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MUFG Bank, Ltd.
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The global interest rate shock and emerging markets

Macro focus: As H1 2022 draws to a close, EMs remain in a tough spot as tighter financial conditions, slowing global growth, and a pick-up in macro and market volatility, continues to weigh on the complex. We are in a global interest rate and high inflation shock with longer-dated government bond yields rising sharply, weighing on flows to EMs. There is little to support EM from a top-down macro angle as we look into H2 2022 with recessionary angst garnering greater propulsion.

FX views: It's been a mixed week for EM FX performance though overall levels are close to year-to-date lows. The latest central bank policy updates (BoJ, Fed & SNB) over the past week did not trigger a further strengthening of the USD's bullish trend, but have contributed to higher volatility in the FX market. We anticipate an extension of global equity market weakness to continue to encourage a stronger USD especially against higher beta EM FX.

Trading views: PMI readings

Week in review: Not all GCC central banks followed the Fed's 75bp hike given inflation is more transient due to the flexibility of local labour markets, widespread administered pricing and no passthrough from FX (USD pegged). May inflation in Poland surged to 13.9% y/y and Hungary raised its 1-week depo by 50bp to 7.25%.

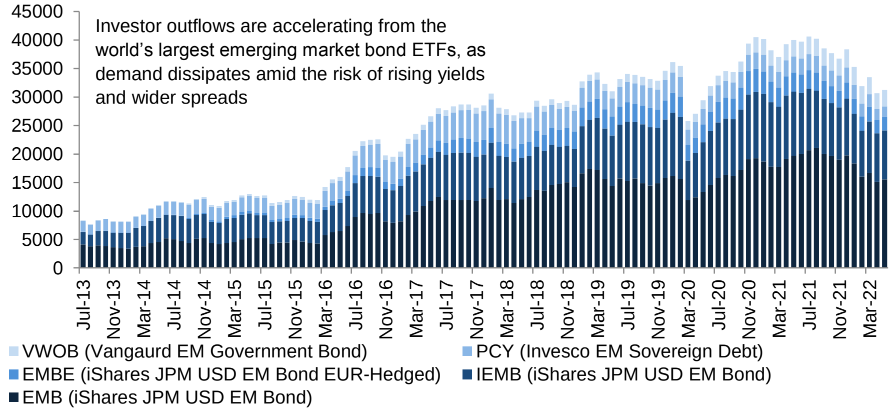
Week ahead and calendar: In the week ahead, we have rates decisions in Czech Rep. (+150bp to 7.25%), Egypt (+100bp to 12.25%) and Turkey (hold at 14.00%).

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 week of inflows (USD0.2bn – week ending 10 June) this year, led by equity flows (USD0.9bn) which offset debt outflows (USD-0.7bn) (see here).

CHART OF THE WEEK: RISING US YIELDS SEND EM CREDITORS PACKING

EM HARD CURRENCY DEBT ETF'S, TOTAL ASSET UNDER MANAGEMENT (AUM), USD



Source: Bloomberg, MUFG Research

Macro focus

The global interest rate shock and emerging markets

Bleak start to H1 2022 for EMs with recessionary angst on the horizon in H2 2022

As H1 2022 draws to a close, emerging markets (EMs) remain in a tough spot as tighter financial conditions, slowing global growth, and a pick-up in macro and market volatility, continues to weigh on the complex. The US Fed delivered a strong, until recently unexpected, 75bp rate increase last week, putting the focus globally squarely on the risks of fallout as US monetary policy transitions towards a restrictive stance. We are in a global interest rate and high inflation shock with longer-dated government bond yields rising sharply, weighing on flows to EMs. There is little to support EM from a top-down global macro angle as we look into H2 2022 with recessionary angst garnering greater propulsion.

Inflation remains the key focus

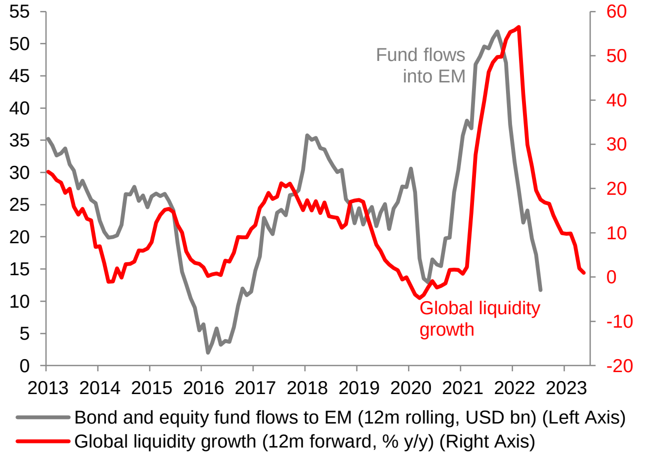
Inflation continues to move sharply higher across the majority of EM EMEA economies, surpassing our above-consensus forecasts. Although volatile food and energy prices remain the fundamental drivers of these increases, inflationary pressures are also broadening to more domestically driven components. Inflation appears entirely unanchored in Turkey (where headline inflation reached 73.5% y/y in May). In the CEE region, inflation has reached multi-decade highs and continues to march higher. On our forecasts, peak inflation remains some months away for most EM EMEA economies and, given a broadening of price pressures to core goods and services and evidence of rising inflation expectations, it is likely to be some time before inflation returns to more “normal” levels.

Aggressive DM rate hikes is adding pressure on EMs

The increase in inflation is not exclusive to the EM EMEA a very much a global phenomenon. From a long-term perspective, the fact that most developed markets (DMs) central banks are taking more decisive action to address high global inflation is a necessary development for EMs. However, in the short term, the resulting tightening in global financial conditions is placing significant additional pressure on EM exchange rates and central bank policy. In EM EMEA’s more vulnerable economies, exchange rates are weakening despite monetary tightening (in Turkey’s case, where there are balance-of-payments weaknesses and monetary policy is artificially loose, the Turkish Lira is depreciating precipitously). Meanwhile, in the EM EMEA’s less vulnerable economies, exchange rates are strengthening by less than one would expect (relative to the tightening that has been implemented to date). Our US rates strategist see signs that the US is slowing towards a below-trend growth rate and forecast Fed funds rates of 3.125% by year-end (well below current

