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Economic Round-up: September 2024

SUMMARY**INDIA ECONOMICS: BONDS WRAP**

The global yields largely softened in Sep'24. US 10Y yield eased after Fed unveiled the rate cuts and signaled the possibility of additional cuts this year and this will be followed in CY25. Moderation in the recent PCE data adding to the Fed's conviction of abating price pressure, with inflation inching closer to the target mark. Incoming US jobs data will add further clarity to Fed's guidance on rate outlook. On the domestic front, given the moderation in inflation and favorable liquidity conditions, India's 10Y yield eased. Going forward, the 10Y yield is expected to trade in the range of 6.68%-6.75% in Oct'24, with risk evenly balanced. On policy rate, we anticipate RBI will wait and watch before taking any action in Dec'24 given the moderation in headline inflation.

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INDIA ECONOMICS: CREDIT POLICY EXPECTATIONS

The Reserve Bank of India's Monetary Policy Committee (MPC) is likely to vote for status quo on both rates and stance in its October policy meet. While inflation has fallen below the RBI's target of 4% in each of the last 2 months, this was led primarily by a positive base effect. Even so, the outlook on food inflation is positive supported by a normal monsoon. Further, arrival of fresh crops should help ease the stickiness in prices of key vegetables. Core inflation is also expected to remain at or below 4%.

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BOBCAPS Research
research@bobcaps.in



INDIA ECONOMICS: CURRENCY UPDATE

INR appreciated by 0.1% in Sep'24 against a depreciation of -0.2% seen in Aug'24. This was supported by a weaker dollar. Apart from this, increased quantum of FPI flows (record high equity inflows), range bound commodity prices and the narrative of easier liquidity conditions amidst global monetary policy easing, have lent comfort. However, in terms of gains observed in major EM peers, INR was largely capped. This may be attributable to quarter end phenomenon and higher dollar demand from importers and banks.

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INDIA ECONOMICS: MONSOON UPDATE

As the monsoon has begun retreating, we look at how rainfall fared this season. Rainfall was 8% above the LPA till 30 Sep 2024. Momentum was maintained until the first fortnight of Sep'24 with total rainfall at 111.1mm versus 78.1mm. Between 1 Jun and 30 Sep 2024, out of 33 sub-divisions, (89% of the country) received normal or above normal rainfall so far and 5 states were in the deficient zone. Region-wise, except East & North East (-14%) which continues to report deficient rainfall, all others have received higher than normal rainfall during this period.

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INDIA ECONOMICS: MONTHLY ECONOMIC BUFFET

Markit manufacturing PMI shows that activity in major European economies (Germany/France) remains in severe stress, and activity in Japan is also now beginning to deteriorate. As per flash PMIs, the story is similar in case of US as well. In the US, other macro indicators for Aug'24 are also pointing towards a soft landing. Retail sales and new home sales have weakened, and unsold inventory is on the rise. Non-farm payrolls also rose less than expected. Private consumption expenditure growth was revised lower in the final estimates for Q2CY24 GDP growth. In view of steady inflation, Fed delivered a super-sized rate cut (50bps) in its Sep'24 meeting, and the dot plot indicates another 50bps cut can be expected over the next 2 meetings. Another concern for global growth is coming from muted growth in China.

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BONDS WRAP

01 October 2024

Fortnightly review

The global yields largely softened in Sep'24. US 10Y yield eased after Fed unveiled the rate cuts and signaled the possibility of additional cuts this year and this will be followed in CY25. Moderation in the recent PCE data adding to the Fed's conviction of abating price pressure, with inflation inching closer to the target mark. Incoming US jobs data will add further clarity to Fed's guidance on rate outlook. On the domestic front, given the moderation in inflation and favorable liquidity conditions, India's 10Y yield eased. Going forward, the 10Y yield is expected to trade in the range of 6.68%-6.75% in Oct'24, with risk evenly balanced. On policy rate, we anticipate RBI will wait and watch before taking any action in Dec'24 given the moderation in headline inflation.

Jahnvi Prabhakar
Economist

Movement in global yields in Sep'24:

- There was significant variation in movement in global yields in Sep'24 across global economies. While 10Y yield in Indonesia fell by 18bps, yields in US was down by 13bps and for China, the bond yields were up by 3bps respectively.

