

7 July 2020

EME Strategy

EME Strategy: European Frontier markets – market reclassifications ahead

In September 2020, Romania will be upgraded from FM to EM by the FTSE. Also, in November 2020, the European FM should see inflows stemming from the reclassification of Kuwait from FM to EM by the MSCI; while, in May 2021, the countries may face minor outflows associated with Iceland's reclassification to FM by the MSCI. Here, we present our updated estimates of countries' weights changes, and the fund flows associated with these events.

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Romania to join the FTSE EM index in September 2020... According to the FTSE' latest update, in March 2020, the most likely constituents of the index could be Banca Transilvania and Nuclearelectrica, and the country may have a c.0.04% weight in the FTSE EM index. On our numbers, the reclassification should attract c.USD 59m of passive inflows into Romania's equities, of which Banca Transilvania should enjoy USD 53m (28x 3M ADTV), while Nuclearelectrica USD 6m (15x 3M ADTV). We also note that, as stressed in our [flash note](#), Romania is unlikely to suffer from any outflows related to the upgrade, as we do not see any ETFs tracking the FTSE FM index, and the large and mid-cap companies should outperform in the three months ahead of the event.

...and the next step should be joining the MSCI's EM universe. At this stage, on our numbers, there is only one Romanian company (Banca Transilvania) that meets the MSCI's reclassification requirements. However, we note that, following its addition to the FTSE EM index, Romania will be the only market to be classified simultaneously in the FTSE EM universe and the MSCI FM index. On top of this, we note that September's reclassification may improve the liquidity of the local stock market, and the long-awaited IPO of Hidroelectrica (when it happens) may be a cornerstone in terms of the country's chances for an upgrade (we believe that the market is well-positioned to meet the market accessibility criteria set by the MSCI). Finally, we note that it is usually the FTSE that reclassifies markets from FM to EM first, and the MSCI tends to follow, with up to a four-year lag, as depicted in the table below.

FTSE and MSCI: selected markets reclassifications events

Country	From	To	Up/down	FTSE	MSCI	MSCI-FTSE lag (years)
Greece	EM	DM	up	Jan 2001	May 2001	0.33
Israel	EM	DM	up	Sep. 2008	May 2010	1.67
UAE*	FM	EM	up	Sep. 2010	May 2014	3.67
Argentina	EM	FM	down	Sep. 2010	May 2009	-1.25
Morocco	EM	FM	down	Jun. 2015	Nov. 2013	-1.73
Greece	DM	EM	down	Mar 2016	Nov. 2013	-2.33
Qatar	FM	EM	up	Sept 2016 (I tranche) Mar 2017 (II tranche)	May 2014	-2.33
S. Arabia**	Unclassified/ stand-alone	EM	up	Mar 2019	May 2019	0.17
Argentina***	FM	EM	up	n/a	May 2019	n/a
Kuwait****	FM	EM	up	Sep 2018 (I tranche) Dec 2018 (II tranche)	Nov 2020	2.17

Source: WOOD Research, MSCI, FTSE; *UAE was upgraded from unclassified status to EM by the FTSE; **S. Arabia has been an unclassified market in the FTSE's universe and classified as a stand-alone index by MSCI; ***Argentina's upgrade by MSCI was announced following the June 2018 Annual Market Review, but the index provider is now consulting on whether the market should maintain its current status, given the capital restrictions introduced; ****Kuwait was previously in the FTSE's unclassified category

Kuwait's upgrade to EM by the MSCI should attract USD 17m of passive inflows into the markets under WOOD's coverage. As presented in the table below, Romania should be the major beneficiary of this event, enjoying USD 11m of passive inflows, with its weight being increased to by c.3ppts to c.12% in the MSCI Frontier 100 index, making it the third-largest market in the index. The second-largest beneficiary under WOOD's coverage should be Kazakhstan's equities, enjoying USD 5m of inflows, with the country's weight increasing by 1ppt to c.5%. Smaller inflows should be seen in Estonia and Croatia, on our estimates.

