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

Cédric Tille

*Graduate Institute of International and Development Studies (IHEID)*
and *CEPR*

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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.