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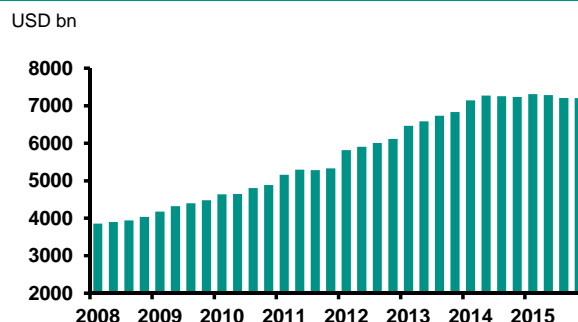
The SWF taper: how big is it?

- There has been a rising focus on the hit to markets from lower oil prices
- One channel is declining investment from Sovereign Wealth Funds (SWFs)
- SWF assets rose by USD 50bn per month before the oil price collapse...
- ...and have been falling by around USD 5bn per month since
- However, this likely reflects price movements as well as flows
- The SWF taper is less than the Fed's but is still significant

SWF selling seen as a key transmission channel

In our recent Macro Weekly (see [here](#)), my colleague Han de Jong argues that the sharp fall in oil prices is currently proving to be bad news for the global economy and markets. Although low oil prices tend to be good for net importers, the drop to extremely low levels has tended to cause financial stress that is bigger than the benefits. One of the negative transmission channels for financial markets that has been in focus has been declining investment by Sovereign Wealth Funds (SWFs). Selling by these entities – especially of risky assets – seems to have at least aggravated the correction. But how big is this effect?

Sovereign Wealth Fund assets



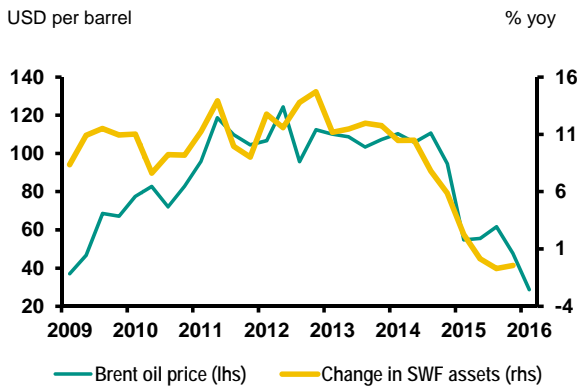
Source: SWIF

SWFs assets have declined

Total assets at SWFs were around the 7.2 trillion dollar mark at the end of last year according to the Sovereign Wealth Fund Institute (SWIF). This is down from a peak of around 7.3 trillion dollars at the start of last year. The decline follows a number of years

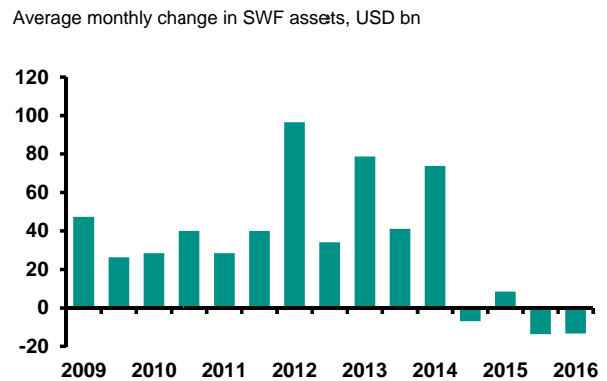
of sharp gains. The recent decline in assets most likely is driven by the fall in oil prices from around the end of last year (see chart), which has limited the inflows into the funds and ultimately has led to some outflows. According to the SWIF, around 56% of the SWF assets are from countries that have built up that wealth from oil and gas. However, non-energy related SWFs may also have suffered because of declining FX reserves for EMs more generally because of capital outflows.

Oil prices and SWF assets



Source: SWFI, ABN AMRO Group Economics

The SWF taper



Source: SWFI, ABN AMRO Group Economics

The scale of the SWF taper

In order to get a sense for the impact SWFs may have had on global financial markets we look at the average monthly change in total SWF assets before the oil price correction (which started in the second half of 2014) and after. Between the start of 2010 and the first half of 2014, SWF assets grew on average by USD 50bn per month. Since then they have shrank by around USD 5bn per month (we have made a rough assumption for the first part of this year based on oil price developments). These shifts do not fully reflect flows into and out of financial markets, as they will likely have been also influenced by asset price movements.

