SBI Research

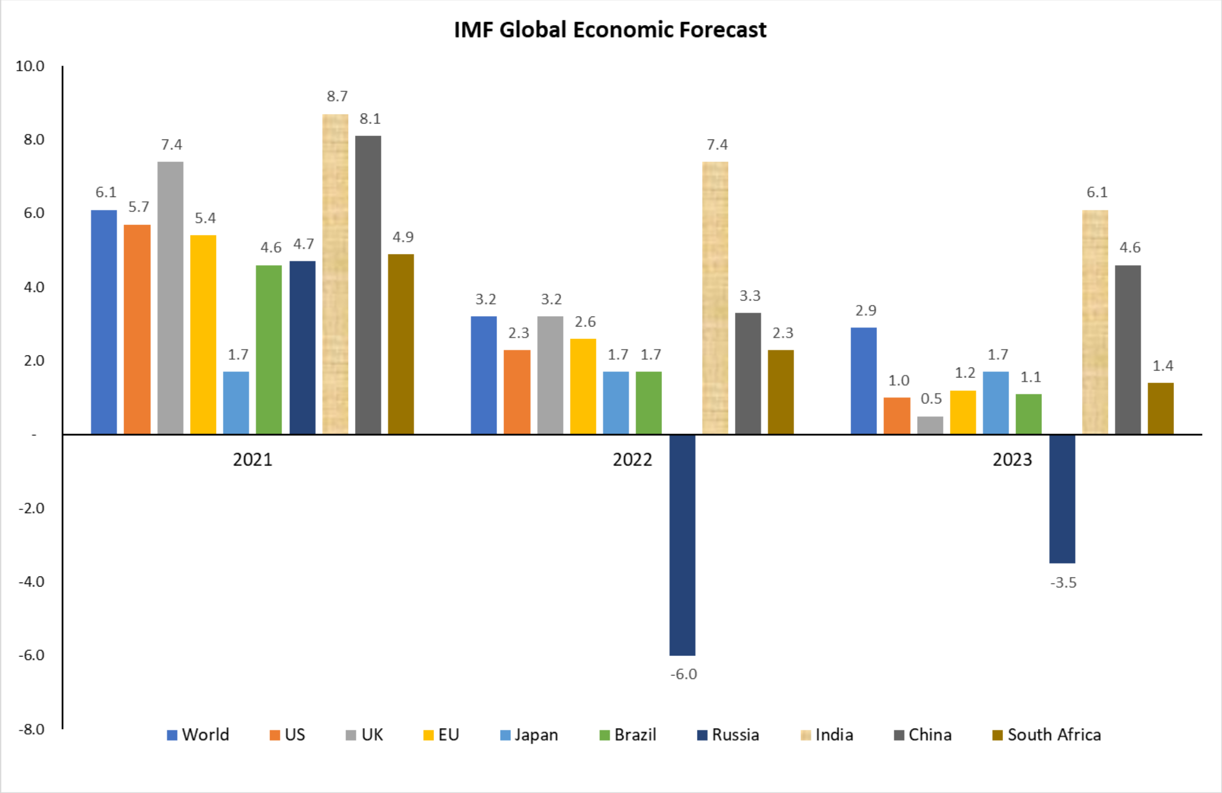
Prelude to MPC September meetings: Is India an outlier in the age of reverse goldilocks?

