NETRA

Early Warning & Signals Through Charts

February 2022

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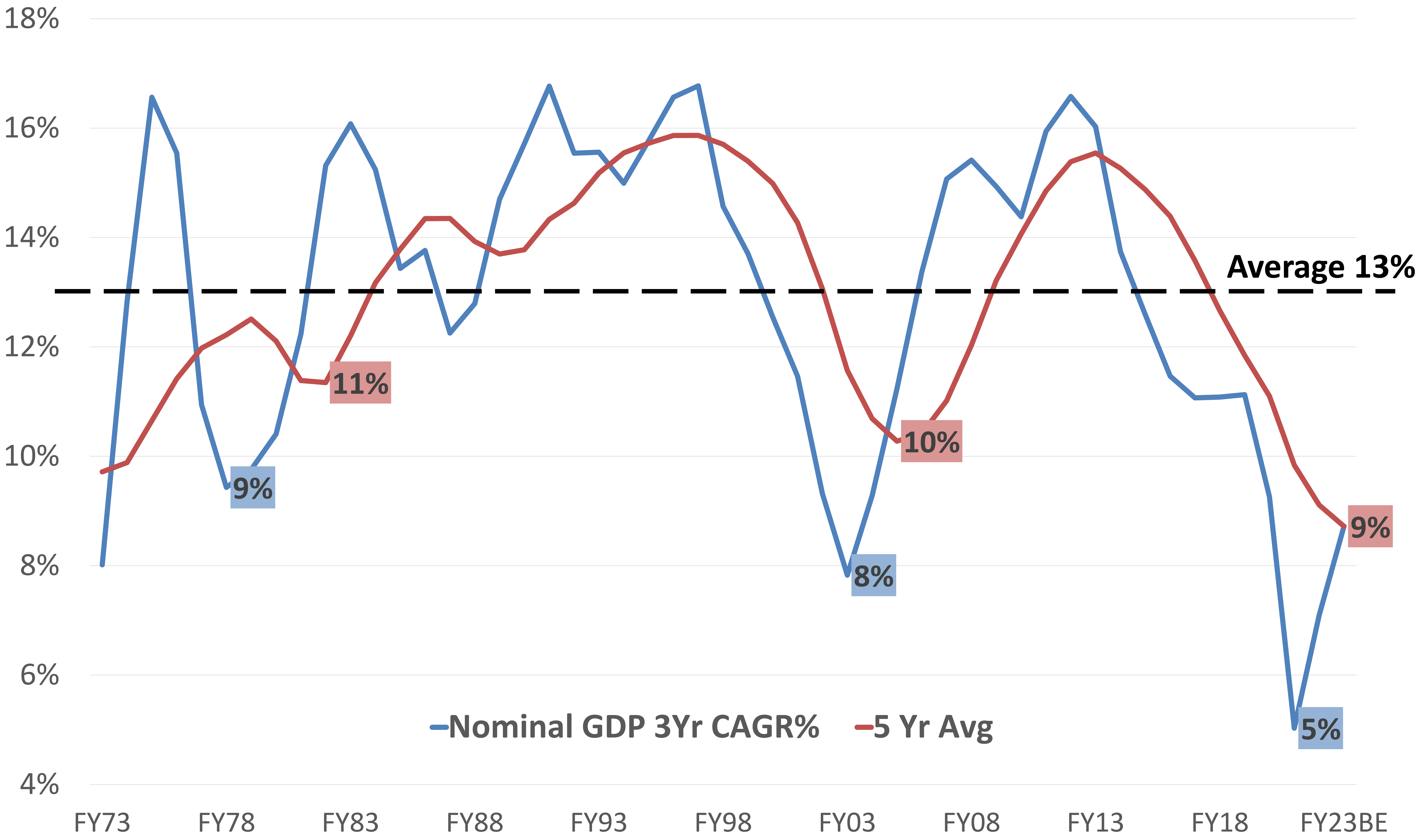
India Growth Reverting To Mean

India's nominal GDP (Real growth + Inflation) has been trending down for nearly 10 years now. The pandemic caused the growth to slump and a recovery has set in.

With most sectors of the economy now trying to normalize, growth is reverting back to is mean. But the mean itself has fallen over the last 10 years.

After the volatile recovery in FY22 and normalized recovery in FY23 it is likely that India's nominal growth resets at a number lower than its average of 13%.

But who's complaining? It's one of the best in the world.



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Source: CMIE, Budget Documents as on 1st Feb 2022

