



EM Capital Flows Monitor

MONETARY AND CAPITAL MARKETS DEPARTMENT

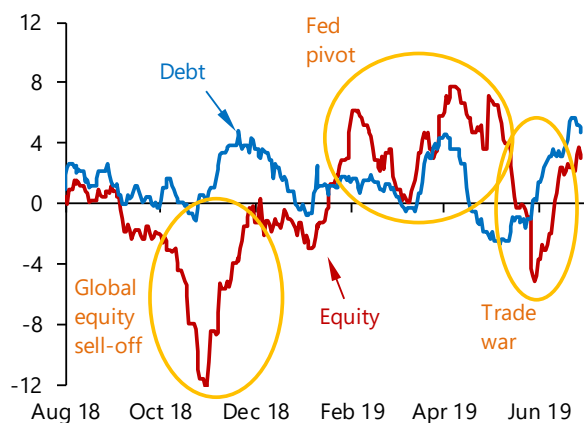
July 3, 2019

Highlights:

- **Two opposing forces have shaped EM portfolio flows in recent months. On the one hand, a dovish shift by the Fed and other major central banks has supported flows. On the other hand, an escalation of trade tensions between the US and China has weighed on investor appetite for EM assets (Chart 1). Overall, portfolio flows have been robust so far this year, notwithstanding sizeable outflows in May, when trade tensions were most acute.** In recent weeks, renewed investor optimism about prospective Fed rate cuts has provided further support to EM flows, and the trade truce between the US and China at the G-20 summit is giving a further boost.
- **Looking at the broader picture for EM capital flows (ex. China), available data through Q1 show a sustained recovery in both inward and outward capital flows across the major components, including FDI and bank lending (Charts 6 and 7).** Looking back, 2018Q2 stands out a post-crisis low for gross capital flows in EMs, which was likely driven by the combination of escalating trade tensions, dollar appreciation, and rising US interest rates at the time. Since then, inward and outward investments have recovered and current account balances in EMs ex. China have improved notably.
- **Net capital flows to China have recovered year-to-date, driven mainly by reduced resident outward investment (Chart 10).** PBOC interventions shifted from selling to buying reserves, albeit in small amounts. The first phase of China's inclusion in the Global Agg bond index (see [IMF blog](#)) in April has supported bond inflows in recent months. Moreover, [FTSE announced](#) on June 21 that it would add Chinese A shares to its widely-tracked global benchmarks commencing June 24.

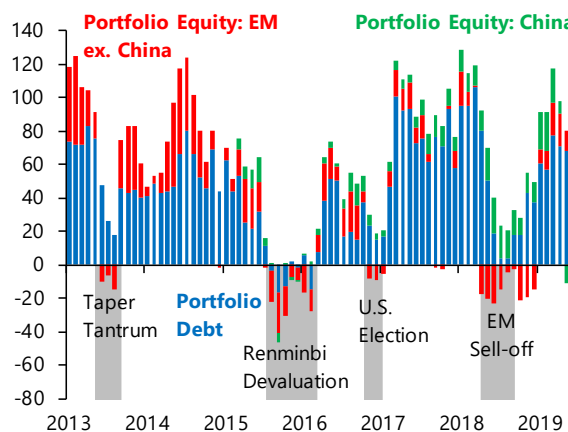
Portfolio flows have been volatile in recent months, driven by trade tensions and Fed easing expectations

Chart 1. Non-Resident Portfolio Flows to EMs (incl. China)
(\$ billion, 28-day rolling sum, daily data for available countries*)



Year-to-date inflows have been solid, after significant outflow pressures in 2018

Chart 2. Non-Resident Portfolio Flows to EMs (incl. China)
(\$ billion, 3-month rolling sum; last observation: June 2019)

