HDFC Bank Research

Presentation

January 2024

Risk profile-based asset allocation

Asset Class	Overall View	Asset Allocation		
		Aggressive	Moderate	Conservative
Equity Funds	▼	75%	55%	25%
Debt Funds	▲	20%	40%	70%
Gold	▲	5%	5%	5%

Note:	Optimistic	▲
	Cautiously Optimistic	◆
	Cautious	▼

Category-wise view

MF Categories	View
Equity Oriented Funds	
Largecap Funds	▲
Large Cap Index Funds	▲
Multi/Flexicap Funds	▲
Large and Mid Cap Funds	◆
Mid cap / Small cap	▼
ELSS	◆
Value / Contra / Dividend Yield Funds	◆
Focused Funds	◆
Aggressive Hybrid Funds/Dynamic Asset Allocation/Balanced Advantage Funds	▲
Equity Savings Funds	▲
Sector/Thematic Funds	▼
Multi Asset Allocation Funds	▲

MF Categories	View
Debt Oriented Funds	
Short Duration Funds/Medium Duration Funds	▲
Banking & PSU Funds	◆
Corporate Bond Funds	▲
Target Maturity Index Funds	▲
Medium to Long / Long Duration Funds	◆
Dynamic Bond Funds	▲
Gilt Funds	◆
Ultra Short Duration/Low Duration/Money Market Funds	◆
Arbitrage Funds	▲
Liquid/Overnight Funds	◆
Conservative Hybrid Funds	◆
Credit Risk Funds	◆

Classification - Restricted

Equity MF Strategy – January 2024

- Calendar 2023 saw strong performance in the global risk assets. Most equity markets witnessed positive returns on the back of stable growth conditions, falling inflationary environment and expectations of peaking out of the Global central banks' policy rates. While the US fed hiked rates in the early part of the year, eventually started to give signals towards a pivot in its rate cycle. Growth conditions remained relatively stable vs expectation of world growth decelerating sharply in CY23. Europe emerged as the only exception to the growth stability, with some countries there experiencing recession.
- Global commodity price gradually came off, led by weakness in demand from China and high base of the previous year. Agri prices, too, remained weak globally. Crude oil prices were volatile due to various geopolitical tensions and production cuts by the Key OPEC+ members. All this weighed down on global inflation.
- With expectation of interest rates in the US coming off, the Dollar index trended lower. This helped drive FPI flows in the emerging markets. Performance of most of the EMs' equity indices were strong. China, which is the largest weight in MSCI EM equity index, continued to remain a sore point in terms of returns.
- Movement in US bonds yields, US monetary and fiscal driven liquidity and the US Dollar index remain key data points for assessing the risk on sentiments for EMs in CY24.
- With global equity markets showing strong performance, most of the Indian indices hit a new high during CY23 on the back of strong economic growth, robust earnings trajectory, favourable government policies and strong retail participation in the equity markets. This was helped by strong inflows by the FPI's during the year. The returns in small and midcap indices were far higher than the largecap indices.
- India's GDP growth continues to surprise on the upside. For CY24, India is again expected to remain one of the fastest growing large economies in the world. Gradual improvement in rural demand, sustenance of growth momentum in urban demand and rise in private capex activity and government's focus on domestic manufacturing, to drive GDP growth going forward.
- As we gaze into CY24, the earnings trajectory in India could be decelerating relative to a very strong performance in CY23. **The Indian equity markets could see consolidation in absence of any fresh incremental earnings triggers as the valuations of the Indian markets seem to be pricing in most of the medium term positives, especially in the Mid and Smallcap segment.** In this case, we expect the largecap indices to outperform the small and midcap indices. The RBI is expected to gradually ease the liquidity and policy rates in CY24, which is likely to support the market on downside. CY24 may see a gradual narrowing in the base of the key performers in the equity market.
- CY24 would be the year of general election in India. Given that a large part of the current momentum in the Indian economy is aided by a positive government policies, the results of this election would be crucial from a medium-term perspective. The near-term performance of the equity markets would depend on the upcoming quarterly earnings, corporate guidance, global liquidity scenarios.
- **Investment deployment strategy could now be at 40% lumpsum and rest 60% to be staggered over the next 5-6 months. Investors have made strong returns from equity markets in the last 3 years and we think they should now consider rebalancing their portfolios, in terms of their asset allocation based on their risk profile. Investors who have made disproportionate returns in the small and midcap funds could reallocate a part to Largecap/Flexicap/Multi-asset funds/Fixed income as the case may be, by booking profits in the former segments; given the rise in the valuations of the Small and Midcap segments. All allocations should be done in line with the risk profile and product suitability of the investor.**

Debt Mutual Fund Strategy

- Given the relatively flat yield curve and uncertainty about the timing of the rate cuts, staying invested at the short end could be better from a risk-reward perspective currently. Furthermore, if the yields spike up again, it will give investors a tactical opportunity to invest at the longer end.

- Corporate Bond Funds, which typically have a higher yield to maturities, look a safe bet at the current juncture. Additionally, corporate bond spreads and SDL spreads vs the G-secs have widened recently, making the case for Corporate Bond Funds and SDL funds, from an accrual perspective.

- Thus, investors can look at Corporate Bond Funds and Short duration funds for a horizon of 15 months and above.

- Investors who are comfortable with volatility and have a longer horizon of 24 months and above can take exposure to Dynamic Bond Funds and longer-tenor SDL Index Funds.

- For lower volatility and a horizon of 3 months and above, investors can consider Ultra Short Duration Funds and Arbitrage Funds.

- Whereas for a horizon of up to 3 months, investors can consider Overnight Funds and Liquid Funds.

- Investors can also look at Multi-asset allocation funds for a horizon of 36 months and above. Investors should invest in line with their risk profile and product suitability.

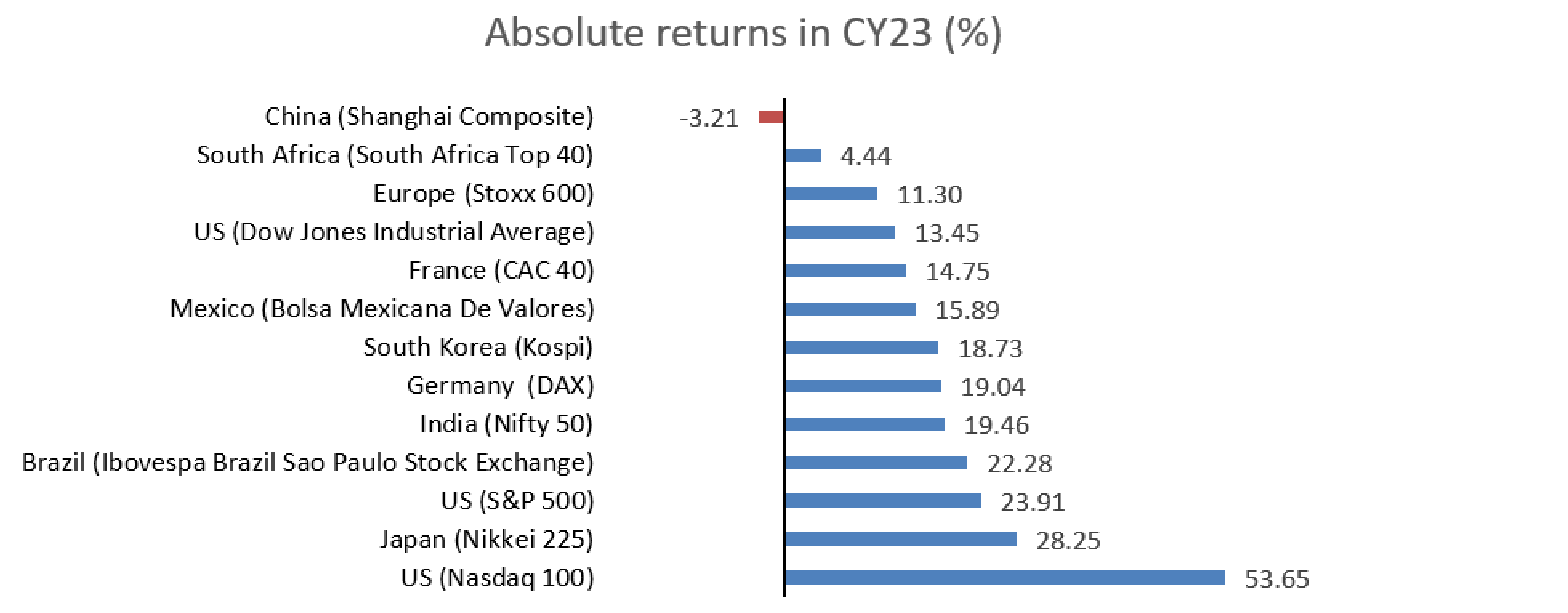
Research Presentation – Contents

Classification - Restricted

Year 2023

Risk assets rally led by declining Inflation & stable Growth

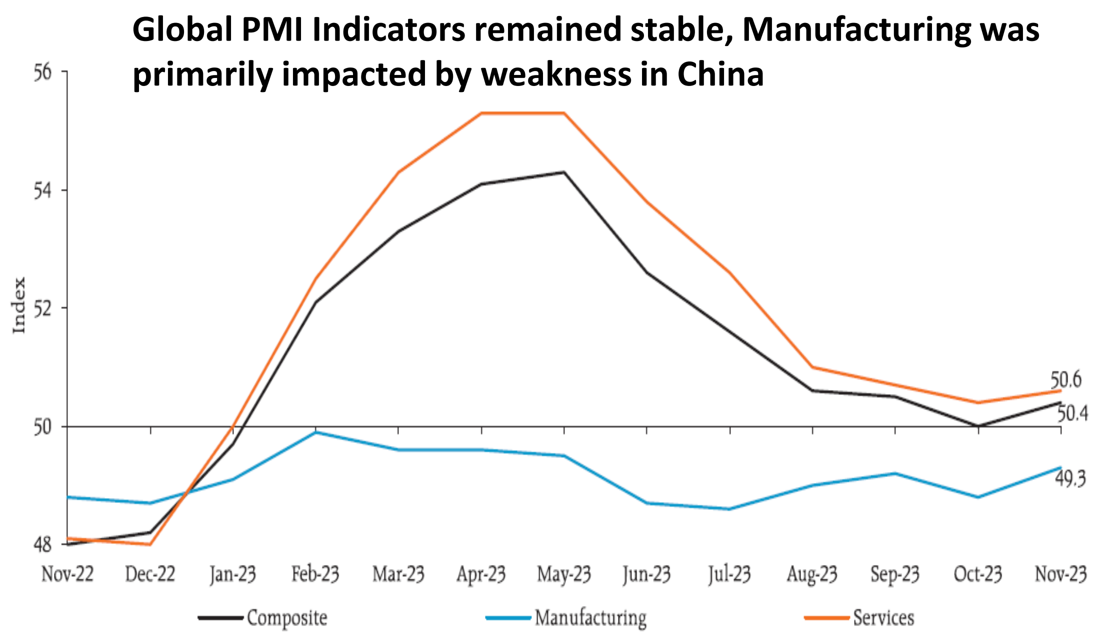
Equity markets rallied across the board in CY23, China remained an exception…



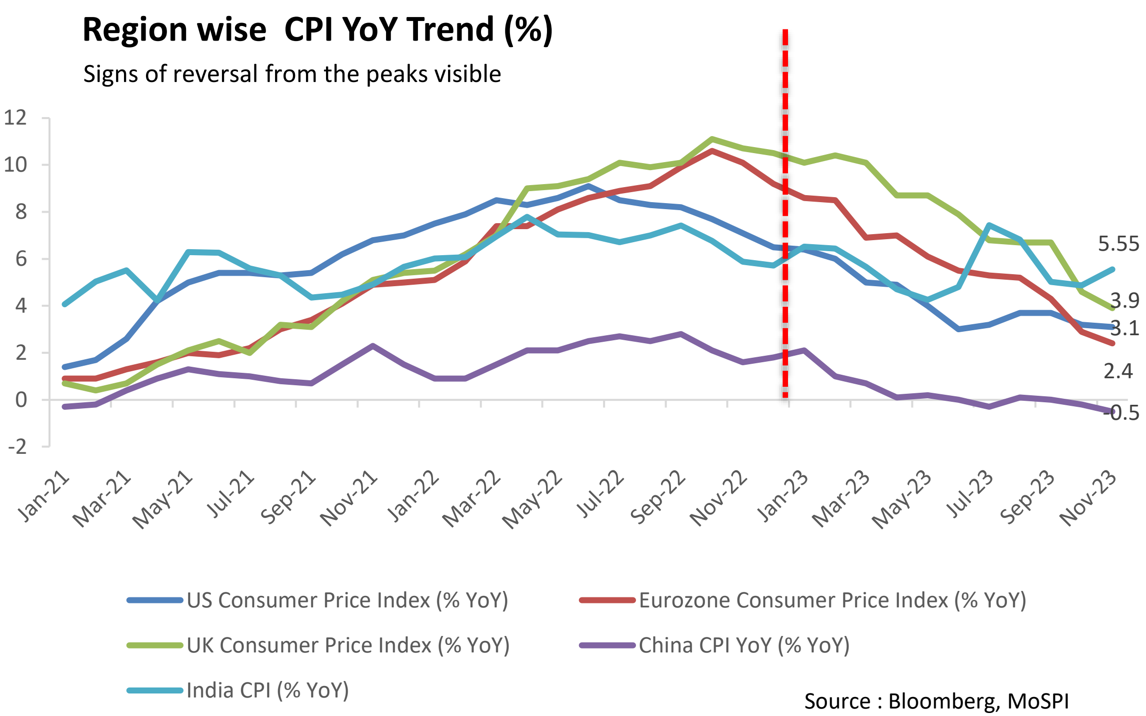
Source : Bloomberg

Classification - Restricted

…Rally led by stable growth & easing inflation



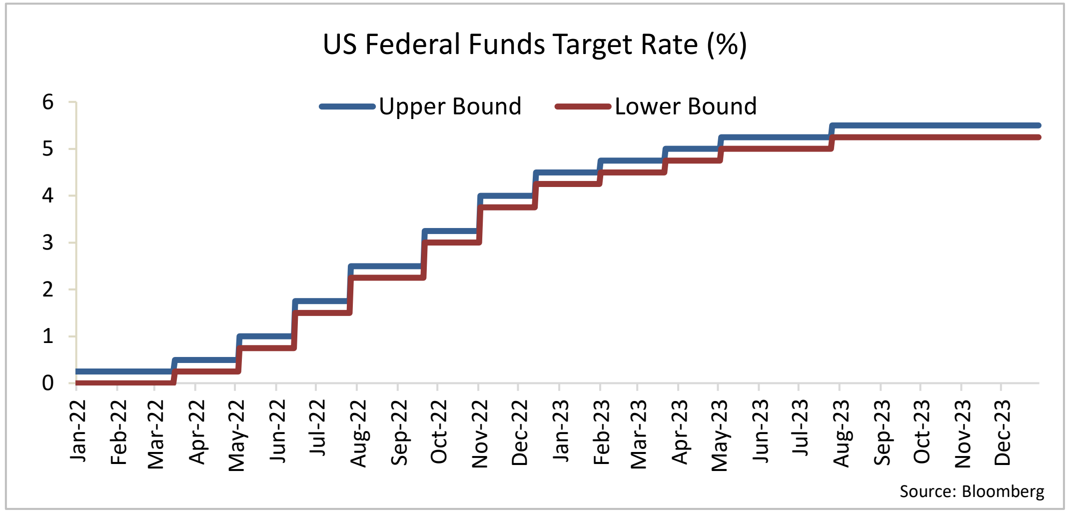
Note: A level of 50 corresponds to no change in activity and a reading above 50 denotes expansion and vice versa.
Source: S&P Global.

