ECONOMY AND MARKETS

November 2024

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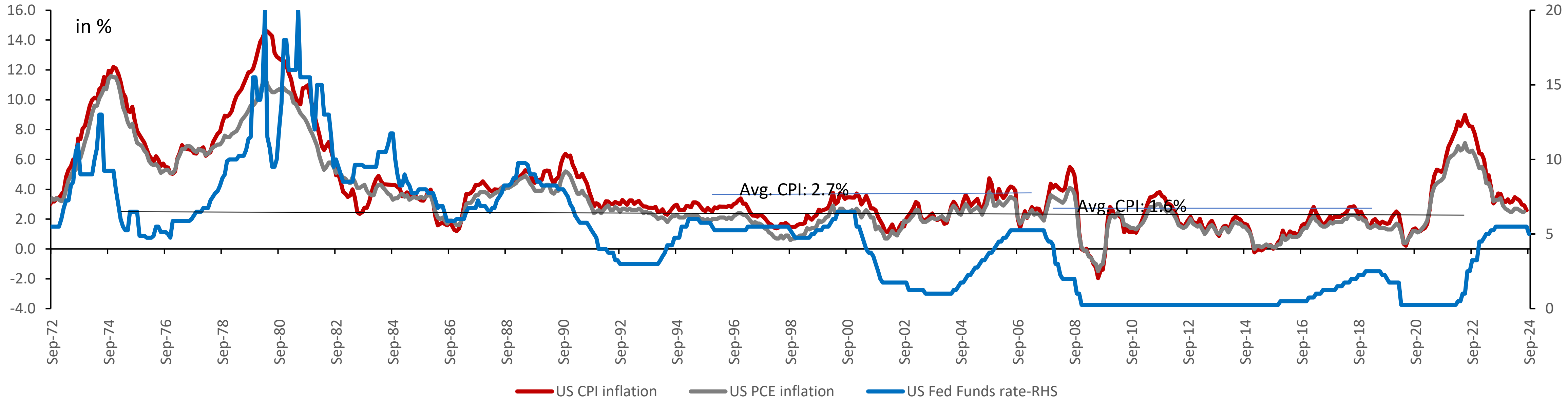
Federal reserve cuts Fed funds rate by 50bps to 4.75-5.00% in September 2024

US Fed funds rate sees a much-anticipated 50bps cut in Sep’24



- On September 18, the US Federal Reserve started its rate-cutting cycle. It reduced the Fed Funds rate by 50 basis points, bringing it down from 5.25-5.50% to 4.75-5.00%.
- Fed Chair Jerome Powell noted that the labor market has cooled, no longer serving as a major inflationary factor.
- Another key notable is that the Fed has acted before reaching its inflation target of 2%, indicating a willingness to ease as long as disinflation towards this target remains plausible, potentially by 2026.
- This shift means that 2% PCE inflation is now viewed as a floor rather than a ceiling, suggesting average inflation in the coming years could settle around 2.5% to 3%.

Source: Bloomberg, SBIFM Research

Summary of economic projections by the US Fed

Projects an additional 50bps cut over the next two policies in 2024

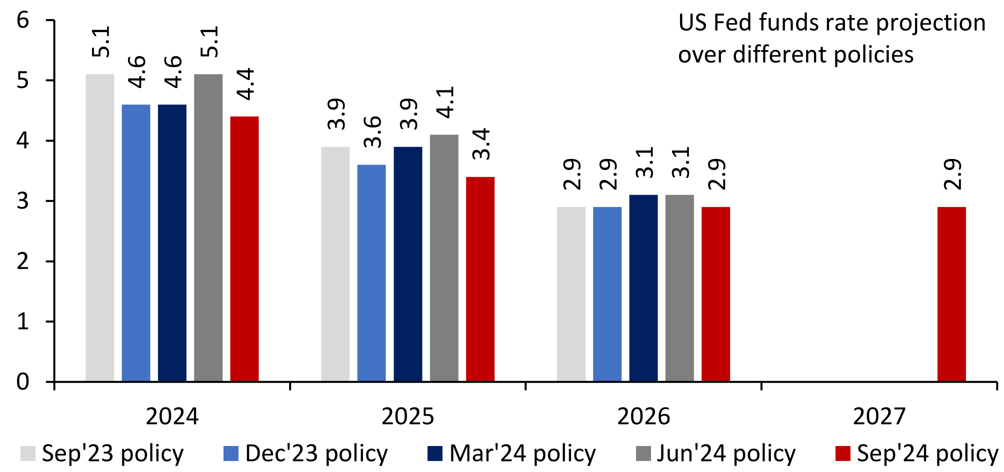
Variable	Median[1] 2024	2025	2026	2027	Longer run	Central Tendency[2] 2024	2025	2026	2027	Longer run	2024
Change in real GDP	2.0	2.0	2.0	2.0	1.8	1.9–2.1	1.8–2.2	1.9–2.3	1.8–2.1	1.7–2.0	1.8–2.6
June projection	2.1	2.0	2.0		1.8	1.9–2.3	1.8–2.2	1.8–2.1		1.7–2.0	1.4–2.7
Unemployment rate	4.4	4.4	4.3	4.2	4.2	4.3–4.4	4.2–4.5	4.0–4.4	4.0–4.4	3.9–4.3	4.2–4.5
June projection	4.0	4.2	4.1		4.2	4.0–4.1	3.9–4.2	3.9–4.3		3.9–4.3	3.8–4.4
PCE inflation	2.3	2.1	2.0	2.0	2.0	2.2–2.4	2.1–2.2	2.0	2.0	2.0	2.1–2.7
June projection	2.6	2.3	2.0		2.0	2.5–2.9	2.2–2.4	2.0–2.1		2.0	2.5–3.0
Core PCE inflation[4]	2.6	2.2	2.0	2.0		2.6–2.7	2.1–2.3	2.0	2.0		2.4–2.9
June projection	2.8	2.3	2.0			2.8–3.0	2.3–2.4	2.0–2.1			2.7–3.2
Memo: Projected appropriate policy path											
Federal funds rate	4.4	3.4	2.9	2.9	2.9	4.4–4.6	3.1–3.6	2.6–3.6	2.6–3.6	2.5–3.5	4.1–4.9
June projection	5.1	4.1	3.1		2.8	4.9–5.4	3.9–4.4	2.9–3.6		2.5–3.5	4.9–5.4

- Summary of Economic Projections (SEP) projects US growth at 2% - in line with the run-rate observed in last eight quarters, unemployment rate to move up to 4.4% (from current 4.2% in August) and PCE inflation to moderate to an average of 2.3%, 2.1% and 2% by 2024, 2025 and 2026 respectively.
- They project to deliver an additional 50bps cut over next two policy in 2024, followed by 100bps in 2025 and 50bps in 2026 taking the terminal Fed Funds rate to 2.9%.
- The messaging in the latest monetary policy appears inconsistent.
- The Fed projects US growth at 2%, aligning with recent trends, while expecting only a slight rise in unemployment to 4.4%, still below their NAIRU (Nonaccelerating inflation rate of Unemployment) estimate.
- They have also raised the long-term neutral rate projection by 10 basis points to 2.9%.
- Notably, 9 of 16 Fed members predict no further rate cuts in 2024, and one member dissented on the 50-basis point cut—a rarity for the Fed.
- Yet, we saw a 50bps cut, with an impression that Fed has been behind the curve.

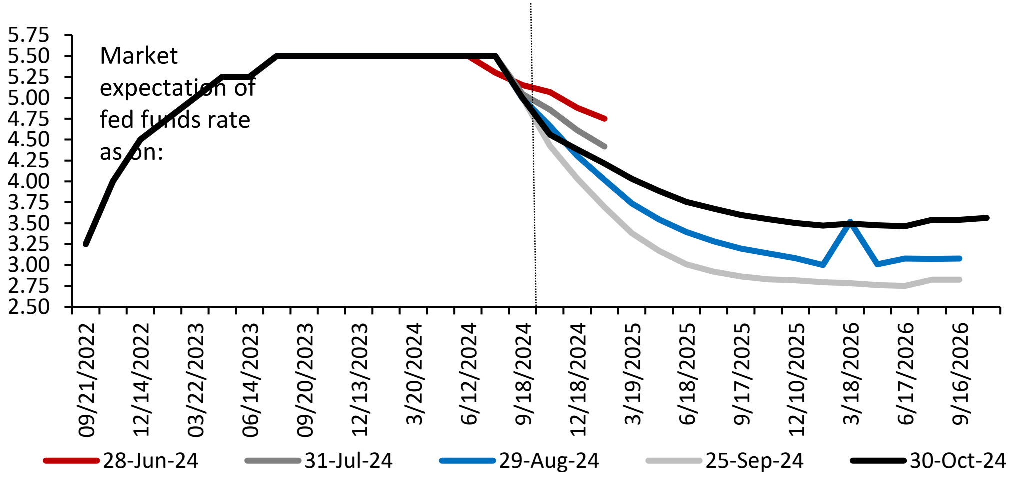
Source: Federal reserve summary of economic projection, SBIFM Research

Market rate cut expectations align with dot plot; Fed guides cut to be staggered till 2026

Dot plot suggests 250bps rate cut by 2026



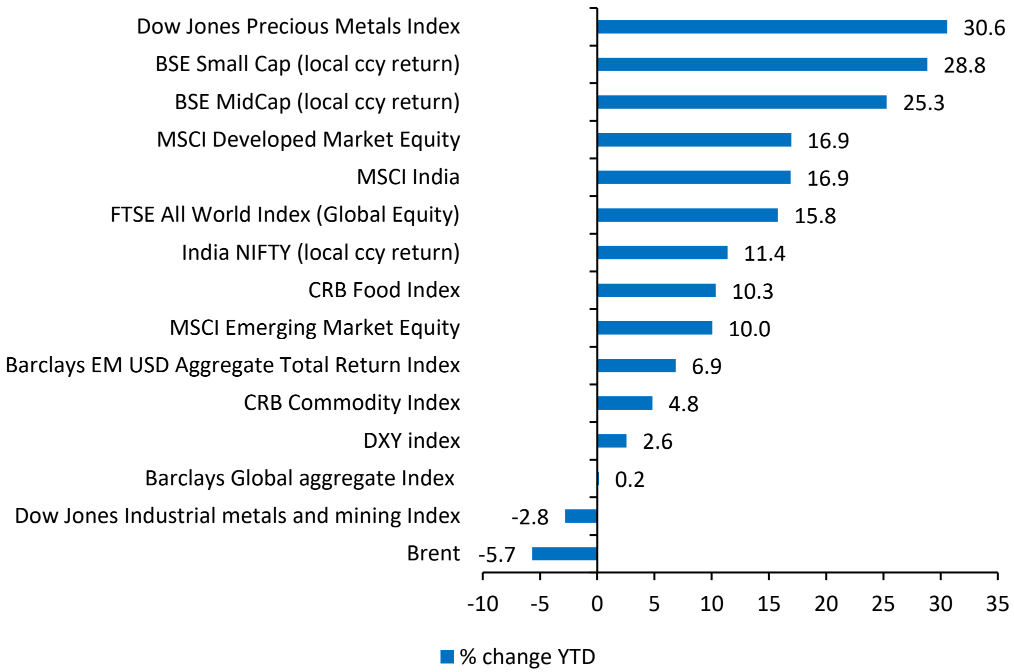
Market expectation align with Fed dot plot; points towards 175bps (vs. 250bps earlier) rate cut in the span of one year



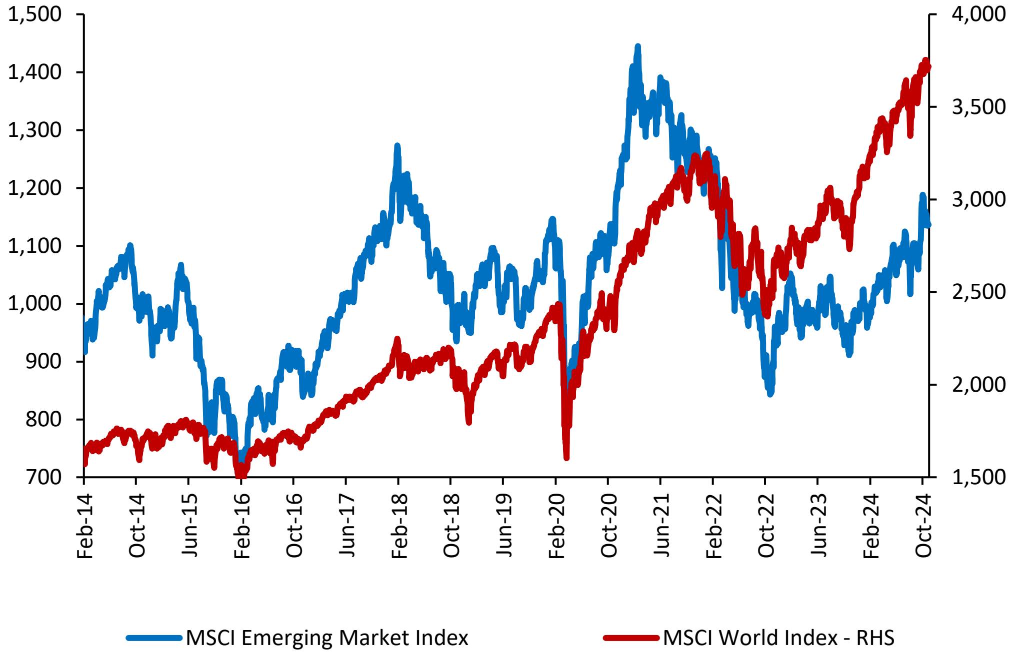
- The dot plots for 2024 have been volatile, undermining the reliability of forward guidance, leaving the market data-dependent but uncertain.
- The bottom-line is that currently stated rate path is not a given.
- Market has brought down its rate cut expectation in the recent wake of Job data. One cut is fully priced in over next two policy. However, uncertainty looms whether Fed will be able to deliver 2 cuts in 2024 as reflected in the dot plots.
- Market expectations now align with Fed plot (175bps rate cut expected in one year vs. 250bps earlier).

Global equity markets rallied on the after effects of Fed rate cut

Equities continue to perform as an asset class



EM equities rallies in recent months; have still a lot of catch up to do

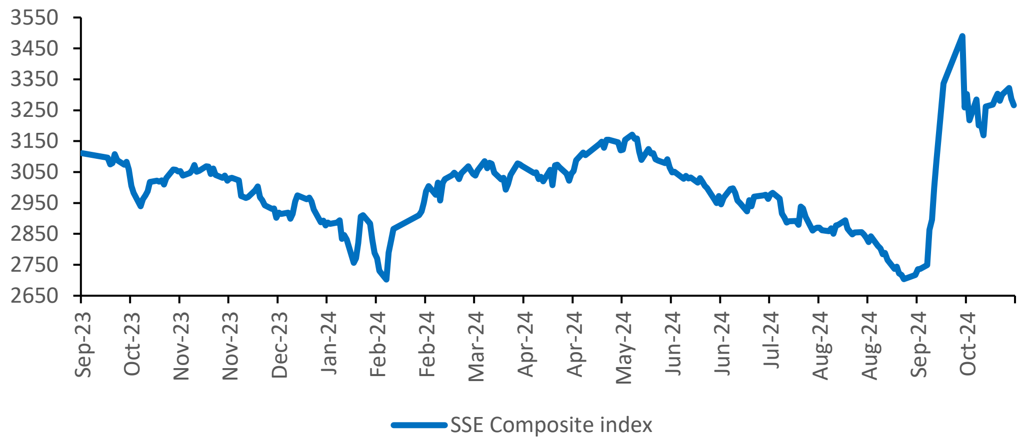


- Global equity markets rallied on the after-effects of Fed rate cut, and positive corporate earnings data in the US.
- Led by the US, DM equities have done better this year, so far, with the MSCI World up ~17% YTD. MSCI EM has also caught up in recent months to deliver 10% gains YTD.
- There is still significant room for EM equities and Commodities to catch up versus Developed Market Equities when looked at from the longer perspective.

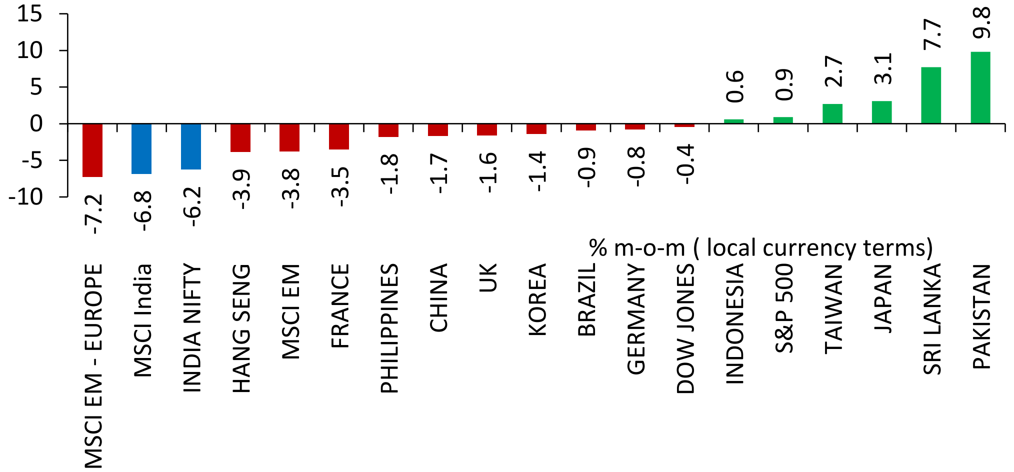
Source: Bloomberg, SBIFM Research

Chinese stimulus has driven the rally in EM equities

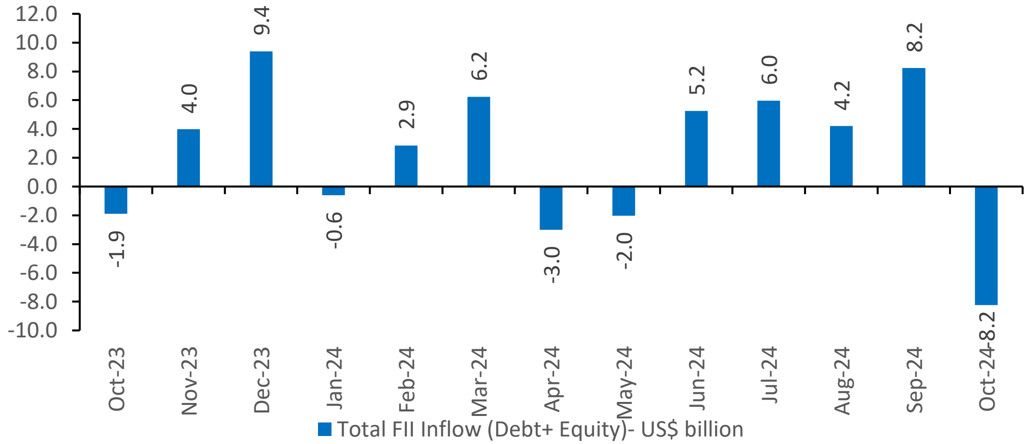
Chinese equity rallied due to stimulus measures



.. leading to EM rally; Indian equity underperformed



FIIs pull money out of India



- Chinese stimulus has driven the rally in EM equities.
- Though FIIs pulled money out of India, driving negative returns in Indian equities in October.

Source: Bloomberg, SBIFM Research

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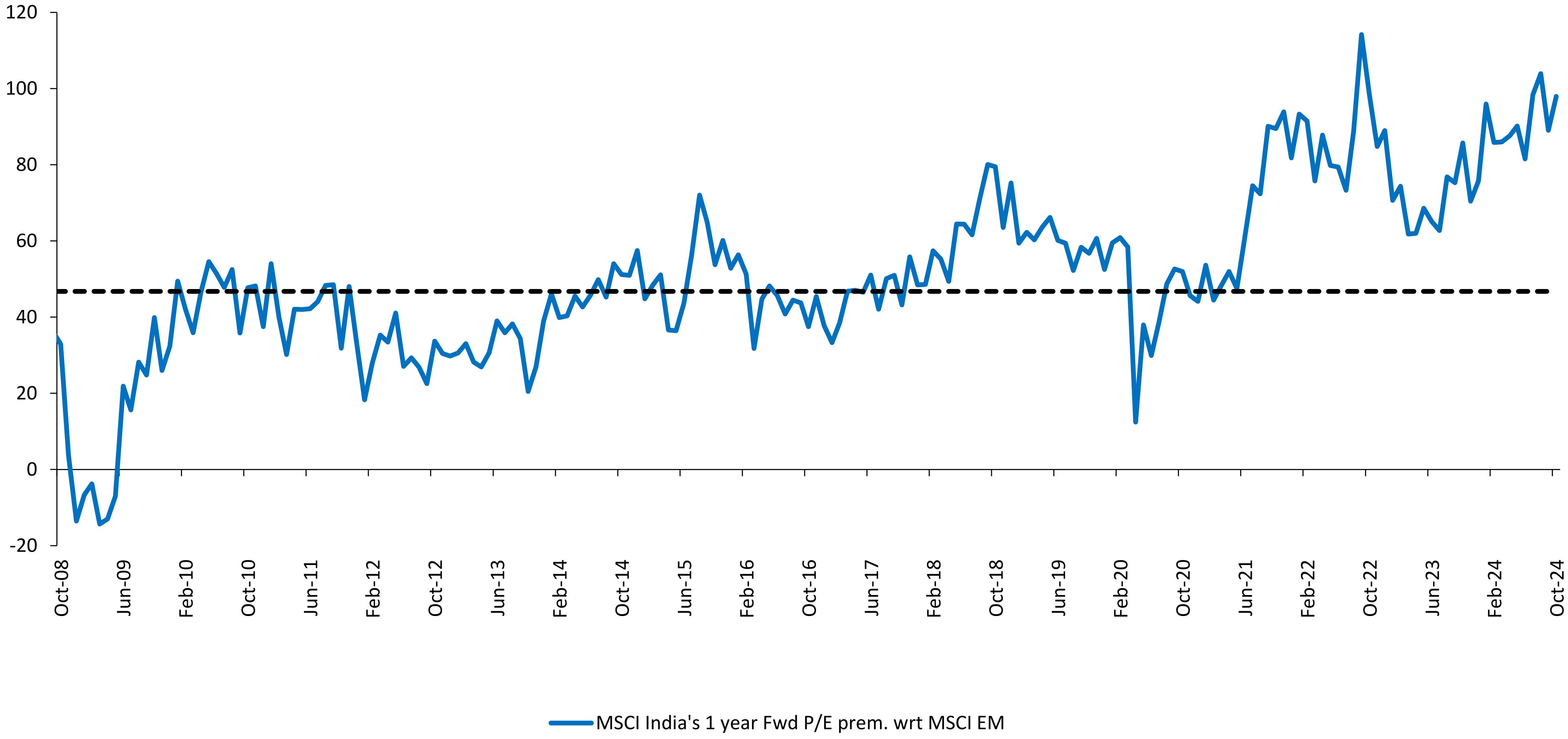
MSCI India's valuation premium relative to EM moderates in last two months; but still expensive

India's P/E premium to world has moderated from its peak in Oct'22; global multiples remain vulnerable to higher rates, weaker growth and potentially rising Equity risk premium



Source: Bloomberg, SBIFM Research

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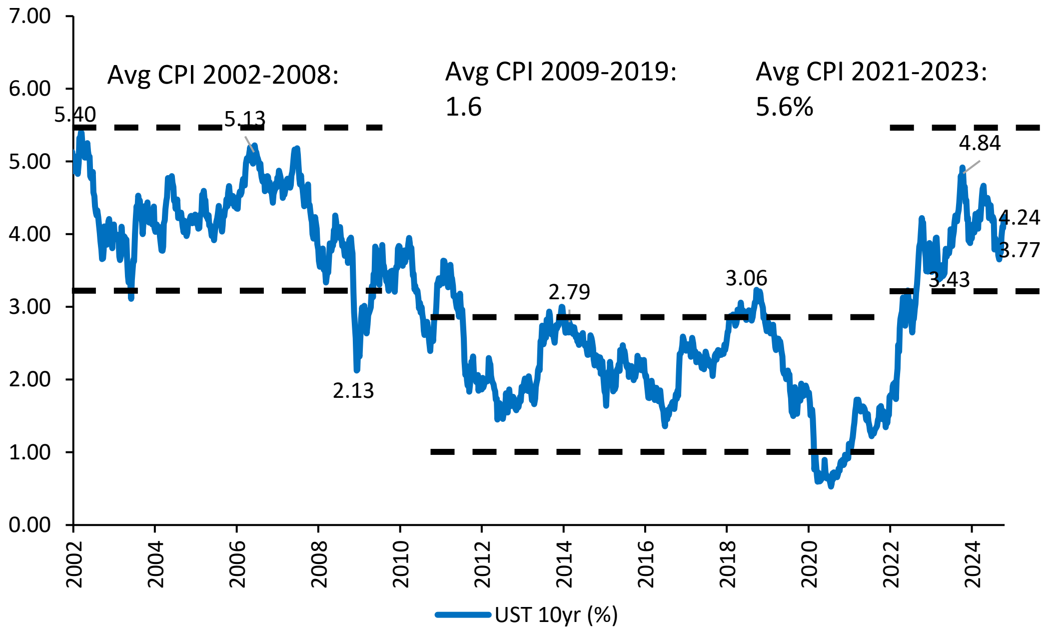
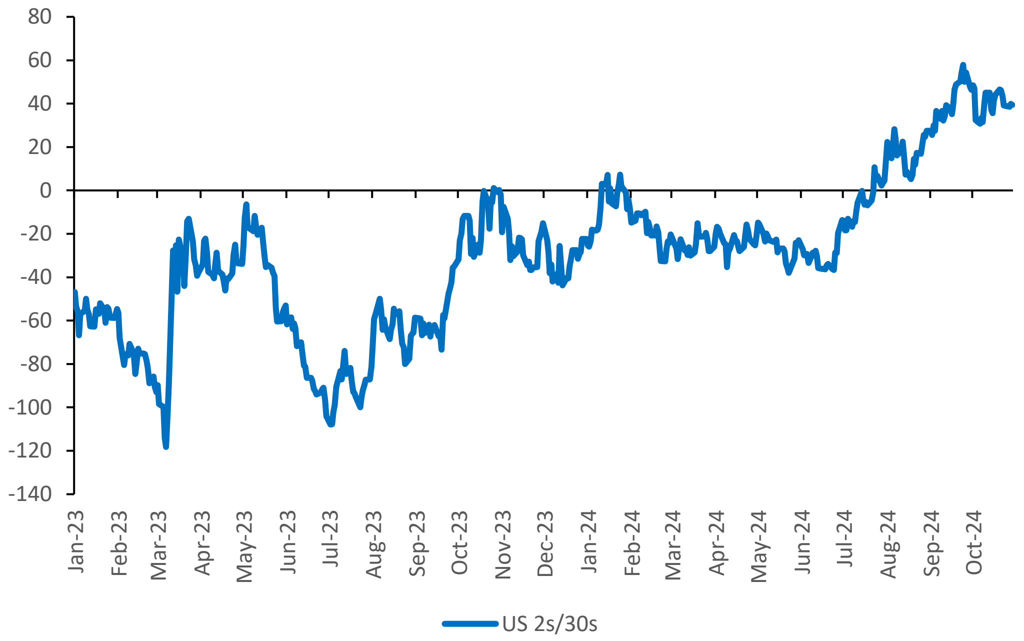
The yield on 10-year US treasuries has jumped by 60bp since mid-September

10 Year US Treasury rises to 4.2%



The yield curve inversion ended in August 2024; curve steepens



- Multiple data suggest that our long-standing comfortable range of 10 UST at 3.5-5.5% still holds true.
- It's essential to distinguish between cyclical and structural influences on yields. The growing fiscal deficit presents a structural risk for inflation, compounded by potential tax cuts or increased public spending depending on the outcome of the upcoming elections.
- The yield on 10-year US treasuries has jumped by 60bps since mid-September. And this time, the slump in bond prices has gone global, setting international bond markets up for a fourth consecutive year of negative or weak total returns.

