# Forex Focus: Emerging Market Currencies Have Their Day

By Nicholas Hastings
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LONDON (Dow Jones)--This is a good time to look outside the usual currency box.

As the global recovery splutters and interest rates in the major economies look set to remain lower for longer, the attraction of major currencies is fading fast.

Now, with China's growth slowing, as data over the next week or so is likely to confirm, even commodity currencies that have been supported by strong Chinese demand could fall out of favor.

And these negatives are unlikely to go away.

The stress tests for European banks are likely to hang over euro zone markets for weeks to come, threatening the single currency with more losses if they fail to boost market confidence in the banking system.

Also, the recent rally in global equity markets is hardly likely to last very long once the second quarter earnings season gets underway and company profits start disappointing as much as growth data has recently.

Even the Japanese yen, which has often provided a safe haven in times of turmoil, could find itself coming under selling pressure now as investors start worrying about Upper House elections this weekend.

If the ruling DJP looses, the fiscal discipline that has been encouraging investor confidence will likely fall apart, and Japan's massive public debt will come back to haunt it. Sovereign debt concerns that continue to linger over the euro zone will spread quickly to Japan, undermining the yen's role as a safe haven.

By contrast, the currencies of countries that haven't been directly hit by the credit crunch, that have been able to hike interest rates and that have avoided the debt crisis will find themselves back in the spotlight.

As the currency strategy team at Societe Generale wrote: "Risk on/risk off gyrations aside, the Swedish krona, the Norwegian krone, the Brazilian real, the Australian dollar, the New Zealand dollar, the Canadian dollar and the Polish zloty all look better on a long-term view."

While major money markets have been scaling back expectations of another interest rate hike in the U.S., the euro zone and Japan, countries such as Sweden, India, Korea and Malaysia have been able to announce increases that will make their yield returns even more attractive.

Expectations of further rate hikes in Australia and Canada have also been growing.

Even the Turkish lira could be seen in a better light after most of the legal changes that would have affected much of the country's constitution cancelled this week, removing some of the political uncertainty that could have forced an early election.

Strategists at BNP Paribas label the lira as positive, alongside the Polish zloty, which is expected to benefit from more rises in interest rates.

The Polish currency has already been benefiting from the results of the presidential election earlier this week, which has raised hopes of further economic reform.

See the recent fall in the dollar against the zloty:

http://www.dowjoneswebservices.com/chart/view/4236

Other gainers have been the Hungarian forint, the Korean won, the Romanian leu, Mexican peso, the South African rand and the Czech koruna.

Early Friday in Europe, the recent improvement in global sentiment helped to keep emerging market and commodity currencies rising. The euro benefited as global equity markets headed higher too.

Better-than-expected jobless claims figures in the U.S., reassuring comments from European Central Bank President Jean-Claude Trichet about euro zone recovery and the health of its banks as well as Korea's surprise rate hike, all helped to encourage investors back into risk for now.

By 0645 GMT, the euro was up at $1.2718 from $1.2703 late on Thursday in New York, according to EBS.

The euro was also up at Y112.64 from Y112.27 while the dollar rose to Y88.57 from Y88.38.

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 Reuters   USD/DJ
   Thomson   P/1066 or P/1074
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(Nick Hastings has covered the foreign exchange markets and industry for over 20 years. Apart from his written commentary and analysis, he also appears on Fox Business News and CNBC television in Europe, Asia and the U.S. He can be contacted on +44-20-7842-9493 or by email: nick.hastings@dowjones.com)