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EM Stocks, Currencies Slump With Hawkish Fed in View: Inside EM

By Zijia Song

(Bloomberg) -- Emerging-market stocks and currencies slipped to fresh session lows as Federal Reserve Chair Jerome Powell signaled higher peak interest rates in the world's top economy, sapping investor appetite for riskier assets. All but two of the 23 developing currencies tracked by Bloomberg weakened against a resurgent US dollar.

- "Higher US rates and stronger dollar have generally not been good for EM but I do think we are in a different regime this time around," said Ashish Chugh, a money manager at Loomis Sayles & Co. "In EM, monetary tightening cycle is closer to the end as inflation is easing in EM. EM central banks were among the first to hike interest rates well ahead of the Fed"
- The MSCI EM Currency Index drops as much as 0.6%, the most since Feb. 24
- South Africa's rand, which is often seen as a proxy for risk appetite, fell as much as 1.7% against the dollar, to the lowest since May 2020 on a closing basis
 - South Africa's President Cyril Ramaphosa's cabinet reshuffle failed to inspire investors
 - The South African Reserve Bank reduced its holdings of government bonds last month by the largest amount since it started buying the securities during the Covid-19 pandemic to shore up liquidity
 - The country's economy shrank more than expected in 4Q with the state-owned power utility Eskom's rolling blackouts threatening to further weigh on growth
- Hungary's forint slipped 0.2% against the euro
 - Hungary's industrial output plunged by the most since the Covid-19 pandemic on a monthly basis, raising concerns that the recession currently squeezing the economy may be worse than expected
- Colombia's peso also fell; the Peruvian sol and Chilean peso gave up earlier session gains and dropped on Fed remarks
- Despite the slump in EM assets, some investors see EM surviving this round of selloff
 - "Today's statement may trigger some bond price weakness until markets digest the news, but if the Fed gains credibility and this implies that we could see the end of the tunnel in terms of easing monetary conditions rather soon, I think that LatAm EM will probably gain in terms of differentiation compared to other more vulnerable EM regions (i.e. Africa)," said Ramiro Blazquez, BancTrust head of research and strategy
 - Blazquez said that the resilient countries in Latin America have comfortable levels of international reserves, moderate current account and budget deficits and manageable maturities

Market metrics as of noon in New York:

- MSCI EM Stock Index falls 0.8%
- MSCI EM Currency Index drops 0.6%
- Bloomberg Dollar Spot Index jumps 0.9%

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- Brent Crude falls 2.5% to \$84.05
- UST 10-year yield rises less than 1bp to 3.96%
- UST 2-year yield gains 8bps to 4.96%

Top EM Stories:

- Emerging-market currencies fell as hawkish remarks by Fed's Jerome Powell are set to push traders to increase odds of faster monetary tightening in the world's biggest economy.
- Sri Lanka's rupee rallied by the most in over three decades and stocks surged as China's support for the nation's debt plan and the central bank's move to scrap the currency trading band boosted optimism over an International Monetary Fund bailout.
- Egypt is considering offering an additional stake in state-run Telecom Egypt to investors, as the North African nation looks to monetize its assets and raise hard currency.
- The World Bank said it was temporarily pausing some discussions with Tunisia after an outbreak of violence against Black migrants that African countries say was stoked by President Kais Saied. Tunisian bonds led losses in emerging markets.
- Kenya has sought a \$4.8 billion credit facility from a group of banks as it nationalizes the importing of fuel to enable it to defer payments and conserve its depleting foreign-exchange reserves.
- Emerging markets investor Mark Mobius is discovering what many residents of China have known for months or even years: It's becoming increasingly difficult to transfer money out of the country.

--With assistance from Srinivasan Sivabalan.

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