

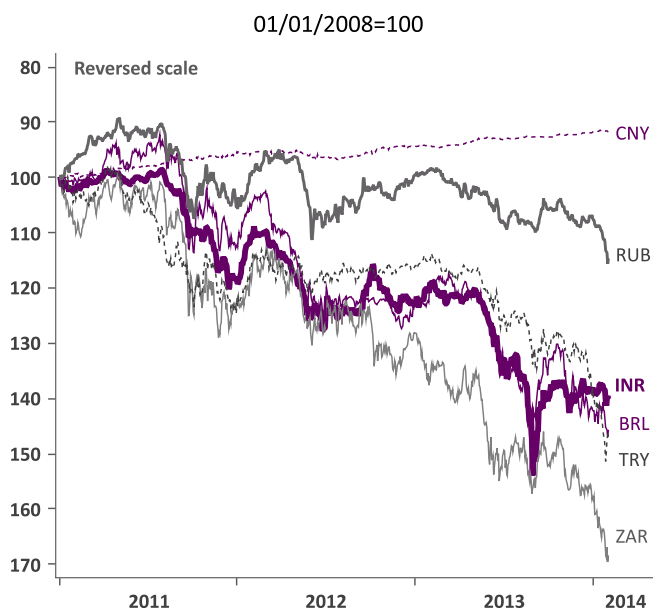
Emerging Countries

Putting the Crisis in Perspective

After months of uncertainty, the situation in emerging countries has grown critical in recent weeks. Downward pressure on currencies has intensified, leading central banks to hastily raise interest rates. Despite the chain reactions of the past couple of days, there is a risk that the turbulence will last for a while.

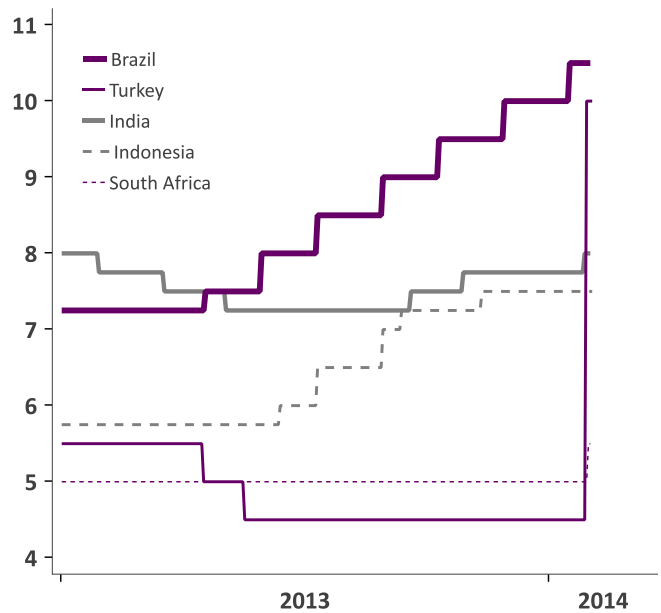
In addition to the oft-cited prospect of a change in Fed policy, emerging economies are suffering from a serious decline in their economic situation, largely attributable to their export markets drying up. The crux of the problem is sluggish international demand, particularly from China, which has made it much harder for emerging countries to pursue balanced growth. Overcapacity in Asia and undercapacity in the rest of the emerging world threaten to cause prolonged instability.

