FIRST LIGHT

04 June 2024

RESEARCH

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Fortnightly review

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RBI to hold rates

Daily macro indicators

Indicator	30-May	31-May	Chg (%)
US 10Y yield (%)	4.55	4.50	(5bps)
India 10Y yield (%)	7.00	6.98	(2bps)
USD/INR	83.32	83.47	(0.2)
Brent Crude (US$/bbl)	81.9	81.6	(0.3)
Dow	38,111	38,686	1.5
Hang Seng	18,230	18,080	(0.8)
Sensex	73,886	73,961	0.1
India FII (US$ mn)	**29-May**	**30-May**	**Chg ($ mn)**
FII-D	172.4	169.2	(3.3)
FII-E	(517.4)	(134.5)	382.9

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: BONDS WRAP

Global yields were mixed in May'24 amidst a changing narrative on the future course of global monetary policy. US 10Y yield eased as soft macro data has once again reignited expectations of a Fed rate cut in Sep'24. On the other hand, rate cuts by ECB and BoE are facing hurdles from a resurgence in inflation in the respective regions. On the domestic front, India's new benchmark security has shown a considerable degree of softening bias in May'24 and eased below the 7% mark. RBI's bumper surplus, FPI inflows and an outlook upgrade by S&P were the primary drivers of the exuberance seen in the government bond markets in May'24. Going forward, we expect India's 10Y yield to remain in the range of 6.95%-7.05% in Jun'24, led by lower US yields and further FPI investment in debt securities ahead of index inclusion.

Click here **for the full report.**

INDIA ECONOMICS: CURRENCY UPDATE

In May'24, INR has traded in the range of 83.10/$-83.53/$. The impending elections outcome and expectations of Fed commentary impacted currency movements. The key focus remains on crude price movements which will be supplemented by debt inflows. Given the strong external fundamentals and unchanged stance from the Fed we expect INR to trade in the range of 83.0-83.50/$, with an appreciating bias for the year.

Click here **for the full report.**

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INDIA ECONOMICS: MONETARY POLICY EXPECTATIONS

In the upcoming credit policy meet of RBI, which is scheduled on 5-7 Jun 2024, we expect MPC to maintain status quo. No change in stance is also expected, as RBI will keep liquidity tight to keep short-term rate higher and support INR. Liquidity deficit may ease as elections come to an end government spending will see a pick up in the coming months. Further, upward revision to RBI's GDP forecast for FY25 can be expected. CPI forecasts may not change as of now.

Click here for the full report.

BONDS WRAP

03 June 2024

Fortnightly review

Aditi Gupta
Economist

Global yields were mixed in May'24 amidst a changing narrative on the future course of global monetary policy. US 10Y yield eased as soft macro data has once again reignited expectations of a Fed rate cut in Sep'24. On the other hand, rate cuts by ECB and BoE are facing hurdles from a resurgence in inflation in the respective regions. On the domestic front, India's new benchmark security has shown a considerable degree of softening bias in May'24 and eased below the 7% mark. RBI's bumper surplus, FPI inflows and an outlook upgrade by S&P were the primary drivers of the exuberance seen in the government bond markets in May'24. Going forward, we expect India's 10Y yield to remain in the range of 6.95%-7.05% in Jun'24, led by lower US yields and further FPI investment in debt securities ahead of index inclusion.

Movement in global yields in May'24:

- There was significant variation in movement in global yields in May'24 within advanced economies. While 10Y yield in US, Korea and UK eased, yields in Japan and Germany inched up.

Table 1. 10Y yield movement globally

Countries	10Y sovereign yield, 30 Apr 2024	10Y sovereign yield, 31 May 2024	Change in bps (MoM)
Japan	0.88	1.07	19
Germany	2.58	2.66	8
Thailand	2.76	2.81	5
China	2.31	2.32	0
UK	4.35	4.32	-3
Singapore	3.43	3.35	-9
Korea	3.65	3.56	-9
US	4.68	4.50	-18
India	**7.19**	**6.98**	**-21**
Indonesia	7.25	6.92	-32

Source: Bloomberg, Bank of Baroda Research

- US 10Y yields ended May'24 lower by 18bps. Macro data including a cooler than expected CPI reading for Apr'24, further weakening momentum in labour market conditions have led to increased expectations for a rate cut in Sep'24. On the other hand, Fed officials continued to advise caution with respect to lowering rates. Weak demand in treasury auctions led to some upward momentum in US yields during the month, which was short-lived.

CURRENCY UPDATE

03 June 2024

Fortnightly forex review

Jahnavi Prabhakar
Economist

In May'24, INR has traded in the range of 83.10/$-83.53/$. The impending elections outcome and expectations of Fed commentary impacted currency movements. The key focus remains on crude price movements which will be supplemented by debt inflows. Given the strong external fundamentals and unchanged stance from the Fed we expect INR to trade in the range of 83.0-83.50/$, with an appreciating bias for the year.

