

# MARKET INSIGHT

An Overview & Outlook on Fixed Income Market  
September 2023



# Global Trends

## JPMorgan Global Manufacturing PMI



Source: Bloomberg

## Global trade and output volumes

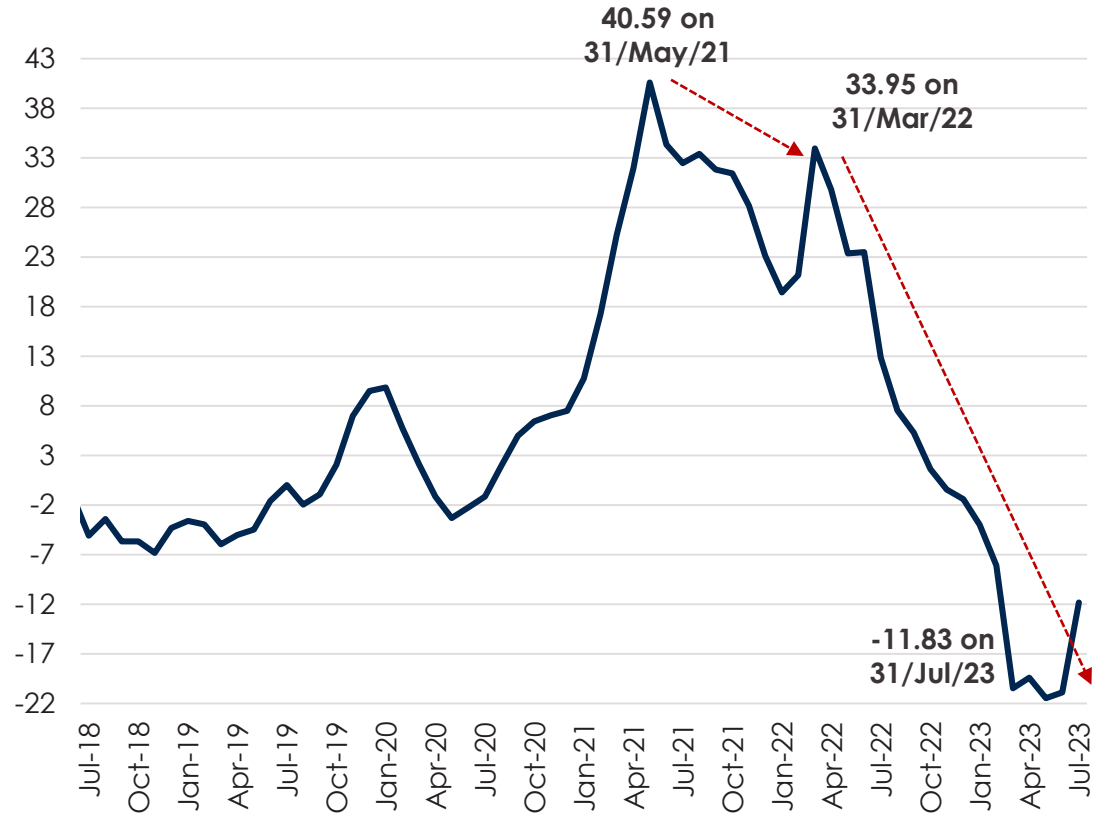


