EHSAN KHOMAN
Head of Emerging Markets Research – EMEA

DIFC Branch – Dubai
T:+971 (4)387 5033
E: ehsan.khoman@ae.mufg.jp

LEE HARDMAN
Currency Analyst

Global Markets Research
Global Markets Division for EMEA
T: +44(0)20 577 1968
E: lee.hardman@uk.mufg.jp

MUFG Bank, Ltd.
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Implications of a strong US dollar for EMs

Macro focus: Whilst investors have focused on the negative reverberation of rising US rates on EMs, a strong USD heralds additional pressures for the EM complex. We examine three transmission channels – (i) a strong USD propagates a negative trade shock due to dominant currency pricing; (ii) weakening EM creditworthiness as USD liabilities become more costly to service; and (iii) by comprising a more damaging effect on inflation expectations. From a global markets perspective, previous episodes of a USD peak have resulted in outperformance of EM assets against DMs.

FX views: EM FX has stabilised recently alongside the CNY tentatively doing so as concerns over the Fed have subsided for now. However, these anchors could still prove a drag on EM FX. We recognise the tide for EM FX is not going out in the way that it was in April to mid-May – key headwind is a less supportive capital flow story.

Week in review: PMI readings for May painted a stagflationary picture with softness in activity across CEE whilst inflationary pressures are showing up in the MENA region. Inflation in Turkey rose to a 20 year high of 73.5% y/y in May 2022. Hungary raised the base rate by 50bp to 5.90% in line with our (and consensus) expectations.

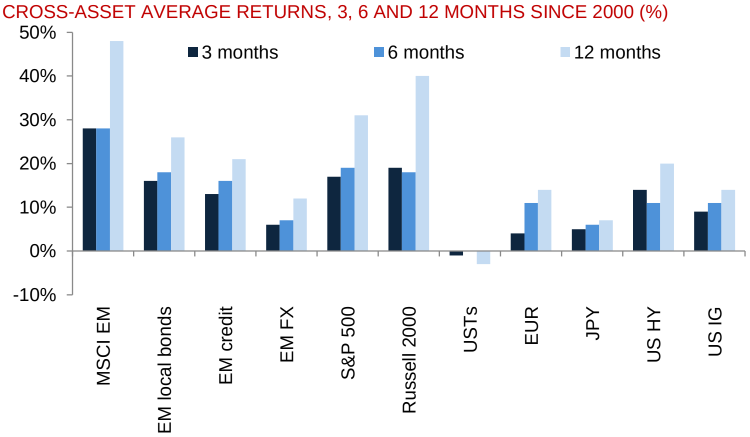
Week ahead and calendar: In the week ahead, we have rates decisions in Russia (MUFG: -100bp to 10.00%) and Poland (MUFG: +75bp to 6.00%) as well as a host of inflation readings in May – Russia (17.5% y/y), Egypt (14.9% y/y), Czech Republic (15.5% y/y) and Hungary (10.3% y/y). Finally, we have South Africa Q1 2022 GDP (MUFG: 1.8% y/y).

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 the largest weekly inflows (USD7.2bn – week ending 3 June) this year, led almost in entirety by equity flows (USD7.0bn) relative to debt flows (USD0.2bn) as a weaker USD has offered investors respite (see here).

CHART OF THE WEEK: EM ASSETS OUTPERFORM DM FOLLOWING USD PEAKS

CROSS-ASSET AVERAGE RETURNS, 3, 6 AND 12 MONTHS SINCE 2000 (%)



The average returns following a USD peak are rather large for risky assets, with EM outperforming DM peers on a 3-12 month basis. As is to be expected following a crisis, the bulk of the returns are registered in the first 3 months with a subsequent flattening of the recovery.

Source: Bloomberg, MUFG Research

Macro focus

Implications of a strong US dollar for EMs

Three key transmission channels of a stronger USD on the EM complex

Between January 2021 and May 2022, the USD rose 13%, which has marked a period of significant apprehension for the EM complex, particularly that we are experiencing the rare combination of a strong USD and high commodity prices. Whilst investors have focused on the negative reverberation of rising US rates on EMs, a strong USD heralds additional pressures for the EM complex. We examine three transmission channels in which a strong dollar – a constituent or consequence of tight US monetary conditions – affects EMs. First, a strong USD propagates a negative trade shock due to dominant currency pricing. Second, a stronger USD weakens EM creditworthiness as USD liabilities become more costly to service. Third, a strengthening USD places a more damaging effect on inflation expectations.

A strong USD propagates a negative trade shock due to dominant currency pricing (DCP)

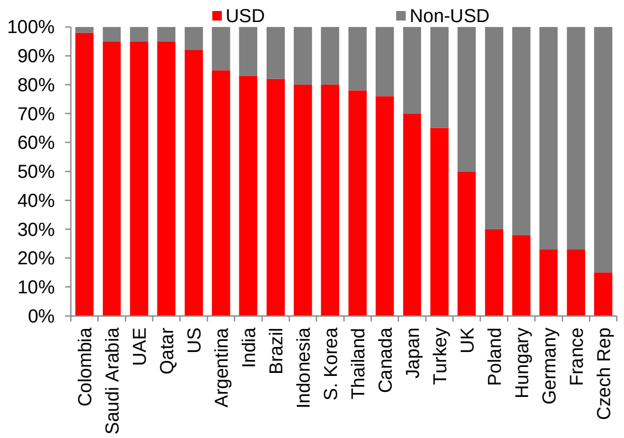
At a rudimentary level, the impact of a strong USD on trade is understood through the dominant currency pricing (DCP) framework, popularised by the IMF's First Deputy Managing Director Gopinath (see here). In a DCP setting, exports are assumed to be invoiced in a global, "dominant" currency (usually USD or EUR), that is not necessarily the domestic currency of either the exporter or the importer. With prices again assumed sticky in the short term, a domestic currency depreciation hence does not boost export price competitiveness, unless the domestic currency is the dominant currency (for instance, in the case of the US). This is because buyers' purchasing power hasn't actually changed. Another important consequence of DCP is that changes in the dominant currency's value affect everyone's purchasing power and export price competitiveness, even if in a bilateral trade relation, neither side uses the 'dominant currency' domestically. So a strong dollar will hamper EM's chances of boosting exports or growth, though the effect of dollar strength on the current account is more benign.

