



Haq, ek behtar zindagi ka.

UTI Market Insight Report Fixed Income

October 2022

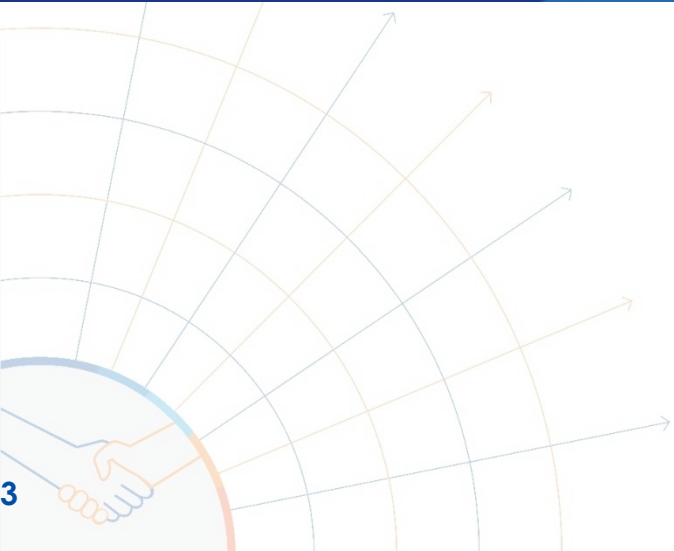
MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.

Highlights

- Risks to inflation
 - Elevated Commodity & Oil prices
 - Global Food inflation
- Escalation of Geo-political Issues
- Government borrowing in FY23
- US FED indicating aggressive rate hikes
- RBI prioritizes Inflation over Growth
- Liquidity surplus shrinking
- Shift in FII flows to emerging market assets, as the month saw positive net flows
- An announcement on Bond index inclusion could support the markets

Risk environment for rates is weak, while for credit markets remains stable

Global Trends

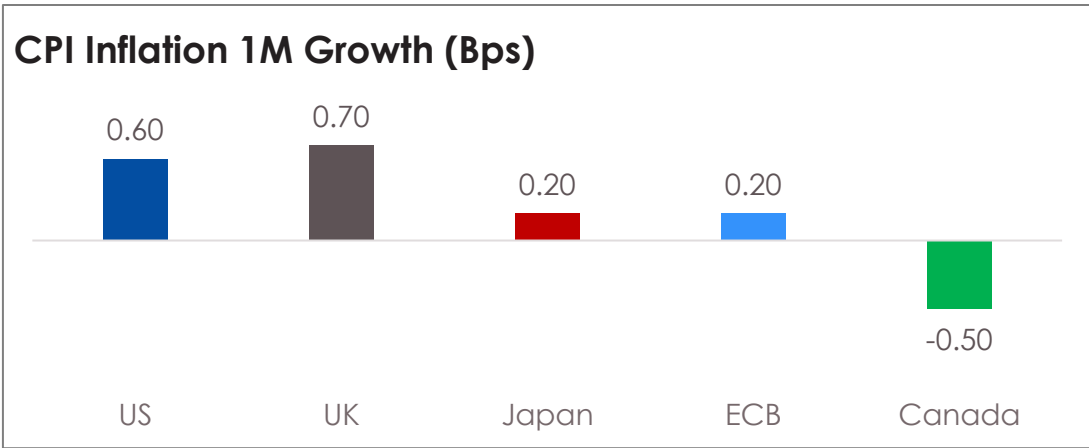
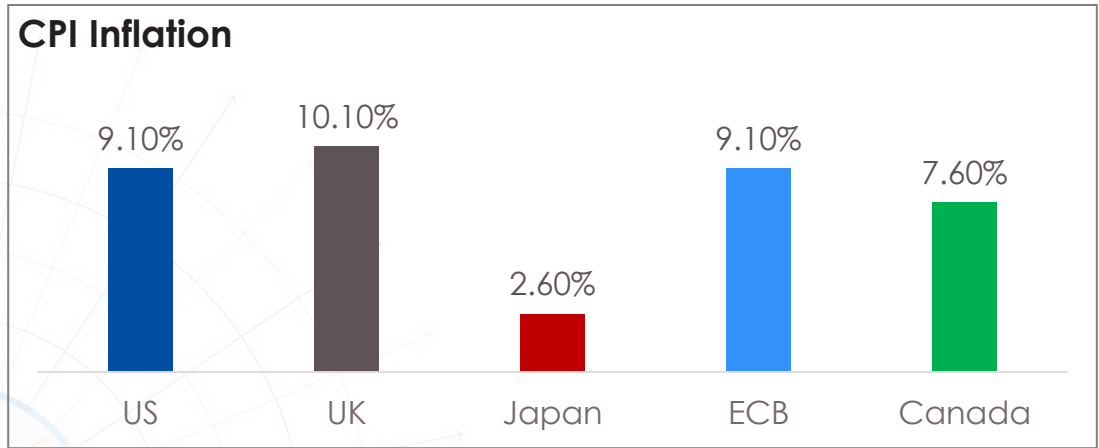
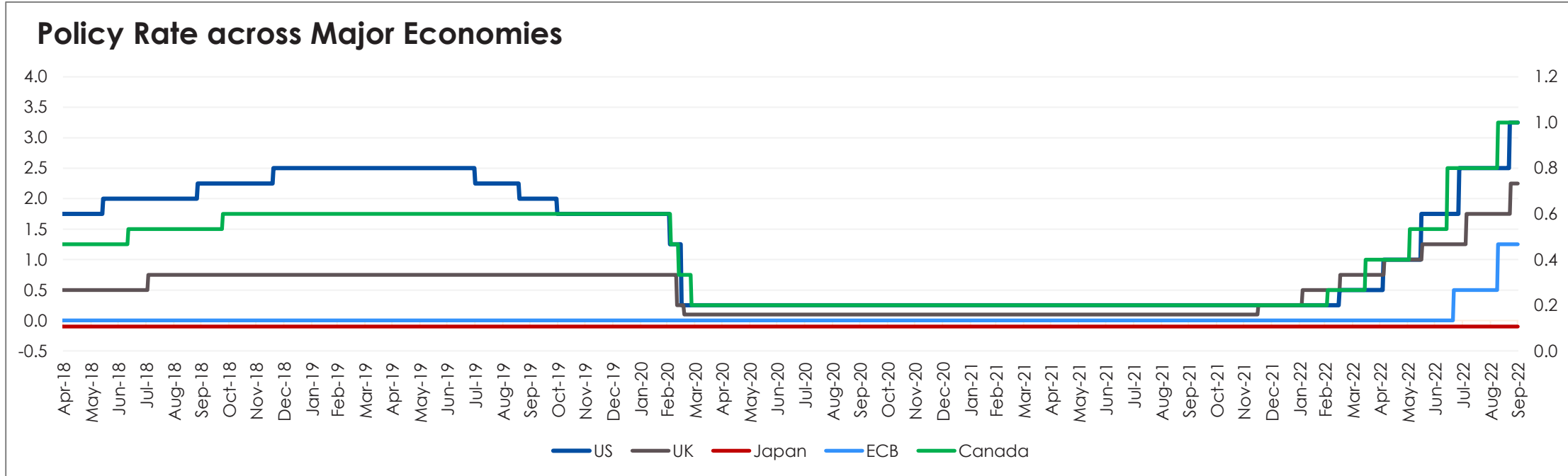


