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Ranking emerging markets susceptibility to higher inflation and rates across developed markets

Macro focus: Higher inflation and rates in DMs in 2022 risks destabilising EMs wherein policymakers face a challenging choice between preventing capital flight and sustaining the recovery. We rank EMs on a host of metrics – (i) FX reserves; (ii) real interest rates; (iii) current account balance; (iv) public debt; (v) external financing requirements; and (vi) governance – to generate a vulnerability scorecard, to flag which countries are most exposed to higher inflation and rates across DMs.

FX views: EM FX staged a broad-based rebound over the past week, lifting our EM FX index back up to its highest level since mid-November – recent price action has been surprising, encouraging speculation that the USD could be peaking out, though we are not yet convinced that the bullish reversal for EM FX will prove sustainable.

Trading views: Last week served to remind the tendency for year ahead trades reversing as quickly as they get going – we continue to see the US paid rates trade as a much easier one than that of a stronger USD for the time ahead.

Week in review: Over the previous week, inflation readings in the Czech Republic, Egypt and Hungary signalled that price pressures remain elevated. Meanwhile, Russian geopolitical risk is rising as the Geneva talks failed to resolve differences.

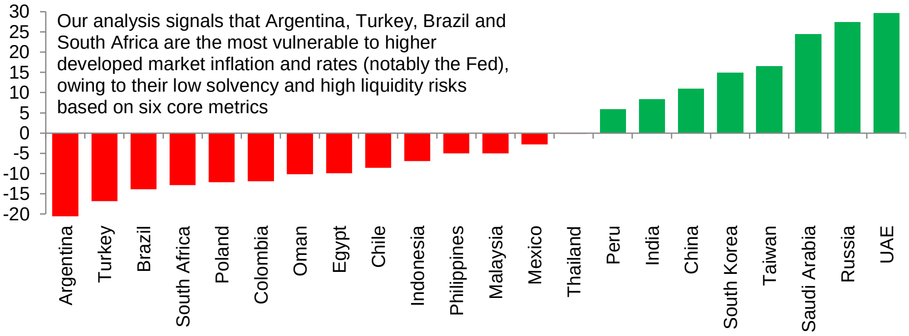
Week ahead and calendar: For the week ahead, we expect Turkey (14.00%) and Ukraine (9.00%) to keep rates on hold, whilst we anticipate South Africa's inflation to increase by 0.4ppt to 5.9% y/y on both higher core and non-core factors.

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: EM assets have started the year on the front foot with equities and FX both stronger. Meanwhile, capital continued to flow into EMs last week (USD0.4bn) – seventh consecutive week of inflows.

CHART OF THE WEEK: WHICH EM'S ARE MOST AT RISK TO HIGHER DM RATES?

MUFG'S EMERGING MARKETS EXTERNAL VULNERABILITY SCORECARD – EXPRESSED AS THE AVERAGE DISTANCE FROM THE MEDIAN ACROSS SIX METRICS (HIGHER SCORE = LOWER RISK)



Source: Bloomberg, IMF, World Bank, MUFG Research

Macro focus

Ranking EMs susceptibility to higher inflation and rates across DMs

DM central banks are set to embark on monetary tightening this year to tackle high inflation – US real rates have already aggressively repricing upwards since the turn of the year

We are entering 2022 in a better place than we might have expected a year ago. COVID-19 vaccines have been rolled out in large parts of the world. In many countries, fewer people have died than feared. There has been a robust economic recovery and much less medium-term scarring than we anticipated when the pandemic began. However, the operating environment is still very far from normal. Beyond the battle against the virus which is very far from won, supply chain bottlenecks, higher energy and food prices, surging consumer demand and higher wages have combined to send inflation in developed markets (DM) to multi-decade highs. A year ago, the feeling was that inflation was "transitory". Many are now retiring this prospect. The pandemic, high inflation and the unusual behaviour of labour markets are among the challenges facing DM central banks as they start to normalise policy adding to the trepidation across emerging markets (EM).

We rank EMs on several metrics on a host of metrics – (i) FX reserves; (ii) real interest rates; (iii) current account balance; (iv) public debt; (v) external financing requirements; and (vi) governance – to generate a vulnerability scorecard to gauge susceptibility to higher inflation and rates across DMs

All EMs are exposed to higher inflation and rates in DMs, particularly from the US Federal Reserve (Fed). With US real rates significantly repricing since the turn of the year on the back of expectations of a more aggressive policy tightening, EM assets are throwing a tantrum of sorts with the JP Morgan EMBI spread widening by more than 20bp since the turn of the year. To decipher which EMs are most susceptible to higher inflation and rates across DMs, we rank EMs on several metrics on a host of metrics – (i) FX reserves; (ii) real interest rates; (iii) current account balance; (iv) public debt; (v) external financing requirements; and (vi) governance – to generate a vulnerability scorecard. Our analysis signals that Argentina, Turkey and Brazil are the most vulnerable. On the other end of the spectrum, Saudi Arabia, Russia and the UAE are least exposed to the risk of capital flight thanks predominantly to their favourable standings of high solvency and low liquidity risks.

EM EXTERNAL VULNERABILITY SCORECARD

Country	Reserve coverage (% adequacy)	Real interest rates, latest (%)	Current account in 2022 (% GDP)	Public debt in 2022 (% of GDP)	Financing needs (fiscal balance in 2022, % GDP)	World Bank governance effectiveness score	Vulnerability ranking (low score = higher risk)
Argentina	68.5	-14.1	-3.3	103.0	-8.9	-0.4	14.2
Turkey	76.4	-22.1	-2.2	38.8	-6.1	0.0	19.2
Brazil	163.8	-2.9	-0.8	98.8	-7.2	-0.4	22.1
South Africa	75.2	-1.8	-1.5	84.4	-1.3	0.3	23.1
Poland	84.0	-6.3	1.3	56.1	-2.6	-.4	23.9
Colombia	144.6	-2.1	-3.9	64.3	-3.6	0.0	24.1
Oman	12.9	-0.6	-0.9	61.7	1.1	0.3	25.9
Egypt	58.2	2.0	-4.0	88.9	-5.8	-0.5	26.1
Chile	84.0	-3.3	-0.6	36.8	-2.9	1.2	27.4
Indonesia	125.2	1.8	-1.4	42.8	-4.4	0.4	29.1
Philippines	237.6	-2.6	-2.2	54.4	-5.5	0.1	31.0
Malaysia	118.3	-1.2	3.7	67.4	-3.4	1.0	31.1
Mexico	128.9	-1.5	1.0	60.5	-2.6	-0.2	33.2
Thailand	251.3	-1.9	2.6	54.7	-1.5	0.3	35.8
Peru	287.0	-4.3	-0.7	36.2	-3.1	-0.2	41.9
India	190.7	-0.5	-1.6	86.3	-9.1	0.4	44.4
China	74.8	1.5	1.3	73.7	-8.7	0.6	47.0
South Korea	99.0	-2.5	4.0	57.2	-2.4	1.4	50.9
Taiwan	170.8	-1.5	14.4	31.0	-1.6	1.6	52.5
Saudi Arabia	327.0	0.2	3.8	30.8	0.2	0.1	60.4
Russia	359.2	0.1	3.3	17.7	-0.3	0.0	63.3
UAE	345.6	-1.0	9.4	38.6	-0.2	1.1	65.6