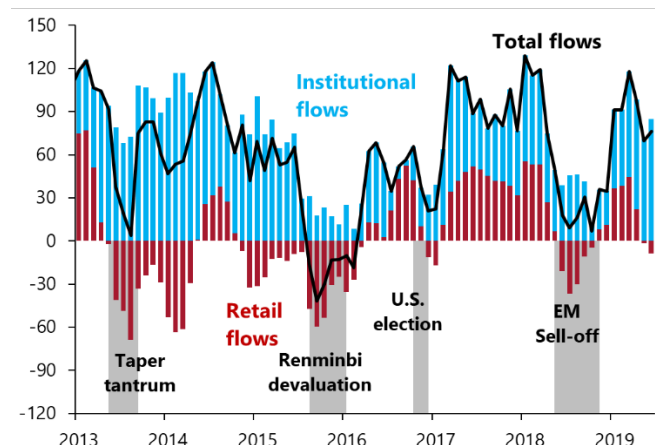


Source: IIF, IMF staff calculations

*Countries include: India, Indonesia, Thailand, South Africa and Hungary (for debt flows); India, Indonesia, Korea, Thailand, South Africa, Brazil, Philippines, Vietnam, Taiwan, China (for equity flows). Source: IIF, IMF staff calculations

Inflows from institutional investors have been solid so far this year, while retail inflows have slowed.

Chart 3. Estimates of Retail and Institutional Portfolio Flows
(\$ billion, 3-month rolling sum; last obs. = June 2019; includes China)



Source: EPFR, IIF, IMF staff calculations

The May slump and June recovery were primarily driven by Asian EMs, likely due to evolving trade frictions

Chart 5. Non Resident Portfolio Flows to EMs: Percentile Rank* relative to their Own History (since 2010; totals are ex. China)

	Q4 18	Q1 19	Apr	May	Jun
Total	8%	65%	25%	8%	57%
All Equity	5%	73%	81%	4%	66%
All Debt	16%	62%	4%	21%	46%
Countries					
China	24%	81%	15%	6%	74%
India	14%	70%	31%	58%	50%
Indonesia	51%	100%	99%	9%	100%
Korea	16%	46%	59%	2%	44%
Malaysia	38%	51%	9%		
Philippines	100%	83%	70%	16%	30%
Taiwan	5%	81%	69%	4%	55%
Thailand	30%	19%	25%	51%	96%
Brazil	0%	65%	15%	29%	36%
Chile	43%	30%	64%		
Mexico	14%	73%	12%	39%	3%
Bulgaria	3%	33%			
Hungary	73%	35%	36%	85%	28%
Poland	22%	8%			
Turkey	35%	86%	25%	22%	39%
Ukraine	76%	46%	75%	3%	
South Africa	11%	24%	48%	23%	14%

*The percentile rank shows how strong recent flows have been relative to the flows observed since Jan 2010. For example, a percentile rank of 70 indicates that recent flows exceed 70% of all observations since Jan 2010.

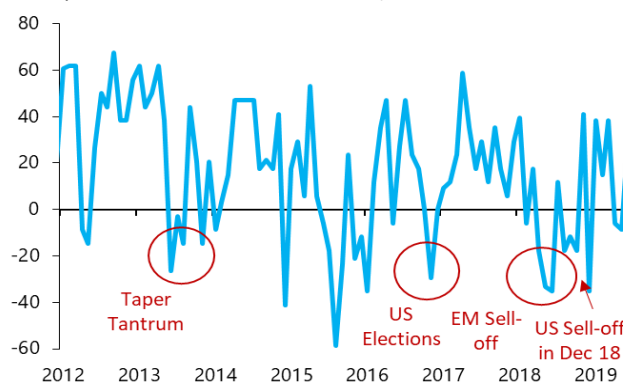
Legend (%)	80-100	60-80	40-60	20-40	0-20
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Source: IIF, IMF staff calculations

Note: An extended heatmap is provided on page 4.

Outflows in May were broad-based across countries, followed by an uneven recovery in June

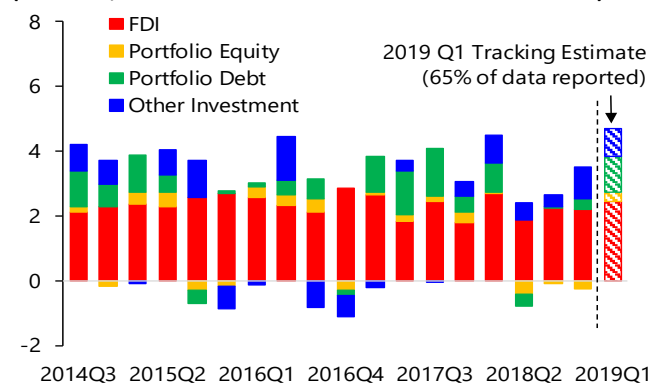
Chart 4. Percentage of Monthly EM Portfolio Flows Series with Positive/Negative Observations (Example: -100% means all 18 EM monthly flows series show net outflows)



Source: IIF, IMF staff calculations. The 34 time series include data include 17 equity flows series and 17 debt flows series for a total of 18 countries.

