



Macro/Global Comments

Emerging Markets Weekly

March 24th, 2016

South Africa: President Zuma faces corruption charges

Brazil: Inflation eases, current account deficit shrinks and foreign direct investment rises

Argentina: President Obama dances the Tango in Argentina



As Global Economy Enters Transition Period 'Trade of the Decade' Emerges

The economic statistics for most countries have begun to turn very slightly for the better. The numbers generally are still very small and hardly signal an upturn. But there is a distinct improvement in growth, inflation and in the external accounts. Perhaps we are seeing the onset of spring.

The US will release its final Q4 GDP numbers on March 25. If they come in with a strong number, we should see all sorts of comments about the need for another interest rate hike by the Fed. We probably will not get that hike yet at the next FOMC meeting, but the push for one will accelerate. Also important, a positive GDP number should lower the call for negative interest rates and other stimulatory measures. We are going into a transition period.

We continue to highlight - as the global economy continues to de-polarize (see [here](#)) many unstable Emerging Markets will begin to stabilize and the focus among investors globally can be expected to shift from the far reaching complications posed by a slowing China, weak commodity prices, strengthening US dollar and political turmoil to improvement across these 'key risk factors'. Many commentators are now calling Emerging Markets the 'trade of the decade'. We would argue that EMs most exposed to the key risk factors are the 'trade of the decade'. Russia, Brazil, Chile, Malaysia...

Latin America

Brazil

The country is not getting a break from anywhere. Unemployment in February rose to 8.2% from 7.6% the preceding month. Inflation in early March stood at 9.95% y/y, minutely lower than the 10.84% posted in February.

The current account deficit in February decreased to \$1.92 billion from \$4.82 billion in January.

Interestingly, foreign direct investment in February increased to \$5.92 billion from \$5.46 billion the month before.

Politically, the situation in Brasilia remains unresolved. President Dilma Rousseff is increasingly under pressure as the legislature moves closer to impeachment procedures. The effort to make former President De Silva become her chief of staff is in limbo, as a judge imposed an injunction.

The situation in Brazil offers a prime example of the current dynamics at play. Brazil is one of the most exposed countries to the current set of key risk factors. As oil prices have begun to stabilize, political turmoil has come close to reaching a climax and China has shown signs of stabilization the MSCI Brazil 25/50 Index has surged and is up by 46% since Emerging Markets most recently bottomed on January 21st.

Economic Calendar

March - 28	March - 29	March - 30	March - 31	April -1
	Brazil - FGV Consumer Confidence, Bank Lending	Brazil - IGP-M Inflation Index, Debt-to-GDP ratio, Budget Balance	South Africa - M3 Money Supply, Private Sector Credit, PPI, Trade Balance	Russia - Markit Manufacturing PMI
		India - M3 Money Supply, Federal Fiscal Deficit	Hong Kong - M3 Money Supply, Retail Sales	Brazil - Industrial Production, Markit Manufacturing PMI, Trade Balance
		South Korea - Manufacturing BSI Index, Industrial Production, Service Sector Output	India - Foreign Debt, Infrastructure Output	
		Singapore - Bank Lending	Brazil - Long Term Interest Rate	
			South Korea - CPI, Current Account, Exports, Imports, Nikkei Manufacturing PMI	
			Singapore - URA Property Index	
			China - Manufacturing PMI, Non-Manufacturing PMI	

Argentina

President Obama seemed to have a successful meeting with the country's new President, Mauricio Marci and in a joint news conference the two men pointed to new initiatives for the country's economy. It's early days but indications are that Argentina will now be able to get out of its decades-long economic malaise. If that happens, there will be a new era for Latin America as a whole.

A very important change for Argentina is Mr. Marci's commitment to overhaul and improve the country's statistical collection and distribution system. The phantom numbers of the Kirchner days are expected to be replaced with real numbers.

Source: Reuters, Bloomberg and MNI News

Assuming the economic statistics are now real, Consumer confidence in March stood at 48.2, up nicely from 45.6 in January.

The trade balance in February showed a surplus of \$98 million vs. a deficit of \$200 million the month before. If things are getting better, we should see much better surpluses in the months ahead.

Europe

Russia

Moscow is starting up a local ratings agency, ACRA or Analytical Credit Rating Agency. The new firm will compete head-on with the big three American rating firms. Not only that, Russia introduced new rules for the rating firms that makes it difficult for them to properly rate the local companies under its long-established methodologies. As a consequence, Moody's Investor Services and Fitch seem to be bowing out and S&P is negotiating new arrangements with the central bank.

It will take some time for this change in the landscape of rating services to show what is what.

Producer prices in February rose 3.5% y/y after having climbed 7.5% the month before. On a monthly basis the PPI fell 1.5% from a negative 1.2% in January.

