



The impact of the Covid-19 pandemic on EMEs: commodity price & financial market perspectives

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* The views expressed here are mine and not necessarily those of the Bank for International Settlements

Covid-19: a “perfect storm” looming on EMEs’ horizon?

- Health crisis;
- Measures to contain the virus spread led to a sudden stop in activity – consumption collapsed and production halted;
- Livelihoods of households and businesses threatened;
- Global demand fell, GVCs interrupted, commodity prices plummeted, inbound tourism stopped and overseas remittances declined;
- Unprecedented capital outflows and large exchange rate depreciation → limit central banks’ room to lower rates;
- Rising sovereign borrowing costs → strains on governments’ ability to buffer the adverse impact

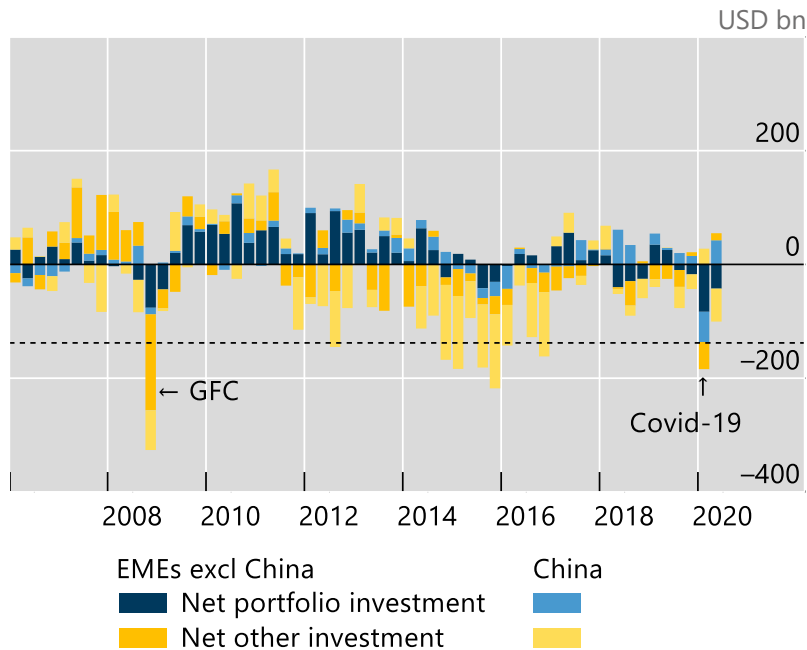


The first wave:
investor sentiment collapsed and
a global dollar funding stress

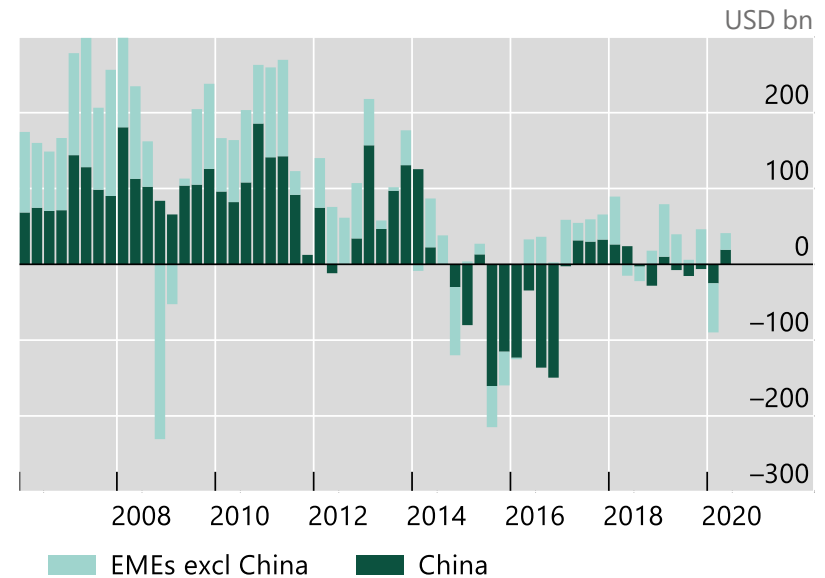
Unprecedented **portfolio** outflows from EMEs and FX reserves falling

