
Emerging economies' currencies in times of financialization: using network analysis to characterize currencies' subordination to international conditions

Raquel Ramos^{*1}, Daniela Magalhães Prates¹, and Ivette Luna¹

¹Universidade de Campinas – Brésil

Résumé

The impacts of financialization in emerging market economies (EMEs) might be more specific than in central economies as, with financialization, EMEs started serving finance as providers of risky assets. These assets include not only government bonds and stocks, but also their currencies, which became interesting investment options for their higher liquidity and the sophisticated speculative options given by FX markets. With this development, these countries' exchange rates became more volatile and more strongly reflect the conditions ruling in international financial markets – a subordination which is more important in moments of higher liquidity aversion internationally.

After a presentation of the heterodox insights about the attributes of emerging countries' currencies and their financial markets that allow this process to emerge, the article uses different techniques to empirically analyze the subordination of emerging countries' currencies to international conditions. Apart of the traditional measures of volatility, it presents further information to characterize exchange rates, as correlation with domestic stock markets, co-movement with proxies of international liquidity preference internationally (as the VIX) and the correlation of currencies among themselves. The later draws from network analysis to provide a clear picture of the clustering of different currencies in different moments. The exercises also investigate the evolution of these features progressively over time and in moments of different levels of stress and liquidity preference in American and European financial markets.

The results point to the existence of a group of currencies who present similar characteristics of higher volatility and higher co-movement with the international environment (thus also higher correlation among themselves). It is also found that these characteristics are more intense in periods of higher turbulence and liquidity preference.

Mots-Clés: Financialization, Emerging Market Economies, Exchange Rates, Network analysis

*Intervenant