

Capital Flows during the Pandemic: Impact of Policies, and Changing Safe Havens

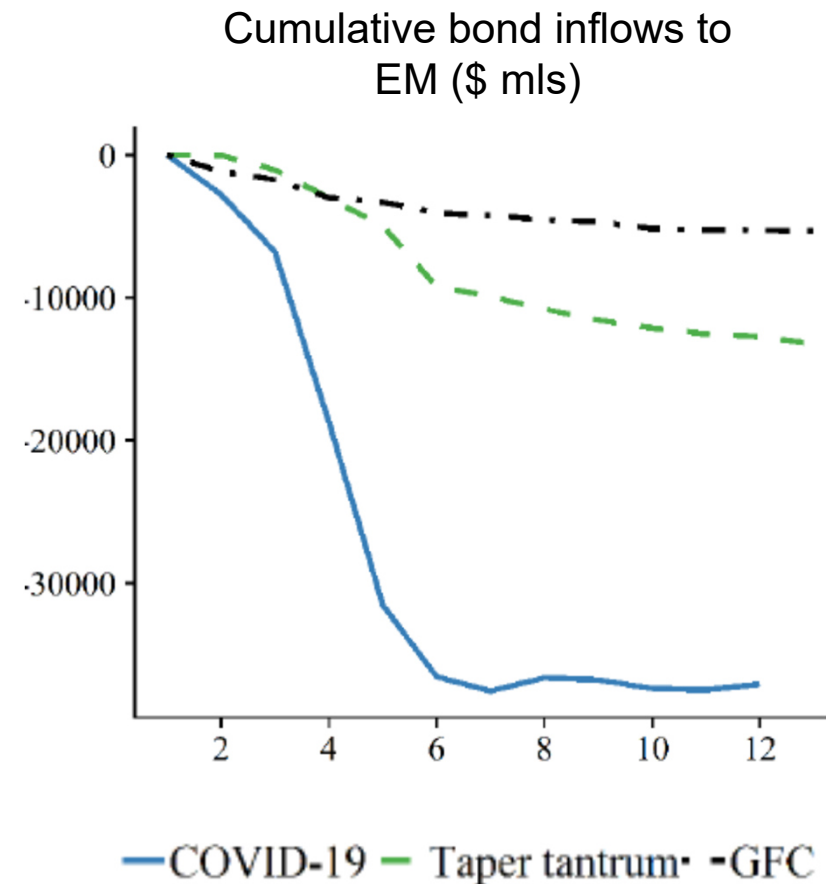
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Sectoral Capital Flows and Policy Challenges
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A massive retrenchment

- The magnitude exceeds the GFC.
- Capital flows react to the extent of the epidemic and policy measures (El Fayoumi and Hengge 2020).
 - Aggressive policy supports confidence.
- Flight to safety... but to the usual safe havens?
 - Changing role of the U.S.

