



ECOCAPSULE

INDIAN ECONOMY: MAINTAINING MOMENTUM ON A DETERIORATING GLOBAL PITCH

09 July 2024



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EXECUTIVE SUMMARY

In Jun'24, funding momentum surged, with capital market activity reaching an exciting peak. Equity markets soared to new heights, fueled by a wave of IPOs and record growth in equity mutual fund flows. Corporate bond issuance also showed improvement and is expected to expand further, with the *10-year G-Sec yield projected to remain consistently below 7%*. Additionally, lower G-Sec supply and increased FPI inflows from index inclusion are preventing crowding-out

Bank credit continued to grow at a strong pace of over 15% y/y (as of mid-Jun'24). *We expect 13-15% y/y growth in bank credit in FY25*, with green-shoots in smaller industrial sectors complementing the personal & services growth. Growth in funding has been enabled by reforms such as reducing face value of debt securities, easing norms around debt issuance and unlisted InVITs, and borrowing norms for AIFs by SEBI, besides countercyclical norms introduced by the RBI

The surge in funding is presaged on a triple balance sheet advantage of steady Union fiscal consolidation, capitalized & clean bank books, and a debt-light India Inc. For FY25, the path of fiscal consolidation for the Union is expected to remain in order, boosted by momentum seen in advanced tax collections and slim T-bill borrowing calendar released (Rs. 2.6 trn in Q2FY25, down 33% from Q2FY24A), with a generous RBI dividend offsetting creases in revenue expenditure

While this means the Union could achieve the conditions required for rating upgrade, *State deficits needs close monitoring*. Increased borrowings of SGS (planned Rs. 2.6 trn in Q2FY25 vs. actual Rs. 1.9 trn in Q2FY24), demands for special packages by multiple states, and early trends from state Budgets suggesting an increase in social welfare spending are all early signs of an era of largesse amidst upcoming polls

Economic activity has been supportive, with high frequency indicators in Jun'24, including Fastag revenues (up 11% y/y), railway freight (up 10%) showing muscle. Even so, headline inflation remains in check, helped by an ebbing core. *With scanty rainfall impacting vegetable prices and spike in telecom tariffs, upcoming inflation data could print a tad high. Subsequent relief is expected as monsoons have made up lost ground in Jul'24, and now are above normal levels*

In the US, a flat m/m PCE inflation reading and cooling labour markets have kept the markets hopeful of 2 rate cuts despite the FOMC dot plot penciling in just 1 cut in CY24. Notably, the next big challenge may be from fiscal exuberance, which continued in Jun'24, leading to US Fed Chair Mr. Powell pressing on Washington to cut deficit 'sooner than later.' The IMF chirped on similar lines slamming against chronic deficits and record debt levels

China remains free of inflation but is struggling to stimulate demand. Expectations of loose policy drove 10Y G-sec yields to 2.18% (lowest since records began in 2002). With China being hit by oppressive tariffs (such as on EVs by Europe), the successful stoking of domestic demand will remain critical to its fortunes

Now, attention will be focused on the Union Budget. *We expect fiscal prudence will be maintained amidst measures to boost rural consumption. We anticipate an increased emphasis on rural housing and PLI scheme for employment-focused industries, renewable sector, and MSMEs.* Success in the coming years will largely hinge on strategic allocation of funds across sectors, akin to positioning fielders on a bouncy pitch

01 MACROECONOMIC OVERVIEW



INDIA'S REAL GDP GROWTH MOMENTUM TO CONTINUE IN FY25

REAL GVA SECTORAL BREAK UP

Change (% y/y)	Q4FY24	Q3FY24	Q2FY24	Q1FY24	Q4FY23	Q3FY23	Q2FY23	Q1FY23	Q4FY22
GVA	6.3	6.8	7.7	8.3	6.0	4.8	5.0	11.3	3.9
Agriculture and allied	0.6	0.4	1.7	3.7	7.6	5.2	2.3	2.7	4.1
Industry	8.4	10.5	13.6	6.0	3.4	0.6	-2.4	6.8	2.3
Mining and quarrying	4.3	7.5	11.1	7.0	2.9	1.4	-4.1	6.6	2.3
Manufacturing	8.9	11.5	14.3	5.9	0.9	-4.8	-7.2	2.2	0.6
Electricity, gas & water supply	7.7	9.0	10.5	3.2	7.3	8.7	6.4	15.6	6.7
Construction	8.7	9.6	13.6	8.6	7.4	9.5	6.9	14.7	4.9
Services	6.7	7.1	6.0	10.7	7.2	7.2	9.8	16.7	4.9
Trade, hotel, transport & comm.	5.1	6.9	4.5	9.7	7.0	9.2	13.2	22.1	5.0
Finance, real estate and prof serv.	7.6	7.0	6.2	12.6	9.2	7.7	8.7	10.5	4.6
Public admin., defence & Other svcs	7.8	7.5	7.7	8.3	4.7	3.5	7.3	23.6	5.2

REAL GDP EXPENDITURE COMPONENTS

Change (% y/y)	Q4FY24	Q3FY24	Q2FY24	Q1FY24	Q4FY23	Q3FY23	Q2FY23	Q1FY23	Q4FY22
GDP	7.8	8.6	8.1	8.2	6.2	4.3	5.5	12.8	4.0
Private final consumption exp. (PFCE)	4.0	4.0	2.6	5.5	1.5	1.8	8.2	18.5	4.7
Govt. final consumption exp. (GFCE)	0.9	-3.2	14.0	-0.1	13.9	7.1	3.4	9.8	11.8
Gross capital formation (GCF)	8.0	14.0	10.7	7.5	3.3	2.8	2.4	14.9	3.0
Gross fixed capital formation (GFCF)	6.5	10.7	11.6	8.5	3.8	5.0	4.7	13.9	4.9
Exports	8.1	3.4	5.0	-6.6	12.4	10.9	11.7	19.1	22.4
Imports	8.3	8.7	11.6	15.2	-0.4	4.1	16.1	26.1	6.7

- Real GDP for FY24 (PE) grew at 8.2% y/y, eclipsing a strong 7.0% reading for FY23. Real GVA grew by 7.2% in FY24 led by resilient industrial activity. This substantial gap between GDP and GVA can be attributed to robust growth in net taxes (indirect tax minus subsidy)
- **Nominal GDP for FY25 is expected at 10.5% y/y.** This is based on improved spending buffers, expectation of revival in private capex, and fewer global clouds on the horizon than before

HIGH FREQUENCY INDICATORS: RUN-RATE OF FY24 MAINTAINED IN Q1FY25

Indicator	Jul'23	Aug'23	Sep'23	Oct'23	Nov'23	Dec'23	Jan'24	Feb'24	Mar'24	Apr'24	May'24	Jun'24
Industry												
Manufacturing PMI	57.7	58.6	57.5	55.5	56	54.9	56.5	56.9	59.1	58.8	57.5	58.3
IIP (%y/y)	6.2%	10.9%	6.4%	11.9%	2.4%	4.2%	4.1%	5.6%	5.4%	5.0%		
Eight Core (%y/y)	8.6%	13.4%	9.4%	12.7%	7.9%	4.9%	4.1%	7.1%	6.0%	6.7%	6.3%	
Finished Steel Consumption (%y/y)	17.6%	21.5%	18.7%	13.8%	16.1%	21.5%	12.7%	8.6%	4.6%	9.4%	14.5%	
2W Sales (%y/y)	8.2%	6.3%	21.7%	-12.6%	21.1%	27.6%	15.0%	13.6%	5.4%	33.2%	2.5%	4.7%
PV Sales (%y/y)	4.0%	6.5%	19.0%	-1.4%	17.2%	2.7%	13.3%	14.9%	-6.2%	15.9%	-1.0%	-6.8%
Services/Consumption												
Services PMI	62.3	60.1	61.0	58.4	56.9	59	61.8	60.6	61.2	60.8	60.2	60.5
Petrol Consumption (%y/y)	6.3%	2.9%	8.2%	4.8%	9.4%	0.2%	9.7%	8.9%	7.0%	14.2%	2.4%	4.6%
Diesel Consumption (%y/y)	3.8%	5.2%	3.8%	9.3%	-3.1%	-2.3%	3.4%	6.2%	3.1%	1.4%	1.8%	1.0%
Railway Freight Volume (%y/y)	3.1%	8.5%	8.3%	10.6%	6.3%	8.5%	9.2%	12.4%	9.6%	5.1%	4.3%	10.1%
Port Cargo Volume (%y/y)	4.3%	4.4%	0.3%	13.8%	17.0%	0.9%	3.2%	2.3%	4.8%	1.3%	4.0%	5.9%
Electricity supply (% y/y)	8.3%	16.3%	10.3%	20.9%	6.1%	1.6%	6.1%	8.4%	1.4%	11.0%	15.0%	9.0%
Total Airport Footfall (%y/y)	25.8%	23.2%	19.4%	11.9%	10.7%	9.9%	7.2%	8.1%	6.5%	6.0%	7.4%	
Fastag revenues (%y/y)	19.7%	21.9%	19.9%	24.4%	14.1%	18.6%	15.5%	19.2%	17.2%	8.6%	8.7%	11.2%
UPI transactions (%y/y)	44.2%	46.9%	41.4%	41.6%	46.1%	42.2%	41.7%	47.9%	40.8%	38.8%	37.3%	38.6%
GST Revenues (%y/y)	10.8%	10.8%	10.2%	13.4%	15.1%	10.3%	10.5%	12.5%	11.5%	12.4%	10.0%	7.7%

MANUFACTURING-SERVICES PARTNERSHIP UNDERSCORES ECONOMIC VICTORY

Industry indicators show strength in early FY25

- Soaring manufacturing PMI in June'24 was boosted by demand strength and fastest hiring seen in 19 years
- Eight Core index grew at a pace of 6.5% y/y in 2MFY25, with activity strongest in fuels such as coal, natural gas and electricity aiding industrial expansion. Fertilizers and cement saw degrowth in the same period owing to base effects
- Steel demand continues to increase in double digit on y-y basis. Demand drivers such as real estate remain strong with homes built in H1CY24 across major cities reaching a 11-year high, boosting domestic production
- Auto sales took a left to the slow lane owing to hot weather and base effects catching up, despite OEMs offering attractive discounts. FADA has advised OEMs to implement prudent inventory managements, flagging increasing stock.

Services activity sets new records, India's leadership in digital payments acknowledged across the world

- Services activity continued at a solid pace with burgeoning sales, especially international, along with strong demand and weak inflation. Annual sales growth of IT and non-IT services private non-financial companies rose by 5.5% y/y and 7.9% y/y respectively in fy24, faster than manufacturers
- Power consumption rose 9% y/y to 152.4 BU in Jun'24, as delayed onset of monsoon led to scorching heat and fervent industrial activity guzzled power. Peak demand rose aggressively to 245.4 GW, suggesting increased use of cooling appliances during peak hours
- UPI transactions continue hovering around the Rs. 20 trn mark by value in Jun'24, showcasing India's leadership in digital payments

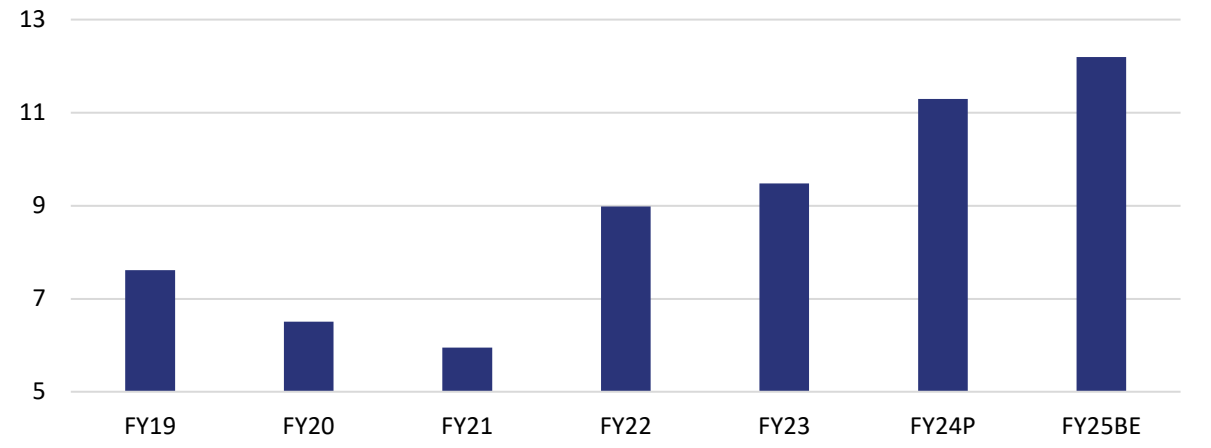
UNION FISCAL POSITION: PATH OF CONSOLIDATION CONTINUES

ITEM (Rs. bn)	FY23A	FY24BE	FY24P	FY25BE	GROWTH FY24P/FY23A	GROWTH FY25BE/FY24P	2MFY25	2MFY25 /FY25BE
Corporation Tax	8,258	9,227	9,111	10,428	10.32%	14.46%	453	4%
Income Tax	8,333	9,006	10,109	11,560	21.32%	14.35%	1,803	16%
Customs Duty	2,134	2,331	2,331	2,313	9.22%	-0.76%	281	12%
Excise Duty	3,190	3,390	3,053	3,235	-4.29%	5.95%	243	8%
Service Tax	4	5	4.24	1	6.00%	-76.42%	-1	-87%
GST	8,491	9,566	9,621	10,677	13.30%	10.98%	1,734	16%
Other Taxes	132	84	419	94	217.42%	-77.57%	83	89%
Gross tax revenue	30,542	33,609	34,648	38,308	13.44%	10.56%	4,596	12%
(-) Transfer to States, UTs	9,484	10,214	11,295	12,198	19.09%	8.00%	1,398	11%
Net tax revenue	20,978	23,306	23,265	26,016	10.90%	11.82%	3,190	12%
Non-Tax Revenue	2,854	3,017	4,019	3,997	40.82%	-0.54%	2,517	63%
Non-debt Capital Receipts	722	840	604.6	790	-16.26%	30.66%	21	3%
Total Receipts	24,554	27,163	27,889	30,803	13.58%	10.45%	5,728	19%
Revenue Expenditure	34,531	35,021	34,940	36,547	1.19%	4.60%	4,798	13%
Capital Expenditure	7,400	10,010	9,485	11,111	28.18%	17.14%	1,436	13%
Total Expenditure	41,932	45,031	44,425	47,658	5.95%	7.28%	6,235	13%
Revenue Deficit	10,699	8,699	7,656	6,534	-28.44%	-14.66%	-909	-14%
Fiscal Deficit	17,378	17,868	16,537	16,855	-4.84%	1.92%	506	3%
Nominal GDP	2,72,410	3,01,750	2,95,357	3,27,718	8.42%	10.96%		

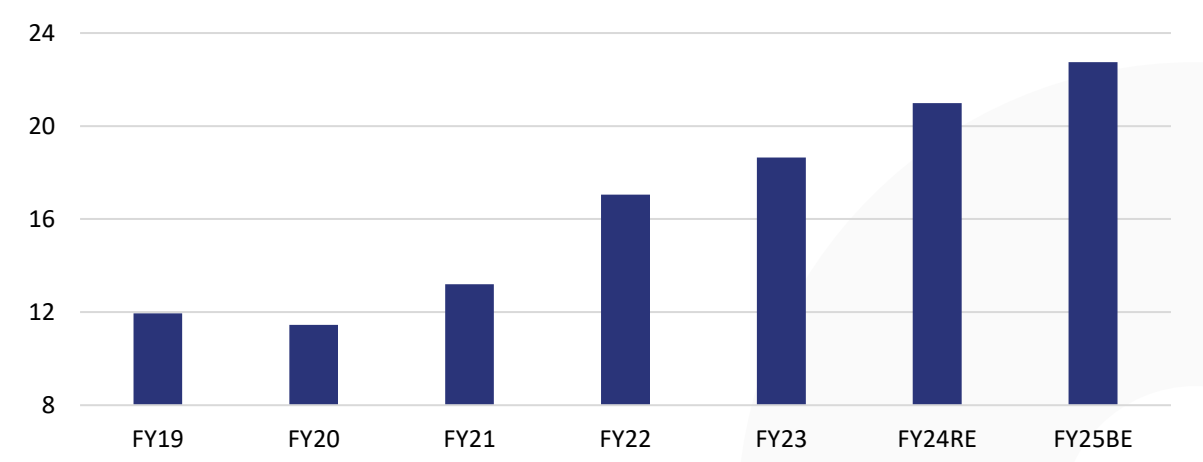
- The Union outperformed FY24RE target for fiscal deficit of 5.8% to reach 5.6% (of nominal GDP), helped by buoyant net tax revenue growth and measured revex increase. Spending restrictions keep fiscal deficit low in 2MFY24. Rating agency officials are confident on an upgrade provided the fiscal glide path is maintained over next 2 years

TRANSFERS TO STATES FROM THE UNION STEADILY GROWING

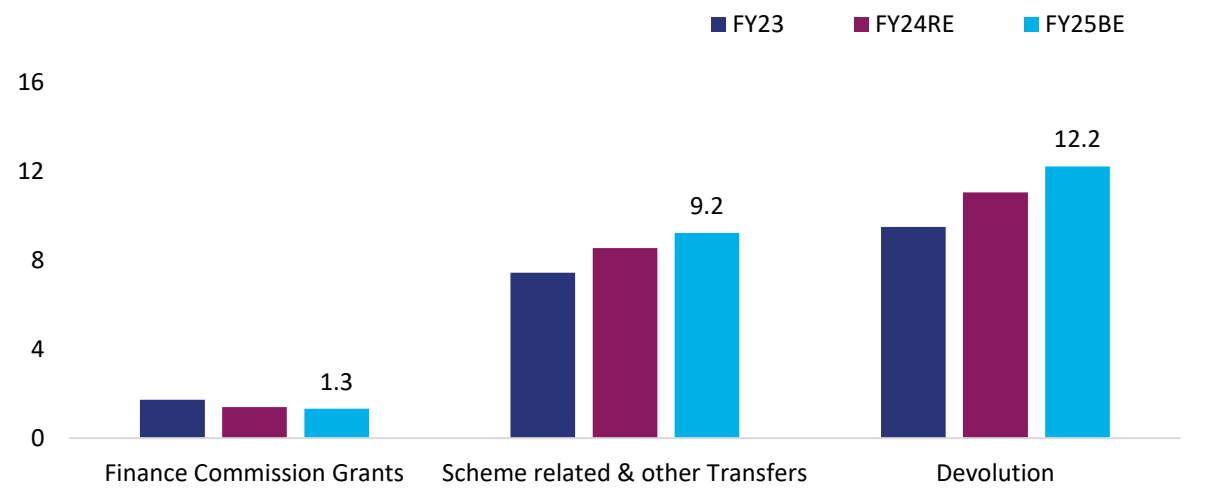
STATES SHARE IN UNION TAXES (Rs. trn)



TOTAL TRANSFER TO STATES AND UTs (Rs. trn)



