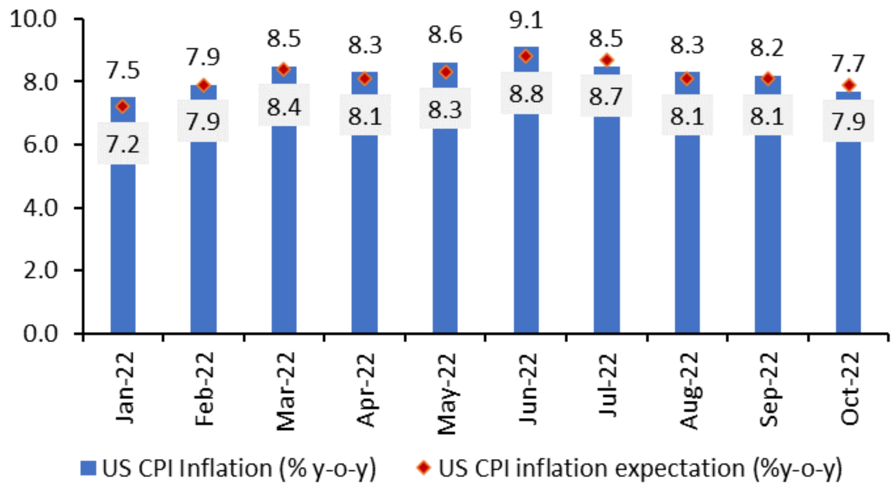
Economy and Markets

December 2022

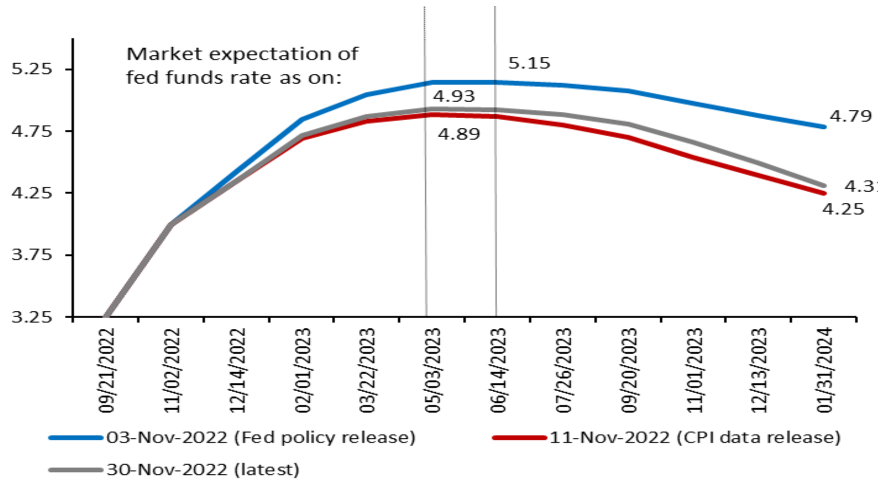
SBI FUNDS MANAGEMENT LIMITED
A joint venture between SBI & AMUNDI

US Oct'22 inflation: Some good news but too soon to cheer

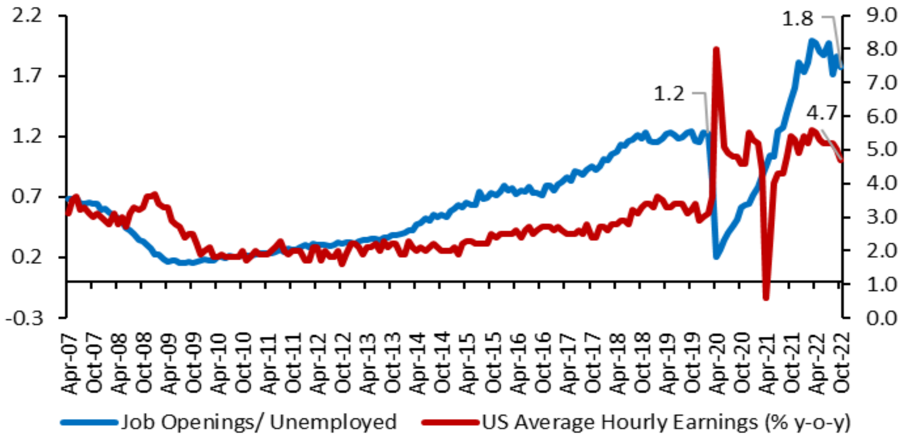
Oct inflation print was first print in a long while to come below market expectation and...



...drives down peak Fed funds rate expectation. Inflation remains a problem in the US



Labor demand cools, but not as quickly as the Fed would like; Wage pressures persist

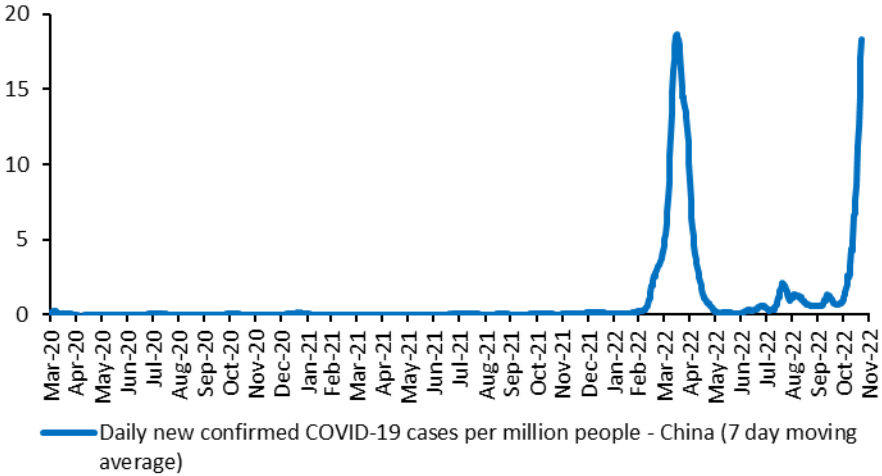


- October CPI delivered the best news on inflation in over a year, and further weakness is likely in November
- Given the internal construct of inflation, labor market strength, corporate profits and retail sales momentum, inflation problem is far from solved in the US.
- Even as recent market expectation for peak Fed Funds rate has cooled to 5%, upside risks exist.

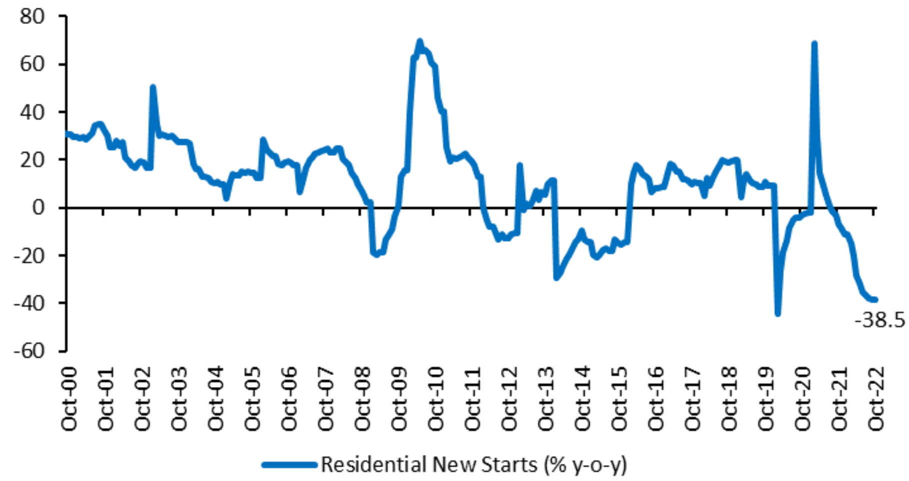
Source: Bloomberg, SBIMF Research

COVID outbreaks flare up in China

COVID stress rise in Chinese economy



Real estate stress continues in China



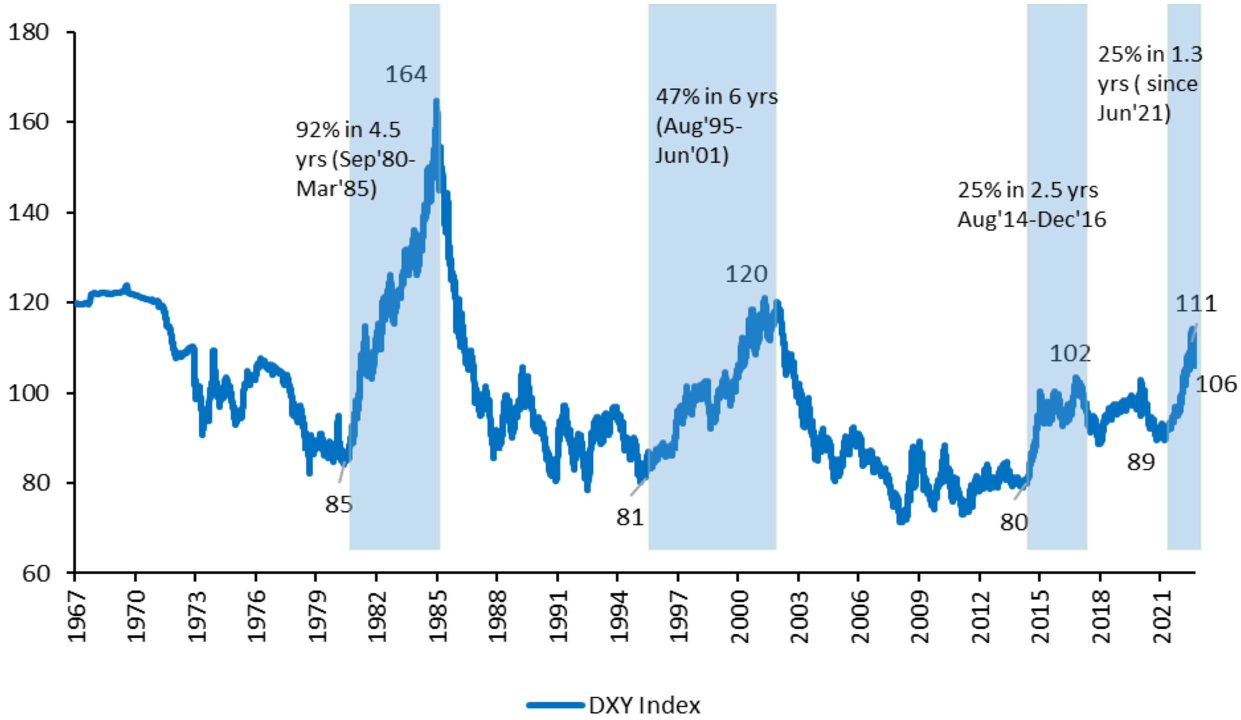
China's 2022 growth expectation sees significant downgrades; strength of recovery in 2023 under risk

- Officials in China are working towards relaxing strict COVID guidelines, particularly given rising social pressures. But COVID cases flare up in China. Chinese vaccines have limited efficacy and vaccine penetration is less than desirable. This intensifies the COVID situation in China and derails economy recovery.
- Recent property sector measures sim to provide liquidity to property developers in China to ensure financial stability. Home sales stay weak.
- China's growth is expected to recover in 2023 but continued COVID and property sector stress questions the strength of recovery. .

Source: Bloomberg, CEIC, SBIMF Research

Dollar index slides at the margin with less than 8% US inflation print

Dollar index cools from 111 to 106 in November;22

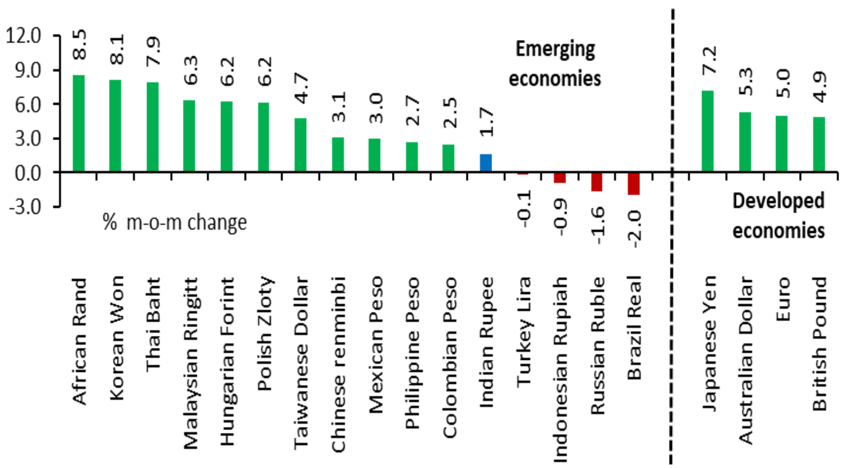


- Historical precedence is not on the side of USD bulls following 20% y-o-y rallies. Usually the USD peaks after such performance.
- While the valuation makes a case of peak in USD, fragile global growth and upside risks to Fed funds rate continues to add near-term strength to DXY. Somewhere through 2023 once Fed pivots firmly, USD's strength could come under question.

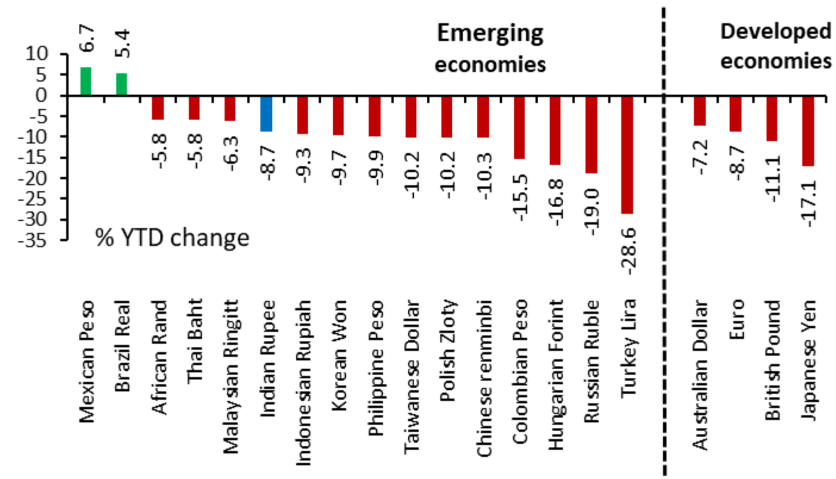
Source: Bloomberg, SBIMF Research

Year to Date, EM currencies stay on a depreciation bias

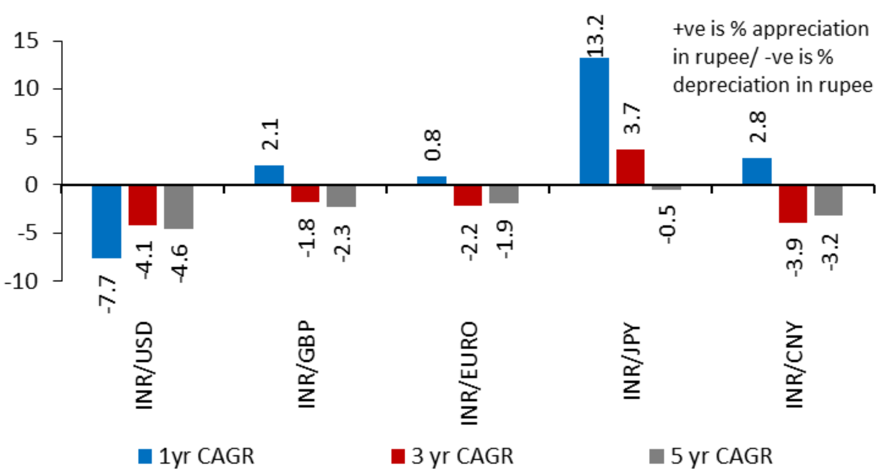
Dollar fall drives appreciation in other currencies in Nov'22



YTD, depreciation bias in rest of the world remains



INR weakened against dollar but appreciated against other key currencies



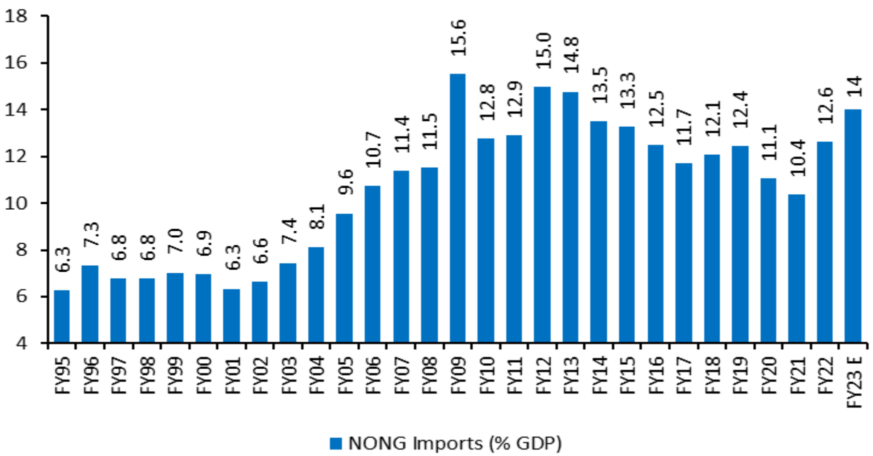
India's import cover in a better shape

	May'13	Feb'20	Oct'22
Brazil	18.7	22.7	11.2
China	21.9	18.2	13.2
India	6.8	12.4	8.4
Indonesia	6.2	8.7	5.6
Malaysia	7.6	5.7	3.5
Mexico	5.4	5.0	3.7
Philippines	16.3	9.7	7.8
South Korea	7.6	10.1	6.5
Taiwan	17.6	19.9	14.4
Thailand	8.1	12.0	7.4
Turkey	6.0	4.2	2.3

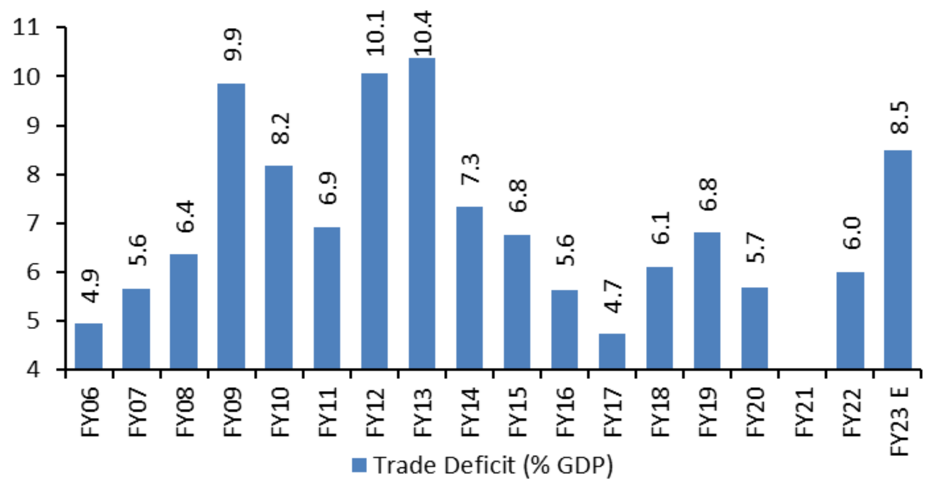
Source: CMIE Economic Outlook, Bloomberg, SBIMF Research; NB: FX Reserves data till Oct'22 end

US rates and India's external balance dictates continued weakness in Rupee

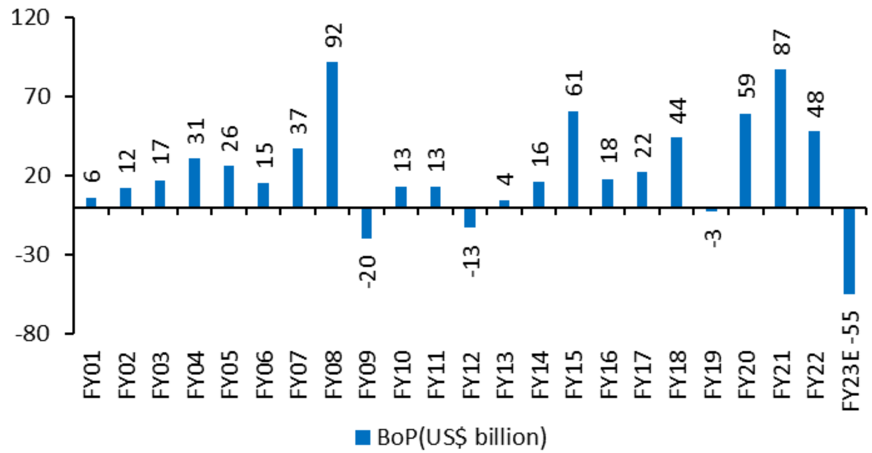
Strong domestic demand keeps NONG imports high



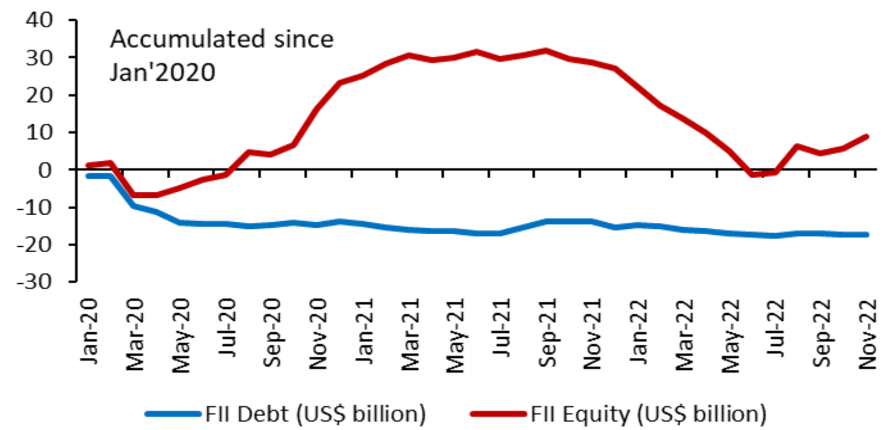
Trade deficit (as % of GDP) will likely be the highest since FY14



Sharp BoP Deficit (at 1.6% of GDP, is at a record high)



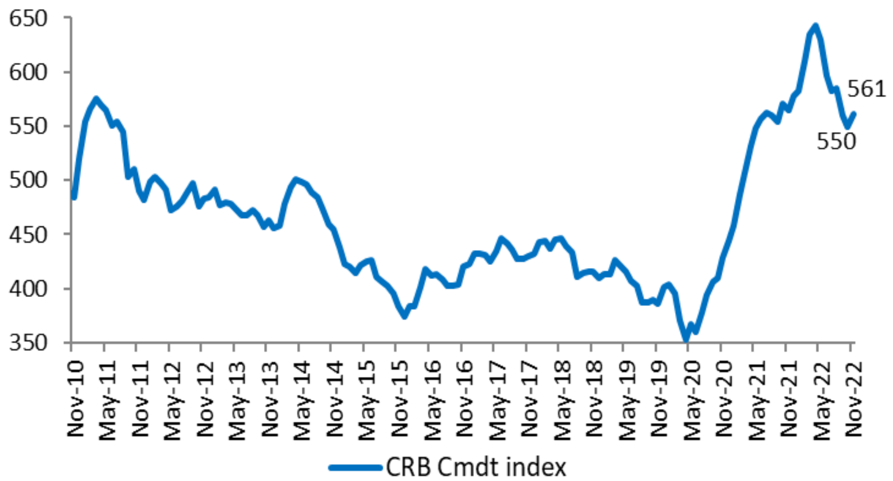
Favorably, FII outflow may have petered, and softer crude could lower import bill



