FIRST LIGHT

16 March 2022

RESEARCH

BOB Economics Research | Trade

Exports stable; Imports rebound

BOB Economics Research | Sensex and FPI

Does FPI drive the Markets?

SUMMARY

India Economics: Trade

India's trade deficit in Feb'22 widened to 3-month high of US$ 20.9bn from US$ 17.4bn in Jan'22. Sequentially, imports (+US$ 3.5bn) rose faster than exports (+US$ 0.1bn). Except gold imports, both oil and non-oil-non-gold imports picked up pace. Apart from recovery in domestic demand, higher commodity prices are also inflating the import bill. Exports at US$ 374bn in FYTD22, are closer to exceeding government's target of US$ 400bn in FY22. Continuous rise in oil prices has put downward pressure on INR.

Click here for the full report.

India Economics: Sensex and FPI

Amongst emerging countries, India has remained a bright spot for foreign investors. The long term relation between FPI (equity) and Equity markets is positive based on monthly data. However, based on daily data the relation is weak. These are some of the results that come from the regression analysis of stock market movements on flow of FPIs. Similar analysis was conducted on Mutual Funds and results reflect that they are not a significant driver of equity indices like Sensex.

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Daily macro indicators

Indicator	11-Mar	14-Mar	Chg (%)
US 10Y yield (%)	1.99	2.13	14
India 10Y yield (%)	6.86	6.86	(1)
USD/INR	76.59	76.57	0.0
Brent Crude (US$/bbl)	112.7	106.9	(5.1)
Dow	32,944	32,945	0.0
Hang Seng	20,554	19,532	(5.0)
Sensex	55,550	56,486	1.7
India FII (US$ mn)	**10-Mar**	**11-Mar**	**Chg ($ mn)**
FII-D	24.6	(52.2)	(76.9)
FII-E	97.8	(172.6)	(270.4)

Source: Bank of Baroda Economics Research

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TRADE

15 March 2022

Exports stable; Imports rebound

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Exports steady in Feb'22: India's export growth was broadly stable in Feb'22 at 25.1% (US$ 34.6bn) compared with 25.3% (US$ 34.5bn) in Jan'22. Amongst the major commodities, exports of only engineering goods (32% versus 24.1%) and gems & jewellery (18% versus 13.6%) accelerated. Apart from this, exports of chemical products (25.4% versus 25.8%), oil (88.1% versus 95.2%), textiles (21.9% versus 26.7%) and agri products (0% versus 5.6%) moderated. Exports of pharma products continued to contract for the second month in a row now (-1.8% versus -1.1%). On a FYTD basis (Apr-Feb), export performance is robust at US$ 374.1bn (+63.6%), setting the stage for crossing government's US$ 400bn target for FY22 in Mar'22. Strong rebound in global demand has helped the case. In comparison, exports were at US$ 228.7bn (-21.6%) last year and US$ 291.8bn (-1.9%) in FYTD20. In FYTD22, oil exports (177.2% versus -49.2%) have jumped far more than non-oil exports (52.5% versus -17.4%). Within non-oil exports, significant improvement was seen in textiles, engineering goods, gems & jewellery and chemical products. Exports of only drugs and pharmaceuticals has decelerated.

Imports bounce back: Import growth rebounded to 36.1% in Feb'22, following moderation in Jan'22 (23.5%). While gold imports dipped in Feb'22, oil imports picked up sharply. Non-oil-non-gold imports too accelerated. Within non-oil imports, coal (117% versus 39.5%), project goods (83% versus 11%), pearls & precious metals (32.9% versus 6%) and ores and mineral (103.1% versus 91.1%) imports rose the most. Oil imports were up by 69.3% versus 26.9% in Jan'22. This was mainly owing to spike in international crude prices (US$ 101/bbl by the end of Feb'22 versus US$ 91/bbl at the end of Jan'22). On the other hand, gold imports fell for the second consecutive month in Feb'22, by 9.6%, following 40.5% decline in Jan'22. On FYTD22 basis, imports have increased by 81.3% compared with a decline of 31.8% in FYTD21. In the same period, gold imports have increased by 117.1% versus a decline of 22.9% in FYTD21. It must be noted that gold prices declined by 1.5% in FYTD22 compared with an increase of 26.5% in FYTD21. Oil imports too have increased sharply by 122.3% after declining by 47.4% in FYTD21. Oil prices on an average were up 75.3% in FYTD22 compared with a decline of 31.2% in the same period last year. Non-oil-non-gold imports have also done well and risen by 66% in FYTD22 as domestic demand improved. The increase was broad-based. Maximum improvement can be seen in imports of coal (86.5% compared with -30.3% in FYTD21) and ores & minerals (99.9% versus -13.4%), owing to higher international commodity prices and recovery in domestic demand as Covid-19 restrictions ease.