Reflationary thesis is on the rise again

Inflation eases close to target in most emerging and developed market economies; could rebound with monetary easing

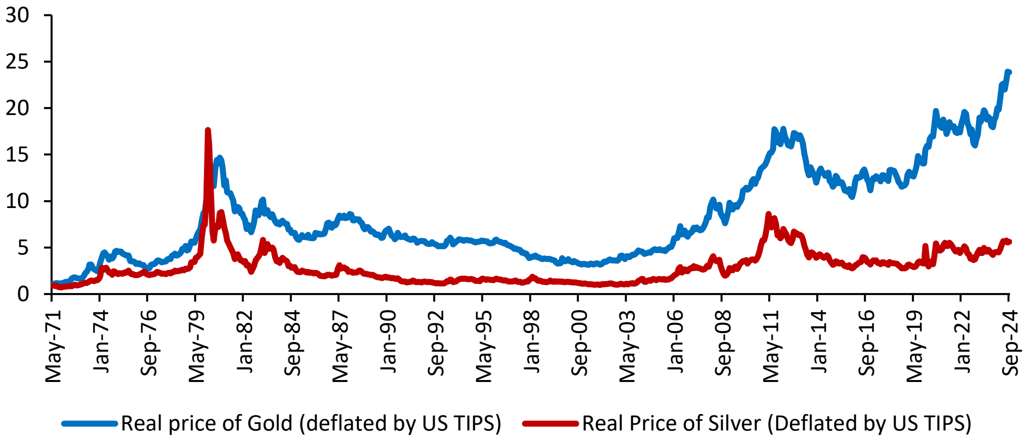
Countries	Inflation target range (%)	Latest inflation print (%)- Sep'24	Last 3 month avg. inflation (%) (Jul-Sep'24)	Last 6 month avg. inflation (%) (Apr-Sep'24)
Emerging Economies				
China	~3.0	0.4	0.5	0.4
India	4.0 ± 2.0	5.5	4.2	4.6
Indonesia	3.0 ± 1.0	1.8	2.0	2.4
Taiwan	2.0	1.8	2.2	2.2
Thailand	1.0 - 3.0	0.6	0.6	0.7
Malaysia	2.5-4	1.8	1.9	1.9
Philippines	3.0 ± 1.0	1.9	3.2	3.5
Russian Federation	4.0	8.6	8.9	8.6
Turkey	5.0	49.4	54.4	63.3
South Africa	3.0-6.0	3.8	4.3	4.7
Brazil	3.5 ± 1.5	4.4	4.4	4.2
Mexico	3.0 ± 1.0	4.6	5.0	4.9
Colombia	2.0-4.0	5.8	6.3	6.7
Chile	3.0	4.1	4.5	4.3
Developed Economies				
United States	2.0	2.4	2.6	2.9
Eurozone	2.0	2.1	2.4	2.5
United Kingdom	2.0	1.7	2.0	2.1
Japan	2.0	2.5	2.8	2.7
South Korea	2.0	1.6	2.1	2.4

- The underlying arguments for a recession are much weaker because central banks all over the world are cutting interest rates and will most likely, continue to ease, regardless of inflation.
- Interest rate cuts are typically reflationary in nature. The US fiscal is likely to stay in expansionary mode.
- Hence, attraction of developed market bonds reduces again.
- To add, China looks to be embracing a more concerted fiscal stimulus.
- Thus the global macro backdrop has once again switched to a reflationary risk rather than a deflationary one.
- Such backdrops warrant ownership of inflation hedges like gold, energy, commodities, and much more limited exposure to government bonds, in the global parlance.
- Typically, such a backdrop, is also favourable for EM equities.

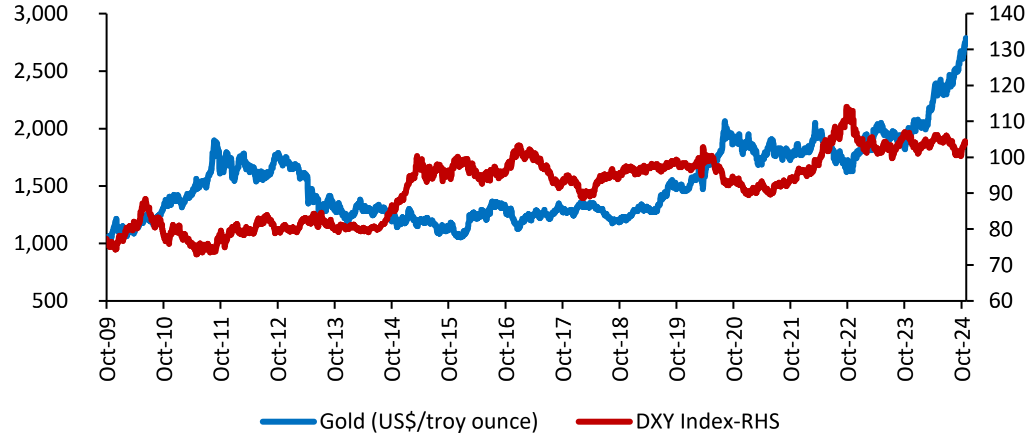
Source: CEIC, SBIFM Research;

We recommend to stay invested in precious metals despite stretched valuations

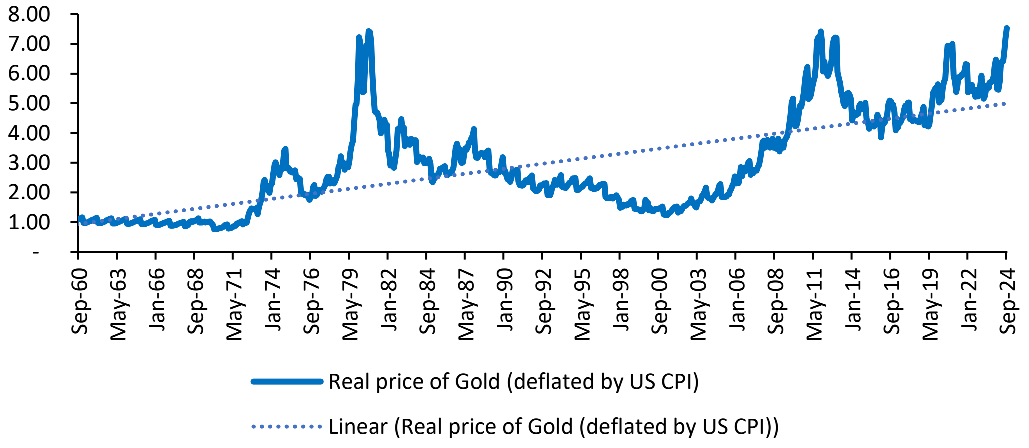
Recent rise in Gold price is despite the slight rise in US real yields..



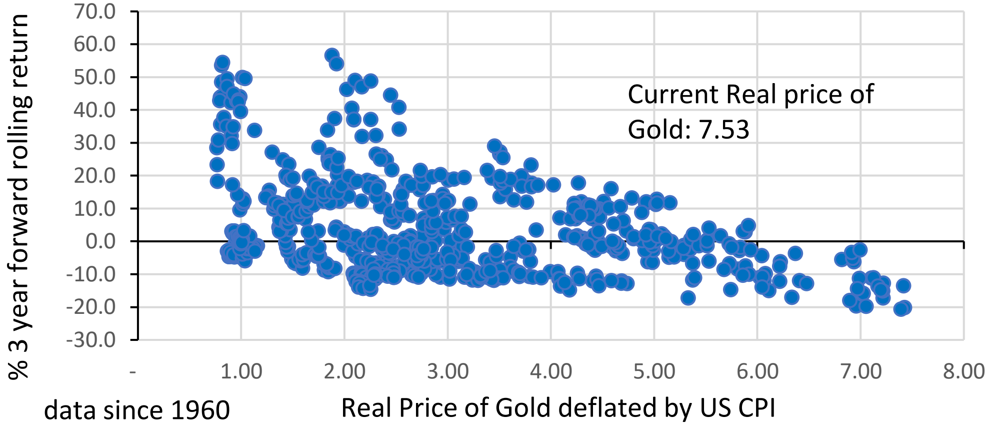
… and the rise in DXY index in October



Valuation of gold is high vis-à-vis its history



Gold valuations high compared to past trends; Yet we continue to prefer the asset as a portfolio diversifier



Source: Bloomberg, SBIFM Research

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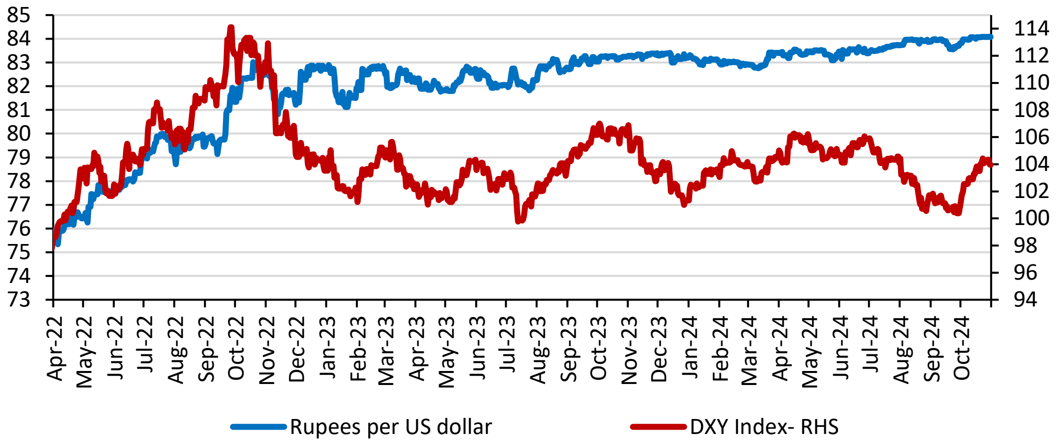
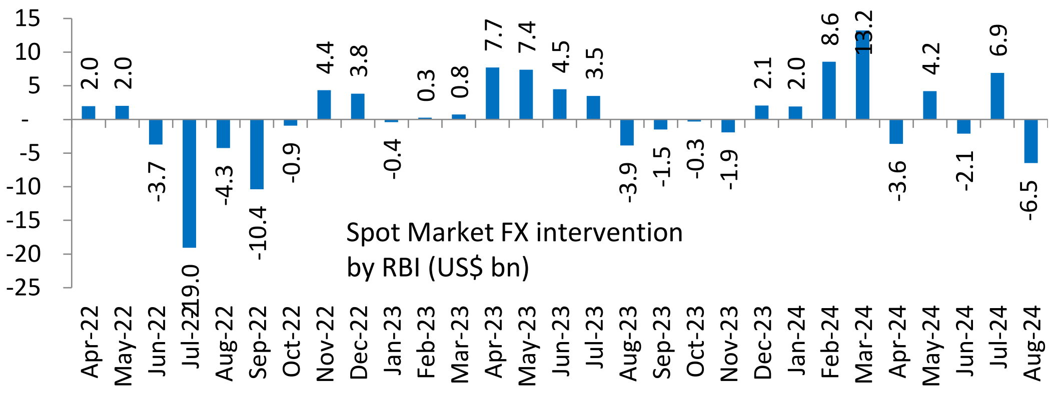
Rupee stays highly range bound since 2023; Rupee to average at 84/US$ in FY25

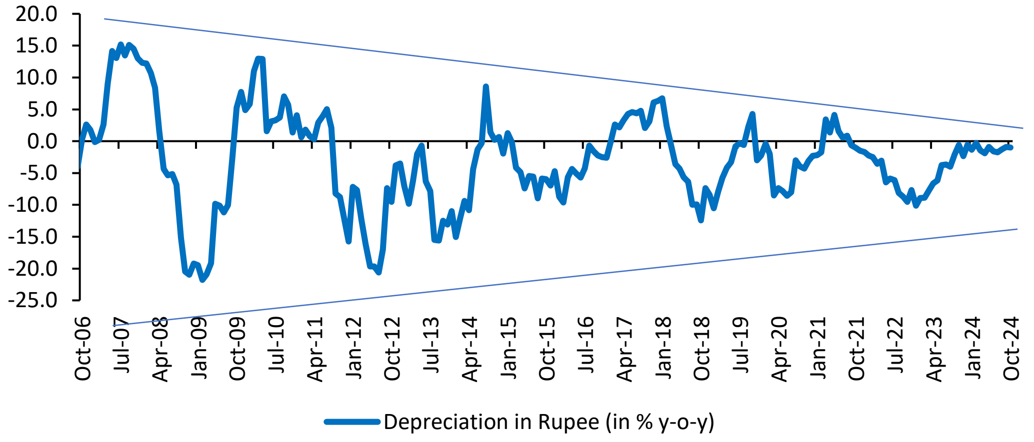
Rupee stays fairly stable; despite crossing 84/US$ this month, it has depreciated ~1% against US$ in one year and 2% is two years



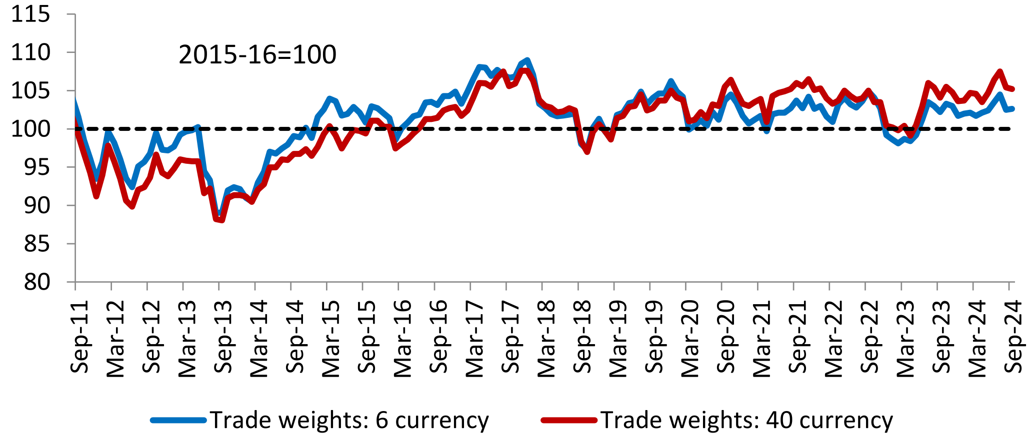
RBI's intervention keeps rupee anchored



Macro stability and active RBI intervention drives lower volatility in rupee and lesser bouts of depreciation



Rupee is stable on a REER basis



Source: RBI, CMIE Economic Outlook, Bloomberg, SBIFM Research

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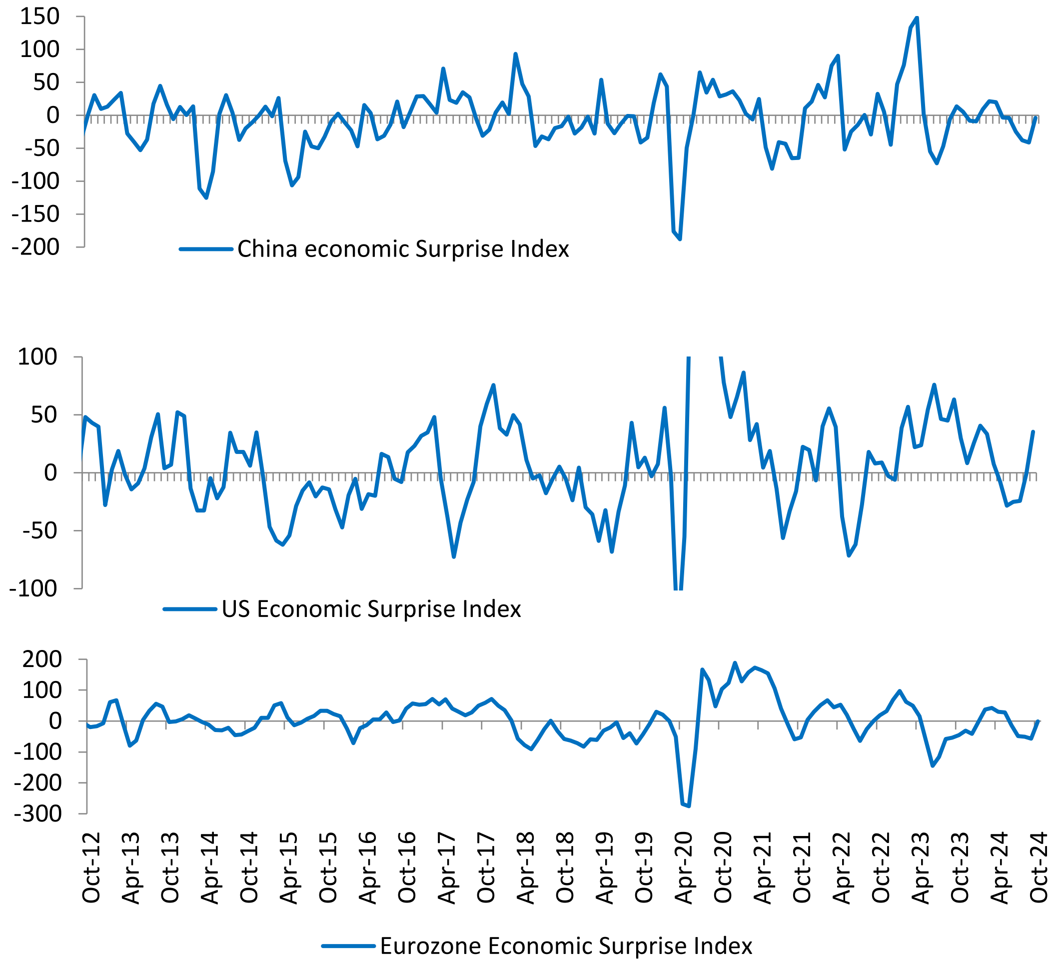
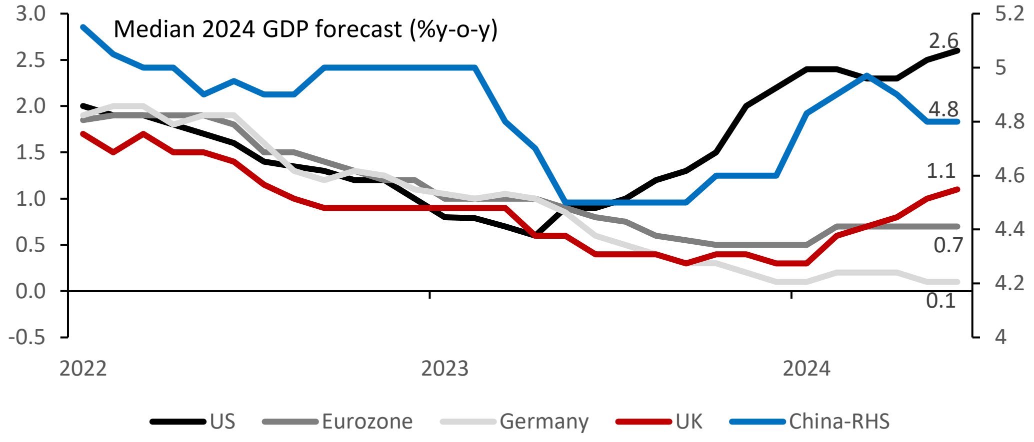
Global activity momentum has softened and underwhelming expectations across continents

US, Eurozone and China see softer economic data in November…



2024 growth expectations are getting revised down for everywhere except the US

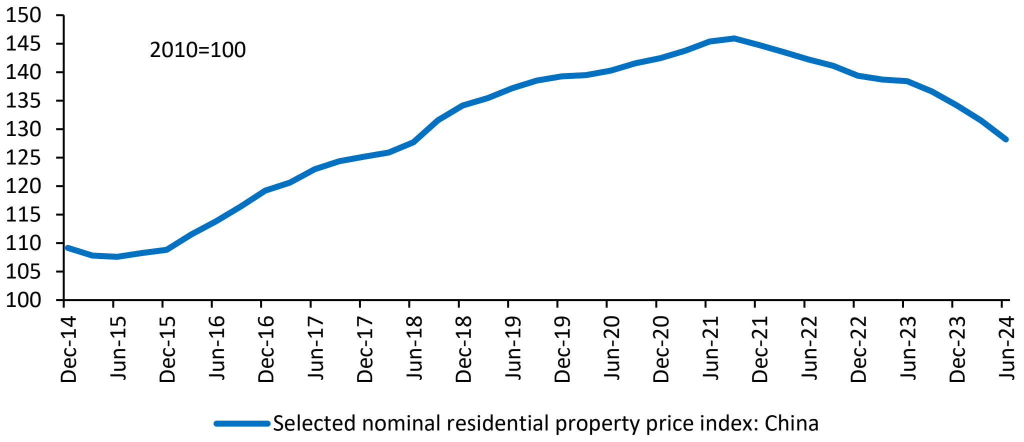


- Many economic indicators out of the US and other developed economies have underwhelmed expectation lately. Nevertheless, hard evidence that the US is facing an impending recession remains scanty.
- The US economy is likely to slow over the next six months. However, the base case picture is that growth will remain modestly positive, with the US avoiding a recession in the near term.
- China looks to be embracing a more concerted fiscal stimulus and, given the platforms of both presidential candidates, the United States is likely to stay in expansionary mode. The world economy could be moving into a period of higher nominal growth and persistent price pressures.

Source: Bloomberg, SBIFM Research

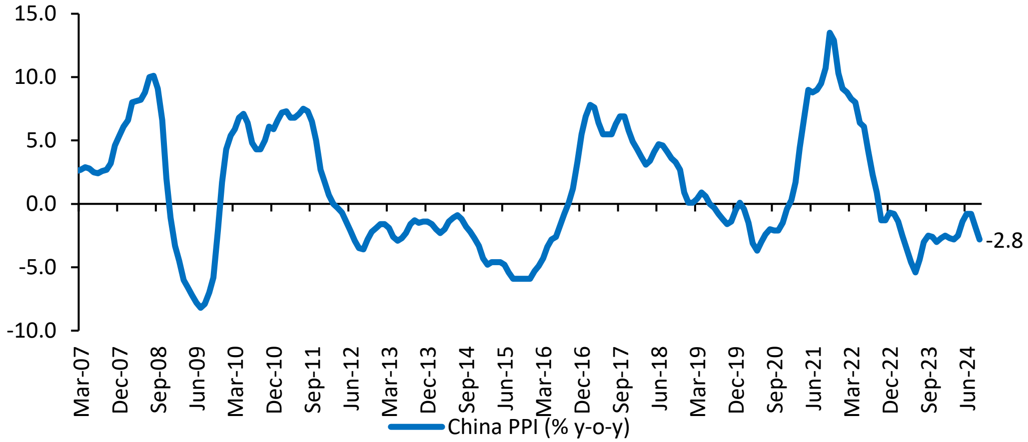
China's fiscal package may take several months to generate a material economic turnaround

China residential property prices retraced to 2018 levels



Consumer confidence severely low in China

China continues to cut prices and push exports at a cheaper price

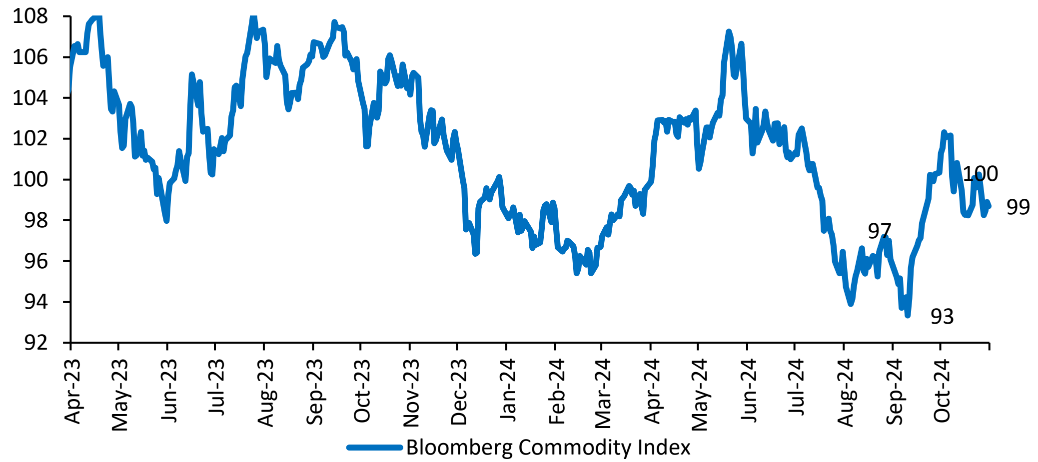


- China appears serious about stimulating their economy. We have heard one or the other measures through most days of October. New details suggest that a sum of about RMB3trn should be deployed to mostly shore up the balance sheets of local authorities and banks.
- It is also becoming clear that the reflation effort will not include large-scale transfers to households and thus any boost to consumption will depend on wealth effects through higher asset prices and a stronger labor market helping to boost incomes.
- The latest economic indicators for September finally beat expectations after a long series of misses.
- In terms of timing, support from the fiscal package will take several months to generate a material economic turnaround. Market movements may be swifter though.

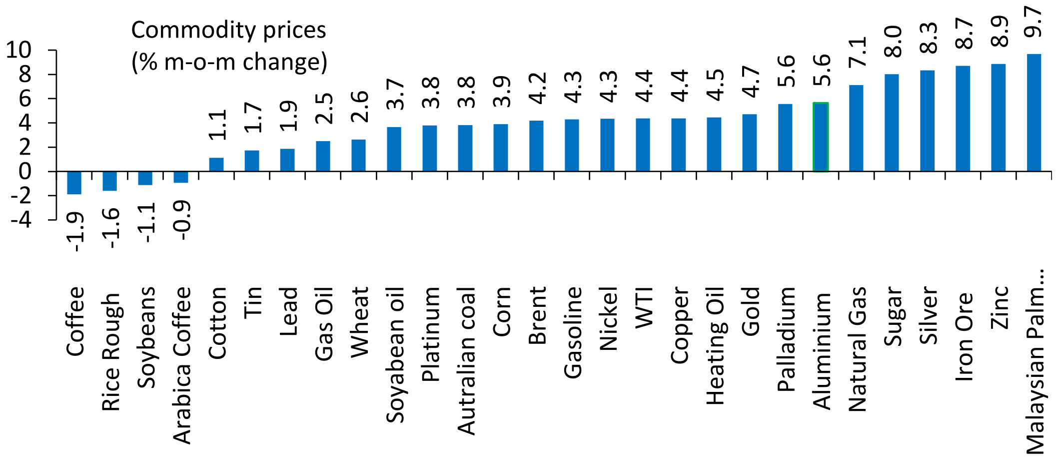
Source: Bloomberg, CEIC, SBIFM Research

Precious metals continue to rise higher while other commodities still soft

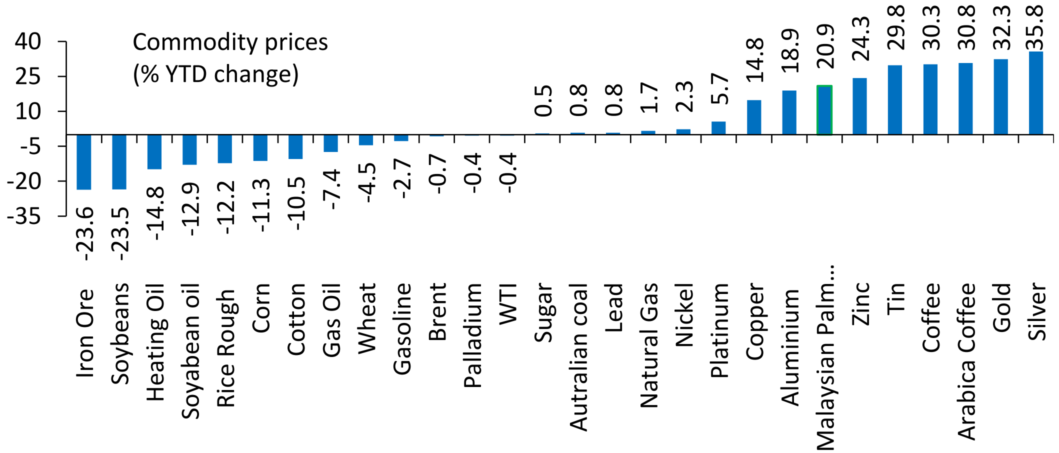
Bloomberg commodity index softens m-o-m in October 2024



On a m-o-m basis, majority of the commodities see an upward movement; Select prices moderated



On a YTD basis, precious metal prices have risen; while select food and energy have seen a moderation

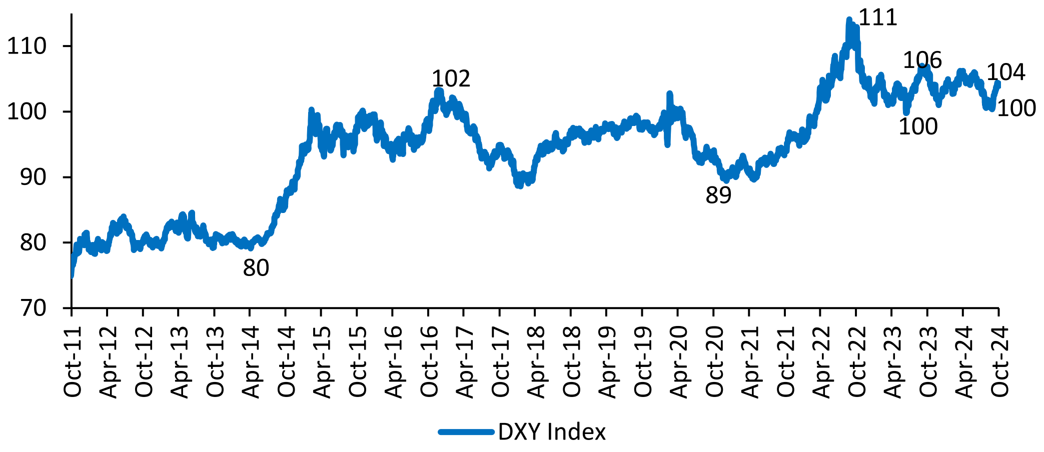


- Bloomberg commodity index softened by ~1.7% m-o-m.
- Select metal prices continue to be elevated. Silver gained 8%, and copper 4% m-o-m. Gold rose 5% (m-o-m) in October but has risen 32% YTD.
- Multiple factors could explain better return in commodities. Economic activity is humming fine in the US as of this month.
- In the medium term, commodities could benefit from inflation, decarbonization, deglobalization, rapid adoption of artificial intelligence and data centers.

