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IMF's perspectives on EM fiscal balances – limited war effects in aggregate but large divergence

Macro focus: The latest IMF Fiscal Monitor offers markets a critical update to fiscal policy and debt dynamics at a time of high uncertainty. The IMF assesses that the war will in fact have a limited impact on EM fiscal balances in aggregate, though it expects wide-reaching cross-country divergence across EM economies. On net, the IMF's forecasts resonate well with our own forecasts with clear outperformance in EM commodity exporting countries across the GCC region, South Africa and LatAm, whilst the Central and Eastern Europe (CEE) region is most vulnerable (see here).

FX views: EM currencies have continued to correct sharply lower this month alongside the broad-based USD rally with fears building over a sharper slowdown in China's economy. At the same time, commodity-related EM currencies have corrected lower as global growth fears have intensified. On net, we expect EM FX weakness to continue without a clear catalyst yet to trigger a reversal.

Week in review: Prospects of a Russian sovereign default hangs in the balance with 25 May the next key date to watch. Meanwhile inflation readings in April were higher in Russia (17.8% y/y), Egypt (13.1% y/y), Poland (12.4% y/y) and the Czech Rep. (14.2% y/y). Finally, Romania raised rates by 50bp to 3.75% and the Czech Rep. announced a new Central Bank Governor.

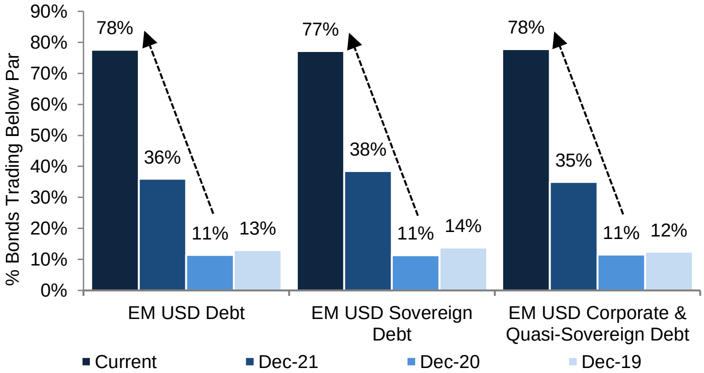
Week ahead and calendar: Interest rate meetings in Egypt (150bp to 10.75%) and South Africa (50bp to 4.75%) as well as Q1 GDP data in Russia (3.7%), Poland (2.2%), Hungary (1.6%) and Romania (0.6%) will dominate the week ahead.

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 continued tightening in global financial conditions and a lower gear in China.

Core indicators: EMs witnessed a second consecutive month of outflows in April (USD-4.0bn), as geopolitical uncertainty, tighter financial conditions, realised inflation and concerns over Chinese COVID lockdowns is weighing on sentiment (see here).

CHART OF THE WEEK: FEARFUL FED PUSHES DOWN PREMIUM ON EM DEBT

EM DOLLAR BONDS VALUED BELOW PAR (% TOTAL)



Bonds no longer trade at a premium in EM credit as a hawkish Fed has driven the number of USD-denominated issues priced below par to more than three-quarters of the investible universe – since plunging to a record low in December 2020, the percentage of EM dollar bonds trading below par has surged and now represents over 75% of all index-eligible debt

Source: Bloomberg, MUFG Research

Macro focus

IMF's perspectives on EM fiscal balances – limited war effects in aggregate but large divergence

IMF's latest assessments offer markets guidance at a time of high uncertainty

The latest IMF Fiscal Monitor, alongside its World Economic Outlook, offers markets a critical update to economic growth, fiscal policy and debt dynamics at a time of high uncertainty. Relative to its October 2021 projections, the IMF lowered its global growth projections for 2022 by 1.3pp, while leaving next year's forecast unchanged, implying 3.6% global growth in both years. Growth downgrades were concentrated in the EM EMEA region (notably across the CEE), where regional growth was dragged lower by a projected 8.5% decline in Russia's GDP, and a 35% fall in Ukraine's. Likewise, relatively large downgrades within the region were also made to economies that have higher trade exposure to both Russia and Ukraine (see here and here). Reflecting terms-of-trade effects, further growth forecast adjustments were made, with downgrade across EM Asia and to a lesser extent Latin America. Meanwhile, the aggregate growth forecast was upgraded for the MENA region (notably the GCC countries).

The aggregate EM fiscal balance projections remains unchanged at a 3.8% deficit in 2022

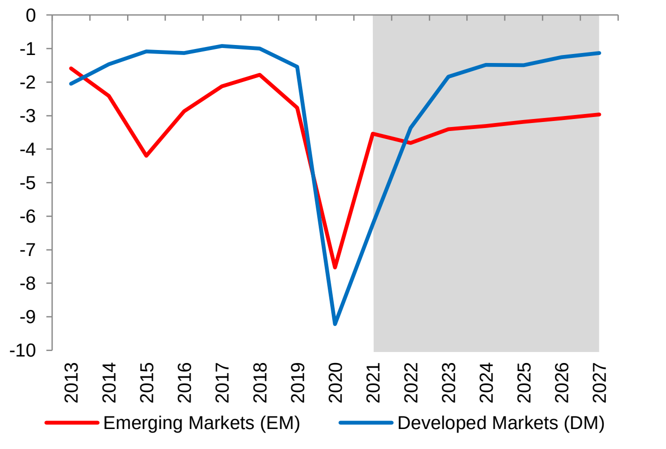
Despite the growth hit, the IMF left the aggregate EM fiscal balance projections unchanged at a 3.8% deficit for 2022. This reflects that (i) incoming data since the October 2021 update have, by and large, been stronger than expected, (ii) the expected strength of nominal growth – while real GDP growth has been revised lower, nominal growth has broadly been revised higher – and (iii) the IMF assesses that policy constraints will cap the EM fiscal response to the effects of the war in Ukraine. Compared with last year, this implies only a small 0.3pp increase in the aggregate EM deficit. Given that a large portion of policy space was used up to respond to COVID, the IMF is calling for a more targeted approach this time around. This applies to a lesser extent to major commodity exporters which may find additional resources from the terms of trade windfall.

