Macros and Markets

October-2022

ADITYA BIRLA CAPITAL

PROTECTING INVESTING FINANCING ADVISING

Index

Summary – Global Macro

- Global growth forecasts continue to get downgraded as high inflation has triggered aggressive central bank tightening. PMIs also point to slowing economic activity. Inflation remains high and well above target with core services now supporting higher headline inflation. Bond yields remain elevated but commodity prices have corrected significantly from their YTD peak levels.
- In the US, Q3 GDP growth came in at a strong 2.6% q/q saar. However, the headline number was boosted by net trade adding 2.8%. Final sales to domestic purchasers rose 0.5% q/q saar. Leading economic indicators are pointing towards a recession. Households have been dipping into their savings to sustain real consumption.
- US Inflation stays red hot as services inflation is supported by rising wages. This has pushed up terminal rate expectations with markets expecting the terminal rate to be close to 5%. Labour market in the US stays strong with unemployment rate at 50-year low of 3.5%. Some initial signs of cooling are visible with job openings falling notably. Stronger US dollar will also help slow growth and inflation in the US. The housing sector is cooling rapidly with falling prices and sales on the back of affordability challenges.
- Europe is on the brink of a recession as the energy crisis bites. Consumer confidence and business surveys of future output continue to fall. However, storage of natural gas has filled up ahead of expectations supported by LNG imports and cooled prices. High and broadening inflation has prompted another 75 bps rate hike from the ECB.
- In China, the Zero-COVID strategy continues to hamper the economy. Further, the property sector continues to slow with house prices, sales and starts all falling. Inflation remains low and has allowed policy easing measures. Xi Jinping was elected for an unprecedented third term at the 20th Party Congress and he further consolidated power by appointing allies to the Politburo Standing Committee. He focused on economic development, common prosperity and security with the aim of doubling 2020 GDP by 2035. Q3 GDP growth came in above expectations but 2023 forecasts have been downgraded.

Summary – India Macro

- A host of economic indicators suggest that the economic recovery is ongoing – GST collections continue to be robust, PMIs continue to be in expansionary phase, capacity utilization levels inching upwards, supply chain pressures easing, and broad recovery trackers signaling the strong recovery taking place. Festival season also saw better levels of consumer spending versus past year. However, some indicators are still lagging or turning – 2W and tractor sales remain subdued, flight traffic remained below pre-covid levels, while industrial production contracted as per last print.
- The first advanced estimates of kharif crops show ~4% degrowth (vs 4th AE FY22),with rice production down by 6% due to rainfall deficiency in key producing states. However, robust rice buffer stocks are a comforting factor in this regard. Better than long term average cumulative rainfall received has also enabled better reservoir levels, which together with adequate fertilizers and seeds availability, give boost to rabi crop prospects.
- CPI remained at inflated levels and posted 7.4% YoY figure for the month of September (up from 7% YoY in August). Food (driven largely by cereal, vegetables, spices) and core CPI (driven by housing) were the major cause of the uptick. Imported inflation continued to ease at margins while domestic inflation increased. WPI inflation eased off and came in at 18 mo low of 10.7% YoY in September (down from 12.45% YoY in August).
- MPC raised repo rates by 50 bps to 5.90% in line with market expectations in September 2022 policy, while the stance was kept unchanged. The action was along the expected lines and driven by the need to preserve financial stability as DM central banks continued their aggressive rate hikes to tame their domestic inflation which has been running rampant.
- Exports slowed further to come in at $32.6 bn. NONG Imports meanwhile remained steady at elevated levels and came in at $40.1 bn, while total imports came down driven by MoM decline in crude and petroleum imports. Trade balance on a whole was better than August and came in at $26.7 bn. The current NONG trade deficit was the highest on record.
- Current Account Balance widened further, as elevated crude and energy import dependence is distorting county's external balances. RBI continues to use its FX reserves to remove volatilities arising out of the current adverse external setup. INR continues to weaken vs USD, majorly driven by the strength of the greenback.
- Bank credit grew by 17.9% YoY driven by pickup across segments, while deposit growth improved to 9.6% YoY. RBI meanwhile continues to drain out surplus liquidity.

Summary – Global Bond Markets

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- With UST 2yr yield of ~4.5% trading at a premium of 280bps over SPX dividend and Fed Fund Rate futures hinting at terminal rate of 5% expected to be attained in 1H23, rotation into T-bills is underway as indicated by collapse in US bank deposits.
- As global Central Banks continue to withdraw monetary support to the economy (though BoE panicked and RBA/BoC slowed) and continue hiking policy rates, the stock of negative yielding debt has collapse, which is a huge deterrent for EM flows as investors now see attractive yields in DM (US HY > 9%). Further, the Fed pivot to dovish stance appears some distance away as apart from increased volatility and US housing cooling off rapidly, the other indicators such as inflation, labour market, manufacturing sector and credit spreads still not signalling historical peaks.
- UK and EU facing crises, former that of confidence and latter that of energy. With the exit of Liz Truss, a new appointed UK PM is perceived to bring fiscal credibility with clearer stance of tightening after recent to-and-fro. Additional contractionary measures such as spending cuts are expected to balance the UK budget considering widening fiscal hole since Active QT to begin from 31Oct as planned. Transition to contractionary fiscal policy also means BoE may reduce its degree of hawkishness, implying lower terminal rate. While ECB takes path of policy normalization with chatter about QT increasing, lower natural gas prices perhaps have resulted in lack of joint EU response to energy crisis.
- China's 20th Party Congress held in Oct was unable to revive investor confidence with commentary leaning more towards 'security' than 'development', nothing new about Zero-Covid strategy or additional measures to support property market and emphasis that reunification "will definitely be achieved" indicating geopolitical risks will remain elevated.
- As the cost of capital rises, EM Corporate Default Rate is running high YTD, led by Russia/Ukraine/China RE, and is expected to surpass that seen in GFC. China RE formed 83% of default volumes in 2021 and is 59% in 2022. In addition, Russia and Ukraine credits are responsible for 38% and 4% of 2022 defaults, resp. However, without the China RE, Russian and Ukrainian credit, EM corporate default rate YTD is just 1.2% (vs 10.3% including RU/UA/CN RE). This is not very different from DM markets where the default rate is 1.5% for US HY and 0.3% for European HY.
- EM fund outflows took a pause. With rising UST yields and increased volatility, EM debt funds continue to witness broad based outflows led by LCY Debt funds esp. CNY. However the HCY EM Debt outflows have halted and EM equity fund flows saw largest weekly inflows since Apr on hope of "peak USD". US HY saw strong inflows recently as investors return to credit on "peak yields", however US & EU MM funds continue to see inflows.
- Asia ex-J Bond Yields and Spreads continue to rise as Asia HY bond returns get hammered this year. JACI-India USD bonds see widening in spreads, still below July peak however the JACI-HY spreads are at YTD peak.
- Across the Indian USD bond complex, yields continue to rise along with UST benchmark yields though supply remains muted as issuers enjoy more competitive yields onshore. However, the HY spreads have risen over past month, while spreads of IG names have been flat or marginally lower.

Summary – India Bond Markets

- Inflation has proved to be far more persistent and broad-based and has dented hard-earned credibility of Central Banks who initially viewed above target inflation as transitory. Further, structural issues in DM labour markets have meant that wage growth has accelerated alongside realized inflation. This puts Central Banks in a tough spot as they need to now engineer a weaker labour market with higher unemployment and lower wage growth to regain credibility, anchor inflation expectations and lower inflation.
- Recently, some Central Banks such as Australia and Canada have stepped down their pace of rate hikes as they wait to assess the impact of the hikes already announced given transmission lags. This has fueled speculation that the Fed may also slow to a 50 bps increase in the Dec meeting after hiking by 75 bps this week. However, we believe that Chair Powell will keep his options open and avoid surprising markets dovishly.
- Our inflation has moderated from the peak that we saw in April 2022 and six months ahead outlook for inflation looks benign and likely within RBI target range. In the short-term, inflation is expected to remain above RBIs tolerance band and expected to move within the target band in Q4 FY23. However, need for interest rate parity and FX pressure will continue to coax RBI to push policy rates higher in direction of global interest rates. INR has depreciated to 82.8/$ despite RBI FX intervention because of a stronger dollar. FX Reserves are down to $524.5 bn on account of valuation losses and intervention.
- Liquidity has moved to neutral zone in the banking system and credit growth continues to out pace deposit growth keeping pressure on short-end rates. Tighter liquidity conditions will also gradually expand credit spreads from current levels.
- There continues to be an “unusually” large amount of uncertainty and volatility in play, and we continue to remain nimble in terms of our positioning. We continue to advocate investors to invest in our ultra–short term, low duration, floater, and short-term funds, which continue to be the best risk-adjusted places for fixed income investors over other fixed income assets. Absolute levels are looking attractive near the 3 – 4 year point and offer an opportunity for investors with an investment horizon of 3 years+, albeit with some volatility. Investors can participate in this through any of our passive strategies in our Debt Index funds or Government securities fund matching their investment horizons

GLOBAL MACRO

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Global growth forecasts continue to get downgraded

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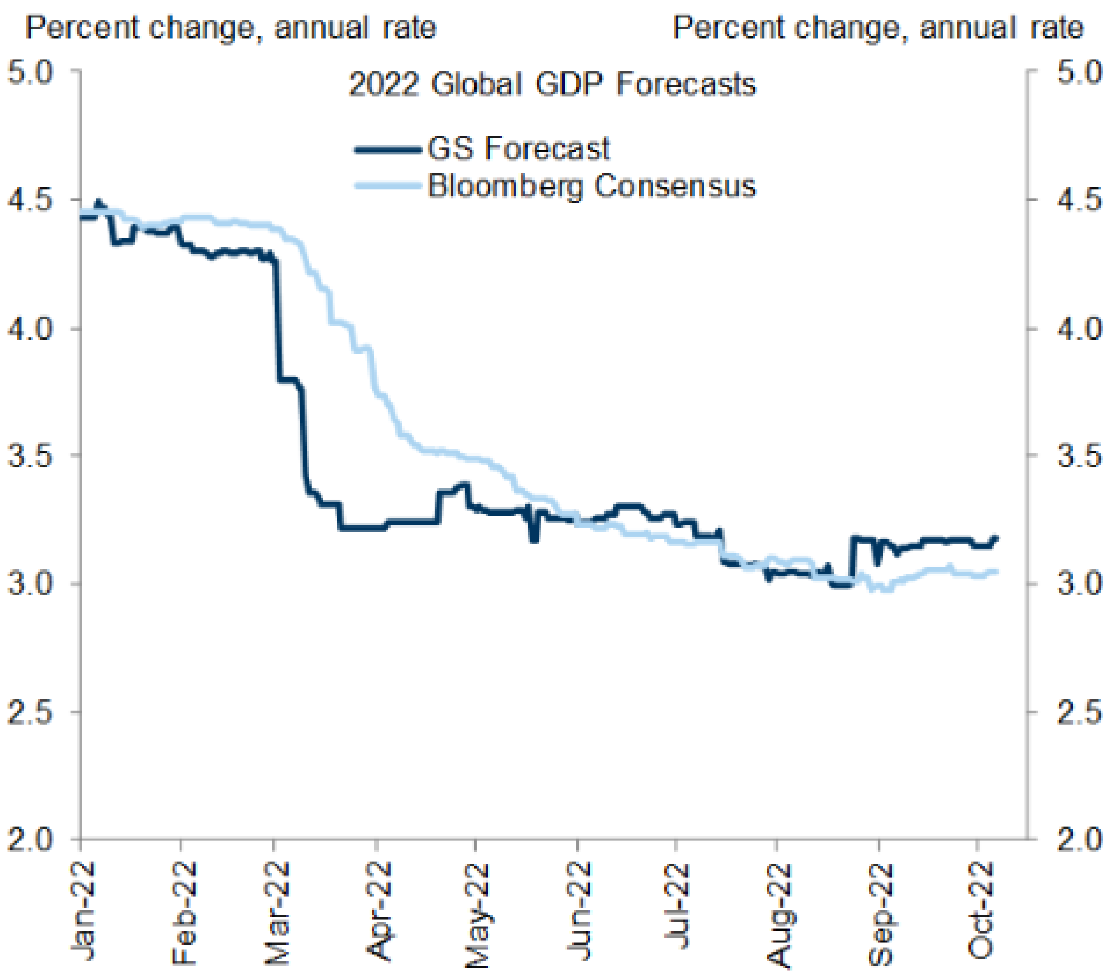
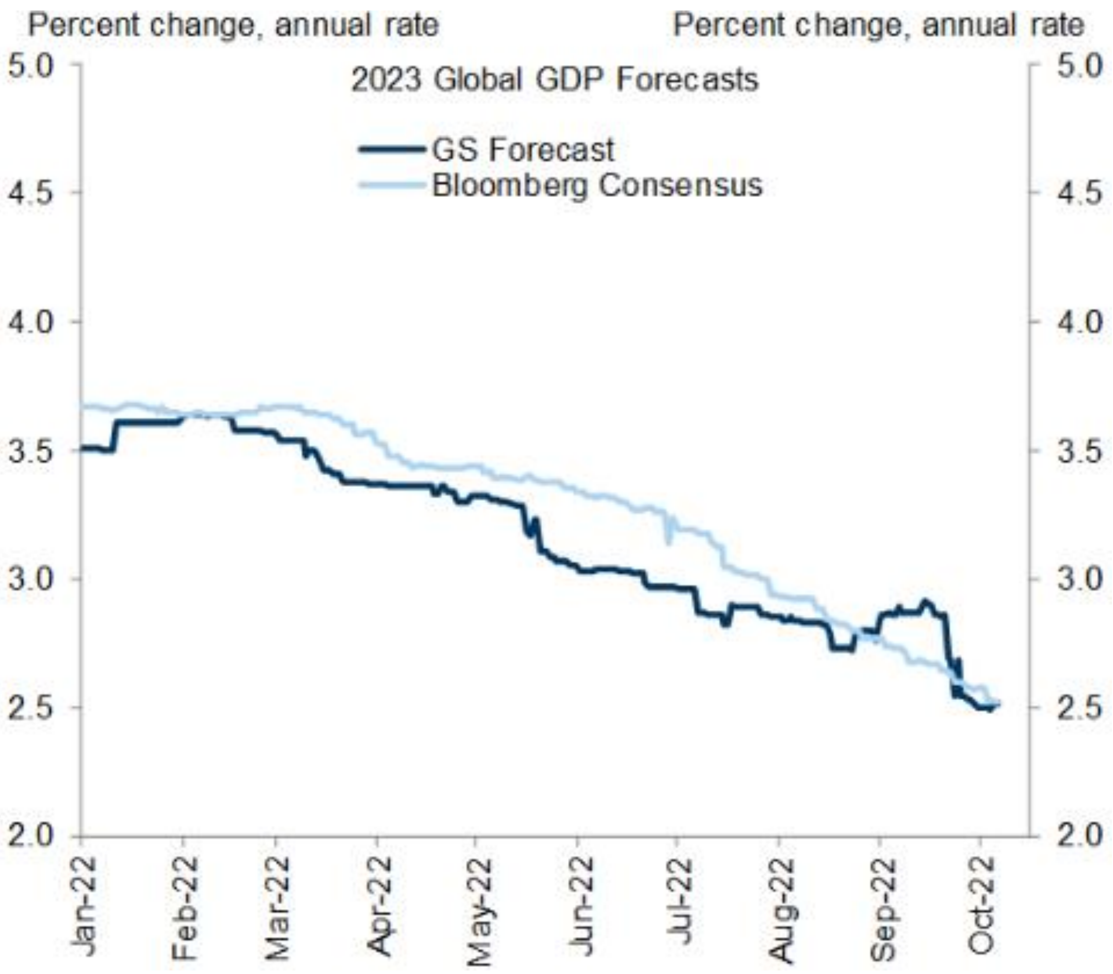
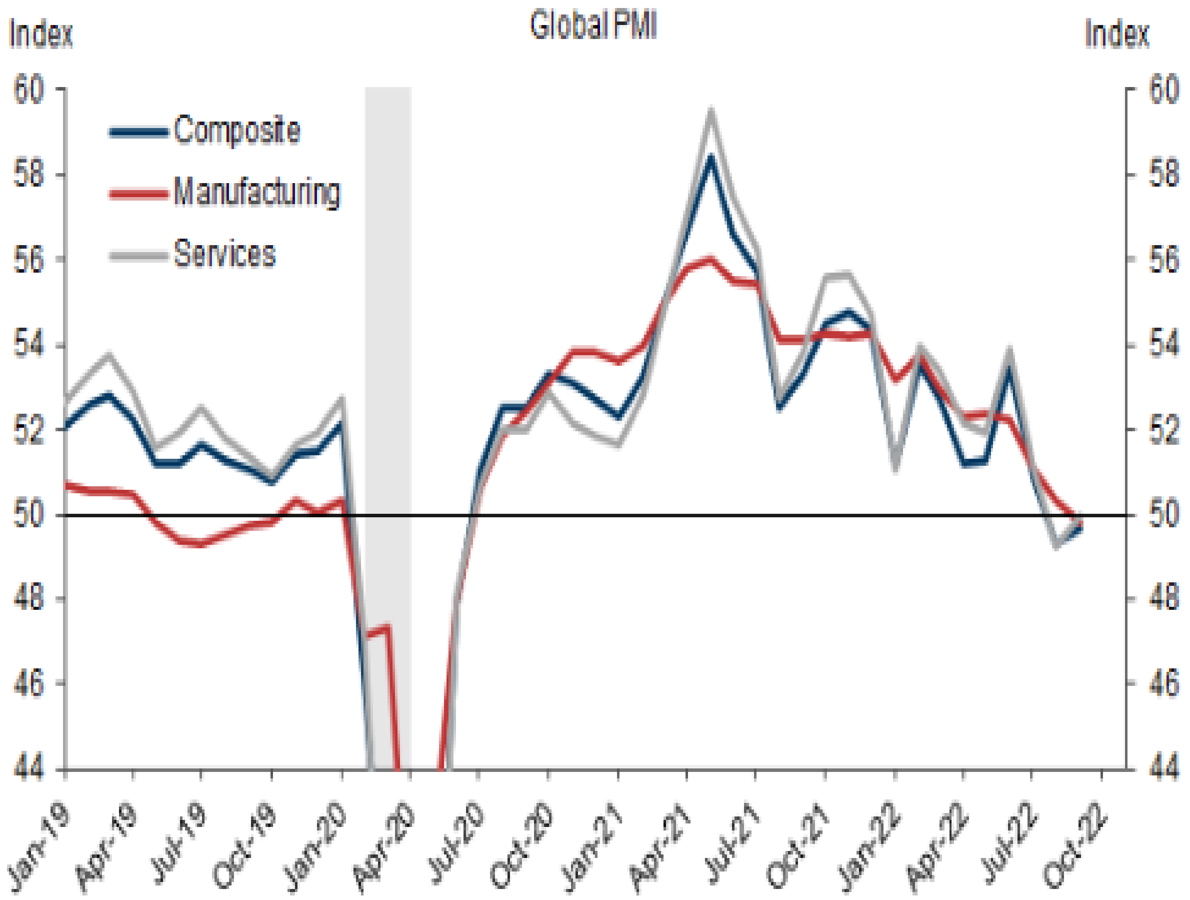
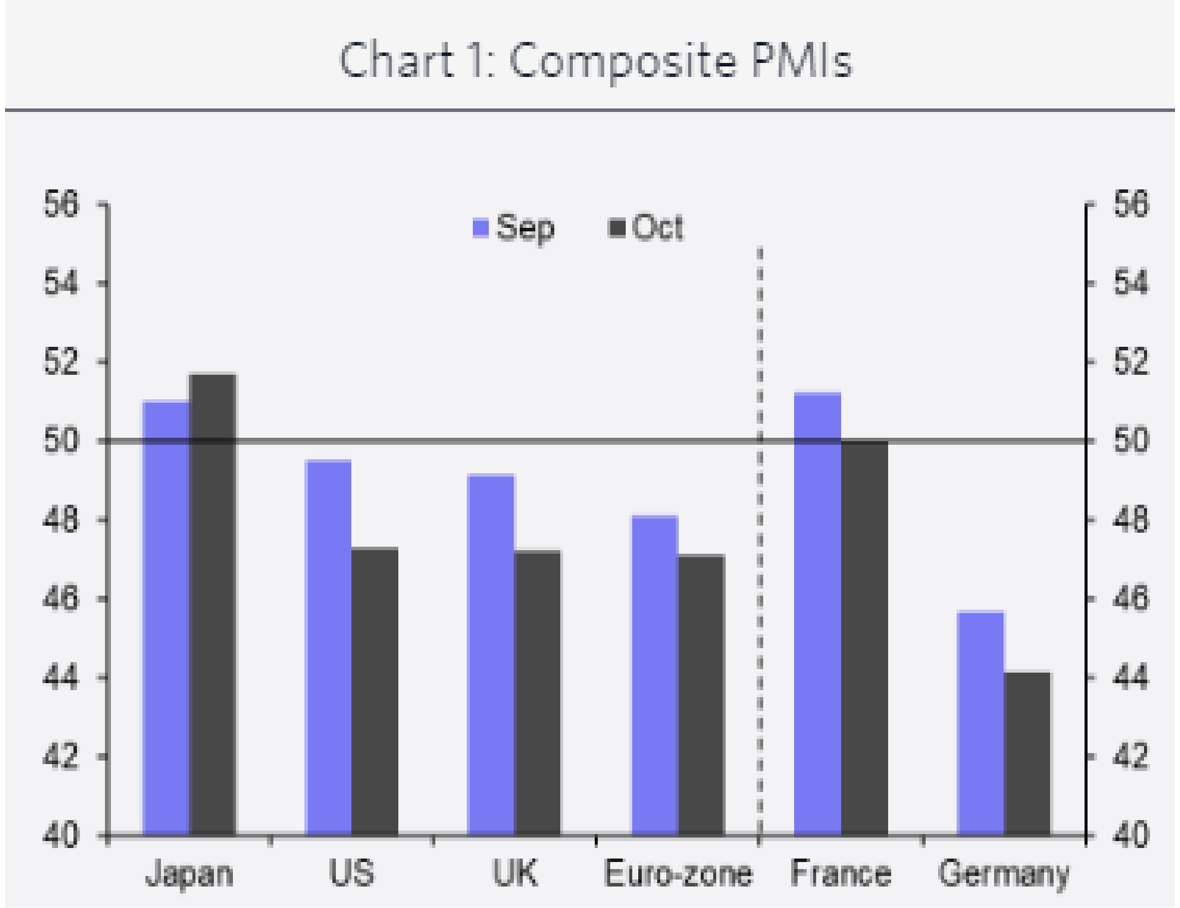




Source: Goldman Sachs

PMIs also point to slowing economic activity





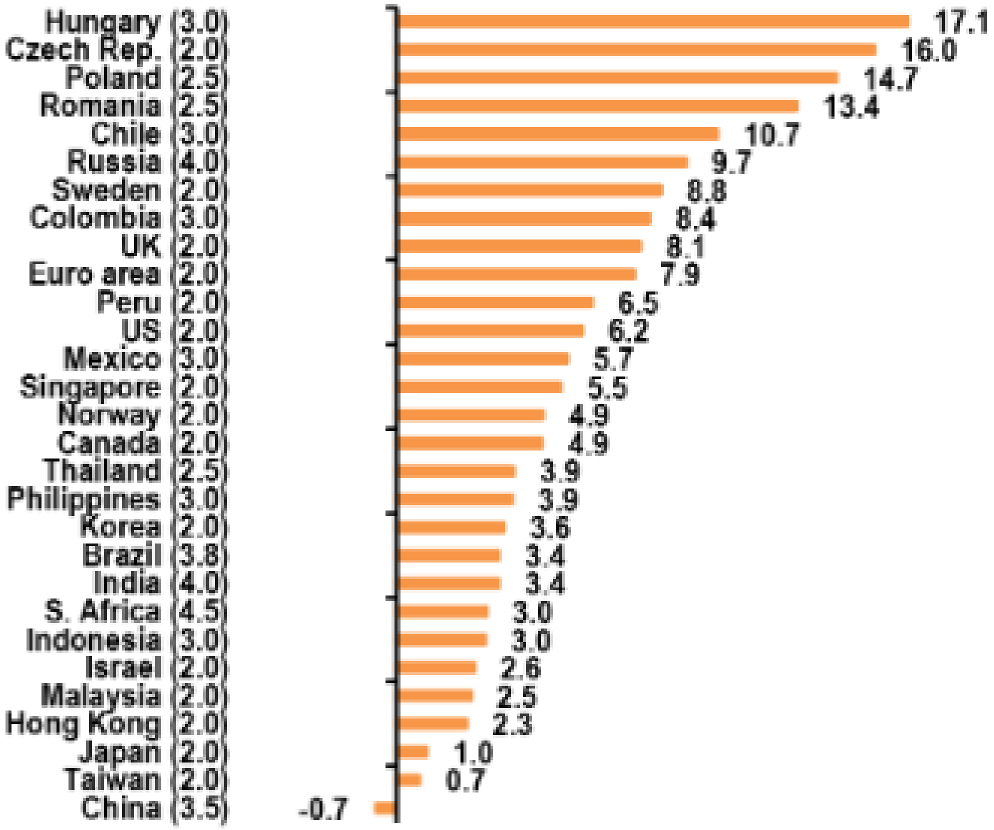
Source: Goldman Sachs, Capital Economics

Inflation remains elevated and well above target

Figure 1. Global Headline Inflation

CPI inflation (Sep 22) vs. target

%pt diff in oya; inflation target shown in parentheses



Source: J.P. Morgan, * denotes previous month data. Inflation target midpoints are used; in countries that do not have formal inflation targets we used historical data to assign a number (2% in most cases). Brazil is 3.75%.

Source: Citi, JP Morgan

Core services now contributing to increase in headline inflation

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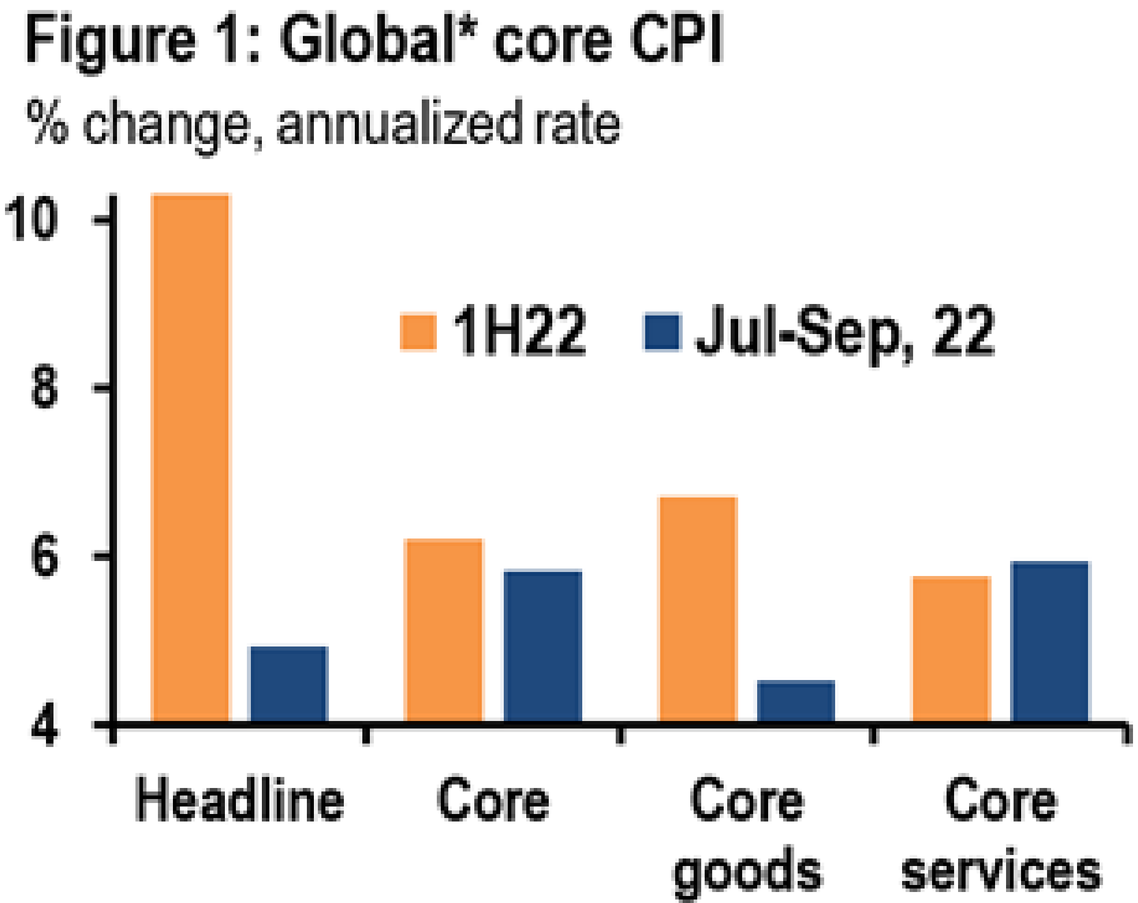
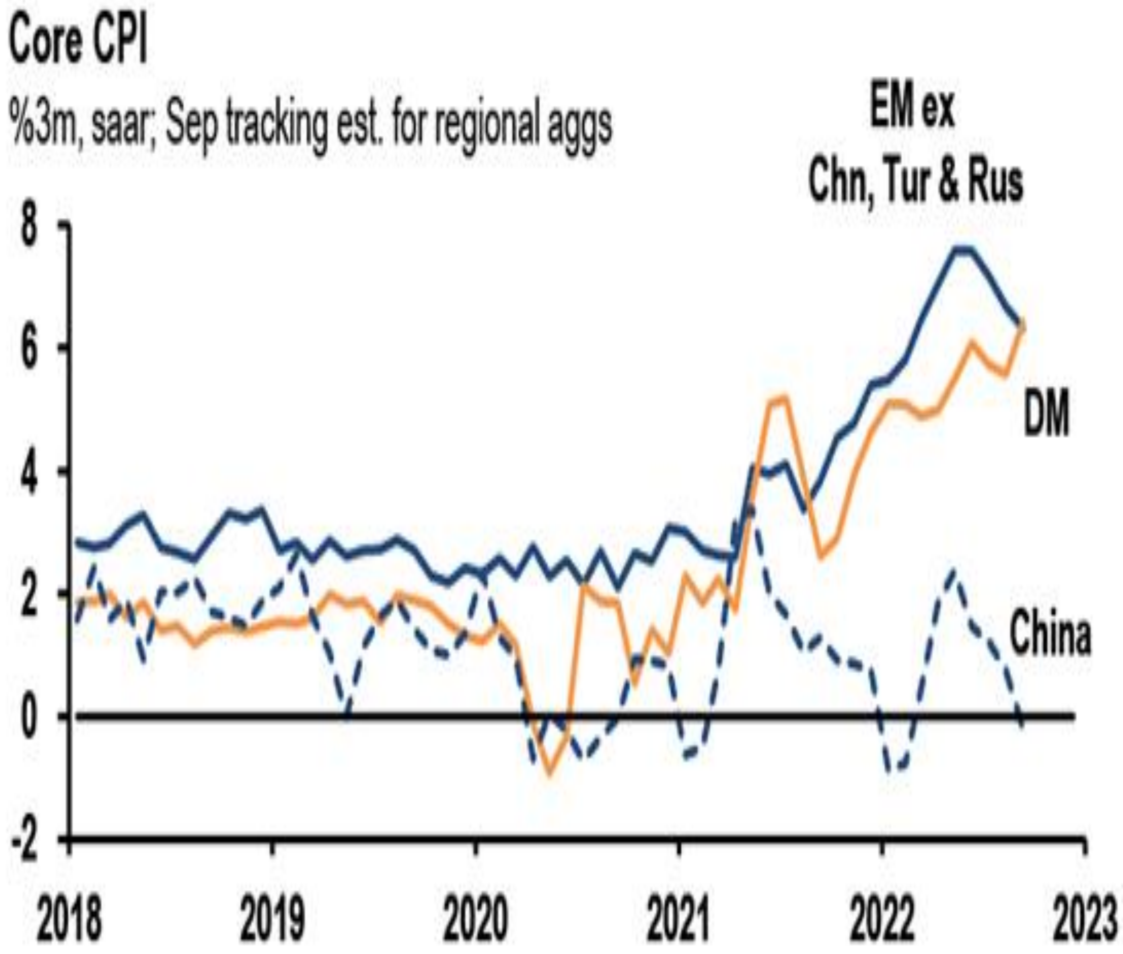


