Business Standard

While emerging markets shone in the first quarter, suggesting resilience to Federal Reserve tightening, that image has shattered over the past two months

A falling tide lowers all boats, it seems. Amid an exodus from emerging markets, investors are pulling out of even Asian economies with solid prospects for growth and debt financing.

Overseas funds are pulling out of six major Asian emerging equity markets at a pace unseen since the global financial crisis of 2008 — withdrawing $19 billion from India, Indonesia, the Philippines, South Korea, Taiwan and Thailand so far this year, according to data compiled by Bloomberg.

While emerging markets shone in the first quarter, suggesting resilience to Federal Reserve tightening, that image has shattered over the past two months. With American money market funds now offering yields around 2 per cent — where 10-year Treasuries were just last September — and prospects for more Fed hikes, the bar for heading into riskier assets has been raised. Headlines on trade disputes that could hit Asian exporters haven't helped. "It is not a great set-up for emerging markets," James Sullivan, head of Asia ex-Japan equities research at JPMorgan Chase & Company, told Bloomberg TV from Singapore. "We have still only priced in about two thirds of the US rate increases we expect to see over the next 12 months. So the Fed is continuing to get more hawkish, but the market still has not caught up."

While many emerging-market investors and analysts have praised Asian economic fundamentals, pointing to world-leading growth rates and political stability, some are starting to raise red flags as global liquidity starts to shrink. The Bloomberg JPMorgan Asia Dollar Index sank to a 2018 low on Monday, extending two weeks of declines after the Fed and European Central Bank both took steps toward policy normalisation. Yet some still remain optimistic. Bank of America Merrill Lynch expects some of the regional currencies, including Thailand's baht and the Philippine peso to appreciate slightly by the end of the year, a research note sent on Monday showed.

Six of 10 best-performing emerging currencies so far this year are in Asia, led by the ringgit's 1.2 per cent advance and the Chinese yuan's 1.1 per cent gain. Developing nations including Turkey, Indonesia, India and Argentina have raised rates, while Brazil's central bank has sold extra foreign-exchange swap contracts in an effort to stabilise their markets.

In Asia this week, the Philippine central bank, which raised its key rate in May for the first time since 2014, is expected to lift the benchmark again by 25 basis points to 3.5 per cent, a Bloomberg survey shows. The Bank of Thailand will keep its benchmark unchanged at 1.5 percent the same day, according to a separate Bloomberg survey, though JPMorgan for one sees an increase coming next quarter. The baht has tumbled 4.6 per cent against the dollar this quarter.

First Published: Wed, June 20 2018. 03:05 IST

PREVIOUS STORY

NEXT STORY