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FIRST LIGHT

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Daily macro indicators

Ticker	29-Jun	30-Jun	Chg (%)
US 10Y yield (%)	3.84	3.84	0bps
India 10Y yield (%)	7.06	7.12	6bps
USD/INR	82.06	82.04	0.0
Brent Crude (US$/bbl)	74.3	74.9	0.8
Dow	34,122	34,408	0.8
Hang Seng	18,934	18,916	(0.1)
Sensex	63,915	64,719	1.3
India FII (US$ mn)	**27-Jun**	**28-Jun**	**Chg ($ mn)**
FII-D	(226.4)	1,442.4	1,668.7
FII-E	223.4	1,805.1	1,581.7

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: COMMODITY TRENDS

BoB Essential Commodity Index (BoB ECI) showed a slight uptick by 1.2% in Jun'23 on sequential basis, however, much of it is attributed to seasonality. On YoY basis, it continued to moderate. Component wise picture shows edible oil prices are on a downtrend. But some unanticipated shock in terms of vegetables such as onion and tomato prices and upward spiraling of pulses might be forthcoming. We expect CPI to settle between 4-4.3% in Jun'23, before a slight reversal in trajectory from next month onwards owing to fading base.

Click here **for the full report.**

INDIA ECONOMICS: TOMATO-NOMICS

Tomato prices are again on a spiral. On sequential basis, the average retail price of tomato went up by 38.5% in Jun'23. On wholesale basis as well, tomato prices rose by 45.3% in the same period. Against this backdrop, we attempt to capture the underlying demand supply dynamics.

Click here **for the full report.**

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INDIA ECONOMICS: GOVERNMENT BORROWING UPDATE

State governments in Q1FY24 borrowed Rs 1.67 lakh crore from the market, lower than the planned amount of Rs 2 lakh crore, but higher than Q1FY23's Rs 1.1 lakh crore. For the second quarter, 25 states have cumulatively planned to borrow Rs 2.37 lakh crore. Maharashtra and Tamil Nadu are expected to remain amongst the highest borrowers in Q2 as well. Other major states relying significantly on market borrowings include: Andhra Pradesh, Punjab, Rajasthan, Telangana and Haryana. Cost of borrowing in Q1 was the highest for Punjab (which is also most indebted state), while it was lowest for Gujarat (least indebted state).

Click here for the full report.

INDIA ECONOMICS: CURRENCY OUTLOOK

Buoyant FPI inflows and a weaker dollar pushed INR 0.8% higher in Jun'23. Range-bound oil prices also offered some comfort. Uncertainty over the Fed's future course of action amidst moderation in US core PCE and consumer spending led to a fall in DXY in Jun'23. More clarity on Fed's rate action will come from macro data scheduled in the month including PMIs, non-farm payrolls, CPI etc., We expect INR to trade with an appreciating bias in the range of 81.5/$-82.5/$. Positive FPI flows as well as weaker oil prices are likely to support INR.

Click here for the full report.

INDIA ECONOMICS: BONDS WRAP

The reiteration of hawkish tone by central banks in US, Eurozone and UK have led to sell off in the bond market. The OIS curve (EUR-1Y: 3.7% at GBP-1Y: 5.4%) also point that peak in policy rate is not yet over. Even India's 10Y yield rose in consonance with global yields. The domestic yield curve noticed one striking change. The yield on 6month paper moderated while for longer end curve it continued to inch up. Similar thing is noticed in the borrowing cost of these papers. The short end curve was supported to an extent by RBI's pause on interest rates. Liquidity got comfort from RBI's fine tuning operation despite advance tax payments and maturity of debt security of Rs 0.13 lakh crore. We expect India's 10Y yield to trade in the range of 7.05-7.15% in Jul'23. It is expected to trade sideways with upside risk from global yields and downside risk from a comforting inflation print.

Click here for the full report.

