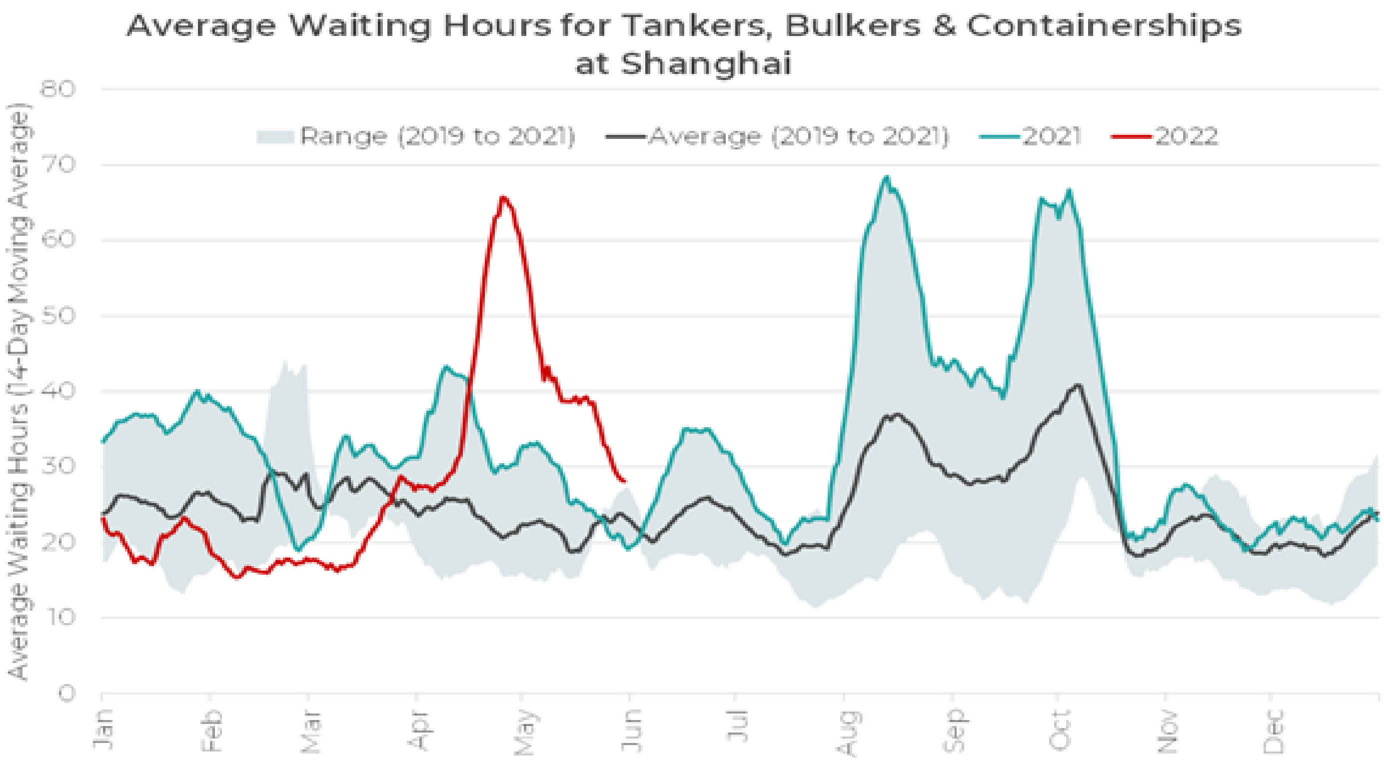
Economy and Markets

July 2022

China COVID cases moderates easing congestions at key ports

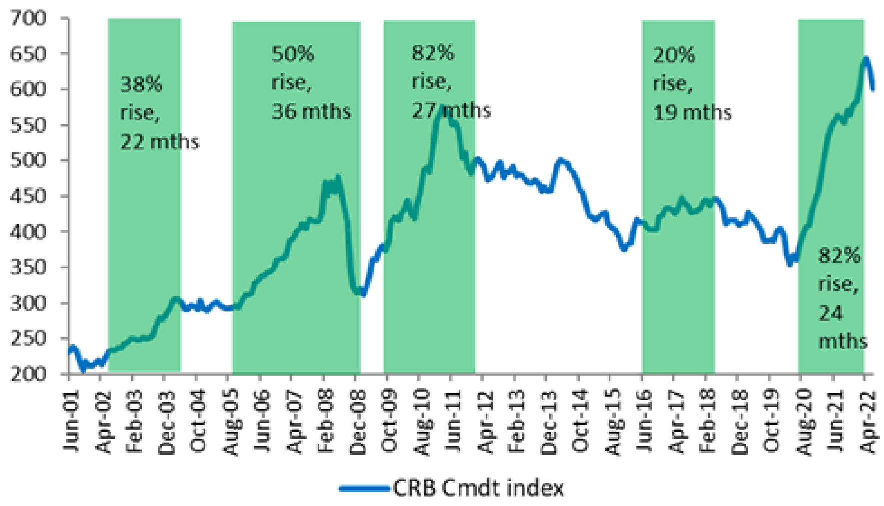


- COVID cases moderates in China leading to easing of lockdown conditions
- Regional lockdowns in critically important manufacturing hubs and international ports in mainland China are starting to ease, offering some unclog to supply chain disruptions. Economic activity in China improved marginally in June.
- China is witnessing some growth supportive policy actions.
- Any recovery in Chinese economic activity will be muted till zero-COVID19 strategy remains in place

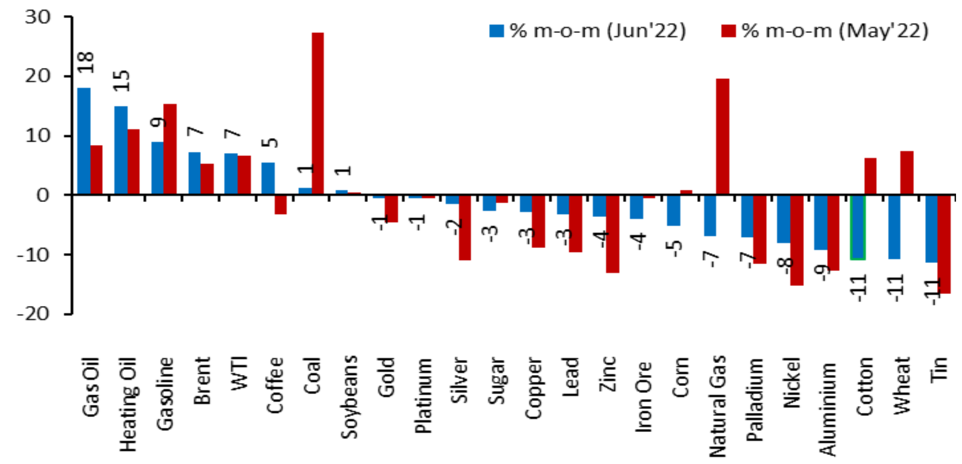
Source: https://container-news.com/shanghai-port-congestion-returns-to-normal/, SBIMF Research

Metal prices corrected further in June; energy continues to move higher

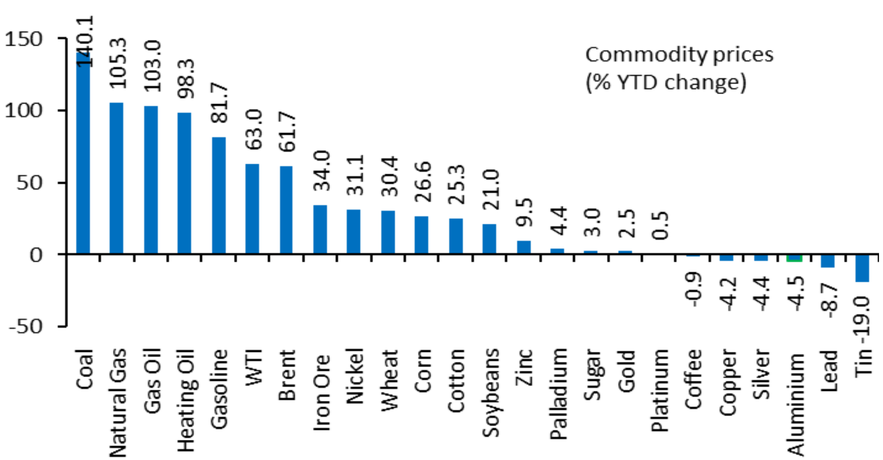
Commodity prices have corrected in May-June 2022



Metal and food prices correct while energy moves higher



Year to date, commodity prices stand elevated

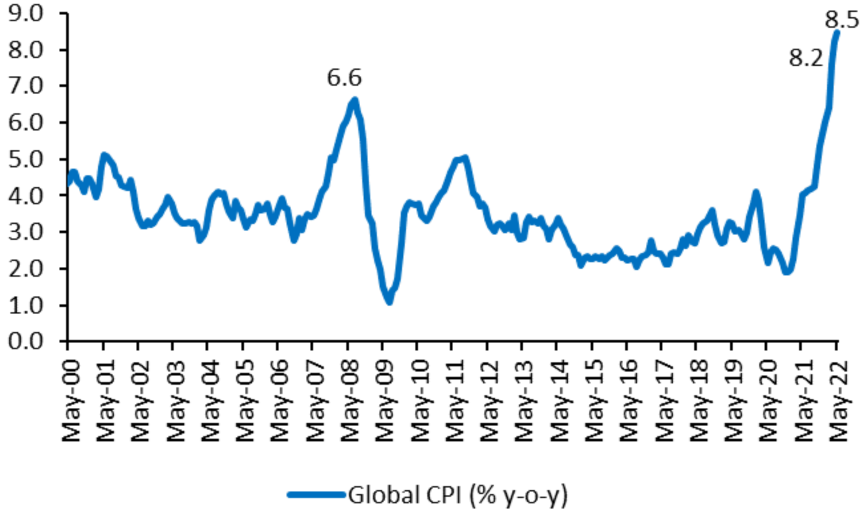


- Barring energies, most commodities have seen marginal correction over last two months.
- While it is difficult to time in, aggressive rate hikes should eventually drive the commodities lower led by fears of softer demand
- There are emerging signs of softer trade growth across many economies and money supply growth has also been receding at a rapid pace

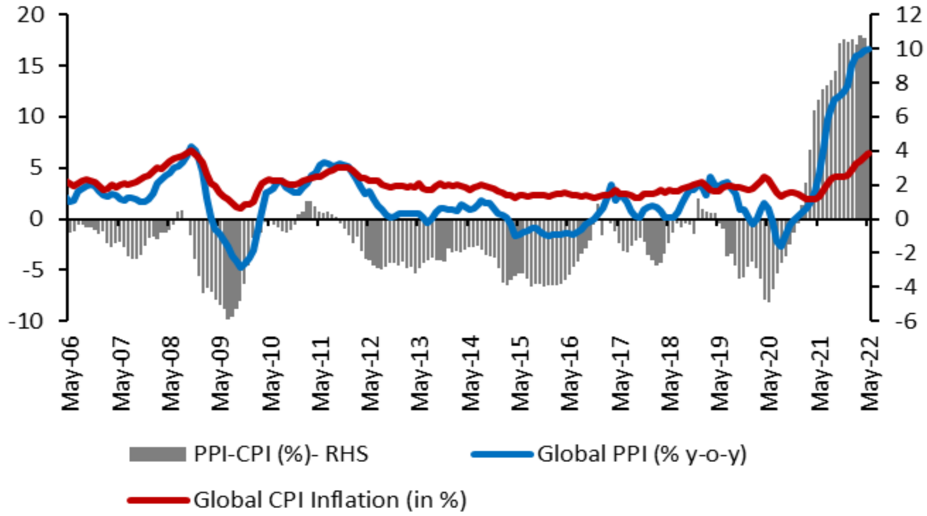
Source: Bloomberg, SBIMF Research

Global inflation continues to move higher in June'22

Global CPI rose further in June'22



Gap between producer and consumer price widens reflecting impending price pressures

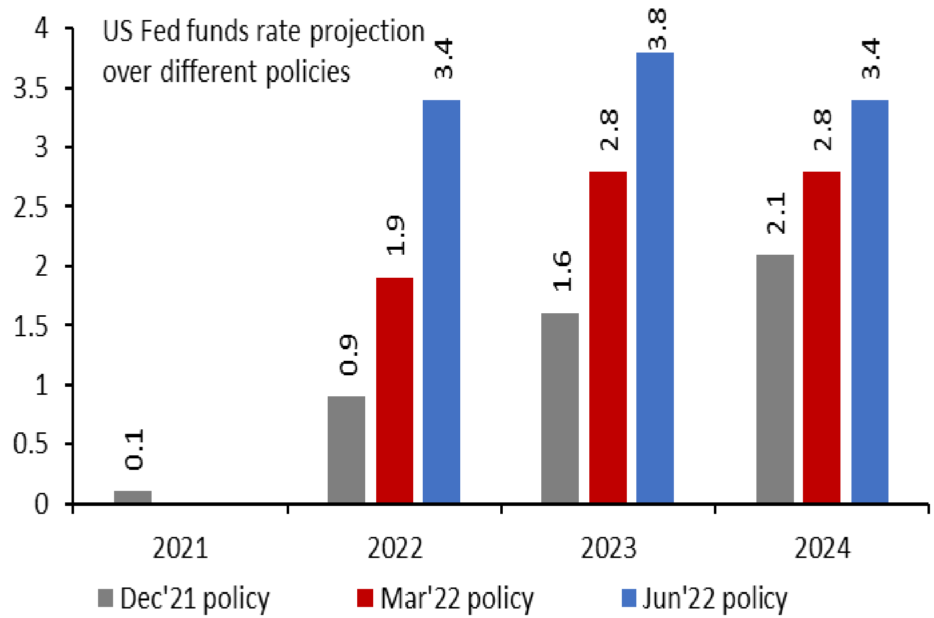


- Inflation momentum globally is running significantly higher than central bank targets. There are evidences of price pressures broadening in most economies, services inflation recovering alongside ongoing re-openings, while CPI data surprise indices are still trending higher.
- Meanwhile, PPI-CPI differential remains elevated suggesting that the pipeline price pressures are also elevated.
- Above all, the notable increase in food and energy prices post Russia-Ukraine crisis, lend renewed inflationary risks to emerging market economies (particularly in Asia).

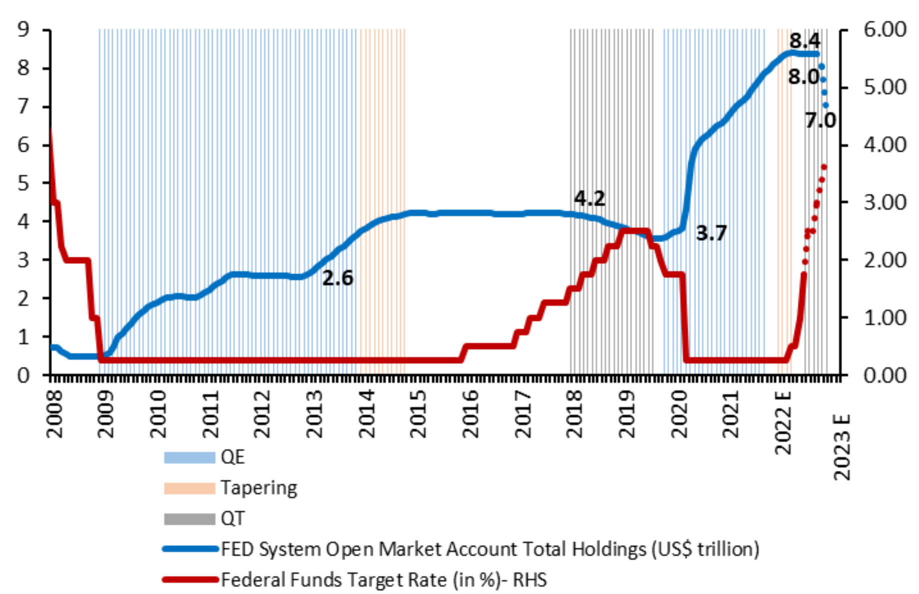
Source: CEIC, SBIMF Research; Global CPI & PPI inflation is calculated by taking GDP weighted (in PPP) CPI and PPI inflation of key economies

US Fed delivered 75bps hike in June'22 policy

US Fed dot plot expects policy rate at 3.25-3.50% by 2022



Balance sheet reduction has commenced since June'22



- US Fed hiked Fed Funds rate by 75bps in Jun'22 to 1.50-1.75%. A further 75bps rate hike is expected in the July policy.
- Fed dot plot expects Fed Funds rate to reach 3.25-3.50% by Dec'22 (additional 1.75% pt. hike in 4 meetings) followed by another 33bps in 2023.
- Market is pricing a terminal rate of 3.90% by mid-2023. It is broadly In line with Fed dot plot.
- Balance sheet reduction started on 1st Jun'22. Balance sheet moderation plan includes allowing a capped level of proceeds to roll off every month including US$ 60 billion treasury and US$ 35 billion for mortgages.

Source: US Fed, SBIMF Research; NB: System open market domestic holding projections taken from Federal Reserve Bank of New york

Inflation drives monetary tightening across economies

Multiple central banks hike rates as inflationary pressures persist

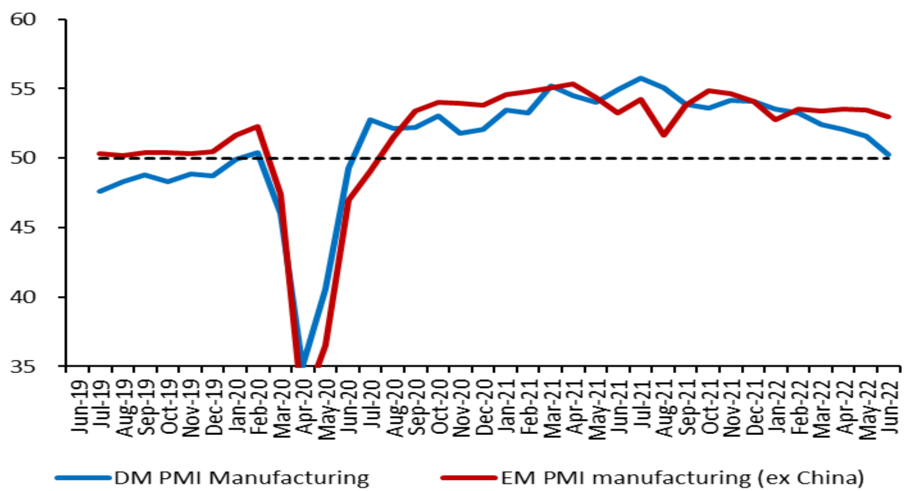
Policy Rate (period end, in %)					
	Ban2020	2021	Apr'22	May'22	Jun'22
China	4.35	4.35	4.35	4.35	4.35
India	4.00	4.00	4.00	4.40	4.90
South Korea	0.50	1.00	1.50	1.75	1.75
Taiwan	1.13	1.13	1.38	1.38	1.38
Thailand	0.50	0.50	0.50	0.50	0.50
Malaysia	1.75	1.75	1.75	2.00	2.00
Philippines	2.00	2.00	2.00	2.25	2.50
Russia	4.25	8.50	14.00	11.00	9.50
Turkey	17.00	14.00	14.00	14.00	14.00
South Africa	3.50	3.75	4.25	4.75	4.75
Brazil	2.00	9.25	11.75	12.75	13.25
Mexico	4.25	5.50	6.50	7.00	7.75
Argentina	29.00	34.50	38.00	39.50	35.00
Colombia	1.75	3.00	6.00	6.00	7.50
Chile	0.50	4.00	7.00	8.25	9.00
US	0.25	0.25	0.50	1.00	1.75
Eurozone	0.00	0.00	0.00	0.00	0.00
UK	0.10	0.25	0.75	1.00	1.25
Japan	0.10	0.10	0.10	0.10	0.10

- Most central banks are hiking the policy rates as inflation becomes a generalized phenomenon.
- Their guidance turns hawkish- indicating to do whatever it takes to tame inflation.
- Few exception in this are Bank of Japan and the PBOC along with some outliers such as Russia, Argentina and Turkey.