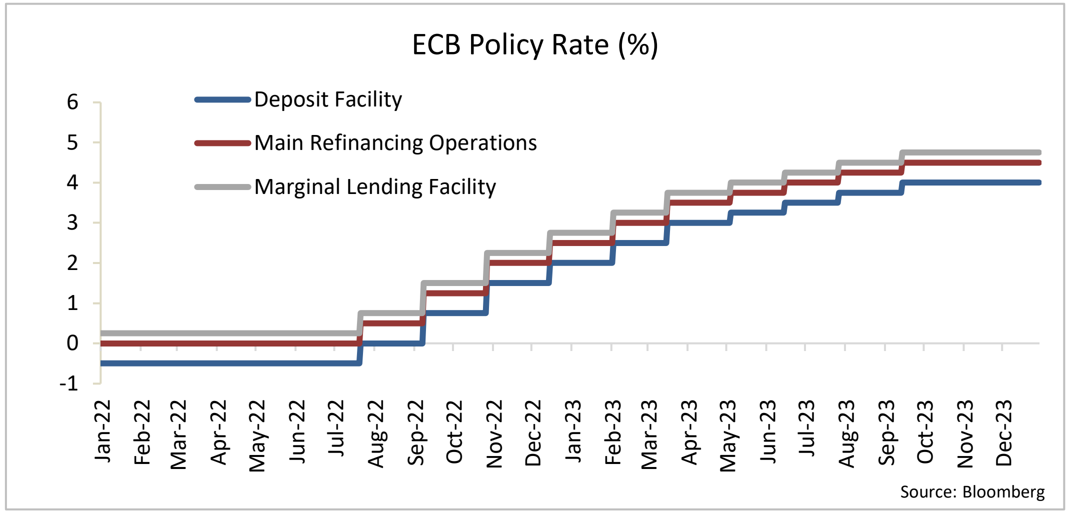


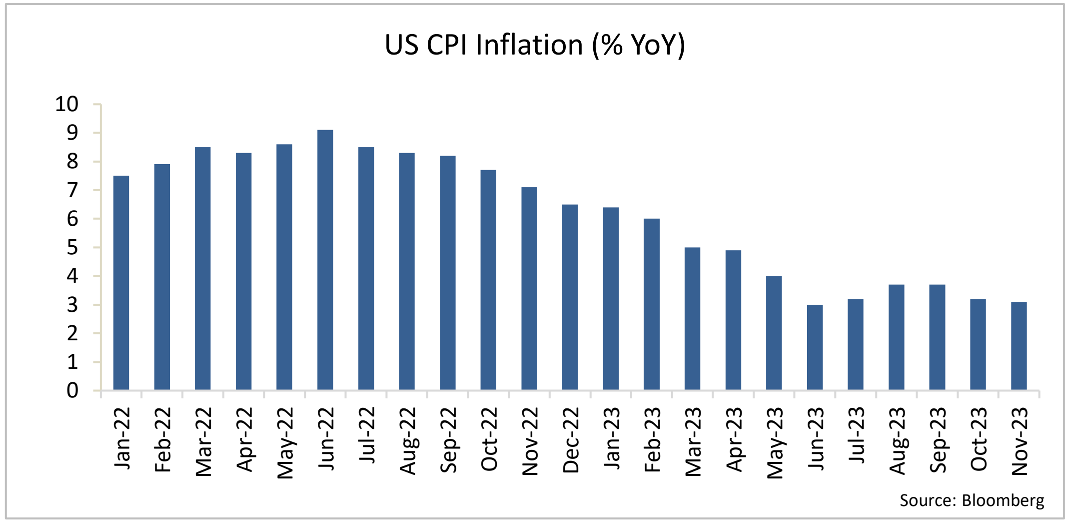
Source : Bloomberg, MoSPI

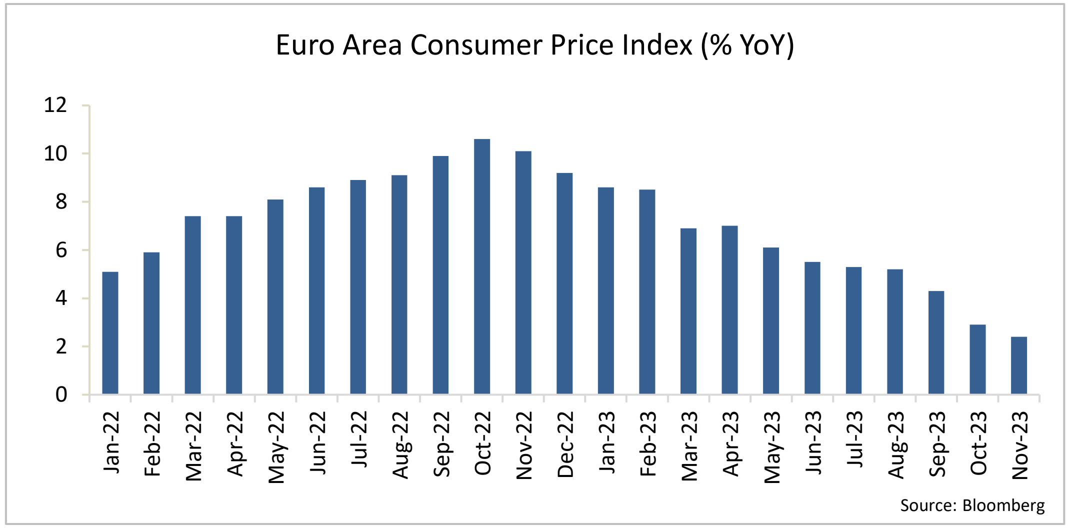
Classification - Restricted

Inflation bought down by persistent rate hikes & tightening monetary policy led by advanced economies



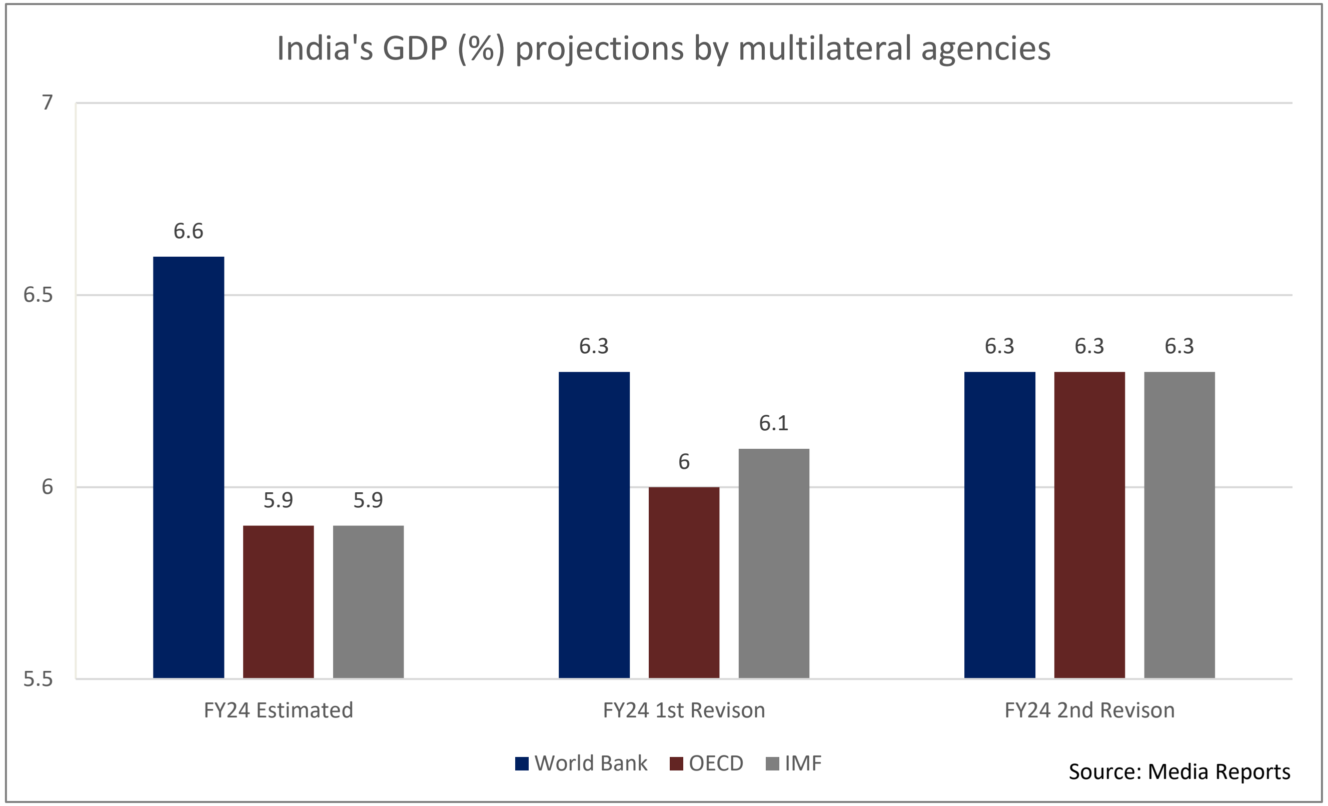






Classification - Restricted

Contrary to the initial expectations, Multilateral agencies upgraded growth expectations of most economies for CY23, suggesting continued growth momentum during the year



Month of Projection →	2023	
Region/Country ↓	November 2023	September 2023
World	2.9	3.0
Advanced economies		
US	2.4	2.2
UK	0.5	0.3
Euro area	0.6	0.6
Japan	1.7	1.8
Emerging Market Economies (EMEs)		
Brazil	3.0	3.2
India	6.3	6.3
China	5.2	5.1
South Africa	0.7	0.6

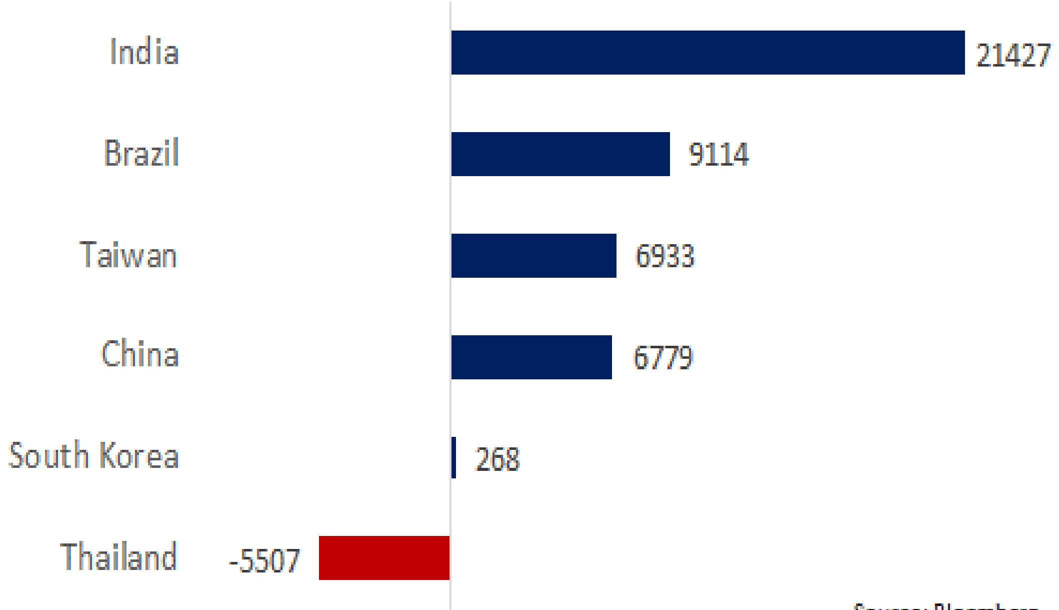
Source: OECD

Declining Dollar index led to incremental flows in EMs and pushed equity markets higher

Dollar index moderated from recent highs

Source: Bloomberg

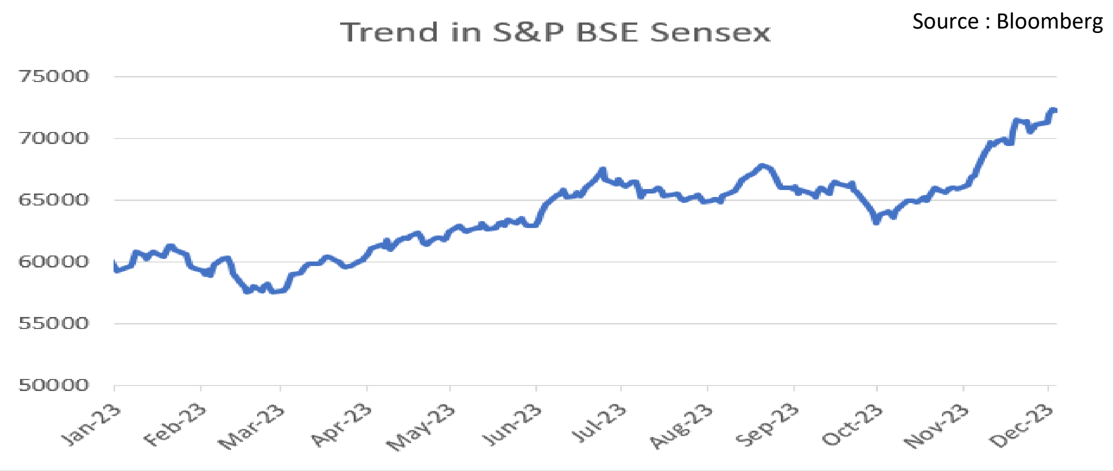
Emerging Markets - Net Flows in CY23 (in USD Mn)

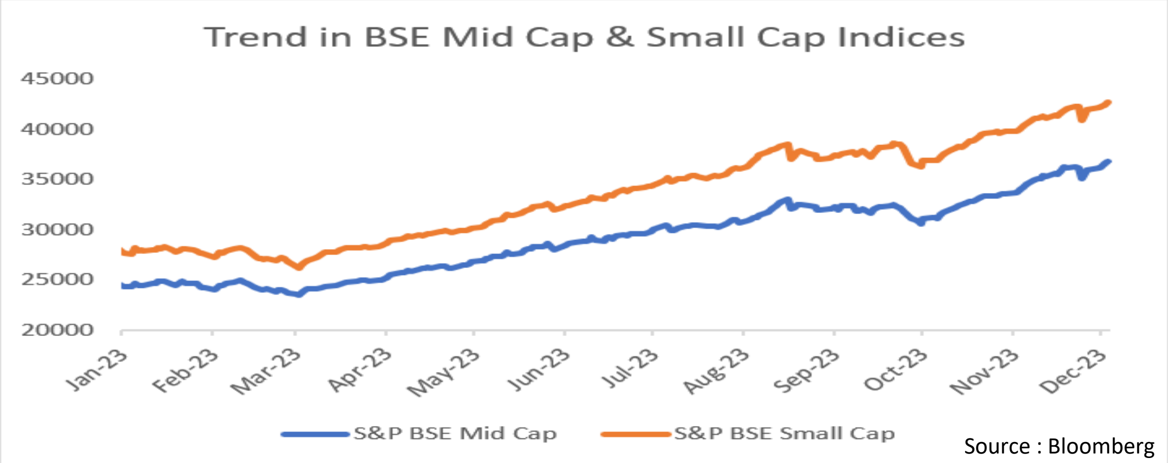


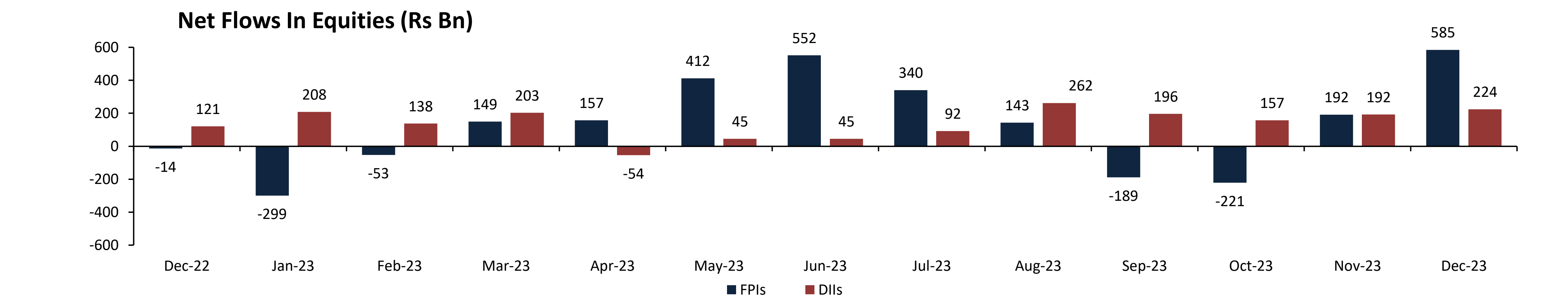
Source: Bloomberg

Classification - Restricted

Indian markets rallied across the board, led by strong flows…





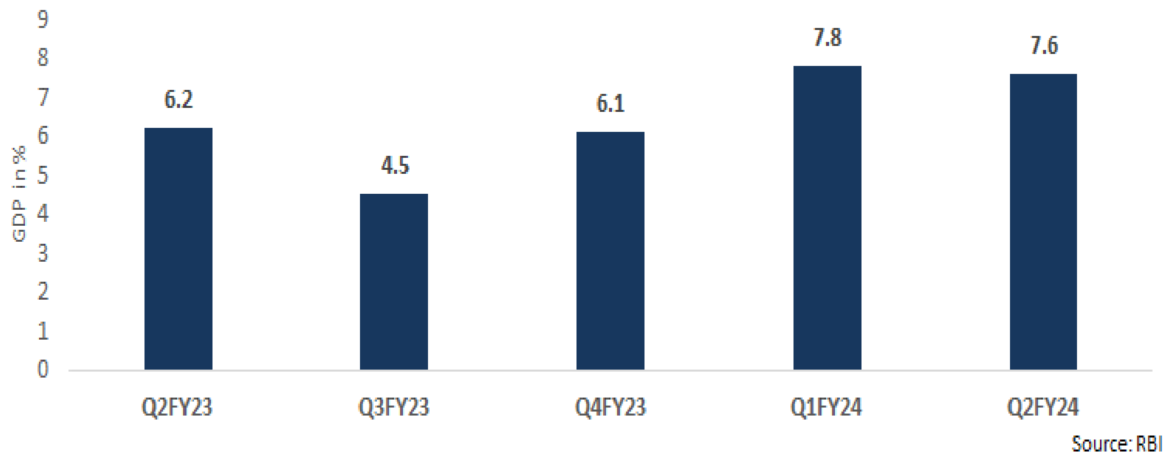


*For 2023, FPI and DII data is up to December 29, 2023.