Source: National Sources, J.P. Morgan. *Ex China, Turkey



Source: JP Morgan

Bond yields remain elevated but commodity prices have corrected significantly

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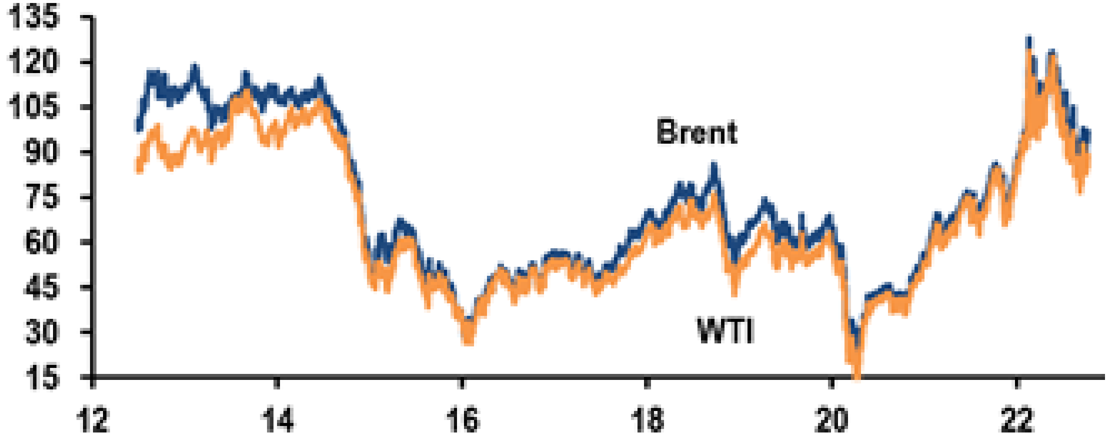
US Treasury yields

Percent per annum; both scales

Crude oil price

$/bbl



10-year sovereign debt yields

Percent per annum; both scales

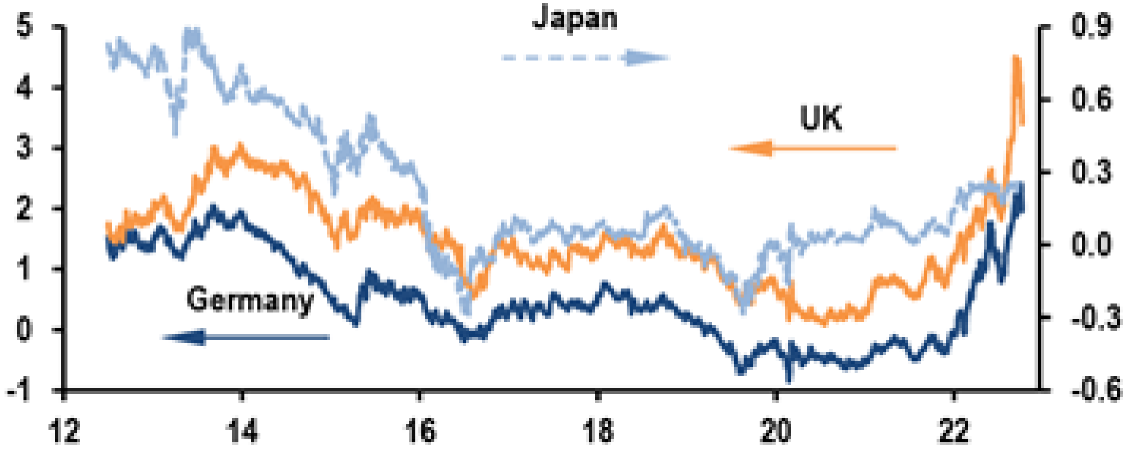


Table 1: Ytd Commodity prices change

	Current	YTD Peak	Change
Natural Gas (€)	102	311	-67%
Nickel ($)	22216	48211	-54%
Aluminium ($)	2213	3876	-43%
Wheat ($)	839	1425	-41%
Iron Ore ($)	88	148	-41%
Palladium ($)	1939	2980	-35%
Copper ($)	346	493	-30%
Brent Crude Oil ($)	94	128	-27%

Source: JP Morgan

Large rate hikes have eroded bond returns

Chart 2: Long-term returns for US Treasuries at 50-year lows

Long-term government bond returns, rolling 10-year annualized %

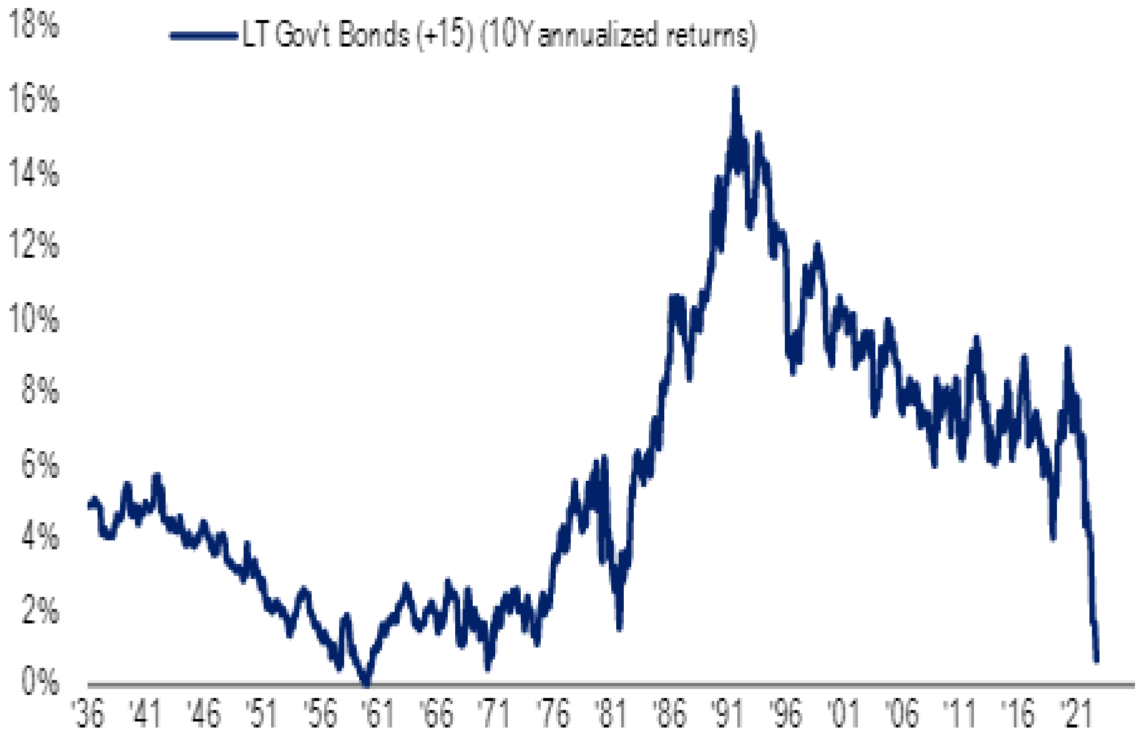
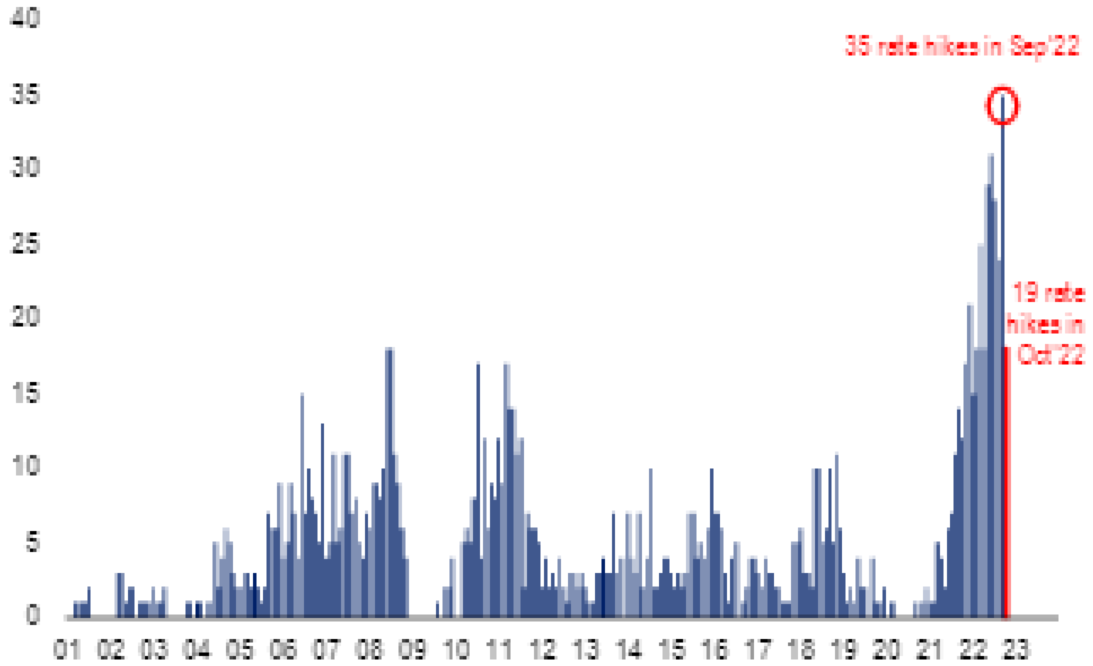


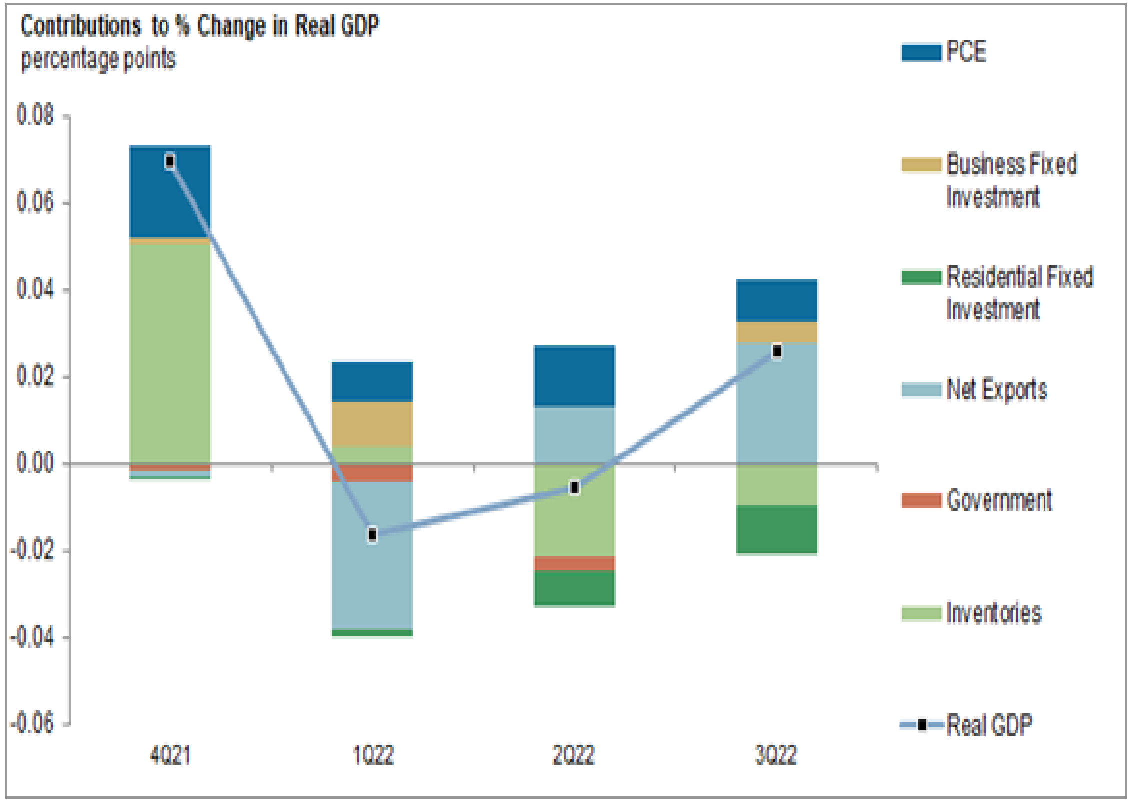
Chart 4: 243 policy rate hikes in '22, more than 1 hike per trading day

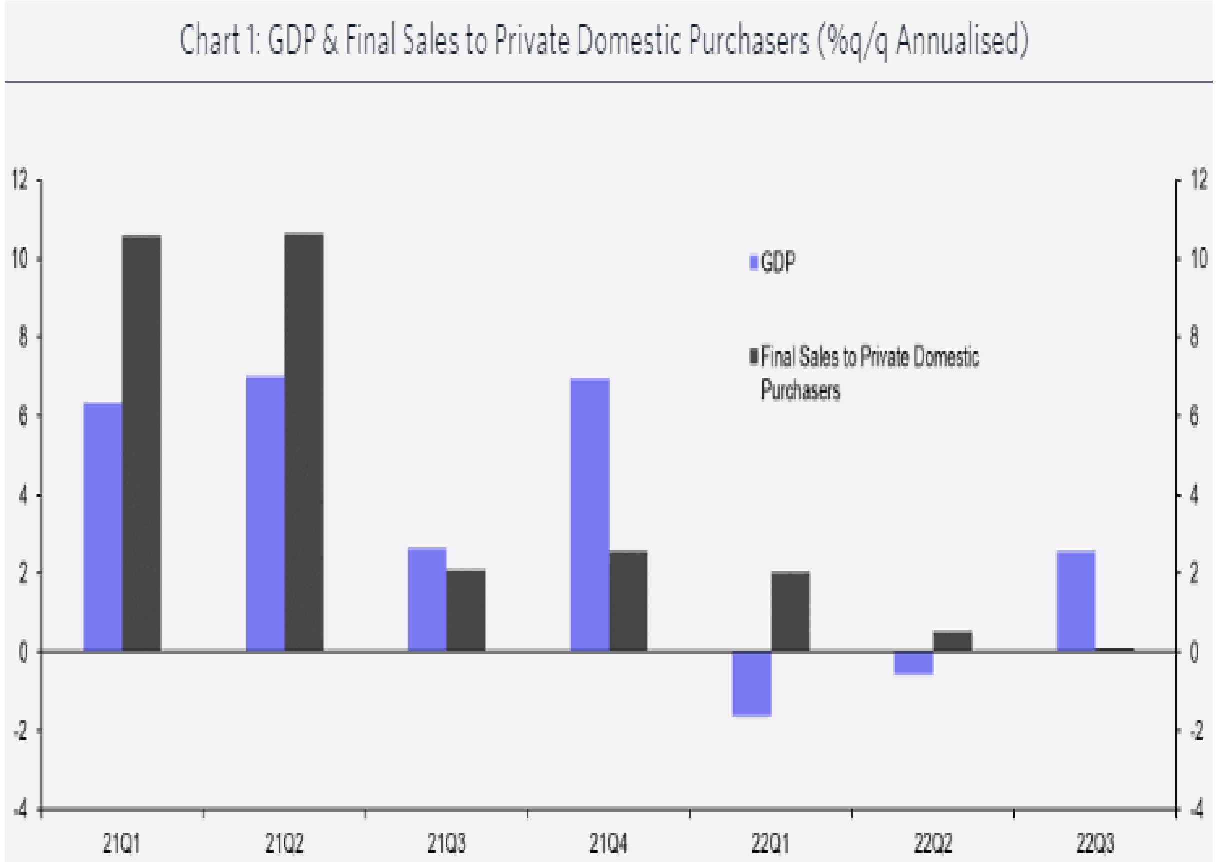
Monthly central banks policy rate hikes



US headline GDP rebounded on boost from trade but underlying growth remains weak

Contributions to GDP Growth





Source: Morgan Stanley, Capital Economics

US Inflation stays red hot as services inflation is supported by rising wages

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CPI (Y/Y%)

Figure 6. Core CPI Momentum: (3m/3m, 6m/6m, YoY)

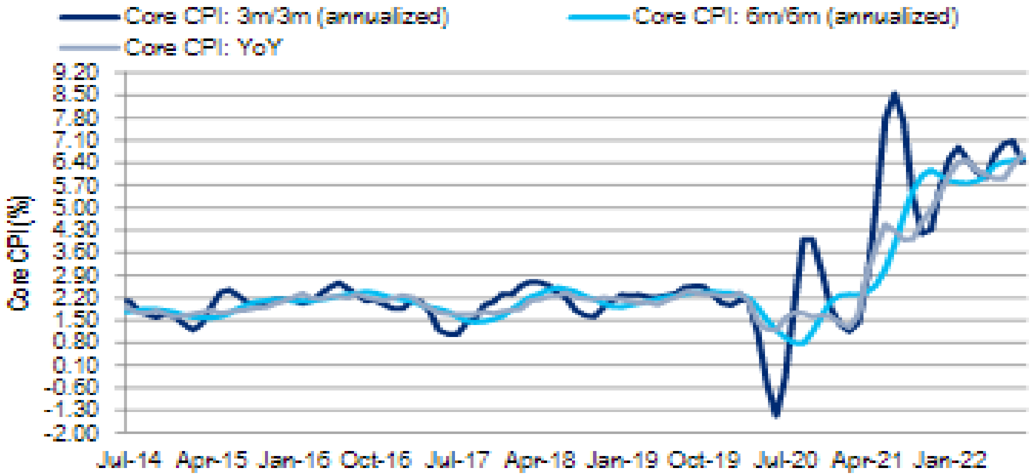
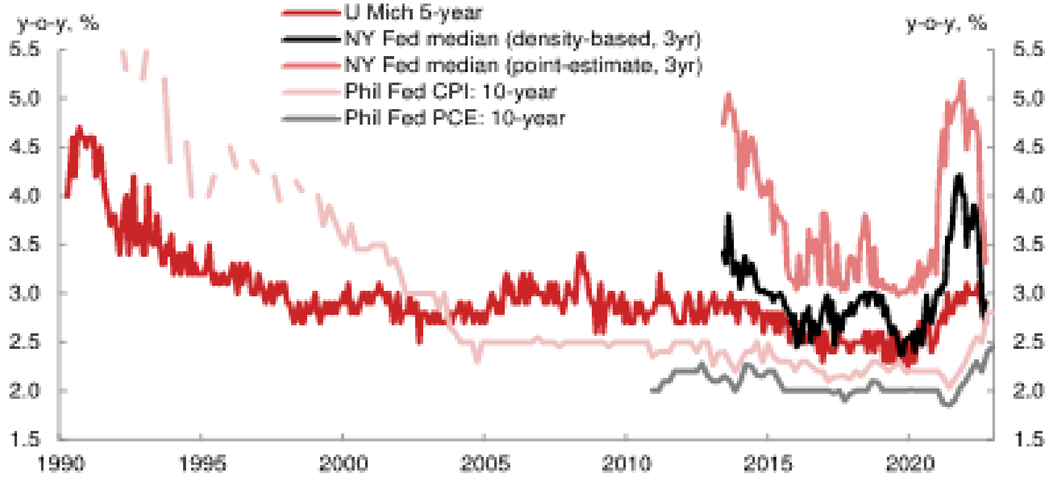
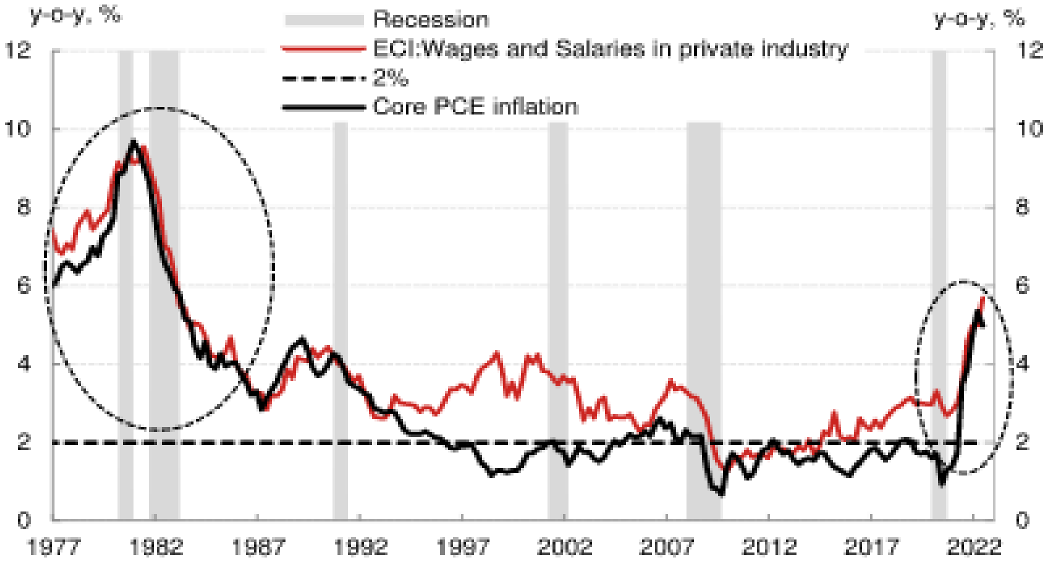


Fig. 25: Long-term inflation expectations





Source: Jefferies, Citi, Nomura

Fed terminal rate pricing at close to 5% even as leading indicators point to a recession

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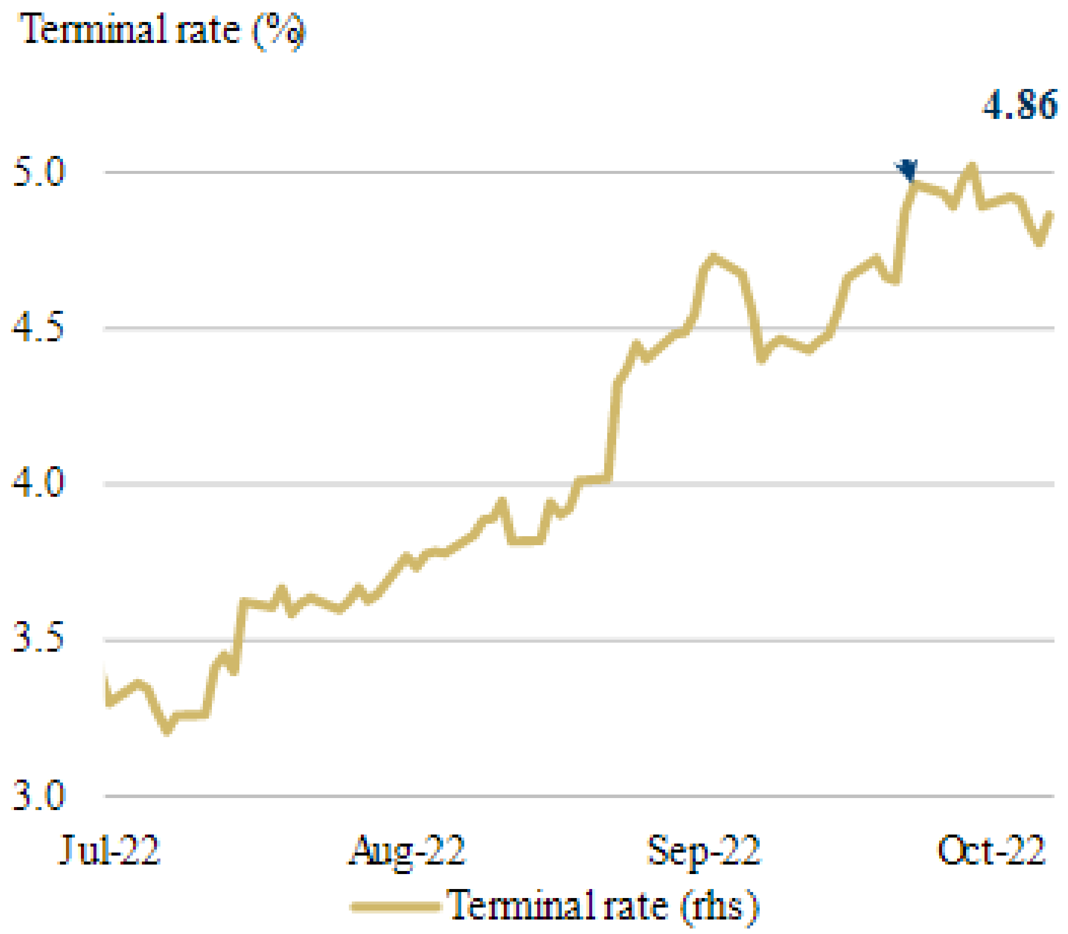

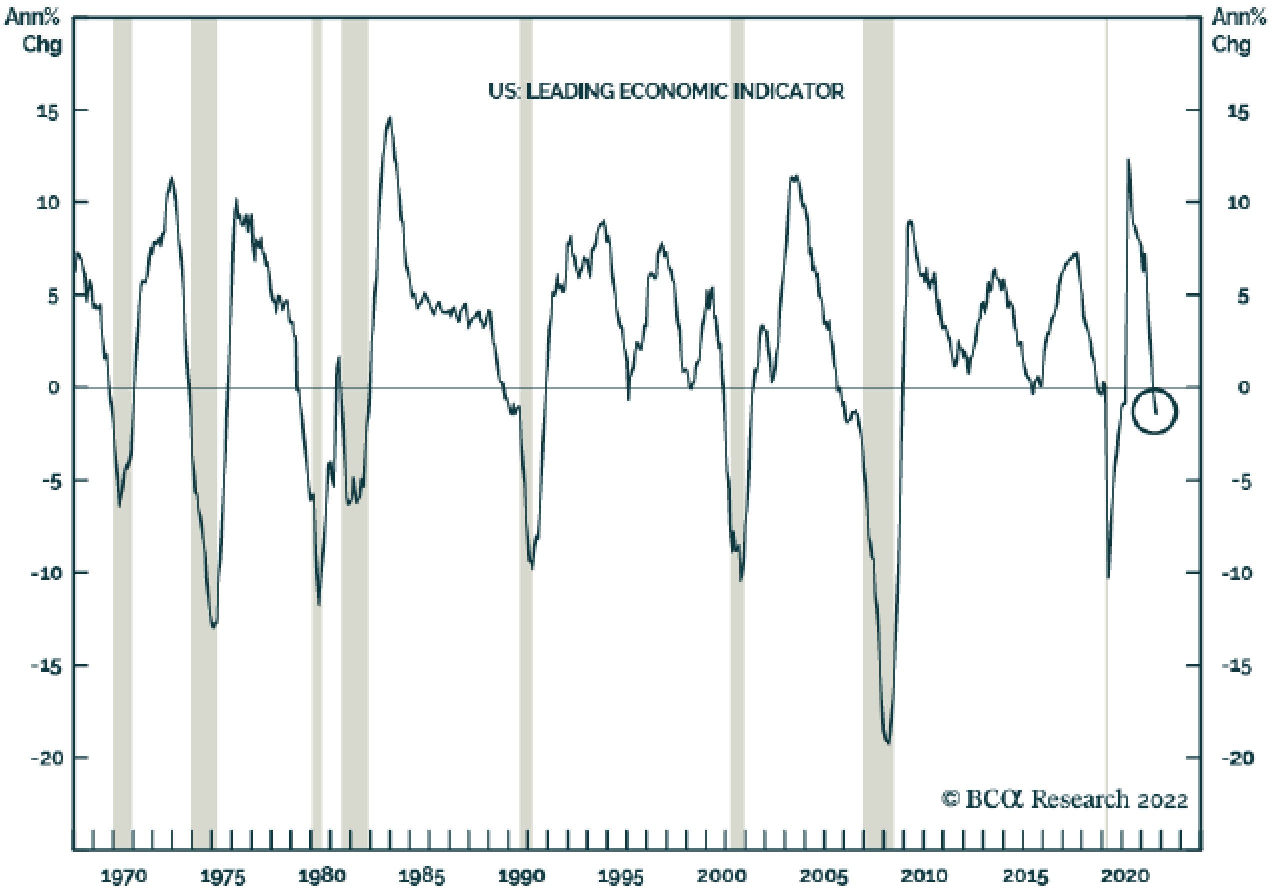

Source: Morgan Stanley, BCA Research

Labour market in the US stays strong with unemployment rate at 50-year low of 3.5%

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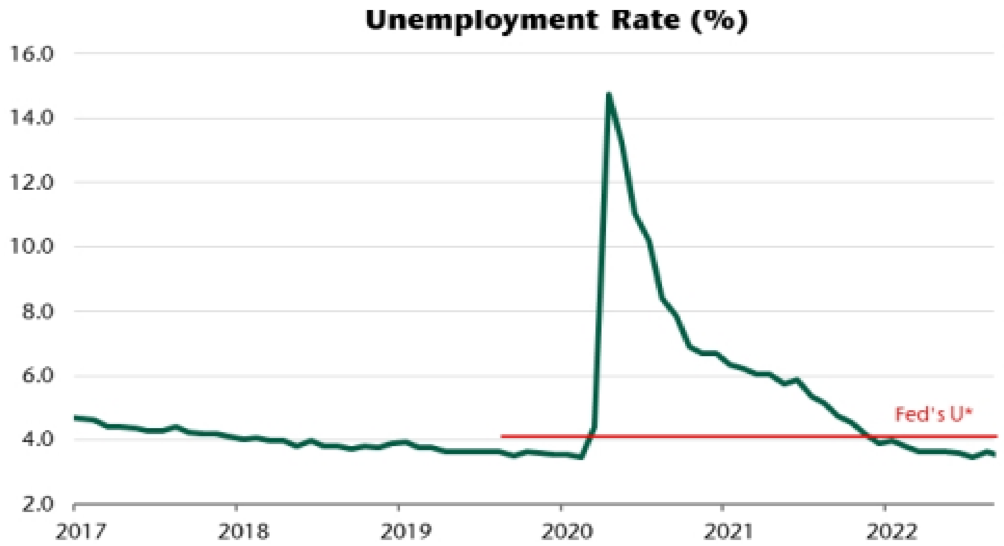

