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MARKETS

Investors Flee Developing Countries

Currencies in Many Emerging Markets Take a Pounding, Hit by Growth Fears

By PRABHA NATARAJAN, NICOLE HONG and SUDEEP REDDY

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A trader at the Istanbul stock exchange this month. Selloffs in emerging markets have accelerated this week. *Bloomberg News*

Investors dumped currencies in emerging markets, underscoring growing anxiety about the ability of developing nations to prop up their economies as they face uneven growth.

The Argentinian peso tumbled more than 15% against the dollar in early trading as the South American nation's central bank stepped back from its efforts to protect the currency, forcing the bank to reverse course to stem the slide. The Turkish lira sank to a record low against the dollar for a ninth straight day. The Russian ruble and South African rand hit multiyear lows.

Emerging-market currencies are getting hammered around the globe, and the rout is forcing investors and traders to also sell other assets, like U.S. stocks, to cover their losses. FIREapps CEO Wolfgang Koester says it could be trouble for multinationals. Photo: Getty Images.

U.S. stocks tumbled as well, reflecting the world-wide pullback from riskier assets and continuing a weeklong struggle to regain the upward momentum seen at the end of 2013. The Dow Jones Industrial Average slid 175.99 points, or 1.1%, to 16197.35, the lowest close since Dec. 19.

Asian markets fell in early trading Friday, with Japan down 1.5% and South Korea off 0.7%.

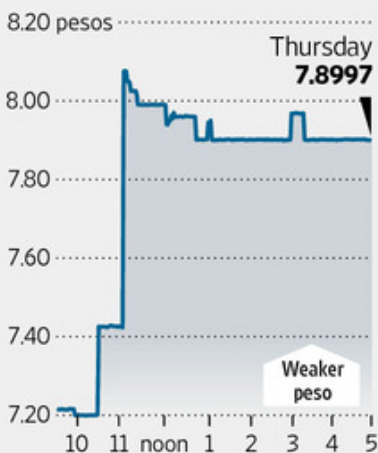
Fresh Concerns

U.S. stocks tumbled amid global-growth and emerging-markets worries.

Dow Jones Industrial Average, minute-by-minute



How many Argentinian pesos one dollar buys, minute-by-minute



Sources: SIX Financial Information (DJIA); ICAP (forex)
The Wall Street Journal

The emerging-market slide reflects worries about outside forces—such as a shift in U.S. monetary policy, or China's efforts to reorient its economy—colliding with domestic political and economic tensions, unsettling investors at home and abroad.

Turkey, for instance, has been rocked by a deepening political crisis tied to corruption allegations. South Africa's leadership has been under increasing fire for its failure to pull citizens out of poverty over the past two decades. Argentina's struggle to right its course since its 2002 currency crisis has sent inflation soaring and weakened its international credibility further.

On Thursday, the HSBC preliminary manufacturing Purchasing Managers' Index for China slipped to its lowest level in six months and a reading that indicates contraction. A slowdown in China could add to economic headwinds facing Chinese trading partners such as South Africa and Brazil, which supply raw materials. Investors have pulled \$58.7 billion of cash from developing countries in the past year.

Adding to concerns, the Federal Reserve is expected to scale back its bond-buying program again next week. Many investors anticipate that this shift will hit demand for emerging-market assets that have been buoyed by the program. The Fed reduction is viewed as a precursor to rising U.S. interest rates that would likely draw investor cash from around the globe in search of higher returns.

Particularly vulnerable, in some investors' eyes: countries that regularly import more goods and services than they sell abroad.

"In Turkey, we have a country with a large current-account deficit, and when that country starts experiencing trouble, it immediately focuses investors' minds on countries that are in a similar situation," said Eswar Prasad, a Cornell University economics professor who formerly led the International Monetary Fund's China division.

Countries with similar current-account deficits considered especially fragile by investors include Brazil, South Africa, India and Indonesia. But the emerging-markets tumult hasn't hit the

"contagion" stage of across-the-board, fear-driven selling of all emerging economies. Indonesia's rupiah and India's rupee, for example, advanced against the dollar Thursday, benefiting from those countries' efforts to adjust their policies to support their currencies.