Capital flows and FX reserves¹

Net portfolio and other investment flows



Changes in reserve assets



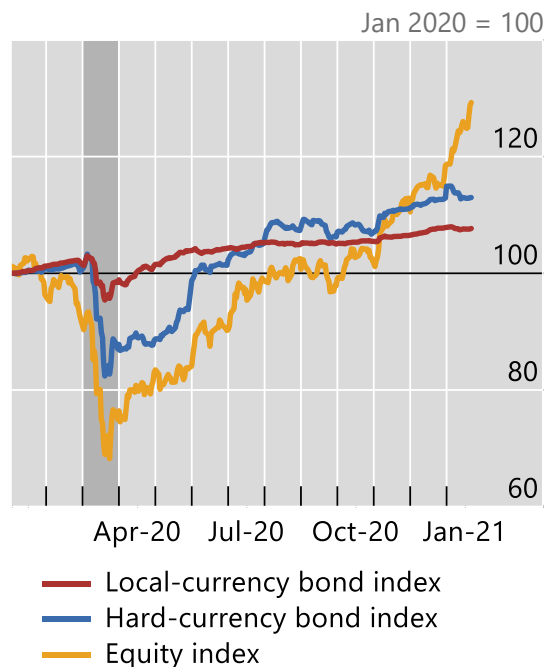
¹ Positive value represents inflow/increase in FX reserves.

Source: IMF, *Balance of Payments Statistics*.

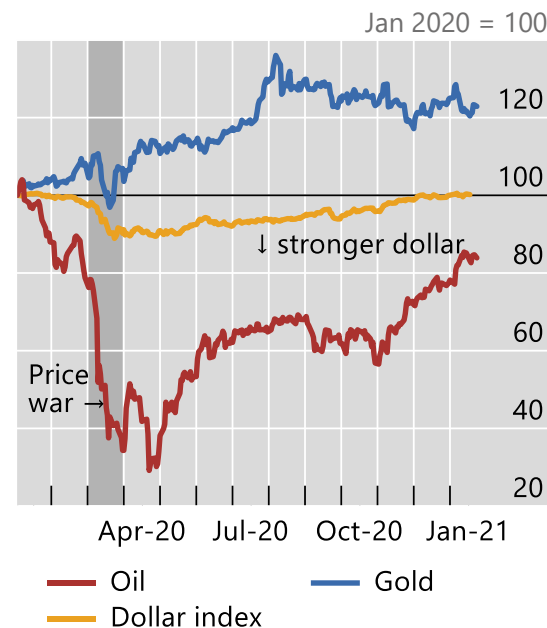
March selloff affected all assets, including gold and UST

EME asset prices, commodity prices, exchange rate and US Treasury yields

Emerging market asset prices¹



Commodity prices and dollar exchange rate²



10-year US Treasury yield



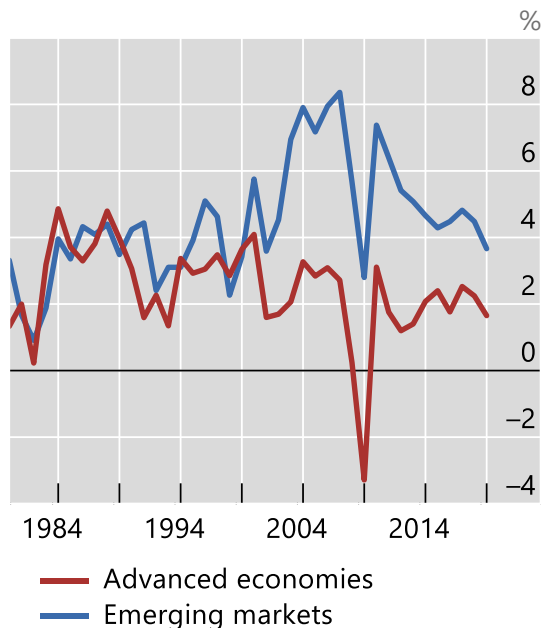
¹ JPMorgan GBI-EM and EMBIG total return indices; MSCI emerging markets. ² US Federal Reserve nominal emerging market economies dollar index.

Sources: Federal Reserve Board of Governors; JPMorgan Chase; Refinitiv.

