



EUROPEAN CENTRAL BANK

EUROSYSTEM

Recent developments in emerging market currencies

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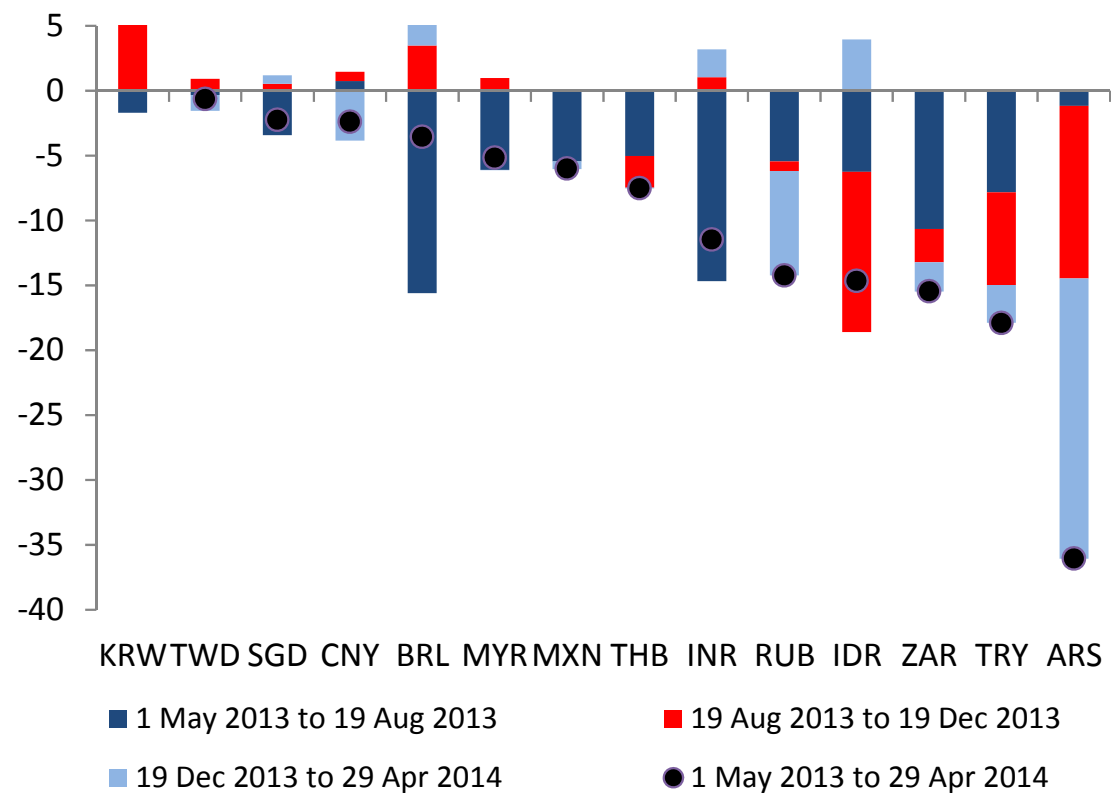
Foreign Exchange Contact Group

6 May 2014

Outline

- 1. Developments in EME currencies**
- 2. Key drivers: Push versus pull factors**
- 3. Recent drop in global exchange rate volatility**

EME currencies depreciated in H2 2013 but have since stabilised...