Exchange rates Against USD



Sources: RichesFlores Research, Macrobond

Key Interest Rates, in %

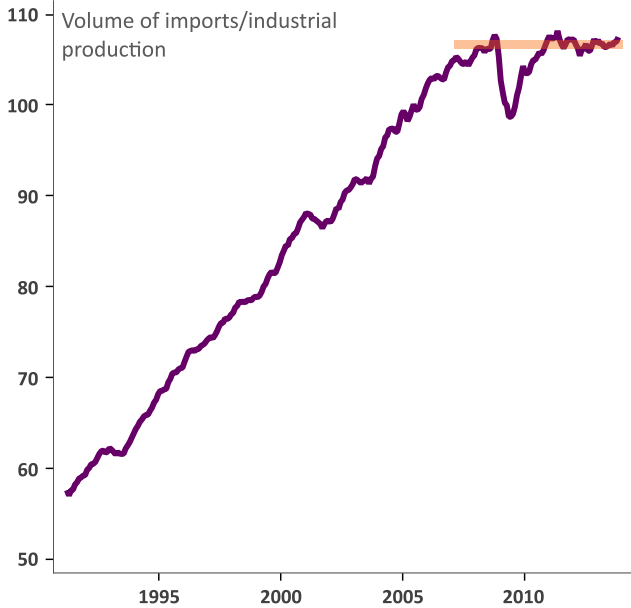


Sources: RichesFlores Research, Macrobond

Export momentum drying up

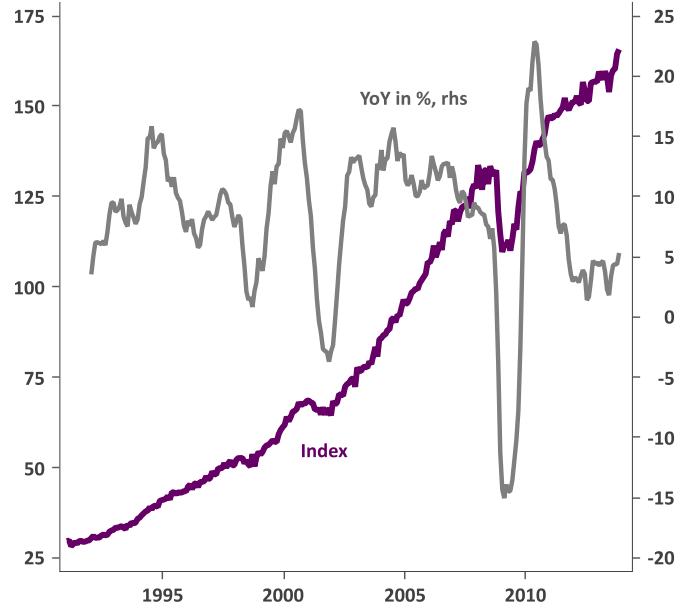
The realignment of current account balances globally and the loss of momentum in international trade are taking a heavy toll on emerging economies. From over 30% in many cases through 2010, export growth has evaporated almost across the board since the start of last year.

Import Content of World Production



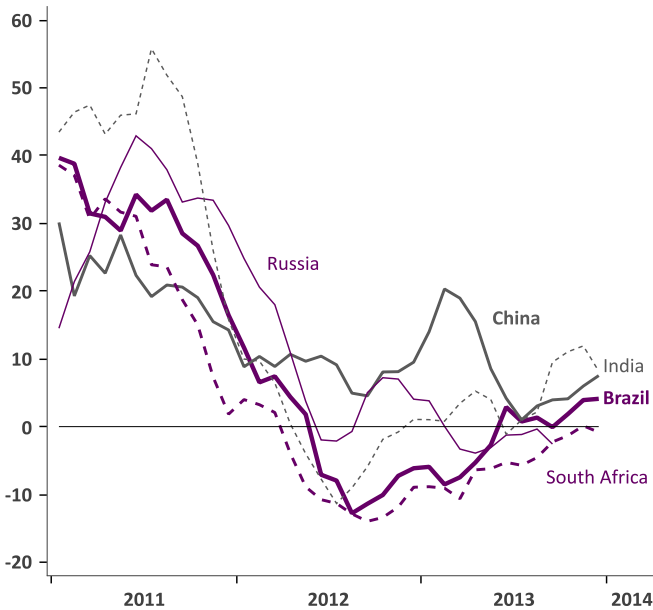
Sources: RichesFlores Research, Macrobond

Volume of Imports in Emerging Countries



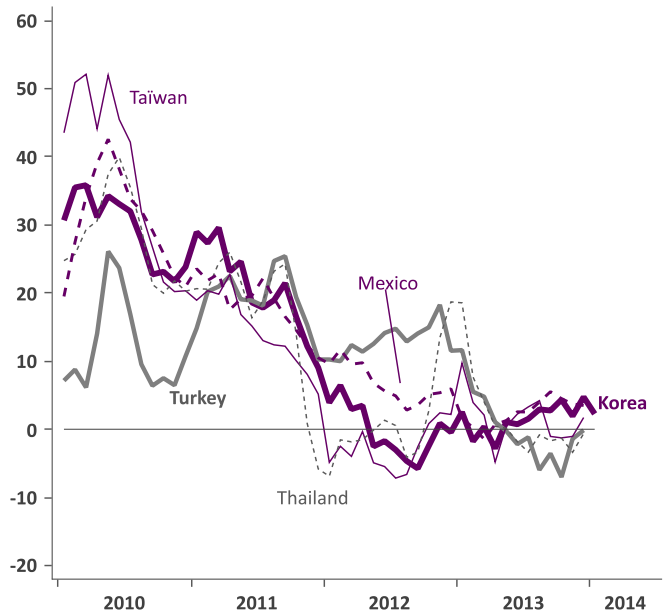
Sources: RichesFlores Research, Macrobond

