



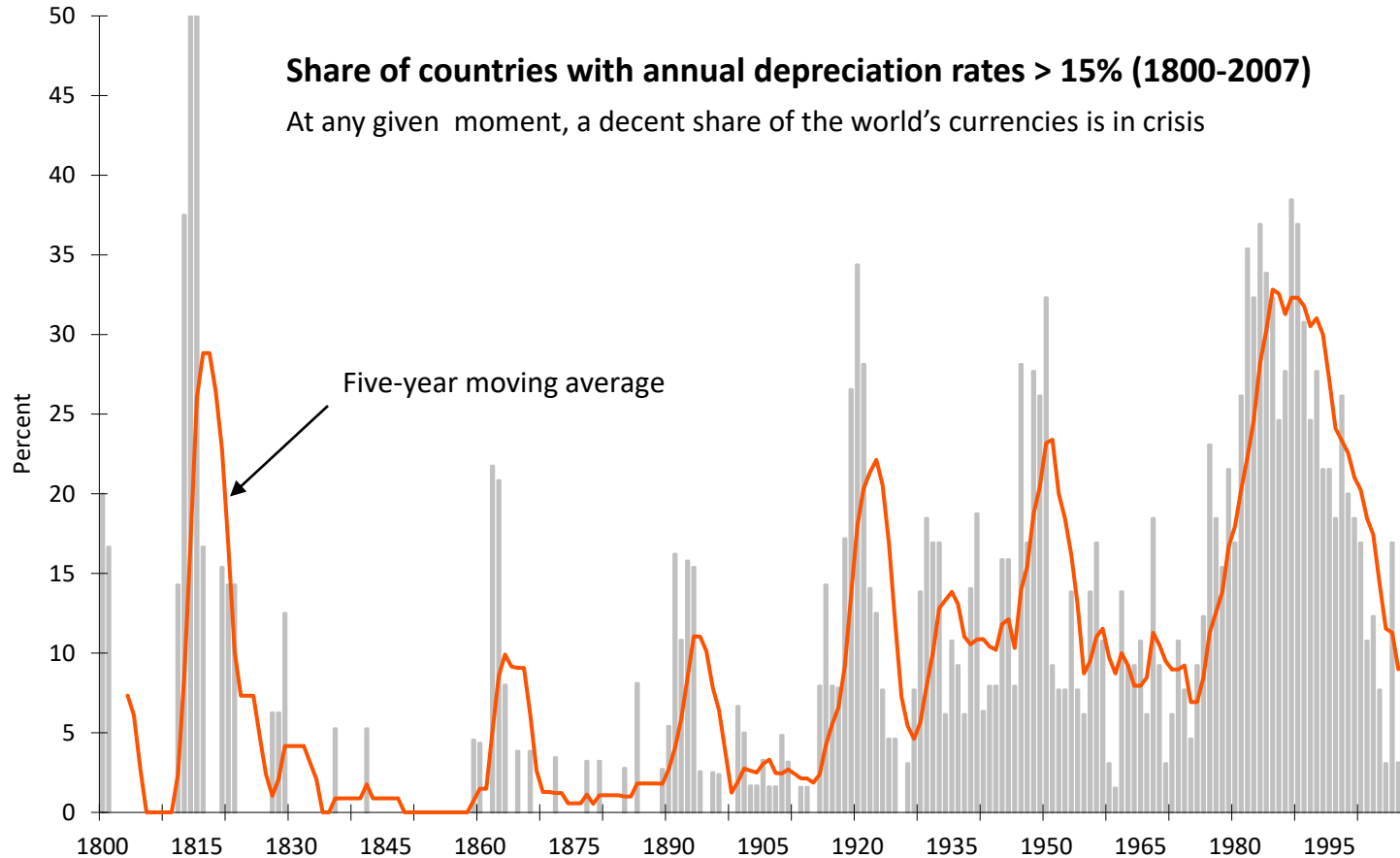
TCX



Local currencies update

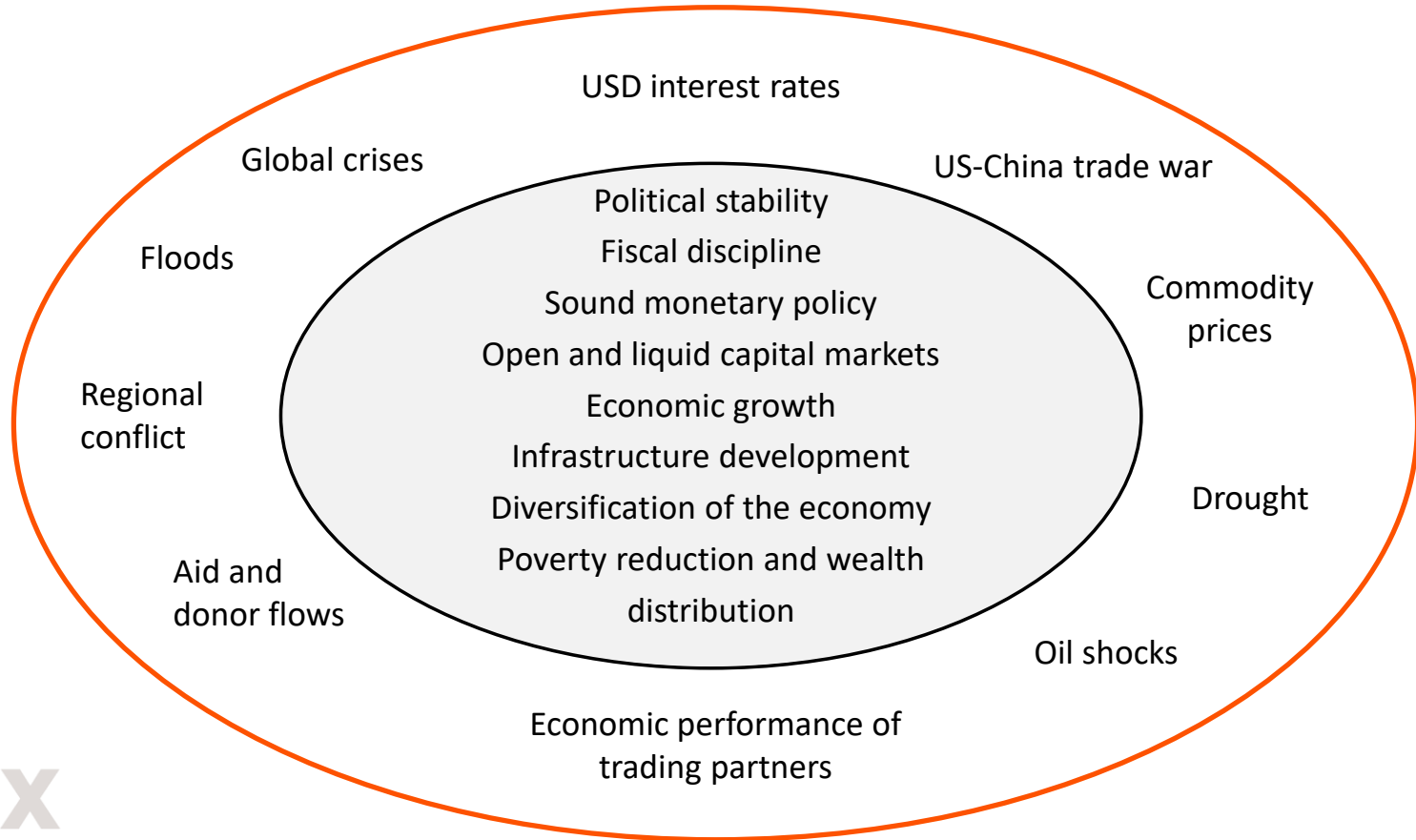
LCY Lab – Paris, 10 October 2019

Currencies crash all the time



Source: Reinhart & Rogoff (2009)

Numerous drivers / causes...



