ECONOMY AND MARKETS

September 2024

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Three key global events in August 2024…

Sahm rule triggered

Sahm rule suggests that if 3m average unemployment rate in the US is 50bps higher than the lowest in last 12 months- it hints at recession in the US. But this time is different.

Yen carry trade unwinding

Yen carry trade unwinding as when Japanese currency appreciates, borrowing in Yen and investing elsewhere becomes less attractive.

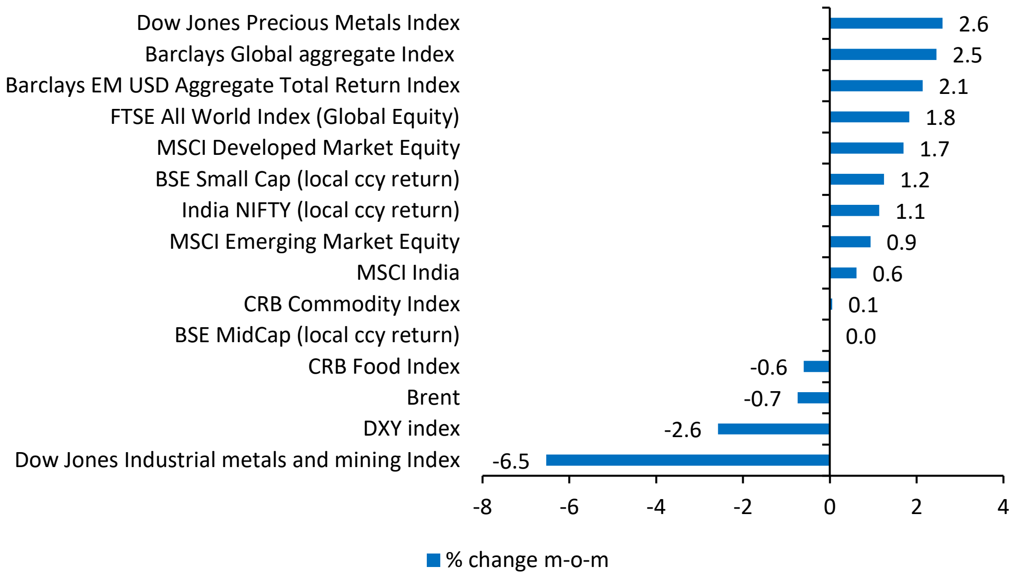
Jackson Hole Symposium

Hinted at rate cut possibility in the US. Labour data gets priority over inflation as 2% target remains in sight.

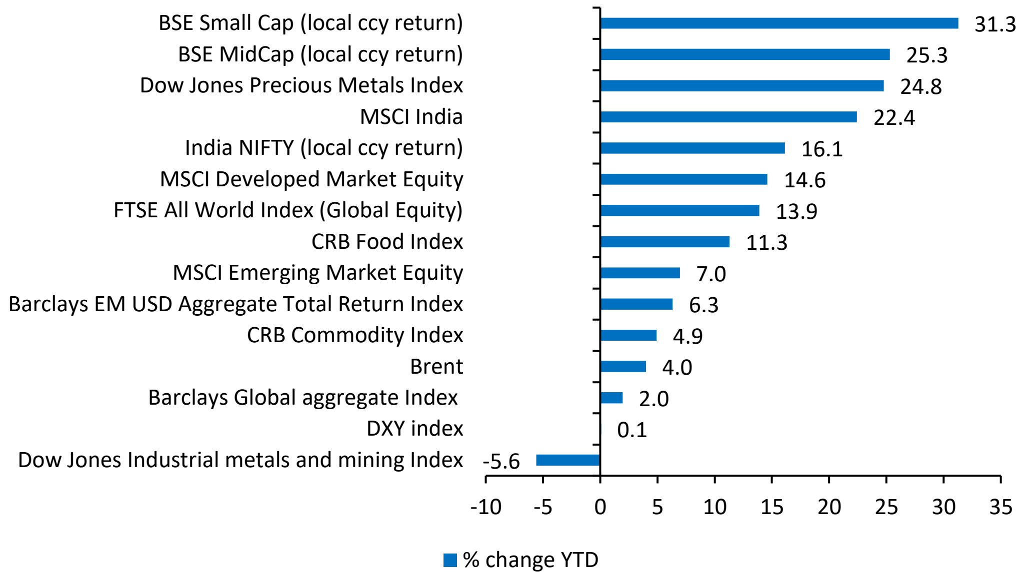
Source: SBIFM Research

…these events caused dollar to rise, brent and dollar weakened

Gold rose, metals, dollar and brent weakened; Indian assets remain unaffected



Year-to-Date; precious metals is the best forming asset; dollar and industrial metals is the weakest



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.

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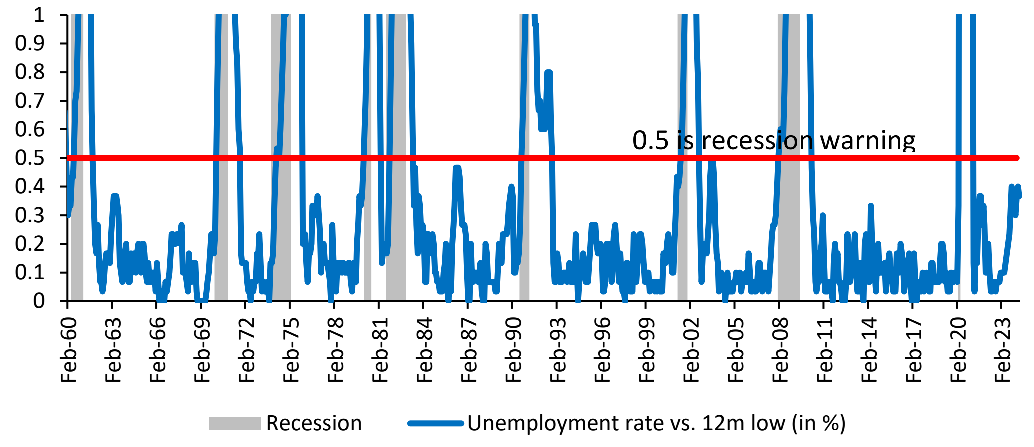
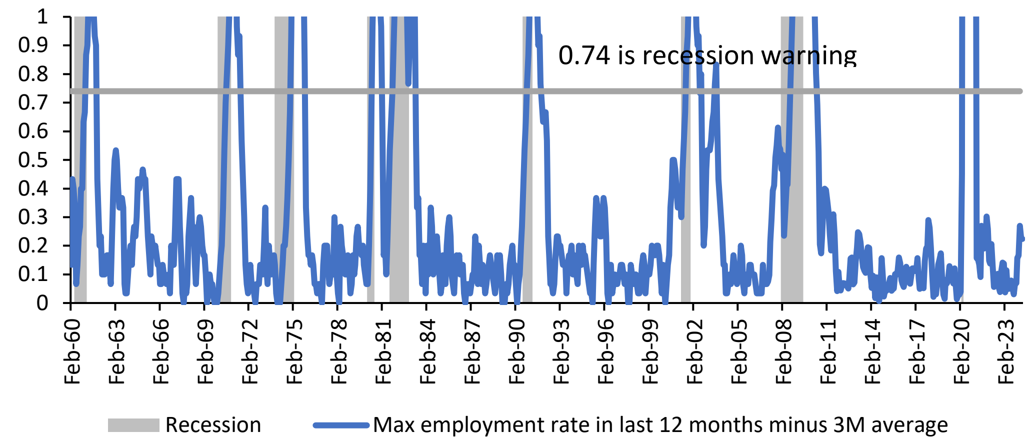
Sahm rule was meant to be broken in current times

July unemployment rate came in at 4.3% triggering Sahm rule



The weakening of employment data is concerning but not flashing a recession warning as yet

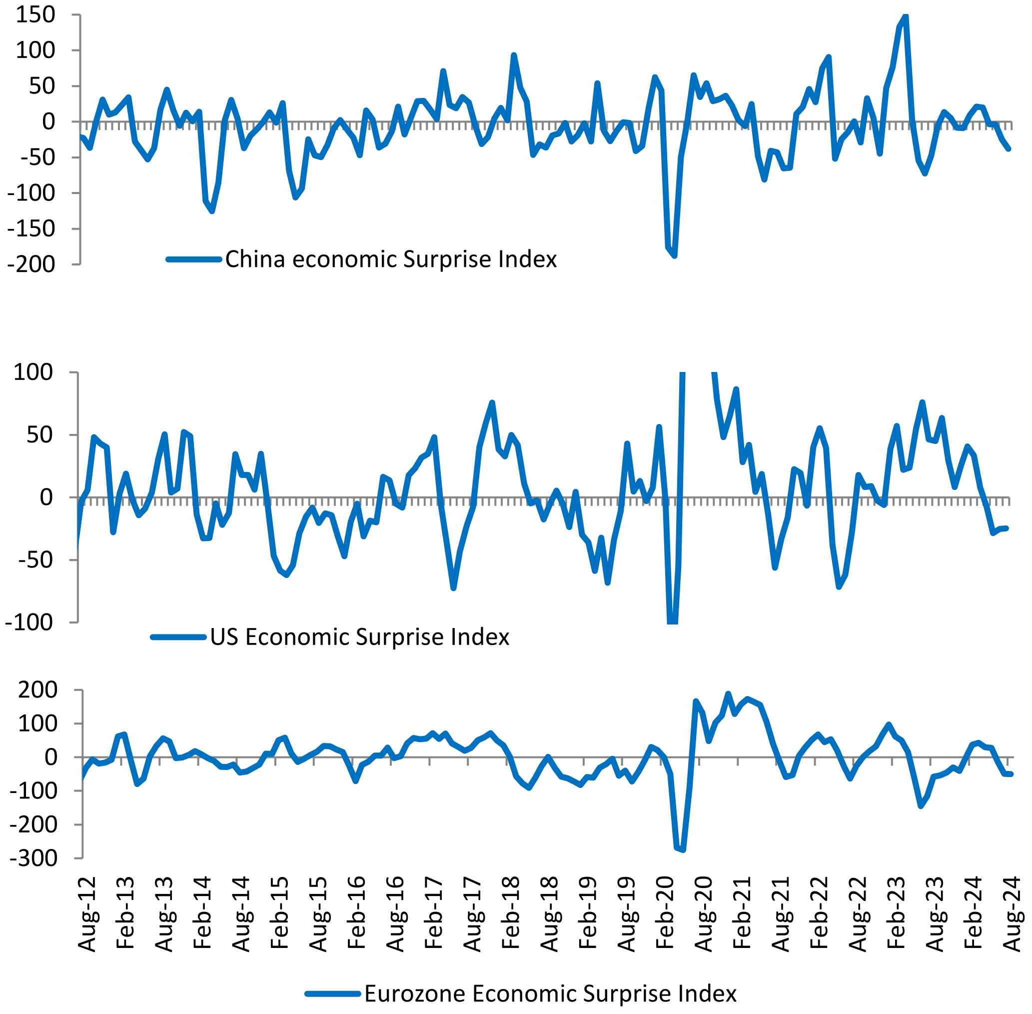


- The US unemployment rate has risen to 4.3% in July, triggering the Sahm rule.
- The Sahm rule, created by Claudia Sahm, suggests that if the unemployment rate averages 50 basis points above its lowest point over the past year, a recession is likely within a year. However, Sahm herself has recently stated that her rule might not apply in the current context.
- The post COVID labour market cycle is very different as much of this has been due to a rise in participation and immigration.
- One could look at the variation of the Sahm rule using the employment-to-population ratio instead of unemployment. As per this variation if the current 3m average employment to population ratio is 74bps lower than the maximum seen in last 12 months, then it acts as a lead indicator for recession.
- It is currently at 0.40 vs. ~0.20 until a few months ago. This is now higher than most previous “false positive” recession signals (i.e. above 0.30). On the face of it, that is concerning.

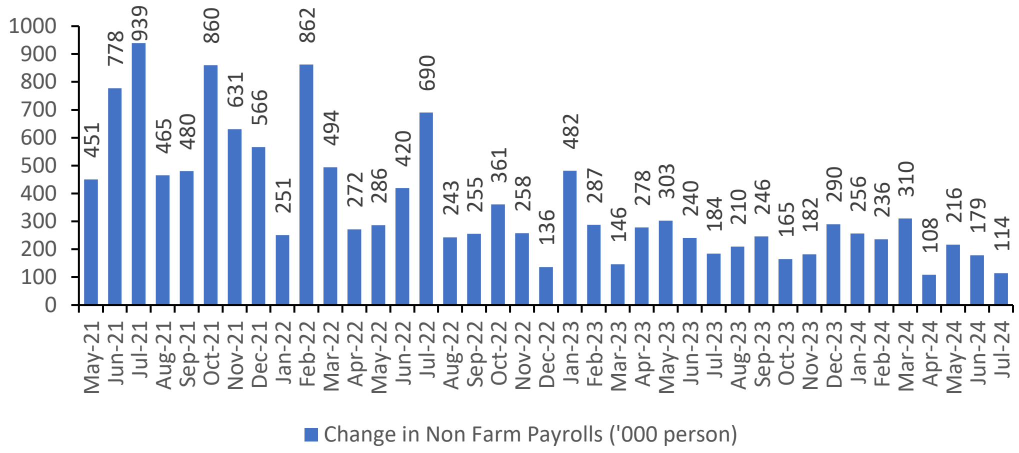
Source: Bloomberg, SBIFM Research

Global activity momentum has softened and underwhelming expectations across continents

US, Eurozone and China see softer economic data in August…



Non–farm payroll monthly accretion moderated to ~114K in July 2024

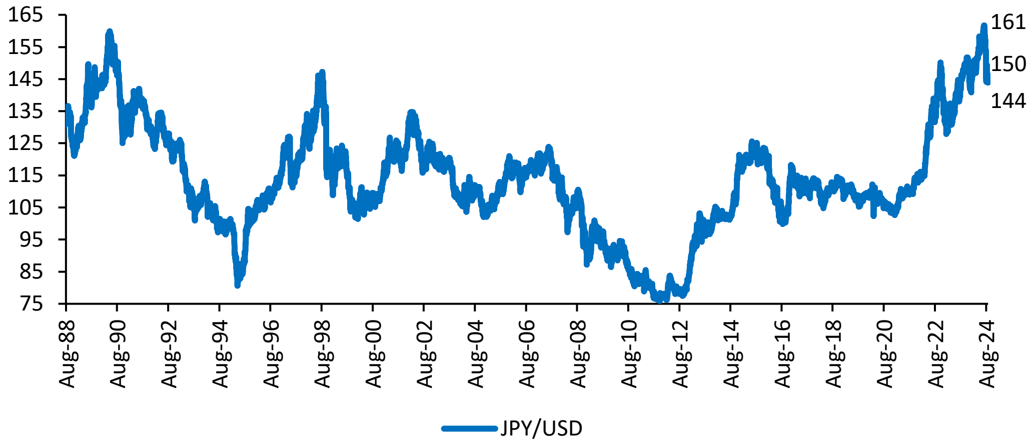


- Many economic indicators out of the US and other developed economies have come in lower than expected lately, and the big revision to US payrolls data showed that the job market has cooled significantly.
- Nevertheless, hard evidence that the US is facing an impending recession remains scanty.
- The US economy is likely to slow over the next six months. However, the base case picture is that growth will remain modestly positive, with the US avoiding a recession in the near term.
- While arguably this is good news, wider global growth is unlikely to hold up well as the US slows. Other economies are poorly placed to take up the growth baton.

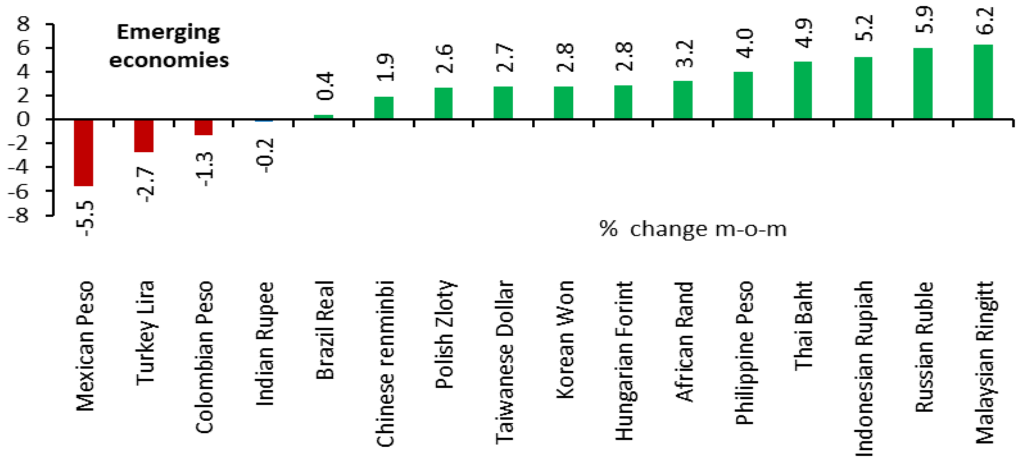
Source: Bloomberg, SBIFM Research

Financial markets were volatile due to the unwinding of yen carry trades

Yen strengthened to 144 against the dollar for the first time since March 2024



Asian currencies stable owing to low interest rates in the region making their currencies less attractive for carry trades

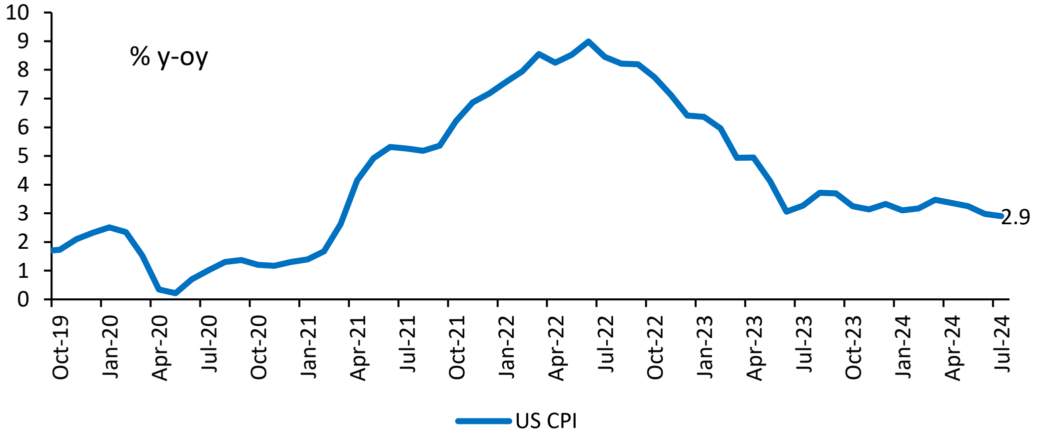


- Investors—both Japanese and international—had borrowed large sums in yen at low interest rates to invest in higher-yielding assets outside Japan. This strategy worked well as long as the yen was stable or weakening. However, the sudden appreciation of the yen from mid-July to early August reversed these gains quickly, leading to margin calls and a rapid unwinding of positions, which further exacerbated losses.
- Though the initial volatility caused by the yen carry trade reversal has calmed; some analysts believe the unwind process is "mostly done." However, this view might be premature given the limited data on the total scale of yen carry trades.
- Emerging market economies currency volatility was more contained. In August, while Latin American currencies like the Brazilian real initially dropped, they recovered as Brazil's central bank signaled potential interest rate hikes. Meanwhile, East Asian currencies generally strengthened. This divergence highlights a maturing emerging markets sector and a reduction in the risk premium, partly due to effective policy-making in many emerging economies.
- The stability in Asian can be attributed to low interest rates in the region, making their currencies less attractive for carry trades compared to Latin American currencies, which saw higher rates in 2023.

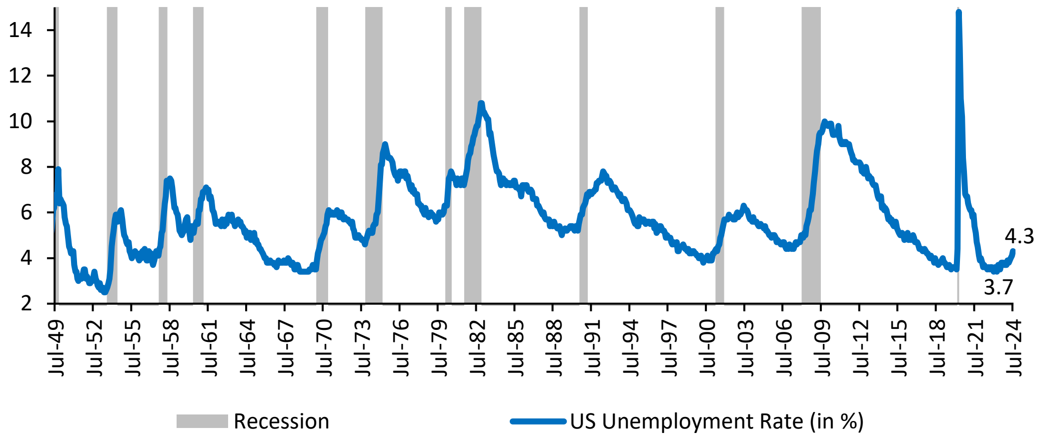
Source: Bloomberg, SBIFM Research

US monetary policy is clearly shifting- but how deep and how long?

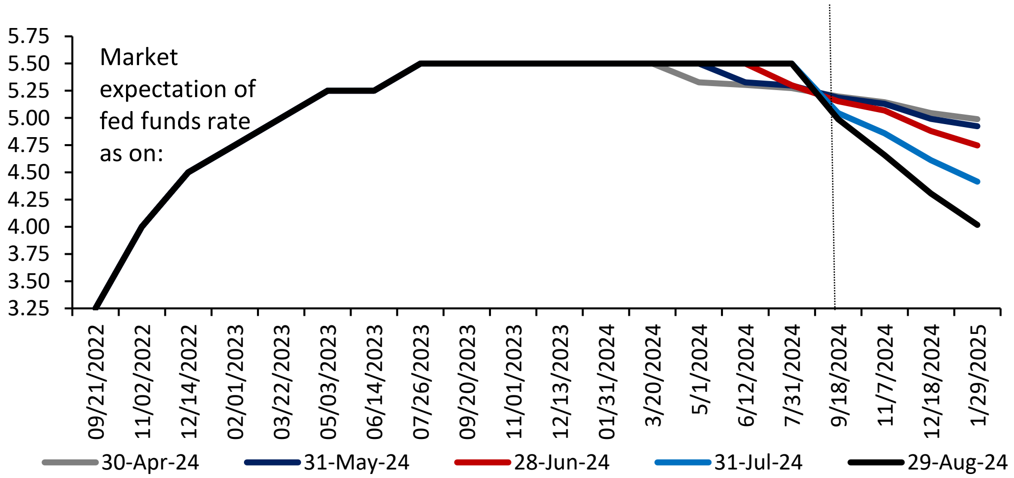
US CPI moderates for the fifth consecutive month to 2.9% in July; increasing confidence on sustainable moderation in inflation to 2%



Labour market has cooled considerably; Most of the rise in unemployment rate over the past six month



Market expectations for 2024 now prices in three rate cuts for 2024 with the first one in September



- US monetary policy is clearly shifting but how deep and how long is the question. The key message of the Jackson Hole Symposium was that a rate cut could come in September.
- This also confirms that the Fed no longer sees 2% inflation as a target it must hit across the cycle. Instead it now regards 2% as a floor for inflation. And all the Fed needs to ease policy is for this floor to be in view.
- This is a bearish development for the US dollar and for US treasuries, and bullish development for precious metals and other commodities.
- The equity market cheered the nearing of rate cutting cycle, if it is triggered by the possibility of weaker growth, the risks to US equity corrections still persist.

Source: Bloomberg, SBIFM Research

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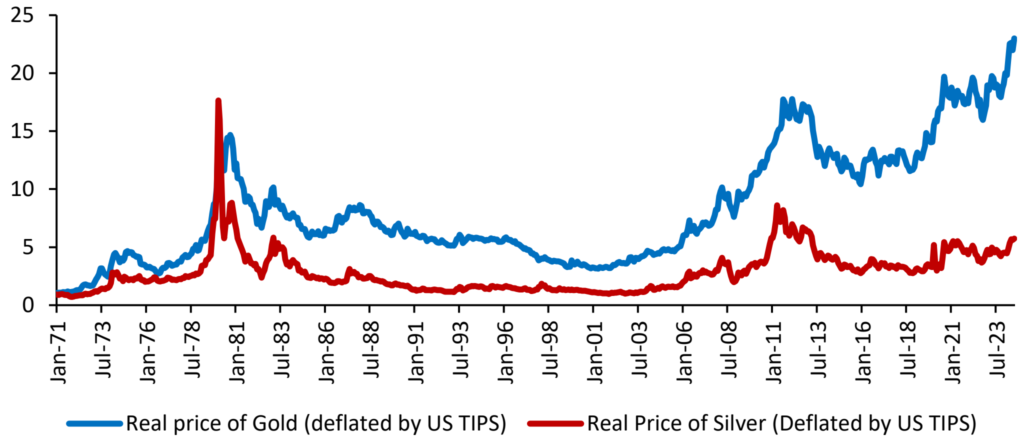
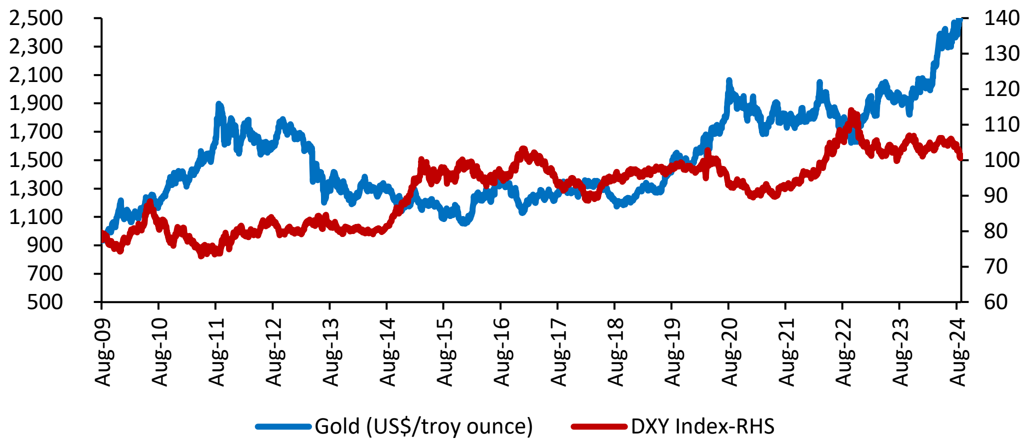
Gold prices rise in August; Year-to-date, Gold moves up by 22%

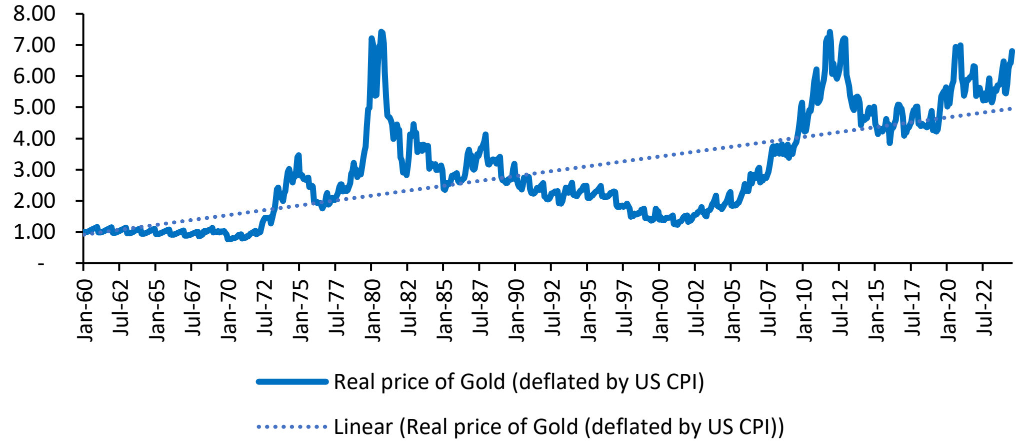
Recent rise in Gold price is in line with slight moderation in US real yields..



