

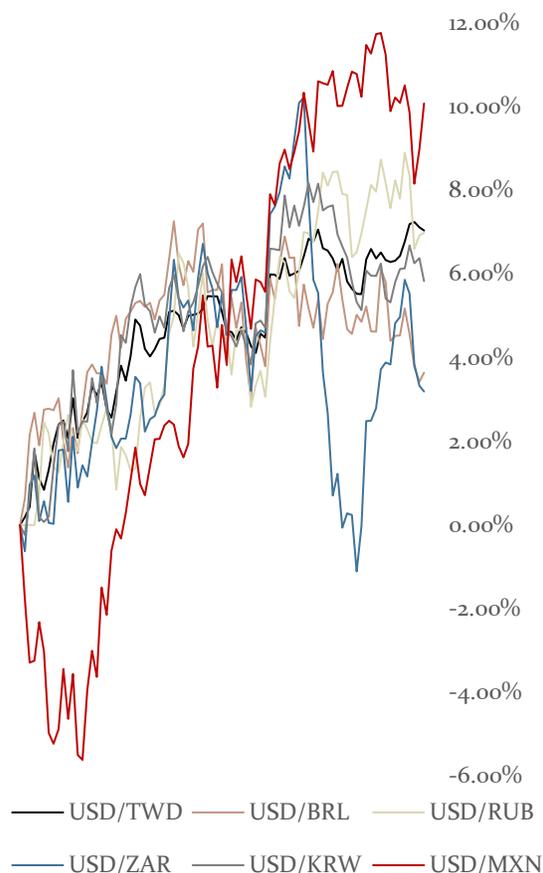
FOREX Markets

AUTHORS

ERIC FRISCHHUT

ERIC.FRISCHHUT@EDHEC.COM

Emerging Markets Currencies YTD (inverted) since April



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Dangerous Emerging Markets

In the first months of this year nearly 60 billion dollars flowed into the emerging markets, causing a revival in markets such as South Africa, Brazil, Mexico and South Korea. This can be seen in the rising valuation of stocks and emerging markets currencies with their best quarter in the last two year. Those valuations are mainly justified by the Chinese and Argentinian growth and higher global demand for export goods.

Emerging-market currencies generally appreciated against the US dollar year to date, as fading confidence in the ability of President Trump to stimulate growth or impose trade sanctions led investors to adopt a weaker view on the US dollar. The South Korean won, Russian Ruble and Mexican peso were among the top-performing currencies.

While money is still pouring in the markets, investors like UBS, private investment managers and hedge funds are cutting back their emerging market bets. According to insiders, the markets inherit elevated political risks on too many fronts, especially the elections in Europe and the USA North Korea issue. The markets moved a lot to the upside but yield seeking investors are both indiscriminate when it comes to buying and selling activities, due to escalating geopolitical tensions and expected turmoil.

South Africa: S&P recently downgraded the country’s bonds to junk due to long-running tensions between President Zuma and Finance Minister Gordhan. The Rand depreciated more than 10% within days.

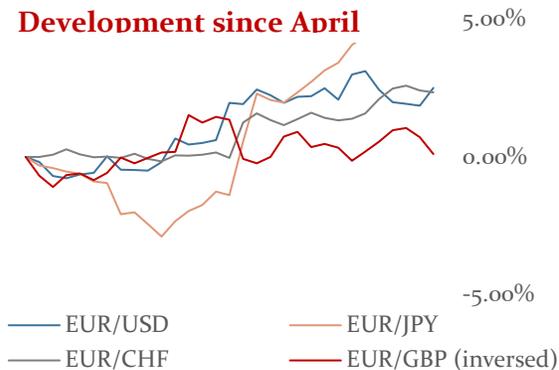
South Korea: Total 13 billion USD poured into this market; the currency is up 6% but recently slumped.

Taiwan: Also, the Taiwan Dollar gained around 6% against the dollar in 2017 with assets around 6 billion USD poured into the country which exports rose 13%.

Those money inflows are now lowering the 10-year yields in Korea and Taiwan to 2.194% and 1.03%, respectively, now even lower than the 2.237% 10-year U.S. Treasury yield.

The low interest rates levels also make emerging market less attractive, potentially resulting in an upcoming downturn that could last very long. Judging from preceding events: it took the MSCI Emerging markets three years until it could show a gain in early 2016.

Development since April



Euro

The Euro surged to the highest level against the greenback in 5.5 months due to the relief in the markets of the French election. The winner of the first election round, Emmanuel Macron, is in favor of remaining in the Euro and even of strengthening bonds between France and the EU.

The second place in the run went to Marine le Pen who hopes to take France out of both the Euro and the European union. The final decision took place on 7th of May, when Macron won the final round, further relieving the Euro.

The shared currency also pushed down the Yen, which qualified as a safe haven currency against the doubt of Trump and the French election.

Development since April



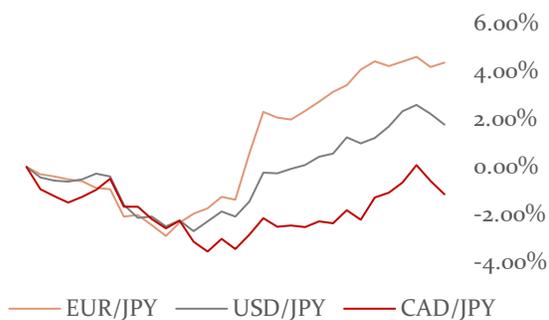
British Pound

The British pound surged by a massive 3 cents against the dollar, recovering a tenth of the loss after the Brexit vote. This jump was fueled by an announced snap election, which was not mandatory and called earlier than expected.

The relief in the British pounds had two reasons. The next election had been due in 2020, with the Conservatives wanting to be out of the EU by then. After the snap June vote, Mrs. May won't have to go to the voters again until 2022, easing the pressure from Great Britain.

Secondly, speculators still hold very large bets against sterling and were not sure about the new probabilities and closed their trades. Such short covering briefly pushed the dollar below £0.775 for the first time since October.

Development since April



Japanese Yen

The greenback and the Canadian dollar significantly lost value against the Japanese Yen in the first half of April with a 5-month high.

This was due to expected turmoil in North Korea, Syria, French election where the Yen stands for a safe haven (after the first partial relief in France the Yen lost instantly against the dollar).

The EURO showed an even more extreme recovery after the final election round in France.

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