A stronger USD weakens EM creditworthiness as USD liabilities become more costly to service

Beyond the DCP, another channel by which a strong USD impacts EMs is through the weakening of EM creditworthiness as USD liabilities become more costly to service. This transmission mechanism is clear-cut. Any borrower with USD liabilities will find it more taxing to service those liabilities when the USD strengthens. Beyond Turkey, whose external financing challenges are by now well known to markets, Colombia, South Africa and Malaysia have each seen notable increases in their USD-denominated debt in recent years. Of these countries, it is likely to be Colombia about which investors will express most concern, given it is among the countries that

THE OVERWHELMING SHARE OF EM EXPORTS ARE INVOICED IN USD

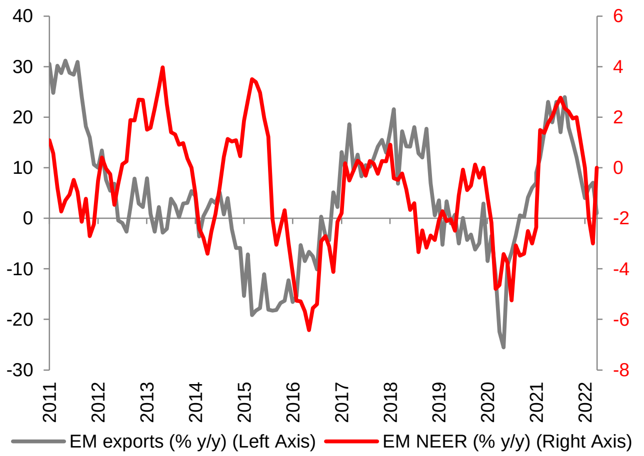
SHARE OF EXPORTS INVOICED IN USD AND NON-USD (%)



Source: Bloomberg, MUFG Research

EM EXPORTS ARE WITNESSING WEAKNESS WITH THE USD STRENGTH AS THEY BECOME MORE COSTLY

EM EXPORTS (% Y/Y) AND EM NOMINAL EFFECTIVE EXCHANGE RATE (% Y/Y)



Source: Bloomberg, MUFG Research

have a high USD share in total liabilities. Importantly, this source of pressure on Colombia's creditworthiness is coming at a time when investors, depending on the outcome of the election, might have reason to worry about the direction of Colombian creditworthiness in any case. It is also worth making the point that the negative effect of a stronger USD on EM creditworthiness is likely heightened by the fact that the overall tightening of US monetary conditions is constraining risk appetite towards EM, making borrowing more difficult and more expensive. Year-to-date, EM borrowers have issued some USD175bn worth of bonds, in contrast to an average same-period level in 2020 and 2021 of over USD310bn. Since access to capital markets is an important determinant of a country's creditworthiness, it follows that a strong USD is affecting EM creditworthiness negatively at precisely the most difficult time for EM.

A strengthening USD places a more damaging effect on inflation expectations

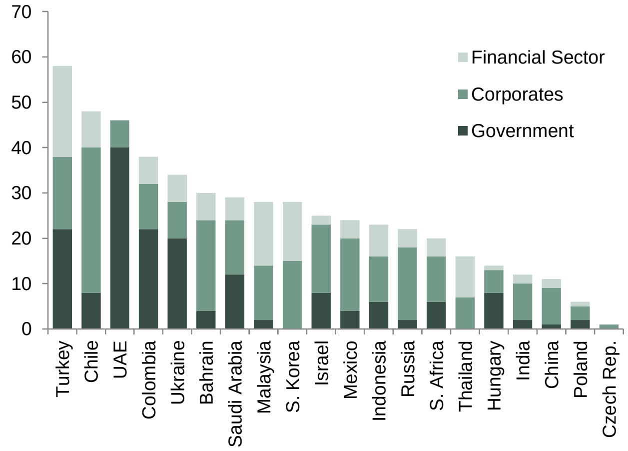
On top of the DUP and creditworthiness, a third mechanism of a stronger USD on the EM complex arises from the hampering effect on inflation expectations. Of concern are the risk of an increase in the determinants that link EM currency depreciation to a rise in CPI levels. These determinants have been low in the past decade, but there's a risk that they will increase when a country is faced with a currency deprecation at the same time as an acceleration in inflation. Thus, the USD's strength adds an additional source of pressure to inflation in EM at a time when CPI is already hampered by the global commodity and supply chain shocks. With global markets experiencing the rare nature of both high commodity prices and a strong USD – as typically a strong USD puts downward pressure on global commodity prices (see here). Such a combination makes it challenging to comprise of a benign view of EM inflation dynamics given that real rates remain low across most major EMs.

A USD peak presages EM asset outperformance

From a global markets perspective, previous episodes of a USD peak have resulted in outperformance of EM equities, currencies, and credits against DM peers. The turning points around USD peaks are likely reversals of US recession risks (indicative that performance drivers are growth-related), but in general the return pattern across assets is broadly well aligned with structural USD betas. EM ex-China equities have posted, on average, a 30% rise in the six months following previous USD peaks, but a key dynamic that is different compared with history is that EM growth bottoms around a USD peak – a high bar at the current juncture. EM growth dynamics have historically been similar when measuring from an absolute perspective (real GDP growth rate) or from a growth differential perspective (against US growth). Previous bouts of USD peaks with weakness thereafter have largely coincided with both EM growth improving and EM growth outperformance. Given the sequencing of the COVID crisis and reopening aftershocks, the 2022 developments thus far can be characterised as falling EM growth forecasts with outperforming growth differentials.

A SIZABLE SHARE OF MAJOR EM'S HAVE LARGE STOCKS OF LIABILITIES THAT ARE DENOMINATED IN USD

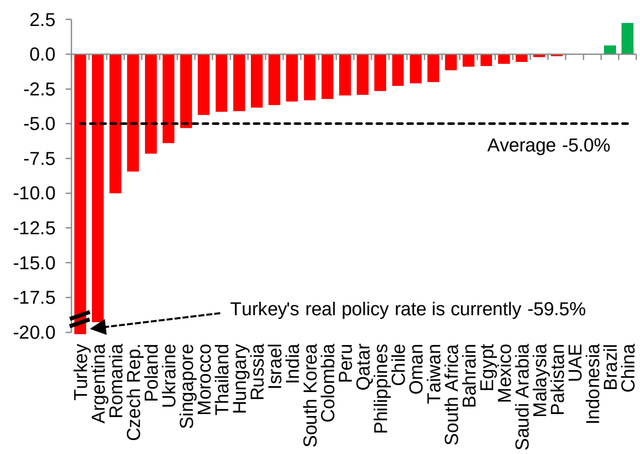
EM USD DENOMINATED DEBT (% OF GDP)



Source: Bloomberg, EM Official Statistics, MUFG Research

IN REAL TERMS, THE ROOM FOR MANOEUVRE IS LIMITED WITH NO REAL RATE BUFFER IN MOST EM'S

EM REAL POLICY RATES (%)



Source: Bloomberg, MUFG Research

FX views

EM FX: strong payrolls and volatile markets continue to support the USD near-term

Strong US payrolls and volatile markets continue to support the USD near-term

The broad USD regained some lost ground over the last week, and the pattern of returns resembled the stagflationary environment that dominated FX markets through mid-April. EM commodity exporting currencies outperformed, such as COP, and CLP, whilst low-yielding and commodity importing currencies underperformed such as the TRY and TWD. Although we expect the US economy to weaken, the stronger-than-expected US employment report for May will likely reduce concerns about a consumer spending slowdown over the near-term. Going forward, our global macro outlook is consistent with USD depreciation, though high uncertainty makes it challenging to position for this theme now. From a growth standpoint, markets are gearing for a cautious Chinese rebound as COVID fades and policy stimulus takes effect, alongside a gradual slowing in the US as well as a gradual rebound in the Euro Area. A scenario along these lines would be most supportive of the high-yielding and commodity exporting currencies in LatAm, as well as parts of EM Asia.

