



ECOCAPSULE

IF A STELLAR FY24 HAS COME, CAN A STRONG FY25 BE FAR BEHIND?

10 June 2024



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FY24 sees sizzling growth in India boosted by government capex: fervent manufacturing and services activity signals a strong start to FY25

FY24 recorded an impressive 8.2% y/y real growth, propelled by government capex & manufacturing rebound, adorned by a notably low GDP deflator. High frequency indicators showed continued momentum in 2MFY25, especially in energy goods. *We expect a real growth of 7% y/y for FY25, a tad lower than the RBI*

Economic expansion has not come at the cost of fiscal expansion: bulky tax revenues, balanced revex, and RBI's bumper dividend to limit India's fiscal deficit

The fiscal deficit came at 5.6% of GDP as per FY24P, outperforming FY24RE of 5.8%. There was a sharp growth in net tax revenues, with the government keeping overall expenditure in check, raising the quality instead. *We project continued tempering of fiscal deficit, with sufficient cushion provided by RBI dividend*

Food inflation to remain volatile in India even as a cooling Core keeps the headline in check for now

Headline inflation averaged 5.4% y/y in FY24, cooling significantly from FY22 highs, largely due to consistently ebbing Core. Stable Core, favorable base effects in food and fuel, bountiful monsoons, and moderating crude prices support our outlook of headline averaging 4.7% in FY25. Risks to this outlook include volatility in TOP prices due to lower-than-expected production and potential increases in protein prices

The world is taking note of these achievements as S&P has upped its outlook on India's sovereign rating to "Positive" from "Stable"

This was done sensing a structural shift in growth and spending patterns, with a rating upgrade possible in 2 years subject to fiscal prudence and effective monetary policy keeping inflation down durably. Rating agencies also chose to retain their rosy predictions amidst possible shifts in the fiscal compass

RBI delivers a status quo policy but says more than nothing: hints at policy discourse evolution through voting patterns and decoupling from the US Fed

Maintaining its focus on financial stability through counter-cyclical buffers, the changed voting pattern (4-2 vs. 5-1 last time) indicated a change in the making. The Governor's insistence on the RBI not necessarily going the way of the US Fed also indicated a possible delinking on policy trajectories

Challenges of last mile-disinflation may hinder early policy rate cut by US FED

US real GDP grew 1.3% q/q saar in Q1CY24, missing expectations, while PCE prices rose 2.7% y/y. Better non-farm payroll data has tempered market expectations of rate cuts to 1-2 cut in CY24, with probability of Sep'24 cut dwindling down

10-year Indian G-Sec's descent may face bouts of volatility, but remains unhindered, led by strong fundamentals

The continued glide path of fiscal consolidation, anticipated global monetary easing, bond-inclusion flows starting this month, cooling inflation, and expected rate cuts in late CY24 or early CY25, *ensure a descent of 10-year yields to 7% over the medium term*

01 MACROECONOMIC OVERVIEW



INDIA'S REAL GDP GROWS FASTER THAN EXPECTED IN FY24, SET FOR GOOD 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, higher than the second advanced estimate of 7.6% 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, with real GDP growth to be closer to 7.0% 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: A SUMMER OF SUCCESS FOR INDUSTRY

Indicator	Jun'23	Jul'23	Aug'23	Sep'23	Oct'23	Nov'23	Dec'23	Jan'24	Feb'24	Mar'24	Apr'24	May'24
Industry												
Manufacturing PMI	57.8	57.7	58.6	57.5	55.5	56	54.9	56.5	56.9	59.1	58.8	57.5
IIP (%y/y)	4.0%	6.2%	10.9%	6.4%	11.9%	2.5%	4.2%	4.1%	5.6%	4.9%		
Eight Core (%y/y)	8.4%	8.6%	13.4%	9.4%	12.7%	7.9%	4.9%	4.1%	7.1%	6.0%	6.2%	
Finished Steel Consumption (%y/y)	15.8%	17.6%	21.5%	18.7%	13.8%	16.1%	21.5%	12.7%	8.6%	4.6%	11.3%	
2W Sales (%y/y)	6.8%	8.2%	6.3%	21.7%	-12.6%	21.1%	27.6%	15.0%	13.6%	5.4%	33.2%	2.5%
PV Sales (%y/y)	4.8%	4.0%	6.5%	19.0%	-1.4%	17.2%	2.7%	13.3%	14.9%	-6.2%	15.9%	-1.0%
Services/Consumption												
Services PMI	58.5	62.3	60.1	61.0	58.4	56.9	59	61.8	60.6	61.2	60.8	60.2
Petrol Consumption (%y/y)	6.2%	6.3%	2.9%	8.2%	4.8%	9.4%	0.2%	9.7%	8.9%	7.0%	14.2%	2.4%
Diesel Consumption (%y/y)	3.0%	3.8%	5.2%	3.8%	9.3%	-3.1%	-2.3%	3.4%	6.2%	3.1%	1.4%	1.8%
Railway Freight Volume (%y/y)	-0.9%	3.1%	8.5%	8.3%	10.6%	6.3%	8.5%	9.2%	12.4%	9.6%	5.1%	4.3%
Port Cargo Volume (%y/y)	0.4%	4.3%	4.4%	0.3%	13.8%	17.0%	0.9%	3.2%	2.3%	4.8%	1.3%	4.0%
Electricity supply (% y/y)	4.3%	8.3%	16.3%	10.3%	20.9%	6.1%	1.6%	6.1%	8.4%	1.4%	11.0%	15.0%
Total Airport Footfall (%y/y)	20.5%	25.8%	23.2%	19.4%	11.9%	10.7%	9.9%	7.2%	8.1%	6.5%	6.0%	
Fastag revenues (%y/y)	20.9%	19.7%	21.9%	19.9%	24.4%	14.1%	18.6%	15.5%	19.2%	17.2%	8.6%	8.7%
UPI transactions (%y/y)	45.5%	44.2%	46.9%	41.4%	41.6%	46.1%	42.2%	41.7%	47.9%	40.8%	38.8%	37.3%
GST Revenues (%y/y)	11.7%	10.8%	10.8%	10.2%	13.4%	15.1%	10.3%	10.5%	12.5%	11.5%	12.4%	10.0%

