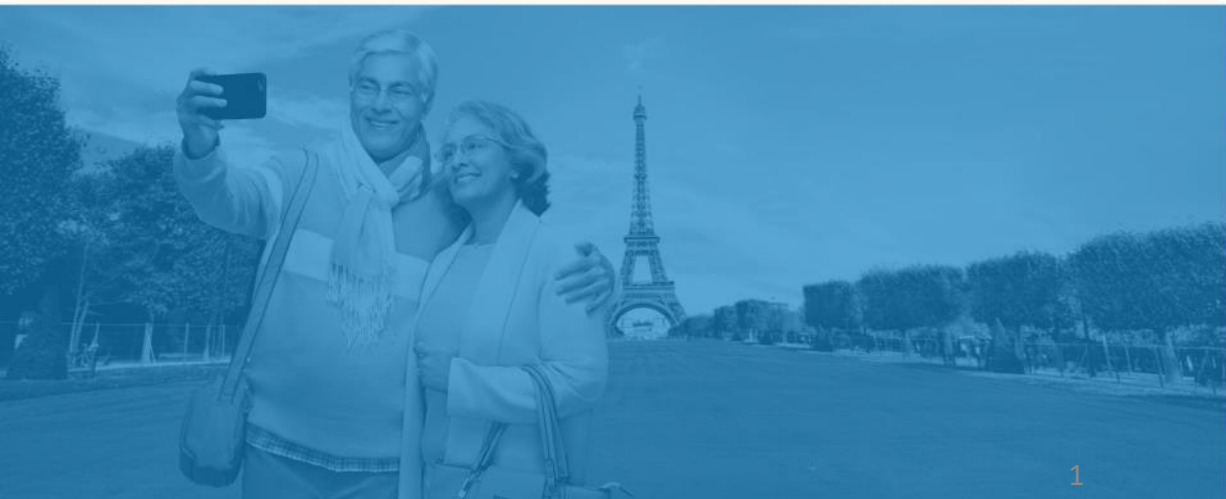


Recent RBI Rate Hike Impact & Market Outlook

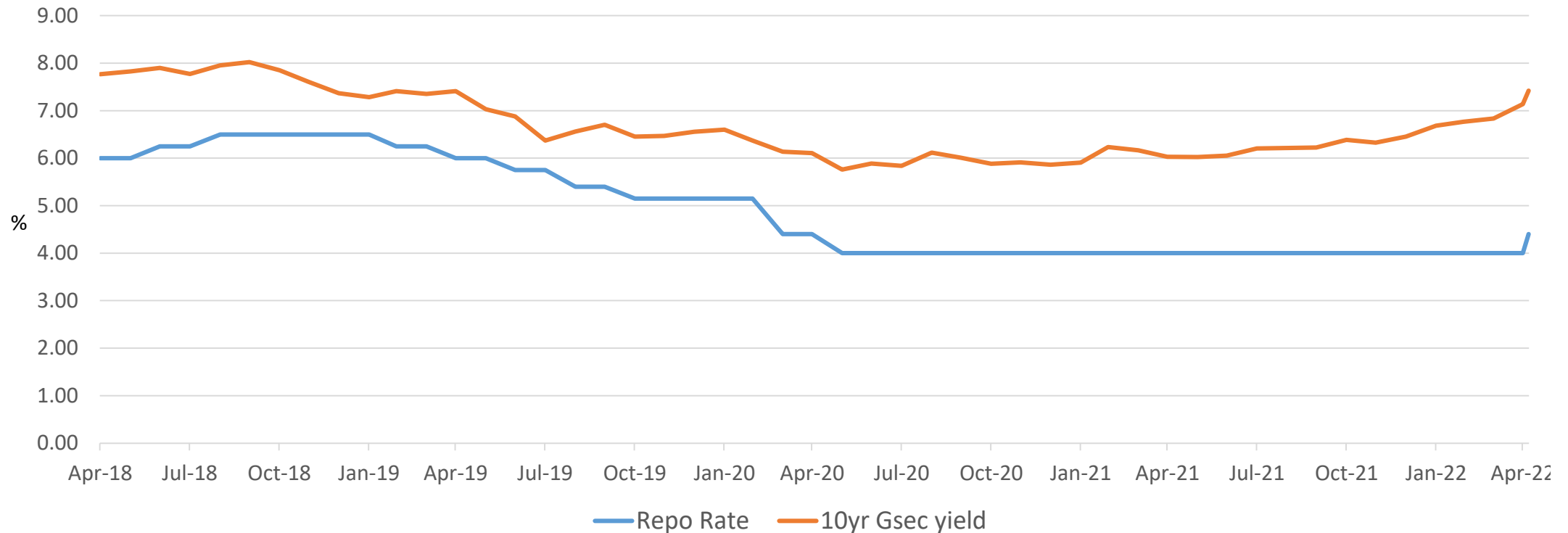
May 2022

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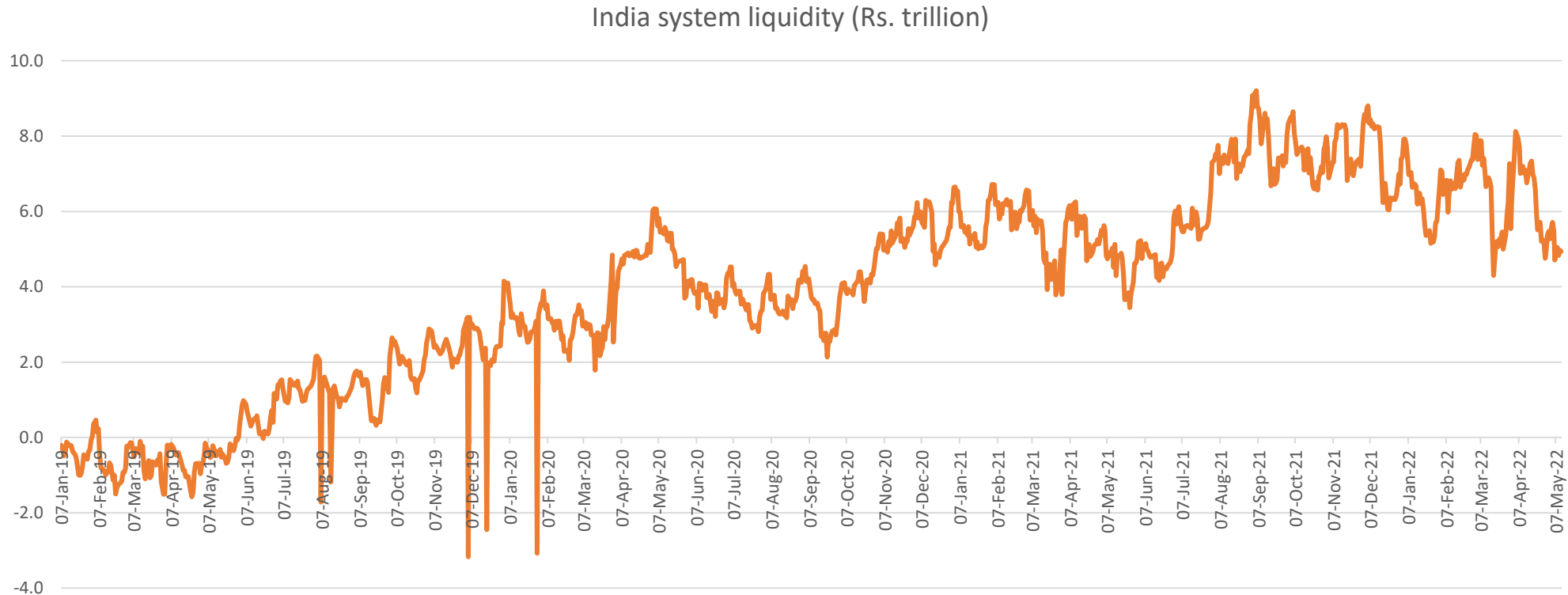


RBI hiked repo rates in a surprise move



- RBI raised repo rate by 40 bps in an unscheduled MPC meeting on 4-May-2022
- First rate hike since Aug-2018. Since then 7 rate cuts had been taken aggregating 250 bps
- CRR also hiked by 50 bps to 4.5% to reduce liquidity
- Commentary / market pricing suggests additional rate hikes of about 75 bps could be taken in CY2022

RBI also looking to reduce liquidity

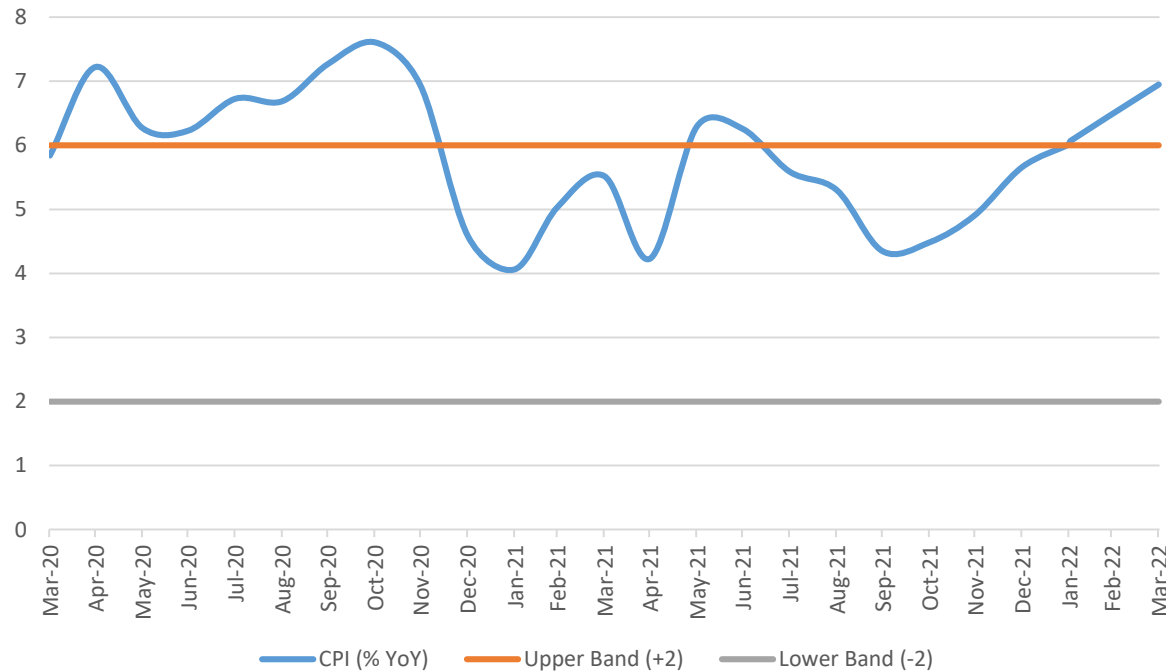


- CRR hike by 50bps takes away Rs. 870 billion liquidity
- RBI's comfort level of liquidity is Rs 1.5 - 2 trn vs current liquidity of Rs. 5 trn

