MONTHLY NEWSLETTER

APRIL 2022

RBI'S SURPRISE RATE HIKE

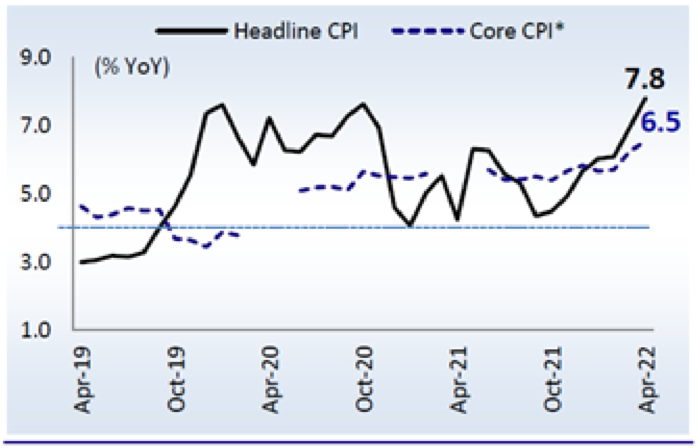
EXPECTED OR UNEXPECTED

The RBI on 4th May '22, surprised the market by raising the policy repo rate by 40bps to 4.4% and the CRR by 50bps to 4.5%. The market was surprised, as the hike occurred at an unscheduled meeting of its monetary policy committee (MPC) 4 weeks after its last meeting, and 5 weeks prior to its next scheduled one. However, if we go by the recent turn of events, we would realise that the rate cut was not a surprise, but an inevitable one to tame rising inflation.

FACTORS LEADING TO THE RATE HIKE

Higher inflation trajectory in India

The CPI inflation in India was 4.35% in Sep '21, rose to 5.59% in Dec '21, moved further to 6.95% in Mar '22 and then 7.8% in Apr '22. The Apr '22 inflation rate was an 8-year high and on account of higher food and fuel inflation. While food inflation came in at a 17-month high of 8.4% YoY in Apr '22, fuel inflation stood higher at 10.8% YoY in Apr '22. In its April policy, the RBI has upped the forecast for inflation from 4.5 to 5.7% in 2022-23. RBI Governor Shaktikanta Das said that the MPC expects inflation to rule at elevated levels, warranting resolute and calibrated steps to anchor inflation expectations and contain second round effects. The spike in India inflation, however, is still not as sharp as that being witnessed in other developed economies like the US and UK.



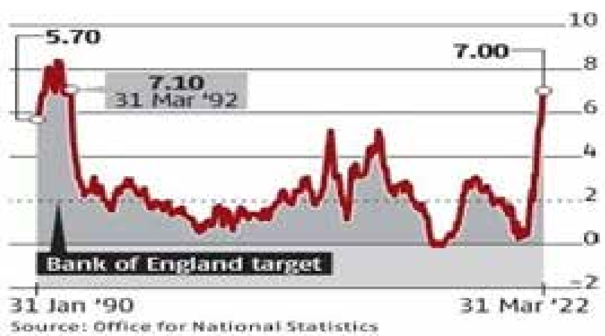
*All items excluding food and energy

Higher inflation trajectory globally

While there were already inflationary concerns in the domestic and global economy, the Russia Ukraine crisis coupled with COVID induced lockdowns in several Chinese cities has aggravated the inflationary concerns. Moreover, the persistence of inflationary pressure has also shown that inflation may not be transient in nature as was being anticipated earlier. Inflation is mainly because of high global commodity prices and supply-side factors. The inflation in the US shot up to 8.4% YoY in March, which is a 41-year high. UK inflation also hit a 30-year high of 7% YoY in March and BoE has said that UK inflation could hit 10% by the end of the year.

US CPI Inflation

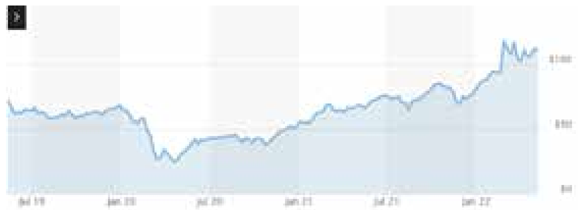
UK CPI Inflation



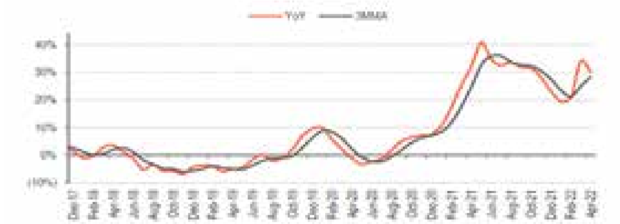
Rising food and fuel inflation

The fuel inflation was already being witnessed throughout this year. Brent crude, which was hovering at sub $50/bbl for most past of 2020, moved upwards to ~$80/bbl by the end of 2021, and post the Russia Ukraine crisis, hit a high of $139/bbl and averaged over $100/bbl for most part of 2022. Besides stoking fuel inflation, the Russia Ukraine crisis also reversed the trajectory of declining pace of global food inflation, which increased post Jan-Feb '22 after being on the decline since Apr '21. Russia and Ukraine are a major player in the global food market with significant market share in agriculture commodities such as wheat, barley, maize and sunflower oil.

