TATA CAPITAL WEALTH

Market Outlook – October 2021

Macro Economic Update

Inflation:

Consumer Price Index (CPI): Retail inflation eased to a four-month low of 5.30% in August due to moderation in food prices along with a high base effect. CPI inflation rate was recorded at 6.69% in August 2020 and at 5.59% in July this year. Food inflation eased to 3.11% in August from 3.96% in the previous month.

Wholesale price index (WPI): WPI grew to 11.39% in August as against 11.07% in July and a 0.41% same time last year. This high rate of inflation in August 2021 is primarily due to rise in prices of non-food articles, mineral oils; crude petroleum & natural gas; manufactured products as compared the corresponding month of the previous year.

Deficit:

Fiscal Deficit: The fiscal deficit stood at Rs 4.68 lakh crore or 31.1% of the Budget estimates at the end of August. The deficit figure in the current fiscal appears much better than the previous financial year when it had soared to 109.3% of the estimates, mainly on account of a jump in expenditure to deal with the COVID-19 pandemic.

Trade Deficit: India's merchandise exports jumped 21.35% to $33.44 billion in September on a year-on-year basis, while merchandise imports stood at $56.38 billion, an increase of 84.75% compared to the year-ago period. Thus the trade deficit in September was at $22.94 billion as gold imports jumped nearly 750% to $5.11 billion.

IIP, Core Sector and PMI:

Index of Industrial Production (IIP) & Core Sector: A continuing low base effect led to industrial production in India expanding by nearly 11.5% in July. When compared with July 2019 it is still below it. For the month of August, the 8 core sectors which comprise of 40.27% of IIP grew by 11.6%.

Manufacturing & Services PMI: Manufacturing activity increased for the 3rd straight month in September to stand at 53.7 as compared with 52.3 in August, as companies benefited from strengthening demand conditions amid the easing of Covid-19 restrictions. Services activity remained strong at 55.2 in September as hiring resumed.

Inflation and Industrial Production Trajectory

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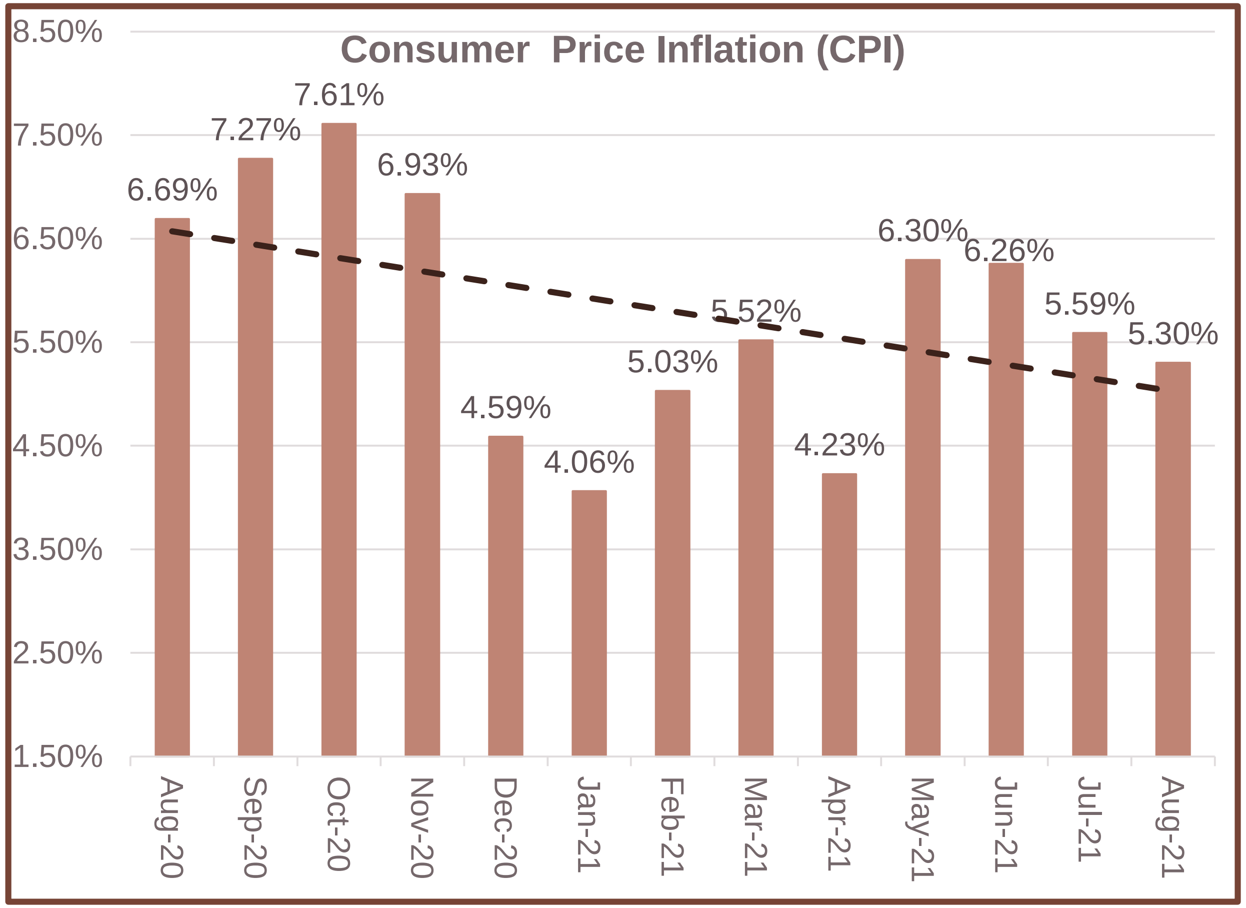
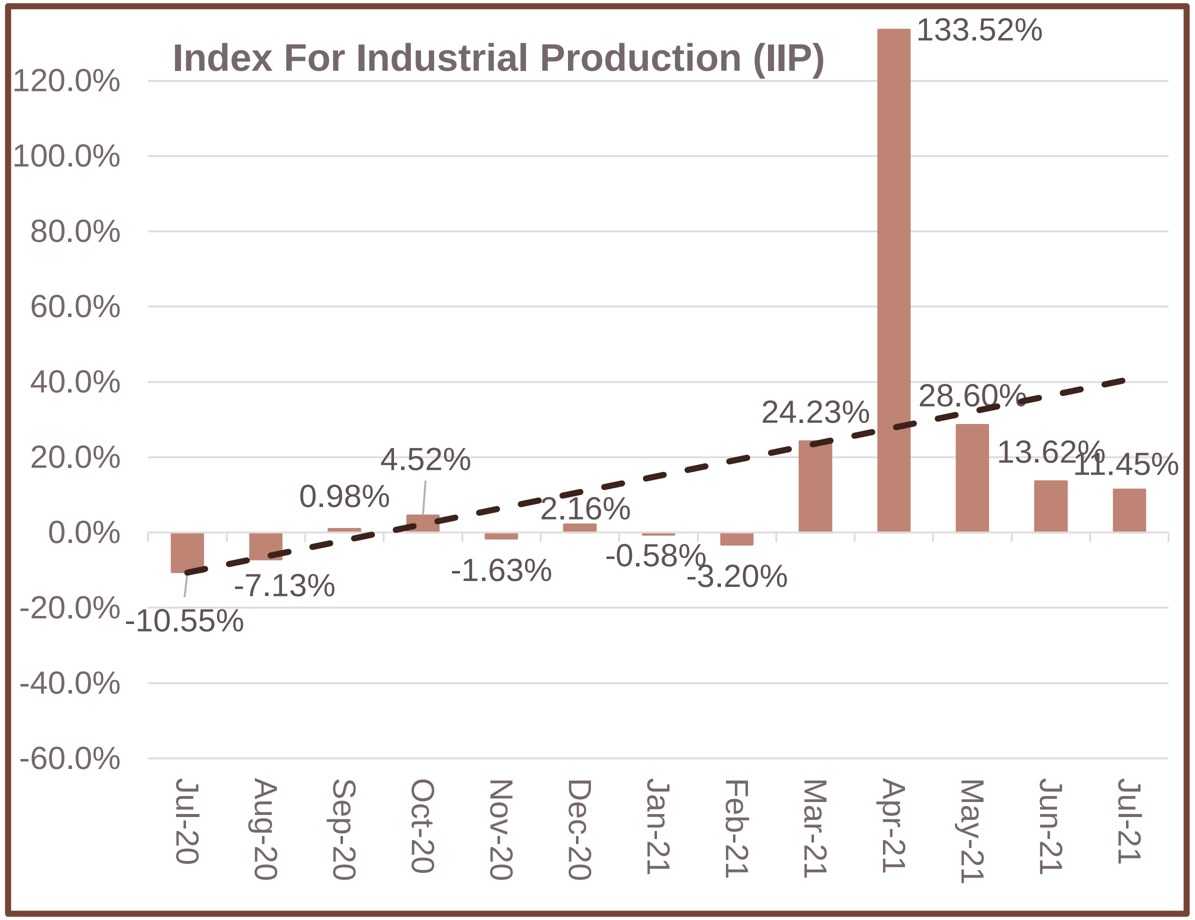
After being above the RBI upper tolerance level for in May & June 2021, July & August 2021 witnessed inflation dipping below the same.



