the difference between their outstanding loan balances on 31 March 2022 and 31 December 2021 shall be subject to reserve requirements of 20% of this difference, for a period of 6 months.
4. In order to differentiate FX deposit/participation fund reserve requirement ratios according to the conversion rate of real person's FX accounts to TRY accounts, and accordingly, based on this conversion rate, the CBRT has been decided to implement an additional reserve requirement of, (i) 500 basis points for banks with a conversion rate below 5%; and (ii) 300 basis points for banks with a conversion rate between 5% and 10%.
5. Reserve requirement ratios of financing companies, which were 0%, have now been set at the same level as banks, and their liabilities to domestic

TURKEY CONTINUES TO MAINTAIN RATES AT 14% BUT DEEPLY NEGATIVE REAL RATES ARE UNSUSTAINABLE

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



Source: Bloomberg, CBRT, MUFG Research

RUSSIAN SOVEREIGN DEFAULT IS SET ON 5 MAY WITH ALL EXTERNAL BONDS THEN CROSS-ACCELERATED

RUSSIA EXTERNAL BOND PAYMENTS – RECENT AND MOST UPCOMING

Date	Bond	Initial CCY	Alt. payment CCY	Principal (USD m)	Interest (USD m)	Status
16-Mar	Sep-2023	USD	---	0	73	Paid
16-Mar	Sep-2043	USD	---	0	44	Paid
21-Mar	Mar-2029	USD	GBP, EUR, CHF, RUB	0	66	Paid
28-Mar	Mar-2035	USD	GBP, EUR, CHF, RUB	0	102	Paid
31-Mar	Mar-2030	USD	---	359	88	Paid
04-Apr	Apr-2022	USD	---	1,448	33	Paid RUB
04-Apr	Apr-2022	USD	---	552	9	Paid RUB
04-Apr	Apr-2042	USD	---	0	84	Paid RUB
27-May	May-2026	USD	GBP, EUR, CHF	0	71	
27-May	May-2036	EUR	USD, GBP, CHF, RUB	0	29	
23-Jun	Jun-2027	USD	GBP, EUR, CHF	0	51	
23-Jun	Jun-2047	USD	GBP, EUR, CHF	0	184	
24-Jun	Jun-2028	USD	---	0	159	

Source: Bloomberg, MUFG Research

banks have been included in the scope of reserve requirements.

We expect the CBRT to reluctantly reverse course and hike rates by 600bp in H2 2022

Whilst the timing of the announcement has taken us by surprise, these measures are entirely consistent with our expectations of the CBRT's direction of travel that we have catalogued (see here), wherein policy adjustment is being conducted in a heterodox fashion. The authorities have explicitly advocated that orthodox measures through rate hikes is not currently preferred to support liraisation. On net, the weekend announcements targeted at preventing the recent surge in loan growth from rising further, while keeping funding for priority sectors unaffected, will ultimately still require a return to conventional monetary policy. Looking ahead, we reiterate our conviction that the CBRT will likely change course and tighten policy in an orthodox manner later this year, but do so reluctantly – our base case is for the CBRT to raise rates from a trough of 14% to 20% by end-2022 (see here and here). Our rationale is centred on the premise that the acute deterioration in the inflation outlook, in tandem with the fragility of the TRY, as well as the risk premium since the inception of the rate cuts in September 2021, necessitates a significantly tighter monetary policy stance to anchor expectations and promote price stability. With real policy rates so deeply negative (-47%), the current monetary policy stance is unambiguously unsustainable and the pressure on the TRY is likely to continue in the absence of a policy U-turn.