Source: Bloomberg, IMF, World Bank, MUFG Research

Risk of a surge in EM capital outflows in EMs akin to the 2013 taper tantrum is considerable this year

To put our vulnerability scorecards into perspective more generally, we believe that 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. With this, a less supportive global liquidity backdrop in tandem with hawkish DM central banks will have critical implications on portfolio flows into EMs. Given the strong 9-12 month lagged correlation between the pace of growth in global liquidity – measured by the growth in G4 central bank balance sheets – and fund flows into EM, we are likely to see relatively muted inflows into EM funds in 2022, in our view. Indeed, there has already been visible moderation in fund flows, as the 52 week rolling flows into EM funds rolled over quite strikingly since November 2021. We believe that this is likely to continue in the near term, even though seasonal factors should support EM inflows in Q1 2022.

Challenge for EMs is that the negative spillover from higher DM rates is larger if they're driven by higher inflation rather than by faster economic growth – which is precisely what is happening currently

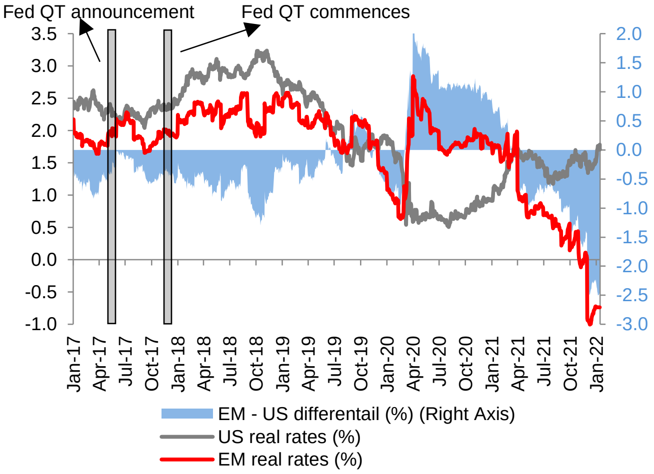
The historical experience of a more aggressive Fed tightening cycle offers some lessons on what we can expect for EMs. A hawkish Fed drove markets to increase their end-2018 rate projections by just over 40bp over the course of the year. From this, all major EM FX weakened against the US dollar, with high-yielding (HY) EMs such as Argentina, South Africa and Turkey standing out as being hit hardest. A key takeaway from this episode was that the negative spillover into EMs from higher US rates is larger if they're driven by higher inflation rather than by faster economic growth. As such, EMs will find it hard to avoid capital flight if DM central banks turn more aggressive on hikes this year. Granted, strengthening current account balances have eased external exposures in many EMs relative to 2018 (see here), but there are important exceptions – the external positions of the most vulnerable EMs – Argentina, Brazil, South Africa and Turkey – have only negligibly improved since 2018.

Policymakers across EMs are endeavouring to make the right choices between stagflation and instability – not all will de adept to balance this predicament

Overall, our EM vulnerability scorecard identifies which countries will be most susceptible to external-led risks in 2022. Against this backdrop, EM policymakers are endeavouring to make the right cyclical choices between stagflation and instability – tightening too aggressively may stymie the delicate post-pandemic recovery, whilst keeping policy loose in the face of rising global rates risks market credibility and financial turmoil. Not all EMs will be adept to balance this predicament.

HISTORICALLY US AND EM RATES MOVED UP AFTER THE START OF QUANTITATIVE TIGHTENING (QT)

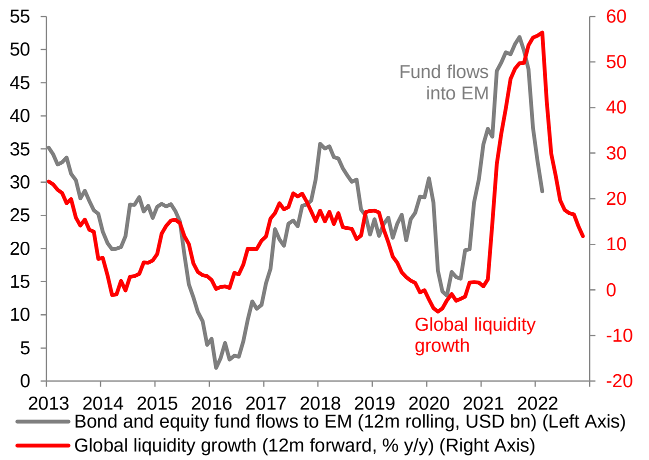
US AND EM 10 YEAR INTEREST RATES (%)



Source: Bloomberg, SARB, MUFG Research

FUND FLOWS TO EM HAVE ALREADY ROLLWED OVER ON THE BACK OF LESS SUPPORTIVE GLOBAL LIQUIDITY

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: Relief for EM FX as USD fails to track US yields higher

Relief rebound for EM FX as USD as higher US yields fail to encourage a stronger USD at start of the New Year

Emerging market currencies have staged a broad-based rebound over the past week. It has helped to lift our EM FX index back up to its highest level since mid-November after putting in place lows just before Christmas. The best performing EM currencies over the past week have been the BRL (+2.6% vs. USD), the TRY (+2.5%), the CLP (+2.0%), the ZAR (+1.9%), the THB (+1.7%), the PEN (+1.6%) and the HUF (+1.6%). Emerging market currencies have benefitted at the start of the New Year from the correction lower for the USD. Recent price action has been surprising as the USD has failed to strengthen on the back of the Fed's hawkish policy shift since the last FOMC meeting on 15th December even as US yields have hit fresh highs both in nominal and real terms. The disappointing price action has encouraged speculation that the USD could be peaking out. There is now a higher hurdle for another US rate shock in the near-term given market participants are already pricing in up to four Fed rate hikes in 2022. However, we are not yet convinced that the recent bullish reversal for EM FX will prove sustainable.

