

IIF Capital Flows Tracker – September 2021

Bond Issuance Saves the Day



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- Portfolio flows to EM stood at \$29.8 bn in September.
- Equity and debt flows were \$3.6 bn and \$26.2 bn.
- China equity posted \$1.4 bn in inflows.

We estimate that EM securities attracted around \$29.8 bn in September 2021 (Exhibit 1).¹ Market jitters surrounding the Evergrande crisis in China hurt the performance of flows into EM, especially on the equity side. Despite the very weak outcome on equities, the high level of EM hard currency sovereign bond issuance during September (of around \$24 bn) helped to lift the overall performance for flows. Unlike last month, our tracker shows negative flows into China debt and only marginal gains in China equities, which point to increased short-term volatility in this country, which could propagate to other EMs.

While the uncertainty surrounding the Fed normalization dominated the risk drivers towards EM, we now see a slowing in Chinese growth, and by extension commodity prices, and whether policy makers step in to offset those risks as the main concerns for the EM complex in the following months.

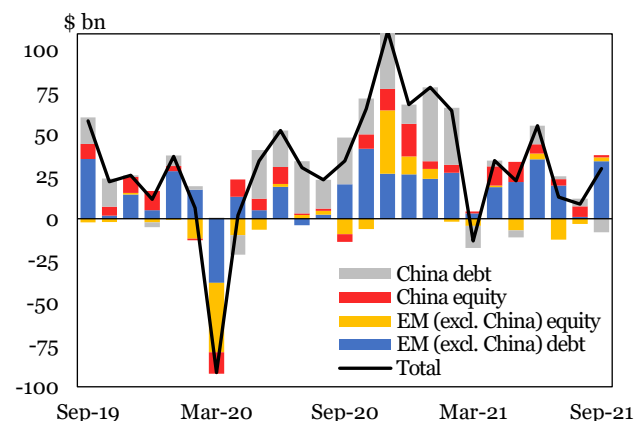
Moreover, the buildup of inflationary pressures across the market have hurt the outlook and put focus on the capacity of policymakers on managing monetary dynamics. Nevertheless, EM central banks continue to normalize, creating a buffer should economic growth start to surprise on the downside next year. Moving forward, with inflation in many developing nations close to peaking we see the flows perspective improving in the near future.

The dynamic of EM flows during August was mainly supported by debt flows, accounting for \$26.2 bn (an outflow of \$8.1 bn for China debt and inflows of \$34.3 for EM x\China). Equities saw only marginal gains, \$1.4 bn for China equities and \$2.2 bn for EM x\China equities.

Regionally, our data shows gains in EM Asia and Latin America (inflows of around \$16.5 bn and \$8.3 bn respectively)².

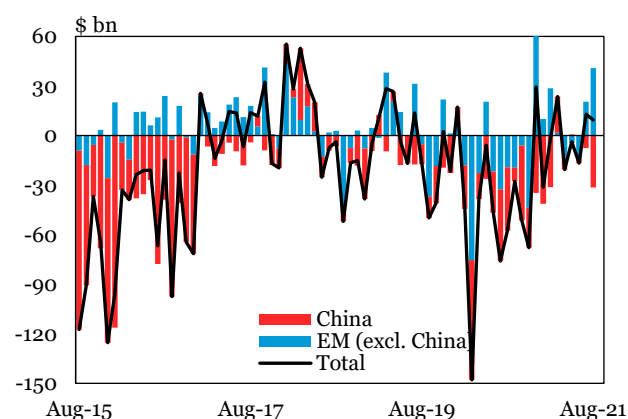
Please find all data available for download on our [website](#).

Exhibit 1. Non-Resident Portfolio Flows to EM



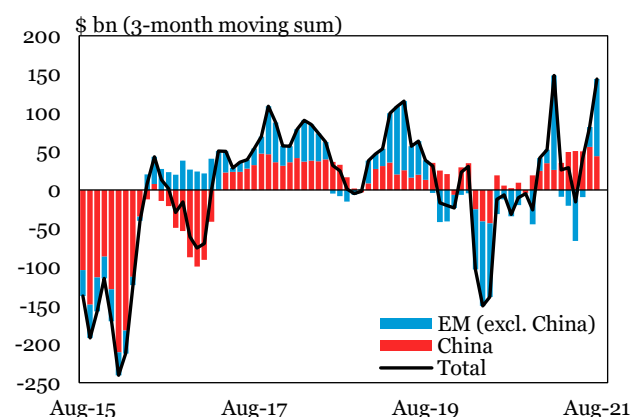
Source: IIF

Exhibit 2. Net Capital Flows.



Source: IIF

Exhibit 3. EM reserve operations.



Source: IIF

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 (model-based) aggregate indices.