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MSCI Frontier 100 index: weights changes and fund flows following Kuwait's upgrade to EM (November 2020)*

	Current weight	Weigh (ex Kuwait, Nov. 2020)	Diff.	ETFs flows (USDm)
Kuwait	27.1%	0.0%	-27.1pp	-94.3
Vietnam	12.7%	17.4%	4.7pp	16.5
Morocco	11.7%	16.0%	4.3pp	15.1
Romania	8.5%	11.6%	3.1pp	10.9
Kenya	8.3%	11.4%	3.1pp	10.7
Nigeria	7.7%	10.6%	2.9pp	10.0
Bahrain	7.0%	9.6%	2.6pp	9.0
Bangladesh	5.6%	7.7%	2.1pp	7.3
Oman	3.7%	5.0%	1.4pp	4.7
Kazakhstan	3.4%	4.7%	1.3pp	4.5
Jordan	1.6%	2.2%	0.6pp	2.1
Sri Lanka	1.1%	1.5%	0.4pp	1.4
Estonia	0.7%	1.0%	0.3pp	1.0
Mauritius	0.5%	0.6%	0.2pp	0.6
Croatia	0.4%	0.5%	0.1pp	0.5
Total EME**	13.0%	17.9%	4.8pp	16.9

Source: WOOD Research, Bloomberg; *weights based on the countries' weights in the ETFs tracking MSCI Frontier 100 index as of 3 July 2020; **EME – Romania, Kazakhstan, Estonia, Croatia

Iceland's upgrade to FM in May 2021 is likely to have a minor impact on the markets under our coverage, triggering passive outflows of only USD 4m, on our numbers.

MSCI Frontier 100 index: weights changes and fund flows following Iceland's upgrade to FM (May 2021)*

	Weight	New weight (incl. Iceland, May 2021)	Diff.	ETFs flows (USDm)
Vietnam	17.4%	16.4%	-1.1pp	-3.8
Morocco	16.0%	15.0%	-1.0pp	-3.5
Romania	11.6%	10.9%	-0.7pp	-2.5
Kenya	11.4%	10.7%	-0.7pp	-2.4
Nigeria	10.6%	9.9%	-0.7pp	-2.3
Bahrain	9.6%	9.0%	-0.6pp	-2.1
Bangladesh	7.7%	7.3%	-0.5pp	-1.7
Oman	5.0%	4.7%	-0.3pp	-1.1
Kazakhstan	4.7%	4.4%	-0.3pp	-1.0
Jordan	2.2%	2.1%	-0.1pp	-0.5
Sri Lanka	1.5%	1.4%	-0.1pp	-0.3
Estonia	1.0%	1.0%	-0.1pp	-0.2
Mauritius	0.6%	0.6%	0.0pp	-0.1
Croatia	0.5%	0.5%	0.0pp	-0.1
Iceland	0.0%	6.2%	6.2pp	21.5
Total EME**	17.9%	16.8%	-1.1pp	-3.9

Source: WOOD Research, Bloomberg; *weights based on the countries' weights in the ETFs tracking MSCI Frontier 100 index as of 3 July 2020; **EME – Romania, Kazakhstan, Estonia, Croatia

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WOOD's estimates of net passive fund flows triggered by Kuwait and Iceland's reclassifications

Ticker	Country	Kuwait's upgrade (November 2020)		Iceland's upgrade (May 2021)	
		USDm	x3M ADTV	USDm	x3M ADTV
TLV RO Equity	Romania	4.4	2.3	-1.0	-0.5
SNP RO Equity	Romania	1.9	2.5	-0.4	-0.6
SNG RO Equity	Romania	1.8	2.8	-0.4	-0.6
BRD RO Equity	Romania	1.3	1.7	-0.3	-0.4
EL RO Equity	Romania	0.7	3.7	-0.2	-0.9
TGN RO Equity	Romania	0.7	3.2	-0.2	-0.7
HSBK LI Equity	Kazakhstan	2.9	2.1	-0.6	-0.5
KAP LI Equity	Kazakhstan	1.6	0.9	-0.4	-0.2
TAL1T ET Equity	Estonia	0.5	1.5	-0.1	-0.3
LHV1T ET Equity	Estonia	0.5	2.7	-0.1	-0.6
RIVP CZ Equity	Croatia	0.5	2.4	-0.1	-0.6
Total		16.9		-3.9	

Source: WOOD Research, Bloomberg

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