

27 September 2019

Rates and Credit

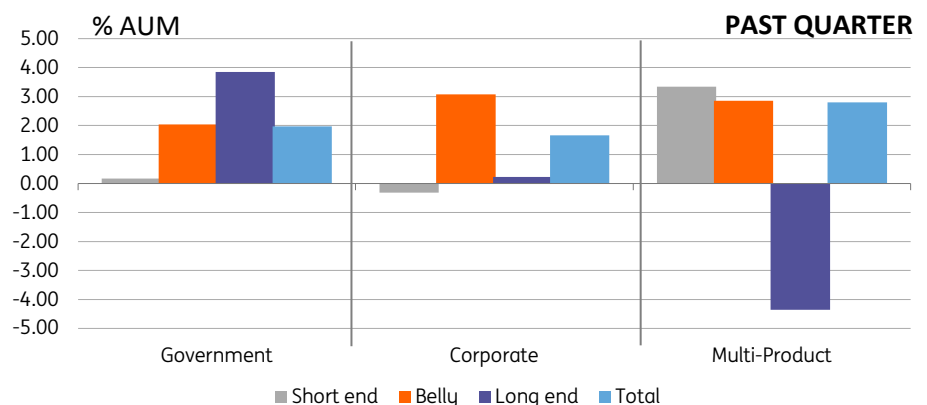
Note: The weekly data in this report reference the week ended Wednesday 25th September 2019

Global debt flows

Added exposure to duration and spread

A notable underpinning in the past number of months has been an increased allocation to USD-denominated bonds. This is thematic in developed markets, has acted as a USD FX support, and is acting to keep USD rates & spread under wraps. It is also thematic in emerging markets where hard currency remains favoured over local currency (from a flows perspective). That apart, we identify a marketplace that has re-set some duration longs, while risk assets spanning investment grade corporates to high yield remain supported. The risk is that something gives at some point, given the likely macro & political stresses ahead.

Graph of the week: Notable inflows to long end government and belly corporates



Source: EPFR Global, ING estimates

Six things learnt from latest flows data

- 1) We note decent flows into long end government funds, and the polar opposite on the front end. So the market has been getting long duration. We also note the increased allocation to US bonds over the past year.
- 2) In inflation space, inflows to USD funds continue, in part a reverse of a prior exodus, while European inflation funds have yet to see a material reversal of prior outflows.
- 3) In corporate bonds, a strong inflow to belly funds has been a feature of recent months. Inflows to corporate high yield remains firm, albeit not in the past week. Professionals have been the bigger buyers, in excess of pure retail.
- 4) Emerging markets local currency has been outperforming hard currency for a change this month. This gels with some resumed inflows into local currency, even though the inflows to hard currency remain more impressive.
- 5) Professional players have been the dominant buyers of emerging markets in the past few month, and in fact retail have been net sellers of local currency bonds in the past month.
- 6) Changes in global allocations are mostly reflective of relative stresses, with reductions in allocations to Turkey, S Africa and Argentina impactful. Less of these direct stresses in Asia see a steadier allocation there.

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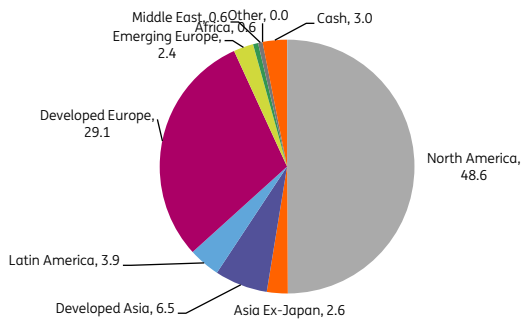
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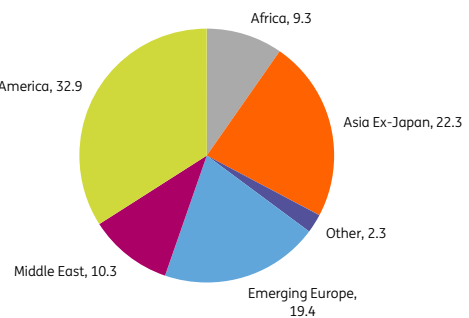
Global Manager (average) Allocations by Region

Fig 1 Global allocations one month ago (%)



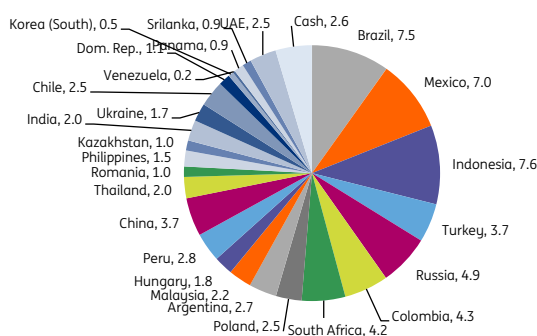
Source: EPFR Global, ING estimates

Fig 2 EM allocations one month ago (%)



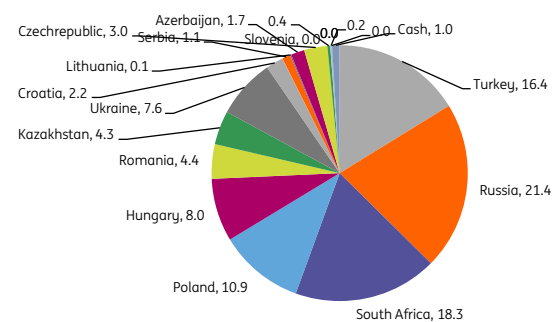
Source: EPFR Global, ING estimates

Fig 3 EM detailed allocations one month ago (%)



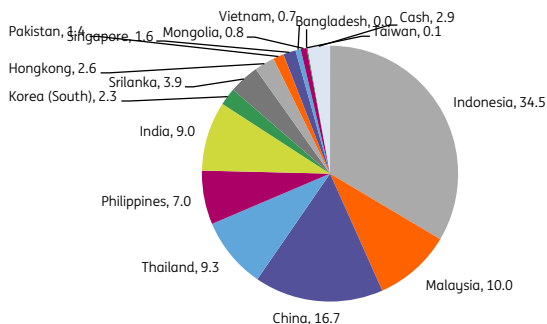
Source: EPFR Global, ING estimates

Fig 4 EMEA allocations one month ago (%)



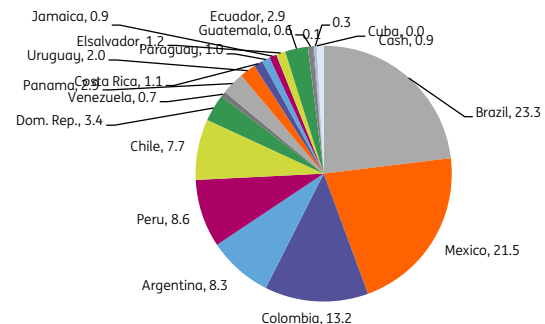
Source: EPFR Global, ING estimates

Fig 5 Asia EM allocations one month ago (%)



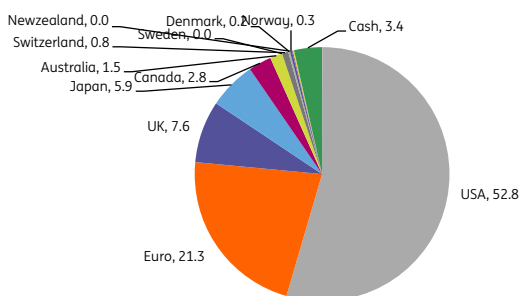
Source: EPFR Global, ING estimates

Fig 6 Latam allocations one month ago (%)



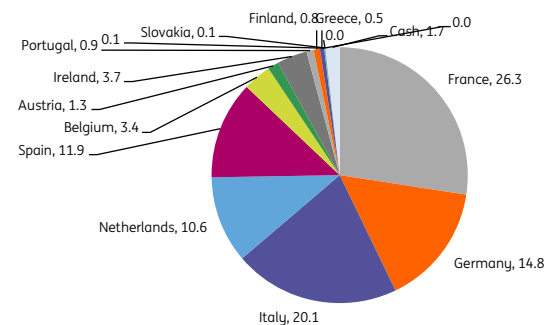
Source: EPFR Global, ING estimates

Fig 7 Developed allocations one month ago (%)



Source: EPFR Global, ING estimates

Fig 8 Eurozone allocations one month ago (%)



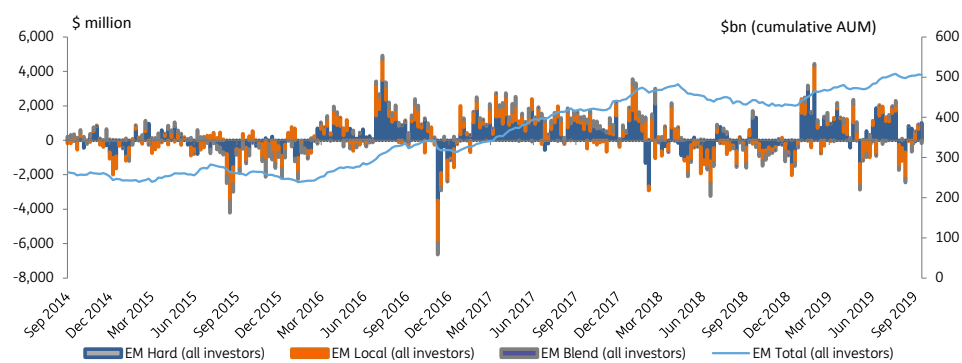
Source: EPFR Global, ING estimates

Emerging Markets

Emerging Markets – Summary themes

- Hard currency funds remain the chief beneficiary of emerging markets inflows. Another 0.9% of assets under management (AUM) were added in the past month, and cumulates to 3.6% in the past quarter. Dollar robustness and comfort revolving around maintenance of low core rates remain driving factors.
- Local currency funds had seen outflows against this backdrop. Not a haemorrhage, but a tendency. That changed in the past month though, as local currency funds saw some moderate inflows. This has also been reflected in total returns as local currency in fact has been outperforming of late.
- We also note that professional players have been the dominant buyers of emerging markets in the past few month, and in fact retail have remained set sellers of local currency bonds in the past month.

