# [Timothy Ash takes a look at emerging markets worldwide]

**Opinion**

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**We have not seen a major EM credit event so far – countries are still paying.**

LONDON, June 28, 2018 – From his vantage point in the City of London, Timothy Asher, a noted expert on emerging markets (EM) for over 30 years – most recently on behalf of Bluebay Asset Management - offered the following comments at 12:35 today: EM are certainly facing numerous factors coming together to particularly stress EM – top down/bottom up, but in particular: • Fed tightening; which does always tend to impact EM – the assumption had been that high “synchronised” global growth would provide a counterbalance, but concerns on trade are now weighing herein; • The strong dollar – putting EMFX further on the back-foot. But even a few weeks ago a strong dollar was not really the consensus view (assumption that fiscal pump priming in the US, to an economy near full employment would just pull in more imports); • Technicals – positioning, with a concentration in ownership in favoured trades such as Egypt, and Argentina. In a way this reflects the strength of a lot of the rest of EM, as the likes of Asia, CEEMEA only offered low digit yields, so investors were all pushed into the same over-owned trades; • We could argue that valuations were already stretched by the end of Q1 – particularly in EMHC. • Perhaps the biggest similarity for me to 97/98 is the preponderance of challenging EM bottom up stories – elections in Turkey, Mex, Brazil, India, Ukraine, Argentina, and this is complicating the policy response in some of these credits. If you remember back to 97, it started in the Czech Republic, went to Asia to the Thai crisis, then back to Russia, and it extended out to Turkey in 2000, then Brazil, and then Argentina. But this year, a number of major countries face difficult individual stories, often quite different in terms of their origin. But the pluses thus far for EM are: • The EM policy response, in general, has been pretty orthodox, with fewer fixed FX regimes, much less effort and FX reserve ammo used to defend rigid exchange rate regimes. EMFX is adjusting to help close external financing gaps. This is what should happen and EM central banks are not standing in front of the train; • And central banks are responding by prudently hiking policy rates – this again supports the “rebalancing” theme – even therein Turkey was forced “kicking and screaming” to hike rates and by 500bps at that; • And ex-China, we have not seen a huge build up in indebtedness across EM - albeit there are individual countries where we have seen significant changes/deterioration often from low bases. Thus the aggregate level of indebtedness is not particularly signalling the alarm bells, albeit individual country stories may well be - in public sector debt terms the likes of Bahrain, Lebanon, Oman, Egypt, Pakistan; and in household debt in Asia, the likes of THB, MYR, SGD, CNY and HKD have seen significant increases from 2007. And Turkey continues to be vulnerable to the short maturity structure of its still relatively modest stock of FX debt (USD175bn+ due over 12m). • Similarly when we think of current account/external financing positions, in aggregate I don't think we are seeing huge vulnerabilities this time around - Emerging Europe, for example, has shrunk the big, double digit deficits seen in 20007/08. But again there are individual countries particularly at risk herein - Turkey, Lebanon, Pakistan, Argentina, Oman, Bahrain, et al. • We have seen countries pre-emptively sign up to IMF programmes – e.g. Argentina. Plus, a number of other “at risk” credits are on programmes, or likely to get programmes soon – Egypt, Tunisia, SL, and possibly even Pakistan, and maybe Turkey. • We have not seen a major EM credit event so far – countries are still paying. And encouragingly for EM: • Commodity prices are still holding up – still a bulwark for a weight of EM (CIS, ME; LatAm) – helped I think by the more aggressive US approach towards Iran, and seemingly a zero tolerance around Iranian oil exports. Given OPEC+’s limited agreement to hike output, and production problems elsewhere, this should continue to give a short term boost/underpinning to oil. The above still suggests to me that this is not yet a systemic EM crisis a la 97/98 – EM policy makers have the tools to manage through this (FX, rates, IMF), assuming in some favourable election outcomes (AMLO/Erdogan behave – and a decent end game in Brazil). What would take this to another level though would be: • A feed through from Trade wars to weaker global growth and then to lower commodity prices; • Policy errors missteps in a big EM, leading to a credit event. We could still see lower level EM credit events in the likes of Bahrain or Lebanon, where perhaps assumed foreign backstops fail to move in time. And therein this week some good news from Bahrain – with its Gulf allies, seemingly extending a financing security blanket.

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