Russia: formal sovereign default is likely on 5 May

Russia's march towards a formal default is drawing ever closer

We had recently documented that sanctions and disrupted payment systems have left holders of bonds sold by Russia and its companies bracing for defaults (see here). Following five successful payments on external sovereign bonds since the invasion of Ukraine began on 24 February, the sixth payment on 4 April by Russia – a total of USD2bn on a 2022 bond in addition to interest of USD126m in total across a 2022 and 2042 bond – was made in Russian Roubles (RUB), against what the bond contract permitted. The Russian Ministry of Finance has stated that given its foreign correspondent bank declined to execute the order to make the payment, it instead sent the payment to the National Settlement Depository (NSD) denominated in RUB. This is a technical breach of the bond contract terms given that the payment needs to be made in USD and to a US bank. Thus, while there is still a chance another payment is made in USD to US banks before the 30 day grace period expires on 4 May, Russia's Ministry of Finance has stated that it considers its obligation fulfilled. This sets the stage for a formal default of contractual obligations (on Russia's 2022 and 2042 bonds) on 5 May. At that point, bond holders would either have to wait for a resolution or commence litigation, although the precise process given the unprecedented nature of current state of affairs remains highly uncertain.

Ratings into selective default

S&P announced on 8 April that it has moved Russia's unsolicited rating to selective default due to the RUB payment, ahead of the grace period expiry, and thereafter withdrew its rating in line with the EU requirement for all Russia ratings to be withdrawn. On 14 April, Moody's stated that the payment in RUB was not it line with the contractual obligations (but no mention to ratings was mentioned due to EU restrictions).

EM contagion is limited this time around with the war in Ukraine and higher EM inflation the more serious contagion risk to EM sovereigns

Should a formal sovereign default be announced on 5 May, our expectations is that it is unlikely to have the same magnitude of reverberations on broader EMs as it did back in 1998. Granted, Russia's external debt levels are elevated in USD terms and prices have precipitously declined, however, EMs are materially more diversified now. Moreover, following the Russian invasion of Crimea in 2014, risk management strategies pertaining to Russia were strengthened due to debt sanctions.

Furthermore, bonds were removed from most EM indices at a zero market value, allowing more flexibility for holders regarding when to sell. Rather, we believe that the vacuum as to how the war in Ukraine will pan out, alongside rising commodity prices and its impact on EM inflation, as the more serious contagion to EM sovereigns at the current juncture.

Week ahead

Russia: CBR to cut rates by a further 200bp following 300bp cuts on 8 April

Russia set to cut rates by a further 200bp to 15%

The Central Bank of Russia (CBR) will hold its scheduled Monetary Policy Committee (MPC) meeting on 29 April. Following the surprise cut from 20% to 17%, the CBR has been vocal that it wants to continue its easing cycle given its confidence surrounding the recent stabilisation can be maintained despite the ongoing conflict and risk of additional sanctions. With this, we forecast the CBR to cut rates by 200bp in line with consensus, taking policy rates to 15%. The RUB has strengthened markedly in recent weeks, reflecting the impact of capital controls, monetary tightening and Russia's growing current account surplus. Meanwhile, the weekly pace of price growth slowed in April, most recently to 0.2%. Annual inflation is set to continue to gain in the coming months given the base effects, but the CBR is likely to draw some comfort from the improvement in the weekly price growth data. Meanwhile, according to the CBR's banking sector report, total deposits in the banking system have returned to the end-February by the end of March (and were down only 2% compared with the end of January). This compares to an initial outflow of deposits in the first two weeks post the invasion of RUB2.4tn (7% of total). As a result, the banking sector has returned to a liquidity surplus. Looking ahead, the CBR's reaction function now places less weight on returning inflation to target at any cost and more on domestic confidence in the RUB and financial stability. Absent any new risks to financial stability, we view that CBR will mostly look at current inflation momentum in determining the appropriate level of rates. With this, we expect the CBR to ease rates to 12% by end of 2022, starting with a cut of 200bp this week.

Hungary: MNB to hike the base rate by 100bp to 5.40%

Hungary to continue to hike its base rate

The National Bank of Hungary (MNB) will meet on 26 April. We forecast the MNB to raise the base rate by 100bp to 5.40% (consensus 5.40%). Given the stabilisation in the Hungarian Forint (HUF) and the downside surprise to the March inflation print (8.5% y/y), the immediate pressures to tighten policy at the short end have likely abated. Reflecting this, our base case is for the MNB to deliver only a 30bp rate hike to the one-week depo rate to 6.45%, the rate anchoring the money market this week.

