EHSAN KHOMAN
Head of Commodities, ESG and 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

PAUL FAWDRY
Head of Emerging Markets FX Desk

Emerging Markets Trading Desk
T: +44(0)20 577 1804
E: paul.fawdry@uk.mufg.jp

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Dealing with the cost-of-living crisis in EMs – debt, inflation and fiscal normalisation

Macro focus: The IMF's semi-annual Fiscal Monitor report recently released – stated that governments should not fight central banks that are endeavouring to defeat high inflation or they will risk undermining market confidence. Whilst this is in line with our EM thesis outlined over the summer (see here), the extent of the cost-of-living pressures are de-synchronised across EMs, with clear winners and losers.

FX views: EM FX continues to face ongoing strains amid a hawkish Fed, strong USD, weak global growth, lacklustre portfolio flows and stubborn local policy risks. What could go wrong for EM FX has gone wrong and continues to do so.

Trading views: The choppiness that we feared last week only continues serving us to be humble with our views – the old adage "strong ideas, weakly held" seems the perfect strategy currently.

Week in review: Saudi Arabia launched a new National Industry Strategy with the creation of a new governance model – reinforcing ESG efforts. Turkey cut its policy rate by 150bp to 10.50%, above our and consensus expectations of a 100bp cut. South Africa's September inflation unexpectedly edged lower by 0.1ppt to 7.5% y/y.

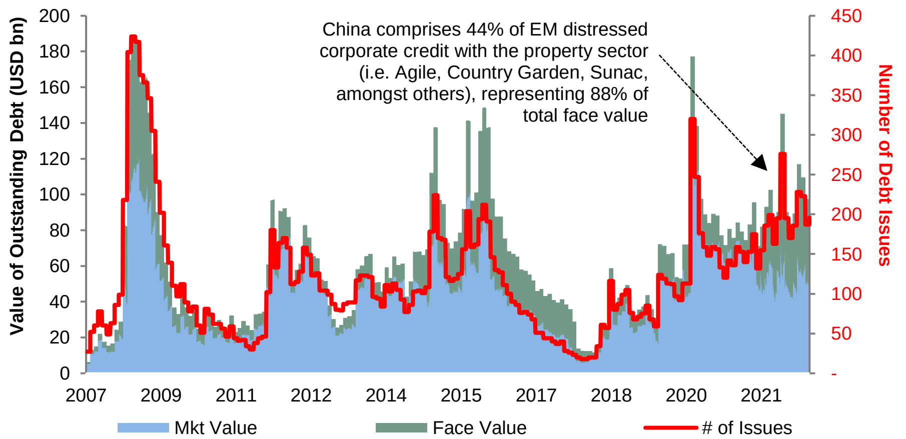
Week ahead: The mid-term budget policy statement will be presented to parliament in South Africa (we anticipate updated fiscal projections to imply narrower deficits and a revision lower to the projected path for public debt). We will also have the rates decision in Hungary (MUFG and consensus: unchanged at 13.0%).

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: Investors reduced their exposure to EM risk (USD-4.0bn), with both equity (USD-2.8bn) and debt (USD-1.2bn) funds suffering redemptions

CHART OF THE WEEK: EM DISTRESSED CREDIT LED BY CHINA PROPERTY ANGST

DISTRESSED EM CORPORATE AND QUASI-CORPORATE DEBT (USD BN AND NO. OF DEBT ISSUERS)



Source: Bloomberg, MUFG Research

Macro views

Dealing with the cost-of-living crisis in EMs – debt, inflation and fiscal normalisation

The IMF has distanced itself from previous calls for governments to borrow more, arguing that greater debt levels are disruptive in the face of higher interest rates

We catalogued last week that the IMF's latest World Economic Outlook (WEO) released last week painted a mixed picture for EMs, with frontier economies more susceptible to default risks than systemically important EMs are well insulated by healthier balance sheets, sizable reserve buffers and less overvalued currencies (see here). We build on this analysis following the IMF's semi-annual Fiscal Monitor report recently released – arguably the most comprehensive source of standardised global fiscal data available. The key takeaway of the report is that governments should not fight central banks that are endeavouring to defeat high inflation or they will risk undermining market confidence. This a striking reversal of the message from previous years, with the IMF scrapping calls for governments to borrow more, arguing that greater debt levels are disruptive in the face of higher interest rates. Whilst this is in line with our EM thesis (see here), the extent of the cost-of-living pressures are highly de-synchronised across the EM complex, with clear winners and losers.

The IMF forecasts wider deficits in EMs this year with a mixed picture for 2023

The IMF is projecting EM fiscal deficits to reach 6.2% in 2022 and 5.4% in 2023 – which is wider that forecasts six months ago – while raising its 2023 deficit projections across most economies. In aggregate, these projections suggest that the IMF views that it will take longer for fiscal balances to return to their pre-COVID stance (fiscal deficits averaged 4.0% for EMs between 2017-2019). Across major EM regions, CEE and EM Asia are likely to see an increase in fiscal deficits next year, with an easing policy stance in China driving the latter. By contrast, the revised projections suggest some stabilisation in LatAm and SSA fiscal deficits, and a significant improvement in fiscal balances in MENA on account of the oil-driven, positive terms-of-trade shock.

EM commodity importers screen as lagging gains seen in large exporters such as the GCC region

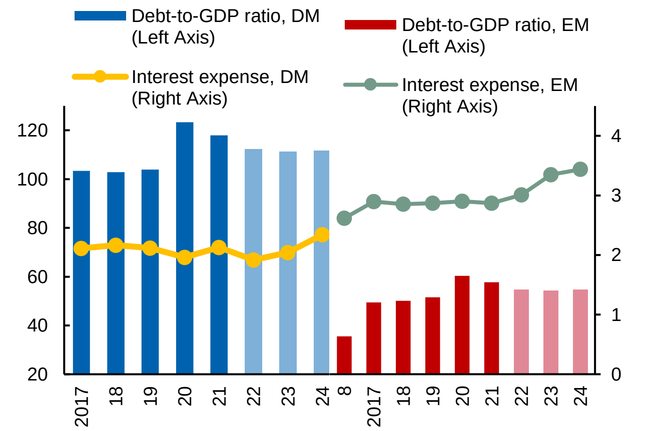
The terms-of-trade shock is also the primary factor differentiating countries and regions that are under more pressure. Almost all EM commodity importers have seen a large deterioration in their terms-of-trade and external balances. The deterioration is most acute in the CEE due to the intensity of energy price pressures (see here). However, not all commodity exporters are alike. Metals exporters (South Africa and Chile) are seeing a reversal of fortunes, as metals prices declined while energy and agriculture instead seeing a large improvement, with the GCC region screening as clear winners.