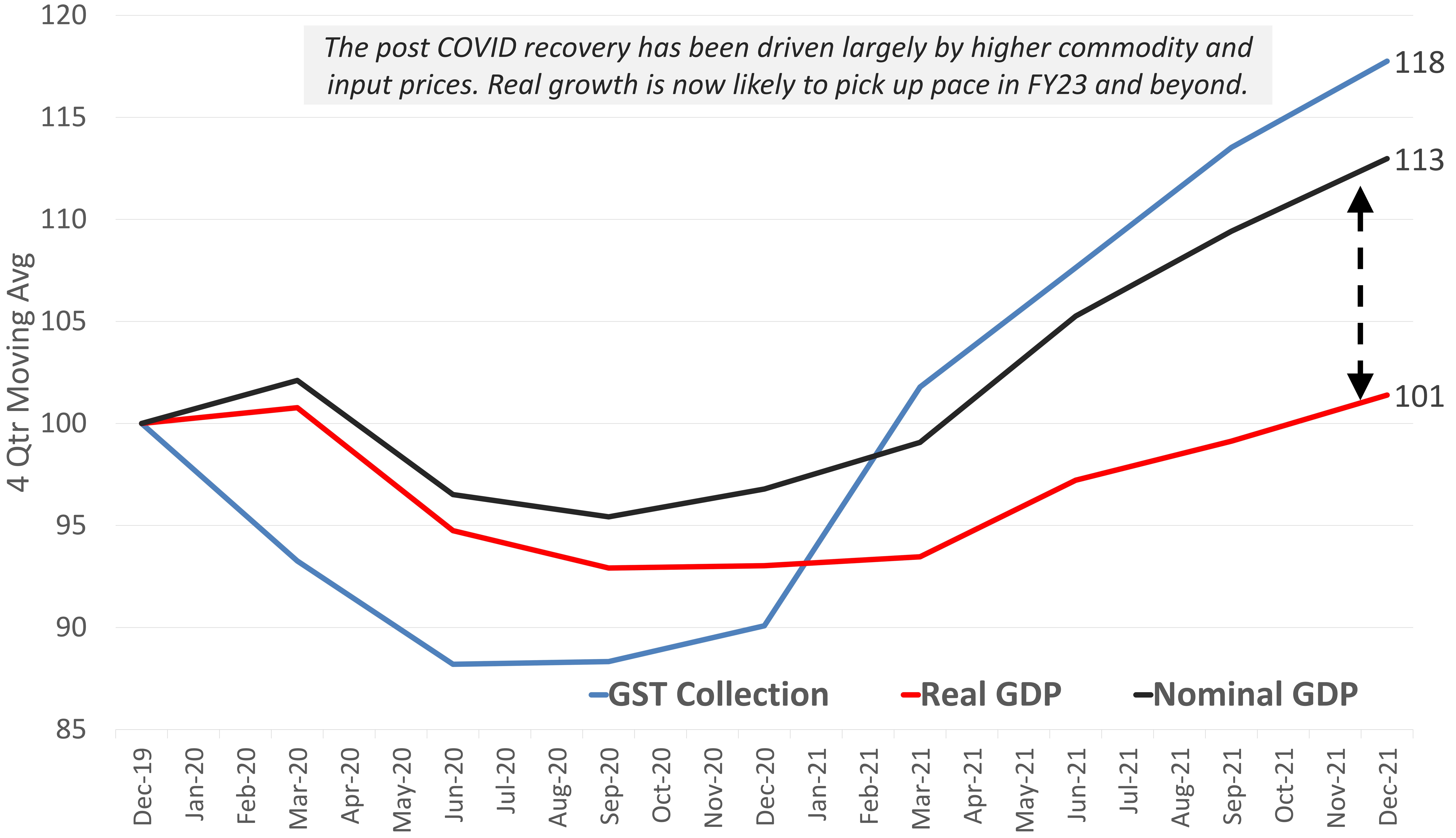
Higher Prices Led Growth To Real Economic Growth?

A massive rally in commodity prices raises the prices of all goods. But the volume growth is contingent on real economic recovery.

Since the pandemic, India's economic growth has suffered significantly. The real GDP (GDP at constant prices) remains flat over the last two years.

With FY23 likely to see a significant reduction in pandemic led disruption the real gdp is likely to see a revival.

This is positive for core sectors like Auto, infra and engineering.



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Source: CMIE; DSP Estimates Data as on 31st Jan 2022

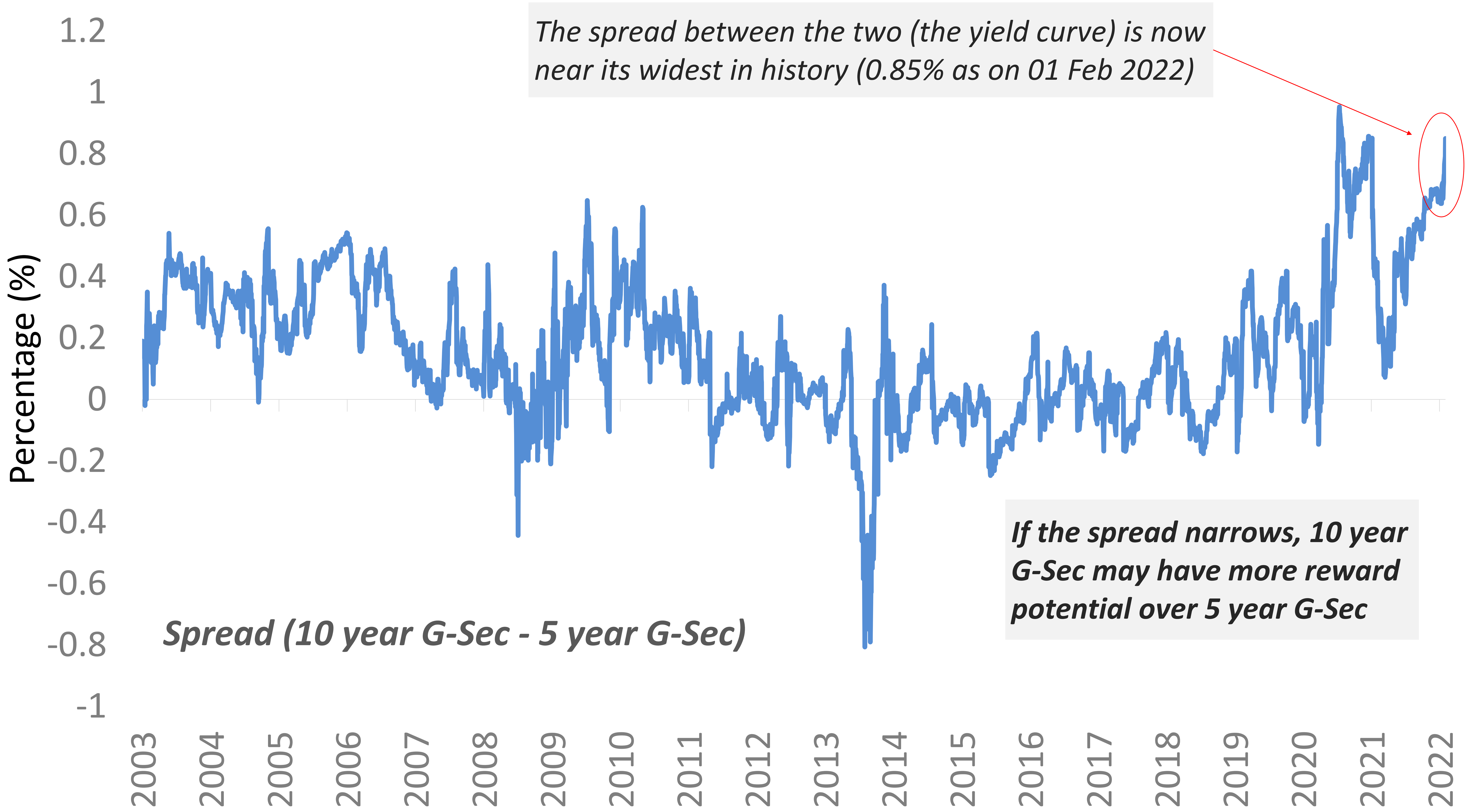
Steep, Steeper, Steepest – What next?

