

# India Bond Markets – Coming of age

Evolution into a mature asset class



# India in the spotlight



PRESS RELEASE | OCTOBER 3, 2023

## India's Growth to Remain Resilient Despite Global Challenges

### THE WALL STREET JOURNAL. The Clearest Sign of India's Very Good Year

Currencies around the world have weakened against the dollar, but the rupee has held strong, as virtually everything has gone right for India

By [Matthew Thomas](#) [Follow](#)

Updated Nov. 28, 2023 12:53 am ET

### FINANCIAL TIMES

## JPMorgan adds India to pivotal bond index

Inclusion expected to drive billions of dollars of inflows in rupee-denominated debt

[Chloe Cornish](#) in Mumbai SEPTEMBER 22 2023

### Bloomberg

Sep 25, 2023

## Dimon Says Optimism on India 'Completely Justified': CNBC-TV18

### THE ECONOMIC TIMES | Last Updated: Oct 05, 2023, 05:43:01 AM IST

Now, Bloomberg Index looking to include Indian sovereign bonds



## Foreign inflows into Indian bonds spike to 6-year high in 2023 before index inclusion

January 1, 2024 1:04 PM GMT+5:30

### THE WALL STREET JOURNAL. India's Booming Stock Market Is Leaving China in the Dust

The South Asian nation's market has been a quiet outperformer for a decade. Now foreign investors are starting to pay attention.

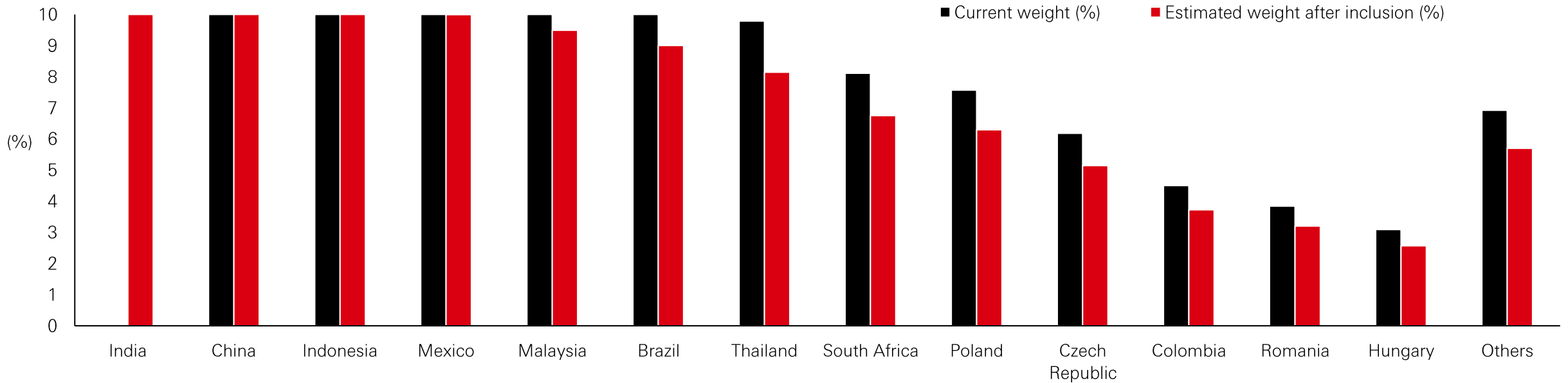
Updated Oct. 9, 2023 12:01 am ET

Source – News articles from Wall Street Journal, World Bank, Bloomberg, Economic Times, Financial Times, Reuters

**Past performance may or may not be sustained in the future.**

# Indian Government Bonds inclusion in Global Bond Indices

India bonds are confirmed to be added to J.P. Morgan Emerging Market indices starting Jun 2024



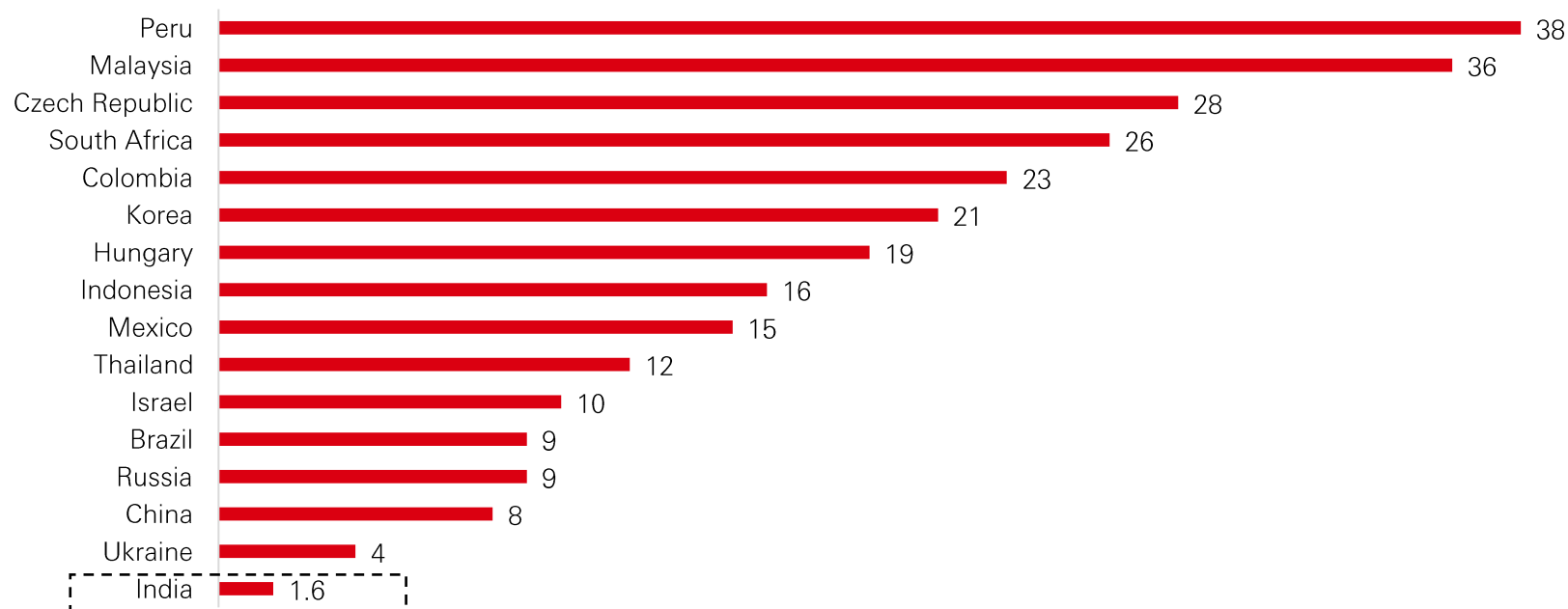
- The inclusion of Indian Govt. bonds (IGB) in the JPM- EMBI index will create demand of ~ USD 25 bn over FY 2025
- FPIs have bought more than USD 4 bn worth of IGBs since index inclusion announcement
- **Inclusion in other global bond indices like the Bloomberg Global Aggregate Index remains likely, with possible inflows of another USD 20-25bn**

**Index flows could result in USD 45-50 bn inflows into India bonds over the next few years**

Source – Bloomberg, Data as on 20 Dec '23, For illustration purposes only. **Past performance may or may not be sustained in the future.**

## Ownership of FPIs in Indian Government Debt among the least

FPI ownership in EM domestic bond markets (%)



- FPI ownership of Indian Government Debt at 1.6% is among the lowest in EMs
- Lower holding is largely attributable to less familiarity, operational/access issues and FPI limits in the past

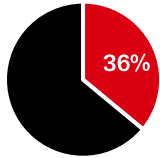
**Even with incremental index flows of ~USD 50 bn, total FPI ownership of Indian Govt. debt will be ~ 5%**

Source – RBI Bulletin, Data for India as on 30 Sep '23, Bank of America Research, Data for other countries as on 17 Aug'23  
For illustration purposes only. **Past performance may or may not be sustained in the future.**

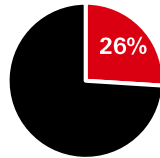
# Index inclusion: Catalyst for more significant strategic allocation to Indian bond markets?

Foreign ownership of Indian government debt remains low at 1.6%, which is modest in comparison to India's economic standing...

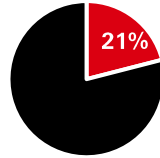
Malaysia



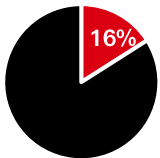
South Africa



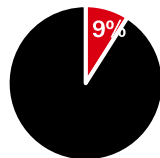
South Korea



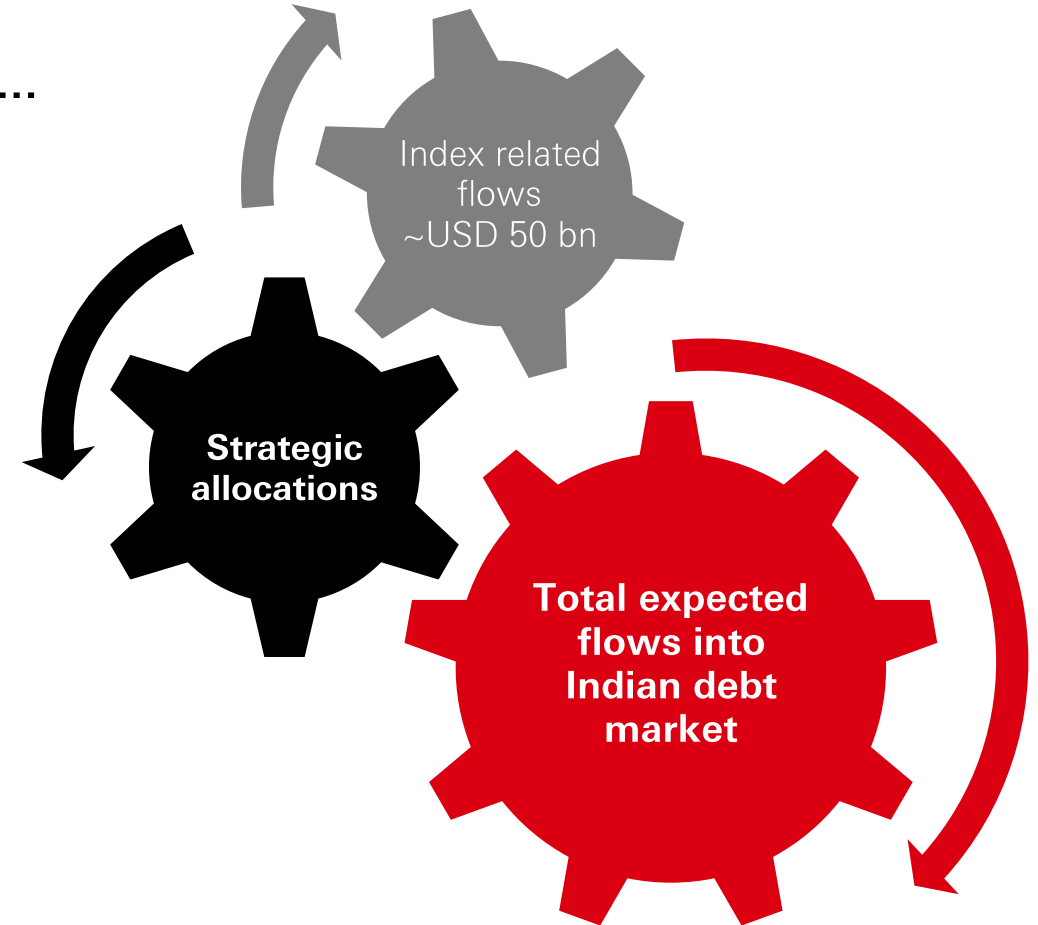
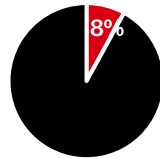
Indonesia