The Turkish lira hit a record low of 2.3045 lira to the dollar, even though the country's central bank spent a sizable chunk of its

More on Emerging-Market Rout

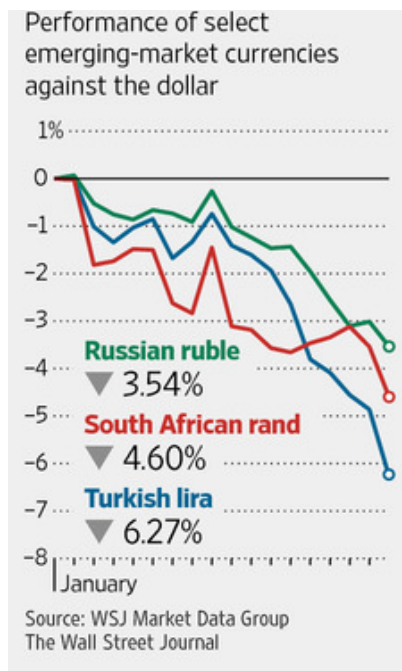
[No Respite in European Trading](#)

[Ruble Continues to Weaken](#)

[Turkish Intervention Fails to Stem Lira Sell-Off](#)

[Argentine Peso Plummets; Central Bank Steps In](#)

Faltering



foreign-exchange reserves Thursday to support the currency, analysts and traders said.

The central bank had to resort to intervention after investors, disappointed the authority didn't raise its benchmark policy rates earlier this week, sold the currency.

Banks and other large institutions that trade with brokerage firm Newedge USA in New York were dumping their emerging-market stocks and currencies Thursday, said Robbert van Batenburg, the firm's director of market strategy. He said the last time his clients sold emerging-market assets so broadly was in May, when Fed Chairman Ben Bernanke first hinted that the central bank might start reducing stimulus.

"Investors are penalizing those countries with more vulnerabilities," said Yacov Arnopolin, emerging-market debt portfolio manager at Goldman Sachs Asset Management.

Emerging markets had been among the world's bright spots after the global economic crisis, with their performances easily eclipsing recoveries in the U.S., Europe and Japan. Leaders in some emerging economies complained openly about the imbalance, which generated an influx of so-called hot money, pushing up the values of their currencies and weighing on exports.

Now, more than five years after the financial crisis, prospects are finally brightening for developed economies, partly because of aggressive action by their central banks.

Both the World Bank and the IMF have upgraded their outlooks for the global economy this month. But each institution warned that weaker emerging economies could struggle with climbing U.S. interest rates, a shift that leads capital to flee those developing countries.

The current situation puts the central banks of developing countries in a squeeze. If they raise interest rates to curb currency losses and fight inflation, that would also tighten the spigot of credit and slow domestic economic growth. But a failure to raise rates at the right time can diminish the central bank's credibility.

Investors regaining confidence in emerging-market assets will likely depend on whether each country can successfully implement structural reforms. "If these central banks don't get their act together in pretty short order, it will go from a period of adjustment to a period of crisis," said Peter Kinsella, currency strategist at Commerzbank.

The plunge in the South African rand added to pressures after tens of thousands of the country's platinum miners went on strike Thursday, hobbling a crucial national industry and dealing another blow to an ailing economy. Already, the country suffers from weak growth, reduced output at its gold and platinum mines and falling commodity prices.

Turkish markets have been hit hard as well by local political tensions. A corruption probe launched Dec. 17 has targeted Prime Minister Recep Tayyip Erdogan's allies and forced a cabinet shuffle, further fueling the lira selloff and sending borrowing costs soaring.

Mexico last year passed reforms that would open up its oil and telecom sectors, and, with the benefit of its close trade ties to the U.S., offers a positive emerging-economy story.

But even there, investors have been cautious and hesitant to buy for fear that contagion from falling commodity prices and slowing global demand would hurt the Mexican economy.

The day's 0.7% fall in Mexico's currency against the dollar, however, may have opened the door for some buyers.

"We are looking to add to our peso exposure, as we find the current levels attractive," said Emil Babayev, a portfolio manager for J.P. Morgan Asset Management's \$35 billion in emerging-market debt.

—Emre Peker contributed to this article.

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