

July 2016 EM Portfolio Flows Tracker and Flows Alert

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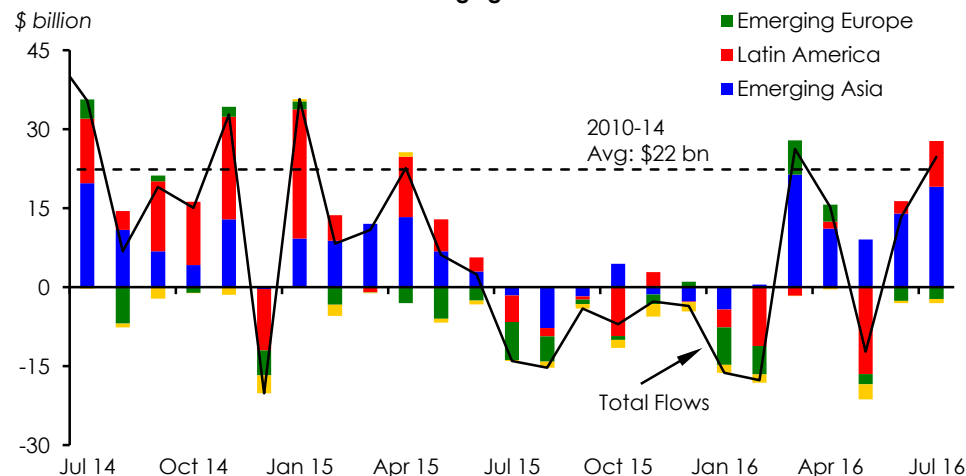
- Portfolio flows to EMs strengthened further in the month after the Brexit vote.
- We estimate that non-resident portfolio flows to emerging markets reached \$24.8 billion in July, following \$13.3 billion in June.
- EM equity markets are estimated to have received inflows of \$14.6 billion in July, while an estimated \$10.2 billion flowed into EM debt.
- Inflows were dominated by EM Asia, followed by Latin America, while EM Europe and Africa/Middle East saw modest outflows.

EM PORTFOLIO FLOWS BENEFIT FROM SEARCH FOR YIELD

Portfolio flows to EMs rose further in July, reaching almost \$25 billion. Equity flows were the dominant driver this month, with an estimated \$14.6 billion in inflows. Debt flows, which typically account for about 2/3 of EM portfolio flows, were more moderate at \$10.2 billion this month. The recovery in flows during the past few months follows a period of exceptional weakness in EM portfolio flows that began with China's mini-devaluation almost a year ago and saw cumulative outflows of \$81 billion from EMs, compared to \$96 billion during the global financial crisis. In fact, July 2016 marked only the second month over the past year where portfolio flows were above their long-term average of \$22 billion. Regionally, EM Asia saw total inflows of \$19.1 billion, followed by Latin America with inflows of \$8.7 billion, while there were modest outflows from EM Europe and AFME (Chart 1).

The available daily EM flows data suggest that inflows peaked around the middle of July, prompting a [surge alert](#) that began on July 15. Since then, inflows have lost momentum and the surge episode ended on Friday, July 22, possibly reflecting a recent increase in market expectations of Fed tightening by year-end (Chart 2). Nonetheless, flows data corroborate that there was a vigorous rebound in risk appetite in the weeks following the Brexit vote, reflected in a sharp pickup in investor interest in emerging market and other risk assets, as investors digest near-record low global yields (see [July 2016 Capital Markets Monitor](#)).

Chart 1
Total Non-Resident Portfolio Inflows to Emerging Markets



Source: IIF.

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The IIF portfolio flows tracker is released around the 28th of each month. You can subscribe to the release at www.iif.com/email

For explanations, see www.iif.com/emr/flows

Table 1

EM Portfolio Flows
\$ billion

	Total	Equity	Debt
May	-12.3	-1.2	-11.1
June	13.3	4.1	9.2
July	24.8	14.6	10.2
YTD	33.4	34.9	-1.5

Source: IIF.

Our portfolio flows estimates are based on econometric tracking models that rely on a range of data sources (details available [here](#)). The following developments have impacted our estimates this month:

- **Equity and debt flows in the countries that publish daily portfolio flows data have been consistently positive this month**, led by Korea, Brazil and Thailand (**Charts 3-5**).
- **Risk aversion as measured by the U.S. corporate BBB spread declined substantially (Chart 6, left panel)**. Growing risk appetite made a substantial positive contribution to our July portfolio flows estimate.
- **Federal funds futures rates fell early in the month, but have recovered substantially since then, as the U.S. data flow has been generally positive (Chart 6, right panel)**. The trajectory of daily flows this month seemed to track this pattern, with increased expectations for a second rate hike by year-end reducing investor interest in emerging markets.
- **EM bond and equity issuance moderated in July, based on preliminary data**. Reduced issuance resulted in a smaller positive contribution to our estimates of debt and equity flows this month (Chart 7).

