

# Global Macro Views – A Weak Rebound in Flows to EM



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- Market sentiment towards EM has swung a lot more positive.
- Our high frequency trackers also show a substantial pick-up in flows, ...
- though the underlying picture is weaker than headline numbers suggest.
- The rebound is concentrated in China, with Mexico and Indonesia also up, ...
- while the flow picture to India, South Africa, Turkey and Thailand is weak, ...
- even after large outflows during the emerging markets sell-off last year.
- Positioning overhangs are one reason for this differentiated picture, ...
- the legacy of a decade of QE and record inflows to EM.

Market sentiment towards EM has swung a lot more positive in recent weeks, powered by the dovish shift from the Fed, de-escalating China-US trade tensions, and fading anxiety over global growth. Last week's *Global Macro Views* examined this shift in sentiment through the lens of our daily flow trackers, which collate real money flows into EM stocks and bonds at high frequency. Our trackers do indeed show a sharp pick-up. However, much of that is due to one country – China – with the rest of EM looking quite weak. Our piece generated lots of feedback, so this week we expand on our analysis to explain where flows have picked up and where not. Basically, outside of China, only Mexico and Indonesia have seen a rebound in flows. Meanwhile, key emerging markets like India, South Africa, Turkey and Thailand are seeing weak inflows or continued outflows, which is remarkable given the severity of the EM sell-off in 2018. There are lots of factors that play into this differentiated picture, but we think positioning – following a decade of QE and record inflows to EM – is an important driver.

Exhibit 1. Real money flows to EM are up, ...

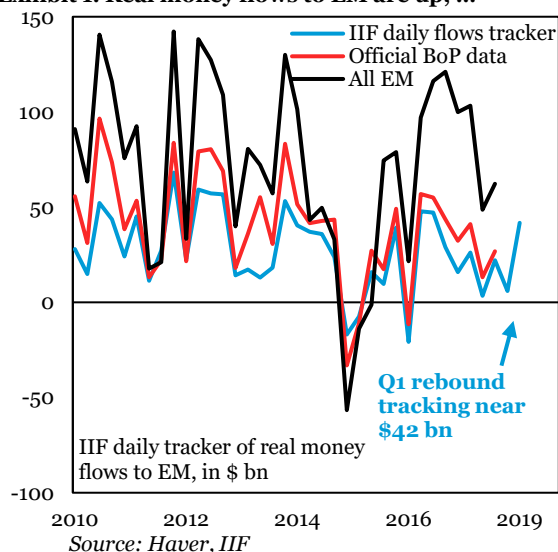
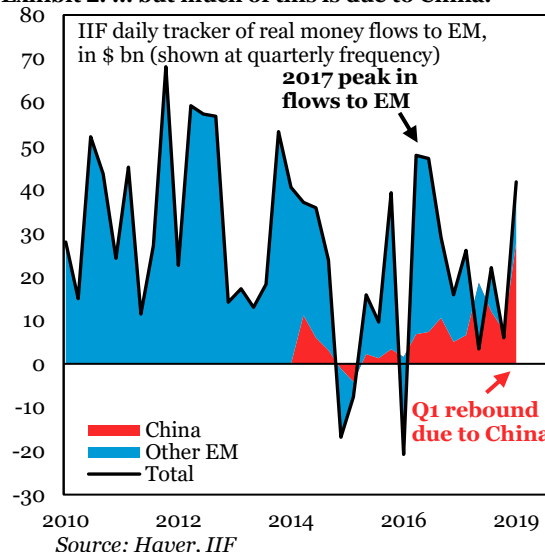
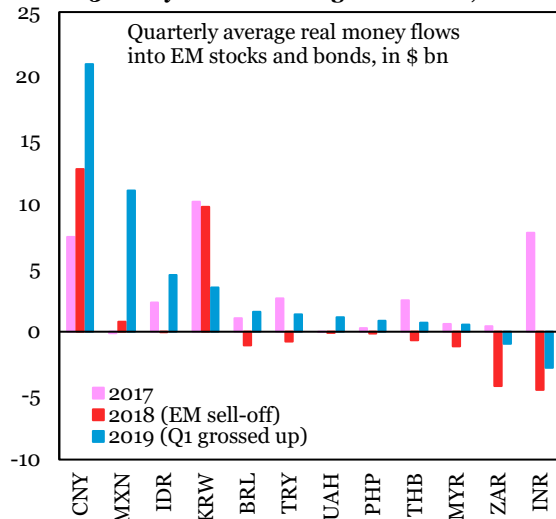


Exhibit 2. ... but much of this is due to China.



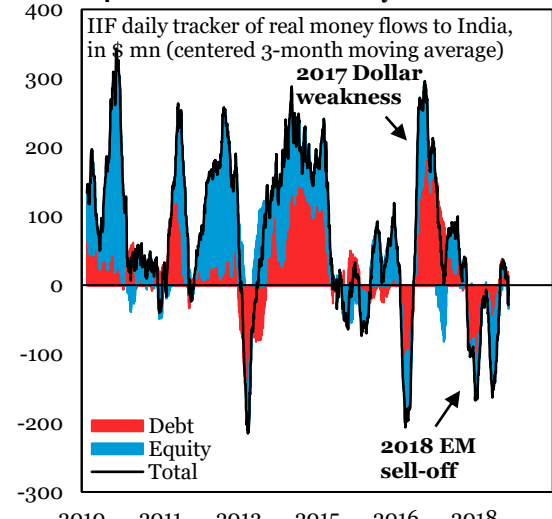
Our capital flow trackers span around twenty of the world's key emerging markets, including China, Brazil, India as well as Turkey, and give a daily reading on real money flows into EM stocks and bonds. Exhibit 1 shows our tracker (blue) at a quarterly frequency, with Q1 tracking around \$42 bn, near the 2017 peak in EM inflows. Our trackers are a good proxy for official BoP data (red), which are released with considerable delay. They even give a good signal for flows to the full EM universe (black), which is around 50 countries in the IIF database. While this flow picture looks healthy, there is an important twist. Much of the rebound in EM inflows is due to China (Exhibit 2), while the rebound to the rest of EM is weak.