Post the budget announcement, the 10 year Government Securities (G-Sec) yield rose sharply while the impact on the 5 year G-Sec yield wasn't much. This has lead to the spread between the 10 year G-Sec yield & the 5 year G-Sec yield near to its all time high. Due to higher government borrowing the 10 Year Gsec rates are high.

What next ?

If RBI begins to raise rates or manages the borrowing program well, the curve will begin to loose its steepness hence there will be subdued impact on long term rates in near future. Short term rates may go up, while long term rates may not move much.

Advantage 10 Yr GSec Bonds



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Source: Bloomberg; Data as on 01st Feb 2022

Can Small Savings Rescue High Gross Borrowing?

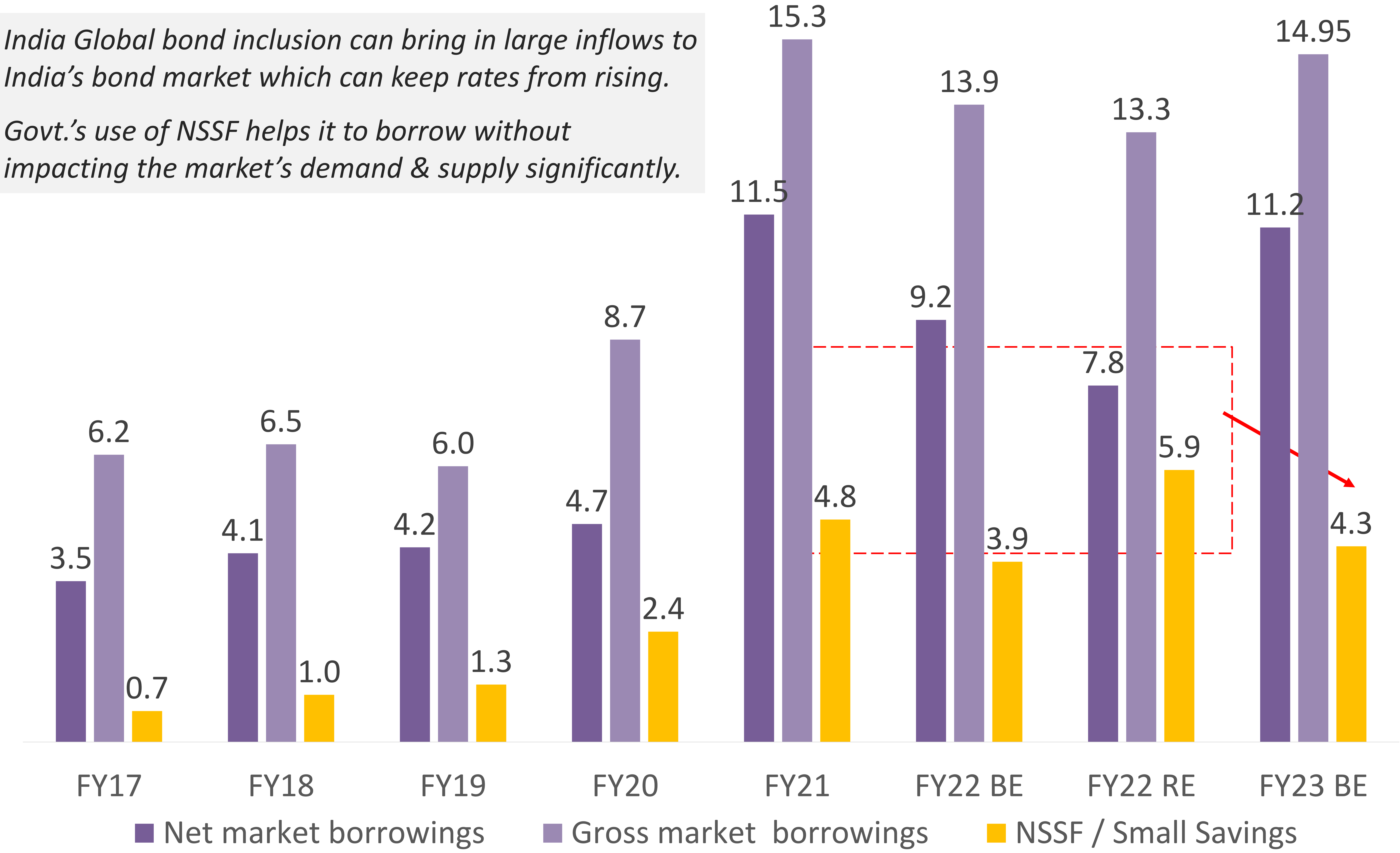
The bond markets got spooked with a INR 14.95 trn gross borrowing number. For FY23, net market borrowings was sharply up at INR11.2tn (versus expectations of INR10tn). Despite the sharp rise in market borrowings, there was no announcement on measures towards inclusion in global bond indices.

What is interesting is that the Govt has utilized the small savings (NSSF) fund to finance its market borrowing. In addition, the revenue projections for FY23 in the union budget were conservative.

If the Govt. revenues are higher than expected revenues and there is higher borrowing from NSSF the yields may not rise as fast.

India Global bond inclusion can bring in large inflows to India's bond market which can keep rates from rising.

Govt.'s use of NSSF helps it to borrow without impacting the market's demand & supply significantly.



