JANUARY 20 THROUGH JANUARY 24

GRAMERCY EM WEEKLY:

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FEATURING:

BRAZIL | LIBYA | WORLD ECONOMIC FORUM

The World Economic Forum and tensions in Libya are in the news this week.

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Libya summit in Berlin on January 20th and Turkey's involvement in the crisis

Market Relevance: The prolonged crisis in Libya is one of the geopolitical risk hotspots globally. In addition, Turkey's pledge of military support for the General National Accord (GNA), the UN-recognized government based in Tripoli, and deployment of ground forces to Libya has raised the stakes in a potential proxy conflict against forces loyal to rebel General Khalifa Haftar, who is backed by Turkey's regional rivals, Egypt and UAE, as well as by Russia.

Gramercy View: Turkey's direct involvement in the Libya crisis opens a new chapter in President Erdogan's aggressive foreign policy and adds to a litany of latent geopolitical risks that investors in Turkish assets face, including strained relations with traditional allies in Europe and the U.S., potential economic sanctions by the U.S. Congress and a substantial military commitment in Syria, among others. Furthermore, Ankara's plans to launch gas exploration activities as soon as possible in the eastern Mediterranean between the Turkish and Libyan coasts will encounter strong opposition by other regional players with similar economic claims such as EU-members Greece and Cyprus, and Israel. We expect President Erdogan's foreign policy to remain pro-active and assertive, justifying the geopolitical risk premium embedded in Turkish assets.

International leaders gather at the annual World Economic Forum from January 21st-24th in Davos

Market Relevance: Rhetoric and comments made on the sidelines and during keynote speeches will likely provide insight into global policy directionality. Also, the IMF will present an update to their World Economic Outlook ahead of the meetings on January 20th. The theme of "Stakeholders for a Cohesive and Sustainable World" will encompass topics on climate, technology, and inequality.

Gramercy View: We anticipate that the IMF's outlook will reflect recent improvement in sentiment and prospects for moderate upside to global growth, albeit will likely also focus on key structural challenges and risks that have not yet fully subsided, preventing a more meaningful pick-up in global economic activity. While the recent state of world affairs may have eroded some of the relevance of the Forum, the topics should be of interest to the markets, given their impact on credit quality and growth over time as well as the continued rise of ESG and sustainability driven investing. The climate crisis will be front and center as the majority of global governments increasingly focus on the long-term economic, political and social challenges the world is likely to face due to climate change and environmental degradation.

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Consumer confidence data in Brazil on January 24th

Market Relevance: The year started with a string of disappointing macroeconomic data prints, which has raised questions around consensus expectations for a sharp pickup in GDP growth in 2020, following yet another year of weak economic activity in 2019. Brazil's economy has struggled to recover meaningfully from the deep 2015-2016 recession, achieving an uninspiring growth rate of 1.3% YoY in 2017 and 2018 and an estimated 1.1% YoY in 2019. This while the unemployment level remains high. Optimism about higher growth (2.2% YoY consensus forecast) this year is in part anchored by expectations about stronger private consumption dynamics. That would require a continuing recovery in consumer confidence, which has subsided from its recent peak in January 2019 at the start of President Bolsonaro's term.

Gramercy View: After having been focused throughout 2019 on the legislative approval process of long-awaited pension reform (successfully passed by congress in October), market attention has now firmly shifted on economic growth (or lack thereof). An improvement of economic activity in 2020 will be crucial for validating Minister of Economy, Paulo Guedes' liberalization efforts via privatization and de-regulation and the general pro-market policy stance of the Bolsonaro Administration. Brazil has been a bright spot in terms of reform momentum and stability amid the street protests that swept across a number of Latin American countries recently, but we believe that the continuation of political and social calm in 2020 hinges to a large extent on a more robust economic recovery.

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