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## MUFG Bank, Ltd.

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10 January 2022

## Ten questions for 2022

**Macro focus:** We wish all of our readers a happy, healthy, and prosperous 2022. In the first EM EMEA Weekly of this year, we examine what we believe are the ten most important macro questions for 2022.

**FX views:** It's been a mixed start to 2022 with RUB underperformance the standout owing to ongoing geopolitical tensions between Russia and the West – the week ahead is key as we enter a busy period of diplomatic negotiations to avoid military action and a repeat of 2018 when the RUB was one of the worst performing EM FX.

**Trading views:** Last Friday's price action post payrolls which brought forward Fed rate hikes served to remind us how bearish EM sentiment is already – meanwhile, we believe that geopolitical risks will be a key theme for markets this year.

**Week in review:** Over the previous week, aggregate PMI data for EM EMEA continued to strengthen in December despite renewed lockdowns. Weekly Turkish banking data signalled a marked deterioration in the central bank's gross reserves profile in December (down USD15bn to USD111bn), and separately Turkish inflation surpassed expectations rising to 36.1% y/y in December. Poland hiked rates (+50bp) as expected and finally markets digested unprecedented protests in Kazakhstan.

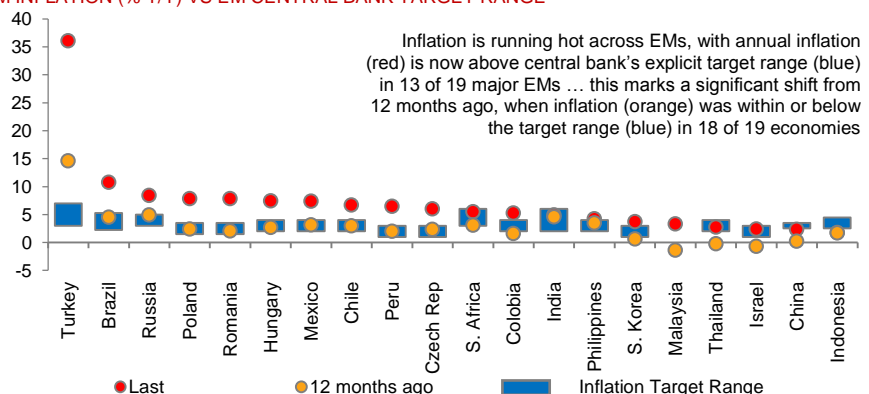
**Week ahead and calendar:** For the week ahead, we have a host of inflation readings for December, the rate decision in Romania (MUFG: +25bp) as well as Turkish balance of payments data for November 2021 (MUFG: USD-2.5bn).

**Forecasts at a glance:** We expect the ongoing easing of pandemic effects to continue to support recoveries, although we expect the going to get tougher – key risks stem from the reverberations of higher DM rates on EM funding conditions and the repercussions of slower growth in China.

**Core indicators:** From a capital flows perspective, 2021 was a year to remember as EN funds witnessed the largest inflows on record of USD140bn, but it was a year to also forget as all EM asset classes ended the year below the watermark.

### CHART OF THE WEEK: EM'S STRUGGLE WITH NEGATIVE REAL YIELDS

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



Source: Bloomberg, EM Central Banks, MUFG Research

# Macro focus

## Ten questions for 2022

We wish all of our readers a happy, healthy, and prosperous 2022. In the first EM EMEA Weekly of 2022, we examine what we believe are the ten most important macro questions for 2022.

### 1. WILL ECONOMIC GROWTH BE ABOVE-TREND IN 2022?

#### Stronger real GDP growth in 2022

**Yes.** The recovery in EM EMEA economies has continued at a robust pace, despite renewed COVID-19 outbreaks and evidence of supply-chain disruption in many countries. Looking forward, we expect the ongoing easing of pandemic effects to continue to support recoveries, with our forecast that the EM EMEA region will grow by 4.2% in 2022, above consensus (3.6%). However, the going will be tougher than in 2021 (5.2%), with tighter financial conditions across many EM EMEA economies hampering growth and elevated commodity prices driving divergence in performance. Finally, while Omicron presents a downside risk to activity, we expect its effects to be short-lived and that regional growth will continue to be supported from lockdown relaxation effects, as well as the support provided by fiscal and monetary policy.

### 2. WILL INFLATION EASE DURING 2022?

#### Peaking then easing inflation in 2022

**Yes.** Inflation rates have been driven sharply higher across EM EMEA in 2021 by a combination of higher commodity prices (food and energy), base effects and re-opening effects (i.e., one-off price increases in the sectors that have been most affected by the lockdown). We anticipate inflation to have peaked in Q4 2021 or to peak in Q1 2022 in most of EM EMEA, but it is likely to remain well-above central bank targets in the bulk of economies. Incoming inflation data continues to surprise to the upside and our inflation forecasts (8.2%) are above consensus (7.9%) for 2022.

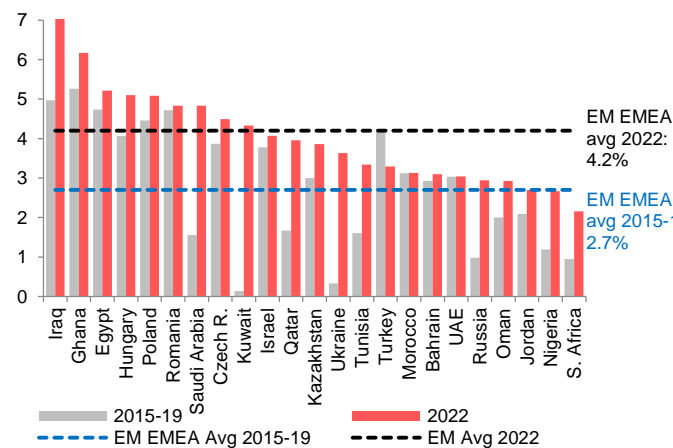
### 3. WILL ELEVATED INFLATION CONTINUE TO FUEL HIGHER INTEREST RATES IN 2022?

#### Still elevated rates in 2022

**Yes.** The upside surprises to inflation have provided fuel to tightening cycles across

#### WE EXPECT REAL GDP GROWTH IN ALL EM EMEA, BAR TURKEY, TO PRINT ABOVE TREND IN 2022

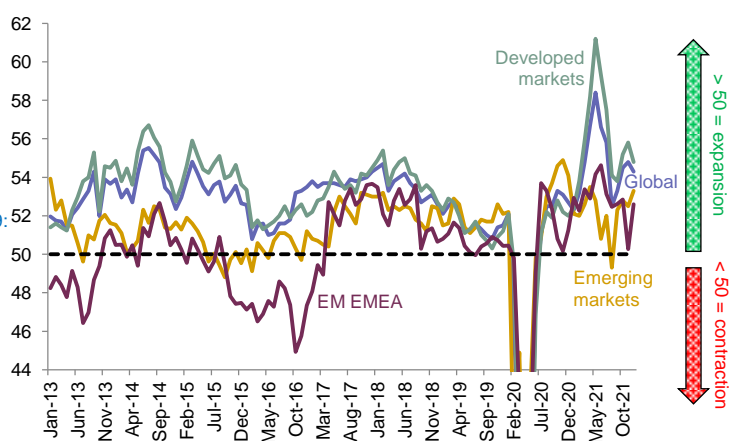
REAL GDP GROWTH IN 2022 (%) VS REAL GDP GROWTH IN 2015-19 (%)



Source: EM Statistical Offices, IMF, MUFG Research

#### EM EMEA PMI'S HAVE CONSISTENTLY REMAINED IN EXPANSIONARY TERRITORY SINCE SPRING 2020

COMPOSITE PMI'S – GLOBAL, DM, EM (1-100; 100 = HIGHEST)



Source: Bloomberg, Markit, MUFG Research

EM EMEA in 2021 and we have raised our interest rate forecasts significantly for a number of economies. The largest changes are in Central and Eastern Europe (CEE), where we now expect rates to rise in H1 2022 to a peak of 4.00% in the Czech Republic, 3.00% in both Poland and Hungary, and 3.50% in Romania. In Russia, if inflation continues close to the pace we have observed in December (i.e. there are no new shocks), we believe the November inflation print will have been peak and we expect that the 100bp hike in December to 8.50% was the last in the hiking cycle. In South Africa, we expect rates to rise by 75bp in 2022 to 4.25%. In Turkey, although the Central Bank of Turkey (CBRT) appears determined to maintain an accommodative stance, we expect rates to rebound from a trough of 14.00% to 20.00% by end-2022 (see [here](#)). Across GCC hydrocarbon exporters, we anticipate central banks to abide by the strictures of their FX USD currency pegs, and lift their policy rates by 50bp in line with our house view of the US Federal Reserve (Fed) hiking by this level this year (see [here](#)).

#### 4. WILL FINANCING NEEDS AND FISCAL RISKS REMAIN ELEVATED IN 2022?

**Fiscal financing needs to ease but fiscal risks are still high in 2022**

**No.** With economic growth improving this year (and more rapidly than governments had assumed), fiscal financing needs are lower than expected and fiscal risks have generally diminished. This improvement largely reflects the strength of the recovery. In particular, the GCC region, notably, the UAE, Saudi Arabia and Qatar, have been the biggest gainers in 2021, with the trend likely following this year. Indeed, our expectation is that the firming of higher oil prices will be supportive of GCC debt markets – not only should it improve the region’s credit profile and stabilise sovereign ratings, it should reduce new issuance of debt and limit supply. Meanwhile, fiscal performance has also improved in other commodity exporters such as Russia, Nigeria and Ukraine, where the government budget balance has improved materially. Somewhat surprisingly, Turkey has witnessed robust strength in its fiscal metrics, primarily driven by cyclical factors and elevated inflationary pressures. Among the exceptions to the broader improvement is South Africa, where new waves of the pandemic and subsequent lockdowns have led to a staggered recovery and economic scores remaining weaker.

