

# AUM – FORTNIGHTLY GILTS MARKET UPDATE

May 22, 2023

CONSUMER price index inflation fell sharply to 4.70% in April 2023, coming under the Reserve Bank of India's upper tolerance limit of 6%. CPI at 4.70% in April was below the upper threshold of RBI's medium term 4+/- 2 percent target. The CPI data also indicates at the possibility of further pause in rate hikes by RBI with inflation below its upper target.

The headline inflation has stayed within the RBI's tolerance range for the second consecutive month. In March, the headline inflation was at 5.66% compared to 6.95% in the previous year.

The easing in CPI is a result of a steep decline in food inflation, the consumer food price index came down to 3.84% in April as compared to 4.79% in March. Food inflation has been coming off mostly on the back of deflation in oils and vegetables. Core inflation continued to fall sharply primarily due to base effects with sequential increases remaining relatively elevated.

Wholesale price base inflation declined to -0.92 per cent in April on an annual basis from 1.34 per cent in March. April is the 11th straight month when wholesale price index based inflation has declined. The decline in the rate of inflation was broad based, primarily driven by fall in prices of crude, energy prices, non-food and food articles. The WPI had come down to a 29-month low of 1.34 per cent in March on easing prices of manufactured products and fuel items, even though food articles turned expensive.

The deceleration in WPI comes in line with the easing of April retail inflation, which came in at an 18-month low of 4.70 per cent.

The Index of Industrial Production expanded 1.1% in March, as compared with a revised growth of 5.78% in February. The factory output rose lower than expected in March as electricity and consumer goods production took a hit. This was the slowest rate of growth for the indicator in five months. For the FY23 fiscal, it had risen 5.1 per cent as against a growth of 11.4 per cent in 2021-22. The data released by the National Statistical Office showed that the manufacturing sector's output increased 0.5 per cent in March 2023. Mining output rose 6.8 per cent during the month under review. Power output declined by 1.6 in March. The combined index of eight core industries increased by 3.6 per cent in March 2023 over the corresponding period of last year.

Going by the use based classification of goods, five of the six categories posted weaker numbers in March. Growth in primary goods' output more than halved to 3.3 percent from 6.9 percent in February, while capital goods saw their production rise by a respectable 8.1 percent in March - albeit lower than the 10.5 percent growth they had posted in February. Production of infrastructure goods was up 5.4 percent compared to 8.4 percent in February. But the worst showing came from the consumer goods, with output of both durables and non-durables contracting in March by 8.4 percent and 3.1 percent respectively. Only intermediate goods showed some improvement in performance, with their output increasing by 1 percent, marginally higher than 0.7 percent in February.

Our foreign exchange reserves have jumped to a 11 month high, the latest Reserve Bank of India data shows. The import cover rose by about US\$3.55 billion to nearly US\$599.53 billion in the week that ended on May 19. The latest data shows that forex reserves are not far from the record high of US\$645 billion which was reached in October 2021. This is good news for the country, as foreign exchange reserves had declined significantly after the Russia Ukraine war. The Reserve Bank of India has been deploying its forex kitty to defend the rupee when investors sheltered into the U.S. dollar.

A healthy forex currency reserve helps India pay for its imports and keep the rupee stable. Exports dipped by 12.7 per cent year on year to US\$34.66 billion in April this year. This is against US\$39.7 billion in same month last year. Imports too declined by about 14 per cent to US\$49.9 billion as against US\$58.06 billion recorded in the same month last year. The drop in imports was led by petroleum, crude and products, and coal & coke. However, services exports rose for the second month. Services exports in April jumped 26% to US\$30.36 billion compared to US\$24.05 billion a year earlier, while imports surged 17% to US\$16.05 billion from US\$14.06 billion during the same period.

This is the third and fourth consecutive month of a contraction in exports and imports respectively. Demand has not been good from the United States and Europe, some of India's biggest export markets.

Overall exports, merchandise and services combined, in April 2023 were estimated at US\$65.02 billion, a growth of 2 percent over April 2022. Overall imports in April 2023 were estimated at US\$66.40 billion, down 7.92 percent over April 2022

Consequently, the trade deficit narrowed to US\$15.24 billion from US\$18.36 billion in April last year.

The CPI cooled to its lowest since October 2021, falling within the RBI's target range for the second straight month raising the bar high for further rate hikes.

Driven largely by base effect, headline Consumer Price Inflation is expected to drop further with the June quarter inflation below 5 percent. The Reserve Bank in its April MPC statement had projected the CPI inflation at 5.2 per cent for 2023-24 with April-June Q1 at 5.1 per cent.

However, there are upside risks to the inflation trajectory due to the possible poor monsoon and the impact of change in climatic patterns. The likelihood of the El Nino during summer monsoon carries the risk of increasing the food prices with a lag which poses a risk to the CPI inflation trajectory.

While RBI is expected to continue to hold the present policy rates, with no change, in its June MPC Meeting and this may be a prolonged pause.

We expect the 10 year G Sec to trade in the narrow range of 6.90 to 7.10 till the June MPC Meeting.

## Tracker

Trackers	May 12, 2023	May 19, 2023
Average Call Rate (%)	6.77	6.21
Net Banking System liquidity - Deficit (-) Surplus(+) ( Rs Crs)	46,729.77	49,499.40
Bank Deposit Growth (%)	10.20	10.40
Bank Credit Growth (%)	15.90	15.50
CPI (%)	4.70	4.70
Core Inflation (%)	5.30	5.30
WPI Inflation (%)	1.34	-0.92
Nifty	62,027.90	61,729.68
Sensex	18,314.80	18,203.40
Re/US\$	82.17	82.88
FPI Investments (US\$ Bln) (Figures cumulative for Debt & Equity – Current FY)	4.453	5.563

Foreign Exchange Reserves (US\$ Bln)	<b>595.98</b>	<b>599.53</b>
Gold/10 gm (Rs)	<b>60,898</b>	<b>60,390</b>
Gold/Oz (US\$)	<b>2011.15</b>	<b>1976.55</b>
Crude Oil - Brent (US\$/bbl)	<b>74.17</b>	<b>75.58</b>
2 Yr USA - Treasuries	<b>3.99</b>	<b>4.28</b>
10 Yr USA - Treasuries	<b>3.46</b>	<b>3.69</b>

## Government Securities – Secondary Market Yields

	March 31, 2023	May 12, 2023	May 19, 2023
<b>364 DTB</b>	<b>7.17</b>	<b>6.98</b>	<b>6.94</b>
<b>2 Years</b>	<b>7.05</b>	<b>6.88</b>	<b>6.83</b>
<b>5 Years</b>	<b>7.17</b>	<b>6.95</b>	<b>6.95</b>
<b>10 Years</b>	<b>7.32</b>	<b>7.00</b>	<b>7.01</b>
<b>15 Years</b>	<b>7.35</b>	<b>7.14</b>	<b>7.11</b>
<b>30 Years</b>	<b>7.40</b>	<b>7.15</b>	<b>7.15</b>

G Sec - Secondary Market Yield Curve



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