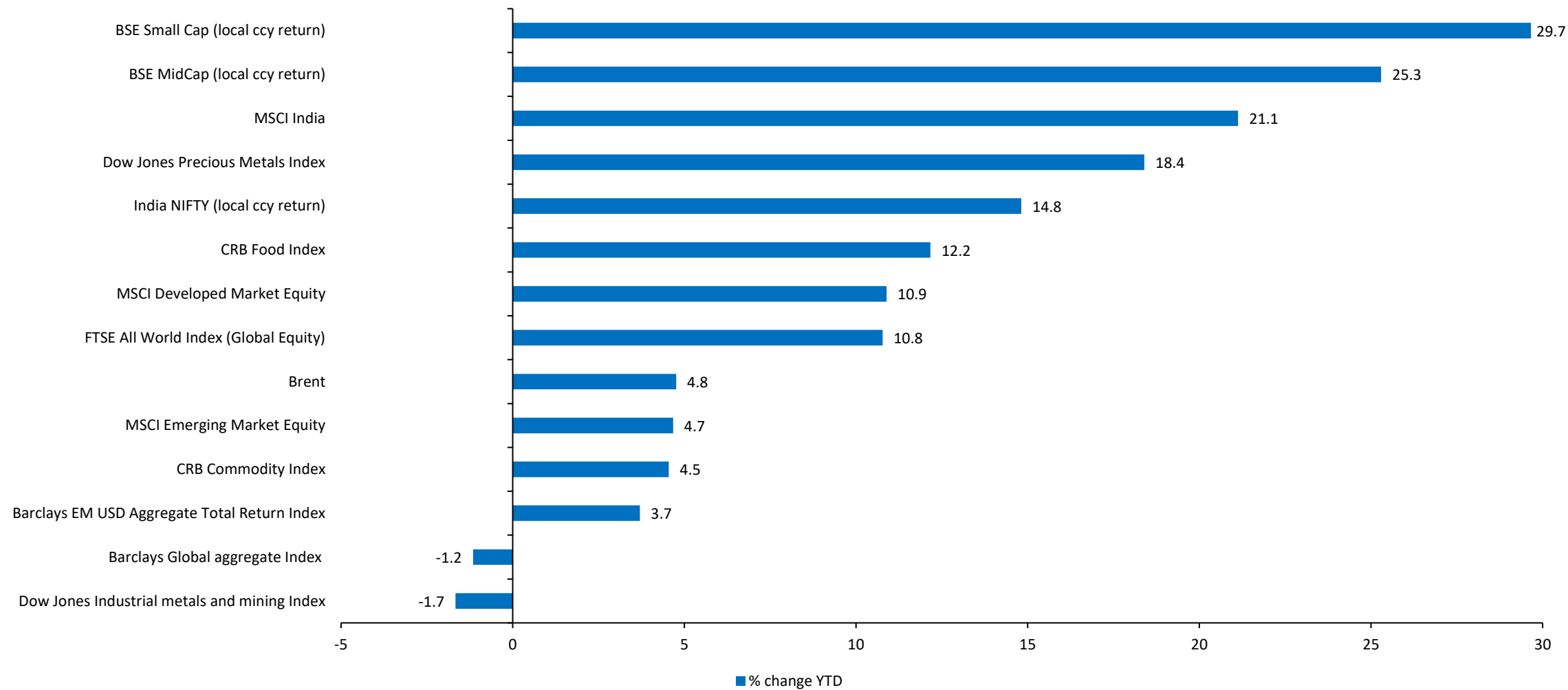


# ECONOMY AND MARKETS

August 2024

# Equities and commodities are the best performing asset classes Year-to-date

India Small and Mid-cap continues to out-perform; Global fixed income continues to deliver weak or negative return



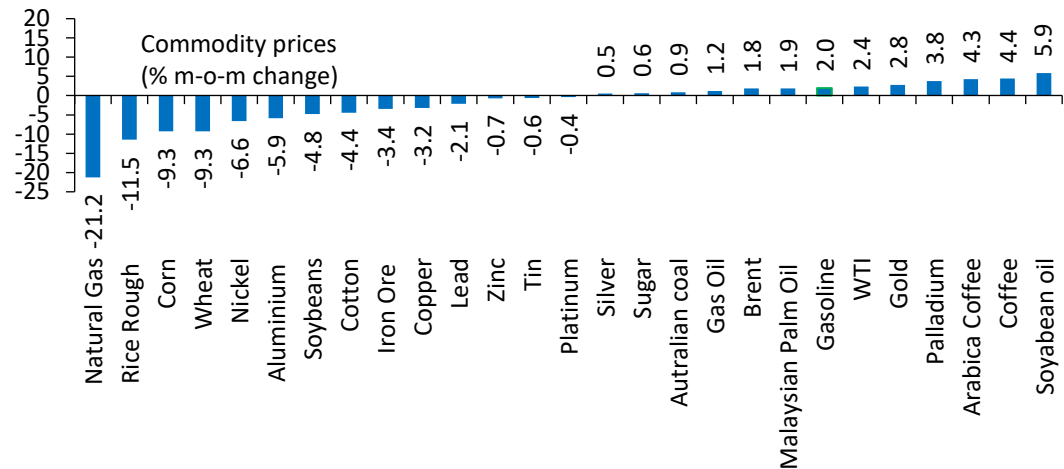
Source: Bloomberg, SBIFM Research; NB: Barclays global aggregate index includes treasury, government related, corporate and securitized fixed rate bonds from both developed and emerging ,market issuers, Barclays EM USD Aggregate total return index includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.

# Precious metal prices elevated; Natural gas and select base metals prices moderate in July

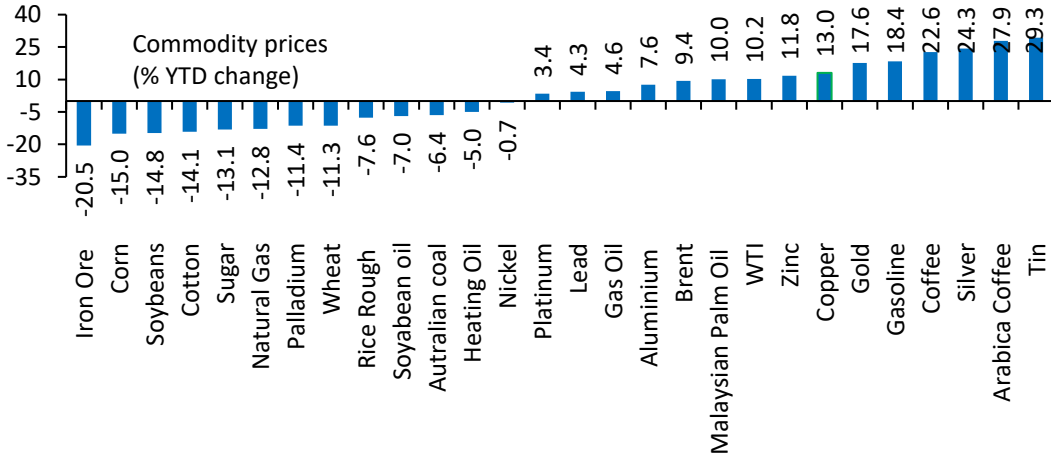
Bloomberg commodity index moderated by 4% m-o-m in July 2024



On a m-o-m basis, natural gas and base metal prices have moderated; precious metal prices continue to be elevated



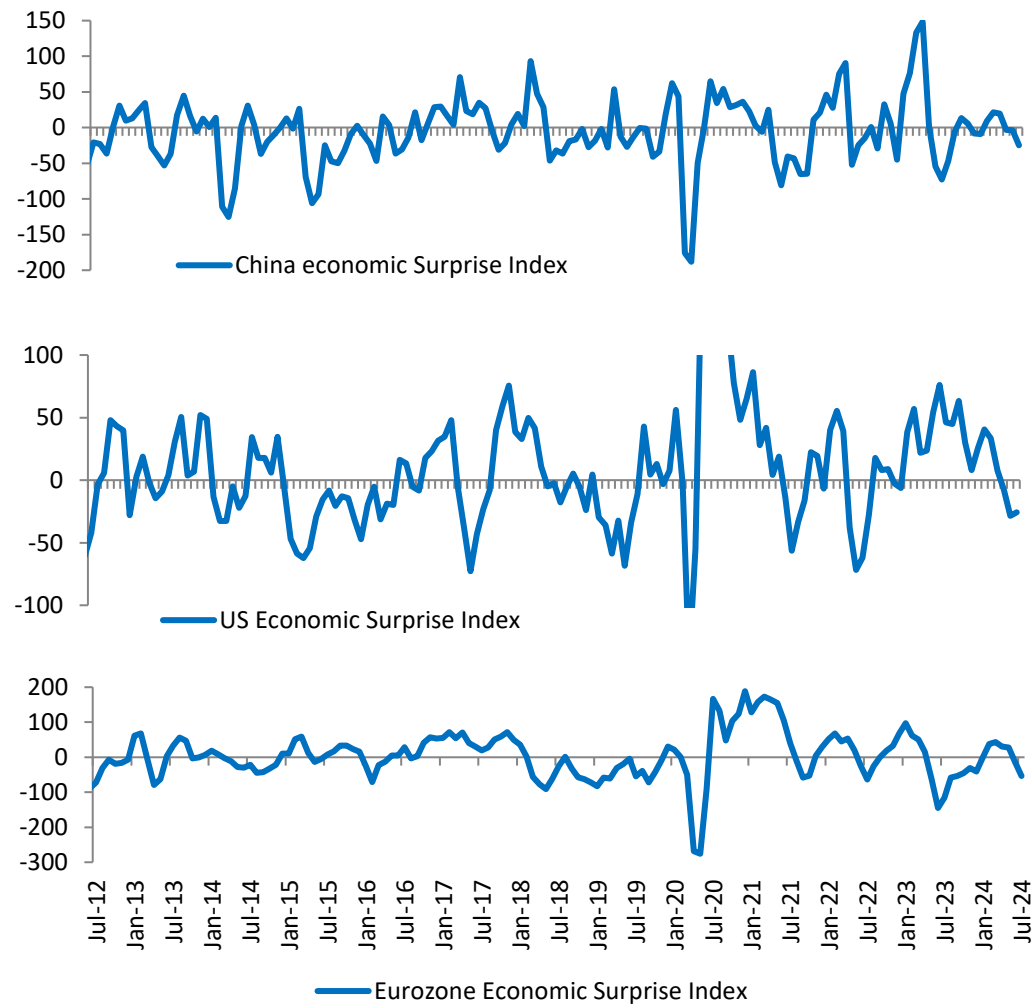
On a YTD basis, metal prices have risen; while select food have seen a moderation



- Bloomberg commodity index moderates by ~2% YTD.
- Yet, select metal prices continue to be elevated. Silver gained 24%, and copper 13% YTD. Gold rose 3% (m-o-m) in July but has risen 18% YTD.
- Natural gas, on the other hand, sees a sharp fall m-o-m. While crude has settled down a bit and now trades at 83-84\$/bbl vs. a close of 88\$/bbl in April.
- Multiple factors could explain better return in commodities. Even as recent activity data has softened in the US, economic activity is humming fine in the region.
- In the medium term, commodities could benefit from inflation, decarbonization, deglobalization, rapid adoption of artificial intelligence and data centers.

# Global activity momentum has softened in June-July after positive surprise in 1H 2024

US, Eurozone and China see softer economic data in July...

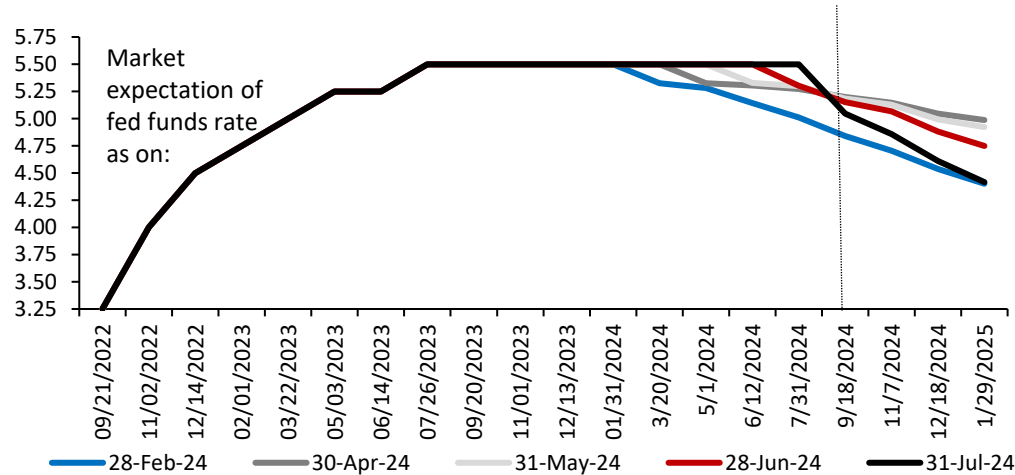


...though some positivity in trade and manufacturing dynamics continue

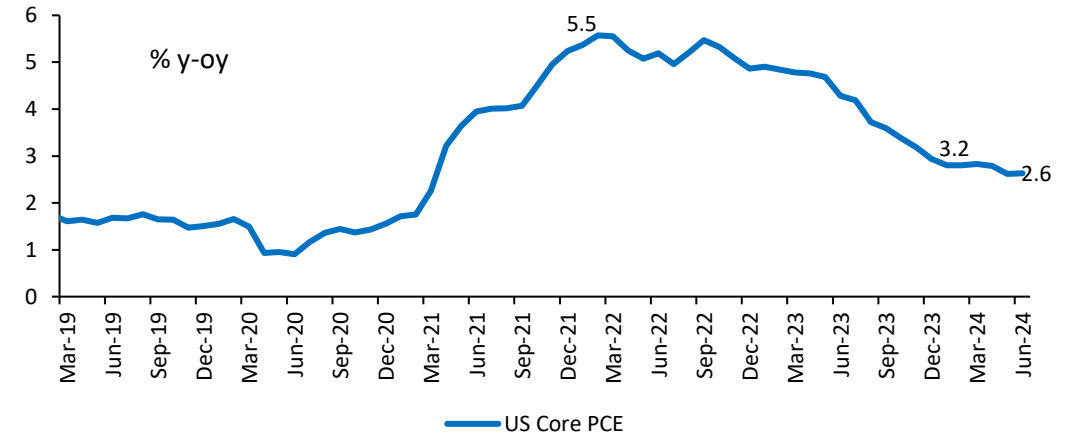
PMI manufacturing index	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
Global	49	49	50	50	51	50	51	51
Australia	48	48	50	48	47	50	50	47
France	43	42	43	47	46	45	46	45
Germany	43	43	46	43	42	43	45	44
Japan	48	48	48	47	48	50	50	50
South Korea	50	50	51	51	50	49	52	52
United Kingdom	47	46	47	48	50	49	51	51
United States	49	48	51	52	52	50	51	52
Brazil	49	48	53	54	54	56	52	53
India	56	55	57	57	59	59	58	58
Indonesia	52	52	53	53	54	53	52	51
Malaysia	48	48	49	50	48	49	50	50
Mexico	53	52	50	52	52	51	51	51
Taiwan	48	47	49	49	49	50	51	53
Vietnam	47	49	50	50	50	50	50	55

# July Fed policy commentary more dovish than expected; hints at first rate cut in September

Market expectations for 2024 now prices in three rate cuts for 2024 with the first one in September (vs. two last month)



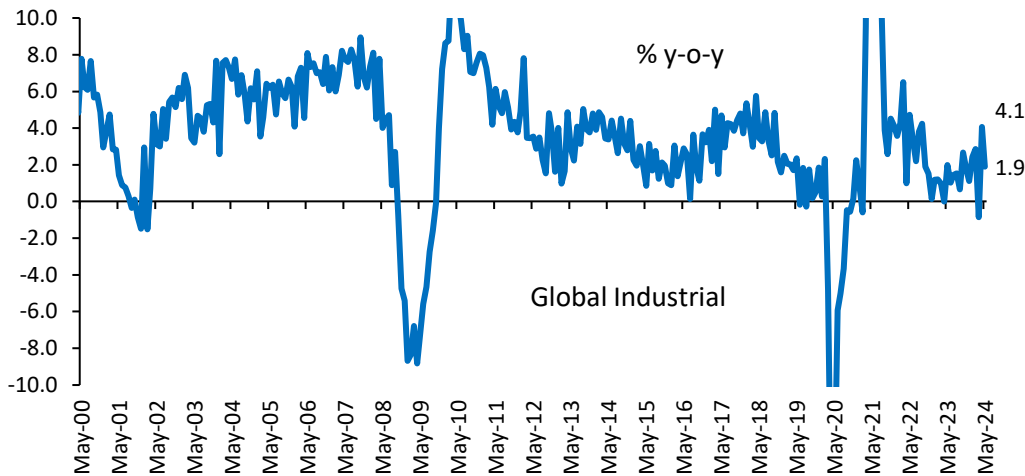
Fed tracks core PCE for its 2% inflation target; Core PCE moderated to 2.6% in June'24



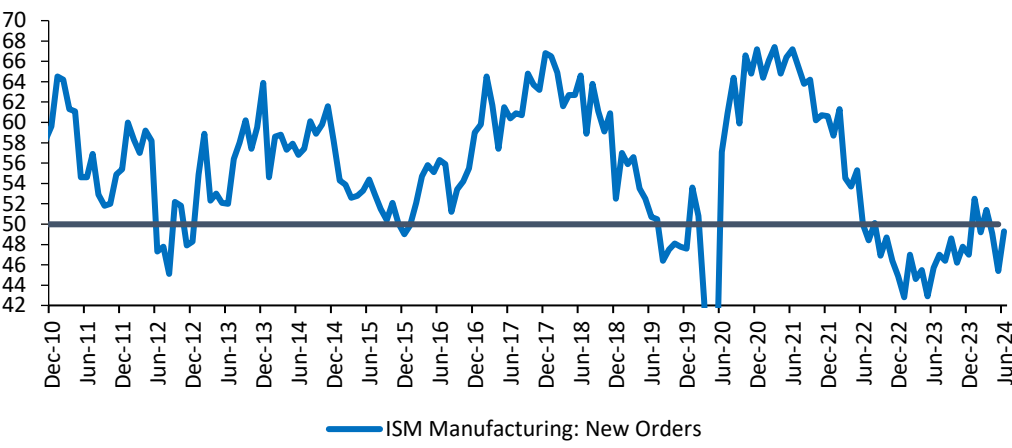
- The latest (July) Fed policy left rates unchanged at 5.25-5.50%. Fed on pause since July 2023.
- The Federal Reserve's September decision will hinge on inflation data, with Powell outlining two scenarios: a likely rate cut if inflation slows, or delayed cuts if inflation remains stubborn.
- Ahead of the November US elections, the Fed stressed that decisions will be based on economic conditions rather than politics.
- Market revises its rate cut expectations upward- first cut in September, followed by two more expected in 2024.
- Bond yields dropped to a six-month low just under 4%, and equities surged by 2-3%, benefiting long-duration growth stocks.
- A rate cut could boost inflows to emerging markets and India, though the latter's export sector recovery will depend on US economic growth.

# Global manufacturing and trade cycle sees lukewarm positivity in 2024 after 16 months of slump

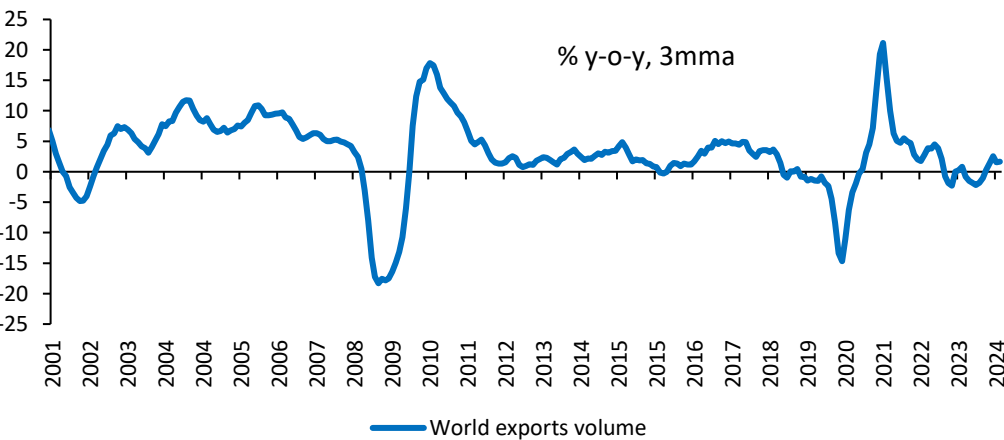
Global Industrial production improves- back into positive territory for two consecutive months



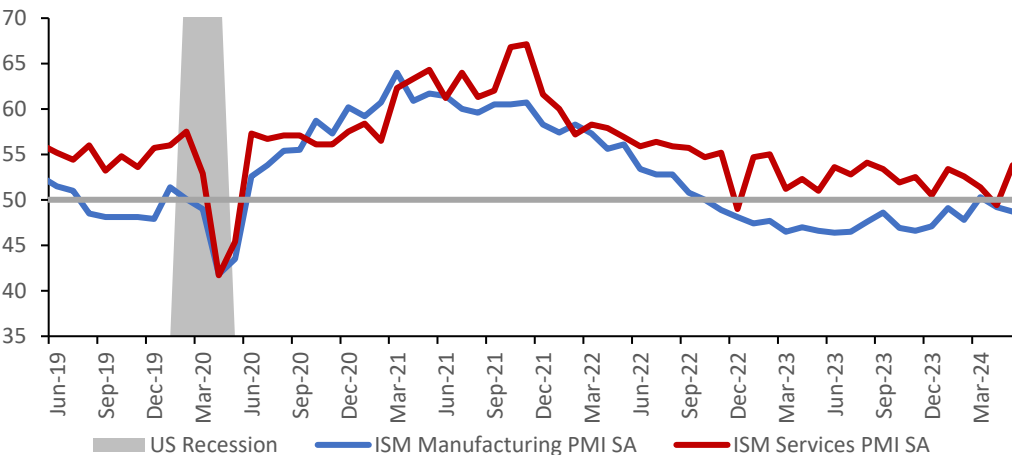
Inventory overhang has abated



Global trade volume sees marginally positive growth since Dec'2023



US sees slight slowdown in manufacturing sector



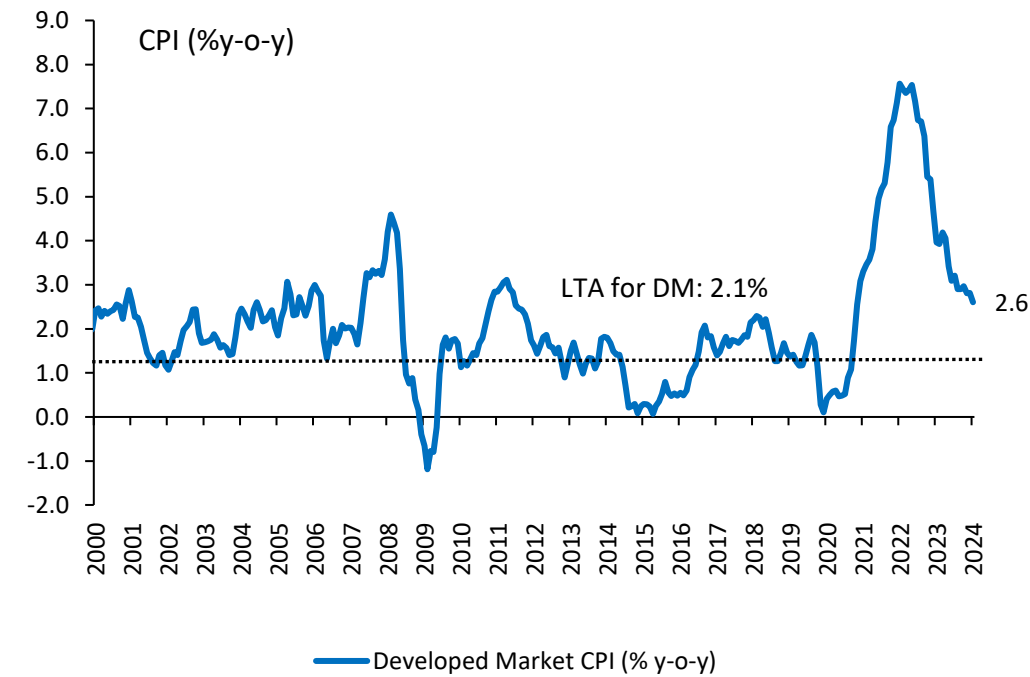
# The pace of disinflation in the US and other developed economies has been gradual

Majority of emerging and developed market economies continue to record above target inflation prints

Countries	Latest inflation print (%) - Jun'24	Last 3 month avg. inflation (%) (Apr-Jun'24)	Last 6 month avg. inflation (%) (Jan-Jun'24)
Emerging Economies			
China	0.2	0.3	0.1
India	5.1	4.9	5.0
Indonesia	2.5	2.8	2.8
Taiwan	2.4	2.2	2.3
Thailand	0.6	0.8	0.0
Malaysia	2.0	1.9	1.8
Philippines	3.7	3.8	3.6
Russian Federation	8.6	8.2	7.9
Turkey	71.6	72.3	69.5
South Africa	5.1	5.2	5.3
Brazil	4.2	3.9	4.1
Mexico	5.0	4.8	4.7
Colombia	7.2	7.2	7.5
Chile	3.8	4.0	4.0
Developed Economies			
United States	3.0	3.2	3.2
Eurozone	2.6	2.6	2.7
United Kingdom	2.0	2.1	2.8
Japan	2.9	2.7	2.6
South Korea	2.4	2.7	2.8

Red denotes higher than last three-month avg. Green denotes lower than last three-month average

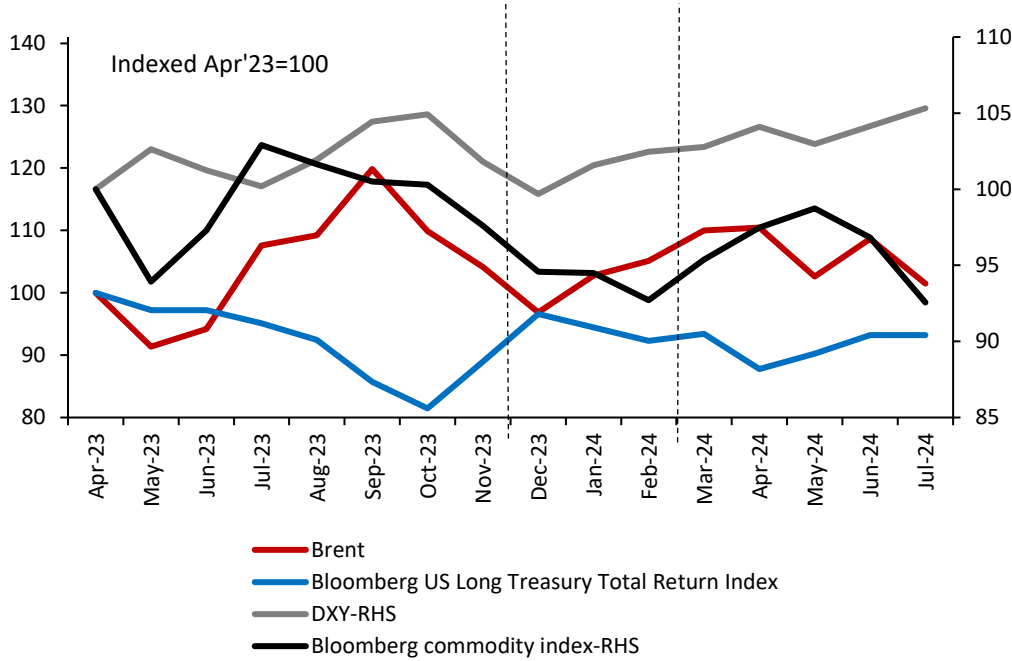
Developed market CPI disinflation trajectory has slowed down in recent months



- US inflation has eased from the peak of 8% to 3%. However, inflation had proved to be sticky around 3% (+/-20/30 bps). Achieving 2% target in the US appears challenging. UK appears to be amongst the few developed market economies to bring the inflation down to the desired target.

# Market keeps juggling between ideas of immaculate disinflation to renewed inflation fears

## Investors need to stay hedged against inflation

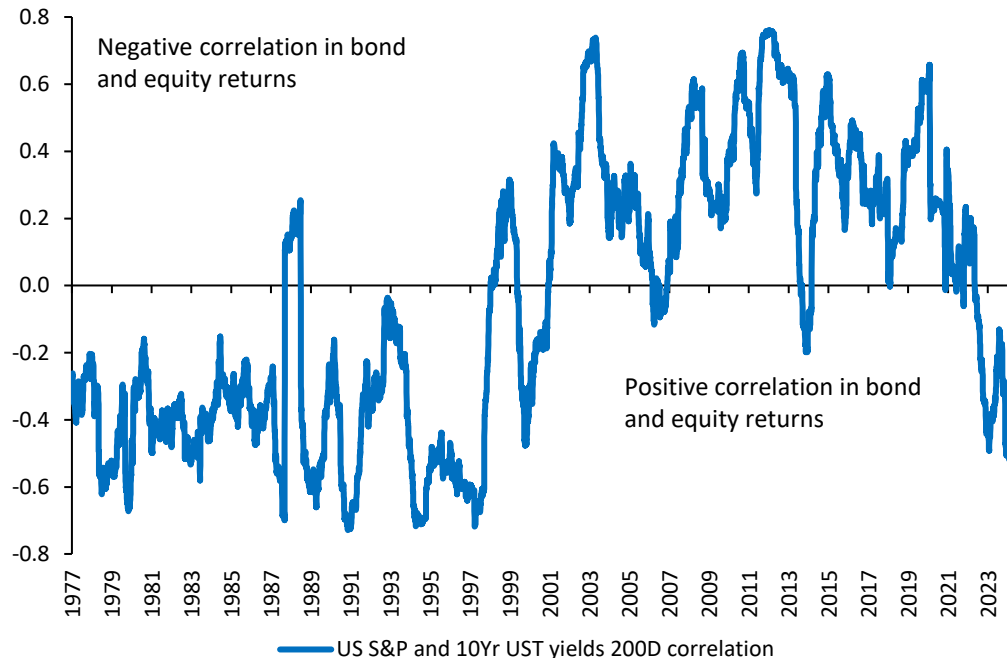


- Inflation has bottomed out and is plateauing at the current levels in the developed world.
- The investor community has shifted from the ideas of immaculate disinflation to renewed inflation fears.
- Between October-December 2023, former thesis had a stronger hold. Consequently, bond yields rallied, DXY weakened, and energy and precious metals were down.
- Starting 2024, inflation has been higher than expected and market is readjusting to the thesis of continued challenges in inflation. Hence bond prices has corrected, and commodities have gained.
- Studying the inflation data today, Inflation may not go back up to 7-8%, but plateau at 3-4% for a foreseeable future.
- In such an environment- the thesis of higher for longer goes on and so does the need to hedge against inflation.