Source: Macrobond, CPB

## Bloomberg Commodity Index (USD)

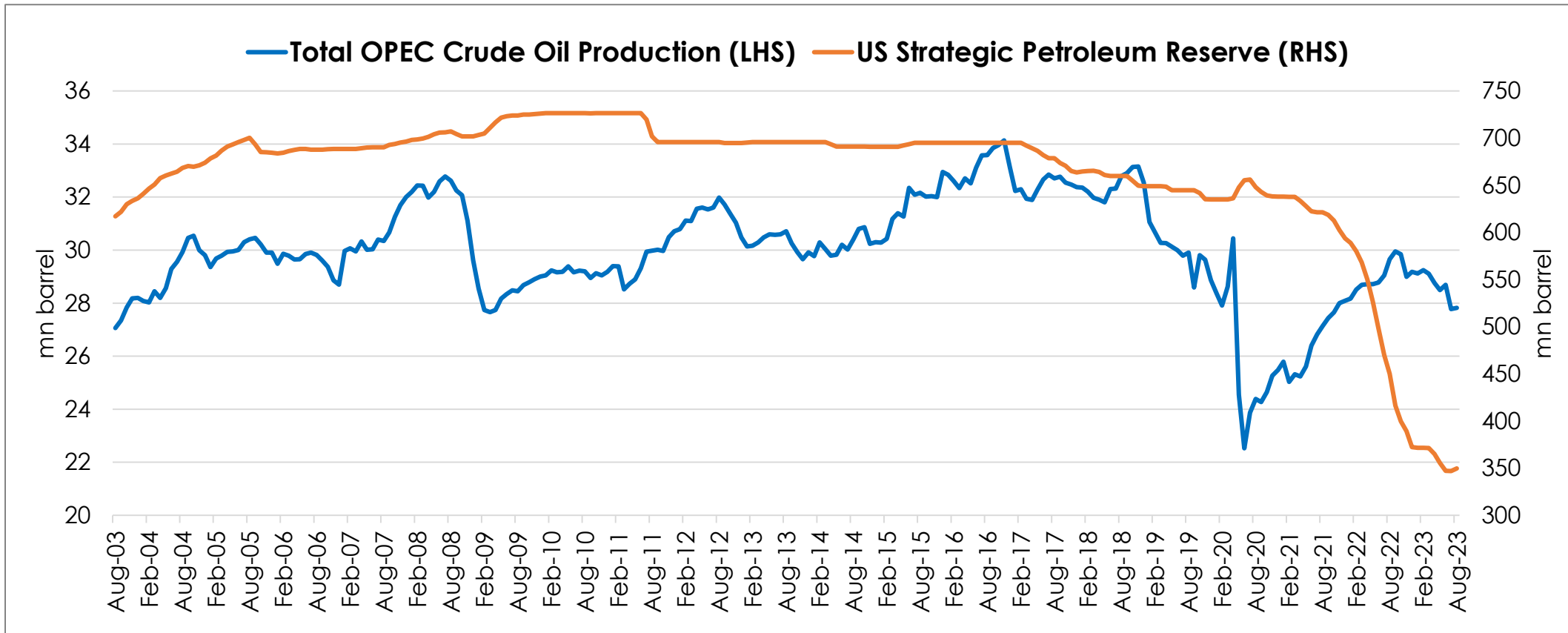


## FAO Food %YoY

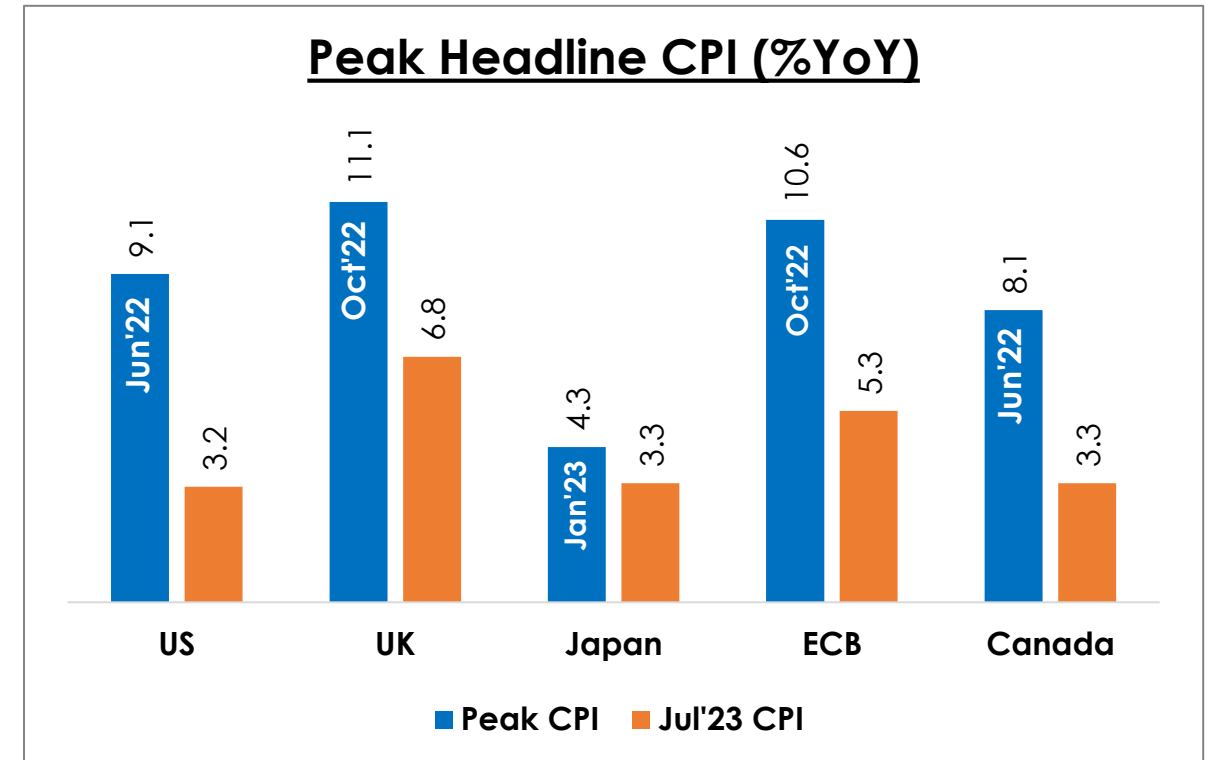
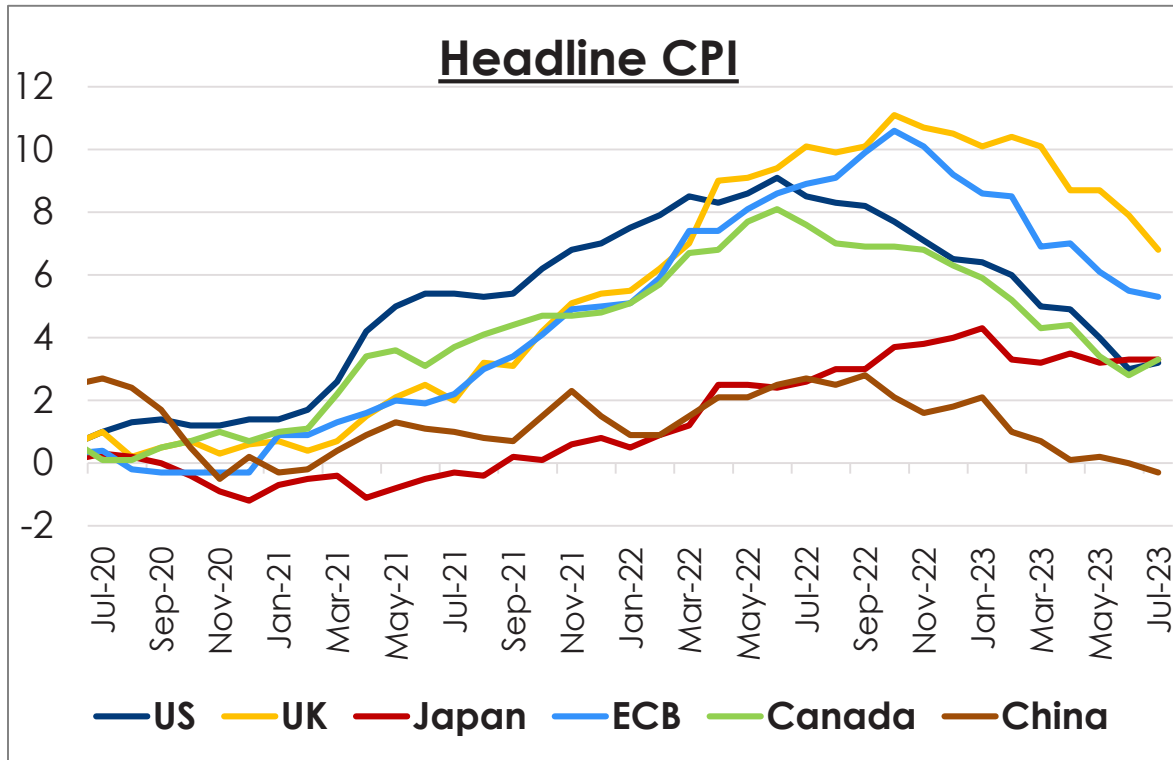