Lack of fiscal space – policy limited

The sheer velocity of the challenge for policymakers at the current juncture is

GROSS EM DEBT IS PROJECTED AT 55% OF GDP IN 2022 – DOWN A MARK FROM 2021 ON THE INFLATION SHOCK

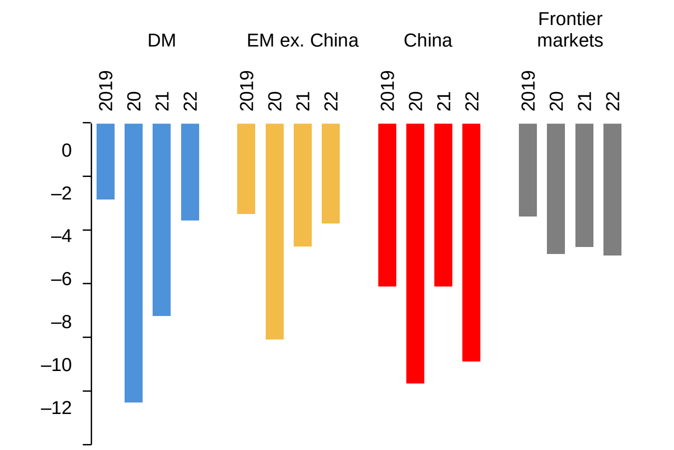
GROSS DEBT AND INTEREST EXPENSE BY ADVANCED AND EMERGING MARKETS (% OF GDP, WEIGHTED AVERAGES)



Source: IMF, MUFG Research

IN 2021-22, FISCAL DEFICITS HAVE FALLEN SHARPLY IN EM'S AND DM'S BUT LARGER THAN COVID LEVELS

FISCAL BALANCES BY ADVANCED AND EMERGING MARKETS (% OF GDP)



Source: IMF, MUFG Research

compounded by significantly reduced fiscal space. The pandemic crisis pushed debt levels to record highs in many economies, with the crisis pushing EM debt levels to their highest level, in excess of 60% of GDP in aggregate. Going forward, the IMF projects debt levels to somewhat stabilise across DM, while it is projecting EM debt levels to continue rising from their current record-high levels in the years ahead. Within EM countries, however, there is marked dispersion in terms of debt levels. Among major EMs, the highest debt levels (as a share of GDP) are in India, China, Ghana, Egypt, Hungary and Brazil. When considering debt sustainability, however, both India and China have seen relatively strong nominal growth on a trend basis, that likely implies greater ability to carry this debt. By contrast, high debt levels may be more concerning in Brazil, where growth has underperformed significantly in recent years. At the same time, Indonesia, Vietnam, energy commodity exporters in the EM EMEA region, Chile and Peru have relatively low debt levels in comparison, with relatively limited signs of significant fiscal scaring after the pandemic.

The extent of inflation increases implies that some EMs have seen an improvement in their debt metrics

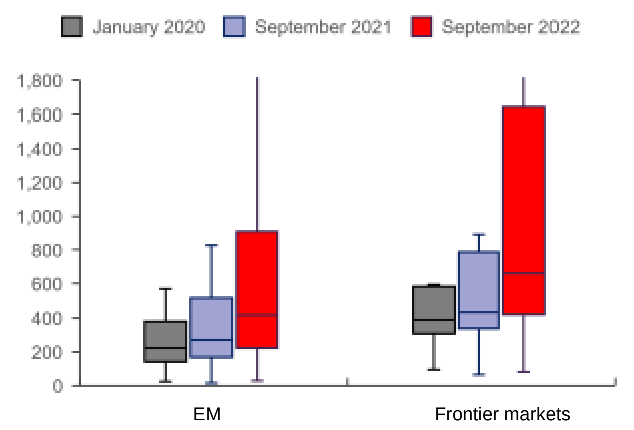
From an inflation perspective, a commonality of the post-COIVD recovery has been the surge in the cost-of-living. While monetary policy is hard at work in tightening financial conditions to stabilise inflation, the extent of inflation increases implies that some EMs have seen an improvement in their debt metrics on the back of this. The post-COVID environment has largely seen a small improvement in these metrics. This is due to a few factors: (i) in EM Asia, pandemic restrictions remained in place for longer, implying, on average, larger drag on fiscal balances to support the economies during lockdowns; (ii) a relatively larger share of external and FX denominated debt among EMs, which typically meant that higher inflation coincided with exchange rate weakness that increased external liabilities, and; (iii) the contrasting effect that higher inflation is having on longer-dated DM debt vs. shorter-dated EM debt.

Frontier markets are most exposed to the challenging interest rates environment

From an interest rates perspective, the current elevated inflationary pressures warrants careful scrutiny on who is most exposed to the challenging environment. As we documented over the summer, a number of frontier economies, such as Ghana, Pakistan, Egypt, Kenya and Nigeria, are most impacted (see here). These governments are already spending a large share of their revenue on debt servicing, which are likely to increase going forward, putting continued strain on fiscal balances. Moreover, economies in the CEE region, like Poland, the Czech Republic and Hungary, while spending relatively small share of their revenue on debt servicing currently, have relatively short average debt maturity, which could imply greater fiscal scaring going forward due to the sharp increase in interest rates. On the positive side, several LatAm economies, as well as South Africa, stand out relatively well, by having high average maturity of debt, leaving them less susceptible to a large increase in their debt servicing costs due to debt roll-overs.

FRONTIER MARKETS HAVE SEEN THEIR SOVEREIGN SPREADS SURGE BY OVER 50% OVER THE PAST YEAR

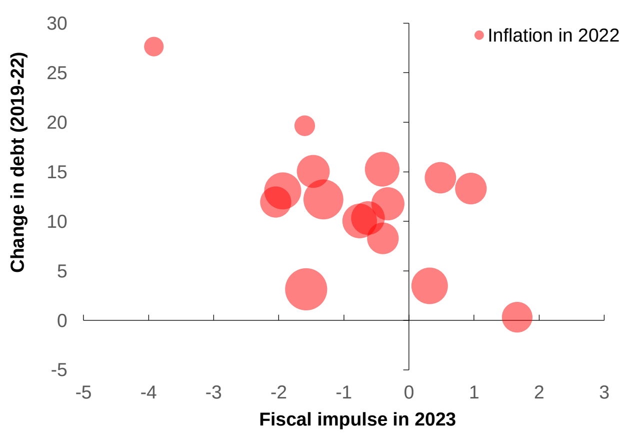
SPREADS BY ADVANCED AND EMERGING MARKETS (BASIS POINTS)



Source: IMF, MUFG Research

REDUCING DEFICITS IS NECESSARY TO HELP TACKLE INFLATION AND ADDRESS DEBT VULNERABILITIES

FISCAL IMPULSE, INFLATION AND DEBT IN G20 (% OF GDP)



Source: IMF, MUFG Research

FX views

Too hot US inflation continue to provide challenging backdrop for EM FX

Unsustainable, but not unreasonable, JPY intervention

The JPY took another hard round-trip at the end of last week, after another apparent large-scale intervention. Japan's current policy mix is clearly unsustainable – intervening in both the fixed income and FX markets – akin to one foot on the accelerator and one on the brake. While sub-optimal and unsustainable in the medium term, we think this policy mix could be in place for some time. After all, the extent to which the end of the Bank of Japan's (BoJ) yield curve control (YCC) policy will strengthen the JPY will depend largely on the exact strategy that is chosen to replace it. It is probably appropriate for the BoJ to maintain a much easier monetary policy – inflation is picking up but underlying trends are still soft. Most importantly, the USD is currently on a broad appreciation trend of historic proportions, which we view could last a little while longer (see here).

