AUM - FORTNIGHTLY GILTS MARKET UPDATE

June 5, 2023

RBI in its recent monthly bulletin stated that the economy is sustaining recent growth momentum and inflation is slowing. Our economy has sustained the growth momentum seen in the last fiscal quarter of 2022/23, while latest inflation outcome has been better than the forecast. Growth in the first quarter of 2023/24 is expected to be driven by private consumption, revival in rural demand and renewed buoyancy in manufacturing on easing of input cost pressures, the central bank said in its "State of the Economy" report published as part of its monthly bulletin.

Investment activity is also expected to improve, drawing strength from the thrust on capital expenditure in public spending and moderation in commodity prices as per this report.

India's services exports rose 13.1% on year to $30.48 billion in March, provisional RBI data showed in early May. April services exports as per provisional government data rose to $30.36 billion. The RBI said if services exports maintain their recent high momentum, the drag from net external demand should moderate through April-June 2023.

Domestic service sector activity will continue to be led by the rebound in contact intensive services and the resilience in construction activity.

India' consumer price inflation eased to 4.7% in April from 5.66% the previous month, data earlier this month showed. The RBI said the inflation momentum is turning out to be softer than anticipated on account of a fall in wheat prices. The fall in headline inflation was on account of the combined impact of monetary policy tightening, supply augmenting measures and due to favourable base effect.

Wholesale price based inflation fell by 0.92% from the same month a year earlier, having risen 1.34% in March. The pass through of wholesale price movements – in deflation in April – could also contribute to the softening of retail inflation going forward as per this monthly bulletin.

Also as per the Finance Ministry's recent monthly economic review, the Indian Economy could see down side risks to growth and upside risks to inflation due to the challenges from the external sector and weather related uncertainties, but our domestic demand remains strong.

As per this report going forward, several factors, such as weaker than expected oil supply, higher than-anticipated demand from China, intensification of geo-political tensions and unfavourable weather conditions may pose an upside risk to the inflation forecasts.

RBI has projected the consumer price inflation at 5.2% and GDP growth at 6.5% for the current financial year.

Consumer Price inflation fell to an 18 month low of 4.7% in April, from 5.66% in March, largely due to softening of food prices. The RBI targets inflation at 4%, with a tolerance level stretching up to two percentage points on either side. Softening international prices have resulted in easing domestic inflationary pressures, the report said. Even "Sticky" core inflation has moderated "significantly" to an almost three year low in April, signaling a pass-through of lower input costs by producers. Despite the uncertainty in rainfall, the growth of crops is unlikely to suffer, according to the report. Prices of all commodities, barring precious metals, are also likely to moderate in the current year, though they will remain well above pre-pandemic levels, as per this report. And accordingly as inflation eases further, demand will become stronger and lay the foundation for a virtuous capex upcycle.

The higher than expected GDP growth in Q4 FY23 is a positive for our economy and seems to have been driven by broad based improvement in domestic drivers of private consumption, public consumption, and investments. Clearly, the usual financial year end growth momentum received a boost from a sharp decline in input price inflation along with higher government spending. Lead indicators for April 2023 are pointing towards continuation of growth momentum.

Narrowing of external trade deficit is also providing comfort. Our dependence on external financing is expected to reduce this fiscal. The current account deficit (CAD) is likely to be pared in this fiscal on account of the lower crude oil prices. This, coupled with the adequate forex reserves and good growth prospects, should cushion the impact of a global spillover on overall macros.

The government is also expecting bumper harvest of food grains in FY23. Good prospects for the kharif season in FY24 are expected to keep food inflation low in the upcoming months. Forecasts for normal monsoon season rains in the next four months could support the farm sector, which grew 5.5% year-on-year in the March quarter compared to 3.7% in the previous quarter.

External risks remain high because of the possible impact of elevated interest rates in advanced economies on the leveraged market segments. However, our macroeconomic fundamentals are expected to improve this fiscal, which should cushion its vulnerability to global shocks.

Resilience of our economy to the global spillovers, coupled with the peaking of domestic interest rates could halt further tightening in financial conditions going ahead.

RBI Governor recently had said that the Monetary Policy Committee would be guided by "what's happening on the ground" on the issue of whether to take a pause again or not in its next meeting on June 6 - 8, even as expected retail inflation is set to ease further in May from April's 18-month low of 4.7%. While the MPC kept its options open, inflation falling below its target threshold of 6% has increased the strong possibility of a pause during the monetary policy review on June 6 -8.

Inflation is already moderating and the external account is sound but the El Nino and its adverse impact on rainfall remain potential threats to macroeconomic stability and food prices. Furthermore, moderating global growth, protracted geopolitical tensions and a possible upsurge in financial market volatility, evident in the implosion of many regional US banks, pose downside risks.

The moderation in inflation, expected to continue in the near term, suggests that the RBI is done with its interest rate hiking cycle and is likely to stay on a longer hold.

Thus, in view of the above we expect the RBI to continue to hold the present policy rates, with no change in stance, in its June 6-8 - MPC Meeting and this may be a prolonged pause.

