07. August 2015

https://blog.en.erste-am.com/emerging-countries-pressure/

Emerging countries under pressure

Gerhard Winzer

© Photo: iStock

Commodity prices have fallen drastically since the beginning of July. The commodity price index provided by Bloomberg has fallen by nearly 12%. In fact, many commodity prices are locked in a bear market. The index is currently almost 50% below the level of the beginning of 2011.

Over the same period the currencies of emerging countries have depreciated by about 35% vis-à-vis the US dollar, and equities have fallen by about 26%.

In line with these developments, real economic growth in the emerging countries has weakened significantly. The growth estimate for Q2 has been cut to only 2.5% q/q. Net of the Chinese economic growth, the remaining emerging economies (accounting for about two thirds) have even shrunk on aggregate. Industrial production has stagnated in the first half of the year, and both exports and export prices have fallen.

The most recent leading indicators also suggest that there is no end in sight for the downward trend. For example, the purchasing managers index for the manufacturing sector, as compiled by Markit, continued to fall in July. While at 49.1 it is currently only slightly below the threshold of 50, which indicates neither decline nor increase, the trend is headed downwards.

In our portfolios we take this development into account and have reduced emerging markets corporate bonds to zero.

Gerhard Winzer

Gerhard Winzer has worked at Erste Asset Management since March 2008. Up until March 2009, he was Senior Fund Manager in Fixed Income Asset Allocation; he has been Head Economist since April 2009.

He holds a degree from a polytechnical college and studied economics and business at Vienna University with a special focus on financial markets. He holds a CFA charter and participated from 2001 to 2003 in the doctoral programme for finance at the Center for Central European Financial Markets in Vienna.

From July 1997 to June 2007, he worked in research at CAIB, Bank Austria Creditanstalt, and UniCredit Markets & Investment Banking. His last position was as Executive Director for Fixed Income / FX Research and Strategy. He was responsible for research on asset allocation at Raiffeisen Zentralbank (RZB) in Vienna from July 2007 to February 2008.