January 19, 2021

Steady start to new year with vaccination drive underway; Budget FY22 to focus on driving growth ahead

- Global economic recovery appears to continue, buoyed by policy support. A second/third COVID wave in select advanced countries poses near-term risks.
- The inoculation drive is underway in several countries with around eight different vaccines. It is moving at a slower-than-targeted pace in major countries like the United States (US) and the United Kingdom (UK) but could speed up in coming months with an increase in supply and ironing out of initial challenges.
- India, fortunately, has, so far, avoided a second COVID wave. This buys India time to continue the vaccination drive that commenced on January 16, 2021, amidst likely distribution challenges without disrupting ongoing economic recovery.
- The first advance estimate by the Central Statistics Office (CSO) pegged India's FY21 real GDP at a contraction of 7.7% YoY, which is in line with our estimate of -7.8% YoY. The projection implies a V-shaped recovery.
- The finance minister is likely to announce Budget FY22 on February 1, 2021. We expect the budget to entail policies that prioritize growth revival over fiscal consolidation as recovery remains fragile.
- The budget for FY22 is likely to focus on providing continued support to stressed segments of the economy and, at the same time, increase spending on infrastructure, health, rural (including MNREGA) and defense.
- The government will also have to revisit its fiscal consolidation roadmap this year. We expect fiscal consolidation to be back-ended rather than front-loaded.
- With the materialization of expected fall in inflation, the RBI now has breathing space to plan its unwinding emergency measures in a calibrated manner.
- We believe the unwinding of RBI's emergency pandemic measures will be done gradually to avoid draining cash in a hurry amid record government borrowing and still-fragile economic recovery. The accommodative monetary stance is likely to continue into at least the early part of FY22.

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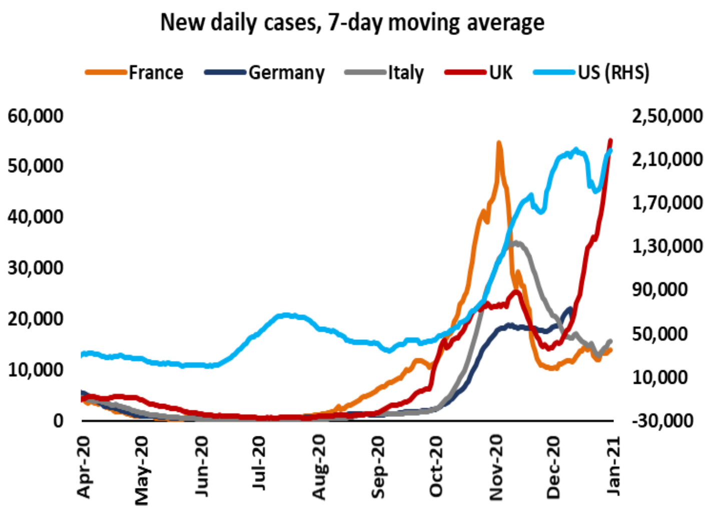
Global economic outlook receives a vaccine boost amidst near-term risks

Global economic recovery has been underway since mid-last year, buoyed by policy support, rolling back of government restrictions and simultaneous resumption in economic activity. Macro data released so far points towards a continuation of economic recovery through December. The global PMI surveys for both manufacturing and service sectors noted an expansion for the sixth consecutive month in December, highlighting a broad-based recovery. However, the service sector continued to trail in terms of pace of recovery as certain contact-intensive industries awaited full reopening. The better-than-expected recovery, along with faster-than-expected vaccine progress, led to upward revision in global growth forecasts. The World Bank has revised its global growth projections upwards by nearly a percentage point since its June report to now reflect a contraction of 4.3% YoY in 2020, followed by a growth of 4% YoY in 2021. Advanced economies and emerging economies (excluding China) are projected to grow by 3.3% YoY and 3.4% YoY respectively, while China stands out with an expansion of 7.9% YoY in 2021. However, these estimates remain contingent on a successful vaccine rollout across countries and containment of the spread of COVID-19 along with continued policy support.

The start of the year has also brought a new set of hurdles that pose near-term risks to ongoing economic recovery. After what seemed like a turn in global COVID scenario (global daily cases reduced by nearly 100,000 around the last week of December), two new strains of the COVID virus that are likely to be more contagious, have led to a resurgence in cases in the UK and South Africa. This was