EM FX is following a similar downward path as in 2018, though with more volatility this time around

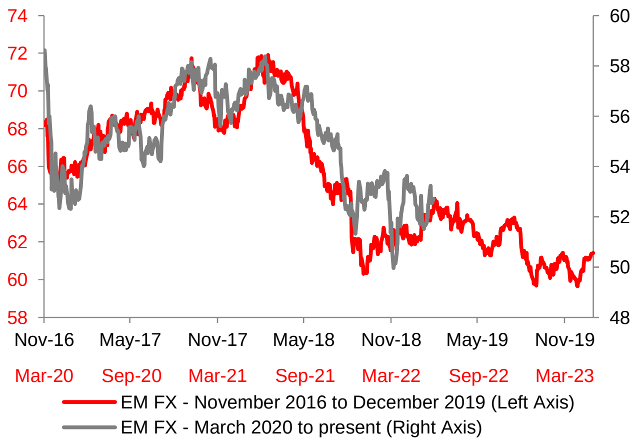
As we documented last week, EM FX is following a similar downward path as in 2018, albeit a more volatile one (see here). There are two similarities happening now as in 2018 – (i) the Fed is seen raising rates steadily; and (ii) a slowdown in China with the CNY weakening. The anxiety emanating from both will not disappear easily, which means the tension for EM FX should persist. The counter is that neither of these are new developments and should be discounted, though we caution this. For the Fed, EM FX took the Fed's first rate hike initially in stride during earlier tightening episodes but this also tended to be short-lived. As the Fed is gearing up for a steeper rate hike cycle, the relief rally is not materialising this time around.

EM FX is following a similar downward path as in 2018, though with more volatility this time around

On net, EM FX has stabilised recently alongside the CNY tentatively doing so as concerns over the Fed appear to have subsided for now. However, these anchors could still prove a drag on EM FX, especially if China's economy and the CNY end up being adrift for longer than expected. Looking ahead, we recognise the tide for EM FX is not going out in the way that it was in April to mid-May. China has tighter control of COVID and the market is reassessing the outlook for the Fed, which has taken some wind out of the USD's sail. However, the latter may be temporary. Other sources of headwinds for EM FX prevail – top of mind, a less supportive capital flow story.

EM FX IS FOLLOWING A SIMILAR DOWNWARD PATH AS IN 2018, THOUGH WITH MORE VOLATILITY THIS TIME

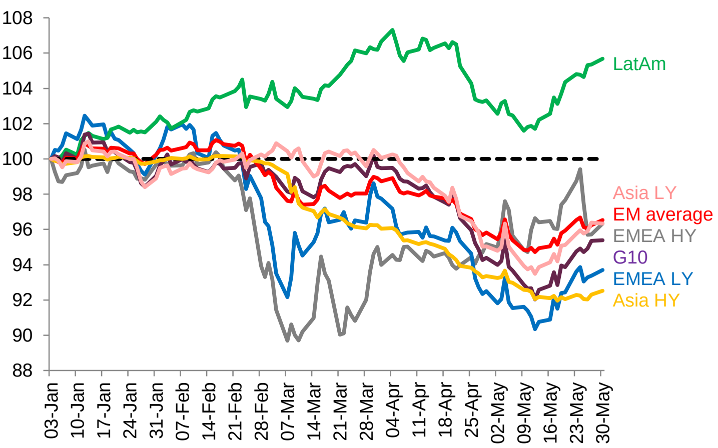
EM FX – BETWEEN NOV-2016 TO DEC-2019 AND MAR-20 TO PRESENT



Source: Bloomberg, MUFG Research

SURGING COMMODITIES HAS MEANT LATAM FX OUTPERFORMANCE THUS FAR IN 2022

REGIONAL CURRENCIES AGAINST THE USD (100 = 1 JANUARY 2022)



Source: Bloomberg, MUFG Research

Week in review

EM capital flows: robust rebound in weekly EM inflows on a weaker USD

Risk assets are struggling for direction

Risk assets including EM are struggling for direction, but for economic activity, the way forward still appears to be more of a slowdown. Last week's preliminary manufacturing and services PMIs out of the eurozone confirmed the ongoing economic issues in May, while in the US, both new home sales and durable goods orders for April came in well below expectations. The deterioration in activity indicators is largely the result of the tightening in financial conditions, which was led by the aggressive pricing of rate hikes in core markets, the leg higher in DM bond yields and less supportive global liquidity. Moreover, the ongoing war in Ukraine, along with COVID restrictions in parts of China is also complicating the growth outlook further, increasing the risk of a hard landing. On net, the pace of growth in global economic activity implies that the loss of momentum could continue in the near term, though it's still hard to argue for an outright recession, given that some parts of the world are still opening up from COVID related restrictions.

The 52 week rolling cumulative outflows into EM bond and equity funds declined to USD-49.8bn from USD-47.2bn a week ago – this figure is the lowest since January 2021

According to IIF data, EMs witnessed the largest weekly inflows (USD7.2bn – week ending 3 June) this year, led almost in entirety by equity flows (USD7.0bn) relative to debt flows (USD0.2bn) as a weaker USD has offered investors respite. Though, broader investor apprehensions lingers stemming from geopolitical events, tighter financial conditions, realised inflation and anxieties that some EMs will not recover quickly enough from COVID (see here, here and here). Following the latest IIF estimates, the 52 week rolling cumulative outflows into EM bond and equity funds declined to USD-49.8bn from USD-47.2bn a week ago. This figure is the lowest since January 2021, and we expect this trend to continue given the ongoing deterioration in the global liquidity backdrop. Finally, from an asset markets perceptive, historically, EM credit outperforms into Fed lift-offs, but this time around EM local rates continues to do better.

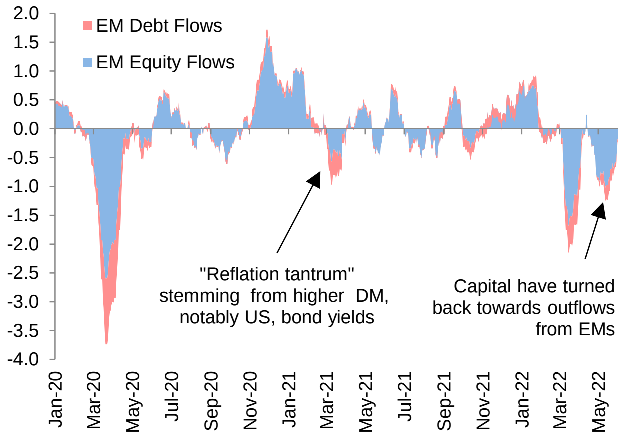
PMIs: softer in CEE whilst rising input costs are showing up in the MENA region

PMIs in May accentuate stagflation

EM EMEA PMIs painted a stagflationary picture with softness in activity across Central and Eastern Europe (CEE) whilst inflationary pressures are showing up in the

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

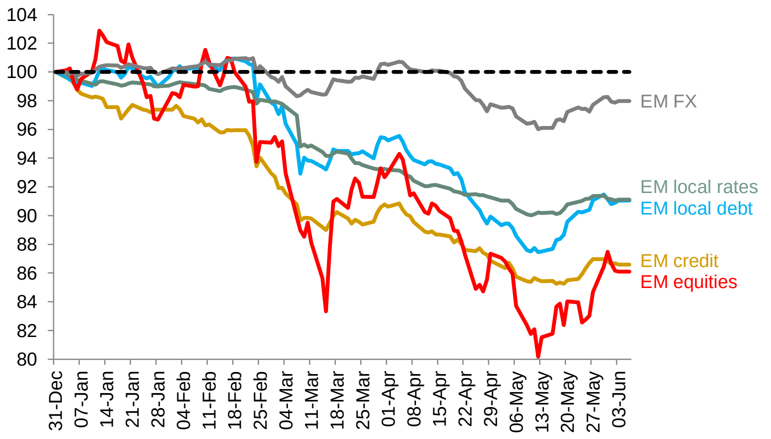
EM EQUITY AND DEBT FLOWS (USD BN), 28 DAY ROLLING AVERAGE