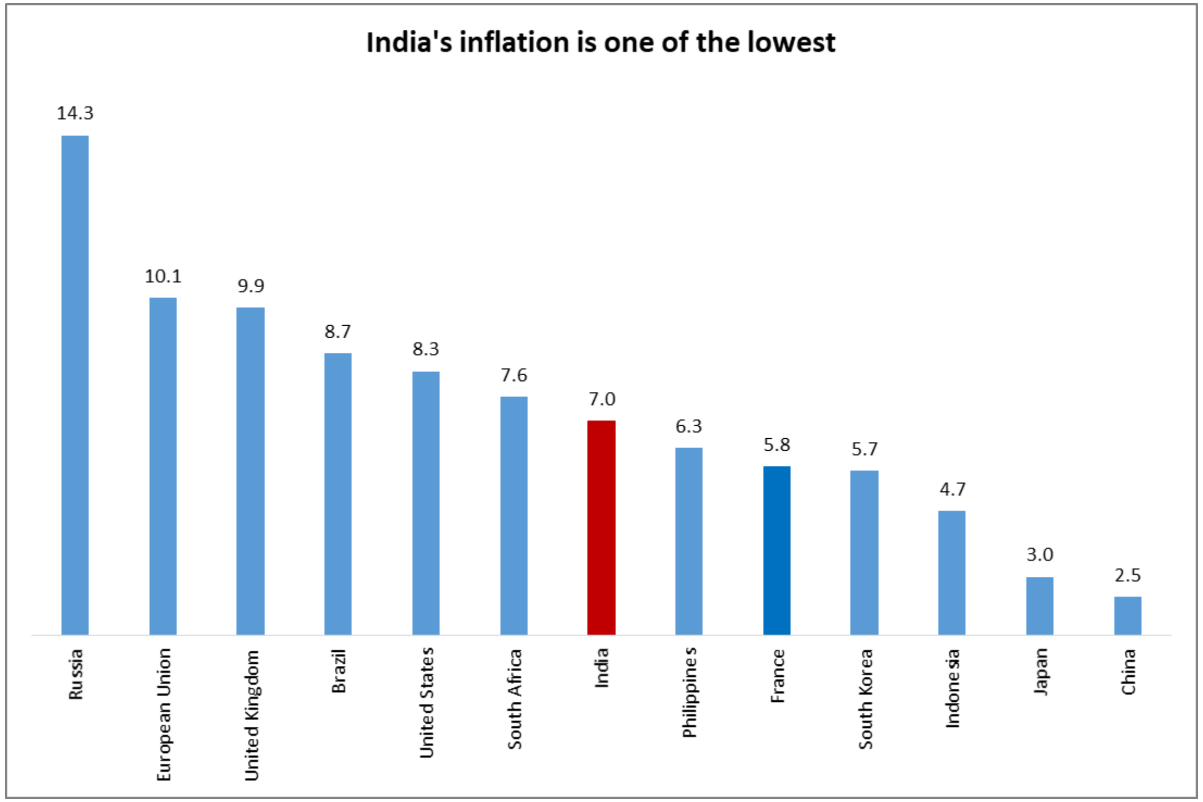
23-September-2022

Global Uncertainty is still thriving

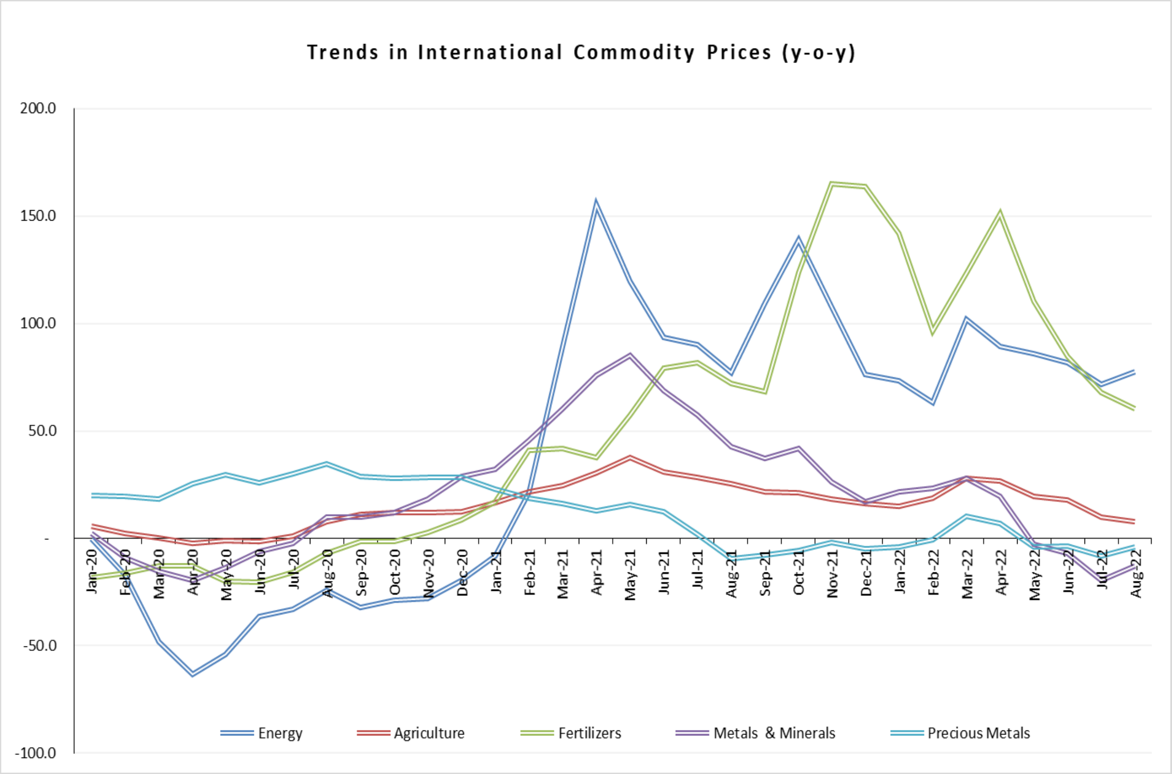
- Inflation remained elevated much above targets/tolerance levels in both AEs and emerging market economies (EMEs), driven up by energy and food prices
  - The US CPI inflation (y-o-y) moderated to 8.3% in Aug’22 from 8.5% in July while core CPI accelerated to 6.3% in August
  - Euro Area annual inflation shot up to a record high of 9.1% in August, primarily driven by high energy prices followed by those of food, alcohol and tobacco
  - CPI inflation in the UK eased to 9.9% in Aug’22 from its double-digit peak in July due to moderation in motor fuel prices
  - Among the BRICS economies, inflation in Brazil eased to 8.7% in August from 10.1% in July, while in China it eased to 2.5%. In Russia, inflation softened further to 14.3% in August from 15.1% in July
- Central banks of most AEs and EMEs have undertaken aggressive monetary tightening to bring down inflation
  - US Fed has raised rates by 75 bps, third time in a row
  - Bank of England raised rates by 50 bps
- Global commodity prices have remained volatile after their fall in June from historical highs. Prices edged up during late July - early August, before moderating towards the end of the month, largely driven by concerns over demand slowdown
- Crude oil prices is trading decisively below $100 per barrel with heightened volatility due to expectations of an imminent slowdown in global demand
- In the bond market, 10-year G-sec yields hardened across major AEs reflecting central banks’ hawkish stance as inflation edged up
- The global economy is being rattled by big realignments in exchange rates

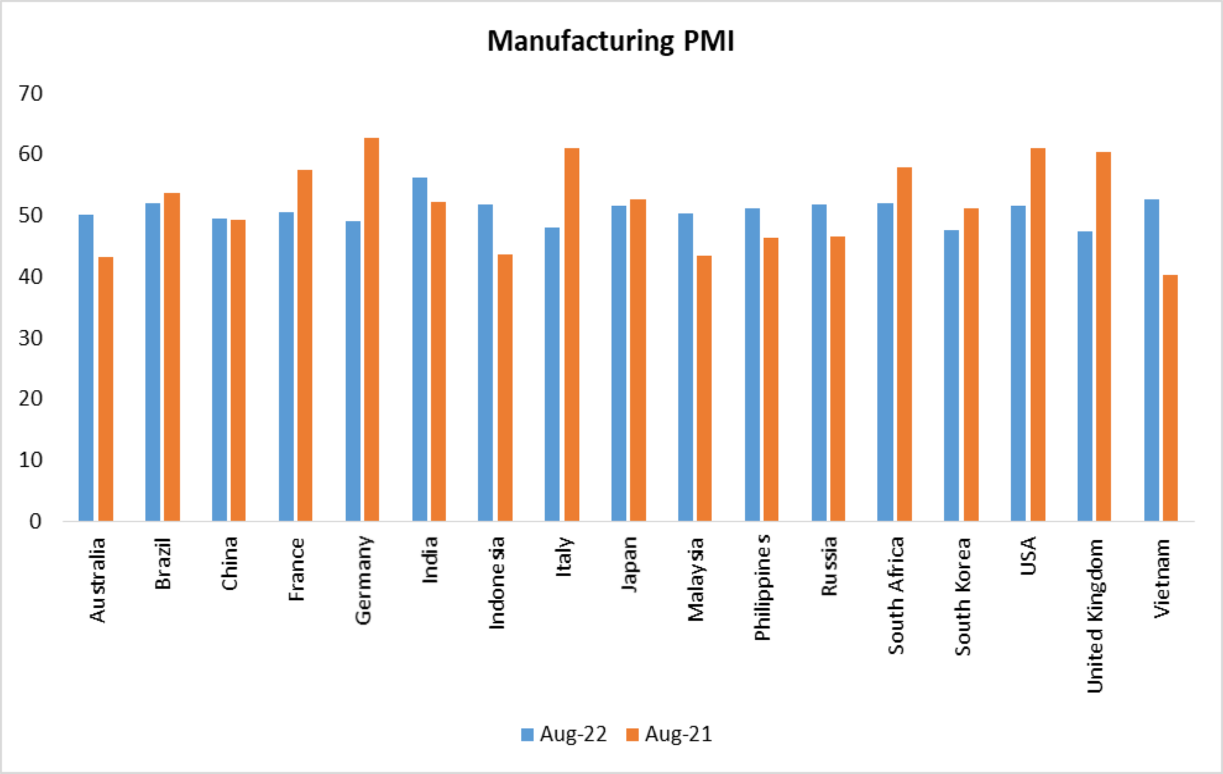
Economy Status: Growth is slowing down and inflation is trending much higher…





Commodity prices receding from their recent peaks





Country specific risks

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The United States

- The annual inflation rate in the US eased for a second straight month to 8.3% in August of 2022, the lowest in 4 months
- Student debt in the US has reached $1.7 trillion. US administration is planning a debt relief package to reduce burden on America’s middle class

China

- The property crisis in China with home boycotts has gather further pace. Homebuyers are boycotting 342 projects in 119 cities, up from about 320 in 100 cities in early August
- Refinancing of colossal Chinese debt could be a litmus test for the regulators

European Union

- High energy prices fueling cost pressures
- In August 2022, the index of producer prices German for industrial products has increased by a staggering 45.8%

FOMC Growth and inflation outlook

- Supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures have kept the US inflation high
- War and related events are creating additional upward pressure on inflation in the US as well
- The “*Committee is highly attentive to inflation risks*” will set the tone of policy direction
- The growth outlook accordingly is deceleration in GDP growth to 0.2% in 2022 and 1.2% in 2023
- The median unemployment rates is also expected to rise from to 3.8% in 2022 and 4.4% in 2023