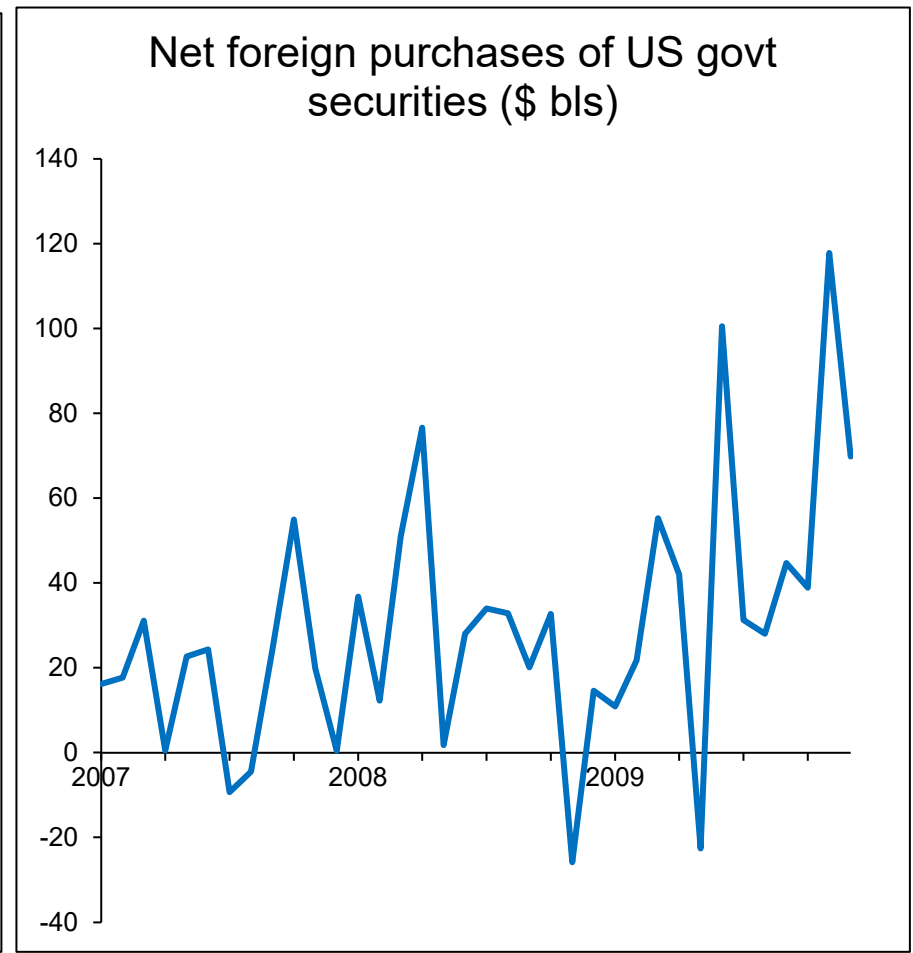
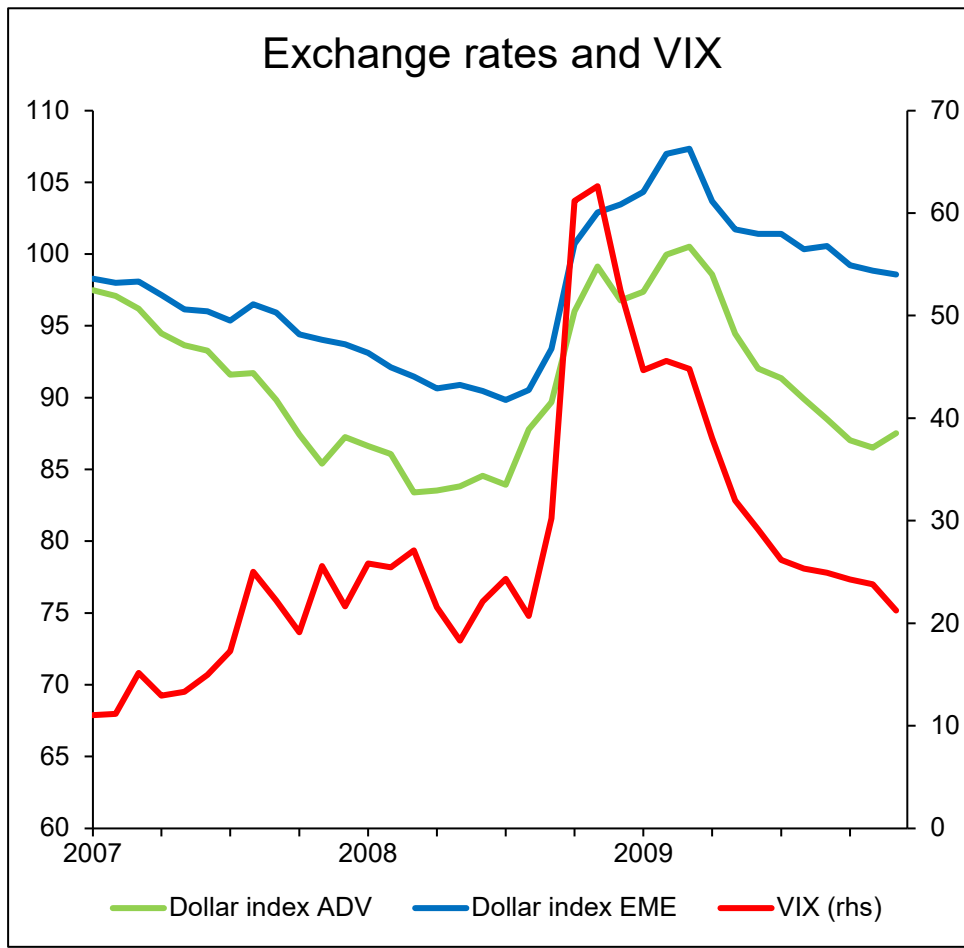


Impact on capital flows and premia

- The retrenchment is highly heterogeneous.
- Impact of the epidemic and policy response on weekly EPFR portfolio flows and CDS spreads (El Fayoumi and Hengge 2020).
- Increase in the number of cases per capita.
 - Initial drop in bond inflows, but an increase after one month.
 - CDS spreads go *up*.
- Lockdown measures.
 - Initial drop in bond inflows, increase after one month.
 - CDS spreads go *down*.
- Fiscal stimulus.
 - Increase in bond inflows, temporary reduction CDS spreads.
- Very limited effect of monetary policy.
- Policy response targeted at the epidemic appears to support investors' confidence.

