

GRAMERCY: EM WEEKLY

WE ARE EMERGING MARKETS

FEATURING:

CHINA | TURKEY | UKRAINE | TAIWAN



Official signing of the U.S.-China Phase One Trade deal planned for January 15th in Washington, D.C.

Market Relevance: Confirmation and further clarity on details of the deal text agreed upon in late 2019 will be welcomed by the market. Trump announced via Twitter that the deal will be signed by both countries on the 15th in Washington, D.C. Chinese officials have also confirmed that a high level delegation will be coming to Washington, D.C. to finalize the agreement next week. The specific contents of the agreement have not been revealed to the public and reportedly not vetted by relevant experts and businesses.

Gramercy View: The deal provides a short term positive uplift to sentiment and the market. However, we believe that tensions between the two countries are likely to persist, particularly beyond trade, despite the deal. Phase Two discussion expectations are low given the complexity and nature of unresolved issues, especially in technology related areas, as well as foreign policy pressure points which may hinder progress.

Turkey's Central Bank (CBRT) monetary policy decision and guidance on January 16th

Market Relevance: The CBRT delivered very aggressive monetary policy easing in 2H19, cutting its key rate by 1200 bps between July and December, to 12% currently. With YoY headline inflation now back up in double digit territory and the real interest rate buffer fully eroded, EM investors will scrutinize the first of twelve CBRT monetary policy meetings in 2020 (vs only eight in 2019) for signals on the size and timing of any further monetary easing.

Gramercy View: Considering the authorities' strong focus on boosting economic growth and employment, our expectation is that the overall policy bias (both monetary and fiscal) will remain highly accommodative in 2020. However, as economic activity picks up, Turkey's longstanding structural macroeconomic imbalances will likely resume a deteriorating trajectory, which keeps us cautious on the credit outlook. With the effective real rate now back close to negative territory, any policy mistakes by the CBRT will likely generate pressure on Turkish assets, especially the TRY as the currency can no longer rely on support from a high real rate buffer and improving external accounts.

Potential second reading vote by Ukraine's parliament on the milestone land reform bill

Market Relevance: The liberalization of Ukraine's land market is a key priority of President Zelenskiy's Administration in 2020 and an important milestone under the country's IMF program. With one of the largest agricultural land masses in Eurasia and a dormant land market for the last three decades, liberalizing the market has the potential to increase Ukraine's baseline economic growth rate materially over the next few years.

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Gramercy View: So far the Zelenskiy Administration has shown a strong commitment to delivering land reform amid continuing cooperation with the IMF and despite significant opposition by powerful domestic interests. We subscribe to the view that a comprehensive land reform will be a material catalyst for a structurally stronger growth path for Ukraine that would help the economy to gradually catch up with its wealthier regional peers. However, we caution that any positive macroeconomic impact will likely be felt from 2021 onwards, given that land market liberalization is planned for no sooner than October 2020, even in a best case scenario in terms of the legislative approval process.

Taiwan presidential and legislative elections to be held on January 11th

Market Relevance: The relationship between Taiwan and China and Taiwan and the U.S. has the potential to pose challenges to U.S.-China relations following the likely reelection of incumbent President Tsai Ing-wen. Tsai and the DPP party are against the “One Country Two Systems” model for Taiwan, which stipulates China’s governance over Hong Kong and Macau as regions of China.

Gramercy View: Tsai should maintain her stance against unification with China albeit likely limit overly provocative action towards Beijing in the near term. Given Tsai’s views, Beijing may take steps, diplomatic or economic, to increase pressure on Taiwan to avoid further efforts towards independence. Simultaneously, we expect U.S.-Taiwan relations to continue to deepen in the backdrop of its decoupling efforts with China. The likely passage of the TAIIPAI Act in 2020 in the U.S., which calls for further diplomatic, economic, and security engagement with Taiwan, further cements this view. Such actions would likely further complicate prospects for Phase Two trade discussions.

Please contact our Co-Heads of Sovereign Research with any questions:

Kathryn Exum, Senior Vice President, Sovereign Research Analyst

kexum@gramercy.com

Petar Atanasov, Senior Vice President, Sovereign Research Analyst

patanasov@gramercy.com

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