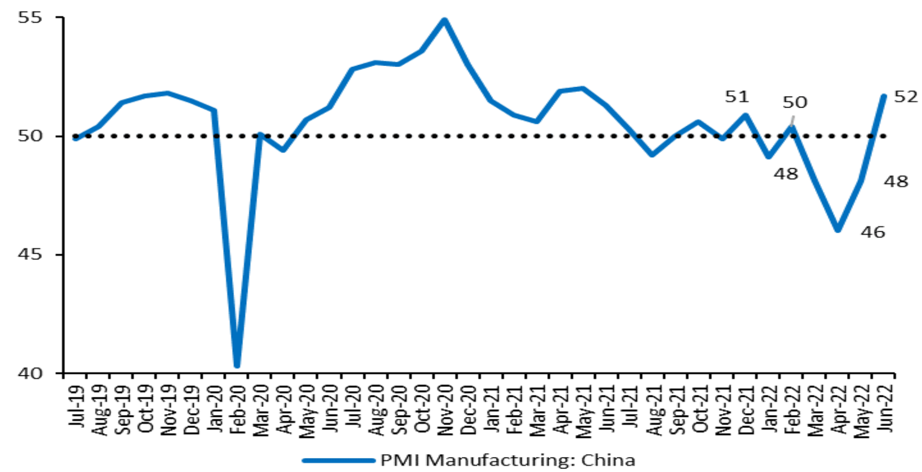
Source: Bloomberg, SBIMF Research; NB: Green/Red color in 3-5 column stands for reduction/increase in policy rates viz-a-viz previous year. Green/Red color in 6-7 column implies expectation being lower/higher than the actual data for the respective year

Growth momentum is stable for now; despite the commodity shock

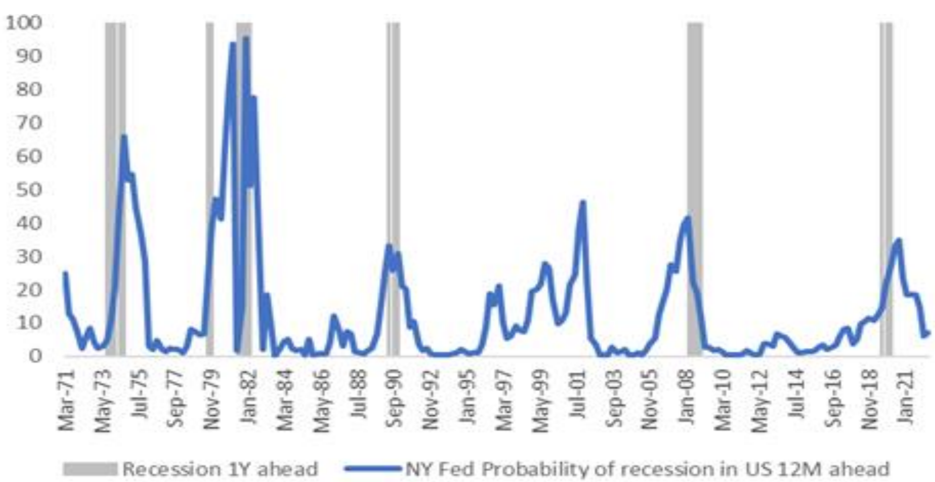
PMI Manufacturing moderates in developed economies but stays stable in Emerging economies



Manufacturing PMI in China sees some restoration due to lowering of COVID cases



NY Fed model shows muted recession risks in the US 12m ahead

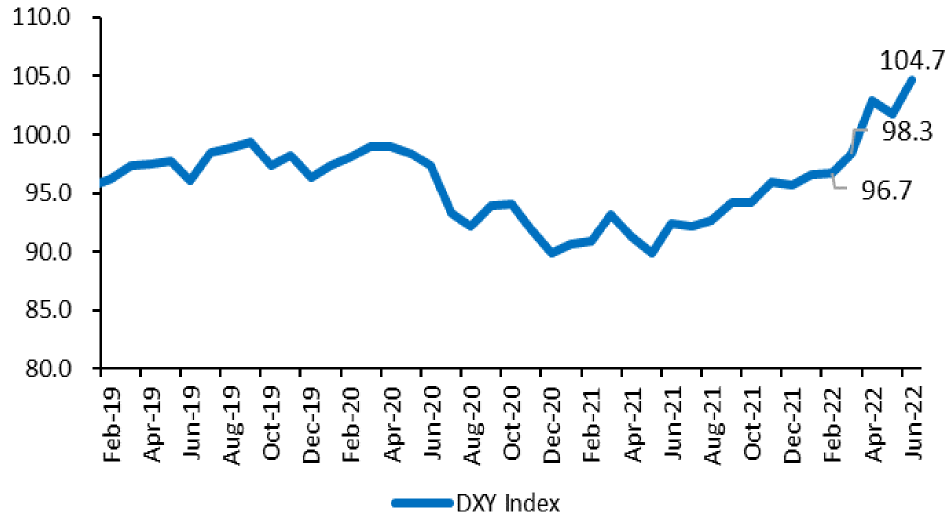


Source: CEIC, SBIMF Research

- EM PMI manufacturing (ex China) improves further in June.
- Given that China has recently started to restart production in most sectors, the existing supply chain constraints are easing leading to improvement in Emerging market economies PMI.
- Global macro narrative is fast shifting towards recession fears triggered by growing Central bank aggressiveness.
- For now, the models attach low probability of recession 12 months ahead

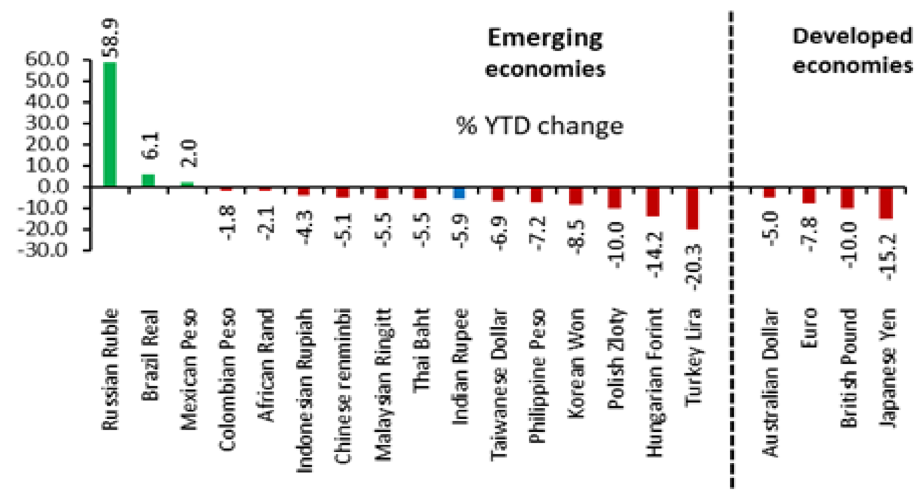
Dollar strengthens driving depreciation in most other global currencies

DXY has strengthened to 104.7 in Jun'22 from 101.8 in May



US REER is 15% higher than its trend, indicating over-valued USD

Depreciation in rupee in line with EM trends; Indian Rupee depreciated by 5.9% overall in 2022 to 79/US$ till Jun'22

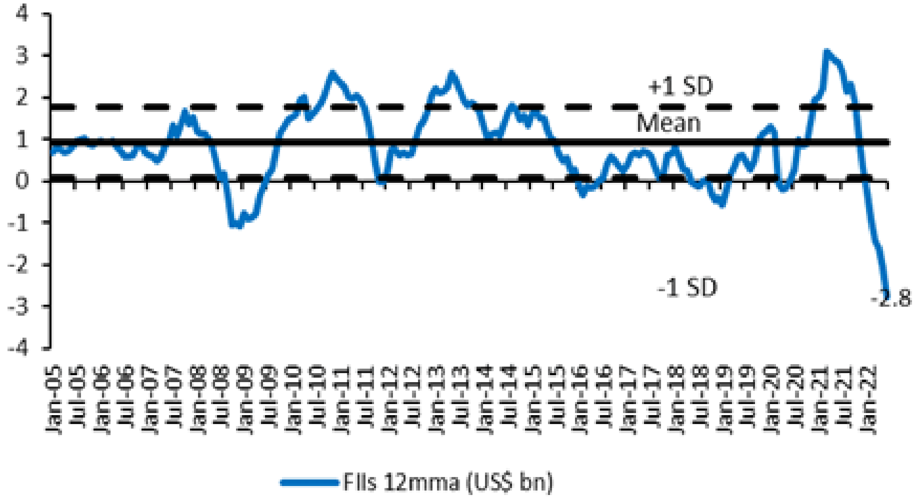


- DXY has strengthened.
- Two forces working towards strong dollar- hawkish Fed and the possibility of slower growth
- The USD has historically thrived during cyclical downturns (even if it emanates from the US). As such dollar could strengthen further and its overvaluation could still endure.
- Near term dollar moves may largely be dictated by how the market perceives the Fed vis-à-vis hawkish moves by other central banks.

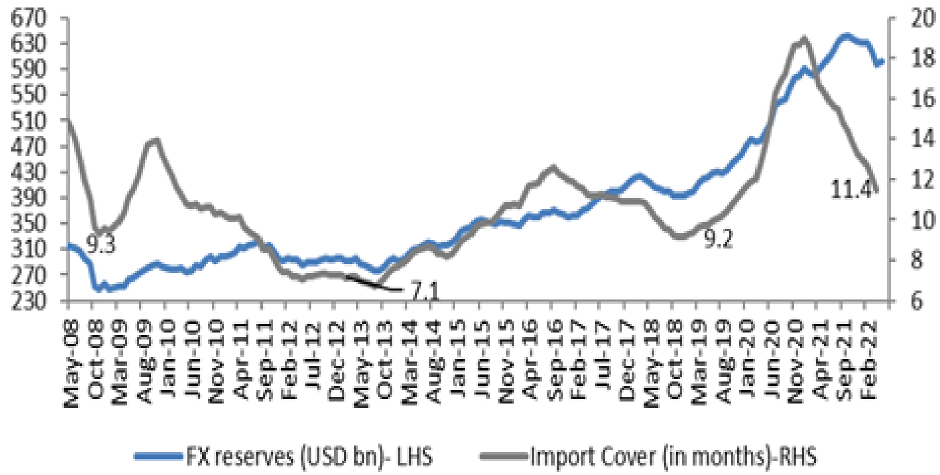
Source: Bloomberg, SBIMF Research

Strong Dollar and India’s two deficit to lend near-term weakening bias in INR

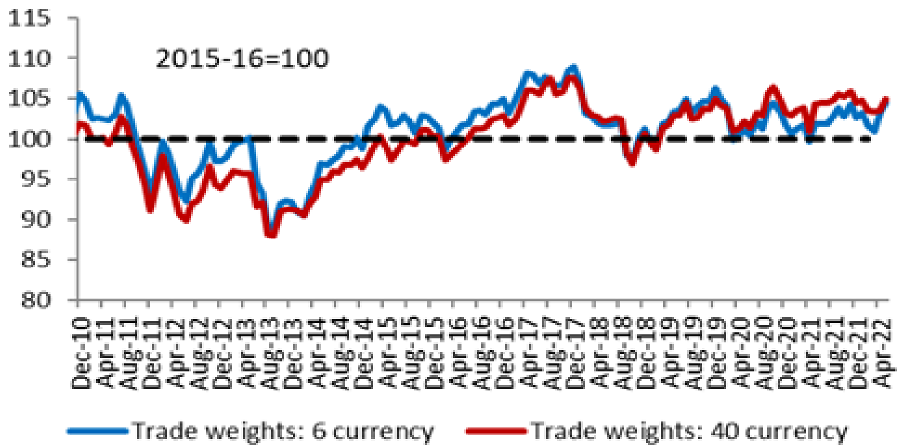
India sees FII outflows of US$ 34 billion since Oct’21



Import Cover at 11.4 months better than 2008, 2013 & 2018 times of FII outflows



Rupee depicted marginal overvaluation of 4% in May at 77/US$, is likely to be fairly valued at 79/US$



- India’s trade deficit has widened to US$ 24/months vs. US$ 19-20 bn six months ago. Cumulative portfolio outflows of US$34 bn since Oct’21.

- High goods deficit and FII outflow has led to US$ 46bn fall in FX reserves in last eight months. Despite this fall, FX reserves offer ~11 months of import cover, adding the ability to avoid further support.

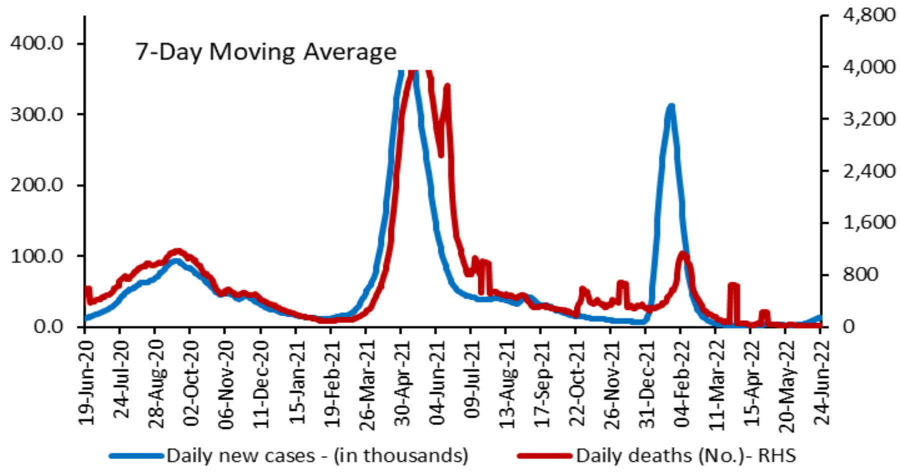
- The risk of further depreciation in rupee cannot be ruled out. Rupee could touch 80/US$ in the interim. Eventually, once commodity corrects meaningfully or the FII outflow stops (or reverses), we could see it trace back to 78-79 levels /US$.

Source: Bloomberg, SBIMF Research

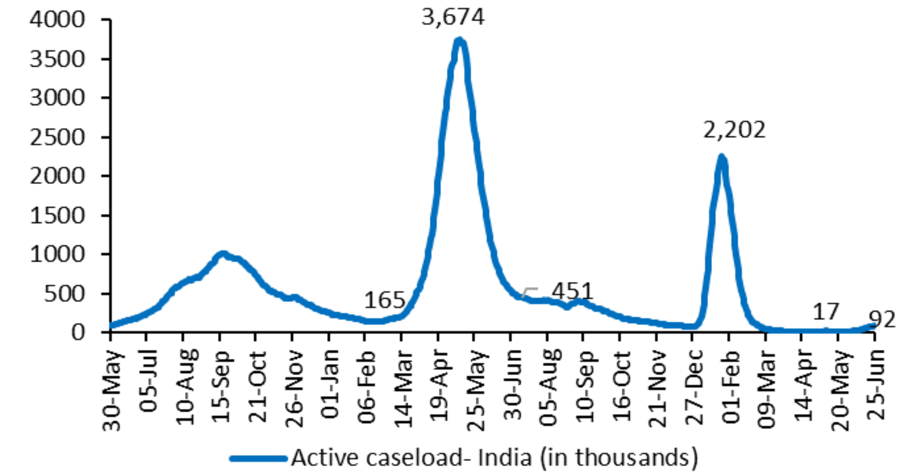
INDIA ECONOMIC ACTIVITY UPDATE

India's reported COVID count is inching upwards

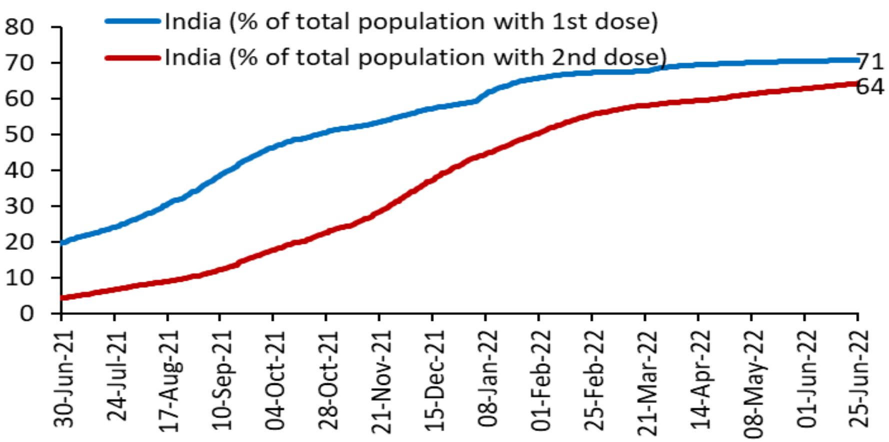
India's daily new COVID case at 13K in June (as on 24th June); a surge from end May'22 levels (~2K)



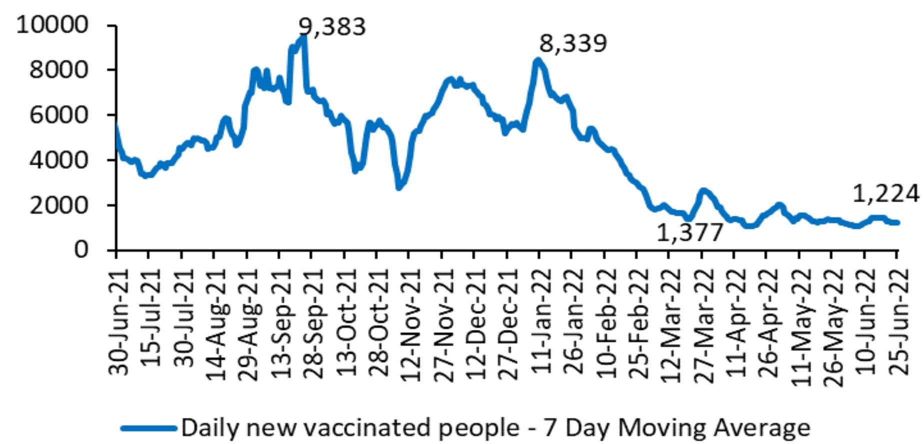
92K people are reported to have COVID as of end-Jun'22 vs. 17K as of end May'22



71% of India's total population has received the 1st dose and 64% (vs. 62% in May'22) is fully vaccinated



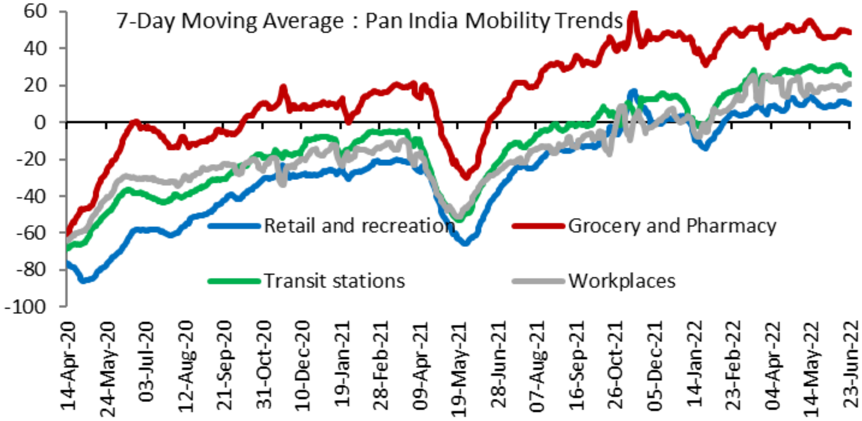
Daily vaccination rate has been moderating since Feb'22



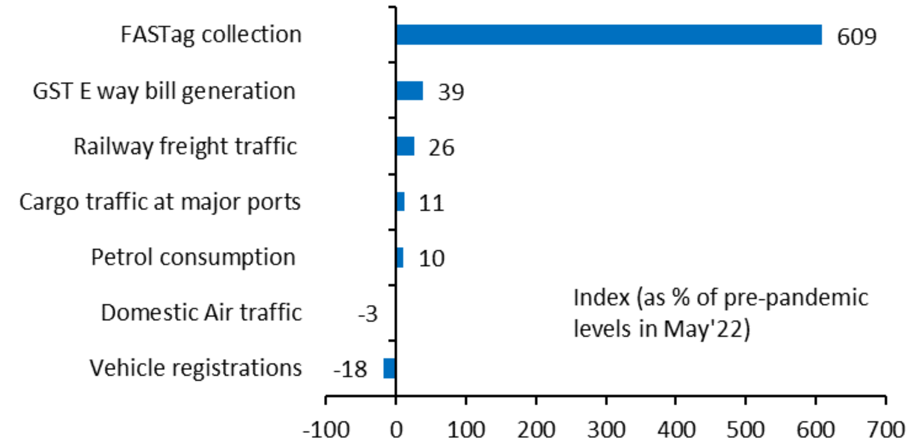
Source: CEIC, SBIMF Research; NB: COVID Data in graphs as of 25th June 2022

Abatement of COVID drives demand in service sector

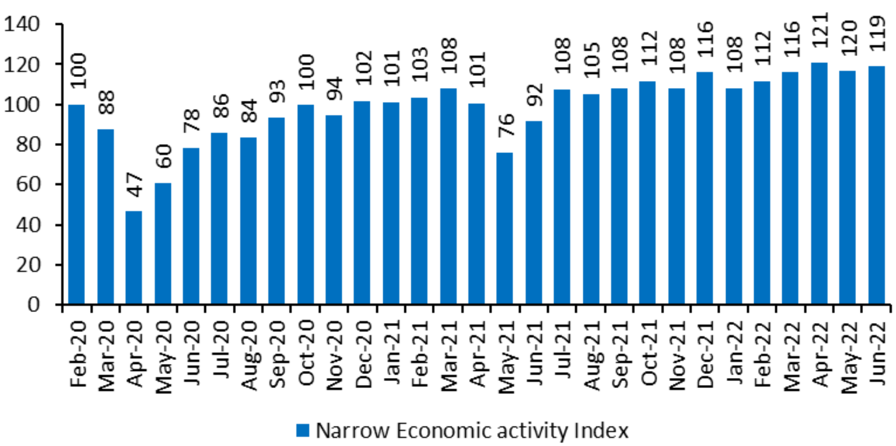
Mobility indicators track 25% above pre-COVID levels



