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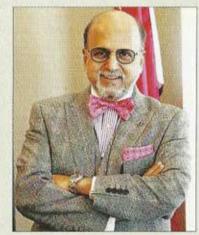
BANKING ON KNOWLEDGE

Challenging conditions in emerging economies as trade war fears re-emerge

By Dr R Seetharaman

According to the IMF in July 2018, the emerging and developing economies are expected to grow by 4.9% in 2018 and 5.1% in 2019 respectively. China's economy was expected to expand 6.6% this year and slow down 6.4% in 2019. China's consumer prices rose by 2.3% year-on-year in August of 2018, driven by higher prices of food; clothing; rent, fuel & utilities: and education, culture & recreation. The Shanghai capital market was down 19% YTD. The China bond issues in 2018 was above \$857bn in 2018, as against close to \$762bn in the first nine months of 2017. The Chinese yuan was at 6.86 against the US dollar. weakened by more than 5.5% YTD this

According to IMF in July 2018, Brazil economy's growth was expected



to be 1.8% in 2018 and 2.5% in 2019 respectively. Consumer prices in Brazil increased 4.19% year-on-year in August 2018. The Brazil capital market is down

1% YTD in 2018. The bond issues in Brazil was above \$25bn in 2018 as against \$14bn in the first 9 months of 2017. The Brazil real was at 4.17 against the US dollar and is weakened by more than 25% YTD.

According to the IMF in July 2018, Russia economy's growth was expected to be 1.7% in 2018 and 1.5% in 2019 respectively. Russia's consumer prices rose 3.07% year-on-year in August 2018. The Russia capital market is down by close to 4% YTD. The Russia bond issue is close to \$21.5bn in 2018 as against \$39.5bn in first 9 months of 2017. The Russian rouble was below 68 against the US dollar and has weakened by more than 18% YTD.

According to the IMF in July 2018, South Africa's growth is expected to be 1.5% in 2018 and 1.7% in 2019 respectively. The consumer price index in South Africa increased 5.1% year-



on-year in July 2018. The South Africa capital market is down by 4% YTD. The South Africa bond issues is close to \$5.54bn in 2018 as against \$8.61bn in the first nine months of 2017. The South African Rand is near-15 levels against the US dollar and had weakened by more than 20% YTD.

According to the IMF in July 2018, India is projected to grow at 7.3% of its gross domestic product (GDP) in 2018 and 7.5% in 2019 respectively. Annual consumer inflation in India declined to 3.69% in August of 2018. The India capital market is up by more than 8% YTD. Indian bond market witnessed bond issues close to

\$67bn in 2018 as against \$95bn in the first months of 2017. The Indian rupee was below \$72 levels against the US dollar and is weakened by more than 13% YTD this year.

In the end of last week, Donald Trump instructed aides to proceed with tariffs on about \$200bn more in Chinese products despite his treasury secretary's attempt to restart talks with Beijing to resolve the trade war. The outlook for global trade has quickly turned sour on account of these developments.

The Federal Open Markets Committee gave a positive view of the economy

when it announced its decision not to raise rates, and now, minutes from the August 2018 meeting solidify the chances of a rate hike at the September meeting this year, making it the third rate hike in 2018.

The emerging economies which had significant headwinds from Turkey contagion and surge in oil prices, continue to witness significant volatility on account of trade war concerns. Except India all emerging capital markets have fallen this year and their respective currencies weakened against the dollar. The emerging economies had been a key driver of global growth after global financial crisis, which happened one decade ago, however, currently challenging conditions in emerging economies as trade war concerns re-emerges.

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