COVID-19 cases surge with new variants of the virus



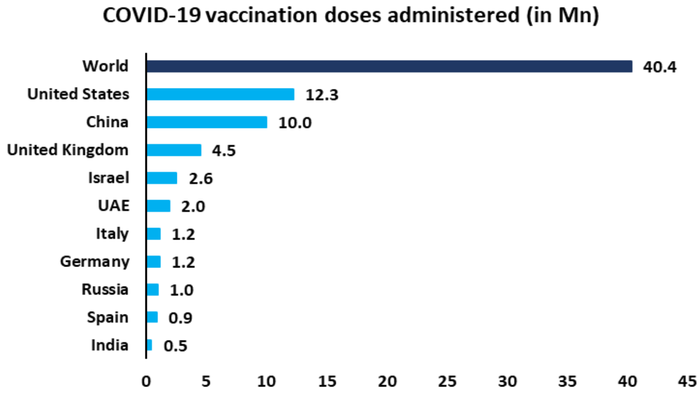
Source: Our World in Data

in addition to a continued rise in infection cases in the US. Consequently, governments have had to reintroduce lockdown measures and limit activity levels. Based on the 'Oxford COVID-19 Government Response Tracker' countries such as the UK and Japan have resorted to nearly similar or more stringent lockdowns than their previous peak levels to contain the virus, while other countries have witnessed an uptick in government stringencies in recent days. The impact of these restrictions is already evident in falling mobility levels and sustenance of these could impede economic recovery even as the vaccination drive remains underway.

The outlook for COVID vaccine availability looks good in 2021. There are 63 vaccine candidates at the clinical development stage, with a quarter of those in the third phase of trials as on January 15, 2021. Around eight vaccines have, so far, received emergency use approvals in different countries. Accordingly, the inoculation process has already begun and is being administered in 51 different countries at present. However, the rollout of vaccinations appears to be slower than anticipated. Only 40.4 million vaccine doses have been administered so far, which account for only ~0.5% of the world population. As such, the enormous task of achieving herd immunity by inoculating around 70% of the population remains a distant goal. Advanced economies such as the US that are likely to lead the distribution process, given their superior medical infrastructure and prowess, have administered less than five of 100 people so far. However, we do expect a pick-up in the pace of inoculation in the coming months with increase in supply and ironing out of initial challenges.

Meanwhile, the rising number of COVID cases in these regions further necessitates urgency in expediting the inoculation process as medical infrastructure maybe reaching its limits in handling fresh cases. While the world may have won the battle in terms of advancing timelines on the development of vaccines - the war against COVID very much endures and will be assessed by effective vaccination and management of the pandemic by countries worldwide. Until then, the threat of COVID cases is likely to linger and may pose an intermittent headwind to global economic recovery.

Total vaccination dosage administered country wise



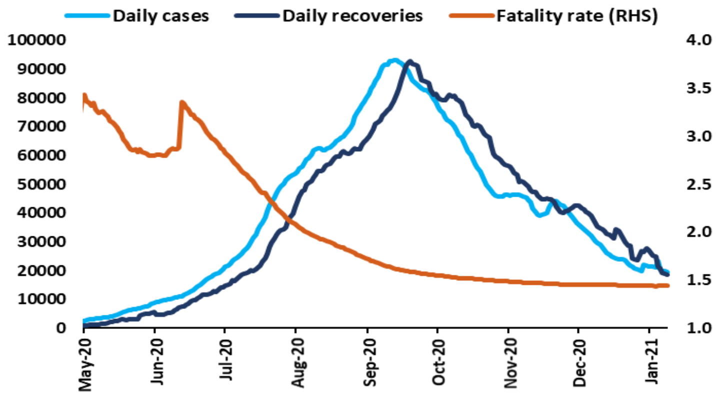
Source: Our World in Data; all data as on January 18, 2021, World, UK, Italy and Germany (as on January 17, 2021), US (as on January 15, 2021), China, and Russia (as on January 13, 2021). The above has been counted as a single dose and may not equal the total number of people vaccinated, depending on specific dose regime.

India's COVID situation steadily improves; start of the vaccination drive to lend further support

India, fortunately, has avoided a second COVID wave so far, only the second country besides Argentina to achieve such a feat among top ten most affected countries. Fresh cases have continued to decline and dropped to nearly 10,000 as on January 18, 2020. Active cases also continued to decline and stood at less ~2 lakhs as daily recoveries continued to exceed daily cases, with one of the highest recovery rates of 96.7% globally. Positivity and death rate remained at their lows of 2% and 1.44% respectively, far lower than global standards.

Meanwhile, the Indian government began with its first phase of the inoculation drive on January 16, 2020 that targets vaccinating 30 crore people in prioritized population groups including healthcare workers, frontline workers and individuals in select age groups by August 2021. The government has already placed a purchase order with the Serum Institute of India for 1.1 crore units of the Oxford Covid-19 vaccine doses and committed to procure 4.5 crores more by April 2020. Alongside, it has also placed orders for 55 lakh Covaxin doses from Bharat Biotech. Accordingly, a total of 4.54 lakh people have been vaccinated already (as on January 19, 2021 across 7860 sessions). Given the massive scale of the inoculation drive, India is likely to face similar distribution hurdles currently being faced by other nations. However, India's relatively better position in terms of the COVID scenario allows it to buy time and continue the vaccination drive without disrupting ongoing economic recovery. A resurgence of COVID cases would pose risks to economic recovery in the near-term and put pressure on speeding up the vaccination drive. With regard to the latter, risks are likely to be curtailed with additional potential vaccines likely to be made available in early FY22.

