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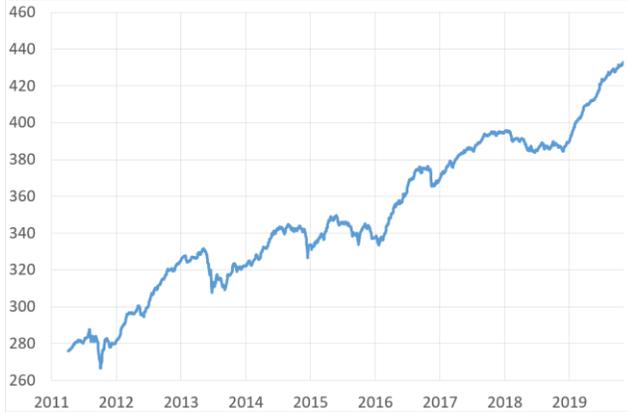
EMERGING MARKETS  
MACROVIEW

[www.lockoinvest.ru](http://www.lockoinvest.ru)

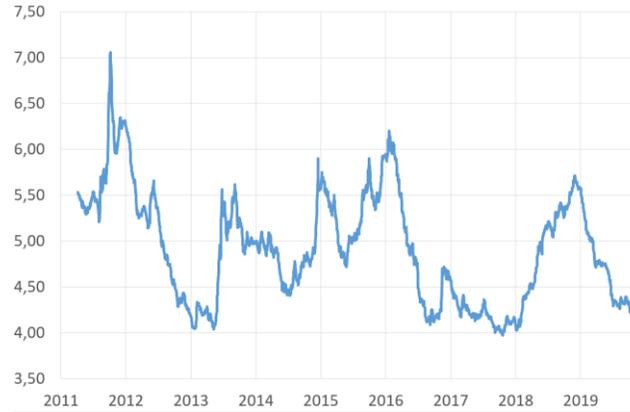
KIRILL TREMASOV  
DUBAI, NOV 2019

# EM Corporate Indices (BofA ML)

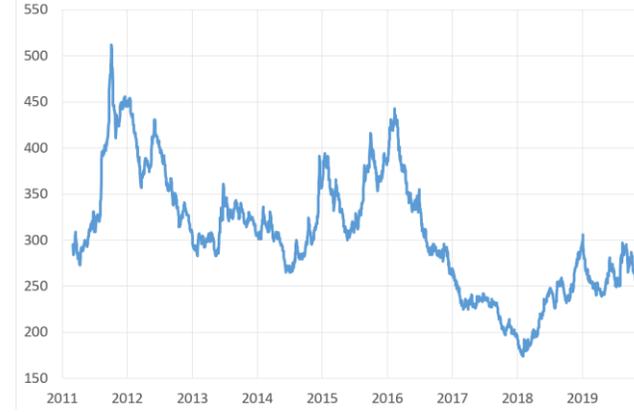
## EM Corp Ind



## YtM



## Spread



|     | YTM  | DUR   | Spread | YtD   |
|-----|------|-------|--------|-------|
| AAA | 2,49 | 11,04 | 87     | 14,44 |
| AA  | 2,35 | 7,43  | 75     | 10,80 |
| A   | 2,65 | 7,68  | 107    | 12,48 |
| BBB | 3,51 | 5,58  | 214    | 12,98 |
| BB  | 4,80 | 4,03  | 324    | 12,99 |
| B   | 7,54 | 2,66  | 574    | 6,62  |

# EM Corp Debt vs US Corp Debt

## ICE BofA ML EM Corporate Bonds Indices

|     | YTM  | DUR  | Spread | YtD   |
|-----|------|------|--------|-------|
| BBB | 3,51 | 5,58 | 214    | 12,98 |
| BB  | 4,80 | 4,03 | 324    | 12,99 |
| B   | 7,54 | 2,66 | 574    | 6,62  |

## ICE BofA ML US Corporate Bonds Indices

|     | YTM  | DUR  | Spread | YtD   |
|-----|------|------|--------|-------|
| BBB | 3,24 | 7,50 | 167    | 14,69 |
| BB  | 3,95 | 3,72 | 223    | 13,80 |
| B   | 5,90 | 3,09 | 395    | 11,44 |

# EM Corp Debt vs US Corp Debt

## ICE BofA ML EM Sovereign Bonds Indices

|              | YTM   | DUR   | Spread | YtD    |
|--------------|-------|-------|--------|--------|
| CHINA        | 2,12  | 6,74  | 56     | 10,99  |
| MALAYSIA     | 2,51  | 8,05  | 92     | 11,88  |
| PHILIPPINES  | 2,61  | 8,88  | 113    | 14,80  |
| INDONESIA    | 3,20  | 8,38  | 170    | 16,00  |
| COLAMBIA     | 3,44  | 9,90  | 194    | 18,46  |
| MEXICO       | 3,58  | 10,83 | 202    | 19,36  |
| RUSSIA       | 3,40  | 9,41  | 214    | 19,15  |
| BRAZIL       | 3,72  | 8,08  | 221    | 15,78  |
| SOUTH AFRICA | 4,90  | 8,86  | 319    | 12,44  |
| TURKEY       | 6,05  | 6,57  | 432    | 10,58  |
| EGYPT        | 6,29  | 6,55  | 472    | 18,62  |
| UKRAINE      | 6,12  | 4,95  | 469    | 30,04  |
| ARGENTINA    | 29,37 | 4,45  | 1598   | -40,70 |