Trade deficit widens: India's trade deficit is tracking higher at US$ 174.2bn in FYTD22 compared with US$ 73.6bn in FYTD21 as imports have risen at a faster pace than exports. Oil imports have more than doubled to US$ 141bn from US$ 63bn in FYTD22 led both by higher prices as well as pick up in domestic demand. With oil prices now hovering near US$ 110/bbl, import bill is likely to increase sharply. According to our estimates, a US$ 10/bbl increase in oil prices increases oil imports by ~US$ 1-1.5bn/month. We thus expect pressure on trade deficit and USD/INR to remain.

SENSEX AND FPI

10 March 2022

Does FPI drive the Markets?

Amongst emerging countries, India has remained a bright spot for foreign investors. The long term relation between FPI (equity) and Equity markets is positive based on monthly data. However, based on daily data the relation is weak. These are some of the results that come from the regression analysis of stock market movements on flow of FPIs. Similar analysis was conducted on Mutual Funds and results reflect that they are not a significant driver of equity indices like Sensex.

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Global macro backdrop: As per the IMF's World Economic Outlook, India's is poised to grow by 9% in FY23. On the other hand, global growth has been pegged at 4.4% in CY22 from 5.9% in CY21. The moderation in global growth is on account of multiple challenges that the global economy faces in the wake of Covid-19 crisis along with supply disruptions. However India is likely to do better than other countries on the back of improvement in investment and higher government spending. Moreover, Indian markets have always remained an attractive destination for investment especially by Foreign institutions.

What is the role of institutions in driving stock markets? There are two sets of institutions that are large investors in the market and could be driving the same- FPIs and mutual funds. In recent months, global markets have been volatile due to escalated geo political tensions between Russia and Ukraine. The impact of the same can be seen across different asset classes. Indian markets have ended in the red in the recent past with volatile FPI (equity) flows. Mutual funds also have a role to play in the market being large investors in the equity space. Their actions at times have countered those of FPIs.

How have FPIs and MFs impacted markets: To understand the relation between the two sets of variables, various regression exercises have been carried out:

- **Changes in Sensex regressed on FPI flows in equities and MFs net flows in equity on monthly basis**
- **Changes in Sensex regressed on only FPIs in equity on monthly basis**

The same has also been done on a daily basis for different time periods.

Results: While analysing the dataset it has been seen that relation between FPI and equity markets has largely been a positive one especially for a longer time span. Over the last 8 years there has been a strong positive correlation (0.6) between the FPI equity flow and returns on Sensex. Notably, there is direct relation between the two. Previously, in the year 2015 it was seen that FPI (equity) investment had dropped to US$ 3.3bn in 2015 from US$ 16.2bn and the return in domestic market was down by (-) 5% in 2015 compared with an increase of 30% in 2014. Different global factors were at play during this period including Fed beginning the rate hike cycle in 2015 after holding rates for a decade.

What about Mutual fund: The datasets on longer time period have clearly shown a positive correlation between FPI (equity) and Sensex, it is interesting to see if Mutual Funds also exhibit the same relation. For monthly dataset ranging from Jan'13 to Feb'22, it has been observed the while the FPI continue to have positive correlation of 0.6 with the domestic market. The Mutual fund (equity) flows tends to a draw negative correlation with capital markets at (-) 0.5. Thereby implying that mutual fund flows cannot be reliable driver of capital markets, even the regression results for the same reflect the same with much lower variations (R Square).

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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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