

IIF Capital Flows Tracker – March 2021

Holding the Line



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- Portfolio flows to EM stood at \$10.1 bn in March.
- Equity and debt inflows were \$3.9 bn and \$6.2 bn.
- China equity flows posted \$3.8 bn in inflows.

We estimate that EM securities attracted around \$10.1 bn in March 2021 (Exhibit 1).¹ The rapid rise in longer-term US bond yields has weighed on the broader EM complex, hurting flows across the board. Taper-tantrum risk and idiosyncratic events like uncertainty in Turkey have weighed on the outlook for EMs. There are also questions around twin deficits in the wake of COVID-19 and a lack of growth in the run-up to 2020. But it is also true that initial conditions for most EMs are more favorable than ahead of the 2013 taper tantrum. The “Wall of Money” to EM has been far more subdued and current account positions as well as real exchange rate levels are more favorable.

The beginning of 2021 has seen a scaling back in EM equity flows (x/China), only \$3 bn in inflows during the first two months of the year and \$0.2 bn in March. Unlike previous months March has also seen weaknesses on debt flows (x/China), only achieving \$1.2 bn. The overall flows picture has been supported mainly by China, our tracker shows an inflow of \$5bn to China debt and \$3.8bn to Chinese equities.

Despite the disappointing readings, some positive support to flows remains, stemming from increasing commodity prices, and constructive BoP dynamics. Our view is that contagion risk is less severe than during the EM sell-off in 2018 or during the 2013 taper tantrum. Positioning is less stretched and likely to be less vulnerable to shocks. In addition, real exchange rates have not risen to the same extent that they did in the run-up to the 2013 taper tantrum, making for more a favorable FX valuation picture. Nevertheless, we see a recovery in the coming months.

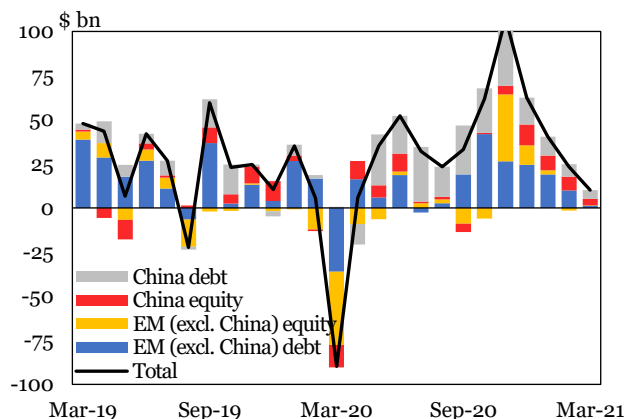
Regionally, our data shows positive, yet scaled back figures. EM Asia saw inflows to both debt (\$6.2bn) and equities (\$3.6bn) Latin America saw the same trend (inflows of \$0.5 bn and \$2.8 bn for equity and debt respectively). EM Europe and Africa/Middle East accounted for only \$0.6 bn of inflows ².

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

¹Non-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.

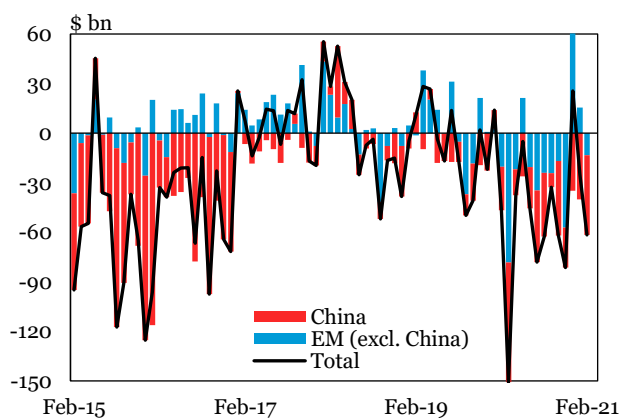
²Monthly country-level figures should be interpreted carefully, as they might not be fully in line with official quarterly BOP figures. To get the full picture, we recommend our headline aggregate indices, which are model-driven and link high-frequency data with official BOP figures.

Exhibit 1. Non-Resident Portfolio Flows to EM



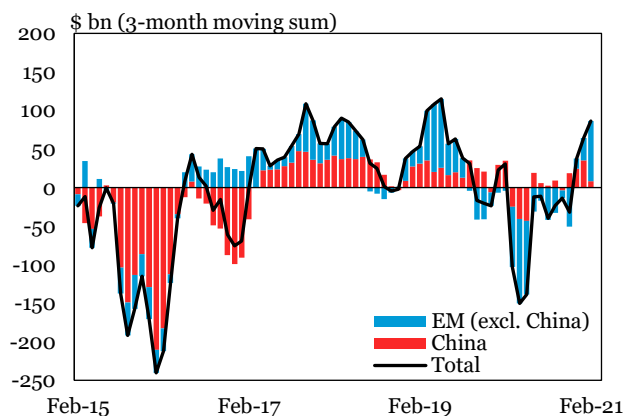
Source: IIF

Exhibit 2. Net Capital Flows.



Source: IIF

Exhibit 3. EM reserve operations.



Source: IIF