DM CENTRAL BANKS TAPERING OF ASSET PURCHASES HAS COLLAPSED EM CAPITAL INFLOWS

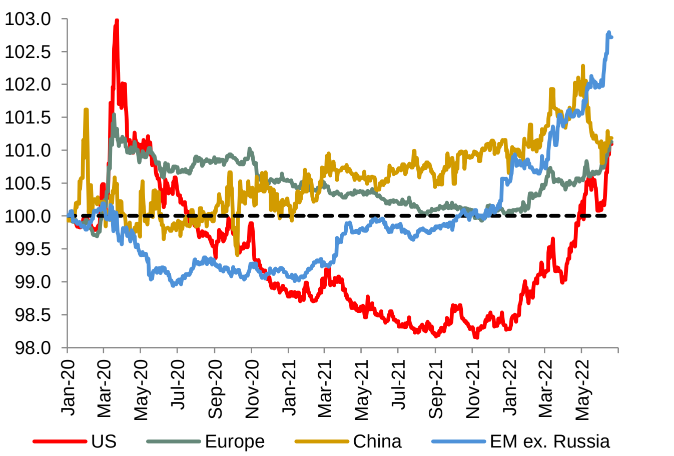
GROWTH IN BANK OF ENGLAND, BANK OF JAPAN, ECB AND US FEDERAL RESERVE BALANCE SHEETS (% Y/Y) VS EM FUND FLOWS (USD BN)



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

GLOBAL FINANCIAL CONDITIONS ARE TIGHTENING WHICH IS A CORE EM RISK (CAPITAL FLIGHT) IN 2022

FINANCIAL CONDITIONS INDICES (FCI) BY COUNTRY/REGION, REBASED 100 = JANUARY 2020



Source: Bloomberg, MUFG Research

market pricing), signalling that most of the repricing of the yield complex is behind us. Nevertheless, given the tightening in global financial conditions seen to date, together with high and rising domestic inflation rates, we expect significant further monetary tightening across most of EM EMEA.

Economic growth has remained robust since the war in Ukraine began but is set to turn

From an economic growth perspective, real GDP has held up better than anticipated since the start of the war in Ukraine. Q1 2022 GDP data were relatively robust in most EM EMEA economies, leading to mechanical upward revisions to our 2022 annual averages across the region. The Q1 2022 data were especially strong in the CEE, with Poland recording growth of 10.4% y/y, Hungary 8.7% y/y and Romania 22.4% y/y. However, there were signs of slowing in the May activity data, a development that will require monitoring in the months ahead. Moreover, given the combination of much tighter financial conditions and a commodity-driven squeeze on household incomes, we view the slowdown has been delayed rather than avoided. We maintain our aggregate EM EMEA real GDP growth forecast of 0.8% (consensus -0.9%) in 2022 and 3.1% (consensus 2.4%) in 2023.

Given elevated inflation expectations, there is no haste to receive on EM bonds

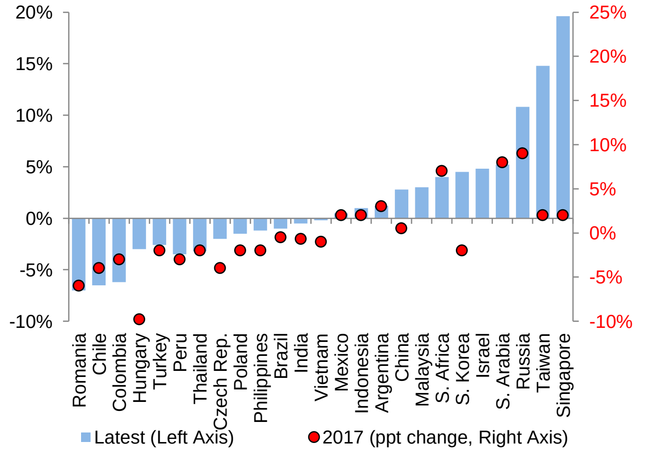
From a bonds market perspective, local currency yields, notably in the CEE region, are discounting unrealistically high levels of rates in the medium-to-long term (i.e., well in excess of rational estimates of neutral). Reflecting this, the market pulse is focused on whether and where to receive local market rates. Given that major DM central banks are tightening somewhat aggressively, domestic inflation is still moving higher, and given the risk of a fundamental de-anchoring of inflation expectations, we remain wary of turning constructive on EM EMEA local market debt at this stage.

Market access for more vulnerable EMs raises risks – we continue to prefer EMs with flexible policy manoeuvre, attractive risk premiums and commodity links

Rising yields on external debt are impairing market access for a number of high-yield EM EMEA sovereigns. Leaving aside Russia and Ukraine, where credit spreads reflect the idiosyncratic risks related to the war, five-year Eurobond yields for Egypt, Nigeria and Turkey are now in double-digit territory. These economies have sizable external financing requirements, which leave them vulnerable to tightening financing conditions. A prolonged period of impaired market access will put pressure on their currencies, raising inflation and forcing central banks into sharper tightening cycles than would otherwise be warranted. This may undermine growth even where domestically driven inflationary pressures are low. Moreover, where FX buffers are not sufficiently robust to meet the external needs of the economy, we believe this raises external risks further. There is of course a lot of variation within EMs on how current account positions and FX buffers are evolving – we continue to prefer EMs with flexible policy manoeuvre, attractive risk premiums and commodity links – the GCC region, South Africa and LatAm stand-out as most favourable.

CURRENT ACCOUNTS IN EM'S ARE MOSTLY FLAT TO WORSE OVER THE LAST FIVE YEARS

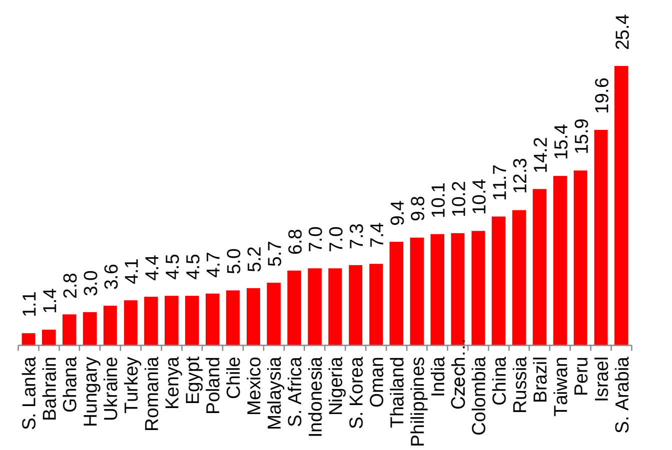
CURRENT ACCOUNT (% OF GDP AND PPT)



Source: EM Official Statistics, IMF MUFG Research

HIGH DISPERSION AMONG EM FX RESERVES / IMPORT COVERAGE RATIO'S

FX RESERVES / MONTHS OF IMPORT COVERAGE



Source: EM Official Statistics, IMF MUFG Research

FX views

EM FX: Challenging times set to continue for EM FX

Mixed performance of EM FX over past week. EM FX remains close to year to date lows vs. USD – EM FX vol close to year to date highs

It has been a mixed week for EM FX performance. The best performing EM currencies have been the COP (+1.8% vs. USD), RUB (+1.6%), HUF (1.2%), CZK (+1.2%), CNY (+1.0%) and MXN (+0.9%). In contrast, the worst performing EM currencies have been the CLP (-1.6% vs. USD), PHP (-1.4%), THB (-1.4%), IDR (-1.0%) and BRL (-0.7%). The latest price action has not yet changed the underlying trends in the FX market. The USD continues to trade close to year to date highs against our basket of equally-weighted EM currencies. The main exceptions this year to broad-based USD strength have been the LatAm currencies of the BRL, PEN, COP and MXN as well as the RUB.

