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Global Risk Watch Newsletter

When Stopgap Measures in Emerging Countries Fall Apart, etc.

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1.Overview Macroeconomic and Financial Risks (Trends & Topics)

 # When Stopgap Measures in Emerging Countries Fall Apart (Tsuyoshi Oyama, Partner/Head of Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

It was just last month when the global financial market has managed to absorb the shocks from the first US interest rate hike in nine and a half years. Entering into the New Year, however, the market has been faced with deep turmoil as the if monkey, or this year's Chinese zodiac animal bounces around in the trees. One of the triggers is an outright failure of the communication policy over currency devaluation in China. Although the People's Bank of China attempted to smoothly devaluate the Yuan (RMB), the response of the market was a further plummeting of the Yuan and subsequently stock prices, which ultimately destroyed the newly introduced circuit breaker. The Chinese economy, of which momentum of a deceleration had long persisted during the last year, has finally begun to show some signs of bottoming out, perhaps as a result of stimulus measures from both monetary and fiscal policies. Deepening market turmoil despite these emerging signs of improvement thus indicates that the gap between conventional communication policies of the authorities and market expectations have dangerously widened when the Chinese market is gradually incorporated into the global market. And this outdated way of authorities' reactions to rapidly changing external environment is not actually limited to China. In Brazil and South Africa, both Finance Ministers attempted to rectify the hitherto lax fiscal policies have been sacked under the political pressures only to entail the plummet of national currency rates, which were then followed by looking for another hawkish Finance Minister. In the Middle East, a falling crude oil price continues to impoverish the economy, and growing political tensions and a lack of policy coordination in oil production among them just pushed oil prices further down.

On the other hand, matured economies that were temporarily gaining momentum during the end of last year, have now begun to see an increasing soft patch. In the US, employment and consumption figures remain strong, while manufacturing and energy sectors are faced with a predicament as a result of a strong dollar and cheap crude oil price. In addition, corporate earnings also seem to fall into the negative territory growth on a year-over-year basis for the last two consecutive quarters. Moreover, in Japan, the sluggishness in consumption became well noticed on the economy. Thus, matured economies, which had been pulling the emerging economies by their own force, have now rather been pulled by the weakness of emerging economies. This phenomenon, if continued, might not only further delay the normalization of their monetary policies but also invite another round of super monetary easing in matured economies, maybe including the US.

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