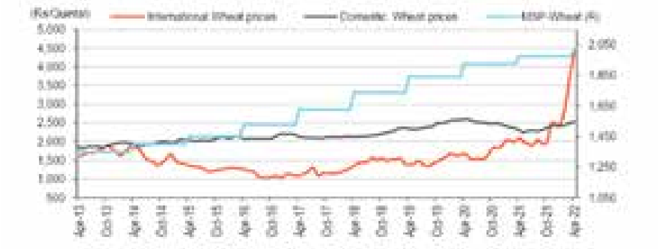
BRENT CRUDE PRICES MOVING HIGHER

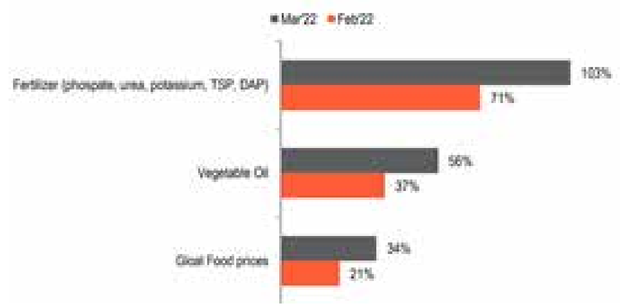


GLOBAL FOOD PRICES REVERSE DECLINING GROWTH TREND POST RUSSIA UKRAINE CRISIS



SHARP RISE IN INTERNATIONAL WHEAT PRICES





Normalising monetary policy

Major economies world over have engaged themselves in monetary policy tightening to combat inflationary pressures. The US had raised rates for the first time in Mar '22 by 25bps and subsequently in May '22 by 50bps to 0.75-1%, signalling to markets that there could be another 50bps rate hike over the next couple of meetings followed by balance sheet reduction. The US inflation print of 8.5% in Mar '22 was way above the targeted inflation level of 2% or lower. Likewise, Bank of England (BoE) has raised rates by a cumulative 1% in its last 4 monetary policy meetings to take the base rate to 1%. With inflation at 7% in Mar '22, well above the targeted inflation rate of 2% or lower, and BoE hinting that inflation could hit 10% by the end of the year, there are more rate hikes in the offing.

Strengthening US dollar

Broad based-dollar strength (Dollar Index - DXY at 20-year high) are weighing on the INR, with the USD/INR at 77.487. However, the INR is an outperformer, depreciating just 4% against the dollar since the start of 2022, compared to the dollar index which has risen 9.3% over the same period. Rising dollar index indicates a strengthening dollar against a basket of currencies. A higher interest rate makes the currency more resilient to imported inflation.

DOLLAR INDEX AT 20-YEAR HIGH

USD INR RESILIENT COMPARED TO DOLLAR INDEX

RISING INTEREST RATE CYCLES IN INDIA AND US AND ITS IMPACT ON THE ECONOMY AND MARKETS

While there is concern about rising interest cycle and what its impact could have on the economy, historical analysis both in India and the US reveals that in most cases, the economy has gone on to do better over the period of the interest rate hike cycle as compared to what it was at the start of the hiking cycle. Equity markets have also ended higher over the hiking period.

India

Repo rate hike		Period (in yrs)	Nifty start	Nifty end	Nifty returns	GDP growth % - Start of hike	Avg. GDP growth % - Over the hike period	GDP growth % - End of hike
Start date	End date							
March/04	July/08	4.4	1,772	4,314	143%	8.1	8.9	9.0
April/09	October/11	2.5	3,365	5,192	54%	3.5	7.9	6.5
May/13	January/14	0.8	5,944	6,126	3%	6.4	6.4	5.3
August/17	August/18	1.0	10,082	11,346	13%	5.3	7.0	6.5

- Since 2000, 4 interest rate hike cycles in India
- Nifty delivered positive returns in all these instances
- In all these instances, average GDP growth over the period of the interest rate hike cycle is similar or higher than GDP growth at the start of the hiking cycle

US

Fed funds hike		Period (in yrs)	S&P 500 start	S&P 500 end	US large cap returns	S&P returns	S&P returns (annual)	GDP growth % - Start of hike	Avg. GDP growth % - Over the hike period	GDP growth % - End of hike
Start date	End date									
August/54	October/57	3.2	31	43	13.7	38%	12%	4.6	4.1	4.0
June/58	November/59	1.4	44	57	24.5	30%	21%	2.6	5.8	1.1
August/61	November/66	5.3	67	81	7	20%	4%	7.9	5.8	3.3
August/67	August/69	2.0	95	94	3.7	-2%	-1%	3.8	4.1	2.7
March/72	July/74	2.4	107	79	-8.6	-26%	-11%	7.6	3.5	1.0
February/77	June/81	4.4	100	131	11.5	31%	7%	4.8	3.2	(2.9)
March/83	August/84	1.4	153	167	13.2	9%	6%	5.4	7.2	3.9
January/87	May/89	2.4	274	321	16.2	17%	7%	2.2	3.9	3.1
February/94	February/95	1.0	467	487	4.1	4%	4%	3.9	3.6	1.4
June/99	May/00	0.9	1,373	1,421	10.5	3%	4%	3.4	4.9	7.5
June/04	June/06	2.0	1,141	1,270	8.2	11%	6%	3.2	3.3	1.0
December/15	December/18	3.0	2,044	2,507	8.4	23%	7%	0.6	2.2	0.9

