

# GMV – COVID-19 and EM Stabilization



May 7, 2020

Robin Brooks, Managing Director & Chief Economist, [rbrooks@iif.com](mailto:rbrooks@iif.com), @RobinBrooksIIF  
Sergi Lanau, Deputy Chief Economist, [slanau@iif.com](mailto:slanau@iif.com), @SergiLanauIIF  
Elina Ribakova, Deputy Chief Economist, [eribakova@iif.com](mailto:eribakova@iif.com), @ElinaRibakova  
Jonathan Fortun, Economist, [jfortun@iif.com](mailto:jfortun@iif.com), @EconChart

- We have documented record outflows from EM in the March “sudden stop.”
- Sentiment has shifted notably since then, with massive Fed easing stabilizing EM.
- Our daily tracking of flows, factoring in also a strong offshore issuance picture, ...
- now puts non-resident portfolio flows to EM back in positive territory in Q2.
- The March “sudden stop” is over and emerging markets are stabilizing.

The violence of the EM “sudden stop” in March is unparalleled. Non-resident portfolio outflows surpassed anything seen previously, including during the global financial crisis in 2008/9. However, unprecedented Fed easing, which first lifted US stock and credit markets, is now also making its way into EM. Exchange rates have stabilized, net issuance of bonds abroad is at record strength and – most important – our high frequency tracking of non-resident flows has shifted in a positive direction. The violence in March may indeed have a silver lining. At the time, we called outflows a “five-sigma” event, meaning that the scale of outflows lies far beyond any historical analogue, representing a statistical outlier. That now means that a lot of negativity, perhaps too much, may be priced and means that the hurdle for further weakness is high. The March “sudden stop” is now in the rearview mirror and EM is stabilizing.

Exhibit 1. Non-resident portfolio flows have stabilized, ...

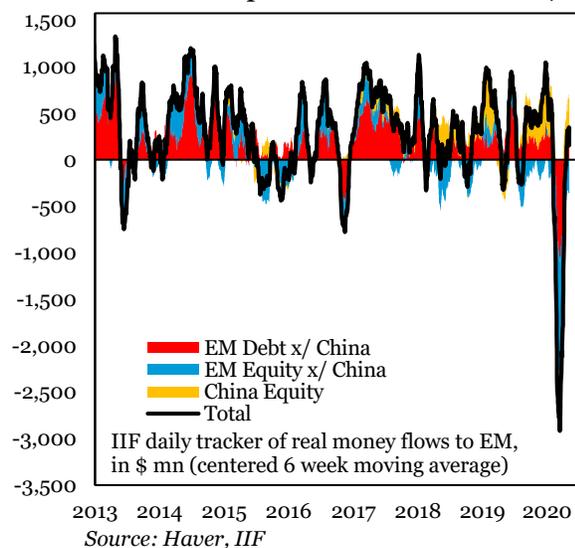
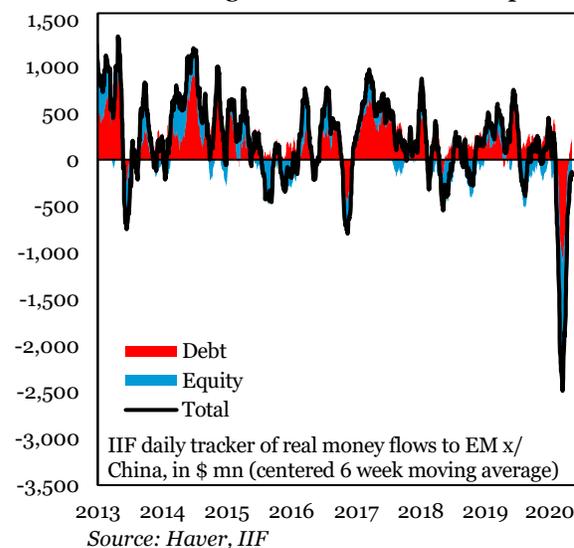
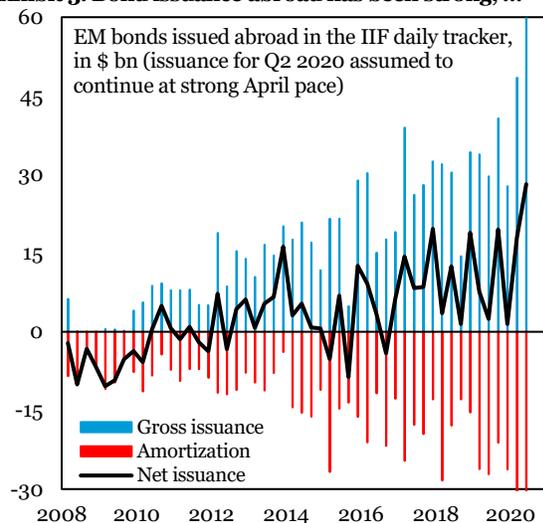


Exhibit 2. ... including to the non-China EM complex.