Brazil



China



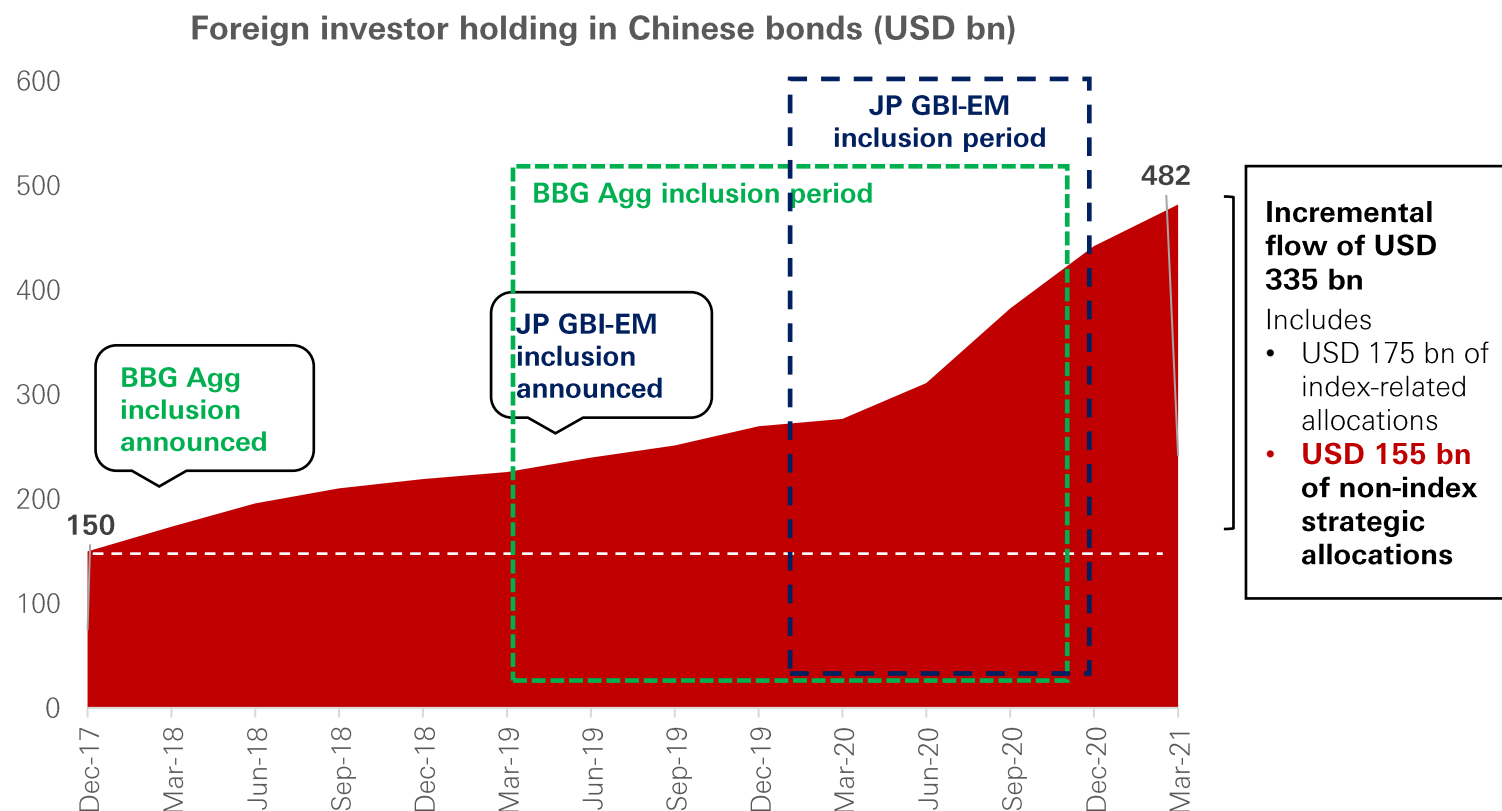
**If investors find the attributes favorable, we believe there is potential for strategic inflows as seen in other markets post index inclusion**

Source: Bloomberg (Data as on 20 Dec '23), Treasury International Capital (TIC), HSBC Asset Management (India) Pvt Ltd; For illustration purposes only. **Past performance may or may not be sustained in the future.**

# The China story

- Post index inclusion announcement, over a 3-year period, foreign investments into China bonds grew from USD 150 bn to USD 482 bn

	<b>Bloomberg Barclays Global Aggregate Bond Index</b>	<b>JP Morgan GBI-EM Index</b>
Inclusion announcement	March 2018	September 2019
Inclusion start date	April 2019	February 2020
Inclusion Completion	November 2020	December 2020
Securities Included	Government Bonds and policy bank bonds	Government Bonds
China Weight	6%	10%
AUMs tracking the index	~USD 2.5 trn	~USD 0.3 trn
China Inflows by Weight	~USD 150 bn	~USD 25-30 bn
<b>Total Index related China inflows</b>	<b>~USD 175 bn</b>	

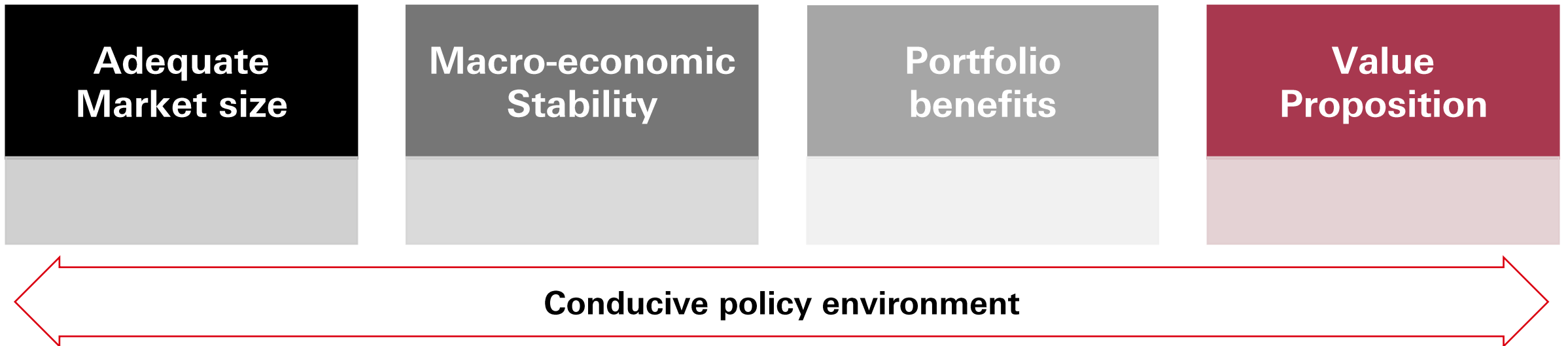


**46% (USD 155 bn) of the incremental foreign inflows were through non-index strategic allocations**

Source: ChinaBond, Bloomberg (Data as on 31 Dec '23), Treasury International Capital (TIC), HSBC Asset Management (India) Pvt Ltd; For illustration purposes only. **Past performance may or may not be sustained in the future.**

# Key attributes sought by investors while considering investment in a country's local bonds

**Large global institutional investors** - Sovereign wealth funds, Central bank reserve managers, Endowment funds, Pension funds and others generally look for below attributes



**We examine if India offers these favorable attributes**

Source: HSBC Asset Management (India) Pvt Ltd; For illustration purposes only. **Past performance may or may not be sustained in the future.**

# India bond market – Too big to ignore

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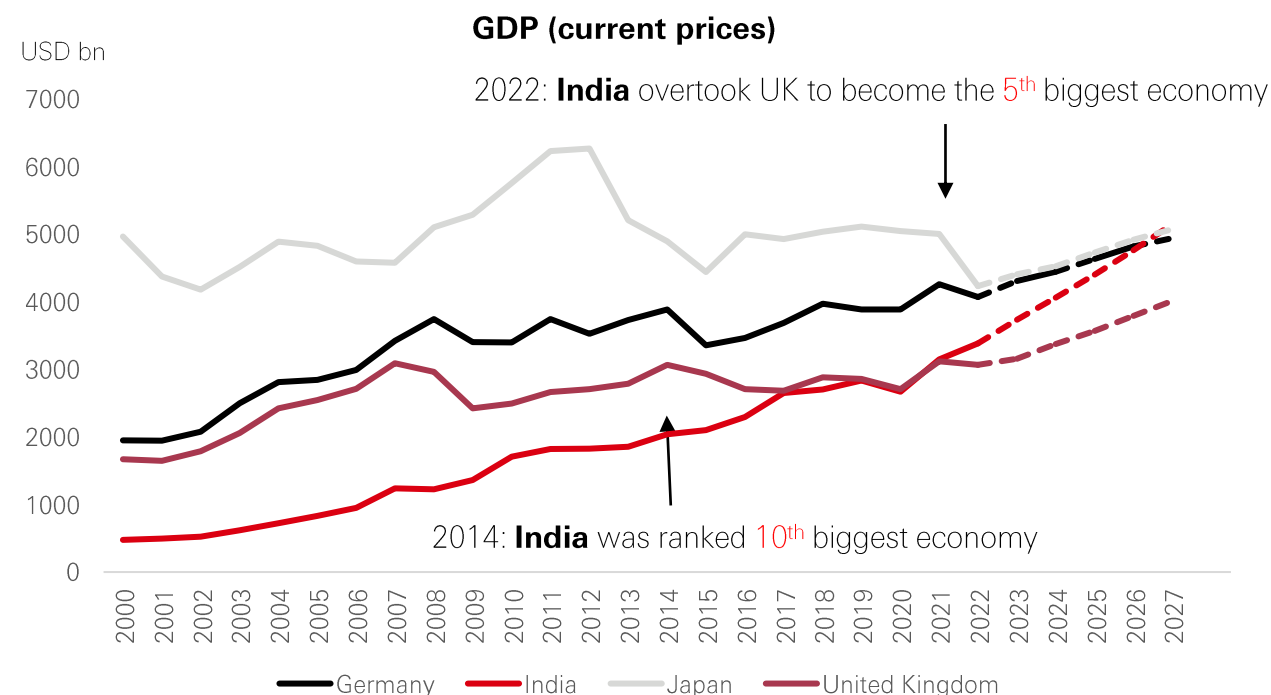
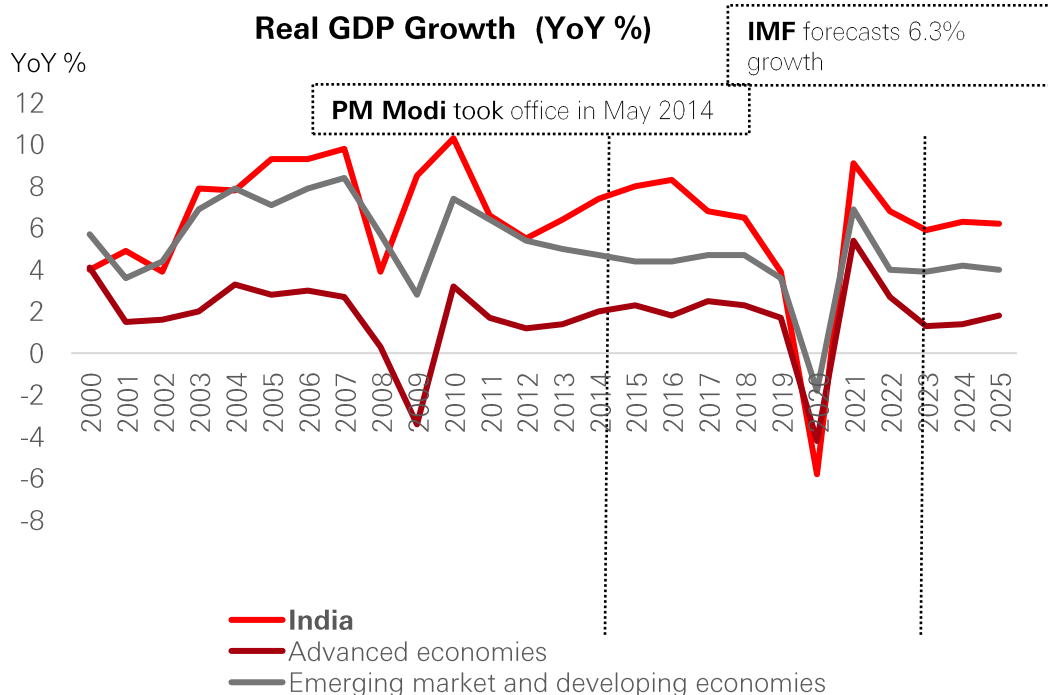