10Y Sovereign Yield Movement in key Economies

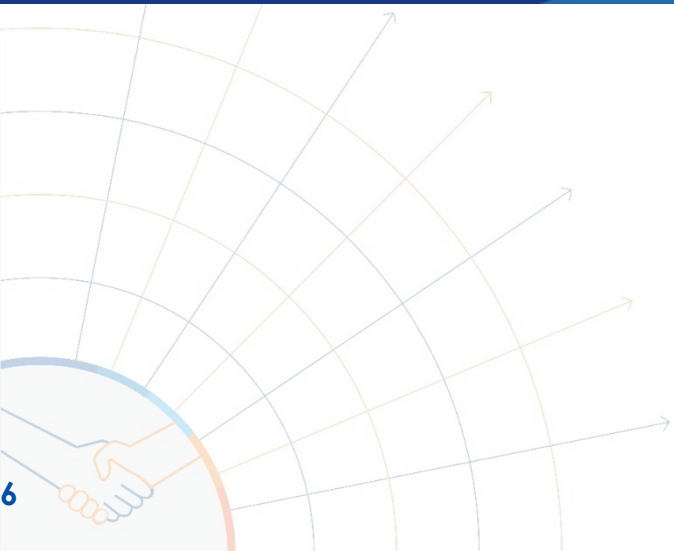
Region	Currency	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	1M Change (Bps)	FYTD Change (Bps)	Trend
West	US	2.34	2.93	2.84	3.01	2.65	3.10	3.83	73	149	
	UK	1.61	1.91	2.10	2.23	1.86	2.70	4.09	139	248	
	GERMANY	0.55	0.94	1.12	1.34	0.82	1.51	2.11	60	156	
LATAM	BRAZIL	11.61	12.29	12.56	13.07	12.99	12.29	12.02	-28	41	
	MEXICO	8.25	9.09	8.63	9.03	8.56	9.08	9.65	57	140	
Asia & Pacific	JAPAN	0.21	0.22	0.24	0.23	0.18	0.22	0.24	2	3	
	AUSTRALIA	2.84	3.13	3.35	3.66	3.06	3.60	3.89	28	105	
	SOUTH KOREA	2.95	3.21	3.33	3.64	3.19	3.64	4.28	64	133	
	CHINA	2.79	2.84	2.80	2.82	2.77	2.66	2.71	5	-8	
	INDONESIA	6.75	6.97	7.03	7.20	7.24	7.05	7.39	35	64	
	SINGAPORE	2.42	2.52	2.70	2.97	2.70	2.92	3.44	52	102	

- Major economies across the world saw an uptick in yields on the back of rising inflation and hikes by the central banks, Brazil an exception

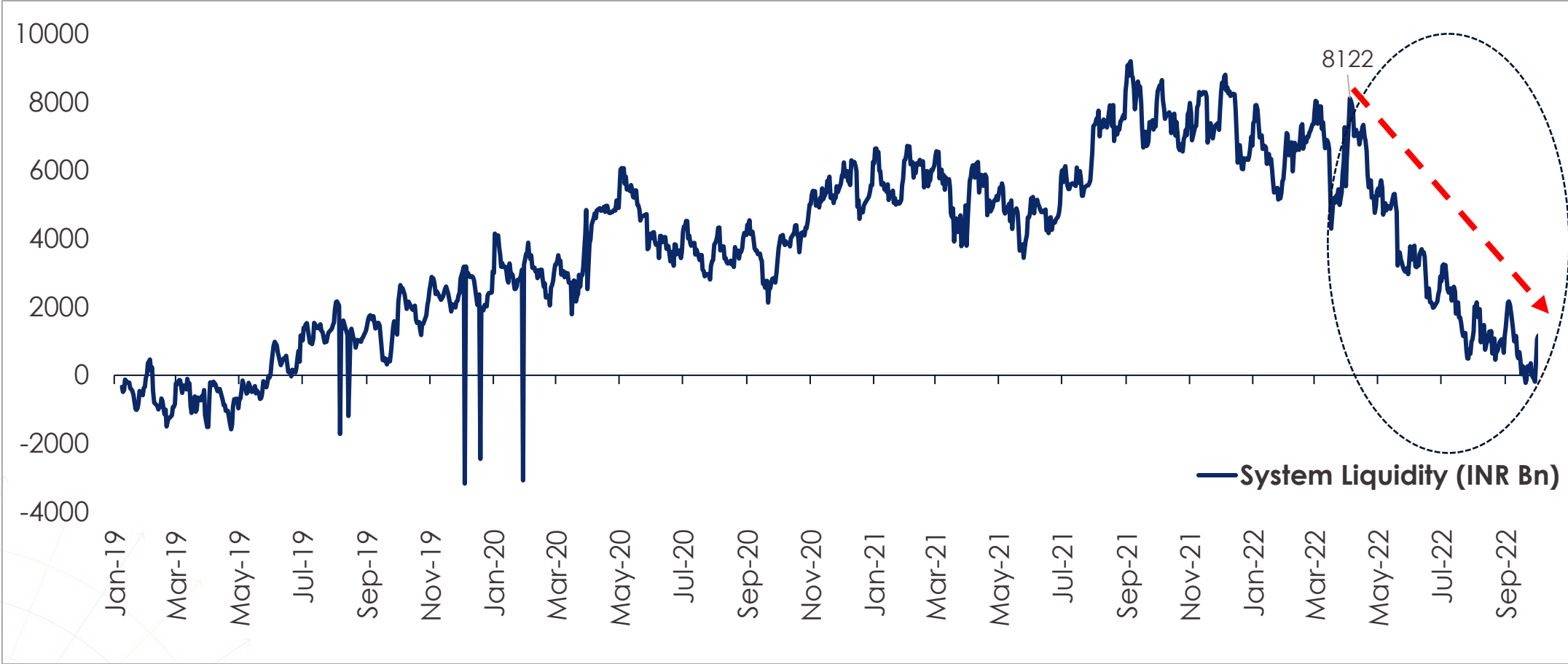
Calibrated Monetary Policy Tightening in Major Economies