- Since 1950, 12 interest rate hike cycles in the US
- S&P delivered positive returns in 10 of these instances
- In 75% of the instances, average GDP growth over the period of the interest rate hike cycle is similar or higher than GDP growth at the start of the hiking cycle

Conclusion

RBI's repo rate hike of 40bps in an unscheduled meeting took the markets by surprise and evoked concern. However, the recent turn of events makes us believe that it was an *inevitable decision to tame rising inflation*. India inflation rate at an *8-year high (7.8%)*, UK inflation rate at a *30-year high (7%)*, US inflation rate at a *41-year high (8.5%)* all indicate that this is a *global inflation* led initially by ultra-loose monetary policy globally with abundant liquidity and ultra-low interest rates and subsequently exacerbated by Russia Ukraine crisis and COVID induced China lockdown. Global food inflation added to existing concerns of fuel inflation post the Russia Ukraine crisis. Steps to mitigate inflation had already begun with both US and UK hiking rates since the start of 2022 and US aiming to reduce the size of its balance sheet. With rates expected to rise further as well, India had no choice but to increase rates and is expected to continue increasing rates. While concerns around inflation and rising interest rates exist, historical analysis both in India and the US reveals, that in *most cases*, the *economy has gone on to do better over the period of the interest rate hike cycle* as compared to the start of the hiking cycle, and *equity markets have followed suit, ending higher*!

Q4FY22 REVIEW

HEALTHY EARNING SEASON, DESPITE CHALLENGES

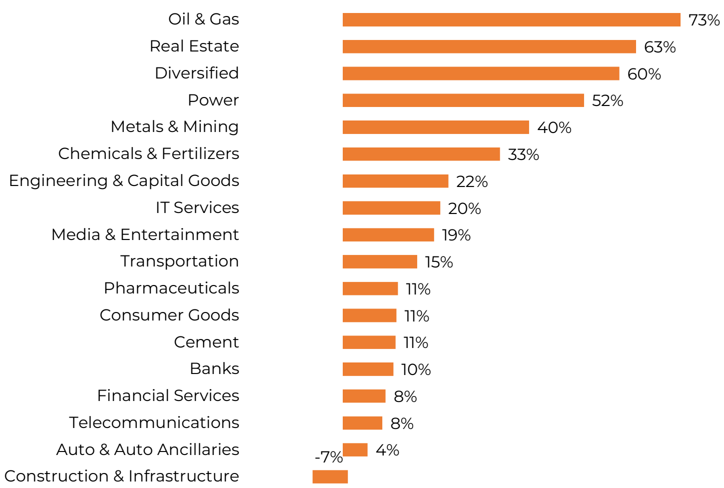
The net profit of the Nifty 50 companies, which have announced their results so far, grew 29% YoY in the March 2022 quarter. The earnings reflected the growing pressures of rising input and wage costs on profitability. Margin pressure was evident on Nifty while being less prominent on BSE 500. Within sectors, results of IT companies were a mixed bag, but most of the companies delivered good deal wins and highlighted a strong pipeline. Asset quality of private banks continued to improve with moderation in credit costs and NPA ratios, while the restructured book also dropped sequentially. In the case of consumer staples, volumes continued to remain weak ranging from erosion in growth to a low-single-digit uptick.

Growth Metrics

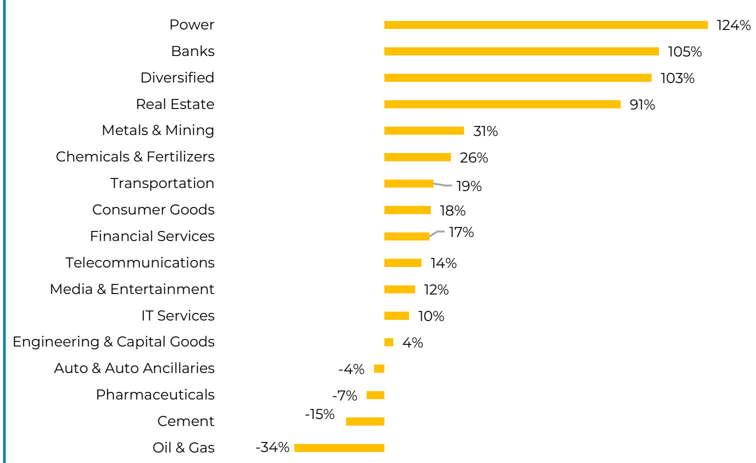
Index (ex-fin, O&G) – YoY growth	Sales	EBITDA	PAT	PAT (Incl Fin)	Earning upgrades (Nos)	Earning downgrades (Nos)
NIFTY	18%	6%	22%	29%	14	32
BSE 500	23%	19%	32%	41%	98	190

