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FIIs return to D-Street, yet Jan doesn't promise a great show

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NEW DELHI: The resumption of foreign inflows since the later part of December 2015 along with strong flows from domestic mutual funds has raised hopes that the market may have found a bottom for the short term.

Yet, January may not be a great month for the market, as historically the benchmark equity indices have not generated positive returns during the month. At best, one can expect a volatile month ahead.

Data compiled by ETMarkets.com shows BSE benchmark Sensex has given negative returns in January in eight out of the past 15 years since 2001. This, despite FIIs having pumped in Rs 40,402 crore in 11 out of those 15 months.

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The BSE benchmark fell by 3.10 per cent in Calendar 2014 despite moderate inflows from foreign institutional investors at Rs 714 crore. On the other hand, the index gained only 2.41 per cent in January 2013, when foreign funds infused a whopping Rs 22,059 crore. In 2015, the index surged 6.12 per cent. (See table).

	Sensex		Return	FPI* inflows
Year	Jan-end	31-Dec	(in %)	(in Rs cr)
2015	29182.95	27499.42	6.12	**12919**
2014	20513.85	21170.68	**-3.10**	**714**
2013	19894.98	19426.71	2.41	**22059**
2012	17193.55	15454.92	11.25	**10357.7**
2011	18327.76	20509.09	**-10.64**	-4813
2010	16357.96	17464.81	**-6.34**	-500.3
2009	9424.24	9647.31	**-2.31**	-4245.3
2008	17648.71	20286.99	**-13.00**	-13035.6
2007	14090.92	13786.91	2.21	492.1
2006	9,919.89	9,397.93	5.55	3677.7
2005	6,555.94	6,602.69	-0.71	457
2004	5,695.67	5,838.96	-2.45	3176.8
2003	3,250.38	3,377.28	-3.76	888.1
2002	3,311.03	3,262.33	1.49	423.3
2001	4,326.72	3,972.12	8.93	7831.7
Total				**40402.2**

*FPIs or FIIs   Source: BSE, NSDL, ETMarkets.com

The best January return on the 30-pack index came in 2012, when the BSE barometer rallied 11.25 per cent, thanks to a strong Rs 10,358 crore foreign inflows.

The worst fall in January 2008 too was led by foreign investors, who sold Rs 13,035 crore worth of equities, leading to a 13 per cent drop in the Sensex. The index has generally given negative returns when foreign inflows have either been moderate or negative.

Looming third quarter earnings are only adding to the uncertainty. Experts do not expect any substantial recovery in the growth trajectory for the economy anytime soon.

"It is difficult to say anything about the third quarter of FY16. Earnings are not going to change significantly in the near term. But we should start looking at the longer-term picture and we expect select sectoral stories to play out somewhere mid-next year, that is FY17," said Vikas V Gupta, Executive Vice-President, Arthveda Fund Management.

Anup Bagchi, MD & CEO, ICICI Securities, said the earnings momentum does not look great. "Oil companies have high earnings weightage despite low free-float marketcap weightage. They do not look that promising. Banks have their own set of challenges. Fortunately, private banks which have higher weightages do not have that much of a challenge. But they still face challenges. IT firms will also struggle to improve earnings. That is why I do not think the index is going to take off the previous highs easily," Bagchi said in an interview to ET Now when asked about his outlook for equities in 2016.

Some experts say expectations from the forthcoming Budget would start building in the market, which may help the benchmarks get a strong start to 2016.

"January should start on a good note, largely because the market would like to discount expectations from the budget and the rail budget. Some sort of pre-budget and pre-rail budget rally definitely looks possible in January. But after these events pan out, the behaviour of global markets, FII inflow patterns and the government's reform moves would decide the overall market trend," said Avinnash Gorakssakar of Precision Investment.

The BSE Sensex ended Day 1 of 2016 43 points, or 0.17 per cent, higher at 26,160.90.