INDIA ECONOMICS: FPI FLOWS

Indian economy remains a favored place for investment as has been reflected by strong FPI flows in the past few months. This is likely against the backdrop of stable government polices, robust macro fundamentals, stable inflation and sustainable growth rates. On the other hand, global economies have been witnessing challenges of slower growth, elevated inflation, fears of recession and rate hike cycle by Central Banks. In terms of steady growth, China's economy has also hit some breaks, pushing investors to rely on other countries for better returns. Countries such as India, Japan and South Korea have made most of the gains compared with global counterparts, especially in equity markets.

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POWER

- The Indian solar capacity to reach 100GW in a year from 68GW currently; further ramp up to 280GW likely by 2030
- Indian government is encouraging local manufacturing; industry to become globally competitive in 7-8 years as local value chain develops
- There is concurrent focus on storage technologies, with pumped storage appearing the most viable near term

Click here for the full report.

COMMODITY TRENDS

01 July 2023

How prices look in Jun’23

Dipanwita Mazumdar
Economist

BoB Essential Commodity Index (BoB ECI) showed a slight uptick by 1.2% in Jun’23 on sequential basis, however, much of it is attributed to seasonality. On YoY basis, it continued to moderate. Component wise picture shows edible oil prices are on a downtrend. But some unanticipated shock in terms of vegetables such as onion and tomato prices and upward spiraling of pulses might be forthcoming. We expect CPI to settle between 4-4.3% in Jun’23, before a slight reversal in trajectory from next month onwards owing to fading base.

To get an idea about the calculation of the index, refer to our previous edition of BoB ECI.

Price picture using BoB Essential Commodity Index:

- On MoM basis, BoB ECI has seen a momentum in the past two months. In Jun’23, the index rose by 1.2% from 0.4% increase in May’23. The sequential momentum is attributed to some degree of seasonality, as on a seasonally adjusted basis, BoB ECI inched up by only 0.2% in Jun’23. However on a YoY basis, BoB ECI moderated to 1.2% in Jun’23 from 1.4% in May’23, supported by a favourable base.
- But the breakdown of the index, shows a mixed picture with regard to movement of prices. Amongst the administered 20 commodities, 10 commodities have noticed YoY moderation in prices. The notable ones among them include edible oils such as Sunflower (-28.7% in Jun’23) and Soya oils (-21.6%). Amongst vegetables, potato prices have seen sharp moderation. So is the case with Atta, masoor dal and milk. Price pressure on YoY basis was visible in case of tomato, all other pulses component (except masoor) and sugar.
- The sequential increase is driven by vegetables such as tomato and onion where prices increased by 28.6% and 3.7% respectively in Jun’23.

So where is CPI print headed?

Jun’23 CPI would again be supported by an elevated base of 7%. Apart from this stable international crude price (averaging at around US$ 75/bbl) and decline in international gold price by 2.5% in Jun’23, on MoM basis, would comfort the CPI print. Further reduction in commercial LPG prices and moderation of Kerosene prices also will cushion the fuel and light component of CPI. Apart from this, government’s supply side measures such as consideration of open market sell of wheat and rice and imposing stock limits on wheat; might keep food inflation in check in the near term. We expect CPI to be in the range of 4-4.3% in Jun’23, before a slight reversal in trajectory on account of faded impact of base and unanticipated shock in vegetable prices.

TOMATO-NOMICS

01 July 2023

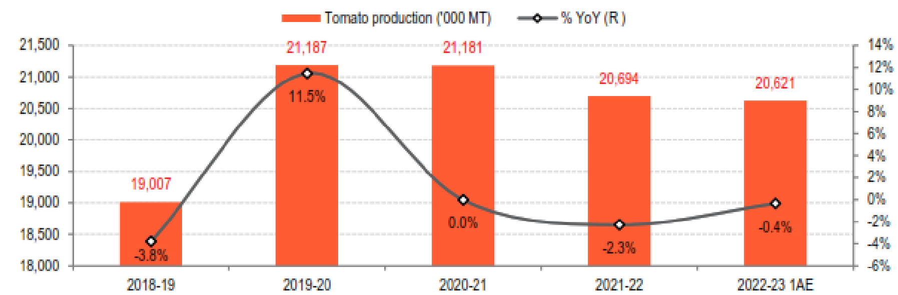
The reason behind spike in tomato prices

Dipanwita Mazumdar
Economist

Tomato prices are again on a spiral. On sequential basis, the average retail price of tomato went up by 38.5% in Jun'23. On wholesale basis as well, tomato prices rose by 45.3% in the same period. Against this backdrop, we attempt to capture the underlying demand supply dynamics.