# Precious metals and energy are a better hedge during sticky inflation and current geopolitics

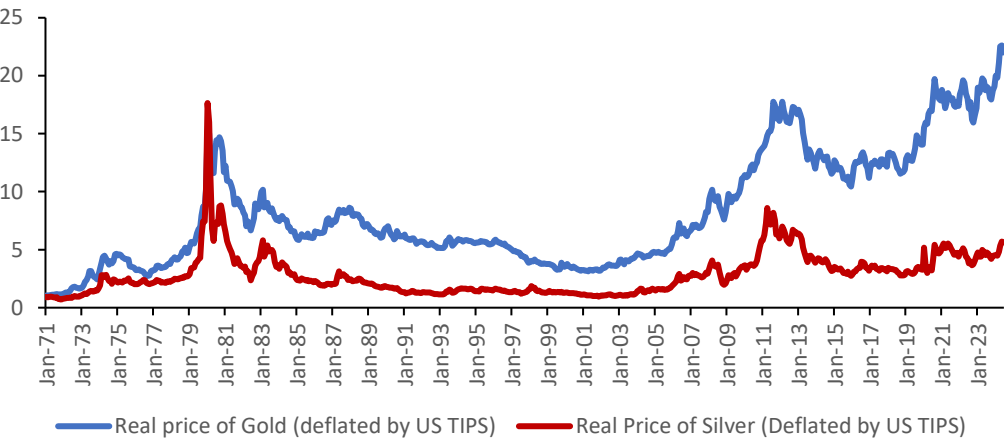
## Positive correlation between bond and equities since Russia Ukraine in 2022



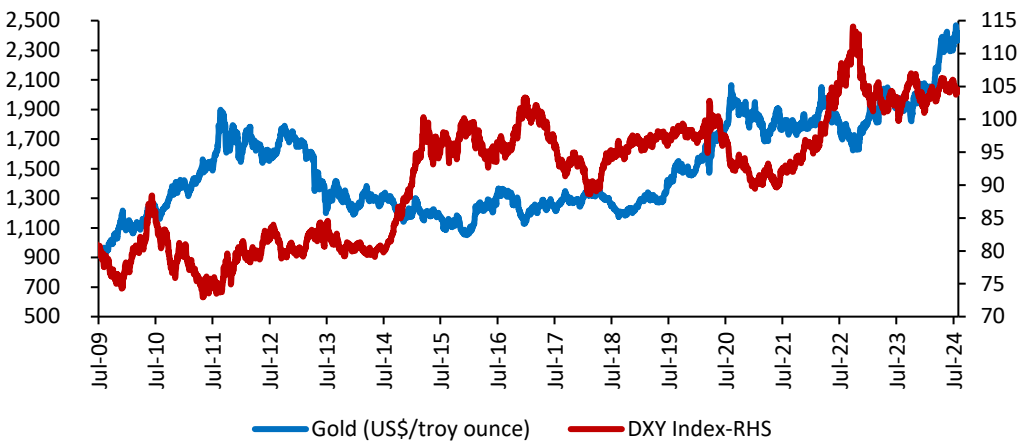
- The tensions in middle east geopolitics escalated in April and the risk of repeat of such conflicts is a possibility.
- The current de-escalation is on an unstable footing. Globally, securing broader geopolitical cooperation is getting challenging.
- This puts commodity and global supply chain at a fundamental risk.
- Today the single most important development post COVID and more so post Russia Ukraine war in 2022 is that bond and equity are no more negatively correlated.
- Inflation worries in the US and fiscal largesse are key factors to drive change in investors behavior.
- This means that, bond, which were the ultimate diversification tool for equities, has failed to do their job in last three years.
- In such an environment gold and commodities act as a better hedge.

# Gold prices rise in July; Year-to-date, Gold moves up by 17%

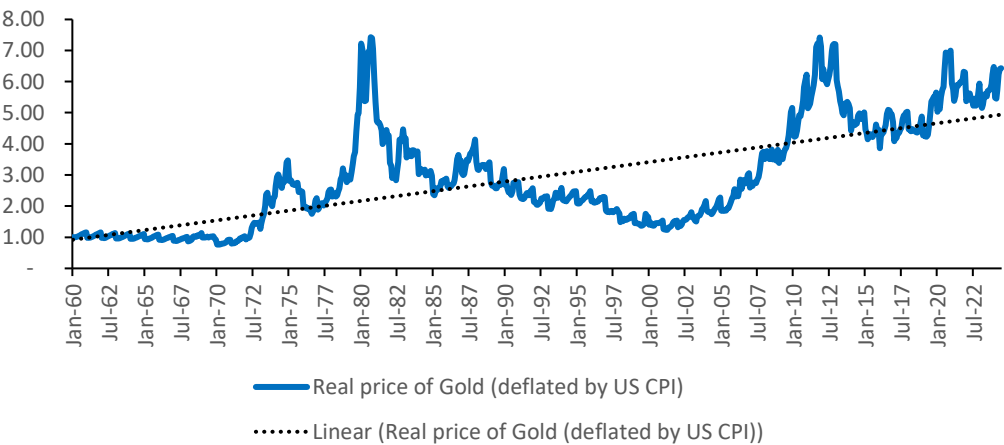
Recent rise in Gold price is in a disconnect with high real yield in the US treasury...



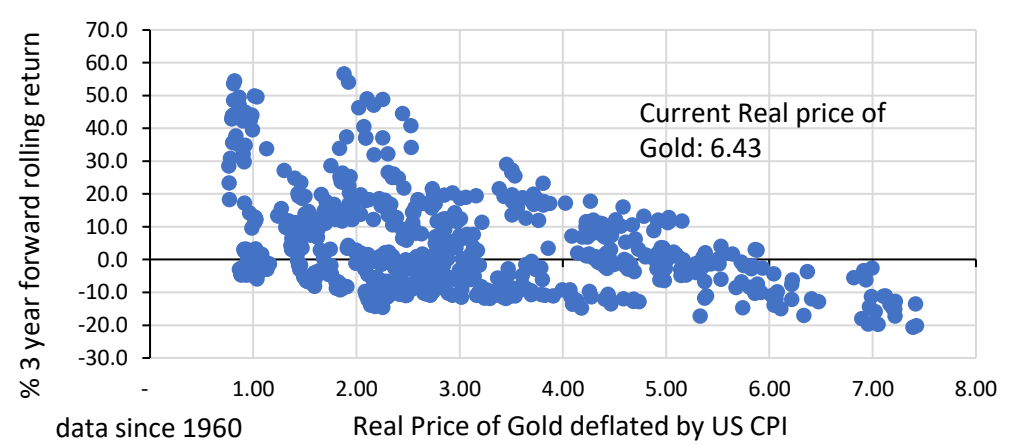
...and strength/stability in the US dollar



Valuation of gold is high vis-à-vis its history

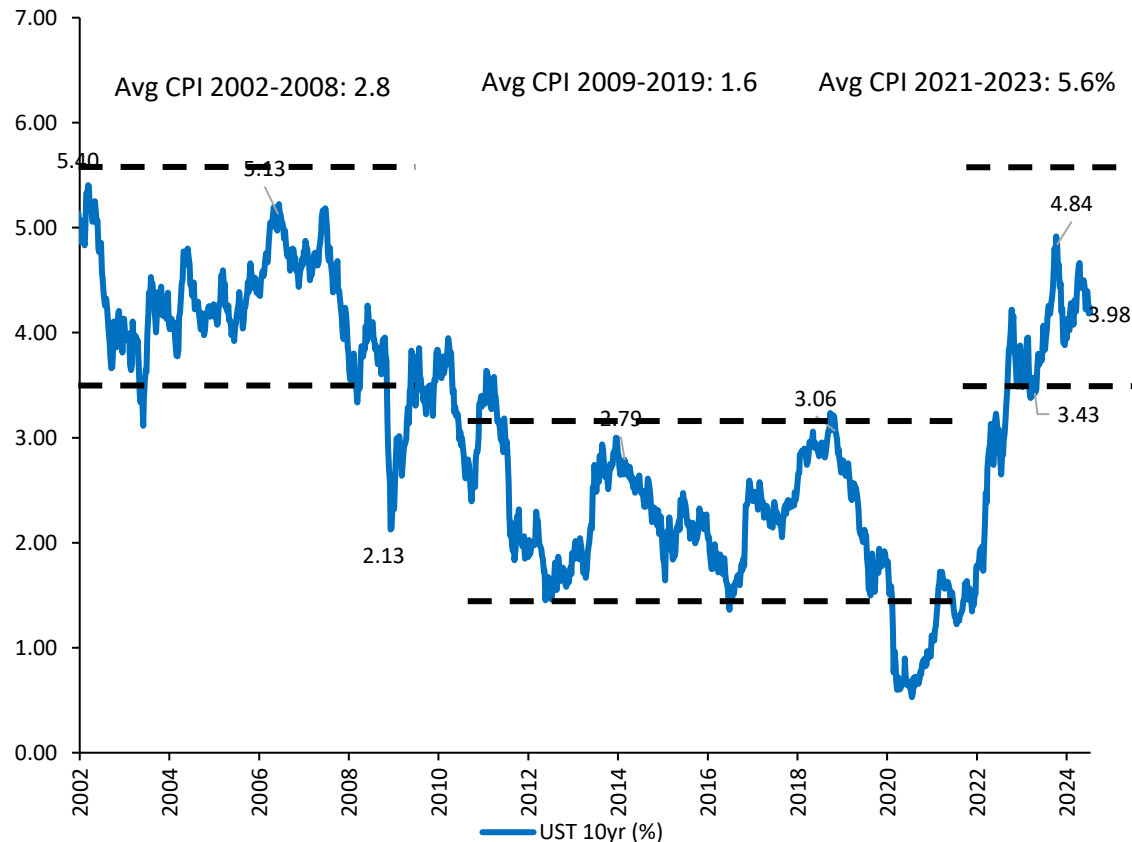


Gold valuations high compared to past trends



# US Bond yields moderates in July on account of softer data

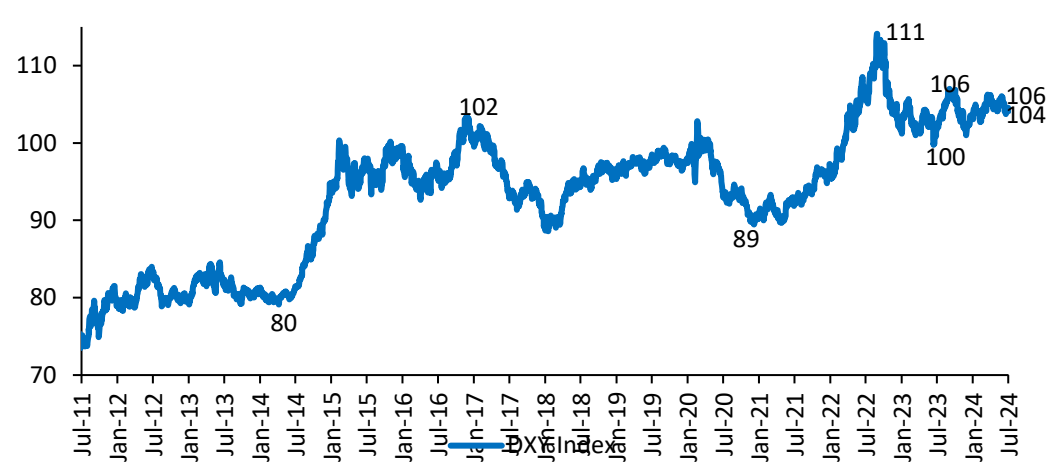
**10 year UST falls below 4% post Fed policy decision on 31<sup>st</sup> July 2024 (data as of 2<sup>nd</sup> August)**



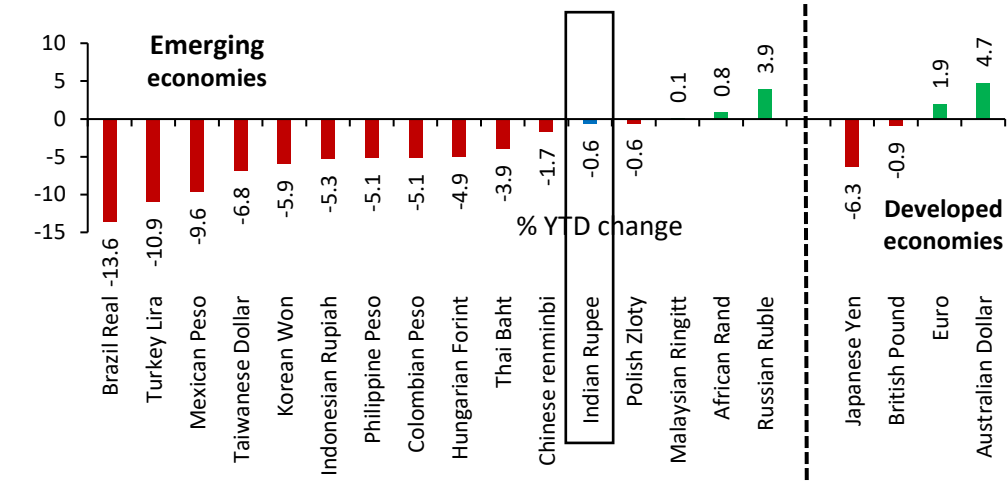
- Yields moderated in July with lower-than-expected inflation prints and softer economic data.
- This has resulted in a new trading range for US treasury- much higher than post GFC range at 3.5-5.5% (like in 2002-2007 phase).
- The returns on US treasury has been unexciting for last four years.
- While the markets have once again started to get aggressive in pricing rate cuts, inflation data is yet to confirm on the market confidence.

# DXY softened marginally on the increased prospects of US rate cut starting September

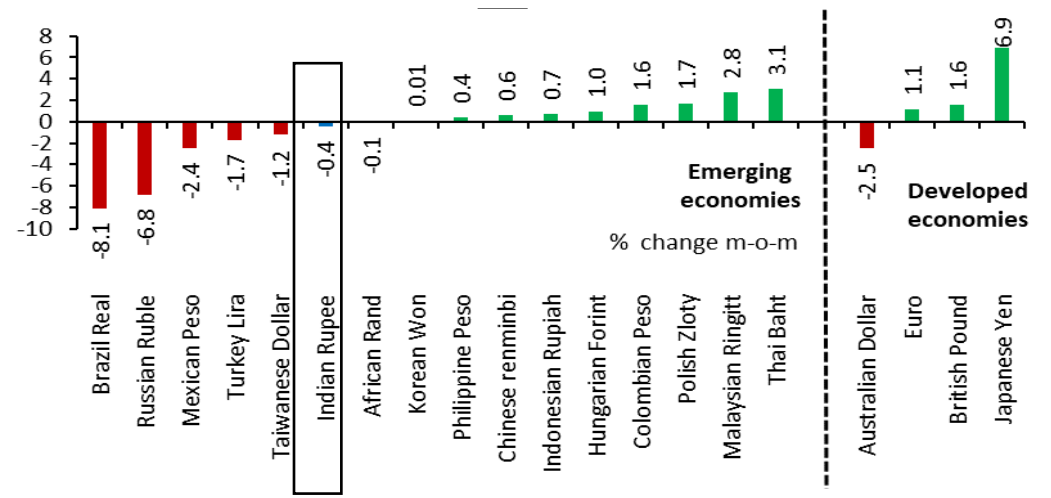
DXY strengthens from 101 to 104 till July; m-o-m marginally lower



Majority currencies depreciate against greenback YTD, Rupee's move most contained



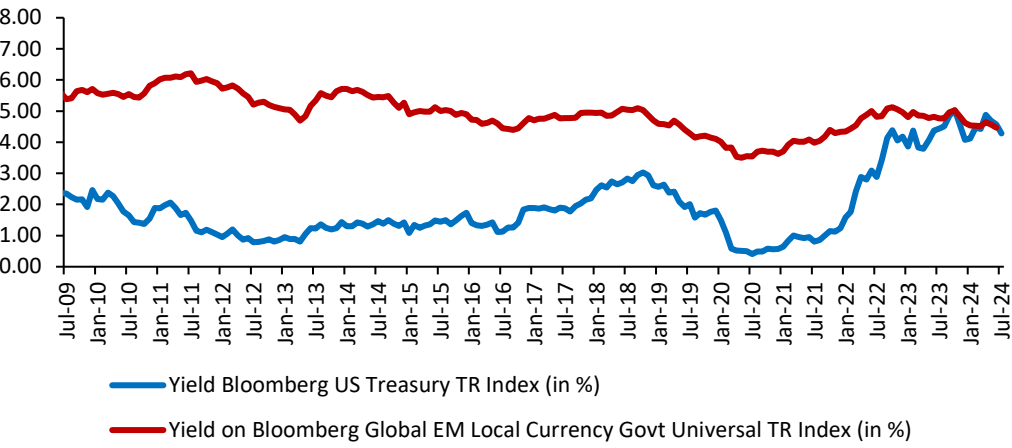
Weakening of the dollar index m-o-m drives appreciation across most emerging and developing market currencies in July



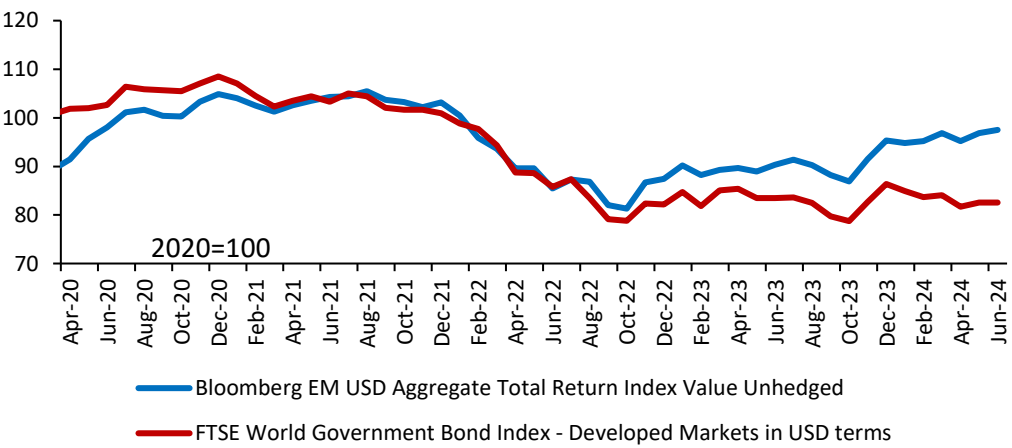
- DXY has strengthened by ~3% from Jan-Jul'24.
- Sticky inflation resulted in broad-based US dollar strength in 2024.
- Investors worry if the strengthening of USD could result in capital outflows from EMS amidst indiscriminate selling.
- However, most EMs have distinguished themselves in this cycle by hewing to policy orthodoxy.
- Despite some EMs having embarked on rate cut cycles ahead of the Fed, positive real rate differentials with the US offer EMs a substantial degree of protection against currency weakness.

# Emerging market bonds erase risk premium; Monetary easing in the US will favour FII flows

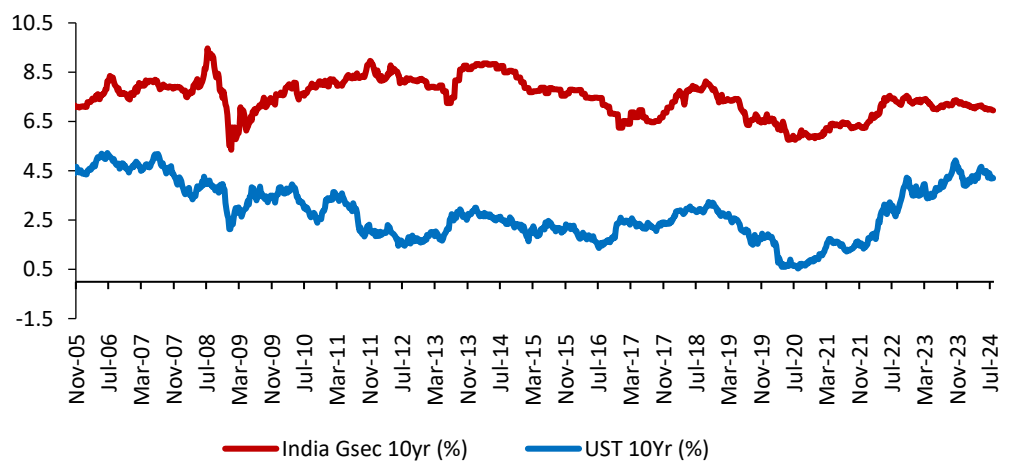
Spread between EM bond yields and UST yields at low levels



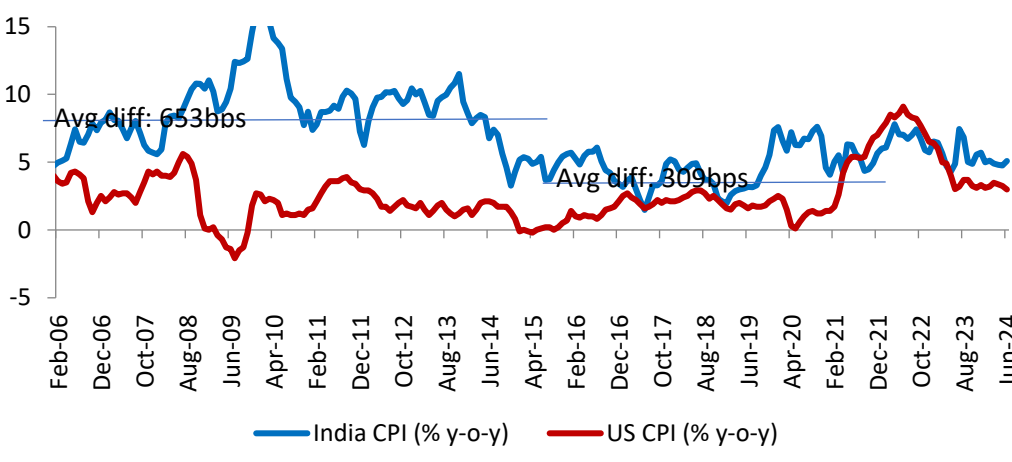
EM bonds outperform



India vs. US 10yr bond yield differential is low

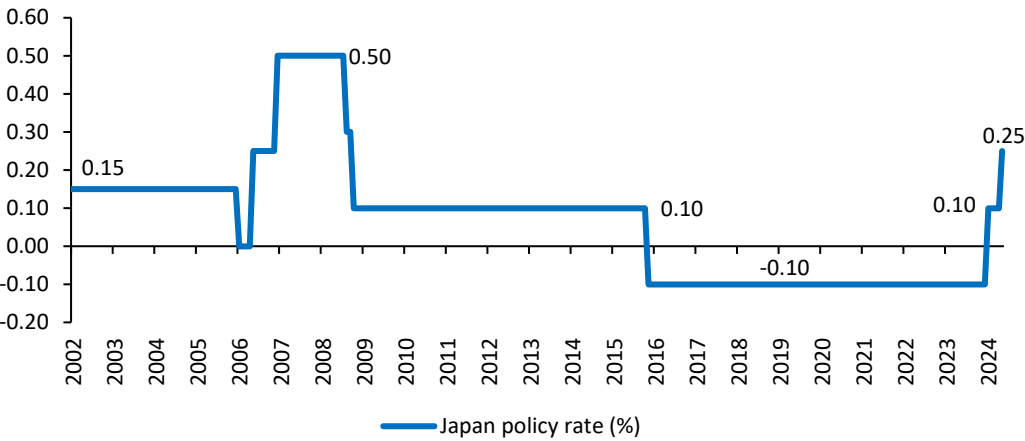


India sees reduced inflation differential vis-à-vis US

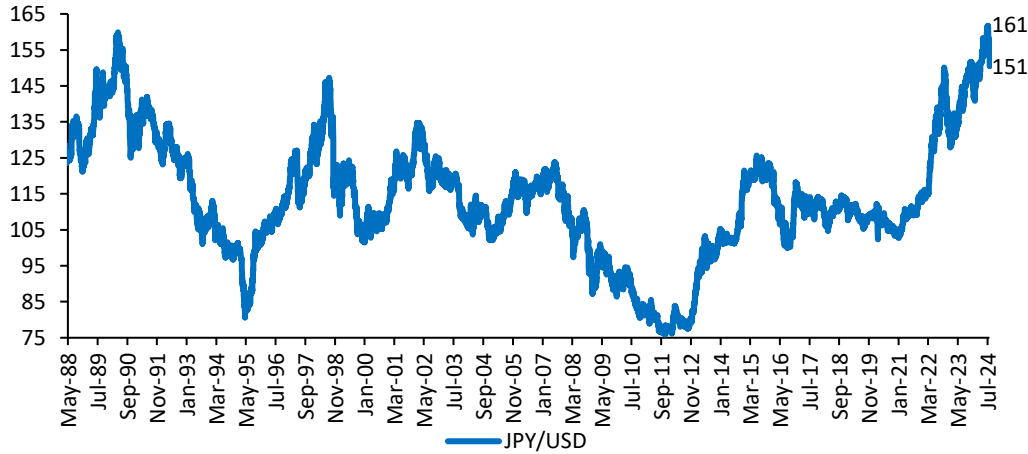


# Hawkish BoJ coupled with a dovish Fed could lend some support to the Yen

Japan raises policy rate by 15bps in July to 0.25%; levels last seen in 2008



Yen strengthened to 151 against the dollar for the first time since March 2024



- The Bank of Japan hiked interest rates by 15bps to 0.25% in July.
- BoJ to halve their pace of monthly bond purchases gradually by 2026 to 3tn yen (from current 6tn yen).
- Governor, Kazuo Ueda did not rule out another interest rate hike in 2024.
- The hawkish comments led to marginal appreciation in the Yen.

