The Economic Times

Foreign Inflows may Improve if Global Markets Stabilise

ET Q&A

Elevated bond yields could dwarf treasury gains of banks in the quarter to March instead of acting as a key defence, as expected earlier, against increasing bad loans eating into their profits, said **Ashish Parthasarathy**, treasurer of HDFC Bank. In an exclusive interview with ET's **Saikat Das & Joel Rebello**, he said that while RBI may cut interest rates by 25-50 basis points in 2016, and foreign portfolio investments could remain subdued unless global markets stabilise. Edited excerpts:


BHARAT CHANDA

What is your outlook on overseas capital outflows?

Dollar liquidity overall has reduced. The US Fed has also started hiking rates. Most other agencies, which used to generate dollar surplus, like central banks and sovereign wealth funds from oil exporting countries or even China, are also reducing dollar liquidity, which means investments in emerging markets will remain subdued. Things could change if the external environment stabilises. Not even improve, just stabilise. If it stabilises, then India will get more than its proportionate share of any flow back into emerging markets.

What is your view on the US rates?

Fed's own estimates say four more rate hikes this year. The market is somewhere around two rate hikes, so anything very different from that will cause volatility. The US economy looks steady, it seems to be on a reasonably sustainable growth path. It is unlikely there will be four hikes, two or three hikes look like a possibility.

BOND STREET

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ASHISH PARTHASARATHY
Treasurer, HDFC Bank

Will elevated bond yields reduce banks' treasury income?

Treasury income will come down for the entire system. The supply of government papers is large. So, yields are unlikely to come down, pushing prices up. There will not be any positive treasury income between October-December and January-March quarters. Overall treasury income will keep on reducing. RBI started cutting rates from 2015. During 2014, yields were as high as 9%. There is some amount of gains in banks' books, I am sure.

Does excess supply of bonds offer fresh investment opportunity?

There is a large supply of securities without doubt. Yields will go up due to higher supply. Whether these levels offer fresh investment opportunity depends on your liability profile and what are you expected to repay. Large institutions like insurers need to generate yield. You can keep on buying smaller amounts at every rise in yields. For long-term investors, it is extremely good that yields are going up.