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EM inflation to peak soon but will remain stubbornly elevated

Macro focus: Inflation continues to set multi-year highs across many EM economies, surpassing our (and consensus) expectations. Of particular concern are underlying inflationary pressures within core goods and services, which are now above the majority of EM central banks targets. It is this broadening of price pressures beyond volatile energy and food into sticky core that convicts us to anticipate EM inflation remaining uncomfortably high through 2023 and possibly beyond.

FX views: EM FX staged a relief rally on the whole as USD corrects lower last week, notably against currencies EMEA on the back of easing fears over a sharper growth slowdown on the back of the energy crisis heading into the winter. Having said that, Asia FX continues to underperform, drawing more concerns from domestic policymakers helping to provide more support near-term but not sufficient for sustained reversal of USD strength.

Trading views: A tentative but shaper pullback in EM FX has been triggered by an avoidance of the worst outcomes and soft landing narrative coming through.

Week in review: Saudi Arabia's Q2 2022 GDP reading (12.2% y/y) confirmed its status as the fastest growing G20 country. Russia's deflationary trend continued in August (14.3% y/y). Egypt's inflation (14.6% y/y) reading for August was lower than expected. Hungary's surge in inflation continued in August (15.6% y/y).

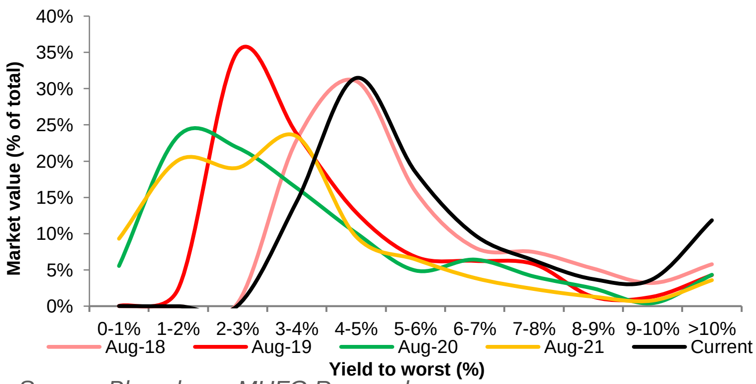
Week ahead and calendar: This week in EM, we will have the latest rates decision in Russia (MUFG and consensus: -50bp to 6.25%). We are also keeping an eye on inflation readings in Czech Republic, Israel and Poland for August as well as Chinese activity data (industrial production, retail sales and fixed asset investments).

Forecasts at a glance: Headwinds facing EMs are getting stronger as persistently high inflation prompts more hawkish monetary policy responses leading to further tightening of financial conditions and more sacrifices from growth.

Core indicators: EM securities attracted USD27bn in August 2022 according to IIF, marking a halt to the record-breaking outflow episode that started five months ago.

CHART OF THE WEEK: EM HIGH YIELD DEBT SOARS INTO DISTRESS TERRITORY

EM USD CREDIT – HISTORICAL YIELD RANGE (MARKET VALUE, % TOTAL)



Rising interest rates are driving up EM bond yields, with the value of USD debt paying more than 10% – signal of debt distress that has led to previous bouts of debt defaults – surging to USD305bn with USD dons from Argentina, Egypt, Nigeria and Turkey standing out (see here).

Source: Bloomberg, MUFG Research

Macro focus

EM inflation to peak soon but will remain stubbornly elevated

EM inflation set to peak in Q4 2022 in our view but is unlikely to fall back to trend in the near-term

Inflation continues to set multi-year highs across many EM economies, surpassing our (and consensus) expectations. Yet, with both energy and food prices off their recent highs, as well as the exchange rate pass-through to EM inflation easing, we believe overall headline CPI will peak in Q4 2022. Having said that, we recently catalogued our view that price inertia and persistence will dominate over the coming quarters across EM economies as inflation is not a mean-reverting phenomenon – as is more the case across DMs (see here). Of particular concern are underlying inflationary pressures within core goods and services, which are now above the majority of EM central banks targets. It is this broadening of price pressures beyond volatile energy and food into sticky core that convicts us to anticipate EM inflation remaining uncomfortably high through 2023 and possibly beyond.

The ~25% decline in oil prices that has taken place since early June has increased our assertion that inflation will peak globally, and in the majority of EMs in the months ahead

As we recently catalogued, EM price pressures have been driven by a multitude of causes (see here). Ongoing supply chain problems, a recovery in domestic demand with re-openings around the world and the spillover of the war in Ukraine on commodity prices have all led to an escalation of price pressures, with headline inflation surging to multi decade highs in many major EMs. Having said that, the ~25% decline in oil prices that has taken place since early June has increased our assertion that inflation will peak globally, and in the majority of EMs in the months ahead. However, there has been a considerable broadening of inflationary pressures in both EM EMEA and Latin America, with the result that inflation is likely to remain higher for longer across these regions. For 2022 as a whole, we forecast EM inflation reaching 9.6%, before coming down to 6.8% in 2023.

With the largest near-term rises in commodity prices behind us, its contribution to future CPI inflation will be smaller

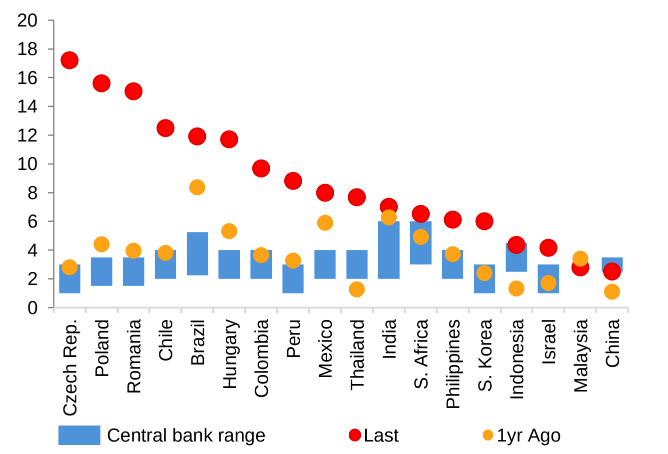
Until the start of this year, rising oil and food prices accounted for most of the increase in EM inflation, and underlying domestic inflationary pressures remained muted across the majority of economies. Our projections assume that commodity prices evolve in line with forward pricing and, on this basis, the contribution from these sources should fall sharply as we head into 2023. Though our commodity forecasts are structurally bullish, implying some upside risks (see here) but with the largest near-term rises behind us, the implications are for implying a much smaller contribution to future CPI inflation.

