FIRST LIGHT

02 April 2024

RESEARCH

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BOB ECONOMICS RESEARCH | INDIA EQUITY MARKET

Year End: Equity market performance

Daily macro indicators

Indicator	27-Mar	28-Mar	Chg (%)
US 10Y yield (%)	4.19	4.20	1bps
India 10Y yield (%)	7.07	7.06	(1bps)
USD/INR	83.38	83.40	0.0
Brent Crude (US$/bbl)	86.1	87.5	1.6
Dow	39,760	39,807	0.1
Hang Seng	16,393	16,541	0.9
Sensex	72,996	73,651	0.9
India FII (US$ mn)	**26-Mar**	**27-Mar**	**Chg ($ mn)**
FII-D	297.8	173.0	(124.8)
FII-E	(380.4)	485.1	865.5

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: BONDS WRAP

How India's 10Y yield have moved in FY24: The trajectory of India's 10Y yield in FY24 has been interesting. The first decline in yield occurred in May'23 as RBI went in for a pause going against market expectation of a 25bps hike in Apr'23. This, added with comfortable liquidity conditions, has also supported yields. However, the momentum of downswing was short lived and since May'23 India's 10Y yield have risen considerably, peaking in Sep'23, where it exhibited the highest volatility amongst all the months of this current financial year. This was owing to RBI's surprise announcement of OMO sale in its policy to manage underlying liquidity conditions of the economy. But like the previous fall, even the increase was short lived and notably since Oct'23, 10Y yield has been on their downward journey. A lot of factors impacted this movement of India's 10Y yield in FY24, which is illustrated below.

Click here **for the full report.**

INDIA ECONOMICS: CURRENCY UPDATE

INR depreciated by 0.6% in Mar'24, reversing the gains it made in the last 3-months. With this, the INR ended FY24 1.5% lower. This was much better than last year when it had depreciated by 7.8%. A favorable domestic as well as global landscape along with efficient management by the RBI, ensured that the depreciation in INR was much more orderly. With Fed rate cuts expected to begin from Jun'24, dollar strength is likely to wane, which would be a tailwind for INR. This along with robust foreign inflows and comfortable trade deficits will ensure that INR trades with an appreciating bias in FY25. We expect INR to trade in a narrow range of 82.50-83.50/$. At a record US$ 642.6bn, RBI's foreign exchange reserves are more than enough to cushion the rupee against any volatility.

Click here **for the full report.**

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INDIA ECONOMICS: INDIA EQUITY MARKET

In FY24, we observed that Indian equity markets (Sensex for the purpose of our analysis) was one of the best performing markets after Japan's Nikkei and US' S&P 500. For comparison purpose, we assumed Mar'23 to be the base and analysed performance during the year. Sector-wise, Realty, Utilities and Power sector buoyed the growth. Key reason for India's equity market outperforming others lies in the strength of its domestic economy (fastest growing major economy) and resultant net FII inflows in the equity segment. Going forward, as major Central Banks begin to cut rates this year, other global equity markets may also post significant gains. Domestically, we remain confident that GDP growth will settle in the range of 7.8% in FY25, buoyed by consumption and investment demand. This will be positive for equity markets as well.

Click here for the full report.

BONDS WRAP

30 March 2024

Fortnightly review

Dipanwita Mazumdar
Economist

How India's 10Y yield have moved in FY24: The trajectory of India's 10Y yield in FY24 has been interesting. The first decline in yield occurred in May'23 as RBI went in for a pause going against market expectation of a 25bps hike in Apr'23. This, added with comfortable liquidity conditions, has also supported yields. However, the momentum of downswing was short lived and since May'23 India's 10Y yield have risen considerably, peaking in Sep'23, where it exhibited the highest volatility amongst all the months of this current financial year. This was owing to RBI's surprise announcement of OMO sale in its policy to manage underlying liquidity conditions of the economy. But like the previous fall, even the increase was short lived and notably since Oct'23, 10Y yield has been on their downward journey. A lot of factors impacted this movement of India's 10Y yield in FY24, which is illustrated below.

Factors impacting India's 10Y yield:

1. **Movement of India and US 10Y yield:** Till Oct'23, the pace of increase in US 10Y yield has been far higher compared to modest movement in India'10Y yield, thus reducing the spread between India and US 10Y yield. Post Oct, with build up expectations of an easing cycle by Fed supported by some degree of softening of US inflation and labour market data, the spread between India and US 10Y yield picked up.

   However, it could not be sustained due to evolution of data driven uncertainty surrounding Fed's future course of action. Interestingly, the spread data suggests that the current level is far below the long run average. Going forward, a calibrated approach may be the desired choice for both central banks (India and US) and at least in the near term, returning to the mean reversion levels doesn't seem feasible.

2. **Movement of India's 10Y yield and domestic liquidity:** The evolution of domestic liquidity in FY24 has been interesting with RBI resorting to frequent liquidity management through its VRRR and VRR window. Till Aug'23, liquidity has been at a comfortable surplus of above Rs 1 lakh crore. But the higher pace of credit growth (with the pickup in domestic growth conditions) compared to deposit growth, has resulted in tighter liquidity conditions towards H2 of FY24, where it moved to deficit from surplus. This initially exerted pressure on yields, but RBI's nimble liquidity management approach has arrested further rise in yields.