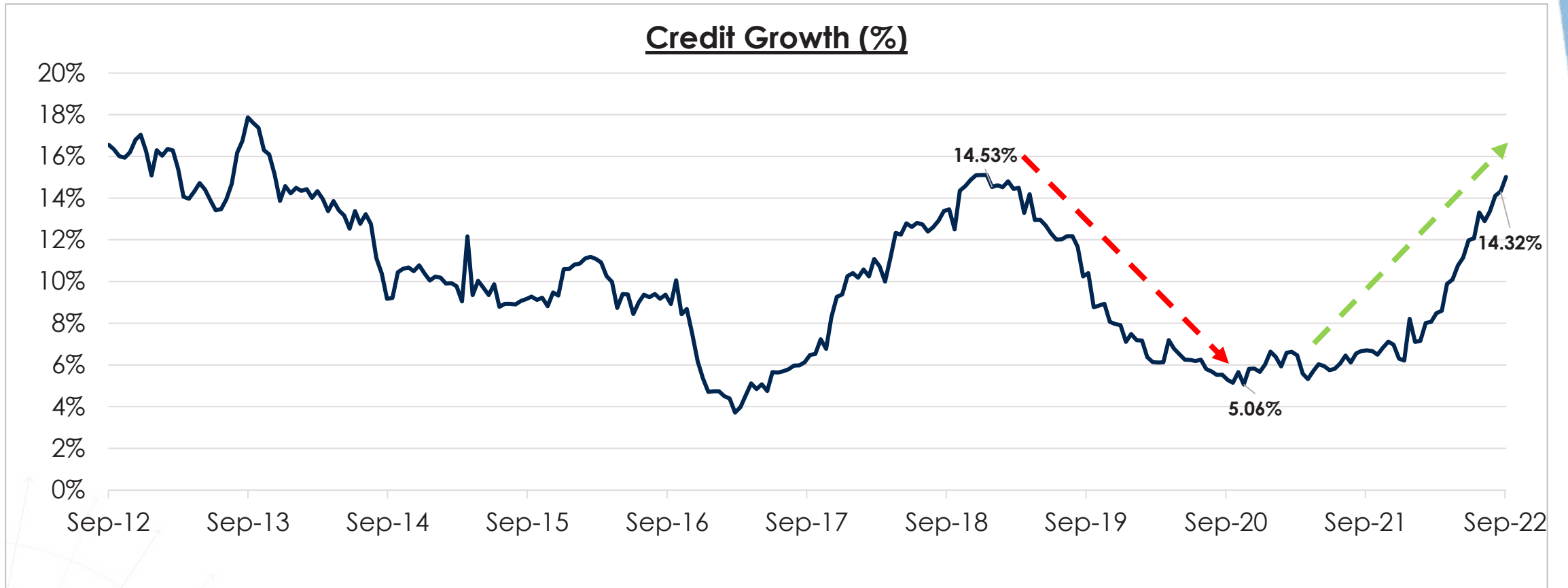
India Trends



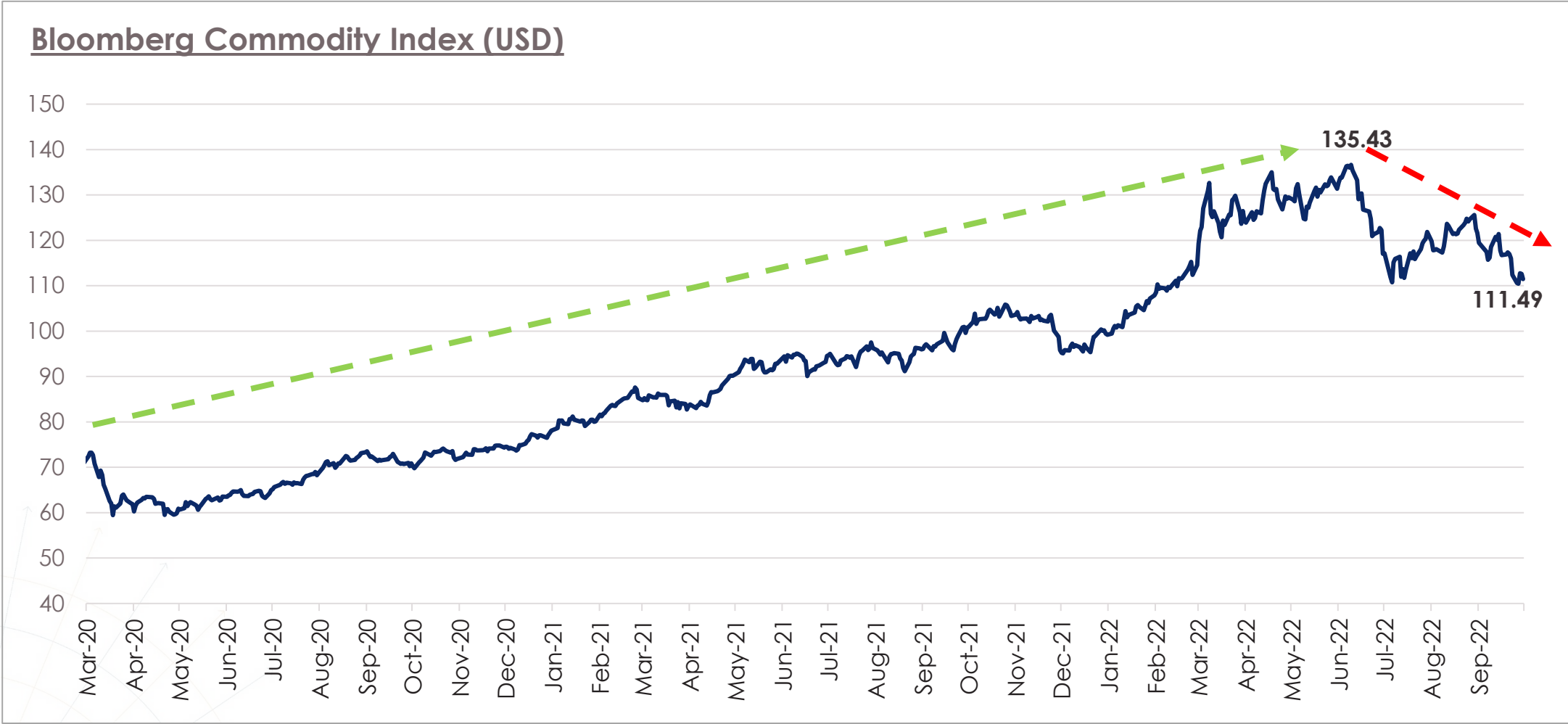
System Liquidity: Rate hike leading to rapid contraction in liquidity surplus