Movement in global currencies in May'24

Major global currencies strengthened against the dollar in May'24. This was supported by the weakness in DXY which was down by 1.5% after surging by 1.7% in Apr'24. The dollar index has declined on the back of the weaker than expected economic data. Recently, GDP data for Q1CY24 has been revised downwards from the previous estimate of 1.6% to 1.3% on account of slower pace of growth in consumer spending. Next, the PCE data which is the preferred gauge by Fed to monitor inflation (target of 2%), climbed up at similar pace in Apr'24 as it did last month at 2.7% and in line with expectations. On a MoM basis, PCE remained steady at 0.3% for both Apr'24 and May'24, while core data moderated down to 0.2% against 0.3% in Apr'24.

On the other hand, consumer spending inched up at a moderate pace of 0.2% from 0.7% in Mar'24. The inflation reading is tracking sideways and is giving mixed signals. Against these data prints, Fed might have to dial back on the expectation of monetary easing and push the rhetoric of higher for longer through the summer, which seems to be a more likable proposition. Fed officials also in their recent commentary highlighted they don't see the 'urgency or need to make a decision now'.

There is an expectation of a 25bps rate cut this year with 55% chance of a first rate cut in Sep'24, which will be final policy before the US election, scheduled in Nov'24. The Fed has kept the policy rates steady for the last 10 months and they are expected to carefully track inflation for more time before lowering the borrowing costs, given sticky inflation and lowest space of jobs gain in the last 6-months. Furthermore, Fed's Beige book noted the economic activity in the US continued to expand at modest pace during the Apr-Mid May period. On the labor market front, the jobless claims inched up to 219,000 in the preceding week.

Performance of rupee

In May'24, INR depreciated by 0.03% despite most of the global currencies gained against the dollar.

MONETARY POLICY EXPECTATIONS

03 June 2024

RBI to hold rates

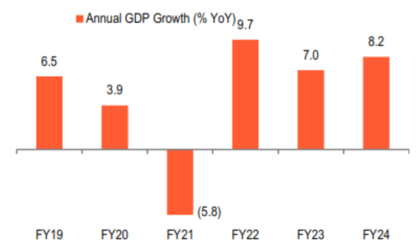
Sonal Badhan
Economist

In the upcoming credit policy meet of RBI, which is scheduled on 5-7 Jun 2024, we expect MPC to maintain status quo. No change in stance is also expected, as RBI will keep liquidity tight to keep short-term rate higher and support INR. Liquidity deficit may ease as elections come to an end government spending will see a pick up in the coming months. Further, upward revision to RBI's GDP forecast for FY25 can be expected. CPI forecasts may not change as of now.

What has changed since the last policy?: Since the last policy, RBI will be evaluating performance of economic activity, trends in inflation, arrival of monsoon, movement of domestic high frequency indicators and international oil prices, and global developments.

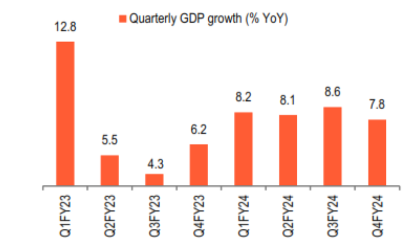
Domestic growth scenario: Latest data released by Mospi shows that economic activity continues to remain resilient with annual GDP growth for FY24 revised upward from 7.6% as per second advanced estimates to 8.2% as per provisional estimates. This is also higher than 7% growth registered in FY23. The correction was driven by upward revision to growth estimates for manufacturing, agriculture, finance/real estate/professional services, and public admin and defence. In Q4FY24 however, slight moderation was noted as GDP growth eased to 7.8% from upwardly revised 8.6% in Q3 (8.4% earlier). Sectors contributing to the drag were mining, manufacturing, utilities, construction, and trade & hotels. On the other hand, agriculture, finance/real estate/professional services, and public admin and defence performed well.

Figure 1: Annual GDP Growth



Source: CEIC, Bank of Baroda Research

Figure 2: Quarterly GDP Growth



Source: CEIC, Bank of Baroda Research

High-frequency indicators: In Q1FY25 so far (Apr/May'24), economic activity is signalling mixed trends. While some of the indicators such as, manufacturing PMI and vehicle registration are showing slight moderation, other indicators such as services PMI, air passenger traffic, GST collections, are indicative of continued momentum. Centre's overall tax collections (both direct and indirect) have also been robust. Net revenue collections has seen double digit growth in Apr'24 (16.4%), following decline noted in Apr'23 (-13.9%).

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Note: Recommendation structure changed with effect from 21 June 2021

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