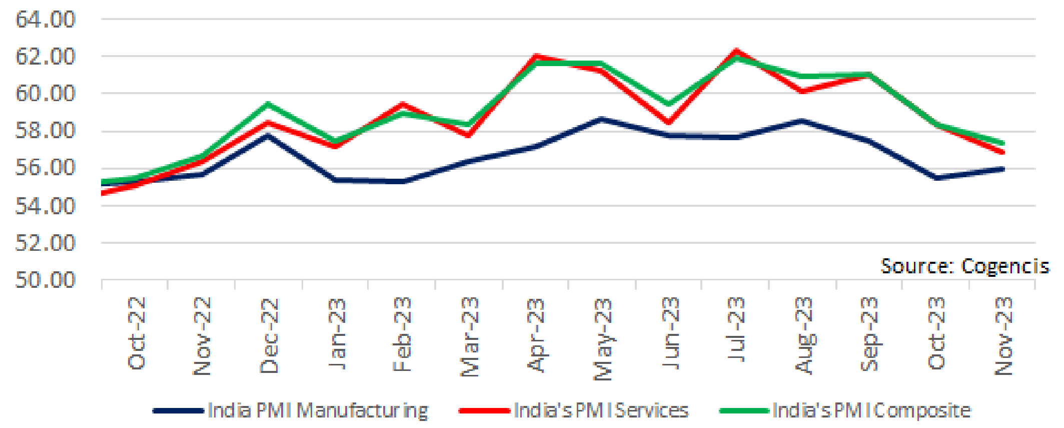
Source: SEBI, CDSL

…As Strong domestic fundamentals supported corporate profitability

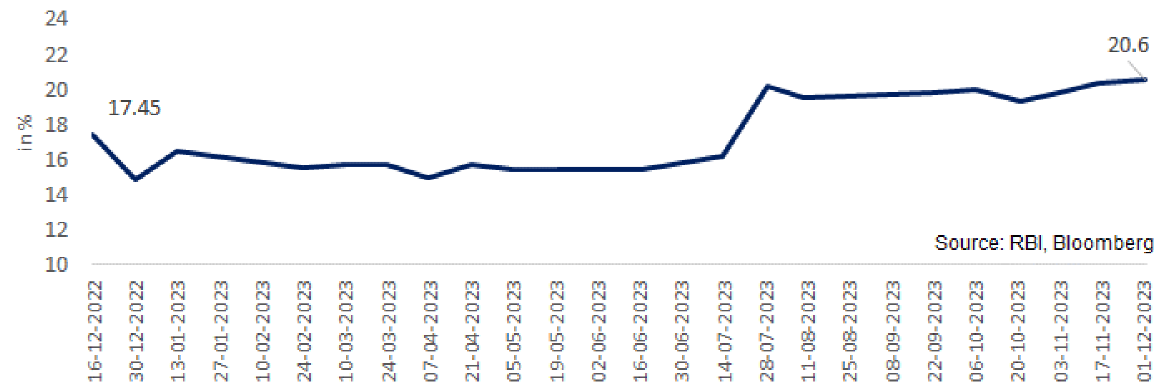
India continues to be the fastest growing large economy



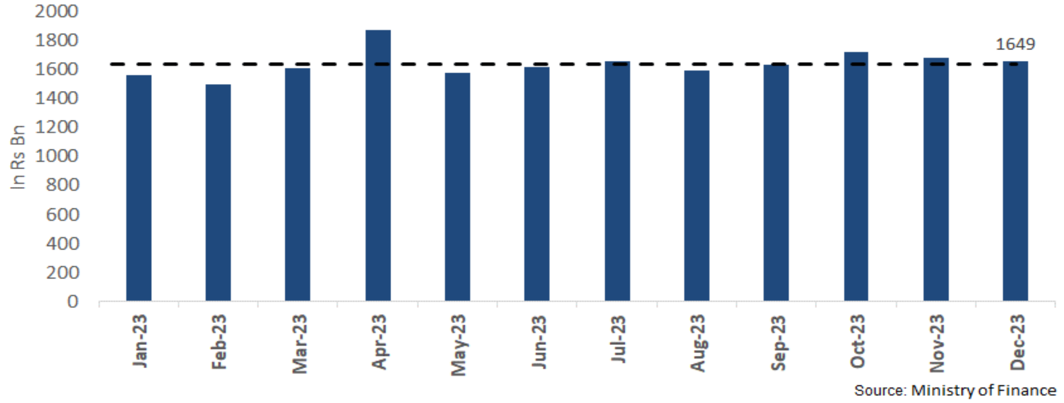
Composite PMI continued to exhibit robust performance



Bank credit growth continues to grow

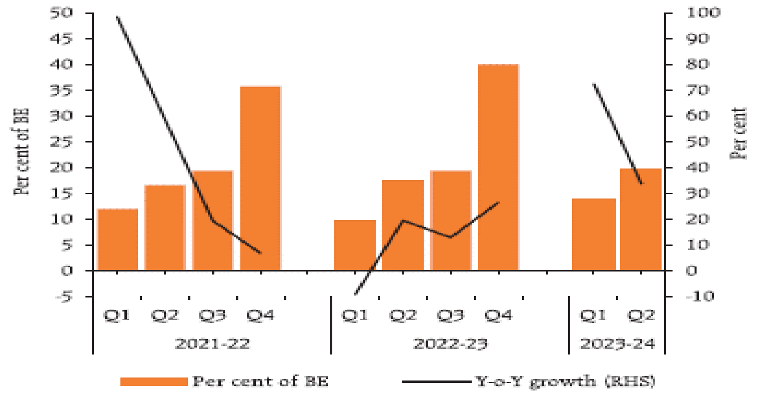


GST collection remains healthy



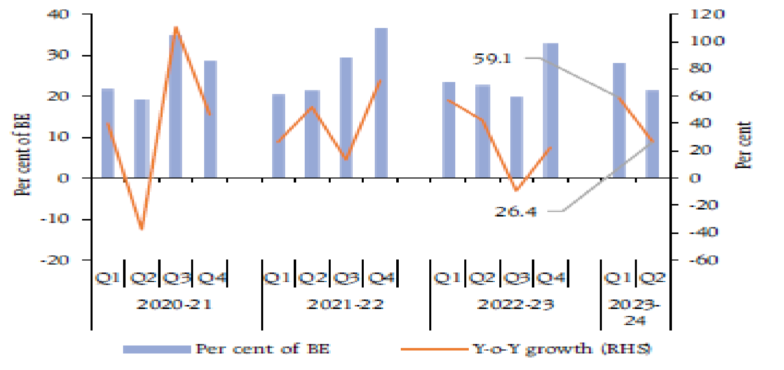
Strong focus on Capex has helped…

State Govt's Capex shows robust growth in FY24 - Q1 & Q2



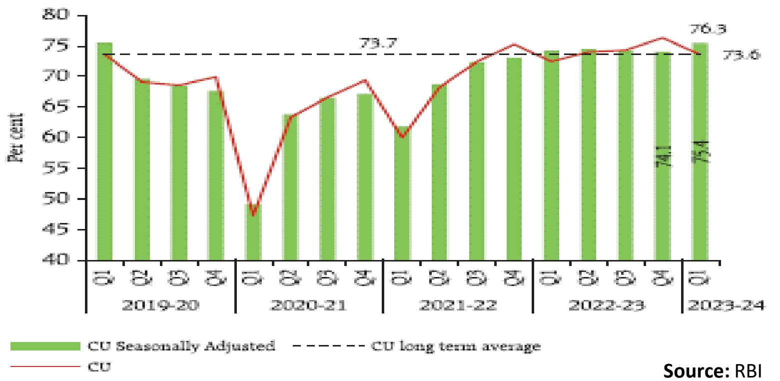
Source: RBI Bulletin December 2023

In FY24 - Central Govt's share of capex in total expenditure at Highs…



Source: RBI Bulletin December 2023

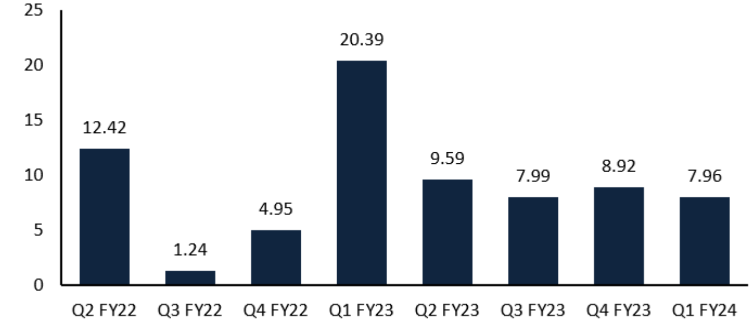
Capacity Utilisation in Manufacturing sector above average, driving need for further Capex…



Source: RBI

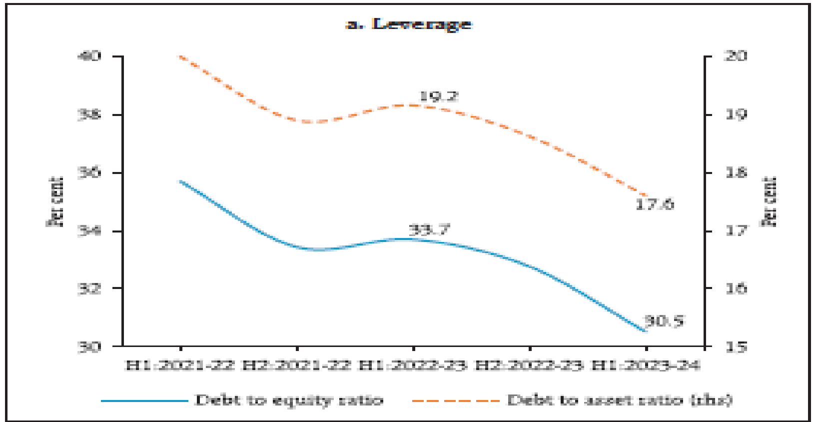
Gross Fixed Capital Formation - YoY Change (%)

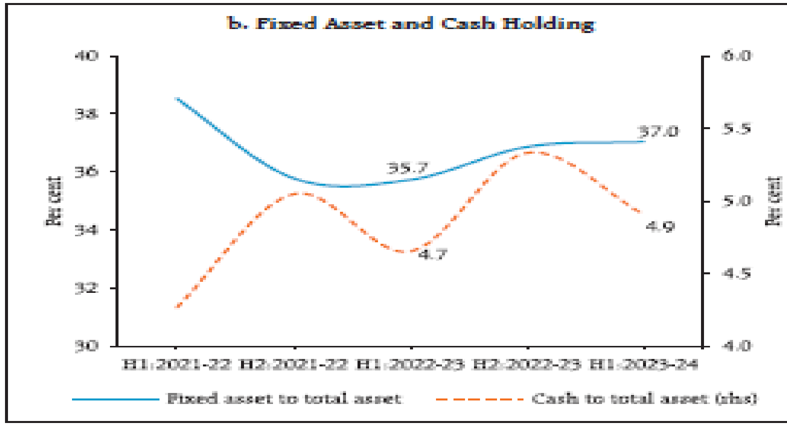
Momentum supported by government policies like PLI



Source: MoSPI

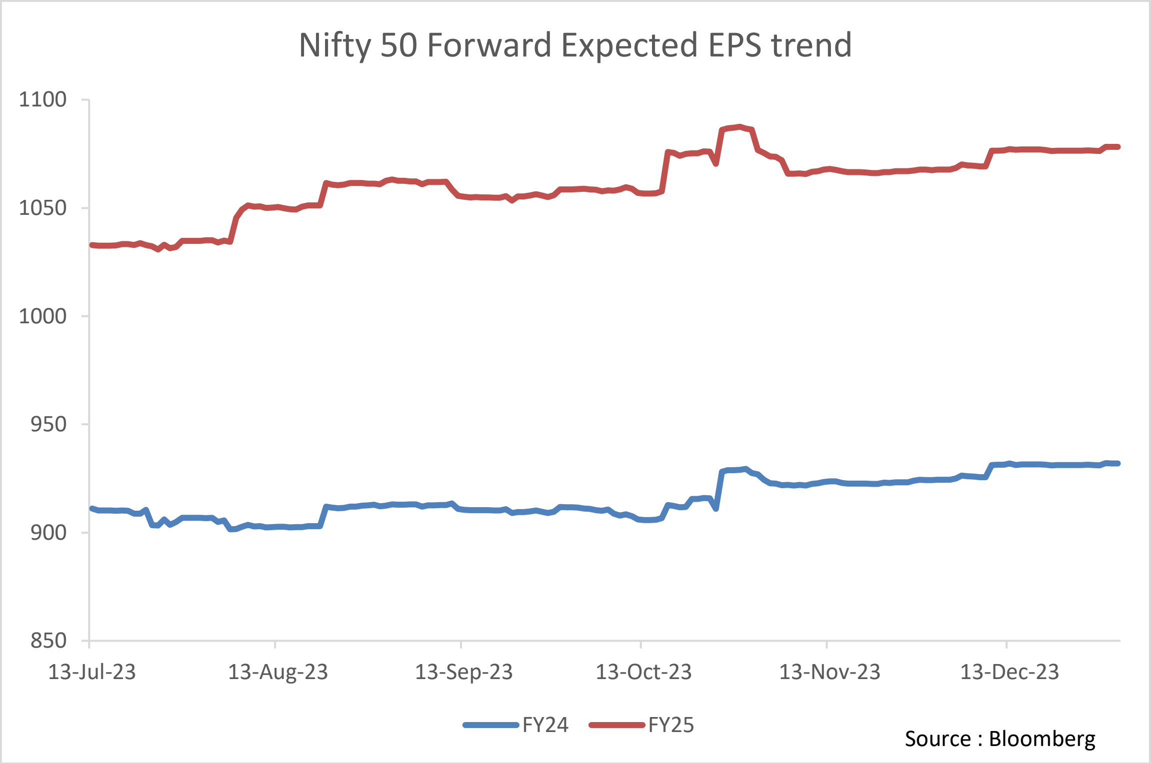
Leverage and Fixed Asset of Listed Private Manufacturing Companies

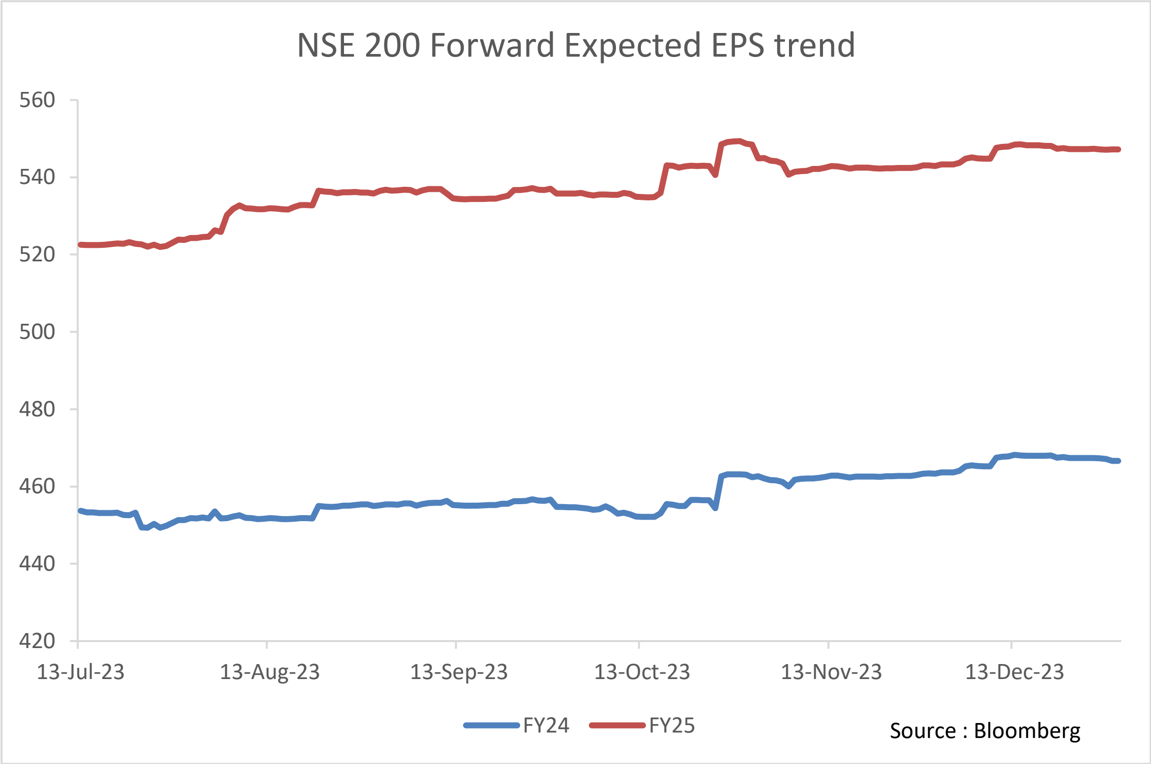




Note: Results are based on 1,571 listed private manufacturing companies.
Sources: Capitaline database; and RBI staff estimates.

