BANKING ON KNOWLEDGE

Financial markets are buoyant in the emerging economies

By Dr R Seetharaman

According to the IMF, the January 2017 growth of the Chinese economy is expected be by 6.5%, which is 0.3% above the October forecast on expectations of continued policy support.

The consumer price inflation till February for the year was 1.7%. China will focus on stable development of its capital markets this year, although it will continue to further open its markets to foreign companies.

China is also trying to curb capital outflows to support the weakening yuan as regulators keep their eyes on policy changes in the US. In March 2017, China's central bank raised borrowing costs as a stable economy and factory reflation give it scope to follow the Federal Reserve in tightening policy.

The central bank said markets expected higher borrowing costs and that open-market rate increases don't necessarily equate to interest-rate hikes.

According to the IMF, January 2017 India growth forecast for the fiscal year were trimmed by one percentage point to 6.6% and 0.4% to 7.2%, respectively, primarily due to the temporary negative consumption shock induced by cash shortages and payment disruptions associated with the recent currency note withdrawal and exchange initiative. The RBI shifted to a neutral stance from accommodative in February and this, in turn, may prompt the central bank to hold rates in the ensuing meet this month.

High lending rates and demonetisation will likely push recovery to the second half of this year and inflation is also likely to remain well within the RBI's 2-6% target range. Consumer prices in India increased 3.65% year-on-year in February of 2017, following a record low rise of 3.17% in January 2017.

According to the IMF, January 2017 Russia growth is expected to be 1.1%. The Russian inflation rose by 4.6% year-over-year in February 2017. In February 2017 meeting the Central Bank of Russia held rates at 10.00% and noted that it saw less room for rate cuts going forward amid rising inflation risks.

According to the IMF, January 2017 Brazil growth is expected to be at 0.2%. Consumer prices in Brazil rose by 4.76% in the year to February 2017, down from an increase of 5.35% in the previous month. Brazil's central bank stated recently that lower inflation could allow it to step up its pace of interest rate cuts and that its inflation estimates based on market parameters remained below or at the official target for the next two years.

According to the IMF, January 2017 South Africa growth is expected to be 0.8%. South Africa inflation rose to 6.3% in February 2017.

Bond issues in India were more than $30bn in the first quarter of 2017 as against $20bn in first quarter of 2016. Bond issues in China were more than $180bn in first quarter of 2017 as against close to $400bn in first quarter of 2016.

After the US Federal Reserve raised interest rates in December 2016, China's bond market saw a record selloff. In December 2016, China halted trading in bond futures after record bond market crash. The Russia bond issues in the first quarter of 2017 was more than $12bn as against more than $4bn in first quarter of 2016.

The Brazil bond issues were more than $2.78bn in the first quarter of 2017 as against more than $1bn in the first quarter of 2016.

The Russia capital market is down by close to 5% YTD. India stock market is up by more than 12% YTD. China stock market is up by close to 4% YTD. Brazil stock market is up by close to 8% YTD. The South Africa capital market is up by close to 3% YTD. The Indian rupee was at 64.85 against dollar by end of last week and has strengthened by close to 4.5% this year.

The Chinese yuan is at 6.88 by end of last week and had strengthened by less than 1% this year.

The South African Rand was at 13.41 by end of last week and had strengthened by more than 2% this year.

The Brazil real was at 3.12 by end of last week and had strengthened by more than 4% this year.

The Russian rouble was at 56.24 by end of last week and had strengthened by close to 9% this year.

Despite the recent 2 Fed rate hikes in December 2016 and March 2017, most of the emerging economies' capital markets have surged and currencies strengthened mainly on account of a surge in cross-border inflows and improvement in their respective domestic scenario.

The uncertainties impacting the US growth reforms have also impacted the flows to emerging economies. On the whole, the financial markets are buoyant in emerging economies.

■ *Dr R Seetharaman is Group CEO of Doha Bank.*