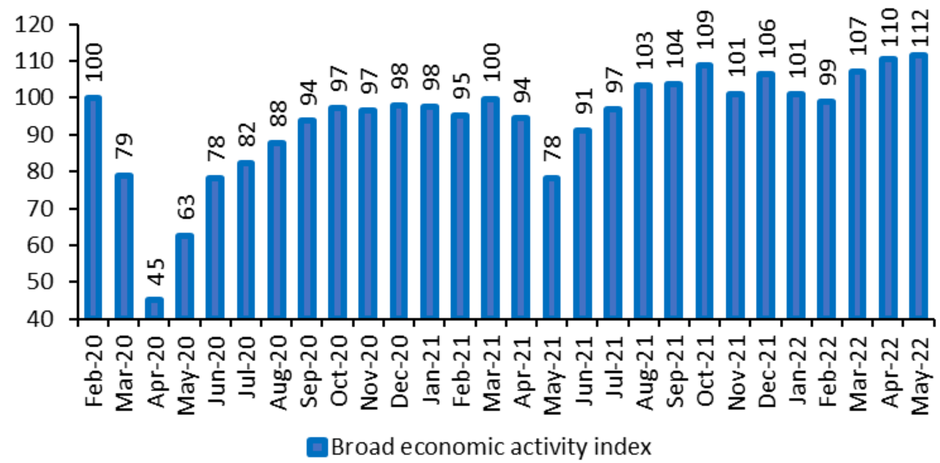
Transportation activities above pre COVID levels in May'22



Narrow economic activity recovery index (tracking 9 indicators) remains flat in Jun'22 as COVID issue abates



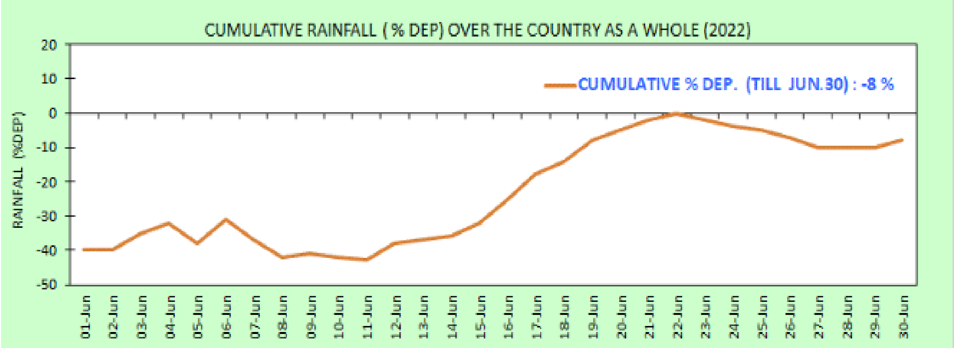
Broad economic activity index (tracking 24 high frequency indicators) shows ~2% sequential increase in May'22



Source: CMIE Economic Outlook, Google Mobility Report, SBIMF Research; NB Google mobility data only uptil 23rd Jun'22

Cumulative monsoon rains are 8% below normal; sowing slows down

Cumulative monsoon rains are trailing at 8% below normal as of June'22 end



Area sown in 2022 in Kharif season lower by ~24% than 2021

	Area Sown (Lakh Ha)		Difference in area coverage over 2021	% y-o-y
	2022	2021		
Rice	19.59	36.03	-16.44	-45.62
Total Pulses	8.7	13.62	-4.91	-36.08
Arhar	2.35	5.21	-2.86	-54.87
Kulthi	0.02	0.02	0	-0.13
Urad	0.93	1.94	-1.01	-52.03
Moong	3.38	5.13	-1.75	-34.08
Other Pulses	2.02	1.32	0.7	53.06
Total Coarse Cereals	11.08	18.06	-6.98	-38.65
Jowar	0.6	1.01	-0.41	-40.76
Bajra	1.27	3.99	-2.72	-68.12
Ragi	0.03	0.07	-0.04	-53.94
Maize	8.13	11.98	-3.85	-32.15
Small Millets	1.05	1.01	0.04	4.01
Total Oilseeds	11.78	22.41	-10.63	-47.45
Groundnut	7.62	8.72	-1.1	-12.62
Sunflower	0.75	0.47	0.29	61.13
Sesamum	0.57	0.65	-0.08	-12.26
Niger	0	0.01	-0.01	-91.05
Castor	0.02	0.04	-0.01	-33.36
Soyabean	2.78	12.5	-9.72	-77.74
Other Oilseeds	0.03	0.03	0	-3.9
Sugarcane	50.74	50.16	0.58	1.16
Total Jute and Mesta	6.8	6.82	-0.02	-0.28
Cotton	31.83	37.34	-5.51	-14.76
Grand Total	140.52	184.44	-43.91	-23.81

- Half the country is witnessing deficit in monsoon rains, particularly in oilseeds and cotton growing regions.
- Consequently, sowing has seen a slow start this Kharif season.
- July and August are critical months to shape the outlook for Kharif sowing and output.
- On a positive note, reservoir levels are healthy and 6% above Long period Average (LPA)
- The Southern Oscillation Index (SOI) measures atmospheric pressure differences in the Pacific Ocean.
- Positive reading in index is linked to La Nina (wetter weather for India). Right now, SOI maintains La Nina signs and bodes well for the outlook.

Source: India Meteorological Department, Ministry of Agriculture and Farmers Welfare, SBIMF Research

High frequency indicators continue to recover in May'22

High frequency indicators	Units	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	(% of pre-pandemic levels) Apr'22/ Apr'19	May'22/ May'19
Macro indicators													
Overall bank credit	% y-o-y	6.7	6.7	6.8	7.0	7.2	8.2	7.9	8.6	10.1	11.0	122	125
Bank industrial credit	% y-o-y	2.3	2.5	4.1	3.8	7.6	6.4	6.5	7.5	8.1	na	111	na
Bank Personal loans	% y-o-y	12.1	12.1	11.7	11.6	14.3	11.6	12.3	12.6	14.7	na	155	na
Bank deposit	% y-o-y	9.5	9.3	9.9	9.8	9.6	8.3	8.6	8.9	9.8	9.3	132	133
CPI	% y-o-y	5.3	4.3	4.5	4.9	5.7	6.0	6.1	7.0	7.8	7.0	120	121
WPI	% y-o-y	11.6	11.8	13.8	14.9	14.3	13.7	13.4	14.6	15.1	15.9	125	127
GST collections	% y-o-y	29.6	22.5	23.7	25.3	12.7	17.6	17.6	14.7	18.5	37.2	147	140
Urban consumption demand													
Domestic air traffic	% y-o-y	133	76	69	65	53	-16	-1	36	93	471	101	97
Domestic sale of passenger Cars	% y-o-y	-13	-61	-43	-33	-23	-17	-14	-12	-20	199	73	86
Urban employment levels (%)	%	34	35	35	34	34	34	34	34	34	34	100	99
CPI-Urban	% y-o-y	5.3	4.6	5.0	5.5	5.9	5.9	5.8	6.1	7.1	7.1	120	121
Petrol consumption	% y-o-y	13.0	6.0	3.6	-0.8	4.1	-5.3	3.2	6.1	17.2	51.5	114	110
IIP- consumer durables	% y-o-y	11	2	-3	-6	-2	-4	-9	-3	9	na	88	na
Urban Consumer sentiment Index	Index	49	51	55	53	50	54	55	58	60	65	58	61
Rural consumption demand													
Domestic Tractor sales	% y-o-y	-10	-9	3	-17	-22	-28	-26	-12	38.1	47.7	160	145
Fertilizers production	% y-o-y	-3	0	0	2	4	-2	-1	15.3	9	na	108	na
Rural wage	% y-o-y	4	5	5	5	5	4	5	4	na	na	na	na
CPI- rural	% y-o-y	5.3	4.1	4.1	4.3	5.4	6.1	6.4	7.7	8.4	7.0	121	121
Rural employment (%)	%	39	40	39	39	39	39	38	38	38	39	101	101
Domestic sale of two-wheelers	% y-o-y	-15	-17	-25	-34	-11	-21	-27	-21	15.4	255.3	70	73
Agri exports	% y-o-y	17	4	11	20	34	30	8	-5	17	na	165	na
WPI food articles	% y-o-y	-1	-3	0	5	10	10	8	8	8	12	118	119
Consumer sentiment - rural	Index	57	61	62	64	61	63	67	69	71	69	66	63

- Domestic auto sales (across two wheelers, passenger cars and tractor sales) improved in May'22.
- Bumper rise in all transportation related indicators (air passenger traffic- 3% below pre COVID levels, rail cargo – 26% above, port cargo- 11% above). FASTag and Eway bills generation also improve.
- Rising energy consumption reflected by rising electricity generation and petroleum consumption
- Continued double digit growth in bank credit - particularly the pick-up in industrial credit (though on a weak base)
- CMIE employment stats has reached pre-COVID levels, and Naukri Job Speak soars higher.
- Consumer sentiment is still weak, and inflation continues to rise.

Source: CMIE economic outlook, SBIMF Research

High frequency indicators continue to recover in May'22 (contd...)

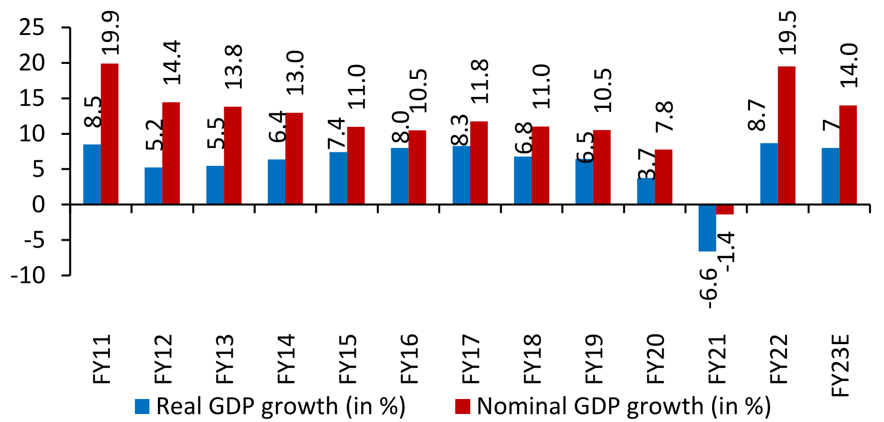
High frequency indicators	Units											(% of pre-pandemic levels)	
		Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Apr'22/ Apr'19	May'22/ May'19
Industrial indicators													
Overall IIP	% y-o-y	13	4.4	4.2	1.0	1.0	1.5	1.5	1.9	7	Na	107	na
GFCF*	% y-o-y		15			2			5			na	na
Sale of CV	% y-o-y		32			5			20			na	na
Electricity generation	% y-o-y	16	1	3	3	3	1	5	6	12	23	119	113
PMI- Manufacturing index	% y-o-y	52	54	56	58	56	54	55	54	55	55	106	104
Consumption of petroleum products	% y-o-y	6	5	0	-12	0	0	5	4	9.6	23.8	99	95
Capacity utilization	%		68			72			Na			na	na
Construction/Infrastructure													
Cargo traffic - rails	% y-o-y	17	4	8	6	7	8	7	7	9	15	121	126
FASTag collection	% y-o-y	80	55	57	51	60	50	42	33	52	106	721	709
GST E way bills	% y-o-y	39	18	15	6	12	9	8	10	28	85	142	139
Toll collections (Rs. million)	% y-o-y	80	55	57	51	60	50	42	33	52	106	708	733
Cement production	% y-o-y	36	11	15	-4	14	14	5	9	8	Na	109	na
Steel consumption	% y-o-y	-2	-3	-4	-7	-8	0	-5	-6	2	Na	118	na
Bitumen consumption	% y-o-y	16	-2	4	-23	-18	-2	3	-12	-8	6	110	97
IIP- infrastructure	% y-o-y	13	9	7	3	2	6	9	7	4	Na	111	na
External sector													
Cargo traffic - ports	% y-o-y	11	0	6	0	-1	-3	-4	1	7	9	103	111
Merchandise exports	% y-o-y	46	23	43	35	44	28	34	26	29	21	153	130
Non-oil non-gold imports	% y-o-y	39	40	38	40	35	30	32	35	32	31	144	130
Merchandise trade deficit	US$bn	43	658	95	108	34	17	41	34	32	297	123	154
Services exports	% y-o-y	19	20	20	18	35	26	21	31	25.1	30.3	125	125
Services imports	% y-o-y	20	21	22	24	29	31	22	22	46.1	45.1	123	116
Net service receipts	US% bn	18	18	17	8	44	20	20	46	1	12	128	143
Government													
Central government : capital expenditure	% y-o-y	92	83	-24	-54	74	-6	1	430	67	78	258	164
Central government : Gross tax collection	% y-o-y	32	50	17	18	24	-4	18	20	37	20	192	183

- Net services exports and port cargo activity (reflecting trade) were key contributor to recovery reflecting continued momentum in trade activity thus far.
- Infrastructure related indicators such as rail cargo, E-way bills, IIP infrastructure output continue to improve. Cement production growth was the strongest at 8% y-o-y in Apr'22. Moderate improvement in bitumen consumption and steel consumption too.
- Centre government capex moderated in May'22 to 18% on a 3yr CAGR basis (vs. 37.2% in Apr'22). Buoyant tax revenues will aid further increasing capex in FY23.

Source: CMIE economic outlook, SBIMF Research; NB: Data on sale of commercial vehicles, capacity utilization, *GFCF is released on quarterly basis.

Expect India FY23 growth at 7% with a 14% rise in Nominal growth

Real GDP to grow by 7-8% y-o-y in FY23



- Q4FY22 GDP growth moderated to 4.1% y-o-y (vs. 5.4% in Q3), primarily due Omicron weakening household spending.
- Real GDP grew 8.7% in FY22 and Nominal GDP grew at a significantly higher rate of 19.5%.
- Growth projection for FY23 remain at 7%. Nominal growth is expected at14%.
- 2-year CAGR in growth by FY22 is barely 0.8% and reflects incomplete recovery.
- Normalization story due to abatement of COVID will play a significant role in driving demand through FY23- particularly household demand for services. Higher govt. spend and continued inventory restocking is likely to add.
- Higher inflation may likely wipe out some momentum in household spend and delay the full-blown momentum in investment demand. Net trade balance to deteriorate as global growth moderates, Indian govt. regulations tries to curb exports of some key commodities.
- While the RBI is on the path of rate hike, given the rates are being revised up from a record low level, it may not materially affect credit led growth (at least in FY23).
- Nominal GDP is likely to reach pre-COVID trend by FY23 end (thanks to high inflation).

Real GDP grew by 8.7% in FY22

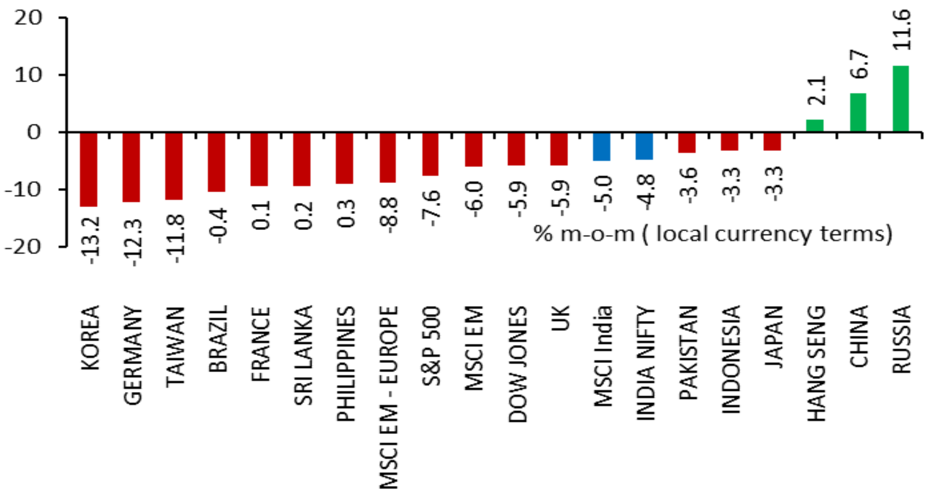
% y-o-y growth	FY19	FY20	FY21	FY22	2 Yr CAGR by end FY22
Real GDP	6.5	3.7	-6.6	8.7	0.8
Demand side					
Private Consumption	7.1	5.2	-6.0	7.9	0.7
Government Spending	6.7	3.4	3.6	2.6	3.1
Gross Capital Formation	11.0	-2.2	-11.4	21.7	3.8
Exports	11.9	-3.4	-9.2	24.3	6.2
Imports	8.8	-0.8	-13.8	35.5	8.1
Suppy side					
Agriculture	2.1	5.5	3.3	3.0	3.2
Industry	5.3	-1.4	-3.3	10.3	3.3
Mining	-0.8	-1.5	-8.6	11.6	1.0
Manufacturing	5.4	-2.9	-0.6	9.9	4.5
Utilities	7.9	2.2	-3.6	7.5	1.8
Construction	6.5	1.2	-7.3	11.5	1.7
Services	7.2	6.3	-7.8	8.4	0.0
Trade, hotels, transport	7.2	5.9	-20.2	11.1	-5.8
Financial services, real estate	7.0	6.7	2.2	4.2	3.2
Community, social services	7.5	6.3	-5.5	12.6	3.2
Real GVA	5.8	3.8	-4.8	8.1	1.4

Source: CMIE Economic Outlook, SBIMF Research

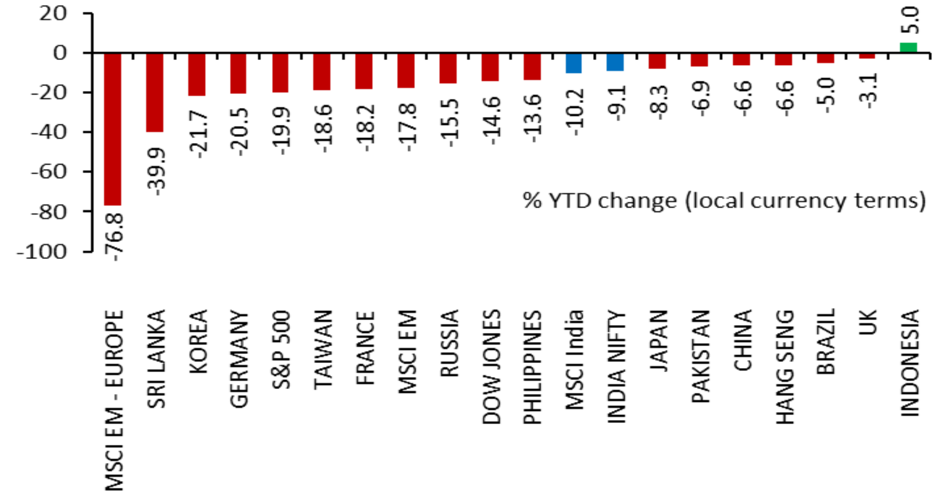
EQUITY MARKET

Global equity market falls in Jun'22

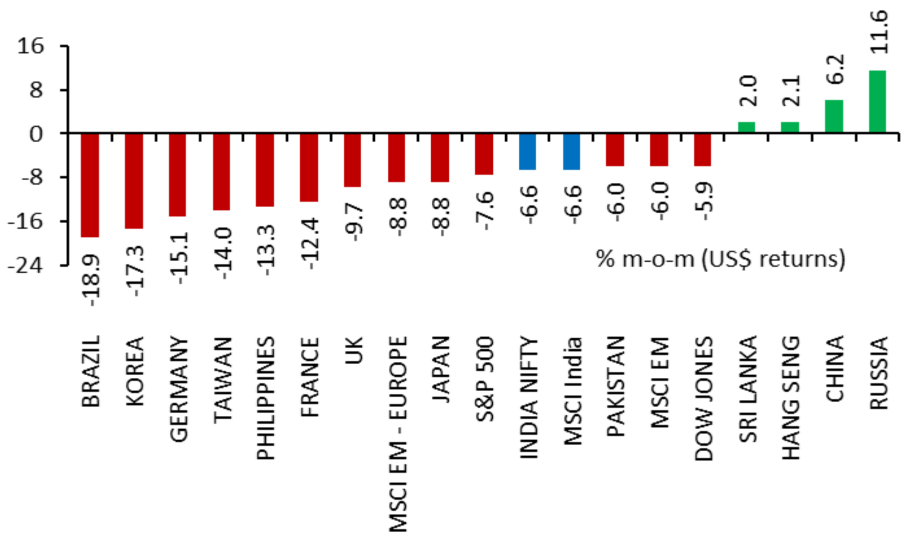
Performance in June 2022 (local currency returns)



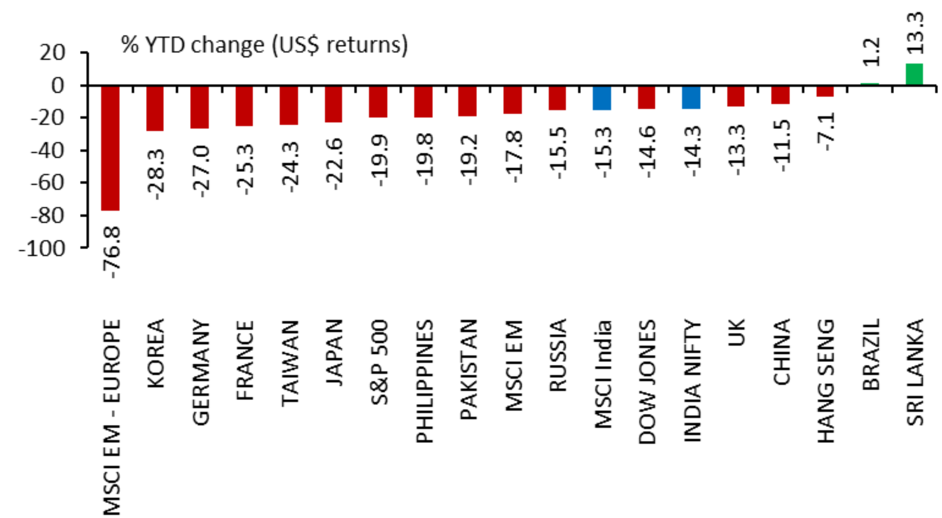
YTD performance (local currency returns)