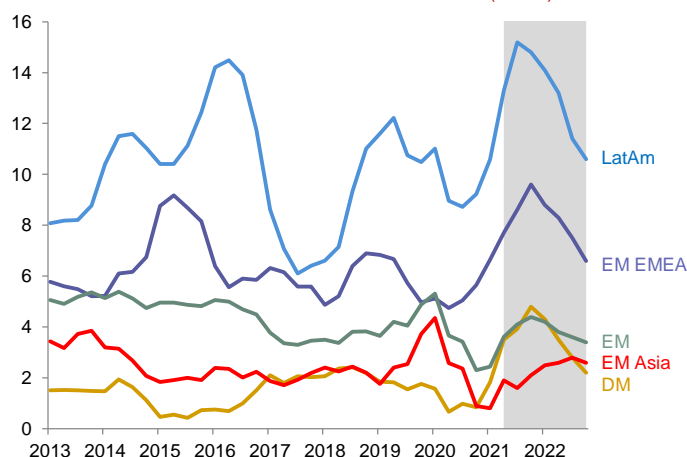
#### 5. WILL HEALTHY CURRENT ACCOUNT BALANCE SIGNAL ROOM FOR FX APPRECIATION IN 2022?

**Limited FX appreciation in 2022**

**Yes (and no).** Despite the strength of the recovery in EM EMEA growth since the

#### MARKED DIVERGENCE IN INFLATION ACROSS EM BUT ALL BAR EM ASIA WILL LIKELY PEAK IN Q1 2022

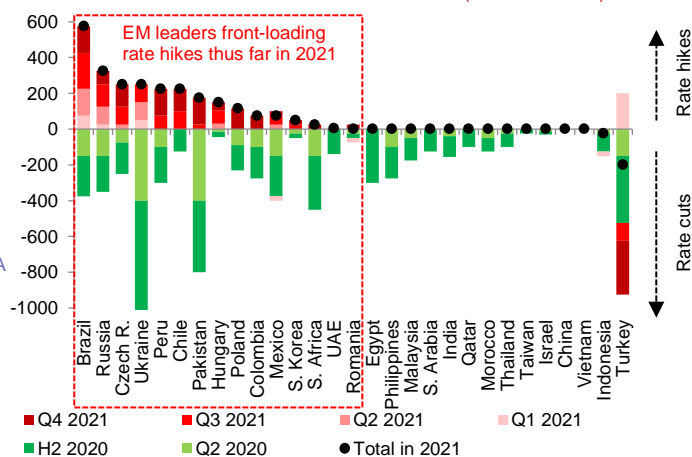
HEADLINE INFLATION ACROSS EM REGIONS AND DM (% Y/Y)



Source: Bloomberg, EM Central Banks, MUFG Research

#### MONETARY POLICY NORMALISATION IS INCREASINGLY TAKING HOLD ACROSS EM'S WITH NOTABLE LEADERS

CHANGE IN EM INTEREST RATES BY TIME PERIOD (BASIS POINTS)



Source: Bloomberg, EM Central Banks, MUFG Research

height of the initial draconian lockdowns in Q1 2020, current account balances were nevertheless more positive in Q1 2021 than they had been prior to the pandemic. The sustainable current account levels (i.e. current account balances that stabilise the net international investment position [NIIP] in the long-run) widened last year, signalling that there is space for domestic demand to expand at an above-trend rate and/or FX to appreciate without jeopardising external balances. While we expect current account balances to deteriorate on average in 2022, we anticipate them to remain above their sustainable levels. Having said that, the dynamics are not uniform. Among low-yielders, we expect all but Romania to keep or regain current accounts that are well above sustainable levels in 2022, leaving plenty of space for these currencies to appreciate as interest differentials rise. However, more broadly, we believe risks remain tilted to the downside for EM FX more generally in 2022, with tightening liquidity conditions and Chinese real estate slowdowns pose key downside risks (see [here](#)).

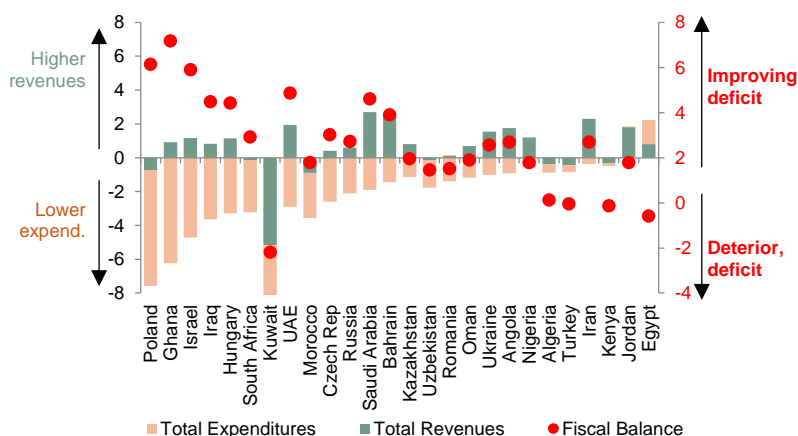
## 6. WILL SAUDI ARABIA AND RUSSIA'S OIL PRODUCTION PLANS REMAIN ALIGNED UNDER OPEC+ IN 2022?

Despite divergent oil market management strategies, the OPEC+ partnership will remain robust in 2022

**Yes.** Saudi Arabia and Russia have different oil production incentives with the former requiring a higher long-term oil prices than the latter (see [here](#)). This poses a risk to the maintenance of the OPEC+ agreement. However, the incentives to maintain cooperation are highest when oil prices are either at cyclical highs or lows – with oil prices currently above the fiscal breakeven levels of both economies, we expect cooperation to be maintained. Having said that, underpinning the fragility, is a divergence in production incentives of Saudi Arabia and Russia. Saudi Arabia's economy and public finances remain highly dependent on oil revenues. In 2019, prior to the outbreak of the global pandemic, the Saudis needed oil prices to exceed USD82/b to avoid a budget deficit (fiscal breakeven). By contrast, Russia has a more diversified economy and a lower historical reliance on fiscal oil revenues (fiscal breakeven in 2019 was just USD46/b). In addition, Russia's floating exchange rate and lower dependence on imports shield its economy from negative oil price shocks far more effectively than is the case in Saudi Arabia. Whilst a host of other factors come into play when considering optimal oil output policy – i.e. spare production capacity, questions of intergenerational equity and geopolitics – two overriding and often incompatible considerations typically dominate in the short run. First, production decisions should aim to balance global oil markets at a price compatible with a country's own domestic needs. Second, no individual country is dominant enough to set global oil prices alone, signalling that oil producers are forced to cooperate,

### EM FISCAL DEFICITS REMAINED SEQUENTIALLY TIGHTER IN 2021 BUT SHOULD REVERSE IN 2022

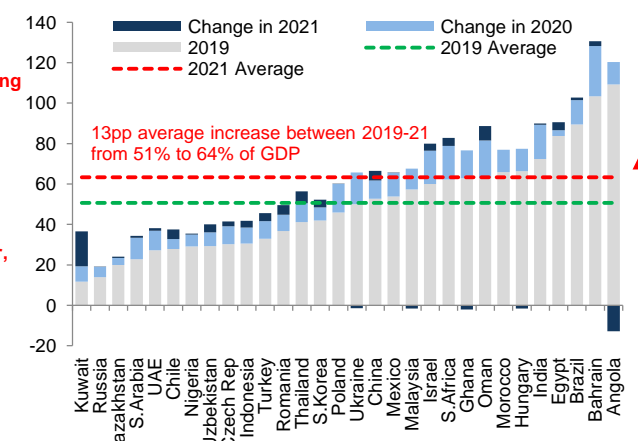
CONTRIBUTIONS OF EXPENDITURES AND REVENUES TO CHANGE IN FISCAL DEFICITS, PP CHANGE FROM 2020 TO 2021 (% OF GDP)



Source: Bloomberg, EM Statistical Offices, MUFG Research

### EM DEBT PROFILE CONTINUES TO RISE WITH 2021 LEADING TO FURTHER INCREASES

EM PUBLIC DEBT 2019-21 (% OF GDP)



Source: Bloomberg, IMF, MUFG Research

despite not having a common set of objectives or desired outcomes. This is the paradox that lies at the heart of the tenuousness amongst OPEC+.

## 7. WILL THE CENTRAL BANK OF TURKEY CHANGE COURSE AND TIGHTEN MONETARY POLICY IN 2022?

Turkey will likely embark on a major policy U-turn in 2022

**Yes.** Our base case is that the CBRT to change course and tighten policy in 2022, but do so reluctantly raising rates by a trough of 14% to 20% by end-2022. This will be akin to 2018 (sharp recessions) and late 2020/early 2021 (soft landing) when the CBRT reacted to stymie Lira volatility by raising rates sharply (see [here](#)). Our conviction behind our narrative is that with real policy rates that are acutely negative (-22%), the current monetary policy stance is sternly unsustainable and the pressure on the Lira is likely to continue in the absence of a policy U-turn. Whilst our core scenario is that the policy adjustment will be in an orthodox fashion, we acknowledge that unorthodox measures could materialise. Granted it is clear that the authorities are more focused on maintaining low rates at the current juncture and that the risk of them using administrative measures to limit capital flight from the Lira or other unorthodox measures (while maintaining low interest rates) has therefore increased. Indeed, the announcement of a Lira deposit instrument on 20 December that will compensate depositors for losses from Lira depreciation is an example in this respect. Nevertheless, even with such measures, we view that a U-turn on monetary policy is necessary to bring stability to the currency (even though we forecast that such a 600bp hike in base case will still not be suffice to reduce inflation towards signal digits this year).