EM currencies are caught in a circle of mistrust

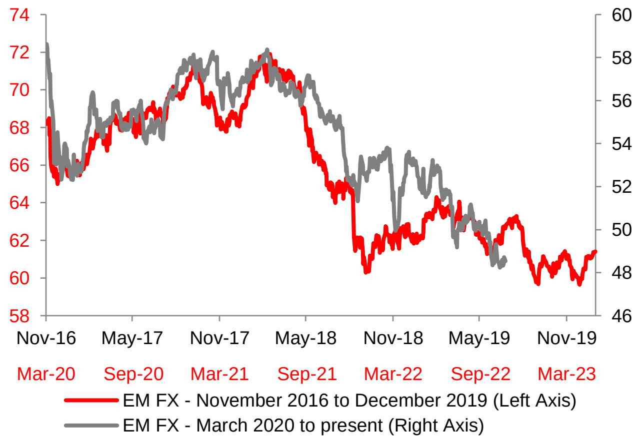
From an EM FX perspective, the complex continues to face ongoing strains amid a hawkish Fed, strong USD, weak global growth, lacklustre portfolio flows and stubborn local policy risks. What could go wrong for EM FX has gone wrong and continues to do so, in our view. Not long ago many had high hopes that the Fed would signal a pivot that could occur, leading to the belief that the USD would soon peak. This view proved to be premature at the very least. Over the past month, most EM currencies have weakened versus the USD, extending the trend that had developed from mid-last year.

EM currencies are caught in a circle of mistrust

From a regional perspective, EM EMEA currencies remain at the epicentre of global volatility owing to the war in Ukraine. Having said that, with the CEE region, currencies on the whole have traded better over the past week, supported by a relatively stable EUR/USD, as European gas prices have eased and also given the National Bank of Hungary's (MNB) intermeeting rate intervention on 15 October. However, the backdrop for CEE FX continues to be a challenging one with (i) slowing growth in the region and a Euro Area recession well into 2023 on our forecasts, (ii) elevated headline and core inflation with underlying core inflation momentum showing no signs of slowing, and (iii) continued balance of payment deterioration that had begun in 2021 but has been exacerbated by the energy price shock. Switching gears, notwithstanding RUB strength year-to-date, we view that the direction of travel is towards a weaker currency as the current account surplus could gradually decline as Russian investors find ways to invest Russia's still substantial excess savings in external markets.

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

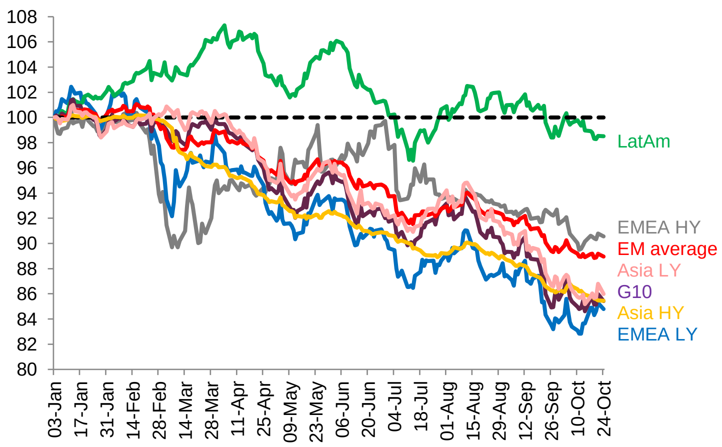
EM FX – BETWEEN NOV-2016 TO DEC-2019 AND MAR-20 TO PRESENT



Source: Bloomberg, MUFG Research

ALL MAJOR REGIONAL EM CURRENCIES ARE DOWN YTD OWING TO THE DOMINANT USD

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



Source: Bloomberg, 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: China is entering a very interesting period for FX

The choppiness that we feared last week only continues serving us to be humble with our views – the old adage "strong ideas, weakly" held seems the perfect strategy currently

Last week we posted it was not getting easier. Well this week is no different. We have conflicting signals galore alongside trying to work out what is meant by theatrics of the Chinese congress. Fading moves still seems the most profitable view, but alas for mere humans like us this is much harder said than done. Given the scale of the trend over the last year it is not surprising that people are so keen to trade the reverse trend causing several false dawns. However, clear reasons for a change in trend remain not that compelling. There are certainly clear reasons for more two way but a change in the underlying trend still needs more arguments.

Reasons for a turn in the big USD trend still seem unconvincing at best as much as people would like to see this

When looking at the reasons for a turnaround there are a few things that remain key and most of them lie on the USD side. These include a stalling in the US terminal rate and some stability in equity markets, alongside the most important thing, a turn in inflation dynamic. Clearly all of these things are interrelated and we would not like to pick turns in these factors as appealing as it may be after a day's price. US concern over the USD is another risk but IMF meetings are showing a lack of consensus.

Local reasons have picked up but this is more to do with CB reaction functions over FX depreciation rather than a fundamental turnaround in the local story

From a local side the reasons for a turn have increased. First and foremost is the large pick up in push back from regional CBs for further currency weakness. While a lot of this is happening in developed markets, it is clear that most EM central banks no longer see the benefits of a weaker currency. Any growth advantages have now been overtaken and outweighed by financial stability risks. Some of the CBs have noticeable picked up their rhetoric with Philippines the latest CB to really send a strong signal to the market. In this scenario it is very interesting to note how close CNY is to trading the weak side of the band. With the NPC now over, we expect the CNY midpoint to start moving freely again and it will be very interesting to see how China manage the dynamic between the trading band and the midpoint., Ultimately it is only trading at this level due to the significant fixing errors, Mechanically it would be easy to fix. Reality would though be a lot harder as a high midpoint would start a self reinforcing bout of RMB weakness perhaps. As we have said before, we don't think China will change its FX mechanism during moments when it is being tested. If the mid-band and onshore USDRMB were trading at the same level, it would not overly surprise us if China decided to scrap the band altogether or move the fixing to another methodology. However when onshore USDRMB is trading so far above the mid-point, any changes would perhaps be seen as weakness in being able to control moves and we

We think Chinese liquidity may be tightened as a way to reduce pressure on RMB weakness…

So the question is how is this resolved. While a "gradual" move northwards would be the ideal scenario we don't think current market volatility will allow this. We once again think that being paid front end CNH yields alongside other EM pairs where there is CB pushback should be positioned. This strategy has not worked at all this year. However we think we are getting close to a tipping point. As such the historical experiences of tightening liquidity in order to wash out positioning could well come. We're certainly in a period where we think China may take one step back to then take two forward in RMB internalisation. How this is resolved will set up EM over the next few weeks.