Turkey: CBRT Q2 2022 inflation report is set to see inflation revised higher

Turkey is set to revise inflation higher

The Central Bank of Turkey (CBRT) will publish its second inflation report of the year on 28 April. We expect the CBRT to revise its inflation forecasts as its estimate of 23.2% y/y for end-2022 inflation (from the January report) has become out-of-date. Reaching this inflation rate would require prices to largely remain unchanged in the remaining 9 months of the year, which is very unlikely. We see inflation peaking close to 70% y/y in May and staying north of 60% y/y until December, when – due to a very strong base effect – it could fall to 46% y/y. This is based on the assumption that the TRY remains stable in real terms, helped by the FX protected TRY deposits scheme and by tourism-related inflows in summer months.

Poland: inflation to continue rising in April

Poland inflation to print at 11.1% y/y in April

Poland inflation in April is set to rise further. We forecast inflation from 11.0% y/y in March to 11.1% y/y in April (consensus 11.3% y/y). Some of the pressures that have driven inflation in March higher have eased, with oil prices moderating and high frequency fuel data showing a decline on the month. Though, strong food prices as well as core inflation is set to continue exerting upward pressures on inflation, ad see mostly upside risks to inflation in the near term.

Weekly calendar

	Country	Day	GMT	Indicator/Event	Period	MUFG Forecast	Consensus	Previous	Market Moving
	Hungary	26/04/2022	13:00	Monetary policy meeting (%)	Apr	5.40%	5.40%	4.40%	!!!
	Kenya	29/04/2022	---	CPI, % y/y	Apr	---	---	5.6%	!!
	Czech Rep.	29/04/2022	08:00	Real GDP, % y/y	Q1-22A	4.3%	4.3%	3.6%	!!!
	Poland	29/04/2022	09:00	CPI, % y/y	Apr	11.1%	11.3%	11.0%	!!!
	Russia	29/04/2022	11:30	Monetary policy meeting (%)	Apr	15.00%	15.00%	17.00%	!!!
	S. Africa	29/04/2022	13:00	Fiscal data (ZAR bn)	Mar	---	-ZAR30.5bn	---	!!

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	2021	2022	Latest	2021	2022	Latest	2021	2022
Bahrain	18.44	6.00	3.50	-10.61	-8.00	-8.02	-2.06	-2.90	-2.87
Czech Rep.	3.60	2.90	3.00	0.27	-8.03	-5.47	5.02	1.57	0.82
Egypt	4.63	3.30	5.50	-7.41	-7.33	-6.33	-4.17	-3.88	-3.66
Greece	13.17	6.50	4.30	0.57	-10.25	-4.29	-2.70	-7.41	-5.14
Hungary	7.10	7.30	4.30	-2.05	-6.60	-5.94	-4.59	0.60	0.88
Iraq	4.43	3.60	6.70	0.86	-1.55	-2.53	1.12	6.16	4.00
Israel	11.00	7.00	5.00	-3.91	-6.81	-4.33	5.61	4.46	3.82
Jordan	1.96	2.00	2.20	-5.98	-7.69	-5.94	-8.59	-8.93	-4.45
Kenya	5.37	5.50	5.60	-7.73	-8.01	-6.67	-5.82	-5.04	-5.10
Kuwait	0.43	4.50	6.40	5.38	-1.47	0.99	3.06	15.51	13.27
Lebanon	-6.90	-5.20	2.00	-10.50	---	---	-27.45	---	---
Libya	9.89	123.20	5.30	2.19	6.77	12.46	-0.30	19.23	15.39
Morocco	6.60	5.70	3.10	-4.13	-6.49	-5.91	-3.95	-3.07	-3.25
Nigeria	3.98	2.50	5.60	-4.76	-6.11	-5.96	-3.49	-3.22	-2.25
Oman	-0.83	2.70	0.90	-7.06	-2.57	1.11	-4.38	-5.75	-0.94
Poland	7.30	5.00	4.50	-0.74	-4.25	-1.90	1.08	2.26	1.56
Romania	2.35	7.60	3.00	-4.56	-6.70	-5.59	-10.07	-5.71	-5.53
Qatar	2.00	2.90	6.00	4.93	2.78	5.68	-27.67	8.20	11.56
Russia	4.08	4.40	-7.00	1.92	-0.56	0.02	1.11	5.74	4.41
Saudi Arabia	6.70	4.50	11.20	-4.45	-3.05	2.79	-0.39	3.87	3.79
South Africa	1.70	5.10	1.60	-2.27	-8.44	-6.99	1.22	2.88	-0.86
Turkey	9.14	9.80	1.60	-5.65	-4.92	-5.58	0.00	-2.42	-1.61
Ukraine	6.10	4.00	-28.00	-2.04	-4.50	-3.50	1.35	-0.69	-2.44
UAE	5.30	5.00	5.00	-0.76	-0.54	-0.22	2.44	9.67	9.37