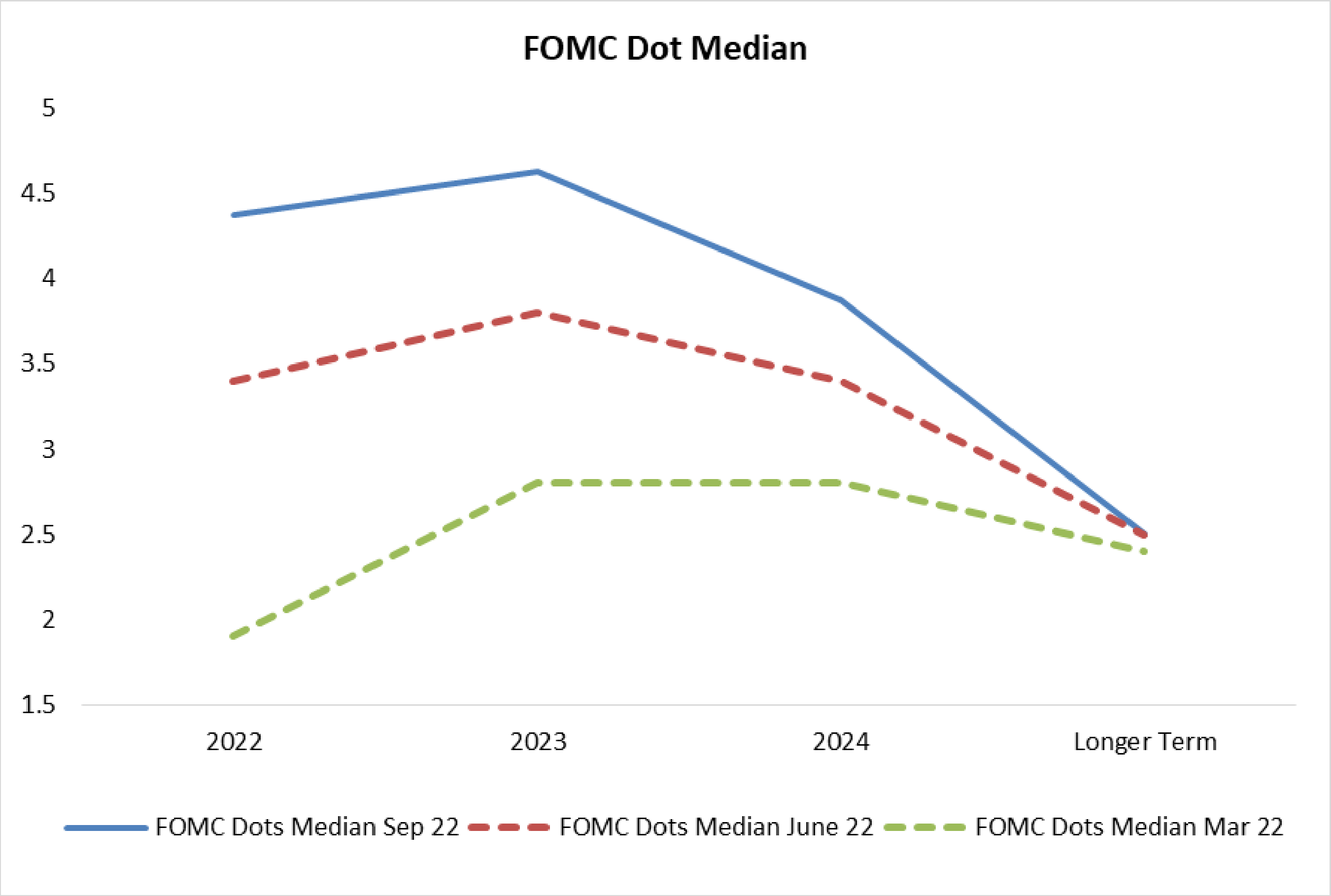
FOMC Dots and rate of interest

- The Federal Funds Rate (FFR) now stands at 3-3.25%

- The dots indicate that FFR will be in range 4-4.5% implying continued rate hikes for entire 2022

- For 2023 the dots indicate higher concentration at higher rates with FFR settling in the range 4.25-5%

- Dots indicate some easing in rates only in 2024



Dollar interest rates in long run

- One conclusion stands clear rate of interest will rise for entire period 2022-2023
- This implies both equity and bonds are headed for correction
- Course of commodity prices remain uncertain due to supply demand imbalances
- At 5% plus the course of FFR implies aggressive rate hike across emerging markets

Potential Paths for US YoY CPI based on constant MoM Change…..Rate hike probabilities indicate another 75 bps in November with a 60% probability & 50 bps in Dec with 44% prob…

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	Actual CPI YoY%	Implied Fed Funds Rate%
04-2021	4.2	0.07
05-2021	5.0	0.06
06-2021	5.4	0.08
07-2021	5.4	0.1
08-2021	5.3	0.09
09-2021	5.4	0.08
10-2021	6.2	0.08
11-2021	6.8	0.08
12-2021	7.0	0.08
01-2022	7.5	0.08
02-2022	7.9	0.08
03-2022	8.5	0.2
04-2022	8.3	0.33
05-2022	8.6	0.77
06-2022	9.1	1.21
07-2022	8.5	1.68
08-2022	8.3	2.33

	constant MOM change from Aug'22				
Future YoY CPI	0.0%	0.10%	0.2%	0.3%	Fed Fund Futures
09-2022	8.0	8.1	8.2	8.3	3.09
10-2022	7.1	7.3	7.5	7.7	3.09
11-2022	6.6	6.9	7.2	7.5	3.79
12-2022	6.2	6.7	7.1	7.5	4.27
01-2023	5.3	5.9	6.4	6.9	4.27
02-2023	4.4	5.0	5.6	6.3	4.53
03-2023	3.0	3.7	4.5	5.2	4.65
04-2023	2.4	3.3	4.1	4.9	4.65
05-2023	1.3	2.2	3.2	4.1	4.67
06-2023	0.0	1.0	2.0	3.0	4.64
07-2023	0.0	1.1	2.2	3.3	4.60
08-2023	0.0	1.2	2.4	3.7	4.60
09-2023	0.0	1.2	2.4	3.7	4.51
10-2023	0.0	1.2	2.4	3.7	4.51
11-2023	0.0	1.2	2.4	3.7	4.41
12-2023	0.0	1.2	2.4	3.7	4.31

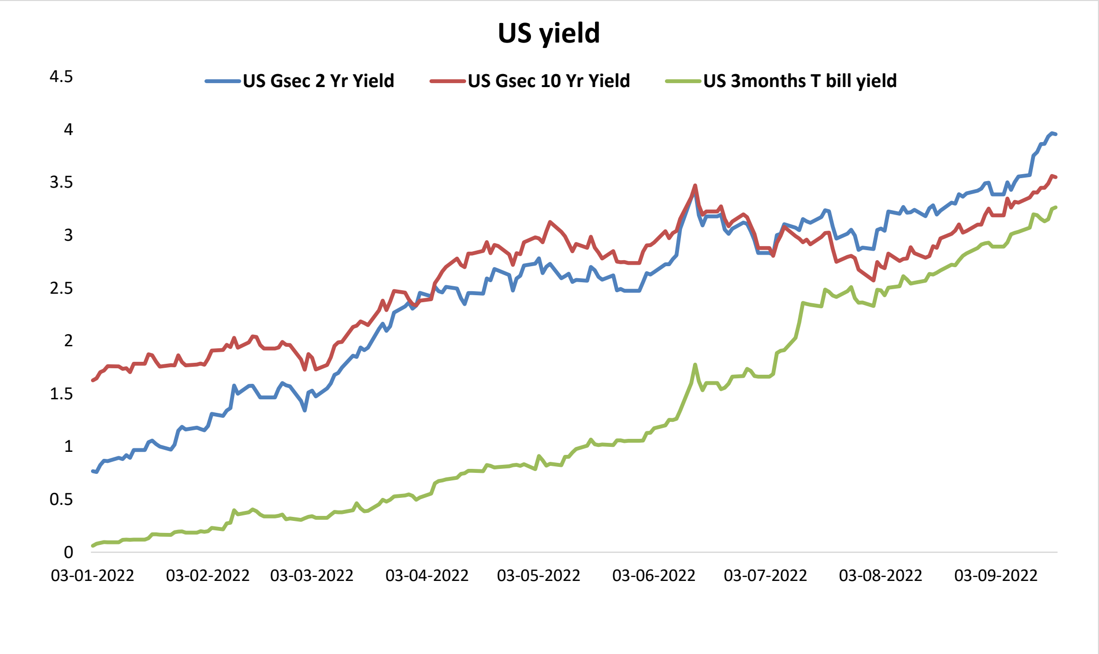
CPI YoY is below projected Fed Funds Rates as early as Feb 23 and as late as May 23 based on 0.0% to 0.3% MoM Change