Industrial Production spiked up in July '21 on the back on low base effect in the corresponding period last year



Source: DBIE, RBI

Macro Indicators

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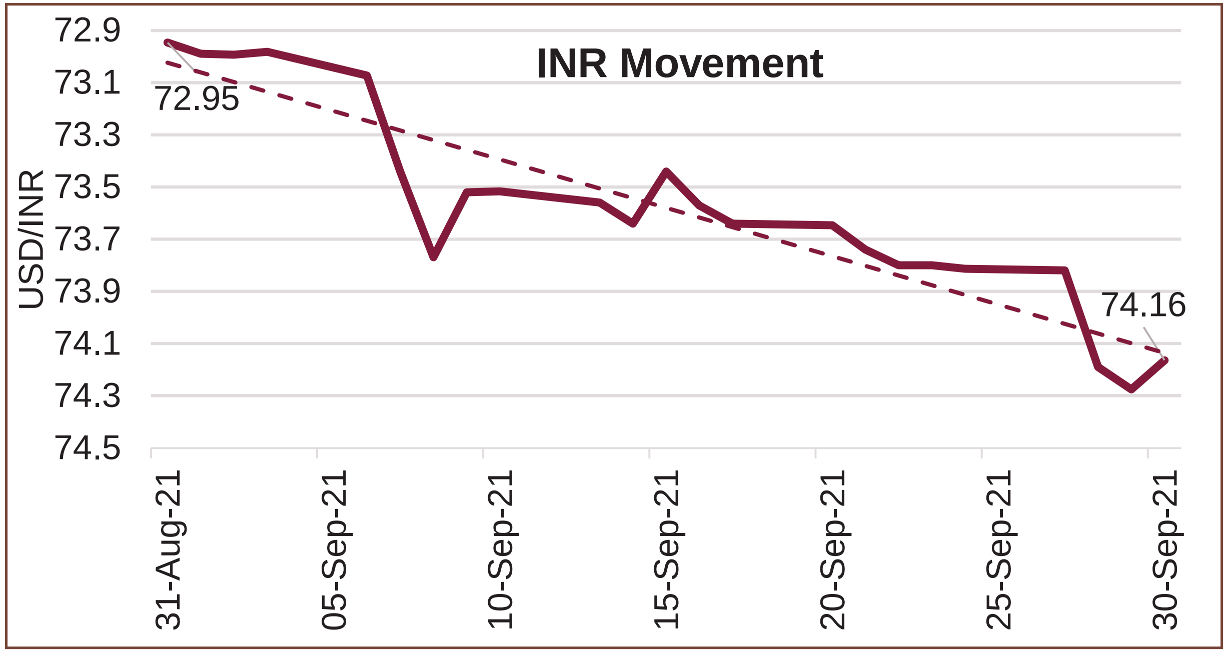
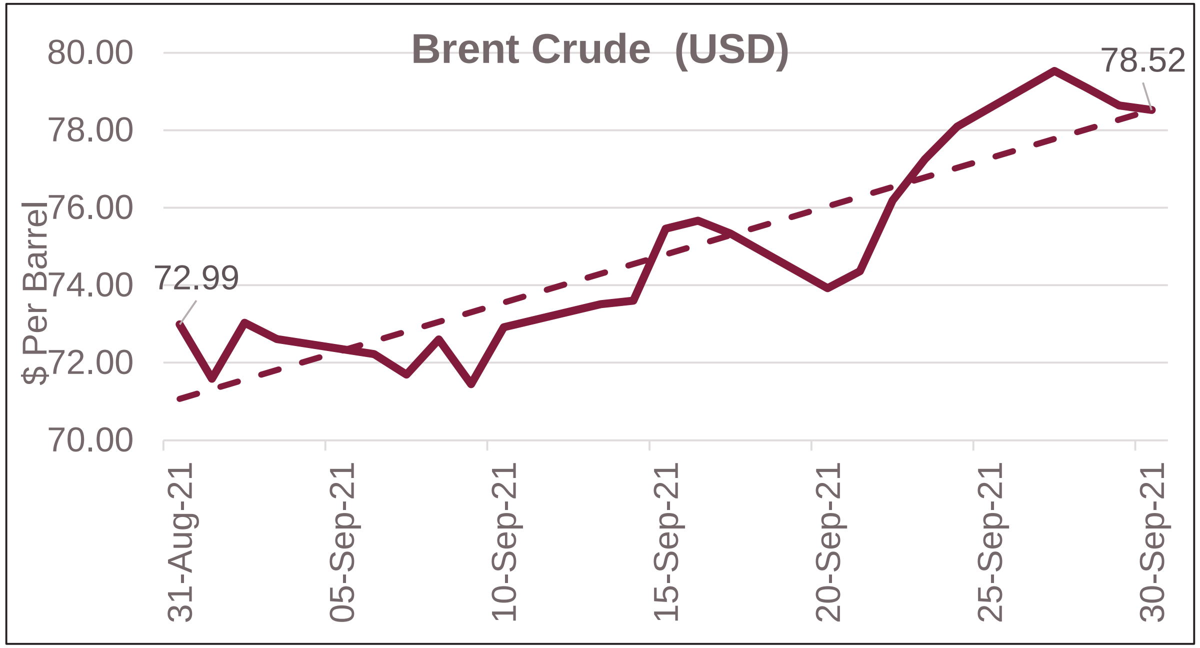
	Current	Month Ago	Quarter Ago	Year Ago
Economic Indicator				
Consumer Price Index (CPI)	5.30% (Aug-21) ↑	5.59% (Jul-21)	6.30% (May-21)	6.69% (Aug-20)
Wholesale Price Index (WPI)	11.39% (Aug-21) ↑	11.16% (Jul-21)	13.11% (May-21)	0.41% (Aug-20)
Industrial Production (IIP)	11.45% (Jul-21) ↓	13.62% (Jun-21)	133.52% (Apr-21)	-10.55% (Jul-20)
GDP	20.1% (Jun-21) ↑	NA	1.6% (Mar-21)	-24.4% (Jun-20)
Trade Deficit ($ bn)	22.94 (Sep-21) ↑	13.90 (Aug-21)	9.37 (Jun-21)	2.96 (Sep-20)
Commodity Market				
Brent Crude ($/barrel)	78.52 (30-Sep-21) ↑	72.99 (31-Aug-21)	75.13 (30-Jun-21)	40.95 (30-Sep-20)
Gold ($/oz)	1,757.00 (30-Sep-21) ↓	1,818.10 (31-Aug-21)	1,771.60 (30-Jun-21)	1,914.60 (30-Sep-20)
Silver ($/oz)	22.05 (30-Sep-21) ↓	24.01 (31-Aug-21)	26.19 (30-Jun-21)	23.92 (30-Sep-20)
Currency Market				
USD/INR	74.16 (30-Sep-21) ↑	72.95 (31-Aug-21)	74.36 (30-Jun-21)	73.56 (30-Sep-20)

Source: Currency & Commodity – Investing.com, Economic Indicators – DBIE, RBI & News Articles

↓↑ signifies positive movement over Q-o-Q ↓↑ signifies negative movement over Q-o-Q

INR and Brent Crude Performance





INR Performance: After appreciating significantly in August the rupee tumbled against the greenback in September 2021 to close the month at 74.16 in from 72.95 in August 2021. Initially, the rupee weakened after U.S. Fed Chief indicated at the Symposium that **tapering of its monthly asset purchase program could begin this year**, but interest rate hikes were a long way off. However losses were restricted following **gains in the domestic equity market**. At the end of the month, the Indian rupee fell against the greenback on announcement of **withdrawal of policy support by the U.S. Fed** and on worries over **solvency issues of a major Chinese property developer**.