REAL ESTATE, METAL AND POWER LED BOTH REVENUE AND EBITDA GROWTH AMONG SECTOR

NET SALES GROWTH (BSE 500)

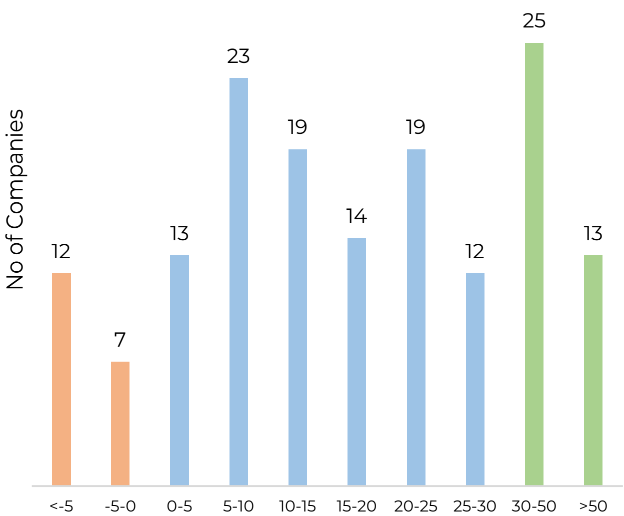


EBITDA GROWTH (BSE 500)

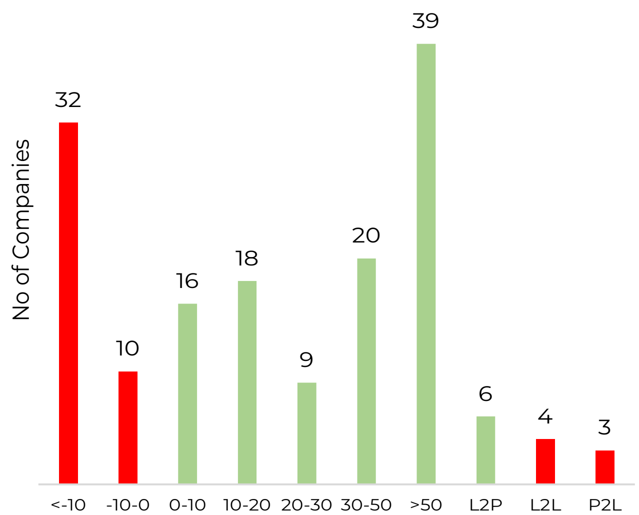


35% COMPANIES REPORTED SUB-10% SALES GROWTH WHILE 31% REPORTED SUB-10% PAT GROWTH

SALES GROWTH (%)- FREQUENCY DISTRIBUTION (BSE 500)



PAT GROWTH (%)- FREQUENCY DISTRIBUTION (BSE 500)



INDIA ENERGY CRISIS

FEELING POWERLESS...YET AGAIN....

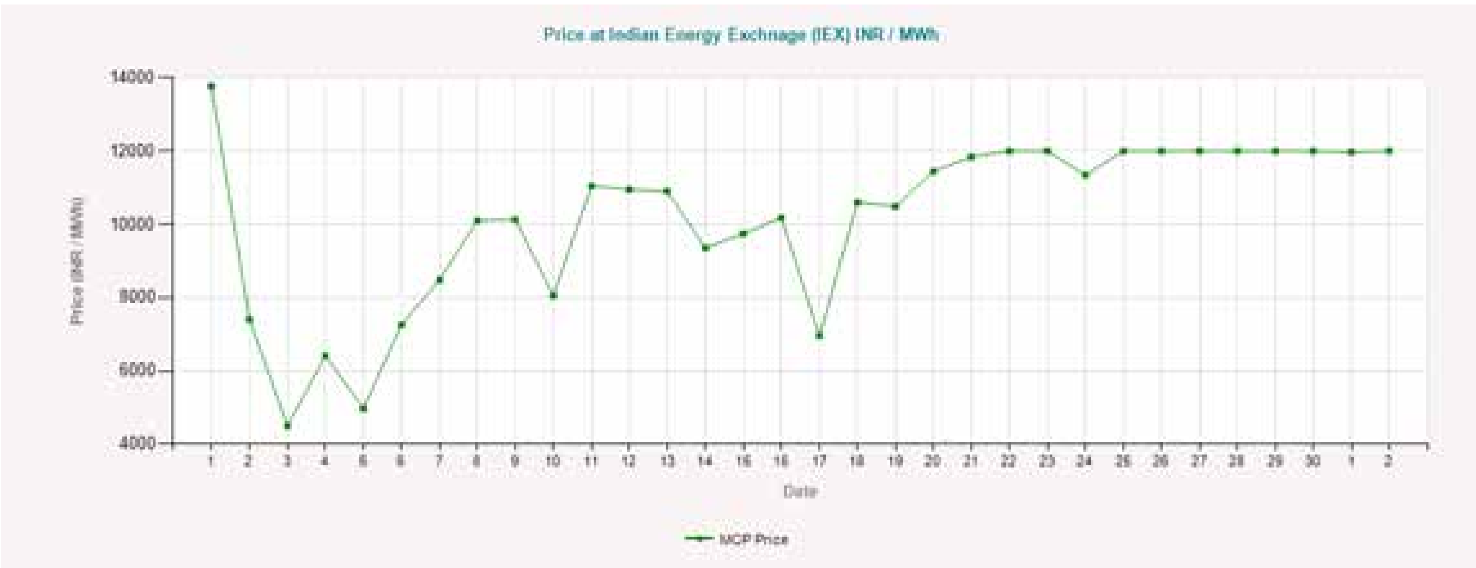
India Energy Crises: Feeling Powerless...yet again....

