EMERGING MARKETS ECONOMICS UPDATE


- On a net basis, capital continued to flow out of Emerging Markets (EMs) last month, and we think that 2020 will be the seventh consecutive year of outflows.

- Capital flows play a major role in EMs, as they finance spending and affect financial market performance. But official data tend to be released with a considerable lag. To overcome this, we’ve constructed our Capital Flows Tracker, which has a good relationship with the less timely official balance of payments data. (See Chart 1 & Table 1; details available upon request.)

- Having eased a little in October, our Tracker suggests that net capital outflows from EMs picked up a bit in November. We estimate that net outflows were around $30bn, up from $20bn in October. (See Chart 2.) That said, they remain modest at less than 1.0% of aggregate EM GDP. During the China hard landing fears in 2015-16, net outflows reached over 3% of EM GDP.

- Our Portfolio Flows Tracker suggests that inflows into EM bonds and equities picked up last month. We estimate that net portfolio inflows were close to $100bn in the three months to November, up from around $65bn in the three months prior. (See Chart 3.) The recent pick-up has mostly been down to a surge in net portfolio inflows into Asia. (See Chart 4.)

- The pick-up in net portfolio flows contrasts with the rise in total capital outflows. This suggests that net FDI and/or net “other” flows declined. The most likely explanation is a drop in “other” flows, which usually consist of banking sector flows, since these tend to be more volatile on a month-to-month basis.

- More timely data on foreigners’ net purchases of EM stocks and bonds suggest that portfolio inflows eased at the start of December. These daily data are not comparable to our Portfolio Flows Tracker, as they are only published by a handful of countries. But they can help to give a sense of direction.

- After making net purchases in November, foreign investors made net sales of these countries’ equities and bonds at the beginning of December. (See Chart 5.) The shift has been broad-based, but particularly pronounced in Korean equities. The central bank pinned the widespread net selling of Korean equities on the US-China trade war and deteriorating domestic growth prospects.

- Taking stock of 2019 as a whole, it looks like net capital outflows from EMs totalled around $170bn, up from roughly $50bn in 2017 and 2018. (See Chart 6.) We expect that 2020 will be the seventh consecutive year of net outflows. Even if a “Phase One” trade deal is eventually agreed, we don’t expect a lasting truce between the US and China. Indeed, intractable issues are likely to cause future rounds of US-China talks to break down. Moreover, we think that growth in China will slow, and recoveries elsewhere (in both emerging and developed markets) will be weaker than most expect. All this will weigh on risk appetite.

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Chart 1: EM Total Capital Flows & CE Total Capital Flows Tracker ($bn, Quarterly Sum)

Chart 2: CE Total EM Capital Flows Tracker ($bn, Monthly)

Chart 3: CE Portfolio Inflows Tracker ($bn, Quarterly Sum)

Chart 4: CE Portfolio Inflows Tracker ($bn, Quarterly Sum)

Chart 5: Foreigners’ Net Purchases of Equity & Bonds (US$bn, 1m Sum*, based on daily data)

Chart 6: Annual Capital Flows (US$bn)

Sources: Refinitiv, CEIC, Capital Economics

Table 1: CE Capital Flows Tracker Information

<table>
<thead>
<tr>
<th>Tracker</th>
<th>Description</th>
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<tbody>
<tr>
<td>Total Capital Flows Tracker</td>
<td>Measures total net capital flows into EMs, including portfolio flows, direct investment and bank (&quot;other&quot;) flows. Includes non-residents’ net purchases of domestic assets and residents’ net purchases of foreign assets. Published on a rolling quarterly basis (which corresponds with the quarterly official balance of payments data).</td>
</tr>
<tr>
<td>Portfolio Flows Tracker</td>
<td>Measures non-residents’ net purchases of EM bonds and equities at an EM-wide level and at a regional level. Published on a rolling quarterly basis (which corresponds with the quarterly official balance of payments data).</td>
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*Includes data from India, South Africa, Korea, Indonesia, Thailand, Philippines, Turkey, Mexico, Hungary
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