

At \$6.4 bn, FPI inflows in Aug 3rd-highest in post-Covid era

Economic growth seen as key trigger for uptick; ₹, bond movement could decide trajectory ahead

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Thiruvananthapuram, 31 August

Domestic equity markets garnered one of the highest foreign portfolio investor (FPI) flows in the post-pandemic era in August, even as the Federal Reserve — US central bank whose policies shape capital flows into global markets — firmly stood its ground on unwinding its stimulus measures to control inflation. FPIs pumped in over ₹51,000 crore (\$6.4 billion) in August, most since December 2020 and third-most since March 2020 — the month the Covid-19 pandemic roiled global markets. This was the second consecutive month of positive foreign flows. In the preceding nine months, FPIs had pulled out over \$32 billion or ₹2.2 trillion.

The reversal in FPI flows since June-end has helped the domestic markets rebound 16 per cent from their June lows.

This meant that Indian equities were among the biggest recipients of overseas flows in August, as *Bloomberg* data shows. “India stands out as the only country where there is positive momentum in terms of growth and economic activity, compared to other emerging markets (EMs). There are many funds eager to invest in markets where there is good economic growth. India is one such market. FPIs had taken money out continuously since September 2021 but now, with economic growth visible, they are trying to plough back some of it,” said UR Bhat, co-founder, Alphaniti Fintech.

On a year-to-date basis, commodity-exporting nations such as Indonesia and Brazil have seen higher FPI flows and better performance. India, however, is playing catch up



ILLUSTRATION: BINAY SINHA

over the past two months, by clocking returns higher than any other major global market. India has outperformed the MSCI EM index by almost 19 per cent since mid-June, thanks to improved FPI flows. “One felt that once the dust settles on interest rate hikes, everyone will look at growth and India will emerge as the place to be. It played out a little earlier than expected. One is not sure of what the catalyst is going to be to get more flow. If the energy crisis in Europe is resolved, that will make things a little less worrisome,” said Andrew Holland, CEO, Avendus Capital Alternate Strategies.

India’s recent outperformance has been underpinned by improved outlook for foreign flows. However, it

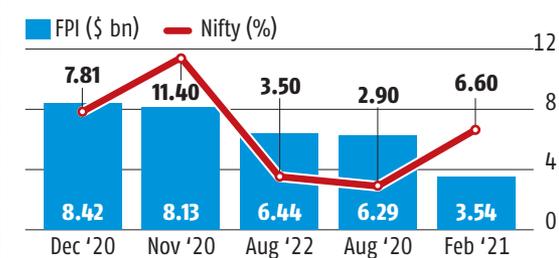
remains to be seen if strong flows into India will continue as the Fed has embarked upon a quantitative tightening programme. Under this, the US central bank will reduce its balance sheet by around \$90 billion a month. This is a sharp reversal in its stance as it was expanding the balance sheet by \$120 billion a month since June 2020 to help revive the economy battered by the pandemic. Also, the recent out-performance has widened India’s premium to the other EMs. The Nifty50 now trades at 22.2 times its estimated 12-month forward earnings. In comparison, the MSCI EM index trades at nearly half of it, at 11 times.

In the past, whenever the Indian market has traded at such a hefty pre-

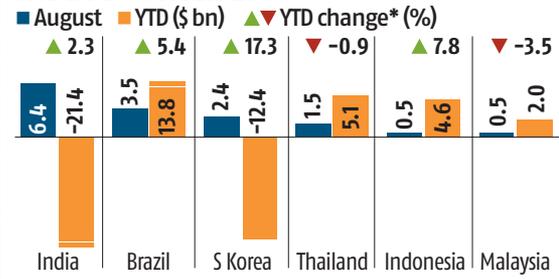
mium, it has underperformed other EMs. Another potential headwind for FPI flows could be the weakening rupee against the US dollar. The rupee has tested a new low against the dollar ending at 79.97 on Monday. A depreciating rupee eats into the returns of overseas investors.

Analysts also emphasise that the FPI flows into EMs, including India, would hinge on the performance of US Treasury. On Tuesday, the 10-year US Treasury hit 3.1 per cent. It was at 2.57 per cent during the start of the month. Further hardening of yields could pose a danger for FPI flows as attractive yield in the US could prompt foreign funds to reassess their risk-reward ratio.

TOP-FIVE MONTHLY FPI FLOWS SINCE START OF THE PANDEMIC



INDIA VS OTHER EMs



*In benchmark equity index

Source: NSDL, Bloomberg