Rouhani Delivers Lower Inflation, and Other Troubled Currencies

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Iran: Prior to Hassan Rouhani's election as Iran's new president in June, the black-market Iranian rial to U.S dollar (IRR/USD) exchange rate stood at 36150, implying an annual inflation rate of 109 percent (June 15, 2013). Since Rouhani took office, Iranian expectations about the economy have turned positive, or at least less negative, and the black-market IRR/USD exchange rate has strengthened to 29200. In consequence, the implied annual inflation rate has fallen like a stone, and currently sits at 20 percent. That's even lower than the most recent official annual inflation rate of 35.1 percent. (August 2013).

Rouhani has stated that one of his top priorities is to set the Iranian economy right. So far, it appears the new president has delivered the goods.

Venezuela: September got off to a rocky start in Venezuela. On September 4, the World Bank's International Center for the Settlement of Investments Disputes announced that Venezuela had illegally expropriated ConocoPhillips's multi-billion dollar crude oil projects. This coincided with a massive blackout that left half the country without power. To top it off, price controls have led to worsening shortages, with the government announcing on September 13th that the shortage index had hit a whopping 20 percent for the month of August. All of this bad news is reflected in Venezuelan's economic expectations, as measured by the black-market exchange rate for the Venezuelan bolivar (VEF).

From beginning of the month through September 17 the VEF/USD exchange rate depreciated by 16.3 percent, from 37.32 to 44.59. In consequence, the implied annual inflation rate rose from 230 percent to a high of 292 percent.

Things took a turn for the positive on September 18, when Venezuela and China agreed to a $14 billion investment package, which includes joint venture to develop the Junin 10 bloc of the Orinoco Oil Belt, as well as investments in mining, transportation and agricultural projects in Venezuela. In consequence, the black-market VEF/USD exchange rate has fallen to 44.03, yielding an annual implied inflation rate of 261 percent.

Argentina: Despite some recent good economic news, Argentineans still appear to be skeptical about their economy's future. On Friday, September 20, Argentina announced a strong 8.3 percent year-over-year growth rate for Q2. One would think this strong performance would have improved Argentinean's expectations for the economy, as measured by changes in the peso's black-market U.S. dollar exchange rate. But, the black-market exchange rate has held steady in the days since the announcement. The current black-market ARS/USD exchange rate sits 9.43, yielding an implied annual inflation rate of 50 percent. It appears that concerns of ongoing inflation troubles are still weighing heavy on the minds of Argentineans.

Egypt: Since the Egyptian military ousted Mohammed Morsi on July 3rd, the Egyptian pound's official and black-market U.S. dollar exchange rates have converged. Currently, the black-market rate sits at 7.10 EGP/USD – very close to the official exchange rate of 6.89 EGP/USD. These rates have been stable for the past month.

Prior to the military takeover, the black-market exchange rate sat at 7.6 EGP/USD. Since Morsi's ouster, the pound has appreciated by 7 percent, to 7.10 EGP/USD. This yields a current implied annual inflation rate of 18 percent, down from 28 percent in the final days of the Morsi government.

Yes, it appears the Egyptian generals have delivered some semblance of stability on the economic front. Indeed, the black market for foreign exchange has all but disappeared.

Syria: The black-market exchange rate for the Syrian pound continues to hold steady at 206. Currently, the implied annual inflation rate in Syria sits at 189 percent. This is down from a high of 291 percent on the 28th of August, when Secretary of State John Kerry kicked off the United States' abortive march to war.

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