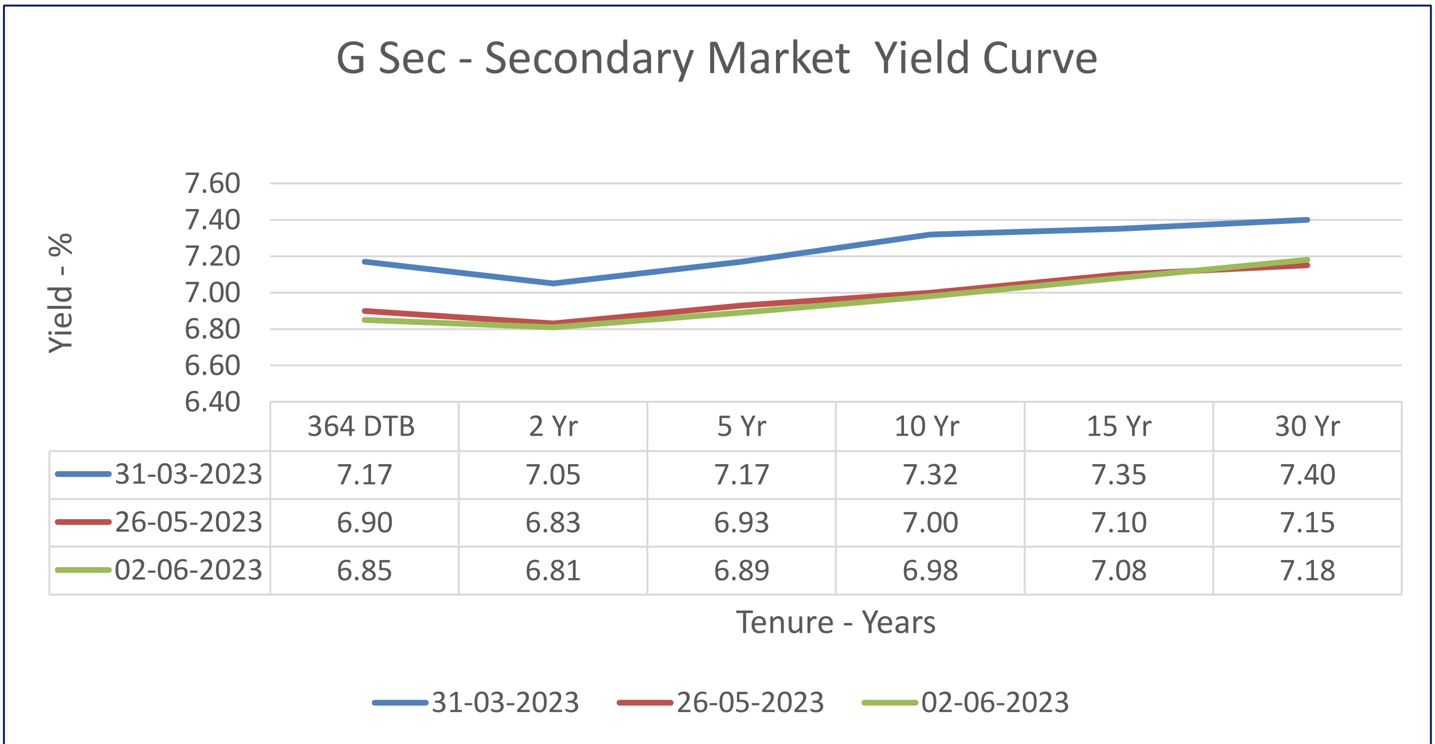
Tracker

Trackers	May 26, 2023	June 2, 2023
Average Call Rate (%)	6.28	6.03
Net Banking System liquidity - Deficit (-) Surplus(+) (Rs Crs)	99,725.45	2,37,853.95
Bank Deposit Growth (%)	10.40	10.90
Bank Credit Growth (%)	15.50	15.40
CPI (%)	4.70	4.70
Core Inflation (%)	5.30	5.30
WPI Inflation (%)	(-0,92)	(-0,92)
Nifty	62,509.69	62,547.11
Sensex	18,499.35	18,534.10
Re/US$	82.58	82.40
FPI Investments (US$ Bln) (Figures cumulative for Debt & Equity – Current FY)	6.480	8.237

Foreign Exchange Reserves (US$ Bln)	**593.48**	**589.14**
Gold/10 gm (Rs)	**59,338**	**59,750**
Gold/Oz (US$)	**1946.32**	**1947.63**
Crude Oil - Brent (US$/bbl)	**76.95**	**76.13**
2 Yr USA - Treasuries	**4.57**	**4.51**
10 Yr USA - Treasuries	**3.80**	**3.70**

Government Securities – Secondary Market Yields

	March 31, 2023	May 26, 2023	June 2, 2023
364 DTB	**7.17**	**6.90**	**6.85**
2 Years	**7.05**	**6.83**	**6.81**
5 Years	**7.17**	**6.93**	**6.89**
10 Years	**7.32**	**7.00**	**6.98**
15 Years	**7.35**	**7.10**	**7.08**
30 Years	**7.40**	**7.15**	**7.18**



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