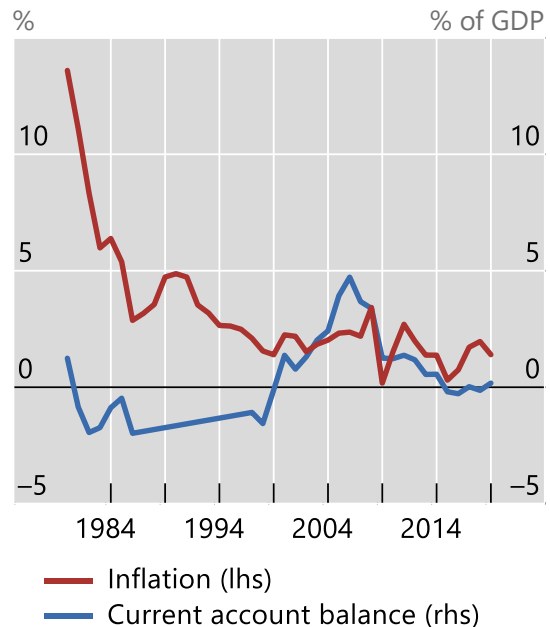
Improved fundamentals since 1990s helped EMEs ride the storm and avoid a full-blown economic crisis

EME Growth, inflation, current account and fiscal balances

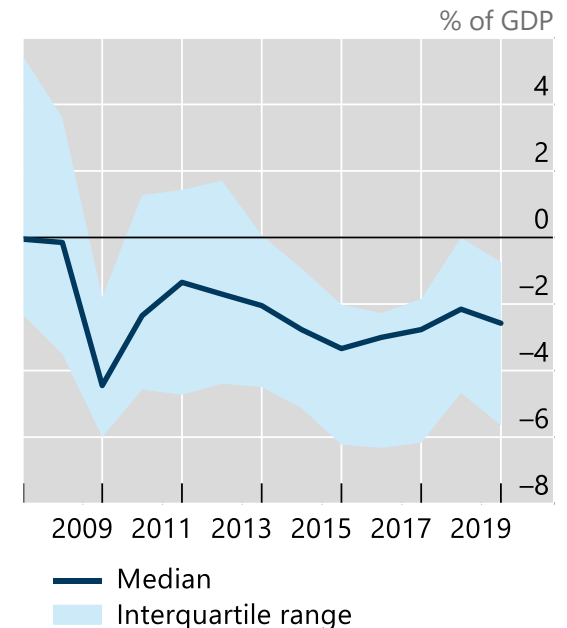
Real GDP growth



Inflation and current account balance of EMEs



General government overall balance of EMEs¹



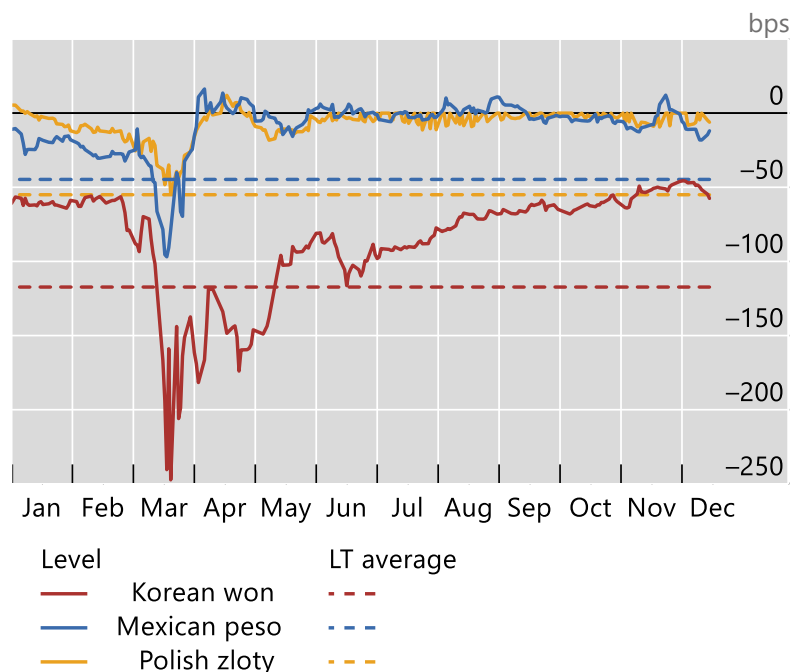
¹ Emerging Market and Middle-Income Economies.

Sources: IMF, *World Economic Outlook*; *Fiscal Monitor*.

Global central bank actions also played an important role in easing financial conditions

Currency bases widened sharply in March before easing back

Cross-currency basis



Source: Bloomberg.