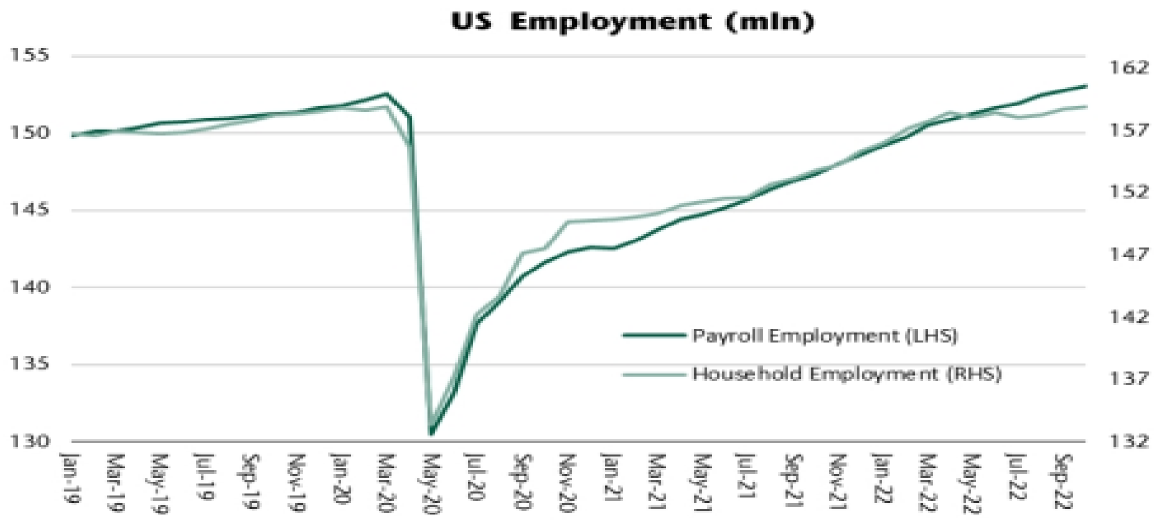

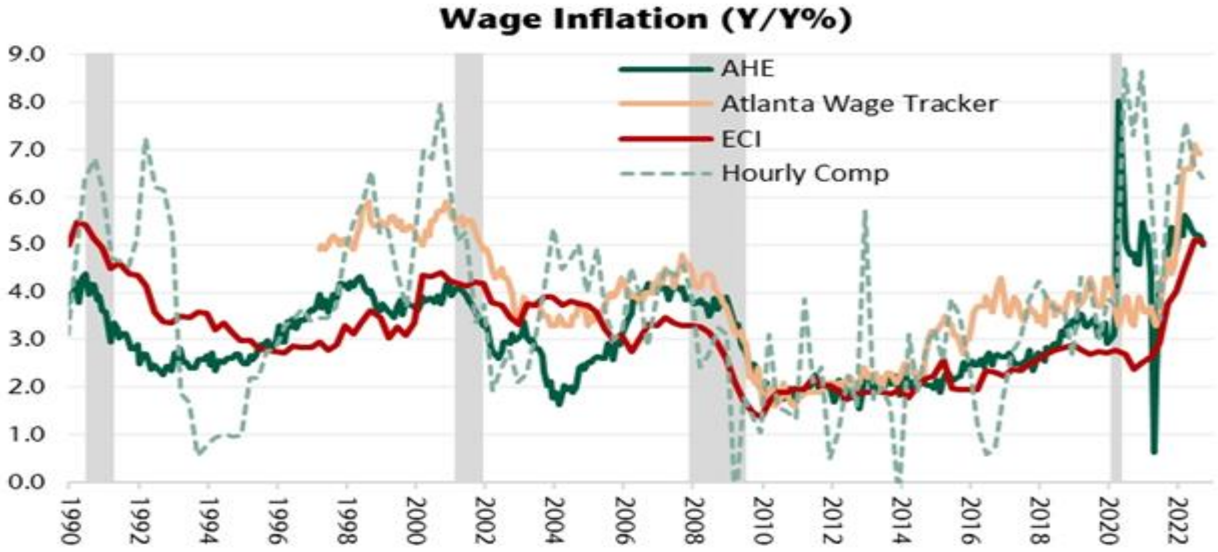

Source: Jefferies

US Households have been dipping into their savings to sustain real consumption

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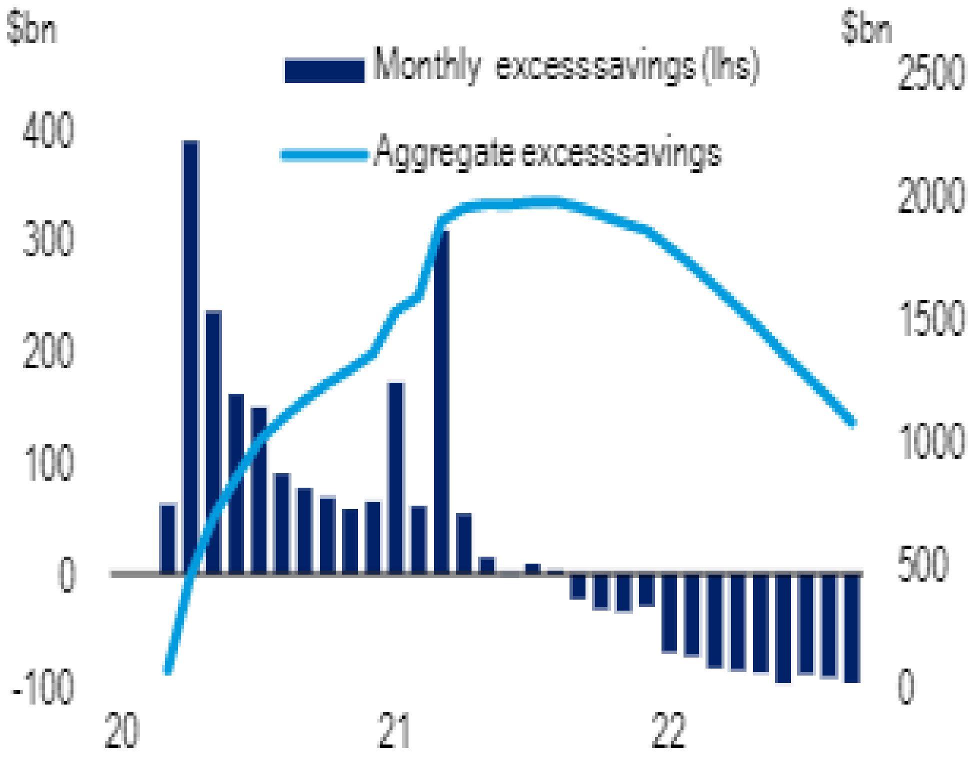
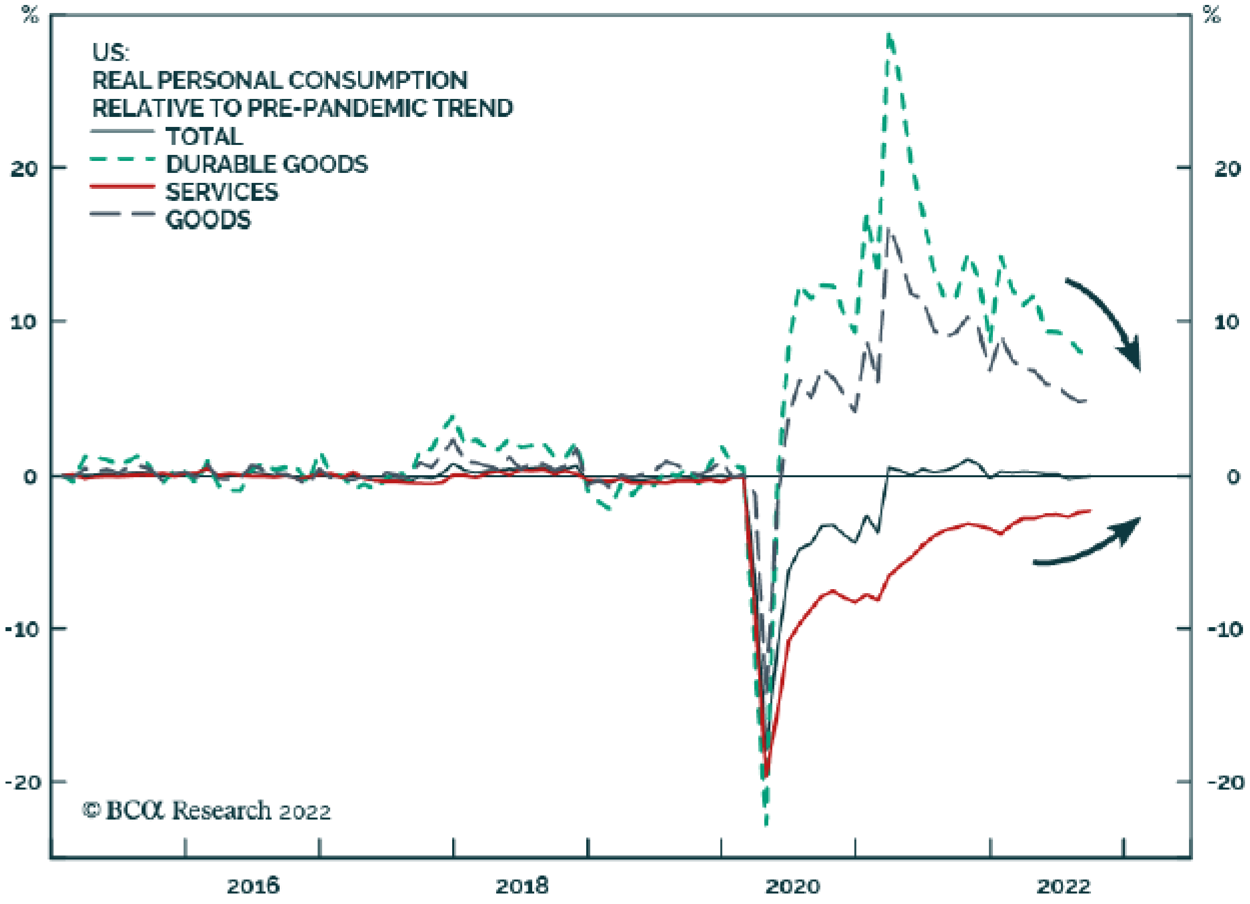
Exhibit 3: Excess saving ($bn)

Households continue to draw on excess saving to support spending





NOTE: ALL SERIES REBASED TO JAN. 2015 = 0%.

Source: BofA, BCA Research

Strong dollar to help slow growth and inflation in the US

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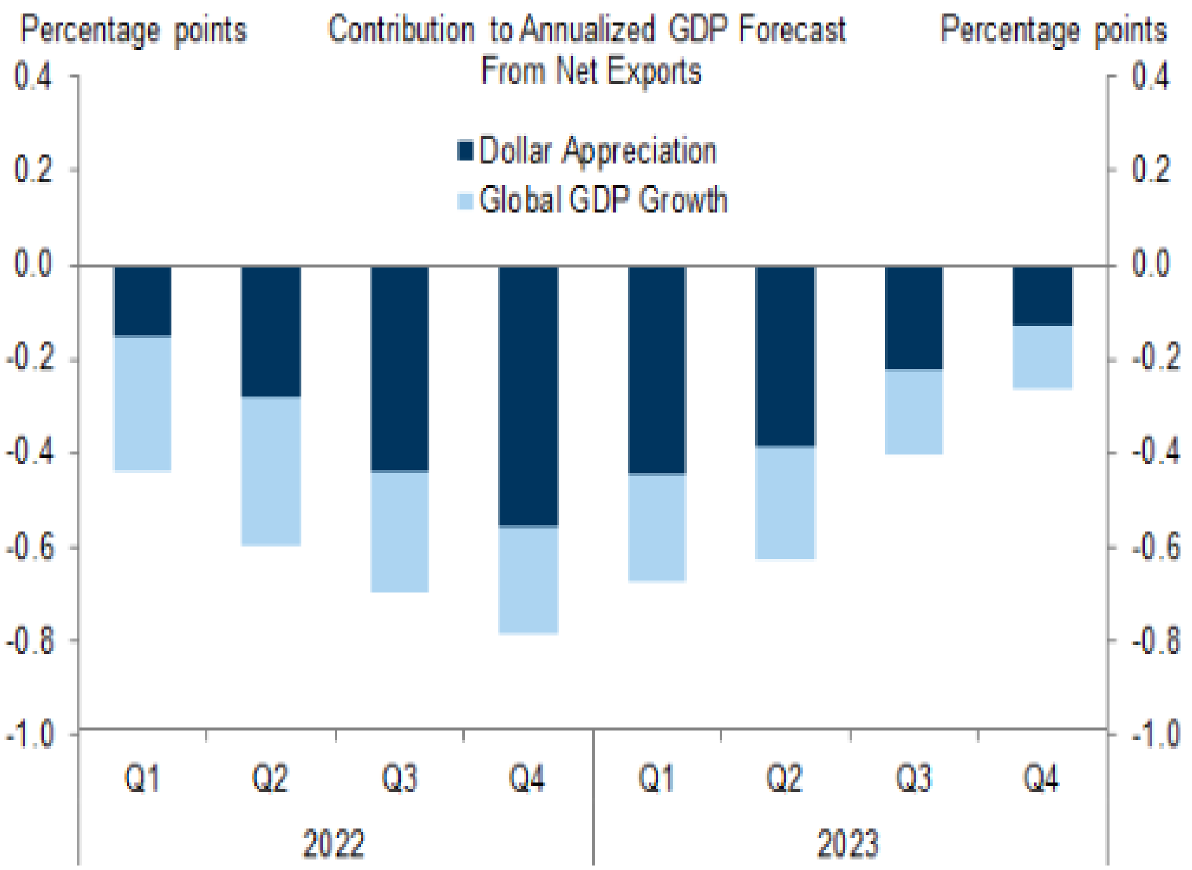
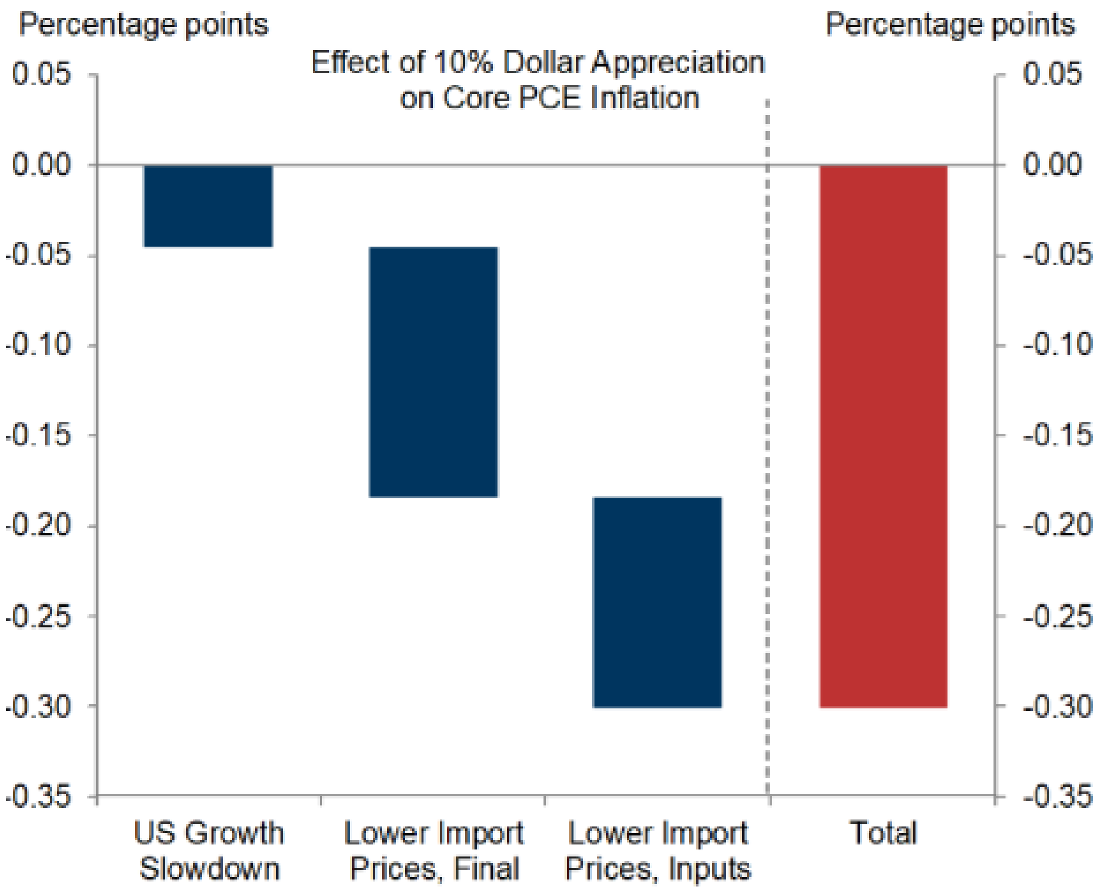
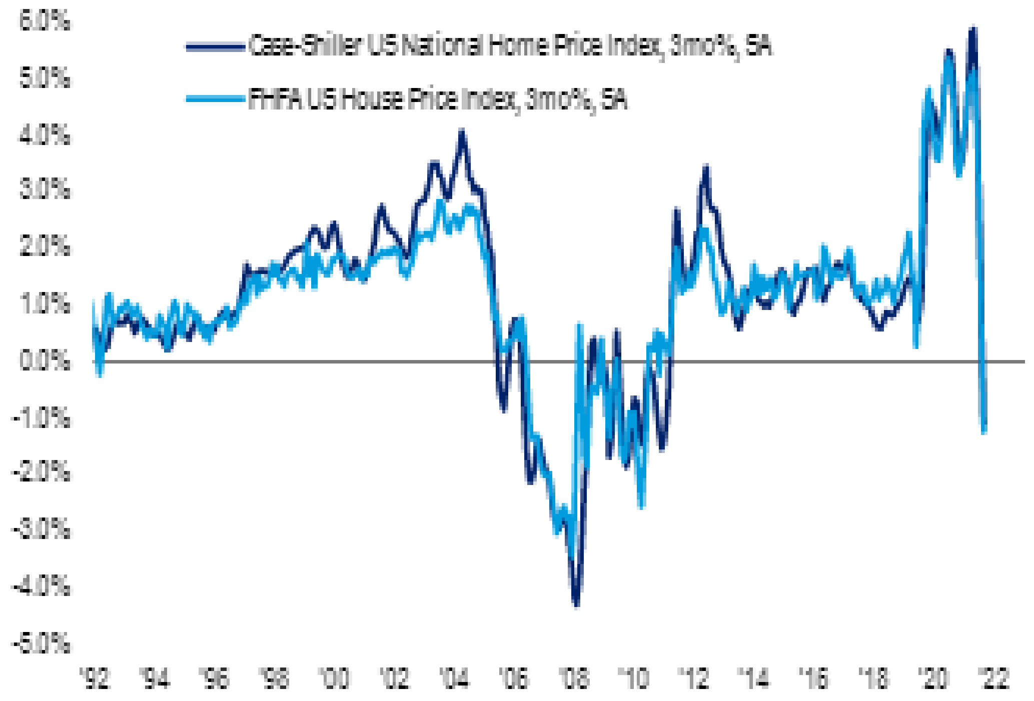




Source: Goldman Sachs

US Housing sector is cooling rapidly

3m/3m change in US house price indices (%)



Source: Citi, JP Morgan

Europe is on the brink of a recession as the energy crisis bites

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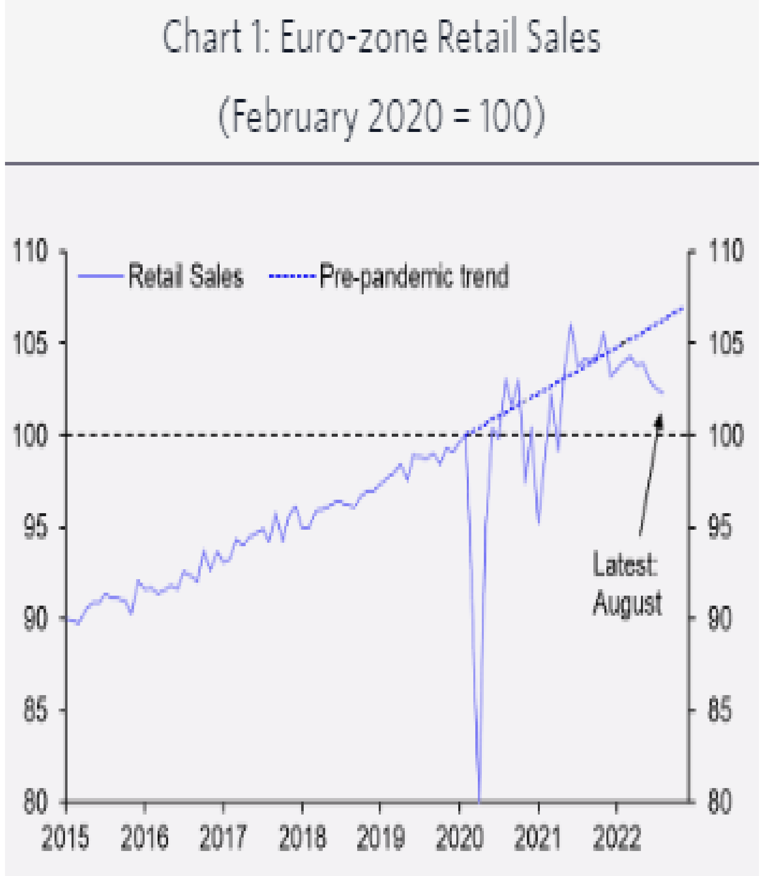
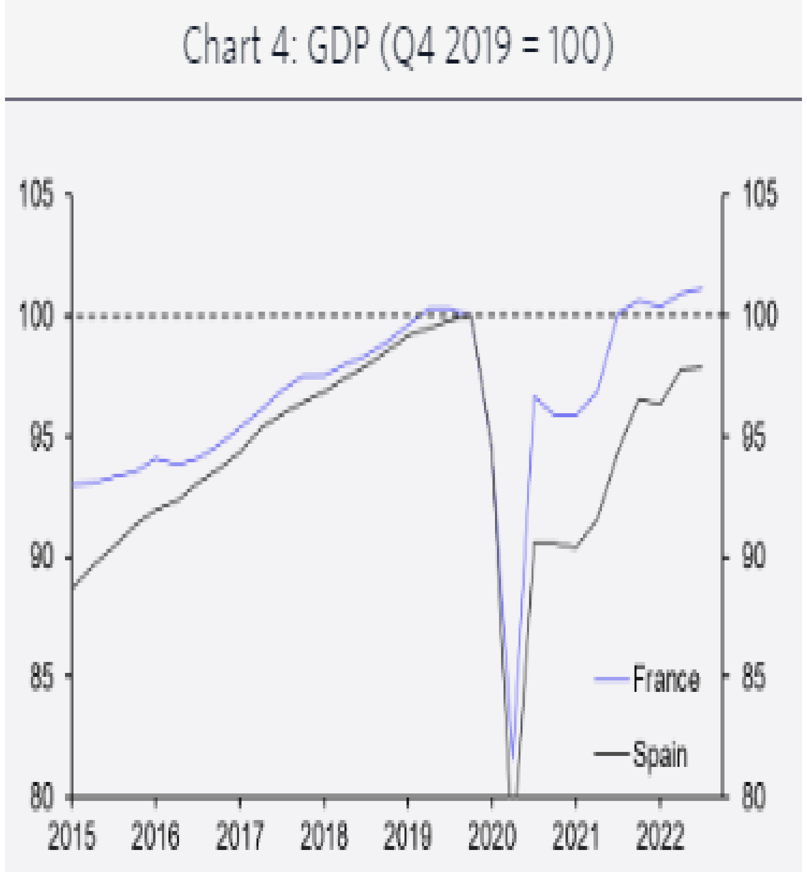




Source: Capital Economics

Europe: Consumer confidence and future output surveys continue to fall

Chart 2: Euro-zone Composite PMI New Orders

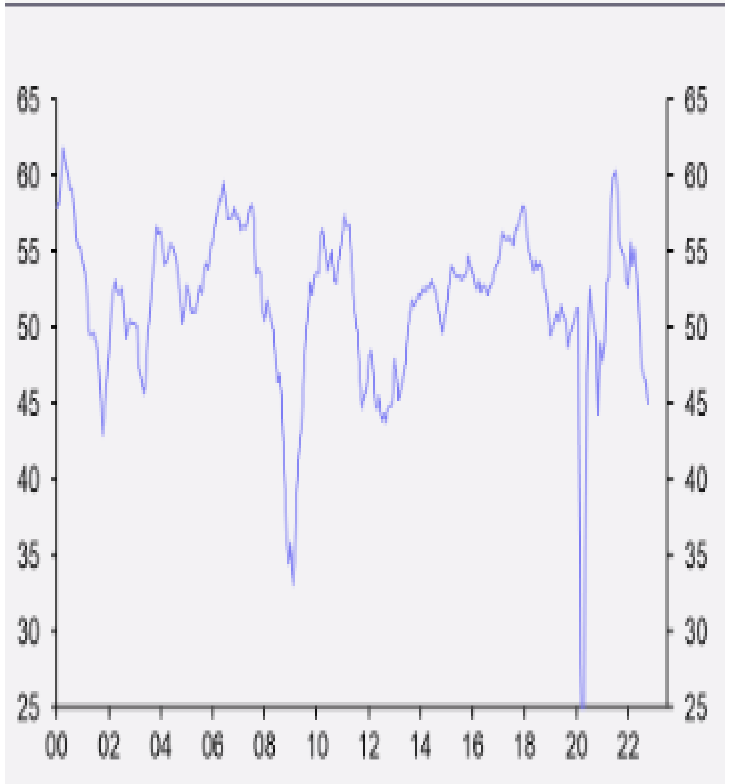


Fig. 1: European consumer confidence is in free-fall

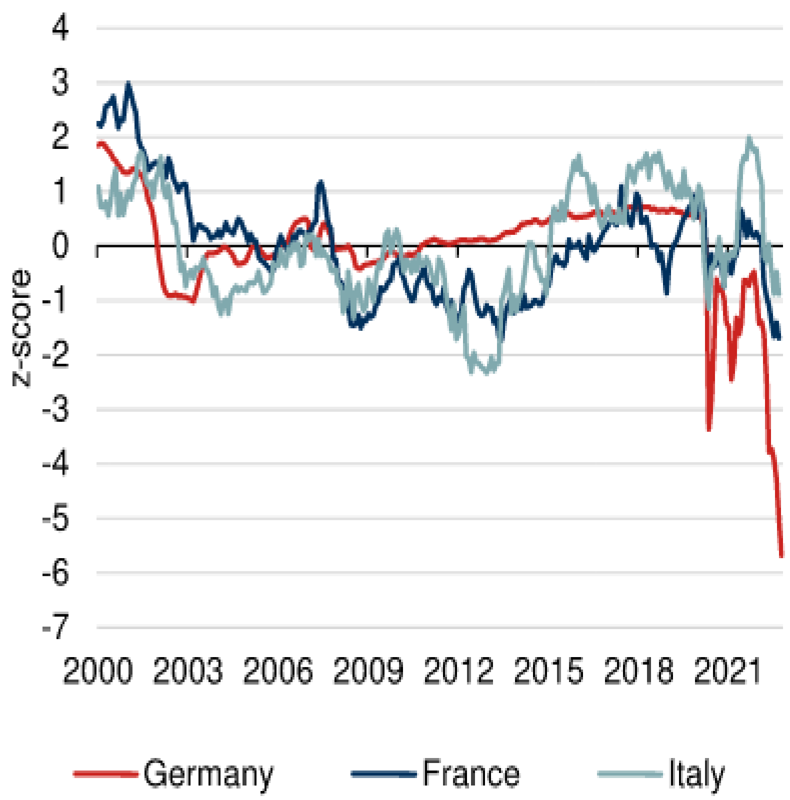
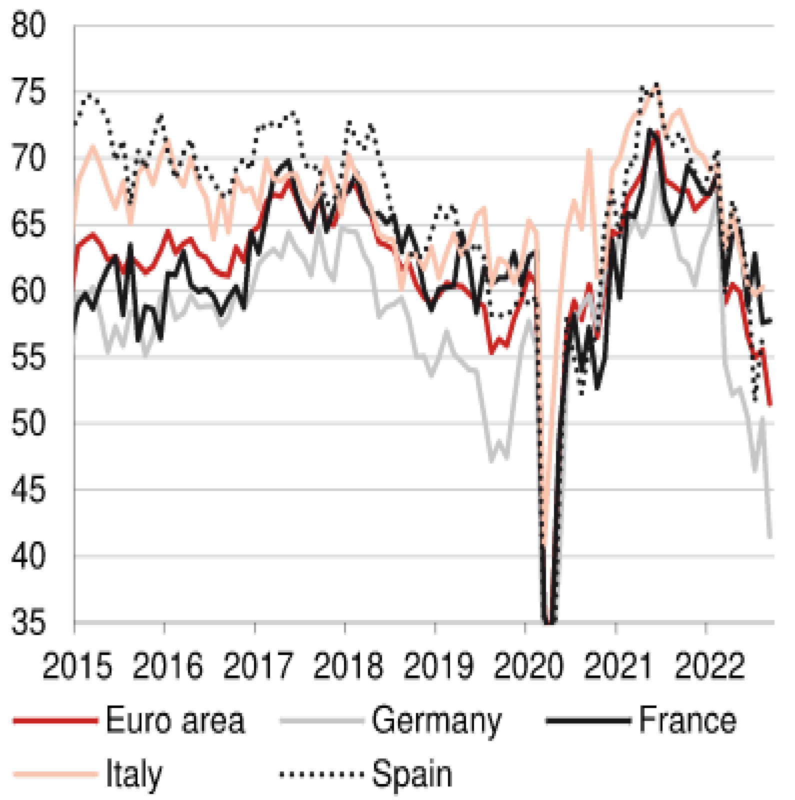