Performance in June 2022 (US$ returns)



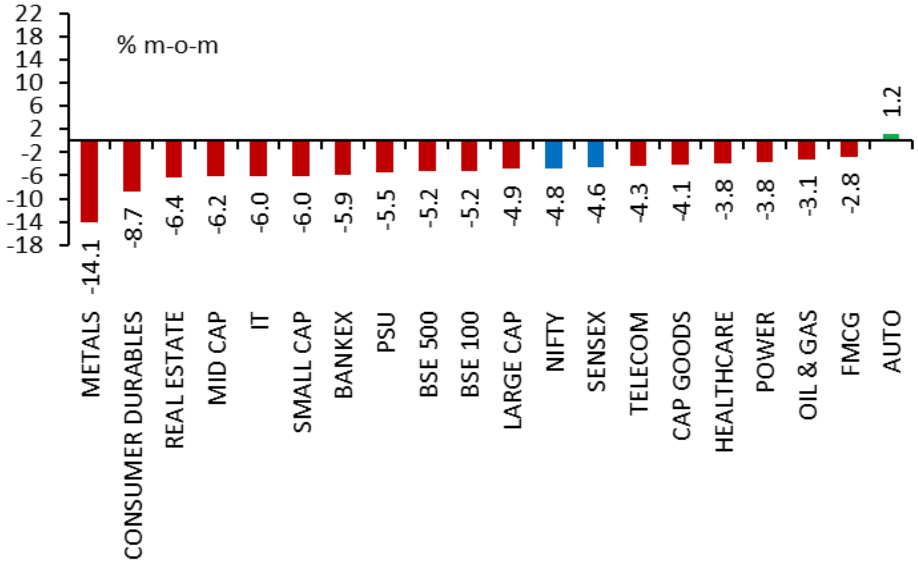
YTD performance (US$ returns)



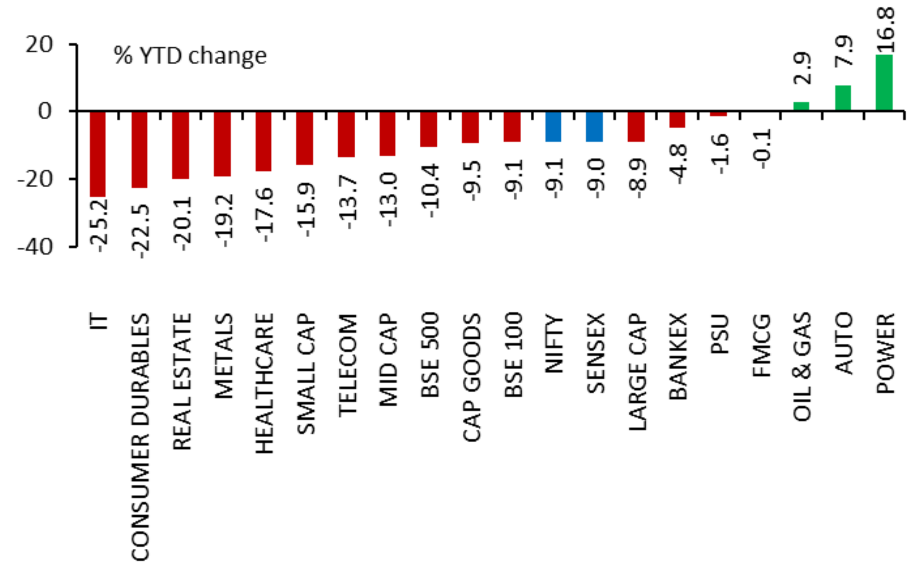
Source: Bloomberg, SBIMF Research

Indian equity market fell in line with global trends

Performance in June 2022 (local currency returns)



YTD performance (local currency returns)

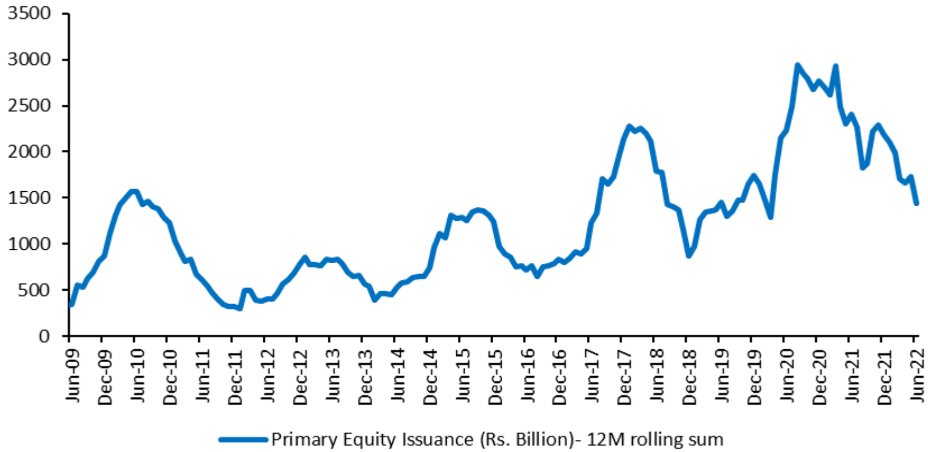


- Nifty and Sensex decreased by 4.8% and 4.6% m-o-m respectively. Among sectors, only Auto (1.2%) outperformed where as Metals(-14.1%), consumer durables(-8.7%), and real estate (-6.4%) delivered sharpest negative returns.
- Mid cap (-6.2%) delivered the sharpest negative returns in Jun’22 vs. May’22 followed by small cap (-6%) and large cap underperformed by 4.9%.
- On YTD basis, Nifty and Sensex decreased by ~9% each respectively. Among sectors, Power (16.8%), Auto (7.9%), and Oil& Gas (2.9%) outperformed. On the other hand, IT (-)25.2%, Consumer durables (-)22.5%, Real estate (-)20.1% and Metals (-)19.2% delivered the sharpest negative returns on YTD basis

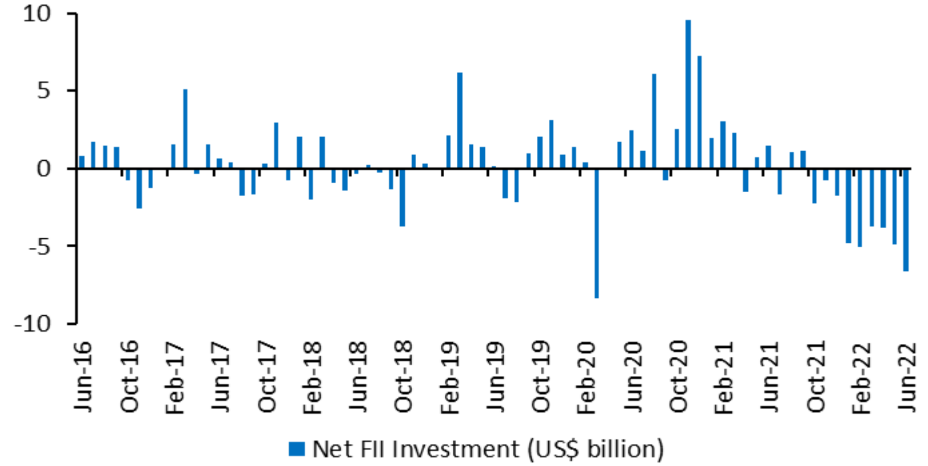
Source: Bloomberg, SBIMF Research

Liquidity: FIIs continued to sell and DIIs continue to buy in Jun'22

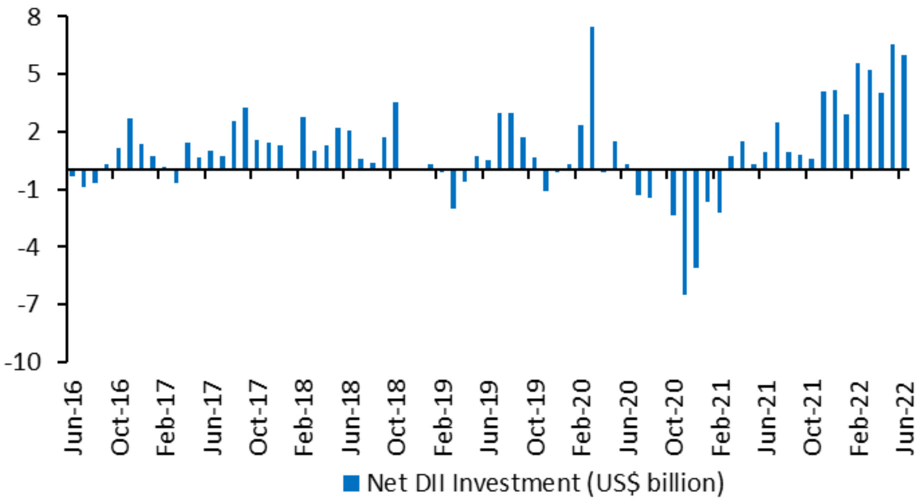
Primary issuances fall sharply in Jun'22 after observing an improvement in May'22



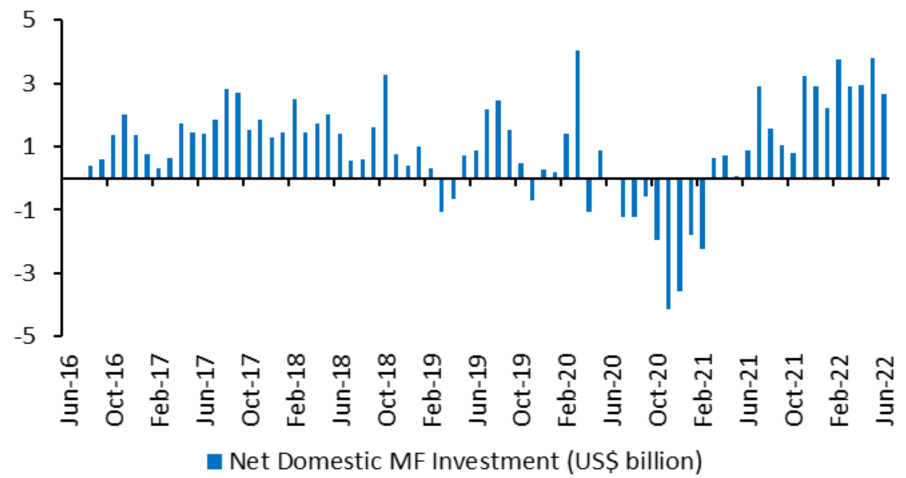
FIIs sold USD 6.59 billion in Jun'22 in equity segment vs. a sell of USD 4.87 billion in May'22



DIIs remained net buyers (USD 5.9 billion in Jun'22 vs. USD 6.5 billion in May'22)



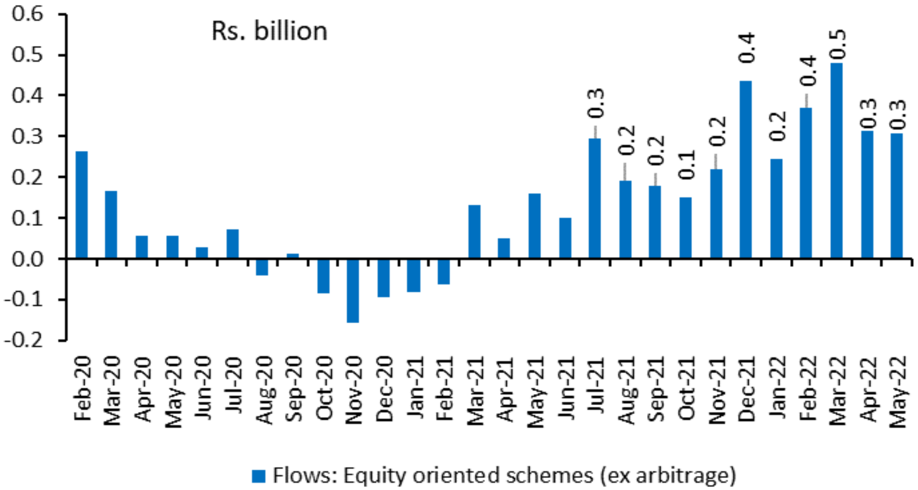
Mutual funds bought USD 2.7 billion in Jun'22 vs. USD 3.8 billion in May'22



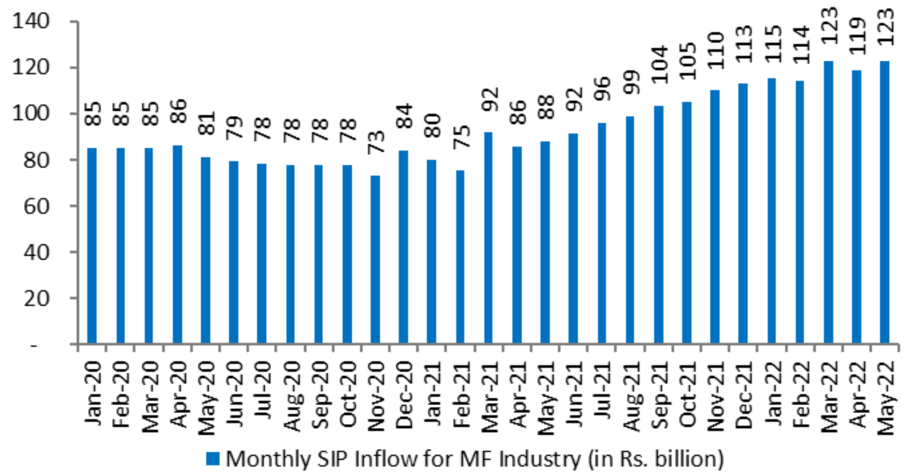
Source: Bloomberg, SBIMF Research; NB: Mutual find data available till 23rd Jun'22

MF flows: Strong equity flows; increase in SIPs in May'22

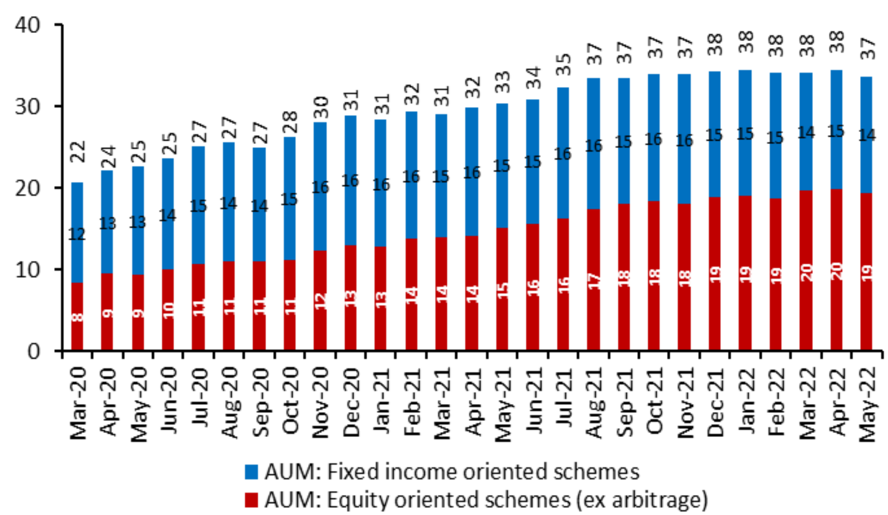
Equity MFs posted 15th straight month of inflows



SIPs increased to Rs. 123 billion in May'22



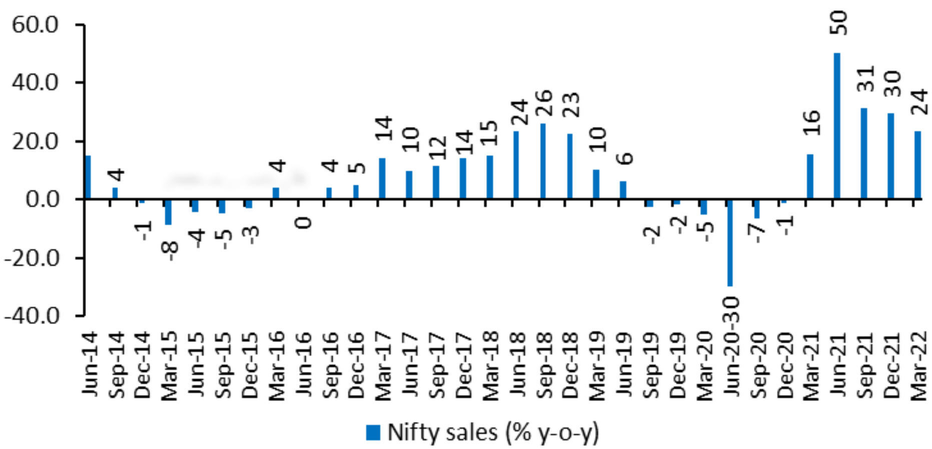
Equity AUMs and Debt AUMs in May'22 were in line with Apr'22 values



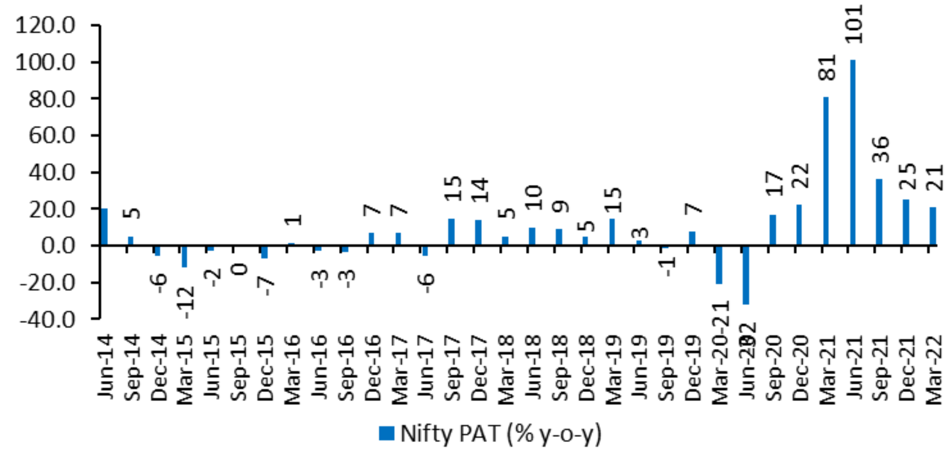
Source: CMIE Economic Outlook, Association of Mutual Funds of India(AMFI), SBIMF Research

Q4 FY22 earnings outcome: Moderation in sales and profit

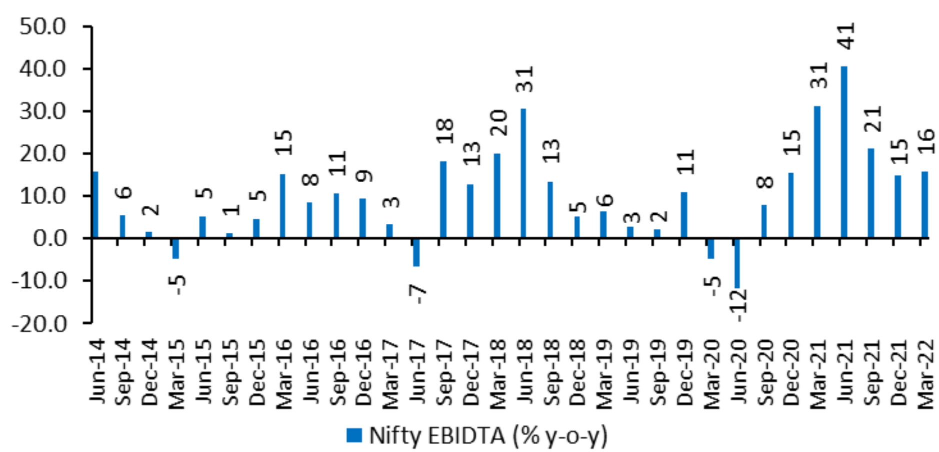
NIFTY Sales growth moderated in Q4 FY22 (in line with expectations)



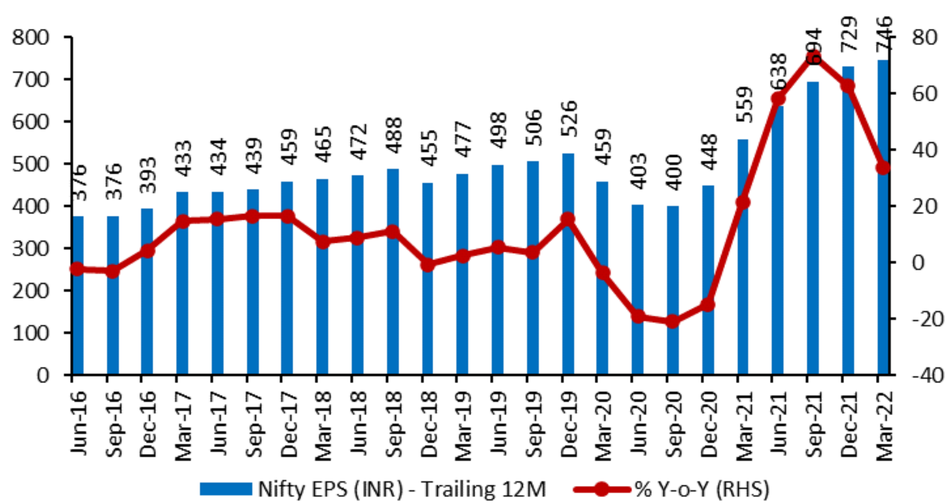
Profit growth moderated in Q4FY22 vs. Q3FY22, but above the FY20 trends



EBITDA growth marginally improved as input costs remain elevated



EPS growth has been moderating



Source: MOSL, SBIMF Research; Interim earnings for 50 companies

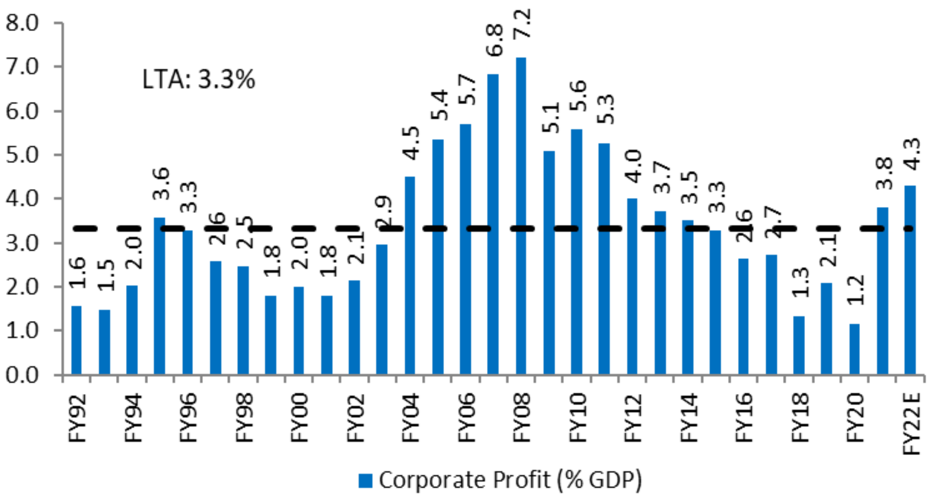
Q4 FY22 earnings' review: Snapshot

- All NIFTY(50) companies have declared the result by May'22 end.
- The results were broadly in line with street expectations in terms of aggregate topline sales (23.4%), EBIDTA (15.8%) and PAT growth (20.7%) for all companies.
- At an aggregate, topline growth is more pricing led than volume led (such as in Auto and consumer staples). That said, textile sector is seeing a pick-up in order inflow; while the deal win momentum for IT companies has largely sustained in Q4 FY22. Some pent-up demand is also seen in contact intensive industries (Leisure).
- Cost pressures are being reported across the sector ranging from IT (due to higher employee and travel cost) to chemicals, cement, auto, chemicals, staples and textiles (due to commodity inflation).
- Businesses are resorting to price hikes (in case of Auto and other consumer discretionary) and lowering discounts, inventory management and rationalizing other costs to sustain profitability.
- Large businesses seem to have captive power plants or renewable energy sources to tide over coal shortage issue.
- As the cost pressures rise, companies are guiding for earnings moderation.
- We are likely to see increasing earnings downgrades in the near-term; even as long-term positivity on earnings stays intact.

