



UTI Mutual Fund

UTI Asset Management Company Limited

MARKET INSIGHT

An Overview of the Fixed Income Market



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Head of Fixed Income

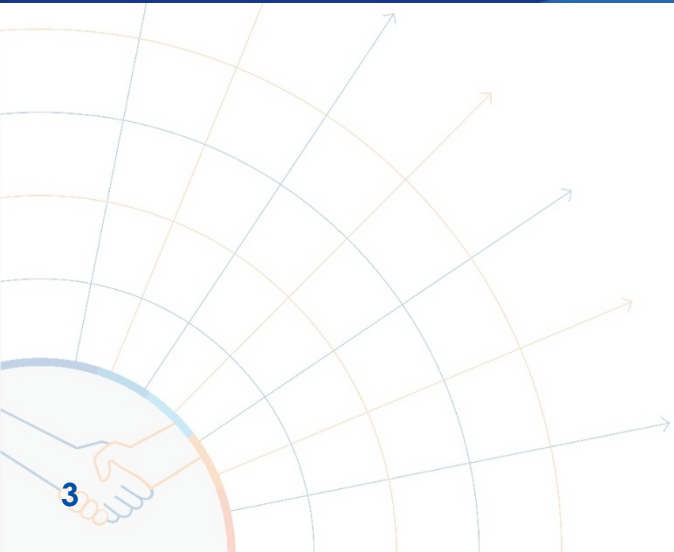
December 2022

MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.

Highlights: Factors driving market

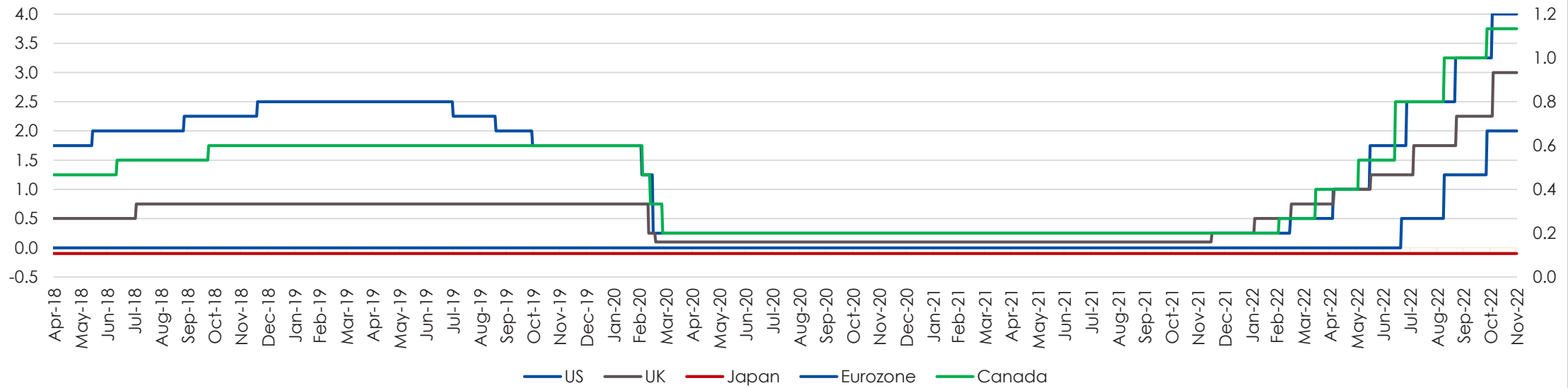
- Global inflation remains elevated due to elevated commodity prices & tight labour market
- Global growth outlook has been revised lower and poses downside risks due to monetary policy actions and tighter financial conditions
- In India, broader economic activity has remained resilient on back of robust domestic demand with re-opening of contact-intensive sectors
- India's policy action in the near term driven by global rates/currency outlook
- Expectation of moderation in domestic inflation momentum in FY24
- Slower pace of disinflation and inadvertent policy accidents continue to be key risks for market stress

Global Trends

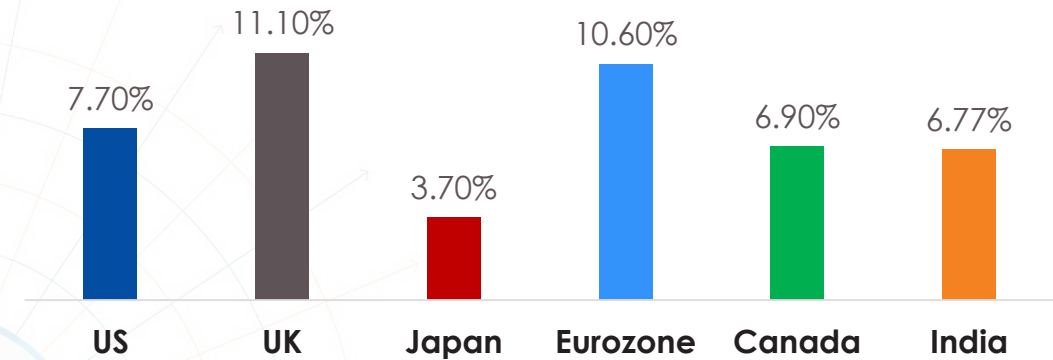


Monetary Policy Tightening in Major Economies

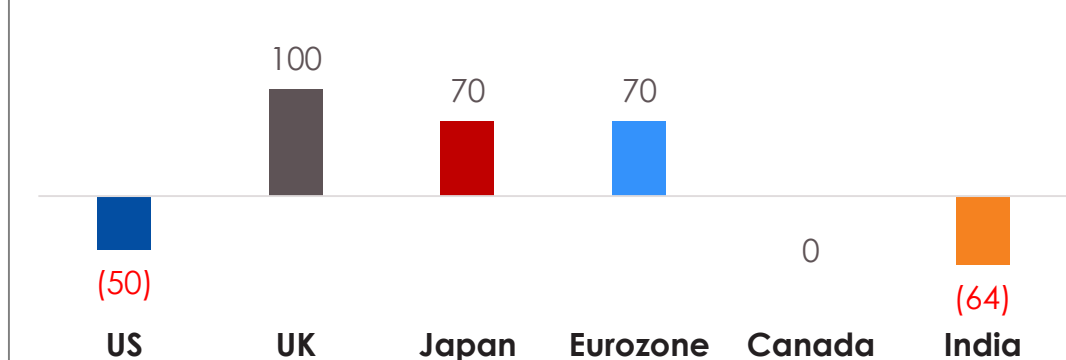
Policy Rate across Major Economies – No changes in Nov 2022



CPI Inflation – Oct 2022



CPI Inflation M-o-M Change (in Bps) – Oct 2022



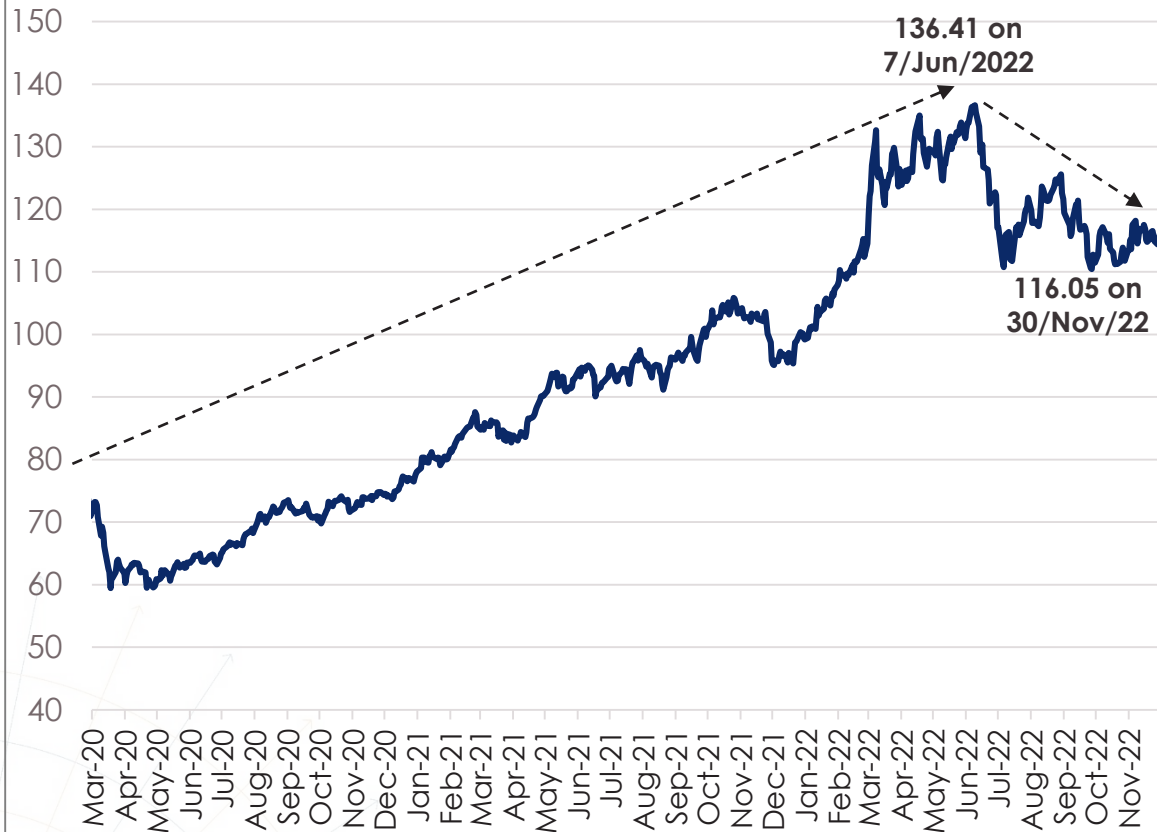
10Y Sovereign Yield Movement in Key Economies