FERVENT ACTIVITY IN EARLY FY25 UNDERSCORES ECONOMIC EXCELLENCE

Manufacturing in FY25 inherits the momentum seen in FY24

- Sharply expansionary manufacturing activity in May'24 was underpinned by demand strength, especially 13-year high international sales
- Eight Core index grew at a pace of 6.2% y/y in Apr'24, with activity strongest in fuels such as coal, natural gas and electricity
- India became a net exporter of finished steel in FY24, as imports growth outpace exports, with expectations of much better demand in CY24 vs. the world
- Auto sales exuberance of FY24 has carried on to FY25, as election season leads to boosted sales. This is despite a considerable base from FY24

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, improved productivity and robust demand
- Power consumption surged by 15% y/y to 156.3 BU in May'24 as scorching heat led to increased use of cooling appliances. Early Jun'24 saw continued momentum as peak demand set records
- UPI transactions broke the Rs. 20 trn mark by value in May'24, its highest ever showing, showcasing India's leadership in digital payments. Notably, Peru has tied up with NCPI in order to facilitate instant payments to its underbanked population.

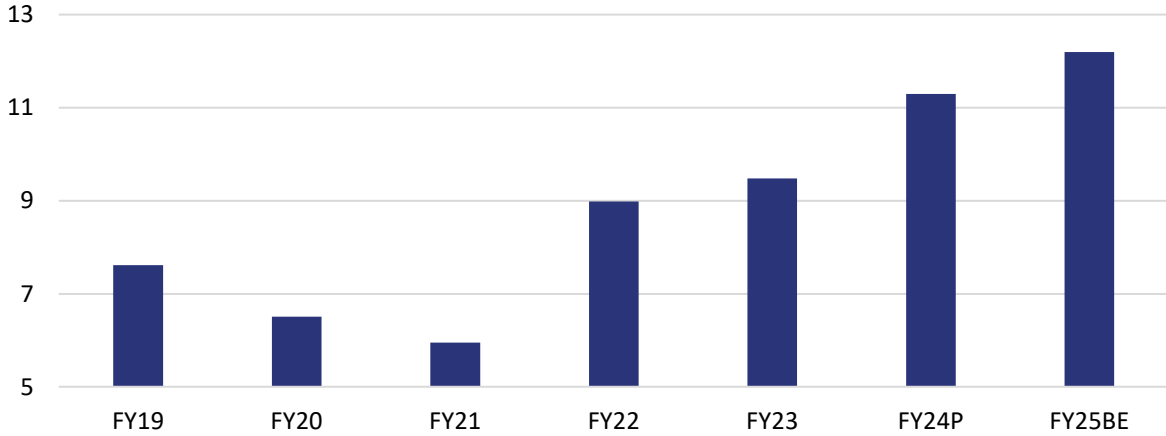
UNION FISCAL POSITION: PATH OF CONSOLIDATION CONTINUES

ITEM (Rs. bn)	FY23A	FY24BE	FY24RE	FY25BE	GROWTH FY24RE/FY23A	GROWTH FY25BE/FY24RE	FY24P	FY24P /FY24RE
Corporation Tax	8,258	9,227	9,227	10,428	11.7%	13.0%	9,111	99%
Income Tax	8,333	9,006	10,223	11,560	22.7%	13.1%	10,109	99%
Customs Duty	2,134	2,331	2,187	2,313	2.5%	5.8%	2,331	107%
Excise Duty	3,190	3,390	3,081	3,235	-3.4%	5.0%	3,053	99%
Service Tax	4	5	5	1	16.0%	-80.0%	4	85%
GST	8,491	9,566	9,566	10,677	12.7%	11.6%	9,621	101%
Other Taxes	132	84	83	94	-36.9%	13.1%	419	505%
Gross tax revenue	30,542	33,609	34,372	38,308	12.5%	11.5%	34,648	101%
(-) Transfer to States, UTs	9,484	10,214	11,045	12,198	16.5%	10.4%	11,295	102%
Net tax revenue	20,978	23,306	23,239	26,016	10.8%	11.9%	23,265	100%
Non-Tax Revenue	2,854	3,017	3,758	3,997	31.7%	6.4%	4,019	107%
Non-debt Capital Receipts	722	840	560	790	-22.4%	41.1%	605	108%
Total Receipts	24,554	27,163	27,557	30,803	12.2%	11.8%	27,889	101%
Revenue Expenditure	34,531	35,021	35,402	36,547	2.5%	3.2%	34,940	99%
Capital Expenditure	7,400	10,010	9,502	11,111	28.4%	16.9%	9,485	100%
Total Expenditure	41,932	45,031	44,905	47,658	7.1%	6.1%	44,425	99%
Revenue Deficit	10,699	8,699	11,105	6,534	3.8%	-41.2%	7,656	91%
Fiscal Deficit	17,378	17,868	17,348	16,855	1.0%	-4.0%	16,537	95%
Nominal GDP	2,72,410	3,01,750	2,96,577	3,27,718	8.9%	10.5%		

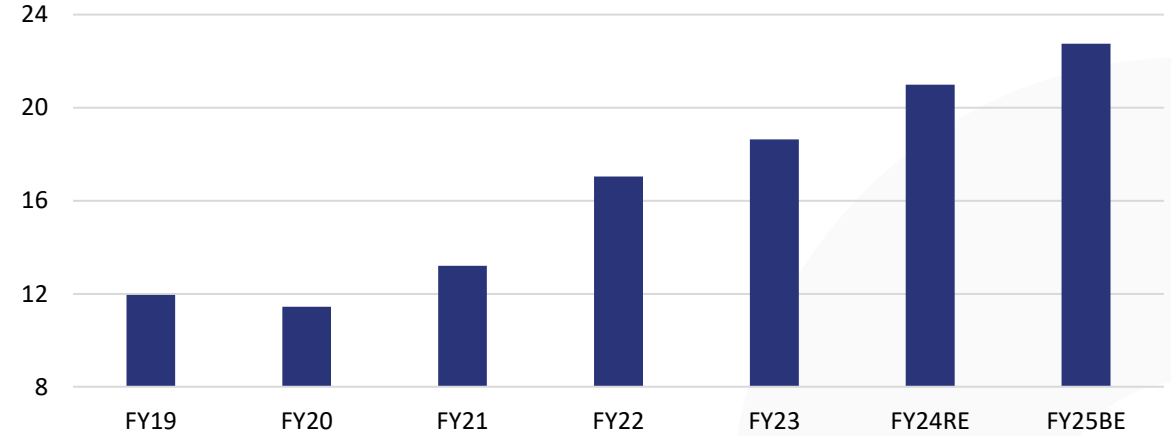
- The Union outperformed FY24RE target for fiscal deficit of 5.8% to reach 5.6% (of nominal GDP), helped by buoyant net tax revenue growth and measured revex increase. In light of this fiscal prudence, S&P improved its outlook to “Positive” from “Stable”, with a fiscal-linked glide path to a higher rating in the next 24 months