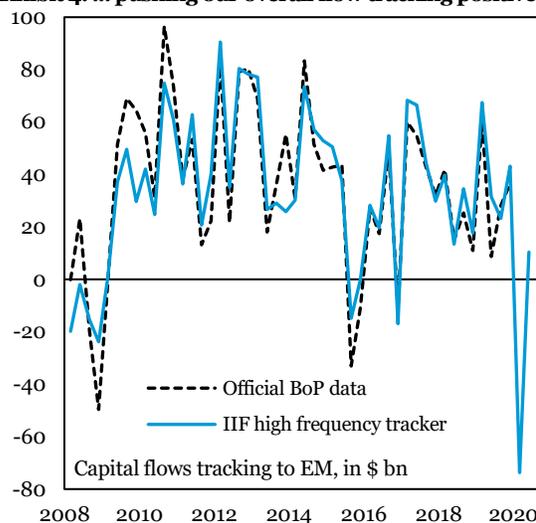
Our daily tracking of non-resident portfolio flows gave us an [early](#) read on the severity of the COVID-19 shock for EM. Outflows in March exceeded anything on record in our tracking (Exhibit 1), especially when looking at EM excluding China (Exhibit 2). However, the immensity of Fed easing, which first lifted US equity and credit markets, is now also filtering into emerging markets, where our daily tracking of non-resident flows is back in positive territory and almost flat excluding China. One thing not captured in these flows is offshore issuance of bonds, where the gross and net issuance picture is shaping up to be a record-breaker this quarter, if we extrapolate strong April issuance going forward (Exhibit 3). Putting this issuance picture together with our high-frequency tracking of flows paints a picture of overall stabilization, with flows returning to modest, positive territory in Q2 2020 (Exhibit 4). The exodus of capital from emerging markets therefore looks to be firmly in the rearview mirror.

**Exhibit 3. Bond issuance abroad has been strong, ...**



Source: Haver, IIF

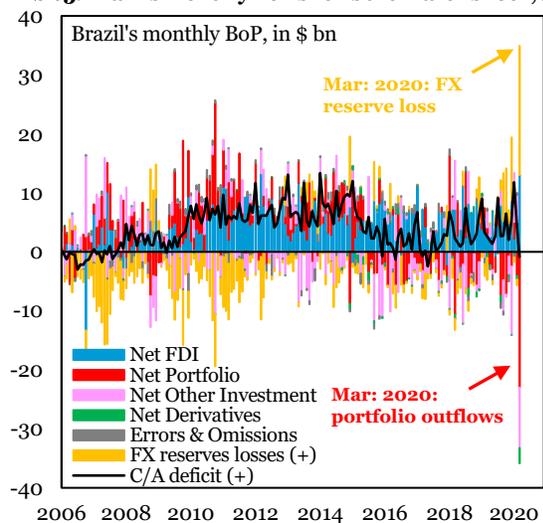
**Exhibit 4. ... pushing our overall flow tracking positive.**



Source: Haver, IIF

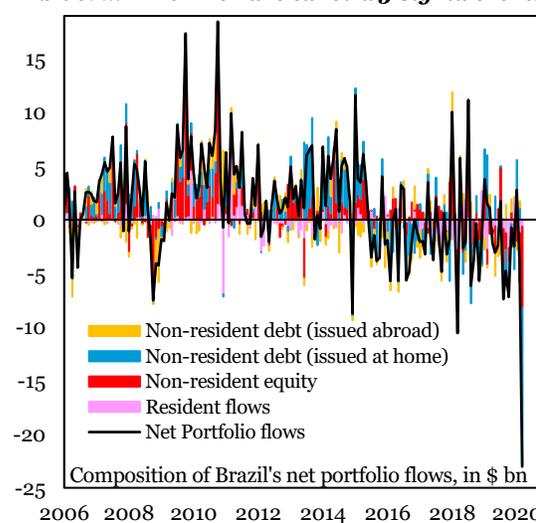
The violence of March outflows may have a silver lining. Brazil is the only emerging market with a monthly balance of payments (BoP), which is available in a timely manner, and helps us make this point. Exhibit 5 shows a summary of the BoP since 2006, with the current account deficit (black) shown as a positive line, with the constituent components on the flows side shown as financing items. What is clear is that March outflows were beyond anything seen previously, back to our “five-sigma” term, with reserve losses having to step in (orange) to buffer the impact from large portfolio outflows (red) on the currency. Zeroing in on portfolio outflows (Exhibit 6), it is clear they were beyond any previous experience, including equity (red) and domestically issued debt (blue). The severity of these outflows, coupled with the large depreciation of the Real, means that a lot of negativity, perhaps too much, is now priced. We think this sets the stage for stabilization, because the hurdle for further EM weakness is high.

**Exhibit 5. Brazil's monthly BoP shows the March shock, ...**



Source: Haver, IIF

**Exhibit 6. ... which we have called a 5-sigma event.**



Source: Haver, IIF