Brent Crude: Brent crude oil prices spiked by 7.6% in September from a $72.99 per barrel to $78.52 per barrel. Brent crude oil prices increased as a **resurgence in global demand** was more than expected. However gains were restricted by reports that **China is looking to release some crude stock** from its national reserve. **Delayed recovery in output from the Gulf of Mexico region**, which has been severely disrupted by two hurricanes, also provided support to the oil prices. At the end of the month crude prices went up, supported by tight supplies due to **OPEC+ supply curbs**.

Source: Investing.com

Equity Market - Review

Equity Market Roundup - Key Takeaways

Performance: Indian benchmark indices **S&P BSE Sensex & Nifty 50 continued upward march** in the month of September 2021 and rose 2.73% and 2.84% respectively. Sensex hit 60,000 landmark as risk appetite improved after **fears surrounding Evergrande debt crisis eased**.

Domestic factors that played out for the Indian markets:

- **Improvement in macroeconomic data** indicating a pick-up in domestic economic growth boosted investor sentiments.
- **High pace of vaccination** across India and reduction in new COVID cases supported positive momentum in equity market.
- Shares of **automobile and telecom companies** jumped after government's announcement of relief package for debt strapped telecom companies and production linked incentive for auto sector.

Global factors that shaped the graph of the Indian markets:

- Global cues were mixed in the month of September 2021.
- Indian equity market reacted calmly to **Fed's more than expected hawkish stance on interest rate**.
- **Liquidity crisis in one of the biggest real estate company in China** weighed on investor sentiments. Indian stock market witnessed correction majorly led by metal stocks on fears of falling demand for steel.
- Hopes of additional stimulus in Japan and China supported market sentiments.

Outlook: Going forward, further direction of the market can be result of factors such as supply of vaccines and pace of vaccination across nation, policy measures, lockdown restrictions in states and resumption of economic activity. Investors need to be watchful of triggers such as **'taper tantrum'** risks arising from the U.S. Federal Reserve's change in policy stance. As the markets have run up in a very short period of time, **it may consolidate** before taking further direction based on **vaccination drive, economic recovery indicators, bond yields, FII, DII and FPI flows and Monetary and Fiscal policy.**

Equity Dashboard – September 2021

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Index	Closing Value	1-Mth Return (%)	YTD Return (%)	1 Yr. Return (%)	Current Value - Trailing		
					P/E	P/B	Dividend Yield
S&P BSE Sensex	59,126	2.73	23.82	55.32	30.77	3.78	0.92
Nifty 50	17,618	2.84	26.01	56.64	26.98	4.41	1.17
Nifty 100	17,845	2.72	26.64	56.74	27.04	4.42	1.17
Nifty 200	9,319	3.25	28.86	59.32	27.61	4.26	1.14
Nifty 500	15,053	3.41	30.68	61.13	28.02	4.27	1.11
Nifty Midcap 100	30,384	6.92	45.78	78.91	32.02	3.45	0.97
Nifty Smallcap 100	10,890	6.11	53.65	87.02	28.01	3.92	0.79

Data as on 30 September '21; Source: NSE and BSE

- Markets oscillated between gains and losses before ending the month in the positive territory with **Sensex breaching the 60,000 milestone**, however closing the month below it. The movement of the market were governed by the following factors:
  - Domestic Factors – Markets extended the rally after the **strong domestic GDP data for Q1FY22** raised expectations over economic recovery amid prolonged pandemic restrictions.
  - Global cues – Initially, bourses scaled new highs as **dovish comments by the U.S. Fed Chairman at Jackson Hole** boosted risk appetite.
  - Later, weak global cues kept bourses under pressure amid concerns over inability of a major **Chinese property developer to pay part of its huge debt.**
  - Markets managed to recoup its initial weakness with investors shrugging off **U.S. Fed's comment that it may start tapering as early as Nov and a probable rate hike in 2022.**

  For the month and year to date both the FIIs and DIIs were net buyer, nonetheless for the full year the FIIs were net buyers, while the DII were net sellers.

Index*	1-Mth Return (%)	YTD Return (%)	1 Yr. Return (%)
Realty	33.02	65.60	145.52
Energy	10.94	31.82	24.77
Consumer Durables	10.65	36.02	70.28
Telecom	10.65	38.82	70.08
PSU	9.50	46.54	86.62
Power	9.50	55.12	93.51
Oil & Gas	7.13	29.89	49.49
Auto	5.74	14.68	33.50
Capital Goods	3.98	38.53	87.70
Bankex	3.03	19.06	75.44
FMCG	1.93	17.87	34.48
IT	0.70	41.94	72.27
Health Care	-1.80	20.35	31.79
Metal	-1.93	73.99	143.03

*S&P BSE Sectoral Indices . Source: BSE

Equity Flow (Rs. Cr.)	1-Mth	YTD	1 Yr.
FII	914	9,342	137,420
DII	5,949	28,584	-74,347

Source: Moneycontrol

Category Average Performances – September 2021

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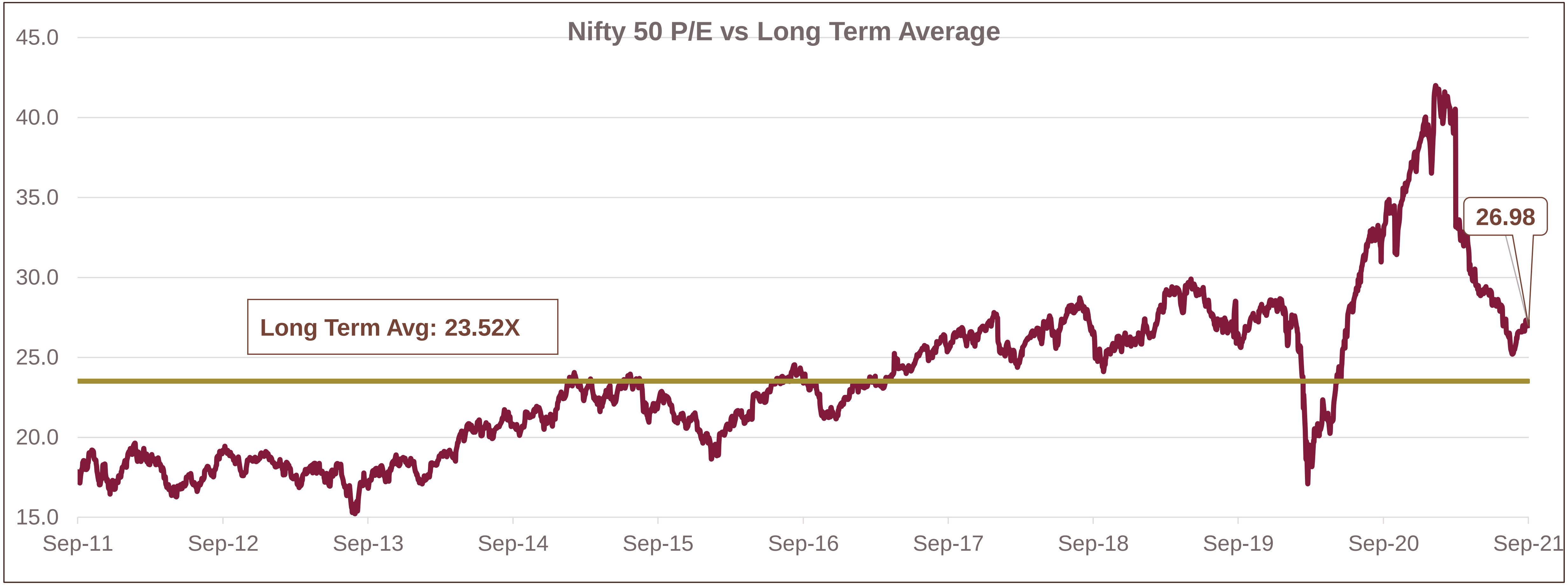
- **During the month** under consideration all the categories recorded early single digit returns with the Small cap outperforming the rest. Among the sectoral funds, while FMCG, Infrastructure and consumption were the clear winners; healthcare was the only sector which gave negative returns.
- **For the full year** all the categories were in the green registering a double digit return. Small Cap was the best performing category. Among the sector based and thematic funds Infrastructure was the best performing sector followed by Technology, Financial Services, Consumption, FMCG & Healthcare
- **On a 3 year CAGR** basis most of the categories delivered early double digit returns with the Small Cap outperforming the rest. Among the sector and theme based funds Technology and Healthcare were the top performers.
- **With respect to the 5 year CAGR returns** most the categories have early double digit return with the exception of Technology which clocked in gains of ~30%.