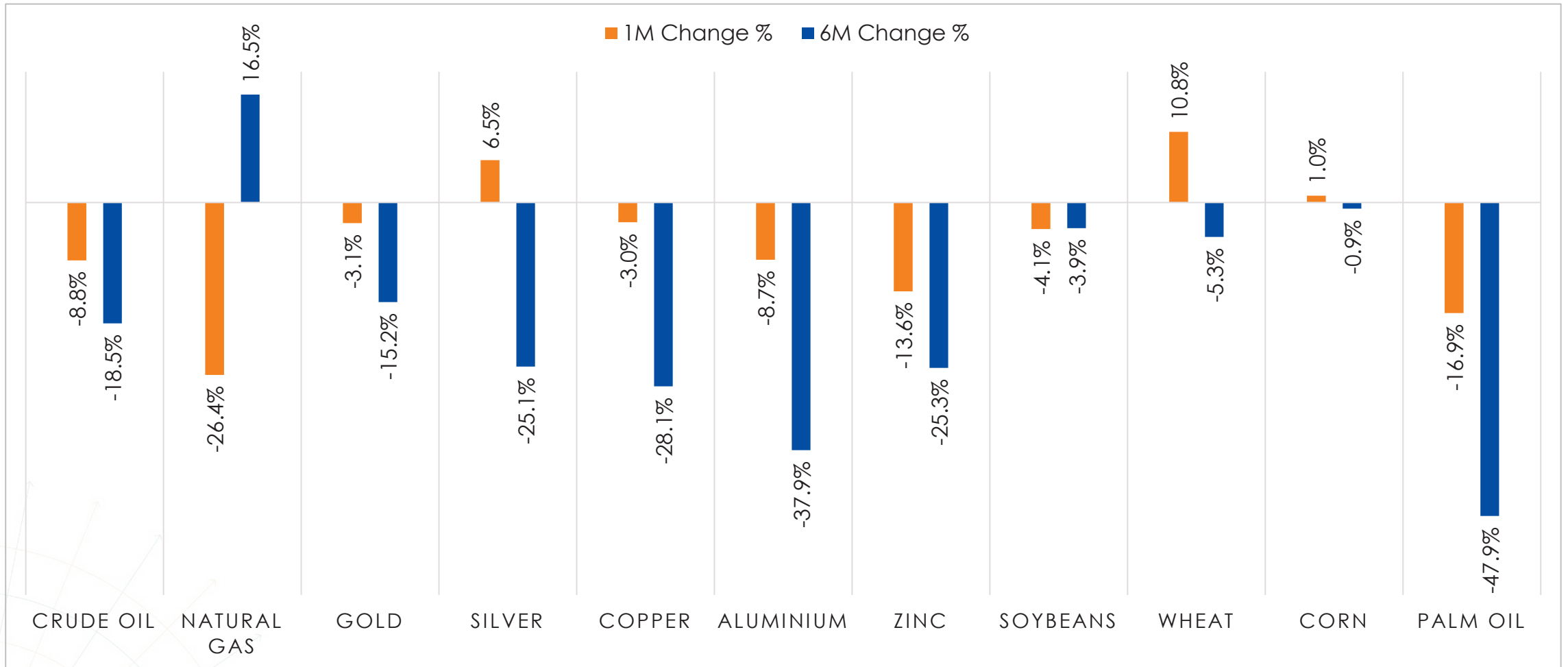
Credit Growth over Last 10 Years



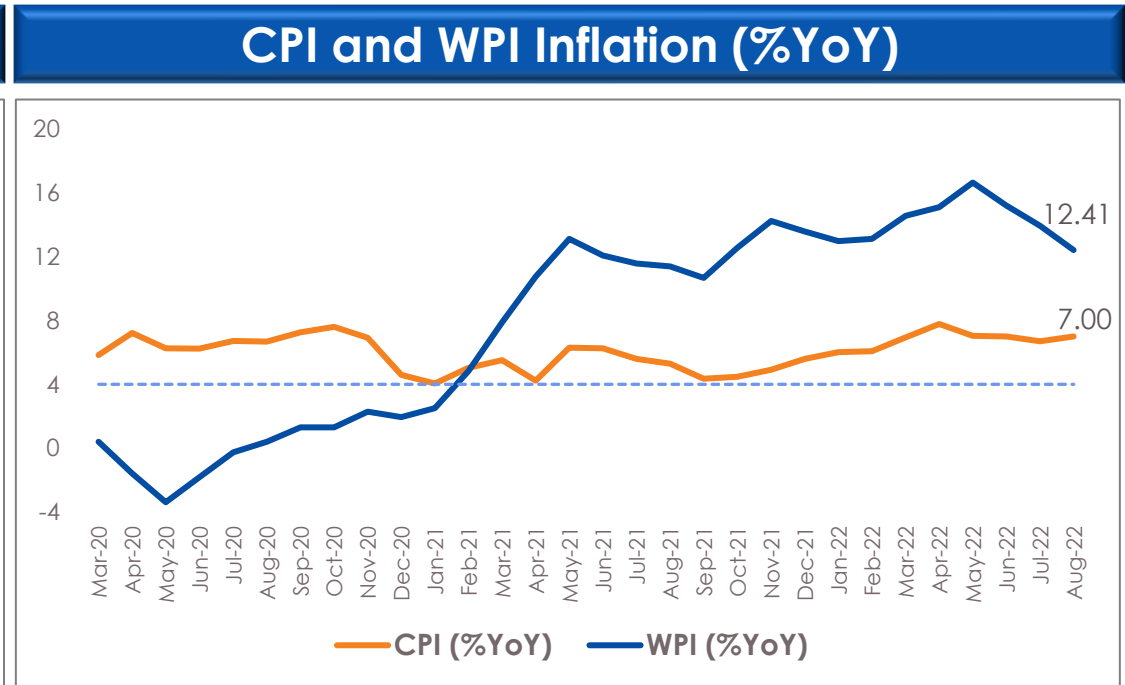
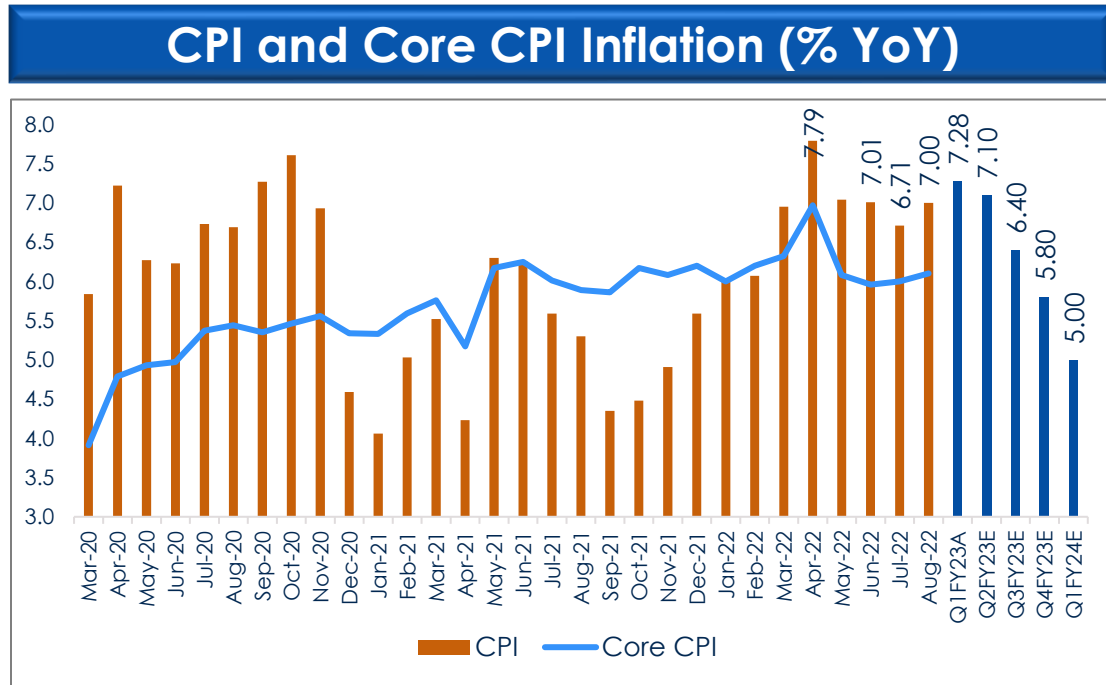
Commodity Index declines after significant rise till Jun'22