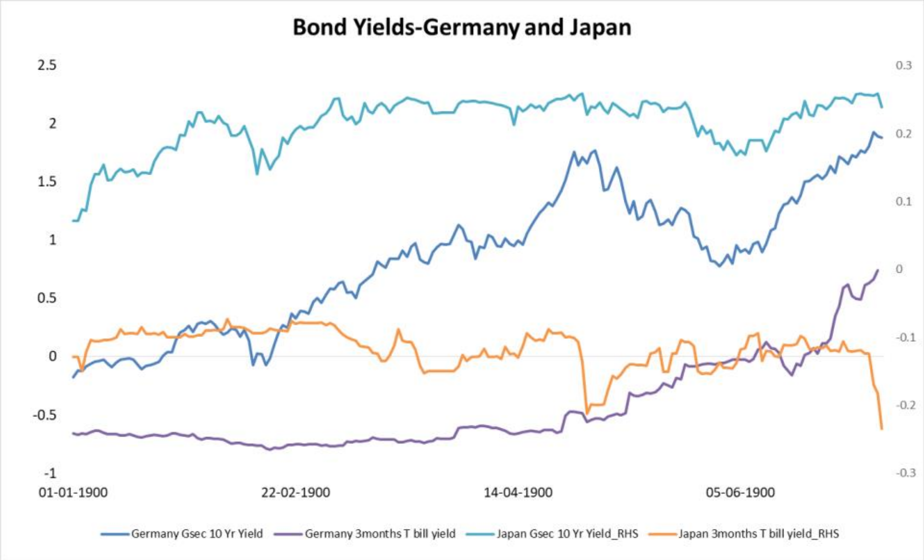
Meeting Probabilities									
Meeting Date	300-325	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525
21-Sep-22	83%	17%	0%	0%	0%	0%	0%	0%	0%
02-Nov-22	0%	0%	29%	60%	11%	0%	0%	0%	0%
14-Dec-22	0%	0%	0%	10%	39%	44%	7%	0%	0%
01-Feb-23	0%	0%	0%	4%	22%	41%	28%	4%	0%
15-Mar-23	0%	0%	0%	2%	13%	31%	35%	17%	2%
03-May-23	0%	0%	0%	2%	13%	31%	34%	16%	2%
14-Jun-23	0%	0%	0%	4%	17%	32%	31%	14%	2%
26-Jul-23	0%	0%	1%	7%	20%	32%	27%	11%	1%
20-Sep-23	0%	1%	4%	12%	24%	30%	21%	7%	1%
01-Nov-23	0%	2%	6%	16%	26%	27%	17%	5%	1%
13-Dec-23	1%	4%	11%	21%	27%	22%	11%	3%	0%

Source: SBI Research, CEIC, CMEGroup

US bond tapering & yield inversion

- In June 2020, the Fed implemented an ongoing quantitative easing (QE) program to purchase $120 billion of bonds per month – $80 billion in U.S. Treasury securities and $40 billion in mortgage-backed securities.
- The program continued until the Fed started tapering its purchases in December 2021, by reducing Treasury purchases by $10 billion each month and mortgage-backed securities by $5 billion each month. Accordingly, Treasury purchases were last concluded in March'22
- In March 2020 the Fed started reducing positions in Treasury securities, agency debt and agency mortgage-backed securities by $47.5 billion per month initially, stepping up to $95 billion monthly by September
- On September 15, the Fed stopped buying mortgage-backed securities altogether
- Meanwhile, in early April 2022, the yield curve inversion between 2-year and 10-year Treasury securities occurred briefly. The yield curve inverted again in July 2022 and has remained that way since then
- If long-term yields don't move much despite the Fed's tapering and unwinding of its balance sheet, it may put some constraints on how much the Fed can afford to raise short-term interest rates





Central Bank Communication is the most important policy tool in the current uncertain times

"Monetary policy is science but monetary policy making is an art"

Central Bank Communication / Forward Guidance is now before the policy action……..

- While communicating policy after it is made is the standard mode of communication, central banks are taking to communication before policy action. This again is a lesson from experience — that the market does not like unexpected news, and that surprises should be avoided unless surprise is, in rare circumstances, part of the strategy itself. Communication, instead of being a vehicle for policy is now the policy itself a practice initiated by Sveriges Riksbank
- Many large central banks, such as the ECB, were initially averse to such an idea, favouring a more implicit rather than explicit guidance — like Lucas Papademos, a former vice-president of the ECB. He had differed with the erstwhile Fed Chairman Ben Bernanke who was more explicit in outlining the course of Fed measures after the Lehman Brothers debacle. Bernanke argued, and correctly, that explicit forward guidance may be more useful to assuage market sentiments when uncertainty is very high, and in EMEs — having inadequate market depth and being more reactive — explicit forward guidance is more appropriate
- The Fed thus first gave a forward guidance after the global financial crisis / first generation policy signals of keeping rates low " for an extended period" or "can be removed at a pace that is likely to be measured". The ECB's use of such code words as "strong vigilance" also belongs to this category
- In August 2011, the Fed enhanced its guidance to second generation which until then had stated that the FFR would likely stay at exceptionally low levels "for an extended period", by replacing the latter with "at least through mid-2013". Simultaneously, to make its objectives clearer, in January 2012, the FOMC (Federal Open Market Committee) released a Statement on Longer-Run Goals and Monetary Policy Strategy. These we call it second generation signal
- In the recent FOMC meeting, there has been a significant shift up in the forward guidance of federal funds rate projections from the previous meeting. Median 2023 dot has moved up by almost full percentage point

….Forward Guidance in Monetary Policy today is less important than commitment on end objective

- In the current normalization phase, there is much less need and space for detailed forward guidance
- Market expectations of future policy rates remain a key driver of long-term interest rates, which are what matters most for investment and spending decisions
- But forward-guidance - at least in the form of a commitment to an unconditional and/or prolonged path for the policy rate - is today an unadvisable way of steering market expectations in a rate hike cycle
- Being gradual is less important than being orderly. One can be gradual, but we should not be slow and delay normalization until higher inflation expectations force us into aggressive interest-rate hikes. What remains essential however is to be orderly, in order to avoid undue market volatility and ultimately economic volatility
- Financial markets and economic actors understand the reaction function of Central Bank in order to avoid unwarranted volatility: if inflation—and especially core inflation—is higher than expected, rates are likely to be raised more quickly. And Central Bank should preserve some short-term signalling—or guidance—in new “meeting-by- meeting” approach, where (i) guidance, if any, should come from explicit statements from the top rather than from unsourced leaks, (ii) multiple and somewhat disorderly expressions may be restrained

Domestic Conditions

Estimating the Terminal Repo rate for India in the current cycle: The Lower Bound…

- We did some research on the upper bound of the repo rate by dovetailing the 2018 NBER paper by Markus K. Brunnermeier and Yann Koby titled, "**The Reversal Interest Rate**", with certain modifications. In principle, if the central bank reduces the policy rate below such a "reversal interest rate", the monetary policy rate depresses rather than stimulates the economy and vice versa. Importantly, the reversal interest rate is not (necessarily) zero
- As the central bank lowers the policy rate, banks can refinance their long-term assets at a cheaper rate (recently, banks have raised additional tier 1 bonds at the lowest rate since 2013). This increases the value of their equity; they are better capitalized, which relaxes their regulatory or economic constraint and could clearly result in higher profitability. **We call it the Capital Gains impact on Bank Profitability (CG) that works in inverse direction with changes in policy rate**. However, a lower policy rate also negatively impacts banks' profits on new business, by lowering banks' net interest margins. **We call it the Net Interest Margin (NII) impact on bank profitability that works in same direction with changes in policy rate**
- We estimate the adopted model following 2018 NBER paper by using data beginning 2005 till 2022 :

$$NII = \alpha 1 + \beta 1\ (Repo)$$

$$CG = \alpha 2 — \beta 2\ (Repo)$$

Lower Bound / Upper Bound of Repo rate is reached by employing the boundary condition: NII-CG $\geq$ 0 / CG - NII $\geq$ 0

- With the cut in policy rate, NII declines but capital gains increases. By imposing the boundary condition Lower Bound Repo rate is reached only if "**Increase in Capital Gains (CG) >= NII Decline**". **We estimate this rate was at 3.5%**
- We believe that Taylor rule is not the ideal policy rule that emerging economies should follow, or even developed economies in the current fragile global environment. In principle, the Taylor Rule, requires the specification of both r* (neutral or equilibrium real rate of interest) and the GDP output gap, both of which are unobservable, Both require judgment on the part of anyone applying the "rule."