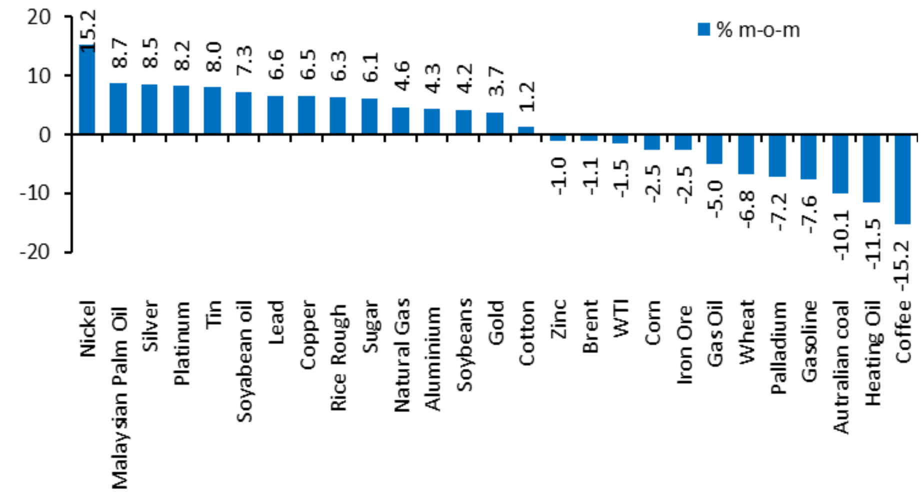
Source: CMIE Economic Outlook, Bloomberg, SBIMF Research

Global commodity fall off from May'22 peak but stays volatile and elevated

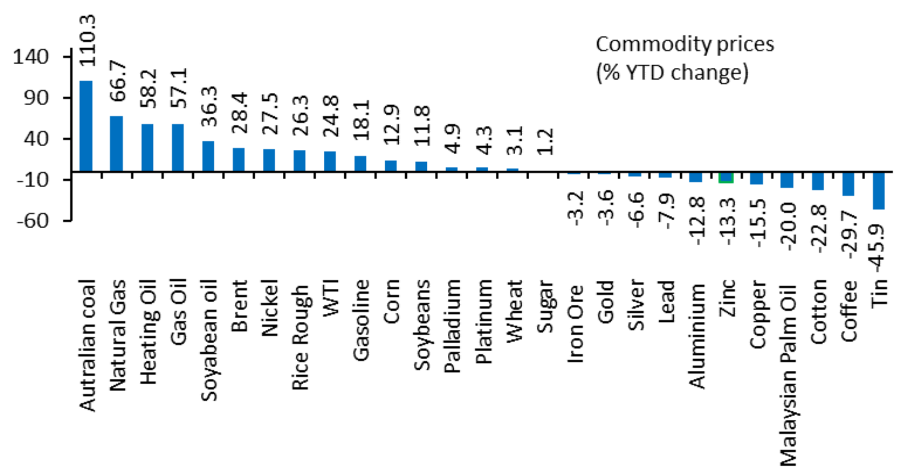
Bloomberg Commodity index increases in November



Natural gas, select food and metal prices rise during the month



Energy stay elevated on YTD basis while other categories cools a bit



- Global commodity prices see an uptick in Nov'22, up 2.1% m-o-m.
- Commodity prices are softer than their record high values in Mar'22 but still elevated by historical standards.
- Aggressive rate hikes should eventually drive the commodities lower led by fears of softer demand
- There are emerging signs of softer trade growth across many economies and money supply growth has also been receding at a rapid pace

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Source: Bloomberg, SBIMF Research

INDIA ECONOMIC ACTIVITY UPDATE

India Q2 FY23 Real GDP in line with market expectations

Q2 FY23 Real GDP growth was 6.3% y-o-y (compared to 13.5% y-o-y in Q1FY23)

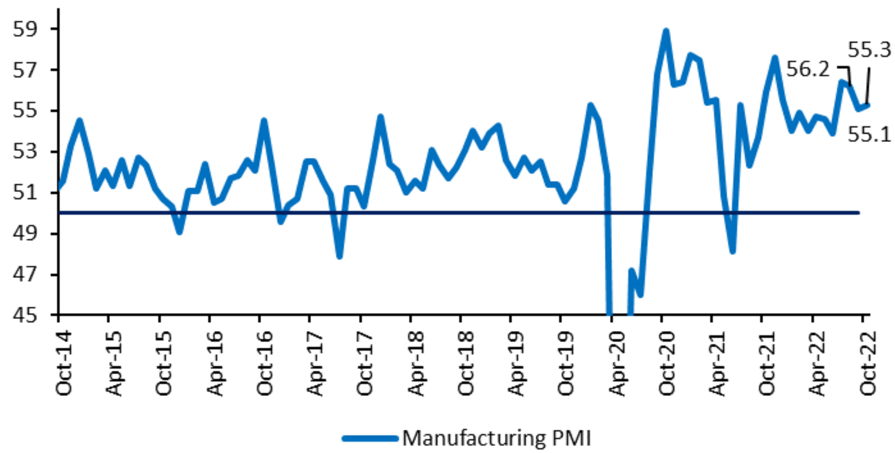
		% y-o-y							% 3Yr CAGR	
	% Share in GDP (in FY22)	FY20	FY21	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q1 FY23	Q2 FY23
Real GDP	**100**	**3.7**	**-6.6**	**8.4**	**5.4**	**4.1**	**13.5**	**6.3**	**1.3**	**2.5**
Private Consmption	**57**	**5.2**	**-6.0**	**10.5**	**7.4**	**1.8**	**25.9**	**9.7**	**3.2**	**3.6**
Government Spending	**11**	**3.4**	**3.6**	**8.9**	**3.0**	**4.8**	**1.3**	**-4.4**	**3.1**	**-7.1**
Gross Capital formation	**36**	**-2.2**	**-11.4**	**26.8**	**8.4**	**5.2**	**19.3**	**5.9**	**2.1**	**8.0**
GFCF	32.5	1.6	-10.4	14.6	2.1	5.1	20.1	10.4	2.2	6.5
Change in Stocks	1.3	-58.8	-110.7	NA	NA	NA	-17.4	-19.4	10.2	12.4
Valuables	2.0	-14.2	26.4	171.7	53.0	-48.9	49.3	-23.5	-7.4	35.0
Exports	**22**	**-3.4**	**-9.2**	**20.7**	**23.1**	**16.9**	**14.7**	**11.5**	**6.3**	**8.0**
Imports	**26**	**-0.8**	**-13.8**	**41.0**	**33.6**	**18.0**	**37.2**	**25.4**	**9.2**	**13.2**

- Q2 FY23 GDP growth recorded 6.3% y-o-y in line with market expectation (below RBI expectation: 7.1%). 1H FY23 real GDP growth is 9.7%.
- In y-o-y terms, GFCF growth has been the strongest (10.4%) followed by ~10% growth in private consumption. Exports growth is moderating but was supportive until Q2 FY23. Import has risen sharply.
- Government expenditure declined sharply (-4.4% y-o-y), perhaps explained by weakness in state spending. Inventory in the system has still not caught up to pre-COVID trends of accumulation.
- Nominal GDP growth moderated to 12% y-o-y (vs. 16% in Q1 FY23).

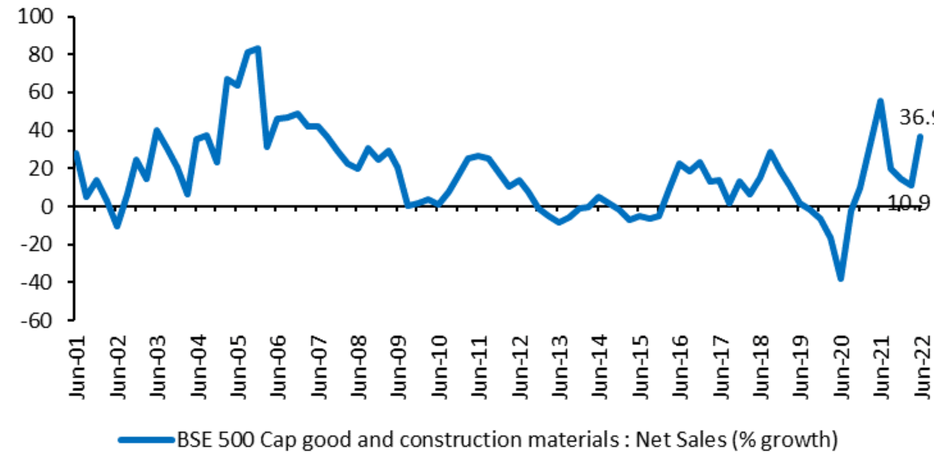
Source: CMIE Economic Outlook, SBIMF Research; NB: NA as change in stocks turned from negative to positive

Business activity and investment has picked up in 1H FY23

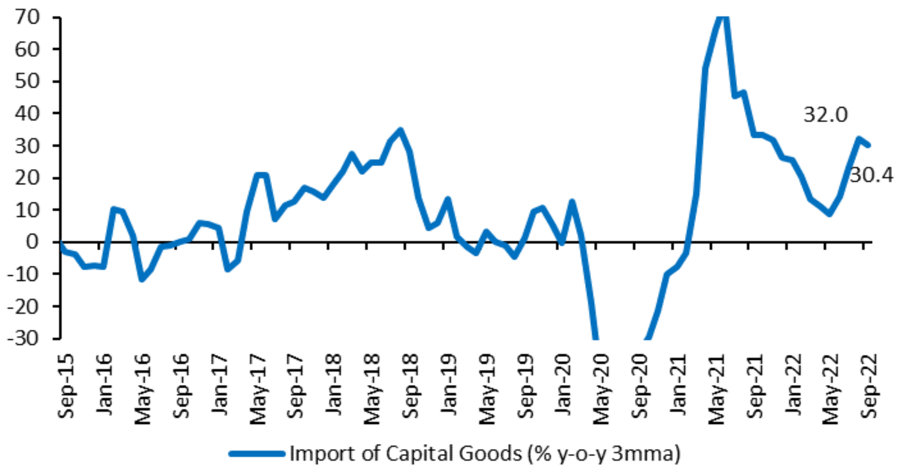
Manufacturing PMI indicates business in expansionary mode



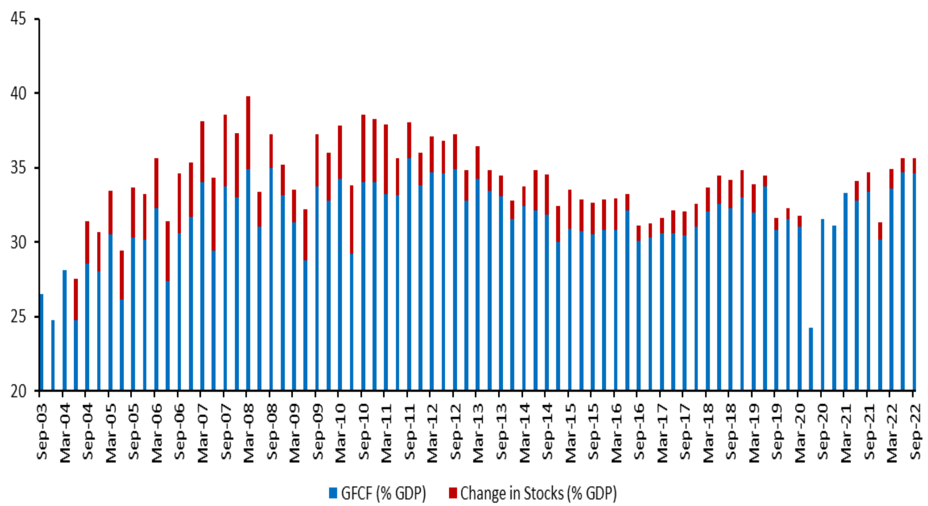
Increased sales for capital goods and construction materials (37% y-o-y)



Import of capital goods sees double digit growth



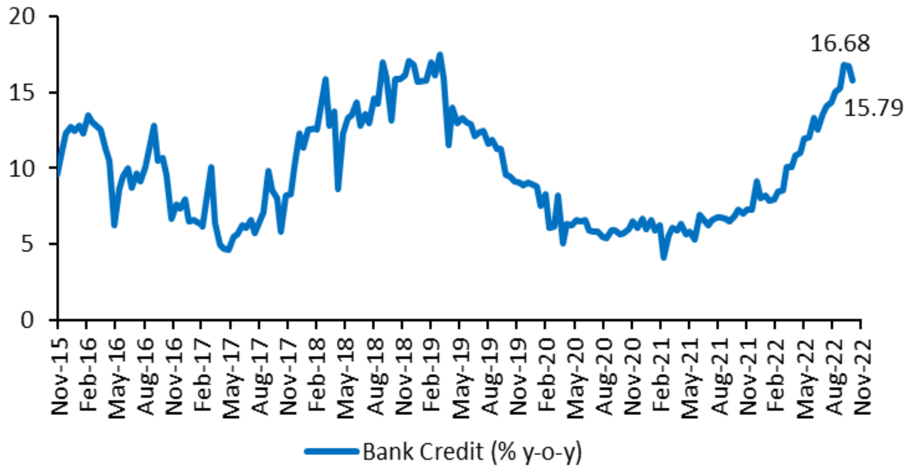
Investments reached 36% of GDP in Q1 and Q2 FY23, for the first time since 2012-13



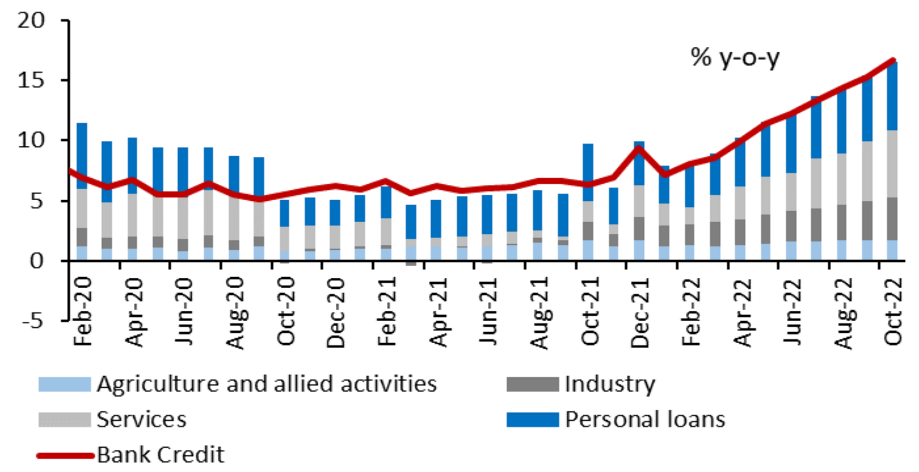
Source: CMIE Economic Outlook, RBI, SBIMF Research

Bank credit growth robust; industry & personal loans drive credit growth

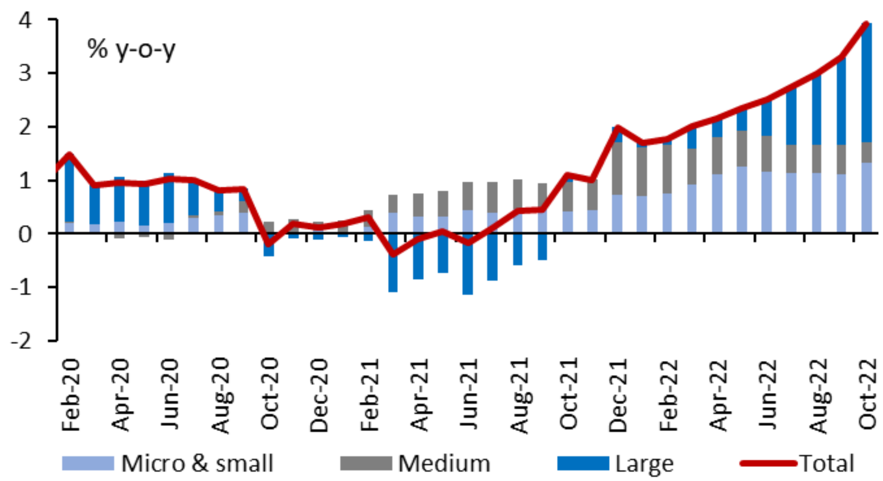
Bank credit growth continues to be strong



Industry and personal loans segments drive bank credit growth



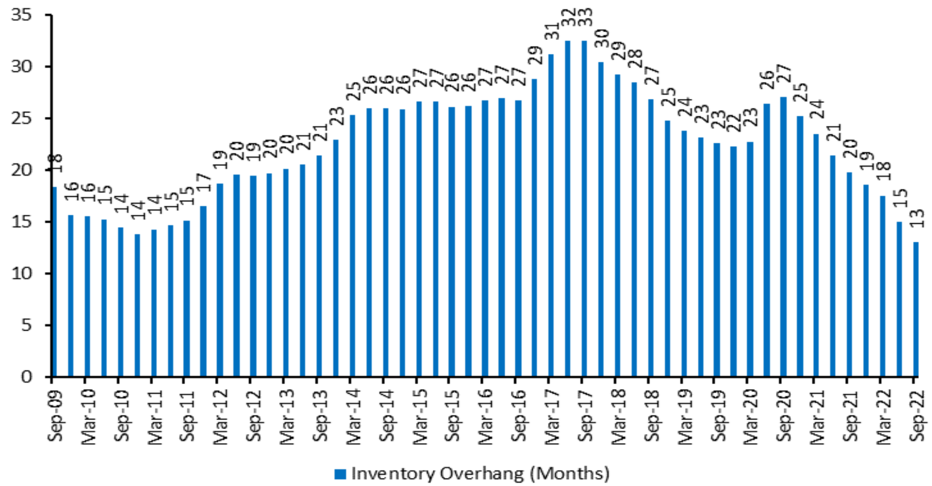
Share of large industries in industrial loans increased



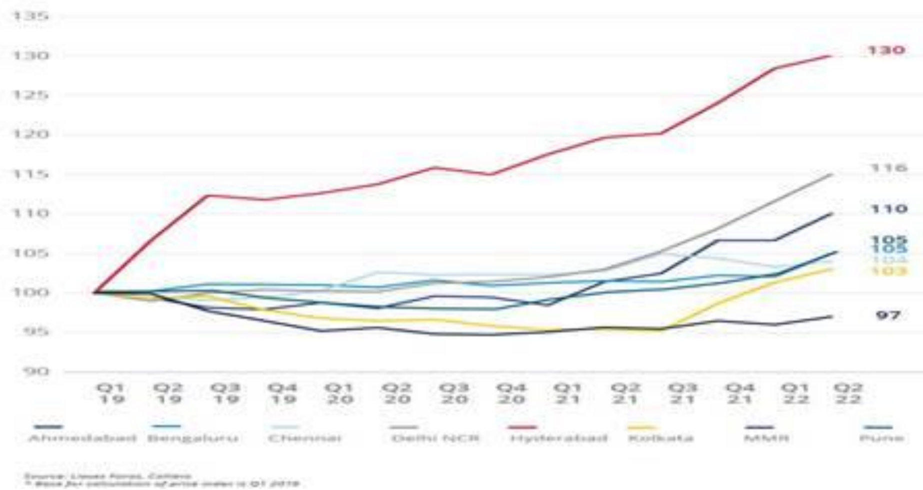
Source: CMIE Economic Outlook, RBI, SBIMF Research

Residential real estate sector prospects are improving

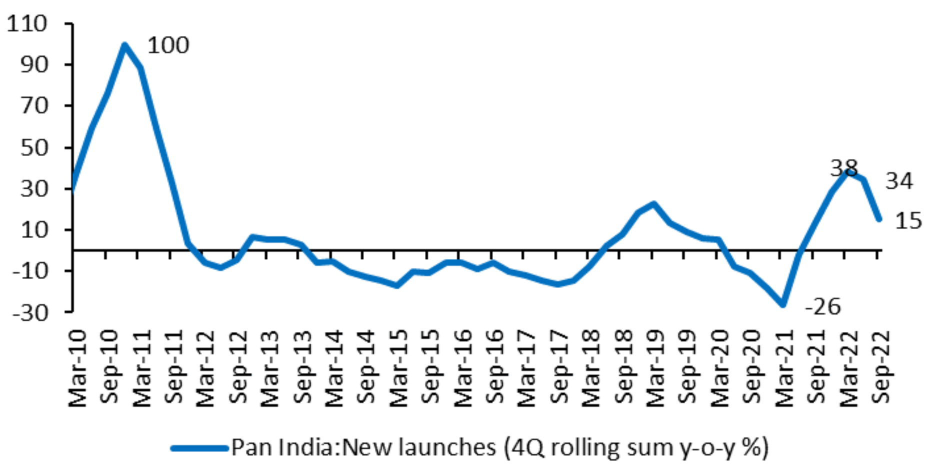
Unsold inventory has reduced materially in recent quarters



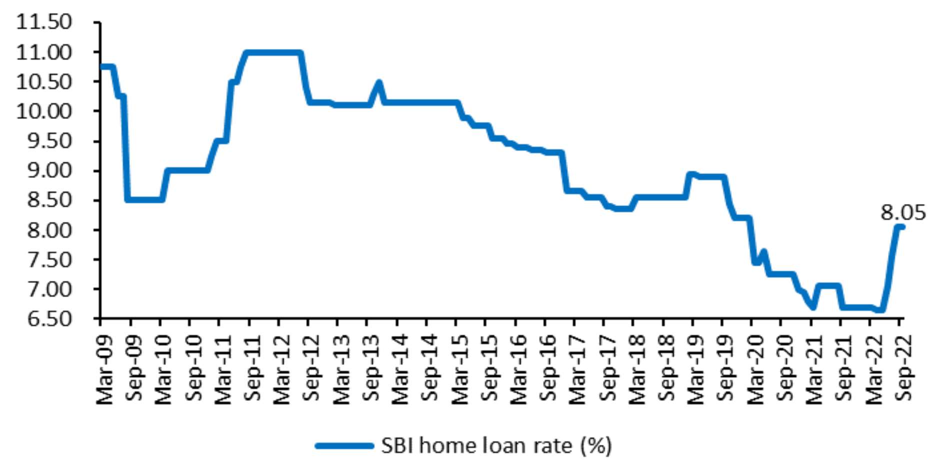
Housing prices have started to rise



New launches have increased at the margin in Q2 2022



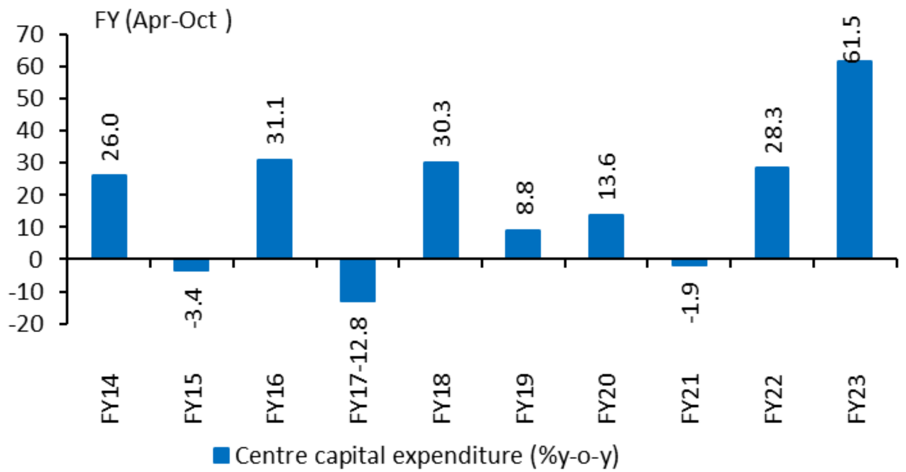
Home loans rate are increasing; but still at affordable level