…Leading to earnings estimate upgrade for key indices throughout the year





Classification - Restricted

Election outcome of 5 states have created expectations of policy continuity in the centre

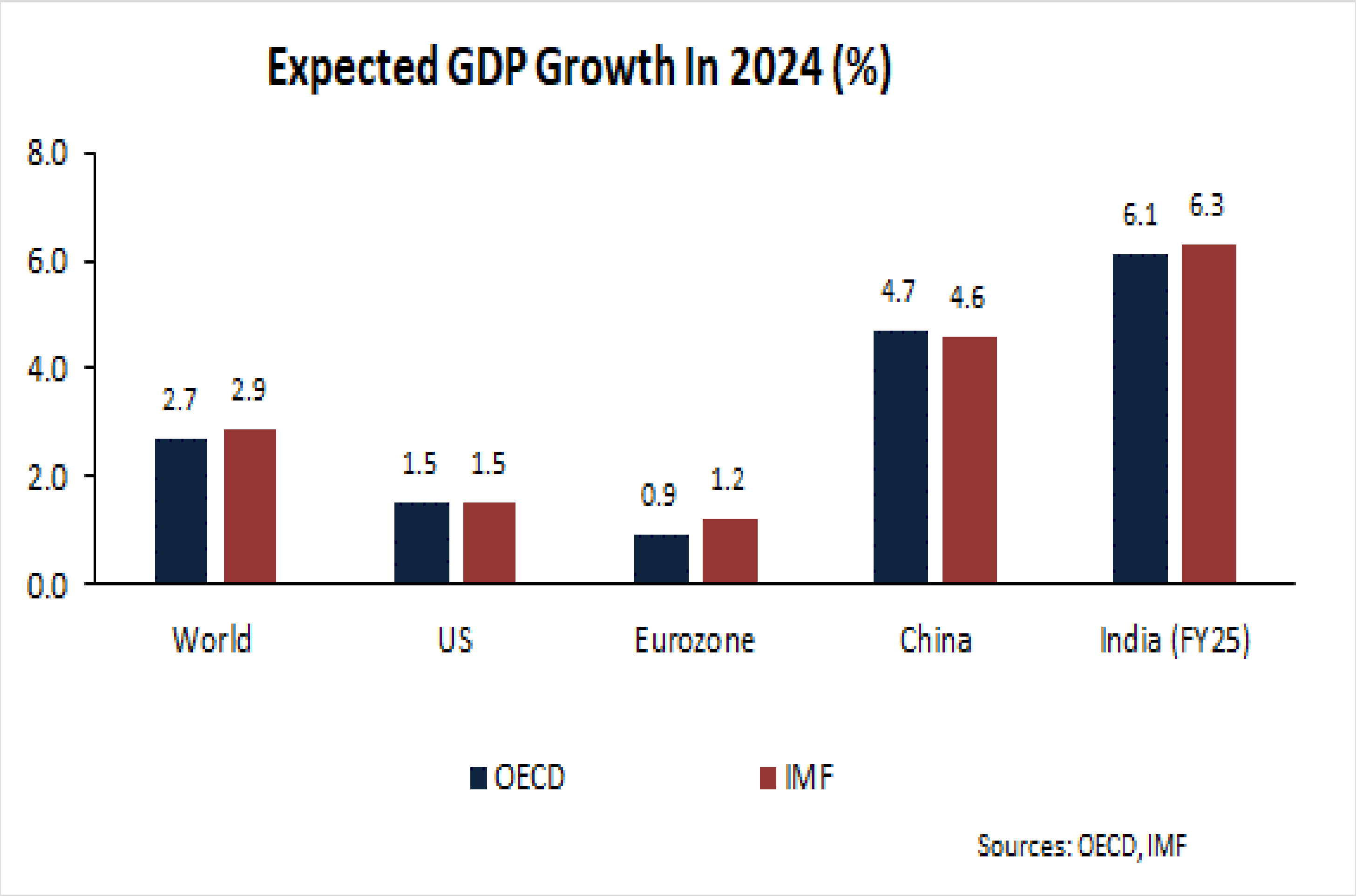
State	Election Date	Election Results (Winners)	No. Of Seats won by
Mizoram	November 7, 2023	Zoram People's Movement (ZPM)	27/40
Chhattisgarh	November 7 & 17, 2023	Bharatiya Janata Party	54/90
Madhya Pradesh	November 17, 2023	Bharatiya Janata Party	163/230
Rajasthan	November 23, 2023	Bharatiya Janata Party	115/200
Telangana	November 30, 2023	Indian National Congress	64/119

Classification - Restricted

Expectations from 2024…

Classification - Restricted

Multilateral agencies expect weak global growth going forward, driven by tightening monetary conditions and elevated Inflation… India still to be the fastest growing large economy.



GDP Growth Projections

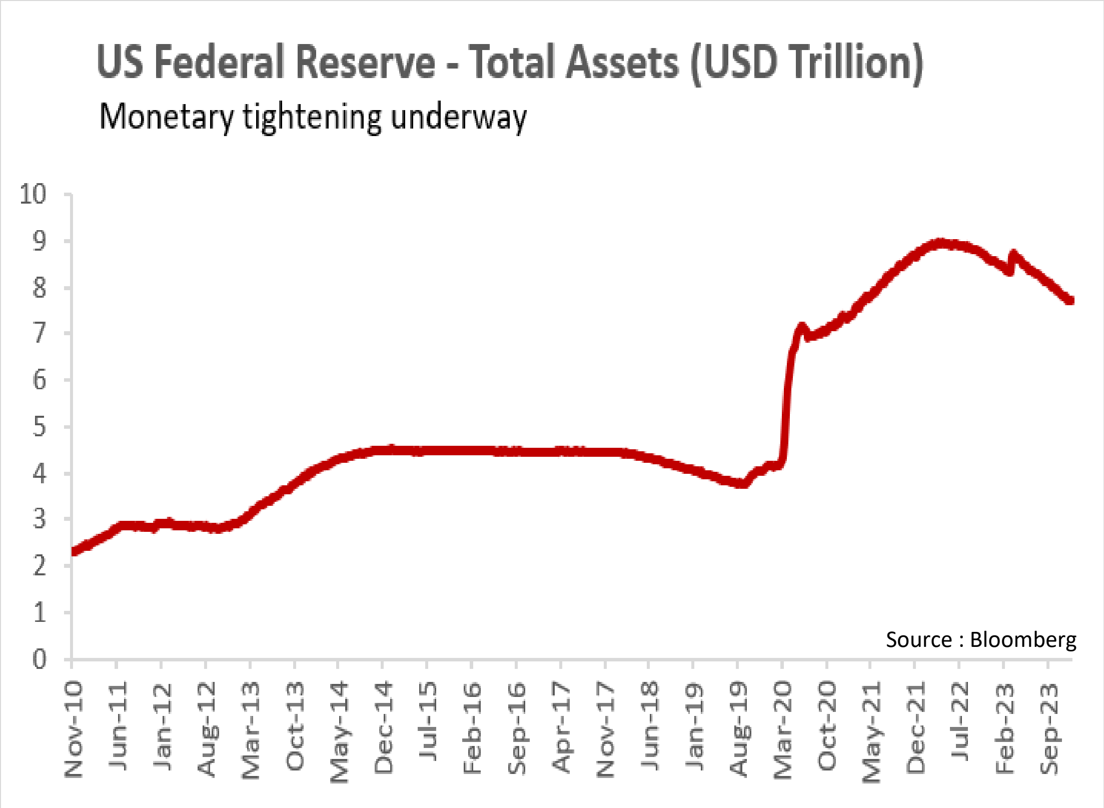
(Per cent)

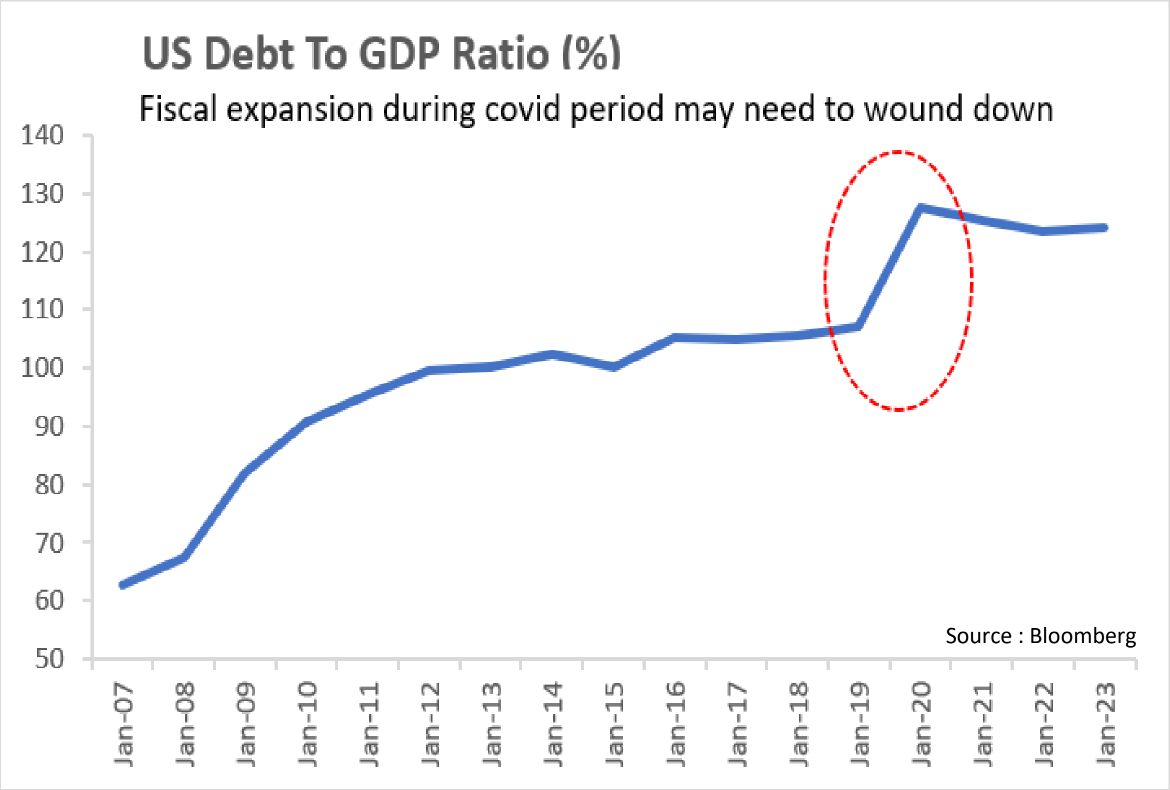
Month of Projection →	2023		2024	
Region/Country ↓	November 2023	September 2023	November 2023	September 2023
World	2.9	3.0	2.7	2.7
AEs				
US	2.4	2.2	1.5	1.3
UK	0.5	0.3	0.7	0.8
Euro area	0.6	0.6	0.9	1.1
Japan	1.7	1.8	1.0	1.0
Emerging Market Economies (EMEs)				
Brazil	3.0	3.2	1.8	1.7
India	6.3	6.3	6.1	6.0
China	5.2	5.1	4.7	4.6
South Africa	0.7	0.6	1.0	1.1

Source: OECD.

Classification - Restricted

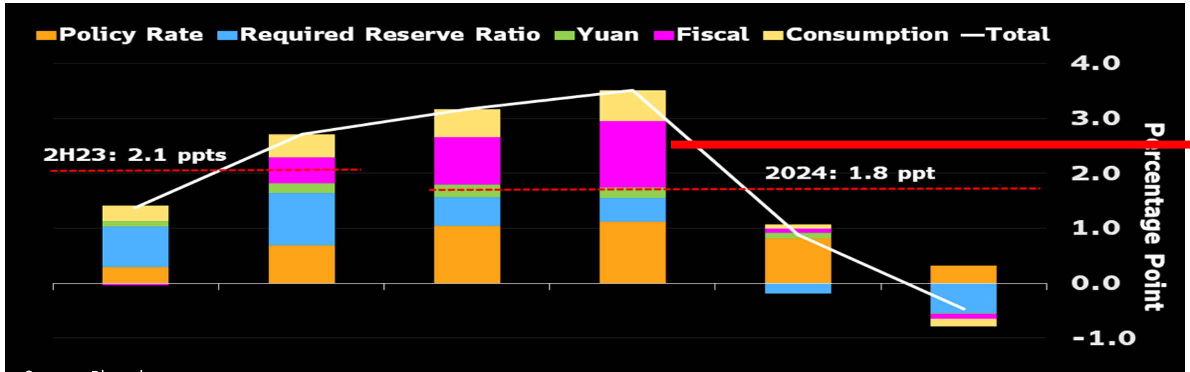
US's Monetary And Fiscal tightening may be a large risk to equity markets globally, if it plays out.





Classification - Restricted

China – Economy continues to move lower as growth tappers off… Stimulus measures remain a key for CY24

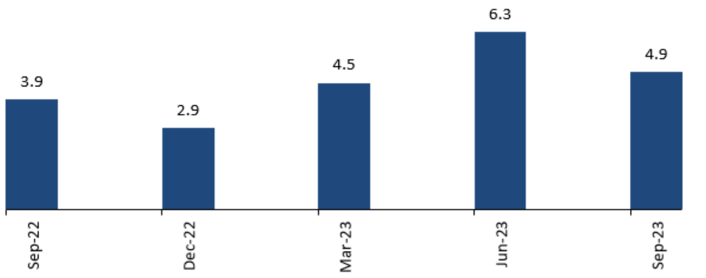


Source : Bloomberg

China's issuance of 1 trillion yuan (US$137 billion) sovereign debt plan will raise the budget deficit ratio to about 3.8% of GDP (well above the 3% target set in March 2023) and is expected to drive economic growth.

China Quarterly GDP - YoY Change (%)

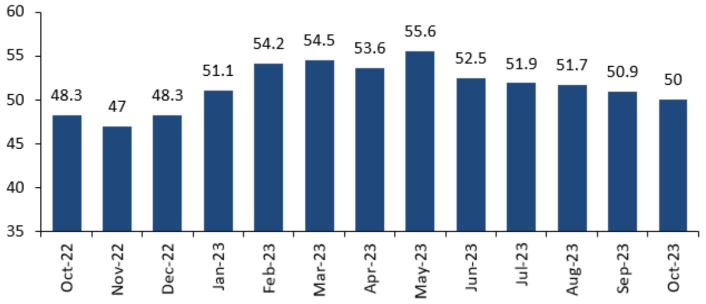
GDP continues to weaken



Source: Bloomberg

China Composite PMI

Strong stimulus to support weakening economic activity



Source: Bloomberg

CSI 300 Index

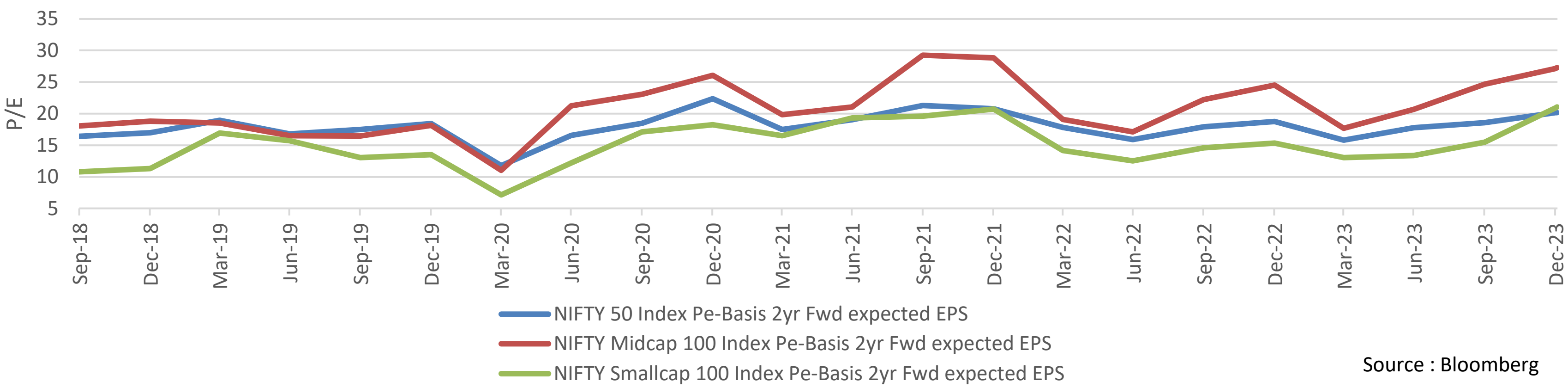
Chinese equity markets yet to see any recovery

Source : Bloomberg

India Valuations – Continue to remain rich, Small and Midcaps may underperform, given strong outperformance in CY23.

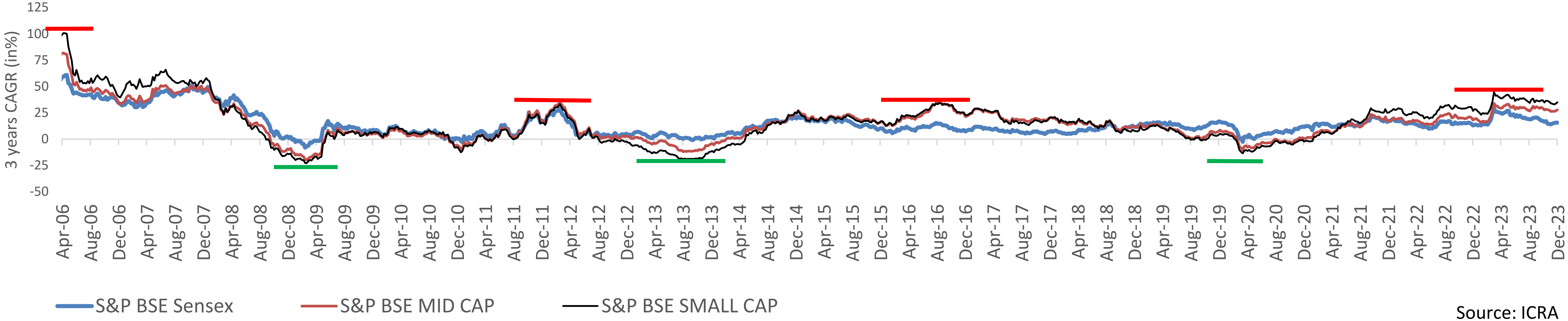
Valuation gap between large cap and mid cap has now started expanding… high inflationary condition could lead to increase in pressure in mid and small cap companies leading to reversion in valuation gap…..