- Extreme weather conditions this year have had an adverse impact on food prices – July was the hottest on record globally
- The economic impact of sustained move in food prices may vary & will depend on import intensity and the importance of food in the consumption basket

# Crude prices rose on account of OPEC+ production cuts















- Production cuts by OPEC+ & concerns of restocking of the US strategic petroleum reserve is keeping oil prices high



- Inflation continues to moderate from its peak levels across major economies. Journey towards their target levels will be more critical now for decisive central bank action

# 10Y Sovereign Yield Movement in Key Economies

Region	Country	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	1M Change (Bps)	YoY Change (Bps)	Trend
WEST	US	3.10	3.83	4.05	3.61	3.87	3.51	3.92	3.47	3.42	3.64	3.84	3.96	4.11	15	101	
	UK	2.70	4.09	3.52	3.16	3.67	3.33	3.83	3.49	3.72	4.18	4.39	4.31	4.36	5	166	
	GERMANY	1.51	2.11	2.14	1.93	2.57	2.29	2.65	2.29	2.31	2.28	2.39	2.49	2.47	-3	96	
LATAM	BRAZIL	12.29	12.02	11.87	12.74	12.69	13.24	13.45	12.82	12.34	11.57	10.63	10.81	11.17	35	-113	
	MEXICO	9.08	9.65	9.83	9.21	9.02	8.70	9.32	8.84	8.78	8.80	8.67	8.81	9.28	47	20	
ASIA PACIFIC	JAPAN	0.22	0.24	0.24	0.25	0.41	0.49	0.50	0.33	0.39	0.43	0.39	0.60	0.65	5	42	
	AUSTRALIA	3.60	3.89	3.76	3.53	4.05	3.55	3.85	3.30	3.34	3.61	4.02	4.06	4.03	-3	42	
	SOUTH KOREA	3.64	4.28	4.24	3.70	3.56	3.25	3.75	3.28	3.35	3.49	3.66	3.76	3.82	6	19	
	CHINA	2.64	2.75	2.65	2.92	2.84	2.90	2.92	2.86	2.78	2.71	2.64	2.66	2.58	-8	-6	
	INDONESIA	7.10	7.35	7.51	6.91	6.92	6.69	6.88	6.77	6.51	6.36	6.24	6.23	6.36	13	-74	
	SINGAPORE	2.98	3.47	3.41	3.06	3.08	2.95	3.33	2.93	2.76	2.84	3.06	3.04	3.13	9	15	
	INDIA	7.19	7.40	7.45	7.28	7.33	7.34	7.43	7.31	7.12	6.99	7.12	7.18	7.16	-1	-3	

- Bond yields hardened driven by the US treasuries as market participants remained concerned on still sticky inflation & concerns of long pause by central banks