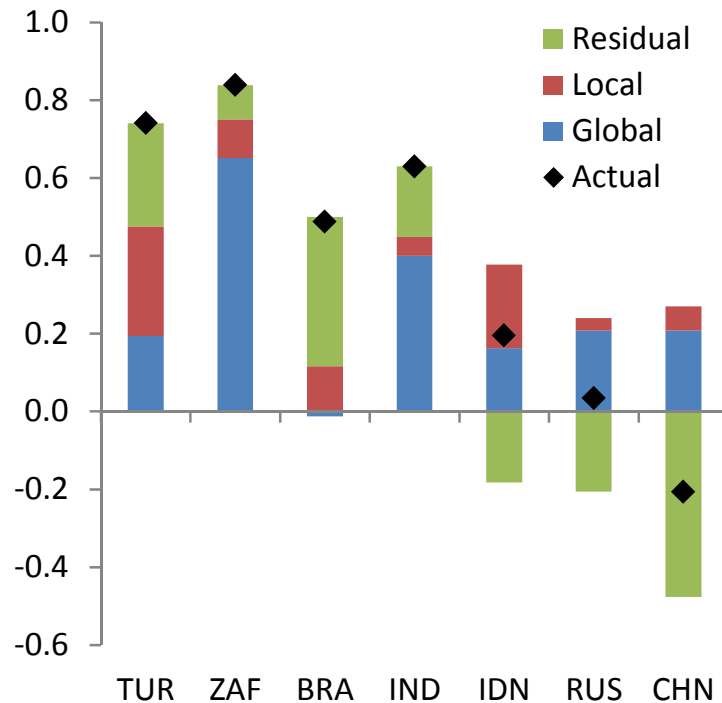
Source: ECB

Notes: Effective exchange rates (broad measure)

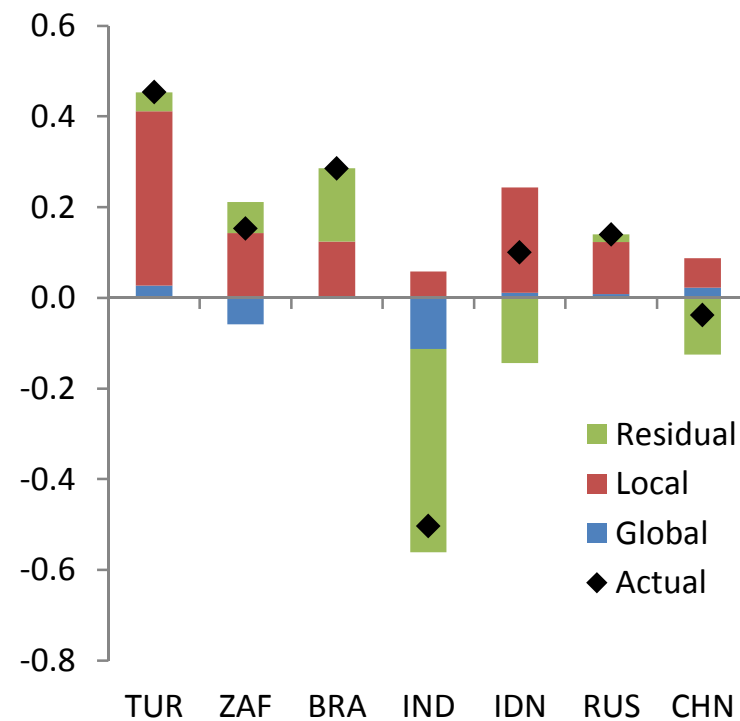
Push factors dominated in initial phase, pull factors at later stage...

