EmergingMarketWatch 5 selected EM stories

Kazakhstan

Industrial output grows by 4% y/y in March

- Manufacturing drives performance with 10.1% y/y growth, decline in extraction also eases
- Performance in high value added sectors largely strong, growth in utilities up to 5.2% y/y
- Short-term pressures stem from COVID-19 spike, higher OPEC+ quota and vaccination to boost performance afterwards

Turkey

Government tightens pandemic restrictions as cases soar

- Duration of weekday curfews extended for two weeks, intercity travel banned
- Coffee and tea houses, sports facilities closed during Ramadan, cafes and restaurants allowed only for deliveries and takeaways
- In-person education, public sector working hours limited
- Daily new cases hit all time high of 59,187 on Apr 13
- Erdogan warns against tougher measures if new measures fail to curb virus spread

Egypt

Foreign holdings of T-bills rises 6.1% m/m to EGP 298bn as of end-January

- Influx of portfolio investments since June has been instrumental in stabilizing FX reserves
- Portfolio inflows have amounted to USD 11.2bn since June 2020
- Strong portfolio inflows reflect Egypt's high real interest rates and sizeable FX reserves

Brazil

BCB to hike by 75bps in May as inflation pressure persists

- Next MPC meeting: May 5, 2021
- Current policy rate: 2.75%
- EmergingMarketWatch forecast: 75-bp hike (to 3.50%)

Mexico

Higher CPI inflation but dovish MPC paint uncertain monetary outlook

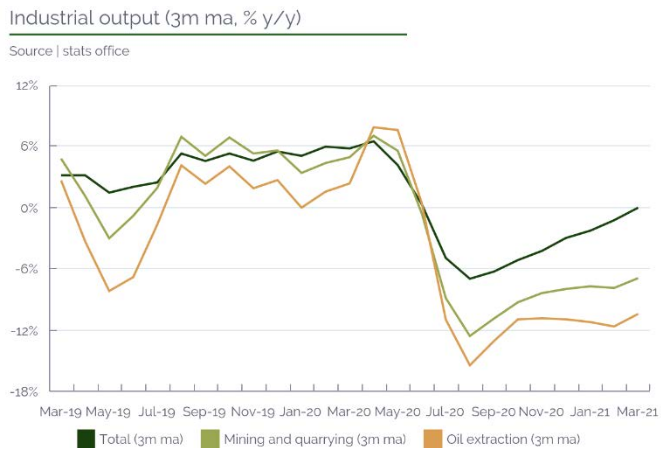
- Next MPC meeting: May 13
- Current policy rate: 4.00%
- EmergingMarketWatch forecast: Hold

Kazakhstan

Industrial output grows by 4% y/y in March

- **Manufacturing drives performance with 10.1% y/y growth, decline in extraction also eases**
- **Performance in high value added sectors largely strong, growth in utilities up to 5.2% y/y**
- **Short-term pressures stem from COVID-19 spike, higher OPEC+ quota and vaccination to boost performance afterwards**

Industrial output growth jumped to 4% y/y in March after 0.2% y/y in February, according to data published by the statistical office. This improvement was expected in the context of epidemiological stabilisation throughout most of the month, increasing demand, and Kazakhstan's higher OPEC+ quota. The latter had an evident effect on performance in the extraction segment, where the decline eased from 6.8% y/y to 3.6% y/y. Specifically, oil output fell by 7.9% y/y, as opposed to 10.9% y/y previously, which was also helped by the monthly overproduction relative to OPEC+ restrictions. The contraction of gas production similarly eased to 7.3% y/y and growth in ore production (2.3% y/y) remained a positive factor.



Manufacturing remains the primary driver of the recovery as growth in the segment reached 10.1% y/y. Efforts to accumulate domestic fuel reserves ahead of planned repair works continued to boost oil processing in March. It thus posted 6.1% y/y growth after consistently declining throughout 2020. Growth in machine building stayed high at 23.1% y/y, backed by production of electronics, specialised equipment, and transport vehicles. While the metal production segment has mostly been stable during the crisis, it posted zero growth in March. This was compensated by the other high value added sectors' contributions as well as ongoing growth in food production (3.6% y/y). Utilities growth also increased to 5.2% y/y on higher electricity production.

