

How rupee moved against currencies of major FPIs

Bilateral exchange rates show a trend different from that against dollar

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The rupee has appreciated against many key sources of foreign investment in the stock market.

The depository data shows that nine of top 10 countries in terms of foreign portfolio investor (FPI) flows were common in both June 2022 and June 2021. The rupee has appreciated against six of the nine countries with respect to their home currencies between June 2021 and June 2022.

It is up 15.96 per cent against the Japanese yen, 9.24 per cent against the Norwegian krone, 7.47 per cent against the British pound, 7.3 per cent against the euro (Ireland and Luxembourg), and 0.53 per cent against the Mauritius rupee. The decline has come against the Canadian, Singapore, and US dollar.

The assets under custody of FPIs, which have seen a depreciation in their home currencies against the dollar, were ₹20.3 trillion of the total FPI equity holdings of ₹41.3 trillion in June.

The FPIs, which saw the rupee appreciate against their home currencies, accounted for ₹13.9 trillion in equity assets under custody.

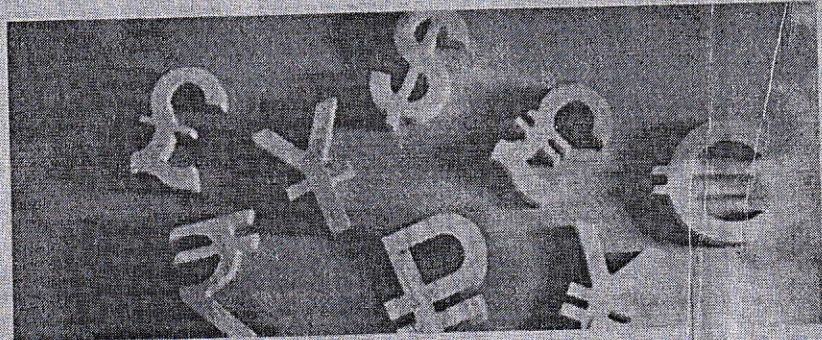
An appreciating rupee is generally seen as a tailwind for foreign investors. However, analysts said that its performance against the dollar may matter more than the movements against the home currency.

An economist with a private bank said while some institutions may choose to hedge their currency exposure, global portfolio flows and asset returns are largely measured in terms of the greenback. The dollar is also the primary currency through which investments are made across markets, given its importance in the global financial system.

All this makes movements against the dollar more important when it comes to investment flows rather than the exchange rate between an FPI's home currency and the rupee.

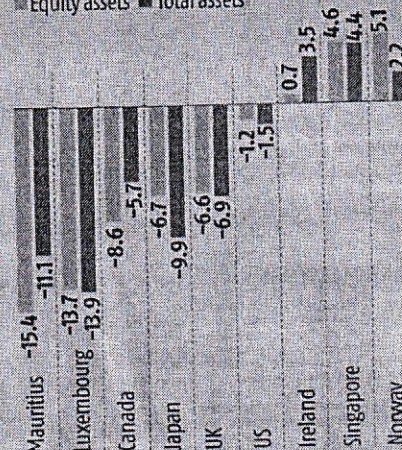
"The dollar is the primary determining factor," he said.

U R Bhat, co-founder and director, Alphaniti Fintech, said there has been a move globally for financial systems to be less dependent on the dollar, although it would take some time for the effects



FPIs THROUGH MAURITIUS SEE LARGEST DECLINE

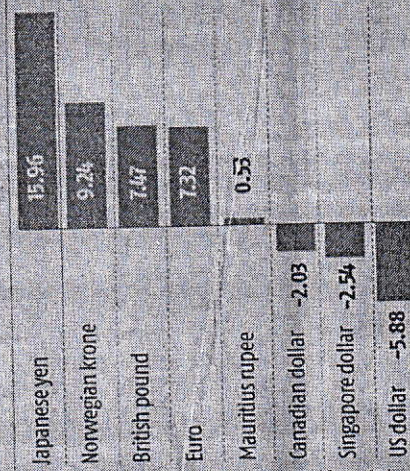
Changes in FPI holdings (in %)
■ Equity assets ■ Total assets



Note: Change between June 2021 and June 2022. Total assets include debt and hybrid securities
Source: NSDL, Business Standard calculations

RUPEE HAS APPRECIATED AGAINST SOME CURRENCIES

Change (in %)



Note: Currency values have been considered for period between June 2021 and June 2022
Compiled by BS Research Bureau Source: Bloomberg

to play out.

Piyush Garg, chief investment officer at ICICI Securities, said institutional investors often take a call on the asset class rather than on the currency. Future flows are likely to depend on India's relative attractiveness rather than the outlook on the currency, he suggested.

The S&P BSE Sensex is down 11 per cent from its all-time high to close 55,397.53 on Wednesday.

Total FPI outflows have been ₹1.15 trillion in 2022-23, after a record outflow of ₹1.4 trillion in 2021-22.

The assets under custody for FPIs from each of these countries has seen varying

degrees of change. Mauritius, which is said to be a country through which investors from other countries often invest for tax purposes, has seen the largest decline in FPI assets since June 2021. Equity assets under custody are down 15.4 per cent to ₹4.3 trillion in June. Luxembourg's equity assets are down 13.7 per cent year-on-year to ₹3 trillion.

The US is the largest source of FPI flows into India. It had investments of ₹16.1 trillion as of June, according to the latest data available. This is down 1.2 per cent from June 2021.

The overall FPI equity investments are down 6 per cent.