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Emerging Currencies Surge as Turkey to Russia Intervention Grows
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By Michael Patterson and Selcuk Gokoluk

Oct. 5 (Bloomberg) -- Emerging-market currencies rallied and the lira jumped from a record low after policy makers in Turkey and Russia stepped up sales of foreign-currency reserves to counter a selloff in developing-nation assets.

Turkey's central bank sold a record $750 million for liras in an auction today, increasing the total intervention since Aug. 5 to almost $4 billion. Russia sold $1.15 billion yesterday, a "bigger than usual" step, and $8 billion last month, Bank Rossii Chairman Sergey Ignatiev said today in Moscow. The lira rose 0.9 percent versus the dollar at 2:44 p.m.
in London and the ruble gained 0.3 percent.

After struggling to stop appreciations earlier this year caused by capital inflows, central banks in Poland, Malaysia and the Philippines are intervening to shore up currencies amid concern the global economic recovery may stall. South Korea's foreign-exchange reserves fell the most in almost three years in September, the Bank of Korea said today. Taiwan's central bank said it "doesn't favor" currency weakness.

"Whether interventions will be successful or not depends on how much panic we'll see in markets," said Elisabeth Andreew, a Copenhagen-based strategist at Nordea Bank AB.
"Right now markets have calmed down a bit."

Emerging-market bonds and stocks rallied today amid speculation European leaders are examining measures to shield banks from the region's sovereign-debt crisis.

Stocks Rally

The extra yield investors demand to own developing-nation bonds over U.S. Treasuries dropped 11 basis points, or 0.11 percentage point, to 479, according to JPMorgan Chase & Co.'s EMBI Global Index. The MSCI emerging-markets stock index climbed
0.3 percent after closing at the lowest level since September
2009 yesterday. Twenty of 21 developing-country currencies tracked by Bloomberg strengthened.

Emerging-nation equity funds have posted nine straight weeks of outflows, losing $21 billion as the MSCI gauge sank as much as 31 percent from this year's high, according to research firm EPFR Global. Turkey's ISE National 100 Index has dropped 18 percent from this year's peak on May 3, while Russia's Micex has retreated 32 percent from its 2011 high.

The lira strengthened to 1.8705 versus the dollar today after earlier weakening to 1.8963. Yields on two-year benchmark bonds dropped 3 basis points to 8.53 percent.

'Just Begun'

Policy makers intensified their support of the lira after the currency sank more than 17 percent against the dollar this year, the second-worst performer among emerging-market currencies tracked by Bloomberg. Turkey's previous biggest dollar sale at an auction was in June 2006, when the central bank sold $500 million. The bank offered to sell as much as $1.35 billion today.

The decline in emerging market currencies has "just begun" and the lira may fall another 6 percent against the dollar, Kubilay Cinemre, managing partner at Fokus Yatirim Holding AS in Istanbul, said in an interview. "There will be more volatility generally," as policy makers intervene, he said.

The ruble strengthened 0.4 percent against the U.S. currency, paring this year's decline to 6.4 percent. Outflows of capital from Russia, the world's biggest energy exporter, reached an estimated $18.7 billion in the third quarter, bringing this year's total to $49.3 billion, Bank Rossii said in a statement late yesterday.

Russian Reserves

The central bank drained more than $200 billion of currency reserves in the six months through January 2009 to stem a 35 percent devaluation of the ruble to the dollar as oil prices collapsed amid the global financial crisis. Russia had about $526 billion of foreign-exchange and gold reserves as of Sept. 23, according to the central bank.

"The success or failure of intervention is going to depend on the relative forces of capital outflow and trade deficit servicing on the one hand and central bank currency purchases on the other," Michael Shaoul, chairman of Marketfield Asset Management in New York, said in e-mailed comments.

South Korea's foreign-exchange reserves shrank to $303.4 billion from $312.2 billion in August, the biggest drop since November 2008, the Bank of Korea said in a statement in Seoul today. The government will act to stabilize the financial markets when needed, Finance Minister Bahk Jae Wan said at a government meeting today. The won strengthened 0.3 percent against the dollar.

Taiwan's dollar snapped a four-day decline, rising 0.2 percent versus the U.S. currency.

Poland Rates

The central bank "doesn't favor Taiwan dollar depreciation," Governor Perng Fai-nan said in reply to questions from lawmakers in Taipei today. Taiwan's exchange rate is determined by market supply and demand, and the island is facing less "hot money" pressure, he said.

Poland's central bank left borrowing costs unchanged for a third meeting today as a weaker zloty and inflation concerns keep policy makers from stimulating the economy with lower interest rates. The central bank sold foreign-exchange to bolster the Polish currency for the first time in at least a decade on Sept. 23. The zloty strengthened 0.5 percent against the euro today, paring this year's decline to 9.6 percent.

Brazil used derivatives to shore up the real last month after the biggest five-day plunge since 1999. The central bank sold currency swap contracts in auctions on Sept. 22, which is equivalent to selling dollars in the futures market. The real strengthened 0.3 percent versus the U.S. currency today.

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