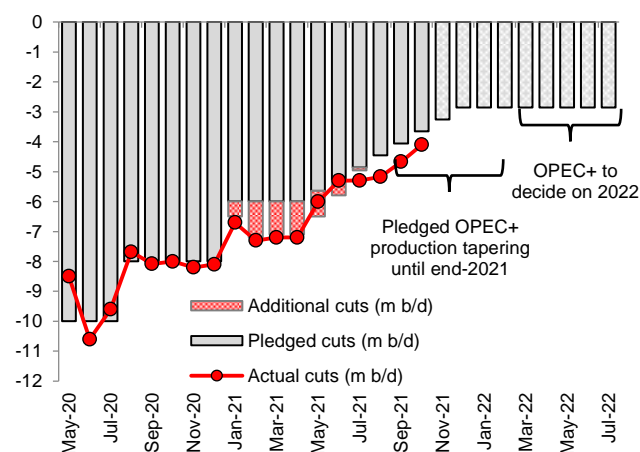
## 8. WILL THE SOUTH AFRICAN RESERVE BANK TIGHTEN BY MORE THAN THAT IMPLIED BY MARKET PRICING IN 2022?

South Africa will continue to cautiously hike rates in 2022

**No.** We believe that there is considerable spare capacity in the South African economy and that this will keep current and forecast inflation benign, prompting the South African Reserve Bank (SARB) to deliver less tightening than discounted by the market (currently pricing in ~225bp of hikes in 2022). This explains in part why the SARB dragged its heels in embarking on policy tightening than other EM central banks in 2021, and we expect similar dynamics to continue playing out in 2022. Given that our headline inflation forecast is now above the SARB's and that its model projects continued rate rises under the baseline outlook, we expect a further 75bp of tightening in 2022. Our forecast is for these increases to be spread over the course of the year, but the risks are arguably tilted towards a more front-loaded tightening.

### OPEC+ COMPLIANCE ON ITS LARGEST CUTS IN HISTORY HAS BEEN PRUDENT AND IMPRESSIVE

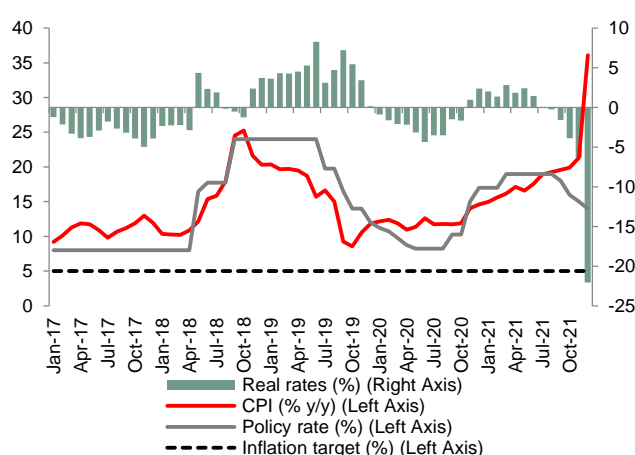
OPEC+ PLEDGED AND ACTUAL OUTPUT CUTS SINCE MAY 2020 (M B/D)



Source: Bloomberg, OPEC, MUFG Research

### HIGHER TURKISH INFLATION AND LOWER NOMINAL RATES HAS PUSHED REAL RATES TO NEGATIVE LEVELS

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



Source: Bloomberg, CBRT, MUFG Research

## 9. WILL THE GCC GEOPOLITICAL TEMPERATURE CONTINUE TO REMAIN LOW IN 2022?

Geopolitical tensions will likely continue to ease across the GCC region in 2022

**Yes.** The impetus of GCC regional geopolitics continues to shift away from its longstanding focus on confrontation, driven by decreased US influence in the region and an interest in moving beyond the Arab Spring years. The short-term consequences will be more economic cooperation agreements and broader diplomatic engagement on core strategic areas that are key to geopolitical stability. To put this into context, official confirmation in October 2021 that direct talks between Saudi and Iranian officials have been taking place is raising prospects that a détente is on the table. The regional implications would be unambiguously positive. A Saudi-Iranian détente could lead to three near-term benefits. First, it could complement ongoing efforts by the Biden administration to resuscitate the Joint Comprehensive Plan of Action (JCPOA) – the Iran nuclear deal. Second, it could pave the way for a winding down of the conflict in Yemen and improve regional security, including that of crucial oil infrastructure. Third, it could lead to a coordinated effort by the two to exert their influence to help stabilise and improve political, social and economic outcomes in Lebanon, Syria and Iraq. In addition, the recent announced visit of Turkish president Erdogan to Saudi Arabia in February 2022 also adds to this sense of optimism. On the downside, the greatest challenge to this optimism in 2022 will be the Iran nuclear issue, as the risk of Israeli military action has the potential to undermine recent progress – however, whilst any US/Israel-Iran stand-off creates risks for the region, this time it is likely to be less centered on the GCC region with less contagion affects relative to scenarios in the past.

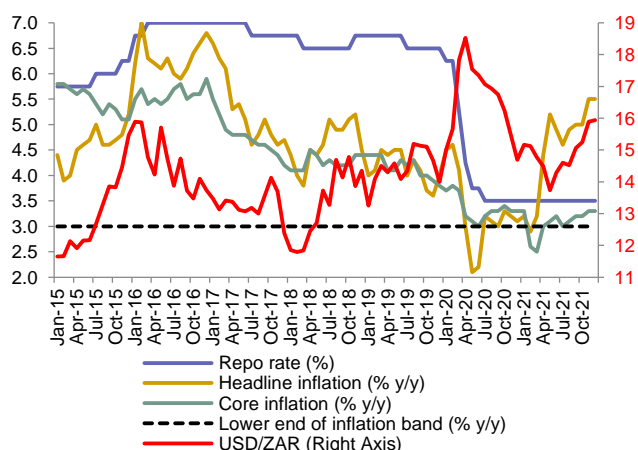
## 10. WILL CORE RISKS CONTINUE TO REMAIN DOMESTIC IN 2022?

Core EM risks in 2022 will be more external and less domestic

**No.** Core EM risks in 2022 will be more external and less domestic. EMs are highly dependent on foreign capital to fund investment and consumption. A faster-than-expected tightening of US rates could trigger a sudden stop to foreign inflows. This risk is significant, and raises prospects of an EM tantrum, akin to 2013 (see [here](#) and [here](#)). Critically, the spillovers are more negative when Fed tightening is driven by inflation rather than growth – which is the case this year. Whilst stronger growth partially offsets fleeing capital with more trade (see [here](#)), there's no such offset if inflation is the driver of higher rates. Our modelling analysis signals that a less supportive global liquidity backdrop – measured by the growth in G4 central bank balance sheets – will weaken EM capital inflows with a 9-12 months lag.

### SOUTH AFRICA HAS BEEN SLOW TO TIGHTEN RATES RELATIVE TO PEERS – A TREND THAT WILL CONTINUE

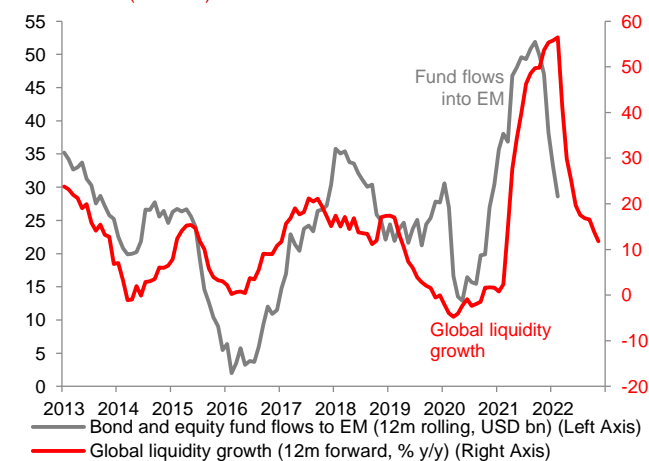
SOUTH AFRICA INFLATION (% Y/Y), RATES (%) AND USD/ZAR



Source: Bloomberg, SARB, MUFG Research

### PULL BACK IN GLOBAL LIQUIDITY GROWTH WILL BECOME LESS SUPPORTIVE FOR EM FUND FLOWS

GROWTH OF FED, ECB, BOJ AND BOE BALANCE SHEETS (% Y/Y) VS EM FUND FLOWS (USD BN)



Source: Bloomberg, BoE, BoJ, ECB, Fed, IIF, MUFG Research



## FX views

### EM FX: Geopolitical risks take centre stage at start of the year

Mixed start to New Year for EM FX. Recent RUB underperformance continues on back of heightened geopolitical risks.

It has been a mixed start to the New Year for EM FX. The CLP, HUF, ZAR, and CZK have all outperformed. At the other end of the spectrum, the TRY, RUB and BRL have underperformed. The RUB has been underperforming since late last year when USD/RUB put in place a bottom at 69.200 in late October and has since risen to an intra-day high of 77.334 last week. The main trigger for the sharp reversal lower for the RUB has been renewed tensions between Russia and the West that have prompted market participants to price in a higher geopolitical risk premium back into the RUB. Social unrest in Kazakhstan and their President's request for Russian military assistance have further added to near-term uncertainty.

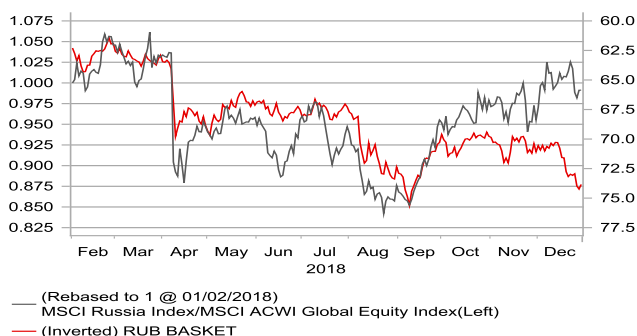
A key week of negotiations to avoid military action and a repeat of 2018 for the RUB when it was one of the worst performing EM FX.