Fig. 2: Firm output expectations in continuous decline



Source: Nomura, Capital Economics

Natural gas storage has filled up ahead of expectations and cooled prices

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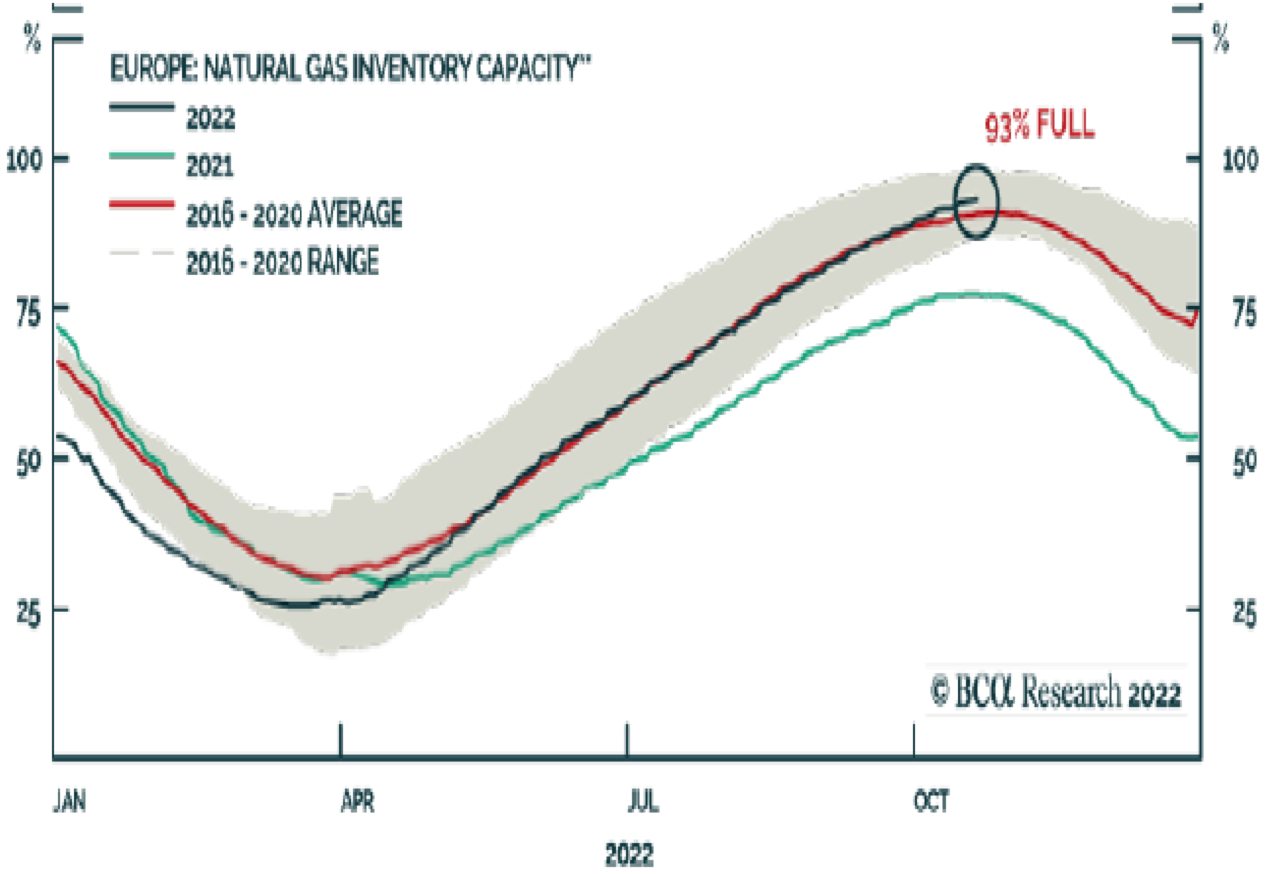
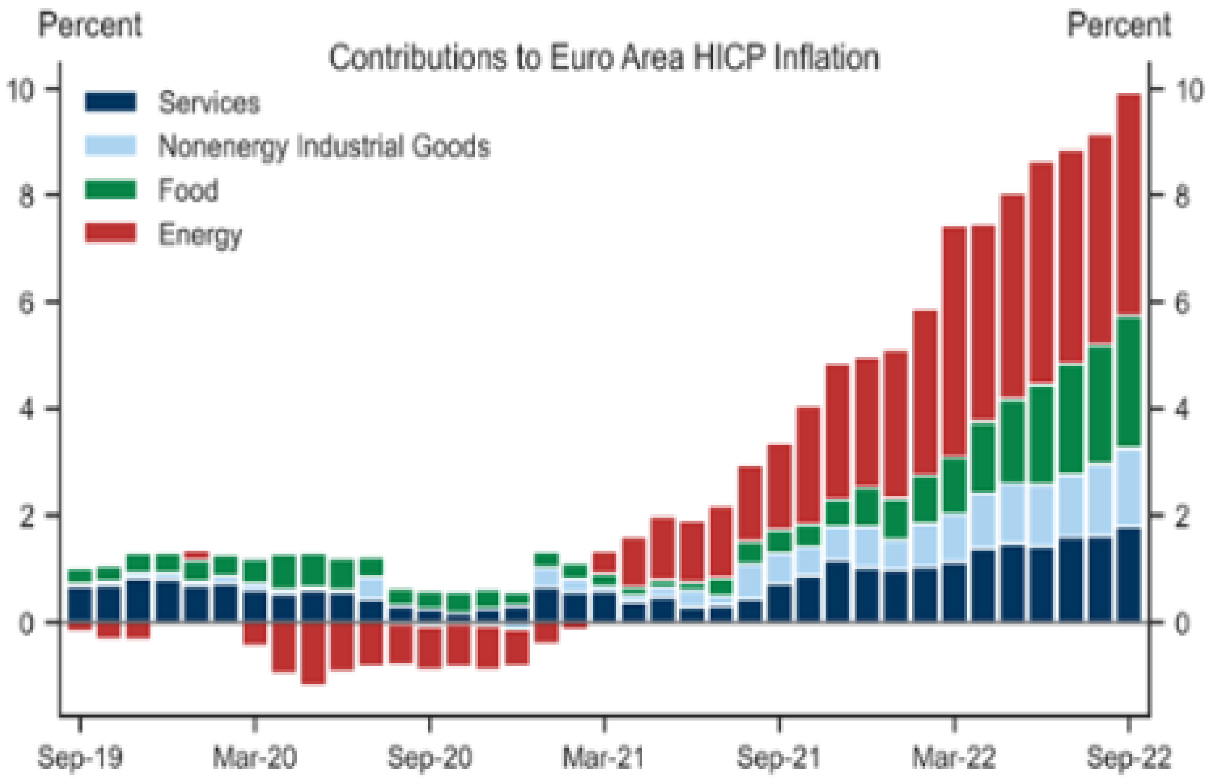
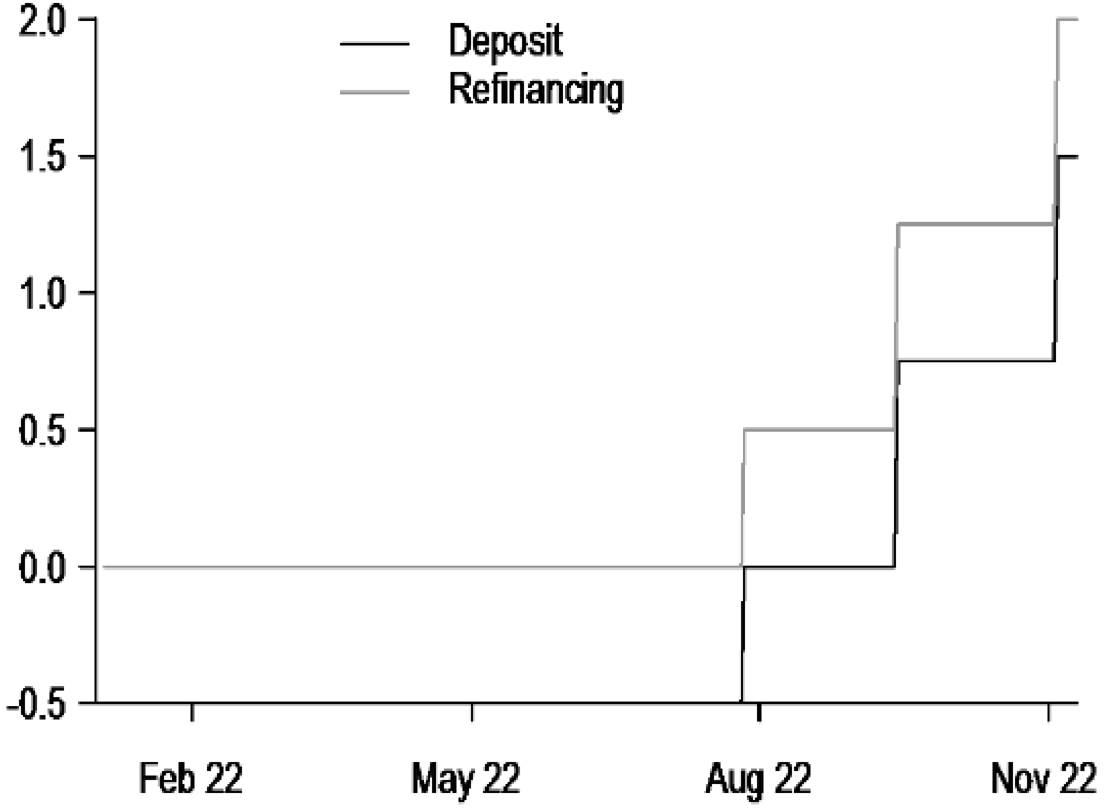


Source: JP Morgan, BCA Research

High and broadening inflation has prompted another 75 bps rate hike from the ECB

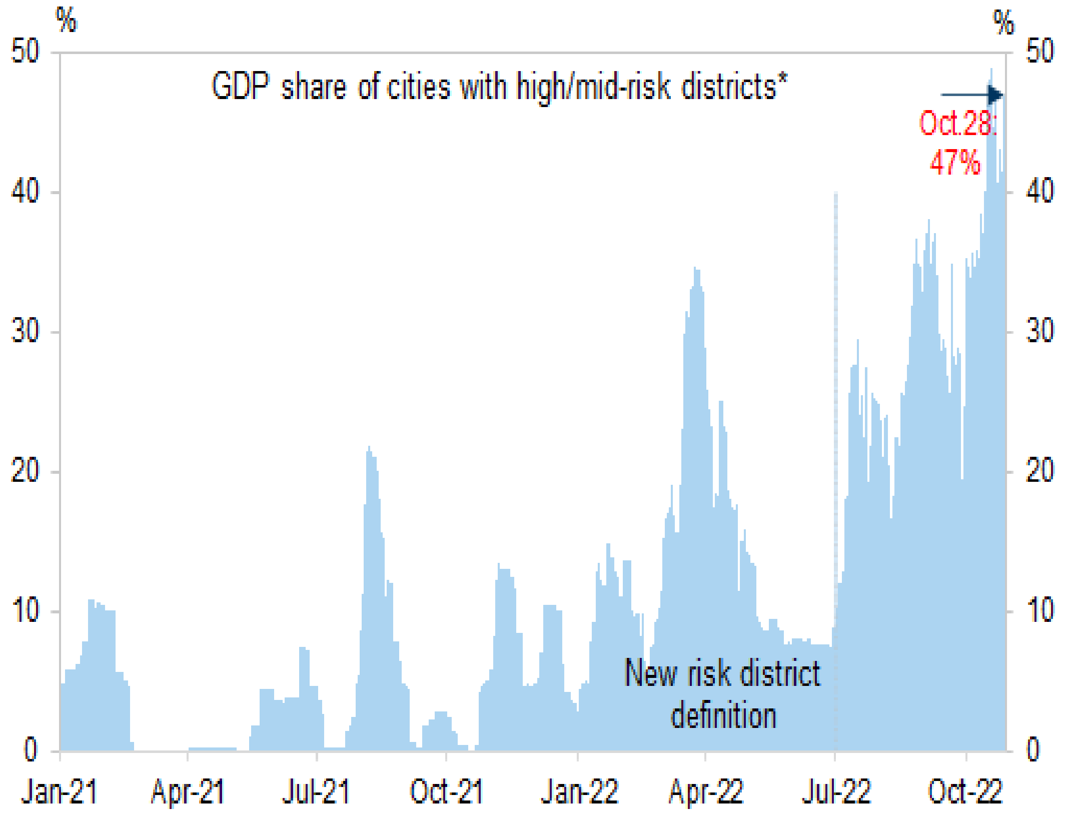




Source: Goldman Sachs, JP Morgan

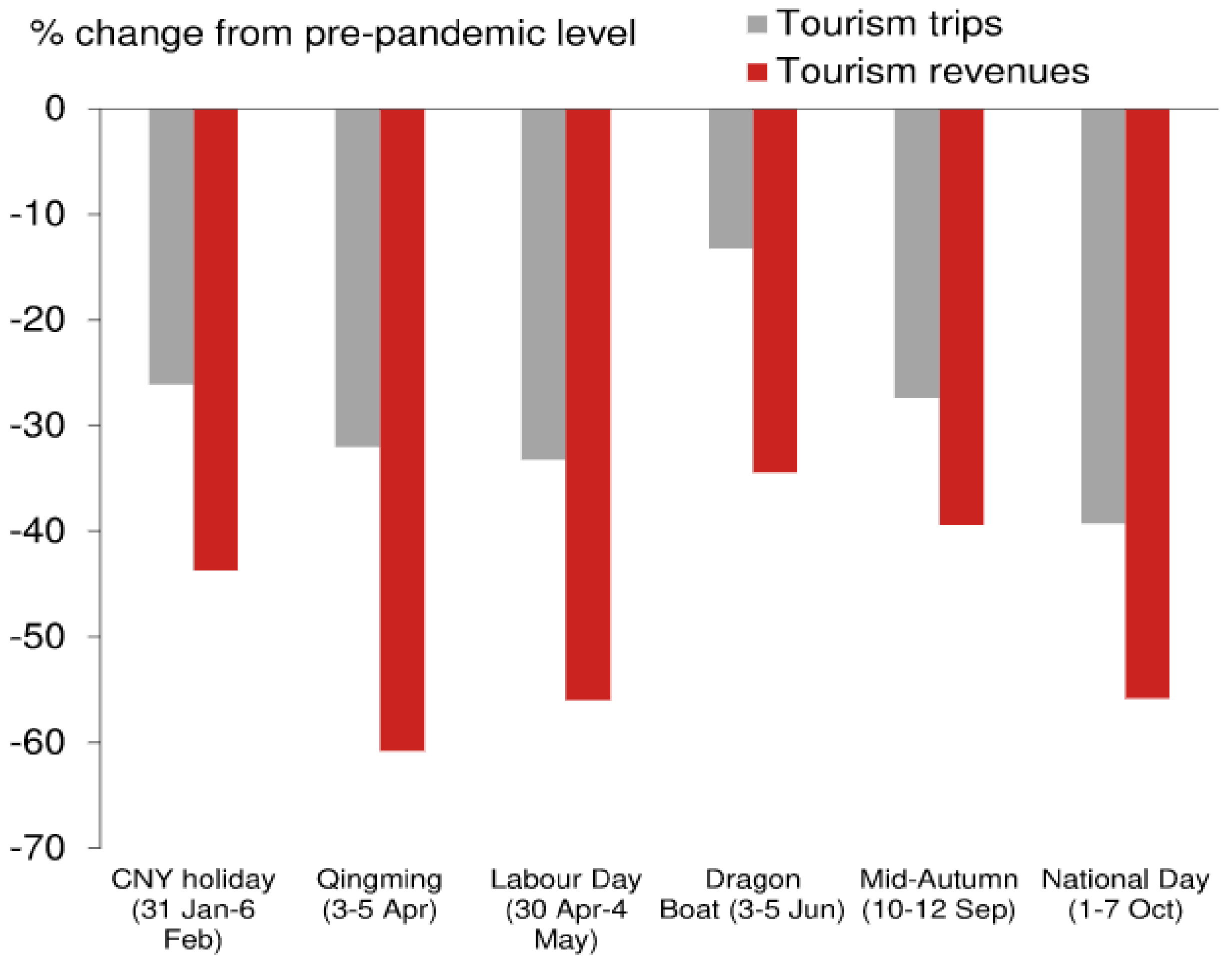
China: Zero-COVID strategy continues to hamper the economy

Cities with high/mid-risk districts account for 47% of GDP



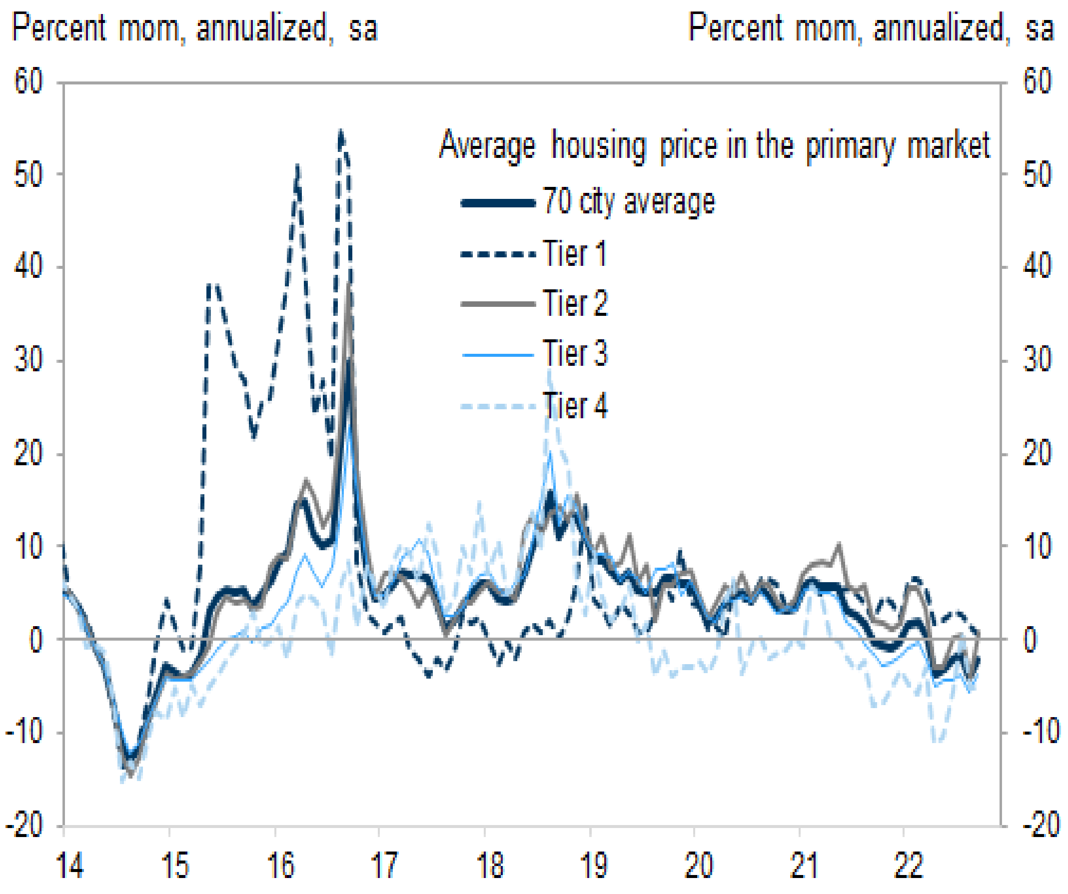
*Definitions of high/mid/low risk districts were changed by the government in late June

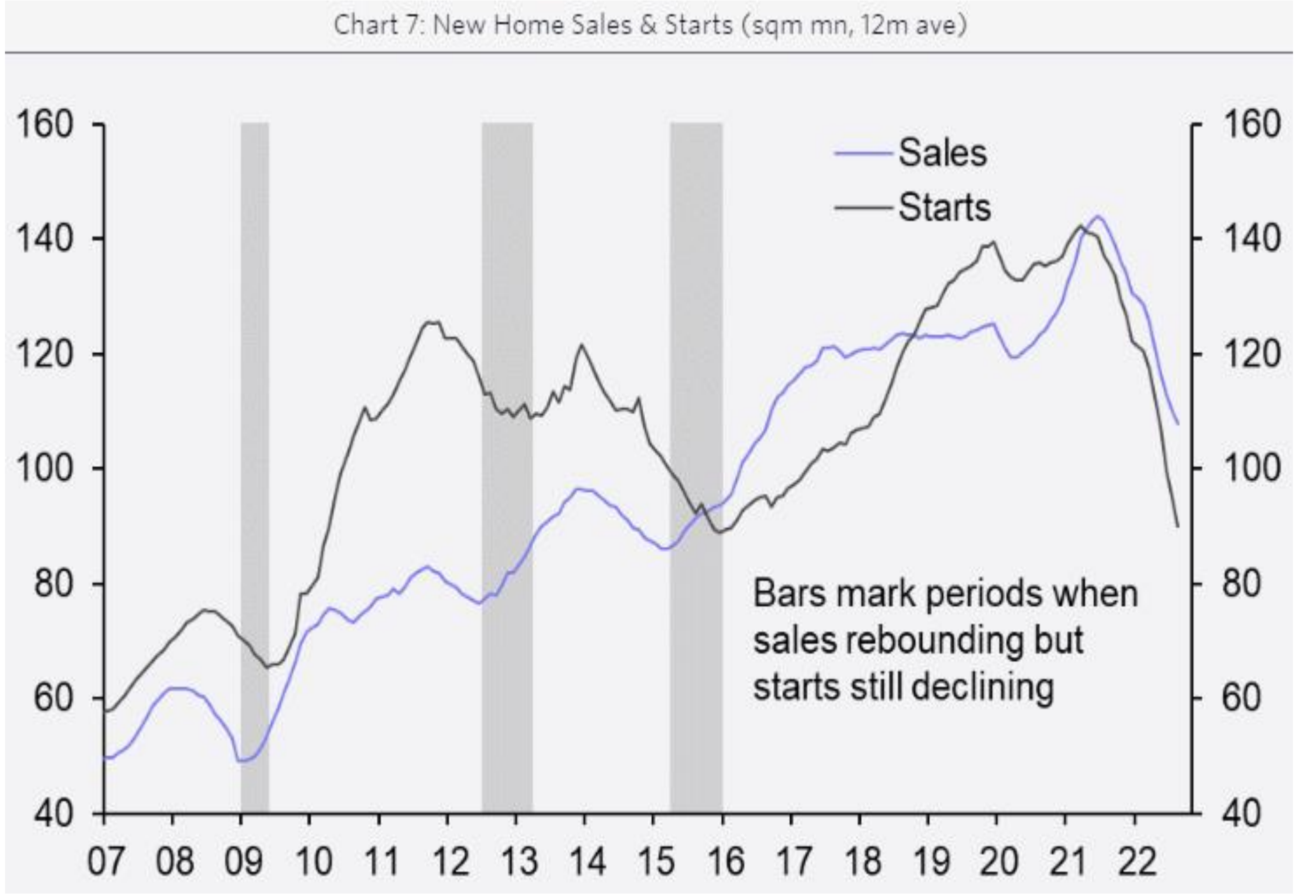
Fig. 5: Tourism trips and revenues are still way below pre-pandemic levels



Source: Goldman Sachs, Nomura

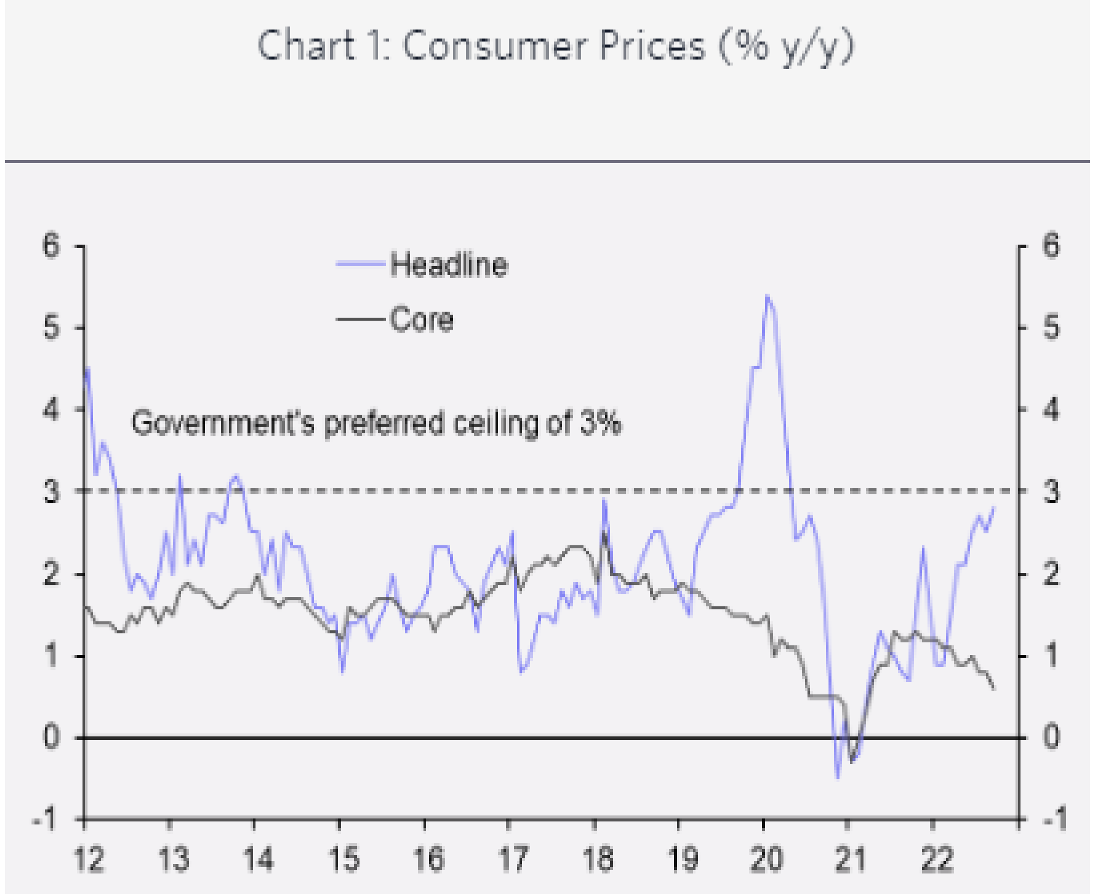
Chinese house prices, sales and starts all falling

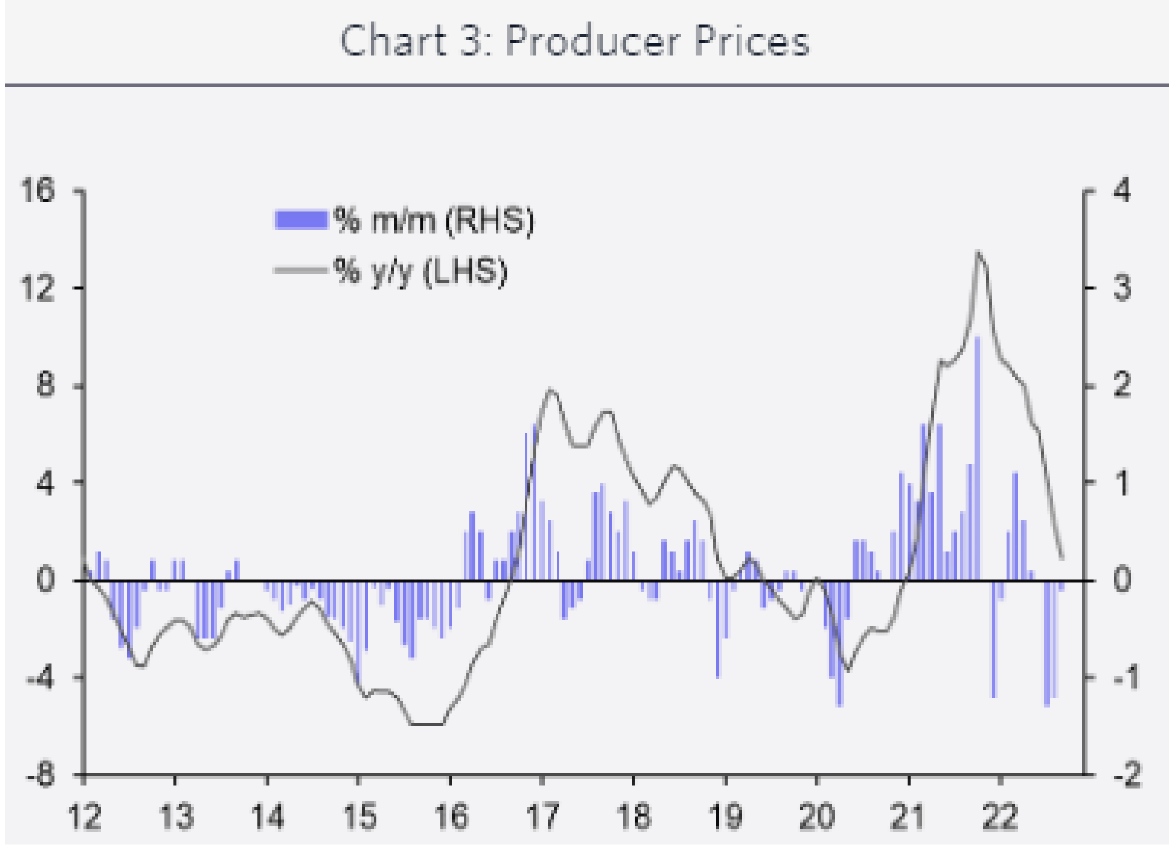




Source: Goldman Sachs, JP Morgan

China: Inflation remains low





Source: Capital Economics

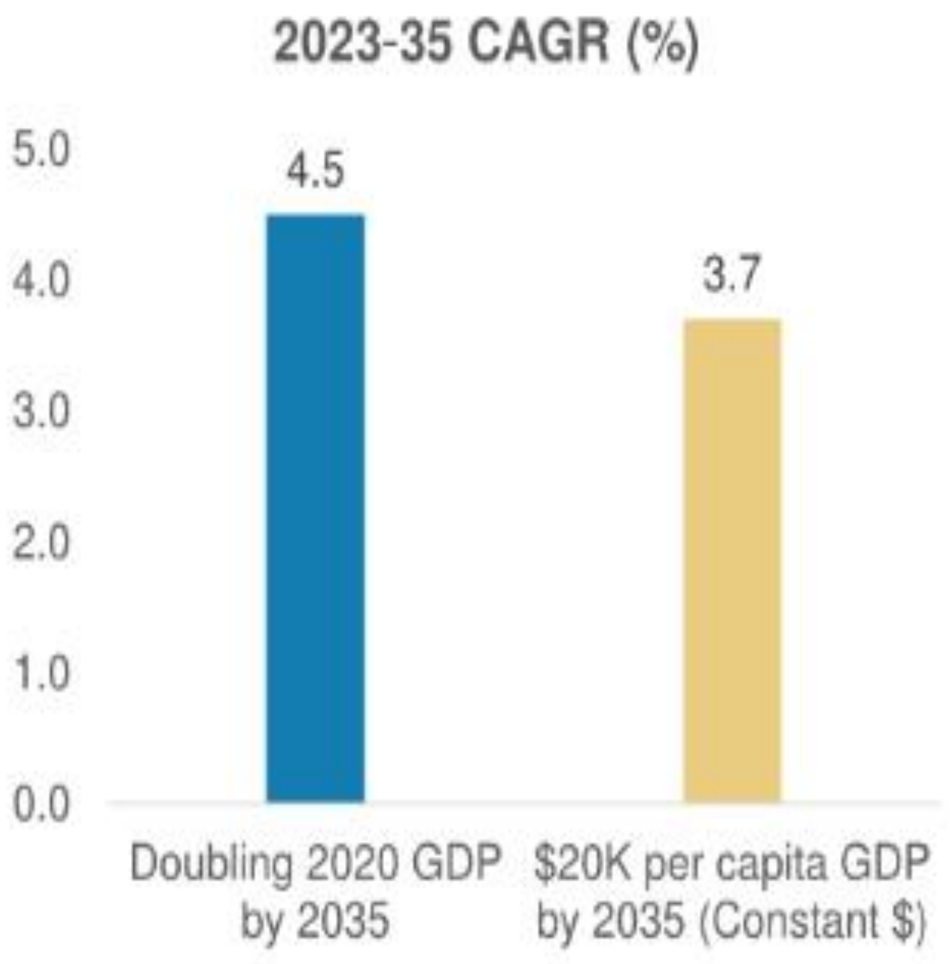
Development goals announced by Xi Jinping at the 20th Party Congress

Economic Development

- High-quality growth
- Progress in tech self-sufficiency
- Further opening-up to secure supply chains and the global market

Common Prosperity

- Align household income growth with economic growth
- Align wage growth with productivity growth
- Improve social benefit coverage across urban and rural population



Source: Morgan Stanley

China Q3 GDP growth above expectations but forecasts have been downgraded

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Figure 1: Summary of growth indicators

%yoy

	Q322	Q222	Q122	Q421	2021
Real GDP	3.9	0.4	4.8	4.0	8.1
Fixed asset investments (ytd)	5.9	6.1	9.3	4.9	4.9
Retail sales	3.5	-4.6	3.3	3.5	12.5

