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AUM –GILTS MARKET UPDATE

May 6, 2024

Consumer Price Index eased to a 10 month low of 4.85% in March from 5.09% in February. The decline can be mainly attributed to the base effect as the prices remained unchanged from the previous month. The CPI seems to be gradually moving towards the RBI's medium term target of 4%. Moreover, core inflation continues to soften due to a combination of favourable base effects and overall softening in the commodity segments. Consumer price inflation remains above the central bank's target of 4% but has stayed within its tolerance range of 2 - 6% for the seventh consecutive month.

The timely supply side interventions by the government in food have helped stabilise the markets though food inflation has still remained sticky. Supply side interventions in the form of such as the Open Market Sale Scheme and export restrictions by the government have played an important role in tempering food inflation. In what could come as a relief to the government's fight against inflation, the India Meteorological Department has predicted an 'above-normal' monsoon in 2024, which quantitatively could be around 106 per cent of the long period average. This augurs well for the inflationary trajectory towards soothing down the high food inflation. Normal rainfall leads to robust crop production, helping keep a lid on food prices, including vegetables.

Growth is resilient and IIP has increased by 5.7 per cent in February as compared to the previous month's growth of 4.1 per cent. The growth momentum has remained robust, supported by buoyant economic activity. While the external sector is likely to be prone to the risks due to elevated global interest rates, RBI is confident of comfortably meeting all the external financing requirements comfortably. External sector is likely to be supported by steady services exports and adequate foreign exchange reserves.

The RBI Governor has been highlighting the aim of getting inflation to 4% on a durable basis, the policy rates are likely to be kept on hold with no change in stance. We anticipate that the MPC will contemplate rate cuts in the third quarter of FY25

Elaborating on the rationale behind keeping the interest rate unchanged despite benign inflation outlook, RBI Governor has said "The success in the disinflation process should not distract us from the vulnerability of the inflation trajectory to the frequent incidences of supply side shocks, especially to food inflation due to adverse weather events and other factors. Overlapping food price shocks, apart from imparting volatility to headline inflation, may also result in spillovers to core inflation. Lingering geo-political tensions and their impact on commodity prices and supply chains are also adding to uncertainties in the inflation trajectory. These considerations call for monetary policy actions to tread the last mile of disinflation with extreme care."

With resilience in growth continuing even as the cumulative 250 basis points of rate hikes work through the system, RBI's focus should now be more on inflation. Expectations have built up for FY2024 - 25 with a normal monsoon and crude oil remaining around USD 85 per barrel. As long as these assumptions are not breached RBI will likely maintain status quo on rates as well as the stance.

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RBI will be keenly watchful of the volatile components like crude oil, food and the monsoons which are expected to be normal for FY2024-25. We expect the RBI to start the rate cutting cycle in Q3 FY2024-25.

The view for fixed income segment for FY25 remains favourable. With the inclusion of Government Securities in JP Morgan bond index, the demand outlook for G-Sec can effectively cap any significant rise in yields. Government has reiterated its commitment of bringing down fiscal deficit to less than 4.5% of GDP by FY26. This should keep market borrowings within manageable levels.

Rate hike cycle in Advanced Economies has ended and expectations of rate cuts are high during the year though shallow to some extent. RBI is also likely to cut rates in second half of FY25, although, we expect a shallow rate cut cycle. Higher for longer' interest rates could restrict the easing of financial conditions over the next few months before the rate cuts begin.

Overall, in our view, yields are likely to trade with a downward bias and the long end of the yield curve is likely to outperform over the medium term. Thus, as highlighted in the past, for investors with a relatively longer investment horizon, it is a good time to increase allocation to longer duration segment of the fixed income basket of investments in a staggered manner.

We expect the RBI to start the rate cutting cycle by Q3 FY2024-25 and 10 year benchmark G Sec yields to move within the range of 7.00-7.25 per cent in the near term.