Week in review

EM capital flows: investors reduced their exposures to EMs last week

EMs oscillated on a favourable technical picture juxtaposed against weak macro fundamentals

EM risk assets oscillated last week which we believe reinforce the narrative of a favourable technical picture juxtaposed against limited prospects for a reversal of fortunes for the EM complex given global and fundamental headwinds (see here). With this, we maintain our cautious and selective stance on EM given the emergence of USD cash as a major competitor to EM assets. We can see this in various shapes and forms, either in very liquid front end US Treasuries or certificate of deposits. While still negative in real terms, the sizable nominal return it offers may be attractive as a risk-free, zero-volatility investment vehicle and is a major competitor for riskier assets, including many parts of EM – especially fiscal deficit economies.

Investors reduced their exposures to EMs last week

According to IIF data, investors reduced their exposure to EM risk (USD-4.0bn), with both equity (USD-2.8bn) and debt (USD-1.2bn) funds suffering redemptions. The overarching bleak prospects of EMs remains undeterred – the upward repricing of Fed policy has led to an upward adjustment in expectations for EM policy rates, with investors on edge surrounding the Fed pivot, the speed at which global supply-disruptions improve and the Chinese economy rebounds. Mounting global recession risk is weighing on EM flows as anxiety builds over geopolitical events, realised inflation and uncertainty about the capacity of policymakers to weather the current context. The continued volatility in equity markets has spilled over debt flows, worsening the outlook.

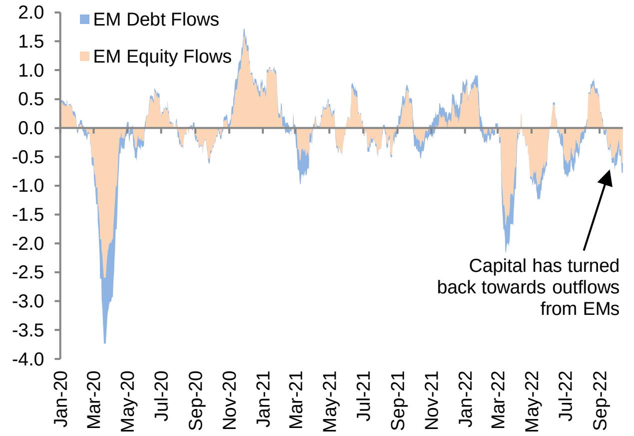
Saudi Arabia: new National Industry Strategy boosts Vision 2030 and ESG positive

Saudi unveils a new National Industry Strategy

Saudi Arabia launched a new National Industry Strategy to encourage the growth of industrial exports, factories and employment opportunities. This strategy comes after the industrial sector has proven that it has potential, especially evident in the amount of factories opened in the Kingdom recently. In April and May alone, 121 factories started production, and a there was a nearly 90% y/y increase of factories starting production this year in comparison to 2021. With this, one of the targets of the new strategy focuses on is establishing thousands more factories throughout the country by 2035. The Ministry of Industry and Mineral Resources has also enacted several reforms this year to encourage growth in the industrial sector, including the launch of a digital licensing platform to make obtaining industrial licenses easier, and creating

CAPITAL HAS RETURNED BACK TO INFLOWS INTO EM'S ON A 28 DAY ROLLING BASIS GIVEN THE RISK-ON MOOD

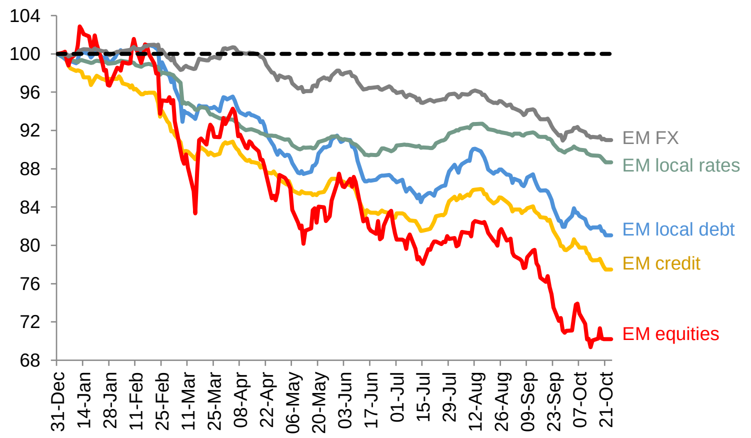
EM EQUITY AND DEBT FLOWS (USD BN), 28 DAY ROLLING AVERAGE



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

new incentives for funding for certain manufacturing groups. On net, the strategy will likely encourage the ministries of Energy, Industry and Mineral Resources, and Investment to work in a more coordinated fashion in the coming years to try to achieve these goals. Critically, for the industrial sector, a new governance model has been developed as part of the National Industry Strategy through the creation of a Supreme Committee for Industry – reinforcing ESG efforts to ostensibly ensure the participation of the private sector and allow industrial investors to have a voice in the sector's policy development.

Turkey: CBRT cuts rates by 150bp to 10.50%, and guides rates for 9% by November

Turkey cuts its policy rate by 150bp to 10.50% – cumulative cuts now totals 350bp since August – with another 150bp announced for November

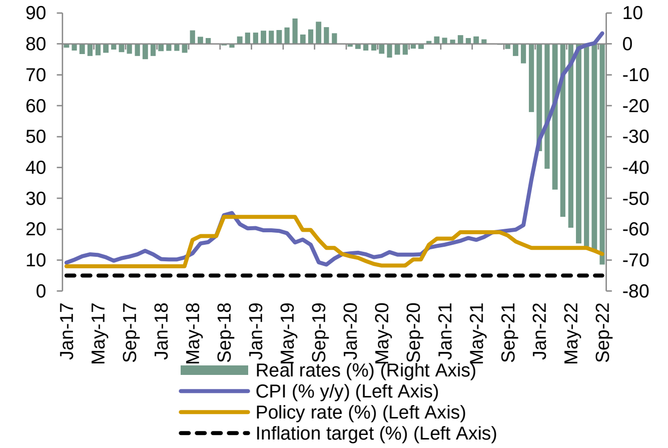
The Central Bank of Turkey (CBRT) cut its policy rate by 150bp to 10.50%, above our and the consensus expectations of a 100bp cut. The decision follows the CBRT's two successive 100bp cuts in its August and September meetings after it had kept rates on hold at 14.00% since the end of 2021. The Monetary Policy Committee (MPC) stated that they will take a similar step in the following meeting and end the cutting cycle. This unusual forward guidance signals that the terminal rate is now 9.00% with the CBRT further emphasising that the importance of supportive financial conditions to preserve growth momentum amid slower activity in Q3 2022 is "critical". President Erdogan also said that the policy rate could be in single digits by the end of the year, comments which were later echoed by the Minister of Finance.

