CareEdge RATINGS

CareEdge Economic Pathway

March 2024

Global Economy

Takeaways from Monetary Policy Meetings in March

US Federal Reserve

- Policy rate kept unchanged at 5.25-5.5% in line with market expectations.
- Policymakers stick to plans of three rate cuts in 2024 as per dot plot. However, only three rate cuts indicated for 2025 vs four rate cuts indicated earlier.
- 2024 growth projection was revised significantly higher to 2.1% from 1.4% earlier & unemployment rate was revised lower to 4% from 4.1%.
- 2024 core PCE inflation (Fed's preferred gauge) projection revised upwards to 2.6% from 2.4%. This comes as recent inflation data has been higher than expected.
- However, the downward trend in inflation is projected to be sustained and inflation is still projected to reach the Fed's 2% target by 2026.

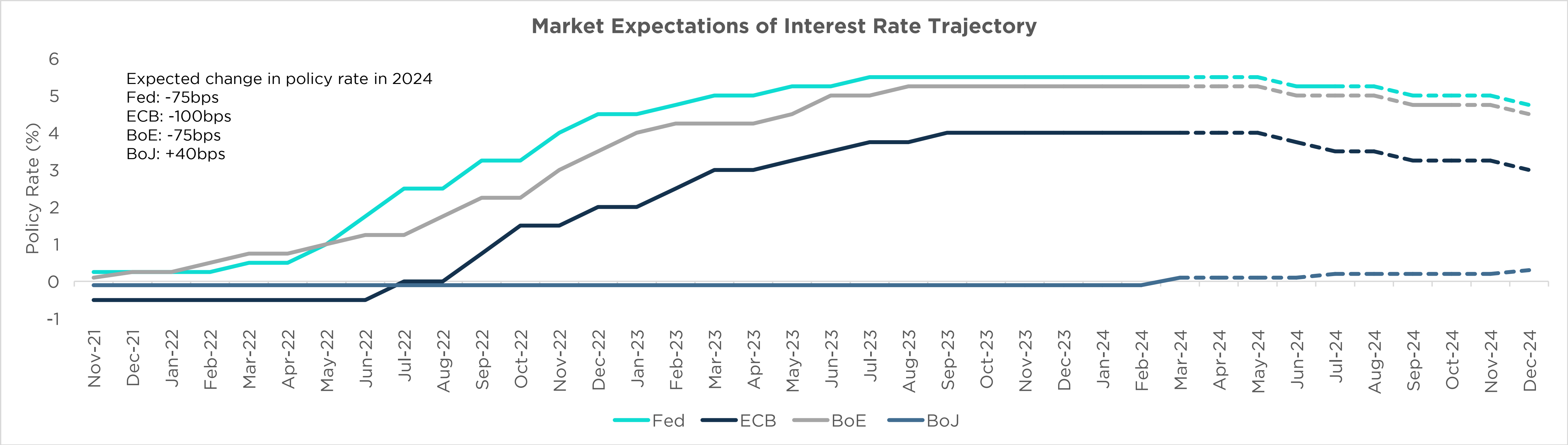
Bank of Japan

- Key short-term interest rate raised to around 0% to 0.1% from -0.1%, marking the first rate hike since 2007 and ending eight years of negative interest rates.
- This comes as inflation remains above 2% target & large companies agreed to raise salaries by 5.3% in the coming fiscal year, the biggest wage hike in over 3 decades.
- Yield curve control for 10Y government bonds was ended and purchases of ETFs and Japan real estate investment trusts (J-REITs) were discontinued.
- However, BoJ said it will maintain accommodative financial conditions for the time being and the pace of policy normalisation will be gradual and not aggressive.

ECB, BoE & PBoC

- ECB kept interest rates unchanged. 2024 inflation and growth projections were revised downwards to 2.3% and 0.6% respectively.
- BoE kept policy rate unchanged at 5.25% in an 8-1 majority with no MPC member supporting a rate hike for the first time since September 2021.
- PBoC kept key rates unchanged and withdrew cash from the banking system for the first time since November 2022.
- However, PBoC signalled that there was room for further cuts in banks' reserve requirement ratio.

Markets Trim Rate Cut Bets

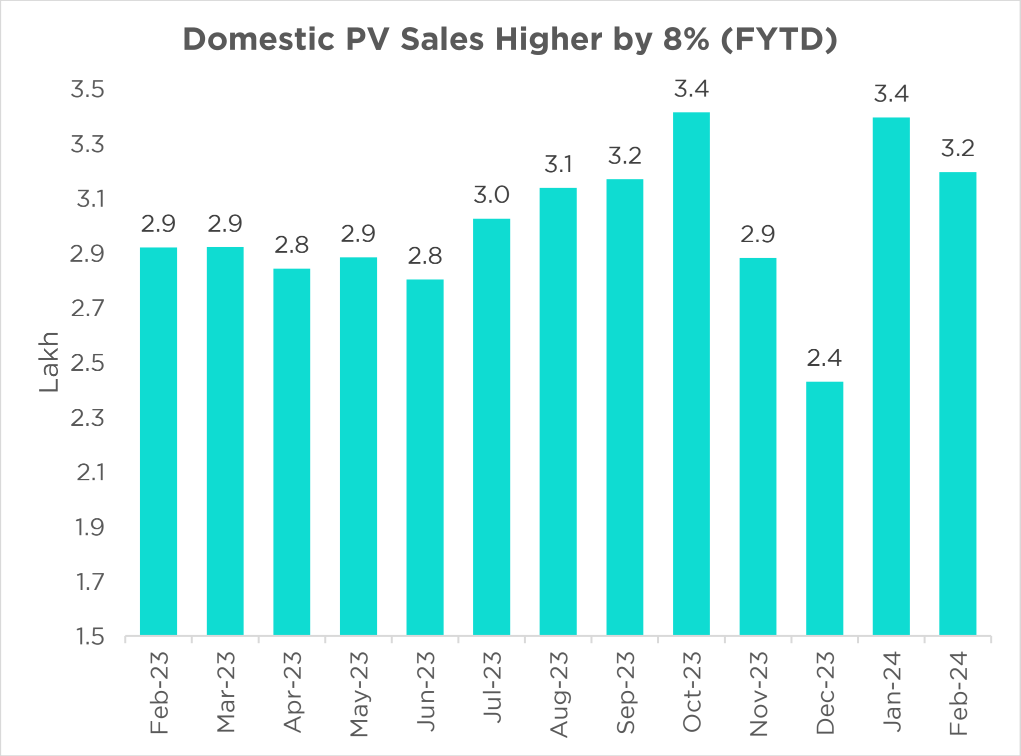


Sources: Refinitiv, CareEdge. Data as on March 28, 2024, and reflects market expectations of most probable outcome for future interest rate trajectories.

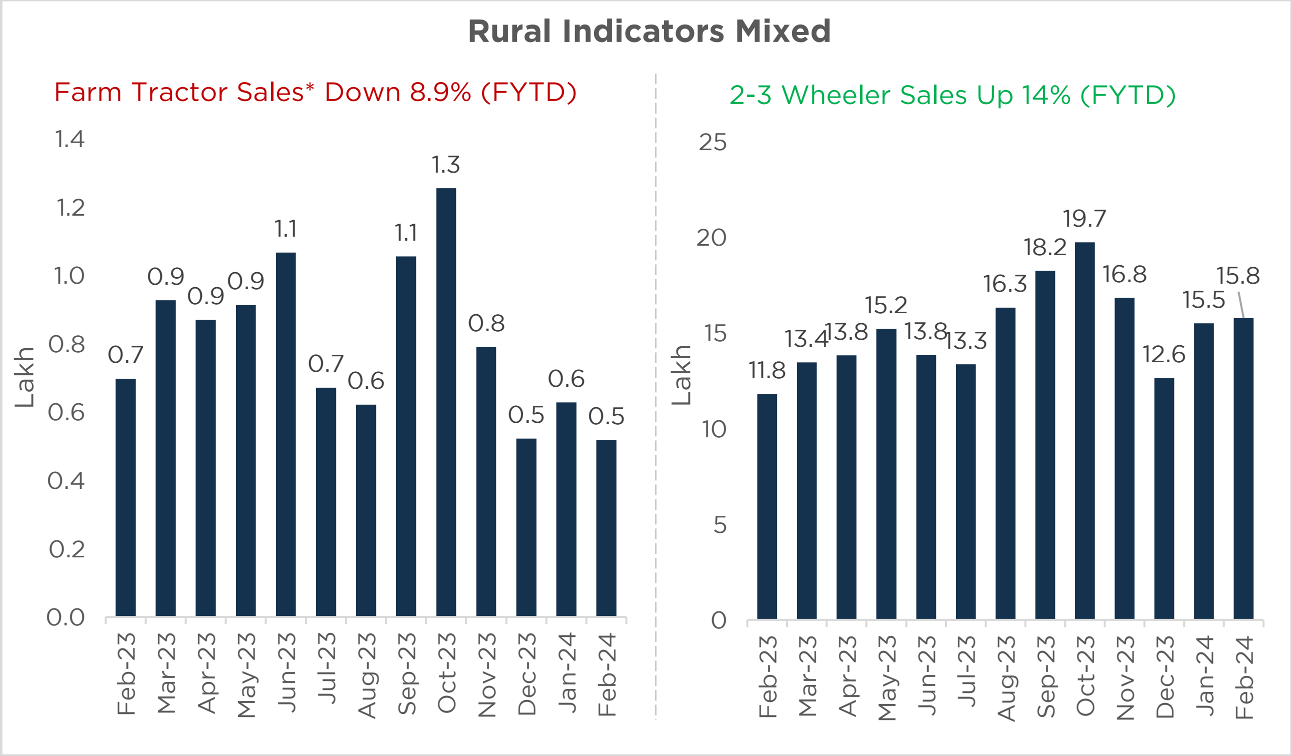
- Markets have revised their expectations of interest rate trajectories following higher inflation in the US and hawkish commentary from central bank officials.
- Markets now expect 75bps of Fed rate cuts in 2024 starting June versus earlier expectations of 150 bps rate cuts starting May.
- DXY has strengthened by 1.6% to 104.3 over the last month. The 2Y & 10Y UST yields have increased by ~13bps each to 4.6% and 4.2%, respectively.