Estimating the Terminal Repo rate for India in the current cycle: The Upper Bound…

- With the increase in interest rate, NII increases but capital gains declines. We impose the boundary condition that Upper Bound Repo rate is reached only if "**Decline in Capital Gains (CG) >= NII Increase**"
- **If increase in net interest income are low to compensate the loss in capital gains/equity profits, they limit banks' ability to take on risk. This is the upper bound, and any further increase from such level will generate a decline in lending though the net-worth loop**
- Estimated the empirical Model for India using data from 2005-2022 indicate that:

$$NII = 6.03 + 0.55\ (Repo)$$

$$CG = 12.19 - 0.41\ (Repo)$$

- Solving the above two equations by imposing the boundary condition provide us the **<u>Upper Bound of Repo Rate = 6.4% and Lower Bound at 3.5%</u>**
- Given that RBI has reduced the repo rate to 4%, it implies that the effective upper bound of repo rate at 6.4% needs to be juxtaposed against the 50 bp cushion

Estimating Peak Repo Rate for India by employing Monetary & Fiscal Policy Coordination post pandemic

- We also looked at the coordination problem between the RBI and the Government of India through a game theory framework post pandemic
- **Government maximisation problem**

  Maximize (GDP growth^2 – (BD-BD')^2), such that

  *GDP growth = a*Inflation rate + b*rate of interest + c*BD*

  Where BD is budget deficit, BD' is target budget deficit

- **RBI minimisation problem**

  Minimise (Inflation rate – target rate of inflation)^2, such that

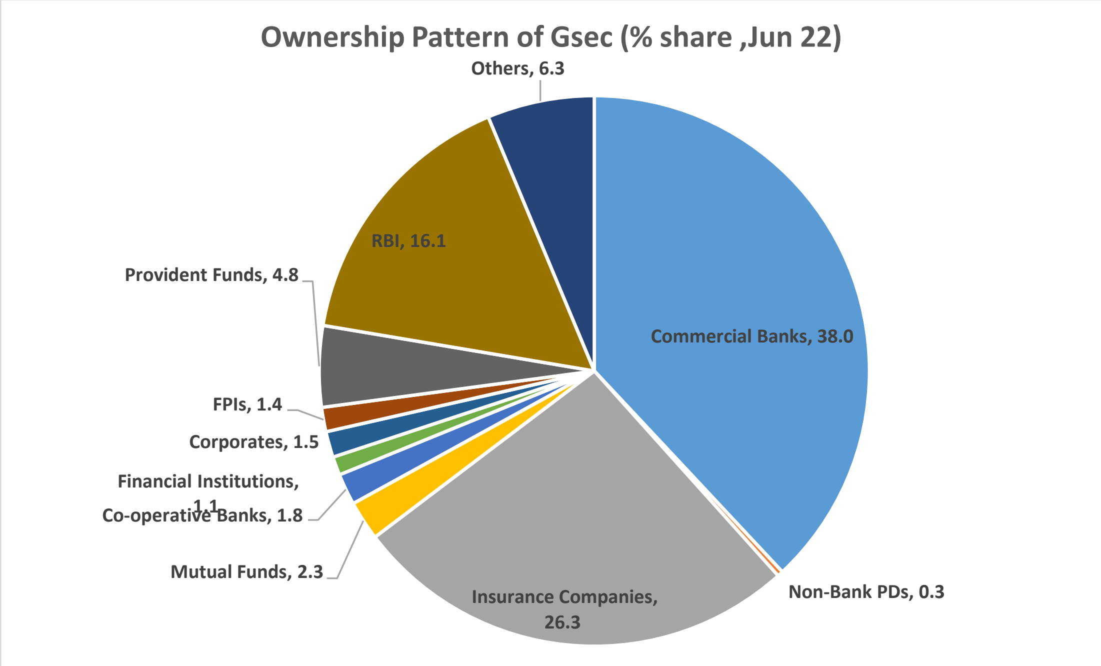
  *Inflation rate = A*GDP growth + B*BD + C*rate of interest+ D*differential between G-sec yield & monetary policy lower bound*

- **Our results show that using Stackelberg model with Government as the leader and RBI as follower, if the Government targets a fiscal deficit of 4.5% of GDP, the RBI repo rate should go up to 5.8%- 6.0%**

- Another important result of our study is that the key rate of interest set by the RBI is not much affected by the fiscal deficit target. This is because in case of India the key terminal rate depends more on inflation and the liquidity situation in the country. Thus, we can say that **RBI liquidity management seems to be more crucial indicator affecting inflation and terminal interest rate**. Nonetheless, fiscal deficit impacts the rate of interest indirectly by influencing inflation and liquidity dynamics

Ownership Pattern: It's the right time for Global Bond Index inclusion

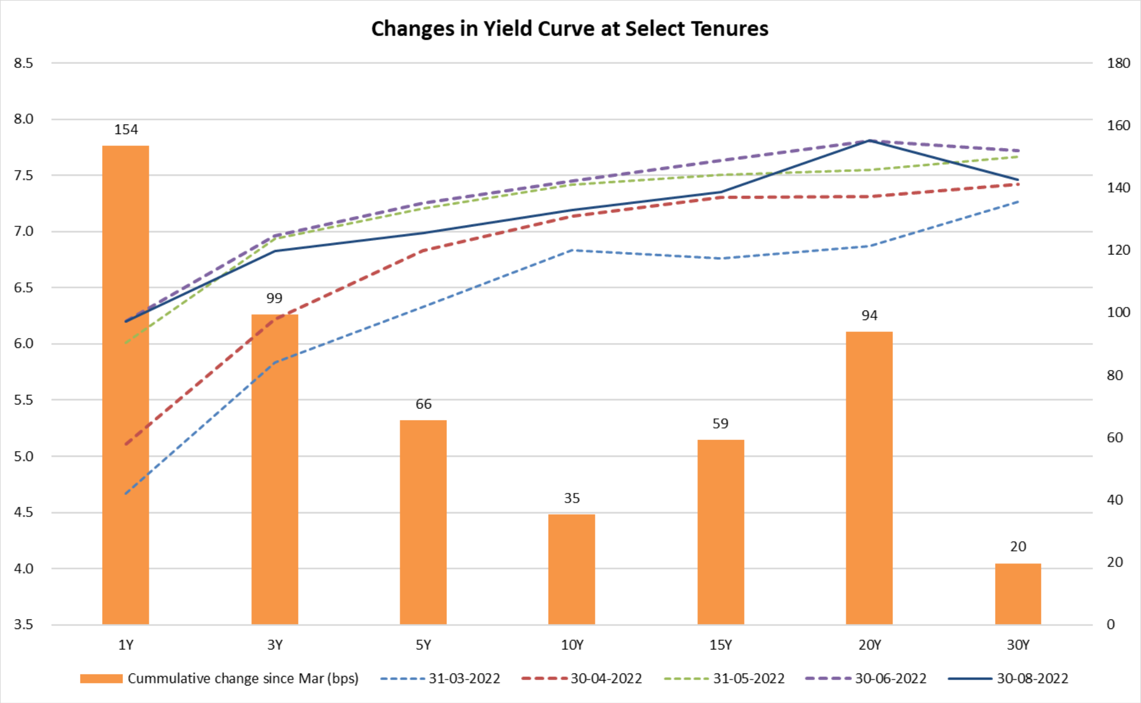
- Ownership pattern in outstanding Government securities show banks and insurance as the chief players
- In Q1 FY23 more than 85% is the share of commercial banks and insurance companies alone
- Banks have invested maximum amount in G-sec in Q1, with a share of 47%. As per the latest data available for 26th Aug'22 ASCB have invested amount of Rs 3.38 lakh crore on YTD basis this fiscal, with yoy growth at 10.3%
- Currently, SLR holding of ASCBs are at 28% of NDTL, 10% of NDTL more than the required SLR. As per the latest RBI announcement in Apr'22, the total HQLA carved out from the mandatory SLR is 18% of NDTL (2% MAF and 16% FALLCR)