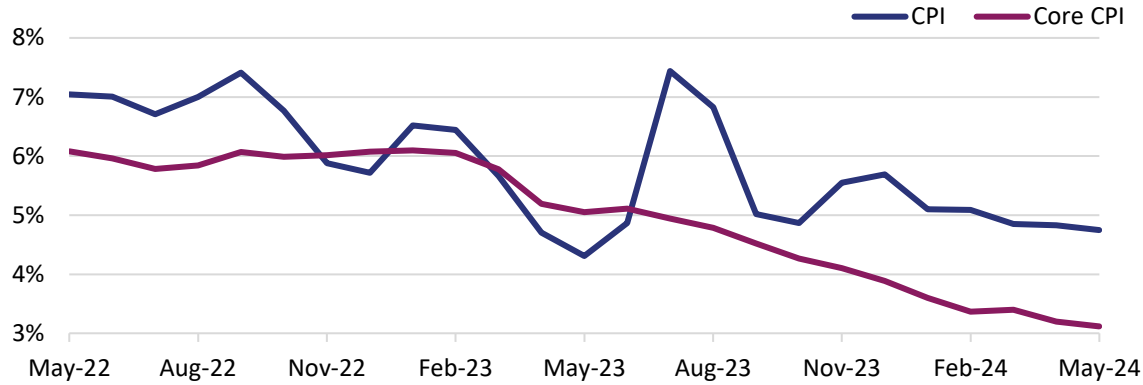
COMPOSITION OF TRANSFERS TO STATES (Rs. trn)



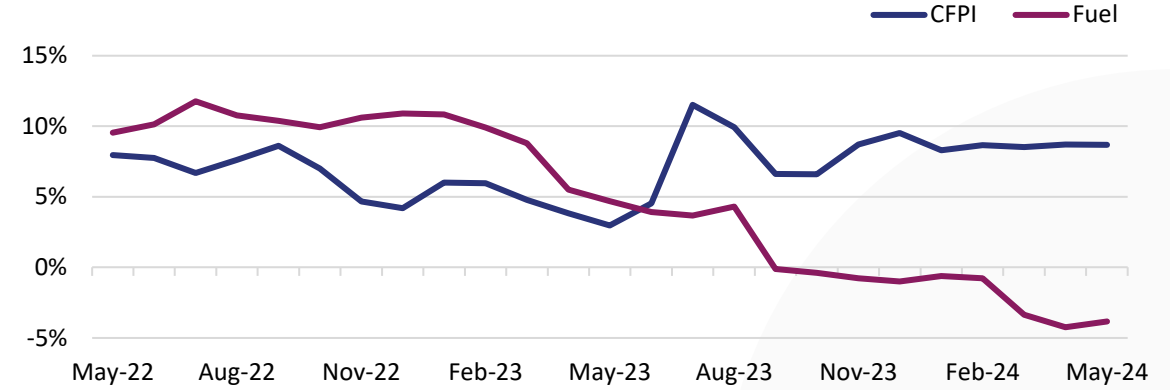
- FY24 saw gross SGS borrowings of Rs. 10.1 trn vs. Rs. 7.6 trn in FY23 with top 5 states contributing 72% of the incremental SGS issuance
- **Gross SGS issuances will likely increase to ~Rs. 10.5 trn in FY25 with major variation amongst States**

EASING CORE HELPS RBI SCORE ON INFLATION

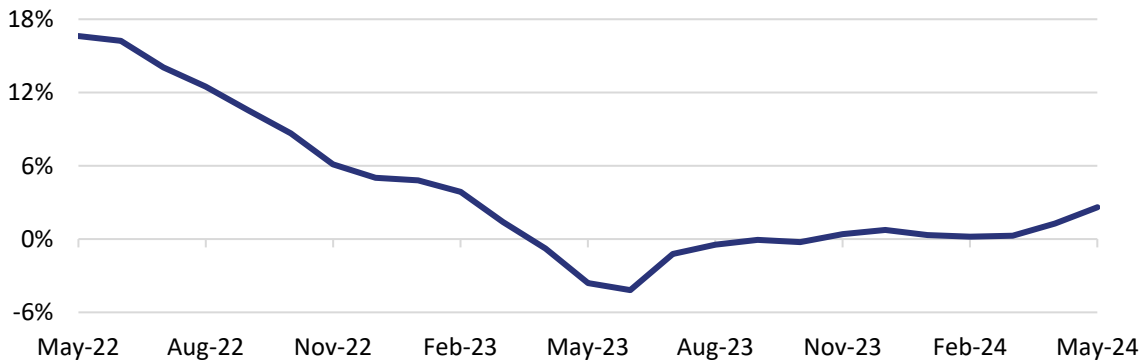
CONSUMER PRICE INDEX (CPI) & CORE CPI (Y/Y)



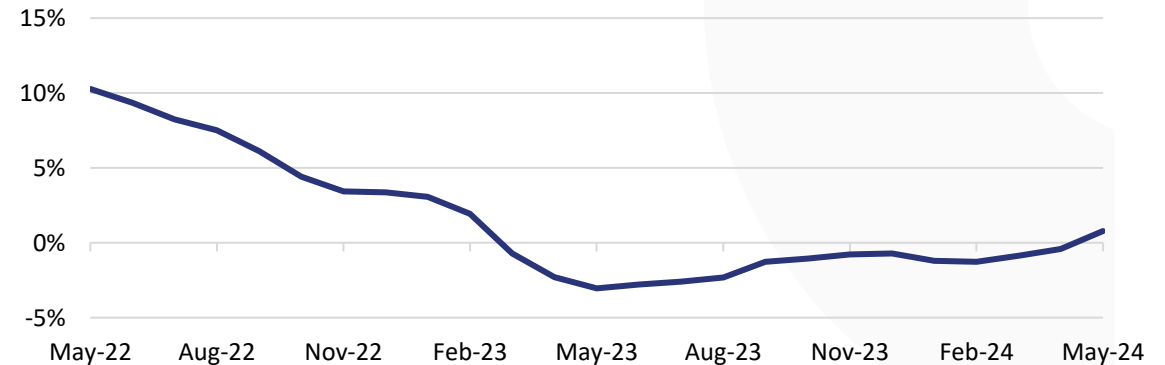
CFPI AND CPI: FUEL (Y/Y)



WHOLESALE PRICE INDEX (WPI) (Y/Y)



WPI: MANUFACTURED PRODUCTS (Y/Y)



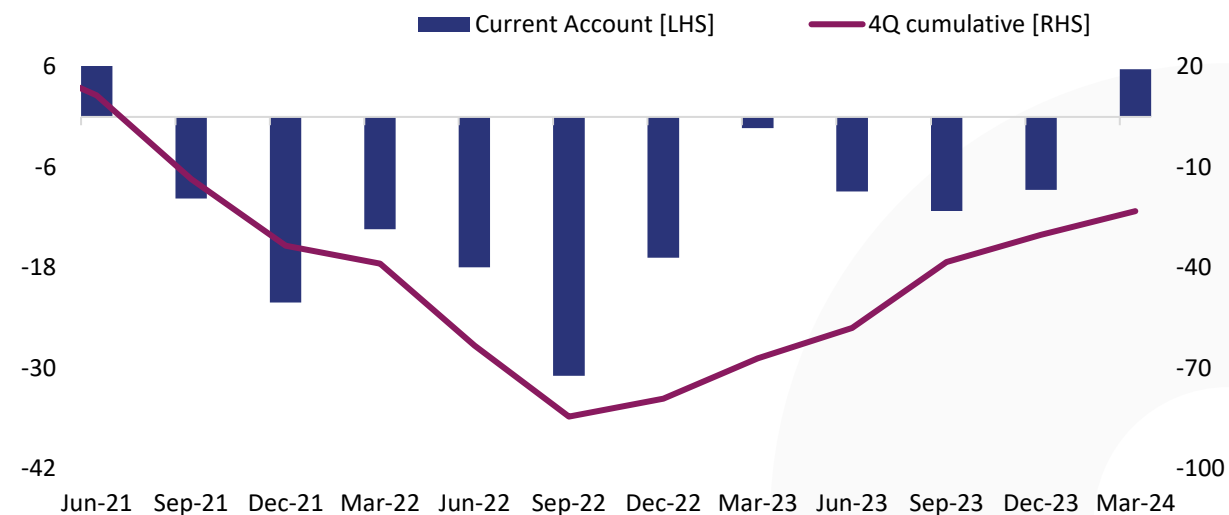
- CPI eased to its lowest levels in a year, aided by core reaching its minima in this series and lower LPG costs leading to deflationary fuel prices. Food continues to remain a thorn in the MPC's side as extreme weather conditions and unseasonal rainfall led to spoilage and reduced supply of vegetables
- **We expect CPI to be 4.7% for FY25 with risks evenly balanced.** Upside risks on the horizon include crop damage from heatwave, mellow pulses production, and downward revision in production of horticultural crops. Downside is helped by expectation of above normal rainfall, stable crude prices despite OPEC+ cuts, and a fair base

SURPLUS IN Q4 KEEPS CAD SLIM AT 0.7% IN FY24, SIMILAR LEVEL EXPECTED IN FY25

USD/INR EXCHANGE RATE (Rs. per USD)



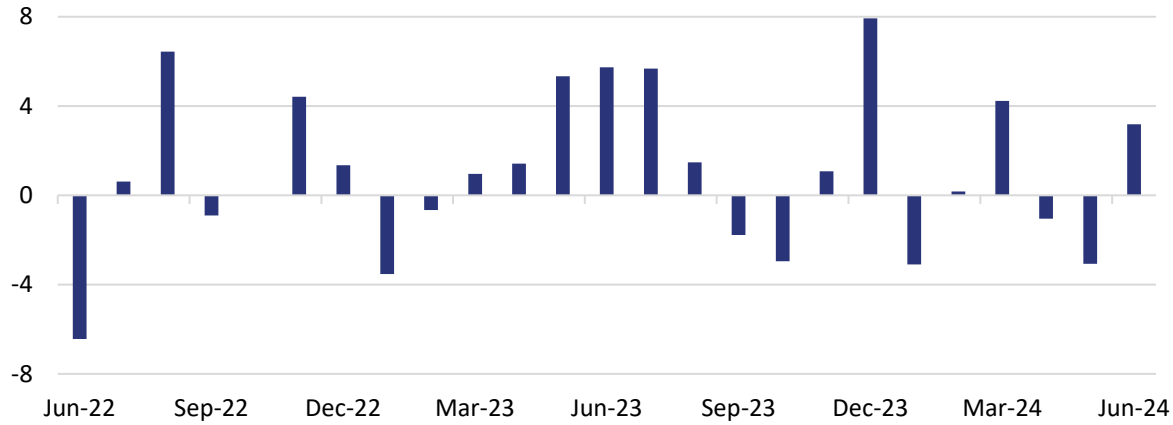
CURRENT ACCOUNT BALANCE (USD bn)



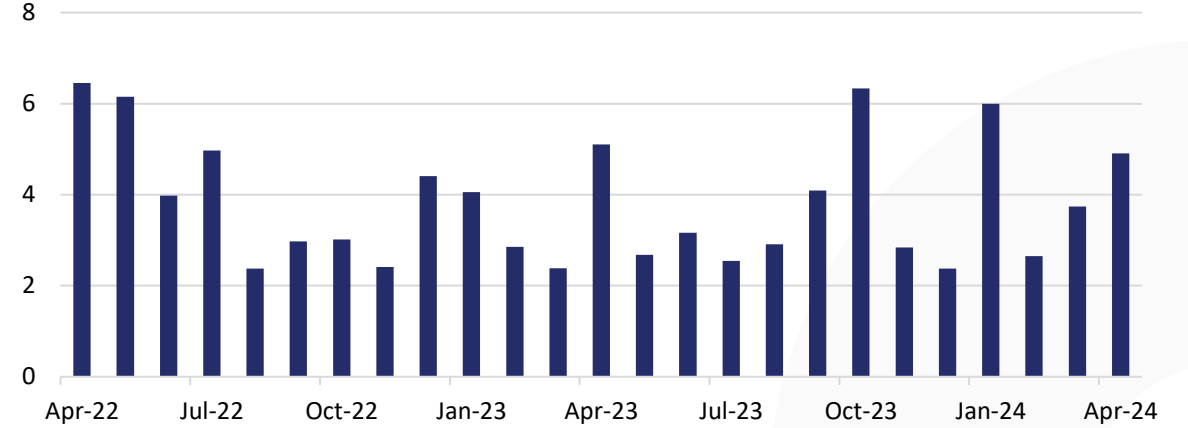
Indicator	May'23	Jun'23	Jul'23	Aug'23	Sep'23	Oct'23	Nov'23	Dec'23	Jan'24	Feb'24	Mar'24	Apr'24	May'24
Forex Reserves (USD Bn)	589.1	595.1	603.9	594.9	586.9	586.1	597.9	623.2	616.1	619.1	645.6	637.9	646.7
Goods Imports (%y/y)	-6.0%	-16.9%	-17.0%	-2.4%	-15.0%	9.6%	-4.3%	-4.8%	3%	12.2%	-6.0%	10.3%	
Oil Imports (%y/y)	-6.3%	-33.8%	-36.5%	-13.5%	-20.3%	-1.2%	-8.5%	-22.8%	4%	0.0%	-4.4%	20.2%	
Non-oil Imports (%y/y)	-5.9%	-9.9%	-8.9%	2.0%	-13.0%	13.8%	-2.7%	3.4%	2%	17.8%	-6.6%	6.4%	
Goods Exports (%y/y)	-10.3%	-18.8%	-10.0%	3.8%	-2.6%	6.1%	-2.8%	1.0%	3%	11.9%	-0.7%	1.0%	
Oil Exports (%y/y)	-30.9%	-36.2%	-17.9%	13.5%	-10.8%	-4.6%	-7.4%	-17.6%	7%	5.0%	-35.4%	3.1%	
Non-oil Exports (%y/y)	-4.6%	-12.9%	-7.8%	0.9%	-0.5%	8.8%	-1.5%	6.2%	2%	13.7%	8.0%	0.5%	
Goods Trade Balance (USD Bn.)	-22.5	-19.1	-18.4	-22.0	-19.4	-29.9	-20.6	-19.8	-17.5	-18.7	-15.6	-19.1	-23.8
Services Exports (%y/y)	7.4%	3.2%	8.1%	8.4%	-2.7%	10.9%	4.4%	1.1%	11%	17.2%	-6.4%	14.7%	11.7%
Services Imports (%y/y)	4.5%	-1.0%	-2.2%	-0.8%	-10.3%	-0.4%	-11.1%	-1.0%	4%	6.1%	2.1%	19.1%	5.5%
Overall Trade Balance (USD Bn)	-11.4	-6.9	-6.0	-8.4	-5.5	-15.3	-5.3	-3.8	-1.3	-5.6	-2.2	-6.5	

DIVERGENCE BETWEEN FPI, FDI AND ECB FLOWS

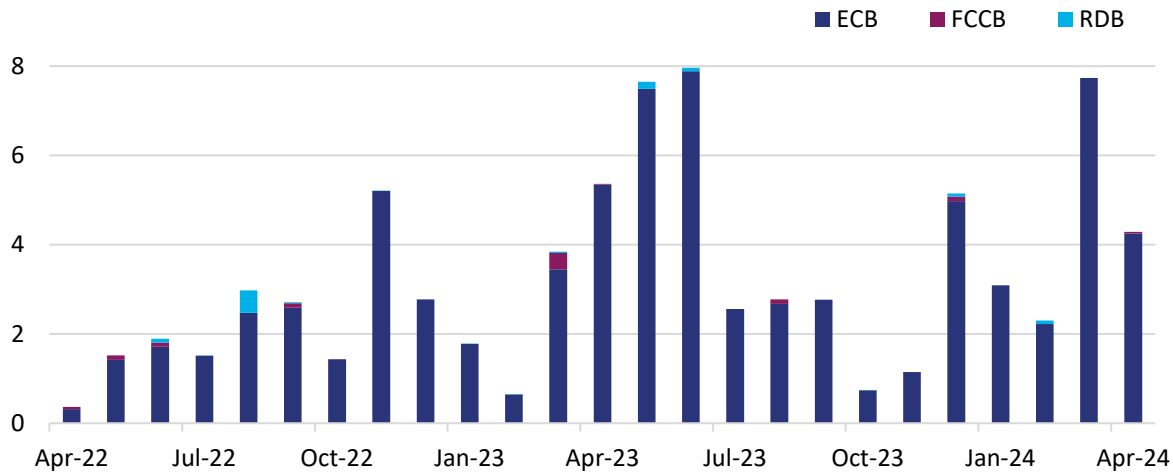
NET FPI EQUITY INFLOW (USD bn)



GROSS FDI EQUITY INFLOWS (USD bn)



GROSS ECB ISSUED (USD bn)



- FPI buying in domestic equities hit 6 month high in Jun'24, offset in part by huge outflow in previous weeks, with financial services, telecom and healthcare being huge beneficiaries
- Swinging US yields restricted ECB issuances at a low score. Net ECB issuances remain mellow, indicating that most transactions are for refinancing

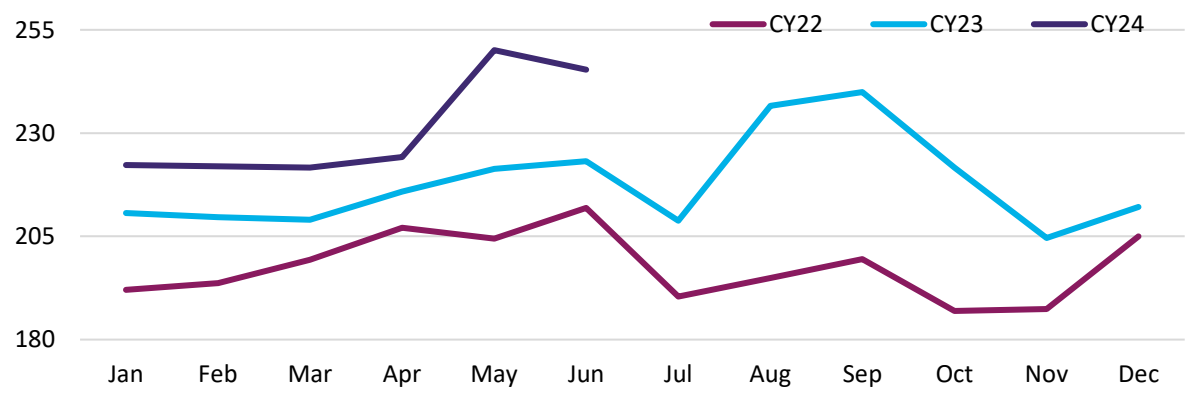
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SECTORAL UPDATES