Core inflation is broadening and deepening across EMs

Beyond volatile commodities, underlying domestic inflationary pressures across EM economies remained broadly muted throughout H1 2022. However, this has changed

EM'S SEEM TO HAVE LOST CONTROL OF THE INFLATION NARRATIVE WITH HEADLINE RATES ABOVE TARGETS

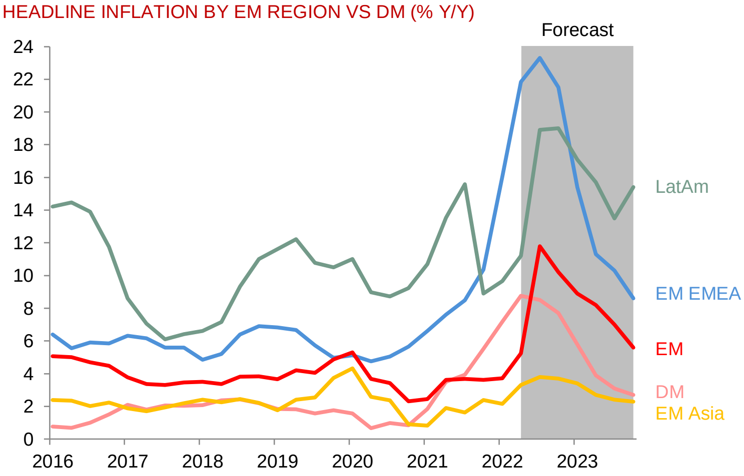
EM INFLATION (% Y/Y)VS EM CENTRAL BANK TARGET RANGE



Source: Bloomberg, EM Central Banks, MUFG Research

PEAK HEADLINE INFLATION IN H2 2022 BUT DURATION AND PERISISTENT OF INFLATION TO REMAIN ELEVATED

HEADLINE INFLATION BY EM REGION VS DM (% Y/Y)



Source: Bloomberg, EM Official Statistics, MUFG Research over the summer months with a significant broadening of inflationary pressures in the majority of EMs. The rise has been particularly acute in Central and Eastern Europe (CEE) and Russia. As a result, while we expect inflation in EMs to peak in the coming months as a result of base effects in energy and food prices, it is nonetheless likely to remain higher for longer owing to underlying inflationary pressures.

The rate tightening cycle has not been uniform across EMs

Given persistently high inflation, we expect further monetary tightening across most of EMs this year. What is evident is that EM countries are in different stages of monetary policy tightening cycle. LatAm is in a much more mature phase with signs of stabilising inflation. In EM EMEA, CEE countries have also front-loaded tightening but there's much more elevated fiscal and risks. In contrast, EM Asia remains in the early stage of the hiking cycle (with the exception of South Korea). However, it is difficult to call the peak of the tightening cycle in countries which are in an advanced stage of tightening cycle given the sensitivity of the EM policy cycle to the Fed. South Korea is one example where the market continues to push ahead its expectations of the peak policy rate with the Bank of Korea (BoK) stating that it is unlikely to end its tightening before the Fed. Similar comments were made by Mexico (Banco de Mexico) deputy governor who said it's premature for it to end the hiking cycle while the Fed is still hiking. Such a backdrop provides better opportunities for cross-market strategies by receiving rates in markets where interest rates are already in restrictive territory against those which remain more exposed to inflation risks.

The EM outlook remains mired in challenges

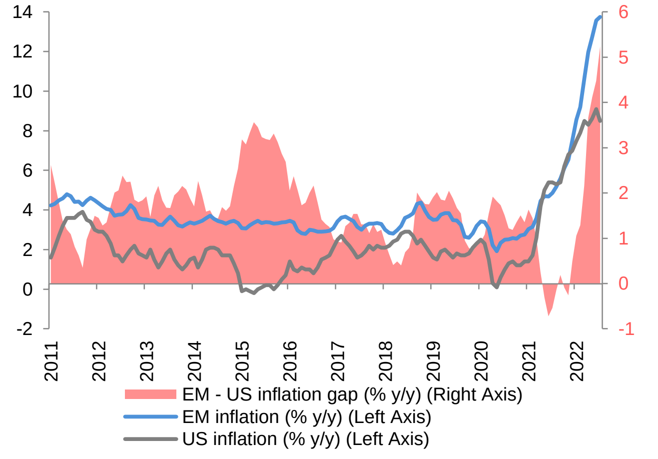
Looking ahead, the EM backdrop remains mired in challenges (see here). Global central banks are resolute in more aggressive monetary tightening, which naturally raises the question of how much will need to be sacrificed from growth, i.e. the trade-off between growth and inflation. Given a multitude of negative supply shocks, de-globalisation trends and falling productivity, our estimations suggest the "inflation persistence" has increased, which leads to a "higher sacrifice" ratio. The key questions is how much will need to be sacrificed from growth to navigate inflation.

Whilst we expect EM inflation to peak in the coming months, significant further tightening will be required to bring headline CPI rates back to targets

All in, 2022 remains a year of extreme volatility. Even before Russia's invasion of Ukraine in late February, global inflationary pressures had risen sharply, as the supply side of the world economy struggled to keep pace with the speed of the post-COVID recovery. Then the war turbocharged commodities and exacerbated supply-chain disruptions, adding to those inflationary pressures. Looking ahead, whilst we expect EM inflation to peak in the coming months, significant further tightening will be required to bring headline CPI rates back to targets. However, what is clear to us is that price inertia and persistence will dominate over the coming quarters, with the result that inflation is set to remain higher for longer across EMs.

INFLATION IN EM AND US HAS MOVED HIGHER IN TANDEM BUT WE EXPECT BOTH ARE CLOSE TO PEAKS

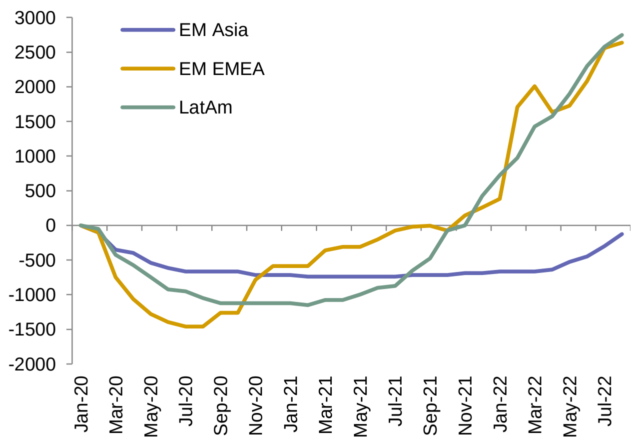
EM – US CPI (% Y/Y)



Source: Bloomberg, MUFG Research

ALL EM REGIONS ARE IN TIGHTENING MODE WITH EM ASIA CLOSE TO REVERSING ALL ITS COVID CUTS

EM CUMULATIVE POLICY RATE CHANGESS (BPS, JANUARY 2019 =100)



Source: Bloomberg, MUFG Research

FX views

Asia FX has failed to fully participate in relief rally for EM FX

EM FX stages relief rally on the whole as USD corrects lower. Asia FX continues to underperform

Emerging market currencies have on the whole staged a relief rally against the USD over the past week. The best performing EM currencies have been the HUF (+5.1% vs. USD), PLN (+2.9%), COP (+2.8%), and CZK (+2.7%). The main exceptions to the broad-based rebound in EM FX have been the CLP (-3.1% vs. USD), KRW (-0.7%), and TWD (-0.5%) that have continued to weaken against the USD. The KRW and TWD both hit fresh year to date lows against the USD. USD/KRW has climbed to its highest level since the peak of the Global Financial Crisis in early 2009.

