FPI sell-off intensifies: Big investors face the heat | The Indian Express
FPI sell-off intensifies: Big investors face the heat

Though the Reserve Bank of India eased norms governing debt market investments, FPI interest in Indian debt has been waning.

In October alone, FPIs have pulled out Rs 31,984 crore, one of the highest in recent times, with Rs 19,810 crore going out from the stock market alone. (Reuters/File)

The sell-off by foreign portfolio investors (FPIs) in the Indian capital market has intensified with outflows crossing the Rs 100,000 crore mark since April, raising concerns over the weakening domestic economic indicators and adverse external factors. Adding to the worries, the sell-off in money market instrument amid liquidity crunch and the IL&FS defaults have hit the investment plans of mutual funds — big investors in both debt and equity.

In October alone, FPIs have pulled out Rs 31,984 crore, one of the highest in recent times, with Rs 19,810 crore going out from the stock market alone. With this, FPI outflows since April have touched Rs 1,06,741 crore, including Rs 47,039 crore outflows from stock markets, according to NSDL data. “The exit of big institutions from the market has contributed to the liquidity crunch and the pressure on the rupee,” said an analyst.

Even big domestic investors were finding the going tough in the last two months. Mutual funds witnessed a massive decline in their asset base in September due to the stock market crash and withdrawals from the debt market in the wake of the IL&FS episode. The assets under management (AUM) of MFs fell 12.6 per cent, or over Rs 3,00,000 crore, to Rs 22 lakh crore at September-end against Rs 25.20 lakh crore at August-end due to massive outflows from liquid funds and income schemes. According to the Association of Mutual Funds in India (Amfi) data, the monthly drop in the asset base was mainly due to an outflow of Rs 2.3 lakh crore from MF schemes, mainly Rs 2.11 lakh crore withdrawal from liquid funds.

The Sensex too has fallen 4,329 points, or 11.2 per cent, to 34,315.63 in the last two months.

Global and domestic factors alike have contributed to the shift in foreign investor sentiments. “These include the depreciation in the rupee (since mid-April), rise in crude oil prices, weakening domestic economic fundamentals (widening current account deficit and concerns over fiscal deficit), US interest rate hikes and the resultant shrinking yield differentials, strengthening of the US dollar, global trade developments and tightening global liquidity conditions (with shift in monetary policy of advanced economies and the US Fed’s move to shrink its balance sheet coupled with higher debt issuances to finance the budget deficit),” said a Care Ratings report.

The role of rupee’s depreciation in affecting FPI outflows is ambiguous, it said. Net FPI outflows since August 2018 were $4.9 billion when the rupee depreciated by 7 per cent. This is lower than the net
outflows during April–June 2018 ($9.1 billion) when the currency fell by 3 per cent. “This indicates that external factors have been the more important drivers of capital flows into India,” the Care study said.

Though the Reserve Bank of India eased norms governing debt market investments, FPI interest in Indian debt has been waning. There has been decline in the utilisation limits in recent months in all categories of debt instruments — central and state government securities and corporate bonds — reflecting the softening of investor interest in the domestic markets.

The FPI withdrawal and the RBI intervention in the foreign exchange market also hit the foreign exchange kitty. Foreign exchange reserves had plunged by $ 5.143 billion — one of the steepest declines in recent years — to $394.465 billion during the week ended October 12, according to the RBI. The RBI has sold over $40 billion of its reserves to prop up the rupee since the beginning of the current financial year. Despite the RBI intervention, the rupee had lost close to 16 per cent since January and plunged to 74.43 last week against the dollar, making it one of the worst emerging market currencies. The rupee closed at 73.32 on Friday.
Watch Now
Dancing to the beats of a dhak with a Dhanuchi

Buzzing Now

- Alia Bhatt: Ranbir Kapoor is a chiller boyfriend
- Koffee With Karan 6: Diljit Dosanjh and Badshah to make their debut on the Karan Johar show
- Koffee With Karan 6: Akshay Kumar and Ranveer Singh episode promises to be fun-filled affair
- This little boy dressed as Hanuman shouts ‘Jai Shri Ram’ with a Punjabi touch
- What’s with toddlers and snakes; see these videos and decide
FPI sell-off intensifies: Big investors face the heat | The Indian Express