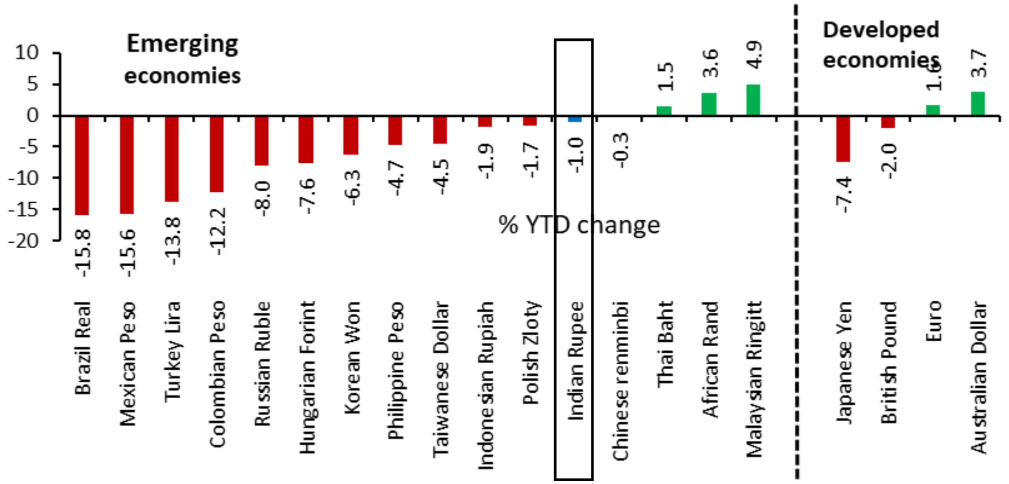
Source: Bloomberg, SBIFM Research

DXY could stay sideways in the near-term; monetary easing offset by weaker global growth

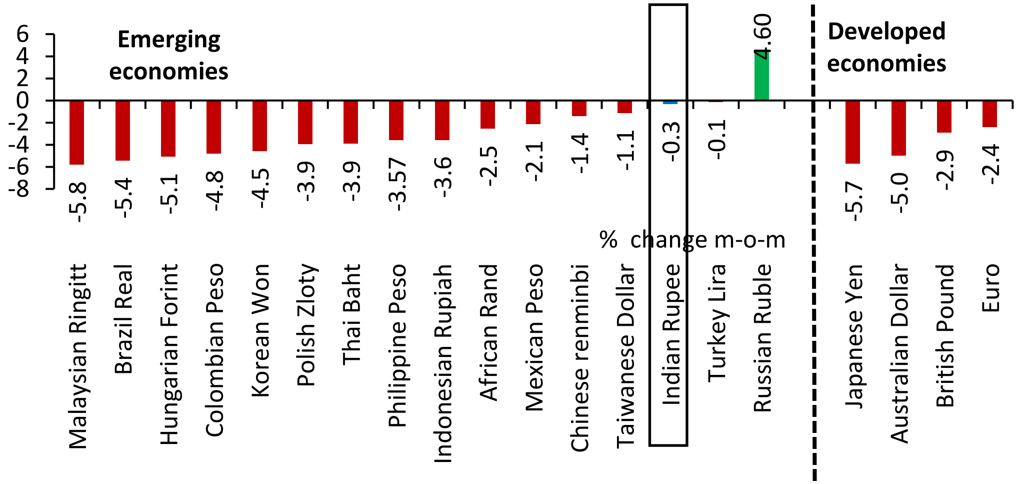
DXY strengthens by ~3% m-o-m and YTD



Majority currencies depreciate against greenback YTD, Rupee's move most contained



Strengthening of the dollar index m-o-m drives depreciation across most emerging and developing market currencies in October

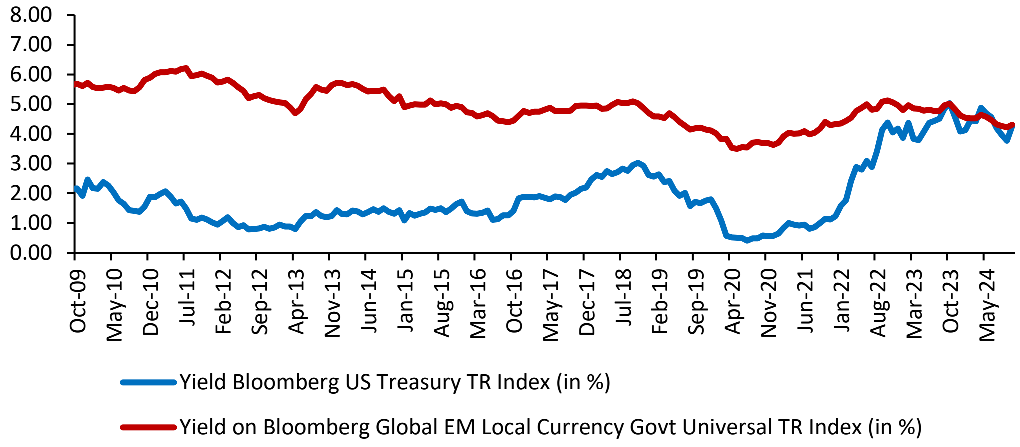


- DXY strengthened by 3% m-o-m in October.
- While the Fed rate cut makes a case for weaker dollar, weaker global growth works in a counter fashion.
- In the very near term, it is the political developments that are dictating dollar moves. All the election promises by both the parties are working against the US dollar.
- Beyond the election, we expect the US dollar to remain sideways.

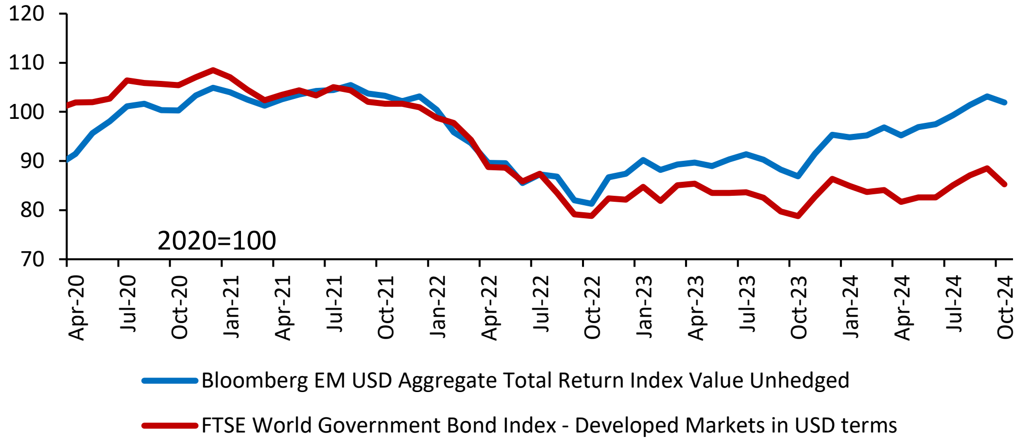
Source: Bloomberg, SBIFM Research

EM bonds erase risk premium; US rate cuts should favour FII flows in EM

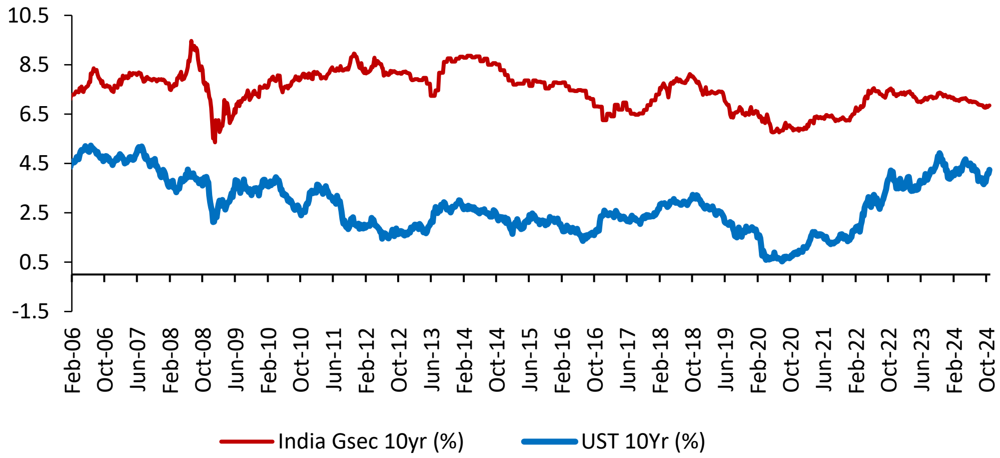
Spread between EM bond yields and UST yields at low levels



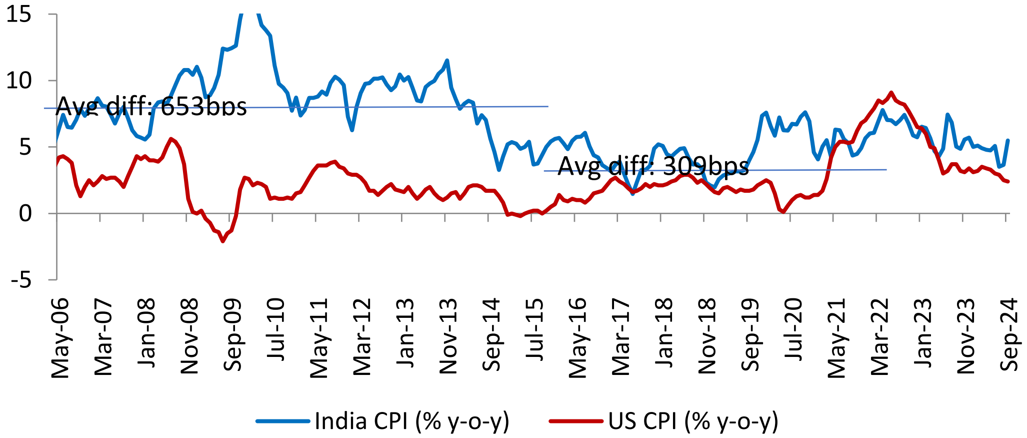
EM bonds outperform



India vs. US 10yr bond yield differential is low



India sees reduced inflation differential vis-à-vis US



Source: Bloomberg, SBIFM Research

INDIA ECONOMIC ACTIVITY

High frequency indicators suggest moderation in Indian economic activity in 1HFY25

%y-o-y	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
Macro indicators														
Bank credit deflated by WPI	20	20	20	20	19	20	20	20	18	18	14	11	12	11
GST Deflated by WPI manufacturing	13	11	14	16	11	13	14	12	13	9	6	9	9	5
Consumption of petroleum products	8	8	5	-2	4	7	8	2	8	2	2	11	-2	-2
Electricity generation	19	13	25	11	5	7	8	8	10	15	9	8	-5	0
Urban Consumption demand														
Domestic air traffic	24	19	11	9	8	5	6	5	4	6	7	8	7	7
Domestic sale of passenger Cars	-10	-22	-8	-21	-28	-8	-18	-9	-23	-11	-14	-12	-19	-13
Naukri Job Speak Index	-6	-9	1	-23	-16	-11	-8	-11	-3	-2	-8	12	-3	-4
Payments via digital means	42	36	38	43	39	1	43	27	35	33	34	31	27	28
Urban Consumer sentiment Index	92	95	99	99	101	101	100	100	98	100	105	105	103	106
Rural Consumption demand														
Domestic Tractor sales	-4	-16	-5	1	-21	-14	-26	-20	-3	1	3	1	-5	2
Real rural wage	0	1	1	0	0	1	1	1	0	0	-1	1	2	na
Domestic sale of two-wheelers	1	1	20	31	16	26	35	15	31	10	21	12	9	16
Rural Consumer sentiment Index	96	104	106	107	109	107	107	108	117	118	112	115	111	108
Business indicators														
Cargo traffic - rails	6	7	8	4	6	6	10	8	1	4	10	5	-5	na
Cement production	20	5	17	-5	4	4	8	11	0	-1	2	5	-3	na
Steel consumption	19	17	14	15	7	4	13	11	11	12	21	14	10	11
Sale of CV	na	4	na	na	3	na	na	-4	na	na	4	na	na	-9
Bank industrial credit deflated by WPI	6	7	6	6	7	8	9	8	6	7	5	8	8	na
External Sector indicator														
Cargo traffic - ports	4	0	14	17	1	3	2	4	5	4	7	6	7	6
Merchandise exports	3	-3	6	-3	1	4	12	-1	2	13	2	-2	-9	1
Services exports	8	-3	11	4	1	11	3	-1	17	10	3	17	6	8
Non-oil non-gold imports	2	-11	4	-4	-5	-2	4	-5	2	1	7	6	3	5
Government														
State government: Captial expenditure	22	102	56	5	3	33	19	1	-13	-17	-30	7	21	na
Central government : capital expenditure	30	29	-15	2	105	-41	315	-4	26	-50	-66	108	-30	na
Centre Revex ex of interest payments	1	-13	-24	-21	-12	-15	2	-12	10	-6	-7	-21	44	na
State Revex ex of Interest Payments	22	3	9	7	5	14	6	5	9	17	1	29	1	na

Source: CMIE Economic Outlook, CEIC, SBIFM Research; NB: Red denotes a deterioration in y-o-y growth rate compared to the prior month while green denotes an acceleration in growth rate. Bank credit data adjusted for HDFC merger, Payment via digital means includes credit card, debit card, wallet and UPI payments; consumer sentiment is an index

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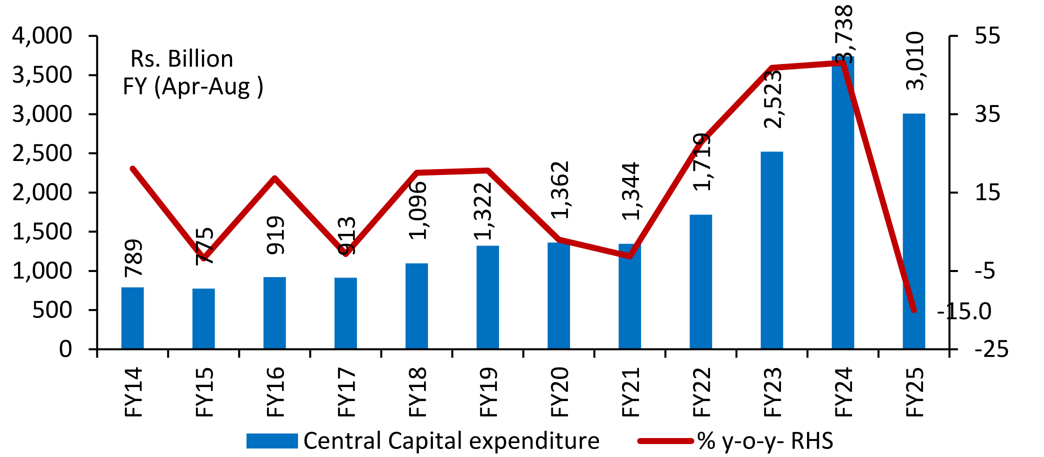
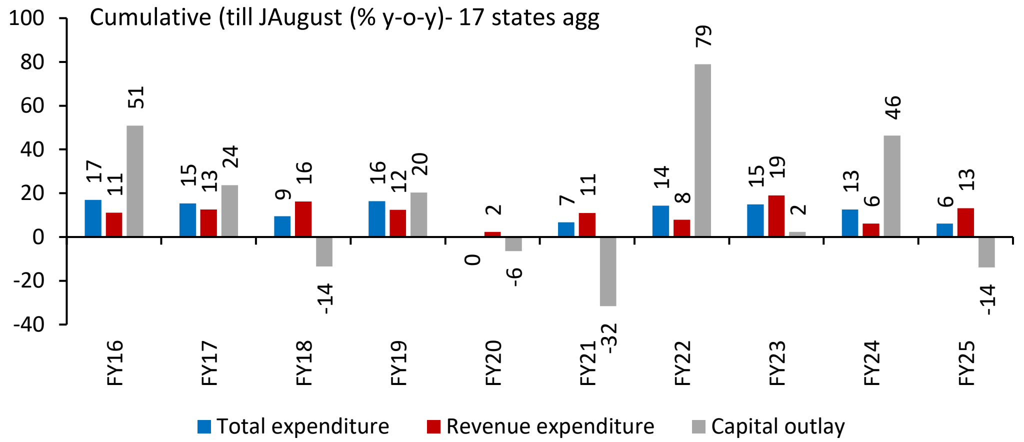
Soft patch for capex in H1 FY25; govt capex moderating, private capex outlook is still positive

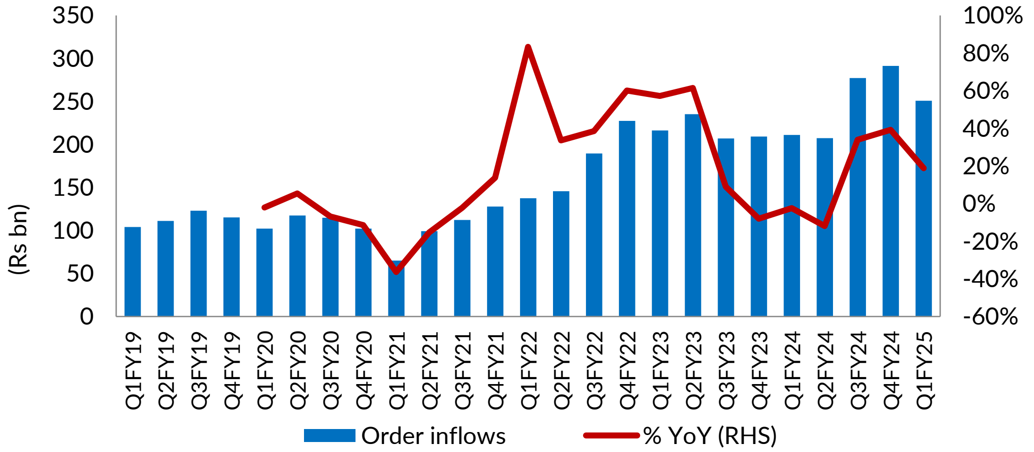
Central capital expenditure was weak in 1H FY25 owing to lower spending pre general election 2024



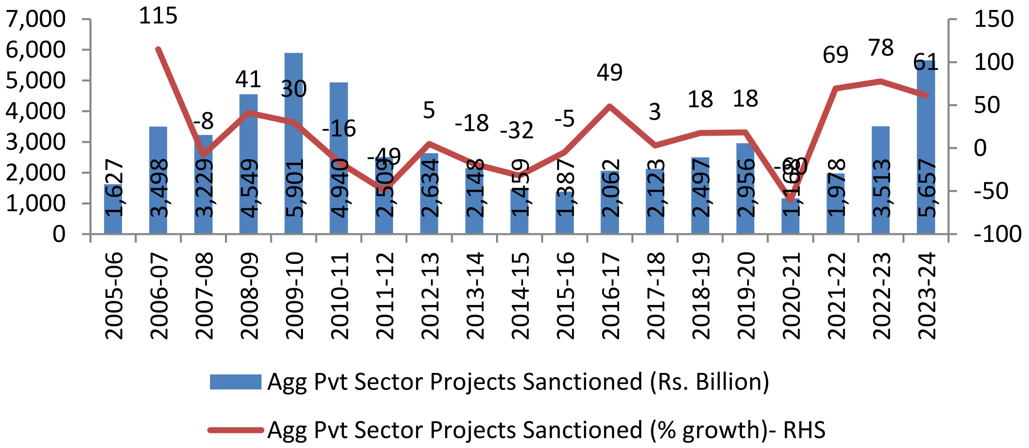
States capex is getting compromised by welfare spending compulsion



Order flows expected to revive as gauged from company reports



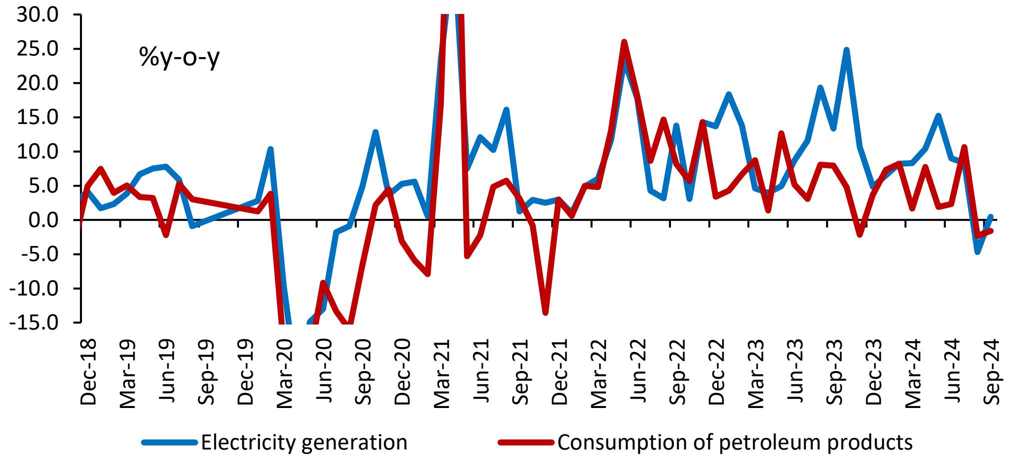
RBI's tracking of private corporate capex intentions gives a positive read



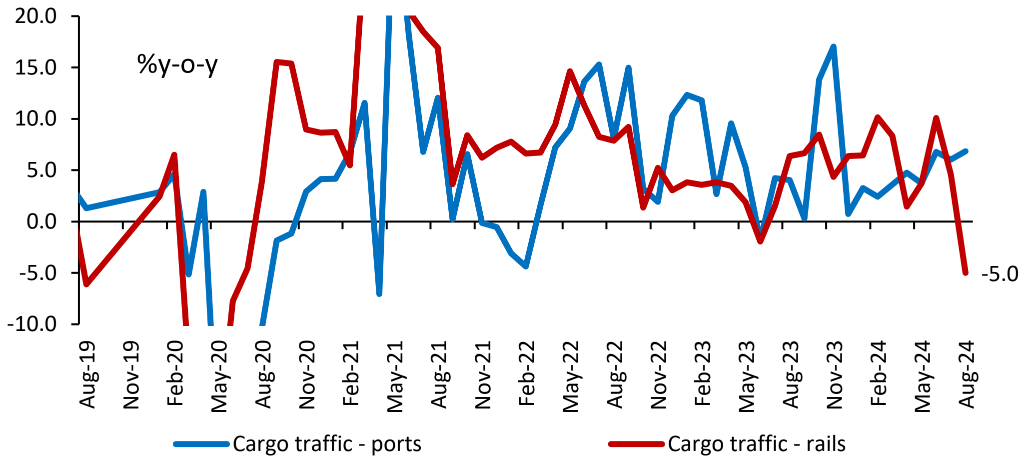
Source: CMIE Economic Outlook, RBI, SBIFM Research

Higher rainfall adversely impacts several high frequency indicators

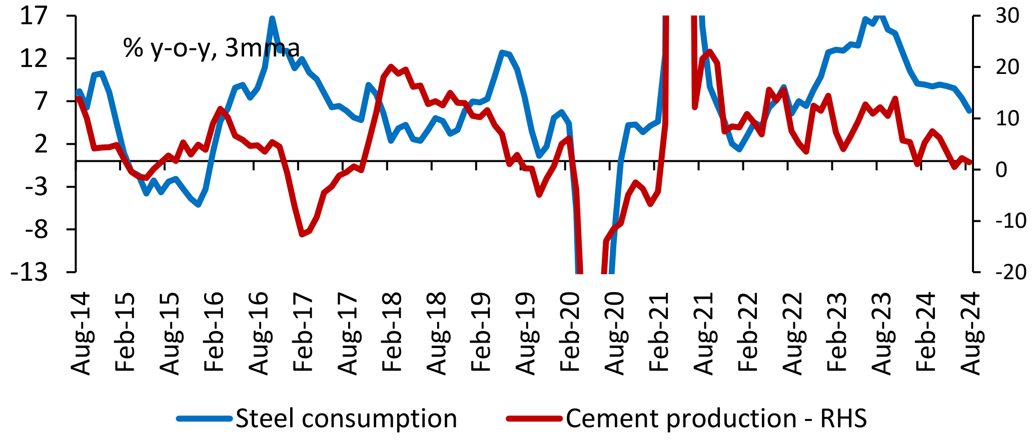
Power demand (electricity generation ad consumption of petroleum products) moderated on a y-o-y basis in Sep'24



Rail freight traffic sees a sharp moderation



Construction related indicators see a slowdown; Cement consumption ultra muted in 1H



- Cement prices had fallen in 1HFY25 as demand utilization was low and competition led cement companies to pass on lower commodity cost benefits to consumers.