May and June Revisited: Incoming portfolio flows data released for May were lower than our model had predicted last month. Our debt flows estimates were revised down from \$1.2 billion to -\$11.1 billion for May, while the June estimate was notched up from \$7.4 billion to \$9.2 billion (Chart 8). Our equity flows tracker was revised down from -\$0.3 billion to -\$1.2 billion for May, and from \$9.3 billion to \$4.1 billion for June. The large downward revision in May debt flows was mainly due to recently released data from Brazil and Czech Republic coming in lower than our tracking model suggested.

Separately, EPFR's latest fund flows data for June show a modest improvement in fund flows into ETFs and mutual funds, with total inflows for the month close to zero (Chart 9). Relative to the EPFR data, IIF Tracker data for June paint a more positive picture, showing a substantial pickup in EM flows. Fund flows are analyzed in greater depth in the IIF's note on [Portfolio Allocation Trends](#). Differences between the two datasets are discussed in our [FAQ note](#).

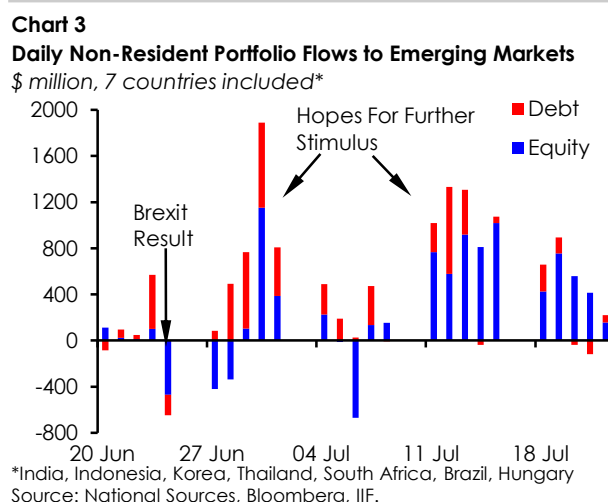
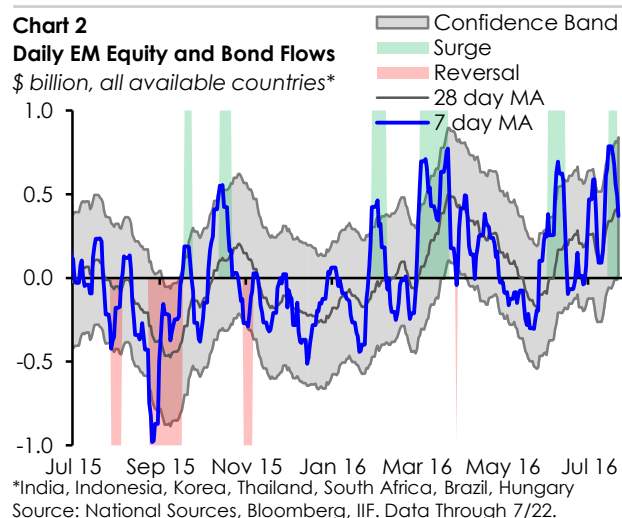
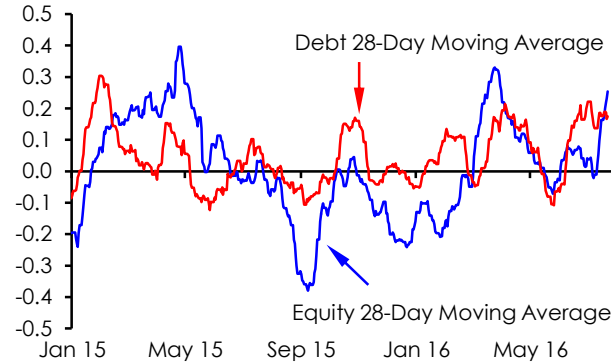


Chart 4

Daily Equity and Bond Flows to EMs

\$ billion, all available countries*

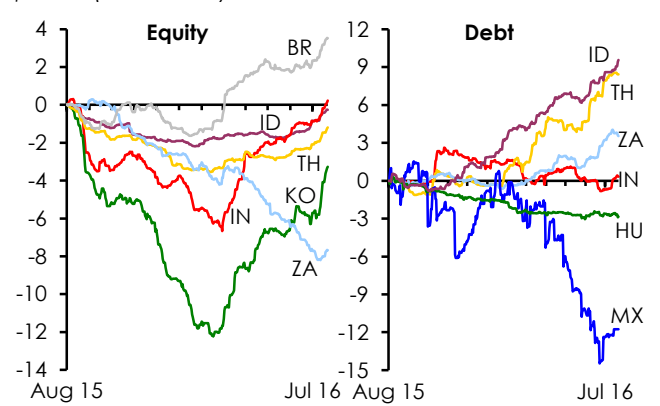


*Indonesia, India, Korea, Thailand, South Africa, Brazil, Hungary
Source: National Sources, Bloomberg, IIF Calculations.