TRANSFERS TO STATES FROM THE UNION STEADILY GROWING

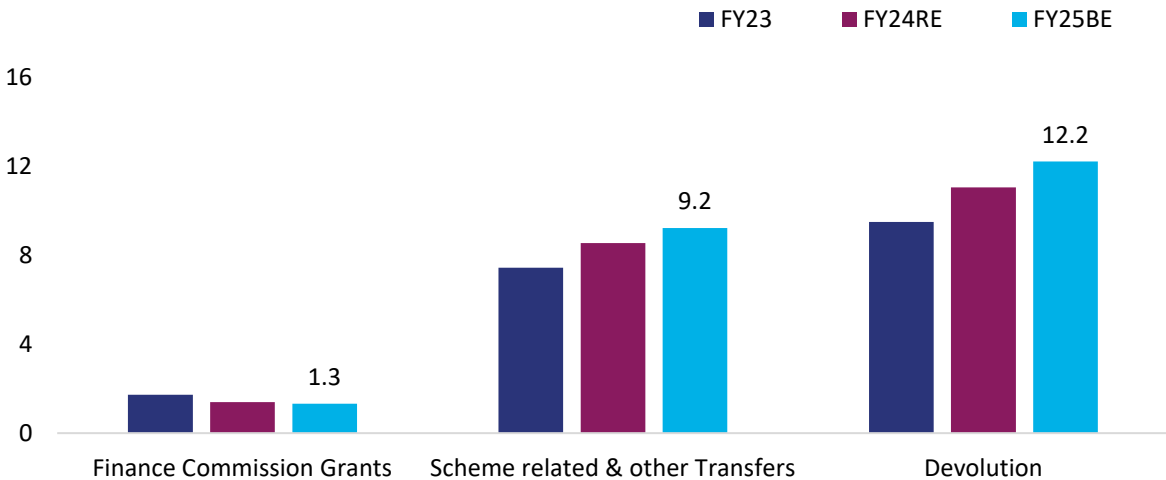
STATES SHARE IN UNION TAXES (Rs. trn)



TOTAL TRANSFER TO STATES AND UTs (Rs. trn)



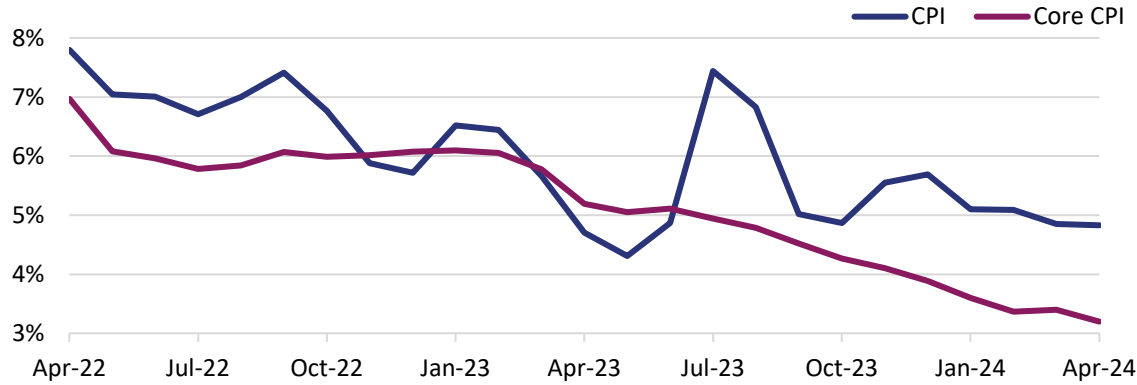
COMPOSITION OF TRANSFERS TO STATES (Rs. trn)



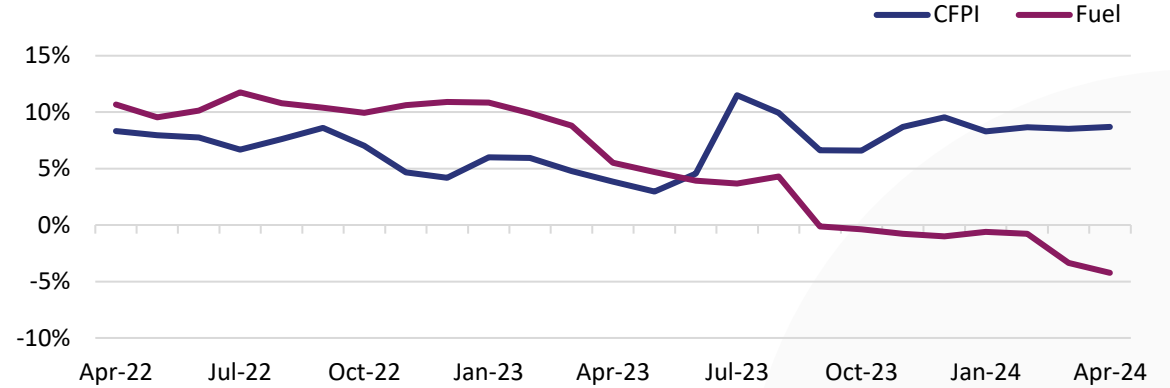
- FY24 saw gross SGS borrowings of Rs. 10.1 trn vs. Rs. 7.6 trn in FY23 with top 5 states contributing 72% of the incremental SGS issuance
- **Gross SGS issuances will likely increase to ~Rs. 10.5 trn in FY25 with major variation amongst States**