Further macroprudential measures, while concurrently remaining active in the FX market is the likely near-term strategy for the CBRT

The acute inflation to date challenge the view that the deterioration in price dynamics is a temporary phenomenon driven by transitory shocks, in our view. The unprecedented rise in the trend inflation, the extreme rise in the exchange rate pass-through as well as the sensitivity of forward-looking expectations to past inflation is evidence of this. Looking ahead, it is difficult to square the current easing cycle with the severe deterioration in the inflation outlook and the cyclical position of the economy. We believe that a relatively demanding external financing picture owing to the deterioration of the current account balance, alongside the elevated risk premium and the weakening of the net foreign assets position, makes a case for a more restrictive stance. Having said that, the CBRT appears laser focused to maintain its easing bias on the grounds that economic activity is losing momentum. On the back of deep negative real rates (-73%), however, we believe that the prevailing strategy is unlikely to be effective in controlling inflation. This could drive the CBRT to continue introducing further macroprudential measures, while concurrently remaining active in the FX market.

TURKEY LOWERS RATES BY 150BP BUT WITH REAL RATES AT -73% THE SITUATION IS UNSUSTAINABLE

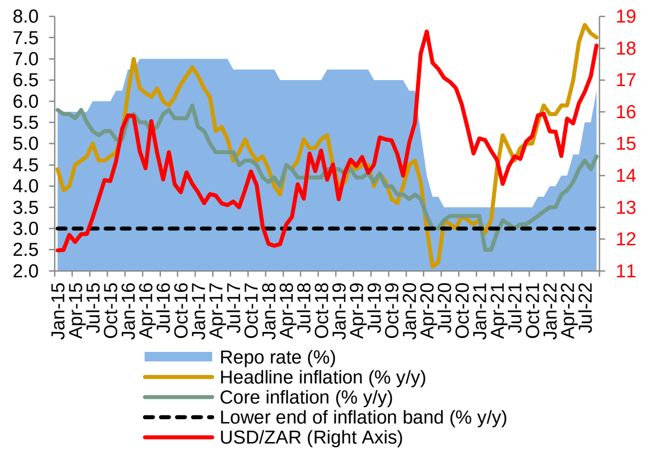
TURKEY INFLATION (% Y/Y), NOMINAL AND REAL RATES (%)



Source: Bloomberg, CBRT, MUFG Research

SOUTH AFRICA'S INFLATION RATE EDGES LOWER IN SEPTEMBER AND WE EXPECT A GRADUAL LOWER PATH

SOUTH AFRICA INFLATION (% Y/Y), INTEREST RATES AND USD/ZAR



Source: Bloomberg, CBRT, MUFG Research

South Africa: inflation edges lower in September by 0.1ppt to 7.5% y/y

Inflation in South Africa for September surprises to the downside

Inflation in South Africa declined from 7.6% y/y in August to 7.5% y/y in September, against our (7.8% y/y) and consensus expectations (on hold at 7.6% y/y). Meanwhile, core inflation rose from 4.4% y/y to 4.7% y/y. Food inflation increased by less than expected, from 11.3% y/y to 11.9% y/y, with a large sequential deceleration in the categories that have driven the increase. Within core inflation, hotel prices rose by 10.5% y/y (up from 3.6% y/y in August), while durable goods inflation was flat at 5.3% y/y. We maintain our forecast for a gradual further decline in inflation in the months ahead, albeit with headline only likely to fall back into the 3-6% inflation target range in June 2023.

UAE: robust fiscal surplus for H1 2022 on the back of strong hydrocarbon revenues

UAE reports a healthy fiscal surplus of USD32bn in H1 2022

The UAE's Ministry of Finance (MoF) reported a fiscal surplus of AED 118bn (USD32bn) in in the first half of this year, with Q2 2022 the widest quarterly surplus since records began in 2012. The positive balance was a reflection of high revenues, which rose 52% y/y in the quarter. These benign figures bode well with our expectations of a strong fiscal result in 2022 with our forecast pointing to a surplus of 8.2% of GDP (IMF projects 7.7% of GDP).

Russia: current account surplus surprises to the downside in Q3 2022

Russia's current account surplus surprised to the downside in Q3 2022 on FX dynamics

The Central Bank of Russia (CBR) published estimate of the Q3 2022 current account surplus came in at USD51.9bn, significantly below consensus expectations of USD61.2bn. The surprise compared to our forecast was almost entirely due to much larger non-trade net outflows. While the CBR does not publish any details, we believe that the surprise as consistent with the narrative that the Russian Rouble (RUB) will trend-depreciate as Russians find less costly ways to export the excess savings of the country abroad.

Week ahead

South Africa: mid-term budget to demonstrate improved fiscal projections

Updated South Africa's fiscal projections is set to signal narrower deficits and a revision lower to the projected path for public debt

South Africa's Finance Minister, Enoch Godongwana, will present the Mid-Term Budget Policy Statement (MTBPS) to parliament on 26 October. We expect that updated fiscal projections will imply narrower deficits and a revision lower to the projected path for public debt. We expect that the budget deficit for FY22/23 is likely to stand at 4.8% of GDP (and close to balance in primary terms), down from 5.1% of GDP in FY21/22 (Budget 2022 forecasts 6.0% of GDP). However, we expect that National Treasury will take a more conservative view on revenue projections than we do and show a deficit of around 5.3% of GDP for FY22/23 (as compared to our forecast for 5.0% of GDP).