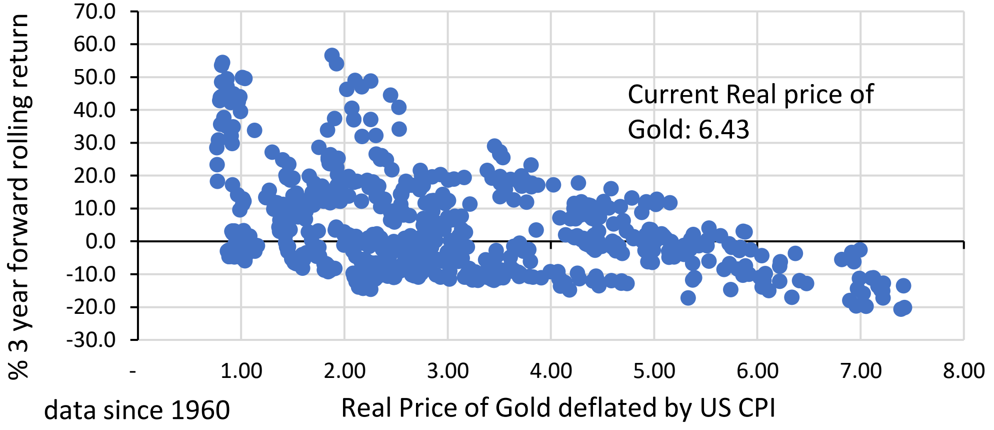
… and softening of US dollar in August



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



Gold valuations high compared to past trends; Yet we continue to prefer the asset as a portfolio diversifier



Source: Bloomberg, SBIFM Research

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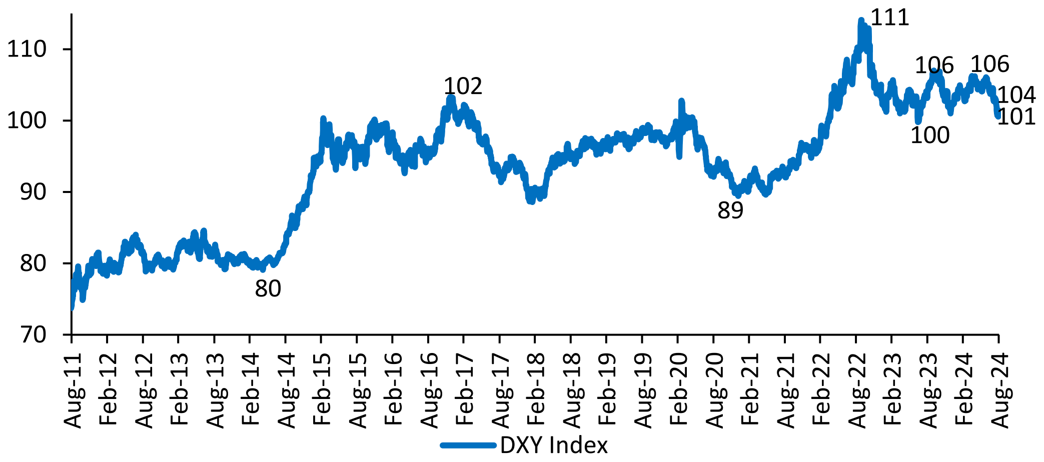
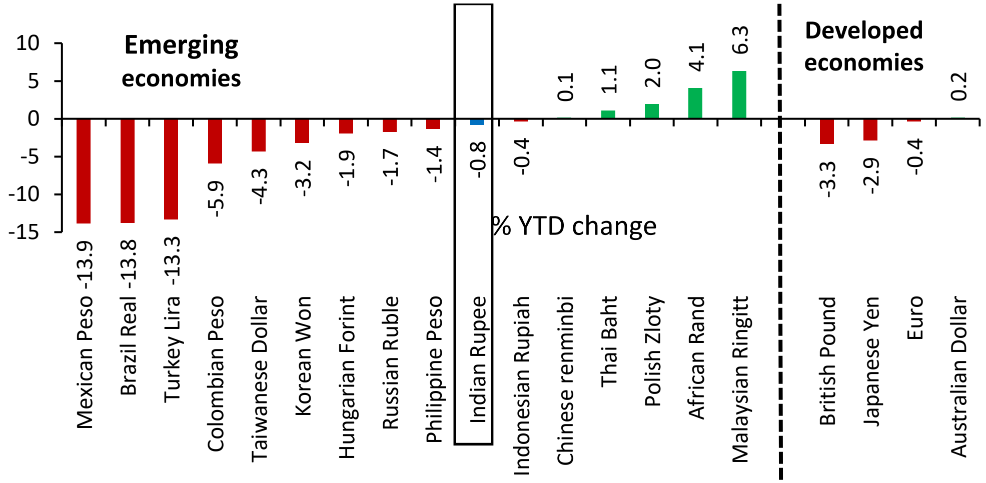
DXY softened on the increased prospects of US rate cut starting September

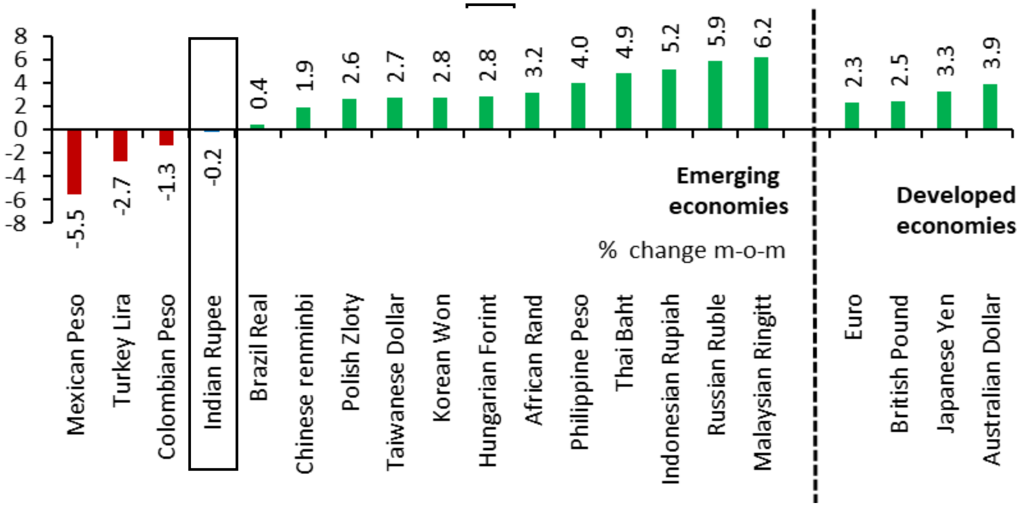
DXY moderates m-o-m by 3%; flat YTD



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 August

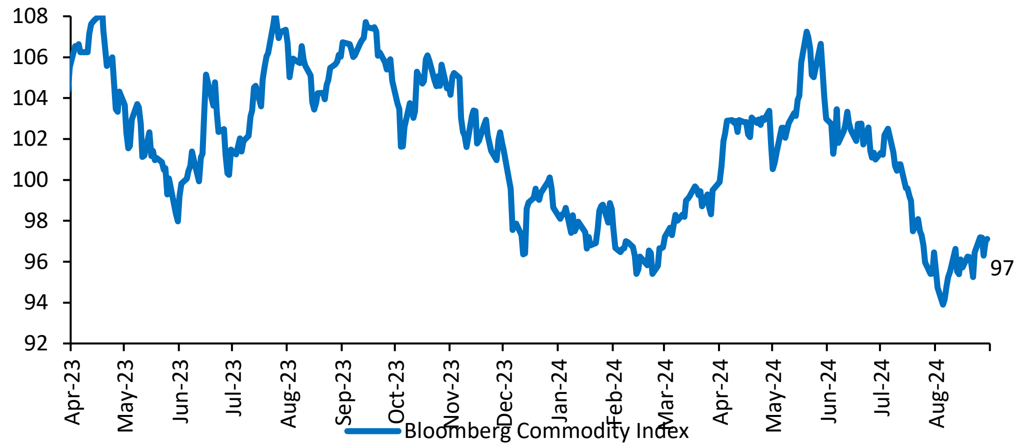


- DXY moderated by 2.7% m-o-m in August.
- While the Fed rate cut makes a case for weaker dollar, weaker global growth works in a counter fashion.
- In the very near term, it is the political developments that are dictating dollar moves. All the election promises by both the parties are working against the US dollar.
- Beyond the election, we expect the US dollar to remain sideways.

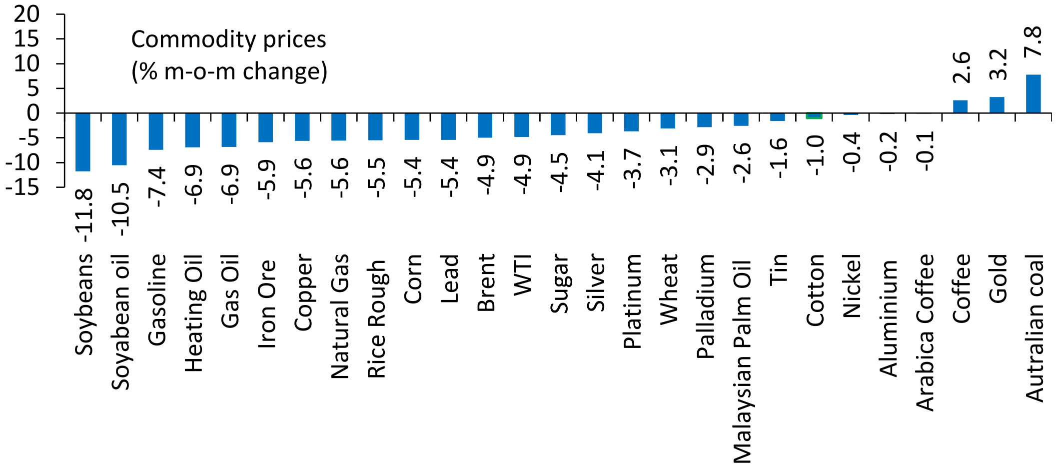
Source: Bloomberg, SBIFM Research

Base metals and food prices moderate in August; Gold and coal prices elevated

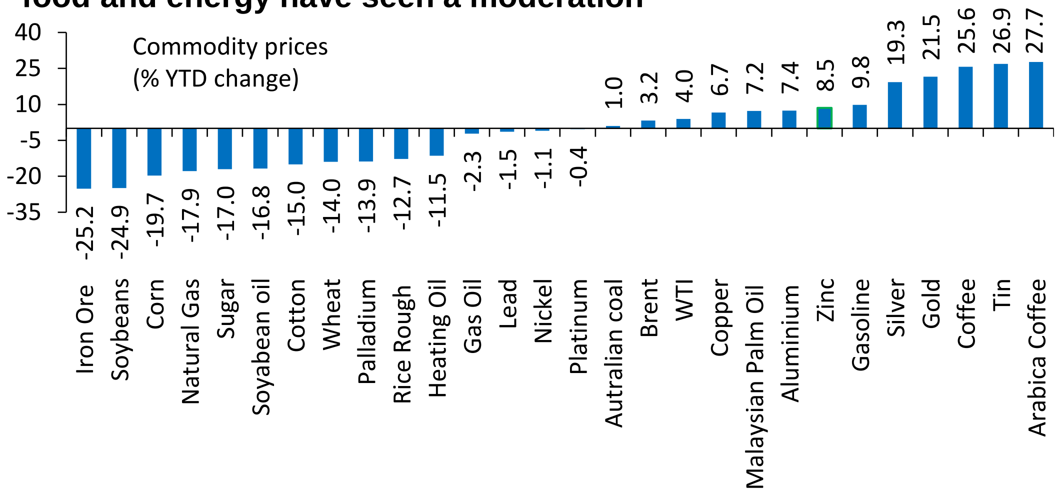
Bloomberg commodity index is flat m-o-m in August 2024



On a m-o-m basis, majority of the commodities have moderated; Gold, coffee and coal prices move upwards



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

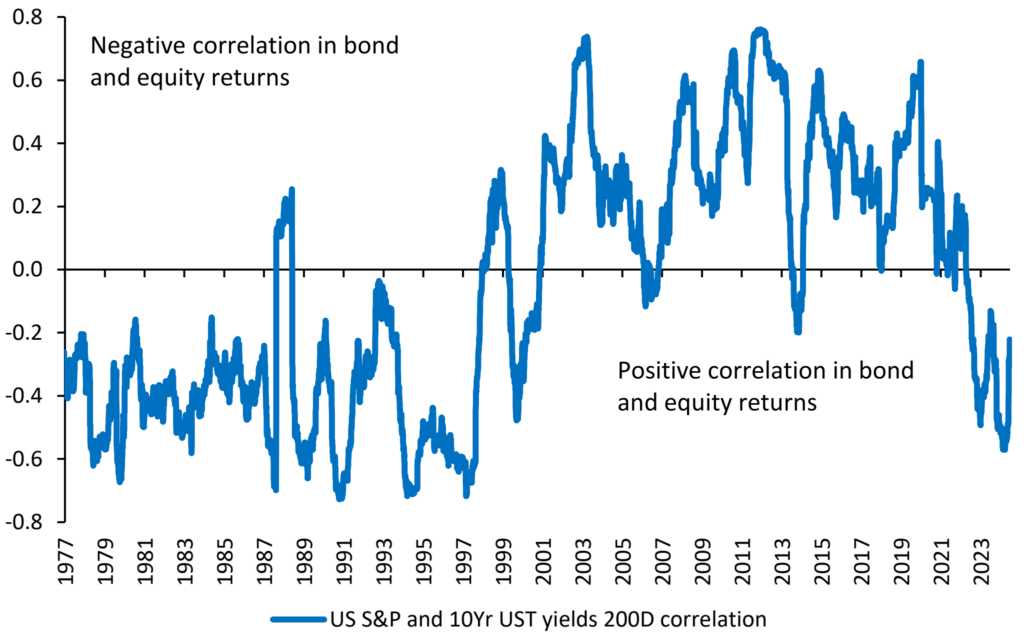


- Bloomberg commodity index moderates by ~2% YTD.
- Yet, select metal prices continue to be elevated. Silver gained 19%, and copper 7% YTD. Gold rose 3% (m-o-m) in July but has risen 22% YTD.
- Brent prices moved upwards in the last week of August due to disturbance in Libya, yet brent is still under US$80/bbl. This implies weaker growth worry has superseded the geopolitical supply disruptions.
- 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.

Source: Bloomberg, SBIFM Research

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

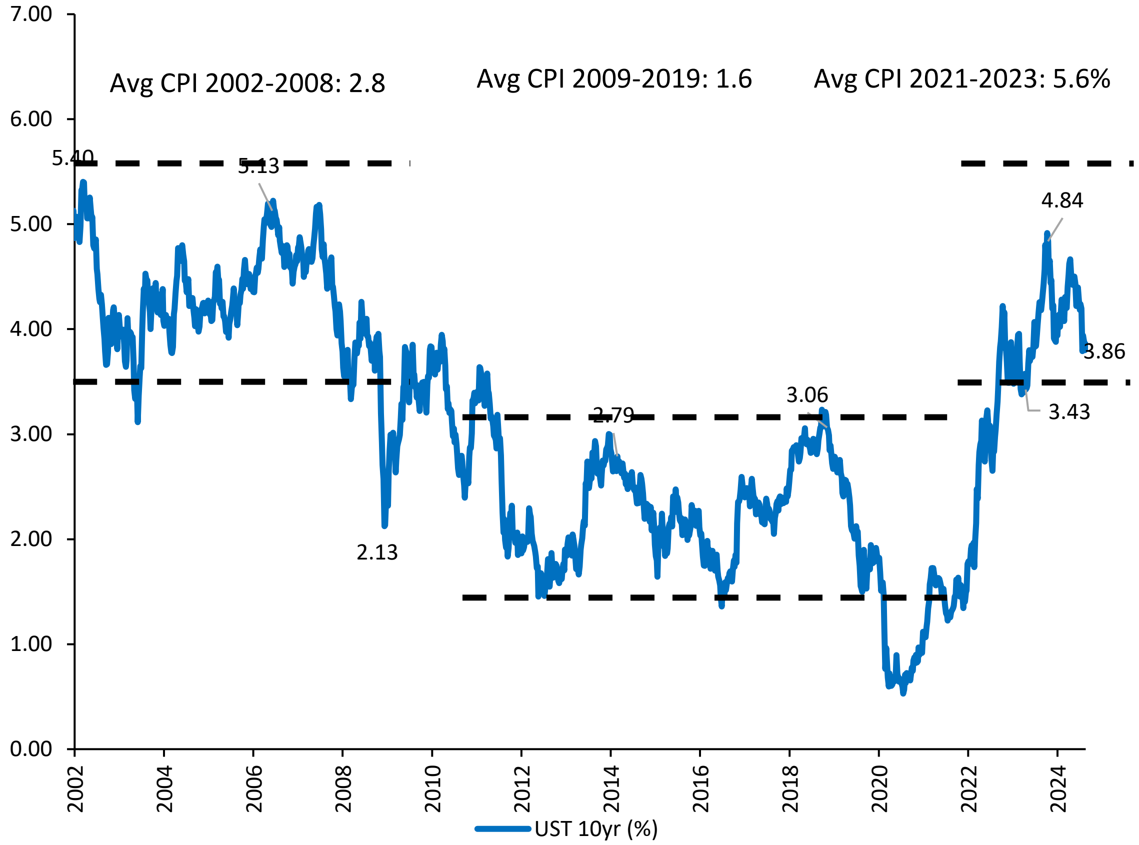
Positive correlation between bond and equities since Russia Ukraine in 2022



- 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.

US Bond yields moderates in July and August on account of softer data

10 year UST falls below 4% post Fed policy decision on 31st July 2024



- Yields moderated in July and August 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.

Source: Bloomberg, SBIFM Research

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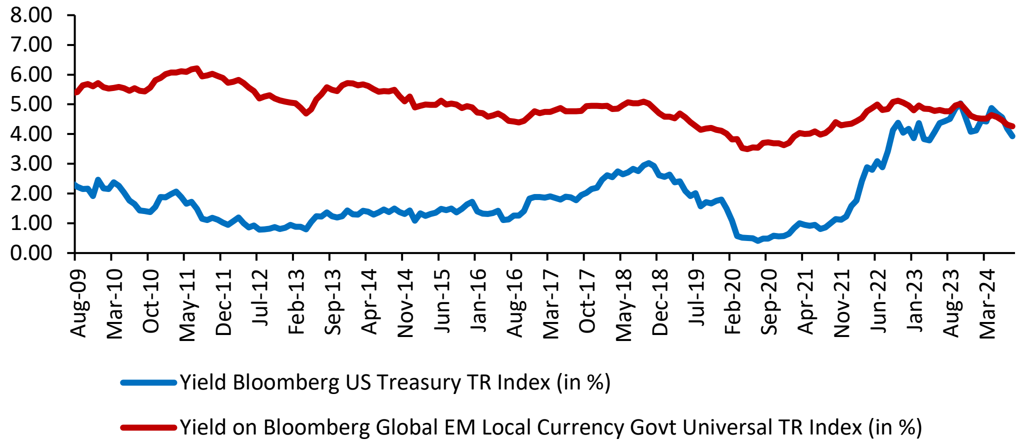
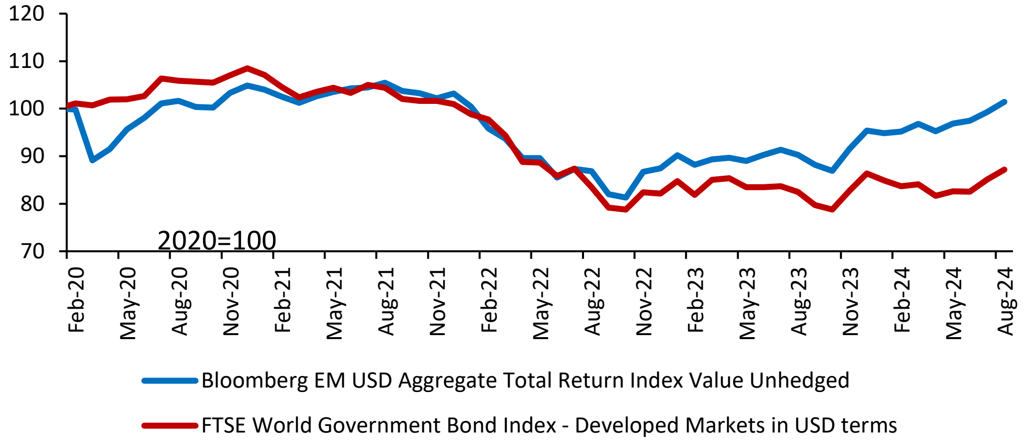
Emerging market bonds erase risk premium; Monetary easing in the US will favour FII flows

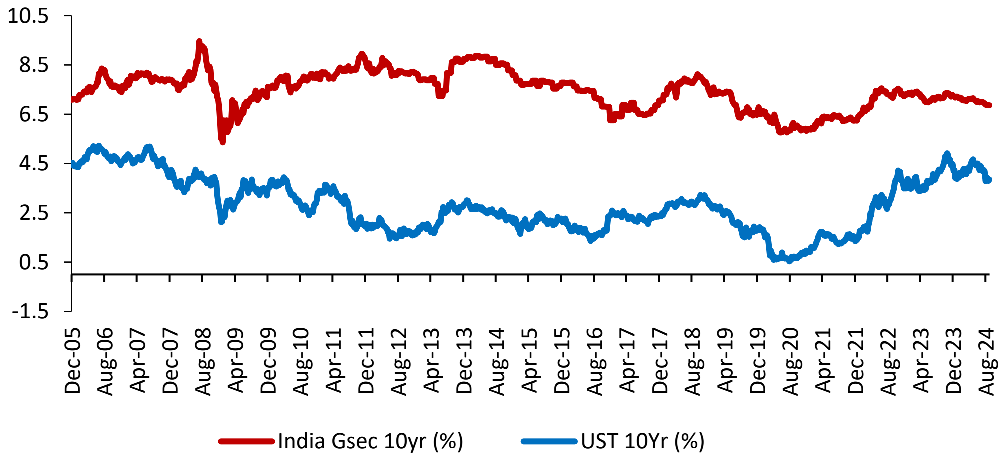
Spread between EM bond yields and UST yields at low levels



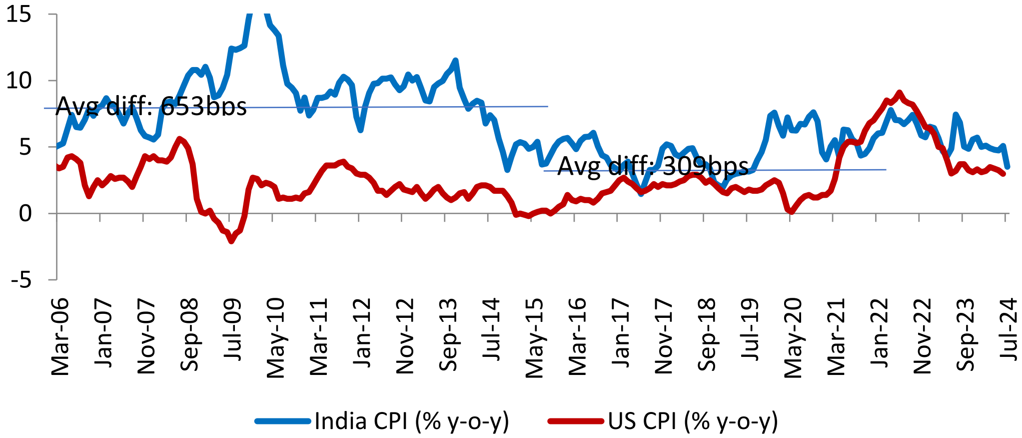
EM bonds outperform



India vs. US 10yr bond yield differential is low



India sees reduced inflation differential vis-à-vis US



Source: Bloomberg, SBIFM Research

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INDIA ECONOMIC ACTIVITY

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India Q1 FY25 Real GDP growth moderated to 6.7% y-o-y; broadly in line with market expectation

Q1 FY25 real GDP growth at 6.7% y-o-y vs. 7.8% in the previous quarter

	% Share in GDP (5Yr avg)	% y-o-y						% y-o-y						
		FY19	FY20	FY21	FY22	FY23	FY24	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
Real GDP	**100**	**6.5**	**3.9**	**-5.8**	**9.7**	**7.0**	**8.2**	**4.3**	**6.2**	**8.2**	**8.1**	**8.6**	**7.8**	**6.7**
Private Consumption	**57**	**7.1**	**5.2**	**-5.3**	**11.7**	**6.8**	**4.0**	**1.8**	**1.5**	**5.5**	**2.6**	**4.0**	**4.0**	**7.4**
Govt. Consumption Spending	**10**	**6.7**	**3.9**	**-0.8**	**0.0**	**9.0**	**2.5**	**7.1**	**13.9**	**-0.1**	**14.0**	**-3.2**	**0.9**	**-0.2**
Gross Capital formation	**35**	**11.0**	**-2.6**	**-7.4**	**21.1**	**5.5**	**9.4**	**2.8**	**3.3**	**7.5**	**10.7**	**11.5**	**8.0**	**7.1**
GFCF	32.5	11.2	1.1	-7.1	17.5	6.6	9.0	5.0	3.8	8.5	11.6	9.7	6.5	7.5
Change in Stocks	0.9	27.3	-58.7	-76.4	525.4	14.5	5.9	11.5	18.2	1.2	10.2	7.5	5.0	5.6
Valuables	1.5	-9.7	-14.2	29.9	32.5	-19.1	21.2	-38.2	-23.6	-21.0	-0.9	63.9	72.8	-11.4
Exports	**22**	**11.9**	**-3.4**	**-7.0**	**29.6**	**13.4**	**2.6**	**10.9**	**12.4**	**-6.6**	**5.0**	**3.4**	**8.1**	**8.7**
Imports	**23**	**8.8**	**-0.8**	**-12.6**	**22.1**	**10.6**	**10.9**	**4.1**	**-0.4**	**15.2**	**11.6**	**8.7**	**8.3**	**4.4**

- Q1 FY25 real GDP moderated to 6.7% vs. a near 8% growth in every quarter of FY25. That said, it was broadly along the expected lines.
- The highlight of the quarter was 7.4% growth in household consumption spending after 18 months of muted prints. Interestingly, investment spending, gauged by GFCF and change in stocks improved this quarter. General election in India had slowed the new capex announcements and government capex spend in Q1 FY25. But as per companies' guidance, there is a visibility in order book.
- Government revenue spending stays muted. Services exports is driving the positivity in external trade for India. Net exports added 0.7% pt to overall growth.
- Looking at the supply side, GVA growth did better than GDP growth. Q1 FY25 GVA growth came in at 6.8% y-o-y vs. 6.3% in Q4. Election did not disrupt the output or production of goods and services in the economy. Construction expanded and services improved. Agriculture improved to a modest 2%, still better than sub-1% print in the previous two quarters. Manufacturing moderated but stood healthy at 7.0% (vs. 8.9%).
- Nominal growth moderated to 9.7% vs. 9.9% in the previous quarter. And hence continues to paint a sobering outlook for topline of the companies.
- The constituents of the GDP data– consumption, investment, exports, construction, manufacturing and services, all printed above 7% growth. And interestingly, the outlook also stays at 7% (nearly) each for the remaining three quarters of FY25. And all this at a time when CPI looks to be ~4% and WPI under 3%. CAD under 1% of GDP, fiscal consolidation better than thought and rupee stable.