Source: CMIE Economic Outlook, CEIC, SBIFM Research

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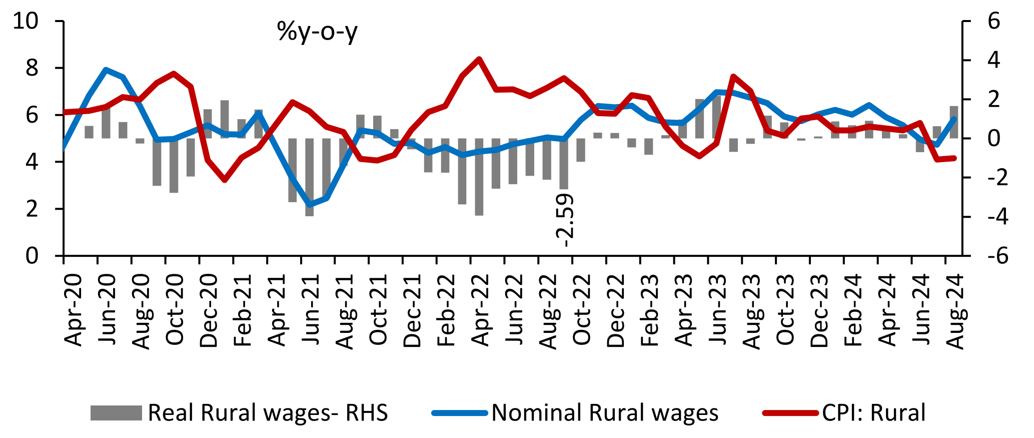
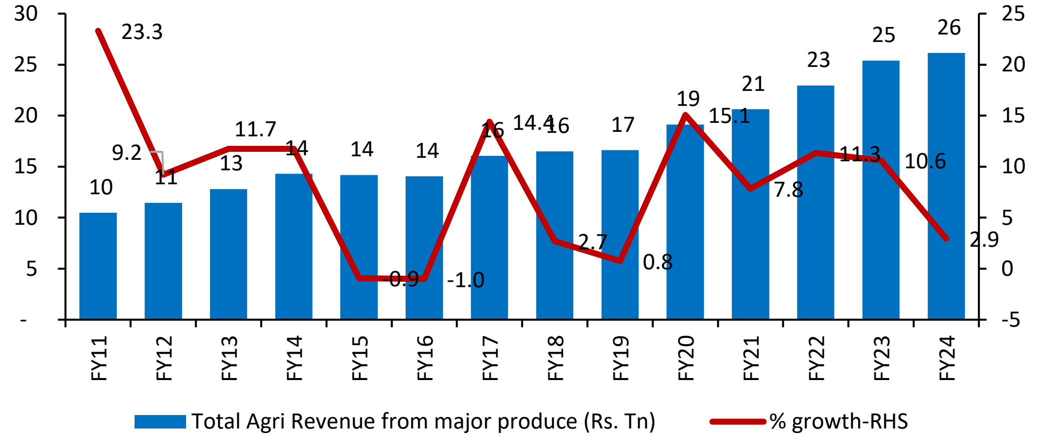
Rural economy stays sideways

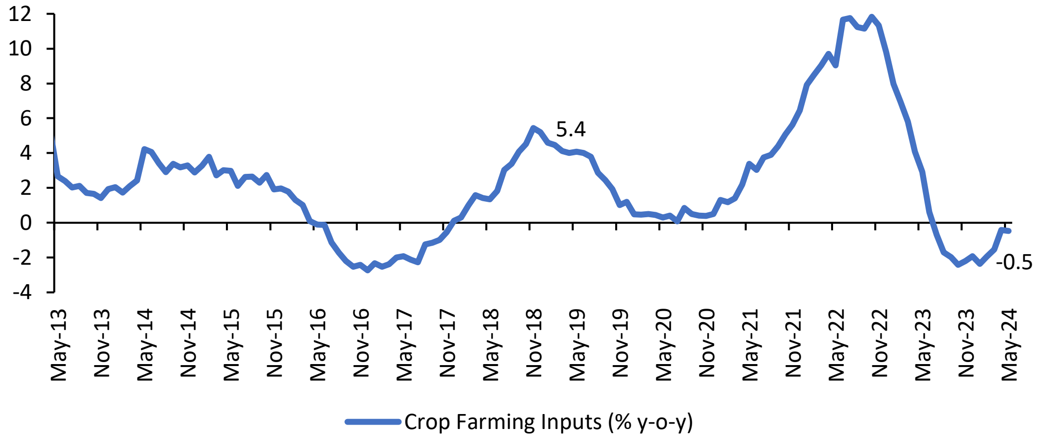
Real rural wages have turned marginally positive



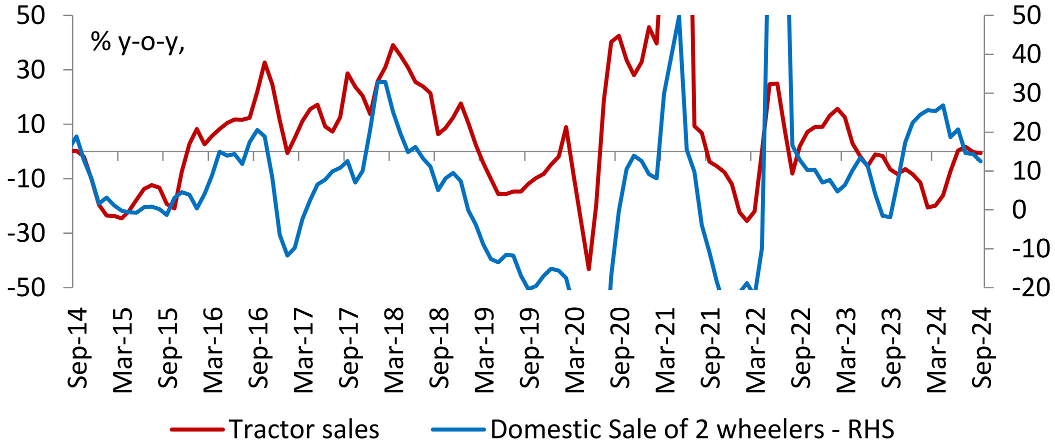
Agriculture revenue continues to grow



Cost of inputs moderated



2W sales continue to grow but momentum moderates; Tractor sales continue to underwhelm



Source: CMIE, SBIFM Research

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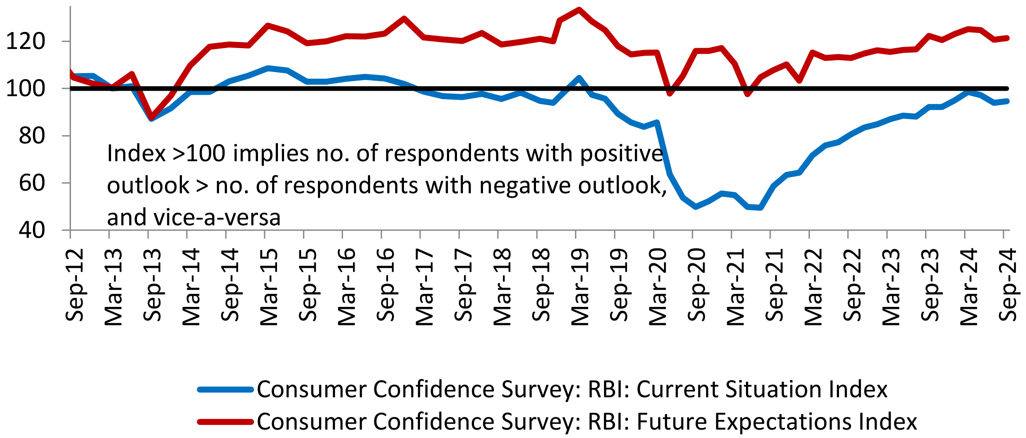
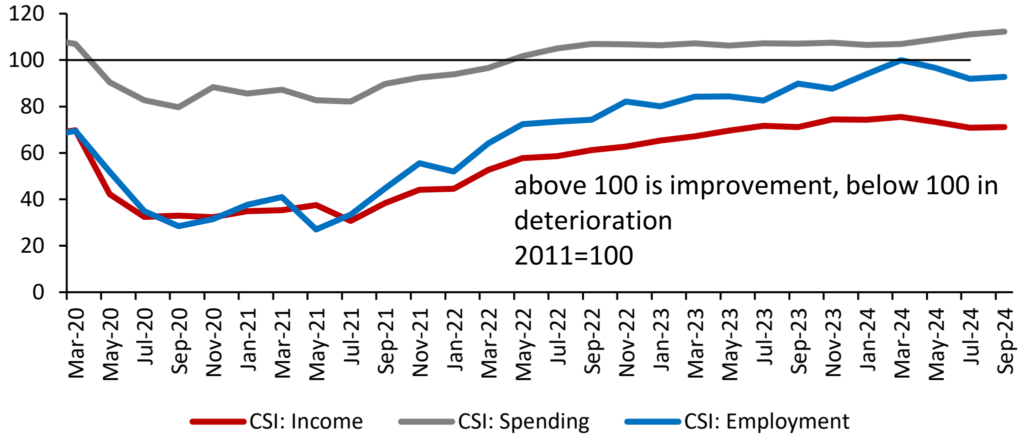
Consumer confidence recovery in India has been very gradual

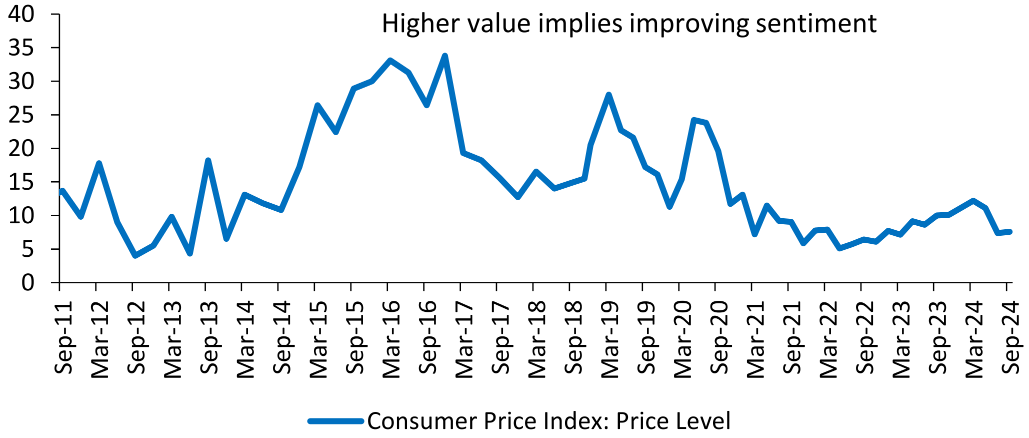
Consumer confidence still below 100 implying muted positivity



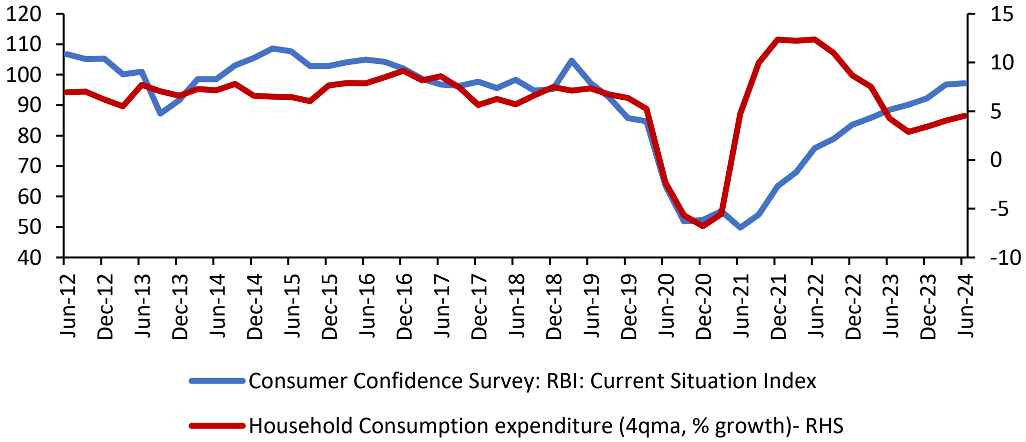
Consumer expectation on employment moderates; Spending and income is broadly flat



Moderation in CPI inflation would also help in improving the real purchasing power

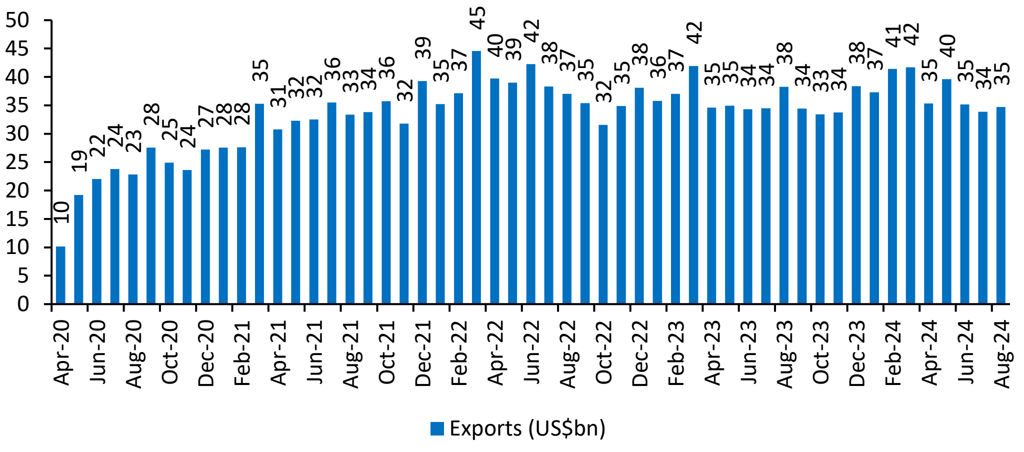


We expect a gradual recovery in consumption demand

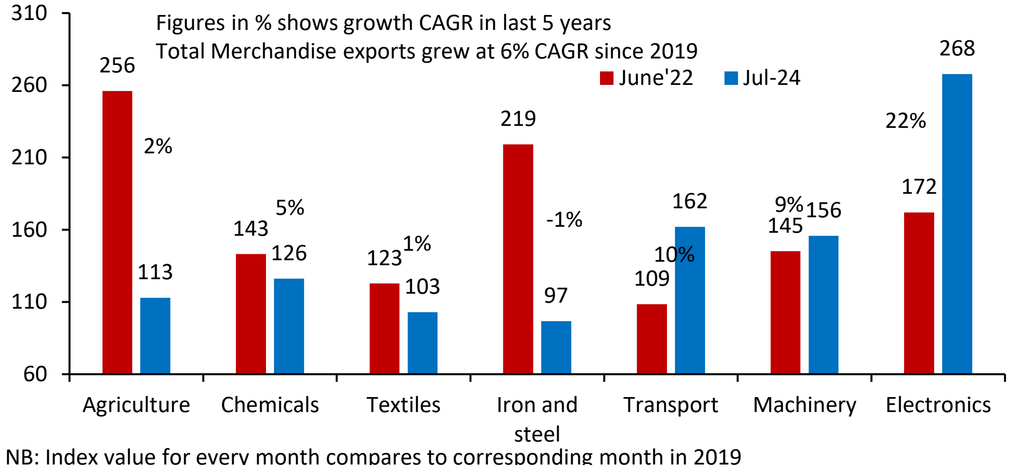


Exports see marginal positivity on global inventory normalisation

Merchandise exports are flat on an absolute level in August compared to last month

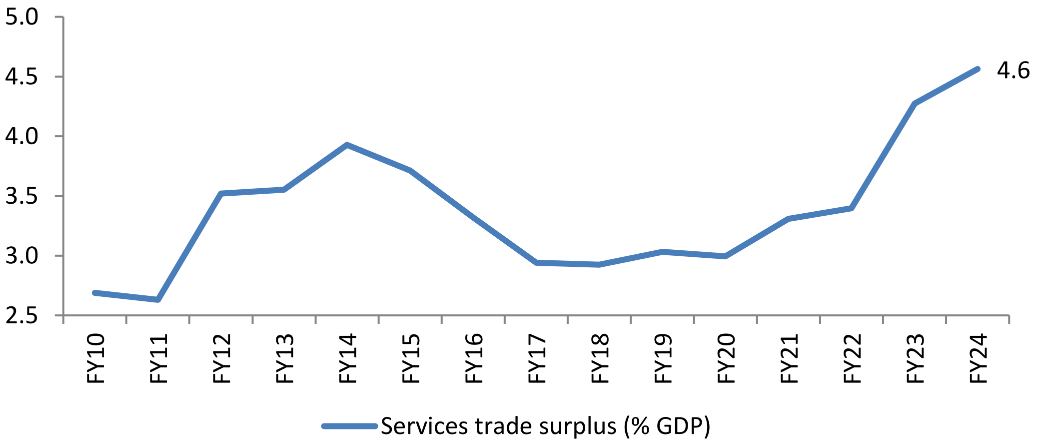


Electronics exports are healthy; transport, chemicals and machinery exports sees some rebound



NB: Index value for every month compares to corresponding month in 2019

Services exports continue to be resilient



- Global export cycle is showing very nascent signs of positivity. It is due to continued positivity in the US demand and normalizing US inventory.
- India's exports have been recovering since December. Most of these gains have been due to higher exports to the US, China and select other Asian economies.
- Exports to Africa and Europe are still lagging. Within Europe, exports to Netherlands have improved significantly, but gets offset by lower shipments to Germany and France.

Source: CEIC, CMIE Economic Outlook, SBIFM Research; NB:*weighted average calculated

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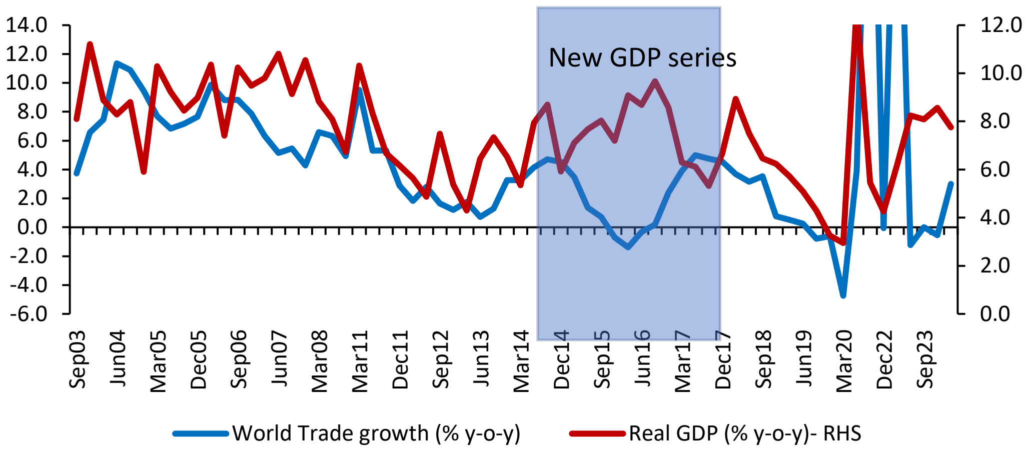
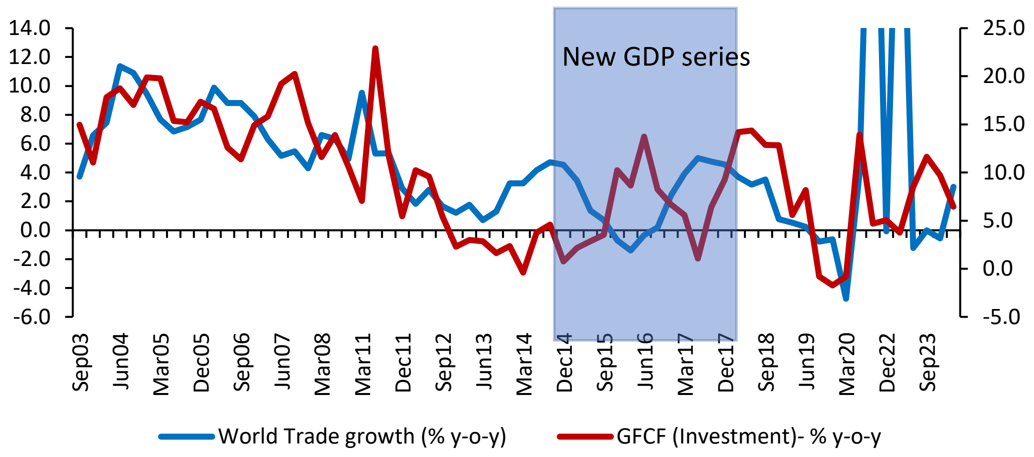
Global headwinds aside, we are constructive on medium term growth outlook for India

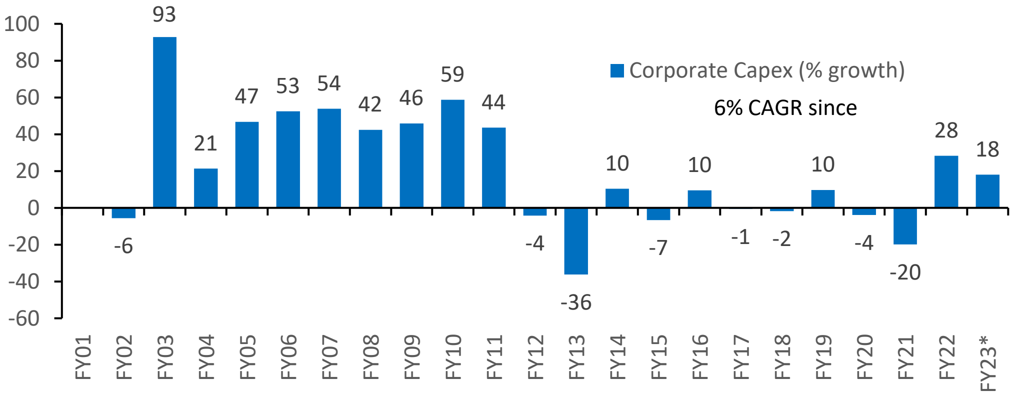
India's GDP moderates with moderating global trade



India's capex cycle has very strong linkage to global trade cycle

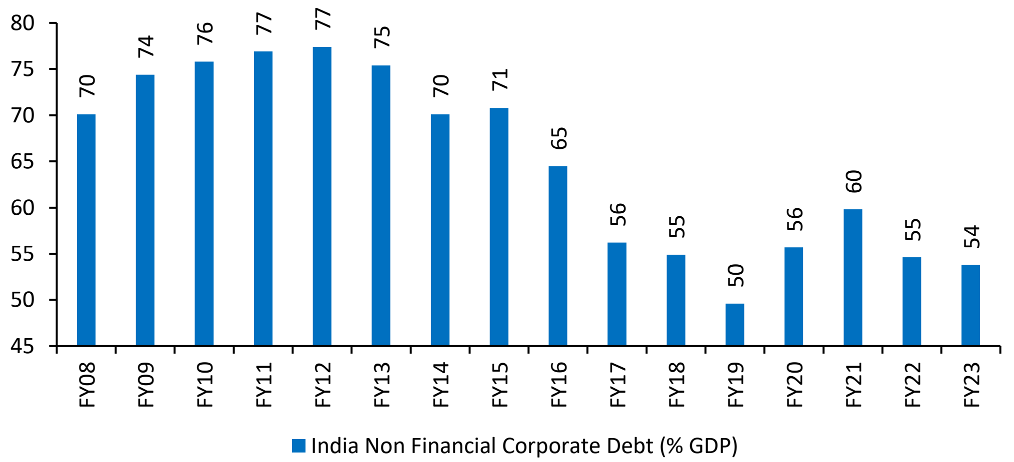


Long period of underinvestment in India- Total Corporate Capex grew ~18% in FY23



~5K listed companies and ~3K unlisted companies
FY23 data available only for 4.9K listed and 427 unlisted companies
Based on Purchase of fixed assets data for ~9K listed unlisted Co.s

Corporate debt to GDP is at a multiyear low



Source: CMIE Economic Outlook, Ace equity, SBIFM Research; NB: Private sector project announcement from CMIE

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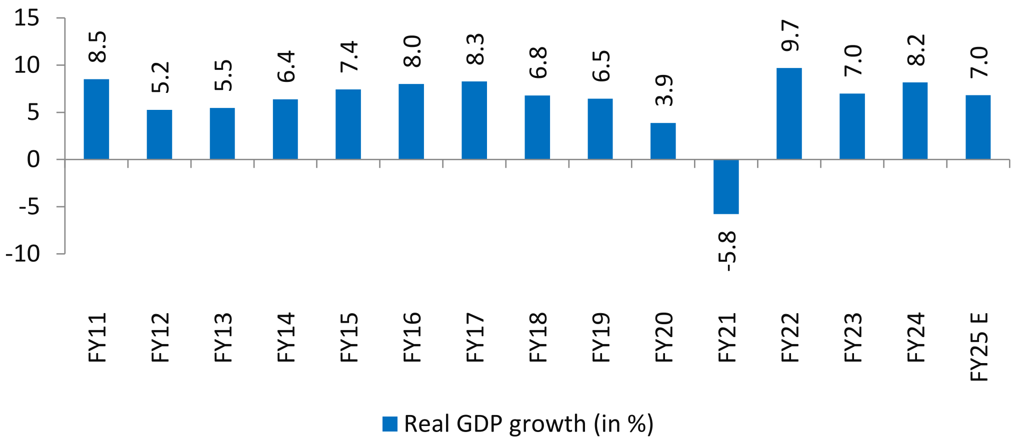
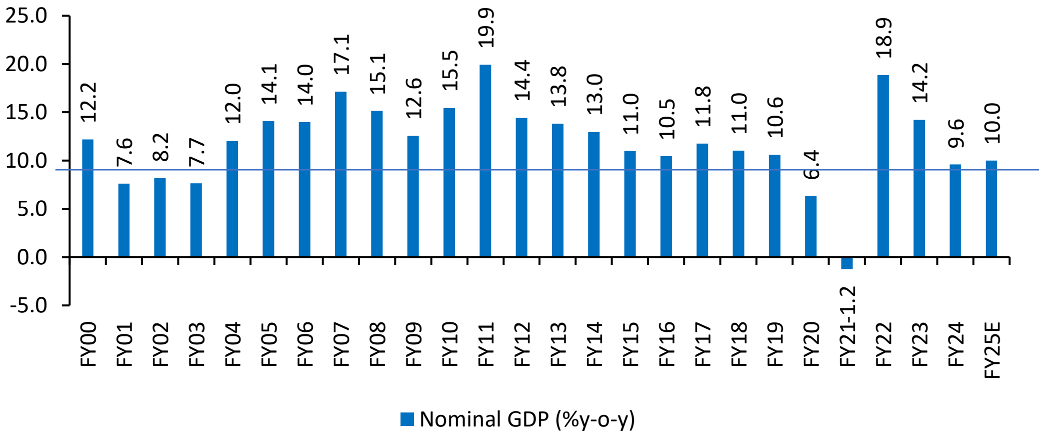
Low nominal growth affects topline of Indian companies

Real GDP growth for FY24 at 8.2% y-o-y vs. 7.0% in FY23



India's Nominal growth falls to single digit growth for the first time after FY03 (if we ignore FY20 and FY21 for COVID impact)

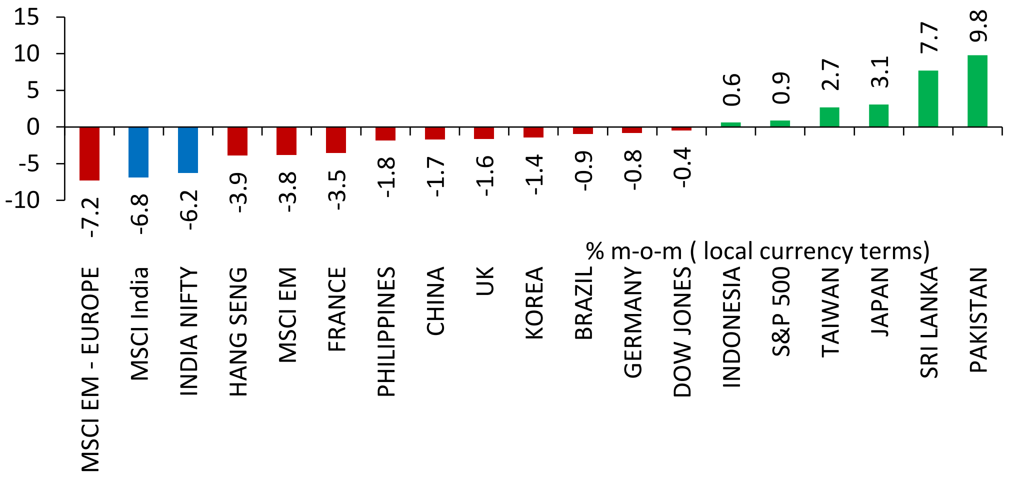


- In FY24 real GDP came in at 8.2% y-o-y (vs. 7.0% in FY23).
- Fixed investment is the key driver of growth with a positive contribution from net exports.
- Household consumption recovery was very slow. Consumption demand is gradually improving but 4% expansion in real demand is much softer than 7% pre-COVID.
- Global growth has held up better than expected keeping exports and manufacturing sector volumes resilient.
- Investment activity improved owing to significant front loading of government capex and real estate recovery as gauged from rising launches. State govt. spend was also frontloaded in FY24.
- The last few years were characterized by increased infrastructure spending and market share gains in exports which catalyzed the construction activity and manufacturing sector. If current infrastructure spend continues FY25, real GDP is expected to post ~6.8-7% print.
- **Overall volume growth is holding up in India, while low price hikes and flat commodity prices lead nominal growth to fall to 10%.**

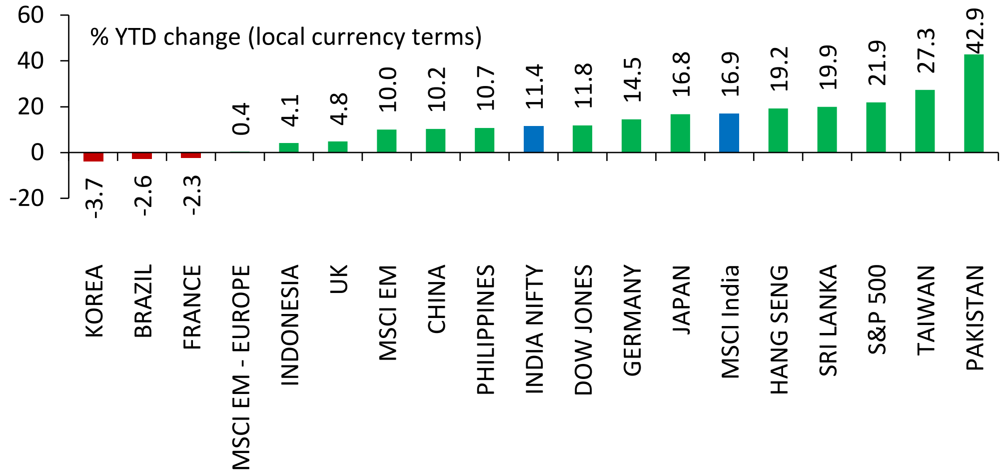
EQUITY MARKET

Global equity market snapshot: October 2024

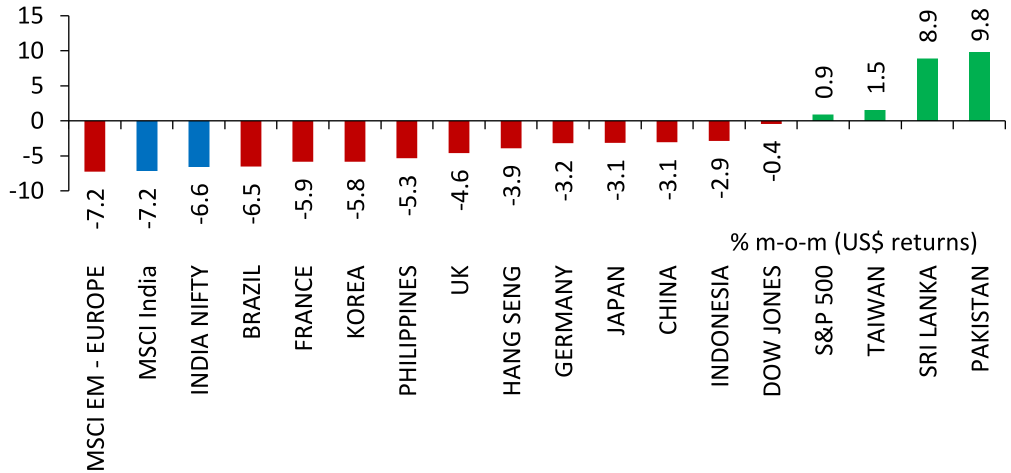
Performance in October 2024 (local currency returns)