Hungary: MNB set to keep rates on hold following the intermeeting rate hike

Hungary's rate set to remain on hold following the 500bp intermeeting rise

The National Bank of Hungary (MNB) will meet on 25 October and we (and consensus) expect the key policy rate to remain on hold at 13.0%. This week's meeting follows an emergency policy decision on 14 October amid significant depreciation pressures on the Hungarian Forint (HUF), in which the MNB introduced a 1 day deposit facility (among other measures) at a rate of 18.0%. The base rate decision has few immediate implications for the market, given that the MNB no longer conducts any market operations at this rate. Instead, while the new measures last week were targeted for the very short term, it nevertheless implied a significant increase in the benchmark market rates, with the 3M BUBOR rising by 350bp to around 16.50%. The main policy concern for the MNB for now is to stabilise the Forint exchange rate, and to this end, the currency has recovered materially since 15 October, although some of the rebound was part of a broader rally in CEE currencies and global risk. However, the factors that are translating to fundamental exchange rate pressures which remains exposed to further bouts of volatility. This is likely to keep monetary conditions tighter for longer.

Weekly calendar

	Country	Day	GMT	Indicator/Event	Period	MUFG Forecast	Consensus	Previous	Market Moving
	Hungary	25/10/2022	13:00	Interest rate announcement (%)	Oct	13.00%	13.00%	13.00%	!!!
	S. Africa	26/10/2022	13:00	Mid-term budget statement	Sep	---	---	---	!!!
	S. Africa	28/10/2022	13:00	Monthly fiscal data	Sep	---	ZAR-3.5bn	ZAR-43bn	!!

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	2.87	6.00	3.50	-10.61	-8.00	-8.02	-2.06	-2.90	-2.87
Czech Rep.	3.70	2.90	3.00	0.27	-8.03	-5.47	5.01	1.57	0.82
Egypt	0.10	3.30	5.50	-7.41	-7.33	-6.33	-4.17	-3.88	-3.66
Greece	16.80	6.50	4.30	0.57	-10.25	-4.29	-2.70	-7.41	-5.14
Hungary	6.50	7.30	4.30	-2.05	-6.60	-5.94	-4.16	0.60	0.88
Iraq	4.43	3.60	6.70	0.86	-1.55	-2.53	1.12	6.16	4.00
Israel	4.80	7.00	5.00	-3.91	-6.81	-4.33	5.54	4.46	3.82
Jordan	1.96	2.00	2.20	-5.98	-7.69	-5.94	-7.16	-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	2.00	5.70	3.10	-4.13	-6.49	-5.91	-3.95	-3.07	-3.25
Nigeria	3.54	2.50	5.60	-4.76	-6.11	-5.96	4.65	-3.22	-2.25
Oman	-0.83	2.70	0.90	-7.06	-2.57	1.11	-4.38	-5.75	-0.94
Poland	5.50	5.00	4.50	-0.74	-4.25	-1.90	1.07	2.26	1.56
Romania	5.05	7.60	3.00	-4.56	-6.70	-5.59	-10.00	-5.71	-5.53
Qatar	6.30	2.90	6.00	4.93	2.78	5.68	-27.67	8.20	11.56
Russia	-2.29	4.40	-7.00	1.92	-0.56	0.02	1.05	5.74	4.41
Saudi Arabia	12.20	4.50	11.20	-4.45	-3.05	2.79	-0.64	3.87	3.79
South Africa	0.20	5.10	1.60	-2.27	-8.44	-6.99	1.23	2.88	-0.86
Turkey	7.58	9.80	1.60	-5.65	-4.92	-5.58	0.00	-2.42	-1.61
Ukraine	-37.20	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	4.00	3.90	1.90	5.25	5.25	3.00	0.377	0.377	0.377
Czech Rep.	18.00	3.90	11.30	7.00	3.75	5.50	24.480	24.886	21.380
Egypt	15.00	5.40	7.90	11.25	7.75	11.50	19.685	15.723	15.420
Greece	12.02	-0.10	0.40	1.25	1.25	0.40	0.983	1.137	1.132
Hungary	20.10	4.90	7.80	13.00	2.40	5.50	419.4	324.5	314.70
Iraq	5.40	6.40	5.00	4.00	4.00	5.00	1460	1460	1460.000
Israel	4.59	1.50	2.80	2.75	2.75	0.50	3.556	3.103	3.100
Jordan	5.39	1.60	2.00	6.00	6.00	2.00	0.710	0.709	0.709
Kenya	9.20	6.00	5.90	8.25	8.25	9.50	121.190	113.140	113.040
Kuwait	4.15	2.90	3.40	3.00	3.00	3.00	0.310	0.303	0.303
Lebanon	162.47	124.10	85.00	2.75	2.75	7.75	1511.000	1512.330	1512.330
Libya	4.56	21.10	8.00	3.00	3.00	3.00	5.017	4.597	4.597
Morocco	8.30	1.40	1.20	2.00	2.00	2.00	10.961	9.252	9.250
Nigeria	20.80	17.30	12.00	15.50	15.50	14.00	440.520	424.830	440.500
Oman	2.36	1.30	2.00	1.95	1.95	14.00	0.385	0.385	0.385
Poland	17.20	4.90	10.00	6.75	1.75	5.50	4.867	4.035	3.948
Romania	15.88	5.30	11.90	6.25	6.25	5.50	4.996	4.353	4.388
Qatar	6.03	1.60	4.00	4.00	4.00	2.50	3.641	3.642	3.642
Russia	13.68	6.60	16.60	7.50	5.75	15.00	118.690	74.679	71.130
Saudi Arabia	3.07	3.10	2.20	3.25	3.25	2.50	3.758	3.755	3.755
South Africa	7.50	4.50	6.20	6.25	3.50	4.75	18.339	15.937	15.800
Turkey	83.45	17.90	62.00	10.50	14.00	20.00	18.605	13.317	14.250
Ukraine	24.60	9.40	15.30	25.00	25.00	14.00	36.933	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	23-Sep	30-Sep	07-Oct	14-Oct	21-Oct	Change in yield (basis points) Week	MTD	YTD
Bahrain	10 years	4.86	4.92	5.13	5.24	5.65	41.06	73.09	311.85
Czech Rep.	10 years	5.01	5.37	5.32	5.60	6.16	55.71	79.53	307.80
Egypt	9 years	13.60	15.29	14.53	15.64	15.99	34.74	69.74	882.64
Greece	8 years	4.17	4.31	4.26	4.39	4.54	14.45	23.15	343.15
Hungary	8 years	9.98	10.08	10.40	11.81	11.69	-12.18	160.70	722.31
Israel	8 years	3.27	3.68	3.73	3.99	4.06	6.66	37.74	384.42
Jordan	5 years	7.23	8.33	8.13	8.34	8.49	15.17	16.24	421.83
Kenya	7 years	12.76	14.61	13.60	14.15	14.91	75.94	29.19	919.83
Kuwait	6 years	4.24	4.47	4.57	4.83	4.82	-1.24	35.15	312.59
Lebanon	9 years	83.39	87.64	89.90	86.93	87.18	25.53	-45.60	2318.20
Morocco	11 years	6.05	6.56	6.53	6.79	6.82	2.95	26.12	441.89
Nigeria	9 years	13.50	15.17	14.12	14.73	16.20	147.20	103.37	880.98
Oman	9 years	6.77	7.31	7.09	7.17	7.31	14.05	-0.46	255.82
Poland	8 years	3.42	3.99	3.91	4.01	4.41	40.62	42.56	424.31
Romania	7 years	6.76	7.57	7.54	7.84	7.87	2.41	29.76	631.46
Qatar	9 years	4.55	4.79	4.78	5.14	5.24	9.90	44.60	298.84
Russia	5 years	26.54	26.75	28.93	29.02	30.06	103.36	330.38	-63.19
Saudi Arabia	8 years	4.46	4.75	4.73	5.13	5.46	33.08	71.15	331.64
South Africa	9 years	7.78	8.31	8.05	8.61	8.48	-13.32	16.79	425.78
Turkey	7 years	10.71	10.64	10.76	10.81	10.41	-39.92	-23.14	318.98
Ukraine	8 years	37.35	39.03	39.64	41.72	42.22	50.78	319.05	3,274.48
Abu Dhabi	6 years	4.29	4.53	4.58	4.89	4.90	0.66	36.94	314.45
Dubai	8 years	4.32	4.49	4.48	4.78	4.79	1.82	30.38	221.33

