FIRST LIGHT

27 June 2022

RESEARCH

BOB Economics Research | FPI Flows

What is driving FPI flows?

BOB Economics Research | Global Inflation

Global inflation boiling up

Daily macro indicators

Indicator	22-Jun	23-Jun	Chg (%)
US 10Y yield (%)	3.16	3.09	(7bps)
India 10Y yield (%)	7.4	7.42	2bps
USD/INR	78.39	78.31	0.1
Brent Crude (US$/bbl)	111.7	110.1	(1.5)
Dow	30,483	30,677	0.6
Hang Seng	21,008	21,274	1.3
Sensex	51,823	52,266	0.9
India FII (US$ mn)	**21-Jun**	**22-Jun**	**Chg ($ mn)**
FII-D	32.0	313.0	281.0
FII-E	(150.8)	(334.1)	(183.3)

Source: Bank of Baroda Economics Research

SUMMARY

India Economics: FPI Flows

FPI flows into India have seen a sharp decline in recent times. In CYTD22, FPI outflows have totaled US$ 28.5bn compared with inflows of US$ 7.1bn in CY21. Equity segment has seen the maximum outflow. This is consistent with a decline in domestic equity market which has shed about ~10.4% since the start of the year. However, when compared with the global markets, Sensex seems to have been relatively better placed. A global risk-off sentiment amidst increased risks to global growth have contributed to the decline in global equities including India. There are domestic factors at play as well, including high inflation and rising interest rates. Inflows into mutual funds have however remained robust, as investors turn risk-averse. Amidst the current global backdrop, FPIs are likely to remain wary of Emerging Markets (EMs) such as India. We expect FPI outflows of US$ 30-40bn in FY23, assuming that investor sentiment picks up later in FY23. This will put further pressure on India's external position amidst a swelling current account deficit.

Click here **for the full report.**

India Economics: Global Inflation

Against the backdrop of global economic slowdown on account of Covid-19 and the ongoing conflict between Russia and Ukraine, supply check bottlenecks have ensued. The impact of the same has been reflected with the surge in global inflation. Commodity prices had reached an all- time high with crude prices scaling and touching the US$127/bbl mark, along with higher prices for food staples. This has pushed a synchronized monetary tightening by global central banks. India's economy has not been immune from the same. However, it is interesting to note the impact of accelerating inflation print on countries like UK, US and Turkey is relatively different than on domestic economy. This study sheds some light on the same.

Click here **for the full report.**

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FPI FLOWS

24 June 2022

What is driving FPI flows?

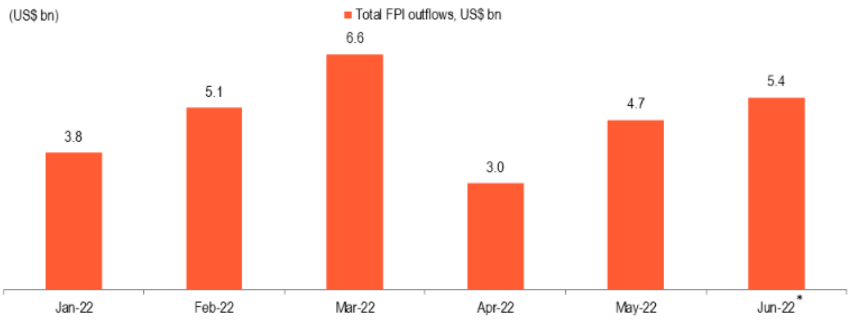
Aditi Gupta
Economist

FPI flows into India have seen a sharp decline in recent times. In CYTD22, FPI outflows have totaled US$ 28.5bn compared with inflows of US$ 7.1bn in CY21. Equity segment has seen the maximum outflow. This is consistent with a decline in domestic equity market which has shed about ~10.4% since the start of the year. However, when compared with the global markets, Sensex seems to have been relatively better placed. A global risk-off sentiment amidst increased risks to global growth have contributed to the decline in global equities including India. There are domestic factors at play as well, including high inflation and rising interest rates. Inflows into mutual funds have however remained robust, as investors turn risk-averse. Amidst the current global backdrop, FPIs are likely to remain wary of Emerging Markets (EMs) such as India. We expect FPI outflows of US$ 30-40bn in FY23, assuming that investor sentiment picks up later in FY23. This will put further pressure on India's external position amidst a swelling current account deficit.