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	3.20	3.90	1.90	2.50	2.50	3.00	0.377	0.377	0.377
Czech Rep.	12.70	3.90	11.30	5.00	3.75	5.50	24.432	24.886	21.380
Egypt	10.50	5.40	7.90	9.25	7.75	11.50	18.553	15.723	15.420
Greece	8.85	-0.10	0.40	0.00	0.00	0.40	1.075	1.137	1.132
Hungary	8.50	4.90	7.80	4.40	2.40	5.50	348.0	324.5	314.70
Iraq	5.10	6.40	5.00	4.00	4.00	5.00	1460	1460	1460.000
Israel	3.48	1.50	2.80	0.35	0.35	0.50	3.285	3.103	3.100
Jordan	2.47	1.60	2.00	3.50	3.50	2.00	0.709	0.709	0.709
Kenya	5.60	6.00	5.90	7.00	7.00	9.50	115.680	113.140	113.040
Kuwait	4.37	2.90	3.40	1.75	1.75	3.00	0.306	0.303	0.303
Lebanon	208.13	124.10	85.00	2.75	2.75	7.75	1511.950	1512.330	1512.330
Libya	4.56	21.10	8.00	3.00	3.00	3.00	4.730	4.597	4.597
Morocco	5.30	1.40	1.20	1.50	1.50	1.50	9.883	9.252	9.250
Nigeria	15.90	17.30	12.00	11.50	11.50	14.00	416.520	424.830	440.500
Oman	3.59	1.30	2.00	0.43	0.43	14.00	0.385	0.385	0.385
Poland	11.00	4.90	10.00	4.50	1.75	5.50	4.318	4.035	3.948
Romania	10.15	5.30	11.90	3.00	3.00	5.50	4.600	4.353	4.388
Qatar	4.42	1.60	4.00	1.25	1.25	2.50	3.641	3.642	3.642
Russia	16.69	6.60	16.60	17.00	5.75	15.00	118.690	74.679	71.130
Saudi Arabia	2.04	3.10	2.20	0.75	0.75	2.50	3.751	3.755	3.755
South Africa	5.90	4.50	6.20	4.25	3.50	4.75	15.619	15.937	15.800
Turkey	61.14	17.90	62.00	14.00	14.00	20.00	14.758	13.317	14.250
Ukraine	13.70	9.40	15.30	10.00	10.00	14.00	29.245	27.285	29.800
UAE	2.50	0.10	1.20	0.65	0.65	2.00	3.673	3.673	3.673

Core indicators

EM EMEA sovereign bond yields (%)

