FIRST LIGHT

10 October 2022

RESEARCH

BOB Economics Research | Investment Cycle

Investment may start picking up

BOB Economics Research | Credit Trends

Will credit growth slow down due to repo rate hikes?

BOB Economics Research | Monthly Chartbook

India's growth holding ground

Daily macro indicators

Indicator	05-Oct	06-Oct	Chg (%)
US 10Y yield (%)	3.75	3.82	7bps
India 10Y yield (%)	7.36	7.45	9bps
USD/INR	81.52	81.89	(0.5)
Brent Crude (US$/bbl)	93.4	94.4	1.1
Dow	30,274	29,927	(1.1)
Hang Seng	18,088	18,012	(0.4)
Sensex	58,065	58,222	0.3
India FII (US$ mn)	**30-Sep**	**03-Oct**	**Chg ($ mn)**
FII-D	(310.3)	(0.5)	309.8
FII-E	(186.7)	156.3	343.0

Source: Bank of Baroda Economics Research

SUMMARY

India Economics: Investment Cycle

There could be some good news based on the new investment announcements made by companies in the first half of the year. CMIE data shows that these announcements, which can be read as being investment intentions, have shown a pick-up which augurs well for the investment cycle. These intentions are for the non-government companies but include PSUs.

Click here **for the full report.**

India Economics: Credit Trends

After keeping repo rate unchanged at a record low of 4% for 2 years, RBI announced a 40 bps hike in repo rate in May'22. This was in response to rising inflation and the evolving global economic situation typified by uncertainties that go with war. Since then, RBI has raised repo rate by a cumulative 190 bps (including the 50 bps hike in the policy last week). In response, banks have also announced increases in their respective lending as well as deposit rates.

Click here **for the full report.**

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India Economics: Monthly Chartbook

With major Central Banks (Fed, ECB, BoE) on course to continue hiking rates aggressively, global yields have inched up and fears of global recession have increased. Currencies too have been impacted with GBP, EUR falling steeply and even INR crossing 82/$ mark today. Increase in oil prices following production cuts announced by OPEC+ has refuelled inflationary concerns. In India, ahead of the festive season, while consumption is showing signs of improvement, key risks to recovery remains. Rebound in inflation can dampen the consumer sentiment. Weak global demand can also hurt exports. Further, tight monetary conditions will persist as RBI continues to hike repo rates, in line with other global central banks.

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INVESTMENT CYCLE

07 October 2022

Investment may start picking up

Aditi Gupta
Economist

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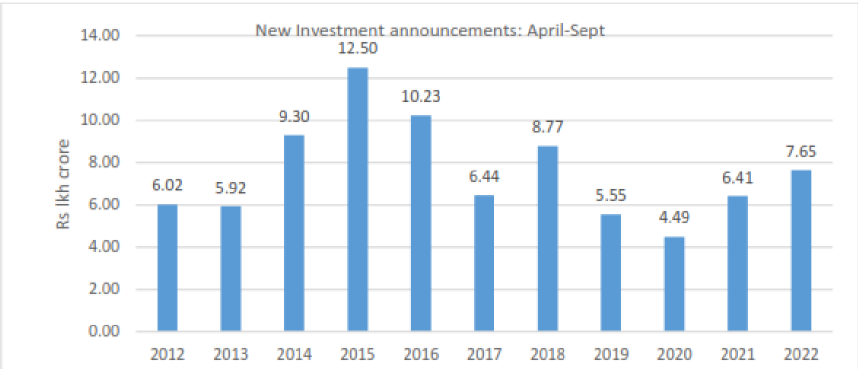

Source: CMIE

The chart above shows that the last 5 years represent a U-shaped curve where investment announcements declined in 2019 and 2020 and then have picked up in the subsequent years. The amount involved of Rs 7.65 lakh crore is lower than that in 2018, though higher than 2021 by 19.3%. The crux will be having these intentions materialize. As the PLI scheme is running there can be hope of a higher rate of fructification of such plans in specific sectors.

Which sectors have shown such intentions?

The table below gives the sectors that have shown interest in investment with their announcements in the last 5 years. The important takeaways are:

- In 2022, chemicals and related products and power accounted for 78% of total announcements made.
- The power sector has witnessed steady announcements over time with the share being high. On an average 23% has been accounted for by this sector.
- The transport sector (which is dominated by airlines and shipping) has witnessed high announcements in the past.
- Construction and real estate too have witnessed high shares in 2018 and 2019 which has however slowed down considerably in the last 3 years. This will be a reflection of new projects being launched by this sector.

CREDIT TRENDS

07 October 2022

Will credit growth slow down due to repo rate hikes?

Aditi Gupta
Economist

Rates inching up: After keeping repo rate unchanged at a record low of 4% for 2 years, RBI announced a 40 bps hike in repo rate in May'22. This was in response to rising inflation and the evolving global economic situation typified by uncertainties that go with war. Since then, RBI has raised repo rate by a cumulative 190 bps (including the 50 bps hike in the policy last week). In response, banks have also announced increases in their respective lending as well as deposit rates.