EM EMEA equity market (index)

	16-Sep	23-Sep	30-Sep	07-Oct	14-Oct	21-Oct	Change (%) Week	MTD	YTD
Bahrain	1,938	1,932	1,882	1,884	1,875	1,864	-0.61	-0.97	3.70
Czech Rep.	109,954	114,070	107,664	117,561	114,300	119,929	4.92	8.99	14.41
Egypt	10,011	10,011	9,817	9,924	9,801	10,306	5.15	4.87	-13.75
Greece	837	826	791	819	818	859	5.08	8.34	-3.84
Hungary	40,691	39,241	37,731	39,385	38,817	40,044	3.16	5.83	-21.05
Israel	1,961	1,945	1,876	1,838	1,863	1,904	2.20	3.61	-3.76
Jordan	2,504	2,481	2,477	2,473	2,506	2,487	-0.76	0.13	17.38
Kenya	134	135	131	124	130	128	-1.57	-0.09	-22.92
Kuwait	7,555	7,498	7,106	7,249	7,014	7,201	2.66	1.34	2.24
Lebanon	658	658	658	658	658	658	0.00	1.73	23.12
Morocco	12,146	12,231	11,810	11,663	11,556	10,947	-5.27	-5.73	-18.05
Nigeria	49,576	49,422	49,172	48,837	47,524	44,393	-6.59	-9.45	3.92
Oman	4,490	4,509	4,486	4,575	4,541	4,406	-2.99	-2.71	6.69
Poland	1,528	1,509	1,435	1,419	1,377	1,431	3.93	3.88	-36.86
Romania	11,836	11,293	10,669	10,967	10,644	10,888	2.29	2.34	-16.64
Qatar	13,072	12,758	12,550	13,003	12,718	12,494	-1.76	-1.58	7.47
Russia	2,436	2,131	1,964	2,030	1,952	2,068	5.99	5.68	-45.38
Saudi Arabia	11,893	11,461	11,170	11,770	11,422	12,013	5.18	5.33	6.49
South Africa	61,386	59,818	57,413	59,202	57,961	58,392	0.74	1.75	-12.92
Turkey	3,447	3,246	3,198	3,484	3,518	3,978	13.07	25.08	114.12
Ukraine	519	519	519	519	519	519	0.00	0.00	-0.68
Abu Dhabi	9,969	10,094	9,776	9,897	9,697	10,059	3.73	3.16	18.50
Dubai	3,431	3,461	3,343	3,353	3,349	3,381	0.93	1.25	5.78

EM EMEA FX against USD*

	16-Sep	23-Sep	30-Sep	07-Oct	14-Oct	21-Oct	Change (%) Week	MTD	YTD
USD Index	109.739	111.353	112.254	112.258	113.311	112.383	-0.82	0.24	17.47
Bahrain**	0.379	0.379	0.378	0.376	0.379	0.379	0.03	-0.16	0.11
Czech Rep.	24.486	25.417	25.088	25.122	25.293	24.892	-1.58	0.79	-12.10
Egypt	19.417	19.493	19.531	19.646	19.646	19.685	0.20	0.79	25.20
Greece***	1.002	0.969	0.980	0.974	0.972	0.983	1.15	0.33	-13.51
Hungary	404.350	418.740	431.610	435.540	429.480	419.350	-2.36	2.92	-22.63
Israel	3.427	3.504	3.561	3.543	3.560	3.557	-0.10	0.12	-12.75
Jordan**	0.710	0.710	0.710	0.710	0.710	0.710	0.00	0.54	-0.13
Kenya	120.482	120.482	0.008	0.008	0.008	0.008	0.00	0.00	6.02
Kuwait	0.310	0.310	0.310	0.310	0.310	0.310	0.00	-0.47	-2.40
Lebanon	1,512.50	1,510.25	1,512.75	1,511.00	1,511.00	1,511.00	0.00	0.12	0.09
Morocco	10.765	10.868	10.954	10.981	11.032	10.961	-0.65	-0.06	-15.59
Nigeria	435.830	435.580	437.570	435.270	440.500	440.520	0.00	-0.67	-3.56
Oman**	0.385	0.385	0.385	0.385	0.385	0.385	0.00	0.03	0.31
Poland	3.756	3.759	3.761	3.760	3.764	3.763	-0.02	-0.04	-0.23
Romania	4.914	5.097	5.049	5.064	5.075	4.996	-1.55	1.04	-12.88
Qatar**	3.668	3.666	3.668	3.666	3.665	3.659	-0.16	0.22	0.41
Russia	60.424	57.875	60.133	62.175	62.825	61.489	-2.13	-2.20	22.25
Saudi Arabia**	3.756	3.759	3.761	3.760	3.764	3.763	-0.02	-0.04	-0.23
South Africa	17.610	17.950	18.086	18.096	18.359	18.339	0.11	-1.38	-13.10
Turkey	18.259	18.414	18.529	18.572	18.490	18.606	-0.62	-0.42	-28.50
Ukraine	36.792	36.717	36.932	36.932	36.932	36.933	0.00	-0.18	-26.12
UAE**	3.672	3.673	3.672	3.672	3.672	3.673	0.01	-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)