1990-91



2001



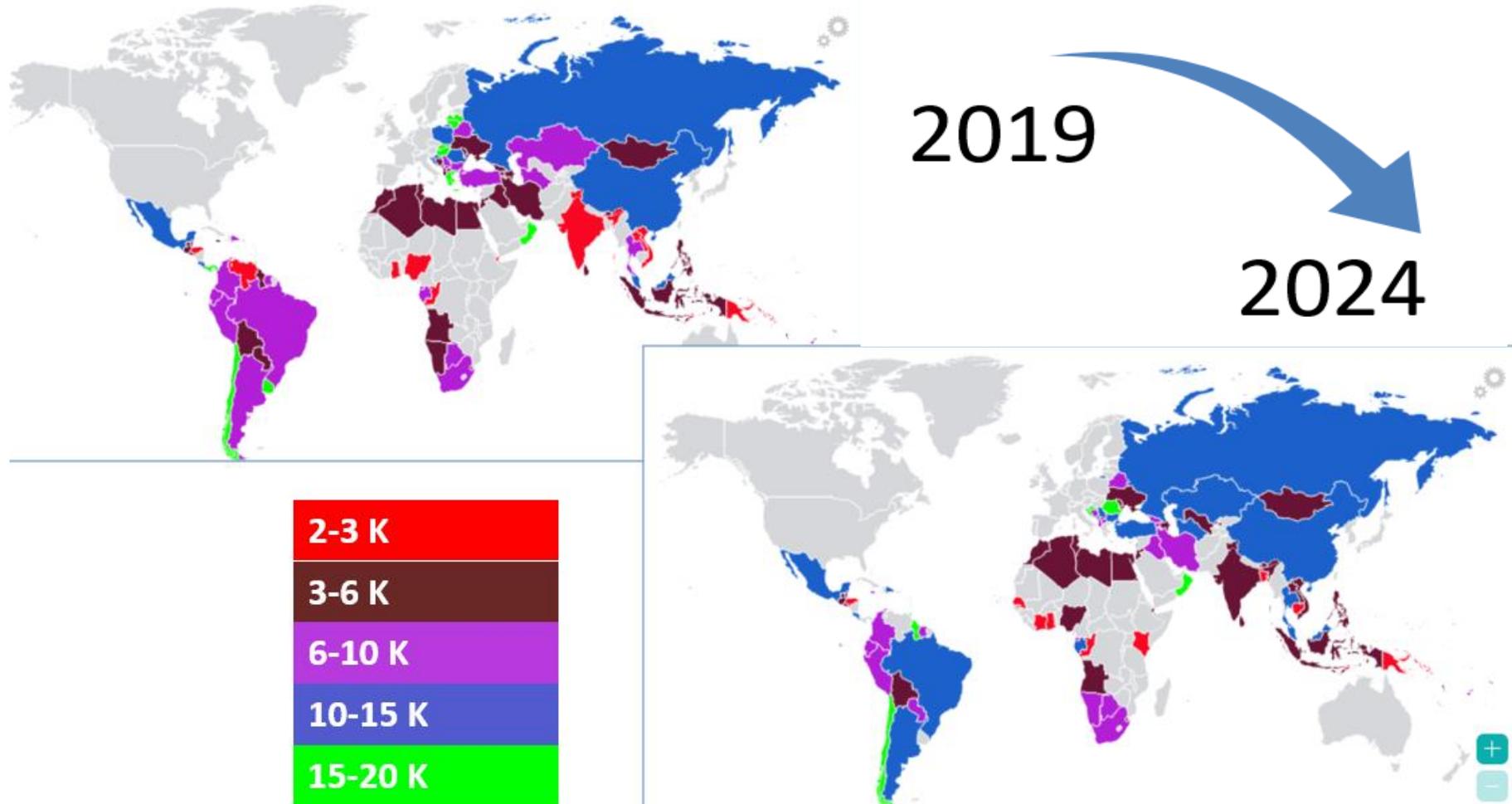
2008-09



- In all recent crisis episodes, long-term rates have declined during the recession and bottomed a few years after the crisis ended
- The rates decrease in this year has not yet been completed; a correction is possible, but as crisis phenomena develop in the global economy, downward movement of rates will continue
- Global decline in interest rates is a long-term trend that can develop for a very long time

# EM MACRO VIEW

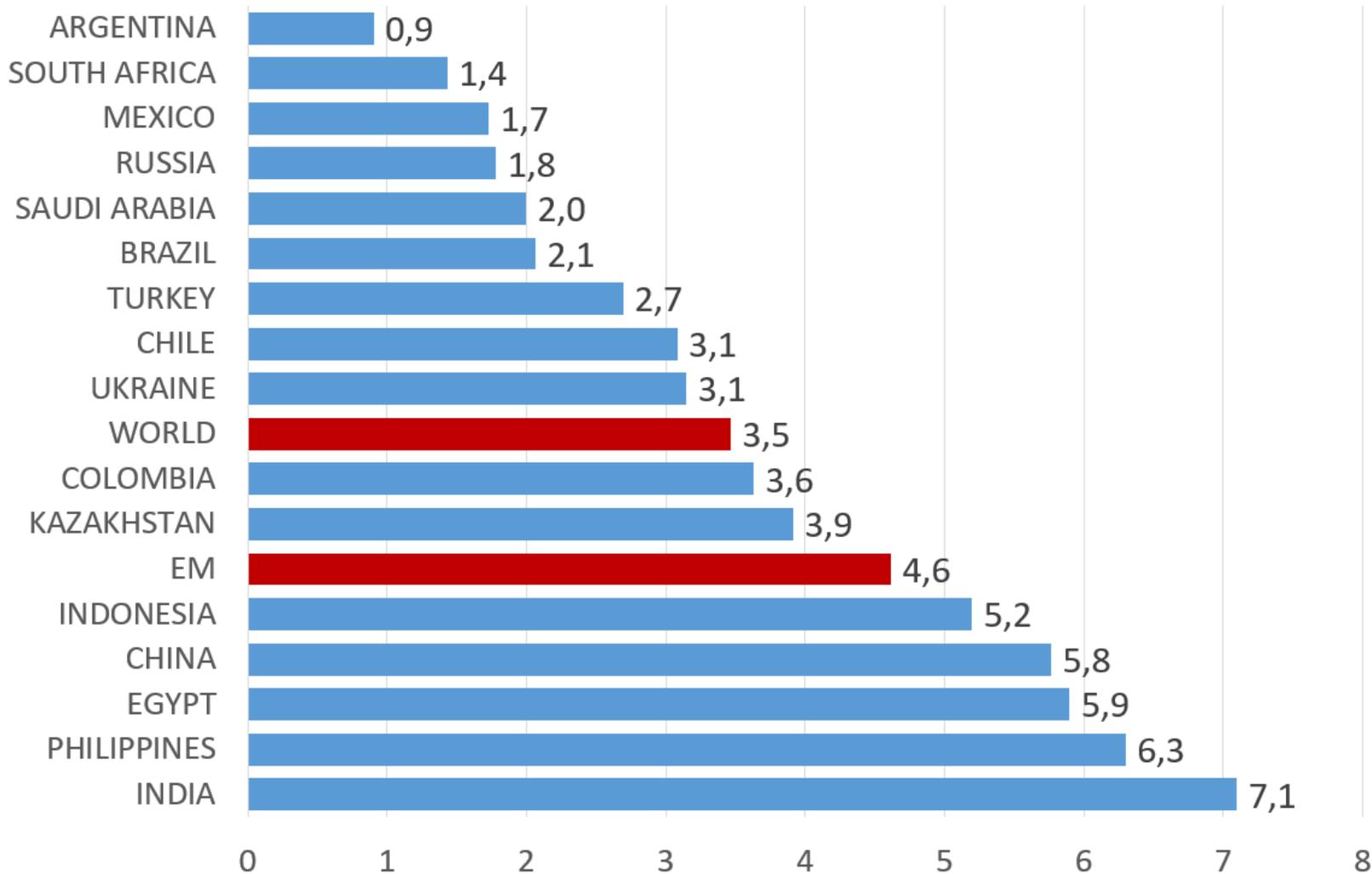
GDP per capita: от \$2K до \$20K





# EM MACRO VIEW

## GDP annual growth (IMF), 2019-24 avrg



# EM MACRO VIEW

## Forecasts review (IMF, WEO oct 2019)

|              | GPD     |           | Current Account |           | Inflation |           | Debt/GDP |           |
|--------------|---------|-----------|-----------------|-----------|-----------|-----------|----------|-----------|
|              | 2019-20 | 2021-2024 | 2019-20         | 2021-2024 | 2019-20   | 2021-2024 | 2019-20  | 2021-2024 |
| RUSSIA       |         |           |                 |           |           |           |          |           |
| BRAZIL       |         |           |                 |           |           |           |          |           |
| MEXICO       |         |           |                 |           |           |           |          |           |
| TURKEY       |         |           |                 |           |           |           |          |           |
| CHINA        |         |           |                 |           |           |           |          |           |
| INDIA        |         |           |                 |           |           |           |          |           |
| INDONESIA    |         |           |                 |           |           |           |          |           |
| PHILIPPINES  |         |           |                 |           |           |           |          |           |
| SOUTH AFRICA |         |           |                 |           |           |           |          |           |
| UKRAINE      |         |           |                 |           |           |           |          |           |
| ARGENTINA    |         |           |                 |           |           |           |          |           |

