BANKING ON KNOWLEDGE

Could Fed's monetary tightening impact emerging economies' growth momentum?

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According to the International Monetary Fund (IMF) January 2018 report, the emerging and developing economies are expected to grow by 4.9% in 2018 and 5% in 2019 respectively.
China's economic growth is expected to expand 6.6% this year and slow to 6.4% in 2019 respectively.
The country's consumer inflation accelerated to 1.8% in December 2017.
China's central bank injected $78.8bn into the market via various tools in January 2018 to maintain liquidity.
China will continue a prudent and neutral monetary policy in 2018 as it strives to balance growth with risk prevention.
The Shanghai capital market is up 5% YTD in 2018. China's bond issues in 2018 were at $51bn, as against close to $208bn in the first quarter of 2017.
The Chinese yuan was at 6.30 against the US dollar by end of last week and has strengthened by close to 3% YTD this year.

Brazil's economic growth was expected to be 1.9% in 2018 and 2.1% in 2019 respectively. Inflation in Brazil eased in December with the annual rate ending the year at 2.95% in a country which has traditionally struggled with runaway prices.
Recent indicators suggest Brazil's economy is gradually recovering, after the country suffered its worst recession on record in 2015 and 2016. Monetary policy should nevertheless continue to be accommodative and the economic reforms contribute to the decline of interest rates.
The Brazil capital market is up 10% YTD in 2018. Bond issues in Brazil were at $1.4bn this year as against $3.7bn in the first quarter of 2017. The Brazil real was at 3.2191 against the US dollar by the end of last week and has strengthened by close to 3% YTD.
Russia's economic growth was expected to be 1.7% in 2018 and 1.5% in 2019 respectively. Price growth was 2.5% in December compared to a year earlier. The slowdown in Russian inflation stalled for the first time in six months as the impact of a stronger currency and cheaper food from a good harvest started to wear off.
The Bank of Russia is gradually easing interest rates as it moves from a "moderately tight" to a "neutral" stance after inflation reached the regulator's 4% target and decelerated

further. Russia's economic prospects are improving as oil prices have rebounded amid an international agreement to maintain production cuts to the end of 2018.
The Russia capital market is up by 12% YTD in 2018. Russia bond issue is close to $2.5bn this year and as against $57bn in the first quarter of 2017. The Russian rouble was at 56.54 against the US dollar by end of last week and has strengthened by close to 2% YTD.
South Africa growth is expected to be 0.9% in 2018 and 2019 respectively.
Consumer prices in South Africa increased 4.7% year-on-year in December of 2017. In January 2018, South Africa's central bank kept interest rates on hold at its latest policy meeting, but presented a brighter outlook for growth and inflation that raised the prospect that rates could be cut in the near future. The South Africa capital market is down by 5% YTD in 2018.
South Africa's bond issues are close to $126m this year as against $3.5bn in the first quarter of 2017. The South African Rand was at 12.08 against the US dollar by end of last week and has strengthened by close to 2% YTD.
India is projected to grow at 7.4% of its gross domestic product (GDP) in 2018 and 7.8% in 2019 respectively.
India's retail inflation grew 5.21% y-o-y in December 2017.
The India capital market is up 2% YTD in 2018. Indian Bond market witnessed issues close to $1bn this year as against close to $34bn in the first quarter of 2017. The Indian rupee was at $64.06 against the dollar by end of last week and is flat this year.
Last week, the Fed has acknowledged the quickening pace of inflation and has forecast three rate increases this year after raising borrowing costs three times in 2017.
The US Treasury yields rose sharply in the aftermath of the jobs report last week and the Fed meeting with that on the 10-year at a four-year high of 2.84% and the 30-year at 3.08%.
By end of last week the global capital markets including emerging economies fell and the EM currencies weakened against the dollar. Despite the optimism on growth about emerging economies, the Fed's monetary tightening could impact cross border flows from emerging economies and thereby the liquidity.
We need to wait and see whether Fed's monetary tightening will impact emerging economies growth momentum.

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