



EM Currencies and Volatility

July 2024





Key messages

- **Revived Phase of EM Currency Depreciation Due to US Fed Policy:** Emerging market currencies have depreciated in 2024, mainly because the US Fed's "higher-for-longer" monetary policy has widened interest rate gaps. As EM central banks gradually lower their interest rates, the reduced rate difference with the US has led to significant capital outflows, weakening these currencies in recent weeks.
- **Fiscal Challenges and Monetary Policies Impacting Investor Confidence in Latin America and Turkey:** In Latin America, investor confidence is falling due to concerns about fiscal problems, such as relaxed fiscal rules in Brazil and increased government spending in Mexico. In Turkey, tighter monetary policy hasn't yet led to positive real interest rates, keeping negative pressure on the currency, though this pressure is slowly decreasing.
- **Asian Currencies Face Volatility Amid Global Economic Uncertainties:** Asian currencies have been less resilient in early 2024, with accrued depreciation in January and April due to lingering global economic and financial uncertainties. Some currencies have even marginally reappreciated in June 2024, thanks to the delayed initiation of a monetary easing cycle.



Key messages

- **Comparative Stability in Asian EM Currencies Amid Global Volatility:** Volatility in Asian emerging market currencies has been relatively low compared to other large EMs. In Asia, currency fluctuations decreased in the first two quarters of 2024 after being higher in 2023. In contrast, volatility has increased significantly in recent months in large EMs like Mexico, Brazil, and South Africa.
- **Asian Currency Valuations and Forex Reserve Risks:** Finally, except for Malaysia, which has a favorable currency valuation, and South Korea, which has a neutral valuation, most other Asian currencies are slightly overvalued. In China, there are additional issues beyond currency valuation. Additionally, poor quality of forex reserves often indicates risk of currency volatility, as recent changes in reserves have been either negative or driven by speculative investments.



