



MARKET INSIGHT

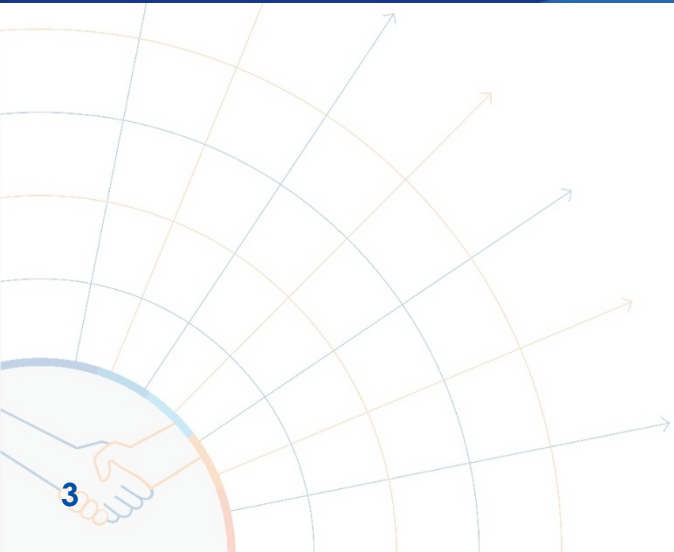
An Overview of the Fixed Income Market

March 2023

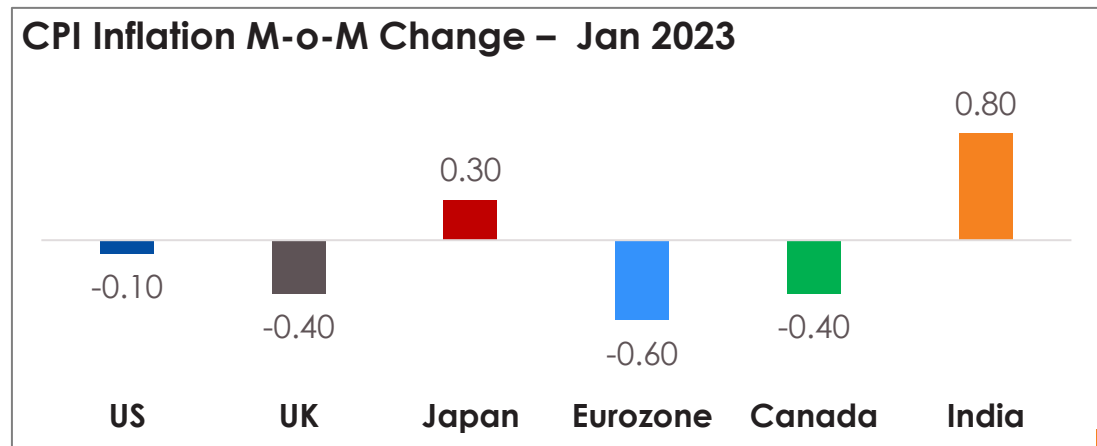
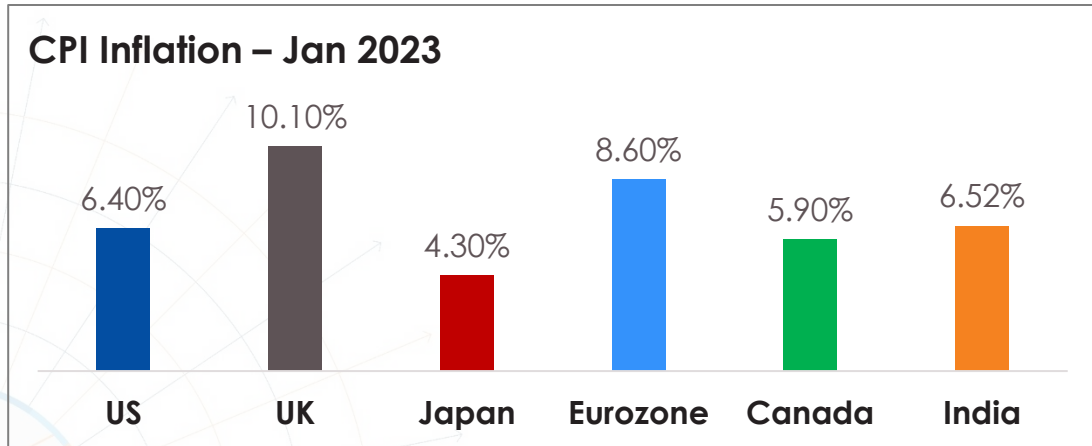
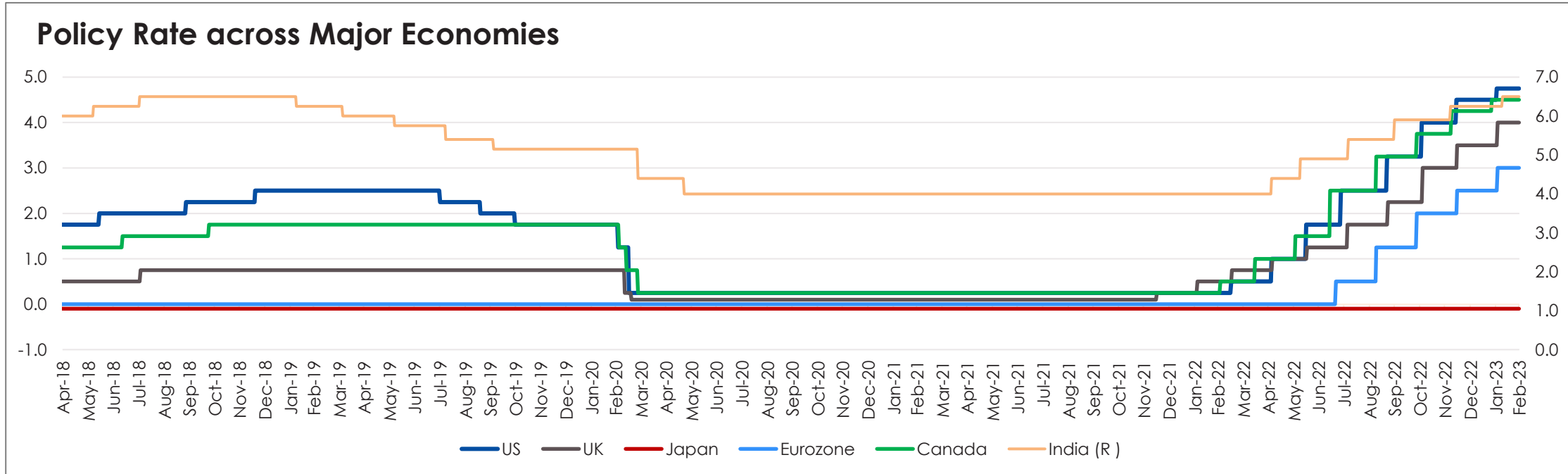
Key Factors to Drive Market

- **Global inflation is expected to moderate** in 2023
 - base effects of the Ukraine war drop out
 - supply chains normalize
 - wages start reacting to rising unemployment rates
- **Central banks to reach their terminal policy rates** – A weaker USD and lower bond yields could keep EM yields supported
- **Timing and quantum of rate cuts still uncertain**
- **RBI policy pivot could get prolonged**

