Emerging market currencies fell to a 14-year low against the dollar on Monday, hammered by investor appetite for the US currency and an oil price that has fallen to five-year lows.

The JPMorgan Emerging Market Currency index, which measures the strength of a variety of developing country exchange rates against the dollar, fell to its lowest level since it was created in 2000.

The stronger dollar put further pressure on the price of Brent crude, which dropped 4 per cent on Monday to just over $66 a barrel, heaping further pain on energy companies and oil-producing countries. Oil has fallen 40 per cent since the start of the year.

Emerging markets have been hit by the dollar's rise, weaker exports due to slower growth in China, and lower commodity prices which have hurt natural resource exporters like Russia, Nigeria and Mexico.

Russia, already struggling to cope with western sanctions over its involvement in Ukraine, recently suffered the worst one day fall in the rouble since the 1998 financial crisis. Nigeria's naira fell to a record low of 187 to the US dollar earlier this month.

But even big oil-consuming nations that should benefit from cheaper crude — such as Turkey and South Africa — have been affected.

“What is happening to emerging market currencies right now has a lot more to do with external factors than internal ones,” said Alan Wilde, head of fixed income at Barings Asset Management.

A depreciating currency can be a boon for some countries, making their exports more competitive. But it also makes imports more expensive, driving up inflation, and increases the cost of their dollar-denominated debt.

The sharp falls on currency markets have highlighted the faultline dividing the US, which is showing signs of a strong economic recovery, from the rest of the world, where growth remains anaemic.

Figures released on Monday showed that Japan's recession was deeper than first reported, while the European Central Bank has sharply lowered its growth forecasts for the eurozone.

Such data contrast with the flow of upbeat news out of the US, such as the unexpectedly positive jobs data released last week. That sent the dollar to its highest point since the 2008 financial crisis in intraday trading on Monday.

There have been plenty of warnings that a resurgent dollar could weigh on other assets, particularly in emerging markets.

“What is good news for the US economy presents a hurdle for emerging markets,” said Dominic Rossi, chief investment officer at Fidelity Worldwide Investment, one of the world’s biggest fund management groups.

That message was highlighted on Sunday in a report issued by the Bank for International Settlements, which said a strong dollar could expose countries to financial vulnerabilities.

“The divergence trade, where the US is doing a lot better in economic momentum compared to everything else, is still on,” said Luis Costa, emerging markets currencies strategist at Citi.
At particular risk are those countries with large foreign currency debts, the BIS said. Credit growth in emerging markets has boomed this year, with borrowers issuing $2.6tn of international bonds, three-quarters of which were in dollars, according to the bank.

Though big oil producers have been some of the biggest casualties of recent market ructions, non-oil exporting countries are already suffering. It was South Africa’s rand that took the top spot as the worst performing major currency in the world on Monday, hitting a six-year low against the US dollar as investors reacted to disappointing current account data.

Like South Africa, Turkey is a net commodity importer yet the Turkish lira was heading for its weakest close since October.

“Turkey is supposed to be one of the biggest beneficiaries of declining oil prices,” said Murak Toprak, an analyst at HSBC. “The moves we’ve seen are a good measure of the way the market has shifted.”

Additional reporting by Andrew England

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