Commodities Price Trend



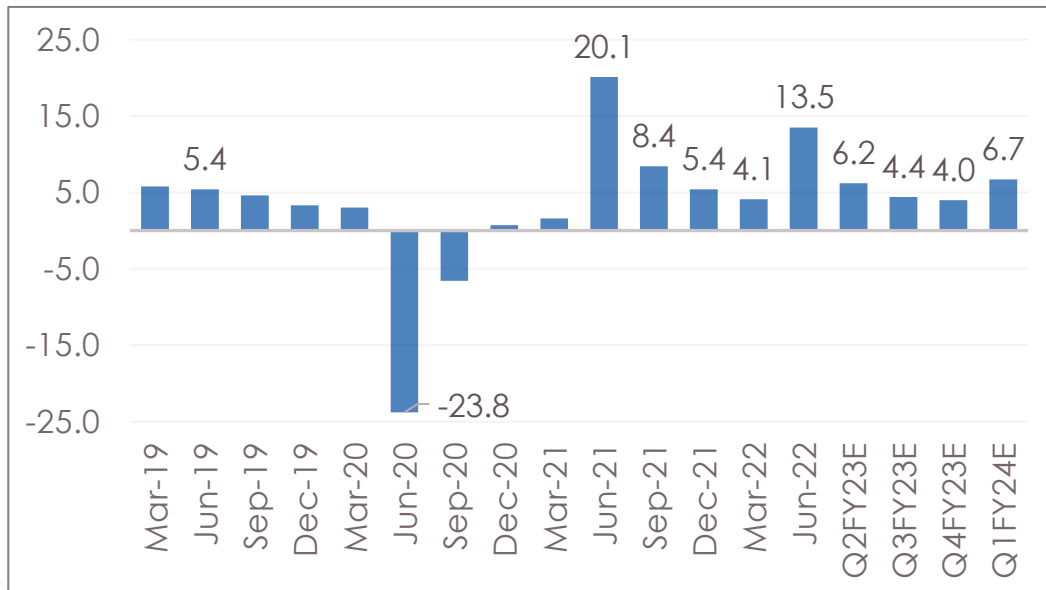
Domestic Inflation Rates



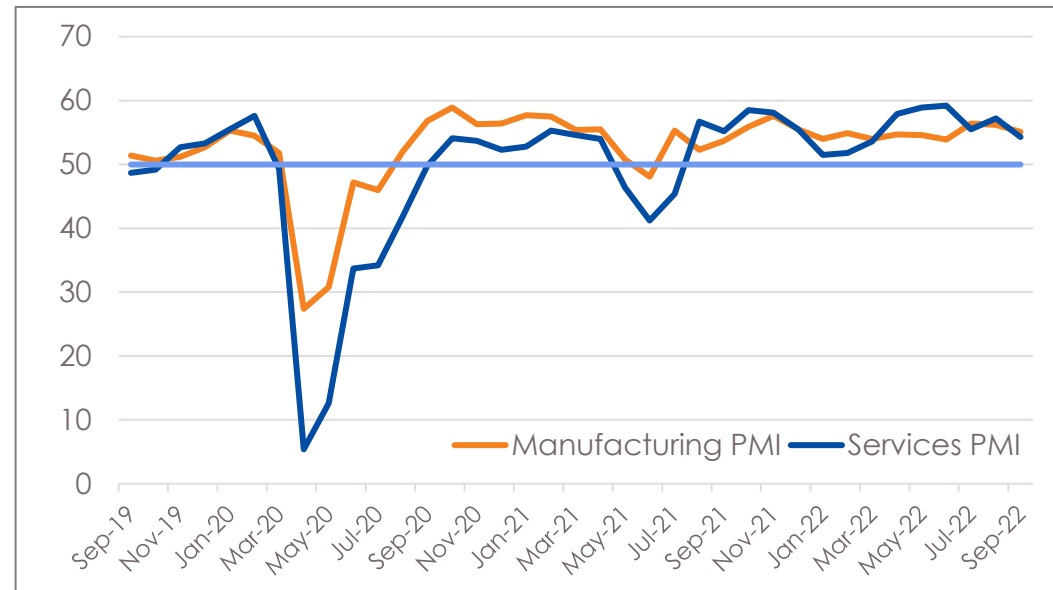
- CPI inflation rose 29bps to 7.0% in Aug 2022 after softening to 6.71% in Jul 2022 from the peak of 7.79% in Apr 2022.
- WPI inflation eased sequentially to 12.41% as food, and fuel prices decline, but stayed in double digits for the 17th month in a row. WPI inflation rate for May'22 was revised to a record high of 16.63% from 15.88%

Domestic GDP & PMI Indicators

Quarterly GDP - Annualized (%)

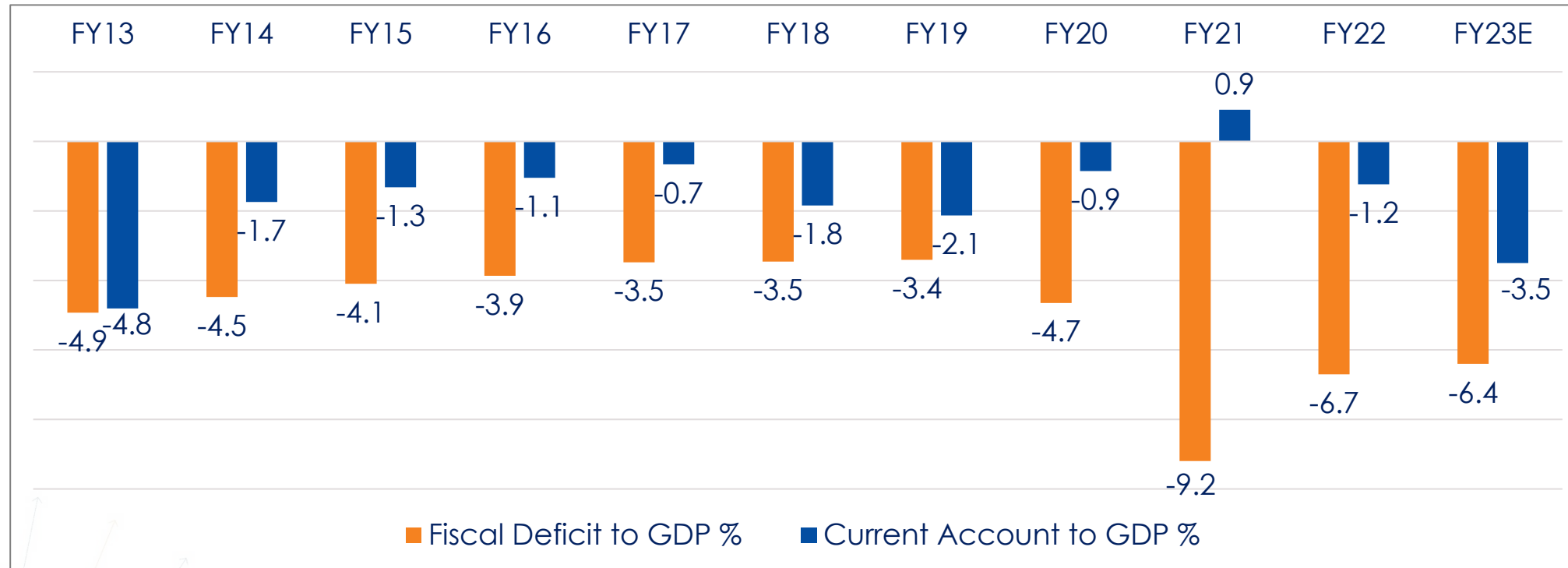


Purchasing Managers Index (PMI)



