Passport

Top 5 Weakest Currencies of the G20 in 2013: Emerging Economies to Gain Export Competitiveness over the USA

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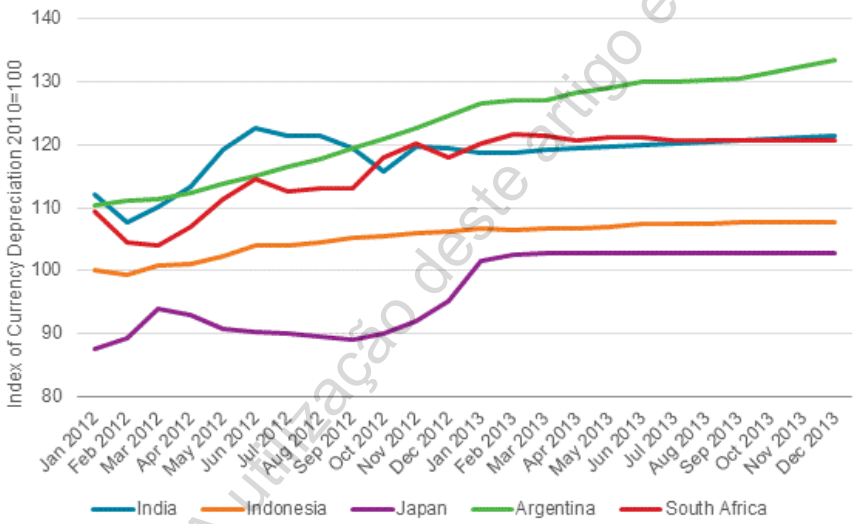
Over the course of 2013, Euromonitor International is forecasting that some of the biggest emerging market economies in the world will see their currencies fall in value against the US dollar, giving them an even greater competitive edge over the USA. Of the G20 economies, the twenty most industrialised countries in the world, the top five that will lose ground to the US dollar in 2013 will be: Japan, Argentina, South Africa, Indonesia and India. As the only developed economy of the bunch, Japan's currency devaluation is part of its master plan to combat its deflation issues, but for the rest, a weaker currency will mean their exports become cheaper and thus, more attractive to consumers in other countries. On the flipside, however, imports for these economies, particularly the net energy importers, will become more expensive in relative terms and negatively impact consumer spending domestically. For emerging economies, in many respects, their external markets are more lucrative and therefore, a weakening currency may do more good than harm to economic growth prospects, at least in the short term.

Index of Selected Currencies against the US Dollar: Jan 2012-Dec 2013



Source: Euromonitor International from national statistics/International Monetary Fund (IMF), International Financial Statistics
Note: Data from March 2013 onwards are forecast.

1. Japan: Second decade of crisis

As the only developed economy of the group, Japan is struggling with its own issues at the moment, namely its deflation crisis. The Japanese

economy is going into its second decade of crisis and is currently in its fifth recession in fifteen years. Chronic deflation is increasing the real value of money and damaging consumption levels as demand for goods has fallen and consumers choose to save cash rather than spend it. Businesses are also impacted as there is no incentive for them to produce goods which are more expensive to make than to buy. On-going expansionary monetary and fiscal policy, such as unlimited quantitative easing and government expenditure worth 13 trillion yen, has been employed to reverse the deflationary trend, kick-start economic growth and devalue the currency against the US dollar by an estimated 12.9% in 2013 to regain competitiveness but as yet, these measures are having little or no impact.

2. Argentina: Demand for US dollar drives the peso skyward

A perennial problem for Argentina is the overvaluation of its currency, thanks to chronic inflation levels. Expected to lose 11.5% of its 2012 value in 2013, the Argentine peso has been beset by problems since its 2002 devaluation following the government's default on its debts. Since 2011 the government has put currency restrictions on the US dollar which were designed to stop the outflow of US dollars from the Argentine economy and push the value of the peso down. Following a decrease in exports of 3.3% in US$ terms in 2012, Argentina is expected to see nominal growth of 13.2% in exports in 2013, supporting further growth of its trade surplus as the government increases its currency devaluation efforts.

3. South Africa: Strong rand to weaken on export rebound

Exports shrank by 9.9% in US$ terms in 2012 in South Africa thanks to poor demand from its main trading partners in the developed world. Imports increased by just 1.7% in US$ terms in 2012 as the rand began to weaken against the US dollar, which was important for bringing capital goods into the country for the mining and quarrying sector. Exports will benefit from the weaker rand in 2013, as South African goods and services become relatively cheaper and imports will be driven up by growing consumer expenditure levels. The rand is expected to weaken by 7.8% in 2013, over its 2012 value.

4. Indonesia: Trade deficit threatens value of rupiah

The Indonesian rupiah has been one of the worst performing currencies in Asia Pacific over the last twelve months. Typically seen as one of the stronger economies in the Asia Pacific thanks to its open economy as well as it lucrative consumer markets, the value of the rupiah is under threat in 2013 from rising prices and weak export demand from its key trading partners which has fed its growing trade deficit. The rupiah is set to lose 3.9% of its 2012 value against the dollar in 2013, which is expected to bolster exports by 19.7% and return the trade balance to surplus, whilst also cooling import growth.

5. India: Threat of capital flight may drag rupee down

The value of the rupee is set to fall by 2.8% in 2013 on its 2012 level after strengthening significantly through the second half of 2012. A widening trade deficit and the threat of a downgrade from credit rating agencies in the event of a further slowdown in the Indian economy is

weighing on the Indian currency and could lead to substantial capital flight from the country in 2013 which would place a further drag on the value of the rupee. Plans to liberalise the capital markets in India have been welcomed, as have reforms to foreign direct investment rules to keep the economy open and funds flowing in the right direction, which should add value to the rupee over the medium to long term.

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