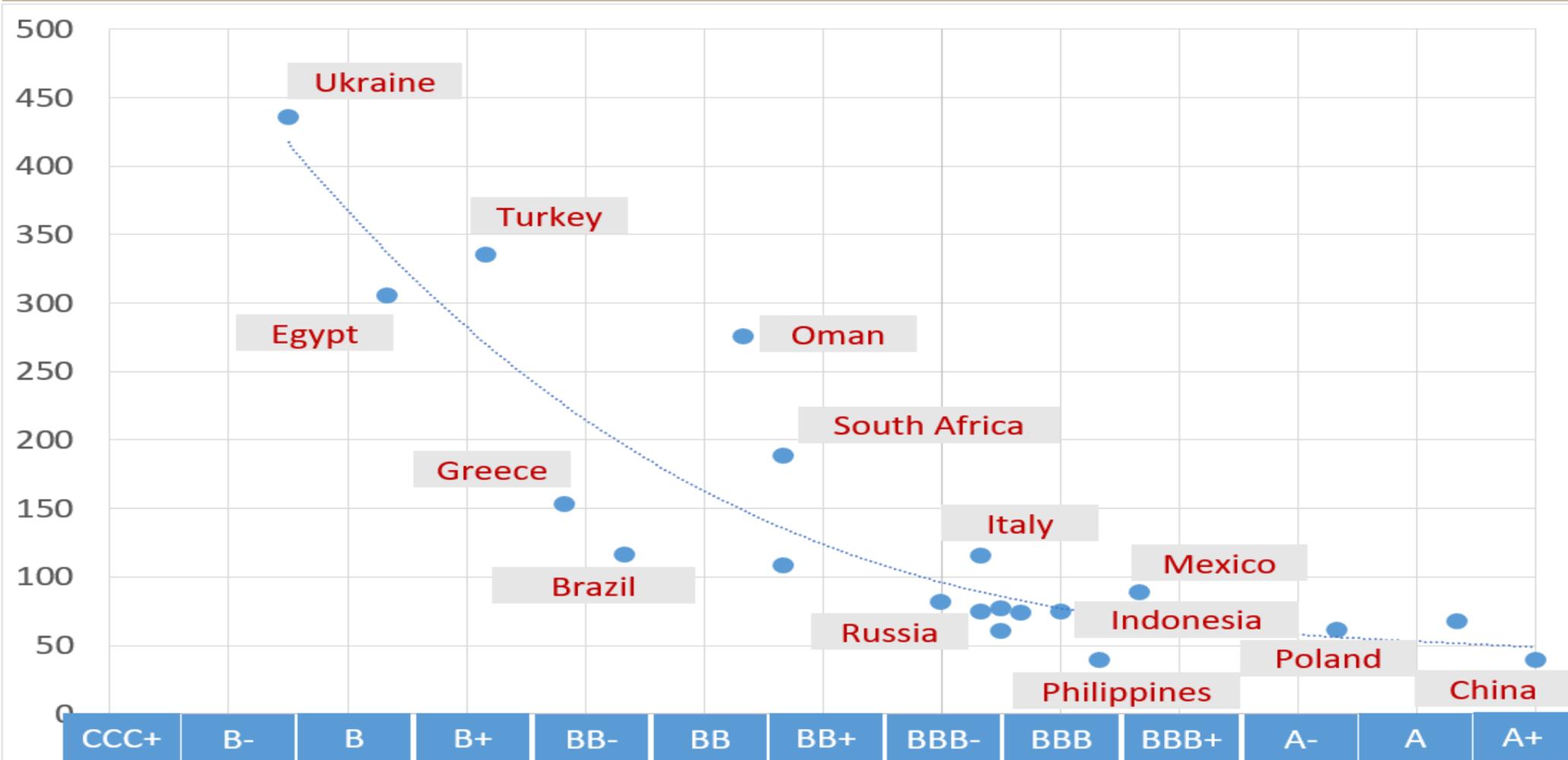
## Credit Ratings 2019

|              | S&P  | MOODY'S   | FITCH   |
|--------------|--|---|---|
| RUSSIA       | BBB- stab  |  Baa3 stab |  BBB stab        |
| BRAZIL       | BB- stab   | Ba2 stab  | BB- stab  |
| MEXICO       | BBB+ <b>neg</b>  | A3 <b>neg</b>   |  BBB stab        |
| TURKEY       | B+ stab  |  B1 neg    |  BB- <b>stab</b> |
| CHINA        | A+ stab  | A1 stab   | A+ stab   |
| INDIA        | BBB- stab  | Baa2 stab   | BBB- stab   |
| INDONESIA    |  BBB stab   | Baa2 stab   | BBB stab  |
| PHILIPPINES  |  BBB+ stab  | Baa2 stab   | BBB stab  |
| KAZAKHSTAN   | BBB- stab  | Baa3 <b>pos</b>   | BBB stab  |
| SOUTH AFRICA | BB stab  | Baa3 <b>neg</b>   | BB+ <b>neg</b>  |
| EGYPT        | B stab   |  B2 stab |  B+ stab       |
| UKRAINE      |  B stab   | Caa1 stab   |  B pos         |
| ARGENTINA    |  CCC- neg |  Caa2 UR |  CC UR         |

- We prefer **Brazil, Russia, Turkey, Ukraine**
- We avoid **China, India, South Africa, Argentina**
- We are very careful about **Mexico**