# India GDP growth – Continues to surprise on the upside

- ◆ India on path to become the 3rd largest economy by 2027
- ◆ India's GDP growth is expected to be above 6.3% for 2023-2025, ahead of other developed and emerging economy peers

## India GDP (constant prices, national currency in billions)

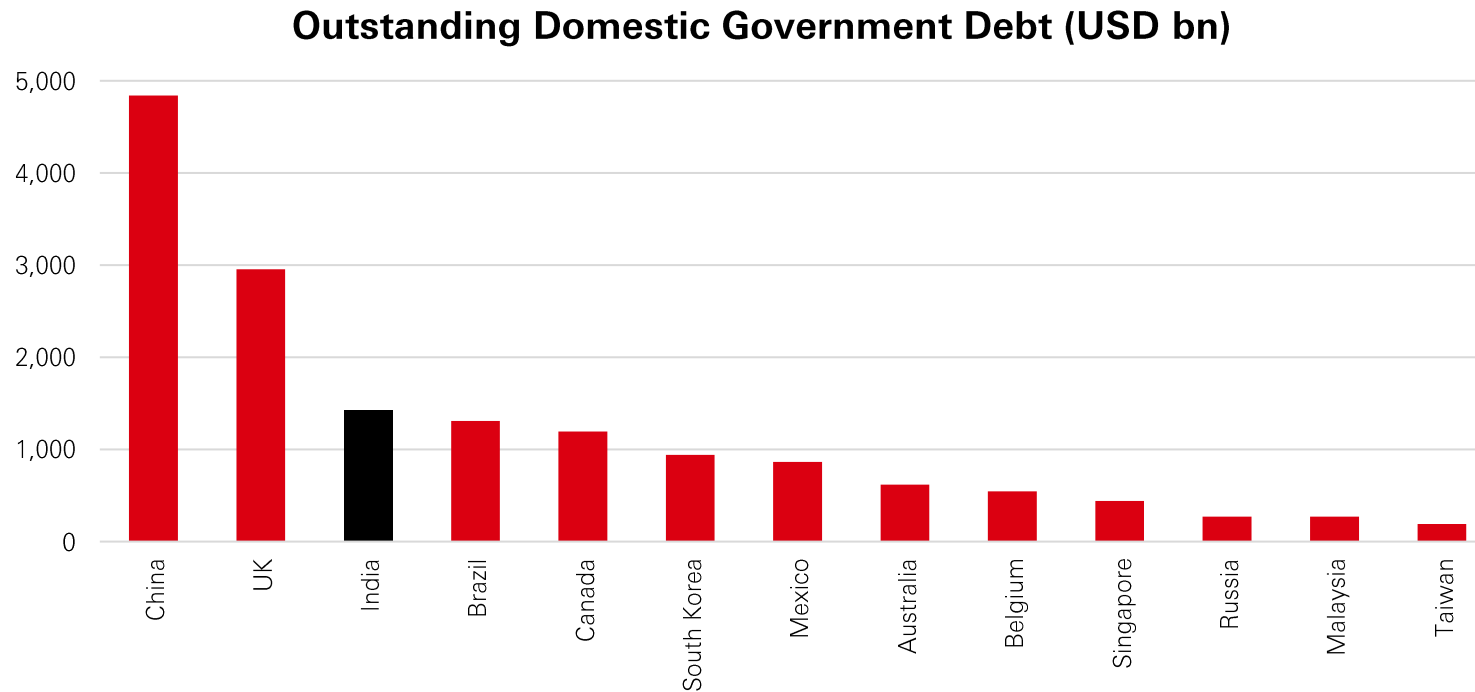
Year period	2000-2005	2005-2010	2010-2015	2015-2020	2020-2022
CAGR	6.77%	8.31%	6.77%	3.78%	7.93%



Source: IMF, data as of September 2023

Any views expressed were held at the time of preparation and are subject to change without notice. While any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target. For illustrative purpose only.

# Indian Government Debt larger than most other debt markets



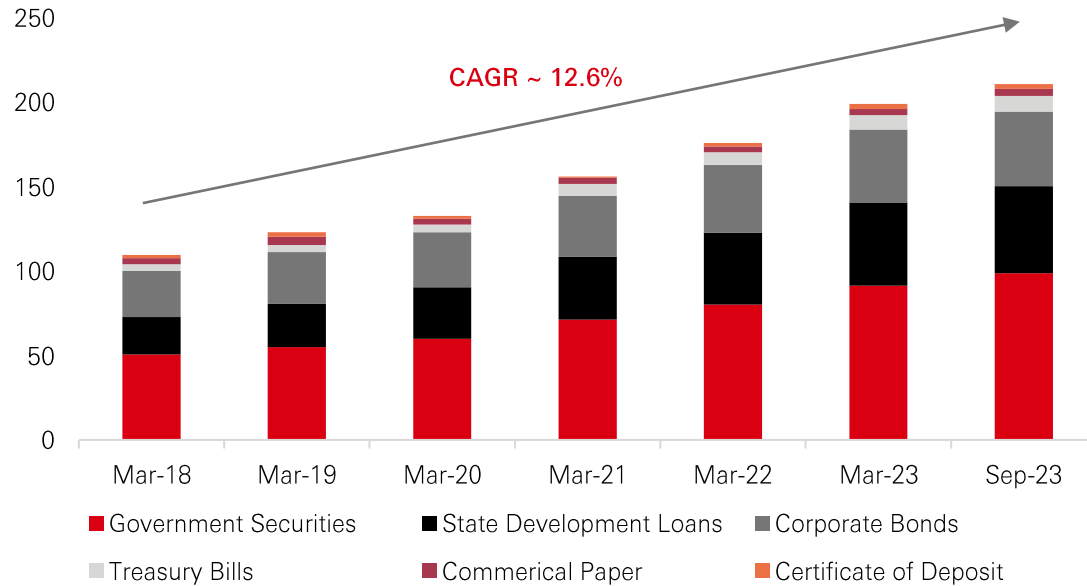
- The domestic Indian Government Bond (IGB) market has grown significantly over the years, and is now comparable to various other economies
- Additionally, India's external debt (as of Mar 2023) stands at 18.9% of GDP

**Excluding the G3 currency blocks, IGB market is now the third largest in the world after China and the UK**

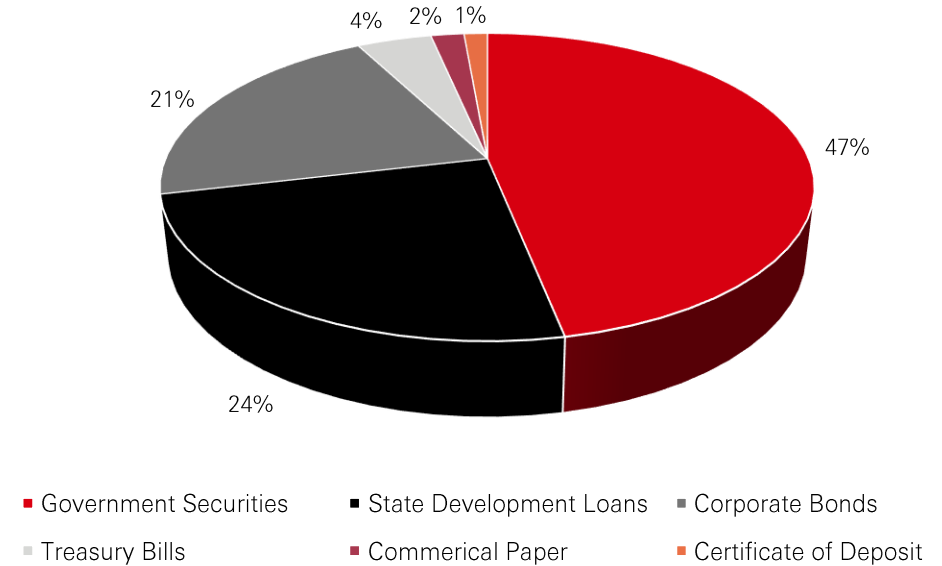
Source – Bloomberg (Data as on 20 Dec '23), RBI Handbook of Statistics, For illustration purposes only. **Past performance may or may not be sustained in the future.**

# Evolution of the Indian Bond Markets

Outstanding Market Size by segment (INR trn)



Segment wise break-up (%)



- The overall domestic bond market size has crossed INR 200 trn (USD 2.4 trn)
- Government Securities (G-Sec), State Development Loans (SDL) and Corporate bonds form major part of the domestic borrowing
- The Indian bond market has grown at a CAGR of ~12.6% over the period Mar 2018 to Sep 2023

