

What EM crisis?

Weekly Digest

1 October 2018

– David Lashbrook, CFA

The poor performance of Emerging Markets has featured prominently in the press in recent months, but our experience in the real economies of some Emerging Markets is somewhat different.

Within our African real estate team, we invest and develop commercial real estate in sub-Saharan Africa outside of South Africa, so we operate in Frontier Markets which are at the very far end of Emerging Markets. Our key investment destinations include Ghana, Nigeria, Kenya, Cote d'Ivoire, Mauritius, Uganda and Tanzania where we are seeing a steady overall improvement in conditions in the real economy from the lows of two years ago. As a result, we are relatively optimistic that we will be able to finalise some investments before the end of the year.

After several years of poor economic performance following the 2014/15 commodity price collapse, growth has returned to our focus countries. The economies of Ghana, Kenya, Cote d'Ivoire, Kenya, Tanzania and Uganda are all expected to grow by at least 5% this year whilst Nigeria has finally emerged from recession and is forecast to grow at two percent this year. This is significant because Nigeria is by far the largest economy that we hunt in – it is approximately five times larger than our second largest economy, Kenya.

In addition, inflation has dropped significantly. Ghana's inflation today is almost half of its 2016 peak of 18%. Nigeria's inflation has followed a similar trend. The absolute levels of inflation are lower in East Africa, but the trend is similar: Kenya's inflation is forecast to drop to 5% this year, down from a high of 8% last year.

Because of the strong economic growth and the decline in inflation mentioned above, we are finally beginning to see an increase in the willingness of tenants to commit to projects because their confidence is returning. This is not only local tenants, but internationals too: we recently let a significant portion of one of our office blocks in Ghana to a company that was recently backed by a \$300m capital injection from Microsoft and Cisco.

We are travelling to Nigeria the week after next, our first trip to the country in two and a half years. The country's dollar shortage has kept us away until now. Nigeria depends on exports of crude oil for approximately 70 percent of government revenue and 90 percent of foreign exchange earnings, so its FX reserves were decimated when the oil price halved. However, the oil price is now recovering and so is dollar liquidity, enabling businesses to start operating normally again. For example, local retailers can now obtain foreign currency allocations that will enable them to stock their shelves – this was impossible two years ago.

We are cautiously optimistic that these positive trends will enable us to meaningfully deploy our investors' capital in several projects across multiple countries in the coming months. Considering emerging market assets more broadly, although it is a challenging environment currently, times like these often present excellent opportunities for those investors with the ability to select their investments carefully and with the patience to wait for rewards over a medium to long term horizon.

The Marketplace

- Brent crude at a four year, high rising 4% to \$82.7 last week
- Gold finished the week down 0.4% at 1192.5 per ounce
- Large Bond market sell-off over the last week continued the month's trend
- Volatility remained subdued across global markets in September

Market Focus

US

- The Dow Jones was down 1% on the week at 26,458
- The Federal Reserve raised short term interest rates by 25bp, expectations are of another hike in December
- The S&P finished the week down 0.5% at 2914
- President Trump addressed the UN General Assembly very much in 'America First' mode. He hit out particularly at China in terms of trade and Iran, security
- The US economy grew at 4.2% in the second quarter, the fastest pace since the end of 2014

UK

- Theresa May has indicated she would prefer a 'no deal' Brexit to a Canada style FTA as she attempts to fend off the Brexiteers. Her speech this week at the Conservative conference is expected to be a hard line defence of her Chequers proposal

- The UK current account deficit unexpectedly came in wider at 3.9% of GBP in Q2. GDP growth was unchanged at 0.4%
- The FTSE 100 index was up 0.3% at 7510

Europe

- The Eurostoxx 50 fell 0.9% on the week to 3399
- Germany's CPI print for September was a healthy 0.4% vs an expected 0.1% driven primarily by the energy sector
- Euro area unemployment fell to 8.1% in August which is the lowest level since November 2008
- EU countries plan to continue to trade with Iran thus sidestepping US sanctions
- Italian BTP yields down 7bps on the 10 year and 5.2 on the 2 year. The government has agreed to set next year's budget deficit at 2.4%

Asia / Rest of The World

- The South African rand bounced back 3.9% against the dollar in September following August's record breaking 9.6% slump
- China's manufacturing PMIs for September came in below expectations at 50.8 vs 51.2. Non-manufacturing showed improvement at 54.9 vs 54 expected
- The Nikkei index rose 1.9% to 24,120
- The Hang Seng index rose 1.4% to 27788.5

