



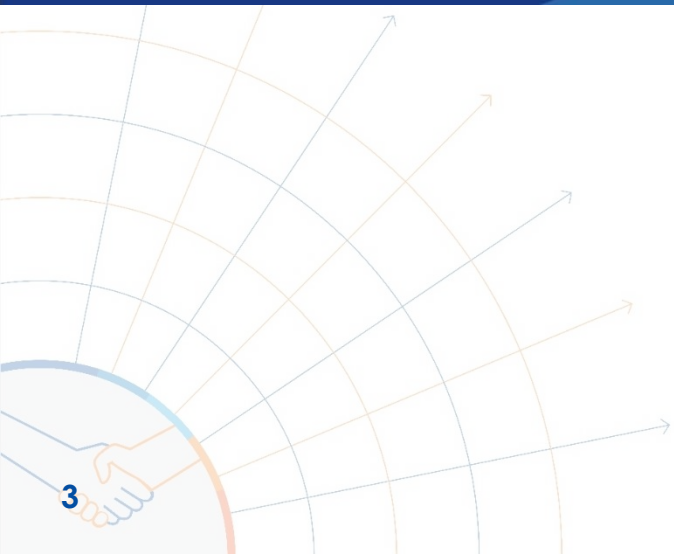
# MARKET INSIGHT – An Overview on the Fixed Income Market

January 2023

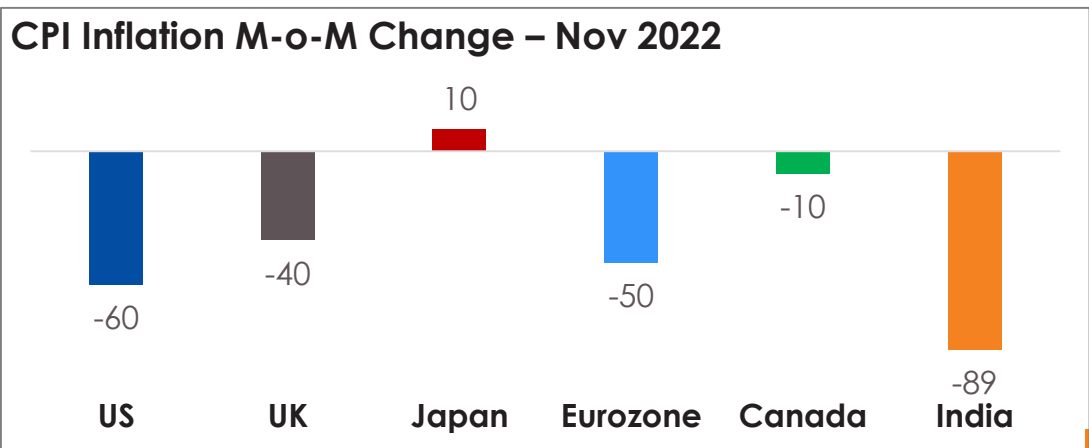
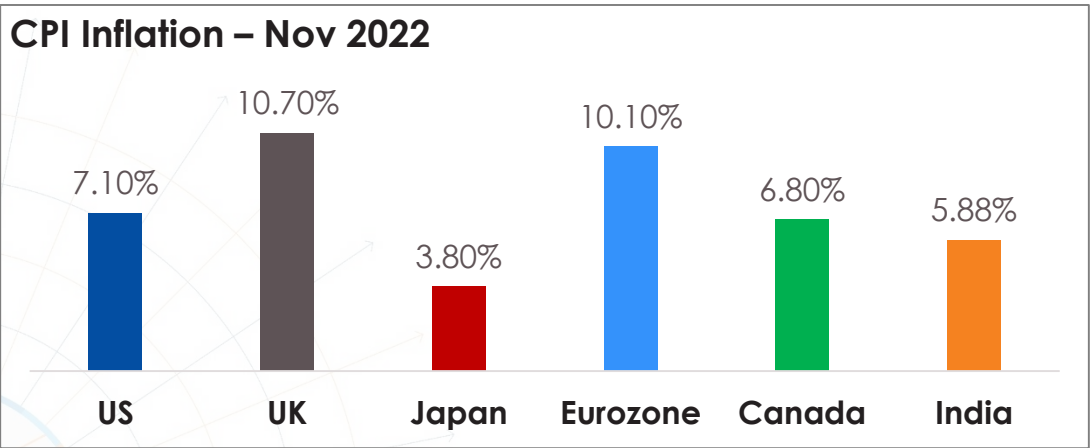
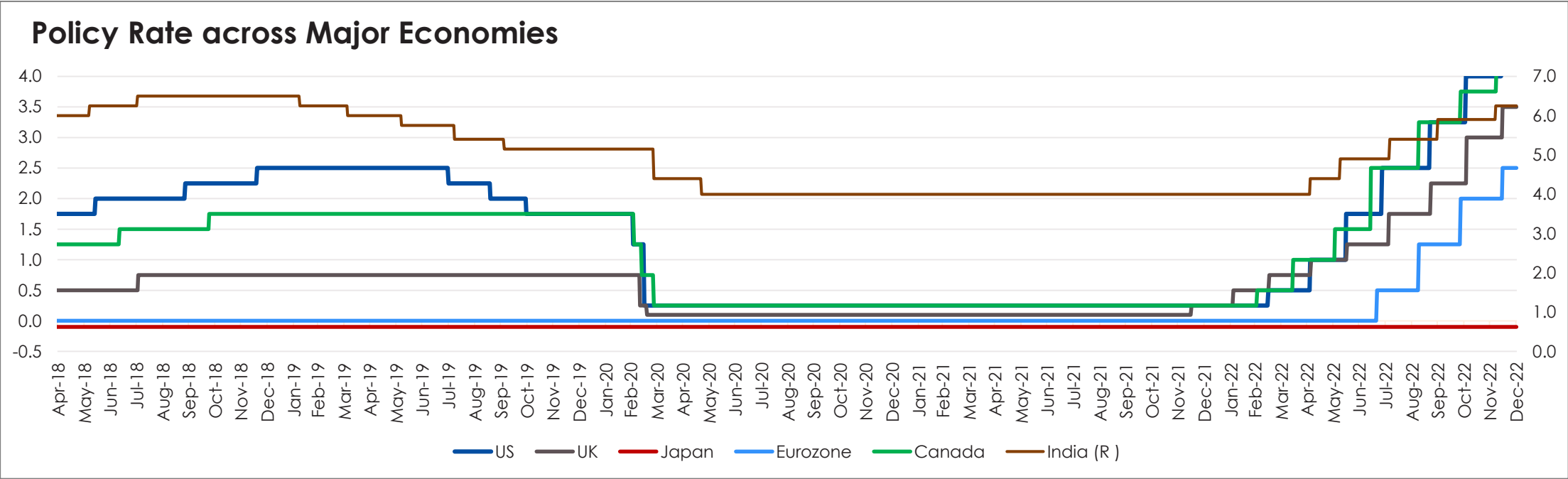
## Highlights: Factors driving Market