Table 1 shows that compared with a 140 bps increase in repo rate (before the last rate hike of 50 bps on September 30), deposit rates on term deposits of banks (more than 1 year maturity) has increased by only 40bps. Even in terms of weighted average domestic term deposit rate (WADTDR), the rate hikes are muted at 26bps for SCBs (as of Aug'22). However, within this group, foreign banks have been much more responsive with an 87bps increase in WADTDR.

Table 1: Both lending and deposits rate have inched up since Apr'22

	Change since Apr'22, in bps
Repo rate	190
Deposit rates	
Term deposit rate >1Y (avg.) (as of 23 Sep 2022)	40
WADTDR: SCBs (as of Aug'22)	26
WADTDR: PSBs (as of Aug'22)	22
WADTDR: PVBs (as of Aug'22)	25
WADTDR: Foreign banks (as of Aug'22)	87
Lending rates	
MCLR: Overnight (avg.) (as of 23 Sep 2022)	55
1 Year MCLR: SCBs (as of Sep'22)	50
1 Year MCLR: PSBs (as of Sep'22)	45
1 Year MCLR: PVBs (as of Sep'22)	42
1 Year MCLR: Foreign banks (as of Sep22)	105
WALR: SCBs (as of Aug'22)	41
WALR: PSBs (as of Aug'22)	36
WALR: PVBs (as of Aug'22)	46
WALR: Foreign Banks (as of Aug'22)	68

Source: RBI, Bank of Baroda Research

In terms of lending rates, the transmission is much better. Both in terms of MCLR (+50bps) and WALR (+41bps), interest rates have increased more than the increase in deposits rate (1 year average as well as WADTDR). Here again, foreign banks have been more proactive in passing on the rate hikes to the customers.

India's growth holding ground

With major Central Banks (Fed, ECB, BoE) on course to continue hiking rates aggressively, global yields have inched up and fears of global recession have increased. Currencies too have been impacted with GBP, EUR falling steeply and even INR crossing 82/$ mark today. Increase in oil prices following production cuts announced by OPEC+ has refuelled inflationary concerns. In India, ahead of the festive season, while consumption is showing signs of improvement, key risks to recovery remains. Rebound in inflation can dampen the consumer sentiment. Weak global demand can also hurt exports. Further, tight monetary conditions will persist as RBI continues to hike repo rates, in line with other global central banks.

Festive cheer to strengthen domestic demand: Ahead of the festive season, India's domestic demand is showing early signs of improvement with electricity demand clocking double-digit growth. Pick up in fertilizer sales and MGNREGA work demand also attest to the same. However, some area of concerns are emerging as has been reflected by slowdown in electronic, non-oil-non-gold imports. Auto sales is also marginally lower (MoM basis) but is expected to pick up in the coming month due to festive surge. Furthermore, other indicators such as strong GST collections (Rs 1.4tn mark for 7th month in a row) and credit growth also signal the same. On the agri front, South-West monsoon remained above normal this year and stood at 6% above LPA. Kharif sowing was tad lower (0.8%) compared with last year levels. Sowing of pulses and rice contributed the most to lower sowing. However, with rice stocks remaining above the buffer norm level, prices are less likely to be impacted.

Centre's finances on track: Centre's fiscal deficit (% of GDP, 12MMA basis), settled at 6.4% in Aug'22, up from 6.3%. Compared with BE, fiscal deficit in FYTD23 reached 32.6% of the target versus 31.1% last year. In FYTD23 (Apr-Aug'22), centre's revenue receipts are up by 12.8% compared with 14.7% in Apr-Jul'22. Both direct (28.8% versus 42.7%) and indirect (11.2% versus 10.9%) tax collections have seen normalisations. Indirect taxes are reflecting the impact of inflation. Within direct taxes, both income and corporate tax collections remain healthy. Following front-loading of spending in the earlier months, now overall government expenditure is witnessing marginal slowdown (8.9% versus 12.2%). this is on account of both revenue spending and capex. Going ahead, trajectory of capex spending and GST collections will be key in estimating if there will be any slippage in fiscal deficit.

India's 10Y yield rising: Global yields edged up after th Fed policy as the central bank's projection of Fed funds rates was revised upward much more than expected. US 10Y yield inched up by 64bps. Even in UK, 10Y yield rose sharply amidst concerns over the government's new fiscal plan. In India, 10Y yield rose by 21bps as the RBI raised policy rates by 50bps. We expect a terminal repo rate of 6.5% as RBI hike rates further to tame rising inflation. Incidentally, CPI inflation in Sep'22 is estimated to have increased to 7.3% from 7% in Sug'22.

Pressure on INR: Fed's hawkish than expected guidance drove global currencies sharply lower in Sep'22. INR too depreciated to a record low. Other factors contributing to the weakness in INR include: elevated trade deficit, slowdown in FPI flows and high domestic inflation. Even today, INR opened sharply lower above the 82/$ mark-a new record low. The adverse global environment entails that INR is likely to remain under pressure in the near-term.

Note: The source for all exhibits is 'CEIC and Bank of Baroda' unless otherwise specified

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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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