- The production data shows that tomato production have moderated by 0.4% from 20,694 ('000 MT) in 2021-22 to 20,621 ('000 MT) as per 1st Advance estimates of 2022-23. State wise data reveal that Madhya Pradesh, Karnataka, Andhra Pradesh, Gujarat and Odisha comprise 51.5% of total production of tomato. For States such as Gujarat, production has fallen by 23.9%, and for Tamil Nadu and Chhattisgarh drop in production is ~20%.
- The Rabi harvest season of tomato is Dec-Jun. Thus that crop might be impacted due to heat wave or erratic rainfall, hence there is a sudden upward blip in prices. But with the Jul-Nov arrival of crop, some easing of the trajectory might be seen.

Fig 1. Production data of tomato shows moderation in 2022-23



Source: AGRICOOP, Bank of Baroda Research

Table 1: State wise picture of production

States	Share in production	Production Growth (YoY)					Status of rainfall
		2018-19	2019-20	2020-21	2021-22	2022-23 1AE	
Madhya Pradesh	13.4%	4.0%	8.8%	9.7%	-8.0%	0.1%	Normal
Karnataka	12.6%	-2.5%	35.0%	-24.2%	1.3%	23.1%	Deficient
Andhra Pradesh	11.3%	-8.8%	12.2%	-12.8%	-6.0%	1.5%	Deficient
Gujarat	7.2%	0.7%	4.4%	11.1%	23.7%	-23.9%	Excess Rainfall
Odisha	7.0%	-0.6%	-7.5%	18.7%	-20.0%	25.2%	Deficient
West Bengal	6.1%	0.2%	0.2%	1.1%	-2.0%	0.0%	Normal
Maharashtra	6.0%	-20.8%	20.8%	14.4%	4.5%	-1.2%	Deficient
Tamil Nadu	5.8%	-8.2%	95.5%	-8.8%	11.7%	-26.1%	Normal
Bihar	5.4%	2.4%	0.0%	20.5%	-13.3%	11.2%	Deficient
Chhattisgarh	4.8%	0.9%	9.2%	-5.0%	8.2%	-19.7%	Normal

Source: AGRICOOP, Bank of Baroda Research, States having notable drop in production have been marked in red

- Analyzing the tomato inflation series in CPI shows that unanticipated price shock has resulted in an upswing in vegetable inflation as seen in Fig 2. Further the tomato price spiral is visible in months such as Jun, Sep and Nov; hence there is a seasonal trend (Fig 3) in tandem with the harvesting and arrival of the vegetable. The cycles of price increase are also short lived not exceeding 4-5months generally.

GOVERNMENT BORROWING UPDATE

03 July 2023

Government Market Borrowing Update

Sonal Badhan
Economist

State governments in Q1FY24 borrowed Rs 1.67 lakh crore from the market, lower than the planned amount of Rs 2 lakh crore, but higher than Q1FY23's Rs 1.1 lakh crore. For the second quarter, 25 states have cumulatively planned to borrow Rs 2.37 lakh crore. Maharashtra and Tamil Nadu are expected to remain amongst the highest borrowers in Q2 as well. Other major states relying significantly on market borrowings include: Andhra Pradesh, Punjab, Rajasthan, Telangana and Haryana. Cost of borrowing in Q1 was the highest for Punjab (which is also most indebted state), while it was lowest for Gujarat (least indebted state).

In comparison to average 10Y G-Sec, the yields on SDLs have remained 14-32bps higher in Q1. In case of the Centre, government has borrowed Rs 4.41 lakh crore in Q1, and is expected to raise Rs 4.47 lakh crore in Q2 (as per the H1FY24 calendar). If auctions in Q2 go as per plan, higher supply of papers by both central and state governments in Q2 may exert pressure on yields in the coming months.