Factors leading to rate hike

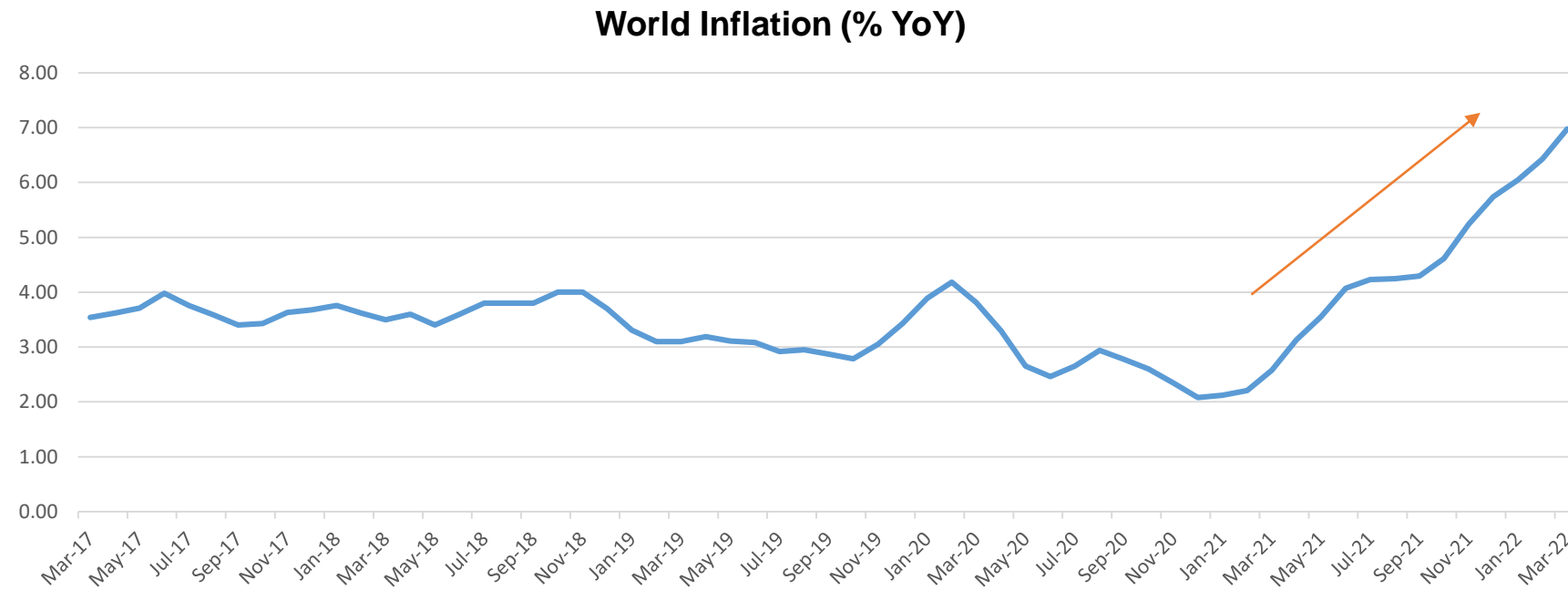
- **Rising inflation level** in both domestic and global economies
 - India's Q4FY22 average inflation above 6%
- Global Factors: Major central banks, including US Fed are tightening aggressively to contain inflation
- Global Central Bank Balance sheet reduction also initiated
 - Fed fund rate up by 75 bps in CY22, so far (25bps in March and 50bps in May)
 - US Fed balance sheet reduction started in May'22
 - ECB to also stop net purchases in CY2022
- **Growth:** GDP growth appears to be stabilizing from the pandemic effects, prompting a withdrawal of ultra easy monetary policies

Domestic inflation well above the tolerance band



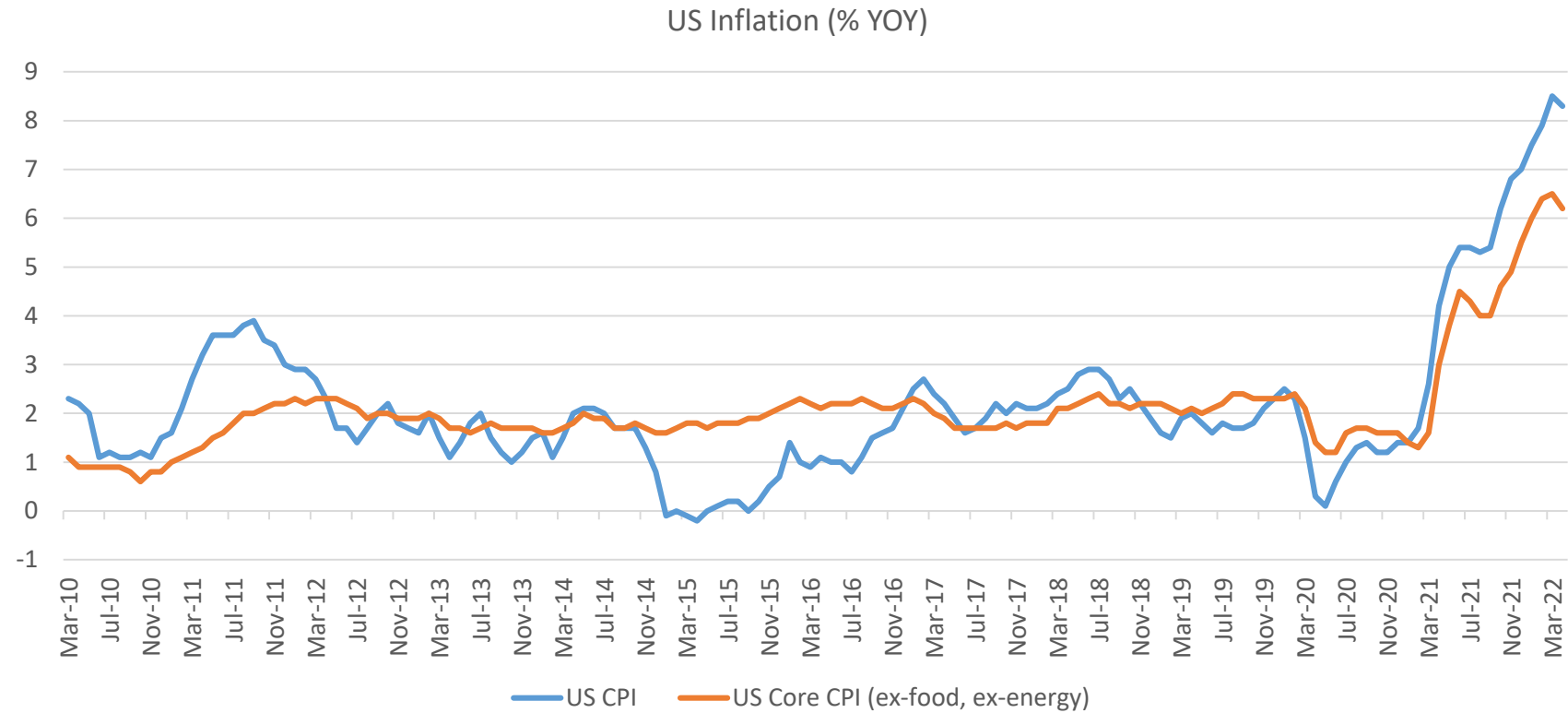
- Inflation for March 2022 shot up to 7.0%, above the RBI's tolerance band of 2-6%
- *Various economists are now estimating inflation to touch ~8% in the short term*
- RBI had shifted its focus towards containing inflation against supporting growth in previous policy in April 2022
- Governor's statement suggested that inflation pressures are rising fast and that rate hikes are required to anchor inflation expectations

Global inflation is at multi year highs



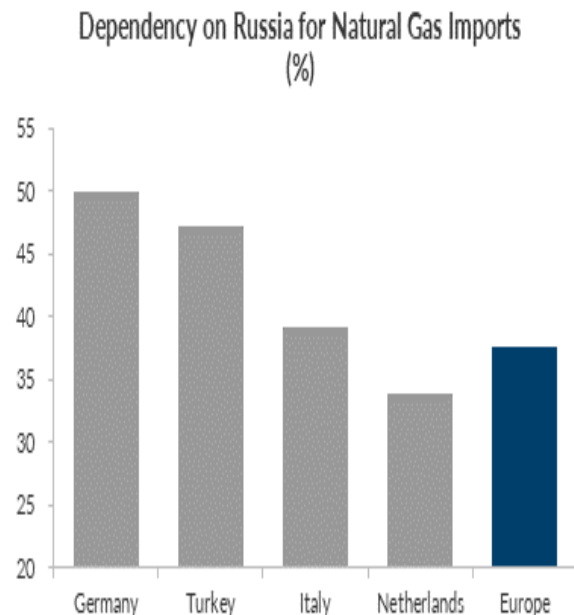
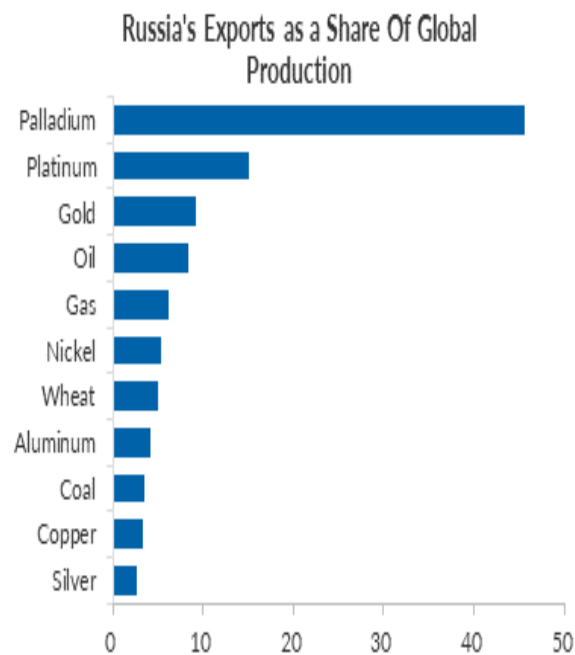
- Rising food and commodity prices leading to the higher inflation
- Central banks increasingly concerned over inflationary pressures