BRICS: Growth of Exports



Sources: RichesFlores Research, Macrobond

Export Growth: Other Main Emerging

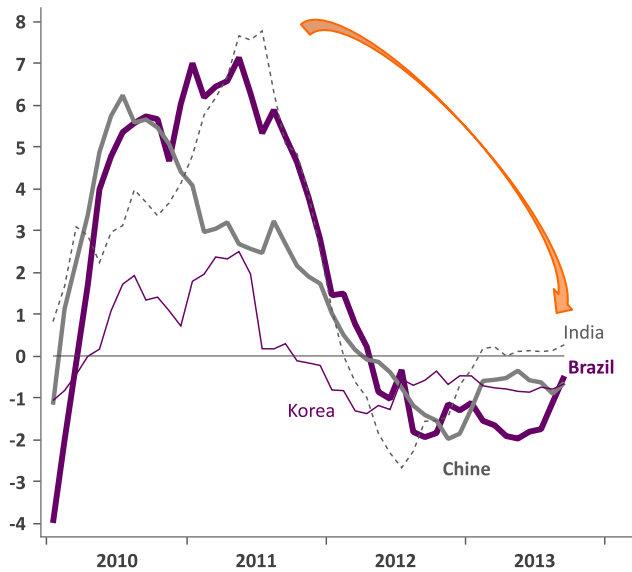


Sources: RichesFlores Research, Macrobond

Outlets disappearing everywhere

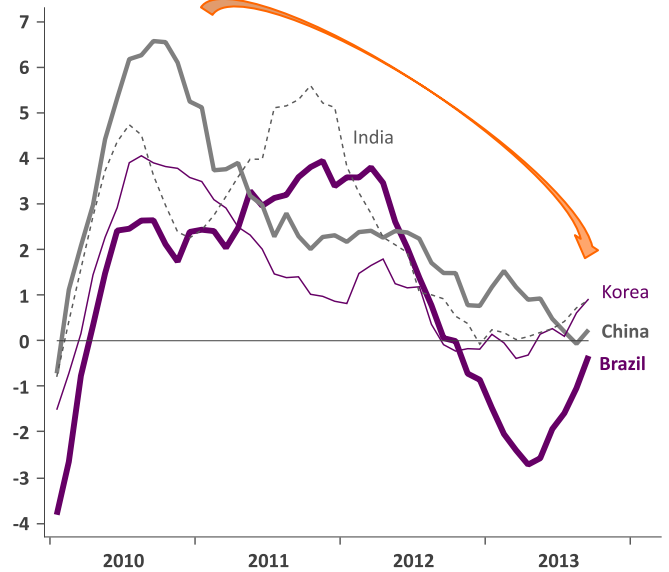
The European crisis, U.S. current account deficit reduction, Japanese policies to boost competitiveness, and China's slowdown have combined to torpedo emerging countries exports. The situation has improved marginally in recent months, but the contribution of export sales to Europe remains in the red, whereas sales to China, Japan and the U.S. are nowhere near what they have been.

Contribution of Sales to EMU to the Annual Export Growth



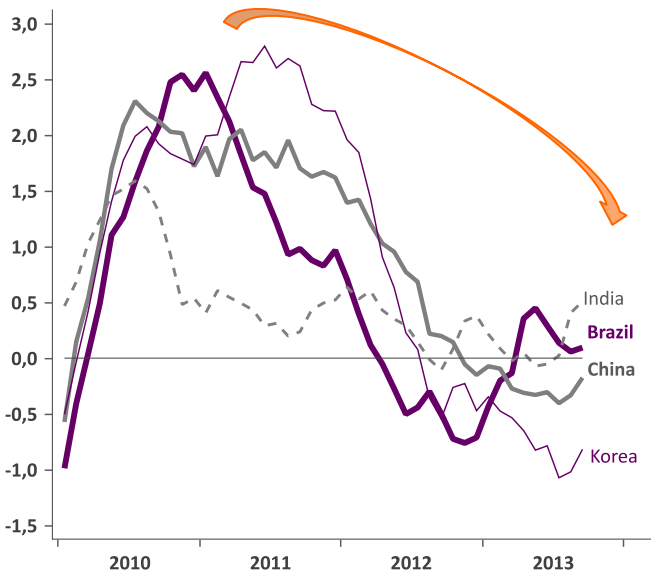
Sources: RichesFlores Research, Macrobond