Domestic Economy

Consumption Yet to Show a Broad-Based Recovery



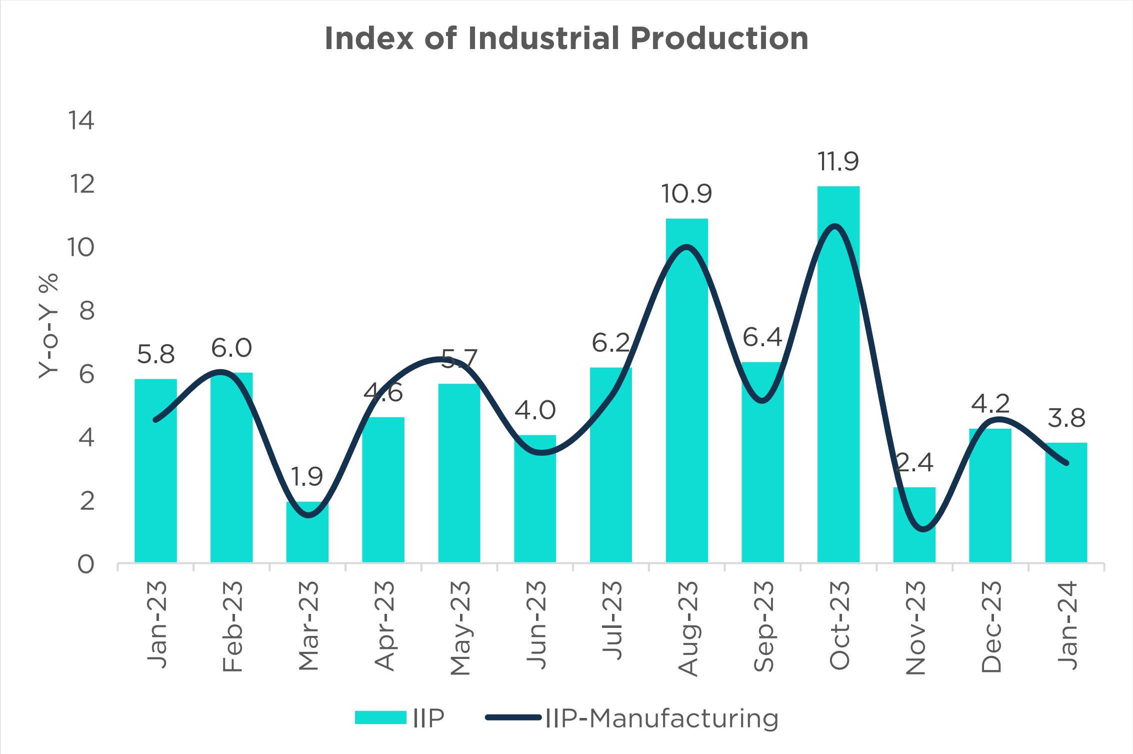
Source: CMIE



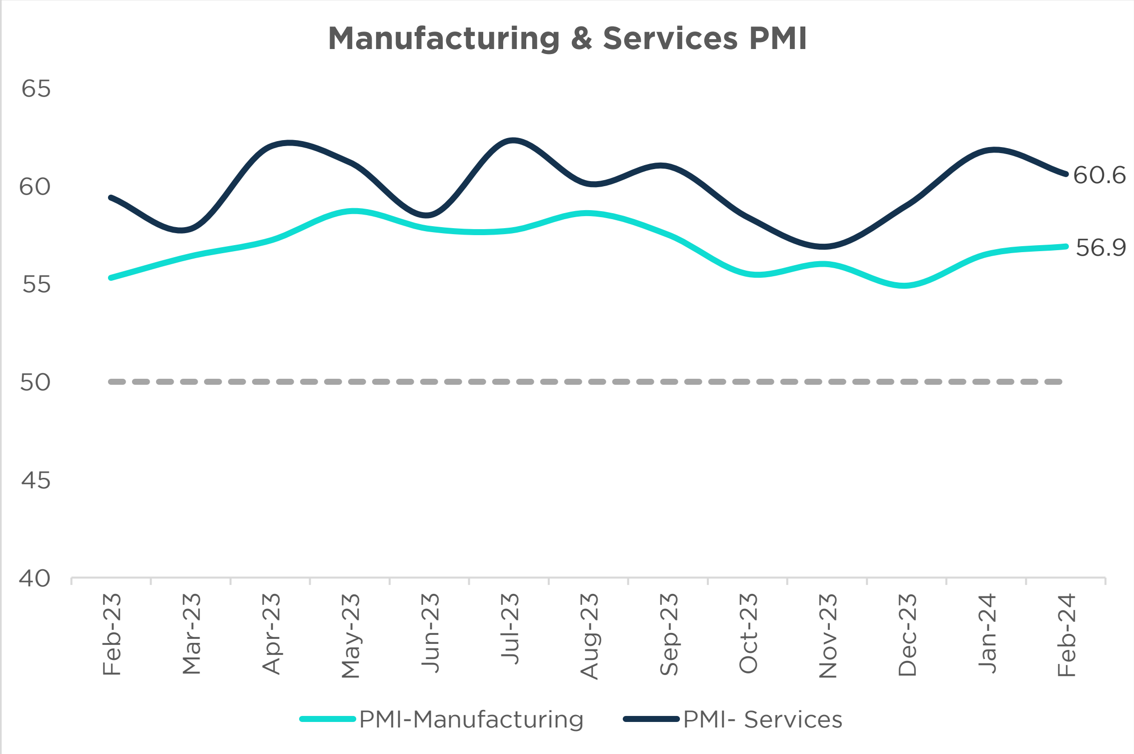
Source: CMIE & CEIC; * Includes exports

- Urban consumption indicators such as PV sales, and air passenger traffic continue to hold up well while sluggishness in rural demand continues.
- Going ahead, normal monsoon remains pivotal for improving the prospects of the rural economy.