Industrial output (% y/y)

	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
Mining and quarrying	-6.30%	-6.50%	-10.20%	-6.80%	-3.60%
Gas	-8.90%	-10.50%	-9.70%	-9.90%	-7.30%
Oil	-9.60%	-11.60%	-12.30%	-10.90%	-7.90%
Manufacturing	4.60%	10.80%	3.00%	9.10%	10.10%
Utilities	-10.70%	-0.90%	4.90%	4.60%	5.20%
Total	**-2.90%**	**0.30%**	**-4.10%**	**0.20%**	**4.00%**

Source: EmergingMarketWatch

Overall, the March data is in line with the strong improvement of GDP performance, whereby the decline eased from 2.9% y/y in Jan-Feb to 1.6% y/y in Jan-Mar. In the short term, the ongoing spike of COVID-19 in Kazakhstan will be a renewed stifling factor, but industrial output recovery should generally pick up in Q2 due to the active vaccination campaign. The country's OPEC+ quota will increase consistently over the next months, alleviating some of the pressure on the extraction segment. The government has also rejected the possibility of a countrywide lockdown at present, which is a positive signal for manufacturing. Assuming the vaccination campaign is successful, its effect should start to materialise more notably around June and onwards.

Turkey

Government tightens pandemic restrictions as cases soar

- **Duration of weekday curfews extended for two weeks, intercity travel banned**
- **Coffee and tea houses, sports facilities closed during Ramadan, cafes and restaurants allowed only for deliveries and takeaways**
- **In-person education, public sector working hours limited**
- **Daily new cases hit all time high of 59,187 on Apr 13**
- **Erdogan warns against tougher measures if new measures fail to curb virus spread**

President Recep Tayyip Erdogan announced a series of new restrictions to stem the coronavirus pandemic for the first two weeks of the Month of Ramadan, which started on Apr 13, in a press conference following a cabinet meeting yesterday, the Haberturk news website reported. Erdogan dubbed the two-week period ahead as a period of partial closure and warned that the government would have to take tougher measures in case of no significant fall in the coronavirus case and death numbers.

As part of the two-week scheme of lockdown to be valid as of Apr 14, Erdogan said the duration of weekday curfews will be implemented for extended hours between 7 p.m. and 5 a.m. nationwide. The government had already ruled for weekend curfews nationwide during the Ramadan Month. According to a notification by the Interior Ministry to provincial governorships, certain institutions and people will be exempt from the curfews in order to prevent disruptions in the chains of manufacturing, supply and logistics. The ministry also said the exemption to foreign tourists from the curfews will be suspended for a short period of time.

Erdogan said intercity travel will be banned over the next two weeks, and citizens aged above 18 and below 65 will not be allowed to use inner-city public transport. The Interior Ministry noted that public transport vehicles will work with 50% capacity, adding time limitations for people aged below 18 and above 65 to go out on weekdays.

Coffee and tea houses, and sports facilities will be closed till the end of the Ramadan, Erdogan said. Cafes and restaurants will remain open within specified hours and only for deliveries and takeaways, he added. Hotels will be allowed to serve customers only. In addition, the government suspended all kinds of events in closed spaces, including wedding ceremonies till after the Ramadan Feast in mid-May.

Erdogan also informed that in-person education was limited to pre-school pupils and eight- and twelfth-grade students and all other students will continue distance learning. He added that public offices will close at 4 p.m. and switch to flexible working hours, while female employees, who are pregnant, and those with children aged below 10, and employees with chronic illnesses will be put on administrative leave. Erdogan added that the private sector was encouraged to adopt the same measures.

Turkey is one of the countries with the highest progress in vaccination works, Erdogan said. The country has so far administered 19.2mn doses of vaccine, according to data by the Health Ministry. The number of two-dose vaccine recipients reached 7.7mn, compared to total population of 83.6mn. The Health Ministry reported 59,187 new coronavirus cases on Apr 13, which represented the highest daily number since the beginning of the pandemic. The total number of cases neared 4.0mn with total recoveries of 3.4mn. The death toll increased by 273 d/d to 34,455. Erdogan did not specify a government target for the sought decline in new case and death numbers with the partial closure.

