IIF Capital Flows Tracker – August 2020
Ongoing Recovery

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- Portfolio flows to EM stood at $15.1 bn in July.
- Equity and debt inflows were $1.9 bn and 13.2 bn.
- EM x/ China equity flows post marginal gains.

We estimate that EM securities attracted around $15.1 bn in July, lower than the $29.2 bn in June (Exhibit 1). Negative sentiment on emerging markets approached extreme levels during March, setting the stage for a period of stabilization and more two-way discussions on risks and opportunities in the EM space.

Emerging-market stocks and debt posted a second month of positive flows, with investor appetite underpinned by a falling dollar and an accommodative Federal Reserve. The advance was limited by concern about a resurgence in virus cases and the dim global outlook for growth.

Sovereign issuers from most EM regions continue to leverage lower costs and favorable maturities. We understand this shift in sentiment as healthy, reflecting deeply discounted valuations in many places. We are starting to see some of the more beaten down parts of the capital markets play catch-up and there is a great deal of focus on how sustained this trend will be and how broadly it is felt across emerging markets. At the moment, the recovery has been partially driven by broad dollar weakness, but expectations of growth differentials remain a concern.

While sentiment metrics show a rebound in the outlook, hard data are still lagging behind. Overall, the shape of the recovery will be dependent on the capacity of the EM complex to put in place efficient policies to catalyze a recovery. Moving forward, we see investors being more discerning regarding investment decisions towards EM.

Debt flows continued their recovery, reaching $13.2 bn. On the equity side, we saw inflows to EM x/ China equities amounting to $2.3 bn, while flows to China suffered from increased tensions between Washington and Beijing, resulting in an outflow of $0.4 bn. Regionally, EM Asia was the most benefited region, registering inflows of $9.9 bn, followed by EM Europe ($2.0 bn).

Please find all data available for download on our website.

Exhibit 1. Non-Resident Portfolio Flows to EM

Source: Haver, IIF

Exhibit 2. Net Capital Flows to Emerging Markets

Source: Haver, IIF

Exhibit 3. Monthly EM Reserve Operations

Source: Haver, IIF

*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.

*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.