Asset Class/Region	Currency	Currency returns			
		Week ending 28 Sept. 2018	Month to date	YTD 2018	12 months
Developed Market Equities					
United States	USD	-0.5%	0.5%	10.1%	17.7%
United Kingdom	GBP	0.3%	0.3%	0.9%	6.6%
Continental Europe	EUR	-0.7%	-0.8%	0.9%	0.8%
Japan	JPY	1.5%	5.3%	2.0%	10.7%
Asia Pacific (ex Japan)	USD	-0.6%	-1.9%	-5.5%	2.6%
Australia	AUD	0.2%	-1.7%	5.9%	14.2%
Global	USD	-0.6%	0.3%	5.4%	11.7%
Emerging markets equities					
Emerging Europe	USD	3.7%	7.7%	-6.3%	-0.7%
Emerging Asia	USD	-0.7%	-2.2%	-6.8%	1.8%
Emerging Latin America	USD	1.2%	5.7%	-6.9%	-8.1%
BRICs	USD	-0.8%	-1.4%	-8.6%	-1.6%
MENA countries	USD	1.2%	-1.1%	7.2%	6.6%
South Africa	USD	-1.7%	-1.8%	-21.8%	-3.9%
India	USD	-2.3%	-8.3%	-7.5%	2.3%
Global emerging markets	USD	-0.3%	-0.7%	-7.7%	0.1%
Bonds					
US Treasuries	USD	0.1%	-0.9%	-1.8%	-1.7%
US Treasuries (inflation protected)	USD	0.0%	-1.2%	-1.0%	0.2%
US Corporate (investment grade)	USD	0.2%	-0.4%	-2.3%	-1.1%
US High Yield	USD	0.2%	0.5%	2.6%	3.1%
UK Gilts	GBP	-0.2%	-1.4%	-1.5%	0.8%
UK Corporate (investment grade)	GBP	-0.2%	-0.9%	-2.2%	0.2%
Euro Government Bonds	EUR	-0.6%	-0.2%	-0.6%	0.1%
Euro Corporate (investment grade)	EUR	-0.2%	-0.3%	-0.6%	0.1%
Euro High Yield	EUR	-0.3%	0.2%	-0.1%	0.7%
Japanese Government	JPY	0.0%	-0.3%	-0.5%	0.0%
Australian Government	AUD	0.3%	-0.3%	2.3%	4.2%
Global Government Bonds	USD	-0.7%	-1.1%	-2.6%	-1.5%
Global Bonds	USD	-0.5%	-0.8%	-2.4%	-1.2%
Global Convertible Bonds	USD	-0.6%	-0.4%	0.1%	0.8%
Emerging Market Bonds	USD	0.7%	2.5%	-4.7%	-4.7%

Asset Class/Region	Currency	Currency returns			
		Week ending 28 Sept. 2018	Month to date	YTD 2018	12 months
Property					
US Property Securities	USD	-1.2%	-2.5%	1.3%	2.5%
Australian Property Securities	AUD	-0.3%	-2.4%	1.6%	8.9%
Asia Property Securities	USD	-2.3%	-1.5%	-6.0%	-0.9%
Global Property Securities	USD	-1.2%	-2.4%	-2.1%	2.1%
Currencies					
Euro	USD	-1.1%	-0.4%	-3.4%	-1.4%
UK Pound Sterling	USD	-0.3%	0.3%	-3.6%	-3.0%
Japanese Yen	USD	-0.8%	-2.0%	-0.8%	-0.9%
Australian Dollar	USD	-0.6%	-0.4%	-7.4%	-7.8%
South African Rand	USD	1.0%	4.1%	-12.6%	-4.6%
Swiss Franc	USD	-1.8%	-0.6%	-0.3%	-0.6%
Chinese Yuan	USD	-0.1%	-0.3%	-5.2%	-3.2%
Commodities & Alternatives					
Commodities	USD	1.4%	1.8%	4.4%	10.8%
Agricultural Commodities	USD	-0.7%	-1.6%	-5.1%	-5.5%
Oil	USD	5.0%	6.4%	23.7%	44.1%
Gold	USD	-0.4%	-0.6%	-8.7%	-7.4%
Hedge funds	USD	-0.3%	-0.8%	-1.3%	0.3%

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