Contribution of Sales to the United-States to the Annual Export Growth



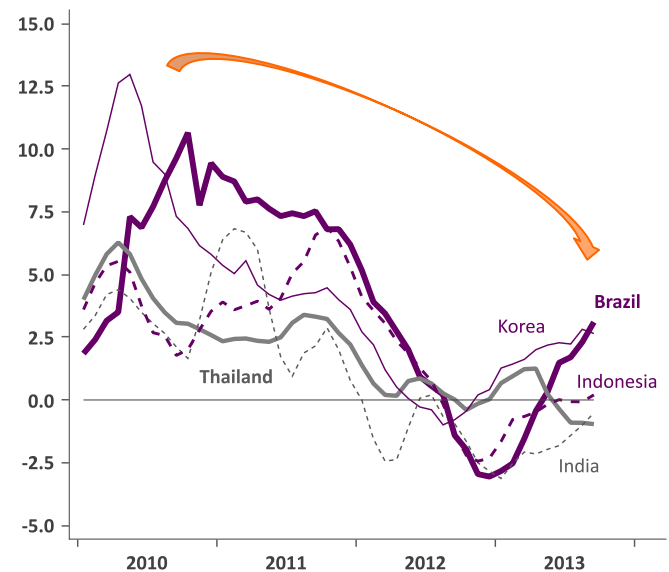
Sources: RichesFlores Research, Macrobond

Contribution of Sales to Japan to the Annual Export Growth



Sources: RichesFlores Research, Macrobond

Contribution of Sales to China to the Annual Export Growth



Sources: RichesFlores Research, Macrobond

Sluggish growth

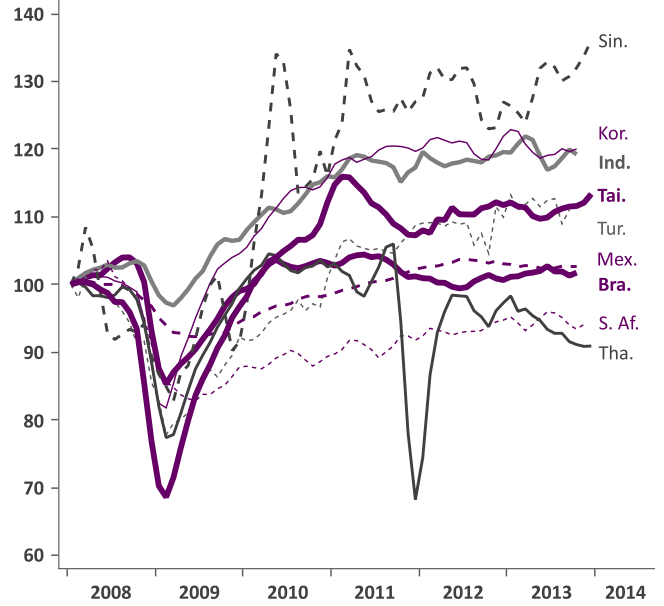
Following a spectacular rebound in 2010-2011, the weakening of export conditions has slowed the momentum of growth around the emerging world. Industrial production in most countries has stagnated since early 2012 and GDP growth has fallen precipitously. Asia did somewhat better over the course of 2013 but data in recent months show that things remain tenuous.

Industrial Production*, YoY in %



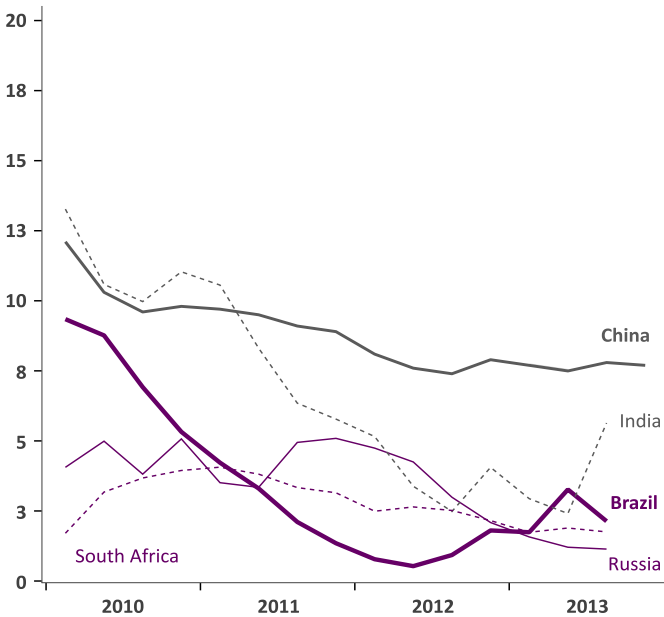
Sources: RichesFlores Research, Macrobond