Source: 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

MENA region. The Czech PMI was down from 54.4 in April to 52.3 in May, the Hungarian PMI was down from 58.9 in April to 51.5 in May, and the Polish PMI entered contractionary levels, falling from 52.4 in April to 48.5 in May. Until recently, activity data have been surprisingly robust in the CEE region amid the impact of the war in Ukraine on supply chains and global commodity prices (given geographical proximity – see here). However, the May PMI releases may be a first sign of what lies ahead for the CEE, and we expect a slowdown in activity to take place across the region in H2 2022, reflecting ongoing tightening in financial conditions and fading post-COVID tailwinds. Meanwhile, in the MENA region, Saudi Arabia's PMI was unchanged at 55.7 in May, the UAE's PMI increased from 54.6 in April to 55.6 in May, Qatar's PMI rise to a series high from 63.6 in April to 67.5 in May and Egypt's PMI ticked up mildly from 46.9 in April to 47.0 in May. A common theme across the MENA region has been rising input costs though new order growth in places due to some price discounting signals that entities appear (for now) absorbing higher raw materials and shipping costs.

Turkey: inflation rises to 73.5% y/y in May with prospects of +80% y/y in Q3 2022

Inflation in Turkey continues to surge – now at the highest in more than 20 years

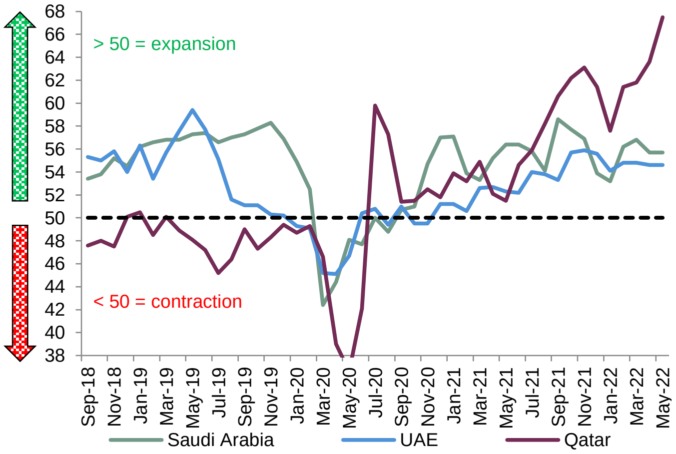
Headline inflation in Turkey rose from 70.0% y/y in April to 73.5% y/y in May, slightly below our (72.6%) y/y) but above consensus (74.4% y/y) expectations. Following this increase, the headline inflation rate is at its highest level since March 2002. Core inflation also rose, from 52.4% y/y to 56.0% y/y. The rise in headline inflation was notably broad-based with all categories registering increases of similar magnitudes. The trajectory of price dynamics in the first five months of 2022 reinforces the narrative that inflation is a secular and not a cyclical state of affairs. While the rise in headline inflation was broad based with all categories registering increases, the degree of the acceleration was disproportionately driven by outsized contributions from the energy-driven transportation and food sub-components. We expect inflation to rise even further and breach 80% y/y in the third quarter and stay north of 70% y/y until November and only fall to 62% y/y by year-end (aided by base effects), with a confluence of elevated commodity prices, rising domestic production costs and a precipitously depreciating Lira (TRY) all in play. With the Central Bank of Turkey's (CBRT) laser emphasis on facilitating cheap credit to key sectors whilst accrediting surging inflation to the war in Ukraine, we see upside risks to CPI from the utilisation of heterodox macroprudential measures that will unlikely solve the inflation challenge.

Reluctantly change in reverse course?

Looking ahead, we reiterate our conviction that the CBRT will likely change course

GCC PMI'S FOR MAY REMAIN FIRMLY EXPANSIONARY BUT INFLATIONARY PRESSURES ARE BUILDING

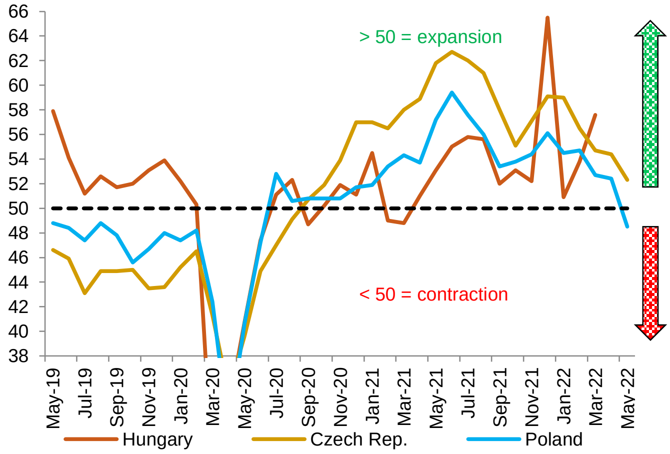
PMI'S IN SAUDI ARABIA, UAE AND QATAR (1-100; 100 = HIGHEST)



Source: Bloomberg, Markit, MUFG Research

CEE PMI'S WERE SOFT IN MAY – MAY BE A SIGN OF WHAT LIES AHEAD GIVEN TIGHT FINANCIAL CONDITIONS

PMI'S IN CZECH REP., HUNGARY AND POLAND (1-100; 100 = HIGHEST)



Source: Bloomberg, Markit, MUFG Research 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 (-56%), 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.

In the interim, we acknowledge that a host of heterodox policies will continue to be adopted to help stabilise the TRY

Whilst our core scenario is that the policy adjustment will be in an orthodox fashion, we acknowledge that a continuation of heterodox measures could materialise over the near-term to encourage de-dollarisation, bolster reserves and manage other aspects of the economy (even if this has negative reverberations on the budget or adds significantly to the government's contingent liabilities). As the authorities push for more lending and growth – as seen with the expansion of the Credit Guarantee Fund, the recapitalisation of state banks and the focus on long-term TRY credits – we view that pressures will build on the CBRT to take action to significantly opt for a tighter monetary policy stance. Central will be the performance of the TRY and the more pressure that builds in the months ahead, the more likely it will be for the CBRT to revisit its monetary policy strategy.