The week ahead promises to be an important one for RUB performance as we enter a busy period of negotiations related to the Russia-Ukraine military stand-off. The key events to watch are the US-Russia talks in Geneva (9-10 January), the Russia-NATO Council meeting in Brussels (12 January) and negotiations within the OSCE framework in Vienna (13 January). The meetings provide an opportunity to find a diplomatic solution to prevent Russia from invading the Ukraine again. However, the West has already ruled out meeting Russia's demand for a veto on future NATO membership for the Ukraine. We are encouraged that President Putin is seeking a diplomatic solution which remains our base case scenario in which we expect the RUB to rebound in the coming quarters as tensions ease – see our latest Annual FX Outlook report for more details ([click here](#)). However, if we are wrong and a diplomatic solution is not found to prevent another invasion, then there is a clear risk that the RUB will fall sharply like back in 2018. There is room for a bigger geopolitical risk premium to be priced in with the West warning that sanctions could materialise.

Central European FX befitting from widening yield spreads. Downside risks mainly posed by external factors.

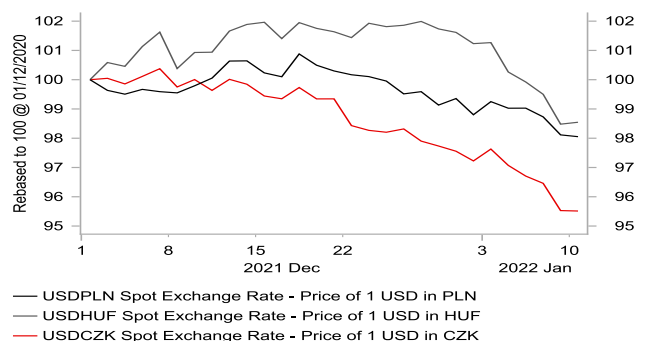
In contrast, the CEE FX of the CZK, HUF and PLN have all outperformed over the Christmas holiday period supported in part by the paring back of COVID disruption fears and by further aggressive rate hikes from domestic central banks. The CNB has raised its key policy rate to their highest level at 3.75% since the peak prior to the Global Financial Crisis and Governor Rusnok has stated that rates "will have to move well above 4%". Similarly, the NBH has delivered faster rate hikes lifting the one-week deposit rate to 4.00% although they decided not to hike again at their latest meeting after the HUF strengthened recently. The NBP has been the slowest at tightening policy lifting the key policy rate to only 2.25% and providing less support for the PLN. The main downside risks in the near-term for Central European FX are external in form of: i) potential negative spill-overs from a Russian invasion of the Ukraine, and ii) another negative US rate shock that hits EM FX more broadly.

### RUB RISKS REPEATING 2018 IF NEGOTIATIONS FAIL



Source: Bloomberg, Macrobond & MUFG Research

### HIGHER YIELDS ENCOURAGING STRONGER CEE-3 FX



Source: Bloomberg, Macrobond & MUFG Research

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## Trading views

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### Trading views: 2022 looks bleak for EM, which signals it probably won't be?

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Last Friday's price action served to remind that a lot of the USD positive story is well priced

Friday's price action post payrolls which saw banks bring forward US rate hikes served to remind us how bearish sentiment is towards EM already. The expectation that EM will do badly in a year where the US will start to tighten monetary policy is very well entrenched in the market. While it is hard to argue against this logic it is also fair to say that last year, when global growth was so much higher than predicted, it should have been a good year for EM. In fact the decoupling between US and other stock markets was almost unprecedented. We think the idiosyncratic nature of the COVID shock will continue to see markets trade differently to previous historical precedents. As such we remain wary of having much overall conviction on EM beta. On the one hand the fundamentals seem clear to point towards EM underperformance. On the other hand typical year ahead consensus tends to reverse quite strongly after a good early run (which tends to start mid-December). Furthermore allocation to EM is so low relative to say US that it seems to us the fund of flow is likely to turn positive this year almost whatever happens. Is it laughable to expect inflows into EM in the event of a US stock market crash. Probably but it's still something we are thinking about.

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Geopolitical risks look set to increase in the year ahead, with domestic protests over higher inflation a potential driver

Geopolitical risks seem high as we start the new year. Russia /US headlines continue to catch all the attention with the market having real difficulty working out quite how bad the situation is there. It is similar situation in China where we get a slew of negative headlines one day but then the situation appears to calm even if nothing has really changed on the ground. Undoubtedly part of this geopolitical risk could come from domestic problems related to inflation. We have already seen protests quickly spill out in KZT. Remember it was an increase in metro fares which sparked similar in Chile over the last couple of years. Inflation is a big destabiliser to society and can exacerbate the inequalities already felt by COVID. The chances for more protests spilling over seem, unfortunately, quite high for us.

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High inflation will bring challenges for central bankers which will invariably bring about some mistakes in policy.

Inflation will not just cause protests but will also bring a lot of challenges to CBs. For all the talk of most in the market not having traded a "proper" tightening cycle, it is easy to forget how different this will feel to central bank policymakers. While some navigate this well the chances are that with inflation so much higher than many targets and the volatility of price rises will see mistakes being made. We have already seen some very unorthodox policy being made in Turkey this year with significant FX volatility. We are worried this pattern may repeat elsewhere.



## Week in review

### EM capital flows: a year to remember, a year to forget

EM funds saw the largest inflows on record in 2021 but all asset classes ended the year below the watermark

In brief, 2021 was a year to remember, and a year to forget for EMs from a capital flows perspective. It was a year to remember, as EM funds saw the largest inflows on record of USD140bn, and it was a year to forget as all asset classes ended the year below the watermark, on the back of the visible deterioration in the growth-inflation mix that coincided with a less supportive global backdrop due to waning global liquidity, rising Fed tapering concerns as well as a stronger USD (see [here](#)).

Capital flowed into EMs for the last sixth consecutive weeks

According to IIF data, capital flowed into EMs in the first week of January (USD3.0bn) – sixth consecutive week of inflows – driven entirely by equity and debt. From a 28 day rolling average perspective, EM equity and bond flows have remained in positive territory since the beginning of November but our base case is that there will be a reversal of this trend based on the tightening in global liquidity conditions. Meanwhile, from an asset class performance perspective, all metrics are pointing to underperformance year-to-date bar EM FX – a testament that conditions remain less favourable across the EM complex.

Global tightening in liquidity conditions bodes ill for EMs in 2022

Looking ahead, although 2021 has ended, it's legacy is likely to stay with us, as most of the factors that had an impact on the investing environment and fund flows are likely to stay in 2022, at least in the first half. Among those, the most concerning factor for fund flows is the waning global liquidity – see *macro section* above where we demonstrate that there is strong correlation between the pace of growth in global liquidity and fund flows into EM, while this relationship works with a lag of 9-12 months. Indeed, the pace of growth in global liquidity has already rolled over, and we are witnessing the pullback in the pace of EM fund flows already. Barring the seasonal effects, it is likely that fund flows into EM will be less pronounced in 2022 compared to 2021, in our view.

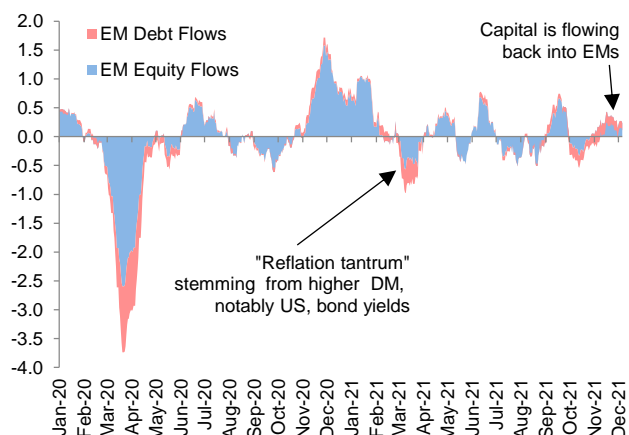
### Turkey: weekly CBRT data signals unchanged reserves and FX deposits

Turkey's reserves were flat in the week ending 31 December but the December decline was significant

Weekly data from the Central Bank of Turkey (CBRT) published on 6 January 2022 signals that gross reserves of the CBRT were broadly unchanged in the last week of the year but have fallen significantly in December as a whole, by USD15bn to USD111bn – largely driven by the fall in foreign currency reserves. The CBRT's daily

### CAPITAL IS FLOWING BACK INTO EM'S – ALBEIT NEGLIGIBLY – ON A 28 DAY ROLLING BASIS

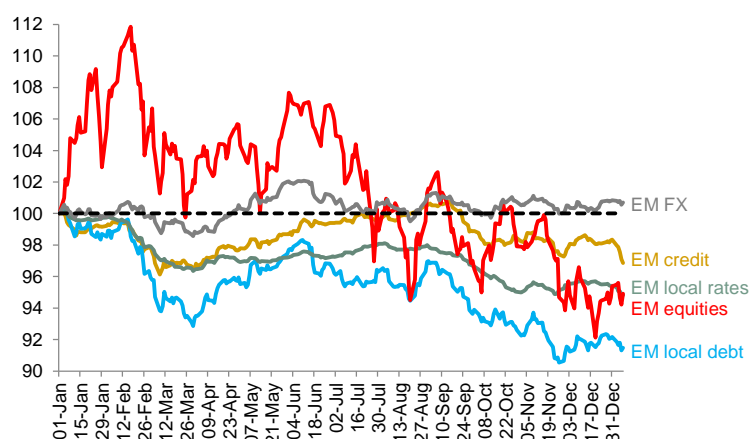
EM EQUITY AND DEBT FLOWS (USD BN), 28 DAY ROLLING AVERAGE



Source: IIF, MUFG Research

### ALL EM ASSET CLASSES (BAR EM FX) CONTINUE TO UNDERPERFORM YEAR-TO-DATE

EM EQUITIES, FX, RATES, CREDIT AND DEBT (1 JANUARY 2021 = 100)



Source: Bloomberg, MUFG Research

analytical balance sheet showed a sharp decline of USD4.8bn in foreign assets from 20 to 22 December, precisely at the same time new economic measures were announced by the authorities, wherein the Turkish Lira (TRY) recovered a significant amount of its losses. The CBRT has announced that it is intervening in the FX market on various days since the beginning of December but did not do so on these days. Given this, we view that marked interventions may have been used to support the TRY around the same time as the new measures were announced.