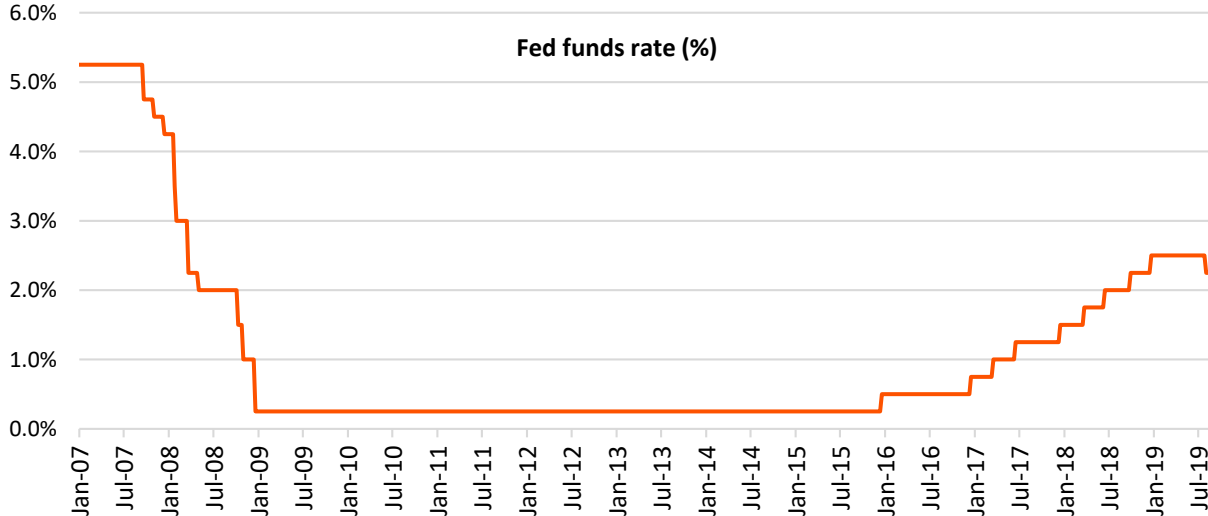
Important considerations

- As an individual lender/borrower, these drivers are out of your control
- Although historically quite common, crises for individual currencies are often (many) years apart, leading to myopia and ‘this time is different’-feeling
- The global setting/external environment can change quickly (more in next slides)
- Try to avoid the risks you can avoid: hedge!
- Don’t wait too long: better get insurance before the house is on fire



2019: Fed starts loosening

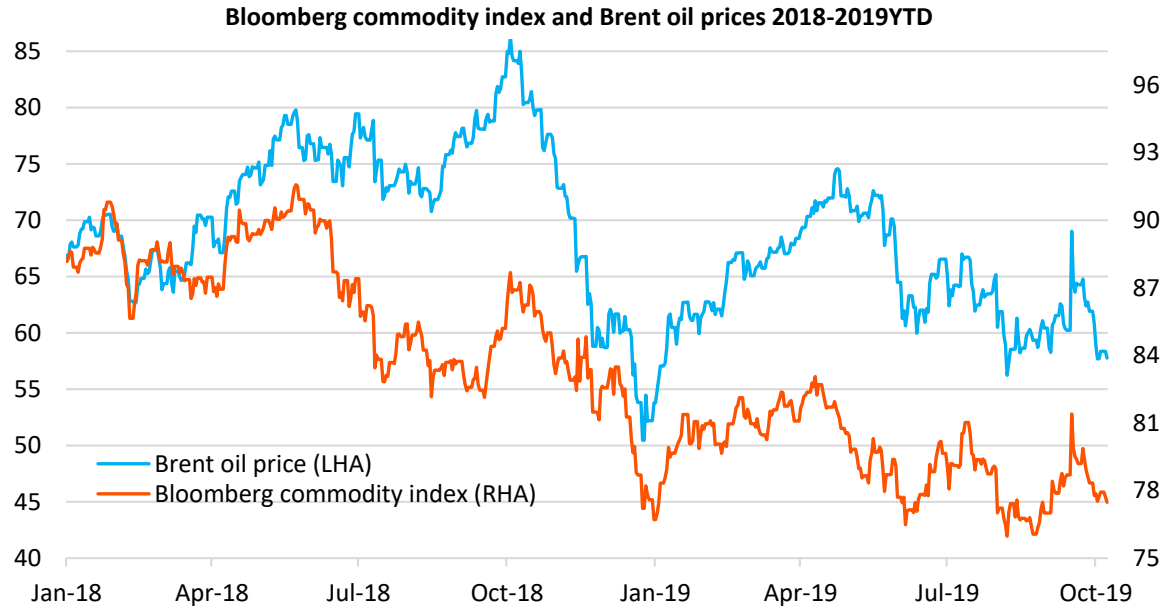
- Start of year: rising or at least constant Fed funds rate expected
- Now: Fed has decreased rates twice already, the first cuts since the financial crisis
- Other developed markets, e.g. ECB, BoJ, BoE and RBA (Australia) also increasingly dovish