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Source: Bloomberg, Budget Documents Feb 2022

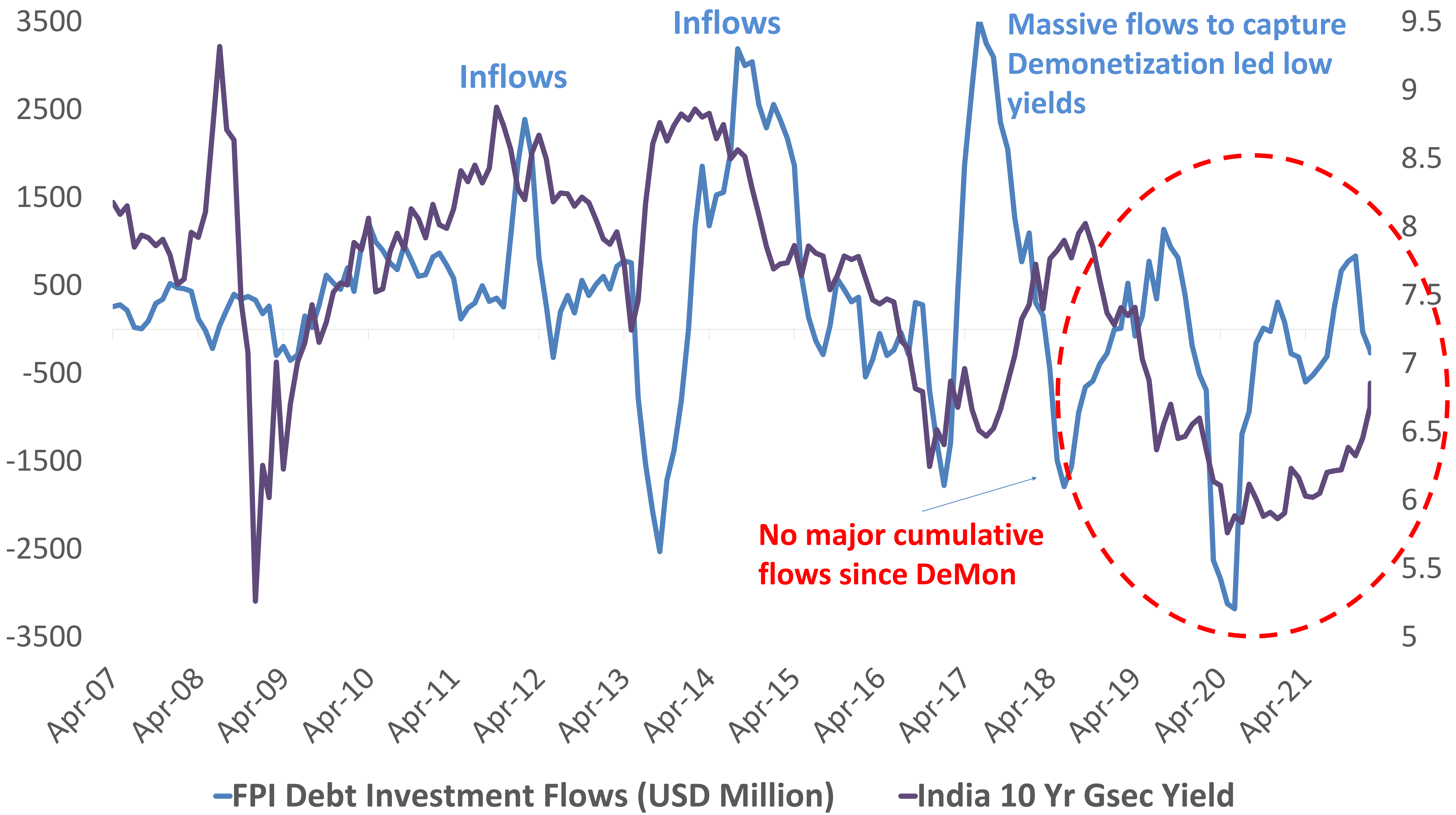
FPI Debt Inflow Drought Needs Higher Yields to End?

Can the recent run up in 10 Year Govt Securities attract the FPIs back to Indian debt market.

FPIs have not utilized their limits to buy Indian debt. In fact in the past the FPI debt flows have gone up only then rates were higher.

Barring the massive flows to capture the Demonetization led disruption, FPI flows have been driven by higher rates.

Keep an eye on FPI flows into debt markets in next few weeks & months.



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Source: Bloomberg as on 1sr Feb 2022

Auto Sector – A Reversion To Mean Ahead!