Turkey's households' FX deposits were also broadly flat in the week ending 31 December

Beyond reserves, the latest CBRT data signals that foreign currency savings of Turkish households following the introduction of the new FX-linked TRY deposit instrument on 20 December. Over the two weeks ending on 31 December, USD deposits held by households fell by USD0.3bn to stand at USD79bn, while euro deposits fell by EUR0.1bn to stand at EUR32bn. On 5 January, Finance Minister Nebati stated that TRY91bn (~USD7bn) was now invested in the new savings instrument which suggests that the switch into FX-linked deposits has primarily come from regular TRY deposit accounts. The most recent data also shows that dollarisation remains high, with FX deposits corresponding to 61% of the total. On net, the new instrument introduced in December could reduce FX demand by Turkish households, which could in turn provide temporary support for TRY. However, shifting the FX risk from the private to the public sector balance sheet may do little to reduce the economy's overall vulnerability to TRY depreciation, and if the Treasury were to have to compensate for significant FX losses, then this could reduce the available fiscal space and negatively impact public debt dynamics as well as broader credit metrics. It also will add to already considerable inflationary pressures.

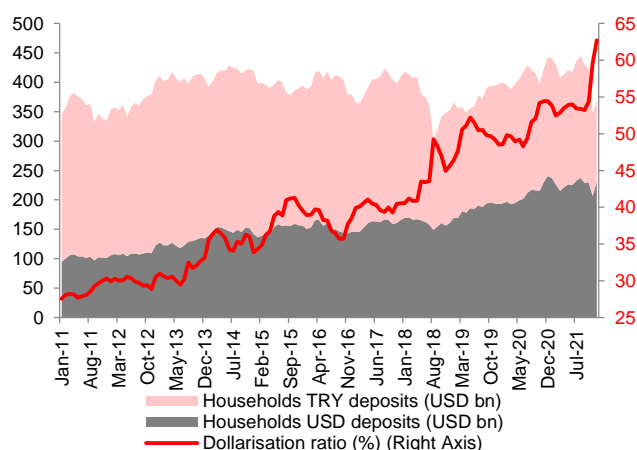
### Turkey: inflation in December 2021 surprises significantly to the upside

Turkey's December 2021 inflation data shows the impact of exchange rate developments, while a broad-based deterioration in pricing behaviour, high trend inflation and increase in FX pass-through point to further challenges in inflation dynamics

Inflation in Turkey rose to 36.1% y/y in December from 21.3% y/y in November, surprising significantly to the upside compared to a consensus of 27.4% y/y and our expectations of 27.9% y/y. As we had expected, the increase reflects a more front-loaded exchange rate pass-through than usual triggered by the size of the exchange rate depreciation. However, inflation in categories like services that are typically not as sensitive to the exchange rate rose sharply as well – in our view reflecting the lack of anchoring of inflation expectations. Core inflation also surprised to the upside rising to 31.9% y/y in December from 17.6% y/y in November. Given the volatility in the TRY, the uncertainty in forecasting inflation is unusually high and skewed to the upside. We continue to believe that the current interest rate policy with rates of 14% supported by administrative – in tandem with fiscal measures – will not prosper in

### TURKEY'S CURRENT DOLLARISATION RATE HAS SPIKED TO 63% – HIGHEST ON RECORD

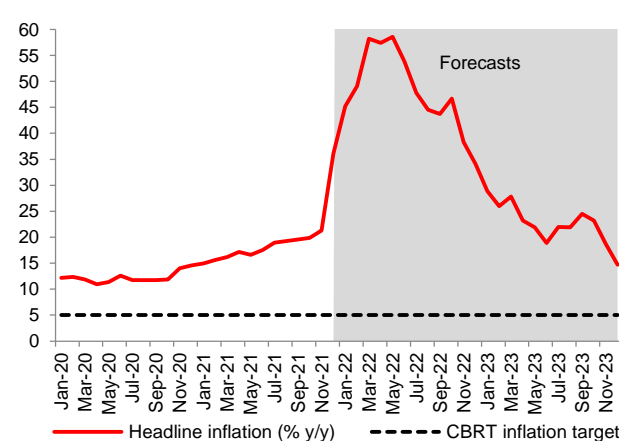
SHARE OF USD AND TRY DEPOSITS IN TOTAL DEPOSITS (%)



Source: Bloomberg, CBRT, MUFG Research

### TURKEY'S INFLATION IS SET TO PEAK AT 59% IN MAY, END-2022 AT 34% AND THEN EBB TO 15% BY END-2023

TURKEY HEADLINE INFLATION (% Y/Y)



Source: Bloomberg, CBRT, MUFG Research

stabilising the TRY. As we highlighted in the *macro focus* section above, our base case is for rates to rise by 600bp this year from 14% to 20% as the deterioration in the inflation outlook, along with the evolution of the exchange rate and the risk premium since the inception of the rate cuts in September 2021, lends support to our view that a significantly tighter stance is needed to anchor expectations and promote price stability. Indeed, following the upside inflation surprise in December, alongside a confluence of market dynamics, we have revised up our inflation forecasts for 2022 and 2023. We now see inflation peaking at 59% in May, remaining between 40-50% until November and end 2022 at 34%. Also, our end-2023 inflation forecast is now revised to 15% (from 9% previously), though next year's projection is heavily conditional on the results of the June 2023 elections.

**Kazakhstan: contextualising the fuel price protests and what comes next**

**Kazakhstan protests presents sizable risks to what comes next**

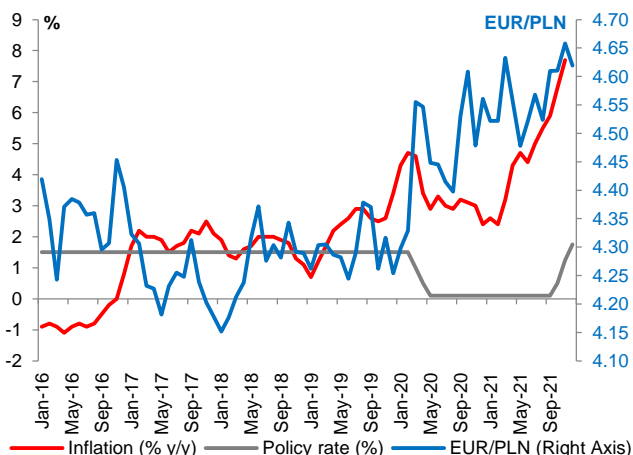
Protests against fuel price hikes in Kazakhstan have led to violent clashes with governments forces since the turn of the year. President Tokayev has used the conflict as a pretext for completing the transfer of power from former President Nazarbayev. Popular discontent in Kazakhstan has its roots in the growing hardship and deterioration of living standards during the pandemic. While Russia has sent a small number of troops to Kazakhstan at President Tokayev's request, we do not envision a permanent or long-term Russian military presence and its intervention is unlikely to radically shift the course of talks between US Deputy Secretary of State Sherman and Russian Deputy Foreign Minister Ryabkov that commence today (10 January) in Geneva. Our expectations are that diplomatic efforts will ease the security risks connected to Ukraine with the ongoing instability in Kazakhstan likely helping the course of the initial discussions by temporarily reducing the risk of Russian escalation against Ukraine. Looking ahead, key signposts on what could transpire in Kazakhstan will relate to whether both popular discontent and elite fracture will subside. On the former, signposts will be the level of violence. On the latter, they will include what President Tokayev says about former president Nazarbayev, and details on Nazarbayev's nephew Abish's role in the Committee on National Security (KNB). Finally from a global markets perspective, stability would ease market concerns about Kazakhstan's major commodities, including oil, gas and uranium, which have witnessed somewhat heightened volatility in recent trading days.

**Poland: NBP hikes by 50bp whilst inflation continues to print to the upside**

**Ongoing tightening in Poland**

The National Bank of Poland (NBP) hiked its key policy rate by 50bp to 2.25%, in line

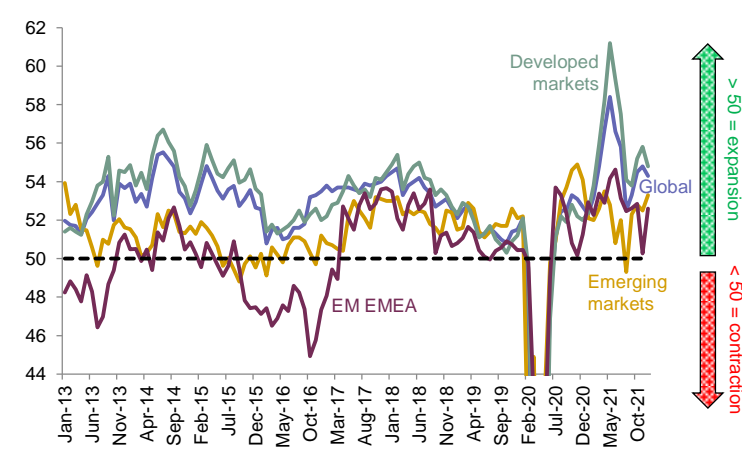
**POLAND HIKES BY 50BP BUT WITH INFLATION SET TO CONTINUE RISING, FURTHER INCREASES ARE LIKELY**  
POLAND POLICY RATE (%), INFLATION (% Y/Y) AND EUR/PLN



Source: Bloomberg, NBP, MUFG Research

**EM EMEA PMI'S HAVE CONSISTENTLY REMAINED IN EXPANSIONARY TERRITORY SINCE SPRING 2020**

COMPOSITE PMI'S – GLOBAL, DM, EM (1-100; 100 = HIGHEST)



Source: Bloomberg, Markit, MUFG Research

with our (and consensus) expectations. The tone of the press release was hawkish, with the Monetary Policy Committee (MPC) expressing the need to tighten policy to reduce medium-term inflationary risks and leaving the door open to further tightening. In a scheduled press conference, NBP Governor Glapinski suggested further room to tighten policy. What was noteworthy that as compared with previous press conferences, Governor Glapinski was more explicit in mentioning that he perceives rates rising to 3.00% or even, in a “good growth scenario”, to 4.00%. He also stated that the pace of tightening could continue at monthly meetings in the near term, but may slow down later in the year. Meanwhile, headline inflation in Poland increased from 7.8% y/y to 8.6% y/y, exceeding expectations significantly to the upside for the fifth month in a row (MUFG: 8.1% y/y; consensus: 8.2% y/y). Non-core factors were the main contributors to the rise in inflation (mostly much stronger food inflation). Going forward, inflation developments in 2022 will be affected by a number of administrative price measures, the effects of which introduce significant uncertainty in the near term.