Industrial Activity Holds Up Well



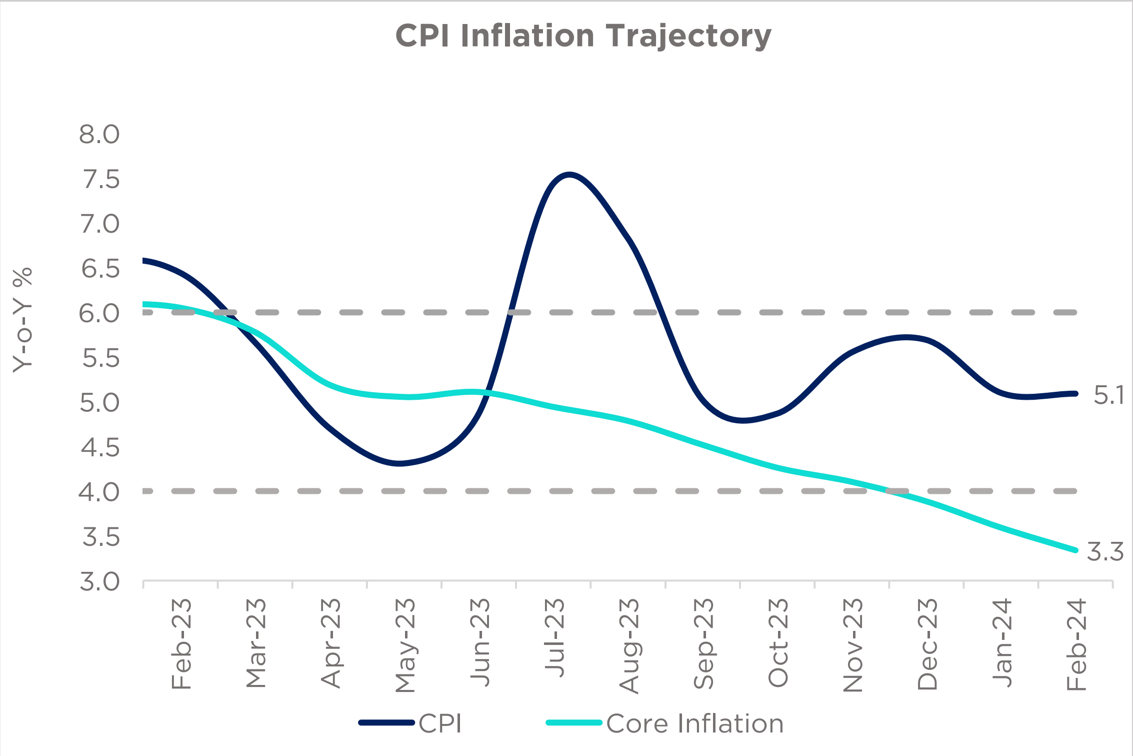
Source: CEIC

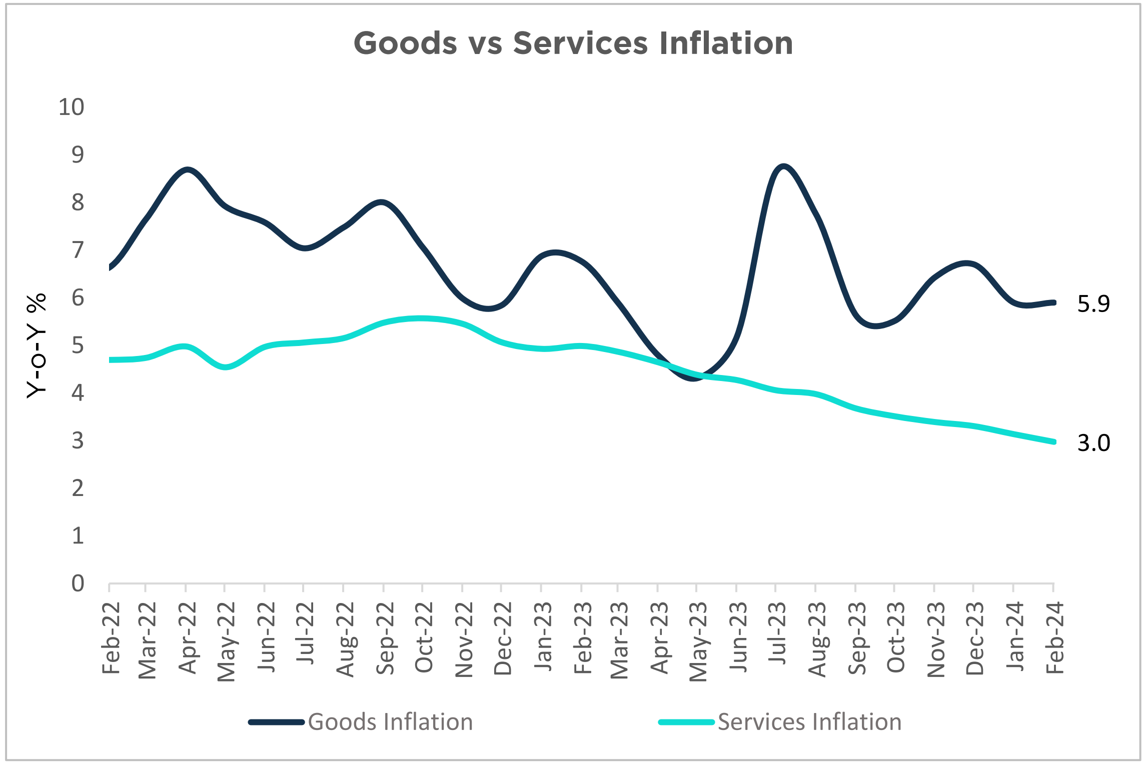


Source: CEIC

- Industrial production grew by 5.9% during Apr-Jan FY24 compared to 5.6% in the corresponding period last year.
- Infrastructure/construction goods output (in IIP) has recorded strong growth of 10% during Apr-Jan FY24 compared to 8.5% last year.
- Going ahead, the government's strong capex push and expected pick-up in private investment is a positive for the prospects of the infra/construction segments.

CPI Inflation Steady; Core Inflation Trends Lower

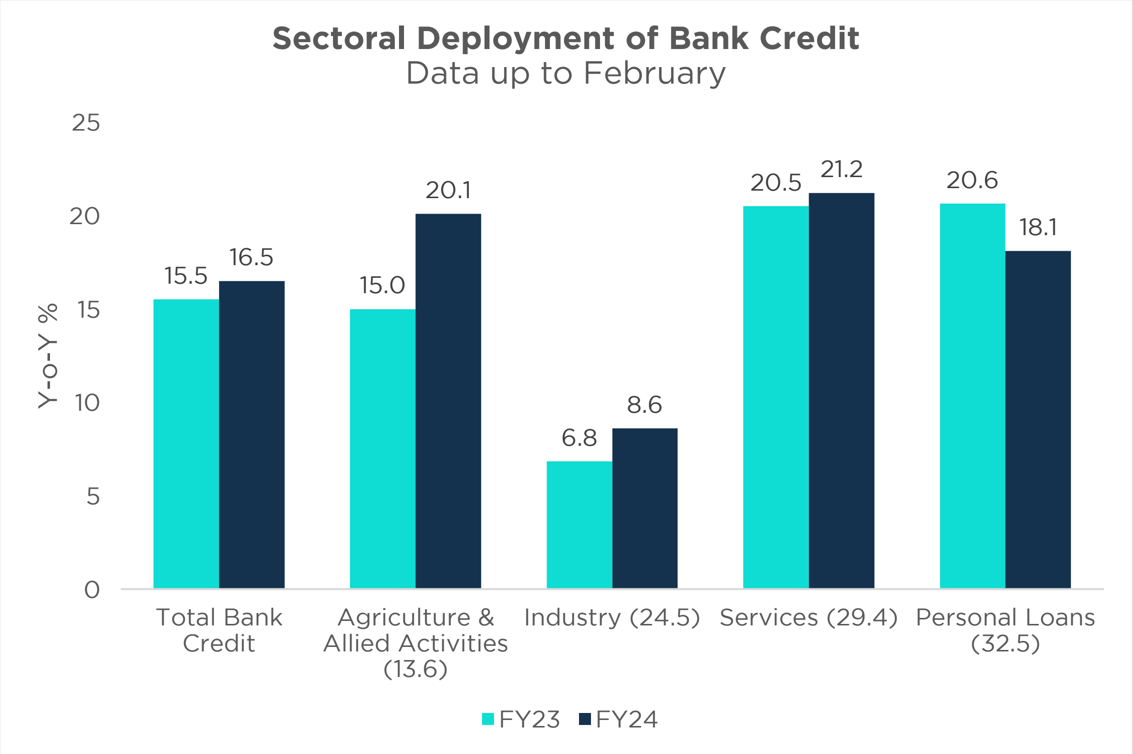




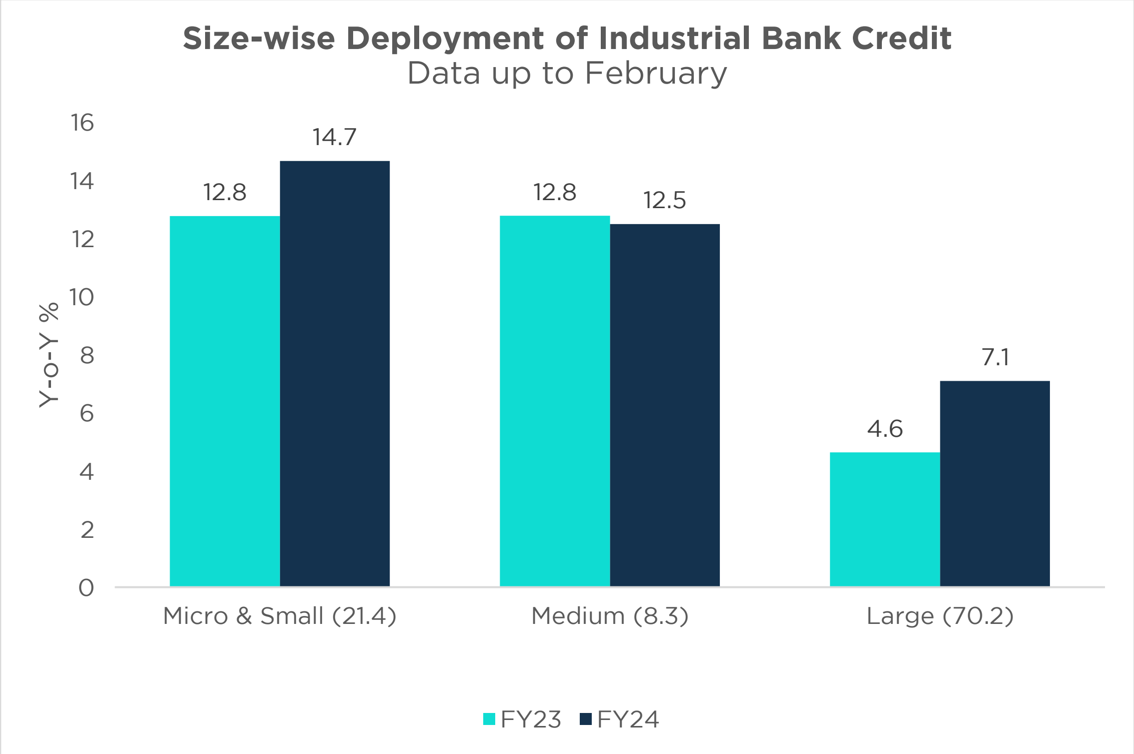
Source: CEIC; Dashed lines represent RBI's medium term inflation target (4%) & upper band (6%) Source: CEIC; CareEdge

- Retail inflation held steady at 5.1% in February, remaining within the RBI's upper target (of 6%) for the sixth consecutive month.
- Core inflation continued to trend lower consistently staying below the 4%-mark in the last three months.
- Services inflation has been on a downward trajectory helped by a broad-based easing across the housing, transport and education categories.
- We project inflation to average at 5.4% in FY24 and 4.8% in FY25.
- RBI to maintain status quo on both rates and stance in its upcoming policy meeting. We expect the RBI to opt for a shallow rate cut cycle of 50 bps starting Q3 FY25

Personal Loans & Services Lead Credit Growth



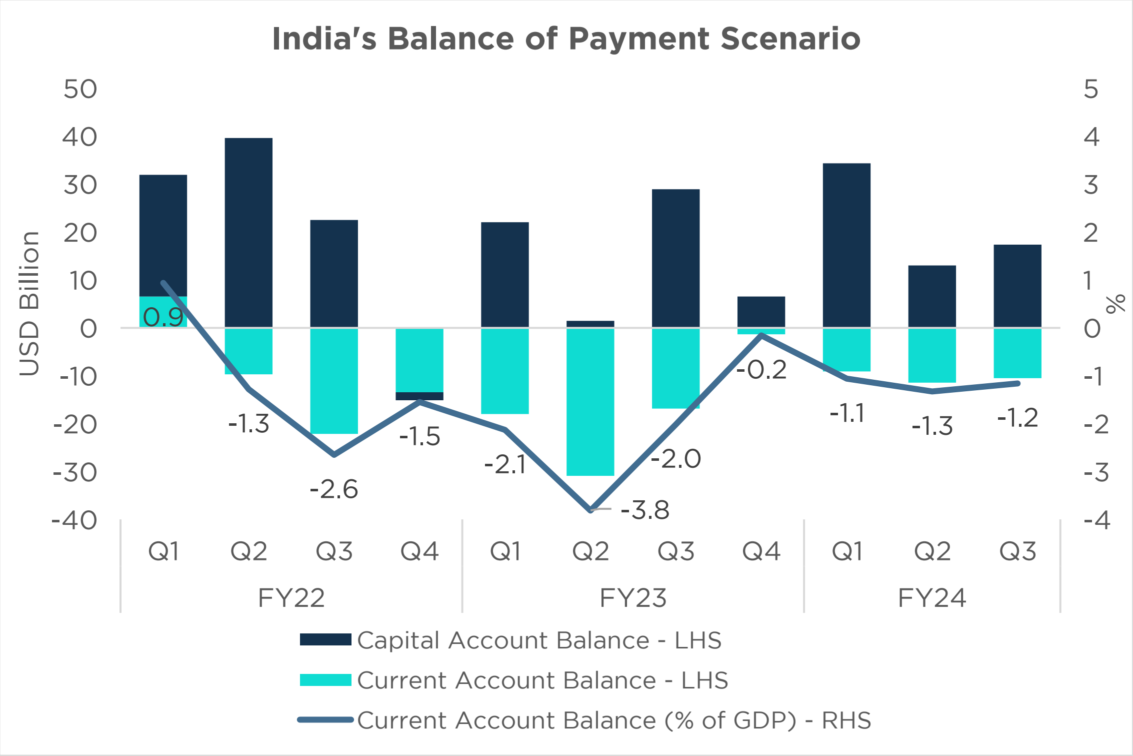
Source: RBI; Note: Figures in bracket represent % share in total; Growth rates for FY24 exclude the impact of the merger of a non-bank with a bank.