Region	Currency	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	1M Change (Bps)	FYTD Change (Bps)	Trend
WEST	US	2.34	2.93	2.84	3.01	2.65	3.10	3.83	4.05	3.61	-44	127	
	UK	1.61	1.91	2.10	2.23	1.86	2.70	4.09	3.52	3.16	-36	155	
	GERMANY	0.55	0.94	1.12	1.34	0.82	1.51	2.11	2.14	1.93	-21	138	
LATAM	BRAZIL	11.61	12.29	12.56	13.07	12.99	12.29	12.02	11.87	12.74	87	113	
	MEXICO	8.25	9.09	8.63	9.03	8.56	9.08	9.65	9.83	9.21	-62	96	
ASIA PACIFIC	JAPAN	0.21	0.22	0.24	0.23	0.18	0.22	0.24	0.24	0.25	1	4	
	AUSTRALIA	2.84	3.13	3.35	3.66	3.06	3.60	3.89	3.76	3.53	-23	69	
	SOUTH KOREA	2.96	3.21	3.33	3.64	3.19	3.64	4.28	4.24	3.70	-54	75	
	CHINA	2.79	2.84	2.80	2.82	2.77	2.64	2.75	2.65	2.92	27	14	
	INDONESIA	6.73	6.97	7.03	7.20	7.11	7.10	7.35	7.51	6.91	-60	19	
	SINGAPORE	2.33	2.52	2.70	2.97	2.64	2.98	3.47	3.41	3.06	-35	73	

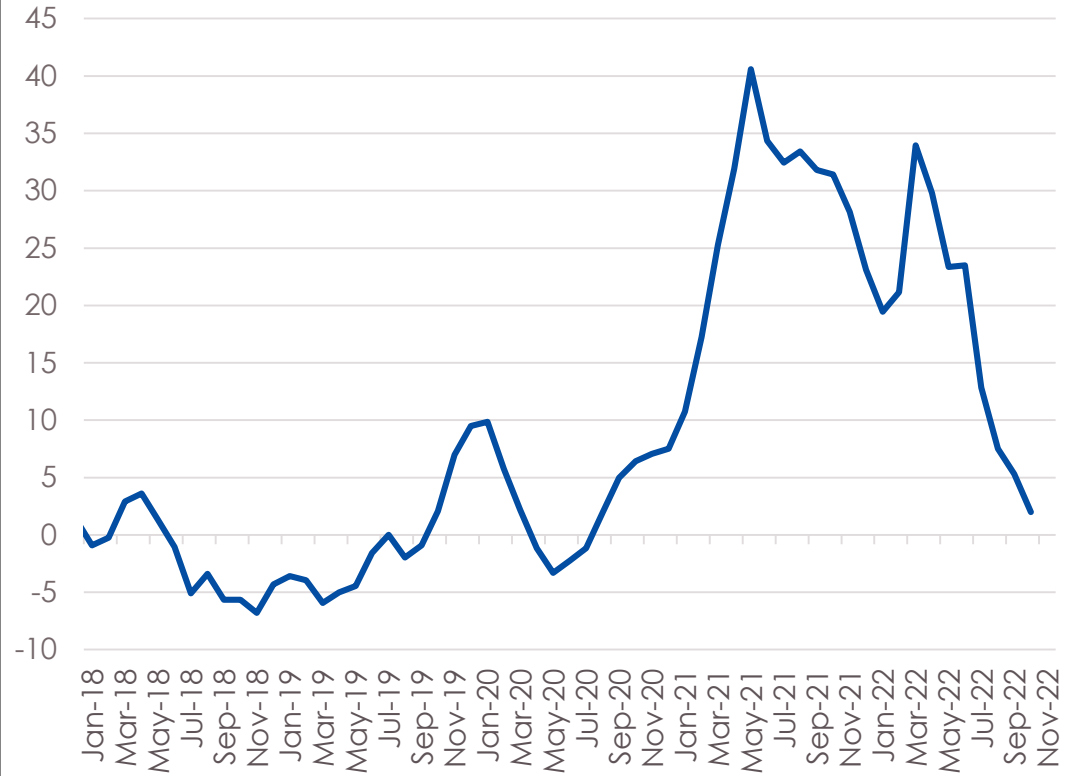
- Benchmark Yields broadly rallied on the back of a better inflation data in the US in November.

Commodity & Food Index

Bloomberg Commodity Index (USD)