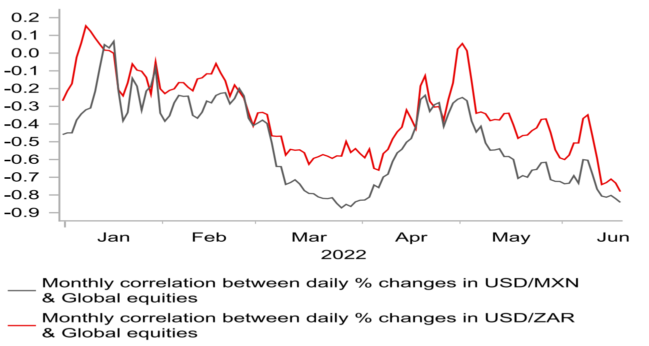
Hawkish Fed policy update fails to trigger an even stronger USD – Extension of global equity market weakness should continue to encourage a stronger USD especially against higher beta EM FX

The latest central bank policy updates (BoJ, Fed & SNB) over the past week did not trigger a further strengthening of the USD's bullish trend, but have contributed to higher volatility in the FX market. Implied volatility for EM FX has been trading at close to year to date highs over the past week. We expect Fed Chair Powell to deliver a hawkish semi-annual monetary policy testimony to Congress in the week ahead. The MPR released ahead of the testimonies emphasised the Fed's unconditional commitment to restoring price stability inflation. Market participants remain comfortable for now with plans for the policy rate to peak at just below 4.0%, and yields even fell modestly last week. The Fed's recent hawkish policy signals have been offset as well by other major central banks playing catch up that has prevented spreads from moving in favour of an even stronger USD. The one clear exception has been the BoJ. As such, the USD has become tightly linked to global equities – MSCI's ACWI global equity index has fallen to fresh lows encouraging a stronger USD. Our analysis shows that USD/MXN and USD/ZAR have had the strongest correlations to developed market equity performance over the past month.

Central European FX supported by ECB's attempts to dampen fragmentation risk, yet oil supply risks posed by Russia continue to dampen upside for European currencies – CNB to deliver one last hike before dovish shift in leadership. Tide set to turn against CZK

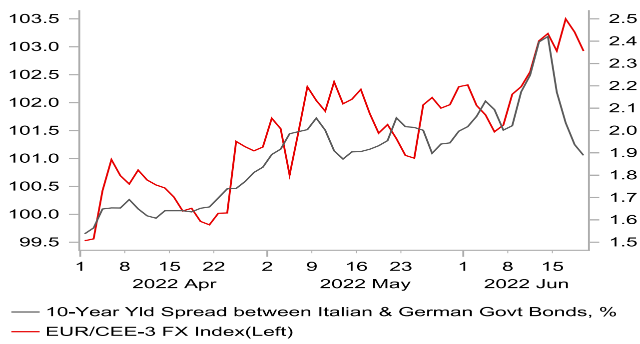
Within EMEA FX, the CEE currencies of the CZK, HUF and PLN have all rebounded over the past week alongside the EUR. The ECB's efforts to try and dampen fragmentation risk in the euro-zone have helped to improve investor sentiment including plans to speed up the creation of an anti-fragmentation tool. However, upside potential for European currencies continues to be dampened by the lingering risk of further energy supply disruption from Russia. CEE central banks (CNB, NBH & NBH) have been coming under more market pressure to deliver larger rate hikes to support their currencies and dampen upside inflation risks. The CNB is expected to deliver one last big rate hike (+150bps) this week before a dovish shift in leadership. We then expect monetary policy to turn more bearish for the CZK after this week.

TIGHTER CORRELATIONS TO GLOBAL EQUITIES



Source: *Bloomberg, Macrobond & MUFG Research*

FRAGMENTATION RISKS FOR EUROPEAN FX



Source: *Bloomberg, Macrobond & MUFG Research*

Trading views

Disclaimer: "Trading views" offers an overview of what our professional traders and desk analysts are watching in the markets, their commentary and views are theirs alone and are not intended to be construed as investment advice. This material is intended to be of general interest only and should not be considered a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy. The information provided in this material is not intended as a complete analysis of every material fact regarding any country, region or market.

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Trading views: Volatility is high but why is there no noticeable risk premium in EMFX

Last week felt like if you didn't like your P&L you had to just switch off your terminal and come back 24 hours later to check back again

Last week's volatility brought back the old trading adage of "if you don't like the P&L of your positions just switched off your terminal and come back in 24hrs!". It certainly felt for the overall USD EM market that one day we were talking about Armageddon only to rejoice Powell's dovishness and then back again. I'm not sure who enjoyed the price action but they certainly were not near our desks. Throughout this one thing that stands out for us within this, is that risk premium for EMFX seems low given the global narrative that is making the rounds.

Why is risk premium so low in EMFX, US 10yr yield has more than doubled yet being long IDR points would have lose money

This lack of risk premium is similar to the way VIX has not moved up much to the selloff that we have seen in equities this year. To use an example in our world – If you had said to many EM managers US 10yrs will move from 1.50% to 3.50% during the year, what would be your preferred positions, we imagine long IDR points would have been popular. However the trade would not have made money. There are other examples of this. One answer to this is that it is due to higher US rates and curves trading in a way that is more fungible with money market curves (at least in appearance). While that is true, it doesn't explain enough and we feel the other is the lack of risk premium seen in what some commentators suggest the biggest asset drawdown in history.

Risk premium in EMFX curves represents both "fear" and "need to hedge" – the former is not that high, the latter low

For ourselves, when we define risk premium we refer to two things. The fear is one part and the other is the "need to hedge". Focussing on the fear angle first. Here you have the compression of global imbalances as a major factor. The narrowing of deficits around the world means any talk of "fragile 5" or even 10 seems exaggerated. You could probably only place a couple of major EM currencies in that category, maybe just one if fact (will let others guess it). The second part is the, "need to hedge". We have seen several months/years of outflows now in EM. This year we're seeing more outflows especially as the market has turned to a net seller of Chinese bonds instead of a buyer. However the outflows have meant that positioning is now much smaller. As such we don't see the positioning now in a way that will see big moves higher. It is interesting today that as PHP makes new multi-year lows, the NDF curve is actually compressing. This behaviour is very different to the past.