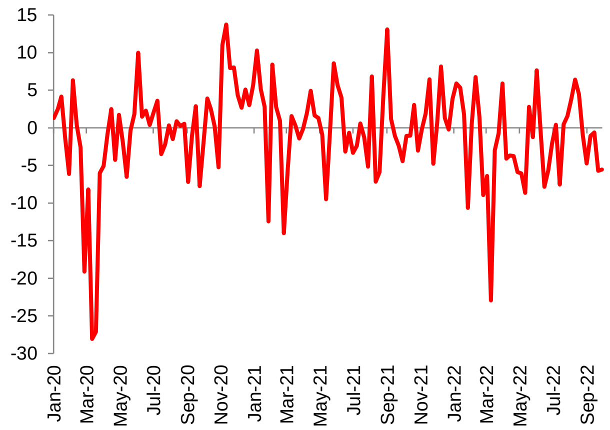
	16-Sep	23-Sep	30-Sep	07-Oct	14-Oct	21-Oct	Change in yield (basis points) Week	MTD	YTD
Bahrain	317.20	314.82	314.82	290.73	300.17	306.71	6.53	6.53	12.88
Czech Rep.	39.69	38.10	38.10	46.07	44.23	44.19	-0.04	-0.04	8.57
Egypt	751.43	778.14	924.42	984.04	1,015.29	942.20	-73.09	-73.09	444.17
Greece	165.17	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

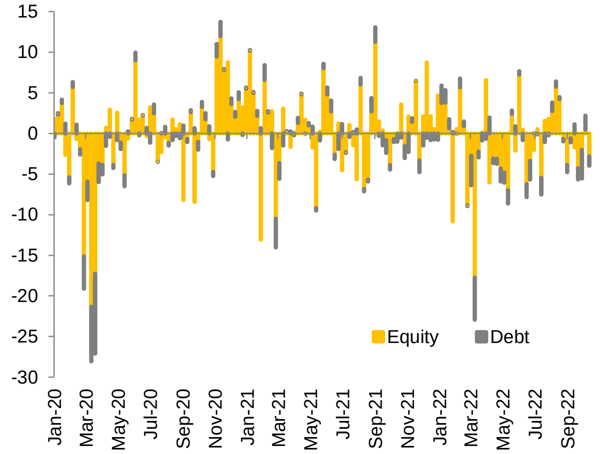
WEEKLY TOTAL EM OUTFLOWS OF USDD-4.0BN – 14 OCTOBER

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



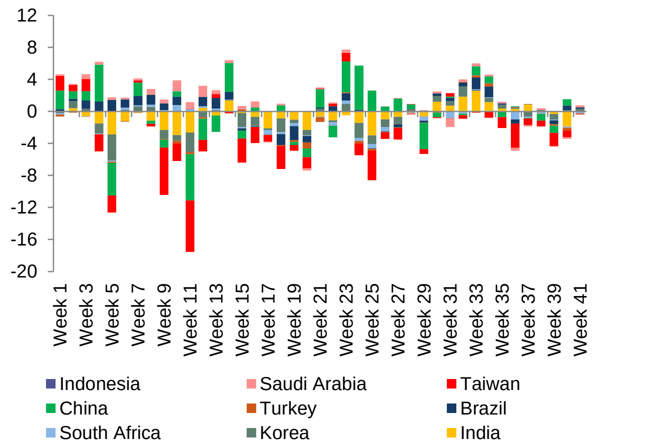
WEEKLY EM OUTFLOWS FROM EQUITY (USD-2.8BN) AND DEBT OUTFLOWS (USD-1.2BN) – 14 OCTOBER

WEEKLY DEBT AND EQUITY FLOWS (USD BN)



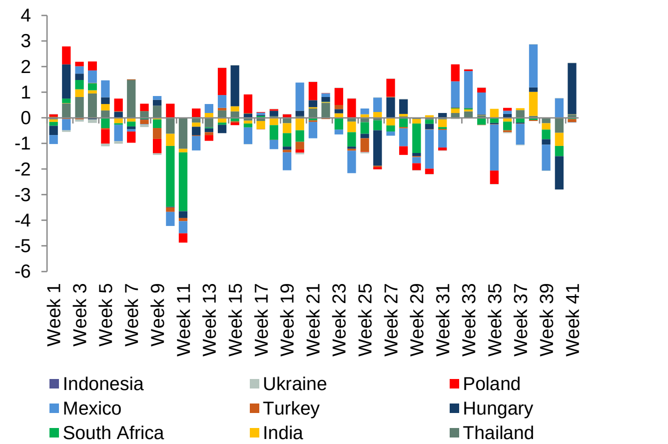
TAIWAN (USD-1.8BN) AND CHINA (-0.9BN) LED WEEKLY EM EQUITY OUTFLOWS – 14 OCTOBER

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



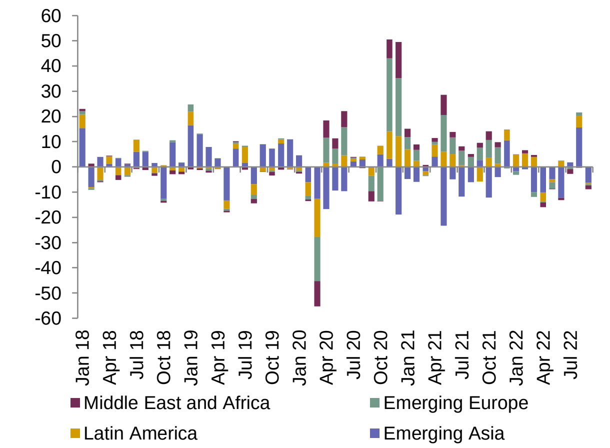
HUNGARY (USD-0.4BN) LED EM DEBT OUTFLOWS LAST WEEK – 14 OCTOBER

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



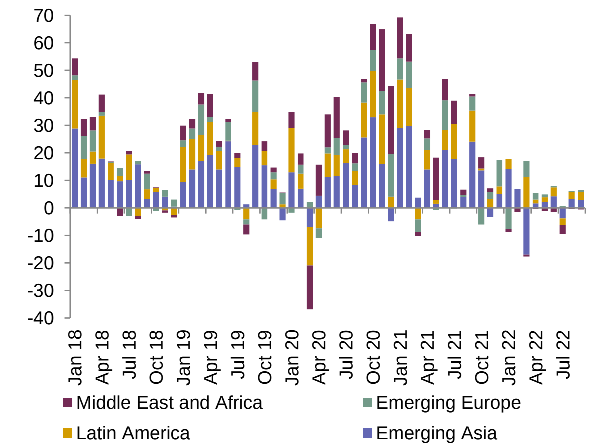
EM EQUITY OUTFLOWS TOTALLED USD-8.9BN IN SEPTEMBER, LED BY EM ASIA (USD-6.2BN)

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



EM DEBT INFLOWS TOTALLED USD6.0BN IN SEPTEMBER, LED BY LATAM (USD3.0BN)

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 Commodities, ESG and 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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