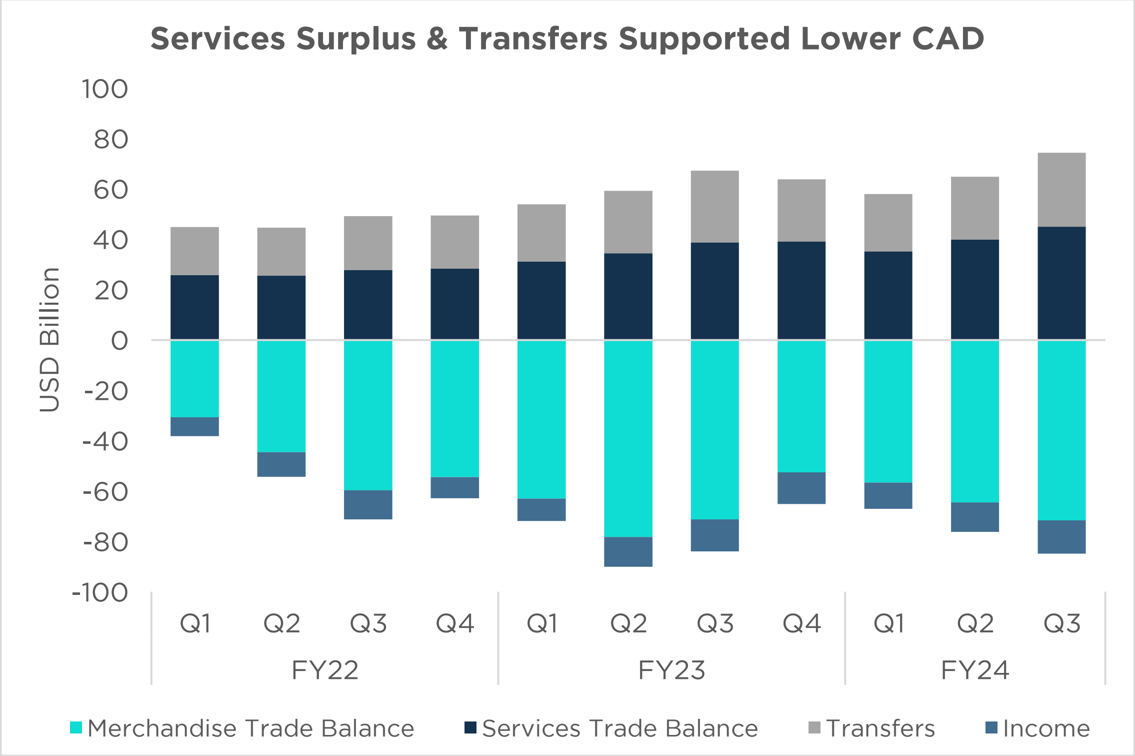
Source: RBI; Note: Figures in bracket represent % share in total; Growth rates for FY24 exclude the impact of the merger of a non-bank with a bank.

- Credit growth continued to be led by the personal loans and services segment.
- However, moderation was seen in the credit growth to NBFC (at 14.7% as of Feb 2024 Vs 31.9% in Feb 2023) and personal loans (at 18.1% Vs 20.6%) due to the rise in banks' risk weights for both these segments.
- Outlook for bank credit offtake remains positive amid a rise in capex, growth in retail credit and the anticipated expansion in private investment.
- In FY24, credit offtake is anticipated to close with a growth of around 16% (excluding merger). We estimate credit growth to be in the range of 14%-14.5% at end-FY25.

External Position Comfortable



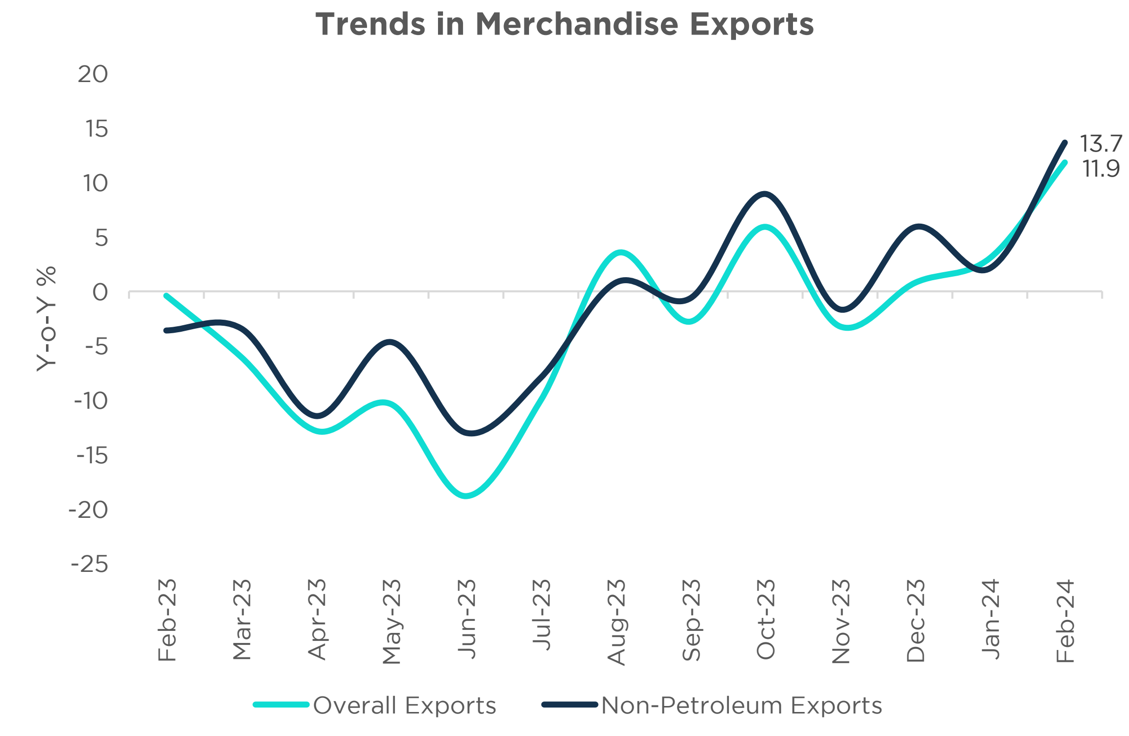
Source: CEIC



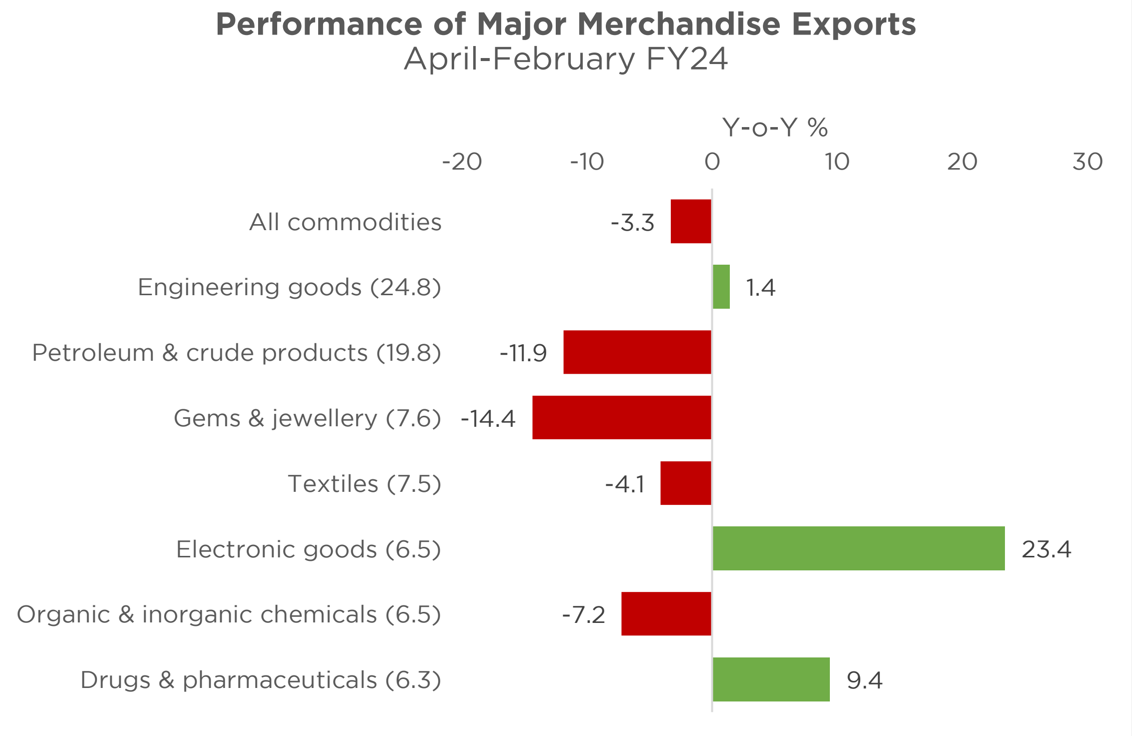
Source: CEIC

- Current account deficit improved to USD 10.5 bn (1.2% of GDP) in Q3 FY24 from USD 11.4 bn (1.3% of GDP) in the previous quarter.
- Surplus in capital account rose to USD 17.4 bn in Q3 FY24 from USD 13 bn in the previous quarter helped by higher FDI, FPI and banking capital flows.
- Overall, the balance of payment surplus improved to USD 6 bn in Q3 FY24 from USD 2.5 bn in the last quarter.
- For the full fiscal, we project CAD to be at 0.6-0.7% of GDP. For FY25, we project CAD to remain comfortable ~1% of GDP.