EM Currencies

New boot of currency depreciation in June 2024

Nominal Emerging Market Economies US Dollar Index

Jan. 2023 = 100

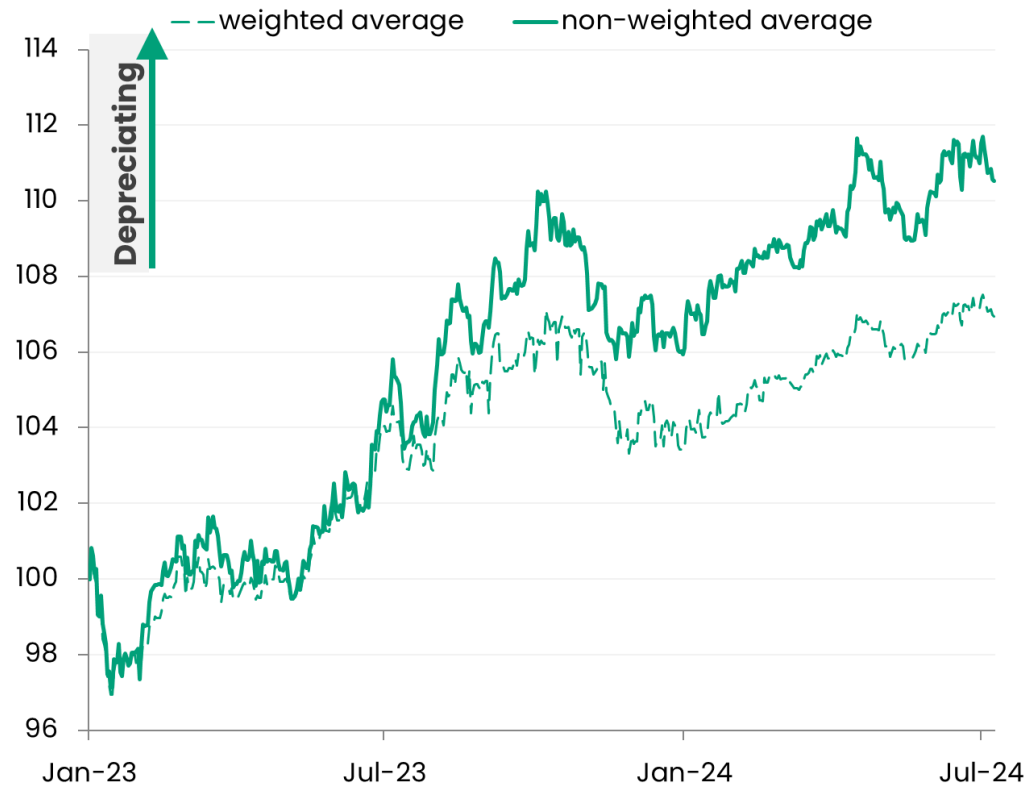




10 Key EM Currencies Evolution

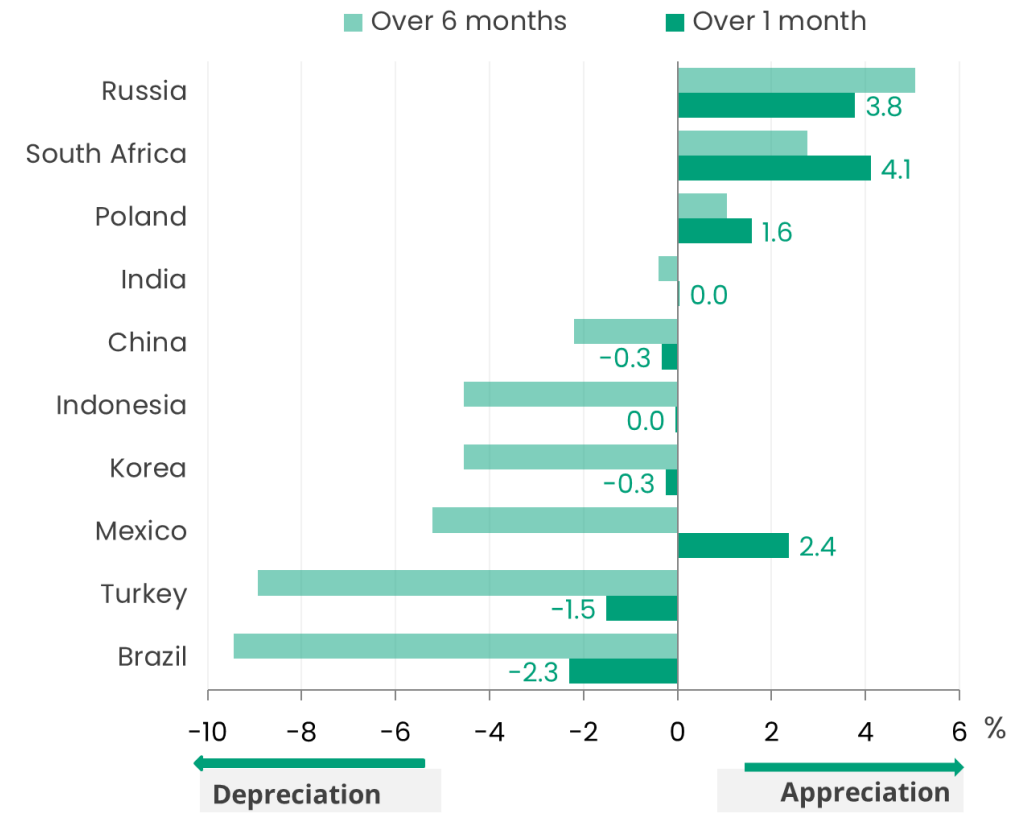
Emerging Markets Nominal Exchange Rate

Jan. 1, 2023 = 100, average for 10 countries



Emerging Markets Nominal Exchange Rate

Change in %, as of July 9, 2024





EM Currencies

Significant appreciation in 2023Q4 reversed in 2024Q1 and Q2

Emerging Markets Nominal Exchange Rate

% quarterly change against USD

			2023Q1	2023Q2	2023Q3	2023Q4	2024Q1	2024Q2
Asia	China	USD/CNY	-0.3%	5.7%	0.4%	-2.7%	1.7%	0.5%
	India	USD/INR	-0.7%	-0.1%	1.2%	0.1%	0.2%	0.0%
	Indonesia	USD/IDR	-3.7%	0.6%	2.6%	-0.1%	2.7%	2.9%
	Japan	USD/JPY	1.9%	8.6%	3.2%	-5.2%	6.9%	6.2%
	Malaysia	USD/MYR	0.2%	5.8%	0.6%	-2.1%	3.0%	-0.3%
	Philippines	USD/PHP	-2.7%	1.8%	2.4%	-2.0%	1.4%	3.9%
	South Korea	USD/KRW	2.8%	1.2%	1.8%	-3.6%	4.0%	2.1%
	Thailand	USD/THB	-1.2%	3.8%	3.1%	-5.9%	6.1%	0.8%
Other EM	Brazil	USD/BRL	-5.0%	-4.2%	3.1%	-3.1%	3.0%	10.1%
	Mexico	USD/MXN	-7.4%	-5.4%	2.2%	-3.0%	-2.2%	10.3%
	Poland	USD/PLN	-2.0%	-4.9%	6.9%	-10.1%	1.6%	0.9%
	Russia	USD/RUS	9.7%	12.9%	11.5%	-6.9%	2.5%	-8.2%
	South Africa	USD/ZAR	4.5%	6.6%	-0.4%	-2.4%	3.1%	-4.1%
	Turkey	USD/TRY	2.5%	35.9%	5.2%	7.8%	9.4%	1.7%