Chinese policymakers providing more support for growth to prevent sharper slowdown

At the same time there has been more evidence that Chinese policymakers are prepared to take action to prevent a sharper growth slowdown below their 5.0% target for this year. The PBoC decided to lower the one-year medium-term lending facility (MLF) rate by a larger than expected 0.10 point to 2.85%. It follows last month's decision to lower the one-year loan prime rate (LPR) by 0.05 point. The decision will reinforce expectations that further stimulus will be forthcoming in Q1 including building speculation over a reduction in the reserve requirement ratio (RRR) and a further LPR cut. The Chinese government signalled towards the end of last year that it also plans to loosen fiscal policy including increasing infrastructure investment and tax cuts. More front-loaded easing should help to ease downside risks to EM FX from a sharper slowdown in Chinese growth posed by ongoing real estate weakness and the government's commitment their zero-COVID strategy.

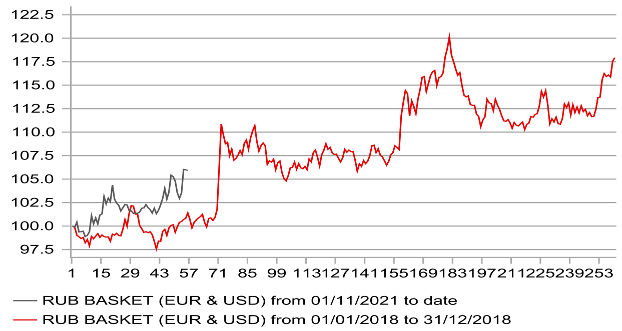
RUB continues to underperform as geopolitical risks remain focus

Unlike other EM currencies, the RUB has continued to underperform at the start of the year resulting in USD/RUB rising up towards the highs from April between the 76.000 and 78.000 levels. The risk of Russia invading the Ukraine again remains on the table after last week's talks with the West failed to ease geopolitical tensions. The US and NATO has offered potential compromise areas: talks on arms control, missile deployments and re-establishing diplomatic channels. But it still falls short of Russia's demands to ban the Ukraine and Georgia from joining NATO and scaling back military deployments to the level of 1997. We have recommended a strategic short RUB position (click here) to reflect the latest negative developments.

FED TERMINAL RATE EXPECTATIONS REMAIN LOW

Source: Bloomberg, Macrobond & MUFG Research

ROOM FOR RUB TO WEAKEN IF TENSIONS FLARE



Source: Bloomberg, Macrobond & MUFG Research

Trading views

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

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Trading views: US assets look more vulnerable to Fed than EM assets

US assets look a lot more vulnerable to higher US rates than EM assets… lower stocks may not mean lower EMFX

Last week served to remind the tendency for year ahead trades reversing as quickly as they get going, as well as highlighting how much is already priced into the Fed rate path. We continue to see the US paid rates trade as a much easier one than that of a stronger USD for the time ahead. The main reason for this is the relative positioning and valuations of US asset prices versus EM. People talk about the vulnerability of EM assets to tightening US conditions. While historically this has been the case the bigger factor is not actual levels but rather the volatility and risk premium associated with it. Furthermore traditionally EM has likely been an area where investors were quickest to run to the exit doors when things got nervy. Now, however after a decade of asset price underperformance investors have already left the EM building in our view. Much more likely are investors to start worrying about US stock market performance given the risk a tightening Fed provides to already frothy markets. It's interesting to see that Taiwan has had very strong inflows YTD and FX wise is close to cycle highs even though Nasdaq has had a mixed start to the year. We think EM will be able to perform, maybe even significantly, in a environment where US stocks struggle. Cross correlation, option pricing and most importantly investors may take a while to adjust this.

The big leaders in last year's tightening moves are seeing good reversals as we start the year

It's interesting to see the CEE rates markets, leaders of last year's tightening repricing having such a strong reversal in the first few weeks of the year. One year implied (through forwards) have moved from 4.26 to 4.11% in CZK, a much larger year 4% to 3.6% in PLN and a huge 4.85% to 4.05% in Hungary. This price action shows that the market does have a limit to where it can price. We feel the value in paid curves in many places has now shifted from the front end to the terminal rate. Here we feel the gap between current inflation rates and end point pricing remains too wide if central banks really want to tackle inflation expectations.

Geopolitical risk in Russia increased on the week but elsewhere we seen

Russia was in the spotlight as expected last week but unlike most bilateral talks between countries the rhetoric that followed was decidedly negative. The market took noticed and once again saw a good sell off in all Russian assets. For the brave fading idiosyncratic Russian risk seems a good strategy for us. The status quo suits all sides and we don't think the nuclear option of removing Russian from swift will occur especially with Nordstream and China considerations so large. Nonetheless we would like to see more conciliatory rhetoric from top US government officials before embarking on longs.

Week in review

EM capital flows: Investors added fresh capital to EM local currency assets

EMs have started the year on the front foot despite the overall pulse geared towards a bearish outlook this year

We are still in the early days of 2022 but it appears that EMs have started the year on the front foot. From an asset class performance perspective, EM equities are up by 2.1% in the first two trading weeks, outperforming DM peers, while EM FX is 0.5% stronger. Moreover, returns in EM local currency debt are also positive, albeit mildly (0.1%), largely reflecting the positive contribution from stronger currencies. We are mindful that most of the fundamental pressure points from 2021, such as deteriorating growth-inflation mix and fears of stagflation, a less supportive global liquidity backdrop and policy normalisation in core markets, do still linger (see here and here) and as such, the path of least resistance is to stay cautious on EM. However, whilst we believe that being selective on EMs is the right course at the current juncture, markets will be a lot more susceptible to positive surprises given how long the downbeat mood and EM disappointment have been factors.