The IMF's forecasts resonate well with our own forecasts with clear outperformance in EM commodity exporting countries across the GCC region, South Africa and LatAm, whilst the Central and Eastern Europe (CEE) region is most vulnerable

Beyond regional aggregates and at a cross-country level, economies that are likely to be more adversely affected by the war in Ukraine are those we catalogued recently (see here). Of note, countries in the CEE region, especially the Czech Republic and Poland, screen as most exposed, in addition to commodity importers in the MENA region, such as Turkey and to a lesser extent Egypt. The exposure is compounded by a differing trade mix of these economies, i.e., those that are significant net importers of goods and services for which Russia and Ukraine are net exporters. This implies greater challenges in sourcing potentially key imports (e.g., energy and

EM PRIMARY FISCAL DEFICITS TO WIDEN MILDLY THIS YEAR WHILST DM IS SET TO IMPROVE

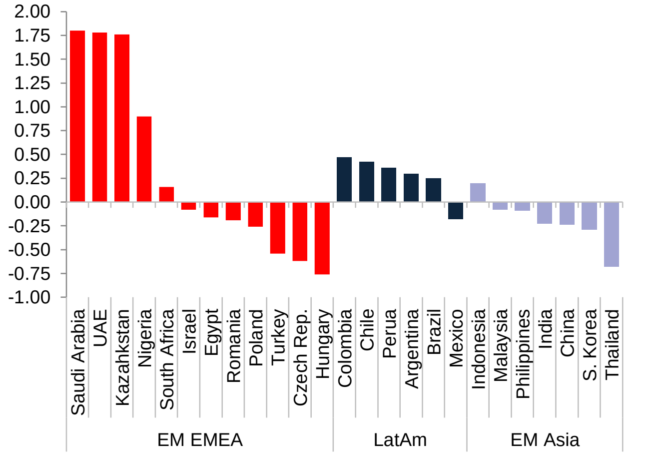
PRIMARY FISCAL BALANCE (% OF GDP)



Source: IMF, MUFG Research

EM WINNERS ARE MAINLY COMMODITY EXPORTERS WHILST MOST COMMODITY IMPORTERS ARE LOSERS

EM COMPARATIVE TRADE ADVANTAGES WITH RUSSIA-UKRAINE (UNITS)



Source: Macrobond, UN Comtrade, MUFG Research food imports), and subsequently a greater drag on their fiscal balances from the war as they attempt to offset the economic shock. By contrast, those less exposed are major oil exporters in the MENA region, South Africa and most of the LatAm region.

The war in Ukraine is taking place against a backdrop of significant commodity shortages and already historically high prices for some key groups of commodities

In addition, given how important to the global supply of key commodities both Russia (mostly energy and metals) and Ukraine (soft commodities) are, the disruptions caused by the war have pushed global commodity prices significantly higher (see here). The shock is taking place against a backdrop of significant commodity shortages and already historically high prices for some key groups of commodities. Among these, the extent of the food commodity shock is particularly disconcerting – the UN Food FAO price index rose to 30% y/y in April, and is now ~65% higher relative to pre-COVID levels (see here).

The food price shock is likely to place particular pressure on EM economies given that, compared with their DM counterparts, EM households spend a much larger share of their consumption on food goods

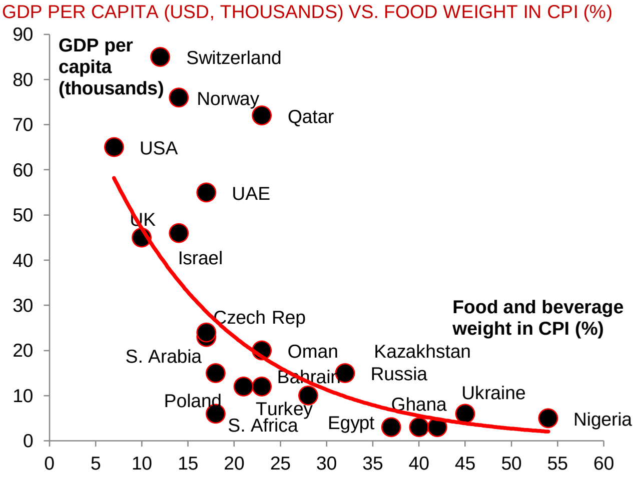
The food price shock is likely to place particular pressure on EM economies given that, compared with their DM counterparts, EM households spend a much larger share of their consumption on food goods (their weight in the CPI basket ranges from 25% to 50% in EM economies, versus between 15-20% for DM). The extent of spending on food items closely relates to the level of development, implying that the food price shock is likely to be highly regressive globally, leaving many EMs exposed. EM governments are already facing increased public pressures to respond to the crisis – the IMF has historically linked global food price shock with rising social unrest.

The IMF is projecting that EM government debt levels will expand further in the coming years, reaching their highest level historically, whilst at the same time, policy space is unevenly spread across EMs

Notwithstanding the significance of the war, the IMF's assessment is that policy space has been virtually exhausted in response to the COVID shock. The IMF maintains that the response to the pandemic was appropriate and necessary but for the current shock fiscal policy needs to be much more measured and targeted. Part of this concern reflects that the IMF is projecting that EM government debt levels will expand further in the coming years, reaching their highest level historically. At the same time, policy space is unevenly spread across EMs. A number of low yielding EM economies that benefited from the secular decline in global long-term rates do not face such significant pressures. However, those that already spend a significant share of their revenue on interest rate expenditure or that are facing a greater gross financing need due to a higher share of short-term debt look particularly vulnerable. Finally, monetary policy across many EMs has been in tightening mode for some time owing to adverse inflation dynamics, increasing the cost of sourcing domestic financing. Similarly, against the backdrop of tightening global financial conditions and relatively challenging risk sentiment, external market funding may be challenging this year for a number of high yielding EMs.

A HIGHER SHARE OF FOOD IN THE CPI BASKET IN EM GIVEN LOWER LEVELS OF ECONOMIC DEVELOPMENT

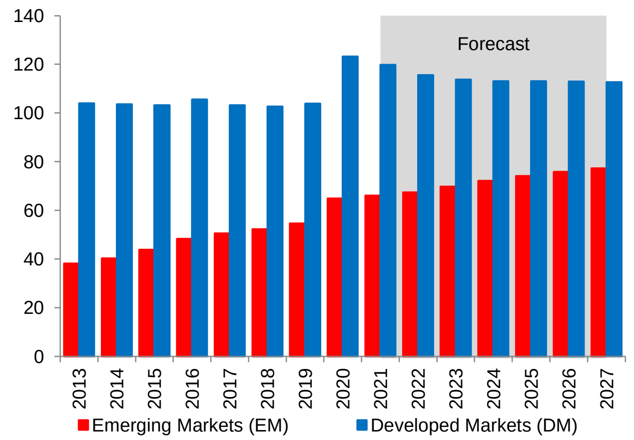
GDP PER CAPITA (USD, THOUSANDS) VS. FOOD WEIGHT IN CPI (%)



Source: IMF, National Official Sources, MUFG Research

EM DEBT IS SET TO REACH RECORD HIGH LEVELS IN THE COMING YEARS, ACCENTUATING VULNERABILITIES

GENERAL GOVERNMENT GROSS DEBT (% OF GDP)



Source: IMF, MUFG Research

FX views

EM FX: China growth concerns & domestic policy settings remain downside risks

CNY, KRW & commodity-related EM FX weighed down recently by China growth concerns