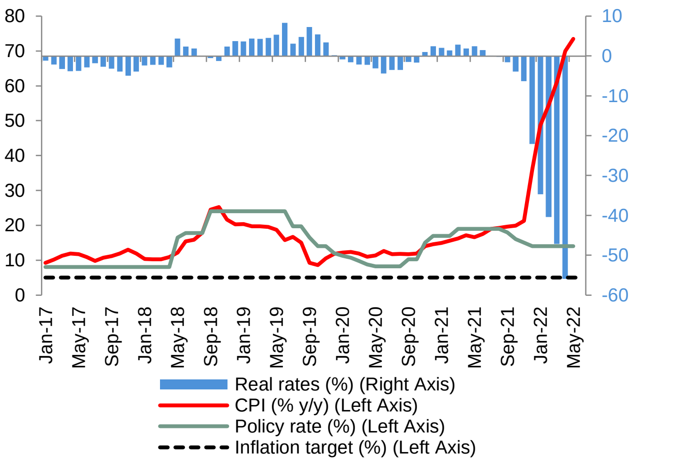
Hungary: MNB raises the base rate by 50bp to 5.90% with inflation firmly in focus

Hungary continues to raise rates and our expectation of further rises in inflation, alongside the MNB's hawkish stance, signals that higher rates are likely in the months ahead

The National Bank of Hungary (MNB) raised its base rate by 50bp to 5.90%, in line with our (and consensus) expectations. The decision follows strong guidance from MNB Deputy Governor Virag in weeks prior to the Monetary Policy Committee (MPC) meeting, that the pace of rapid tightening is now behind us. However, since those comments, the Forint has been under significant depreciation pressures and it appears that the MNB attempted to strike a balance in its official communication today. In the press release, it reiterated that further tightening will be more gradual, but maintained an open-ended guidance on how far higher rates will go and that it will ultimately depend on the inflation outlook. On net, we continue to expect the hawkish environment to persist in Hungary and project inflation to increase in the coming months, with the recent Hungarian Forint (HUF) weakness raising the possibility of pushing up and further out the peak in inflation this year. On top of this, the recurring and significant HUF depreciation limits the MNB's room for manoeuvre.

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

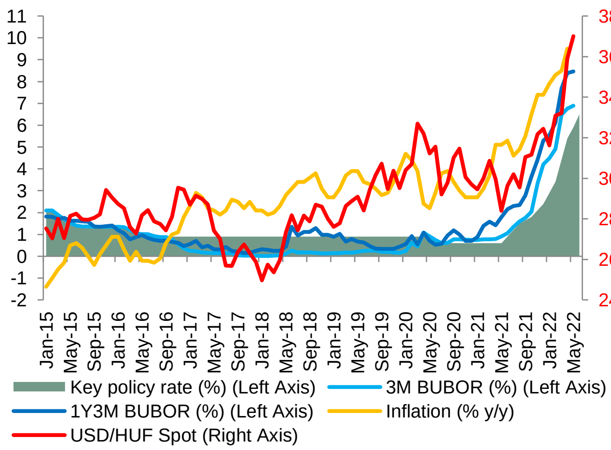
TURKEY INFLATION AND TARGET (% Y/Y) VS RATES (NOMINAL/REAL) (%)



Source: Bloomberg, CBRT, MUFG Research

HUNGARY RAISES RATES FURTHER WITH THE HAWKISH INFLATIONARY SETTING SIGNALLING MORE TO COME

HUNGARY INFLATION (% Y/Y), INTEREST RATES (%) AND USD/HUF



Source: Bloomberg, MNB, MUFG Research

Week ahead

Russia: CBR set to cut rates by 100bp to 10.00% – reversing most post-war hikes

Russia will likely ease rates further by 100bp, taking the policy rate to 10.00%, reversing nearly all of the 1,050bps of hikes early after the war in Ukraine began

The Central Bank of Russia (CBR) will hold its scheduled board meeting on 10 June and we (and consensus) expect policy rates to ease further by 100bp to 10.00%, after rates were cut by 300bp at yet another out-of-schedule on 26 May. This almost reverse all of the 1050bp emergency rate hike on 28 February, that took the policy rate from 9.50% to 20%. While no press conference was held on 26 May, the CBR pointed in its press release to a marked slowdown in inflation dynamics which is supported by a strong Russian Rouble (RUB), a decrease in inflation expectations, and easing financial stability concerns. We however acknowledge that the CBR will be cognisant how far it cuts without first having a better view on the hit to economic growth and may pause the cutting cycle this week.

Poland: NBP to raise rates by 75bp to take policy rates to 6.00% with inflation in play

Poland is set to hike rates by 75bp with elevated inflation a key concern though currency appreciation offers some respite

The National Bank of Poland (NBP) will meet on 8 June and we (and consensus) expect the Monetary Policy Committee (MPC) to hike rates by a further 75bp to 6.00%. While the NBP delivered a dovish surprise in the last MPC meeting, hiking rates by less-than-expected, in the press conference NBP President Glapinski downplayed the dovish implications of the decision, and instead guided that the tightening cycle will continue until inflation is eased back to target. With inflation at 13.9% y/y in May, and little to date in inflation as well as activity data to signal that the hawkish backdrop will ebb near-term, we expect the MPC to deliver a sizable 75bp in hikes this week.

May inflation: beyond Russia, the rest of the region will face higher price pressures

A host of inflation readings in May

A host of inflation readings for May are set to be released this week:

1. Russia. Weekly inflation prints in Russia offer material guidance of what we can expect with the monthly inflation reading for May this week. We forecast inflation to ease from 17.8% y/y in April to 17.5% y/y in May (consensus 17.4% y/y). Going forward, notwithstanding elevated uncertainty, we anticipate that the supply constraints will begin to ease with the remapping and substitution of imports whilst demand continues to be front-loaded, assisting future inflation readings.
2. Egypt. We expect Egypt inflation to gain further hold, rising from 13.1% y/y n April to 14.9% y/y in May, owing to higher food and energy prices. Moreover, the devaluation of the Egyptian Pound (EGP) in March (see here), has continued to depreciate further since to settle at around USD18.4 in the last two months. This has caused a level shift in import prices and consequently worsened the inflation outlook for Egypt.
3. Czech Republic. In the Czech Republic, we expect that headline inflation will rise further from 14.2% y/y in April to 15.5% y/y in May. At its latest Czech National Bank (CNB) meeting, there was a revision showing inflation peaking at ~15.0% y/y in June. The Monetary Policy Committee's (MPC) forecast using a longer monetary policy horizon than the baseline projects inflation remaining at close to 14% until the end of the year. As is the case across the majority of EM and DM economies, the increase in inflation continues to be driven by global rather than local factors. Higher commodity and durable goods prices add inflationary pressures as a result of the war in

Ukraine and continued global supply chain issues.

4. Hungary. In Hungary, we expect inflation to rise from 9.5% y/y in April to 10.3% y/y in May, owing to higher food and core pressures. Moreover, there are no signs to date that underlying inflation dynamics are easing and inflation expectations are running at decade high levels.

South Africa: Q1 2022 GDP to edge up to 1.8% y/y due to manufacturing and trade

Real GDP in South Africa to register a mild increase in Q1 2022

South Africa's Q1 2022 GDP is expected to remain firm at 1.8% q/q, from 1.7% q/q in Q4 2021. On the supply side, manufacturing output and wholesale/retail trade continued to grow rapidly, while mining output contracted for the second quarter in a row. Agricultural production also likely continued to expand on positive local supply factors, after a strong rebound in Q4 2021. On the demand side, we expect domestic demand to remain the driver of growth as the economy continues to recover from the pandemic-related shock, with the contribution from net exports likely to remain close to flat. Yet while Q1 2022 is a good start to the year, the second quarter has downside risk given the onset of the war in Ukraine leading inflation higher, alongside the KwaZulu-Natal floods.

