With the Fed fund futures indicating a 96% probability of an 25-basis-point interest rate hike in December, foreign portfolio investors (FPIs) have net sold $2.06 billion of debt instruments in the Indian market in November alone, after significantly investing in domestic debt last month.

Between November 11 and November 23, there was not even one session in which FPIs net bought Indian debt, having sold close to $2.6 billion. This comes after a period of sustained buying in September, when FPIs net bought close to $1.6 billion of debt securities.

The selling has primarily because of building of market expectations of an interest rate hike by the US Federal Reserve next month. In fact, Fed fund futures are currently indicating a 96% chance of a rate hike in December, having surged to as high as 100% in the aftermath of the US presidential elections.

President-elect Donald Trump’s plan for infrastructural development has pushed market watchers to believe, almost to a point of certainty, that there will be a rate hike in immediate term, since the country’s debt is bound to rise because of increased spending.

The impending rate hike is slated to diminish the attractiveness of Indian debt instruments going ahead. It is also responsible for the recent strengthening of the dollar, because of which most emerging market currencies have reported decline.

The Indian rupee closed at a three-year low of 68.75 against the greenback on Thursday, after having fallen to a lifetime-low of 68.86 during the session, tracking falls in local equities and other Asian and emerging market currencies, which were all down because of withdrawal of investment by foreign investors.

On Thursday, the 10-year benchmark yield closed at a seven-and-a-half year low of 6.19%, a level last seen in April 2009. Despite foreign investors selling domestic bonds, bond prices have continued to rise because the demonetisation of high-denomination currency notes has resulted in a spike in deposits across the banking system, pushing banks to buy government bonds.

Bond yields and prices move in opposite directions. Rxperts are now predicting that the benchmark yield could fall to levels of around 6% in immediate term.