

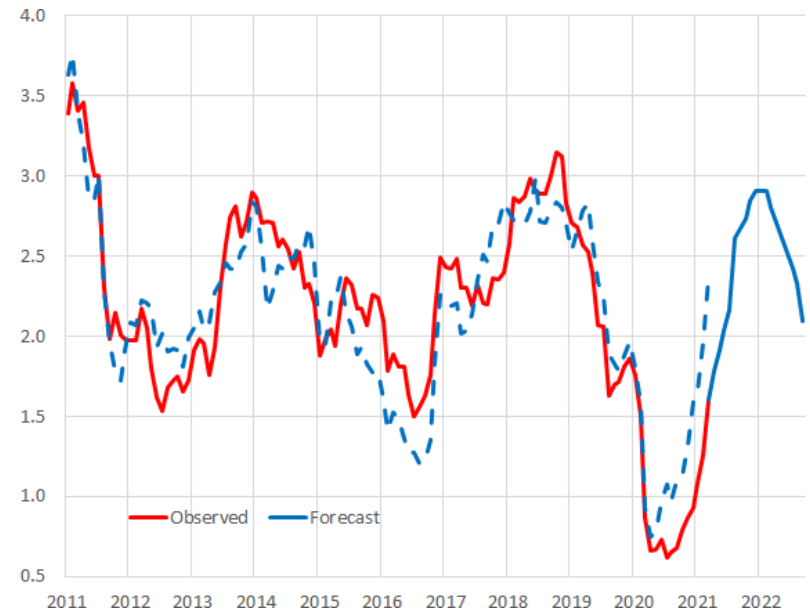
About to experience taper tantrum 2.0?

Overall **US financial conditions** have become **less accommodative** with the rapid increase in US long-term interest rates and the stop in USD depreciation.

However, the current context is quite different from the taper tantrum observed in 2013-2014:

1. **Fed Funds rates will remain unchanged** at zero-level for long (at least until mid-2022)
2. Acceleration in **activity in the US** is expected to be much **stronger** in the next quarters than it was during the taper tantrum.

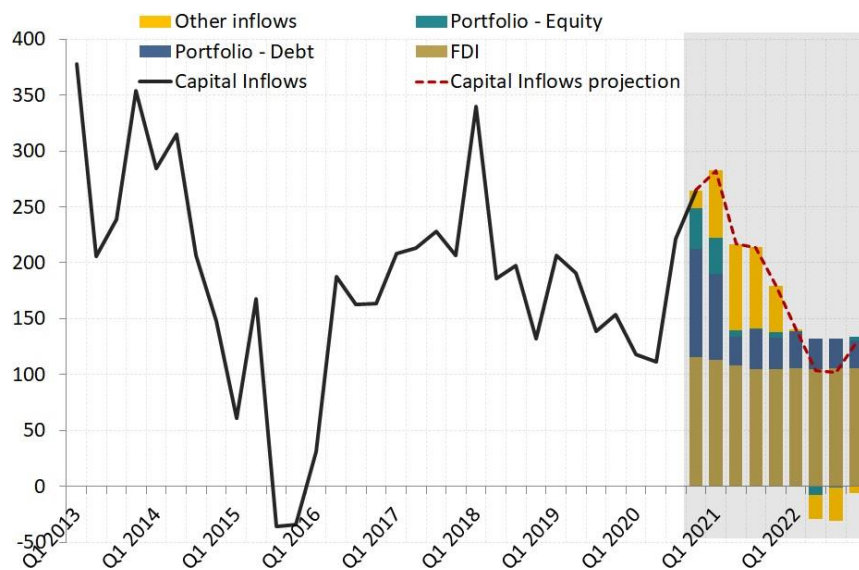
UST-10y bond yield projections (%)



Sources: TAC ECONOMICS, Datastream

Emerging Markets: Still favorable capital flows in 2021

Capital inflows projections
10 Key EM* (bn USD)



Sources: TAC ECONOMICS, Datastream

*10 key EM (Emerging Markets):

China, India, Indonesia, South Africa, South Korea, Turkey, Poland, Russia, Mexico, Brazil

The **impact on Emerging Markets** should also be very different from the 2014-2015 period of sudden dry-up of capital inflows:

- **Overall capital inflows** should remain **substantial in 2021** at USD 900bn for the year.
- However, the **attractiveness of EM** compared to the US will progressively decline, resulting in a **gradual reduction in capital inflows** during the second part of 2021.

Methodology

We use three separate econometric models, on **four major components of private capital flows**: FDI, debt, equity and other inflows (mostly international banks' loans to EM borrowers) to the 10 key EM.

The models are calibrated on quarterly data from 2005Q1 to 2020Q4

Theoretical, academic and applied research into capital flows into EM broadly converges in grouping the key explanatory factors in **four broad categories**:

1. Factors related to economic growth and activity
2. Factors related to financial conditions and returns
3. Factors related to commodity prices
4. Factors related to global risk aversion or appetite

More information

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