Fig 9 Feature Chart: Hard currency inflows dominate, but local currency not seeing outflows in the past month



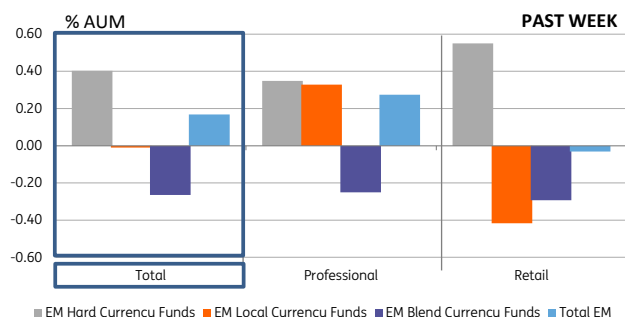
Source: EPFR Global, ING estimates

- The asset allocation picture shows a reduction in allocation to Latam, now down to 31.6% versus 34.3% a year ago, and allocation has been slipping lower in the past couple of months. Colombia and Brazil have seen a reduction, as has allocation to Argentina.
- Allocation to EMEA has been steady in the past couple of months at 19.4%, although down from 20.6% a year ago. Allocation to Turkey, S Africa and Poland has been falling in the past couple of months.
- Allocation to Asia has been steady to moderately higher over recent months, bolstered by added exposure to Indonesia and China, while allocation to Malaysia, Thailand and India is lower.
- Allocation to the Middle East is up, where we note an increased allocation to Saudi Arabia. And allocation to N Africa is steady to a tad lower, where we note some downsizings in allocation to Nigeria.

BOTTOM LINE: Local currency has been outperforming hard currency for a change this month. This gels with some resumed inflows into local currency, even though the inflows to hard currency remain more impressive. The relative stability of core rates alongside a dollar that remains at or near highs on many crosses keeps the hard currency inflow process intact. The prognosis ahead is for Fed cuts to slow, so cuts from emerging market central banks will be more selective and more macro justified, which should be more supportive of local currency performance. Changes in global allocations are mostly reflective of relative stresses, with reductions in allocations to Turkey, S Africa and Argentina impactful. Less of these direct stresses in Asia see a steadier allocation there.

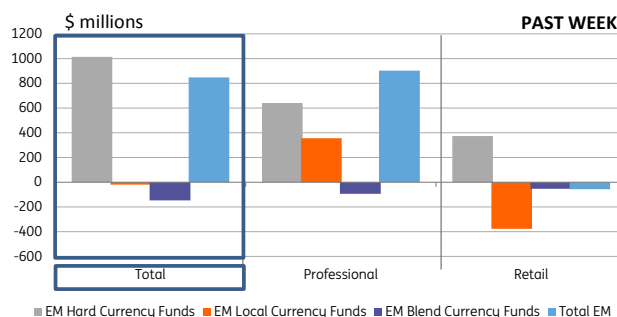
Emerging Markets Net Fund Flows

Fig 10 Emerging Markets - Change in the past week (%)



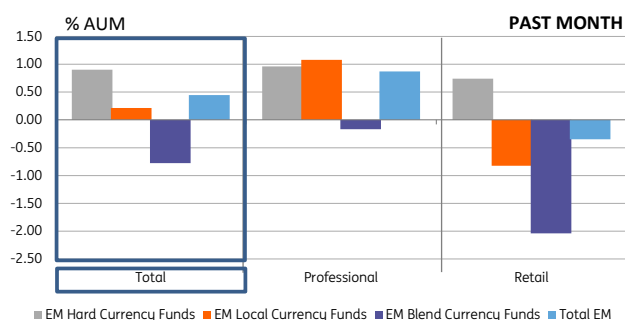
Source: EPFR Global, ING estimates

Fig 11 Emerging Markets - Change in past week (US\$m)



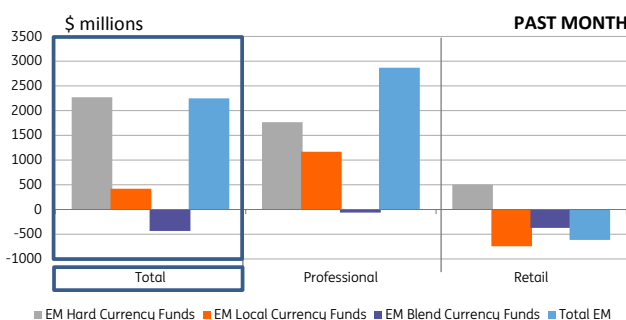
Source: EPFR Global, ING estimates

Fig 12 Emerging Markets - Change in the past month (%)



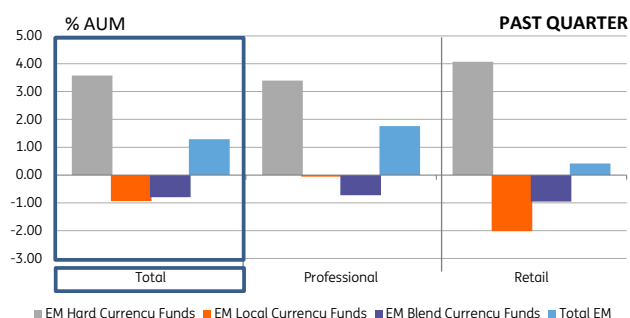
Source: EPFR Global, ING estimates

Fig 13 Emerging Markets - Change in past month (US\$m)



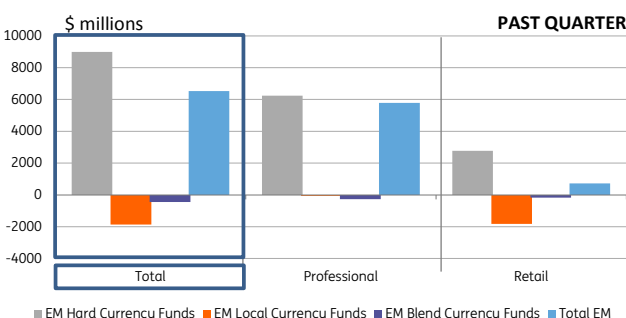
Source: EPFR Global, ING estimates

Fig 14 Emerging Markets - Change in past quarter (%)



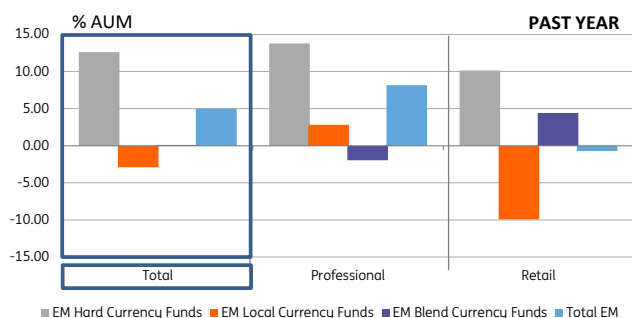
Source: EPFR Global, ING estimates

Fig 15 EM - Change in past quarter (US\$m)



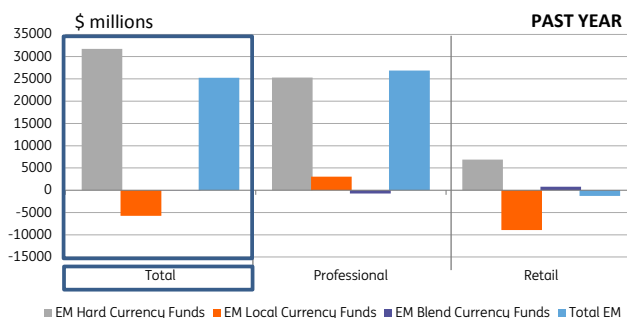
Source: EPFR Global, ING estimates

Fig 16 Emerging Markets - Change in the past year (%)



Source: EPFR Global, ING estimates

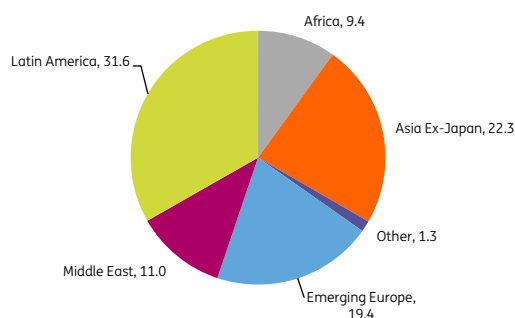
Fig 17 Emerging Markets - Change in past year (US\$m)