Source: CMIE Economic Outlook, SBIMF Research; NB: Change in Stock turned from negative to positive in FY22

High frequency indicators point towards slight moderation in Indian economic activity in Q1 FY25

Index value for every month compares to corresponding month in the prior year	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24
Macro indicators													
Bank credit deflated by WPI	121	120	120	120	120	119	120	120	120	118	118	114	112
GST Deflated by WPI manufacturing	113	113	111	114	116	111	113	114	112	113	109	106	109
Consumption of petroleum products	103	108	108	105	98	103	108	106	99	108	102	103	107
Electricity generation	112	119	113	125	111	105	107	108	108	110	115	109	108
Urban Consumption demand													
Domestic air traffic	126	124	119	111	109	108	105	106	105	104	106	107	na
Domestic sale of passenger Cars	77	90	78	92	79	72	92	82	91	77	89	86	88
Naukri Job Speak Index	81	94	91	101	77	84	89	92	89	97	98	92	112
Payments via digital means	139	142	136	138	143	139	101	143	127	135	133	na	na
Urban Consumer sentiment Index	135	135	127	124	126	131	126	117	112	107	107	111	113
Rural Consumption demand													
Domestic Tractor sales	100	96	84	95	101	79	86	74	80	97	101	103	101
Real rural wage	99	100	101	101	100	100	101	101	101	100	100	99	na
Domestic sale of two-wheelers	93	101	101	120	131	116	126	135	115	131	110	121	112
Consumer sentiment - rural	131	128	131	126	129	134	125	120	118	124	121	116	116
Business indicators													
Cargo traffic - rails	102	106	107	108	104	106	106	110	109	101	104	110	109
Cement production	107	120	105	117	95	104	104	108	111	100	99	102	na
Steel consumption	117	116	119	114	115	107	104	113	111	111	112	121	115
Sale of CV	104	104	104	103	103	103	96	96	96	104	104	104	na
Bank industrial credit deflated by WPI	106	106	107	106	106	107	108	109	108	106	107	105	na
External Sector indicator													
Cargo traffic - ports	104	104	100	114	117	101	103	102	104	105	104	107	106
Merchandise exports	90	103	97	106	97	101	104	112	99	102	113	103	99
Services exports	108	108	97	111	104	101	111	103	99	118	110	104	108
Non-oil non-gold imports	91	102	89	104	96	95	98	104	95	101	100	105	106
Government													
State government: Capital expenditure	112	128	198	155	105	100	131	119	103	86	83	52	na
Central government : capital expenditure	115	130	129	85	102	205	59	415	96	126	50	34	na
Centre Revex ex of interest payments	262	101	87	76	79	88	85	102	88	110	94	93	na
State Revex ex of Interest Payments	102	124	107	109	111	104	116	108	104	109	118	91	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

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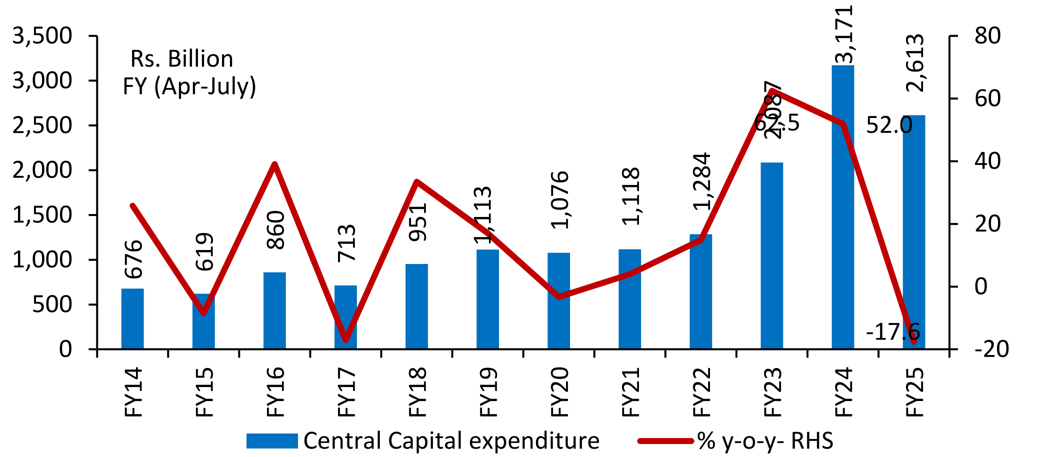
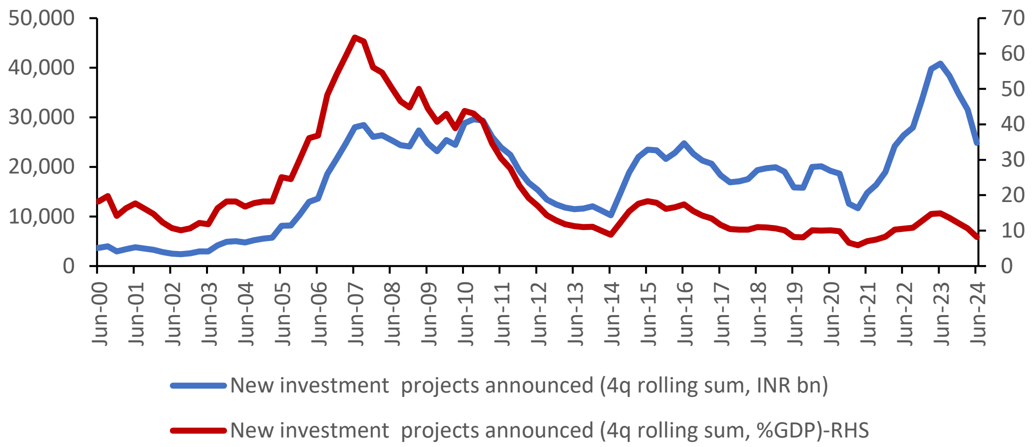
Soft patch for capex in Q1 FY25; though capex thrust on track

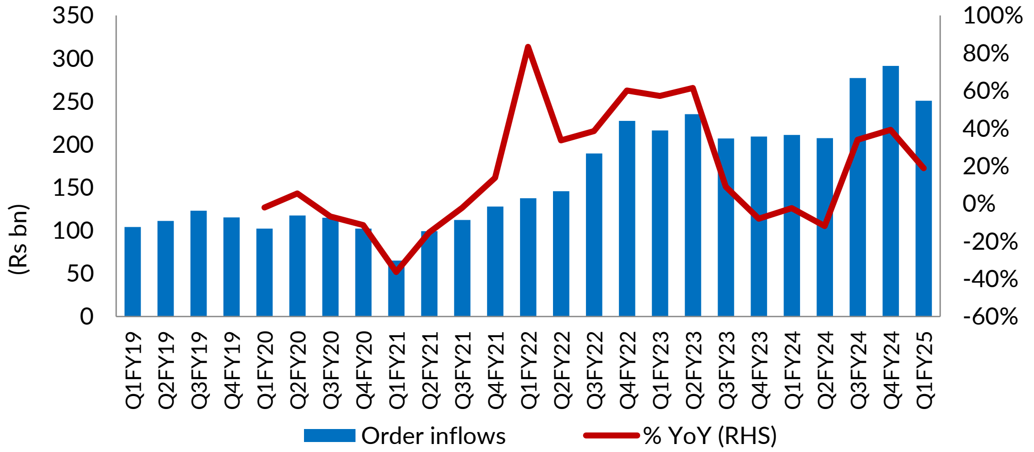
Central capital expenditure was weak from Apr-Jul'24 owing to lower spending pre general election 2024



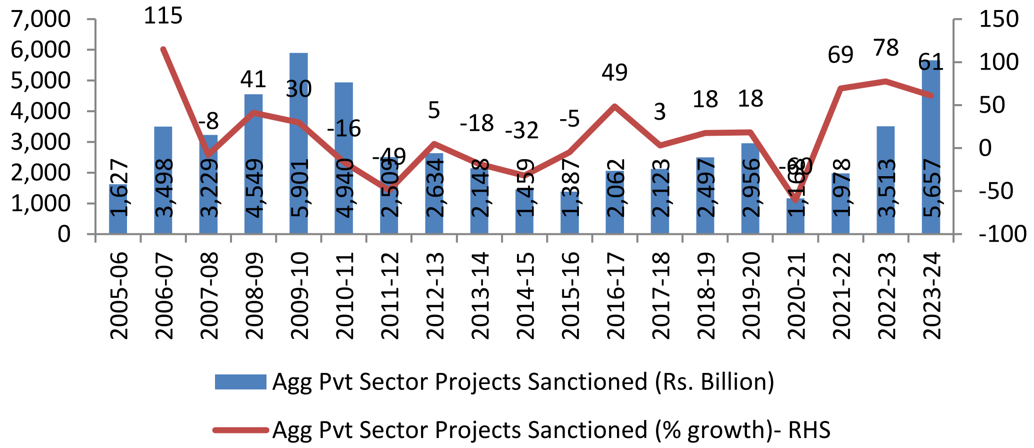
New project announcement (based on CMIE capex intentions data) shower a sharp drop in Q1 FY25



Order flows expected to revive as gauged from company reports



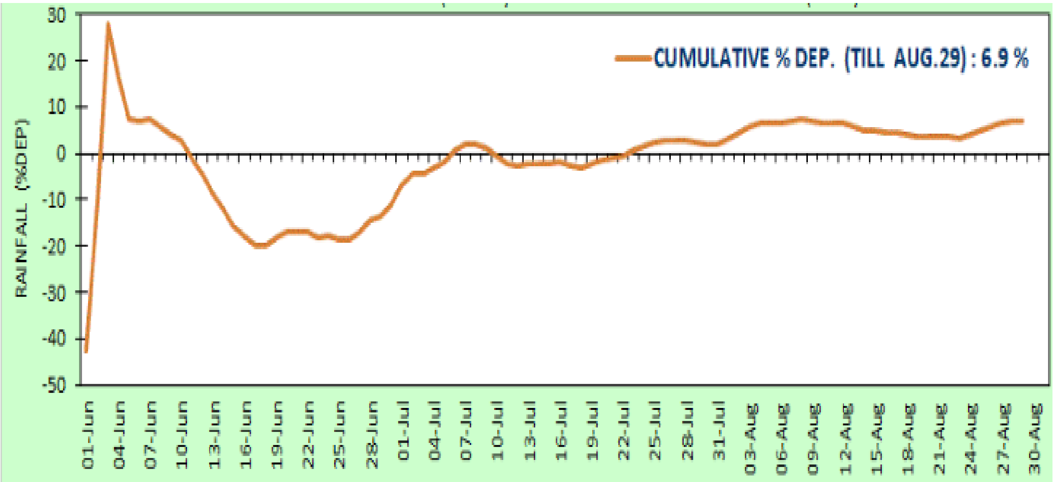
RBI's tracking of private corporate capex intentions gives a positive read



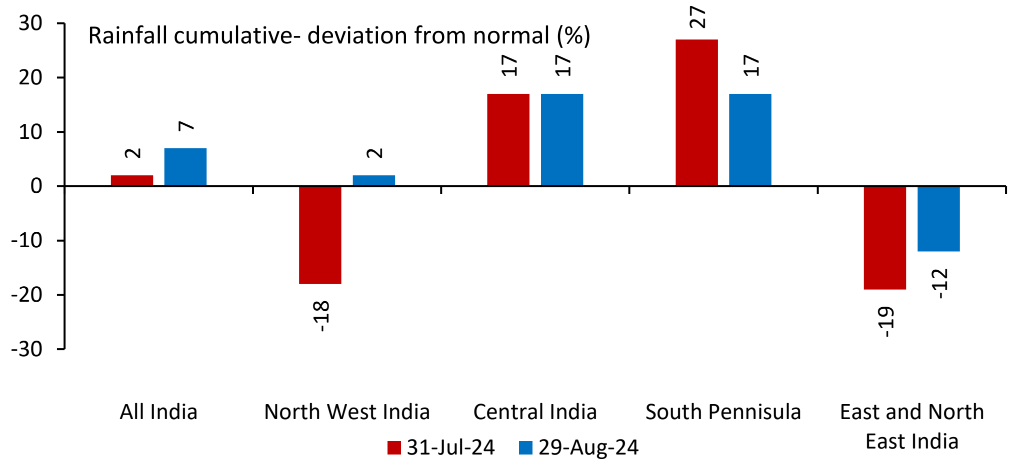
Source: CMIE Economic Outlook, RBI, SBIFM Research

All-India cumulative monsoon rains in surplus by end August; Crop sowing up 2% y-o-y

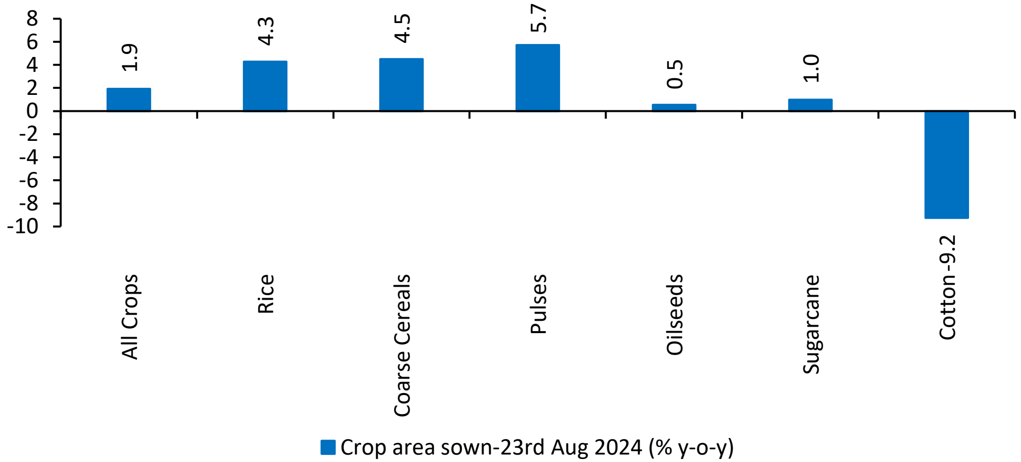
Cumulative monsoon rains are 7% above normal as of July'24 end (vs. 2% surplus last month)



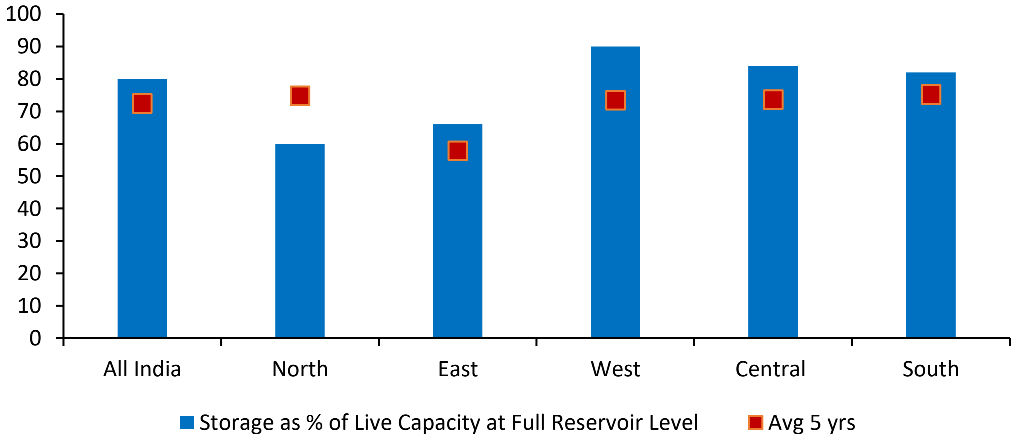
Rainfall distribution is skewed; but improves compared to last month



Crop sowing reflects strength; only cotton sowing is declining on a y-o-y basis



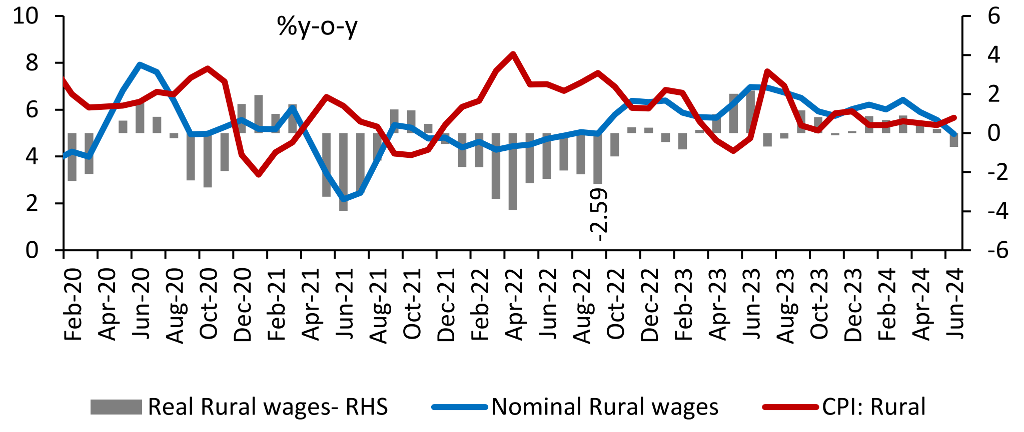
Reservoir levels are close to trend at an all-India level; though significantly lower in North India



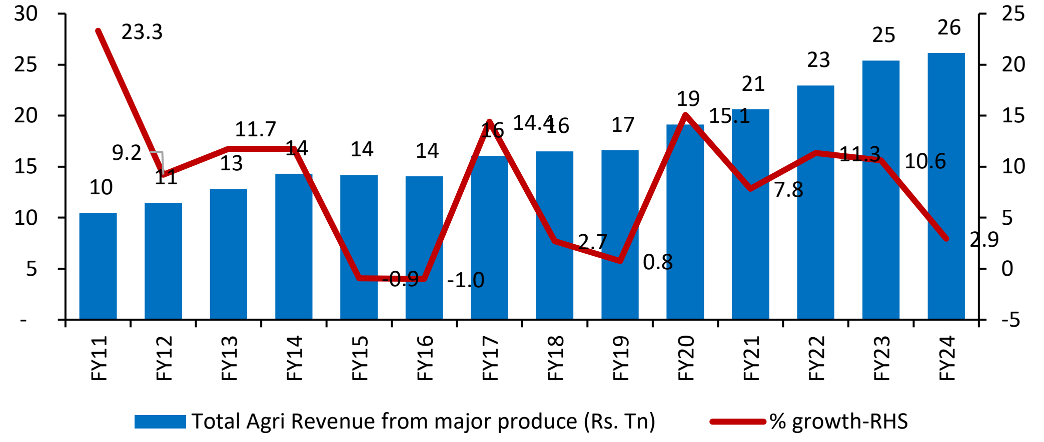
Source: IMD, CEIC, Ministry of Agriculture, SBIFM Research; NB: Reservoir levels as on 25th Jul'24

Rural sector is strengthening at the margin

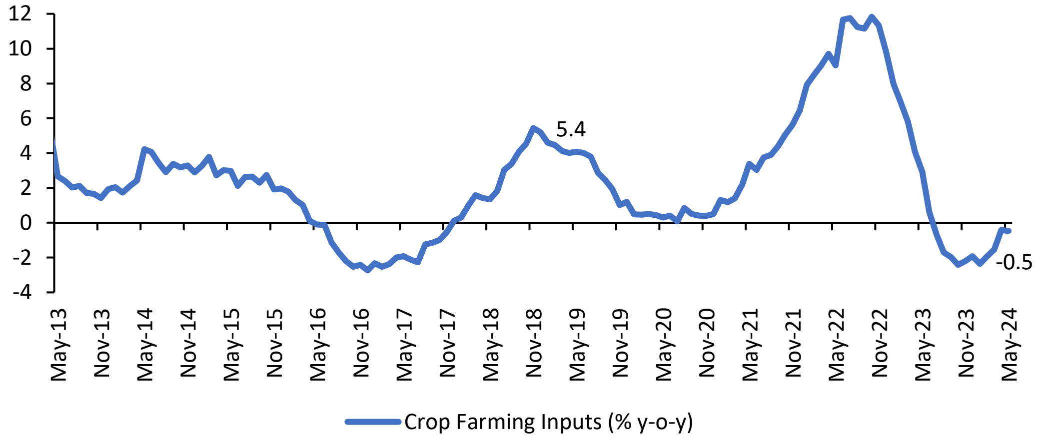
Real rural wages have turned marginally positive



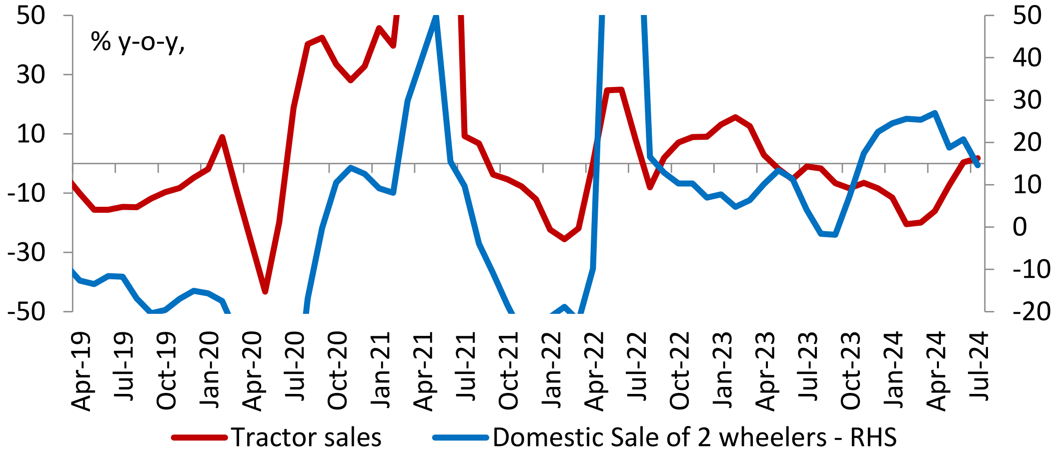
Agriculture revenue continues to grow



Cost of inputs moderated



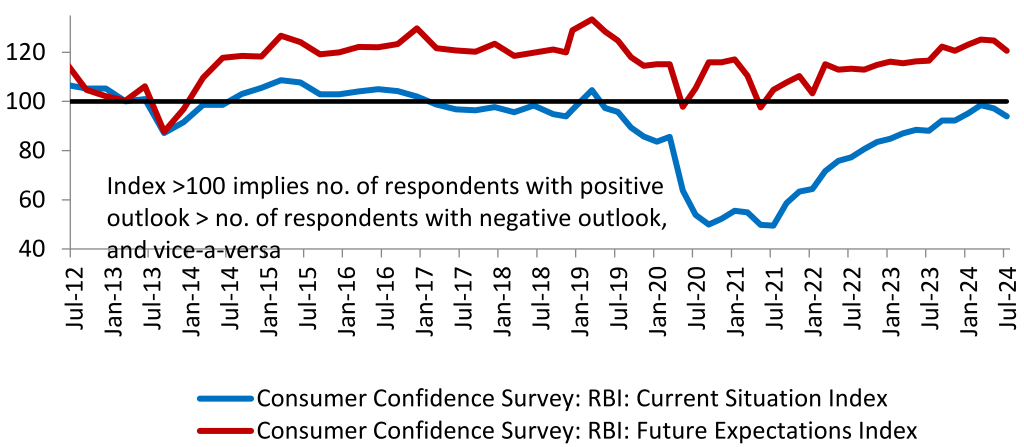
2W sales continue to grow but momentum moderates; Tractor sales continue to underwhelm



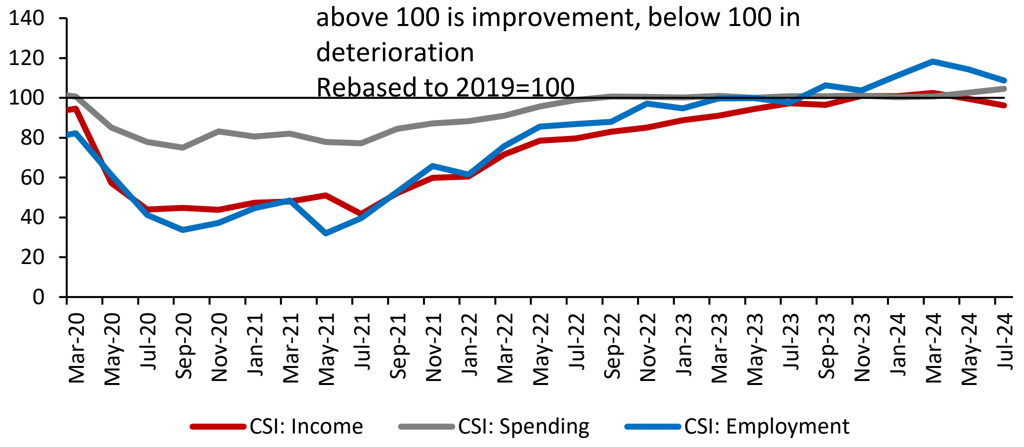
Source: CMIE, SBIFM Research

Consumer confidence recovery in India has been very gradual

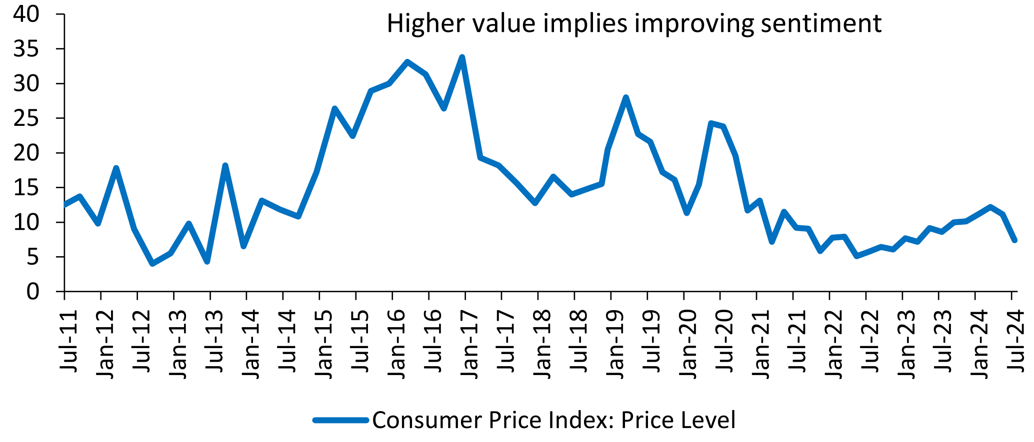
Consumer confidence still below 100 implying muted positivity; but the survey shows a moderation in July'24 (from 97 to 94)



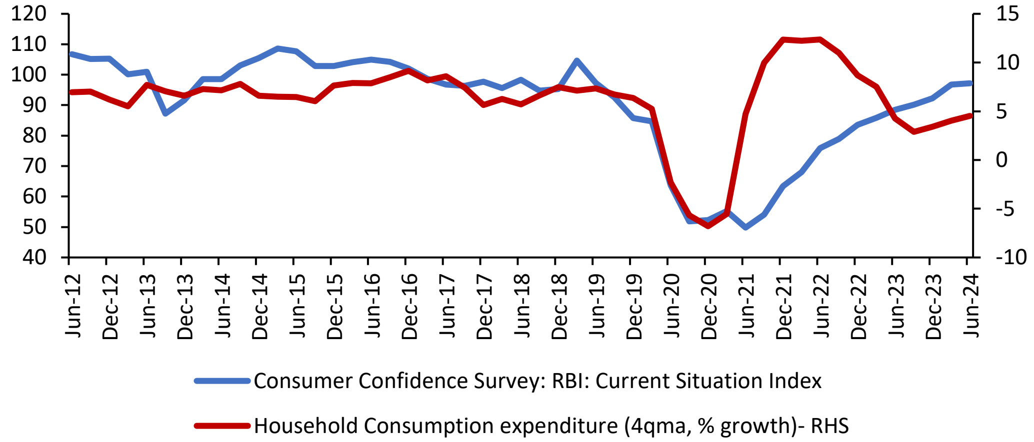
Consumer expectation on employment moderates; Spending and income is broadly flat



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



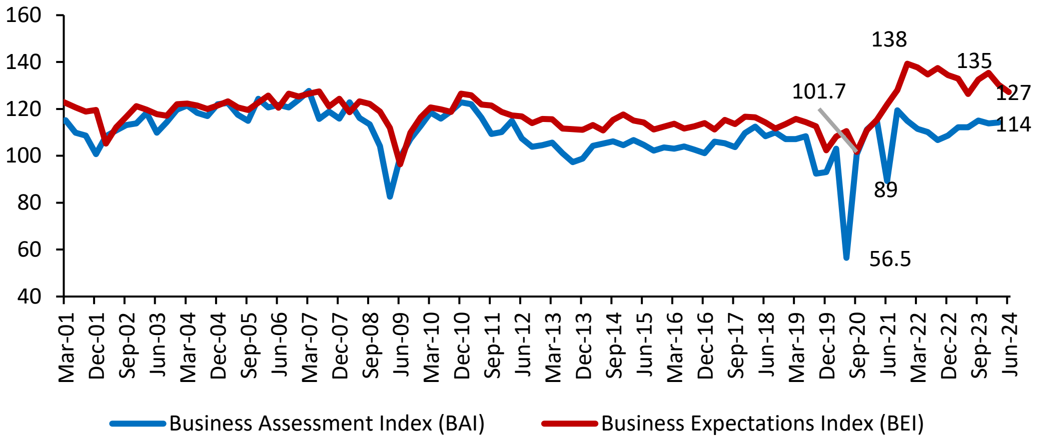
We expect a gradual recovery in consumption demand