Source: MOSL, SBIMF Research;

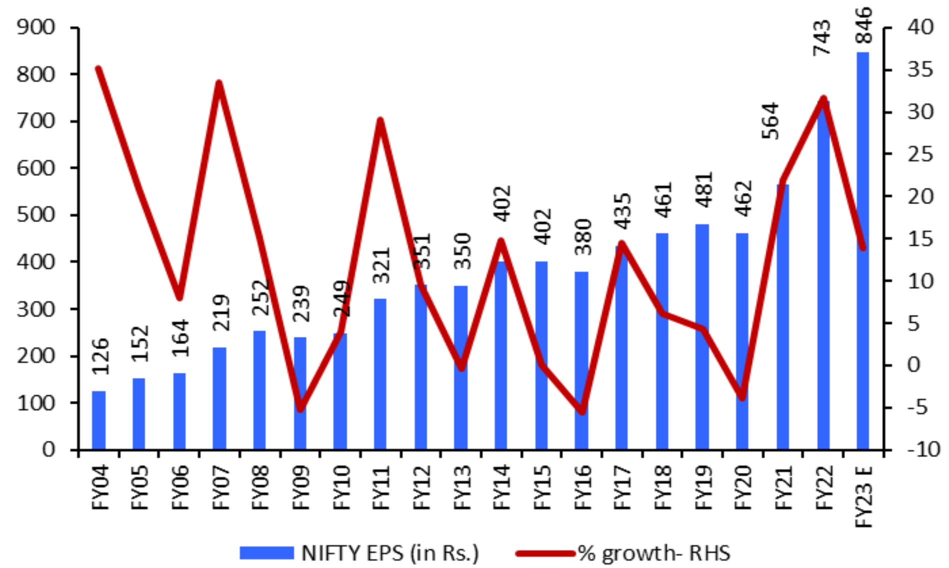
Earnings should continue to recover in FY23

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)

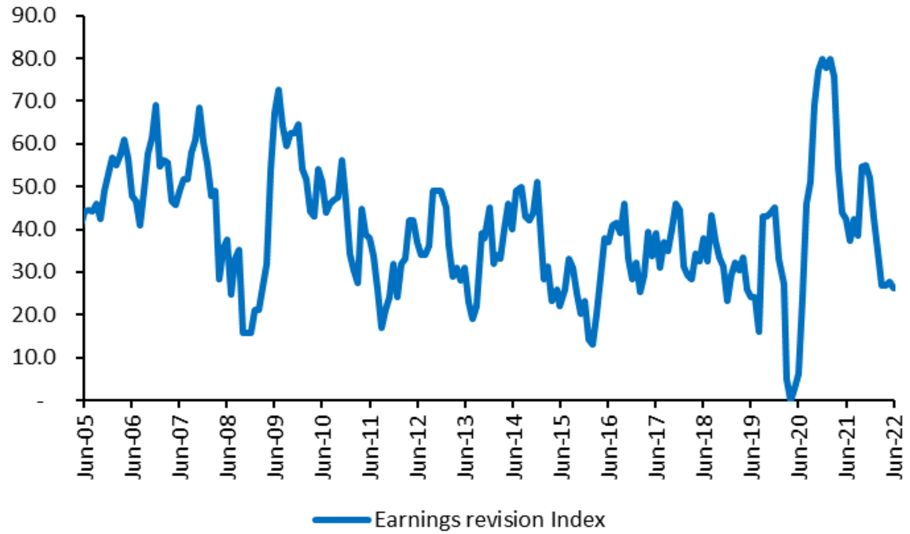
Earnings recovery likely to be healthy in FY23*



Source: CMIE Economic Outlook, Bloomberg, SBIMF Research; *FY22 and FY23 earnings estimates are SBIMF

Extent of Upgrades in Earnings have fallen

Earnings Revision have fallen



Sectoral breakup of NIFTY earnings outlook

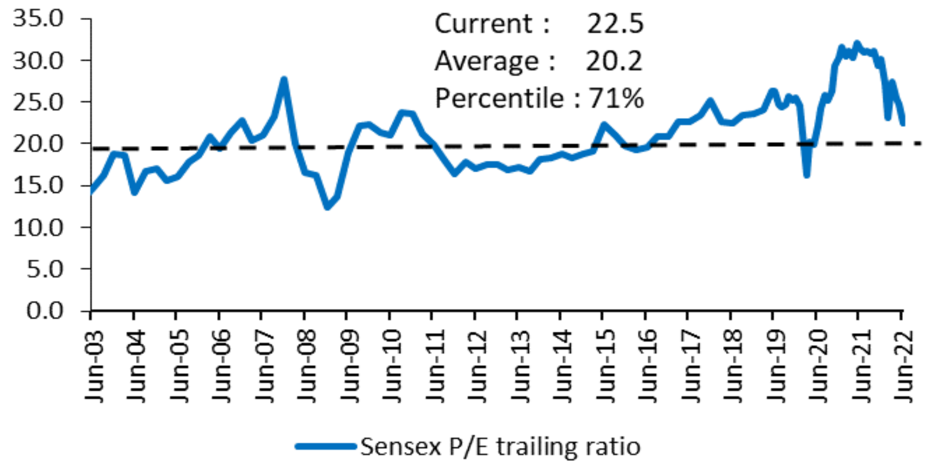
	Nifty Weight	Contribution to EPS Change				
		FY20-21	FY21-22	FY22-23	FY23-24	FY21-24 (CAGR)
Nifty		20.0%	36.1%	16.0%	14.5%	21.8%
Consumer Discretionary	7.1%	1.5%	-2.3%	13.6%	3.0%	2.9%
Materials	6.8%	3.7%	17.3%	-1.7%	0.2%	2.7%
Health Care	4.0%	0.2%	1.8%	0.6%	0.8%	1.0%
Financials	35.1%	4.8%	12.4%	8.1%	6.3%	8.9%
Information Technology	15.9%	1.5%	3.5%	1.7%	2.4%	2.5%
Energy	14.8%	8.4%	0.2%	3.4%	0.6%	1.3%
Consumer Staples	8.4%	-0.4%	0.0%	0.9%	1.0%	0.6%
Industrials	3.4%	0.8%	-0.8%	1.1%	0.7%	0.3%
Utilities	2.0%	0.4%	-0.2%	0.1%	0.2%	0.0%
Communication Services	2.4%	NA*				

- Earnings revisions have fallen from peak.
- Earnings upgrades only seen in Real Estate and Utilities.
- Healthcare, Materials, Industrials, Consumer discretionary., Communication services saw downgrades.
- Consensus expects 20%+ EPS growth CAGR for the Nifty over FY21-FY24.

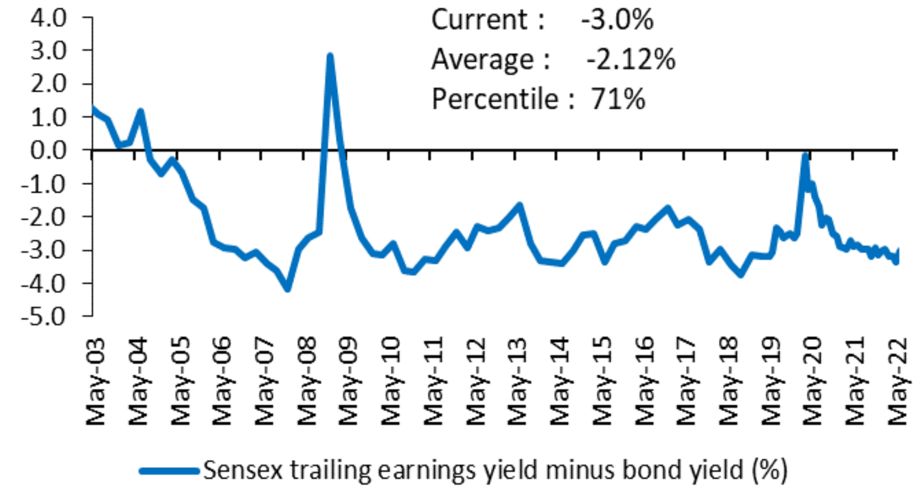
Source: Bloomberg, FactSet, SBIMF Research; NB: *data for communication services can't be calculated due to negative number in the base year, Earnings Revision Index: There has been a revision in the methodology of calculating Earnings' Revision Index. Earlier, 12 month forward estimate number of all 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).

Equity valuations have moderated; but still expensive

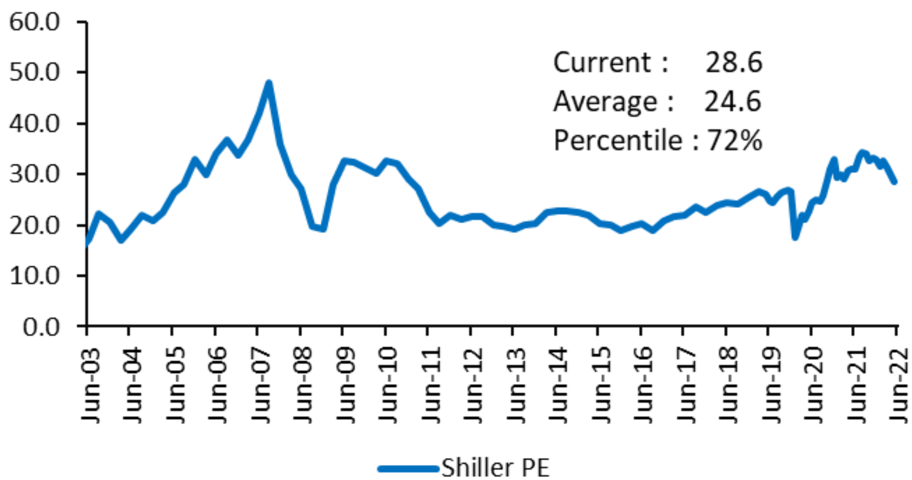
Sensex trailing PE ratio stood at 22.5 in Jun’22 vs. 24.7 in May’22



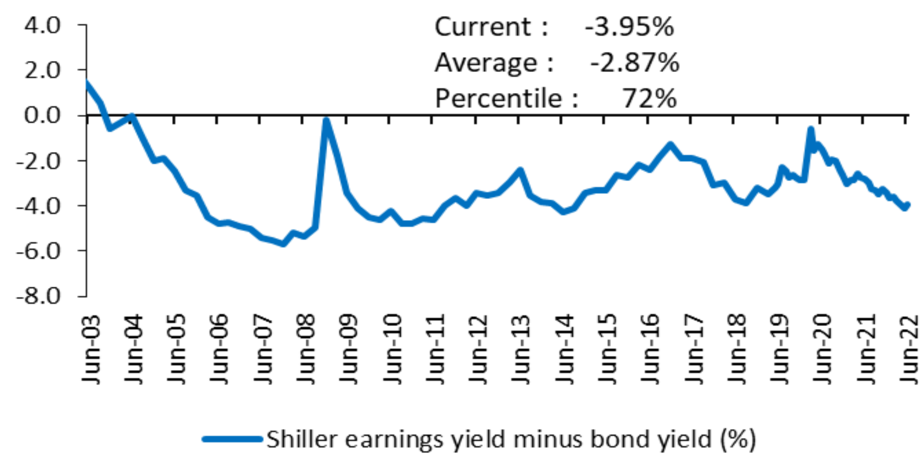
Earnings yield to bond yield spread near neutral



Shiller PE ratio stood at 28.6 in Jun’22 vs. 30.2 in May’22



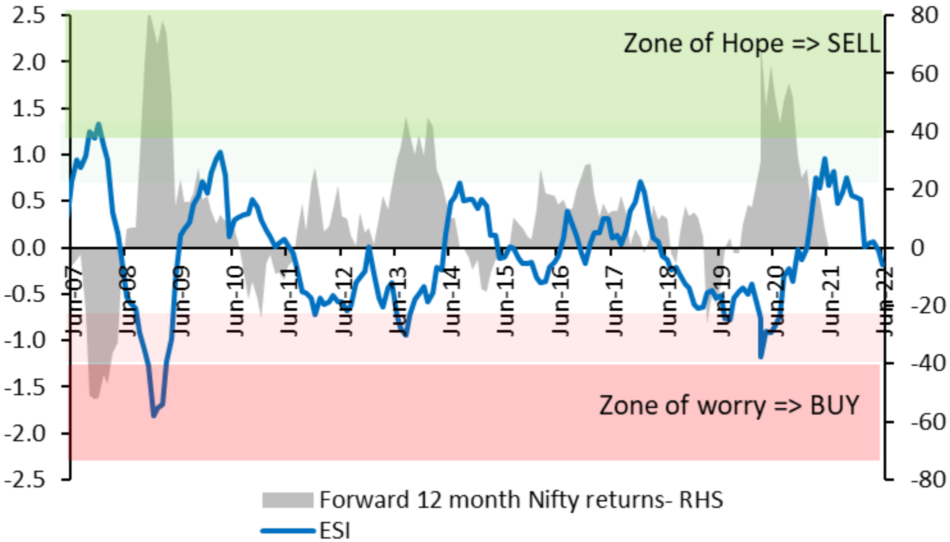
Shiller earnings yield to bond yield spread neutral to moderately expensive

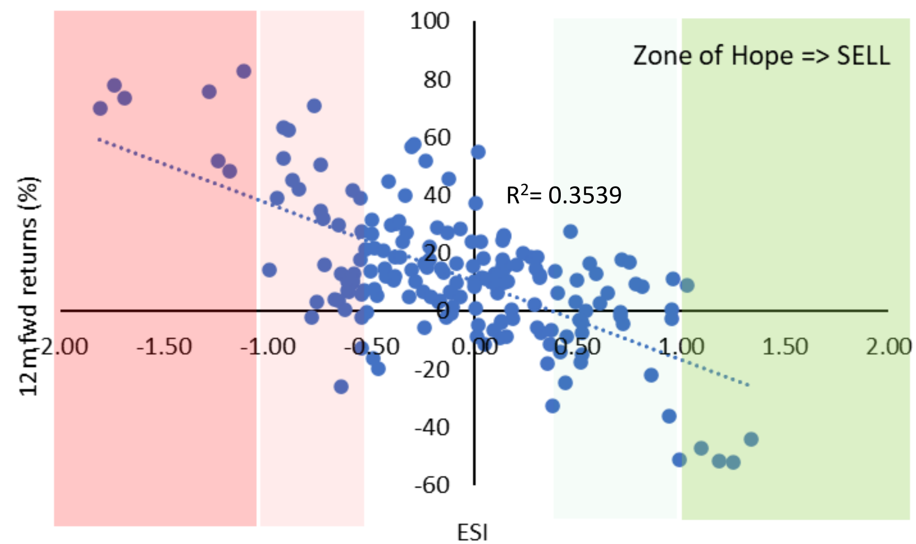


Source: Bloomberg, SBIMF Research

Equity market sentiment at neutral level

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



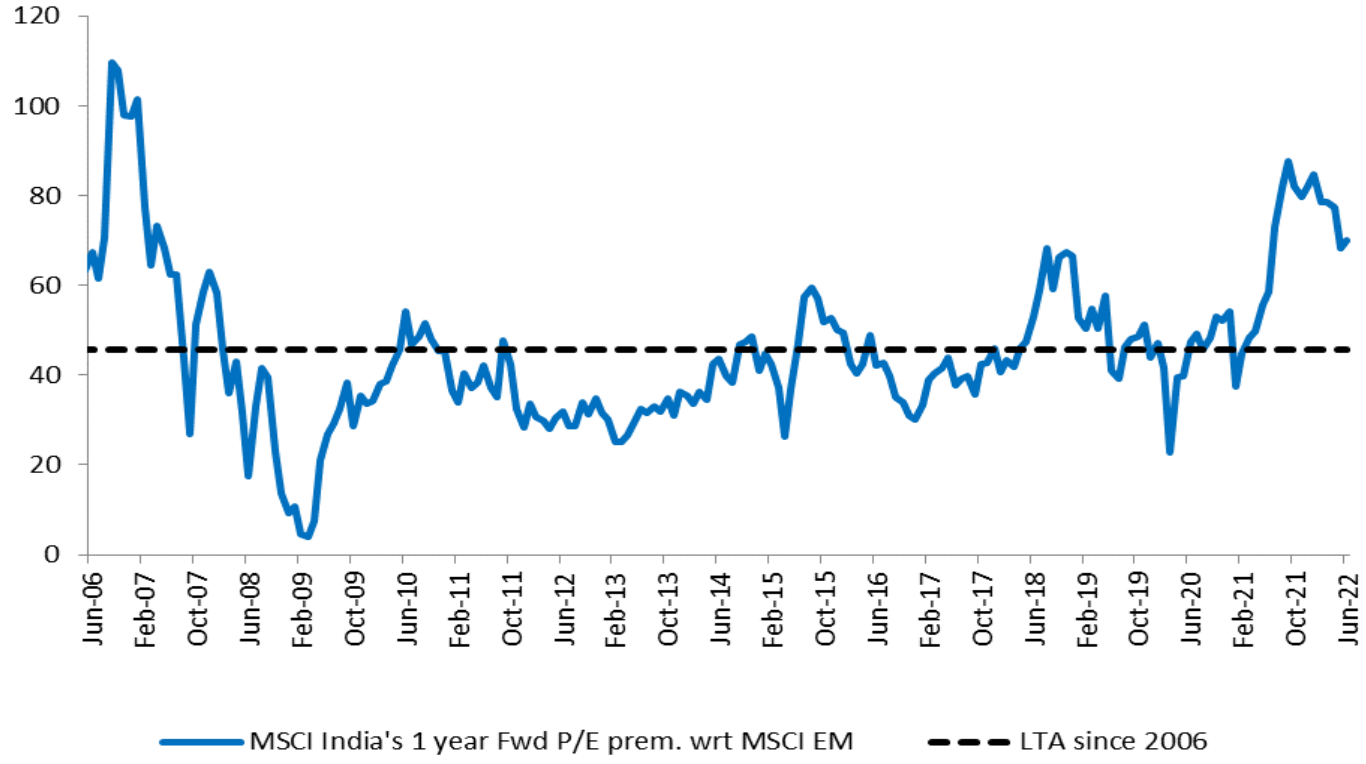


- The sentiment measure works as a contrarian indicator. The action in the past few months has helped to take away the froth and brought the indicator back to neutral levels

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

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 70 in Jun'22 vs. 68.3 in May'22 (faring much higher than LTA of 46)



Source: Bloomberg, SBIMF Research

Equity Outlook: Near-term cautiousness

- Indian equity markets delivered negative returns in Jun’22. Nifty-50 fell 4.8% in June vs. a fall of 3% in May’22. Sensex fell by 4.6% in June vs. 2.6% in May’22. Small cap (-6%), mid cap (-6.2%) and large cap (-4.9%) underperformed in Jun’22. Among sectors indices, only Auto (1.2%) marginally outperformed where as Metals(-14.1%), consumer durables(-8.7%), and real estate (-6.4%) delivered sharpest negative returns.