Merchandise Exports Show Some Improvement



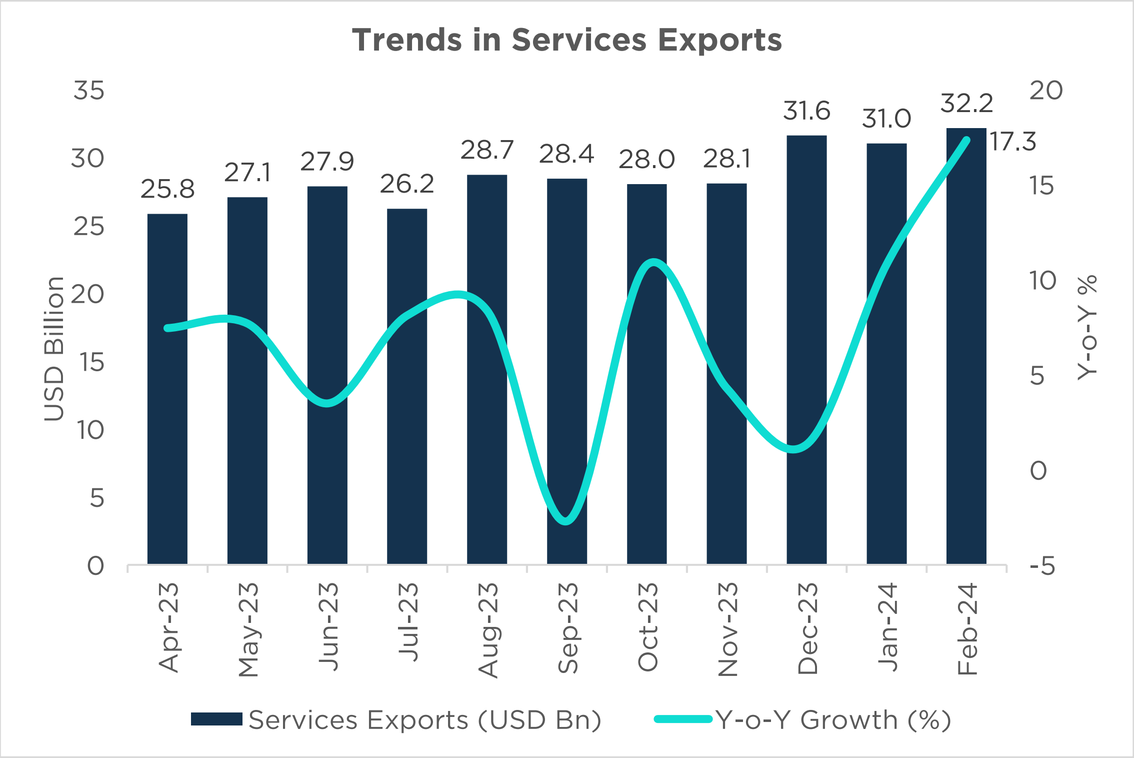
Source: CMIE



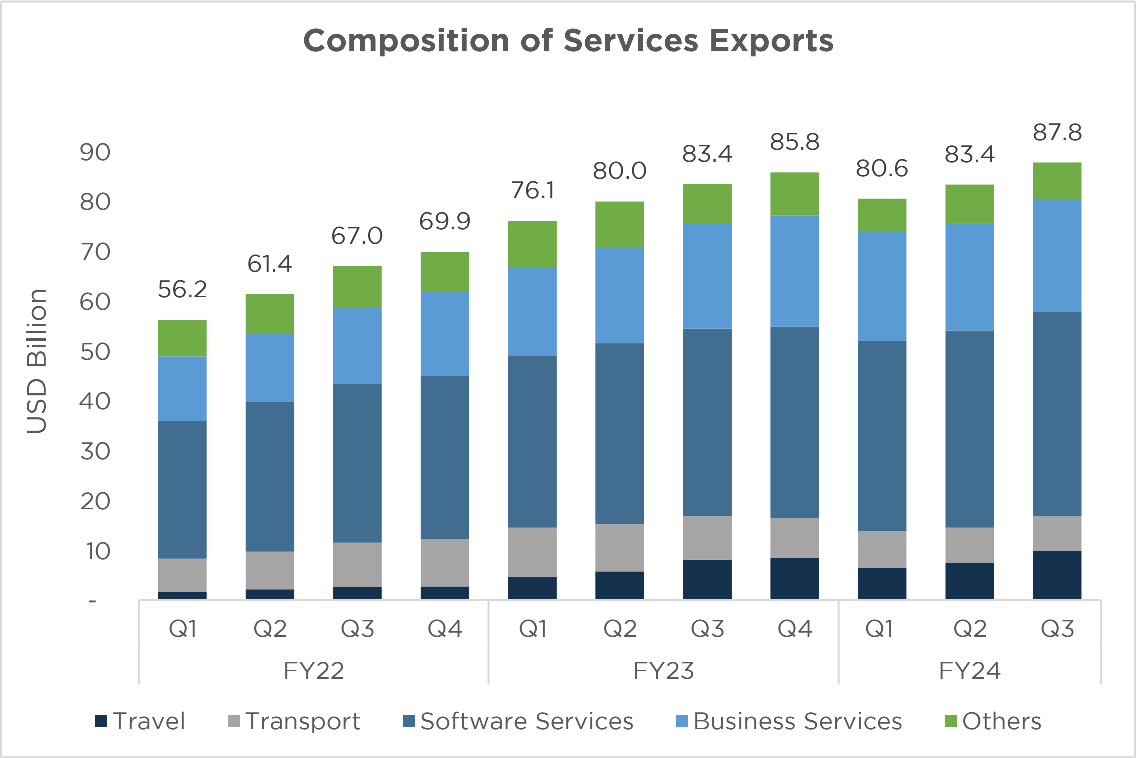
Source: CMIE; Note: Figures in bracket represent % share in total exports

- Overall merchandise exports rose to an 11-month high of USD 41.4 bn in February.
- This improvement was supported by both petroleum and non-petroleum exports which increased by 5.1% and 13.7% (y-o-y) respectively.
- Growth in global trade volume (goods & services) is projected to improve to 3.3% in 2024 following subdued growth of 0.4% in 2023
- We expect merchandise exports to witness improvement in FY25 supported by better prospects for global trade.