RV continues to be our focussed with optimism on North Asian currencies while more defensive on CEE.

For the week ahead our bias continues to be more on RV rather than the major USD/Fed view. We are getting more excited about the recovery in CNY and like North Asia on this and the fact many currencies have CB leaning against the move. A headline on tariff removal from US on Chinese goods should also give some tailwind to the move. Against this CEE especially CZK and TRY continues to be where we are less optimistic feeling that unorthodox monetary policy making at the time when others are going hard on inflation will provide a tough backdrop for these currencies.

Week in review

EM capital flows: fresh inflows into equity funds despite rising recession concerns

Global rate hikes adds to recession risks

It was nothing short of a challenging week for EM risk assets last week. Particularly worth highlighting is the sharp leg down in equities, as last week's aggressive rate hikes by core central banks led to increasing fears of a recession, amid much stickier inflation. The Swiss National Bank (SNB) joined the tightening club last week, with an unexpected 50bp rate hike, and opened the door for further hikes. The Fed, moreover, stepped up the pace of its tightening, and raised the Federal funds rate by 75bp. Fears of a global recession are gaining traction and at the very least, it is fairly clear that the pace of economic activity is slowing down sharply, on the back of a tightening in financial conditions.

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 a second consecutive week of inflows (USD0.2bn – week ending 10 June) this year, led by equity flows (USD0.9bn) which offset debt outflows (USD-0.7bn), with investors appearing to have used the recent sell-off in equities as a buying opportunity. Having said that, broader investor apprehensions continues to linger 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-50.8bn from USD-50.4bn 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. From an asset markets perceptive, EM credit historically outperforms into Fed lift-offs, but this time around EM local rates is doing better.

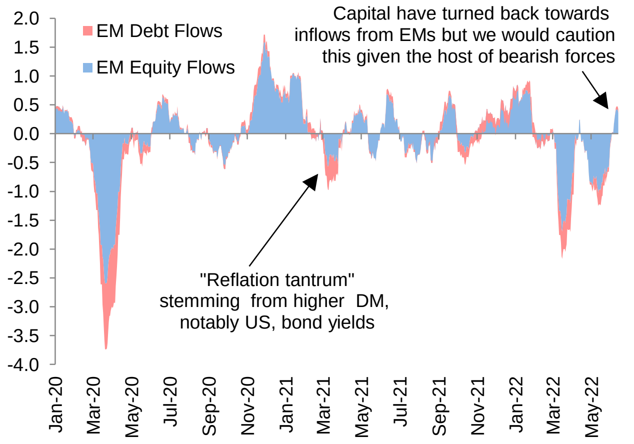
GCC region: most central banks followed the Fed's 75bp hike given USD pegs

Not all GCC central banks followed the Fed's 75bp hike given inflation is more transient due to the flexibility of local labour markets, widespread administered pricing and no pass-through from FX (USD pegged)

GCC central banks partially followed the Fed's 75bp hike last week. The Saudi central bank (SAMA) and the central bank of Kuwait (CBK) decided not to follow fully delivering hikes for 50bp and 25bp, respectively. Bahrain and Qatar instead delivered a full 75bp hike, as well as the UAE which follows the Fed interest on reserves balances (IORB). Oman's repo rate change will be announced at the next T-bill tender result. Elevated oil and gas prices as well as the related stronger macro position, allowed SAMA to return to the pre-pandemic rate differential versus the Fed

CAPITAL IS RETURNING TO EM'S ON A 28 DAY ROLLING BASIS BUT HEIGHTENED RISK AVERSION REMAINS

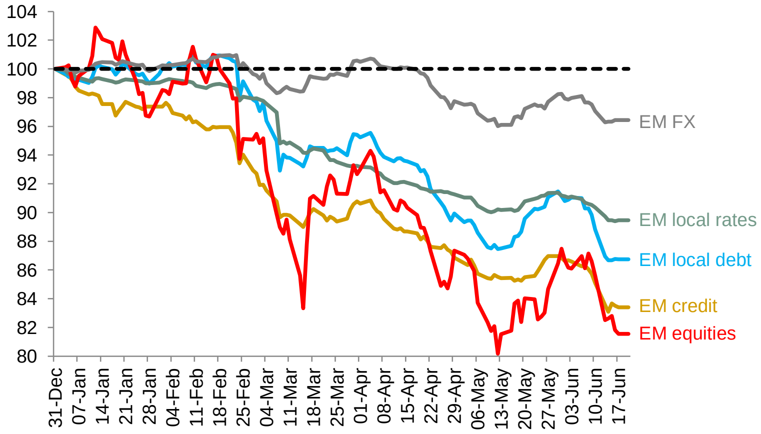
EM EQUITY AND DEBT FLOWS (USD BN), 28 DAY ROLLING AVERAGE



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

rate. For Kuwait, the move appears to be justified by a non-oil economy likely to be still struggling to have a decisive pickup and by a peg not only to the US dollar (USD) but to a basket of currencies. As our US rates strategist forecasting fewer Fed hikes than markets are pricing, the overall GCC monetary stance should remain accommodative, supported by FX stability and structurally lower inflation than other EM and DM economies, given the flexibility of local labour markets, widespread administered pricing and no pass-through from FX. Rate hikes will also help contain asset price gains and keep inflation expectations anchored, especially with USD strength set to give GCC currencies support.

GCC banks are among the strongest geared to positive rates

As we have preciously catalogued, GCC banks exhibit one of the strongest gearing to higher rates within the emerging markets space – they're the biggest beneficiaries given their access to sizable non-interest bearing deposit bases while loan books are principally floating rate in configuration (see here). This should witness net interest margin (NIM) expansion though second round effects from a higher debt-service burden and increase cost of funding should not be overlooked. We also do not envisage a material slowdown in GCC credit growth with rising rates given higher public and private sector spending against the backdrop of a favourable oil market.

Poland: May inflation sharply rises to 13.9% y/y on higher food and core prices

Inflation in Poland continues to increase precipitously

The final Polish May inflation print confirmed that inflation rose from 12.4% y/y in April to 13.9% y/y May, above our (and consensus) expectations. Most of the inflation increase in May was due to higher food and core inflation. Last week, the National Bank of Poland (NBP) hiked its key policy rate by 75bp to 6.00%, in line with our (and consensus) expectations. Importantly, Governor Glapinski stated his belief that the NBP is slowly reaching the end of its tightening cycle. Having said that, he guided that rate hikes would only stop if there are clear signs that inflation is slowing or that it has peaked (which he now expects to take place in Q3 2022), whereas if the inflation peak is pushed out, it would also imply a more extended tightening cycle. With no evidence to date that inflation developments are moderating, we expect further inflation increases in the coming months with rates reaching 7.00% by October.