- FIIs remained net sellers of Indian equities again (-USD$6.6bn, following -$4.9bn in May). DIIs continued their buying trend from the previous month, recording 16 consecutive months of positive inflows (+$5.9bn, following +$6.5bn seen in May).

- Geopolitical stalemate duration, possibility of an energy crisis in Europe, and Fed monetary tightening create an uncertain environment for investors. Exports moderation on account of a fall in demand from Russia, Ukraine and Europe. China observes improvements in overall COVID situation and supply chains. Chinese policy measures to boost infrastructure investment could have some upside risk for metals.

- Growth projections for FY23 lowered in India to 7% mainly on account of slower global growth and inflationary pressures resulting in weak domestic demand. However, beyond the near term, growth prospects are promising with early signs of recovery observed in the residential real estate sector.

- Earnings outlook in the immediate term looks uncertain. Higher input costs may be a headwind for corporate margins. Inflation persistence may cause demand slowdown.

- Equities have seen a derating in valuations. Forward P/Es are down 30-35% on average from last year highs. Yet when adjusted for bond yield, they still command a significant premium. With the rate cycle having commenced, both locally and across major global economies, valuations should continue to drift lower.

- Against this backdrop, near term caution may be advised. Beyond the near-term turbulence, it is likely that the economy is at the beginning of a new capex driven economic and earnings cycle and an investor is advised to therefore use any sell-off in pro-economy stocks to add from a mid-longer perspective.

Source: Bloomberg, SBIMF Research

FIXED INCOME MARKET

Global Bond Snapshot: Yields move higher on monetary tightening

Yields increased in June compared to a month ago; YTD, bond yields have seen a significant rise

10 Year Gsec Yield (% mth end)	2020 end	2021 end	Apr-22	May-22	Jun-22	m-o-m change (in bps)	YTD change (in bps)
Developed market							
US	0.91	1.51	2.93	2.84	3.01	17	150
Germany	-0.57	-0.18	0.94	1.12	1.34	21	151
Italy	0.54	1.17	2.77	3.12	3.26	15	209
Japan	0.02	0.07	0.23	0.24	0.23	-1	16
Spain	0.05	0.57	1.97	2.23	2.42	20	186
UK	0.20	0.97	1.91	2.10	2.23	13	126
Emerging Market							
Brazil	6.91	10.84	12.29	12.56	13.07	51	223
China	3.15	2.78	2.84	2.80	2.82	2	4
India	5.87	6.45	7.14	7.42	7.45	2	100
Indonesia	5.86	6.36	6.97	7.03	7.20	17	84
Malaysia	2.65	3.58	4.38	4.19	4.24	5	66
Russia	5.92	8.45	15.99	15.99	15.99	0	754
Thailand	1.32	1.89	2.71	2.85	2.82	-3	93
Mexico	5.55	7.57	9.12	8.65	9.05	40	148
Poland	1.24	3.67	6.37	6.62	6.93	31	326
South Africa	8.75	9.81	10.37	10.27	11.00	73	119
Colombia	5.39	8.19	10.31	11.08	11.55	47	335
Hungary	2.08	4.51	6.86	7.16	8.01	85	350

Source: Bloomberg, SBIMF Research

Global Bond Snapshot: Yields inched up across tenures

Commodity concerns and increased likelihood of aggressive monetary policy tightening by major central banks exerted upward pressure on global bond yields

Bond yields (%)	Levels as of Jun'22 end (%)			% m-o-m change (in bps)		
	2 yr	5 yr	10 yr	2 yr	5 yr	10 yr
Developed Markets						
US	2.54	2.81	2.84	9	22	17
Germany	0.52	0.85	1.12	5	23	21
Italy	1.01	2.28	3.13	9	15	15
Japan	-0.07	0.01	0.24	0	2	-1
Spain	0.74	1.54	2.23	5	19	20
Switzerland	0.03	0.41	0.88	5	12	18
UK	1.53	1.64	2.05	10	20	13
Canada	2.64	na	2.90	13	na	33
Australia	2.47	na	3.35	6	na	31
Emerging Markets						
Brazil	13.11	12.92	13.07	12	47	51
China	2.24	2.63	2.82	1	9	2
India	6.41	7.26	7.45	3	4	3
Indonesia	5.04	6.10	7.20	0	-1	17
South Korea	2.76	3.65	3.62	0	40	29
Malaysia	3.31	3.94	4.24	1	21	5
Phillippines	3.76	6.11	5.40	5	45	0
Russia	15.66	15.21	15.99	na	na	na
Thailand	1.67	2.44	2.82	2	11	-3
Turkey	25.69	19.39	19.31	13	-334	-328
Mexico	9.12	9.15	9.05	8	39	40
Poland	6.63	7.35	6.93	-2	40	31
South Africa	5.44	8.89	11.00	-5	61	47
Colombia	9.50	10.91	11.55	0	61	73
Hungary	na	8.36	8.01	na	118	85

Source: Bloomberg, SBIMF Research

India Rates Snapshot: June 2022

Higher crude, depreciation in Rupee, monetary tightening drive yields higher; larger pain in short-end in Jun'22

	2020 end	2021 end	Apr-22	May-22	Jun-22	m-o-m (in bps)	YTD change (in bps)
Repo rate	4.00	4.00	4.00	4.40	4.90	50	90
Reverse repo rate	3.35	3.35	3.35	3.35	3.35	0	0
SDF			3.75	4.15	4.65	50	465
1 Yr T-Bill	3.46	4.27	4.81	5.91	6.29	38	202
3M T-Bill	3.08	3.66	3.98	4.89	5.16	27	150
3 year GSec	4.46	5.30	6.22	6.93	6.95	2	165
5 year GSec	5.04	5.79	6.68	7.13	7.17	4	138
10 year GSec	5.87	6.45	7.14	7.42	7.45	3	100
3 Yr Corp Bond*	4.69	5.76	6.52	7.28	7.44	15	168
5 Yr Corp Bond*	5.51	6.22	6.86	7.55	7.54	-1	132
10 Yr Corp Bond*	6.59	7.00	7.31	7.84	7.78	-6	78
1 Yr IRS	3.69	4.34	5.05	6.19	6.34	15	200
5 Yr IRS	4.61	5.37	6.62	6.98	6.88	-10	151
Overnight MIBOR Rate	3.51	3.60	3.93	4.27	4.95	68	135
10 year SDL	6.58	7.01	7.31	7.70	7.83	13	82
INR/USD	73.07	74.34	76.43	77.64	78.97	-2^	-6^
Crude oil Indian Basket**	49.90	73.30	102.97	109.51	116.06	6^	58^

- 3,5 and 10year G-sec yields increased by 2 bps, 4 bps and 3 bps respectively in Jun’22 vs. May’22.
- Rupee depreciated by ~2% to INR 79/$ in Jun’22.
- Oil prices increased ~6% in Jun’22 vs. May’22; continues to hover above US$ 115/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

RBI hikes Repo Rate by 50bps in June'22 policy

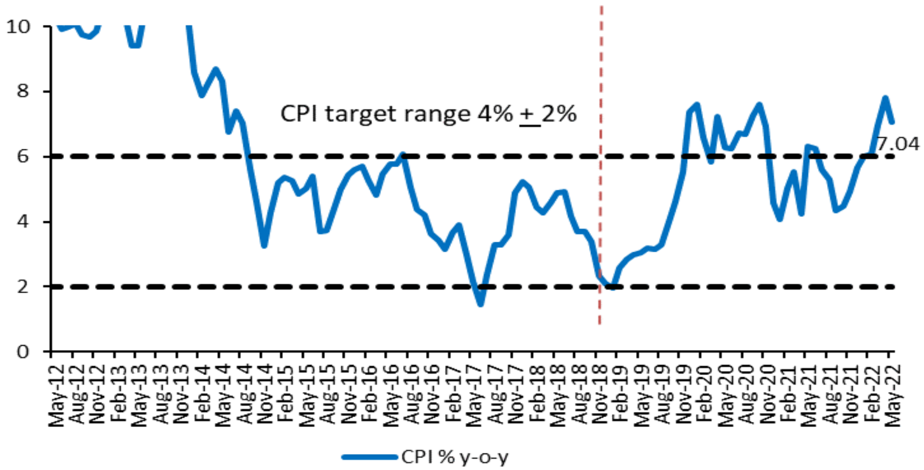
- Repo rate hike by 50bps in June review (to 4.90% in line with expectation)
- Stance continued to guide for withdrawal of accommodation (the word remain accommodative was dropped).
- Inflation projections were revised up significantly from 5.7% in Apr'22 to 6.7% in latest policy (it was 4.5% in Feb'22).
- Quarterly projections of inflations recognizes the possibility of breach in 6% upper target beyond three quarters.
- Inflation control has been rightly emphasized as the primary policy objective of June monetary policy.
- While external events continue to provide headwinds to growth, policy document elicit a fair degree of comfort on near-term growth trends based on high frequency data. Growth forecasts were retained at 7.2%.
- MPC is likely to deliver a 25-35bps rate hike in the August meeting. Quicker policy rate adjustment seems more likely rather than a long-drawn-out rate adjustment process considering the domestic and external backdrop. Expect the policy rate adjustment process to be completed over the fiscal year.

Policy date	4th May'22	8th Jun'22	Change
Repo	4.40%	4.90%	+ 50bps
Reverse repo	3.35%	3.35%	No change
MSF	4.65%	5.15%	+ 50bps
CRR	4.50%	4.50%	No change
SDF	4.15%	4.65%	+ 50bps
Guidance	Remain accommodative, with focus on withdrawal of accommodation	Withdrawal of accommodation	Phrase 'Remain accommodative' removed
Our subjective assessment of policy stance	Hawkish	Hawkish	

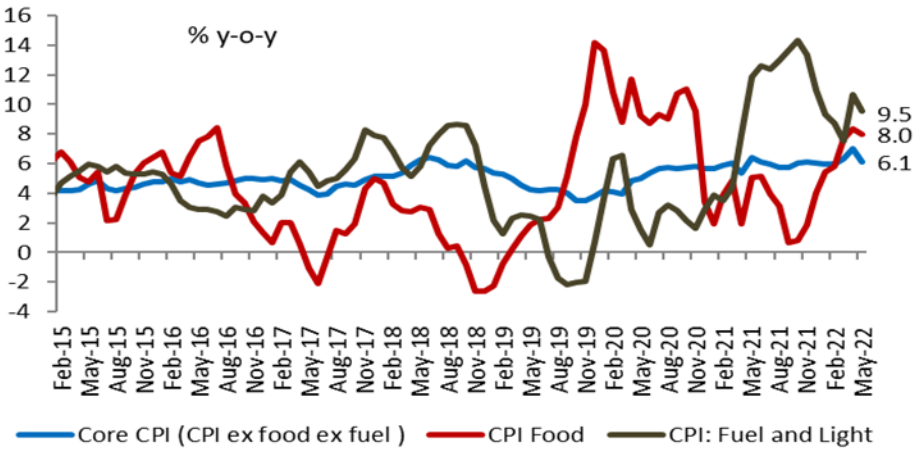
Source : RBI, SBIMF Research

Inflationary pressures persist: CPI continues to stay above RBI target

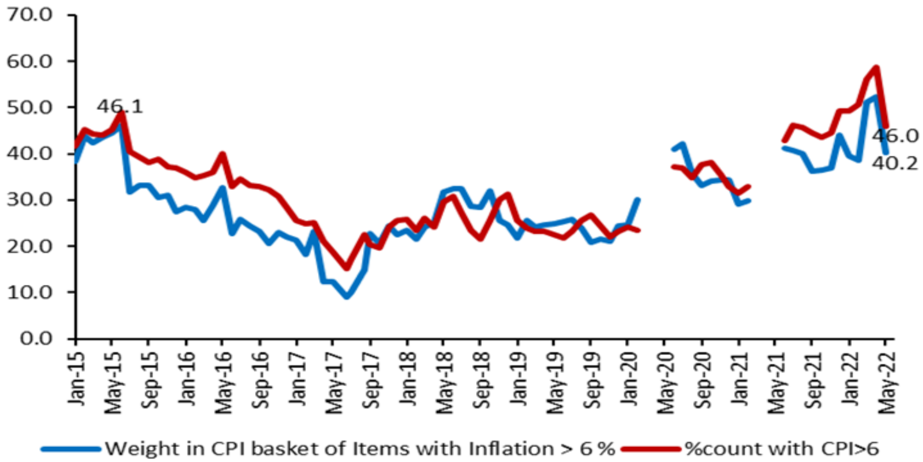
CPI inflation moderated to 7% in May'22 from its peak in April at 7.8%; continues to stay above RBI target



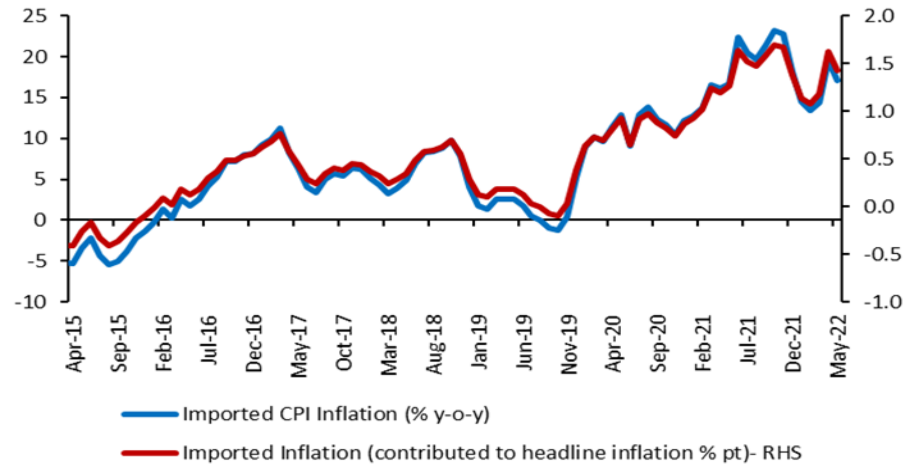
Inflation in all three categories: Food (8%) fuel (9.5%) and core (6.1%) moderated from April, but still look elevated



46% items captured in CPI basket by count & 40% by weight report inflation above 6%



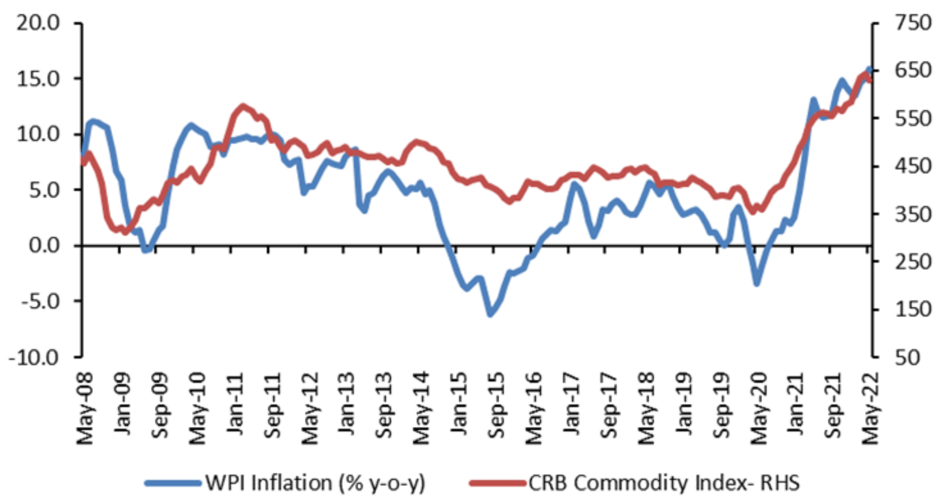
Imported inflation remained high at 17.1% y-o-y in May'22 adding significantly to CPI inflation



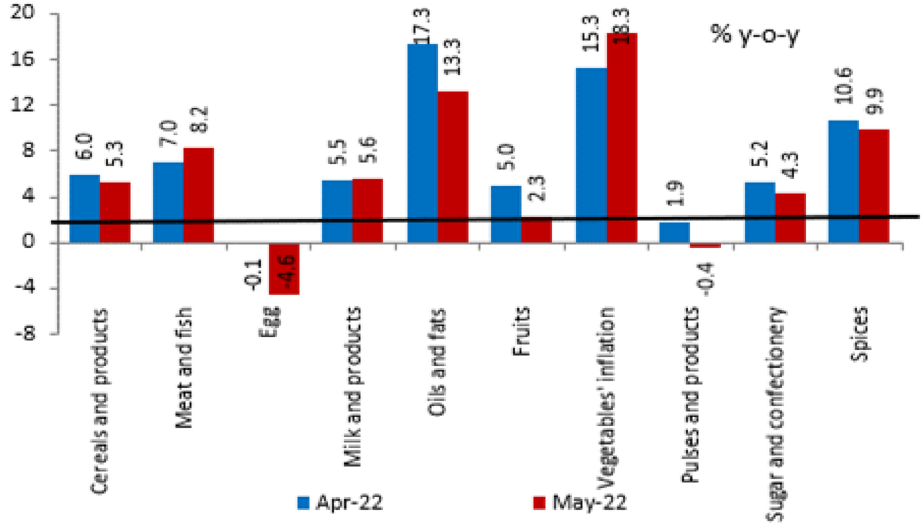
Source: CMIE Economic Outlook, Bloomberg, SBIMF Research

CPI inflation expected at 6.7% in FY23

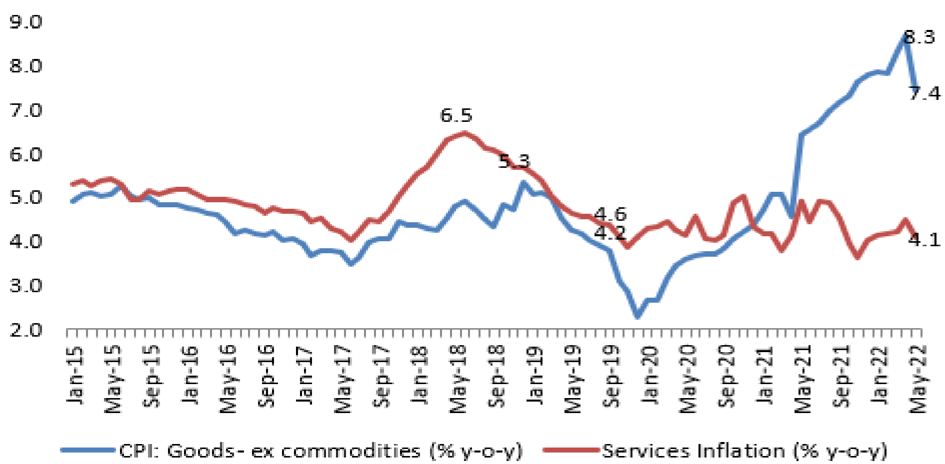
WPI rose 15.9% y-o-y in May as commodities stay elevated



Higher commodity prices feed into CPI household goods inflation - hence at the risk of continued elevated print



Household Goods inflation continues to stay higher than services. Services contained due to education and house rent

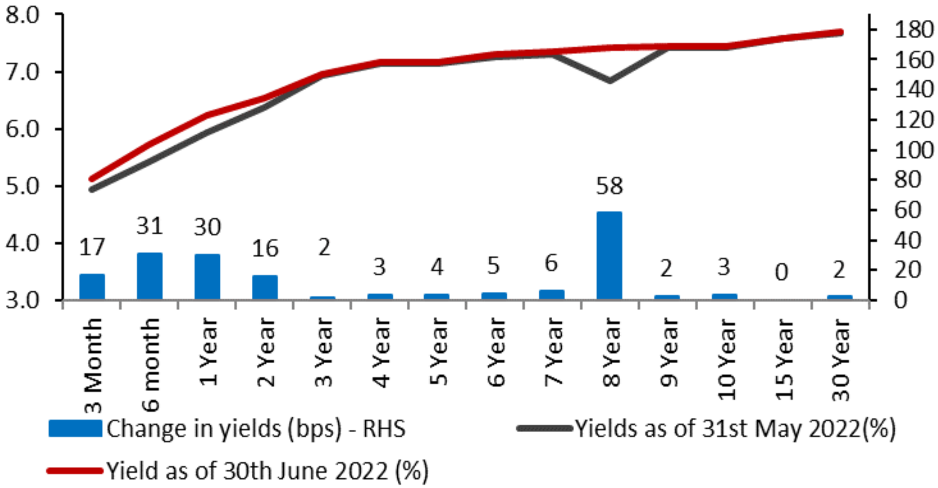


- FY23 inflation expectation at 6.7% y-o-y.
- Inflation is likely to hover around 7% level till Q2 FY22 and may moderate thereafter.