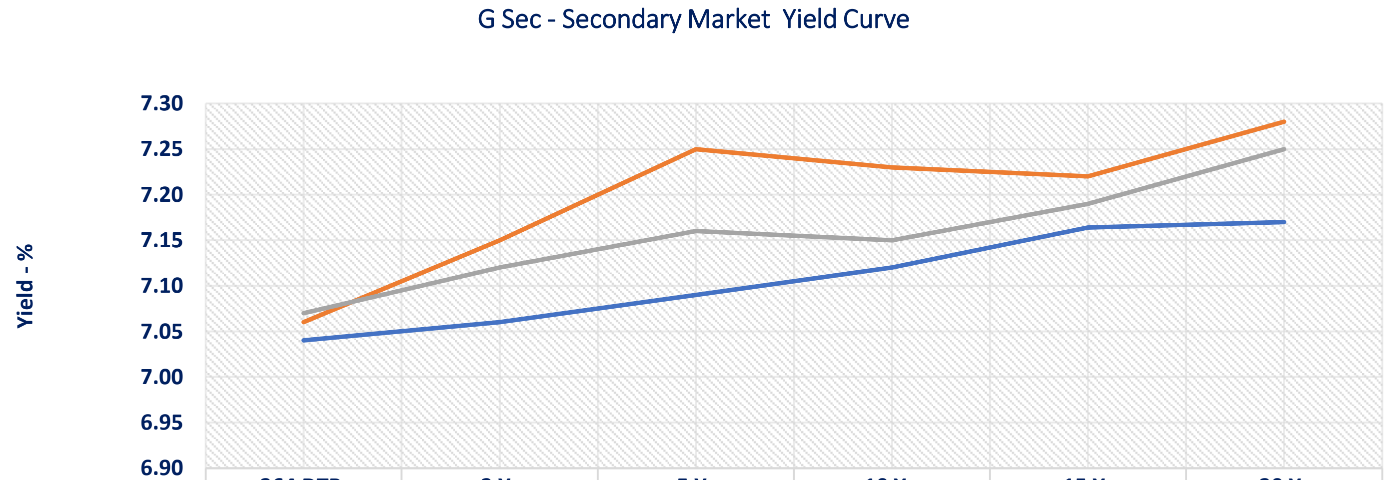
Tracker

Trackers	April 19, 2024	May 3, 2024
Average Call Money Rate (%)	6.17	6.17
Net Banking System liquidity : Deficit (-) Surplus(+) (Rs Crs)	38381.34	(-77,597.39)
Bank Deposit Growth (%)	13.80	13.30
Bank Credit Growth (%)	19.90	19.00
CPI (%)	4.85	4.85
Core Inflation (%)	3.30	3.30
WPI Inflation (%)	0.53	0.53
Sensex	73,088.33	73,878.15
Nifty	22,147.00	22,475.85
Re/US$	83.36	83.38
FPI Investments (US$ Bln) (Figures cumulative for Debt & Equity – Current FY)	(-1.072)	(-2.037)

Foreign Exchange Reserves (US$ Bln)	643.16	637.92
Gold/10 gm (Rs)	74,340	71,730
Gold/Oz (US$)	2390.45	2302.52
Crude Oil - Brent (US$/bbl)	87.29	82.96
2 Yr USA - Treasuries	4.99	4.81
10 Yr USA - Treasuries	4.62	4.51

Government Securities – Secondary Market Yields

	April 5, 2024	April 19, 2024	May 3, 2024
364 DTB	7.04	7.06	7.07
2 Years	7.06	7.15	7.12
5 Years	7.09	7.25	7.16
10 Years	7.12	7.23	7.15
15 Years	7.16	7.22	7.19
30 Years	7.17	7.28	7.25



	364 DTB	2 Yr	5 Yr	10 Yr	15 Yr	30 Yr
05-04-2024	7.04	7.06	7.09	7.12	7.16	7.17
19-04-2024	7.06	7.15	7.25	7.23	7.22	7.28
03-05-2024	7.07	7.12	7.16	7.15	7.19	7.25

Tenure - Years

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