

## TCX Spotlight: The Iran War and Emerging Market Currencies

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The escalating conflict in Iran has triggered a sharp repricing of risk across global energy and financial markets. For the emerging and frontier economies where TCX operates, the effects have been immediate: currencies under pressure, capital in flight, and governments scrambling to manage fuel supply chains that run through one of the world's most contested waterways. This note draws on what we are observing across our markets to offer a transparent account of how these dynamics are unfolding, what they mean for the borrowers that development finance exists to serve and how TCX's model is designed to function in this kind of environment.

### What We Are Seeing in the Markets

Oil prices surged past USD 90 a barrel within days of hostilities escalating. The Strait of Hormuz — through which roughly a fifth of the world's seaborne oil passes — saw traffic fall sharply, freight rates spiked to extreme levels, and major shipping lines suspended services through the region. For energy-importing economies, the link to currency is direct: higher oil prices mean more dollars spent on imports, more dollar demand, and downward pressure on local currencies that were in many cases already weakening.

- **Egypt** illustrates how quickly that pressure materializes. The Egyptian pound fell from EGP 46.7 per USD to a record low of EGP 52.8 (roughly 13%) in under two weeks, as foreign investors pulled out of treasury bills and bonds. Compounding the pressure, Israel suspended natural gas exports to Egypt, Suez Canal revenues are again under threat, and energy subsidies were budgeted assuming \$75 per barrel. Inflation, already at 13.4% in February, has yet to reflect the full impact of the shock.
- **Pakistan** imported more than 80% of its oil before the war began. Every \$10 rise in crude widens the current account deficit by an estimated \$1.5–2 billion, puts direct pressure on the rupee, and adds 0.5–0.6 percentage points to inflation — serving to partially wipe out gains the country spent two years achieving after a near-default in 2023.
- **Zambia** is a net oil importer where higher fuel prices feed directly into the kwacha and broader inflation, an effect that is already visible in local pump prices according to Zambia's Energy Regulation Board's March 2026 review.
- Elsewhere, **India's** central bank intervened to defend the rupee, **Bangladesh** declared a fuel emergency with private power producers warning of blackouts as energy import costs rise, **South Africa's** ten-year bond yields rose over 70 basis points in days, and **Ghana** — which had just recorded its lowest inflation since 1999 — flagged rising oil costs as a threat to that progress. **Across Sub-Saharan Africa**, many countries hold only days of fuel cover, leaving local currencies acutely exposed to any prolonged disruption to Gulf shipping.

It's worth noting that current inflation data does not yet reflect the war's impact and pass-through to consumer prices takes weeks to months. What the data captures today is pre-existing vulnerability that the Iran war is accelerating. The markets above are not exhaustive, nor do they capture the full depth of the shock. They are a snapshot of how a crisis of this magnitude generates

currency depreciation pressure across dozens of markets simultaneously — exactly the risk that TCX's hedging instruments are designed to absorb.

### How TCX's Model Works Under This Kind of Stress

TCX operates by entering into cross-currency swap agreements with development lenders, allowing them to extend financing to borrowers in local currency. TCX takes on the foreign exchange risk that borrowers in frontier markets cannot manage themselves – the mismatch between hard-currency funding and local-currency revenues.

When local currencies depreciate sharply, as many have in recent weeks, that exposure becomes costly. TCX's swap book registers negative mark-to-market movements, and the fund absorbs losses that would otherwise fall on borrowers directly. As a result, borrowers earning revenue in local currency do not see a sharp depreciation translate into an equivalent increase in their debt burden.

TCX holds a capital buffer contributed by its shareholders – development finance institutions, bilateral governments, and impact investors – to cover losses during stress events like this one. Its pricing and portfolio are structured to remain sustainable across full market cycles, including periods of significant depreciation. **Absorbing periods of losses so that borrowers do not have to is what the model is designed to do.**

### What This Reveals About Local Currency Finance

The Iran conflict has compressed into days the dynamics that play out more slowly in ordinary times: energy shocks, capital flight, currency depreciation and cascading effects on development outcomes in vulnerable economies. Without access to hedging, a depreciation event of this magnitude forces borrowers to absorb losses that can be existential, pushes lenders toward hard-currency instruments to protect themselves and shrinks the pool of affordable local currency finance at precisely the moment it is most needed.

TCX monitors currency and market conditions across 70+ emerging and frontier markets as a core part of managing its portfolio. We will continue sharing what we observe – particularly in periods like this one, when the stakes for borrowers and the development finance system are highest.

For further discussion of specific markets or the dynamics described in this note, contact [info@tcxfund.com](mailto:info@tcxfund.com)

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