

# Effects of US Interest Rate Hike and Global Risk on Daily Capital Flows in Emerging Market Countries

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## Abstract

The recent US interest rate hike cycle and the sharp surge of global risk aversion in 2018 have increased the suspense of capital outflows of emerging market (EM) countries. This paper attempts to investigate the effects of US interest rate hike and global risk on EM portfolio flows on a daily basis during 11 November 2015–2 October 2018. By employing Vector Autoregressive (VAR) models, the main results are as follows. Firstly, we find that both a higher US interest rate (either market rates or market expectations on future interest hike) and a higher global risk aversion possibly lead to decreases in portfolio flows (both equity flows and debt flows) in most EM countries, though not all are statistically significant. Secondly, exchange rate depreciation of EM currencies and plunges in EM equity prices significantly lead to portfolio outflows of most EM countries, showing large driving power of EM portfolio flows. Thirdly, all EM portfolio outflows (both in equity flows and debt flows) tend to significantly lead to further outflows, showing the inertia of portfolio flows. Fourthly, we also find that the portfolio outflows of EM countries will significantly deteriorate their domestic equity prices and depreciate their currencies against the US dollar. Finally, we find the wide existence of contagions of EM portfolio flows, showing that under a global EM portfolio outflows circumstance, the EM portfolio outflows will be reinforced and become more serious, especially among the EM countries with highly regional economic connections.

*Keywords:* Capital flows, High-frequency, Emerging economies, US interest rate hike, Global risk, Contagion

*JEL classification:* E43, F32, F42, G11