FIRST LIGHT

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RESEARCH

BOB Economics Research | Monthly Chartbook

All eyes on Russia-Ukraine war

SUMMARY

India Economics: Monthly Chartbook

Russia-Ukraine war has grappled markets worldwide. Commodity markets faced the direct brunt of it with crude reaching +US$ 120/bbl mark. Even other commodities such as base metals, aluminium, copper, zinc also shot up. The direct ramification will be on India's macrofundamentals. Inflation, current account deficit and fiscal health will be deteriorated. India's 10Y yield continued to rise in Mar'22 and would not shy off from reaching the 7% mark soon. Recently, we have seen economic activity gaining momentum from pick up in pace of high frequency indicators. But current geopolitical tensions do pose downside risk to our growth forecast (7.5% in FY23).

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Daily macro indicators

Indicator	04-Mar	07-Mar	Chg (%)
US 10Y yield (%)	1.73	1.77	4
India 10Y yield (%)	6.81	6.89	7
USD/INR	76.17	76.97	(1.0)
Brent Crude (US$/bbl)	118.1	123.2	4.3
Dow	33,615	32,817	(2.4)
Hang Seng	21,905	21,058	(3.9)
Sensex	54,334	52,843	(2.7)
India FII (US$ mn)	**03-Mar**	**04-Mar**	**Chg ($ mn)**
FII-D	(34.2)	(148.2)	(114.1)
FII-E	(862.6)	(985.1)	(122.5)

Source: Bank of Baroda Economics Research

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Swift recovery: As the country recovered from the 3rd wave of Covid-19, some of the high frequency indicators have been showing early signs of revival. As a result, google mobility indices climbed higher in Feb'22. Improvement in digital payments and electricity demand added further support. However, moderation in electronic imports and dip in PV sales remain a cause of concern. On agri front, overall rabi sowing improved compared with last year. Notably, global food prices continued its upward momentum. Even prices of wheat surged higher in Feb'22 on the back of Russia-Ukraine conflict.

Centre's finances stable: Central government's fiscal health so far remains robust. Net revenues have seen 48% jump in FYTD so far (till Jan'22), while spending has risen by 11.6%. Compared to revised targets set in the budget, net revenue has reached 88% of the target, while spending has reached 75% of the target. We expect spending to pick up in the remaining two months. One key concern on the revenue front remains on the disinvestment side. So far, only Rs 120bn has been collected versus RE of Rs 780bn. A huge part of receipts are dependent upon LIC IPO, which is clouded by uncertainity.

Yields inching up: India's 10Y yield shot up by 12bps in Mar'22. This is on account of elevated oil prices which rose by 22% in Mar'22 due to war between Russia and Ukraine. Higher international oil prices will be translated in the CPI and WPI print. Even RBI's dovish statement and lower than planned borrowing in FY22 could not comfort yields. We expect 10Y yield to touch the 7% mark soon. All eyes will be on the H1 borrowing calendar and its pattern of issuance to give cues about the movement of yield curve.

INR depreciates to a record-low: INR depreciated to a record-low of 76.97/$ on 7 Mar 2022 on the back of elevated oil prices. Persistent FPI outflows, particularly in the equity segment are also weighing on the Rupee. Trade deficit too expanded in Feb'22 due to higher prices of oil. With the Russia-Ukraine conflict still lingering on and oil prices hovering near a 20-year high, we expect INR to remain under pressure. We expect INR to trade in the range of 77-78$ in Mar'22. Over the longer term, pace of Fed tightening and growth impulse will drive INR.

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

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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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