	Maturity	25-Mar	01-Apr	08-Apr	15-Apr	22-Apr	Change in yield (basis points) Week	MTD	YTD
Bahrain	10 years	3.44	3.44	3.54	3.64	3.94	30.16	50.12	140.14
Czech Rep.	10 years	4.15	3.85	4.31	4.30	4.45	15.06	59.71	136.75
Egypt	9 years	9.11	8.36	8.55	9.29	10.08	78.89	172.16	291.49
Greece	8 years	2.12	2.05	2.07	2.27	2.40	12.81	34.31	128.90
Hungary	8 years	6.62	6.27	6.92	6.82	6.92	10.20	64.83	245.79
Israel	8 years	1.16	1.20	1.30	1.49	1.64	14.88	43.66	142.45
Jordan	5 years	5.88	5.81	5.91	6.35	6.66	31.16	85.02	239.32
Kenya	7 years	8.58	7.96	8.25	8.77	9.93	115.54	196.75	421.93
Kuwait	6 years	2.43	2.60	2.84	2.98	3.15	16.99	54.67	145.31
Lebanon	9 years	56.65	54.10	53.14	52.09	54.10	200.61	-0.35	-990.42
Morocco	11 years	3.82	3.71	3.81	4.19	4.38	19.36	67.87	198.71
Nigeria	9 years	8.59	8.12	8.41	8.74	9.10	35.29	97.81	170.78
Oman	9 years	5.43	5.24	5.21	5.36	5.62	26.18	37.57	86.85
Poland	8 years	1.28	1.26	1.33	1.50	1.60	10.45	34.30	143.35
Romania	7 years	3.24	3.16	3.30	3.37	3.63	26.09	47.52	207.93
Qatar	9 years	3.07	3.09	3.20	3.33	3.59	25.53	50.08	133.77
Russia	5 years	53.11	53.45	56.55	53.28	53.59	30.55	32.79	-87.51
Saudi Arabia	8 years	3.01	3.04	3.15	3.45	3.58	13.23	53.57	143.29
South Africa	9 years	5.25	5.13	5.10	5.46	5.72	26.38	59.38	150.38
Turkey	7 years	8.14	7.67	8.16	8.11	8.19	7.88	51.60	96.87
Ukraine	8 years	35.51	30.14	31.45	34.30	36.28	198.23	614.19	2,680.03
Abu Dhabi	6 years	2.56	2.59	2.84	2.97	3.12	15.51	53.94	137.20
Dubai	8 years	3.12	3.16	3.38	3.50	3.73	23.06	56.31	114.67

EM EMEA equity market (index)

	18-Mar	25-Mar	01-Apr	08-Apr	15-Apr	22-Apr	Change (%) Week	MTD	YTD
Bahrain	1,969	2,004	2,079	2,094	2,104	2,068	-1.70	-0.27	15.06
Czech Rep.	111,112	117,457	120,260	118,228	116,147	111,078	-4.36	-7.43	5.97
Egypt	10,420	11,511	11,241	11,529	10,729	10,548	-1.68	-6.14	-11.72
Greece	825	868	890	893	921	950	3.07	7.99	6.31
Hungary	44,126	44,338	46,708	43,787	41,767	42,452	1.64	-5.09	-16.30
Israel	1,930	2,023	2,036	2,059	2,024	2,011	-0.62	-0.50	1.67
Jordan	2,225	#N/A N/A	2,218	2,229	2,324	2,400	3.28	7.71	13.28
Kenya	159	159	159	158	155	155	-0.09	-0.57	-6.97
Kuwait	7,824	7,934	8,128	8,154	8,243	8,330	1.05	2.25	18.27
Lebanon	658	658	658	658	658	658	0.00	1.62	-2.69
Morocco	12,705	12,820	12,721	12,878	12,972	13,157	1.43	2.65	-1.51
Nigeria	47,341	47,157	46,843	46,777	47,367	48,200	1.76	2.63	12.84
Oman	4,343	4,314	4,195	4,137	4,241	4,195	-1.09	-0.25	1.58
Poland	2,000	2,122	2,172	2,123	2,094	1,930	-7.83	-9.52	-14.86
Romania	12,317	12,739	12,769	12,849	12,618	13,004	3.06	2.30	-0.44
Qatar	13,237	13,397	13,639	13,670	14,192	13,764	-3.02	1.71	18.39
Russia	---	---	2,408	2,663	2,541	2,192	-13.72	-18.91	-42.11
Saudi Arabia	12,408	12,881	13,101	13,207	13,395	13,496	0.75	3.10	19.63
South Africa	64,292	69,146	67,911	68,344	66,200	63,313	-4.36	-7.58	-5.58
Turkey	2,079	2,189	2,207	2,326	2,464	2,482	0.76	11.16	33.63
Ukraine	519	519	519	519	519	519	0.00	0.00	-0.68
Abu Dhabi	9,480	9,632	9,902	10,090	10,040	10,043	0.70	0.95	18.31
Dubai	3,305	3,350	3,515	3,502	3,489	3,654	0.89	3.60	14.32