- In many EMEs, banks typically bridge their dollar funding gaps (ie when their dollar assets exceed their dollar liabilities) with FX swaps
- A global dollar shortage led to a sharp widening of swap basis
- Central bank rate cuts and market operations ensured financial system with ample liquidity
- In March, the FED put in place liquidity swap lines and the temporary repurchase agreement facility for foreign central banks to ease strains in global dollar funding markets
- Since then, currency bases have eased back to their long-term averages

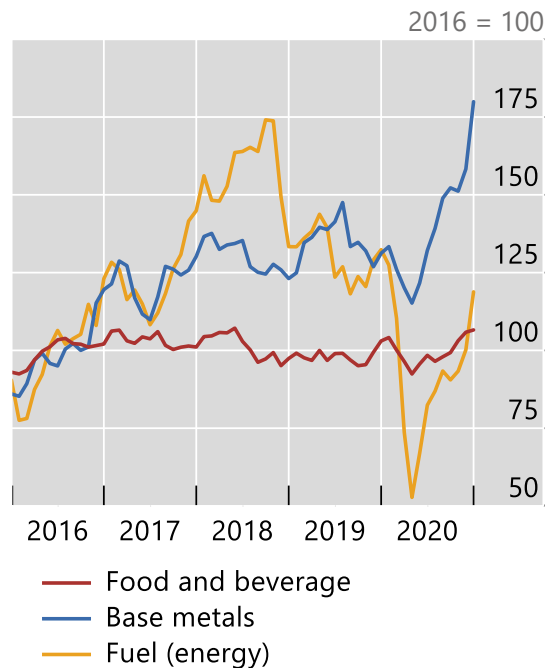


Beyond the first wave:
economic recovery and commodity prices

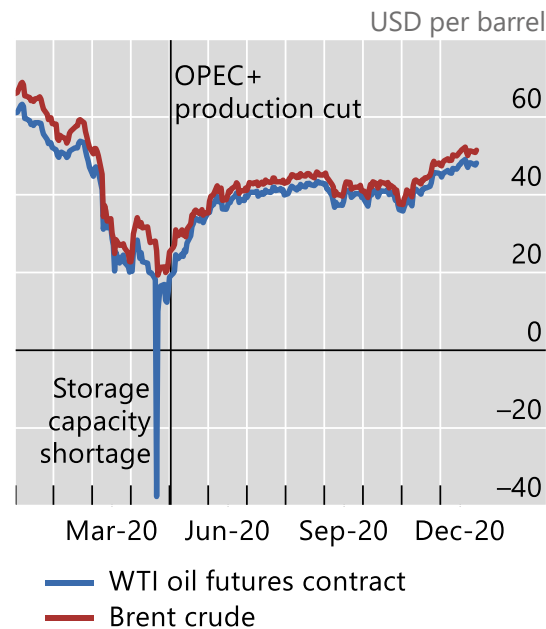
Recovery in commodity prices is mixed

Commodity prices and global oil supply-demand balance

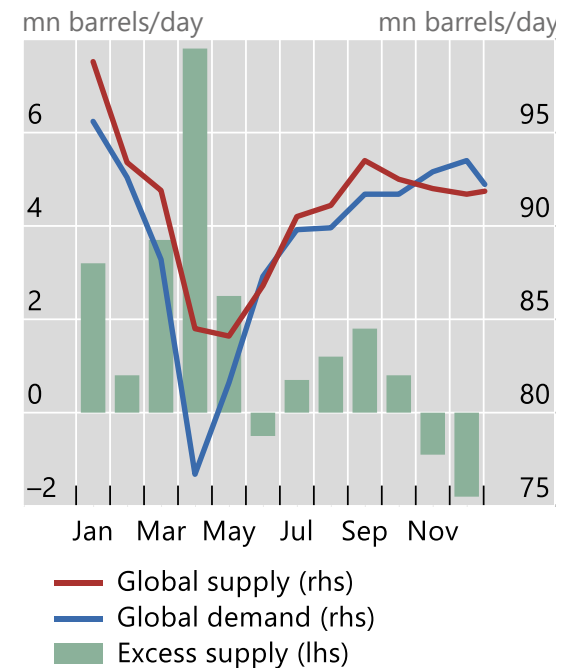
Commodity indices



Oil prices



Global oil supply and demand, 2020

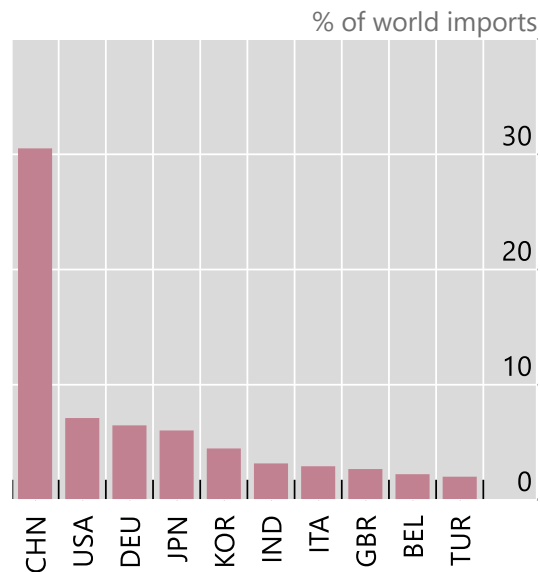


Sources: IMF; JPMorgan Chase; Refinitiv.