A sweltering summer has once again highlighted the chinks that exist in India's power sector. While the economy was gradually recovering from the pandemic hit, higher than normal day time temperatures in April sent power demand soaring. As per the Central Electricity Authority (CEA) data, power demand in April was higher by 13.7% YoY despite a high base (39% YoY growth in Apr-21). As supply could not keep pace, it led to a six-year high deficit. As a result, not for the first time though, did we see spot power prices jump sharply. But never did we see day ahead exchange prices stuck at Rs 12 per unit for several days. It could have been even higher but for the regulatory cap imposed by the CERC.

So what led to this scenario

All of us have heard the reasons before. A shortage of coal reserves across several power plants. At last count, there were around 100 units which had less than the normative level of coal stocks. Either these units were not getting enough supplies from Coal India for reasons of delayed payments or lack of adequate railway rakes to transport the coal. Power plants running on imported coal were also running at low PLFs due to the sharply higher global prices. What has further accentuated the crises this time around is the high natural gas prices which forced many gas-based utilities to shut their units.

Day ahead power prices on IEX (Rs/unit) from 1st April to 2nd May 2022

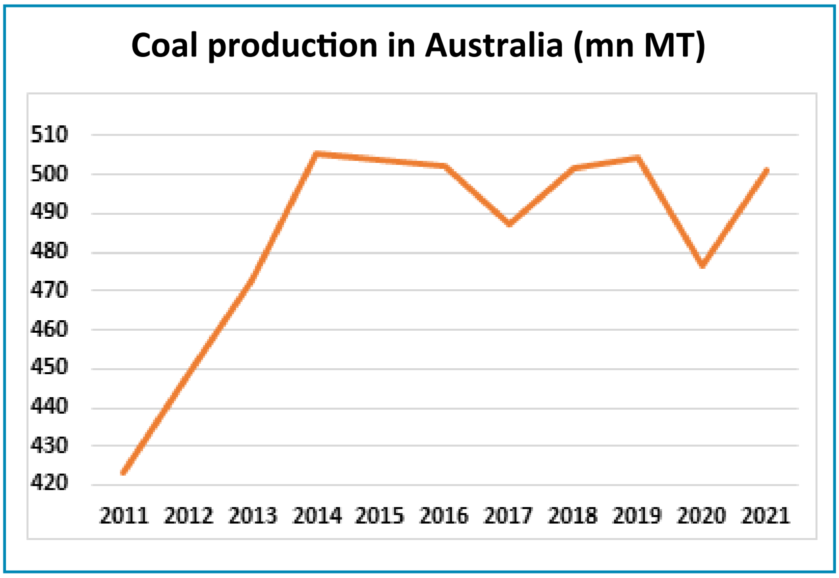


As if all of this was not enough, the Russian-Ukraine war started. It could not have happened at a worse time. Just when the western world economies were starting to recover from the pandemic, energy demand rose more than expected. However, Russia played spoilsport by not increasing supply to Europe as a result of which storage levels fell. This was thought to be a pressure tactic for the EU to allow gas to flow through the Nord Stream II pipeline (connecting Russia to Germany). However, the EU regulators decided to withhold permission for the Nord Stream II pipeline to start on grounds of competition. All this only led to a sharp increase in gas prices in the EU. After Russia invaded Ukraine the situation got only worse with the former cutting off gas supplies to Bulgaria and Poland for their refusal to pay in Rubles. We have not heard the last on this and no one knows what will happen next.

Post the start of the war, crude oil prices also gained strength with the OPEC adamant on not increasing production in order to compensate for the expected drop in supplies from Russia. Hence, it was only natural for other energy sources like coal to take the lead and firm up.

With the EU not able to shrug off its dependence on Russian natural gas, but intent on responding to Russian aggression, they did the next best thing possible. They announced a blanket ban on imports of Russian coal from August 2022 onwards. This proposal will severely hit supply of thermal coal given that the EU imported 68% of its requirement of 44.2 mn MT from the country in 2021. What makes the situation even more worrisome is the decision by Japan and South Korea to follow suit. Both Japan and South Korea imported 30-35 mn MT of thermal coal from Russia in 2021. So what will replace Russian coal for these countries?

Given that Russian coal is of a higher grade, demand can shift to USA, Australia, Colombia and South Africa. However, the choice is not so simple. For the EU, importing from Australia and South Africa will mean higher logistics cost and so it will be for Japan and South Korea if they buy more from the USA and Colombia. But there are other worries as well. The South African logistics network is grossly inefficient and exports from the Richard Bay terminal in Durban is much lower than the stated capacity of 100 mn MT per annum. In 2021, the terminal exported 58.7 mn MT – the lowest volume since 1997. On the other hand, Australian coal production has stagnated at around 500 mn MT since 2014. We are not considering Indonesia in this analysis as most of the coal it produces is of a lower grade.