# INDIA ECONOMIC ACTIVITY

# High frequency indicators point towards a healthy economic activity

Index value for every month compares to corresponding month in the prior year	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
Macro indicators													
Bank credit deflated by WPI	123	121	120	120	120	120	119	120	120	120	118	118	114
GST Deflated by WPI manufacturing	114	113	113	111	114	116	111	113	115	120	113	109	106
Consumption of petroleum products	105	103	108	108	105	98	104	107	108	102	108	100	103
Electricity generation	109	112	119	113	125	111	105	107	108	108	110	115	109
Urban Consumption demand													
Domestic air traffic	119	126	124	119	111	109	108	105	106	105	104	106	na
Domestic sale of passenger Cars	88	77	90	78	92	79	72	92	82	91	77	89	86
Naukri Job Speak Index	97	81	94	91	101	77	84	89	92	89	97	98	92
Payments via digital means	140	139	142	136	138	143	139	101	143	127	135	133	na
Urban Consumer sentiment Index	144	135	135	127	124	126	131	126	117	112	107	107	111
Rural Consumption demand													
Domestic Tractor sales	99	100	96	84	95	101	79	86	74	80	97	101	103
Real rural wage	102	99	100	101	101	100	100	101	101	101	100	na	na
Domestic sale of two-wheelers	102	93	101	101	120	131	116	126	135	115	131	110	121
Consumer sentiment - rural	138	131	128	131	126	129	134	125	120	118	124	121	116
Business indicators													
Cargo traffic - rails	98	102	106	107	108	104	106	106	110	109	101	104	110
Cement production	110	107	120	105	117	95	104	104	108	111	100	99	na
Steel consumption	116	116	116	119	114	115	107	104	113	111	111	113	119
Sale of CV	95	104	104	104	103	103	103	96	96	96	104	104	104
Bank industrial credit deflated by WPI	112	107	107	107	106	106	108	108	109	108	106	107	na
External Sector indicator													
Cargo traffic - ports	98	104	104	100	114	117	101	103	102	104	105	104	107
Merchandise exports	81	90	103	97	106	97	101	104	112	99	102	113	103
Services exports	103	108	108	97	111	104	101	111	103	99	118	110	109
Non-oil non-gold imports	86	91	102	89	104	96	95	98	104	95	101	100	105
Government													
State government: Capital expenditure	162	112	128	198	155	105	100	131	119	103	86	83	na
Central government : capital expenditure	163	115	130	129	85	102	205	59	415	98	126	50	na
Centre Revex ex of interest payments	106	262	101	87	76	79	88	85	102	88	110	94	na
State Revex ex of Interest Payments	99	102	124	107	109	111	104	116	108	104	109	118	na

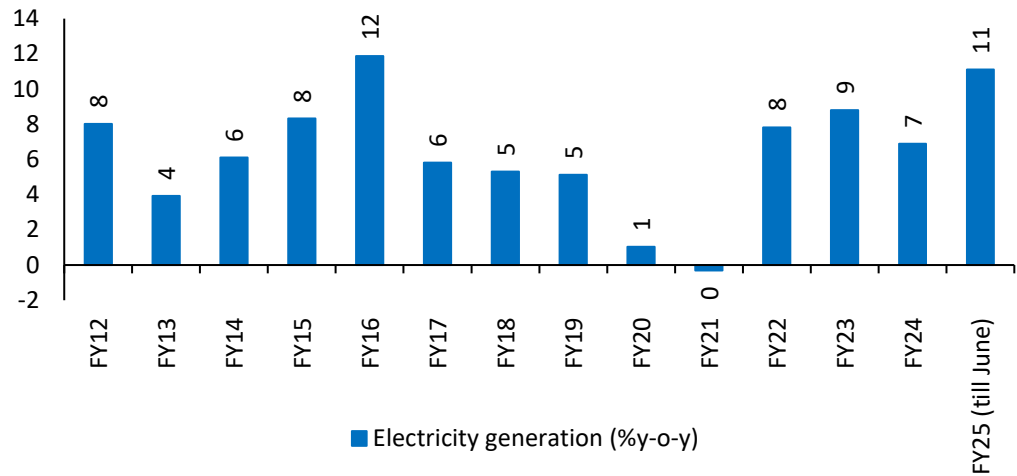
Weak data to stronger data →

Source: CMIE Economic Outlook, CEIC, SBIFM Research; NB: Bank credit data adjusted for HDFC merger, Payment via digital means includes credit card, debit card, wallet and UPI payments

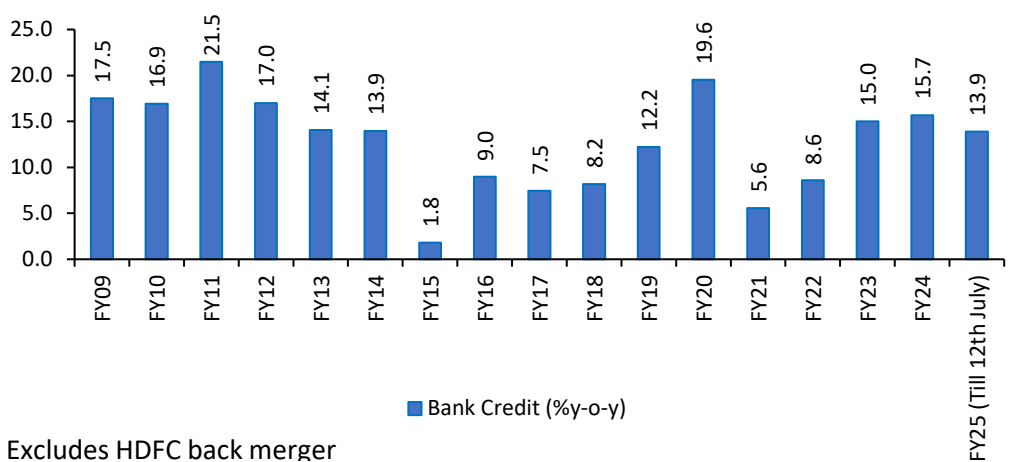


# Key macro data points to a healthy business cycle

## Electricity generation is extremely robust

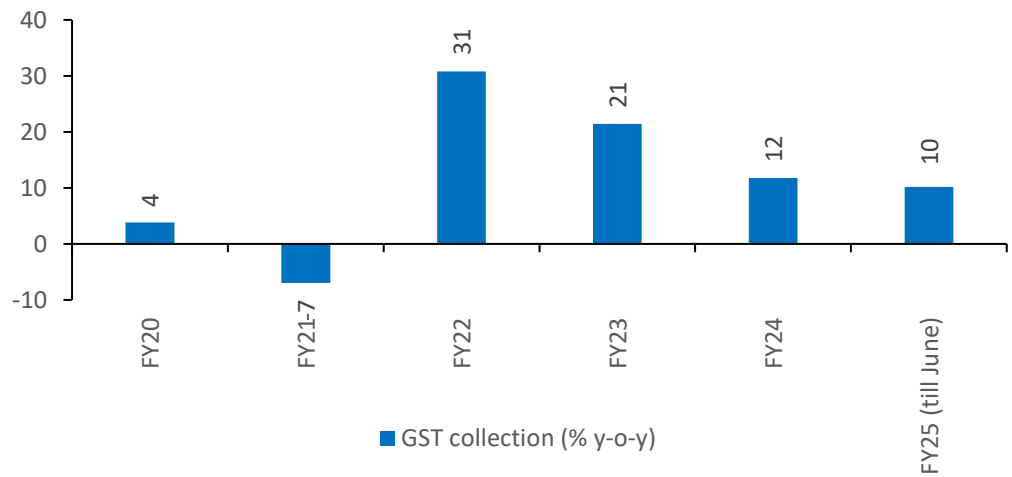


## Bank credit continues to expand

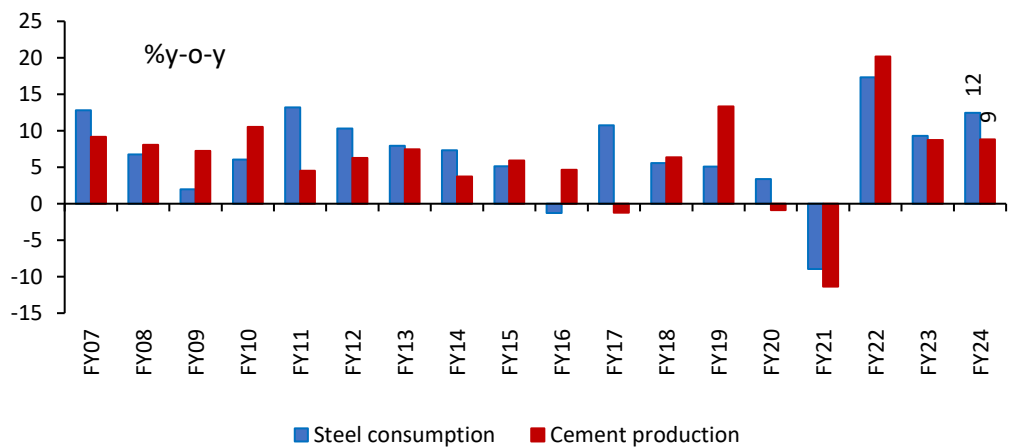


Excludes HDFC back merger

## GST collection is moderating but stays healthy

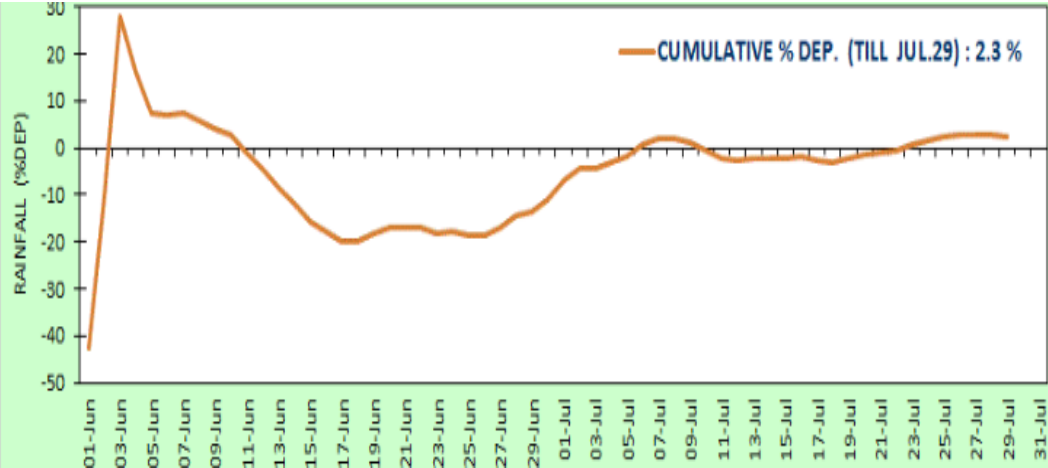


## Steel consumption trends are positive; cement sees some moderation probably due to election related activity curtailment

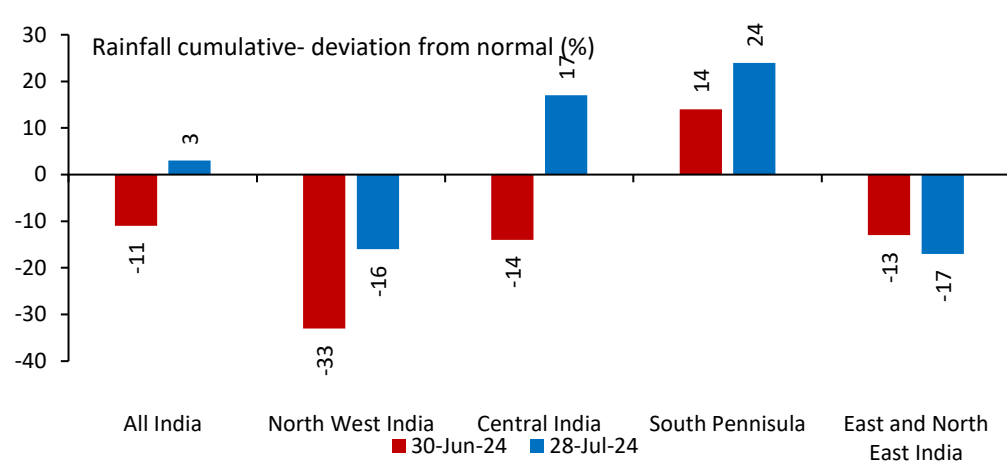


# All-India cumulative monsoon rains near normal levels by end July; Crop sowing up 2% y-o-y

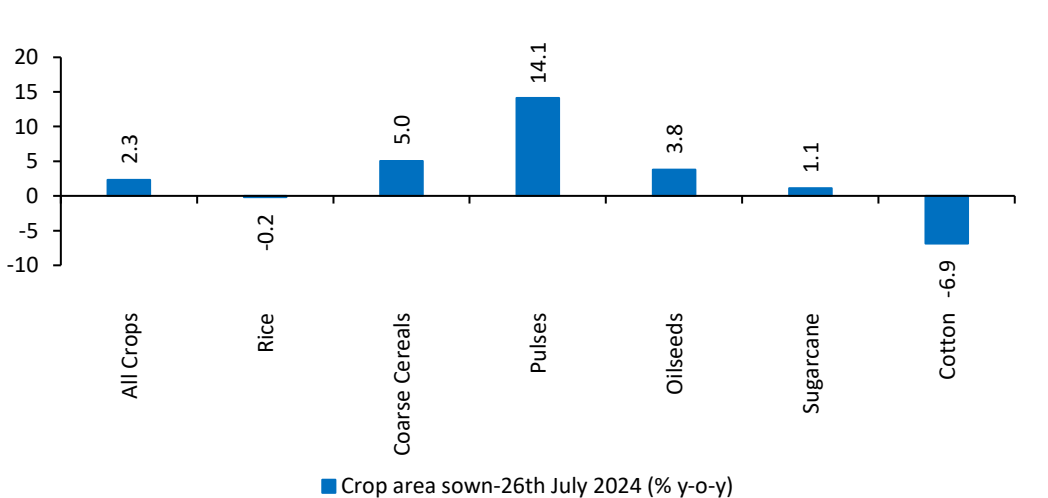
Cumulative monsoon rains are 2% above normal as of July'24 end (vs. -11% last month)



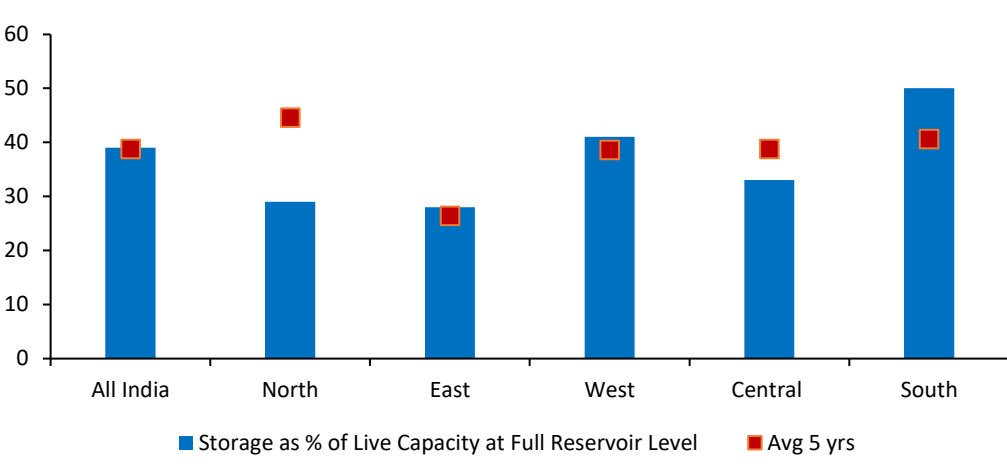
Rainfall distribution is skewed; but improves compared to last month



Crop sowing reflects strength



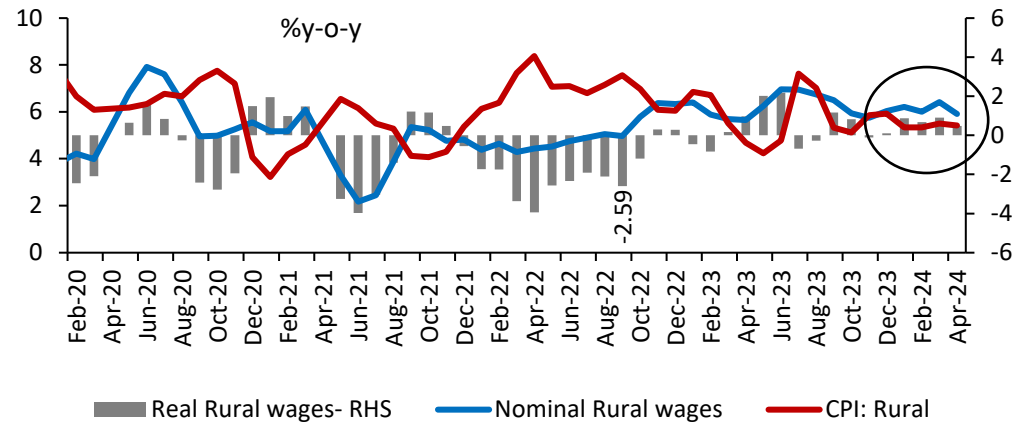
Reservoir levels are close to trend at an all-India level; though significantly lower in North India



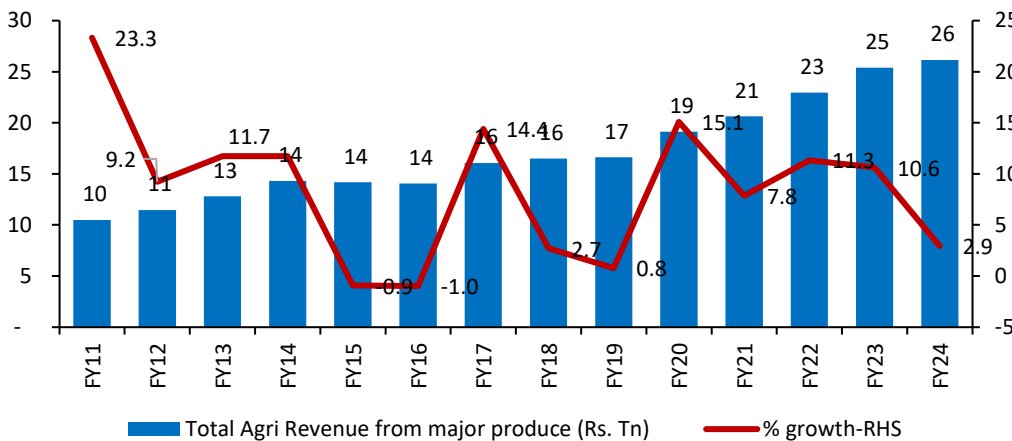
Source: IMD, CEIC, Ministry of Agriculture, SBIFM Research; NB: Reservoir levels as on 25<sup>th</sup> Jul'24

# Rural sector is strengthening at the margin

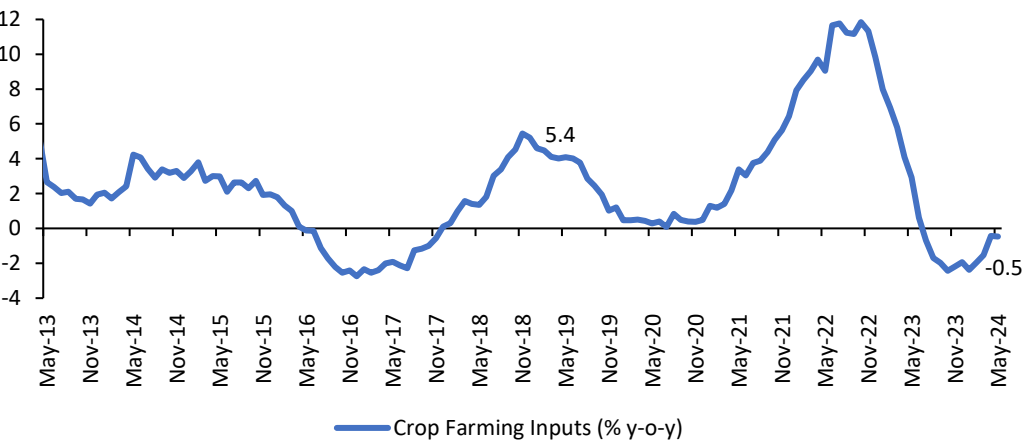
Real rural wages have turned positive



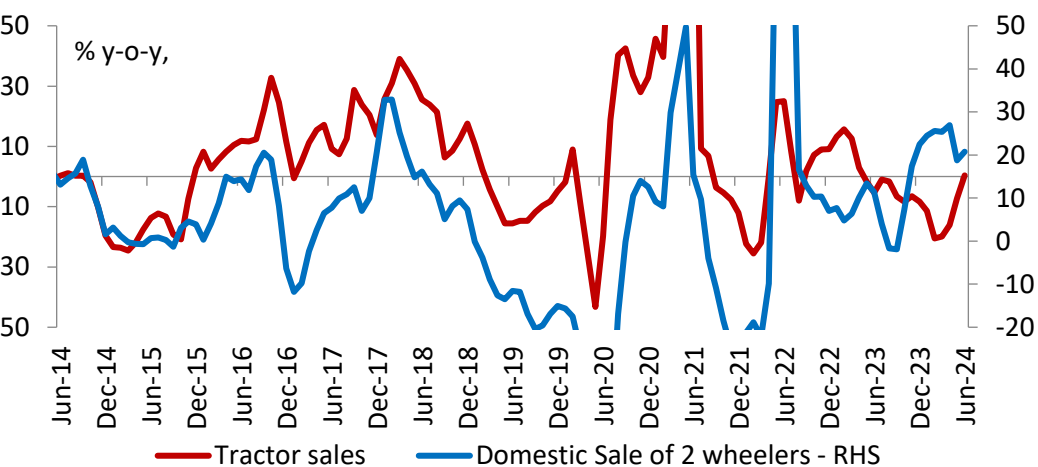
Agriculture revenue continues to grow



Cost of inputs moderated

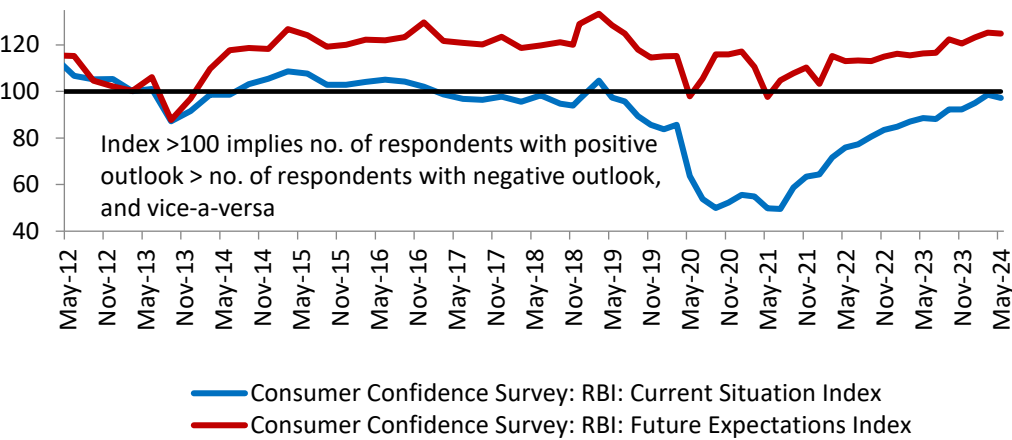


2W sales continue to grow but momentum moderates; Tractor sales continue to underwhelm

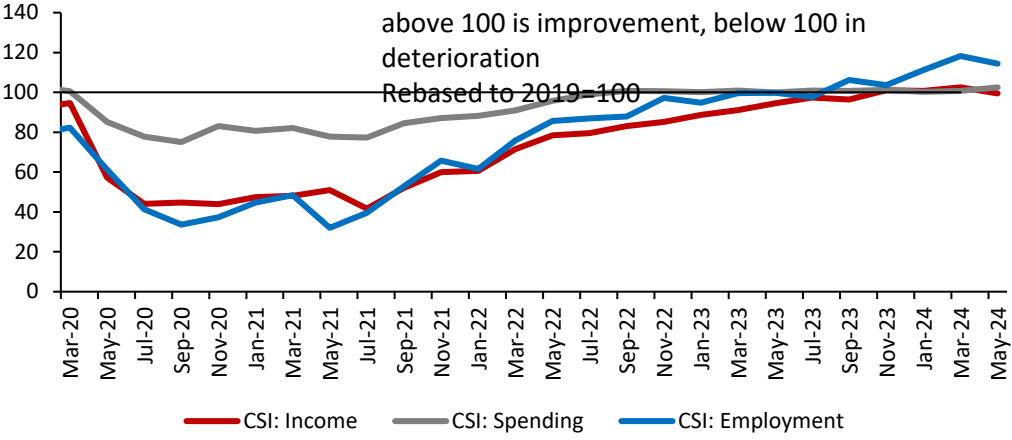


# Consumer confidence recovery in India has been very gradual

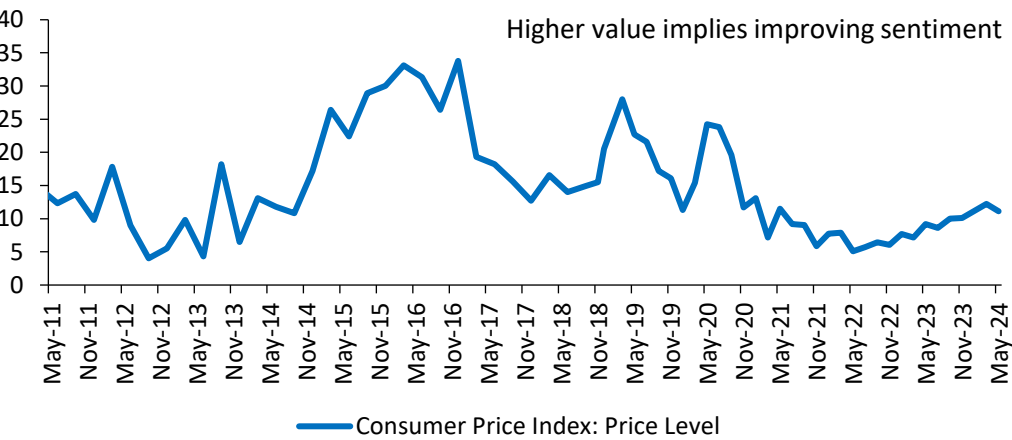
Consumer confidence still below 100 implying muted positivity; but the survey shows a moderation in May'24 (from 99 to 97)



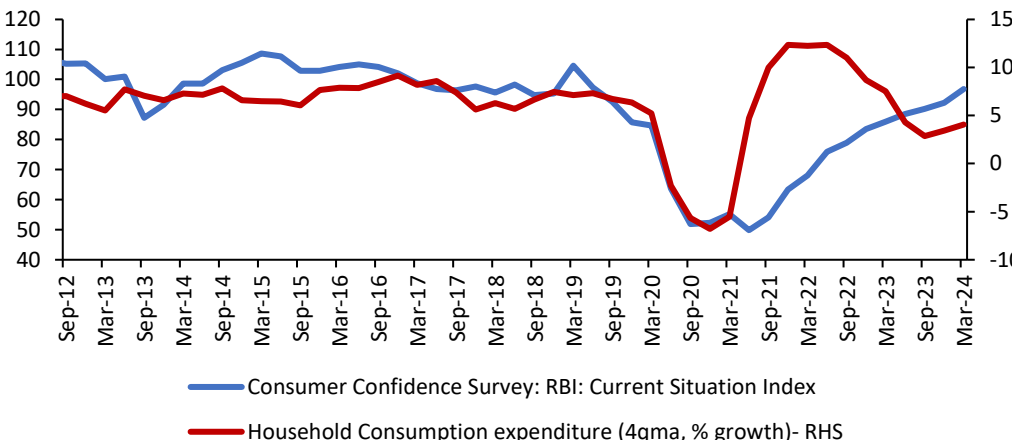
Consumer expectation on employment moderates; Spending and income is broadly flat



Moderation in CPI inflation would also help in improving the real purchasing power

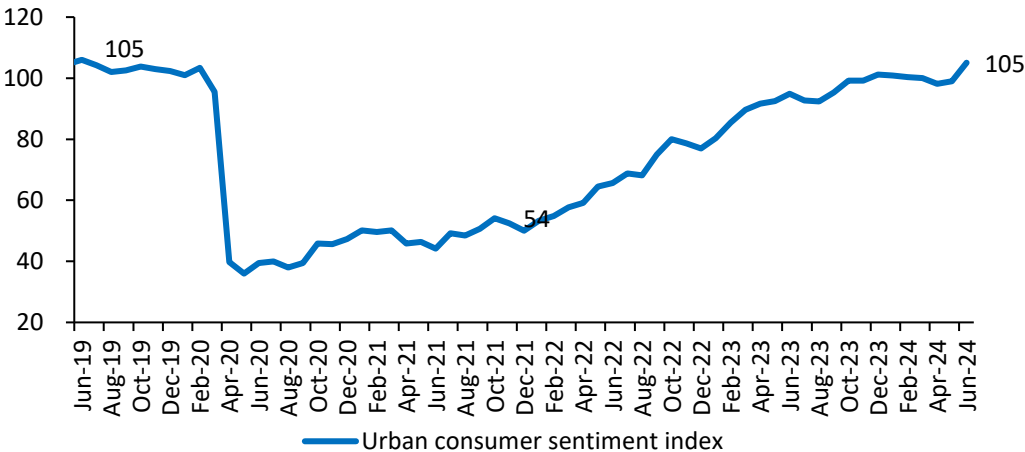


We expect a gradual recovery in consumption demand

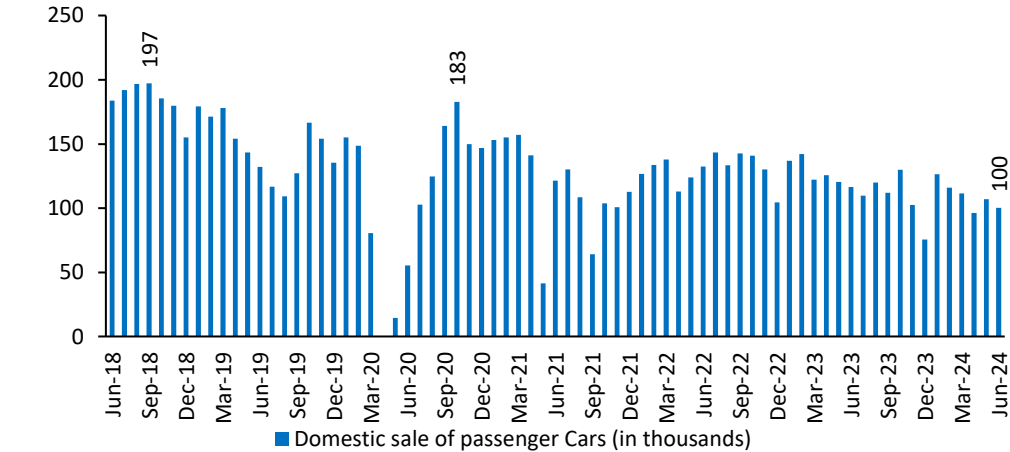


# Urban high frequency indicators weakening

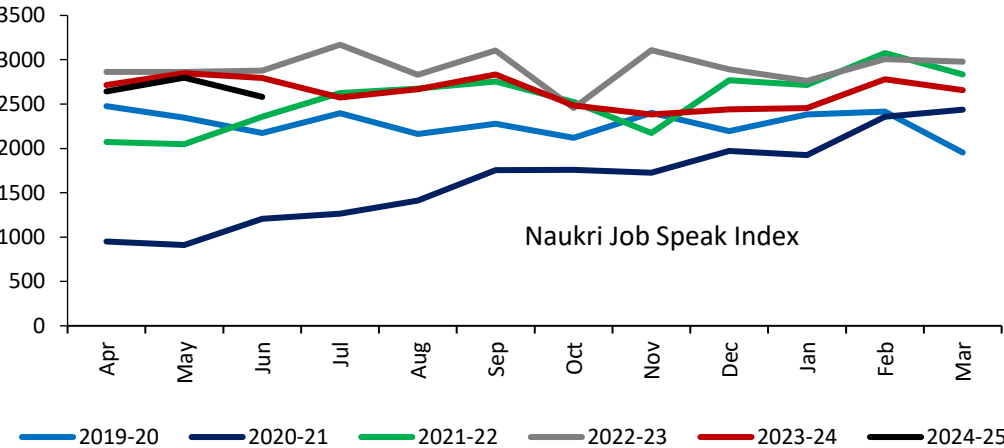
Urban sentiment only touches pre COVID levels



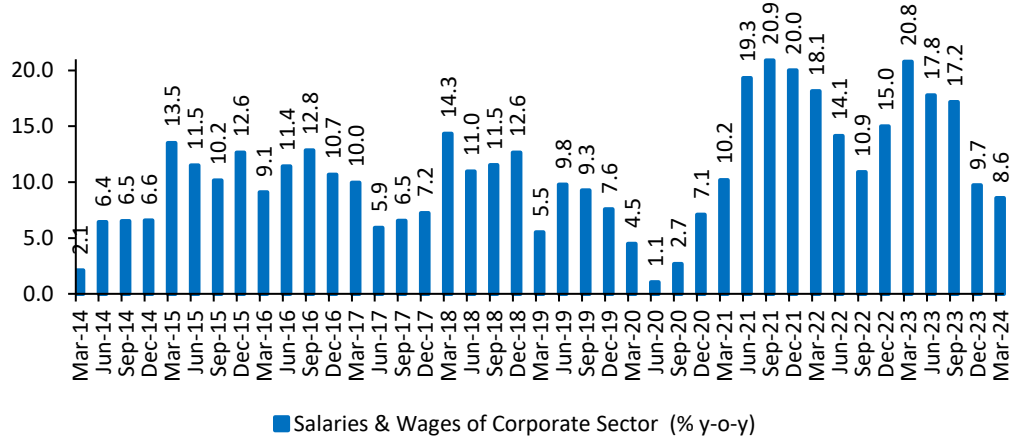
Passenger vehicle sales underwhelm; continue to contract on a y-o-y basis (-14% y-o-y in Jun'24 vs -11% in May'24)