# India Trends



## Sector-wise Real GVA Growth

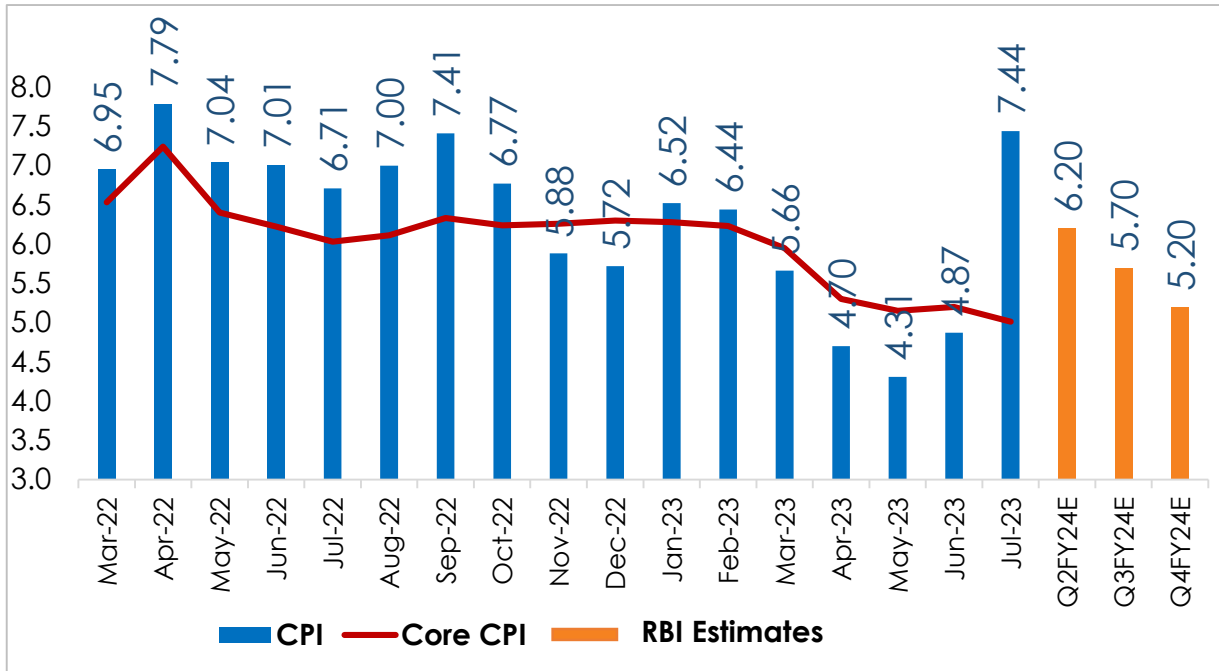
	Wts	FY22	Jun'22	Sep'22	Dec'22	Mar'23	FY23	Jun'23
<b>Real GVA</b>		<b>8.8%</b>	<b>11.9%</b>	<b>5.4%</b>	<b>4.7%</b>	<b>6.5%</b>	<b>7.0%</b>	<b>7.8%</b>
<b>Agriculture, forest &amp; fishing</b>	<b>16%</b>	<b>3.5%</b>	<b>2.4%</b>	<b>2.5%</b>	<b>4.7%</b>	<b>5.5%</b>	<b>4.0%</b>	<b>3.5%</b>
<b>Industry</b>	<b>23%</b>	<b>10.5%</b>	<b>7.3%</b>	<b>-2.5%</b>	<b>0.1%</b>	<b>4.7%</b>	<b>2.4%</b>	<b>4.6%</b>
Mining & Quarrying		7.1%	9.5%	-0.1%	4.1%	4.3%	4.6%	5.8%
Manufacturing		11.1%	6.1%	-3.8%	-1.4%	4.5%	1.3%	4.7%
Electricity Gas, Water Supply		9.9%	14.9%	6.0%	8.2%	6.9%	9.0%	2.9%
<b>Services</b>	<b>61%</b>	<b>9.6%</b>	<b>16.3%</b>	<b>8.9%</b>	<b>6.4%</b>	<b>7.4%</b>	<b>9.5%</b>	<b>10.0%</b>
Trade, Hotels, transport, Communication Serv		13.8%	25.7%	15.6%	9.6%	9.1%	14.0%	9.2%
Financial, Real Estate and Professional Serv		4.7%	8.5%	7.1%	5.7%	7.1%	7.1%	12.2%
Public Administration, Defense & Other Services		9.7%	21.3%	5.6%	2.0%	3.1%	7.2%	7.9%
Construction		14.8%	16.0%	5.7%	8.3%	10.4%	10.0%	7.9%