India's COVID cases witness sustained improvement

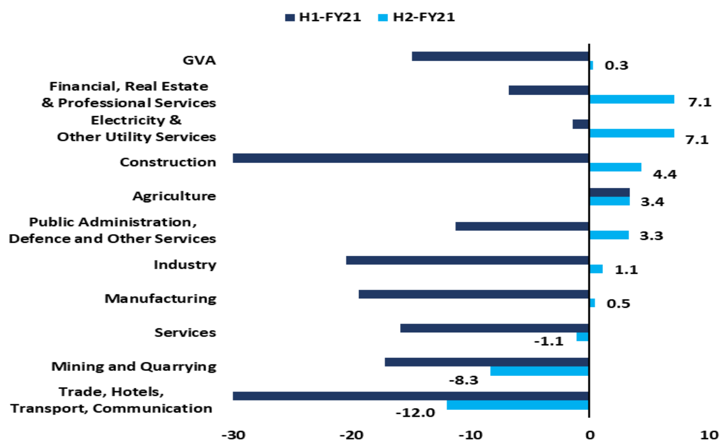


Source: Our World in Data

India treads on its path of economic recovery

The first advanced estimate of India's FY21 real GDP was released by the CSO, projecting a contraction of 7.7% YoY – its first annual contraction since 1980. This sits well with our estimate of a contraction of 7.8% for FY21, followed by a rebound of (+) 9.9% YoY in FY22. In line with our estimates, the CSO projects a sharp fall in private consumption and investment demand for FY21, weighing on overall GDP. Government spending and trade surplus are estimated to offer some respite. As such, GDP excluding government spending is estimated to contract by a larger 9.5% YoY. Gross Value Added (GVA) is expected to note a marginally smaller contraction of 7.2% YoY with agricultural activities and electricity & utilities as the lone components to report expansion for the full year. Meanwhile, the trade, hotels, transport & storage sector within services and the mining and construction among industries are estimated to register double digit contraction. The manufacturing sector is also projected to post a steep 9.4% YoY contraction in FY21, due to a sharp fall in the first half of the current financial year (H1-FY21).

Indian economy projected to post V-shaped recovery



Source: CSO

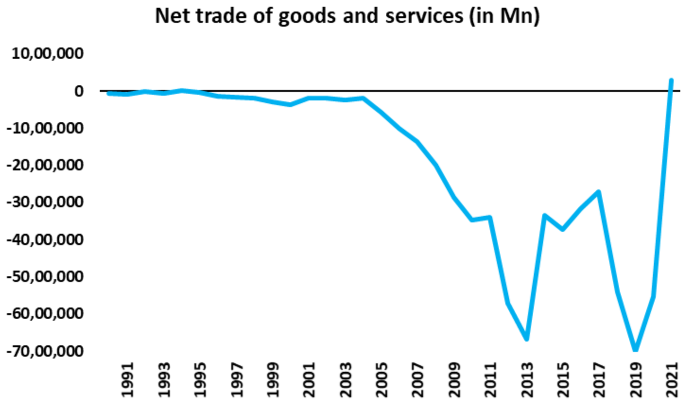
The advance estimate implies that the Indian economy is well on its way to recovery, with real GDP projected to register a minuscule contraction of 0.1% YoY in H2-FY21 compared to a contraction of 15.7% in H1-FY21. Real GVA, on the other hand, is expected to grow by 0.3% YoY in H2-FY21 vs (-) 14.9% YoY in H1-FY21. The recovery expected in H2-FY21 is largely consistent with the high frequency data releases so far that have broadly started to indicate activity levels above or close to pre-COVID levels. After the festive and pent-up demand led a rebound in September and October, evolving high frequency indicators in November and December portend towards some moderation, albeit still sustain broad-based recovery. The improving COVID situation in India has also augmented mobility levels that improved to just 10% below baseline in December, further aiding general economic activity.