The flip side of the argument is that the two largest coal importers in the world viz. China and India will go for Russian coal thereby reducing demand for Australian and South African coal. But here also it is not as simple as it sounds. Buying more from Russia will hugely increase logistics cost. Secondly, till the time sanctions are in place on the Russian financial system, it will be difficult for some users especially those with a global presence to trade with Russia. For example, Tata Steel has announced that it will not buy coal from Russia which today accounts for around 15% of its requirement. Of course, both China and India also have plans to ramp up coal production but the benefit will accrue over the long term. In any case, not long back, the Chinese government was clamping down on excess production in small mines following several operational accidents.

Conclusion

Overall, all indications are that thermal coal prices will stay firm for some time to come. In this scenario, the obvious beneficiaries in India will be coal/lignite mining companies who are able to pass on higher prices either for their long term contracts or sales via e-auctions. On the flip side, power costs will rise for the average consumer as the government has now invoked a law to force all imported coal-based units to run their plants. With coal being prioritized for the power sector, other energy intensive industries like cement, textiles, paper and steel will have to depend on imports leading to higher production costs.

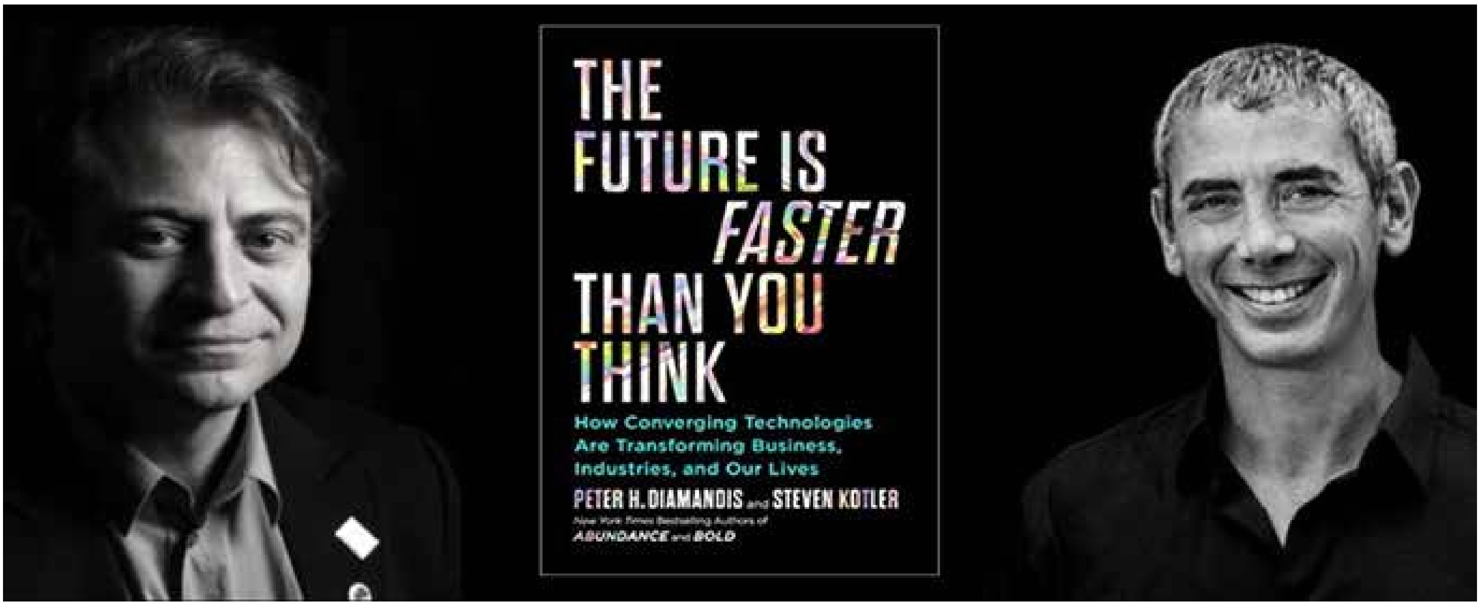
So what can be done to mitigate the impact from this crises?

While the focus on ramping up renewable energy capacity is welcome, for a developing country like India, coal based power generation will continue to grow atleast for the next decade. In this regard, the government's policy to incentivize higher production from captive coal blocks by offering them import parity linked prices is a step in the right direction. Faster regulatory approvals for opening new or expanding existing mines is also important. On the logistics side, the Indian Railways should take steps to augment its wagon fleet. This adversity can still be a blessing in disguise if the government gets serious about ensuring long term energy security in the country.