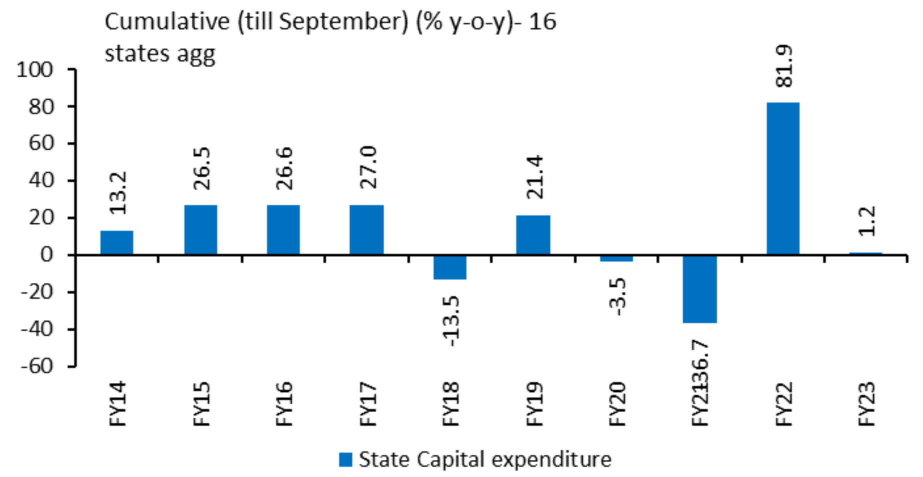
Source: PropEquity, JMFL, SBIMF Research; NB: Housing price index from CREDAI report

Centre's thrust to capex continues; hope of state capex revival in 2H FY23

Centre's capex has increased significantly



States capex has been slow in 1H FY23; expect improvement in 2H FY23

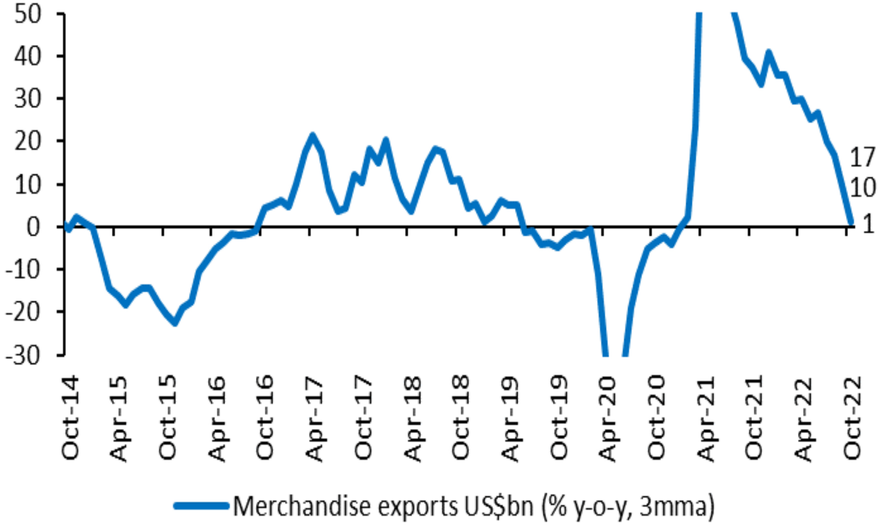


- FY23 fiscal deficit for Centre is budgeted at 6.4% of GDP in FY23 compared to 6.7% fiscal deficit in FY22.
- Capex growth is strong. Out of Rs. 7.5 trillion budgeted at FY23 capex, Rs. 4.1 trillion has been spent in Apr-Oct'22 (61% higher than a year ago).
- On the other hand, state's expenditure (Apr-Sep'22) grew by 13% vs. an asking growth rate of 23% despite revenue buoyancy.
- State capex grew by only 1.2% (vs. asking rate of 51%). Going ahead, if the states were to meet the budgeted targets, capex will have to grow by ~80% and overall expenditure by ~30%.

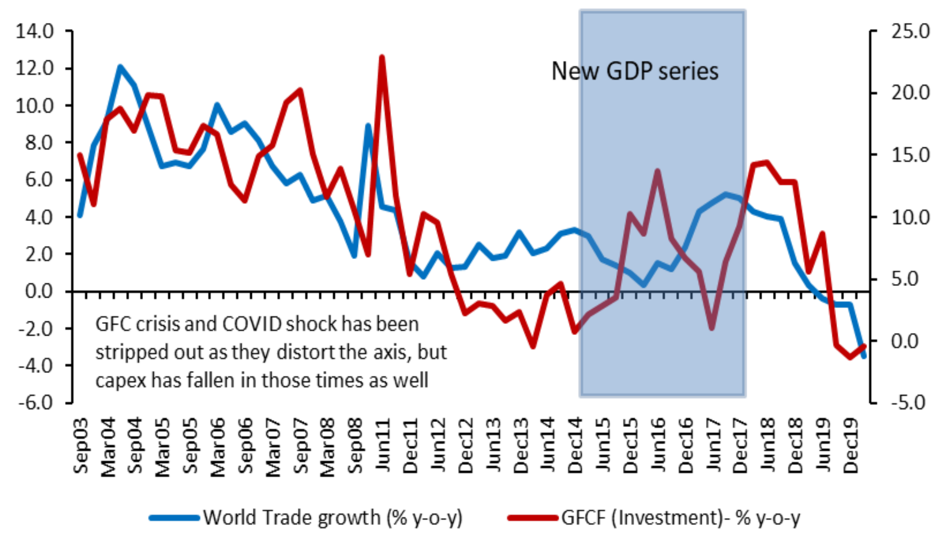
Source: CEIC, CMIE Economic Outlook, RBI, SBIMF Research

Headwinds to business activity in 2023 from weak global growth

Indian export growth is rapidly moderating



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

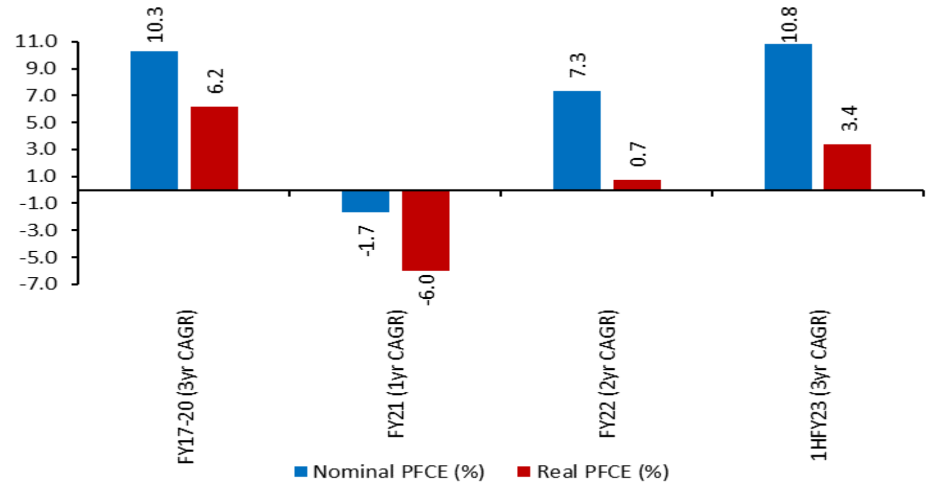


- Gross Fixed Capital formation i.e., investments had been the main stay of demand in Q2, while consumption has also been recovering.
- On a 3-year CAGR basis, private consumption growth is still muted at 3.6% while GFCF grew by 6.5%. Investments (i.e., GFCF+ Inventory Stocking) reached 36% of GDP in Q1 and Q2 FY23, for the first time since 2012-13. But the key question is whether it sustains next year when global growth weakens.
- Over the past two decades, trade channel has been a very strong driver of capex cycle in India. Investment growth has ~70% correlation with global trade cycle.

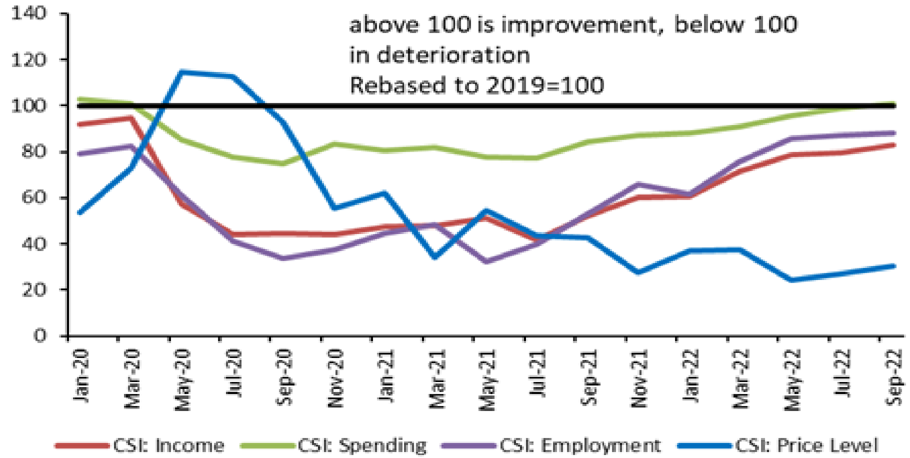
Source: CMIE Economic Outlook, SBIMF Research

Inflation and weak sentiments affects real household spending in last 1 year

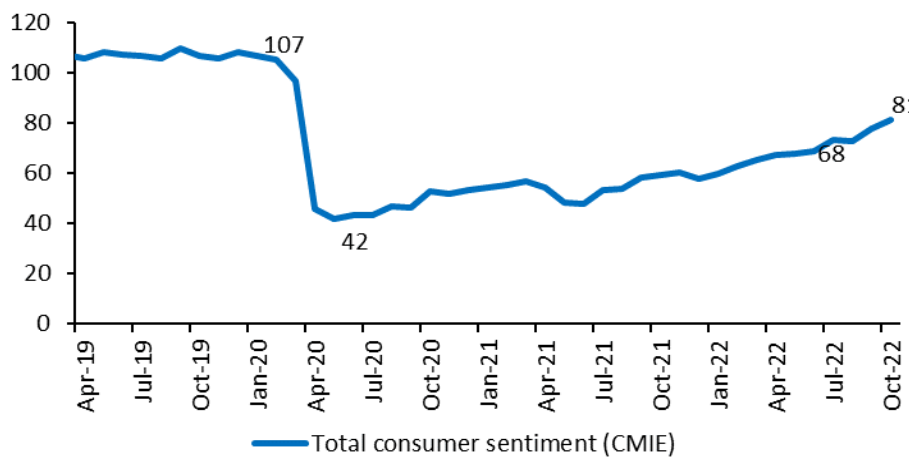
Nominal household spend is back to pre COVID levels as seen on a 3yr CAGR basis; Real spend remains muted



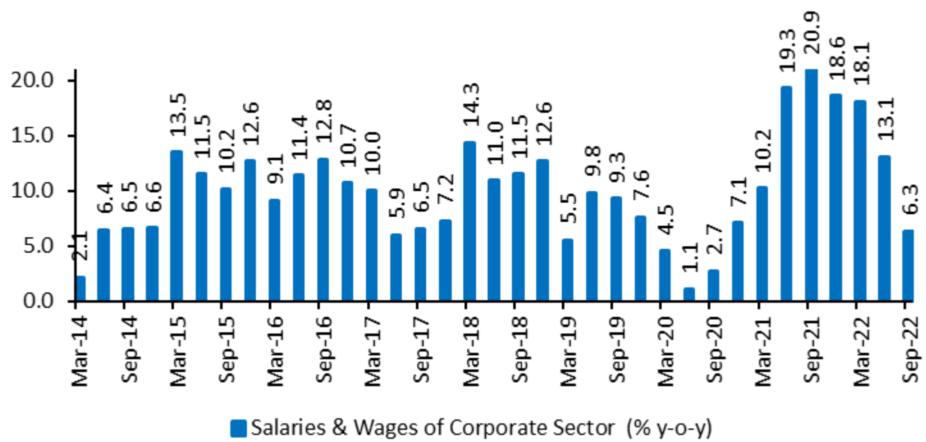
Inflation key factor driving down consumer sentiments



Consumer Sentiment improves by the month



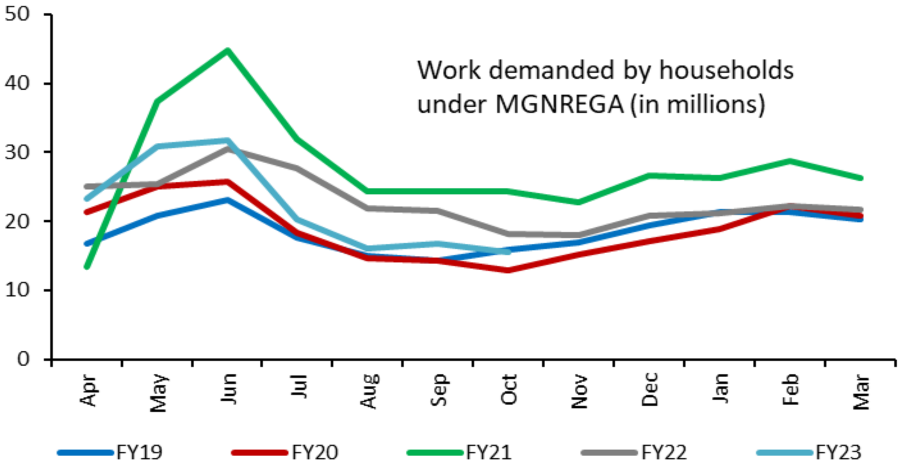
Corporate sector salaries and wages growth moderates, but still healthy



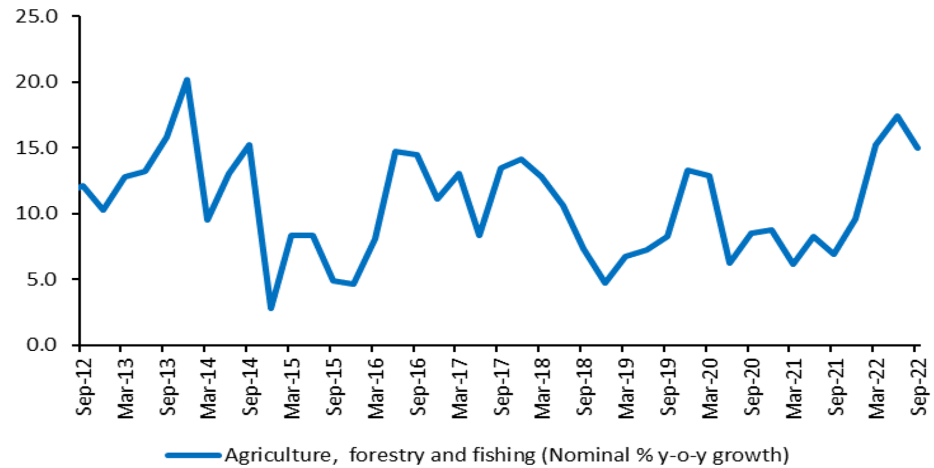
Source: CMIE Economic Outlook, RBI consumer confidence survey, SBIMF Research; NB: CSI refers to Current Situation Index

Softer inflation and rising income could drive consumption recovery

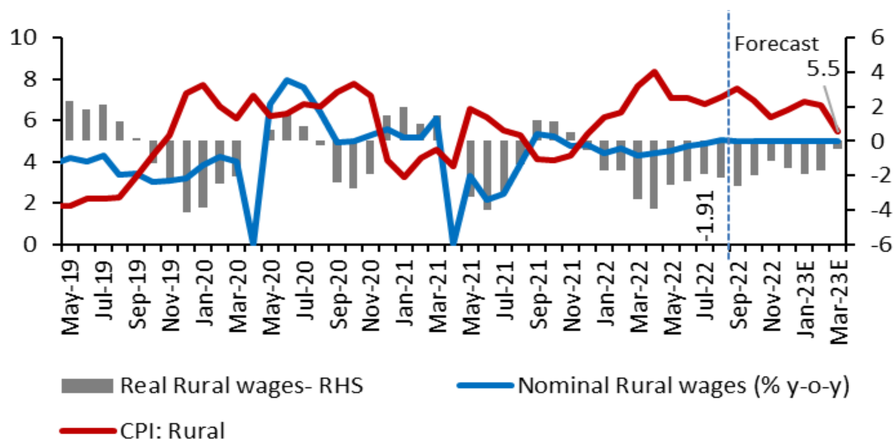
Work demanded under MGNREGA falls suggesting better absorption elsewhere



Nominal Agri income has been growing at 15-17% since last three quarters



Likely moderation in inflation ahead to improve real rural wage

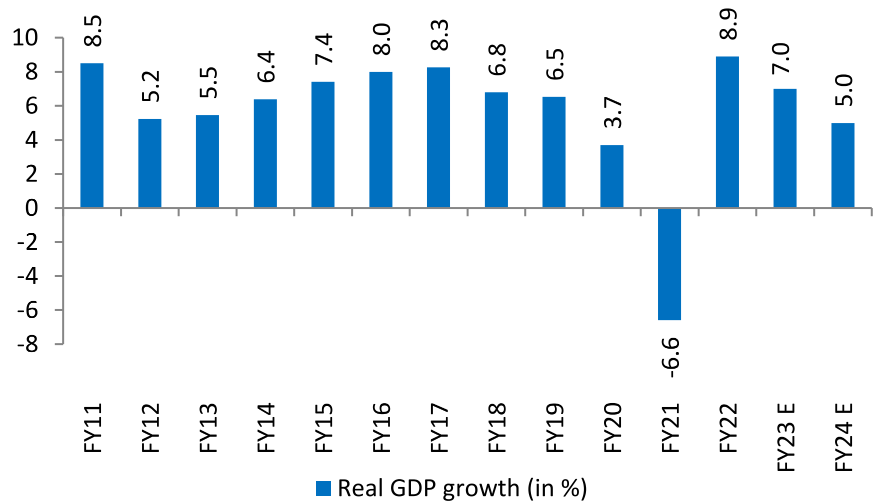


- Nominal Household spend has been stronger than real demand.
- If one looks 3-year CAGR, while nominal household spend rose ~11% in both Q1 and Q2 FY23, real spend has been muted at 3.2-3.6%.
- Once the price hikes in Household Goods and Services normalizes or takes a breather going ahead, and household income recovery continues, real spend should improve in coming quarters.

Source: CMIE Economic Outlook, SBIMF Research

External factors likely to drive growth moderation in India in FY24

Real GDP growth for FY24 to be ~5% vs. 7% in FY23



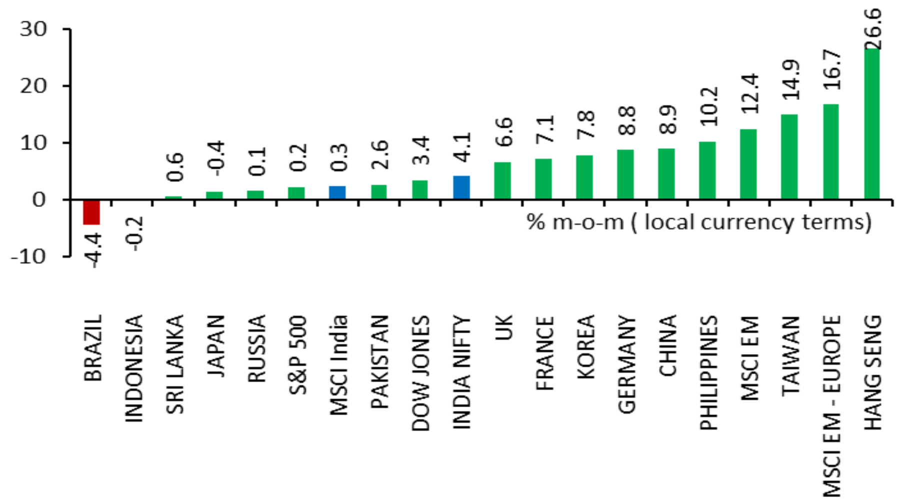
- Q2 FY23 GDP growth at 6.3% (compared to 13.5% y-o-y in Q1 FY23) was in line with market expectations.
- Investment activity was the strongest followed by ~10% growth in household consumption. Government expenditure, on the other hand, declined sharply (likely due to lower state spending).
- GDP data shows signs of capex in India with Gross Fixed Capital Formation being the mainstay of demand in Q2 FY23. While domestic fundamentals for capex are strong, global headwinds could arrest the momentum in 2023.
- Given the normalizing of consumer sentiments and consumption coupled with the hope of stronger state expenditure in 2H FY23, we expect domestic sequential growth momentum to be strong and offset the export moderation in 2H FY23.
- We stay a tad bearish on growth for FY24. While lower inflation should help support private consumption in coming months, the lagged effects of tighter financial conditions and weak global demand will weigh on both investment and exports, while the post pandemic catchup in services is largely complete.
- We pencil a 5% growth for FY24

Source: CMIE Economic Outlook, SBIMF Research

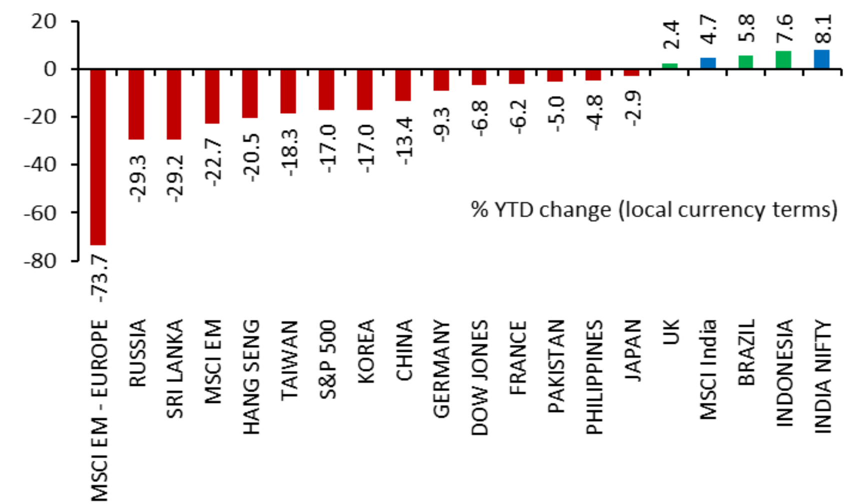
EQUITY MARKET

Equity markets deliver positive returns in October- November'22

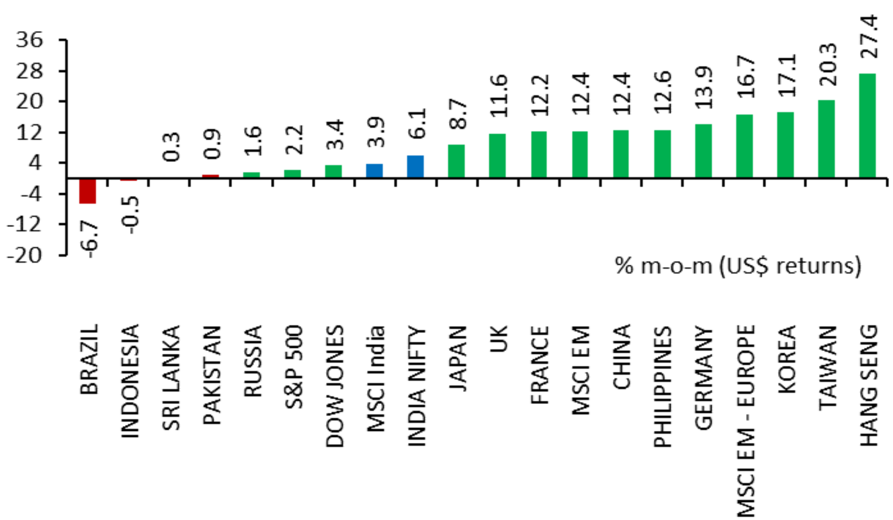
Performance in November 2022 (local currency returns)