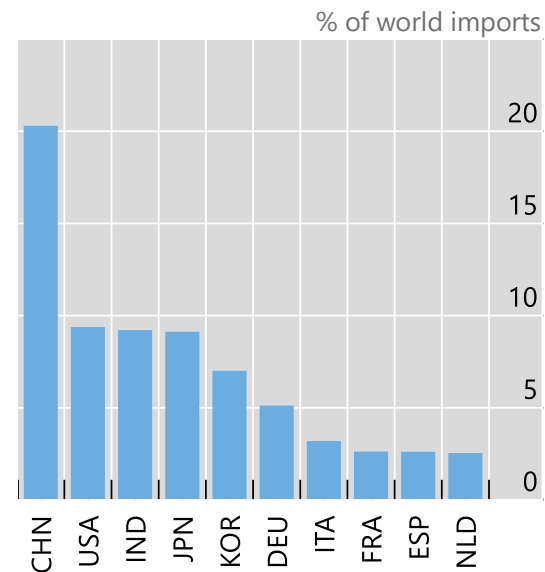
Global demand for metals and fuels remains weak ...

Top ten commodity importers by product, 2019

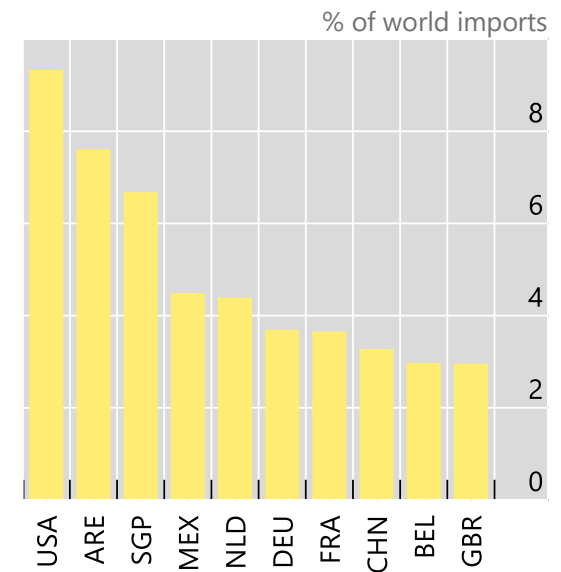
Base metals¹



Fuels (ex petroleum products)²



Petroleum products³



¹ SITC 27, 28 and 68. ² SITC 3 (minus 332). ³ SITC 332.

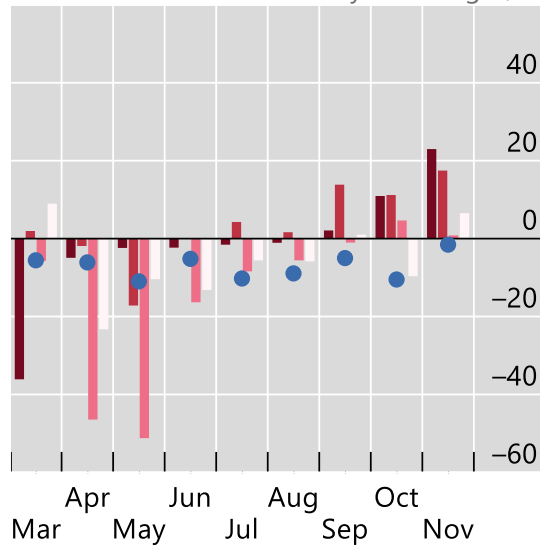
Source: UN Comtrade database.