## Real GDP Growth & Components

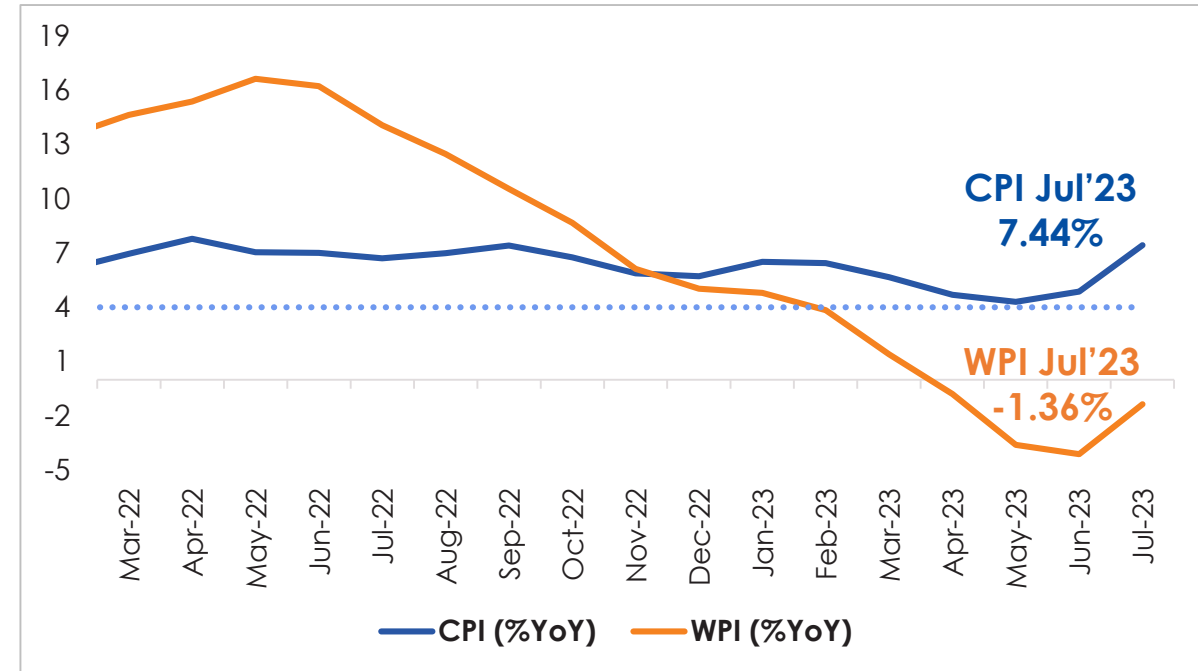
	Wts	FY22	Jun'22	Sep'22	Dec'22	Mar'23	FY23	Jun'23
<b>GDP</b>		<b>9.1%</b>	<b>13.1%</b>	<b>6.2%</b>	<b>4.5%</b>	<b>6.1%</b>	<b>7.2%</b>	<b>7.8%</b>
PFCE	57%	11.2%	19.8%	8.3%	2.2%	2.8%	7.5%	6.0%
GFCE	10%	6.6%	1.8%	-4.1%	2.3%	2.3%	0.1%	-0.7%
GFCF	32%	14.6%	20.4%	9.6%	8.9%	8.9%	11.4%	8.0%
Exports	22%	29.3%	19.6%	12.2%	11.9%	11.9%	13.6%	-7.7%
Imports	25%	21.8%	33.6%	23.1%	4.9%	4.9%	17.1%	10.1%

- Central government's capex push continued
- Domestic demand will have to broaden to rural consumption and private investment for growth momentum to sustain

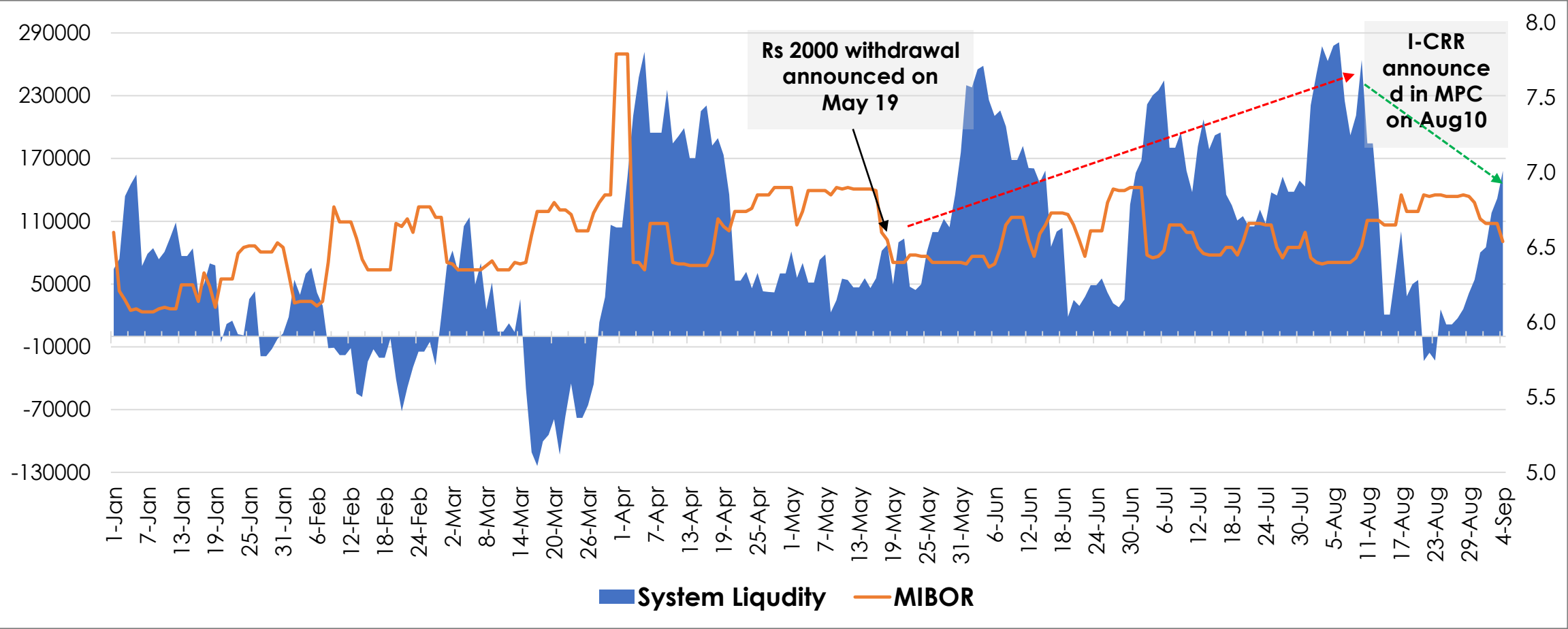
## CPI and Core CPI Inflation (% YoY)