Category	Absolute Returns (%)				CAGR (%)		
	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Large Cap	2.20	11.07	20.12	54.18	22.74	17.20	14.00
Large & Mid Cap	3.00	11.59	24.37	63.28	28.30	19.79	15.23
Multi Cap	3.87	12.21	27.50	71.84	30.54	21.68	16.21
Flexi Cap	2.46	11.23	22.44	58.85	25.59	18.95	15.04
Mid Cap	3.79	11.28	25.94	68.83	35.42	22.97	16.10
Small Cap	4.87	12.14	35.47	85.96	44.94	25.51	17.71
Focused	2.23	11.21	21.61	58.71	25.58	18.61	14.99
ELSS	2.75	10.86	21.82	58.78	26.28	18.41	14.83
Contra	3.60	10.78	22.71	67.44	30.72	20.26	16.53
Dividend Yield	3.21	11.10	26.45	62.76	29.05	18.23	14.93
Value	3.38	10.40	22.93	65.46	27.37	16.71	13.52
Sectoral / Thematic							
Consumption	3.46	11.64	24.53	59.29	28.09	20.99	16.65
Infrastructure	4.35	12.30	27.13	85.49	28.25	19.35	13.47
Financial Services	1.18	8.04	15.23	67.03	15.14	15.74	12.82
FMCG	5.87	12.96	19.36	42.45	15.16	12.59	13.85
Healthcare	-1.23	3.81	22.22	32.02	46.98	25.73	13.15
Technology	2.36	17.97	37.53	82.89	54.70	33.51	29.75

Source: Morningstar Direct

Valuations on the Trailing P/E Metrix

Nifty 12-month trailing P/E of 26.98x is above its historical long term average of 23.52x



Source: NSE India

Valuations on the Trailing P/BV Metrix

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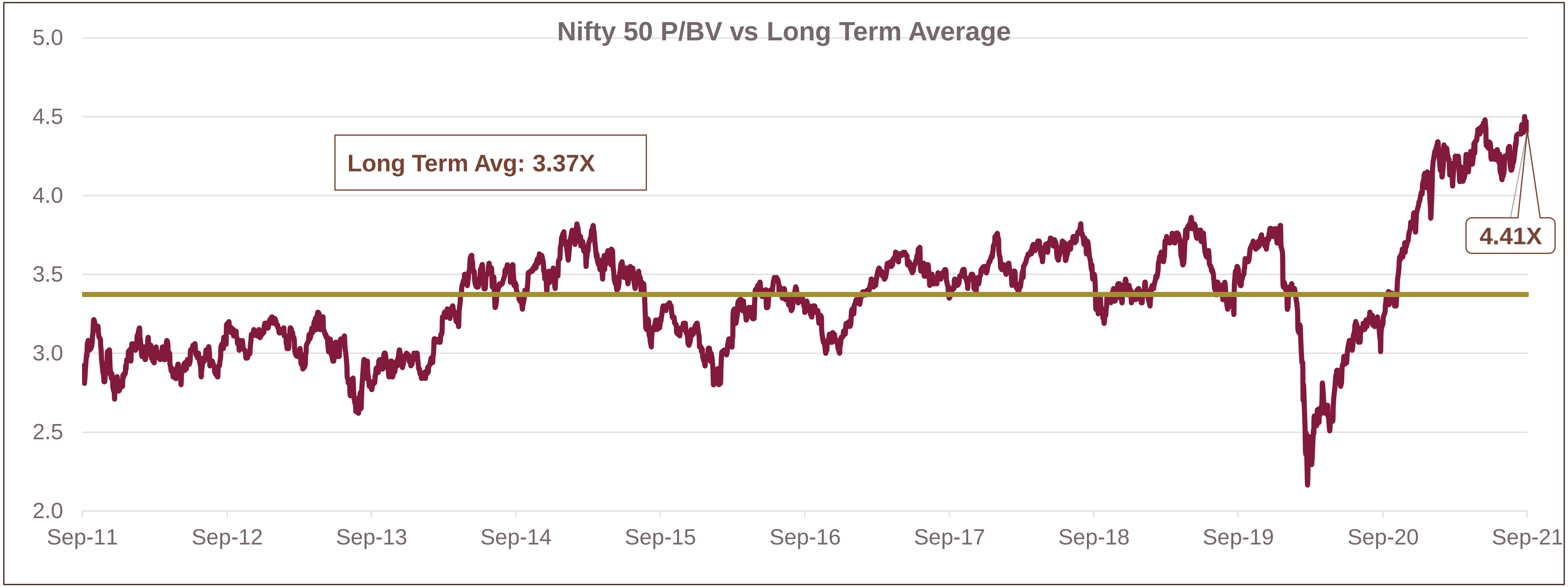
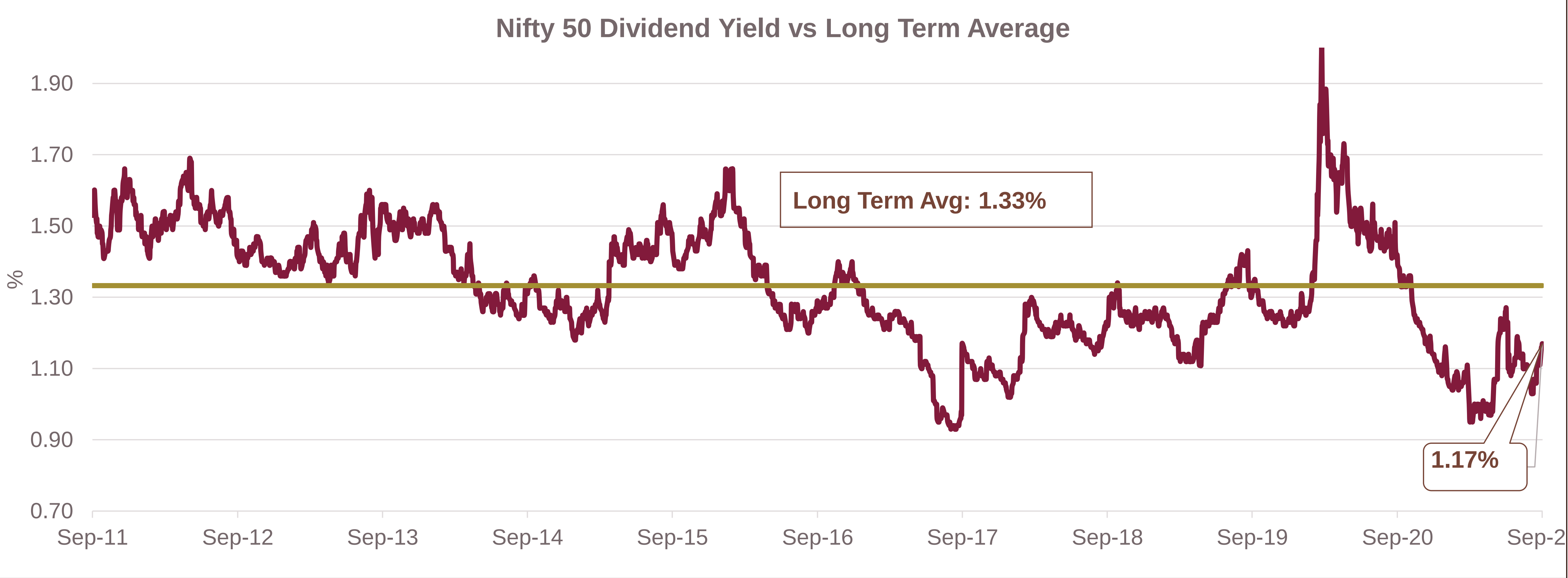
At 4.41x, the Nifty Trailing P/B is above the historical long term average of 3.37x.



Source: NSE India

Valuations on a Trailing Dividend Yield perspective

At 1.17%, the Nifty Trailing Dividend Yield is below the historical long term average of 1.33%.



The content does not construe to be any investment, legal or taxation advice.

For Client Circulation.