Global Trends



Monetary Policy Actions

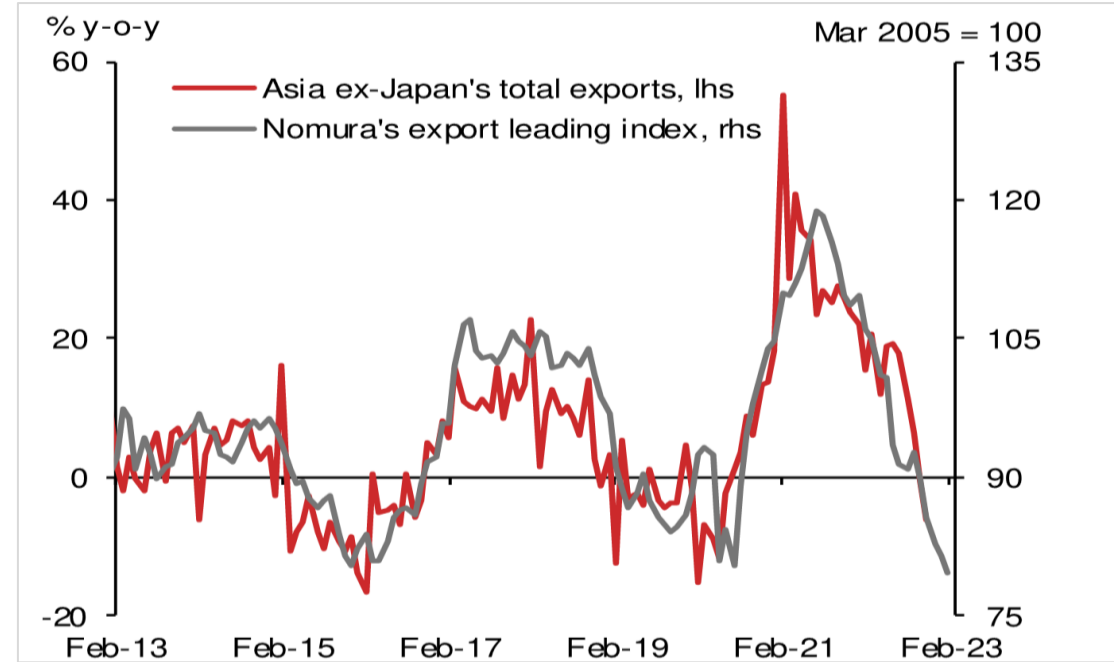
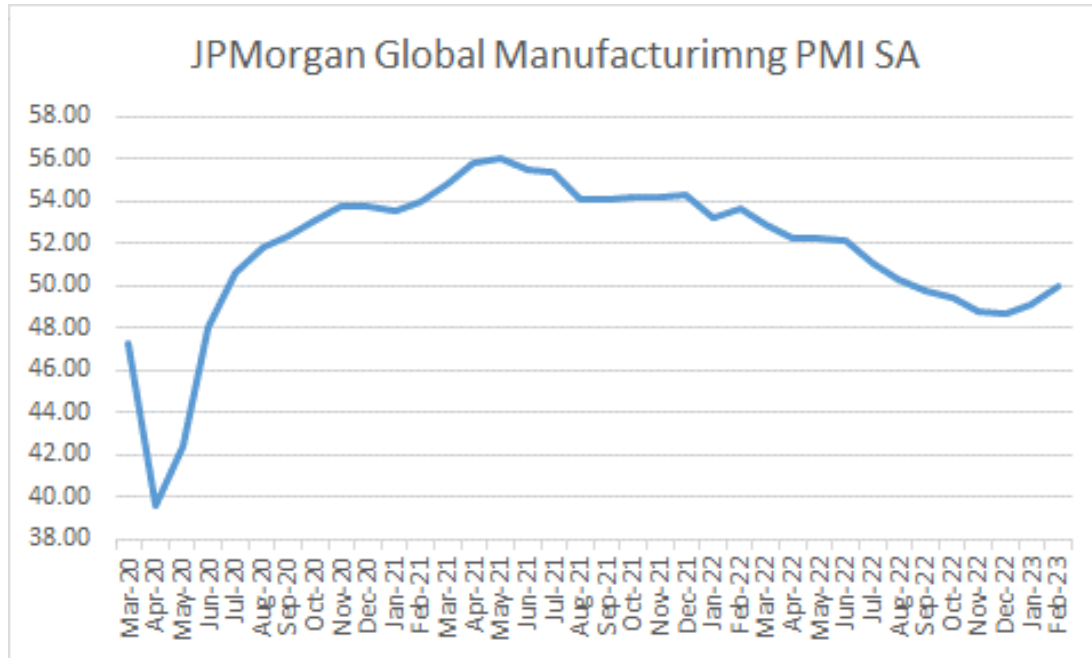


10Y Sovereign Yield Movement in Key Economies

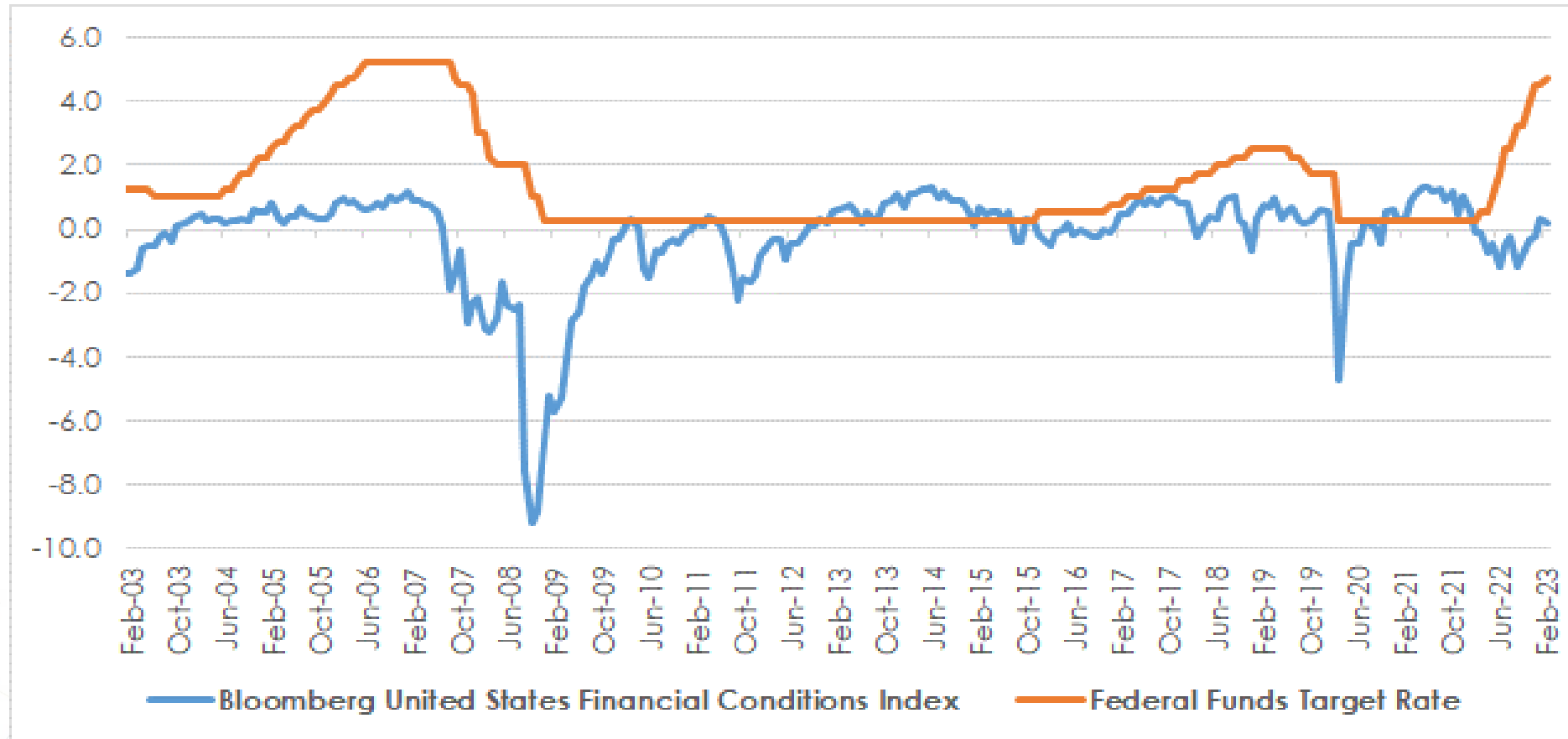
Region	Country	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	1M Change (Bps)	FYTD Change (Bps)	Trend	
WEST	US	2.34	2.93	2.84	3.01	2.65	3.10	3.83	4.05	3.61	3.87	3.51	3.92	41	158		
	UK	1.61	1.91	2.10	2.23	1.86	2.70	4.09	3.52	3.16	3.67	3.33	3.83	49	222		
	GERMANY	0.55	0.94	1.12	1.34	0.82	1.51	2.11	2.14	1.93	2.57	2.29	2.65	37	210		
LATAM	BRAZIL	11.61	12.29	12.56	13.07	12.99	12.29	12.02	11.87	12.74	12.69	13.24	13.45	21	184		
	MEXICO	8.25	9.09	8.63	9.03	8.56	9.08	9.65	9.83	9.21	9.02	8.70	9.32	63	107		
ASIA PACIFIC	JAPAN	0.21	0.22	0.24	0.23	0.18	0.22	0.24	0.24	0.25	0.41	0.49	0.50	1	29		
	AUSTRALIA	2.84	3.13	3.35	3.66	3.06	3.60	3.89	3.76	3.53	4.05	3.55	3.85	30	101		
	SOUTH KOREA	2.96	3.21	3.33	3.64	3.19	3.64	4.28	4.24	3.70	3.56	3.25	3.75	50	80		
	CHINA	2.79	2.84	2.80	2.82	2.77	2.64	2.75	2.65	2.65	2.92	2.84	2.90	2.92	1	13	
	INDONESIA	6.73	6.97	7.03	7.20	7.11	7.10	7.35	7.51	6.91	6.92	6.69	6.88	19	15		
	SINGAPORE	2.33	2.52	2.70	2.97	2.64	2.98	3.47	3.41	3.06	3.06	3.08	2.95	3.33	38	101	

