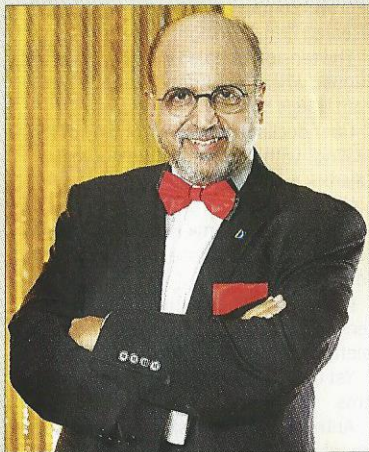


Emerging economies' currencies surge despite hopes of Fed's monetary tightening

By Dr R Seetharaman

The dollar index was at 101.540 by end of last week. It had weakened by less than 1% during the year. The dollar lost momentum during the last session of the week and following a speech by Janet Yellen. The Federal Reserve chairperson mentioned that the central bank was likely to raise rates at the next meeting, to be held in two weeks, if the economy evolves as expected. Despite the strong signals towards a rate hike, the greenback lost momentum and pulled back, probably amid some profit taking. Earlier the Greenback remained supported by Trump's announcements and expectations of a rate hike from the Fed in March 2017.

The British pound was at \$1.2291 and had weakened by less than 1% during the year. The pound was at a low against the



dollar in early last Friday trading, after growth in the country's dominant service sector dropped to five-month low in

February. The slowdown mainly reflected a softer pace of new business growth, which some respondents linked to more cautious spending among consumers. On the positive side, business confidence remained strong, with service providers indicating that optimism was little-changed from the post-referendum high recorded at the start of this year.

The euro was at \$1.0622 by the end of last week and had strengthened by 1% during the year. The euro's exchange rate jumped higher ahead of the weekend on the latest French polls, which show Emmanuel Macron finishing ahead of far-right leader Marine Le Pen in the opening round. Earlier the euro had struggled over recent weeks on signs that Le Pen — a candidate that would pull France out of the eurozone and then the European Union — had been gaining in polls.

The yen was at 114.04 against the



US dollar by end of last week and had strengthened by 2.5% this year. Yen is up on account of uncertainty in policies impacting global growth.

The Swiss franc was 1.0079 against the US dollar by end of last week and had strengthened by close to 1% this year.

The Australian dollar has surged by close to 5% this year, due to a bounce in Australian growth in the last quarter of 2016 and a surge in commodity prices.

The Indian rupee was 66.8050 against the US dollar by end of last week and had strengthened by 1.7% this year. The pro-growth budget and a better GDP data for

December quarter at 7% gave some boost for the Indian rupee.

The Brazil real was 3.1155 against the US dollar by end of last week and had strengthened by more than 4% during the year. In Brazil, hopes of pension reforms and capital inflows gave boost to the real.

The Russian rouble was 58.23 against the US dollar by end of last week and had strengthened by more than 5% during the year. A delay in slashing rates and high oil prices is positive for rouble.

The Chinese Yuan was at 6.9040 against the US dollar by end of last week. It is experiencing two-way fluctuations,

and market expectations are stable for its future trend. The South African rand was at 13.0275 against the US dollar by end of last week and had strengthened by close to 5% on account of surge in capital inflows.

The chances of rate hike by Fed have improved. However, as the Fed meeting looms, it is very interesting to see that the emerging economies' currencies have surged on account of signs of revival in their domestic conditions and due to loss of steam in dollar rally.

Among advanced economies' currencies the yen and the Australian dollar have strengthened. The markets have priced in one rate hike, and any further movement in currencies will depend on the Fed's action.

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