

## **FII's appetite for Indian bonds wanes**

Tanya Thomas

*They have sold bonds worth ₹7,349 crore in 2016 till August*

Mumbai, September 4:

For the past six years, foreign investors have stayed faithful to domestic bonds, particularly Indian government securities that offer higher and more dependable returns than other countries do. But all that seems to have changed now.

For the first time after 2009, FIIs have been selling Indian bonds through this calendar year, offloading up to ₹7,349 crore of bonds as of August 31. And bond market watchers struggle to explain why.

"I think the trend is a little puzzling," said Prateek Pant, Co-Founder and Head of Products and Solutions, Sanctum Wealth Management.

"FIIs primarily look at macros and at currency. The macros look positive now. With growth looking strong, inflation stabilising and a sense of continuity of policy with the new RBI Governor; the currency has been stable to strong."

By August of last year, FIIs had picked up ₹38,704 crore of Indian bonds (net) while the corresponding figure for 2014 was a whopping ₹1,02,473 crore.

### **Handsome returns**

"I think FIIs came in when interest rates were between 7.60–7.85 per cent," Pant explained, "and since then rates have rallied below 7.15 per cent, so some FIIs are taking the opportunity to book profits in a market where they've made handsome returns over a short period."

In bonds, interest rates and bond prices move inversely.

The figure of ₹7,349 crore thus far this year is not very significant.

"When Government security auctions happen, we see some interest from FIIs but there has been little follow-on buying," said R Sivakumar, Head-Fixed Income, Axis Mutual Fund.

"I think it's because in early 2015, the RBI made it mandatory for FIIs to only invest in bonds with a minimum three-year maturity. So, the older bonds (in their portfolio), of say one to two years maturity, which they might have bought in 2014, particularly corporate bonds, might be up for maturity now. So the fall in holdings could have been on account of this, since they can't roll it over into other instruments.

"But look at masala bonds," Sivakumar adds. "Two issues have gone through and about a dozen are pending. It suggests that foreign investors are still quite happy to hold rupee assets."

### **Equities rising**

Enthusiasm is buoyant in the equity markets, however, with FIIs pumping ₹40,851 crore into them by August-end, way more than last year's corresponding figure of ₹27,524 crore.

Lakshmi Iyer, CIO-Debt, Kotak Mutual Fund, believes the see-saw in the Indian bond markets has to do with global events and FIIs' response to them.

In February, talk of slowing liquidity from the US Federal Reserve turned them sellers here (₹8,195 crore net), while uncertainty about the Brexit vote drove them out again in May and June (₹10,629 crore net).

"I don't think there is a clear trend so far," Iyer concluded.

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