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FIIs turn net sellers as crude prices boil

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Mumbai: Overseas investors turned net seller in Indian debt this month so far on diminished fear inflation may overshoot Reserve Bank of India (RBI)'s forecast forcing to pause on rate easing for an extended period amid concerns over extra government borrowing later part of the fiscal year.

The domestic unit of Moody' Investors Service is of the view that if concerns over fiscal slippage gather pace, on account of factors such as uncertainty related to buoyancy of indirect taxes post-GST, the magnitude of dividends or higher crude oil prices, G-Sec yields may rise further.

"Rising inflation has reduced the likelihood of rate easing. Such factors may temper interest of foreign institutional investors (FIIs) in G-Sec and could lead to sporadic outflows from the Indian debt markets," said Aditi Nayar, principal economist, Icra Ltd.

The net selling trend of FIIs in the initial 15 days of November is expected to continue in the remaining part of the month and also in the next month.

This is since fears of India's deteriorating macroeconomic fundamentals coincide with year-end, when investors expect dividend payouts ahead of Christmas.

SEEKING SHELTER

- The net selling trend of FIIs will continue in November's latter half
- **Weak rupee will also weigh on FII's strong carry spread**

"India' macroeconomic picture looks little bleak given hardening of the central bank' key policy target adding to the ongoing uncertainties over fiscal borrowing," said a bond trader.

"A weakening rupee will also weigh on the strong carry spread the overseas investors attain by investing into Indian bonds. Furthermore, the sell-off by FIIs may accentuate if rupee breaches Rs 66.35/$1, the level from which local currency had started appreciating this year." **—TickerNews Service**