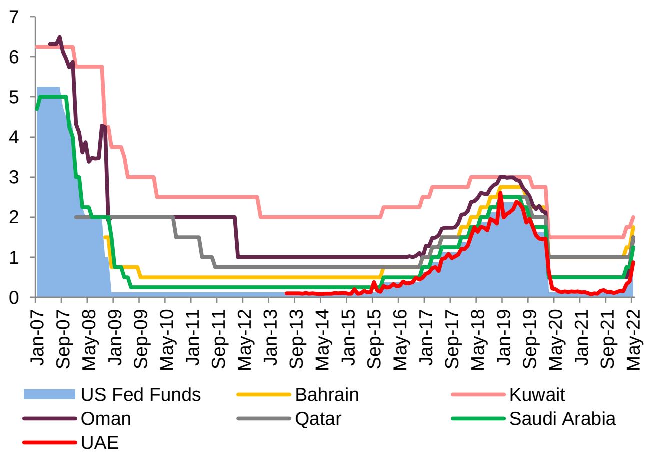
Hungary: MNB raises the one week deposit rate by 50bp to 7.25%

Hungary raises rates further

At its weekly tender, the National Bank of Hungary (MNB) hiked its one week deposit

GCC POLICY RATES ARE TRACKING THE FED HIGHER BUT REMAIN LOW IN NOMINAL TERMS

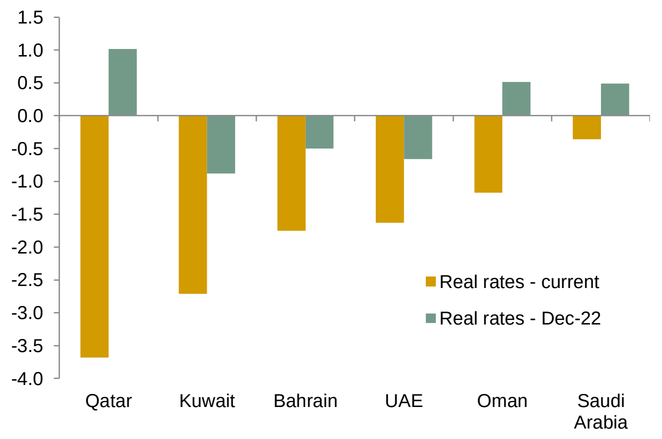
GCC BENCHMARK POLICY RATES (%) AND US FED FUNDS RATE (%)



Source: Bloomberg, Markit, MUFG Research

REAL RATES ARE SET TO RISE AS NOMINAL RATES ARE HIKED MORE SO THAN THE INCREASE IN INFLATION

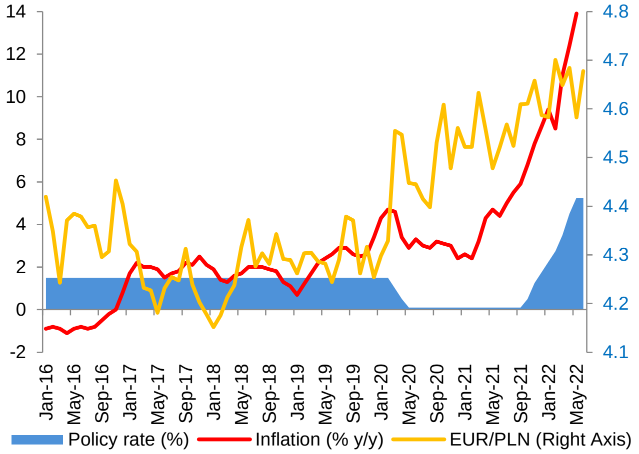
GCC REAL INTEREST RATES, CURRENT AND DEC-2022 FORECASTS (%)



Source: Bloomberg, Markit, MUFG Research rate by 50bp to 7.25%. In the last few policy committee (MPC) meetings, the MNB has signalled that it would prefer to hike the one week depo rate once a month, alongside changes to the base rate (currently at 5.90%). However, owing to ongoing depreciation pressures on the Hungarian Forint (HUF), the risk has been rising that the MNB will deliver additional intermeeting hikes to the one week deposit rate. The most recent depreciation pressures coincided with a hawkish external environment, given the prospects of a more significant tightening by DM central banks. At the same time, Hungary is also facing a major inflationary problem and deteriorating external balances, resulting in domestic factors also putting pressure on the currency.

POLAND INFLATION EDGES HIGHER IN MAY (13.9% Y/Y) WITH POLICY RATES SET TO CONTINUE RISING

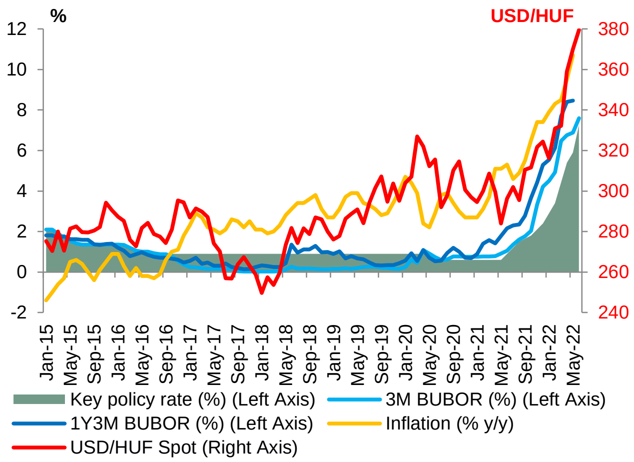
POLAND POLICY RATE (%), INFLATION (% Y/Y) AND EUR/PLN



Source: Bloomberg, NBP, 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

Czech Rep.: CNB to hike by 150bp to 7.25% with inflation continuing to surge

Reflecting the continued upward trend in inflation, significant CZK depreciation pressures, as well as an increasingly hawkish external environment, we now expect the Czech Rep. to hike by 150bp to 7.25%

The Czech National Bank's (CNB) 22 June meeting will be the last one for the outgoing Board and comes on the heels of yet another big upside inflation surprise, a more hawkish Fed putting pressure on EM currencies, and ahead of an expected more dovish Board taking over from August. All this, suggests a big hike and we anticipate a 150bp rise to 7.25% (consensus 100bp to 6.75%). The key to the large hike is the pace and magnitude of the May inflation print which came in at 16.0% y/y and beat the CNB's forecasts by 1.1ppts due to upside surprise from fuel and core inflation. On net, inflation in the Czech Republic is showing no signs of slowing, with both non-core factors and underlying inflation pushing prices significantly higher. This, combined with relatively weak exchange rate performance – which, to some degree, has been masked by significant FX interventions by the CNB – suggests to us the need for further significant tightening.

