Foreign investors return, signalling a longer India bet

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Foreign capital is flowing back into Indian financial markets, reversing a prolonged spell of weakness across equities, the rupee and government bonds. Stocks have rallied, the currency has strengthened and bond yields have eased as overseas investors return to domestic assets, including government securities through the Fully Accessible Route (FAR).

Foreign investors have reversed a 10-month selloff in Indian equities, pouring nearly ₹54,000 crore into domestic stocks in the first nine days of November. The sharp turnaround in foreign portfolio investor (FPI) flows, accompanied by a reduction in bearish derivatives positions, suggests that overseas investors are reassessing their exposure to Indian assets.

Between January and October, FPIs withdrew ₹4.48 trillion from Indian equities, weighing on the rupee and leaving the Nifty 50 down 2 per cent over the previous year. Bond yields also remained elevated as foreign investors favoured markets offering higher returns. But the direction of flows has changed sharply this month.

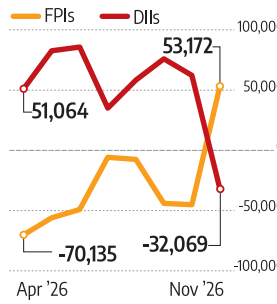
FPIs bought shares worth ₹53,172 crore between November 1 and 9. They had been net sellers in every month of 2026 and also FY27 so far, including withdrawals of ₹45,162 crore in October and ₹44,013 crore in September.

The reversal has extended to government debt. Foreign investors bought ₹7,480 crore of government securities under the FAR in the first nine days of November, according to Clearing Corporation of India data. This is the highest monthly inflow since July, when they purchased ₹7,581 crore, and follows two consecutive months of net selling, with outflows of ₹9,192 crore in September and ₹5,609 crore in October.

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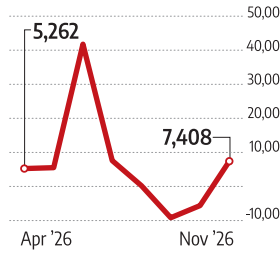
The turn of the tide

Net investment in equity (₹ crore)



Data as of November 9
Source: Exchange
Compiled by *Business Standard* Researchu Bureau

Net FPI investment in government securities via FAR (₹ crore)



Data as of November 9
FAR: Fully accessible route
Source: CCIL


Brokerages' Diwali picks for Samvat 2083

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FPIs have been net buyers of domestic debt in five of the seven months of the current financial year. Net purchases in FY27 have reached about ₹52,939 crore, including November, although much of the inflow came in June, when foreign investors bought ₹41,774 crore of government securities.

Their positioning in equity derivatives has also become less bearish. At Monday's close, FPIs' long-short ratio stood at 26.8 per cent, its second-highest level this year, behind the 29.2 per cent recorded on February 23, shortly before the Iran-US war began.

The ratio had remained below 15 per cent for most of the period since the conflict erupted. Foreign investors continue to hold more short than long positions, but the balance of their bets is now the least bearish since the war began.

The shift comes after a prolonged period in which India struggled to attract foreign capital, as investors sought higher returns across both equity and debt markets. The absence of a compelling artificial intelligence investment theme also left Indian equities at a disadvantage, as the AI-driven rally propelled markets in the US and across Asia excluding Japan to new highs.

The political outcome of the US midterm elections, with Democrats winning control of Congress, has reduced the perceived risk of a further escalation in the West Asia conflict. The resulting easing in crude oil prices has helped temper concerns about an inflationary shock, a key determinant of the US interest-rate outlook.

A less inflationary global environment could improve the relative appeal of Indian assets. Domestic equities have become more attractive on valuation grounds after their recent underperformance, while government bonds offer foreign investors an opportunity to earn relatively high yields.

"Given India's healthy macroeconomic fundamentals, strong corporate earnings, a meaningful correction in valuations from their 2024 peak levels, and robust domestic liquidity, any moderation in the global AI trade could encourage a stronger and more sustained revival in FPI interest in relatively underperforming emerging markets such as India," wrote Deven Mistry and Aanshul Agarawal of Motilal Oswal Financial Services in a note to clients. "Continued improvement in FPI sentiment, coupled with easing geopolitical challenges, could help offset the headwinds that have weighed on Indian markets over the past two years and lay the foundation for a sustained market rally."



The renewed interest has coincided with a sharp rebound in domestic markets. The Nifty 50 rose 5 per cent over the past five trading sessions. The inflows have also supported the rupee, which gained 1.09 per cent against the dollar last week, moving past the ₹94-a-dollar mark to its strongest level in more than four months. A softer dollar index provided additional support to emerging-market currencies.

The bond market has also rallied, with yields falling across maturities last week. Long-dated securities recorded the steepest declines, flattening the yield curve. Foreign banks and private sector banks were the principal buyers, while public sector banks, mutual funds and primary dealers were net sellers.

"Foreign investors came in on the longer end after the fall in crude, and that helped the 10-year government bond yield fall sharply last week. The buying in the 2033 and 2036 bonds shows they are comfortable adding at these levels, but we need to see if the flows hold once oil settles," a market participant said. Conditions in the money market have eased as well. Banking system liquidity was in surplus by ₹2.3 trillion, equivalent to 0.8 per cent of net demand and time liabilities, as of November 6.

The liquidity surplus widened during the week following the reversal of a 29-day variable rate reverse repo (VRRR) auction worth about ₹25,560 crore. The Reserve Bank of India (RBI) also conducted a three-day VRRR auction for ₹25,000 crore, which attracted bids worth ₹18,130 crore.

However, festival-season demand and outflows towards excise duty and tax payments prompted the central bank to conduct a four-day variable rate repo (VRR) auction worth ₹50,000 crore to meet additional liquidity requirements.

The improvement in liquidity was reflected in short-term borrowing costs. The weighted average call rate (WACR), an indicator of overnight borrowing costs in the banking system, eased to 5.47 per cent from 5.64 per cent the previous week. The weighted average triparty repo rate declined to 5.52 per cent from 5.63 per cent, while the weighted average market repo rate fell to 5.46 per cent from 5.60 per cent.

Whether the improvement in sentiment translates into sustained foreign inflows will depend partly on this week's economic data. October consumer price inflation is expected to rise to 5.9 per cent, driven by higher food prices and an unfavourable base effect. Bond dealers expect the 10-year benchmark yield to trade in a range of 7.10-7.25 per cent.

"Volumes should stay thin in a holiday-shortened week, and the market will take its cue from October CPI," a dealer at a private bank said. "Oil and the US payrolls-driven Fed rate hike risk (will decide) the direction."

Global brokerages are also becoming more constructive on Indian equities. HSBC Global Investment Research upgraded India to 'overweight' this week, citing the country's market depth, domestic demand and relatively resilient macroeconomic backdrop.

"In an environment where investors are seeking to diversify away from concentrated AI exposure, India stands out for its market depth, domestic demand orientation and relatively resilient macro backdrop," its analysts wrote. "Valuations, previously a key concern, have moderated back towards historical averages, while corporate earnings have remained resilient despite the economy's dependence on energy imports." Citi raised its December 2027 Nifty 50 target to 28,000, implying an upside of 11.8 per cent from Monday's close of 25,044.65. The brokerage expects earnings to grow at about 15 per cent annually over FY26-28 and oil prices to remain "below prior fears". It also expects AI capital expenditure to moderate, arguing that the outcome of the US midterm elections and elevated interest rates could constrain spending and "aid flows into non-AI assets".

Financial markets were closed on Tuesday for Diwali Balipratipada.