Capital flowed into EMs for the last seven consecutive weeks but a tightening in global liquidity conditions is expected to reverse this year

According to IIF data, capital continued to flow into EMs last week (USD0.4bn) – seventh consecutive week of inflows – driven mainly by debt (USD0.3bn). 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 this year.

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 here and the *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.

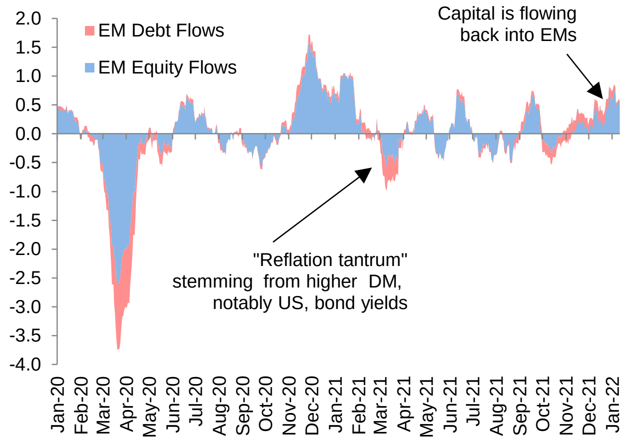
Czech Rep.: December inflation rises to the highest level since 2008

Czech inflation surges in December

Czech headline inflation continued to rise from 6.0% y/y in November to 6.6% y/y in

CAPITAL IS FLOWING BACK INTO EM'S ON A 28 DAY ROLLING BASIS BUT THIS TREND MAY REVERSE

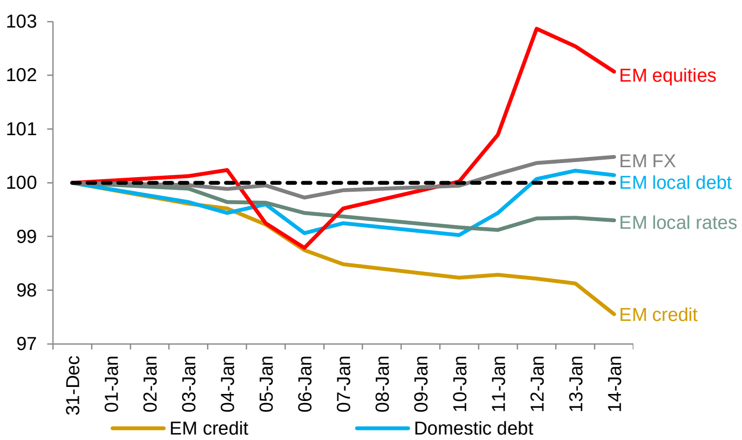
EM EQUITY AND DEBT FLOWS (USD BN), 28 DAY ROLLING AVERAGE



Source: IIF, MUFG Research

EM'S HAVE STARTED THE YEAR ON THE FRONT FOOT – EM EQUITIES, FX AND DOMESTIC DEBT ARE STRONGER

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



Source: Bloomberg, MUFG Research

December, in line with consensus but below our expectations of 6.8% y/y – marking the highest reading since 2008. The largest positive contribution came from food prices (accounting for 0.35pp of the 0.60pp increase). Going forward, our expectation is that inflation to rise noticeably higher (north of 9.0% y/y) by March 2022 as domestic energy prices – that are adjusted on an annual basis – will implemented in January and February, and thus will show channel through into CPI immediately thereafter. At its most recent policy meeting, the Czech National Bank (CNB) sent a clear signal that it is prepared to move ahead of market pricing to ensure the stabilisation of inflation expectations, in the face of these inflationary pressures and with inflation expectations at risk of de-anchoring. With this in mind and given our inflation profile, we forecast Czech policy rates to rise from 3.75% currently to 4.50% by March 2022.

Egypt: inflation rises in December but still remains at comfortable levels

Inflation rises in Egypt with higher US rates likely to propel an upside bias to rate hikes in H1 2022

Headline inflation in Egypt rose from 5.5% y/y in November to 5.9% y/y in December., slightly below our forecast of 6.0% y/y The increase was primarily on the back of strong base effects in food inflation. What's more, the continued strengthening of the Egyptian Pound (EGP) on a trade weighted basis, also dampened the pass-through from the rise in global food prices onto domestic prices. 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 EGP and a stable USD-EGP exchange rate, that we expect to hold up well into 2022. From a monetary policy perspective, higher US rates this year in tandem with inflation pushing through the midpoint of the CBE's 7% ± 2ppt target (as we expect by March 2022), adds an upside bias to rate hikes in H1 2022.

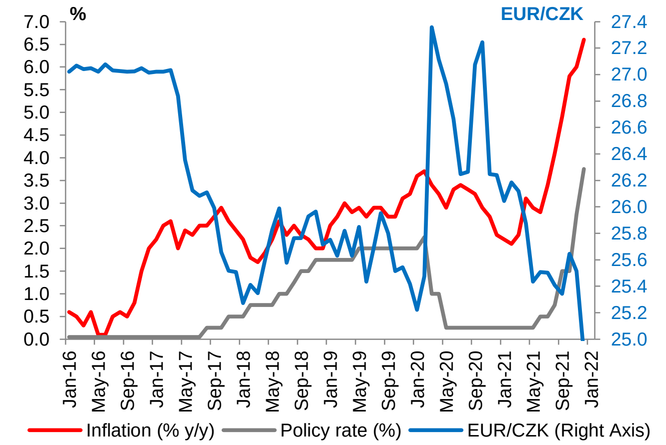
Hungary: inflation unchanged in December but remains still at elevated levels

Inflation remains flat in Hungary for December

Headline inflation remained unchanged at 7.4% y/y in December, slightly above our (7.1% y/y) and consensus (7.2% y/y) expectations, but more meaningfully above the Central Bank of Hungary's (MNB) forecast of 6.9%-7.0% y/y. All major subcomponents printed increases and the core measure rose by 1.1pp to 6.3% y/y. Looking ahead, the strengthening of the Hungarian Forint (HUF) since the start of 2022 will be well-received by the MNB and is likely to have been the main factor in their decision to pause their weekly increases in the deposit rate last week (currently 4.00%). Having said that, inflation dynamics remain of concern, maintaining a hawkish backdrop for monetary policy. We view that the MNB will continue to tackle