EASING CORE HELPS RBI SCORE ON INFLATION

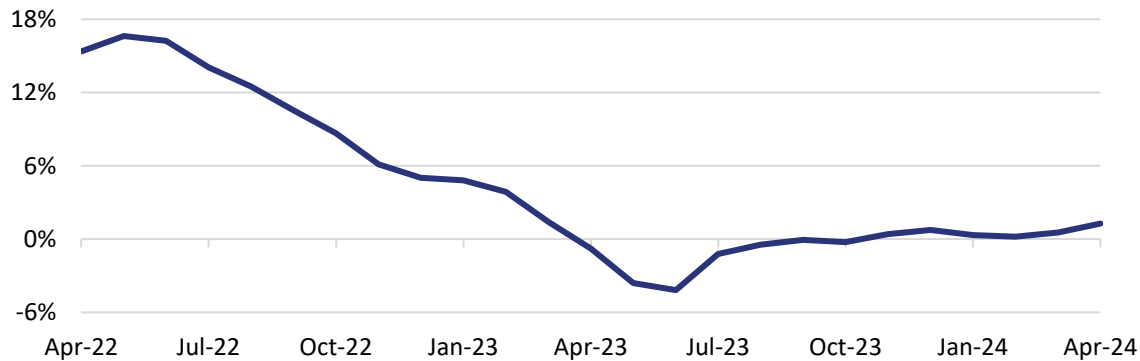
CONSUMER PRICE INDEX (CPI) & CORE CPI (Y/Y)



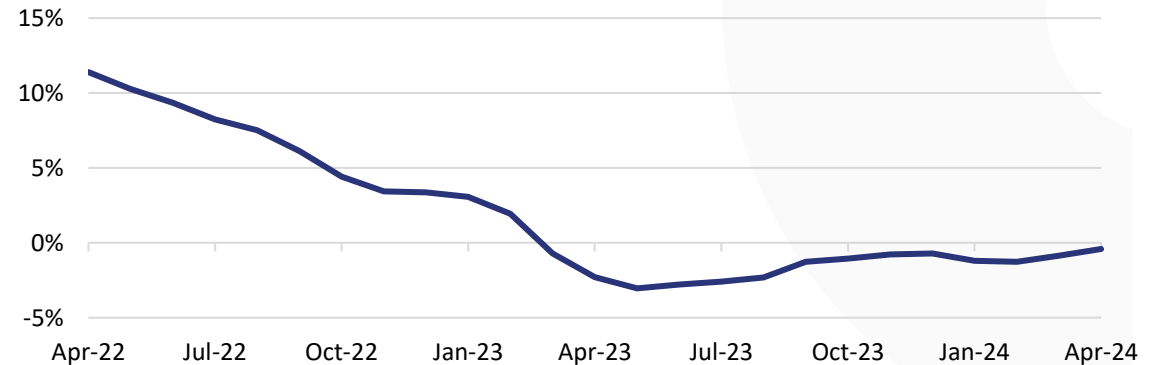
CFPI AND CPI: FUEL (Y/Y)



WHOLESALE PRICE INDEX (WPI) (Y/Y)



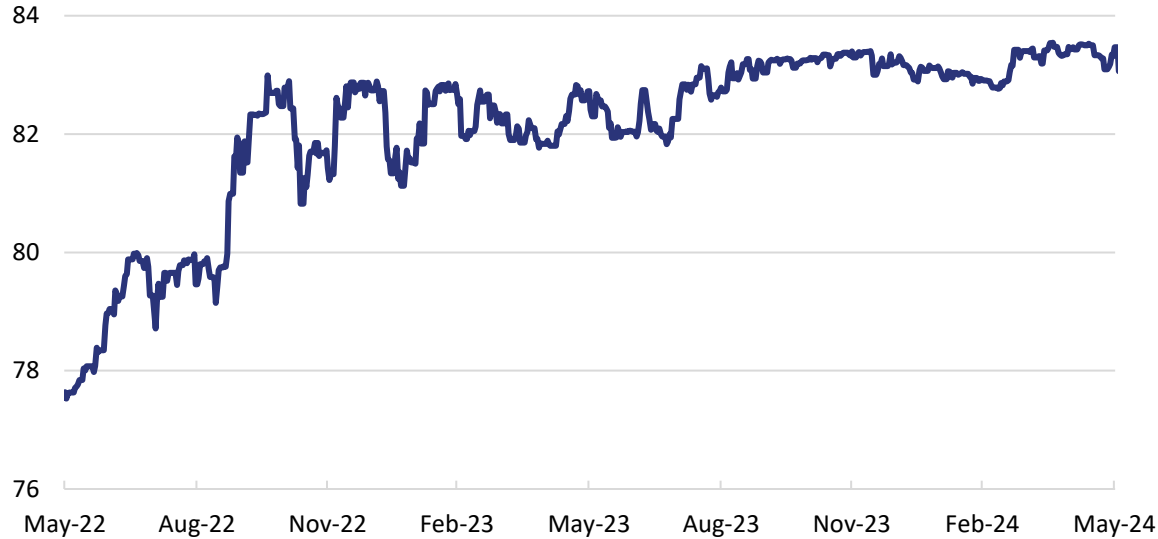
WPI: MANUFACTURED PRODUCTS (Y/Y)



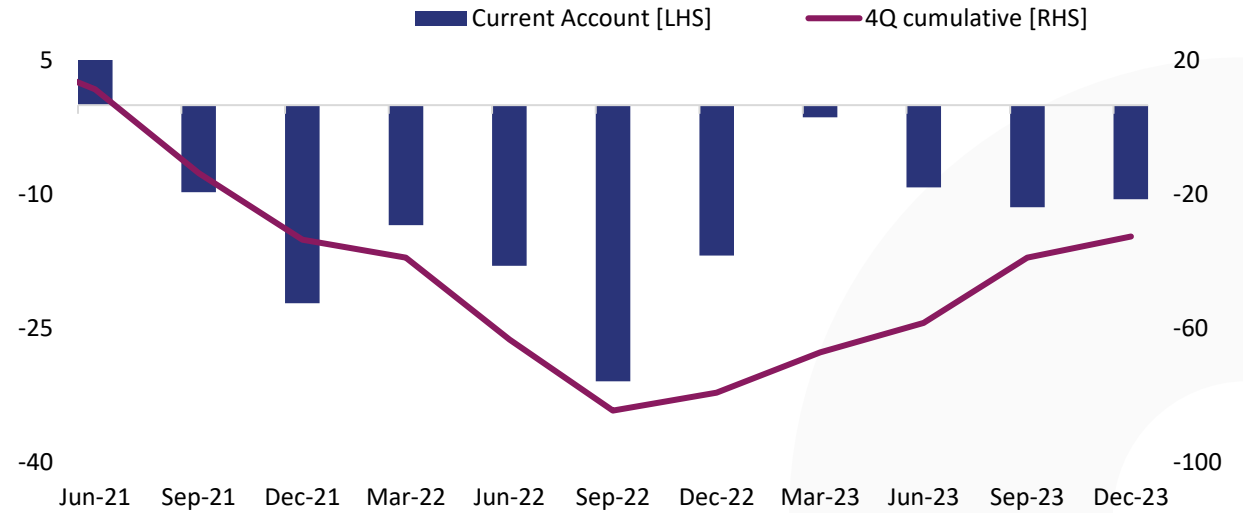
- CPI continued to ease in Apr'24, helped by a falling core. Rural inflation was significantly higher than urban inflation, indicating a preponderance of food inflation. Sharpest growth was seen in the prices of vegetables, pulses, and cereals
- **We expect CPI to be 4.7% for FY25 with risks evenly balanced.** 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