FOOD FOR THOUGHT

BOOK REVIEW

THE FUTURE IS FASTER THAN YOU THINK



AUTHOR- PETER DIAMANDIS is the founder of more than fifteen high-tech companies, in addition to being a New York Times bestselling author. **STEVEN KOTLER** is the founder and executive director of the Flow Research Collective, a research and training organization. He is the author or coauthor of nine books, including Last Tango in Cyberspace, Bold and Abundance

It was quite interesting to read this book as Peter and Cutler explained the incredible technological advancements. Whatever futuristic inventions you might be imagining they will probably arrive faster than you think. Science fiction will soon become science fact. You may be able to order an aerial rideshare as easily as you do an Uber today. If you think the world has changed a lot over the course of your lifetime, you haven't seen nothing yet. The roller coaster is about to take off. We're now at a tipping point where technological changes which previously played out over decades or even centuries will arrive simultaneously in the marketplace at dizzying speed.

Converging technologies will transform business, industries and our lives

Technologies like 5G communication, artificial intelligence (AI), virtual reality (VR) and augmented reality (AR) are all advancing individually at light speed. When they combine and converge, the Law of Accelerating Returns kicks in and revolutionary breakthroughs happen at a speed that's hard for humans to comprehend. There are ten technologies which are currently on exponential growth curves, and for which accelerating returns are kicking in. These technologies are:

1	QUANTUM COMPUTING
2	ARTIFICIAL INTELLIGENCE (AI)
3	NETWORKS and 5G
4	SENSORS
5	ROBOTICS
6	VIRTUAL REALITY (VR) / AR
7	3-D PRINTING
8	BLOCKCHAIN
9	MATERIAL SCIENCES
10	BIOTECHNOLOGY

Kotler and Diamandis offer numerous examples of how exponential waves of progress in genetics, nanotechnology, robotics, VR and AR, drones, sensors, batteries, 5G networks, 3D-printing, blockchain, quantum computing and artificial intelligence are now starting to converge and overlap to produce tsunami-sized disruptions

Mind-boggling gadgets and concepts, like flying cars, lab-grown steaks, quantum computers and robot surgeons, are moving from the pages of science fiction into reality. Ray Kurzweil, Google's director of engineering, predicts that in the next century, technology will advance as much as it has in the previous 20,000 years.

Flying cars

Hyperloops

FUTURE OF TRANSPORTATION

Flying cars- Uber elevate wants to transform the way we get from point a to point b. Flying cars have been around for a while. Uber wants to resolve issues facing transportation such as congestion as well as speed and cost.

Hyperloops: Magnetic levitation of pods in vacuum tubes which is faster than commercial jets. The Hyperloop travels at 750 miles-per-hour. Flying cars can travel at 150 miles an hour.

Once these technologies arrive, they'll make our already connected world even smaller.

FUTURE OF SHOPPING

There won't be cashiers or long lines in the future with the smart shelf technology. As you enter the store, the store's AI will interface with your phone AI. So as you walk out of the door, the price is instantly deducted from your bank account. There will not be any shopping malls as you will be teleported to a virtual clothing store.

FUTURE OF ADVERTISING

Ads are likely to get more personal and invasive. Web 3.0 will bring in high bandwidth, AR/VR sensors putting digital infra atop physical environments. Imagine stepping into a future Apple store wherein a full sized AR avatar of Steve Jobs materializes, and he wants to give you a tour of the product's latest features using hyper-personalization

FUTURE OF ENTERTAINMENT

In the future, our AIs will match our mood to our history neurophysiology, location, social preference and then customize content to match them all. Consider that you may remember enjoying a movie, but your AI will know exactly why you enjoyed it through semantic analysis.

FUTURE OF HEALTHCARE

A new DNA editing tool is being developed with the potential to correct 89% of genetic defects. The prime editors will be capable of searching for target DNA sequences and precisely replacing them. 100 years old will be the new 60 years through advanced diagnostic, stem cells, senolytic medicine, new organs, vaccines.

FUTURE OF EDUCATION

Imagine a virtual autopsy, being able to strip away layers of skin or muscle inside a navigable operating room. The experience of learning in a 3D environment will be much more richer than the 2D screen and will cross the bridge from short term to long term memory.

WHAT CAUGHT OUR ATTENTION THIS MONTH

GST mop-up hits record high of Rs. 1.68 lakh cr in Apr-22

GST collection in April was up 20% yoy on improved compliance and recovery in business activity

The gross GST collection in Apr-22 is an all time high and Rs. 25000 crore more than the previous highest collection of Rs. 1.42 lakh crore recorded in March.

April manufacturing PMI rises to 54.7 despite high inflation

Manufacturing activity improved in April as production expanded and international sales recorded solid growth, following a fall in Mar-22

April data showed a rebound in new export orders from Mar-22 contraction. The rate of increase has been the strongest since last July

Incremental credit to GDP share likely to breach 50% mark in FY23

The share of incremental bank credit in incremental nominal GDP is likely to cross the 50% mark in FY23, from a decade low of 27% in FY2022, as per SBI research report

The incremental credit to GDP share was as high as 63% in the pre-pandemic year (FY19)

Exports up 24% MoM to $38 bn in April; trade deficit widens to $20 bn

The export growth was on account of healthy performance by sectors like petroleum products, electronic goods and chemicals

Imports during the month under review grew by 26.5% MoM to $58.26 billion.