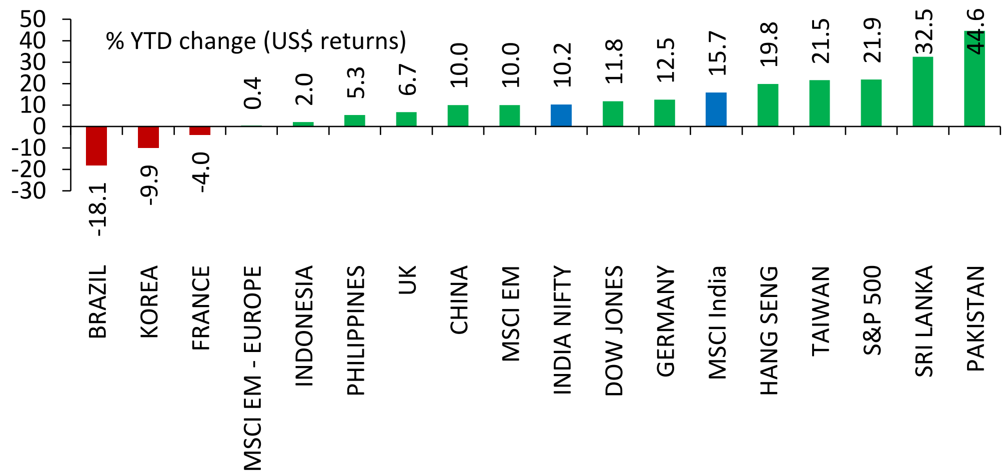
YTD performance (local currency returns)



Performance in October 2024 (US$ returns)

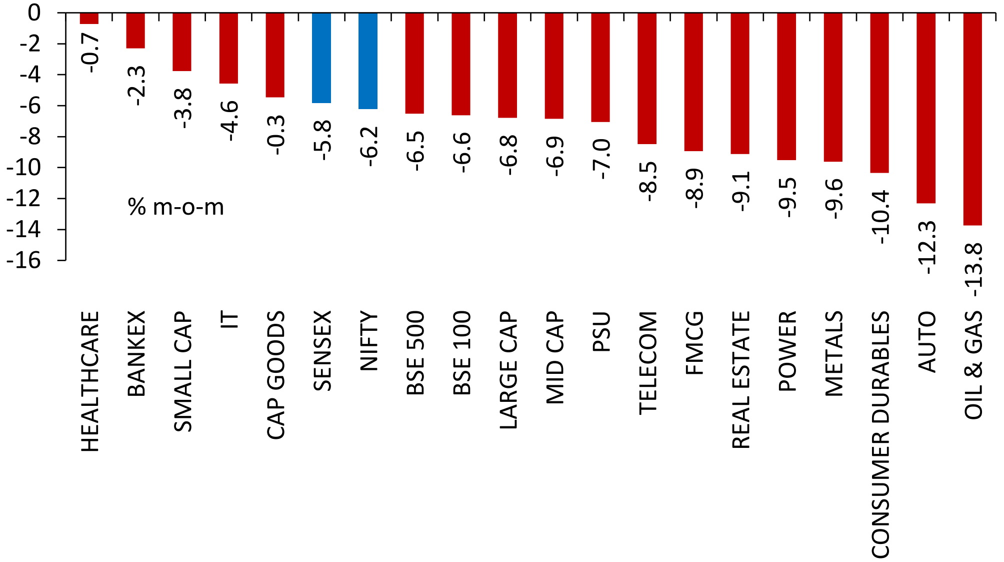


YTD performance (US$ returns)

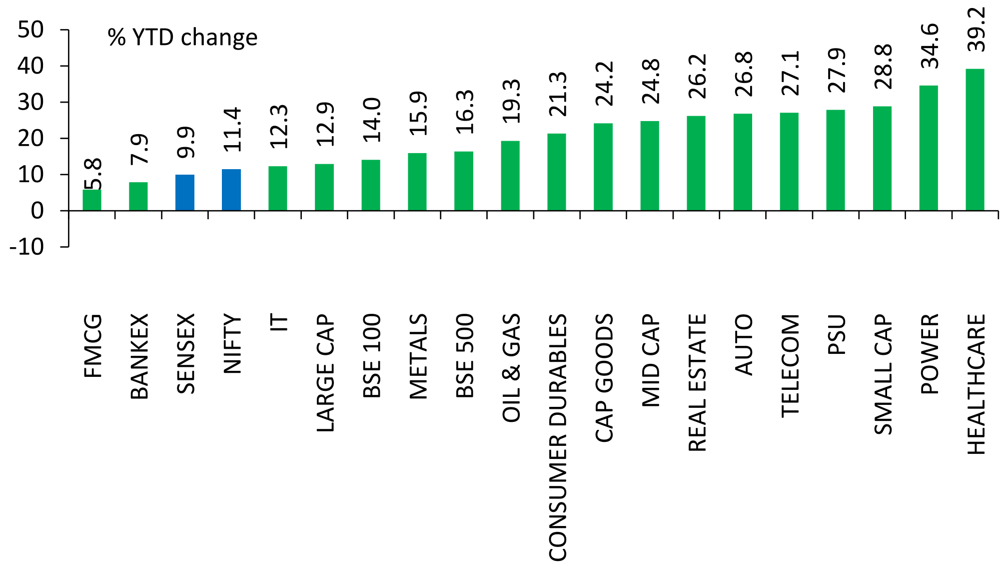


Indian equity market snapshot: October 2024

Indian equity market performance in October 2024 (local currency returns



YTD performance (local currency returns)



- Nifty and Sensex decreased by 6.2% and 5.8% respectively m-o-m in October. All sectors showed negative returns on a m-o-m basis. Strongest fall visible in Oil & Gas (-14% m-o-m), followed by auto (-12%) and consumer durables (-10%).
- BSE Large and mid cap (-7% each m-o-m) delivered sharper negative returns than small cap (-4%).
- On a YTD basis, Nifty and Sensex increased by 11% and 10%, respectively. All sectors have yielded positive returns on a YTD basis. Healthcare (39% YTD) has been the biggest gainer, followed by power (35% YTD) and PSU (28%).

Source: Bloomberg, SBIFM Research

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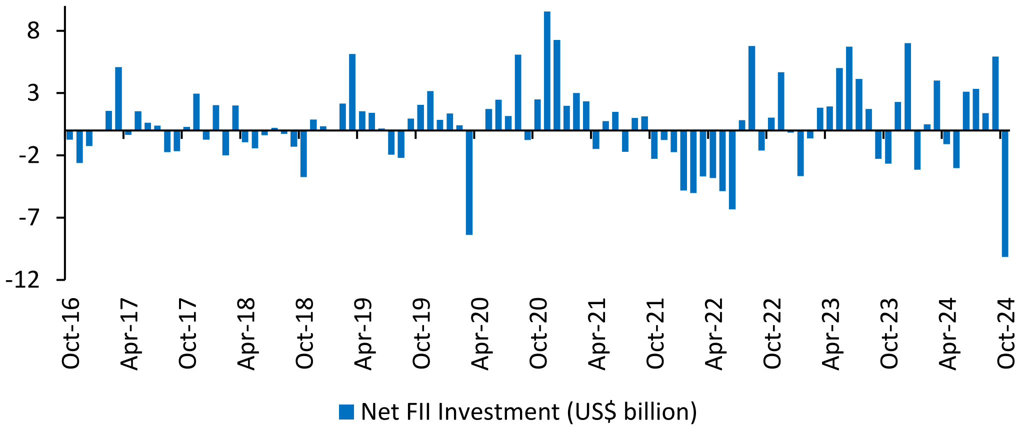
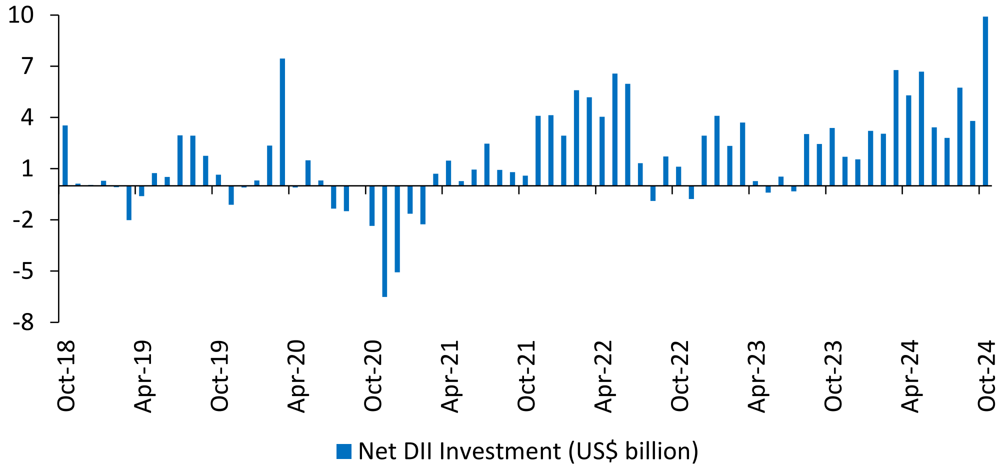
Liquidity: Sharp selling by FIIs in October; Primary market supply inched up

FIIs sold ~USD 10.2billion in Oct'24 in equity segment vs. purchase of USD 6 billion in Sep'24



DIIs are net buyers (purchase of USD 10billion in Oct'24 vs. USD 3.8 billion in Sep'24)



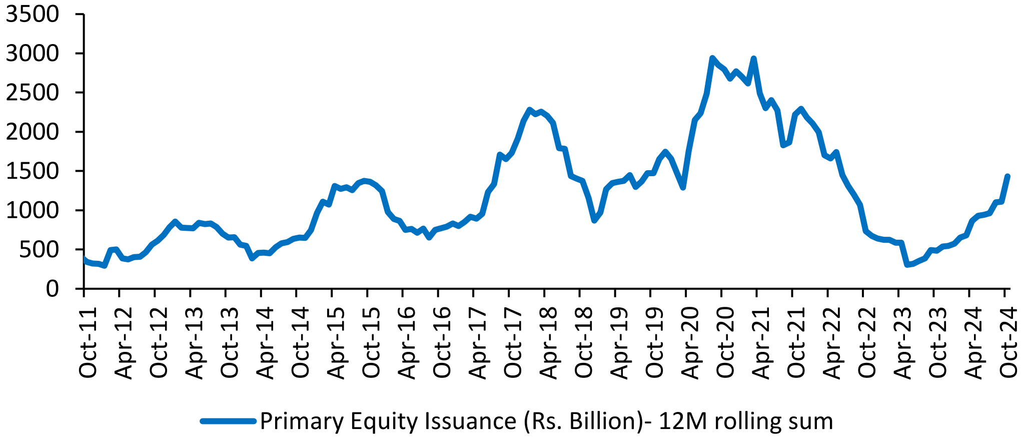
Retail flows into Equity (both Cash and Derivates) surge; Category wise net inflows into Indian equities:

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024*
In Rs cr													
FIIs	1,28,361	1,13,136	97,069	17,946	20,493	49,234	-34,252	1,01,111	1,70,260	24,004	-1,21,439	1,71,107	1,00,609
DIIs	-55,800	-73,052	-28,557	67,587	35,363	90,738	1,09,662	42,257	-35,663	94,846	2,75,726	1,81,482	3,41,505
Individuals#	-24,900	-22,000	-30,100	-8,243	-26,382	-37,988	-8,523	-25,280	52,897	1,42,755	88,376	5,243	1,09,657
In US$bn													
FIIs	24.4	20.1	16.1	3.2	3.2	7.5	-4.6	14.4	23	3.8	-16.5	20.7	10.7
DIIs	-10.6	-12.8	-4.8	10.4	5.2	14	16	6	-4.8	12.6	35.7	22	40.9
Individuals#	-4.7	-3.8	-4.9	-1.3	-3.9	-5.8	-1.4	-3.6	7.1	19.3	11.7	0.6	13.2

* As of September 30th, 2024

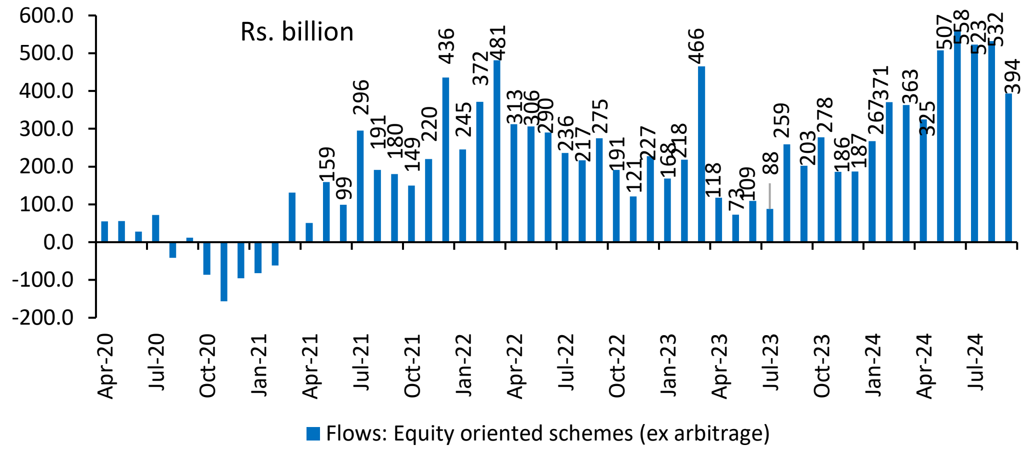
\# Data pertaining to individuals include net flows on the NSE in the secondary market only. Individuals include individual /proprietorship firms, HUF and NRI.

Primary market supply trending up from last year lows

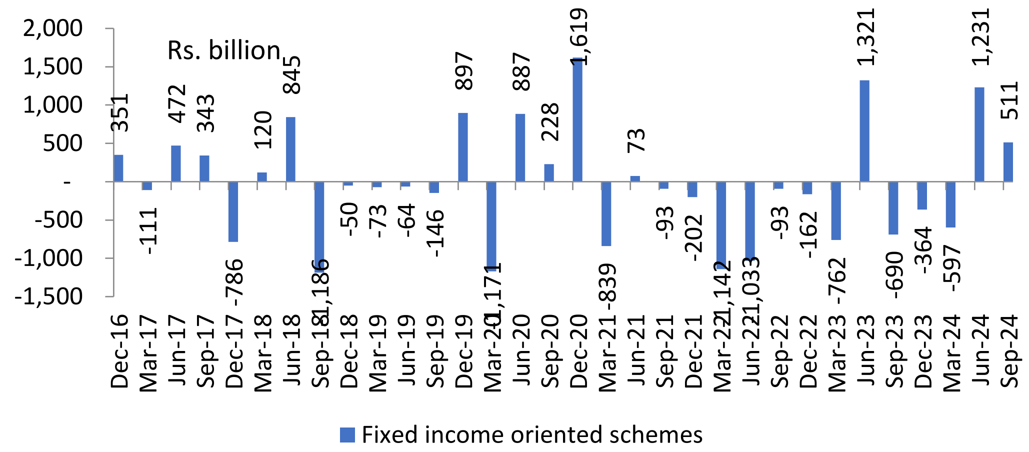


MF flows: Improvement in SIP equity inflows; Debt inflow moderates this quarter

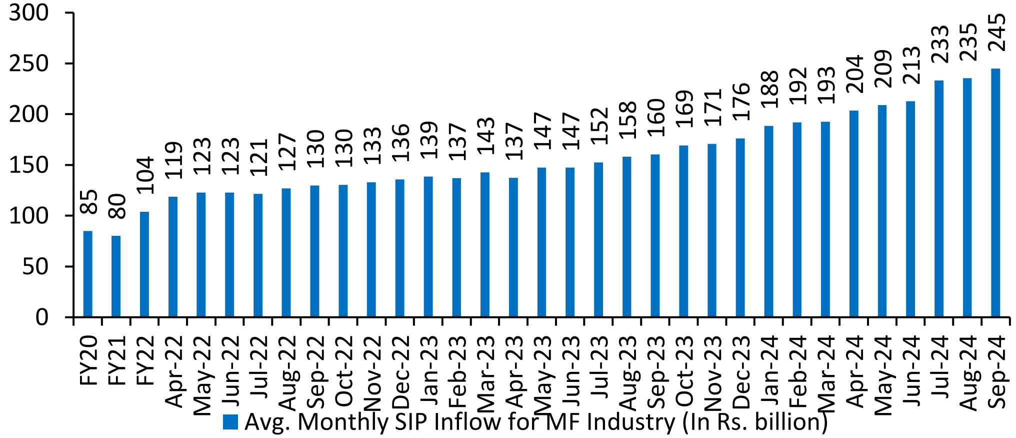
Equity inflows moderate slightly in September 2024 compared to a month ago



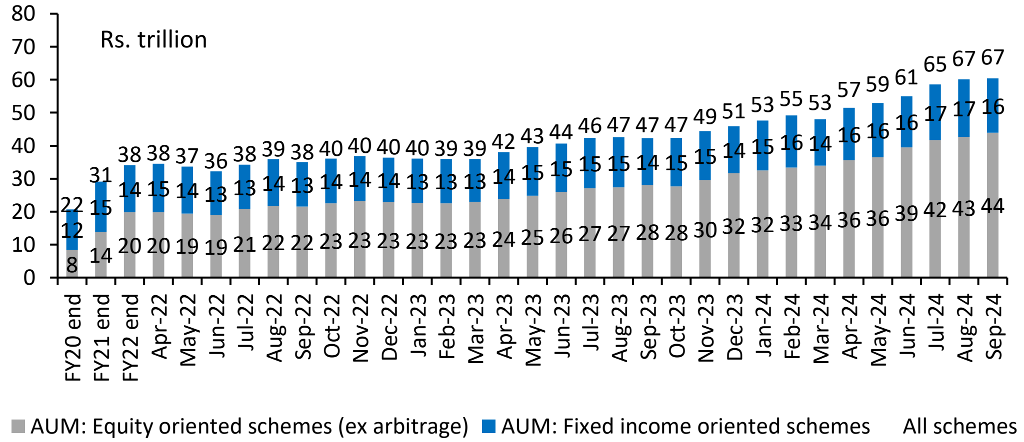
Debt inflow of INR 0.5tn in Q2 FY25 (lower than inflow of 1.2tn in Q1 FY25)



Monthly SIP inflow increases m-o-m in September

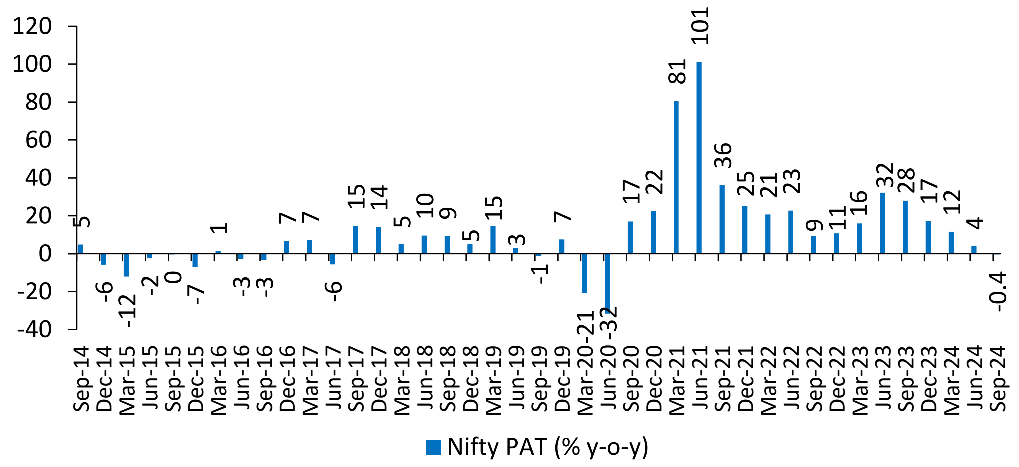


Equity and debt AUM increases m-o-m

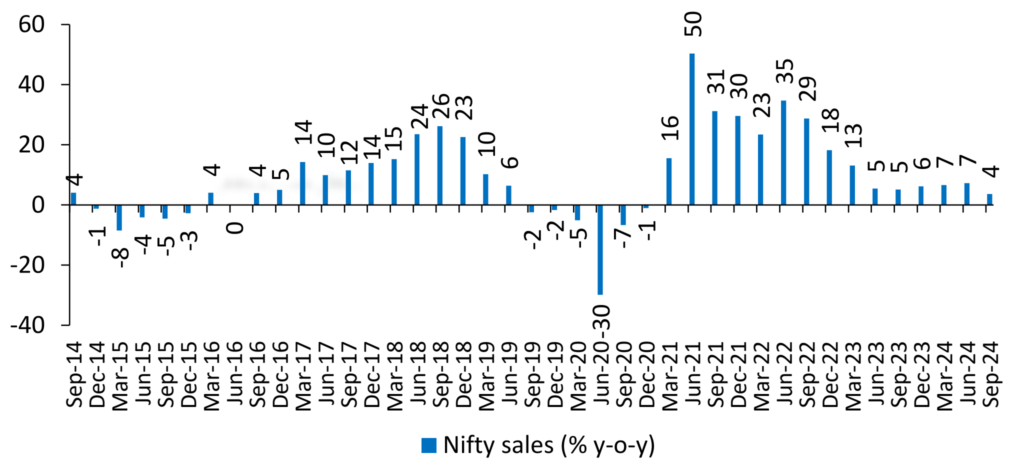


Q2 FY25 interim earnings: Weak PAT growth; Topline has been weak for 6 consecutive quarters

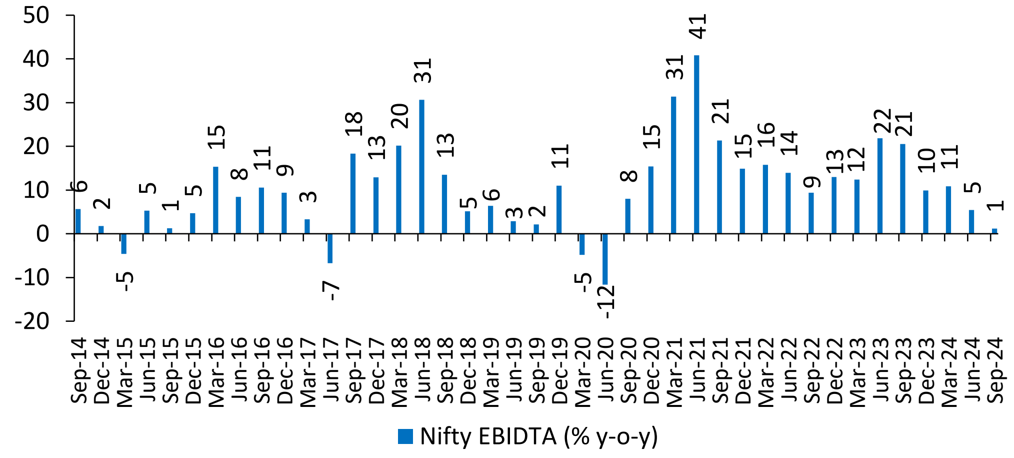
PAT growth moderates on account of high base effect in metals and oil & gas



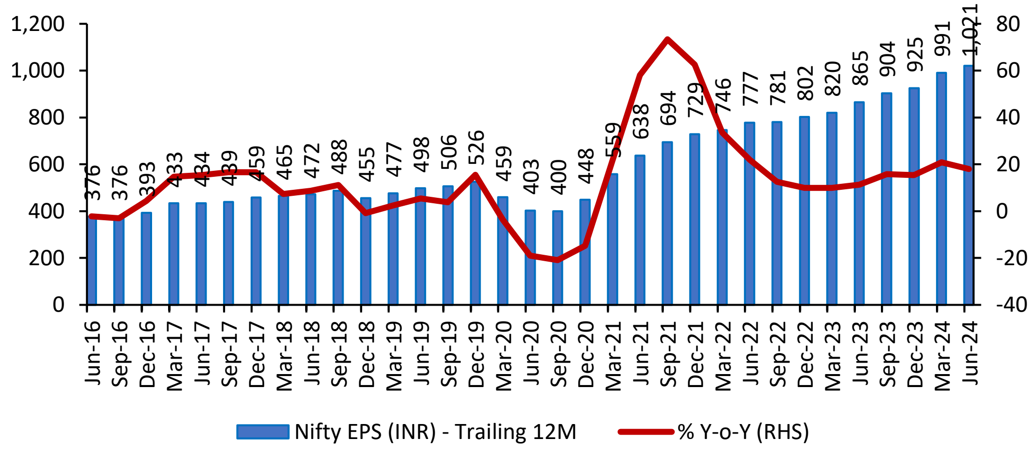
Q2 FY25 NIFTY sales growth in line with expectations



EBITDA growth moderates as commodity tailwind dissipates



EPS growth moderates; 12m rolling EPS grows 18% but Q1 FY25 EPS growth moderates to 13% (vs. 30% in Q4 FY24)



Source: MOSL, SBIFM Research; NB**: Results released for 33 NIFTY companies for September 2024 quarter, historical data is for all the NIFTY 50 companies**, EPS growth is adjusted for Axis bank losses for FY23

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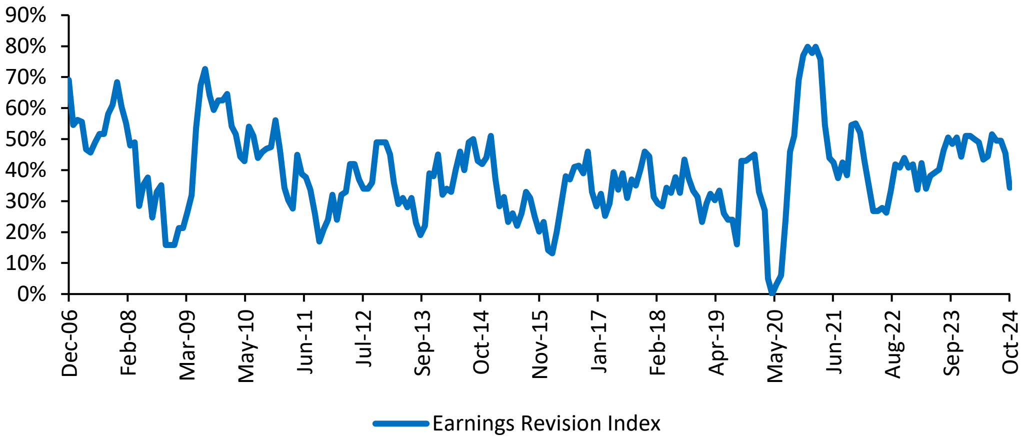
Q2 FY25 interim earnings' review

- Results released for 33 NIFTY companies.
- NIFTY reported ~4% growth in sales. EBITDA and PAT growth were lower at 1% y-o-y and (-)0.4% y-o-y respectively as OMCs have had a strong base quarter. The earnings outcome was muted.
- Looking at the sector wise color, technology, real estate, telecom and healthcare contributed positively to the modest earnings growth. On the other hand, global cyclicals such as Oil & Gas, Metals, Cement, Chemicals and Consumers weighed down earnings outcome.
- For banks, deposit growth continues to be challenging. There is some stress seen in unsecured lending. NIMs under pressure. NBFCs see weak disbursements.
- Within the defensives, though IT services witnessed early signs of recovery (especially in BFSI), the sustainability of this trends needs to be watched out for. On the other hand, pharmaceuticals shows continued strong demand from overseas markets.
- Auto sees a relatively better demand momentum in the consumption space in line with expectations driven by domestic 2W volume growth and a sequential recovery in exports. While a slowdown in PV demand was anticipated, 2W volumes during the festive season were also lower than expected.
- Consumer sector underwhelmed expectations with demand subdued for the urban market, while rural contributed positively to growth.
- Real Estate sector robust with strong presales growth. Cement faced moderation in volume growth.
- Industrials faced slight moderation in revenue and order inflow growth due to election related impact. Margins improved.
- To sum, topline of Indian companies are getting repeatedly dragged down by gradual moderation in global growth which has impacted the toplines for IT, chemicals, metals and oil & gas. On the other hand, some of the domestic sectors like auto and real estate has posted a strong topline. But still the net impact is a single digit growth in topline. Furthermore, gradually the profit growth is also gradually moderating to low double-digit prints, in line with nominal growth in India. At the margin, downgrades have increased and beats to miss ratio is also neutral. India EPS grew by 22% in FY21, 32% in FY22 and 11% in FY23 and 23% in FY24. But now the likely EPS trend would mostly be in line with nominal growth and would necessarily require topline to come back.