Contribution of different factors to increase in bond spreads

Panel A: May 2013 to September 2013



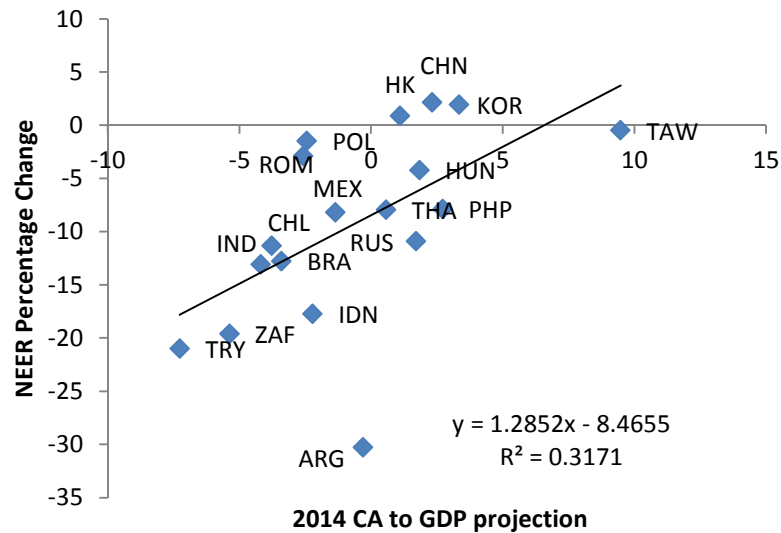
Panel B: October 2013 to January 2014



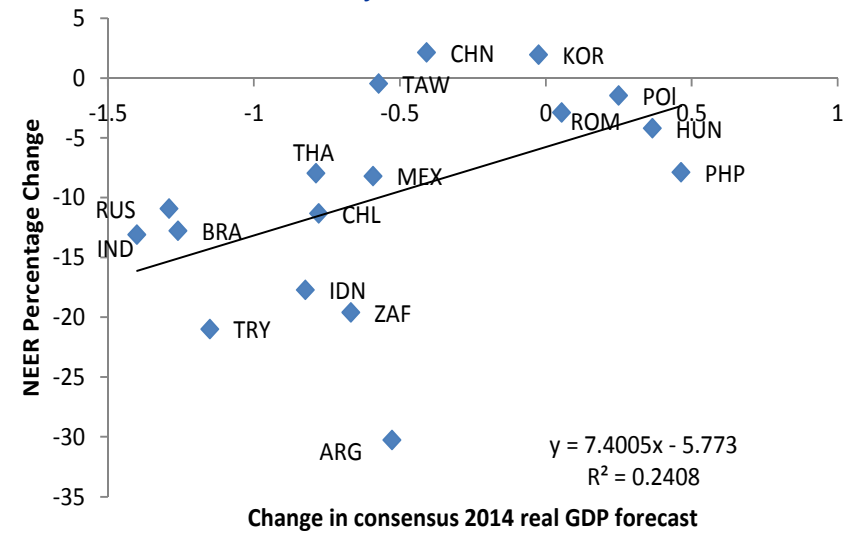
Notes: estimated contribution of different factors to the cumulated increase of bond spreads in the period under review (the model is explained in the annex). "Local" includes the contribution of domestic and common emerging market factors. "Global" includes the contribution of non-EMEs factors, including US monetary policy, global risk and uncertainty (VIX) and the US stock market.

...also evident in relationship between fundamentals and FX

Current account to GDP Projection for 2014 vs. NEER
December 2013 vs. May 2013



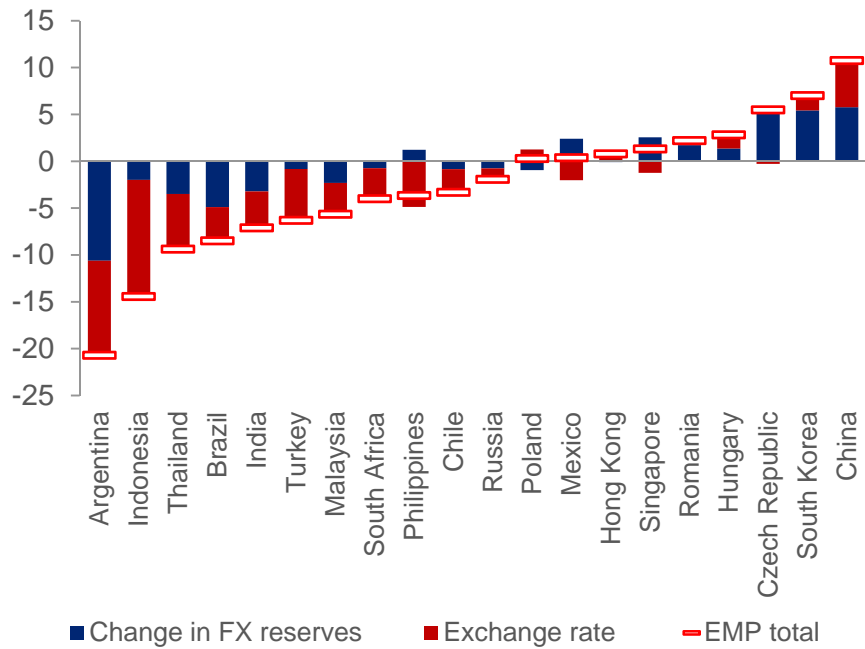
Change in Growth Projection vs. NEER developments
December 2013 vs. May 2013