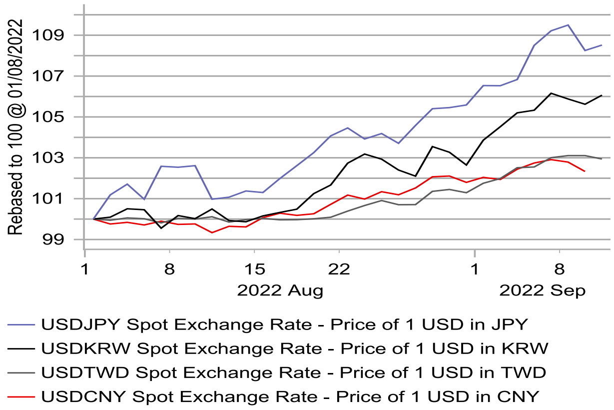
Asia FX weakness draws more concerns from domestic policymakers helping to provide more support in near-term but not sufficient for sustained reversal of USD strength

The recent sharp weakening of the KRW has been similar to price action in the CNY and JPY that is drawing more concern from domestic policymakers. Chinese policymakers continue to set the daily fix for USD/CNY significantly lower than the Bloomberg consensus estimate and will lower the reserve ratio for foreign exchange deposits by 2ppts to 6.0% from 15th September. In Korea akin to Japan policymakers have expressed more concern over the past week that KRW weakness is "fast" and have signalled a willingness to make a policy response if clear herd behaviour is seen. The Korean authorities have already significantly stepped up FX intervention to support the KRW this year. While the latest measures could help to slow Asian currency weakness in the near-term, we are not convinced that it will be sufficient to trigger a sustained reversal of USD strength while China's economy remains weak and the Fed is committed to faster hikes in the near-term. The main challenge for the USD in the week ahead will be the release (Tues) of the latest US CPI report for August. A second consecutive weaker than expected US CPI could cast doubt on the need for a third 75bps hike from the Fed this month even if the Fed has downplayed the importance of recent evidence that inflation pressures are easing.

CEE-3 FX rebound extends on back of easing of European growth concerns & increasingly hawkish expectations for regional central banks

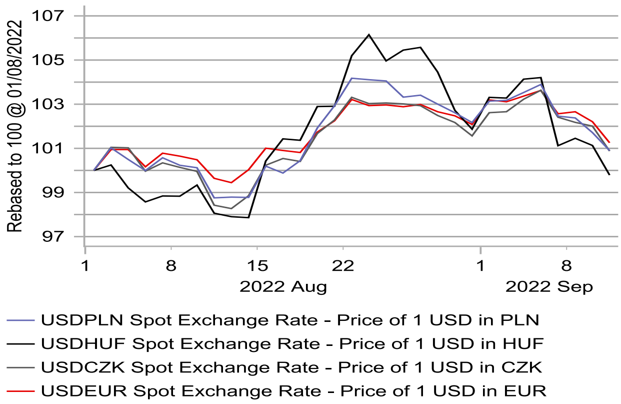
The USD's recent correction lower has been most evident against European currencies. EUR/USD has extended its advance back above parity providing a tailwind for CEE-3 currencies (CZK, HUF &PLN). We believe the relief for European currencies reflects in part some easing of fears over a sharper growth slowdown on the back of the energy crisis heading into the winter. The price of natural gas is continuing to correct lower even after Russia suspended supplies through Nord Stream 1 pipeline for the foreseeable future suggesting a lot of bad news is already priced in (click here). European policymakers are also expected to provide more fiscal support. At the same time, markets are increasingly anticipating central banks in Europe to raise rates more quickly narrowing the policy divergence with the Fed.

ASIA FX WEAKNESS VS. USD CONTINUES



Source: Bloomberg, Macrobond & MUFG Research

EUROPEAN FX IS REBOUNDING



Source: Bloomberg, Macrobond & MUFG GMR

Trading views

Trading views: Notable divergence amongst EMFX.

A tentative but shaper pullback in EMFX seems to have been triggered by an avoidance of the worst outcomes and soft landing narrative starting to come through

There has been a tentative but sharp recovery in some EM currencies over the last two trading days. It is hard to pinpoint the clear catalyst. US yields are still near their highs and the “catching up to rate spreads story” is a nice narrative but not necessarily new. We feel it is a combination of soft landing potentially being revaluated with the fact that worst case scenarios are being more and more priced in (Russia cutting off gas supply is a good example of when the worst happens what’s next?). Furthermore UK policy, if not without problems, has highlighted ways of potentially stalling the inevitable recession on energy prices.

This may lead to a period of USD sales becoming more the default especially if CPI cannot reprice Sep Fed chances materially higher…

While it is premature to say and end to any trend we do feel that the lack of fresh USD catalysts alongside heavy underweights in DXY and EMFX means that the default trend of currency markets may just swing to USD selling off in the very short term. While that makes us dip our toes into EM especially in LatAm and Cee region it should be noted that potential catalysts are around starting with tomorrow’s CPI release in the US. If this is in line and we don’t get a number that sees 100bps priced for Sep we feel a tactical trade in long EM is possible.

Asian FX continues to underperform and with participants being paid to short RMB it will take more than just a CCF in the fixing to turn things around

Of more interest to us is the striking Asian underperformance in EM. This has had good grounding and its not simply how close one is to Tokyo. Not only have BOP’s all turned for North Asian currencies but also while other EM are catching up the yield spread of Fed, most Asian currencies are still lagging. At front and centre of this is China where the Chinese economic story is looking decidedly weak. Certainly if it chooses to China can keep USDRMB from breaking 7.00 however for RMB outperformance to come through we need to see much higher front end yields not simply CCF emerge in the fixing. We don’t think this is a central outcome but enough of a possibility that we continue underweight RMB but with over borrowed CNH in the front months.

THB does seem as a good turnaround story in Asia for us with an RV trade with PHP possible

The one story that excites us THB where the market seems very keen to price in the turnaround story. As tourism season picks up we are not far from a bottom in c/a weakness potentially. We like to play this against PHP where the deficit picture is more worrying. It must be stated that carry considerations here as well as CB concerns on the PHP work against us but for a short term trade we think it has enough merit.

Overall CEE is the region that most excites us currently as bearish sentiment gets unwound

Of the regions in EM the one that most excites us right now is CEE. The market sentiment has been very weak here and yet we seem to be potentially at a level where negativity has been exhausted. Certainly positioning is already quite underweight and you have all CBs pushing against currency weakness whether through direct FX intervention or through local tightening. Try in theory should be the exception but even here with authorities controlling the descent alongside potential help from Russian support, there may be a rest bite for the lira. That said we prefer to steer clear of the latter and focus on PLN and CZK as our preferred longs.

Week in review

EM capital flows: rebound in EM capital flows in August 2022

Aggressive DM hiking cycles still dominating EM investor appetite

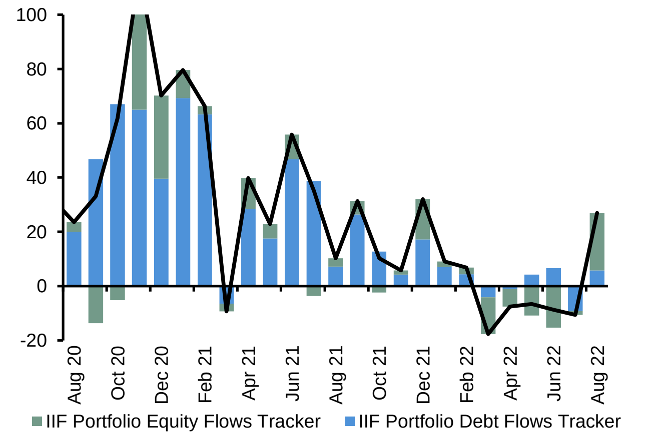
EM investors might have been fixated on the sharp tightening in monetary policy by DM central banks, with the latest coming from the European Central Bank, but one should not overlook the tightening in global USD liquidity. The annual change in global US dollar liquidity has turned negative since June, while the pace of contraction reached 8.0% y/y as of end-August, which was the highest level ever in the quantitative easing era post the global financial crisis. A large part of the decline in global liquidity is the result of a much stronger USD, which led to a sharp contraction in balance sheets of core central banks, excluding Federal Reserve, in USD terms. To put this into perspective, the Bank of Japan's (BoJ) balance sheet contracted by more than USD1.2tn from its peak in February, as the JPY depreciated 22%, against the USD, from 115 to 140. The balance sheet size of the ECB, moreover, declined by nearly USD900bn, as the EUR depreciated nearly 12% against the USD since February. As the Fed has just changed gear for quantitative tightening, from a run-off rate of USD47.5bn to USD95bn (USD60bn from Treasury securities and USD35bn from mortgage-backed securities), the global liquidity backdrop is likely to deteriorate further in the coming period, leading not only to weaker portfolio flows into EM, but also further tightening in financial conditions.