Government borrowings

State budgets versus planned: State & UT governments (24) in Q1FY24 had planned to borrow Rs 2 lakh crore. Maharashtra, Tamil Nadu, Andhra Pradesh, Uttar Pradesh and Rajasthan accounted for 51% of the total planned borrowing. These 5 states on an average planned to borrow 21% of their annual budgeted market borrowings. Amongst these, Andhra Pradesh (31%), U.P. (25%) planned to borrow the most in Q1, followed by Maharashtra (21%), Tamil Nadu (17%) and Rajasthan (11%).

Planned versus actual: Out of the planned amount of Rs 2 lakh crore, states ended up borrowing Rs 1.67 lakh crore from the market in Q1. Five states, namely—Maharashtra, Tamil Nadu, Andhra Pradesh, Rajasthan, and Punjab—accounted for 61% of this amount (Rs 1 lakh crore). Barring Maharashtra, other states exceeded their planned borrowing amount. Apart from these, other major states which accounted for 31% of the borrowing (Rs 47,000 crore) included: Telangana, Haryana, Kerala, Uttar Pradesh, Madhya Pradesh, Gujarat and Assam. W. Bengal, Chhattisgarh, J&K, Goa and some N.E states accounted for the remaining balance (Rs 13,350 crore). Puducherry, Tripura and Uttarakhand did not participate in auctions in Q1. Other notable states missing were Bihar, Karnataka Odisha.

Cost of Borrowing: On an average, yield on SDLs (across tenors and states) averaged at 7.38% in Q1, while 10Y G-sec traded at an average of 7.07% during the same period. SDL yields ranged between 7.27-7.45%. Gujarat (7.27%), Himachal Pradesh (7.28%), Maharashtra (7.33%) and Haryana (7.34%) auctioned at the lowest rates. Highest cut-off yield was witnessed in case of states like Punjab (7.45%), Rajasthan (7.42%), W. Bengal, Nagaland, Goa (7.41%), Assam, Andhra Pradesh, and Telangana (7.40%).

CURRENCY OUTLOOK

03 July 2023

INR expected to trade with appreciating bias

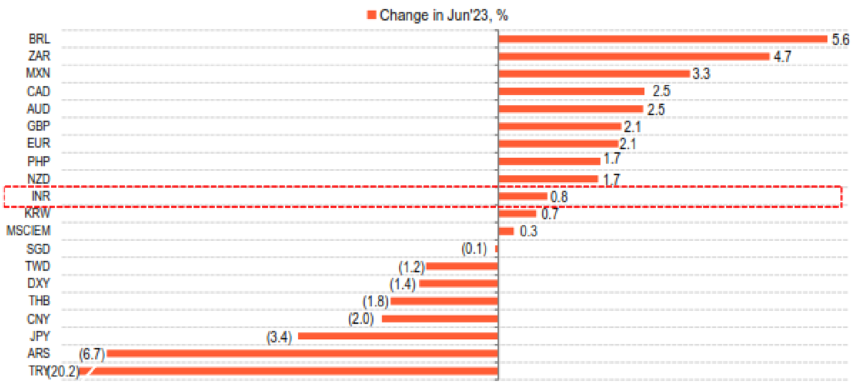
Aditi Gupta
Economist

Buoyant FPI inflows and a weaker dollar pushed INR 0.8% higher in Jun'23. Range-bound oil prices also offered some comfort. Uncertainty over the Fed's future course of action amidst moderation in US core PCE and consumer spending led to a fall in DXY in Jun'23. More clarity on Fed's rate action will come from macro data scheduled in the month including PMIs, non-farm payrolls, CPI etc., We expect INR to trade with an appreciating bias in the range of 81.5/$-82.5/$. Positive FPI flows as well as weaker oil prices are likely to support INR.