EM FX has continued to correct lower this month alongside the broad-based USD rally. The worst performing EM FX has been the TRY (-4.6% vs. USD), COP (-3.6%), CNY (-2.8%), HUF (-2.7%), ZAR (-2.7%), KRW (-2.2%) and BRL (-1.8%). In contrast, the RUB (+11.0%) and MXN (+1.6%) have even outperformed the USD. Price action highlights that building fears over a sharper slowdown for China's economy have been key fundamental driver behind recent EM FX weakness. It has already triggered relatively sharp sell-offs for the CNY and the KRW. USD/CNY has already reversed over half of the adjustment lower between Q2 2020 and Q1 2022 as it moves back closer to pre-pandemic levels at around the 7.0000-level. At the same time, commodity-related EM FX have corrected lower as global growth fears have intensified. The release of the much weaker than expected activity data from China for April provided evidence that a deeper and broader slowdown is underway as the full negative impact of current COVID-related restrictions was evident. We expect these EM FX trends to continue without a clear catalyst yet to trigger a reversal.

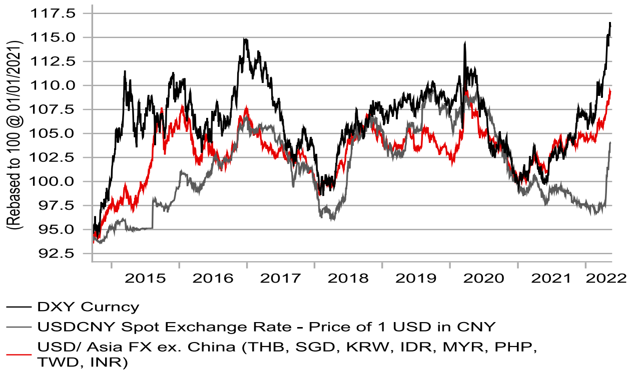
TRY resumes downward adjustment while domestic policy settings continue to leave vulnerable to sharp sell-off

The TRY has resumed its downward adjustment over the past week following a period of stability from mid-March to early in May. Recent price action is consistent with our view that risks remain heavily titled to the downside for the TRY. The ongoing fallout from the Ukraine conflict is further exposing the TRY's weak fundamentals. Turkey's current account is expected widen further as the conflict dampens the recovery in tourism revenues and places upward pressure on commodity and energy prices which adds to Turkey's import bill. Turkey recorded a deficit for the fifth consecutive month in March. For Q1 as a whole the current deficit totalled USD18.1 billion which was more than double the deficits recorded in previous years over a similar period, and the largest Q1 deficit since 2011. The CBRT's reluctance to tighten policy to control inflation in Turkey is increasing the risk of another sharp adjustment lower for the TRY.

CZK's position as the best performing regional currency seriously threatened by CNB policy uncertainty

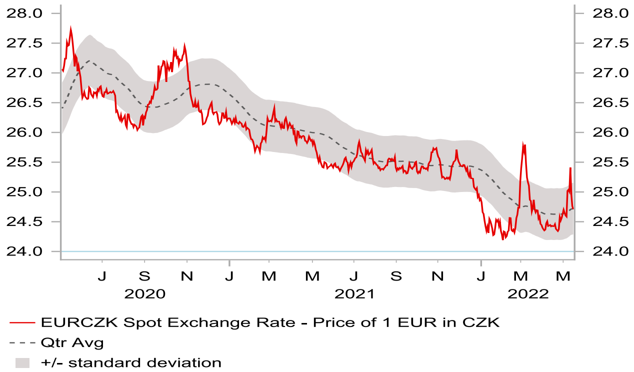
Czech President Zeman's decision last week to choose dovish MPC member Michl to be the new CNB Governor has drawn unfavourable comparisons to policy making in Turkey. President Zeman has voiced unorthodox views that higher rates may be starting to fuel inflation, and has chosen a new CNB Governor who has voted against previous hikes. He proposes keeping rates stable for some time but it will fuel speculation over earlier rate hikes as well. The appointment has already forced the CNB to intervene to help stabilise the CZK after EUR/CZK jumped to just below 25.500. We expect CZK weakness to resume when the new Governor takes over.

CNY WEAKNESS PLAYS CATCH UP



Source: Bloomberg, Macrobond & MUFG Research

CNB ACTS TO PREVENT SHARPER CZK REVERSAL



Source: Bloomberg, Macrobond & MUFG Research

Week in review

EM capital flows: investors continued to withdraw capital from EM funds in April

Supply pressures continue to build in EMs

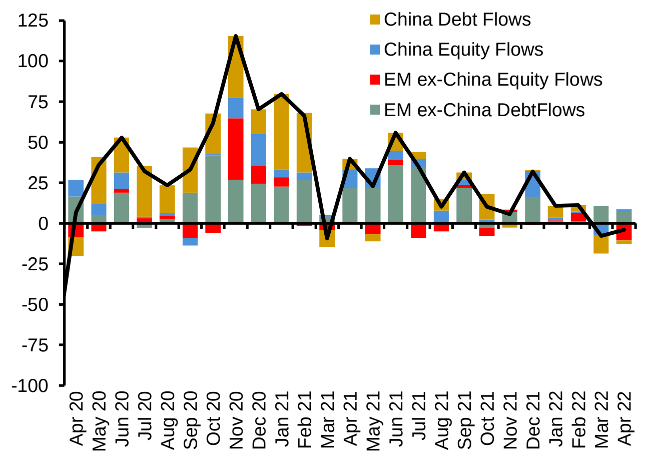
The stress in risk assets, especially in EMs, continued last week, as the ongoing escalation of the downside risks in global economic activity seems to have coincided with upside inflation surprises, including in the likes of Indonesia (3.5% vs. 3.3% expected), Hungary (9.5% vs 8.9% expected), China (2.1% vs 1.8% expected) and India (7.8% vs. 7.4% expected). The higher than expected inflation prints are clearly the result of fresh supply side challenges – largely reflecting the adverse impacts of the war in Ukraine, as well as the COVID-related restrictions in China – which is causing further pressures on supply chains. We stick to the winners from elevated commodity prices and to those with responsible macro policies, hence offering a sizeable risk premium (see *macro focus* section above and here).