US Inflation at multi-decade high



- Inflation at multi decade highs, core-inflation also at very high levels

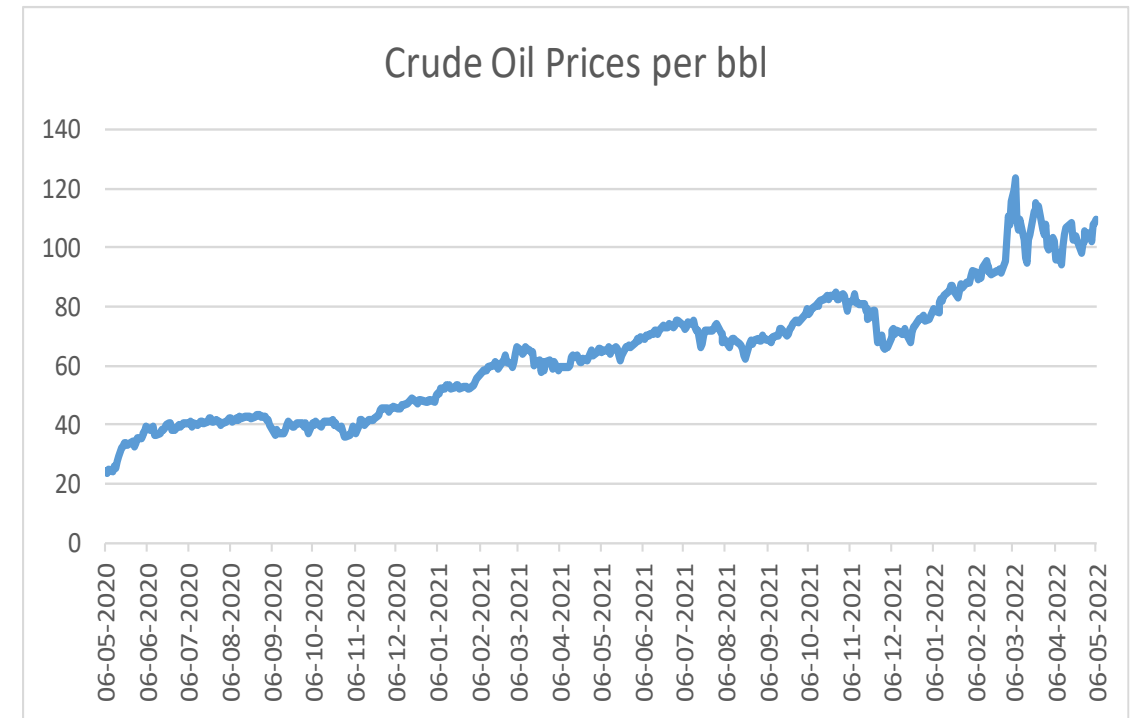
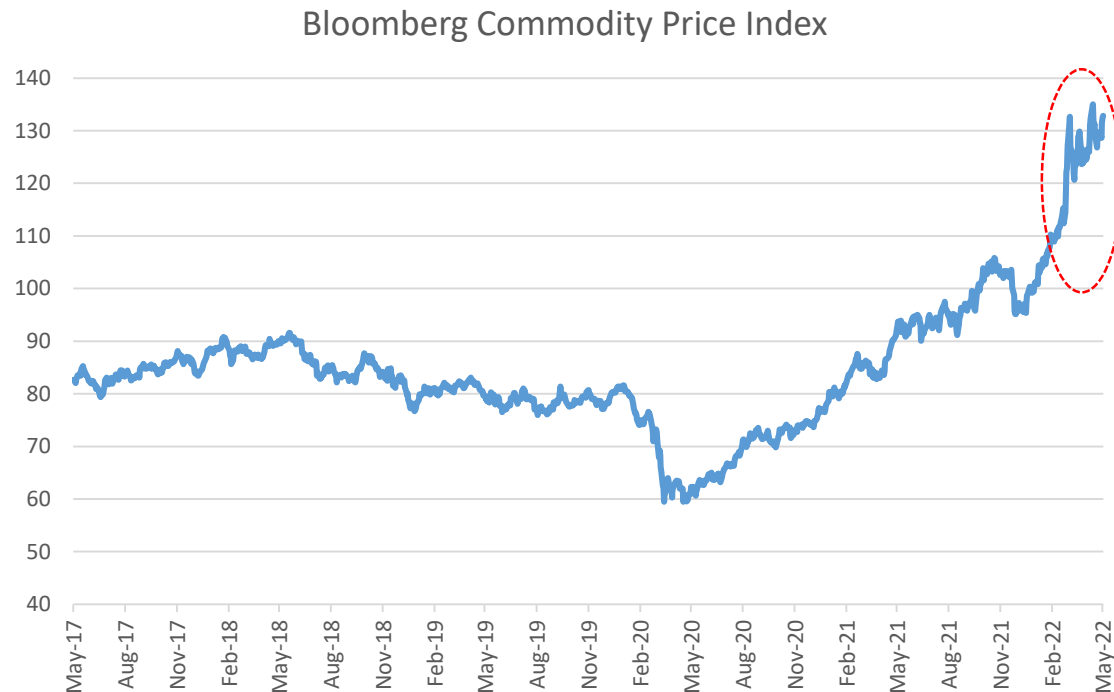
Ukraine-Russia conflict choking commodity supply



OPEC and key non-OPEC countries production trend (mmbpd)						
Countries	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22
OPEC						
Saudi Arabia	9.8	9.9	10.0	10.1	10.2	10.3
Iran	2.5	2.5	2.5	2.5	2.5	2.6
Venezuela	0.7	0.7	0.8	0.7	0.7	0.6
Nigeria	1.2	1.3	1.2	1.4	1.3	1.5
Libya	1.2	1.1	1.1	1.0	1.2	1.1
Iraq	4.2	4.3	4.3	4.3	4.3	4.3
UAE	2.8	2.9	2.9	2.9	3.0	3.0
Kuwait	2.5	2.5	2.6	2.6	2.6	2.6
Angola	1.1	1.1	1.2	1.2	1.2	1.2
Other OPEC	1.5	1.5	1.6	1.5	1.6	1.5
Total OPEC crude	27.4	27.8	28.0	28.1	28.5	28.6
Non-OPEC						
Russia	9.9	10.0	10.0	10.0	10.0	9.8
US	11.4	11.5	11.7	11.6	11.6	11.8

- Russia accounts for ~10% of global crude production and ~16% of global natural gas production.
- Exports share of Russia is high for certain commodities
- Europe has high dependency on Russia for gas imports.

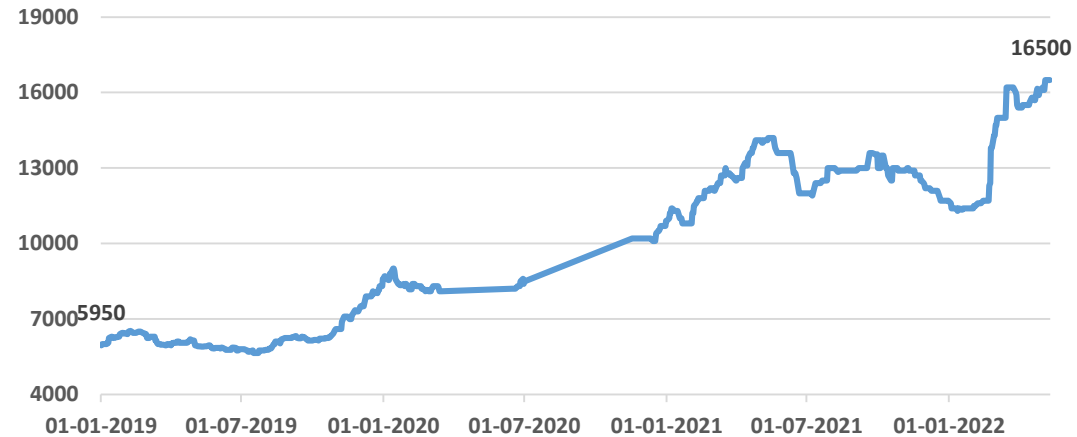
Commodity prices spiking



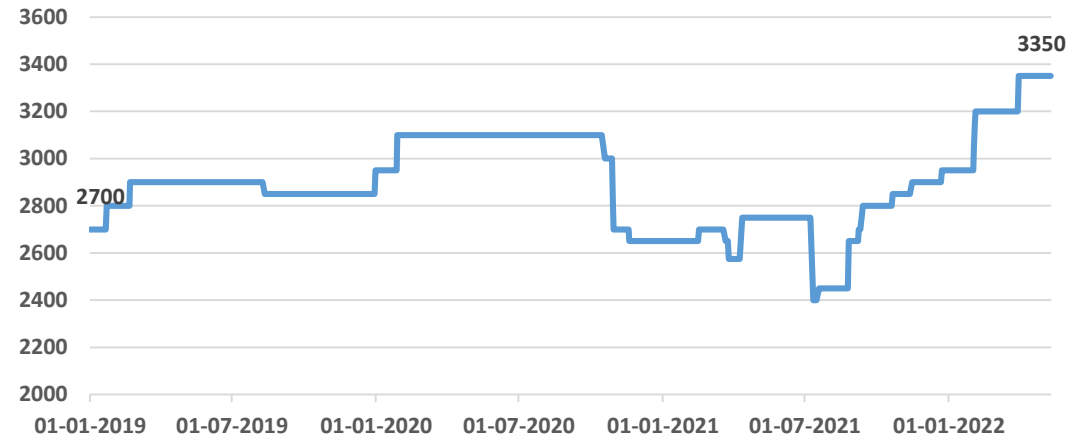
- Commodity prices rose sharply due to easy liquidity
- Supply side shocks have also contributed
- Fiscal and monetary stimulus has also aided inflation