- In India, broader economic activity has remained resilient on the back of robust domestic demand on account of the re-opening of contact-intensive sectors
- India's policy action in the near term will be driven by global rates
- Global inflation should begin to moderate in 2023, as the base effects of the Ukraine war drop out of commodity prices, supply chains continue to normalise, and wages start reacting to rising unemployment rates.
- As central banks reach their terminal policy rates – A weaker USD and lower bond yields could keep EM yields supported
- Backdrop of sticky inflation, still consolidating fiscal, backdrop of considerable liquidity/deleveraging pressures globally could limit the monetary policy intervention for EM central banks like RBI

# Global Trends



# Monetary Policy Actions during 2022



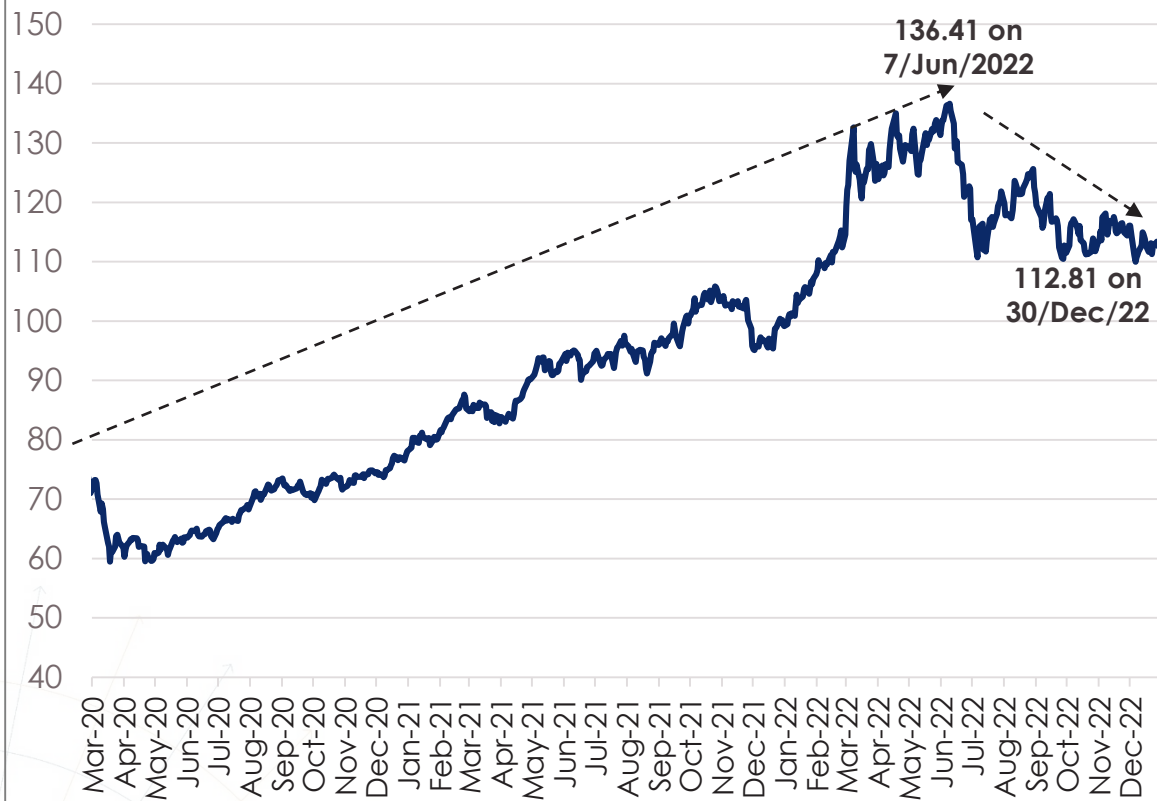
# 10Y Sovereign Yield Movement in Key Economies

Region	Country	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-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	3.87	27	154	
	UK	1.61	1.91	2.10	2.23	1.86	2.70	4.09	3.52	3.16	3.67	51	206	
	GERMANY	0.55	0.94	1.12	1.34	0.82	1.51	2.11	2.14	1.93	2.57	64	202	
LATAM	BRAZIL	11.61	12.29	12.56	13.07	12.99	12.29	12.02	11.87	12.74	12.69	-5	108	
	MEXICO	8.25	9.09	8.63	9.03	8.56	9.08	9.65	9.83	9.21	9.02	-19	77	
ASIA PACIFIC	JAPAN	0.21	0.22	0.24	0.23	0.18	0.22	0.24	0.24	0.25	0.41	16	20	
	AUSTRALIA	2.84	3.13	3.35	3.66	3.06	3.60	3.89	3.76	3.53	4.05	52	121	
	SOUTH KOREA	2.96	3.21	3.33	3.64	3.19	3.64	4.28	4.24	3.70	3.56	-14	60	
	CHINA	2.79	2.84	2.80	2.82	2.77	2.64	2.75	2.65	2.92	2.84	-8	5	
	INDONESIA	6.73	6.97	7.03	7.20	7.11	7.10	7.35	7.51	6.91	6.92	0	19	
	SINGAPORE	2.33	2.52	2.70	2.97	2.64	2.98	3.47	3.41	3.06	3.08	2	75	