Source: NSE India

Valuations on a MCap / GDP perspective

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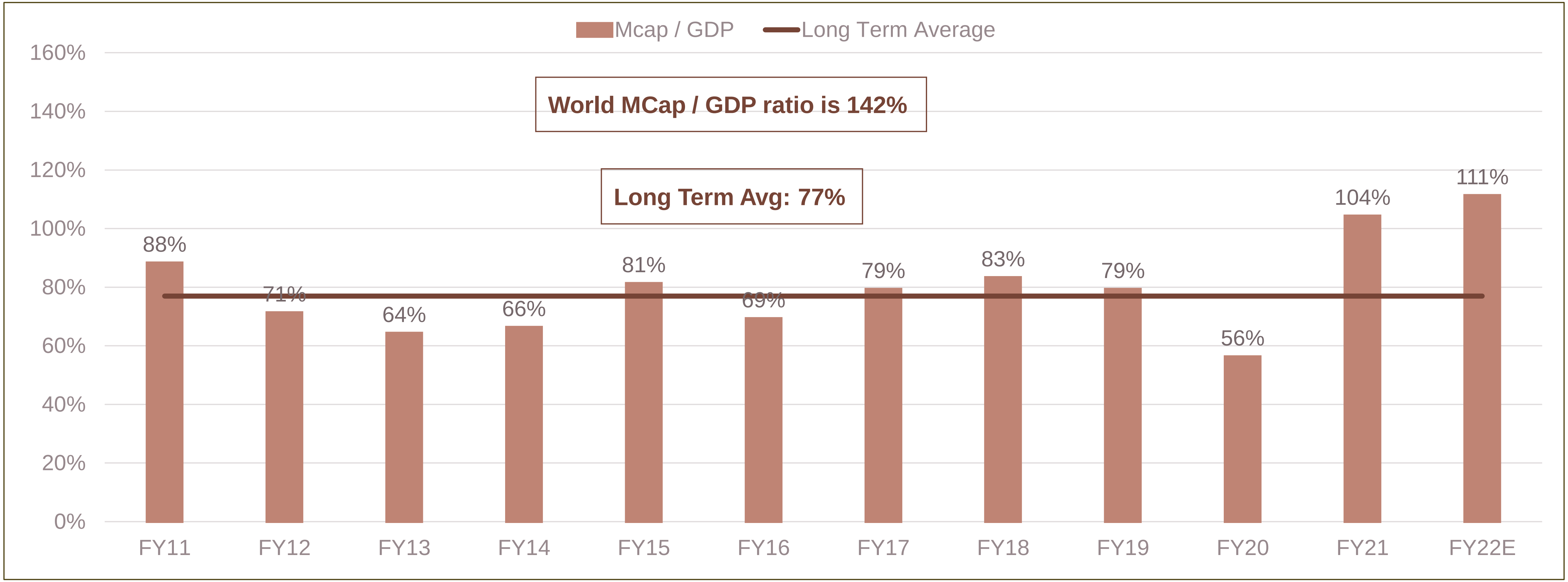
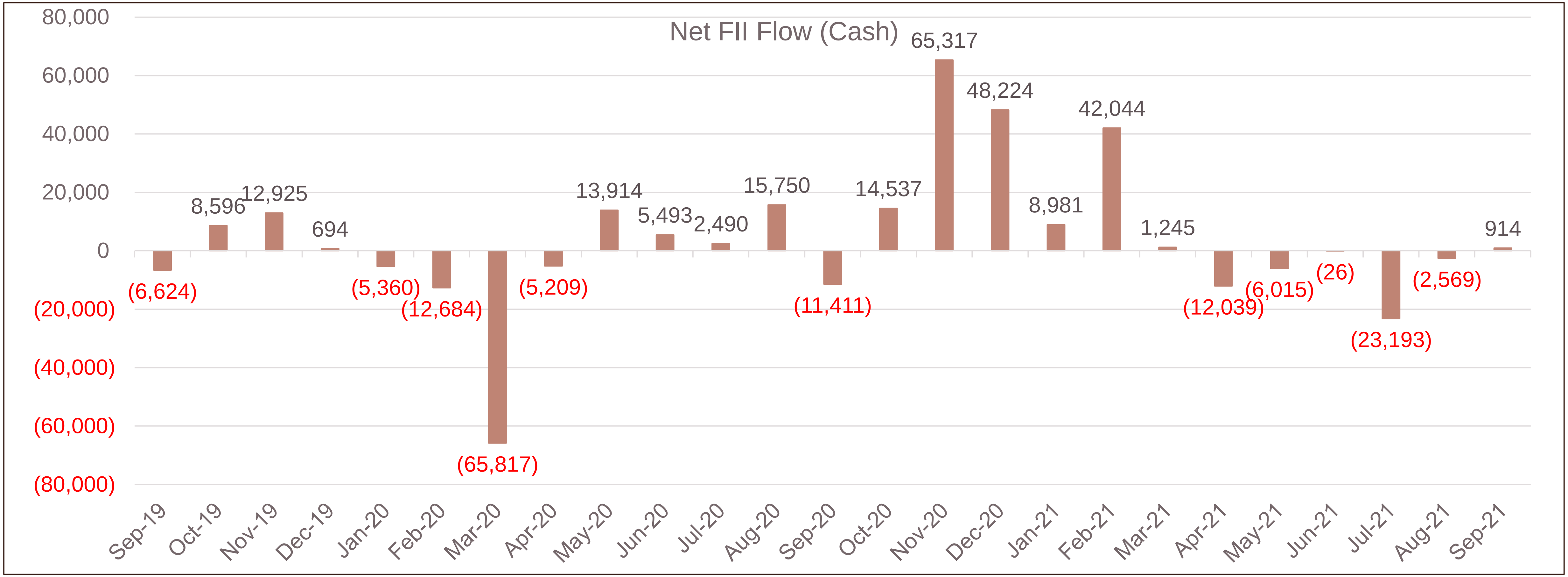
On Market Capitalisation to GDP parameter the market is trading above the historical long term average but below the global average



Source: Kotak AMC

FII Flow into Equity

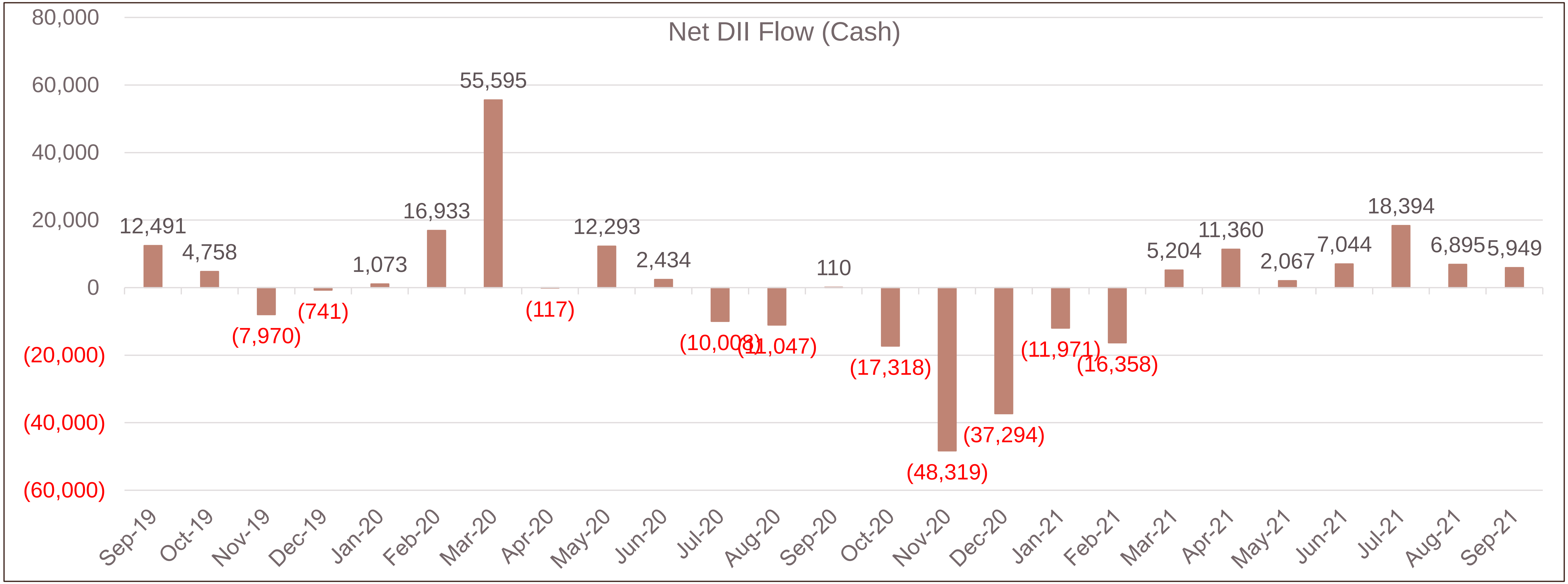
FII registered an inflow to the tune of Rs. 914 cr in September ’21 after five consecutive months of outflow



