

AUM – FORTNIGHTLY GILTS MARKET UPDATE

September 25 2023

Consumer Price inflation eased to 6.83% in August after scaling a 15-month peak of 7.44% in July, but still remains above RBI's upper tolerance limit of 6% for the second consecutive month, keeping the policymakers watchful. Food inflation, which accounts for nearly half of the overall basket, was up 9.94% in August compared with a rise of 11.51% in July. CPI inflation eased below the 7% mark, largely led by vegetables, amidst some moderation in the prices for clothing and footwear, housing and miscellaneous items as well. Core inflation remained at 4.9%, same as of July. Inflation has been above RBI's 2%-6% target band for seven months out of the last twelve months.

In its efforts to rein in domestic inflation, the government banned exports of non-basmati white rice last month and imposed exports duty of parboiled rice, while imposing tax on onion exports. It has banned exports of wheat since last year.

Inflation is expected to remain elevated in the coming months as a weak monsoon, lower reservoir levels, upward pricing pressure on cereals and pulses, and rising crude prices are likely to keep the pressure on food prices. The Brent crude prices are on the rise again. While India has benefitted from importing more oil from Russia at discounted price following the Ukraine war, production cuts to comply with Opec+ agreement could lead to higher import bills.

Industrial growth also rose to a five-month high of 5.7% in July higher from 3.8% in the previous month of June on the back of a recovery in manufacturing ahead of the festive season.

As per RBI Bulletin “global economic activity is experiencing a loss of momentum with a dichotomy in macroeconomic conditions across regions. Amidst weakening global prospects, the Indian economy is gaining strength led by domestic drivers – private consumption; and fixed investment with strong public sector capex. Supply responses are improving and headline inflation has softened in August from the previous month’s peak”.

Trade deficit widened to a 10-month high of \$24 billion in August as import and export performance remained dismal. Headline exports contracted by 6.9% year-on-year last month, a faster pace compared to the 5.2% drop seen in imports. Much of the decline in exports and imports in August was driven by the sharp year-on-year contraction in oil shipments led by lower price and volume. But what is encouraging is that stripping off the volatile items of oil, gold and gems and jewelry; both core exports and imports have shown some signs of recovery with an increase in shipment of some heavyweight items.

In short, this means that a combination of resilient domestic demand along with subdued external growth is likely to create upward pressure on the trade deficit in the coming months.

Even as easing vegetable prices have brought down retail inflation, risks are emerging from the global commodity markets as crude oil ruling above \$90 per barrel poses a challenge, the latest state of the economy report published in the RBI bulletin said.

RBI is likely to hold on to repo rate and retain its stance under these conditions. Chances of rate hike are very less with the declining inflation scene.

The central bank has projected the CPI inflation at 5.4 per cent for the FY 2023-24. Expect RBI to remain cautious and retain status quo on the policy rates with a prolonged pause as inflation remains well above 6%.

With no concerns on the industrial growth front and Consumer Price Index easing below 7% in August, gives RBI the room to maintain monetary policy stability without worrying about high interest rates denting growth too much. The RBI won't lower its guard yet on last month's weaker inflation pace as lingering weather concerns can also push up the prices again.

Bond markets might take a bit of relief and see a range bound movement in yields in the near term, however the persistence of inflation and trajectory will determine the larger move. So we expect yields to remain range bound and expect 10-yr benchmark G-Sec to trade in the range of 7.05 %-7.25% in the near term.

Tracker

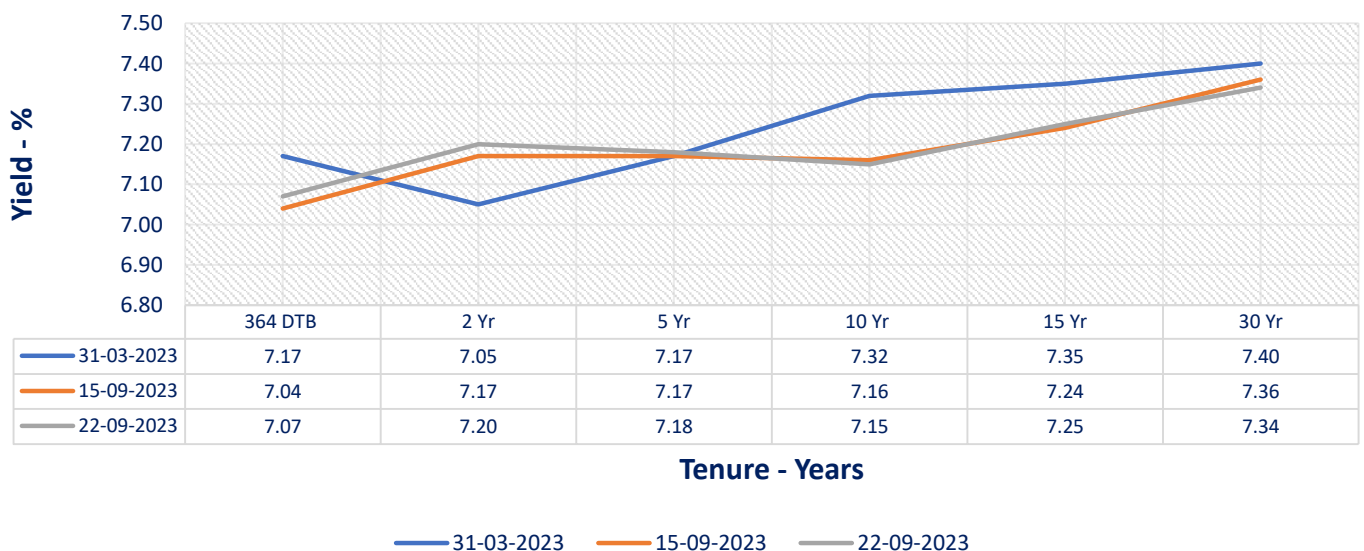
Trackers	September 15, 2023	September 22, 2023
Average Call Money Rate (%)	6.07	6.77
Net Banking System liquidity : Deficit (-) Surplus(+) (Rs Crs)	- 45,699.94	- 1,16,856.94
Bank Deposit Growth (%)	13.20	13.60
Bank Credit Growth (%)	19.80	19.80
CPI (%)	6.83	6.83
Core Inflation (%)	4.90	4.90
WPI Inflation (%)	(-0.52)	(-0.52)
Sensex	67,838.63	66,009.15
Nifty	20,192.35	19,674.25
Re/US\$	83.07	82.97
FPI Investments (US\$ Bln) (Figures cumulative for Debt & Equity – Current FY)	22.081	21.224

Foreign Exchange Reserves (US\$ Bln)	593.90	593.04
Gold/10 gm (Rs)	58,999	58,875
Gold/Oz (US\$)	1923.58	1924.99
Crude Oil - Brent (US\$/bbl)	94.27	93.27
2 Yr USA - Treasuries	5.04	5.11
10 Yr USA - Treasuries	4.34	4.44

Government Securities – Secondary Market Yields

	March 31, 2023	September 15, 2023	September 22, 2023
364 DTB	7.17	7.04	7.07
2 Years	7.05	7.17	7.20
5 Years	7.17	7.17	7.18
10 Years	7.32	7.16	7.15
15 Years	7.35	7.24	7.25
30 Years	7.40	7.36	7.34

G Sec - Secondary Market Yield Curve



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