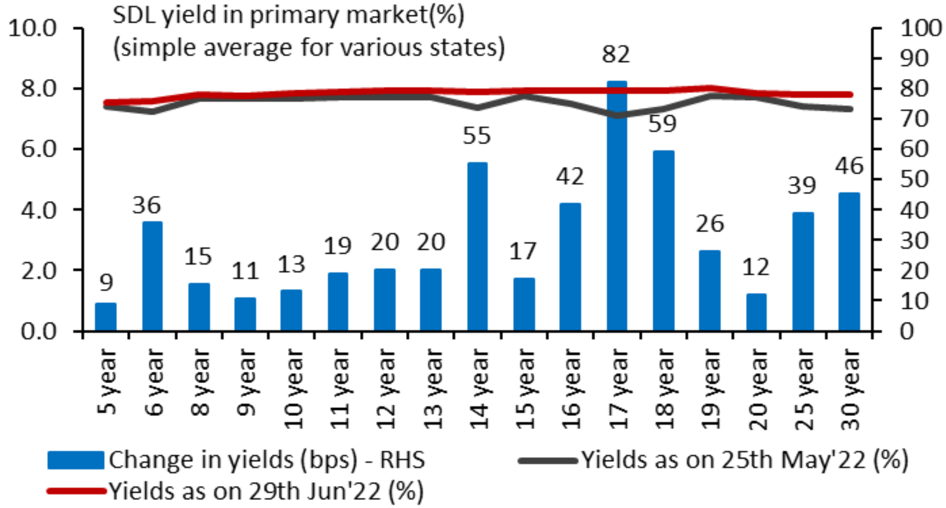
Source: CMIE Economic Outlook, Bloomberg, SBIMF Research

Govt bond and SDL yields rise across all tenures

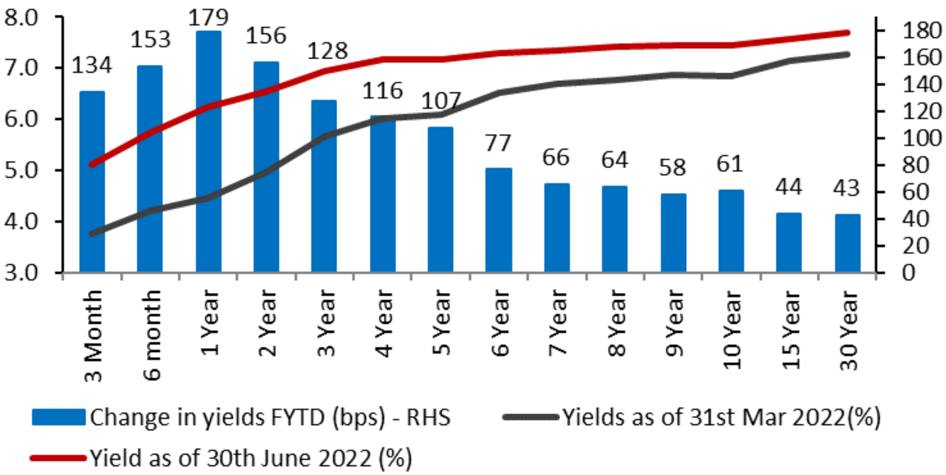
G-sec yields majorly rose across all the tenures in Jun'22 vs. May'22



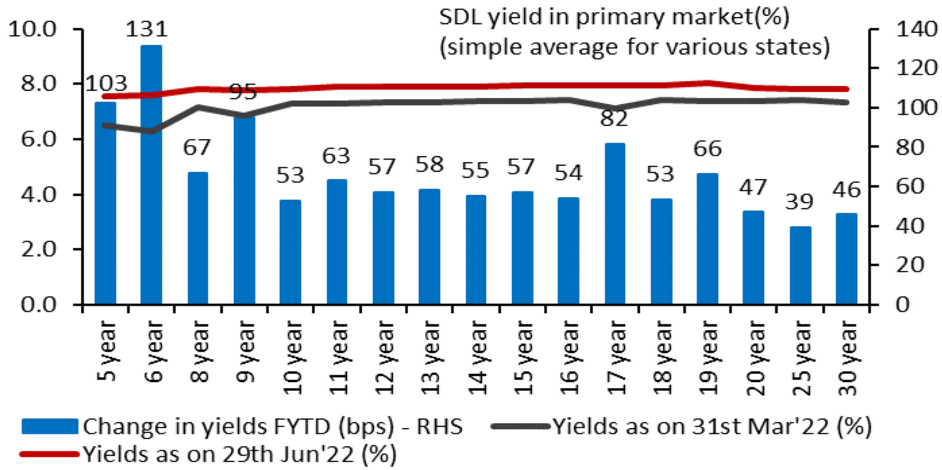
SDL yields increased sharply across all tenures in Jun'22



G-sec yields increased materially across all tenures in Q1FY23; sharper increase on the shorter end



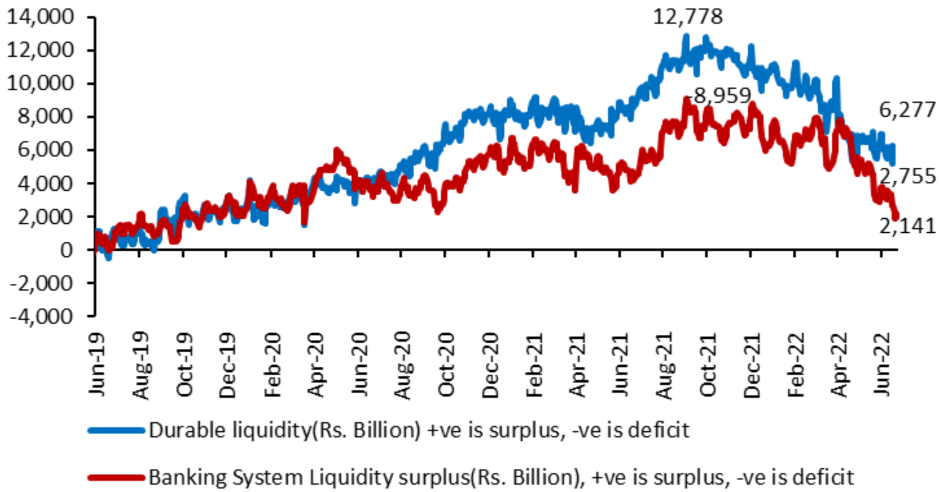
SDL yields increased materially across all tenures in Q1FY23; sharper increase on the shorter end



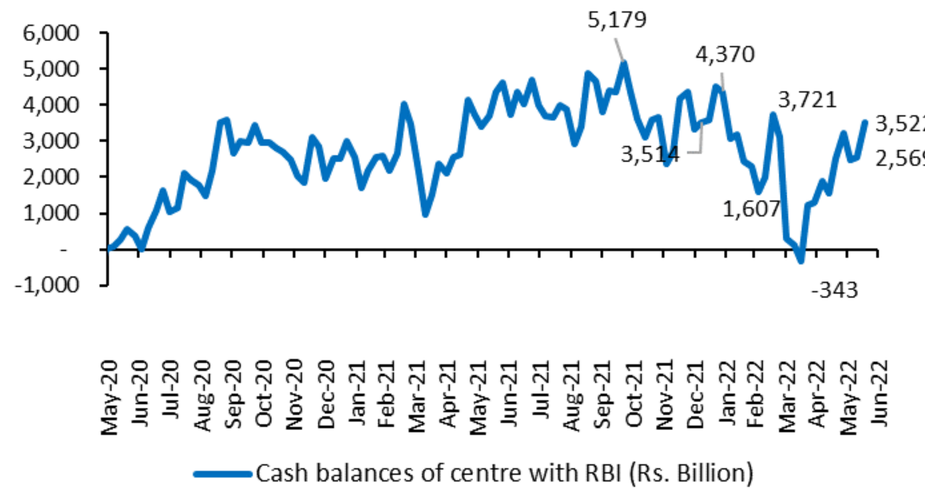
Source: Bloomberg, RBI, SBIMF Research

Banking system liquidity moderates sharply to Rs. 2 trillion

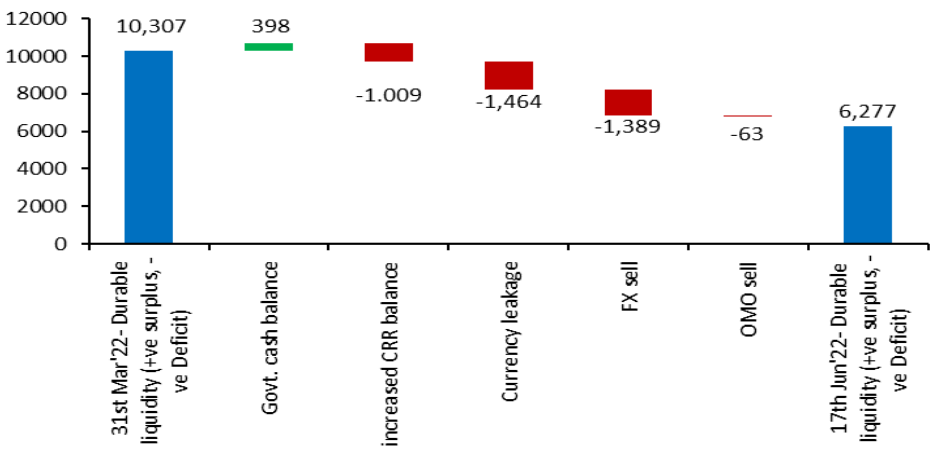
Banking system liquidity moderated to ~Rs. 2tn; adjusted for govt cash balance durable liquidity contracted to 6.3 tn



Govt cash balances are high at Rs. 3.5 trillion; implies govt spend is lower than tax and other revenue collection



RBI has been selling FX in majority of the weeks since Oct'21; ~INR 55 billion OMO selling has taken place in May



- Banking system liquidity has corrected sharply by Rs. 5 trillion during the quarter to ~2 trillion levels.
- Adjusted for government cash balance, durable liquidity has moderated by 4 trillion to stay around Rs. 6 trillion.
- Govt. cash balance has risen to Rs. 3.5 trillion reflecting a much cautious spend vs. the revenue and borrowing collections.

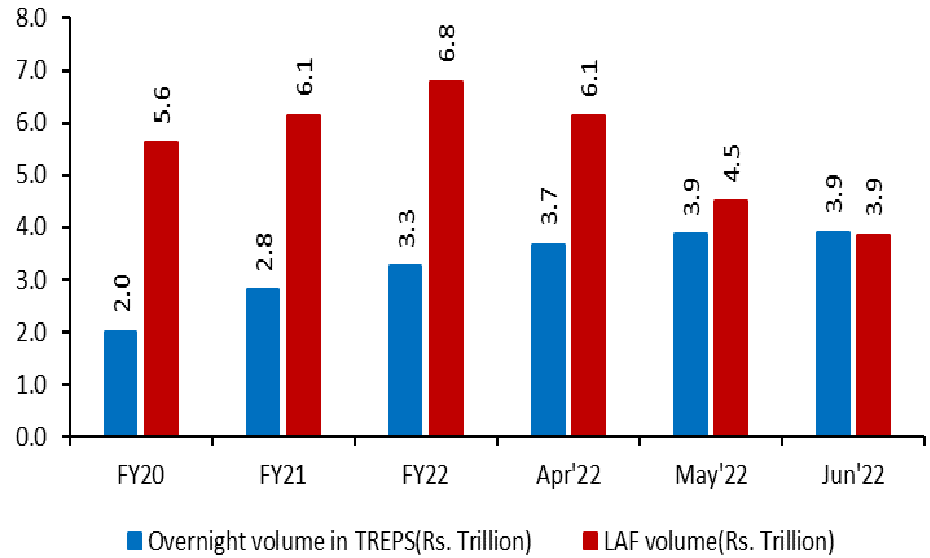
Source: RBI, SBIMF Research; NB: Durable Banking system liquidity is LAF adjusted for excess CRR reserve and Govt. cash balance and is uptil 17th Jun'22, FX intervention data available uptil April end, OMO/GSAPs, CIC leakage, CRR balance and Govt. cash balance data uptil 17th Jun'22, Banking system liquidity uptil 24th Jun'22

Short term rates continue to increase in Jun'22

Short term rates move upwards

Rates (%)	Latest (30th Jun'22)	3 months ago	6 months ago	12 months ago
Overnight segment				
Triparty repo	4.69	3.64	2.71	3.22
WACR	4.75	3.56	3.64	3.16
T-bill				
91 day	5.16	3.84	3.66	3.44
182 day	5.79	4.27	3.97	3.72
364 day	6.29	4.58	4.27	3.89
Others				
CD (3m)	5.15	3.78	3.63	3.43

Volume in overnight segment (TREPS) at par with LAF volumes

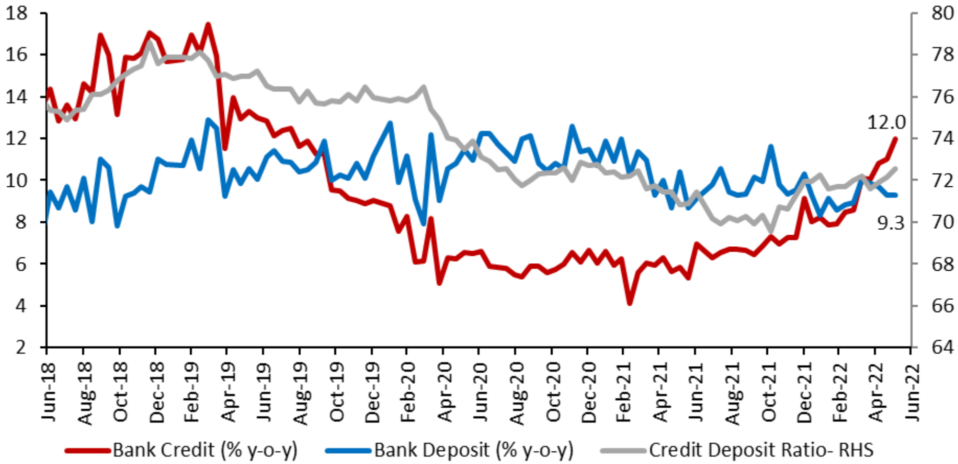


- Moderation in banking system liquidity continues to increase overnight rates.
- Weighted average overnight rates have increased by ~100bps in Q1FY23.
- Overnight rates are now only 23bps below Repo vs. 38bps below repo in end March 2022.

Source: : RBI, Bloomberg, RBI, SBIMF Research; NB: TREPS and LAF volumes data uptil 29th Jun'22

Bank credit and deposit gap widens; CD issuances rise

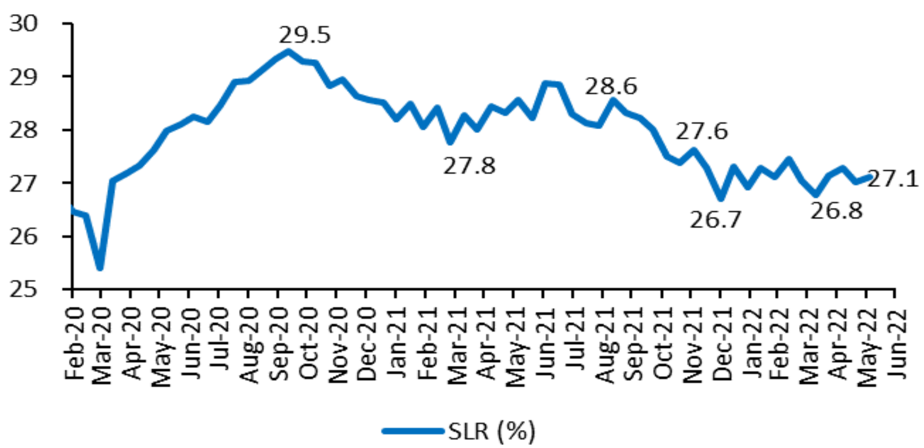
Bank credit growth increased to 12% y-o-y and deposit moderated to 9.3% as on 3rd Jun'22



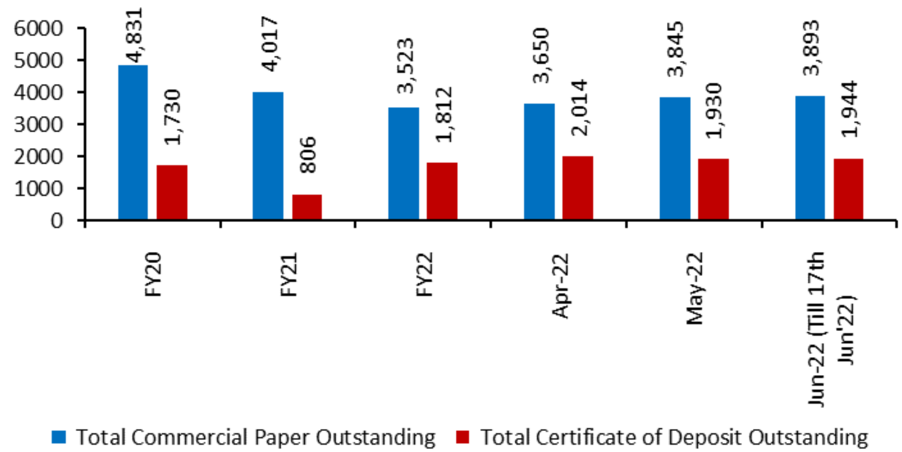
Rs. 2.5 tn incremental credit disbursement in FYTD 23 compared to negative credit outflow trend in the past

FYTD (RS. Billion)	Agg deposit	SLR	Credit
FYTD 18	-2,327	2,057	-2,102
FYTD 19	-177	1,273	-316
FYTD 20	-335	1,121	-1,198
FYTD 21	3,879	4,591	-1,161
FYTD 22	1,999	1,658	-1,081
FYTD 23	2,679	1,157	2,503
% y-o-y	9.27	4.67	11.97

SLR ratio stands at 27.1% in Jun'22 vs. high of 29.5% in Oct'20



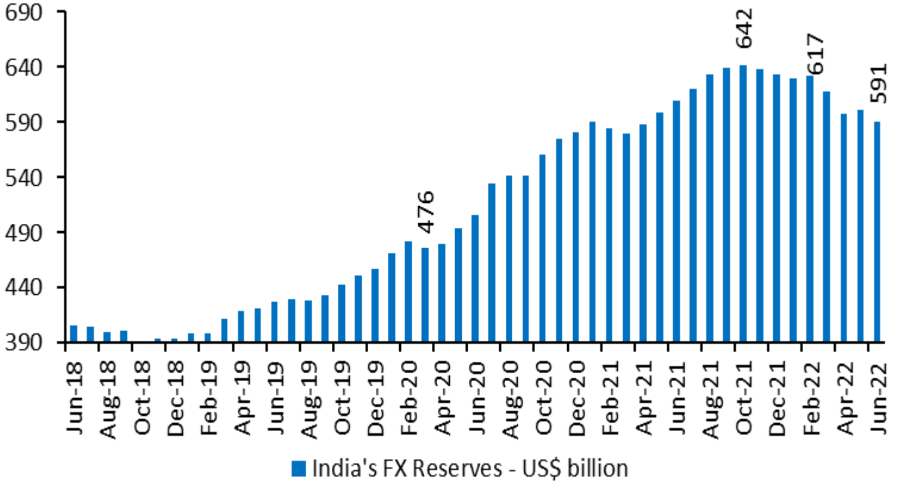
CD and CP issuances rise; Both, near FY20 outstanding levels but are lower than FY19 highs



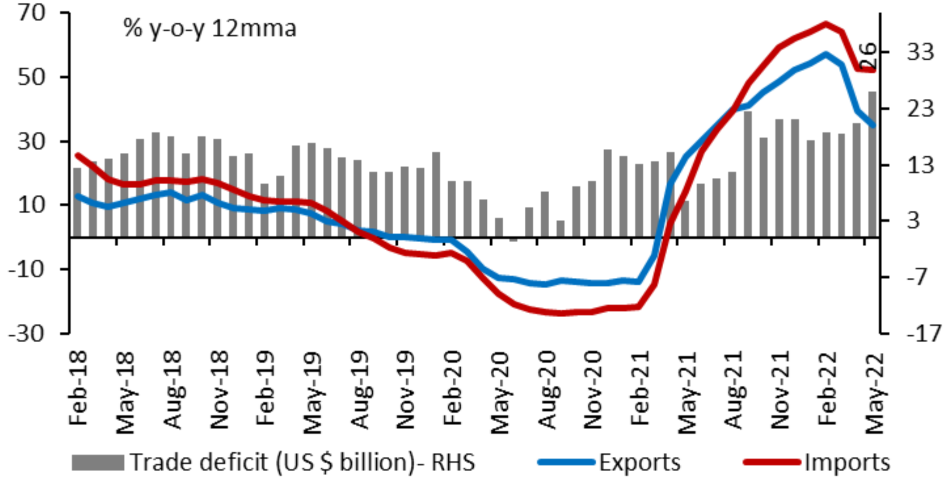
Source: : CMIE Economic Outlook, SBIMF Research; NB: Overall bank credit data, bank deposit data and SLR ratio as of 3rd Jun'22, CP issuances till 15th Jun'22 and CD issuances till 17th Jun'22