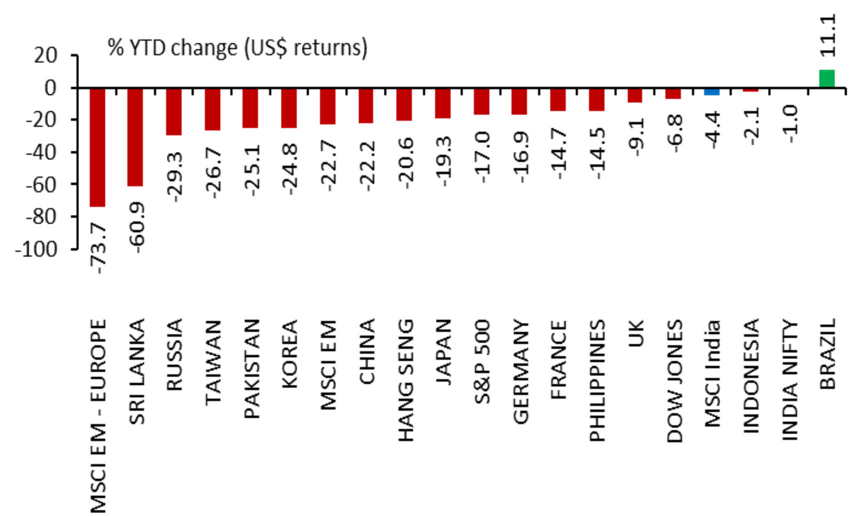
YTD performance (local currency returns)



Performance in November 2022 (US$ returns)



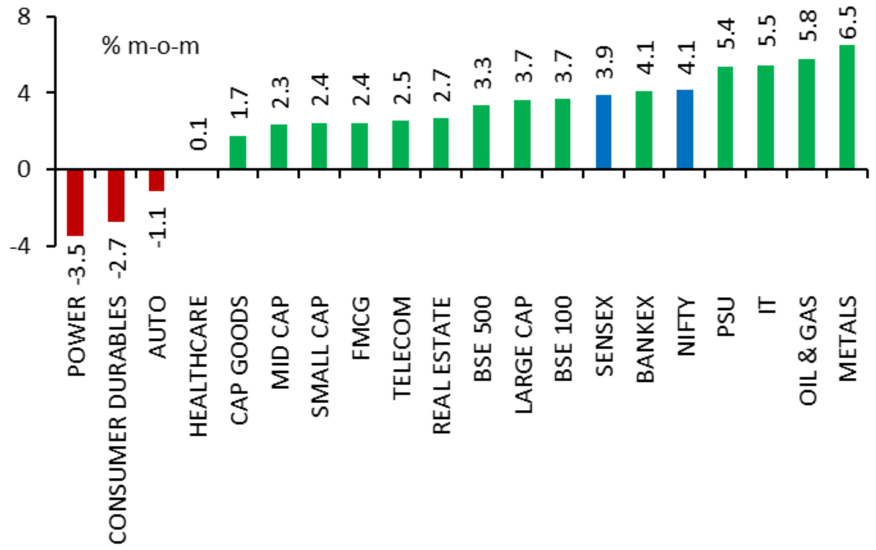
YTD performance (US$ returns)



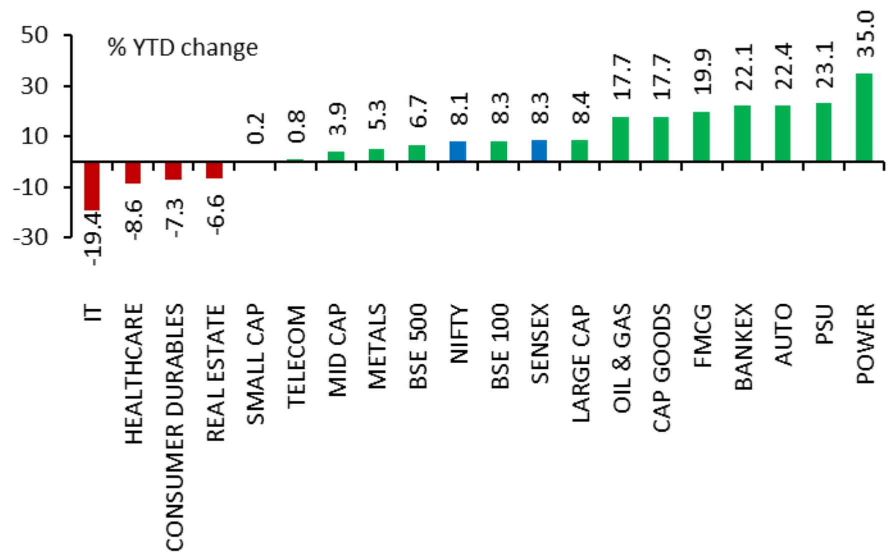
Source: Bloomberg, SBIMF Research

Indian equity market delivers positive returns for two successive months

Performance in November 2022 (local currency returns)



YTD performance (local currency returns)

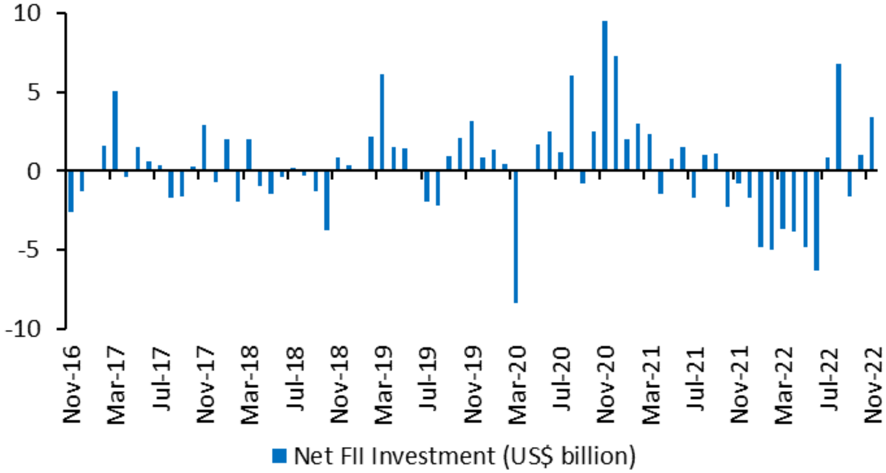


- Nifty and Sensex increased by 4.1% and 3.9% m-o-m respectively. Among sectors, Metals (6.5%), Oil & Gas (5.8%) and IT (5.5%) delivered the highest positive returns on a m-o-m basis while power, consumer durables and auto underperformed.
- Large cap out-performed small and mid-cap in November and YTD
- On YTD basis, Nifty and Sensex increased by 8.1% and 8.3% respectively. Among sectors, Power (35%), PSU (23%), Auto (22%), Bankex (22%) and FMCG(20%) outperformed. On the other hand, IT (-)20% delivered the sharpest negative returns on YTD basis

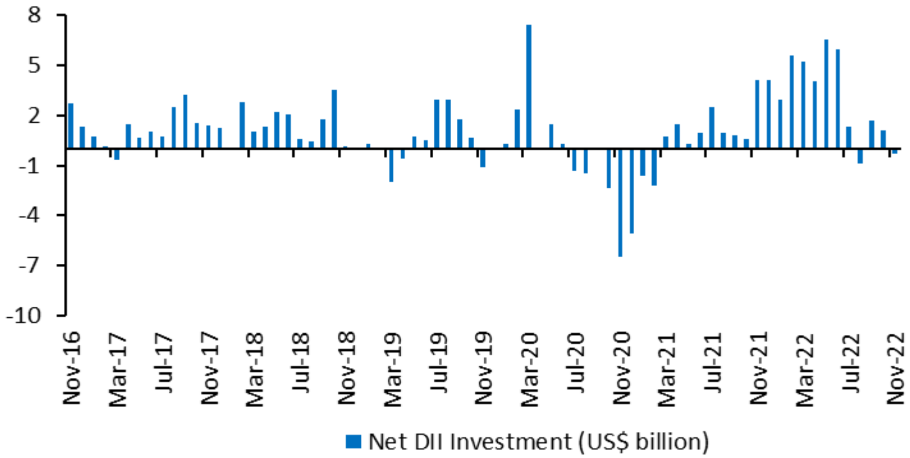
Source: Bloomberg, SBIMF Research

Liquidity: FIIs are net buyers in November'22

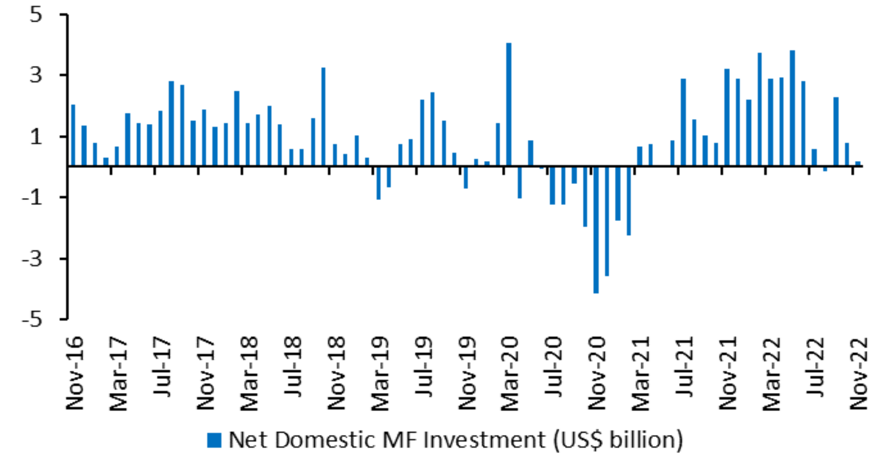
FIIs purchased ~USD 3.43 billion in Nov'22 in equity segment vs. USD 1.03 billion in Oct'22



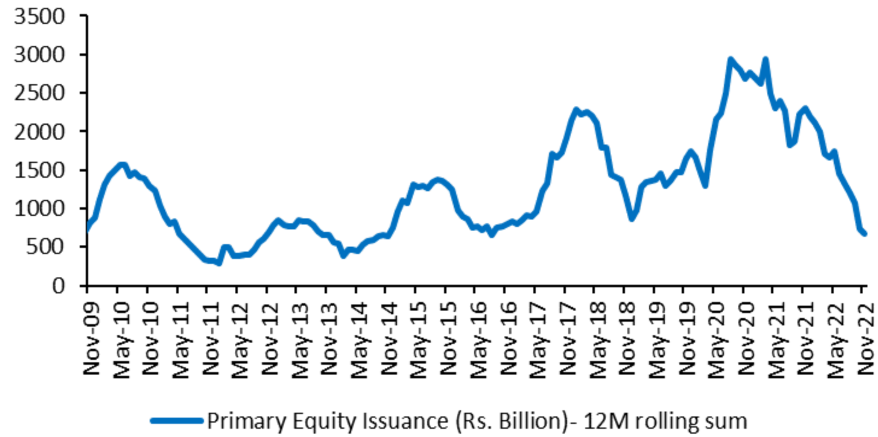
DIIs are net sellers at the margin (sale of USD 0.3 billion in Nov'22 vs. buy of USD 1.1 billion in Oct'22)



Mutual funds bought USD 0.17 billion in Nov'22 vs. 0.8 billion in Oct'22



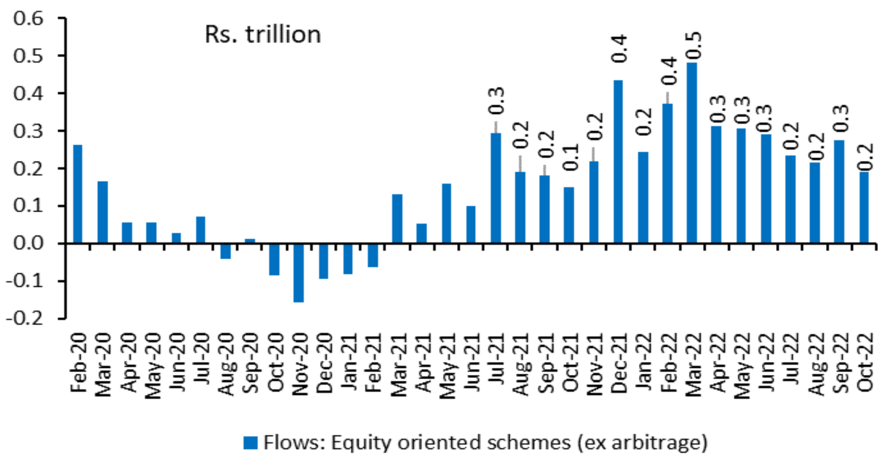
Primary market supply is moderating



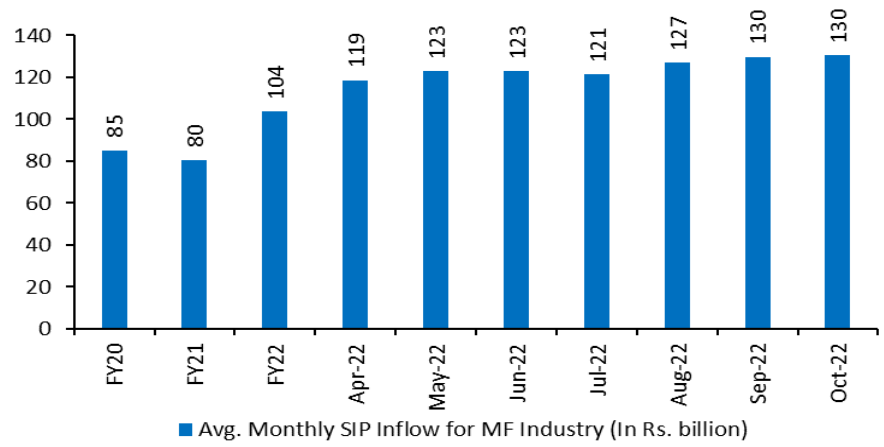
Source: Bloomberg, SBIMF Research; NB: Mutual find data available till 14th Nov'22

MF flows: Strong equity flows; marginal increase in SIPs in Oct'22

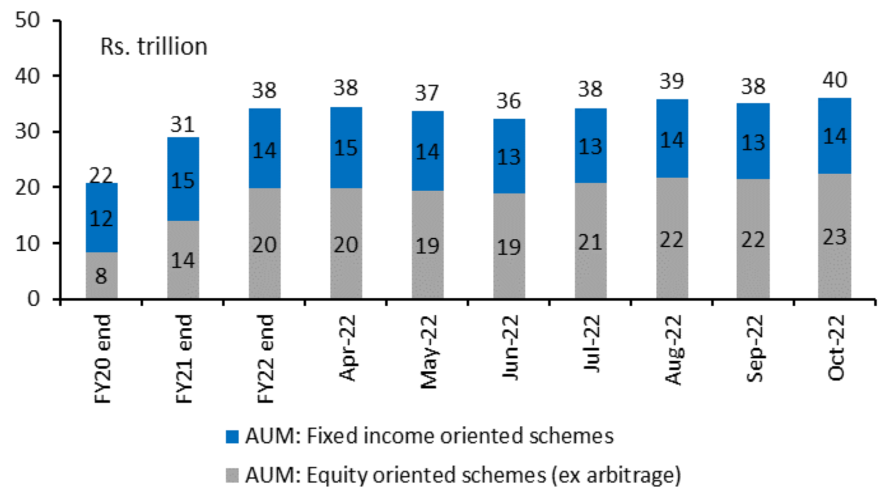
Equity MFs posted 20th straight month of inflows



SIPs marginally higher with October levels at Rs. 130.4 billion vs. 129.7 billion in Sep'22



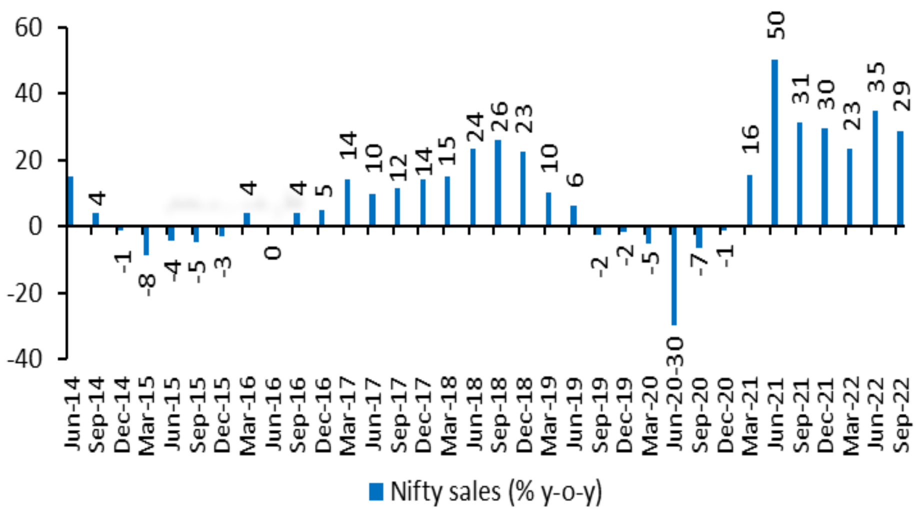
Equity AUMs and Debt AUMs in Oct'22 were marginally higher than Sep'22 values



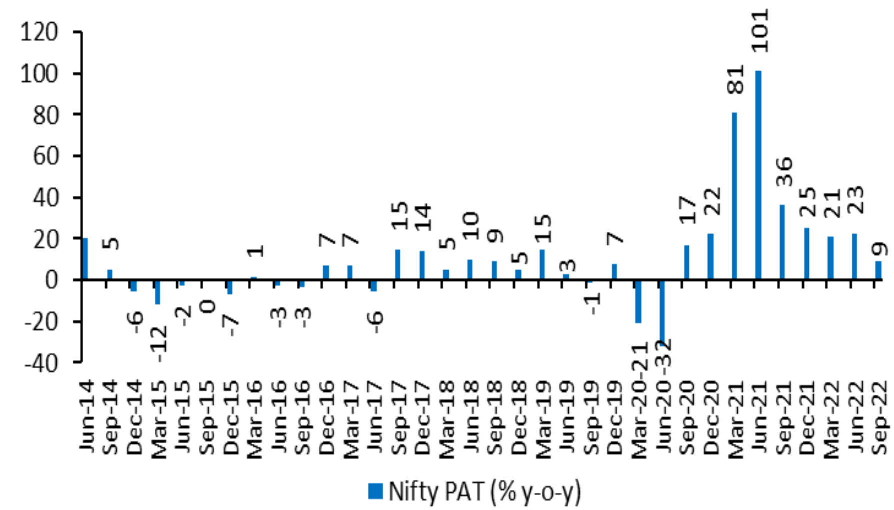
Source: CMIE Economic Outlook, Association of Mutual Funds of India(AMFI), SBIMF Research

Q2 FY23 Earnings: Robust sales but profits moderate

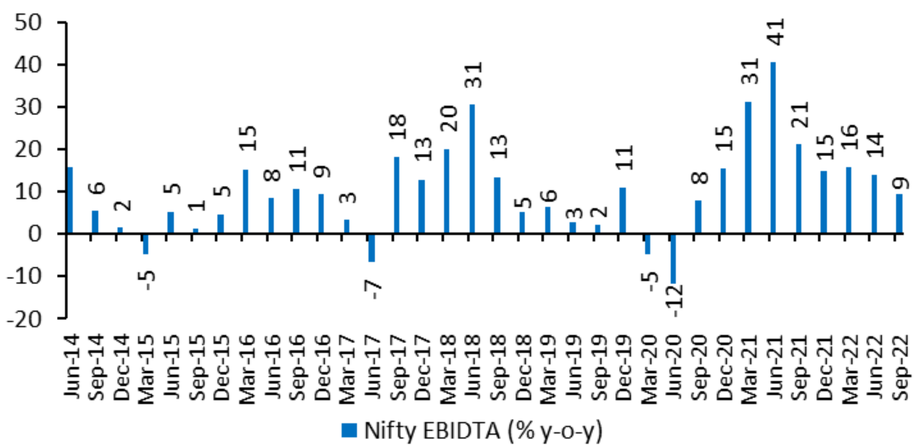
Q2 FY23 NIFTY Sales growth in line with expectations



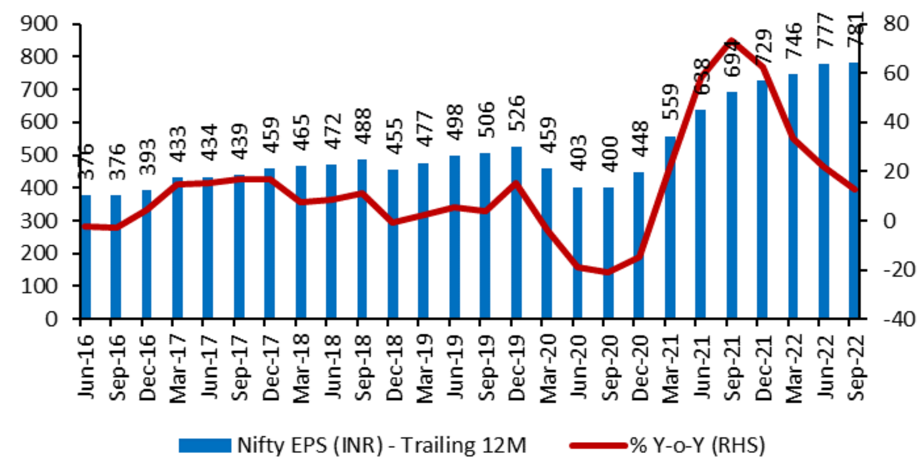
Profit growth moderated in Q2 FY23 vs. Q1FY23



EBITDA growth moderated as input costs remain elevated



EPS growth moderates to mid-teens growth



Source: MOSL, SBIMF Research; Interim earnings for 25 companies

Q2 FY23 earnings' review: Snapshot

- Financial sector drove the earnings in Q2 FY23. Autos were next in line to drive profits, helped by a depressed base. On the other hand, global cyclicals witnessed sharp decline in profits. For domestic demand-oriented companies, cost concerns remain, despite frequent price hikes taken by companies. But looking at an aggregate picture, despite sharp cost escalations, the extent of earnings downgrades has been fairly muted.

- NIFTY 50 companies posted sales growth of 29% over a strong base of 31% growth last year. Profits moderations (EBITDA : 9.3% y-o-y, PAT 9.3%) were in line with expectations. Ex of financials, NIFTY PAT declined by 3% and EBITDA margins moderate by 200bps over previous quarter.

- EPS growth estimates for FY23 have seen marginal downgrades, primarily driven by some downward revisions to global cyclicals and consumer companies.

- NIFTY 50 is expected to deliver 13% growth in FY23 followed by 19% growth in FY24, respectively.