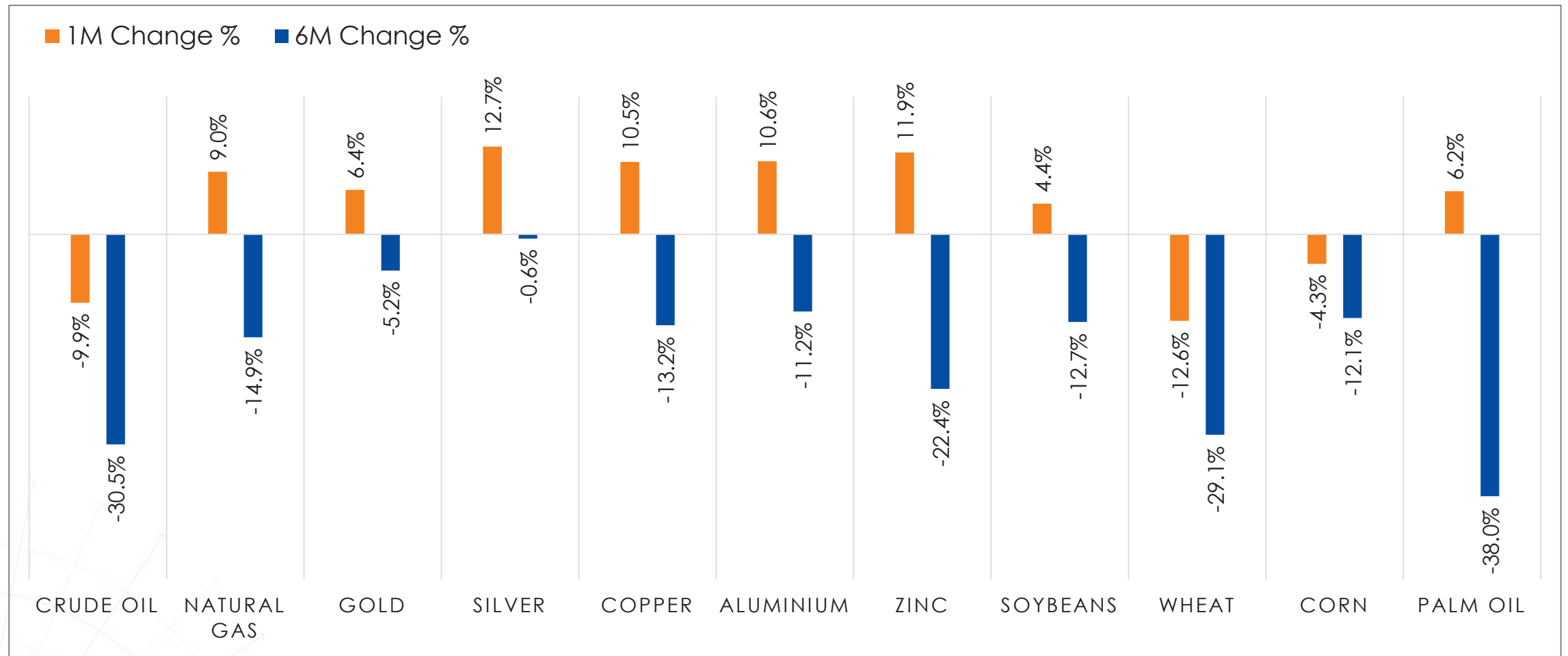


FAO Food %YoY



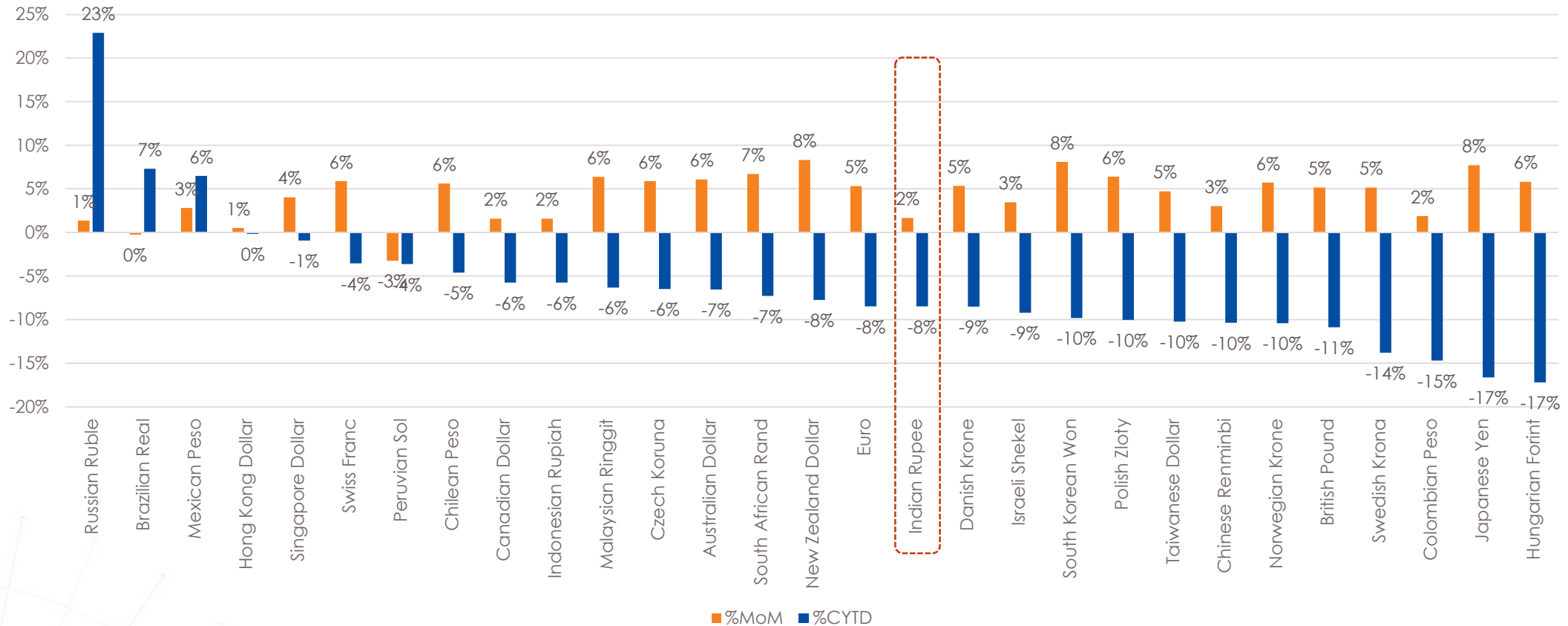
Source: Bloomberg

Commodities Price Trend



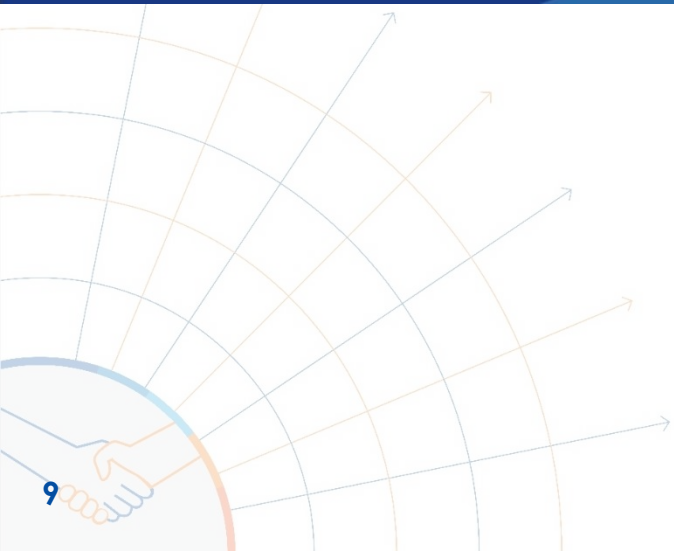
- While the metal prices & natural gas saw an uptick; crude oil prices continued to decline in Nov 2022

Currency Performance against USD (%CYTD)



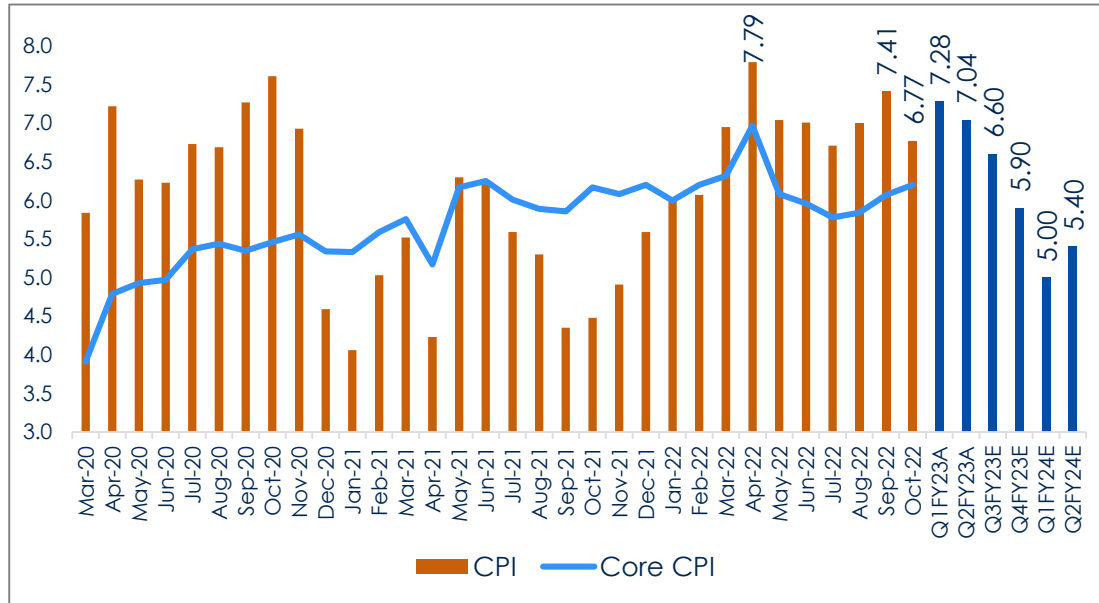
- INR appreciated 2% in Nov 2022, lesser than most other economies, however in CY22, INR has depreciated less than some of the other major economies

