

AUM – FORTNIGHTLY GILTS MARKET UPDATE

May 8, 2023

In midst of this heightened uncertainty, RBI chose not to hike the repo rate in the April MPC meeting. RBI said that it would like to assess the lagged impact of the rate hikes so far, but also strongly stated that there could be further rate hikes later if the situation warrants. With inflation likely to moderate in the months to come, the possibilities of further rate hikes in 2023 have come down. We expect RBI to maintain the status quo on the repo rate in this FY 2024.

Economic data in the last few months continue to show the overall resilience of our economy.

The S&P Global India Manufacturing PMI increased to a four month high of 57.2 in April 2023 from 56.4 in the previous month, as both output and new orders grew the most in four months, amid sustaining expansions in sales. At the same time, employment increased while suppliers were reportedly able to deliver purchased materials in a timely manner, with vendor performance improving to the greatest extent in eight months, though only slightly overall. On the pricing front the input cost inflation accelerated due to faster increases in the prices of transportation and raw materials, while the output cost inflation rose to a three-month high. Finally, sentiment improved from March's eight-month low, amid demand resilience, client inquiries, orders pending approval, and marketing efforts.

The S&P Global India services Purchasing Managers' Index jumped to 62.0 last month from 57.8 in March, its highest since June 2010. It was above the 50-mark separating growth from contraction for a 21st straight month, the longest stretch of expansion since August 2011.

Services activity expanded at the fastest pace in nearly 13 years in April, driven by robust demand, according to a private survey which also showed price pressures increased at their fastest rate in recent months. Service sector posted a remarkable performance in April, with demand strength backing the strongest increases in new business and output. Along with robust domestic demand, international demand was also strong as the sub-index rose to a four month peak and business optimism hit its highest since December.

Strong growth in services, which make up around 60% of overall gross domestic product output, paints an encouraging picture of our economy's growth prospects, at least for the near term.

However, employment generation in the services industry only saw a marginal uptick as most firms reported sufficient labour capacities to meet rising demand.

Meanwhile, the input prices index was at a three-month high from a 2-1/2-year low in March and firms raised their charges at the fastest pace this year. The prices charged index rose to 53.5 from 52.4.

Rising price pressures, alongside an improving economic outlook, means that RBI will likely lean towards keeping its key interest rate on hold rather than easing it anytime soon.

The overall S&P Global India Composite PMI Output Index rose to 61.6 in April, the highest since July 2010, as activity in both manufacturing and services remained strong.

While RBI has paused on the repo rate front, it has also strongly reiterated its commitment to bringing down inflation close to its medium-term target of 4%. Given the uncertain global environment and lingering risks to inflation, RBI has kept the window open for further monetary policy tightening in future if required. However, with inflation likely to trend downward from the current level, it is unlikely that RBI will have to hike rates further in this financial year. The bar for raising the repo rate has now been set very high. We expect a status quo in the repo rate in FY 2023 - 2024. With GDP growth above 6% and CPI inflation likely to remain higher than RBI's 4% target, there is no scope of any rate cut in this year.

The easing of international commodity prices, the promptness of measures taken by the government, and monetary tightening by the RBI have helped to rein in domestic inflation. Inflationary expectations also appear to be anchoring, as witnessed in various surveys for households and businesses.

We expect the 10 year G Sec bond yield to trade in the range of 7.00 to 7.20% till the next MPC Meeting.

Tracker

Trackers	April 28, 2023	May 5, 2023
Average Call Rate (%)	6.36	6.69
Net Banking System liquidity - Deficit (-) Surplus(+) (Rs Crs)	41,953.62	51,430.77
Bank Deposit Growth (%)	10.20	10.20
Bank Credit Growth (%)	15.70	15.90

CPI (%)	5.66	5.66
Core Inflation (%)	5.80	5.80
WPI Inflation (%)	1.34	1.34

Nifty	61,112.44	61,054.29
Sensex	18,065.00	18,069.00

Re/US\$	81.72	81.69
FPI Investments (US\$ Bln) (Figures cumulative for Debt & Equity – Current FY)	1.655	2.711

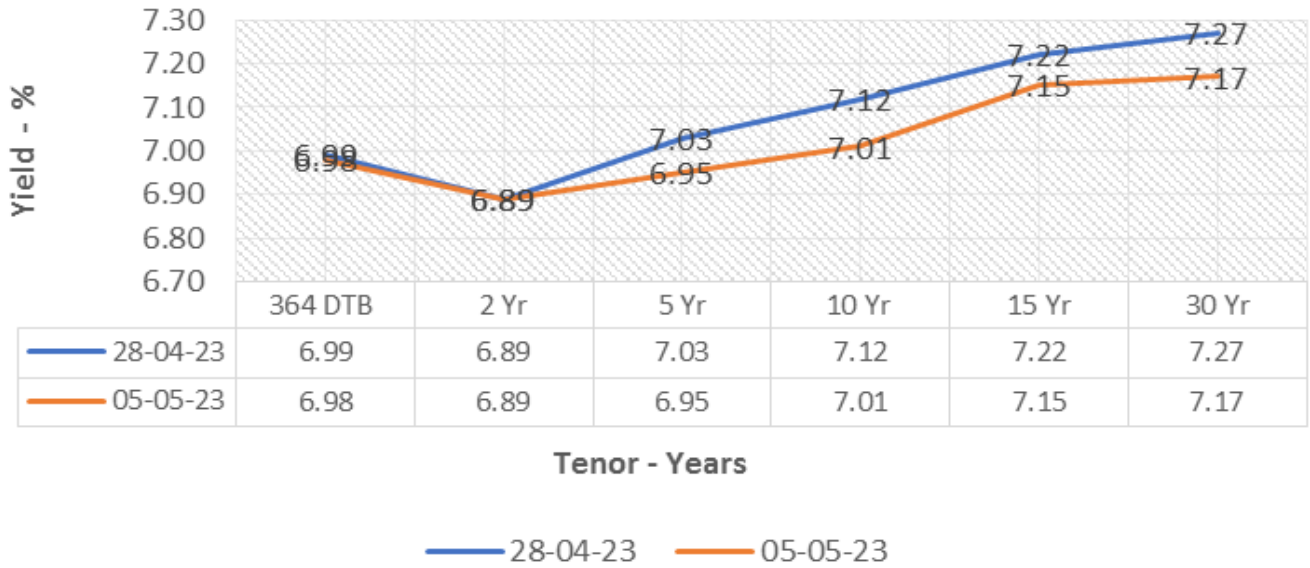
Foreign Exchange Reserves (US\$ Bln)	584.25	588.78
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Gold/10 gm (Rs)	59,945	60,636
Gold/Oz (US\$)	1989.65	2016.54
Crude Oil - Brent (US\$/bbl)	80.33	75.3
2 Yr USA - Treasuries	4.02	3.92
10 Yr USA - Treasuries	3.43	3.44

Government Securities – Secondary Market Yields

	April 28, 2023	May 4, 2023
364 DTB	6.99	6.98
2 Years	6.89	6.89
5 Years	7.03	6.95
10 Years	7.12	7.01
15 Years	7.22	7.15
30 Years	7.27	7.17

G Sec - Secondary Market Yield Curve



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