Agri commodity prices also moving up

Palm Oil INR/qtl



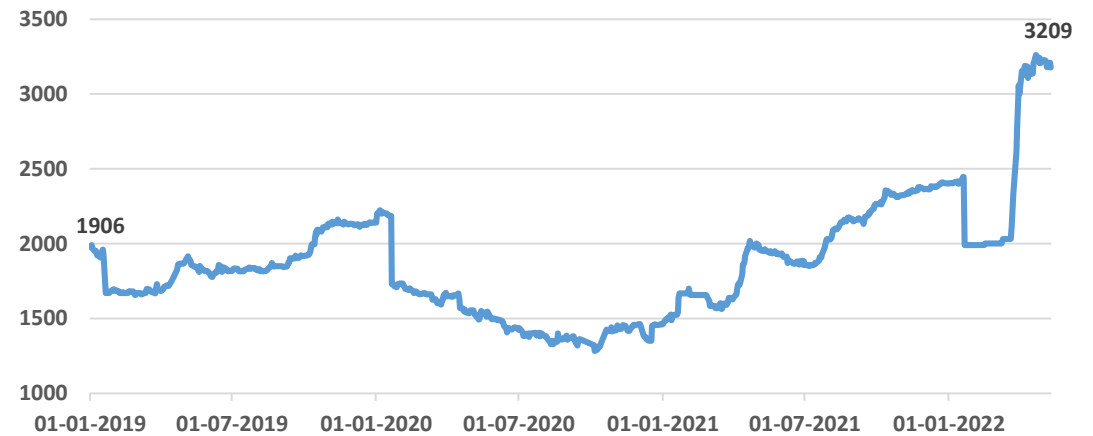
Wheat INR/qtl



Milk price Per/ Kg

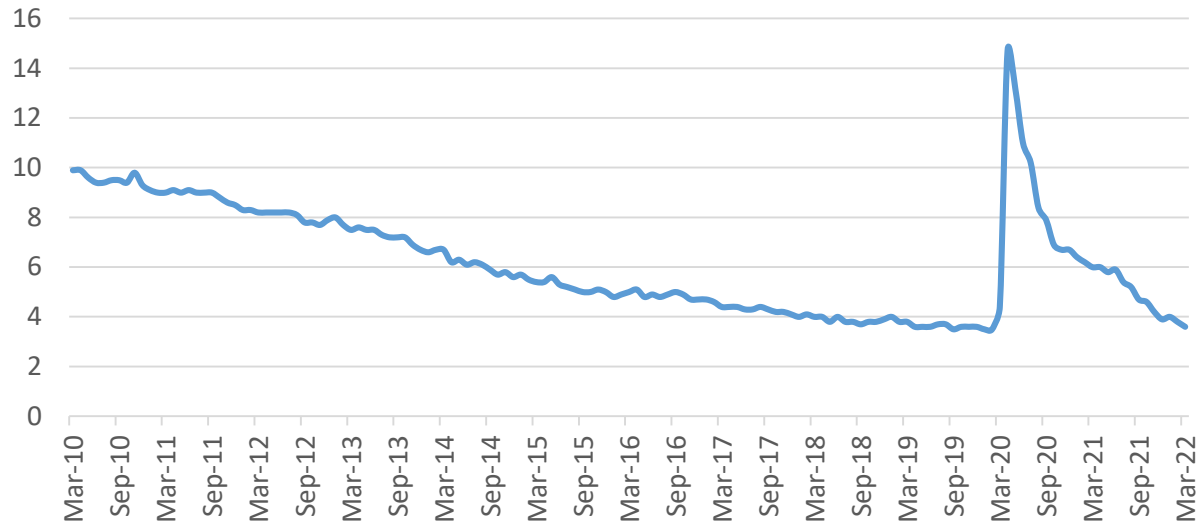


Barley price INR/qtl

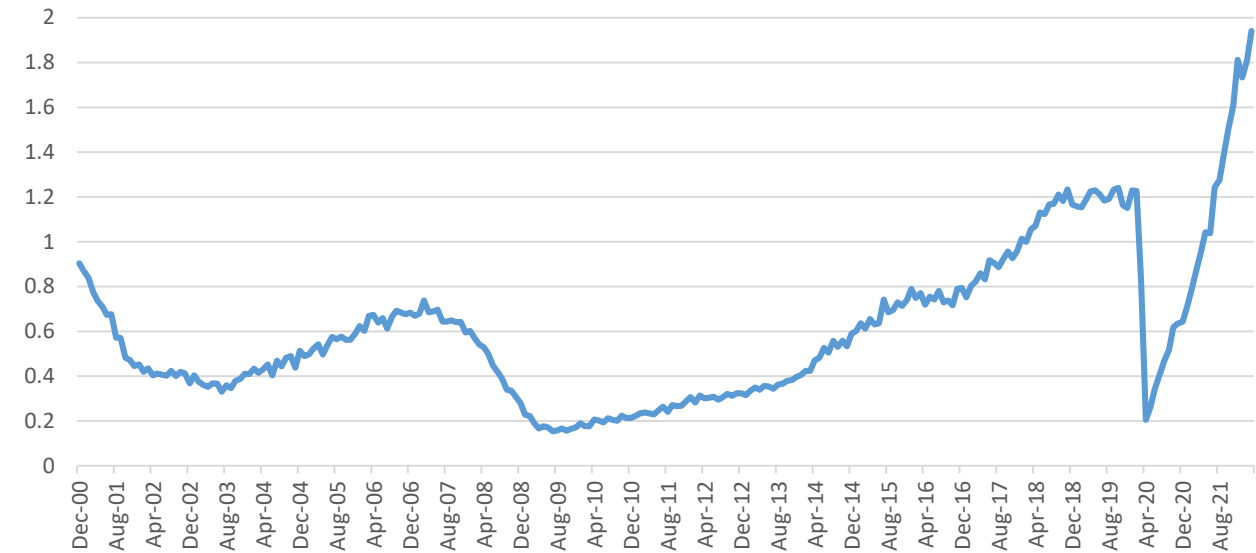


Very strong job market in US

US Unemployment Rate (%)

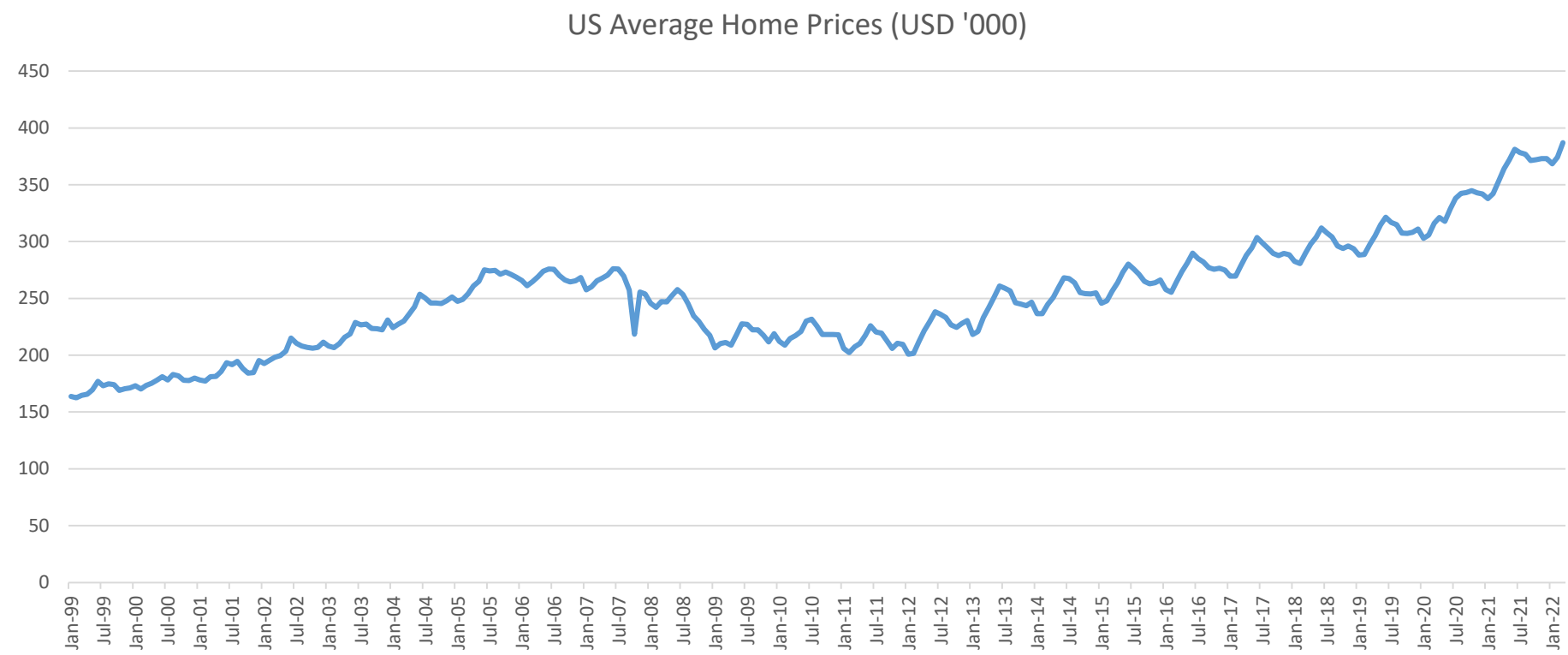


US - job vacancy to unemployed ratio

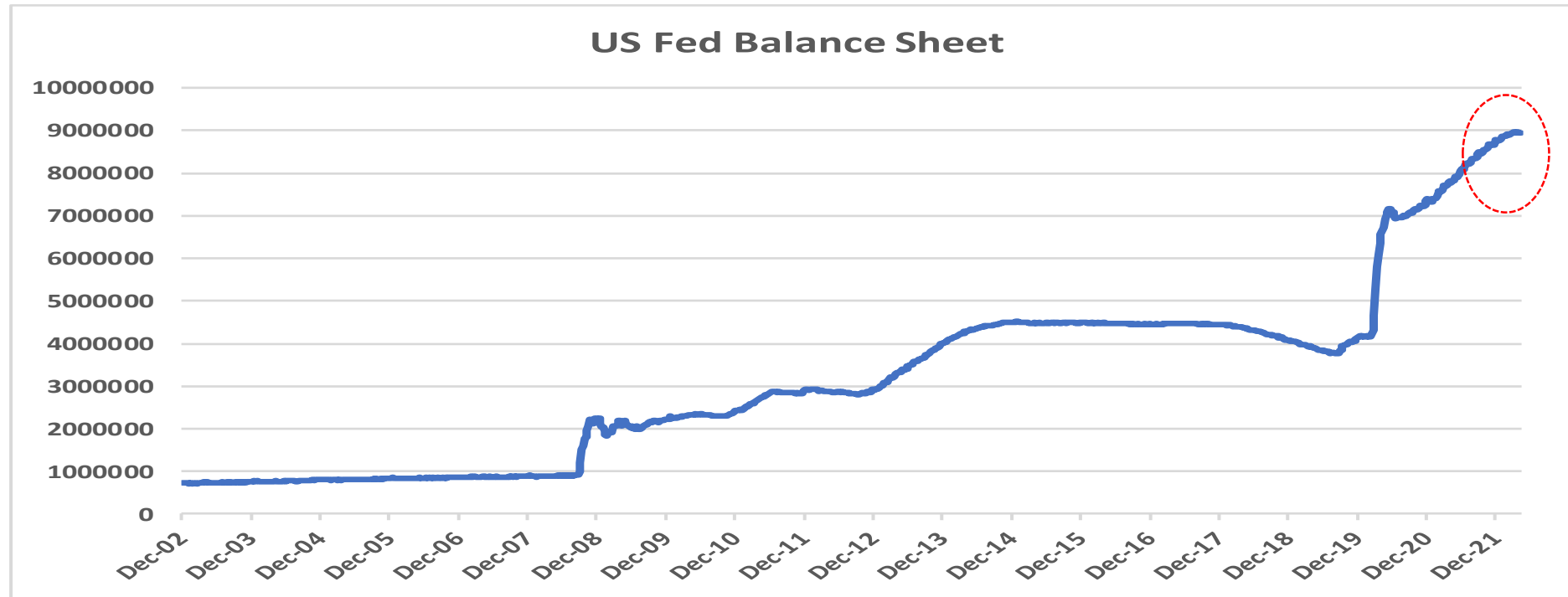


- US unemployment rate of 3.6% near to all time low
- Job vacancy to unemployed ratio at record high