% share in Q1 FY23 G Sec Borrowing				
Category	% share in Gsec		Incremental Borrowing	% share to total net Borrowing
	Mar-22	Jun-22	Q1 FY23	
Commercial Banks	37.75	38.04	121912	47.0%
Non-Bank PDs	0.29	0.33	4407	1.7%
Insurance Companies	25.89	26.34	105792	40.8%
Mutual Funds	2.91	2.32	-44765	-17.3%
Co-operative Banks	1.81	1.84	7584	2.9%
Financial Institutions	0.94	1.09	15403	5.9%
Corporates	1.47	1.52	7980	3.1%
FPIs	1.56	1.43	-7663	-3.0%
Provident Funds	4.60	4.77	26763	10.3%
RBI	16.62	16.06	-7060	-2.7%
Others	6.15	6.30	29057	11.2%
Total Gsec outsdtanding(in Rs. Crore)	8529036	8784931	259409	

10-year benchmark yield has been largely stable indicating markets are comfortable with future inflation trajectory declining

- RBI yield management has been calibrated and long-term inflationary expectations are getting anchored. If we take 1-2 year and 10 years cut off rates pre and post pandemic or even pre and post rate hikes, the increase in 2-year rates has been much higher indicating more of short-term uncertainty
- The 10 year has been remarkably capped ~ 7.25%, implying that the market is convinced about an inflation scenario that is bound to correct going forward



Cut off Yield (2 Yr and 10 Yr Gsec)		
	2 Yr	**10 Yr**
Cut off Yield Pre Pandemic	5.75	6.51
Cut off Yield (16.09.2022)	6.80	7.24
Change in bps	104.8	73.2
Cut off Yield Before Rate hike	5.4	7.17
Cut off Yield (16.09.2022)	6.8	7.24
Change in bps	137.0	7.1
Bids Received FY23 (Rs Lakh Cr)	0.99	3.02
Bids Accepted in FY23 (Rs Lakh Cr)	0.37	1.28

Domestic Yield likely to remain capped at ~7.25-7.3% with combination of several factors: could test lower levels…However, Yields Globally on Fire

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- More than expected US inflation data implies aggressive rate hikes by Fed will continue. Fed Funds rate can go up even up to 5%. This in turn will put pressure on the commodity prices which have significantly declined since Mar'22. The crude prices have declined by more than 12% so far since Mar'22
- Historical rate hike cycle by the US Fed has been accompanied by significant decline in crude oil prices. A comparison with the previous US rate hike cycle indicate that the commodity and crude price change mapped to a 425 bps rate hike (a likely scenario now) is much higher than the current commodity and crude price changes from peak to bottom. This clearly indicates crude and commodity prices will correct further.. a good harbinger for India's CAD
- Our analysis shows that every $10 decline in crude prices will lower our CAD by 35 bps. Thus, if average crude prices fall to $90/bbl then current account deficit is likely to be $112 billion (3.2% of GDP) compared to $126 billion (3.6% of GDP). Even, inflation will be lower by 20-25 bps if oil price declines by $10/bbl
- Given redemption of Rs 1.3 lakh crore in Sep-Dec'22 quarter, we believe 10-year G-sec Yield is likely to remain anchored up to 7.25% with an outside chance of a sub 7%!

Historical movement of Fed Funds Rate and Commodity Prices

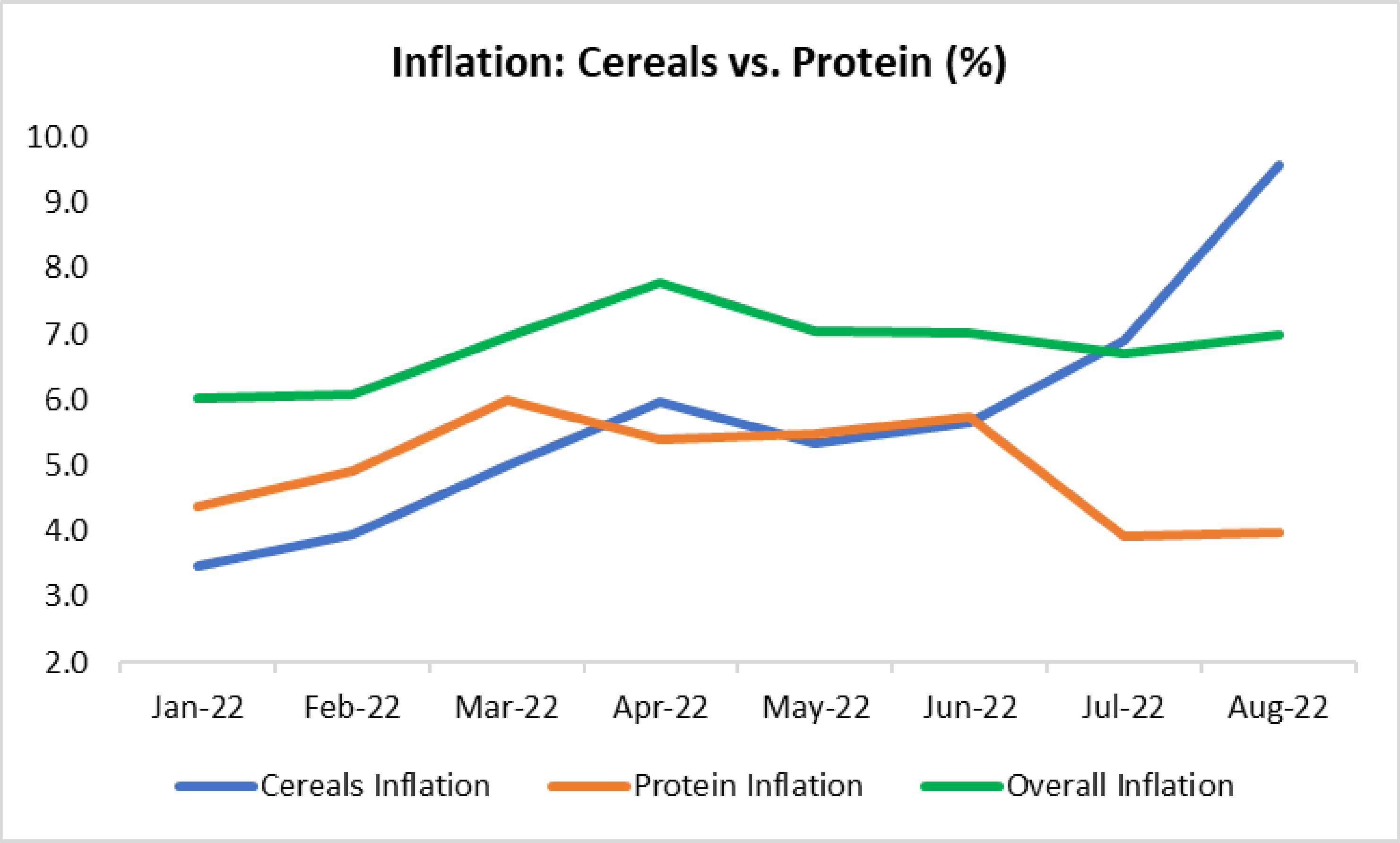
Period	Fed Rate Hike (bps)	Commodity price Index max change	Crude oil price max change in $/bbl
Jun 2004 to Jun 2006	425	-102.76	-40.37
Mar 22 to Jul 22	225	-43.82	-24.23

Impact of crude price change

Scenarios	CAD			Inflation	
	bps	Amount ($ bn)	% of GDP	bps	%
For every $10 per bbl decline	35	-13.8	-	-(20-25)	-
Average 100 $/bbl		-126	-3.6		6.4
Average 90 $/bbl		-112	-3.2		6.2

Is Cereals Inflation a Major Threat?