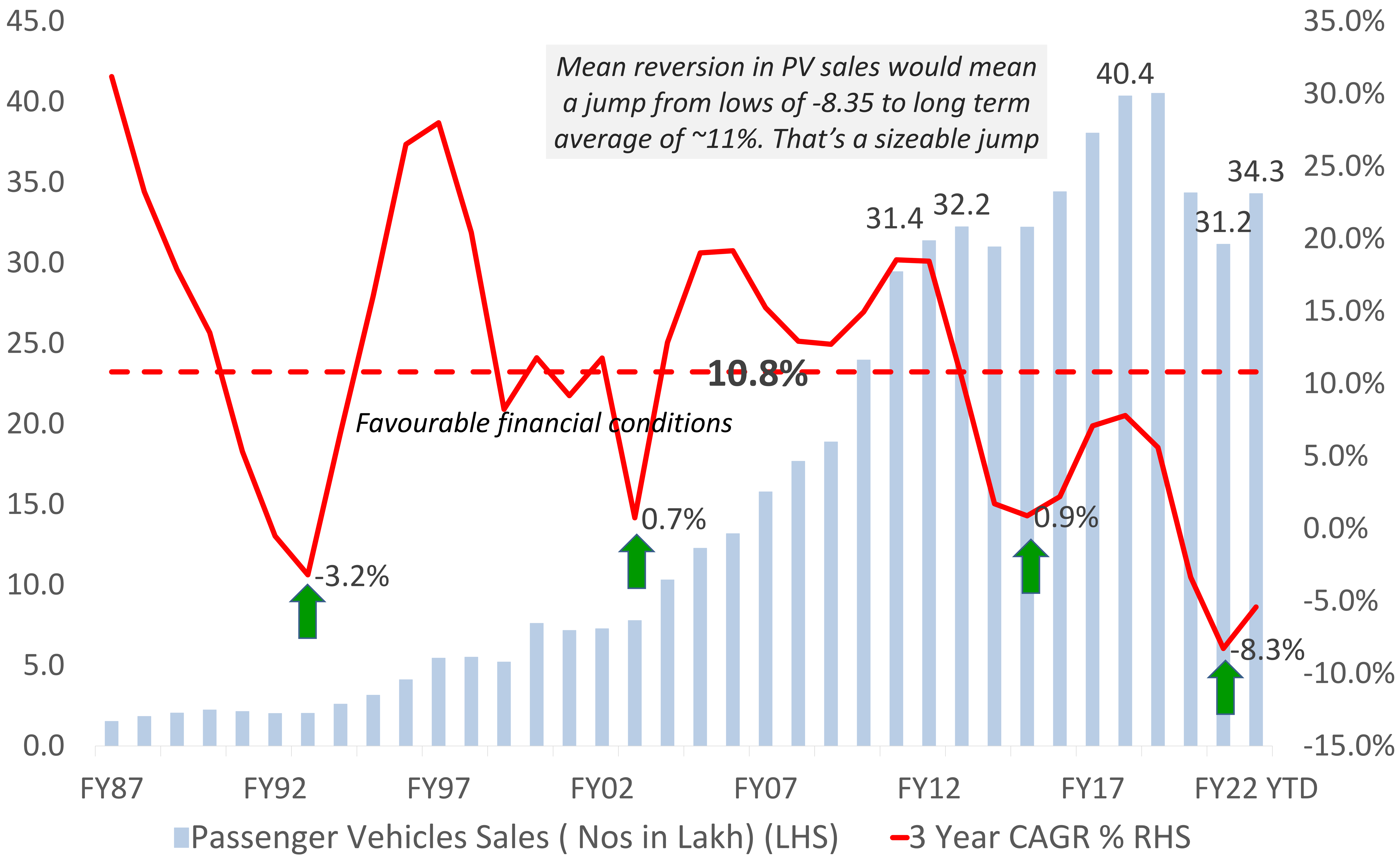
The automobile sector has seen massive disruption since the COVID outbreak.

At first the demand soured for autos and then the semiconductor shortage exacerbated the slowdown.

The passenger vehicle sales, a bellwether, for the auto sector has seen a slump. PV sales are down to levels last seen in FY12.

The last three slump in PV sales bottomed between 0% to -3% CAGR over 3 year period. The most recent low was set at -8.3%.

With economic growth recovering and semiconductor issues resolving, this sector is likely to see better days ahead.



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Source: CMIE, SIAM Data as on 31st Jan 2022

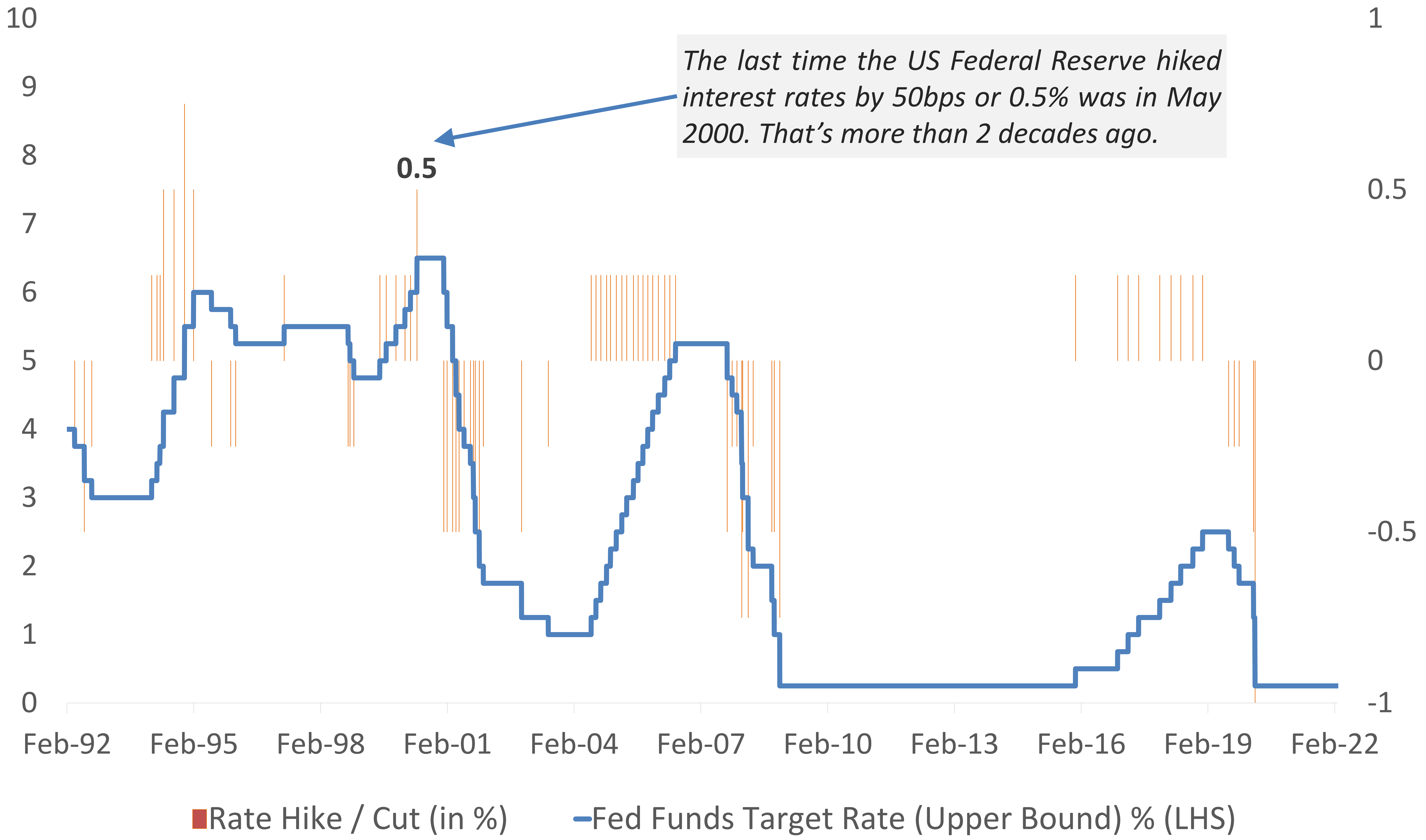
Aggressive Fed Rate Hike Looks Unlikely

The US Federal Reserve has been very conservative when it comes to tightening of monetary policy.