Available data for Q1 point to strong non-resident inflows to EMs, across the major components

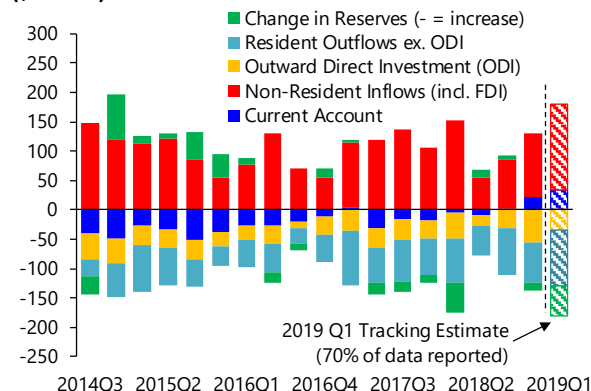
Chart 6. EM ex China: Non-Resident Capital Inflows
(% of GDP, "other investment" includes bank-related flows)



Source: Haver Analytics, IMF staff calculations

EM ex. China: Further expansion in two-way capital flows in Q1; current account balances improved further, supporting sizeable reserve accumulation

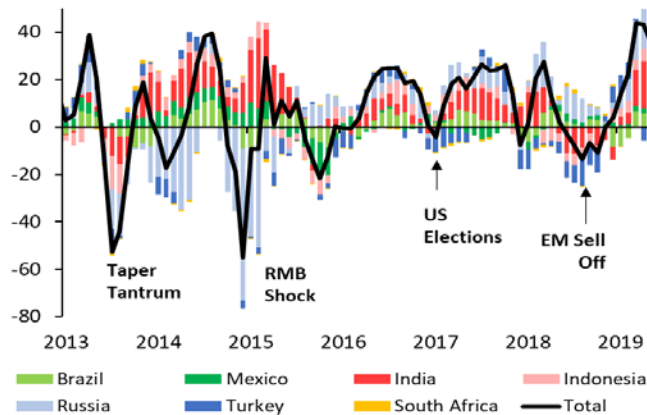
Chart 7: Breakdown of Major Balance of Payments Components
(\$ billion)



Source: Haver Analytics, IMF staff calculations

Central bank reserve accumulation gathered pace in recent months...

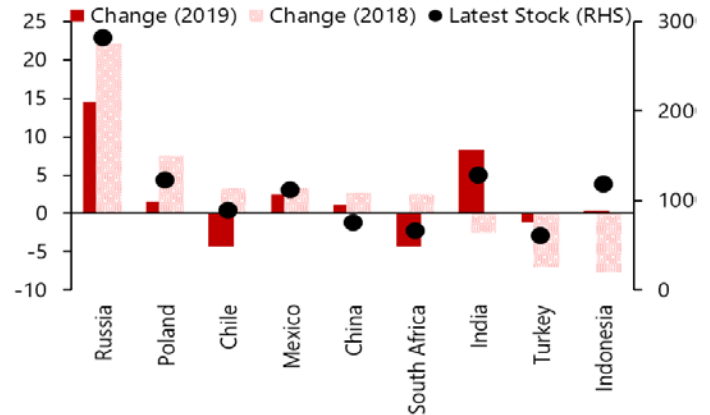
Chart 8. Major EMs ex. China: Estimated Change in Reserves
(\$ billion; 3-months rolling sum, (+) = increase, last obs. = May 2019)



Source: IIF, IMF staff calculations

...although a few EMs intervened to support their currencies, including Chile, South Africa, and Turkey