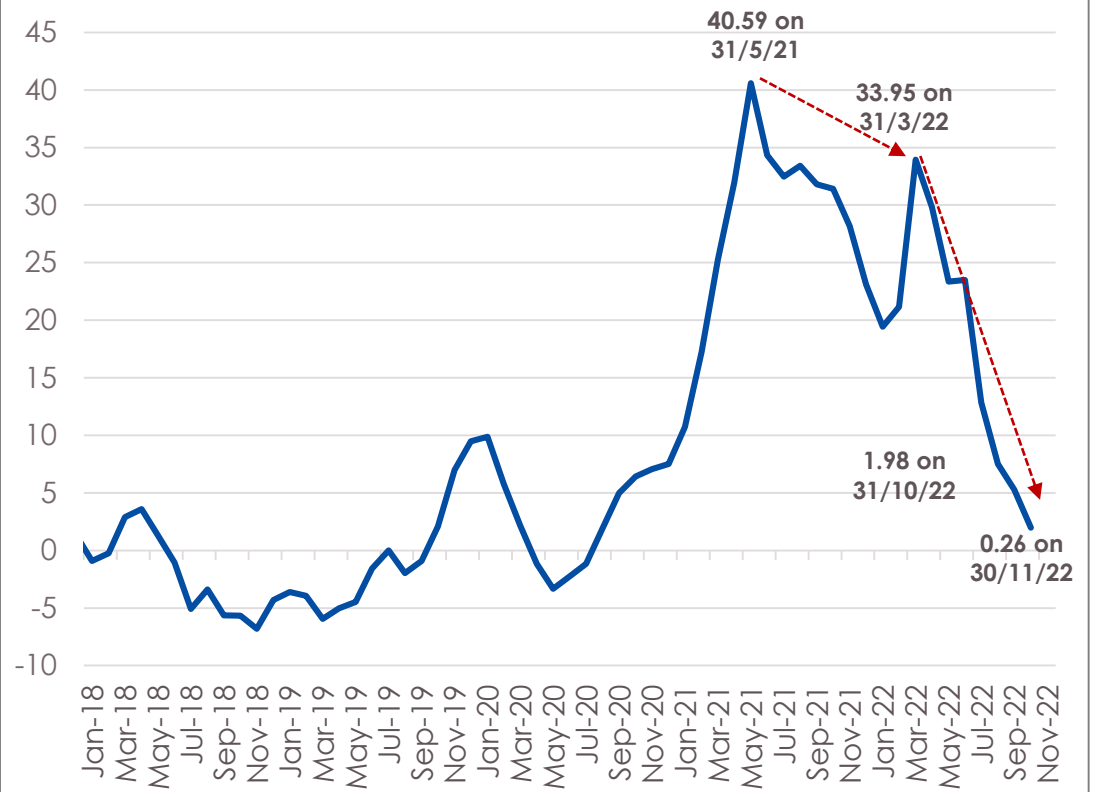
- Majority of the economies across the world saw an uptick in yields as inflation remained persistent & tweak in BOJ yield curve control policy

