

# IIF Flows Alerts

## Trade Dispute Prompts EM Flows Reversal



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- Non-resident portfolio flows to emerging markets triggered a reversal alert on May 14.
- China's non-resident equity is in retreat, propelled by a continuation of the trade conflict.
- The overall outflow of capital is mainly driven by equities, as bond flows have been steady.

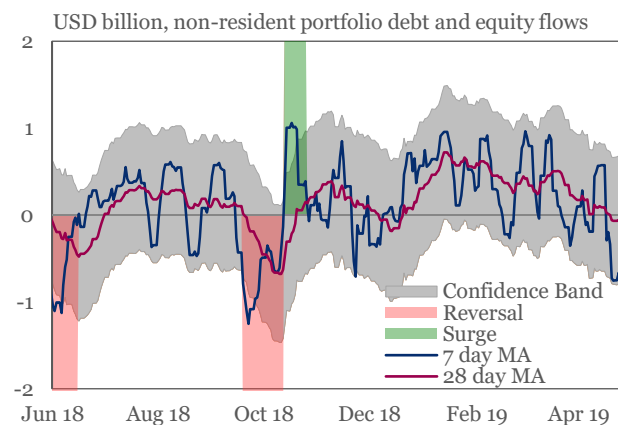
### LARGEST CAPITAL OUTFLOW SINCE OCT 2018

Our daily capital flows tracker shows a recent, significant reversal in EM capital flows so far this week (Chart 1). A reversal signal is triggered when the 7-day moving average for EM capital flows goes below the 1.5 standard deviation band around the longer, 28-day, moving average. The main driver of this reversal came from EM equities, in particular China. On the back of the recent flare up in trade tensions between the US and China last week, outflows from Chinese equities totaled over \$2.5 bn, averaging around \$600 mn net outflows daily. Outflows have continued into this week, where yesterday saw an outflow of over \$1.5 bn. Other EM Asia countries such as Korea, India, and Indonesia have mirrored China's trend, highlighting the risks to the broader EM complex from increased US-China trade tensions (Chart 2). The final trigger came from Taiwan, with outflows peaking today at over \$400 mn.

On the other side, bond flows have been generally steady, with some EMs, such as Thailand, experiencing relatively large inflows. Today saw the largest one-day inflow into Thai bonds – over \$240 mn – in nearly 3 months, pushing the 7-day moving average of net capital flows to Thailand positive.

The recent magnitude of outflows (around \$1 bn) is the largest since October 2018, when the initial trade frictions between China and the US triggered an outflow of around \$1.1 bn.

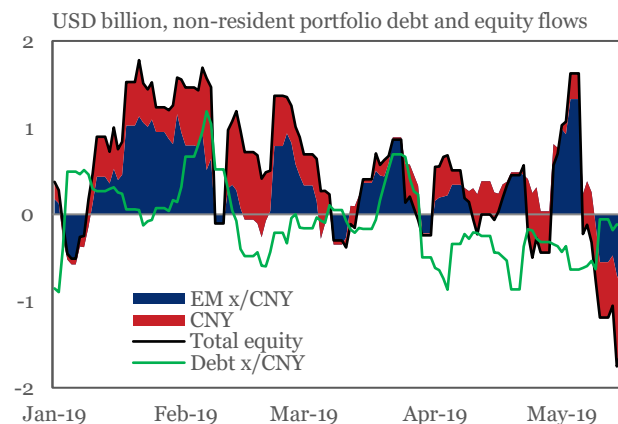
Exhibit 1. Flows Alert triggered on May 15



\*IN, ID, KO, TH, PH, ZA, BR, HU, CN, TW, VN. Partial data through May 15 2019

Source: National sources, Bloomberg, IIF

Exhibit 2. Flows contracted mainly in China



\*IN, ID, KO, TH, PH, ZA, BR, HU, CN, TW, VN. Partial data through May 15 2019

Source: National sources, Bloomberg, IIF