AUM - FORTNIGHTLY GILTS MARKET UPDATE

November 20, 2023

Consumer Price Inflation fell to a four month low of 4.87% in October as food prices eased. Food inflation, measured by the Consumer Food Price Index, which accounts for nearly half of the overall consumer price basket, slowed to 6.61% in October from 7.01% a year earlier. Consumer Price Index stood at 5.02% in September, remaining within RBI's comfort zone of 2-6% for the second consecutive month. The combination of a favourable base effect and cooling of prices of some the food items and reduction of cooking gas prices have led to lower retail inflation in October. However, rising onion prices have kept the fall in inflation in check. Going forward, the overall base will turn unfavourable. That means, even without any change in prices, inflation is likely to under upward pressure.

There is a moderation in the core inflation, that is inflation excluding food and fuel, to 4.2 percent from 4.5 percent in September. This is positive and indicates that generalization of price pressures has not taken place.

Wholesale inflation last month declined by 0.52% on year on year marking the seventh month in a row with the data in the negative.

RBI has retained its' inflation forecast for FY24 at 5.4% - the risks are evenly balanced. Although headline inflation remained within RBI's tolerance range of 2-6 percent for a second month in a row, it has now been above the medium-term target of 4 percent for 49 consecutive months. However, an increase in international oil prices due to the conflicts in Israel and Ukraine and further volatility in food prices, especially of staple vegetables like onions and tomatoes, and pulses, continue to pose inflationary risks.

But risks of a fresh upsurge looms. For one, any spike in crude oil prices if the war in West Asia spreads out could stoke inflationary pressures anew. Also, erratic monsoon rainfall is feared to have hurt the summer crop, while the winter crop could also suffer due to low reservoir levels amid potentially patchy rainfall. The RBI's decision on interest rate at the upcoming bi-monthly monetary policy meeting in December will not only depend on factors like oil prices, which is seeing volatility due to conflicts in Ukraine and Israel, and the exchange rate, but also how the global central banks act further.

The trade deficit widened to $31.46 billion in October, with imports at $65.03 billion and exports at $33.57 billion, according to data from the ministry of commerce and industry. The trade deficit in October 2023, spiked up due to a sharp rise in gold imports during the festive season and a higher oil bill. Indian exports have been affected by the slowdown in global growth, especially in the advanced economies of the west. These countries are also seeing tightening of interest rates due to nagging inflation, leading to a slowdown in business and trade.

The government will exceed its direct tax collection target of ₹18.23 trillion this financial year, going by the healthy revenue growth so far. Our Economy is resilient - its macroeconomic fundamentals are strong with robust and stable financial system. RBI has retained the projection for the real GDP growth for FY24 at 6.5% - with risks evenly balanced. The Indian economy is forging ahead in a challenging global environment, drawing strength from its underlying macroeconomic fundamentals and buffers. External Sector is eminently manageable as reflected in CAD and reserves build up.

RBI's decision on the interest rate during its bi-monthly monetary policy meeting in December will depend on several factors, including the exchange rate and oil prices. Our view is that the MPC may in its meeting scheduled for December 6 -8 continue with the Policy Rate unchanged, thus retaining the repo rate at 6.5% up to the first two quarters of the FY 2024. Further, the monetary policy stance 'withdrawal of accommodation' is also unlikely to change anytime soon with CPI inflation remaining above 4% target.

With the policy rate at the peak, liquidity management will continue to remain the active tool for the RBI. RBI intends to use OMO - Open Market Operation Sales to keep the liquidity tight i.e. suck out excess liquidity from the system. This is likely to keep the yield curve elevated in the medium term. And inclusion of India in the leading global bond index is likely to support the bond market and act as a resistance to any untoward spike in the yields. 10-year benchmark yield is likely to trade in a range of 7.15 – 7.40%.