# Commodity & Food Index

**Bloomberg Commodity Index (USD)**



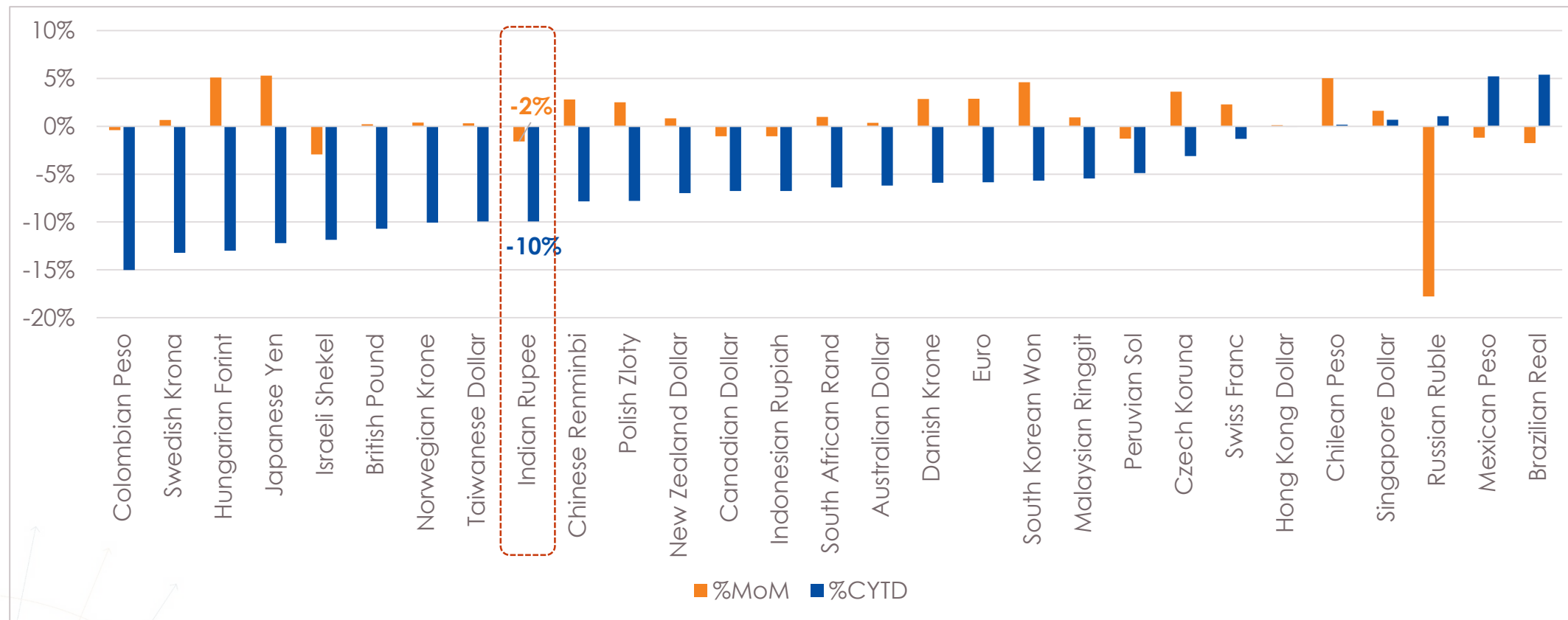
**FAO Food %YoY**



- Commodity Index declined by ~3% in the month on slowdown concerns



# Currency Performance against USD (%CYTD & MoM)

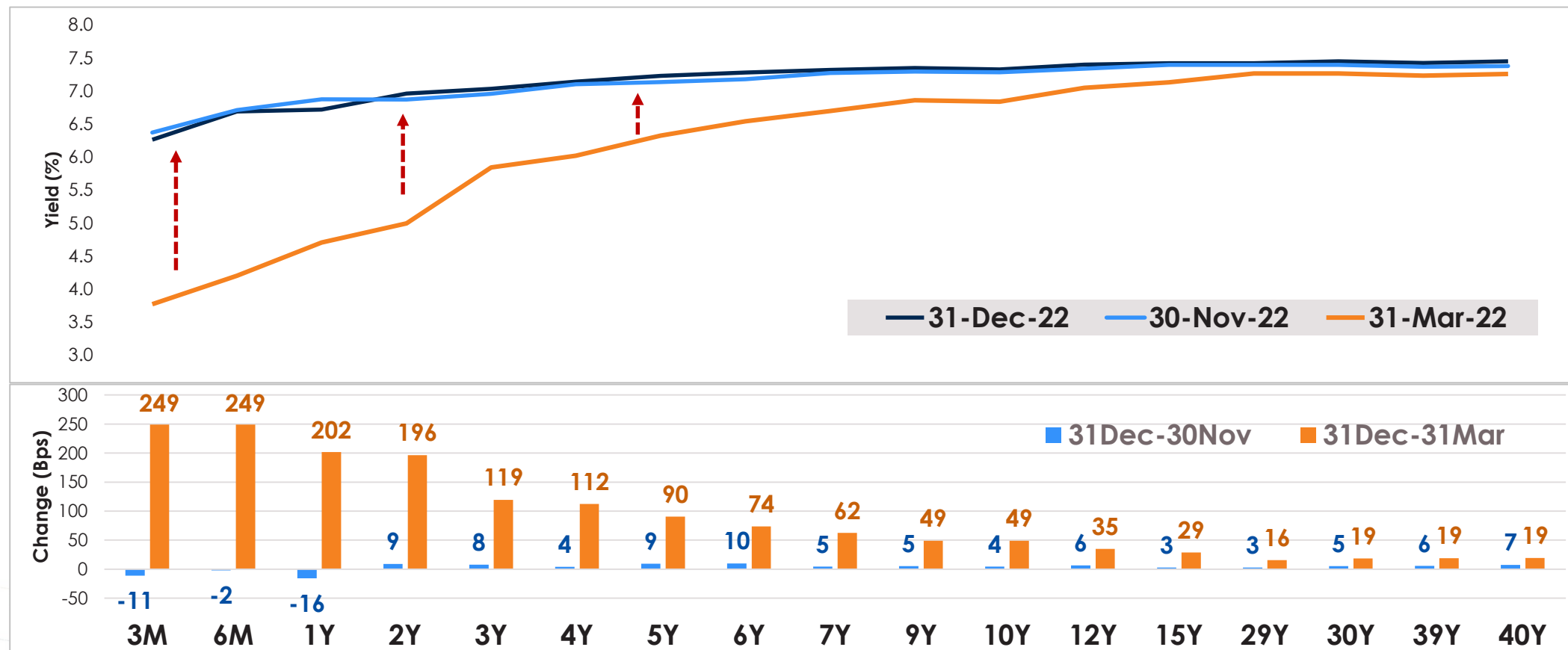


- The U.S. Dollar is correcting from its peak as investors believe that the Federal Reserve is edging closer to slowing the pace of its rate hikes.
- USD's further direction will depend on the Fed's ability to contain still high inflationary expectations & eventually ease of policy rates.

# India Trends



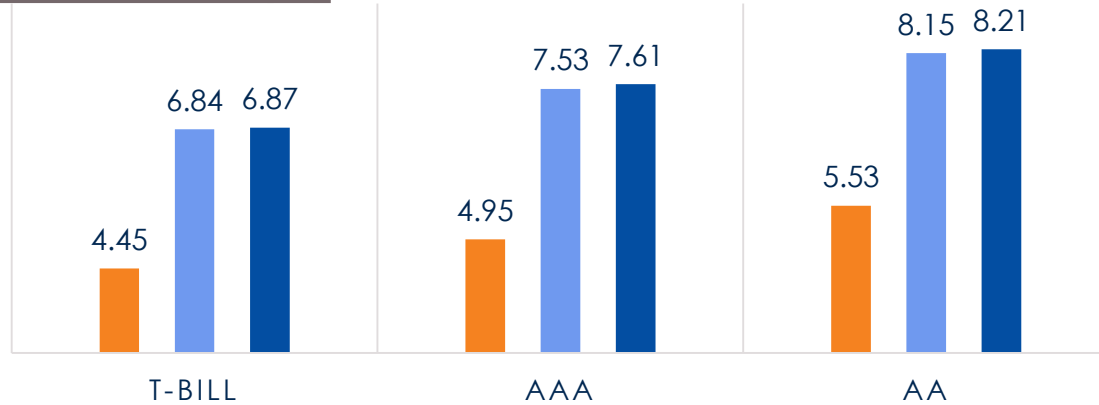
# India Sovereign Curve



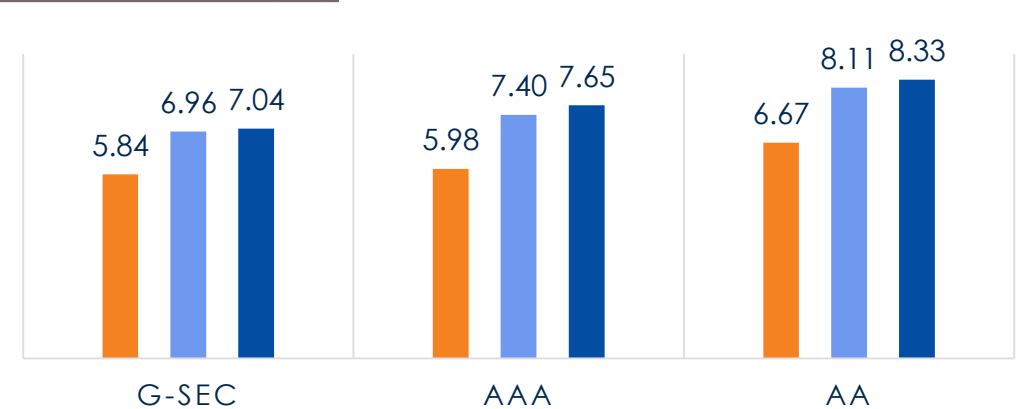
- Yields remained broadly range bound across the curve during Dec'22, however looking at the FYTD23 trend, short term yields have spiked meaningfully tracking the policy rate hikes