... except China, where strong fixed investment and exports drove demand for metals and fuels

China leads recovery in EME exports

Imports of US by region

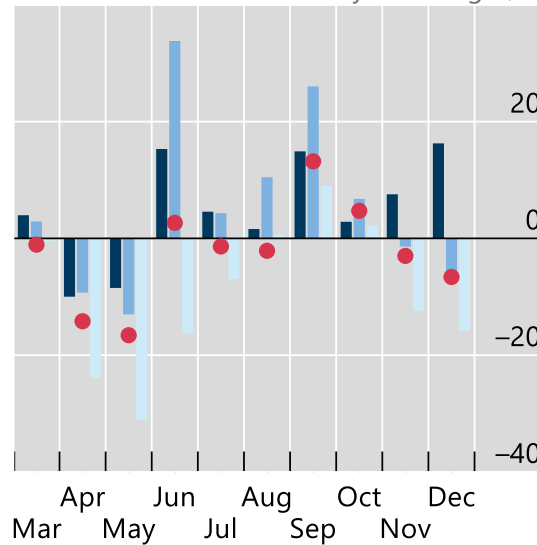
Year-on-year changes, %



- China and HK SAR
- EME Asia
- Latin America
- Other EMEs
- Total

Imports of China by region

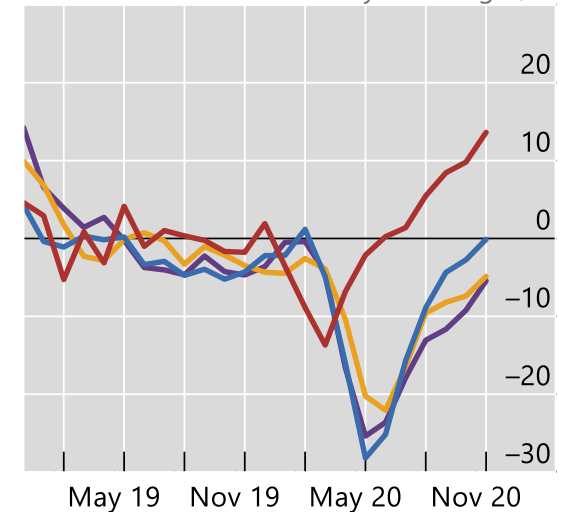
Year-on-year changes, %



- EME Asia
- Latin America
- Other EMEs
- Total

Monthly growth of EME exports¹

Year-on-year changes, %



- China
- EME Asia (excl China)
- Latin America
- Other EMEs

Sources: Datastream; Wind.

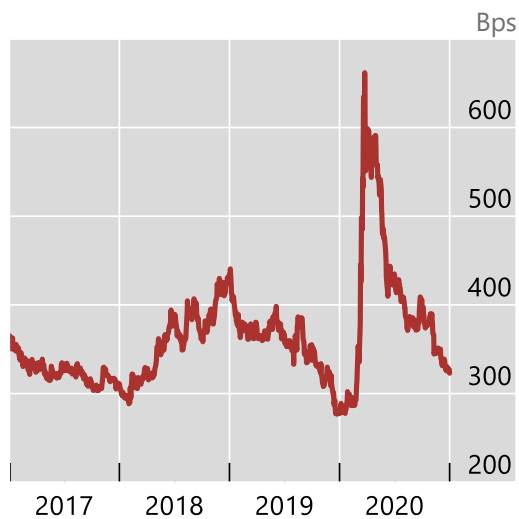


Beyond the first wave:
investor sentiment, exchange rates
and bond yields

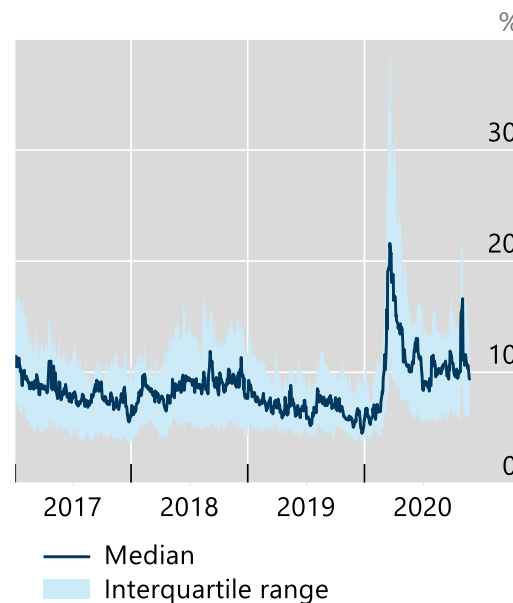
Sovereign risk almost back to pre-Covid levels but exchange rates remain volatile; net debtors with currency mismatches could be more vulnerable

EME \$-denominated government bond spreads, exchange rate volatilities and net international investment positions