CZECH INFLATION INCREASES IN DECEMBER BUT A MUCH LARGER RISE IS EXPECTED IN Q1 2022

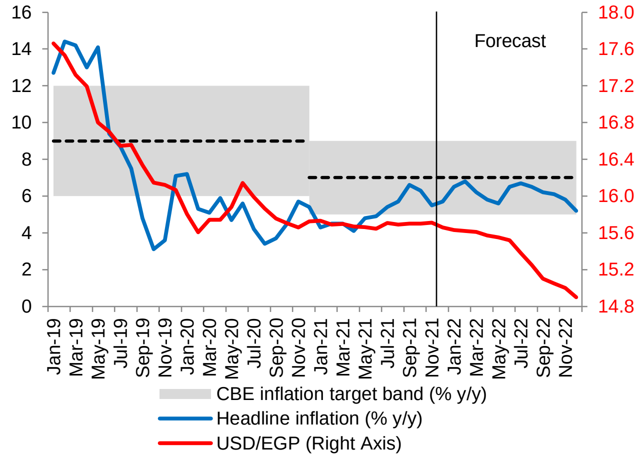
CZECH REPUBLIC POLICY RATE (%), INFLATION (% Y/Y) AND EUR/CZK



Source: Bloomberg, NBP, MUFG Research

EGYPT INFLATION RISES IN DECEMBER, ADDING AN UPSIDE BIAS TO RATE HIKES IN H1 2022

EGYPT INFLATION (% Y/Y), CBE INFLATION BAND AND USD/EGP



Source: Bloomberg, CBRT, MUFG Research high inflation by raising its base rate (currently at 2.40%), while the question of whether to raise the one week depo rate further will be conditional on HUF's trajectory.

Russia: geopolitical risk premia rises after talks failed to resolve differences

Geopolitical risks stemming from Russian deliberations with the West on the rise

Talks last week between the US, NATO the Organisation of Security and Cooperation in Europe (OSCE) and Russia failed to resolve disagreements, as sides flagged significant fundamental differences. The current pulse is an unstable steady state, with risks of escalation on the table. The sanctions overhang is back and from a global markets perspective, the risk/reward is on the downside with investors reacting nervously, with the Russian Rouble (RUB) and Ukrainian Hryvnia (UAH) depreciating by -0.6% and -1.9%, respectively. In a separate but related development towards the end of last week, a defacement attack targeted a wide range of Ukrainian government websites including the foreign ministry, the Cabinet of Ministers, and the National Security and Defence Council. The attackers left vague warning messages on the sites with no clear connection to current events. Ukraine's presidential administration announced later in the day that most of the defaced sites have been restored, and critical infrastructure was not affected. On net, further deliberations this week are possible with prospects of written responses from the US and NATO to Russian security proposals as the next signpost. Whilst rhetorical pushback by the US and NATO would not be a surprise, they are likely to send a formal response to Russia as they will want to keep talks alive.

Week ahead

Turkey: CBRT to maintain rates at 14.00% with hikes likely to come in 2022

Turkey is expected to maintain rates at 14.00% following 500bp in cuts since September 2021

The Central Bank of Turkey (CBRT) is expected to maintain rates at 14.00% (MUFG and consensus expectations are aligned) this week. A clear distinction is warranted between what the CBRT should and will do. With a policy rate at 14% and an inflation rate of 36.1%, a significantly tighter stance is necessary to anchor expectations and strengthen price stability. That is what we and broader markets believe the CBRT should do. However, the authorities resoluteness in keeping policy rates lows with their willingness to introduce heterodox measures in an effort to limit TRY volatility arising from exceptionally loose monetary policy, is what the CBRT will likely continue doing. With the CBRT signalling a pause to its cutting cycle after its 18 December meeting, we do not anticipate a cut either, and thus our forecast is for the policy rate to remain on hold this week. Succinctly, the economy's core challenge is spiralling inflation and notwithstanding a wide range of recent measures, none addresses this challenge in the absence of a tighter monetary policy.

We expect the CBRT to reluctantly reverse course and hike rates by 600bp in 2022

From a monetary policy perspective, our base case is that the CBRT will change course and tighten policy this year, but do so reluctantly by raising rates from 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 unambiguously unsustainable and the pressure on the TRY 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).

Ukraine: NBU to maintain rates at 9.00% but risks are skewed to the upside

Ukraine to keep rates on hold at 9.00% but elevated inflation could prompt the NBU to raise rates once again

The National Bank of Ukraine (NBU) is expected to maintain rates on hold at 9.00% this week. With inflation falling by 0.3pp to 10.0% y/y in December, we believe that November could mark the cyclical peak in inflation, and thus offering the space for the NBU to pause. However, we acknowledge that the NBU stated that the inflation level had surpassed its forecasts and given it will be announcing new projections this week, a hawkish inflation trajectory could prompt the NBU to hike further.

South Africa: December inflation to rise on both core and non-core factors

South Africa's December inflation reading to signal that pricing pressures are rising

South Africa's December inflation reading is set to rise from 5.5% y/y in November to 5.9% y/y in December (consensus 5.7% y/y), whilst core inflation is likely to have increased from 3.3% y/y in November to 3.4% y/y in December (consensus is flat at 3.3% y/y). Among non-core factors, we view that higher energy levels will offset lower food costs. Meanwhile, for core inflation, we believe there will be a elevated sequential pace of price growth for both goods and services driven by higher prices of imported goods and a weaker South African Rand (ZAR).

Weekly calendar

	Country	Day	GMT	Indicator/Event	Period	MUFG Forecast	Consensus	Previous	Market Moving
	Nigeria	17/01/2022	---	CPI, % y/y	Dec	---	14.9%	15.4%	!!
	Poland	17/01/2022	13:00	Core CPI, % y/y	Dec	---	5.2% y/y	4/7%	!!
	Russia	18/01/2022	13:00	Current account balance, USD m	Q4-21P	---	USD44300m	USD3691m	!!
	S. Africa	19/01/2022	08:00	CPI, % y/y	Dec	5.9%	5.7%	5.5%	!!!
	S. Africa	19/01/2022	08:00	Core CPI, % y/y	Dec	3.4%	3.3%	5.5%	!!!
	Turkey	20/01/2022	11:00	Monetary policy meeting	Jan	14.00%	14.00%	14.00%	!!!
	Ukraine	20/01/2022	12:00	Monetary policy meeting	Jan	9.00%	9.00%	9.00%	!!!

