Business Line
Copyright © 2014, The Hindu Business Line.
Wed, 22 May-19; Business Line - Chennai; Size : 319 sq.cm.; Circulation:121518; Page : 10

Debt-wary FPIs continue to press the sell button

Fiscal deficit situation, depreciation in rupee value are primary reasons

NARAYANAN V

Chennai, May 21

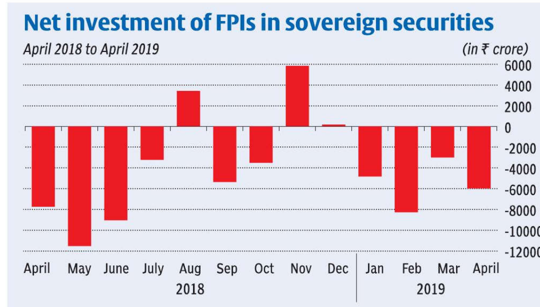
Although foreign portfolio investors closed FY19 as net sellers in both equity and debt segments, they began FY20 on a positive note, infusing about ₹21,193 crore in equities in April. They, however, continued to remain net sellers in the debt market, with net sales of bonds worth ₹5,100 crore during the month.

On Monday, FPIs turned net sellers even in the equity market, offloading net equities worth ₹1,127 crore. They continued as net sellers in the bond market, offloading bonds worth ₹300 crore. This was even as other investors made the most of the stupendous rally in the stock, bond and money markets.

"The first wave of selling by FPIs in the debt market emerged in FY18-19, mainly on account of depreciation of rupee and the change in domestic monetary policy from neutral to tight," said Joseph Thomas, Head of Research, Emkay Wealth Management.

"Also, concerns over the fiscal deficit situation, and fears of a rise in global oil prices were other factors which were at play as far as the selling was concerned," Thomas added.

In the debt category, 'sovereign securities' which witnessed maximum sell-off by foreign investors in FY19, continue to witness sell-off even during the current fiscal. In FY19, FPIs sold sovereign bonds worth ₹47,216 crore, while total sales in the debt segment stood at ₹42,356. The reduction in total value is the result of investments worth about ₹12,600 crore in corporate bonds.



Source: NSDL

"Rise in crude oil prices, higher inflation, pressure on current account deficit, falling rupee and consequent fiscal slippage are some of the factors that resulted in lower demand for sovereign debt resulting in yields refusing to fall despite most conditions being conducive for their fall," Deepak Jasani, Head — Retail Research, HDFC Securities, said.

On its part, the RBI also took a host of initiatives to attract and retain FPI investment into the Indian bond market. In March 2019, the RBI eased the norms by introducing the voluntary retention route (VRR), allowing FPI investments free of regulatory norms, provided they maintain a share of their investments for a fixed period. In February, the apex bank also withdrew its April 2018 regulation where FPI were not allowed exposure of more than 20 per cent of its corporate bond portfolio to a single corporate.

"FPI investment ceiling of outstanding issuance of government bonds was raised to 6 per cent in FY20 from 5.5 per cent in FY19. However, utilisation levels of existing limits have come down to less than 65 per cent in FY19 from 90 per cent in FY18," Jasani said.

Reacting positively to the exit poll predictions, the 10-year benchmark yield on Monday fell to 7.29 per cent from 7.36 per cent at the previous close.

Sovereign securities, which witnessed sell-off by FPIs in FY19, continue to witness selling pressure in FY20 too

"Of late, FIIs have been buying government securities on expectation of the incumbent government coming back to power. Buying in government debt is also on the expectation that the RBI will cut rates to ease the liquidity situation as well as to boost consumption," said Rajeev Srivastava, Head — Retail Broking, Reliance Securities.

But market analysts also caution that the knee-jerk reaction in bond yields are unlikely to exist for more than a few trading sessions and that the yields are driven primarily by liquidity conditions in the domestic market which is determined by RBI's monetary policy and government borrowings.