# EM MACRO VIEW

## Credit Ratings & CDS





## EM MACRO VIEW



## BRAZIL (BB- stab / Ba2 stab / BB- stab)

|                             | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023   | 2024   |
|-----------------------------|-------|-------|-------|-------|-------|-------|--------|--------|
| GDP, \$Bln                  | 2 053 | 1 868 | 1 847 | 1 893 | 1 988 | 2 084 | 2 189  | 2 296  |
| global GDP share (PPP), %   | 2,55  | 2,49  | 2,44  | 2,41  | 2,38  | 2,35  | 2,33   | 2,30   |
| Population, mln             | 206,8 | 208,5 | 210,0 | 211,4 | 212,7 | 214,0 | 215,3  | 216,5  |
| GDP per capita, \$          | 9 926 | 8 959 | 8 797 | 8 956 | 9 344 | 9 738 | 10 167 | 10 606 |
| GDP growth, %               | 1,1   | 1,1   | 0,9   | 2,0   | 2,4   | 2,4   | 2,4    | 2,3    |
| Inflation, %                | 2,9   | 3,7   | 3,6   | 3,9   | 3,7   | 3,5   | 3,5    | 3,5    |
| Unemployment, %             | 12,8  | 12,3  | 11,8  | 10,8  | 10,0  | 9,7   | 9,5    | 9,4    |
| Current account, % GDP      | -0,4  | -0,8  | -1,2  | -1,0  | -1,1  | -1,2  | -1,4   | -1,6   |
| Government Debt, % GDP      | 84,1  | 87,9  | 91,6  | 93,9  | 94,5  | 95,3  | 95,0   | 94,9   |
| Government Revenues, % GDP  | 30,6  | 31,3  | 30,8  | 30,7  | 30,6  | 30,6  | 30,7   | 30,7   |
| Government Expenses, \$ GDP | 38,5  | 38,5  | 38,3  | 37,7  | 37,1  | 37,0  | 36,8   | 36,4   |
| Government Balance, % GDP   | -7,9  | -7,2  | -7,5  | -6,9  | -6,6  | -6,4  | -6,1   | -5,7   |



## EM MACRO VIEW



## MEXICO (BBB+ neg / A3 neg / BBB stab)

|                             | 2017  | 2018  | 2019   | 2020   | 2021   | 2022   | 2023   | 2024   |
|-----------------------------|-------|-------|--------|--------|--------|--------|--------|--------|
| GDP, \$Bln                  | 1 157 | 1 222 | 1 274  | 1 322  | 1 381  | 1 442  | 1 508  | 1 579  |
| global GDP share (PPP), %   | 1,93  | 1,90  | 1,85   | 1,82   | 1,79   | 1,76   | 1,74   | 1,72   |
| Population, mln             | 123,5 | 124,7 | 125,9  | 127,1  | 128,2  | 129,4  | 130,5  | 131,5  |
| GDP per capita, \$          | 9 367 | 9 797 | 10 118 | 10 406 | 10 767 | 11 150 | 11 564 | 12 008 |
| GDP growth, %               | 2,1   | 2,0   | 0,4    | 1,3    | 1,9    | 2,1    | 2,3    | 2,4    |
| Inflation, %                | 6,8   | 4,8   | 3,2    | 3,0    | 3,0    | 3,0    | 3,0    | 3,0    |
| Unemployment, %             | 3,4   | 3,3   | 3,4    | 3,4    | 3,4    | 3,3    | 3,3    | 3,2    |
| Current account, % GDP      | -1,7  | -1,8  | -1,2   | -1,6   | -1,7   | -1,8   | -1,9   | -2,0   |
| Government Debt, % GDP      | 54,1  | 53,6  | 53,8   | 54,6   | 54,7   | 54,9   | 54,9   | 55,1   |
| Government Revenues, % GDP  | 24,7  | 23,5  | 22,9   | 22,3   | 22,5   | 22,6   | 22,6   | 22,7   |
| Government Expenses, \$ GDP | 25,7  | 25,7  | 25,7   | 24,9   | 24,7   | 24,9   | 24,9   | 25,1   |
| Government Balance, % GDP   | -1,1  | -2,2  | -2,8   | -2,6   | -2,2   | -2,3   | -2,3   | -2,4   |



## EM MACRO VIEW

## RUSSIA (BBB- stab / Baa3 stab / BBB stab)

|                            | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   | 2024   |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| GDP, \$Bln                 | 1 579  | 1 657  | 1 638  | 1 658  | 1 714  | 1 782  | 1 859  | 1 940  |
| global GDP share (PPP), %  | 3,16   | 3,12   | 3,07   | 3,02   | 2,98   | 2,94   | 2,89   | 2,84   |
| Population, mln            | 146,9  | 146,8  | 146,7  | 146,6  | 146,5  | 146,3  | 146,0  | 145,7  |
| GDP per capita, \$         | 10 751 | 11 289 | 11 163 | 11 305 | 11 705 | 12 184 | 12 728 | 13 315 |
| GDP growth, %              | 1,6    | 2,3    | 1,1    | 1,9    | 2,0    | 2,0    | 1,9    | 1,8    |
| Inflation, %               | 2,5    | 4,3    | 3,8    | 3,7    | 4,0    | 4,0    | 4,0    | 4,0    |
| Unemployment, %            | 5,2    | 4,8    | 4,6    | 4,8    | 4,7    | 4,6    | 4,7    | 4,7    |
| Current account, % GDP     | 2,1    | 6,8    | 5,7    | 3,9    | 3,4    | 3,3    | 3,2    | 3,2    |
| Government Debt, % GDP     | 15,5   | 14,6   | 16,5   | 17,7   | 18,3   | 19,0   | 19,8   | 20,9   |
| Government Revenues, % GDP | 33,3   | 35,5   | 34,9   | 34,2   | 34,1   | 33,7   | 33,6   | 33,5   |
| Government Expenses, % GDP | 34,7   | 32,6   | 33,9   | 34,1   | 34,4   | 34,3   | 34,3   | 34,3   |
| Government Balance, % GDP  | -1,5   | 2,9    | 1,0    | 0,1    | -0,3   | -0,6   | -0,7   | -0,8   |



## EM MACRO VIEW

## INDONESIA (BBB stab / Baa2 stab / BBB stab)

|                             | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  | 2024  |
|-----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| GDP, \$Bln                  | 1 015 | 1 022 | 1 112 | 1 205 | 1 297 | 1 390 | 1 490 | 1 596 |
| global GDP share (PPP), %   | 2,54  | 2,58  | 2,64  | 2,68  | 2,72  | 2,77  | 2,82  | 2,86  |
| Population, mln             | 261,4 | 264,2 | 267,0 | 269,9 | 272,8 | 275,7 | 278,7 | 281,6 |
| GDP per capita, \$          | 3 885 | 3 871 | 4 164 | 4 465 | 4 756 | 5 043 | 5 346 | 5 667 |
| GDP growth, %               | 5,1   | 5,2   | 5,0   | 5,1   | 5,2   | 5,3   | 5,3   | 5,3   |
| Inflation, %                | 3,6   | 3,1   | 3,4   | 3,1   | 3,1   | 3,0   | 3,0   | 3,0   |
| Unemployment, %             | 5,5   | 5,3   | 5,2   | 5,0   | 5,0   | 5,0   | 5,0   | 5,0   |
| Current account, % GDP      | -1,6  | -3,0  | -2,9  | -2,7  | -2,7  | -2,6  | -2,6  | -2,5  |
| Government Debt, % GDP      | 29,4  | 30,1  | 30,3  | 30,0  | 29,9  | 29,8  | 29,7  | 29,6  |
| Government Revenues, % GDP  | 14,1  | 14,9  | 14,4  | 14,4  | 14,5  | 14,5  | 14,5  | 14,5  |
| Government Expenses, \$ GDP | 16,6  | 16,6  | 16,3  | 16,2  | 16,3  | 16,3  | 16,3  | 16,3  |
| Government Balance, % GDP   | -2,5  | -1,8  | -1,9  | -1,8  | -1,8  | -1,8  | -1,8  | -1,8  |