Source: Moneycontrol

DII Flow into Equity

After being net sellers for five consecutive months; March to September witnessed a positive flow from DII



Source: Moneycontrol

Debt Market - Review

Debt Market Roundup - Key Takeaways

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- The India 10-Year Government Bond yields **closed the month on a flat note at 6.22%** in September ’21 after touching a low of 6.12% during the near end of the month.
- Initially yields fell after India’s **fiscal deficit** for the period from April to July of FY 22 narrowed and **GST collections** came in above the Rs. 1 lakh crore mark for the second month in August. Yields fell further after **U.S. inflation** rose less than expected in Aug 2021 and **domestic inflation** too eased. Gains were reversed during the end of month following a surge in **U.S. Treasury yields** and **global crude oil prices**.
- Market sentiments were also boosted as the **GST collection stayed above the one-trillion rupees mark** in August 2021 for the second consecutive month after dipping below it in June 2021.
- Meanwhile, **increase in global crude oil prices** hurt investor appetite.
- While **August retail inflation softened to a 4-month low** of 5.30%; **July IIP growth** stood at 11.60%, nears pre-pandemic levels.
- Data from RBI showed that **India's foreign exchange reserves rose to a record high** in the beginning of the month to ~ $ 642 bn.
- Gains were erased as U.S. Treasury yields rose after the **U.S. Federal Reserve opened the door to raising interest rates** as early as next year.

Outlook:

- In the near-term trend in debt market would be guided by **market support measures that the RBI announces from time to time**. However, the broader directional trend would mainly depend on how the **growth-Inflation dynamic shapes up**.
- Going ahead there may be **lack of appetite for taking duration risk** when **interest rates have likely bottomed out, liquidity conditions are normalizing, and fiscal deficit numbers stand elevated.**
- There being **limited scope of rate cuts** which was the major driver for returns in the past couple of years, it’s important to **rationalize return expectations going forward**.

Debt Dashboard – September 2021

	Latest (30 Sep '21)	One Month Ago (31 Aug '21)	One Quarter Ago (30 Jun '21)	Half Year Ago (31 Mar '21)	One Year Ago (30 Sep '20)	M-o-M Change (bps)
Interest Rates						
Repo rate	4.00%	4.00%	4.00%	4.00%	4.00%	0
SLR	18.00%	18.00%	18.00%	18.00%	18.00%	0
CD Rates						
3 month	3.53%	3.58%	3.43%	3.28%	3.28%	-5
6 month	3.73%	3.75%	3.68%	3.48%	3.55%	-2
1 Year	3.98%	4.03%	4.03%	3.95%	3.90%	-5
T-Bill/G-sec						
91 Days	3.43%	3.27%	3.38%	3.30%	3.33%	16
364 Days	3.77%	3.62%	3.84%	3.77%	3.65%	15
India 10 Year G-Sec Yield	6.22%	6.22%	6.05%	6.18%	6.02%	0
AAA Corp. Bonds (PSU)						
1 Year	4.15%	4.06%	4.25%	4.02%	4.10%	9
3 Year	5.24%	4.97%	5.30%	5.35%	5.20%	27
5 Year	5.92%	5.93%	5.91%	6.16%	5.80%	-1
AAA Corp. Bonds (NBFC)						
1 Year	4.31%	4.32%	4.40%	4.37%	4.56%	-1
3 Year	5.41%	5.27%	5.57%	5.66%	5.52%	14
5 Year	6.08%	6.08%	6.10%	6.51%	6.19%	0
International Markets						
10 Year US Treasury Yield	1.49%	1.31%	1.47%	1.74%	0.69%	18

Source: IDFC AMC, G Sec – Investing.com

- The **money market instruments witnessed mixed movement,** as T-Bills rose and certificated of deposits fell.
- While the **U.S. Treasury Yields hardened** as the Fed comment that it may start tapering as early as Nov and a probable rate hike in 2022 and **India 10 year Gsec yields showed resilience closed flat after a volatile month**.
- **Both the AAA Corp. PSU & NBFC largely witnessed a rise in the yields** especially in the shorter end of the curve while the longer end was relatively flat.
- With the MPC meet due on 8 Oct it is expected that though the RBI may not raise rates or change the stance however it would take some step to prepare the market for it.

Debt Category Average Performances – September 2021

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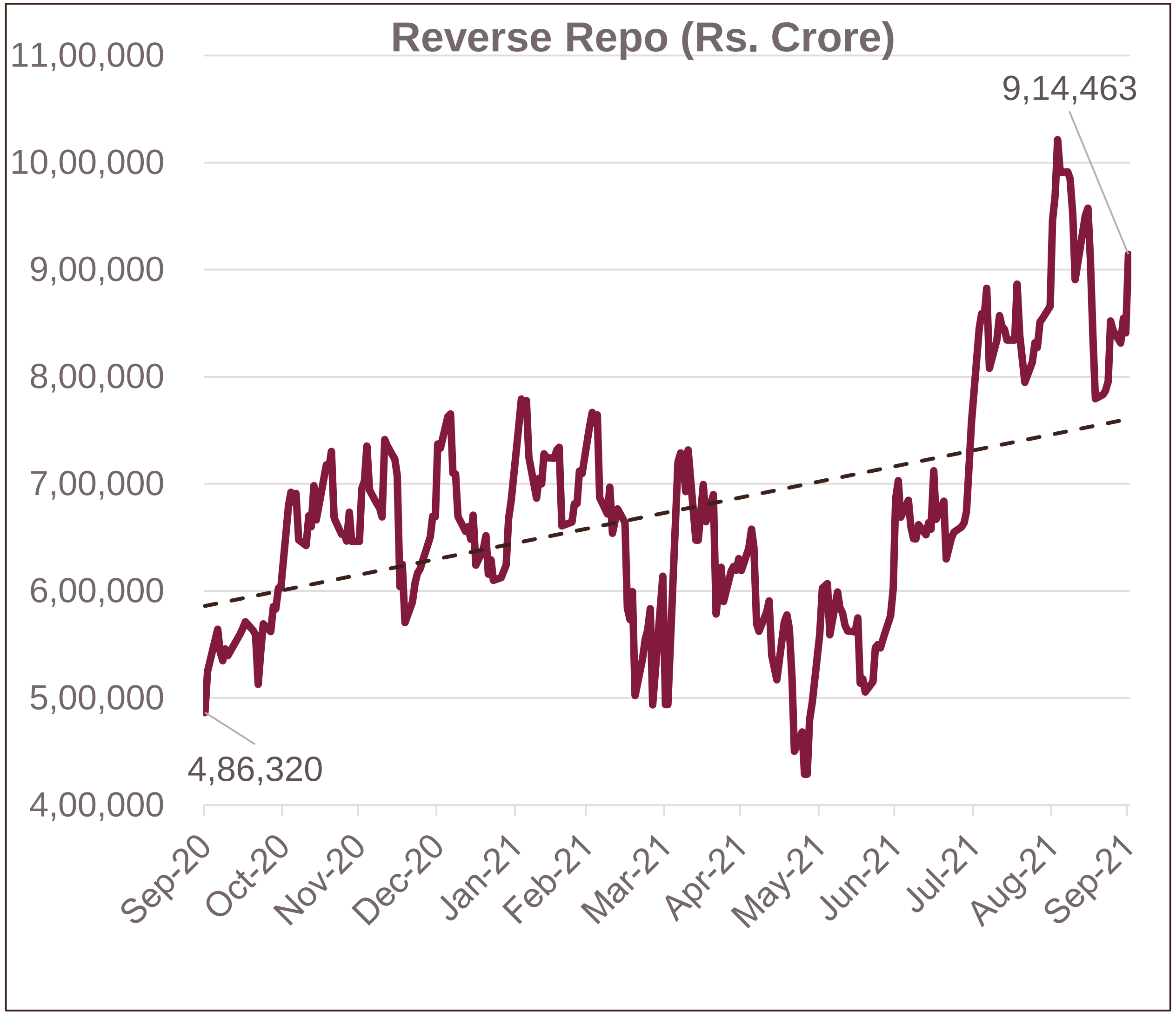
- **During the month** under consideration all the three broad categories – Money Market, Accrual and Duration were in the green. With respect to the **3 months and 6 months trailing returns too** all the categories gave positive returns.
- **For the full year** all the categories were in the green with our recommended categories such as Low duration, Floating rate, Short Duration, Banking & PSU and Corporate Bond Fund performing the best.
- **On a 2 year CAGR** basis all of the categories delivered a early to mid single digit growth. The Short Duration, Banking & PSU, Corporate Bond and Floating Rate were the best performing categories during this period.
- **With respect to the 3 and 5 year CAGR returns** most the categories reported Mid and late single returns with the exception of credit risk which underperformed. Long Duration Funds were the only category which gave early double digit return in the 3 year time frame.