CURRENT ACCOUNT SURPLUS EXPECTED IN Q4FY24

USD/INR EXCHANGE RATE (Rs. per USD)



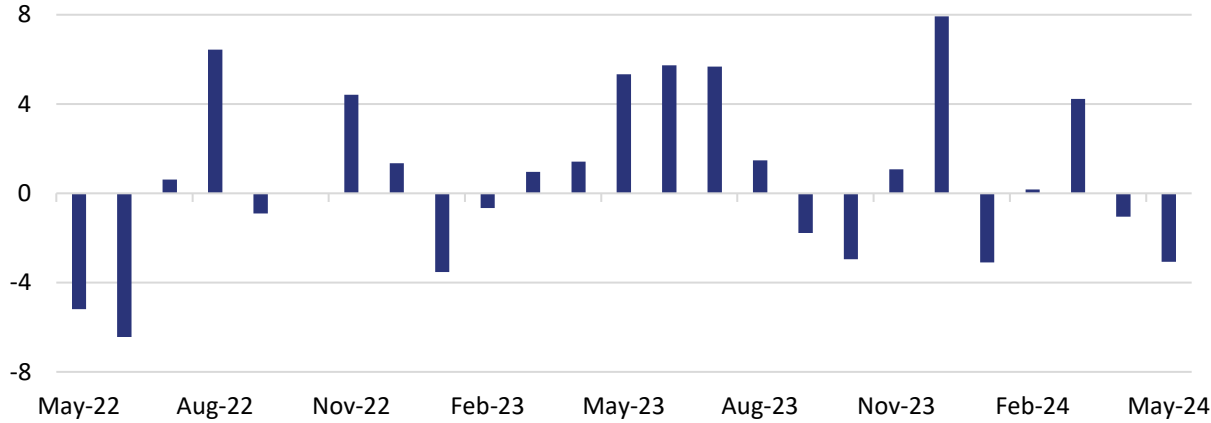
CURRENT ACCOUNT BALANCE (USD bn)



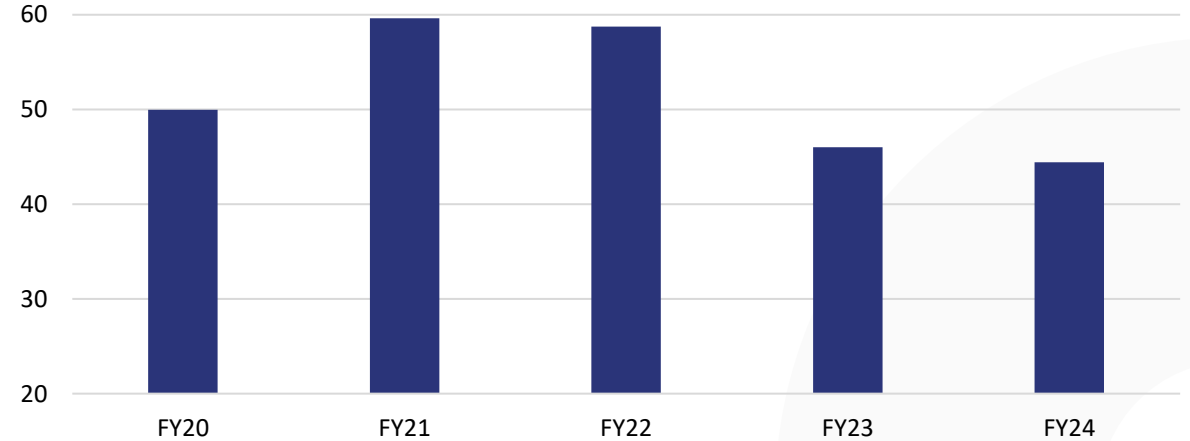
Indicator	May'23	Jun'23	Jul'23	Aug'23	Sep'23	Oct'23	Nov'23	Dec'23	Jan'24	Feb'24	Mar'24	Apr'24
Forex Reserves (USD Bn)	589.1	595.1	603.9	594.9	586.9	586.1	597.9	623.2	616.1	619.1	645.6	637.9
Goods Imports (%y/y)	-6.0%	-16.9%	-17.0%	-2.4%	-15.0%	9.6%	-4.3%	-4.8%	3%	12.2%	-6.0%	10.3%
Oil Imports (%y/y)	-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
Services Exports (%y/y)	7.4%	3.2%	8.1%	8.4%	-2.7%	10.9%	4.4%	1.1%	11%	3.3%	-1.5%	14.7%
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%	21.6%
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

