

## **As US funds exit Indian bonds, Japanese investors step in seeing nation's strong macroeconomic scenario**

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MUMBAI: US investors are exiting Indian bonds as they withdraw from emerging markets in anticipation of higher rates back home and a stronger dollar, but Japanese investors are stepping in to fill the breach, fund managers said.

They see a strong advantage in India's stable macroeconomic scenario and possibly the best yields in a large emerging market. Japanese investors, starved of decent returns for decades from fixed income and faced with the Bank of Japan's move to negative interest rates, are taking to Indian debt in a big way.

The warming of ties between the two countries, thanks to the rapport between Prime Minister Narendra Modi and his Japanese counterpart Shinzo Abe, is also helping boost investor interest, they said. Fund inflows into schemes advised by Indian mutual funds almost quadrupled to 284.5 billion yen (\$2.45 billion) in 2015 from 77.8 billion yen (\$670 million) a year earlier, according to Morning Star data. Indian companies advising Japanese investors include Kotak Mahindra, Reliance Mutual Fund, IC ..

"Japanese investors have shown strong appetite for India," said Nilesh Shah, managing director, Kotak Mutual Fund. "It is also driven by the connect established between governments led by the prime ministers themselves. Japan has surplus savings. Return expectations are anchored on low interest rates prevailing in Japan."

Given that the government has a special desk to clear Japanesefunded projects, the flow from portfolio investors is also set to accelerate. Kotak advises the SMAM Nikko Kotak India Bond Fund, which has the largest share of the pie. It has assets under management of 93.45 billion yen (\$800 million) in the bond fund category. Reliance Mutual Fund advises the Nissay Short-Term India Bond Fund. At the end of last year, it also launched a corporate bond fund.

"Among Asian peers, India offers significantly higher yields with a relatively stable currency," said Amit Tripathi, chief investment officer, fixed income investment, Reliance Mutual Fund. "Positive macro trends in India and lower rate regime in Japan too has prompted domestic investors there to look at India favourably within the EM (emerging market) space. The trend may continue."

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