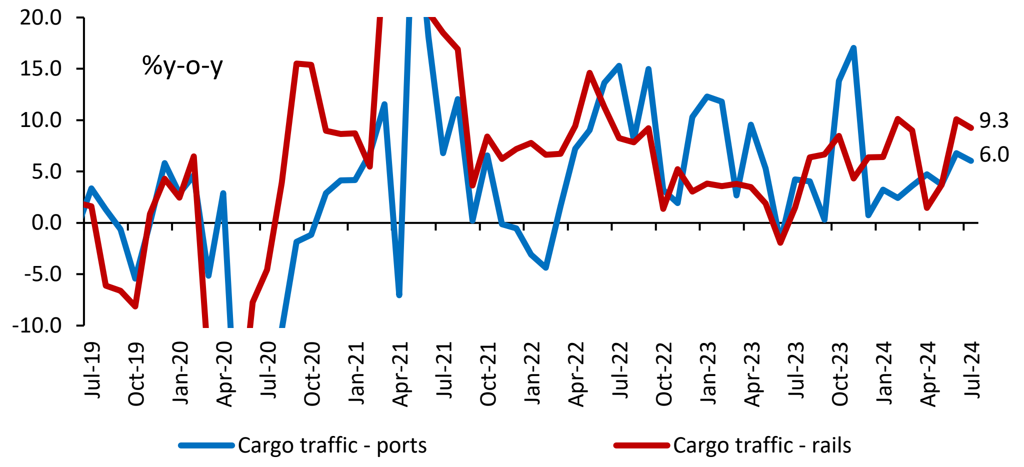
Source: RBI, CEIC, SBIFM Research

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

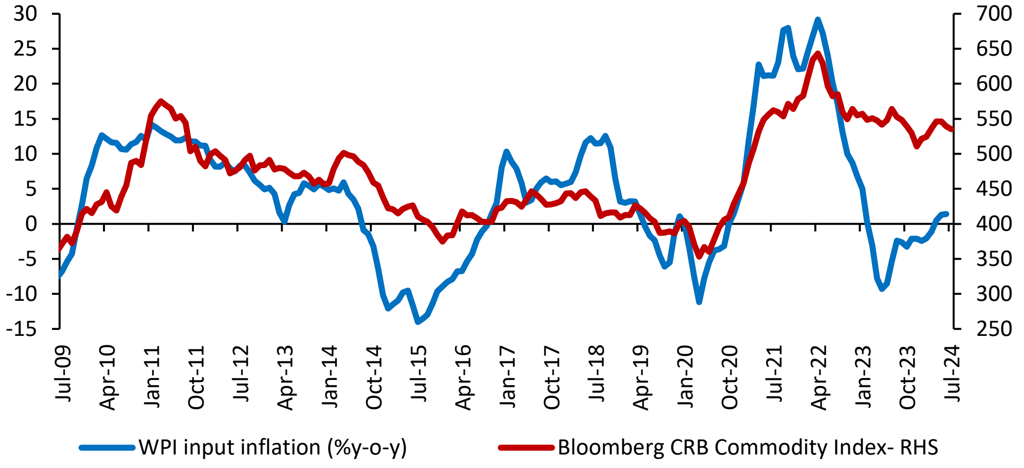
Business sentiments moderates but stays robust



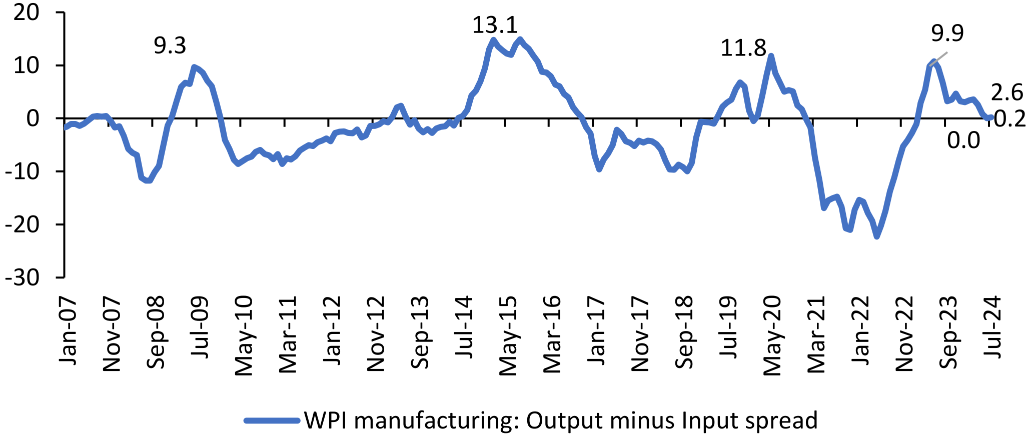
Rail and port cargo traffic grows in July



Commodity prices see some moderation in July and August; marginal cushion to gross margins in Q2 FY25…



…but 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

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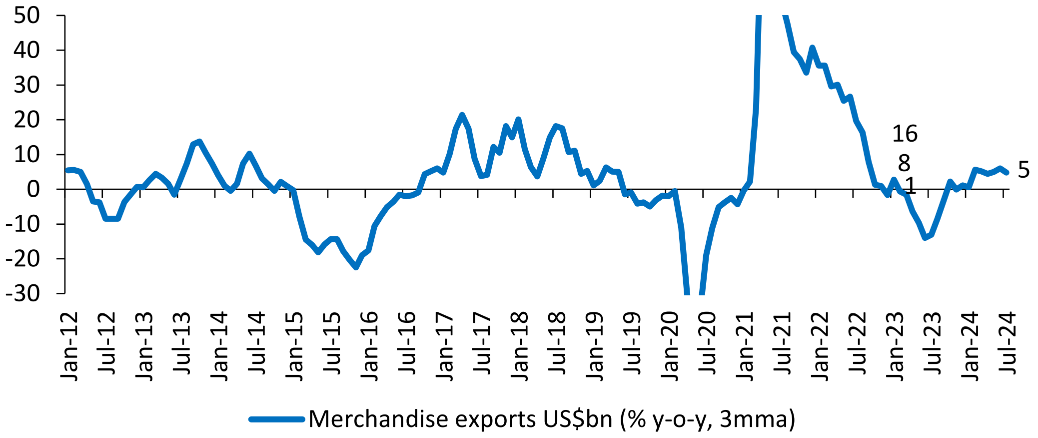
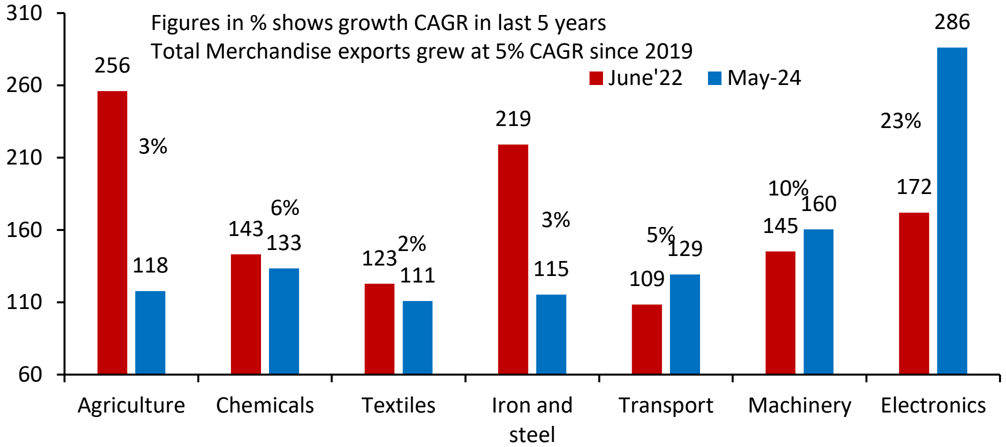
Marginal positivity in exports as global inventory normalizes

Merchandise exports continue their marginal positive momentum n July (5% y-o-y 3mma)

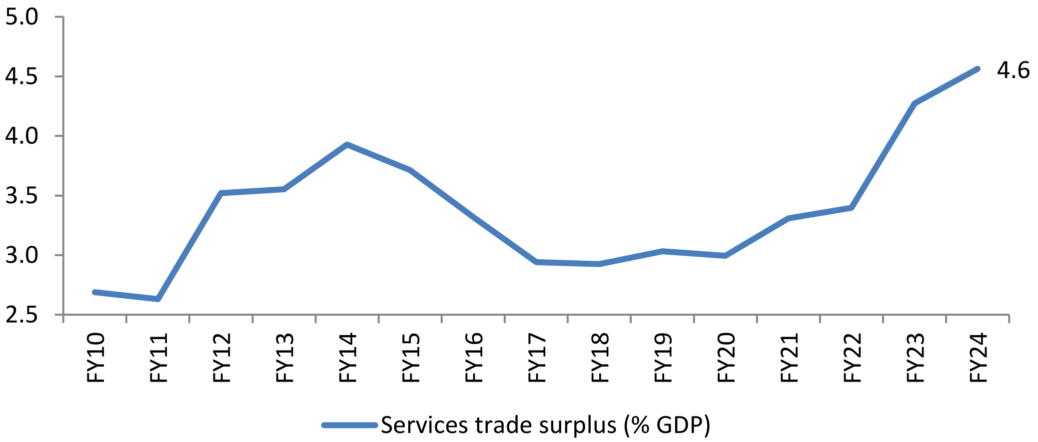


Electronics exports are healthy, metals, chemicals and machinery exports sees some rebound



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

Services exports continue to be resilient

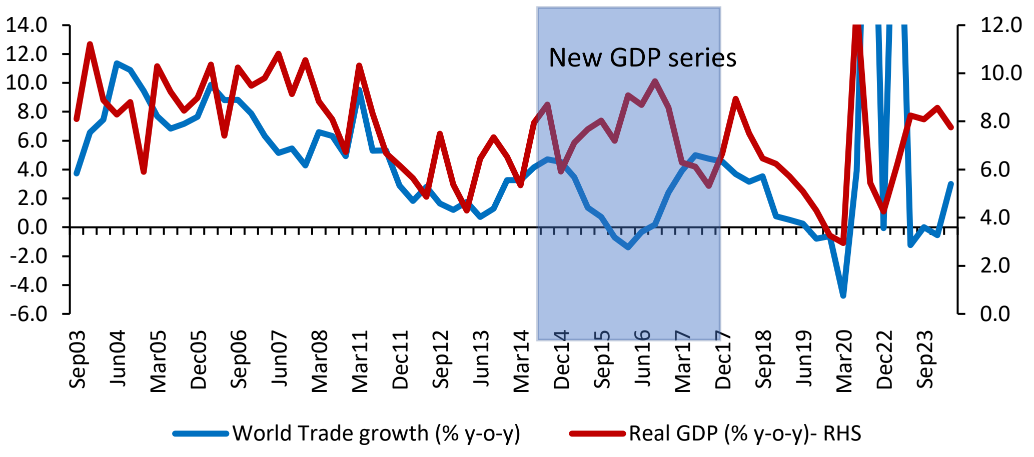


- Global export cycle is showing very nascent signs of positivity. It is due to continued positivity in the US demand and normalizing US inventory.
- India's exports have been recovering since December. Most of these gains have been due to higher exports to the US, China and select other Asian economies.
- 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.

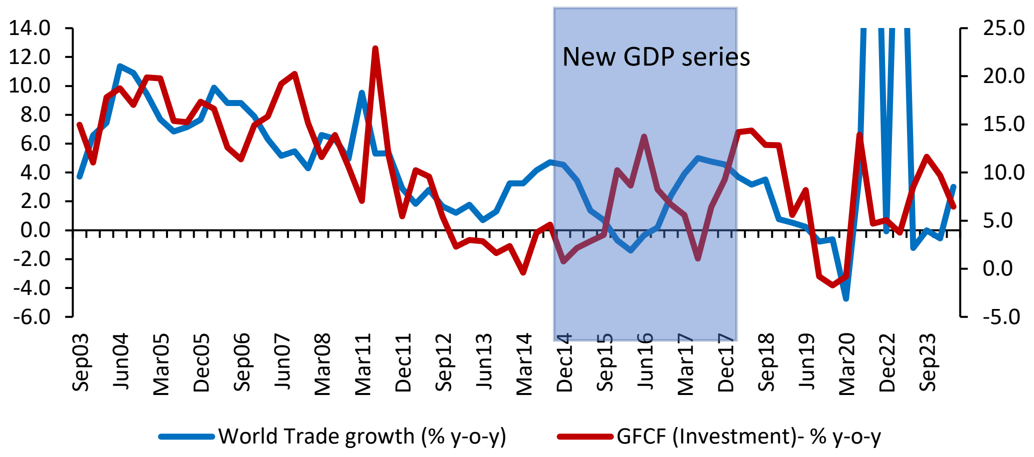
Source: CEIC, CMIE Economic Outlook, SBIFM Research; NB:*weighted average calculated

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

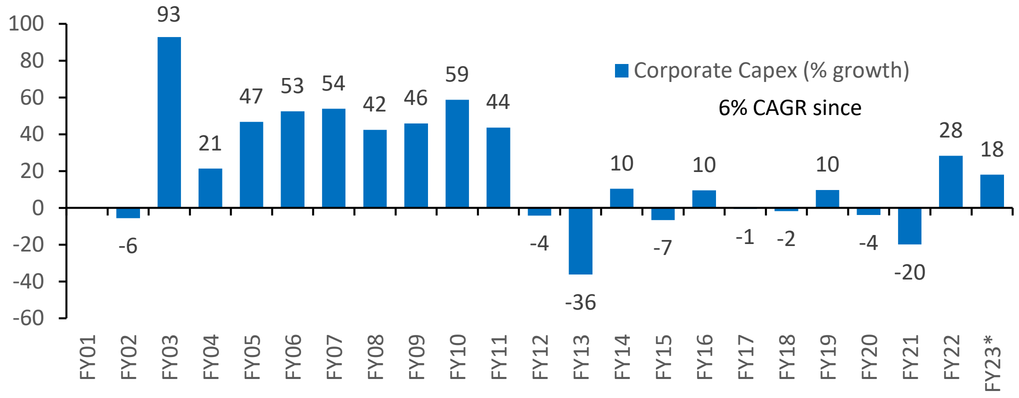
India's GDP moderates with moderating global trade



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

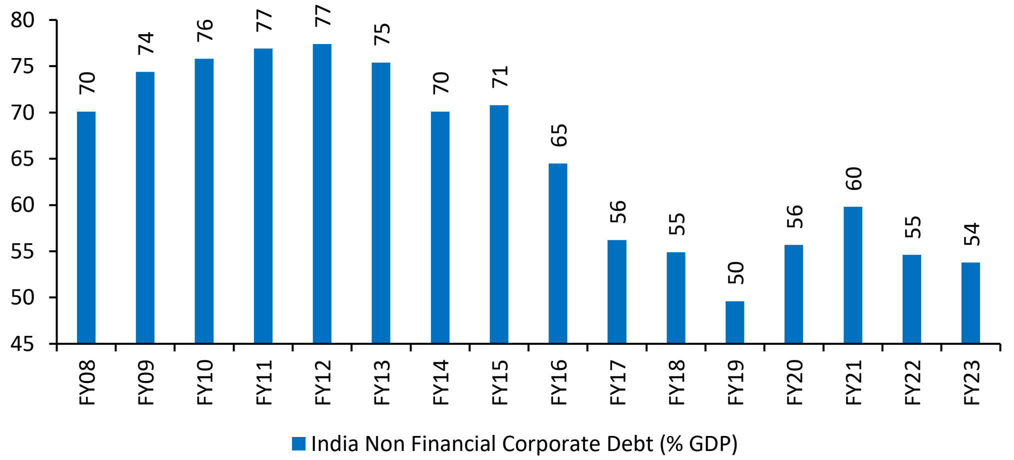


~5K listed companies and ~3K unlisted companies

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

Corporate debt to GDP is at a multiyear low



Source: CMIE Economic Outlook, Ace equity, SBIFM Research; NB: Private sector project announcement from CMIE

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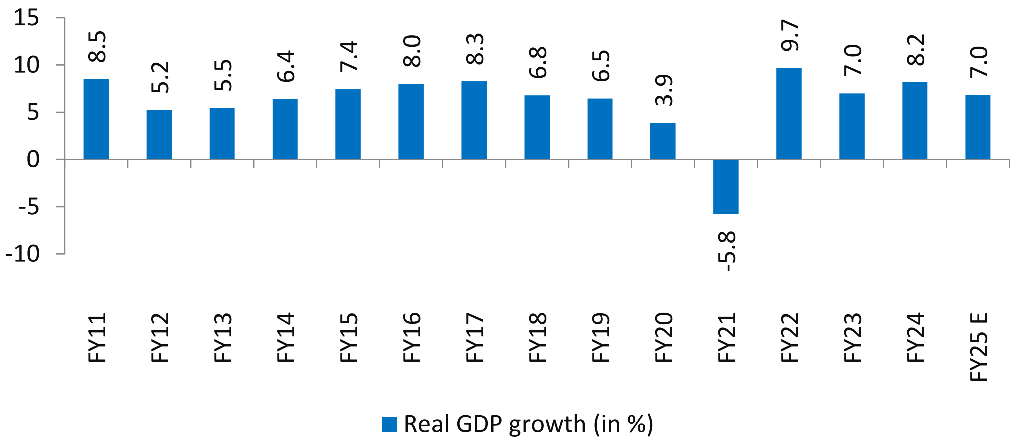
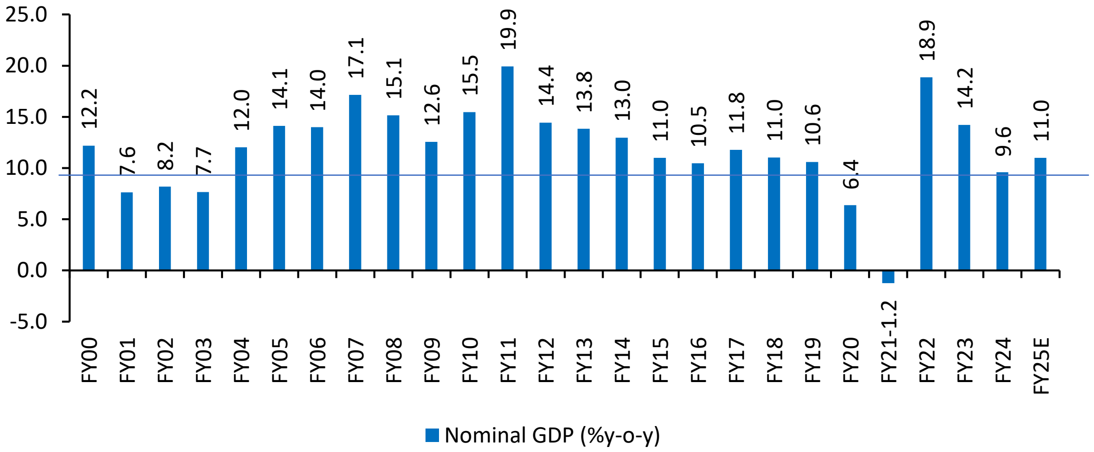
FY24 depicts dichotomy in nominal and real growth strength

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)



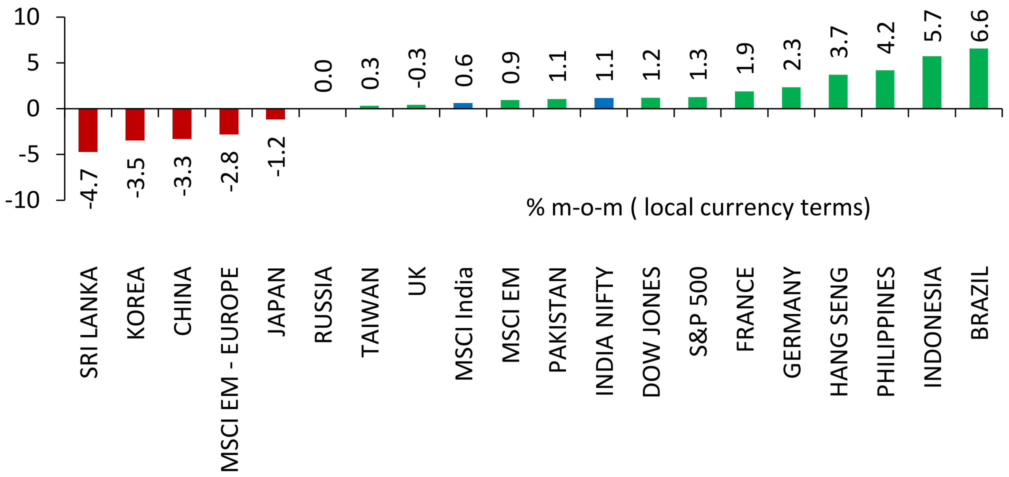
- In FY24 real GDP came in at 8.2% y-o-y (vs. 7.0% in FY23).
- Fixed investment is the key driver of growth with a positive contribution from net exports.
- Household consumption recovery was very slow. Consumption demand is gradually improving but 4% expansion in real demand is much softer than 7% pre-COVID.
- 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%.**

Source: CMIE Economic Outlook, SBIFM Research

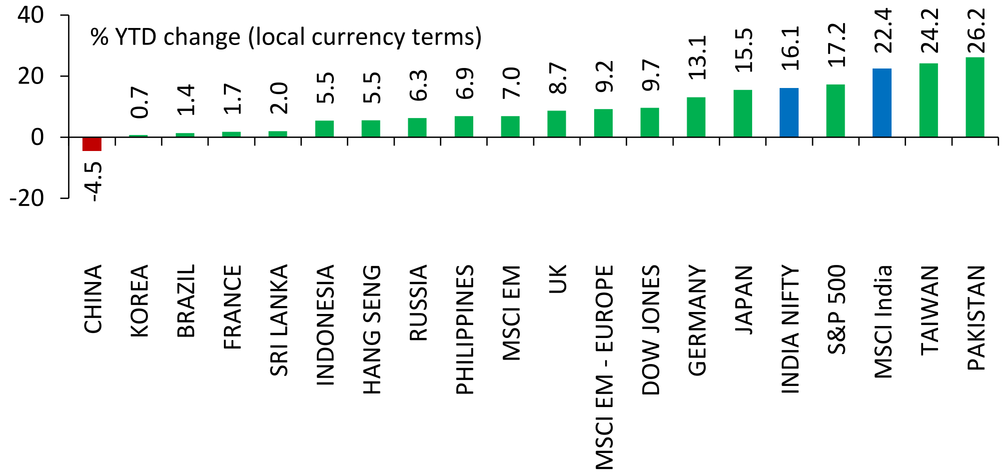
EQUITY MARKET

Global equity market snapshot: August 2024

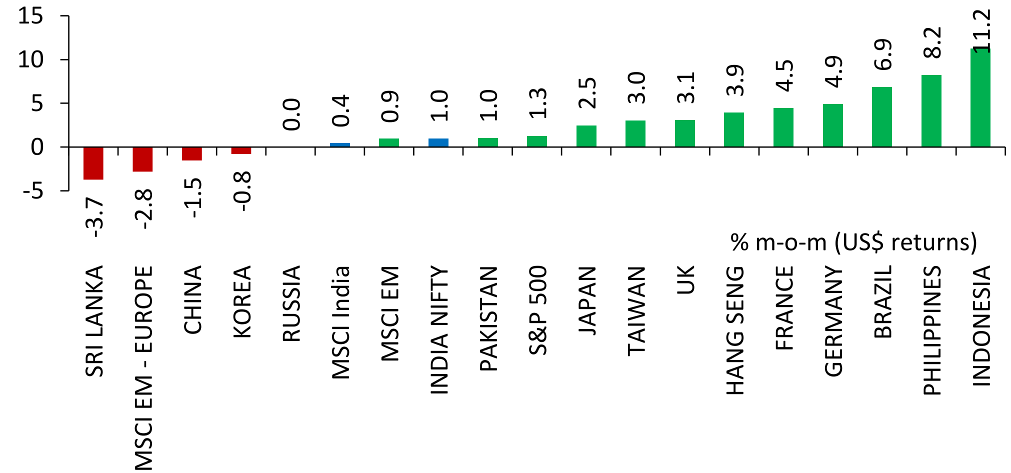
Performance in August 2024 (local currency returns)



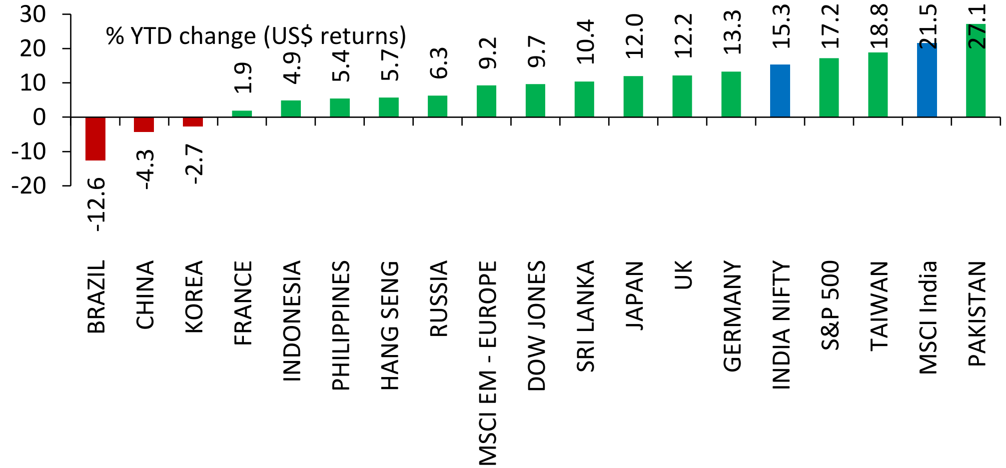
YTD performance (local currency returns)



Performance in August 2024 (US$ returns)



YTD performance (US$ returns)



