FOREIGN EXCHANGE

Fresh Stress Grips Weakest Emerging-Market Currencies

Argentina and Turkey are in particular trouble

By Saumya Vaishampayan and Mike Bird

Updated Aug. 30, 2018 7:46 a.m. ET

The Argentine peso hit a record low and the Turkish lira resumed its slide, dramatizing the strains faced by emerging markets most vulnerable to a rising dollar.

While Argentina and Turkey are in particular trouble, many developing countries are being squeezed as the Federal Reserve raises interest rates, boosting the U.S. currency. The central bank's actions are felt globally but it has no particular responsibility for international financial conditions, unless they feed back into problems at home.

The lira fell as much as fell as much as 4.65% against the dollar Thursday, putting it back within striking distance of its trough. By midmorning in Europe, it stood at 6.769 per dollar. The South African rand dropped 2%, while the Indonesian rupiah hit its lowest level in nearly three years against the greenback. The Brazilian real was close to a more than two-year low and India's rupee hit a record low.

Overnight, the Argentine peso had plunged 7.5%, with President Mauricio Macri spooking investors by saying he had asked the International Monetary Fund to speed up delivery of a $50 billion bailout.

People walking past a currency-exchange office in Istanbul. **PHOTO:** CHRIS MCGRATH/GETTY IMAGES

"After what we saw happen in Turkey, the market started to ask what country was next: South Africa, Brazil, Indonesia," said Eric Wong, a fixed-income portfolio manager at Fidelity International. "The market is still gripped at times by fear, trying to differentiate the good ones from the bad ones."

The tumult highlights a heavy international dependence on the dollar. Some 48% of the world's $30 trillion in cross-border loans are priced in the U.S. currency, up from 40% a decade ago. Exchange-rate fluctuations help determine the ease of servicing that debt. And with U.S. interest rates still low by historical standards and the dollar only halfway back to its 2016 highs, the stress could increase as the Fed keeps tightening.

"Given the dominance of U.S. financial markets and institutions, and the dollar's prominence in global finance, any actions taken by the Fed inevitably reverberate around the world," said Eswar Prasad, professor of economics at Cornell University.

Fed Chairman Jerome Powell argued in May that "the role of U.S. monetary policy is often exaggerated" when it comes to global financial conditions, with fast growth in emerging

Related Articles

- Argentina's Peso Plummets to Record Low
- What Turkey Can Do if Market Troubles Return
- Turkish Lira Weakens as Central Bank Fails to Assuage Investors

markets, and commodity prices, playing bigger roles in capital flows. His counterparts in India and Indonesia, however, have voiced concerns about the Fed's policy direction and pleaded for more international coordination.

The strain is most keenly felt by governments and companies that rely heavily on overseas funding. Moody's Investors Service compares external debts due in the next year and bank deposits from overseas against currency reserves to compile an "external vulnerability indicator." This points to fragility in South Africa, Argentina and Turkey, as well as Ghana, Sri Lanka, Malaysia and others.

Currencies pegged to the dollar have also come under pressure. Hong Kong has spent billions to defend its link to the dollar, while central banks in Bahrain and Lebanon have pledged to maintain their pegs.

Raghuram Rajan, the former governor of the Reserve Bank of India, said neither the Fed nor emerging-market policy makers could ever perfectly attune their economies to one another.

"Unfortunately, this is a reality of the world we live in,“ Mr. Rajan said recently, speaking to The Wall Street Journal from the Jackson Hole symposium on monetary policy. "Hopefully we will eventually filter some international responsibility into the mandates of central banks, to avoid such negative spillovers."

Write to Saumya Vaishampayan at saumya.vaishampayan@wsj.com and Mike Bird at Mike.Bird@wsj.com