EM capital flows bounced back in August following five consecutive months of decline – timing of inflation peaking and the Chinese outlook remain front and centre going forward

According to IIF data, EM securities attracted USD27.0bn in August 2022, marking a halt to the record-breaking outflow episode that started five months ago. While the outflow episode has stopped, August figures were clearly marked by the buoyancy of equity flows. The constant, nevertheless, has been the weakness in China flows, which have suffered an important setback since earlier in the year. While the pace of outflows has slowed in August, we have still seen important outflows in China debt (USD-7.7bn) and only marginal gains for equities (USD1.0bn). Most of the recent dynamics in flows can be attributed to the USD dynamics. In the first few months after Russia invaded Ukraine, the USD appreciated substantially against DMs, but remained range-bound against EMs. The reason the USD failed to rise against EM is that higher commodity prices boosted commodity exporters but weighed on commodity importers. That changed in June as the Fed accelerated its hiking cycle (see here). For the coming months, the timing of inflation peaking and the outlook for the Chinese economy will be central to determining EM capital flow dynamics.

PORTFOLIO FLOWS TO EM AT USD27BN IN AUGUST – A HALT TO THE RECORD 5 MONTHS OF OUTFLOWS

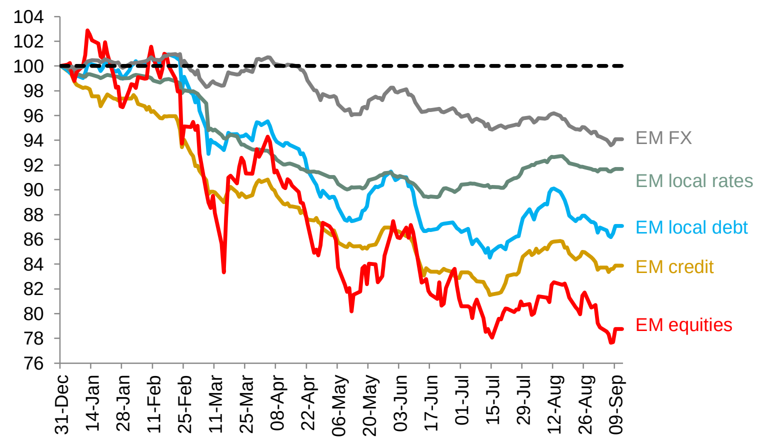
EM EQUITY AND DEBT FUND FLOWS (USD BN)



Source: IIF, MUFG Research

SELL-OFF ACROSS MAJOR EM ASSET CLASSES CONTINUES ON RISING GLOBAL RECESSION RISKS

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



Source: Bloomberg, MUFG Research

Saudi Arabia: GDP now amongst the highest globally – up 12.2% y/y in Q2 2022

Saudi Arabia's economic growth is surging on both oil and non-oil

Saudi Arabia's Q2 2022 GDP was revised higher to 12.2% y/y (flash estimate was 11.8% y/y) from 10.0% y/y in Q1 2022. The very fast growth is the result of both a strong pick-up in oil output and non-oil economic activity. If the result for the former was easy to predict thanks to the pick-up in production following last year's output curbs, non-oil activity continued to surprise to the upside, currently 17.9% higher than the pandemic trough and about 5.6% higher than in Q2 2019 after soaring 19% q/q in Q2 2022. Construction and hospitality activities were behind the sharp acceleration with the former growing 8.8% y/y and the latter 16.4% y/y. Both public spending and investment showed a sharp increase in the quarter which clearly boosted the overall figures. Non-oil activity is expected to remain solid as PMI activity readings remain benign. On the oil side, some downside risks could materialise further as the Kingdom has signalled that it could cut oil output if needed, with OPEC+ agreeing on a token collective cut of 0.1m b/d for October deliveries (see here). Notwithstanding the oil production risks, the latest readings reinforces our benign expectations of the Saudi economy and we reiterate our 2022 GDP average forecast of 11.2%.

Russia: inflation continues to decline now at 14.3% y/y in August

Deflationary trend in Russia continues

Inflation in Russia continues its deflationary momentum, falling from 15.1% y/y in July to 14.3% y/y in August, in line with consensus and slightly above out 14.2% y/y forecast. As with last month, the decline was broad-based, with food declining from 1.1ppt to 16.5% y/y, non-food goods falling by 1.0ppt to 17.7% y/y and services inflation ebbing lower by 0.3ppt to 10.5% y/y. On net, CPI continues to normalise following the initial shock post the invasion of Ukraine, and our estimates point for further downward momentum in the months ahead, supported by the past strengthening of the Russian Rouble (RUB). Going forward, absent oil prices materially rising, the disinflationary impact of the RUB on inflation may begin to ebb if imports rise. Indeed, given stronger domestic demand, it could take longer for the Central Bank of Russia (CBR) to reach its inflation target of 4% again, unless fiscal policy is considerably tightened and the fiscal rule bought back.

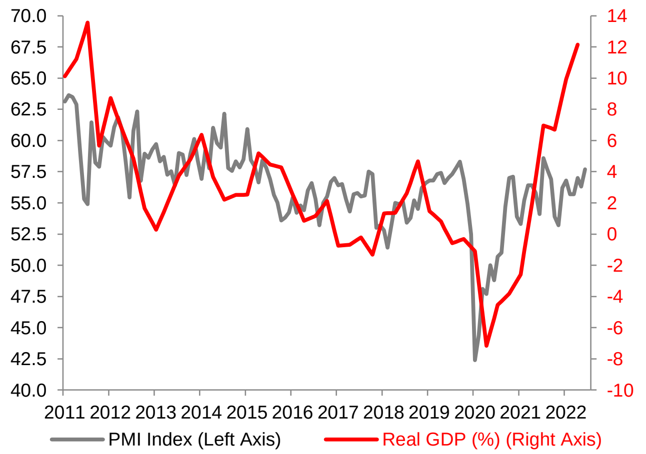
Egypt: inflation rises less than expected in August but further upside risks remain

Inflation in Egypt increased 1.0ppt to 14.6% y/y in August

Inflation in Egypt rose from 13.6% y/y in July to 14.6% y/y in August, below our

SAUDI GDP DECOUPLES FROM PMI READINGS – TESTAMENT OF THE IMPORTANCE OF THE OIL SECTOR

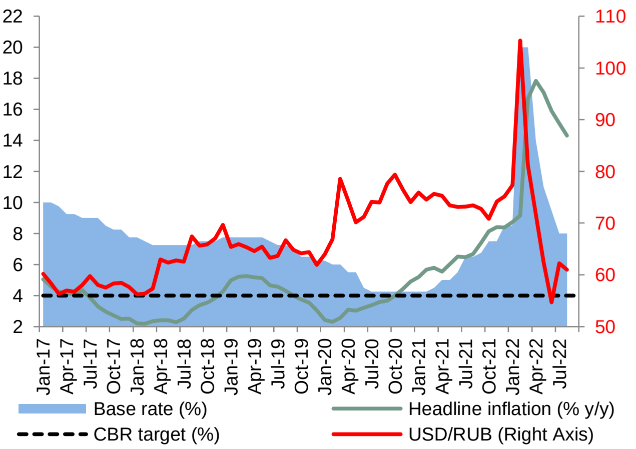
SAUDI ARABIA REAL GDP (% Y/Y) AND SAUDI PMI INDEX