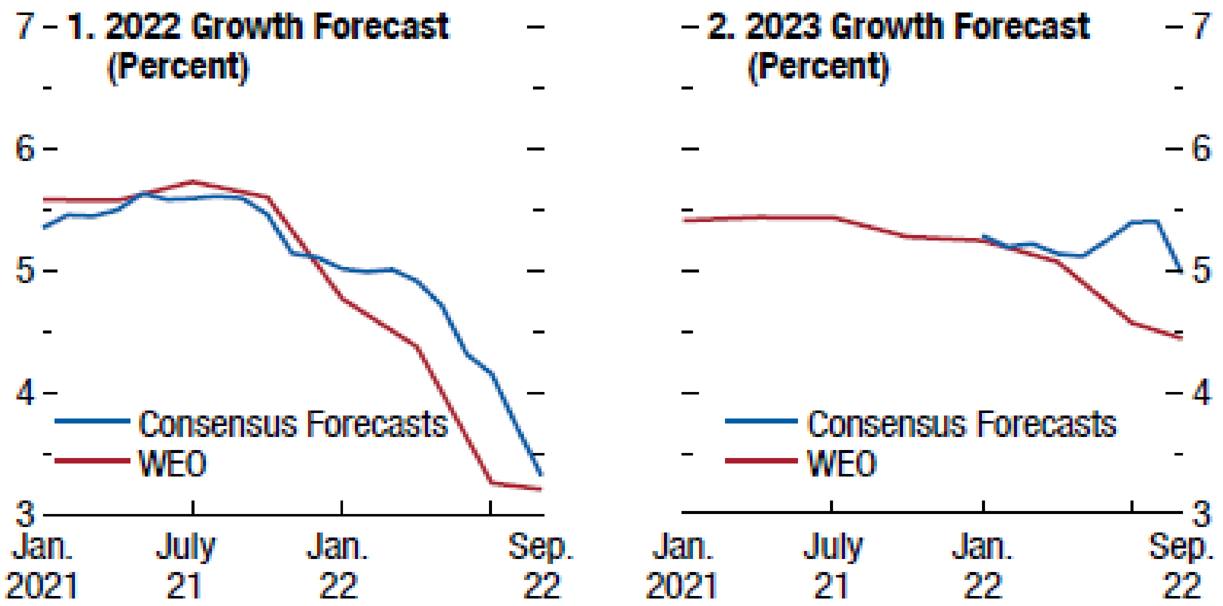
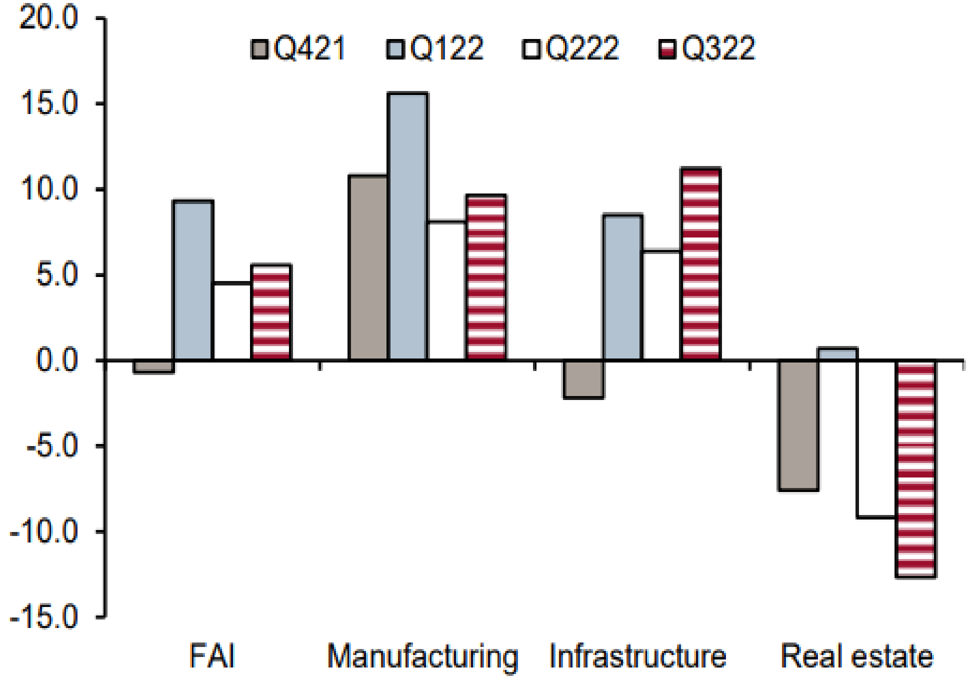


Figure 2: Quarterly growth rates of investment components

%yoy

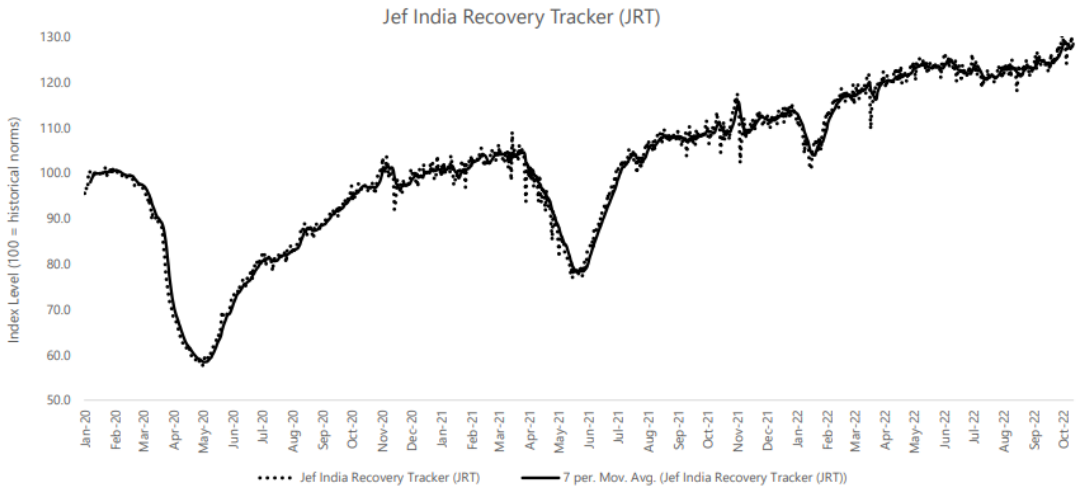


Source: Nomura, IMF World Economic Outlook

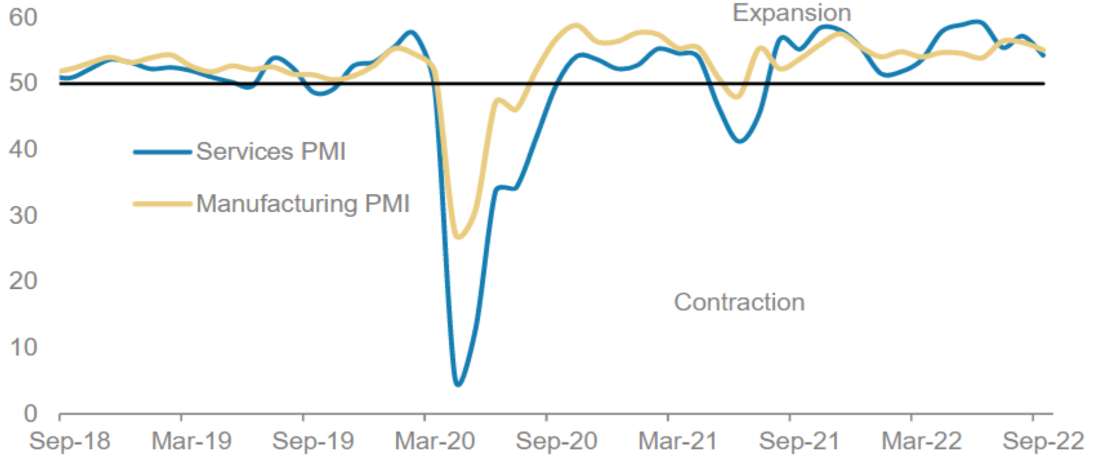
INDIA MACRO

Status of economic recovery evident in high frequency indicators…

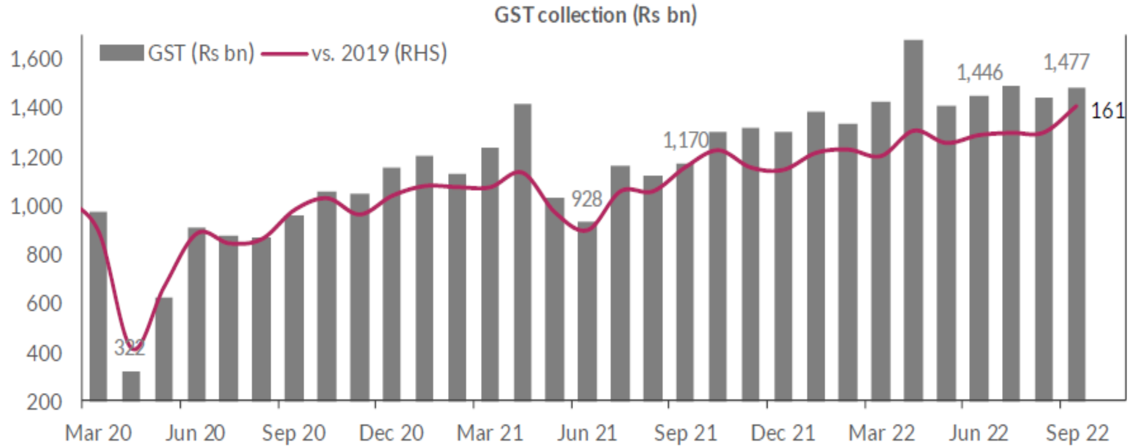
Jefferies India Recovery Tracker points towards strong underlying recovery



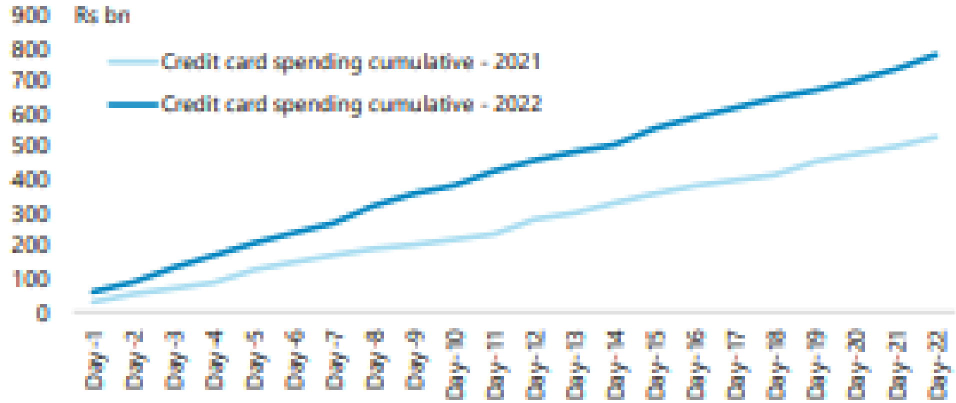
PMIs continue to be in expansionary zone



September GST Collections sees sequential rise in momentum



Credit Cards Spends (cumulative) from start of Navaratri up 46% YoY - strong demand pickup in the festive season



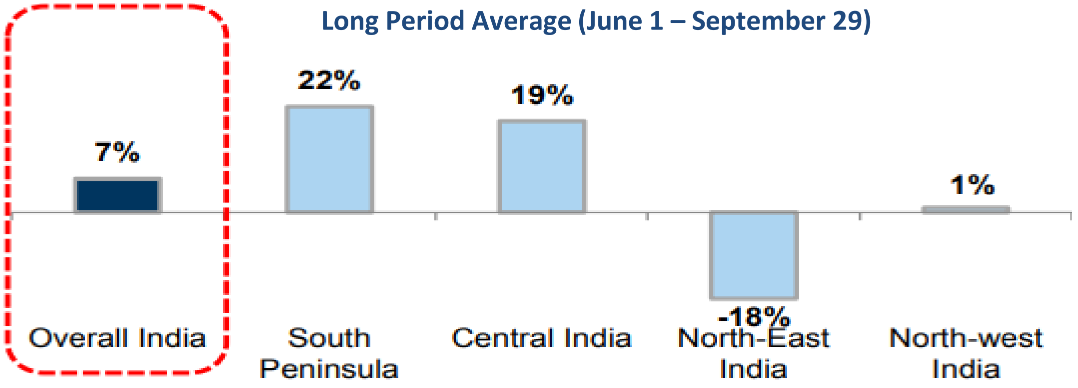
Source: AXIS, MS, Jefferies

Agri economy without major disruptions, Kharif production estimates tad below FY22

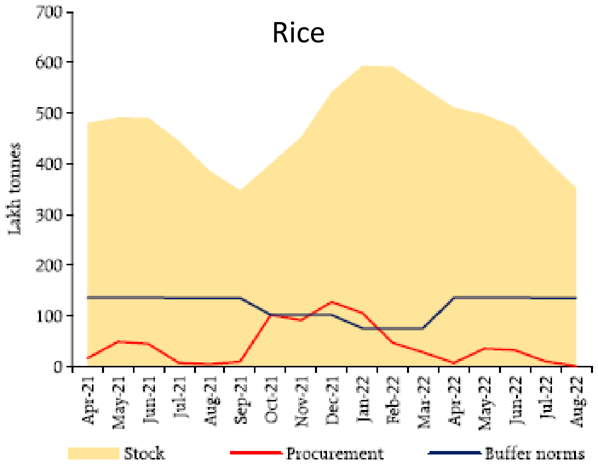
ADITYA BIRLA CAPITAL

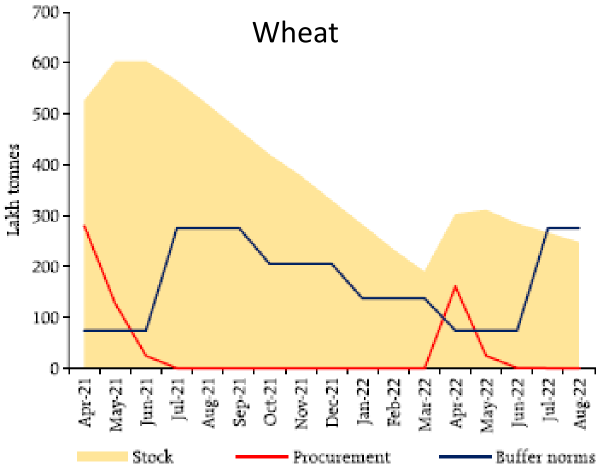
Cumulative rainfall above average, but some areas deficient in rains

Cumulative Rainfall Departure from Normal Long Period Average (June 1 – September 29)



Stock, Procurement & Buffer Norms –Rice comfortable, Wheat below buffer level





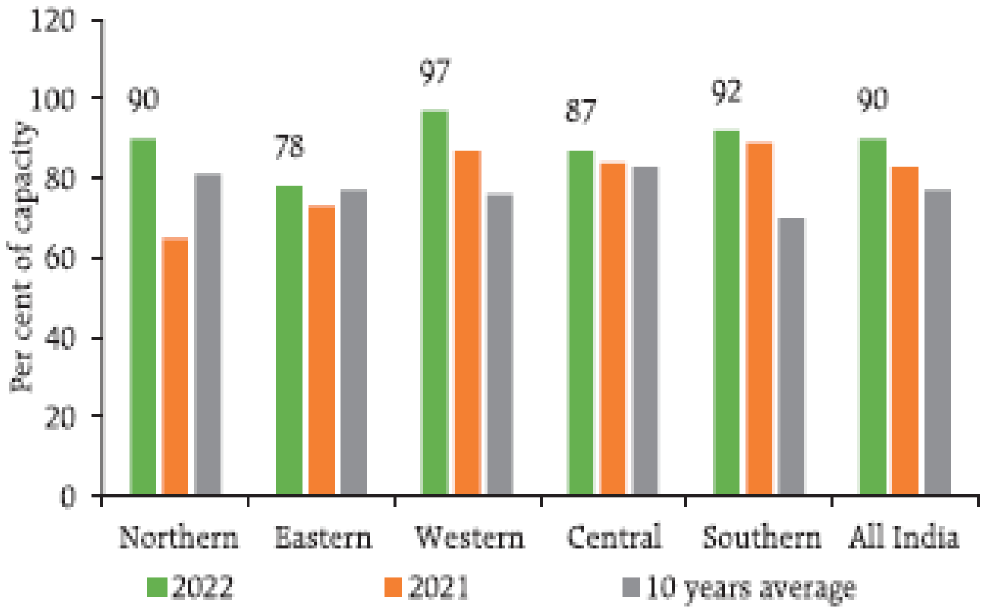
Uneven rainfall in rice producing areas causes rice production degrowth as per advance estimates

Crop	Kharif Season Production (MT)		Growth (%)
	2021-22 adv. est. (4th)	2022-23 adv. est. (1st)	
Foodgrains	156.0	149.9	-3.9
Rice	111.8	105.0	-6.1
Nutri/Coarse Cereals	35.9	36.6	1.8
- Jowar	1.6	1.7	6.3
- Bajra	9.6	9.8	1.4
- Maize	22.6	23.1	2.1
- Ragi	1.7	1.6	-5.9
- Small Millets	0.4	0.4	13.5
Pulses	8.4	8.4	0.0
- Tur	4.3	3.9	-10.4
- Urad	1.9	1.8	-5.2
- Moong	1.5	1.8	18.2
- Other Kharif Pulses	0.6	0.9	43.5
Oilseeds	23.9	23.6	-1.3
- Groundnut	8.4	8.4	-0.1
- Castor seed	1.6	1.5	-6.4
- Sesamum	0.8	0.6	-16.8
- Niger seed	0.0	0.0	-11.8
- Soyabean	13.0	12.9	-0.8
- Sunflower	0.1	0.1	25.0
Sugarcane	431.8	465.0	7.7
Cotton #	31.2	34.2	9.6
Jute & Mesta # #	10.3	10.1	-2.2

Source: AXIS, MS, RBI

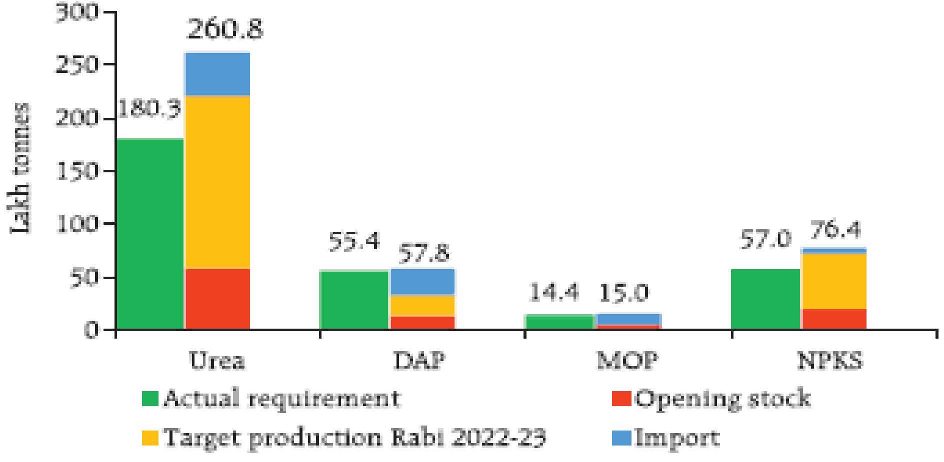
...With prospects for Rabi crop good

Good reservoir levels supportive for rabi crop prospects

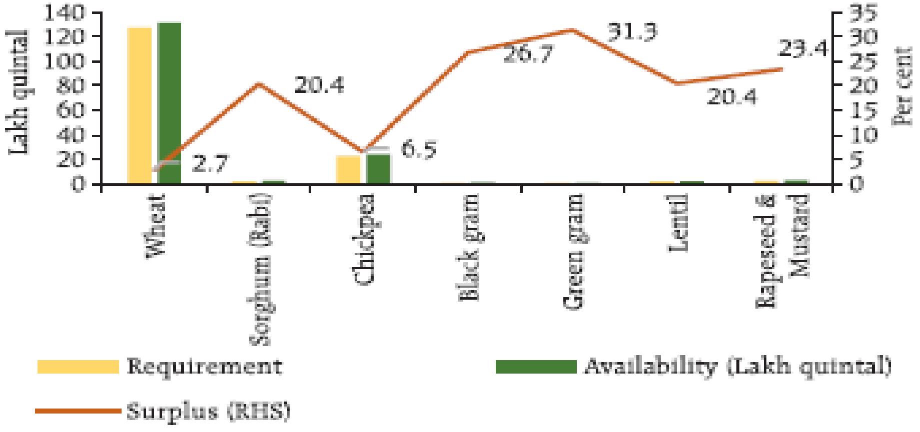


Reservoir levels as on Oct 13, 2022

Availability of fertilizers above requirement levels



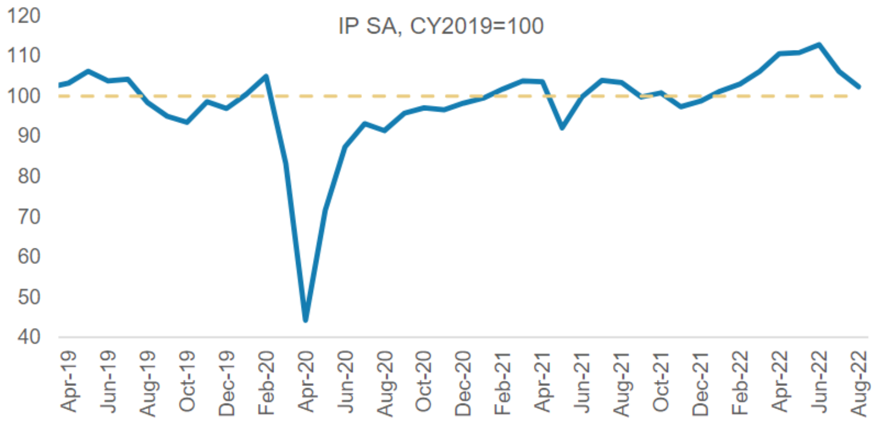
With surplus seed availability



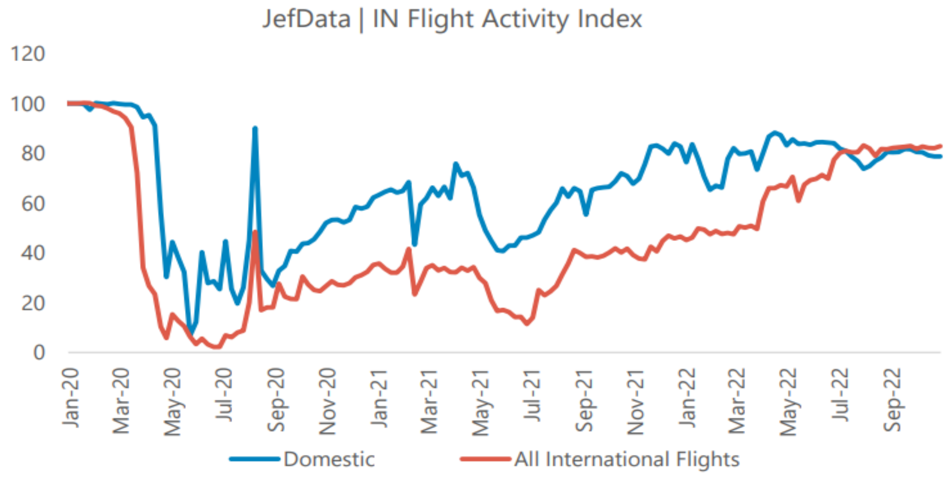
Source: RBI

However, it's a mixed recovery.

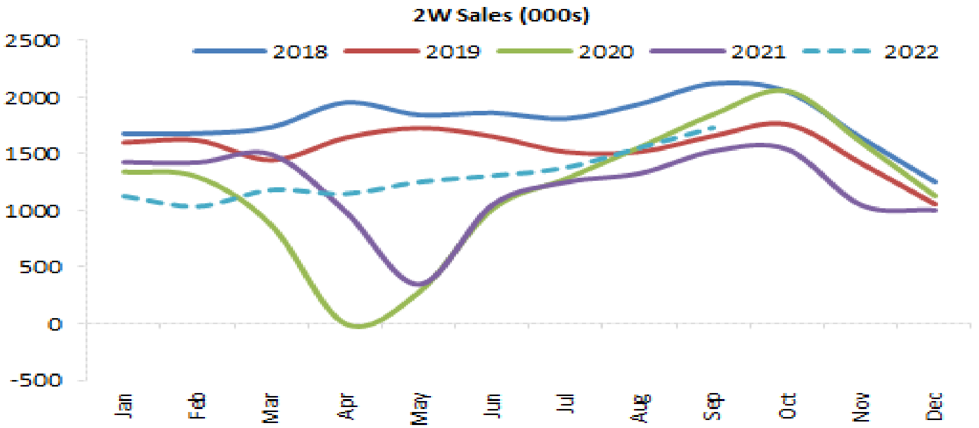
Industrial Production Index surprised to the downside



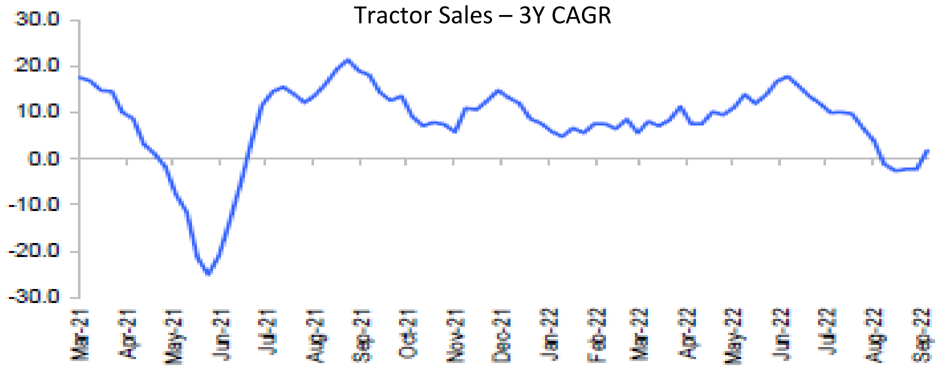
And flight traffic moderated at margins and remains below Pre-Covid Levels



While 2W registrations have been below 2019 levels but steadily improving

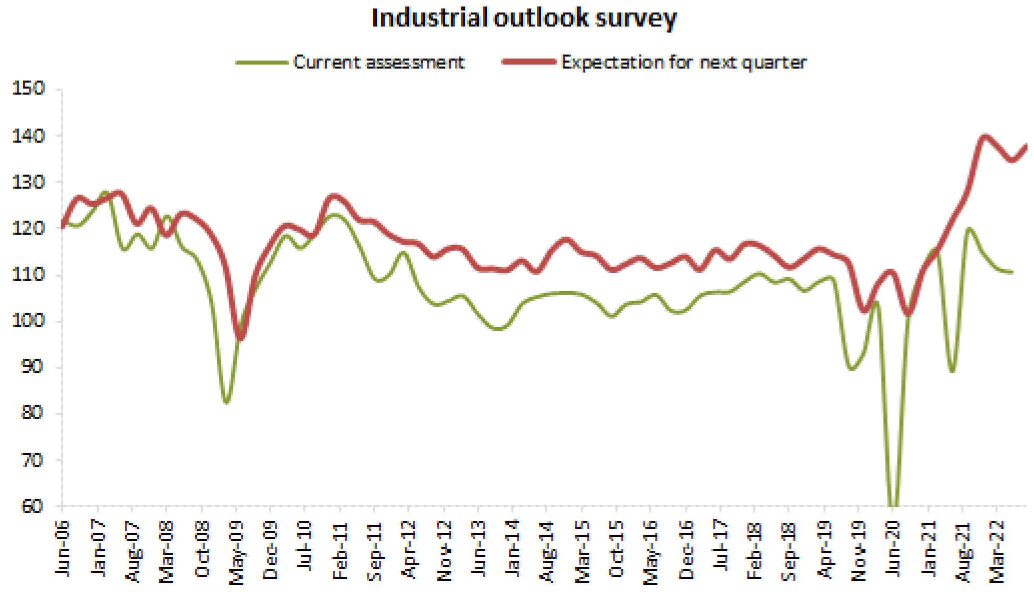


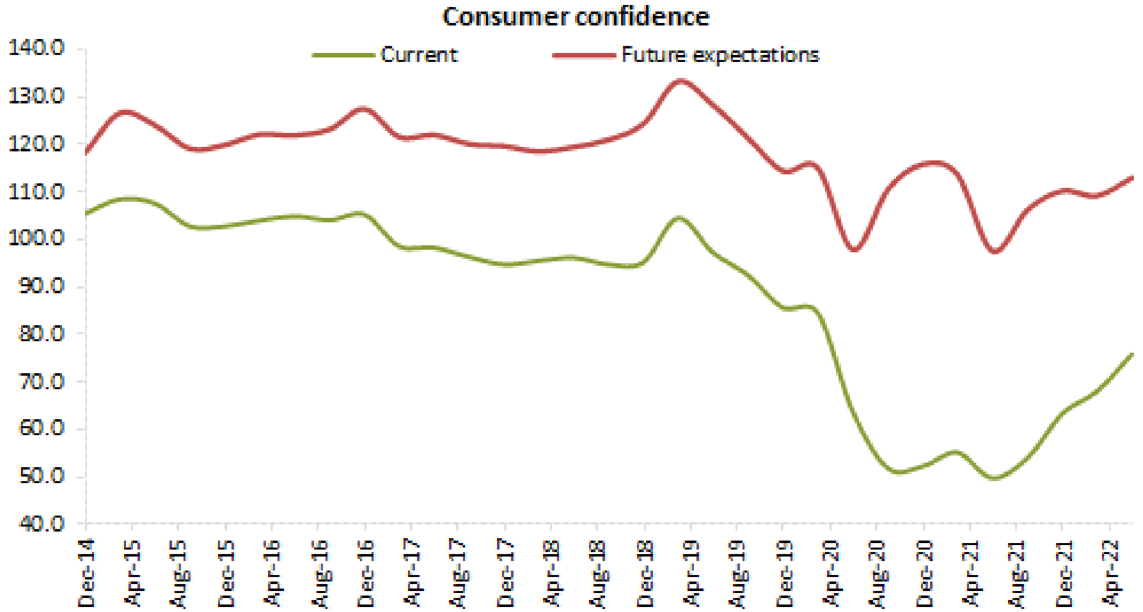
And tractor sales growth continue to remain subdued



Source: MS, JEFFERIES, ANTIQUE, CEIC, ABSLAMC Research

Industrial outlook is quite bullish, consumer confidence still low



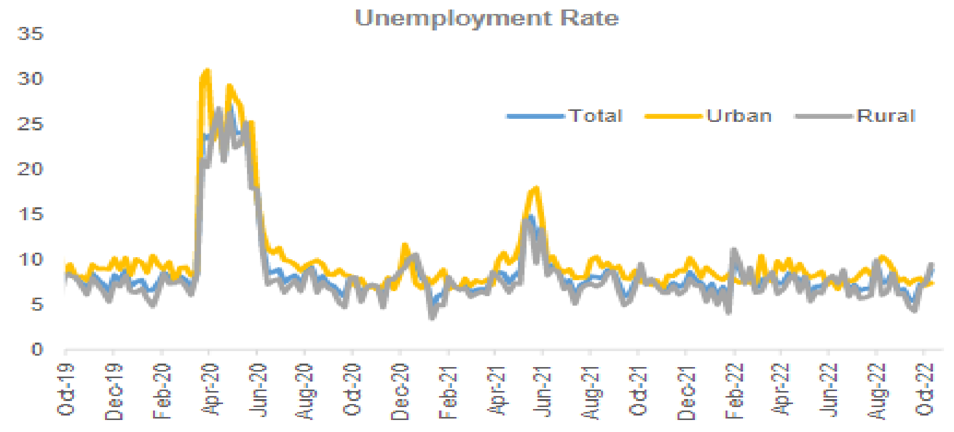


Source: RBI, ABSLAMC Research

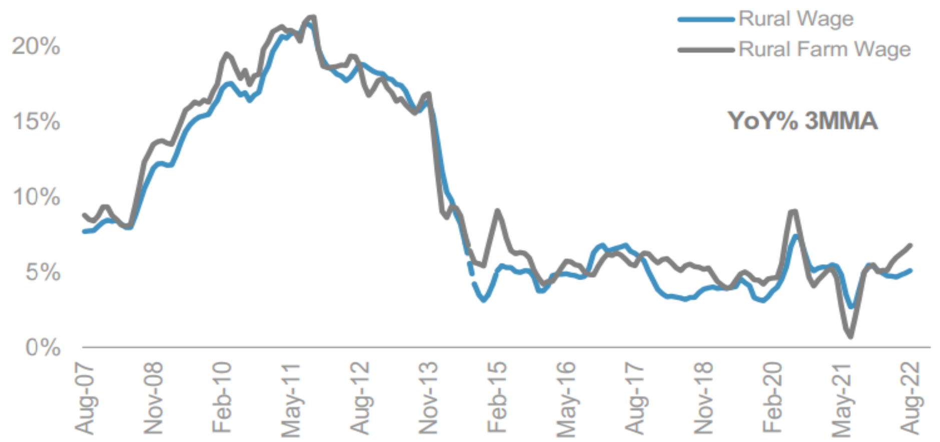
Labour market conditions steadily improving