Chart 5

Cumulative Daily Portfolio Flows

\$ billion (both scales)

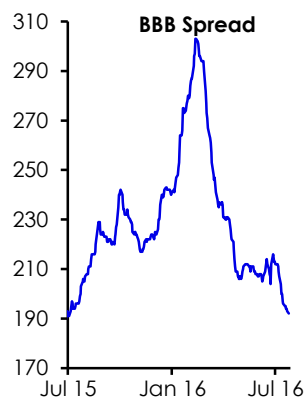


Source: National Sources, Bloomberg, IIF.

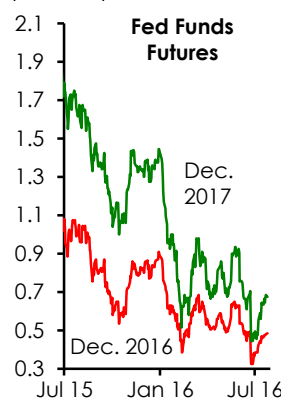
Chart 6

U.S. Corporate BBB Spread & Fed Funds Futures

basis points



percent per annum

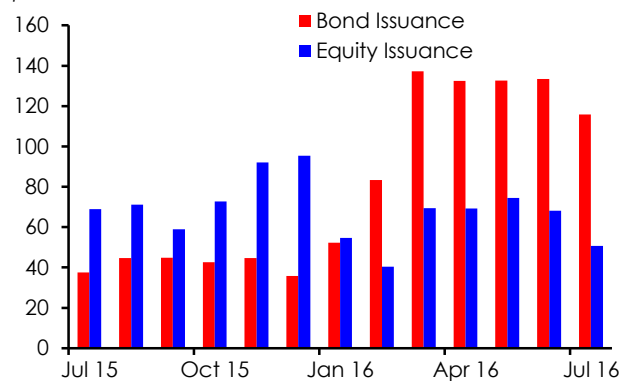


Source: Merrill Lynch, Bloomberg, Federal Reserve, IIF.

Chart 7

EM Bond and Equity Issuance

\$ billion*

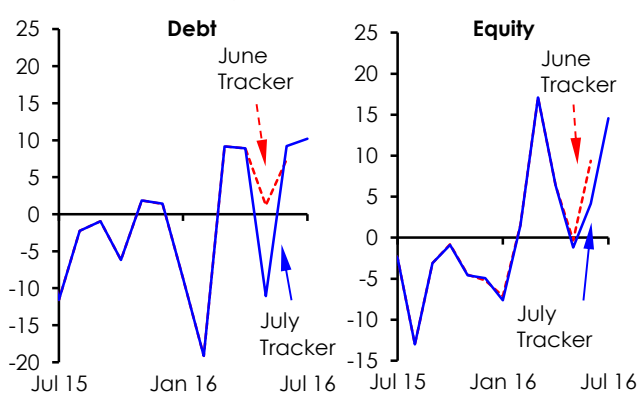


*Historical data not continuously updated. July 2016 = preliminary.
Source: Thomson One, IIF.

Chart 8

Portfolio Flows Tracker: Latest and Prior Estimates

\$ billion, non-resident portfolio flows

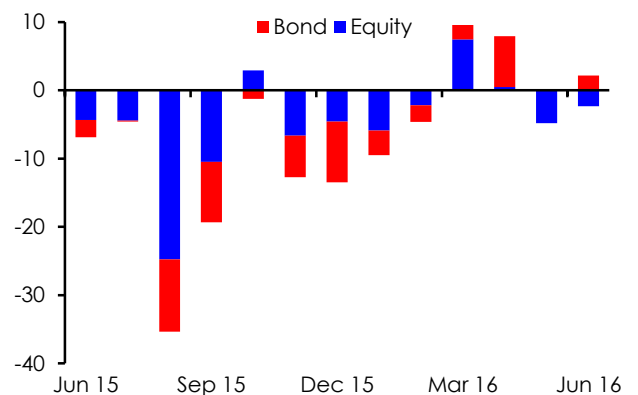


Source: National Sources, Bloomberg, IIF.

Chart 9

Emerging Market Funds: Debt and Equity Net Flows

\$ billion



Source: EPFR.