US home prices 40% above 2005 peak



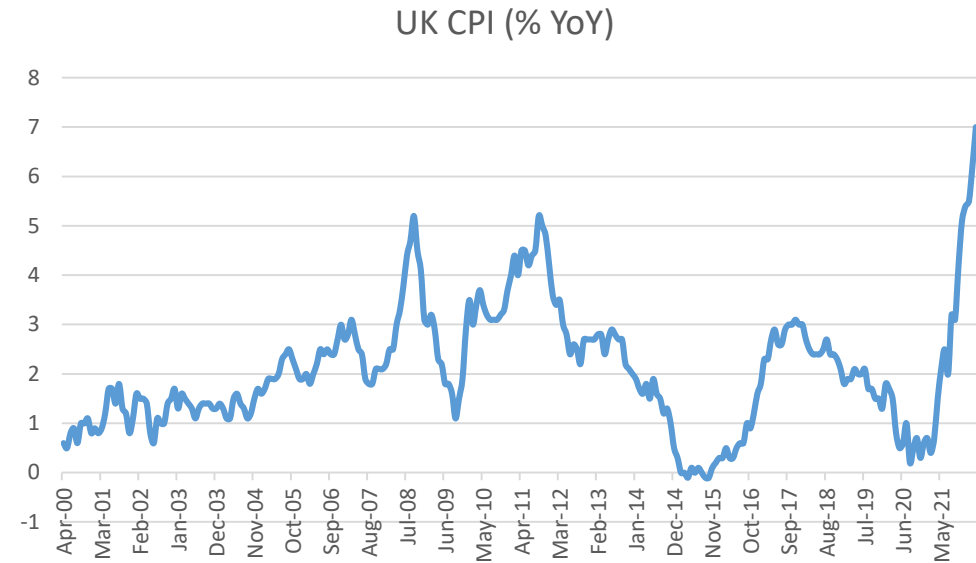
US Fed turning aggressively hawkish to contain inflation



- US Fed hiked rate by 25 bps in March and 50 bps in May
- Started reducing balance sheet size to suck out liquidity
- Indication of multiple additional rate hikes during the calendar year
- Powell against a single 75 bps hike, providing comfort to markets

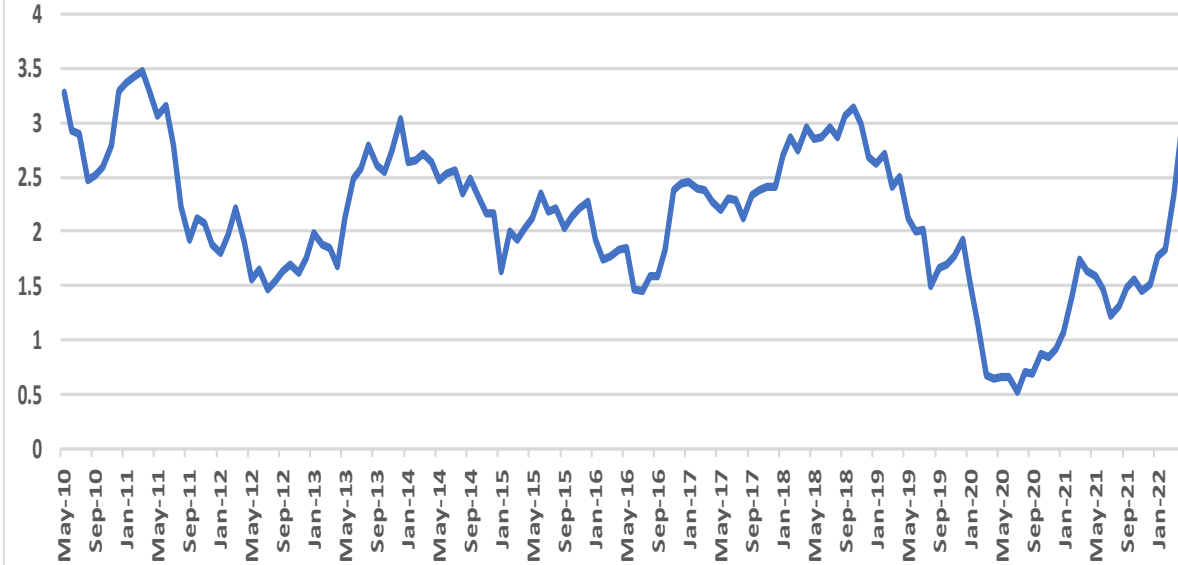
Most Central banks raising rates as post pandemic recovery is strong

- BoE raised rates last week by 25bps to 1% , which is a 13 year high rate
 - UK inflation at 7% is alarmingly high
- Australia raised rates on 3 May 2022 in a surprise move to 0.35% by 0.25%
- Brazil raised rates about 10 times since March 2021 from 2% to 12.75% currently
- ECB likely hike rate in July, also ending the balance sheet expansion by CY22



US treasury yields up, dollar strengthening

US 10 Year Treasury Yield

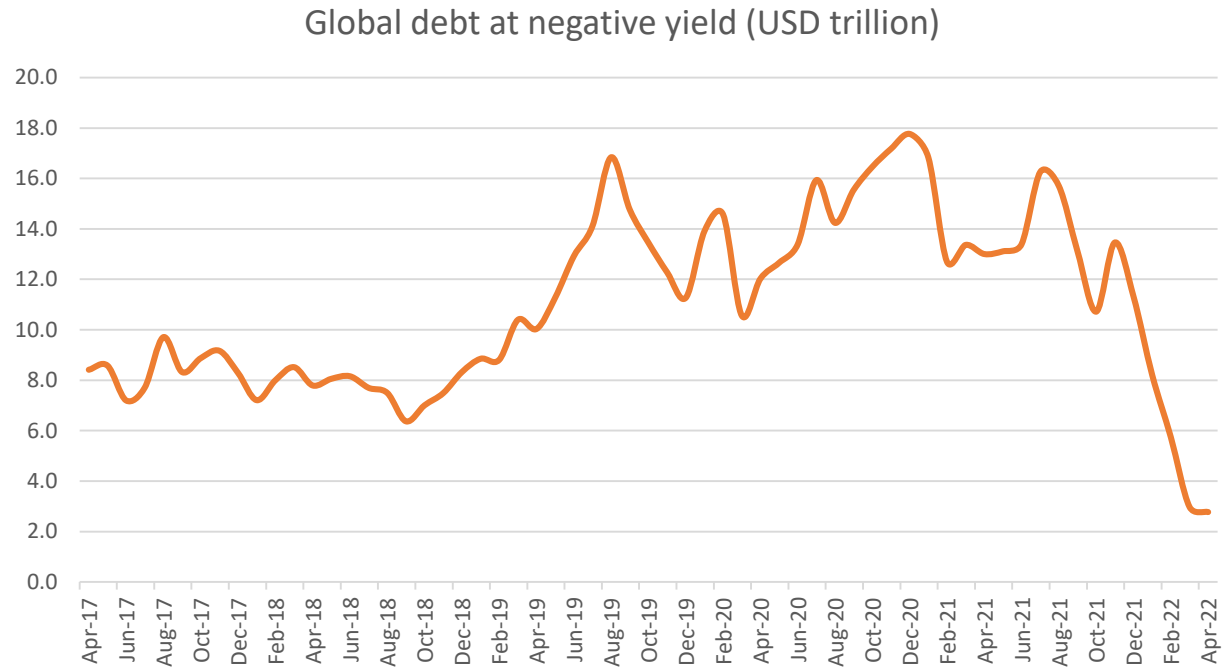
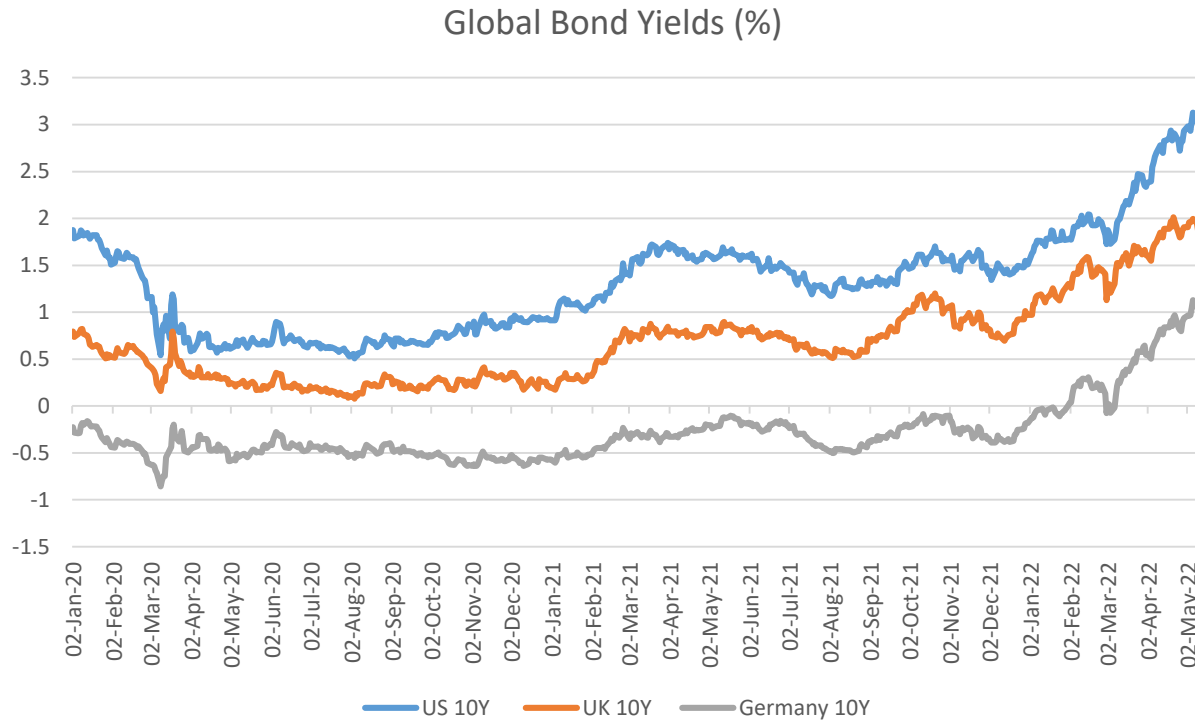


Bloomberg US Dollar Index



- US treasury yields have moved above 3%, near to its 4 year high of 3.2%
- Rising yields and balance sheet reduction leading to dollar strength
- Depreciating rupee would exert pressure on domestic yields