Industrial Production, 01/2008=100



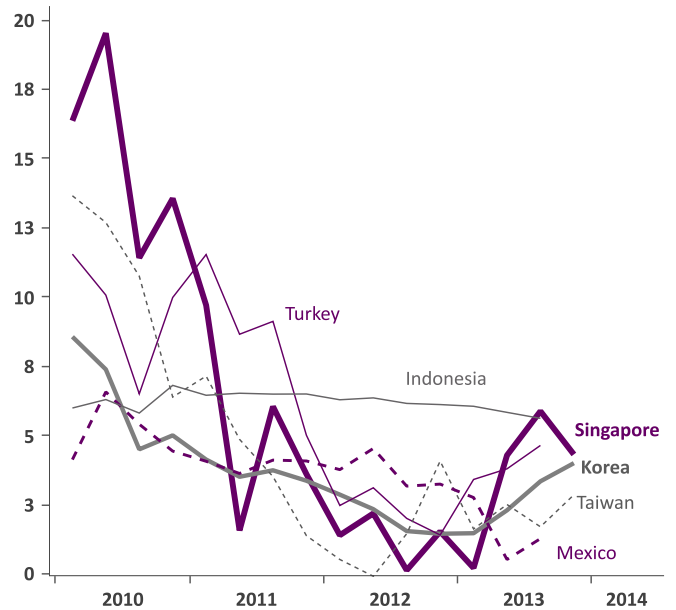
Sources: RichesFlores Research, Macrobond

Real GDP in BRICS, YoY in %



Sources: RichesFlores Research, Macrobond

Real GDP in Emerging Countries, YoY in %

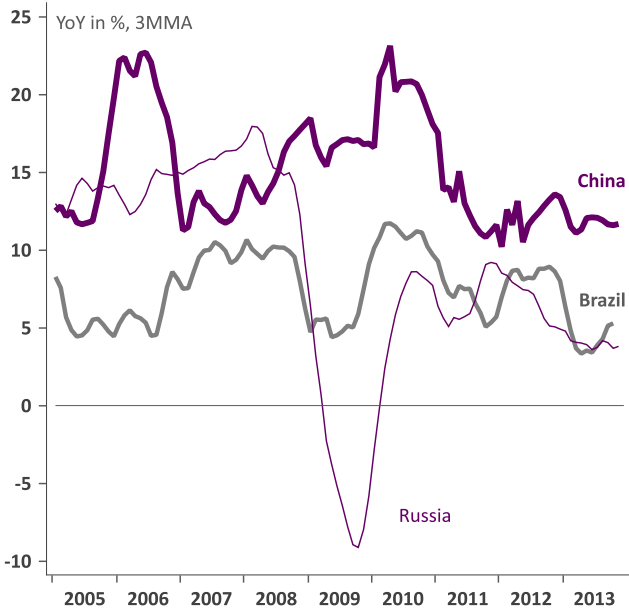


Sources: RichesFlores Research, Macrobond

Weaker consumption

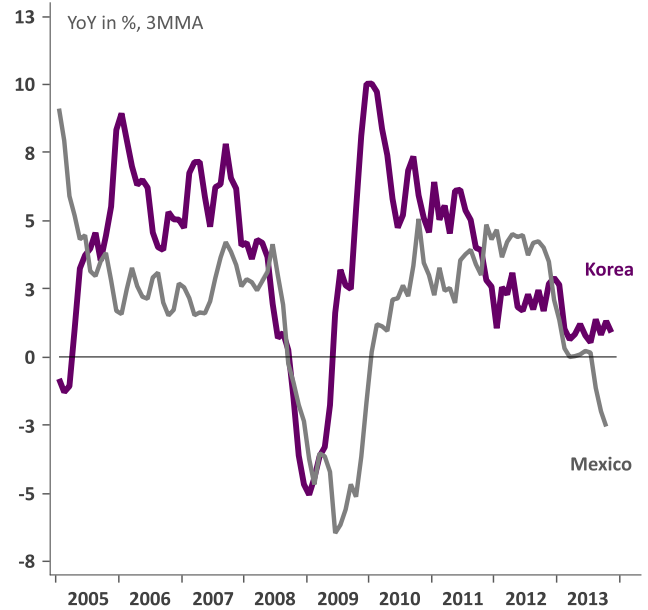
Slowing growth, inflation, and monetary tightening are taking their toll on domestic demand. Retail sales growth is flagging in many countries and car sales are losing steam. The one exception is China, the only country where the sector remains in good shape.