EMs witnessed a second consecutive month of outflows in April (USD-4.0bn) – ample investor caution stemming from geopolitical events, tighter financial conditions, realised inflation and apprehensions that many economies will not recover quickly enough from COVID, continues to mire the complex

According to IIF data, EMs witnessed a second consecutive month of outflows in April (USD-4.0bn). Ample investor caution stemming from geopolitical events, tighter financial conditions, realised inflation and apprehensions that many economies will not recover quickly enough from COVID, continues to mire the complex (see here, here and here). Generally speaking, the impact of war in Ukraine on EM portfolio flows has not been calamitous so far. The IIF's high frequency data registered outflows from EM excluding China equities, but the episode does not come close to the most severe in the last decade. Meanwhile, the situation in China is markedly different with the IIF tracker pointing to the largest quarterly outflows on record in the first quarter of 2022. April has seen a similar tendency, with China debt suffering an outflow of USD2.1bn and only negligible gains in China equities. Local currency China bonds account for most of the recent Chinese outflow. Capital flight stands in sharp contrast to the large inflows in 2020-21, when investors increased their exposure to Chinese bonds by 30-40% each year. Russian reserve sales may explain some of the outflows at the beginning of the war, but do not fully explain the overall picture. A confluence of COVID lockdowns, FX depreciation, and perceived risk of investing in countries whose relationships with the West are complicated may be the core drivers of recent capital outflows from China. Finally, April has also seen outflows from EM excluding China equities (USD10.5bn) – a consequence of increased volatility in DM equity markets but also a sign that EM investor appetite is decreasing. The few bright spots last month's figures come from EM excluding China

EM FUNDS SUFFERED A SECOND CONSECUTIVE MONTHLY OUTFLOW (USD4.0BN) IN APRIL 2022

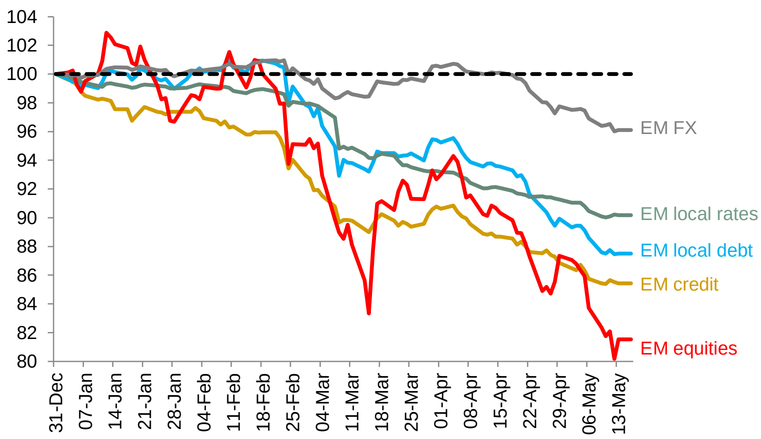
TOTAL PORTFOLIO FLOWS INTO EMS (USD BN)



Source: IIF, MUFG Research

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

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



Source: Bloomberg, MUFG Research

debt, showing a positive inflow of USD7.6bn, driven mainly by local currency debt. Finally, from an asset markets perceptive, historically, EM credit outperforms into Fed lift-offs, but this time around EM local rates is doing better.

Russia: further twists in the prospects of a default – next date to watch: 25 May

Prospects of a Russian sovereign default hangs in the balance

On 29 April, the Russian authorities announced that USD payments had been made on its 2022 and 2042 dated bonds to the payment agents, in accordance with the bond contracts. This was against our (and markets) expectations given that the Russian Ministry of Finance had already made a payment in Rouble (RUB) and declared it considered the obligations fulfilled (see here). This suggests that if the payment made it to bondholders on time and that there was not a contractual default post the expiry of the grace period on 4 May. The next payments to go through are 2026 and 2036 dated bonds on 27 May – two days after the current expiry of the authorisation (see here and here). General Licence 9C currently permits for US financial institutions to receive such payments from the Russian Ministry of Finance despite the Directive 4 prohibition on transactions with the Ministry of Finance and/or Central Bank of Russia (CBR). The motivation for this expiry being extended is that Russia has now accepted using assets not already frozen to make eurobond debt repayments, and thereby drawing down on its resources, which could be interpreted constructively by the US Treasury. In parallel, the amounts are not significant when measured against the monthly FX inflows to Russia, largely due to the still ongoing energy exports. For the remainder of the year, Russia has US1.5bn due on eurobonds. Therefore, OFAC would have to weigh depleting a relatively negligible FX amount against actually causing Russia to default on its eurobonds. If the relevant authorisation in General License 9C is extended, USD payments by the Russian Ministry of Finance are likely to continue. Indeed, the sheer fact that Russia is endeavouring to make the payments in USD signals that they do want to avoid a default. On net, the next date to monitor is 25 May and whether OFAC extends the relevant authorisation in General Licence 9C before its expiry on this date. If extended, then at face value Russia will likely continue making its bond payments.

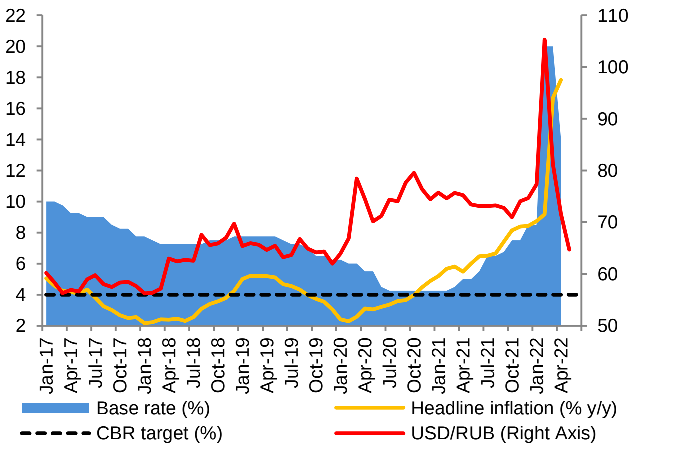
Russia: inflation rises further in April but the pace has markedly slowed

Inflation in Russia rises further in April

Headline inflation in Russia increased from 16.7% y/y in March to 17.8% y/y in April.

RUSSIAN INFLATION CONTINUES TO EDGE HIGHER BUT THE PACE OF INCREASE HAS MARKEDLY SLOWED

RUSSIA INFLATION (% Y/Y), RATES AND TARGET (%) AND USD/RUB



Source: Bloomberg, CBR, MUFG Research

25 MAY IS THE NEXT DATE TO MONITOR FOR MARKETS TO BRACE FOR A RUSSIAN SOVEREIGN DEFAULT

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
04-Apr	Apr-2022	USD	---	552	9	Paid
04-Apr	Apr-2042	USD	---	0	84	Paid
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

The elevated weekly inflation dynamics have come down significantly since the several ~2% w/w weekly prints in March as front-loaded purchases have predominantly ended and the RUB markedly strengthened (limiting FX pass-through). The largest contribution came from food (up 4.3ppts to 23.7% y/y) and services inflation (up 1ppts to 10.9% y/y). Going forward, we envisage two core forces moderating inflation – (i) supply constraints are set to ease over time with the rerouting and substitution of imports, and (ii) demand for goods and services has been front-loaded. From a monetary policy perspective, we continue to expect the CBR to place more stress on financial stability for the next rate decision given recent communication that high inflation is temporary. Hence, we expect the CBR to cut rates by another 200bps to 12.00% on 1 June before pausing until inflation starts falling more noticeably due to base effects early next year.