Services Exports Stay Upbeat



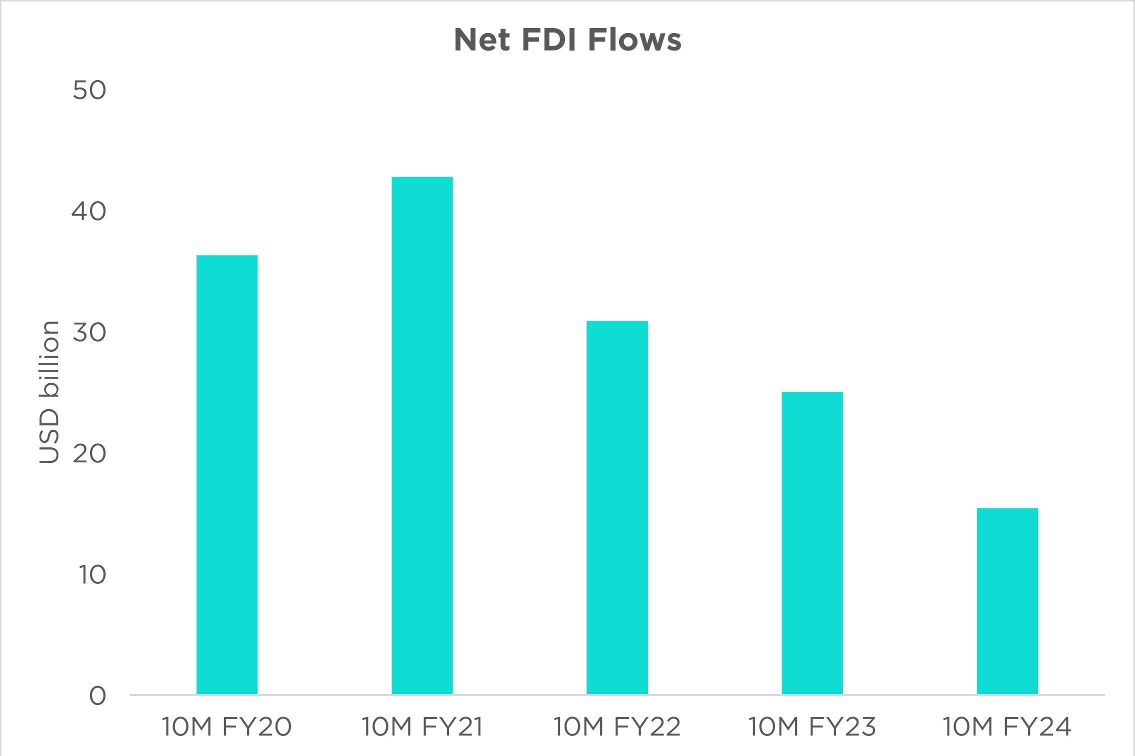
Source: CEIC



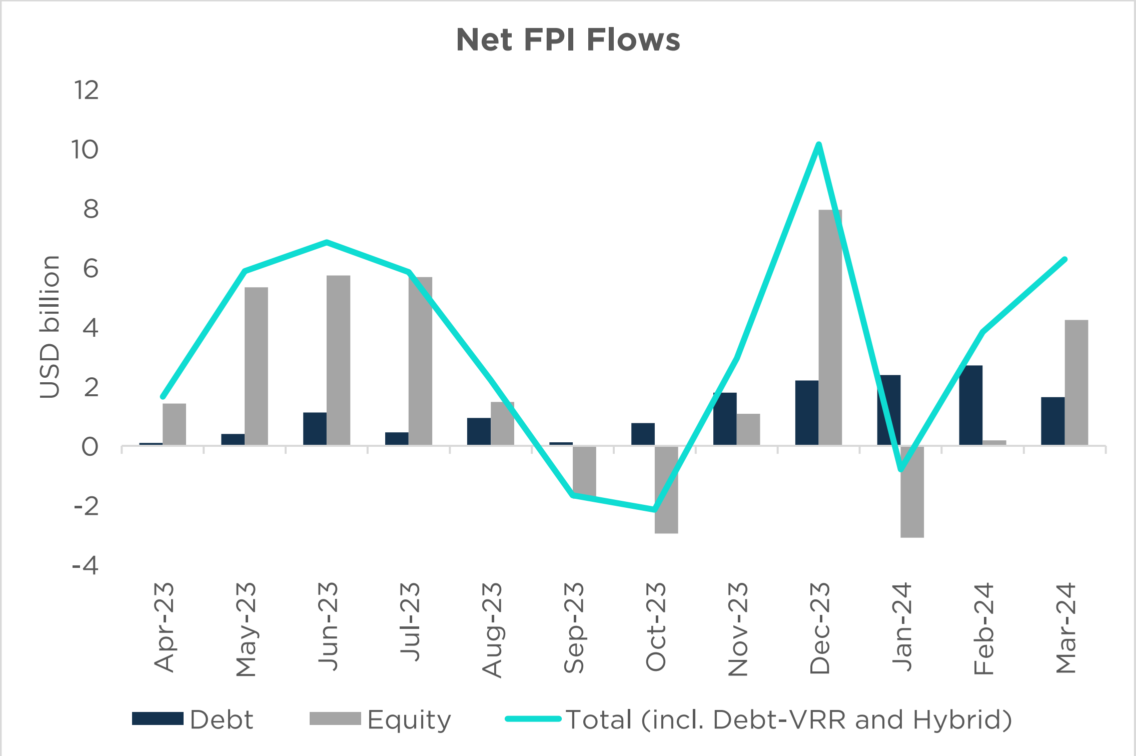
Source: CEIC

- Monthly service exports increased by a strong 6.8% (y-o-y) during 11M FY24.
- Services exports continued to be led by software services followed by the business services component. Improvement was also seen in travel services (up 21.% y-o-y in Q3).
- We expect the upbeat performance in services exports to continue in FY25, albeit with some moderation in growth.

FDI Moderates; FPI Inflows Buoyant



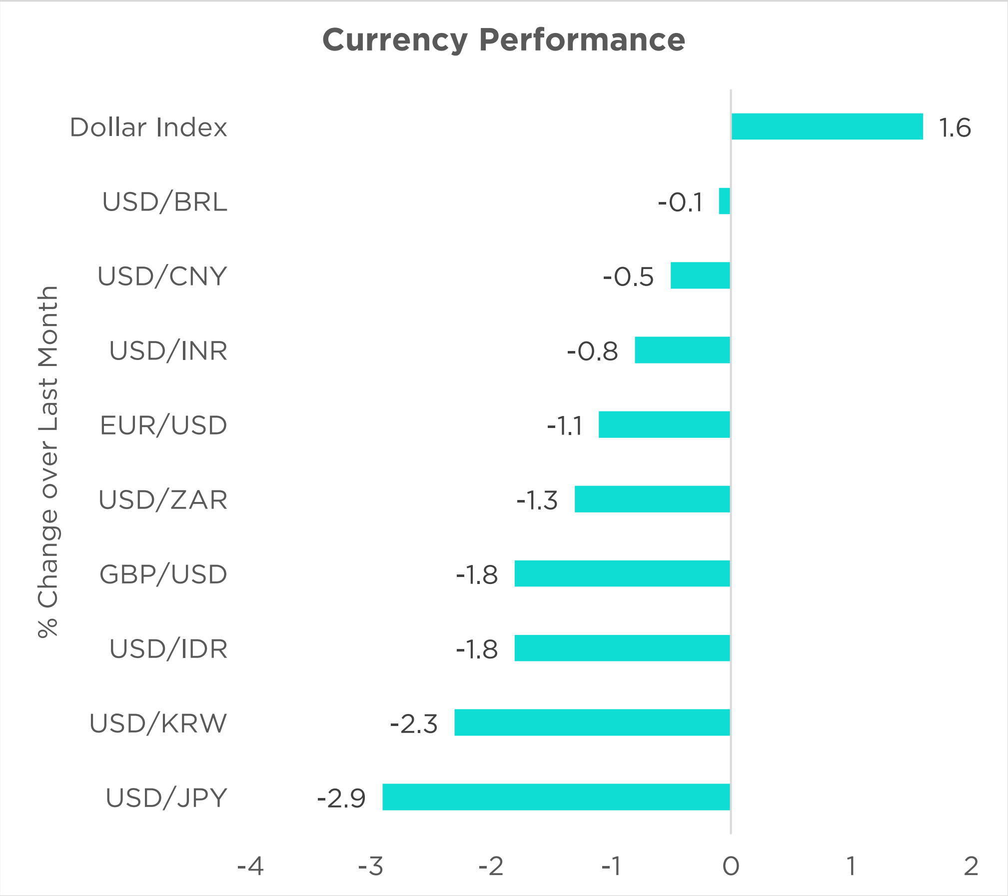
Sources: CMIE, CareEdge.



Sources: CMIE, CareEdge.

- Net FDI inflows moderated to ~USD 15 billion in 10MFY24 from ~USD 25 billion in 10MFY23, amidst continued global slowdown.
- Net FPI inflows during FY24 amounted to ~USD 41 billion compared to net outflows of ~USD 6 billion in FY23.
- Net FPI inflows in debt surged to ~USD 15 billion in FY24 from net outflows of ~USD 1 billion in FY23, supported by India's inclusion in global bond indices.

Rupee Weakens

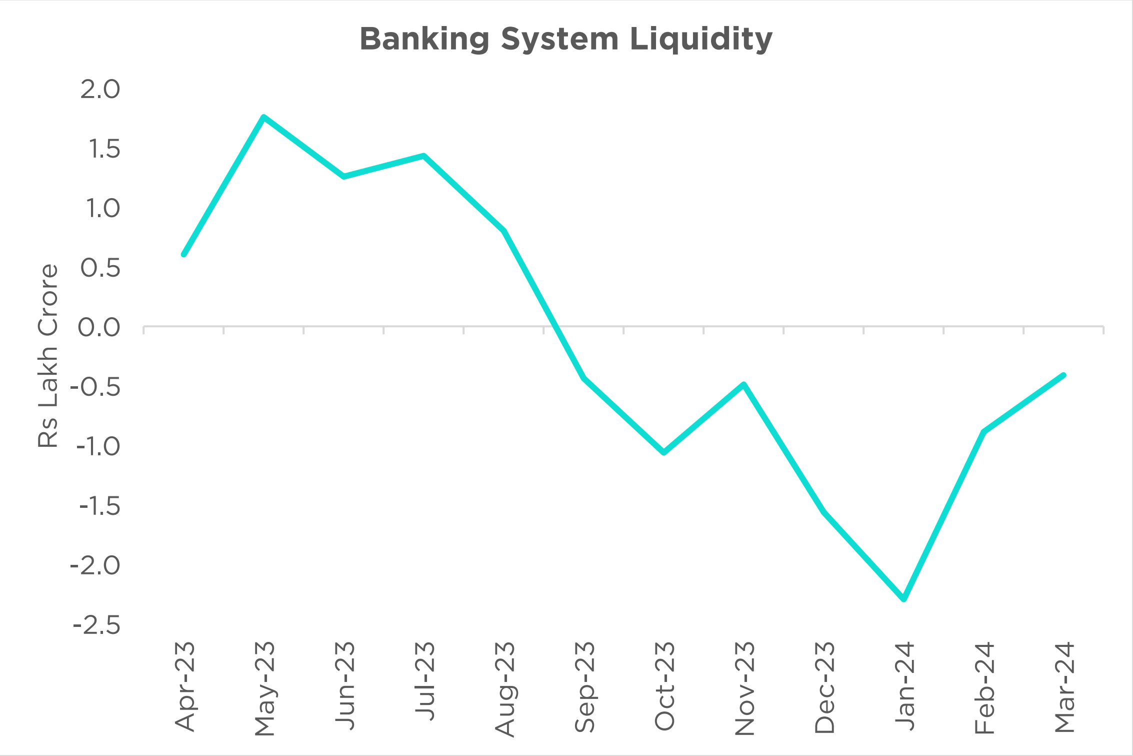


Sources: Refinitiv, CareEdge. Data as on March 28.
Negative (positive) values imply currency weakened (strengthened).