ADITYA BIRLA CAPITAL

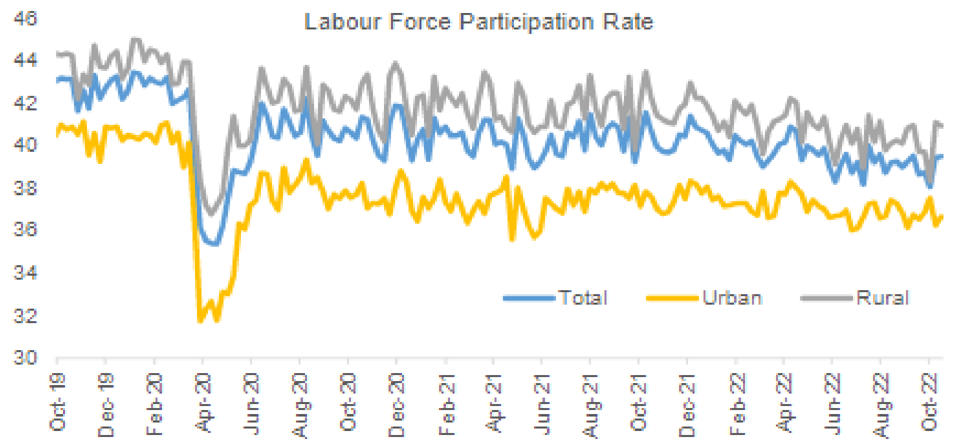
Unemployment rate near Pre-Covid levels



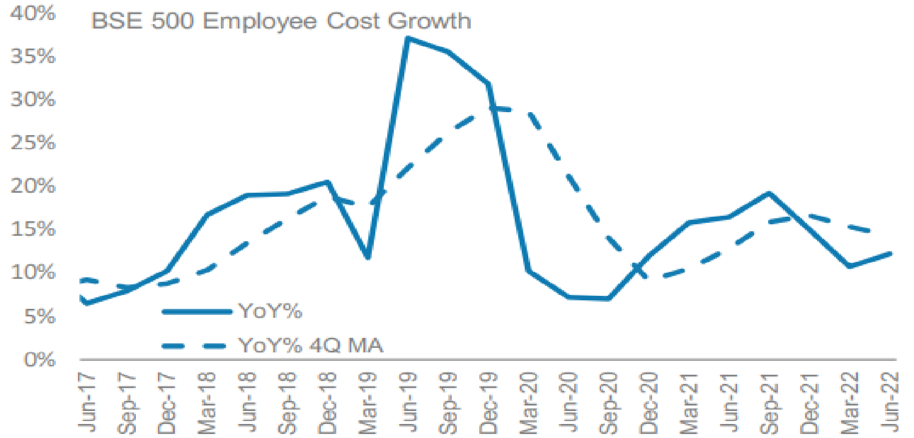
Rural Wage Growth remain range-bound, Rural Farm Wage picked up



Labour Force Participation Rate continues to track below pandemic levels

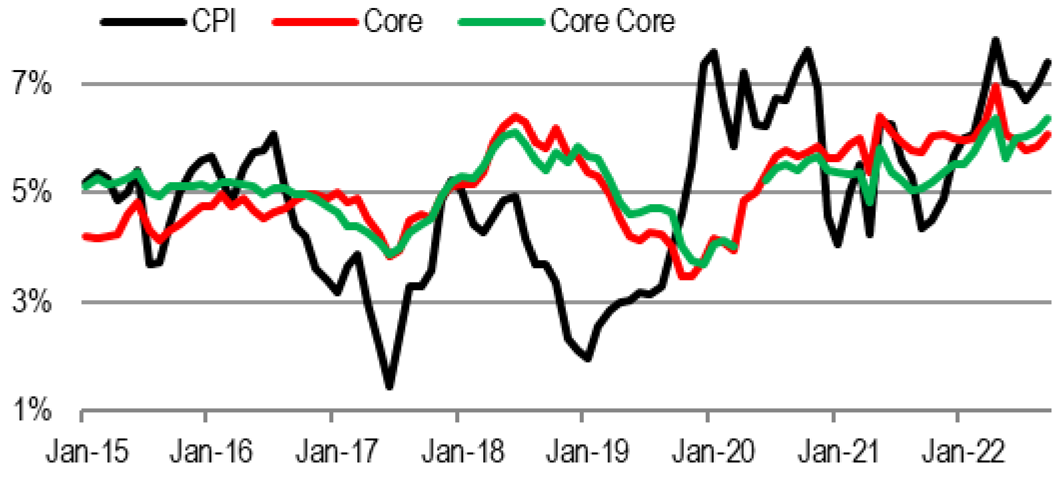


Robust growth trend in quarterly proxy data being tracked

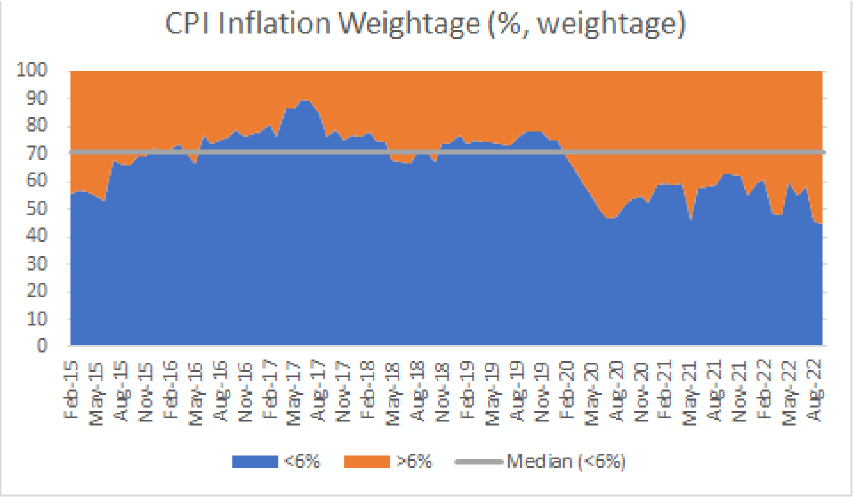


Source: MS, CMIE, RBI Labour Bureau, Capitaline

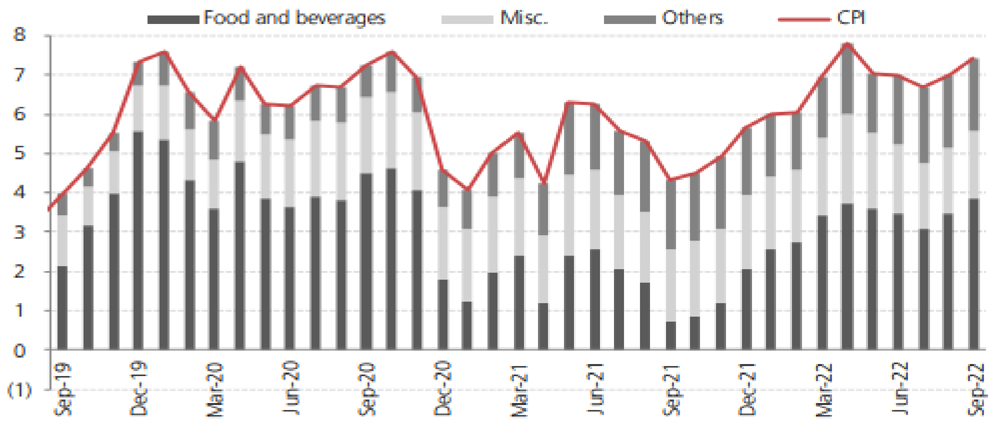
Headline CPI rose to 7.4% in September



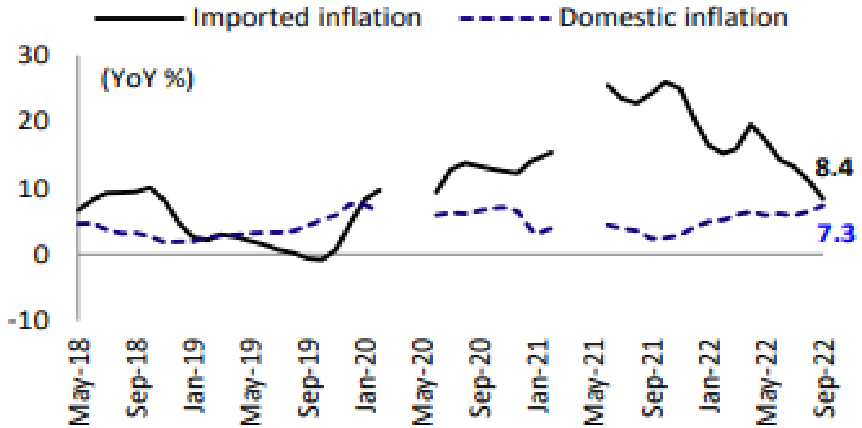
With majority of the basket still exhibiting high inflation



Food inflation led the rise in September headline inflation



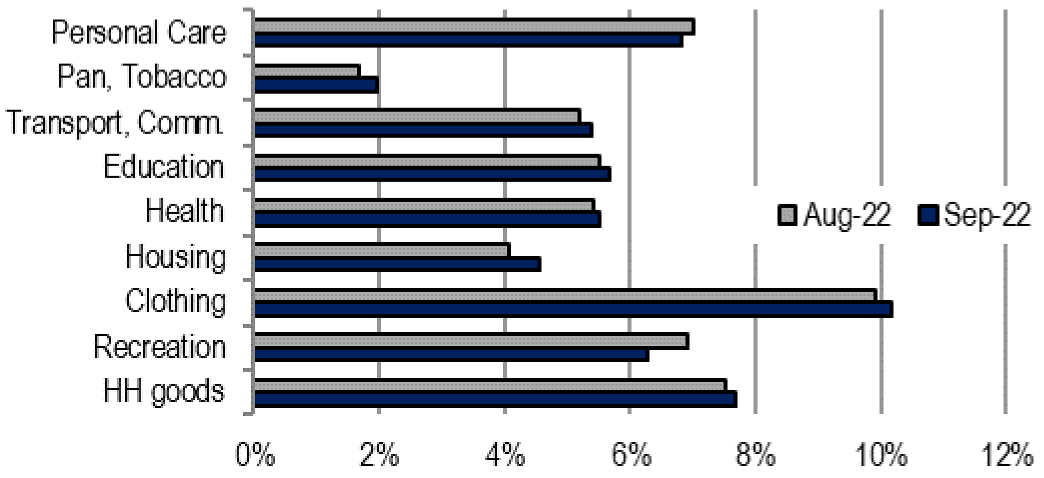
Imported inflation decelerated, while domestic inflation reared its head



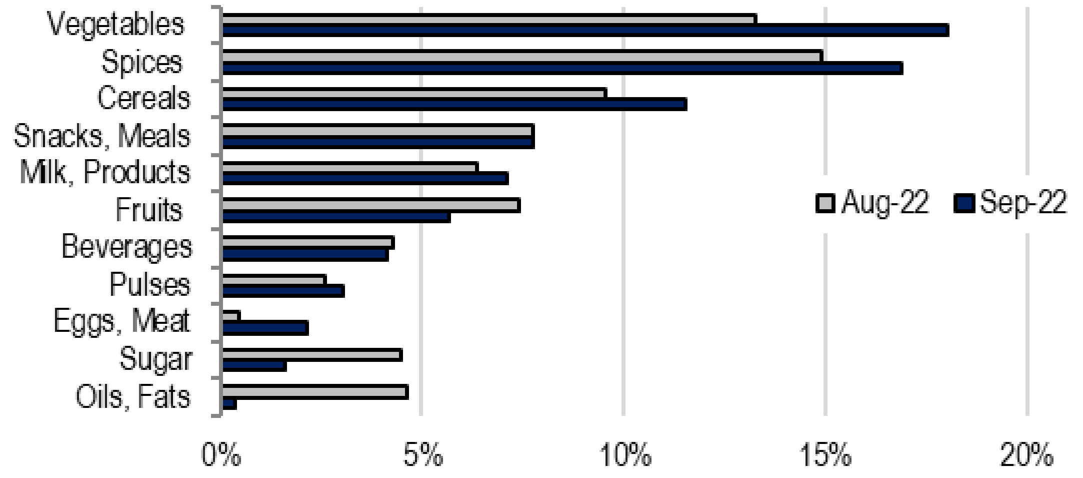
CPI rise driven by domestic factors in this print, gradual fall in WPI being witnessed

ADITYA BIRLA CAPITAL

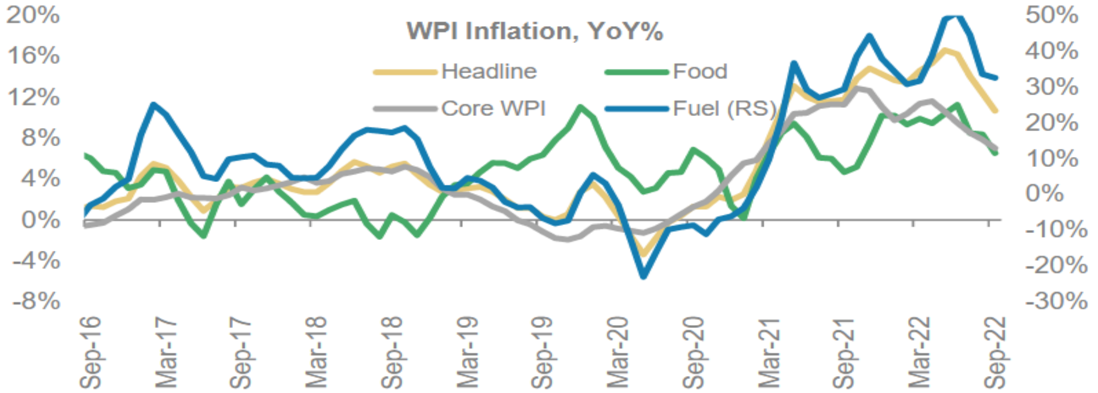
Core CPI rose mainly due to Housing



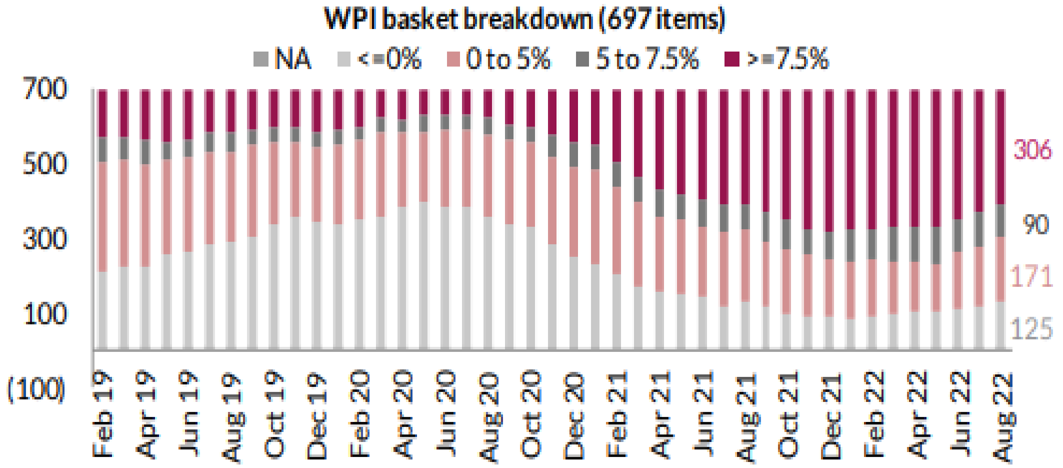
Sharp increase witnessed in cereals, veggies, spices



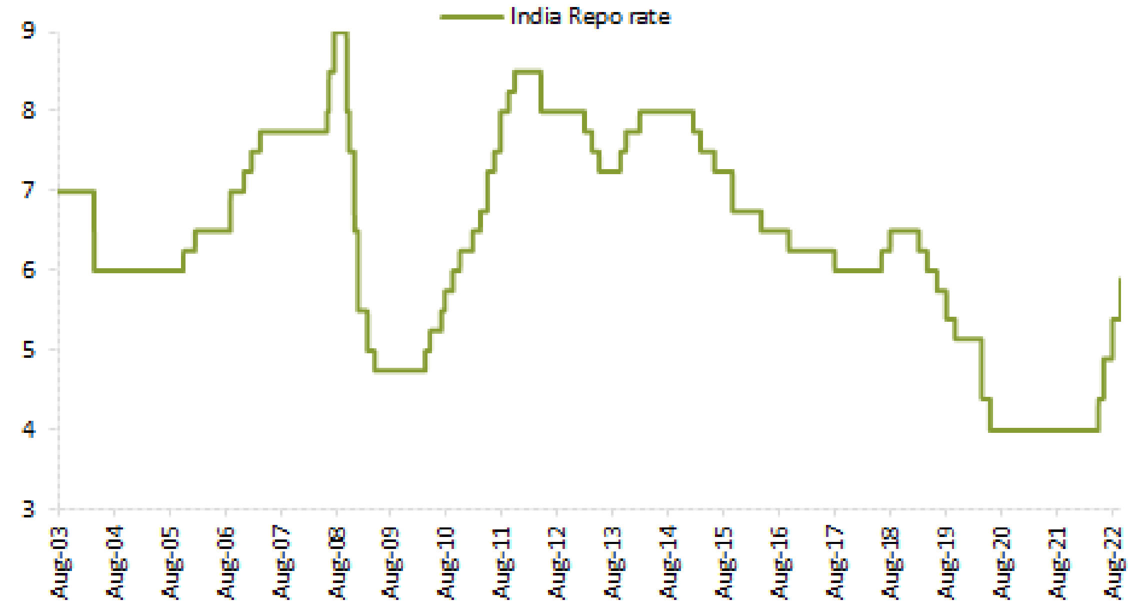
WPI Inflation softened to 18-month low of 10.7%YoY in Sep from 12.45% YoY in August driven by reduced impact from fuels and manufactured items



High inflation items in WPI basket are gradually falling every print



While RBI continued its journey of steep rate hikes to combat inflation



	GDP Forecast			Inflation Forecast		
		Sep'22	Aug'22		Sep'22	Aug'22
Actual	1QFY23	13.5	16.2	1QFY23		
	2QFY23	6.3	6.2	2QFY23	7.1	7.1
	3QFY23	4.6	4.1	3QFY23	6.5	6.4
	4QFY23	4.6	4.0	4QFY23	5.8	5.8
	FY23	7.0	7.2	FY23	6.7	6.7
	1QFY24	7.2	6.7	1QFY24	5.0	5.0

$100 in H2 FY23 (Indian basket)

broadly balanced

evenly balanced

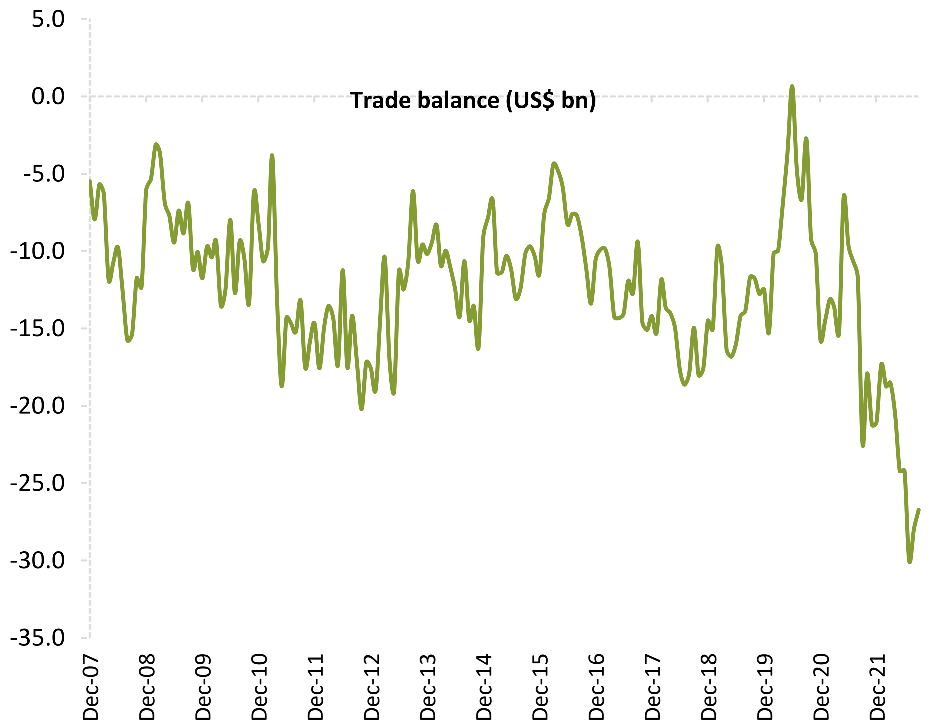
Weak exports and steady elevated imports leading to worsening trade deficit

ADITYA BIRLA CAPITAL

Exports have been weak in recent months, NONG exports largely flat
Imports have remained steady at elevated levels

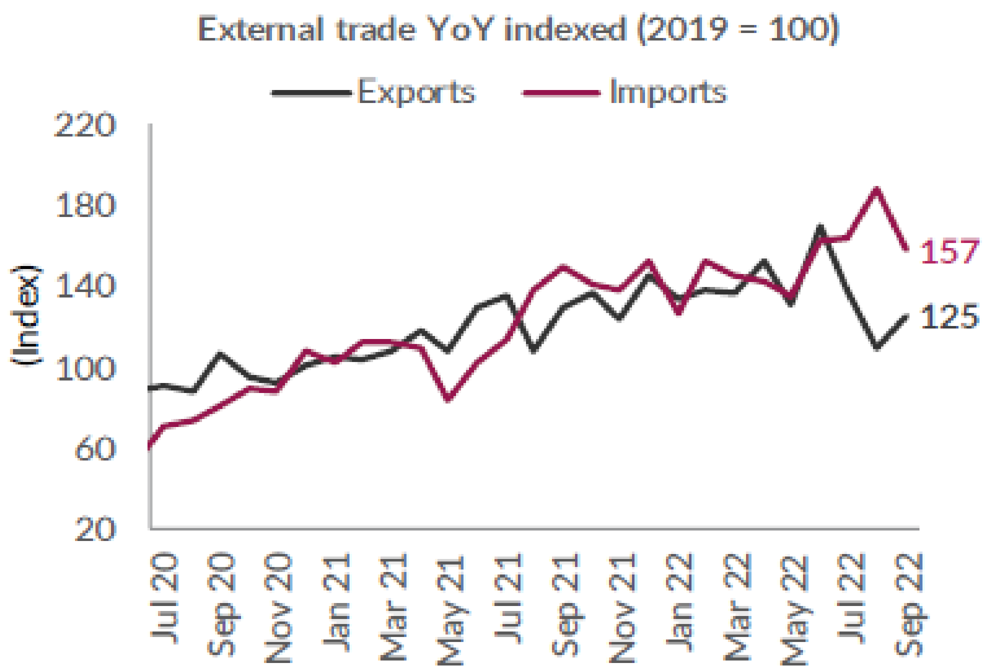
US$ bn	Exports	Imports	Trade balance	Oil Exports	Oil Imports	Net Oil	Gold imports	Non-oil, Non-gold imports	Non-oil exports	Non-Oil trade balance	NONG trade balance
09-2022	32.6	59.4	-26.7	6.1	15.6	9.5	3.7	40.1	26.5	-17.2	-13.6
08-2022	33.9	61.9	-28.0	5.7	17.7	12.0	3.6	40.6	28.2	-16.0	-12.4
07-2022	36.3	66.3	-30.0	6.4	21.1	14.8	2.4	42.8	29.9	-15.2	-12.9
06-2022	42.4	66.6	-24.2	10.7	21.6	10.9	2.7	42.3	31.7	-13.3	-10.6
05-2022	39.1	63.3	-24.2	8.5	19.2	10.7	6.0	38.0	30.5	-13.5	-7.5
04-2022	39.7	60.3	-20.6	7.9	20.1	12.2	1.7	38.4	31.8	-8.3	-6.6
03-2022	44.6	63.1	-18.5	9.8	21.1	11.3	1.0	40.9	34.8	-7.2	-6.1
02-2022	37.2	55.9	-18.7	6.9	15.8	8.9	4.8	35.4	30.3	-9.9	-5.1
01-2022	35.2	52.6	-17.3	4.6	12.4	7.8	2.4	37.8	30.7	-9.6	-7.2
12-2021	39.3	60.3	-21.1	6.8	16.5	9.7	4.7	39.1	32.5	-11.3	-6.6
11-2021	31.8	53.0	-21.2	5.5	14.2	8.7	4.2	34.6	26.3	-12.5	-8.3
10-2021	35.7	53.6	-17.9	5.4	12.3	6.9	5.1	36.3	30.4	-11.0	-5.9
09-2021	33.8	56.3	-22.5	5.2	16.8	11.6	5.1	34.4	28.6	-10.9	-5.8
08-2021	33.4	45.1	-11.7	4.7	9.4	4.8	6.7	28.9	28.7	-6.9	-0.2
07-2021	35.5	46.1	-10.6	5.8	12.4	6.6	4.2	29.5	29.7	-4.1	0.1
06-2021	32.5	42.1	-9.6	4.0	10.7	6.7	1.0	30.5	28.5	-2.9	-1.9
05-2021	32.3	38.8	-6.5	5.3	9.5	4.2	0.7	28.7	27.0	-2.4	-1.7
04-2021	30.8	46.0	-15.3	3.6	10.8	7.1	6.2	29.0	27.1	-8.2	-1.9
03-2021	35.3	48.9	-13.6	3.6	10.3	6.7	8.5	30.1	31.6	-7.0	1.5
02-2021	27.6	40.7	-13.1	2.5	9.0	6.6	5.3	26.4	25.2	-6.6	-1.3
01-2021	27.5	42.0	-14.5	2.1	9.4	7.3	4.0	28.6	25.4	-7.2	-3.2
12-2020	27.2	42.9	-15.7	2.3	9.6	7.3	4.5	28.8	24.9	-8.4	-3.9
11-2020	23.6	33.8	-10.2	1.6	6.3	4.8	3.0	24.5	22.1	-5.4	-2.4
10-2020	24.9	34.1	-9.2	1.6	6.0	4.4	2.5	25.6	23.4	-4.7	-2.2
09-2020	27.6	30.3	-2.7	3.6	5.8	2.2	0.6	23.9	24.0	-0.5	0.1

Trade deficit has been hit due to external factors

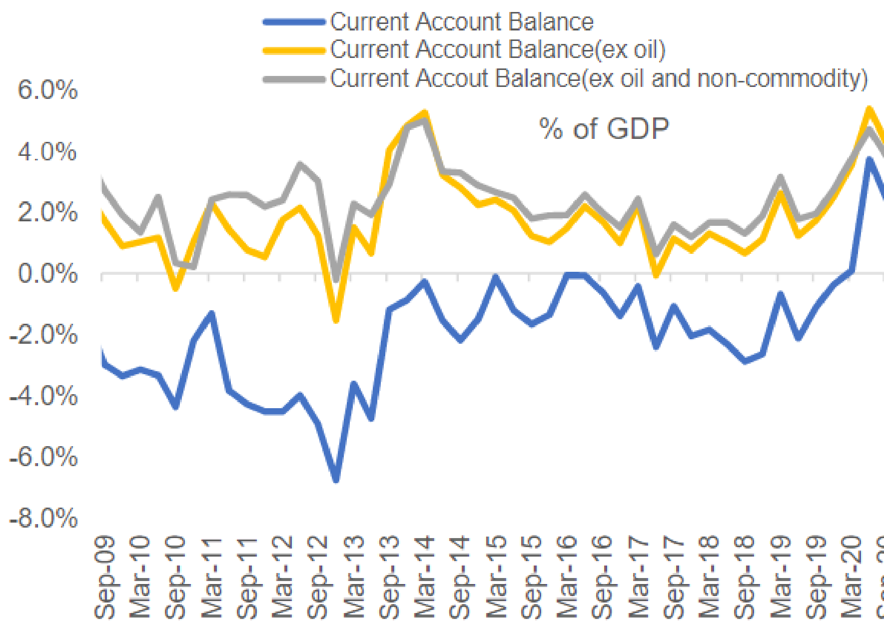


...Widening trade gap leading to higher CAD

Widening gap in trade momentum



Current Account Balance seen widening further

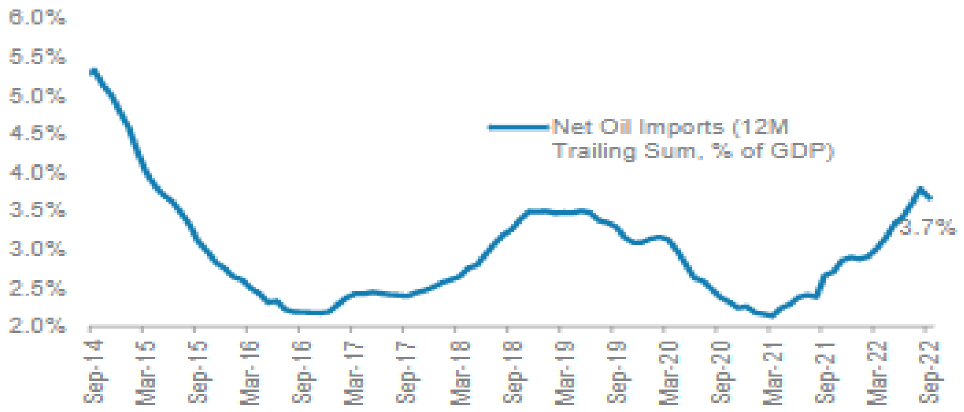


Source: MS, Axis

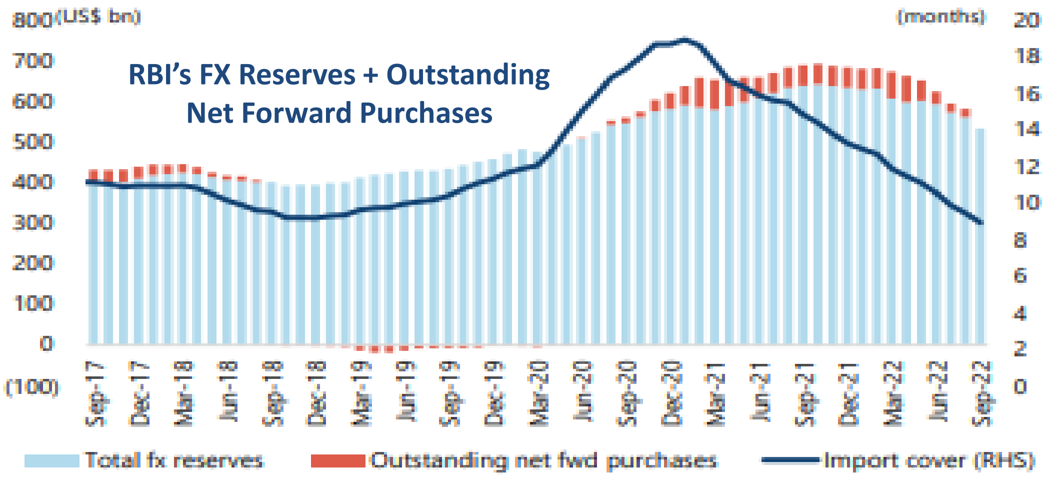
Import dependence on crude at elevated prices forced FX reserves to come off peaks

ADITYA BIRLA CAPITAL

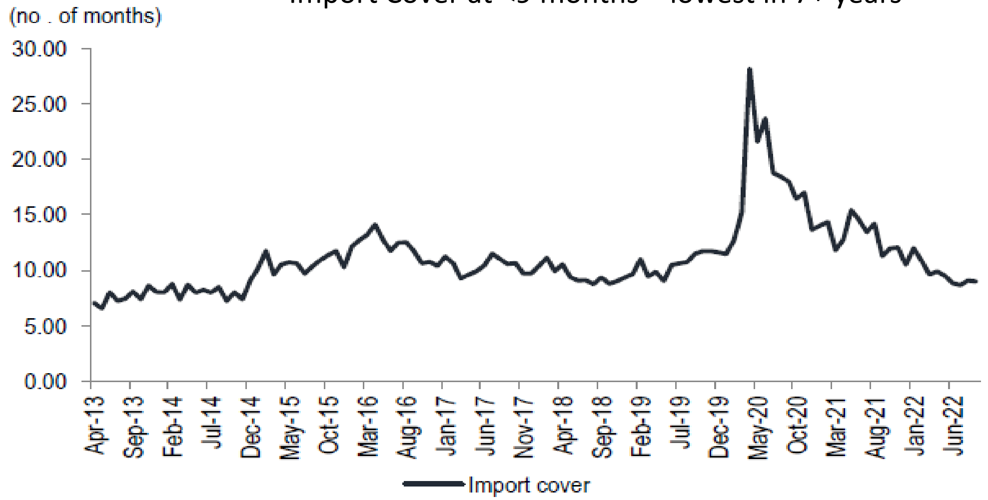
Elevated crude prices and energy import dependence distorting country's external balances