Retail Sales Growth, in Volume



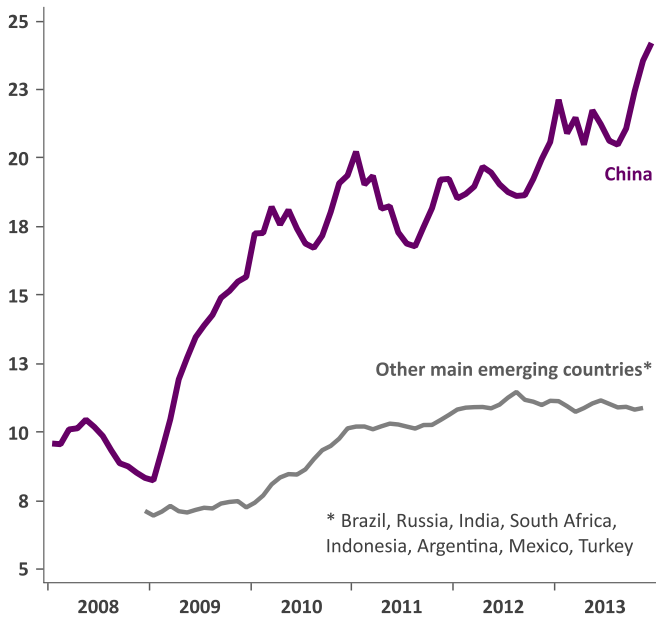
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Retail Sales Growth, in Volume



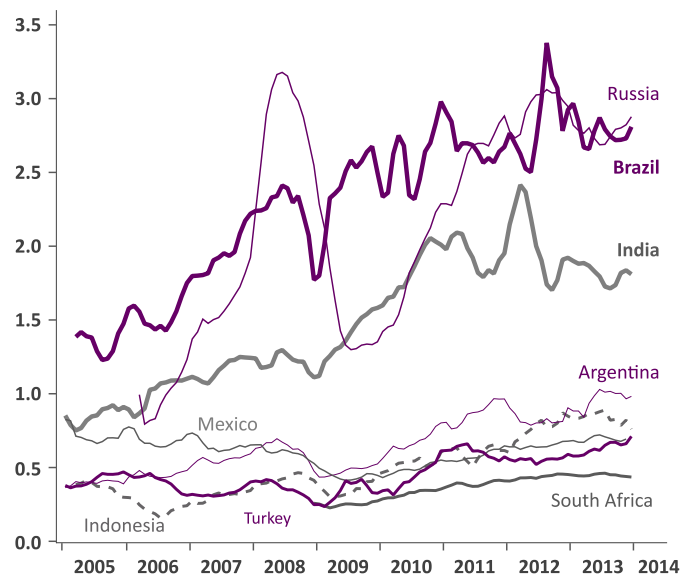
Sources: RichesFlores Research, Macrobond