DIVERGENT TRENDS IN FOREIGN INFLOWS BASED ON ASSET CLASS

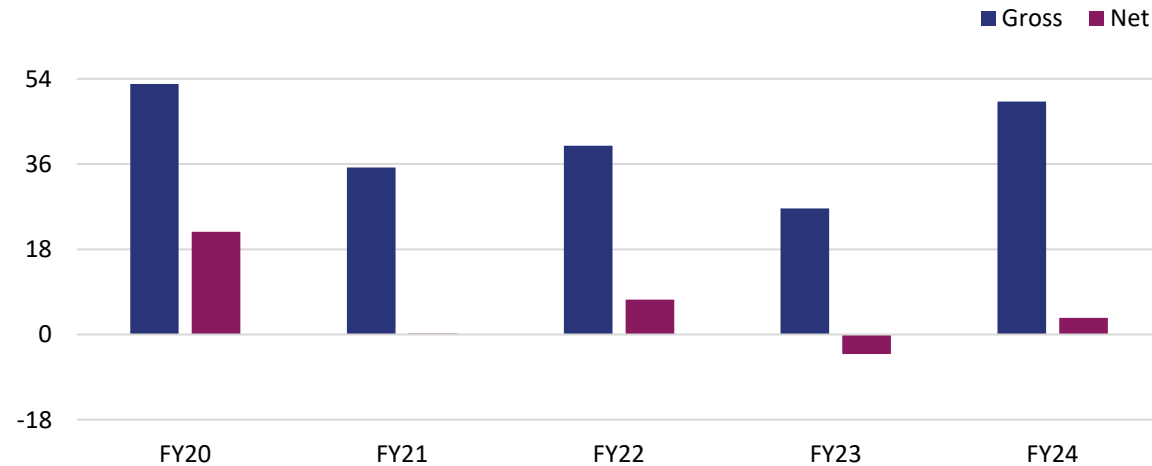
NET FPI EQUITY INFLOW (USD bn)



GROSS FDI EQUITY INFLOWS (USD bn)



EXTERNAL COMMERCIAL BORROWINGS (USD bn)



- Rising geopolitical tensions and election uncertainty saw FPIs exiting domestic markets, resulting in net outflows in May'24
- ECB issuances are up on a gross basis despite wafer thin rate differentials. Net ECB issuances remain mellower, indicating that most transactions are for refinancing

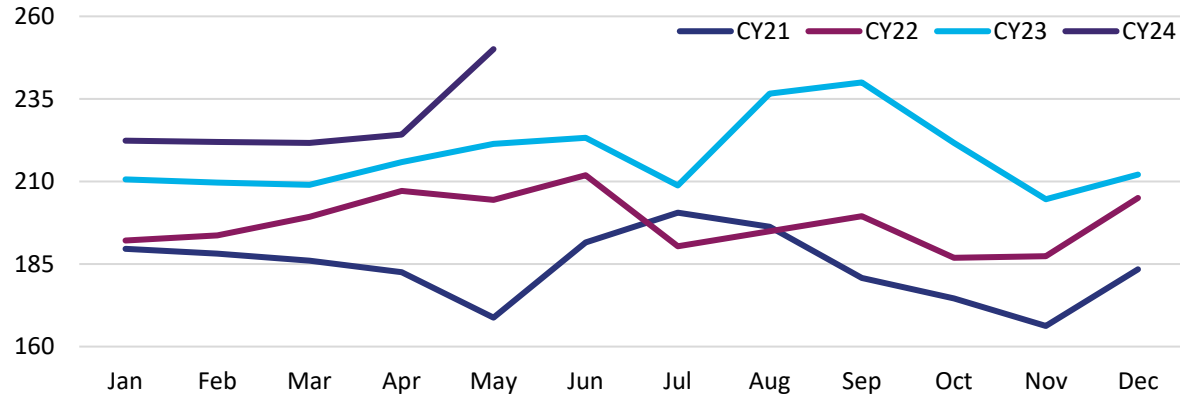
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SECTORAL UPDATES

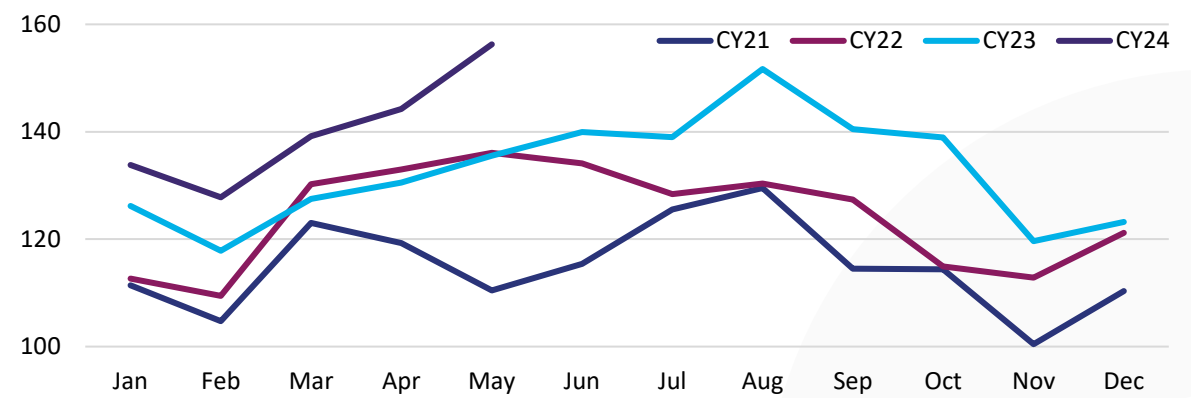


HEATWAVE UNLEASHES A TSUNAMI OF POWER DEMAND

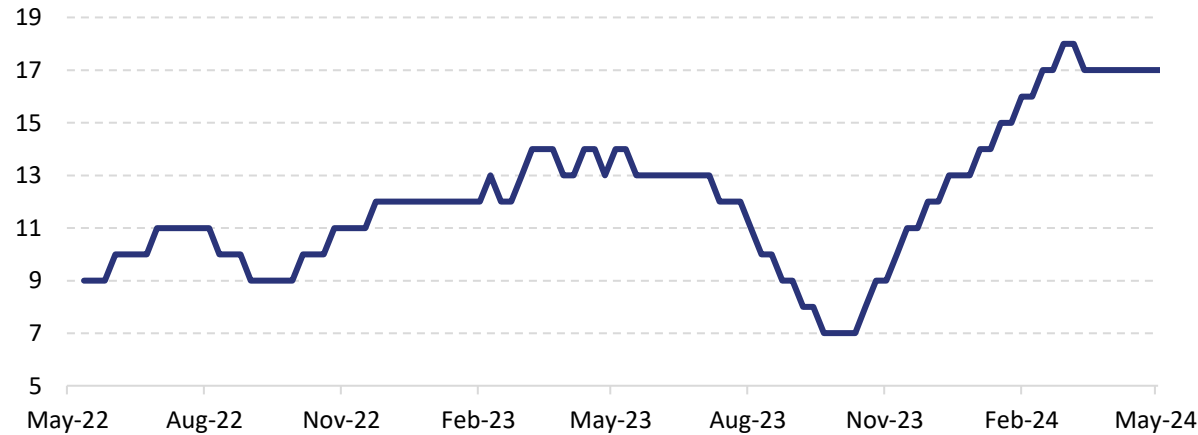
MONTH-WISE PEAK POWER DEMAND IN PAST 4 YEARS (GW)