Source: EPFR Global, ING estimates

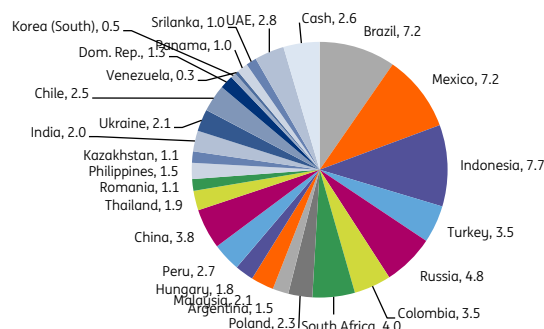
Global EM Manager Asset Allocations

Fig 18 GEM allocations one month ago (%)



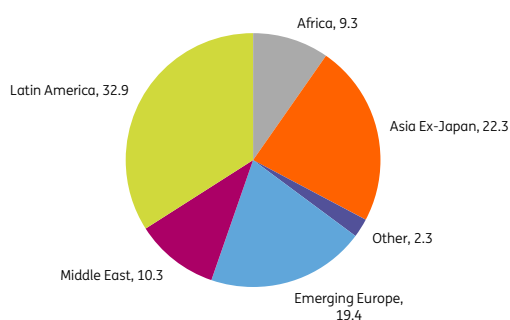
Source: EPFR Global, ING estimates

Fig 19 GEM detailed allocations one month ago (%)



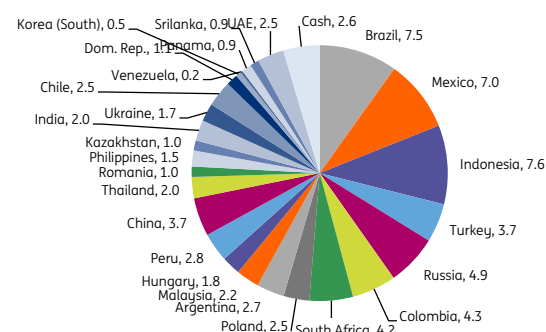
Source: EPFR Global, ING estimates

Fig 20 GEM allocations two months ago (%)



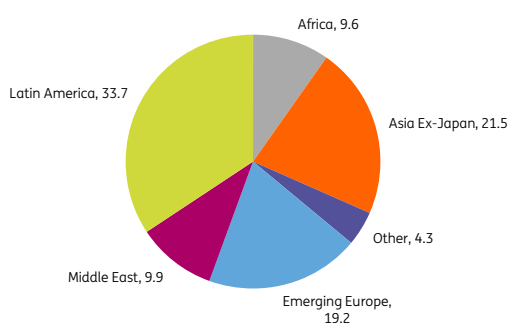
Source: EPFR Global, ING estimates

Fig 21 GEM detailed allocations two months ago (%)



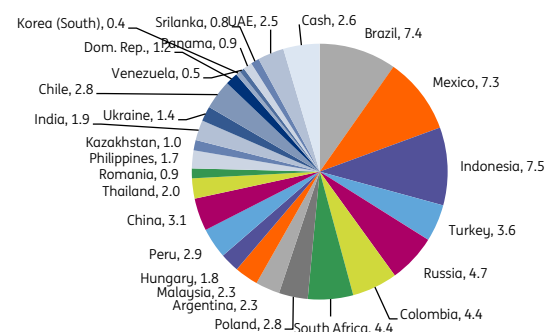
Source: EPFR Global, ING estimates

Fig 22 GEM allocations one quarter ago (%)



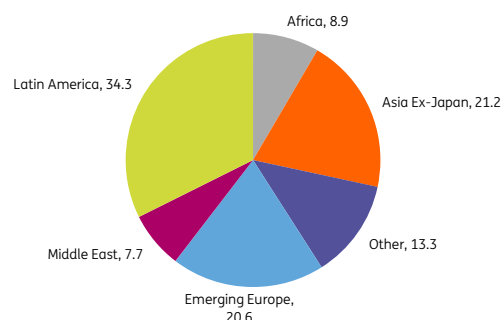
Source: EPFR Global, ING estimates

Fig 23 GEM detailed allocations one quarter ago (%)



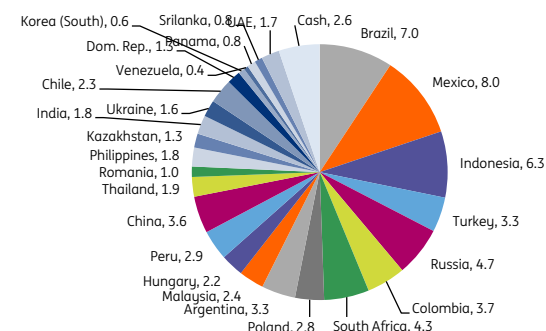
Source: EPFR Global, ING estimates

Fig 24 GEM allocations one year ago (%)



Source: EPFR Global, ING estimates

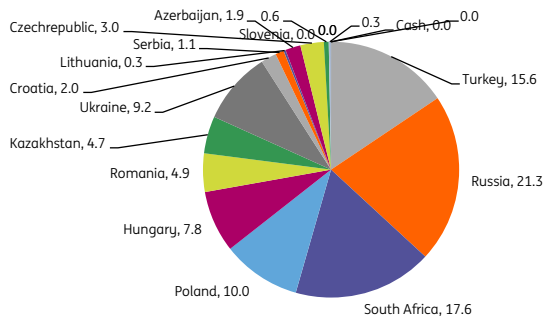
Fig 25 GEM detailed allocations one year ago (%)



Source: EPFR Global, ING estimates

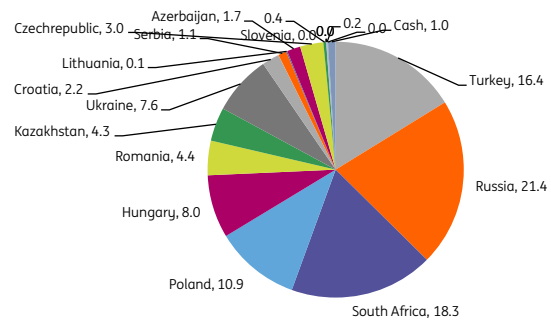
Regional EM Manager Asset Allocation

Fig 26 EMEA allocations one month ago (%)



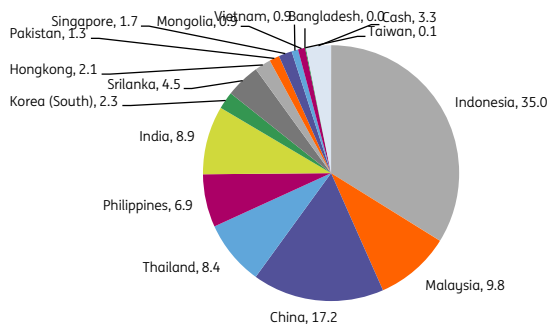
Source: EPFR Global, ING estimates

Fig 27 EMEA allocations two months ago (%)



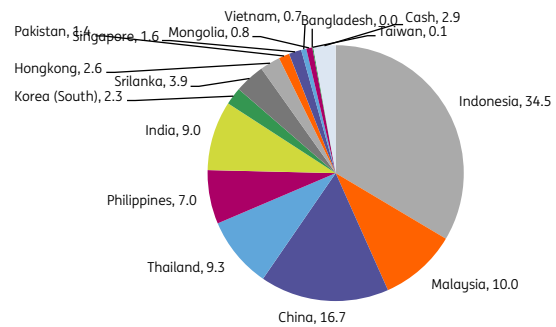
Source: EPFR Global, ING estimates

Fig 28 Asia allocations one month ago (%)



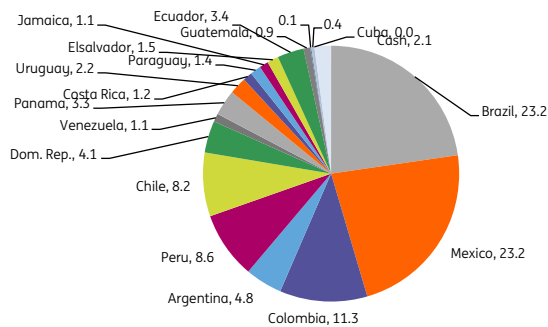
Source: EPFR Global, ING estimates

Fig 29 Asia allocations two months ago (%)



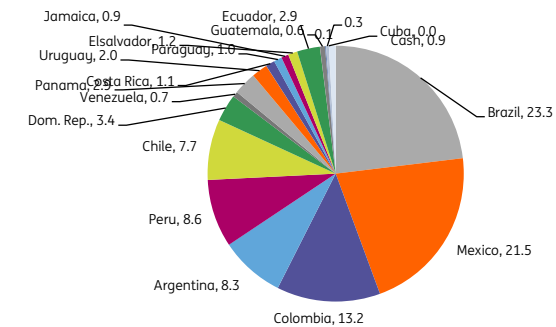
Source: EPFR Global, ING estimates

Fig 30 Latam allocations one month ago (%)