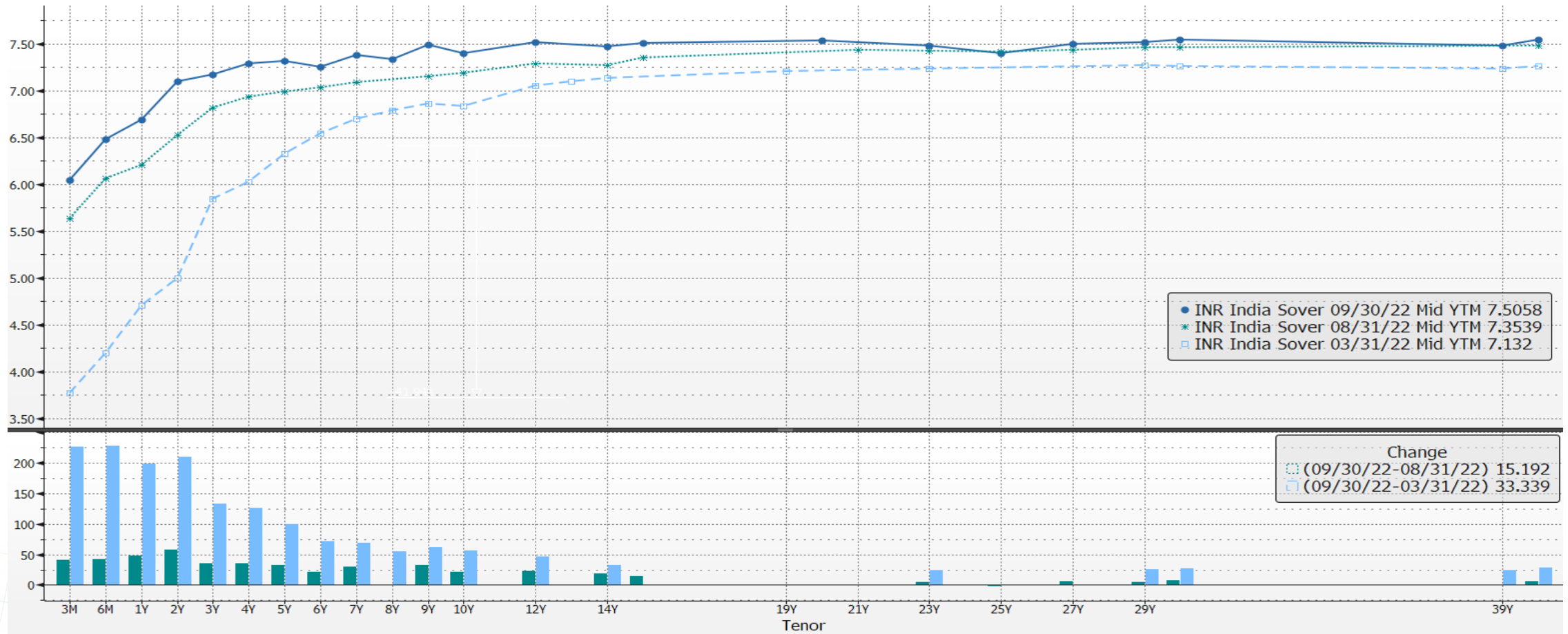
- India's GDP growth grew by 13.5% in 1QFY23, primarily on account of better performance by the agriculture and services sectors, lower than the RBI's projection of 16.2% released in Aug monetary policy.
- PMI Indicators continue to remain in the expansion zone.

Fiscal Deficit & Current Account Deficit



- India's Fiscal deficit for FY22 improved to 6.7%, lower than the revised budget estimate of 6.9%, primarily due to high tax collections.
- India's CAD decreased to US\$ 13.4 billion (1.5 % of GDP) in 4QFY22 from US\$ 22.2 billion (2.6% of GDP) in 3QFY22, mainly on account of moderation in the trade deficit and lower net outgo of primary income.

India Sovereign Curve – Yields rose across the Curve

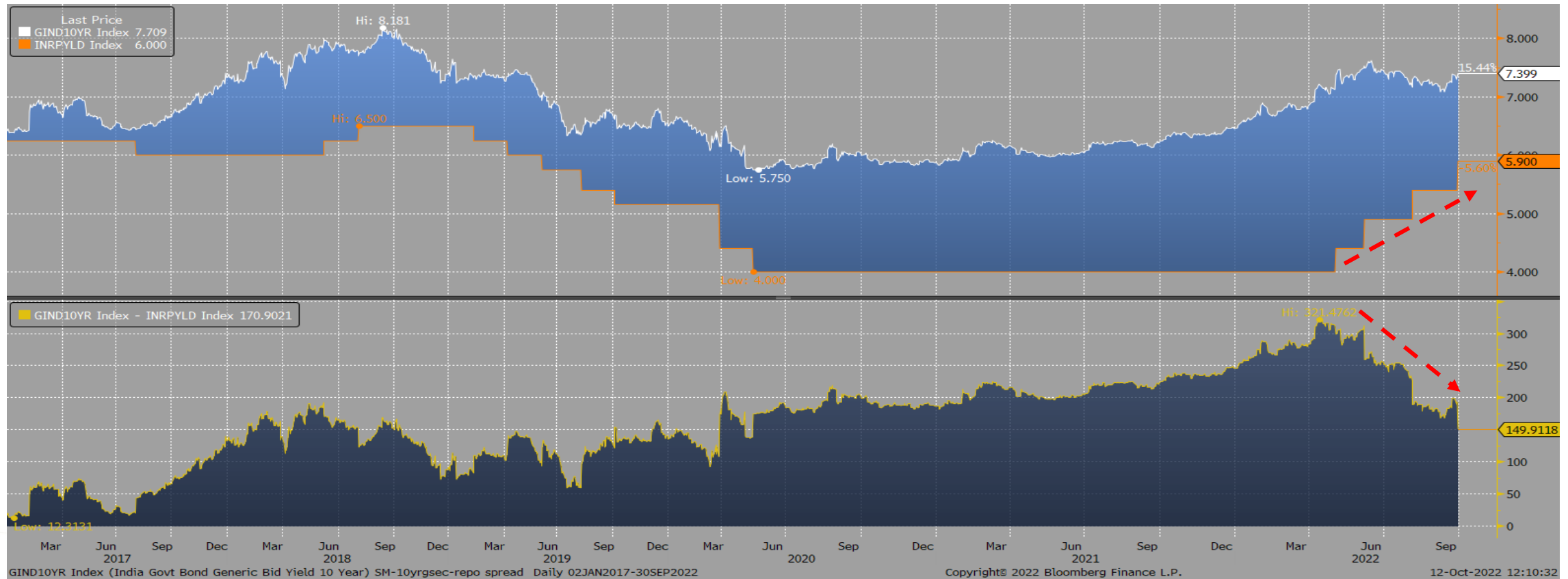


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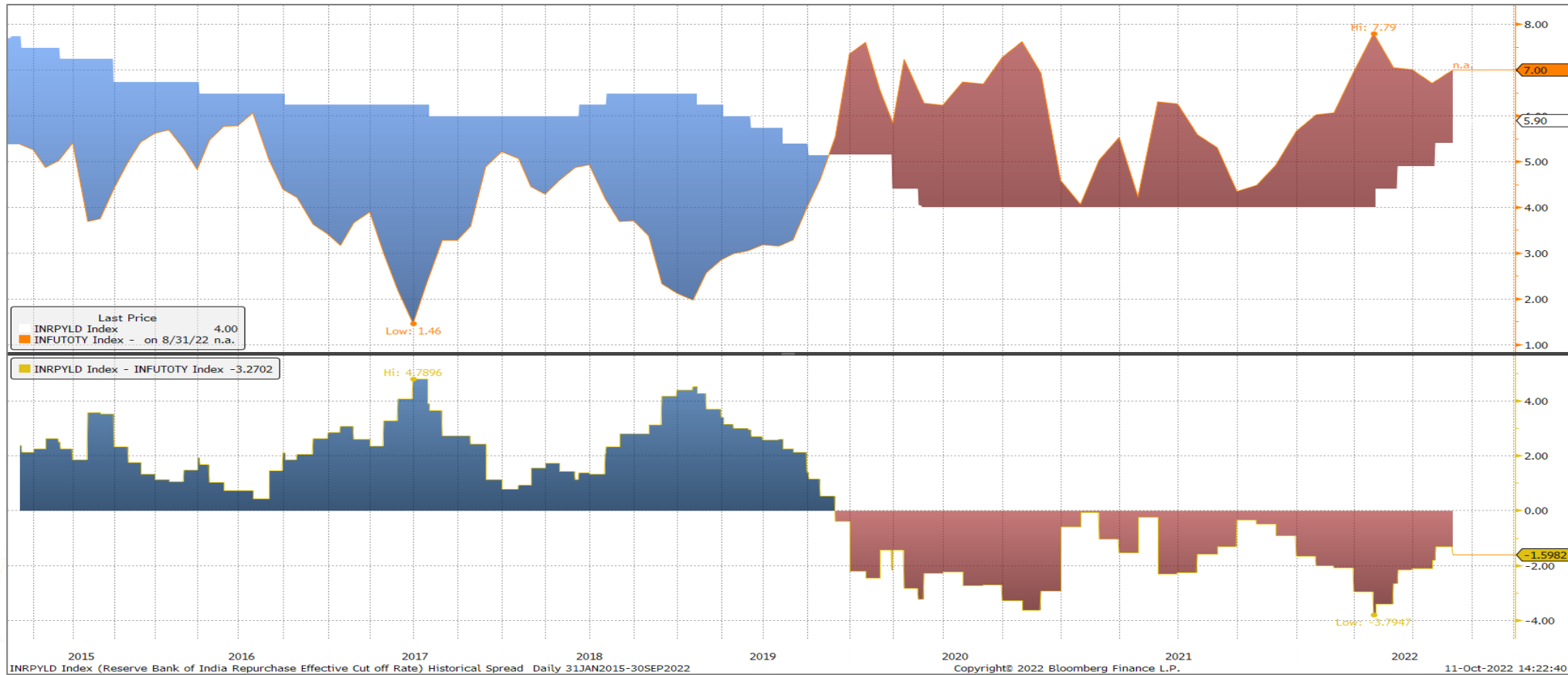
- The yield curve has flattened meaningfully since March 2022.