Egypt: inflation in April rises to a three year high with more upside to come

Inflation in Egypt rises to 13.1% y/y in April – three year high with more upside to come

Inflation in Egypt increased from 10.5% y/y in March to 13.1% y/y in April – highest reading in three years. The increase was predominantly driven by a marked pickup in food inflation (up 6.3ppts to 26.0% y/y). While seasonal factors such as Ramadan are likely to have played a role in driving prices higher, the uptrend in global food prices post the Russian invasion of Ukraine (on 25 February) coupled with the devaluation of the Egyptian Pound (EGP) in March (see here), has considerably added to upside pressures on headline inflation – and is set to persist through 2022. Looking ahead, we expect inflationary pressures to continue to increase as the FX pass-through from the recent devaluation continues and global commodity prices remain elevated. In the longer term, however, we view wage inflation is likely to remain limited, and expect aggregate demand to soften as the growth outlook weakens in the face of lower disposable income and the loss of tourism flows stemming from Russia. As such, we anticipate that the inflationary shock is unlikely to persist, with CPI reverting to within the CBE's current inflation target band of 7% ± 2ppts by the end of 2023.

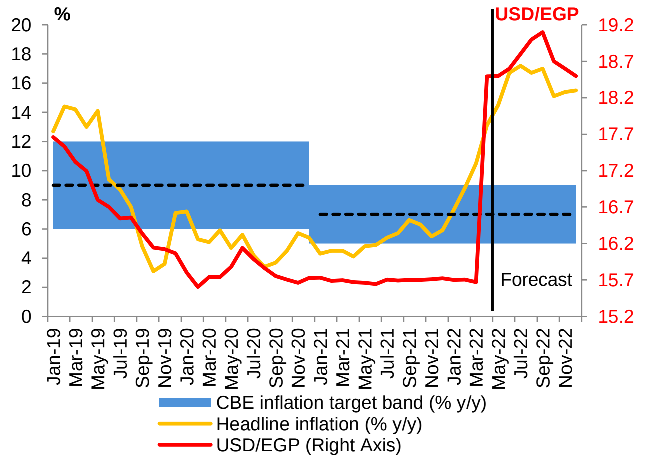
Poland: inflation in April edges higher to 12.4% y/y – yet to reach the peak

Inflation in Poland rises by 1.4ppts to 12.4% y/y in April with further increases expected in the months ahead

Inflation in Poland increased from 11.0% y/y in March to 12.4% y/y in April on the back of surging food prices (up 4.4% m/m). April inflation growth was not only stemming from more costly food with price growth broad-based and expands into various price categories. On the basis of available data, we estimate that core

EGYPT INFLATION SURGES IN APRIL (13.1% Y/Y) WITH CPI EXPECTED TO PEAK IN Q3 2022

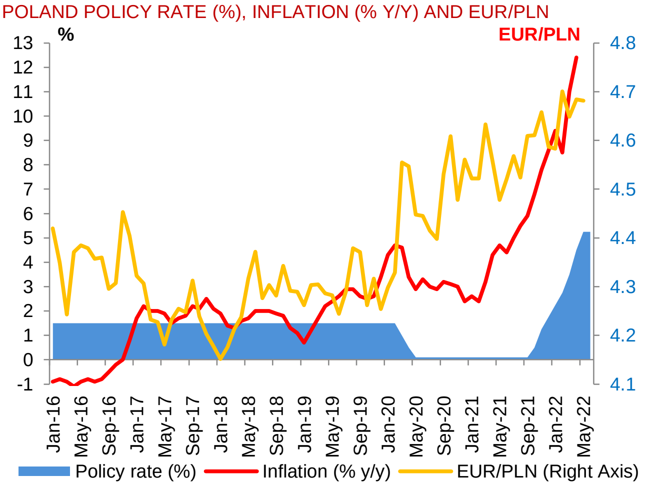
EGYPT INFLATION (% Y/Y), CBE INFLATION TARGET AND USD/EGP



Source: Bloomberg, CBE, MUFG Research

POLAND INFLATION EDGES HIGHER IN APRIL (12.4% Y/Y) WITH POLICY RATES SET TO CONTINUE RISING

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



Source: Bloomberg, NBP, MUFG Research

inflation excluding food and energy went up to 7.7% y/y in April from 6.9% y/y in March. The coming months are expected to bring a further increase and a local peak at the turn of next year. The inflationary picture emerging from April data suggests advanced second-round effects (passing higher costs of energy and commodities onto retail prices) and inflationary expectations de-anchoring. It would appear that second-round effects are robust as producers have limited challenges with passing rising costs of energy and materials as well as labour onto retail prices in the environment of buoyant wages growth and expansionary fiscal policy (tax cuts and higher spending), which is keeping consumption robust.

Czech Rep.: new CNB Governor but policy path will remain heavily data dependent

New CNB Governor will remain squarely focused on reining in elevated inflation

After reports emerged on 6 May that Czech National Bank (CNB) board member, Ales Michl, could replace Jiri Rusnok as CNB Governor from 2 July, Czech President Zeman officially appointed Michl on 11 May. During the announcement, President Zeman said that the CNB is facing a "tough task", but that rates may have reached levels where they could potentially be damaging and that he picked Michl because he is critical of the extent and the pace of current rate hikes. Moreover, Michl stated that his main goal is to return inflation to the 2% target and that he will propose rate stability for "some time" from July onwards as this would be sufficient to tame demand risks to inflation. In the current hiking cycle, Michl – a board member since 2018 – has always voted against rate hikes, arguing that inflationary pressures are mostly caused by external factors and are beyond the scope of the CNB's monetary policy.

Czech Rep.: inflation in April (14.2% y/y) rises to a 29 year high

Inflation in Czech Republic rises by 1.5ppts to 14.2% y/y in April owing mainly to higher food prices

Czech headline inflation continues to rise sharply, increasing from 12.7% y/y in March to 14.2% y/y in April – highest reading since 1993. The increase was primarily driven by food inflation and by the energy sub-components within housing. While much of the increase in inflation upside surprises can be attributed to external factors – war in Ukraine and continued supply chain disruptions – price pressures in the Czech Republic (and across the CEE region) are showing increasing evidence of broadening (as evidenced in steadily rising core inflation across the region). Moreover, with the recent weakness in the CEE FX on the back of ongoing geopolitical tensions, we anticipate inflation is likely to rise further in the months ahead before gradually falling in the last quarter of this year.