Among sectors, agriculture sector is estimated to have notched growth of 3.4% YoY in H2-FY21 according to the CSO, similar to the first half of the year. The outperformance of the sector continues with the sowing progress of Rabi crops (area sown under Rabi crops was 2.6% higher as on January 8, 2021 compared to the same period last year) and continued growth was visible in other lead indicators such as tractor sales, two-wheeler sales and fertilizer sales. The industry sector is forecasted to stage a more robust recovery (1.1% YoY) than services. All sub-components within the industry, barring mining & quarrying, are expected to rebound in H2-FY21. Lead indicators such as manufacturing PMI, electricity generation and steel consumption continued to expand in December (56.4, 4.6% YoY and 5.7% YoY respectively). However, the Index of Industrial Production (IIP) contracted by 1.9% YoY in November after a growth of 0.5% YoY and 4.2% YoY in September and October respectively, as the festive demand effect waned. While part of the contraction could be attributed to an adverse base, the recovery's strength will have to be monitored in coming months, especially as the base effect is likely to turn more unfavourable ahead.

As per the CSO, the services sector is projected to contract by 1.1% YoY in H2-FY21. The upturn in financial services, real estate & professional services (7.1% YoY) and government spending & other services (3.3% YoY) is expected to be largely offset by a 12% YoY contraction in trade, hotels, transport & communication that continues to reflect pain in these contact-intensive segments. Nevertheless, high frequency indicators such as e-way bill collections, rail freight traffic, cargo traffic and automobile sales (excluding commercial vehicles) continue to report growth in December on an annual basis. PMI services inched lower in December to 52.3 but remained in the expansion zone. Vehicle registrations reported growth for the first time in December (10.9% YoY) since the beginning of the pandemic in March, implying a broadening of recovery. Although economic growth is expected to improve across segments as activity levels resume towards normalcy, the sustenance of these will have to be watched out in the interim.

The first advance estimate also projects a current account surplus in FY21 as visible in the goods and services surplus so far this year. This would be the first annual trade surplus for India since 1994. This reflects a slump in investment activity in the country. As domestic demand recovers in FY22, current account position is likely to return to its trend path.

Current account notes surplus after gap of more than 25 years



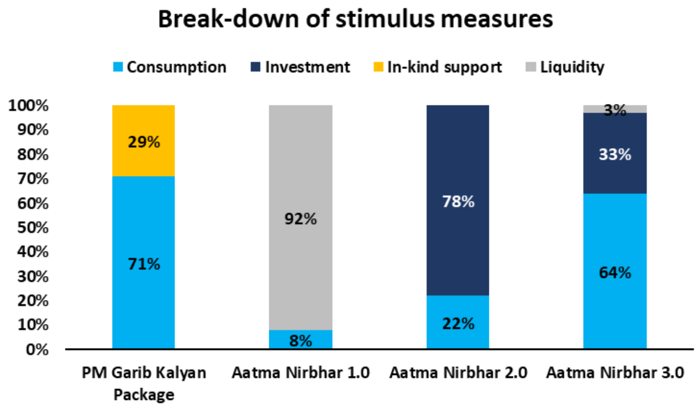
Source: CSO

Fiscal budget to drive recovery ahead

Given limited fiscal flexibility and uncertainty about the spread of COVID, the Indian government adopted a calibrated approach to provide support and stimulus to the ailing economy. In the early stage of the COVID shock, the government's initial response was to support vulnerable sections of the society, which took the form of consumption-related measures. This was followed by steps that were largely indirect and liquidity-based to help the economy's affected segments. It judiciously wanted to provide demand stimulus with progress on unlocking the economy and visible signs of economic recovery. Demand stimulus through consumption and investment-related measures formed a significant share of the third and fourth stimuli packages. There is also a visible change in the stance of the government with regard to its spending. This has resulted in a sharp pick-up in government spending in the months of October and November and relaxation of spending limits for ministries/departments for Q4-FY21.

As a result of a pick-up in spending, fiscal deficit has widened to 135% of the budget estimate by November. This is despite recent pick-up in tax collections that is unlikely to offset large shortfalls from H1-FY21. Divestment proceeds also remain well below the target of Rs 2.1 lakh crore. Moreover, while the GDP estimate has improved since the beginning of the year, nominal GDP contraction (-4.2% YoY), as projected by the CSO, is likely to push the fiscal deficit higher by another 0.6% of GDP. As such, we expect the upcoming budget to reveal its fiscal deficit for FY21 to be in the range of 7-7.5% of GDP overshooting the initial budgeted estimate of 3.5% of GDP. We do not discount the possibility of the actual deficit to be higher than the revised number by around 0.5-0.8% of GDP.

Breakdown of stimulus measures based on nature of support



Source: RBI Monthly Bulletin

The finance minister is likely to unveil the budget for FY22 on February 1, 2021. The minister is up for a daunting task of balancing ballooning fiscal deficit on one hand and offering support to the contracting economy on the other. However, in line with the recent turn in strategy, we expect the government to prioritize growth over prudence and offer measures to support recovery. If the government were to meet its expenditure target for FY21, the expenditure/GDP ratio would increase to ~15.6% vs 13.2% in the previous year. We expect the government to maintain a similar share of government support that would be the largest in over a decade and broadly similar to the Global Financial Crisis period (Expenditure/GDP ratio stood at 16-16.1% in FY09 and FY10).