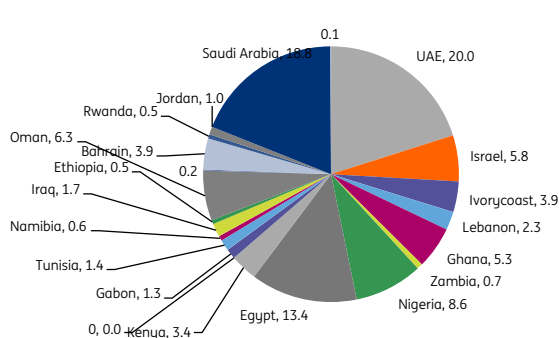
Source: EPFR Global, ING estimates

Fig 31 Latam allocations two months ago (%)



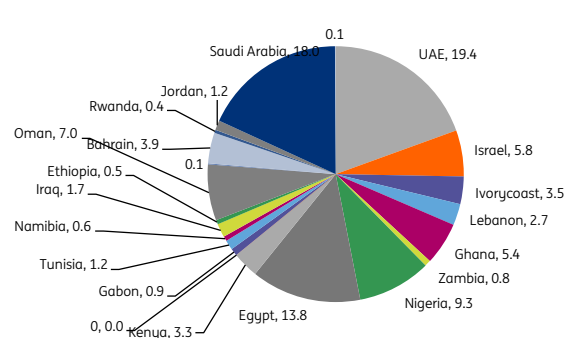
Source: EPFR Global, ING estimates

Fig 32 Africa & ME allocations one month ago (%)



Source: EPFR Global, ING estimates

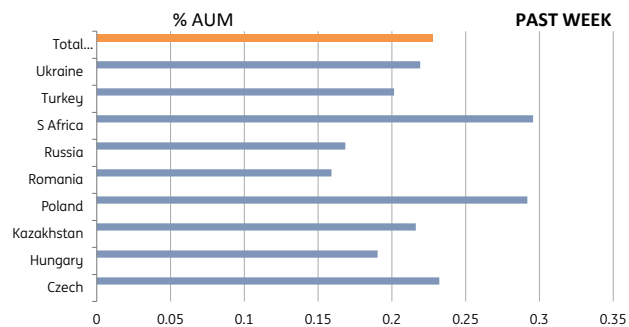
Fig 33 Africa & ME allocations two months ago (%)



Source: EPFR Global, ING estimates

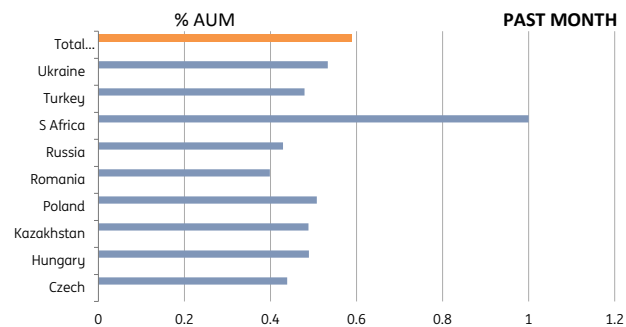
Selected EMEA and Latam Country Flows

Fig 34 EMEA – Change in the past week (%)



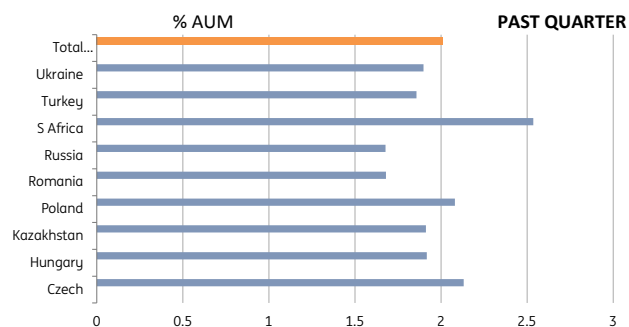
Source: EPFR Global, ING estimates

Fig 35 EMEA – Change in the past month (%)



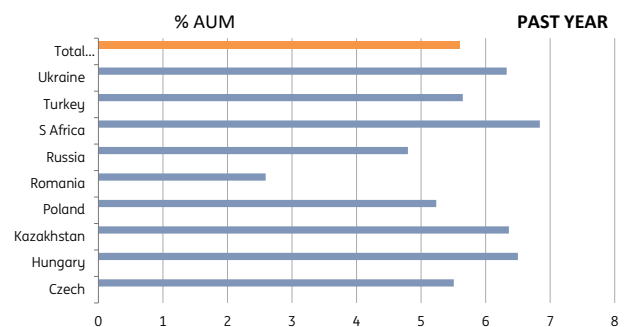
Source: EPFR Global, ING estimates

Fig 36 EMEA – Change in the past quarter (%)



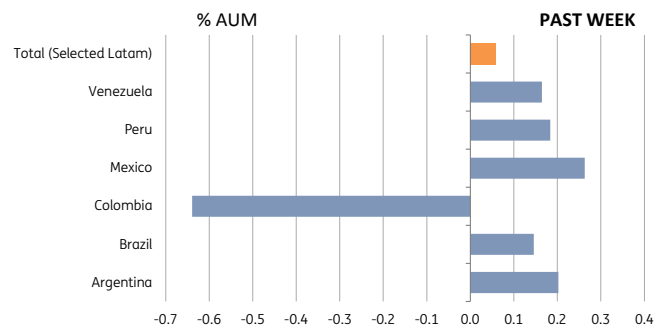
Source: EPFR Global, ING estimates

Fig 37 EMEA – Change in the past year (%)



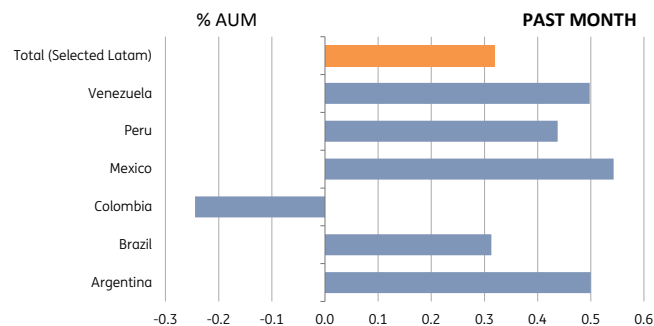
Source: EPFR Global, ING estimates

Fig 38 Latam – Change in the past week (%)



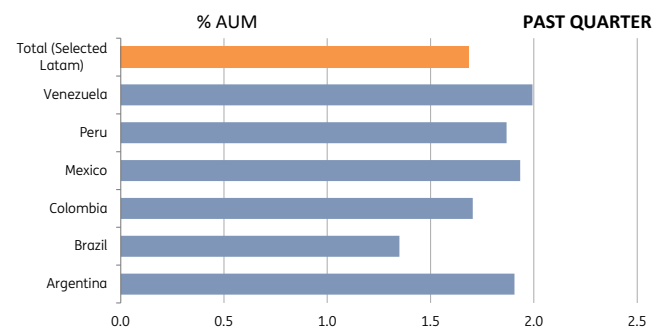
Source: EPFR Global, ING estimates

Fig 39 Latam – Change in the past month (%)



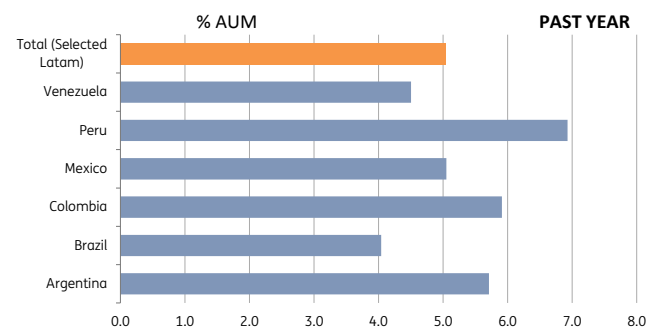
Source: EPFR Global, ING estimates

Fig 40 Latam – Change in the past quarter (%)



Source: EPFR Global, ING estimates

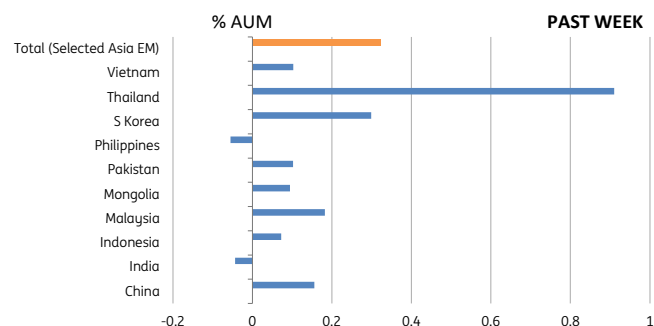
Fig 41 Latam – Change in the past year (%)



Source: EPFR Global, ING estimates

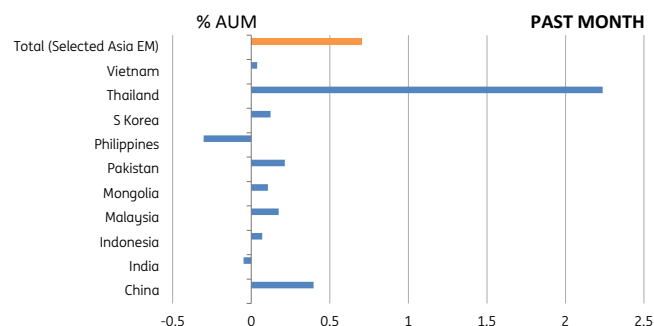
Selected Asia and ME/Africa Country Flows