- Cereals inflation jumped to 9.6% in Aug from 3.5% in Jan'22. Recent sowing and rainfall trends indicate that sowing of rice and pulses will be adversely impacted their production. This will pose a major threat to the overall CPI inflation
- However, the most interesting trend is the negative growth in protein rich item eggs and steady deceleration in prices of meat and fish. This trend is rather surprising as current period of high inflation is not driven by protein rich items



Rupee depreciation is followed by rupee appreciation….BoJ intervenes in currency market after 24 years!!

- Rupee is lingering below 80 per dollar in the recent past as RBI has been protecting it from crossing the psychological benchmark of 80 per dollar and also keep its volatility under control
- However, after the recent Fed rate hike by another 75 bps and *dot plot* indicating possibility of terminal rate of around 5%, rupee as depreciated crossing the 80 per dollar mark
- No central bank can prevent currency depreciation currently and RBI may allow the rupee to depreciate for a limited period. Foreign currency assets of RBI have declined by $75 billion since Ukraine War, in order to protect the rupee. This has led to reduced import cover of 9 months, which is at the lower end. This is also true that once the currency settles at a lower level, appreciation of currency picks up dramatic pace, that is a distinct possibility given India’s strong fundamentals
- Moreover, much of the weakness in rupee is on account of a strong dollar and not because of our domestic economic fundamentals. The Indian rupee (INR) depreciated by a modest 7% vis-à-vis the US dollar since the war broke out. The US $ Index has appreciated by 15% during the same period. There have been instances in the past which shows that rupee depreciation has been much more than the appreciation of the Dollar (like Jan-08 to Feb-12 and Oct-12 to May-14), which had happened because of our weak domestic macro-economic fundamentals

Distribution of Rupee Depreciation

Time Period	Months Taken
Jan-08 to Mar-09	14
Apr-10 to Dec-11	20
Feb-12 to Jul-12	5
Oct-12 to Sep-13	11
May-14 to Feb-16	21
Jan-18 to Oct-18	9
Jul-19 to Apr-20	9
Mar-21 to Sep-22	18
Average	**13**

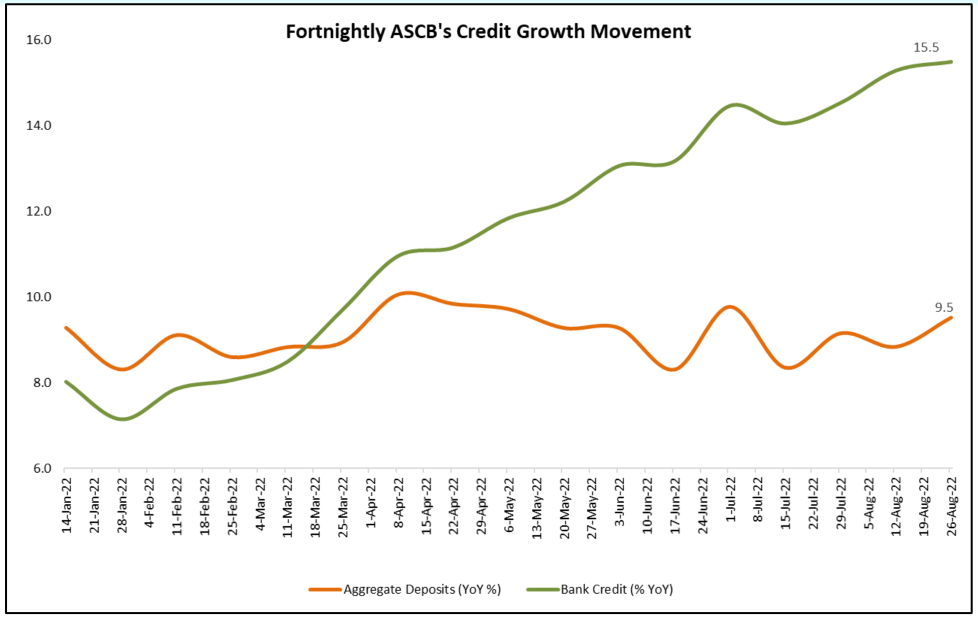
Source: SBI Research

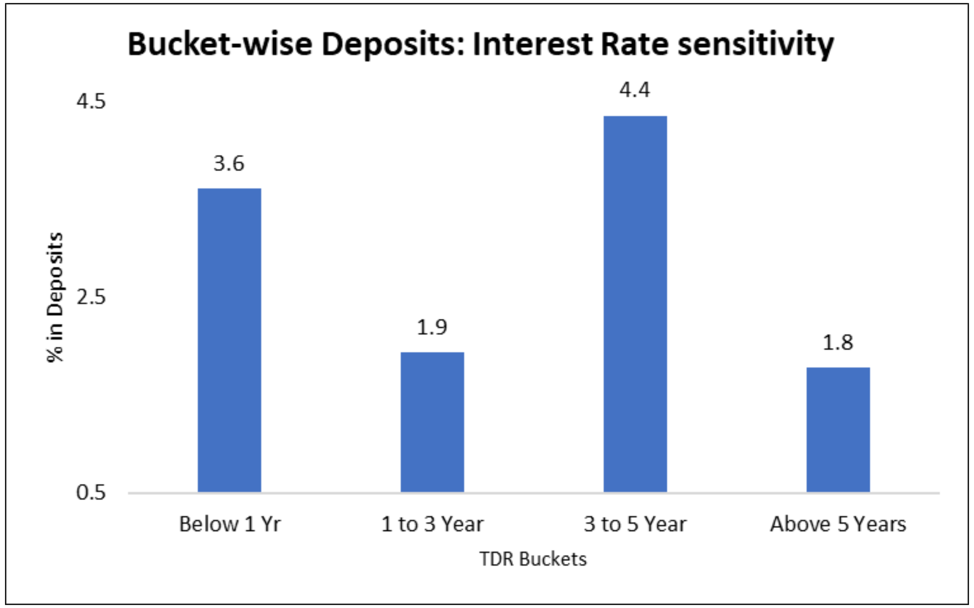
USD INR Rates & Dollar Index (2008 till current)

Period	Depreciation of Rupee	Appreciation of Rupee	Net movement of Rupee	Movement of Dollar index during the period
Jan-08 to Feb-12	-33.5	6.4	-27.1	3.9
Feb-12 to Oct-12	-12.7	4.3	-8.4	1.0
Oct-12 to May-14	-20.2	7.0	-13.2	0.3
May-14 to Jan-18	-15.0	6.7	-8.3	13.6
Jan-18 to Jul-19	-15.7	6.6	-9.1	7.2
Jul-19 to Mar-21	-10.9	4.5	-6.4	-5.5
Mar-21 to Sep -22	-10.9	-	-	21.4

Interest sensitivity analysis reveals a strong sensitivity of interest rate to deposit rate changes in 3–5-year bucket…clearly supports that household inflation expectations is largely anchored… good for banks…