### **PMIs: EM EMEA PMI's increased in December despite renewed lockdowns**

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Aggregate EM EMEA PMI's continued to strengthen in December despite renewed lockdowns

Following last month's increase, the aggregate EM EMEA PMI continued to move upwards in December, rising from 52.9 to 53.6 (close to an 11-year high) on a PPP-weighted basis. There were particularly large gains in the CEE: the Hungarian PMI rose from 52.2 to 64.8 (driven by a sharp rise in new export orders, alongside broad-based gains in other sub components), the Czech PMI rose from 57.1 to 59.1, and the Polish PMI increased from 54.4 to 56.1. These gains are surprising in the context of a severe COVID-19 wave affecting all three economies and appear to be due – at least in part – to an easing of supply-chain issues affecting the manufacturing sector. Meanwhile, the Turkish PMI also edged up, from 52.0 to 52.1. In contrast to this rising trend, the Russian PMI edged down from 51.7 to 51.6 in December, as new export orders remained weak (in our view reflecting a slowdown in demand from China). Elsewhere in the region, the Nigerian PMI increased from 55.0 to 56.4 and the Egypt PMI increased from 48.7 to 49.0, on account of a strong rebound in external demand in both cases. The Saudi PMI decreased from 56.9 to 53.9. Overall, the December PMI data point to robust economic activity across EM EMEA, driven by broad-based gains in most of the PMI sub-components despite renewed pandemic concerns in many economies.

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## Week ahead

### Romania: NBR to tighten by 50bp as inflationary pressures build

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Romania to raise rates by 50bp to 2.25% to tackle elevated inflationary pressures

The National Bank of Romania (NBR) will set its policy rate on 10 January with our (and consensus) expectations for a hike of 50bp to 2.25%. The backdrop to the decision is somewhat hawkish in our view, with headline inflation remaining stubbornly high in recent months and the NBR making material upward revisions to its near-term inflation forecasts (7.5% y/y in December and 8.6% y/y in June). Moreover, short-term inflation expectations have risen significantly and the economic recovery remains robust, underpinned by strong domestic demand. Moreover, with its CEE peers having already raised rates significantly, we expect the NBR will be wary of appearing to fall behind the curve in this tightening cycle. Looking ahead, our forecasts have policy rates rising to 3.00% by December 2022.

### Regional inflation: December 2021 prints to signal rises for most countries

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A host of regional inflation readings for December 2021 are likely to signal higher prints

We will get a host of inflation readings for December 2021 this week:

1. **Czech Republic.** Inflation is anticipated to rise in the Czech Republic from 6.0% y/y to 6.8% y/y in December (consensus 6.6% y/y), owing to ongoing increases in housing, food and energy prices. Of note, the imposition of a temporary VAT waiver on electricity and gas prices, which lowered inflation by 1pp, according to the Czech Statistical Office. This waiver will also be in place for the December data but the Czech Republic's new government has not extended it into the new year and is instead implementing energy support payments for households. Looking ahead, our forecasts suggest that inflation will elevate to 7.6% y/y by March 2022, before edging down thereafter.
2. **Egypt.** We expect inflation to rise from 5.5% y/y in November to 6.0% y/y in December, primarily driven by base effects in food inflation. Going forward, while PPI has increased noticeably over recent months, in tandem with a rise in input costs for corporates, we view that the transmission mechanism to CPI will remain relatively muted given the significant strengthening of the Egyptian Pound (EGP) and a stable USD-EGP exchange rate, that we expect to hold up well into 2022.
3. **Hungary.** Inflation in Hungary is expected to fall from 7.4% y/y in November to 7.1% y/y in December (consensus 7.2% y/y), driven predominantly by base effects in transportation prices. The sharp strengthening of the Hungarian Forint (HUF) since the turn of the year, which stands more than 2.5% stronger versus the Euro since the beginning of the year, will be welcomed by the National Bank of Hungary (MNB), as we view that high inflation coupled with depreciation pressures on the Forint were the main drivers of the front-loaded and robust pace of tightening late last year.
4. **Israel.** Inflation in Israel is set to rise from 2.4% y/y in November to 2.5% y/y in December (consensus is also for 2.5% y/y), with the increase driven by a rise in core price inflation, partially offset by the decline in fuel price inflation. With inflation likely hovering ~2.0% y/y in the near term, and thus well within the Bank of Israel's (BoI) 1-3% inflation target range – in tandem with a strong Israeli Shekel (ILS) limiting inflationary pressures – we do not expect the BoI to raise rates in 2022.
5. **Romania.** Inflation in Romania is expected to rise from 7.8% y/y in November to 8.1% y/y in December (consensus 7.9% y/y), driven predominantly by higher food and energy prices. While Russia has resumed gas supply to Romania, it is uncertain whether this will significantly contain

inflationary impulses as broader supply chain disruptions persist across the Euro area. What's more, temporary suspension of operations by fertilizer companies in response to high energy prices poses risks of food shortages moving forward and is likely to keep food inflation elevated for longer.

**Turkey: December 2021 balance of payments data to suggest a deficit**


















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Hungary to raise its base rate by 40bp  
with further tightening on the table

Turkey's November balance of payments data is expected to show that the current account balance swung back into a deficit of USD2.6bn (consensus is for a deficit of USD2.5bn) from a surplus of USD3.2bn in October. This owing to the robust rise in goods imports and the seasonal fall in tourism exports. More broadly, we anticipate that Turkey's current account deficit to be less than 2% of GDP I 2021 and widen this year as the strength in the tourism sector is only partially offset by higher energy imports.



## Weekly calendar

	Country	Day	GMT	Indicator/Event	Period	MUFG Forecast	Consensus	Previous	Market Moving
	Egypt	10/01/2022	---	CPI, % y/y	Dec	6.0%	---	5.5%	!!!
	Romania	10/01/2022	---	Monetary policy meeting, %	Dec	8.25%	8.25%	8.25%	!!!
	Oman	10/01/2022	---	CPI, % y/y	Dec	---	---	3.6%	!!
	Ukraine	10/01/2022	13:30	CPI, % y/y	Dec	10.2%	10.2%	10.3%	!!!
	Nigeria	11/01/2022	---	CPI, % y/y	Nov	---	15.4%	16.0%	!!
	Turkey	11/01/2022	13:30	Current account balance, USD bn	Nov	USD-2.6bn	USD-2.5bn	USD3.2bn	!!!
	Ghana	12/01/2022	08:00	CPI, % y/y	Dec	---	---	12.2%	!!
	Romania	12/01/2022	13:00	Real GDP, % y/y	Q3-21F	---	7.4%	7.4%	!!
	Czech Rep.	12/01/2022	16:00	CPI, % y/y	Dec	6.8%	6.6%	6.0%	!!!
	Russia	12/01/2022	16:30	CPI, % y/y	Dec-F	---	---	8.4%	!!
	Turkey	13/01/2022	07:00	Industrial production, % y/y	Dec	8.25%	8.25%	8.25%	!!!
	Israel	13/01/2022	11:00	Trade balance, USD m	Dec	---	---	USD0m	!!
	Romania	14/01/2022	07:00	CPI, % y/y	Dec	8.1%	7.9%	7.8%	!!!
	Hungary	14/01/2022	08:00	CPI, % y/y	Dec	7.1%	7.2%	7.4%	!!!
	Poland	14/01/2022	09:00	CPI, % y/y	Dec F	---	---	8.6%	!!
	Israel	14/01/2022	12:00	CPI, % y/y	Dec	2.5%	2.5%	2.4%	!!!
	Russia	14/01/2022	13:00	Official reserve assets, USD bn	Dec	---	---	USD623bn	!!!