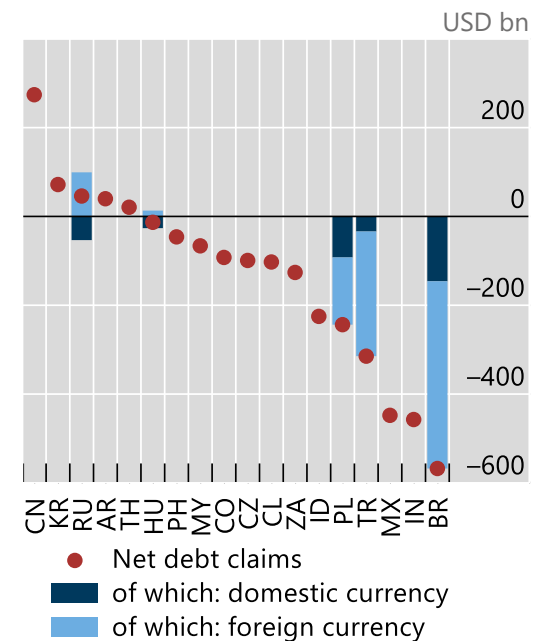
JPMorgan EMBIG spread



Implied volatilities of EME dollar exchange rates



Net international debt investment positions

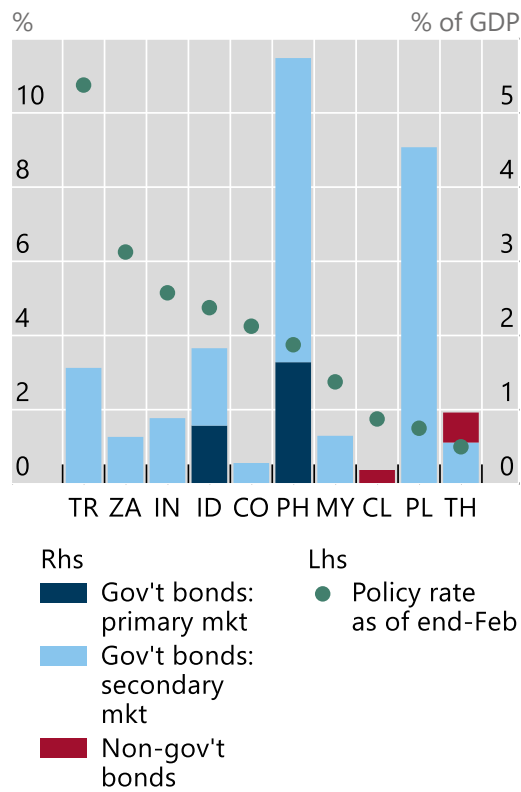


Sources: IMF, *Balance of Payments Statistics*; JPMorgan Chase.

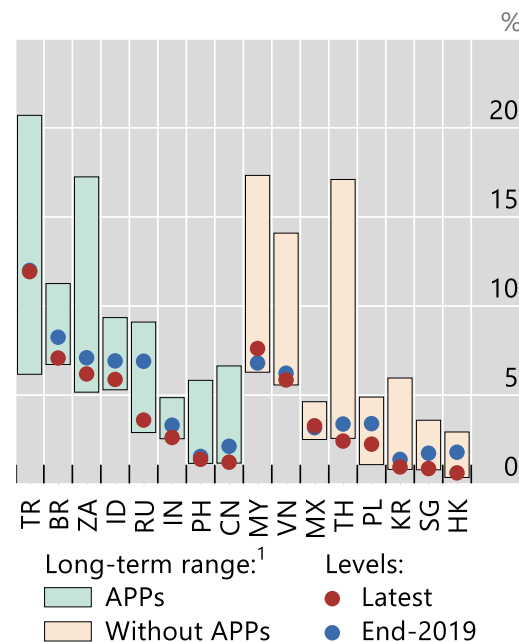
Central bank asset purchases stabilised government bond markets, but some foreign investors have yet to return

Asset purchases, government bond yields and foreign investor participation

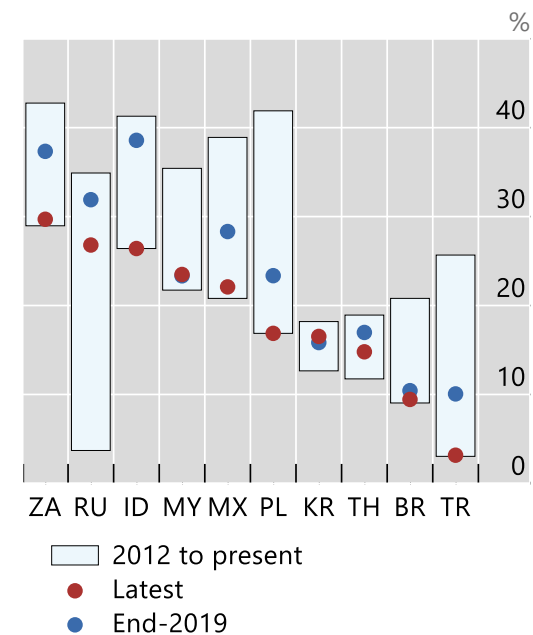
Asset purchases by EME central banks since March 2020