There have been market debates and an expectation of a 50bps hike from the US Fed in its March 2020 policy.

For a similar hike we will have to go back to May 2000. Since then the Fed has adopted a more balanced approach. It has seldom deviated from its forward guidance.

If there is a 50bps hike it will be a wild surprise. But the chances look slim. Be prepared for a slow normalization.



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Source: Bloomberg; Data as on 31st Jan 2022

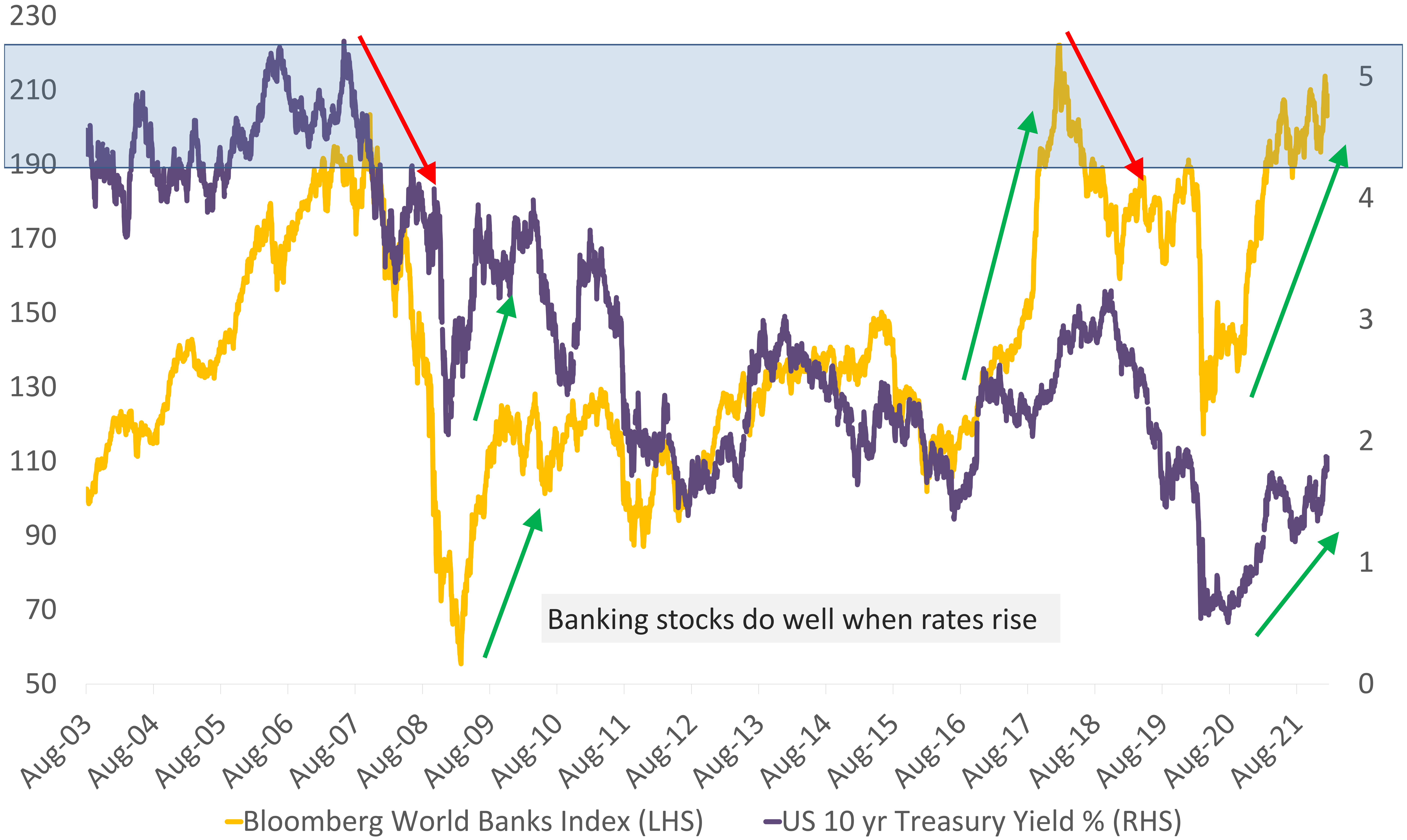
World Banking Stocks As An Indicator For Rates

Rising rates coincide with aggressive growth and strong credit offtake. Historically banking stocks and bond yields move together.

Recently there has been a sharp focus on direction of interest rates. One way to know and confirm the trend is to look at the performance of the banking sector.

For now the baking sector remains near the levels it has historically found difficult to breach.

A breakout in banking stocks may coincide with a breakout for rates and possible growth.