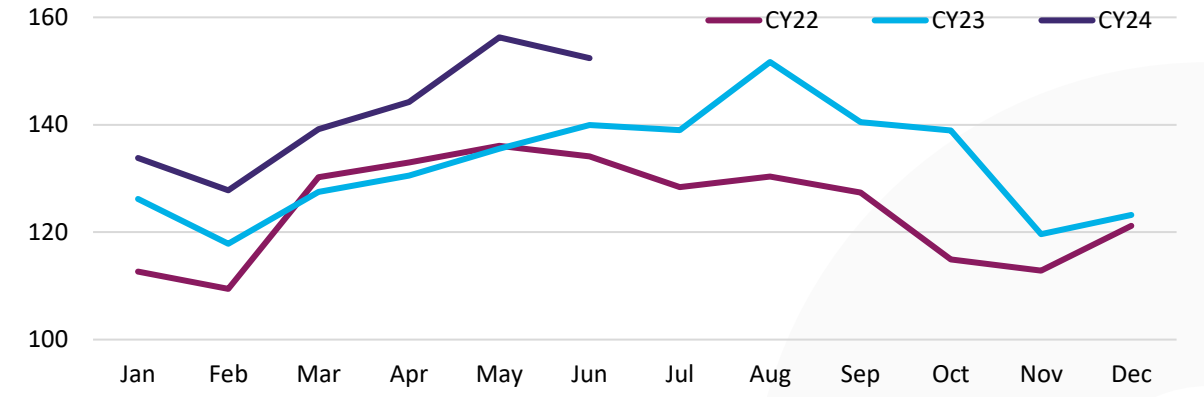


SUNNY CONDITIONS ENSURE POWER SUPPLY BATS HIGH IN JUN'24

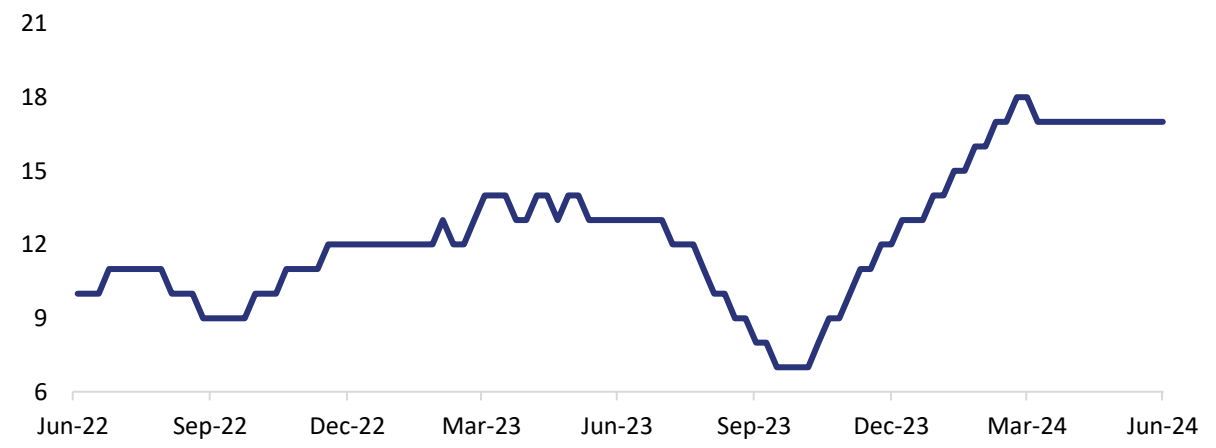
PEAK POWER DEMAND (GW)



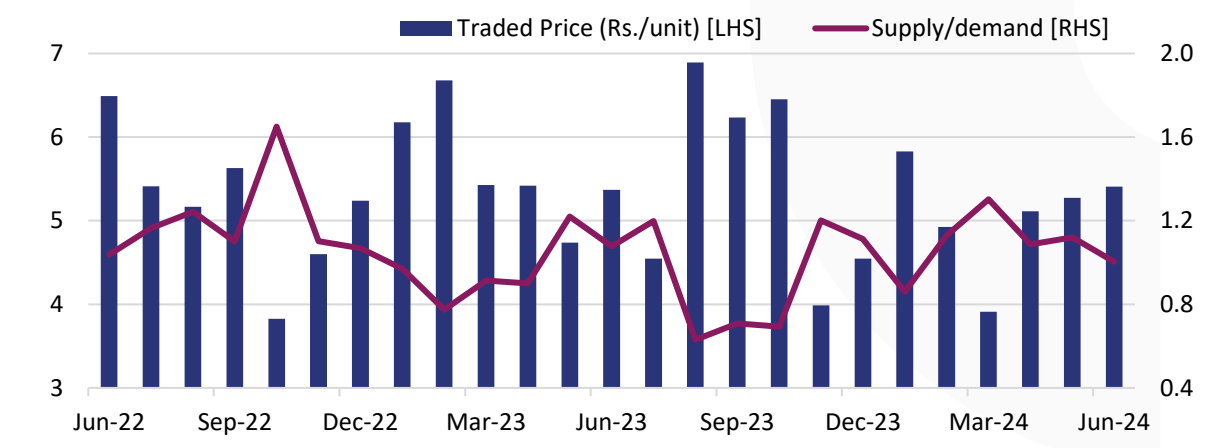
POWER SUPPLY (BU)



COAL STOCKS WITH POWER SECTOR (NUMBER OF DAYS)



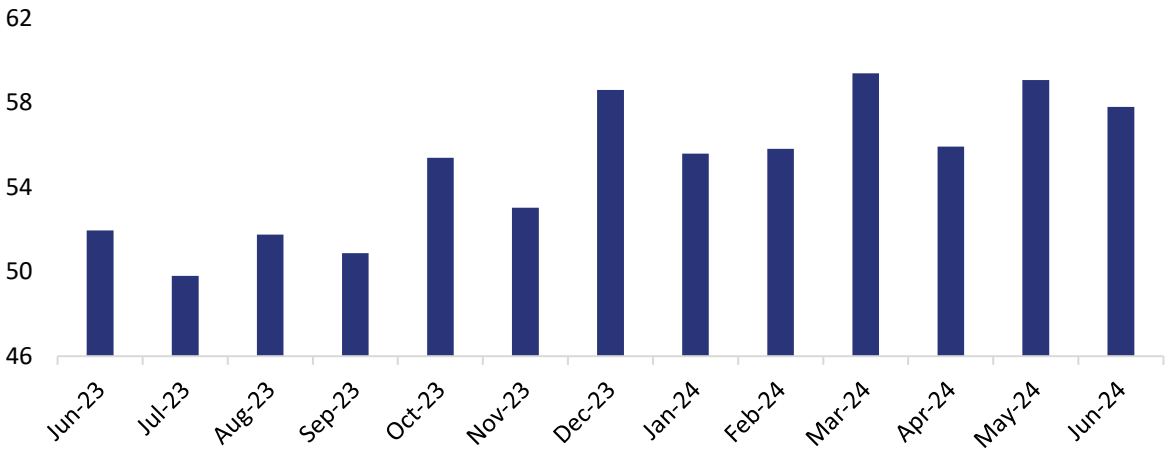
SPOT PRICE (Rs./UNIT) VS. SUPPLY-DEMAND IN DAM



- Persisting heatwaves have led to record high power demand in Northern region. Considering this, Union has urged power companies to import equipment worth USD 33 bn to add 31 GW worth of capacity in the next 5-6 years, and there are talks that the National Electricity Plan could be revised to account for greater power demand
- Coal stock at power plants has stagnated despite handsome production as usage is gargantuan. Besides demand, low reservoir levels has impacted hydro generation

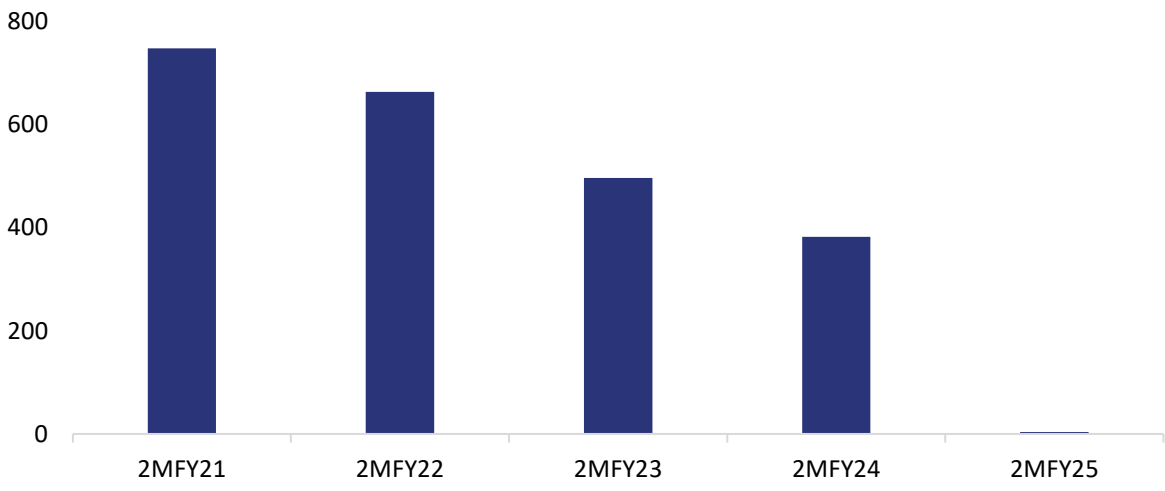
FASTAG REVENUES MAINTAIN A GOOD RUN-RATE IN Q1FY25

FASTAG REVENUE (Rs. bn)

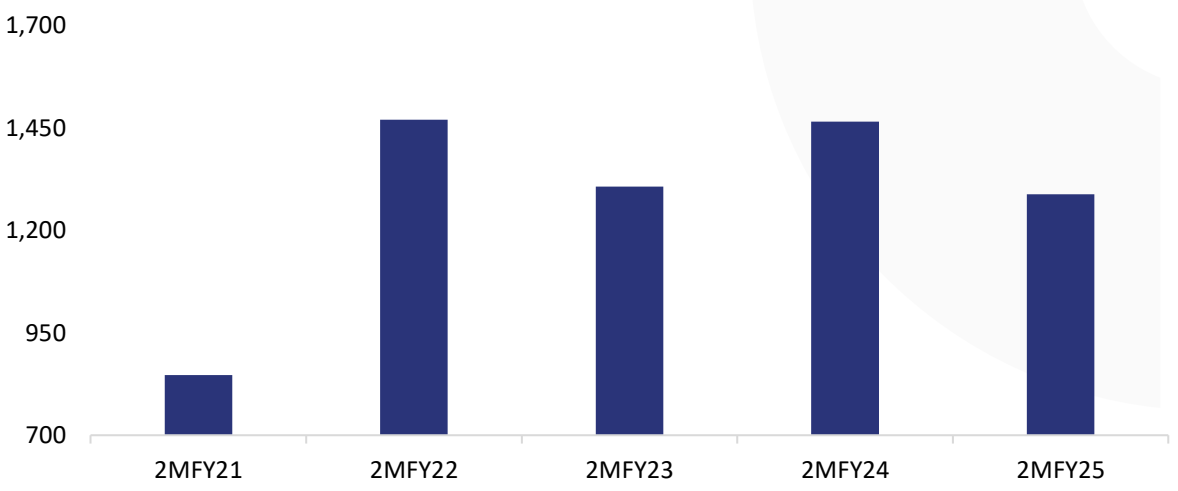


- Fastag revenues showed continued momentum in Jun'24 (up 11.2% y/y) helped by increased traffic activity and toll revisions (average toll hike of ~5% was announced with effect from early Jun'24)
- Awarding pace is yet to pick up in FY25, while construction pace lags levels seen last fiscal. The NHAI has set its construction target for FY25 at 5,000 km (actual achievement of 762 km in 2MFY25), 22% lower than FY24

NATIONAL HIGHWAY AWARDING (km)



NATIONAL HIGHWAY CONSTRUCTION (km)



BANKING: CREDIT GROWTH REMAINS RESILIENT

INDICATOR	Apr'23	May'23	Jun'23	Jul'23	Aug'23	Sep'23	Oct'23	Nov'23	Dec'23	Jan'24	Feb'24	Mar'24	Apr'24	May'24
CREDIT														
Non-food credit growth (%y/y)	16.1%	15.6%	16.4%	14.8%	15.0%	15.3%	15.3%	16.3%	15.8%	16.2%	16.5%	16.3%	15.3%	16.2%
Industry credit growth (%y/y)	7.0%	6.0%	8.0%	5.2%	6.1%	6.5%	5.4%	6.1%	8.1%	7.8%	8.6%	8.5%	6.9%	8.9%
Services credit growth (%y/y)	21.7%	21.4%	26.8%	19.4%	20.7%	21.3%	20.1%	21.9%	19.6%	20.7%	21.2%	20.2%	19.2%	20.7%
Personal credit growth (%y/y)	19.7%	19.5%	21.2%	18.2%	18.4%	18.3%	18.0%	18.6%	17.7%	18.4%	18.1%	18.7%	17.4%	17.8%
DEPOSITS														
Total Deposits (%y/y)	10.1%	11.4%	15.5%	12.9%	13.2%	15.7%	13.2%	13.4%	14.1%	12.8%	13.6%	12.5%	13.3%	11.7%
Time Deposits (%y/y)	10.6%	11.6%	14.1%	13.3%	13.7%	14.9%	13.9%	13.7%	12.5%	13.9%	14.0%	12.7%	13.1%	11.4%
Demand Deposits (%y/y)	6.8%	9.9%	25.3%	10.6%	9.4%	21.6%	8.1%	11.0%	5.3%	5.0%	10.9%	11.5%	14.9%	14.1%
KEY RATIOS														
C/D Ratio (%)	75.1%	75.2%	75.1%	74.6%	75.0%	75.3%	76.7%	77.2%	77.1%	77.7%	78.0%	78.1%	76.9%	77.5%
Investment/Deposit Ratio (%)	29.5%	30.0%	29.6%	30.1%	30.3%	30.3%	30.4%	29.8%	29.5%	29.5%	29.7%	29.6%	29.1%	29.1%
KEY RATES														
1Y MCLR (Median-All SCB)	8.6%	8.6%	8.7%	8.7%	8.6%	8.7%	8.7%	8.7%	8.8%	8.8%	8.8%	8.8%	8.9%	8.8%
WALR – fresh (%)	9.1%	9.3%	9.2%	9.4%	9.5%	9.4%	9.5%	9.4%	9.3%	9.5%	9.4%	9.4%	9.6%	9.4%
WALR – o/s (%)	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.9%	9.8%	9.9%	9.8%	9.8%
WADTDR – fresh (%)	6.4%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.5%	6.4%	6.4%	6.6%	6.5%	6.5%
WADTDR – o/s (%)	6.3%	6.4%	6.5%	6.6%	6.6%	6.7%	6.8%	6.8%	6.8%	6.8%	6.9%	6.9%	6.9%	6.9%
Repo Rate	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%

CREDIT GROWTH STUMPS DEPOSITS

Credit growth continues upsurge with pumping economic activity

- Industry credit surged 8.9% y/y in May'24 with the broad-based offtake. Higher capacity utilisation leading to capex, pick-up in MSME credit, and increased infrastructure activity are expected to boost industry segment, potentially achieving high single-digit growth in FY25.
- Services credit is in fine fettle, as moderation of credit to NBFCs due to RBI's crackdown is substituted by trade, aviation and CRE.
- Personal credit growth is off of highs of yesteryears with base effects and higher risk weights for unsecured loans impacting disbursements. Yet, unimpacted categories have moved from strength to strength.
- Credit growth is expected to exceed nominal GDP growth in FY25, growing at 13-15% amplified by secular long-term drivers such as buoyant economic growth, accompanied by formalisation, digitalisation, and premiumisation

Structural changes in savings patterns are impacting the quality and quantity of deposits available to sustain credit growth

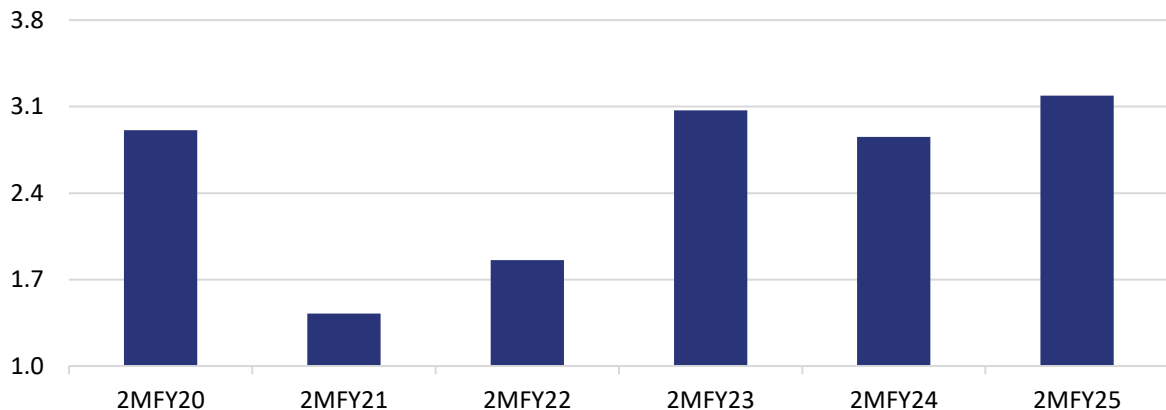
- Deposit growth has slowed down from the decadal highs of FY24. Households are increasingly reliant on alternate savings avenues like mutual funds, life insurance, etc. while declining CASA ratio and higher share of bulk deposits points at stymied quantity as well as quality of deposits
- Banks have adopted a multi pronged approach to close the C-D gap- borrowings, investment book drawdown and hiking term deposit rates. Reclassification of bulk deposits and banks' intent to further raise deposit rates bode well for deposit growth

Margins are getting squeezed as banks hanker for deposits and seek costlier means of financing

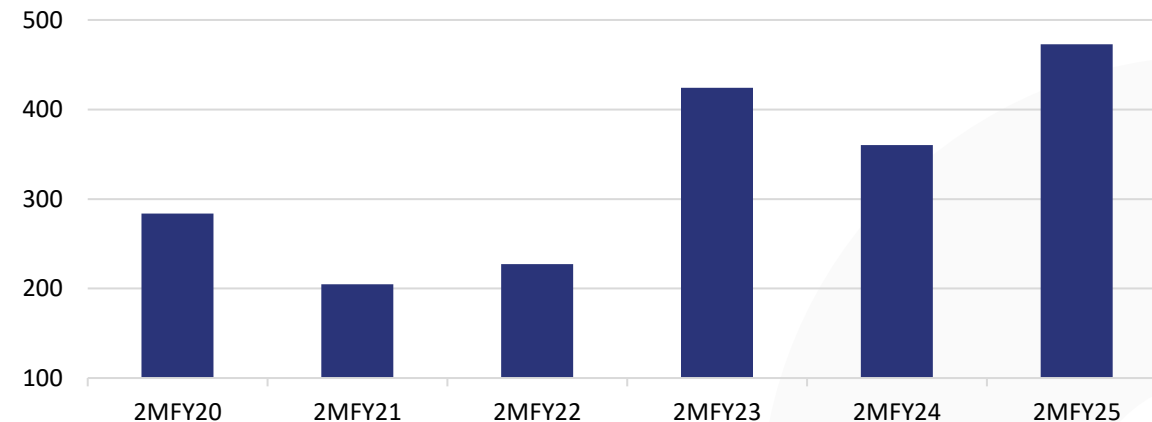
- Significant transmission to lending rates has ensured that NIMs remained almost as strong in FY24 as FY23, despite fuller transmission to deposit rates
- We expect NIMs to consolidate near current levels in FY25, with absolute profits set for glory despite return ratios moderating