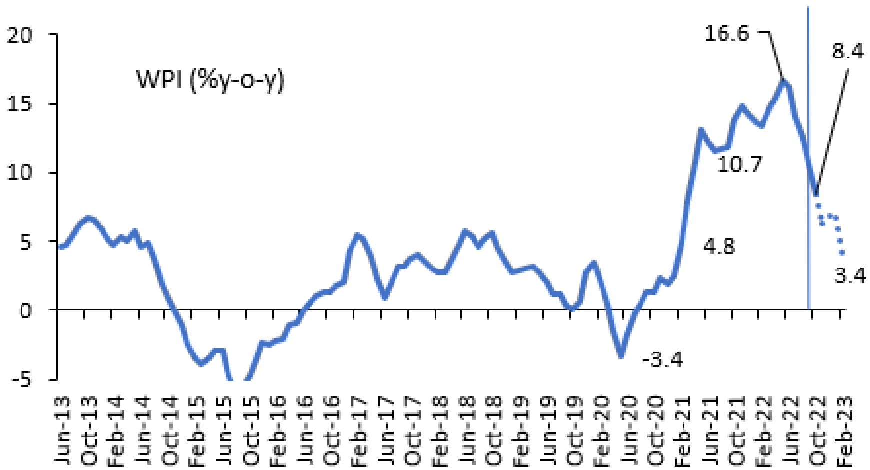
- Given the expectations of lower global growth going ahead, there are near-term downside risks to EPS estimates.

- Looking at the sectoral trends for broader basket of listed companies:
    - IT: Despite the challenging global macro environment, IT delivered relatively stable earning
    - Consumer: Overall performance was majorly driven by value. Volumes remained subdued. Gross margin pressure was higher than expected in 2QFY23
    - Retail: While the sector continues to see green shoots in the form of improved footfalls, inflation moderation will be key to sustain the demand momentum.
    - Banks: Growth remained strong propelled by healthy loan growth, margin expansions and continued moderation in provisions.
    - O&G: OMCs incurred losses owing to inability to take commensurate price hikes on petroleum products
    - Infrastructure: Weak execution and high input costs drag margins in 2QFY23. Order inflow is likely to improve. companies focus on asset sales through different routes to free up capital and bid for more projects.
    - Logistics: Volume growth stays robust amid the festive season; higher cost impacts margin for most players. Unorganized to organized shift is benefiting the sector and may drive volume growth ahead.
    - Real estate: Companies halfway through their FY23 pre-sales guidance, but are cautious about raising it due to rate hike risk

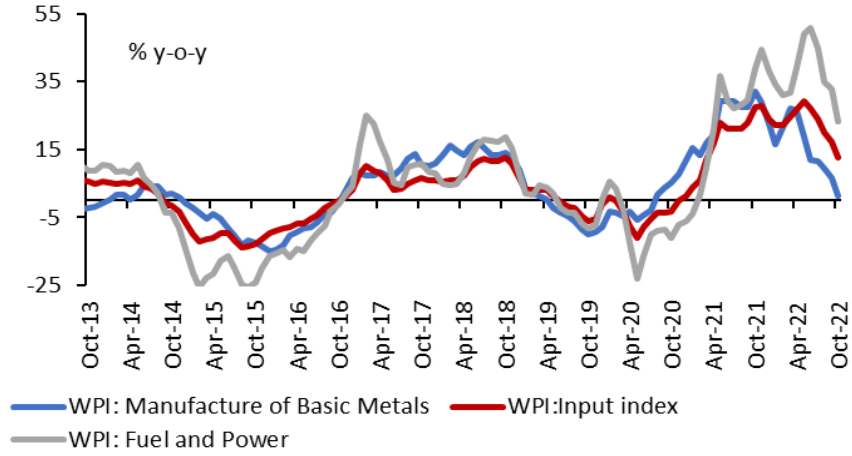
Source: MOSL, SBIMF Research;

WPI inflation falling rapidly- will ease input cost pressures of companies

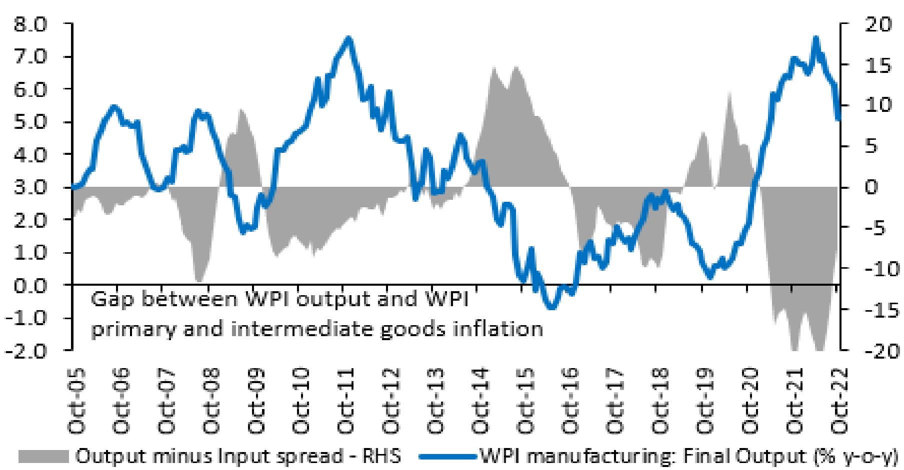
WPI inflation moderating rapidly most likely due to peaking of commodity prices



Input price pressures moderate with weakening commodity inflation



Price hikes on final manufactured goods are moderating at the margin

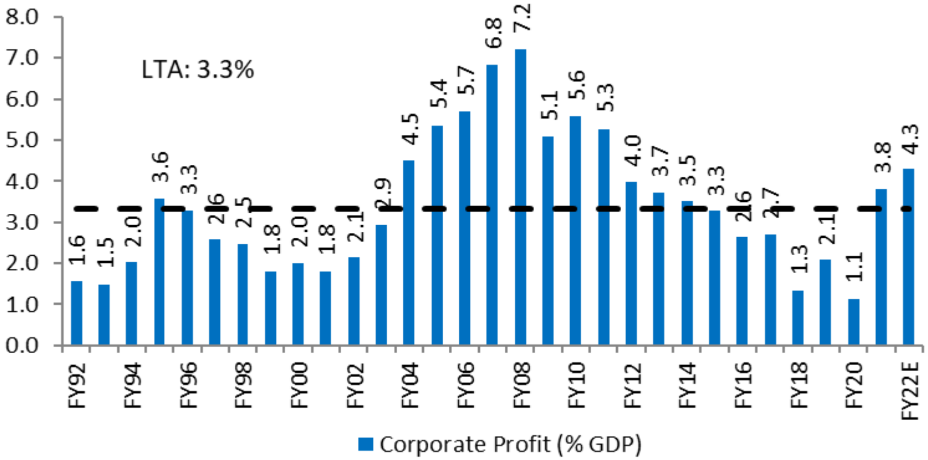


- WPI inflation moderated to a one and a half year low (8.4% y-o-y) in Oct’22. Assuming sequential flattening in the WPI index, it could moderate to ~3% levels by fiscal year end.
- Looking ahead, input price pressures could soften further with moderation in commodity inflation and weakening demand momentum.
- This would lead to sequential flattening or deceleration in final product prices in the coming quarters.

Source: CMIE Economic Outlook, SBIMF Research

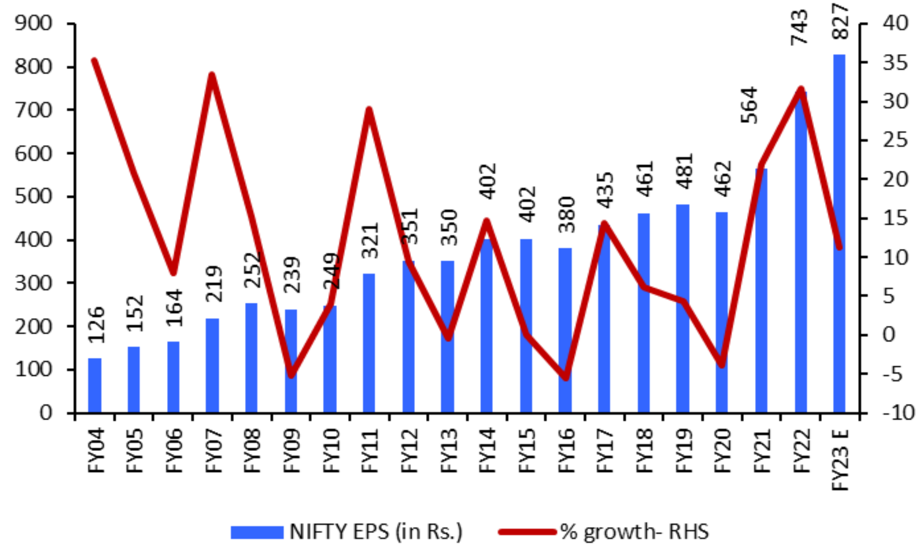
Earnings face headwinds in 2H FY23

Extremely low corporate profits to GDP makes a strong case for mean reversion



FY92-FY21 data is based on a sample of ~30,000 listed companies in CMIE (includes both financial and non financial companies)

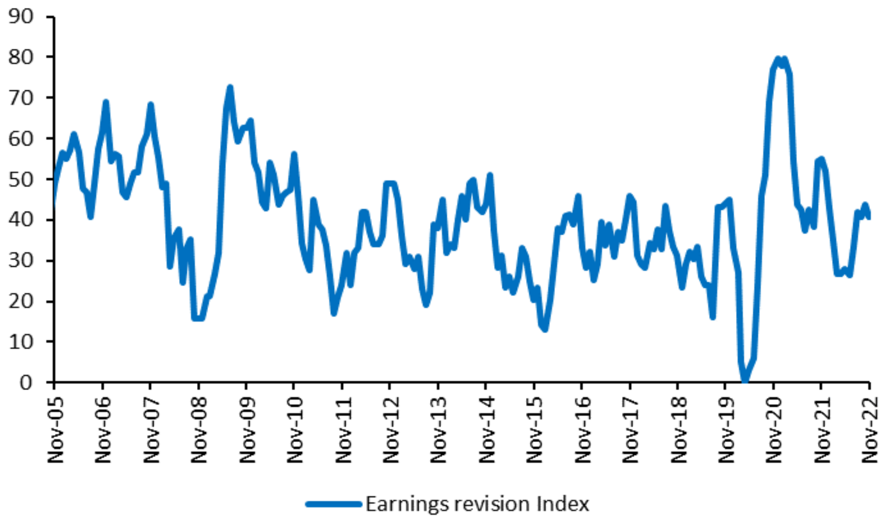
Near-term headwinds to earnings while medium term prospects look decent



Source: CMIE Economic Outlook, Bloomberg, SBIMF Research; *FY23 earnings estimates are SBIMF

Near-term earnings challenges persists; medium term earnings robust

Earnings Revision have fallen



Sectoral breakup of NIFTY earnings outlook

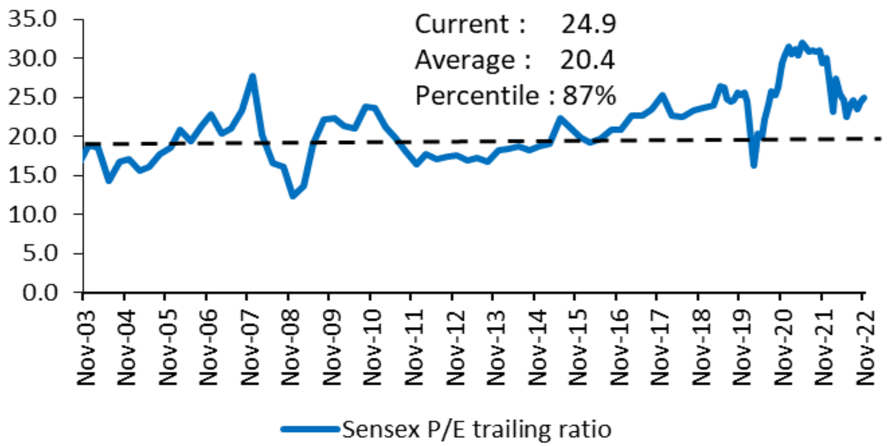
	No. of Cos.	EPS Change				
		FY20-21	FY21-22	FY22-23	FY23-24	FY21-24 (CAGR)
Nifty		20.0%	35.7%	12.7%	18.6%	22.0%
Consumer Discretionary	7	20.7%	-33.4%	164.4%	69.9%	44.1%
Materials	7	55.2%	222.9%	-31.6%	10.8%	34.8%
Health Care	5	5.9%	51.7%	12.4%	21.0%	27.3%
Financials	11	13.8%	27.3%	31.3%	17.4%	25.2%
Information Technology	5	9.6%	37.1%	3.6%	15.0%	17.8%
Energy	4	56.9%	11.4%	13.7%	13.8%	13.0%
Consumer Staples	5	-5.0%	-3.9%	16.3%	13.4%	8.2%
Industrials	3	22.9%	-30.1%	0.9%	24.4%	-4.3%
Utilities	2	18.0%	-9.7%	7.4%	11.1%	2.5%
Communication Services	1	NA*			69.9%	NA*

- Earnings revisions have started looking up.
- Earnings revisions for FY24 is robust with most upward revision seen in Financials and Healthcare.
- Consensus expects 22% EPS growth CAGR for the Nifty over FY21-FY24.

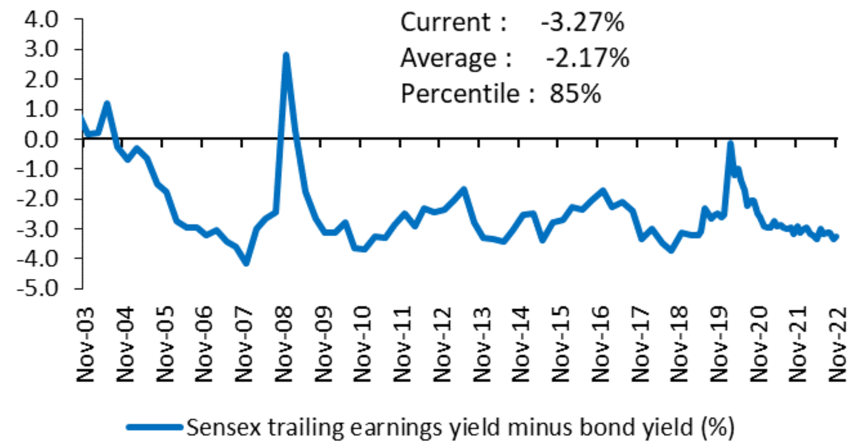
Source: Bloomberg, FactSet, SBIMF Research; NB: *data for communication services can't be calculated due to negative number in the base year, Earnings Revision Index: There has been a revision in the methodology of calculating Earnings' Revision Index. Earlier, 12 month forward estimate number of all the 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 a weighted format for history (1 month, 2 month & 3 months back with 1 month having the highest weight). Data till 21st Oct'22.

Equity valuations remain expensive

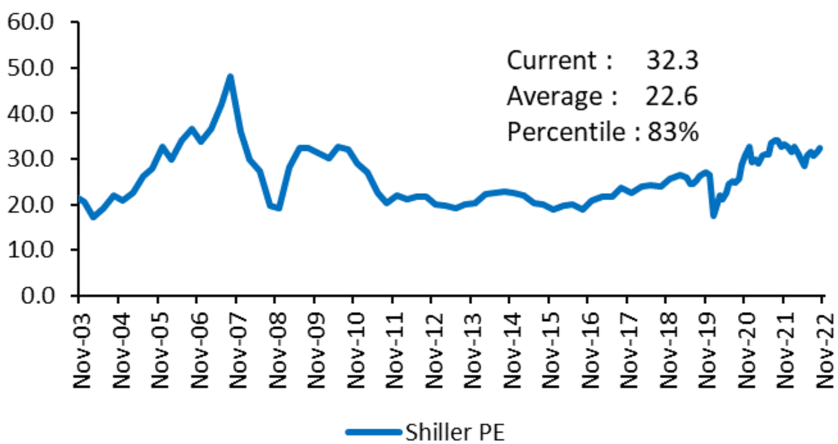
Sensex trailing PE ratio stood at 24.9 in Nov’22 vs. 24.4 in Oct’22



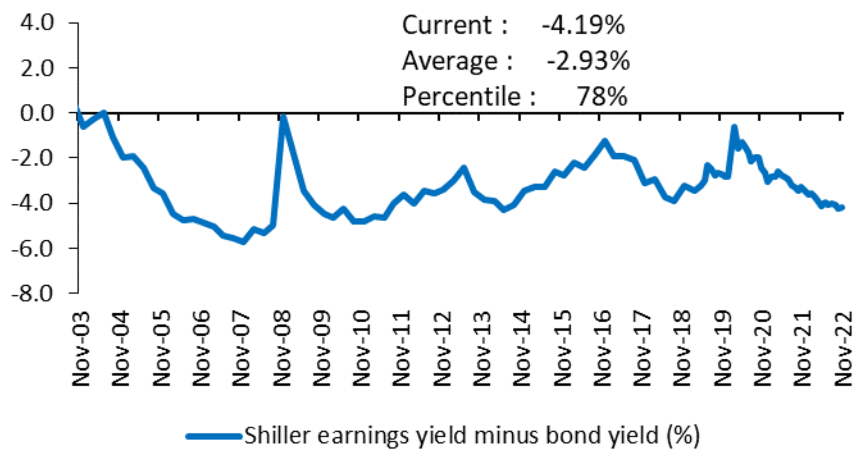
Earnings yield to bond yield spread expensive



Shiller PE ratio stood at 32.3 in Nov’22 vs. 31.5 in Oct’22



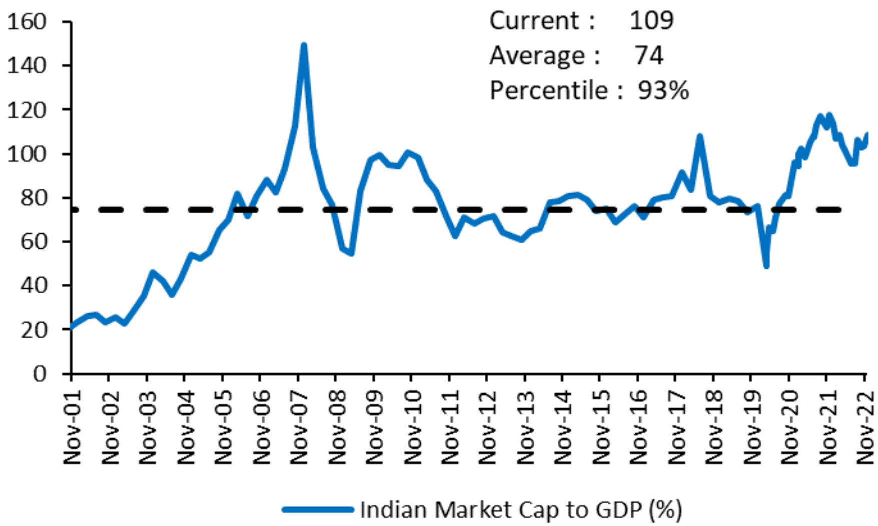
Shiller earnings yield to bond yield spread moderately expensive



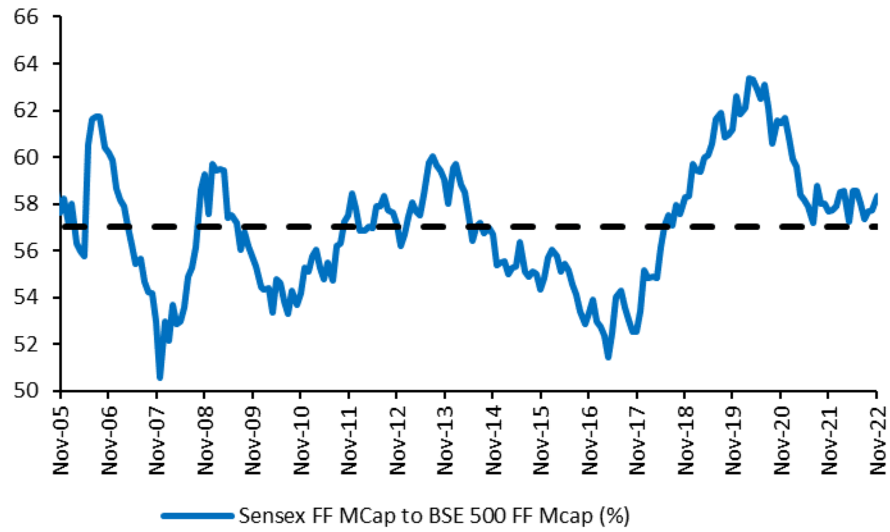
Source: Bloomberg, SBIMF Research. NB: Data uptil 21st Oct’22

Polarization hovers around historical average

Market capitalization/GDP expensive vs. history at 88th percentile reading



Mid caps and small caps: Valuation support over



- Market polarization has reversed in line with our expectation, with broader markets outperforming the frontline large cap indexes. The ratio is now hovering around historical averages, although inching up towards large caps.