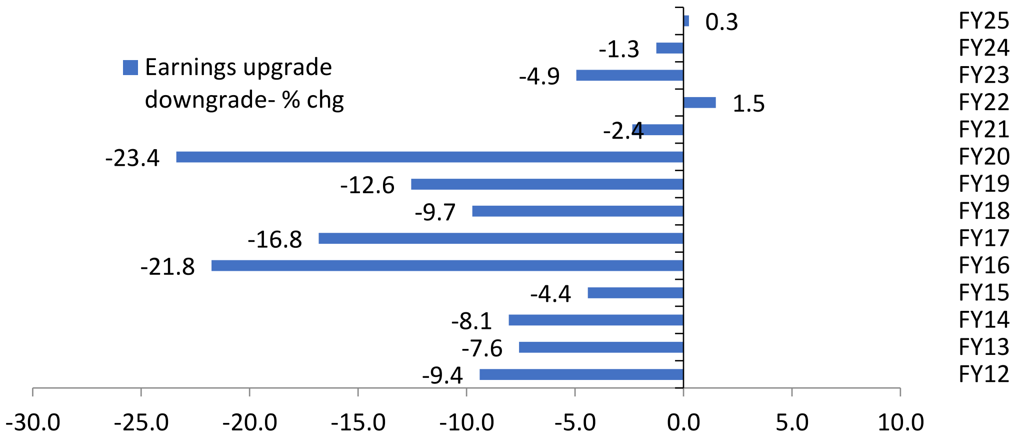
Source: MOSL, SBIFM Research

Earnings upward revisions falls significantly in October

Earnings Upgrades to downgrades ratio falls significantly in October



In FY25 (till September), EPS projection saw a marginal upgrade

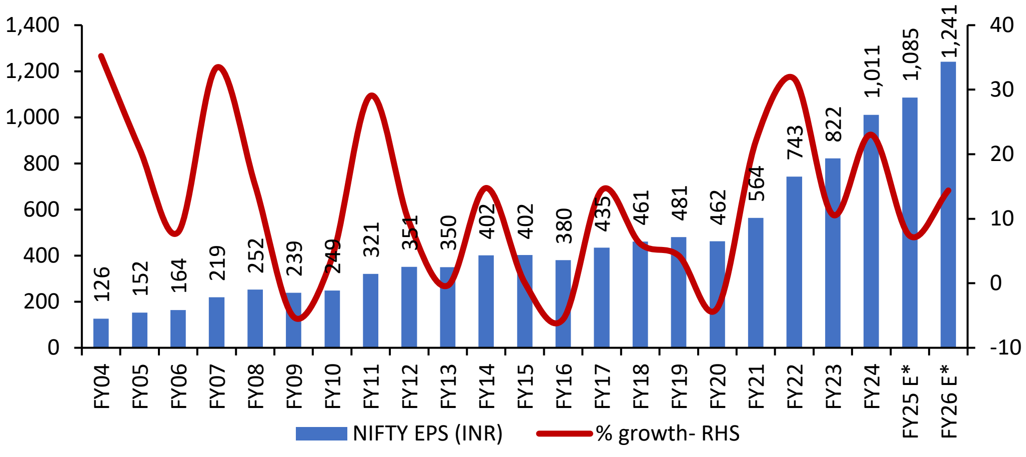


- Earnings revisions for FY25 have fallen with Materials, Industrials, Consumer Discretionary & Energy seeing downward revisions. Healthcare continues to get upward revisions.
- Consensus expects 12.0% EPS growth CAGR for the Nifty over FY24-FY27.

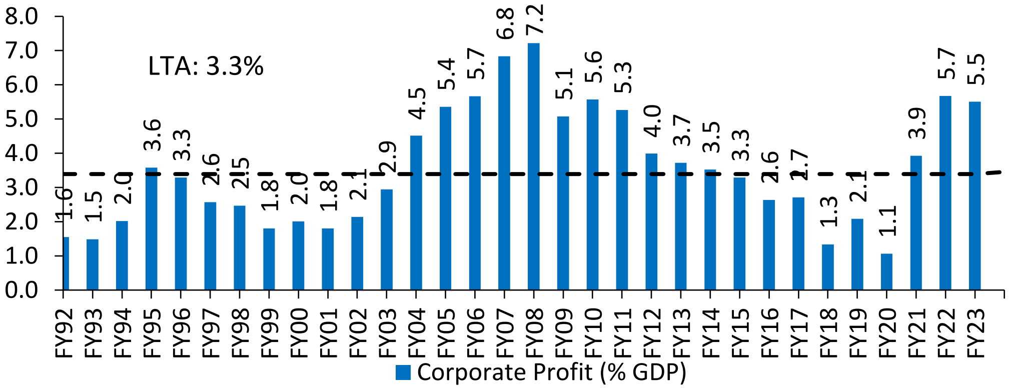
Source: Bloomberg, FactSet, SBIFM Research; NB: *data for communication services can't be calculated due to negative number in the base year, Earnings Revision Index: There has been a revision in methodology of calculating Earnings' Revision Index. Earlier,12 month forward estimate number of all BSE 100 constituents as of the current month-end &3 months back were taken. Now, new version considers FY23 consensus EPS for the current date and weighted format for history(1 month, 2 month & 3 months back with 1 month having the highest weight).

Domestic support to earnings as the outlook for global cyclicals weakens

Near-term headwinds to earnings while medium term prospects look decent



Earnings have recovered from ultra-lows of FY17-FY20



FY92-FY23 data is based on a sample of ~30,000 listed unlisted companies in CMIE (includes both financial and non financial companies)

Sectoral breakup of NIFTY earnings outlook

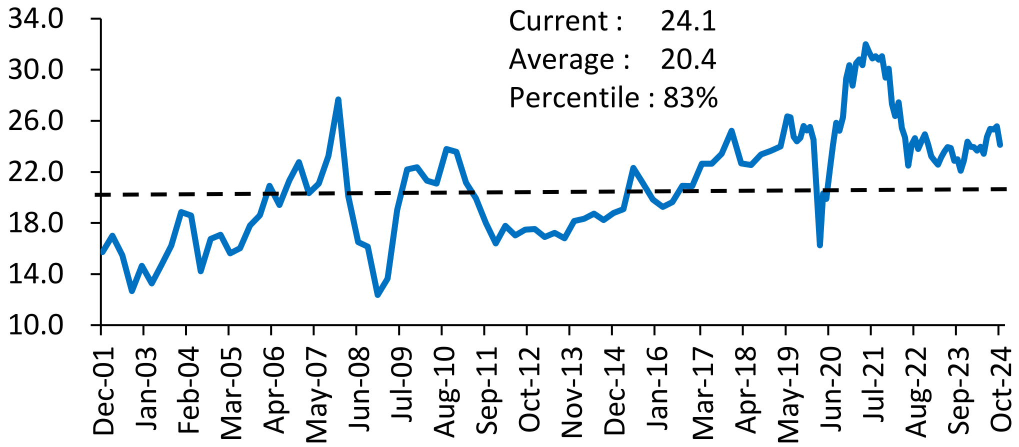
		EPS Change							
	No. of Cos.	FY20-21	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27	FY24-27 (CAGR)
Nifty		20.0%	35.7%	5.9%	29.5%	6.7%	15.6%	13.8%	12.0%
Materials	6	55.2%	222.9%	-54.7%	-13.8%	37.0%	35.5%	19.0%	30.2%
Industrials	4	22.9%	-30.1%	-0.9%	-0.9%	36.6%	22.4%	14.4%	24.1%
Financials	11	13.8%	27.3%	23.1%	53.0%	6.6%	13.1%	15.6%	11.7%
Consumer Discretionary	8	20.7%	-33.4%	186.5%	58.8%	0.5%	18.0%	16.1%	11.3%
Health Care	4	5.9%	51.7%	23.6%	2.5%	14.5%	11.4%	3.6%	9.7%
Energy	4	56.9%	11.4%	8.1%	33.6%	6.5%	14.4%	7.6%	9.5%
Consumer Staples	5	-5.0%	-3.9%	5.6%	32.6%	2.9%	12.1%	11.5%	8.7%
Utilities	2	18.0%	-9.7%	6.0%	-28.7%	6.7%	9.1%	7.2%	7.6%
Information Technology	5	9.6%	37.1%	13.3%	13.5%	-4.4%	12.7%	12.3%	6.6%
Communication Services	1		NA*		-6.1%	58.7%	47.2%	32.7%	45.8%

- Consensus expects 12.0% EPS growth CAGR for the Nifty over FY24-FY27.
- We are constrictive on medium-term earnings trajectory deriving comfort from our growth expectation for India and return of pricing power for many sectors.

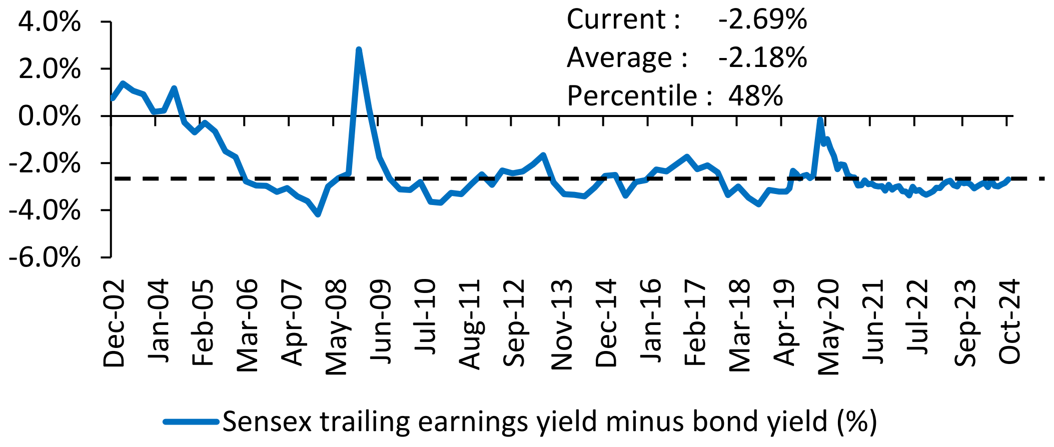
Source: CMIE Economic Outlook, Bloomberg, SBIFM Research; *FY25 and FY26 earnings estimates are SBIMF,** EPS change is unadjusted to externalities, : ***data for communication services can't be calculated due to negative number in the base year, Earnings Revision Index: There has been a revision in methodology of calculating Earnings' Revision Index. Earlier,12 month forward estimate number of all BSE 100 constituents as of the current month-end &3 months back were taken. Now, new version considers FY23 consensus EPS for the current date and weighted format for history(1 month, 2 month & 3 months back with 1 month having the highest weight).

Equity valuations remain expensive but has corrected from the peak

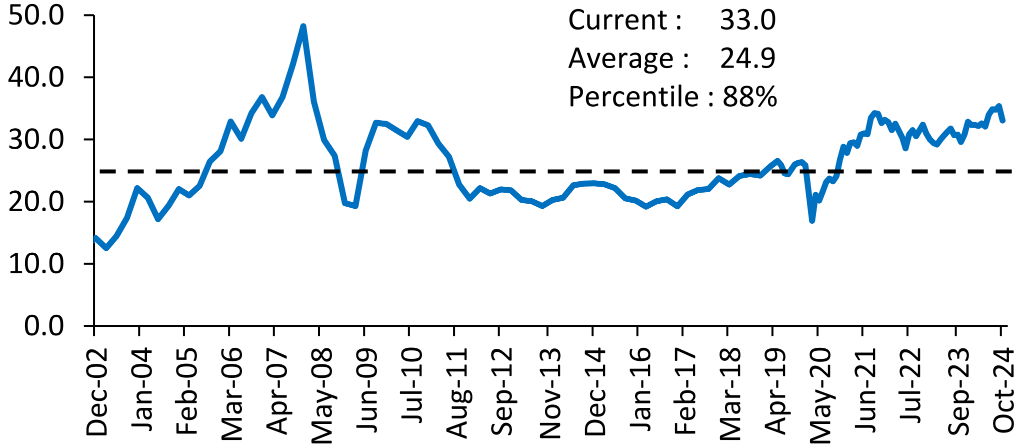
Sensex trailing PE ratio stood at 24.1 in Oct'24 vs. 25.6 in Sep'24



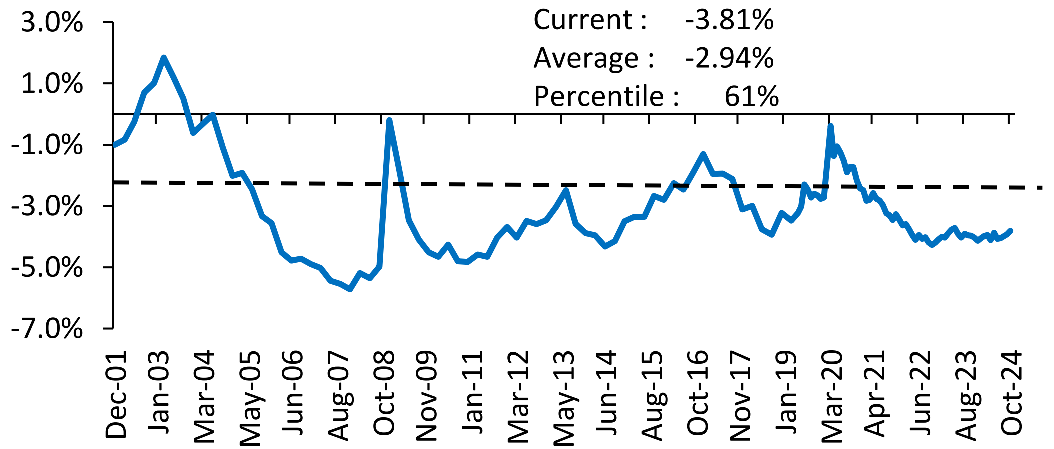
Earnings yield to bond yield spread is moderately expensive



Shiller PE ratio stood at 33.0 in Oct'24 vs. 35.4 in Sep'24



Shiller earnings yield to bond yield spread moderately expensive



Source: Bloomberg, SBIMF Research

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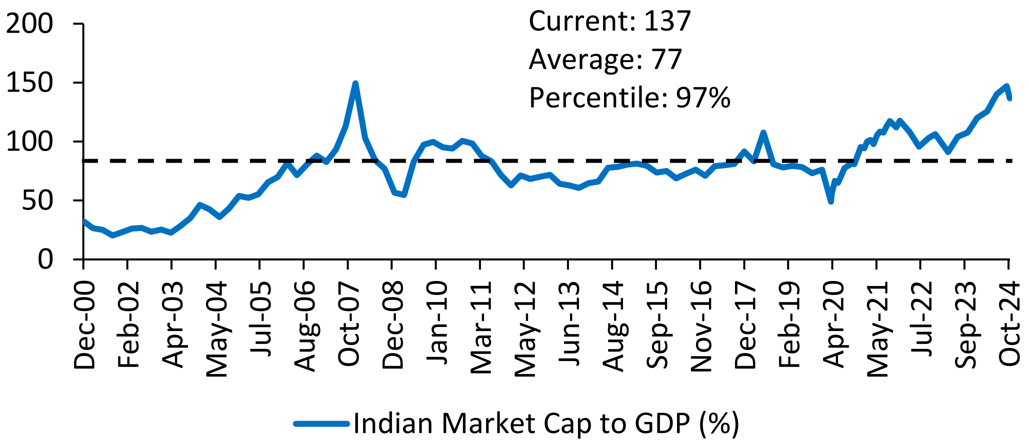
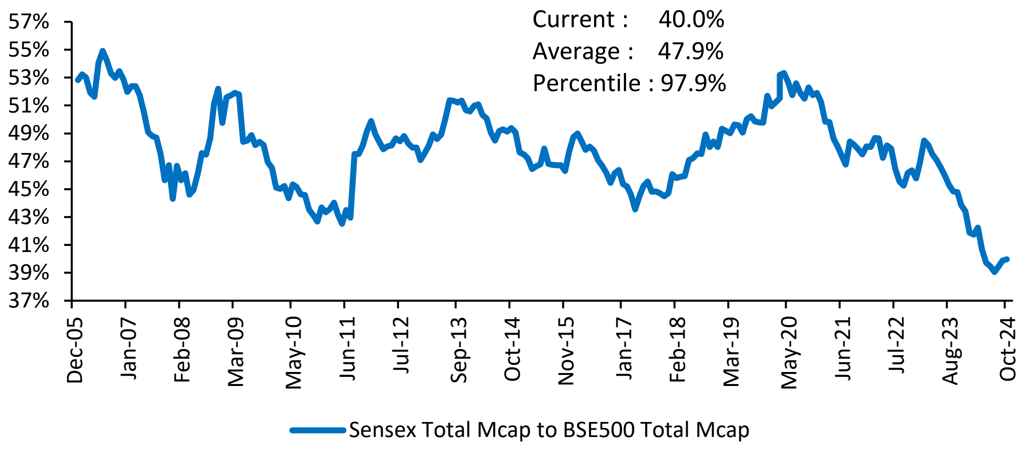
Polarization remains low though marginal change towards large caps

Market capitalization/GDP expensive vs. history at 97th percentile reading



Mid caps and small caps: Market polarization low



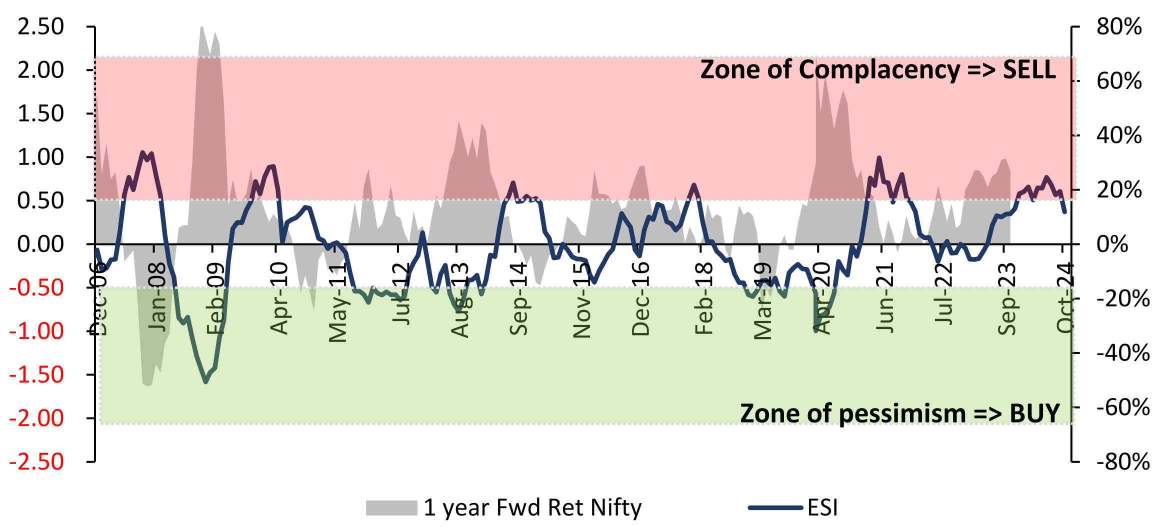
- Market polarization has marginally changed towards large caps but remains low with broader markets outperforming the frontline large cap indexes.

- The ratio is now back to historical lows, suggesting the risk-reward is more towards large caps now.

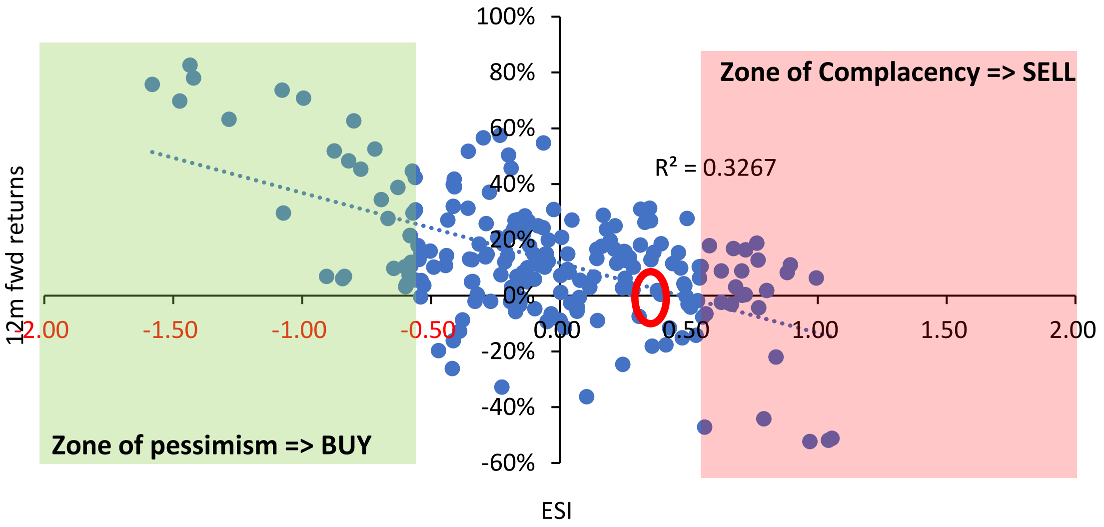
Source: Bloomberg, FactSet, SBIMF Research

Equity market sentiment falls out of the Zone of Complacency

Equity sentiment index fall out of the Zone of Complacency



Equity sentiment index remains up



- The sentiment measure works as a contrarian indicator. The action from the past few months suggests optimism remaining elevated.

Source: Bloomberg, FactSet, SBIMF Research; ESI = Equity sentiment Index

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Equity Outlook: Stick to investment discipline amidst volatile market

- Indian equity market corrected in October. NIFTY and SENSEX decreased by ~6% each m-o-m. All sectors showed negative returns on a m-o-m basis. Strongest fall visible in Oil & Gas (-14% m-o-m), followed by auto (-12%) and consumer durables (-10%).
- The extent of fall was almost similar across the market cap. FII's pulling out of India is impacting large cap in the same breadth even as the valuation arguments are relatively in the favour of large cap over mid and small cap. There has been some moderation in mid cap valuations over the large cap, but its still elevated.
- FIIs turn net sellers in Oct'24 (sold a net of ~USD 10 billion in Oct'24 in equity segment vs. a purchase of USD 6 billion in Sep'24). DIIs remain net purchasers.
- Deeper cuts to FY25 earnings estimate in recent months. Given the unforgiving market response to earnings misses so far in Q2 and the likelihood of weak earnings and EPS cuts, we expect it to fall further. That said, we expect economic momentum to improve as fiscal spending rises.
- In India, growth has moderated recently, with public sector capex declining after a period of significant growth- a part of it is also due to weather and general election. Consumption indicators (auto retail sales, card spends) were also soft. This will likely adversely impact the Q2 FY25 results and GDP as well. Centre's capex thrust is moderating. States capex is getting compromised by welfare spending compulsion.
- On the other hand, the private sector capex still looks positive. Real estate launches were affected by general election, but outlook still stays positive. At the same time, the outlook on consumption gets positive at the margin as government spending tilts. Though, a softer commodity could positively feed into gross margins of commodity users (like cap goods companies). To sum it all, these macro factors place a certain downside risk to corporate profits in the equity market which is already struggling with high valuation.
- Finally, while we stay constructive on earnings in the medium term, the near-term trajectory has been decelerating as commodity price tailwinds abate and revenue growth stays anemic. This mix we believe is ideal for a reduction in the thus-far-unabated speculative action in equity markets. We remain of the view that increasingly the market will become more discerning and move back towards companies which have strong business models, long-term earnings growth visibility and sustainable cashflows.
- For India, a sustained and broad-based performance of EMs however may imply some near-term realignment in flows towards other EMs. This may especially be the case as India has been the only major EM so far that has continued to perform amidst a relatively challenging phase for EMs in general.
- This in turn has led to the valuation premium for Indian equities versus the EM equity index swell to historic highs. We may see some moderation in this premium if other EMs start performing as well.
- From a longer-term perspective however, an environment of EM outperformance should augur well for India too. Not only will broad based global growth have a positive rub-off on domestic growth but a revival in investor interest in EM equities as an asset class will help from a flow standpoint too.

Source: Bloomberg, SBIFM Research

FIXED INCOME MARKET

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Global Bond Market Snapshot: Bond yields rise in October across key economies

Bond yields rose across the developed market in October as better than expected economic data in the US prompts slower pace of monetary easing cycle for key developed market central banks

10 Year Gsec Yield (% mth end)	2022 end	2023 end	Jul-24	Aug-24	Sep-24	Oct-24	m-o-m change (in bps)	YTD change (in bps)
Developed market								
US	3.87	3.88	4.03	3.90	3.78	4.28	50	40
Germany	2.57	2.02	2.30	2.30	2.12	2.41	28	38
Italy	4.72	3.70	3.65	3.70	3.45	3.67	22	-3
Japan	0.42	0.61	1.06	0.90	0.86	0.95	9	34
Spain	3.66	2.99	3.12	3.13	2.93	3.11	18	11
Switzerland	1.62	0.70	0.45	0.48	0.41	0.46	5	-24
UK	3.67	3.54	3.97	4.02	4.00	4.41	41	87
Emerging Market								
Brazil	12.69	10.37	11.88	12.22	12.43	12.72	29	236
China	2.84	2.56	2.15	2.18	2.21	2.15	-6	-41
India	7.33	7.17	6.93	6.86	6.75	6.84	9	-34
Indonesia	6.92	6.45	6.89	6.62	6.44	6.80	36	35
South Korea	3.74	3.18	3.06	3.09	2.99	3.10	11	-7
Malaysia	4.09	3.73	3.72	3.76	3.71	3.93	22	19
Thailand	2.64	2.68	2.58	2.55	2.47	2.42	-6	-26
Turkey	9.83	25.06	28.35	28.52	28.40	30.53	213	547
Mexico	9.04	8.95	9.79	9.68	9.36	10.04	68	109
Poland	6.86	5.20	5.43	5.44	5.26	6.01	75	81
Colombia	13.01	9.96	10.73	10.13	10.07	10.96	89	100
Hungary	8.98	5.86	6.39	6.29	6.13	6.87	74	101

Source: Bloomberg, SBIFM Research

India Rates Snapshot: Yields rise across all tenors over one year

Longer term yields rise in October 2024

	2023 end	Aug-24	Sep-24	Oct-24	m-o-m (in bps)	YTD change (in bps)
Repo rate	6.50	6.50	6.50	6.50	0	0
1 Yr T-Bill	7.13	6.72	6.70	6.60	-10	-53
3M T-Bill	6.93	6.63	6.65	6.51	-13	-42
3 year GSec	7.07	6.76	6.66	6.70	4	-36
5 year GSec	7.09	6.79	6.68	6.75	7	-34
10 year GSec	7.18	6.86	6.75	6.84	9	-35
3 Yr Corp Bond*	7.78	7.64	7.56	7.56	0	-22
5 Yr Corp Bond*	7.79	7.62	7.50	7.50	-1	-29
10 Yr Corp Bond*	7.76	7.45	7.31	7.33	2	-42
1 Yr IRS	6.64	6.49	6.39	6.54	16	-10
5 Yr IRS	6.19	6.08	6.03	6.29	27	11
Overnight MIBOR Rate	6.90	6.80	6.76	6.61	-15	-29
10 year SDL	7.65	7.21	7.10	7.14	4	-51
INR/USD	83.21	83.87	83.80	84.09	-0.3^	-1.1^
Crude oil Indian Basket**	77.43	78.27	73.69	75.12	1.9^	-3.0^

- Bond yields rise over the month across all tenors over one year in October 2024.
- Rupee depreciated at the margin by ~0.3% to INR 84.09/$ in Oct'24 (vs. 83.80 a month ago).
- Oil prices rose by ~2% in Oct'24 vs. Sep'24, now at ~US$75.1/bbl level.