We expect the tightening of pandemic restrictions to slow down economic activity from its current favourable state, based on leading indicators. The restrictions may continue to limit services and clothing inflation but they may have repercussions on food inflation at a time when food prices tend to rise due to the Ramadan Month, by experience.

Egypt

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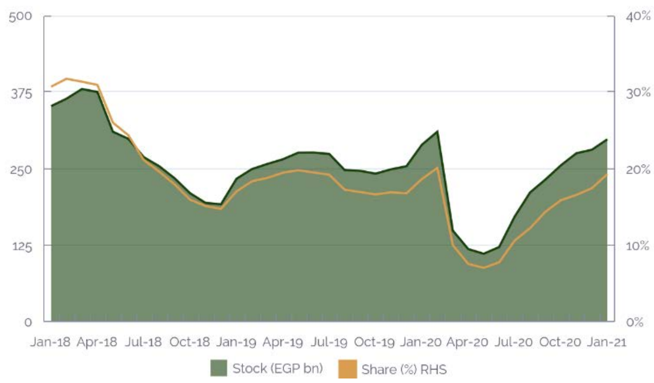
- **Influx of portfolio investments since June has been instrumental in stabilizing FX reserves**
- **Portfolio inflows have amounted to USD 11.2bn since June 2020**
- **Strong portfolio inflows reflect Egypt's high real interest rates and sizeable FX reserves**

The stock of T-bills held by foreign investors rose for the eighth month in a row, by strong EGP 17.0bn or 6.1% m/m to EGP 298.2bn as of end-January (USD 19.0bn), following 2.1% m/m increase in December, according to data published by the central bank (CBE). Foreign investors now hold 19% of total T-bill stock, compared to 20% as of end-Feb 2020 and about 0% when the CBE floated the pound in late 2016 under an IMF deal. The CBE has not published data on the foreign holdings since August, but officials in the finance ministry said last month foreign holdings of debt instruments surged to USD 28.5bn as of end-February, which would be an all time high. Overall, the influx of portfolio investments since June (net inflow of EGP 176bn) has been instrumental in stabilizing the FX reserves as traditional sources of FX, such as tourism and Suez Canal receipts, took a hit from the pandemic. Strong portfolio inflows reflect Egypt's high real interest rates and sizeable FX reserves. Further, Egypt secured USD 8.0bn financing from the IMF which has instilled confidence in foreign investors.

Foreigners' holdings of T-bills (EGP bn)

Source | CBE



Brazil

BCB to hike by 75bps in May as inflation pressure persists

- **Next MPC meeting: May 5, 2021**
- **Current policy rate: 2.75%**
- **EmergingMarketWatch forecast: 75-bp hike (to 3.50%)**

BCB Governor Roberto Campos Neto indicated Apr 9 that the high IPCA inflation reading for March confirmed the view that another 75-bp hike of the key Selic rate was needed at the next policy meeting on May 5. The stats office IBGE said earlier that morning that IPCA inflation accelerated to 6.10% y/y in 12-month terms from 5.20% the month before, to hold well above the BCB's 2021 target of 3.75% (+/- 1.5pps), but exceeding the fluctuation band as well. Campos Neto followed that release by saying that if anything were to change in rate outlook he would communicate that.

Campos Neto expressed his optimism about the pace of economic reopening in Brazil in H2 2021. He said the central bank expects that vaccinations will pick up speed in April and accelerate even more from June based on the Health Ministry data. But the coronavirus is still a problem and the pace of vaccinations has not picked up. This along side the expected rate tightening could lead to downside risks to the economy. Analysts polled by the BCB forecast GDP growth of 3.08% for 2021.

The analysts polled by the BCB continue to expect the central bank's rate-setting Copom to hike its key rate by 75bps to 3.50% at the next policy sitting on May 5, according to the latest week. But they increased their Selic forecast to 5.25% for 2021 from 5.00% a week earlier. Analysts expect the key rate to be raised a total of 325bps this year, up from 300bps a week earlier. Analysts also expect the BCB to hike the Selic rate to 6.00% by end-2022, meaning hikes of 75bps next year.