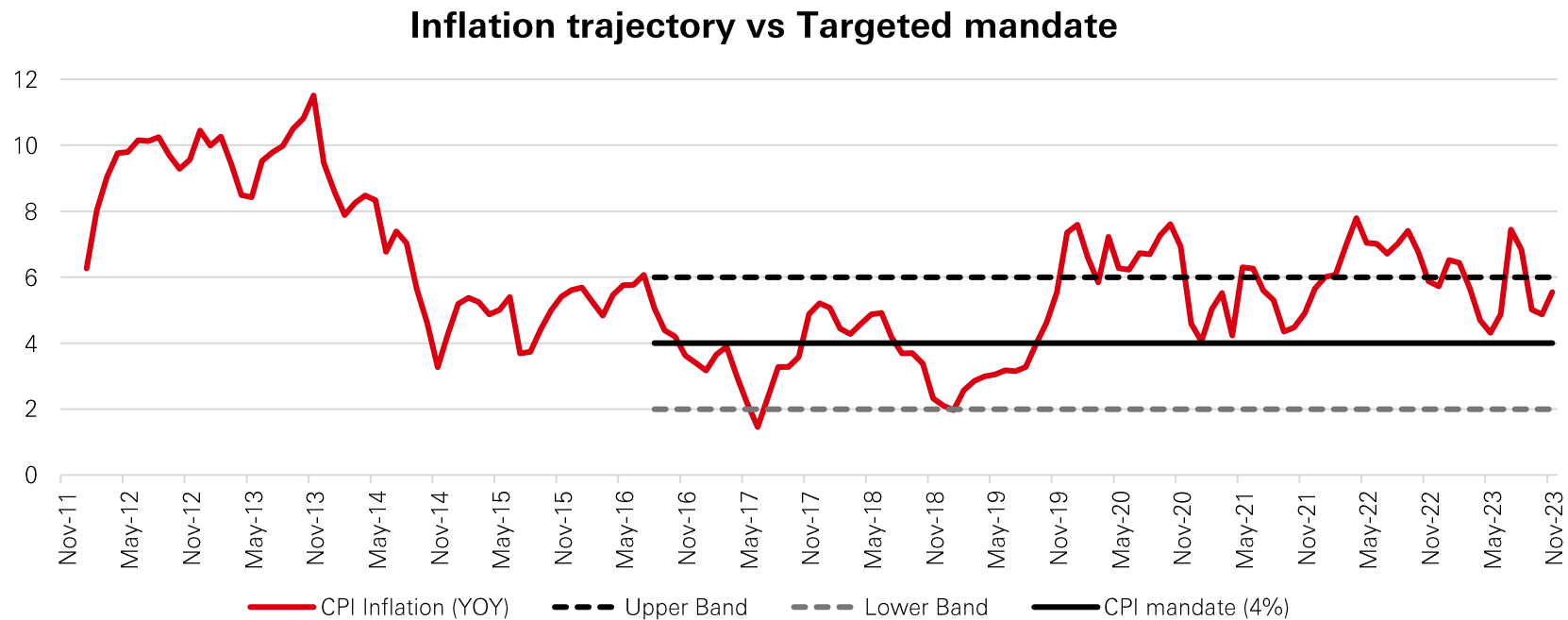
**The Indian Bond market has grown strongly over the years**

Source – RBI, SEBI, Data as on 30 Sep '23, For illustration purposes only. **Past performance may or may not be sustained in the future.**

# Macro-economic stability

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## 2016 : MPC constituted to focus on inflation targeting

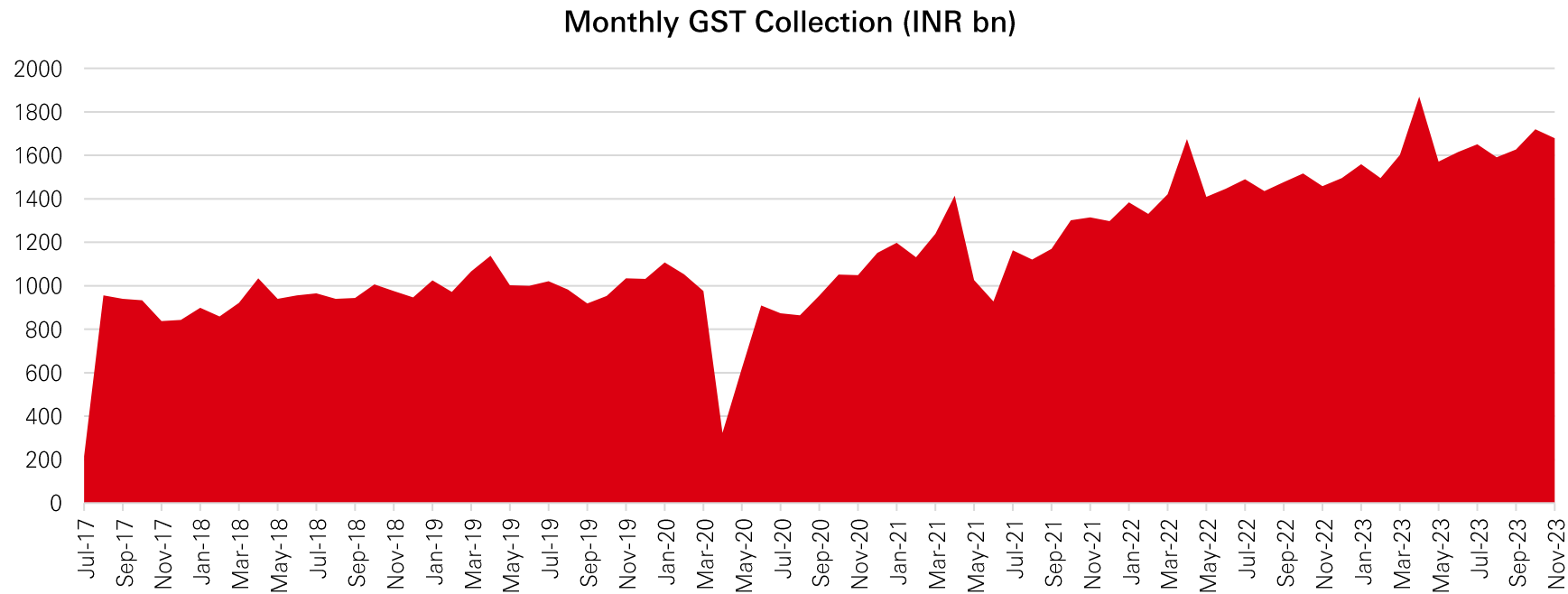


- The Monetary Policy Committee (MPC) was constituted in 2016 to bring in more transparency and accountability to policy formation
- The MPC is mandated with fixing of benchmark policy rates while maintaining the inflation target of 4% (with a tolerance band of +/- 2%)
- Since the inception of MPC, communication with financial markets has become more transparent and effective

**Since 2016, Inflation in India has been broadly tamed despite various global and domestic price shocks**

Source – Bloomberg, RBI MPC Data as on 20 Dec '23, For illustration purposes only. **Past performance may or may not be sustained in the future.**

## 2017: GST implementation leading to unlocking of revenues

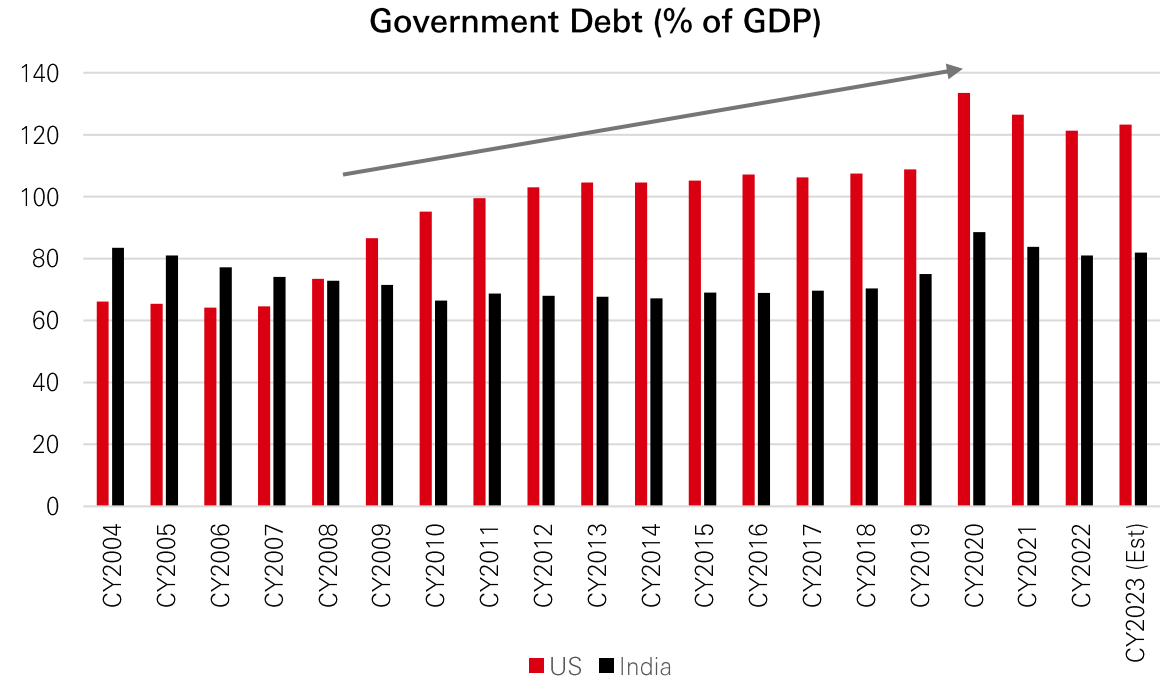
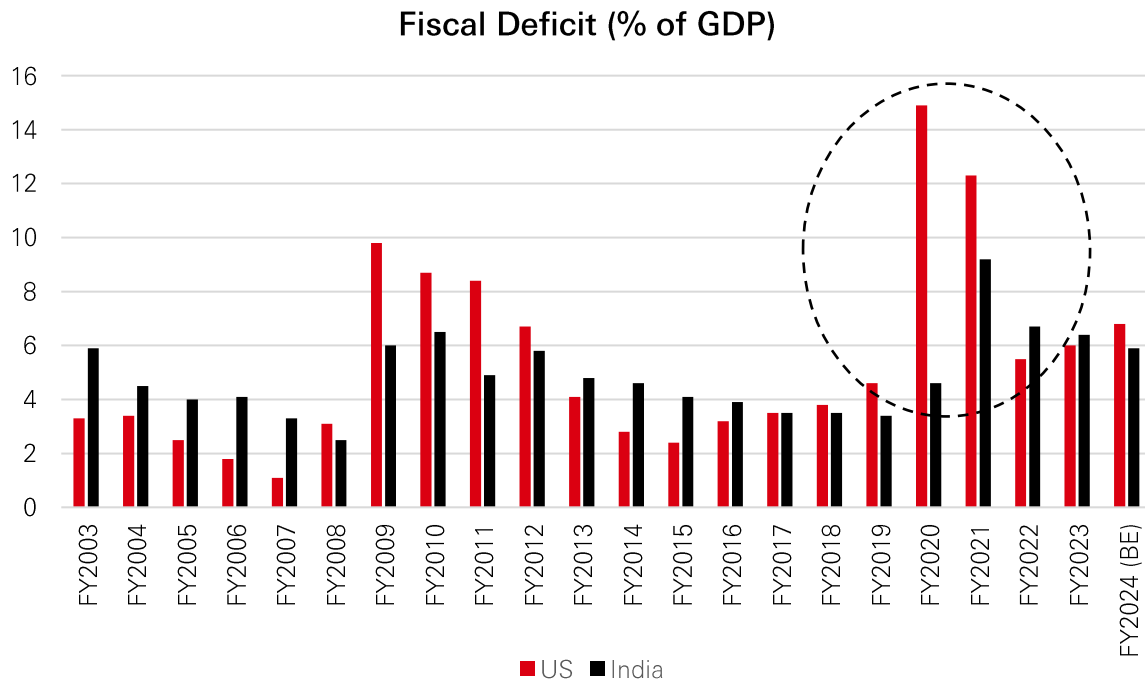


- GST collections have steadily improved since inception in 2017

**Healthy tax collections has allowed Govt. to meet any additional spending without incremental borrowing**

Source – Bloomberg, Income Tax Website, Data as on 20 Dec '23, For illustration purposes only. **Past performance may or may not be sustained in the future.**