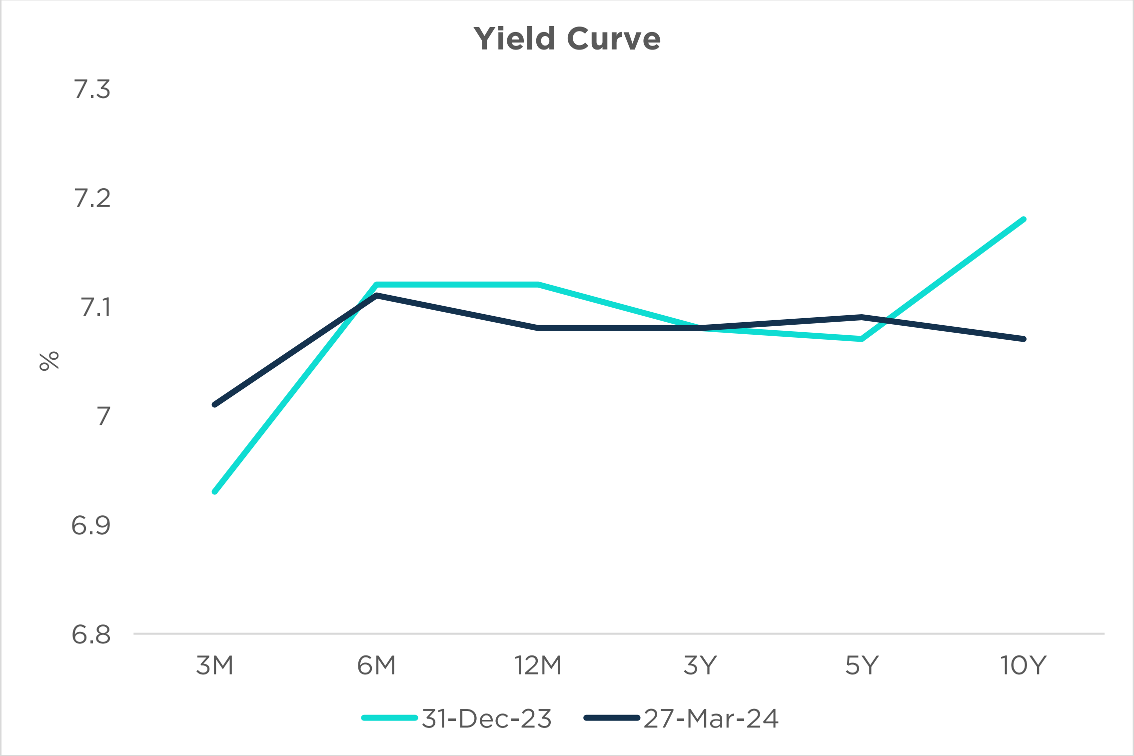
- INR depreciated ~1% over last month due to a confluence of factors such as:
  - A rebound in dollar index as markets trimmed Fed rate cut bets & JPY fell to a 34-year low.
  - A recent 5% rise in Brent crude oil prices due to supply concerns.
  - CNY depreciation beyond the psychological 7.20 mark.
  - Year-end dollar demand.
  - Dollar shortage as RBI took delivery of FX swaps worth ~USD 5 bn.

- We expect INR to marginally appreciate to 82 towards the end of FY25.
  - INR to gain from Fed rate cuts & FPI inflows due to India's inclusion in global bond indices.
  - India's current account deficit is projected to be comfortable around 1% of GDP in FY25.
  - However, RBI interventions to contain volatility & build FX reserves may limit appreciation.

Liquidity Deficit Narrows



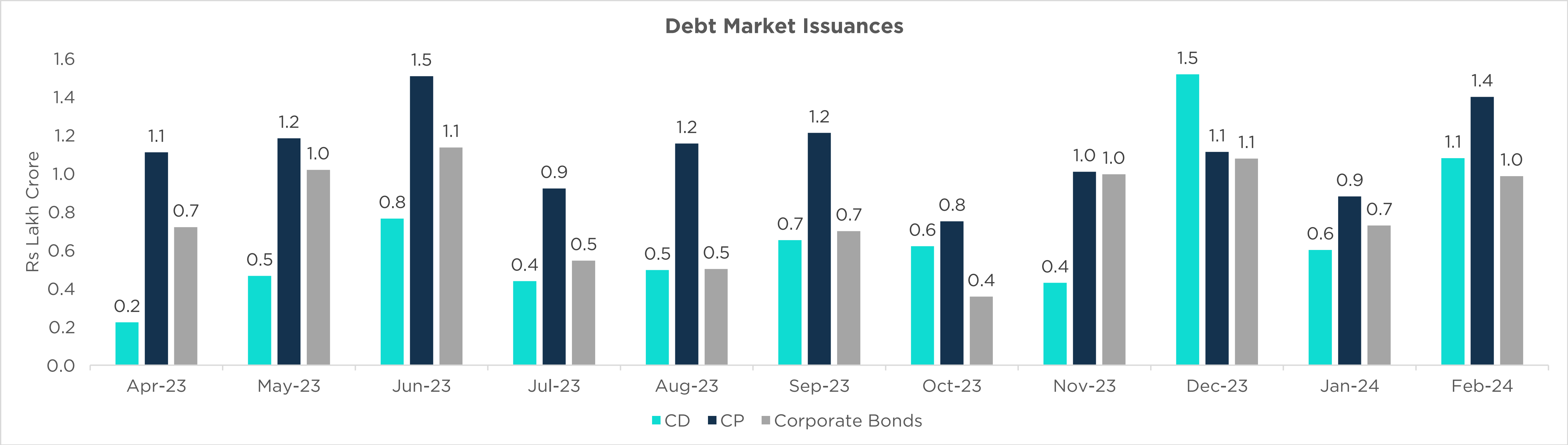
Sources: CMIE, CareEdge. Data as on March 27. Positive values denote liquidity surplus.



Sources: CMIE, CareEdge.

- Liquidity deficit narrowed in March due to govt. spending and as RBI did not roll over the USD/INR sell-buy swap, which resulted in a liquidity injection of ~Rs 40,000 crore.
- RBI has been conducting both VRR and VRRR auctions to manage liquidity conditions.
- 10Y G-Sec yield remained around ~7.05% in March supported by lower FY25 gross borrowings, FPI inflows & steady inflation.

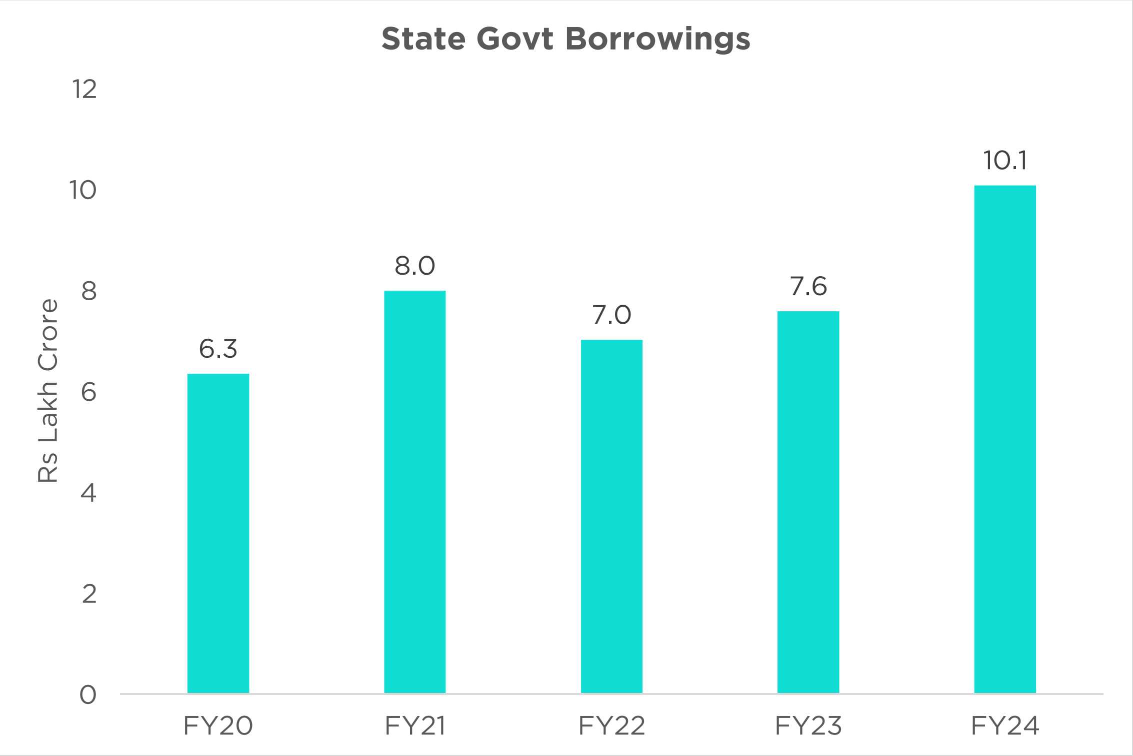
Debt Market Issuances Rise



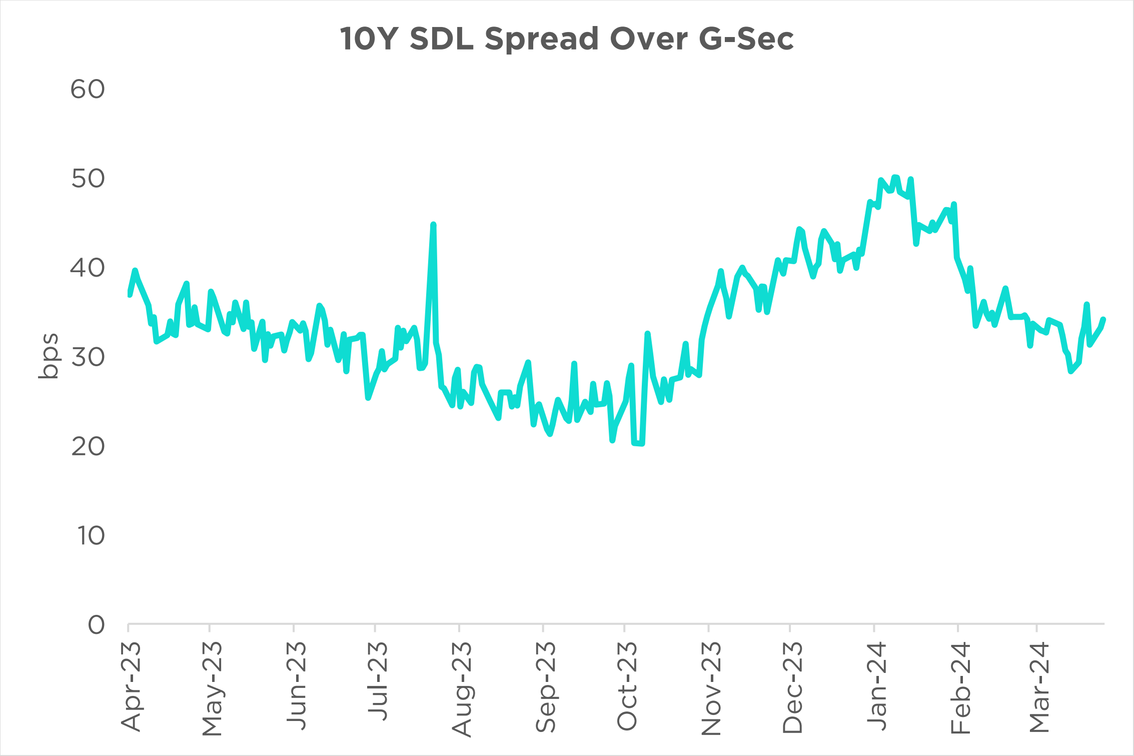
Sources: CMIE, RBI, Prime Database. CD = Certificates of Deposit, CP= Commercial Paper. Corporate bonds data is for private placements.

