Economic Highlights

Unemployment

EMEA: Unemployment rates across the region continued to fall in July, giving an indication of economic recovery and market stabilisation. The rate in Russia fell from 7.3% in June to 6.8% in July. Other countries released figures for early in the year, with Poland’s rate for June falling from 11.9% to 11.6% and Hungary 11.4% to 11.1%. Turkey’s rate for April fell from 13.7% in March to 12.0% in April.

Asia: Figures for Taiwan came in flat for July while South Korea posted a slight increase. Rates rose from 3.2% in May to 3.5% in June although other economic indicators were positive.

Latin America: Unemployment in Brazil fell from 7.5% in May to 7.0% in June. Mexico also posted a slight decrease, falling to 5.0% in June from 5.1% the previous month.

Economic Growth

EMEA: Industrial production rose in Russia and Turkey for the month of June while Hungary and the Czech Republic posted improving figures for May. Retail sales broadly followed the positive trend. Russia’s 5.1% year-on-year increase in sales as seen in June was supported by rising wage levels which drove up consumer spending.

Asia: The government of Singapore forecast growth at 13 – 15% for 2010, showing a significant increase on initial estimates of 7 – 9%. The forecast indicated the economy is on track for a prompt recovery although retail sales figures for May showed a decline. India’s industrial production figures displayed an uptick in May while Indonesia posted an increase in both import and export levels for the same period.

Latin America: Brazil’s industrial output and retail sales figures showed a positive correlation in May, indicating economic stabilisation. In contrast, Chile announced a slight decline in both import and export income in June.

Fiscal/Monetary

EMEA: The Russian government announced plans to reduced the budget deficit from its current level of 5.9% of GDP to 3.0% by 2013. The Czech Republic also announced budget plans, with the aim to bring the deficit down to below 3.0% of GDP by 2012 while getting state accounts to break even by 2016. The Hungarian Forint (HUF) appreciated by 10.3% against the US dollar in July.

Asia: India’s Central Bank raised interest rates by 0.25% to 5.75% in July in an attempt to cool rising inflation levels. The Malaysian government also actioned a 0.25% increase due to strong economic growth levels. In addition, the government announced plans to cut subsidies on fuel and sugar in an effort to save US$230 million per annum. Further cuts are expected in the future in order to reduce state subsidies and lower the budget deficit. In the Philippines, the government made plans to sell off national assets in order to finance economic expansionary plans.

Latin America: Mexico’s provisional trade deficit almost doubled between May and June from US$178.9 million to US$340.50 million. Brazilian interest rates rose by 0.5% to 10.75% in a effort to cool rising inflation levels amid strong economic growth. The same factors also prompted the Chilean government to action a 0.5% rate increase.

Other Economic Data Points

Asia: The Monetary Authority of Singapore established a bilateral currency swap arrangement with the Central Bank of China. The deal will promote trade and direct economic investment across both countries. China also signed a cooperation agreement with Taiwan which is expected to create 60,000 new Taiwanese jobs over the next two years and boost the economy by 0.4%.
Market Overview

July was a positive month for the broad emerging market region, with all countries included within the MSCI EM Index posting gains. Investment momentum was largely driven by a broadly positive second quarter corporate earnings season and the successful outcome of the European banking stress tests. Emerging markets continued to lead against their developed peers, enjoying a more encouraging growth outlook compared to the US, UK and Europe.

EMEA

- Turkey and Poland led the EMEA region in July. Both countries displayed strong performance numbers on their domestic indices while Poland was the top performer on the MSCI EM Index returning 19.7%.
- Performance in Russia was aided by the appreciation of the ruble against the US dollar.
- Egypt was the weakest performer of the region, although returns were still respectable at 5.33% for the month. Financials were the most wanted sector while material stocks took value from the market.

Asia

- Performance was weak in Asia compared to the EMEA and LatAm regions. India underperformed the wider region, registering slim returns of 0.73% on the MSCI EM Index and 0.95% on the domestic exchange. While economic indicators for the month were upbeat, the speed of growth in India began to slow, which had an impact on demand.
- Taiwan led the Asian region in July. Investors were encouraged into the market by both positive economic indicators, such as rising import and export levels, as well as the signing of a cooperation agreement with China. At stock level, markets were supporting by an increase in M&A activity as well as encouraging second quarter earnings numbers from Hynix Semiconductor and LG Chemicals.
- China’s domestic exchange, the Hang Seng Index, posted a monthly gain of 9.97% to closely rival the return seen in Taiwan. Technology stocks led the market, while banks made efforts to reassure investors by raising capital and stabilising balance sheets. A rise in consumption levels aided retail stocks.

Latin America

- Brazil topped the MSCI EM Index in July with a 13.73% monthly return. Financials returned to favour reflecting an improving appetite for risk which was displayed around the world. Banco do Brasil announced its plans to raise up to US$6.1 billion by issuing 286 million new shares - the equivalent of 11% of the current share capital. The predominant investor appeal of the bank’s offer is growth potential with the major risk surrounding the investment being political instability.
- Colombia closed closely behind Brazil with MSCI EM returns of 13.24% against 6.69% on the domestic market. An upward revision to economic growth forecasts bolstered enthusiasm levels particularly in the energy sector.
- Mexico underperformed the wider market although still closed comfortably in positive territory. Industrials were the strongest performing sector while financials took value from the market. Weak second quarter performance from the diversified operator Alfa SAB and the telecoms giant American Movil disappointed the market.

Data Source: MSCI/Factset
Country Returns – July 2010

Graph source: Bloomberg/FactSet

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