Rising rates evoke fears of the 90s Asia crisis for EMs

Corporate borrowers across developed markets also vulnerable to higher rates

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Emerging market governments that borrowed heavily in dollars when interest rates were low are now facing a surge in refinancing costs, evoking flashbacks to Asia's 1990s debt crisis and stoking fears of a default wave.

Sovereign dollar bonds from a third of the countries in Bloomberg's EM Sovereign Dollar Debt Index are trading with a spread of 1000 basis points or more over US Treasuries, a generally accepted metric of distress. Nigeria's finance minister said this week that Africa's biggest economy is seeking to extend the tenors of some of its debt, but added that eurobonds won't be included in the plan.

The surge in yields is reminding investors of previous emerging debt crises, notably the one that swept Asia in 1997 when collapsing domestic currencies propelled country after country into default. And it's forcing a painful realisation that swathes of the developing world are still beset by "original sin" — the phrase once popular with economists to describe developing nations' reliance on foreign currency debt.

"There will be countries that will default and restructure debt," said Lisa Chua, New York-based portfolio manager at hedge fund Man Group, whose EM debt fund has outperformed 99 per cent of its peers this year with returns of 5 per cent. Rising debt burdens are crowding out investment and reducing growth, "making it more challenging for many emerging markets to grow fast enough to stabilise their debt," she said.

Debt distress is not confined to the emerging world, with swathes of corporate borrowers across developed markets also vulnerable to higher interest rates. But the fallout from a wave of defaults across developing nations could have far bigger implications for the global economy. Dollar borrowing that left countries vulnerable to exchange rate swings and Fed policy shifts, was a key force behind the 1997 Asian crises, which then swept through Russia and Latin America.

It had seemed for a while that emerging markets were absolved of original sin, as many built local bond markets and cut reliance on hard currency debt. But recent years saw a spate of sovereigns foraying overseas, lured by rock-bottom global interest rates and lacking deep domestic capital markets. **BLOOMBERG**

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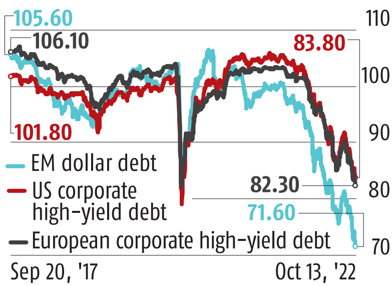

Source *Bloomberg*

Asia spent $50 bn in September to defend currencies

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Asian governments spent about $50 billion in foreign-exchange reserves last month — the highest level since March 2020 — to defend their currencies from a relentless advance in the US dollar.

Exante Data, a firm that specialises in tracking global capital flows, estimates emerging Asian nations excluding China spent nearly $30 billion with dollar sales in the spot market in September alone. That number rises to $50 billion when Japan is included.

Dollar sales in the region over the first nine months of the year have reached approximately $89 billion including Japan, marking the most active period for foreign-exchange expenditures since at least 2008, according to Exante. The firm bases its estimates on data from central banks and other government authorities and adjusts them for changes in foreign-exchange rates.

The increase comes as the Bloomberg Dollar Spot Index, which measures the greenback against a basket of other major currencies, is trading at an all-time high in the aftermath of the most aggressive hiking of interest rates since the 1980s. The surge in the greenback has reduced the value of the stockpile of other currencies in central banks' portfolios. **BLOOMBERG**