Weekly calendar

	Country	Day	GMT	Indicator/Event	Period	MUFG Forecast	Consensus	Previous	Market Moving
	S. Africa	07/06/2022	10:30	Real GDP (% y/y)	Q1-22	1.8% y/y	1.9% y/y	1.7% y/y	!!!
	Russia	07/06/2022	14:00	Reserve Assets (USD bn)	May	---	---	USD593bn	!!
	Poland	08/06/2022	---	Monetary policy meeting (%)	Jun	6.00%	6.00%	5.25%	!!!
	Romania	08/06/2022	07:00	Real GDP (% y/y)	Q1-22P	---	6.50%	6.50%	!!
	Hungary	08/06/2022	08:00	CPI (% y/y)	May	10.3%	10.3%	9.5%	!!!
	Russia	08/06/2022	17:00	CPI (% y/y)	May	17.5%	17.4%	17.8%	!!!
	Egypt	09/06/2022	---	CPI (% y/y)	May	14.9%	---	13.1%	!!!
	S. Africa	09/06/2022	07:00	Current account balance (% of GDP)	Q1-22	---	1.6%	1.9%	!!
	Oman	10/06/2022	---	CPI (% y/y)	May	---	---	2.7%	!!
	Czech Rep.	10/06/2022	08:00	CPI (% y/y)	May	15.5%	15.4%	14.2%	!!!
	Russia	10/06/2022	11:30	Monetary policy meeting (%)	Jun	10.00%	10.00%	11.00%	!!!

Source: Bloomberg, MUFG Research

Forecasts at a glance

EM EMEA economic growth, fiscal balance and current account balance

	Real GDP (%, y/y)			Fiscal balance (% of GDP)			Current account (% of GDP)		
	Latest	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	8.20	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	9.60	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	3.11	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	8.50	5.00	4.50	-0.74	-4.25	-1.90	1.08	2.26	1.56
Romania	6.50	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	3.50	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	24.716	24.886	21.380
Egypt	13.10	5.40	7.90	11.25	7.75	11.50	18.622	15.723	15.420
Greece	10.17	-0.10	0.40	0.00	0.00	0.40	1.075	1.137	1.132
Hungary	9.50	4.90	7.80	5.90	2.40	5.50	362.4	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	0.75	0.75	0.50	3.328	3.103	3.100
Jordan	3.59	1.60	2.00	4.00	4.00	2.00	0.710	0.709	0.709
Kenya	7.10	6.00	5.90	7.50	7.50	9.50	116.870	113.140	113.040
Kuwait	4.71	2.90	3.40	2.00	2.00	3.00	0.306	0.303	0.303
Lebanon	206.24	124.10	85.00	2.75	2.75	7.75	1510.880	1512.330	1512.330
Libya	4.56	21.10	8.00	3.00	3.00	3.00	4.775	4.597	4.597
Morocco	5.90	1.40	1.20	1.50	1.50	1.50	9.849	9.252	9.250
Nigeria	16.80	17.30	12.00	13.00	13.00	14.00	418.000	424.830	440.500
Oman	2.67	1.30	2.00	0.41	0.41	14.00	0.385	0.385	0.385
Poland	13.90	4.90	10.00	5.25	1.75	5.50	4.268	4.035	3.948
Romania	13.76	5.30	11.90	3.75	3.75	5.50	4.598	4.353	4.388
Qatar	4.66	1.60	4.00	1.75	1.75	2.50	3.641	3.642	3.642
Russia	17.83	6.60	16.60	11.00	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	4.75	3.50	4.75	15.350	15.937	15.800
Turkey	73.50	17.90	62.00	14.00	14.00	20.00	16.586	13.317	14.250
Ukraine	16.40	9.40	15.30	25.00	25.00	14.00	29.588	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	06-May	13-May	20-May	27-May	03-Jun	Change in yield (basis points) Week	MTD	YTD
Bahrain	10 years	4.23	4.40	4.46	4.29	4.43	14.23	-4.97	189.51
Czech Rep.	10 years	4.85	5.14	4.78	4.76	4.82	5.91	6.48	173.70
Egypt	9 years	11.30	11.34	11.40	10.11	10.49	38.47	16.16	333.07
Greece	8 years	3.11	2.97	3.23	2.95	3.13	18.22	16.67	202.51
Hungary	8 years	7.35	7.36	6.94	7.07	7.15	7.21	-4.42	268.10
Israel	8 years	1.92	1.99	2.01	1.96	2.08	11.77	6.89	186.63
Jordan	5 years	7.28	7.40	7.30	6.97	6.83	-14.04	22.80	256.32
Kenya	7 years	10.51	11.22	11.58	9.98	10.25	27.53	18.71	454.52
Kuwait	6 years	3.40	3.27	3.24	2.99	3.10	10.95	11.14	140.27
Lebanon	9 years	57.20	62.74	65.01	69.95	69.59	-36.03	-44.41	558.83
Morocco	11 years	4.62	4.70	4.79	4.76	4.82	6.01	2.59	241.95
Nigeria	9 years	10.52	11.36	11.82	10.33	10.58	25.35	10.69	319.13
Oman	9 years	5.94	6.23	6.13	5.56	5.72	16.31	9.02	96.78
Poland	8 years	2.05	2.05	2.26	2.21	2.38	17.43	11.72	220.83
Romania	7 years	4.17	4.20	4.48	4.41	4.56	14.66	11.38	300.70
Qatar	9 years	3.77	3.77	3.68	3.44	3.54	9.72	6.78	128.96
Russia	5 years	46.63	48.69	63.33	64.37	55.97	-839.80	-661.93	-88.08
Saudi Arabia	8 years	3.93	3.85	3.78	3.47	3.57	10.15	4.14	142.21
South Africa	9 years	6.40	6.35	6.45	5.80	6.02	22.45	5.19	180.45
Turkey	7 years	8.76	9.26	9.14	8.84	8.92	7.61	2.40	169.90
Ukraine	8 years	35.63	34.22	31.44	32.42	33.06	64.04	6.65	2,358.24
Abu Dhabi	6 years	3.37	3.45	3.29	2.98	3.13	14.18	9.21	137.37
Dubai	8 years	3.96	4.18	4.18	4.01	4.10	9.14	2.51	151.85

EM EMEA equity market (index)

	29-Apr	06-May	13-May	20-May	27-May	03-Jun	Change (%) Week	MTD	YTD
Bahrain	1,969	2,004	2,012	1,963	1,889	1,903	0.74	-0.93	5.87
Czech Rep.	111,112	117,457	105,688	107,005	110,580	111,102	0.47	-0.22	5.99
Egypt	10,420	11,511	10,811	10,439	10,416	9,978	-4.20	-1.69	-16.50
Greece	825	868	863	867	873	903	3.40	1.39	1.09
Hungary	44,126	44,338	40,929	42,897	41,517	41,304	-0.51	4.84	-18.57
Israel	1,930	2,023	1,895	1,919	1,836	1,919	4.53	0.92	-2.96
Jordan	2,225	---	2,482	2,436	2,468	2,429	-1.59	-1.76	14.65
Kenya	159	159	145	140	128	129	0.83	0.51	-22.26
Kuwait	7,824	7,934	8,142	7,938	7,537	7,676	1.86	-1.88	8.99
Lebanon	658	658	658	658	658	658	0.00	2.96	41.99
Morocco	12,705	12,820	12,650	12,680	12,412	12,660	2.00	2.60	-5.23
Nigeria	47,341	47,157	52,838	52,721	53,151	52,908	-0.46	-1.36	23.86
Oman	4,343	4,314	4,159	4,156	4,120	4,125	0.12	0.21	-0.12
Poland	2,000	2,122	1,718	1,802	1,797	1,844	2.64	0.06	-18.66
Romania	12,317	12,739	12,231	12,093	12,207	12,326	0.98	-1.47	-5.63
Qatar	13,237	13,397	13,471	13,020	12,829	12,915	0.67	-0.03	11.09
Russia	---	---	2,387	2,445	2,340	2,296	-1.90	-2.55	-39.38
Saudi Arabia	12,408	12,881	13,379	12,713	12,236	12,830	4.85	-0.71	13.72
South Africa	64,292	69,146	61,786	62,494	63,019	64,765	2.77	-1.02	-3.41
Turkey	2,079	2,189	2,454	2,394	2,418	2,643	9.31	3.78	42.29
Ukraine	519	519	519	519	519	519	0.00	0.00	-0.68
Abu Dhabi	9,480	9,632	9,795	9,908	9,717	9,794	0.79	-2.60	15.38
Dubai	3,305	3,350	3,529	3,437	3,307	3,374	2.00	0.79	5.56