Source: Bloomberg, MUFG Research

Forecasts at a glance

EM EMEA economic growth, fiscal balance and current account balance

	Real GDP (%, y/y)			Fiscal balance (% of GDP)			Current account (% of GDP)		
	Latest	2021	2022	Latest	2021	2022	Latest	2021	2022
Bahrain	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.	6.60	3.90	5.30	3.75	3.75	4.00	24.511	24.886	21.380
Egypt	5.90	5.40	6.50	8.25	7.75	7.75	15.699	15.723	15.420
Greece	5.12	-0.10	0.40	0.00	0.00	0.00	1.141	1.137	1.132
Hungary	7.40	4.90	4.00	2.40	2.40	4.00	312.6	324.5	314.700
Iraq	8.40	6.40	4.50	4.00	4.00	4.00	1460	1460	1460.000
Israel	2.80	1.50	1.80	0.10	0.10	0.10	3.107	3.103	3.100
Jordan	2.40	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	113.410	113.140	113.040
Kuwait	3.17	2.90	1.90	1.50	1.50	2.00	0.302	0.303	0.303
Lebanon	201.07	124.10	54.70	2.75	2.75	2.75	1510.250	1512.330	1512.330
Libya	4.56	21.10	8.00	3.00	3.00	3.00	4.582	4.597	4.597
Morocco	2.60	1.40	1.20	1.50	1.50	1.50	9.230	9.252	9.250
Nigeria	15.40	17.30	12.30	11.50	11.50	11.50	416.020	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	3.977	4.035	3.948
Romania	8.19	5.30	7.20	2.00	2.00	3.50	4.331	4.353	4.388
Qatar	6.47	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	76.240	74.679	71.130
Saudi Arabia	1.24	3.10	1.70	0.50	0.50	1.00	3.752	3.755	3.755
South Africa	5.50	4.50	4.40	3.75	3.50	4.25	15.390	15.937	15.800
Turkey	36.08	17.90	48.10	14.00	14.00	20.00	13.517	13.317	14.250
Ukraine	10.00	9.40	6.70	9.00	9.00	9.00	28.030	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	17-Dec	24-Dec	31-Dec	07-Jan	14-Jan	Change in yield (basis points) Week	MTD	YTD
Bahrain	10 years	2.73	2.71	2.54	2.71	2.91	20.59	37.87	37.87
Czech Rep.	10 years	2.84	3.05	3.08	3.29	3.18	-11.53	9.56	9.56
Egypt	9 years	7.15	7.17	7.16	7.16	7.83	67.92	67.23	67.23
Greece	8 years	0.97	1.10	1.11	1.28	1.25	-3.39	14.30	14.30
Hungary	8 years	4.32	4.40	4.46	4.63	4.52	-11.38	5.61	5.61
Israel	8 years	0.19	0.22	0.21	0.30	0.37	6.71	15.57	15.57
Jordan	5 years	4.29	4.26	4.27	4.36	4.59	23.23	32.10	32.10
Kenya	7 years	5.86	5.90	5.71	5.88	6.18	29.92	47.42	47.42
Kuwait	6 years	1.65	1.66	1.69	1.74	1.92	18.02	22.64	22.64
Lebanon	9 years	60.49	63.28	64.00	65.85	70.10	424.65	609.71	609.71
Morocco	11 years	2.42	2.40	2.40	2.48	2.63	14.82	23.07	23.07
Nigeria	9 years	7.47	7.52	7.39	7.65	8.00	34.89	61.08	61.08
Oman	9 years	4.76	4.77	4.75	4.99	5.24	24.72	48.79	48.79
Poland	8 years	0.13	0.16	0.17	0.22	0.24	1.96	6.46	6.46
Romania	7 years	1.45	1.55	1.55	1.62	1.69	6.58	13.52	13.52
Qatar	9 years	2.28	2.31	2.25	2.45	2.50	5.30	25.14	25.14
Russia	5 years	2.41	2.47	2.47	2.66	3.32	65.79	84.63	-3.68
Saudi Arabia	8 years	2.17	2.13	2.14	2.36	2.48	12.78	33.84	33.84
South Africa	9 years	4.28	4.26	4.22	4.33	4.56	22.53	33.73	33.73
Turkey	7 years	7.40	7.22	7.22	7.54	7.35	-18.91	13.38	13.38
Ukraine	8 years	9.15	9.40	9.48	9.83	12.13	230.21	265.21	265.21
Abu Dhabi	6 years	1.68	1.72	1.75	1.89	1.99	9.89	24.08	24.08
Dubai	8 years	2.60	2.59	2.58	2.86	2.79	-7.23	20.88	20.88

EM EMEA equity market (index)

	10-Dec	17-Dec	24-Dec	31-Dec	07-Jan	14-Jan	Change (%) Week	MTD	YTD
Bahrain	1,776	1,782	1,778	1,794	1,796	1,816	1.10	1.03	1.03
Czech Rep.	106,291	108,326	104,891	104,822	101,006	106,928	5.86	2.01	2.01
Egypt	11,538	11,618	11,525	11,913	11,983	11,831	-1.27	-0.99	-0.99
Greece	898	883	884	894	906	949	4.82	6.27	6.27
Hungary	51,263	50,132	49,084	50,343	52,097	52,676	1.11	3.85	3.85
Israel	1,908	1,887	1,922	1,975	2,016	2,054	1.86	3.82	3.82
Jordan	2,091	2,090	2,079	2,117	2,146	2,183	1.76	3.05	3.05
Kenya	158	163	165	169	169	165	-2.45	-0.82	-0.82
Kuwait	7,045	6,989	7,032	7,044	7,055	7,385	4.67	4.85	4.85
Lebanon	658	658	658	658	658	658	0.00	-4.87	-4.87
Morocco	13,231	13,271	13,211	13,389	13,278	13,784	3.81	3.19	3.19
Nigeria	42,435	42,357	42,244	41,807	43,477	44,455	2.25	4.07	4.07
Oman	4,012	4,021	4,110	4,136	4,179	4,241	1.47	2.69	2.69
Poland	2,220	2,161	2,212	2,261	2,311	2,383	3.12	5.13	5.13
Romania	12,448	12,204	12,478	13,068	13,187	13,682	3.75	4.75	4.75
Qatar	11,610	11,642	11,684	11,679	11,714	12,434	6.14	6.95	6.95
Russia	3,774	3,622	3,747	3,741	3,815	3,597	-5.72	-5.02	-5.02
Saudi Arabia	10,992	11,143	11,204	11,200	11,328	12,110	6.91	7.34	7.34
South Africa	65,993	65,102	64,804	66,614	68,367	68,448	0.12	2.08	2.08
Turkey	2,005	2,162	1,804	1,895	2,005	2,073	3.37	11.59	11.59
Ukraine	523	523	523	523	523	523	0.00	0.00	0.00
Abu Dhabi	8,983	8,819	8,399	8,451	8,465	8,425	-0.46	-0.74	-0.74
Dubai	3,193	3,255	3,126	3,174	3,191	3,202	0.34	0.18	0.18