# Yield movements across the Curve remained broadly neutral MoM

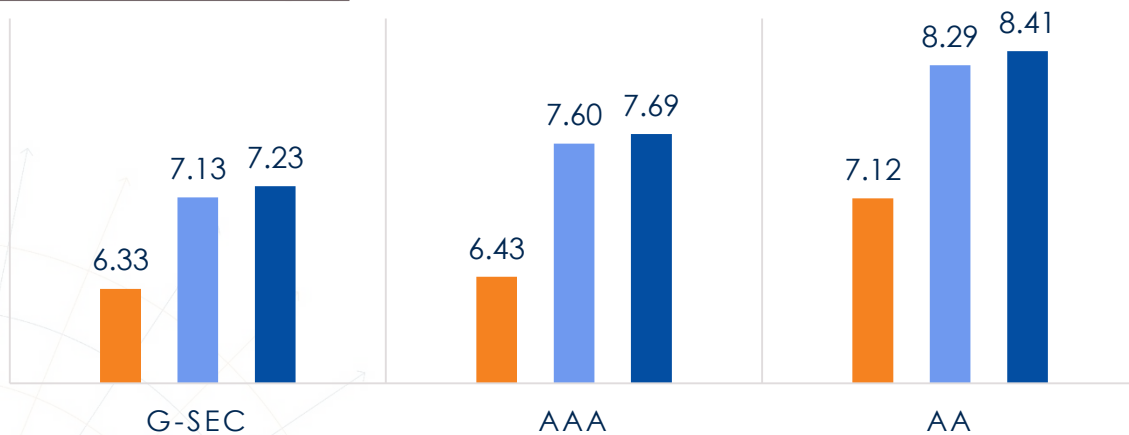
## 1 YEAR RATES (%)



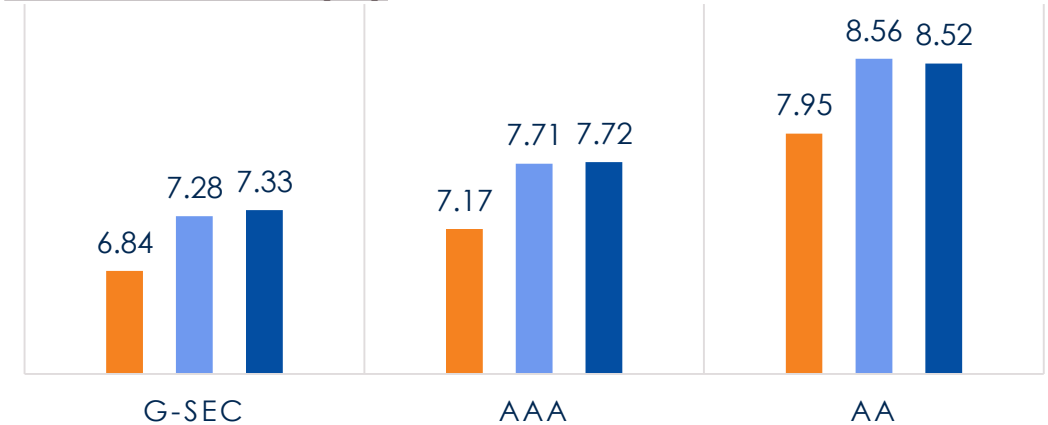
## 3 YEAR RATES (%)



## 5 YEAR RATES (%)



## 10 YEAR RATES (%)



Mar-22 Nov-22 Dec-22

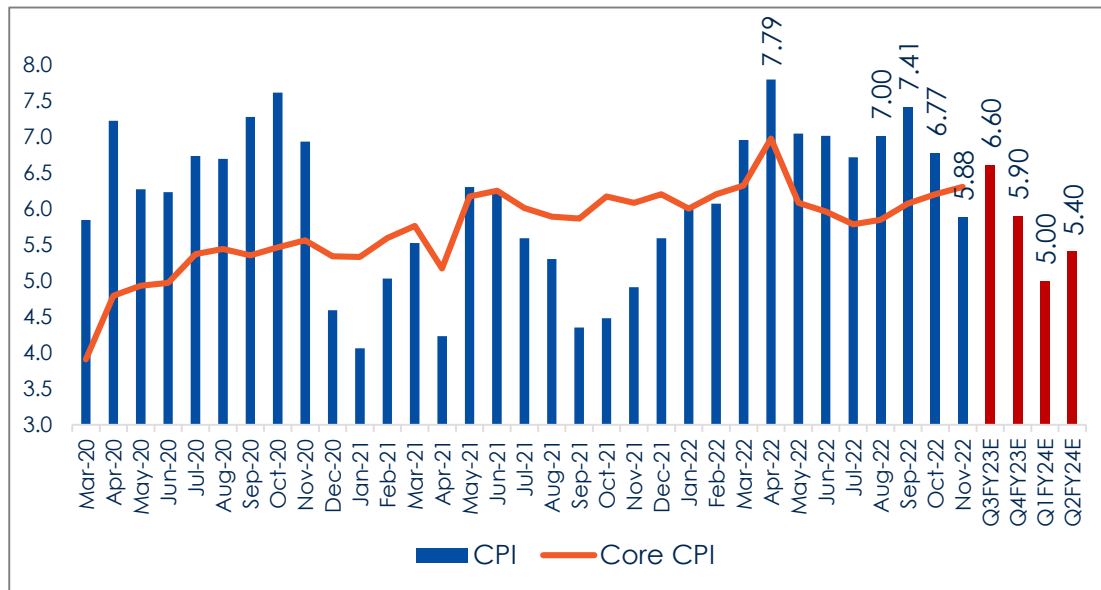
# Trend of Market Borrowings by State Governments/ Union Territories

Figures in INR Cr	FY2021		FY2022		FY2023	
	9MFY21	4QFY21	9MFY22	4QFY22	9MFY23	4QFY23
<b>Announced</b>	507,723	316,485	572,252	324,010	654,987	3,40,841
<b>Actual</b>	555,852	242,964	466,308	235,318	459,458	
<b>% Actual Borrowing over Announced</b>	<b>109.5%</b>	<b>76.8%</b>	<b>81.5%</b>	<b>72.6%</b>	<b>70.1%</b>	

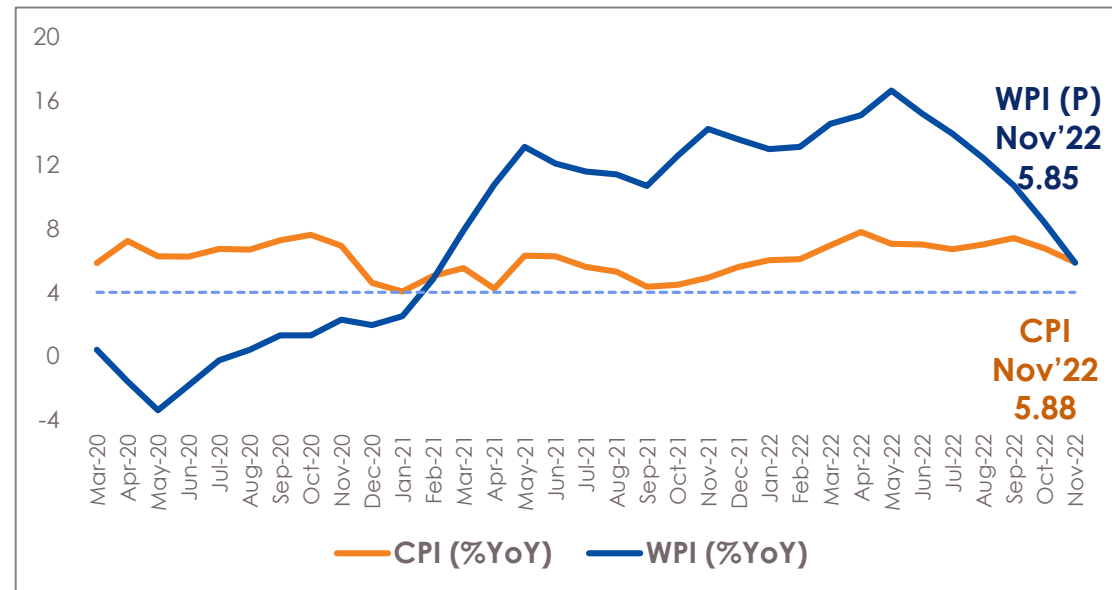
- Curve remained under flattening bias during the year as actual SDL issuance was much lower than the announced calendar