Source: Markit, Saudi GAS, MUFG Research

RUSSIA'S DEFLATIONARY TREND POST-WAR CONTINUES WITH RUB'S STRENGTH A CENTRAL DRIVER

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



Source: Bloomberg, CBR, MUFG Research

forecast for 15.5% y/y. The downside surprise was driven by a moderation in food and transportation costs, but price pressures remain robust and widespread. Looking ahead, we expect inflation to peak at 16% y/y before year-end, and edging back within the Central Bank of Egypt's (CBE) inflation target of 7% ± 2ppts (9%) in H1 2023

Devaluation in Egypt remains on the table

The CBE's decision to keep rates on hold last month came even as the currency remains under increased pressure in the forward market and spreads between parallel and official exchange rates persist. With a likely imminent new IMF package on the table, however, signals from the latest MPC about future FX and interest rate policy could be limited. As we have argued in the past, an IMF package is necessary at this point to stabilise Egypt's external balances, but it is also likely to be associated with a weaker EGP and possibly more volatility in the currency. The Egyptian Pound (EGP) is ~10% overvalued according to our valuation models, but this estimation is exacerbated by the current strong USD environment, and high yielding EM currency devaluations have historically been associated with a degree of overshooting of spot fair values. Looking ahead, assuming additional IMF support, the eventual equilibrium level of the exchange rate is likely to be function of both the level of domestic interest rates that the CBE under new governor Abdalla will be ready to bear and the external market conditions following any new IMF financing that is set to be announced. Of course, devaluation is not a free lunch, as it will raise the cost of external debt serviceability and adds to inflation at a time when its already in double digits. Though, however complex and sensitive a further devaluation is, it will reduce pricey imports as well as boost competitive exports, and ultimately offer the new leadership pause.

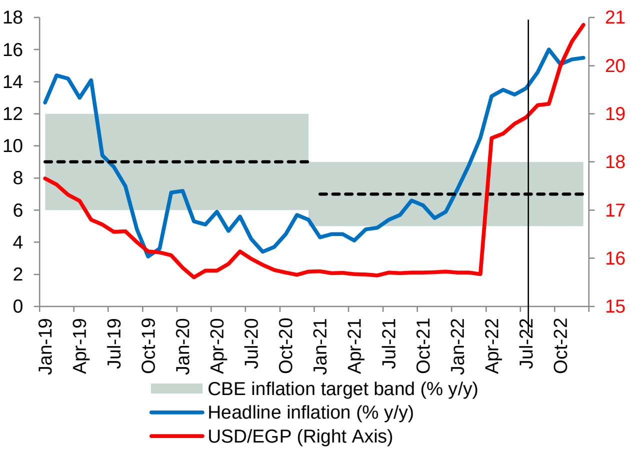
Hungary: inflation rises in August but moderately less than expected

Inflation in Hungary increase from 13.7% y/y to 15.6% with core prices surging

Inflation in Hungary rose sharply once again, from 13.7% y/y in July to 15.6% y/y in August, below consensus (15.9% y/y) and our expectations (16.2% y/y). The downside surprise relative to our expectations was due to the absence of an effect from the removal of the price cap on utility prices for some households, which the National Bank of Hungary (MNB) noted could be worth ~3ppts of headline inflation – though the timing and how the Statistical Office would treat this is somewhat uncertain. Looking ahead, from a monetary policy perspective, the still hawkish inflation dynamics should continue to support ongoing policy tightening by the MNB.

INFLATION IN EGYPT RISES IN AUGUST WITH PROSPECTS FOR EGP DEVALUATION FRONT OF MIND

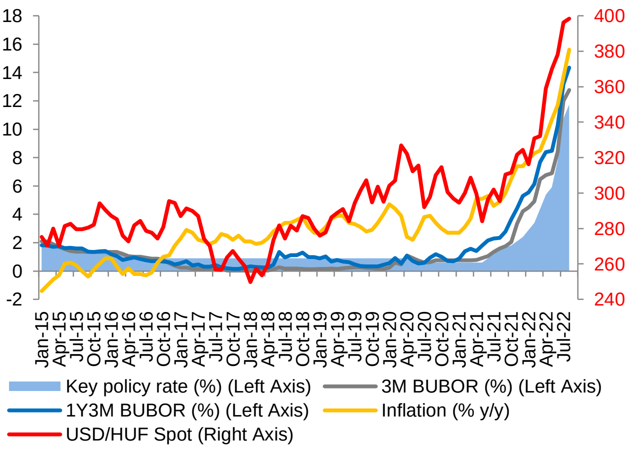
EGYPT INFLATION AND TARGET (% Y/Y) AND USD/EGP



Source: Bloomberg, TurkStat, MUFG Research

INFLATION IN HUNGARY CONTINUES TO SURGE WITH FURTHER UPSIDE PUSHING RATES EVEN HIGHER

HUNGARY INFLATION, TARGET BAND, POLICY RATE AND USD/HUF



Source: Bloomberg, MNB, MUFG Research

Kuwait: parliamentary elections to be held at the end of September

Political clarity could offer a boost to prospects in Kuwait

Following the Kuwait National Assembly was officially dissolved earlier in the summer, new elections have been called for 29 September. Compared to other GCC economies, the Kuwaiti parliament has more influence and the ability to pass or stop laws as well as to submit no-confidence motions against government officials. Kuwait has been recently gridlocked by the inability for parliament to pass important reforms and laws, notably the one around debt. A new debt law is seen as a clear priority as the country has not been able to issue new debt since 2017, which has resulted in a large loss of reserves from its General Reserve Fund (GRF) as its large Future Generation Funds (FGF) cannot also be used to fund the deficit.

Week ahead

Russia: CBR to cut rates by 50bp to 6.25% with the deflationary trend continues

Further rate cuts in Russia

The Central Bank of Russia (CBR) will announce policy rates on 16 September and we expect it to ease rates by a further 50bp to 6.25% – taking cumulative cuts to 12.50% since March 2022. At its last meeting, the CBR guided that it will continue to assess if more cuts are warranted in H2 2022 and that its decisions "will take into account actual and expected inflation dynamics relative to the target and economic transformation processes, as well as risks posed by domestic and external conditions and the reaction of financial markets". Since the last meeting, headline inflation has fallen from 15.9% y/y at end June to 14.1% y/y on 2 September according to the weekly inflation prints, and we expect inflation to fall further to ~11% y/y by year-end. From this, we believe that the deflationary momentum will offer the CBR the space to ease rates further.

The path of fiscal policy will be pivotal in determining the trajectory of monetary policy

Looking ahead, the trajectory of monetary policy will depend on the future path of fiscal policy. Following the initial sell-off following the beginning of the Russian invasion of Ukraine, the authorities were quick to impose capital account restrictions and export surrender requirements as well as suspend the fiscal rule to weather the initial depreciation shock and maintain financial stability. However, since financial stability has broadly returned in many respects, the result has been persistent appreciation pressure on the Russian Rouble (RUB). While prior to the invasion of Ukraine, the fiscal rule mandated the CBR to accumulate FX to limit the impact of oil prices being above a threshold level of close to USD45/b, this mechanism is currently suspended. Moreover, the capital controls keep net private capital outflows well below their long-term levels. Although the initial appreciation was welcome, the current strength of the RUB is putting pressure on the budget and, given the need for fiscal policy to stabilise the economy, is undesirable.