Money Market	**Absolute Returns (%)**				**CAGR (%)**		
Category	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Overnight	0.25	0.76	1.54	3.02	3.40	4.17	4.82
Liquid	0.21	0.70	1.39	2.77	3.42	4.44	5.33
Ultra Short Duration	0.33	1.05	1.90	3.71	4.75	5.64	5.79
Low Duration	0.98	1.80	2.77	5.11	5.55	4.55	5.31
Floating Rate	0.25	1.50	2.83	5.50	7.04	7.62	7.13
Money Market	0.22	0.87	1.69	3.44	4.88	6.01	6.11
Accrual	**Absolute Returns (%)**				**CAGR (%)**		
Category	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Short Duration	0.95	2.15	3.35	5.70	7.09	6.66	6.26
Medium Duration	0.63	2.70	4.30	4.37	6.08	5.79	5.69
Banking & PSU Debt Fund	0.33	1.50	2.78	5.23	7.56	8.50	7.43
Corporate Bond Fund	0.25	1.51	2.82	5.44	7.82	8.28	7.12
Credit Risk	1.10	2.74	4.54	5.55	4.70	3.37	4.17
Duration	**Absolute Returns (%)**				**CAGR (%)**		
Category	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Medium To Long Duration	1.03	2.28	3.68	4.14	6.92	7.90	6.04
Long Duration Fund	1.45	2.28	2.86	5.17	7.64	11.03	7.40
Dynamic	0.86	1.96	3.44	4.66	7.05	7.92	6.47
Gilt	0.60	1.81	3.18	4.78	7.37	9.80	7.32

Source: Morningstar Direct

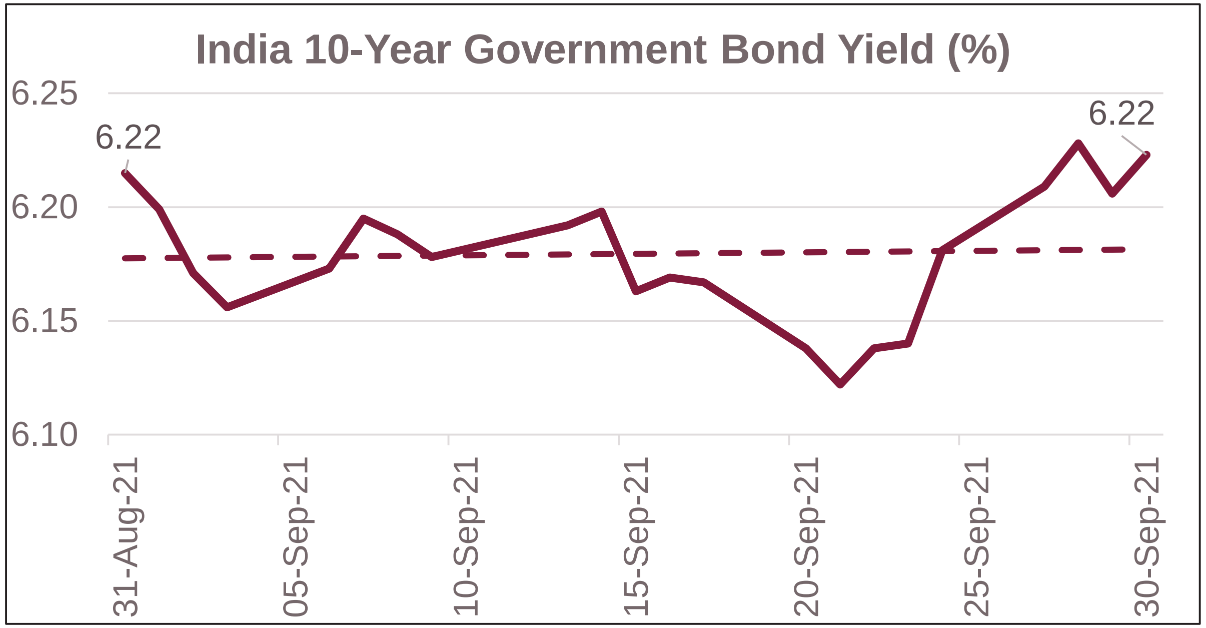
Money parked in Reverse Repo window

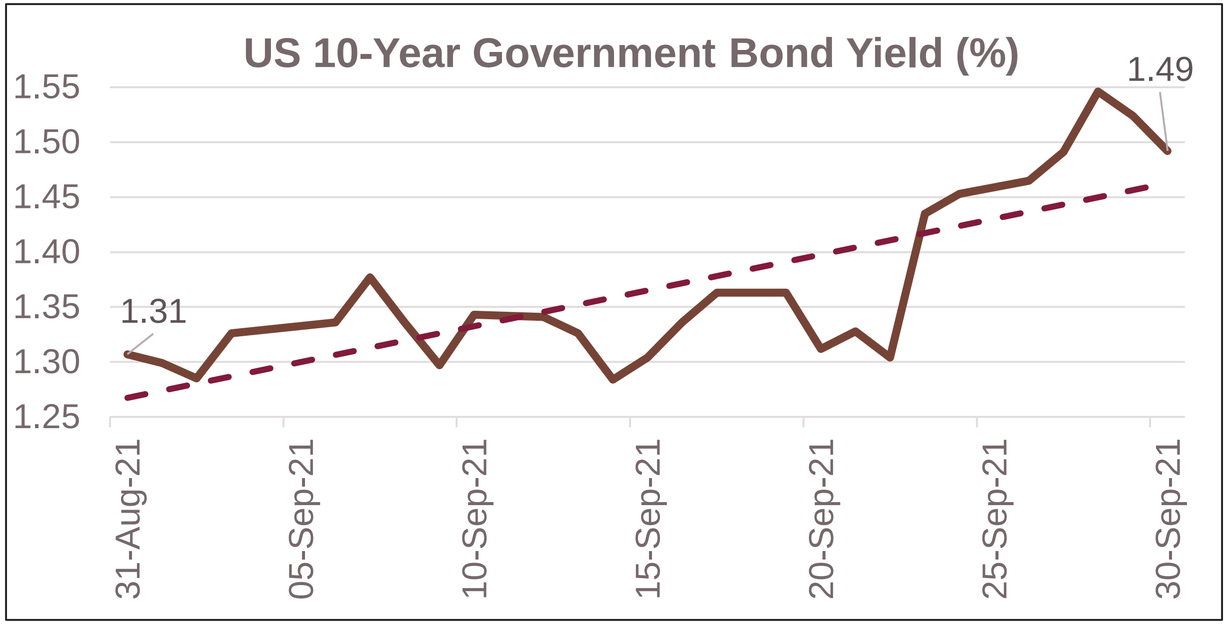
On persistent efforts by RBI to keep **liquidity ultra easy** and **accommodative policy for a long tenure**, a couple of months since November 2020 witnessed extreme **short-term banks, corporate and government borrowing rates remaining below its policy benchmark rates**. This gave RBI legroom for liquidity management and normalization by conducting **a 14- day variable rate reverse repo (VRRR) auction and CRR the rollback of CRR in a phased manner.** In the August 2021 policy meet the quantum of VRRR absorption from the market was increased over the next 2 months. RBIs persistent efforts to **ensure that the cost of short-term borrowings does not fall below that floor rate**, which is currently at 3.35% by conducting VRRR has not been yielding results. Over time, the idea is to push up the rate at which liquidity is absorbed via these VRRR auctions, which would make it easier for the RBI to eventually raise that benchmark. During the month under review the **banks on an average are parking Rs. 8.92 lakh crore to the reverse repo window** as against Rs. 8.49 lakh crore in August.



Source: IDFC AMC

Yields Movement Across - India and U.S.