Source: Bloomberg, SBIFM Research

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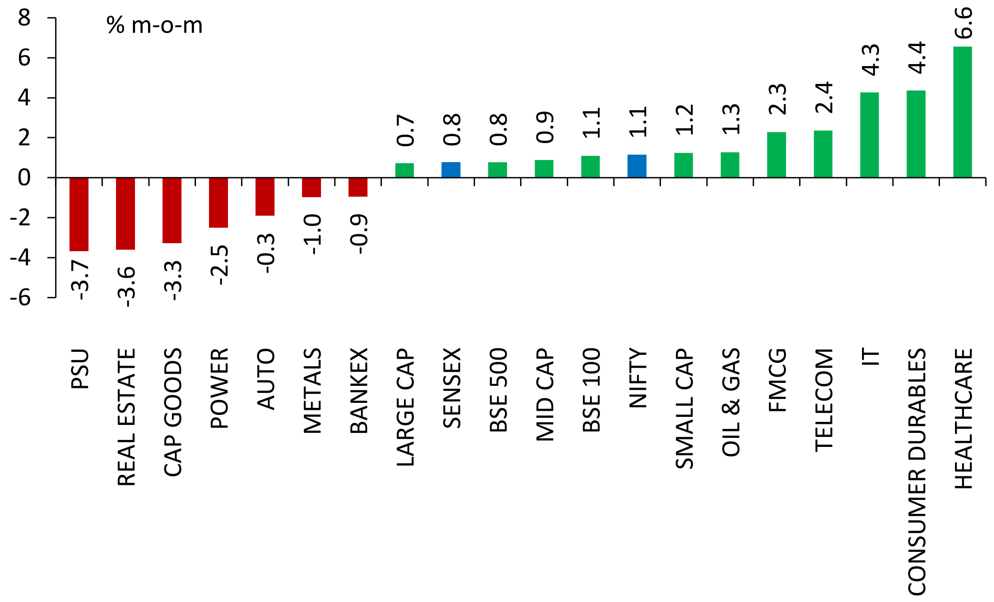
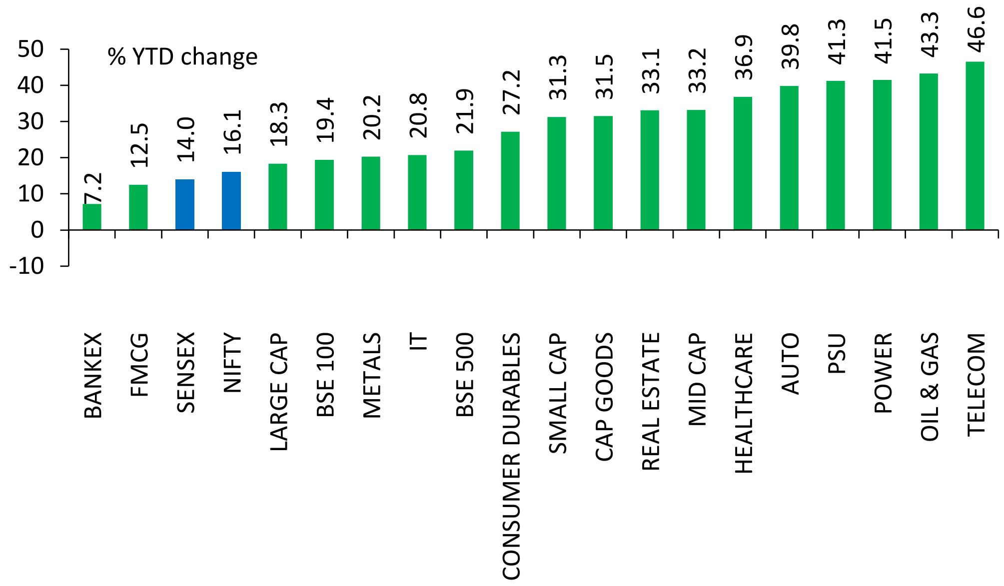
Indian equity market snapshot: August 2024

Indian equity market performance in August 2024 (local currency returns



YTD performance (local currency returns)

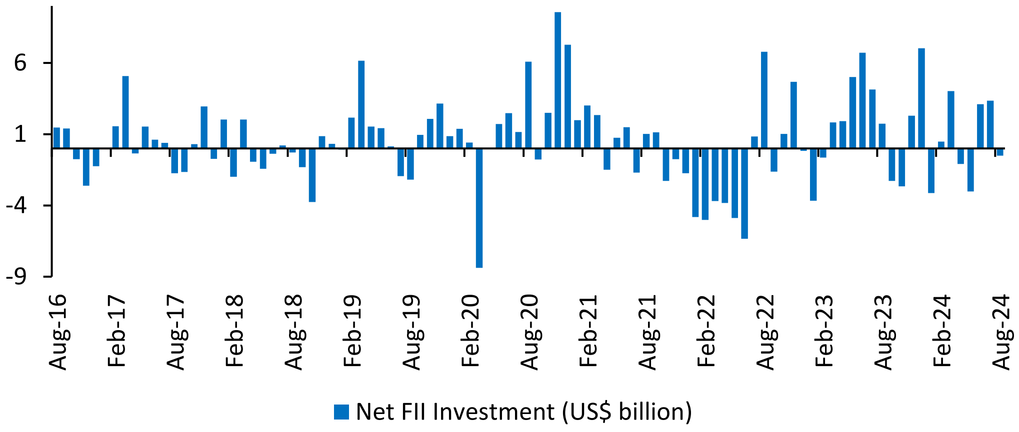


- Nifty and Sensex increased by 1.1% and 0.8% m-o-m respectively in August. Strongest gains visible in healthcare (7%), consumer durables (4%) and IT (4%), while negative returns were delivered by PSU (-4%), Real Estate (-4%) and cap goods (-3%).
- Small cap (1.2% m-o-m) marginally outperformed mid cap (0.9%) and large cap (0.7%).
- On a YTD basis, Nifty and Sensex increased by 16% and 14%, respectively. All sectors have yielded positive returns on a YTD basis. Telecom (47% YTD) has been the biggest gainer, followed by Oil & Gas (43% YTD) and power (42%).

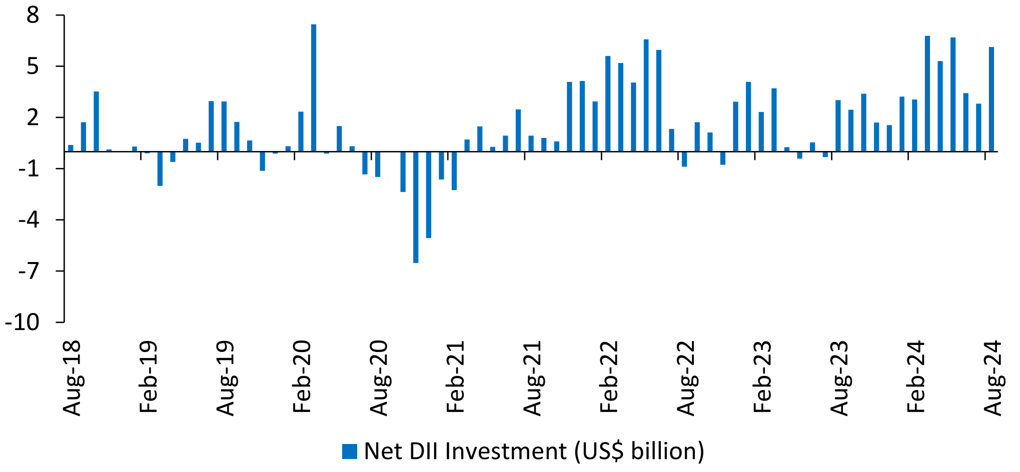
Source: Bloomberg, SBIFM Research

Liquidity: FIIs turn net sellers in August; Primary market supply inched up

FIIs sold ~USD 1 billion in Aug'24 in equity segment vs. purchase of USD 3.3 billion in Jul'24



DIIs are net buyers (purchase of USD 6.1 billion in Aug'24 vs. USD 2.8 billion in Jul'24)



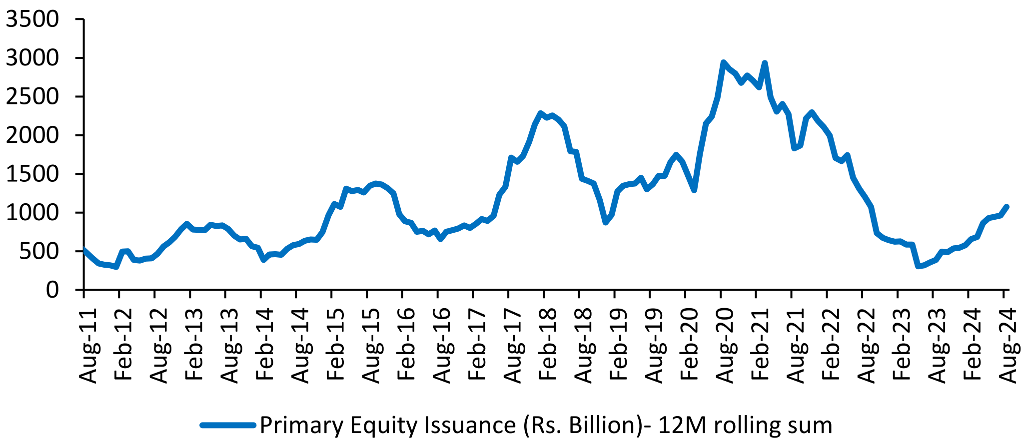
Retail flows into Equity (both Cash and Derivates) surge; Category wise net inflows into Indian equities:

	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	35,565
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	2,60,473
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	1,00,182
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	4.3
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	31.3
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	12.0

* As of July 31st, 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



Source: NSE, Bloomberg, SBIFM Research; NB: FII purchase data till 29th Jul'24

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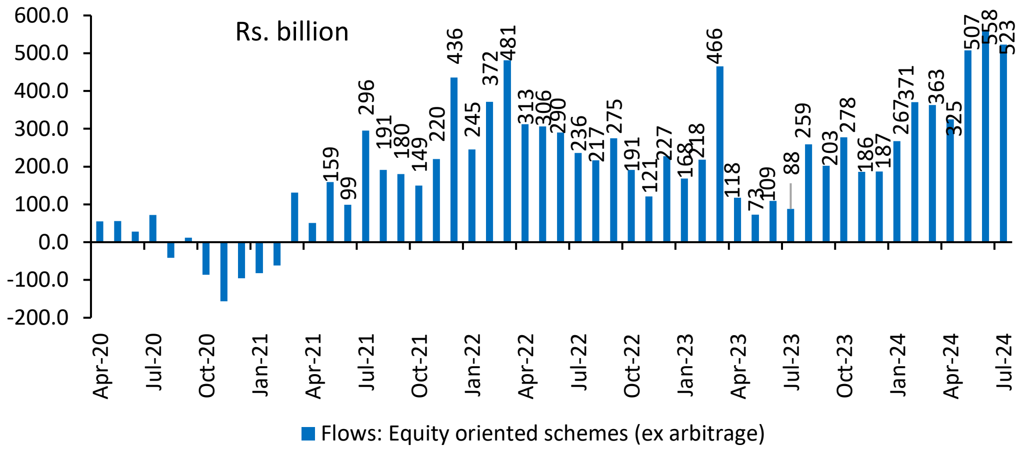
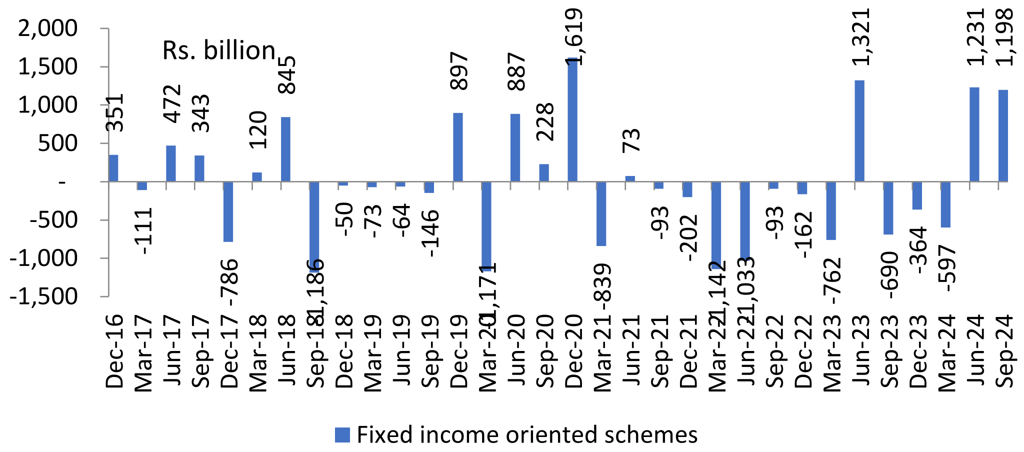
MF flows: Improvement in SIP and non SIP equity inflows; Debt inflow rises sharply this quarter

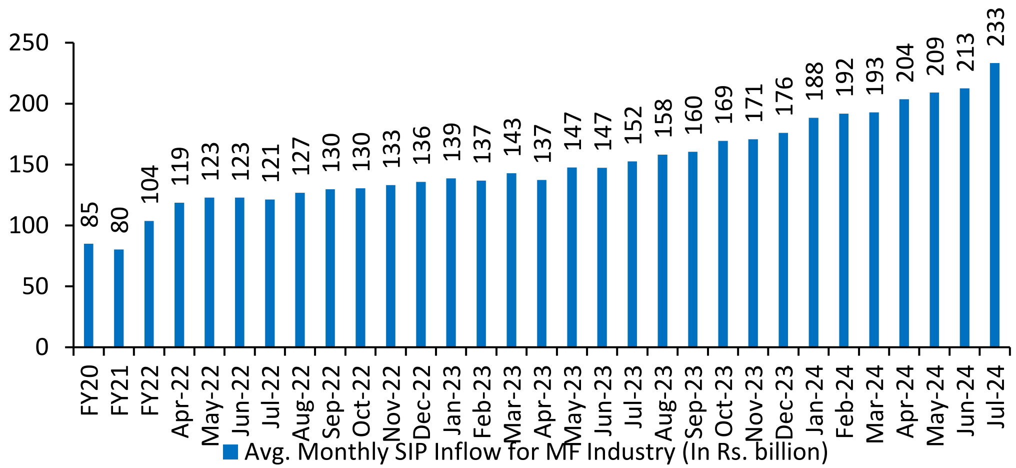
Equity inflows moderate slightly in July 2024 compared to a month ago



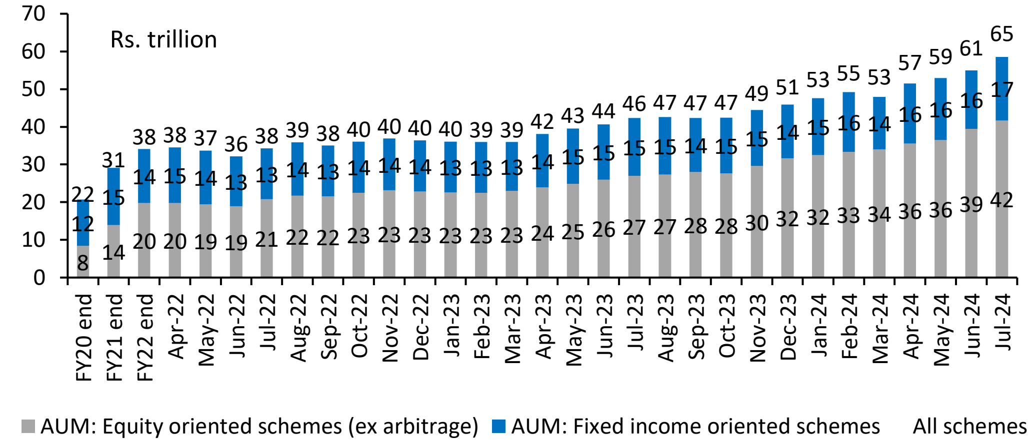
Sharp debt inflow of INR 1.2tn in July 2024 (in line with inflow of 1.2tn in Q1 FY25)



Monthly SIP inflow increases m-o-m in July

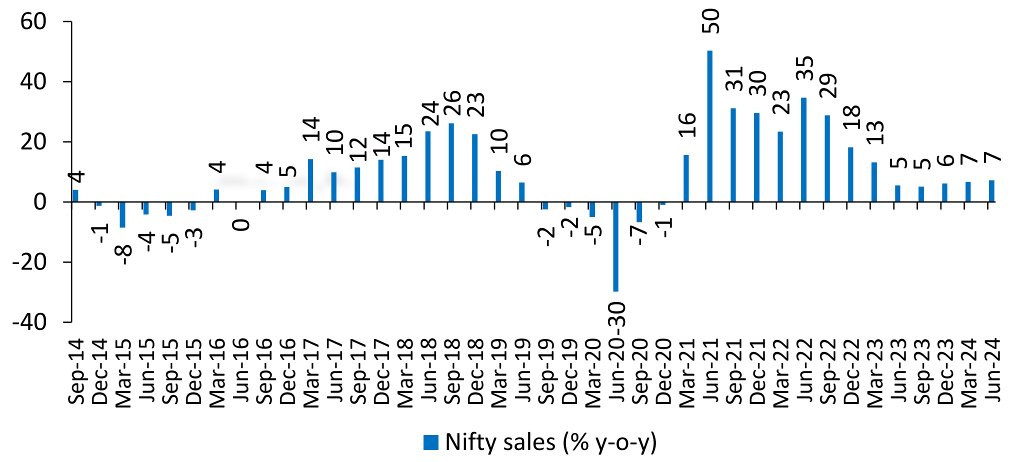


Equity and debt AUM increases m-o-m

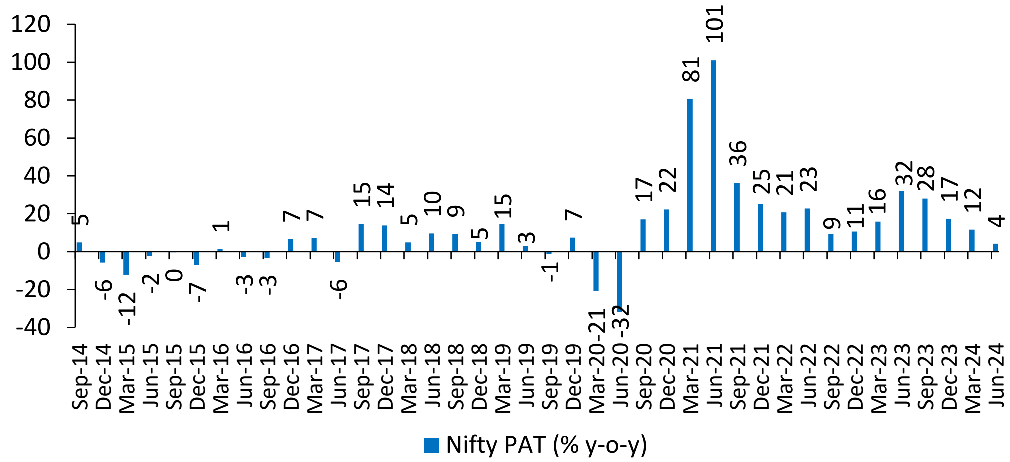


Q1 FY25 earnings: Commodity tailwinds are dissipating now

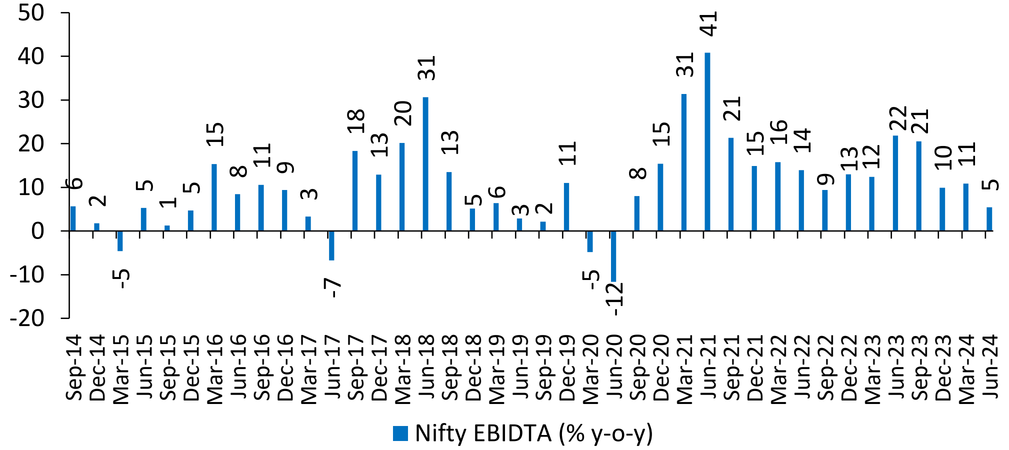
Q1 FY25 NIFTY sales growth in line with expectations



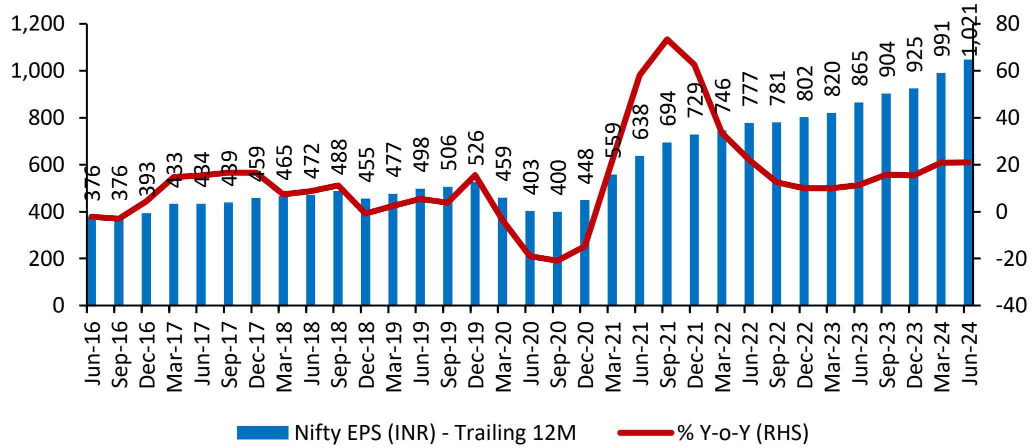
PAT growth moderates on account of high base effect in metals and oil & gas



EBITDA growth moderates too for similar reasons



EPS growth sees an improvement



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

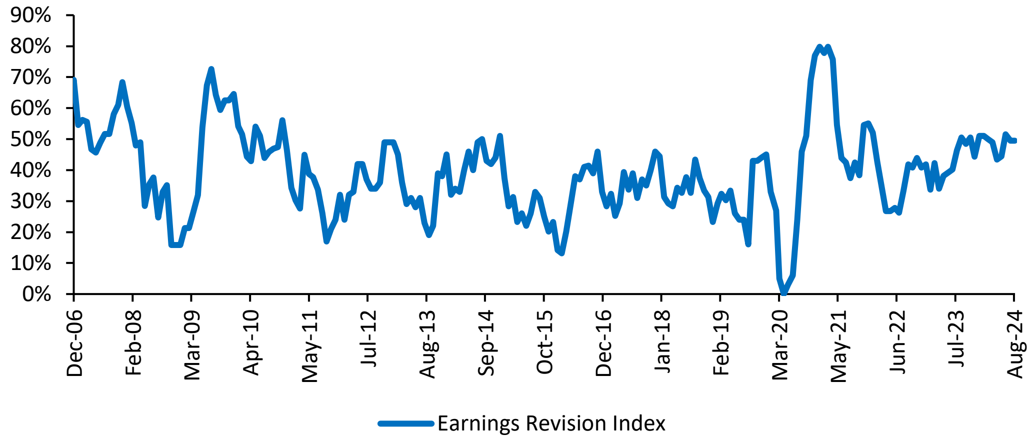
Q1 FY25 earnings' review

- Results released for all 50 NIFTY companies.
- NIFTY reported ~7% growth in sales. EBITDA and PAT growth were lower at 5% y-o-y and 4% y-o-y respectively as OMCs have had a strong base quarter. The earnings outcome was muted. Ex OMCs EBIDTA and PAT growth of NIFTY 50 rose by ~9% y-o-y each.
- 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. Urban consumption growth has been slow while rural consumption commentary appears slightly positive.
- 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 and oversupply in domestic markets leading to lower pricing power, offset by fall in coking coal prices.
- Industrials faced slight moderation in revenue and order inflow growth due to election related impact. Margins improved.
- For banks, deposit growth continues to be challenging. There is some stress seen in unsecured lending. NIMs under pressure. NBFCs see weak disbursements.
- Within the defensives, though IT services witnessed early signs of recovery (especially in BFSI), the sustainability of this trends needs to be watched out for. 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 toplines 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.

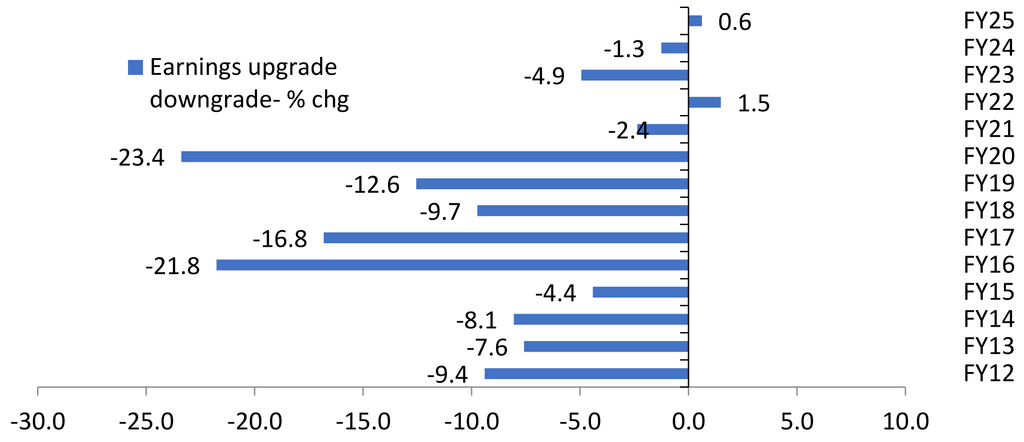
Source: MOSL, SBIFM Research

Earnings upward revisions remains at the same level in August

Earnings Upgrades to downgrades ratio remains at the same level



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

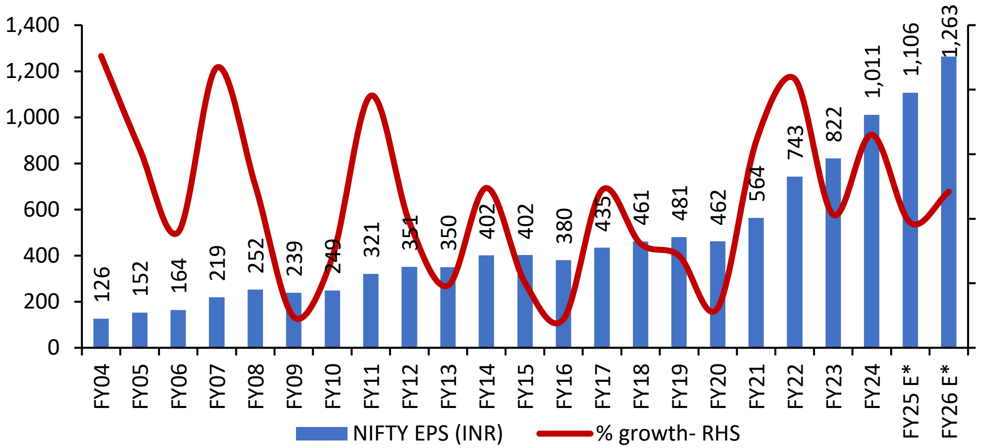


- Earnings revisions for FY25 have fallen with Materials witnessed downward revisions. Healthcare, Consumer Discretionary, Financials & Industrials saw upward revisions.
- Consensus expects 12.9% EPS growth CAGR for the Nifty over FY24-FY26.