RBI Repo Rate vs 10Y GSEC: Spreads Narrowing, yet high



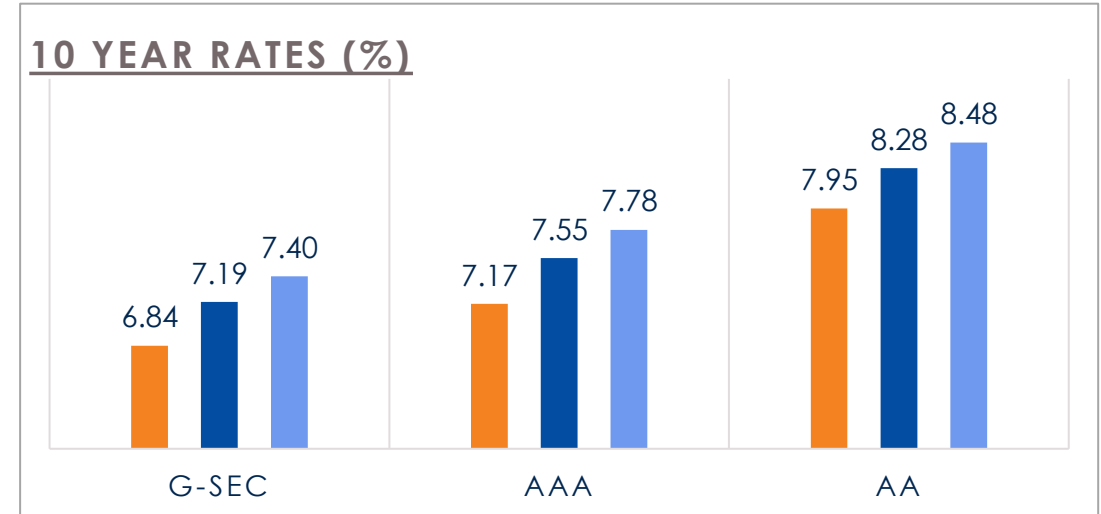
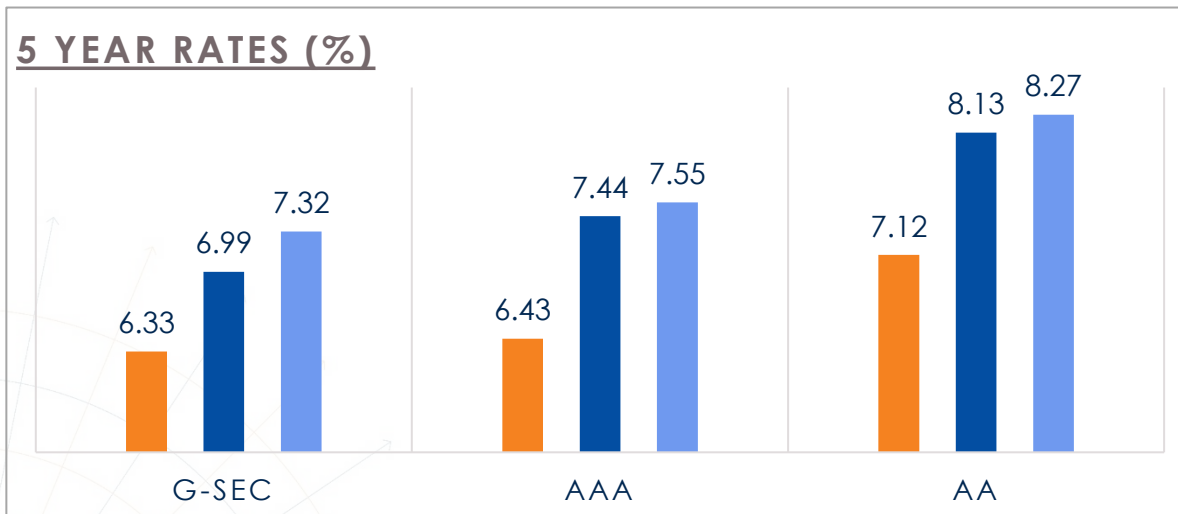
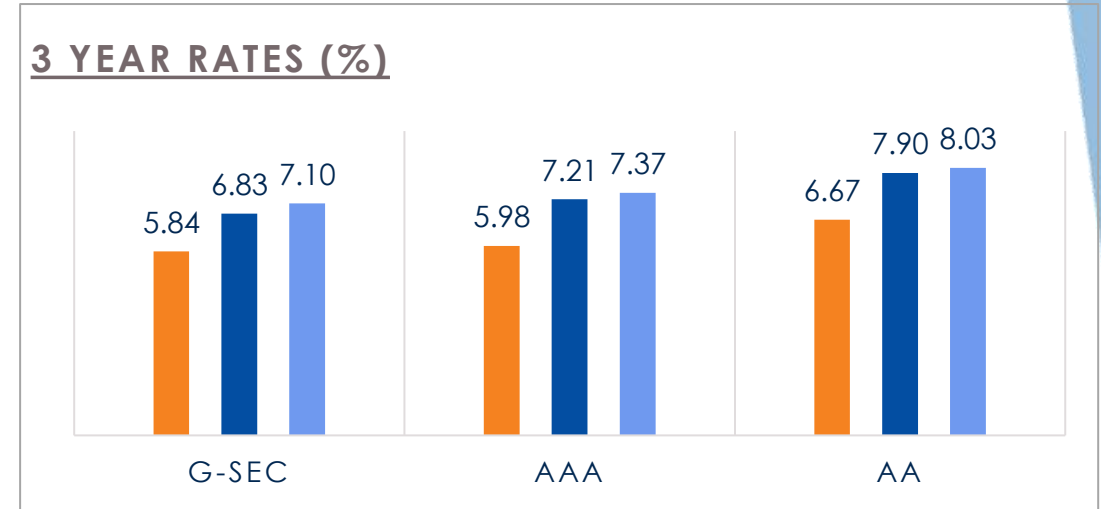
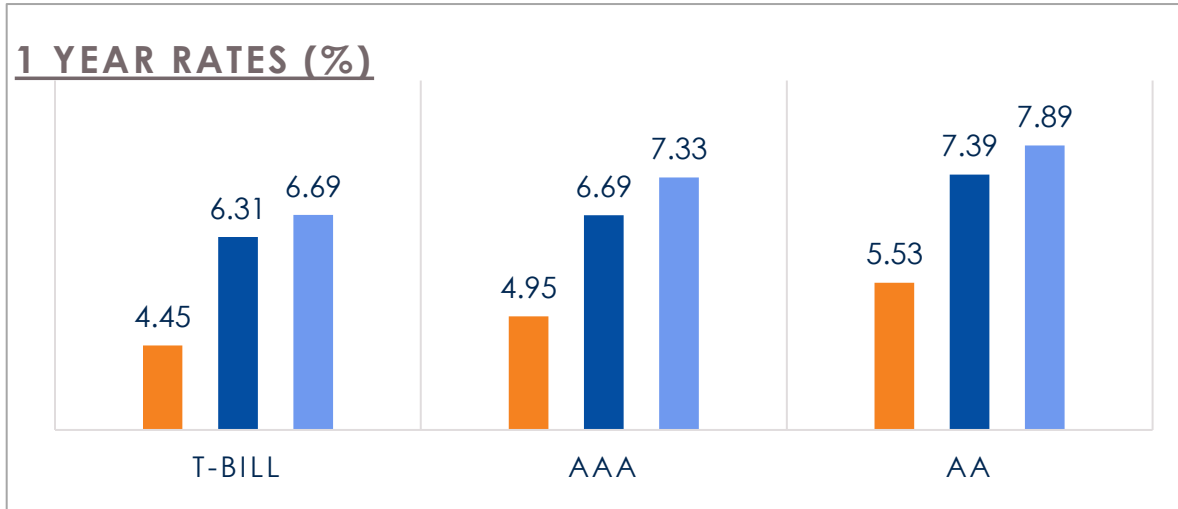
- News on the possibility of Inclusion of India Sovereign Bond in Global EM Index supported Market Sentiments.
- Spread between Repo rate and 10Y GSEC narrowed as the RBI raised the policy rate, yet spreads remain at high levels and currently at 149 bps.