Long-term EME local-currency government bond yields



Share of foreign investors in local currency government bond markets



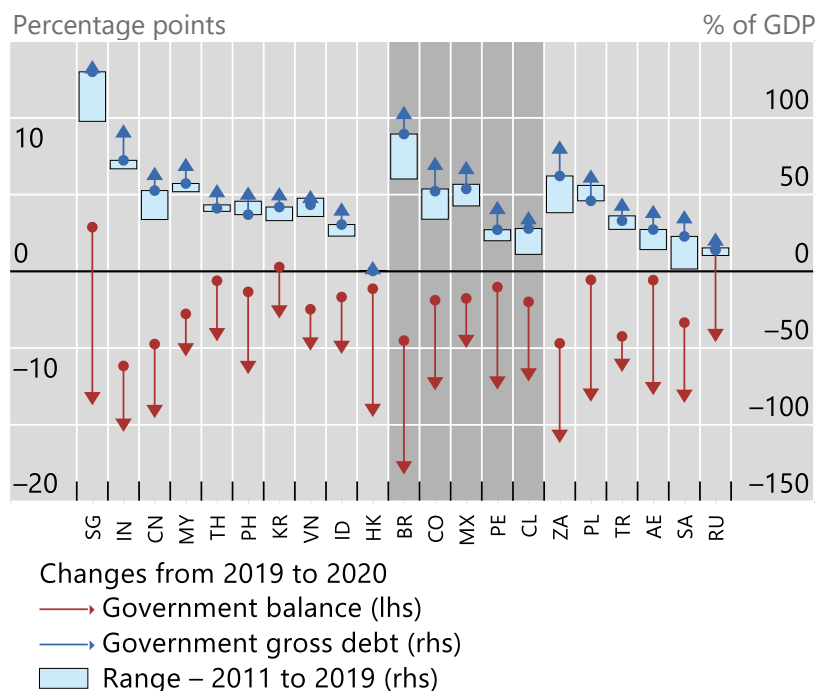
¹ 2012 to present.

Sources: National authorities; IMF, *Global Financial Stability Report 2020 October*; Datastream; Refinitiv.

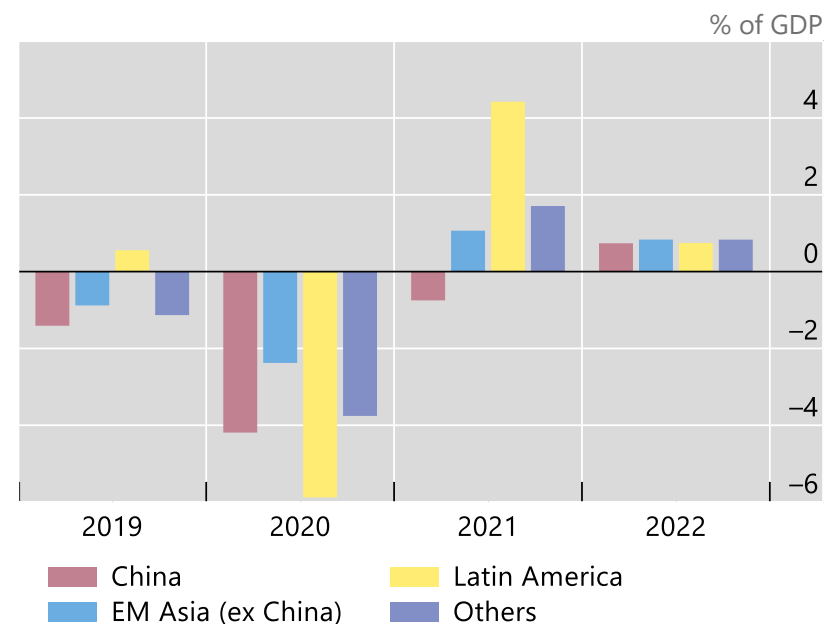
EME governments spent to protect lives and livelihoods but need to consolidate once the pandemic is over

Fiscal balance and gross debt

Changes in government balance and gross debt



Changes in primary fiscal balance¹



¹ Regional averages are 2019 GDP PPP weighted.

Source: IMF, *Fiscal Monitor*, *World Economic Outlook*.