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AUM –GILTS MARKET UPDATE

January 1, 2024

Consumer Price Index rose to 5.55% in November 2023 from 4.87% in the previous month of October. This was due to the rise in the prices of vegetables, fruits, sugar and pulses that pushed the food inflation to 8.7% from 6.61% in October; whereas the non-food CPI softened further. It was also on account of the low base effect. There have been frequent spikes in one or the other vegetable prices and that is why the food prices have remained high and volatile. The food prices have been a matter of concern this year due to the unfavourable weather and inconsistent rains.

The CPI for December is also likely to see some upside due to the unfavourable base effect. Although the positive for the retail inflation will be the winter crop supply in the market. Further the recent measures like ban on export of onions undertaken by the government are also expected to hold the prices.

The non food CPI inflation have softened due to the fall in fuel inflation especially the crude oil prices. Core inflation at 4.1% is a positive for the RBI maintaining it status quo on the policy rate. While softening of core inflation rules out the possibility of a rate hike, high food prices will keep RBI in a cautious mode.

We expect that the RBI will closely monitor the inflation as it remains above its long-term target of 4%. RBI is likely to hold the policy rate steady for the remaining period of this financial year.

Index of Industrial Production rose to 11.7% YOY in October 2023 from 6.2% YOY in the previous month. This is the highest growth recorded since June 2022 and was broad-based across major industries. Strong manufacturing growth of the second quarter seems to have continued in the third quarter. Manufacturing has so far been supported by resilient domestic demand, especially from strong investment growth and higher value consumption items. While consumption related goods recorded the higher IIP growth in October, with continuing strong growth in industrial goods. However, the rural demand remains vulnerable to agricultural output this year. Stronger growth in discretionary consumption goods was driven mainly due to increased festive spending.

Export demand also improved in the recent months, driven by advanced economies performing better than expected. Slowdown in western advanced economies next year can pull down our export growth.

Monetary Policy Committee will remain vigilant of inflation risks, with the overall outlook remaining clouded by volatile and uncertain food prices, members of the committee said in the December policy meeting minutes released on December 22, 2023. The inflation trajectory remains relatively uncertain. An unanimous hold for the December meeting shows members remain in a wait-and-watch mode, but with a softening in their earlier hawkish bias.

RBI has retained the inflation projection for FY24 at 5.4%. The very important point is the forward trajectory of inflation which is projected to be below the 6% level for the current year as well as the next financial year. Our Economy is resilient with strong and robust macroeconomic fundamental and stable financial system. RBI has revised upwards the projections for real growth for FY24 to 7 %. Our Foreign exchange reserves at US$ 620 billion provide a strong buffer against any possible global spillovers.

All this will likely give RBI more space to focus solely on the issue of headline inflation, as inflation continues to be volatile due to multiple supply side shocks which have become more frequent and intense.

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 with inclusion of India in the leading global bond index, the bond market is likely to be well supported and act as a resistance to any untoward spike in the yields.

Thus, the factors like demand from inclusion of our G Secs in global bond indices, positive real rate environment, softening core inflation and relatively balanced demand supply dynamics should play out favourably. We expect the rates to be reasonably lower towards the end of first quarter of next financial year.

RBI is expected to hold on to the current policy interest rates till Q1FY25. Overall the bond market is bullishly poised. We expect the 10 year yield to trade within the range of 7.10 - 7.30 per cent in the near term.

Tracker

Trackers	December 15, 2023	December 29, 2023
Average Call Money Rate (%)	6.26	6.49
Net Banking System liquidity : Deficit (-) Surplus(+) (Rs Crs)	(- 59260.92)	(-1,85,846.45)
Bank Deposit Growth (%)	13.40	14.00
Bank Credit Growth (%)	20.80	20.20
CPI (%)	5.55	5.55
Core Inflation (%)	4.10	4.10
WPI Inflation (%)	0.26	0.26
Sensex	71,483.75	72,240.26
Nifty	21,456.65	21,731.40
Re/US$	83.02	83.18
FPI Investments (US$ Bln) (Figures cumulative for Debt & Equity – Current FY)	27.787	31.725

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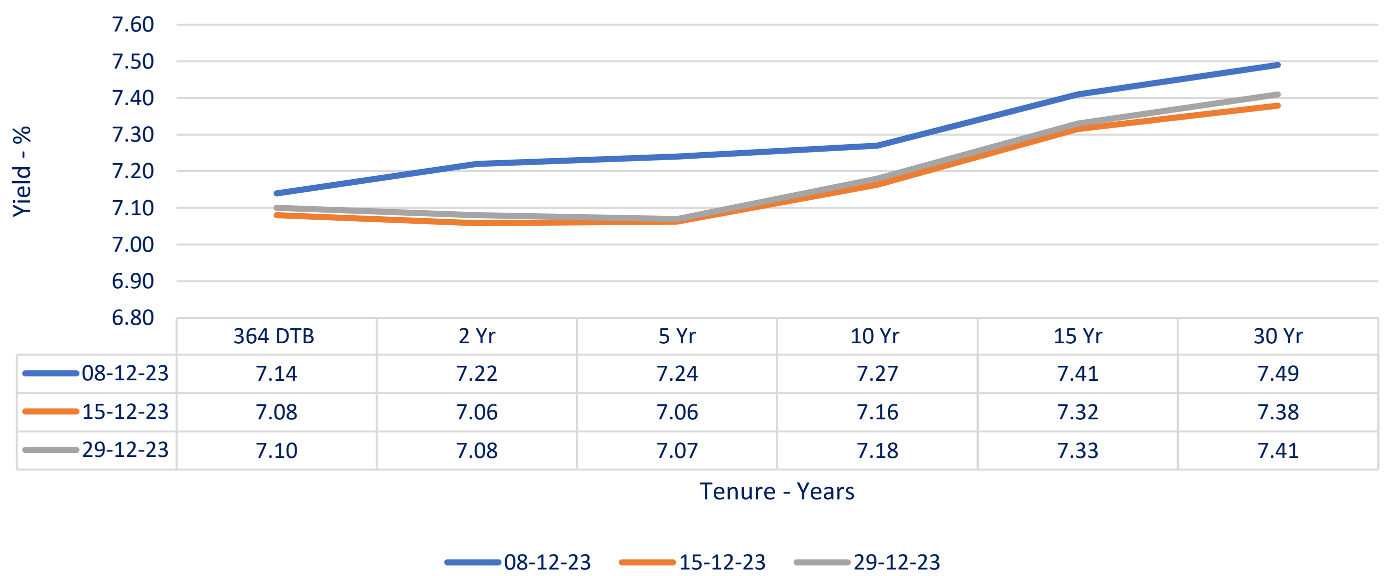
Foreign Exchange Reserves (US$ Bln)	606.86	620.44

Gold/10 gm (Rs)	62,277	63,235
Gold/Oz (US$)	2018.19	2062.59
Crude Oil - Brent (US$/bbl)	76.55	77.08
2 Yr USA - Treasuries	4.45	4.25
10 Yr USA - Treasuries	3.92	3.87

Government Securities – Secondary Market Yields

	December 8, 2023	December 15, 2023	December 29, 2023
364 DTB	7.14	7.08	7.10
2 Years	7.22	7.06	7.08
5 Years	7.24	7.06	7.07
10 Years	7.27	7.16	7.18
15 Years	7.41	7.32	7.33
30 Years	7.49	7.38	7.41

G Sec - Secondary Market Yield Curve



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