## EM MACRO VIEW



## TURKEY (B+ stab / B1 neg / BB- stab)

|                            | 2017   | 2018  | 2019  | 2020  | 2021  | 2022   | 2023   | 2024   |
|----------------------------|--------|-------|-------|-------|-------|--------|--------|--------|
| GDP, \$Bln                 | 853    | 771   | 744   | 814   | 905   | 979    | 1 036  | 1 099  |
| global GDP share (PPP), %  | 1,71   | 1,70  | 1,65  | 1,65  | 1,64  | 1,63   | 1,63   | 1,63   |
| Population, mln            | 80,8   | 82,0  | 83,0  | 84,0  | 85,0  | 86,1   | 87,1   | 88,0   |
| GDP per capita, \$         | 10 551 | 9 405 | 8 958 | 8 849 | 9 569 | 10 511 | 11 243 | 11 769 |
| GDP growth, %              | 7,5    | 2,8   | 0,2   | 3,0   | 3,0   | 3,0    | 3,5    | 3,5    |
| Inflation, %               | 11,9   | 20,3  | 13,5  | 12,0  | 12,0  | 11,0   | 11,0   | 11,0   |
| Unemployment, %            | 10,9   | 11,0  | 13,8  | 13,7  | 12,9  | 12,3   | 11,8   | 11,8   |
| Current account, % GDP     | -5,6   | -3,5  | -0,6  | -0,9  | -1,4  | -1,8   | -1,9   | -1,9   |
| Government Debt, % GDP     | 28,2   | 30,2  | 30,1  | 30,8  | 31,7  | 32,9   | 34,2   | 35,2   |
| Government Revenues, % GDP | 31,4   | 31,5  | 30,2  | 30,5  | 30,5  | 30,5   | 30,5   | 30,6   |
| Government Expenses, % GDP | 33,6   | 34,6  | 34,8  | 35,2  | 35,6  | 35,6   | 35,7   | 35,7   |
| Government Balance, % GDP  | -2,2   | -3,1  | -4,6  | -4,7  | -5,1  | -5,1   | -5,1   | -5,1   |



## EM MACRO VIEW


 South Africa (BB stab / Baa3 neg / BB+ neg)

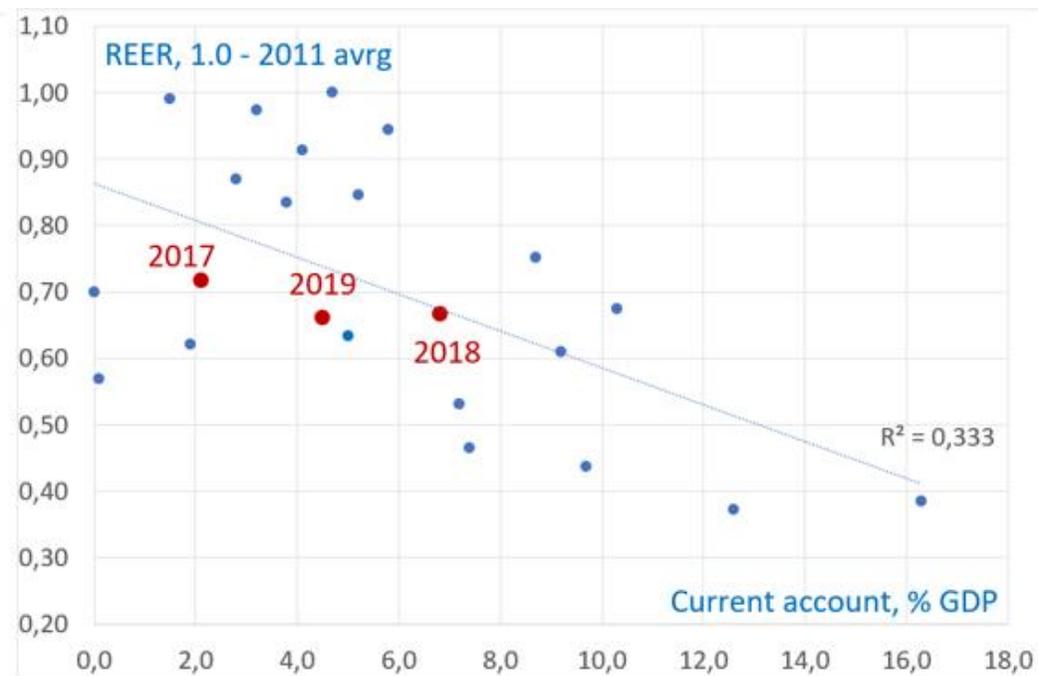
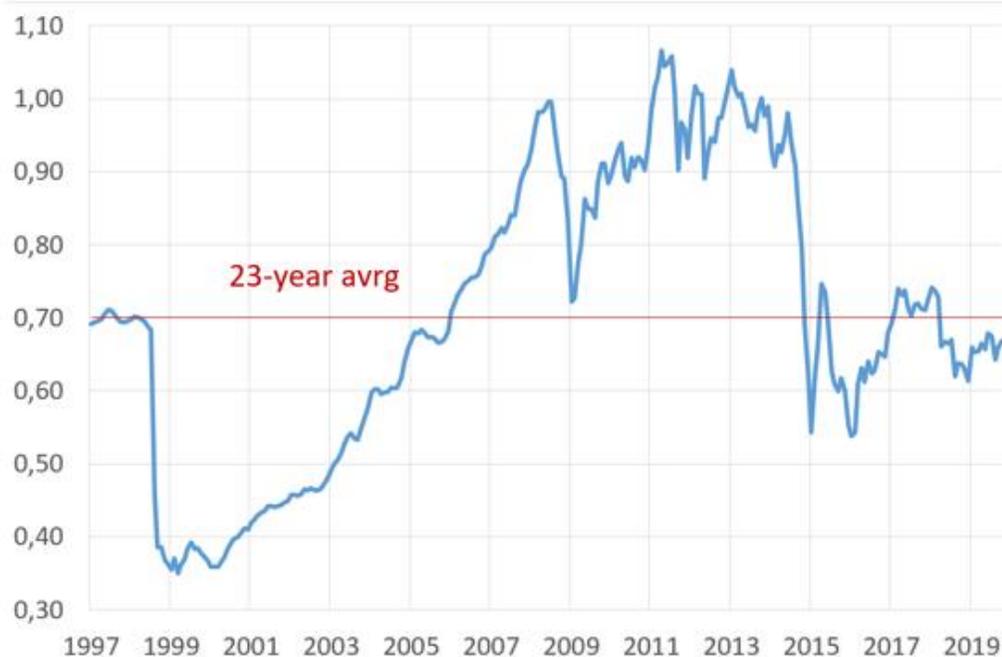
|                             | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  | 2024  |
|-----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| GDP, \$Bln                  | 359   | 368   | 359   | 370   | 384   | 400   | 416   | 434   |
| global GDP share (PPP), %   | 0,57  | 0,58  | 0,57  | 0,56  | 0,55  | 0,54  | 0,53  | 0,52  |
| Population, mln             | 58,8  | 57,9  | 58,8  | 59,7  | 60,6  | 61,6  | 62,5  | 63,4  |
| GDP per capita, \$          | 6 100 | 6 354 | 6 100 | 6 193 | 6 332 | 6 493 | 6 664 | 6 847 |
| GDP growth, %               | 0,7   | 0,8   | 0,7   | 1,1   | 1,4   | 1,8   | 1,8   | 1,8   |
| Inflation, %                | 4,7   | 4,9   | 4,7   | 5,3   | 5,3   | 5,3   | 5,3   | 5,3   |
| Unemployment, %             | 27,9  | 27,1  | 27,9  | 28,4  | 28,8  | 28,9  | 29,0  | 29,1  |
| Current account, % GDP      | -3,1  | -3,5  | -3,1  | -3,6  | -3,6  | -3,8  | -4,2  | -4,7  |
| Government Debt, % GDP      | 59,9  | 56,7  | 59,9  | 64,2  | 67,9  | 71,1  | 74,1  | 77,0  |
| Government Revenues, % GDP  | 29,1  | 29,0  | 29,1  | 29,1  | 29,2  | 29,2  | 29,3  | 29,3  |
| Government Expenses, \$ GDP | 35,3  | 33,4  | 35,3  | 35,9  | 35,6  | 35,6  | 35,7  | 35,9  |
| Government Balance, % GDP   | -6,2  | -4,4  | -6,2  | -6,7  | -6,4  | -6,4  | -6,5  | -6,6  |