Romania: NBP raises rates by 75bp to 3.75% with rates set to rise to 6.50%

Romania raises rates by 75bp to 3.75% owing to the elevated inflationary backdrop with further rises set to come

The National Bank of Romania (NBR) increased its main policy rate by 75bp to 3.75%. The decision comes against the backdrop of high and rising inflationary pressures and elevated uncertainty stemming from the war in Ukraine, according to the NBR. Furthermore, the Board examined and approved the May 2022 inflation report with a "significant upward revision" of forecasts across the entire horizon and anticipates inflation remaining above the variation band of the target (2.5% ± 1ppts) even at the end of the projection horizon in 2023, as opposed to its previous forecast back in February of inflation falling in the upper bound by Q4 2023. On net, the outlook as worsened pointedly across the CEE region and we anticipate the NBR to maintain a hawkish stance in the months ahead with rates rising by a cumulative 275bp to a terminal rate of 6.50%.

Week ahead

Egypt: CBE to hike the deposit rate by 150bp to 10.75%

Egypt set to raise rates by 150bp owing to a markedly higher inflation profile

The Central Bank of Egypt (CBE) is set to meet on 19 May and we expect deposit rates to rise by 150bp to 10.75% (consensus 10.25%). This will be the first scheduled meeting since the CBE met in late March and hiked rates by 100bp and concurrently devaluing the EGP by 15% in an emergency meeting (see here). The external and inflationary backdrop has continued to deteriorate since as commodity prices are trending upwards and global financial conditions have tightened further leading to lower risk appetite for the EMs. Against this, higher-than-expected rate rises in the US and rising inflationary pressures (with April CPI rising to 13.1% y/y – see *week in review* section above) are likely to require material monetary tightening. Moreover, we expect inflation to accelerate further driven by the exceptional increase in global food and energy prices coupled with a weaker EGP, which will compound the impact of external factors.

South Africa: SARB to hike by 50bp to 4.75% on rising inflation expectations

South Africa to raise rates by 50bp to 4.75%

The South African Reserve Bank (SARB) is set to meet between 17-19 May and we expect the Monetary Policy Committee (MPC) to raise the policy rate by 50bp to 4.75% (consensus 4.75%). A hawkish 25bp rate hike at the March MPC meeting with two MPC members preferring a 50bp increase at the time has paved the way for this faster pace of tightening. We note that there may still be divergent views in the policy-setting committee and the decision could once again be split over the pace of tightening. South African inflation developments since the March MPC meeting have been relatively muted, even if global inflationary risks have increased. More specifically, oil prices have been volatile but relatively flat at around USD110/b and we do not envisage that the MPC will undertake major adjustments to the annual average assumption for Brent crude of USD103/b. The exchange rate has also exhibited volatility and has depreciated, even if on a three month average basis (which normally informs the exchange rate assumption) the South African Rand (ZAR) has in fact strengthened. Having said that, global soft commodity prices have risen (in particular for wheat, of which South Africa is a net importer), supply chain disruptions have been exacerbated by Russia's war with Ukraine as well as Chinese COVID-related lockdown policies. These factors may strengthen a more hawkish MPC assessment of upside risks to its forecast.

Russia: Q1 2022 GDP to signal a benign start to the year before recession

Strong growth start to the year in Russia but recession for the remainder of the year will be deep

Rosstat will publish its initial estimate of first quarter GDP on 20 May. This is the first GDP print since the start of Russia's invasion of Ukraine on 25 February. We expect output growth to have reached 3.7% y/y (consensus of 3.7% y/y), down from 5.0% y/y in Q4 2021. Rosstat will only publish its estimate of the headline number, with the detailed breakdown to follow in the months ahead. In our view, three factors are important to note, namely, (i) more stable commodity exports than previously expected; (ii) price effects and more immediate import effects as well as front-loaded consumer activity, and finally; (iii) lagged pass-through of tighter financial conditions.

Weekly calendar

	Country	Day	GMT	Indicator/Event	Period	MUFG Forecast	Consensus	Previous	Market Moving
	Turkey	16/05/2022	08:00	Current account balance (USD bn)	Apr	---	USD-5.6bn	USD-5.1bn	!!!
	Israel	16/05/2022	11:00	Real GDP, % y/y	Q1-22 A	2.6%	2.3%	17.8%	!!!
	Poland	16/05/2022	13:00	Core CPI, % y/y	Apr	7.6%	7.6%	6.9%	!!!
	Romania	29/04/2022	---	Real GDP, % q/q	Q1-22 A	1.2%	0.6%	-0.1%	!!!
	Hungary	29/04/2022	08:00	Real GDP, % q/q	Q1-22 P	2.0%	1.6%	2.0%	!!!
	Poland	29/04/2022	09:00	Real GDP, % q/q	Q1-22 P	2.2%	1.9%	1.7%	!!!
	S. Africa	18/05/2022	09:00	CPI, % y/y	Apr	5.9%	5.9%	5.9%	!!!
	S. Africa	18/05/2022	09:00	Core CPI, % y/y	Apr	3.8%	3.8%	3.8%	!!!
	S. Africa	18/05/2022	17:00	Real GDP, % y/y	Q1-22 A	3.7%	3.7%	5.0%	!!!
	S. Africa	19/05/2022	---	Monetary policy meeting (%)	May	4.75%	4.75%	4.25%	!!!
	Egypt	19/05/2022	---	Monetary policy meeting (%)	May	10.75%	10.25%	9.25%	!!!