# Fiscal restraint in India vs fiscal profligacy in the developed world

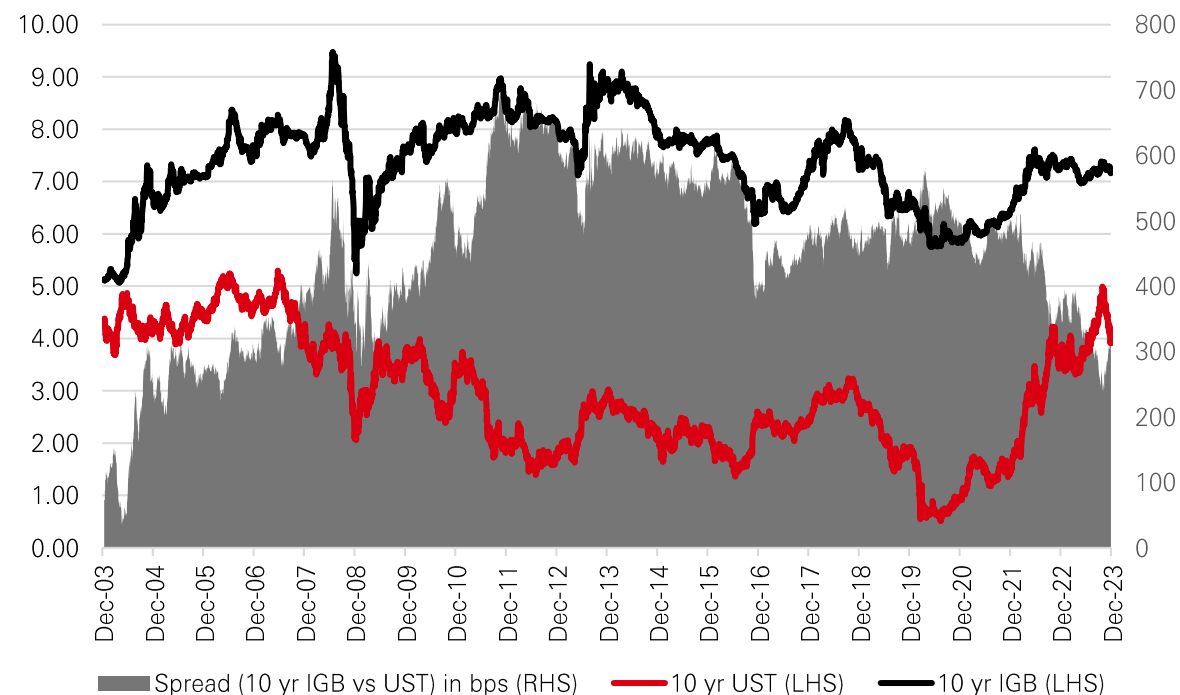
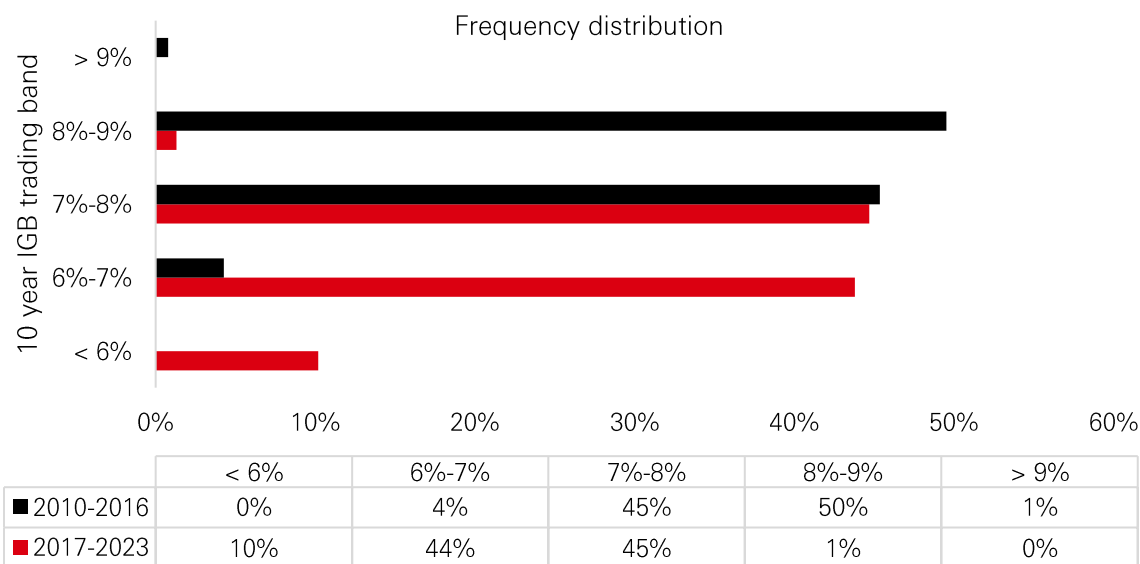


- During the period post Global Financial Crisis and during Covid, Fiscal Deficit in India was lower than that in the US
- During Covid Government deficit was raised above 9% and then brought down gradually to 6%. The target is to reach 4.5% by FY 2026
- While Government Debt to GDP data in the US had been increasing over the years, the figures for India have been moderate

**Govt focus on Fiscal consolidation, leading to better relative debt metrics**

Source – Bloomberg, Data as on 20 Dec '23, For illustration purposes only. **Past performance may or may not be sustained in the future.**

# Post 2016/17 – bond markets have rewarded the strong macro framework



- Since 2017, 10 year G-Sec has broadly traded in the 6%-8% band, while between the period 2010 to 2016, the trading band was 7%-9%
- Spreads between IGBs and USTs have historically been above 300 bps
- Spreads have narrowed lately due to a sharp rise in US Treasury yields, IGBs have remained stable broadly during this period

**Policy credibility leading to interest rates trending lower, with fewer spikes**

Source – Bloomberg, Data as on 20 Dec '23, For illustration purposes only. **Past performance may or may not be sustained in the future.**

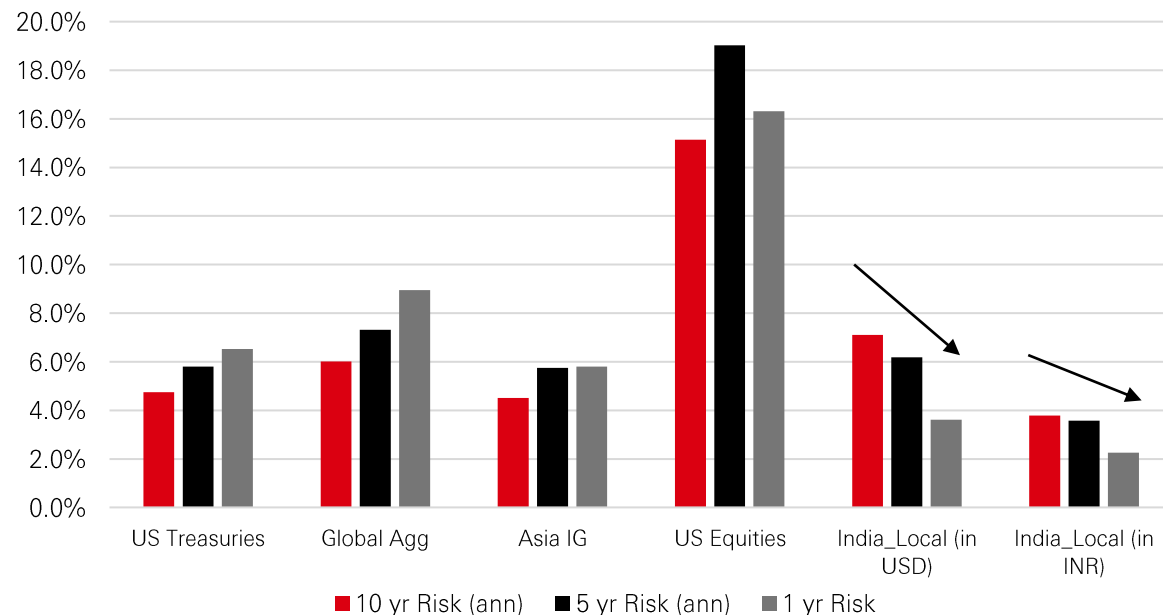


# Significant portfolio benefits

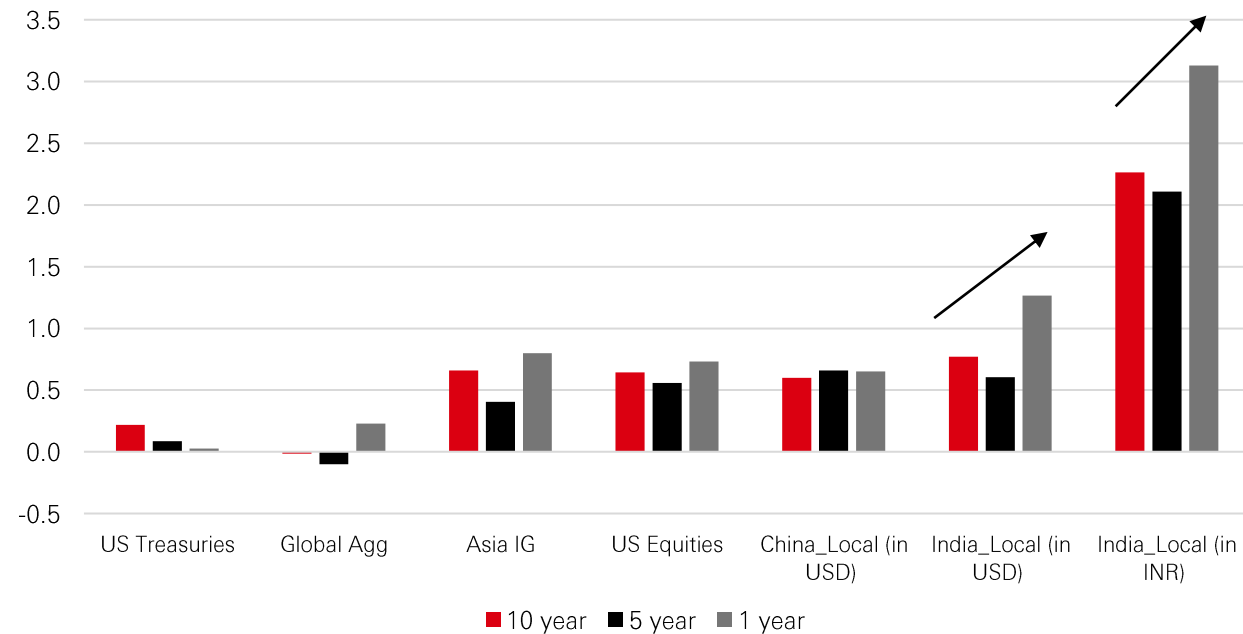
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# India Bonds – A standout performer with reduced volatility