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Source: Bloomberg as on 31sr Jan 2022

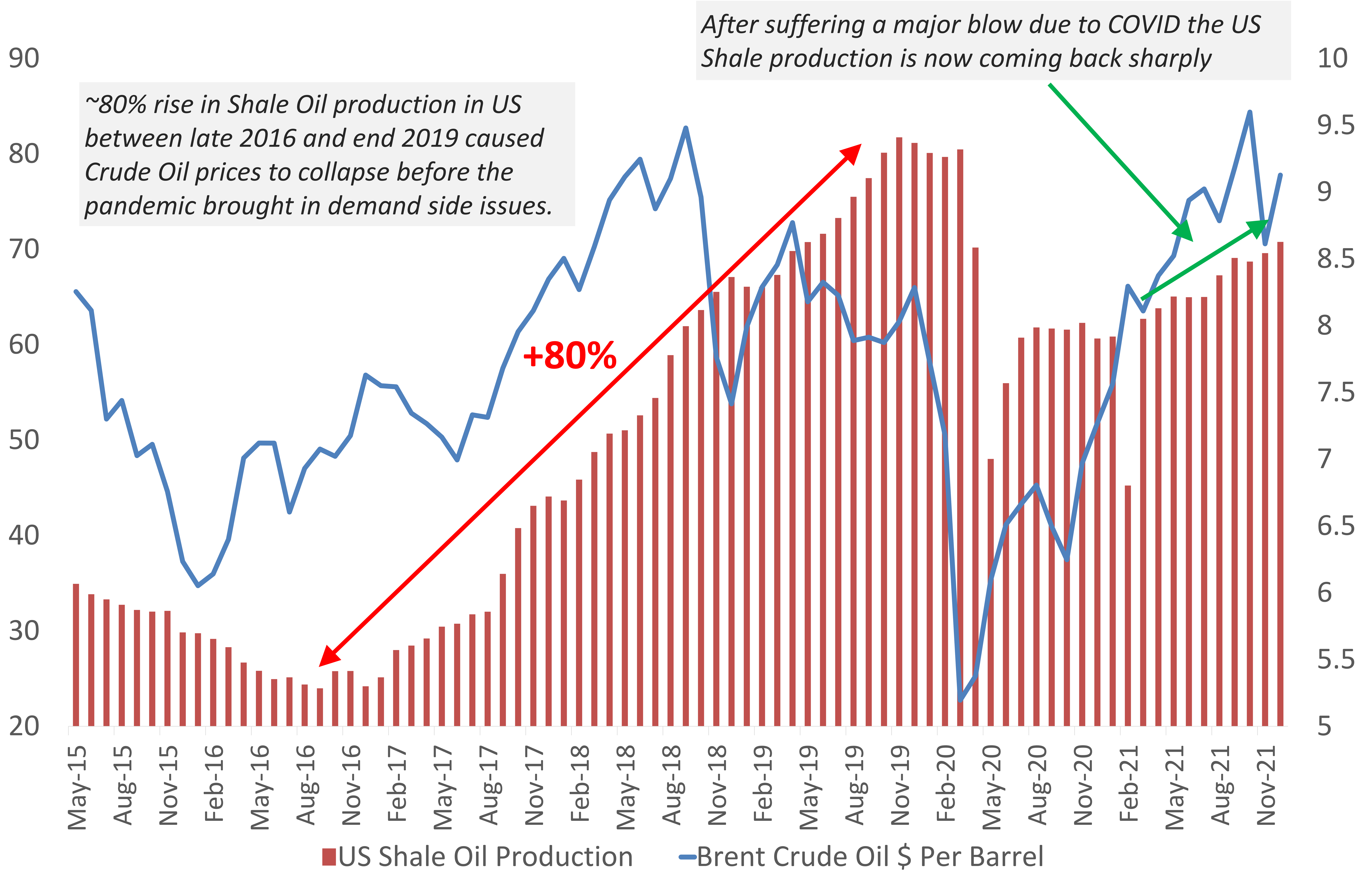
US Shale Output Is Rising, Again!

Once touted as the reason for crashing Oil prices, US Shale production is making a comeback.

The price war between OPEC and US Shale was a prime driver of a long bear market in crude oil.

Recent numbers for US shale production are encouraging with both output & rig counts rising swiftly.

Crude Oil bulls should watch this carefully. Rising Shale Oil production is negative for Crude Oil prices.



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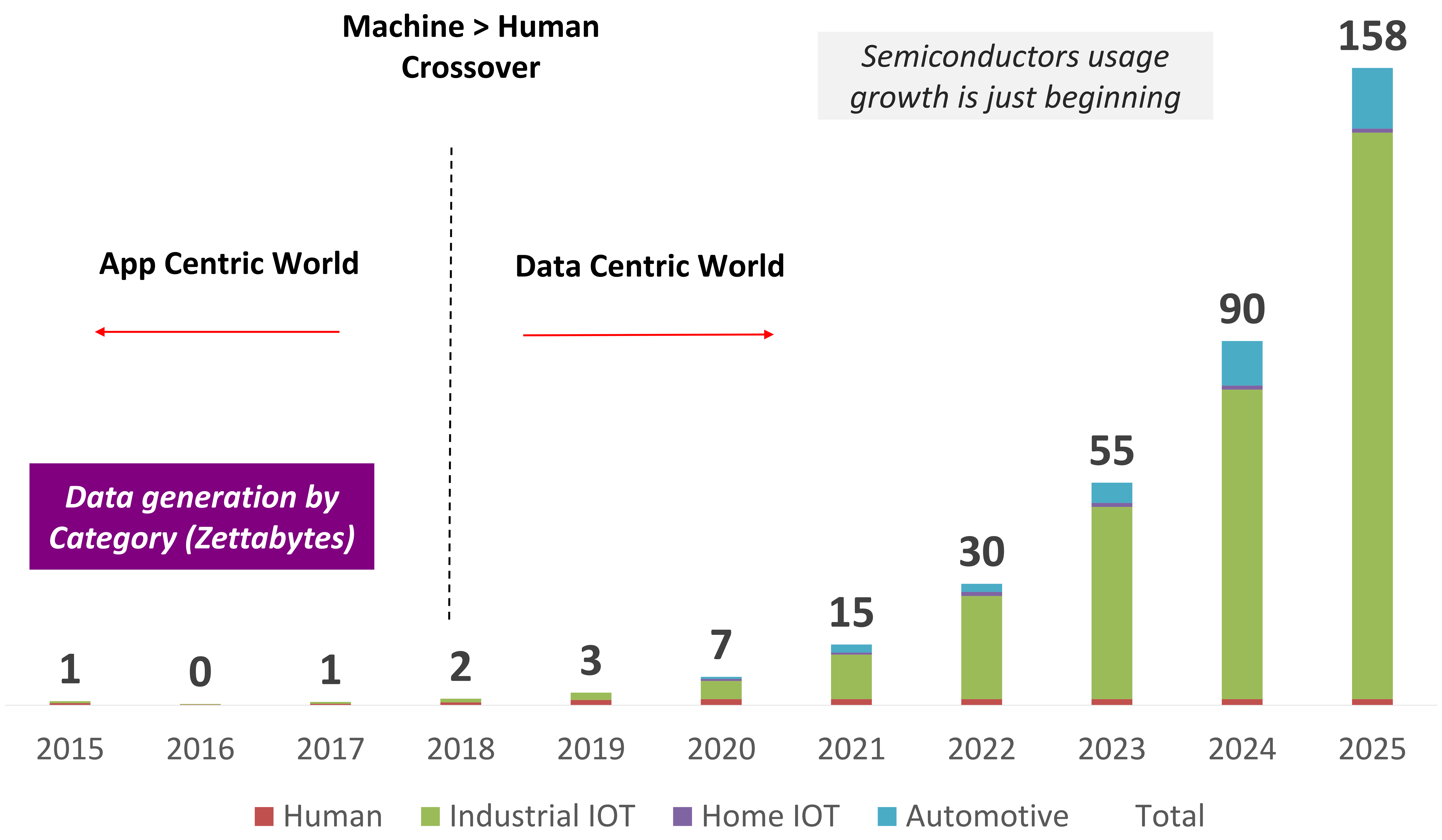
Source: Bloomberg; Data as on 31st Jan 2022

