MF FUND FLOWS INTO EQUITY SLOW DOWN AS INVESTOR FOCUS SHIFTS

FDs, small savings schemes more attractive now as interest rate rises

RAVI RANJAN PRASAD
Mumbai

DOMESTIC savers have started reducing their fresh allocations to equity mutual funds, according to a study of the data released by the Association of Mutual Fund in India (AMFI). This trend is likely to continue with upwards revision of fixed deposit (FD) rates by banks and small savings schemes rates by the government.

The poor performance of the equity market in the first half of the calendar year and negative outlook for stocks are two factors that could reduce the flow of funds to mutual funds (MFs). Rising crude oil prices, weaker rupee and uncertainty building in the run-up to the next general elections present a grim picture of the equity market.

Inflows to equity mutual funds and equity-linked savings scheme (ELSS) slumped to Rs 8,660 crore in June from Rs 11,350 crore in May 2018. The inflows are still higher than Rs 8,164 crore in the comparable month last year. In May 2018, Rs 7,304 crore was collected through systematic investment plan or SIP.

Balanced funds which also allocates assets to equity received inflows of just Rs 1,482 crore in June as against Rs 2,666 crore in May 2018 and Rs 3,095 crore in April, 2018. Last year in June, balanced funds had received inflows of Rs 7,458 crore.

A K Sridhar, chief investment officer, IndiaFirst Life Insurance, said, "The broad macro-economic indicators from global markets coupled with rising crude oil prices and increasing interest rates could drain the liquidity from the emerging markets. When the liquidity is squeezed, it is natural to expect a shift in the flow of liquidity from risk asset classes to other safer asset classes."

"Over the next one to two quarters the strength of domestic institutions to withstand any continued outflows by FIIs/ FPIs could be limited and hence support may not be from domestic institutions. So, the domestic equity markets could witness either some more downward correction or market may remain lacklustre with side-way movements and volatility in next two three quarters," Sridhar said.

Domestic MFs have been shoring up the equity market despite huge fund outflows. Foreign portfolio investors had pulled out over Rs 48,000 crore in calendar year 2018, Rs 42,000 crore from debt and Rs 6,000 crore from equity.

With expectation of further interest rate hike by the Reserve Bank of India by at least 50 basis points this calendar year, domestic savers are staring at single digit return from the equity market and they could move to safer small savings schemes and fixed deposits.

"The high interest rates could see a shift in domestic savings going into other asset classes – such as bank deposits, small saving instruments, and debt mutual funds and even to realty and housing. This could slow down growth of inflows into equity markets," Sridhar said.

"We expect two more interest rate hikes of 25 basis points each in this calendar year," Sridhar said.

A rise in long-pending small savings rate could further reduce inflows in the equity mutual funds which have largely supported the equity market at a time when foreign portfolio investors have been net sellers.

Turn to P10

EXPOSURE TO STOCKS

	June 2018	May 2018	June 2017
Balanced Funds	1,482	2,666	7,458
ELSS*	8,660	11,350	8,164

* Equity-linked savings scheme

Figures in Rs crore

New dynamics

- Uncertainty ahead of 2019 polls, weaker rupee dampens equity outlook
- Rising oil prices and increasing interest rates could drain the liquidity from emerging markets
- When liquidity is squeezed, it is natural to expect a shift in fund flows from risk asset classes to safer asset classes
- Equity markets could witness some more downward correction or may remain lacklustre

Rates remain unchanged in last two quarters

From P1

The government administered small savings schemes interest rates, which are revised every quarter based on a formula have not seen any change in the last two quarter despite sharp rise in the yield of 10 year government bond.

"If petrol and diesel prices are being changed regularly, the small savings rate should also be changed based on formula every quarter, said a Sebi registered financial adviser.

Deena Mehta, managing director, Asit C Mehta Investment Interrmediates, said, "The government has to also look at its budget, it is going slow on raising small savings rate thinking trend may reverse, as it had reduced small savings rate after a long time."