Table 1. 10Y yield movement globally

Countries	10Y sovereign yield, 30 Aug 2024	10Y sovereign yield, 30 Sep 2024	Change in bps (MoM)
China	2.18	2.21	3
UK	4.02	4.00	(1)
Japan	0.90	0.86	(4)
Singapore	2.69	2.60	(9)
Korea	3.09	2.99	(10)
India	6.86	6.75	(11)
US	3.90	3.78	(12)
Germany	2.30	2.12	(18)
Indonesia	6.63	6.45	(18)

Source: Bloomberg, Bank of Baroda Research

- US 10Y yields ended lower by 12bps in Sep'24. US Fed began with the aggressive rate cut as it announced the 50bps cut and the beginning of the easing cycle after a span of 4-years. With this the benchmark policy rate were lowered down to 4.75-5%. Fed Chair referred to it as 'recalibration' given the moderation in inflation as it is moving closer to the target mark and noted the economy continues to signal resilience. According to the Fed dot plot, FOMC members have projected the fed funds rate to be lowered down by a total of 100bps this year (including the Sep'24 cut), by 100bps in CY25 and by 50bps in CY26.



CREDIT POLICY EXPECTATIONS

01 October 2024

Status quo for now

The Reserve Bank of India's Monetary Policy Committee (MPC) is likely to vote for status quo on both rates and stance in its October policy meet. While inflation has fallen below the RBI's target of 4% in each of the last 2 months, this was led primarily by a positive base effect. Even so, the outlook on food inflation is positive supported by a normal monsoon. Further, arrival of fresh crops should help ease the stickiness in prices of key vegetables. Core inflation is also expected to remain at or below 4%.

Aditi Gupta
Economist

However, risks to the outlook remain from unseasonal rainfall during the withdrawal of monsoon which can impact standing crops. On growth, it does appear that the economy is moving along at a steady rate. As such, India's macro fundamentals remain robust, and the economy is likely to register growth of 7.3-7.4% in FY25. Given this backdrop, the MPC is likely to wait for another few months to assess the risks to the inflation trajectory, before cutting rates. We expect a rate cut and change in stance in Dec'24.

Growth and inflation dynamics

Domestic growth: Recent high frequency indicators paint a mixed picture of the economy in Q2 FY25. Manufacturing PMI slipped to 56.5 in Sep'24 from 57.5 in Aug'24. Vehicle sales have moderated, with PV sales declining by 4.5% in Aug'24. Tractor sales have also moderated sharply. Core sector output also contracted for the first time since Feb'21.

On the other hand, GST e-way bills have seen a steady growth. Services sector activity is also witnessing a continued expansion as signalled by the services PMI. The weakness in domestic activity can be attributed to seasonal factors as activity is sluggish during the monsoon period. Despite this, India remains on track to register a strong growth of 7.3-7.4% in FY25.

Growth is likely to get a boost from the upcoming festive season. Further, abundant rainfall during the monsoon is also likely to quicken the pace of recovery in the rural sector. Government expenditure has also started to pick up after the elections, and there are signs of a revival in the private sector capex cycle as well. CMIE data on new investment announcements indicate improvement over Q2-FY24. Merchandise exports are expected to benefit from a recovery in global demand amid a synchronised monetary policy easing cycle by global central banks.

Inflation scenario: CPI inflation has tracked below RBI's median target of 4% in the last 2-months, led by a favourable base. Food inflation also moderated but continued to track above the 4% mark.



CURRENCY UPDATE

01 October 2024

Fortnightly forex review

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Dipanwita Mazumdar
Economist

In the near term, macro conditions remain favourable for INR. DXY is expected to trade with a downward bias as disinflation is underway in the region and consumption demand is softening. FPI flows will further gain strength as index inclusion becomes broad based with increased weightage which in turn will attract security specific flows. On external front, enough cushioning in terms of adequate forex reserves along with timely intervention of RBI will ensure volatility of rupee to be largely contained. We expect INR to trade in the range of 83.7-83.8/USD in Oct'24, with an appreciating bias.

Movement in global currencies in Sep'24

In Sep'24, major global currencies appreciated against the dollar. This comes in the wake of a weaker dollar. Dollar rhetoric was supported by a weaker private consumption demand in the US (Q2, 3rd estimate), slowly converging to its trend. This coupled with disinflation in core PCE and falling wages, signalled that more softening on labour market is imminent. This was addressed in the latest Fed policy where a sizable cut was delivered of 50bps. Thus, DXY fell by 0.9%. Asian currencies remained bullish triggered by risk on sentiment. However, Asian central banks have hinted that whether it would be ahead or behind the monetary policy curve is more contingent on domestic growth-inflation play off. JPY continued to gain from expectation of policy normalisation, major macros such as stickier CPI data and moderation in jobless rate and improved retail sales numbers, all reflect the same. However, coming days remain crucial with the election of new Liberal Democratic Party leader. Some policy discontinuity may be seen. EUR USD pair got comfort albeit ECB delivering a rate cut of 25bps, second in its current cycle. ECB Chief's reiteration that inflation is comfortably nearing its targeted level may tune market to remain less bullish on currency, going ahead. The latest Germany's inflation print also confirms the same.