On the composition of spending, we expect the government to cover the gambit of both near-term and medium-term measures. Given the continued hit to consumption due to COVID-19, relief measures such as food subsidy, higher allocation of MGNREGA, and other forms of income support (boosting farmer income) for the rural and more impacted segments of the population are likely to be announced. The Emergency Credit Line Guarantee Scheme could also be extended beyond March 31, to support stressed segments as the scheme was widened in November 2020, given its success. There is also likely to be a focus on boosting healthcare/medical infrastructure that has especially come into light due to the pandemic. Scaling up of health measures under the Ayushman Bharat program and a separate entry for the vaccination program could also be expected. We expect this to be around 0.3-0.4% of the GDP, assuming the central government bears the cost for the entire vaccination program.

As the financial system is a pivotal channel for recouping the economy, fresh capital allocation for public sector banks through recapitalization bonds are expected to be announced in the light of likely increase in non-performing assets (NPAs). The possibility of a bad bank to cope with the NPA situation is also expected to come up. Meanwhile, the forming of a Bank Investment Company (BIC) that has garnered interest can also be expected to facilitate privatization of the banking sector.

Expectations from the FY2022 Budget	
Consumption	Higher allocation of MGNREGA and rural income support. Support to vulnerable sections in cash and in-kind. Some tweaks on personal income tax slabs are also possible
Health	Higher allocation towards Medical/healthcare infrastructure, increase coverage of Ayushman Bharat, a separate COVID allocation.
Infrastructure	Development finance institute to be announced for funding and acceleration of National Infrastructure Pipeline (NIP). Allocation for economic and social infrastructure such as roads, housing, defence, energy, health, education, etc. Expansion of production linked scheme to more sector. Existing incentives for housing sector could extended
Financial sector	Allocation for the recapitalisation of PSBs. Setting up a Bank Investment Company to hold its stake in PSBs. A possible hike in the limit for foreign investment in the insurance and pension sectors from currently pegged at 49% of paid-up equity capital to 74%, on par with that for private banks. Extension of credit guarantee for stressed sectors beyond March 2021.
Farm Sector	Schemes to raise productivity in the agriculture sector, increase farmer income, accelerating spending under Rs 1 trillion agriculture infrastructure fund. The incentive for Kisan Credit Cardholders for timely repayment
Bond issuance	Budget FY21 proposed raising part of Government funding needs externally. While this has met with resistance, efforts to include Indian bonds in global bond indices continue. Additional reforms for the same could be announced.
Revenues measures	A sizeable divestment target to be announced and asset monetisation could be pursued. Custom duties could be raised. A COVID-cess to fund vaccination drive is possible.

Infrastructure push is likely to be a key focus area, given its higher multiplier and forward and backward linkages to the economy that support sustainable economic recovery and boost its economic potential. We expect the government to announce measures in accordance with its flagship exercise of the National Infrastructure Pipeline and entail aggressive public investments in both economic and social infrastructure projects such as roads, railways, defense, energy, healthcare, education, and environmental protection, etc. A Development Finance Institute (DFI) may be announced to fund the ambitious Rs 1.1 trillion investment plan. Other structural reforms on rekindling private investment are also expected such as improving ease of doing business, strengthening MSMEs, extension of sectors under the production linked (PLI) schemes, and other incentives to boost exports. These are also likely to generate employment that is currently reeling under the impact of the pandemic on the aggregate and relying on transient short-term support through relief measures.

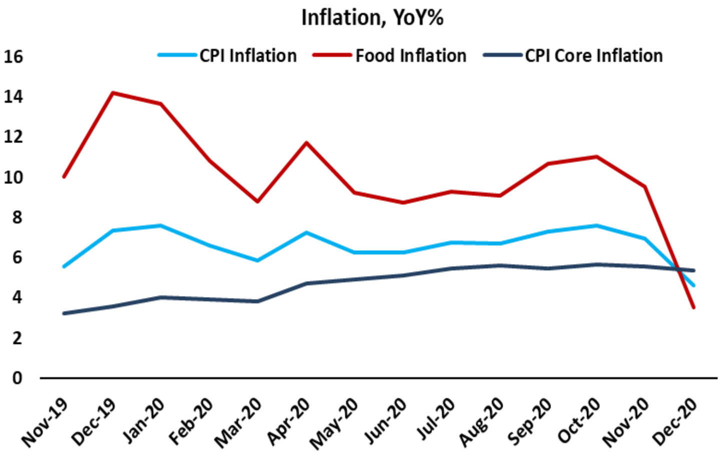
On the revenue side, we might see some minor tweaks in tax relief for consumers and some simplification of tax burdens on GST, exports, healthcare etc. However, given the constrained fiscal situation, we do not see a major stimulus through tax incentives. To generate revenues, we do not rule out a possible increase in customs duties aligned with the Atmanirbhar theme. A 'COVID cess' could also be announced to fund the vaccination drive. Meanwhile, we expect tax collections across heads to improve in line with a broad-based recovery in GDP growth. The boost through government spending is also likely to enable automatic stabilizers in the economy and aid tax collections. We also expect a larger disinvestment drive (surpassing the Rs 2.1 trillion target from FY21) in FY22 to boost revenues for the government. Given that only 3% of the target has been met so far for FY21, we expect the bulk of the targets to be rolled over to next year. Aggressive asset monetization of the government is almost a need of the hour as it augurs well for revenue collections, while at the same time adding to fiscal impulse. Elevated asset valuations at present create an opportune time to capitalize on this advantage.