- Majority of the economies across the world saw some hardening in yields as inflation print came higher than expected for most of the economies globally

Global economic activity continues to deteriorate



Financial conditions continue to be tight



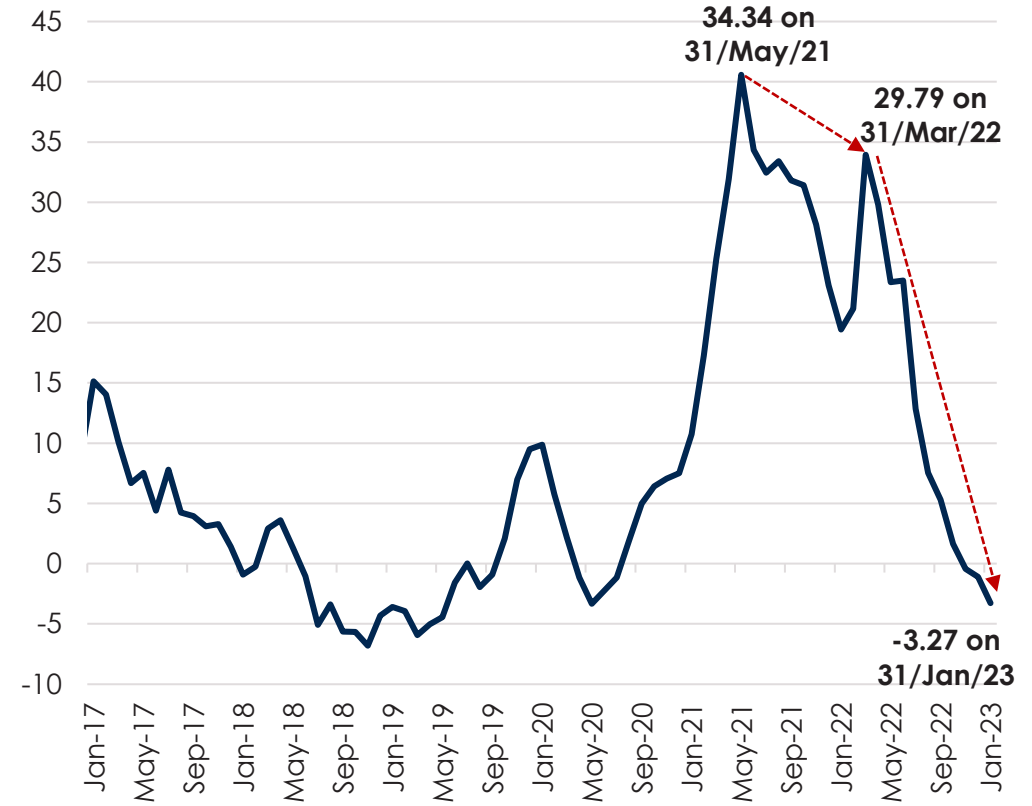
- Gap between Fed Funds rate & Financial conditions index highest since 2007

Commodity & Food Index

Bloomberg Commodity Index (USD)

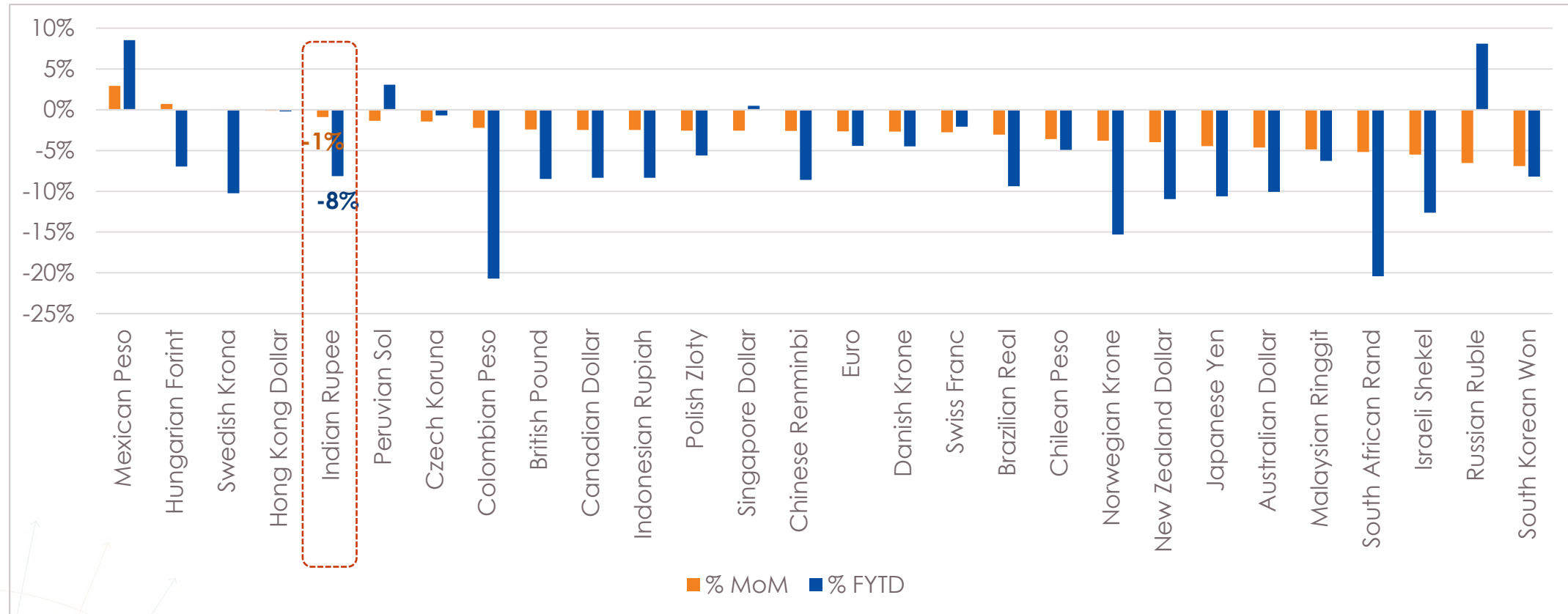


FAO Food %YoY



- Commodity prices reduced marginally in Feb'23

Currency Performance against USD (%FYTD & MoM)