Car Registrations, in Million of Units, 3MMA



Sources: RichesFlores Research, Macrobond

Vehicule Sales and New registrations, in Million of Units

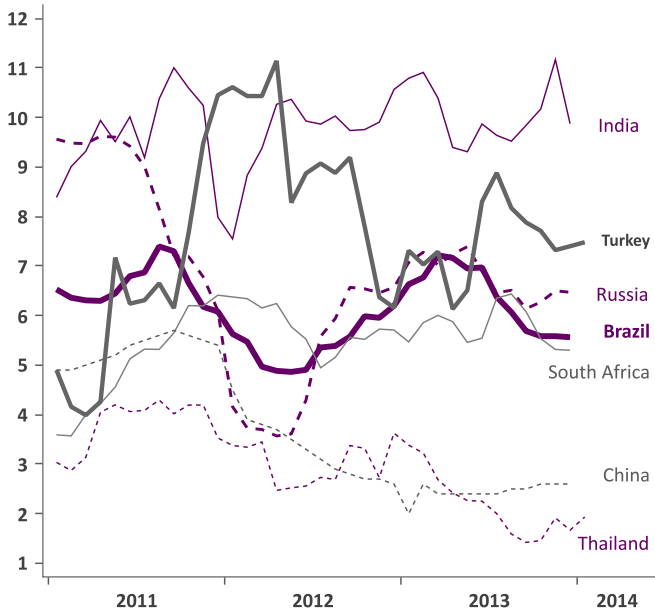


Sources: RichesFlores Research, Macrobond

Inflation

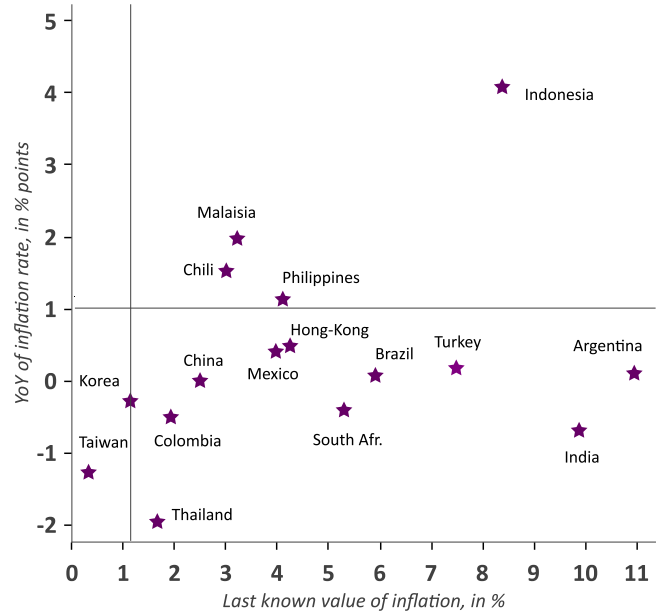
Inflation differentials among the emerging countries have widened considerably over the past two years. The major manufactured goods exporters, most of which are in Asia, are facing overcapacity leading to deflationary pressure. Conversely, many commodity exporters are suffering from patent undercapacity, which is a source of recurring inflationary pressure and puts exchange rates at risk.

Inflation in the Main Emerging Countries



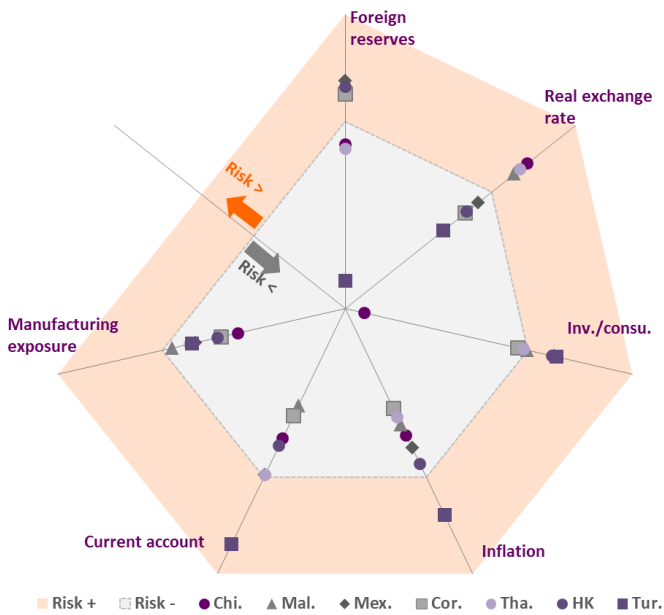
Sources: RichesFlores Research, Macrobond

Inflation and Inflation Momentum



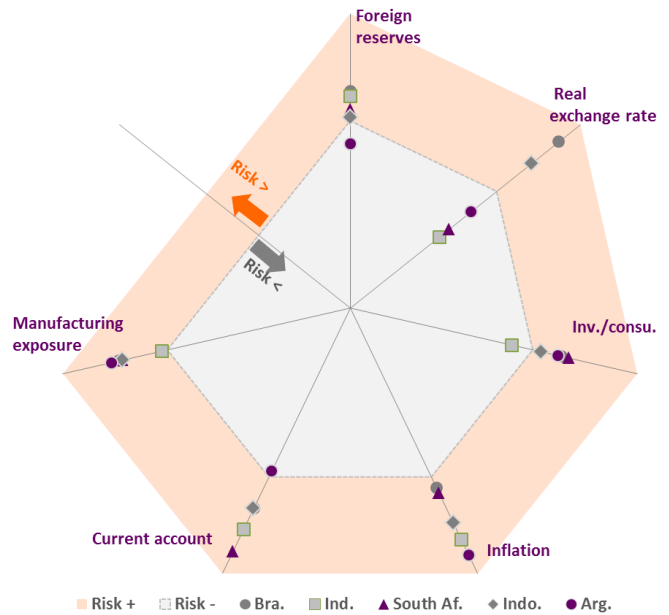
Sources: RichesFlores Research, Macrobond

Countries with Manufacturing Prevalence



Source: RichesFlores Research

Other Main Emerging Countries



Source: RichesFlores Research

Note: normalized indicators relative to a sample (the sum of countries is zero for each indicator). [See October 2013 Scenario](#)