Given the complete overhaul of the previous fiscal roadmap, we expect the government to use the pandemic-fraught year as a benchmark to start a fresh fiscal consolidation path ahead. The Fifteenth Finance Commission (FFC) has laid out a report entailing the fiscal roadmap for the next five year (FY22-26) that the government is likely to refer. The FFC has recommended providing a range to the fiscal deficit instead of the conventional point target, in light of the current uncertain period. Given a fragile economic recovery, we expect fiscal consolidation to be back-ended rather than front-loaded. As such, we expect the fiscal deficit target to be brought down to a range of 5.5%-6.5% of GDP for FY22. As recovery gains further traction in the coming year, the fiscal consolidation efforts could accelerate in FY23 onwards.

Expected drop in inflation provides RBI with a breather; unwinding of emergency pandemic measures is likely to be gradual

In our last monthly report, we had argued that RBI's accommodative monetary policy to revive economic growth was an appropriate stance despite elevated inflation. We had noted that a large part of the elevated inflation was due to supply-side issues driven by the lockdown. We had projected a drop in CPI inflation with easing of supply-side constraints and factoring in a favourable base effect. Food inflation was also expected to ease with the arrival of bumper Kharif harvest and a drop in vegetable prices with the winter crop. Last two months of CPI data attest to this view. Inflation peaked in October and since then, has trended downward. In December, CPI inflation fell sharply to a 15-month low of 4.59% YoY from 6.93% YoY in November and 7.61% YoY in October. This brings inflation within RBI's target range of 4% (+/-2%) for the first time in FY21. Fall in CPI inflation was, as expected, driven by fall in food inflation to a 16-month low of 3.9% YoY in December down from 8.8% in the previous month, with vegetable prices registering deflation of 10.4% YoY versus inflation of 15.6% YoY in November. Core CPI inflation also eased from 5.6% YoY in November to 5.3% YoY in December.

Inflation falls within RBI's target range



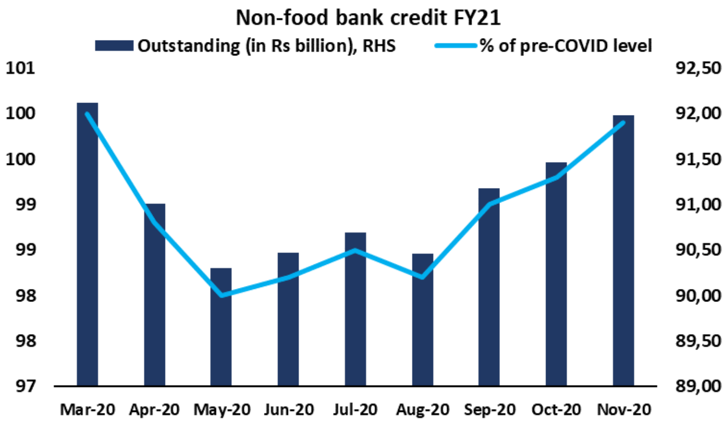
Source: RBI

The recent drop in inflation eases constraints on the monetary policy. This will help the RBI plan its strategy of unwinding emergency pandemic measures in a calibrated manner. The central bank took the first step in that direction on January 8 when it announced the restoration of normal liquidity management operations in a phased manner.

Accordingly, it has conducted a Variable Rate Reverse Repo auction of 14-day tenor, aggregating Rs 2 lakh crores, on January 15, 2021. With this measure, the RBI wants to nudge the various short-term interest rates to converge to the reverse repo rate gradually. Despite this measure, we believe RBI will ensure adequate liquidity in the system, which presently stands at ~Rs 5.5 lakh crore (as on Jan 14 2021). We believe the unwinding of emergency pandemic measures will be done gradually to avoid draining cash in a hurry amid record government borrowing and a still-fragile economic recovery. The accommodative monetary stance is likely to continue into at least the early part of FY22.

