
RBI Governor Urjit Patel had recently wrote in the Financial Times that tight dollar-funding conditions have fueled a sharp reversal of foreign capital flows. (Photo: Reuters)

Foreign investors pulled $12.3 billion from emerging markets last month — the largest outflow since November 2016, according to the Institute of International Finance. Both debt and equity markets saw portfolio outflows of about $6 billion. The retreat was led by Asia with an $8 billion drop and Africa and the Middle East with a $4.7 billion outflow.

The IIF report said:

“No single driver of outflows from EM assets stands out. Instead,a combination of factors appears to be at work: idiosyncratic domesticstrains such as funding pressures in Argentina and Turkeyor the truckers’ strike in Brazil (which has underscored thegovernment’s challenges in implementing reforms); renewedU.S. tariff threats and retaliatory actions; and political uncertaintyin Italy and Spain (which implies more risk of upwardpressure on the USD—in response to rising U.S. interest rates and a strengthening U.S. dollar.

In an article this week in the Financial Times, India’s central bank governor Urjit Patel wrote tight dollar-funding conditions have fueled a sharp reversal of foreign capital flows over the past six weeks and urged the Federal Reserve to slow the pace at which it plans to shrink its balance sheet to overcome market turmoil.

At the same time, the outflow has made equity valuations more attractive as price-earnings ratios are close to two year lows, data show.