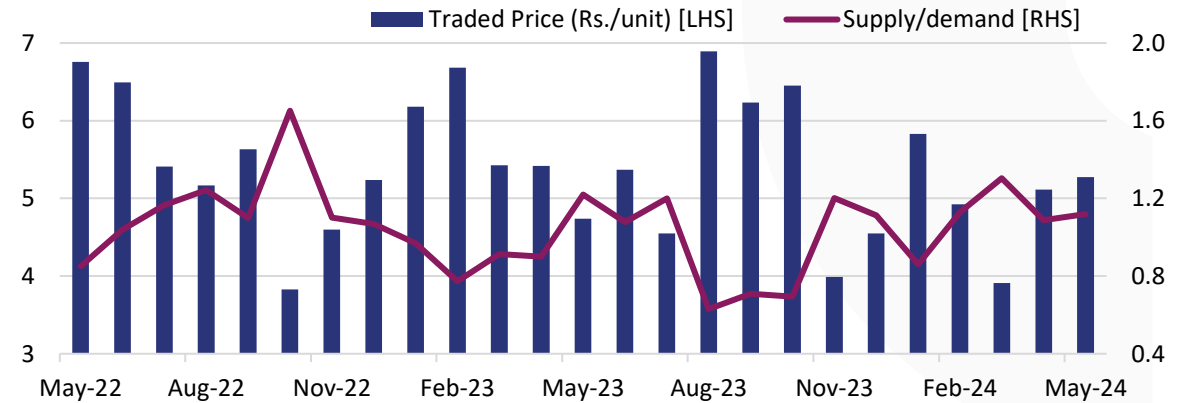
MONTH-WISE POWER SUPPLY IN PAST 4 YEARS (BU)



COAL STOCKS WITH POWER SECTOR (NUMBER OF DAYS)



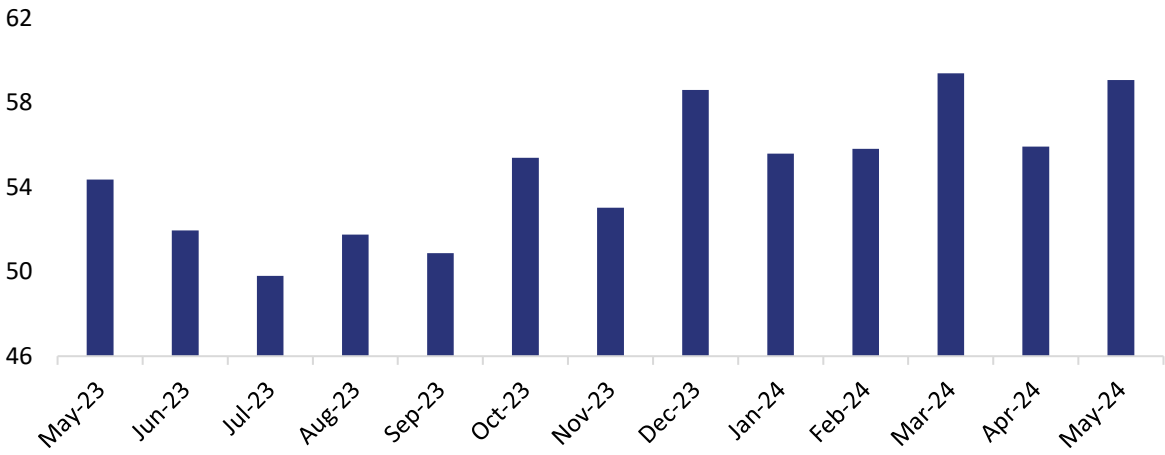
SPOT PRICE (Rs./UNIT) VS. SUPPLY-DEMAND IN DAM



- Energy supply surged in May'24 due to base effects, particularly in the Eastern region. Energy demand is expected to spike in the summer due to the heatwave. This has greatly improved the capacity utilization of gas-based plants after many years
- Coal stock at power plants has stagnated despite handsome production as usage is gargantuan. Besides demand, low reservoir levels could also impact hydro generation

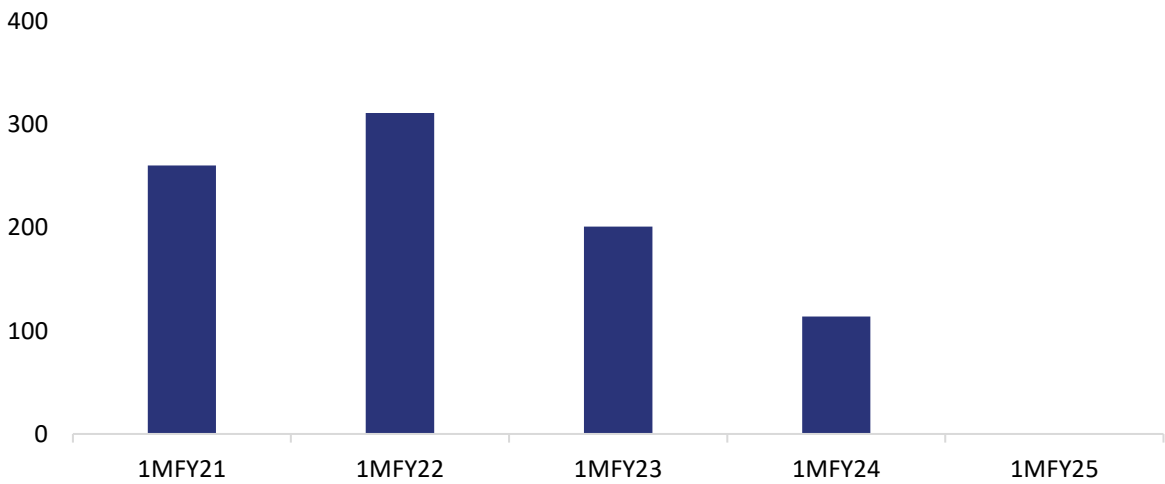
FASTAG REVENUES RACE AHEAD ON TRAFFIC AND TOLL BONANZA

