DaMina Advisors LLP

FRONTIER MARKETS SPECIALISTS

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DaMina Advisors Note: Turning off the cheap money spigot - US Fed Tapering, the vulnerable and the resilient economies unearthed …

"All good things must come to an end" – Geoffrey Chaucer

The US Federal Reserve Bank is set to signal on Wednesday that it will commence a painstaking multi-year effort to dramatically reduce its bloated multi trillion dollar balance sheet. The historic move will trigger a sustained 2014-2016 monetary policy effort to raise long-term US interest rates towards their recent historic average of 4%, and with it, raise the entire term structure of interest rates globally. However all regions of the world will not be affected equally by the Fed tapering. Some economies are more sensitive to US interest rate changes than others. Using 2000-2012 statistical data we examine the correlative relationships between changes in the 10-Year US Treasury bond and GDP growth across all regions of the world – with a particular focus on Africa. Our regressions indicate that economies in Europe (especially Southern Europe), the Caribbean, Central Asia and Southern Africa which benefited the most from the ultra low interest rate regime are the most vulnerable to the tapering. Surprisingly, East and West Africa, of all the regions examined had the least GDP growth sensitivity to changes in the US 10YR over the thirteen year period. Their economies may be the most endogenously resilient of all the regions examined over the thirteen year period.

Country or area	US 10-Yr Treasury (2000 - 2012 Avg.)	GDP growth rate (2000 - 2012 Avg.) %	Correlation Coefficient - US 10 YR Bond & GDP (2000 - 2012 Period)
Southern Europe	4.03	1.00	0.82
Caribbean	4.03	2.43	0.69
Europe	4.03	1.70	0.58
Northern Europe	4.03	1.83	0.56
Eastern Europe	4.03	4.33	0.51
Central Asia	4.03	7.72	0.49
Western Europe	4.03	1.38	0.42
Southern Africa	4.03	3.54	0.40
World	4.03	2.73	0.35
Northern America	4.03	1.96	0.29
China	4.03	10.03	0.25
Africa	4.03	4.70	0.22
Northern Africa	4.03	3.95	0.18
Middle Africa	4.03	6.85	0.12
Southern Asia	4.03	6.25	0.12
South-Eastern Asia	4.03	5.27	0.11
Western Asia	4.03	4.88	0.10
Asia	4.03	4.55	0.09
LatAM and the Caribbean	4.03	3.28	0.07
Central America	4.03	2.58	0.07
Eastern Asia	4.03	4.10	0.06
South America	4.03	3.79	0.02
Eastern Africa	4.03	5.51	(0.09)
Western Africa	4.03	6.45	(0.15)
Source: UN Stats/ DaMina Advisors			

Despite the optimism which the regression engenders, Africa is still likely to suffer some of the spillover effects of the tapering thru the transmission mechanism of commodity prices. Africa's relatively illiquid domestic capital markets also remain vulnerable. As the tapering begins, the US dollar will accelerate its strengthening trend and almost all US dollar denominated commodities, including oil and gold will see price declines. African economies that depend heavily on commodity exports such as: South Africa, Zambia, Angola, Algeria, Nigeria, Ghana, Mali, Botswana, Guinea, Gabon, Equatorial Guinea, Chad, Sudan and DR Congo among others may come in for a shock as commodity prices drop amidst a liquidation of many multibillion dollar commodity trade positions held by hedge funds and banks. The flight to quality and the return of the US as the safest haven for global investors – rather than gold or other precious minerals like diamonds or platinum - will also hit the Southern African countries hard. New African Eurobond issuances will also have to offer higher premiums to remain attractive to foreign investors who may now be flocking back to the US. African countries with weakening FX positions such as Nigeria could see speculative attacks on their currencies.

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ABOUT THE COMPANY

DaMina is a preeminent independent frontier markets risk advisory, research and consulting firm.

With a special focus on African capital and commodities markets, DaMina provides exclusive, highly-tailored, 360-degree and around-the-clock regulatory and political risk advisory and consulting services to a range of marquee global corporations and investment firms.

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