In FY21, RBI's liquidity augmenting measures, amounting to Rs. 12.8 lakh crore (6.3% of FY20 nominal GDP), and accommodative policy stance helped improve the transmission of cumulative 115 basis points (bps) policy rate cut since February 2020. Spreads for corporate and NBFC papers have also tightened. Corporate bond issuances picked up, partly thanks to targeted Long Term Repo Operation (LTRO). Credit growth is also finally showing a tentative recovery. From a low of 98% of a pre-COVID level, non-food bank credit outstanding has almost reclaimed its pre-COVID level by November 2020 driven by retail, agriculture and MSME loans. We also saw sequential growth in credit to large industries in November, the first time since June 2020. The prospects of credit recovery are improving with traction in economic recovery, contained COVID spread and the start of the vaccination drive in the country.

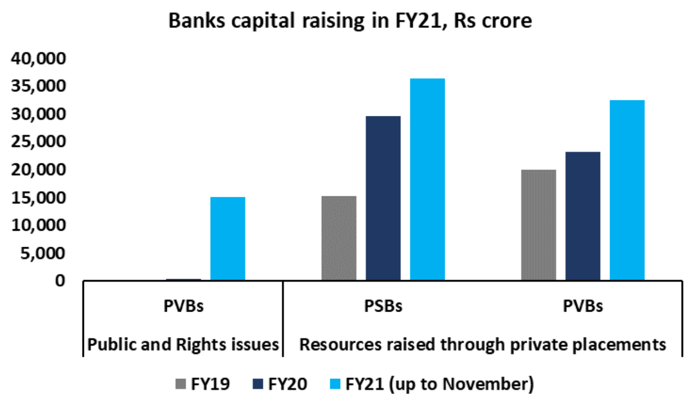
Non-food credit reverts to pre-COVID levels



Source: RBI

Credit growth outlook could be tampered by the latest stress in banks' portfolio. With the moratorium and the deadline for restructuring proposals coming to an end, and with the possible lifting of the asset quality standstill, banks' financials are likely to be impacted in terms of asset quality in coming quarters. As per RBI's stress scenarios, Scheduled Commercial Banks' (SCB) gross NPA ratio may increase from 7.5% in September 2020 to 13.5% by September 2021 under the baseline scenario and to 14.8% under the severe stress scenario. Banks have raised provisioning in anticipation of asset quality deterioration, with provision coverage ratio rising substantially to 72.4% by September 2020 from 66.2% in March 2020. Capital to risk-weighted asset ratios of SCBs also improved by 110 bps over March 2020 levels to 15.8% in September 2020. Almost all major banks have announced plans to raise capital. With budgeted capital infusion of Rs. 70,000 crores in 2019-20, the government has infused Rs. 3.16 lakh crore in the last five years in Public Sector Banks (PSBs). It earmarked another Rs. 20,000 crores for FY21, and additional funds (Rs. 20,000 crores to Rs. 50,000 crores) are likely to be allocated in the FY22 budget. Apart from internal capital generation and recapitalization (in case of PSBs) by the government, banks raised capital from the market through public issues, preferential allotment, qualified institutional placement and by selling non-core assets. Both PSBs and Private Sector Banks (PVBs) raised higher capital through private placements during FY21 so far (up to November 2020) than a year ago. Smaller and weaker banks have not been able to raise funds and may face challenges. Failure of some of these banks cannot be ruled out. Such an event, if it were to occur, should not impact financial stability given the banking sector is dominated by PSBs (supported by the government) and few large private banks (with a relatively healthy balance sheet and proactive capital raising plans) and is primarily a domestically funded sector.

Banks raise higher capital through private placements



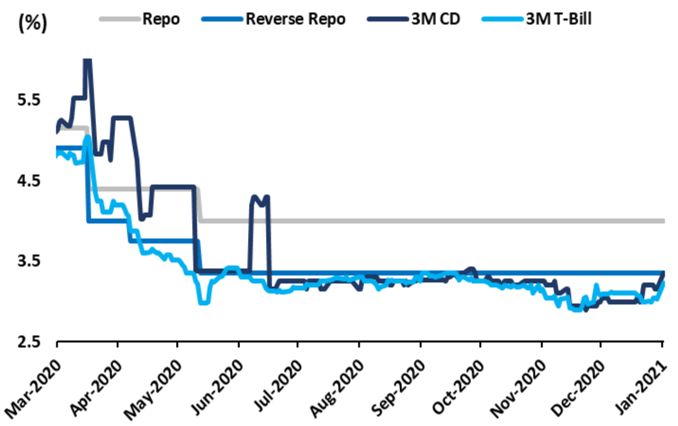
Source: RBI

Market update

Indian bond markets continued to remain benign in December. The shorter end of the curve eased further as the flow of surplus liquidity continued to keep rates lower. However, the longer end of the curve remained largely unchanged given the positioning ahead of the budget,