EM EMEA FX against USD*

	18-Mar	25-Mar	01-Apr	08-Apr	15-Apr	22-Apr	Change (%) Week	MTD	YTD
USD Index	98.618	98.622	97.792	99.599	100.321	101.547	1.22	3.29	6.14
Bahrain**	0.378	0.378	0.378	0.378	0.378	0.378	0.00	0.00	0.26
Czech Rep.	22.315	22.450	22.057	22.528	22.565	22.725	0.71	-2.94	-3.72
Egypt	15.723	18.315	18.282	18.349	18.382	18.553	0.93	1.48	18.00
Greece***	1.109	1.100	1.107	1.088	1.083	1.075	-0.71	-2.86	-5.44
Hungary	334.440	341.340	332.170	347.740	347.540	348.030	0.14	-4.56	-6.77
Israel	3.230	3.218	3.191	3.232	3.219	3.285	2.08	-2.88	-5.54
Jordan**	0.710	0.710	0.710	0.710	0.710	0.709	-0.13	0.00	0.00
Kenya	114.943	114.943	0.009	0.009	0.009	0.009	-1.15	1.16	2.33
Kuwait	0.306	0.306	0.306	0.306	0.306	0.306	0.00	-0.54	-1.00
Lebanon	1,510.89	1,513.10	1,510.25	1,511.95	1,511.95	1,511.95	0.00	-0.11	0.03
Morocco	9.771	9.714	9.687	9.759	9.808	9.883	0.77	-1.99	-6.39
Nigeria	415.440	415.970	415.930	415.850	415.700	416.520	0.20	-0.14	2.00
Oman**	0.386	0.385	0.385	0.385	0.385	0.385	-0.03	0.00	0.31
Poland	3.757	3.757	3.758	3.757	3.760	3.757	-0.07	0.02	-0.08
Romania	4.460	4.500	4.466	4.542	4.562	4.600	0.84	-2.93	-5.38
Qatar**	3.674	3.673	3.678	3.672	3.670	3.664	-0.18	0.39	0.28
Russia	102.458	102.123	81.222	79.719	82.305	74.545	-9.43	8.96	0.84
Saudi Arabia**	3.757	3.757	3.758	3.757	3.760	3.757	-0.07	0.02	-0.08
South Africa	14.922	14.525	14.612	14.744	14.663	15.619	-6.12	-6.45	2.04
Turkey	14.697	14.823	14.672	14.739	14.609	14.757	-1.00	-0.58	-9.85
Ukraine	#N/A N/A	29.400	29.400	29.400	29.400	29.245	-0.53	0.53	-6.70
UAE**	3.673	3.673	3.673	3.673	3.673	3.672	-0.01	0.01	0.04

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)