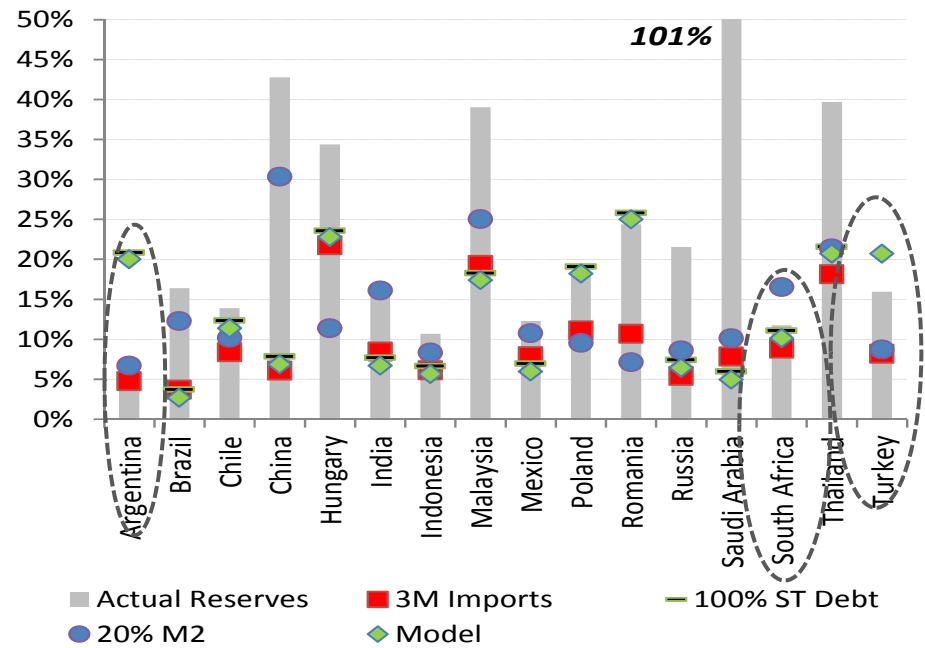
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Source: Consensus

FX interventions and reserve adequacy



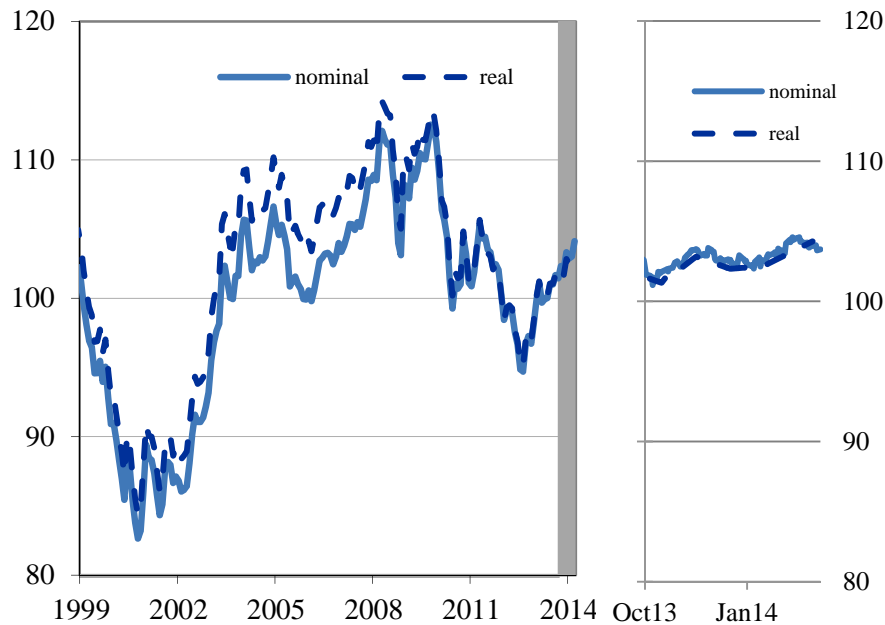
Source: Haver, DS, ECB



Source: Haver, ECB

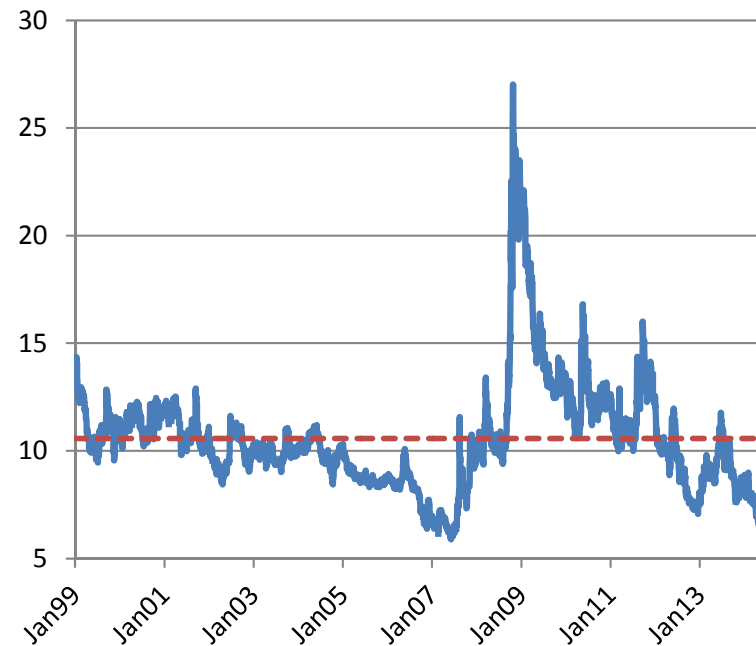
Recently, volatility has dropped markedly in euro and global FX