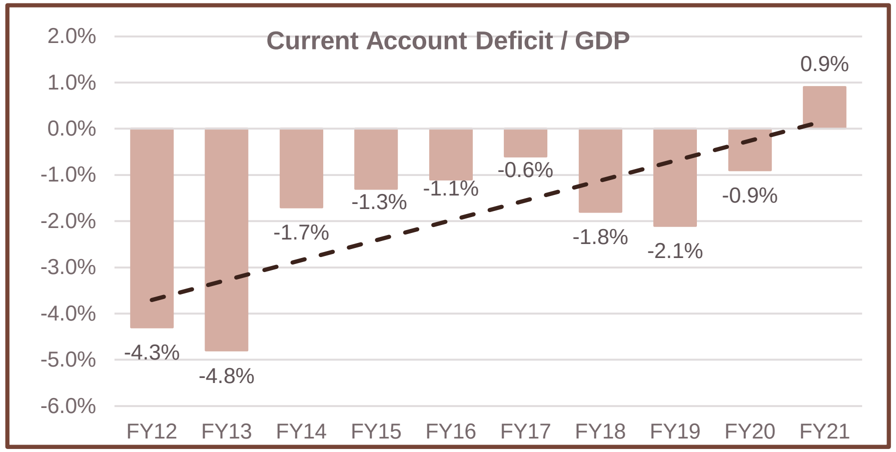
- **<u>10-year India Government Bond Yield:</u>** The India 10-Year Government Bond yields closed the month on a flat note at 6.22% in September ’21 after touching a low of 6.12% during the near end of the month. Initially yields fell after India’s fiscal deficit for the period from April to July of FY 22 narrowed and GST collections came in above the Rs. 1 lakh crore mark for the second month in August. Yields fell further after U.S. inflation rose less than expected in Aug 2021 and domestic inflation too eased. Gains were reversed during the end of month following a surge in U.S. Treasury yields and global crude oil prices.

- **<u>U.S. Treasury Yield:</u>** U.S. Treasury yields rose by 18 bps from 1.31% in Aug ‘21 to 1.41% in Sep ’21. The yields fell initially as concerns over solvency issues of a major Chinese property developer spooked global financial markets which boosted the safe-haven appeal of U.S. Treasuries. After being range bound for most part of the month the U.S. Treasury yields rose after the U.S. Federal Reserve opened the door to raising interest rates as early as next year.

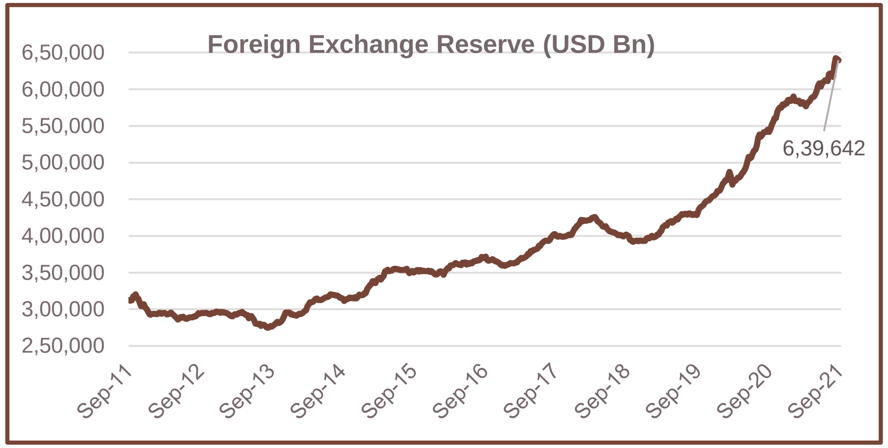
Source: Investing.com

Event Update

Fed looks at tapering its bond purchase program



Source: tradingeconomics.com



Source: RBI - DBIE

What was the outcome of the FOMC meet?

- Fed has indicated that a **"tapering" in the pace of asset purchases** may begin as early as November and would conclude by about middle of 2022.
- Further, it **might even move up its timetable for raising interest rates to 2022**, reflecting a strong conviction the economy is on the path to full recovery.

How this may impact India?

India is better placed this time than 2013. The present situation of the current account balance, short term foreign currency debt and forex cover is substantially better than the 2013-2016 position. Also the **pool of domestic investors has increased** significantly which can cushion the markets in case of correction.

- **Current Account:** The **current account is in far better shape**, with India reporting a surplus last year. The current account balance recorded a surplus of 0.9% of GDP in 2020-21 as against a deficit of 1.7% in 2013-14.
- **Forex Reserves:** As against $275 billion in forex reserves in August 2013, India's forex currently stands at about $ 640 bn.

However there are still some **pain points - higher inflation and a large fiscal deficit**. While inflation is transient, driven by supply side bottlenecks, as demand picks up, inflationary expectations would need to be anchored effectively. With respect to the fiscal deficit; India recorded a fiscal deficit of 9.4% of GDP in 2020-21 however with the pickup in economic activity this will tame down to 6.8% of GDP in 2021-22.

To Conclude

Due to the announcement there may be some outflows from Emerging Markets like India but RBI has prepared the economy well enough by accumulating sufficient foreign exchange reserves. The equity markets have risen to all-time highs and therefore some fall is imminent but with retail investors driving the markets and India's economy doing relatively well, the stock markets will bounce back soon enough. So **the effect of tapering should be relatively less this time for India.**

However, investors should **follow the desired asset allocation** to avoid unfavourable portfolio outcomes in case of any volatility that flows in the Indian markets due to tapering.

China Evergrande Group Liquidity Crisis

CHINA EVERGRANDE GROUP

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About China Evergrande Group (CEG)

- Founded in 1996 by Xu Jiyain, headquartered in Shenzhen, Guangdong Province.
- A conglomerate with core business in residential real estate, is the Second largest property developer in China by sales.
- The group has over **1,300 projects spread across 280 Chinese cities**.
- Ranked 122nd on the Fortune Global 500. **Became the most valuable real estate company in the world in 2018.**

What is the China Evergrande Liquidity issue?

- The biggest real estate developer in China has **total liabilities worth $305 billion** and has to pay around $37 billion in interest and maturing debt over the next one year.
- Evergrande currently has approx. **$1 trillion worth unfinished Projects**
- The company's bonds have been downgraded by rating agencies such as Fitch and S&P and have traded well below 50 cents on the Dollar.

What led China Evergrande Group close to default?

The most immediate trigger of the current crisis is the **Chinese government's new rules for property developers**. In August 2020, the Chinese government came up with rules also called the **'three red lines' stating how much a property developer can borrow given its financial position as measured by three debt metrics.**

The **new rules cut off Evergrande from taking on any more debt**. This was a big blow to Evergrande's debt ridden business.

The company to meet its debt obligations had to sell its land and other properties at steep discounts. This eventually led to Evergrande's insolvency.

The interest payment worth $83 million was due on 23rd September for a $2 billion dollar-denominated bond that's due to mature in March 2022. As of today, the company has not made any announcement, or any filing to the Hong Kong exchange.

Implications if Evergrande Defaults

China

- Default **can put selling pressure on housing sector pushing prices of houses down further**. Real estate accounts for a large sum of wealth for Chinese citizens, therefore this **can severely impact consumption in China**.
- China's Debt to GDP ratio at the end of June quarter stood at 353%. **Around 29% of China's gross domestic product is related to real estate**. This default **could put China in a tough spot as the government has less space for fiscal manoeuvring**.
- Evergrande has liabilities that involve 128 banks and 121 non-banking institutions. If the company is not bailed out, possible **liquidation can cause domino effect** as banks and other institutions could have to restructure themselves.

Global

- As an immediate effect this news made investors nervous across markets, however the markets recovered on the hope of debt restructuring and government intervention to prevent a disorderly collapse.
- China is the **world's largest exporter and the second largest importer**. Its also the biggest trading partner for most Asian countries .Slowdown in China will have serious **ripple effect on global economy**.
- At a time when China is the biggest driver of the global economy post the COVID-19 disruption, any negative impact on the country's **economy will slow down the global economic recovery.**

India

- **Commodity exporting companies** will continue to take hit and would be major loser if this crisis is sorted out in time since China is the largest importer of commodities
- If Chinese currency Yuan depreciates, then Indian companies in sectors like textile, tyres, chemicals, where India and China both compete for the international market will face intense competition from Chinese companies.

How policymakers in China might respond

The Chinese government has started taking action response to Evergrande's problems. Government might divide up Evergrande's projects and ask state-owned enterprises (SOEs) or quasi-SOEs to take over. We believe that the government will seek to limit the economic fallout and rescue certain creditors instead of simply bailing out or letting it collapse in a disorderly manner.

Thank You!

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