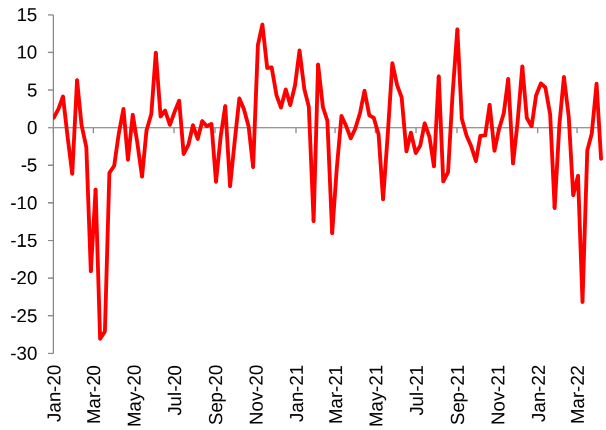
	18-Mar	25-Mar	01-Apr	08-Apr	15-Apr	22-Apr	Change in yield (basis points) Week	MTD	YTD
Bahrain	307.57	297.95	291.81	294.41	296.06	294.51	-1.55	-0.88	0.68
Czech Rep.	45.51	44.61	41.02	39.71	39.84	39.99	0.16	0.34	4.37
Egypt	801.67	793.74	587.81	536.13	546.32	603.64	57.32	68.32	105.61
Greece	143.31	139.09	132.33	129.32	128.77	127.71	-1.05	-2.56	15.72
Hungary	86.14	110.03	98.88	95.02	102.49	107.71	5.22	12.05	62.99
Israel	44.32	36.63	35.18	38.39	38.60	39.59	0.99	1.14	-0.63
Kenya	462.79	463.14	463.23	464.22	461.36	463.49	2.13	-0.94	56.61
Kuwait	57.20	57.14	54.64	53.37	53.70	55.67	1.98	2.33	10.96
Morocco	104.02	104.42	106.54	110.65	109.85	109.73	-0.13	-0.55	14.34
Nigeria	601.88	602.31	519.16	532.11	530.47	530.71	0.25	-1.66	75.64
Oman	256.03	251.88	243.78	237.23	230.04	229.27	-0.76	-8.29	-26.54
Poland	76.59	84.13	79.73	76.99	76.07	79.49	3.42	4.46	39.90
Romania	128.90	160.29	169.09	161.21	174.04	175.26	1.22	68.53	100.44
Qatar	53.99	52.11	47.88	49.02	50.68	52.07	1.39	3.04	8.31
Russia	1,672.18	3,711.48	1,721.79	2,749.78	11,480.80	10,755.522	-725.28	8,103.57	10,631.10
Saudi Arabia	54.40	52.90	48.26	50.42	52.06	53.02	0.95	2.51	3.64
South Africa	240.23	220.14	194.12	209.10	210.32	219.71	9.39	9.16	16.69
Turkey	660.94	668.88	585.15	552.63	590.36	588.72	-1.64	36.62	25.96
Ukraine	10,630.36	5,703.84	4,169.07	2,873.42	3,197.01	3,744.56	547.55	952.47	3133.67
Abu Dhabi	53.99	52.11	47.48	49.02	50.59	97.81	47.22	48.93	54.92
Dubai	100.41	103.64	96.72	96.89	97.61	97.81	0.20	0.28	3.75

Source: Bloomberg, MUFG Research

EM capital flows

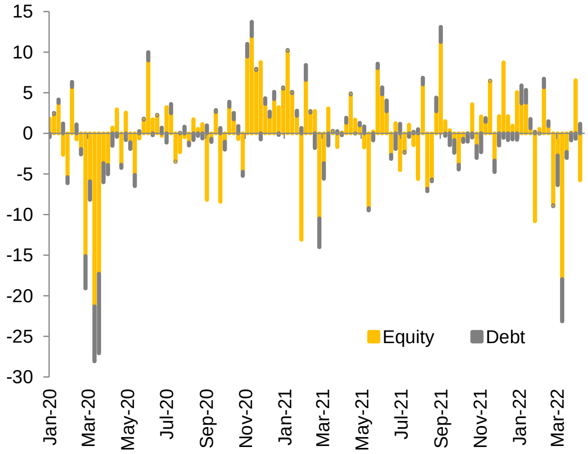
WEEKLY TOTAL EM OUTFLOWS OF USD-2.7BN – 22 APRIL

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



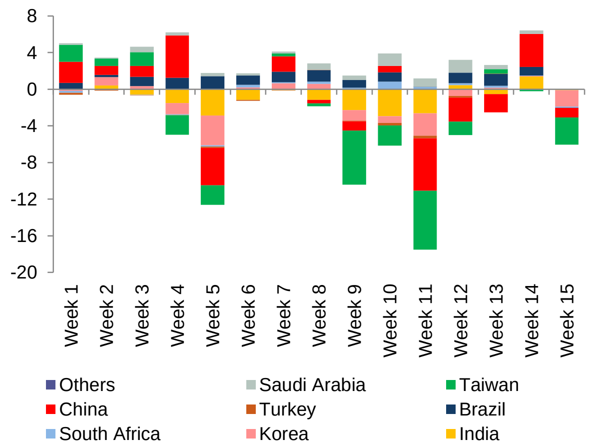
WEEKLY EM OUTFLOWS FROM EQUITY (USD-2.6BN) AND DEBT OUTFLOWS (USD-0.1BN) – 22 APRIL