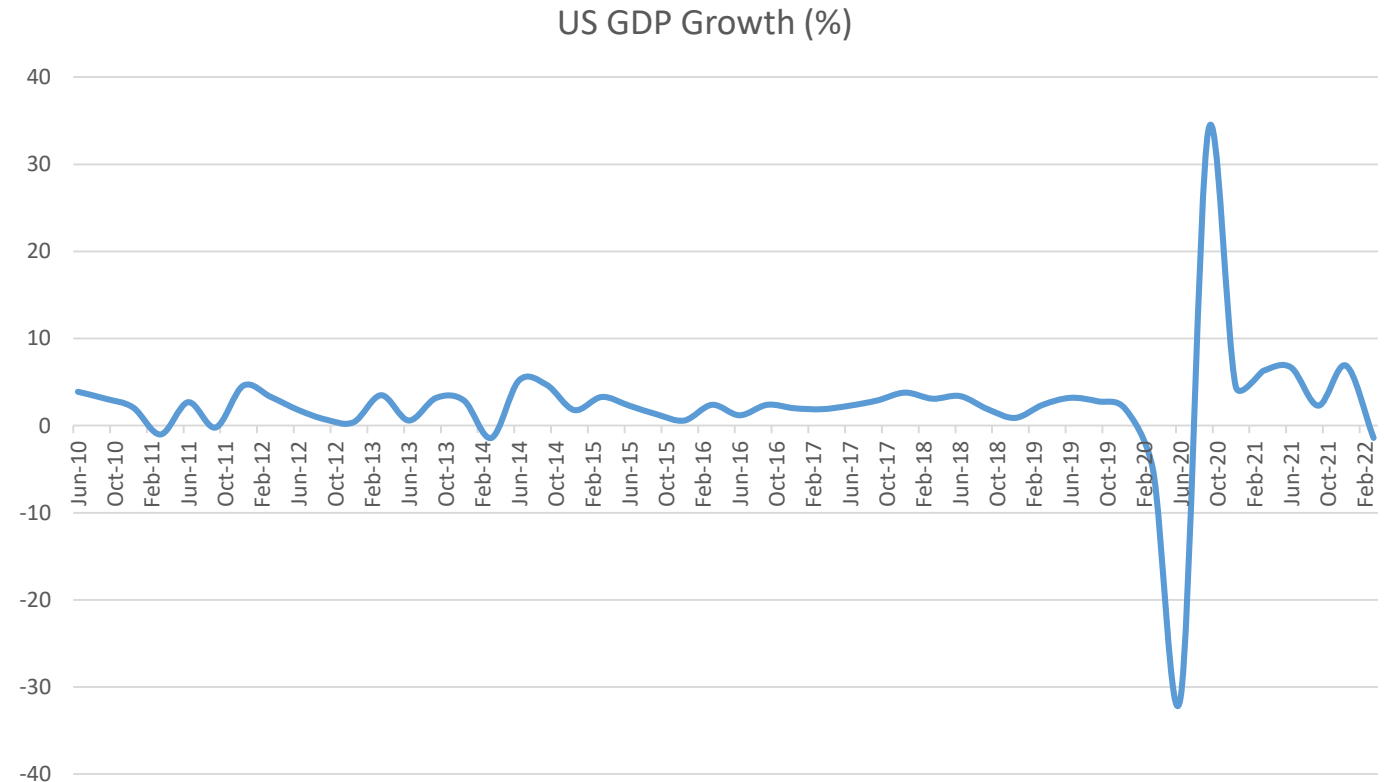
Global bond yields are also rising



- Global bond yields have started rising due to hawkish commentary from central banks
- Hence, global debt at negative yields now at USD 2.2 trillion, from a peak of USD 18 trillion in Dec 2020

Global economy recovering from pandemic led slowdowns

IMF World Economic Outlook Forecasts (in %)			
Apr-22			
	Projection		
	2021	2022	2023
World	6.1	3.6	3.6
Advanced Economies	5.2	3.3	2.4
United States	5.7	3.7	2.3
Euro Area	5.3	2.8	2.3
Japan	1.6	2.4	2.3
Emerging Markets	6.8	3.8	4.4
China	8.1	4.4	5.1
India*	8.9	8.2	6.9
Brazil	4.6	0.8	1.4



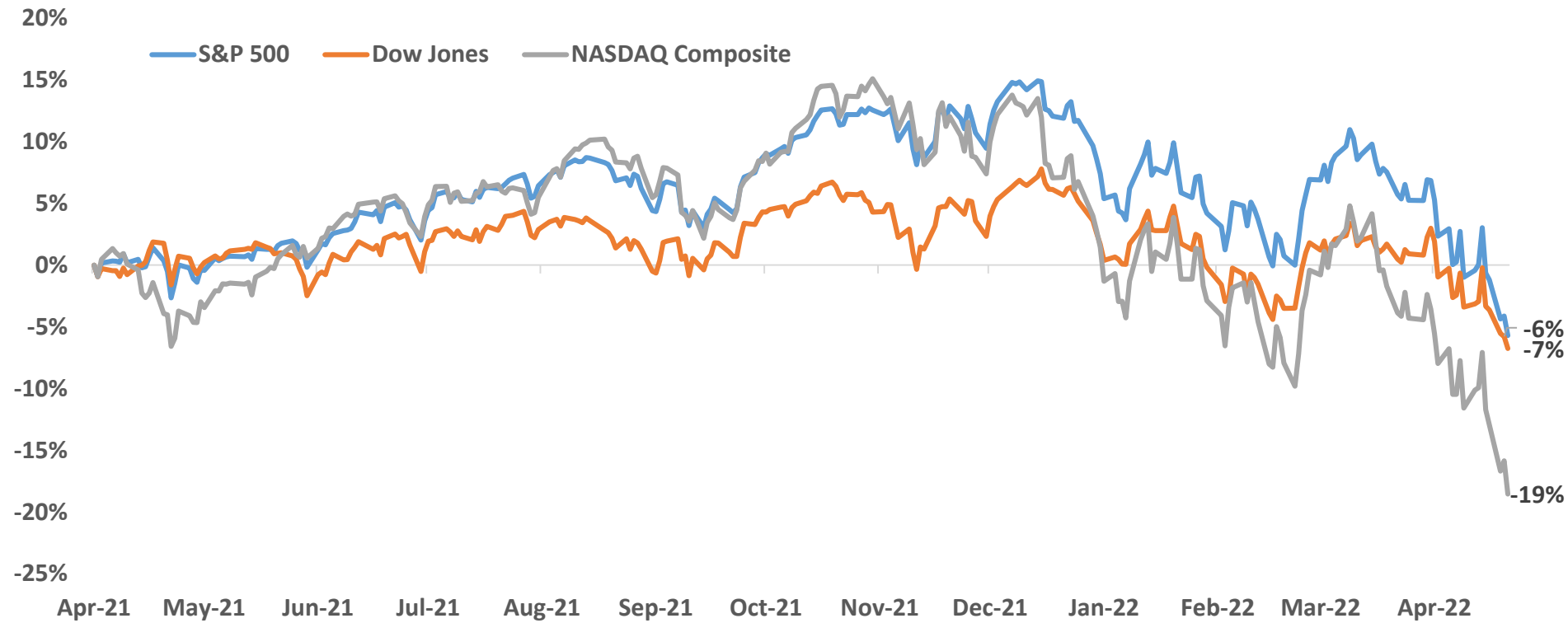
- After contracting in 2020, global GDP grew sharply in 2021 on low base
- GDP growth rates stabilizing across major economies, warranting a reversal of extremely dovish monetary policies
- Major central banks have started to raise benchmark rates as inflation takes precedence over growth concerns

Monetary policy and rates outlook

- US Fed implied rates is ~2% by end of CY22
- Domestic market expects additional rate hikes of 75bps in the next 6 month
- Fiscal deficit has also been a trigger for rates to move up-
 - Supply of government bonds at Rs. 14.2 trn is higher than market appetite
- Overall domestic rates trending higher due to tightening monetary policy and supply issues
- Excess liquidity created during Pandemic is finding its way out gradually
 - CRR hike by 50bps takes away Rs. 870 billion
 - RBI's comfort level of liquidity is Rs 1.5 - 2 trn vs current liquidity of Rs. 5 trn