India Trends

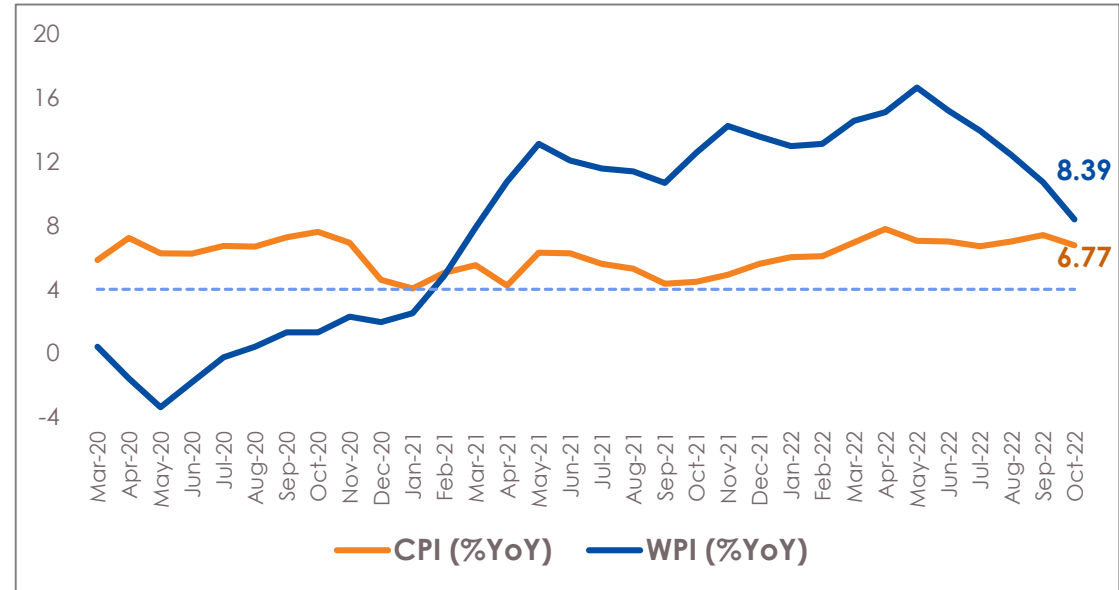


Domestic Inflation Rates

CPI and Core CPI Inflation (% YoY)

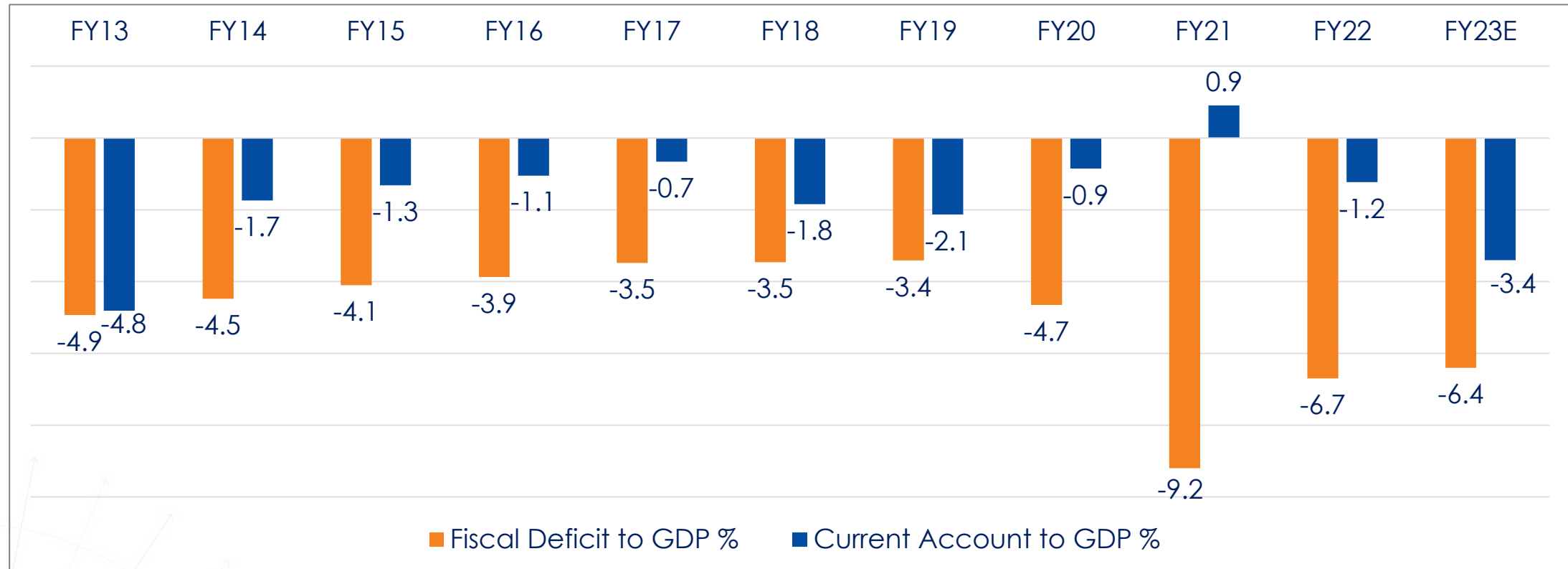


CPI and WPI Inflation (%YoY)

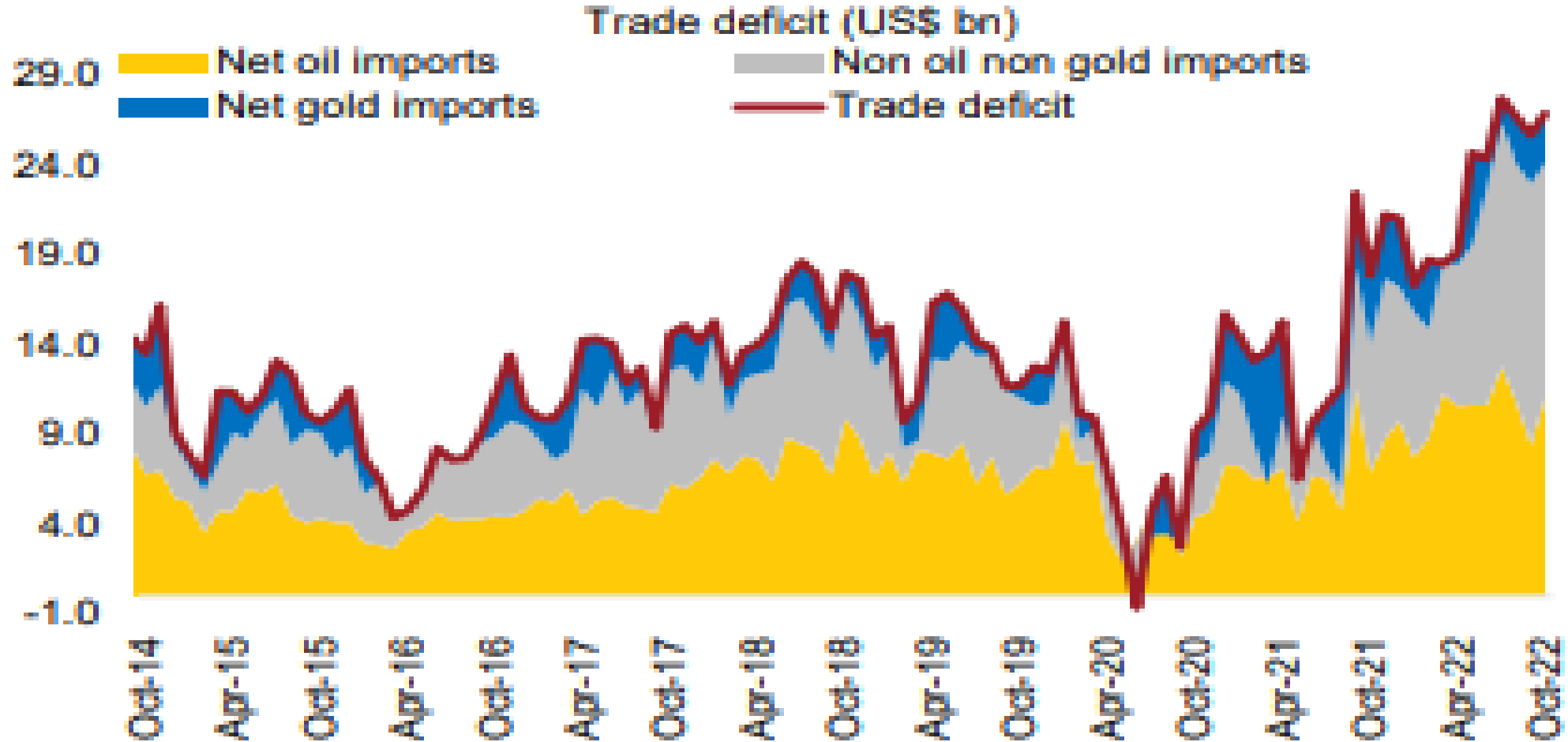


- CPI inflation eased 64 bps to 6.77% in Oct'22 vs 7.41% in Sep'22. CPI Inflation had seen the peak in CFYTD at 7.79% in Apr'22
- WPI inflation fell further to a 19-month low of 8.39% vs 10.70% in Sep'22, aided by the supportive base effect and softening of food and manufactured goods prices.