Both Midcap and Smallcap valuations are now at a premium to Largecap



Source : Bloomberg

Index wise return on a rolling 3 years CAGR basis, show significant outperformance of the Small cap and Midcap indices

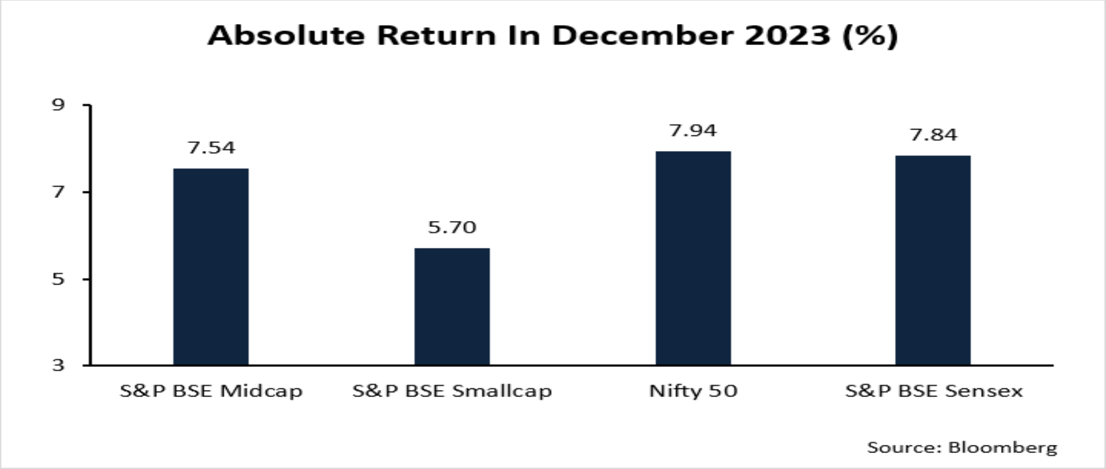


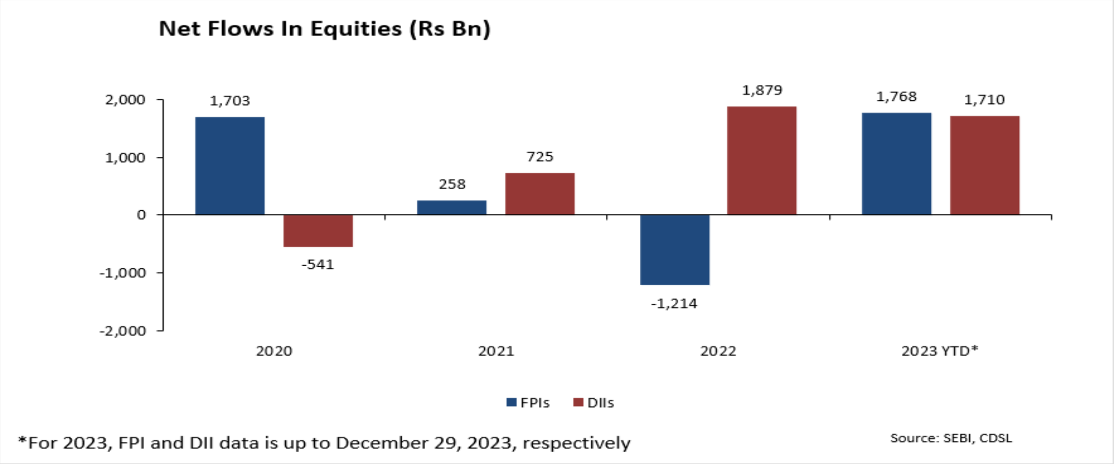
Source: ICRA

Classification - Restricted

Market Roundup – December 2023

- Indian equities ended the month on a positive note. S&P BSE Sensex and Nifty 50 ended higher to the tune of 7.8% and 7.9% month-on-month (MoM), respectively.
- The S&P BSE Midcap and Smallcap indices ended higher by 7.5% and 5.7% MoM, respectively.
- In terms of BSE sectoral indices, Power was the top performer. In contrast, Healthcare, Auto and Consumer Durables delivered lower returns compared to other sectors.
- Positive domestic macro indicators, favorable global cues, sustained FII & DII buying, intermittent fall in oil prices and the outcome of the recently concluded state assembly elections made participants hopeful of political stability and policy continuity..





Classification - Restricted

Sectoral outlook by fund managers – Part 1

Sector	Particulars
Financials	**View –Positive** • Valuations in most of the Banks are reasonable, especially the Largecap banks. • Tight liquidity conditions may again bring back NIM compression issues on fore. • Credit cost (provisioning) may hold up, while the unsecured book remains a cause of concern for some banks. • AMCs and PSU Banks are still finding favour.
IT	**View – Negative to Neutral** • Valuations have bounced from lows, growth guidance is weak, but companies have been able to protect margin. • Lower attrition and pyramid correction to help improve margins going forward. • Weak global growth projections for CY24 remains a key negative. • Funds remain underweight on the sector.
Pharma	**View – Overweight** • Reasonable valuations. • US is seeing abatement of price erosion in the generic space, which should be positive for Indian pharma stocks. Domestic growth remains reasonable. • Decline in the raw material prices to drive margins and earnings. • Fund Managers expect the sector to outperform on the back of improved earnings given lower base and relative under ownership.
Auto	**View – Overweight** • Passenger vehicle demand remains strong and positions are being added in such stocks, while 2-Wheeler stocks are seeing renewed traction and driving alpha. • EV continues to be a strong emerging theme and players linked to it seem to be getting higher allocation. • CY2023 has been a strong year for PV sales, largely driven by SUV. With high base, volume growth in 2024 would be key monitorable. • Focus on Infra spending is likely to see CV sales pick up. • Auto ancillaries stand to gain due to China+1, Europe+1, PLI. • Valuations have moved up across the board.

Sectoral outlook by fund managers – Part 2

Sector	Particulars
Construction & real estate	**View – Positive** • Favourable demand scenario for housing in terms of volume growth. • Government's focus on infrastructure and investment cycle. • Real estate stocks are also finding space in the Fund Portfolios, as growth in the sector quite strong. **Approach followed by most AMCs -** Prefer investing in this space through proxy sectors such as housing finance companies, cement, steel, pipes, and building materials, among others.
Consumption	**View – Gradually reducing underweights- Neutral** • Staples - Rural India demand patchy. Declining input costs to support margin in the upcoming quarters. Valuations high. Funds generally underweight. Market expect some support from Government both state and centre for rural economy. • Hotels/Travel – Valuations rich, funds not looking to raise weights. Pent up demand likely to come off. • Consumer Durables – Demand expected to improve, led by lower base and stable organic demand. • Retail and Quick Service Restaurant: Retail sector is more company specific, while QSR seem to be finding favour in portfolios due to expectations of change in consumer behaviour. However, QSR companies' valuations remain quite rich. **Long-term positives** • Rising per capita income. • Premiumization across categories.
Capital goods, industrials, utilities	**View – Neutral** • Capex cycle uptick implies that domestic cyclicals are gaining traction. • Reduction in commodity prices adding to margin tailwinds. • Export prospects improving, Strong domestic manufacturing capex has been a key to order book traction. • New ideas also emerging as the sectoral tailwinds broaden. • Power and its full value chain remains a favourite theme for the Indian Fund managers. • **Valuations are steep, while earnings momentum holding up. Funds with high exposure are trimming at margin.**
Metals	**View – Neutral** • China stimulus leading to improved outlook. Long period of under investment, improved demand due to domestic manufacturing push and the policy support from the government are positives. Some fund managers have reduced their underweight positions.

Monthly Sectoral Movement

Absolute Monthly Return By Sector (%)

Index	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
S&P BSE 500	**-3.15**	**-3.36**	**-2.55**	**0.33**	**7.08**	**3.51**	**3.86**	**3.80**	**-0.81**	**2.04**	**-2.93**	**6.75**	**8.01**
Auto	-4.78	5.29	-2.32	-3.35	10.29	7.94	6.76	3.14	-1.40	3.65	-1.25	10.08	5.43
Bankex	-0.90	-5.78	-0.32	0.93	9.18	2.11	0.12	1.85	-4.01	0.35	-3.44	3.47	8.12
Basic Material	-1.05	-5.30	-7.07	2.54	7.83	1.70	2.39	3.19	1.06	1.70	-3.70	7.25	11.39
Capital Goods	-1.49	1.39	0.54	1.50	9.71	1.31	9.79	8.15	2.66	6.20	-4.07	8.88	11.31
Consumer Discretionary	-4.28	-2.15	-1.13	-1.74	9.25	7.18	5.94	4.46	2.10	2.40	-1.38	9.36	5.91
Consumer Durables	-4.28	-5.01	1.30	0.45	2.91	6.47	5.67	-0.25	4.24	3.18	-2.32	7.42	6.11
Energy	-2.17	-9.46	-12.14	1.95	7.19	-0.07	-0.24	6.89	-4.38	3.20	-2.17	9.17	11.06
FMCG	-2.73	0.20	0.34	2.01	6.81	5.89	2.47	1.58	-2.75	0.97	-0.86	3.58	6.84
Finance	-1.20	-4.50	-0.60	-0.08	9.05	2.13	1.97	3.16	-2.64	1.08	-3.09	4.82	6.92
Healthcare	-3.81	-2.35	-4.66	1.31	6.33	2.81	9.71	7.45	0.57	2.45	-4.30	10.92	3.87
IT	-6.03	3.43	-0.57	-3.15	-0.13	6.70	2.16	1.34	4.13	2.62	-3.13	6.77	8.38
Metal	2.95	1.43	-10.40	1.04	7.21	-2.94	3.99	7.88	-1.64	7.45	-4.17	8.74	11.35
Oil & Gas	-0.97	-9.25	-13.17	2.77	6.39	-1.64	0.27	6.67	-5.03	1.23	-4.17	12.51	12.02
Power	-6.76	-10.84	-18.60	9.39	5.37	2.01	4.33	9.20	-0.63	5.96	-4.90	11.16	18.24
Realty	-3.90	-4.85	-3.09	-1.60	19.64	7.67	9.35	9.01	-1.50	5.21	3.70	19.99	9.37
Telecom	-5.20	-7.13	-0.47	-3.65	8.44	4.12	9.08	5.61	3.20	10.55	-5.69	7.21	6.15
Utilities	-6.92	-12.89	-21.37	10.02	6.22	-0.59	5.02	10.36	-0.64	7.20	-3.98	11.85	20.00

The abovementioned sectoral indices pertain to the S&P BSE universe

Colour scales assigned vertically

Source: Ace MF, HDFC Bank Research

Classification - Restricted

Key Risks for Indian equities

- Tepid management commentary
- Volatility in commodity prices, especially Crude Oil
- Rising tensions in Middle East
- Results of the Central elections
- Upward pressure on food inflation (El Nino, export restrictions by some nations)
- Movement of global liquidity
- The impact of Dollar Index and US Bond Yields on FPI flows in emerging markets
- Economic slowdown fears in developed markets

Fixed Income Markets

Classification - Restricted

Year 2023

Marked by Tighter Monetary Policies Globally…

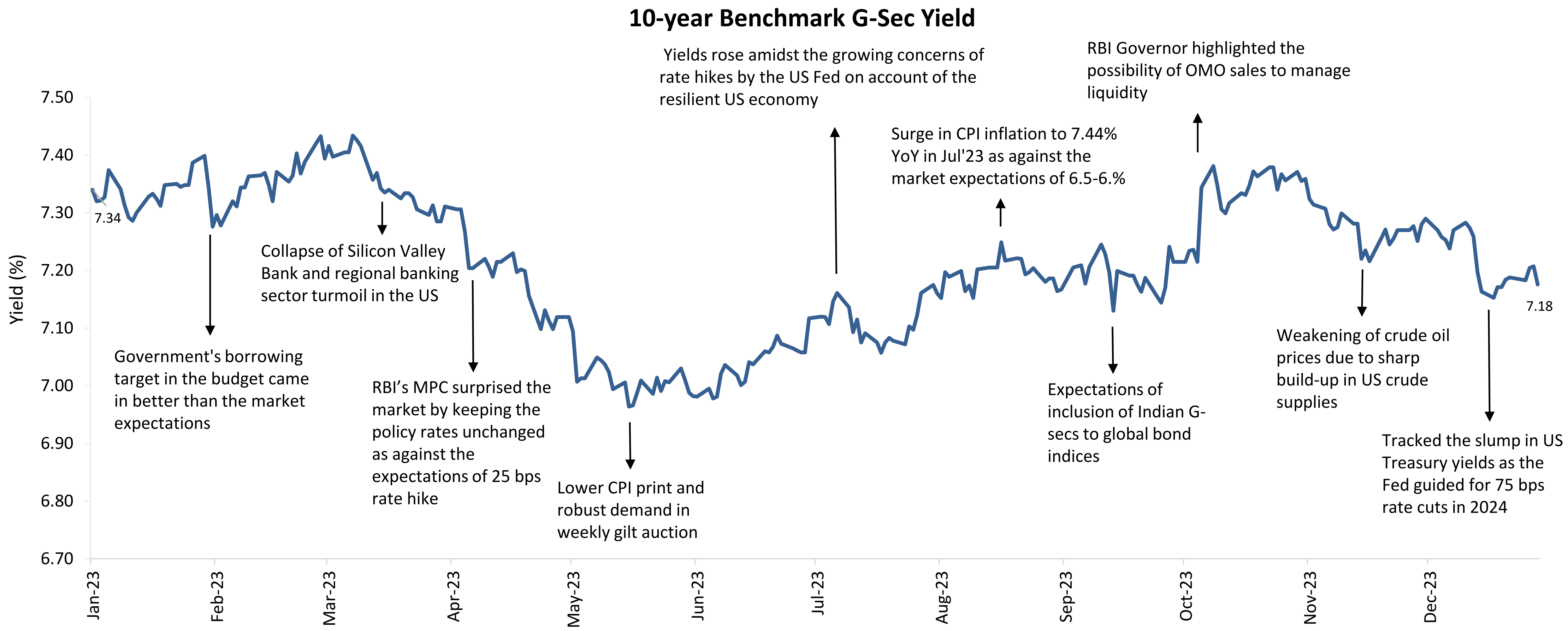
Classification - Restricted

Fixed Income Outlook

- Liquidity is expected to stay in the neutral to tight zone in the medium term for the RBI to keep the effective policy rate at its desired level to rein in demand-side inflationary pressure. In the near term, liquidity is likely to ease as government spending moves into the system and the RBI keeps infusing liquidity via the LAF corridor. The RBI is likely to ease liquidity into the system before cutting the rates. Additionally, the move from the Fed on liquidity is also likely to affect the RBI's view on liquidity. Going forward, with the inclusion of G-secs in JPMorgan's Government Bond Index-Emerging Markets, liquidity is likely to improve unless the RBI decides to sterilize the inflows. Thus, the RBI is likely to remain nimble in liquidity management and if warranted, it may move away from temporary liquidity management to permanent liquidity management. Also, growth imperatives of the economy could drive the liquidity moves by the RBI, meaning that, if growth impulses start to slow, the RBI can ease liquidity faster.
- Headline inflation accelerated in November 2023 primarily due to higher food inflation and low base. Going forward, more upside risks are emerging on food prices as Rabi sowing may fall short of the target due to low reservoir levels, patchy rains, and a low base. Furthermore, concerns regarding El Nino, climate changes and volatility in crude oil prices amidst supply disruptions and upward revision in demand forecast pose upside risks to inflation. In this context, the government's measures to ease the supply-side issues need to be keenly monitored. While headline inflation print in the upcoming months may witness a slight uptick on the back of higher food prices and low base, over the course of the year, inflation is expected to be contained within the tolerance band (2%-6%) of the RBI.
- India's CAD is expected to remain close to 1% of GDP for FY24 on the back of a decline in crude oil prices and an increase in services exports. However, it is expected to widen in FY25 and the impact of it could be felt on the exchange rates.
- Net FDI inflows declined in the current fiscal year on the back of moderation in gross FDI and an increase in repatriation. Nevertheless, ECB and FPI inflows seem to be providing support to the INR. In the long term, the inclusion of Indian G-secs in global bond indices is likely to have positive implications for INR. The Balance of Payments' situation is likely to be impacted by movements in FDI, FPI, and net inward remittances.
- The declining core inflation, strong domestic economy and global backdrop turning positive, would provide relief to the RBI's MPC. With the global rate cycle peaking, domestic monetary policy is likely to witness rate cuts in CY24. However, with domestic growth remaining robust and inflation remaining elevated, rate cuts are likely to be shallow. Going forward, crop sowing data and food prices remain important as they are likely among the factors that would guide the RBI on its policy stance in future meetings.
- The Indian government is expected to meet its fiscal deficit target of 5.9% of GDP for FY24 as the robust tax collection and non-tax revenue may offset the shortfall in the disinvestment target. The government is likely to remain on the path of fiscal consolidation in the coming years.
- Globally, with inflation trending downwards and economies starting to slow down, the major central banks are expected to pivot and cut rates in 2024. However, the quantum and timing of rate cuts are still uncertain. Recently, the US FOMC kept the benchmark borrowing rate unchanged at 5.25-5.50%, however, it signalled to cut rates by 75 bps in 2024. This marked a significant shift in the Fed's policy dialogue and further reinforces the view that the current rate hiking cycle has peaked. Going forward, the US may have to also address the substantial fiscal challenges due to escalating debt in the future. With this backdrop, while the yields may moderate in the upcoming months, the higher supply and falling demand of the US Treasuries from large economies remains a key worry for the US bond market.
- Domestically, with the possibility of OMO sales and inflation remaining higher than the RBI's target rate of 4%, yields are likely to remain range-bound in the near term. With a relatively flat yield curve and uncertainty about the timing of the rate cuts, staying invested at the short end could be better from a risk-reward perspective currently. Furthermore, if the yields spike up again, it will give investors a tactical opportunity to invest at the longer end.
- Corporate Bond Funds, which typically have a higher yield to maturities, look a safe bet at the current juncture. Additionally, corporate bond spreads and SDL spreads have widened recently vs the Gsecs, making the case for Corporate Bond Funds and SDL funds. Thus, investors can look at Corporate Bond Funds and Short duration funds for a horizon of 15 months and above.
- Investors who are comfortable with volatility and have a longer horizon of 24 months and above can take exposure to Dynamic Bond Funds and longer-tenor SDL Index Funds.
- For lower volatility and a horizon of 3 months and above, investors can consider Ultra Short Duration Funds and Arbitrage Funds.
- Whereas for a horizon of up to 3 months, investors can consider Overnight Funds and Liquid Funds. Investors can also look at Multi-asset allocation funds for a horizon of 36 months and above. Investors should invest in line with their risk profile and product suitability.