### Volatility across asset classes



### Return per unit Risk across asset classes



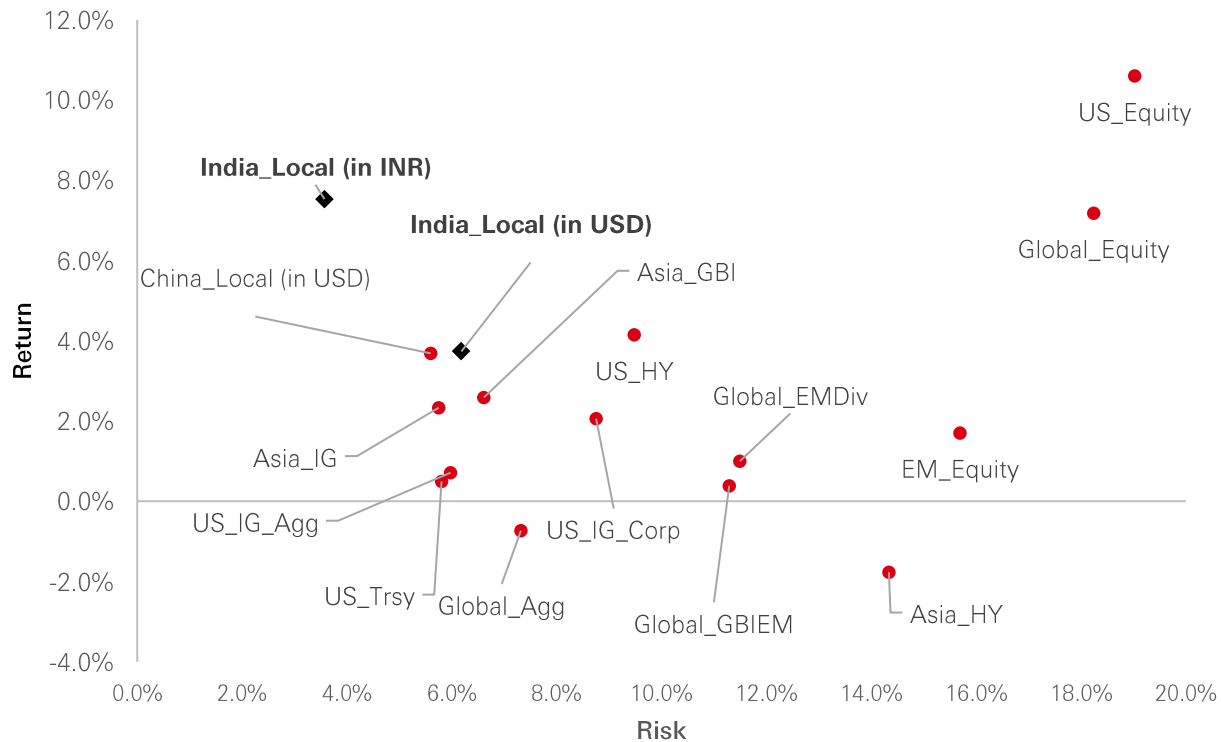
- Over the last year, volatility in India bonds has been relatively low compared to other global asset classes
- Across timeframes, Risk adjusted Returns of Indian bonds have been favorable

**For a global investor, Indian bonds have demonstrated relatively low volatility and high Risk adjusted Returns**

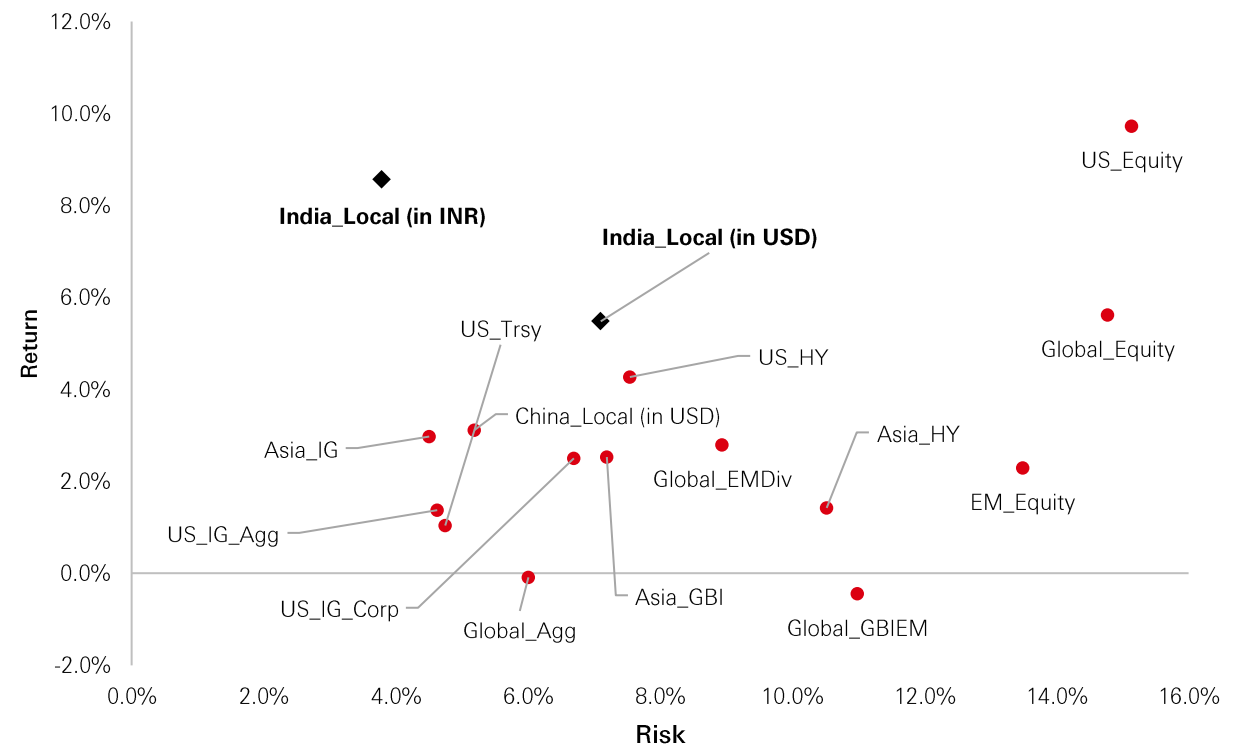
Source – Bloomberg, Data as on 20 Dec '23, For illustration purposes only. **Past performance may or may not be sustained in the future.**  
 Monthly time series of data considered for various indices  
 Index description for each asset class has been mentioned in the Annexure

# Indian bonds fare well on a Risk adjusted Return perspective

Return vs Risk (5 year period)



Return vs Risk (10 year period)



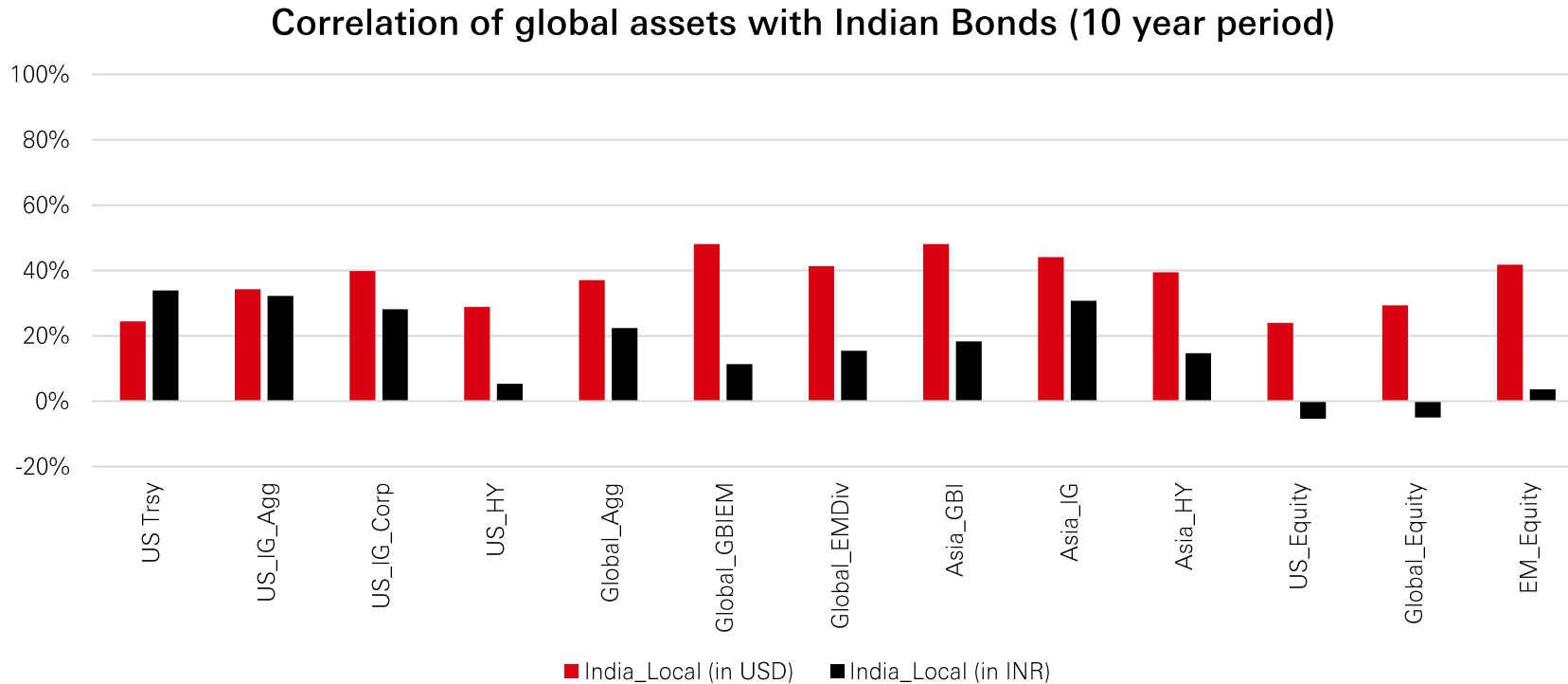
**Stable macro policies have led to lower yield and FX volatility. Risk adjusted returns of India bonds (in INR and USD terms) are relatively higher than most other asset classes**

Source – Bloomberg, Data as on 20 Dec '23, For illustration purposes only. **Past performance may or may not be sustained in the future.**

Monthly time series of data considered for various indices

Index description for each asset class has been mentioned in the Annexure

# Low correlation of Indian bonds with other asset classes



- Indian bonds typically have low to medium correlation against other global asset classes
- Against US Treasuries and Bloomberg Global Agg, low correlations render Indian bonds a good option for portfolio diversification