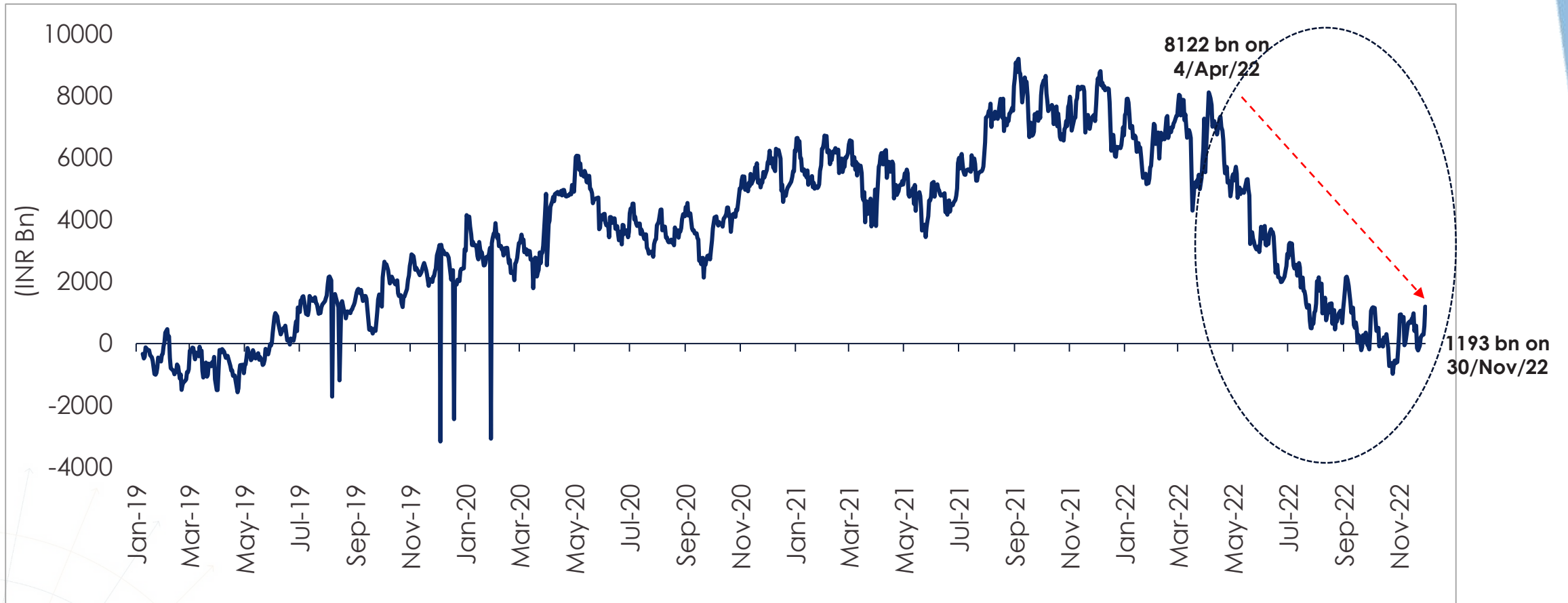
Fiscal Deficit & Current Account Deficit



Trade deficit widened driven by decline in exports

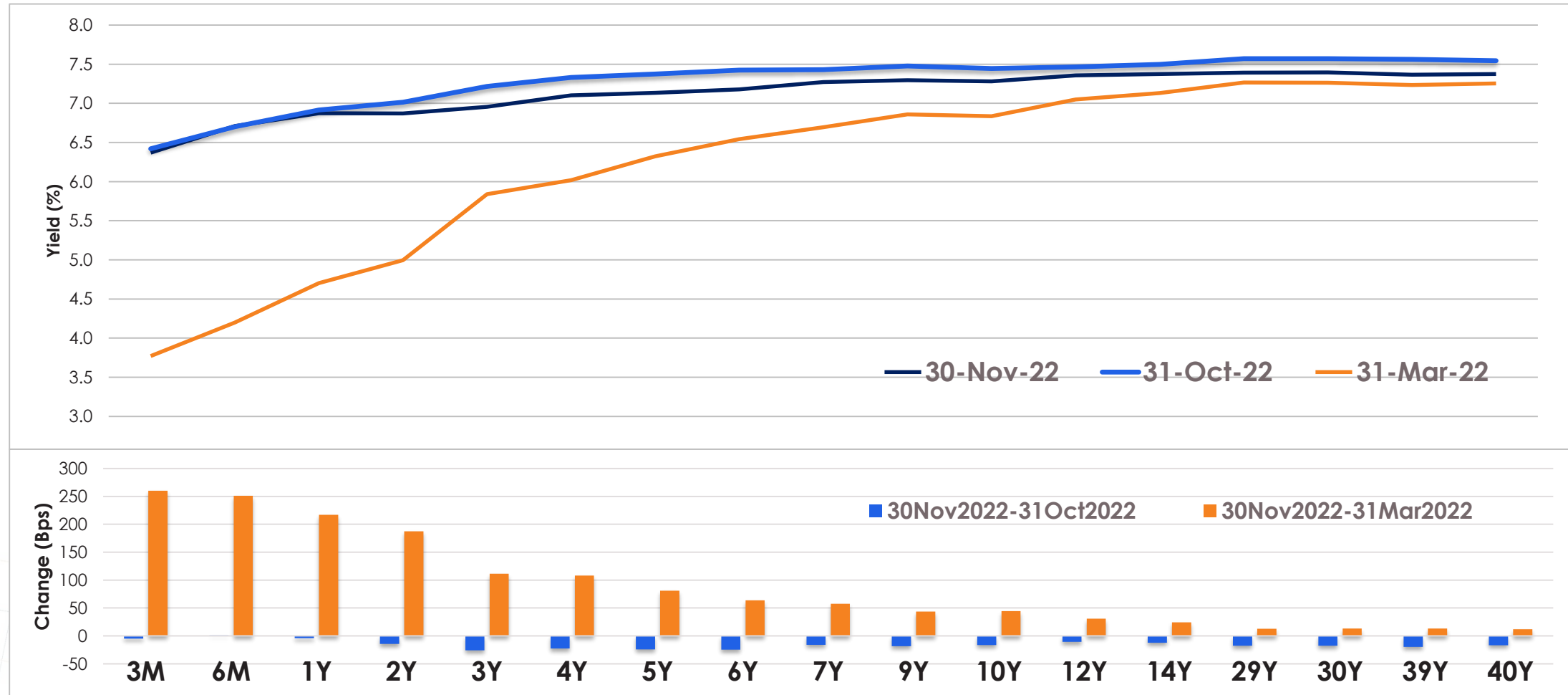


System Liquidity



- Liquidity turns neutral on account of government surplus, increase in currency circulation and RBI's FX intervention