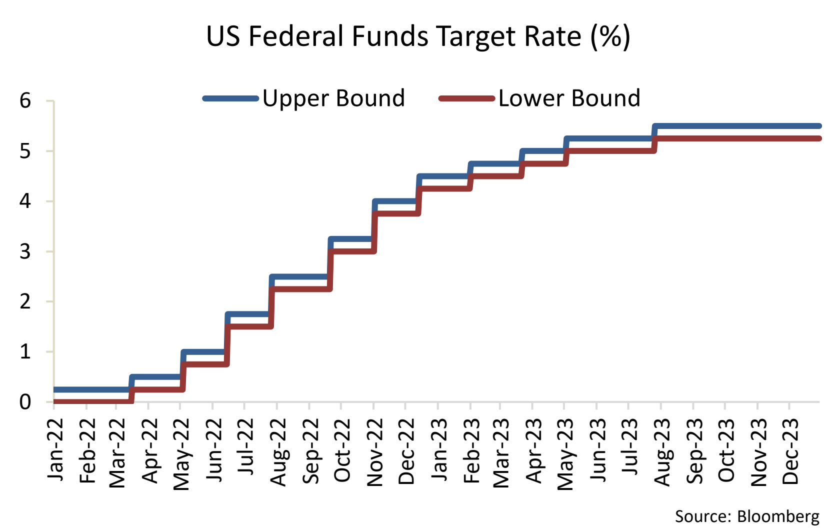
Classification - Restricted

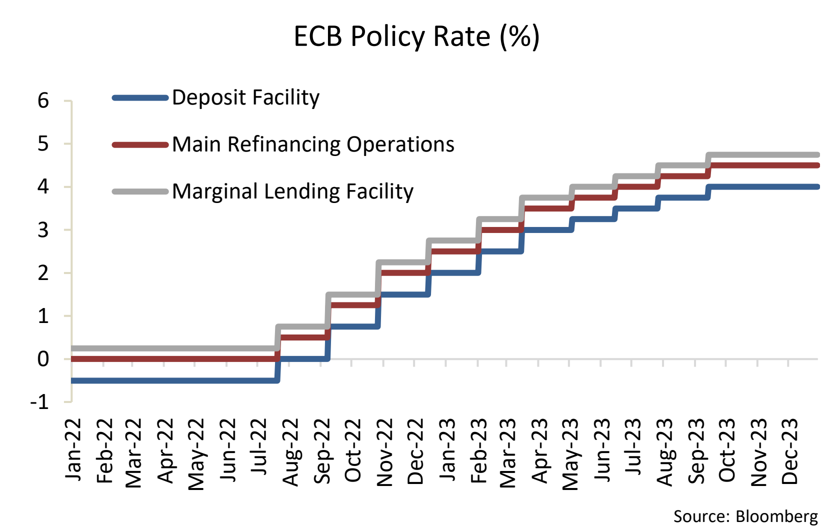
Bond yields remained volatile with a declining bias

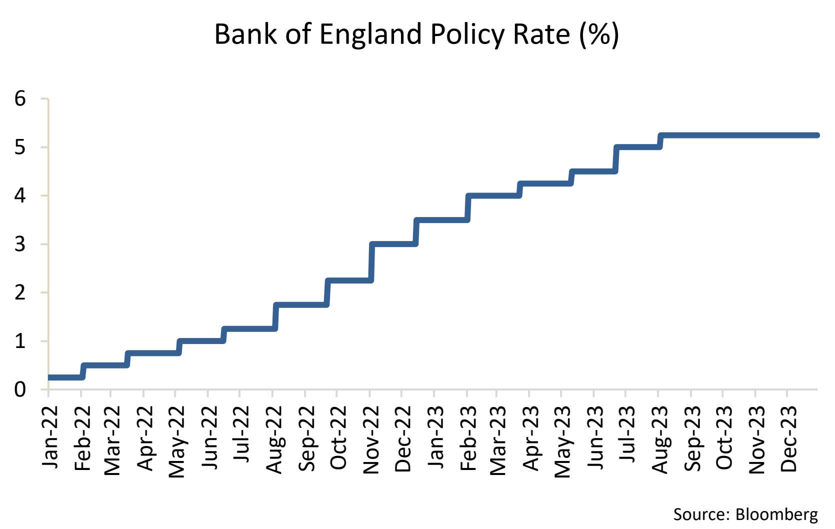


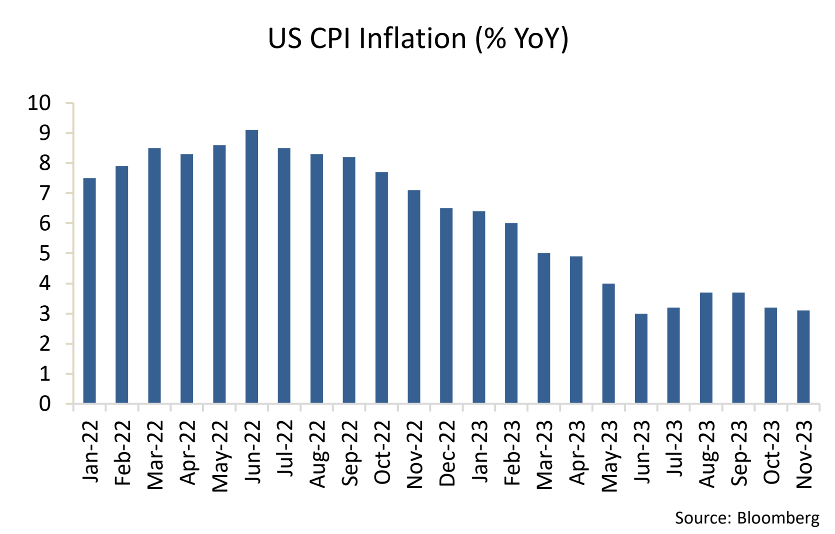
Source: Cogencis

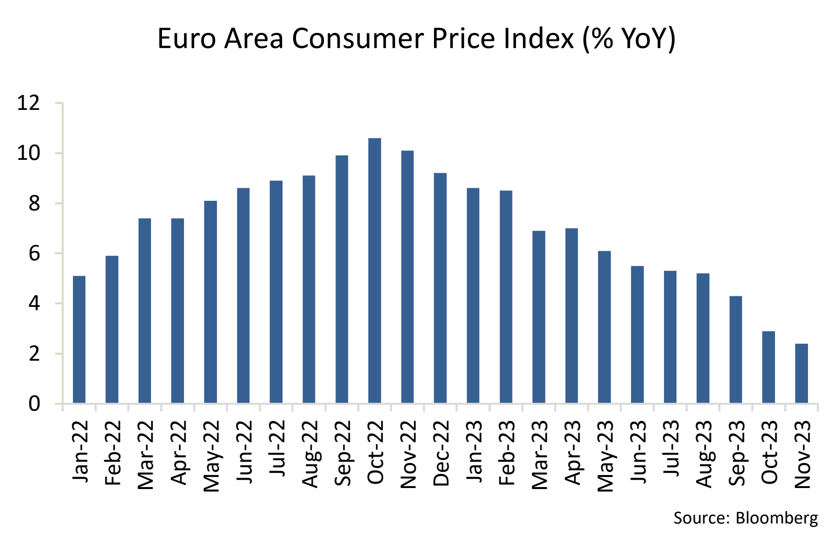
Rising interest rates and tight monetary conditions seem to have weighed down on inflation

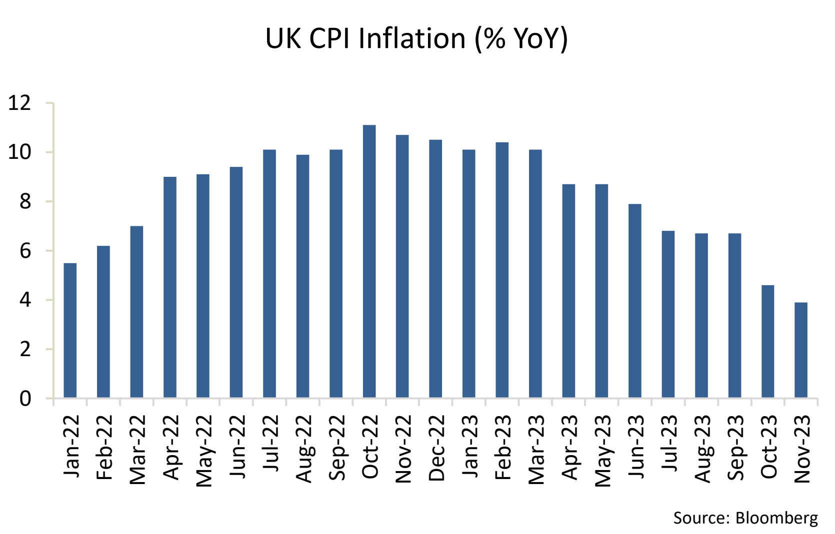






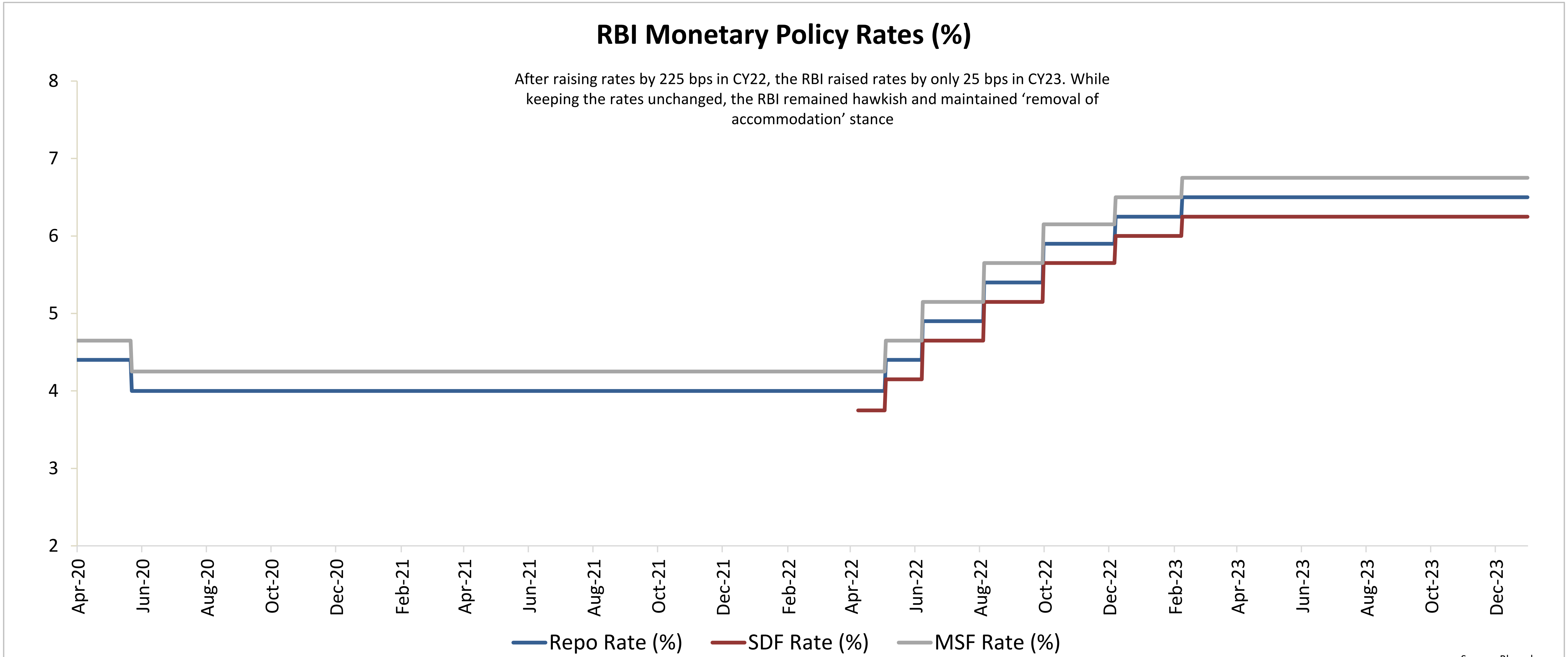






RBI tightened marginally in CY23…

… as inflation trended lower

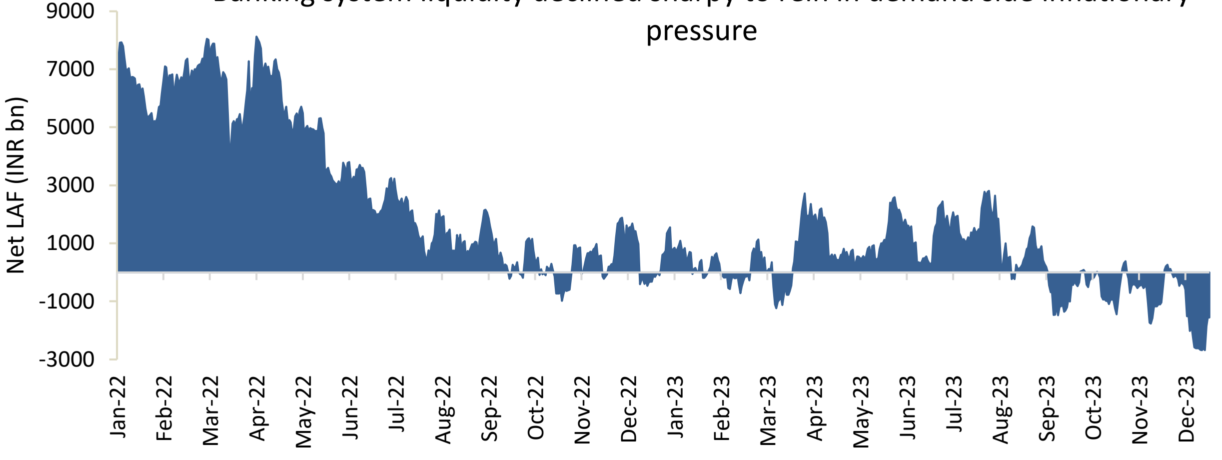


Source: Bloomberg

Classification - Restricted

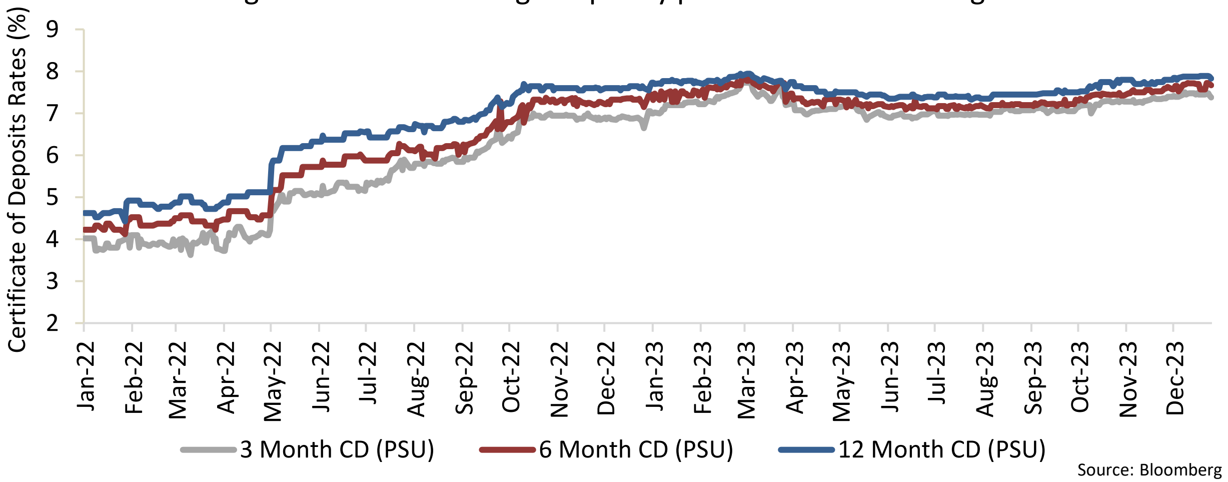
Rates were largely managed through movement in system liquidity

Banking system liquidity declined sharpy to rein in demand side inflationary pressure