Urban employment (as per Naukri Job Speak Index) is lower than last year

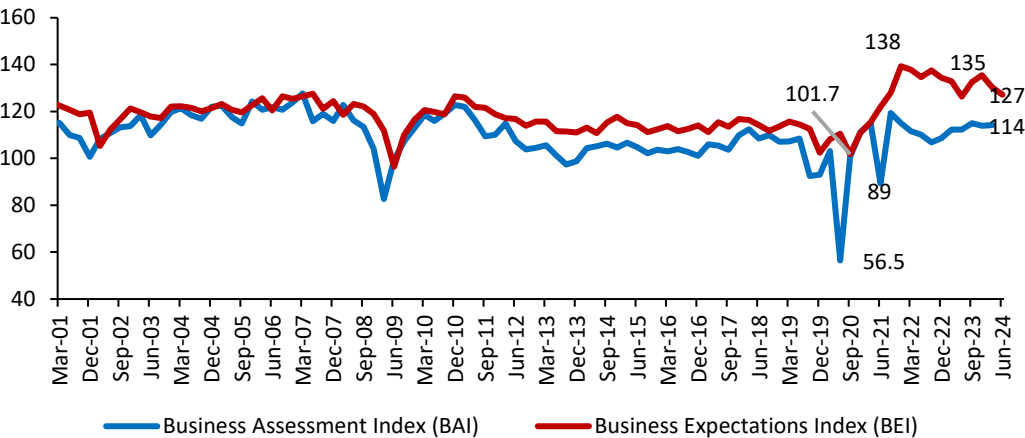


Salary growth is stagnant

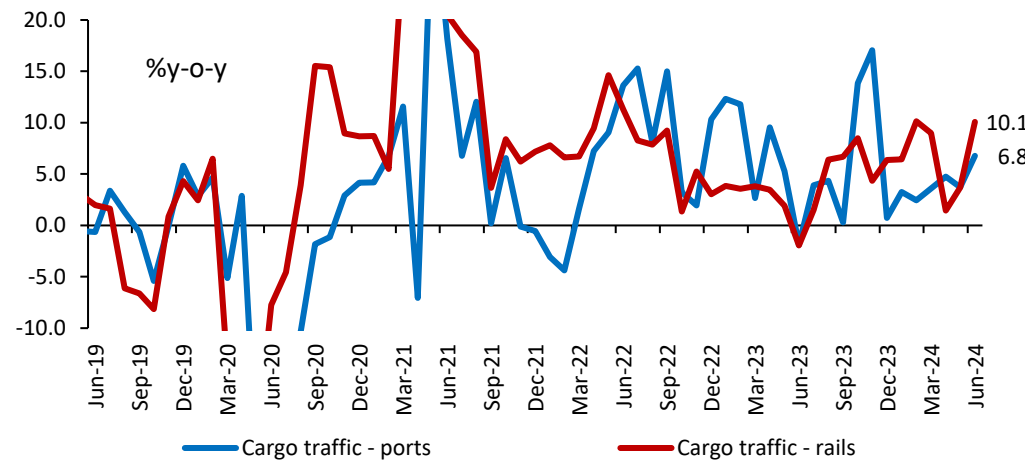


# Business cycle in India still depicts a better strength than household sector

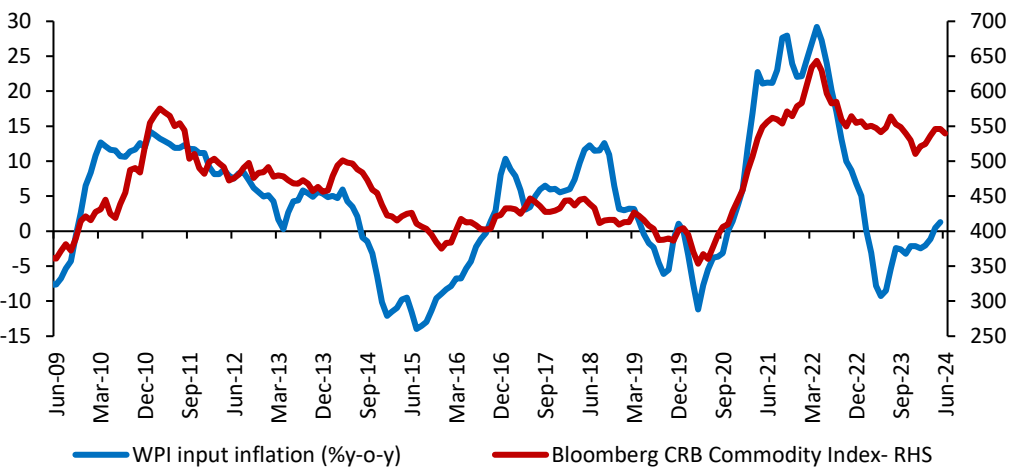
Business sentiments moderates but stays robust



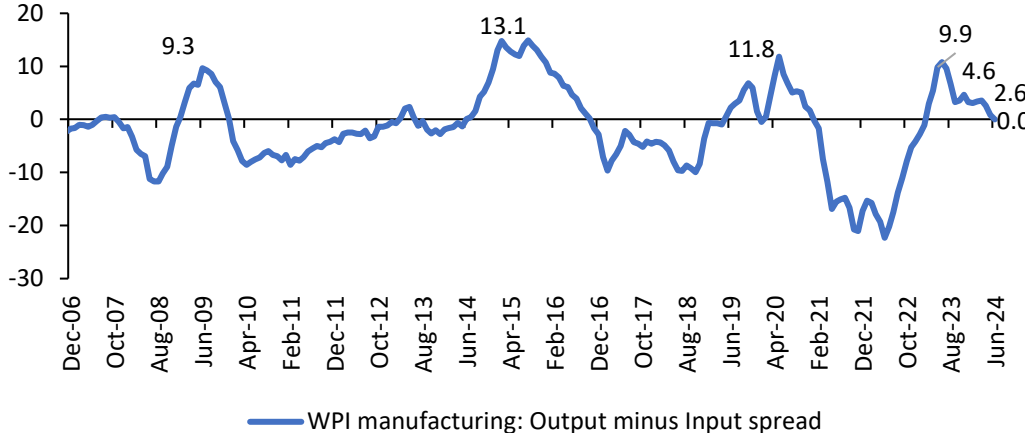
Rail and port cargo traffic grows in June; Port cargo traffic growth at a 7-month high



Best of commodity cost tailwinds behind us...



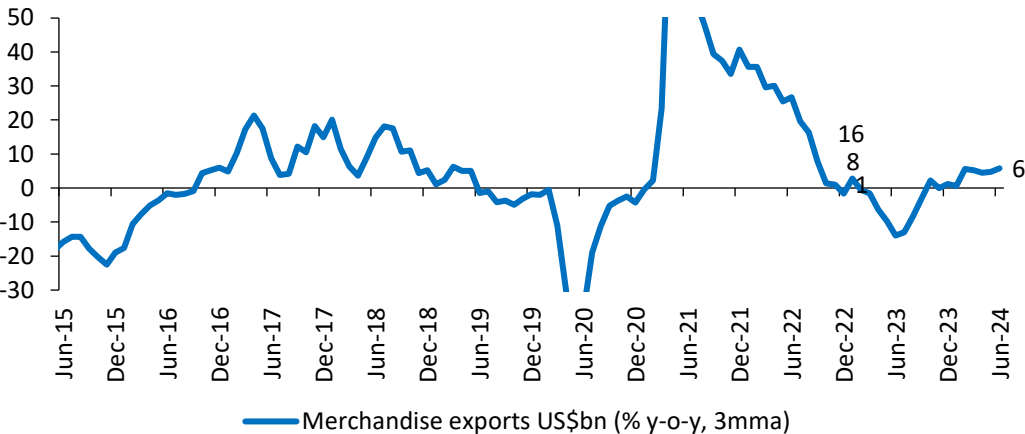
Volume growth and/or pricing power will be important to keep profit margins stable



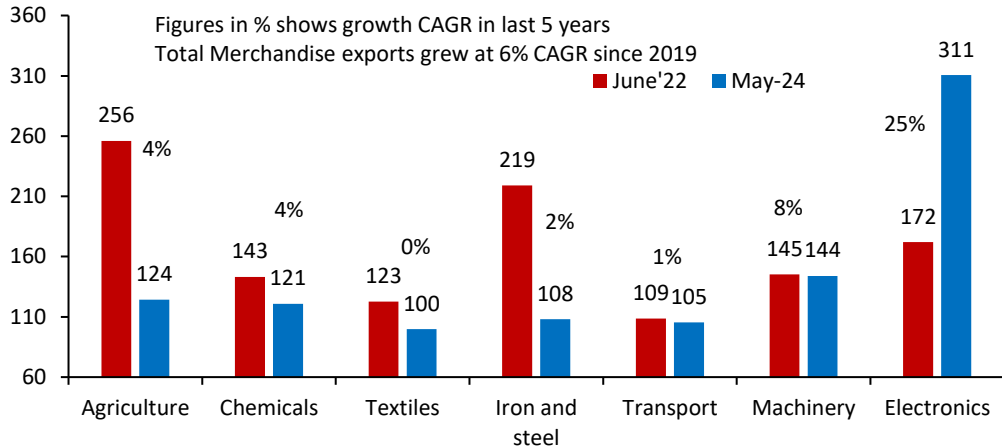
Source: CMIE Economic Outlook, RBI, SBIFM Research; NB: WPI manufacturing: Output minus input spread calculates the difference between price hikes taken by manufactures and cost inflation faced by them

# Marginal positivity in exports expected in the near term as global inventory normalizes

## Merchandise exports continue their marginal positive momentum (6% y-o-y 3mma)

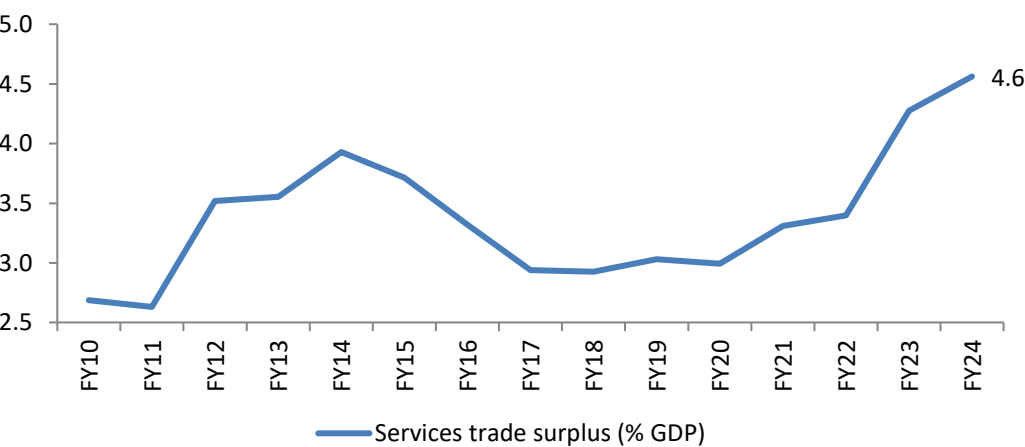


## Electronics exports are healthy, metals, chemicals and machinery exports sees some rebound



NB: Index value for every month compares to corresponding month in 2019

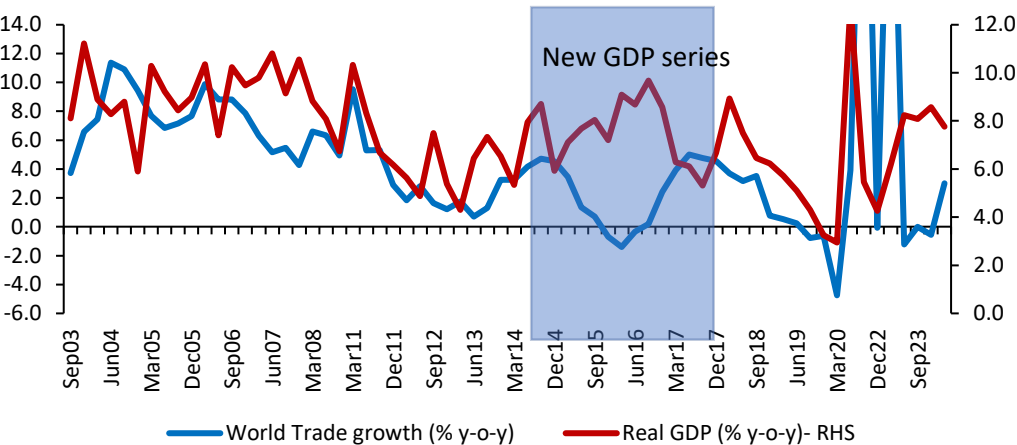
## Services exports continue to be resilient



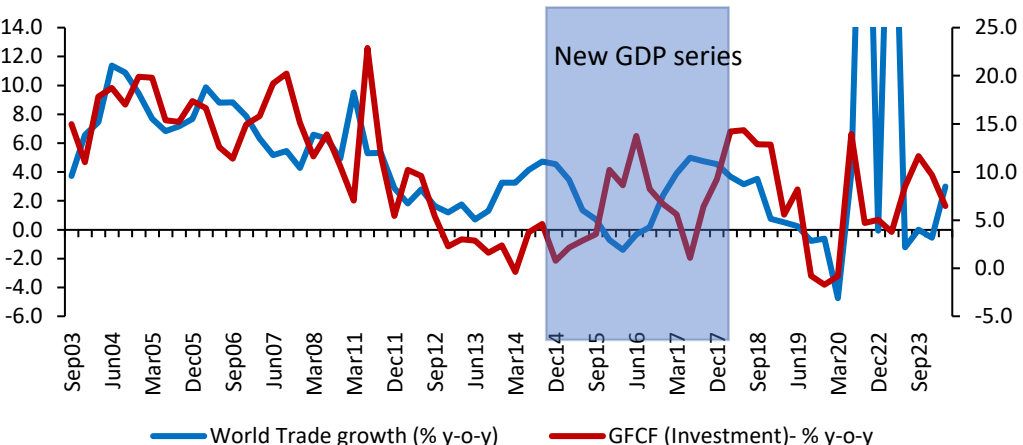
- Global export cycle is showing very nascent signs of positivity. It is due to continued positivity in the US demand and normalizing US inventory.
- India's exports have been recovering since December. Most of these gains have been due to higher exports to the US, China and select other Asian economies.
- Exports to Africa and Europe are still lagging. Within Europe, exports to Netherlands have improved significantly, but gets offset by lower shipments to Germany and France.

# Global headwinds aside, we are constructive on medium term growth outlook for India

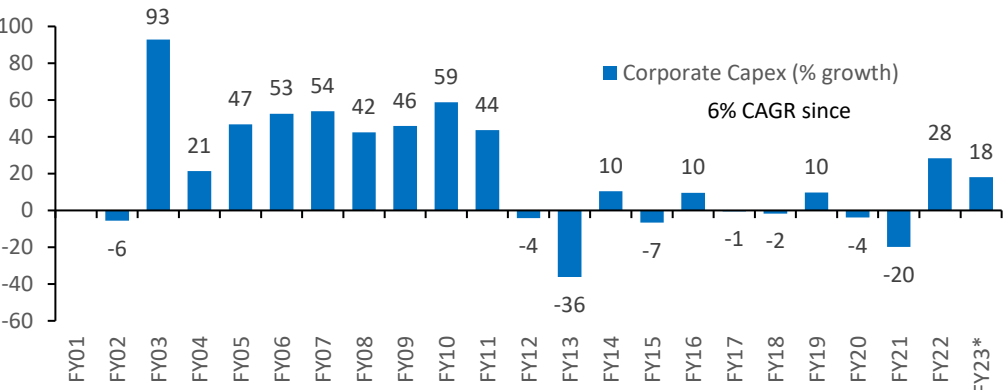
India's GDP moderates with moderating global trade



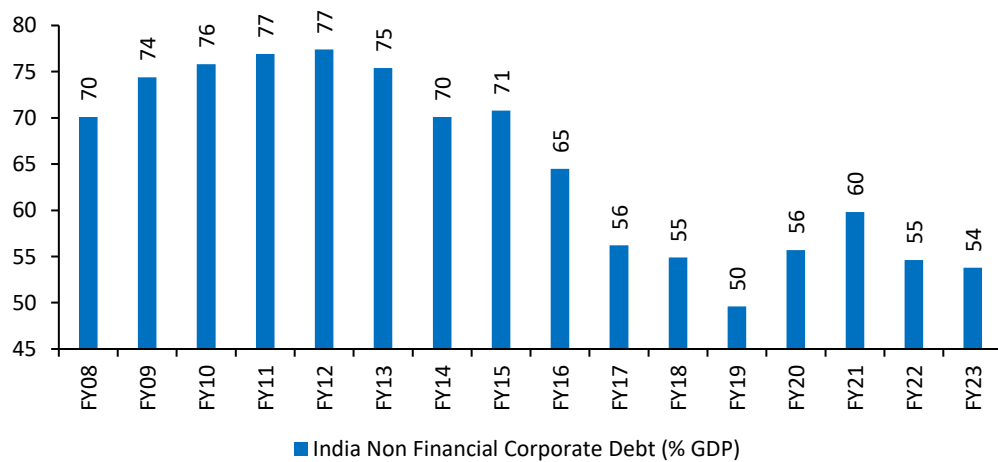
India's capex cycle has very strong linkage to global trade cycle



Long period of underinvestment in India- Total Corporate Capex grew ~18% in FY23



Corporate debt to GDP is at a multiyear low

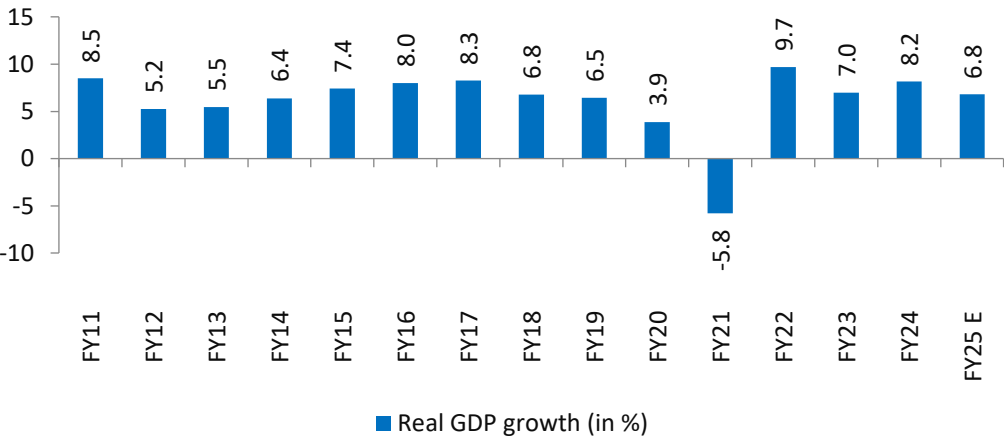


~5K listed companies and ~3K unlisted companies  
FY23 data available only for 4.9K listed and 427 unlisted companies  
Based on Purchase of fixed assets data for ~9K listed unlisted Co.s

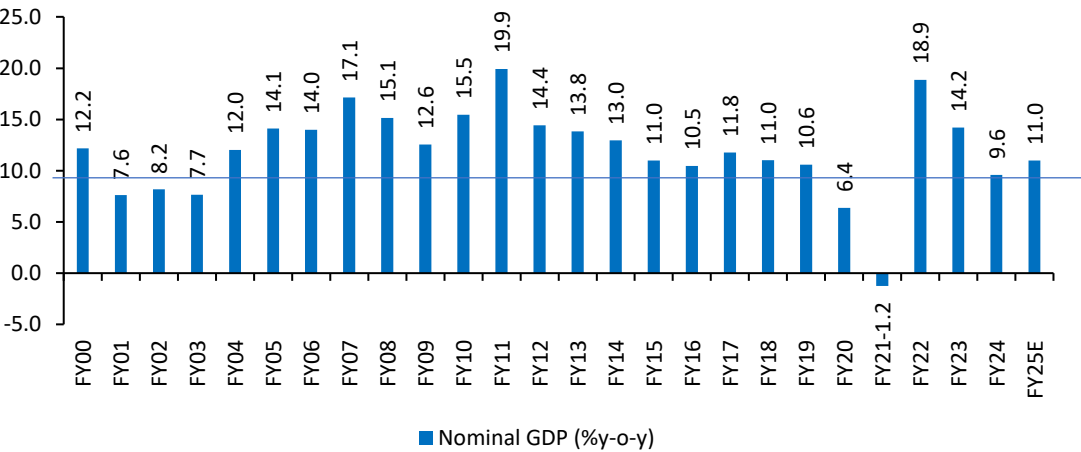


# FY24 depicts dichotomy in nominal and real growth strength

## Real GDP growth for FY24 at 8.2% y-o-y vs. 7.0% in FY23



## India's Nominal growth falls to single digit growth for the first time after FY03 (if we ignore FY20 and FY21 for COVID impact)

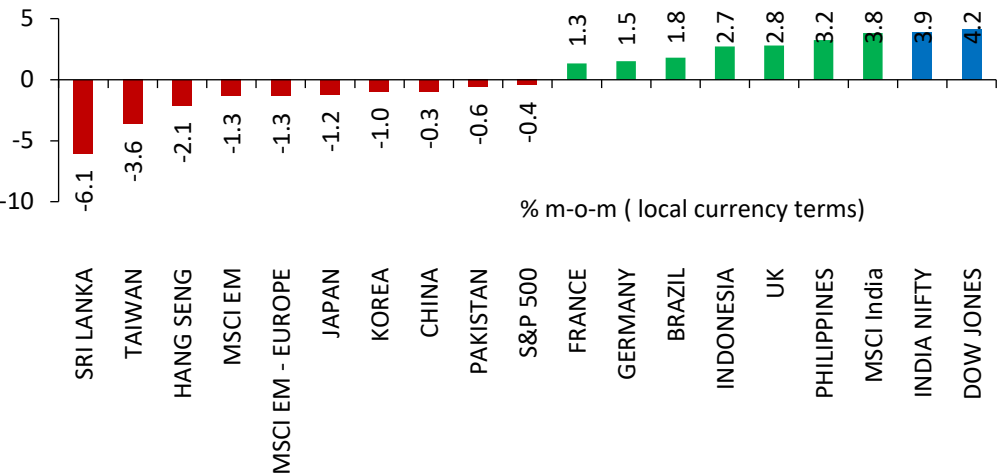


- In FY24 real GDP came in at 8.2% y-o-y (vs. 7.0% in FY23).
- Fixed investment is the key driver of growth with a positive contribution from net exports.
- Household consumption recovery was very slow. Consumption demand is gradually improving but 4% expansion in real demand is much softer than 7% pre-COVID.
- Global growth has held up better than expected keeping exports and manufacturing sector volumes resilient.
- Investment activity improved owing to significant front loading of government capex and real estate recovery as gauged from rising launches. State govt. spend was also frontloaded in FY24.
- The last few years were characterized by increased infrastructure spending and market share gains in exports which catalyzed the construction activity and manufacturing sector. If current infrastructure spend continues FY25, real GDP is expected to post ~6.8-7% print.
- **Overall volume growth is holding up in India, while low price hikes and flat commodity prices lead nominal growth to fall to 10%.**

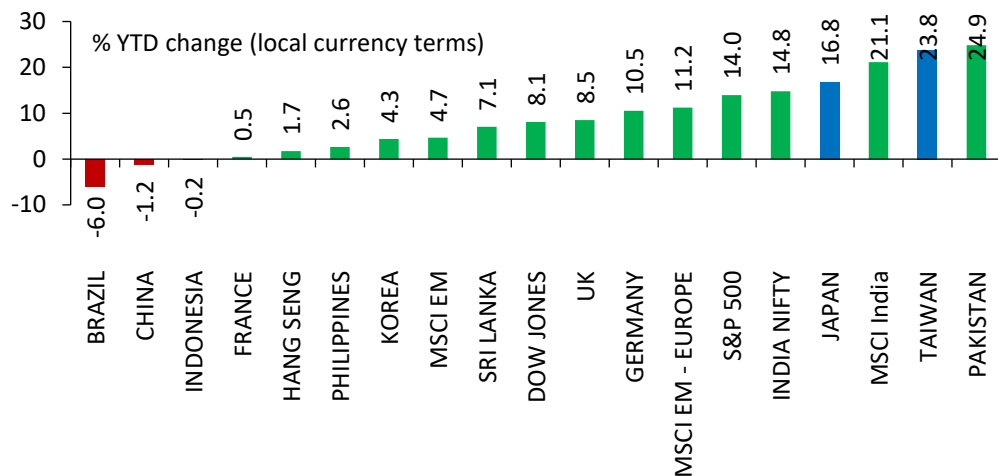
# EQUITY MARKET

# Global equity market snapshot: July 2024

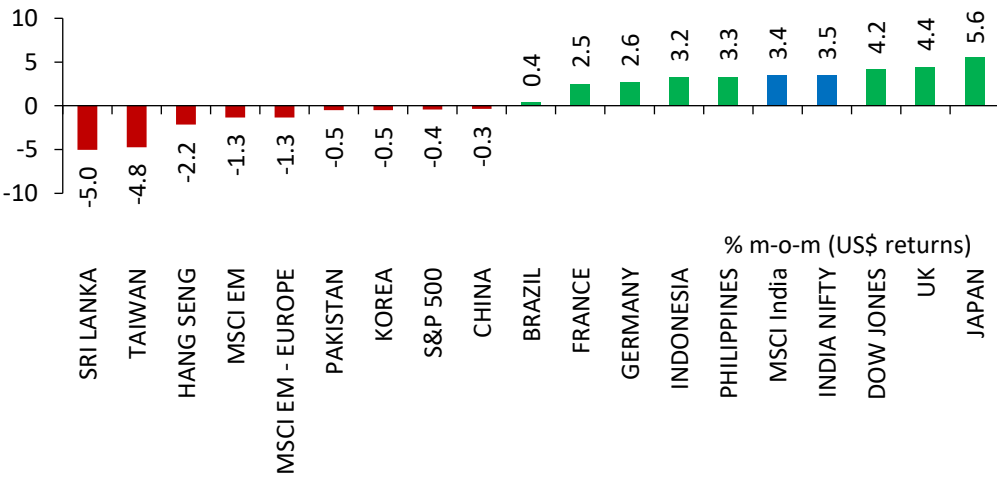
Performance in July 2024 (local currency returns)



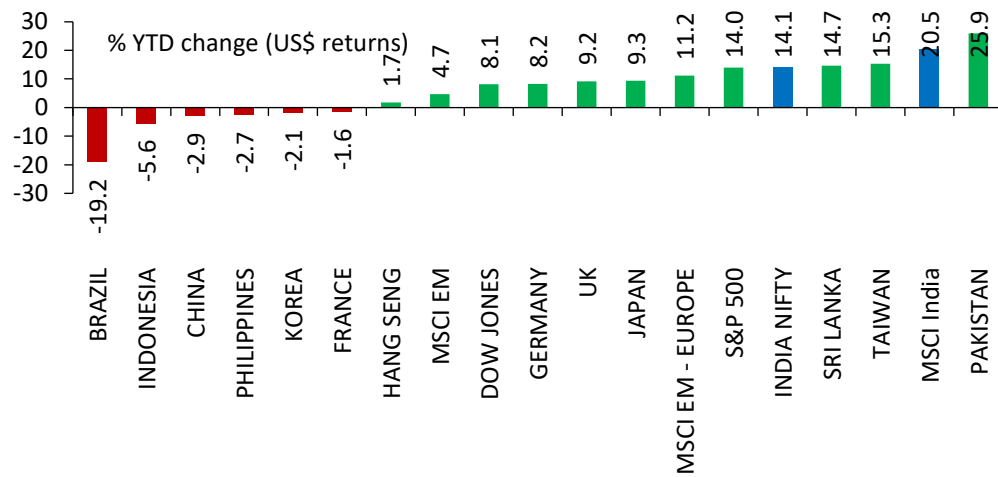
YTD performance (local currency returns)



Performance in July 2024 (US\$ returns)

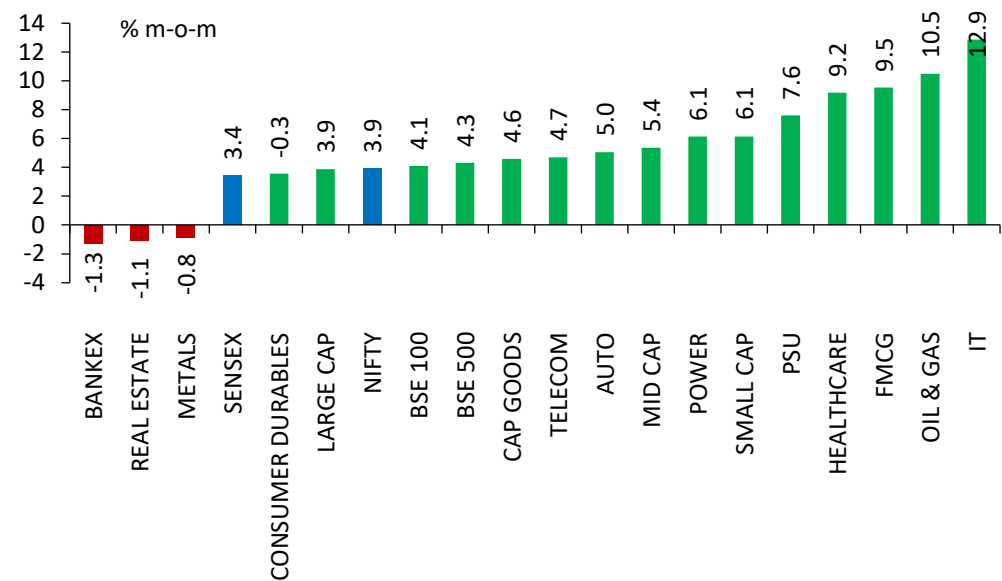


YTD performance (US\$ returns)