- The banking and financial sector has fared remarkably well amidst a pickup in credit growth, lower provisioning costs and improvement in asset quality
- Credit growth continues to remain strong and has been consistently rising since February 2022, with latest number at 15.5% y-o-y as on 26 Aug 2022 (6.7% a year ago). The incremental growth (YTD) in credit is Rs 5.66 lakh crore till date (vis-à-vis degrowth of Rs 0.5 lakh crore last year). The demand for credit is continuing and is likely to grow at 15% (YoY) in FY23
- Aggregate deposits grew by Rs 5.2 lakh crore or 3.2% (YTD) compared to last year YTD growth of Rs 4.03 lakh crore/2.7%. YoY deposits growth is at 9.5%, same as last year
- **With the higher credit growth compared to deposits, the incremental CD ratio stands at 107% for the week ended 26 August 2022**
- Further to study, **interest rate sensitivity of deposits, we have modelled bucket-wise time deposits on bucket-wise interest rate on yearly data for 32 years starting from 1991 to 2022. The results show that the deposits in buckets 3-5 Years (constitute 7.1% of TDR) is most sensitive to interest rate, followed by short term deposits (below 1 years), which constitutes 20.23% of total TDR. The 1-3 Year bucket, which constitute around 50% of total TDR is found to be most stable deposits and less sensitive to interest rate among all buckets**
- The demand for credit is continuing and is likely to grow at 14%-15% (YoY) and deposits 12-15% in FY23, but we don't rule out the prospects of an even larger credit growth





Liquidity is currently in a deficit mode

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- Liquidity has become deficit after ~ 40 months. Liquidity inflows to the financial system could be either policy induced by the central bank (for example changes in reserves, open market operations etc) or non-policy induced (foreign exchange reserves, government cash balances, and currency in circulation).
- The RBI might have to support the market through change in CRR and OMO. The problem of deficient liquidity was more evident than in 2013 when a change in perceptions about policy triggered the taper tantrum. Bond yields and term premiums rose sharply, out of line with the modest eventual tightening envisaged in the cautious public statements by the Fed. These communication difficulties around the time of regime changes were illustrated by the clarification from then Fed Chair Janet Yellen in 2015: “Just because we removed the word ‘patient’… doesn’t mean we are going to be impatient”. Hence, given the uncertainty around the effects of balance sheet unwind, however, any adjustments must be slow, gradual, and well communicated in advance
- The RBI may consider this in the forthcoming policy, by stating it might be a technical one, with advance tax outflow of Rs 1.95 trillion, GST outflow. The only solace is that the liquidity situation is not going to worsen significantly because of Currency in Circulation / CIC remaining largely under control in FY2020 and FY2021 with a significant jump in UPI…

RBI Liquidity Position		
Rs Lakh Crore	**01-Apr-22**	**Latest**
Repo Outstanding	0.84	0.84
Reverse Repo Total	6.78	0.77
SDF statrted on 08.04.2022	2.35	0.60
MSF	0.01	0.27
Net LAF (+absorption)	6.35	-0.12
Government Cash Balance	1.08	4.49
Core Liquidity (+Surplus)	8.32	4.15
Rates		
Call Rate	3.25	5.51
Treps	3.13	5.53
91-T bills Yield	3.84	5.88
182- T Bills Yield	4.27	6.43
364- T bills Yield	4.58	6.65
1 Year Gsec	4.67	6.41
5 Yrsr Gsec	6.33	7.19
10 Yrs Gsce	6.84	7.31
Source: SBI Research, CCIL,RBI		

Weekly Increase in CIC on Diwali week	
Year	**Amount (Rs Billion)**
2012	227
2013	190
2014	190
2015	403
2016	185
2017	282
2018	494
2019	309
2020	438
2021	439
Source: SBI Research, RBI	

Monthly increase in digital transactions on Diwali			
Year	**Credit Cards Amount (Rs Billion)**	**Debit Cards Amount (Rs Billion)**	**UPI (NPCI) Amount (Rs Billion)**
2012	15	121	-
2013	16	209	-
2014	19	91	-
2015	26	206	-
2016	58	388	-
2017	45	156	17
2018	101	327	151
2019	117	563	299
2020	135	138	571
2021	207	139	1171
Source: SBI Research, RBI, NPCI			

Investment announcements all time high, gross block added ~ Rs 12 trillion in last two year

- Addition in gross block (fixed assets) reported across sectors in last two years
- Around Rs 12 lakh crore is being added in gross block by 2835 listed entities, ex BFSI, in last two years
- Added to that, capital work in progress is around Rs 9 lakh crore as of Mar'22
- New investment announcements reported in FY22 is all time high of around Rs 20 trillion as compared to around Rs 10 trillion each in last two years. You will surprise to know that the same is led by private sectors, where around Rs 13.75 trillion of investment announcement were made in FY22
- Private participation in the investment announcements has increased to around 70% from less than 50% in earlier years, indicating revival of the capex in the economy

Major Sector where gross block (fixed assets) added in last two years

Sector	No of Cos.	March'22		March'20		March'22 over March'20		
		Gross Block	Capital Work in Progress	Gross Block	Capital Work in Progress	Gross Block	Capital Work in Progress	Growth in Gross Block %
Refineries	6	1318134	265695	1093361	180221	224773	85474	21
Power Generation & Distribution	27	1048622	194922	886841	180149	161781	14772	18
Steel	100	637081	52033	572523	63040	64558	-11007	11
Telecomm-Service	13	813368	7725	759503	6629	53865	1096	7
FMCG	81	104263	3289	51138	1845	53124	1444	104
Telecomm Equipment & Infra Services	11	83754	356	32560	305	51194	51	157
Automobile	16	461046	22263	416147	46975	44898	-24712	11
Mining & Mineral products	31	244523	48363	206058	43851	38465	4512	19
Pharmaceuticals	134	253524	26908	216563	21717	36961	5191	17
Non Ferrous Metals	26	220228	10051	183322	12988	36907	-2937	20
Chemicals	164	122331	16809	94171	10428	28159	6381	30
Cement	32	206021	16048	178023	10856	27999	5192	16
Crude Oil & Natural Gas	6	201686	113526	176230	86708	25456	26818	14
Infrastructure Developers & Operators	34	231340	21509	213446	22671	17893	-1162	8
Auto Ancillaries	97	119978	5931	103427	6818	16551	-886	16
Gas Distribution	8	97209	20267	81466	14193	15744	6073	19
Healthcare	38	57168	1731	42976	1724	14193	7	33
Tyres	9	70716	4691	58707	6161	12009	-1471	20
Textiles	244	211666	9525	199778	7602	11888	1923	6
Air Transport Service	4	34014	125	23417	141	10597	-16	45
Total	**2835**	**7941058**	**924881**	**6774290**	**786285**	**1166768**	**138596**	**17**

Source: SBI Research; CLIne; listed entities ex BFSI- 2835 common pool, consolidated priority; Rs in crore

Final Thought: Clearing the Air

- So, what will be the RBI's policy look like:

Indicator	Our View
Repo rate	• 50 bps repo rate hike looks imminent: aggressive response to external shocks by RBI has been just appropriate to tackle the uncertainty regarding inflation persistence • We expect the peak repo rate in the cycle at 6.25%. A final rate hike of 35 bps is expected in December policy
Stance	• With liquidity in a deficit mode, the RBI may carefully calibrate its statement given that Government cash balances is still at record highs. The good thing is that with capital inflows picking up rapid pace in August and continuing in September, liquidity could get an unlikely buffer of rupee injection in lieu of $ purchases / building up reserves
Risks for growth/inflation	• Resurgence of food price pressures • Spatial unevenness in rainfall • Uncertainty surrounding energy prices • Also, deposit mobilisation could be the new turf war for banks with a penchant for wholesale bias
Forward Guidance	• In an environment of rising rates, it is clearly not advisable to give a forward guidance • One option is a scenario based forward guidance, but it could also be a little tricky given uncertainties are abound • There could be an emphasis on how Indian monetary policy / Indian markets are getting slowly decoupled from the global uncertainties … a large part of such scenarios has been made possible by RBI frontloading forward guidance in rates, in inflation projections and even in liquidity adjustment.. The Fed has now picked up the gauntlet of frontloading rate hikes… clearly emerging economies central banks have outperformed their advanced economies in this round…..

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