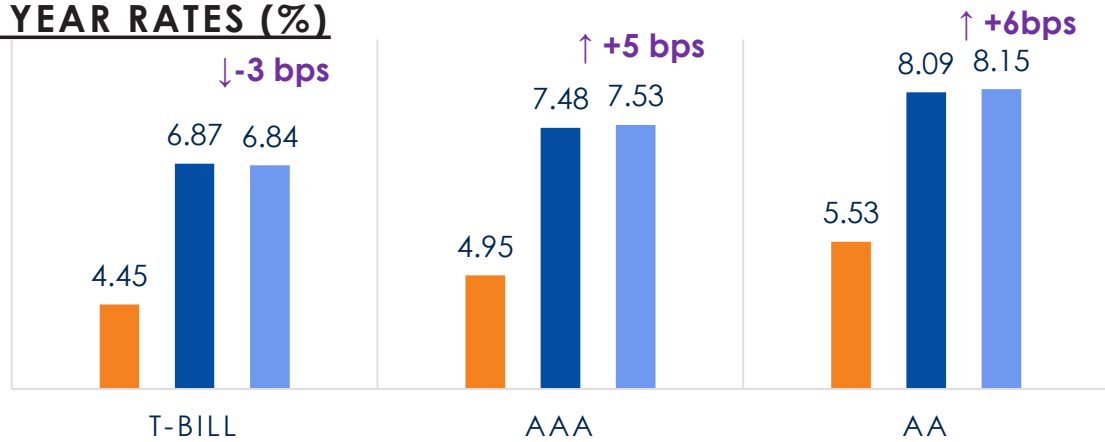
India Sovereign Curve



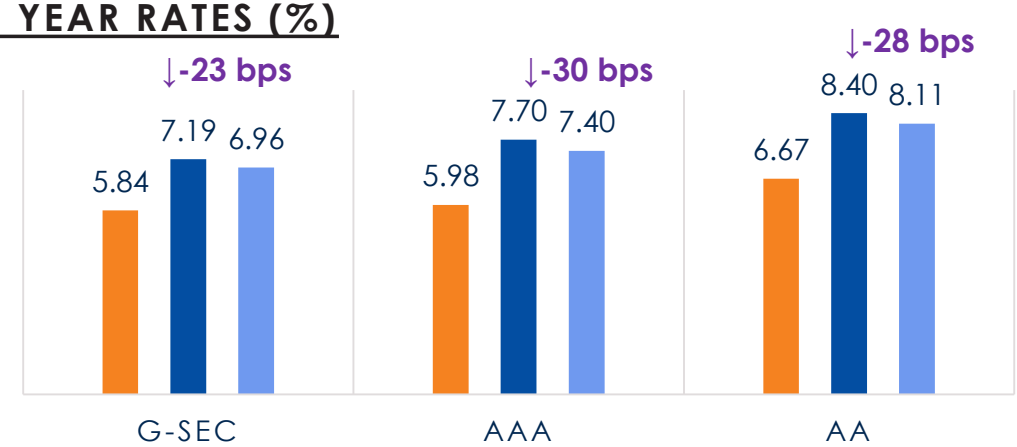
- Yields rallied across the curve above 1 year by ~20 bps average

Yield movements across the Curve

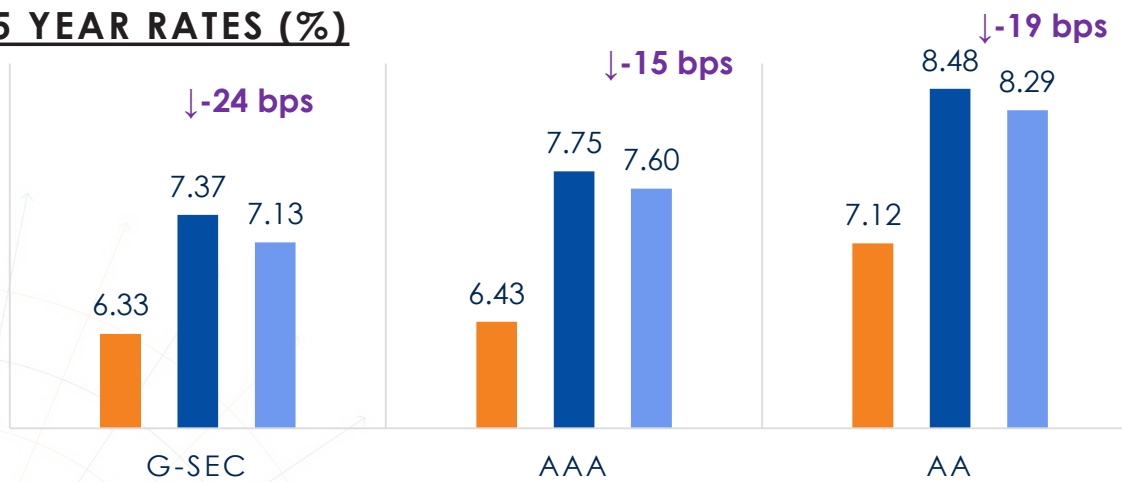
1 YEAR RATES (%)



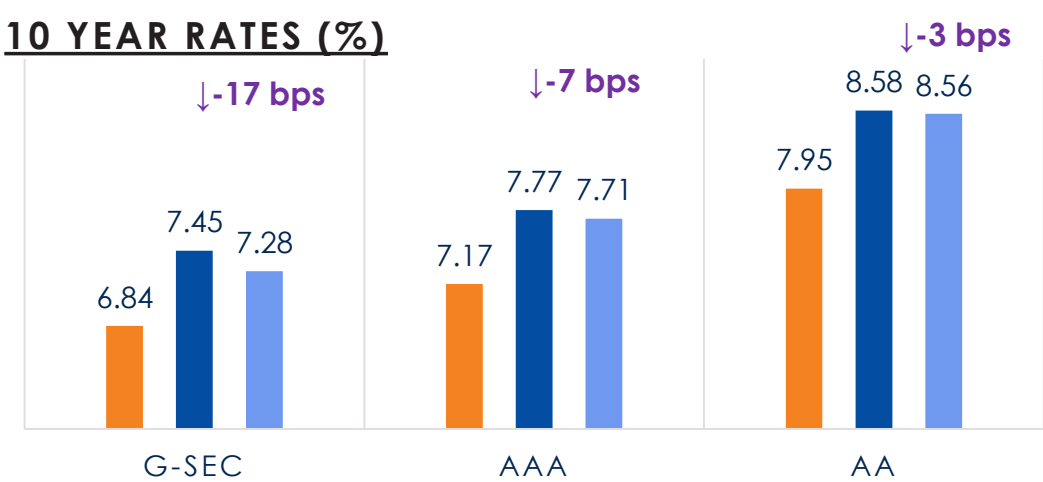
3 YEAR RATES (%)