EM EMEA FX against USD*

	10-Dec	17-Dec	24-Dec	31-Dec	07-Jan	14-Jan	Change (%) Week	MTD	YTD
USD Index	96.097	96.565	96.019	95.968	95.719	95.165	-0.58	-0.53	-0.53
Bahrain**	0.379	0.379	0.380	0.379	0.379	0.379	-0.05	0.13	0.13
Czech Rep.	22.422	22.444	22.100	21.880	21.498	21.485	-0.06	1.84	1.84
Egypt	15.699	15.748	15.723	15.723	15.723	15.699	-0.16	-0.16	-0.16
Greece***	1.131	1.124	1.132	1.137	1.136	1.141	0.45	0.36	0.36
Hungary	323.520	326.760	326.320	324.460	315.640	312.570	-0.97	3.80	3.80
Israel	3.101	3.133	3.149	3.103	3.103	3.107	0.12	-0.12	-0.12
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	0.302	0.302	0.302	0.302	0.302	0.302	0.00	0.15	0.15
Lebanon	1,510.39	1,508.67	1,512.25	1,510.25	1,510.25	1,510.25	0.00	0.14	0.14
Morocco	9.248	9.289	9.262	9.252	9.246	9.230	-0.17	0.23	0.23
Nigeria	414.320	414.870	414.950	424.830	415.450	416.020	0.14	2.12	2.12
Oman**	0.386	0.387	0.386	0.386	0.386	0.386	-0.05	0.05	0.05
Poland	3.756	3.754	3.752	3.754	3.755	3.755	-0.01	-0.03	-0.03
Romania	4.375	4.404	4.372	4.353	4.352	4.331	-0.47	0.49	0.49
Qatar**	3.671	3.671	3.671	3.674	3.670	3.669	-0.03	0.14	0.14
Russia	73.372	74.152	73.664	74.679	75.755	76.240	0.64	-2.05	-2.05
Saudi Arabia**	3.756	3.754	3.752	3.754	3.755	3.755	-0.01	-0.03	-0.03
South Africa	15.976	15.885	15.545	15.937	15.581	15.390	1.24	3.56	3.56
Turkey	13.878	16.410	10.639	13.304	13.870	13.530	2.51	-1.67	-1.67
Ukraine	3.751	3.753	3.756	3.755	3.754	3.752	-0.03	0.08	0.08
UAE**	3.674	3.674	3.674	3.674	3.674	3.674	-0.01	0.01	0.01

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)

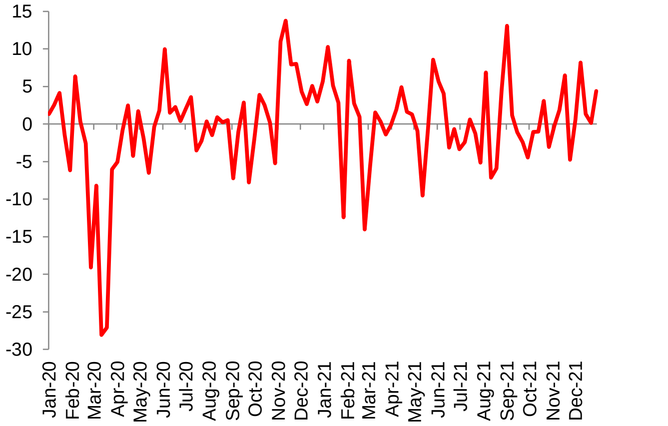
	10-Dec	17-Dec	24-Dec	31-Dec	07-Jan	14-Jan	Change in yield (basis points) Week	MTD	YTD
Bahrain	300.23	306.70	304.01	298.32	298.55	302.79	4.24	8.96	8.96
Czech Rep.	35.20	35.89	35.35	35.62	35.30	35.26	-0.04	-0.36	-0.36
Egypt	501.90	507.22	507.02	498.04	497.89	558.57	60.68	60.54	60.54
Greece	122.20	110.28	113.23	111.99	108.49	110.25	1.76	-1.74	-1.74
Hungary	51.97	49.23	44.93	44.72	45.45	49.10	3.65	4.38	4.38
Israel	39.15	39.41	39.10	40.21	39.42	37.84	-1.59	-2.38	-2.38
Kenya	422.98	427.65	417.07	406.89	406.98	417.15	10.17	10.27	10.27
Kuwait	44.69	44.72	44.68	44.71	49.63	50.19	0.56	5.48	5.48
Morocco	96.24	97.17	96.35	95.39	97.23	99.96	2.72	4.57	4.57
Nigeria	455.45	455.18	455.34	455.07	464.61	528.57	63.97	73.50	73.50
Oman	269.41	261.94	265.73	255.81	261.35	259.32	-2.03	3.51	3.51
Poland	52.54	46.44	40.28	39.59	40.20	40.75	0.55	1.17	1.17
Romania	83.38	79.87	72.82	74.82	79.83	84.62	4.79	9.80	9.80
Qatar	44.03	44.85	44.66	43.76	45.18	48.60	3.42	4.84	4.84
Russia	106.22	132.30	129.57	124.42	124.87	176.08	51.21	51.66	51.66
Saudi Arabia	53.02	51.43	52.59	49.38	49.57	52.73	3.17	3.36	3.36
South Africa	219.85	214.90	207.90	203.02	195.23	206.72	11.49	3.69	3.69
Turkey	500.83	566.12	562.91	562.76	573.98	557.86	-16.12	-4.89	-4.89
Ukraine	532.01	583.59	613.98	610.89	639.40	845.98	206.59	235.09	235.09
Abu Dhabi	44.02	44.74	44.28	42.90	44.93	48.36	3.43	5.46	5.46
Dubai	91.95	92.85	94.66	94.06	93.96	93.85	-0.11	-0.21	-0.21