Large depreciation

Moderate depreciation

Relative stability

Moderate appreciation

Large appreciation



EM Currencies

Large pressures in Jan. and Apr. in Asia, higher depreciation in LatAm

Emerging Markets Nominal Exchange Rate

% monthly change against USD

			Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
Asia	China	USD/CNY	1.0%	0.2%	0.5%	0.2%	0.0%	0.3%
	India	USD/INR	-0.1%	-0.2%	0.6%	0.1%	0.0%	-0.1%
	Indonesia	USD/IDR	1.9%	-0.1%	0.8%	2.4%	0.0%	0.5%
	Japan	USD/JPY	4.5%	1.6%	0.7%	3.8%	0.1%	2.2%
	Malaysia	USD/MYR	2.9%	0.3%	-0.3%	0.8%	-1.3%	0.2%
	Philippines	USD/PHP	1.5%	-0.2%	0.0%	2.6%	1.6%	-0.3%
	South Korea	USD/KRW	2.7%	0.3%	0.9%	2.3%	0.2%	-0.4%
	Thailand	USD/THB	3.3%	1.3%	1.4%	1.7%	-0.8%	-0.2%
Other EM	Brazil	USD/BRL	2.2%	0.7%	0.1%	2.5%	1.4%	7.4%
	Mexico	USD/MXN	1.2%	-0.4%	-3.0%	2.4%	0.1%	7.6%
	Poland	USD/PLN	1.8%	-0.2%	-0.1%	1.0%	-2.5%	2.4%
	Russia	USD/RUS	-1.1%	2.9%	0.8%	-0.6%	-2.2%	-5.4%
	South Africa	USD/ZAR	1.8%	2.9%	-1.7%	-1.4%	-0.1%	-2.6%
	Turkey	USD/TRY	2.7%	2.9%	3.5%	0.2%	-0.5%	2.0%

Large depreciation

Moderate depreciation

Relative stability

Moderate appreciation

Large appreciation



EM Currencies

Lower coefficient of variation in 2024Q1-Q2 in Asia

Emerging Markets Exchange Rate Volatility

Quarterly coefficient of variation, against USD

			2023Q1	2023Q2	2023Q3	2023Q4	2024Q1	2024Q2
Asia	China	USD/CNY	1.0%	1.8%	0.8%	1.1%	0.3%	0.2%
	India	USD/INR	0.6%	0.4%	0.5%	0.1%	0.2%	0.1%
	Indonesia	USD/IDR	1.3%	0.7%	1.0%	1.0%	0.6%	1.1%
	Japan	USD/JPY	1.9%	2.6%	2.1%	2.0%	1.6%	1.4%
	Malaysia	USD/MYR	1.9%	2.1%	1.2%	1.0%	1.0%	0.6%
	Philippines	USD/PHP	0.8%	0.8%	1.6%	1.1%	0.5%	1.4%
	South Korea	USD/KRW	2.5%	1.3%	1.9%	1.8%	0.8%	0.9%
	Thailand	USD/THB	2.2%	1.3%	1.8%	2.0%	1.4%	0.6%
Other EM	Brazil	USD/BRL	1.6%	1.8%	1.6%	1.8%	0.8%	2.6%
	Mexico	USD/MXN	2.0%	2.0%	1.4%	2.4%	1.0%	4.2%
	Poland	USD/PLN	1.3%	1.6%	3.2%	3.5%	0.8%	1.3%
	Russia	USD/RUS	4.4%	2.8%	3.3%	3.9%	1.7%	2.7%
	South Africa	USD/ZAR	3.2%	2.9%	2.5%	1.7%	1.0%	1.7%
	Turkey	USD/TRY	0.6%	10.6%	1.4%	1.9%	2.7%	0.7%