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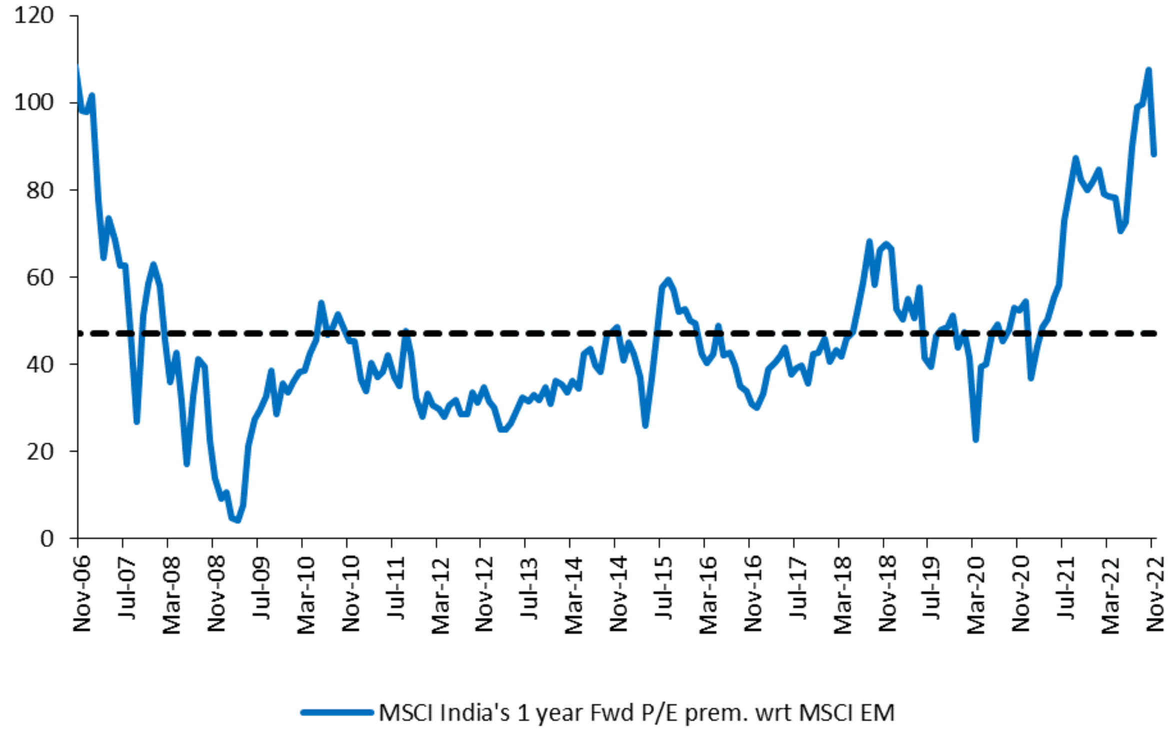
Source: Bloomberg, CMIE Economic Outlook, SBIMF Research; NB: FF stands for free float

MSCI India's valuation at a significant premium relative to MSCI EM

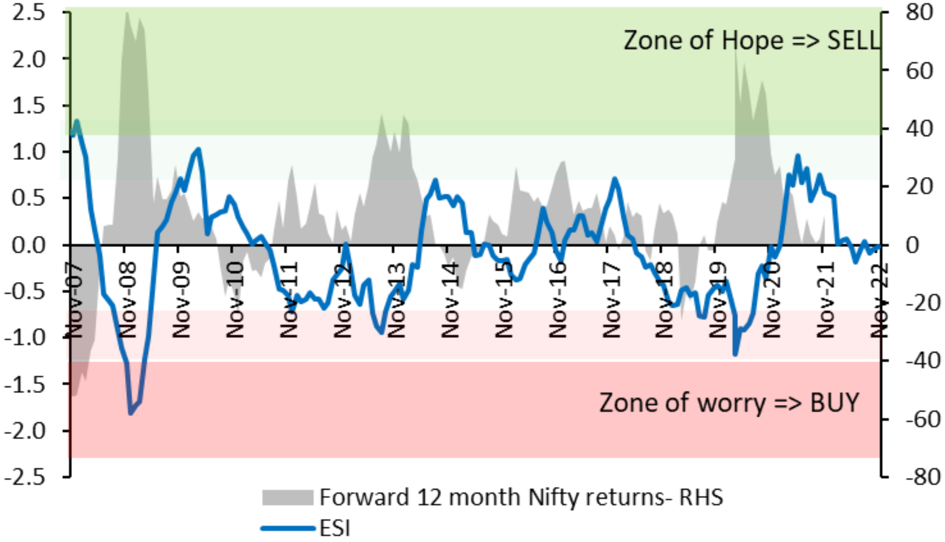
MSCI India's 1 year Fwd P/E premium with respect to MSCI EM at 88 in Nov'22 vs. 108 in Oct'22 (faring much higher than LTA of 47)

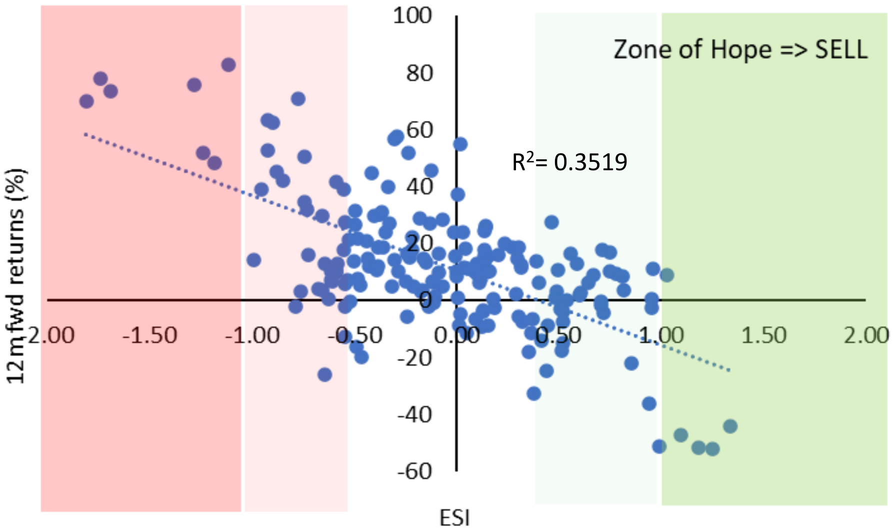


Source: Bloomberg, SBIMF Research

Equity market sentiment at neutral level

Earnings sentiment index has turned neutral (vs. heightened optimism until a few months ago)





- The sentiment measure works as a contrarian indicator. The action in the past few months has helped to take away the froth and brought the indicator back to neutral levels

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

Equity Outlook: Stick to investment discipline amidst volatile market

- Global equity market delivered positive return in Nov'22. Indian equity market resonated global trends.
- Performance down the capitalization curve was tad muted (Small cap:2.4%, mid cap:2.3% and large cap:3.7%). Among sectors indices, Metals (6.5%), Oil & Gas (5.8%) and IT (5.5%) delivered the highest positive returns on a m-o-m basis while power, consumer durables and auto underperformed.
- FIIs bought Indian equities in November while DIIs sold.
- Global sluggishness is likely to have a rub-off on Indian growth as well. US yield curve is now decisively inverted and historically this has been a harbinger of recession. And the fact that the US Fed is still tightening (and shrinking the size of its balance sheet) in the wake of already low money supply growth only adds to slowdown risks.
- Growth is likely to moderate to ~5% in coming quarters, mainly on account of slower global growth and only a gradual revival in domestic consumption.
- In this context, we believe it may be premature to declare an end to the current volatility. Investors should stay patient and stick to their long-term asset allocation; investors would do well to not get carried away after the recent sharp rally given the global growth risks.
- De-rating of global equities driven by higher bond yields and higher ERP is likely to remain a risk going forward.
- Valuations that suggest equities are expensive relative to bonds and Indian equity is priciest amongst EM baskets.

Source: Bloomberg, SBIMF Research

FIXED INCOME MARKET

Global Bond Market Snapshot: November’22

Global bond yields fell as market cheers softer than expected CPI print in the US

10 Year Gsec Yield (% mth end)	2020 end	2021 end	Aug-22	Sep-22	Oct-22	Nov-22	m-o-m change (in bps)	YTD change (in bps)
Developed market								
US	0.91	1.51	3.19	3.83	4.05	3.72	-32	221
Germany	-0.57	-0.18	1.54	2.11	2.14	1.94	-21	211
Italy	0.54	1.17	3.89	4.52	4.30	3.84	-46	267
Japan	0.02	0.07	0.23	0.24	0.25	0.25	1	18
Spain	0.05	0.57	2.74	3.29	3.23	2.94	-29	237
Switzerland	-0.55	-0.14	0.84	1.23	1.16	1.10	-6	124
UK	0.20	0.97	2.80	4.09	3.52	3.13	-39	216
Emerging Market								
Brazil	6.91	10.84	12.29	12.02	11.87	12.98	110	214
China	3.15	2.78	2.64	2.75	2.65	2.92	27	14
India	5.87	6.45	7.19	7.44	7.48	7.32	-16	87
Indonesia	5.86	6.36	7.11	7.35	7.51	6.91	-60	55
South Korea	1.72	2.26	3.71	4.08	4.23	3.68	-55	143
Malaysia	2.65	3.58	3.99	4.46	4.36	4.11	-25	53
Thailand	1.32	1.89	2.43	3.18	3.19	2.72	-47	83
Mexico	5.55	7.57	9.06	9.67	9.85	9.31	-54	174
Poland	1.24	3.67	6.15	7.17	8.37	6.62	-175	295
South Africa	8.75	9.81	10.91	11.36	11.35	10.77	-58	96
Colombia	5.39	8.19	12.08	12.78	13.79	13.03	-77	483
Hungary	2.08	4.51	8.83	9.78	10.08	8.08	-200	357

Source: Bloomberg, SBIMF Research

India Rates Snapshot: November 2022

Yields fell a tad in November'22

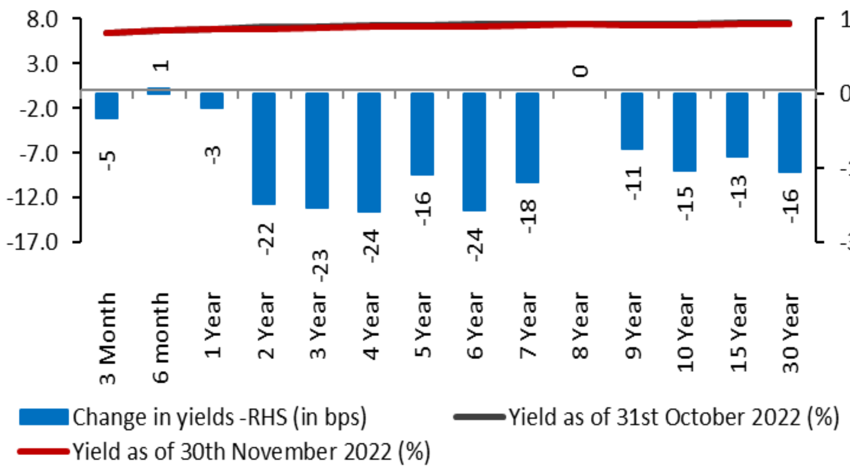
	2020 end	2021 end	Sep-22	Oct-22	Nov-22	m-o-m (in bps)	YTD change (in bps)
Repo rate	4.00	4.00	5.90	5.90	5.90	0	190
1 Yr T-Bill	3.46	4.27	6.80	6.92	6.87	-5	260
3M T-Bill	3.08	3.66	6.18	6.40	6.40	0	274
3 year GSec	4.46	5.30	7.12	7.19	6.96	-23	166
5 year GSec	5.04	5.79	7.26	7.27	7.10	-16	131
10 year GSec	5.87	6.45	7.44	7.48	7.32	-16	87
3 Yr Corp Bond*	4.69	5.76	7.37	7.70	7.41	-29	165
5 Yr Corp Bond*	5.51	6.22	7.55	7.75	7.61	-14	139
10 Yr Corp Bond*	6.59	7.00	7.78	7.77	7.71	-6	71
1 Yr IRS	3.69	4.34	6.90	7.00	6.69	-31	235
5 Yr IRS	4.61	5.37	6.91	6.91	6.34	-57	97
Overnight MIBOR Rate	3.51	3.60	6.17	6.25	5.86	-39	226
10 year SDL	6.58	7.01	7.66	7.82	7.62	-20	61
INR/USD	73.07	74.3	81.3	82.8	81.4	1.6^	-10^
Crude oil Indian Basket**	49.90	73.3	90.7	91.7	87.8	-4^	20^

- Sharper decrease in short end yields.
- Rupee appreciated by ~1.6% to INR 81.43/$ in Nov'22.
- Oil prices decreased by ~4% in Nov'22 vs. Oct'22 to US$ 87.8/bbl level.

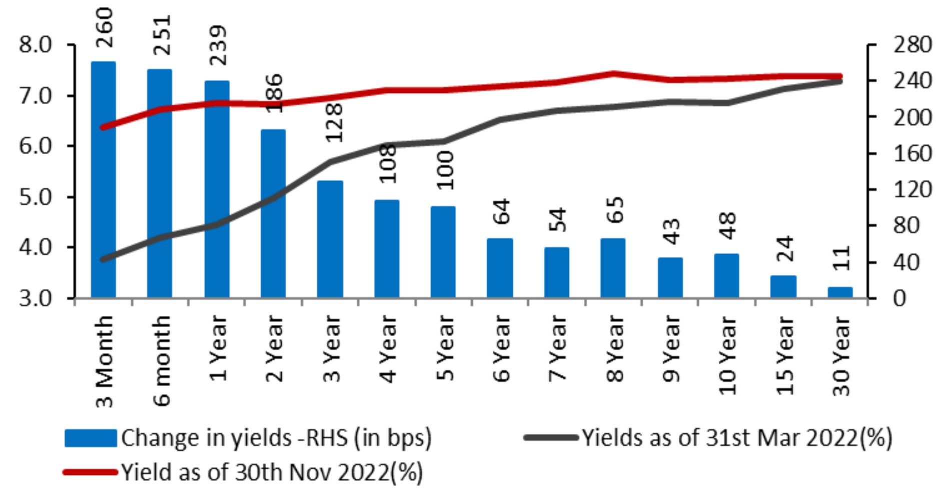
Source: Bloomberg, PPAC, RBI, CEIC, SBIMF Research; NB: *Corporate bond rate is for AAA rated bonds, **Crude oil price is average $/barrel for the month and INR, remaining data are % month end, ^INR and Oil price changes are % change, + denotes appreciation in rupee, -ve denotes depreciation

Indian G-sec yield curve significantly flattened

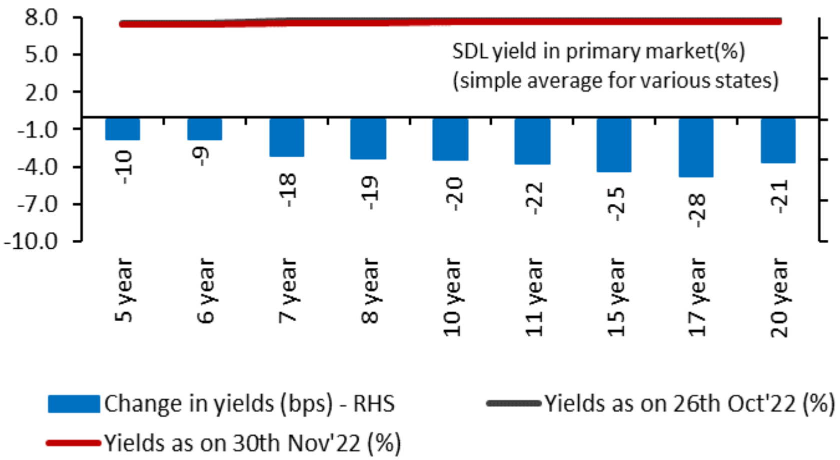
G-sec yields moderate in November



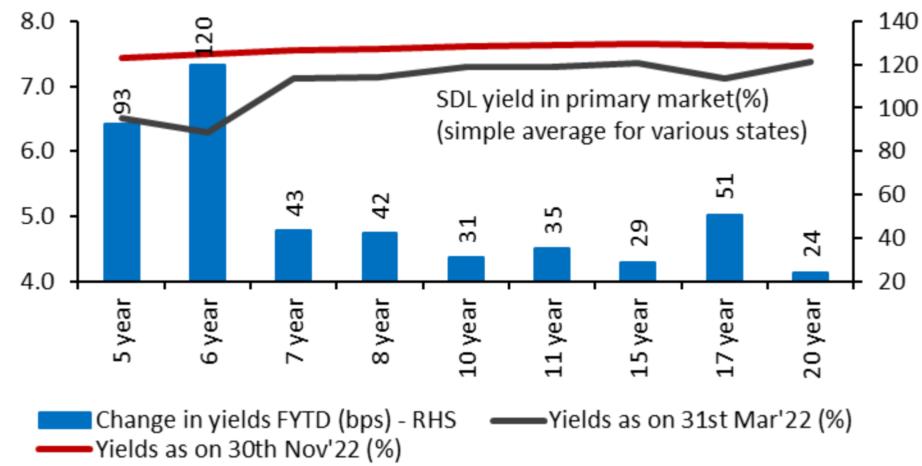
FYTD, G-sec sees sharper increase on the shorter end



SDL yields decrease across all tenures m-o-m



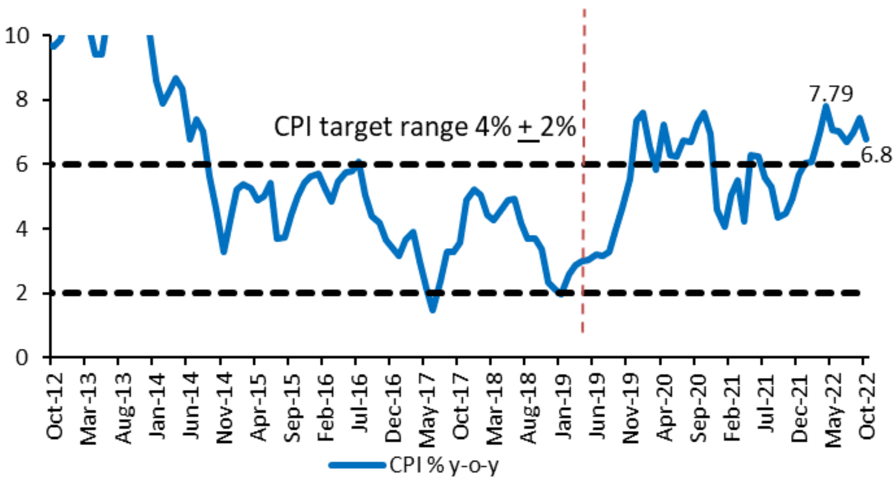
FYTD, rise in SDL yields lower than G-sec driving spreads compression



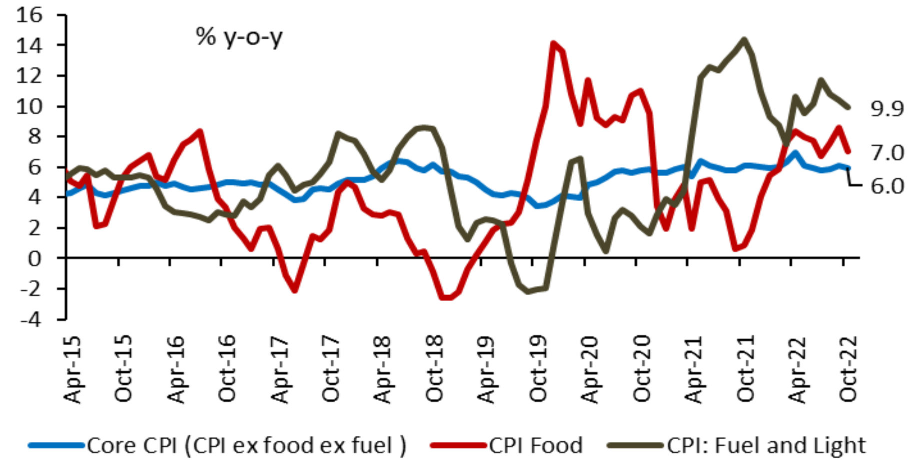
Source: Bloomberg, RBI, SBIMF Research

CPI is elevated (thus far) driven by broad-based inflationary pressure

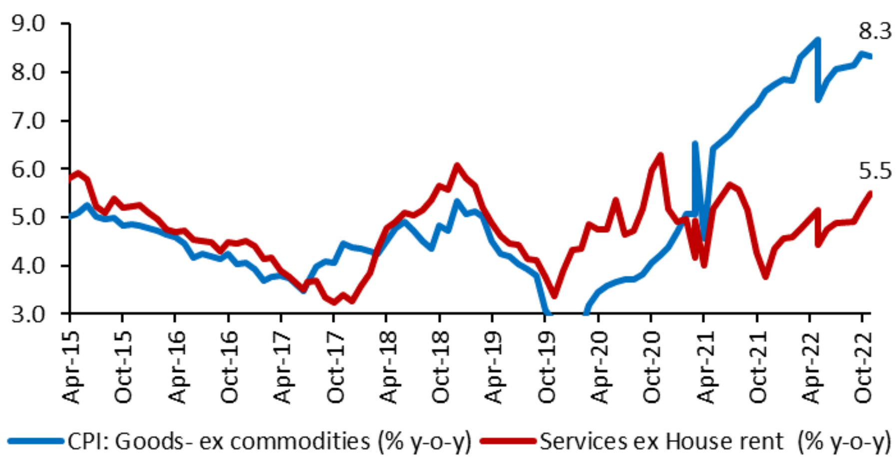
CPI breached RBI's upper target for three quarters



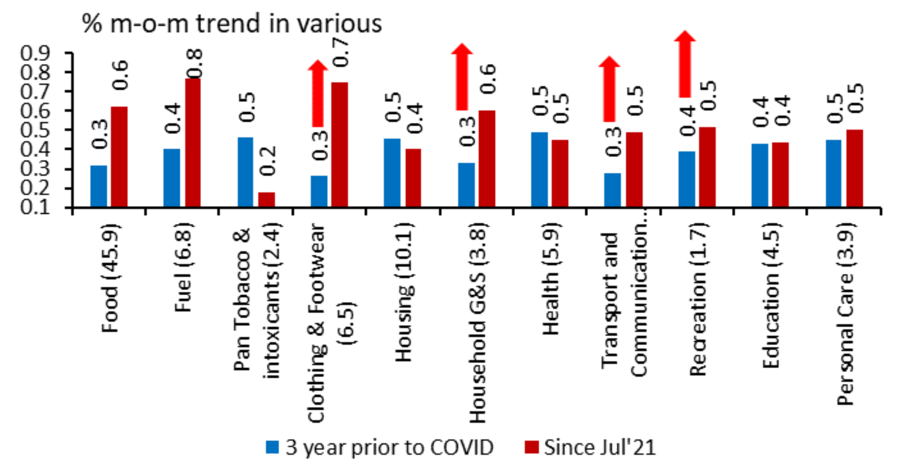
All key categories post above 6% inflation



Both goods and services inflation move higher



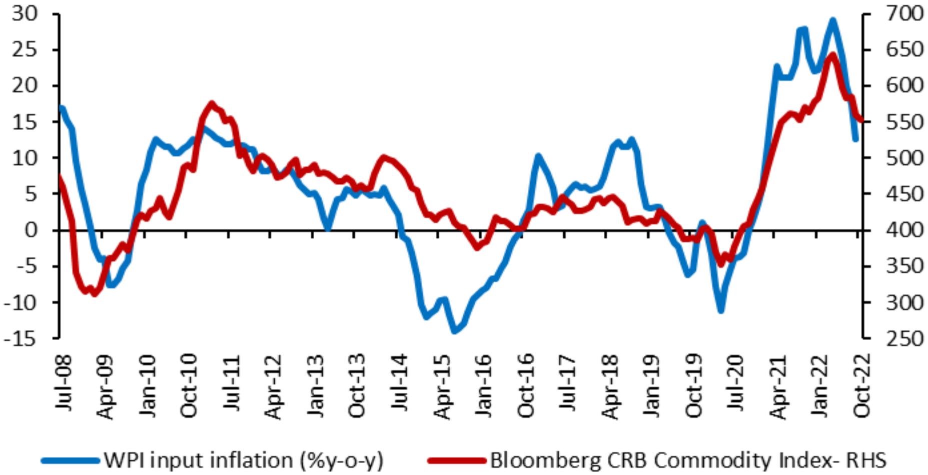
Clothing & footwear, household G&S, transport and recreation categories have seen a rise in sequential prices



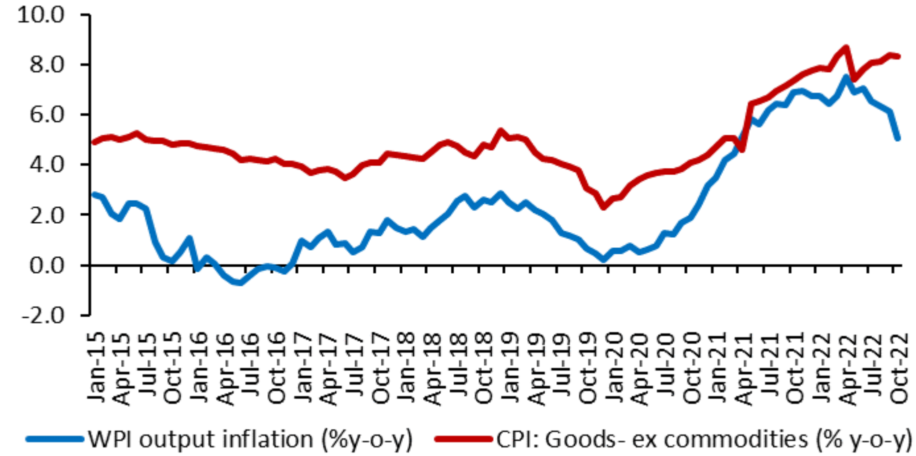
Source: CMIE Economic Outlook, SBIMF Research; NB: Numbers in parentheses are the respective weights in CPI