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.	4.60	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	11.10	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	5.02	4.40	-7.00	1.92	-0.56	0.02	1.11	5.74	4.41
Saudi Arabia	9.60	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	3.90	3.90	1.90	3.00	3.00	3.00	0.377	0.377	0.377
Czech Rep.	14.20	3.90	11.30	5.75	3.75	5.50	24.740	24.886	21.380
Egypt	13.10	5.40	7.90	9.25	7.75	11.50	18.315	15.723	15.420
Greece	10.17	-0.10	0.40	0.00	0.00	0.40	1.040	1.137	1.132
Hungary	9.50	4.90	7.80	5.40	2.40	5.50	371.1	324.5	314.70
Iraq	5.10	6.40	5.00	4.00	4.00	5.00	1460	1460	1460.000
Israel	4.00	1.50	2.80	0.35	0.35	0.50	3.401	3.103	3.100
Jordan	3.59	1.60	2.00	4.00	4.00	2.00	0.709	0.709	0.709
Kenya	6.50	6.00	5.90	7.00	7.00	9.50	116.160	113.140	113.040
Kuwait	4.36	2.90	3.40	2.00	2.00	3.00	0.307	0.303	0.303
Lebanon	208.13	124.10	85.00	2.75	2.75	7.75	1511.370	1512.330	1512.330
Libya	4.56	21.10	8.00	3.00	3.00	3.00	4.813	4.597	4.597
Morocco	5.30	1.40	1.20	1.50	1.50	1.50	10.125	9.252	9.250
Nigeria	15.90	17.30	12.00	11.50	11.50	14.00	415.760	424.830	440.500
Oman	3.59	1.30	2.00	0.43	0.43	14.00	0.385	0.385	0.385
Poland	12.40	4.90	10.00	5.25	1.75	5.50	4.501	4.035	3.948
Romania	13.76	5.30	11.90	3.75	3.75	5.50	4.755	4.353	4.388
Qatar	4.42	1.60	4.00	1.75	1.75	2.50	3.641	3.642	3.642
Russia	17.83	6.60	16.60	14.00	5.75	15.00	118.690	74.679	71.130
Saudi Arabia	2.30	3.10	2.20	1.25	1.25	2.50	3.751	3.755	3.755
South Africa	5.90	4.50	6.20	4.25	3.50	4.75	16.170	15.937	15.800
Turkey	69.97	17.90	62.00	14.00	14.00	20.00	15.485	13.317	14.250
Ukraine	16.40	9.40	15.30	10.00	10.00	14.00	29.528	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	15-Apr	22-Apr	29-Apr	06-May	13-May	Change in yield (basis points) Week	MTD	YTD
Bahrain	10 years	3.64	3.94	4.12	4.23	4.40	17.10	27.84	186.18
Czech Rep.	10 years	4.30	4.45	4.42	4.85	5.15	29.74	72.69	206.23
Egypt	9 years	9.29	10.08	10.75	11.30	11.34	4.21	59.91	418.22
Greece	8 years	2.27	2.40	2.89	3.11	2.97	-13.75	7.71	186.24
Hungary	8 years	6.82	6.92	7.05	7.35	7.36	0.70	30.71	289.60
Israel	8 years	1.49	1.64	1.72	1.92	1.99	7.32	27.10	178.18
Jordan	5 years	6.35	6.66	7.04	7.28	7.41	12.34	36.49	313.50
Kenya	7 years	8.77	9.93	9.95	10.51	11.22	71.54	126.86	551.43
Kuwait	6 years	2.98	3.15	3.14	3.40	3.27	-12.17	13.12	158.05
Lebanon	9 years	52.09	54.10	55.56	57.20	62.80	560.62	724.41	-120.02
Morocco	11 years	4.19	4.38	4.42	4.62	4.70	8.27	28.12	230.31
Nigeria	9 years	8.74	9.10	9.83	10.52	11.37	84.35	153.17	397.64
Oman	9 years	5.36	5.62	5.78	5.94	6.23	28.61	45.12	147.48
Poland	8 years	1.50	1.60	1.90	2.05	2.05	-0.47	15.35	187.72
Romania	7 years	3.37	3.63	3.96	4.17	4.20	3.55	24.52	265.29
Qatar	9 years	3.33	3.59	3.57	3.77	3.77	-0.33	19.40	151.92
Russia	5 years	53.28	53.59	46.88	46.93	48.72	179.21	184.40	-84.11
Saudi Arabia	8 years	3.45	3.58	3.70	3.93	3.85	-8.30	15.03	170.56
South Africa	9 years	5.46	5.72	6.17	6.40	6.35	-4.92	17.58	212.98
Turkey	7 years	8.11	8.19	8.28	8.76	9.26	50.79	97.86	204.38
Ukraine	8 years	34.30	36.28	37.22	35.63	34.23	-140.02	-299.52	2,474.88
Abu Dhabi	6 years	2.97	3.12	3.14	3.37	3.45	7.61	30.48	169.71
Dubai	8 years	3.50	3.73	3.86	3.96	4.18	21.90	32.56	160.21

EM EMEA equity market (index)

	08-Apr	15-Apr	22-Apr	29-Apr	06-May	13-May	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*

	08-Apr	15-Apr	22-Apr	29-Apr	06-May	13-May	Change (%) Week	MTD	YTD
USD Index	99.751	100.321	100.578	103.623	103.660	104.537	0.85	1.53	9.27
Bahrain**	0.378	0.378	0.378	0.379	0.379	0.379	-0.03	-0.03	0.21
Czech Rep.	22.459	22.604	22.574	23.340	23.703	23.783	0.34	-1.86	-8.00
Egypt	18.349	18.416	18.587	18.484	18.484	18.315	-0.92	-0.92	16.48
Greece***	1.088	1.081	1.079	1.055	1.055	1.040	-1.41	-1.36	-8.51
Hungary	347.190	347.410	344.420	359.010	361.810	371.120	2.57	-3.26	-12.57
Israel	3.229	3.216	3.273	3.339	3.404	3.402	-0.06	-1.85	-8.78
Jordan**	0.710	0.710	0.710	0.710	0.710	0.713	0.46	-0.59	-0.59
Kenya	114.943	114.943	0.009	0.009	0.009	0.009	0.00	0.00	2.33
Kuwait	0.307	0.307	0.307	0.307	0.307	0.307	0.00	-0.05	-1.40
Lebanon	1,511.67	1,511.00	1,511.95	1,511.37	1,511.37	1,511.37	0.00	-0.03	0.06
Morocco	9.757	9.819	9.850	9.988	10.012	10.125	1.13	-1.35	-8.62
Nigeria	415.850	415.290	415.560	415.570	415.640	415.760	0.03	-0.05	2.18
Oman**	0.385	0.385	0.385	0.385	0.385	0.386	0.03	-0.03	0.23
Poland	3.758	3.760	3.758	3.758	3.758	3.758	0.01	-0.01	-0.12
Romania	4.543	4.571	4.581	4.692	4.688	4.755	1.41	-1.31	-8.45
Qatar**	3.669	3.667	3.664	3.663	3.662	3.655	-0.19	0.20	0.52
Russia	80.422	82.854	76.710	71.633	64.926	64.707	-0.34	10.70	16.17
Saudi Arabia**	3.758	3.760	3.758	3.758	3.758	3.758	0.01	-0.01	-0.12
South Africa	14.646	14.625	15.608	15.789	15.996	16.170	-1.07	-2.35	-1.44
Turkey	14.751	14.638	14.742	14.854	14.952	15.486	-3.45	-4.08	-14.09
Ukraine	29.541	29.474	30.260	30.262	30.262	29.528	-2.43	2.49	-7.59
UAE**	3.673	3.673	3.672	3.672	3.672	3.672	-0.01	0.01	0.07

Note: * Exchange rate quoted as amount of USD per currency in line with market convention, other exchange rates are amount per USD; ** 12 month forward given pegged against USD; *** EUR per USD

EM EMEA 5 year CDS spreads (basis points)