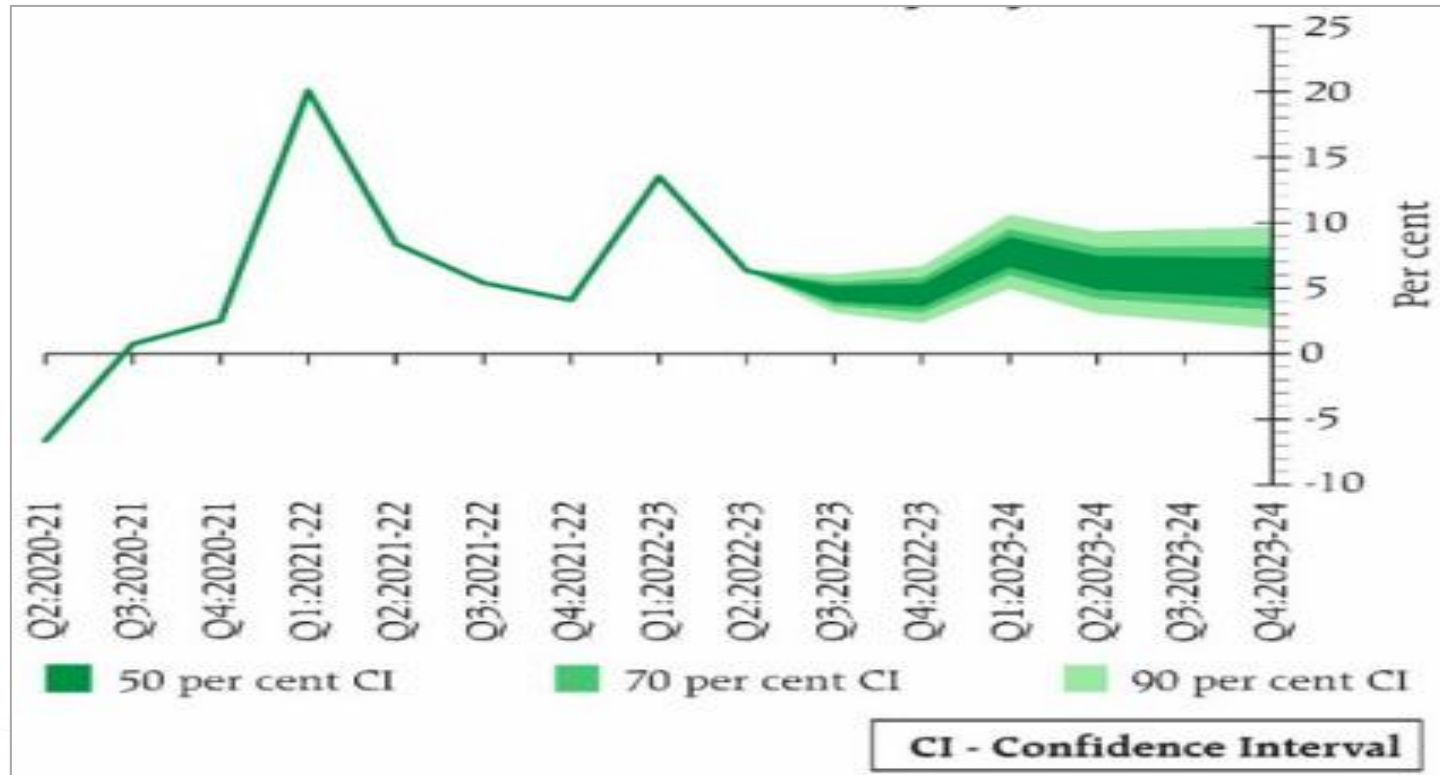


- The U.S. Dollar is correcting from its peak as investors believe that the Federal Reserve is edging closer to slowing the pace of its rate hikes.
- INR performed better than most other currencies in Feb'23

India Trends

India: GDP Growth Projection

Quarterly Projection of Real GDP Growth (y-o-y)



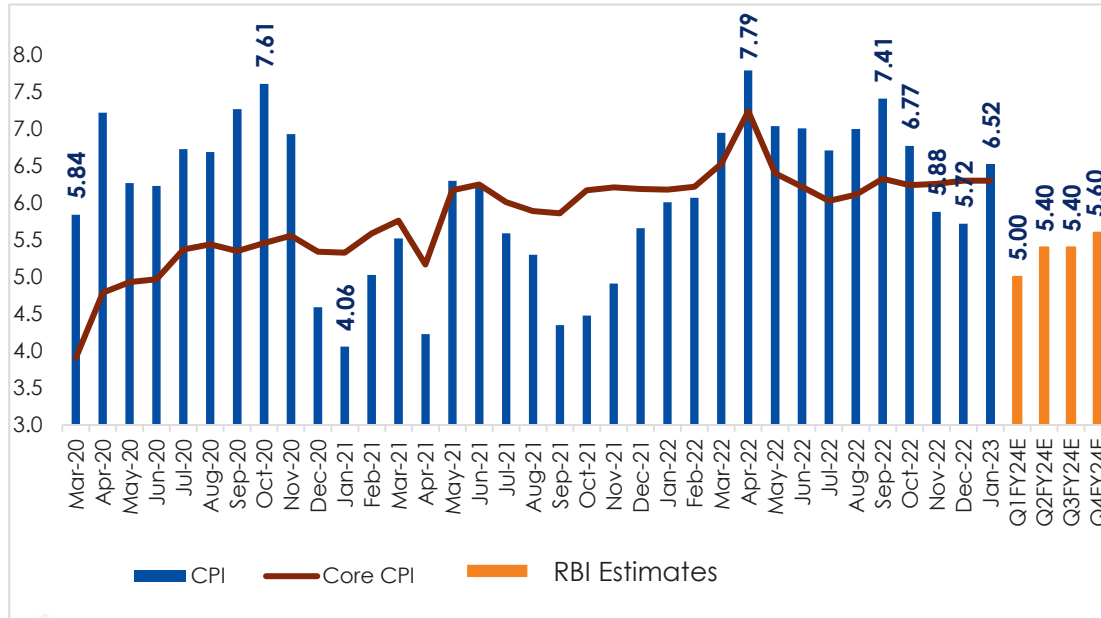
Period	Real GDP Projected
FY 23-24	6.4%
Q1FY24	7.8%
Q1FY24	6.2%
Q1FY24	6.0%
Q1FY24	5.8%

According to RBI:

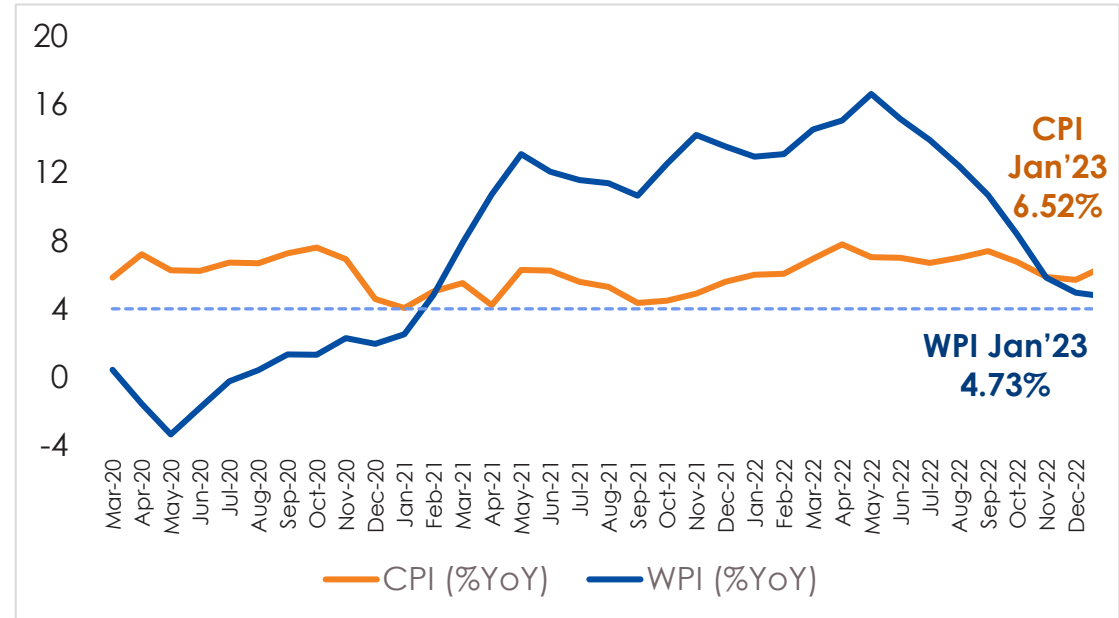
- Strong credit growth, resilient financial markets, and the government's continued thrust on capital spending and infrastructure create a congenial environment for investment.
- External demand is likely to be dented by a slowdown in global activity, with adverse implications for exports.