EM EMEA FX against USD*

	29-Apr	06-May	13-May	20-May	27-May	03-Jun	Change (%) Week	MTD	YTD
USD Index	103.623	103.752	104.851	102.724	101.668	101.879	0.21	0.12	6.49
Bahrain**	0.379	0.379	0.379	0.379	0.379	0.379	0.00	0.00	0.18
Czech Rep.	23.340	23.703	23.783	23.307	23.004	22.998	-0.03	0.12	-4.86
Egypt	18.484	18.484	18.315	18.282	18.587	18.622	0.19	0.00	18.44
Greece***	1.055	1.055	1.041	1.056	1.074	1.075	0.11	0.12	-5.48
Hungary	359.010	361.810	370.550	363.840	367.070	362.350	-1.29	2.13	-10.46
Israel	3.339	3.404	3.402	3.363	3.348	3.328	-0.58	-0.29	-6.77
Jordan**	0.710	0.710	0.710	0.710	0.710	0.711	0.13	-0.11	-0.25
Kenya	116.279	116.279	0.009	0.009	0.009	0.009	0.00	0.00	2.33
Kuwait	0.306	0.306	0.306	0.306	0.306	0.306	0.00	-0.10	-1.13
Lebanon	1,510.90	1,513.53	1,511.37	1,510.88	1,510.88	1,510.88	0.00	0.00	0.10
Morocco	9.988	10.012	10.119	10.023	9.899	9.849	-0.51	0.15	-6.06
Nigeria	415.610	415.640	415.470	415.910	415.940	418.000	0.50	-0.52	1.63
Oman**	0.385	0.385	0.386	0.385	0.385	0.385	0.00	0.00	0.26
Poland	3.758	3.758	3.758	3.759	3.761	3.761	-0.02	0.01	-0.18
Romania	4.692	4.688	4.750	4.683	4.604	4.598	-0.13	0.15	-5.34
Qatar**	3.663	3.662	3.664	3.664	3.661	3.664	0.06	-0.10	0.29
Russia	71.633	67.955	64.707	62.140	66.345	61.300	-7.60	1.93	22.63
Saudi Arabia**	3.758	3.758	3.758	3.759	3.761	3.761	-0.02	0.01	-0.18
South Africa	15.789	15.996	16.165	15.842	15.590	15.350	1.56	1.89	3.82
Turkey	14.854	14.952	15.482	15.909	16.223	16.586	-2.19	-1.09	-19.79
Ukraine	30.262	30.262	29.528	29.400	29.463	29.588	0.42	0.21	-7.78
UAE**	3.672	3.672	3.672	3.672	3.673	3.673	0.01	0.00	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)

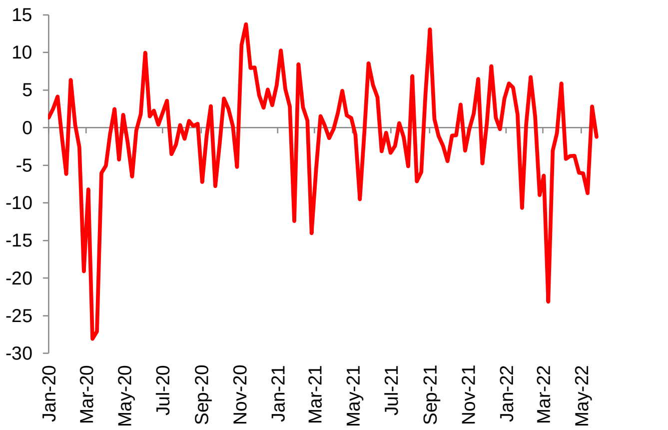
	29-Apr	06-May	13-May	20-May	27-May	03-Jun	Change in yield (basis points) Week	MTD	YTD
Bahrain	296.90	202.22	309.92	338.07	317.20	314.82	-2.38	283.10	20.99
Czech Rep.	39.92	39.24	39.73	39.97	39.69	38.10	-1.60	-1.60	2.48
Egypt	776.75	852.16	864.13	922.60	751.43	778.14	26.71	26.71	280.10
Greece	152.87	155.75	155.29	172.61	165.17	174.12	8.95	8.95	62.13
Hungary	114.14	118.16	120.76	125.00	128.20	129.97	1.77	1.77	85.25
Israel	39.52	40.82	41.94	45.49	46.09	46.45	0.35	0.35	6.24
Kenya	728.54	804.10	855.37	927.71	695.06	707.26	12.20	12.20	300.37
Kuwait	57.69	56.71	62.73	66.75	69.76	69.37	-0.39	-0.39	24.66
Morocco	110.72	115.23	117.27	201.56	205.95	207.84	1.89	1.89	112.45
Nigeria	620.92	620.50	620.36	811.73	811.44	700.65	-110.79	-110.79	245.58
Oman	228.13	231.78	257.77	267.27	259.93	261.75	1.82	1.82	5.94
Poland	90.15	94.71	103.48	107.39	100.00	104.53	4.53	4.53	64.95
Romania	211.60	217.13	217.70	244.47	240.93	219.95	-20.98	-20.98	145.13
Qatar	61.27	65.06	67.70	68.20	60.36	62.04	1.68	1.68	18.28
Russia	3,707.60	4,730.62	5,377.20	10,121.04	14,418.18	10,195.04	- 4,223.14	- 4,223.14	10,070.62
Saudi Arabia	61.27	66.12	67.67	69.01	61.36	66.35	4.99	4.99	16.97
South Africa	252.22	261.82	263.35	275.53	233.66	242.93	9.28	9.28	39.91
Turkey	618.83	668.02	711.58	719.02	711.43	715.33	3.91	3.91	152.58
Ukraine	6,176.64	6,136.51	5,708.78	4,812.47	3,615.89	3,987.26	371.38	371.38	3376.37
Abu Dhabi	58.84	63.63	67.01	68.01	59.42	118.18	58.76	58.76	75.28
Dubai	101.52	105.11	118.59	123.42	119.46	118.18	-1.29	-1.29	24.12