Egypt: CBE to hike rates by 100bp as tightening financial conditions bite

Egypt is set to hike rates by 100bp, taking the deposit rate to 12.25%

Faced with rising inflationary pressures after the March devaluation of the Egyptian Pound (EGP), the Central Bank of Egypt (CBE) hiked rates by a larger-than-expected 200bp in its May meeting. External financial conditions have remained tight, however, with yields on five-year Egyptian Eurobonds currently trading near all-time highs of ~12.5% and limited portfolio investor appetite for local risk assets. This has meant that domestic FX liquidity remains thin and FX buffers continue to be eroded currently USD33.7bn as of May). This is adding pressure on the EGP, and raises the possibility of further inflationary impulses in the event of another devaluation. To alleviate these pressures, we believe the CBE is likely to raise rates more sharply than we had previously anticipated, and we now expect a 100bp hike this week, followed by a further 100bp in H2 2022. From an inflation perspective, we still see headline inflation remaining in double digits and above the CBE's upper target band of 5% ± 2ppts until Q2 2023, peaking ~18% y/y. The CBE reiterated in its May policy statement that future policy rates remain a function of inflation expectations rather than the prevailing rates. Given we still see headline inflation inching higher over the coming months amid higher energy prices and continued FX depreciation pass-through, the CBE should continue to hike, albeit at a tempered pace.

Turkey: CBRT to keep policy rates on hold at 14% (for now)

A host of inflation readings in May

The Central Bank of Turkey (CBRT) will meet on 23 June and in line with consensus, we expect it to keep its policy rate on hold at 14.0%. Despite the authorities' preference for lower rates and the leadership's recent remarks signalling further rate cuts, we view this is unlikely given that the TRY has recently come under pressure once again. Inflation is running at 73.5% y/y, implying deeply negative real rates (-59.5%) on top of the continuation of balance of payments pressures.

Reluctantly change in reverse course?

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 (-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.

South Africa: inflation to rise by 0.3ppt to 6.2% y/y in May

Inflation in South Africa set to rise further

South Africa consumer price inflation is expected to rise further in May, breaching the 6% target ceiling, at 6.2% y/y on account of food, fuel and insurance prices. Core inflation is also expected to rise but remains below the 4.5% midpoint, at 4.1% according to our forecasts. With higher oil prices, the extension of fuel excise tax relief measures through July, and the depreciation of the Rand, we now see the peak in inflation this year in Q3-Q4 2022 (pushed back from Q2-Q3 2022 previously).

Weekly calendar

	Country	Day	GMT	Indicator/Event	Period	MUFG Forecast	Consensus	Previous	Market Moving
	S. Africa	22/06/2022	09:00	CPI (% y/y)	May	6.2%	6.1%	5.9%	!!!
	Czech Rep.	22/06/2022	13:30	Monetary policy meeting (%)	Jun	7.25%	6.75%	5.75%	!!!
	Egypt	23/06/2022	---	Monetary policy meeting (%)	Jun	12.25%	12.25%	11.25%	!!!
	Turkey	23/06/2022	12:00	Monetary policy meeting (%)	Jun	14.00%	14.00%	14.00%	!!!

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	3.75	3.75	3.00	0.377	0.377	0.377
Czech Rep.	16.00	3.90	11.30	5.75	3.75	5.50	24.736	24.886	21.380
Egypt	13.50	5.40	7.90	11.25	7.75	11.50	18.797	15.723	15.420
Greece	11.33	-0.10	0.40	0.00	0.00	0.40	1.053	1.137	1.132
Hungary	10.70	4.90	7.80	5.90	2.40	5.50	379.8	324.5	314.70
Iraq	5.10	6.40	5.00	4.00	4.00	5.00	1460	1460	1460.000
Israel	4.15	1.50	2.80	0.75	0.75	0.50	3.455	3.103	3.100
Jordan	3.59	1.60	2.00	4.50	4.50	2.00	0.709	0.709	0.709
Kenya	7.10	6.00	5.90	7.50	7.50	9.50	117.460	113.140	113.040
Kuwait	4.71	2.90	3.40	2.25	2.25	3.00	0.307	0.303	0.303
Lebanon	211.43	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	4.831	4.597	4.597
Morocco	5.90	1.40	1.20	1.50	1.50	1.50	10.068	9.252	9.250
Nigeria	17.70	17.30	12.00	13.00	13.00	14.00	418.790	424.830	440.500
Oman	2.67	1.30	2.00	0.63	0.63	14.00	0.385	0.385	0.385
Poland	13.90	4.90	10.00	6.00	1.75	5.50	4.425	4.035	3.948
Romania	14.49	5.30	11.90	3.75	3.75	5.50	4.694	4.353	4.388
Qatar	5.18	1.60	4.00	2.50	2.50	2.50	3.641	3.642	3.642
Russia	17.10	6.60	16.60	9.50	5.75	15.00	118.690	74.679	71.130
Saudi Arabia	2.24	3.10	2.20	1.75	1.75	2.50	3.752	3.755	3.755
South Africa	5.90	4.50	6.20	4.75	3.50	4.75	16.012	15.937	15.800
Turkey	73.50	17.90	62.00	14.00	14.00	20.00	17.328	13.317	14.250
Ukraine	18.00	9.40	15.30	25.00	25.00	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	20-May	27-May	03-Jun	10-Jun	17-Jun	Change in yield (basis points) Week	MTD	YTD
Bahrain	10 years	4.40	4.46	4.29	4.43	5.31	32.71	83.31	277.79
Czech Rep.	10 years	5.14	4.78	4.76	4.82	5.88	52.38	112.46	279.67
Egypt	9 years	11.34	11.40	10.11	10.49	12.25	68.29	191.78	508.69
Greece	8 years	2.97	3.23	2.95	3.13	3.58	-20.24	61.41	247.25
Hungary	8 years	7.36	6.94	7.07	7.15	8.54	78.46	135.43	407.96
Israel	8 years	1.99	2.01	1.96	2.08	2.84	55.06	82.68	262.42
Jordan	5 years	7.40	7.30	6.97	6.83	8.33	89.31	172.26	405.78
Kenya	7 years	11.22	11.58	9.98	10.25	13.39	96.23	332.12	767.92
Kuwait	6 years	3.27	3.24	2.99	3.10	3.56	39.88	57.18	186.31
Lebanon	9 years	62.74	65.01	69.95	69.59	80.19	766.35	1016.07	1619.32
Morocco	11 years	4.70	4.79	4.76	4.82	5.62	66.02	82.80	322.16
Nigeria	9 years	11.36	11.82	10.33	10.58	12.78	109.99	230.43	538.87
Oman	9 years	6.23	6.13	5.56	5.72	6.54	32.40	91.51	179.27
Poland	8 years	2.05	2.26	2.21	2.38	2.99	45.14	73.12	282.23
Romania	7 years	4.20	4.48	4.41	4.56	5.77	68.17	132.29	421.61
Qatar	9 years	3.77	3.68	3.44	3.54	4.08	26.69	60.65	182.84
Russia	5 years	48.69	63.33	64.37	55.97	61.60	36.85	-14.45	-90.61
Saudi Arabia	8 years	3.85	3.78	3.47	3.57	4.13	34.06	60.45	198.52
South Africa	9 years	6.35	6.45	5.80	6.02	7.11	46.72	114.15	288.42
Turkey	7 years	9.26	9.14	8.84	8.92	10.39	-11.14	149.55	317.05
Ukraine	8 years	34.22	31.44	32.42	33.06	38.48	332.49	548.50	2,900.09
Abu Dhabi	6 years	3.45	3.29	2.98	3.13	3.68	39.58	65.01	193.17
Dubai	8 years	4.18	4.18	4.01	4.10	4.16	7.19	9.17	158.51

