



EM External Imbalances, Exchange Rates Healthy

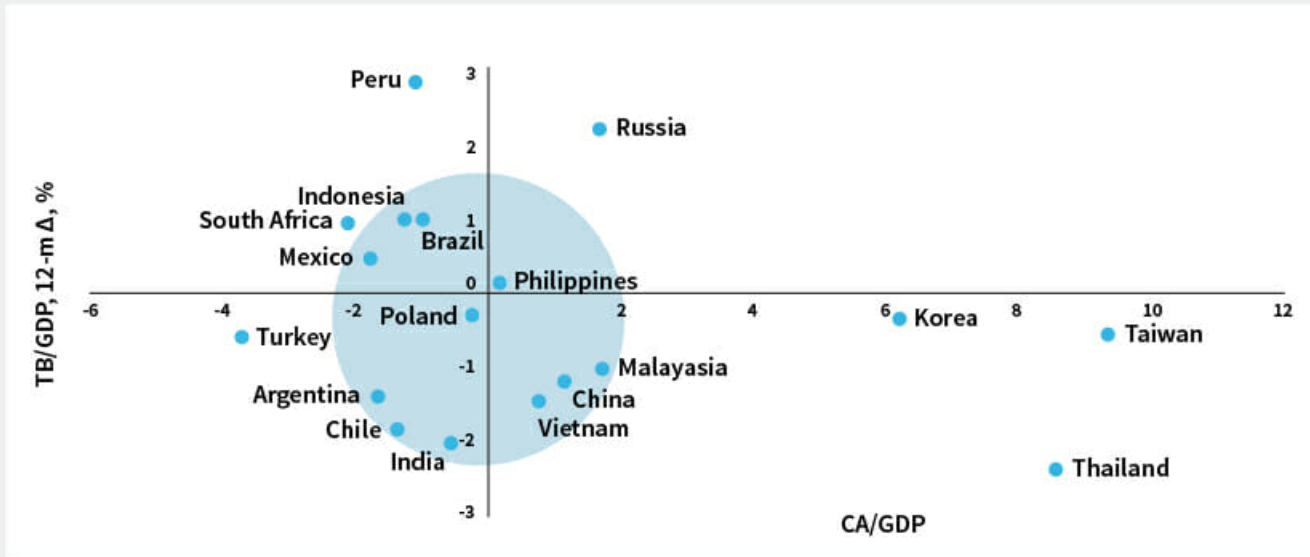
November 28, 2017

In a [previous post](#), I explained that our macro scorecard points to idiosyncratic expansion in emerging markets. Many, however, are well positioned to participate in the current global economic expansion, in part due to external balances and exchange rates.

As the chart below illustrates, external imbalances, which are the amount of surpluses or deficits in a country's current account, are not problematic for most large emerging economies.

They tend to have prudent macroeconomic policies, and current-account deficits are generally modest to the extent that they exist. Even where current-account deficits are significant, trade balances, which precede current-account balances, are moving in the right direction.

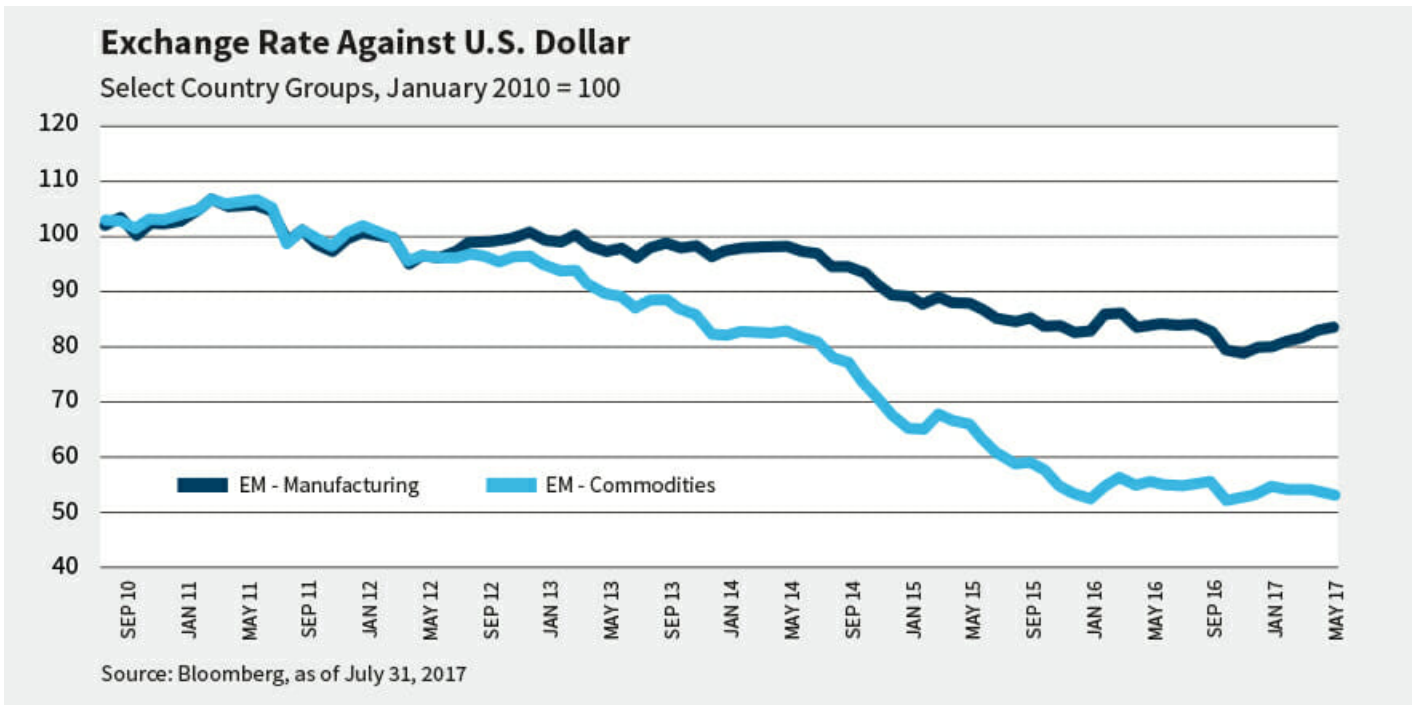
External Imbalances, First Half 2017



Source: Bloomberg, as of July 31, 2017

Emerging market exchange rates against the U.S. dollar also bode well for emerging economies. To illustrate, we separate emerging markets into two broad baskets—those that are manufacturers (where manufactured goods account for more than half of total exports) and those that are commodity producers (where commodities account for more than half of the total exports).

As the chart below shows, commodity producers have devalued significantly more than manufacturers, but since 2016, both groups' exchange rates have largely stabilized. More recently, manufacturers have begun to see their exchange rates appreciate mildly relative to the U.S. dollar.



Those are just two reasons more of the major emerging markets are in a position to influence their own economic destinies than ever before. That makes emerging markets an interesting investment opportunity.

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