5 YEAR RATES (%)

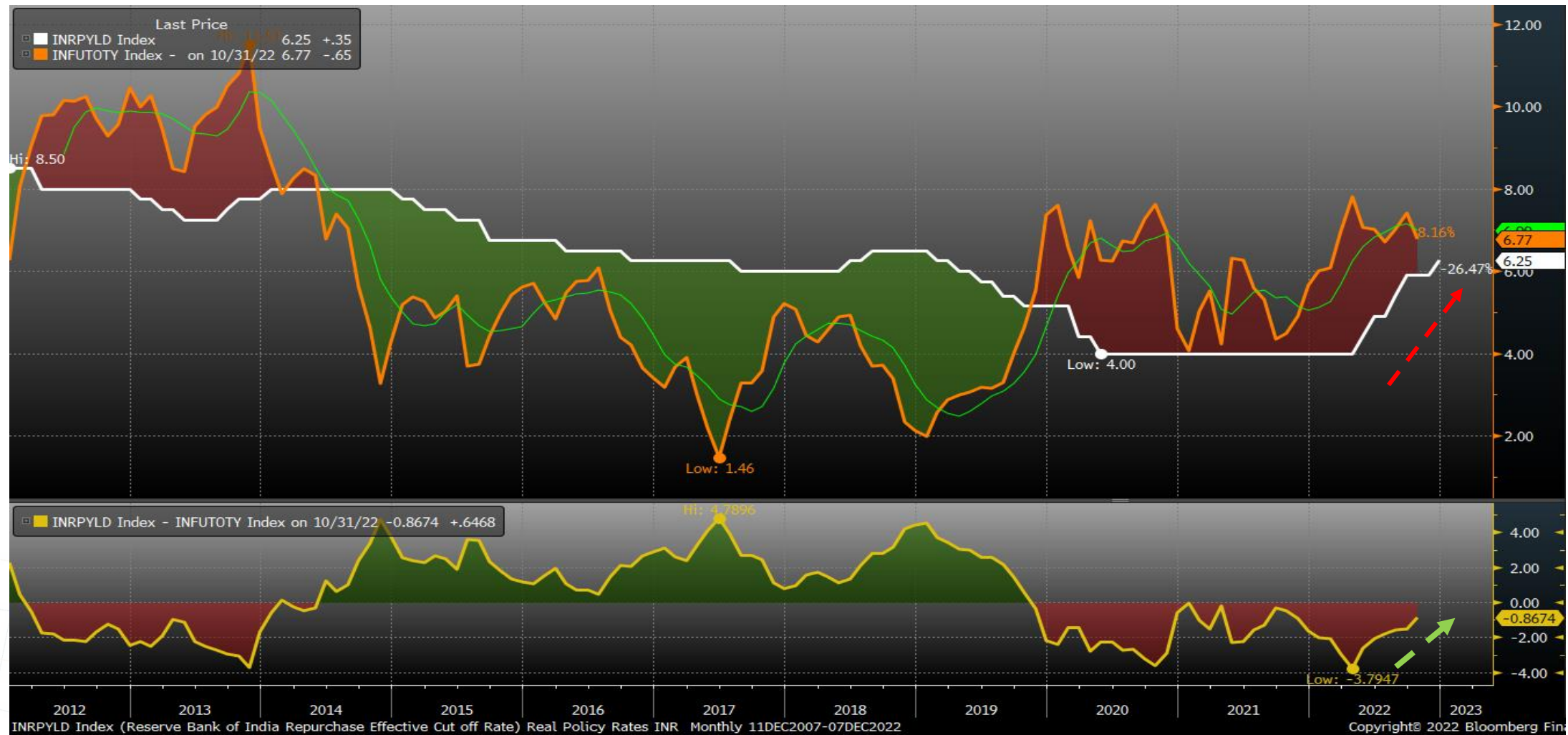


10 YEAR RATES (%)

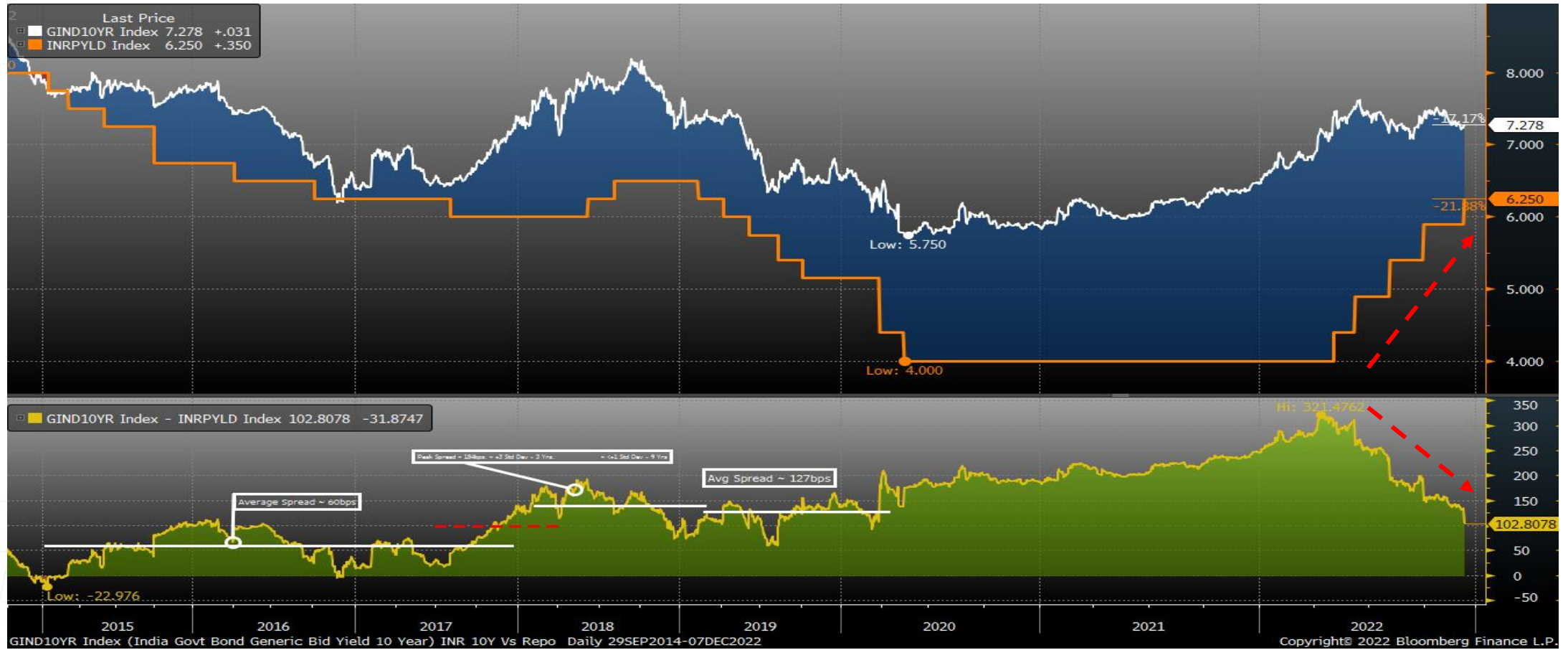


■ Mar-22
 ■ Oct-22
 ■ Nov-22
 ↑ 1M Change

Real Policy Rates (Repo Rate – CPI Inflation Rate)

