IIF Capital Flows Tracker – September 2023
Uncertainty Ahead

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- Portfolio flows to EM stood at -$13.8 bn in September.
- Equity and debt flows were -$12.0 bn and -$1.8 bn.
- Chinese equities posted $4.4 bn in outflows.

We estimate that EM securities suffered an outflow of around $13.8 bn in September 2023 (Exhibit 1).[1] This marks the second consecutive month of overall outflows across the EM complex.

Recent market turmoil around the future path of monetary policy, along the increasing sovereign yields have made a dent on the performance of non-resident outflows across Emerging Markets. Chinese equities have continued to suffer an outflow, totaling around $4.4 bn in September. Moreover, EM x/China equities have also suffered greatly, totaling an outflow of around $7.5 bn.

The prospects for EM debt are closely tied to the state of financial conditions. However, there is a prevailing notion that interest rates will remain elevated for an extended period. This has resulted in a weak performance of debt securities: China shows an outflow of $4.4 bn whereas EM x/China data shows an inflow of only $2.6 bn.

EM x/China equities have also showed outflows during August, which is correlated with the dynamics of the overall equity market in developed economies. Nevertheless, we believe that a more robust outlook for the US economy along faster than expected disinflation will benefit these figures in the short term.

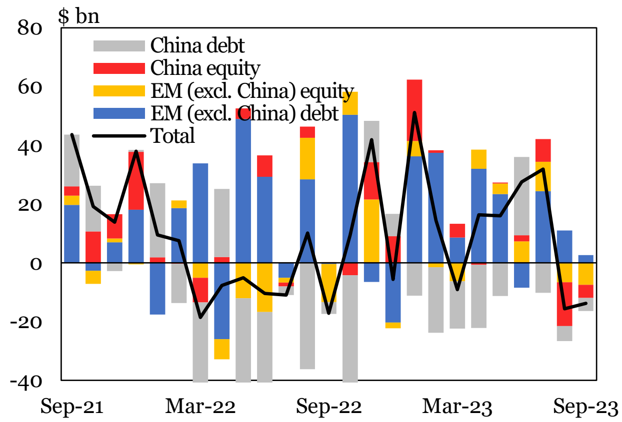
Inflation in EM countries is gradually returning to target ranges and a decline in economic policy uncertainty has helped stabilize the volatility currencies. Nevertheless, this favorable environment might change if inflationary pressures lead the Fed to adopt a more aggressive stand. In the short term, diminished currency volatility enhances the allure of carrying offshore, and is encouraging foreign creditors to benefit across EM local yield curves. Nevertheless, foreign investors may grow more cautious on EM government debt, as higher US yields leave central banks with less scope to stimulate growth without stoking currency volatility.

For September, our data shows outflows across the board with EM Asia x\China and Africa & Middle East suffering the largest hit of around $8.1 bn and $4.5 bn respectively. [2] Find all data available for download on our website.

[1]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.

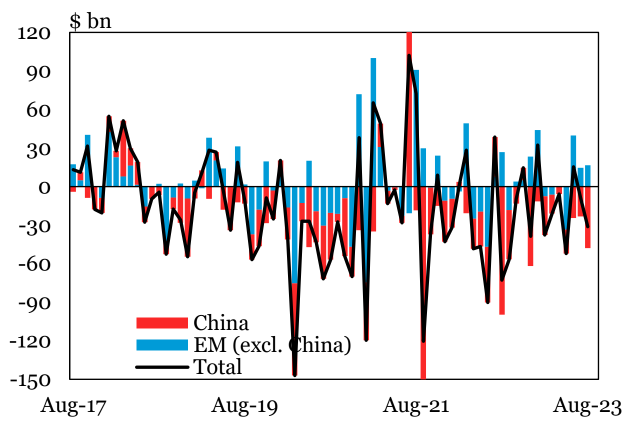
[2]Monthly country-level figures should be interpreted carefully, as they might not be fully in line with official quarterly BOP figures. To get the full picture, we recommend our headline (model-based) aggregate indices.

Exhibit 1. Non-Resident Portfolio Flows to EM



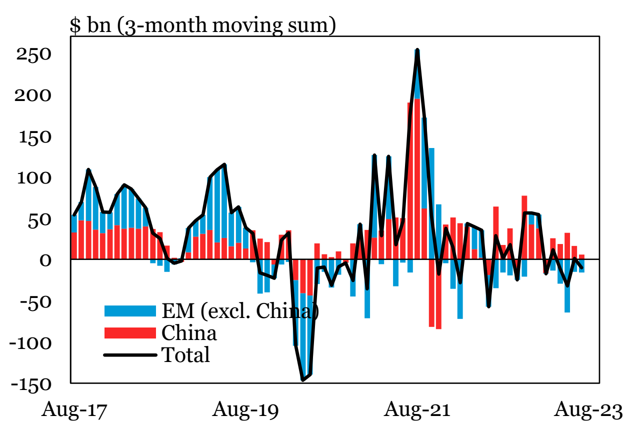
Source: IIF

Exhibit 2. Net Capital Flows.



Source: IIF

Exhibit 3. EM reserve operations.



Source: IIF