EM EMEA equity market (index)

	13-May	20-May	27-May	03-Jun	10-Jun	17-Jun	Change (%) Week	MTD	YTD
Bahrain	2,012	1,963	1,889	1,909	1,884	1,832	-2.76	-4.63	1.92
Czech Rep.	105,688	107,005	111,890	112,393	108,368	99,825	-7.88	-10.35	-4.77
Egypt	10,811	10,439	10,416	10,150	10,048	9,697	-3.49	-4.46	-18.85
Greece	863	867	873	900	894	834	-6.74	-6.41	-6.69
Hungary	40,000	42,897	41,517	40,513	40,350	39,600	-1.86	0.51	-21.93
Israel	1,895	1,919	1,836	1,920	1,908	1,817	-4.76	-4.47	-8.15
Jordan	2,456	2,436	2,468	2,455	2,440	2,397	-1.74	-3.05	13.14
Kenya	145	140	128	129	130	122	-6.21	-5.39	-26.82
Kuwait	8,142	7,938	7,584	7,809	7,640	7,170	-6.16	-8.35	1.80
Lebanon	658	658	658	658	658	658	0.00	2.27	41.04
Morocco	12,650	12,680	12,394	12,393	12,612	12,170	-3.51	-1.38	-8.90
Nigeria	52,838	52,721	52,591	52,974	53,171	51,789	-2.60	-3.45	21.24
Oman	4,159	4,156	4,122	4,130	4,130	4,139	0.21	0.55	0.22
Poland	1,718	1,802	1,797	1,823	1,793	1,681	-6.26	-8.81	-25.87
Romania	12,231	12,093	12,207	---	12,456	12,311	-1.16	-1.59	-5.75
Qatar	13,471	13,020	12,859	12,833	13,099	12,140	-7.32	-6.03	4.42
Russia	2,387	2,445	2,340	2,375	2,319	2,368	2.13	0.53	-37.47
Saudi Arabia	13,379	12,713	12,589	12,766	12,822	11,372	-11.31	-11.99	0.80
South Africa	61,786	62,494	61,176	64,237	62,427	59,894	-4.06	-8.46	-10.68
Turkey	2,454	2,394	2,418	2,569	2,540	2,537	-0.14	-0.40	36.56
Ukraine	519	519	519	519	519	519	0.00	0.00	-0.68
Abu Dhabi	9,795	9,908	9,559	9,895	9,769	9,375	-4.03	-6.76	10.45
Dubai	3,529	3,437	3,258	3,407	3,389	3,213	-5.20	-4.02	0.52

EM EMEA FX against USD*

	13-May	20-May	27-May	03-Jun	10-Jun	17-Jun	Change (%) Week	MTD	YTD
USD Index	104.851	102.724	101.829	101.824	104.148	104.314	0.16	2.52	9.04
Bahrain**	0.379	0.379	0.379	0.379	0.379	0.379	-0.05	-0.03	0.16
Czech Rep.	23.783	23.307	23.004	23.010	23.480	23.483	0.01	-1.95	-6.83
Egypt	18.315	18.282	18.587	18.622	18.727	18.797	0.38	0.94	19.55
Greece***	1.041	1.056	1.074	1.072	1.052	1.053	0.14	-1.86	-7.35
Hungary	370.550	363.840	367.070	365.590	378.800	379.800	0.26	-2.56	-14.57
Israel	3.402	3.363	3.348	3.333	3.392	3.455	1.86	-3.94	-10.17
Jordan**	0.710	0.710	0.710	0.710	0.710	0.711	0.07	-0.06	-0.20
Kenya	116.279	116.279	0.009	0.009	0.009	0.009	0.00	1.18	3.53
Kuwait	0.307	0.307	0.307	0.307	0.307	0.307	0.00	-0.39	-1.42
Lebanon	1,511.37	1,512.44	1,511.87	1,510.88	1,510.88	1,510.88	0.00	0.00	0.10
Morocco	10.119	10.023	9.899	9.861	9.958	10.068	1.10	-2.02	-8.10
Nigeria	416.210	415.910	415.940	415.820	416.960	418.790	0.44	-0.70	1.44
Oman**	0.386	0.385	0.385	0.385	0.385	0.385	-0.03	0.03	0.29
Poland	3.758	3.759	3.761	3.761	3.760	3.756	-0.13	0.15	-0.05
Romania	4.750	4.683	4.604	4.612	4.699	4.694	-0.11	-1.89	-7.27
Qatar**	3.664	3.664	3.661	3.662	3.661	3.659	-0.05	0.02	0.41
Russia	64.707	62.140	66.345	63.360	58.187	56.100	-3.59	11.38	33.99
Saudi Arabia**	3.758	3.759	3.761	3.761	3.760	3.756	-0.13	0.15	-0.05
South Africa	16.165	15.842	15.590	15.548	15.857	16.012	-0.97	-2.32	-0.47
Turkey	15.482	15.909	16.223	16.447	17.114	17.328	-1.24	-5.33	-23.22
Ukraine	29.528	29.400	29.463	#N/A N/A	29.528	29.528	0.00	0.41	-7.59
UAE**	3.672	3.672	3.673	3.673	3.673	3.673	0.00	0.01	0.03