Fig 42 Asia – Change in the past week (%)



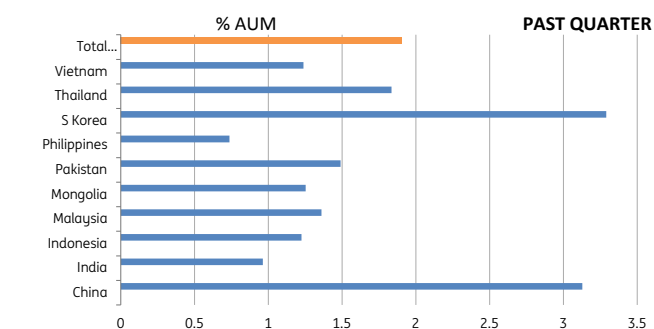
Source: EPFR Global, ING estimates

Fig 43 Asia – Change in the past month (%)



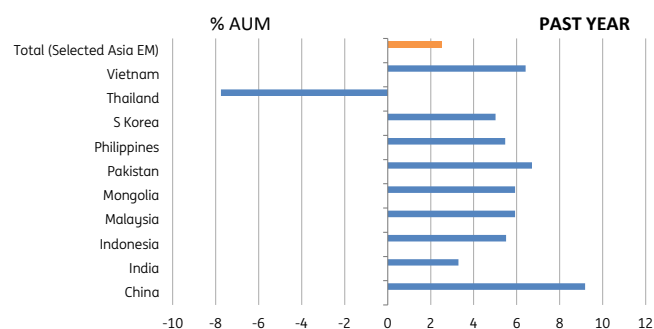
Source: EPFR Global, ING estimates

Fig 44 Asia – Change in the past quarter (%)



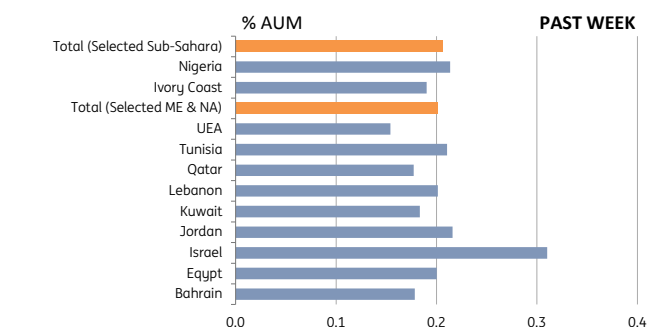
Source: EPFR Global, ING estimates

Fig 45 Asia – Change in the past year (%)



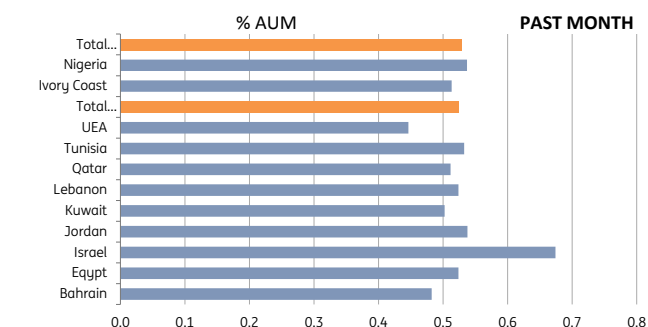
Source: EPFR Global, ING estimates

Fig 46 Middle East & Africa – In the past week (%)



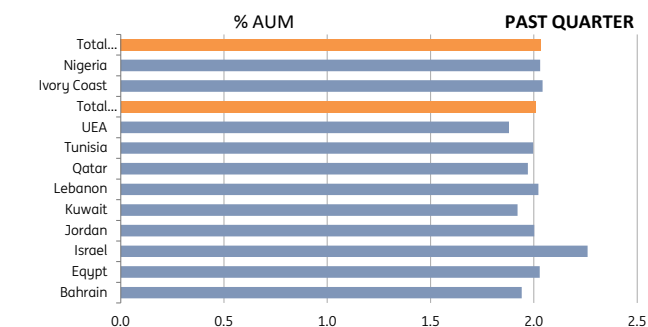
Source: EPFR Global, ING estimates

Fig 47 Middle East & Africa – In the past month (%)



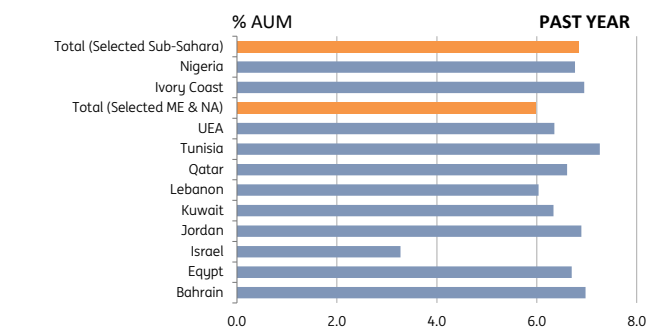
Source: EPFR Global, ING estimates

Fig 48 Middle East & Africa – In the past quarter (%)



Source: EPFR Global, ING estimates

Fig 49 Middle East & Africa – In the past year (%)



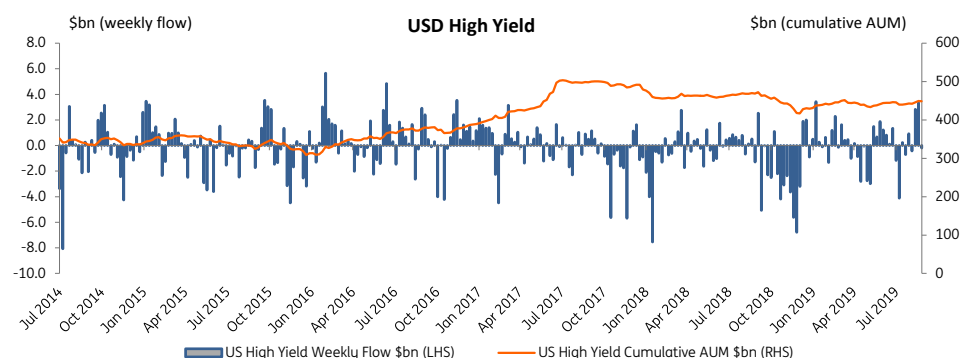
Source: EPFR Global, ING estimates

High Yield

High Yield – Summary themes

- No net inflows in the past week, but over the past months the high yield space has been a story of persistent net inflows. Assets under management (AUM) are up 1.4% in the past month and up 2.5% in the past quarter.
- Professionals have been the dominant marginal buyers of high yield. In the past month professional accounts increased AUM in high yield by 3.6% compared with a 0.8% increase for retail AUM.
- USD high yield has seen the biggest of the inflows in the past month, as AUM increased by 1.2%, although it has been flat in the past week.

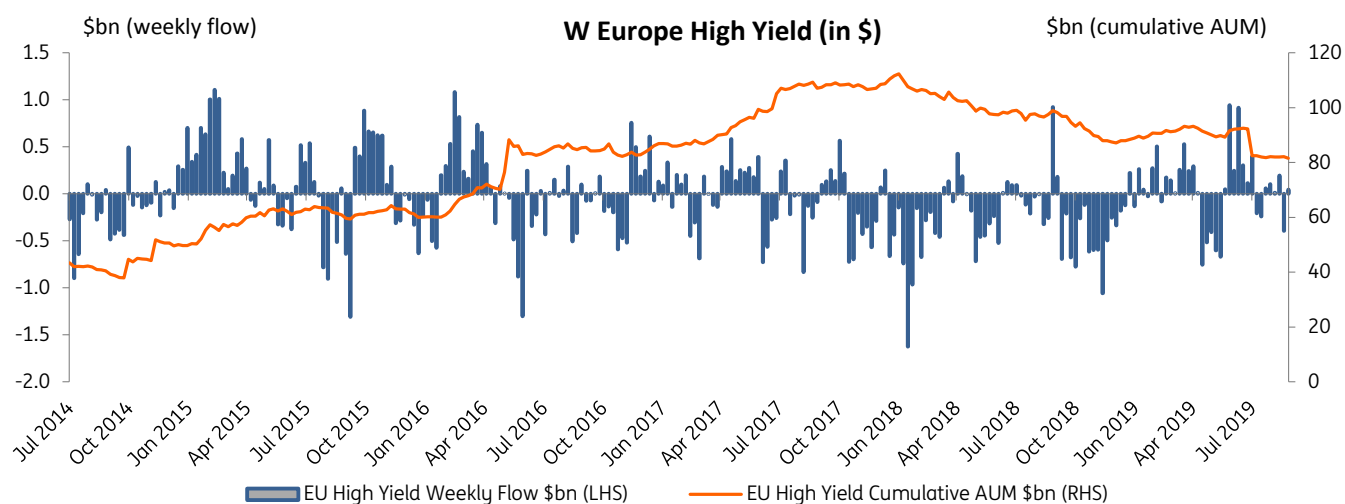
Fig 50 Feature Chart: Decent increase in flows into USD high yield in the past month