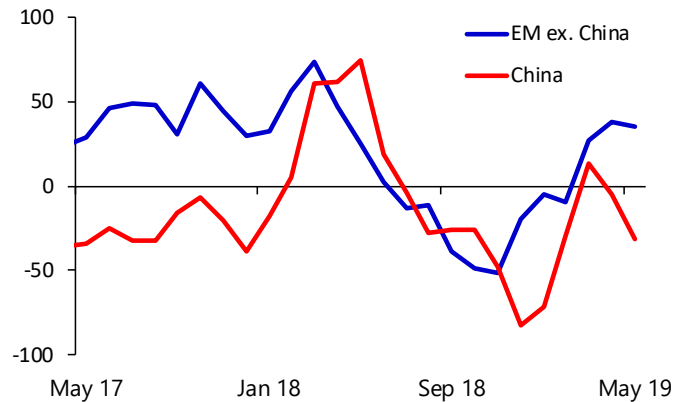
Chart 9. Major EMs: Reserves
(percent of ARA metric, last Obs. = May 2019)



Source: IIF, IMF staff calculations

Net capital flows to EMs ex. China are estimated to have recovered in recent months

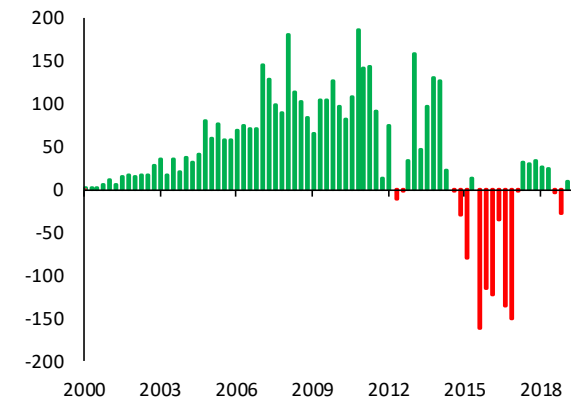
Chart 10. Net Capital Flows to EMs (incl. Errors & Omissions)
(\$ billion, 3-month rolling sum, last obs. = May, (+) = net inflows)



Source: IIF, IMF staff calculations

Chinese FX intervention shifted from small reserve losses in 2018H2 to slight gains in 2019Q1

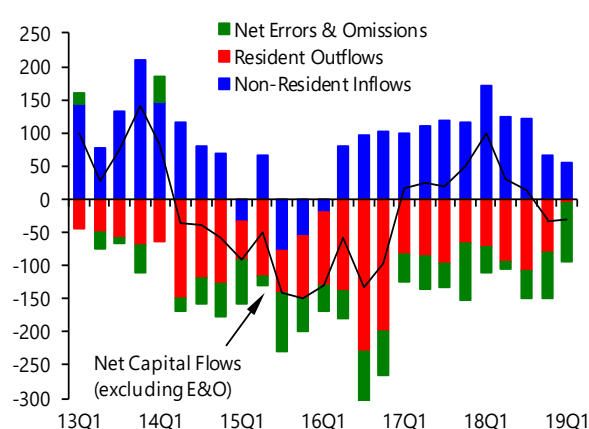
Chart 11. China: Change in Reserves
(\$ billion, quarterly data; last observation is 2019Q1)



Source: Haver Analytics, IMF staff calculations

Chinese resident outward investment fell sharply in Q1, while non-resident inflows declined

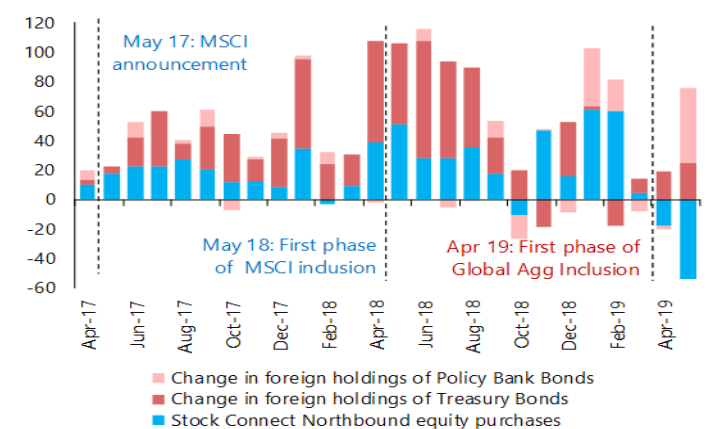
Chart 12. China: Capital Flows
(\$ billion, quarterly data through 2019Q1)