## CPI and WPI Inflation (%YoY)

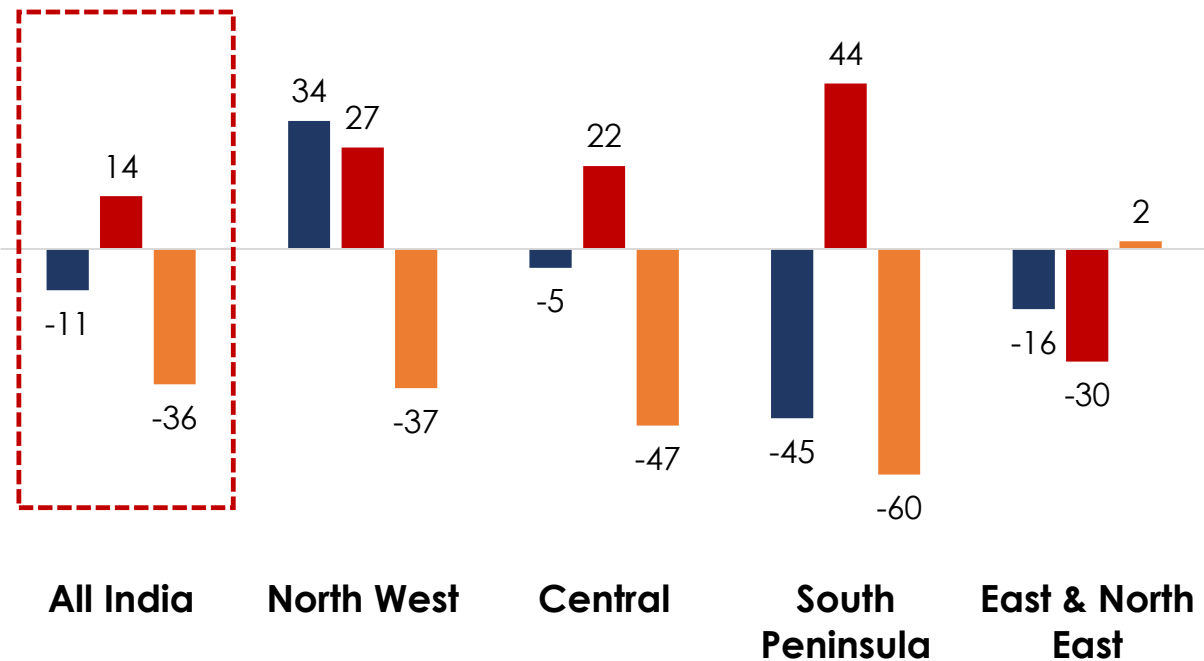


- Headline inflation trajectory is likely to be **dominated by food price dynamics**
- Headline inflation is **expected to gradually ease** from peak level in July, **but remain elevated in Q2FY24 and Q3FY24** before moderating in Q4FY24



**Spatial Distribution of Monsoon Rainfall**  
(% departure from normal)

■ June ■ July ■ August



**Area sown under Kharif crops**

Crops (mn ha)	Sep-22	Sep-23	%YoY
Rice	38.4	39.8	3.7
Pulses	13	11.9	-8.5
Coarse Cereals	17.9	18.1	1.1
Oilseeds	19.2	19.0	-0.9
Sugarcane	5.6	6.0	7.7
Jute & Mesta	0.7	0.7	-5.7
Cotton	12.6	12.3	-2.1
<b>Total</b>	<b>107.3</b>	<b>107.8</b>	<b>0.4</b>