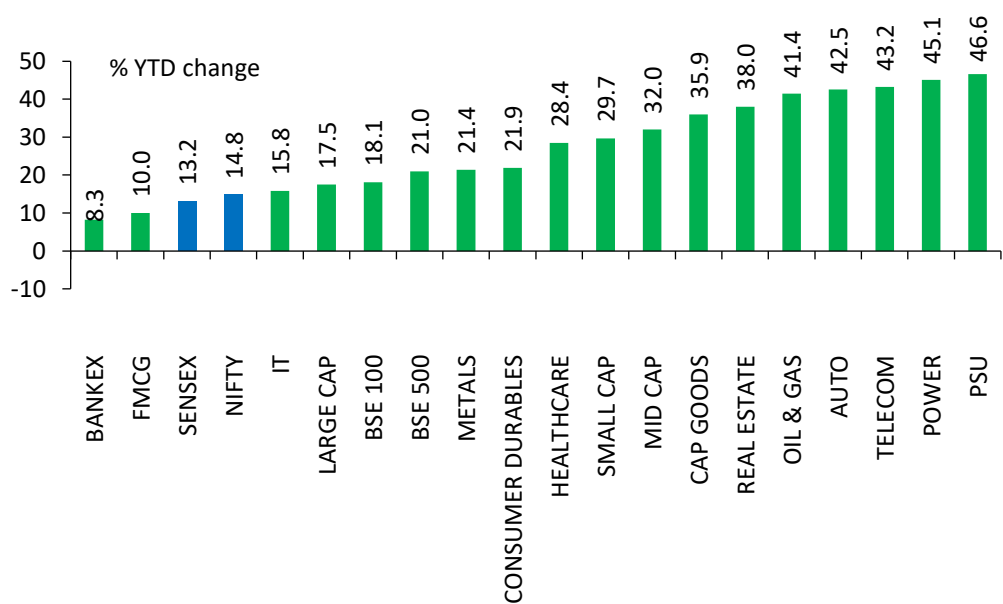


# Indian equity market snapshot: July 2024

Indian equity market performance in July 2024 (local currency returns)



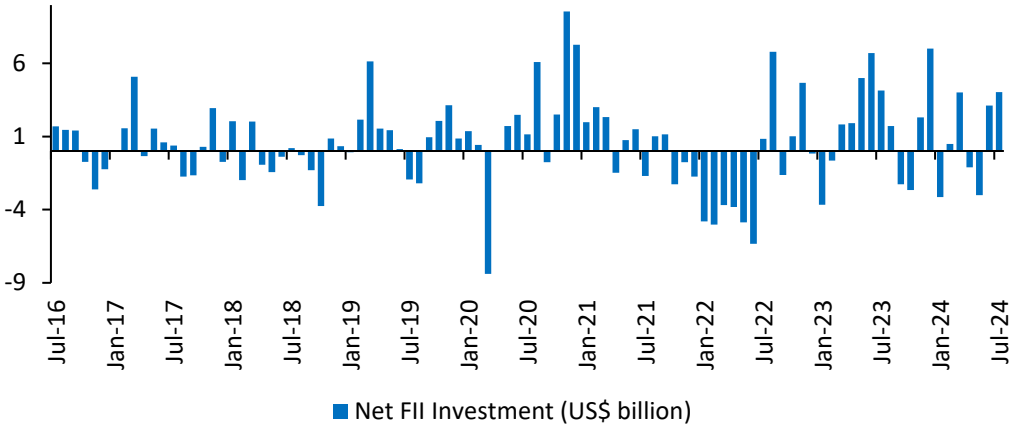
YTD performance (local currency returns)



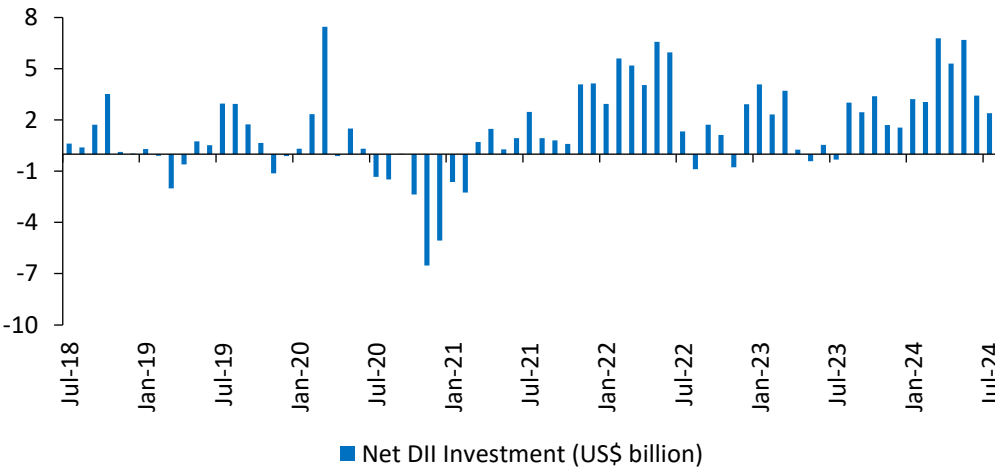
- Nifty and Sensex increased by 3.9% and 3.4% m-o-m respectively in July. All sectors except Bankex, real estate and metals delivered positive returns, with strongest gain visible in IT (13% m-o-m), oil and gas (11%) and FMCG (10%).
- Small cap (6% m-o-m) outperformed mid cap (5%) and large cap (4%).
- On a YTD basis, Nifty and Sensex increased by 15% and 13%, respectively. All sectors have yielded positive returns on a YTD basis. PSU (47% YTD) has been the biggest gainer, followed by power (45% YTD) and telecom (43%).

# Liquidity: FIIs turn net purchasers in June; Primary market supply inched up

FIIs purchased ~USD 4 billion in Jul'24 in equity segment vs. purchase of USD 3.1 billion in Jun'24



DIIs are net buyers (purchase of USD 2.4 billion in Jul'24 vs. USD 3.4 billion in Jun'24)

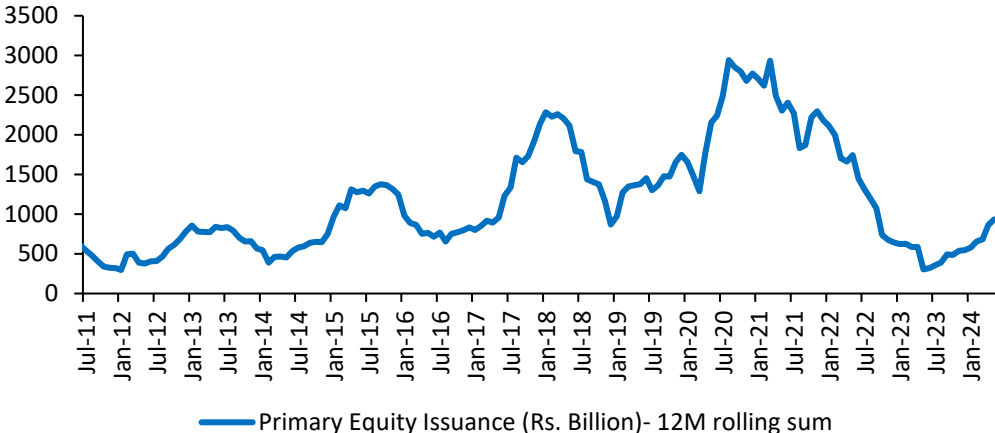


Retail flows into Equity (both Cash and Derivates) surge; Category wise net inflows into Indian equities:

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024*
In Rs cr													
FIIs	1,28,361	1,13,136	97,069	17,946	20,493	49,234	-34,252	1,01,111	1,70,260	24,004	-1,21,439	1,71,107	3,201.0
DIIs	-55,800	-73,052	-28,557	67,587	35,363	90,738	1,09,662	42,257	-35,663	94,846	2,75,726	1,81,482	2,30,329
Individuals#	-24,900	-22,000	-30,100	-8,243	-26,382	-37,988	-8,523	-25,280	52,897	1,42,755	88,376	5,243	91,876
In US\$bn													
FIIs	24.4	20.1	16.1	3.2	3.2	7.5	-4.6	14.4	23.0	3.8	-16.5	20.7	0.4
DIIs	-10.6	-12.8	-4.8	10.4	5.2	14.0	16.0	6.0	-4.8	12.6	35.7	22.0	27.7
Individuals#	-4.7	-3.8	-4.9	-1.3	-3.9	-5.8	-1.4	-3.6	7.1	19.3	11.7	0.6	11.0

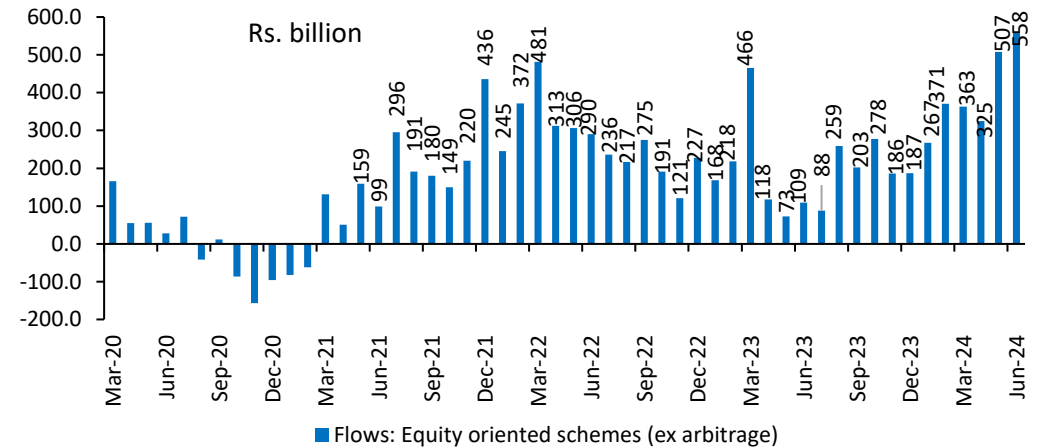
\* As of June 30<sup>th</sup>, 2024  
#Data pertaining to individuals include net flows on the NSE in the secondary market only. Individuals include individual /proprietorship firms, HUF and NRI.

Primary market supply trending up from last year lows

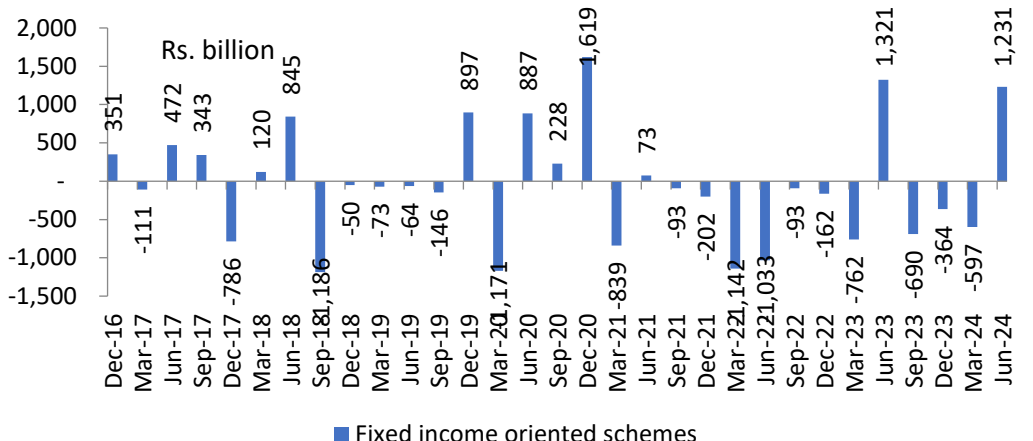


# MF flows: Improvement in SIP and non SIP equity inflows; Debt inflow rises sharply this quarter

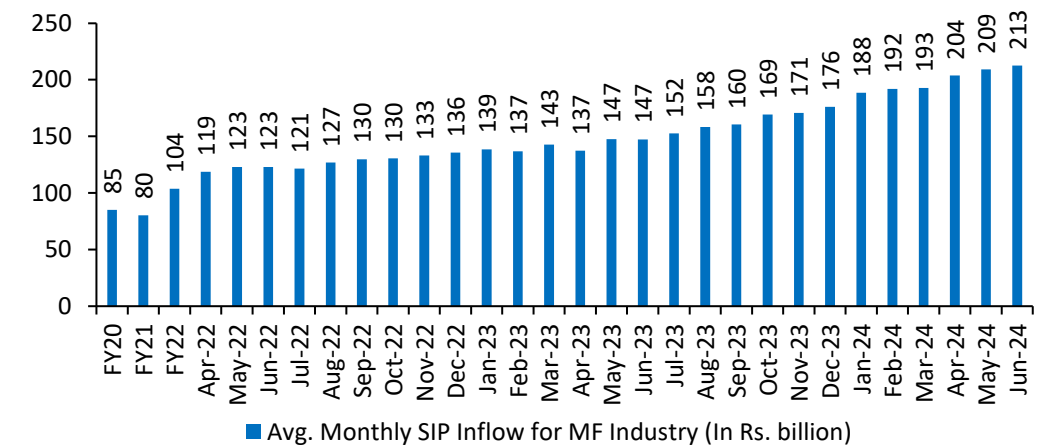
Equity inflows rise in Jun'24 compared to a month ago



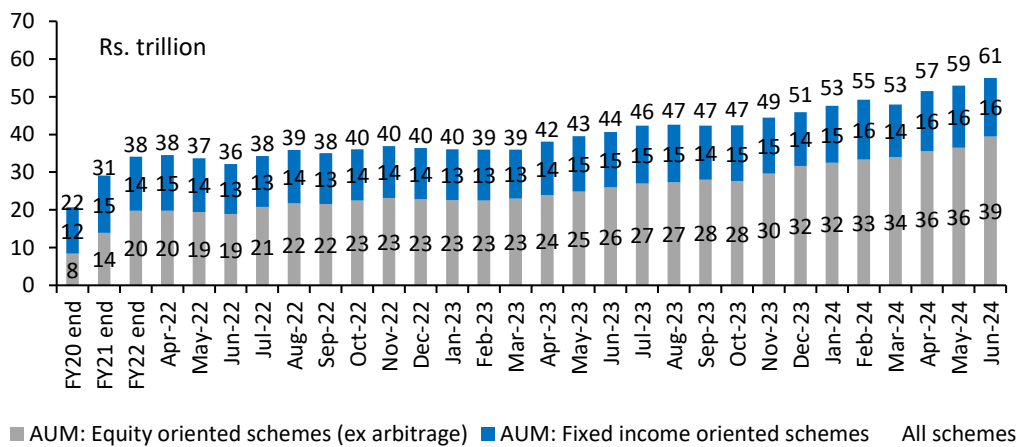
Sharp debt inflow of INR 1.2tn in Q1FY25 (vs. outflow of 597bn in Q4 FY24)



Monthly SIP inflow increases m-o-m in June



Equity AUM increases m-o-m; debt AUM moderates marginally

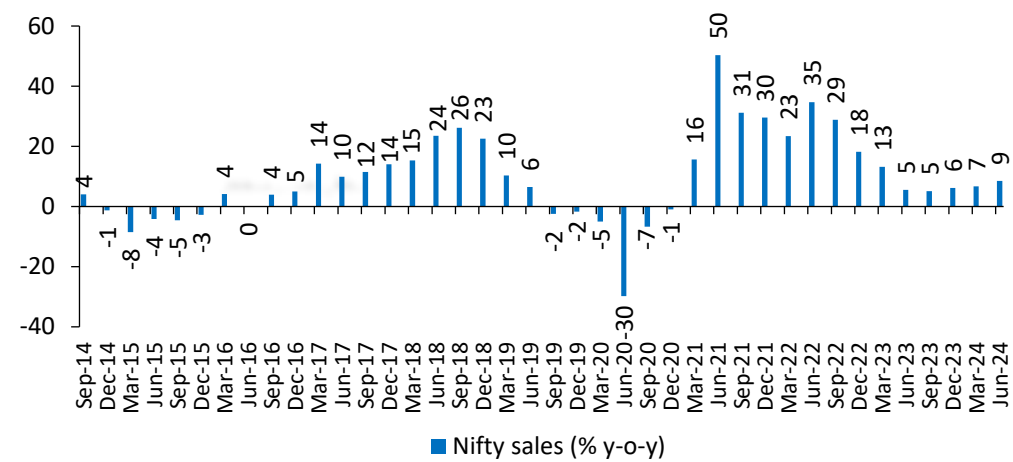


Source: CMIE Economic Outlook, Association of Mutual Funds of India(AMFI), SBIFM Research

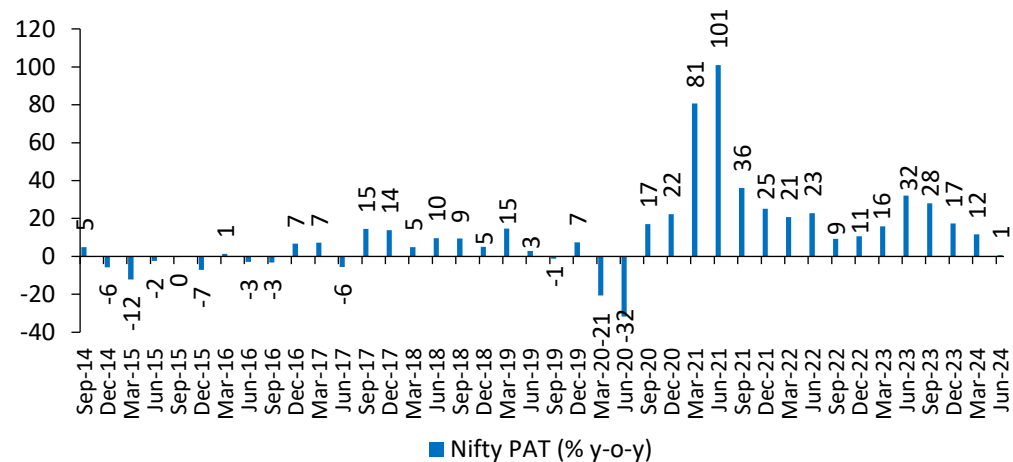


# Q1 FY25 interim earnings: Commodity tailwinds are dissipating now

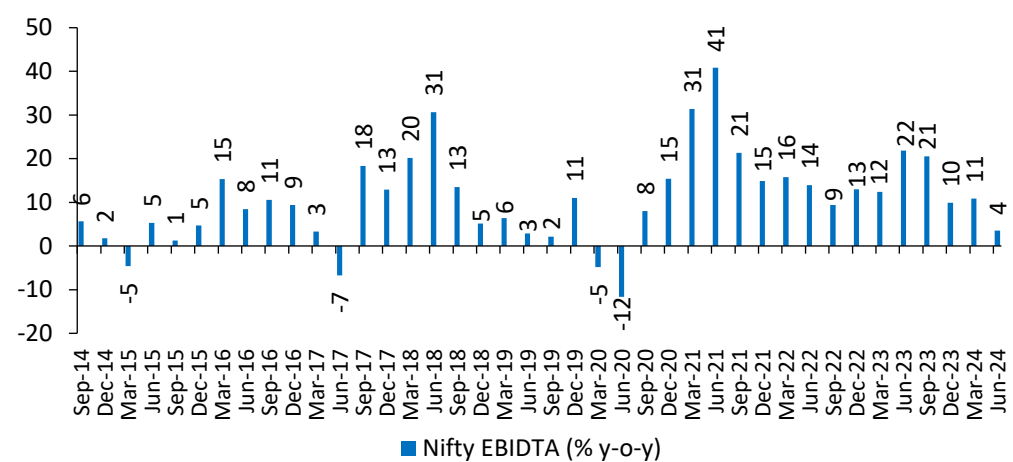
Q1 FY25 NIFTY sales growth in line with expectations



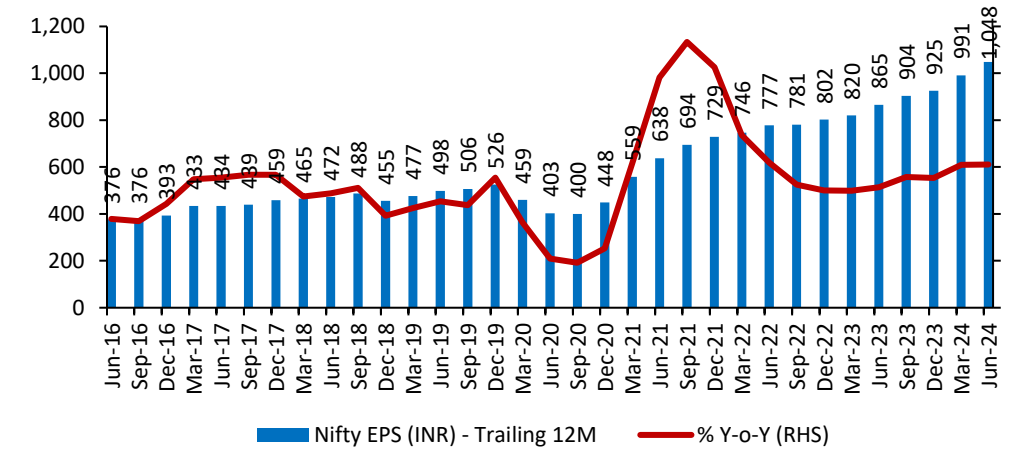
PAT growth moderates on account of high base effect in metals and oil & gas; likely to improve once all results are declared



EBITDA growth moderates too for similar reasons



EPS growth sees an improvement



Source: MOSL, SBIFM Research; NB: Results released for 30 NIFTY companies only for June 2024, historical data is for all the NIFTY 50 companies, EPS growth is adjusted for Axis bank losses for FY23

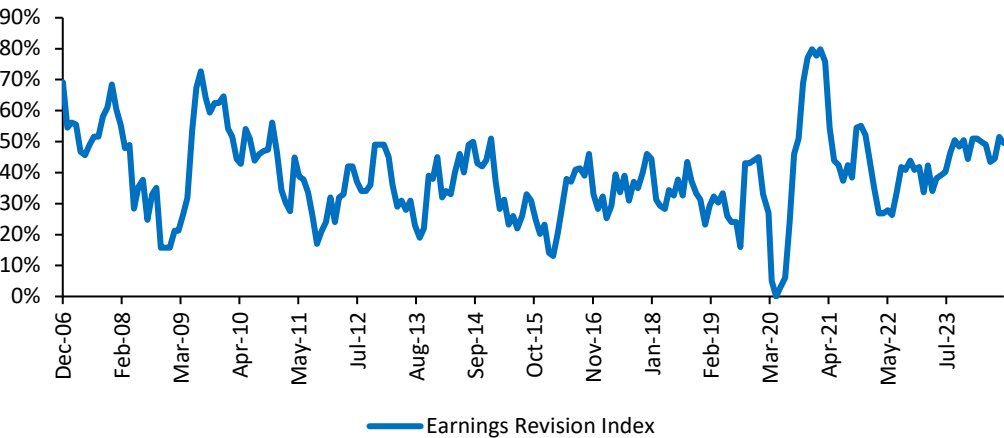
# Q1 FY25 interim earnings' review

- Results released for 30 NIFTY companies.
- NIFTY reported ~9% growth in sales. EBITDA and PAT growth were lower at 4% y-o-y and 1% y-o-y respectively as metals and oil & gas sectors have had a strong base quarter. The earnings outcome were muted.
- Looking at the sector wise color, Consumption demand continued to be weak. Staples volume growth in low single digits. Margin stress in consumer staples due to competition.
- Auto and consumer durables see a relatively better demand momentum in the consumption space. Pick up in exports of auto and allied (Tyre and bearings) segments. Electrical consumer durables (especially fans) saw strong performance owing to hotter than usual summers.
- Real Estate sector robust with strong presales growth. Cement, pipes, tiles segments, all face slight decline in margin realization while volumes improved for pipes and tiles segments.
- Steel sector faces headwinds from weak Chinese demand, rising exports and oversupply in domestic markets.
- For banks, deposit growth continues to be challenging. There is some stress seen in unsecured lending. NIMs under pressure.
- Within the defensives, though IT services witnessed healthy deal wins, the translation of this into revenue realization is yet to be seen. On the other hand, pharmaceuticals shows continued strong demand from overseas markets.
- To sum, Topline of Indian companies are getting repeatedly dragged down by gradual moderation in global growth which has impacted the topline for IT, chemicals, metals and oil & gas. On the other hand, some of the domestic sectors like auto, real estate and consumer durables has posted a strong topline. But still the net impact is a single digit growth in topline. Furthermore, gradually the profit growth is also gradually moderating to low double-digit prints, in line with nominal growth in India. At the margin, downgrades have increased and beats to miss ratio is also neutral. India EPS grew by 22% in FY21, 32% in FY22 and 11% in FY23 and 23% in FY24. But now the likely EPS trend would mostly be in line with nominal growth and would necessarily require topline to come back.

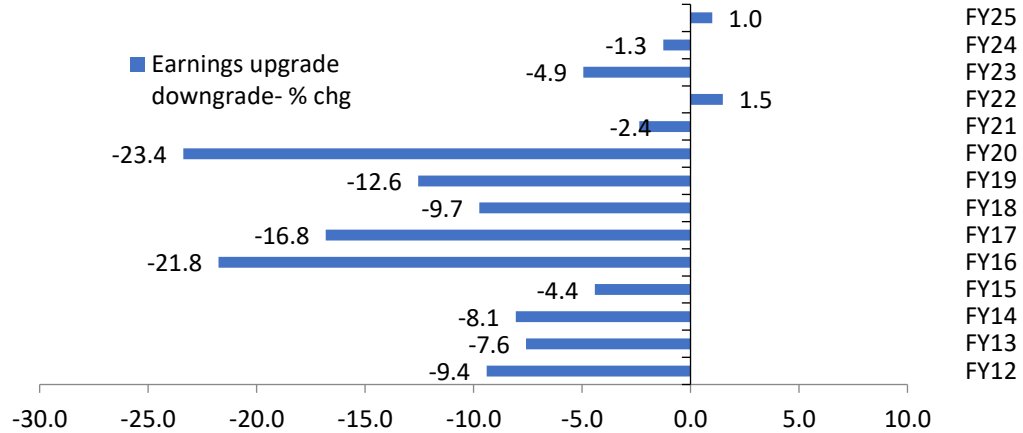


# Earnings upward revisions fell marginally in July

Earnings Upgrades to downgrades ratio fell marginally



In FY25 (till July), EPS projection saw a marginal upgrade

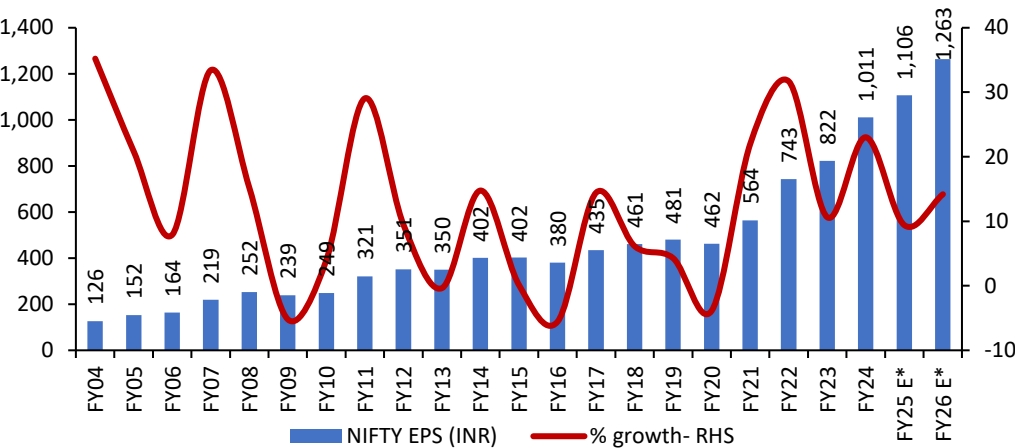


- Earnings revisions for FY25 have fallen with Materials, Energy & IT witnessing downward revisions. Consumer Discretionary, Industrials, Comm. Services, Financials, Healthcare saw upward revisions.
- Consensus expects 18.0% EPS growth CAGR for the Nifty over FY23-FY26.

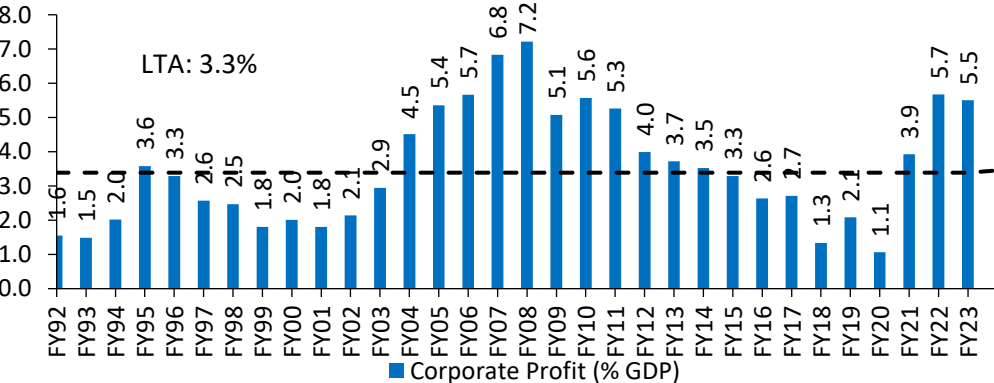
Source: Bloomberg, FactSet, SBIFM Research; NB: \*data for communication services can't be calculated due to negative number in the base year, Earnings Revision Index: There has been a revision in methodology of calculating Earnings' Revision Index. Earlier, 12 month forward estimate number of all BSE 100 constituents as of the current month-end & 3 months back were taken. Now, new version considers FY23 consensus EPS for the current date and weighted format for history (1 month, 2 month & 3 months back with 1 month having the highest weight).