CPI inflation likely to cool to ~5% few months ahead

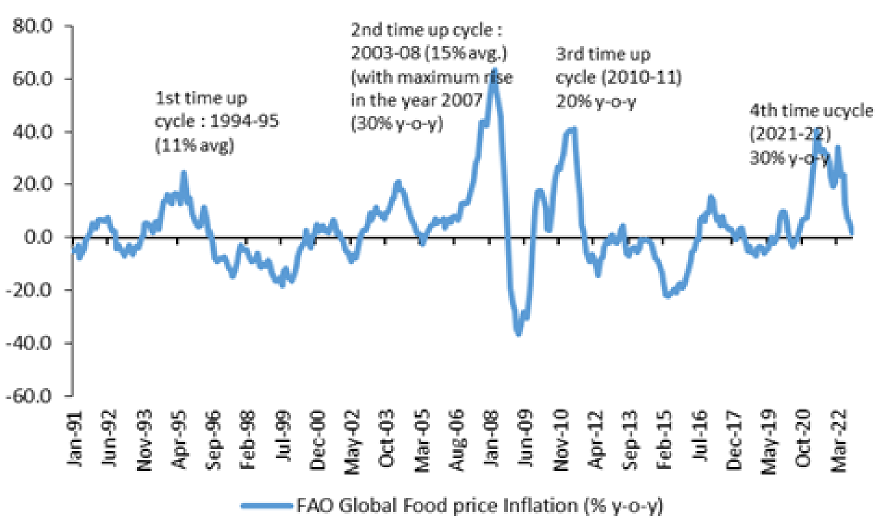
Peaking of global commodity prices could help contain WPI input inflation



This will feed into capping of price hikes on Households Goods & Services



FAO global food prices moderate at the margin

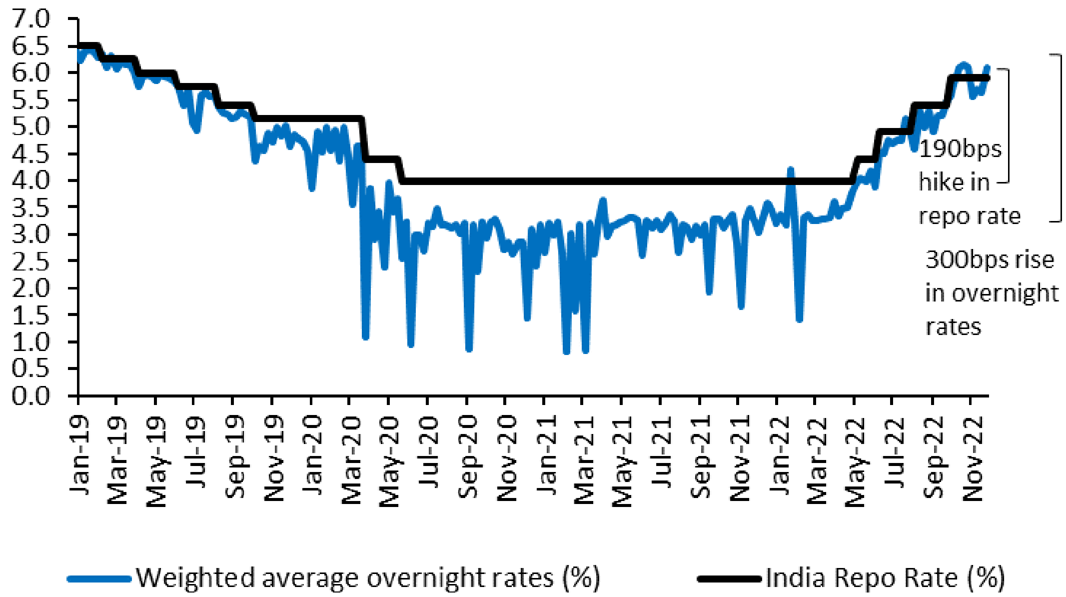


- We expect significant moderation in CPI inflation aided by cooling/ flattening out of global commodity prices and a breather to price hikes of household goods and services.
- Kharif season has not been as bad as feared thereby likely driving a peak in India's food inflation
- We expect petrol and diesel prices to stay flat over next couple of quarters but will drive down y-o-y fuel inflation / transportation costs for households.
- Risks emanate from any global shocks to commodity prices.

Source: Bloomberg, RBI, SBIMF Research

India at the mature stage of rate hiking cycle

India likely at mature stage of rate hiking cycle- risks emanate from global rates and currency

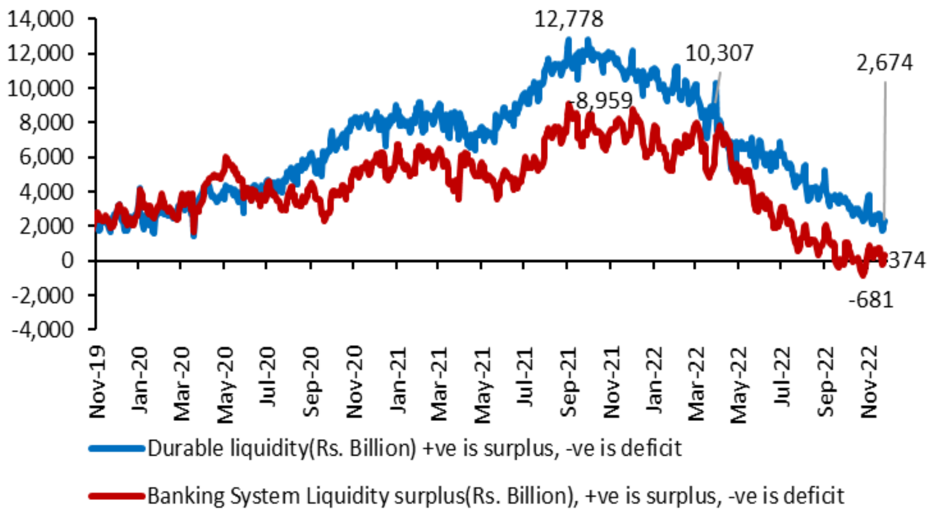


- Latest MPC minutes elicited some difference of opinion amongst MPC members where few members warranted against foot-stepping US Fed and hinted at tapering the rate hikes in near-future.
- Inflation is expected to gap down significantly six months ahead (aided by softer commodity and high base). Domestic growth inflation dynamics builds a strong case for a quick pause in the rate cycle.
- However, there are important linkages and feedback loops between internal and external balance and as such the peak Repo rate in India is still contingent of future Fed funds rate and USD trajectory.
- We expect 35bps rate hike in December policy bringing the policy repo rate to 6.25%.

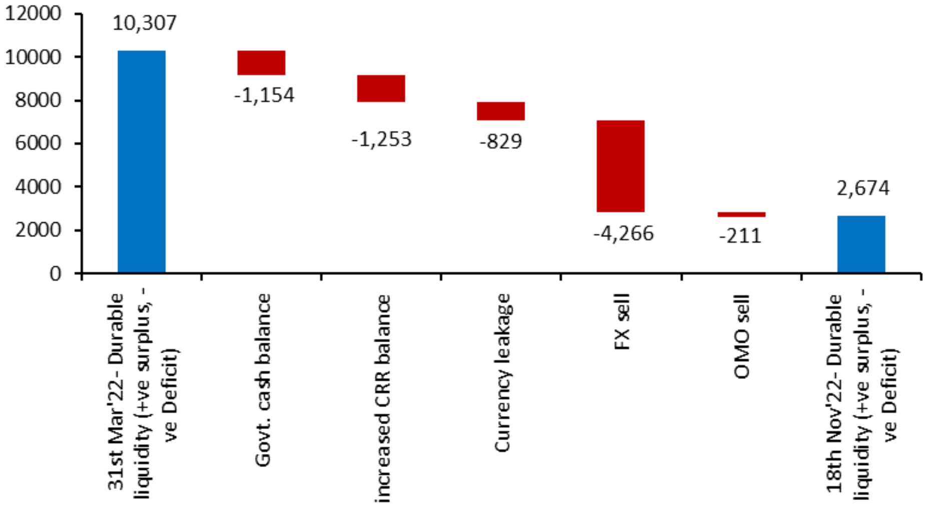
Source : CEIC, SBIMF Research

Banking system liquidity moderates significantly

Moderation in Net LAF and durable liquidity



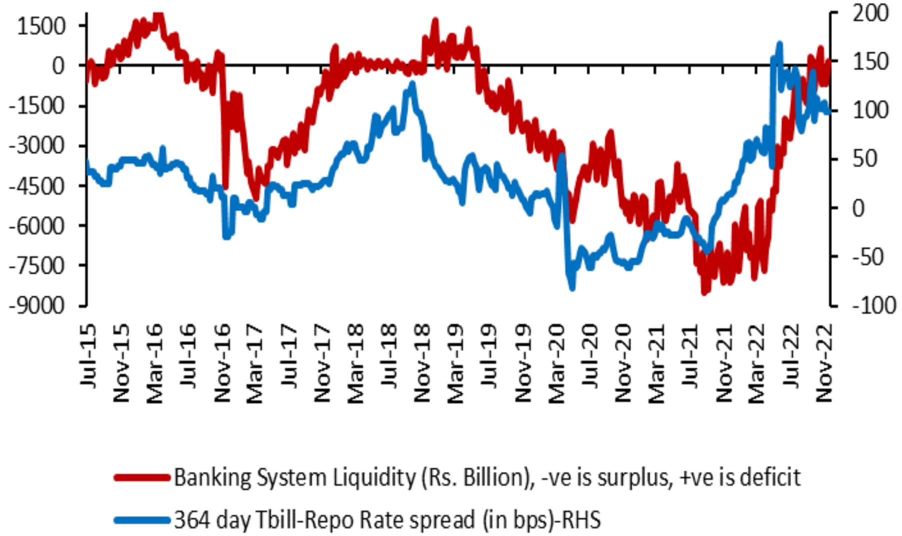
Sharp FX sell, CRR hike and discontinuation of OMO purchase explains fall in liquidity



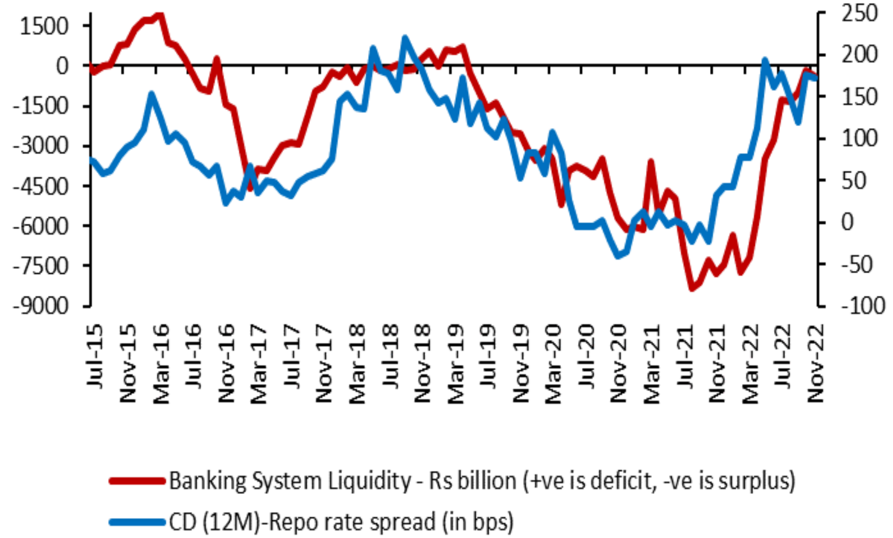
Source: RBI, SBIMF Research; NB: Durable Banking system liquidity is LAF adjusted for excess CRR reserve and Govt. cash balance and is uptil 18th Nov'22, OMO/GSAPs, CIC leakage, and Govt. cash balance data uptil 18th Nov'22, Banking system liquidity uptil 25th Nov'22, FX intervention data available until September end

Short term rates increase

T-bill Spreads relative to Repo widens



CD spreads rise too



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

CAD likely to widen to ~3.5% of GDP in FY23; expect BoP deficit ~US$ 55bn

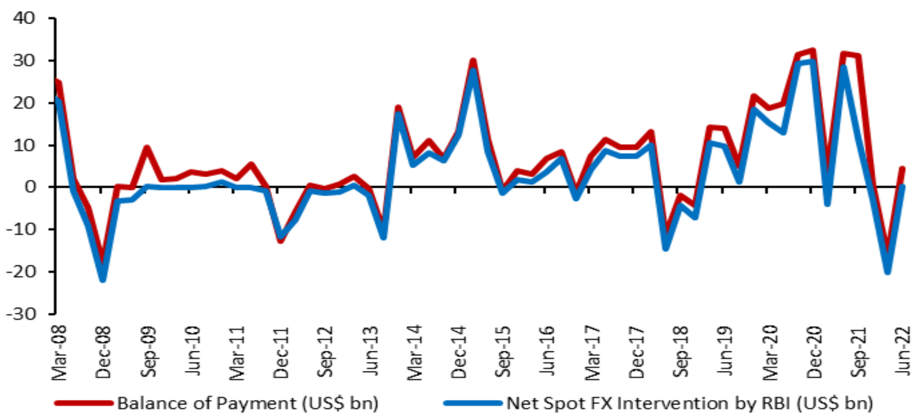
Widening trade deficit will add to BoP deficit in FY23; INR to come under further pressure

Balance of Payment (US$ bn)	Mar-22	Jun-22	Sep'22E	Dec-22E	Mar-22E	FY21	FY22	FY23E
CURRENT ACCOUNT								
Exports (RBI)	118	123	112	108	100	296	429	443
% y-o-y	29.3	26.2	6.9	-0.9	-15.3	-7.5	44.8	3.2
Imports (RBI)	173	192	193	177	166	398	619	728
% y-o-y	29.7	49.4	29.3	4.9	-3.8	-16.6	55.3	17.6
1. Trade Balance (RBI)	-54	-69	-81	-69	-66	-102	-189	-285
% GDP	-6.7	-8.0	-9.3	-7.9	-7.4	-3.8	-6.0	-8.5
2. Services Balance	28	31	30	29	28	89	108	118
% GDP	3.6	3.8	3.6	3.4	3.3	3.3	3.4	3.5
3. Primary Income	-8	-9	-10	-10	-10	-36	-37	-39
4. Secondary Income (Transfers)	21	23	23	22	22	74	81	90
A. Current A/c Balance (1+2+3+4)	**-13**	**-24**	**-38**	**-28**	**-26**	**24**	**-39**	**-116**
% GDP	-1.7	-2.8	-4.4	-3.2	-3.0	0.9	-1.2	-3.5
CAPITAL ACCOUNT								
5. FDI (Net)	13.8	13.6	10.0	10.0	10.0	43.8	38.9	43.6
6. FPI (Net)	-15.2	-14.6	2.0	-5.0	0.0	36.1	-16.8	-17.6
7. Loans	12.9	7.7	8.0	5.0	5.0	6.8	33.8	25.0
8. Banking Capital	-6.0	19.0	5.0	5.0	5.0	-21.1	6.7	10.0
B. Capital Account Balance (5+6+7+8+9+10)	**-2**	**28**	**25**	**15**	**20**	**63**	**88**	**61**
% GDP	-0.2	3.4	3.0	1.8	2.3	2.4	2.8	0.0
C. Error and Omissions	-0.9	0.5	0.0	0.0	0.0	-0.2	-0.1	0.0
D. Overall Balance (A+B+C)	**-16**	**5**	**-13**	**-13**	**-6**	**87**	**48**	**-55**
% GDP	-2.0	0.6	-1.5	-1.5	-0.7	3.3	1.5	-1.6
Increase in Reserves due to BoP	**-16**	**5**	**-13**	**-13**	**-6**	**87**	**48**	**-55**
Rupee vs. US$ (average)	**75**	**77**	**80**	**84**	**82**	**74**	**75**	**81**

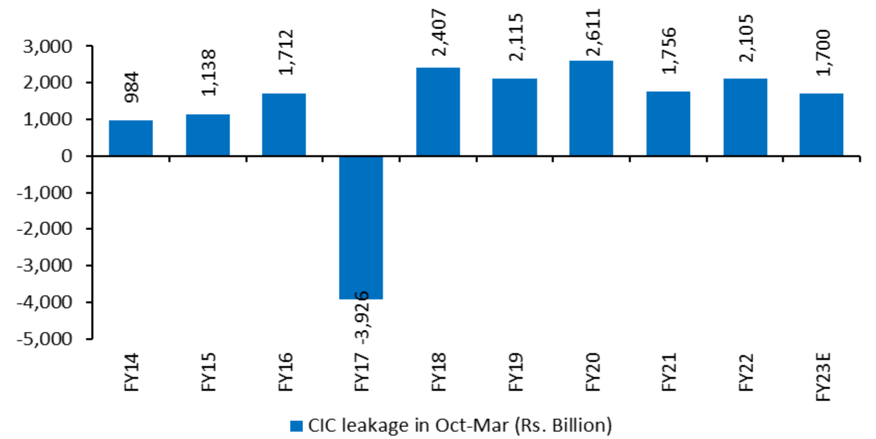
Source: CMIE Economic Outlook, RBI, SBIMF Research

BoP deficit in 2H FY23 dictates continued FX sell

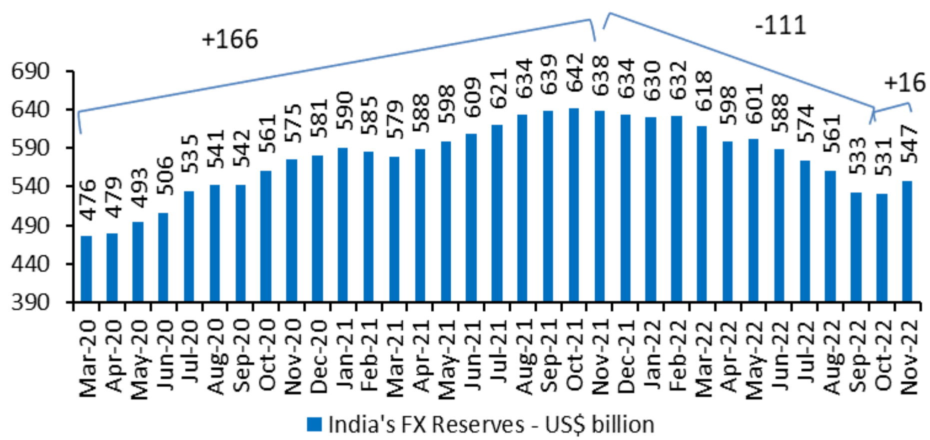
BoP to stay in deficit in 2H FY23; will drive further FX sell



Currency outflow likely to be around 1.5 trillion in 2H FY23



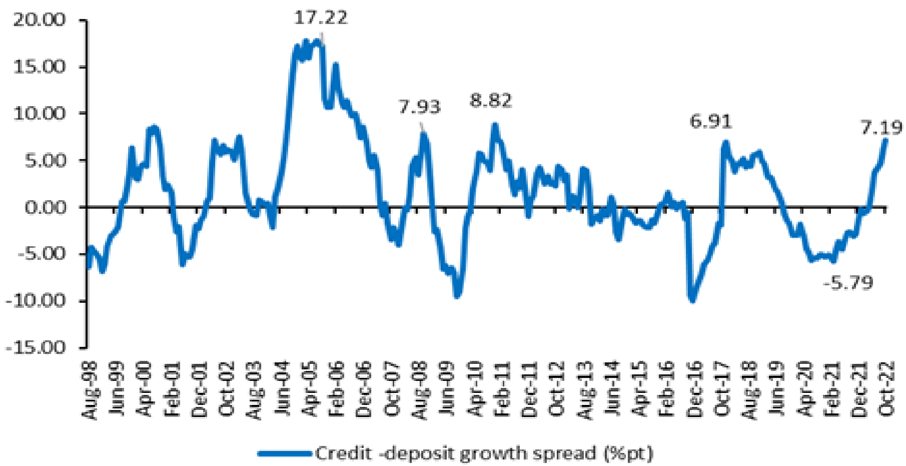
FX reserves witnessed an increase in Nov'22, but likely to continue falling months ahead



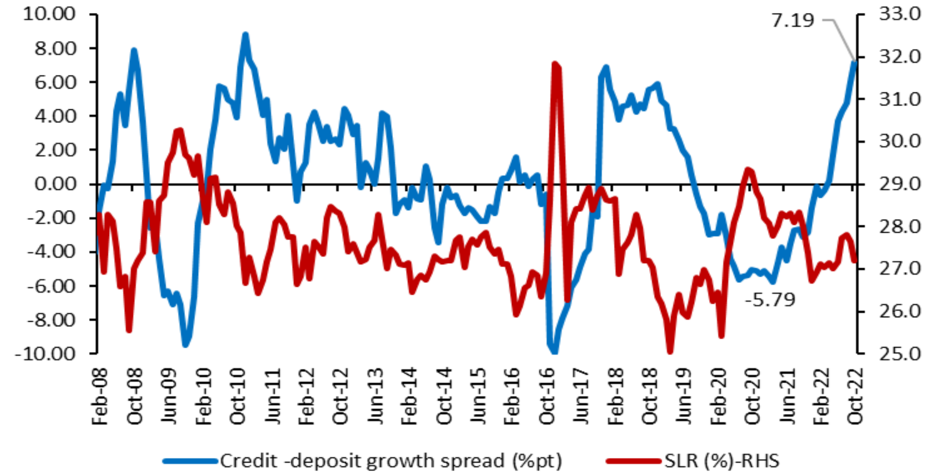
Source: CMIE Economic Outlook, Bloomberg, RBI, SBIMF Research

Banks focus on deposit mobilization

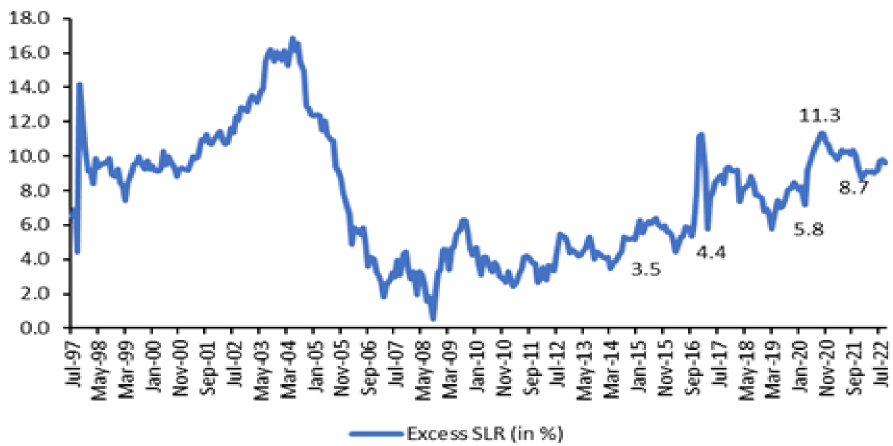
Credit to deposit gap is widening…



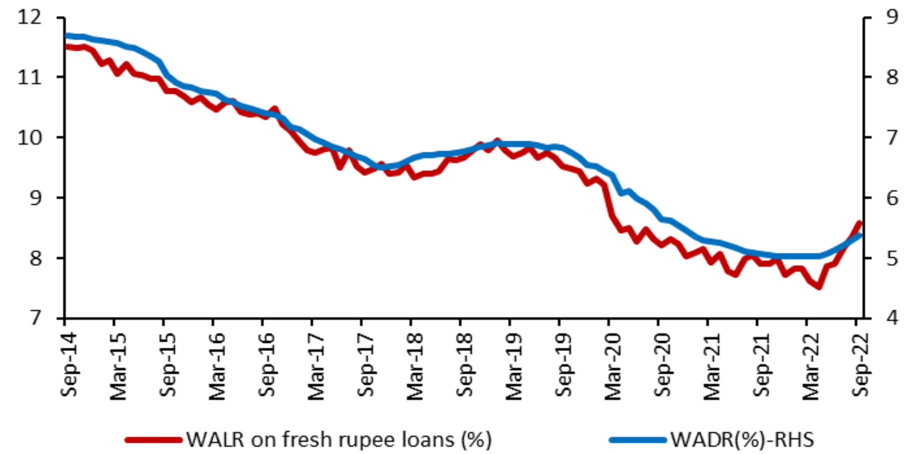
…it holds risk to continued SLR investment for banks