leading to a steepening of the yield curve. The 10Y-2Y G-sec spread widened by 14 bps in December to ~197 bps, its highest monthly average spread over a decade. However, the RBI's move towards unwinding its ultra-loose policy through the reverse repo auction in January 2021 led to a spike in the shorter end of the curve.
Consequently, money market rates (call money, Treps, 3M CPs/CDs/T-bills) that have been trading well below the reverse repo for a while now, surged by nearly 20 bps overnight to trade near the reverse repo. The 'resumption of normal liquidity management operations' was announced a little earlier than our expectation. However, this measure is unlikely to have a significant impact on systemic liquidity, although it could tailor the shorter end of the curve and lead to a bear steepening of the yields curve. As such, the frequency of the 14-day reverse repo auction will have to be monitored ahead. Meanwhile, we expect the accommodative stance by the RBI to continue anchoring the longer end of the curve below the 6% threshold through its tools such as open market operations and operation twists, going forward. In FY22, the possibility of India's inclusion in global indices needs to be watched closely given continued efforts in this direction, which could pull foreign flows and relieve pressures on the domestic bond market to fund government's large deficits.

Short end of the curve spikes towards reverse repo target on normalizing of RBI liquidity conditions

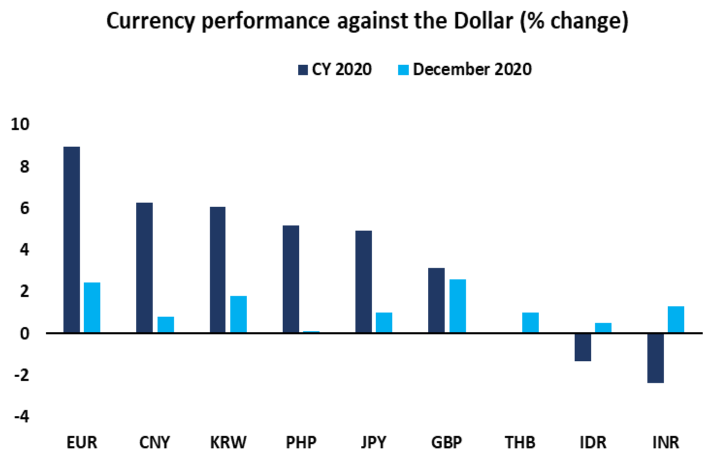


Source: Bloomberg; 3M CD refers to three-month Certificate of Deposits, 3M T-bill refers to three-month Treasury Bill

Equity markets continued their streak of gains in December as the NIFTY 50 index rallied by another 7.8% (following 3.5% and 11.4% gains in October and November respectively). Foreign investors reported another record month of investments with over USD 8 billion worth of capital flows in December, led by ongoing economic recovery and the relatively benign COVID situation in India. India was among the only few emerging market nations in 2020 to receive a net capital inflow from foreign investors. Despite the COVID shock, Indian equity indices have rallied by close to 15% in the calendar year 2020. The optimism from the above set of factors has extended the rally into the new year with the NIFTY index reporting fresh record highs and crossing the 14,500 mark in January 2021. US election results, with a democratic win including a majority over the House and the Senate, have also boosted sentiments further, and aided capital flows to emerging markets with increased prospects of further stimulus. Meanwhile, the valuations for Indian indices have continued to elevate with the P/E multiple increasing to an all-time high of close to 40 in January, posing risks of a sudden correction. Going ahead, we expect the accommodative stance of central banks along with prospects of further stimulus to continue and aid the Indian equity markets.

Indian Rupee registered gains in December as it appreciated by nearly a percentage against the Dollar. Aggressive FPI flows, a weaker Dollar, and a relatively tepid scale of RBI intervention buoyed the domestic currency. However, the recent gains were insufficient to offset losses from previous months. The Rupee was among the worst-performing major Asian currencies in 2020 depreciating by more than 2%. Despite record FPI inflows, the aggressive intervention by the RBI this fiscal year, of more than Rs. 6 trillion, broadly offset the gains in the Rupee and consequently allowed the RBI to increase its foreign reserve buffer by over USD 100 billion since the start of the fiscal year. The macro-environment for the Rupee, with low oil price, a current account surplus, and continued FPI inflows remain conducive, and we expect the appreciation bias of the Rupee to persist. We maintain our range for the Rupee to trade within 72.5-74.5 in the near-term.

Rupee among the worst-performing major EM currencies due to strong RBI intervention



Source: Bloomberg; CY refers to the calendar year – January-December

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