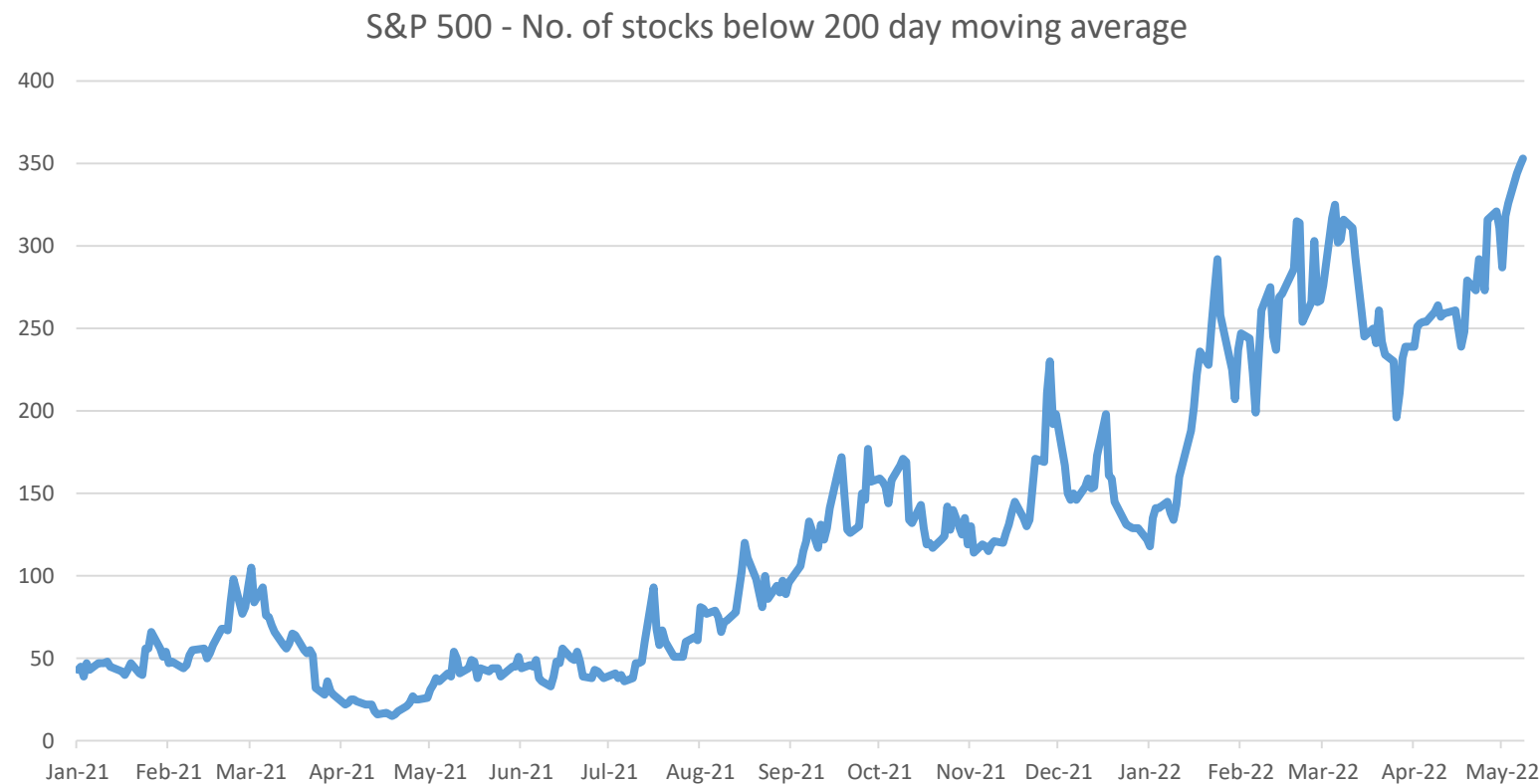
Impact on equity markets

US markets have corrected significantly



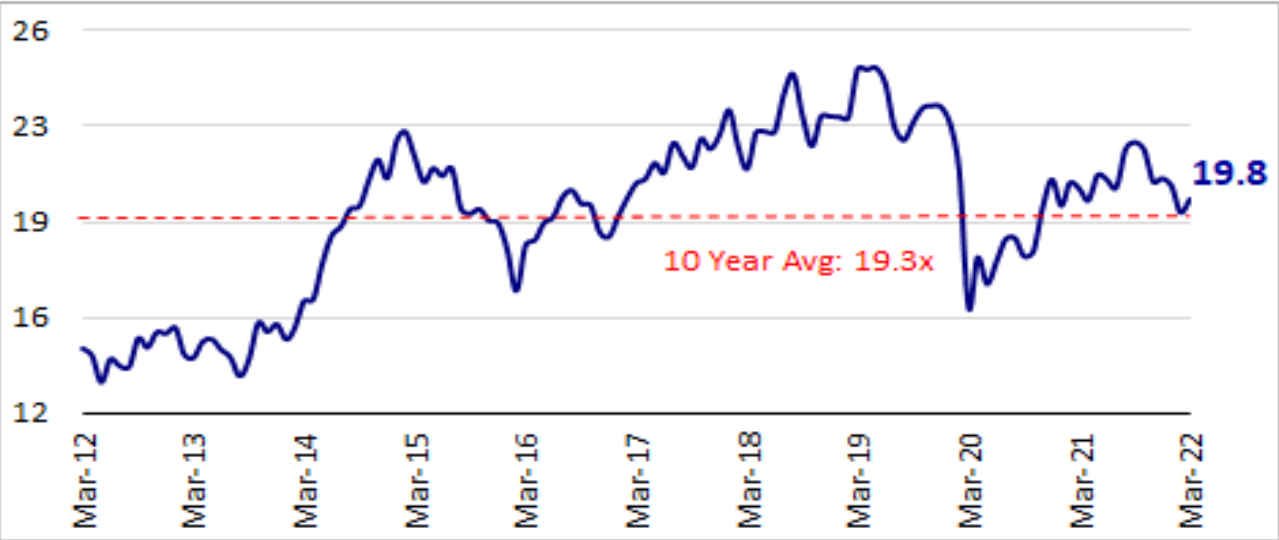
- S&P 500 down 17% and NASDAQ is down 27% ytd CY22
- Nifty and Sensex are down about 9% ytd CY22

70% of stocks of S&P500 are below their 200DMA

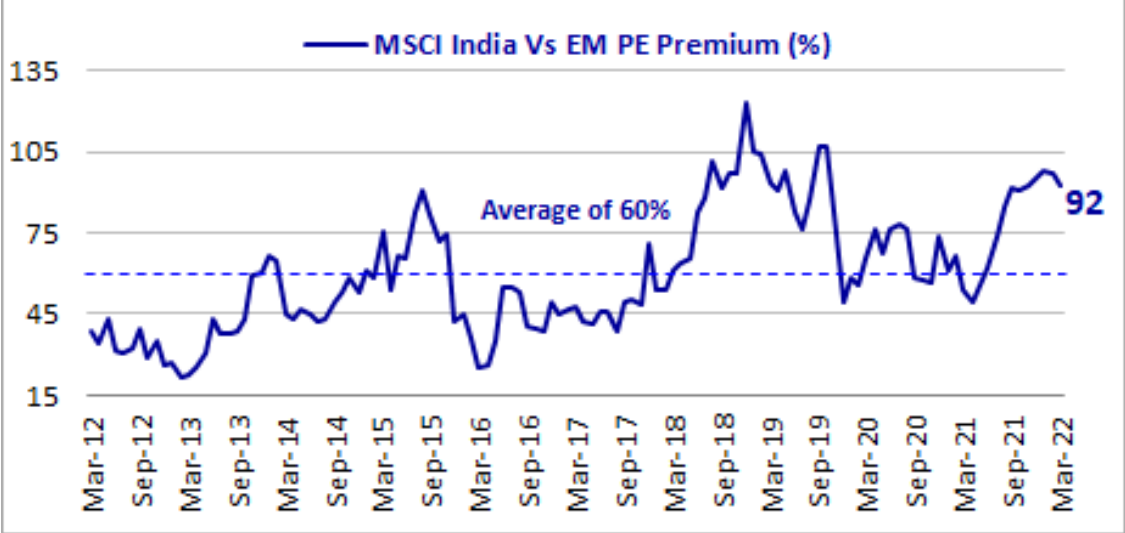


India's market valuations have moderated from their highs, but still above long term average

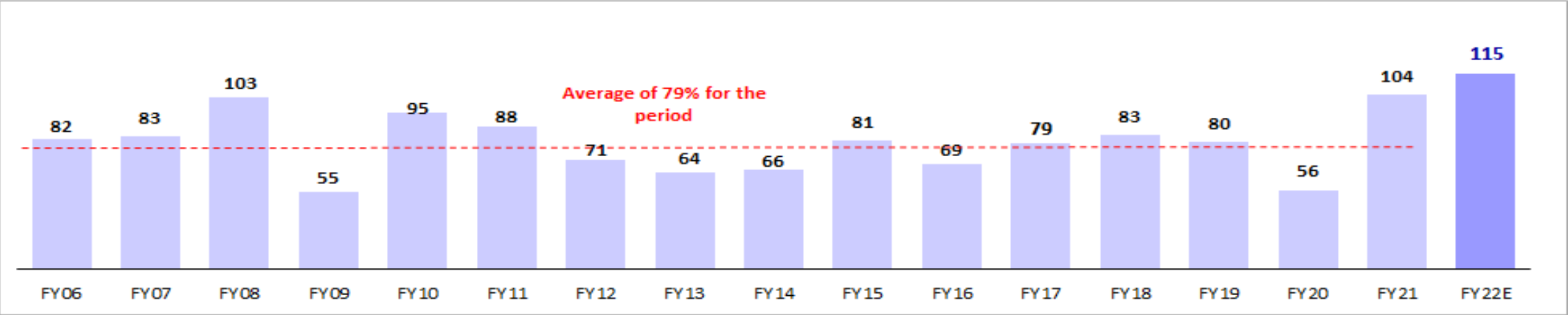
Nifty 1 Year Fwd Consensus P/E Ratio



India PE Premium / (Discount) to Emerging Mkts

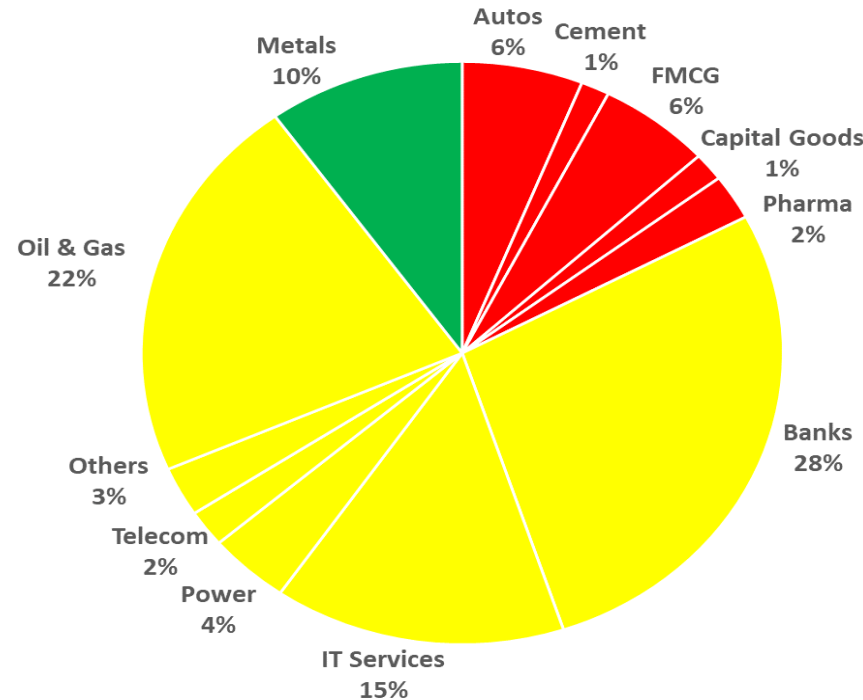


India Market Cap to GDP Trend (in %)



Limited impact on Nifty earnings due to external issues like Crude and commodity price rise

Nifty – Earnings impact due to war



- Earnings for Autos, Cement, FMCG, Capital goods companies (16% of Nifty50 earnings) to be negatively impacted due to higher commodity prices following the war.
- BFSI, IT, Power & Telecom companies (73% of Nifty50 earnings) should not see any meaningful impact on earnings.
- Impact on Oil & Gas to be neutral with the Producer benefiting while OMC earnings to be hit.

FPI flows significantly negative in FY22, while DII register record inflows

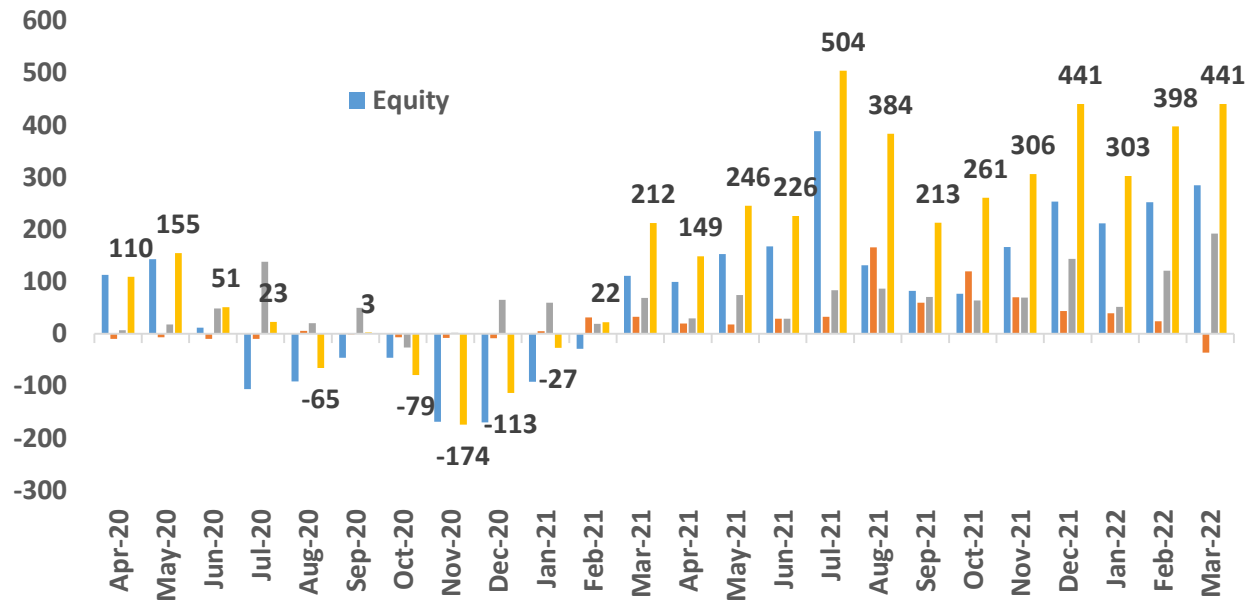
Source: NSDL, Axis Capital	Rs. In Crore	
Month-end	FPIs	DIIs
28 February 2021	21,960	-16,358
31 March 2021	19,519	5,204
30 April 2021	-12,810	11,089
31 May 2021	5,360	2,067
30 June 2021	10,932	7,044
31 July 2021	-12,622	18,394
31 August 2021	7,455	6,895
30 September 2021	8,348	5,949
31 October 2021	-16,584	4,471
30 November 2021	-5,710	30,560
31 December 2021	-13,150	31,231
31 January 2022	-35,975	21,928
28 February 2022	-37,689	42,084
31 March 2022	-36,989	39,677
30 April 2022	-17,144	30,842