# Domestic Inflation Rates

## CPI and Core CPI Inflation (% YoY)



## CPI and WPI Inflation (%YoY)



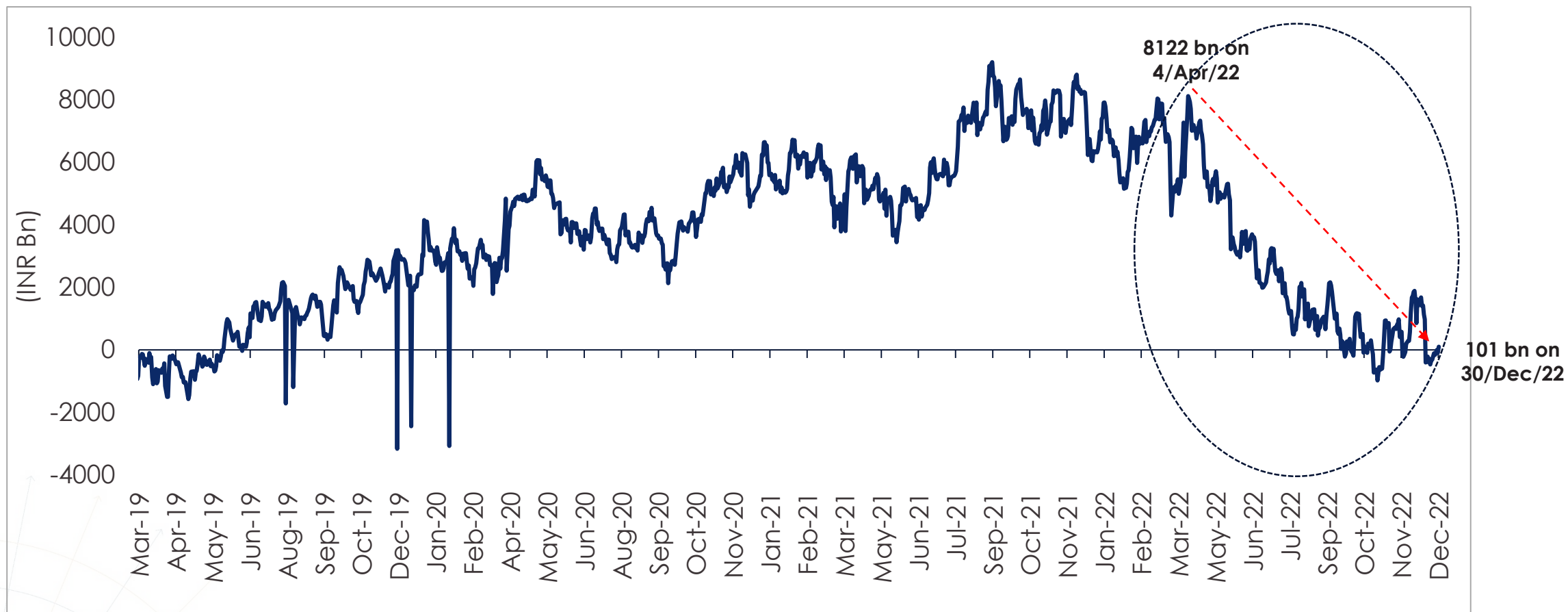
- Nov'22 CPI inflation came softer than market expectations at 5.88% YoY, primarily due to lower-than-expected veggie inflation. However, core inflation continued to remain sticky and hence leads us to maintain our terminal policy rate view of 6.5%
- WPI inflation reduced to a 21-month low in Oct'22 to 5.85% YoY led by sharp decline in vegetables, along with sharp drop in core inflation (non-food manufacturing)

# Monthly Foreign Trade Aggregates of India, (US\$ bn)

	Nov-22	Oct-22	Nov-21	Change %	
				YoY	MoM
Exports	32.0	31.4	31.8	0.6	1.9
Imports	55.9	59.0	53.0	5.4	(5.3)
<b>Trade Balance</b>	<b>(23.9)</b>	<b>(27.6)</b>	<b>(21.2)</b>		
Oil Exports	5.4	6.3	5.5	1.7	14.2
Oil Imports	15.7	18.2	14.2	10.5	(13.4)
<b>Oil Trade Balance</b>	<b>(10.3)</b>	<b>(11.9)</b>	<b>(8.7)</b>		
Non-oil Exports	26.6	25.1	26.3	1.1	5.9
Non oil Imports	40.1	40.8	38.8	3.5	(1.6)
<b>Non-oil Trade Balance</b>	<b>(13.5)</b>	<b>(15.7)</b>	<b>(12.5)</b>		

- Lower trade balance was mainly due to moderation in crude prices in Sep-Oct 2022.
- Goods exports could remain under pressure as the global slowdown intensifies

