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# FX Week

## Emerging markets back in favour

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NEW YORK - The market is willing to invest in emerging markets (EM) with strong economic fundamentals, according to panellists at the FX Week USA congress in New York last week (July 7).

If fundamentals continue to improve in Asia and South America, Jonathan Butterfield, executive director at CLS Bank, said emerging markets will be fully back on the agenda in six months.

Samarjit Shankar, director of global strategy for the Bank of New York Mellon, has already seen renewed interest in the EM space but noted how selective investors are being. "It's not been a broad rush back," said Shankar. "For example, in Asia, people are going back into India, Indonesia and Taiwan and not so much to Thailand or Malaysia." Brazil is proving a lot more popular than Mexico in Latin America, he added.

The International Monetary Fund has forecast Brazil's economy will shrink by 1.3% in 2009 compared with a 3.7% reduction in Mexico. Brazil's strength has been reflected in the currencies, with the real gaining 14% against the dollar in the second quarter, while the peso rose by 6%.

Falling volatility has also assisted the return of the carry trade to the EM market, said Meg Browne, a senior currency strategist with Brown Brothers Harriman. "As volatility comes down more and EM economies improve we will continue to see opportunities for carry in the third and fourth quarters," she said.

The shallow liquidity is also driving more algorithmic trading as firms trade greater volumes but in smaller sizes, said Josh Levy, managing director at Tactical Asset Management. He predicts a shift away from the major currency pairs, as algorithms enable investors to hit better margins in less-liquid pairings. "People might start trading more esoteric currency pairs such as AUD/GBP, EUR/CAD and AUD/JPY. These are the hidden treasures in the currency market that sometimes the sell side doesn't pick up on," he said.

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