# Domestic support to earnings as the outlook for global cyclicals weakens

## Near-term headwinds to earnings while medium term prospects look decent



## Earnings have recovered from ultra-lows of FY17-FY20



FY92-FY23 data is based on a sample of ~30,000 listed/unlisted companies in CMIE (includes both financial and non-financial companies)

## Sectoral breakup of NIFTY earnings outlook

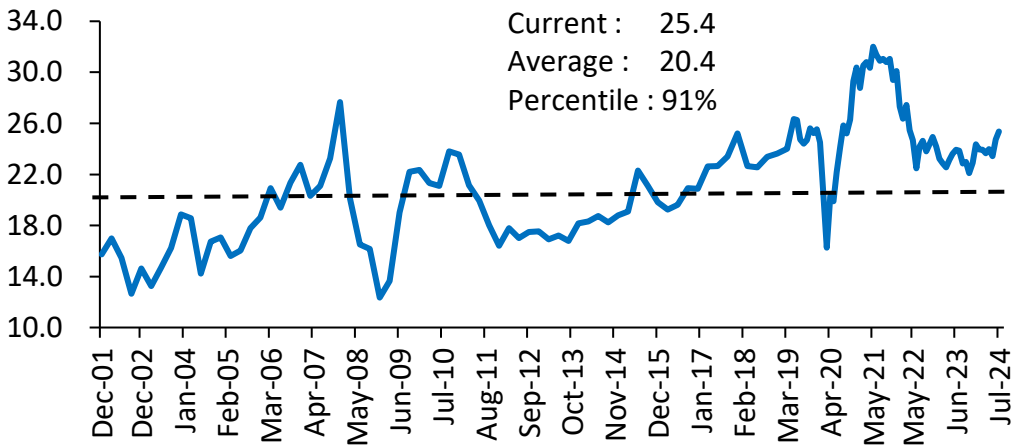
	No. of Cos.	EPS Change						FY24-26 (CAGR)
		FY20	FY21-21	FY22-22	FY23-23	FY24-24	FY25-25	
Nifty		20.0%	35.7%	5.9%	29.5%	10.1%	15.2%	12.6%
Materials	6	55.2%	222.9%	-54.7%	-13.8%	56.9%	25.7%	40.5%
Industrials	3	22.9%	-30.1%	-0.9%	-0.9%	30.6%	25.6%	28.1%
Financials	11	13.8%	27.3%	23.1%	53.0%	14.1%	14.2%	14.2%
Health Care	5	5.9%	51.7%	23.6%	2.5%	9.4%	13.4%	11.3%
Consumer Discretionary	7	20.7%	-33.4%	186.5%	58.8%	2.9%	16.2%	9.3%
Consumer Staples	5	-5.0%	-3.9%	5.6%	32.6%	5.5%	11.4%	8.4%
Utilities	2	18.0%	-9.7%	6.0%	-28.7%	4.7%	8.5%	6.6%
Energy	4	56.9%	11.4%	8.1%	33.6%	-1.3%	12.4%	5.3%
Information Technology	6	9.6%	37.1%	13.3%	13.5%	-3.6%	12.8%	4.3%
Communication Services	1		NA*		-6.1%	95.6%	41.3%	66.3%

- Consensus expects 18.0% EPS growth CAGR for the Nifty over FY23-FY26
- We are constrictive on medium-term earnings trajectory deriving comfort from our growth expectation for India and return of pricing power for many sectors.

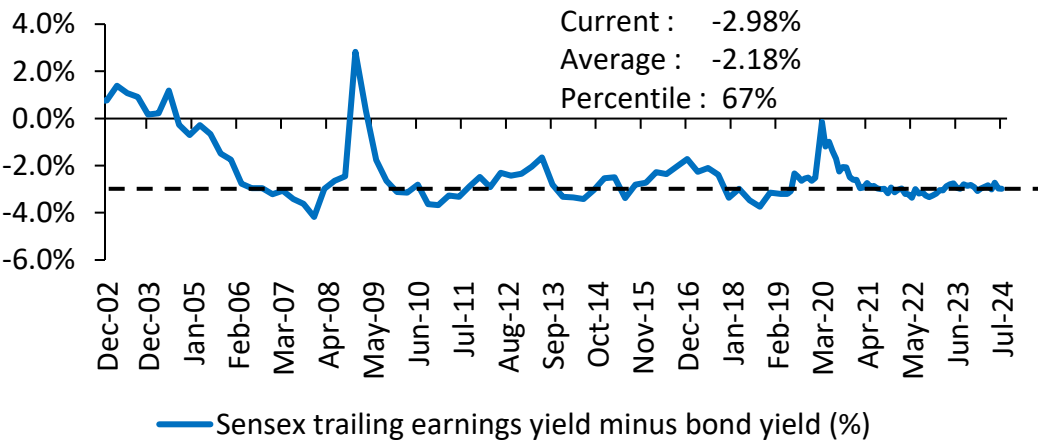
Source: CMIE Economic Outlook, Bloomberg, SBIFM Research; \*FY25 and FY26 earnings estimates are SBIMF. \*\* EPS change is unadjusted to externalities, : \*\*\*data for communication services can't be calculated due to negative number in the base year, Earnings Revision Index: There has been a revision in methodology of calculating Earnings' Revision Index. Earlier, 12 month forward estimate number of all BSE 100 constituents as of the current month-end & 3 months back were taken. Now, new version considers FY23 consensus EPS for the current date and weighted format for history (1 month, 2 month & 3 months back with 1 month having the highest weight).

# Equity valuations remain expensive

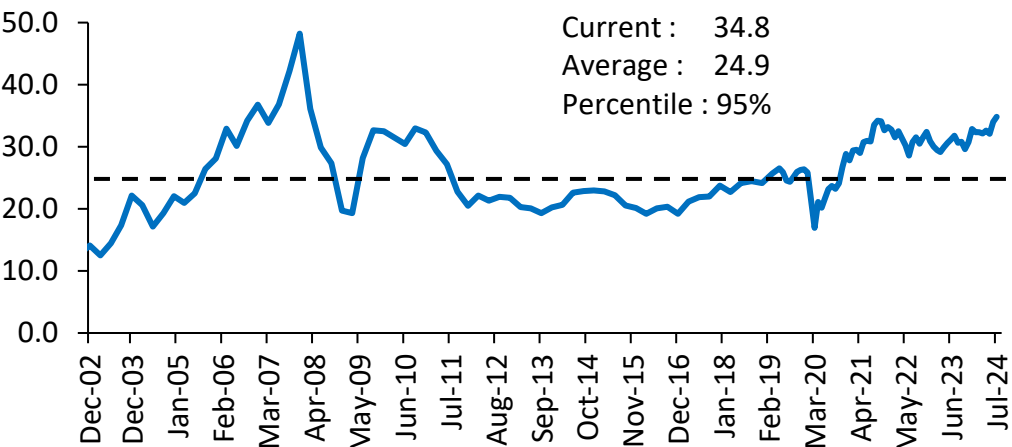
Sensex trailing PE ratio stood at 25.4 in Jul'24 vs. 24.7 in Jun'24



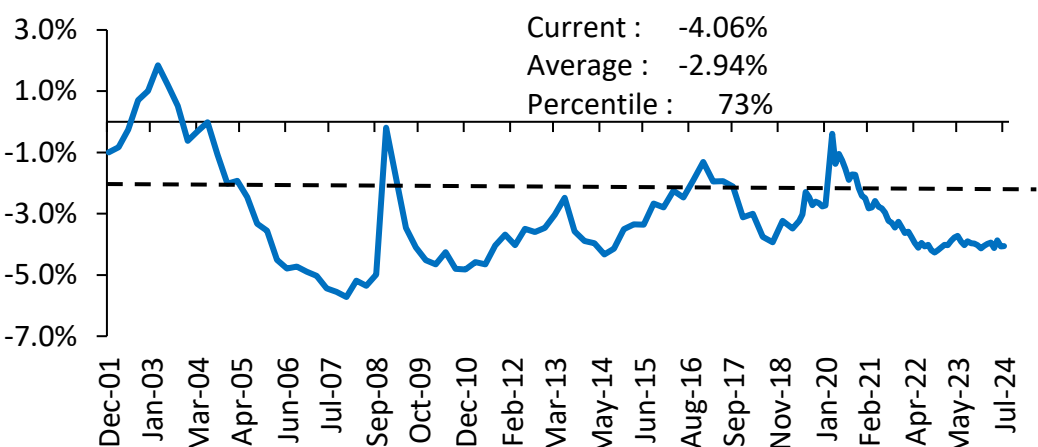
Earnings yield to bond yield spread is moderately expensive



Shiller PE ratio stood at 34.8 in Jul'24 vs. 34.0 in Jun'24

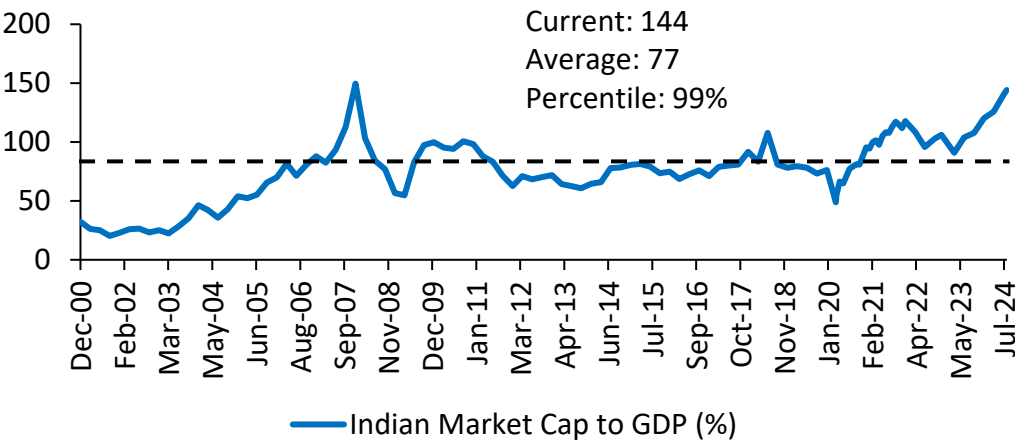


Shiller earnings yield to bond yield spread moderately expensive

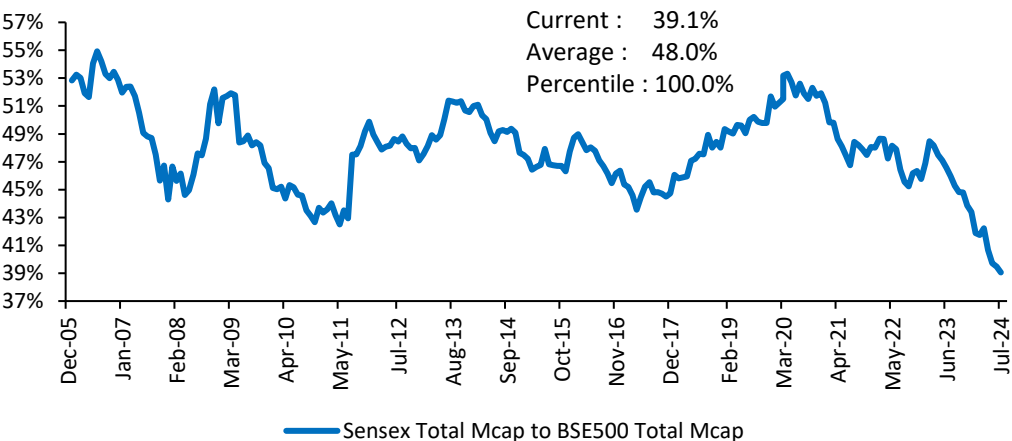


# Polarization remains low

Market capitalization/GDP expensive vs. history at 99<sup>th</sup> percentile reading



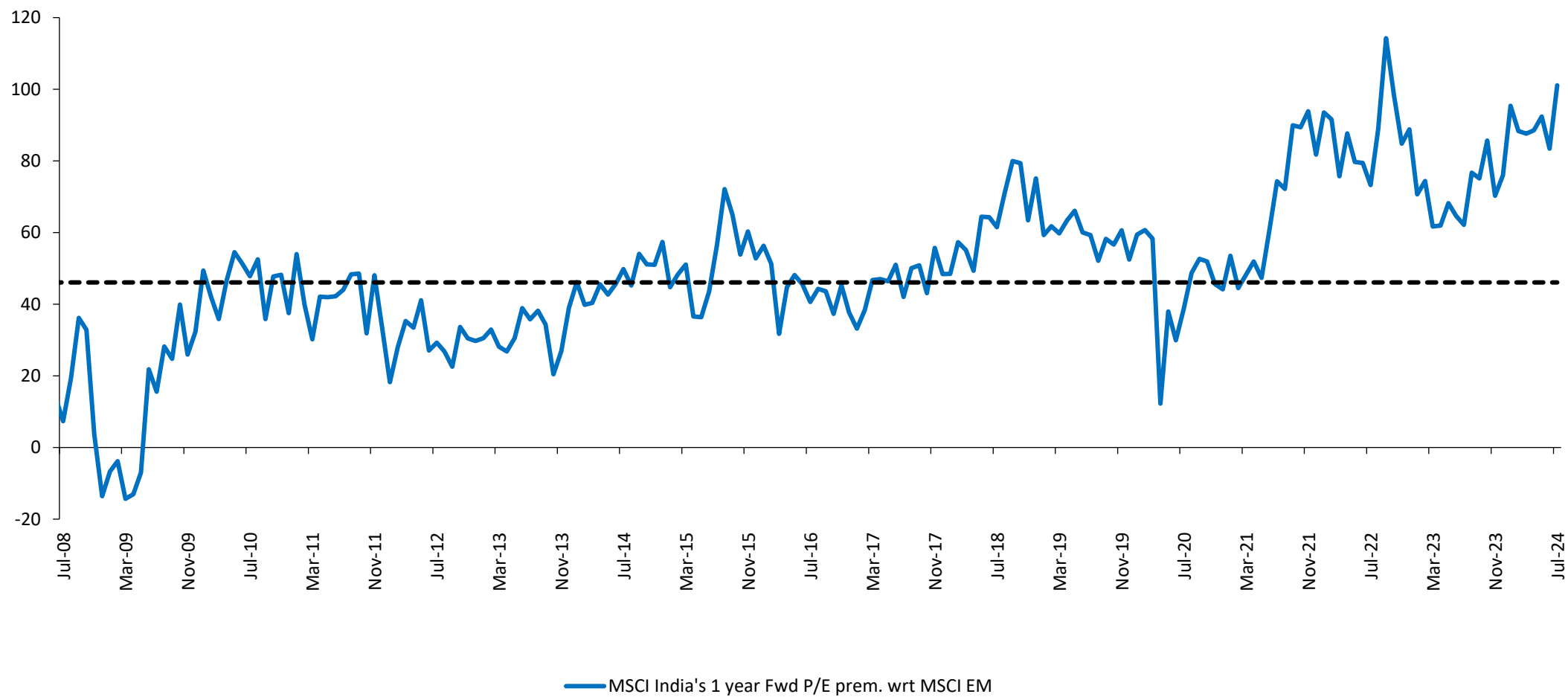
Mid caps and small caps: Market polarization low



- Market polarization remains low with broader markets outperforming the frontline large cap indexes.
- The ratio is now back to historical lows, suggesting the risk-reward is more towards large caps now.

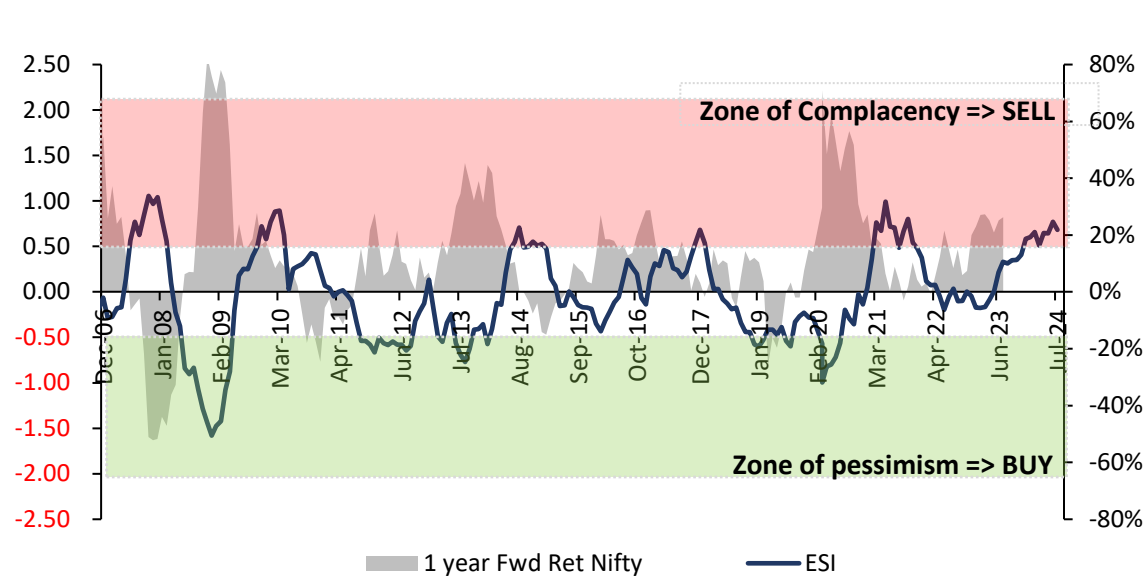
# MSCI India's valuation premium relative to EM improves in July

India's P/E premium to world has moderated from its peak in Oct'22; global multiples remain vulnerable to higher rates, weaker growth and potentially rising Equity risk premium

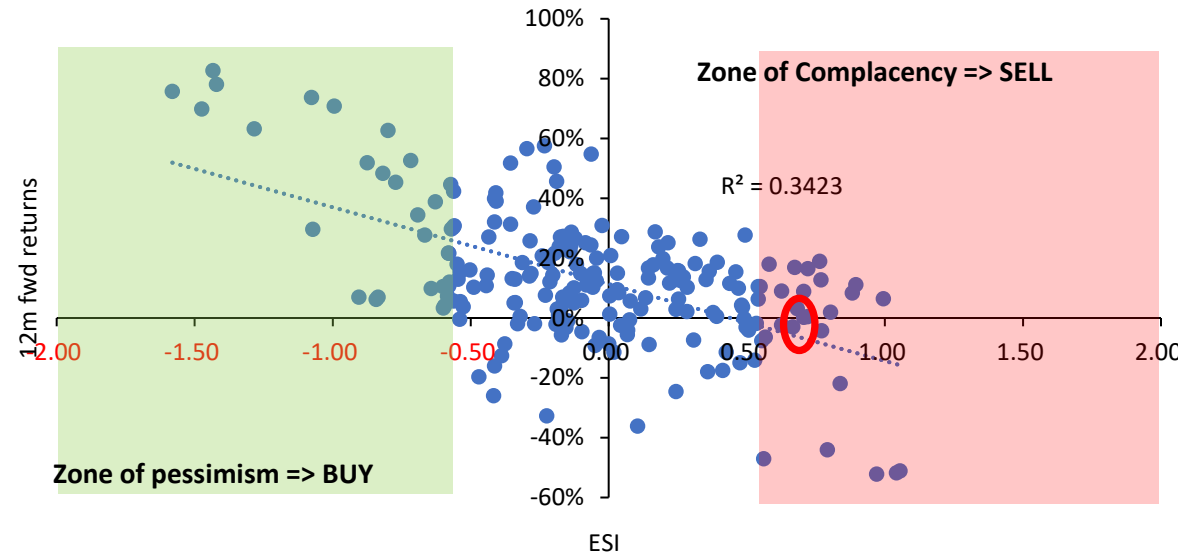


# Equity market sentiment remains in the Zone of Complacency

Equity sentiment index rises & is still in the Zone of Complacency



Equity sentiment index remains up



- The sentiment measure works as a contrarian indicator. The action from the past few months suggests optimism remaining elevated.

# Equity Outlook: Stick to investment discipline amidst volatile market

- Indian equity gave positive returns in July. NIFTY and SENSEX increased by 3.9% and 3.4% m-o-m respectively. All sectors except Bankex, real estate and metals delivered positive returns m-o-m. Strongest gain visible in IT (13% m-o-m), oil & gas (11%) and FMCG (10%).
- BSE small cap (6% m-o-m) outperformed mid cap (5%) and large cap (4%).
- FIIs remain net buyers in July'24 (purchase a net of ~USD 4 billion in Jul'24 in equity segment vs. a purchase of USD 3.1 billion in Jun'24). DIIs remain net purchasers.
- Indian equity market saw some correction on budget day. The Short-term and long-term capital gains tax for equity and equity oriented mutual funds have been revised up. At the margin, no increase in capex budget was a dampener to infra and capex sentiment but the thrust to these sector remain strong. One must watch their valuation though.
- Cash flow from state specific welfare schemes could further boost sentiment and spending among these groups. Many consumer-focused companies are currently operating with subdued expectations and could potentially experience positive earnings surprises as a result.
- We stay constructive on discretionary consumption as a secular theme given the disproportionate boost the category derives from rising incomes. A related category that should benefit from rising incomes is savings plays and investment products. A third theme that we are positive on is natural resources and physical assets which, after more than a decade of underperformance, should benefit from a fiscally expansionary global policy backdrop that supports higher growth as well as inflation.
- There are some underlying changes in currents at the margin. Valuations for broader market cap is much more expensive than large cap- suggesting a greater comfort in large cap names. As an aside, the focus on identifying newer ideas continues.
- We think increasingly the market will become more discerning and reward companies which have strong business models, long-term earnings growth visibility and sustainable cashflows across the market cap spectrum.
- We continue to stay bottom-up on stock selection with a leaning towards quality. While the broader macro environment supporting higher growth and inflation should stay supportive for value stocks over the next few years, in the immediate term the complacent market sentiment warrants a skew in favour of quality.

# FIXED INCOME MARKET



# Global Bond Market Snapshot: Global Bond yields show higher volatility than equities and FX

Bond yields fell across the developed market in July as softer economic data prompts market builds in rate cut expectations for key developed market central banks

10 Year Gsec Yield (% mth end)	2022 end	2023 end	Apr-24	May-24	Jun-24	Jul-24	m-o-m change (in bps)	YTD change (in bps)
Developed market								
US	3.87	3.88	4.68	4.50	4.40	4.13	-26	25
Germany	2.57	2.02	2.58	2.66	2.50	2.32	-18	30
Italy	4.72	3.70	3.92	3.98	4.07	3.66	-41	-4
Japan	0.42	0.61	0.88	1.07	1.06	1.06	0	44
Spain	3.66	2.99	3.35	3.39	3.42	3.13	-29	14
Switzerland	1.62	0.70	0.77	0.93	0.60	0.46	-14	-24
UK	3.67	3.54	4.35	4.32	4.17	4.01	-16	47
Emerging Market								
Brazil	12.69	10.37	11.85	11.89	12.33	12.04	-30	167
China	2.84	2.56	2.31	2.32	2.21	2.15	-6	-41
India	7.33	7.17	7.19	6.98	7.01	6.92	-9	-25
Indonesia	6.92	6.45	7.22	6.91	7.05	6.89	-15	44
South Korea	3.74	3.18	3.65	3.58	3.26	3.06	-20	-12
Malaysia	4.09	3.73	3.98	3.90	3.86	3.72	-14	-1
Thailand	2.64	2.68	2.76	2.81	2.67	2.58	-9	-9
Mexico	9.04	8.95	9.99	9.78	9.92	9.86	-6	90
Poland	6.86	5.20	5.72	5.71	5.75	5.47	-28	27
Colombia	13.01	9.96	10.60	11.00	10.82	10.88	6	92
Hungary	8.98	5.86	7.03	6.94	6.81	6.35	-46	49

# India Rates Snapshot: Yields moderate across all tenors

## Shorter and longer term yields moderate in July'24

	2023 end	May-24	Jun-24	Jul-24	m-o-m (in bps)	YTD change (in bps)
Repo rate	6.50	6.50	6.50	6.50	0	0
3 year GSec	7.07	7.03	6.98	6.81	-17	-26
5 year GSec	7.09	7.05	7.01	6.84	-17	-25
10 year GSec	7.18	6.98	7.01	6.92	-8	-26
3 Yr Corp Bond*	7.78	7.74	7.75	7.67	-8	-11
5 Yr Corp Bond*	7.79	7.65	7.74	7.56	-18	-22
10 Yr Corp Bond*	7.76	7.57	7.55	7.48	-7	-28
1 Yr IRS	6.64	6.85	6.82	6.67	-15	3
5 Yr IRS	6.19	6.44	6.44	6.23	-20	4
Overnight MIBOR Rate	6.90	6.76	6.86	6.55	-31	-35
10 year SDL	7.65	7.37	7.34	7.27	-7	-38
INR/USD	83.21	83.47	83.39	83.73	-0.4^	-0.6^
Crude oil Indian Basket**	77.43	83.56	82.55	84.34	2.2^	8.9^

- Bond yields moderate over the month across all tenors n July 2024.
- Rupee depreciated by ~0.4% to INR 83.73/\$ in Jul'24 (vs. 83.4 a month ago).
- Oil prices rose by 2.2% in Jul'24 vs. Jun'24, now at ~US\$84.3/bbl level.

Source: Bloomberg, PPAC, RBI, CEIC, SBIFM Research; NB: \*Corporate bond rate is for AAA rated bonds, \*\*Crude oil price is average \$/barrel for the month end , remaining data are % month end, ^INR and Oil price changes are % change, + denotes appreciation in rupee, -ve denotes depreciation

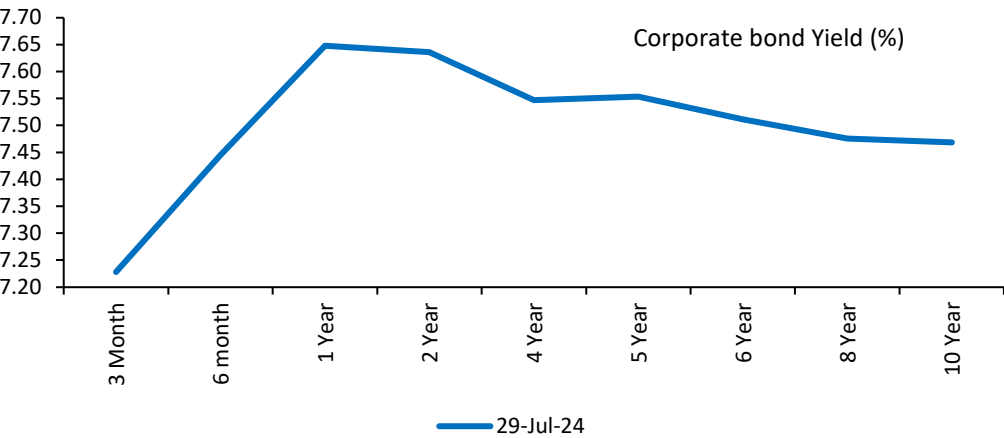
# Indian G-sec yield curve is significantly flat

G-Sec yields fell in July 2024; Compared to peak rate in October, long term yields are lower by ~30-45bps

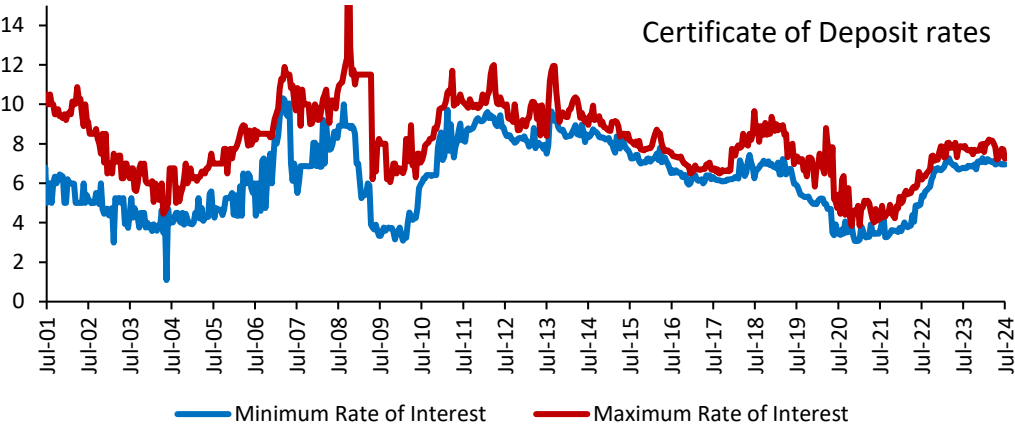
Yield (%)	3 Month	6 month	1 Year	2 Year	3 Year	4 Year	5 Year	6 Year	7 Year	8 Year	9 Year	10 Year	15 Year	30 Year
31-Jul-23	6.71	6.84	6.88	7.10	7.11	7.16	7.15	7.19	7.18	7.21	7.13	7.18	7.26	7.36
31-Aug-23	6.77	6.99	7.01	7.15	7.16	7.16	7.16	7.18	7.17	7.18	7.19	7.14	7.23	7.33
30-Sep-23	6.80	7.03	7.02	7.25	7.26	7.24	7.23	7.25	7.25	7.27	7.22	7.22	7.31	7.41
31-Oct-23	6.89	7.08	7.14	7.35	7.32	7.35	7.35	7.38	7.39	7.41	7.38	7.36	7.43	7.51
30-Nov-23	6.97	7.13	7.13	7.22	7.24	7.27	7.26	7.30	7.30	7.34	7.33	7.28	7.39	7.50
31-Dec-23	7.00	7.08	7.09	7.00	7.04	7.09	7.09	7.14	7.14	7.21	7.17	7.18	7.27	7.41
31-Jan-24	7.02	7.18	7.15	7.00	7.03	7.04	7.04	7.11	7.11	7.17	7.14	7.14	7.21	7.27
29-Feb-24	6.86	7.14	7.11	7.00	7.03	7.07	7.07	7.08	7.08	7.11	7.10	7.08	7.14	7.16
31-Mar-24	6.90	7.04	6.99	7.08	7.02	7.05	7.05	7.07	7.07	7.07	7.11	7.06	7.11	7.13
30-Apr-24	6.98	7.01	7.06	7.08	7.13	7.19	7.19	7.21	7.21	7.21	7.21	7.15	7.21	7.29
31-May-24	6.89	7.00	7.02	7.02	7.03	7.05	7.05	7.06	7.06	7.07	7.07	6.98	7.03	7.13
30-Jun-24	6.79	6.89	6.93	6.98	6.96	7.01	7.01	7.05	7.02	7.07	7.04	7.01	7.03	7.05
31-Jul-24	6.61	6.77	6.78	6.84	6.81	6.84	6.84	6.90	6.90	6.95	6.91	6.92	7.00	7.06
m-o-m change (in bps)	3 Month	6 month	1 Year	2 Year	3 Year	4 Year	5 Year	6 Year	7 Year	8 Year	9 Year	10 Year	15 Year	30 Year
31-Jul-23	0	2	1	14	12	7	7	6	7	4	5	6	3	0
31-Aug-23	6	15	13	5	4	0	0	-1	0	-2	6	-4	-3	-3
30-Sep-23	3	4	1	10	11	7	7	7	8	9	4	8	8	8
31-Oct-23	9	5	12	10	6	11	12	13	14	14	16	14	12	10
30-Nov-23	8	5	-1	-14	-8	-8	-9	-8	-10	-7	-5	-8	-4	-1
31-Dec-23	3	-5	-4	-22	-21	-18	-17	-16	-16	-13	-16	-11	-13	-10
31-Jan-24	2	10	6	0	-1	-5	-5	-3	-3	-3	-3	-3	-5	-14
29-Feb-24	-16	-4	-4	0	0	3	3	-3	-3	-7	-4	-7	-8	-11
31-Mar-24	4	-10	-12	8	0	-1	-1	-1	-1	-4	1	-2	-3	-3
30-Apr-24	8	-3	7	0	11	14	14	15	15	14	10	9	11	17
31-May-24	-9	-1	-4	-6	-10	-15	-15	-16	-16	-15	-14	-17	-18	-16
30-Jun-24	-10	-11	-9	-4	-7	-4	-4	-1	-4	0	-3	3	0	-8
31-Jul-24	-18	-12	-15	-14	-15	-17	-17	-15	-12	-12	-13	-9	-3	0
Change in FYTD (in bps)	-29	-27	-21	-24	-21	-21	-21	-17	-17	-13	-20	-13	-11	-7