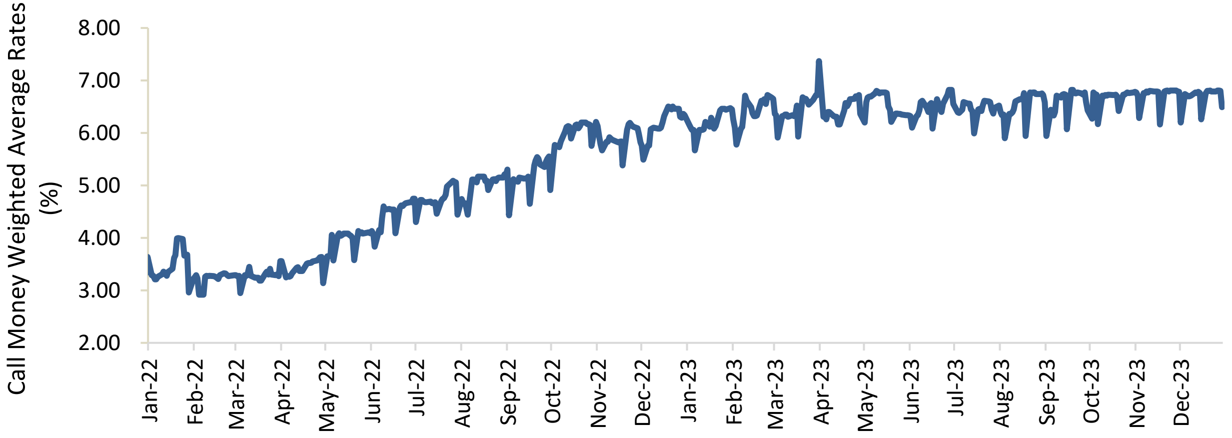
Source: Bloomberg

Higher issuances and tight liquidity pushed the CD rates higher



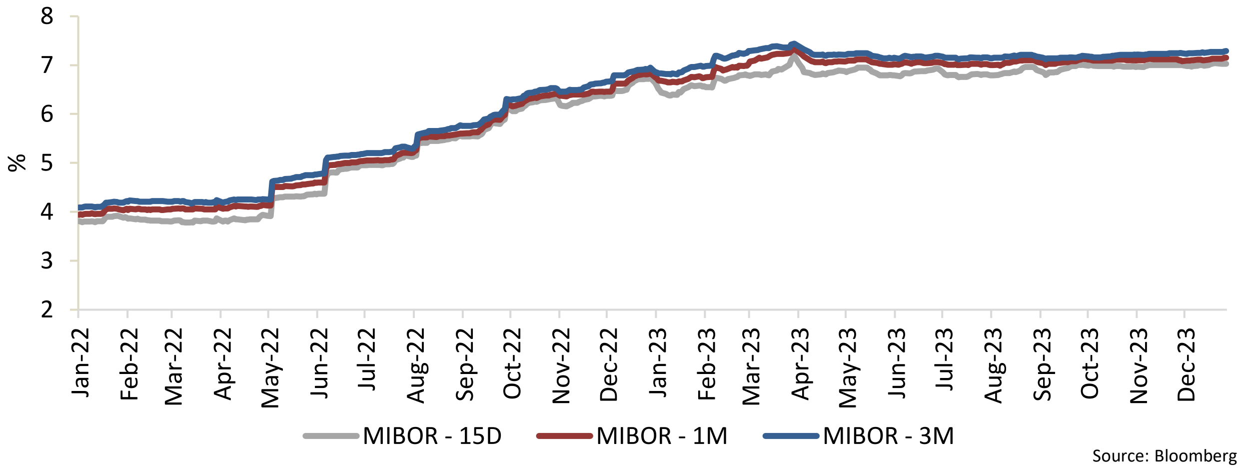
Source: Bloomberg

Tight liquidity pushed the short-term rates higher



Source: Bloomberg

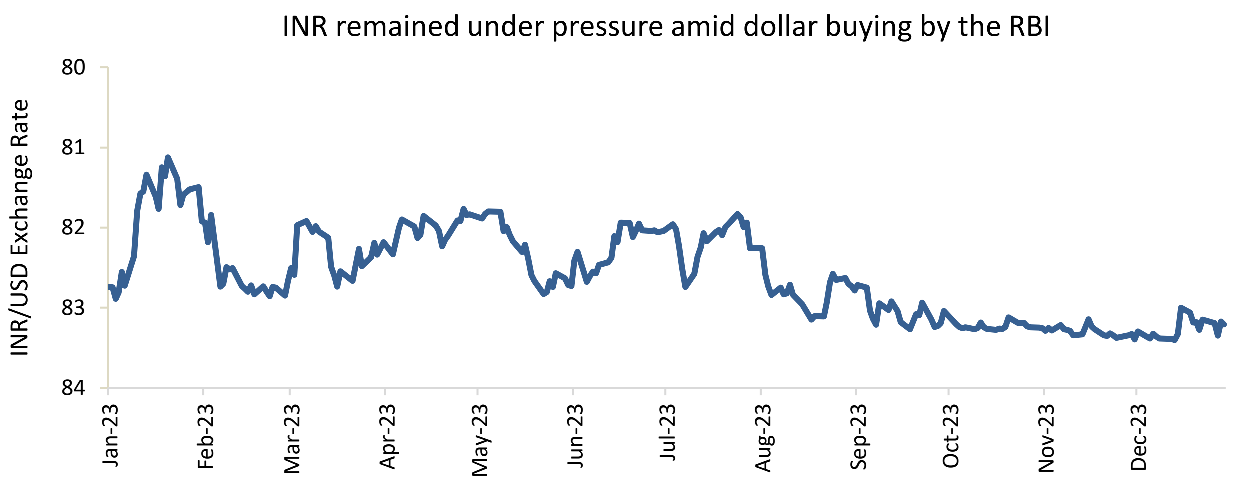
Tightening of liquidity conditions led to higher interbank rates



Source: Bloomberg

Classification - Restricted

With a flat dollar index, a rise in trade deficit and gradual accretion in forex reserves, INR depreciated marginally



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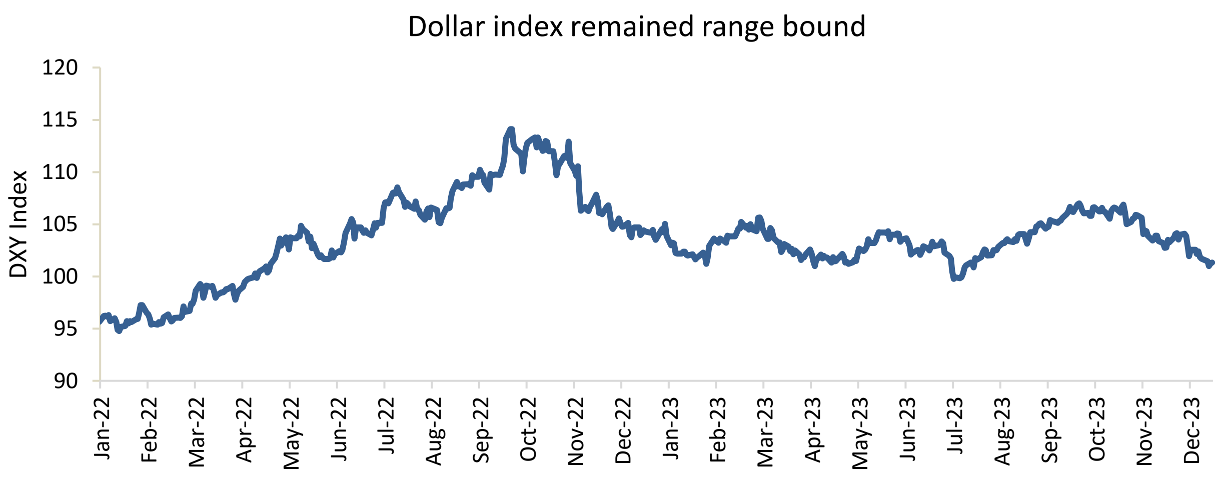

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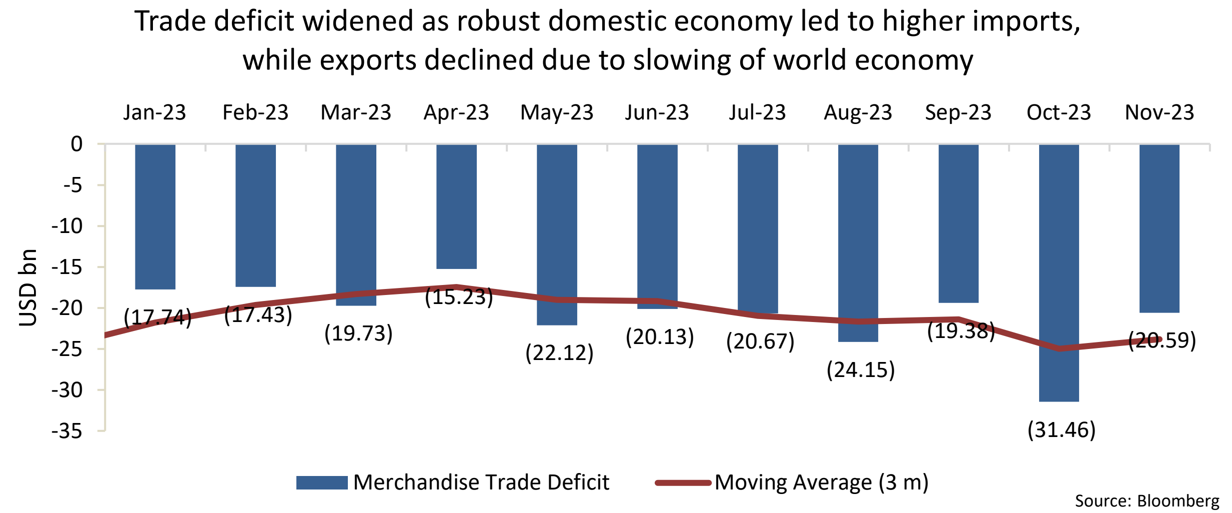

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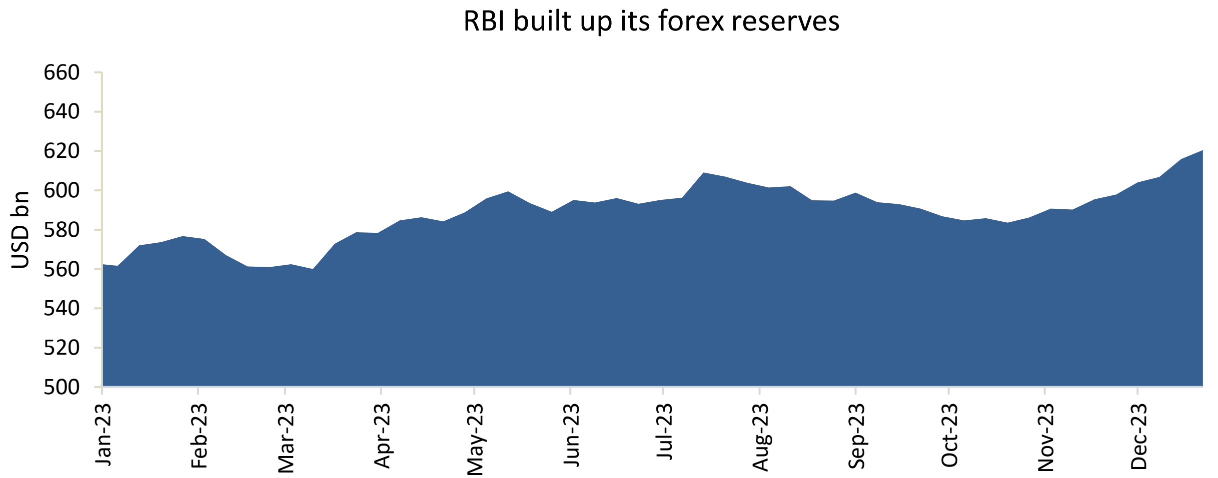
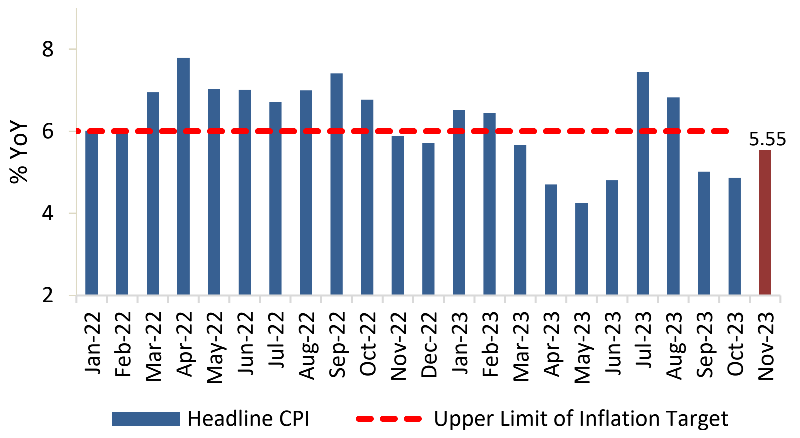


Source: Cogencis

Classification - Restricted

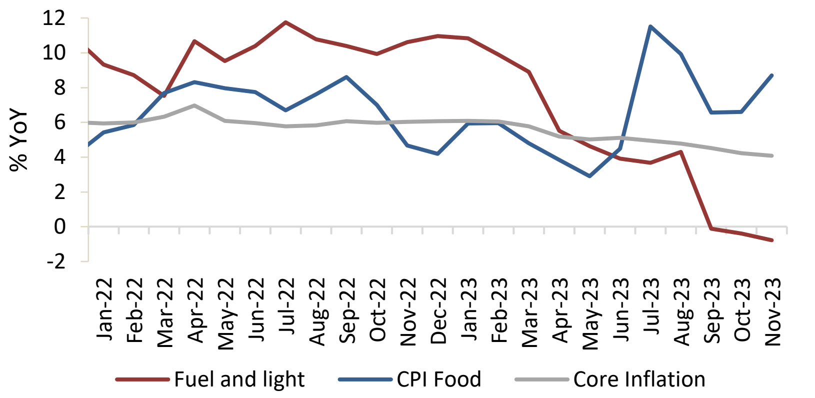
Higher food prices kept the inflation from falling further

Headline inflation was higher than the RBI's target



Source: Ministry of Statistics and Program Implementation

While falling core and energy prices provided relief, volatile food inflation is a cause of concern

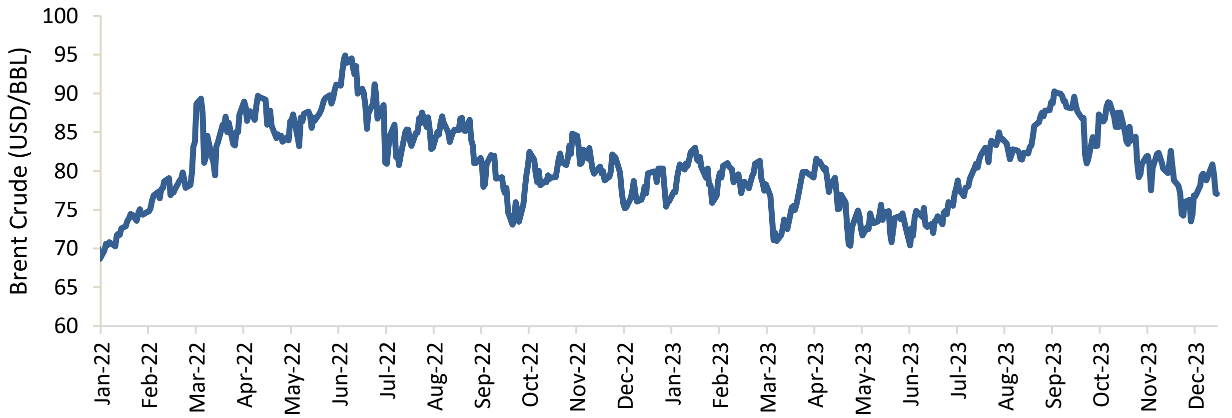


Source: Ministry of Statistics and Program Implementation

Commodities trended lower due to weak global growth

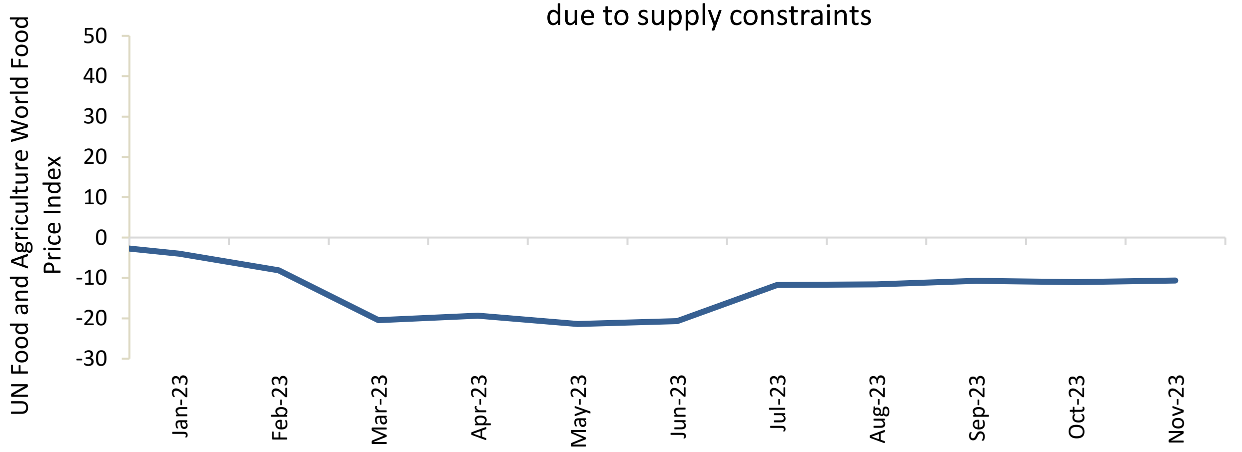
Source: Bloomberg

Crude oil remained volatile due to geo-political tensions



Source: Bloomberg

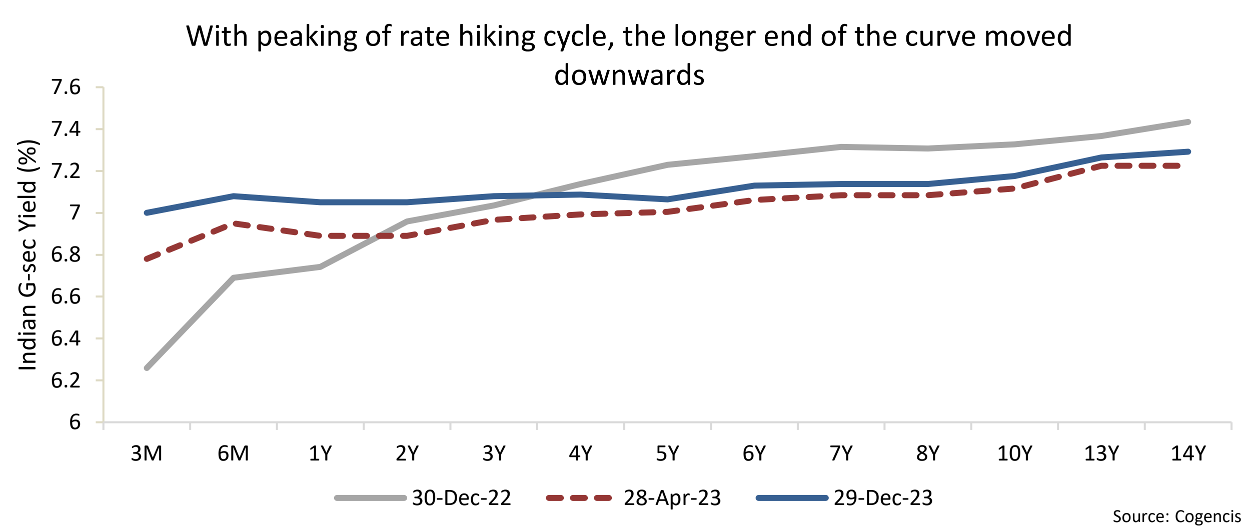
While food prices have remained benign, there are concerns of higher prices due to supply constraints

