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$4.3 bn hot money exits India in Oct

₹ weakens, stocks turn volatile as FPIs pull out

By **Mail Today Bureau** in New Delhi

FOREIGN investors have withdrawn close to Rs 32,000 crore ($4.3 billion) from Indian capital markets in the first three weeks of this month, weakening the rupee and running down the country's foreign exchange reserves.

The exit of hot money from the capital markets, which has weakened the macroeconomic fundamentals of the economy and added to the volatility in the stock markets, has been driven by rising crude oil prices, higher US government bond yields and uncertainty created by the ongoing the global trade war.

According to the latest depository data, FPIs sold equities to the tune of Rs 19,810 crore during October 1-19 and bonds worth Rs 12,167 crore, taking the total to Rs 31,977 crore (USD 4.3 billion).

The outflow in October so far exceeds the Rs 21,000 crore pulled out by foreign portfolio investors (FPIs) in the entire month of September. The last two months have seen a reversal of foreign fund flows as during July-August this year FPIs had pumped in a net amount of Rs 7,400 crore in the country's equity and debt markets.

The rupee has been facing intense selling pressure for more than a month now. It has depreciated by over 12 per cent this year. On Friday the exchange rate closed at Rs 73.32 against the dollar.

A weaker rupee increases makes the country's oil imports even costlier as payments have to be made in US dollars.

Experts said the acceleration of the hot money outflow in October so far has shaken the market. Negative sentiments from the global market on concerns over a slowing world economy led by lingering trade war between the US and China triggered the FPI pullout, said Vinod Nair, Head of Research, Geojit Financial Services.

The country's foreign exchange reserves fell by a staggering $5.1 billion in the week ended October 12, according to data released by the Reserve Bank of India (RBI). This is the sharpest decline in seven years.Total forex reserves declined from $399.6 billion in the previous week to $394.46 billion on October 12.

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Market analysts point out that since India imports more that 80 per cent of its crude requirement any increase in oil prices widens the current account deficit and jolts the economy.

Investor sentiments have been further hit due to the IL&FS default and its cascading effect on NBFCs which has led to a liquidity crunch.

Rising interest rates in the US and the strengthening of the dollar have been triggers for money moving out of India and other emerging markets to the US.

Global factors such as the US sanctions on Iran which take effect in November are expected to continue create uncertainty as Iran is a major supplier of crude in the world market.

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Rising crude oil prices and increasing interest on US bonds accelerates outflow of foreign funds