

# IIF Capital Flows Tracker – October 2020

## Clouds Forming On The Horizon



October 1, 2020

Jonathan Fortun, Economist, [jfortun@iif.com](mailto:jfortun@iif.com), @EconChart

- Portfolio flows to EM stood at \$2.1 bn in September.
- Equity and debt inflows were -\$10.8bn and \$12.9 bn.
- China equity flows posted marginal losses.

We estimate that EM securities attracted around \$2.1 bn in September, higher than the \$0.7 bn in August (Exhibit 1).<sup>1</sup> A fresh bout of market turmoil, uncertainty arising from the US election, a rejuvenated Dollar and lingering questions on the post COVID-19 recovery path marked the dynamics of non-resident flows during September.

Our data shows that a big "risk-off" is brewing in EM. We are tracking high frequency outflows from EM in the final weeks of September almost as big as in the 2013 taper tantrum or during 2015 RMB devaluation fears. And that's with US election uncertainty only just coming onto radar screens (Exhibit 2). We also see growing differentiation in flows to EM, with some markets seeing outflows that continue to build. This picture of increased differentiation is in line with our work on currency valuations, which points to persistent [overvaluations](#) for some countries.

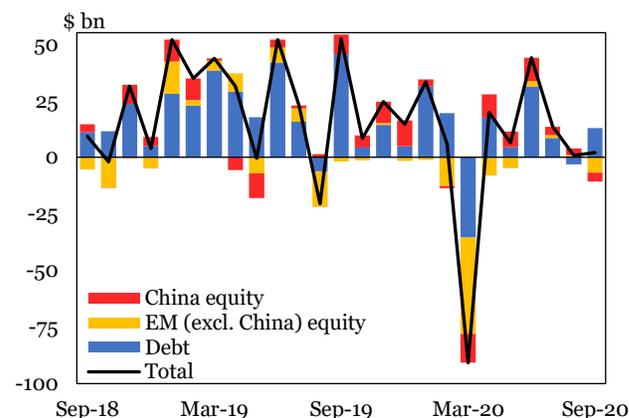
The divergence between debt and equity flows is increasing. While debt flows posted an inflow of \$12.9 bn; equities saw outflows of \$10.8 bn (of which \$4.0 bn were China equity outflows). Regionally, EM Europe and Latin America saw inflows of \$1.1 bn and \$1.6 bn respectively, with all the remaining regions posting outflows<sup>2</sup>.

Please find all data available for download on our [website](#).

<sup>1</sup>Non-resident portfolio flows are a subsection of overall net capital flows, which include all types of flows from both residents and non-residents covering portfolio flows, banking flows, direct investment, and other components of the financial account in a nation's balance of payments. Portfolio flows, while similar, should not be confused with fund flows.

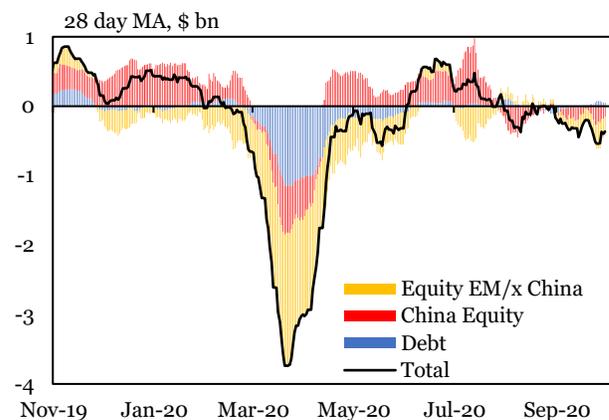
<sup>2</sup>Monthly country-level figures should be interpreted carefully, as they might not be fully in line with official quarterly BOP figures. To get the full picture, we recommend our headline aggregate indices, which are model-driven and link high-frequency data with official BOP figures.

Exhibit 1. Non-Resident Portfolio Flows to EM



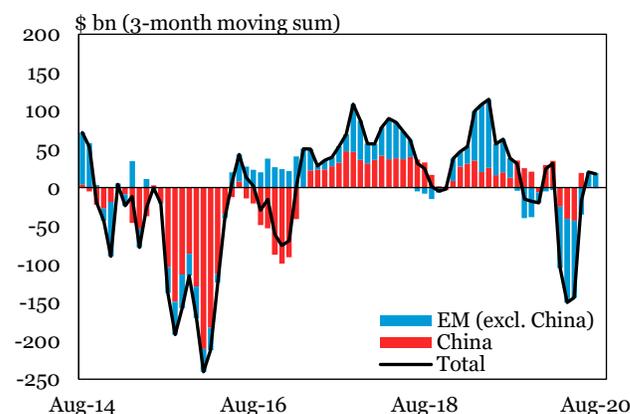
Source: Haver, IIF

Exhibit 2. Daily Tracker of capital flows



Source: Haver, IIF

Exhibit 3. Monthly EM Reserve Operations



Source: Haver, IIF