Source: NSDL, Axis Capital	Rs in Crore	
Year	FPIs	DIIs
FY2008	52,572	47,794
FY2009	-48,250	60,040
FY2010	1,10,752	24,211
FY2011	1,10,121	-18,709
FY2012	43,738	-5,347
FY2013	1,40,032	-69,069
FY2014	79,709	-54,161
FY2015	1,11,445	-21,446
FY2016	-14,171	80,416
FY2017	60,196	30,787
FY2018	21,074	1,13,258
FY2019	-90	72,115
FY2020	6,151	1,29,301
FY2021	2,74,897	-1,34,056
FY2022	-1,39,434	2,21,389

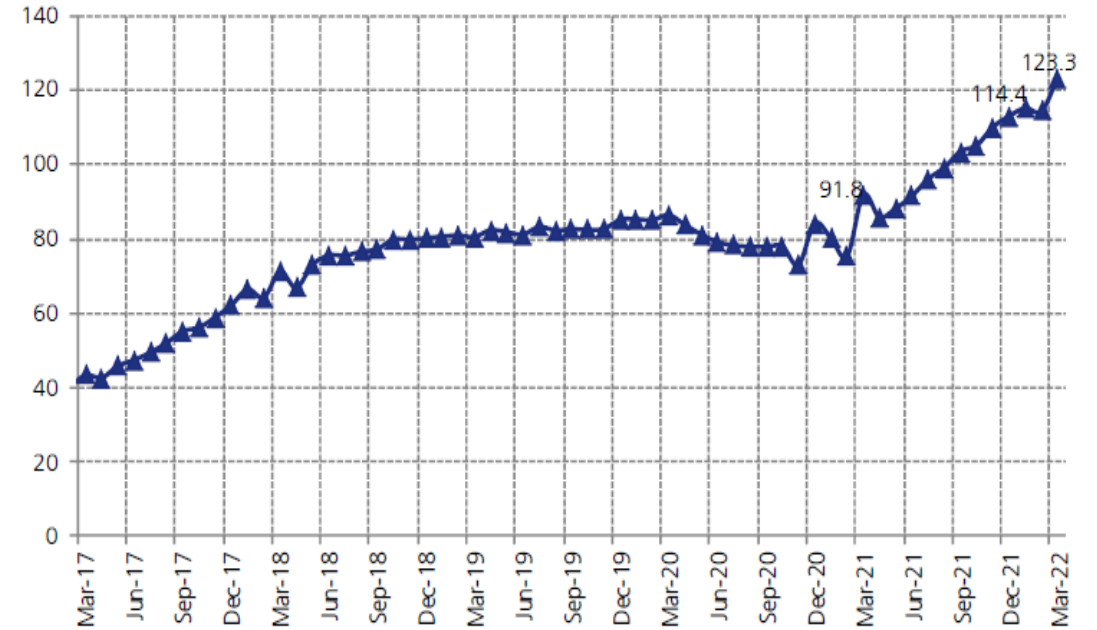
- After seeing record FPI equity inflows in FY21, FPI flows have turned significantly negative in FY22 (record outflow).
- Meanwhile, DII equity flows picked-up strongly to a record high in FY22 (helping to counter FII outflows), after seeing record outflows in FY21.

Domestic Mutual Funds witnessing robust inflows

Mutual Funds – Equity inflows (INR billion)

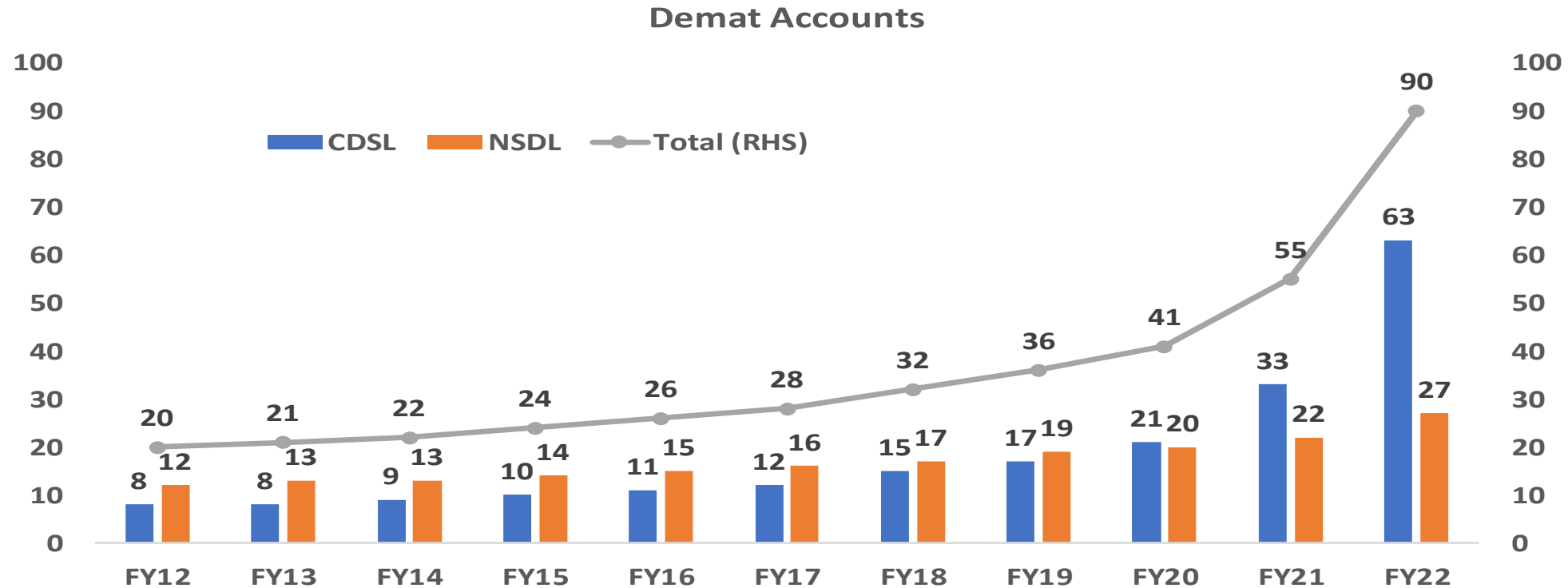


Mutual Funds – Monthly SIP trend



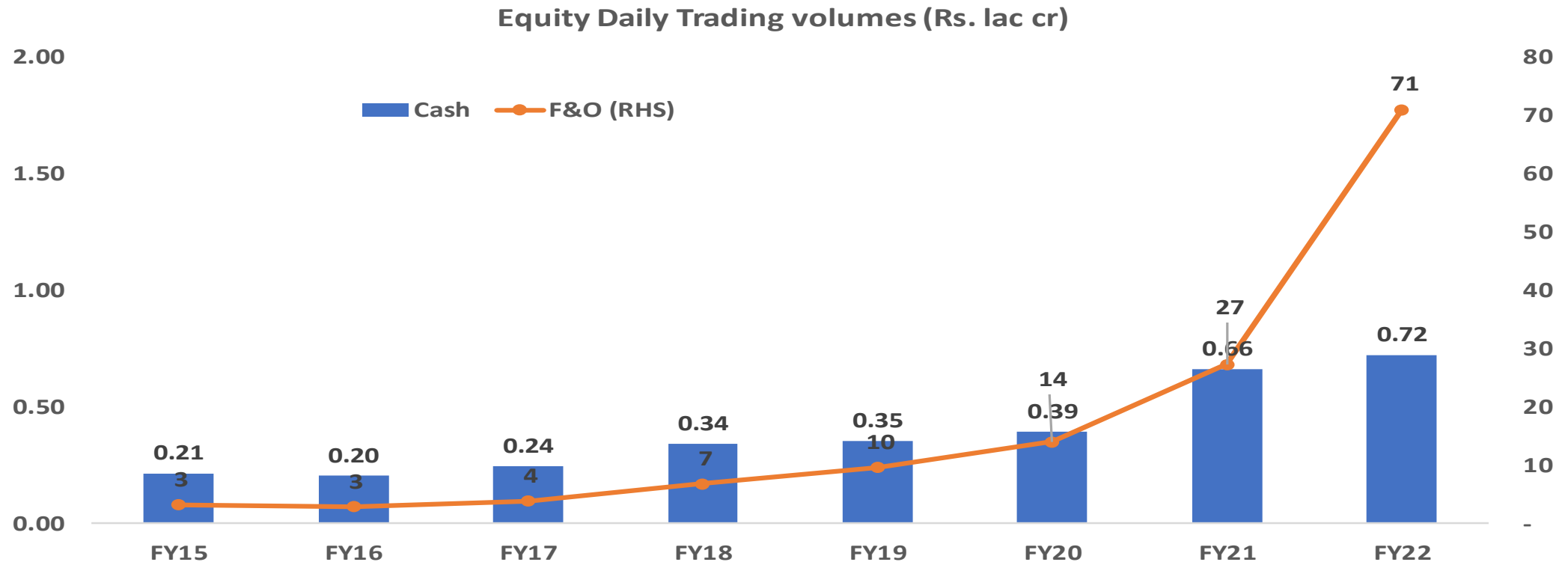
- Domestic Mutual funds have been witnessing a steady inflow in their Equity schemes since Mar'2021.
- In addition, money is also coming in via the Index Funds / ETFs.
- Monthly SIP runrate has crossed Rs.12,000cr mark.

Number of Demat accounts have doubled in two years



- Direct retail participation in equity markets has also increased in recent years.
- Number of demat accounts have more than doubled in the past two years – from ~4cr in Mar'2020 to ~9cr in Mar'2022

Equity market trading volumes are up sharply



- Average daily Cash market volumes have increased to ~72,000cr.
- Derivative markets have witnessed an even larger increase with Average daily volumes (notional value) reaching ~71 lac cr in FY22.

Market Outlook

- **Geo-political tensions leading to inflation:**
 - Commodity prices such as Crude impacting inflation
- **Market Valuations have moderated**, but still above the long term average.
- **Economic Growth recovery is well in place, Corporate Earnings growth trajectory may come-off**
- **Global unwinding of monetary policy stimulus is likely to impact valuations**
- **Equity Investment Strategy:**
 - Equity market returns expected to be moderate in CY2022
 - Companies with strong cash flows would outperform

THANK YOU

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