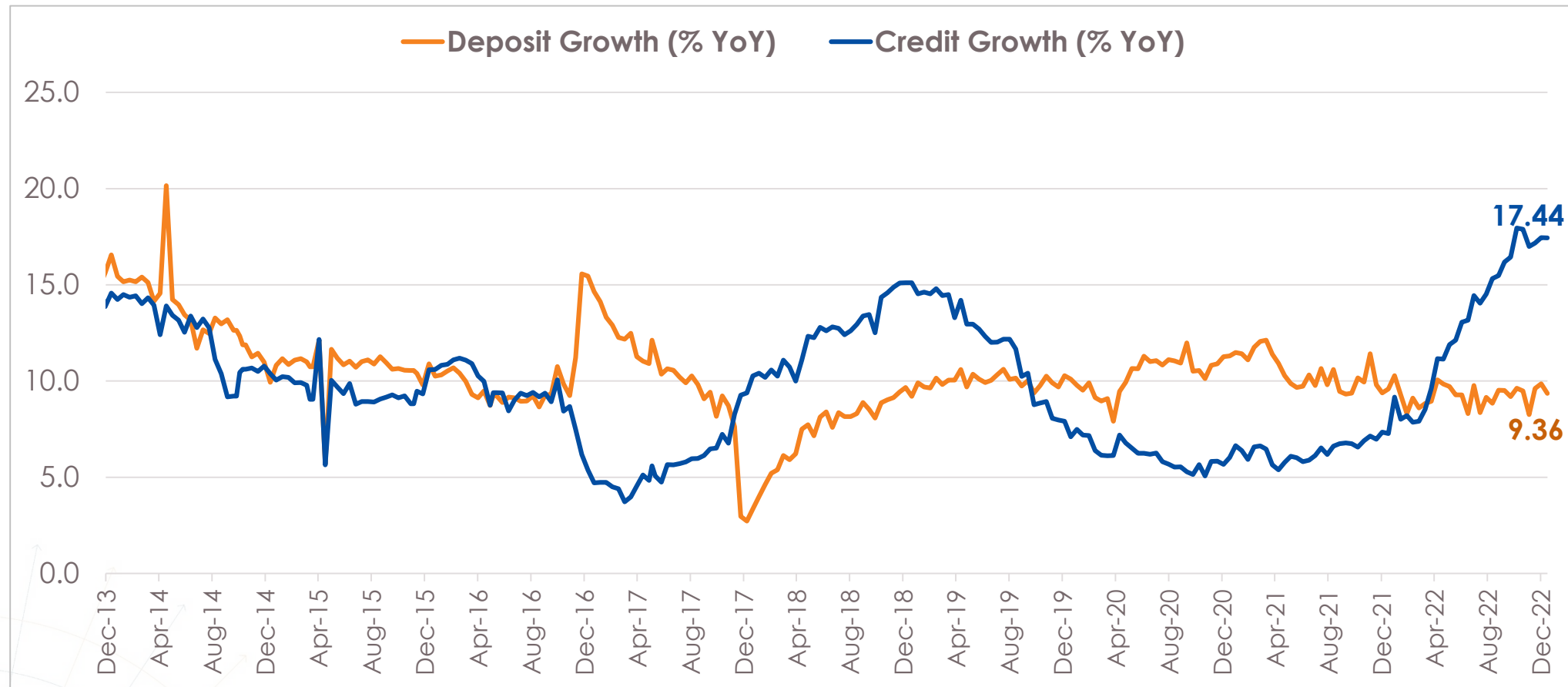
# System Liquidity: Liquidity surplus turning to deficit



- Headline liquidity largely expected to remain in deficit due to seasonal currency withdrawal, tax outflows & muted Government spending

