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Emerging markets: Massive capital flight begins

- Emerging Markets 2014 threaten massive foreign exchange losses and falling stock and bond prices. In Brazil, the massive flight of capital has already begun.

The diminishing flood of cheap money by the central banks is the greatest threat to the capital markets in emerging countries. Be particularly at risk the "Fragile Five" apply. These are Brazil, India, Indonesia, South Africa and Turkey. These countries are close to elections and are particularly heavily dependent on foreign capital.

Already in 2013 have caused some headaches in emerging markets rate turbulence. The situation could be even worse in several countries, according to experts, in 2014. Even now flowing due to the tightening of U.S. monetary policy less foreign capital into emerging economies. additional uncertainty for the upcoming elections provide in many countries such as Brazil, India, Indonesia, South Africa and Turkey. In the so-called "Fragile Five", which are particularly heavily dependent on foreign capital, are parliamentary or presidential elections - in Indonesia even both - planned. There, the economy has already lost much of its journey. **investors rely Brazil** particularly strengthens the negative trend in Brazil. The years rush by investors to Brazil has abruptly changed in the past year in an escape. Brazil recorded in 2013 with $ 12.3 billion the highest outflow of foreign exchange for over a decade, as from published data on Wednesday the Brazilian central bank shows. For the most populous country in South America, the number is also the first negative result since the global financial crisis of 2008. were last to investors in 2002 because of the election of Luiz Inacio Lula da Silva as president of Brazil fled in panic. At that time, the outflow was nearly 13 billion dollars. During the financial crisis, investors had, however, in search of yield over the years really torn about to invest their money in Brazil. backdrop for the current plight is among others the high trade deficit and the decline of the country's currency, the real. Brazil also makes creating high inflation, which slows down the consumption. The central bank had raised interest rates because of the end of 2013 to ten percent. However, higher interest rates slow down at the same time the investment industry. In addition, Brazil is feeling the tightening of U.S. monetary policy. **Pound Investment House warns of capital flight** , the experts of the Investment Manager M & G Investments expected in the "Fragile five" an increasing demand for hedging against currency losses or falling bond prices. M & G According booked investors with emerging market bonds over the past year even taking into account the interest payments losses. That was only the third time since 1998. In dollar terms & Co-denominated government bonds fell by 5.25 per cent had retracted bonds in the domestic currencies even nine percent. Corporate bonds in foreign currencies are escaped relatively lightly with a loss of 0.6 percent. "2013 was a wake-up call for the emerging markets," says Yacov Arno Polin, senior portfolio manager for emerging market bonds at Goldman Sachs Asset Management. Investors urged more reforms. "The message has arrived." India and Mexico have already begun to consolidate their budgets by shortened subsidies or energy prices lifted. Other countries such as Russia or South Africa shy yet similar cuts and hope for continued high revenues from their commodity exports. **elections reform brake** The upcoming elections are another potential reform brake, warn the experts of the research house Capital Economics. "The caretaker governments could try using popular spending plans to increase the chances for re-election and thus to increase the current account deficit." Additional headache prepare investors unpredictable events such as riots. The rate turbulence as a result of the "Arab Spring" or the recent uprising in Ukraine, many of them caught cold. That is why fund managers look out for early warning systems. **risk index is always important** One of these is the "Sovereign Risk Index", graded in the BlackRock quarterly 50 states. Here, the world's largest asset managers involves the need for foreign capital, the taxation policy, the stability of the financial sector and political risks in its assessment. The re-recorded the year in the index Ukraine is ranked 45th A real-time early warning system outline the four university professors Geert Bekaert, Campbell Harvey, Christian Lundblad and Stephen Siegel, in an essay for the National Bureau of Economic Research. For this they expect from the risk premiums on government bonds of emerging countries, the non-political factors such as the economy or the volume of outstanding papers out. Applied to the previous crises, the authors point out in their study that the increase of this policy risk premiums has drawn around one percentage point decline in foreign direct investment by twelve percent or an average of 305 million dollars (223.6 million euros) to itself.

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