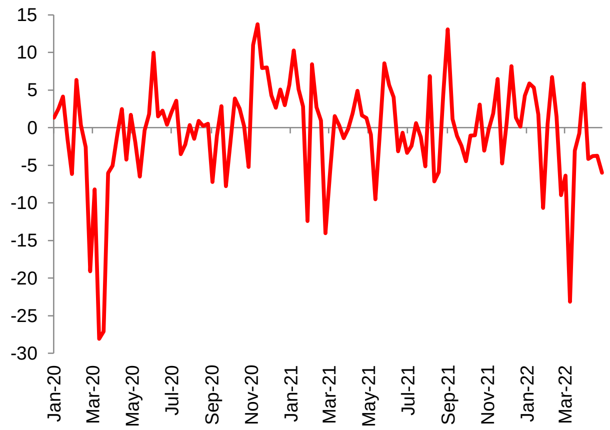
	08-Apr	15-Apr	22-Apr	29-Apr	06-May	13-May	Change in yield (basis points) Week	MTD	YTD
Bahrain	307.57	297.95	291.81	294.41	296.06	294.51	-1.55	-0.88	0.68
Czech Rep.	45.51	44.61	41.02	39.71	39.84	39.99	0.16	0.34	4.37
Egypt	801.67	793.74	587.81	536.13	546.32	603.64	57.32	68.32	105.61
Greece	143.31	139.09	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

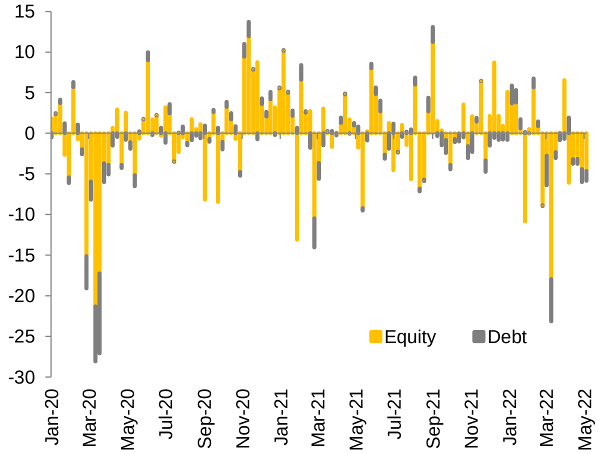
WEEKLY TOTAL EM OUTFLOWS OF USD-5.9BN – 06 MAY

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



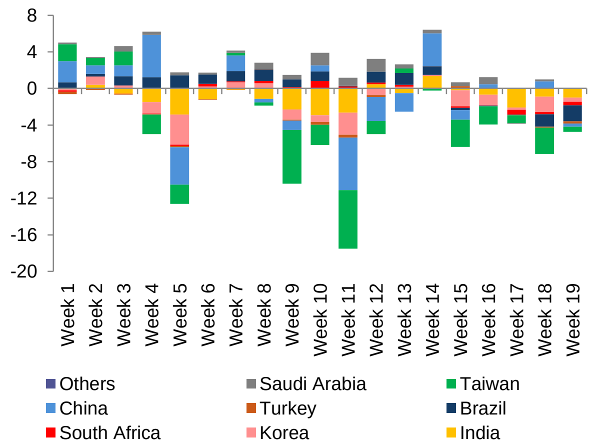
WEEKLY EM OUTFLOWS FROM EQUITY (USD-4.6BN) AND DEBT OUTFLOWS (USD-1.2BN) – 06 MAY

WEEKLY DEBT AND EQUITY FLOWS (USD BN)



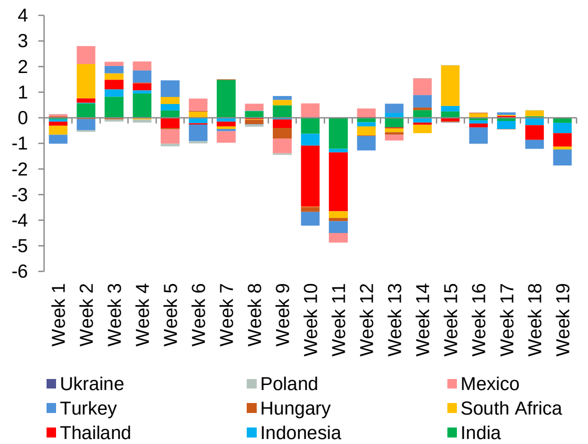
BRAZIL (USD-1.8BN) AND INDIA (USD-1.0BN) LED WEEKLY EM EQUITY OUTFLOWS – 06 MAY

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



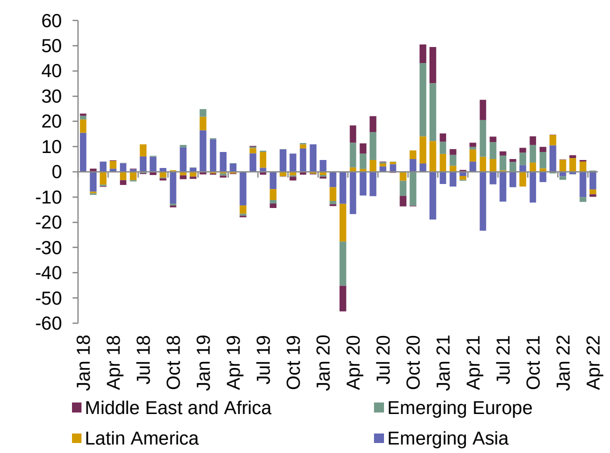
TURKEY (USD-0.6BN) LED EM DEBT OUTFLOWS LAST WEEK – 06 MAY

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



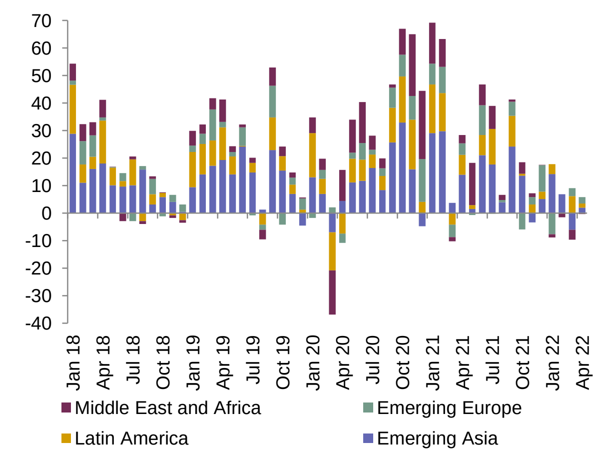
EM EQUITY OUTFLOWS TOTALLED USD-9.5BN IN APRIL, LED BY EM ASIA (USD-7.0BN)

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



EM DEBT INFLOWS TOTALLED USD5.5BN IN APRIL, LED BY EM EUROPE (USD2.4BN)

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



Source: Bloomberg, IIF, MUFG Research

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