

Market and Macro: June 2023

Global developments have turned rates and USD higher. A stronger India growth story turns outlook brighter and lower India inflation turns market expectations to (eventual) rate cuts.

Global growth expectations are now out of the recession zone with higher inflation projections taking rates and USD higher but INR movements are limited.

- Agreement of the debt ceiling deal and passage through the House along with recovering US labour and inflation data have added to better Chinese Caixin manufacturing lessening near-term growth risks.
- Eurozone services inflation has been rising, UK core inflation, Japanese supercore inflation, and US PCE inflation are all once again higher than expected.
- Market expectations of global central bank rates which had fallen in early May are now back up, and in some cases (BOE, BOC and RBNZ) are comparable to pre-banking stress peaks.
- But the INR is stable, in line with recovery of equity FPI inflows, better services exports, and RBI once again intervening to defend the INR.

India GDP growth was higher than estimates and high frequency indicators are exhibiting momentum.

- India Q4FY23 GDP grew 6.1% YoY with falling WPI inflation bringing about a lower manufacturing GVA deflator which is adjusted from known corporate earnings.
- Apart from this, both services and agriculture were on the stronger side. A boost to services was driven by exports, as seen in the past few months.
- On the expenditure side, investments occupied the highest share of GDP in the current series, at the cost of personal consumption.
- India high-frequency indicators show slower growth in select metrics, but this is more on a high base - overall numbers continue to indicate moderate growth.

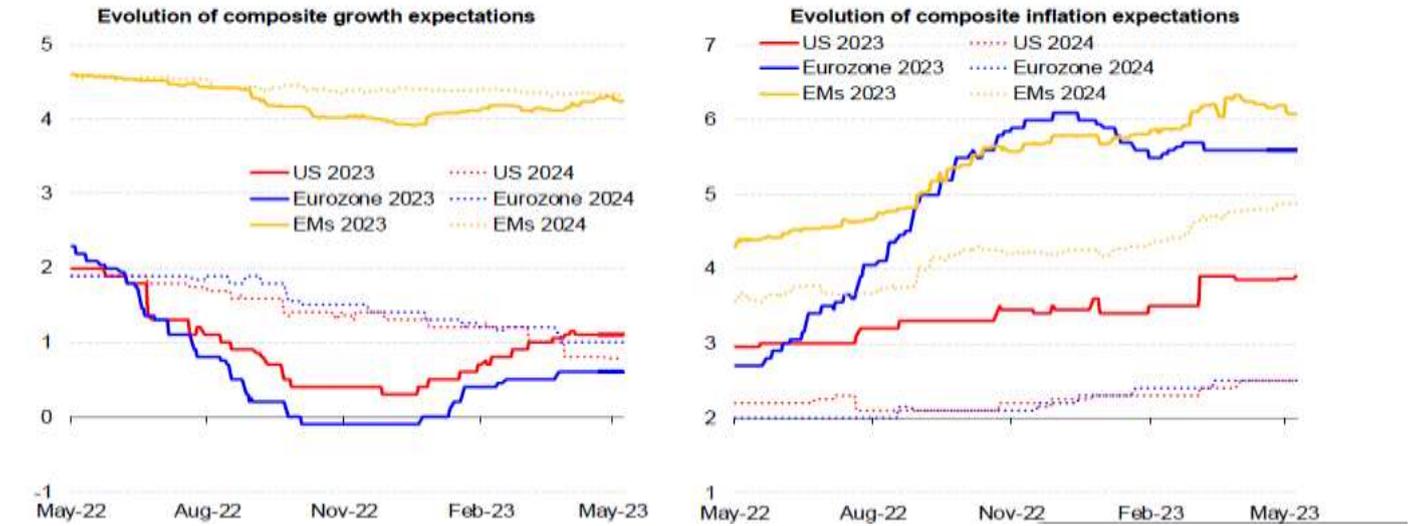
Inflation trends are also supportive thus leading real rates lower but risks from the monsoon still remains.

- India CPI inflation came in lower than expected for April, the first sub 5% print since Nov'21.
- High frequency trends indicate inflation for May will be lower still, at around 4.25%.
- At the same time, disinflation on a sequential basis is also seen in core and services inflation components, with diffusion in the inflation basket also turning more favourable.
- Monsoon is a risk with latest projections placing El-Nino in the first half of the monsoon (where cropping is more sensitive).

Transmission appears to have halted and markets are now pricing in eventual rate cuts amid RBI maintaining neutral liquidity.

- The MPC indicated a pause-not-pivot, but lower inflation and higher real rates skew market expectations towards a long pause.
- Transmission appears to have halted, with easier liquidity in April leading both lending and deposit rates lower.
- Looking at past cycles, transmission so far is consistent with the earlier experience, indicating that increases might have run their course unless deposits tighten again.
- Indications on liquidity are for a near-term easing, assuming a small impact from the Rs. 2000 note withdrawal and normal seasonal trends.
- However, conditions will likely tighten going ahead, if government balances follow patterns of last few years - these might not, given early spending required ahead of the model code of conduct

Global growth projections are now safely out of the recession zone, while inflation projections are being raised on slower disinflation



India GDP came in even stronger than our 5.7% expectations for Q4, leading to an upward revision of the annual (PE) estimate

YoY%	Share	Real Growth				1st RE	PE	FY22				FY23			
Sector	FY23	FY20	FY21	FY22	FY23			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Agriculture	16%	6.2%	4.1%	3.5%	4.0%			3.4%	4.8%	2.3%	4.1%	2.4%	2.5%	4.7%	5.5%
Industry	23%	(2.5%)	0.9%	10.5%	2.4%			42.1%	7.3%	2.2%	1.3%	7.3%	(2.5%)	0.1%	4.7%
Services	61%	5.8%	(7.9%)	9.6%	9.5%			17.9%	11.0%	6.5%	4.9%	16.3%	8.9%	6.4%	7.4%
Real GVA	100%	3.9%	(4.2%)	8.8%	7.0%			20.2%	9.3%	4.7%	3.9%	11.9%	5.4%	4.7%	6.5%
Real GDP		3.9%	(5.8%)	9.1%	7.2%			21.6%	9.1%	5.2%	4.0%	13.1%	6.2%	4.5%	6.1%



India macro imbalances – inflation, CAD and credit gaps to narrow as conditions mature in FY24

	FY20 (A)	FY21 (A)	FY22 (A)	FY23 (A)	FY24F
GDP growth (%)	3.7	-6.8	9.1	7.2	6.0
CPI inflation (Avg.)	4.8	6.2	5.5	6.6	4.8
Current Account (% GDP)	-0.9	+0.9	-1.6	-2.1	-2.0
Fiscal Deficit: (% GDP)	7.9	13.2	10.4	9.5	8.9
Repo rate (%)	4.40	4.00	4.00	6.50	6.25
USD / INR (avg)	70.61	74.25	74.51	80.37	82.00
Credit growth (%)	6.1	5.6	9.8	16.0	13.0
Deposits growth (%)	7.9	11.4	8.9	10.2	11.7
10y G-sec yield (avg)	7.21	6.96	6.13	7.32	7.00

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