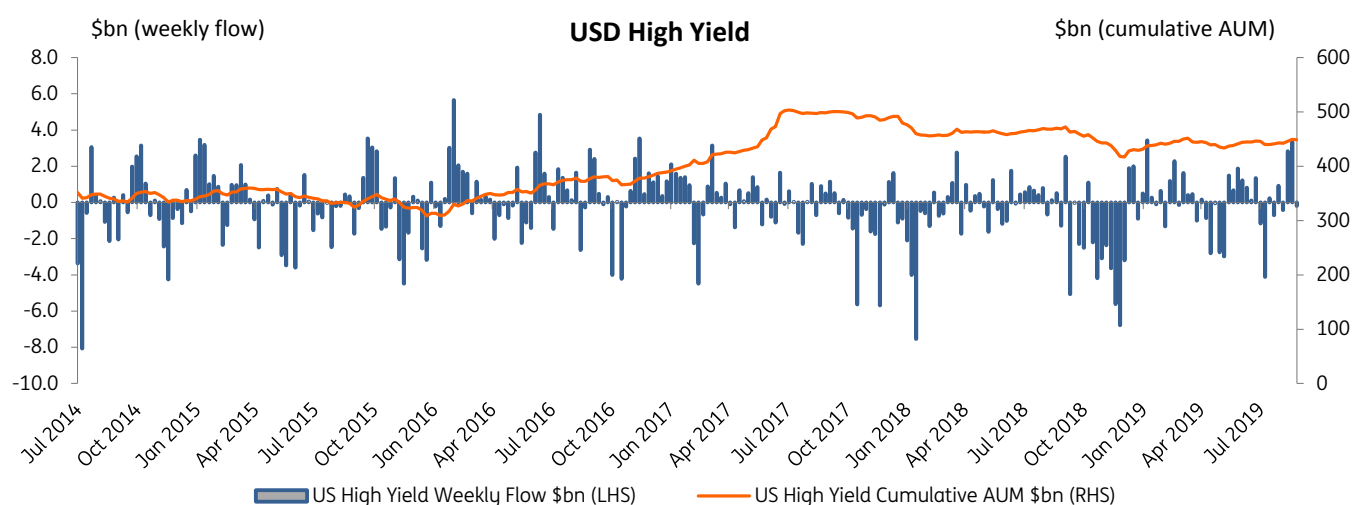
Source: EPFR Global, ING estimates

- In contrast, European high yield had been seeing a larger relative percentage increase in AUM, but this has slowed in the past month. This in part reflects a slowing of anticipation buying ahead of the ECB's QE re-ignition announcement.
- USD high yield continues to outpace USD emerging markets returns, with the former running at 11.5% versus 10.7% for the latter, while European high yield translated back into USD is running at 9.6%. These compensations partly reflect a tame recession risk.
- Anything that elevates the recession risk would do the same for default risk, which would hurt HY generally. So far though the cushion being offered by likely Fed cuts is acting to dominant recession sentiment, although the rise in the USD downgrade/upgrade ratio is worthy of attention.

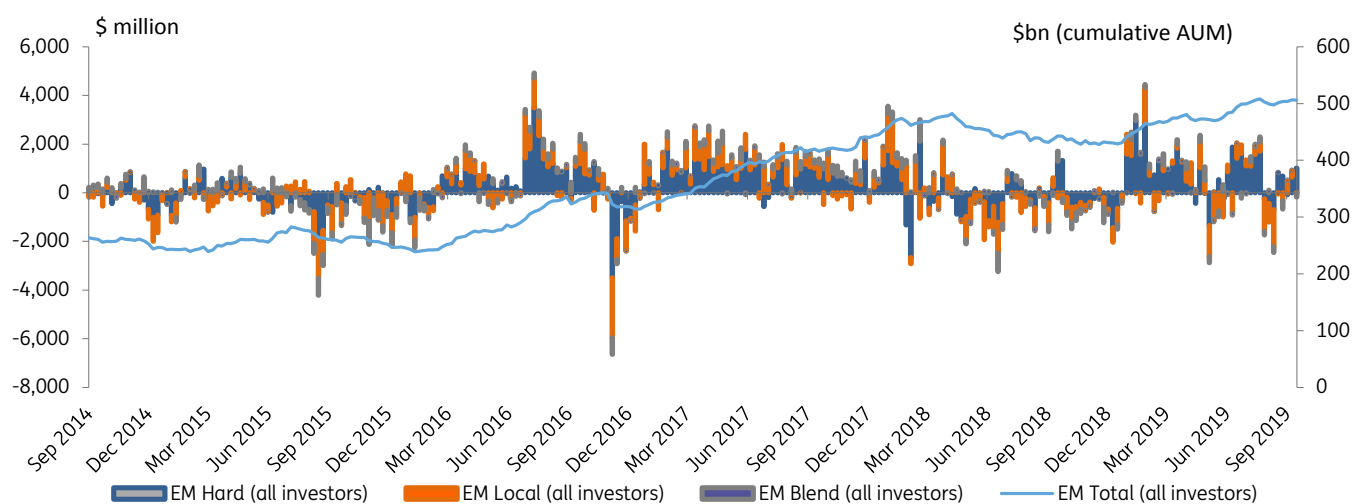
BOTTOM LINE: Inflows to corporate high yield product remains firm, not in the past week, but certainly in the past few months. We find that professionals have been the bigger buyers, in excess of the bid from pure retail. The bulk of the more recent inflows have been into USD high yield, with W Europe high yield taking a breather following ECB QE inspired inflows in previous months. If the performance of high yield is anything to go by, there is minimal recession fear in play here. That said, with total returns as impressive as they are there should be an accelerated temptation to lock in gains.

Fig 51 Western Europe High Yield Weekly Flows

Source: EPFR Global, ING estimates

Fig 52 US High Yield Weekly Flows

Source: EPFR Global, ING estimates

Fig 53 Emerging Markets Weekly Flows – all currencies

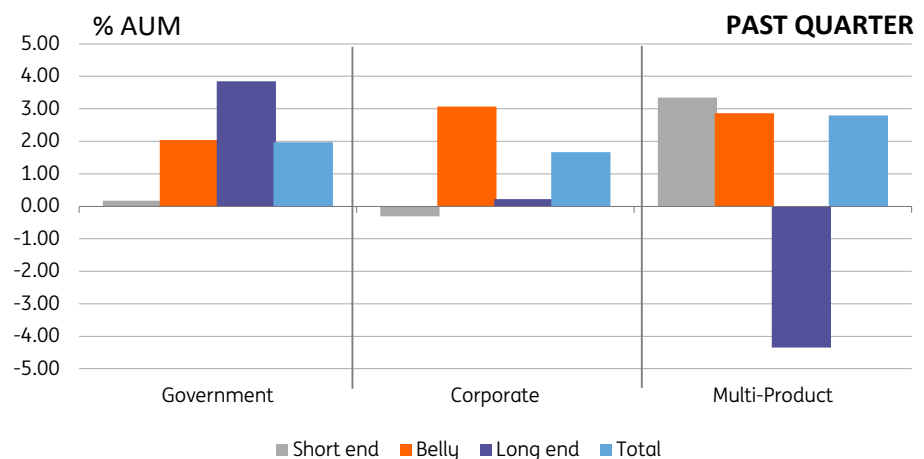
Source: EPFR Global, ING estimates

**Developed
Markets**

Developed Markets – Summary themes

- Cash continues to flow into long end government funds, in turn keeping long end rates under wraps. This has been especially notable in the past week or so, and contrasts with net selling in short end funds. Optically this is a duration extension.
- If we look at the past 3 months we find that the market-place has extended duration exposure, as steady assets under management (AUM) in front end funds contrast with a 3.8% increase in AUM for long end funds.
- In contrast, most of the cash going into corporate funds is going into belly funds. Not unusual given the maturity preference in corporate space, but the degree of inflows into belly funds versus the wings has been quite pronounced.
- Inflows to corporates generally have slowed in the past week, but this is not out of kilter from what has been seen for other risk assets in the bond space. That apart, the stand-out stat is the 3.1% increase in AUM in belly funds in the past quarter.

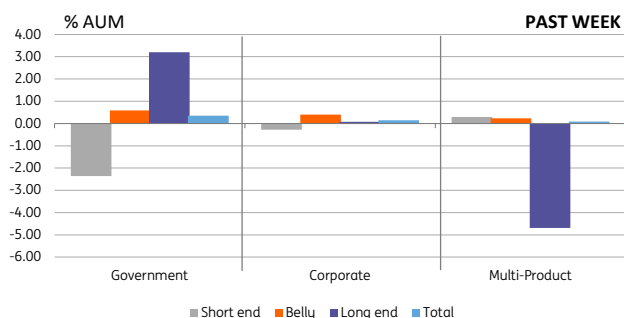
Fig 54 Feature Chart: Inflows to long end govies and belly maturity corporate funds



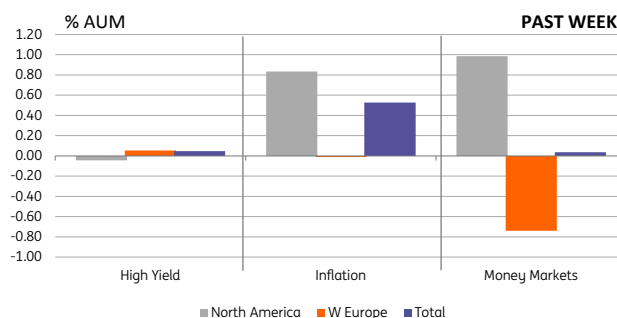
Source: EPFR Global, ING estimates

- Allocation to USD bonds remains elevated at 52.6%, albeit down slightly from 5.2% for the previous month. But this is well up on the allocation of 48.2% seen a year ago. Allocation to the Eurozone has declined in tandem, from 23.1% to 21.1% over the same period, alongside a decline in allocation to Germany over this period.
- The steady trickle of inflows into USD inflation funds continues. This a reversal of prior outflows though, and there is still some way to go before squaring up. In the past quarter AUM here is up 2.9%, but still down 7.5% in the past year.
- European inflation funds have been less in favour; there has been a further reduction of 1.5% in AUM in the past month, and overall AUM in European inflation is down 8.1% in the past year.