**Exhibit 3. Many EMs are facing weak flows, ...**



Source: Haver, IIF

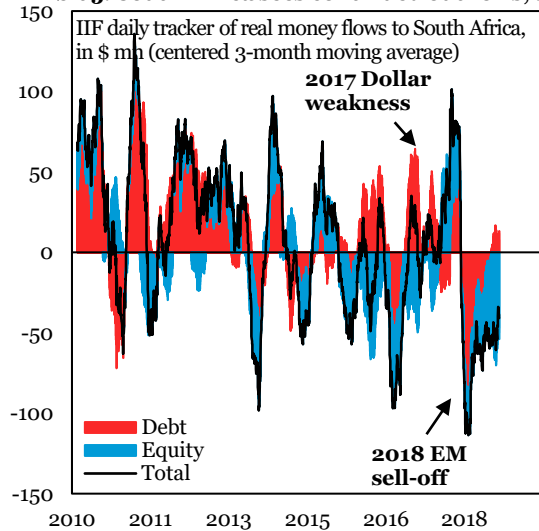
**Exhibit 4. ... a list that includes key EMs like India.**



Source: Haver, IIF

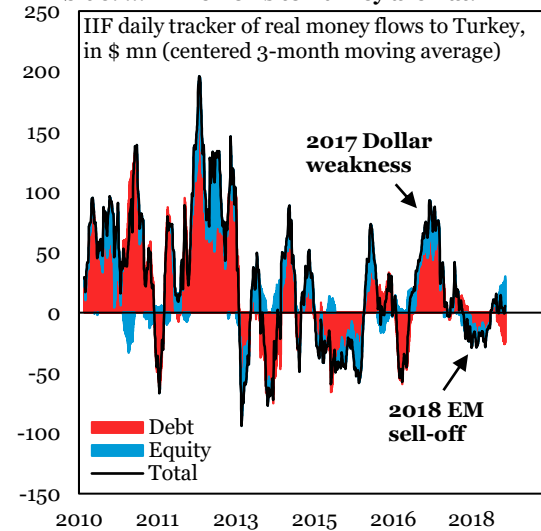
How to assess flows at the country level? There are obviously differences in scale across countries, so the approach we take here is to compare raw Dollar numbers for Q1 2019 (Exhibit 3, blue) to distinct episodes when flows were strong or weak. On the strong side, 2017 was a period of Dollar weakness with healthy real money flows to EM. The quarterly average inflow that year (pink) is thus our benchmark for healthy inflows. On the weak side, 2018 saw the violent EM sell-off, with large outflows in many places. We use the quarterly average outflow in the second and third quarters (red) as our benchmark for a difficult EM flow environment. Non-resident flows to China are clearly running at a strong pace compared to history. The same is true for Mexico and Indonesia. But this is where the positive story ends. Key emerging markets like India and South Africa continue to see outflows, remarkable given the severity of the 2018 sell-off. Turkey and Thailand are getting tepid inflows, again quite notable given the severity of outflows last year. Our individual trackers bear this story out. Exhibit 4 shows a centered 3-month moving average for real money flows into India stocks and bonds. The “centering” is important, because it reduces the backward-looking bias. The last datapoint, for example, spans the six-week period through mid-December and should therefore capture the rebound in sentiment. Instead, there are essentially no inflows.

**Exhibit 5. South Africa sees continued outflows, ...**



Source: Haver, IIF

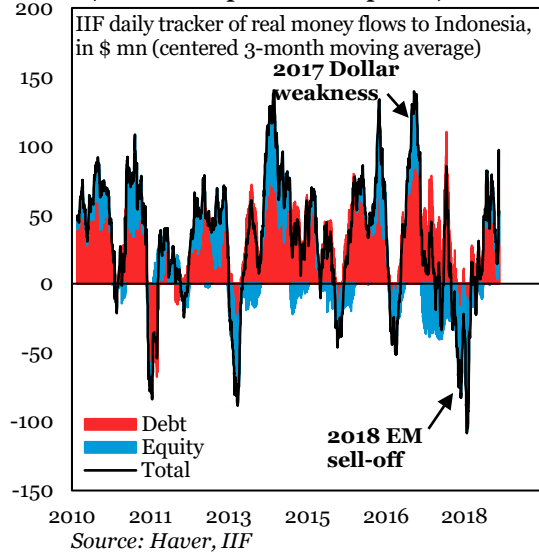
**Exhibit 6. ... while flows to Turkey are flat.**



Source: Haver, IIF

Exhibits 5 and 6 do the same thing for South Africa and Turkey. The former continues to see large outflows, while the latter – even with considerable outflows last year – is failing to see a rebound. Of course, there are exceptions to this weak flow picture. Exhibits 7 and 8 look at Indonesia and South Korea, respectively. Non-resident portfolio flows into stocks and bonds are clearly recovering strongly in both places and, in the case of Indonesia, are close to 2017 levels. There are many factors driving this differentiated picture. Our view is that a decade of QE and record inflows has caused [positioning](#) build-ups in certain places, which we will explore in coming *Global Macro Views*.

**Exhibit 7. There are positive exceptions, ...**



**Exhibit 8. ... including Indonesia and South Korea.**