Source: Bloomberg, PPAC, RBI, CEIC, SBIFM Research; NB: *Corporate bond rate is for AAA rated bonds, **Crude oil price is average $/barrel for the month end , remaining data are % month end, ^INR and Oil price changes are % change, + denotes appreciation in rupee, -ve denotes depreciation

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Indian G-sec yields rise after 5 months of unilateral gains

G-Sec yields rose m-o-m in October 2024; Compared to peak rate in October, long term yields are lower by ~30-40bps

Yield (%)	3 Month	6 month	1 Year	2 Year	3 Year	4 Year	5 Year	6 Year	7 Year	8 Year	9 Year	10 Year	15 Year	30 Year
31-Oct-23	6.89	7.08	7.14	7.35	7.32	7.35	7.35	7.38	7.39	7.41	7.38	7.36	7.43	7.51
30-Nov-23	6.97	7.13	7.13	7.22	7.24	7.27	7.26	7.30	7.30	7.34	7.33	7.28	7.39	7.50
31-Dec-23	7.00	7.08	7.09	7.00	7.04	7.09	7.09	7.14	7.14	7.21	7.17	7.18	7.27	7.41
31-Jan-24	7.02	7.18	7.15	7.00	7.03	7.04	7.04	7.11	7.11	7.17	7.14	7.14	7.21	7.27
29-Feb-24	6.86	7.14	7.11	7.00	7.03	7.07	7.07	7.08	7.08	7.11	7.10	7.08	7.14	7.16
31-Mar-24	6.90	7.04	6.99	7.08	7.02	7.05	7.05	7.07	7.07	7.07	7.11	7.06	7.11	7.13
30-Apr-24	6.98	7.01	7.06	7.08	7.13	7.19	7.19	7.21	7.21	7.21	7.21	7.15	7.21	7.29
31-May-24	6.89	7.00	7.02	7.02	7.03	7.05	7.05	7.06	7.06	7.07	7.07	6.98	7.03	7.13
30-Jun-24	6.79	6.89	6.93	6.98	6.96	7.01	7.01	7.05	7.02	7.07	7.04	7.01	7.03	7.05
31-Jul-24	6.65	6.77	6.79	6.86	6.82	6.84	6.84	6.90	6.90	6.95	6.92	6.93	7.00	7.06
31-Aug-24	6.66	6.71	6.72	6.75	6.75	6.79	6.79	6.83	6.83	6.88	6.85	6.86	6.91	7.00
30-Sep-24	6.40	6.48	6.55	6.65	6.66	6.67	6.67	6.69	6.69	6.73	6.70	6.75	6.79	6.89
31-Oct-24	6.65	6.77	6.79	6.86	6.82	6.84	6.84	6.90	6.90	6.95	6.92	6.93	7.00	7.06

m-o-m change (in bps)	3 Month	6 month	1 Year	2 Year	3 Year	4 Year	5 Year	6 Year	7 Year	8 Year	9 Year	10 Year	15 Year	30 Year
31-Oct-23	9	5	12	10	6	11	12	13	14	14	16	14	12	10
30-Nov-23	8	5	-1	-14	-8	-8	-9	-8	-10	-7	-5	-8	-4	-1
31-Dec-23	3	-5	-4	-22	-21	-18	-17	-16	-16	-13	-16	-11	-13	-10
31-Jan-24	2	10	6	0	-1	-5	-5	-3	-3	-3	-3	-3	-5	-14
29-Feb-24	-16	-4	-4	0	0	3	3	-3	-3	-7	-4	-7	-8	-11
31-Mar-24	4	-10	-12	8	0	-1	-1	-1	-1	-4	1	-2	-3	-3
30-Apr-24	8	-3	7	0	11	14	14	15	15	14	10	9	11	17
31-May-24	-9	-1	-4	-6	-10	-15	-15	-16	-16	-15	-14	-17	-18	-16
30-Jun-24	-10	-11	-9	-4	-7	-4	-4	-1	-4	0	-3	3	0	-8
31-Jul-24	-14	-12	-14	-12	-13	-16	-17	-15	-12	-12	-12	-8	-3	1
31-Aug-24	1	-6	-7	-11	-7	-6	-5	-7	-7	-6	-7	-6	-9	-6
30-Sep-24	-26	-23	-17	-11	-10	-11	-12	-14	-14	-15	-14	-11	-12	-11
31-Oct-24	25	29	24	22	17	17	17	21	21	21	22	18	21	17
Change in FYTD (in bps)	**-25**	**-27**	**-20**	**-22**	**-20**	**-21**	**-21**	**-17**	**-17**	**-13**	**-19**	**-13**	**-10**	**-7**

Source: Bloomberg, SBIFM Research

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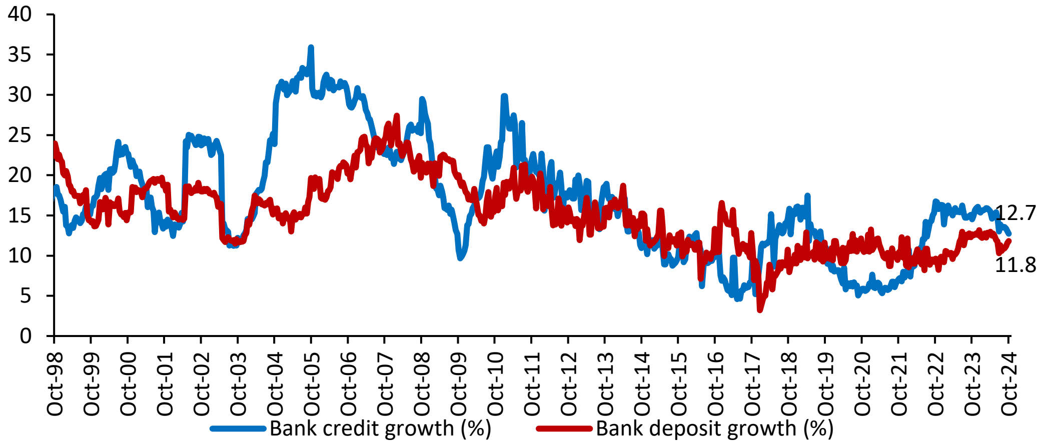
Bank credit growth outpaces deposit growth; regulations prevent dipping into SLR holdings

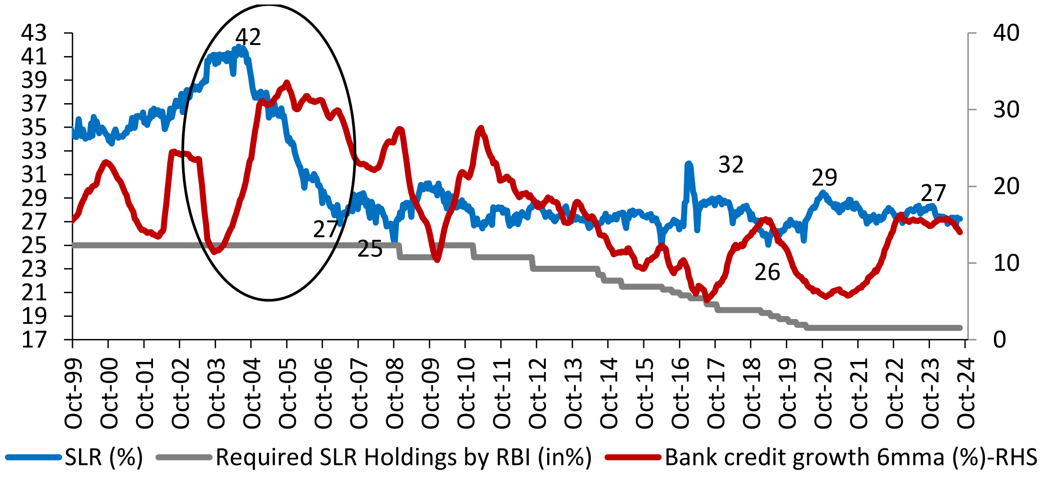
Bank credit growth continues to outpace deposit growth for two years now



Bank credit growth in current financial year mostly on account of personal loans and loans to NBFC

CAGR (%)	2009-11	2017-19	2022-24	2025 (Sep)
Bank Credit	**18**	**15**	**11**	**13**
Non-Food Credit	**18**	**15**	**11**	**13**
Agriculture and allied activities	19	8	10	16
Industry	22	2	6	9
Micro & small	13	2	9	13
Medium	0	-1	8	20
Large	26	3	5	7
Services	18	15	14	14
Personal Loans	10	18	16	13
Consumer durables	4	-28	13	9
Housing (Including priority sector housing)	12	16	16	13
Advances to individuals against share, bonds, etc.	10	1	8	23
Credit card outstanding	-13	31	19	18

Previous credit cycles have seen banks lower their SLR holdings. LCR since 2014 has kept SLR holdings high this cycle



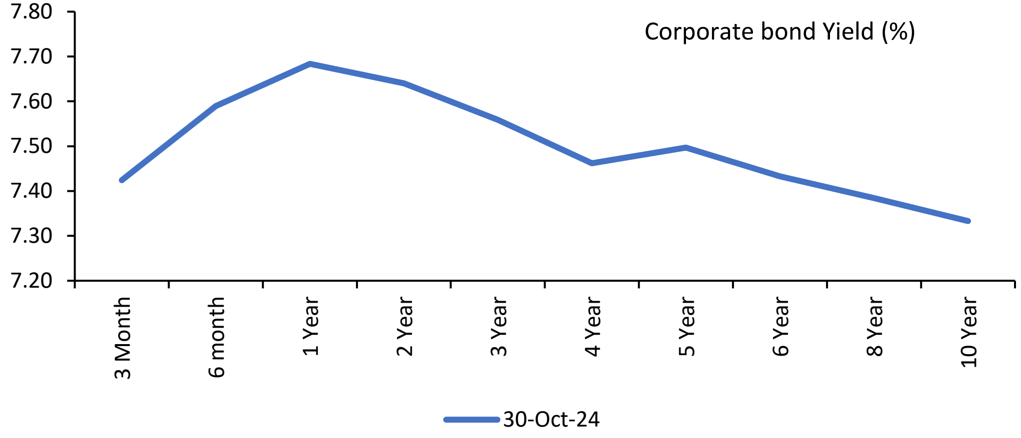
Government has reduced the supply of short-term papers to help ease the short-term rates

INR billion	FY25BE	FY25 (interim)
FINANCING OF FISCAL DEFICIT	16,133	16,855
Net market borrowings (dated securities, net of buybacks)	11,632	11,750
Gross market borrowings	14,010	14,130
Less Repayment of domestic mkt borrowings	2,378	2,378
Less Net Buybacks	-	-
Short-term borrowings	-500	500
Securities Against Small Savings	4,201	4,662
Receipts from state provident fund	50	52
Net external assistance	160	160
Other capital receipts (internal Debts and Public Account)	-813	306
Drawdown on cash balances	1,404	37

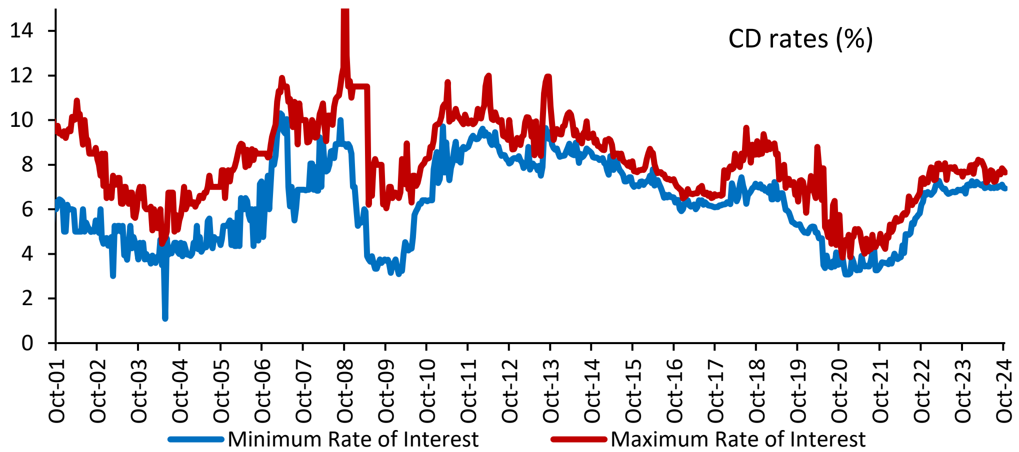
Source: RBI, SBIFM Research; NB: bank credit and deposit data as on 4th Oct'24, sectoral deployment of credit as on September'24 end

Dichotomy in G-sec and corporate bond yield Curve; Bank deposit struggles plays a role

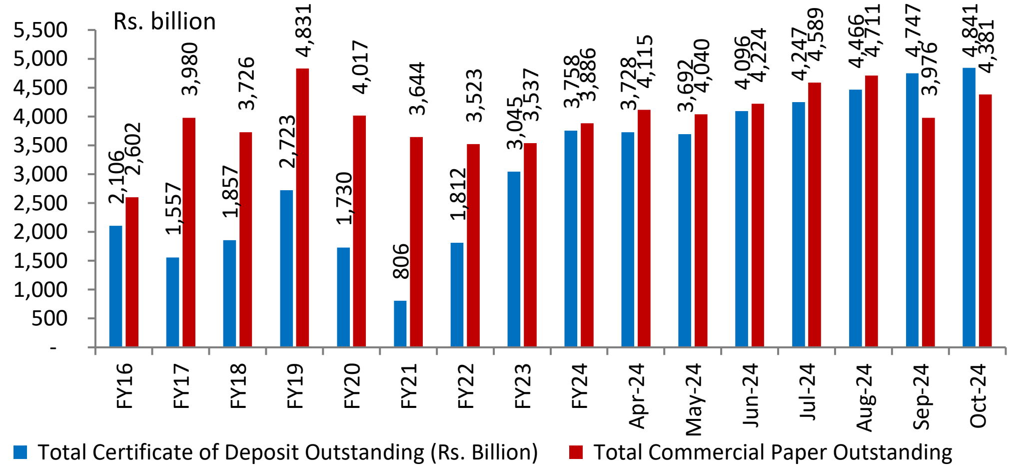
Corporate bond yield curve is inverted; Supply higher in shorter end; Regulatory requirement places greater demand in long end



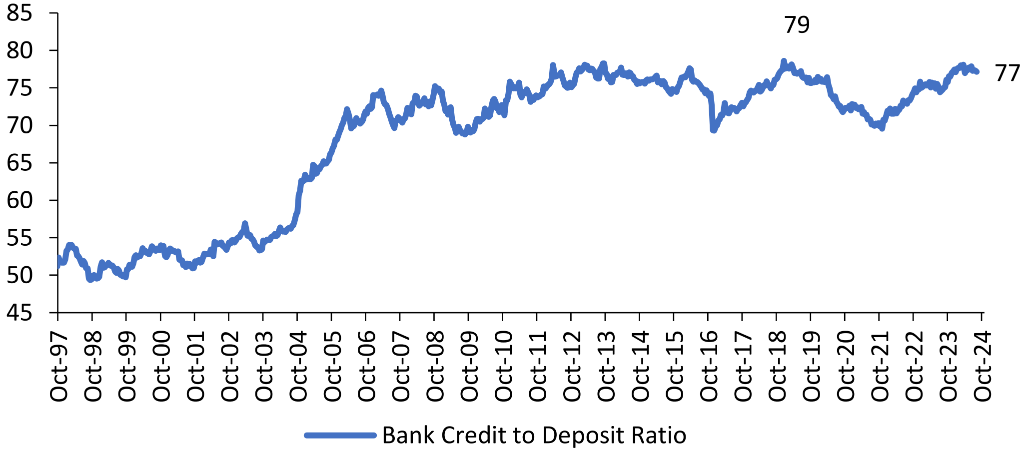
Certificate of deposit (CD) rates range from ~7-8% since 2023



CDs and commercial paper issuances see a rise



Bank credit to deposit ratio is elevated



Source: RBI, Bloomberg, SBIFM Research; NB: CP and CD data till 18th October'24, credit-deposit ratio as on 4th October'24

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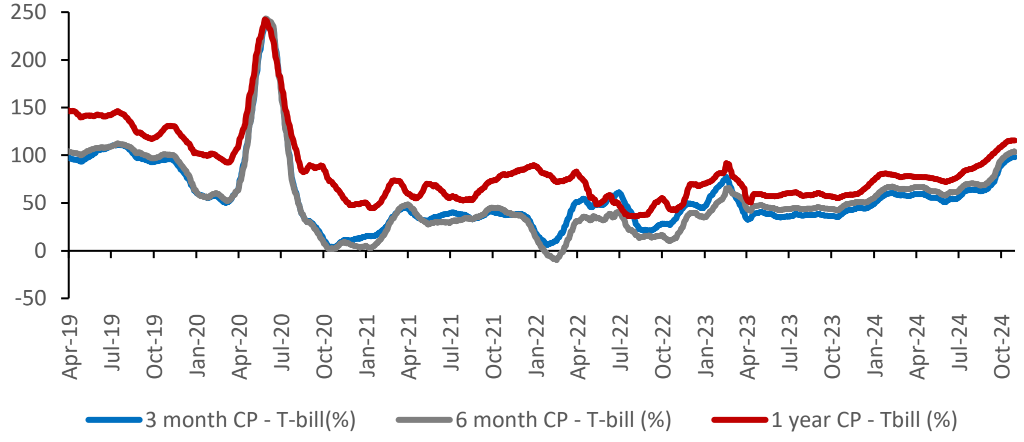
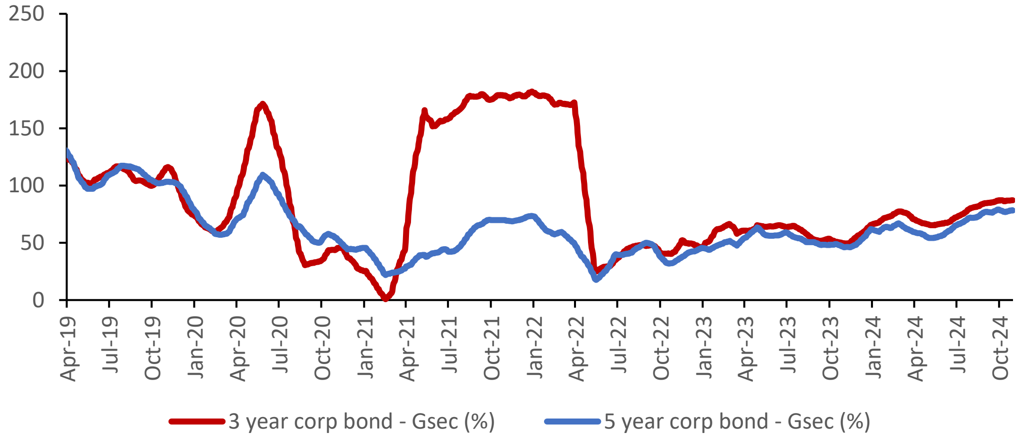
Robust bank credit growth & elevated credit-deposit ratio results in higher corporate bond yields

Spreads between commercial paper (CP) and Tbill yields have widened



In the 3-5yr segment too, spread between corporate bond and Gsec yields moves upwards



Source: Bloomberg, SBIFM Research

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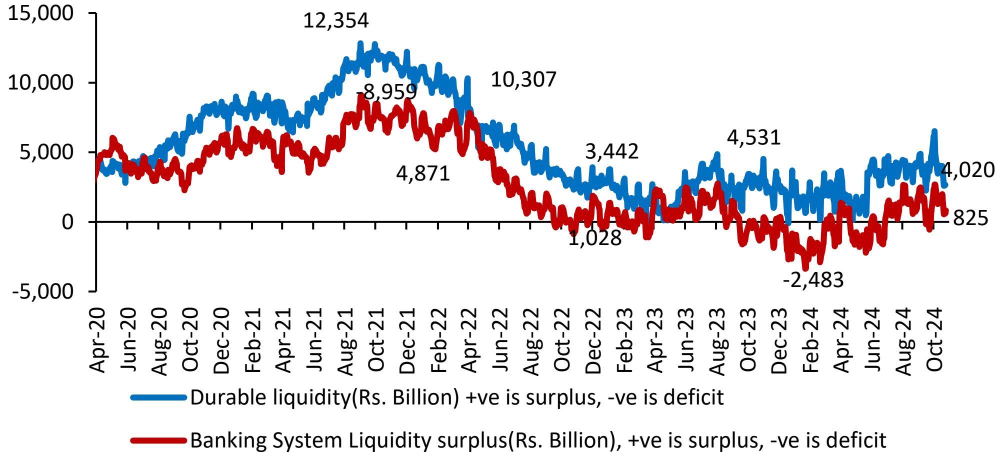
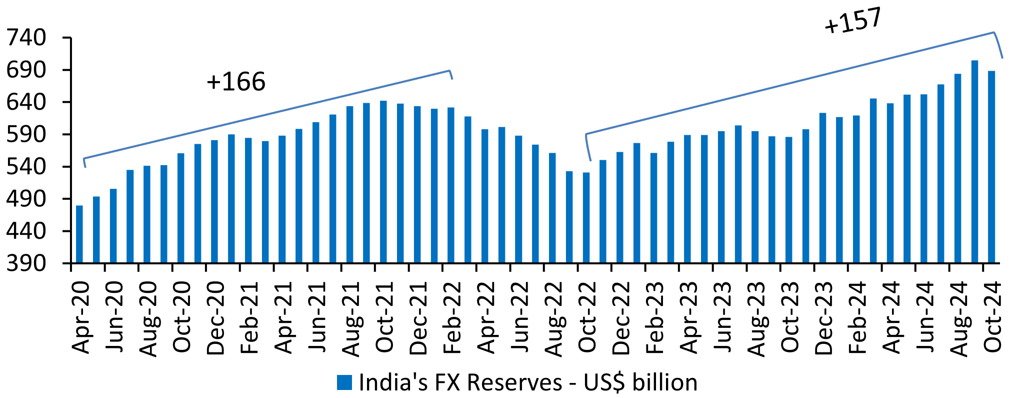
Liquidity conditions likely to ease in 2H FY25 as government spending ramps up

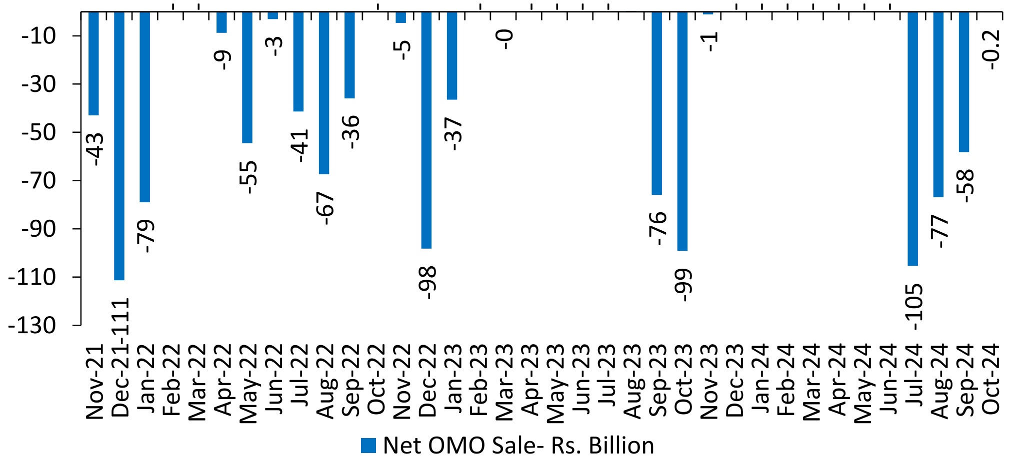
Banking system liquidity in marginal surplus by end October



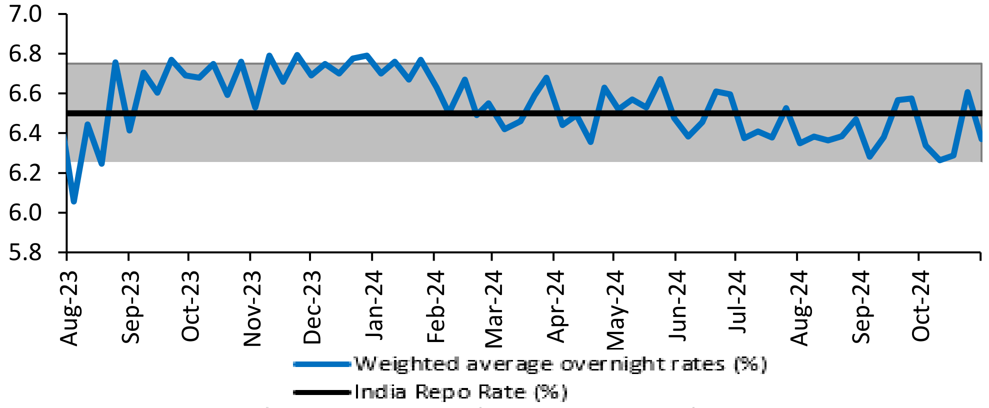
A strong dollar capital inflow coupled with no material currency leakage has likely aided the improvement in banks liquidity



RBI tends to conduct OMO sales in instances of prolonged surplus liquidity



Multiple VRRR auctions conducted to keep overnight rates close to repo rate amidst rise in liquidity with festive spending



Note: The shaded area represents the policy corrridor- where upper end represents MSF and lower end represent

Source: RBI, CEIC, SBIFM Research

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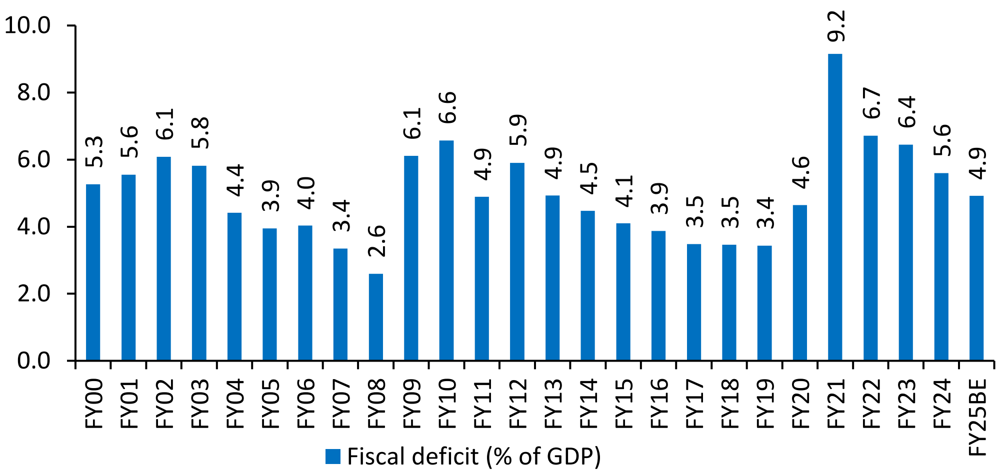
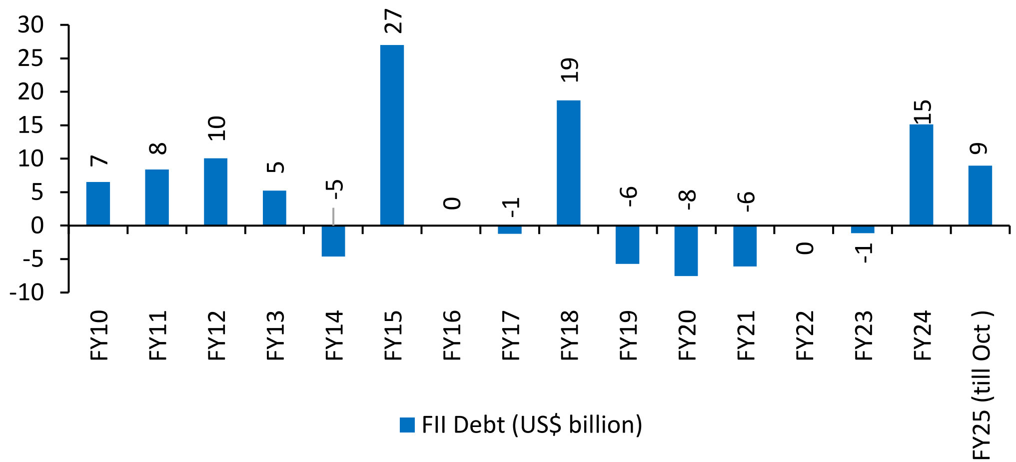
2024 is the year of favorable demand- supply for long term Indian government bonds

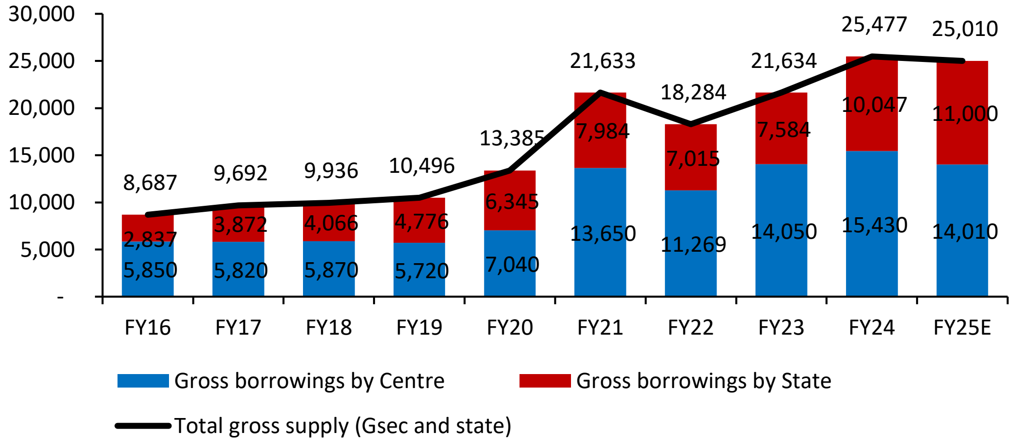
Central government advocates a faster consolidation in its deficit