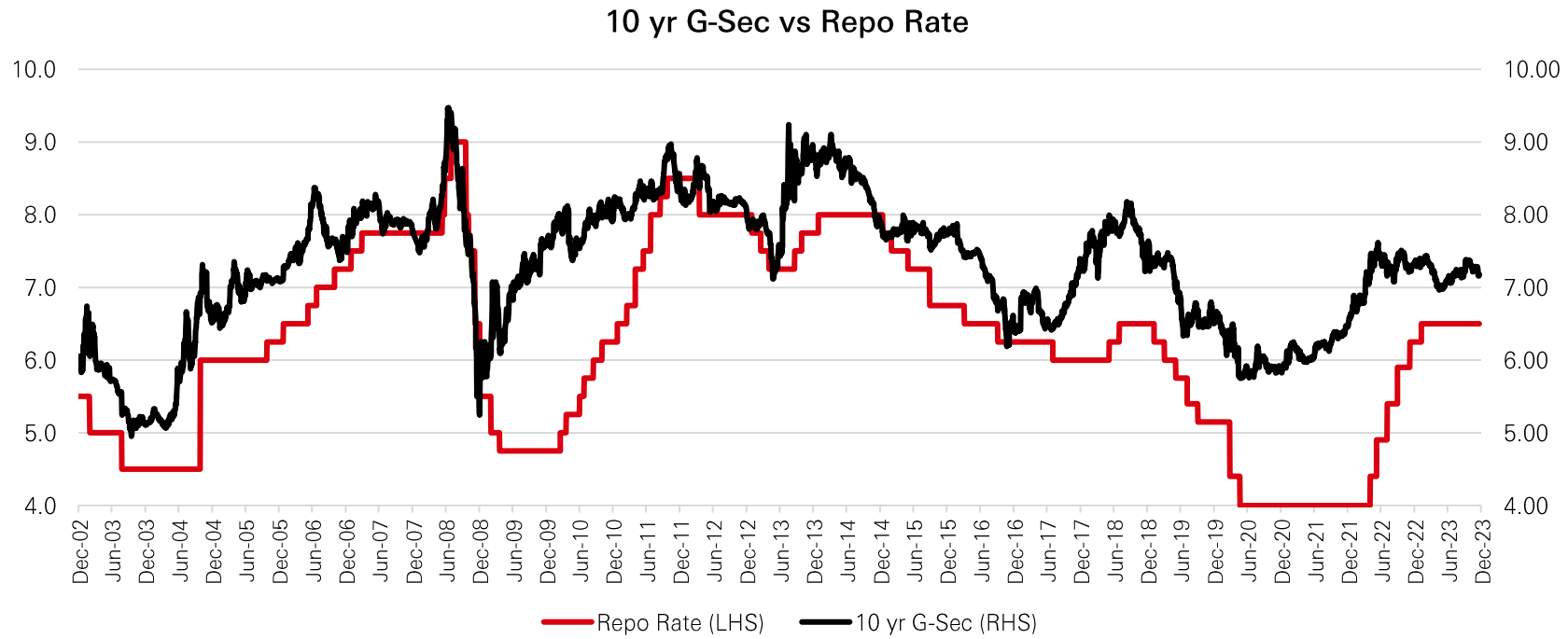
**Indian bonds can provide good portfolio diversification benefit in a global portfolio mix**

Source – Bloomberg, Data as on 20 Dec '23, For illustration purposes only. **Past performance may or may not be sustained in the future.**  
 Monthly time series of data considered for various indices  
 Index description for each asset class has been mentioned in the Annexure

# Value proposition for offshore investors – Rates and FX

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## Policy rates have peaked with easing bias likely over the coming year

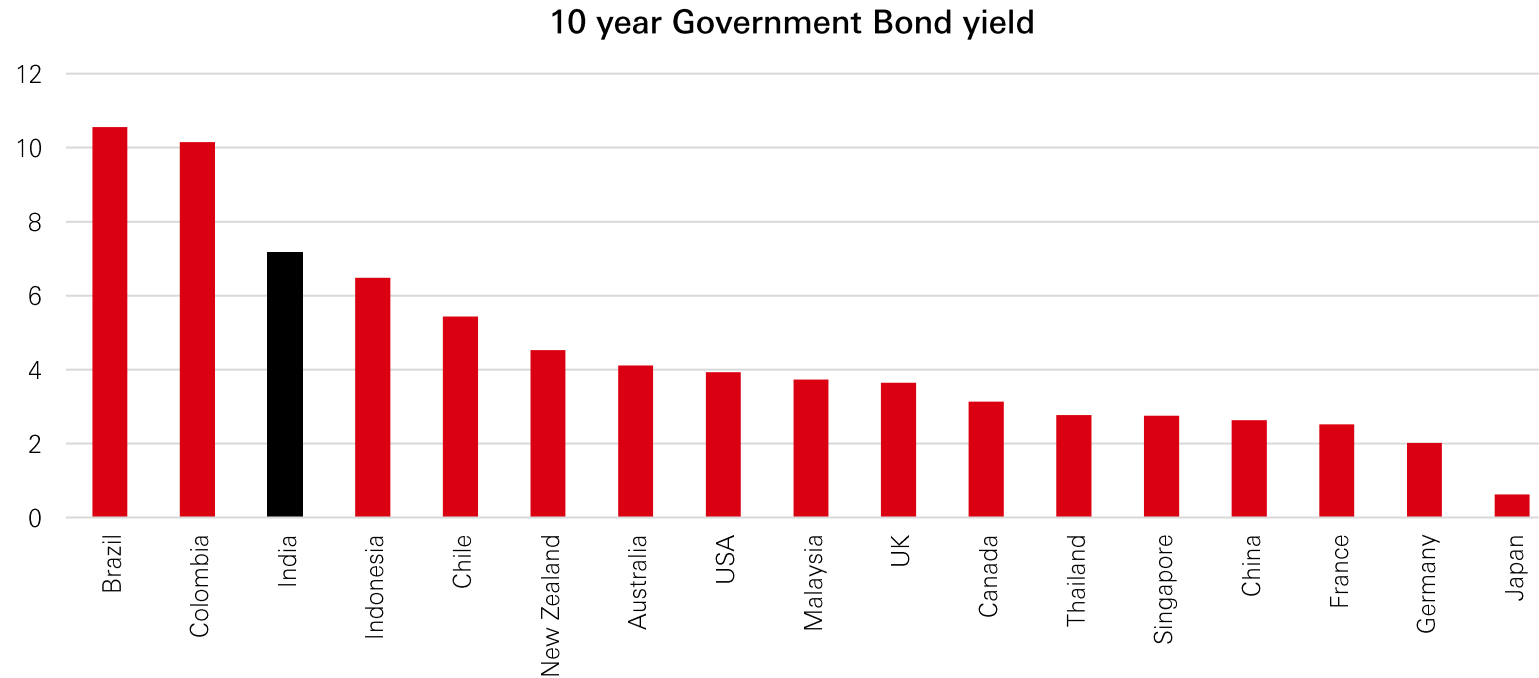


- 2008-2009 : yields started moving lower in July 2008 ahead of the first rate cut in October 2008
- 2011-2013 : yields started moving lower from November 2011 ahead of the first rate cut in April 2012
- 2014-2017 : yields started moving lower from April 2014 ahead of the first rate cut in Jan 2015
- 2018-2020 : yields started moving lower from Sept 2018 ahead of the first rate cut in Feb 2019

**One of the few markets offering 65-75 bps positive spread of 10 year bonds over policy rate**

Source – Bloomberg, Data as on 20 Dec '23, For illustration purposes only. **Past performance may or may not be sustained in the future.**

# Indian Government Bonds: Yield comparison vs major DM and EM

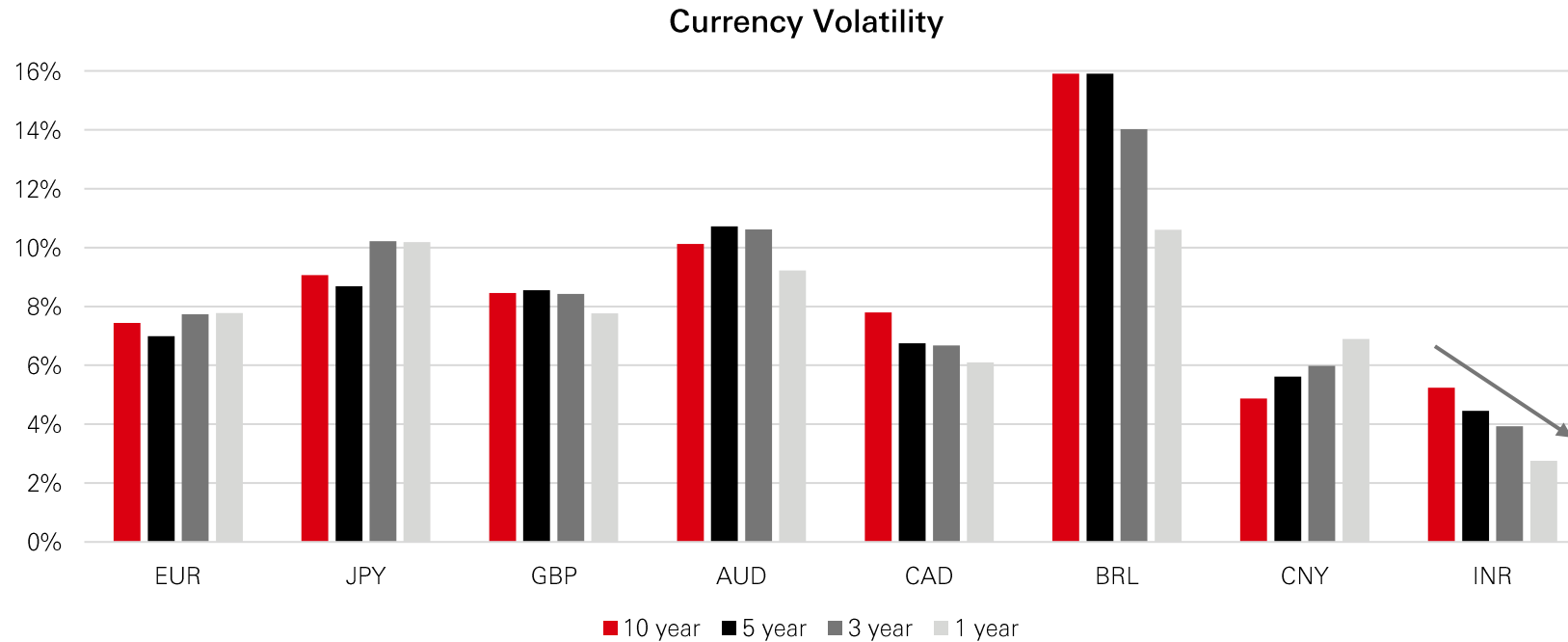


- 10 year IGB is trading at a relatively higher yield compared to most other countries
- Higher carry along with lower correlation with other global asset classes, provide favorable diversification opportunity

**IGBs offers yield pick up over most other sovereign markets**

Source – Bloomberg, Data as on 19 Dec '23, For illustration purposes only. **Past performance may or may not be sustained in the future.**

# Strong macro economic stability allows RBI to effectively manage currency volatility



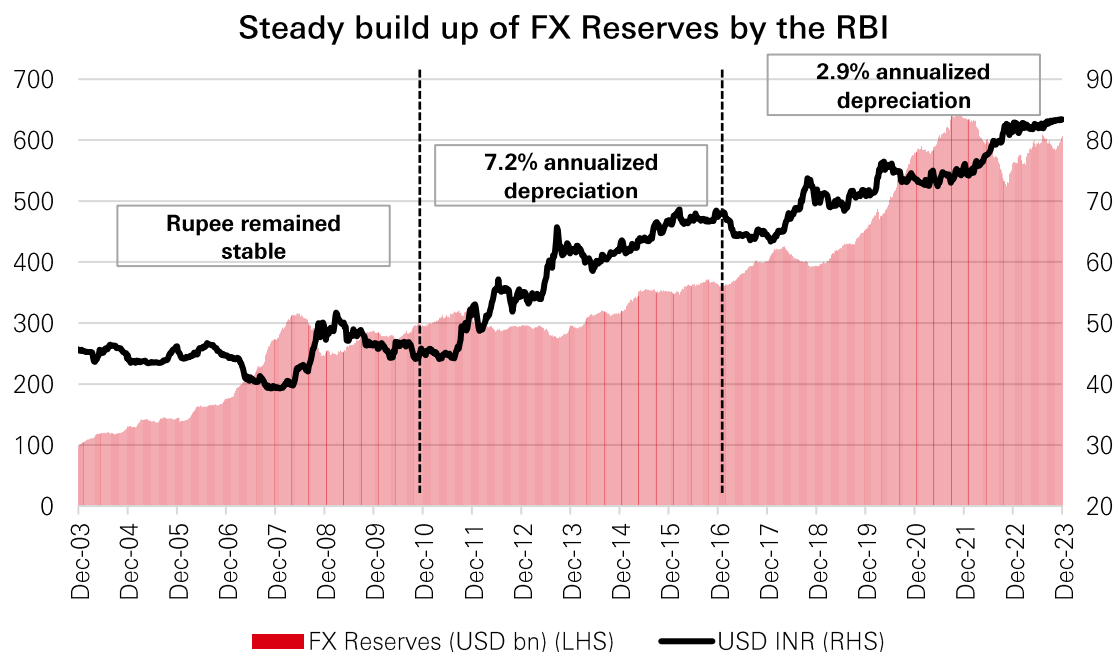
- Rupee has remained fairly stable compared to other currencies over the last 10 years
- Over the last year, volatility in INR has remained among the least