# Short term rates elevated as banks' deposit growth lags credit growth leading to higher CD supply

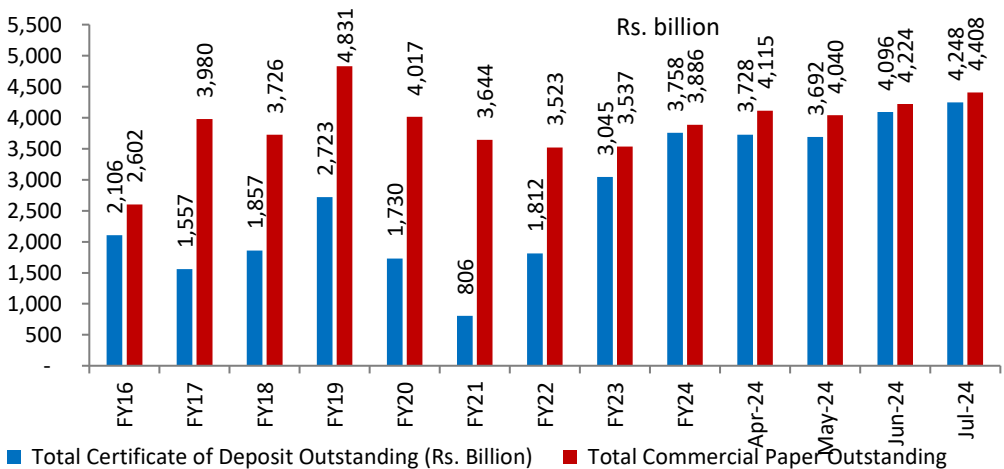
Corporate bond yield curve is inverted



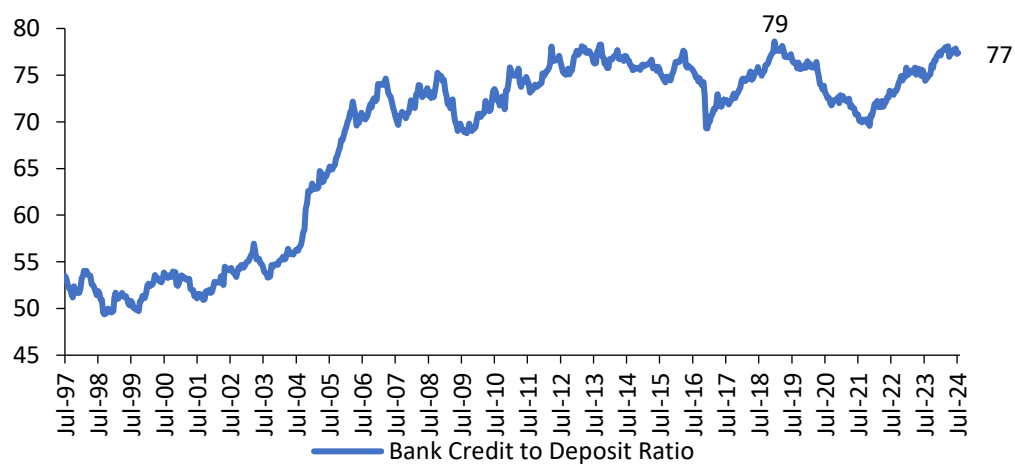
Certificate of deposit (CD) rates range from ~7-8% since 2023



CDs and commercial paper issuances see a rise



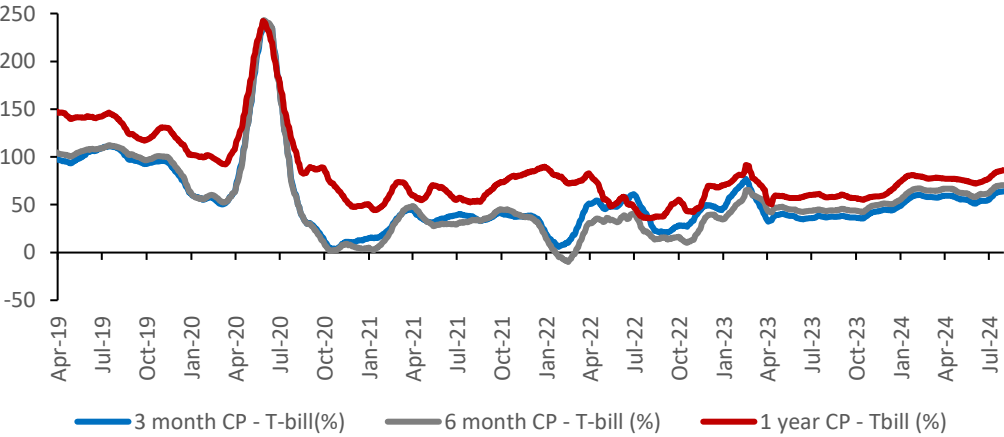
Bank credit to deposit ratio is elevated



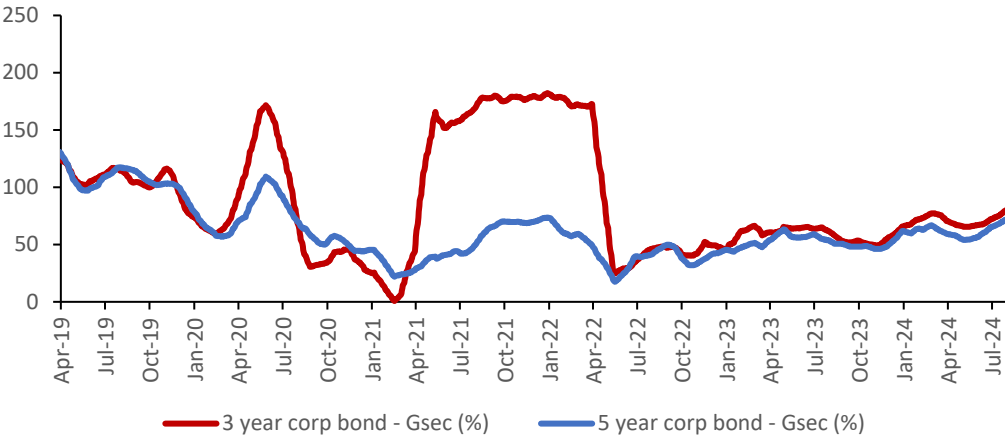
Source: RBI, Bloomberg, SBIFM Research; NB: CP and CD data till 12<sup>th</sup> July'24, credit-deposit ratio as on 12<sup>th</sup> July'24

# Robust bank credit growth & elevated credit-deposit ratio results in higher corporate bond yields

Spreads between commercial paper (CP) and Tbill yields have widened



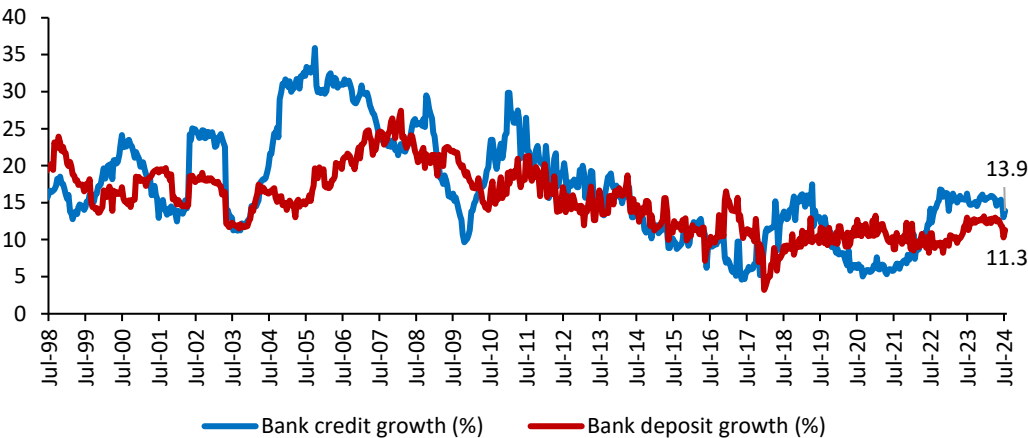
In the 3-5yr segment too, spread between corporate bond and Gsec yields moves upwards



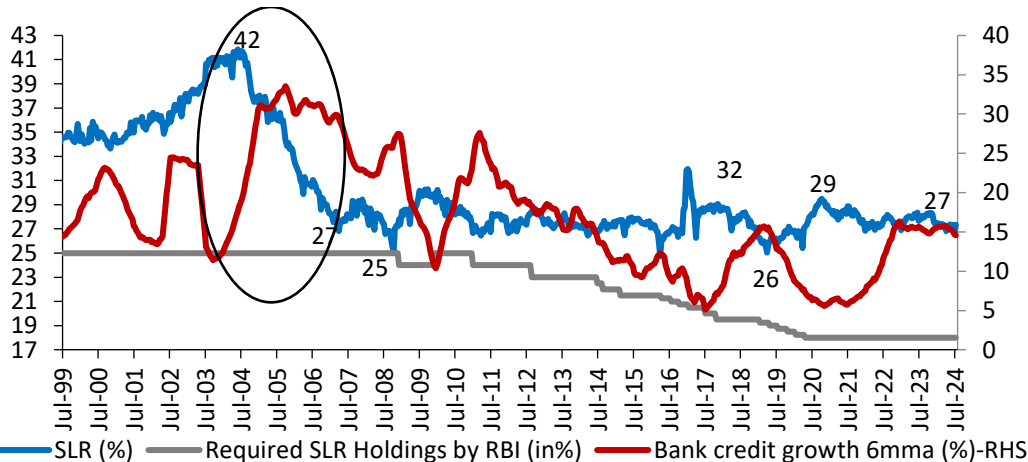
Source: Bloomberg, SBIFM Research

# Bank credit growth outpaces deposit growth; regulations prevent dipping into SLR holdings

Bank credit growth continues to outpace deposit growth for two years now



Previous credit cycles have seen banks lower their SLR holdings. LCR since 2014 has kept SLR holdings high this cycle



Bank credit growth in current financial year mostly on account of personal loans and loans to NBFC

CAGR (%)	2009-11	2017-19	2022-24	2025 (June)
Bank Credit	18	15	11	17
Non-Food Credit	18	15	11	17
Agriculture and allied activities	19	8	10	20
Industry	22	2	6	9
Micro & small	13	2	9	17
Medium	0	-1	8	20
Large	26	3	5	6
Services	18	15	14	21
Personal Loans	10	18	16	29
Consumer durables	4	-28	13	13
Housing (Including priority sector housing)	12	16	16	40
Advances to individuals against share, bonds, etc.	10	1	8	35
Credit card outstanding	-13	31	19	30

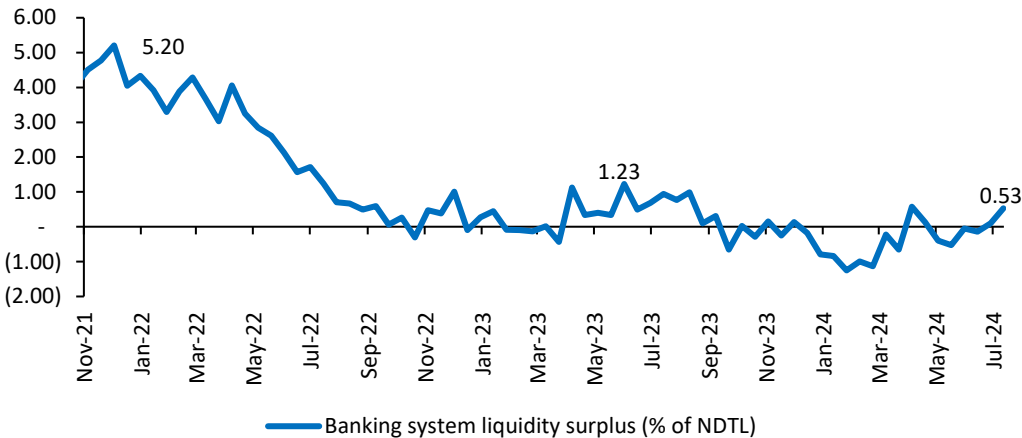
Government has reduced the supply of short-term papers to help ease the short-term rates

INR billion	FY25BE	FY25 (interim)
FINANCING OF FISCAL DEFICIT	16,133	16,855
Net market borrowings (dated securities, net of buybacks)	11,632	11,750
Gross market borrowings	14,010	14,130
Less Repayment of domestic mkt borrowings	2,378	2,378
Less Net Buybacks	-	-
Short-term borrowings	-500	500
Securities Against Small Savings	4,201	4,662
Receipts from state provident fund	50	52
Net external assistance	160	160
Other capital receipts (internal Debts and Public Account)	-813	306
Drawdown on cash balances	1,404	37

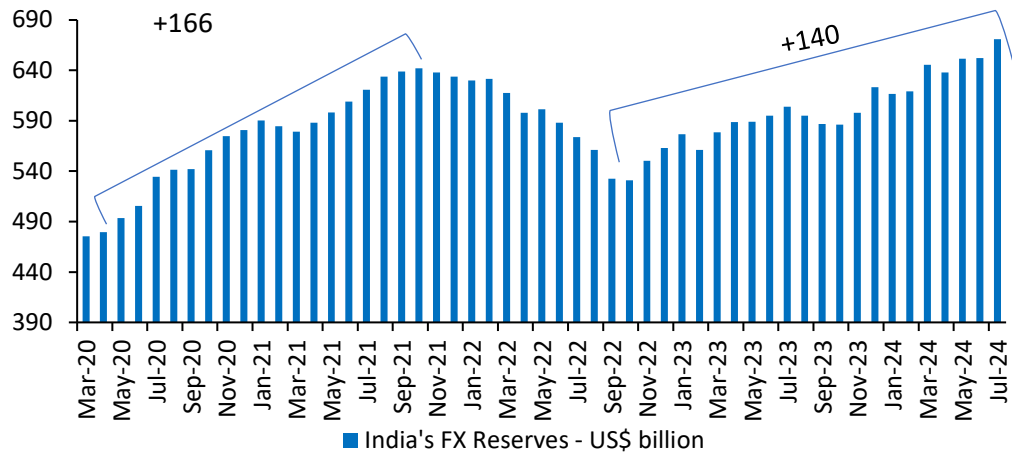
Source: RBI, SBIFM Research; NB: bank credit and deposit data as on 12<sup>th</sup> Jul'24, sectoral deployment of credit as on June'24 end

# RBI conducts marginal OMO sales in July to suck out any excesses in banking liquidity

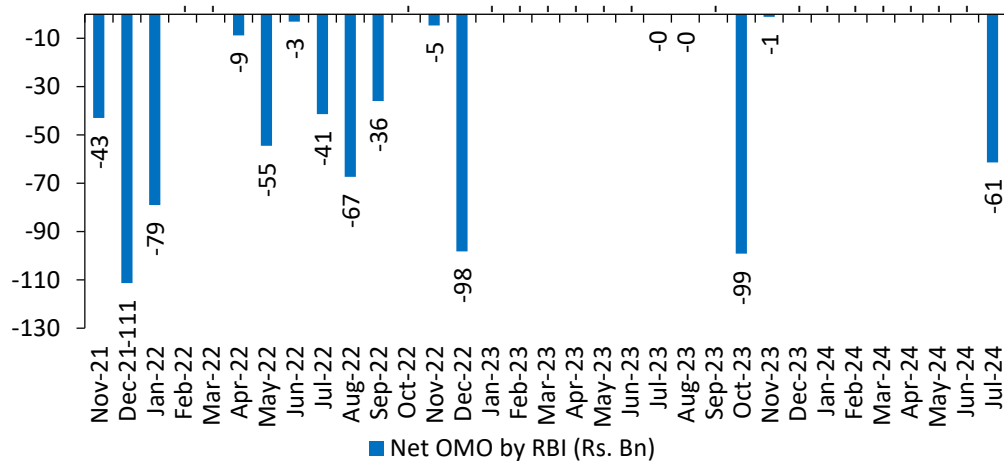
Banking system liquidity shows a marginal surplus in June-July



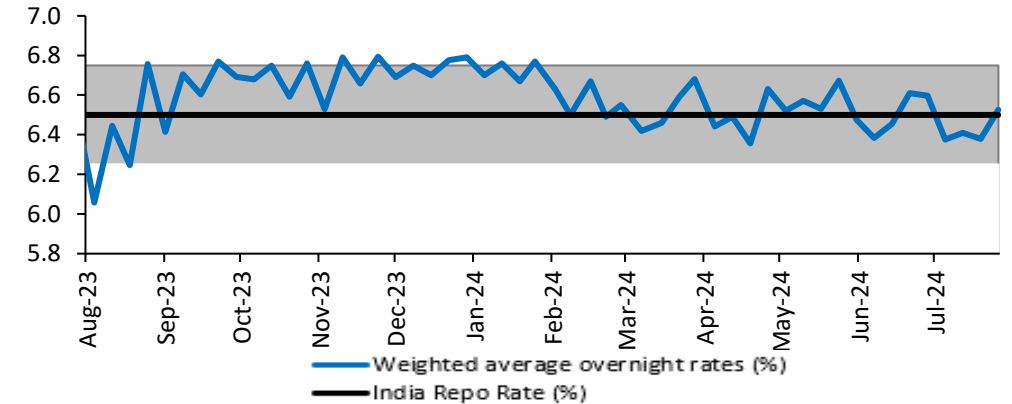
A strong dollar capital inflow coupled with no material currency leakage has likely aided the improvement in banks liquidity



RBI tends to conduct OMO sales in instances of prolonged surplus liquidity



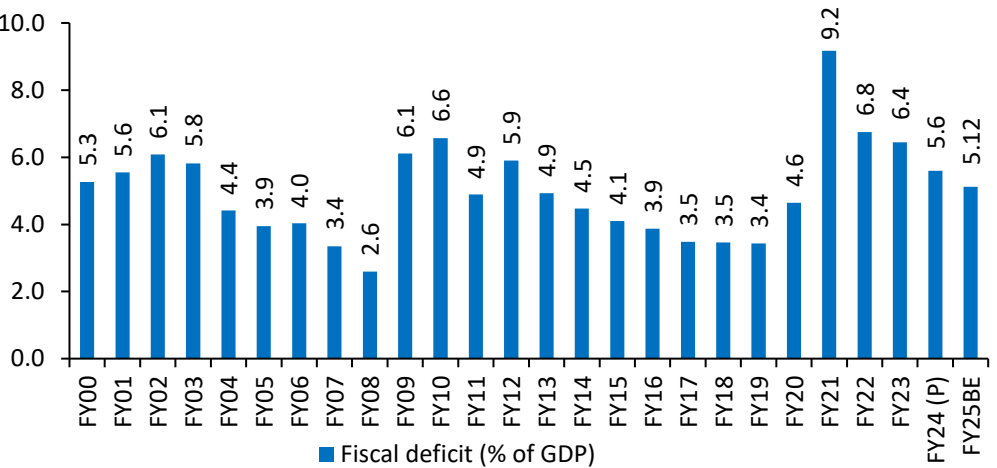
Improvement in liquidity leads to increased VRRR auctions to keep overnight rates close to repo rate



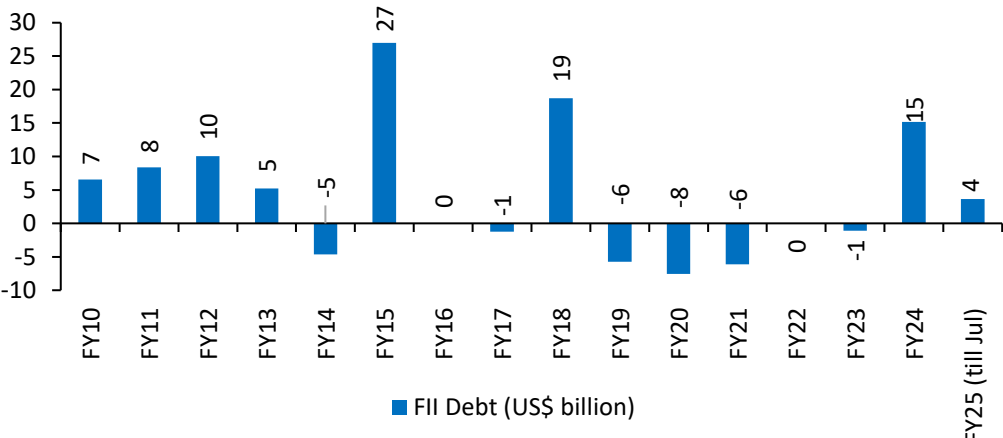
Note: The shaded area represents the policy corridor- where upper end represents MSF and lower end represent reverse repo rate followed by SDF

# 2024 is the year of favorable demand- supply for long term Indian government bonds

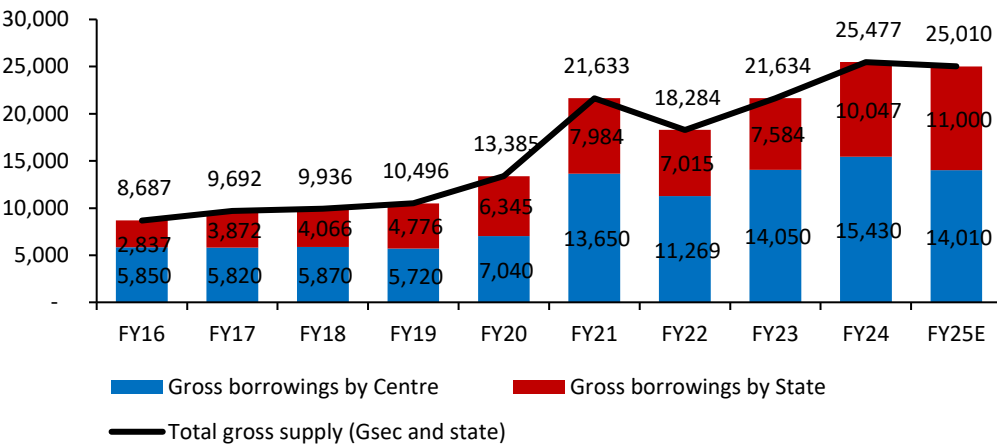
## Central government advocates a faster consolidation in its deficit



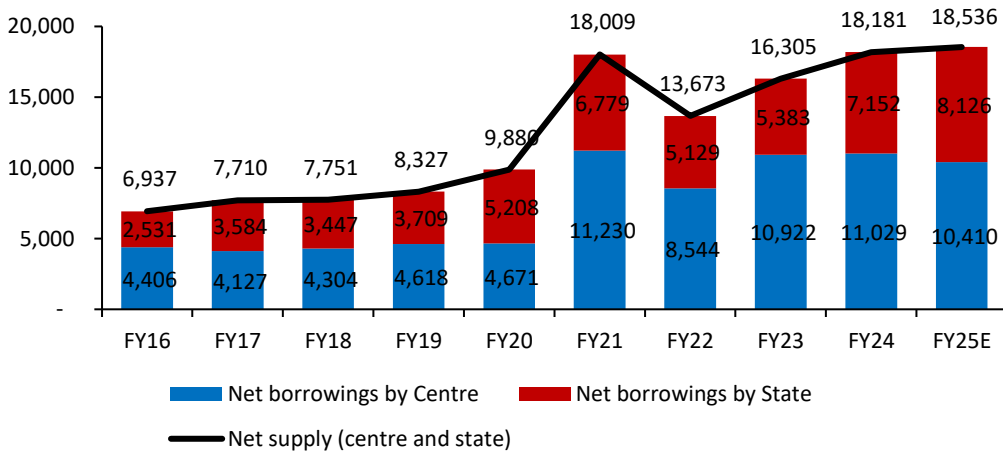
## FII return to Indian debt after 5 years



## Gross supply of government bond is likely to come down marginally in FY25 vs. 18% rise last year



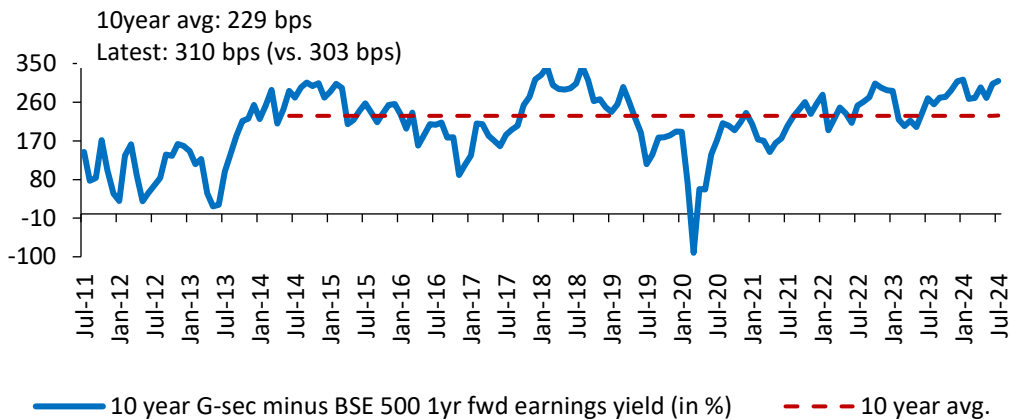
## Net supply broadly flat at an expected INR 18.5tn in FY25



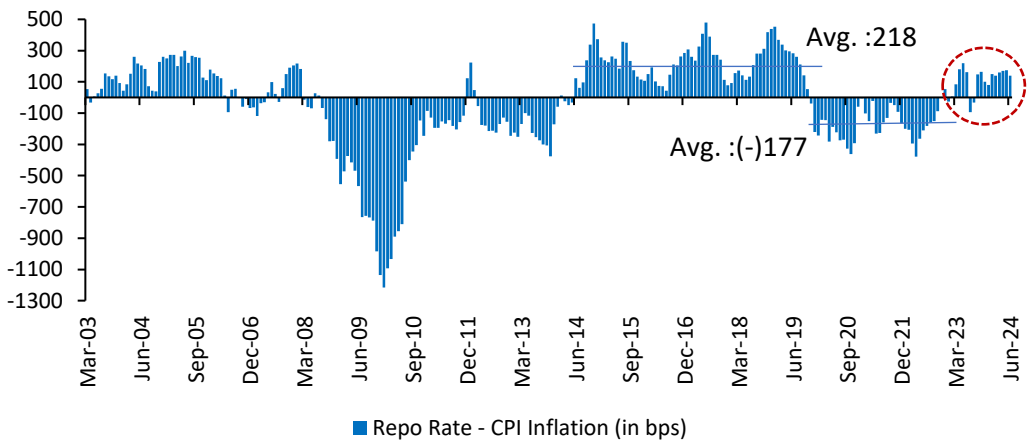


# Indian G-sec valuations neutral to marginally attractive

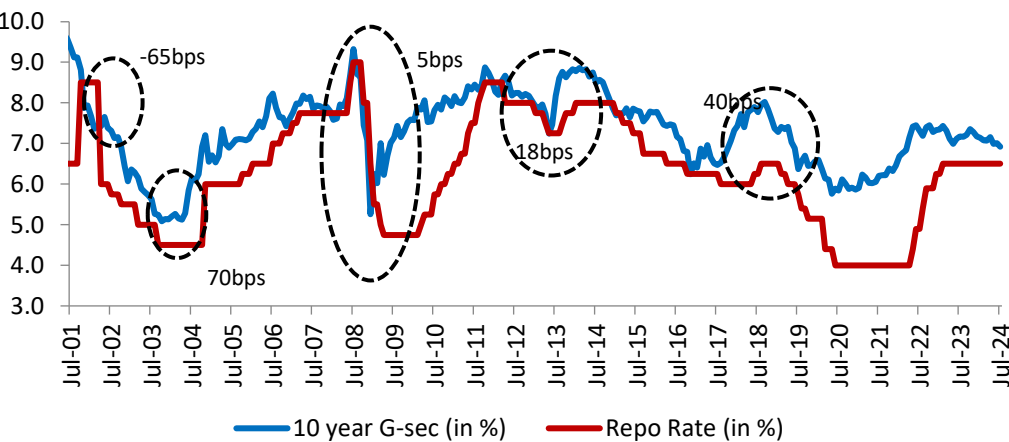
## G-sec spread vs. equity is attractive