RUSSIA (BBB- stab / Baa3 stab / BBB stab)

USD / RUB REER

USD / RUB REER & CA



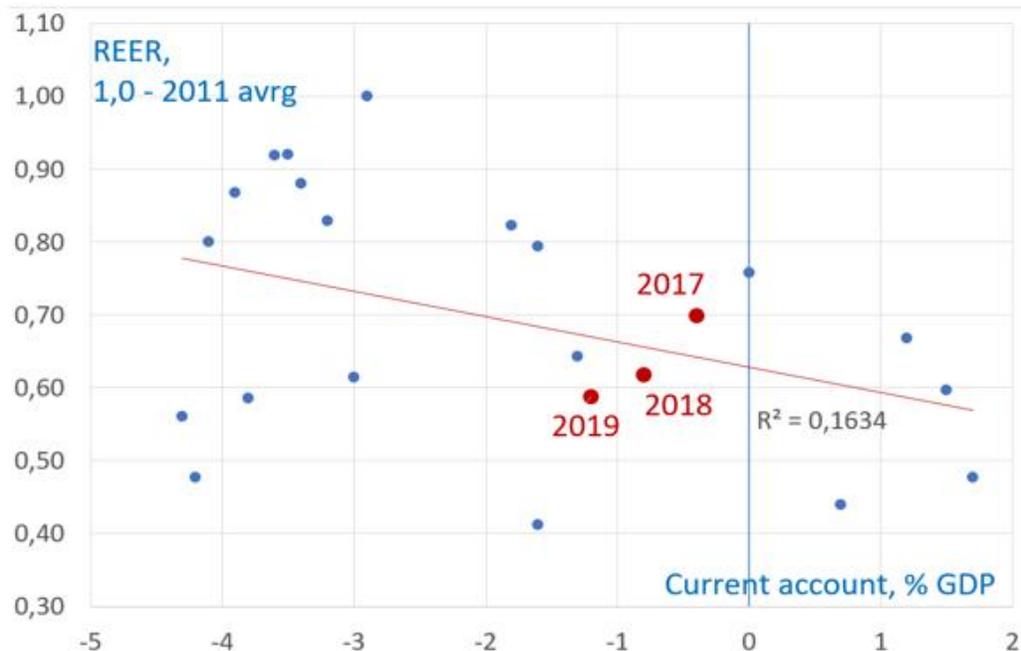


## BRAZIL (BB- stab / Ba2 stab / BB- stab)

### USD / BRL REER



### USD / BRL REER & CA



# EM REAL EFFECTIVE EXCHANGE RATES

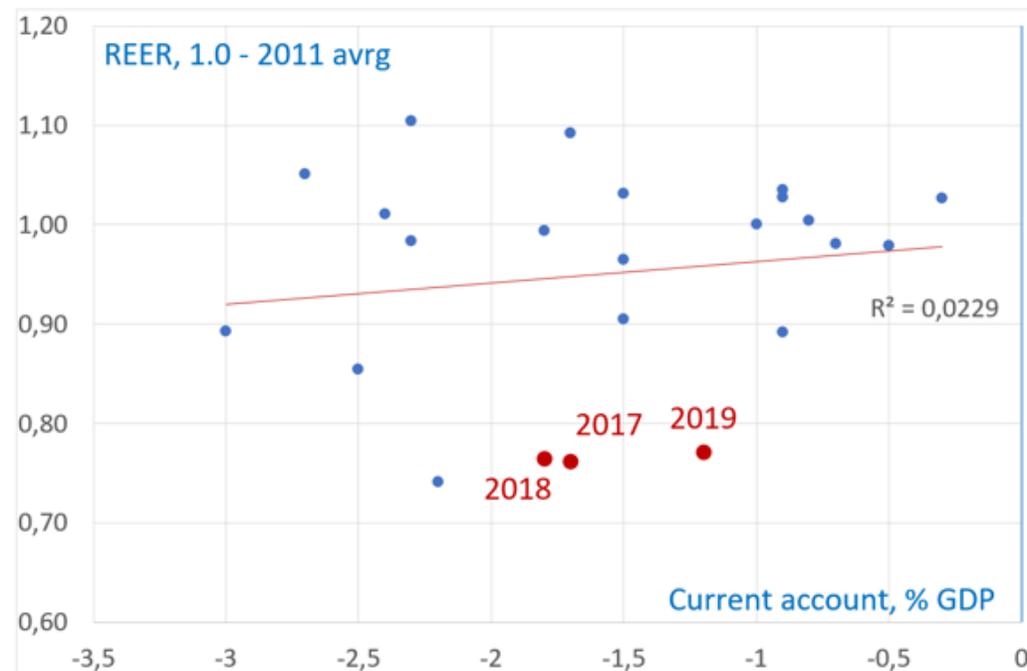


MEXICO (BBB+ neg / A3 neg / BBB stab)