The unemployment rate in February stood at 5.8% unchanged from the month before. Real wage growth in February declined 2.6%, not as steeply as the 6.1% drop seen in January.

Retail sales in February were down 5.9% after falling 7.3% the month before.

Turkey

Capacity utilization in March stood at 74.3, down marginally from 73.5% the month before. Meanwhile, business confidence in March stood at 106 up slightly from 104.5 in February. This implies that the dip in capacity utilization is a temporary phenomenon.

Hungary

The Monetary Council of the Magyar Nemzeti Bank cut the base rate by 15 basis points to 1.20%, effective March 23. The overnight deposit rate was lowered by 15 basis points to -0.05% and the lending rate to 1.45% from 2.1%.

Inflation has remained substantially below the bank's 3% target for some time, slowing to 0.3% in February.

Growth is expected lose more momentum in the first half of this year due to weaker emerging market activity and the deceleration in funding from the EU, the minutes of the February policy meeting revealed. However, the bank expects a recovery in the second half

of the year, on the back of improvement in the country's export markets and monetary and fiscal policy measures.

Africa

South Africa

President Jacob Zuma's political troubles are intensifying on allegations that he pushed members the Gupta brothers into major policy positions. The political turmoil could easily result in President Zuma coming under enough pressure to be removed from his post on corruption charges.

The South African Reserve Bank on March 17 for the second time this year raised its benchmark rate. The move came as Pretoria is enmeshed in a political crisis and the economy is showing distinct signs of trouble ahead. Inflation has refused to subside and is currently forecast to rise to 6.6% for the year.

It is not quite clear why the bank would boost its base rate when it is worried about economic growth, but the contradictory move is in line with Pretoria's poor economic management and the continued need to fight inflation.

The CPI in February rose 7% y/y after having risen 6.2% the month before. On a monthly basis the CPI was up 1.4% vs 0.8%.

Core inflation inched up 5.7% y/y from 5.6% in January.

Middle East

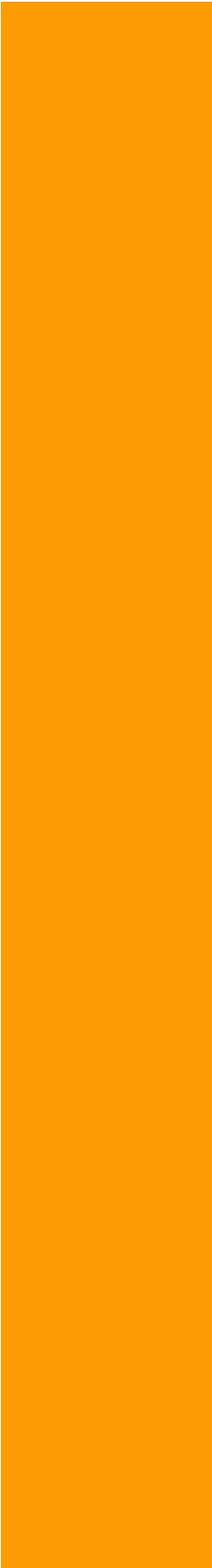
Israel

Industrial production in January fell 3.5% m/m and fell 2.2% y/y. The month before industrial production had risen 6.2% y/y and had been down 0.8% on a monthly basis. Industrial production in the preceding months was mostly higher. Generally, Israel's economy has been mostly mixed, following economic activity in Europe and the rest of the globe.

Asia

Singapore

Inflation remains in negative territory. CPI y/y fell 0.8% in February after having fallen



0.6% the month before. On a monthly basis prices were down 0.1% vs 0.2%

Core inflation, meanwhile, were up 0.5% in February, following an 0.4% increase in January.

Industrial production in February fell 4.7% y/y after inching higher by a mere 0.1% in the preceding month. On a monthly basis industrial production was down 4.8% after a 9.9% leap in January.

Research Flow

Our Proprietary Measure of Online Activity Indicates Real Risk is Bubbles, Not Crash

Are Riskiest EMs Trade of the Decade?

RRG Corporate Governance - 5 Year Performance Track Record

Hate To Say We Told You So - Riskiest Markets Perform Best

RRG StatArb Algorithm Strikes Again - Recent Trade +3.3%

China's RRR Reduction is a Mistake

Riedel Comments on EM and China Today

Riedel CNBC Interview - Outlook for Markets in Asia and Emerging Markets Globally

Signs of Stabilization Point to Outperformance by the Most Fragile EM Markets

EDU - Best Brand of English Language in China Set to Outperform Estimates - BUY

GODREJ - Indian Consumer Products Leader Becoming Major EM Player Globally - BUY