Domestic Inflation Rates

CPI and Core CPI Inflation (% YoY)

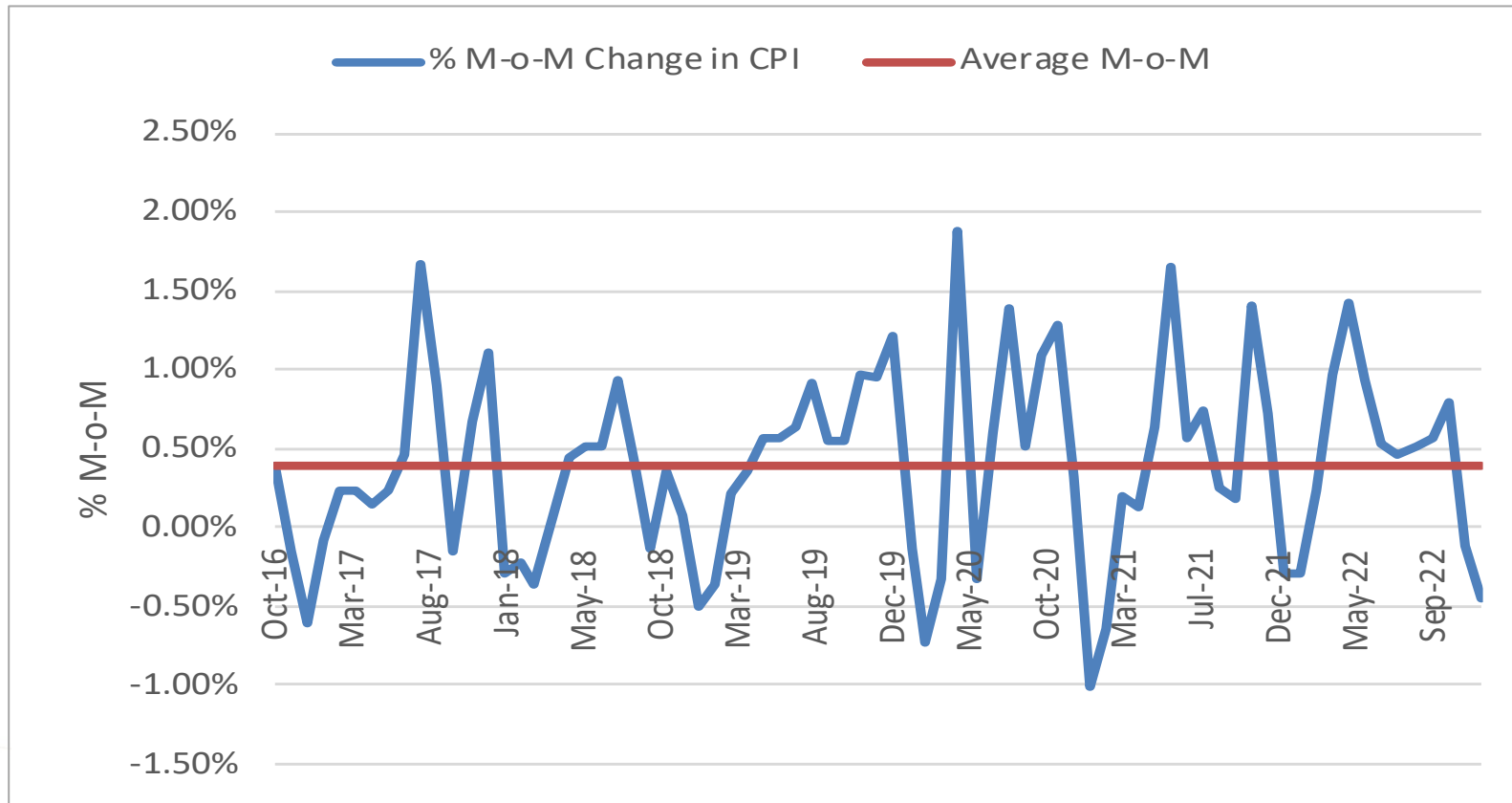


CPI and WPI Inflation (%YoY)



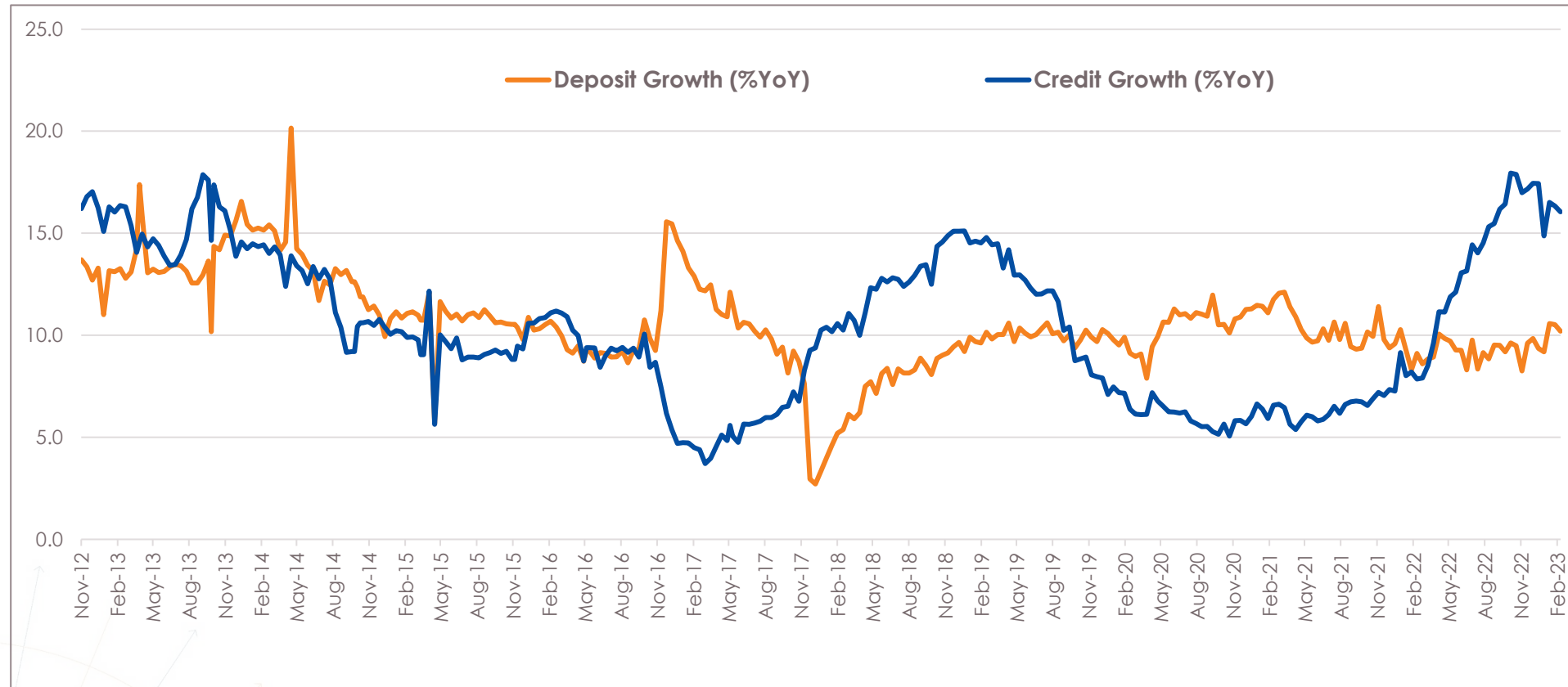
- Jan'23 CPI inflation surprised on the upside at 6.52%, higher than market expectations, led by higher food inflation. Core inflation continued to remain sticky and elevated at 6.3%.
- Jan WPI inflation moderated to 4.73% YoY due to fall in prices of food articles, mineral oils crude petroleum & natural gas, etc.