Tracker

Trackers	November 10, 2023	November 17, 2023
Average Call Money Rate (%)	6.80	6.16
Net Banking System liquidity : Deficit (-) Surplus(+) (Rs Crs)	- 41,142.23	- 54,743.23
Bank Deposit Growth (%)	13.40	13.50
Bank Credit Growth (%)	19.70	20.40
CPI (%)	5.02	4.87
Core Inflation (%)	4.90	4.20
WPI Inflation (%)	(-0.26)	(-0.52)
Sensex	64,904.68	65,794.00
Nifty	19,425.35	19,731.80
Re/US$	83.31	83.24
FPI Investments (US$ Bln) (Figures cumulative for Debt & Equity – Current FY)	18.813	20.475

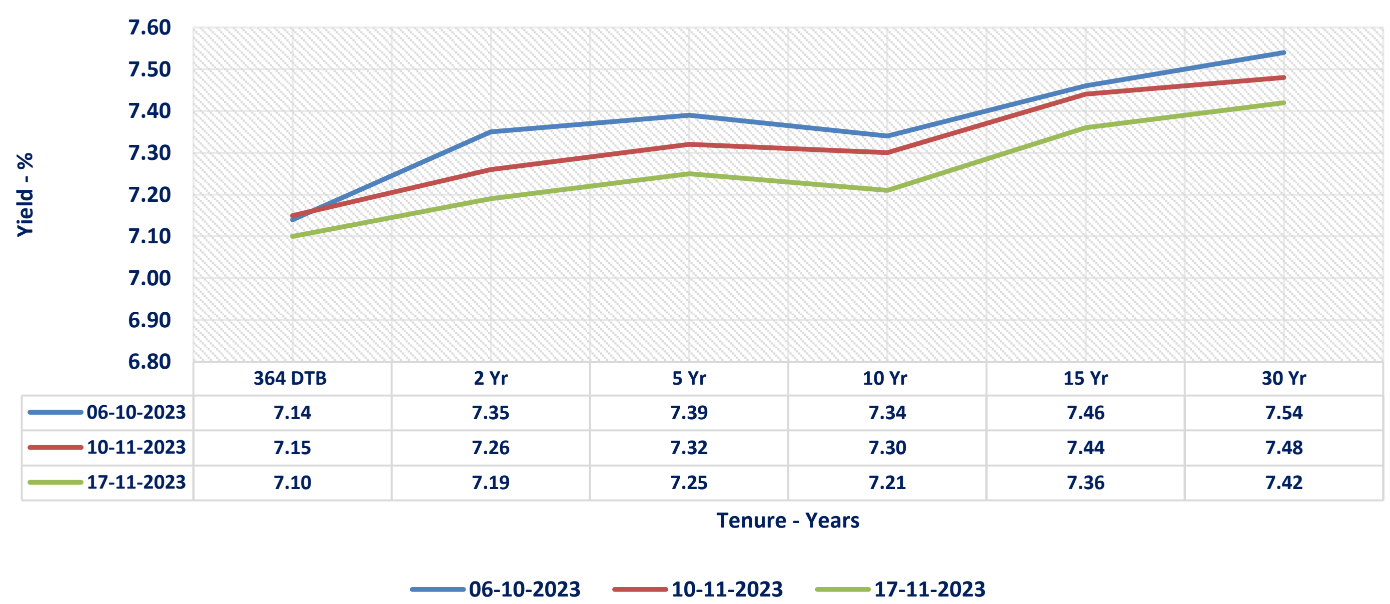
Foreign Exchange Reserves (US$ Bln)	590.78	590.32

Gold/10 gm (Rs)	59,654	60,745
Gold/Oz (US$)	1936.79	1980.01
Crude Oil - Brent (US$/bbl)	81.43	80.61
2 Yr USA - Treasuries	5.07	4.89
10 Yr USA - Treasuries	4.65	4.44

Government Securities – Secondary Market Yields

	October 6, 2023	November 10, 2023	November 17, 2023
364 DTB	7.14	7.15	7.10
2 Years	7.35	7.26	7.19
5 Years	7.39	7.32	7.25
10 Years	7.34	7.30	7.21
15 Years	7.46	7.44	7.36
30 Years	7.54	7.48	7.42

G Sec - Secondary Market Yield Curve



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