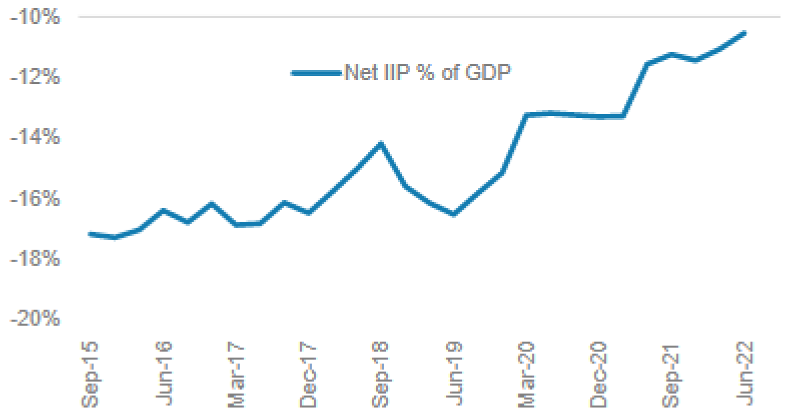
FX reserves have come off peak levels, import cover falls to ~9 months



Import Cover at <9 months – lowest in 7+ years



Net International Investment Position (as % of GDP)



Source: UBS, HSBC, JEFFERIES

Prudent FX reserves drawdown has eased volatility and supported FX

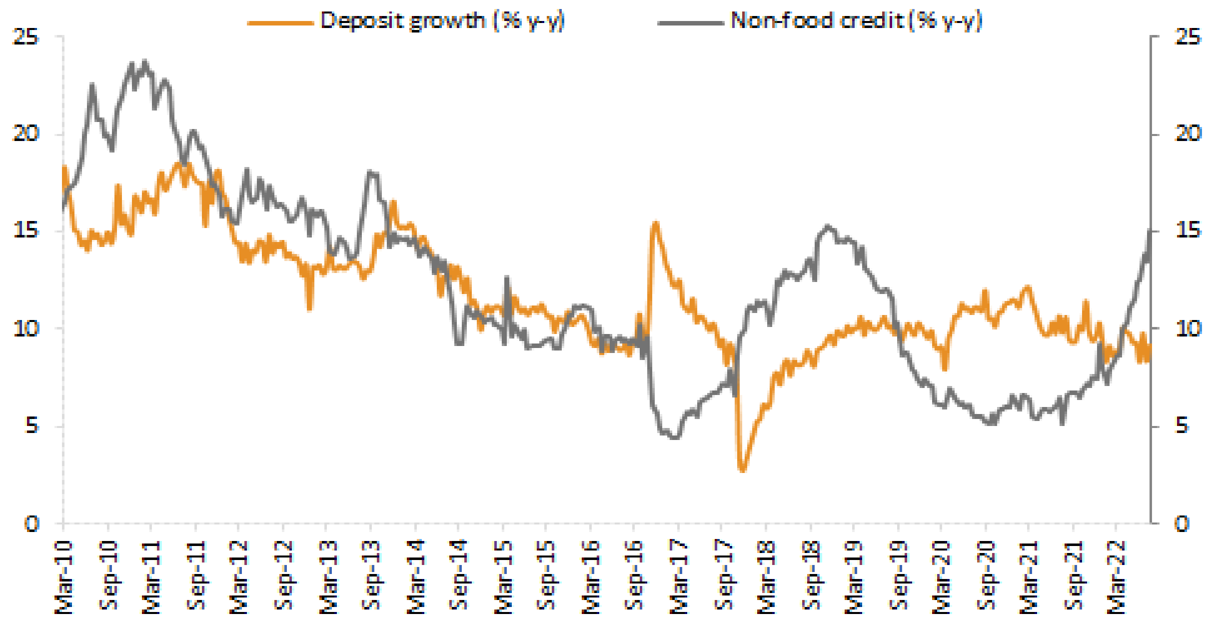
While USD has strengthened majorly this year, INR has been relatively well behaved and has depreciated to a lesser extent vs USD

Data as on 31th October 2022

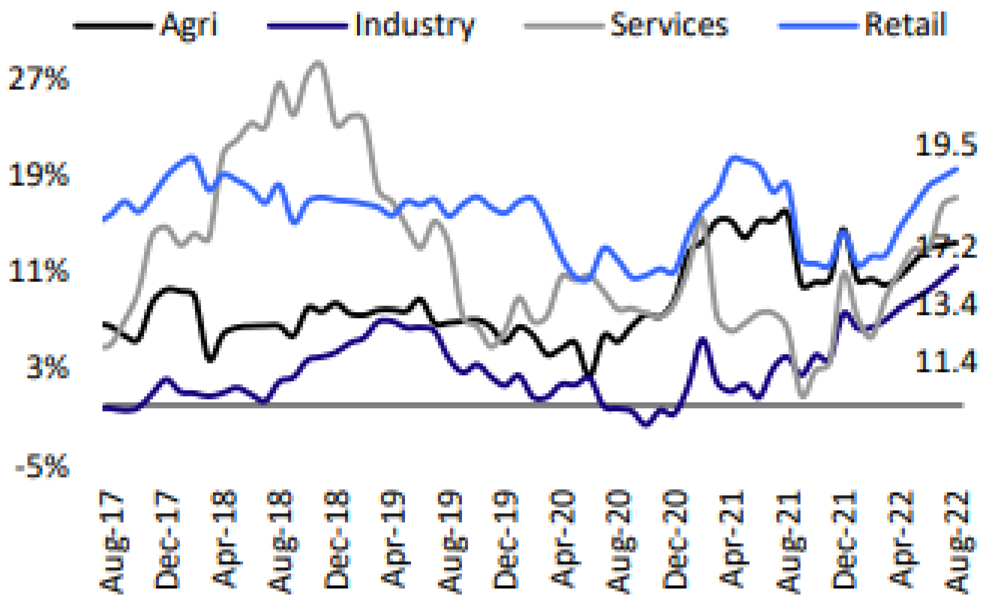
Credit growth picked up across segments

ADITYA BIRLA CAPITAL

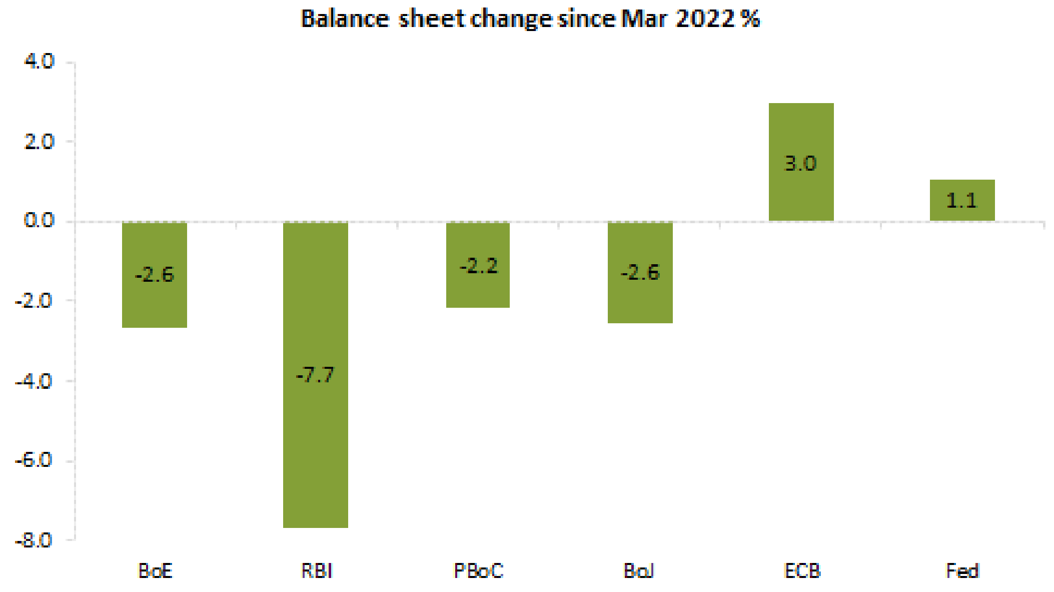
Bank Credit growth improved to 17.9% YoY, deposit growth improved towards 9.6% YoY

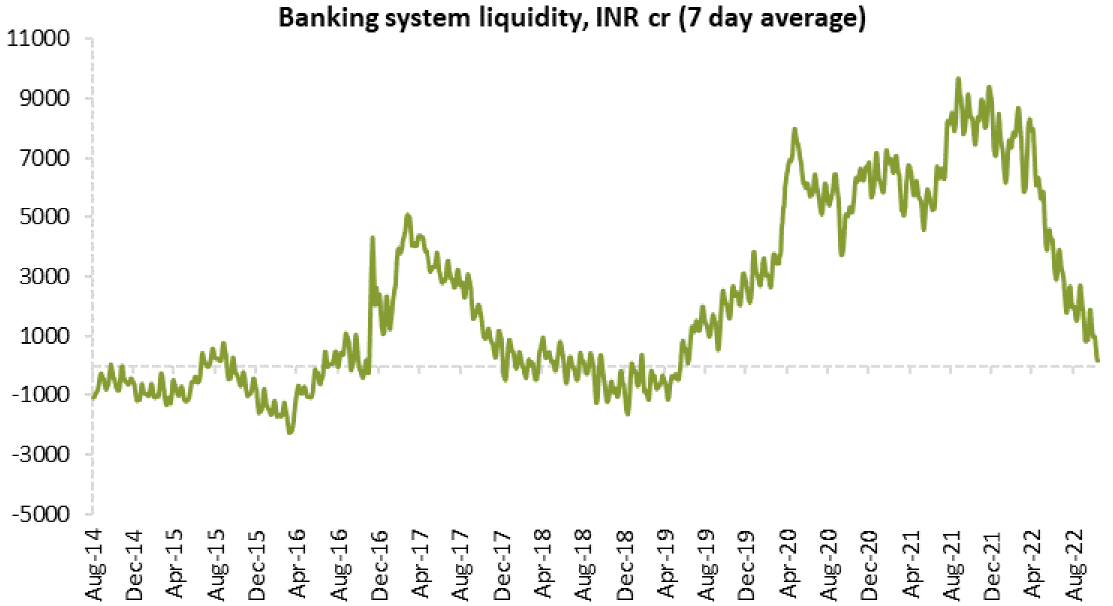


Credit Growth picked up across segments – Agri (13.4% YoY), Retail (19.5% YoY), Industrials (13.4% YoY), Services (17.2% YoY)



...while RBI continues removal of liquidity and balance sheet reduction





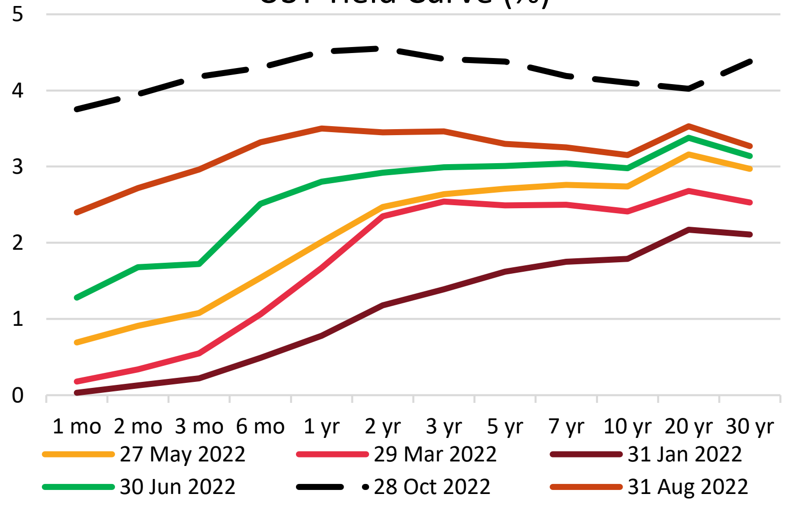
Source: CEIC, Bloomberg, ABSLAMC Research

GLOBAL BOND MARKETS

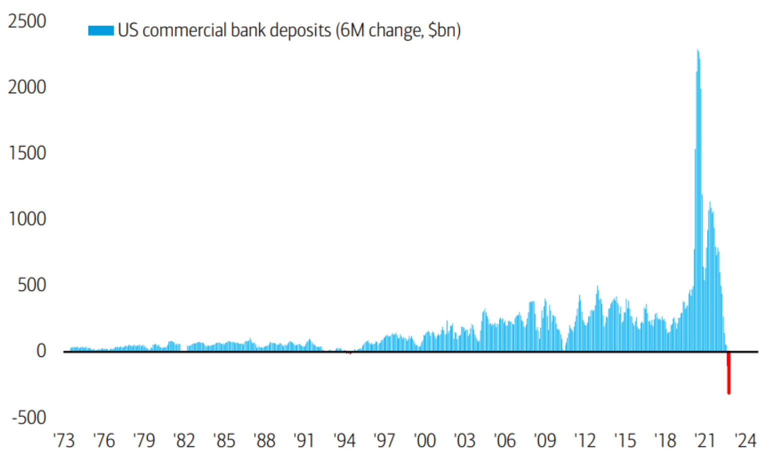
Rotation to T-bills as Terminal FFR futures flirting with 5%

- UST 2yr of ~4.5% at 280bps premium over SPX dividend and FFR terminal rate expected to touch 5% in 1H23, rotation into T-bills underway as indicated by collapse in US bank deposits
- As global Central Banks continue to withdraw monetary support to the economy the stock of negative yielding debt has collapse, which is a huge deterrent for EM flows as investors now see attractive yields in DM (US HY > 9%)

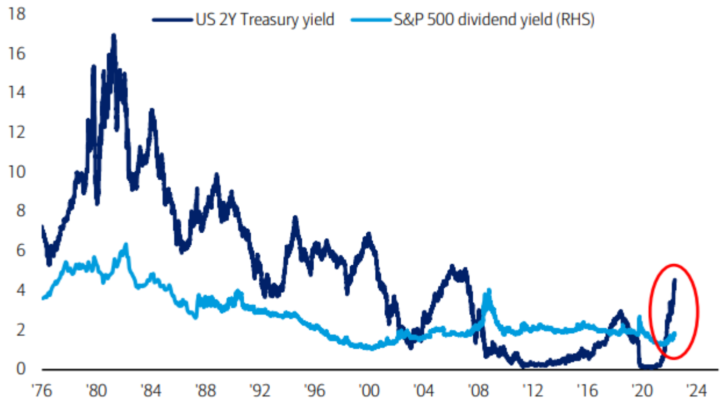
UST Yield Curve (%)



Disorderly drop in bank deposits
US commercial bank deposits (6M change, $bn)

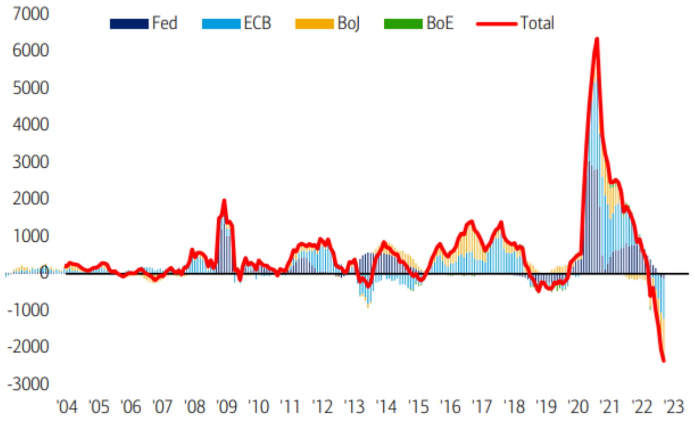


UST 2Y yield now 280bp higher than SPX dividend yield
US 2Y Treasury Yield and S&P500 dividend yield



Stock of negatively yielding debt has collapsed to $1.4tn
Global negatively yielding debt ($bn)

Quantitative Tightening to Quantitative Tinkering
G4 Central Bank balance sheet (12M change, $bn)



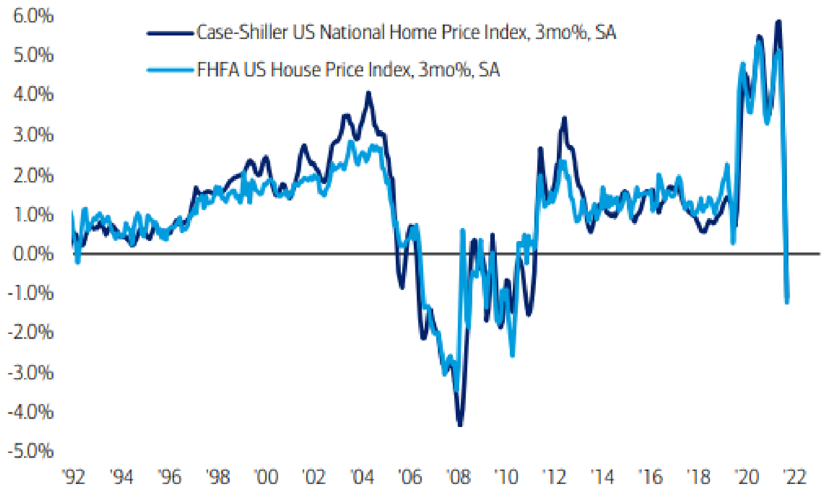
Fed Pivot some distance away, but triggers emerging

ADITYA BIRLA CAPITAL

Only two metrics at levels normally seen when Fed panics/pivots/eases after market/macro pain...volatility
Fed capitulation watch

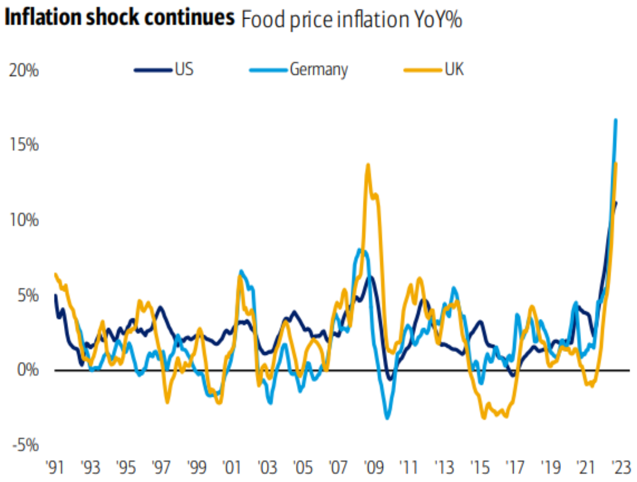
	Dotcom Dec'00-Dec'01	GFC Aug'07 - Mar'09	Euro Debt Crisis Jul'11-Apr'12	Trade War (Feb'18-Jan'19)	COVID Mar-Apr'20	Today	Fed Pivot to Rate Cuts?
Initial unemployment claims (000s)	517	665	409	241	5,946	228	X
US unemployment rate (%)	4.2	8.3	9.1	4.2	13.0	3.6	X
ISM manufacturing PMI	40.8	34.5	51.4	54.9	41.6	50.9	X
CPI core y/y, NSA (%)	2.8	2.5	2.3	2.4	2.1	6.6	X
US IG credit spreads (bp)	204	622	266	266	401	171	X
US HY credit spreads (bp)	1,025	2,147	894	894	1,087	531	X
CBOE Volatility Index (VIX)	33.6	59.9	43.0	25.4	53.5	31.9	✓
ICE BofA MOVE Index	138.9	214.0	107.2	66.6	83.9	160.7	✓

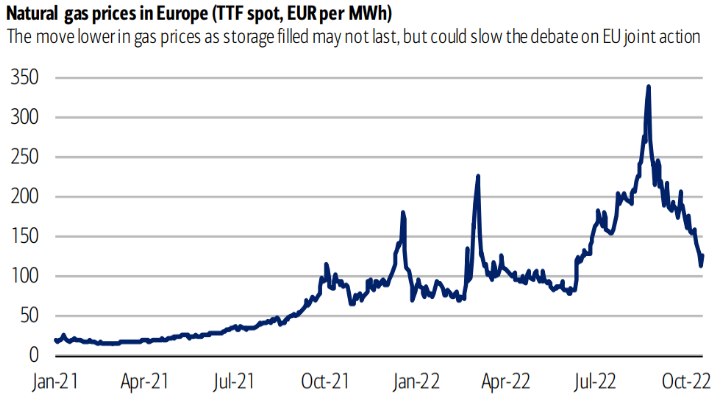
US real estate market cooling rapidly
3m/3m change in US house price indices (%)

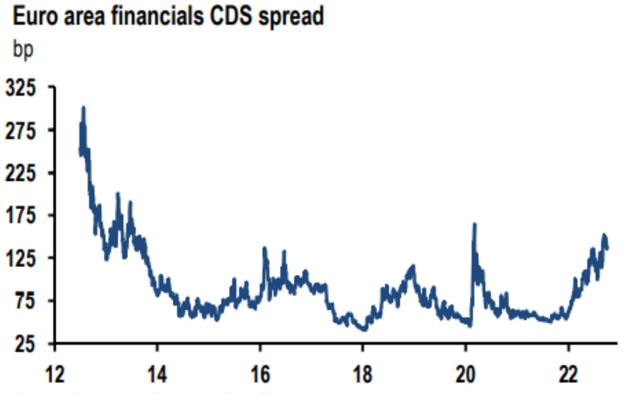


UK Confidence Crisis, EU Energy Crisis

- At 44 days long tenure, Liz Truss now the shortest serving UK PM.
  - Appointment of new PM perceived to improve fiscal credibility with clearer stance of fiscal tightening after uncertainty under PM Truss (GBP45bn tax cuts announced earlier rolled down to GBP13bn along with promise of scaling back energy price freeze).
  - Additional contractionary measures such as spending cuts expected to balance the budget considering gaping fiscal hole given Active QT to begin from 31Oct as planned.
  - Transition to contractionary fiscal policy also means BoE may reduce its degree of hawkishness, implying lower terminal rate.
- ECB takes path of policy normalization
  - Lower natural gas prices perhaps resulting in lack of joint EU response to energy crisis
  - ECB has cranked up the QT commentary







China's 20th Party Congress (16-22 Oct):
Leaning towards 'Security' than 'Development'; Not inspiring much investor confidence!

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- President Xi secured a third term, while new Politburo Standing Committee members are longstanding Xi allies; further consolidating power. Personnel change expected at all levels of Govt, including Premier, PBOC and CBIRC.
- Opening report reiterated "Development is the top priority for the Party", however reference to 'Security' was more number of times than to 'Development'.
- Report contains nothing new about Zero-covid policy or policy stimulus.
- 2035 Growth Target: China's GDP per capita should reach that of a "medium level developed country", which may be interpreted as doubling of 2020 GDP per capita in turn implying annual growth rate of 4.5%-5% in 2021-2035 – this could be a challenge given the current headwinds i.e. property sector stress, aging population and US-China tension.
- Further report mentioned 'Housing is for living, not for speculation', while Xi didn't mention anything to this effect in his speech.
- In regards with 2060 target of becoming carbon neutral, Xi mentioned that China would not stop burning fossil fuels until clean energy sources can reliably replace them.
- Geopolitical risks expected to remain, as Xi emphasized that reunification "will definitely be achieved" – peaceful route preferred though will not rule out using force.

EM Corporate Default Rate running high, led by RU/UA/CN RE

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- EM corporate default rate remains elevated in 2022YTD, however concentrated in Russia, Ukraine and China RE. EM corporate default rate in 2022 is expected to surpass that seen in GFC
- China RE formed 83% of default volumes in 2021 and is 59% in 2022. In addition, Russia and Ukraine credits are responsible for 38% and 4% of 2022 defaults, respectively.
- However, without the China RE, Russian and Ukrainian credit, EM corporate default rate YTD is just 1.2% (vs 10.3% including RU/UA/CN RE). This is not very different from DM markets where the default rate is 1.5% for US HY and 0.3% for European HY

China property default rate reached 43% YTD bringing China HY default rate to 22%

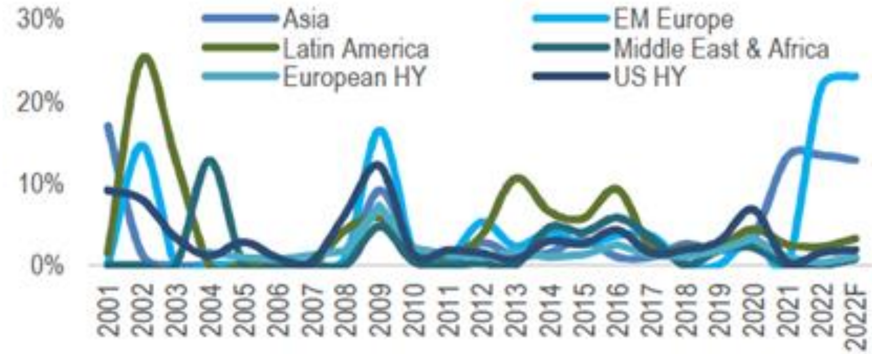
Source (both tables): J.P. Morgan; Note: default rates are par weighted and exclude 100%-quasi-sovereigns.

2022 EM corporate default rate reached 10.3% or 1.2% ex. idiosyncratic segments

	2020	2021	2022YTD		2022F	
			Overall	ex. *	*Overall*	ex.*
Asia	3.4%	13.2%	13.4%	0.9%	*12.8%*	*1.6%*
EM Europe	3.3%	0.0%	21.7%	0.3%	*23.0%*	*1.7%*
Latin America	4.4%	2.5%	2.2%	2.2%	*3.2%*	*3.2%*
Middle East & Africa	2.1%	0.0%	0.0%	0.0%	*0.8%*	*0.8%*
Global EM corp HY	**3.5%**	**7.1%**	**10.3%**	**1.2%**	***10.7%***	***2.0%***

Source: J.P. Morgan. Note: Default rates are par weighted and exclude 100%-quasi-sovereigns. ex * RU/UA/CN RE.

Outside Asia and EM Europe, EM corporate default rates remain not far from DM levels



EM funds outflows take a breather

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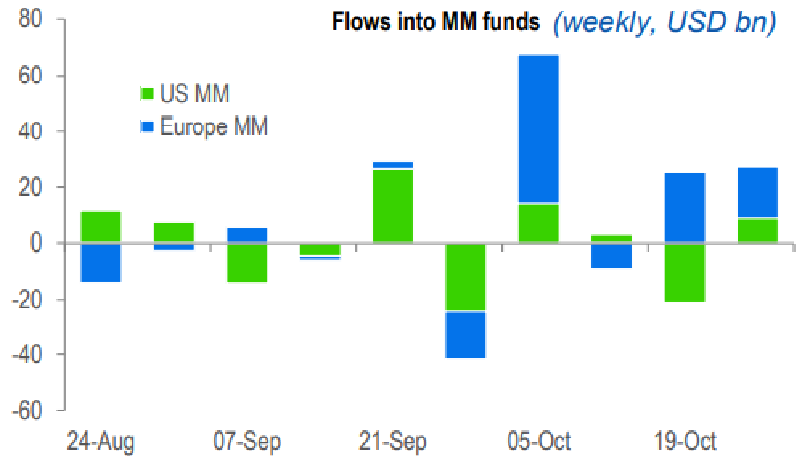
- With rising USTs and increased volatility, EM debt funds continue to witness broad based outflows led by LCY Debt funds, esp CNY. However, HCY Debt outflows have paused.
- EM equity fund flows though in red saw inflows in ETFs, largest since Apr with hope of “peak USD”; CNY and KRW equities face outflows following US Govt’s semiconductors chip ban.
- US HY flows spiked as investors return to credit on “Peak yields”
- Flows into MM funds persist

Weekly Cross-Asset Flows USD billion

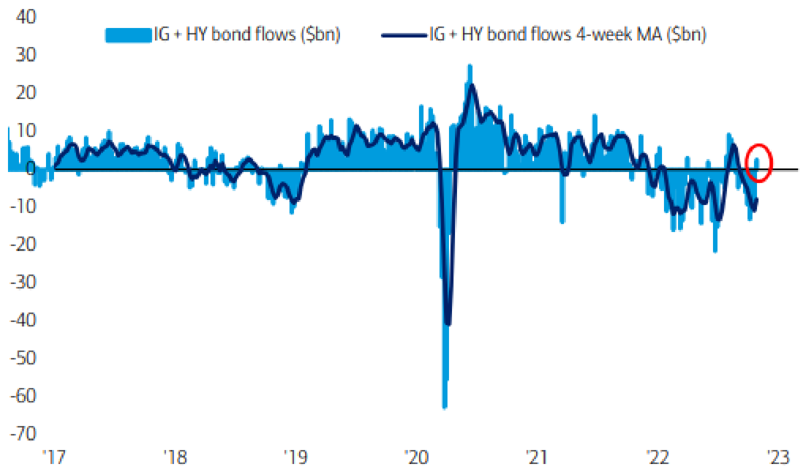
Fund Flows

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		-2.1	-81.6
EM Bonds		-1.7	-82.9
Hard Ccy		-0.5	-42.3
Local Ccy^		-1.1	-40.6
o.w. EM ex-China		-0.6	-20.4
o.w. China		-0.5	-18.9
EM Equities		-0.4	1.3
US HG		2.8	-63.8
US HY		4.0	-46.1
Global Equities		20.3	104.7
EM Bond and Equity ETFs		1.6	34.2
EM Bond ETFs		0.0	-11.7
EM Equity ETFs		1.6	45.9
Non-resident EM flows*		1.0	-74.4

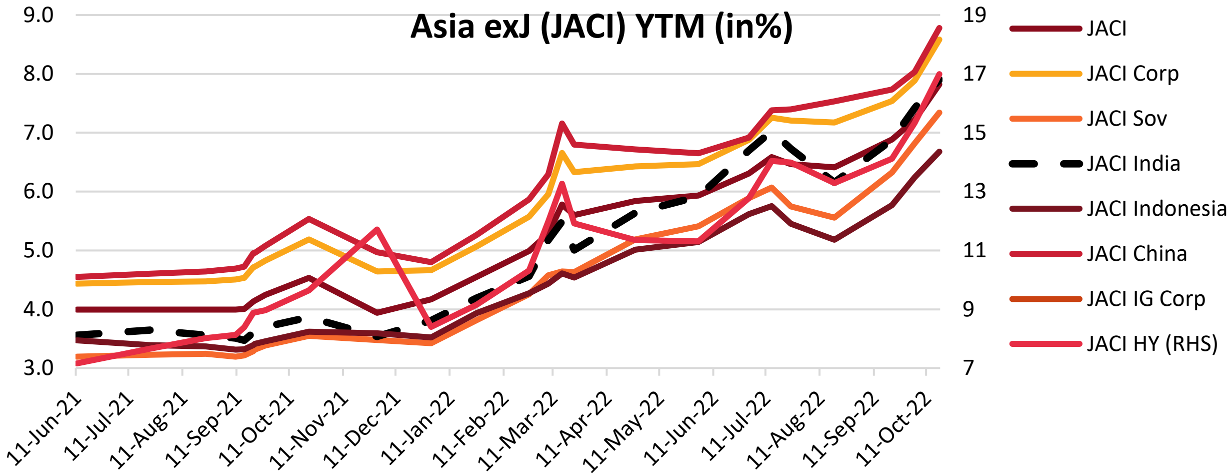


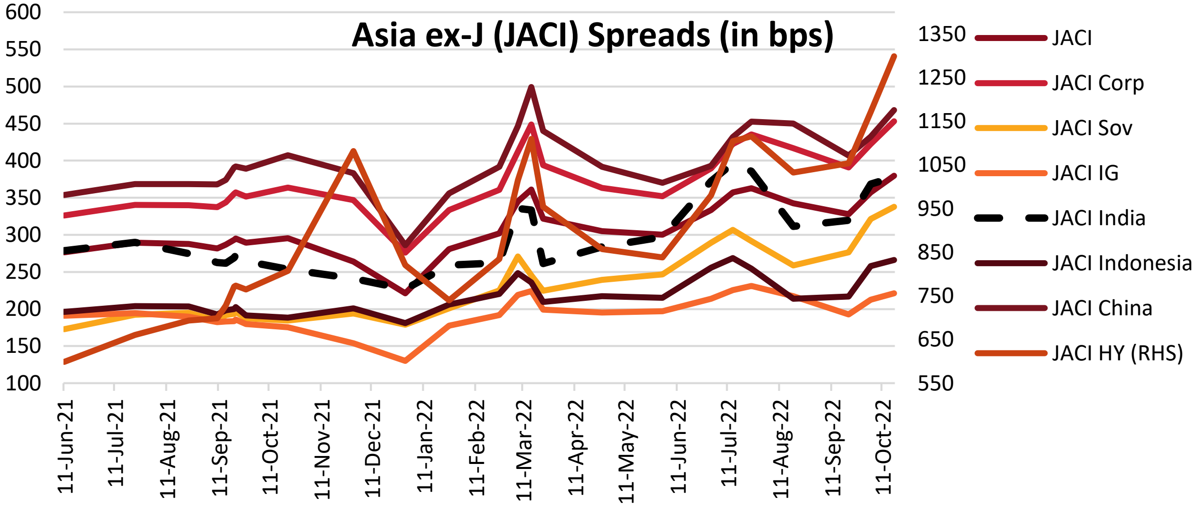
“Peak yields” bring investors back to Credit...