Benchmarking with the Fed's taper

The Fed's tapering saw its monthly asset purchases go down from USD 85bn per month to zero in just under a year. So the SWF tapering is not of the scale of that of the Fed. However, it is still significant and has likely aggravated the correction we have seen in risky asset prices over recent weeks. Having said that, the shift in SWF assets is a trend that has been underway since the end of 2014, so is not a completely new phenomenon. It has possibly accelerated recently though.

Tailwinds as well as risks

A fresh offsetting impulse for markets is likely to come from a stepping up of asset purchases from the ECB and BoJ. We also expect the Fed to refrain from hiking rates over the next few months. Furthermore, we expect a gradual recovery in oil prices during the course of the year, while modest global growth should also continue. So we see some positive tailwinds ahead, which could start to counteract some of the well-documented negatives related to concerns about emerging markets and commodities.

Day	Date	Time	Country	Key Economic Indicators and Events	Period	Latest outcome	Consensus	ABN AMRO
Monday	25/01/2016	00:50:00	JP	Merchandise trade exports - % yoy	Dec	-3.3	-6.9	
Monday	25/01/2016	10:00:00	DE	Ifo - business climate - index	Jan	108.7	108.3	108.1
Monday	25/01/2016	15:00:00	BE	Business confidence - index	Jan	0.0		
Tuesday	26/01/2016	14:00:00	HU	Base rate - %	Jan 26	1.35	1.35	1.35
Tuesday	26/01/2016		US	FHFA house price index - % mom	Nov	0.5	0.5	0.5
Tuesday	26/01/2016	15:00:00	US	S&P/Case Shiller house price index	Nov	0.8	0.7	0.7
Tuesday	26/01/2016	16:00:00	US	Conference Board cons. confidence - index	Jan	96.5	95.6	95.0
Wednesday	27/01/2016	16:00:00	US	New homes sold - % mom	Dec	4.3	2.1	2.4
Wednesday	27/01/2016	18:00:00	FR	Total jobseekers - thousands	Dec	-15.0		
Wednesday	27/01/2016	20:00:00	US	Fed Funds Target Rate - lower bound	Jan 27	0.25	0.25	0.25
Wednesday	27/01/2016	20:00:00	US	Fed Funds Target Rate - upper bound	Jan 27	0.50	0.50	0.50
Wednesday	27/01/2016	21:00:00	NZ	Policy rate - %	Jan 28	2.5	2.5	
Thursday	28/01/2016	06:30:00	NL	Producer confidence manufacturing - index	Jan	3.0		2.2
Thursday	28/01/2016	10:30:00	GB	GDP - % qoq	4Q A	0.4	0.5	
Thursday	28/01/2016	11:00:00	EC	Economic sentiment monitor - index	Jan	106.8	106.5	105.8
Thursday	28/01/2016	14:00:00	DE	CPI - % yoy	Jan P	0.3	0.5	0.4
Thursday	28/01/2016	14:30:00	US	Initial jobless claims - thousands	Jan 23	293		
Thursday	28/01/2016	14:30:00	US	New durable goods orders - % mom	Dec P	0.0	-0.7	-1
Thursday	28/01/2016	16:00:00	US	Pending home sales - % mom	Dec	-0.9	0.9	0.9
Friday	29/01/2016		JP	CPI - % yoy	Dec	0.3	0.2	
Friday	29/01/2016	00:30:00	JP	Unemployment - %	Dec	3.3	3.3	
Friday	29/01/2016	00:50:00	JP	Industrial production - % mom	Dec P	-0.9	-0.1	
Friday	29/01/2016	07:30:00	FR	GDP - % qoq	4Q A	0.3	0.2	
Friday	29/01/2016	10:00:00	EC	M3 growth - % yoy	Dec	5.1	5.1	
Friday	29/01/2016	11:00:00	EC	Core inflation - % yoy	Jan A	0.9	0.9	0.9
Friday	29/01/2016	11:00:00	EC	CPI - % yoy	Jan A	0.2	0.4	0.2
Friday	29/01/2016	11:30:00	RU	Key rate %	Jan 29	11.0	11.0	11.0
Friday	29/01/2016	14:30:00	US	GDP - % qoq annualised	4Q A	2.0	0.7	0.9
Friday	29/01/2016		US	Chicago Fed - business confidence - index	Jan	43	45	
Friday	29/01/2016	16:00:00	US	Univ. of Michigan cons. confidence - index	Jan F	93.3	92.4	92.0
Friday	29/01/2016		JP	Policy rate - %	Jan 29	80	80	

Source: Bloomberg, Reuters, ABN AMRO Group Economics (we provide own forecasts only for selected key variables and events)

Find out more about Group Economics at: <https://insights.abnamro.nl/en/>

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