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

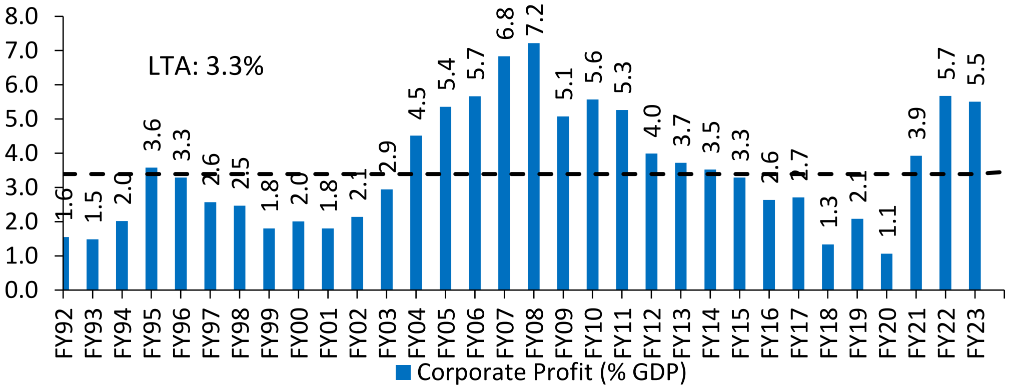
Near-term headwinds to earnings while medium term prospects look decent



Sectoral breakup of NIFTY earnings outlook

	No. of Cos.	EPS Change FY20-21	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26	FY24-26 (CAGR)
Nifty		20.0%	35.7%	5.9%	29.5%	10.3%	15.6%	12.9%
Materials	6	55.2%	222.9%	-54.7%	-13.8%	51.5%	30.2%	40.4%
Industrials	3	22.9%	-30.1%	-0.9%	-0.9%	37.8%	25.3%	31.4%
Financials	11	13.8%	27.3%	23.1%	53.0%	14.4%	14.2%	14.3%
Consumer Discretionary	7	20.7%	-33.4%	186.5%	58.8%	8.4%	17.3%	12.8%
Health Care	5	5.9%	51.7%	23.6%	2.5%	6.8%	12.8%	9.8%
Utilities	2	18.0%	-9.7%	6.0%	-28.7%	8.4%	8.9%	8.6%
Consumer Staples	5	-5.0%	-3.9%	5.6%	32.6%	3.5%	11.7%	7.5%
Energy	4	56.9%	11.4%	8.1%	33.6%	1.3%	13.2%	7.1%
Information Technology	6	9.6%	37.1%	13.3%	13.5%	-6.2%	12.8%	2.9%
Communication Services	1		NA*		-6.1%	81.9%	39.9%	59.5%

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)

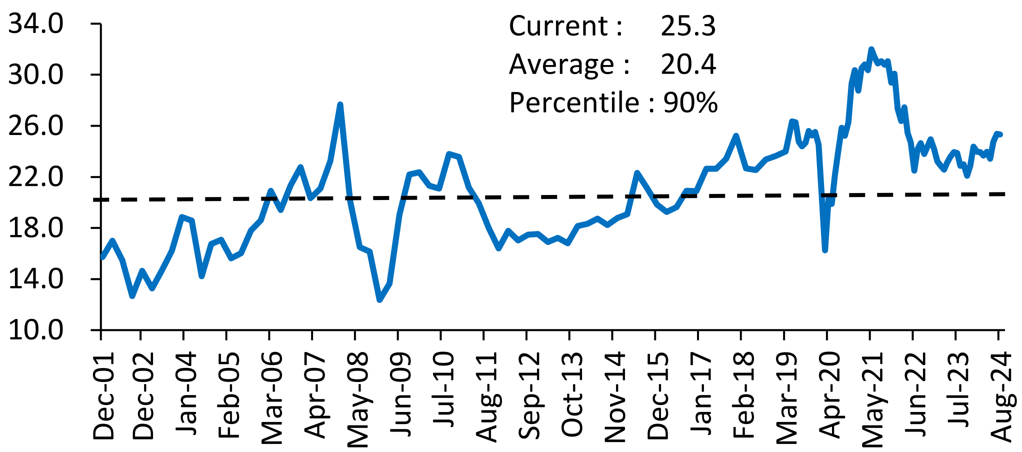
- Consensus expects 12.9% EPS growth CAGR for the Nifty over FY24-FY26
- We are constrictive on medium-term earnings trajectory deriving comfort from our growth expectation for India and return of pricing power for many sectors.

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).

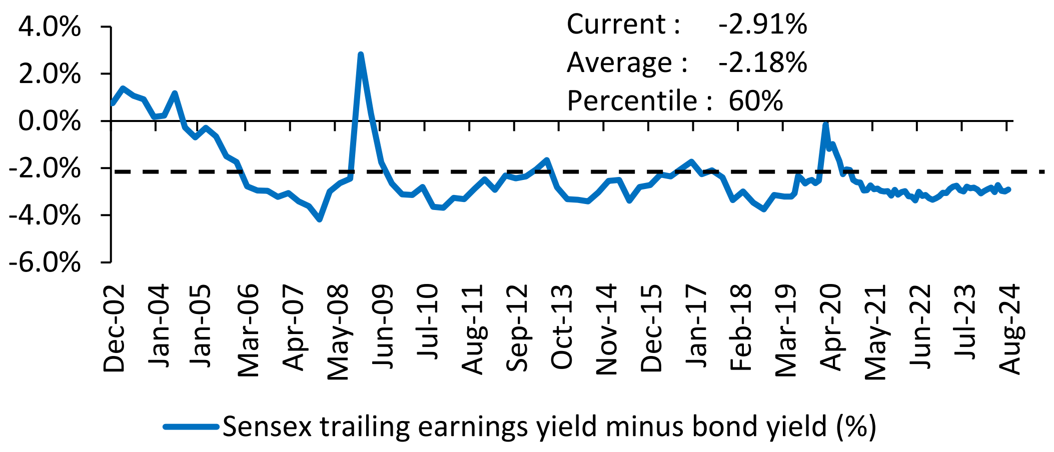
SBI FUNDS MANAGEMENT LIMITED

Equity valuations remain expensive

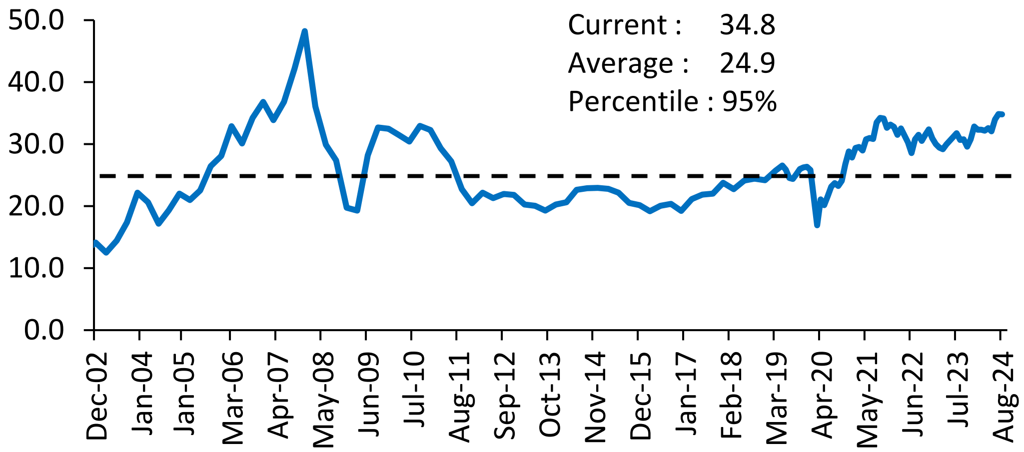
Sensex trailing PE ratio stood at 25.3 in Aug'24 vs. 24.4 in Jul'24



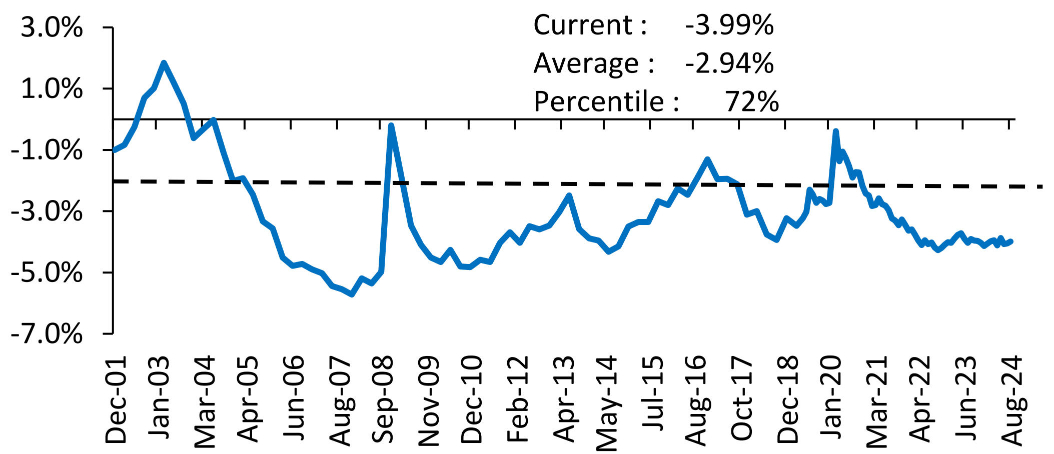
Earnings yield to bond yield spread is moderately expensive



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

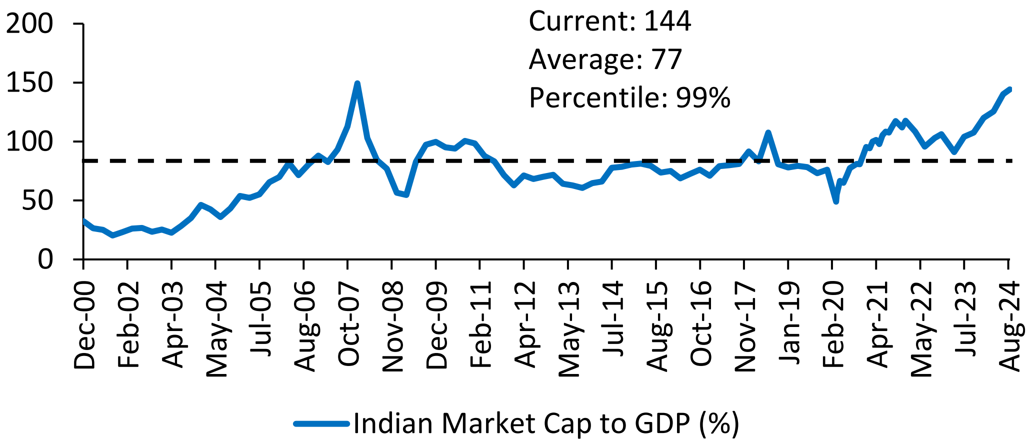


Shiller earnings yield to bond yield spread moderately expensive

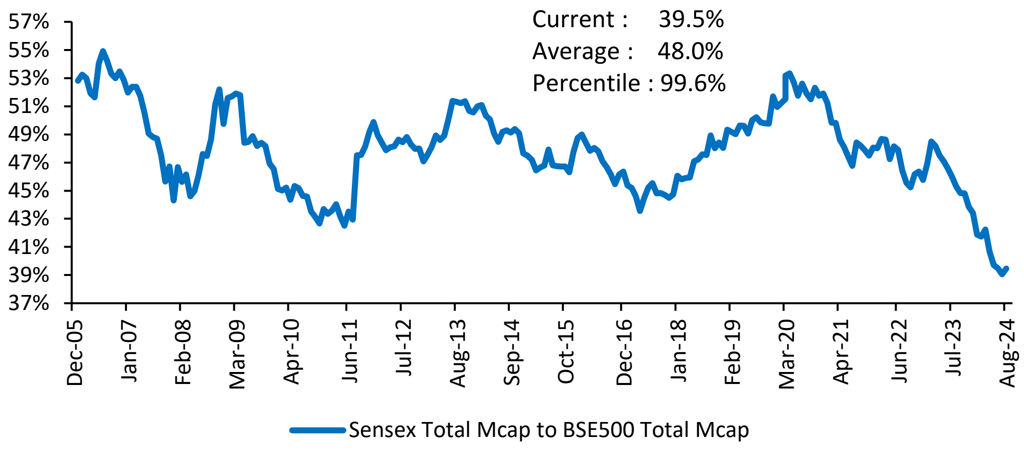


Polarization remains low

Market capitalization/GDP expensive vs. history at 99th 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.

Source: Bloomberg, SBIMF Research

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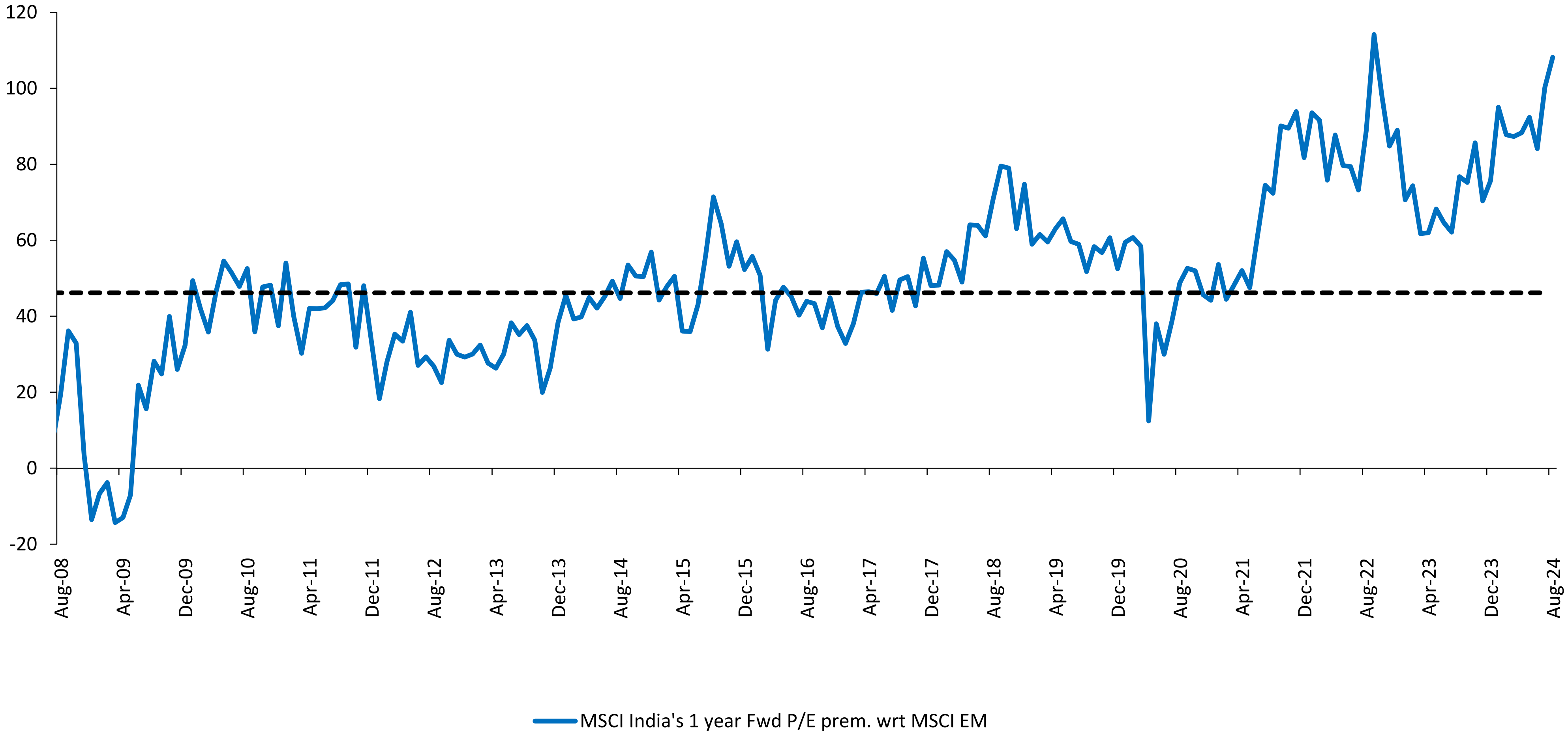
MSCI India’s valuation premium relative to EM improves in August

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



Source: Bloomberg, SBIFM Research

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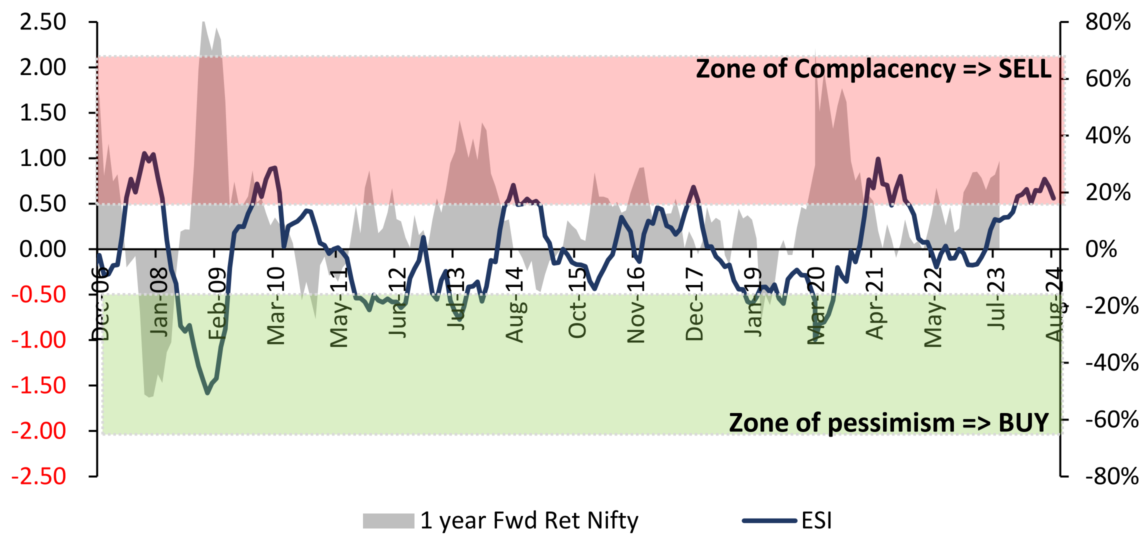
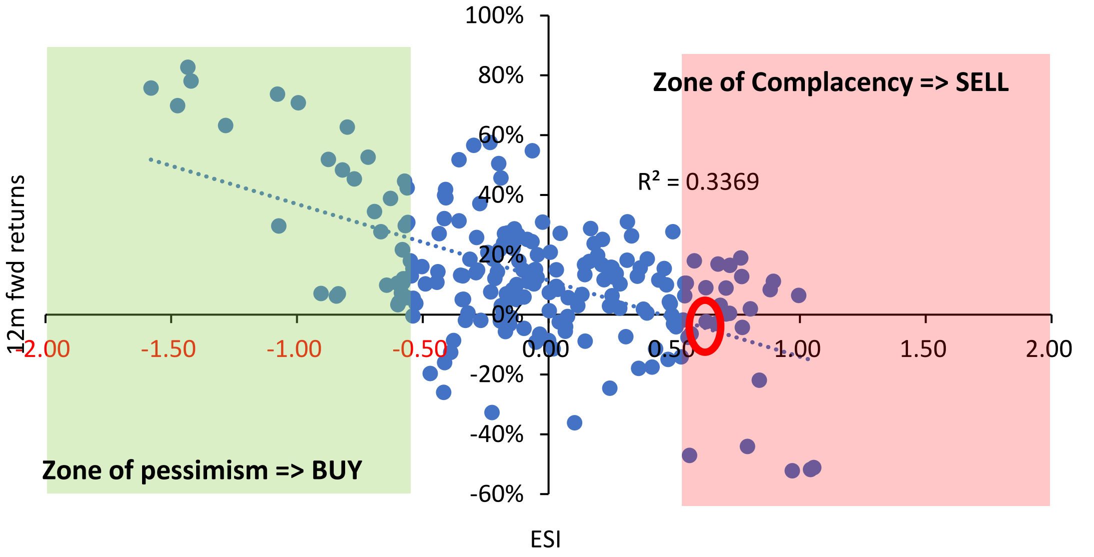
Equity market sentiment while in the Zone of Complacency has fallen from peak

Equity sentiment index falls but 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.

Source: Bloomberg, FactSet, SBIMF Research; ESI = Equity sentiment Index

Equity Outlook: Stick to investment discipline amidst volatile market

- Indian equity gave positive returns at the margin in August. NIFTY and SENSEX increased by 1.1% and 0.8% m-o-m respectively. Strongest gains visible in healthcare (7%), consumer durables (4%) and IT (4%), while negative returns were delivered by PSU (-4%), Real Estate (-4%) and cap goods (-3%).
- BSE Small cap (1.2% m-o-m) marginally outperformed mid cap (0.9%) and large cap (0.7%).
- FIIs turn net sellers in Aug'24 (sold a net of ~USD 1 billion in Aug'24 in equity segment vs. a purchase of USD 3.3 billion in Jul'24). DIIs remain net purchasers.
- Q1 FY25 GDP moderated to 6.7% vs. a near 8% growth in every quarter of FY24. That said, it was broadly along the expected lines. More importantly, if GVA is the true representation of growth momentum in India, it improved to 6.8% y-o-y in Q1 FY25 vs. 6.3% in Q4 FY24. Overall, it's a healthy print, keeping in mind spending/ investment slowdown during the months around general election. The highlight of the quarter was 7.4% growth in household consumption spending after 18 months of muted prints. Nominal growth moderated to 9.7% y-o-y vs. 9.9% in the previous quarter. And hence continues to paint a sobering outlook for topline of the companies.
- 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.

Source: SBIFM Research; https://www.moneycontrol.com/news/business/markets/mc-exclusive-sbi-mf-cio-r-srinivasan-says-illiquidity-could-command-premium-negative-on-stocks-down-the-mcap-curve-12484601.html

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 August 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	May-24	Jun-24	Jul-24	Aug-24	m-o-m change (in bps)	YTD change (in bps)
Developed market								
US	3.87	3.88	4.50	4.40	4.03	3.86	-17	-2
Germany	2.57	2.02	2.66	2.50	2.30	2.26	-4	24
Italy	4.72	3.70	3.98	4.07	3.65	3.64	-1	-6
Japan	0.42	0.61	1.07	1.06	1.06	0.90	-16	28
Spain	3.66	2.99	3.39	3.42	3.12	3.09	-3	9
Switzerland	1.62	0.70	0.93	0.60	0.45	0.46	1	-24
UK	3.67	3.54	4.32	4.17	3.97	3.98	1	44
Emerging Market								
Brazil	12.69	10.37	11.89	12.33	11.88	11.93	5	156
China	2.84	2.56	2.32	2.21	2.15	2.18	3	-38
India	7.33	7.17	6.98	7.01	6.93	6.86	-6	-31
Indonesia	6.92	6.45	6.91	7.05	6.89	6.62	-27	17
South Korea	3.74	3.18	3.58	3.26	3.06	3.07	2	-10
Malaysia	4.09	3.73	3.90	3.86	3.72	3.76	4	3
Thailand	2.64	2.68	2.81	2.67	2.58	2.55	-4	-13
Mexico	9.04	8.95	9.78	9.92	9.79	9.75	-4	79
Poland	6.86	5.20	5.71	5.75	5.43	5.44	1	24
Colombia	13.01	9.96	11.00	10.82	10.73	10.05	-68	9
Hungary	8.98	5.86	6.94	6.81	6.39	6.35	-4	49

Source: Bloomberg, SBIFM Research

India Rates Snapshot: Yields moderate across all tenors

Shorter and longer term yields moderate in August 2024

	2023 end	Jun-24	Jul-24	Aug-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	6.98	6.81	6.76	-4	-30
5 year GSec	7.09	7.01	6.84	6.79	-6	-31
10 year GSec	7.18	7.01	6.92	6.86	-6	-32
3 Yr Corp Bond*	7.78	7.75	7.66	7.63	-2	-15
5 Yr Corp Bond*	7.79	7.74	7.56	7.62	5	-17
10 Yr Corp Bond*	7.76	7.55	7.48	7.45	-3	-30
1 Yr IRS	6.64	6.82	6.67	6.49	-18	-15
5 Yr IRS	6.19	6.44	6.22	6.08	-14	-11
Overnight MIBOR Rate	6.90	6.86	6.55	6.80	25	-10
10 year SDL	7.65	7.34	7.27	7.21	-6	-44
INR/USD	83.21	83.39	83.73	83.87	-0.2^	-0.8^
Crude oil Indian Basket**	77.43	82.55	84.15	78.25	-7.0^	1.1^

- Bond yields moderate over the month across all tenors in August 2024.
- Rupee depreciated by ~0.2% to INR 83.87/$ in Aug’24 (vs. 83.73 a month ago).
- Oil prices moderated by 7% in Aug’24 vs. Jul’24, now at ~US$84.2/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 but yields continue to fall for four months now

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-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	6.65	6.77	6.79	6.86	6.82	6.84	6.84	6.90	6.90	6.95	6.92	6.93	7.00	7.06
31-Aug-24	6.62	6.69	6.70	6.76	6.76	6.79	6.79	6.83	6.83	6.88	6.85	6.86	6.91	7.00
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-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	-14	-12	-14	-12	-13	-16	-17	-15	-12	-12	-12	-8	-3	1
31-Aug-24	-3	-8	-9	-10	-6	-6	-5	-7	-7	-6	-6	-6	-9	-6
Change in FYTD (in bps)	**-28**	**-35**	**-29**	**-32**	**-26**	**-27**	**-27**	**-24**	**-24**	**-19**	**-26**	**-19**	**-19**	**-13**

Source: Bloomberg, SBIFM Research

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UPS fiscal impact estimated by Government at nearly INR 7,050 crore

The prime factor for higher fiscal burden stems from rise in govt's contribution from 14% under the current NPS to 18.5% of basic salary of every employee under the UPS plus arrears amounting to INR 800 crore (to be paid under the National Pension System (NPS) to employees retiring before March 31, 2025)

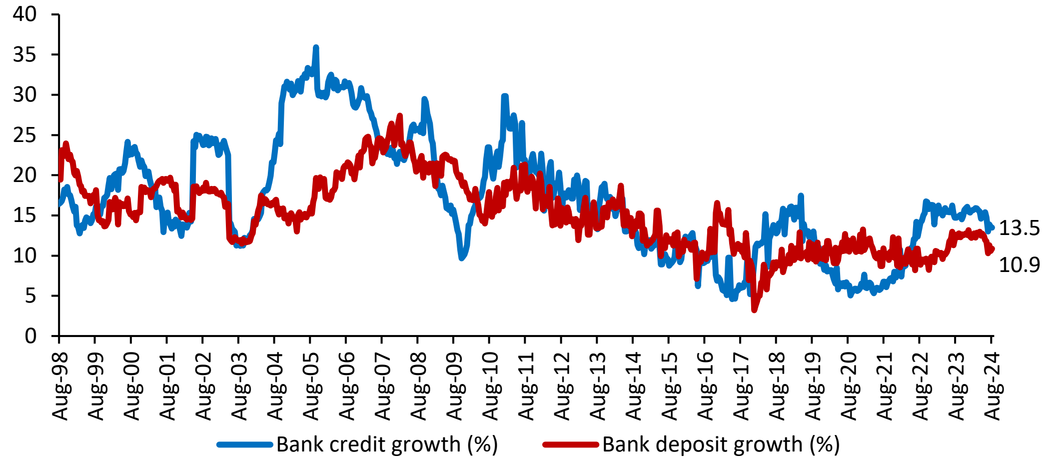
	Old Pension Scheme	New Pension Scheme	Unified Pension Scheme
Basic Tenets	Defined benefit plan	Defined contribution plan	Defined benefit plan
Eligibility	Employees who joined central govt. service before 1 Jan 2004	Employees who joined central govt. service after 1 Jan 2004 except armed forces	Employees who joined central govt. service after 1 Jan 2004. Employees have the option to chose between UPS and NPS. Once made a choice for UPS, cannot be reversed.
Pension Benefits	Retired Govt. employee gets monthly pension equal to 50% of their last drawn salary	Pension benefits not fixed. Final corpus linked to market movement. Monthly flow based on annuity rate at the time of retirement, 40% of retirement corpus is annuitized	1) 50% of average basic pay of last 12 months - 25+ years' service 2) Proportional for 10-25 years of service 3) Min pension: Rs10k per month (min. 10 years' service)
Inflation indexation	Increase in line with the hike in DA rates	NA	Applied to assured, family and minimum pension Based on All India CPI - IW
Employee Contributions	No deductions from employee's salary	Employee contributes 10% of their basic every month	Employee contributes 10% of their Basic every month. It will undergo actuarial review every three years to ensure UPS is fully funded.
Government contribution	The government does not make regular contributions based on employees' salaries. Instead, it addresses its annual pension obligations, which are calculated each year.	Government contribution is fixed at 14% of employee's basic every month	Government contribution at 18.5% of employee's basic. It will undergo actuarial review every three years to ensure UPS is fully funded.
Lump Sum benefits at retirement	Retirement gratuity payment has a maximum limit of Rs. 20 lakhs	60% of the Pension corpus at the time of retirement + Gratuity	1/10th of monthly emoluments (pay + DA) for every six months of service (i.e. 1/10th of (Basic + DA)* no. of years of service *2) + Gratuity. Lumpsum is not linked to accumulated corpus but final salary
Family Pension	If employee pass away during the service, their family continues to receive OPS benefits	Family pension under NPS depends on the accumulated corpus in the pension fund and the chosen annuity plan at retirement	Assured pension of 60% of employee's pension immediately before their demise. Inflation indexation to be applied
Who manages the pension money	There is no corpus to manage. It is shown as annual expenditure of Central govt.	Regulated by PFRDA. Three fund managers for central govt. employees: SBI Pension Fund, UTI retirement solutions, and LIC Pension fund	Awaits clarity, but most likely PFRDA would continue to be the regulatory body and the choice of pension fund companies stay unchanged
Fund Management	Not Applicable	Employee either goes for default option (15% equity) or chooses from 1. 100% in govt securities 2. Conservative (equity exposure upto 25%). 3. Moderate life cycle fund (upto 50% exposure in equity).	Employee can chose investment option for 10% of their contribution and 10% of govt. contribution (out of total 18.5%). The remaining 8.5% will be govt's choice of investment and will go to a separate reserve fund. The employee choice of investment waits further clarity. If the individual gets higher money because of higher returns on his preferred investment options(on 20% of the contribution), the extra sum will go to his account.
Post retirement features	Simple. Paid out of govt. annual expenditure	Post retirement, 60% is withdrawn lump sum and 40% go into annuity. The employee has an option to chose from 12 life insurance companies which typically give 6% annual return on annuity amount	Post retirement, a certain amount is withdrawn as lumpsum. And further management of remainder money awaits clarification

Indicates that govt has become amenable to demands of the public and trying its best to cater to the demands but limiting the fiscal impact in best possible manner.