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	10.19	6.00	1.20	-10.61	-8.00	-8.02	-2.06	-2.90	-2.87
	Czech Rep.	3.30	2.90	4.50	0.27	-8.03	-5.47	6.00	1.57	0.82
	Egypt	-2.39	3.30	3.10	-7.41	-7.33	-6.33	-4.17	-3.88	-3.66
	Greece	16.33	6.50	4.60	0.57	-10.25	-4.29	-2.70	-7.41	-5.14
	Hungary	6.10	7.30	5.30	-2.05	-6.60	-5.94	-4.59	0.60	0.88
	Iraq	4.43	3.60	10.50	0.86	-1.55	-2.53	1.12	6.16	4.00
	Israel	4.40	7.00	4.50	-3.91	-6.81	-4.33	5.61	4.46	3.82
	Jordan	1.96	2.00	2.70	-5.98	-7.69	-5.94	-8.57	-8.93	-4.45
	Kenya	5.37	5.50	5.20	-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	7.80	5.70	3.10	-4.13	-6.49	-5.91	-3.96	-3.07	-3.25
	Nigeria	4.03	2.50	3.50	-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	5.30	5.00	5.30	-0.74	-4.25	-1.90	1.09	2.26	1.56
	Romania	7.38	7.60	5.00	-4.56	-6.70	-5.59	-10.07	-5.71	-5.53
	Qatar	4.00	2.90	6.10	4.93	2.78	5.68	-27.24	8.20	11.56
	Russia	4.08	4.40	3.10	1.92	-0.56	0.02	1.11	5.74	4.41
	Saudi Arabia	6.96	4.50	7.90	-4.45	-3.05	2.79	-0.39	3.87	3.79
	South Africa	2.90	5.10	2.20	-2.27	-8.44	-6.99	1.22	2.88	-0.86
	Turkey	7.38	9.80	4.00	-5.65	-4.92	-5.58	0.00	-2.42	-1.61
	Ukraine	2.70	4.00	3.50	-2.04	-4.50	-3.50	1.35	-0.69	-2.44
	UAE	5.30	5.00	4.50	-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	0.30	3.90	5.30	2.25	2.25	2.75	0.377	0.377	0.377
	Czech Rep.	6.00	3.90	5.30	3.75	3.75	4.00	24.424	24.886	21.380
	Egypt	5.60	5.40	6.50	8.25	7.75	7.75	15.723	15.723	15.420
	Greece	4.82	-0.10	0.40	0.00	0.00	0.00	1.136	1.137	1.132
	Hungary	7.40	4.90	4.00	2.40	2.40	4.00	315.6	324.5	314.700
	Iraq	8.40	6.40	4.50	4.00	4.00	4.00	1460	1460	1460.000
	Israel	2.40	1.50	1.80	0.10	0.10	0.10	3.102	3.103	3.100
	Jordan	1.61	1.60	2.00	3.25	3.25	3.75	0.709	0.709	0.709
	Kenya	5.70	6.00	5.60	7.00	7.00	7.00	113.250	113.140	113.040
	Kuwait	3.17	2.90	1.90	1.50	1.50	2.00	0.303	0.303	0.303
	Lebanon	201.07	124.10	54.70	2.75	2.75	2.75	1513.000	1512.330	1512.330
	Libya	4.56	21.10	8.00	3.00	3.00	3.00	4.599	4.597	4.597
	Morocco	2.60	1.40	1.20	1.50	1.50	1.50	9.246	9.252	9.250
	Nigeria	15.40	17.30	12.30	11.50	11.50	11.50	415.450	424.830	440.500
	Oman	3.56	1.30	1.50	0.45	0.45	0.95	0.385	0.385	0.385
	Poland	8.60	4.90	4.80	2.25	1.75	3.50	4.007	4.035	3.948
	Romania	7.80	5.30	7.20	1.75	1.75	3.50	4.352	4.353	4.388
	Qatar	6.09	1.60	3.00	1.00	1.00	1.50	3.642	3.642	3.642
	Russia	8.39	6.60	5.20	8.50	5.75	4.50	75.755	74.679	71.130
	Saudi Arabia	1.10	3.10	1.70	0.50	0.50	1.00	3.754	3.755	3.755
	South Africa	5.50	4.50	4.40	3.75	3.50	4.25	15.581	15.937	15.800
	Turkey	36.08	17.90	48.10	14.00	14.00	20.00	13.864	13.317	14.250
	Ukraine	10.30	9.40	6.70	9.00	9.00	9.00	27.494	27.285	29.800
	UAE	2.58	0.10	1.30	0.65	0.65	1.15	3.673	3.673	3.673

## Core indicators

EM EMEA sovereign bond yields (%)									
	Maturity	10-Dec	17-Dec	24-Dec	31-Dec	07-Jan	Change in yield (basis points)		
							Week	MTD	YTD
Bahrain	10 years	2.79	2.73	2.71	2.54	2.71	17.36	17.36	17.36
Czech Rep.	10 years	2.48	2.84	3.05	3.08	3.29	21.06	21.05	21.05
Egypt	9 years	7.11	7.15	7.17	7.16	7.15	-0.74	-0.74	-0.74
Greece	8 years	1.06	0.97	1.10	1.11	1.28	17.71	17.70	17.70
Hungary	8 years	4.13	4.32	4.40	4.46	4.63	17.03	17.03	17.03
Israel	8 years	0.19	0.19	0.22	0.21	0.30	8.91	8.88	8.88
Jordan	5 years	4.32	4.29	4.26	4.27	4.36	8.87	8.83	8.83
Kenya	7 years	5.82	5.86	5.90	5.71	5.88	17.50	17.50	17.50
Kuwait	6 years	1.69	1.65	1.66	1.69	1.74	4.58	4.60	4.60
Lebanon	9 years	60.73	60.49	63.28	64.00	65.85	185.14	185.10	185.10
Morocco	11 years	2.44	2.42	2.40	2.40	2.48	8.16	8.20	8.20
Nigeria	9 years	7.35	7.47	7.52	7.39	7.65	26.18	26.16	26.16
Oman	9 years	4.83	4.76	4.77	4.75	4.99	24.15	24.12	24.12
Poland	8 years	0.15	0.13	0.16	0.17	0.22	4.52	4.51	4.51
Romania	7 years	1.43	1.45	1.55	1.55	1.62	6.95	6.99	6.99
Qatar	9 years	2.32	2.28	2.31	2.25	2.45	19.78	19.83	19.83
Russia	5 years	2.37	2.41	2.47	2.47	2.66	18.81	18.86	-0.86
Saudi Arabia	8 years	2.13	2.17	2.13	2.14	2.35	21.07	21.04	21.04
South Africa	9 years	4.28	4.28	4.26	4.22	4.33	11.02	11.02	11.02
Turkey	7 years	6.75	7.40	7.22	7.22	7.54	32.32	32.31	32.31
Ukraine	8 years	8.01	9.15	9.40	9.48	9.83	34.68	34.68	34.68
Abu Dhabi	6 years	1.74	1.68	1.72	1.75	1.89	14.24	14.23	14.23
Dubai	8 years	2.60	2.60	2.59	2.58	2.86	28.08	28.09	28.09

EM EMEA equity market (index)									
	03-Dec	10-Dec	17-Dec	24-Dec	31-Dec	07-Jan	Change (%)		
							Week	MTD	YTD
Bahrain	1,749	1,776	1,782	1,778	1,794	1,794	0.03	-0.15	-0.15
Czech Rep.	104,466	106,291	108,326	104,891	104,107	102,720	-1.33	-2.01	-2.01
Egypt	11,396	11,538	11,618	11,525	11,913	11,979	0.55	0.25	0.25
Greece	877	893	883	884	894	906	1.44	1.47	1.47
Hungary	51,421	51,262	50,132	49,084	50,343	51,957	3.21	2.44	2.44
Israel	1,890	1,908	1,887	1,922	1,975	1,991	0.80	0.66	0.66
Jordan	2,066	2,079	2,090	2,079	2,117	2,163	2.21	2.11	2.11
Kenya	164	158	163	165	169	172	1.56	3.17	3.17
Kuwait	6,929	7,045	6,989	7,032	7,046	7,152	1.50	1.55	1.55
Lebanon	658	658	658	658	658	658	0.00	-2.47	-2.47
Morocco	10,660	10,717	10,744	10,696	10,821	10,808	-0.12	0.00	0.00
Nigeria	42,463	42,435	42,357	42,244	41,807	43,854	4.90	2.66	2.66
Oman	4,008	4,012	4,021	4,110	4,141	4,217	1.83	2.11	2.11
Poland	2,217	2,220	2,161	2,212	2,261	2,312	2.27	1.99	1.99
Romania	12,196	12,598	12,204	12,478	13,068	13,157	0.68	0.73	0.73
Qatar	11,552	11,610	11,642	11,684	11,675	12,011	2.88	3.32	3.32
Russia	3,959	3,774	3,622	3,747	3,741	3,772	0.83	-0.40	-0.40
Saudi Arabia	10,850	10,992	11,143	11,204	11,161	11,560	3.58	2.47	2.47
South Africa	64,786	65,993	65,102	64,804	66,614	67,251	0.96	0.30	0.30
Turkey	1,857	2,005	2,162	1,804	1,895	2,033	7.27	9.46	9.46
Ukraine	523	523	523	523	523	523	0.00	0.00	0.00
Abu Dhabi	8,547	8,954	8,819	8,399	8,404	8,379	-0.29	-1.28	-1.28
Dubai	3,073	3,197	3,255	3,126	3,188	3,220	0.99	0.74	0.74

## EM EMEA FX against USD\*

		03-Dec	10-Dec	17-Dec	24-Dec	31-Dec	07-Jan	Change (%)		
								Week	MTD	YTD
	USD Index	96.117	96.097	96.565	96.019	95.670	95.719	0.05	0.05	0.05
	Bahrain**	0.379	0.379	0.379	0.380	0.379	0.379	-0.08	0.08	0.08
	Czech Rep.	22.472	22.422	22.444	22.100	21.880	21.498	-1.74	1.78	1.78
	Egypt	15.699	15.699	15.748	15.723	15.723	15.723	0.00	0.00	0.00
	Greece***	1.132	1.131	1.124	1.132	1.137	1.136	-0.09	-0.09	-0.09
	Hungary	321.970	323.520	326.760	326.320	324.460	315.640	-2.72	2.79	2.79
	Israel	3.167	3.101	3.133	3.149	3.103	3.103	0.00	0.00	0.00
	Jordan**	0.710	0.709	0.709	0.709	0.709	0.709	0.00	0.00	0.00
	Kenya	112.360	112.360	0.009	0.009	0.009	0.009	0.00	0.00	0.00
	Kuwait	0.303	0.303	0.303	0.303	0.303	0.303	0.00	-0.05	-0.05
	Lebanon	1,510.89	1,510.39	1,511.50	1,510.50	1,512.33	1,513.00	0.04	-0.04	-0.04
	Morocco	9.220	9.248	9.289	9.262	9.252	9.246	-0.06	0.06	0.06
	Nigeria	414.240	414.320	414.870	414.950	424.830	415.450	-2.21	2.26	2.26
	Oman**	0.387	0.386	0.387	0.386	0.386	0.386	0.00	0.00	0.00
	Poland	3.756	3.756	3.754	3.752	3.754	3.755	0.04	-0.04	-0.04
	Romania	4.374	4.375	4.404	4.372	4.353	4.352	-0.02	0.02	0.02
	Qatar**	3.671	3.671	3.671	3.671	3.674	3.670	-0.11	0.11	0.11
	Russia	73.889	73.372	74.152	73.664	74.679	75.755	1.44	-1.42	-1.42
	Saudi Arabia**	3.756	3.756	3.754	3.752	3.754	3.755	0.04	-0.04	-0.04
	South Africa	16.081	15.976	15.885	15.545	15.937	15.581	2.29	2.29	2.29
	Turkey	13.703	13.878	16.410	10.639	13.304	13.870	-4.08	-4.08	-4.08
	Ukraine	3.752	3.751	3.753	3.756	3.755	3.754	-0.05	0.05	0.05
	UAE**	3.674	3.674	3.674	3.674	3.674	3.674	0.00	0.00	0.00