WEEKLY DEBT AND EQUITY FLOWS (USD BN)



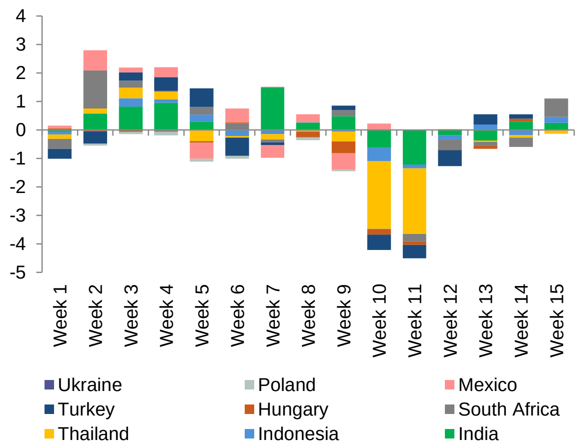
CHINA (USD-1.1BN) AND KOREA (USD-0.8BN) LED WEEKLY EM EQUITY OUTFLOWS – 22 APRIL

WEEKLY PORTFOLIO FLOWS BY COUNTRY, WEEK 1 = JANUARY 2022 (EQUITY) (USD BN)



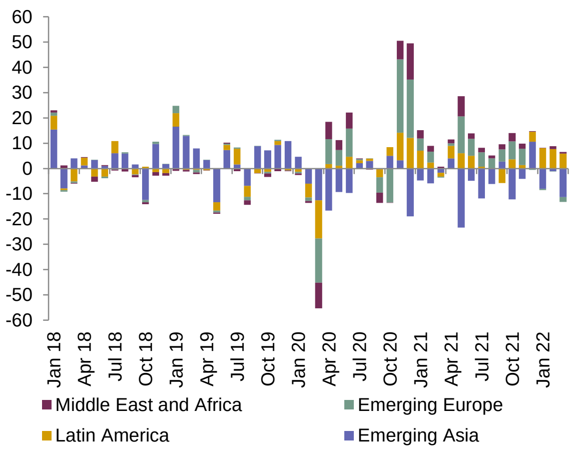
INDONESIA (USD-0.1BN) LED EM DEBT OUTFLOWS LAST WEEK – 22 APRIL

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



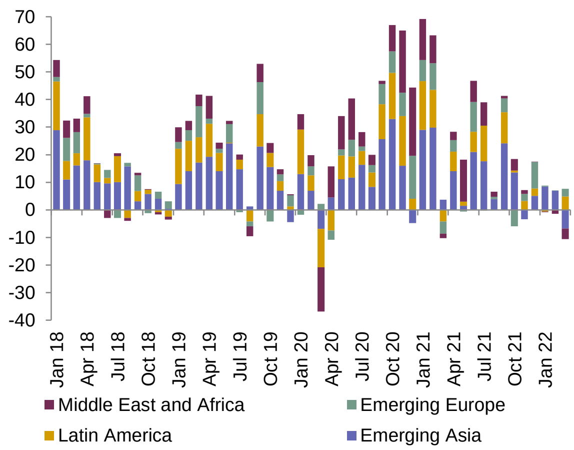
EM EQUITY OUTFLOWS TOTALLED USD-6.7BN IN MARCH, LED BY EM ASIA (USD-11.3BN)

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



EM DEBT OUTFLOWS TOTALLED USD-3.1BN IN MARCH, LED BY EM ASIA (USD-6.7BN)

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



Source: Bloomberg, IIF, MUFG Research

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