Source: SBIFM Research

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

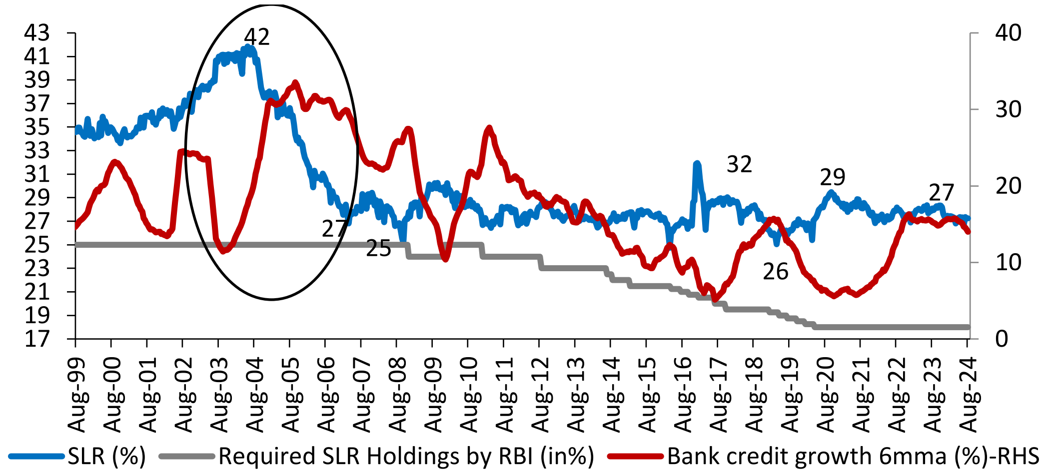
Bank credit growth continues to outpace deposit growth for two years now



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 (July)
Bank Credit	18	15	11	14
Non-Food Credit	18	15	11	14
Agriculture and allied activities	19	8	10	18
Industry	22	2	6	10
Micro & small	13	2	9	13
Medium	0	-1	8	17
Large	26	3	5	8
Services	18	15	14	14
Personal Loans	10	18	16	15
Consumer durables	4	-28	13	11
Housing (Including priority sector housing)	12	16	16	13
Advances to individuals against share, bonds, etc.	10	1	8	25
Credit card outstanding	-13	31	19	33

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



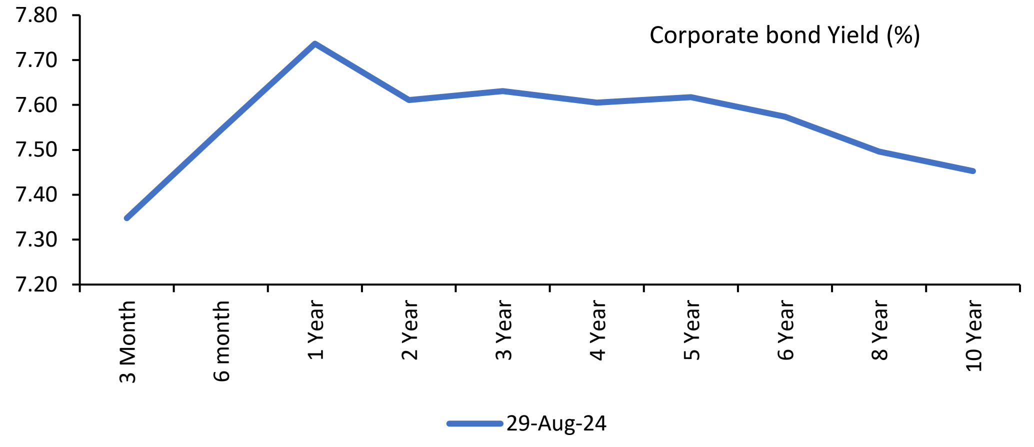
Government has reduced the supply of short-term papers to help ease the short-term rates

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

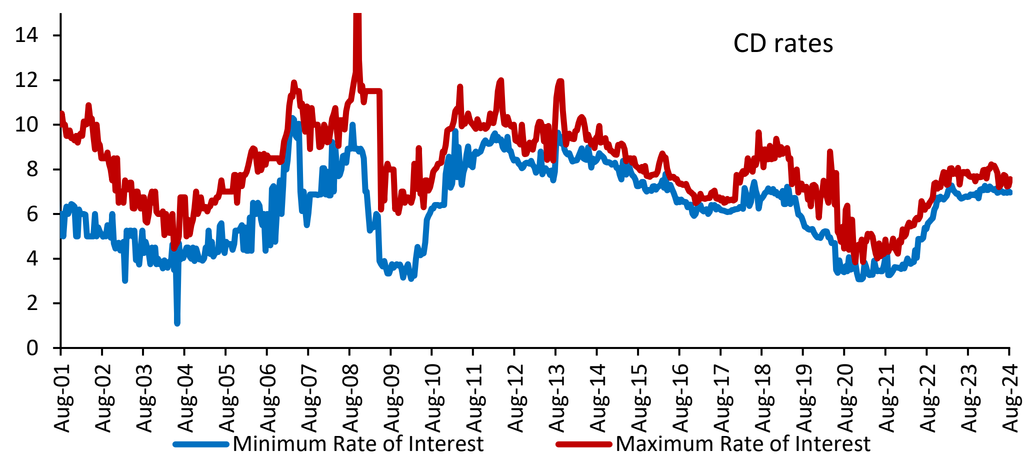
Source: RBI, SBIFM Research; NB: bank credit and deposit data as on 9th Aug'24, sectoral deployment of credit as on July'24 end

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

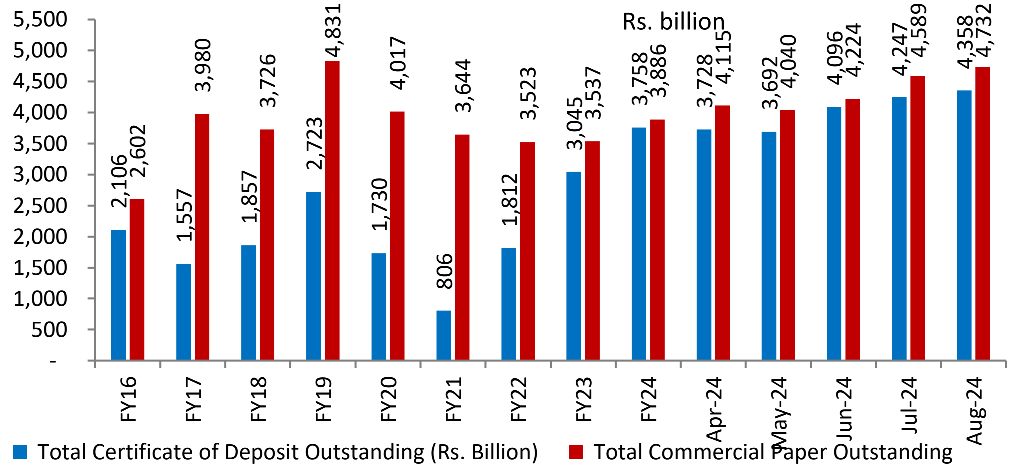
Corporate bond yield curve is inverted



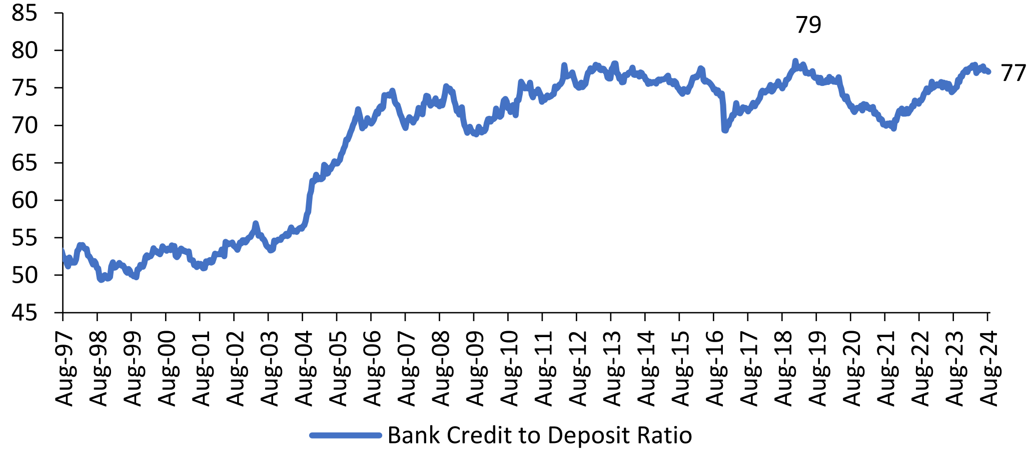
Certificate of deposit (CD) rates range from ~7-8% since 2023



CDs and commercial paper issuances see a rise



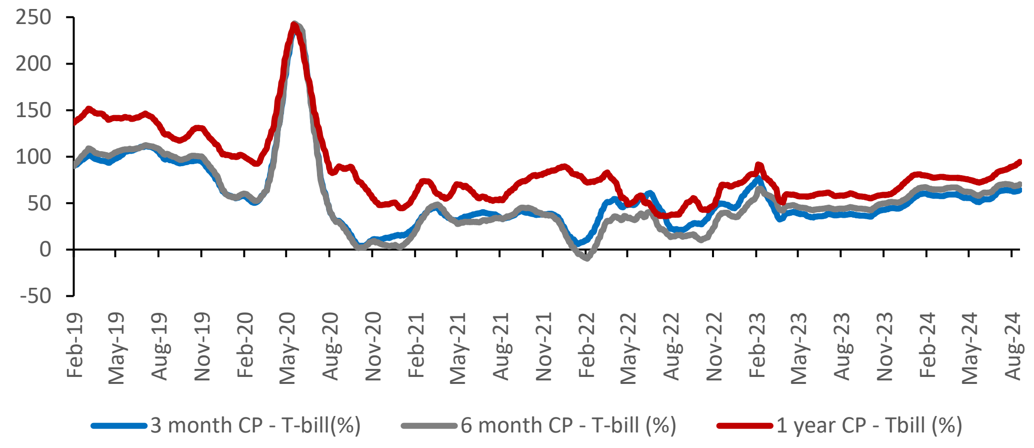
Bank credit to deposit ratio is elevated



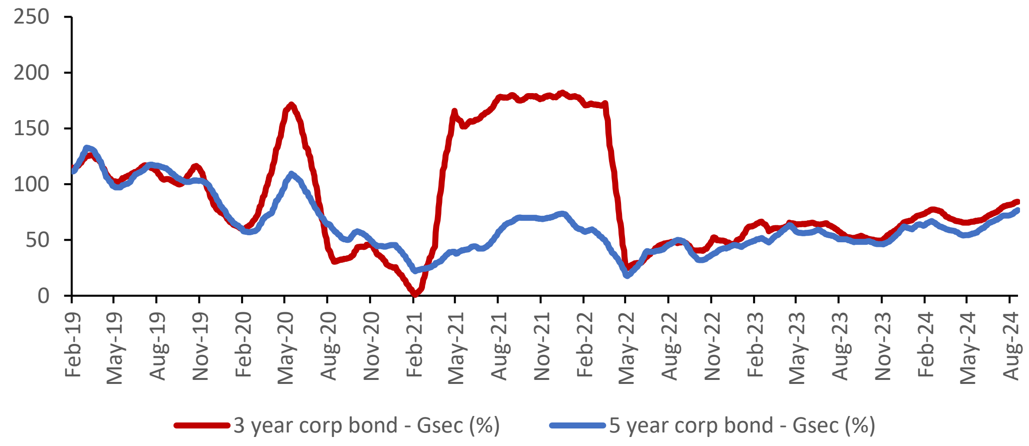
Source: RBI, Bloomberg, SBIFM Research; NB: CP and CD data till 15th August'24, credit-deposit ratio as on 9th August'24

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

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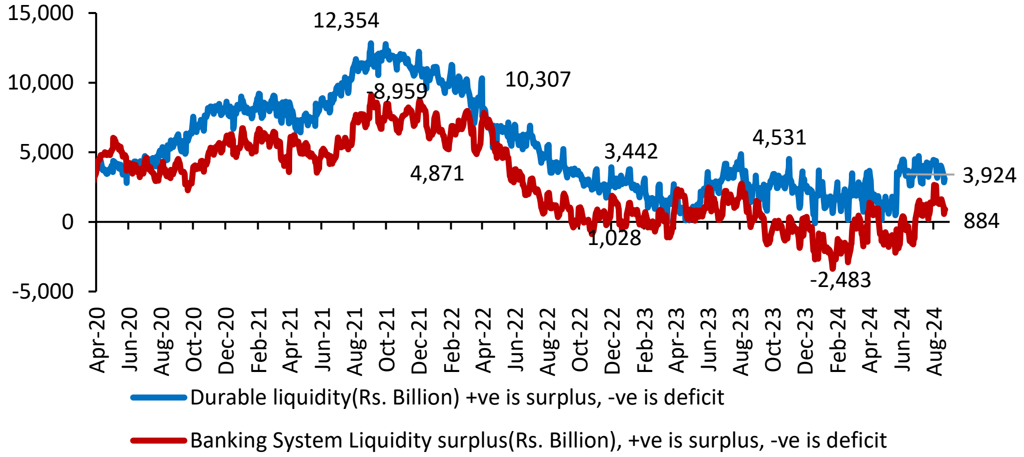
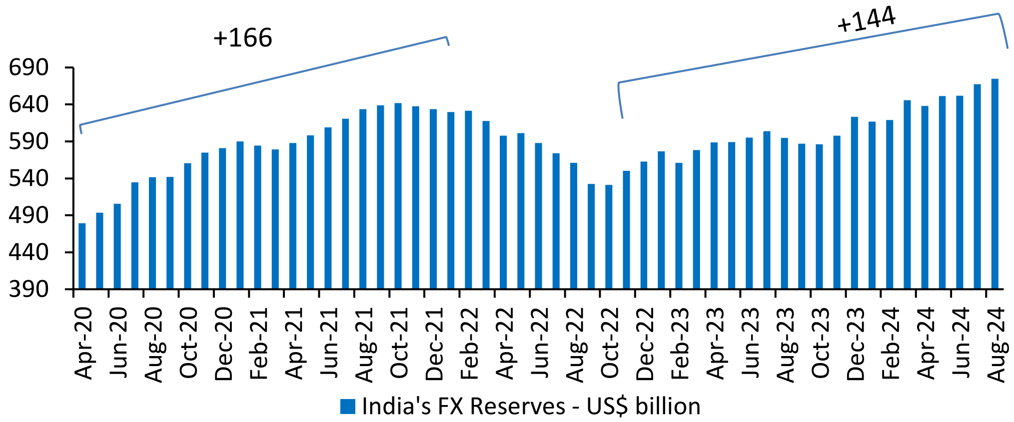
RBI conducts marginal OMO sales in July to suck out any excesses in banking liquidity

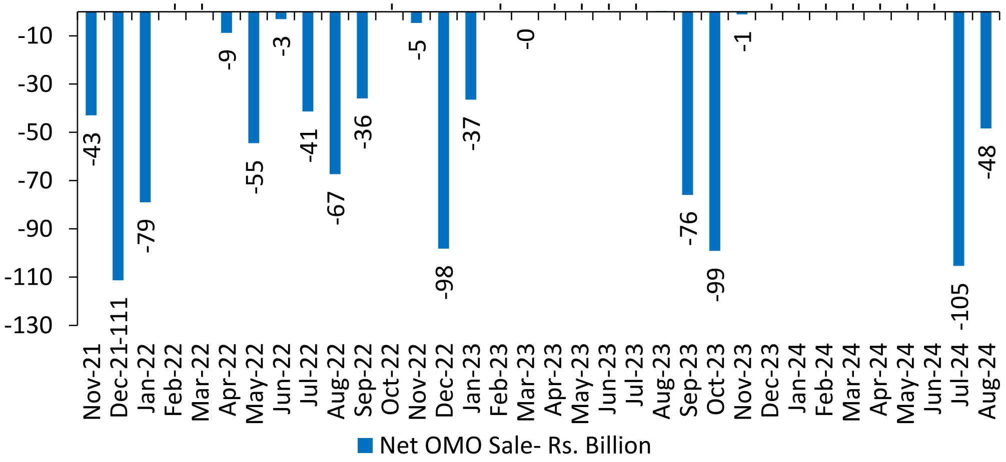
Banking system liquidity shows a marginal surplus in June-Aug



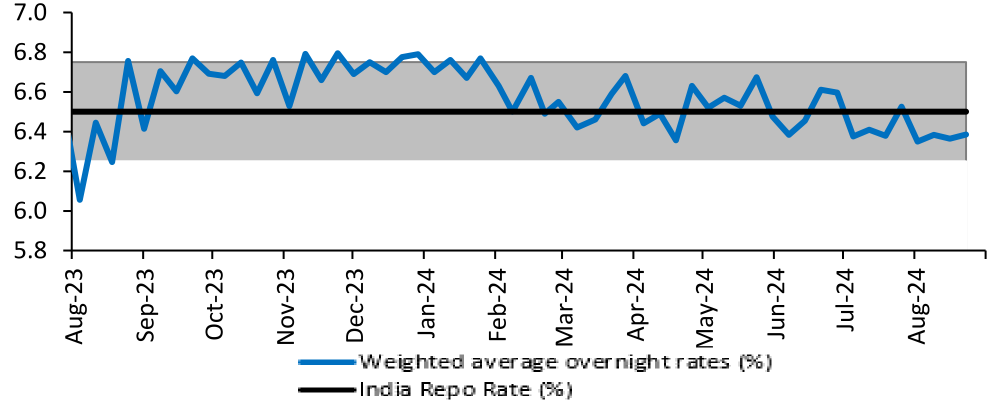
A strong dollar capital inflow coupled with no material currency leakage has likely aided the improvement in banks liquidity



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

Source: RBI, CEIC, SBIFM Research

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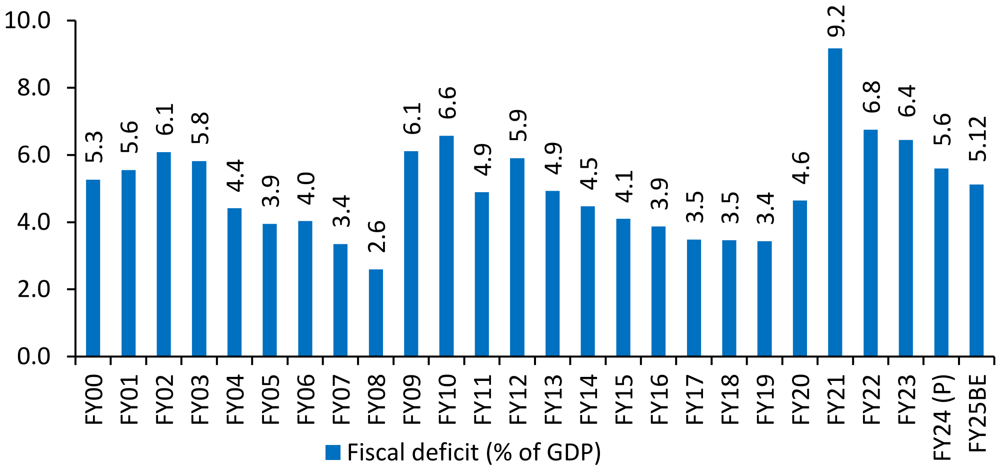
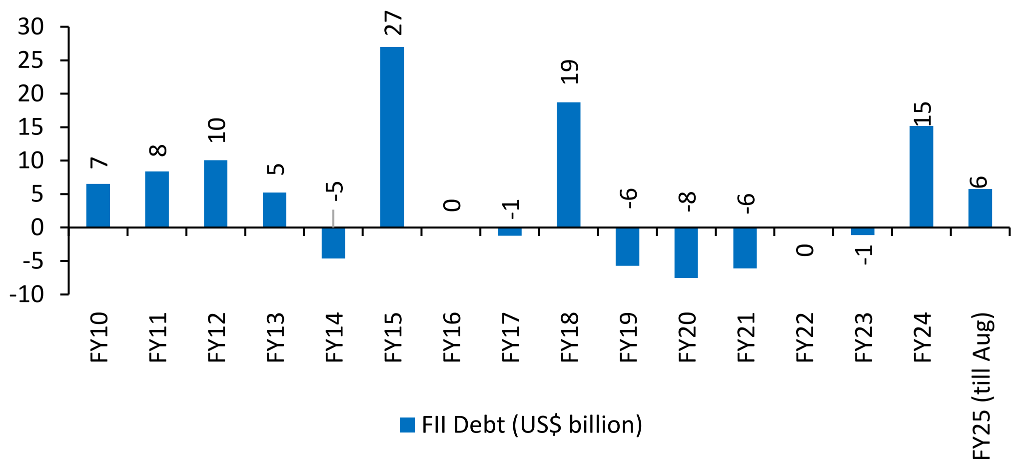
2024 is the year of favorable demand- supply for long term Indian government bonds

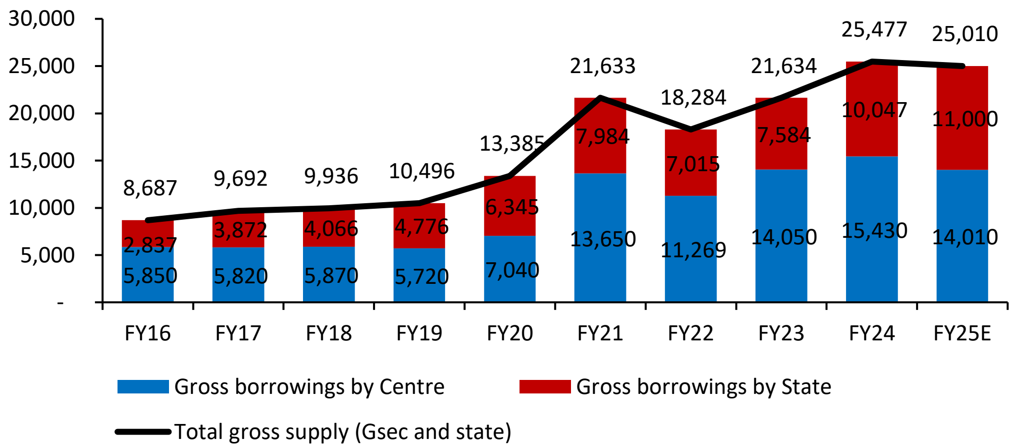
Central government advocates a faster consolidation in its deficit



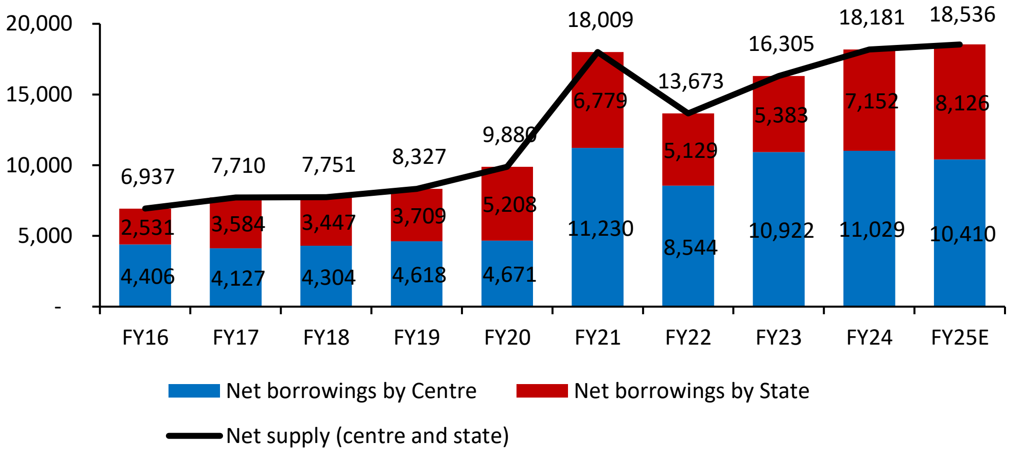
FIIs return to Indian debt after 5 years



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



Source: Bloomberg, SBIFM Research

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Central government receipts are robust; expenditure underwhelms in 4MFY25

Strong growth momentum in central government revenue receipts

Cumulative growth (b/w Apr-Jul)-%	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Gross fiscal Deficit	7	1	50	-61	6	78	-54
Total expenditure	10	6	11	-5	12	23	-6
Revenue expenditure	9	8	12	-7	5	16	-2
Capital expenditure	17	-3	4	15	62	52	-18
Total Receipts	15	14	-42	193	15	-1	32
Net Tax revenue	13	16	-40	161	26	-13	23
Non-tax revenue	30	2	-44	469	-36	100	69
Non-debt capital receipts	10	24	-68	159	113	-54	-53

Cumulative tax revenue growth in Apr-July 2024 is better than the required run-rate

Cumulative Apr -Jul 2024	% y-o-y	Required growth as per FY25 Interim Budget
Net Tax Revenue	23	11.0
Gross Tax Revenue	21	10.8
Income Tax	53	13.1
Corporate Tax	5	13.0
Custom	4	5.8
Excise duties	1	5.0
GST	9	11.6
Total Direct Tax	34	13.1
Total Indirect Tax	7	9.4

Central government revenue expenditure is muted; declined by (-)2% cumulatively from Apr-Jul'24

Revex by Key Ministries/ Dept (Rs. Bn)	Amount Spent (FY25(Apr-Jul))	BE	Actual Spend (% BE)
Total Revex	7,889	37,094	21
Agri Dept	278	1,324	21
Fertilizer Subsidy (Dept. of fertilizer)	278	1,641	17
Food Subsidy (Dept of food & public distn)	635	2,130	30
Defence Revex	1,271	4,397	29
Interest payments	2,641	11,629	23
Transfers to state and UT governments	186	1,604	12
Pensions	260	792	33
Police	381	1,299	29
Rural Devt	390	1,802	22
Others	1,569	10,475	15

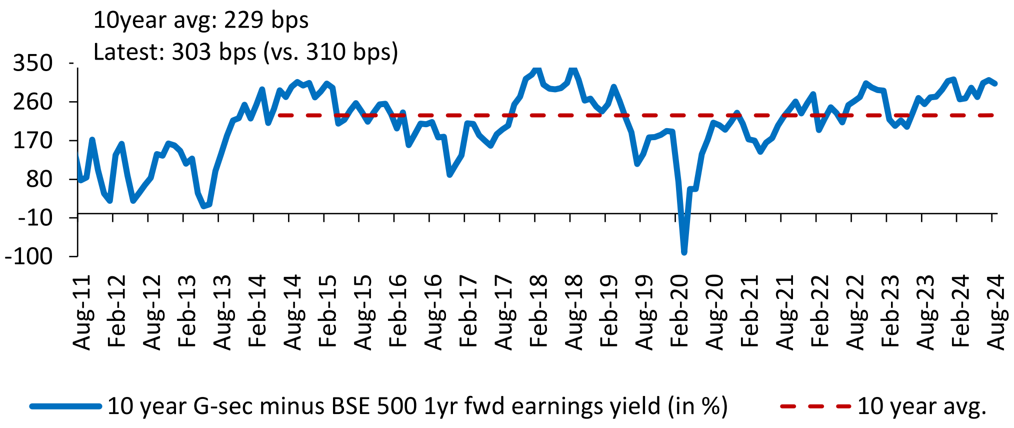
There is a broad-based lower spend on all key ministries (road, railways, defense, state capex loan) expect for Housing and Urban affairs