## USD / MXN REER



## USD / MXN REER & CA

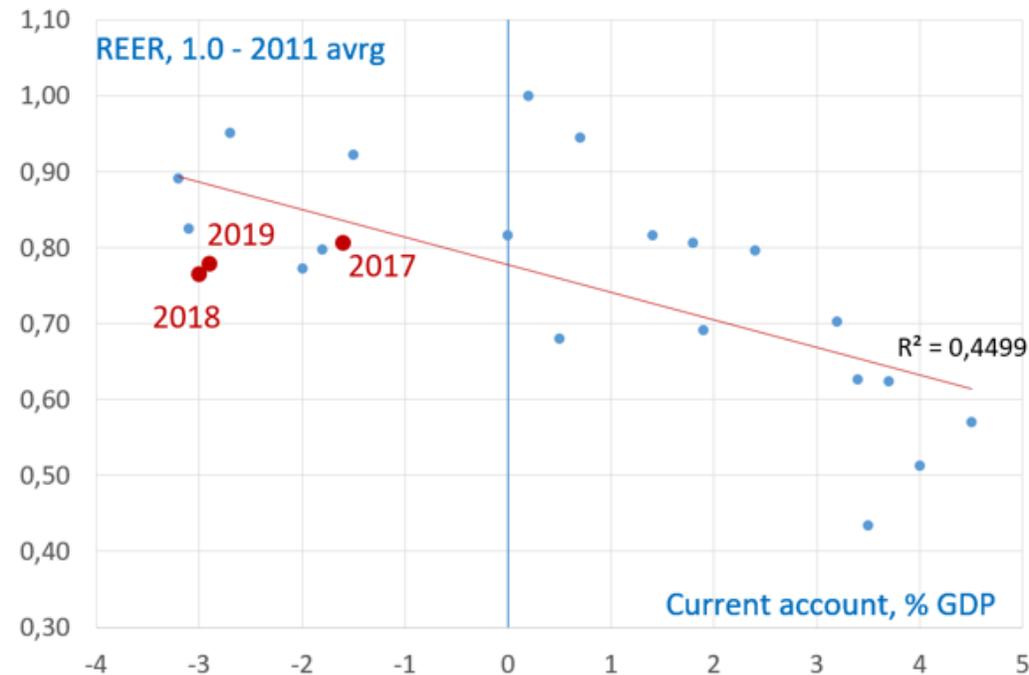


## INDONESIA (BBB stab / Baa2 stab / BBB stab)

### USD / IDR REER



### USD / IDR REER & CA



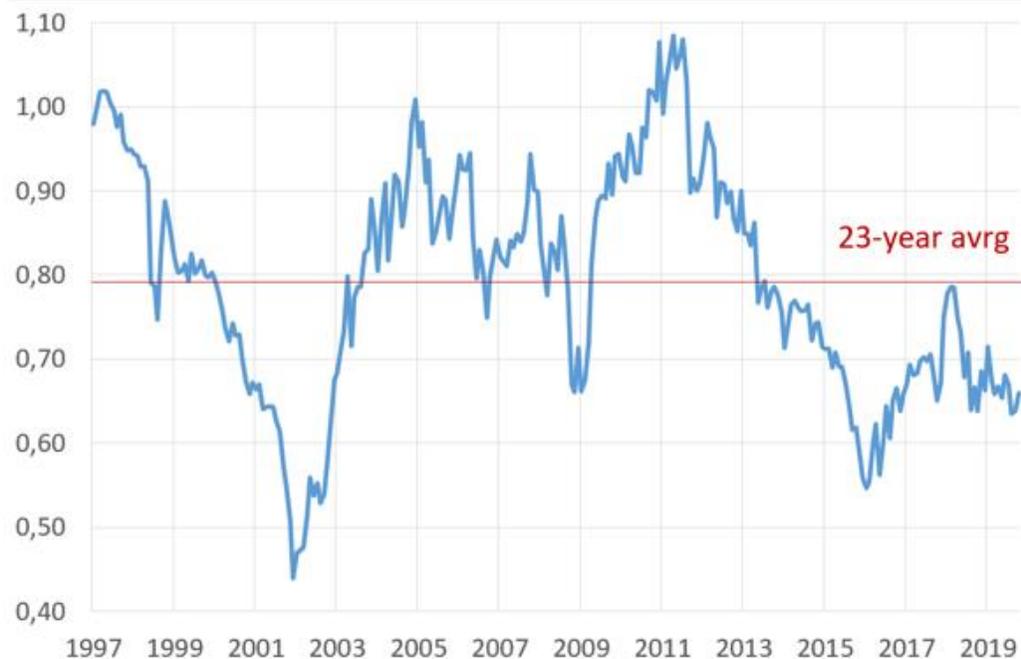
# EM REAL EFFECTIVE EXCHANGE RATES



South Africa (BB stab / Baa3 neg / BB+ neg)

