

For many EM central banks, what's happening at home matters more than the Fed

19th September 2024

The Federal Reserve's much-anticipated start to monetary easing has begun and policymakers across emerging markets – and investors with exposure to them – are watching closely to see how these economies will be buffeted by falling US interest rates.

But these are not emerging markets of old. Our economists advised clients [back in 2022](#) that Fed tightening wouldn't cause the kind of EM crises that used to happen when US rates rose. Conversely, the team is now telling them that, for the most part, domestic conditions matter more.

What the Fed decides does matter to those EMs with open capital accounts and pegged exchange rates (to the dollar), such as [the Gulf economies](#). They automatically follow the Fed to maintain a constant interest rate differential and sustain capital inflows and their exchange rate regimes. Domestic financing conditions will ease in those economies as the Fed continues to lower the Fed funds rate.

But elsewhere the relationship between EM interest rates and the Fed is less clear cut. Central banks in Mexico and Indonesia place a lot of weight on Fed decisions because of the impact on capital flows and [their currencies](#), so looser monetary policy in the US will make them more inclined to ease too.

Most other central banks are more focused on domestic factors. Policymakers in [parts of Asia](#) may begin easing monetary conditions around now, but that has more to do with low domestic inflation and growth concerns than monetary policy abroad.

Elsewhere, EM easing cycles have been detached from those in developed markets. Some central banks in Latin America, such as Chile's, and Central European authorities like Hungary's, started to cut interest rates well in advance of the Fed and their easing cycles are already slowing.

In fact, no EM monetary authority has better demonstrated this independence than the Central Bank of Brazil, which actually raised interest rates just a few hours after the Fed announced its decision to cut.

EMs have evolved, and navigating them now requires more than just reacting to Fed moves. With domestic factors playing an increasingly pivotal role, investors need deep and timely insights to stay ahead. As the Fed embarks on monetary easing, understanding which EM economies will be impacted and why requires nuanced analysis. Gain a competitive edge with our [expert guidance](#) and stay informed on how Fed policy and domestic conditions are shaping EM opportunities.



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