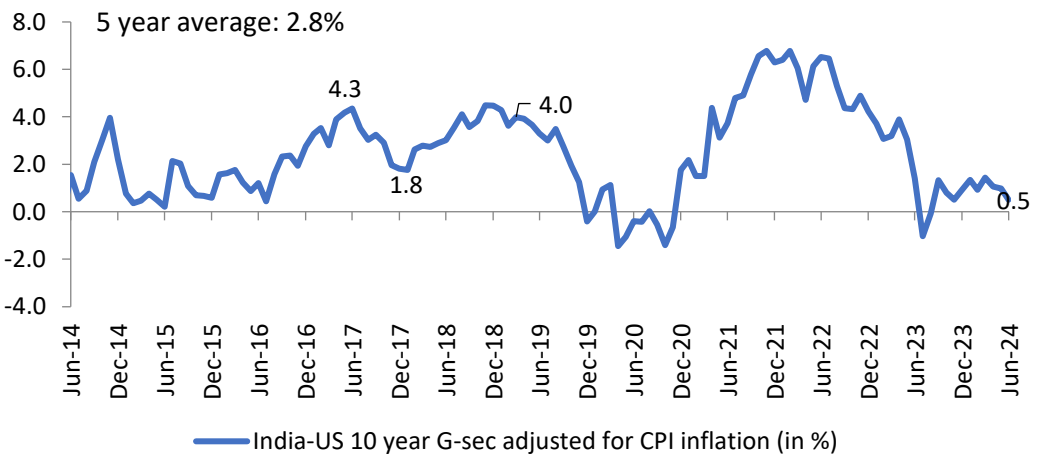
## Real rate turns positive and could further improve as inflation moderates to 4% in coming months



## While near-term outlook stays of an unchanged Repo rate, G-sec spread can compress when there is a greater clarity on rate cuts

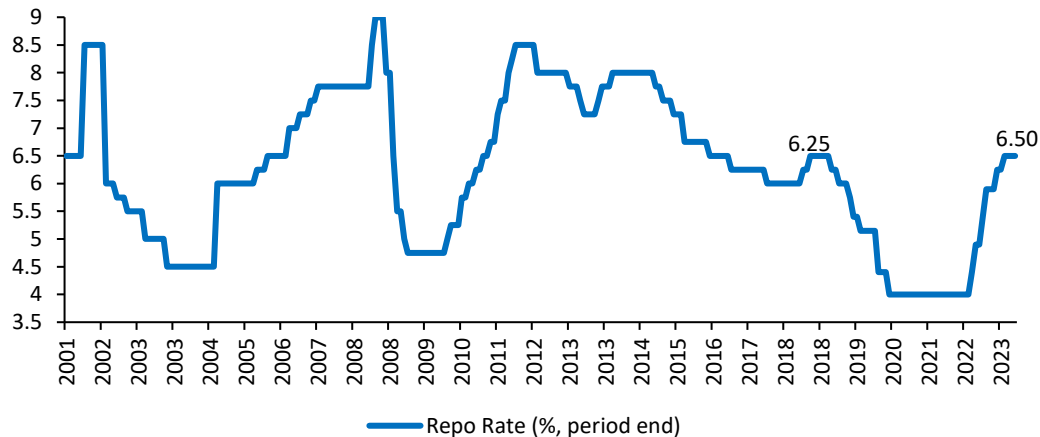


## India-US Real interest rate spread at 1.0% pt – lower than its 5yr and 10yr average



# India's monetary policy –No rate cut in near-term, future is data dependent

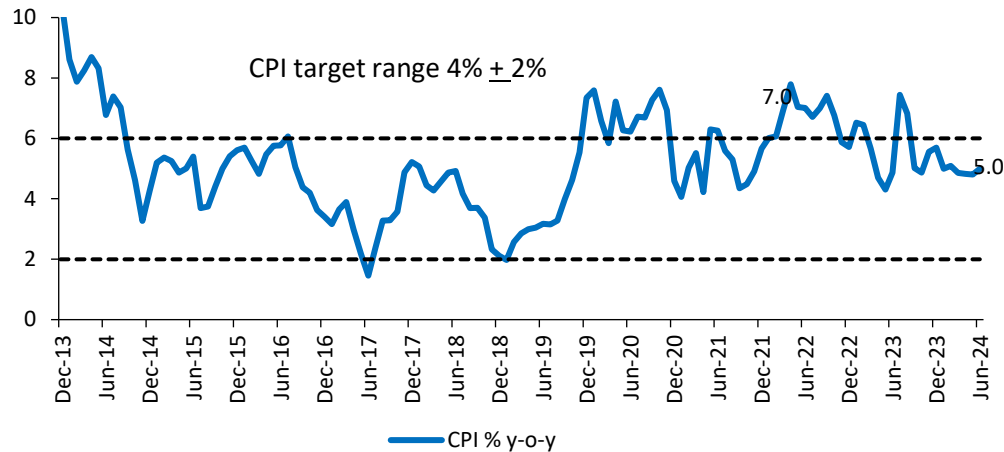
## Repo rate unchanged since April 2023 policy at 6.50%



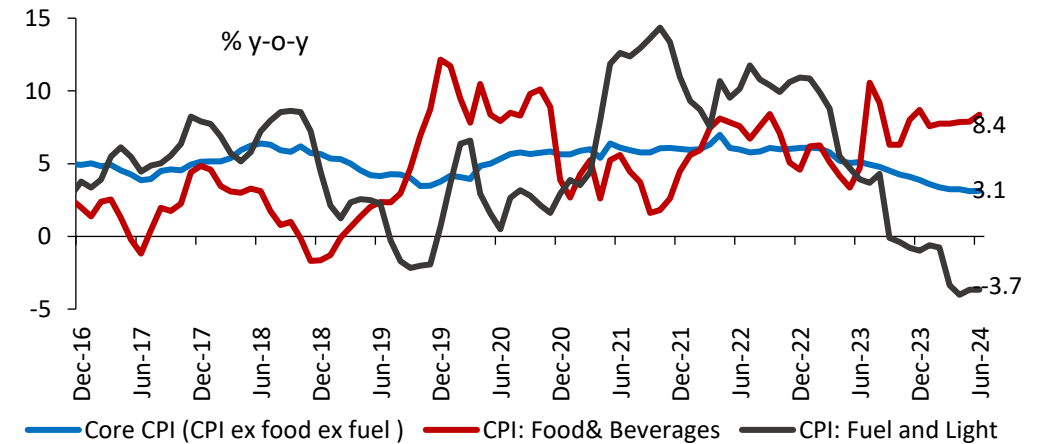
- Status quo on rates (Repo rate: 6.50%, SDF rate: 6.25% and MSF rate: 6.75%) with a majority of 5:1. The stance was retained at 'withdrawal of accommodation'. Expectedly, the focus remained on sustained disinflation to the 4% target.
- Growth expectations for FY25 were revised upwards by 20bps to 7.2%. Resilient growth allows RBI to "wait" to ensure disinflation towards target.
- CPI inflation projections remain unchanged at 4.5% for FY25 and risks are fairly acknowledged by the RBI while inflation is expected to moderate to sub 4% levels in Q2 FY25.
- The RBI is currently confronting several cross currents. Core inflation is at a multi-year low, weak consumption demand, while food inflation has been high. The pace of unsecured lending by banks and NBFCs, alarms the RBI with financial stability concerns.
- We expect that the RBI will continue to use rates and liquidity to manage growth-inflation dynamics while using macroprudential measures to slow down credit growth.
- Looking ahead, growth slowdown or visibility on alignment of CPI to 4% durably are necessary to make the RBI change its stance to tilt towards monetary easing.
- Biggest risk to this call is weather and crude price, while the easing in developed markets could enable more capital flows.

# CPI inflation likely to stay benign in 2024 – weather is the biggest risk factor

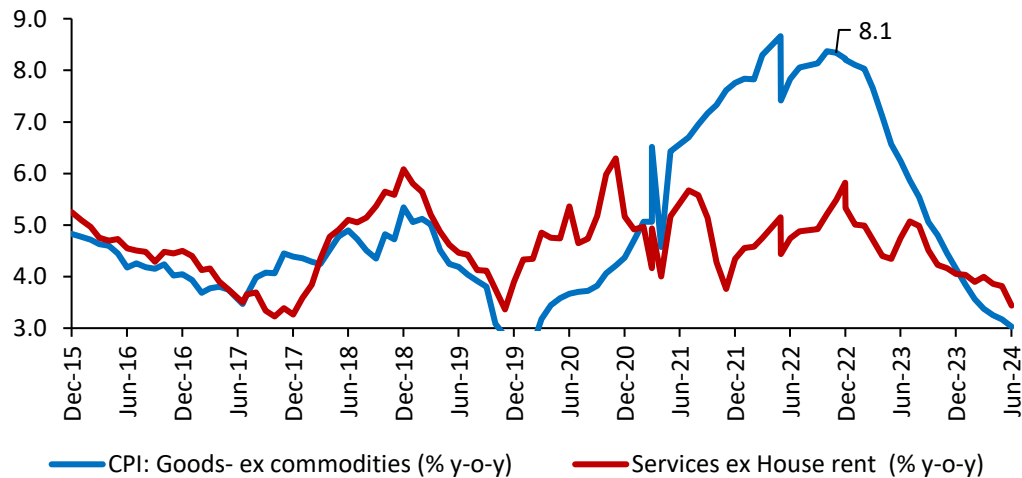
June CPI at 5% y-o-y (vs. 4.8% last month) led almost entirely by higher food inflation



Food inflation is elevated at 8.4% y-o-y; fuel and core remain benign



Goods and services inflation likely to be contained



- Weather disturbances have led to higher vegetable prices. Plus, potential hikes in electricity tariffs are also being discussed in coming months.
- Specifically, for June, CPI could be around 4.9-5%, 30-40bps higher than envisaged. This would push out market expectations for rate cut.
- We still think that inflation could average around 4.5% through FY25.
- Some of the less discussed aspects are moderating inflation in edible oil, milk and spices, no inflationary pressure in India's transportation cost, lack of material pricing power to businesses in household goods. Monsoon is the biggest risk to this call.

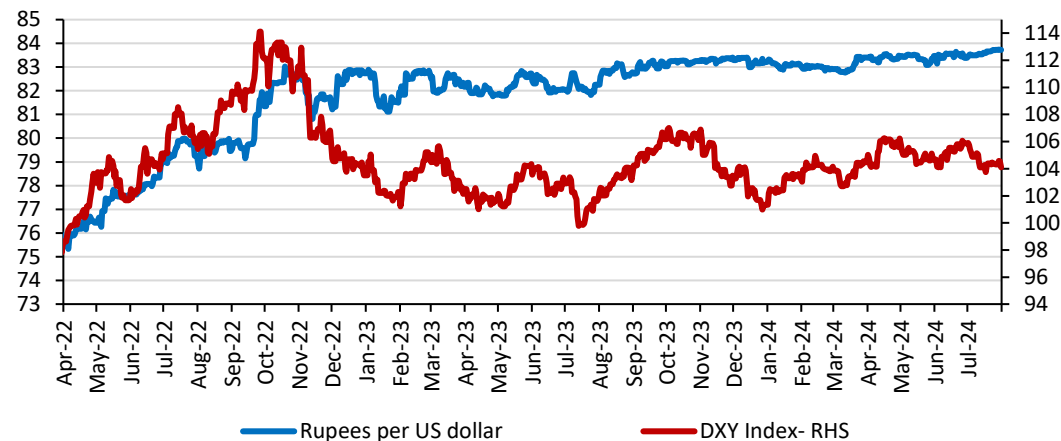
# FY24 BoP surplus at US\$ 64 billion; External account dynamics stays strong

As a base case, Current account deficit of under 1% of GDP and US\$ 30-55 bn of BoP surplus expected in FY25; Higher crude price is a risk to capital inflow

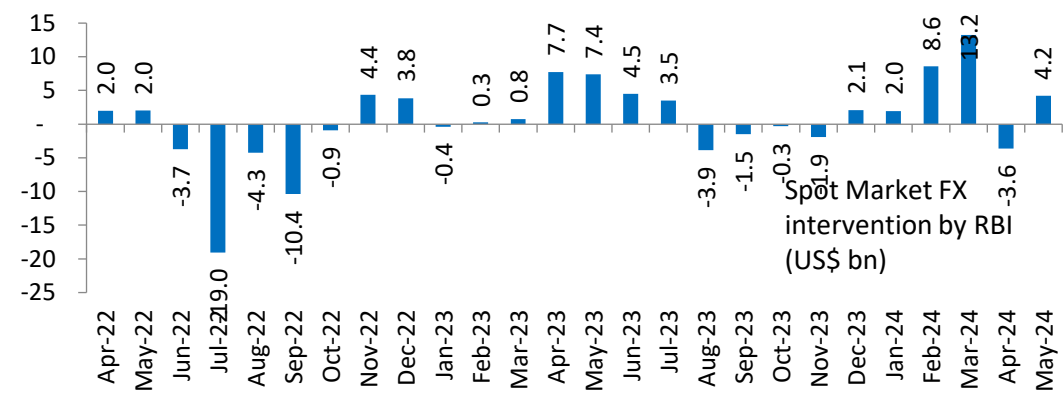
								Case 1: Crude: US\$80/bbl	Case 2: Crude: US\$90/bbl	Case 3: Crude: US\$100/bbl
Balance of Payment (US\$ bn)	Mar-23	Jun-23	Sep-23	Dec-23	FY22	FY23	FY24	FY25E		
<b>CURRENT ACCOUNT</b>										
Exports (RBI)	116	105	108	107	429	456	441	464	469	474
% y-o-y	-1.9	-14.5	-3.2	1.0	44.8	6.3	-3.2	5.1	6.2	7.4
Imports (RBI)	168	162	173	178	619	721	684	733	753	779
% y-o-y	-2.4	-13.0	-9.1	0.7	55.3	16.6	-5.2	7.3	10.2	14.0
1. Trade Balance (RBI)	-53	-57	-65	-72	-189	-265	-242	-269	-284	-305
% GDP	-6.1	-6.6	-7.3	-8.0	-6.0	-7.9	-6.8	-6.9	-7.3	-7.8
2. Services Balance	39	35	40	45	108	143	163	185	185	185
% GDP	4.7	4.2	4.8	5.3	3.4	4.3	4.6	4.8	0.0	0.0
3. Primary Income	-13	-10	-12	-13	-37	-46	-50	-52	-52	-52
4. Secondary Income (Transfers)	25	23	25	29	81	101	106	105	105	105
<b>A. Current A/c Balance (1+2+3+4)</b>	<b>-1</b>	<b>-9</b>	<b>-11</b>	<b>-11</b>	<b>-39</b>	<b>-67</b>	<b>-23</b>	<b>-31</b>	<b>-46</b>	<b>-67</b>
% GDP	-0.2	-1.1	-1.3	-1.2	-1.2	-2.0	-0.7	-0.8	-1.2	-1.7
<b>CAPITAL ACCOUNT</b>										
5. FDI (Net)	6.4	4.9	-0.6	4.2	38.9	28.0	10.0	25.0	25.0	20.0
6. FPI (Net)	-1.7	15.7	4.9	12.0	-16.8	-5.2	44.1	40.0	30.0	20.0
7. Loans	3.1	2.2	3.3	-3.5	33.8	8.3	1.6	10.0	10.0	10.0
8. Banking Capital	-4.0	12.9	4.3	16.4	6.7	21.0	40.5	5.0	5.0	5.0
<b>B. Capital Account Balance (5+6+7+8+9+10)</b>	<b>7</b>	<b>34</b>	<b>13</b>	<b>17</b>	<b>88</b>	<b>59</b>	<b>87</b>	<b>80</b>	<b>70</b>	<b>55</b>
% GDP	0.8	4.1	1.5	2.0	2.8	1.8	2.4	2.1	1.8	1.4
C. Error and Omissions	0.4	-0.8	0.9	-0.8	-0.1	-1.0	0.5	0.0	0.0	0.0
<b>D. Overall Balance (A+B+C)</b>	<b>6</b>	<b>24</b>	<b>3</b>	<b>6</b>	<b>48</b>	<b>-9</b>	<b>64</b>	<b>49</b>	<b>24</b>	<b>-12</b>
% GDP	0.7	2.9	0.3	0.7	1.5	-0.3	1.8	1.2	0.6	-0.3
<b>Increase in Reserves due to BoP</b>	<b>6</b>	<b>24</b>	<b>3</b>	<b>6</b>	<b>48</b>	<b>-9</b>	<b>64</b>	<b>49</b>	<b>24</b>	<b>-12</b>
<b>Rupee vs. US\$ (average)</b>	<b>82</b>	<b>82</b>	<b>83</b>	<b>83</b>	<b>75</b>	<b>80</b>	<b>83</b>	<b>84</b>	<b>84</b>	<b>85</b>

# Rupee stays highly range bound since 2023; could depreciate to 84/US\$ by end 2024

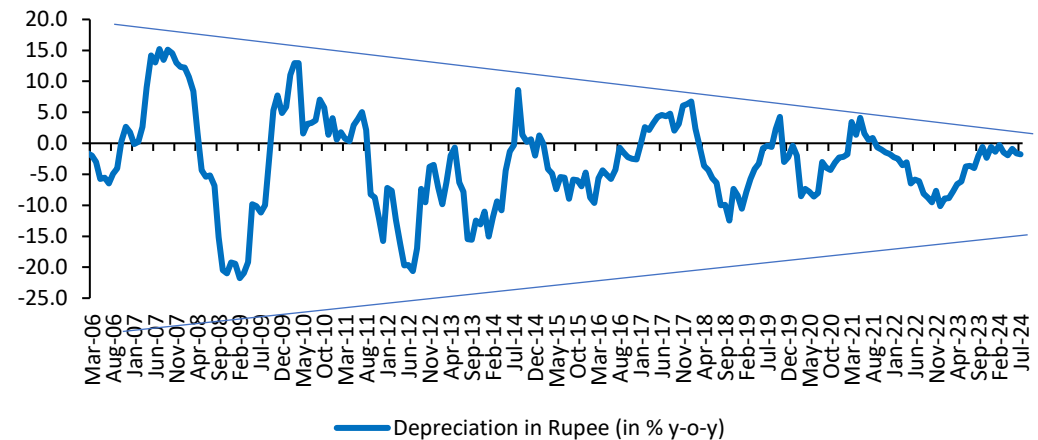
Rupee trades in a very tight range of 81.2-83.7/US\$



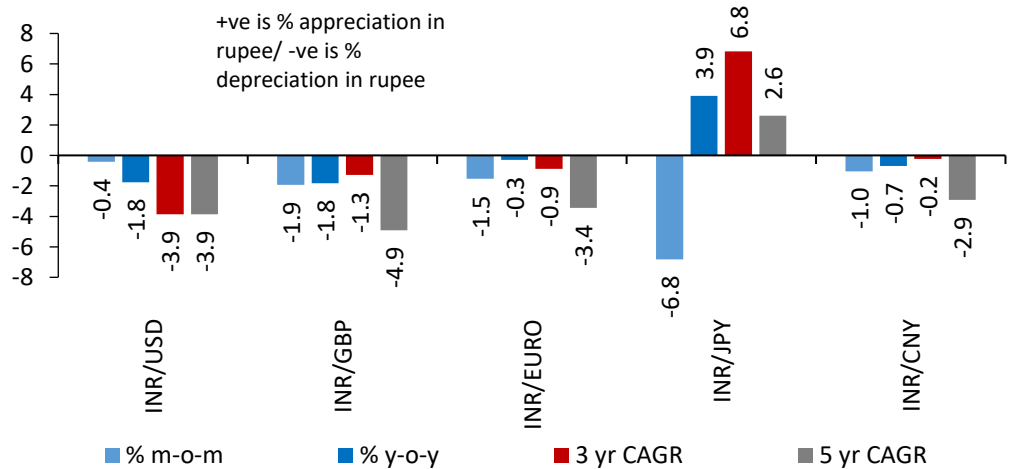
RBI's intervention keeps rupee anchored



Macro stability and active RBI intervention drives lower volatility in rupee and lesser bouts of depreciation

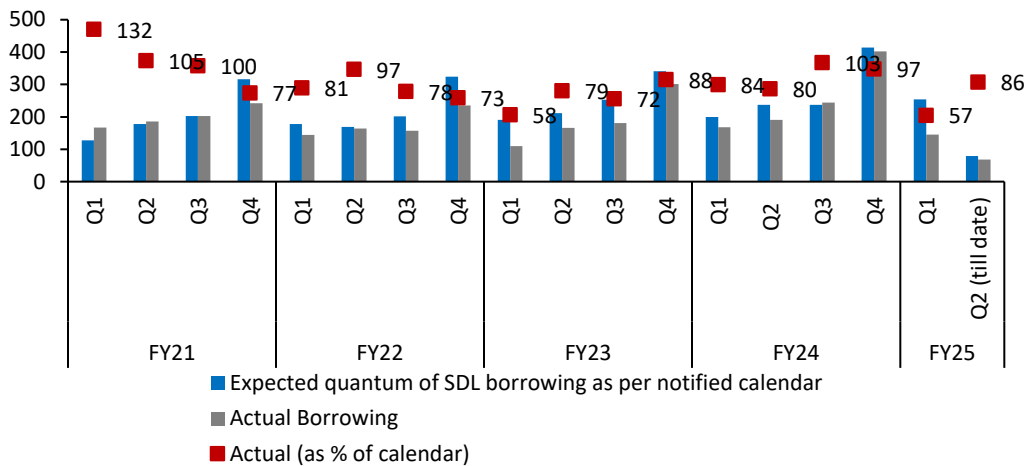


Rupee has strengthened against Japan in last one year; hurts export competitiveness

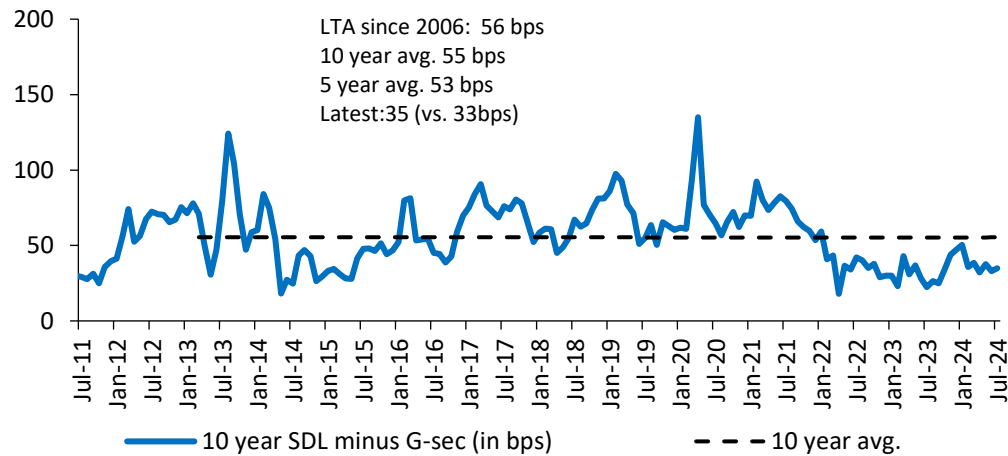


# SDL issuances were weak in 1HFY25

FYTD, SDL issuances at 64% of their indicated calendar amount



SDL spreads widen slightly m-o-m in July



Source: RBI, Bloomberg, CEIC, CAG, SBIFM Research

# FII are net buyers of Indian government bonds since May 2024

## India witnessed Debt inflows in Jul'24

EM FII Debt inflow US\$ million	2022	2023	May-24	Jun-24	Jul-24
China	(1,46,410)	24,760	1,27,635	1,35,792	1,42,800
India	(2,012)	8,445	1,005	2,136	2,242
South Korea	54,020	60,647	2,749	3,046	1,867
South Africa	(15,812)	(17,598)	(406)	(45)	1,164
Thailand	6,227	319	511	(287)	726
Indonesia	(7,070)	5,142	1,199	117	301
Ukraine	(1,096)	(387)	(118)	(99)	(18)
Mexico	3,949	5,019	587	590	(1,305)
Brazil	18,358	(9,967)	(215)	763	-
Malaysia	(732)	3,767	707	(549)	-
Poland	6,936	9,388	235	-	-
Czech Republic	(14,477)	(1,535)	59	-	-
Philippines	6,334	3,073	2,737	38	-
Bulgaria	1,053	1,940	(29)	-	-
Russia		-	-	-	-

## FII flows in EM bonds are muted despite healthy inflation adjusted returns

Real rates	10 Year Gsec Yield (% mth end, Jun'24)	CPI Inflation Jun'24	Real Rate (%, 10 year G-Sec Yield minus CPI)	12M FX forward premium (in ) - Jun 2024	10 year G-sec yield adjusted for 12m fwd premium (in %)- Jun 2024
Brazil	12.3	4.2	8.1	5.8	6.5
South Africa	11.4	5.1	6.3	8.2	3.2
Mexico	9.9	5.0	4.9	11.1	-1.1
Indonesia	7.0	2.5	4.5	6.4	0.7
Colombia	10.8	7.2	3.6	10.5	0.3
Poland	5.8	2.6	3.2	5.9	-0.1
Phillippines	6.8	3.7	3.1	5.5	1.4
Hungary	6.8	3.7	3.1	6.2	0.6
Thailand	2.7	0.6	2.1	2.7	0.0
China	2.2	0.2	2.0	2.4	-0.2
India	7.0	5.1	1.9	1.7	5.4
Malaysia	3.9	2.0	1.9	3.0	0.9
South Korea	3.3	2.4	0.9	3.0	0.3
Taiwan	0.5	2.4	-1.9	1.3	-0.8
Turkey	28.3	71.6	-43.3	48.4	-20.2

Source: CEIC, Bloomberg, RBI, SBIFM Research; NB: ‘-’ implies data not available for the respective country

# Debt Outlook: Near-term fundamentals dictate neutral to marginally favorable outlook

- Global bond yields declined over the month. The 10-year U.S. Treasury yield is near 4% (vs. 4.40% last month). The Bank of England has reduced rates, and there is now increased optimism about potential rate cuts by the U.S. Fed in September, with three rate cuts anticipated in 2024.
- Indian government bond yields fell across both shorter and longer maturities, though for different reasons. During the budget, the government maintained its supply of G-sec securities but reduced the supply of Treasury bills by Rs. 1 trillion compared to the interim budget. Additionally, banking system liquidity improved marginally in June and July. With strong dollar capital inflows, liquidity in the Liquidity Adjustment Facility (LAF) is expected to remain in surplus.
- Conversely, in the last week of July, the RBI issued a draft guideline requiring banks to provide higher liquidity coverage for retail deposits obtained through digital banking systems starting April 2025. While still in draft form, if implemented, this would likely increase demand for Statutory Liquidity Ratio (SLR) securities by banks. Banks typically focus on the 1-5 year segment, so the recent downward shift in yields for maturities of one year and longer can be largely attributed to this news.
- The demand-supply dynamics for dated securities in FY25 appears robust. The central government's financial projections for Q1 suggest that the fiscal deficit for FY25 could potentially be lower than the 4.9% currently projected.
- However, despite the LAF being in surplus, qualitative assessments indicate that banking system liquidity remains tight. Bank credit is growing much faster than CASA (current and savings account) and fixed deposits, which are considered stable liabilities. The credit-to-deposit ratio is around 77% and exceeds 90% for private banks. This has led banks to borrow from the bond market and engage in interbank borrowing, resulting in higher yields for commercial paper (CP) and corporate bonds.
- Spreads on commercial paper and corporate bonds for non-bank financial companies (NBFCs) have widened compared to six months and a year ago.
- Currently, SDL (State Development Loan) spreads are compressed due to relatively contained Q1 SDL supply. However, given the aggressive welfare measures being announced by states, it is likely that the fiscal deficit for states will align with budget expectations, and the projected INR11 trillion SDL supply for FY25 is expected to proceed.
- Overall, with combined supply of G-secs and SDLs remaining flat compared to last year, SDL spreads may remain contained. Additionally, with overall rainfall moving into surplus and concerns about food inflation easing, CPI inflation is expected to gradually align lower.
- Given the stronger fiscal outlook and the trend line movement in CPI, the outlook for government bonds appears favorable on a medium term basis. Near term challenges include external developments and spill over effects as well as a reasonably heavy market positioning apart from uncertainty with respect to RBI tolerance of core surplus liquidity.



# Disclaimer

This presentation is for information purposes only and is not an offer to sell or a solicitation to buy any mutual fund units/securities. These views alone are not sufficient and should not be used for the development or implementation of an investment strategy. It should not be construed as investment advice to any party. All opinions and estimates included here constitute our view as of this date and are subject to change without notice. Neither SBI Funds Management Limited, nor any person connected with it, accepts any liability arising from the use of this information. The recipient of this material should rely on their investigations and take their own professional advice.

**Mutual Funds investments are subject to market risks, read all scheme related documents carefully.**

**Asset Management Company:** SBI Funds Management Limited (A joint venture with SBI and AMUNDI). **Trustee Company:** SBI Mutual Fund **Trustee Company** Private Limited.

# Contact Details

## **SBI Funds Management Limited**

**(A joint venture between SBI and AMUNDI)**

Corporate Office:

9th Floor, Crescenzo,  
C-38 & 39, G Block,  
Bandra Kurla Complex,  
Bandra (East), Mumbai - 400 051

Tel: +91 22 6179 3000

Fax: +91 22 6742 5687/88/89/90/91

Website: [www.sbimf.com](http://www.sbimf.com)



Call: 1800 425 5425



SMS: "SBIMF" to 7065611100



Email: [customer.delight@sbimf.com](mailto:customer.delight@sbimf.com)



Visit us @ [www.facebook.com/SBIMF](http://www.facebook.com/SBIMF)



Visit us @ [www.youtube.com/user/sbimutualfund](http://www.youtube.com/user/sbimutualfund)