Large volatility
Moderate volatility
Limited volatility



EM Currencies

Yen relatively volatile among Asian currencies, but Other EM more volatile

Emerging Markets Exchange Rate Volatility

Monthly coefficient of variation, against USD

			Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
Asia	China	USD/CNY	0.3%	0.1%	0.2%	0.1%	0.1%	0.1%
	India	USD/INR	0.1%	0.1%	0.3%	0.1%	0.2%	0.1%
	Indonesia	USD/IDR	0.7%	0.4%	0.7%	1.0%	0.6%	0.5%
	Japan	USD/JPY	1.4%	0.8%	1.0%	1.2%	0.7%	1.0%
	Malaysia	USD/MYR	1.0%	0.4%	0.5%	0.4%	0.5%	0.2%
	Philippines	USD/PHP	0.6%	0.3%	0.6%	1.0%	0.7%	0.2%
	South Korea	USD/KRW	0.9%	0.2%	0.8%	1.0%	0.6%	0.5%
	Thailand	USD/THB	1.3%	0.6%	0.8%	0.6%	0.7%	0.3%
Other EM	Brazil	USD/BRL	0.6%	0.4%	0.5%	1.6%	0.6%	1.8%
	Mexico	USD/MXN	0.7%	0.3%	0.8%	1.8%	0.8%	2.4%
	Poland	USD/PLN	0.7%	0.6%	0.7%	1.2%	1.1%	1.1%
	Russia	USD/RUS	0.9%	1.0%	0.8%	0.8%	1.1%	2.0%
	South Africa	USD/ZAR	0.9%	0.9%	0.9%	1.2%	0.9%	1.7%
	Turkey	USD/TRY	0.7%	0.8%	1.0%	0.6%	0.2%	0.8%

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Moderate volatility
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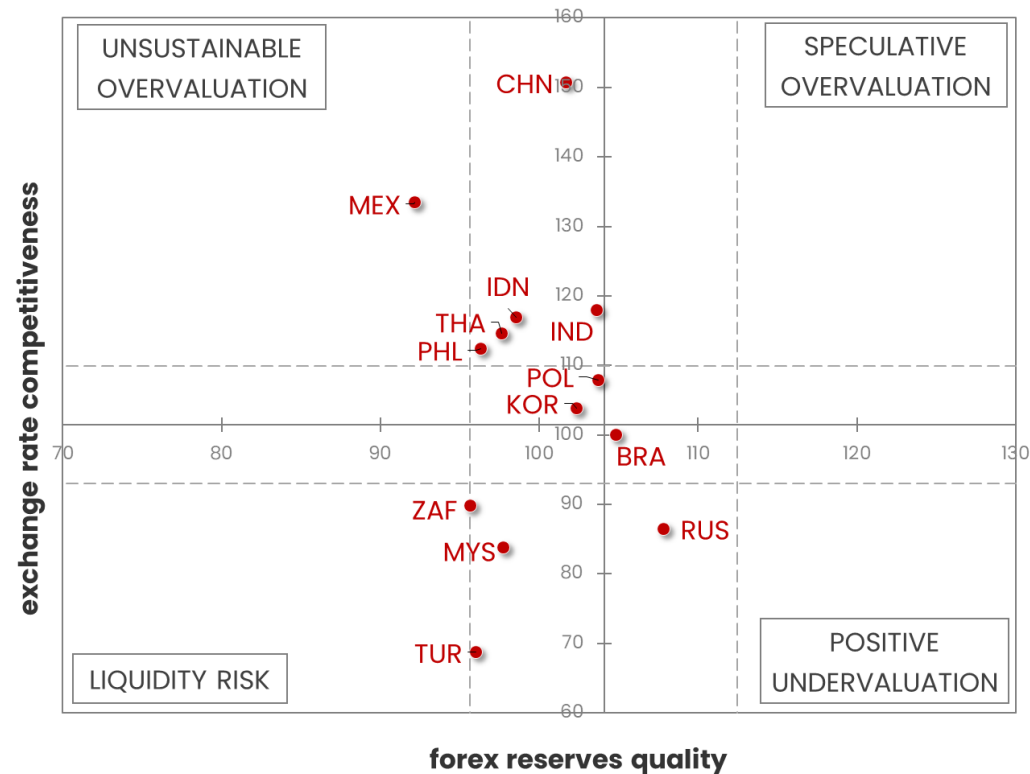
EM Currencies

Mild overvaluation of Asian currencies, with insufficient *quality* showing volatility risks

Foreign Exchange Balance

latest

The Foreign Exchange Balance looks at the relative competitiveness of the currency as well as at the dynamics of official foreign currency reserves.



Source: TAC ECONOMICS Datalab

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