IIF Capital Flows Tracker – June 2020
Timid Recovery in Flows

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• Portfolio flows to EM stood at $4.1 bn in May.
• Equity and debt inflows were $0.7 bn and 3.5 bn.
• EM x/ China equity flows remain depressed.

We estimate that EM securities attracted around $4.1 bn in May, lower than the $18.6 bn in April (Exhibit 1).1 Emerging markets are taking heart from the re-opening of virus-battered economies around the world but the rate of infections in some countries shows little sign of easing. While the impact of COVID-19 was first noticeable in January and contained to China, a wider spread of the pandemic during March rattled markets creating a shock to EM. During April and May, the cascading nature of the pandemic left some EM markets depressed, while others stabilized. We’ve started 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. Tension between Washington and Beijing may also weigh on sentiment as the clock ticks down to the November US election. The focus will also be on whether the PBOC will let they yuan depreciate further.

Debt flows continued their recovery, yet at a slower pace, reaching $3.5 bn. On the equity side, the negative trend which we observed last month continued. Outflows from EM x/ China equities amounted to $4.1 bn, while flows to China equities posted a net inflow of $4.8 bn, highlighting the divergence in performance between China and the rest of the EM complex.

Regionally, the increase in debt flows was distributed between EM Asia and EM Europe—both experiencing an inflow of $1.4bn—followed by $1.3bn in Latin America.

Negative sentiment on emerging markets approached extreme levels a few weeks ago, setting the stage for a period of stabilization and more two-way discussions on risks and opportunities in the EM space. We see this shift in sentiment as healthy, reflecting deeply discounted valuations in many places, which mean that adverse economic outcomes and weak growth are largely priced.

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.