Domestic Inflation Rates



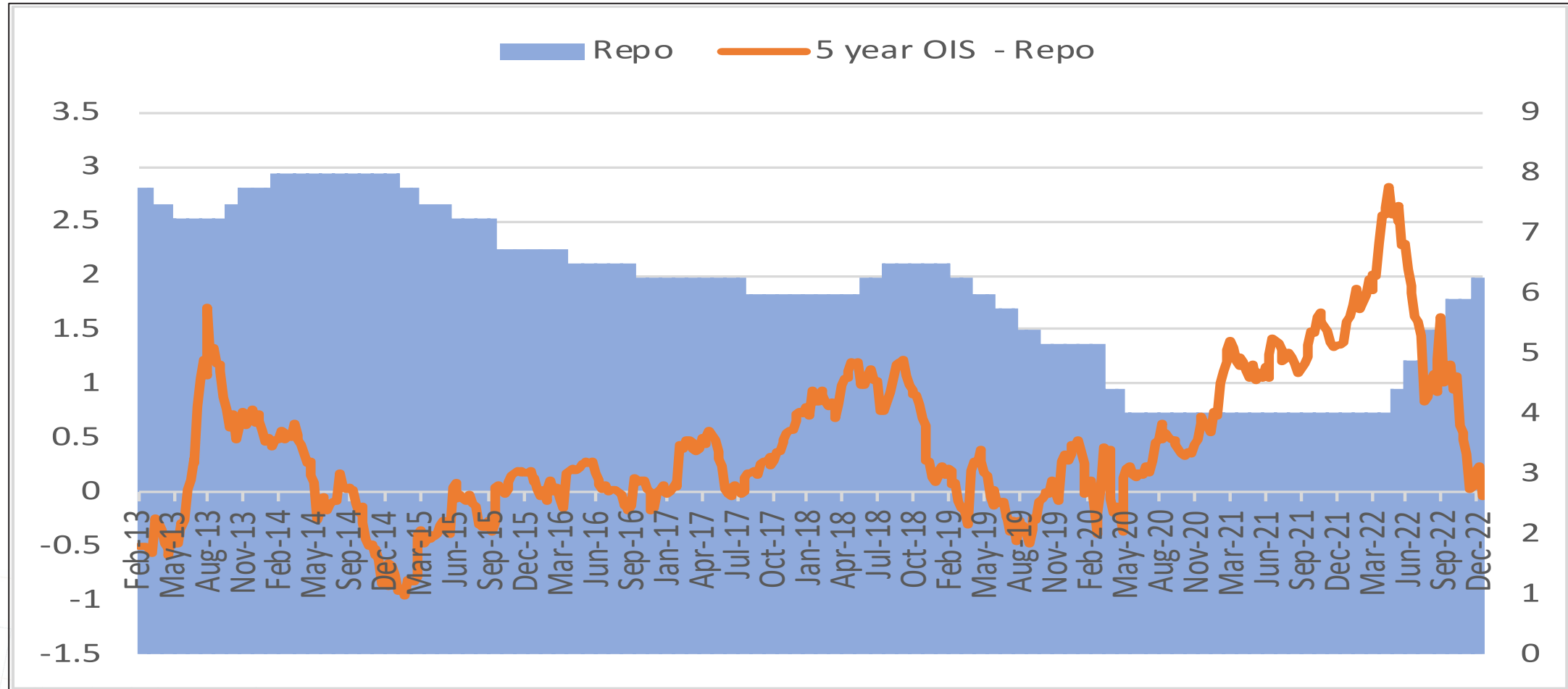
- Average inflation falls off to 4.5%/5.3% for Apr-Dec'23 basis M-o-M run rate since Oct' 16/Post Covid disruptions

India Credit Growth

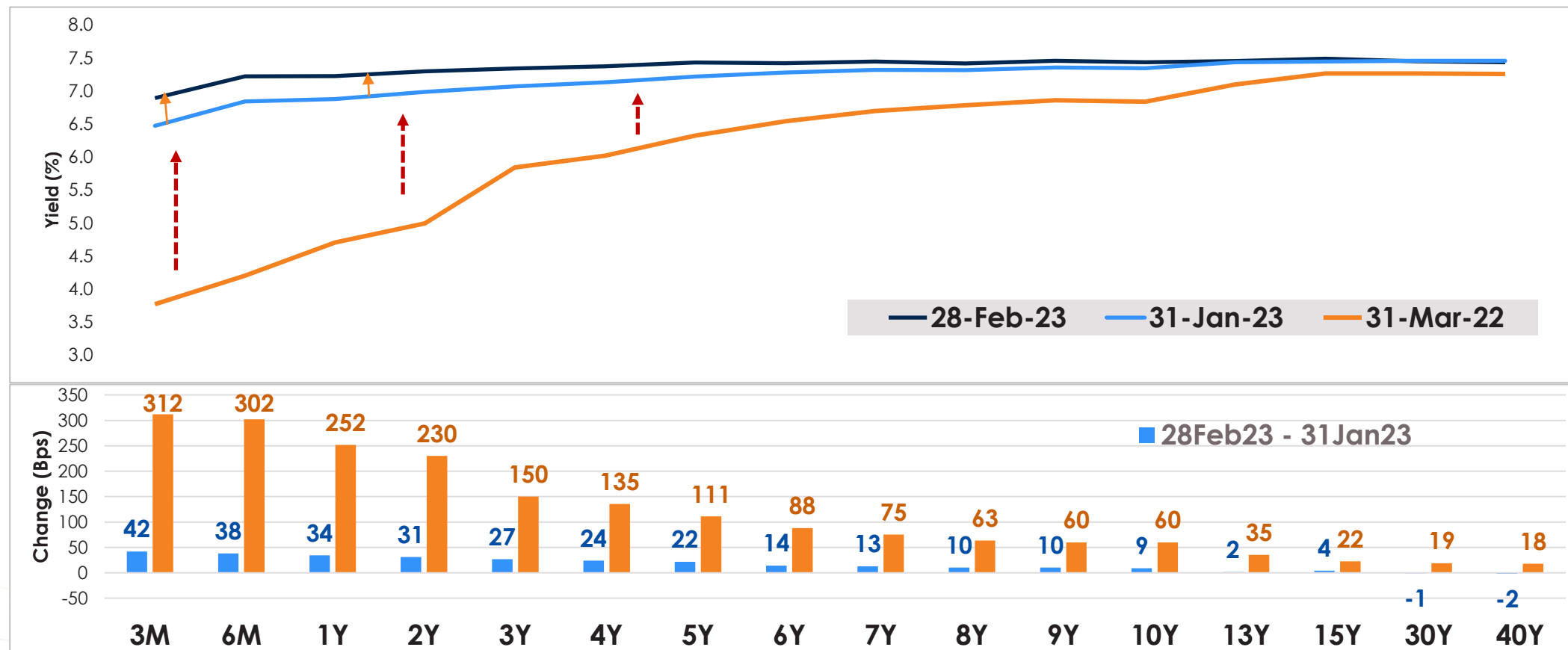


- Credit growth could slow down on combination of factors such as slower global growth, fading pent-up demand and normalizing base effects