Inflation in August: Czech Republic, Israel and Poland

Inflation readings for August across EM EMEA

We will witness a host of inflation prints for August this week:

1. Czech Republic. We expect that inflation will rise further 0.5ppt to 18.0% y/y in August (consensus 17.7% y/y; the Czech National Bank's [CNB] forecast for August inflation is 19.3% y/y). We expect that the increase will be driven by energy, food and core, partly offset by declining transport fuel inflation. Critically, there is significant uncertainty about the extent of the timing of the energy price increases affecting household in H2 2022, but, more importantly, we expect underlying inflation to remain robust, and we continue to forecast inflation hitting north of 20% y/y by year-end.
2. Israel. We expect inflation to edge lower by 0.2pp to 5.0% y/y in August (consensus 4.8% y/y), with the key driver lower set to be the temporary cut in the fuel excise tax – though more attention will be given on core inflation dynamics.
3. Poland. Our expectations is for the preliminary estimate of 16.1% y/y inflation in August to be confirmed, with higher food and core costs the key drivers. The recent fall in oil prices and favourable base effects in energy is set to push inflation lower in the months ahead.

Weekly calendar

	Country	Day	GMT	Indicator/Event	Period	MUFG Forecast	Consensus	Previous	Market Moving
	Turkey	12/09/2022	08:00	Current account balance (USD bn)	Jul-22	-3.70*	-3.70	-3.46	!!
	Turkey	13/09/2022	08:00	Industrial production (% y/y)	Jul-22	---	8.2%	8.5%	!!
	Nigeria	15/09/2022	---	CPI (% y/y)	Aug	---	20.5%	19.6%	!!
	Poland	15/09/2022	09:00	CPI (% y/y)	Aug F	---	---	16.1%	!!!
	Israel	15/09/2022	16:30	Interest rate announcement (%)	Sep	5.0%	4.8%	5.2%	!!!
	Russia	16/09/2022	11:30	Interest rate announcement (%)	Q2-22	6.25%	6.25%	6.75%	!!!
	Poland	16/09/2022	13:30	Core inflation (% y/y)	Aug	---	9.9%	9.3%	!!

*Source: Bloomberg, MUFG Research ; * actual outturn released*

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	19.66	6.00	3.50	-10.61	-8.00	-8.02	-2.06	-2.90	-2.87
Czech Rep.	3.60	2.90	3.00	0.27	-8.03	-5.47	5.02	1.57	0.82
Egypt	0.91	3.30	5.50	-7.41	-7.33	-6.33	-4.17	-3.88	-3.66
Greece	15.39	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	0.30	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	6.43	7.60	3.00	-4.56	-6.70	-5.59	-10.07	-5.71	-5.53
Qatar	2.50	2.90	6.00	4.93	2.78	5.68	-27.67	8.20	11.56
Russia	3.97	4.40	-7.00	1.92	-0.56	0.02	1.11	5.74	4.41
Saudi Arabia	11.80	4.50	11.20	-4.45	-3.05	2.79	-0.39	3.87	3.79
South Africa	3.00	5.10	1.60	-2.27	-8.44	-6.99	1.22	2.88	-0.86
Turkey	7.34	9.80	1.60	-5.65	-4.92	-5.58	0.00	-2.42	-1.61
Ukraine	-15.10	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	3.10	3.90	1.90	4.50	4.50	3.00	0.377	0.377	0.377
Czech Rep.	17.50	3.90	11.30	7.00	3.75	5.50	24.656	24.886	21.380
Egypt	13.60	5.40	7.90	11.25	7.75	11.50	19.120	15.723	15.420
Greece	11.59	-0.10	0.40	0.50	0.50	0.40	1.001	1.137	1.132
Hungary	13.70	4.90	7.80	10.75	2.40	5.50	405.8	324.5	314.70
Iraq	5.40	6.40	5.00	4.00	4.00	5.00	1460	1460	1460.000
Israel	5.20	1.50	2.80	1.25	1.25	0.50	3.283	3.103	3.100
Jordan	5.34	1.60	2.00	5.25	5.25	2.00	0.710	0.709	0.709
Kenya	8.30	6.00	5.90	7.50	7.50	9.50	119.780	113.140	113.040
Kuwait	4.42	2.90	3.40	2.75	2.75	3.00	0.307	0.303	0.303
Lebanon	210.08	124.10	85.00	2.75	2.75	7.75	1511.130	1512.330	1512.330
Libya	4.56	21.10	8.00	3.00	3.00	3.00	4.905	4.597	4.597
Morocco	7.70	1.40	1.20	1.50	1.50	1.50	10.455	9.252	9.250
Nigeria	19.60	17.30	12.00	14.00	14.00	14.00	428.110	424.830	440.500
Oman	2.57	1.30	2.00	1.45	1.45	14.00	0.385	0.385	0.385
Poland	15.60	4.90	10.00	6.50	1.75	5.50	4.751	4.035	3.948
Romania	14.96	5.30	11.90	5.50	5.50	5.50	4.879	4.353	4.388
Qatar	4.98	1.60	4.00	3.25	3.25	2.50	3.641	3.642	3.642
Russia	15.10	6.60	16.60	8.00	5.75	15.00	118.690	74.679	71.130
Saudi Arabia	2.67	3.10	2.20	2.50	2.50	2.50	3.756	3.755	3.755
South Africa	7.40	4.50	6.20	5.50	3.50	4.75	17.027	15.937	15.800
Turkey	79.60	17.90	62.00	13.00	14.00	20.00	18.123	13.317	14.250
Ukraine	22.20	9.40	15.30	25.00	25.00	14.00	36.931	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	12-Aug	19-Aug	26-Aug	02-Sep	09-Sep	Change in yield (basis points) Week	MTD	YTD
Bahrain	10 years	4.99	4.78	4.75	4.79	4.78	-0.95	-2.77	224.93
Czech Rep.	10 years	4.16	4.46	4.97	4.95	4.80	-15.29	-17.96	171.20
Egypt	9 years	12.48	12.39	11.85	12.76	11.70	-106.49	-77.61	453.31
Greece	8 years	2.93	3.33	3.57	3.81	3.79	-1.79	10.19	268.21
Hungary	8 years	8.45	9.03	9.35	9.70	10.04	34.55	55.02	557.85
Israel	8 years	2.23	2.29	2.39	2.64	2.77	13.20	22.82	256.26
Jordan	5 years	6.78	6.94	6.96	7.08	6.82	-26.24	-25.34	255.13
Kenya	7 years	11.61	12.71	12.62	13.09	11.68	-140.51	-144.96	597.58
Kuwait	6 years	3.22	3.33	3.38	3.52	3.56	3.97	13.46	186.80
Lebanon	9 years	87.88	89.43	71.97	75.30	78.76	346.28	663.16	1475.94
Morocco	11 years	4.99	5.02	5.11	5.40	5.48	8.55	18.83	308.39
Nigeria	9 years	10.40	12.03	12.09	12.69	12.08	-61.13	-61.86	468.76
Oman	9 years	5.38	5.72	5.81	6.09	6.07	-2.29	3.12	131.98
Poland	8 years	2.40	2.47	2.64	2.87	2.92	4.31	8.51	274.51
Romania	7 years	4.95	5.26	5.59	5.75	5.52	-23.53	-23.78	396.51
Qatar	9 years	3.56	3.66	3.69	3.96	3.95	-0.32	17.55	170.52
Russia	5 years	27.88	29.26	27.98	28.68	25.04	-363.76	-285.16	-57.55
Saudi Arabia	8 years	3.49	3.57	3.62	3.86	3.91	5.78	22.10	176.94
South Africa	9 years	5.98	6.62	6.45	6.91	6.58	-33.02	-31.95	235.78
Turkey	7 years	8.93	10.41	9.92	10.13	9.33	-80.27	-96.23	210.82
Ukraine	8 years	35.10	34.29	35.74	38.81	37.75	-106.26	-105.97	2,826.84
Abu Dhabi	6 years	3.09	3.26	3.31	3.57	3.62	4.52	23.52	186.41
Dubai	8 years	3.91	3.93	3.93	4.04	4.02	-1.31	8.86	144.40