Semiconductors – A structural Theme

Semiconductors may have got a huge boost due to the pandemic led supply disruption but the theme is structural.

The data generation and eventual use case for semiconductors is likely to see an accelerated adoption in the next 5 years.

This is a Megatrend.

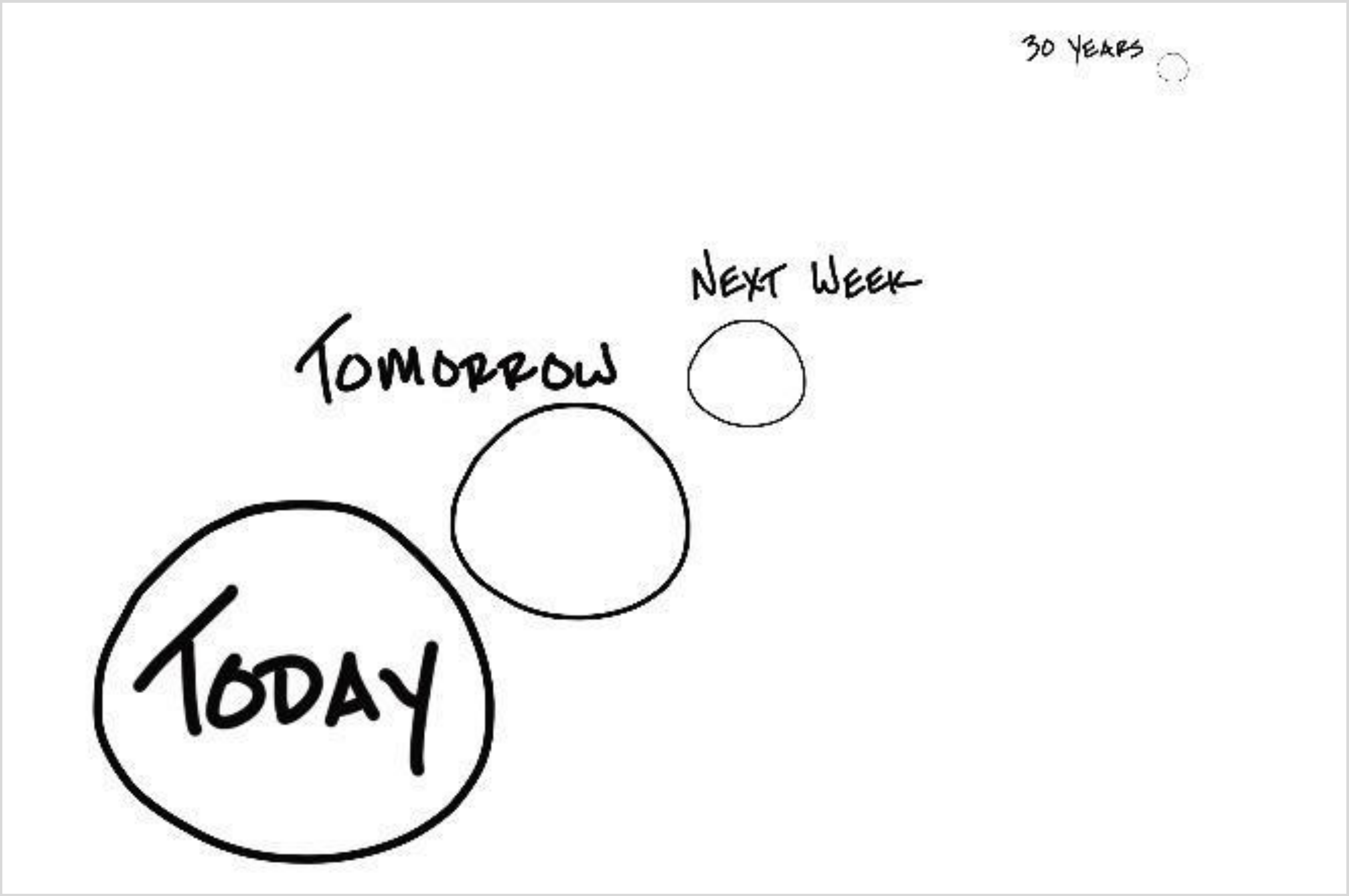


Source: Applied Materials AR 2021

Today.

Focus on today.

Not for 'Noise' but for what you can be in future.



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