Real Rates (Repo Rate – CPI Inflation Rate)



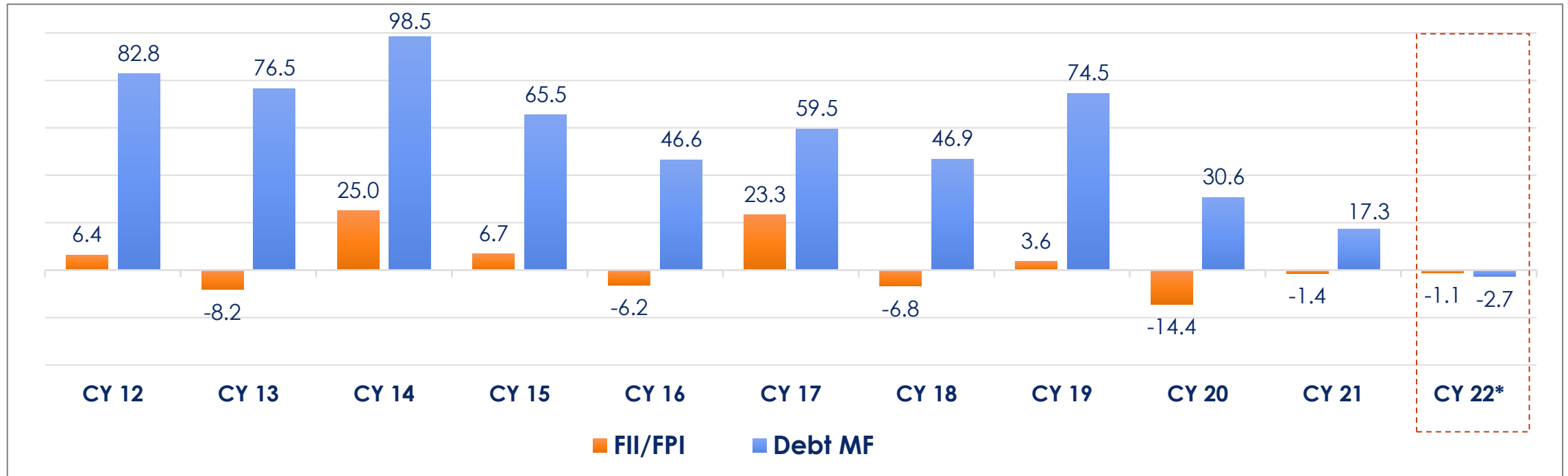
- Real policy rates continue to remain negative with Retail inflation at 7%.

Yield movements across the Curve

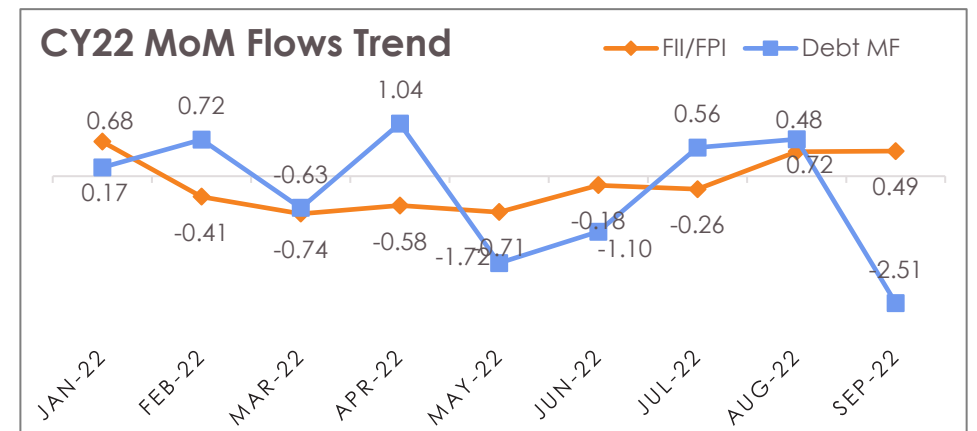


■ Mar-22
 ■ Aug-22
 ■ Sep-22

Fund Flows: FII/FPI and Debt MF Inflow Trend (USD Bn)



- FII/ FPI net flows remained positive in Sep'22 after staying in the negative zone for six months till Aug'22.
- Debt Mutual Funds flows dipped further by 2.51 USD Bn in Sep'22 vs previous month.



Fixed Income: Key Takeaways

The continued geo-political tensions between Russia & Ukraine & strict lockdowns by China have increased volatility, disrupted supply chains & led to a substantial increase in commodity prices. This is imparting upside bias on the inflation.

US FED indicating additional rate hikes as inflation remains elevated. The Fed Dot-Plot is revised in September with peak Fed rate at 4.65% (earlier 4%). Meanwhile Fed futures pricing in Fed rate of 5%. Likely revision on Fed Dot-Plot in December meeting.

The RBI had hiked the policy rate by 50 bps to 5.90% in Sep'22 MPC (a hike of 190bps since May), to restrain the mounting inflationary pressures, in line with the consensus market expectations of frontloaded normalization of policy rates.

Our base case is of a terminal repo rate between **6-6.50%** going forward, which we believe is largely priced in the short to medium part of the curve (2-5 years) although near-term actions such as the change in borrowing mix, possible RBI interventions (Operation twists) & global cues could impart intermittent volatility in the near term.

The yield curve which had been considerably steep in the last 2 years has largely flattened in the 1-5 year segment, on the expectations of policy normalization. However, the expected heavy Centre/ State bond supply could weigh on the long end of the yield curve (10 year beyond) in the near term.

The envisaged terminal rate, however, might not materialize in case of a sharp slowdown of the global economy due to aggressive rate actions by the US Federal Reserve or easing of geo-political tensions in Europe.

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