RBI action double whammy for markets, more hikes likely to follow

RBI repo rate hike accompanied with an increase in the cash reserve ratio was a 'double whammy' for the market

The RBI's surprise rate hike suggests that RBI wanted to act quickly before inflation derailed the growth recovery

The market was expecting a hike but at a slower pace. Analyst expect more such tightening moves from the central bank

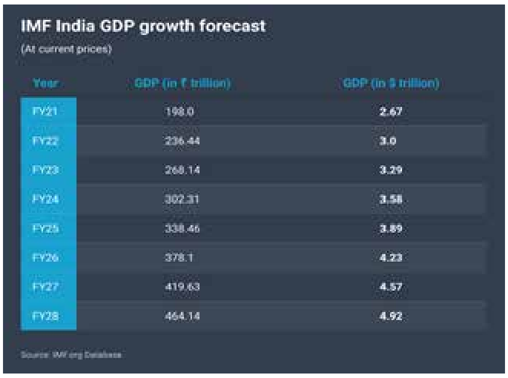
Share of retail investors in NSE listed cos at record high

Share of retail investors in NSE listed companies rose to an all time high in Q4FY22 but the share of FPIs fell to a 9-year low, as per PRIME Database group

The combined holding of retail, HNIs and DIIs hit a life-time high of 17.4% as on Mar-22 up from a 17.1% a quarter ago

The domestic individual investors have played a huge role in counterbalancing the foreign investors sell off.

RESEARCH &RANKING™



IMF India GDP growth forecast
(At current prices)

Year	GDP (in ₹ trillion)	GDP (in $ trillion)
FY21	198.0	2.67
FY22	236.44	3.0
FY23	268.14	3.29
FY24	302.31	3.58
FY25	338.46	3.89
FY26	378.1	4.23
FY27	419.63	4.57
FY28	464.14	4.92

Source: IMF.org Database

India may become a $5tn economy by FY28: IMF

India's nominal GDP may rise to $4.92 trillion in FY28 as per the IMF database.

PM Narendra Modi, dream of making India a $5 trillion economy by FY25 was shattered by the onslaught of COVID-19 pandemic that rattled the global economy.

The government recently admitted that this dream is now possible only by FY26 and more realistically by FY27 only.

Affordable housing projects stall as construction cost pinch realtors

Affordable housing projects (and those priced below ₹75 lakh) are said to have hit the slow lane in India as developers hold back launches

Realtors say, there has been atleast 5-10% price rise across items like steel, cement, labour charges, aluminium, copper, paints and so on.

India Forex Reserves Drop Below USD 600 Billion

The country's forex reserves had reached an all time high of $642.5 billion back on 3rd Sept- 21,

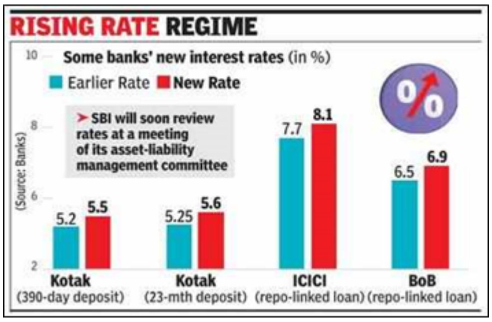
A variety of global factors such as global supply chain issues, increase in commodity prices, Russia-Ukraine war have played a role in the decline of India's forex reserves

India's forex reserves dropped by $28.05 billion and stood at $540.7 billion as on 31st Mar-22 compared to $607.31 billion from October 2021

Shrinkflation hits India's snacks as firms struggle with costs

Food companies are under pressure due to rising edible oil prices and passing on input cost by reducing weights on their existing price points.

The tactic has emerged as Indian consumer prices for the past four months have run above the 6% upper limit of the central bank's target range.



RBI repo rate hike effect: Banks raise interest rates on lending, deposits

Right after the Reserve Bank of India (RBI) raised India's repo rate by 40 basis points, the banking sector mimicked the same by increasing interest rates in lending and deposit schemes

The increased rates will affect the individuals with loans, however, it comes as good news for those investing in fixed deposits

GLOBAL NEWS THIS MONTH

$200 billion erased from entire crypto market on 12th May-22 as sell-off intensifies

Bitcoin fell below $26,000 for the first time in 16 months, amid a broader sell-off in cryptocurrencies erasing more than $200 billion in a single day

Ether, the second-biggest digital currency, tanked below $2,000 per coin.

China's Q1 GDP grows 4.8% amid Covid surge

China's economy grew at 4.8% in first quarter falling below 5.5% target set

This was amidst a surge in Covid cases which prompted top business hubs like Shanghai to enforce prolonged lockdowns

Fed raises rates by half a percentage point — the biggest hike in two decades

The Federal Reserve increased its benchmark interest rate by half a percentage point, in line with market expectations

The rate move is the largest since 2000 and is in response to burgeoning inflation pressures.

Bank of England hikes interest rates to 13-year high, sees inflation hitting 10%

The Bank of England raised interest rates to their highest level since the financial crisis in 2008

It warned that the economy is on course to shrink under pressure from double-digit inflation.

The central bank also forecast that inflation would hit 10% this year, with soaring food and energy prices exacerbated by Russia's unprovoked attack on Ukraine.

THANK YOU

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