INSURANCE SECTOR GROWTH CONTINUES TO OUTPACE GDP GROWTH

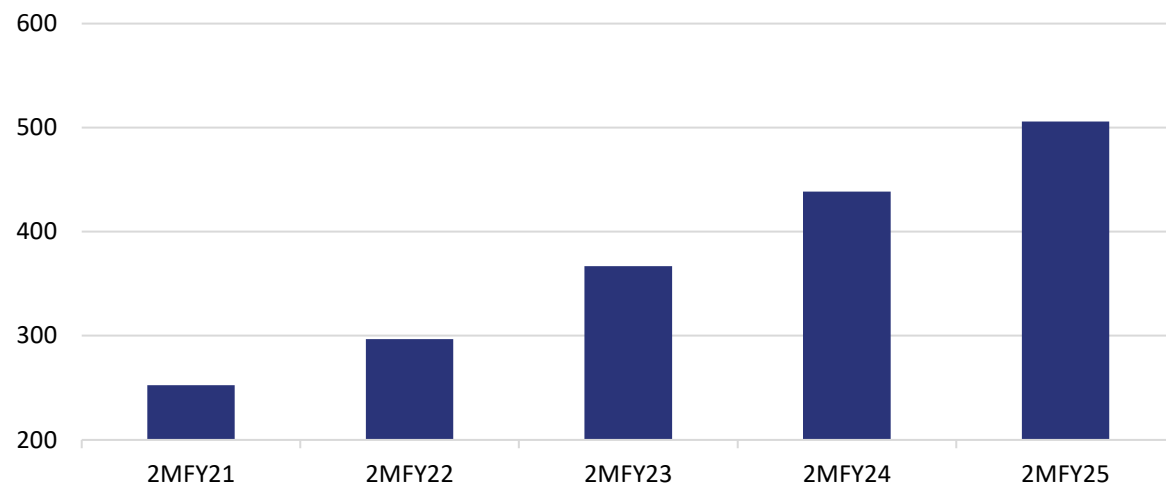
NEW LIFE INSURANCE POLICIES (mn units)



FIRST YEAR PREMIUM- LIFE INSURANCE (Rs. bn)



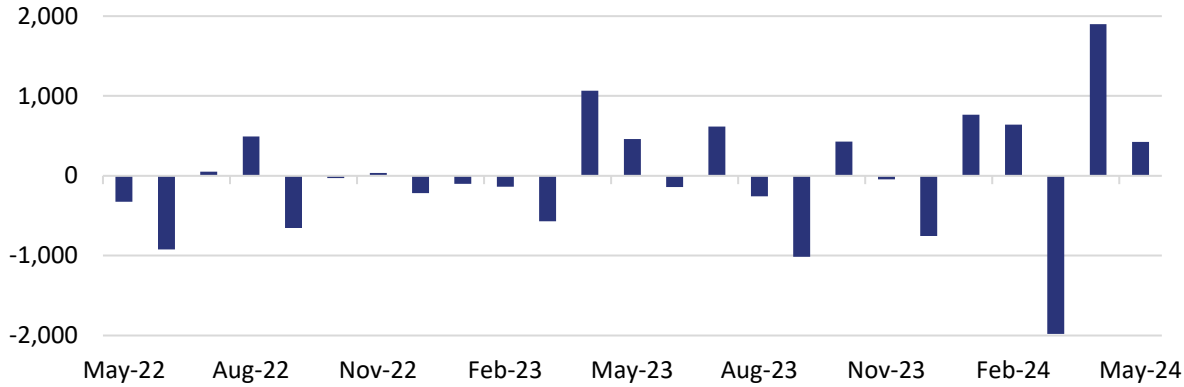
GROSS DIRECT PREMIUM- NON- LIFE INSURANCE (Rs. bn)



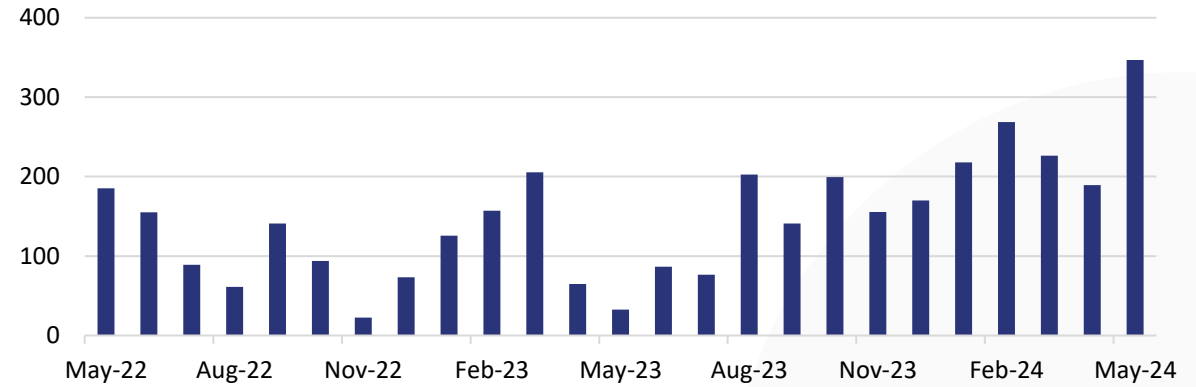
- Life insurers new business premiums grew a strong 15% y/y to Rs. 270 bn in May'24 driven by strong growth by public sector
- Non-life insurers maintained robust 15.5% y/y growth in May'24 to Rs. 505 bn driven by surge in marine and motor insurance
- IRDAI has altered norms around surrender value – allowing surrender within 1 year if a premium has been received, with special surrender value at least equal to the expected present value of paid-up sum assured, paid-up future benefits, and accrued/vested benefits

EQUITY MF SEE HUGE INFLOWS IN MAY'24

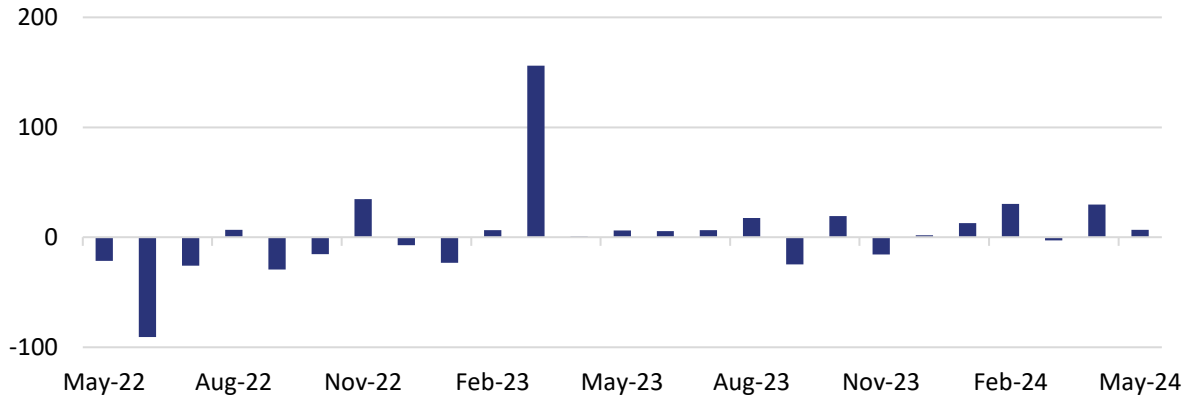
OPEN ENDED SCHEME: INCOME/DEBT MF NET INFLOW (Rs. bn)



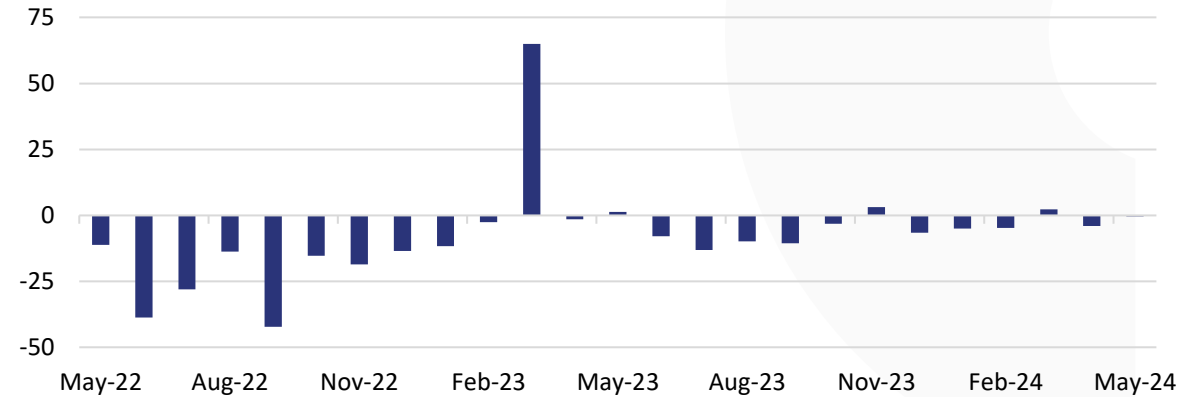
OPEN ENDED SCHEME: EQUITY MF NET INFLOW (Rs. bn)



CORPORATE BOND NET INFLOW (Rs. bn)



BANKING AND PSU FUND NET INFLOW (Rs. bn)



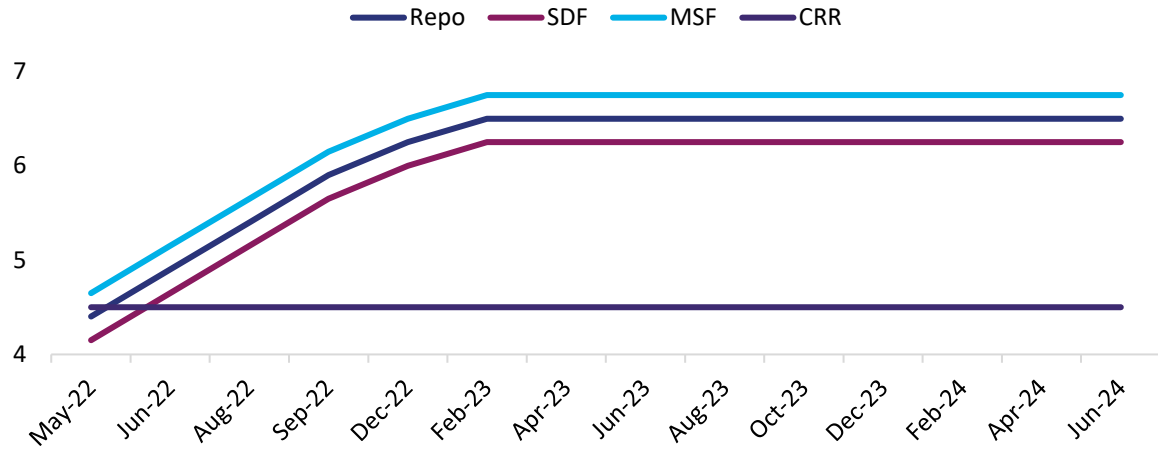
- Equity mutual funds rose sharply in May'24, seeing net inflows of Rs. 347 bn (more than 10x that of Rs. 32 bn in May'23)
- Debt fund inflows remained muted owing to calmer rates and moderation in supply of corporate papers

03 MONETARY POLICY AND YIELDS

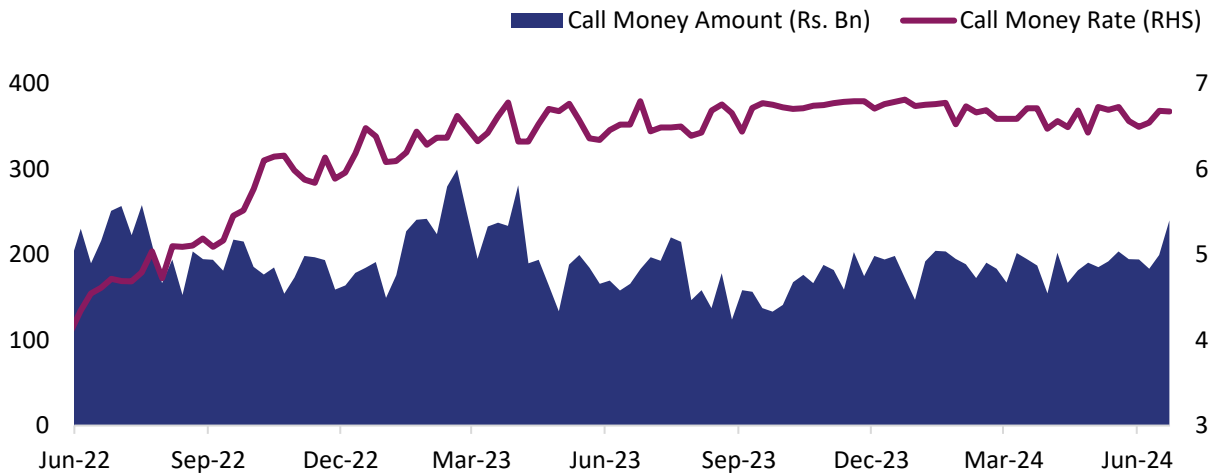


RBI PLAYS FORWARD DEFENCE IN JUN'24, MAINTAINS STATUS QUO

RBI POLICY RATES (%)



CALL MONEY AMOUNT AND WACR RATE (%)



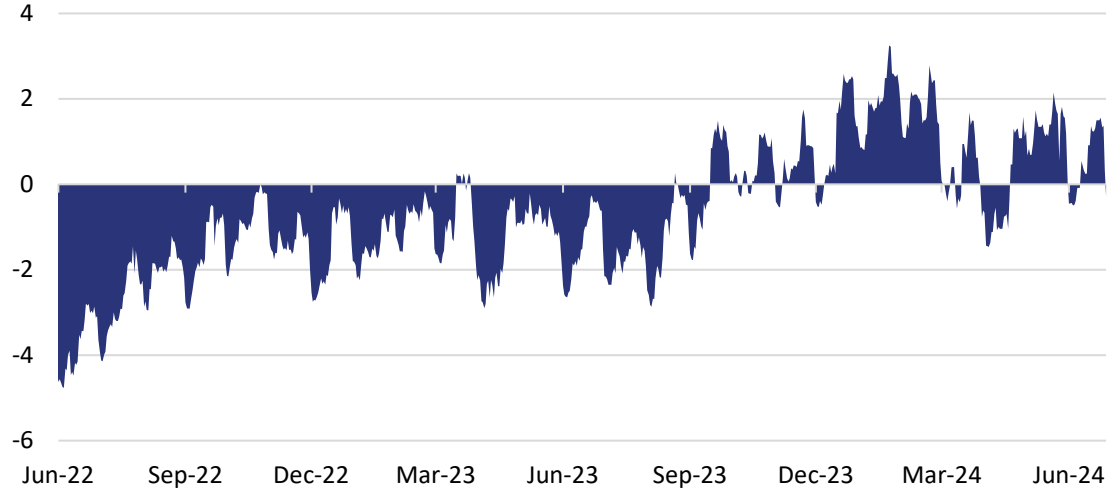
STANCE OF POLICY

Date	Stance	Vote
04-May-22	Remain accommodative, while focussing on withdrawal of accommodation	6-0
08-Jun-22	Withdrawal of Accommodation	6-0
05-Aug-22	Withdrawal of Accommodation	6-0
30-Sep-22	Withdrawal of Accommodation	5-1
07-Dec-22	Withdrawal of Accommodation	4-2
08-Feb-23	Withdrawal of Accommodation	4-2
06-Apr-23	Withdrawal of Accommodation	5-1
08-Jun-23	Withdrawal of Accommodation	5-1
10-Aug-23	Withdrawal of Accommodation	5-1
06-Oct-23	Withdrawal of Accommodation	5-1
08-Dec-23	Withdrawal of Accommodation	5-1
08-Feb-24	Withdrawal of Accommodation	5-1
05-Apr-24	Withdrawal of Accommodation	5-1
07-Jun-24	Withdrawal of Accommodation	4-2

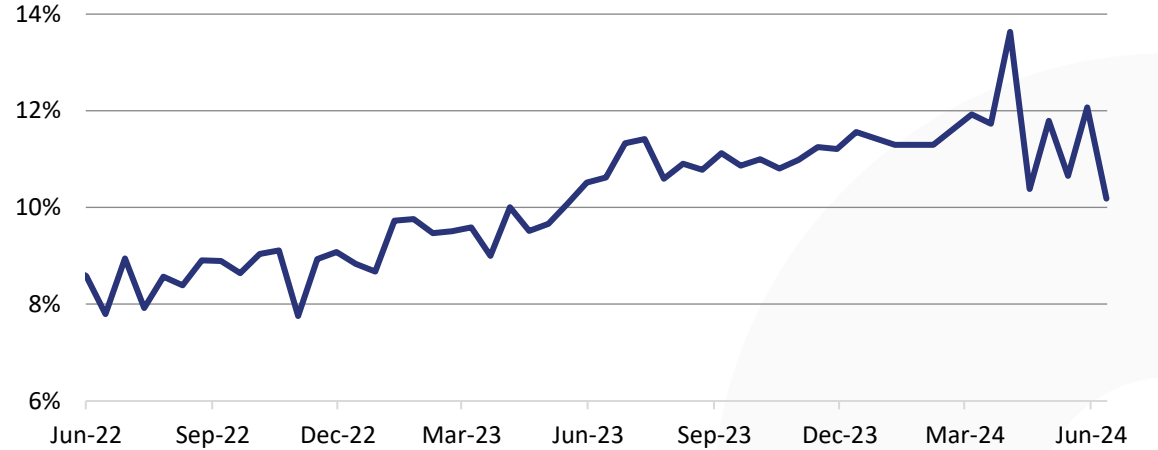
- RBI kept the policy rate and stance unchanged at 6.5% with a 4-2 vote in Jun'24, a less decisive margin from 5-1 vote earlier
- We expect rate cuts to start in Q3FY25 with real rates reaching a local maxima in Q3FY25

EXCESS LIQUIDITY BEING ABSORBED BY RBI REGULARLY

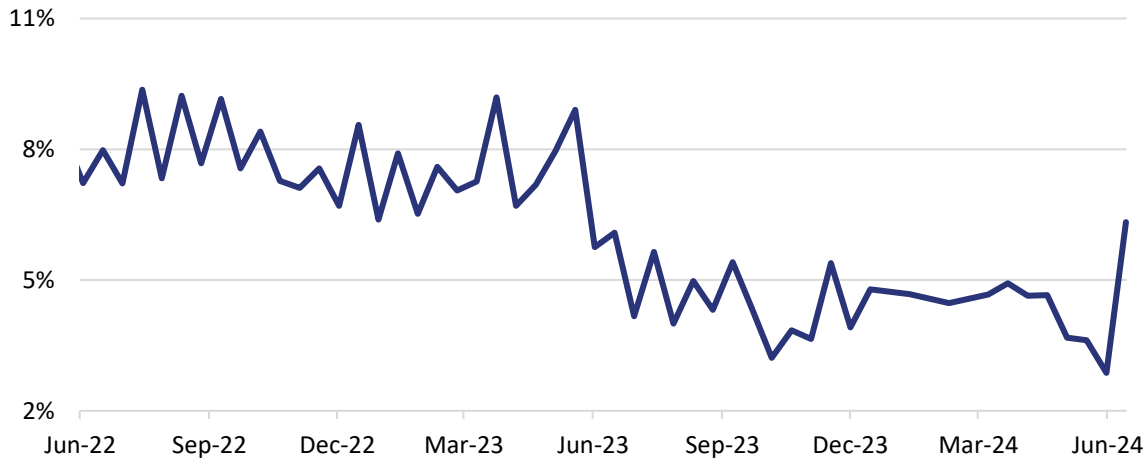
BLOOMBERG INDIA LIQUIDITY INDICATOR (Rs. trn)



