

12/15/2023 06:30:55 [BN] Bloomberg News

Emerging-Market Assets Rally as Fed Pivot Propels Risky Bets

- Asia Frontier’s Hugger says ‘strong dollar period’ is over
- Currencies jump to 20-month high, led by Thai baht advance

By Vinícius Andrade and Giovanna Bellotti Azevedo

(Bloomberg) -- Emerging-market stocks, bonds and currencies rallied on Thursday, as traders took the Federal Reserve’s signal that it’s done raising interest rates as a green light to ramp up bets on more aggressive cuts in 2024.

A gauge for emerging-market currencies rose 1.0%, closing at the highest level since April 2022. Thailand’s baht, South Korea’s won and South Africa’s rand led gains in a basket of 23 emerging-market currencies tracked by Bloomberg.



The Fed decision “was a very positive sign for emerging markets, especially frontier markets since the strong dollar period has come to an end, which will be very supportive,” said Thomas Hugger, chief executive officer at Asia Frontier Capital Ltd. in Hong Kong. The Bloomberg Dollar Spot Index fell for the third straight day on Thursday to the lowest level since August.

This report may not be modified or altered in any way. The BLOOMBERG PROFESSIONAL service and BLOOMBERG Data are owned and distributed locally by Bloomberg Finance LP (“BFLP”) and its subsidiaries in all jurisdictions other than Argentina, Bermuda, China, India, Japan and Korea (the “BFLP Countries”). BFLP is a wholly-owned subsidiary of Bloomberg LP (“BLP”). BLP provides BFLP with all the global marketing and operational support and service for the Services and distributes the Services either directly or through a non-BFLP subsidiary in the BLP Countries. BFLP, BLP and their affiliates do not provide investment advice, and nothing herein shall constitute an offer of financial instruments by BFLP, BLP or their affiliates.



Federal Reserve Chair Jerome Powell. Source: Bloomberg

The Mexican peso reversed earlier losses and joined a global risk rally, after the country's central bank dashed speculation of an early interest rate cut.

The peso gained as much as 0.6%, hitting its strongest level since Nov. 28 as policymakers kept borrowing costs unchanged and left the wording on the outlook for rates the same. Before the decision, the peso was the sole loser among emerging-market currencies as traders bet Banxico, the central bank, would track the Federal Reserve's dovish tone.

"No hint of a cut. There was no change in language," said Marco Oviedo, a strategist at XP.

Read more: [Mexican Peso Rebounds After Banxico Gives 'No Hint' of Rate Cuts](#)

Meanwhile, Argentina's distressed debt is likely to keep rebounding as the new administration of President Javier Milei takes its first steps toward fiscal reform, according to Goldman Sachs Group Inc.

The bank added the country's sovereign bonds to its basket of preferred emerging-market distressed credits, with strategists including Kamakshya Trivedi and Nathan Fabius saying the notes offer significant potential upside.

Latin American stocks are on track to deliver their biggest annual gain since 2016, with equity gauges in Brazil and Mexico hitting fresh record highs.

Brazil's benchmark Ibovespa equity index jumped 1.1% to 130,842.09, in Sao Paulo, the highest closing level on record. Stocks joined a broad rally in riskier assets on prospects for the Fed to pivot toward rate cuts. The equity index has gained 19% since the beginning of the year.

This report may not be modified or altered in any way. The BLOOMBERG PROFESSIONAL service and BLOOMBERG Data are owned and distributed locally by Bloomberg Finance LP ("BFLP") and its subsidiaries in all jurisdictions other than Argentina, Bermuda, China, India, Japan and Korea (the "BFLP Countries"). BFLP is a wholly-owned subsidiary of Bloomberg LP ("BLP"). BLP provides BFLP with all the global marketing and operational support and service for the Services and distributes the Services either directly or through a non-BFLP subsidiary in the BLP Countries. BFLP, BLP and their affiliates do not provide investment advice, and nothing herein shall constitute an offer of financial instruments by BFLP, BLP or their affiliates.

Meanwhile, Mexico's benchmark index surged 3.4% to a record high. Airport stocks led the rally after Grupo Aeroportuario del Sur issued details on its new five-year plan that eased concerns about government meddling in the sector.

"You can start to see the stars aligning" for Brazil, said Malcolm Dorson, the head of emerging-market strategy at Global X Management Co. Equity multiples are still "definitely cheap" on a standalone basis and also relative to growth and profitability, Dorson said.

Elsewhere, the Turkish lira steadied against the dollar, after being one of the few emerging-market currencies to weaken after the Fed's announcement, falling to its lowest level on record.

Traders have expressed concern about whether the nation's turn toward more orthodox economic management will be sustained, and ultimately bring in foreign inflows that could help to stabilize the currency.

In Asia, the Central Bank of the Philippines left its benchmark interest rate unchanged for a second straight meeting on Thursday as inflation slowed. Taiwan also kept its key rate the same at 1.875%, in line with the median estimate from 21 economists surveyed by Bloomberg, while noting that it is monitoring downside risks from China's slowing economy.

--With assistance from Leda Alvim and Timothy Rangongo.

To contact the reporters on this story:

Vinícius Andrade in São Paulo at vandrade3@bloomberg.net;

Giovanna Bellotti Azevedo in Sao Paulo at gbellottiaze@bloomberg.net

To contact the editors responsible for this story:

Julia Leite at jleite3@bloomberg.net

Siddhartha Mahanta