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

EM EMEA 5 year CDS spreads (basis points)

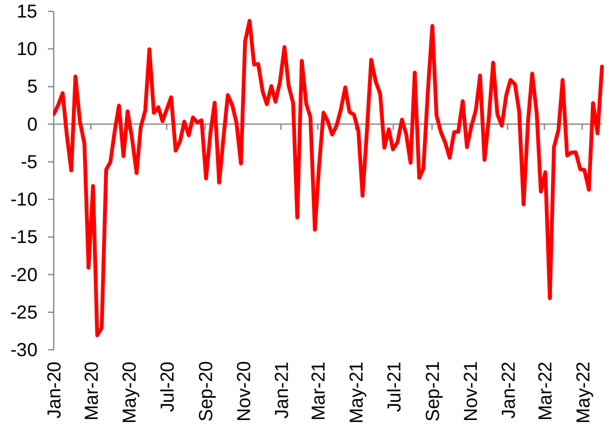
	13-May	20-May	27-May	03-Jun	10-Jun	17-Jun	Change in yield (basis points) Week	MTD	YTD
Bahrain	296.90	202.22	309.92	338.07	317.20	314.82	-2.38	283.10	20.99
Czech Rep.	39.92	39.24	39.73	39.97	39.69	38.10	-1.60	-1.60	2.48
Egypt	852.16	864.13	922.60	751.43	778.14	928.28	146.29	173.00	426.39
Greece	152.87	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

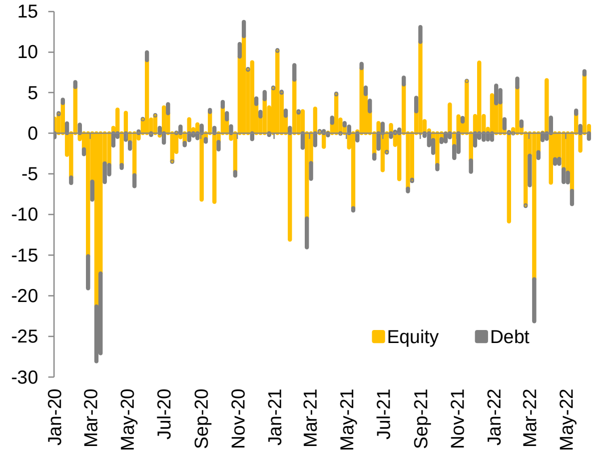
WEEKLY TOTAL EM INFLOWS OF USD0.2BN – 10 JUNE

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



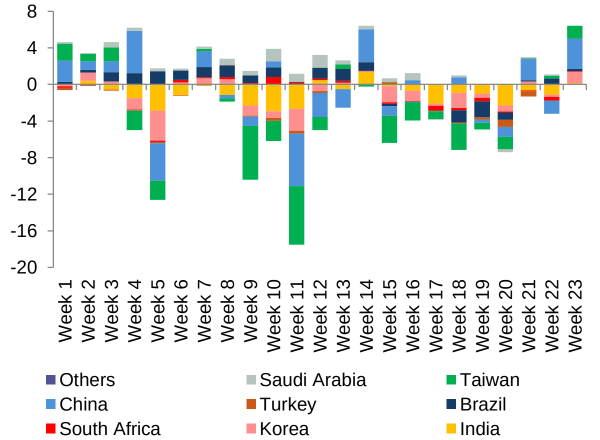
WEEKLY EM INFLOWS FROM EQUITY (USD0.9BN) AND DEBT OUTFLOWS (USD-0.7BN) – 10 JUNE

WEEKLY DEBT AND EQUITY FLOWS (USD BN)



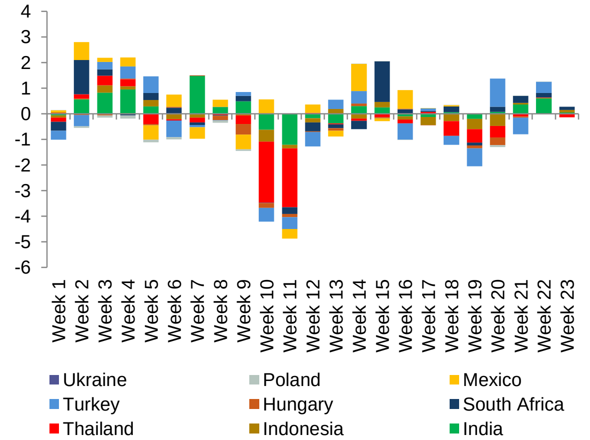
CHINA (USD3.3BN) AND TAIWAN (USD1.4BN) LED WEEKLY EM EQUITY INFLOWS – 06 JUNE

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



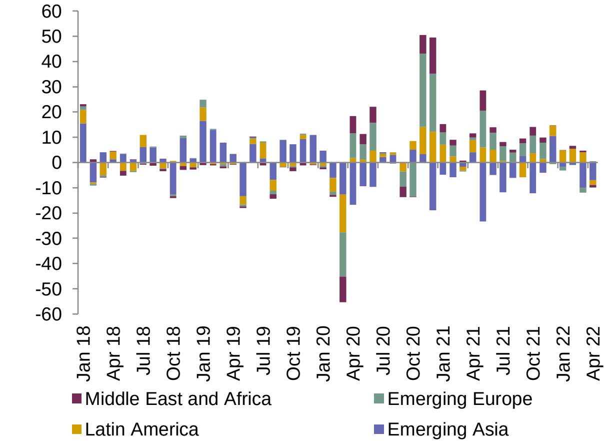
SOUTH AFRICA (USD0.1BN) LED EM DEBT INFLOWS LAST WEEK – 06 JUNE

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



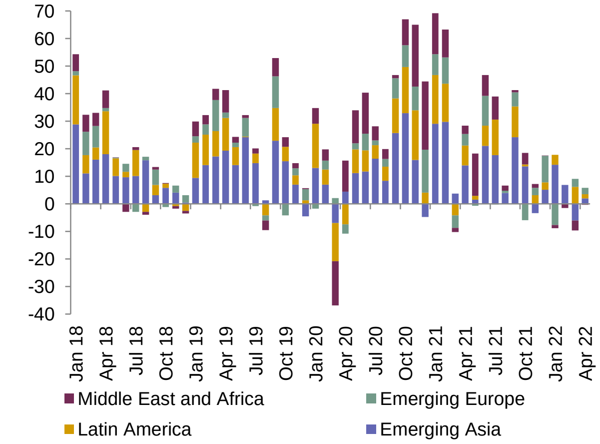
EM EQUITY OUTFLOWS TOTALLED USD-9.5BN IN APRIL, LED BY EM ASIA (USD-7.0BN)

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

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