Previous episodes of inversion have been followed by easing

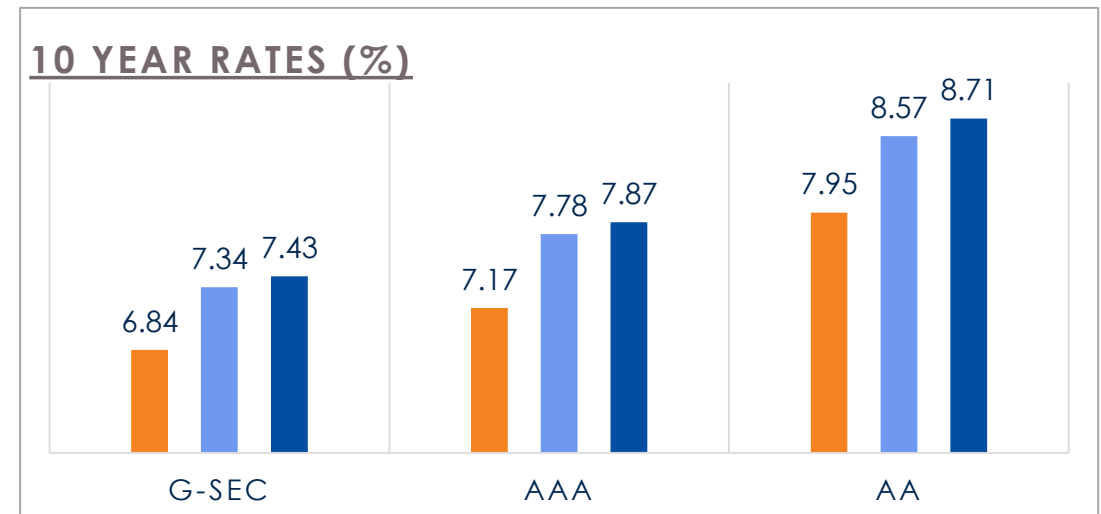
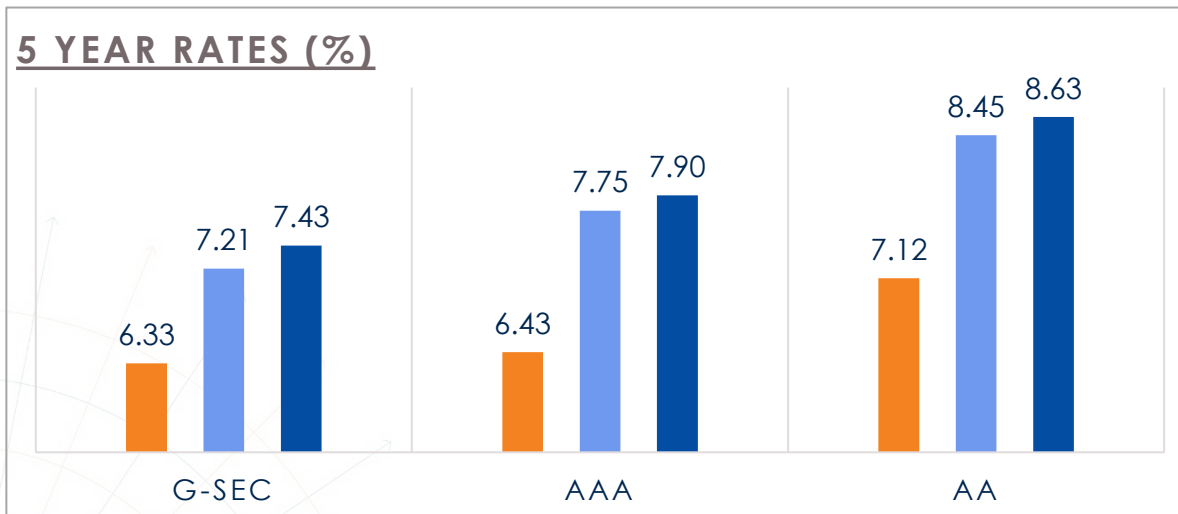
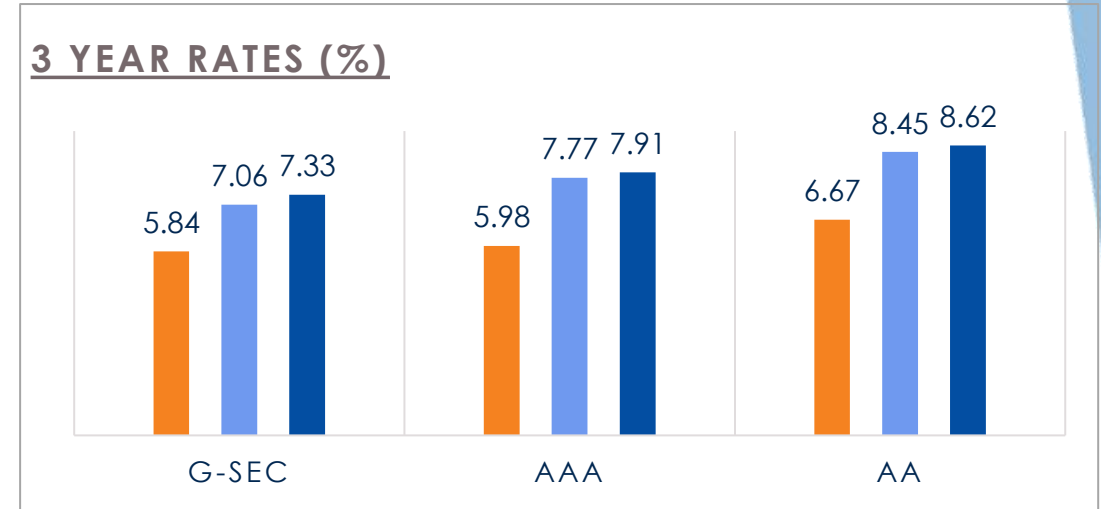
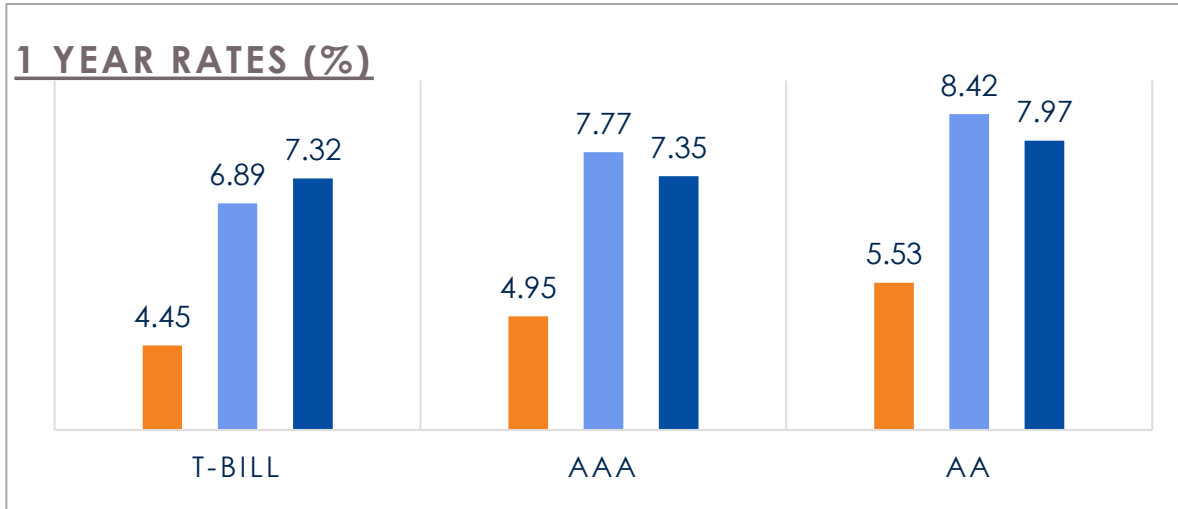


India Sovereign Curve



- Yields at the short to medium end of the curve inched upwards in Feb'23 tracking rise in US Treasury yields and inflation rate print higher than the market expectations

Yield hardened across the curve during the month



■ Mar-22
 ■ Jan-23
 ■ Feb-23

Trend of Market Borrowings by State Governments/ Union Territories

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

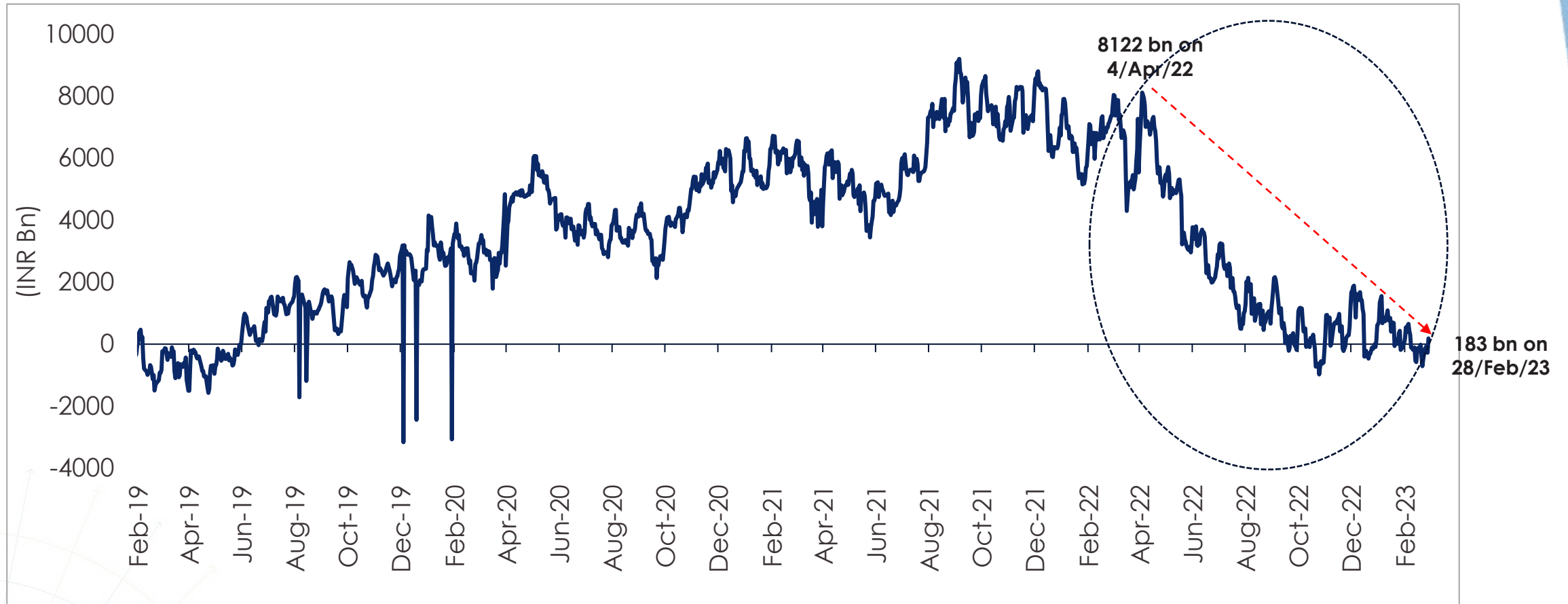
- Curve remained under flattening bias during the year as actual SDL issuance was much lower than the announced calendar