**Rupee has remained one of the more stable currencies**

Source – Bloomberg, Data as on 31 Dec '23, For illustration purposes only. **Past performance may or may not be sustained in the future.**  
Monthly time series of data considered for various indices



# Rupee trajectory going forward



Parameters	2011-2013 *	FY 2024
10 year IGB yield (%)	9.24	7.19
USD INR	68.85	83.17
Fiscal Deficit (% of GDP) **	5.8	5.9
Current Account Deficit (% of GDP) **	5.1	1.7
Import Cover (months)	6.71	10.82
Inflation (% y-o-y)	11.51	5.55
FX Reserves (USD bn)	274.81	615.97

\* Weakest data point during the period of 2011-2013 has been considered for comparison

\*\* Fiscal deficit and CAD are FY24 forecasts

- Rupee weakened through the period of 2011 to 2016 due to weaker domestic macro factors and global events
- With increased focus on fiscal prudence, inflation target mandate and FX reserve build up since 2016-2017, Rupee has been more resilient to global shocks
- Going forward, we expect strong fundamentals to continue, with Rupee remaining stable and witnessing low depreciation

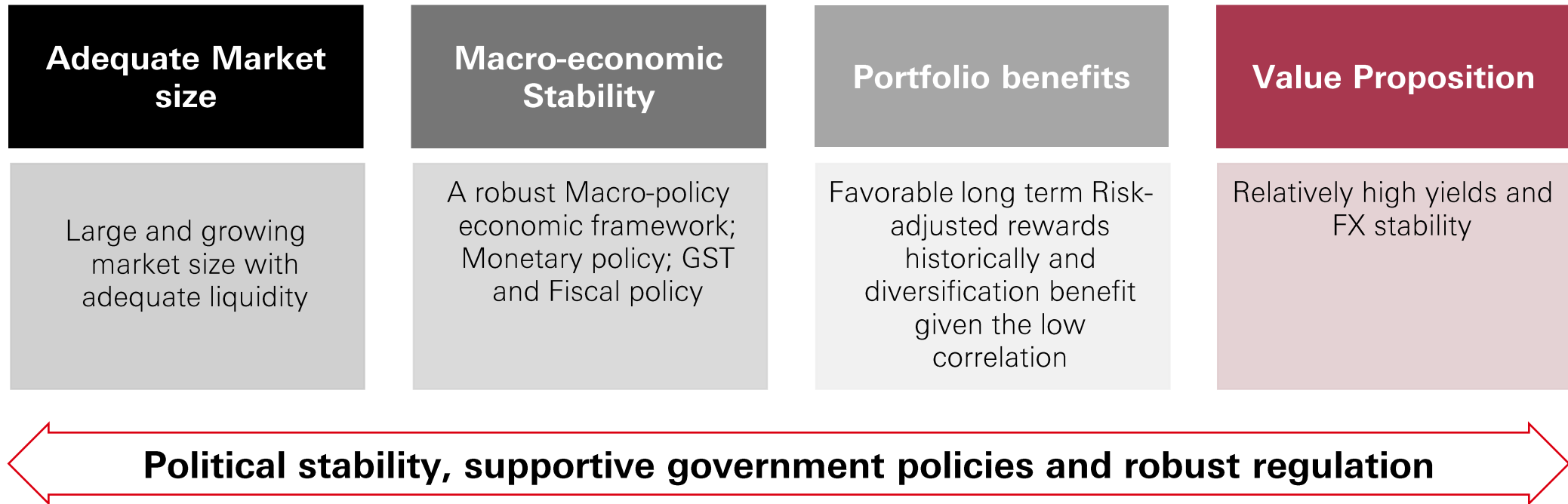
**India's robust macro economic backdrop suggests the rupee should do better than the 2017-23 period and could possibly even show the stability witnessed during 2003-10 phase**

Source – Bloomberg, Data as on 31 Dec '23, For illustration purposes only. **Past performance may or may not be sustained in the future.**

# Strategic allocations by global institutional investors

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## India bonds tick all the boxes to merit standalone strategic allocations

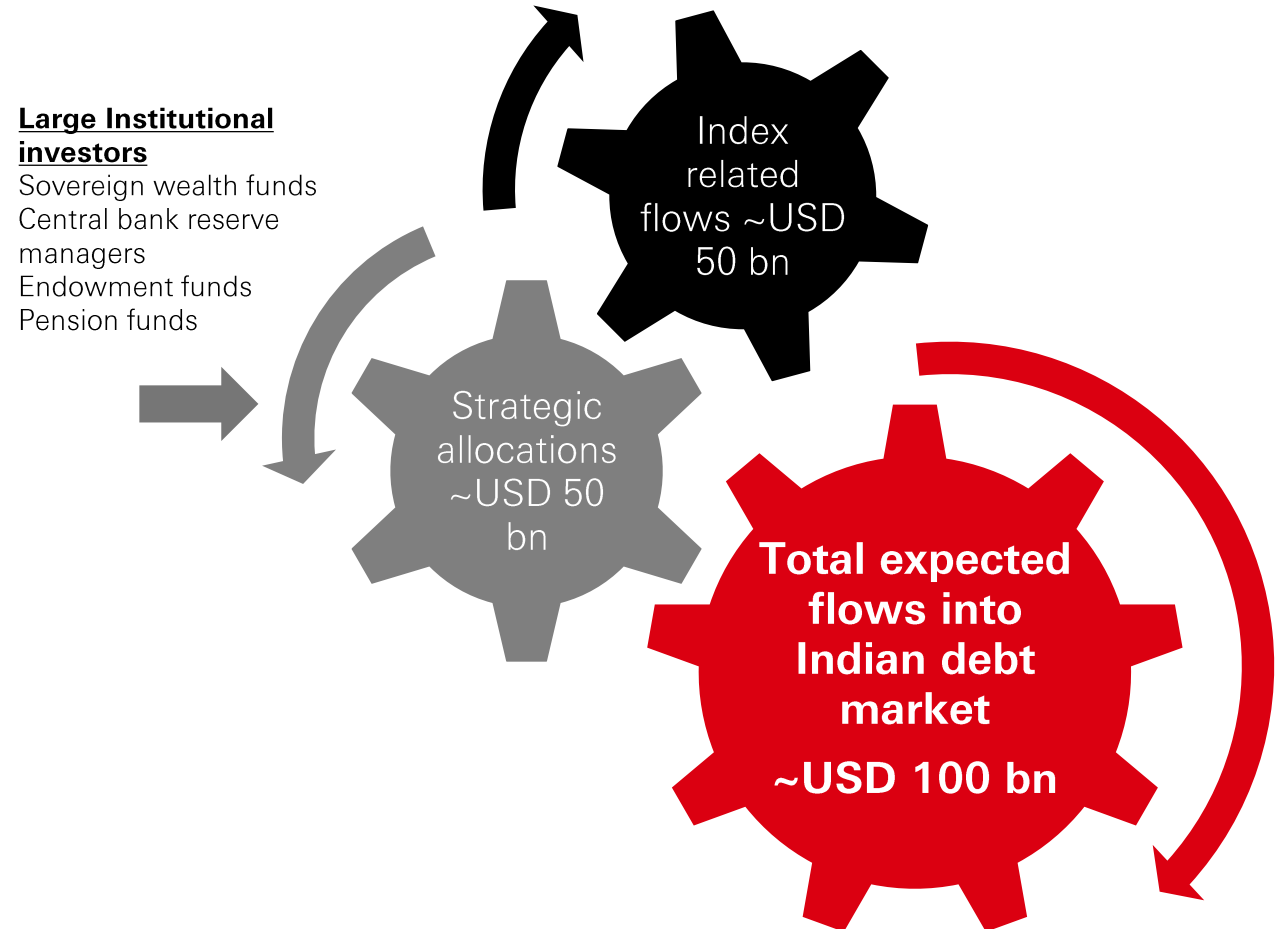


- As part of their EM allocations, large institutional investors are likely to closely track and get more familiar with the Indian bond markets, with increasing comfort around operational access issues
- As these investors appreciate the various positive aspects of India bonds, we believe they may start considering strategic allocations to Indian bonds and not just as part of their EM index allocations

Source – HSBC Asset Management (India) Pvt Ltd; For illustration purposes only. **Past performance may or may not be sustained in the future.**

## Potential for combined inflows of ~USD 100 bn

- Foreign investors own about ~8-9% of China bonds (USD ~450 bn); Of this, about one-third is strategic investments by central banks and international organisations
- Post the first index inclusion, China witnessed USD 175 bn index related inflows and USD 155 bn of non-index strategic allocations over a 3-year period (2018-21)
- India exemplifies the attributes sought by sovereign investors and could be a preferred Emerging Market for debt going forward
- **We believe index and strategic allocations could potentially result in ~USD 100 bn inflows over the next 3-5 years while still keeping foreign investor proportion at just 8-9% of the market.**



Source – CCIL, Bloomberg, Data as on 31 Dec '23, For illustration purposes only. **Past performance may or may not be sustained in the future.**

# Annexure

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## Bloomberg Asset Class Description

Asset Class	Bloomberg Description
US_TrSy	J.P. MORGAN GBI US Unhedged
US_IG_Agg	Bloomberg US Agg Total Return Value Unhedged
US_IG_Corp	Bloomberg US Corporate Total Return Value Unhedged
US_HY	Bloomberg US Corporate High Yield Total Return Index Value Unhedged
Global_Agg	Bloomberg Global Agg Total Return Index Value Unhedged
Global_GBIEM	J.P. Morgan Govt. Bond Index EM Global Core
Global_EMDiv	J.P. Morgan EMBI Global Diversified Composite
Asia_GBI	Bloomberg EM Local Currency Govt. Asia TR Index Unhedged
Asia_IG	Bloomberg Asia USD IG Bond Index TR Index Unhedged
Asia_HY	Bloomberg Asia USD High Yield Bond Index TR Index Unhedged
US_Equity	S&P 500 Composite Index
Global_Equity	MSCI Free Float Weighted Equity Index including EM and DM
EM_Equity	MSCI EM Local
India_Local	Bloomberg EM Local Currency India TR Index Value Unhedged USD
India_Local_INR	Bloomberg EM Local Currency India TR Index Unhedged INR

Source – Bloomberg, Data as on 31 Dec '23, For illustration purposes only. **Past performance may or may not be sustained in the future.**

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