Source: Haver Analytics, IIF, IMF staff calculations

Bond flows to China have recently been supported by the inclusion in the Global Agg index

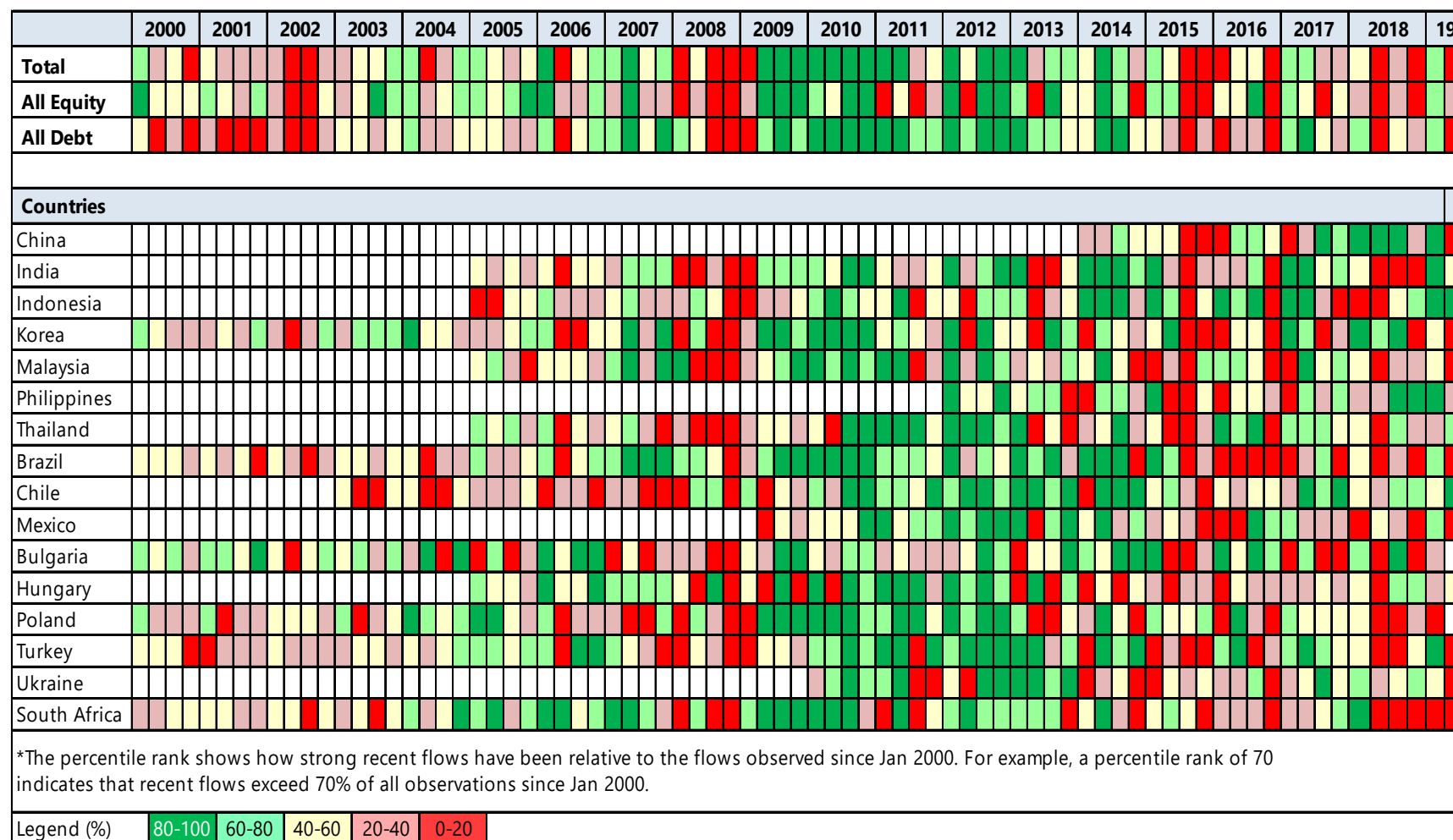
Chart 13. Index-inclusion related flows to China
(RMB billion)



