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**MUFG's EM GDP Nowcast – March 2023****EXECUTIVE SUMMARY**

- Our EM nowcast modelling framework that we launched last month (see [here](#)) now estimates EM real GDP growth (seasonally adjusted annual rate) in Q1 2023 at 3.3% as of March 2023 vs 3.0% in February (consensus 2.8% vs 2.3% in February).
- The regional breakdown shows mixed signals with our estimates pointing to 4.5%, -0.1% and 2.4%, for EM Asia, EM EMEA, and LatAm, respectively.
- Exports and industrial production (IP) are dragging growth down, while business and financial conditions appear to have bottomed out, strengthening growth.

Despite being largely immune from the recent market volatility, EM is unlikely to be a convincing safe haven

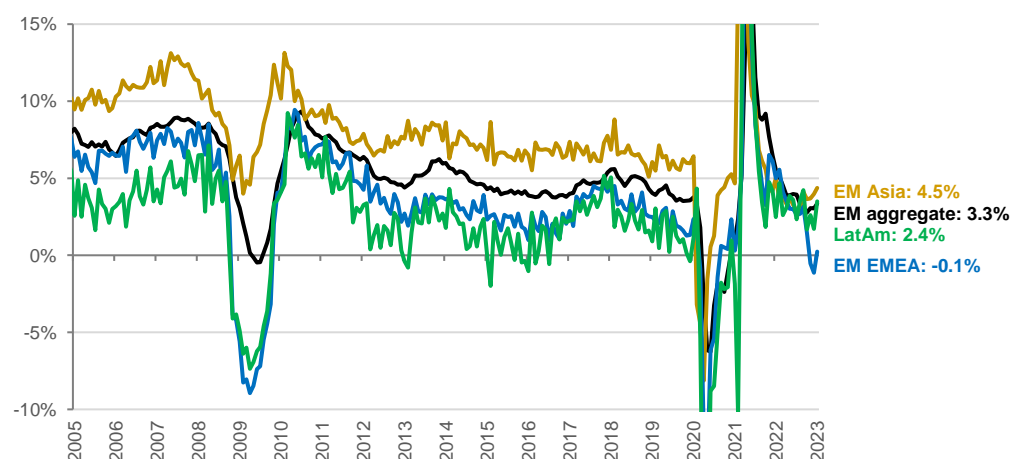
**PACE OF THE NOWCAST IMPROVING SLOWLY**

Recent market volatility has been centred in US rates, banking equities and broad DM recessionary angst, with EM assets largely avoiding the centre of attention given the competing forces of lower US yields versus risk aversion. Nevertheless, positive movement from EM financial markets and sentiment indicators dominated over weaker scores from hard data indicators. Global trade continues to fall with most large EM countries including Brazil, China, India, Indonesia, Malaysia, Mexico, South Africa, South Korea, Taiwan, Thailand and Turkey registering negative growth on a year-on-year basis. From an industrial production perspective as well, the story was no different, with most EM countries continuing to witness falling yearly growth.

Despite registering negative returns, a slight improvement in the EM FX was noticed, thereby pushing up projected EM growth. Led by services sector once again, the

**MUFG'S EM NOWCAST MODEL SIGNALS GDP GROWTH OF 3.3% IN Q1 2023**

EM GDP ACTUAL AND MODEL (% Y/Y)



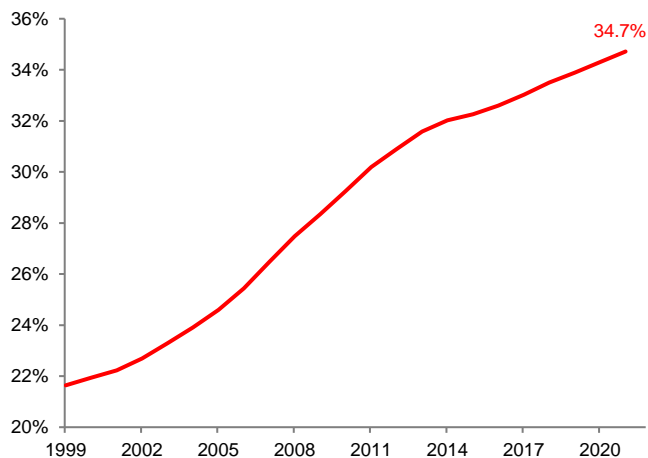
Source: Bloomberg, CEIC, EM statistical offices, Macrobond, MUFG Research

improvement in February's global PMI readings marked the first expansion in global activity since July 2022. The global composite PMI came in at 52.1 in February, up from 49.7 in January – a key positive driver for EM growth. One would have thought with elevated risk aversion then the downward pressures on EMs would have been more acute. We believe part of this is related to the tug-of-war impacting the broad USD. On the one hand, lower US Treasury yields are less USD supportive. However, on the other hand, risk aversion should be USD positive. We believe these arguments have also held true for EM FX. Lower US Treasury yields should be net positive for EM FX but at the same time heightened volatility and risk aversion are clear challenges. These competing forces are not seen as enduring and there are early signs as to which one will dominate.