FPI flows

India has seen a sharp acceleration in FPI outflows in recent months. In fact, FPIs have been net sellers in the domestic markets since Oct'21. In CYTD22, FPI outflows from India have totaled US$ 28.5bn (upto 22 Jun 2022). This is consistent with other Emerging Markets (EMs), which have seen huge capital outflows in recent times. This has been on the back of a global risk-off sentiment amidst increased expectations of a slowdown in global growth and surging inflation globally. This has prompted central banks across the world to hike rates. Fed has been at the forefront, hiking policy rate to 150-175 bps this year and expectations are that this can go up to 300-350 bps. This has further exacerbated FPI outflows from EMs, including India.

Fig: 1: FPIs have been net seller in the domestic markets in CYTD22



Source: NSDL, Bank of Baroda Research | *Data upto 22 Jun 2022

Even in Rupee terms, FPI outflows from India have surged to Rs. 2.2 lakh crores in CYTD22, concentrated in the equity segment. In fact, equity segment account for about Rs. 2.10 lakh crores or ~97% of total FPI outflow this year. Outflows from the debt segment have been limited.

GLOBAL INFLATION

24 June 2022

Global Inflation Boiling up

Jahnavi Prabhakar
Economist

Against the backdrop of global economic slowdown on account of Covid-19 and the ongoing conflict between Russia and Ukraine, supply check bottlenecks have ensued. The impact of the same has been reflected with the surge in global inflation. Commodity prices had reached an all- time high with crude prices scaling and touching the US$127/bbl mark, along with higher prices for food staples. This has pushed a synchronized monetary tightening by global central banks. India's economy has not been immune from the same. However, it is interesting to note the impact of accelerating inflation print on countries like UK, US and Turkey is relatively different than on domestic economy. This study sheds some light on the same.

According to World Bank, advanced economies are expected to witness much slower growth at 2.6% in CY22 from 5.1% in CY21, with further moderation expected in CY23 at 2.2%. Global inflation print is likely to remain above the central bank's (CB) mandate for most of the countries as the CB's plan to rein in inflation. There also has been an exacerbated risk of stagflation (sluggish growth and high inflation), going further. Global inflation print has scaled to its highest level since the 1980s, with persistent surge in crude and food prices. UK's inflation climbed to a 40-year high in May'22 at 9.1% on the back of the global supply chain bottlenecks with elevated gasoline prices reaching a record high. This has further aggravated the fears of recession. Bank of England stuck to raising rates at a gradual pace of 25bps to cool inflationary pressure. On the other hand, US economy had outstripped market expectation with the CPI print scaling to its highest level since 1981, at 8.6% in May'22. As a result, Fed in its last policy meet applied the Hammer and Tongs approach as it hiked policy rates by 75bps with more hikes expected through the year. This signals its commitment to tame the inflation print.

Fig1: US inflation spiked in May'22

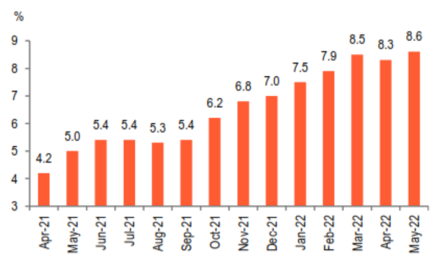
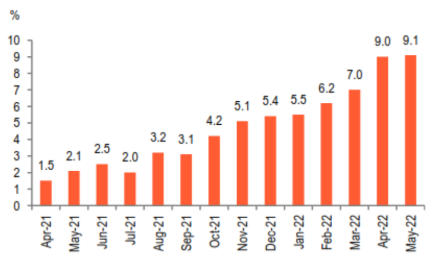


Fig2: UK inflation surges to 40-year high



Source: Bloomberg, Bank of Baroda

Countries such as Turkey have been embattling higher inflation for the past few decades and given the subdued global cues; has spiked to a 23-year high at 73.5% in May'22 (70% in Apr'22). As a result, sectors such as transportation and food have been hit sharply. Real rates continue to remain negative in the country and is often touted as one of the lowest real rates across the globe.

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