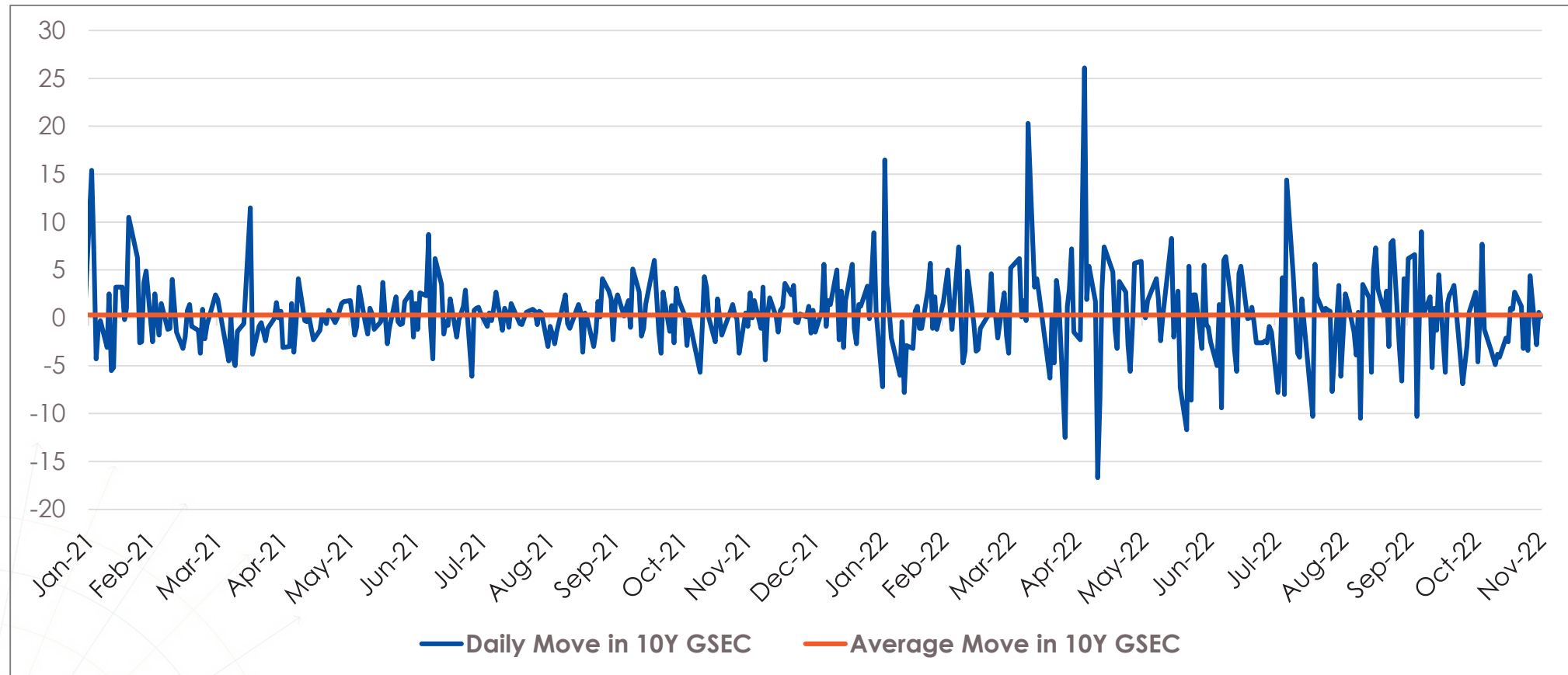


RBI Repo Rate vs 10Y GSEC: Spreads Narrowing

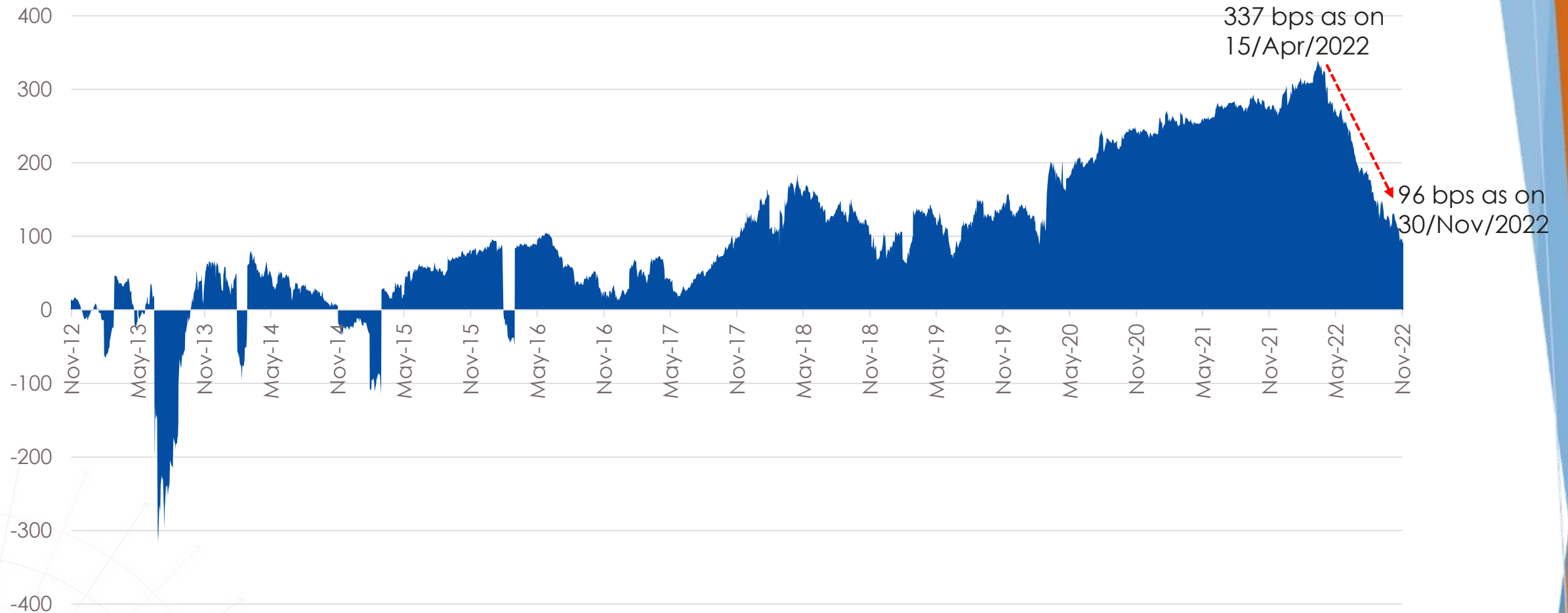


Volatility trends in the Sovereign bond market

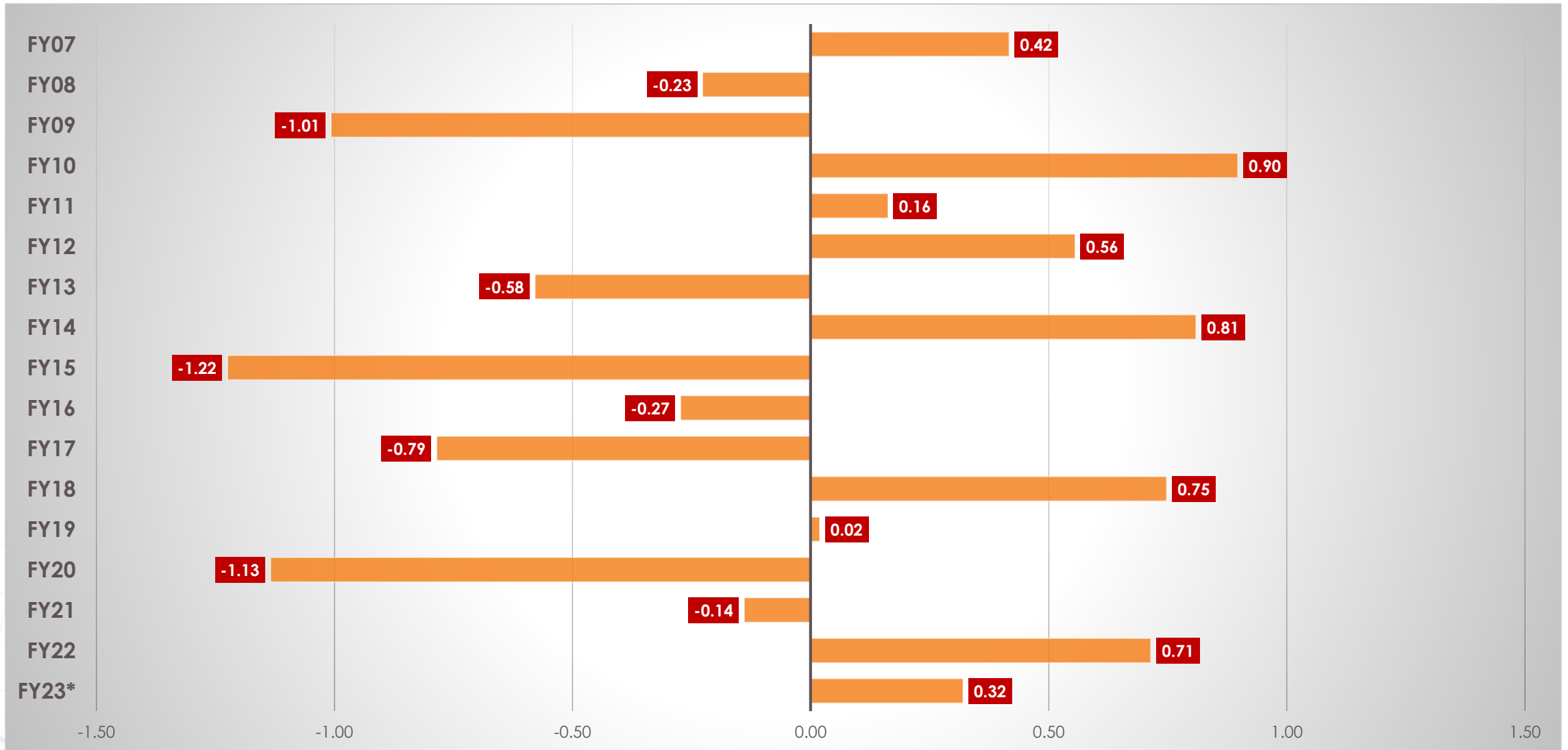
10Y GSEC– Daily Change vs Average Absolute Change



10Y GSEC – 1M OIS Spreads Compressed Further



Annual 10Y GSEC Yield movement



Source – Bloomberg, * - till 07.12.2022

Monetary Policy Update

- MPC voted 5-1 to **raise the policy rate by 35bps to 6.35%**
- SDF hiked to 6.00%; while MSF hiked to 6.50%
- Retention of stance - **“withdrawal of accommodation”**
- Further stated that **“further calibrated monetary policy action is warranted”**
- Cautious on inflation – Noted that “Pressure points from high and sticky core inflation and exposure of food inflation to international factors and weather-related events do remain.”

- **Inflation & Growth Assessment**

The RBI retained its FY23 CPI inflation projection at 6.7%, with risks evenly balanced, while marginally lowering its GDP growth forecast for FY23 (year ending March 2023) to 6.8% from 7.0%.

- **Liquidity**

The RBI noted that overall liquidity remains in surplus, with average daily absorption under LAF at ₹1.4 lakh crore during Oct-Nov vs. ₹2.2 lakh crore during Aug-Sep.

RBI expects liquidity to improve into the next quarter and remains committed to flexibility and two-sidedness in liquidity operations.

Fixed Income: Key Takeaway

As inflation trends down, expect more measured tightening steps by the Fed and ECB unless there is a meaningful change in inflation/external account drivers.

A terminal repo rate of 6.5% could provide a spread to address the volatility in the components of India's CPI and provide a real rate of return to domestic investors and help stabilize the INR and portfolio flows.
We seem to be nearing the end of the tightening cycle

In this monetary cycle, RBI has been consistent in its approach towards inflation both in terms of action & stance. This has led to repricing of the curve toward the expected policy rate.

We do not expect material disruption from the current valuations although the money market curve could remain volatile in the near term due to the usual quarter ending liquidity & balance sheet pressures.

Given the significant correction on the short end of the yield curve, investors with 6-12 months horizons can consider an allocation to low duration/ money market strategies; while investors having an investment horizon above 2 years may consider actively managed high-quality short-term or corporate bond strategies.

Investors with more than three years of investment horizon may consider a staggered allocation towards roll-down strategies to lock in the current high levels & actively managed duration.

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Thank You

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