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)

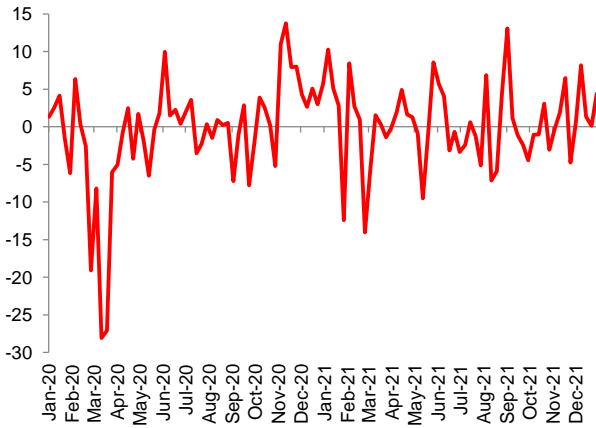
		03-Dec	10-Dec	17-Dec	24-Dec	31-Dec	07-Jan	Change in yield (basis points)		
								Week	MTD	YTD
	Bahrain	287.47	300.23	306.70	304.01	298.32	298.55	0.24	4.72	4.72
	Czech Rep.	35.30	35.20	35.89	35.35	35.62	35.30	-0.32	-0.32	-0.32
	Egypt	507.14	501.90	507.22	507.02	498.04	497.89	-0.15	-0.15	-0.15
	Greece	113.64	122.20	110.28	113.23	111.99	108.49	-3.51	-3.51	-3.51
	Hungary	53.34	51.97	49.23	44.93	44.72	45.45	0.73	0.73	0.73
	Israel	41.02	39.15	39.41	39.10	40.21	39.42	-0.79	-0.79	-0.79
	Kenya	413.95	422.98	427.65	417.07	406.89	406.98	0.10	0.10	0.10
	Kuwait	52.64	44.69	44.72	44.68	44.71	49.63	4.92	4.92	4.92
	Morocco	99.05	96.24	97.17	96.35	95.39	97.23	1.84	1.84	1.84
	Nigeria	455.85	455.45	455.18	455.34	455.07	464.61	9.54	9.54	9.54
	Oman	275.84	269.41	261.94	265.73	255.81	261.35	5.54	5.54	5.54
	Poland	53.89	52.54	46.44	40.28	39.59	40.20	0.62	0.62	0.62
	Romania	83.87	83.38	79.87	72.82	74.82	79.83	5.01	5.01	5.01
	Qatar	43.58	44.03	44.85	44.66	43.76	45.18	1.43	1.43	1.43
	Russia	112.51	106.22	132.30	129.57	124.42	124.87	0.44	0.44	0.44
	Saudi Arabia	50.81	53.02	51.43	52.59	49.38	49.57	0.19	0.19	0.19
	South Africa	231.45	219.85	214.90	207.90	203.02	195.23	-7.80	-7.80	-7.80
	Turkey	541.57	500.83	566.12	562.91	562.76	573.98	11.23	11.23	11.23
	Ukraine	535.88	532.01	583.59	613.98	610.89	639.40	28.51	28.51	28.51
	Abu Dhabi	43.68	44.02	44.74	44.28	42.90	44.93	2.03	2.03	2.03
	Dubai	92.04	91.95	92.85	94.66	94.06	93.96	-0.11	-0.11	-0.11

Source: Bloomberg, MUFG Research

# EM capital flows

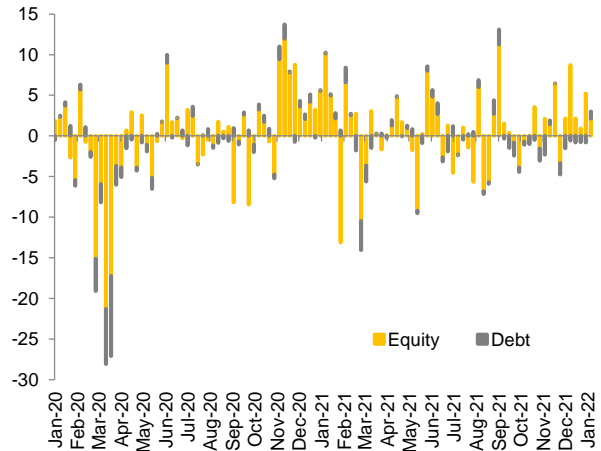
## WEEKLY TOTAL EM INFLOWS OF USD3.0BN – 07 JANUARY

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



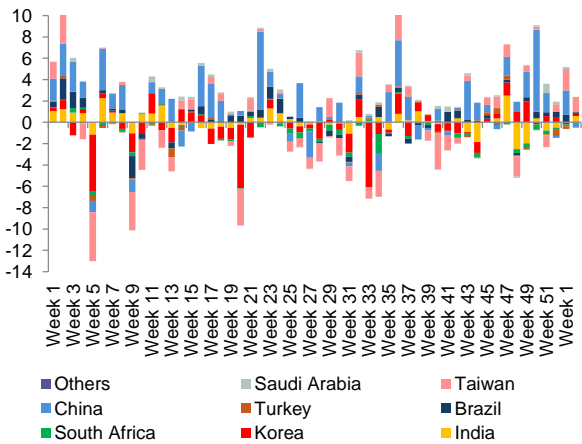
## WEEKLY EM INFLOWS FROM EQUITY (USD2.2BN) AND DEBT INFLOWS (USD0.8BN) – 07 JANUARY

WEEKLY DEBT AND EQUITY FLOWS (USD BN)



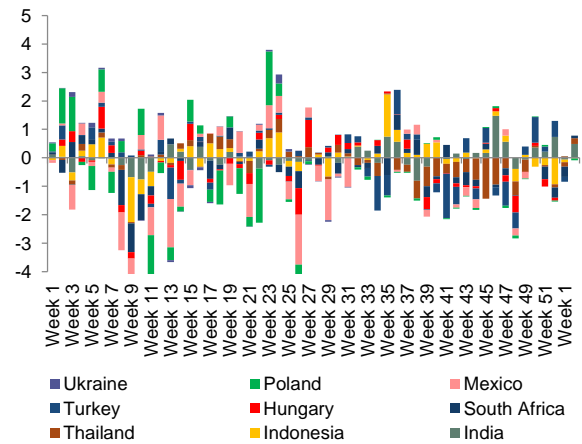
## TAIWAN (USD1.4BN) AND S. KOREA (USD0.3BN) LED WEEKLY EM EQUITY INFLOWS – 07 JANUARY

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



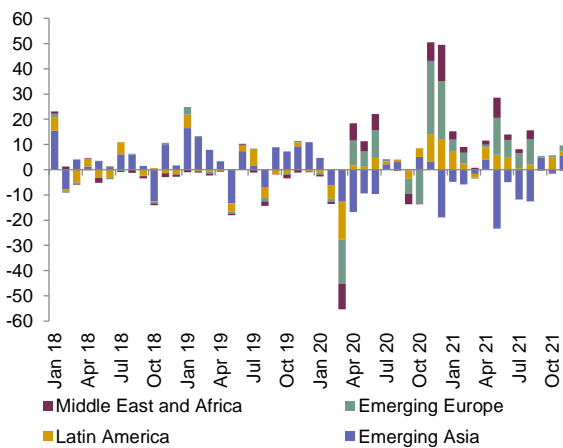
## INDIA (USD0.5BN) AND THAILAND (USD0.2BN) LED EM DEBT INFLOWS LAST WEEK – 07 JANUARY

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



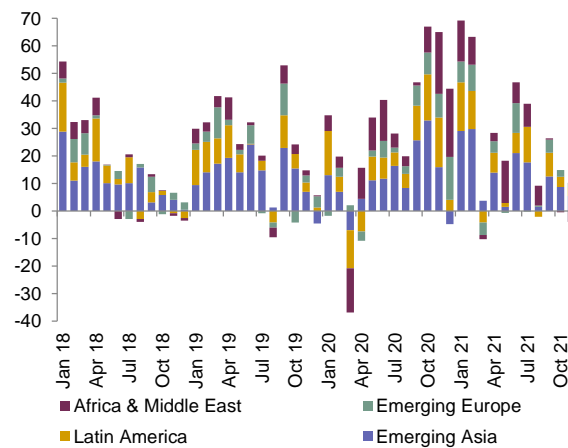
## EM EQUITY FLOWS TOTALLED USD9.2BN IN NOVEMBER, LED BY EM ASIA (USD5.4BN) AND EM EMEA (USD2.5BN)

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



## EM DEBT FLOWS TOTALLED USD6.3BN IN NOVEMBER, LED BY EM ASIA (USD5.5BN) AND LATAM (USD3.0BN)

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



Source: Bloomberg, IIF, MUFG Research

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