## CONTEXTUALISING THE EM GDP MODEL IN KEY CHARTS

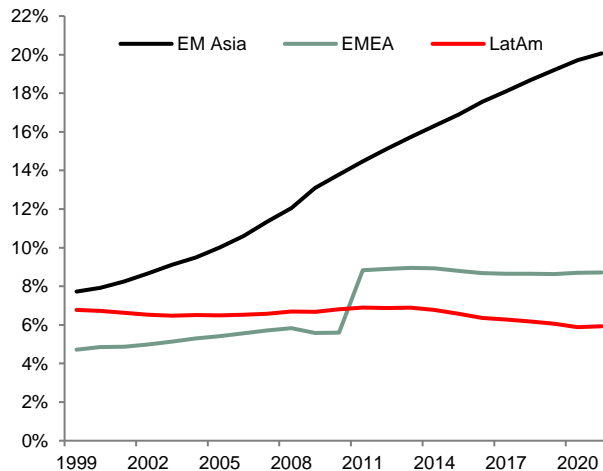
### EM'S CONTRIBUTION TO WORLD GDP HAS BEEN ON A CONTINUOUS RISE OVER RECENT DECADES

EM REAL GDP AS A % OF THE WORLD REAL GDP



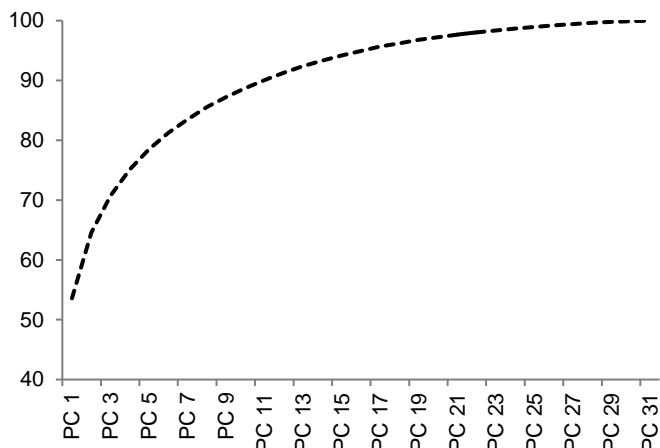
### EM COMPOSITION SINGLES OUT EM ASIA – LED BY CHINA – AS THE OUTLIER IN THE SHARE OF TOTAL

EM REGIONAL REAL GDP AS A % OF THE WORLD REAL GDP



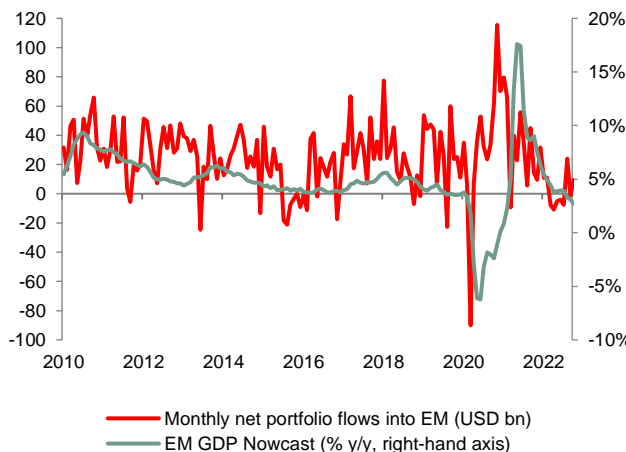
### PROPORTION OF THE EIGENVALUES POINTS US TO KEEP 4 OF THE 35 INDICATORS (~75% VARIATION)

EIGENVALUES (CUMULATIVE %)



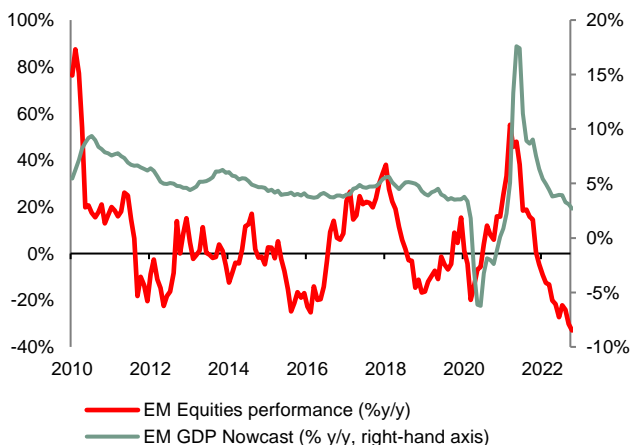
### EM GDP NOWCAST IS A ROBUST PREDICTOR OF FUND INFLOWS INTO EM

EM GDP NOWCAST (% Y/Y) AND NET PORTFOLIO INFLOWS (USD BN)



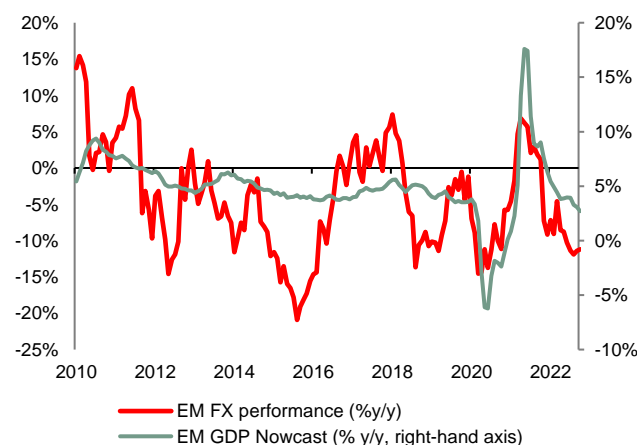
### EM GDP NOWCAST CORRELATES WITH THE MOVEMENTS IN EM EQUITY MARKETS

EM GDP NOWCAST (% Y/Y) AND EM EQUITY PERFORMANCE (% Y/Y)



### EM GDP NOWCAST MOVES ALONG WITH THE FLUCTUATIONS IN EM FX

EM GDP NOWCAST (% Y/Y) AND EM FX PERFORMANCE (% Y/Y)



Source: Macrobond, World Bank, Bloomberg, CEIC and MUFG Research



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