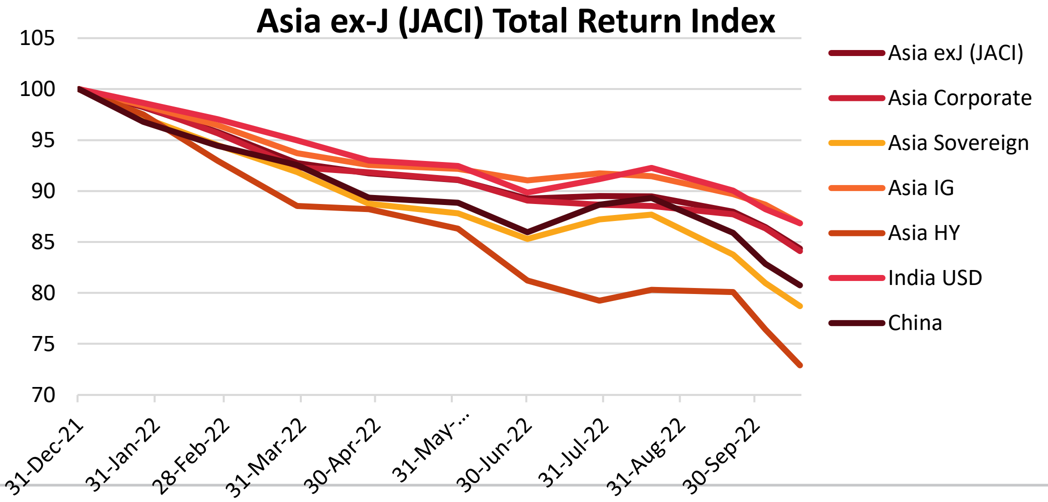
Credit flows: weekly vs 4-wk moving average ($ bn)



- Asia ex-J Bond Yields and Spreads continue to rise as Asia HY bonds get hammered
- JACI-India USD bonds see widening in spreads, still below July peak however the JACI-HY spreads are at YTD peak



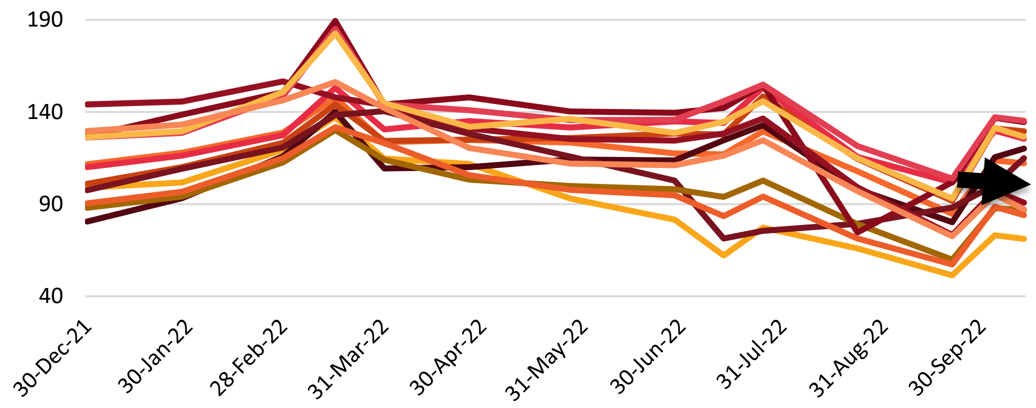




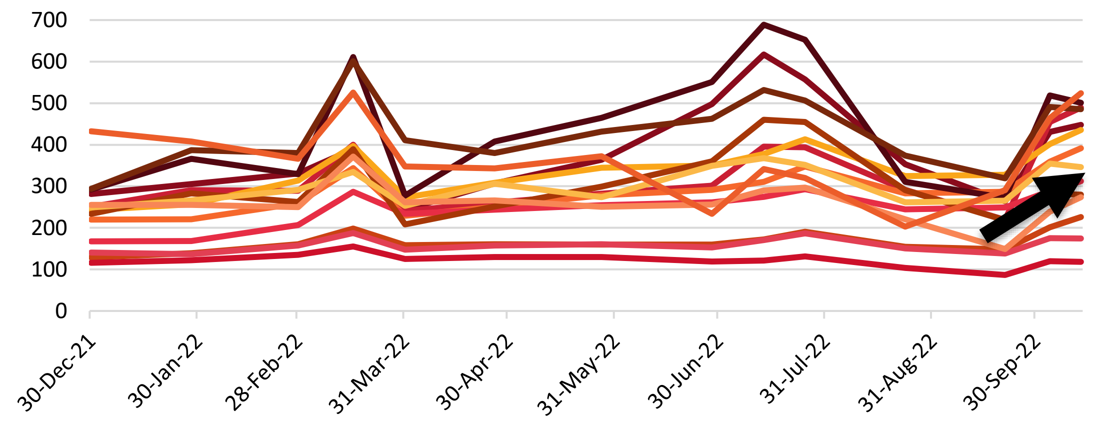
Indian USD bond complex

- Yields continue to rise along with UST benchmark yields though supply remains muted as issuers enjoy more competitive yields onshore
- HY bond spreads have risen over past month, though spreads of IG names have been flat or marginally lower

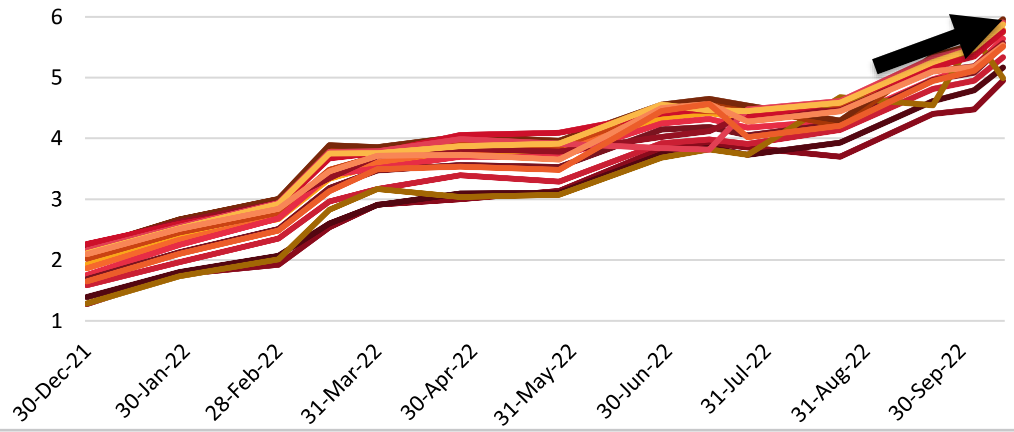
Indian IG USD Bond Spreads (in bps)



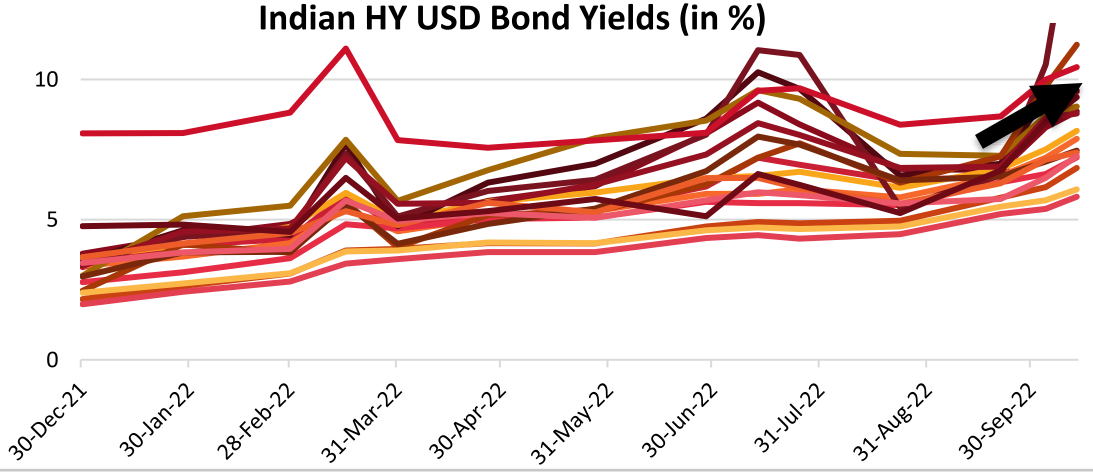
Indian HY USD Bond Spreads (in bps)



Indian IG USD Bond Yields (in %)



Indian HY USD Bond Yields (in %)



INDIA BOND MARKETS

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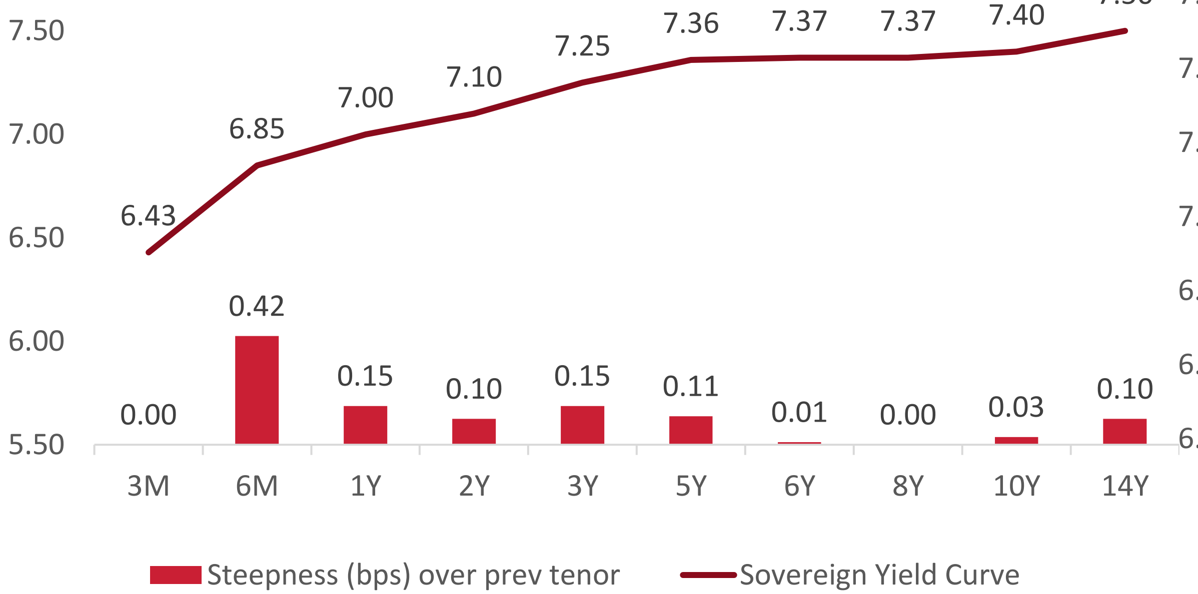
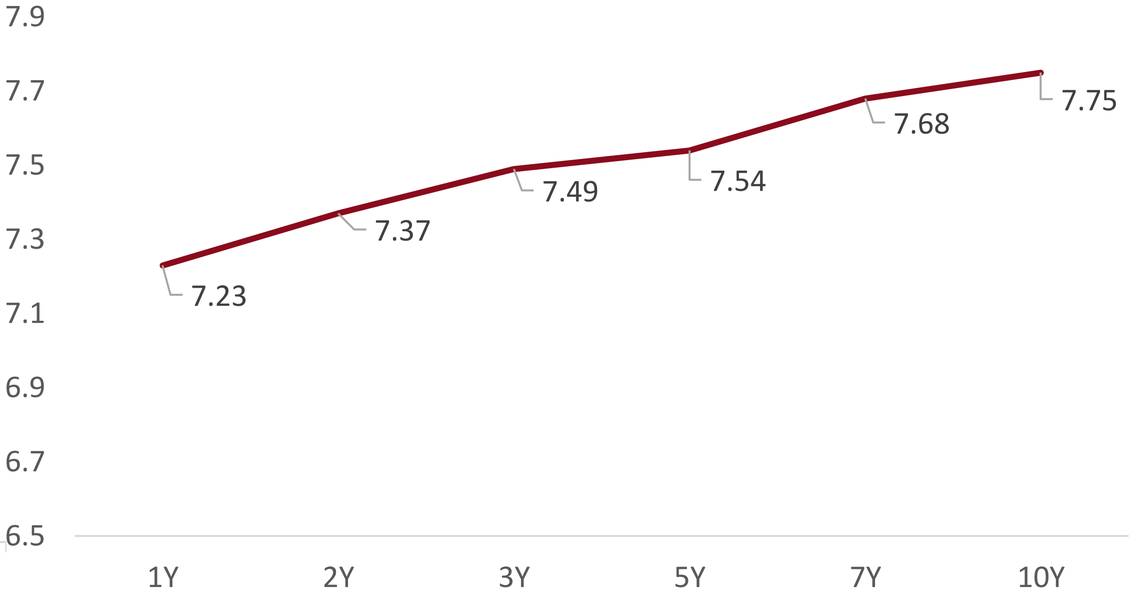
Sovereign Yield Curve – Levels and Steepness

Central Government

Sovereign	2Y	3Y	5Y	10Y	14Y
31st March 21	4.54	4.90	5.71	6.18	6.72
30th April 22	5.49	6.22	6.68	7.14	7.33
29th July 22	6.45	6.77	7.07	7.32	7.54
29th Aug 22	6.55	6.85	7.00	7.22	7.38
23rd Sep 22	7.10	7.25	7.38	7.40	7.50
30th Sep 22	7.10	7.22	7.32	7.40	7.51
31st Oct 22	7.00	7.32	7.34	7.42	7.47



State Govt.



Yields have consolidated near the current levels over the last month as expected policy actions are adequately priced in the curves. Yield curves up to the 3–4 year point continue look attractive on a duration-adjusted basis for investors given the absolute levels. Overall volatile environment, and potential demand-supply imbalance can possibly cause pressure at long-end of the yield curve in H2 FY 23.

Latest data for the curves is as of 31st Oct 2022, ABSLAMC Research

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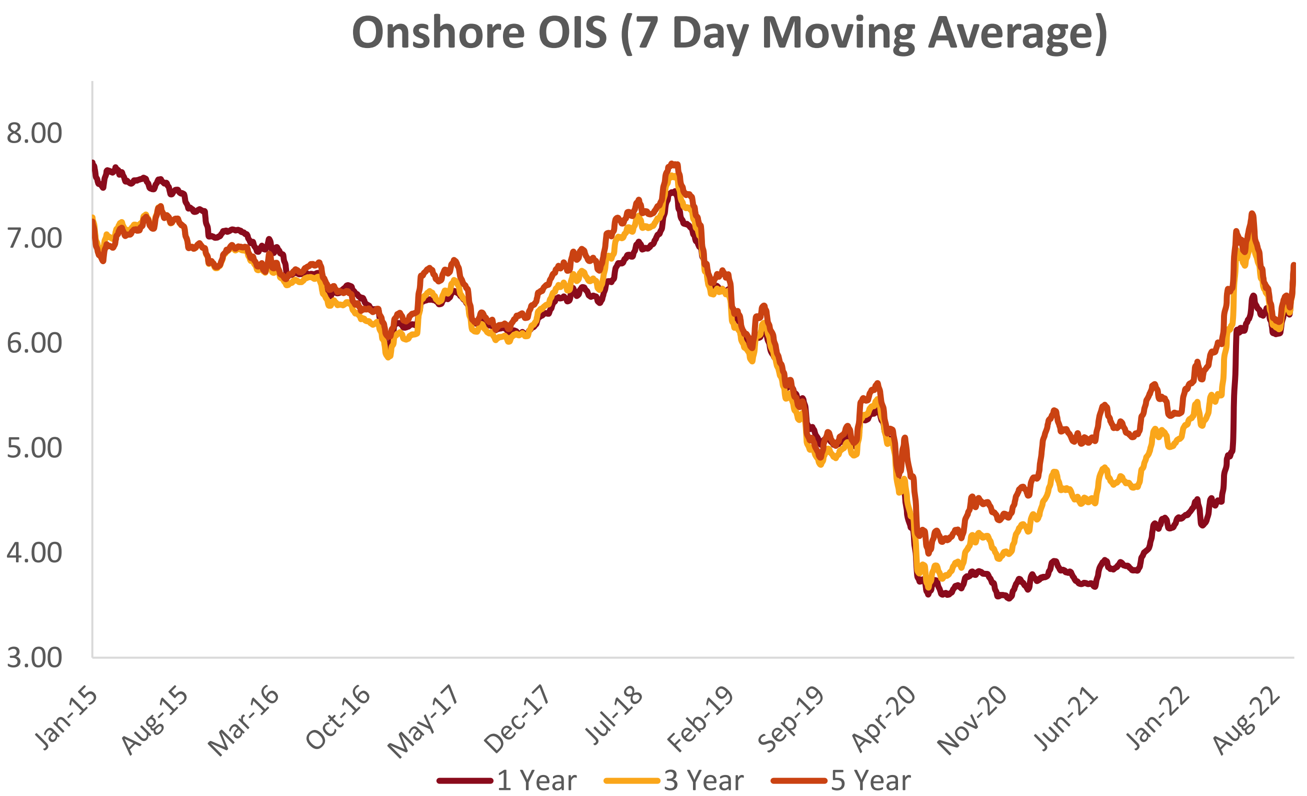
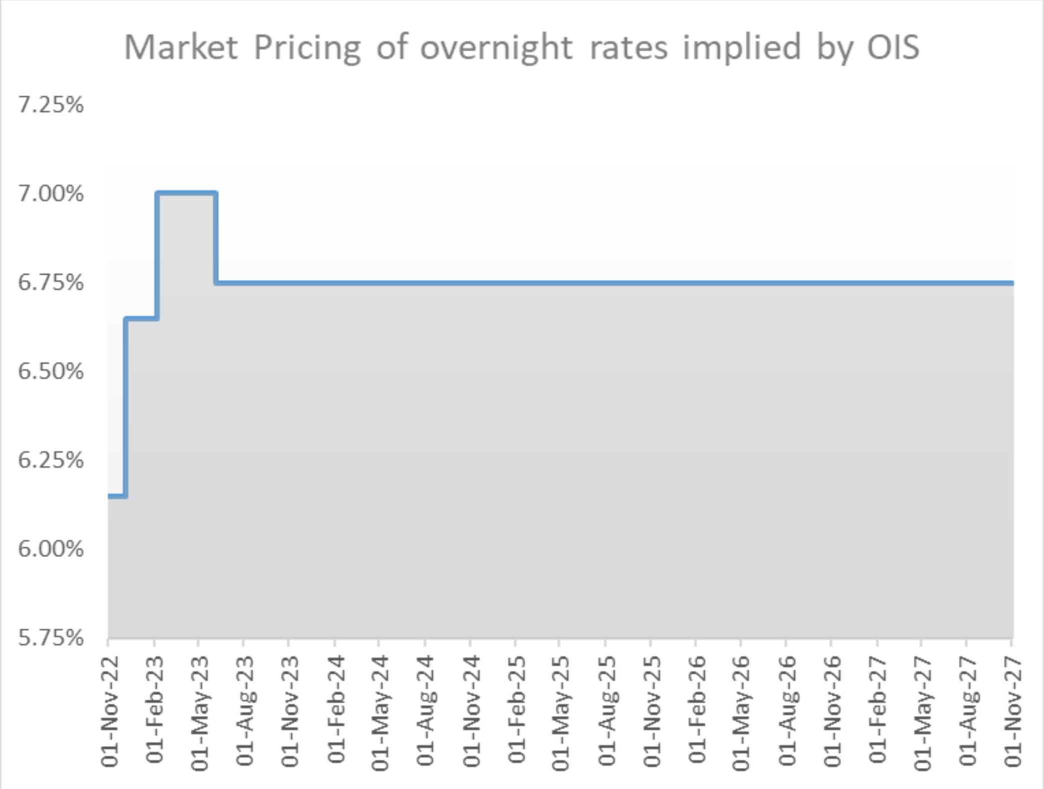
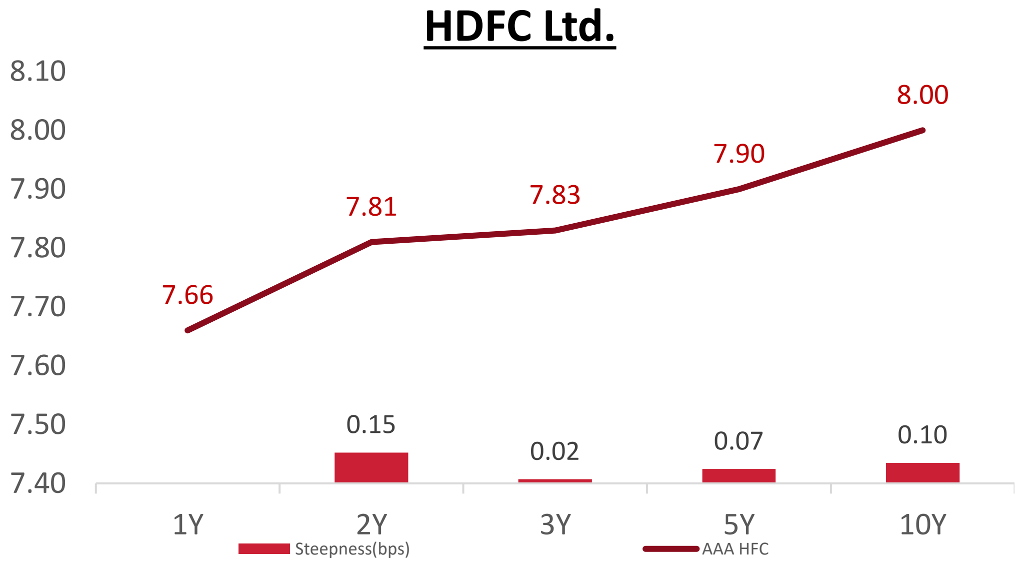


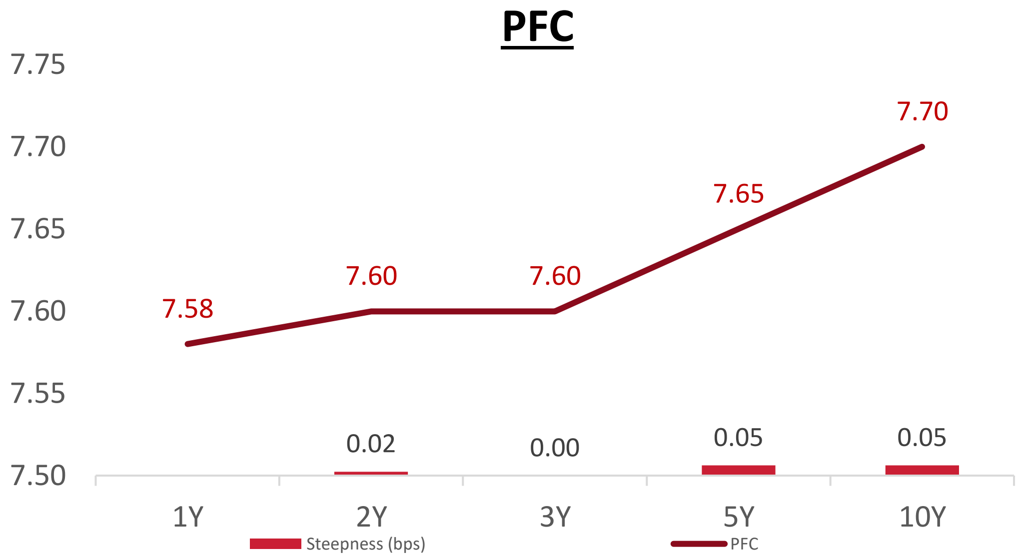


OIS market is now pricing in a 7% overnight rate by March 2023. Rate hike expectations are now pricing a full front loading till March 23 and thereafter a higher for longer policy.

Latest data for the curves is as of 31st Oct 2022

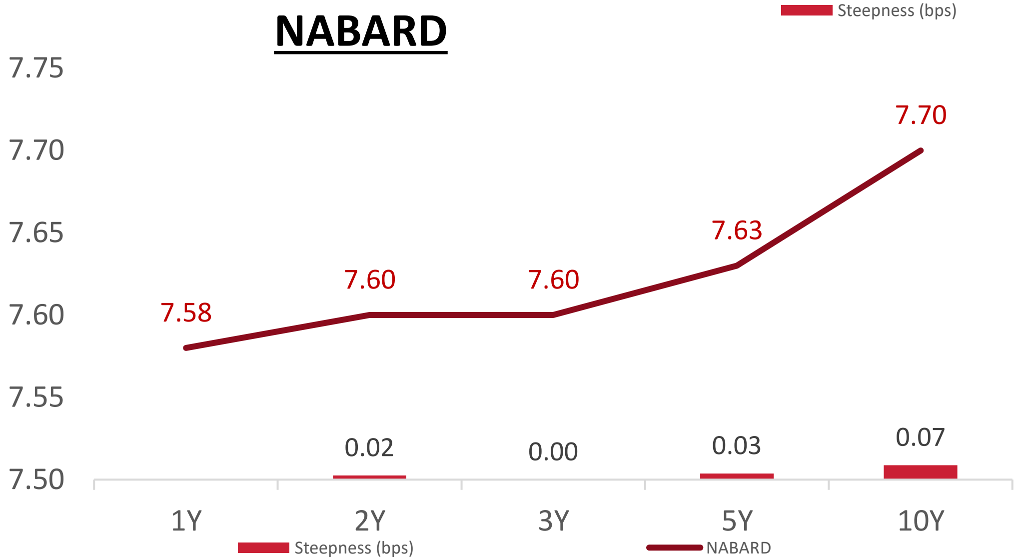
AAA Corporate / PSU Curve





Movement in Rates

NABARD	1Y	2Y	3Y	5Y	10Y
1st April 21	4.00	4.82	5.28	6.07	6.81
31st March 22	4.82	5.37	5.83	6.42	7.05
30th April 22	5.24	5.92	6.31	6.78	7.33
29th July 22	6.70	7.00	7.00	7.45	7.69
23rd Sep 22	7.12	7.35	7.55	7.58	7.62
28th Oct 22	7.58	7.60	7.60	7.63	7.70



Latest data for the curves is as of 31st Oct 2022

Fixed Income Funds Portfolio Snapshot (As on 15th October 2022)

Fund Name	Modified Duration (Years)	YTM (%)	Current Asset Class Distribution (As on 15th September 2022)
Aditya Birla Sun Life Liquid Fund	0.10	6.53	Sovereign and A1+ rated
Aditya Birla Sun Life Money Manager Fund	0.36	7.13	Sovereign and A1+ rated
Aditya Birla Sun Life Savings Fund	0.46	7.34	>90% in Sovereign, AAA and A1+
Aditya Birla Sun Life Low Duration Fund	0.65	7.42	>90% in Sovereign, AAA and A1+
Aditya Birla Sun Life Floating Rate Fund	0.57	7.37	100% Sovereign, AAA and A1+
Aditya Birla Sun Life Short Term Fund	1.40	7.74	>90% in Sovereign, AAA, AA+ and A1+
Aditya Birla Sun Life Corporate Bond Fund	1.48	7.71	>95% in Sovereign, AAA and A1+
Aditya Birla Sun Life Banking & PSU Debt Fund	1.90	7.44	>95% in Sovereign, AAA and A1+
Aditya Birla Sun Life Government Securities Fund	2.85	7.54	100% Sovereign
Aditya Birla Sun Life Income Fund	2.32	7.34	100% Sovereign and AAA
Aditya Birla Sun Life Credit Risk Fund	1.59	8.30	Credit Risk Fund

Fixed Income Funds Portfolio Snapshot – Debt Index Funds

Fund Name	Modified Duration (Years)	YTM (%) (As on 15th Oct 22)	YTM (%) of Underlying Index (As on 30th Oct 22)	Current Asset Class Distribution (As on 15th October 2022)
Aditya Birla Sun Life CRISIL AAA June 2023 Index Fund	0.55	7.36	7.40	AAA and Sovereign
Aditya Birla Sun Life CRISIL SDL Plus AAA PSU Apr 2025 60:40 Index Fund	1.99	7.57	7.54	Sovereign (G-Sec + SDL) and AAA PSU
Aditya Birla Sun Life Nifty SDL Plus PSU Bond Sep 2026 60:40 Index Fund	2.97	7.68	7.56	Sovereign (G-Sec + SDL) and AAA PSU
Aditya Birla Sun Life CRISIL SDL Plus AAA PSU Apr 2027 60:40 Index Fund	3.38	7.69	7.61	Sovereign (G-Sec + SDL) and AAA PSU
Aditya Birla Sun Life NIFTY SDL Apr 2027 Index Fund	3.38	7.67	7.55	Sovereign (G-sec + SDL)
Aditya Birla Sun Life Nifty SDL Sep 2025 Index Fund	2.27	7.61	7.43	Sovereign (G-sec + SDL)
Aditya Birla Sun Life CRISIL IBX GILT April 2026 Index Fund	2.87	7.46	7.38	Sovereign (G-sec)
Aditya Birla Sun Life CRISIL IBX 50:50 GILT Plus SDL April 2028 Index Fund	4.11	7.57	7.61	Sovereign (G-Sec + SDL) and AAA PSU
Aditya Birla Sun Life CRISIL IBX GILT April 2029 Index Fund	Scheme Allotted post 15th October 2022		7.54	Sovereign (G-sec)

Asset Allocation

Investment Horizon	Fund Proposition
1 - 3 Months	Aditya Birla Sun Life Savings Fund and Aditya Birla Sun Life Money Manager Fund
3 Months +	Aditya Birla Sun Life Low Duration Fund
6 Months +	Aditya Birla Sun Life Floating Rate Fund and Aditya Birla Sun Life CRISIL AAA June 2023 Index Fund
9 Months +	Aditya Birla Sun Life Banking & PSU Debt Fund
1 Years +	Aditya Birla Sun Life Short Term Fund, Aditya Birla Sun Life Corporate Bond Fund
3 Years +	Aditya Birla Sun Life Government Securities Fund, Aditya Birla Sun Life Income Fund, Aditya Birla Sun Life Debt Index Funds and Aditya Birla Sun Life Credit Risk Fund

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