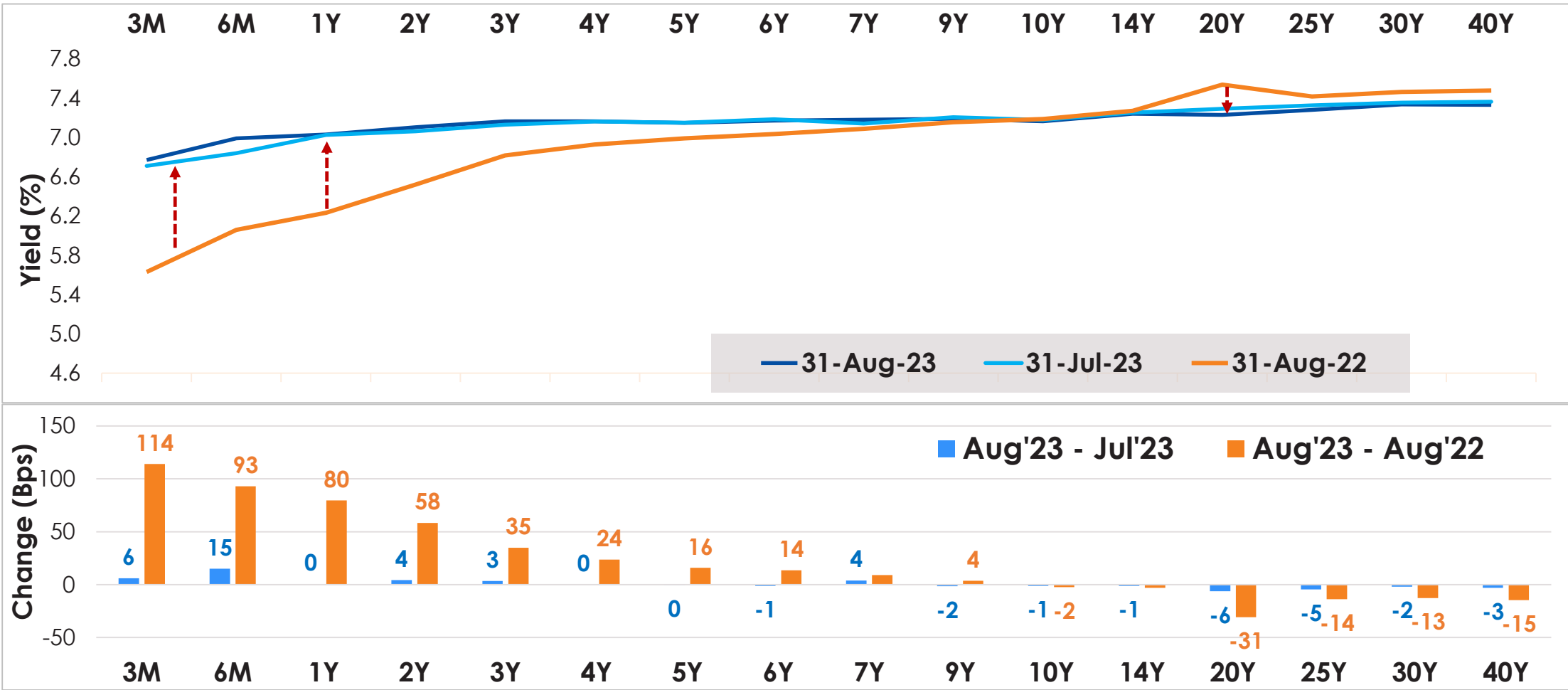
## Monthly fiscal details of the central government, March fiscal year ends (INR Bn)

Particulars	Change (%)			Change (%)		FYTD (Apr-Jul)		Change (%)
	Jul-23	Jul-22	Y-o-Y	Jun-23	M-o-M	2024	2023	2024/2023
Corporation Tax	376	357	6	820	-54	1,761	1,965	-10
Income Tax	679	717	-5	661	3	2,645	2,524	5
<b>Direct Tax</b>	<b>1,055</b>	<b>1,074</b>	<b>-2</b>	<b>1,481</b>	<b>-29</b>	<b>4,406</b>	<b>4,488</b>	<b>-2</b>
Union Excise Duties	244	239	2	260	-6	762	851	-11
Central GST	672	554	21	648	4	2,736	2,347	17
<b>Indirect Taxes</b>	<b>1,165</b>	<b>1,114</b>	<b>5</b>	<b>1,265</b>	<b>-8</b>	<b>4,524</b>	<b>4,198</b>	<b>8</b>
<b>Gross Tax</b>	<b>2,223</b>	<b>2,190</b>	<b>2</b>	<b>2,749</b>	<b>-19</b>	<b>8,942</b>	<b>8,695</b>	<b>3</b>
<b>Non- Tax Revenue</b>	<b>238</b>	<b>274</b>	<b>-13</b>	<b>203</b>	<b>17</b>	<b>1,788</b>	<b>896</b>	<b>100</b>
<b>Total Receipts</b>	<b>1,758</b>	<b>1,899</b>	<b>-7</b>	<b>1,836</b>	<b>-4</b>	<b>7,751</b>	<b>7,859</b>	<b>-1</b>
<b>Expenditure</b>								
Revenue	2,914	1,452	101	3,140	-7	10,636	9,181	16
Interest Paymenst	562	553	2	1,330	-58	2,999	2,839	6
Subsidies	540	417	29	317	70	1,410	1,097	29
Capital	386	336	15	1,107	-65	3,171	2,087	52
<b>Fiscal Deficit</b>	<b>1,542</b>	<b>-110</b>	<b>-1,497</b>	<b>2,411</b>	<b>-36</b>	<b>6,056</b>	<b>3,408</b>	<b>78</b>

# Trade deficit remains high

	Jul-23	Jun-23	Jul-22	Change %	
				Y-o-Y	M-o-M
Exports	32.3	34.3	38.3	(15.9)	(6.1)
Imports	52.9	53.1	63.8	(17.0)	(0.4)
<b>Trade Balance</b>	<b>(20.7)</b>	<b>(18.8)</b>	<b>(25.4)</b>		
Oil Exports	4.6	6.8	8.2	(43.8)	32.3
Oil Imports	11.8	12.5	18.6	(36.7)	(6.3)
<b>Oil Trade Balance</b>	<b>(7.2)</b>	<b>(5.8)</b>	<b>(10.4)</b>		
Non-oil Exports	27.7	27.5	30.2	(8.3)	0.4
Non oil Imports	33.4	33.9	38.5	(13.2)	(1.5)
<b>Non-oil Trade Balance</b>	<b>(13.5)</b>	<b>(13.0)</b>	<b>(15.1)</b>		
<b>Non-oil non-gems &amp; jewelry trade balance</b>	<b>(10.30)</b>	<b>(8.00)</b>	<b>(11.7)</b>		