Forex reserves fall: FII equity and debt outflows increase

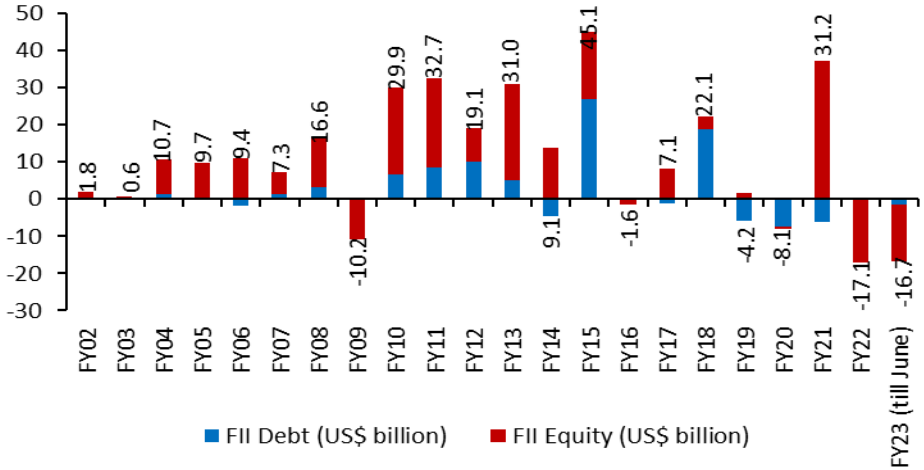
Forex reserves have fallen to US$ 591 billion as on 17th Jun'22 (decreased by US$ 10 billion since end May'22)



Trade deficit is at an all time high of US$ 26 billion in May'22 vs. 20 billion in April'22



FIIs continue to sell in Indian markets



RBI has been using a combination of spot and forward book to intervene in the forward market

RBI forward book (in USD bn)	Short term net positions Outstanding	Long term net outstanding	Net fwd Outstanding
	Total (<= 1yr)	Total	Total
FY20	5.1	-10.0	-4.9
FY21	77.4	-4.7	72.8
FY22	60.7	5.1	65.8
Apr'22	53.7	10.1	63.8
May'22	39.1	10.1	49.2

Source: RBI, SBIMF Research; NB: Forex reserves data uptil 17th Jun'22, Trade deficit data and FX intervention data available uptil May end,

CAD likely to widen to ~3% of GDP in FY23; expect BoP deficit ~US$ 50b

Widening trade deficit and increasing FII outflows will add to BoP deficit in FY23; INR to come under further pressure

Balance of Payment (US$ bn)	FY20	FY21	FY22	FY23E
CURRENT ACCOUNT				
Exports (RBI)	320	296	429	453
% y-o-y	-5.0	-7.5	44.8	5.6
Imports (RBI)	478	398	619	731
% y-o-y	-7.6	-16.6	55.3	18.2
Oil (Customs)	131	83	162	209
Gold (Customs)	28	35	46	65
Non-Oil Non-Gold (Customs)	313	276	401	452
1. Trade Balance (RBI)	-158	-102	-189	-278
% GDP	-5.6	-3.8	-6.0	-8.0
2. Services Balance	85	89	108	132
% GDP	3.0	3.3	3.4	3.8
3. Primary Income	-27	-36	-37	-45
4. Secondary Income (Transfers)	75	74	81	85
A. Current A/c Balance (1+2+3+4)	**-25**	**24**	**-39**	**-106**
% GDP	-0.9	0.9	-1.2	-3.1
CAPITAL ACCOUNT				
5. FDI (Net)	43.0	43.8	38.9	35.0
% GDP	1.5	1.6	1.2	1.0
6. FPI (Net)	1.4	36.1	-16.8	-20.0
% GDP	0.0	1.4	-0.5	0.0
7. Loans	25.7	6.8	33.8	30.0
8. Banking Capital	-5.3	-21.1	6.7	10.0
B. Capital Account Balance (5+6+7+8+9+10)	**83**	**63**	**88**	**55**
% GDP	2.9	2.4	2.8	0.0
C. Error and Omissions	1.0	-0.2	-0.1	0.0
D. Overall Balance (A+B+C)	**59**	**87**	**48**	**-51**
% GDP	2.1	3.3	1.5	-1.5
Increase in Reserves due to BoP	**59**	**87**	**48**	**-51**
Rupee vs. US$ (average)	**71**	**74**	**75**	**78**

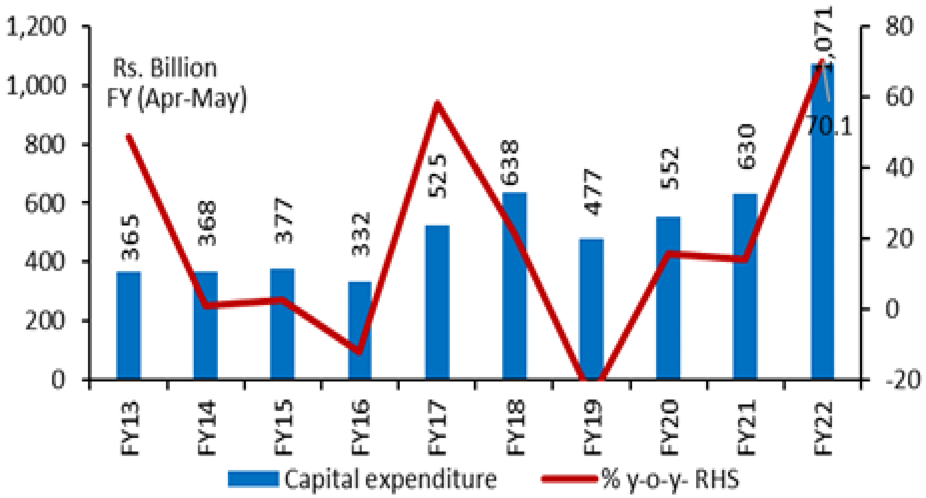
Source: CMIE Economic Outlook, RBI, SBIMF Research

Strong direct tax collection keeps Centre's fiscal position on track

Gross tax revenue grew at 29.1% y-o-y (Apr-May’22)

Apr-May 2022	% y-o-y	Required growth (FY23 BE vs. FY22 Actual)
Net Tax Revenue	31.7	6.3
Gross Tax Revenue	29.1	1.8
Income Tax	50	3.9
Corporate Tax	81	1.1
Custom	-19	7.0
Excise duties	-17	-14.3
GST	24	11.2
Total Direct Tax	61	2.5
Total Indirect Tax	9	2.8

Capex growth is 70% y-o-y (Apr-May’22)

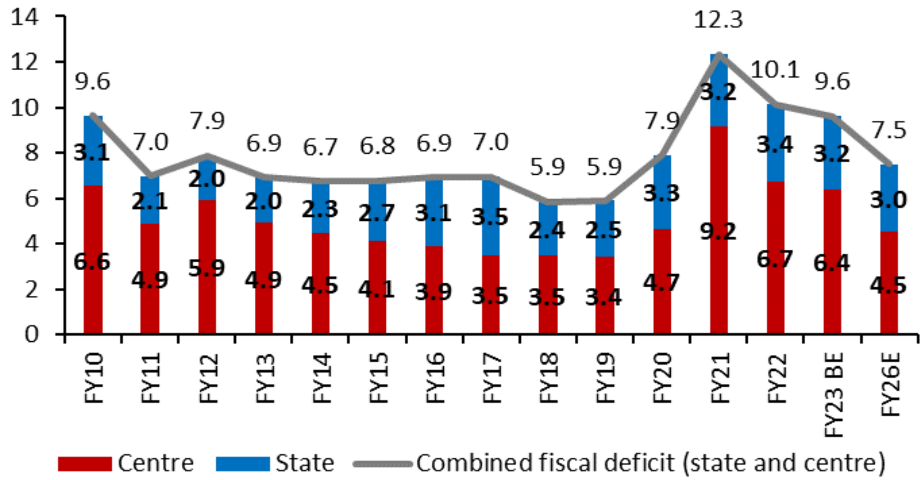


- Fiscal deficit during Apr-May’22 is 12% of BE, significantly better than pre-COVID trend of ~30% during pre-COVID times.
- Buoyancy in taxes has kept the fiscal deficit (as % of BE) lower than historical and led to high cash balances of the centre.
- Central govt. finances depict strong direct tax collection during Apr-May’22 and more than offset the weakness in customs and excise duty collection due to duty reductions.
- If this trend continues it could help alleviate some of the fiscal slippage or capex reduction concerns.
- Government has spent Rs. 1.1 trillion during Apr-May’22 of Rs. 7.5 trillion budgeted under FY23 capex.
- Capex spend are up 70% y-o-y (in Apr-May) and are mostly directed towards roads (404bn) and railways (329 bn) followed by some spend on defence, housing and urban affairs and loan to states.

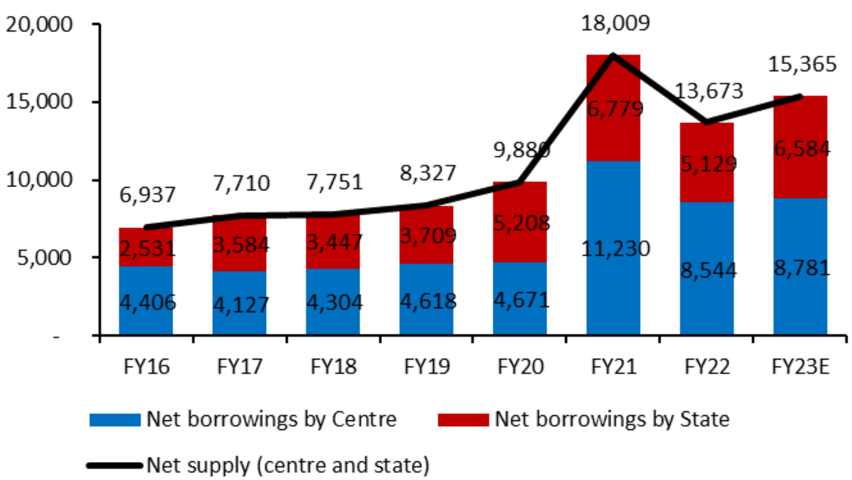
Source: CMIE Economic Outlook, SBIMF Research

Govt budgeted bond supply is elevated for FY23

General government fiscal deficit expected at 9.6% in FY23



Net government bond supply expected at ~INR 15 trillion (vs. INR 13.7 trillion in FY22)



- Government bond supply stays elevated; Net supply projected to rise to ~Rs. 15 trillion vs. Rs. 13.7 trillion in FY22.
- Demand under current macro backdrop may not be easily forthcoming
- RBI has an agenda to moderate system liquidity which may cap its ability to purchase government bonds.
- The central Government plans to stick to its gross borrowing target (INR 14.3 trillion) despite hit on revenue on account of higher subsidies and reduction in excise duty on petroleum products.
- INR 8.45 trillion to be borrowed from the bond market in HIFY23 to fund the revenue gap.

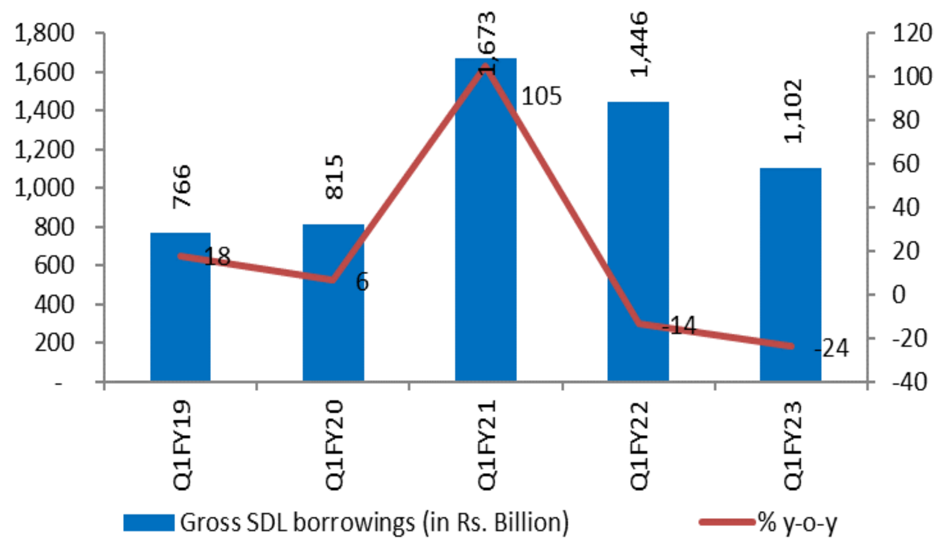
Source: CMIE Economic Outlook, RBI, SBIMF Research

SDL issuances in Q1FY23 were 42% lower than indicated

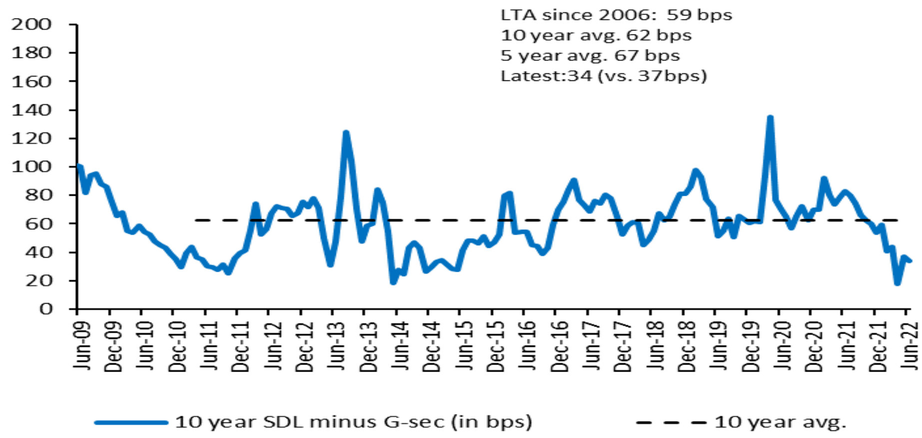
SDL borrowings at 58% of indicated calendar in Q1FY23

Rs. Billion	Expected quantum of SDL borrowing as per calendar	Actual Borrowing	Actual (as % of expected)
07-Apr-22	60	60	100
11-Apr-22	151	20	13
19-Apr-22	106	0	0
26-Apr-22	152	15	10
02-May-22	204	29	14
10-May-22	93	100	107
17-May-22	171	85	50
24-May-22	139	139	100
31-May-22	176	225	128
07-Jun-22	136	120	89
14-Jun-22	168	50	30
21-Jun-22	162	65	40
28-Jun-22	188	195	104
Total borrowing in Q1FY23	**1,904**	**1,102**	**58**

Q1 FY23 SDL borrowings are ~24% lower than a year ago



SDL spread marginally compressed in June to 34bps (vs 37bps in May) due to lower supply

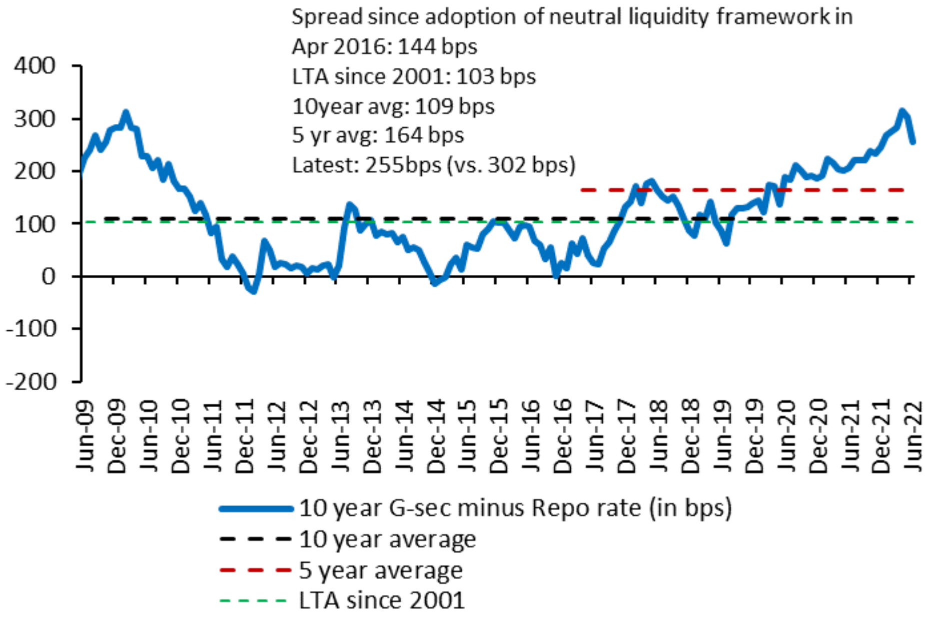


- Central government had cleared the entire GST compensation payable till May'22 end by releasing Rs. 869 billion. Clearance of past dues improved the cash flow for states and perhaps led to lower than indicated borrowing in June'22
- In Q1FY23, overall SDL issuances has been lower than indicated amount in eight out of thirteen weekly auctions held.
- Low SDL supply has led to spread compression in SDLs. Spreads could widen as supply increases.

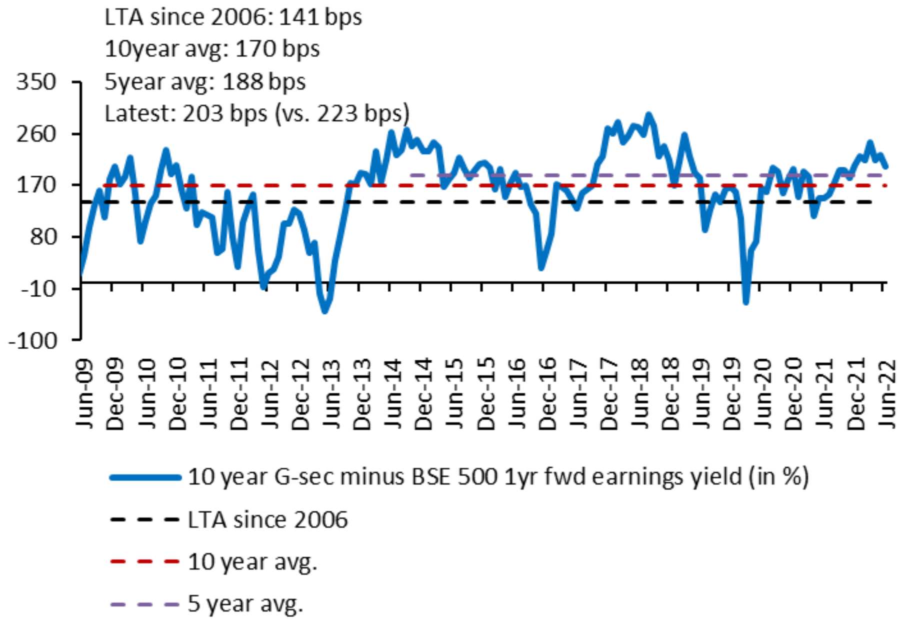
Source: RBI, Bloomberg, SBIMF Research

G-sec valuations relative to Equity turns marginally attractive

10-year GSec relative to Repo has remained high since 2020/21; spread compression unlikely in near-term



G-sec spread vs. equity decreased to 203bps in Jun'22 vs. 223 in May'22



- Fundamentals such as increasing commodity prices (especially crude oil) leading to inflationary risk across the globe, stickiness in core CPI inflation, elevated supply of government papers has worked against spread compression despite massive monetary easing.

Source: Bloomberg, RBI, SBIMF Research

India witnessed debt outflows in Jun'22

India continued to witnessed Debt outflows in Jun'22

EM FII Debt inflow US$ million	2020	2021	Mar-22	Apr-22	May-22	Jun-22
China	1,87,219	1,32,282	63,019	55,732	37,629	26,771
South Korea	62,283	1,06,256	5,195	3,191	5,041	8,048
Russia	5,403	9,489	5,225	5,225	5,225	2,642
Indonesia	(4,684)	(4,906)	(2,868)	(1,205)	(805)	(2,185)
South Africa	(2,323)	(13,276)	(15,807)	(840)	(1,190)	(2,110)
Mexico	(10,027)	(12,668)	(857)	(695)	(34)	(733)
Thailand	(1,005)	6,550	(2,023)	227	876	(440)
India	(13,853)	(1,525)	(672)	(518)	(699)	(233)
Ukraine	(1,117)	283	-	(14)	(69)	(40)
Philippines	6,297	3,900	158	536	-	-
Malaysia	3,248	2,976	(760)	(496)	122	-
Brazil	(3,822)	(21,210)	(18,614)	-	-	-
Bulgaria	2,060	272	(33)	9	-	-
Czech Republic	8,577	1,279	(2,067)	(8,717)	-	-
Poland	(7,380)	(7,089)	(7,274)	1,101	-	-

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

Debt Outlook: Near term caution on rates

- Inflation momentum in most emerging market economies is running double the pace of central bank targets.
- Globally, price pressures are broadening, service inflation is recovering while CPI indices continue to increase.
- PPI/CPI ratios at continuous elevated levels suggest that the pipeline price pressures are also elevated. However, food inflation faces the most upside risk.
- With India's CPI inflation persistently above RBI target range at 7%, various fiscal and monetary policies introduced to reduce inflationary pressure. Second rate hike and draining of liquidity, an unwinding of duties on petroleum products, exports bans and import tariff cuts.
- OIS curve is pricing ~300bps of rate hike , taking Repo to 7-7.25%% in a year's time. This depends on growth inflation dynamics. But in this context, market pricing does not seem to be stretched yet and there could be further rise.
- Weakness in duration assets may not be entirely done. A hardening of interest rates amidst an incomplete economic recovery from the pandemic is not ideal.
- Actions that govt has taken to contain price pressures has put a tad pressure on fiscal that adds another concern to long end.
- Given the challenging external backdrop and more importantly, the shift in RBI stance and actions, the preference for a lower duration stance with focus on adequate liquidity has been broadly appropriate. Investors should expect opportunities to take strategic long-term investments to open up over the coming months as the market repricing continues.

Source: Bloomberg, SBIFM Research

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

Contact Details

SBI Funds Management Limited

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