Movement in global currencies in Jun'23

Barring a few exceptions, most global currencies ended higher against the dollar in Jun'23. Rate action by respective central banks and the movement in dollar continued to determine the movement of global currencies in the forex markets. While the Fed projections as well as comments made by Fed officials since the last policy meet have been hawkish, a moderation in core PCE index and an unexpected deceleration in consumer spending have led to expectations of a softer stance from the Fed. DXY has seesawed during Jun'23, but ended the month lower by 1.4% as uncertainty remains over the future course of rate action. This has benefitted EM currencies, with BRL and ZAR gaining the most by 5.6% and 4.7% respectively.

Figure 1: Pressure on global currencies



Source: Bloomberg, Bank of Baroda Research | Note: Data as of 30 Jun 2023| Figures in bracket denote depreciation against the dollar

Monetary policy divergence was seen across the world. Amongst major central banks, while Fed kept rates steady, both ECB and BoE hiked policy rates during the month. Interestingly, while ECB hiked policy rates by an expected 25bps, BoE surprised markets by an unanticipated 50bps rate hike. Comments from ECB and BoE suggests more rate hikes are imminent. Bolstering this, data released thereafter showed that inflation in both UK (May'23) and Germany (Jun'23) picked up unexpectedly, after being on a downtrend in the last few months. As a result, both GBP and EUR gained 2.1%.

BONDS WRAP

03 July 2023

Fortnightly review

The reiteration of hawkish tone by central banks in US, Eurozone and UK have led to sell off in the bond market. The OIS curve (EUR-1Y: 3.7% at GBP-1Y: 5.4%) also point that peak in policy rate is not yet over. Even India's 10Y yield rose in consonance with global yields. The domestic yield curve noticed one striking change. The yield on 6month paper moderated while for longer end curve it continued to inch up. Similar thing is noticed in the borrowing cost of these papers. The short end curve was supported to an extent by RBI's pause on interest rates. Liquidity got comfort from RBI's fine tuning operation despite advance tax payments and maturity of debt security of Rs 0.13 lakh crore. We expect India's 10Y yield to trade in the range of 7.05-7.15% in Jul'23. It is expected to trade sideways with upside risk from global yields and downside risk from a comforting inflation print.

Dipanwita Mazumdar
Economist

Global yields in UK and US inched up:

- In the US, macro data continued to paint mixed picture. While housing sales, retail data and labour market conditions continued to build case for some degree of strengthening of the economy. On the other hand, manufacturing activity and inflation expectations data painted a grim picture. Fed Chair hinted at two more rate hike this year. CME Fed watch tool is pricing in an 87.4% probability for 25bps rate hike in the upcoming policy.
- In UK, higher than expected sequential momentum in CPI, improvement in consumer confidence and business sentiments have led its central bank to raise policy rate by 50bps against expectation of 25bps. In the central bank officials' meeting last week, the rhetoric was faster pace of tightening than earlier anticipated.
- On the other hand, BoJ remained steadfast in its policy stance, which supported its yield. In China softening of all major macro prints such as retail sales, industrial production, fixed assets and home prices, pointed towards weaker demand conditions. China's beige book data suggested more stimulus to lift the economy from the current conditions. This led its 10Y yield to moderate in Jun'23.

Table 1. 10Y Yields globally traded mixed in Jun'23 over May'23.

Countries	10Y sovereign yield, 31 May 2023	10Y sovereign yield, 30 Jun 2023	Change in 10Y yield in Jun/May'23, bps
UK	4.18	4.39	21
US	3.64	3.84	19
Korea	3.52	3.66	14
India	6.99	7.12	13
Germany	2.28	2.39	11
Thailand	2.49	2.56	7
Japan	0.44	0.40	(4)
China	2.71	2.64	(7)
Indonesia	6.37	6.26	(11)

Source: Bloomberg, Bank of Baroda Research

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FPI FLOWS

03 July 2023

India visa vis Globe

Jahnavi Prabhakar
Economist

Indian economy remains a favored place for investment as has been reflected by strong FPI flows in the past few months. This is likely against the backdrop of stable government polices, robust macro fundamentals, stable inflation and sustainable growth rates. On the other hand, global economies have been witnessing challenges of slower growth, elevated inflation, fears of recession and rate hike cycle by Central Banks. In terms of steady growth, China's economy has also hit some breaks, pushing investors to rely on other countries for better returns. Countries such as India, Japan and South Korea have made most of the gains compared with global counterparts, especially in equity markets.