EM EMEA equity market (index)

	05-Aug	12-Aug	19-Aug	26-Aug	02-Sep	09-Sep	Change (%) Week	MTD	YTD
Bahrain	1,896	1,881	1,900	1,901	1,918	1,929	0.58	0.58	7.34
Czech Rep.	103,775	109,718	113,813	113,532	109,523	112,300	2.54	2.54	7.13
Egypt	9,969	9,969	9,843	10,138	9,999	10,449	4.51	4.51	-12.55
Greece	870	875	894	892	856	853	-0.39	-0.39	-4.51
Hungary	43,333	44,131	42,981	43,098	41,877	41,108	-1.84	-1.84	-18.95
Israel	1,946	2,024	2,034	2,067	2,015	2,023	0.41	0.41	2.26
Jordan	2,569	2,577	2,560	2,562	2,547	2,486	-2.41	-2.41	17.32
Kenya	140	#N/A N/A	147	141	137	142	3.04	3.04	-14.91
Kuwait	7,717	7,690	7,808	7,808	7,644	7,561	-1.09	-1.92	7.36
Lebanon	658	658	658	658	658	658	0.00	-2.96	22.46
Morocco	11,833	11,989	12,174	12,187	12,127	12,124	-0.02	-0.04	-9.24
Nigeria	50,595	50,075	49,691	48,675	49,890	49,701	-0.38	-0.27	16.35
Oman	4,665	4,652	4,648	4,552	4,605	4,507	-2.12	-1.70	9.15
Poland	1,688	1,694	1,683	1,621	1,528	1,548	1.29	1.29	-31.72
Romania	12,477	12,425	12,583	12,307	12,058	11,881	-1.47	-1.47	-9.03
Qatar	13,386	13,569	13,989	13,650	13,183	13,178	-0.03	-1.84	13.36
Russia	2,124	2,152	2,189	2,248	2,400	2,456	2.34	2.34	-35.15
Saudi Arabia	12,292	12,431	12,647	12,444	12,143	11,969	-1.43	-2.56	6.10
South Africa	62,199	63,161	64,167	63,080	59,516	63,023	5.89	3.77	-6.01
Turkey	2,684	2,830	2,980	3,060	3,171	3,620	14.14	14.14	94.86
Ukraine	519	519	519	519	519	519	0.00	0.00	-0.68
Abu Dhabi	9,846	10,198	10,252	10,002	9,720	9,923	2.09	0.49	16.90
Dubai	3,339	3,394	3,458	3,422	3,415	3,396	-0.55	-1.37	6.25

EM EMEA FX against USD*

	05-Aug	12-Aug	19-Aug	26-Aug	02-Sep	09-Sep	Change (%) Week	MTD	YTD
USD Index	105.693	105.090	107.484	108.470	109.534	108.006	-1.40	-0.64	12.89
Bahrain**	0.379	0.379	0.379	0.379	0.379	0.379	0.00	0.03	0.21
Czech Rep.	24.083	23.725	24.549	24.704	24.639	24.155	-1.96	0.91	-9.42
Egypt	19.120	19.157	19.157	19.194	19.231	19.305	0.39	0.39	22.78
Greece***	1.018	1.026	1.004	0.997	0.995	1.017	2.14	1.12	-10.58
Hungary	386.610	382.770	402.510	412.940	403.960	388.810	-3.75	2.48	-16.55
Israel	3.352	3.224	3.267	3.270	3.385	3.391	0.17	-1.79	-8.49
Jordan**	0.710	0.710	0.710	0.710	0.710	0.710	0.06	0.00	-0.18
Kenya	119.048	119.048	0.008	0.008	0.008	0.008	0.00	0.00	6.02
Kuwait	0.308	0.308	0.308	0.308	0.308	0.308	0.00	-0.13	-1.85
Lebanon	1,512.43	1,510.25	1,516.03	1,509.88	1,509.88	1,509.88	0.00	0.16	0.16
Morocco	10.329	10.322	10.405	10.584	10.590	10.696	0.99	-1.32	-13.50
Nigeria	425.730	427.920	427.860	425.000	429.150	435.400	1.46	-1.48	-2.43
Oman**	0.385	0.386	0.386	0.386	0.385	0.385	-0.03	0.03	0.29
Poland	3.749	3.756	3.756	3.757	3.757	3.757	0.02	-0.03	-0.09
Romania	4.838	4.760	4.861	4.882	4.845	4.824	-0.43	-0.14	-9.77
Qatar**	3.655	3.656	3.662	3.666	3.671	3.683	0.33	-0.38	-0.23
Russia	61.014	61.469	59.397	60.564	61.000	60.564	-0.72	0.70	24.12
Saudi Arabia**	3.749	3.756	3.756	3.757	3.757	3.757	0.02	-0.03	-0.09
South Africa	16.777	16.168	17.003	16.885	17.305	17.096	1.22	0.13	-6.78
Turkey	17.920	17.947	18.101	18.164	18.193	18.243	-0.27	-0.26	-27.07
Ukraine	36.930	36.592	36.592	36.752	36.877	36.932	0.15	-0.31	-26.12
UAE**	3.672	3.672	3.673	3.673	3.673	3.672	-0.01	0.01	0.05

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

EM EMEA 5 year CDS spreads (basis points)

