

BANKING ON KNOWLEDGE

Have emerging economies geared up for Fed's monetary tightening?

By Dr R Seetharaman

According to the IMF in October this year, China's growth outlook is at 6.6% for 2016 and 6.2% for 2017 respectively. Chinese economy steadied in the third quarter, clocking in 6.7% growth fuelled by easy credit and other stimulus measures.

Chinese leaders have been sounding upbeat recently whose performance is on track to achieve the government's annual growth target of 6.5% or higher. Inflation rose to 2.1% in October, which marked a six-month high.

India's economy continued to recover strongly, benefiting from a large improvement in the terms of trade, effective policy actions, and stronger external buffers, which have helped boost sentiment. India's growth was expected at 7.6% for 2016 and 2017 respectively. The growth in second quarter of fiscal year 2016-2017 was at 7.3%.

A sizeable dent is likely to the growth in the final two quarters of fiscal 2017, led by a sharp drop in consumption as a result of the government's attempts to crack down on undeclared income and



counterfeit notes. The pain may be short term; however, in the long term it is good for the economy.

Consumer prices rose 4.2% from a year earlier in October 2016. The Reserve Bank of India surprisingly kept the rates on hold this month ahead of the Fed meeting.

Brazil's economy remains in recession. The 2016 recession is now projected to be a

contraction of 3.3%, with a return to positive growth in 2017 of 0.5%. Brazil's prolonged economic recession deepened in the third quarter amid political turmoil. Gross domestic product shrank 0.8% from the second quarter, marking the seventh consecutive quarter of contraction. Brazil Inflation fell in October to a 20-month low of 7.9%.

Russia's economy is now projected to be at (-) 0.8% and 1.1% for 2016 and 2017 respectively. The Russian economy shrank 0.4% year-on-year in the third quarter of 2016. Russia's inflation fell in October to 6.1%.

The South African economy is expected to grow by 0.1% in 2016 and 0.8% in 2017 respectively. The South African economy advanced 0.7% year-on-year in the September quarter of 2016, on increase in finance and real estates activities, construction and transport and communication offset a decline in the agriculture, mining and manufacturing. South Africa inflation was at 6.4% in 2016.

The Chinese yuan was at 6.9080 against the US dollar by the end of last week and has weakened by more than 6% YTD. Yuan as weakening as the US dollar strengthens



on the back of rising interest rates. The Indian rupee was at 67.4175 against the US dollar by end of last week and has weakened by close to 2% YTD.

The Russian rouble was at 62.4636 against the US dollar by end of last week and has strengthened by close to 14% YTD. The revival in oil prices had contributed to recovery in rouble, however, in recent times the pressure on oil prices impacted the rouble.

The Brazil real was at 3.38 against the US dollar by the end of last week and has strengthened by close to 14% YTD. Brazil's real strengthened as commodity prices recovered a bit and concerns of the government's fiscal deficit eased.

The South Africa rand was 13.796 against the US dollar by end of last week and strengthened by more than 10% YTD on account of drop in current account

deficit in South Africa. The Indian bond market had witnessed issues worth close to \$66bn this year as against more than \$71bn in the previous year.

The Chinese bond market had witnessed bond issues worth more than \$1,278bn this year as against more than \$1,196bn in the previous year.

The Russia bond market had witnessed bond issues worth more than \$49bn this year as against more than \$38bn in the previous year.

The Brazil bond market had witnessed bond issues worth close to \$12bn this year, as against more than \$21bn in the previous year.

The South Africa bond market had witnessed issues more than \$11bn this year as against close to \$10bn in the previous year.

The Russian stock market had surged

by more than 43% YTD on recovery in oil prices.

The China stock market is down by more than 8% YTD on concerns of slow-down in the economy.

Brazil's stock market is up by more than 39% YTD as concerns of economy have eased.

India's stock market is up by close to 4% YTD on hopes of the passage of GST and a revival in monsoon.

South Africa stock market is flat YTD. Market participants, including the emerging economies, seem to have factored in a 25 basis point rate hike when the Fed meets this week. It is expected that the central bank will increase the rates.

However, we need to watch more closely the commentary that the Fed will provide and any indications of its stance on the rate hike trajectory, going forward.

We also need to see how emerging economies are geared up for further rate hikes by the Fed in 2017.

■ Dr R Seetharaman is Group CEO of Doha Bank.