Source: Bloomberg, IMF staff calculations

Portfolio flows to EMs in perspective: crisis in 2008-09, surge in 2010-14, retrenchment in 2015-16; a challenging 2018-19

Chart 14. Non Resident Portfolio Flows to EMs: Percentile Rank* relative to their Own History (since 2000; totals are ex China)

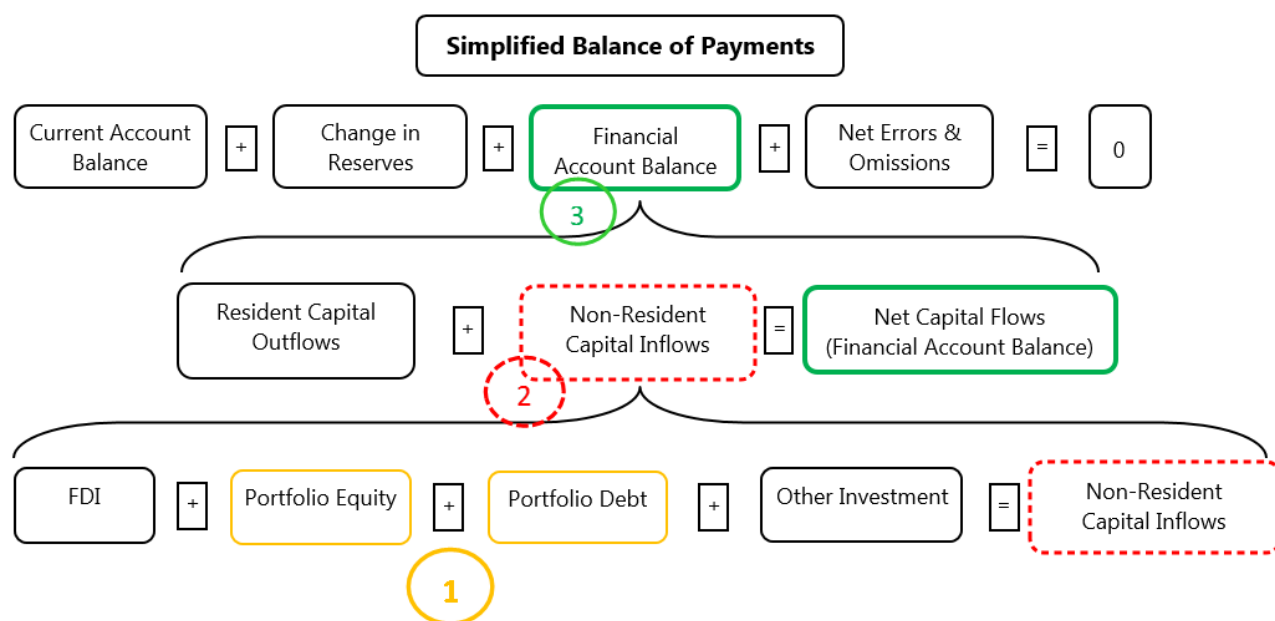


Source: IIF, IMF staff calculations

Tracking Framework for the EM Capital Flows Monitor

The monitor discusses trends in capital flows as measured in the balance of payments (BoP). A simplified BoP breakdown is provided in the figure below. Consistent with this illustration, flows are discussed in the following order:

- First, the monitor considers **non-resident portfolio flows**. This is only one (small) component of the financial account, but it is generally the most volatile component and the one that matters most for asset prices fluctuations. Moreover, available data sources on portfolio flows are timelier and more comprehensive than for other capital flows components.
- Second, the monitor shows estimates of **total non-resident capital flows**. Aside from portfolio flows, this encompasses FDI and “other” investment (which includes bank lending and deposits, among others). It also provides estimates of EM resident outward investments.
- Third, the monitor provides an estimate of **net capital flows** (i.e. the financial account balance) and a look at reserve dynamics. Net capital flows can be estimated in a timely manner using available data for the other BoP components, including the trade balance and the valuation-adjusted change in the stock of reserves, among others.



Note: For ease of illustration, the sign conventions used in this figure correspond to BPM5.