



The RBI is expected to raise -35 billion through NRI bonds to support the rupee and offset the slowdown in FPI flows amid rising oil prices, says a report.

The Reserve Bank of India is expected to raise USD 30-35 billion through NRI bonds to support the rupee and offset the slowdown in FPI flows amid rising oil prices, says a report. The FPI inflows to India will be impacted by Chinese firms listing in global benchmark indices like MSCI, it said. According to a Bank of America Merrill Lynch (BofAML) report, the listing in benchmark indices will shift up to USD 100 billion to China market by 2019.

“Our China strategists estimate that possible entry into benchmark indices could push up to USD 100 billion into the China markets by end-2019,” BofAML said in a research note. It further said that FPI equity flows to India may slow amid political uncertainty in the run up to the general elections, given rich valuations. “We grow more confident that the [RBI](#) will issue a fourth tranche of NRI bonds to raise, say, USD 30-35 billion, to offset slowdown in FPI flows on listing of China paper in various benchmark indices at a time of higher oil prices,” the report noted.

NRI bonds are forex deposits raised from non-resident Indians at attractive rates for 3-5 years, with some lock-in and an implicit RBI guarantee. As per the report, RBI will issue NRI bonds if the global oil prices persist at USD 70/bbl. BofAML oil strategists forecast USD 71.8/bbl for 2018-19 and USD 75.3/bbl for 2019-20 and accordingly the current

account deficit will widen to 2.4 per cent of GDP this fiscal from 0.7 per cent in 2016-17, it noted.

“We think that there is a rising case for issuing NRI bonds. Every NRI bond issuance has been effective in curbing INR volatility,” the report noted. The report further noted that the RBI is expected to follow an asymmetrical policy of buying forex when the USD weakens and defending Rs66/USD when it strengthens. On the rupee, which has been falling against the US dollar, BofAML said its strategists see the Indian currency at Rs 69.75/USD by December. The rupee is currently hovering around Rs 67/USD.

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