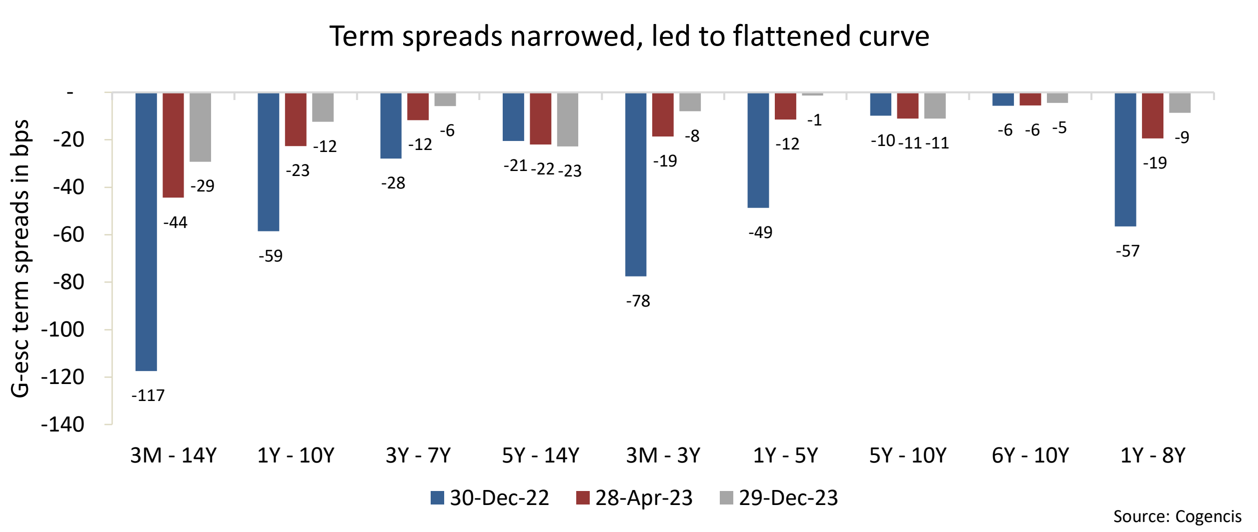


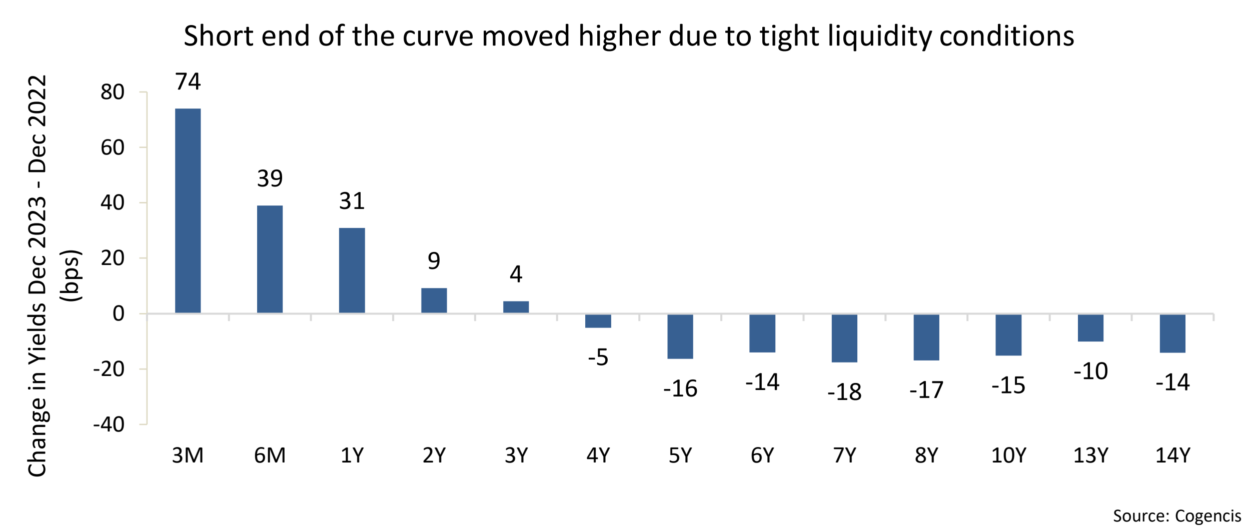
Source: Bloomberg

Classification - Restricted

Tight liquidity pulled the short end of the curve upwards, leading to further flattening of the curve

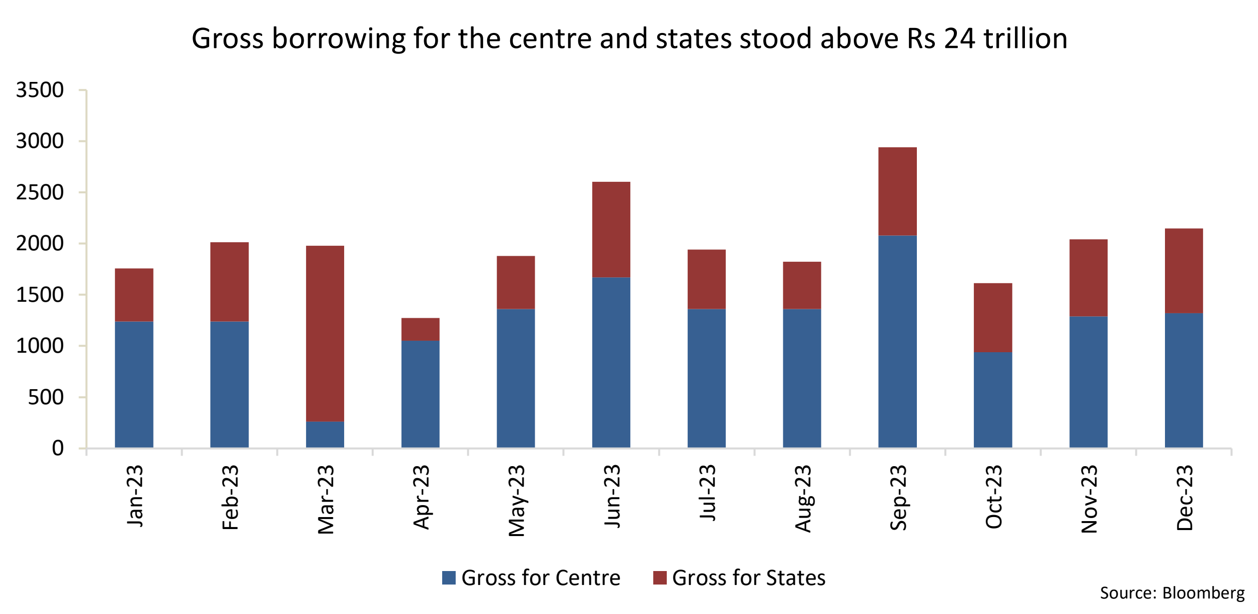


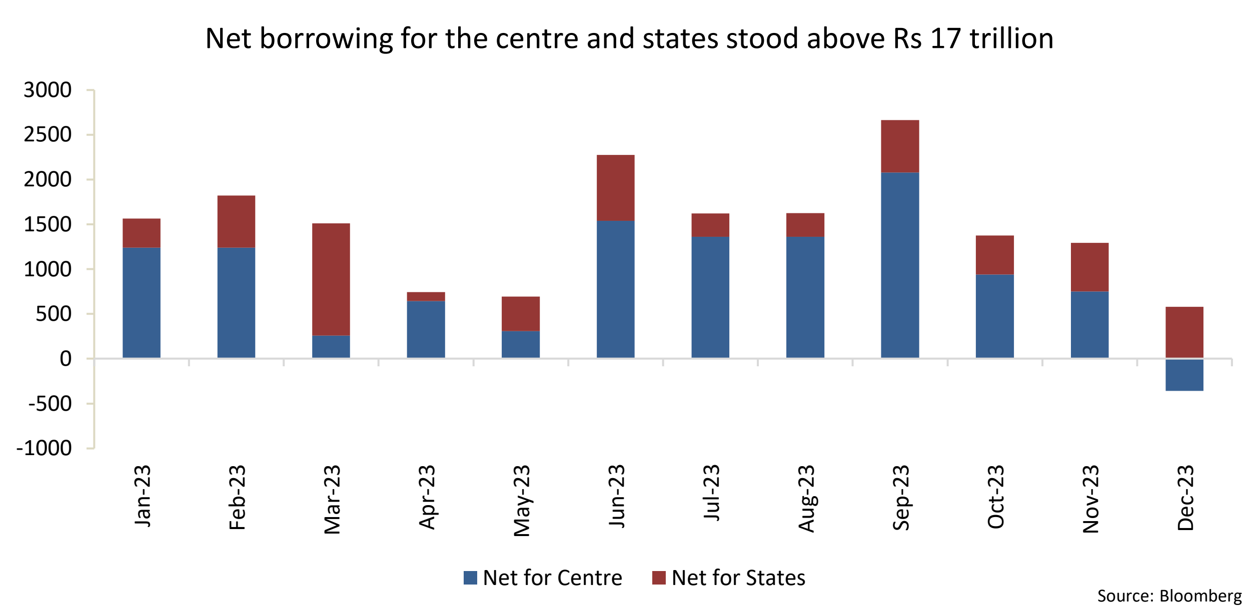




Classification - Restricted

Even with higher borrowing, the supply-demand dynamics remained balanced



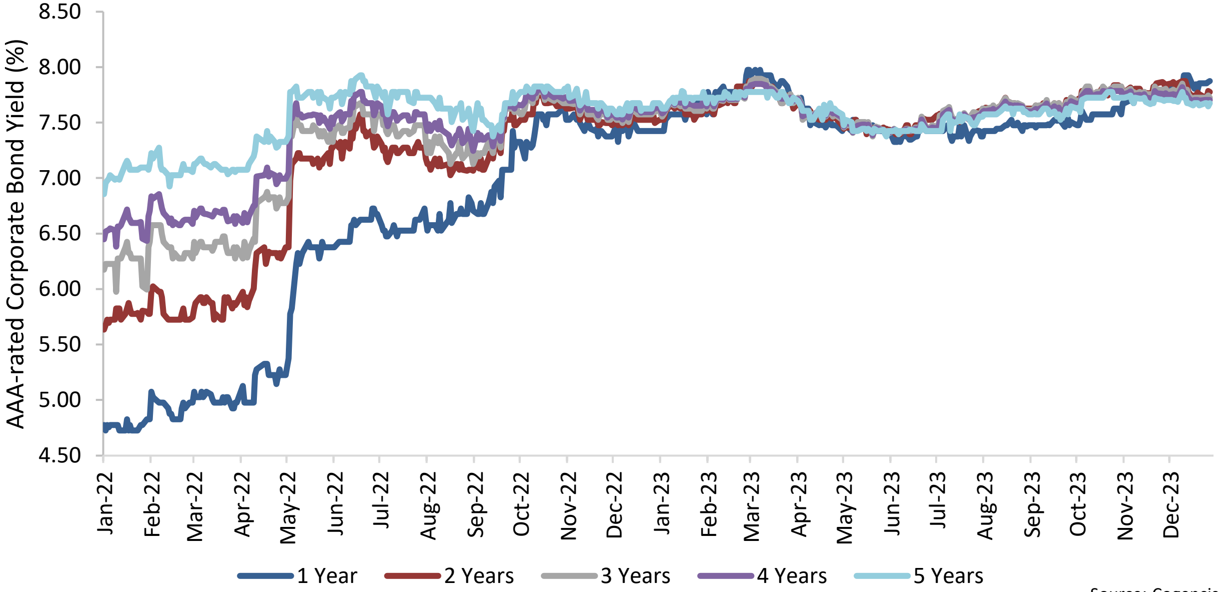


Classification - Restricted

Corporate bond yields Moved in Tandem with G-secs…

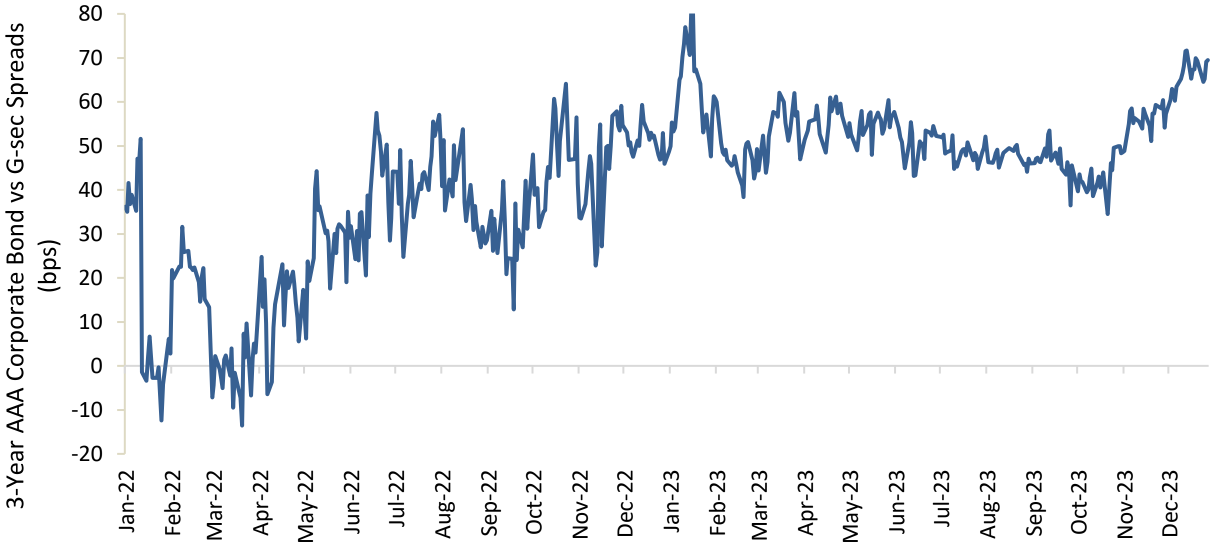
…Bond spreads vs G-sec widened at the end of the year

Corporate bond yields remained range bound and the yield curve remained relatively flat



Source: Cogencis

Spreads remained narrow for the majority of year but widened towards the later part of the year



Source: Cogencis

Expectations from 2024

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We are at the cusp of a pivot in the Domestic Monetary Policy… …However, the quantum and timing of rate cuts is uncertain (1/2)

Monetary Policy

- Policy rate cuts are expected in India from the RBI's MPC in CY24
- With domestic growth remaining robust and inflation remaining above the RBI's target level, rate cuts are likely to be shallow

Inflation

- Inflation is likely to trend lower, but may not fall substantially
- Weather related disruptions could be important to track the food inflation

Yields

- Yields are likely to come-off on the back of liquidity flows due to index inclusion and gradual deceleration in inflation

Liquidity

- RBI may start to ease its stance on liquidity before proceeding with the rate cuts, and the move from Fed is also likely to be tracked
- With inclusion of G-secs in JPMorgan's Government Bond Index-Emerging Markets, liquidity may remain substantial unless the RBI decides to sterilize the inflows.

We are at the cusp of a pivot in the Domestic Monetary Policy…
…However, the quantum and timing of rate cuts is uncertain (2/2)

Yield Curve

- Direction of yield curve may be determined direction of inflation and fiscal deficit

Corporate Bond Spreads

- Bond spreads may widen going forward given the strong credit demand and likely improvement in Private Capex.

Fiscal Deficit

- So far, expectations are that the government may meet its fiscal deficit target of 5.9% of GDP for FY24 on the back of higher tax collections
- For FY25, further deceleration is expected in the fiscal deficit levels

Market borrowings

- In absolute terms the market borrowings could be higher than last year’s borrowing

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