Global market trends and macro updates have influenced the global movement of FPI flows. Compared with other countries, India has registered an FII inflow (equity) of US$ 12.2bn for the quarter ended 30 Jun 2023. On the other hand, countries such as South Korea, Taiwan and Indonesia have received far less inflows compared with India. Notably, US and Thailand have seen FPI moving out of their respective countries. However, it is interesting to note that Japan has received a strong FPI inflow to the tune of US$ 66bn.

For Debt flows, US, Japan and South Korea outshines other countries in the fray. India has relatively low debt inflow in comparison with other countries, though it still remains more than Indonesia, Malaysia and Thailand. The uncertainty of not been included in MSCI index has also pushed debt flows farther away.

Table 1: FII Flows across countries-Quarter Till Date (QTD)

Countries	Equity (US$ mn)	Debt (US$ mn)
India	12,204	1607
Indonesia	645	981
Japan	66,074	11,935
Malaysia	(506)	465
S. Korea	292	31,107
Taiwan	3,277	
China*	48,189	(21,158)
Thailand	(1461)	(178)
US**	(15,318)	1,12,950

Source: Bloomberg, Bank of Baroda │ QTD as of Apr-Jun' 2023 Note * For china, date as of 31 Mar 2023. ** For US, date as of 30 Apr 2023

Reasons behind such strong FII flows:

- India's Q4FY23 GDP surprised positively and RBI had retained its growth projection of 6.5% for FY24. Resilience in domestic macro fundamentals has made it attractive to invest and be part of the growth story.

POWER

03 July 2023

Expert call: Sun shining on Indian solar sector

- **The Indian solar capacity to reach 100GW in a year from 68GW currently; further ramp up to 280GW likely by 2030**
- **Indian government is encouraging local manufacturing; industry to become globally competitive in 7-8 years as local value chain develops**
- **There is concurrent focus on storage technologies, with pumped storage appearing the most viable near term**

Vinod Chari | Kirtan Mehta, CFA
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We hosted an investor call with Mr. Subrahmanyam Pulipaka, Chief Executive Officer of National Solar Energy Federation. Key takeaways:

280GW by 2030 likely: India has set a target of 500GW of non-fossil fuel-based energy by 2030, which includes 280GW of solar and 140GW of wind capacities. India currently has ~68GW solar and ~43GW wind capacity as of May 31, 2023. The next 7 years are expected to witness accelerated growth in order to achieve this target. Mr. Pulipaka expects 2030 target to be achieved.

India to leapfrog to 2nd largest manufacturing base globally: The government is supporting local manufacturing with a combination of duties and incentives. It has introduced a 40% custom duty on imported solar modules and 25% on solar cells to support local manufacturing. Further, it has outlined Rs 240bn in production linked incentives (PLI) to support 48.3GW per year of local manufacturing. The PLI support provides a relief of ~15-20%. India is likely to be the second largest producer of both module and polysilicon wafers after China by 2027. Projects are largely on track.

Cost competitive in 7 years: India can be price competitive globally in the next 6-7 years as its entire local value chain (polysilicon, wafers, cells and modules) develops. While China is currently facing over-supply across different components, it is expanding domestic installations to improve market balance.

Some aggressive solar bids may become unviable: Solar projects, awarded before the introduction of import duty in March 2021, are facing execution risk as the bidders not only did not assume potential increase in import tariffs but also bid aggressively. Further, these solar developers were banking on an exemption, which was rejected by the government, making viability of these projects uncertain.

Key players involved in solar manufacturing: Integrated players include Reliance New Solar Energy, Indosol Solar, First Solar, Adani Infrastructure, Shirdi Sai Electricals. Other players include Waaree Energies, Avaada ventures, ReNew Solar, Tata Power Solar, L&T, Vikram Solar, Grew Energy.

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Note: Recommendation structure changed with effect from 21 June 2021

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