Capex by Key Ministries/ Dept (Rs. Bn)	Amount Spent FY25 (Apr-July)	BE	Actual Spend (% BE)
Total Capex	1,811	11,111	16
Defence	144	1,822	8
State Capex loan	184	1,624	11
Road	602	2,722	22
Railways	667	2,520	26
Telecom (mainly equity infusion)	5	845	1
Housing and Urban affairs	65	286	23
New Schemes under DEA	6	662	1
Petroleum & Natural Gas	-	11	0
Others	138	2,422	6

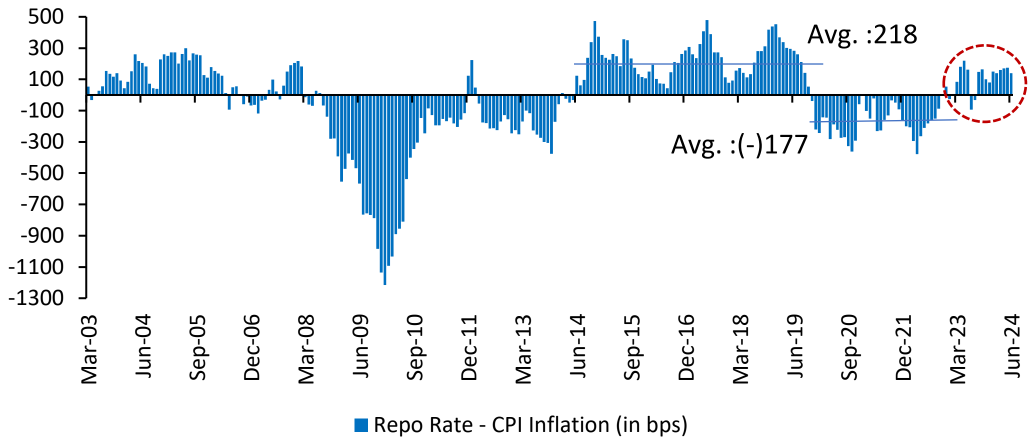
Source: CMIE Economic Outlook, SBIMF Research

Indian G-sec valuations neutral to marginally attractive

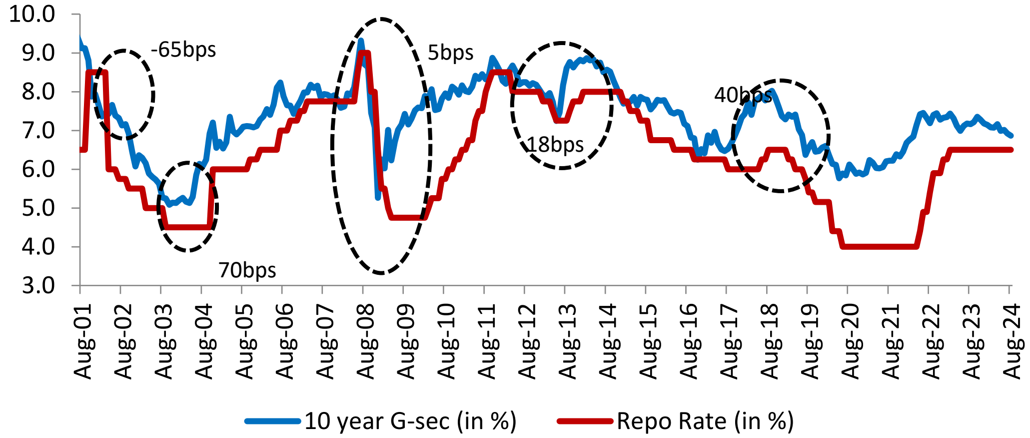
G-sec spread vs. equity is attractive



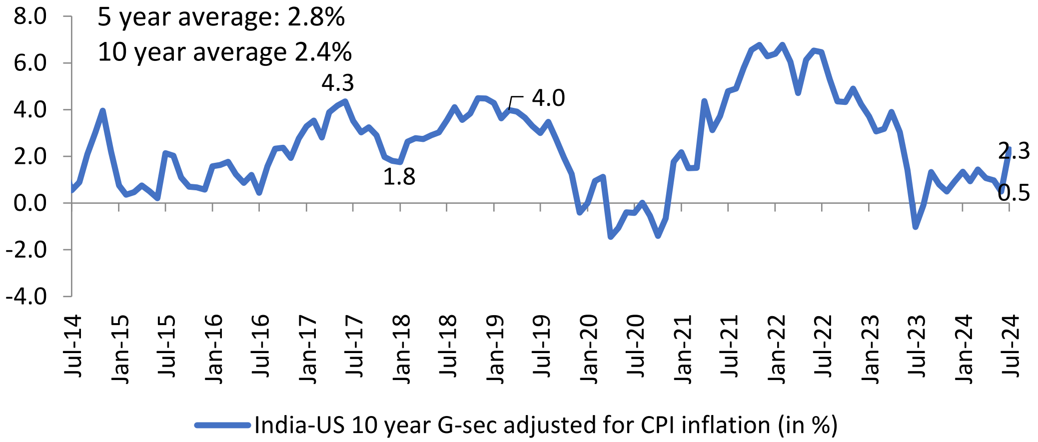
Real rate turns positive and could further improve as inflation moderates to 4% in coming months



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 ~2% pt – lower than its 5yr average



Source: Bloomberg, RBI, SBIFM Research

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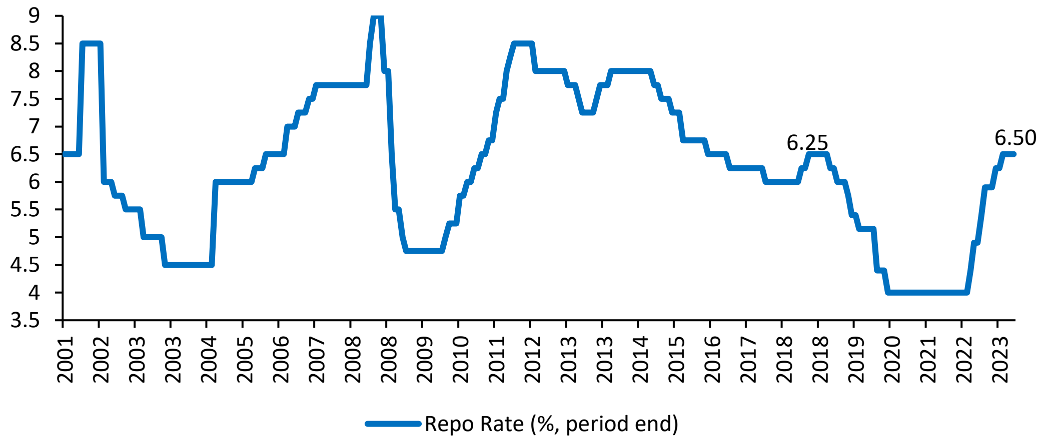
RBI maintains status quo: Fed's rate cut will spark debates on India's monetary easing possibility

Repo rate unchanged since April 2023 policy at 6.50%

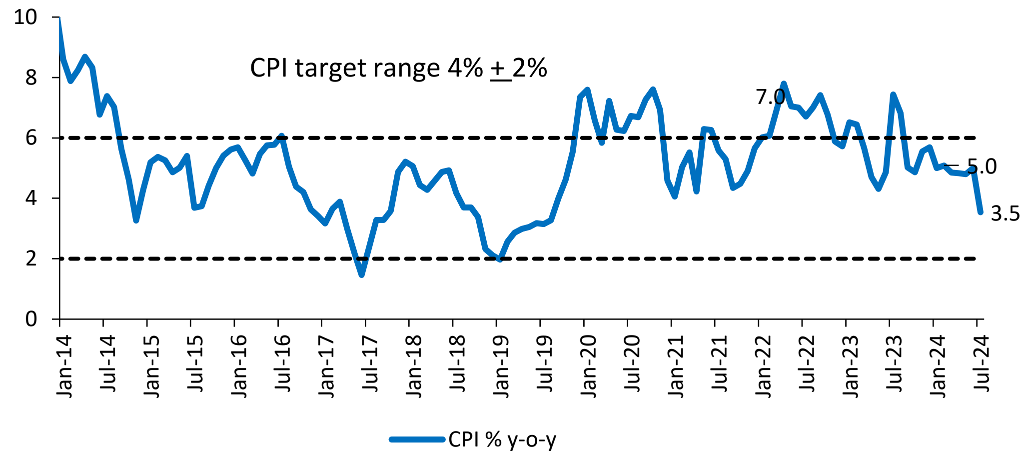


- Status quo on rates (Repo rate: 6.50%, SDF rate: 6.25% and MSF rate: 6.75%) with a majority of 4:2. The stance was retained at 'withdrawal of accommodation'. Expectedly, the focus remained on sustained disinflation to the 4% target.
- Growth expectations for FY25 were retained at 7.2%. Resilient growth 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.
- The a)60bps upward revision to Q2FY25 CPI projection b)the categorical reinstatement of importance of food inflation in overall inflationary expectations c)the ongoing challenges within the banking system to secure sticky long-term deposit d)OMO sale in July to keep the overnight rate aligned to Repo are strong signals that monetary easing is comfortably some time away in India.
- The chances of rate cut by the US Fed in September is high- they have telegraphed as much. If the US Fed is firmly on the path of monetary easing, market expectations on monetary easing in India could build up. That said, the assumptions of monetary easing in the US begs deeper probing.
- In the September meeting, the Fed may do its best to both sound dovish but nonetheless advocate that further cuts are 'data dependent'. This, means that, RBI could continue to focus on the domestic dynamics of misaligned credit to deposit ratio within banks and elevated food inflation.
- Biggest risk to this call is weather and crude price, while the easing in developed markets could enable more capital flows.

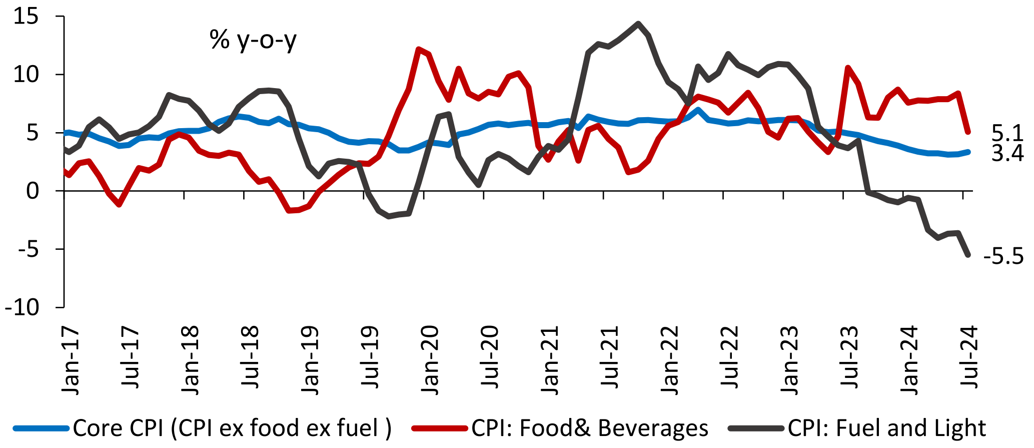
Source: Bloomberg, SBIFM Research

We maintain a sanguine outlook on India's CPI for remaining 8M FY25

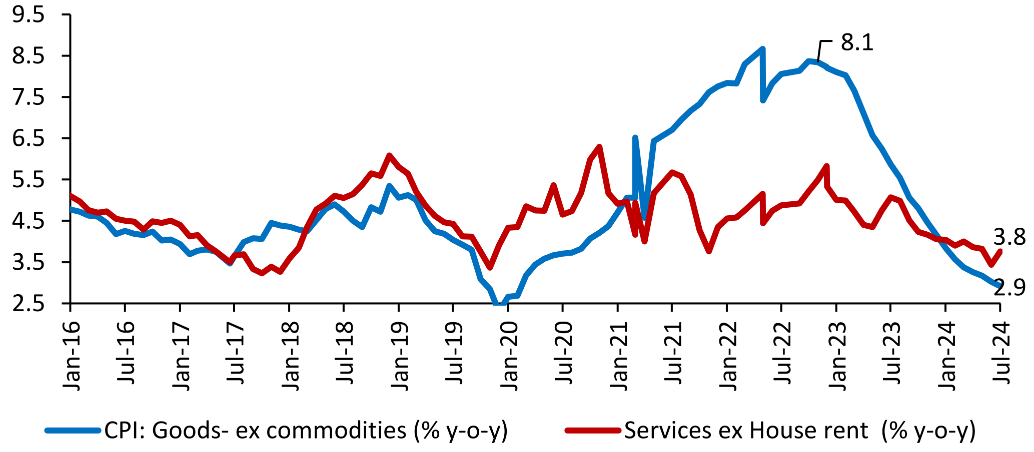
July CPI moderated to 3.5% y-o-y (vs. ~5% last quarter) led almost entirely by high base effect in vegetable prices



Food inflation softened to 5.1% y-o-y in July compared to 8.4% last month



Goods and services inflation likely to be contained



- Food inflation softened in July due to the favorable base in vegetables. Unless disrupted by weather conditions, food inflation is expected to average around 5% y-o-y in 2H FY25.
- Core inflation increased slightly to 3.3% y-o-y in July from 3.1% due to telecom tariff hikes, but overall, core inflation remains very subdued.
- The CPI for the next month is expected to remain around 3.5%. It is projected to average between 4% and 4.2% over the remaining 7M FY25. This would push out market expectations for rate cut.
- We still think that inflation could average around 4.5% through FY25.

Source: CMIE Economic Outlook, SBIFM Research

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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**		
CURRENT ACCOUNT										
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
A. Current A/c Balance (1+2+3+4)	**-1**	**-9**	**-11**	**-11**	**-39**	**-67**	**-23**	**-31**	**-46**	**-67**
% GDP	-0.2	-1.1	-1.3	-1.2	-1.2	-2.0	-0.7	-0.8	-1.2	-1.7
CAPITAL ACCOUNT										
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. Capital Account Balance (5+6+7+8+9+10)	**7**	**34**	**13**	**17**	**88**	**59**	**87**	**80**	**70**	**55**
% 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
D. Overall Balance (A+B+C)	**6**	**24**	**3**	**6**	**48**	**-9**	**64**	**49**	**24**	**-12**
% GDP	0.7	2.9	0.3	0.7	1.5	-0.3	1.8	1.2	0.6	-0.3
Increase in Reserves due to BoP	**6**	**24**	**3**	**6**	**48**	**-9**	**64**	**49**	**24**	**-12**
Rupee vs. US$ (average)	**82**	**82**	**83**	**83**	**75**	**80**	**83**	**84**	**84**	**85**

Source: RBI, CMIE Economic Outlook, SBIFM Research,

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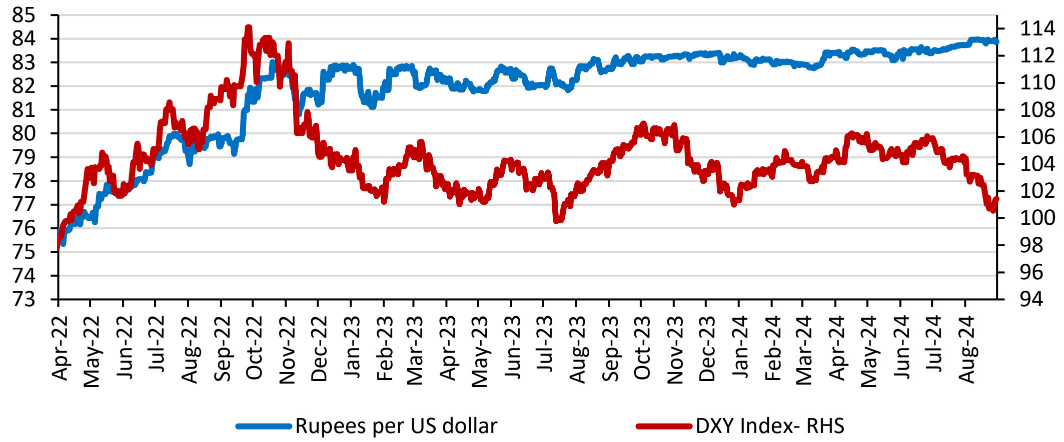
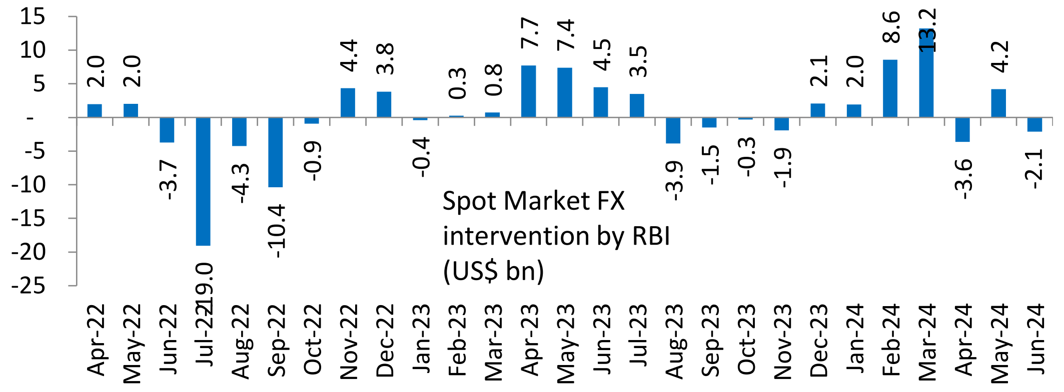
Rupee stays highly range bound since 2023; could depreciate to 84/US$ by end 2024

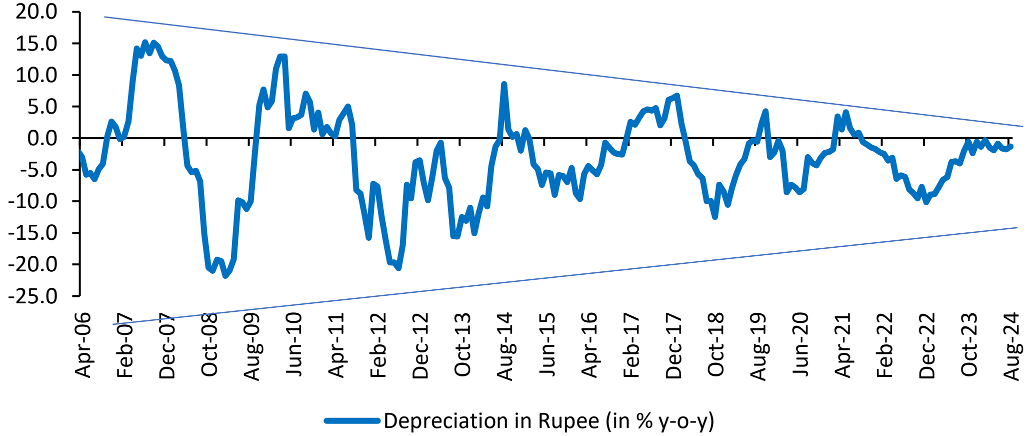
Rupee trades in a very tight range of 81.2-83.9/US$



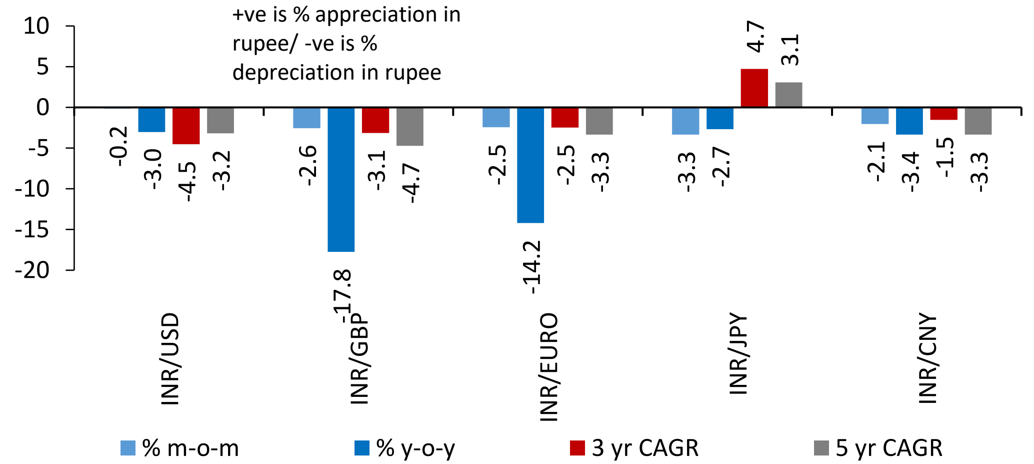
RBI's intervention keeps rupee anchored



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



Rupee's movement against other key currencies



Source: RBI, CMIE Economic Outlook, Bloomberg, SBIFM Research

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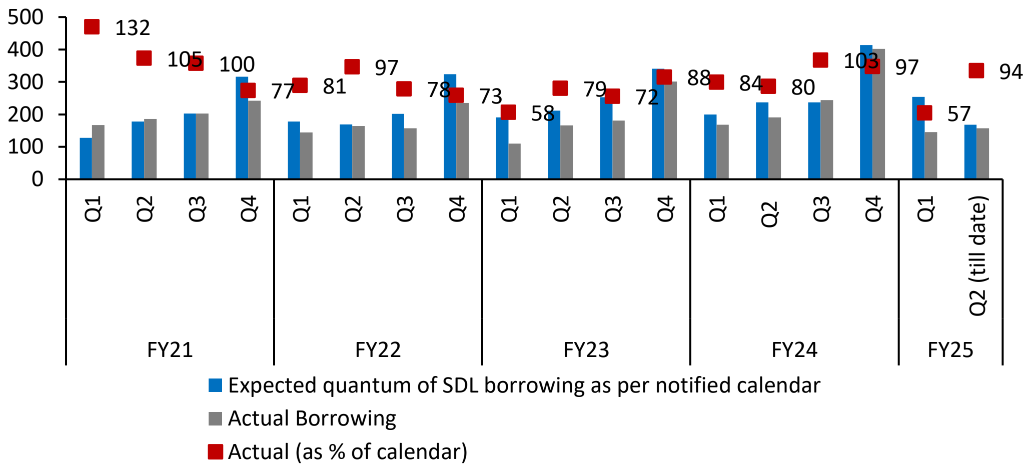
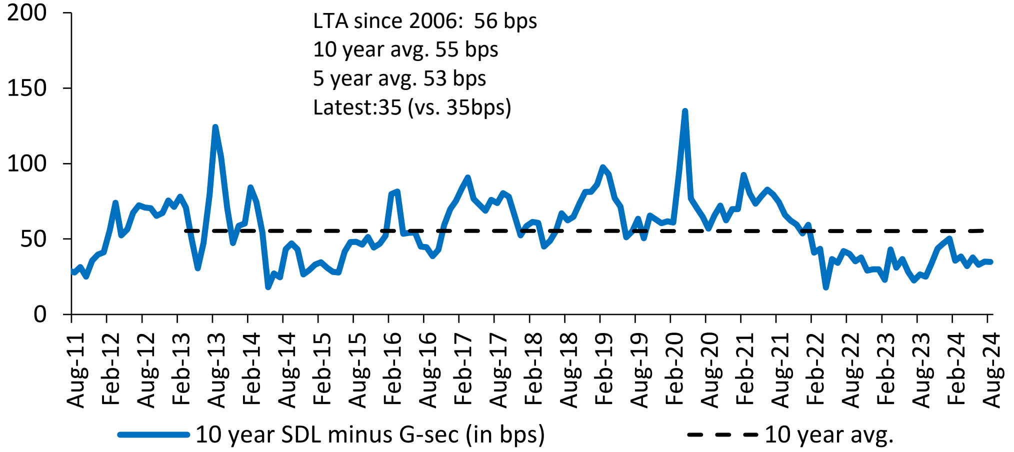
SDL issuances pick up in Q2 FY25

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



SDL spreads flat m-o-m in August



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

FIIs are net buyers of Indian government bonds since May 2024

India witnessed Debt inflows in Aug'24

EM FII Debt inflow US$ million	2022	2023	Jun-24	Jul-24	Aug-24
China	(1,46,410)	24,760	1,35,792	1,61,097	1,73,308
South Korea	54,020	60,647	3,046	1,958	5,872
Indonesia	(7,070)	5,142	117	305	2,420
Mexico	3,949	5,019	590	(2,183)	2,056
India	(2,012)	8,445	2,136	2,615	1,909
Thailand	6,227	319	(287)	779	761
South Africa	(15,812)	(17,598)	(45)	1,069	168
Ukraine	(1,096)	(387)	(99)	(24)	(108)
Brazil	18,358	(9,967)	(3,695)	(301)	-
Malaysia	(732)	3,767	(549)	1,099	-
Poland	6,936	9,388	2,442	-	-
Czech Republic	(14,477)	(1,535)	-	-	-
Philippines	6,334	3,073	38	-	-
Bulgaria	1,053	1,940	5	-	-

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

Real rates	10 Year Gsec Yield (% mth end, Jul'24)	CPI Inflation Jul'24	Real Rate (%, 10 year G-Sec Yield minus CPI)	12M FX forward premium (in %) - Jul 2024	10 year G-sec yield adjusted for 12m fwd premium (in %)- Jul 2024
Brazil	11.9	4.5	7.4	5.9	6.4
South Africa	10.9	4.6	6.3	8.2	3.1
Indonesia	6.9	2.1	4.8	6.3	0.8
Mexico	9.8	5.6	4.2	11.1	-1.1
Colombia	10.7	6.9	3.9	10.4	0.4
India	6.9	3.5	3.4	1.6	5.4
Phillippines	6.8	4.4	2.4	5.4	1.4
Hungary	6.4	4.1	2.3	6.2	0.6
Thailand	2.6	0.8	1.8	2.7	0.0
Malaysia	3.7	2.0	1.7	3.0	0.9
China	2.1	0.5	1.6	2.4	-0.2
Poland	5.4	4.2	1.2	5.9	-0.1
South Korea	3.1	2.6	0.5	3.0	0.3
Taiwan	0.5	2.5	-2.0	1.3	-0.8
Turkey	28.4	61.8	-33.4	48.5	-20.4

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 now below 4%.
- US monetary policy is clearly shifting but how deep and how long is the question. The key message of the Jackson Hole Symposium was that they have room to adjust and labour market trends are gaining priorities at the margin over the CPI data. One cut is fully priced in by markets for Sep while 50bps sees one third probability. With the market building in nearly 175-200bps of rate cut in next 12 months.
- Indian government bond yields fell across both shorter and longer maturities. There have been multiple positive news for Indian government bonds this year such as index inclusion, lower than expected fiscal deficit, robust tax collections, and recent fall in UST in July and August.
- Additionally, banking system liquidity remained in surplus in July and August. With strong dollar capital inflows, liquidity in the Liquidity Adjustment Facility (LAF) is expected to remain in surplus.
- We maintain a sanguine outlook on India's CPI for remaining 8M FY25. Along with US rate cuts, this will keep market expectations on India rate cuts alive too. We still expect a pause in 2024.
- The demand-supply dynamics for dated securities in FY25 appears robust. The central government's financial projections for Apr-July'24 suggest that the fiscal deficit for FY25 could potentially be lower than the 4.9% currently projected.
- On the other hand, the challenges for bank deposits continue to keep the short-term rates in the financial and non-financial corporate space elevated.
- The near-term challenge continues to be the gap between credit and deposit growth. In the current dispensation, the gap if sustained could continue to provide a floor to short term money market yields & or lead to some tapering of the excess SLR held by the system if credit growth continues to remain robust.
- With visibility emerging on the liquidity dynamics, the elevated levels at the front end of the curve should durably settle lower over the coming months. This should enable better risk- reward equation for incremental investments at the shorter segment (up to 5yr) of the curve.
- Government securities, mostly short tenor including FRB's remain the preferred instruments apart from SDL and non-financial high grade corporate bonds.

Source: Bloomberg, SBIFM Research

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