Source: Bloomberg, MUFG Research

EM capital flows

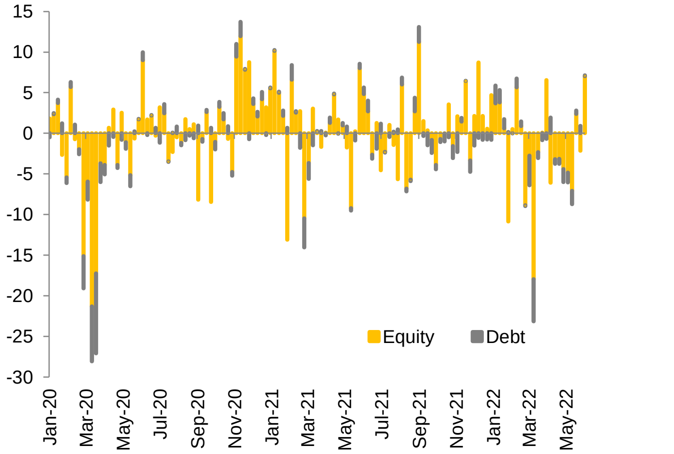
WEEKLY TOTAL EM INFLOWS OF USD7.2BN – 06 JUNE

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



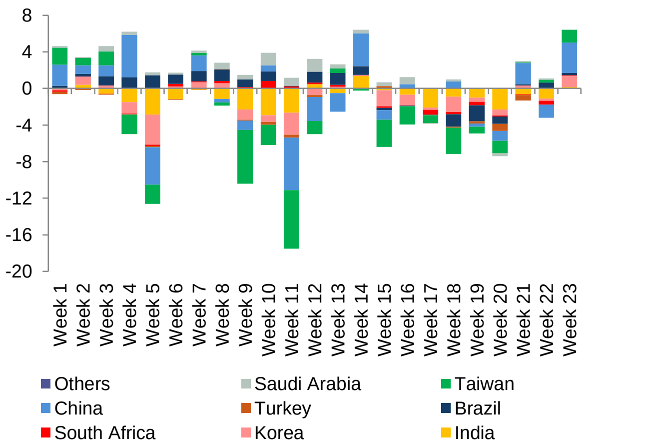
WEEKLY EM INFLOWS FROM EQUITY (USD7.0BN) AND DEBT INFLOWS (USD0.2BN) – 06 JUNE

WEEKLY DEBT AND EQUITY FLOWS (USD BN)



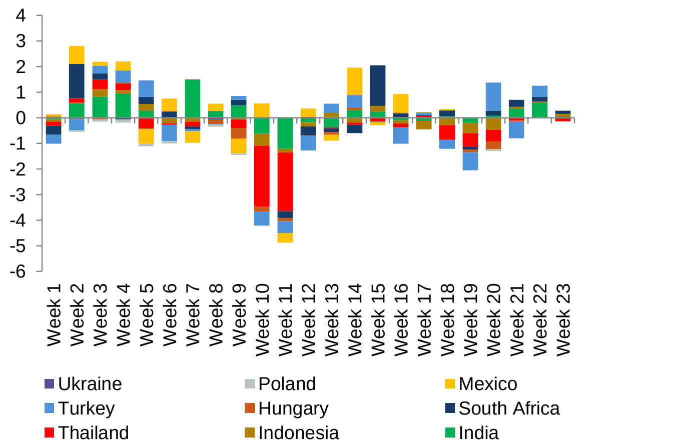
CHINA (USD3.3BN) AND TAIWAN (USD1.4BN) LED WEEKLY EM EQUITY INFLOWS – 06 JUNE

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



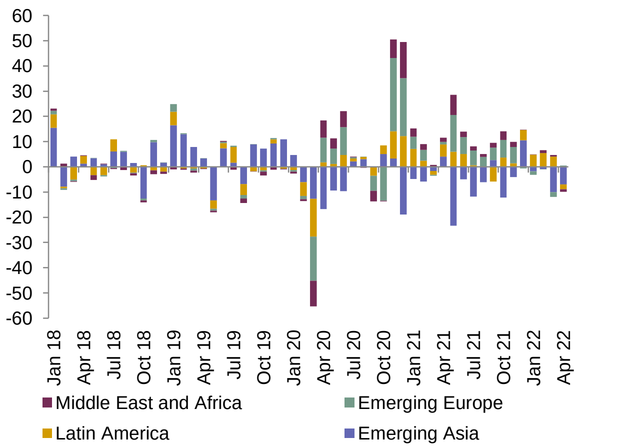
SOUTH AFRICA (USD0.1BN) LED EM DEBT INFLOWS LAST WEEK – 06 JUNE

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



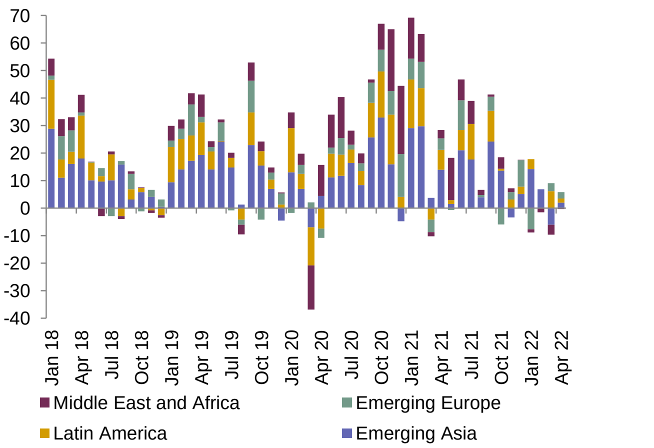
EM EQUITY OUTFLOWS TOTALLED USD-9.5BN IN APRIL, LED BY EM ASIA (USD-7.0BN)

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

Research

London:

MR DEREK HALPENNY
Head of Research, Global Markets EMEA
& International Securities
T: +44 (0)20 7577 1887

MR LEE HARDMAN
Currency Analyst
T: l+44 (0)20 7577 1968

MS MOMOKO MIYACHI
Research Assistant
T: +44 (0)20 7577 1886

Shanghai:

MR MARCO SUN
Chief Financial Markets Analyst
T: +86 21 2063 5485

Hong Kong:

MS LIN LI
Head of Global Markets Research Asia
T: +852 2862 7005

New York:

MR GEORGE GONCALVES
Head of US Macro Strategy
T: +1-212- 405-6687

Dubai:

MR EHSAN KHOMAN
Head of Emerging Markets Research – EMEA
T: +971 (0)4 387 5033

Tokyo

MR TEPPEI INO
Tokyo Head of Global Markets Research
T: +81 (0) 3 6214 4185

MS SUMINO KAMEI
Senior Analyst
T: +81 (0) 3 6214 4179

MR TOMOKI HIRAMATASU
Analyst
T: +81 (0) 3 6214 4152

MR TAKAHIRO SEKIDO
Chief Japan Strategist
T: +81 (0) 3 6214 4150

MR KENTO SAITO
Research Assistant
T: +81 (0) 3 6214 4149

MR TOSHIYUKI SUZUKI
Global Market Economist
T: +81 (0) 3 6214 4148

Singapore:

MR JEFF NG
Senior Currency Analyst
T: +65 6918 5536

MS SOPHIA NG
Currency Analyst
T: +65 6918 5537

Sao Paulo:

MR CARLOS PEDROSO
Chief Economist
T: +55-11-3268-0245

MR MAURICIO NAKAHODO
Senior Economist
T: +55-11-3268-0420

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