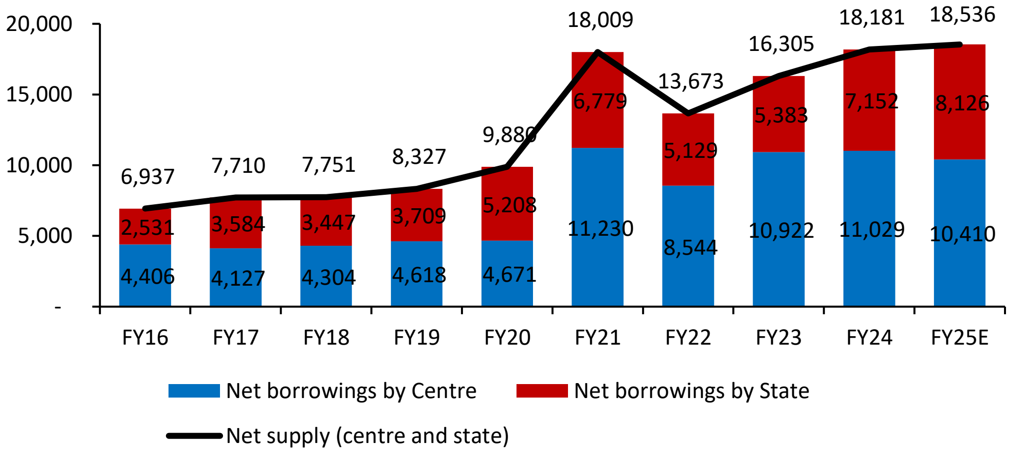
FIIs return to Indian debt after 5 years



Gross supply of government bond is likely to come down marginally in FY25 vs. 18% rise last year



Net supply broadly flat at an expected INR 18.5tn in FY25



Source: Bloomberg, SBIFM Research

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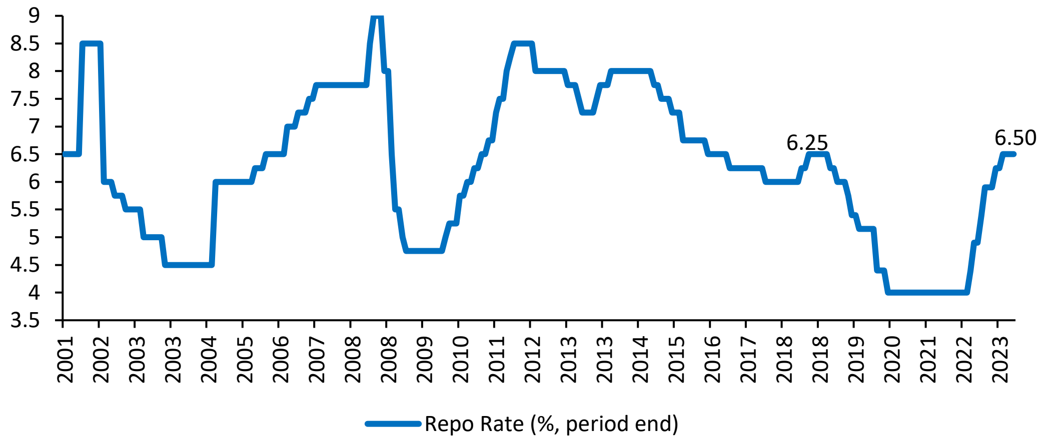
RBI changes stance from ‘withdrawal of accommodation’ to ‘neutral’ position; policy rate unchanged

Repo rate unchanged since April 2023 policy at 6.50%

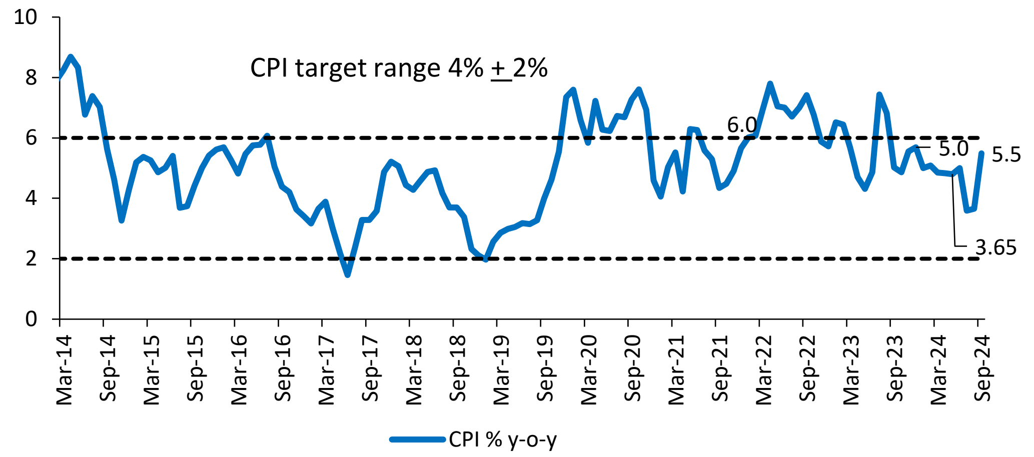


- Status quo on rates (Repo rate: 6.50%, SDF rate: 6.25% and MSF rate: 6.75%) with a majority of 5:1. The stance was changed from ‘withdrawal of accommodation’ to ‘neutral position. There was unanimous support for the change in stance.
- This change marks a notable shift after two and a half years and is seen as a signal that the RBI is opening the door to potential rate cuts in the near future.
- Market analysts are now speculating about possible rate reductions in December or February, although this enthusiasm has been tempered by two subsequent developments. First, was the release of September CPI. Second was Governor Das’ hawkish remarks at Bloomberg’s India credit forum citing ‘rate cuts at this stage would be premature and risky’.
- RBI is data dependent and change of facts could change the opinion. Hence, delving a bit deeper on recent growth inflation trends warrants merit.
- The Q2 FY25 GDP print would be critical to shape the monetary policy discourse. We suspect that the growth would underwhelm RBI’s expectation, perhaps driving a reassessment of growth inflation conundrum in India by the MPC members.
- Given that peak policy rate in the current hiking cycle had been significantly below the previous peaks, one anyways expect a very shallow rate cutting cycle this time around.
- We suspect February or April policies are more likely time periods for a discussion on rate cuts.

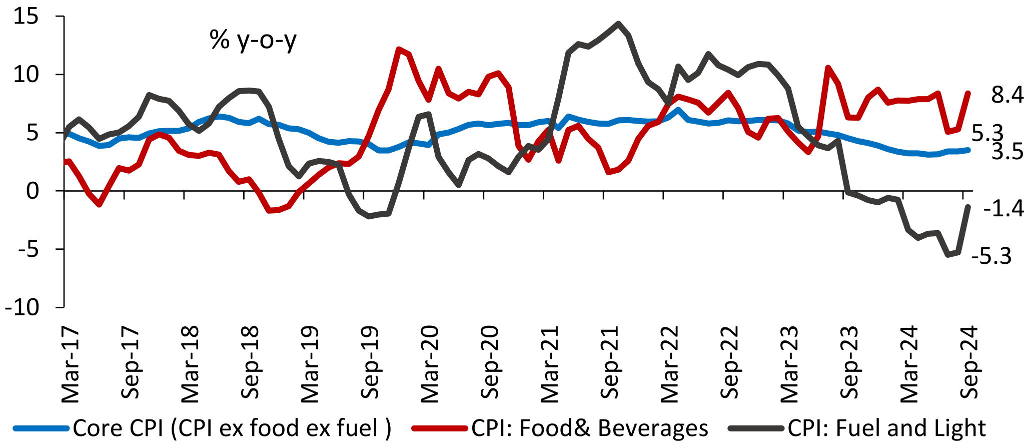
Source: Bloomberg, SBIFM Research

Underlying inflation trends are benign

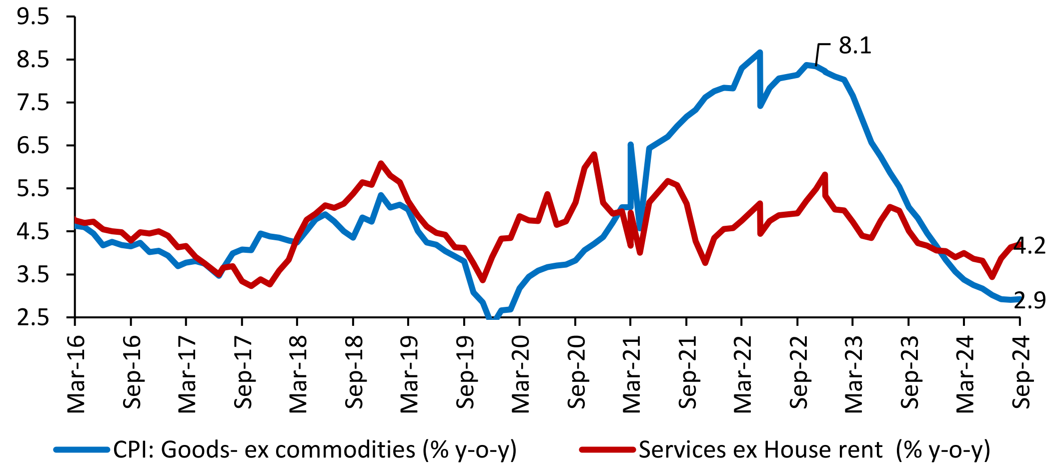
India's headline inflation has risen above RBI's central target point of 4% in September



Food inflation rose to 8.4% y-o-y in September compared to ~5% last month owing to rise in vegetable prices



Goods and services inflation likely to be contained



- One of the key factors influencing the RBI's stance is the recent inflation data. The Consumer Price Index (CPI) for September registered at 5.5%, surpassing the expected 5.1-5.2%.
- That said, analysing recent inflation trends reveals a more benign outlook. Retail inflation averaged 4.6% in 1H FY25.
- A higher than 4% RBI's target was primarily driven by vegetable prices, which have a 6% weight in the CPI basket. Excluding this volatile category, inflation drops to 3.5%.
- Moreover, core CPI has been consistently around 3.4%. Finally, a significant portion of the CPI basket (50-60%) reports inflation below 4%, throughout 2024.
- This suggests a lack of significant price pressure across most sectors of the economy, indicating that monetary policy does not necessarily need to be restrictive (real rates: Repo rate less CPI inflation has been >1%).

Source: CMIE Economic Outlook, SBIFM Research

External account dynamics stays healthy; FY25 current account deficit manageable at ~1% of GDP

Current account deficit of under 1% of GDP and US$ 30-55 bn of BoP surplus expected in FY25

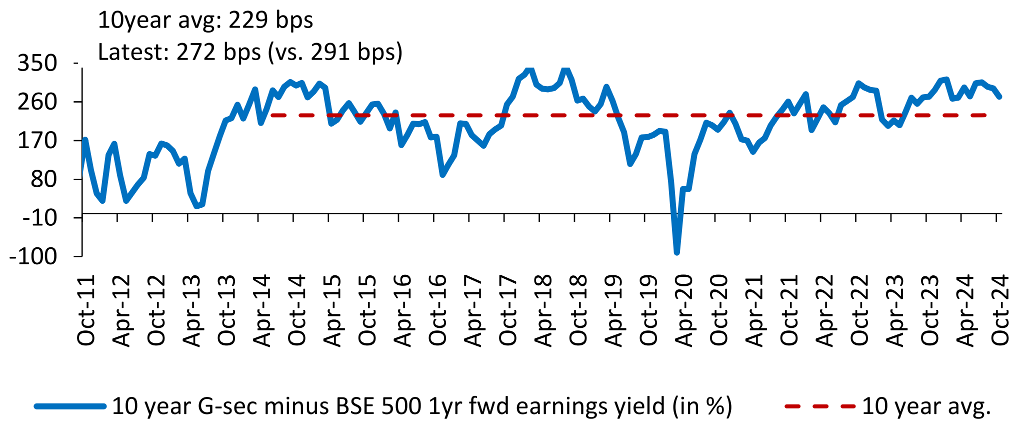
Balance of Payment (US$ bn)	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	FY24	FY25E
CURRENT ACCOUNT							
Exports (RBI)	105	108	107	122	111	441	445
% y-o-y	-14.5	-3.2	1.0	5.0	5.9	-3.2	0.8
Imports (RBI)	162	173	178	174	176	686	720
% y-o-y	-13.0	-9.1	0.8	3.1	9.1	-4.9	4.9
1. Trade Balance (RBI)	-57	-65	-72	-52	-65	-245	-275
% GDP	-6.6	-7.3	-8.0	-5.7	-7.0	-6.9	-7.1
2. Services Balance	35	40	45	43	40	163	185
% GDP	4.2	4.8	5.3	4.9	4.4	4.6	4.8
3. Primary Income	-10	-12	-13	-15	-11	-50	-51
4. Secondary Income (Transfers)	23	25	29	29	26	106	105
A. Current A/c Balance (1+2+3+4)	**-9**	**-11**	**-10**	**5**	**-10**	**-26**	**-36**
% GDP	-1.1	-1.3	-1.2	0.5	-1.1	-0.7	-0.9
CAPITAL ACCOUNT							
5. FDI (Net)	4.7	-0.8	4.0	2.3	6.3	10.1	25.0
6. FPI (Net)	15.7	4.9	12.0	11.4	0.9	44.1	40.0
7. Loans	2.2	3.3	-5.6	1.8	6.0	1.6	10.0
8. Banking Capital	12.9	4.3	16.4	6.9	2.9	40.5	5.0
B. Capital Account Balance (5+6+7+8+9+10)	**34**	**13**	**15**	**25**	**14**	**87**	**80**
% GDP	4.1	1.5	1.7	2.8	1.6	2.4	2.1
C. Error and Omissions	-0.8	1.0	-0.3	0.5	0.6	0.5	0.0
D. Overall Balance (A+B+C)	**24**	**3**	**6**	**31**	**5**	**64**	**44**
% GDP	2.9	0.3	0.7	3.5	0.6	1.8	1.1
Increase in Reserves due to BoP	**24**	**3**	**6**	**31**	**5**	**64**	**44**
Rupee vs. US$ (average)	**82**	**83**	**83**	**83**	**83**	**83**	**84**

- Q1 current account balance switched back from a surplus of US$ 4.6bn (in Q4 FY24) to a deficit of US$ 9.4 bn, led almost entirely by a US$ 13bn of deterioration in trade balance (Q1 FY25 deficit at US$ 65 bn vs. US$ 52 bn in Q4 FY24).
- Net invisibles moderated by US$ 1 bn but stays broadly steady at a surplus of US$ 55 bn.
- Capital account surplus also moderated in Q1 FY25, largely on account of softer FII inflow. During Q1 FY25, the momentum in debt FII inflow has moderated as the bond inclusion related inflow has normalized.
- As a result of higher current account deficit and weaker capital inflow, BoP surplus softened from US$ 31 bn in Q4 FY24 to US$ 5.2 bn (still a surplus).
- FX reserves increased by US$ 6bn during the quarter from US$ 646bn to US$ 652bn.
- We expect a marginal deterioration in Q2 and Q3 FY25 CAD to 1.5-2% of GDP, but a seasonal improvement in final quarter of the fiscal.
- To sum, FY25 CAD is likely to aggregate to 1% of GDP- which portrays a healthy external account and manageable levels from India’s macro stability point of view.

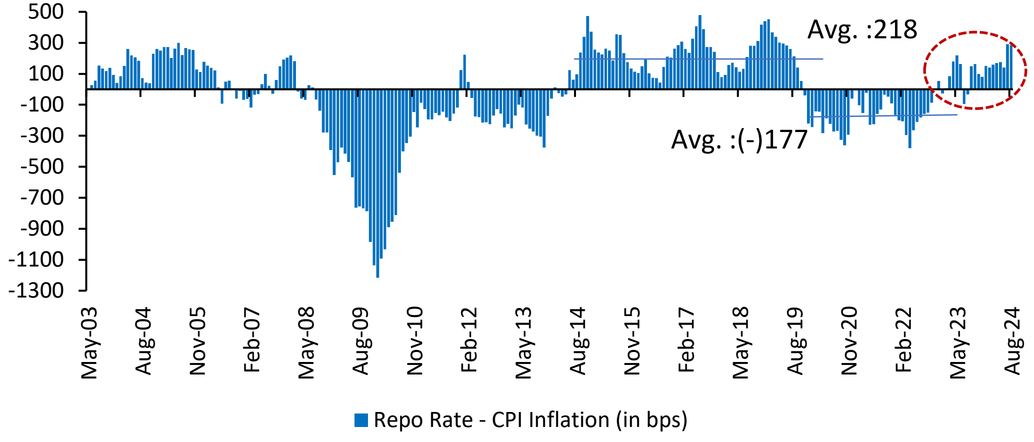
Source: CMIE Economic Outlook, RBI, SBIFM Research; NB: FY25E based on expectation of crude at US$80/bbl

Indian G-sec valuations neutral to marginally attractive

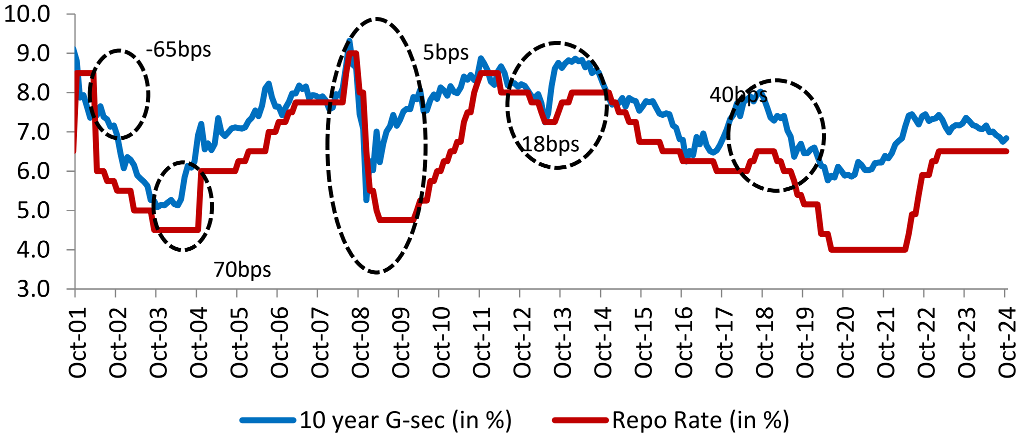
G-sec spread vs. equity is attractive



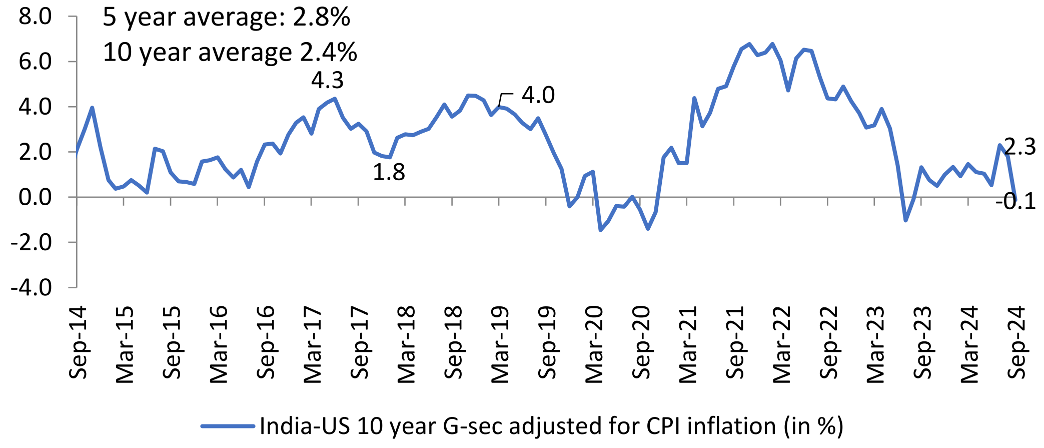
Real rate turns positive



While near-term outlook stays of an unchanged Repo rate, G-sec spread can compress when there is a greater clarity on rate cuts



India-US Real interest rate spread at ~0% pt – lower than its 5yr and 10yr average



Source: Bloomberg, RBI, SBIFM Research

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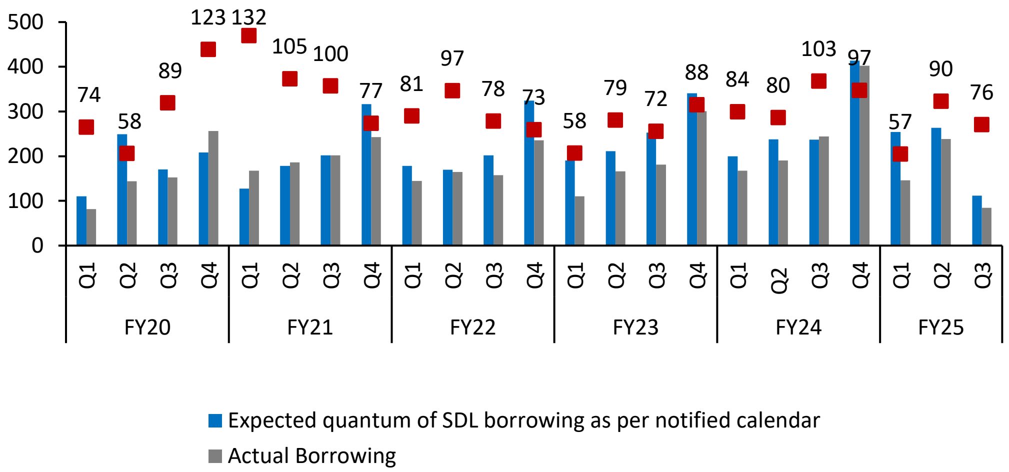
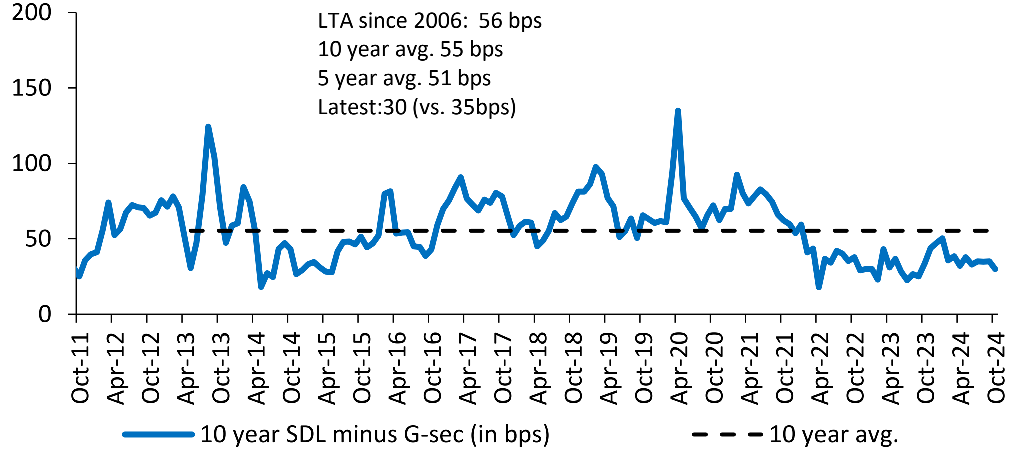
SDL issuances picked up in first half of October; Q3 FY25 calendar relatively higher at INR 3.2 tn

SDL issuances at 76% of their indicated calendar amount in October



SDL spreads narrow m-o-m in October



Source: RBI, Bloomberg, CEIC, CAG, SBIFM Research; NB: Q3 data for SDL issuances as of October end

FIIs turn net sellers of Indian government bonds in October 2024

India witnessed Debt inflows in Sep'24

EM FII Debt inflow US$ million	2022	2023	Jul-24	Aug-24	Sep-24	Oct-24
China	(1,46,410)	24,760	1,62,325	1,93,095	1,81,883	1,77,498
South Korea	54,020	60,647	1,958	6,463	7,261	6,509
Indonesia	(7,070)	5,142	305	2,492	1,343	966
Ukraine	(1,096)	(387)	(24)	(108)	(50)	(13)
India	(2,012)	8,445	2,615	2,806	2,295	(771)
Thailand	6,227	319	779	762	129	(994)
South Africa	(15,812)	(17,598)	1,069	95	81	(1,745)
Mexico	3,949	5,019	(2,183)	1,933	2,891	(2,489)
Brazil	18,358	(9,967)	(301)	(2,145)	-	-
Malaysia	(732)	3,767	1,099	1,394	(155)	-
Poland	6,834	9,093	2,762	(139)	-	-
Czech Republic	(14,477)	(1,535)	1,060	856	-	-
Philippines	6,334	3,073	-	(1,813)	2,228	-
Bulgaria	1,053	1,940	27	84	-	-
Russia		-	-	-	-	-

FII flows in EM bonds are muted despite healthy inflation adjusted returns

Real rates	10 Year Gsec Yield (% mth end, Sep'24)	CPI Inflation Sep'24	Real Rate (%, 10 year G-Sec Yield minus CPI)	12M FX forward premium (in %) - Sep 2024	10 year G-sec yield adjusted for 12m fwd premium (in %)- Sep 2024
Brazil	12.4	4.4	8.0	5.8	6.6
South Africa	10.1	3.8	6.3	7.4	2.6
Phillippines	6.8	1.9	4.9	4.1	2.7
Mexico	9.4	4.6	4.8	9.6	-0.2
Indonesia	6.4	1.8	4.6	5.8	0.6
Colombia	10.1	5.8	4.3	8.7	1.4
Hungary	6.1	3.0	3.1	5.3	0.8
Malaysia	3.7	1.8	1.9	3.0	0.7
Thailand	2.5	0.6	1.9	2.2	0.2
China	2.2	0.4	1.8	1.7	0.5
South Korea	3.0	1.6	1.4	2.4	0.6
India	6.8	5.5	1.3	2.4	4.3
Poland	5.3	4.9	0.4	5.6	-0.4
Taiwan	0.5	1.8	-1.3	1.2	-0.7
Turkey	28.4	49.4	-21.0	44.9	-16.5

Source: CEIC, Bloomberg, RBI, SBIFM Research; NB: '-' implies data not available for the respective country

Debt Outlook: Near-term fundamentals dictate neutral to marginally favorable outlook

- Developed market bonds worsened in October 2024. The yield on 10-year US treasuries jumped by 60bp since mid-September. The slump in bond prices is global, setting international bond markets up for an unprecedented third consecutive year of negative total returns. The underlying arguments for a recession are weaker now because central banks globally are cutting interest rates and will continue to cut next year regardless of inflation. Market has brought down its rate cut expectation in the recent wake of Job data. One cut is fully priced in over next two policy. However, uncertainty looms whether Fed will be able to deliver 2 cuts in 2024 as reflected in the dot plots.
- A range of recent developments suggests that the world economy is moving into a period of higher nominal growth and persistent price pressures. China is embracing a more concerted fiscal stimulus and, the US is likely to stay in expansionary mode. Further interest rate cuts are typically reflationary in nature. Hence reflationary cycle should be the base case rather than the deflationary risk .
- In absolute terms, INR has crossed Rs.84/US$ this month reaching an 'all-time low'. Yet the rupee has been stable in recent months. The rupee is down less than 1% against the US Dollar over the past year. Rupee to average at 84/US$ in FY25.
- In RBI MPC meet in October, the policy rate was unchanged at 6.50%, while shifting the stance from 'withdrawal of accommodation' to a 'neutral' position. Market analysts are now speculating about possible rate reductions in December or February, although this enthusiasm has been tempered by two subsequent developments. First, was the release of September CPI. Second was Governor Das' hawkish remarks at Bloomberg's India credit forum citing 'rate cuts at this stage would be premature and risky'.
- The CPI for September registered 5.5% print, surpassing expectation. That said, analysing recent inflation trends reveals a more benign outlook. Hence, monetary policy does not necessarily need to be restrictive (real rates: Repo rate less CPI inflation has been >1%).
- The Q2 FY25 GDP print would be critical to shape the monetary policy discourse. We suspect that the growth would underwhelm RBI's expectation, perhaps driving a reassessment of growth inflation conundrum in India by the MPC members.
- Given that peak policy rate in the current hiking cycle had been significantly below the previous peaks, one expects a shallow rate cutting cycle this time around. We suspect February or April policies are more likely time periods to discuss on rate cuts.
- Irrespective of the timings, the direction of monetary policy is clear and well poised towards some softening in rates. Markets often anticipate actions ahead of time, and unless there's a significant shift in expectations, we expect bond yield pricing to continue reflecting this cycle of cuts. A combined impact of India's inclusion in FTSE EM Global Bond Index and change of stance had led to 5bps rally in bond yields. Further, crude prices also moderated at tad to ~US$ 75/bbl.
- Our view is that Indian bonds, particularly government bonds, are well-positioned at this juncture, which represents a convergence of structural bullish factors for India and a potential global peak in policy rates. The demand versus supply dynamic for government bonds is favourable.
- From a valuation standpoint, Indian bonds appear neutral to marginally attractive compared to the equity market and their own historical performance during the rate-cutting cycle. The corporate bond curve is inverted given pressures from credit – deposit ratio at the front end. This yields a good carry in the short-term segment while focussing on building duration via government bonds.

Source: Bloomberg, SBIFM Research

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