USD / ZAR REER

USD / ZAR REER & CA



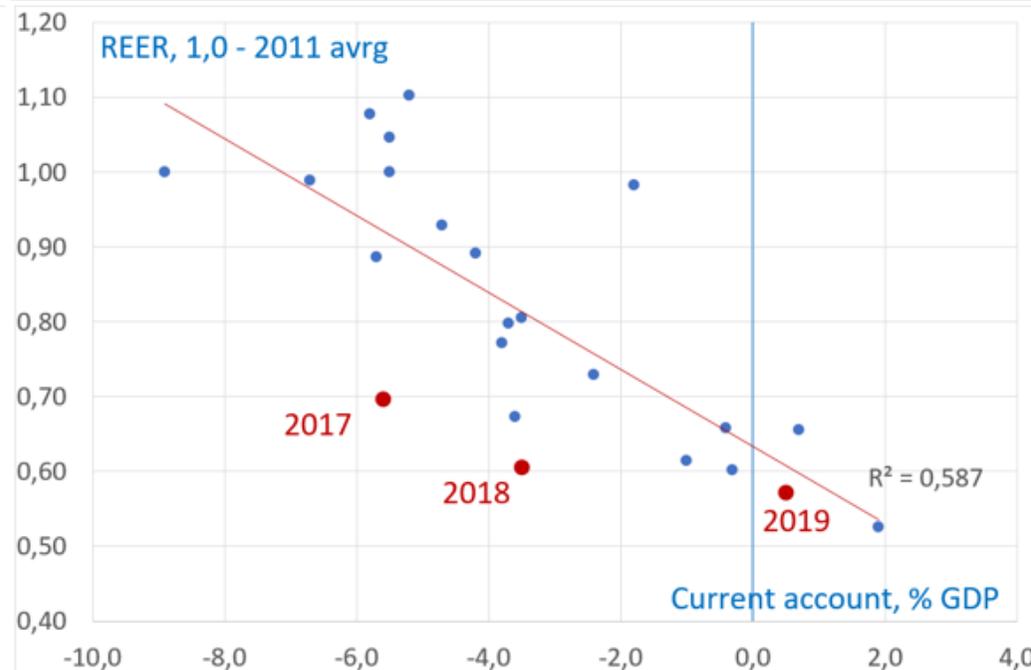


## TURKEY (B+ stab / B1 neg / BB- stab)

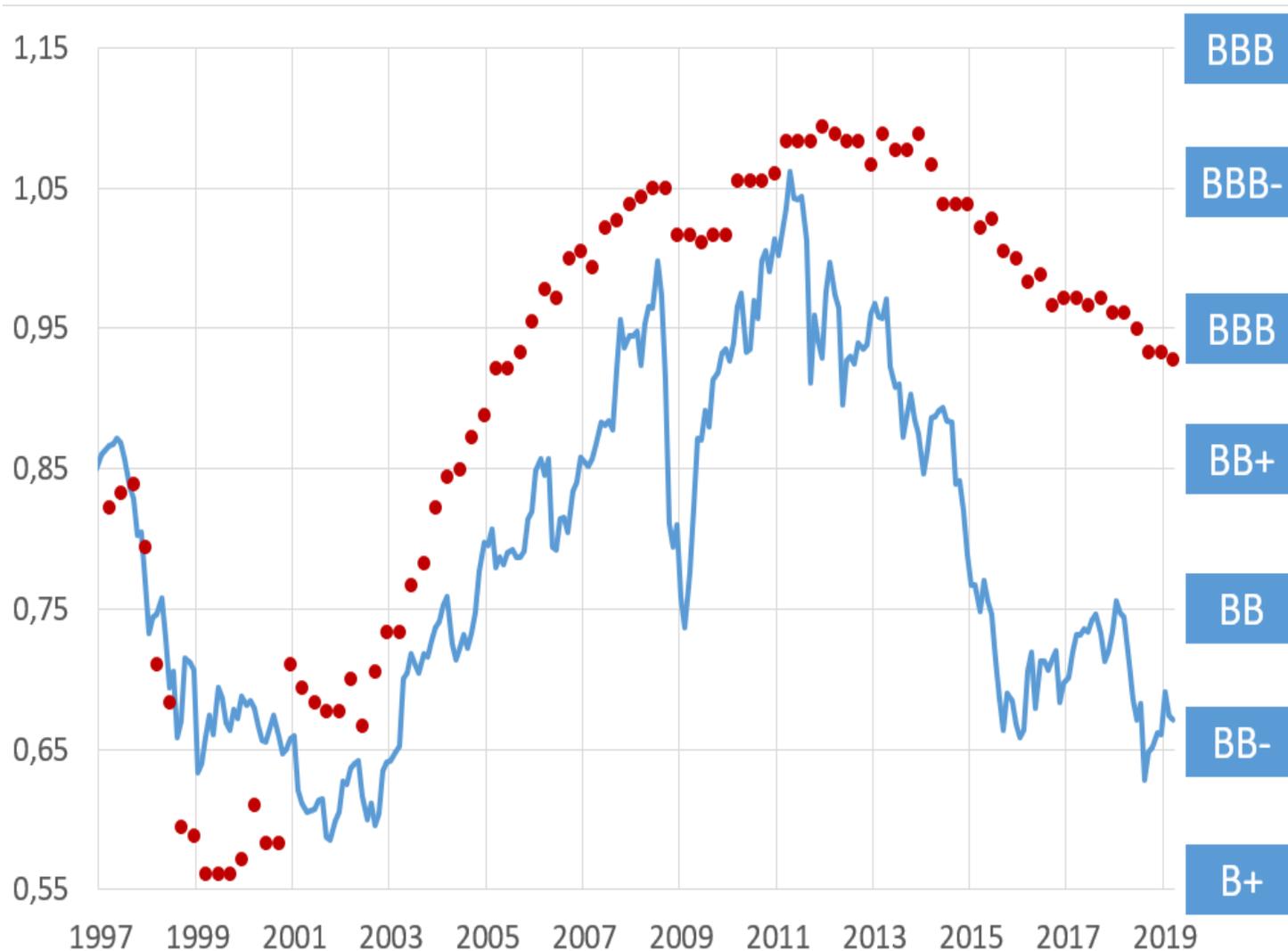
### USD / TRL REER



### USD / TRL REER & CA



## Composite REER & Composite Rating (BRMITS)



- REER are close to cyclical lows
- Weak currencies create support for EM economies
- The average rating level is significantly higher than at the bottom of the previous cycle
- This is evidence of the growing strength of the economies of developing countries, making it unlikely that a recurrence of the same devastating EM crises as in the past

## Bullet Points

- The global economy will continue to slow down
- Possible time of the beginning of the recession in the USA - 2nd half of 2020
- The decline will be much softer compared to 2008-09, more similar to 2001
- Until the end of the year, a slight correction of debt markets is possible at the conclusion of the first stage of a trade deal, pauses in reducing the Fed rate
- In the long run, lower rates will continue
- Main strategy: reallocation towards credit quality; smooth increase in duration
- EMs look much stronger now than 10 and 20 years ago
  - strengthening budget policy
  - flexibility of monetary policy (inflation targeting)
  - no obvious bubbles, rather weak currencies
- We highlight Brazil, Turkey, Russia, Ukraine

|   |                    |                                  |   |
|---|--------------------|----------------------------------|---|
|    | Pavel Voznesenskiy | MEMBER OF THE BOARD OF DIRECTORS | Securities market experience since 1996. Deputy Chairman of the Executive Board of Joint stock company "LOCKO-Bank", Financial Markets Head with BTA Bank from 2001 to 2008. In 2010 graduated from Stockholm School of Economics in Russia with MBA degree.  |
|    | Gennady Artamonov  | MEMBER OF THE BOARD OF DIRECTORS | Banking experience since 1993, securities market experience since 1994. Firstly managed the development of trading operations business, than assets management in Troika, Rodina-Nikoil- UralSib, REGION Group, Joint stock company "LOCKO-Bank". In 2006 graduated from State University of Management with MBA degree. Assets under management: US \$ 2 billion.  |
|    | Oleg Masyutin      | CEO                              | Banking experience since 1993, securities market experience since 1994. Firstly managed the development of treasury and trading operations in BashKreditBank (renamed UralSib), than was a head of assets management team UralSib Asset Management Group. Assets under management: up to US \$ 4,5 billion. Since 2009 is responsible for client operations in Joint stock company "LOCKO-Bank".                                  |
|    | Daniil Apleev, CFA | DEPUTY CEO                       | Joined Locko-Invest in 2011 as portfolio manager of bonds in Russian rubles. Before that participated in audit and consulting of largest Russian companies in PricewaterhouseCoopers.   |
|   | Kirill Tremasov    | INVESTMENT DIRECTOR              | Banking experience since 1997. Worked in the field of asset management, headed research divisions . 2006-2011 – Head of Research Department in the Bank of Moscow. 2011-14 – Head of Research Department in the Nomos Bank. 2015-17 – joined the Ministry of Economic Development of the Russian Federation, heading the Department of Macroeconomic Forecasting. In December 2017 joined the Loko-Invest team. PhD in Economics. |
|  | Poman Serpeninov   | VICE-PRESIDENT                   | In the securities market since 2008. He began his career as an analyst at ATON Investment Bank, then he worked at Citibank CB , at PJSC BINBANK as Director of Development of Investment Products for Wealthy Customers. Has working experience with bonds, stocks, futures and options. in 2015 he won the contest "Best Private Investor", held by the Moscow Exchange.   |



LockoInvest

# Disclaimer

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