

## BANKING ON KNOWLEDGE

## Trade war may lead to market volatility and hamper EM growth

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Trade negotiations between the US and China have soured dramatically since early May 2019, when Chinese officials sought major changes to the text of a proposed deal that the Trump administration says had been largely agreed upon.

The trade dispute between the two economic superpowers further escalated when Trump this month raised tariffs on \$200bn of Chinese goods from 10% to 25%. China had responded with tariffs on \$60bn of US imports from June 1, 2019.

According to IMF in April 2019, Global growth in 2019 is weighed down by the emerging market and developing economy group, where growth is expected to be 4.4% in 2019. China's growth is expected to be 6.3% in 2019. China's consumer price inflation rose to 2.5% year-on-year in April



2019. The People's Bank of China warned that the escalating trade war could destabilise the global economy and vowed to continue with targeted

stimulus at home while keeping the currency steady. The Chinese yuan was at 6.91 against the US dollar and its recent slide extended to the longest since August amid trade tensions with the US. China's currency has fallen almost 3% against the greenback in May 2019. Although a weaker yuan would support Chinese exporters, the decline would need to be significant to offset the impact of higher US tariffs. The Shanghai stock market has surged by close to 16% YTD. However, market is volatile on account of the trade tensions. The China bond issues in 2019 was at \$425bn and it was at \$272bn in the first quarter of 2018.

According to IMF in April 2019, South Africa's growth is projected to strengthen to 1.4% in 2019. The South Africa inflation rate was at 4.4% in April 2019. The South Africa Capital index is up by close to 5% YTD. The South Africa Rand was at 14.36 against the US dollar



and is flat this year. The South Africa Bond market issuances is more than \$2.5bn in the first quarter of 2019, as against \$2.36bn in the first quarter of 2018.

According to the IMF in April 2019, Brazil growth is projected to strengthen to 2.1% in 2019. The annual inflation rate in Brazil rose to 5.1% in April 2019. The Brazil Capital market is up by more than 7% YTD this year. The Brazil Bond market issuances is more than \$7bn in the first quarter of 2019 as against \$9bn in the first quarter of 2018. The Brazil real was at 4.039 against the US dollar.

According to the IMF April 2019, Russia growth is projected at 1.6% in

2019. Russia's Consumer Price Index (CPI) growth was measured at 5.2% year-on-year in April 2019. The Russian rouble was more than 64 against the US dollar and has surged by more than 7% YTD on account of surge in oil prices. The Russia bond issuances is above \$13bn in first quarter of 2019 as against close to \$15bn in the first quarter of 2018.

According to the IMF in April 2019, India growth is projected to pick up to 7.3% in 2019, supported by the continued recovery of investment and robust consumption amid a more expansionary stance of monetary policy. India's consumer price eased to 2.92% in April 2019. The Indian rupee is

near 70 levels against the dollar. India bond market witnessed bond issuances close to \$40bn in the first quarter of 2019 as against \$31.3bn in the first quarter of 2018. The Indian capital market has surged by more than 8% YTD on hopes of the NDA government winning the election.

Flows into emerging markets can be dependent on cheap capital from the Federal Reserve and are very sensitive to a change in monetary policy in the US. In addition to that, domestic factors in emerging economies such as high current account deficits, weak currencies and a dependence on commodities can make for a risky investment in these markets. The trade tension escalations between China and the USA could lead to financial market volatility and hamper emerging economies' growth.

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