

# Geopolitics and the rand

The geopolitical landscape is a treacherous one, with many global economic powerhouses being exposed to a variety of risks seemingly around every corner.



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Most notably, it seems we are in an era of populism and nationalism, marked by the rapid rise of politicians echoing the message of a “selfish” state.

This trend had its roots in the last century, when we witnessed the dissolution of united entities such as the Soviet Union, Yugoslavia and Czechoslovakia. Self-determination, the desire for autonomy and internal conflict was at the core of these splits and today the trend continues.

## The US leads the pack

Perhaps most prominent in the modern era is the US, embodied by President Donald Trump and his mission to “make America great again”. Trump’s floundering efforts to close US borders, including building a wall on the Mexican border (itself a physical representation of national sovereignty), and heavy-handed attempts to restrict immigration has created increasing tensions between the US and numerous other countries – including its traditional allies.

The wall-financing fight led to conflict between the US’s two dominant political parties and the longest-ever government

shutdown in an attempt to muscle the Democrats into submission. When this tactic failed to yield the desired result, Trump resorted to declaring a false state of emergency in order to access \$8 billion that would be diverted from military or disaster relief budgets in order to build his wall.

Such deadlock politics is putting strain on US citizens, as well as dampening economic efficiencies. Add to this the trade spat between the US and China, which is having a tremendous effect on risk appetite in the market, and we have a toxic cocktail for emerging market currencies. Remember that in 2018, for example, we witnessed the catastrophic impact on currencies of the souring of diplomatic relations between Turkey and the US, which saw the implementation of US sanctions against Turkey.

The US is also plagued by the rising power of Russia, with the potential threat of military action and economic terrorism becoming a reality. In addition, denuclearisation talks with North Korea have broken down, and there is now speculation that a fresh bout of nuclear testing may be likely.

Trump is facing increasing pressure from the Democratic Party, media and the judicial system – and he is sure to return fire, which could lead to a constitutional crisis.

## **Europe not far behind**

The rise of populism and nationalism in many of the European Union (EU) countries poses a threat to the existence of the EU, especially as the UK has already cast its vote to break away from the union.

Parliamentary elections in May will likely see a rise in the number of seats held by populists, disrupting current policies on migration, trade, and the enforcement of rules on member states. Some polls expect far-right parties to double their seats in the European Parliament, notably in countries like France, Italy and Poland.

Brexit aside, cracks are showing elsewhere in Europe. A diplomatic spat between France and Italy has seen the two governments clash over various issues including immigration. These two nations represent the third and fourth largest EU economies respectively, after Germany and the UK, and the squabble could be detrimental to economic growth.

This dispute is just one of many crises plaguing French President Emmanuel Macron's presidency. Four months of violent protest has raged in France as the "yellow vest" demonstrators have expressed their discontent, initially with rising fuel prices before adopting generally anti-establishment or anti-elitist and pro-economic justice stances.

There are also concerns regarding democratic backsliding and the rule of law in some European states, particularly Poland and Hungary, which appear to have passed laws and adopted policies which seem to be in conflict with the EU and with democratic norms and values.

## **May's humiliation unabated in the UK**

Inheriting a divided party and tasked with implementing the controversial British exit from the EU which she had not supported, UK Prime Minister Theresa May has suffered defeat after defeat in her efforts to get a Brexit deal over the line.

As the process lurches forward, economists are near-unanimous that Brexit will have an adverse effect on the British economy in the medium- to long-term and could, in fact, lead to a recession. In addition, the UK's real per-capita income level is widely expected to fall.

And even if Britain were to backtrack on Brexit now, there is considerable uncertainty regarding the potential ramifications, as some politicians have warned of a civil backlash and rioting should the country reverse its Brexit stance now while others claim that's simply a ploy to push Brexit through by any means possible.

## **Additional risks**

Highlighted as a risk by the World Economic Forum, we are also seeing that diminishing cooperation between countries is leading to a slowdown in innovation and economic advances, a trend which is particularly noticeable in Europe, Japan, Brazil and India. Political fragmentation, protectionism and trade barriers are adversely affecting global financial interconnectedness.

Despite greater regulation, for the financial services sector to function optimally and to ensure that the 2008 global crisis is not repeated, increased collaboration between states is needed. In addition, a slowdown in innovation could inhibit financial inclusion and access to financial services, currently being facilitated by technological advances and the removal of the middle man.

Finally, tensions persist in the Middle East, with six major issues dominating the region: the conflicts in Syria and Yemen, the Gulf crisis, the Iran-US standoff, the Palestinian-Israeli conflict and increased polarisation in the region. The spillover effect on the oil market and subsequent oil price continues to be felt in the forex markets.

## **Geopolitics will remain at the heart of currency movements**

Geopolitics will continue to cause volatility in financial markets, and the outcomes of many of these situations remain unpredictable.

Such nervousness and volatility will continue for as long as uncertainty remains, meaning that we can expect continuous risk aversion and market jitters until concrete conclusions are reached. Ultimately, markets will be driven by politics and subsequent sentiment rather than economic fundamentals.

## **ABOUT THE AUTHOR**

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