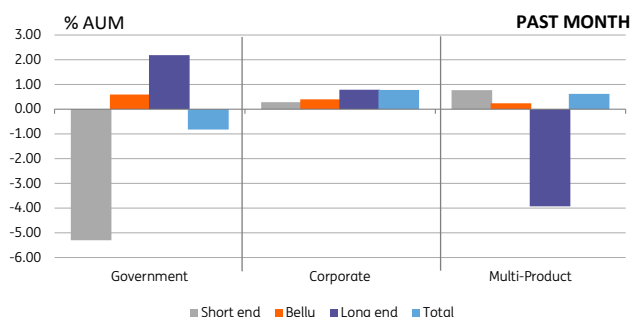
BOTTOM LINE: A striking flow in developed markets have been into long end government funds, while the opposite has been happening on the front (outflows). So the market has been getting longer on duration again. In the corporate bonds, a strong inflow to belly funds has been a feature of recent months, although inflows have slowed in the past week or so. We also note the increased allocation to US bonds over the past year, no doubt a key support for rates, spread and currency. In inflation space, inflows to USD funds continue, partly a reverse of a prior exodus, while European inflation funds have yet to see a material reversal of prior outflows.

Fig 55 Change in the past week (%)

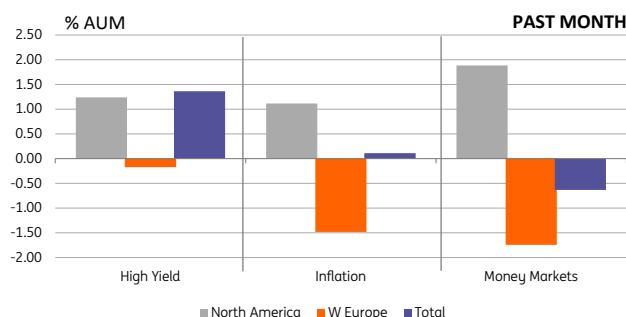
Source: EPFR Global, ING estimates

Fig 56 Change in the past week (%)

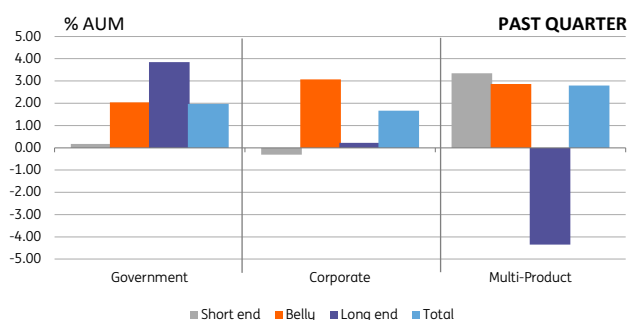
Source: EPFR Global, ING estimates

Fig 57 Change in the past month (%)

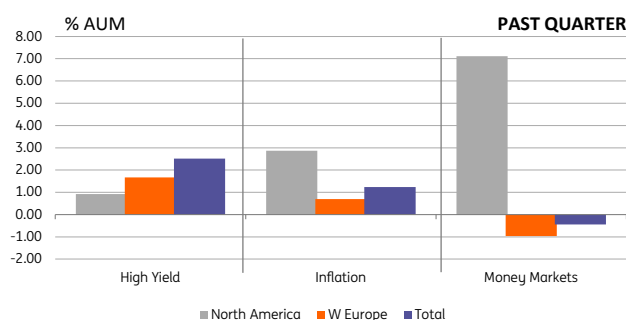
Source: EPFR Global, ING estimates

Fig 58 Change in the past month (%)

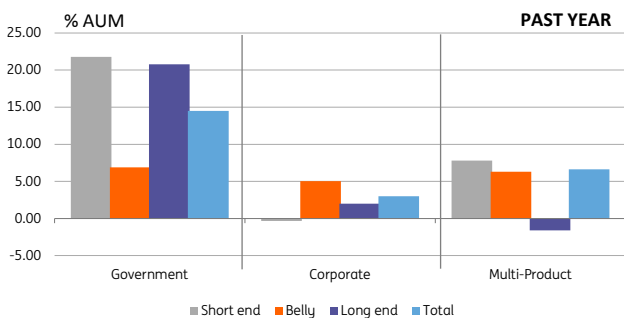
Source: EPFR Global, ING estimates

Fig 59 Change in the past quarter (%)

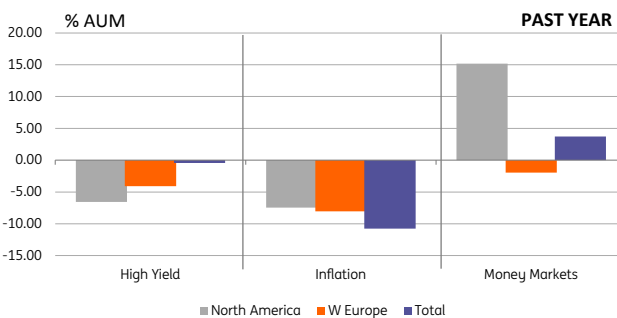
Source: EPFR Global, ING estimates

Fig 60 Change in the past quarter (%)

Source: EPFR Global, ING estimates

Fig 61 Change in the past year (%)

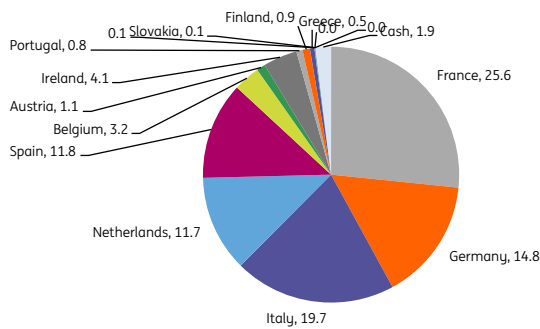
Source: EPFR Global, ING estimates

Fig 62 Change in the past year (%)

Source: EPFR Global, ING estimates

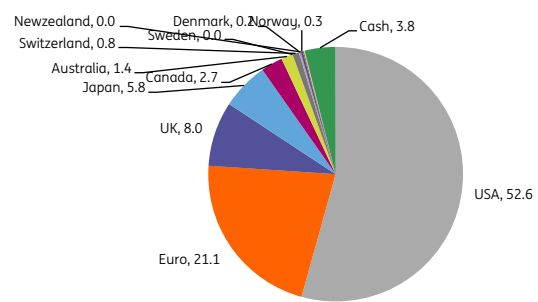
Global DM Manager Asset Allocations

Fig 63 Eurozone allocations one month ago (%)



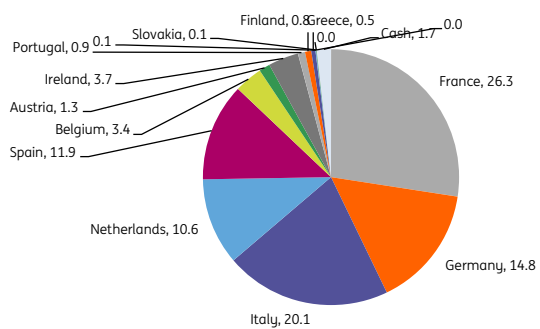
Source: EPFR Global, ING estimates

Fig 64 Global DM allocations one month ago (%)



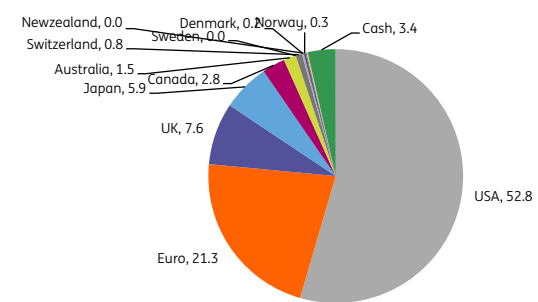
Source: EPFR Global, ING estimates

Fig 65 Eurozone allocations two months ago (%)



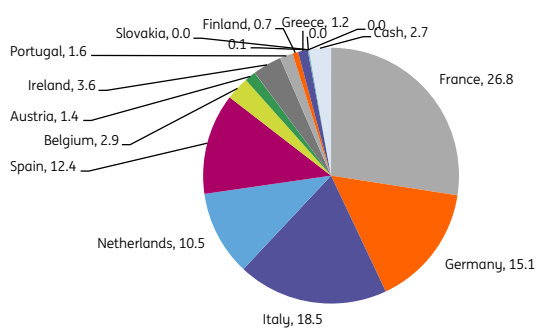
Source: EPFR Global, ING estimates

Fig 66 Global DM allocations two months ago (%)