Currency and interest rate risk

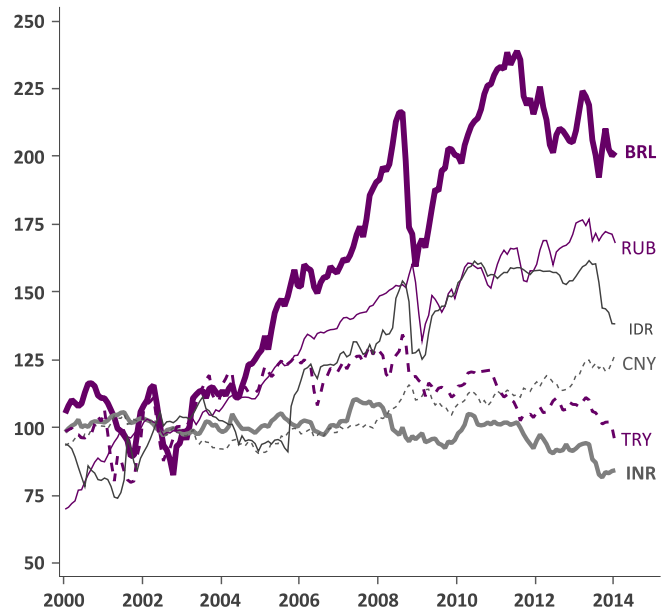
Pressure on the currencies of the less industrialized economies intensified with the Fed's May 2013 announcement that it would consider reducing its asset purchases. Most of the major emerging currencies have fallen more than 20% from their spring levels. At the same time their financing conditions have tightened, although by no means uniformly (see the last two charts).

10 Year Government Yields



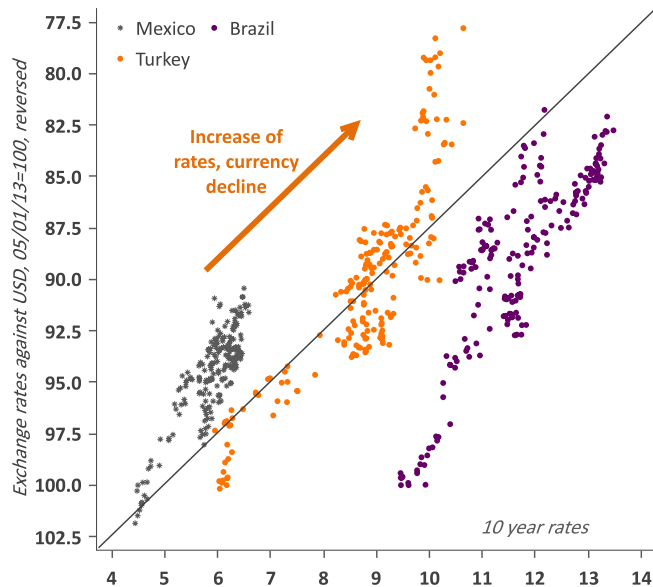
Sources: RichesFlores Research, Macrobond

Real Exchange Rates, 2002=100



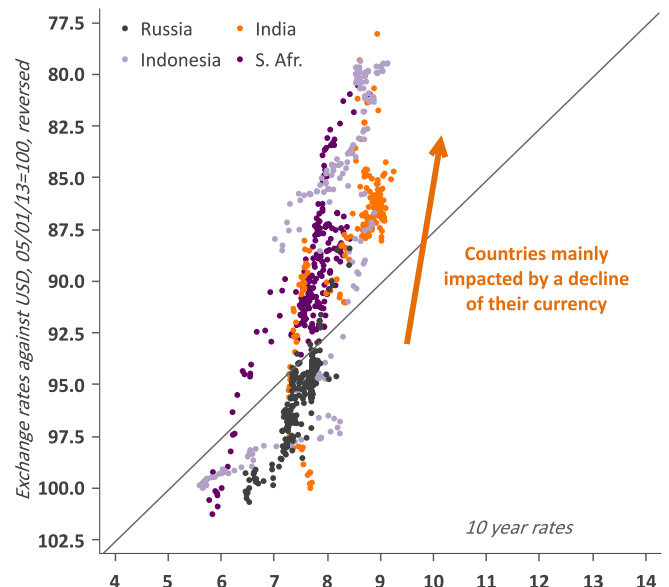
Sources: RichesFlores Research, Macrobond

10 Year Rates and Exchange Rates Since May



Sources: RichesFlores Research, Macrobond

10 Year Rates and Exchange Rates Since May



Sources: RichesFlores Research, Macrobond

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