MONEY STOCK M3 (% Y/Y)



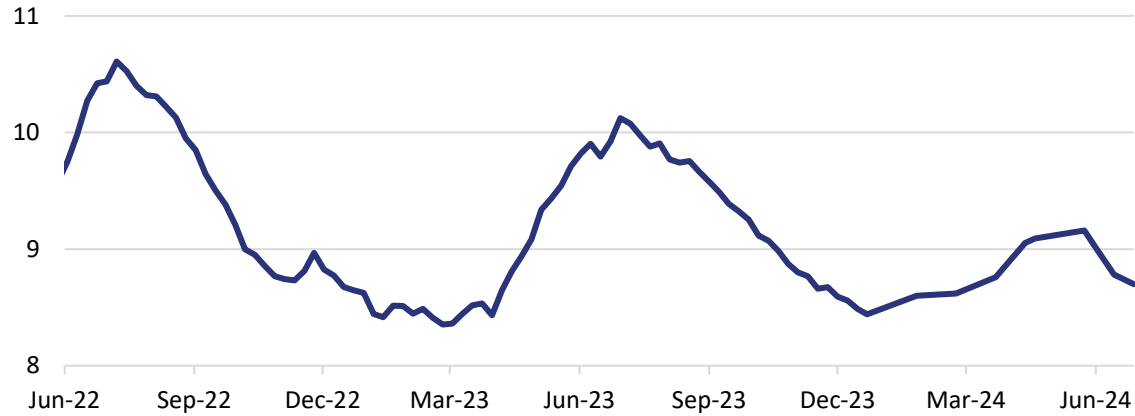
CURRENCY WITH PUBLIC (% Y/Y)



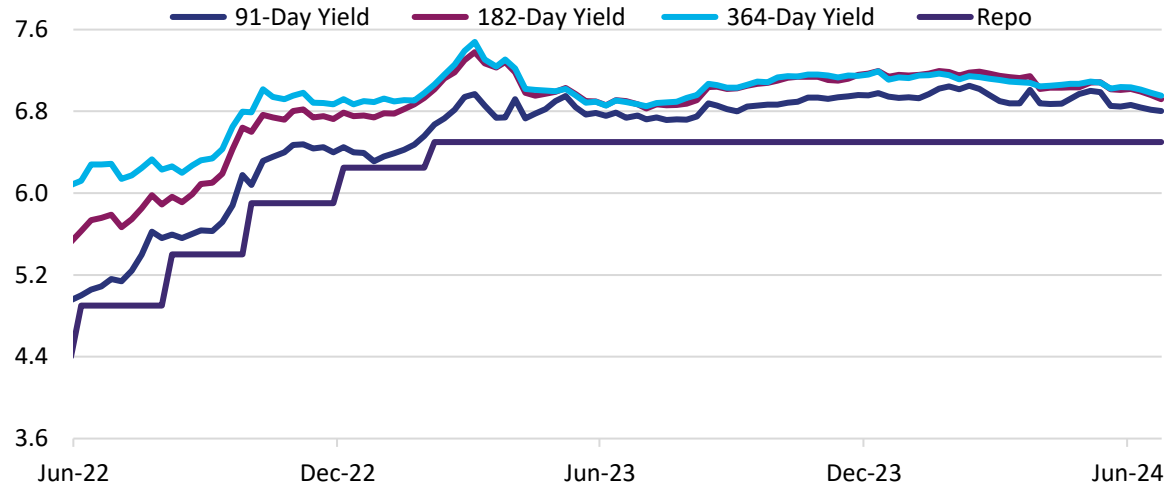
- Liquidity situation has been volatile in Jun'24 moving from surplus to deficit and back again. RBI has been managing this liquidity using VRR and VRRR auctions
- Money stock has steadily risen in the past year with rising deposits. Notably, currency with the public spiked recently

T-BILL ISSUANCES MODERATE

T-BILL OUTSTANDING (Rs. trn)



T-BILL PRIMARY YIELDS & REPO (%)



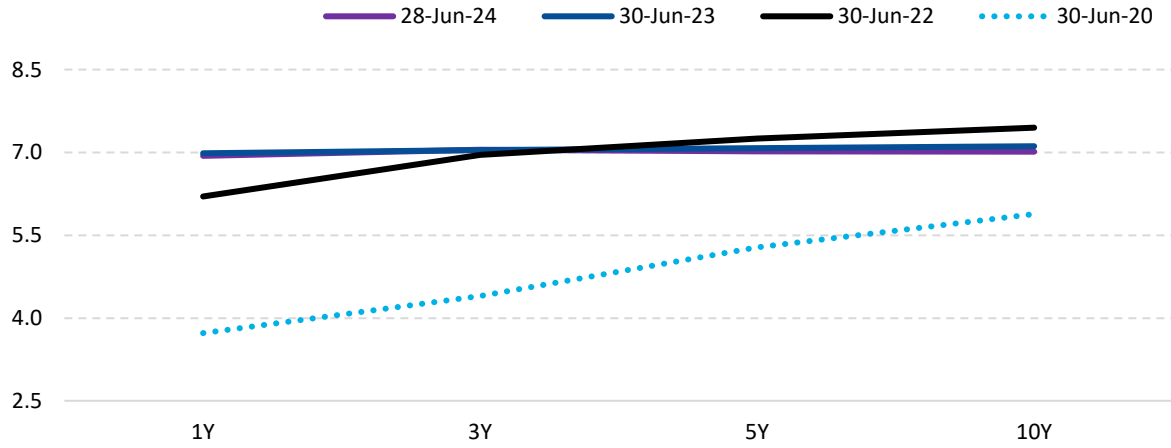
COMMERCIAL PAPER OUTSTANDING (Rs. trn)



- CP issuances rose to highest levels in CY24 in Jun'24, despite volatile liquidity scenario, dominated by NBFCs who are moving away from bank funding and tapping capital markets, albeit at higher rates
- T-bill yields have further eased at the end of Jun'24, attributable to lower supply in FY25

10Y UNION G-SEC YIELDS TO SETTLE BELOW 7%

YIELD CURVE (%)



G-SEC YIELD (5 YEARS) (%)



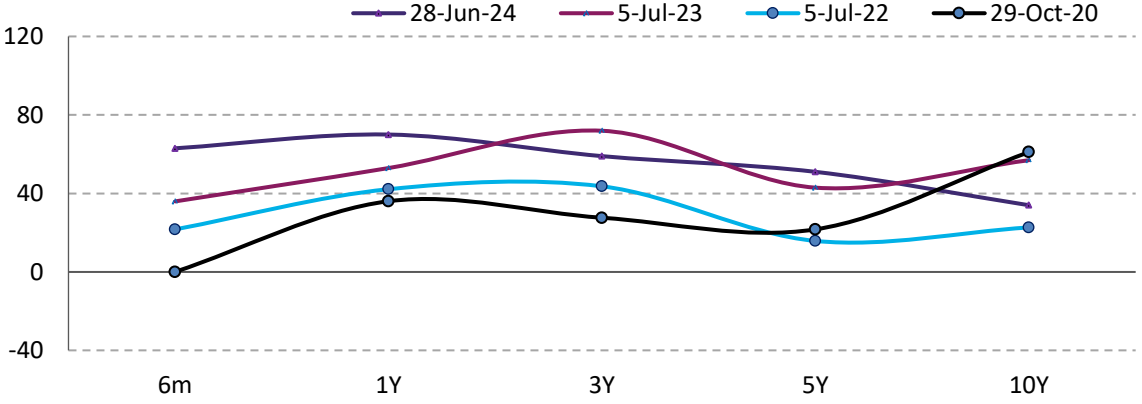
G-SEC YIELD (10 YEARS) (%)



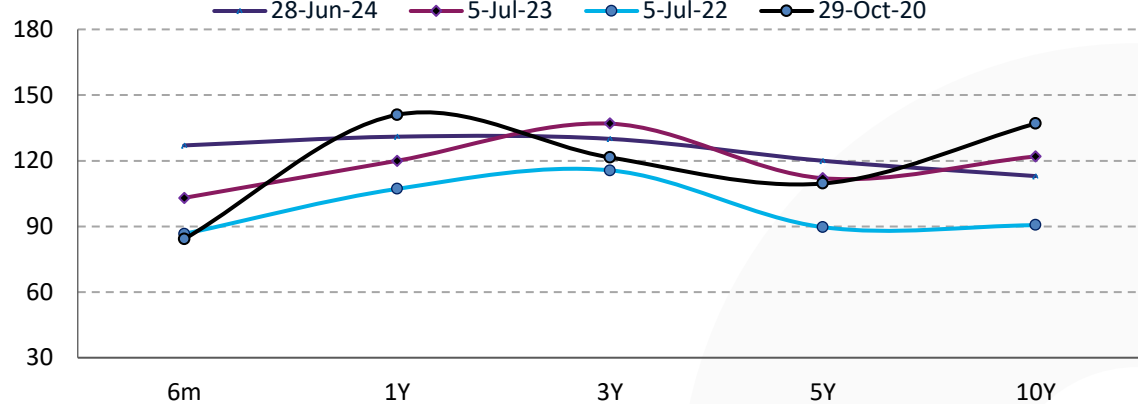
- 10Y yields have been oscillating on either side of the 7% mark, within a touching distance, after a volatile start to Jun'24
- Notably, moderate flows from bond inclusion commencing from 28th Jun'24 had less than expected impact on yields. Further flows are expected to lower the G-Sec yields over the coming 10 months
- *The continued glide path of fiscal consolidation, anticipated global monetary easing, cooling inflation, and expected rate cuts in Q3FY25, will ensure a descent of 10Y yields to 7% over the medium term*

CORPORATE SPREADS UP FROM PANDEMIC ERA

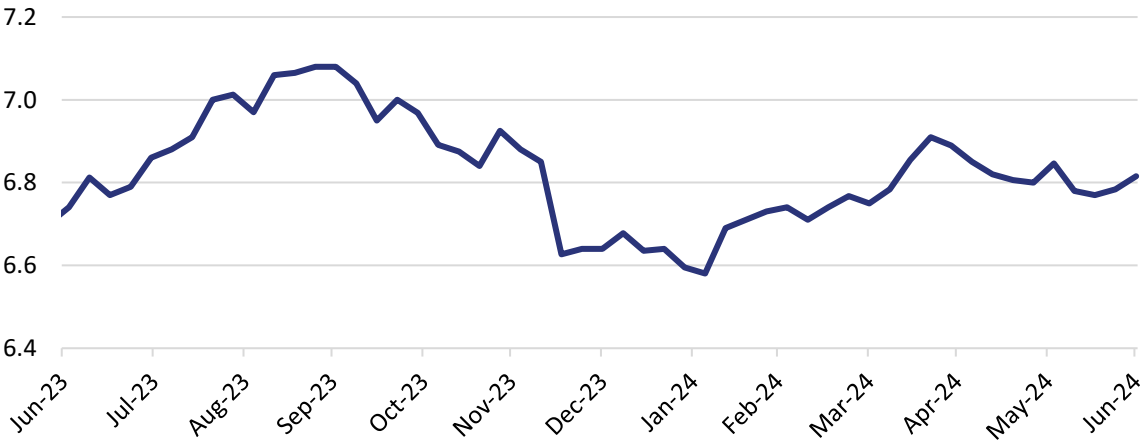
FIMMDA CORPORATE AAA SPREAD OVER GILT CURVE (bps)



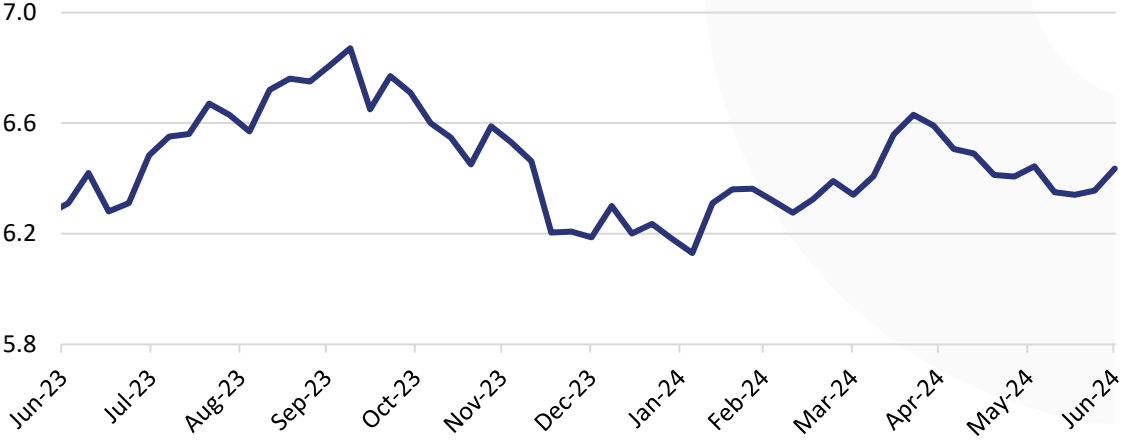
FIMMDA CORPORATE AA SPREAD OVER GILT CURVE (bps)



OIS 1-YEAR (%)



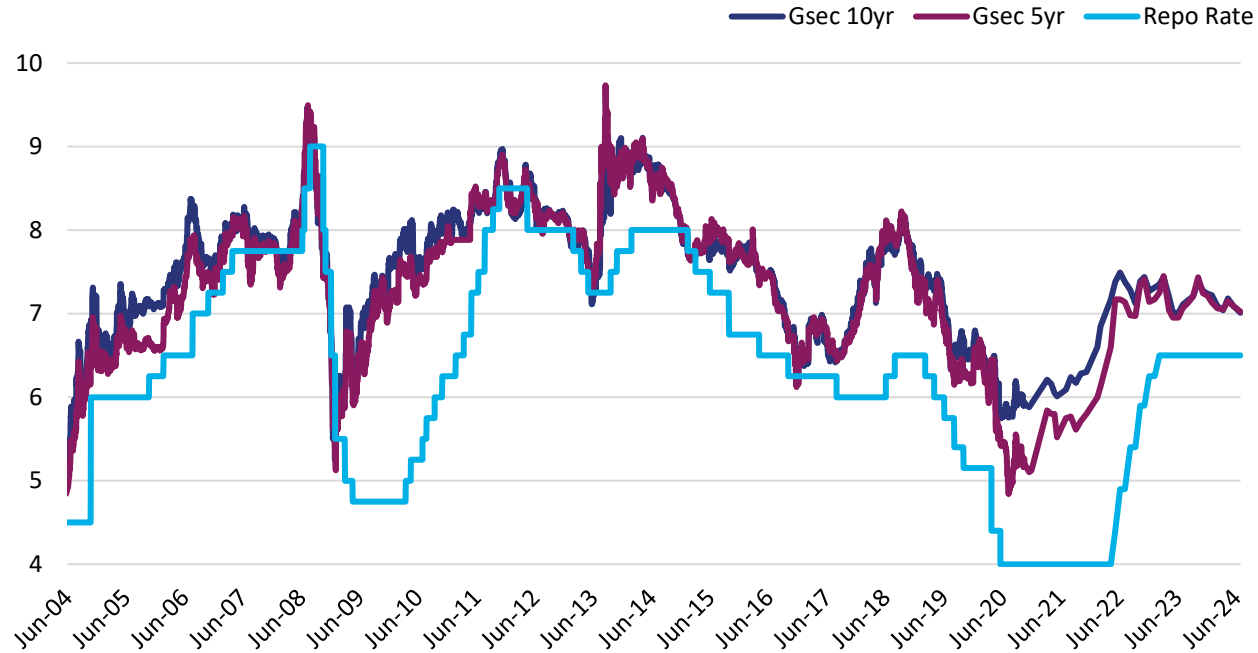
OIS 5-YEAR (%)



- OIS rates have steadily tracked movement in yields, indicating they are prey to liquidity shenanigans rather than rate cut expectations

YIELD OUTLOOK

KEY RATES (%)



Yield softening triggers

- Inclusion in global bond indices
- Liquidity surplus
- Softening in commodity prices due to global slowdown

- We expect headline inflation (CPI) to average 4.7% in FY25 with evenly balanced risks
- We expect general govt. (Union + State) fiscal deficit ~8% of GDP in FY25
- We expect 10Y G-Sec yields to fall below 7% in the coming months. Below are the upside and downside risks to our assumptions -

Yield hardening triggers

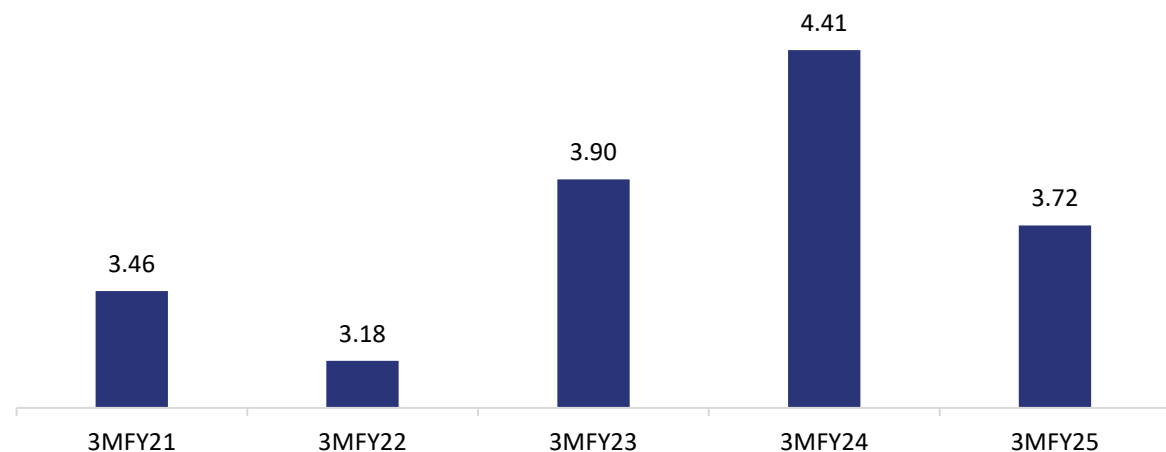
- Higher CPI print than estimate
- Higher crude price- impact on fiscal, inflation
- Higher govt. borrowing
- Currency volatility – 2013 and 2018 example