- CD, CP and corporate bond issuances rose M-o-M in Feb by 80%, 59% and 35%, respectively.
- CD issuances amounted to Rs 7.3 lakh cr during Apr-Feb24. This is 24% higher Y-o-Y as banks resorted to CDs to meet credit demand as liquidity remained in deficit.
- CP issuances amounted to Rs 12.2 lakh cr during Apr-Feb 24. This is 2% lower than the corresponding period a year ago.
- Corporate bond issuances amounted to Rs 8.8 lakh cr during Apr-Feb 24, up 19% Y-o-Y. Bond issuances may rise in FY25 as yields come down and RBI cuts rates.

State Govt Borrowings Rise ~33% Y-o-Y in FY24



Sources: RBI, CareEdge.



Sources: CCIL, Refinitiv, CareEdge. Data as on March 27.

- Rs 1.7 lakh cr was borrowed in Q1 FY24, Rs 1.9 lakh cr in Q2, Rs 2.5 lakh cr in Q3 and Rs 4 lakh cr in Q4 (marking the highest quarterly borrowing thus far).
- While SDL spread has fallen from Jan peak, it increased to ~34 bps over the past month amidst higher notified amounts in the last few state govt. auctions.
- States to borrow Rs 2.5 lakh cr in Q1 FY25 as per indicative calendar, which is 51% higher Y-o-Y.

Centre Plans Lower G-Sec Borrowings in H1FY25

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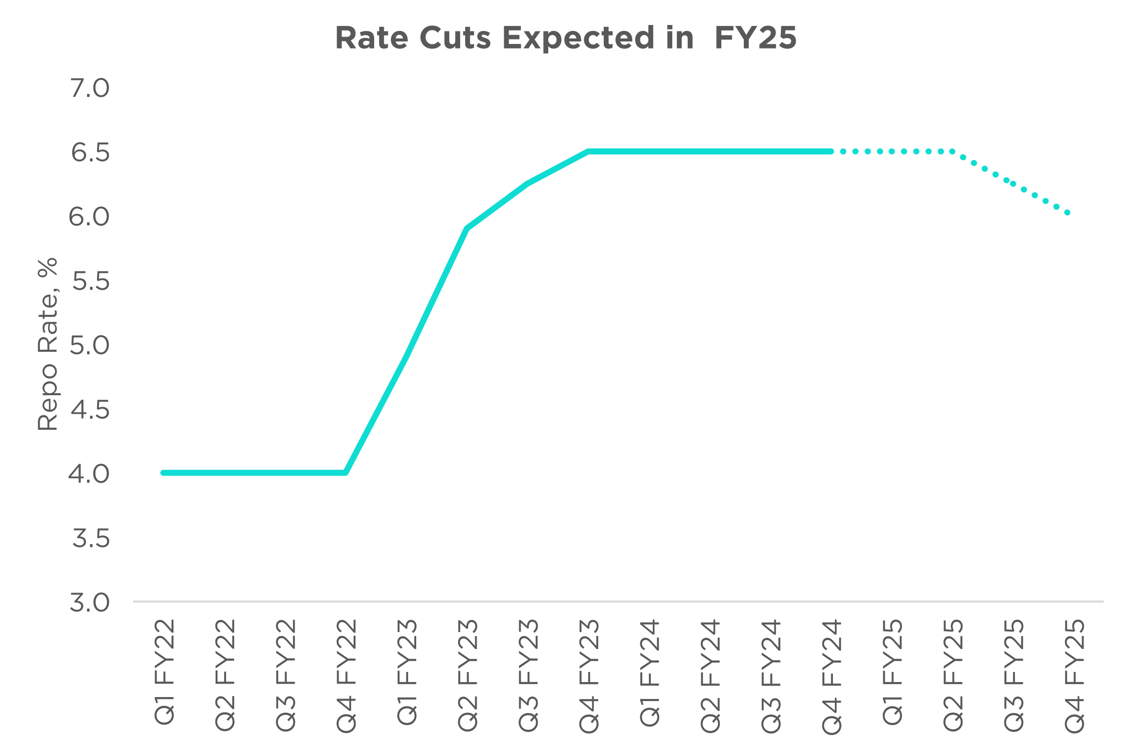
Centre's Borrowing Calendar				
	H1 FY24	H1 FY25	H1 FY24	H1 FY25
Maturity (Years)	Rs lakh crore		% share	
1 to 4	0.56	0.36	6	5
5 to 9	1.95	1.38	22	18
10 to 14	3.38	1.92	38	26
15+	2.99	3.84	34	51
FRB	0	0	0	0
Total	8.88	7.50	100	100

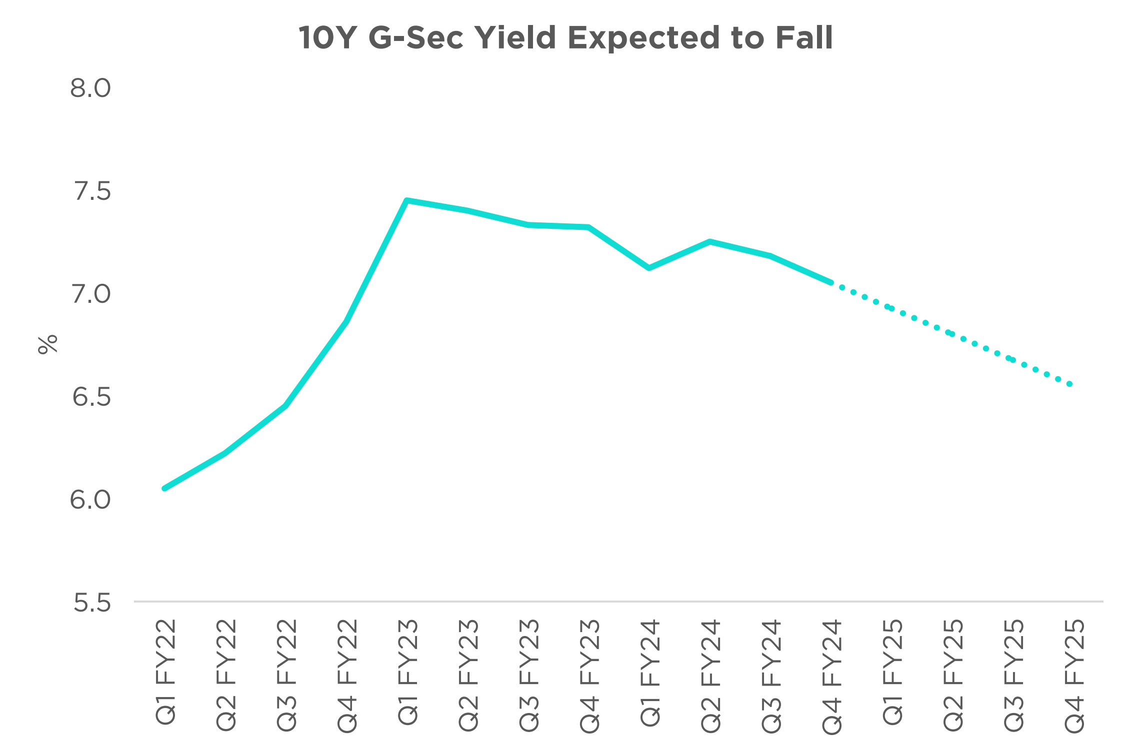
Source: RBI.

- Centre to borrow Rs 7.50 lakh crore in H1 FY25. This is equivalent to 53% of FY25 gross borrowings and lower than the previous year (57% of gross borrowings in H1FY24).
- Lower borrowings should support bond yields. However, a higher supply of longer-term bonds (15+ years) may result in a steepening of the yield curve.

FY25 Interest Rate Outlook



Sources: CMIE, CareEdge. Data is for end-period. Dotted lines represent forecasts.



Sources: CMIE, CareEdge. Data is for end period. Dotted lines represent forecasts.

- We expect RBI to maintain the status quo in the April meeting.
- RBI is likely to start rate cuts in Q4 2024 as the Fed starts cutting rates in the second half of the year. The rate cut cycle is expected to be shallow (25bps each in Q4 2024 & Q1 2025).
- We expect 10Y G-Sec to be 6.5 - 6.6% by the end FY25 – supported by RBI rate cuts, lower gross market borrowings & India’s inclusion in global bond indices.

CareEdge Economy Outlook

Economic Growth

GDP growth projected at **7.6%** in FY24 (SAE) and **7%** for FY25

Inflation

Average inflation projected at **5.4%** for FY24 and **4.8%** for FY25

Current Account Deficit

CAD (as % of GDP) projected at **0.6-0.7%** in FY24 and ~**1%** in FY25

Fiscal Deficit

Fiscal deficit (as % of GDP) is budgeted at **5.1%** in FY25

Interest Rates

10-Year G-Sec Yields to range between **6.5-6.6%** by end-FY25

Currency

USD/INR projected to be **82** by end-FY25

March Round-Up

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Celebrating 30 Years