Source: Federal Reserve, TCX

Oil, commodities hold ground

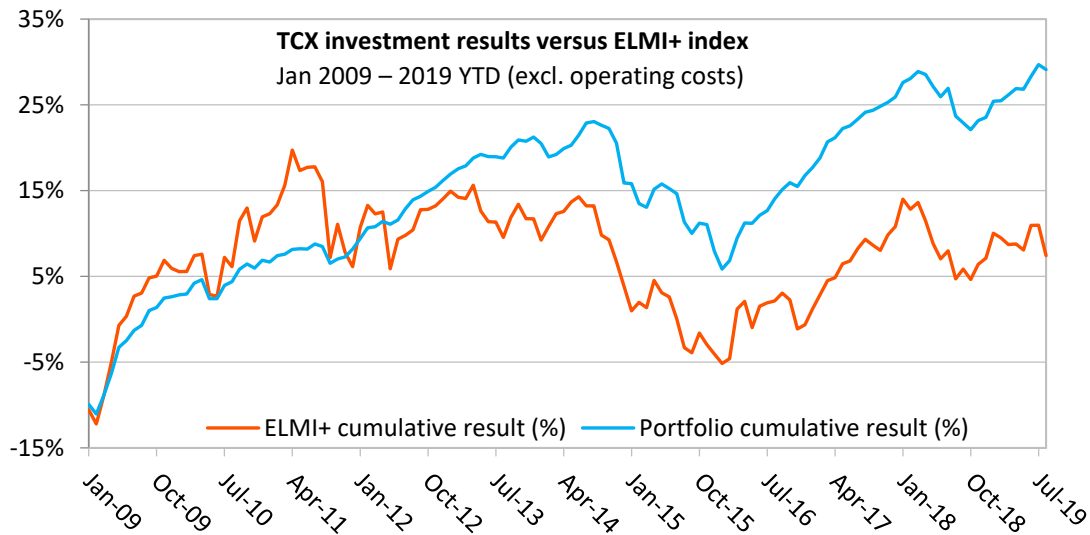
- Oil, commodities down in 2018, but 2019 more sideways (or up, compared to end-2018)
- Other asset classes also saw some improvement in 2019YTD



Source: Bloomberg, TCX

Supportive environment for EM & frontier currencies

- Local currencies down in 2018, but lower yield in developed markets & increasing risk appetite made EM and frontier currencies more attractive
- Evidenced by positive returns YTD for ELMI+ and TCX

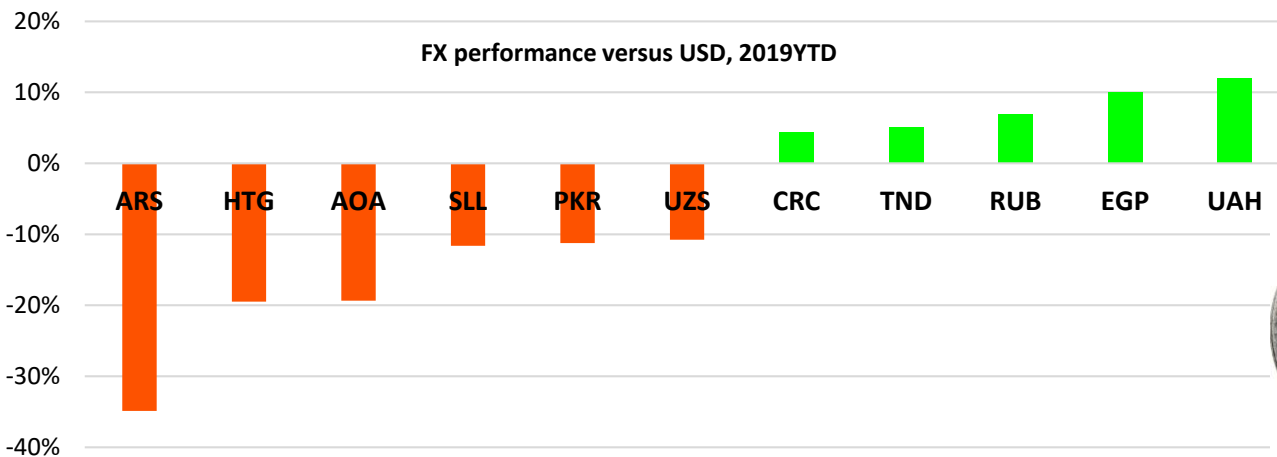


Source: TCX, Bloomberg

Outliers in 2019 YTD



- (Mostly) internal drivers led to significantly weaker ARS, HTG, AOA, SLL, PKR and UZS
 - Politics plays big role, as does weak fiscal/monetary policy and other (idiosyncratic) drivers
- On the other hand, currencies like UAH, EGP, RUB, TND and CRC stood out, due to:
 - High real interest rates, IMF involvement, successful reforms, etc.



Source: Bloomberg, TCX





Developments to monitor

- US-China trade war
 - Actual impact on flows, swings in investor risk appetite (e.g. gold, US dollar as safe haven)
 - Some frontier markets/currencies could benefit from relocation of activities from China
- Future oil price developments: supply threats (e.g. drone attack on Saudi facilities), demand shifts (to renewables), impact on exporters and importers
- Global shift to populism? Looser fiscal policy, politicizing central banks (e.g. Turkey, US?), increasing government intervention, using trade policy as a weapon

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Questions?