MONSOON UPDATE

01 October 2024

Monsoon begins to retreat

As the monsoon has begun retreating, we look at how rainfall fared this season. Rainfall was 8% above the LPA till 30 Sep 2024. Momentum was maintained until the first fortnight of Sep'24 with total rainfall at 111.1mm versus 78.1mm. Between 1 Jun and 30 Sep 2024, out of 33 sub-divisions, (89% of the country) received normal or above normal rainfall so far and 5 states were in the deficient zone. Region-wise, except East & North East (-14%) which continues to report deficient rainfall, all others have received higher than normal rainfall during this period.

Sonal Badhan
Economist

Central region (+19%) and Southern peninsula (+14%) recorded significant excess rainfall. Following the regional trend in rainfall, overall reservoir storage levels was at comfortable level of 87% as of 26 Sep 2024, compared with 71% last year. Only northern region has storage levels (68%) lower than last year (86%), due to below normal levels seen in reservoirs of Punjab and HP. Apart from these two states and Goa (at normal level), reservoir levels across other states have recorded levels above normal this season. This implies that while Kharif has benefited from above normal monsoon, Rabi sowing is also expected to do well with above normal water storage available. Sown area data showed that as of 23 Sep, Kharif sowing was 1.5% higher than last year and had even crossed the normal area level. Acreage of, paddy, oilseeds, sugarcane and coarse cereals has already exceeded its normal sown area.

Monsoon:

As the monsoon begins to retreat, we take a look at how different regions fared in this season. At all India level, for the period 1 Jun to 30 Sep 2024, South West Monsoon was 8% above LPA compared with last year.

- Most part of the country, specifically, Central, Eastern and parts of North-Eastern regions received normal rainfall this season. These include states like, M.P., U.P., Haryana, Himachal Pradesh, Uttarakhand, Jharkhand, Chhattisgarh, W. Bengal, Odisha, Assam, Mizoram and Meghalaya.
- Rainfall in Ladakh was also normal.
- In the South, Kerala, Karnataka and Tamil Nadu received normal rainfall this year.
- Most parts of western region of the country recorded excess rainfall. This includes states like Rajasthan, Gujarat, Maharashtra, Telangana and Andhra Pradesh.



MONTHLY ECONOMIC BUFFET

01 October 2024

Economic Round-up: September 2024

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Sonal Badhan
Economist

Retail sales, industrial production, industrial profits, FAI growth noted slowdown in Aug'24. However, some recovery was visible in the manufacturing sector in Sep'24, as official PMI index rose to 50.4 from 49.8 in Aug'24. PBOC has also announced a slew of measures to revive growth (RRR cut, LPR cut, lower minimum down payment required for 2nd home loan, aligning rate of interest for existing home loans with new home loans). The impact of these measures is expected to be only limited.

Global Central Banks: In Aug/Sep'24, in line with market expectations, major central banks (US Fed, ECB) lowered their policy rates. US Fed delivered an outsized rate cut of 50bps, keeping in view softening labour market conditions and steady inflation trajectory. Dot plot shows possibility of another 50bps cut this year and another 100bps cut in CY25. ECB lowered its policy rate by 25bps, in the wake of deteriorating economic conditions. Bank of England (BoE) on the other hand, held its rates unchanged and is expected to deliver least aggressive rate cuts this year, with only 1 more rate cut expected in the remainder of the year, as it faces a dilemma with services inflation remaining elevated. BoJ has also continued to maintain its dovish stance, leading to rise in uncertainty about the timing of next rate hike. PBOC lowered its RRR rate and 7-day LPR as part of the stimulus measures announced to revive economic growth.

Key macro data releases: India's current account deficit was recorded at 1.1% of GDP in Q1FY25, compared with a surplus of 0.5% of GDP in Q4 FY24. This was led primarily by a pickup in merchandise deficit. Rainfall is currently 8% above the LPA till 30 Sep 2024, and the monsoon has begun retreating.



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