

How have markets behaved in FY14: A Global Perspective

With the financial year coming to an end, the behaviour of three markets may be examined during the course of the year to see if there were any trends: currencies, bonds and stocks. As the foregoing analysis shows there have been distinct trends across all countries during this period in the foreign exchange and bond markets indicating to an extent the power of globalization as the interdependence between economies has increased through these links. The tapering impact of the Federal Reserve as well as movement in commodity prices on account of a recovery witnessed in some of the developed countries as also an aggressive QE programme in Japan had their role to play in affecting these markets.

a. Exchange rates

The table below gives the extent of movement of currencies during the year. Changes have been reckoned for the average currency in March 2014 over March 2013

Table 1: Movement in currencies: March 2014 over March 2013

Country	%	Country	%
Argentina	55.9	Japan	8.0
Turkey	18.3	Malaysia	5.5
Indonesia	17.5	Mexico	5.5
Brazil	17.3	Singapore	1.6
Russia	17.2	Hong Kong	0.0
S. Africa	16.9	China	-0.7
India	12.0	S Korea	-2.9
Philippines	10.0	Euro	-6.3
Thailand	9.7	Switzerland	-7.0
		UK	-9.3

Source: Pacific Exchange rate service

PS: + denotes depreciation and (-) appreciation

World over, currencies were affected quite sharply by the US tapering announcement, which affected the developing economies more significantly. As can be seen from Table 1 the emerging markets have witnessed the highest depreciation while the developed countries such as UK, Switzerland, Euro area have had stronger currencies vis-à-vis the dollar. The fear of the tapering programme did cause funds to move out of the emerging markets which in turn affected the currencies causing them to weaken. While conditions have improved since the tapering programme did commence, there has been some regaining of ground, though they continue to remain weak relative to the start of the year.

The fall in the rupee by 12% is still better than what was witnessed in other countries (Argentina, Turkey, Indonesia, Brazil, Russia & South Africa) and this has been mainly due to the affirmative steps taken by the government to curb import of gold as well as bring in capital receipts through NRI deposits when the RBI offered swap facility for FCNR (B) deposits.

Interestingly, the dollar has weakened against the euro which gained by 6.3%, therefore the traditional link of a weak dollar with strong local currency as severed as currency movements were driven more by movement of investment funds.

b. Bonds

Movement in bond yields is an indicator of how interest rates have behaved during the year. The yield on the 10-year bond has been considered here. The end points of March have been taken for both 2013 and 2014 for this purpose.

Table 2: Change in 10-years bond yields (bps)

Country	bps	Country	bps
Brazil	330	UK	96
Turkey	290	USA	90
Indonesia	234	India	82
S. Africa	221	S Korea	75
Russia	180	Malaysia	66
Mexico	128	Switzerland	32
Hong Kong	122	Germany	28
China	110	Thailand	12
Philippines	102	France	9
Singapore	101	Japan	6

Source: Trading economics and Economist

Table 2 reveals that yields have moved up in all countries considered here, and Italy (not shown here) was the only one to witness a decline in yields. Brazil, Turkey, Indonesia and South Africa had witnessed the highest increase in bond yields of over 200 bps in FY14. Even USA and UK witnessed an increase in bond yields. While central banks in the developed countries did tend to continue with quantitative easing, interest rates tended to increase. Partly the explanation lies in the fact that inflation in emerging markets has forced the central banks to increase interest rates, while the outflow of funds on account of the possibility of tapering by the Fed gave further reason to keep interest rates at a high level. The increase in interest rates in India appear to be modest compared with that in countries such as Brazil, Turkey, Indonesia, Russia etc. where the currency depreciation has also been high.

c. Stock markets

Movement in stock market indices did not show a singular tendency as 9 out of the 22 countries considered here witnessed a double digit growth rate. But half of them witnessed a fall between March-end 2013 and March-end 2014. Stock indices have been guided largely by domestic considerations and while the flow of foreign funds into equities did have a positive impact, they were overwhelmed by the domestic factors.

Argentina and South Africa among the emerging markets and Italy and Germany among the developed countries witnessed higher increases in their stock indices relative to India. Japan and France were also close to India in terms of gains made. A fall in stock indices was more prevalent among developing countries.

Table 3: Changes in Stock price indices (%)

Country	% change	Country	% change
Argentina	88.6	Hong Kong	-0.6
Italy	41.4	S Korea	-1
S. Africa	26.0	Indonesia	-3.7
Germany	23.5	Singapore	-4.0
India	19.9	Philippines	-6.0
Japan	19.6	Mexico	-8.2
France	19.2	China	-8.7
USA	12.8	Brazil	-10.5
Malaysia	10.0	Thailand	-10.6
Switzerland	8.4	Russia	-16
UK	3.6	Turkey	-24.6

Source: www.quandl.com and Economist

Concluding remarks

For FY14, it does appear that while emerging market currencies in general tended to depreciate against the dollar and bond yields went up almost across the board, there was no clear picture for stock indices. However, emerging market stock prices tended to decline more than those of developed countries. But importantly, the world markets do appear to be progressively getting integrated and are influenced by noises emanating in other geographies as the cross border flow of funds do have a very important role to play in driving not just currencies but also interest rates and stock markets.

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