BANKING ON KNOWLEDGE

Financial markets highly volatile in emerging economies

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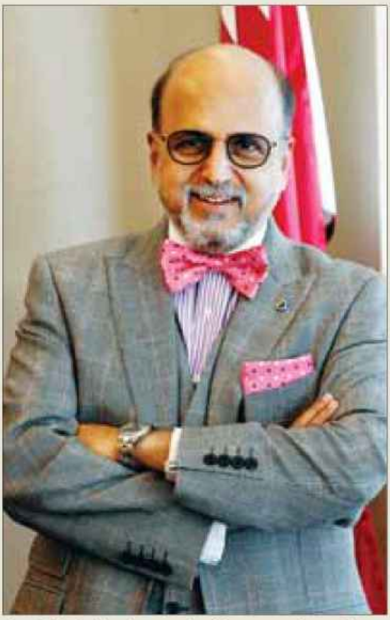

According to IMF in April 2018, the emerging and developing economies are expected to grow by 4.9% in 2018 and 5.1% in 2019 respectively.
China's growth was expected to expand 6.6% this year and slow to 6.4% in 2019. China's consumer prices rose by 1.8% year-on-year in May of 2018. The Shanghai capital market was down 14% YTD till end of first half of 2018. China bond issues in 2018 was at $618.7bn in first half of 2018 as against it was close to $466bn in first half of 2018. The Chinese yuan was at 6.64 against the US dollar by end of last week and weakened by more than 2% YTD this year.
Yuan is falling as the Federal Reserve is stepping up the pace of interest rate hikes, leading a global tightening cycle that has pushed the dollar up and caused trade divergence concerns. China's renminbi suffered one of its worst intraday falls last week before the central bank appeared to intervene to stabilise the market. China central bank governor Yi Gang stated last week that the country will continue

Banker's Take

deepening financial reforms and opening-up as the country's economy has entered a stage of "new normal".
According to IMF in April 2018, Brazil economy's growth was expected to be 2.3% in 2018 and 2.5% in 2019. Consumer prices in Brazil increased 4.39% year-on-year in June of 2018. The Brazil capital market is down 5% YTD in first half of 2018.
Bond issues in Brazil was at $18.06bn in first half of 2018 as against $8.03bn in first half of 2018.
The Brazil real was at 3.86 against the US dollar by end of last week and is weakened by more than 16% YTD.
According to IMF April 2018, Russia's growth was expected to be 1.7% in 2018 and 1.5% in 2019. Russia's consumer prices rose 2.4% year-on-year in May 2018.
The Russia capital market is up by 1% YTD in first half of 2018. Russia bond issue is close to $19.12bn in first half of 2018 as against $29.48bn in first half of 2017.
The Russian rouble was at 62.99 against the US dollar and has weakened by more than 9% YTD.
According to IMF in April 2018, South Africa's growth is expected to be 1.5% in 2018 and1.7% in 2019. The consumer price index in South Africa increased 4.4% year-on-year in May 2018. The South Africa capital market is down by 4% in first half of 2018.
South Africa's bond issues are close to $4.18bn in first half of 2018 as against $5.93bn in first quarter of 2017. The South African Rand was at 13.47 against the US dollar by end of last week and had weakened by close to 9% YTD.
India is projected to grow at 7.4% of its gross domestic product (GDP) in 2018 and 7.8% in 2019. Consumer prices in India increased 4.9% year-on-year in May of 2018 to a four-year high.
The continued acceleration in retail inflation has firmed up the Reserve Bank of India's (RBI) concerns over inflation.
The RBI hiked the policy repo rate by 25bps to 6.25% in order to mitigate inflationary pressures. The Indian capital market is up by 2% YTD in first half of 2018.
India's bond market witnessed issues close to $40bn in first half of this year as against close to $59bn in first half of 2017. The Indian rupee was below $68.87 levels against the US dollar and is weakened by close to 8% YTD this year.
In June 2018 the US Federal Reserve decided to raise its target range for the federal funds' interest rate by a quarter of a percentage point, to between 1.75% and 2%.
As the Fed continues its monetary tightening, European and British central banks have also adopted a more hawkish stance on its monetary policies.
Amidst the trade divergence and monetary tightening scenario, oil prices also continue to rise on account of continued escalation in tensions between the US and Iran. The surge in oil prices increases the import bill of some of the emerging economies and triggers a rise in inflation. High oil prices amidst trade divergence and monetary tightening have put pressure on emerging economies currencies and capital markets in recent times.
On the whole financial markets are currently highly volatile in emerging economies.

■ *The author is Group CEO of Doha Bank.*