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

Date	Jan-23	Dec-22	Jan-22	Change %		FYTD (Apr-Jan)		Change (%)
				YoY	MoM	2023	2022	YoY
Exports	32.9	38.0	35.2	(6.6)	(13.5)	369	340	8.5
Oil exports	4.9	4.9	4.6	8.0	0.2	65	51	28
Non oil exports	28.0	33.1	30.7	(8.8)	(15.5)	304	290	5.1
Imports	50.7	60.2	52.6	(3.6)	(15.8)	602	494	22
Oil imports	14.7	19.4	12.4	18.8	(25)	179	125	43
Non oil imports	36.0	40.7	40.2	(10.5)	(11.7)	424	369	14.8
- Gold Imports	0.7	1.2	2.4	(71)	(41)	29	40	(28)
Trade Balance	(17.7)	(22.1)	(17.3)			(233)	(154)	

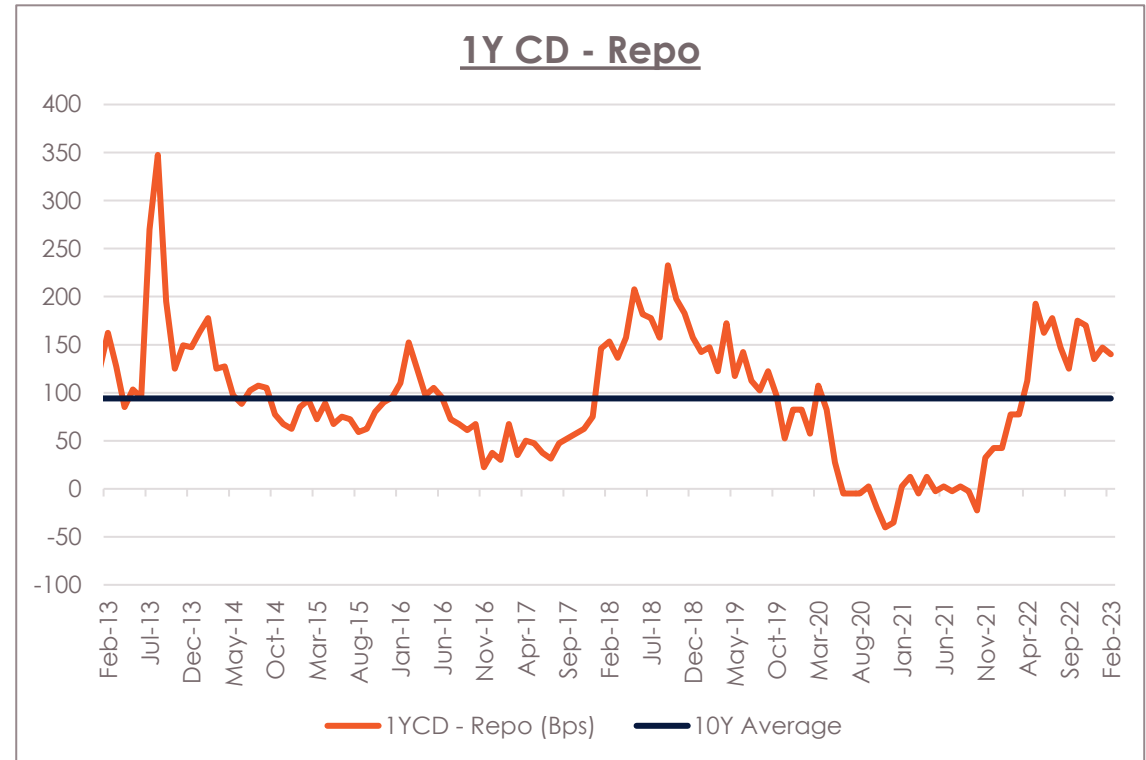
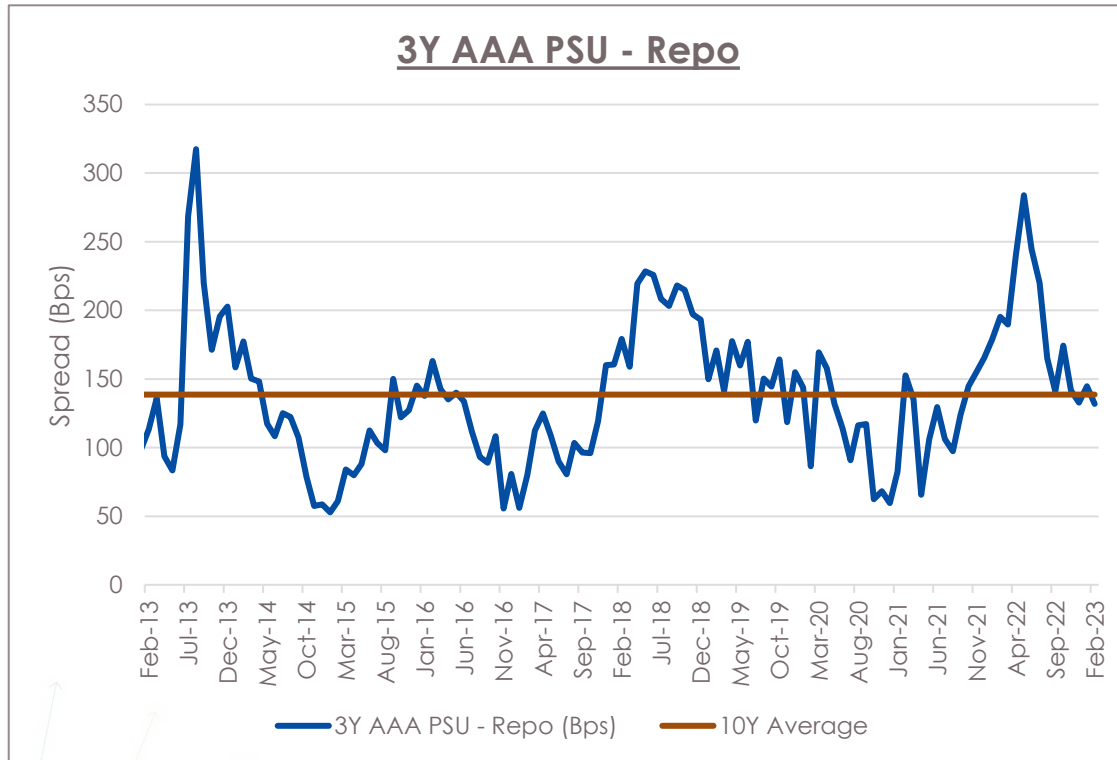
- Moderation in Negative Trade Balance but running high on a FYTD basis

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

Spreads – 3YAAA PSU & 1YCD vs Repo



- Valuations in line with long term average valuations

Key Takeaway: Focus on Accrual

RBI hiked the policy rate by 25bps and kept status quo on the policy stance against consensus. In the backdrop of global uncertainty, sticky core inflation and an upward sloping CPI inflation trajectory in FY24, RBI is exercising caution while focusing on incoming data.

RBI is expected to wait for a decisive moderation in the inflation and evaluate effects of past rate hikes and current reduced size of rate hike, before it pivots.

Expectations of economic slowdown due to front-loaded aggressive rate hikes and signs of inflation moderation are positives for rate outlook.

Expectations of incremental rate hikes are smaller in size and fewer in numbers, if any.

Supply of bonds in the new FY24 and an extended pause by the global central banks may keep the rates range bound and the yield curve flat in India.

With global conditions turning benign for fixed income and given the reasonable starting level of real yields, **investors may consider strategies that provide steady accrual.**

Investors with 6-12 months horizon may consider an allocation to low duration/ money market strategies, while Investors with more than a three-year investment horizon may consider allocation towards roll-down strategies and actively managed intermediate duration (1-4 year) categories.

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