Effective euro exchange rate developments



Source: ECB

Global foreign exchange volatility

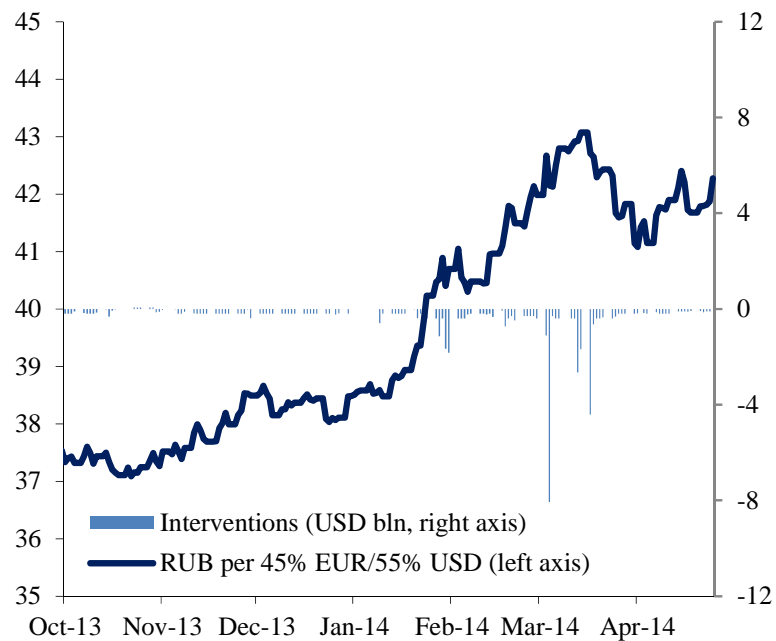


Source: Bloomberg

Note: Index includes nine currencies of advanced economies and 13 currencies of emerging market economies.

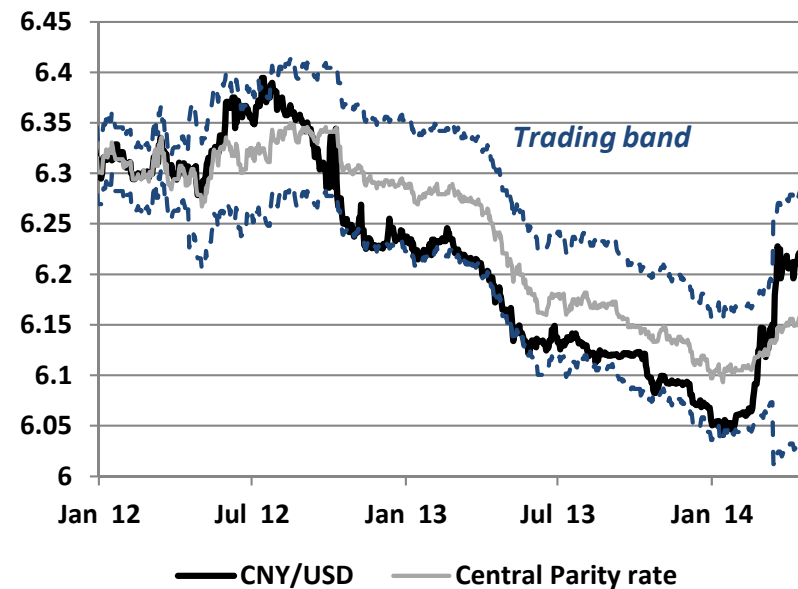
...with the main exception of the rouble and the renminbi

Rouble against its USD/EUR basket
(RUB per 55% USD and 45% EUR)



Source: Bloomberg

Bilateral CNY/USD movements since Jan 2012



Source: Bloomberg

Notes: An increase in the chart represents a CNY depreciation.