RESEARCH

BOB Economics Research | Yields

Short-term yield spikes

Consumer Durables

Formal jobs data encouraging

Daily macro indicators

Indicator	19-Sep	20-Sep	Chg (%)
US 10Y yield (%)	3.49	3.56	7bps
India 10Y yield (%)	7.24	7.26	3bps
USD/INR	79.77	79.76	0.0
Brent Crude (US$/bbl)	92.0	90.6	(1.5)
Dow	31,020	30,706	(1.0)
Hang Seng	18,566	18,781	1.2
Sensex	59,141	59,720	1.0
India FII (US$ mn)	**16-Sep**	**19-Sep**	**Chg ($ mn)**
FII-D	738.5	(0.1)	(738.6)
FII-E	(435.6)	91.9	527.5

Source: Bank of Baroda Economics Research

SUMMARY

India Economics: Yields

TBill yields are witnessing quite a bit of volatility off late. Even in today's auction, cut off yield have risen sharply (+16bps: 91 days, +24bps: 182-days and +22bps: 364-days paper). In this study, we have analyzed the trend in movement of yields since May, when the RBI started increasing the repo rate and compared the slopes (gradient) of the trend lines of the 10 year bond and 91 days TBill. The trend lines have moved in different directions during this period. The 10Y bond got comfort from lower oil prices, FPI Debt inflow, signaling of inflation having peaked and also news reports of India's inclusion in the global bond index. On the other hand, borrowing cost of short term papers rose sharply as it is more sensitive to repo hike by RBI and also tighter liquidity conditions in the economy.

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Consumer Durables

- Employment generation in India's formal sector hit a record 1.8mn in July vs. a monthly run-rate of 0.7mn over the past four years, per EPFO
- Jobs data points to growth in the manufacturing and services sectors as well as greater formalisation of the economy
- As rising employment lifts income levels, expect demand for appliances to gather pace; retain HAVL, CROMPTON and POLYCAB as top picks

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YIELDS

21 September 2022

Short term yield spikes

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Economist

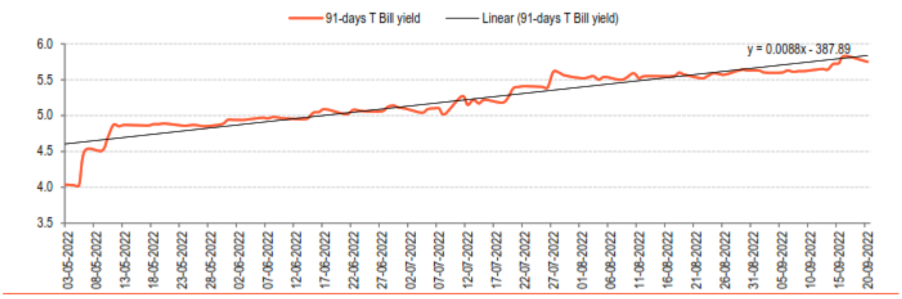
TBill yields are witnessing quite a bit of volatility off late. Even in today's auction, cut off yield have risen sharply (+16bps: 91 days, +24bps: 182-days and +22bps: 364-days paper). In this study, we have analyzed the trend in movement of yields since May, when the RBI started increasing the repo rate and compared the slopes (gradient) of the trend lines of the 10 year bond and 91 days TBill. The trend lines have moved in different directions during this period. The 10Y bond got comfort from lower oil prices, FPI Debt inflow, signaling of inflation having peaked and also news reports of India's inclusion in the global bond index. On the other hand, borrowing cost of short term papers rose sharply as it is more sensitive to repo hike by RBI and also tighter liquidity conditions in the economy.

How have short term rates moved vis-à-vis 10Y GSec?

- TBill rates have started inching up since RBI stepped on to the path of rate hike cycle. With the frontloading of RBI's 140bps rate hike till date, TBill yields have started rising. In comparison to Apr'22 cut off yield, the average cut off yield across all tenor rose by 179bps, while for 10Y Gsec yield the increase is only 31bps. Thus, the borrowing cost for short term papers are increasing at a faster pace compared to longer tenor securities.

- Even the gradient of 91-day TBill curve comes to around 0.0088 which shows that since May'22, when RBI started with the rate hike cycle, the increase in TBill curve is steeper. For 10Y Gsec yield, the gradient comes to -0.0017. Thus, TBill rates seem to be more reflective of the rising rate cycle of RBI.

Fig 1 – 91-days TBill yield movement since May'22



Source: Bloomberg, Bank of Baroda Research

- 10Y GSec yield has exhibited less volatility compared to short term papers. The reason behind has been falling oil prices (17% decline from May'22) and rising debt inflow from FPIs (US$ 255mn since May'22). Apart from this, reports of India's inclusion in the global bond index have also supported market sentiments. Going forward, if government trims down its H2 Borrowing program, some buying spree might further be noticed in the 10Y paper.

CONSUMER DURABLES

21 September 2022

Formal jobs data encouraging

- **Employment generation in India's formal sector hit a record 1.8mn in July vs. a monthly run-rate of 0.7mn over the past four years, per EPFO**
- **Jobs data points to growth in the manufacturing and services sectors as well as greater formalisation of the economy**
- **As rising employment lifts income levels, expect demand for appliances to gather pace; retain HAVL, CROMPTON and POLYCAB as top picks**

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Formal employment up 25% YoY: Employment generation in India's formal sector hit a high of 1.82mn in Jul'22, a ~25% YoY increase, as per provisional payroll data from the Employees' Provident Fund Organisation (EPFO, Fig 1). This is the fourth straight month of formal employee addition in excess of 1.3mn. The latest jobs data also has 28% enrolment by women – their highest labour participation in 12 months.

FY23 could add record jobs: Annualising employment generation data until July, FY23 could add ~18mn jobs (Fig 2) – the highest in the past five years and ~2.2x the jobs created in pre-Covid FY20. We do acknowledge risks to the downside for our estimate given that April-July are typically months when batches of fresh graduates are inducted into companies (per July data, 58% of the new additions to EPFO were in the age group of 18-25).

Rising incomes, formalisation to lift consumption demand: Strong jobs data coupled with the **uptrend in India's housing sector** represent key demand drivers for the consumer durables sector. Rising employment points to growth in the manufacturing and services sectors as well as broader formalisation of the economy away from the unorganised sector. The surge in formal employment among the 18-25 age group signals a growing buyer base of the future for consumer durables. This ties in with the theme of rising income levels in the economy which will bolster demand for appliances.

Maintain preference for sector leaders: We continue to prefer leaders in their respective durables categories – HAVL (TP: Rs 1,500, BUY), CROMPTON (TP: Rs 500, BUY) and POLYCAB (TP: Rs 3,000, BUY).

Recommendation snapshot

Ticker	Price	Target	Rating
AMBER IN	2,266	2,300	HOLD
BLSTR IN	1,081	1,100	HOLD
CROMPTON IN	414	500	BUY
DIXON IN	4,492	4,500	BUY
HAVL IN	1,314	1,500	BUY
ORIENTEL IN	273	310	HOLD
POLYCAB IN	2,604	3,000	BUY
VGRD IN	251	250	HOLD
VOLT IN	904	1,100	HOLD

Price & Target in Rupees | Price as of 21 Sep 2022

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

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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