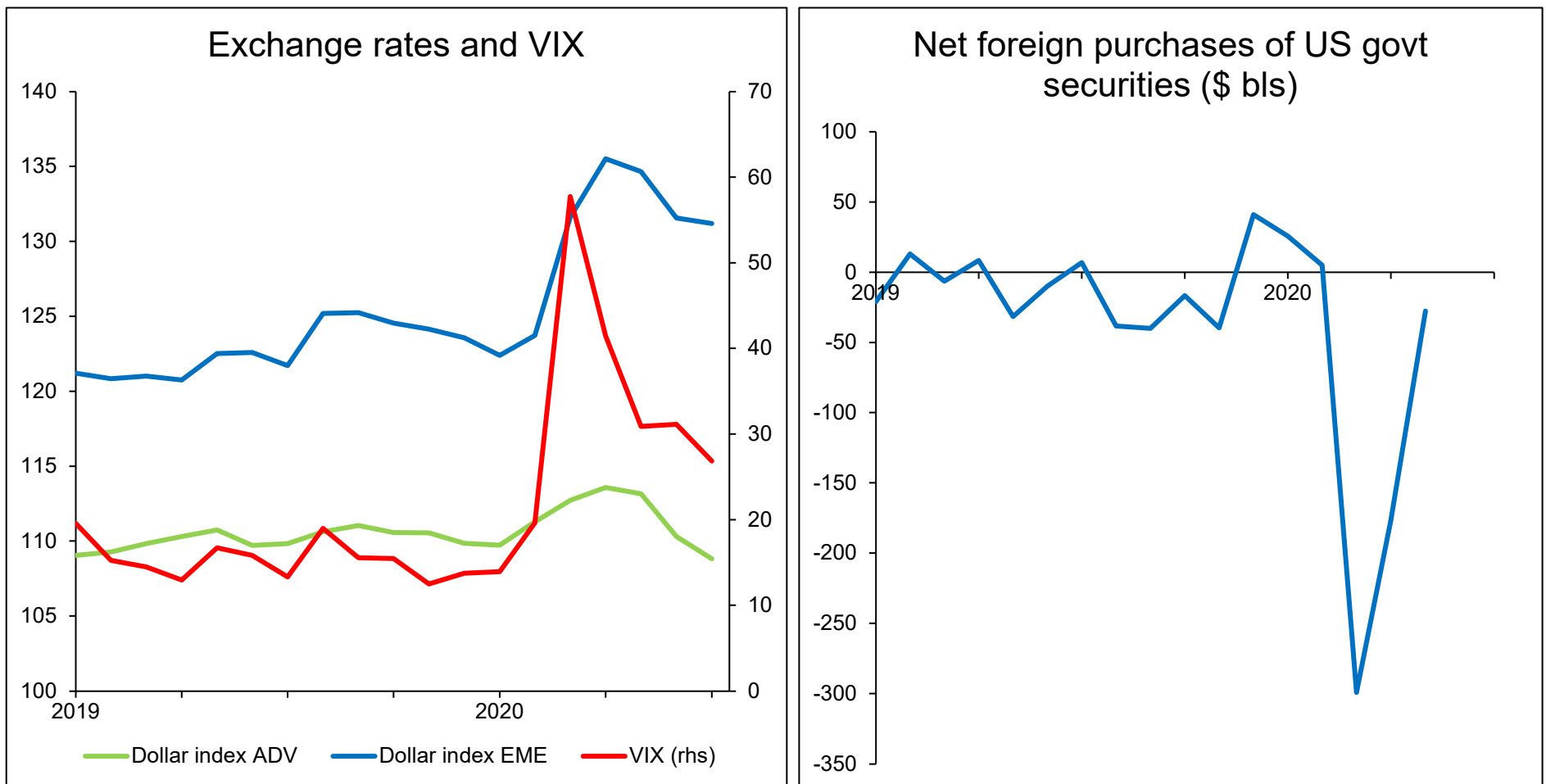
Is the US still a safe haven?

- GFC: broad appreciation of the dollar, higher foreign purchases of US government bonds.



Is the US still a safe haven?

- Pandemic: appreciation only relative to EM currencies, foreign sales of US government bonds.



Other safe havens have remained so

- Switzerland: as in the GFC, appreciation of the franc and interventions by the Swiss National Bank on FX markets.