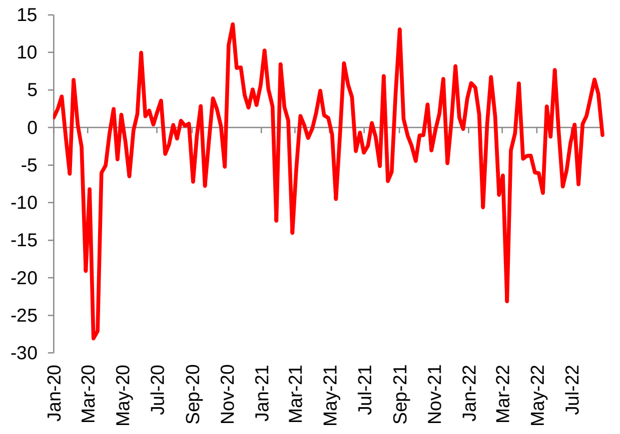
	05-Aug	12-Aug	19-Aug	26-Aug	02-Sep	09-Sep	Change in yield (basis points) Week	MTD	YTD
Bahrain	317.20	314.82	314.82	290.73	300.17	306.71	6.53	6.53	12.88
Czech Rep.	39.69	38.10	38.10	46.07	44.23	44.19	-0.04	-0.04	8.57
Egypt	751.43	778.14	924.42	984.04	1,015.29	942.20	-73.09	-73.09	444.17
Greece	165.17	174.12	174.12	165.92	171.22	170.67	-0.55	-0.55	58.68
Hungary	128.20	129.97	129.97	173.39	177.44	195.57	18.13	18.13	150.85
Israel	46.09	46.45	46.45	41.47	40.50	40.51	0.02	0.02	0.30
Kenya	695.06	813.38	1,013.97	1,118.74	973.15	944.11	-29.04	-29.04	537.22
Kuwait	69.76	69.37	67.89	70.93	63.86	59.85	-4.01	-4.01	15.14
Morocco	205.95	207.84	231.57	280.56	268.51	256.04	-12.48	-12.48	160.65
Nigeria	811.44	700.65	894.66	828.70	817.48	823.45	5.97	5.97	368.38
Oman	259.93	261.75	259.95	263.31	260.17	291.56	31.39	31.39	35.75
Poland	100.00	104.53	107.60	122.63	137.44	149.91	12.47	12.47	110.33
Romania	240.93	219.95	263.30	294.47	297.69	329.88	32.19	32.19	255.06
Qatar	60.36	62.04	62.54	49.42	50.54	48.19	-2.36	-2.36	4.43
Russia	---	---	---	---	---	---	--	---	---
Saudi Arabia	61.36	66.35	66.35	50.85	52.21	48.69	-3.52	-3.52	-0.69
South Africa	233.66	242.93	242.93	233.68	288.12	266.59	-21.53	-21.53	63.57
Turkey	711.43	715.33	715.33	655.94	794.71	746.55	-48.16	-48.16	183.79
Ukraine	3,615.89	5,108.84	7,710.87	10,047.64	9,588.00	9,588.00	0.00	0.00	8977.11
Abu Dhabi	59.42	60.71	61.09	48.42	49.56	120.89	71.33	71.33	77.99
Dubai	119.46	118.18	122.26	123.26	120.24	120.89	0.65	0.65	26.83

Source: Bloomberg, MUFG Research

EM capital flows

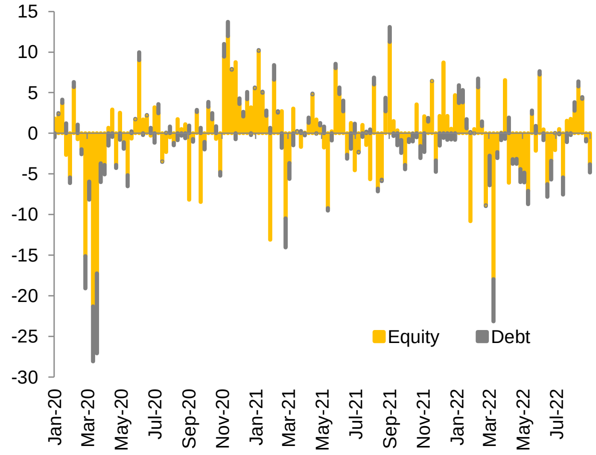
WEEKLY TOTAL EM OUTFLOWS OF USDD-4.8BN – 02 SEPTEMBER

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



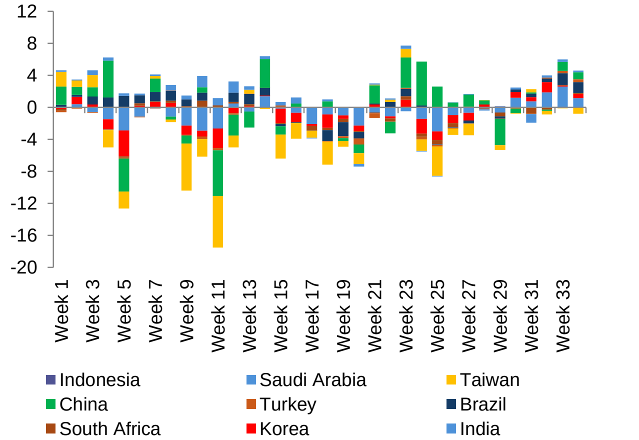
WEEKLY EM OUTFLOWS FROM EQUITY (USD-3.8BN) AND DEBT INFLOWS (USD-1.0BN) – 02 SEPTEMBER

WEEKLY DEBT AND EQUITY FLOWS (USD BN)



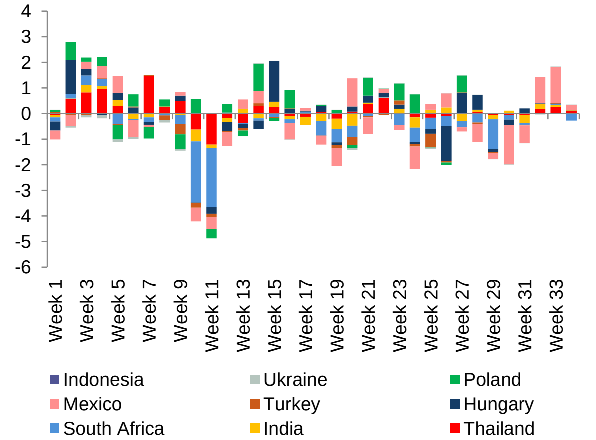
TAIWAN (USD-3.0BN) LED WEEKLY EM EQUITY OUTFLOWS – 02 SEPTEMBER

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



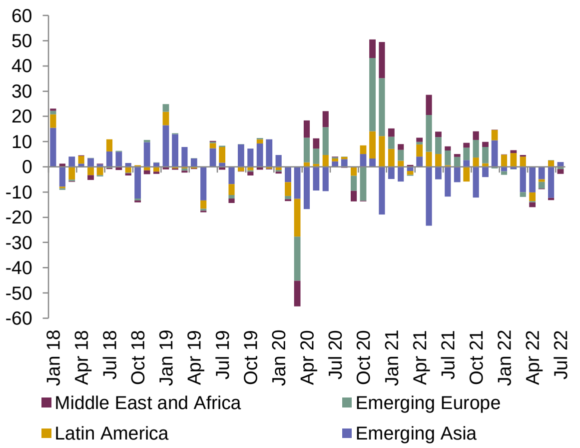
INDONESIA (USD-0.5BN) LED EM DEBT OUTFLOWS LAST WEEK – 02 SEPTEMBER

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



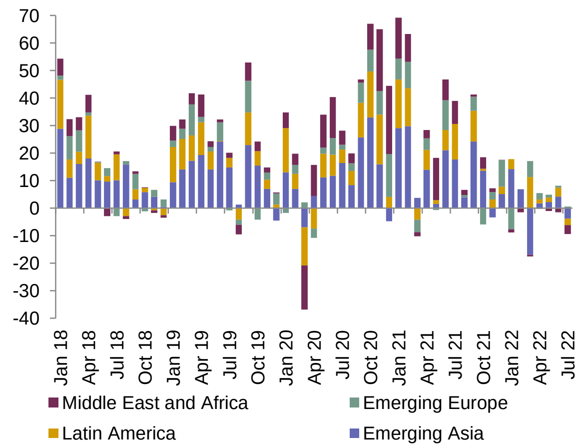
EM EQUITY OUTFLOWS TOTALLED USD-1.0BN IN JULY, LED BY MIDDLE EAST AND AFRICA (USD-1.9BN)

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



EM DEBT OUTFLOWS TOTALLED USD-8.8BN IN JULY, LED BY EM ASIA (USD-3.8BN)

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



Source: Bloomberg, IIF, MUFG Research

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