# India Sovereign Curve

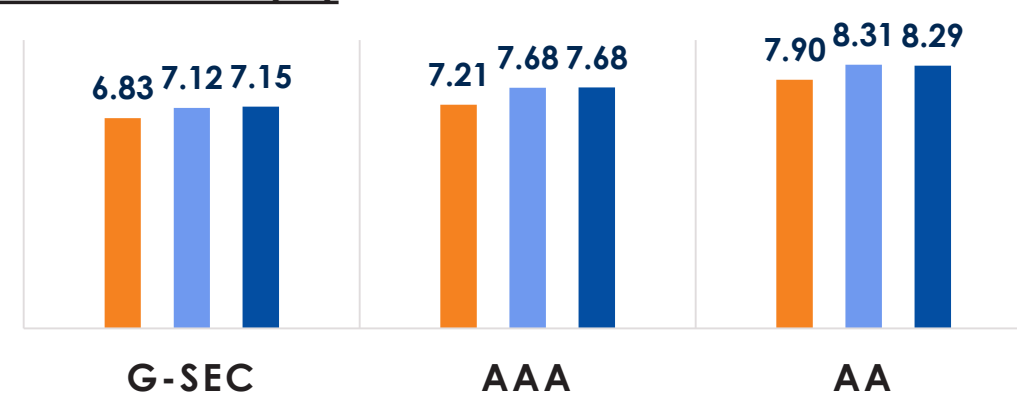


# Yields hardened across the curve as rate cut expectations got pushed back

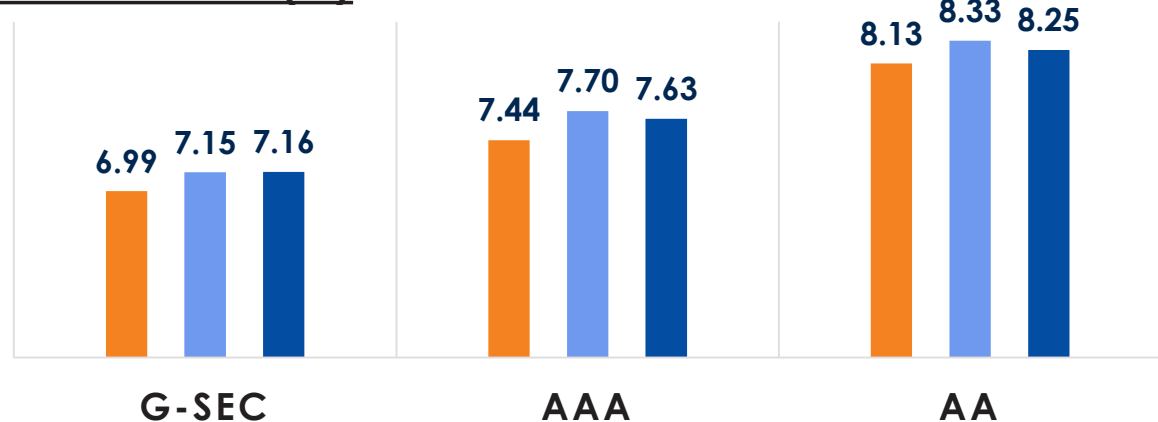
## 1 YEAR RATES (%)



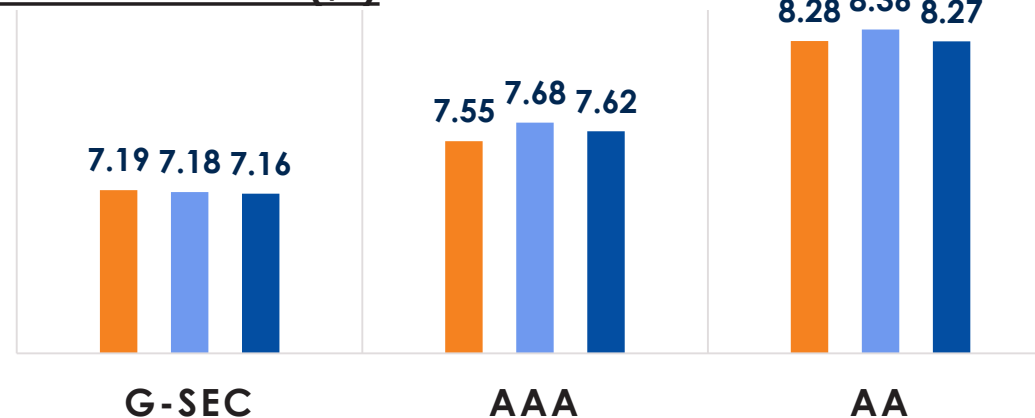
## 3 YEAR RATES (%)



## 5 YEAR RATES (%)



## 10 YEAR RATES (%)



Aug-22 Jul-23 Aug-23



Given a still resilient growth & upside risks to inflation, we expect RBI to err on the side of caution. Expect a longer policy pause till they foresee inflation well under control

External stability will also remain concern for RBI given a still restrictive global rate cycle

Barring an economic shock, the policy easing cycle is likely to be shallower in India compared to advanced economies given that policy rates in India are closer to neutral

Given the current macro back drop and reasonable valuations, portfolios with moderate duration seem more appropriate as they provide reasonable accrual with an opportunity to participate in the easing cycle

With the steepness opening up on the money market curve, investors with 6-12 months horizon may consider an allocation to low duration/ money market strategies

Investors with more than 12 months investment horizon may consider allocation towards moderate duration (one-to-four year) categories

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# Thank You