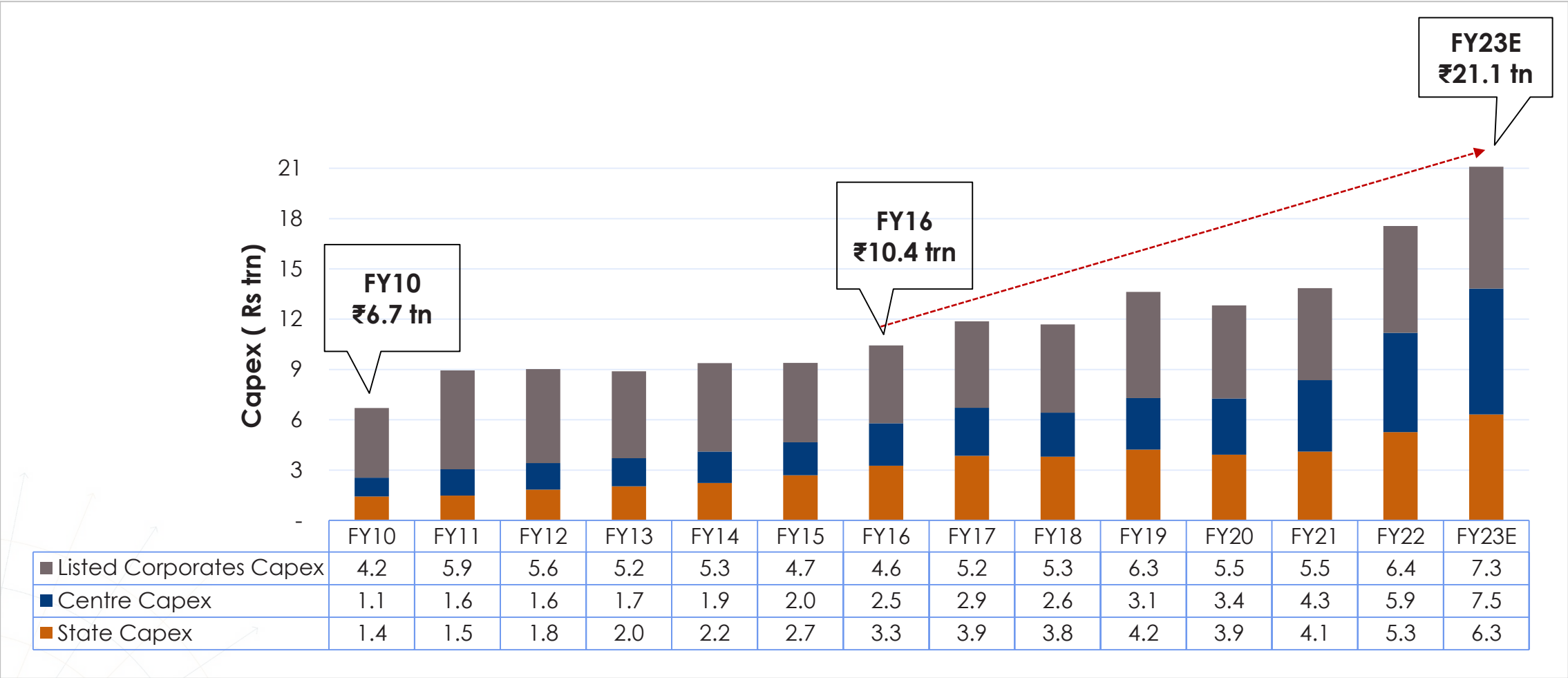


# India Credit Growth

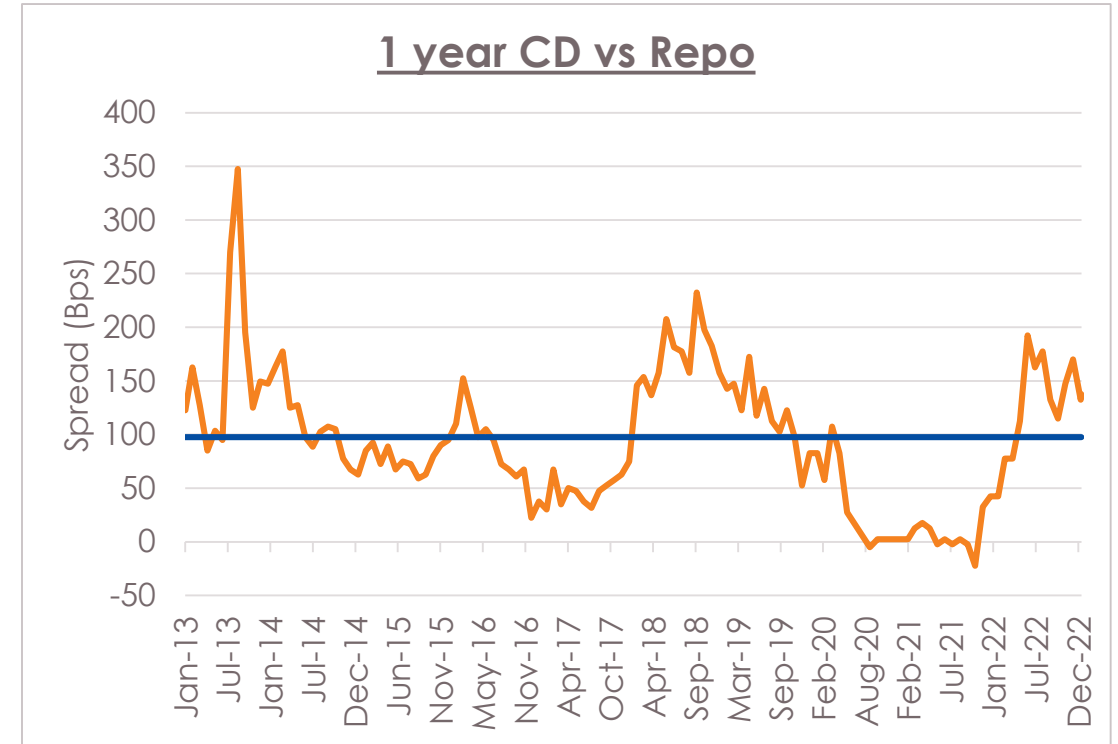
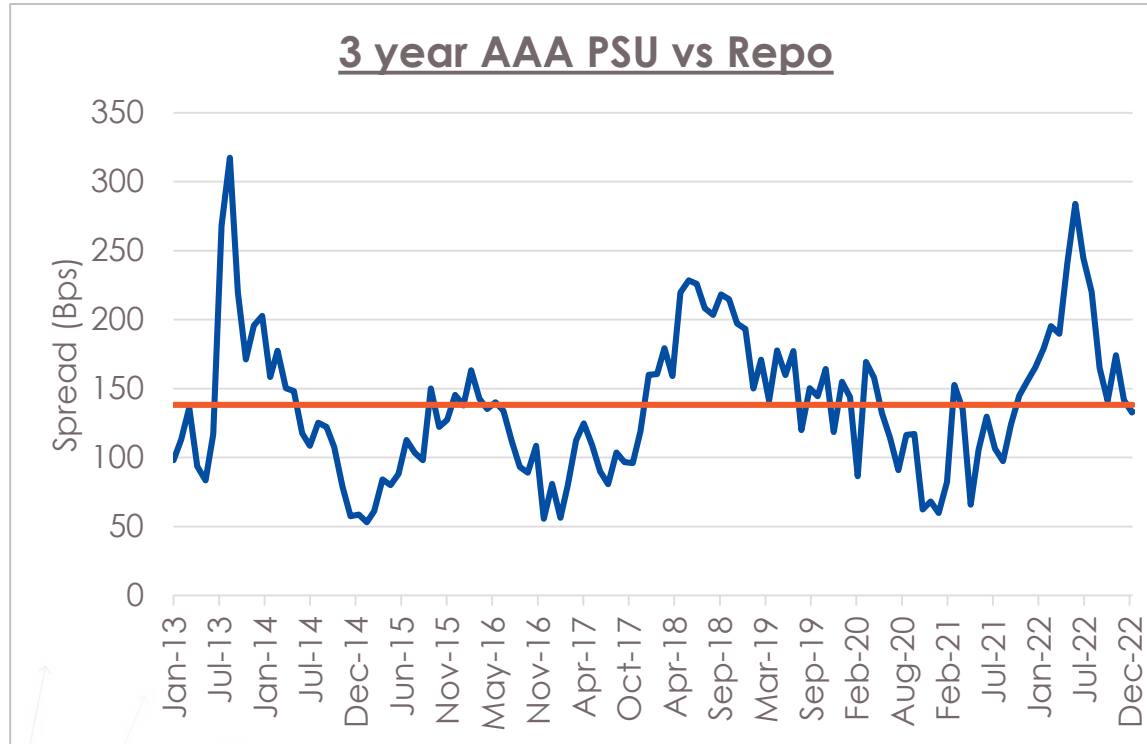


- Credit growth could slow down next year on combination of factors such as slower global growth, fading pent-up demand and normalizing base effects

# Capex is moderate than headline suggests



# Spreads – 3YAAA PSU & 1YCD vs Repo



- Valuations is line with long term valuations

# Fixed Income: Key Takeaway

Year 2022 of policy normalization was largely a period of repricing of bond yields, subpar returns & flattening of the yield curve.

Markets may remain range-bound in the near term till global central banks sincerely pivot, which may turn the risk sentiment. However, that is still some time away as central banks await meaningful decline in inflation, increase in unemployment or an inadvertent crisis.

The current market valuations after the meaningful corrections especially on the 1–3 year segment of the yield curve are broadly in line with their long term averages & pricing in the consensus RBI terminal rate.

Investors with tolerance for intermittent volatility and 6-12 months horizon may consider allocation towards the money market and low-duration strategies given that the expected terminal rate is priced in.

Investors with more than 3-year investment horizon may consider allocation towards roll-down strategies & actively managed intermediate duration (1-4 year) categories given the reasonable starting levels of yield & potential to participate in downward yields momentum as global inflation pressures cool off.

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# Thank You

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