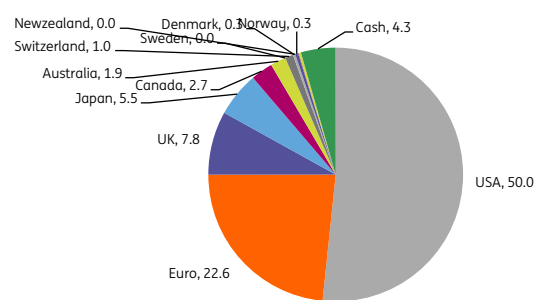
Source: EPFR Global, ING estimates

Fig 67 Eurozone allocations one quarter ago (%)



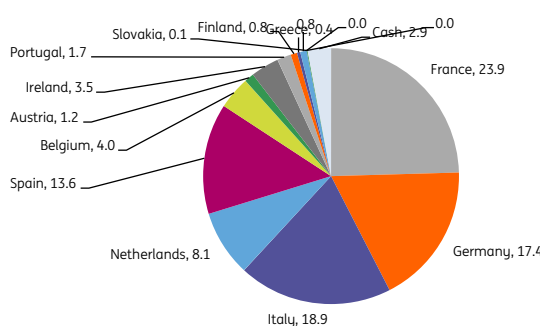
Source: EPFR Global, ING estimates

Fig 68 Global DM allocations one quarter ago (%)



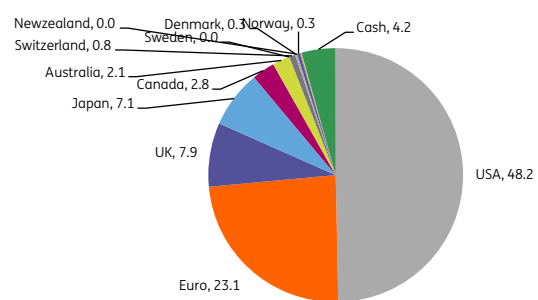
Source: EPFR Global, ING estimates

Fig 69 Eurozone allocations one year ago (%)



Source: EPFR Global, ING estimates

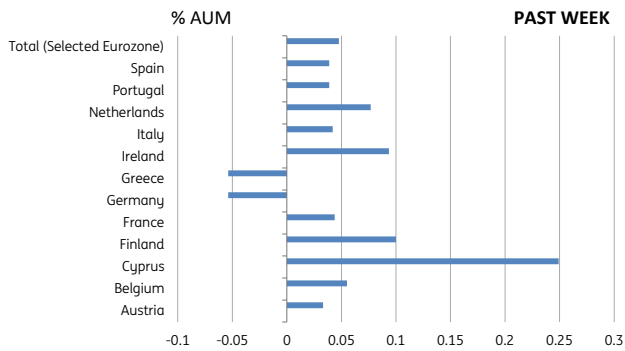
Fig 70 Global DM allocations one year ago (%)



Source: EPFR Global, ING estimates

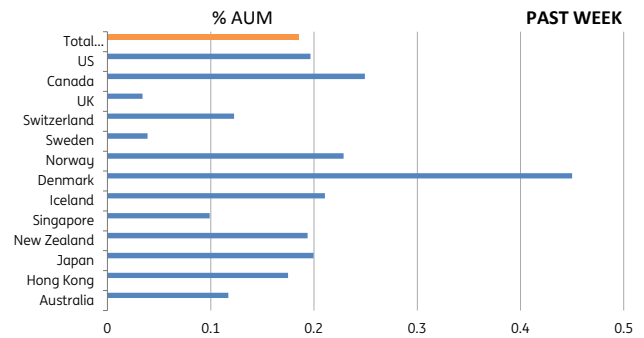
Developed Markets Country Flows

Fig 71 Eurozone – Change in the past week (%)



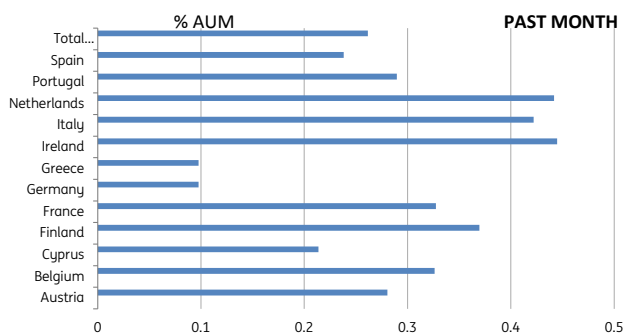
Source: EPFR Global, ING estimates

Fig 72 Non Eurozone – Change in the past week (%)



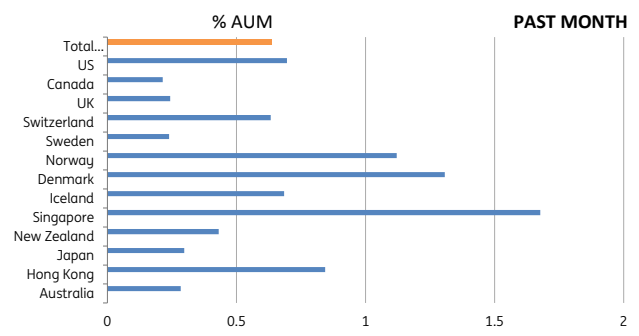
Source: EPFR Global, ING estimates

Fig 73 Eurozone – Change in the past month (%)



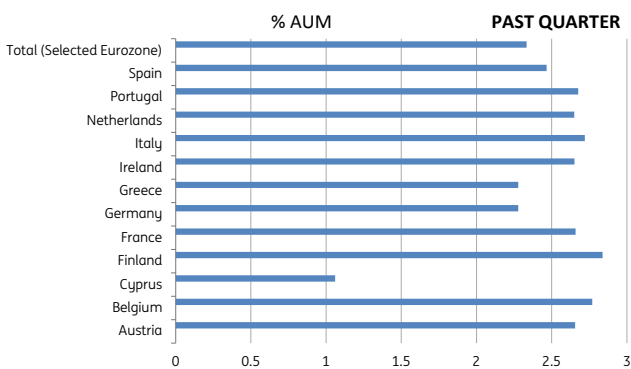
Source: EPFR Global, ING estimates

Fig 74 Non Eurozone – Change in the past month (%)



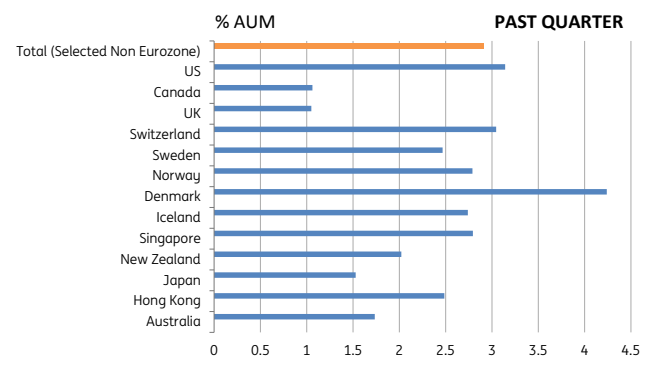
Source: EPFR Global, ING estimates

Fig 75 Eurozone – Change in the past quarter (%)



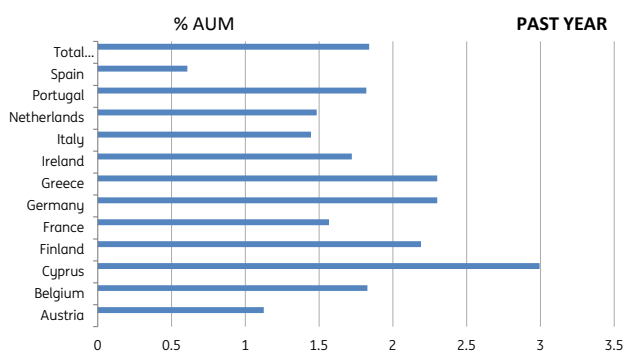
Source: EPFR Global, ING estimates

Fig 76 Non Eurozone – Change in the past quarter (%)



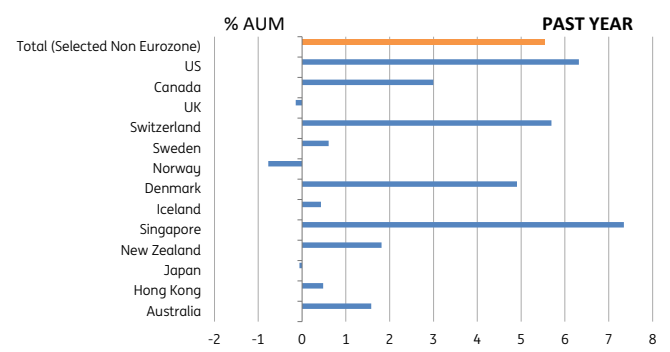
Source: EPFR Global, ING estimates

Fig 77 Eurozone – Change in the past year (%)



Source: EPFR Global, ING estimates

Fig 78 Non Eurozone – Change in the past year (%)



Source: EPFR Global, ING estimates

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