Overall, the Copom has recognized that a persistent increase in commodity prices is stoking inflation and has triggered an additional increase in inflation forecasts for the next few months, especially through its effects on fuel prices. With the higher inflation pressure and an uncertain reform outlook, this sets up a 75-bp hike on May 5.

Copom structure and latest voting results

Board member	Position	Latest vote
Roberto Campos Neto	Governor	Cut
Fabio Kanczuk	Director of Economic Policy	Cut
Carolina de Assis Barros	Director of Administration	Cut
Mauricio Costa de Moura	Director of Institutional Relations and Citizenship	Cut
Otavio Ribeiro Damaso	Director of Regulation	Cut
Paulo Sergio Neves de Souza	Director of Inspection	Cut
Bruno Serra Fernandes	Director of Monetary Policy	Cut
Joao Manoel Pinho de Mello	Director of Financial System and Resolution	Cut
Fernanda Feitosa Nechio	Director of International Affairs and Corporate Risk Management	Cut

Source: BCB

BCB Inflation Reports (March is the latest)

Latest Copom policy sitting statement

Latest policy sitting minutes

Selic interest rate historical

Mexico

Higher CPI inflation but dovish MPC paint uncertain monetary outlook

- **Next MPC meeting: May 13**
- **Current policy rate: 4.00%**
- **EmergingMarketWatch forecast: Hold**

CPI inflation accelerated sharply in March, to 4.67% y/y, on the back mainly of a base effect, but also due to supply shocks with energy prices up by 14.55% y/y. This spike has led some analysts to forecast that Banxico could raise its key rate before year-end, but no move is likely anytime soon due to the dovish tone taken by the Monetary Policy Council (MPC) and reflected in the latest sitting's minutes, published last Thurs.

Core CPI inflation accelerated to 4.12% y/y, exceeding the central bank's 2.00% to 4.00% tolerance band. This acceleration shows that inflationary pressure is not only explained by energy prices and base effects, with higher pressure from both the goods and services components. The state-owned power firm CFE also warned Mon. that electricity tariffs will increase by 3.3% from April, which will reflect the extra cost paid for natural gas for electricity generation in February due to a record cold snap seen in Texas that impacted power supplies. That could add further price pressure.

Most MPC members agree the March decision to hold the key rate at 4.00% does not mean the easing cycle has ended, according to the sitting's minutes. However, the board agreed it is crucial to keep inflationary expectations anchored and to have them move slowly towards the bank's 3.00% target, even if this means the monetary policy is not contributing to the economic recovery.

Some board members are calling for a prudent handling of monetary policy to ensure both core CPI inflation and general inflation converge on the central bank's 3.00% target. Indeed, the bulk of the board seems to agree that no monetary easing should come in the immediate term, considering that a cut during the inflationary pressure to be seen in Q2 2021 could hurt the bank's credibility, according to comments made by board members.

Some board members seem to be focused on possible currency volatility. One board member warned that currency depreciation is likely because of US monetary policy, with likely pressure on CPI inflation. In contrast, a dovish member (we speculate that this is Deputy Governor Gerardo Esquivel) praised the country for maintaining a solid macroeconomic stance and said the current account favors currency appreciation.

Overall, like the market, we fully expect rates to be held in the short term. Further easing in H2 2021 is possible, in our view, considering the dovish nature of the board, with most seemingly favoring a more expansive monetary policy, though this will depend on the pace of core inflation. It's important to keep in mind the market does not forecast this easing, with the consensus now expecting the easing cycle to have ended and Banxico to start tightening in late 2021, as more speculated after the recent high inflation print, or in early 2022.

Monetary policy forecasts by Q-end

Share of analysts anticipating rate will be:	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Above its current position	0	0	0	0	0	0	0	0
Equal to the current position	34	3	3	3	3	3	3	3
Below current position	66	97	97	97	97	97	97	97

Source: Banxico

Monetary Policy Council members

Members	Overall bias	Latest known vote
Alejandro Diaz de Leon (Governor)	Neutral	25bps cut
Irene Espinosa	Neutral	25bps cut
Javier Guzman	Hawkish	25bps cut
Jonathan Heath	Dove	50bps cut
Gerardo Esquivel	Dove	25bps cut
Note: Overall bias calculated from voting behavior		

Source: Banxico

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