Over the last decade, excess SLR (Actual SLR holdings minus regulatory requirement) has been rising



Deposit and lending rates rise leading to monetary transmission of recent rate hikes and liquidity tightening



Source: : RBI, CEIC, CMIE Economic Outlook, SBIMF Research; NB: Overall bank credit data, bank deposit data,and SLR ratio as of 4th Nov'22

Strong government receipts keeps Centre's fiscal position on track

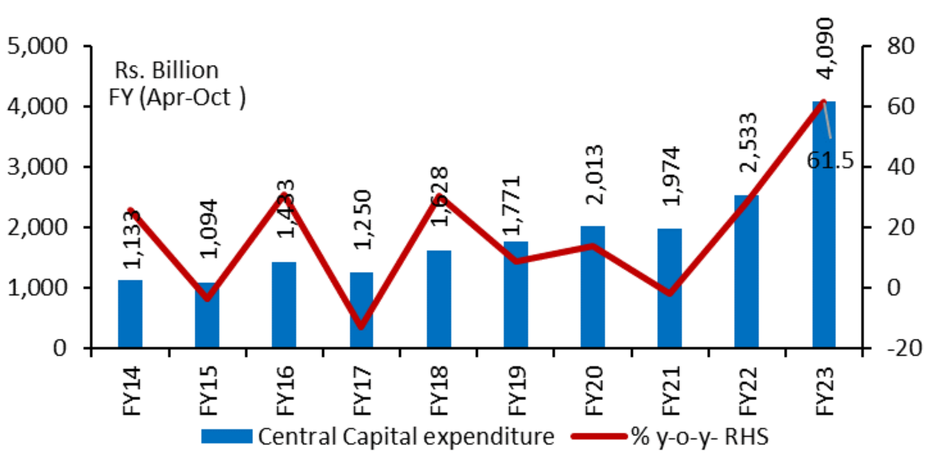
Centre's receipts are robust; expenditure starts to pick up

Actual (as % of BE)- (Apr-Oct)	FY18	FY19	FY20	FY21	FY22	FY23
1 Non-debt Receipts	48	44	45	32	65	61
a. Tax Revenue (Net)	52	45	41	35	68	61
b. Non-tax Revenue	33	52	72	30	85	66
c. Non-Debt Capital Receipts	46	21	22	7	10	45
2. Expenditure	60	60	59	55	52	54
a. Revenue Account	62	60	59	56	54	54
b. Capital Account	53	59	59	48	46	55
3. Fiscal Deficit	96	104	102	120	36	46
4. Net Market Borrowing	109	97	118	226	55	67

Centre's tax collection stronger than budgeted

Apr-October 2022	% y-o-y	Required growth (FY23 BE vs. FY22 Actual)
Net Tax Revenue	11	6.3
Gross Tax Revenue	18	1.8
Income Tax	28	3.9
Corporate Tax	24	1.1
Custom	9	7.0
Excise duties	-19	-14.3
GST	27	11.2
Total Direct Tax	26	2.5
Total Indirect Tax	11	2.8

Capital expenditure stays strong

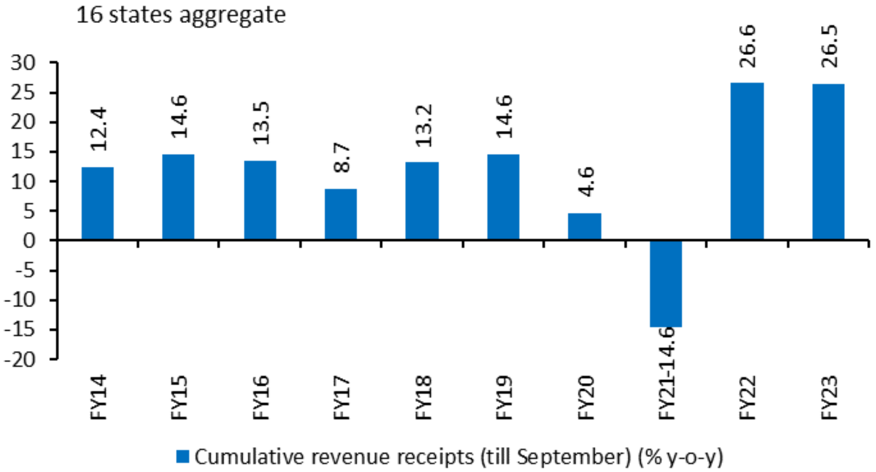


- Owing to extremely conservative tax assumptions, net tax collections are tracking 61% of BE (vs. ~45% in pre-COVID times). Excise duty collections have declined y-o-y due to multiple revision in tax rates in these categories to ease inflation
- Government has spent Rs. 4.1 trillion during Apr-Oct'22 of Rs. 7.5 trillion budgeted under FY23 capex.
- Capex spend are up ~61% y-o-y (in Apr-Oct) and are mostly directed towards roads (1.5tn) and railways (1.3 bn) followed by some spend on defence, housing and urban affairs, food and public distribution and loan to states.

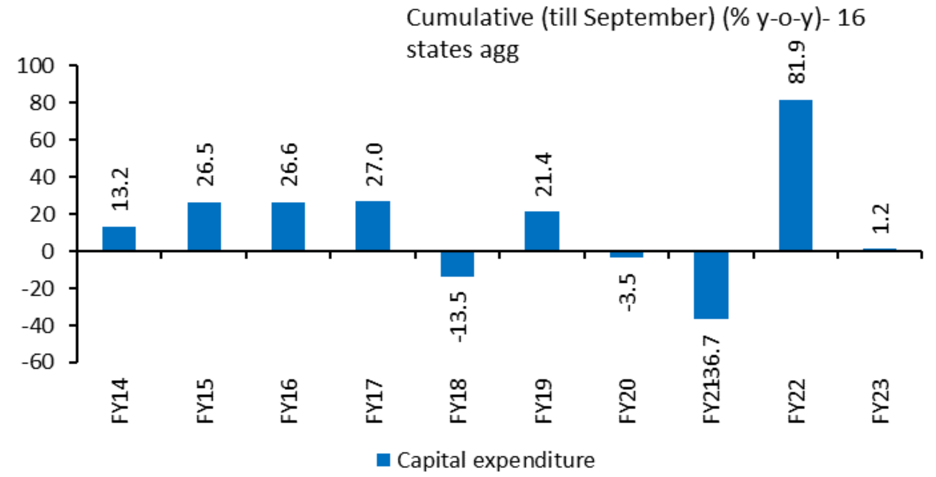
Source: CMIE Economic Outlook, CEIC SBIMF Research

States 5M FY23 expenditure levels lower than required growth rate

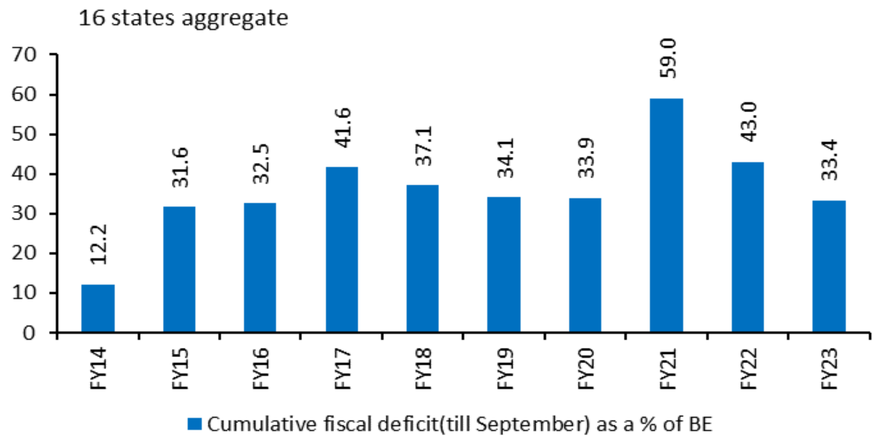
States' receipts are healthy and in line with Budgeted targets (based on study of 16 states)….



…but states have been very slow to spend



6M FY23 Fiscal deficit for states runs at 33% of BE – lower than past trend

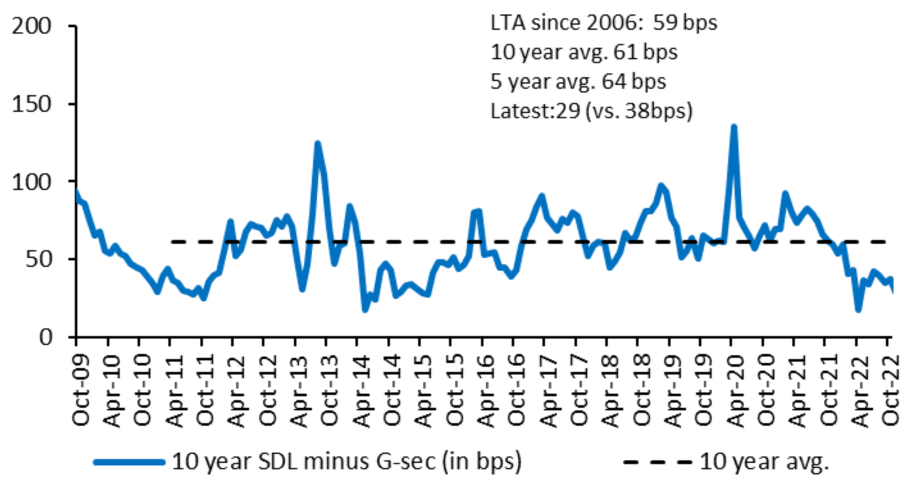


- States expenditure in H1FY23 grew by ~13% y-o-y and capex growth is muted 1.2%. Going ahead, if states must meet budgeted targets, capex will have to grow by 79% and total expenditure by 32%.
- Even though Centre's capex scheme disbursements picked up in Oct'22, unless State's execution of capital projects picks up considerably in 2HFY23 the states will not meet their budgeted capital outlay targets.
- We expect FY23 receipts to be in line with budgeted but expenditure to be ~Rs. 1.5tn lower. (bringing down fiscal deficit estimate to 2.8% vs. FY23 BE of 3.4%).

Source: CEIC, RBI, SBIMF Research

SDL issuances expected to be lower in Q3FY23 driving spreads lower

SDL spreads have been falling for last one year



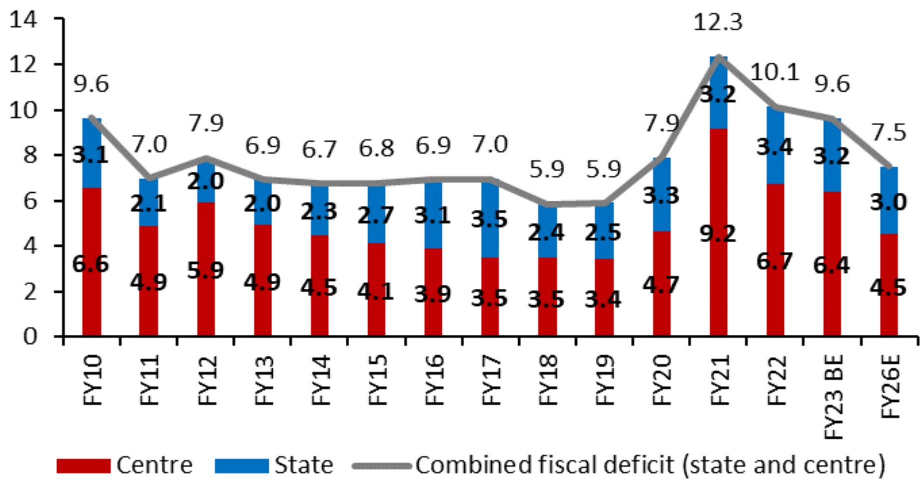
SDL issuances lower than indicated calendar amount in Nov'22.

Rs. Billion	Expected quantum of SDL borrowing as per calendar	Actual Borrowing	Actual Over Expected (in %)
Total borrowing in Q1FY23	**1,904**	**1,102**	**58**
Total borrowing in Q2FY23	**2,116**	**1,661**	**79**
03-Oct-22	195	195	100
11-Oct-22	124	89	71
18-Oct-22	187	169	90
25-Oct-22	245	252	103
01-Nov-22	208	107	52
07-Nov-22	172	100	58
15-Nov-22	128	88	69
22-Nov-22	183	150	82
29-Nov-22	291	127	44
06-Dec-22	179		
13-Dec-22	200		
20-Dec-22	184		
27-Dec-22	234		
Borrowing in Oct-Nov'22	**1,733**	**1,276**	**74**
Calendar vs. expected Q2 SDL issuances	**2,531**	**1,800**	**71**

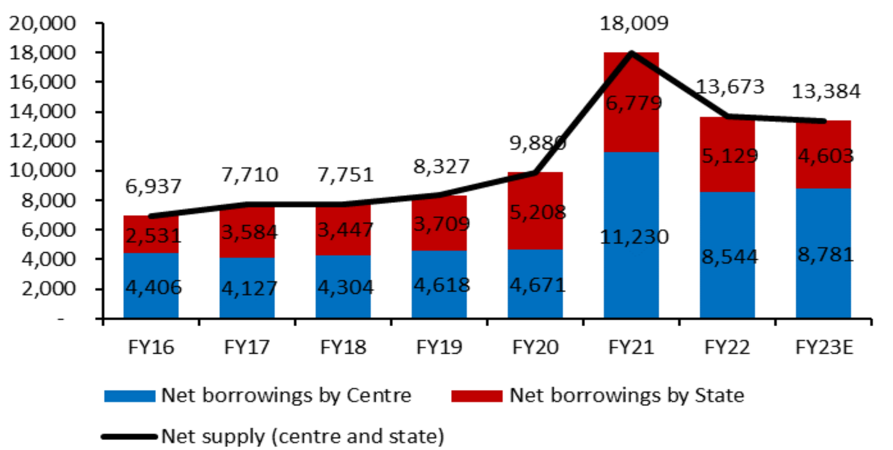
Source: RBI, Bloomberg, SBIMF Research

Further mark down to FY23 SDL supply on back of lower state spends

General government fiscal deficit expected at 9.6% in FY23



Net government bond supply expected at ~INR 13.4 trillion (vs. INR 13.7 trillion in FY22)

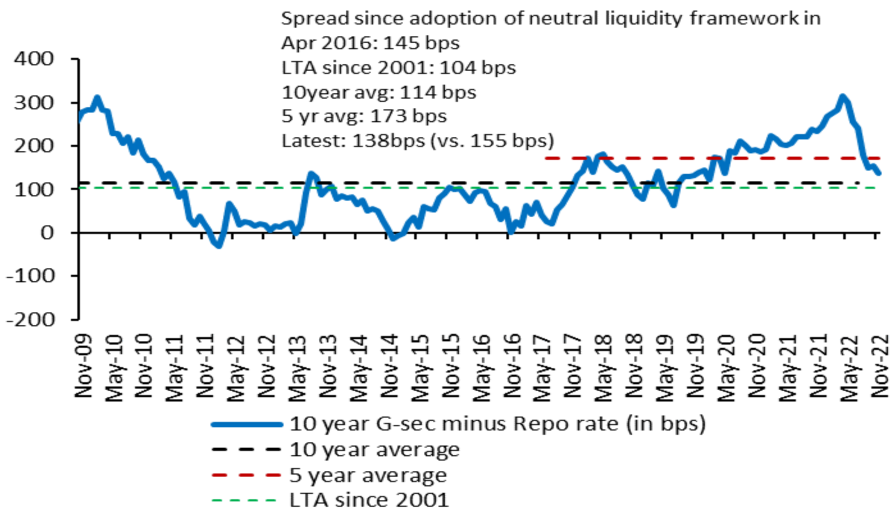


- As per the calendar available for 2H FY23, centre has broadly stuck to the borrowing plan laid out in Union Budget. Gross G-sec supply is likely to be Rs. 14.1 trillion (vs. BE of Rs. 14.3 trillion)
- Study of state budgets indicates that states have likely budgeted an aggregate gross supply of Rs. 9 trillion for FY23.
- States have, however, been slow to spend despite their healthy receipts' inflow. We hope for some pick-up in spending during the remainder of the fiscal year. And yet, the final expenditure could undershoot the BE by Rs. 2-2.5 trillion.
- We pencil FY23 net SDL supply ~4.6 trillion. Given muted SDL supply thus far, 2H FY23 SDL supply is likely to be greater than 1H.

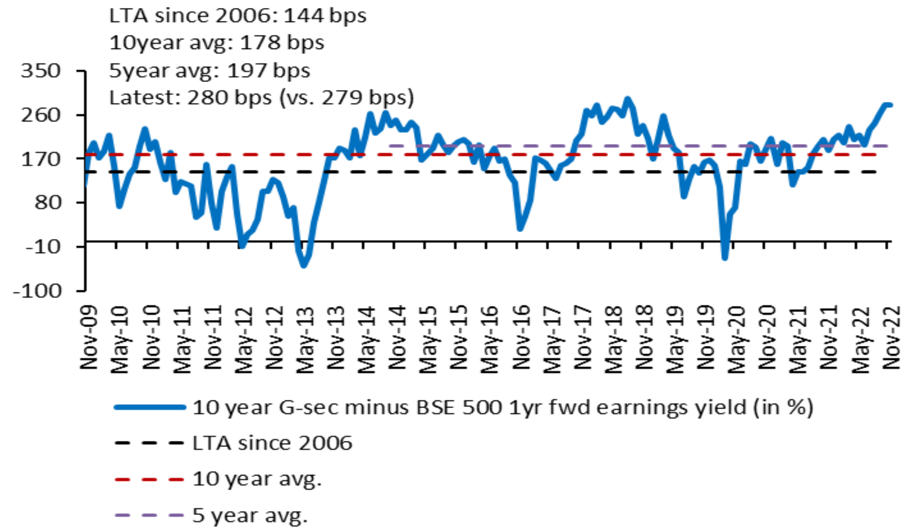
Source: CMIE Economic Outlook, RBI, SBIMF Research

G-sec valuations attractive

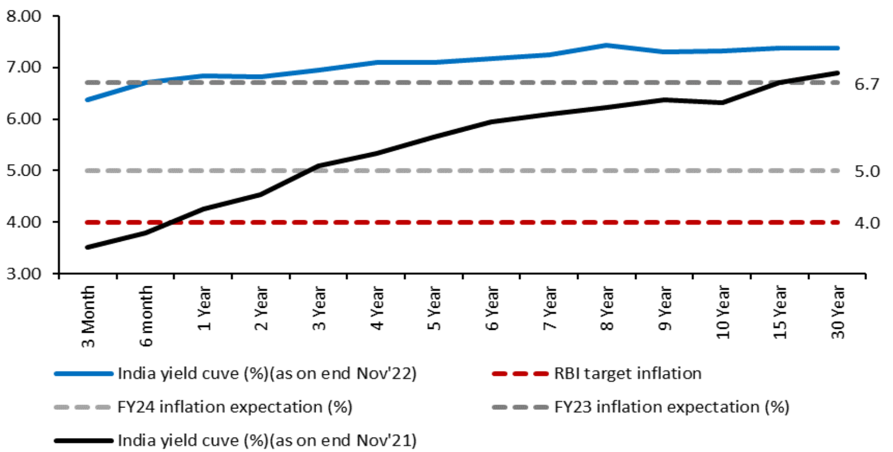
10-year GSec relative to Repo in line with 5 year trend



G-sec spread vs. equity turns attractive



Real rate still below long- term trend, could turn favorable 6m ahead



- G-sec yields are attractive in absolute terms and relatively better than other investment options.
- Gsec spread relative to equity is much higher than its 10yr (178bps) and 5yr (197bps) average.
- The adjustment in market rates over the recent months provide a much awaited scenario of positive real return across most tenors on the yield curve , basis expected FY24 CPI of around 5.0%.

Source: Bloomberg, RBI, SBIMF Research

India witnesses marginal debt inflows in November'2022

India witnessed Debt marginal inflows in Nov'22

EM FII Debt inflow US$ million	2020	2021	Aug-22	Sep-22	Oct-22	Nov-22
Mexico	(10,027)	(12,668)	1,266	988	(2,047)	3,045
South Korea	62,283	1,06,256	3,515	4,807	2,941	2,871
Thailand	(1,005)	6,550	583	(463)	(427)	1,803
Indonesia	(4,684)	(4,906)	579	(1,943)	(1,105)	1,358
India	(13,853)	(1,525)	538	201	(368)	43
Ukraine	(1,117)	283	(57)	(23)	(204)	(89)
South Africa	(2,323)	(13,276)	(520)	(1,241)	(1,273)	(1,430)
China	1,87,219	1,32,282	(75,193)	(1,14,904)	(1,19,978)	(1,33,668)
Philippines	6,297	3,900	219	1,288	-	-
Malaysia	3,248	2,976	773	(567)	(579)	-
Brazil	(3,822)	(14,913)	386	(388)	192	-
Bulgaria	2,060	273	3	1,569	-	-
Czech Republic	8,577	1,279	(1,988)	(426)	-	-
Poland	(7,379)	(7,089)	857	545	-	-

Source: CEIC, Bloomberg, RBI, SBIMF Research; NB: '-' implies data not available for the respective country

Debt Outlook: Positive on Debt Funds

- Globally we are in mature stage of rate hiking cycle. Similarly, in India, cumulative tightening has been rapid and substantial since Apr'22. Overnight rates rose 300bps this fiscal. We may be left with a one or two more hikes.
- Any global shocks aside, Inflation in India is heading towards 5% in a matter of few months, aided by favorable base, peaked commodities and core inflation. Kharif food output has not been as bad as feared and Rabi prospects look favorable thus far.
- Recent RBI commentaries have suggested its acceptance with a low positive real yield and hence RBI may not fight aggressively towards 4% central target.
- BoP and rupee is still one sword hanging in India's macro picture.
- Liquidity has tightened considerably and stays under pressure going ahead, given our worry on external account deficit. Short term rates could rise further.
- Credit to deposit growth gap has widened significantly in India which could drive down SLR investments by banks.
- To sum, demand supply may warrant some bit of caution, but overall fundamentals are turning favorable.
- Looking at valuation, G-sec yields are attractive in absolute terms and relatively better than other investment options. This broadly explains our positivity on debt products.
- SDL supply has underwhelmed market expectations throughout 3Q FY23. SDL supply and hence spreads could stay anchored even in Q4 as there are multiple tax and nontax transfers pending from the Centre to state and state expenditure is likely to undershoot budgeted targets by a wide margin.
- Corporate bond spreads, though still tight, are getting better in select segments.

Source: Bloomberg, SBIFM Research

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