CAPITAL MARKETS

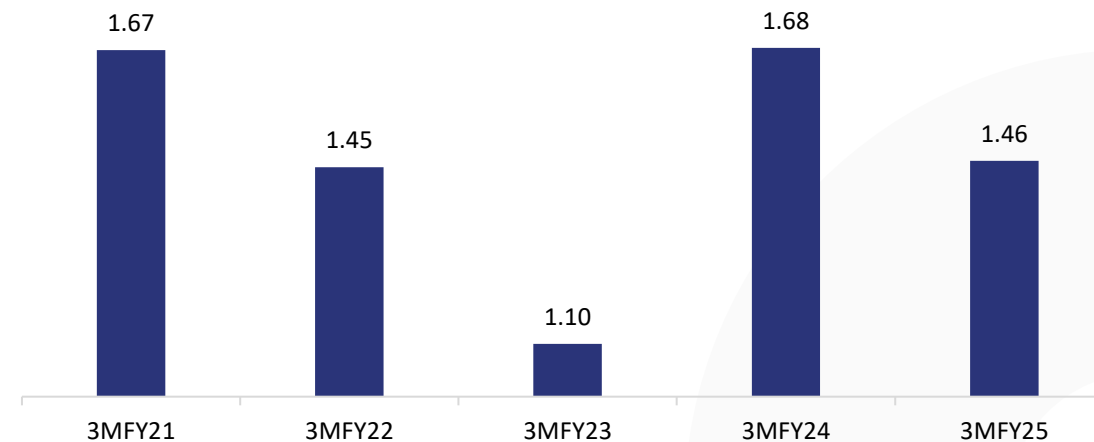


SGS ISSUANCE LOWER THAN INDICATIVE CALENDAR IN Q1

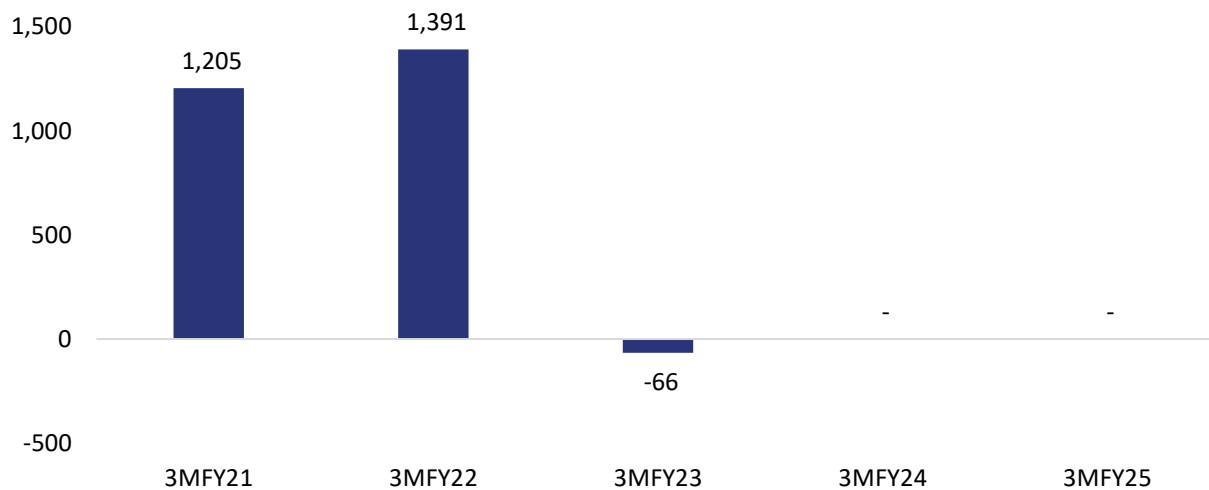
G-SEC: GROSS AMOUNT RAISED (Rs. trn)



SGS BIDS ACCEPTED YTD (Rs. trn)



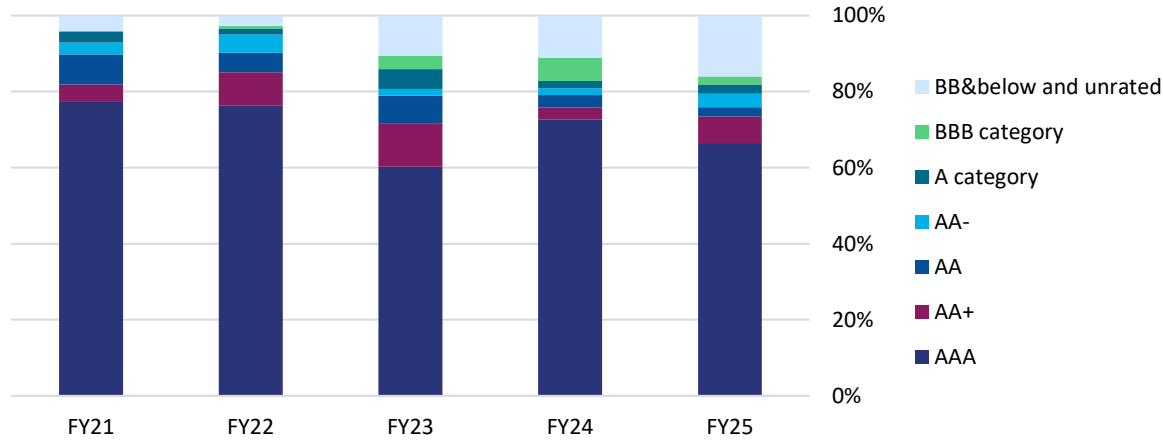
CUMULATIVE NET OMOS (Rs. bn)



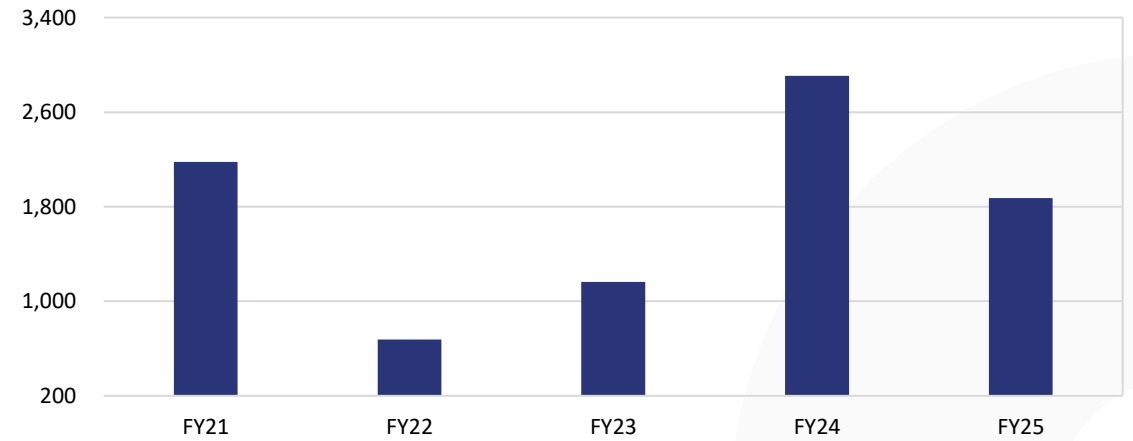
- Union's decision to repurchase G-Sec maturing in the next 6-9 months to inject liquidity is being met by subdued responses by market participants
- Jun'24 saw many states picking up on SGS issuances, as spending restrictions were lifted post elections. Yet, a ~15% shortfall exists on indicative amount in Q1FY25
- States are likely to borrow Rs. 2.64 trn in Q2FY25, led by Maharashtra (Rs. 550 bn), Tamil Nadu (Rs. 240 bn), and West Bengal (Rs. 230 bn). Aggregate WMA limit have been revised upwards to Rs. 601.2 bn (existing limit: Rs. 470.1 bn)

CORPORATE BOND ISSUANCE LOWER IN Q1FY25

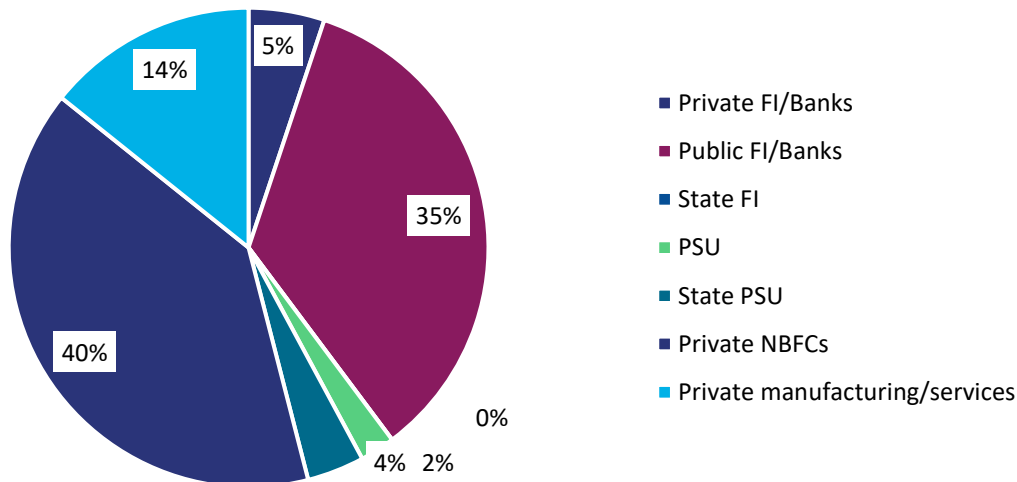
GROSS ISSUANCE (Rs. bn) WITH RATING SPLIT (%) UPTO 3MFY25



GROSS ISSUANCES – 3MFY (Rs. bn)



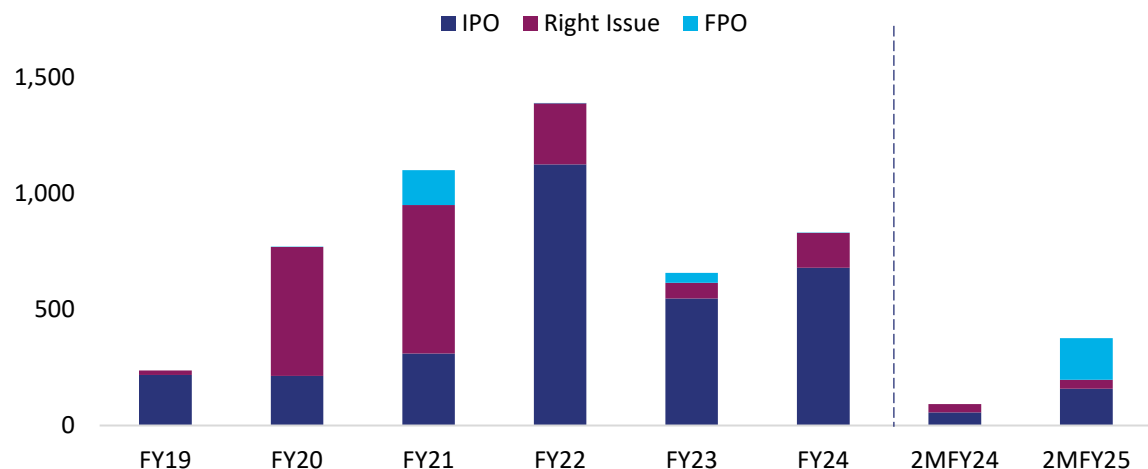
ISSUER TYPE WISE GROSS ISSUANCES BY AMOUNT- 3MFY25



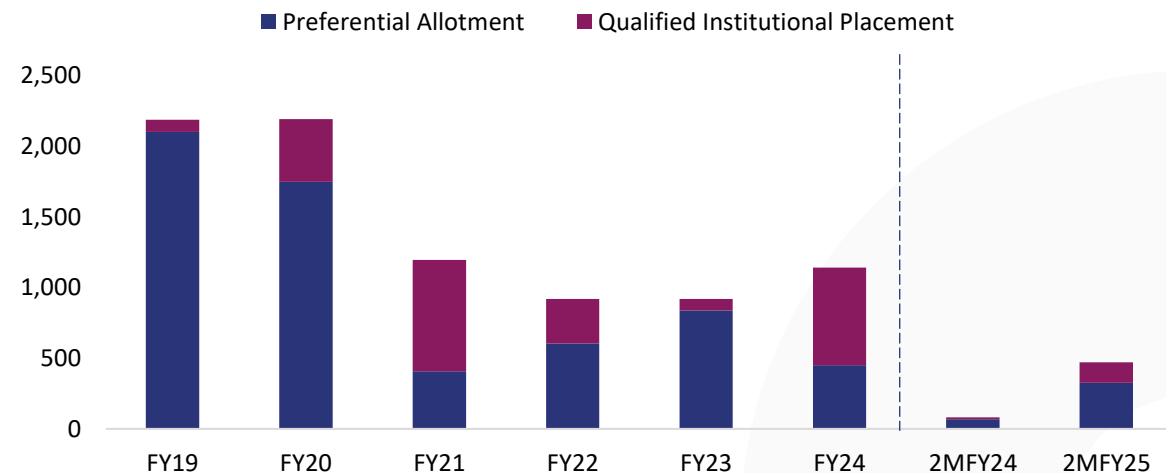
- Bond market issuances gathered steam in Q1FY25, albeit remaining lower than in Q1FY24
- Notably, higher amount of lower rated papers are being issued in FY25 than any of the previous 5 years
- NBFCs, public banks and other FIs are the major suppliers of corporate papers

TELECOM DIALS UP EQUITY ISSUANCES IN Q1

PUBLIC ISSUES BY CORPORATES (Rs. bn)



PRIVATE PLACEMENTS BY CORPORATES (Rs. bn)



EQUITY CAPITAL RAISED (Rs. bn)

Sector	FY24	2MFY25
Telecommunication	1.3	222.7
Financial Services	170.2	80.7
Healthcare	111.9	19.1
Consumer Services	87.0	15.8
Capital Goods	121.4	10.9
Others	339.2	27.4
Total	830.9	376.6

- Public issuances have experienced a significant spike at the start of FY25, driven by large FPO by a big telecom company.
- IPOs too continue to garner much attention as companies enjoy favourable valuations. Notably, pharmaceuticals, healthcare and insurers have seen action.
- QIPs maintain their momentum in FY25, after a hefty FY24, due to continued domination by financial services companies

05 GLOBAL SNAPSHOT



DOLLAR DEMAND RISES IN A BID TO SAFETY

COMMODITY	%1M CHANGE	%1Y CHANGE
LME Metals Index	-5%	13%
Copper	-9%	14%
Aluminium	-8%	16%
Iron Ore 62% Fe*	-9%	-5%
Gold	0%	22%
Brent Crude	5%	14%
Natural Gas	-1%	-8%
Newcastle Coal	-6%	4%

CURRENCIES	%1M CHANGE	%1Y CHANGE
DXY Index	1%	3%
USD/EUR	1%	2%
USD/JPY	3%	11%
USD/GBP	1%	0%
USD/CNY	0%	0%
USD/INR	0%	2%
USD/RUB	1%	17%

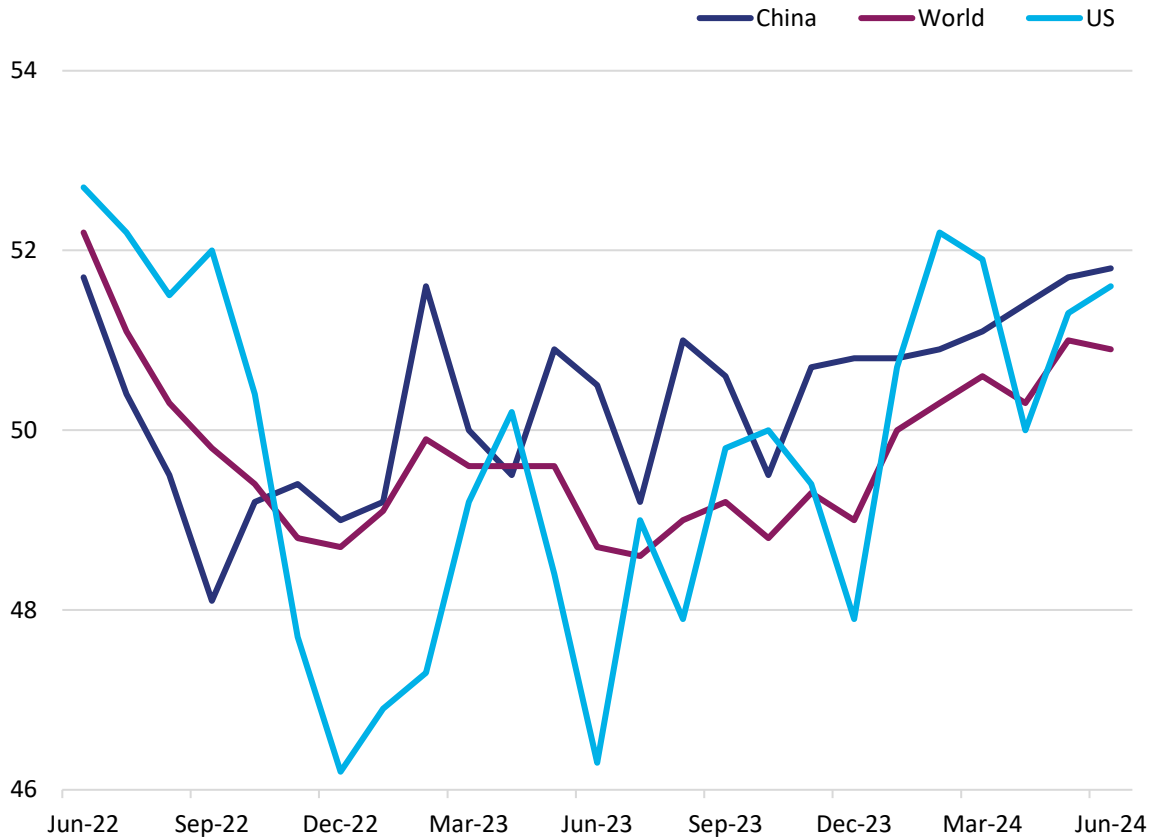
EQUITY INDICES	%1M CHANGE	%1Y CHANGE
S&P 500	3%	23%
Nikkei 225	3%	19%
STOXX Europe 600	-1%	11%
FTSE 100	-1%	9%
BSE Sensex 30	7%	23%
Hang Seng	-2%	-6%
IBOV	1%	5%

- Crude oil's strong rise in Jun'24 continues acquiring support from increasing geopolitical risk premium and bullish demand expectations with onset of summer in the northern hemisphere accentuated by inventory drawdowns vs buildup forecast
- Greenback gained against a basket of currencies in Jun'24 due to heightened demand from geopolitical tensions, despite a flurry of economic data indicating cuts
- Base metals have cut back on highs in Jun'24 due to tepid demand, despite supply concerns not fully alleviating still. Precious metals have continued ascending, only slowly