CURRENCY UPDATE

01 April 2024

Fortnightly forex review

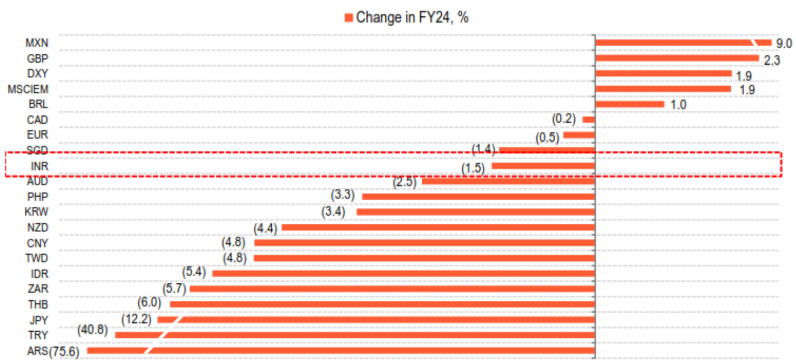
Aditi Gupta
Economist

INR depreciated by 0.6% in Mar'24, reversing the gains it made in the last 3-months. With this, the INR ended FY24 1.5% lower. This was much better than last year when it had depreciated by 7.8%. A favorable domestic as well as global landscape along with efficient management by the RBI, ensured that the depreciation in INR was much more orderly. With Fed rate cuts expected to begin from Jun'24, dollar strength is likely to wane, which would be a tailwind for INR. This along with robust foreign inflows and comfortable trade deficits will ensure that INR trades with an appreciating bias in FY25. We expect INR to trade in a narrow range of 82.50-83.50/$. At a record US$ 642.6bn, RBI's foreign exchange reserves are more than enough to cushion the rupee against any volatility.

How did INR perform vis-à-vis other global currencies in FY24?

INR ended FY24 lower by 1.5%, after depreciating by 7.8% in FY23. It must be noted that in the same period, DXY has strengthened by 1.9%. Hence, a stronger dollar can explain much of the decline in the rupee. In fact, a stronger dollar has weighed on almost all major currencies in FY24. Almost all major EM currencies have depreciated against the dollar, with currencies such as Turkish Lira (TRY) and Argentinian Peso (ARS) depreciating sharply. While there were country specific idiosyncratic factors at play, a stronger dollar did weigh on most EM currencies.

Figure 1: Movement in global currencies in FY24



Source: Bloomberg, Bank of Baroda Research | Note: Data as of 29 Mar 2024 | Figures in brackets indicate depreciation against the dollar

When compared with other major global currencies, INR has performed better. The median depreciation in the above basket of currencies was 4.6%, which was much higher than the depreciation seen in INR. On the other hand, currencies such as CNY and JPY have depreciated more than the median depreciation.

INDIA EQUITY MARKET

01 April 2024

Year End: Equity market performance

Sonal Badhan
Economist

In FY24, we observed that Indian equity markets (Sensex for the purpose of our analysis) was one of the best performing markets after Japan's Nikkei and US' S&P 500. For comparison purpose, we assumed Mar'23 to be the base and analysed performance during the year. Sector-wise, Realty, Utilities and Power sector buoyed the growth. Key reason for India's equity market outperforming others lies in the strength of its domestic economy (fastest growing major economy) and resultant net FII inflows in the equity segment. Going forward, as major Central Banks begin to cut rates this year, other global equity markets may also post significant gains. Domestically, we remain confident that GDP growth will settle in the range of 7.8% in FY25, buoyed by consumption and investment demand. This will be positive for equity markets as well.

India versus Global Markets:

In FY24 (Apr'23-Mar'24), India's Sensex was one of the best performing markets amongst other major indices. Compared with Mar'23, Sensex was up by 24.9% during the year (till 28 Mar 2024), only behind Nikkei (+44%) and S&P 500 (+27.9%). Dow Jones was up by 19.6%, while FTSE registered smallest gain of 4.2% during this period. On the other hand, Hang Seng index fell by (-) 18.9% during FY24.

The chart below shows that, Nikkei and Sensex throughout the year performed equally well, and only toward the end of Dec'23/beginning of Jan'24, Nikkei surged significantly as buoyed by stronger corporate performance, weaker Yen and FII inflows into equity segment. Interestingly, even S&P 500 closely tracked gains in Sensex and only marginally surpassed our domestic index towards the end of Feb'24. Increased expectations of a rate cut by US Fed in Jun'24 has supported gains made in tech-heavy S&P 500. Apart from Hang Seng, FTSE has been a significant under performer as elevated inflation and uncertainty around BoE's rate cut timing has kept investors on edge. Also since investors were giving preference to tech stocks (S&P) more than financial, energy, and materials stocks (41% weight in FTSE versus 16% weight in S&P) is also another reason why UK's stock market has seen muted growth. However, energy prices rebounding maybe positive for FTSE in the coming months.

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Note: Recommendation structure changed with effect from 21 June 2021

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