Source: Bloomberg, MUFG Research

EM capital flows

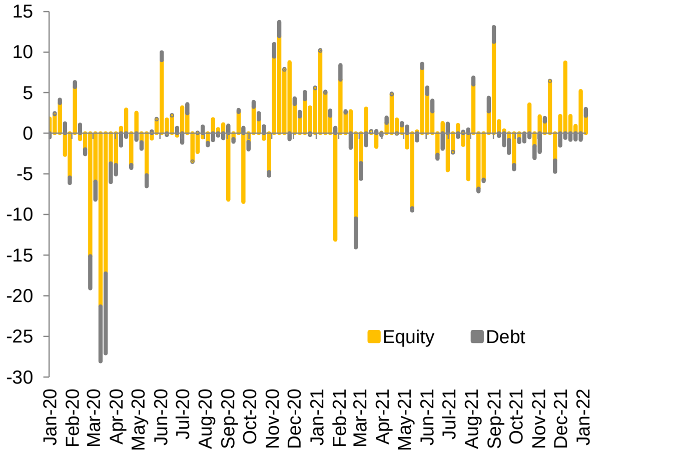
WEEKLY TOTAL EM INFLOWS OF USD0.4BN – 14 JANUARY

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



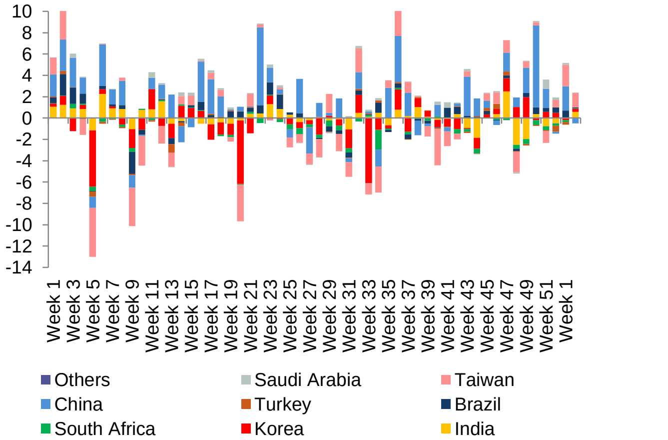
WEEKLY EM INFLOWS FROM EQUITY (USD0.1BN) AND DEBT INFLOWS (USD0.3BN) – 14 JANUARY

WEEKLY DEBT AND EQUITY FLOWS (USD BN)



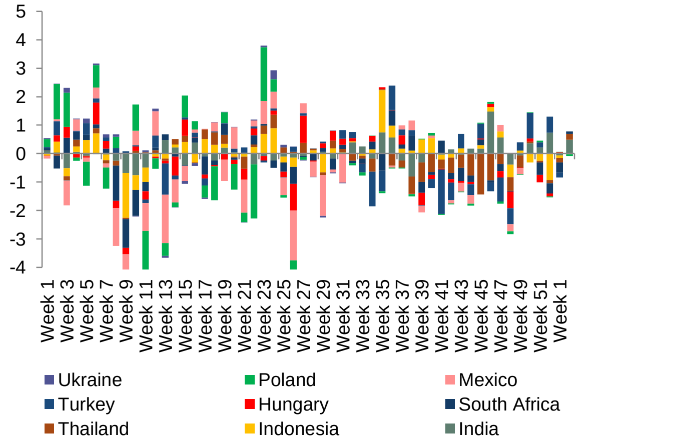
CHINA (USD0.1BN) LED WEEKLY EM EQUITY INFLOWS – 14 JANUARY

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



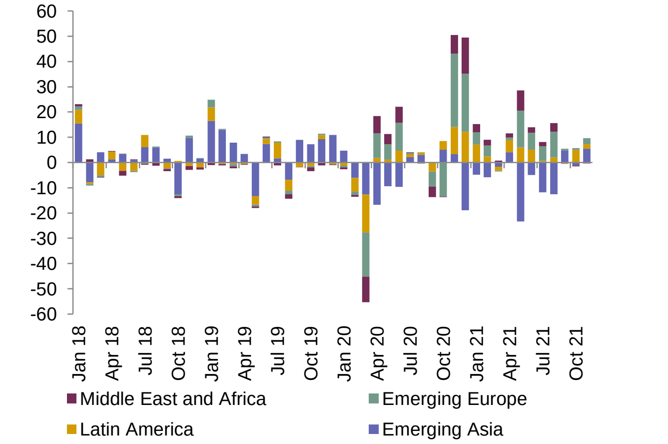
INDIA (USD0.2BN) AND THAILAND (USD0.2BN) LED EM DEBT INFLOWS LAST WEEK – 14 JANUARY

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



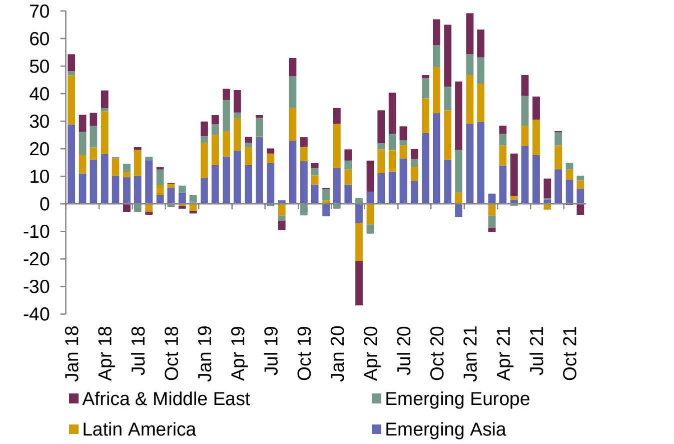
EM EQUITY FLOWS TOTALLED USD9.2BN IN NOVEMBER, LED BY EM ASIA (USD5.4BN) AND EM EMEA (USD2.5BN)

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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