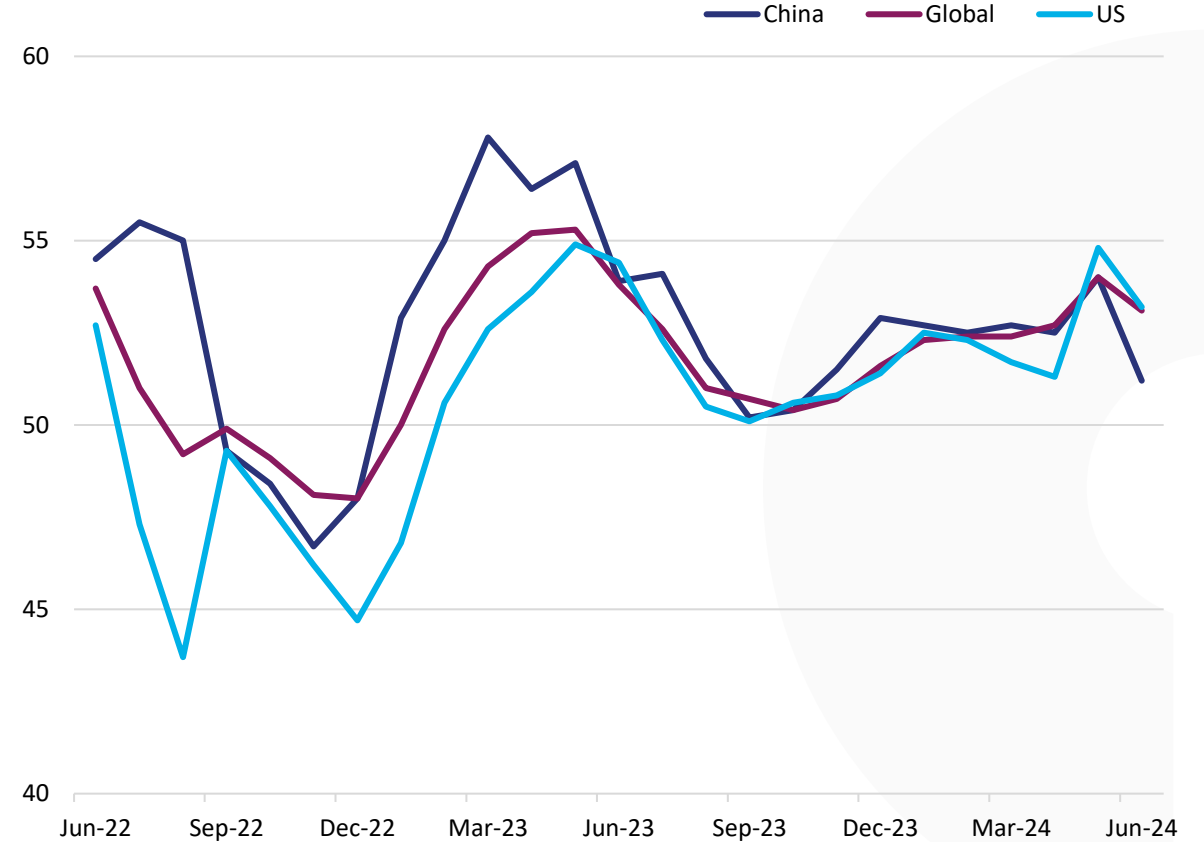
1Y & 1M change are as of 1 Jul'24, * CFR China

GLOBAL ECONOMY STILL EXPANSIONARY, MANUFACTURING ON THE BRINK

WORLD PMI- MANUFACTURING



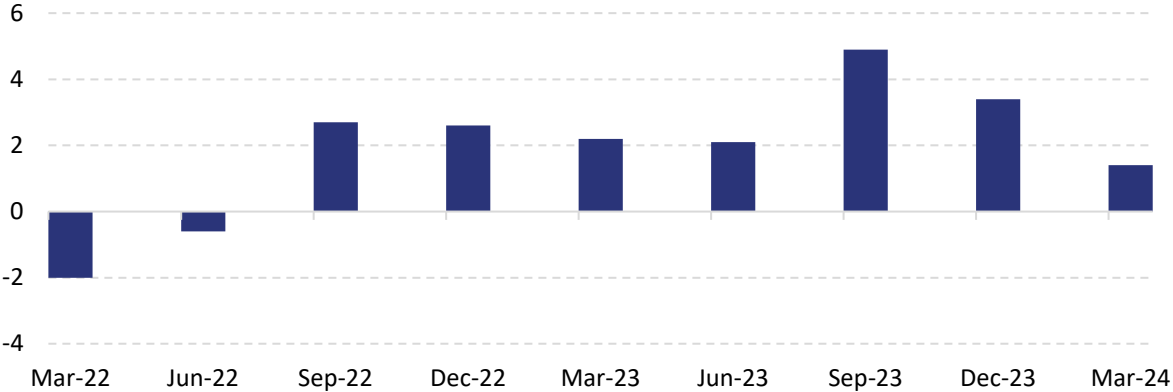
WORLD PMI- SERVICES



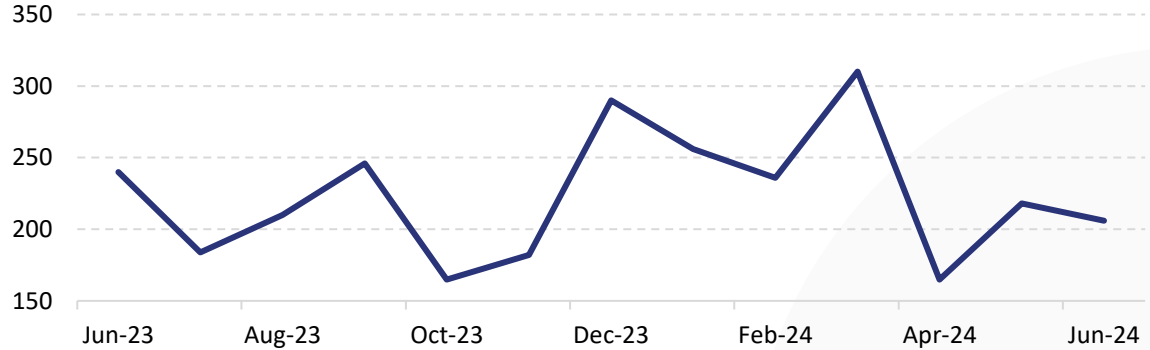
- Global manufacturing growth slowed in Jun'24 due to slowing demand, with weak expansion observed in Eurozone, while Asia fared comparatively better. US manufacturing grew finely, albeit lower than previously predicted, as inflationary pressures are yet to decline completely while demand remains lacklustre
- Services activity saw a broad-based slowdown world-wide, with slumping trade and rising inflation. Rising output and slower demand meant lower outstanding business

US ECONOMIC DATA STARTS POINTING SOUTHWARDS

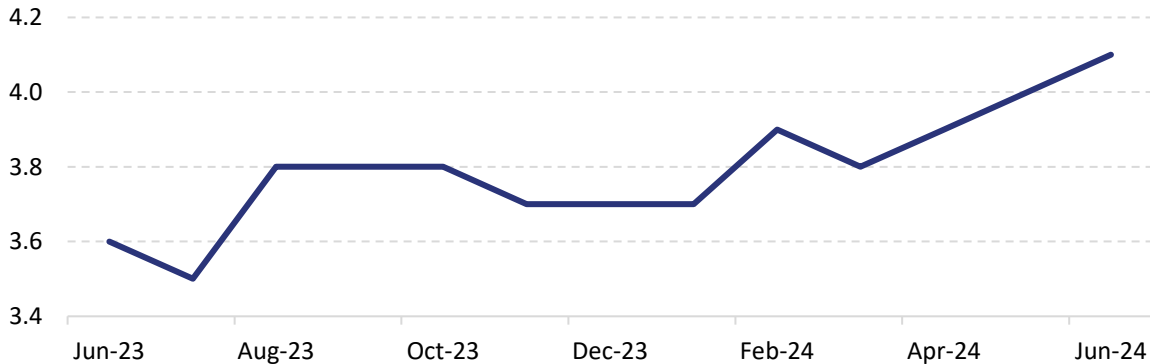
US REAL GDP GROWTH (% Q/Q SAAR)



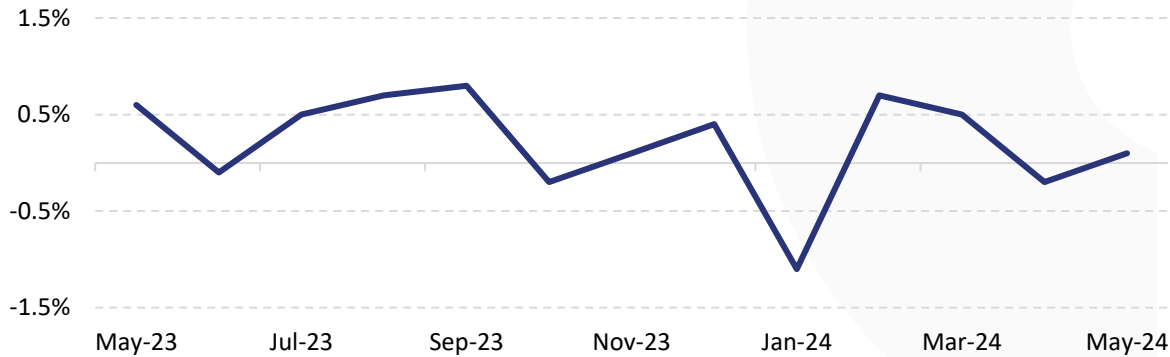
CHANGE IN NON-FARM PAYROLL ('000 M/M)



UNEMPLOYMENT RATE (%)



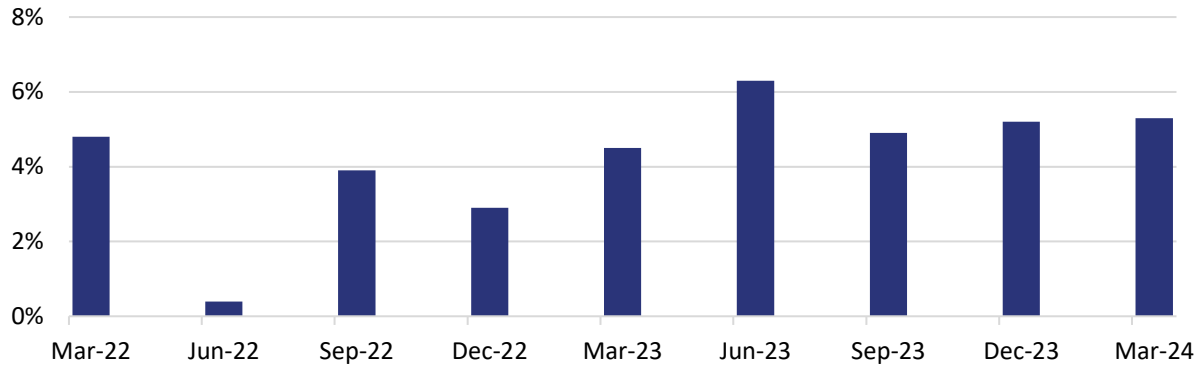
RETAIL SALES (% M/M)



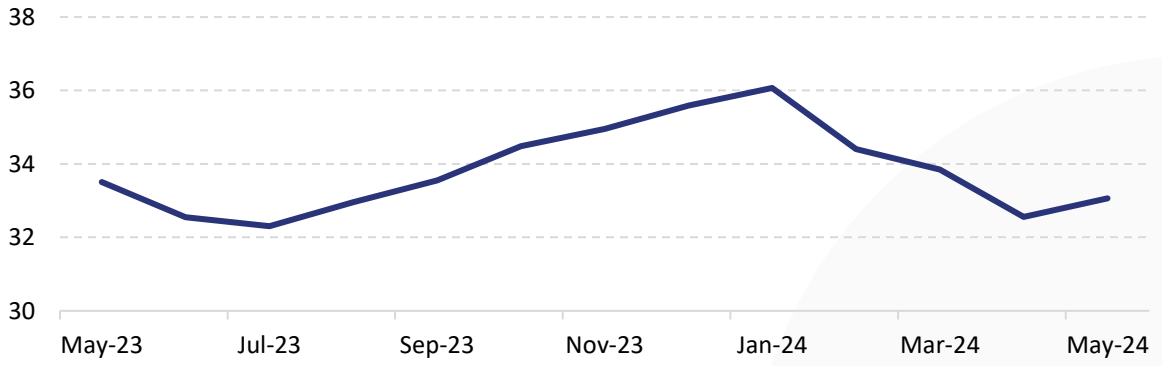
- US real GDP growth was upgraded 10bps to 1.4% q/q saar in the final estimate, albeit still dismal, with upward revision to fixed investments and government spending offset by downward revisions to strong consumer spending, amidst signs of high interest rate and inflation pressuring household budgets
- Non-farm payrolls have descended in Jun'24, with 111k downward revisions in previous 2-months, as labour market shows signs of cooling with unemployment rate inching upwards. Slowing growth and employment bodes well for Fed's rate cut timelines

CHINESE ECONOMY A MIXED BAG, POLICY PUSH STARTING TO PAY-OFF?

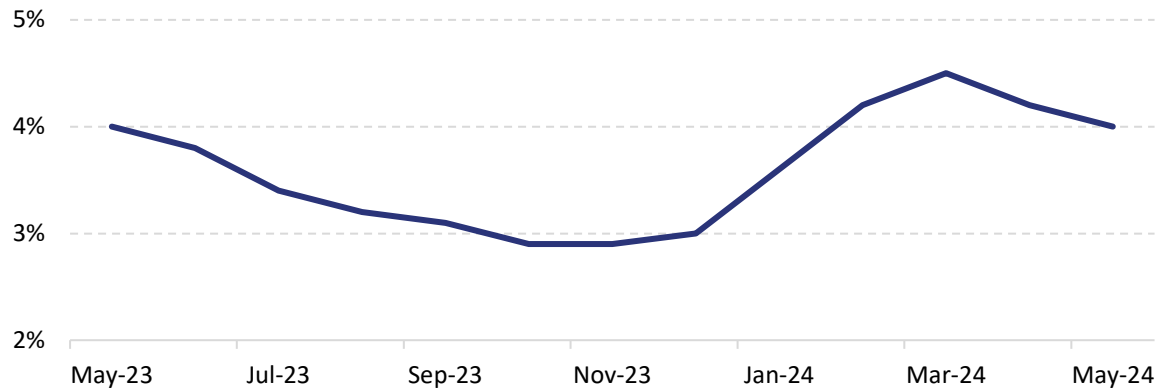
CHINA REAL GDP GROWTH (% Y/Y)



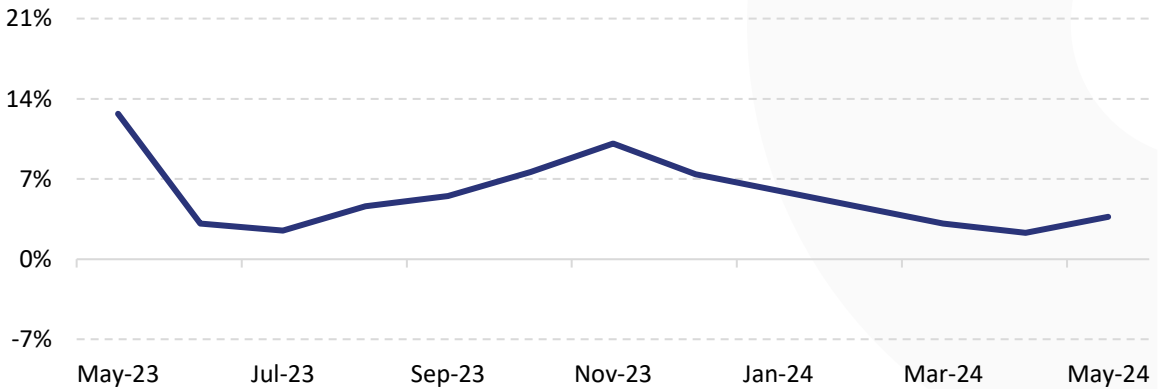
AGGREGATE FINANCING (CNY TRN) – 12M CUMULATIVE ROLLING



FIXED ASSET INVESTMENT (% Y/Y)



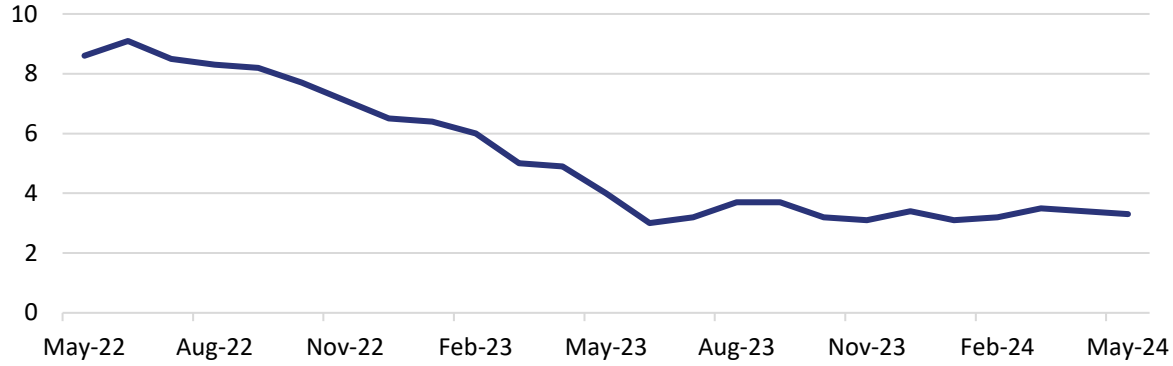
RETAIL SALES (% Y/Y)



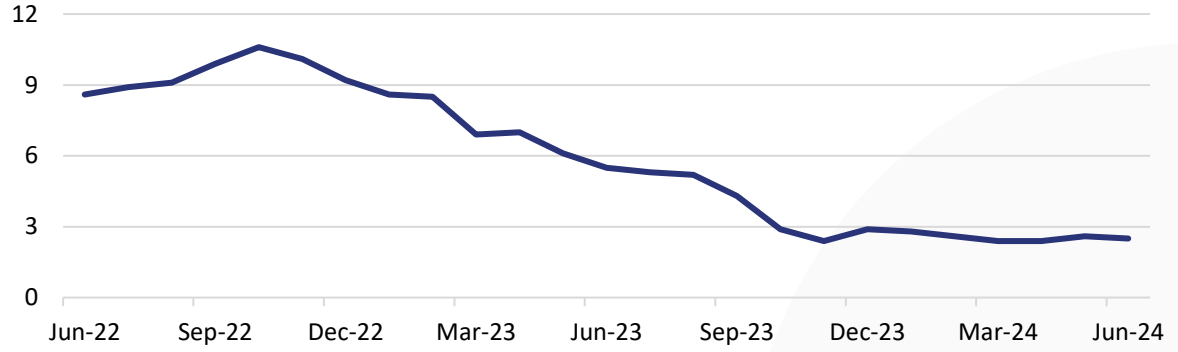
- China's economy is a coin with 2 sides with upbeat consumer side while industrial growth underachieves expectations and credit demand rose at the slowest pace y/y since 1978
- Although fixed asset investment missed the mark with 4% y/y growth, it bodes well to note that excluding the real estate sector drag, manufacturing investments rose 9.6% y/y underpinned by policy push as Politburo emphasizes on quality growth through technological breakthroughs and innovation

CENTRAL BANKERS MOVING FORWARD BEYOND INFLATION SCARE

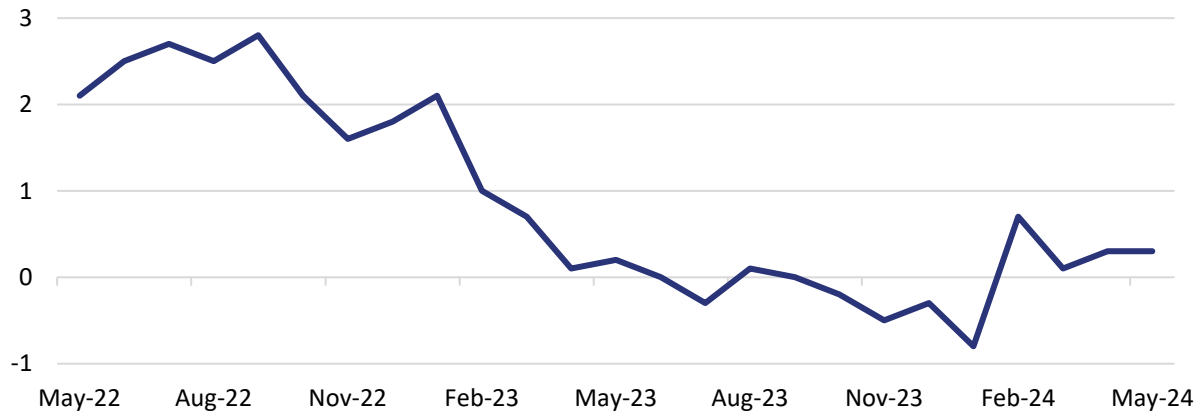
US CPI (% Y/Y)



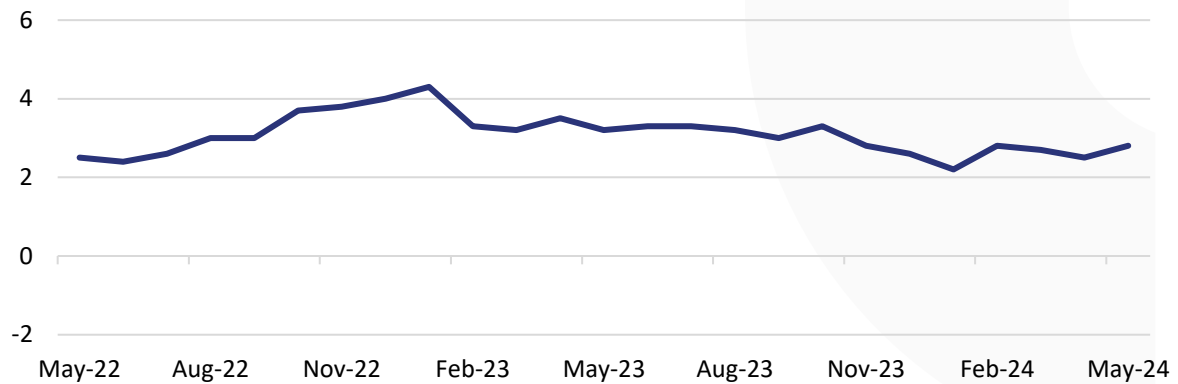
EUROZONE CPI (% Y/Y)



CHINA CPI (% Y/Y)



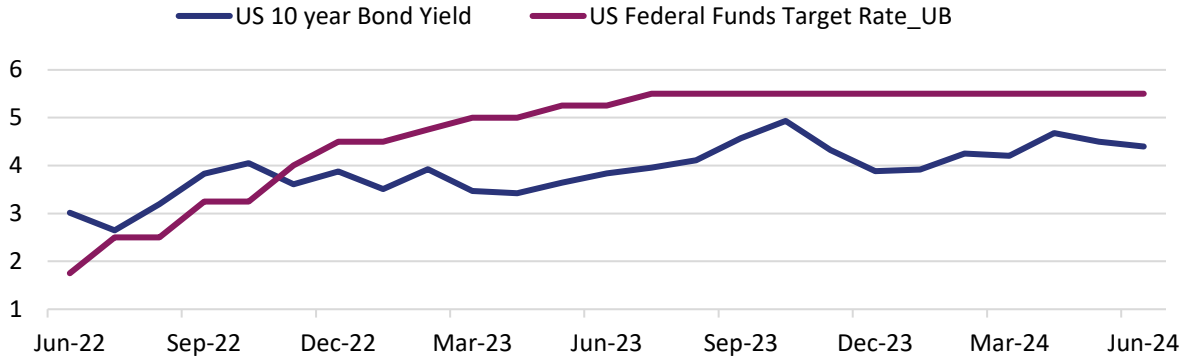
JAPAN CPI (% Y/Y)



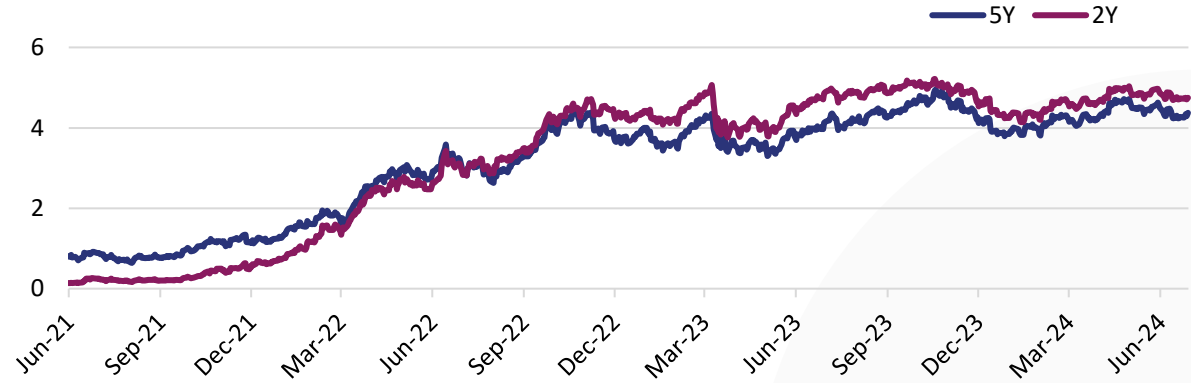
- Weak inflation in China warrants stimuli to prop up feeble demand while uptrending inflation keeps rate hike calls alive in Japan. ECB officials cheer subdued inflation
- Softer than expected US inflation have provided some respite, despite services and housing being a thorn in the US Fed's side

US RATE CUT EXPECTATIONS FLUCTUATING

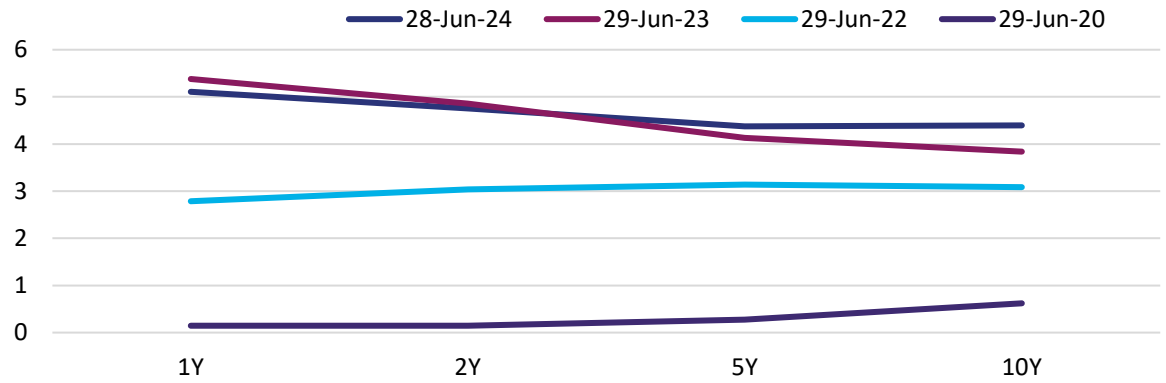
US 10-YEAR G-SEC YIELD VS POLICY RATE (%)



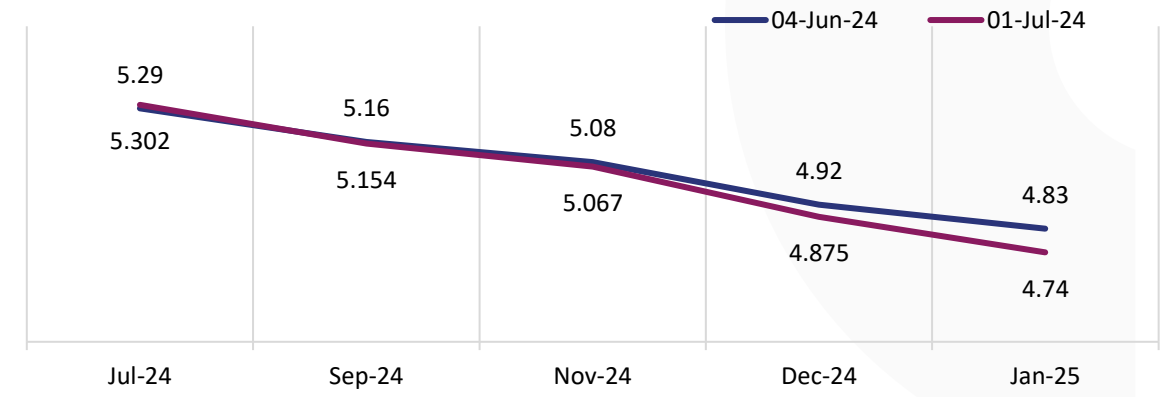
US 2Y AND 5Y G-SEC YIELD (%)



YIELD CURVE (%)



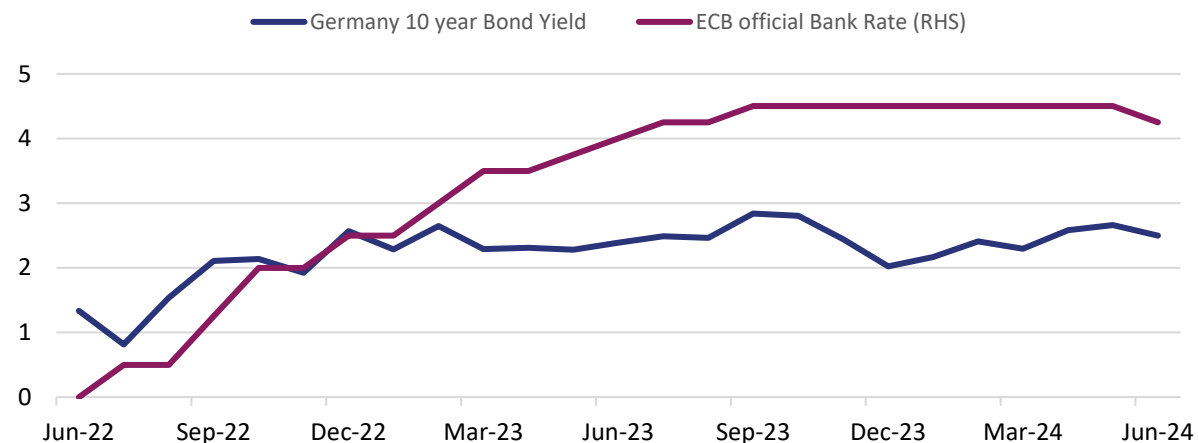
MARKET-IMPLIED PATH OF US FED POLICY RATE (%)



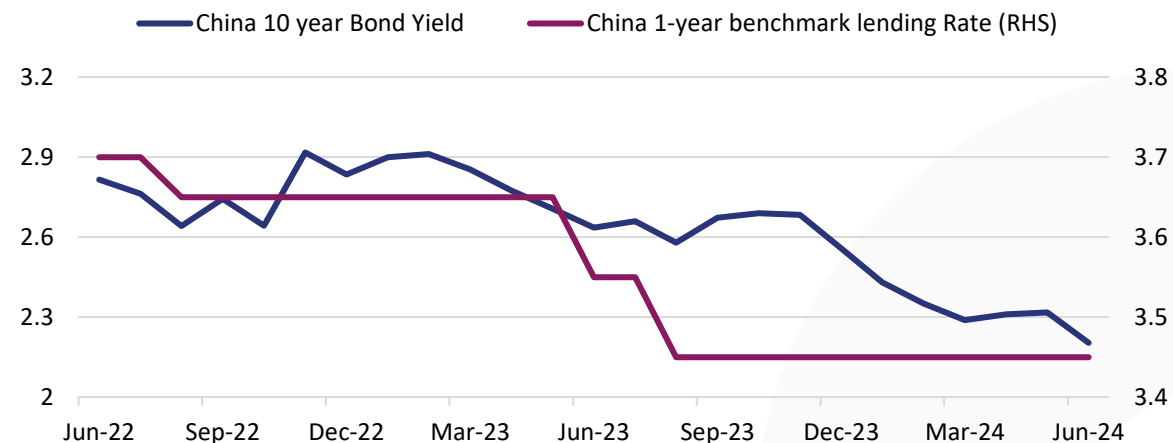
- US yields have refused to budge downwards, despite data indicating weakness with slowing growth, rising unemployment amidst tepid auction accentuated by election uncertainty Fed officials have subtly indicated contentment on inflation, with Mr. Powell chiming in on the progress without rattling market expectations
- Markets expectations of cuts have again been strengthened to 78% for Sep'24 cut in Jun'24 (52% in May'24) on the back of jobs data and Mr. Powell's subtle remarks

RATE CUTS GALORE AS CENTRAL BANKERS FOCUS ON GROWTH VS INFLATION

EUROZONE 10-YEAR BOND YIELD VS POLICY RATE (%)



CHINA 10-YEAR BOND YIELD VS POLICY RATE (%)



POLICY RATE OF OTHER MAJOR CENTRAL BANKS

REGION	FEB'20	MAR'21	MAR'22	MAR'23	CURRENT
England	0.75%	0.10%	0.75%	4.25%	5.25%
Japan	-0.10%	-0.10%	-0.10%	-0.10%	0.10%
Brazil	4.25%	2.75%	11.75%	13.75%	10.50%
Australia	0.75%	0.10%	0.10%	3.60%	4.35%
Canada	2.00%	0.50%	0.75%	4.50%	4.75%
S. Korea	1.25%	0.50%	1.25%	3.50%	3.50%
S. Africa	6.25%	3.50%	4.25%	7.75%	8.25%
Russia	6.00%	4.50%	20.00%	7.50%	16.00%

- Latin American Central Banks continue their downward rate trajectory with Colombia cutting benchmark by 50 bps to 11.25% supporting growth, while holding tight on inflation front
- Chile cut rates by 25 bps to 5.75%, reducing its pace of cuts, despite ebbing inflation, citing global headwinds and uncertain US economic cues
- Swiss Central Bank cut its rates by 25 bps due to improving growth prospects, while Czech Republic (50 bps), Hungary (25 bps) have followed suite with ECB instating rate cuts

ECONOMIC CALENDAR



GLOBAL ECONOMIC CALENDAR – (08 JUL – 16 JUL)

Date	Area	Event	Period
8	JN	BoP Current Account Balance	May
9	MX	CPI YoY	Jun
10	JN	PPI YoY	Jun
10	CH	PPI YoY	Jun
10	CH	CPI YoY	Jun
10	TU	Industrial Production YoY	May
10	BZ	IBGE Inflation IPCA YoY	Jun
10	US	Wholesale Inventories MoM	May F
10	RU	CPI YoY	Jun
11	JN	Core Machine Orders YoY	May
11	UK	Monthly GDP (MoM)	May
11	UK	Industrial Production YoY	May
11	UK	Trade Balance GBP/Mn	May
11	US	CPI YoY	Jun
11	US	Real Avg Weekly Earnings YoY	Jun
11	GE	Wholesale Price Index YoY	Jun
11	CH	FDI YTD YoY CNY	Jun
12	JN	Industrial Production YoY	May F
12	FR	CPI YoY	Jun F
12	SP	CPI YoY	Jun F
12	IN	CPI YoY	Jun
12	IN	Industrial Production YoY	May

Date	Area	Event	Period
12	US	PPI Final Demand YoY	Jun
12	US	U. of Mich. Current Conditions	Jul P
12	CH	Trade Balance	Jun
12	GE	Retail Sales MoM	May
13	AR	National CPI YoY	Jun
15	CH	1-Yr Medium-Term Lending Facility Rate	Jul
15	CH	GDP YoY	2Q
15	CH	Industrial Production YoY	Jun
15	CH	Retail Sales YoY	Jun
15	CH	Fixed Assets Ex Rural YTD YoY	Jun
15	CH	Property Investment YTD YoY	Jun
15	CH	Surveyed Jobless Rate	Jun
15	IN	Wholesale Prices YoY	Jun
15	PD	CPI YoY	Jun F
15	IN	Trade Balance	Jun
16	IT	CPI EU Harmonized YoY	Jun F
16	GE	ZEW Survey Expectations	Jul
16	EC	ZEW Survey Expectations	Jul
16	EC	Trade Balance SA	May
16	CA	CPI YoY	Jun
16	US	Retail Sales Advance MoM	Jun
16	US	NAHB Housing Market Index	Jul

GLOBAL ECONOMIC CALENDAR – (17 JUL – 31 JUL)

Date	Area	Event	Period
17	NZ	CPI YoY	2Q
17	UK	CPI YoY	Jun
17	ID	BI-Rate	Jul
17	EC	CPI YoY	Jun F
17	US	Building Permits	Jun
17	US	Housing Starts	Jun
17	US	Industrial Production MoM	Jun
17	RU	PPI YoY	Jun
18	JN	Trade Balance	Jun
18	UK	ILO Unemployment Rate 3Mths	May
18	EC	ECB Deposit Facility Rate	Jul
18	SA	SARB Announce Interest Rate	Jul
19	UK	GfK Consumer Confidence	Jul
19	JN	Natl CPI YoY	Jun
19	UK	Retail Sales Inc Auto Fuel YoY	Jun
19	GE	PPI YoY	Jun
22	NZ	Trade Balance NZD	Jun
22	CH	1-Year Loan Prime Rate	Jul
22	PY	Monetary Policy Rate	Jul
23	TU	One-Week Repo Rate	Jul
23	HU	Central Bank Rate Decision	Jul
23	EC	Consumer Confidence	Jul P

Date	Area	Event	Period
23	US	Existing Home Sales	Jun
23	NG	Central Bank Interest Rate	Jul
24	GE	GfK Consumer Confidence	Aug
24	SP	PPI YoY	Jun
24	SA	CPI YoY	Jun
24	US	Advance Goods Trade Balance	Jun
24	CA	Bank of Canada Rate Decision	Jul
24	US	New Home Sales	Jun
24	RU	Industrial Production YoY	Jun
25	SK	GDP YoY	2Q A
25	GE	IFO Business Climate	Jul
25	SA	PPI YoY	Jun
25	US	GDP Annualized QoQ	2Q A
25	US	Core PCE Price Index QoQ	2Q A
25	VN	CPI YoY	Jul
26	FR	Consumer Confidence	Jul
26	RU	Key Rate	Jul
27	CH	Industrial Profits YTD YoY	Jun
30	JN	Jobless Rate	Jun
30	EC	GDP SA YoY	2Q A
30	US	Conf. Board Consumer Confidence	Jul
31	JN	Retail Sales YoY	Jun

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