FASTAG REVENUE (Rs. bn)

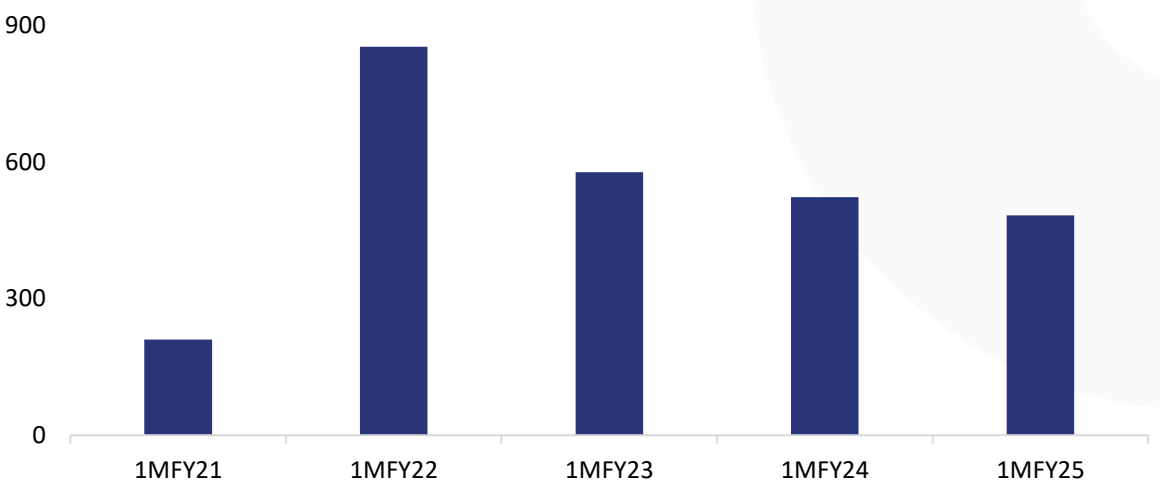


- Fastag revenues showed continued momentum in May'24 (up 8.7% y/y) helped by increased traffic activity in poll season
- An average toll hike of ~5% has been announced by the NHAI with effect from early Jun'24, which shall give further boost
- Awarding awaits its day in the sun with the finalization of a scheme for development of national highways, and end of model code of conduct

NATIONAL HIGHWAY AWARDING (km)*



NATIONAL HIGHWAY CONSTRUCTION (km)



BANKING: DEPOSITS ARE CATCHING UP WITH CREDITS

INDICATOR	Mar'23	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
CREDIT														
Non-food credit growth (%y/y)	15.4%	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%
Industry credit growth (%y/y)	5.6%	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%
Services credit growth (%y/y)	19.7%	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%
Personal credit growth (%y/y)	21.0%	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%
DEPOSITS														
Total Deposits (%y/y)	9.6%	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%
Time Deposits (%y/y)	10.2%	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%
Demand Deposits (%y/y)	5.2%	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%
KEY RATIOS														
C/D Ratio (%)	75.8%	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%
Incremental C/D Ratio (%)	113.0%	46.5%	50.5%	63.7%	51.6%	60.9%	69.7%	88.7%	92.3%	89.2%	95.6%	97.8%	95.8%	31.9%
Investment/Deposit Ratio (%)	30.0%	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%
KEY RATES														
WALR – fresh (%)	9.3%	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%
WALR – o/s (%)	9.7%	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%
WADTDR – fresh (%)	6.5%	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%
WADTDR – o/s (%)	6.2%	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%
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%

LENDING AND DEPOSIT RATES SEE A RESURGENCE IN RECENT MONTHS

Bank credit continues growth at a robust pace, industrial credit showing signs of revival

- Industry credit continued at a robust pace of 6.9% y/y in Apr'24, driven by higher growth in larger sectors such as chemicals and infrastructure, while credit to metals decelerated and petroleum products contracted.
- Services credit continued at a strong pace at the start of FY25, albeit at the slowest pace in over a year, driven by credit to professional services and CRE, while NBFC credit shows signs of moderation further due to RBI's crackdown.
- Personal credit growth has moderated further in FY24 from highs of yesteryear based on higher risk weights for unsecured loans impacting disbursements
- Notably, share of loans bearing more than 9% interest rates rose to 58% in FY24 from 56.1% in FY23, a slow pace of rise indicating slower pace of rate transmission.

Deposit growth gathers steam at the turn of the FY

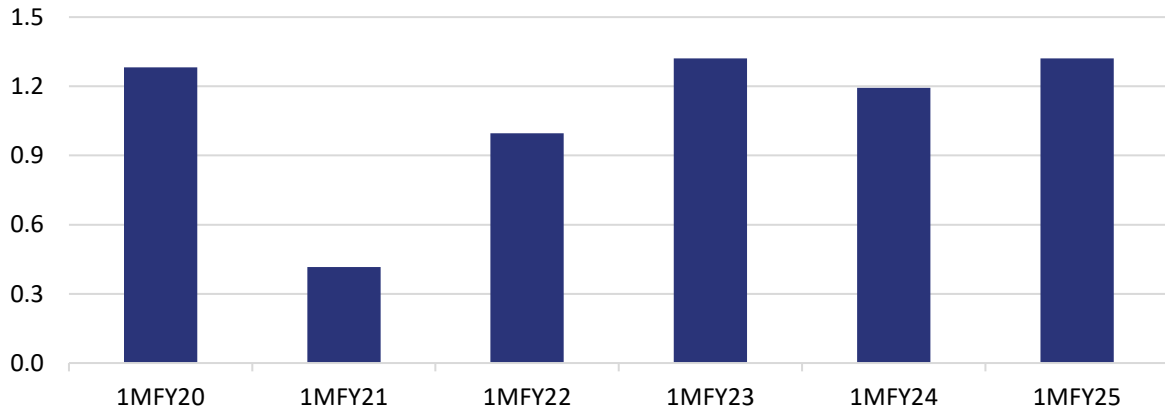
- Bank deposit growth continued its upwards trajectory after a decadal high FY24, meaning C/D ratio has moderated, albeit remaining a whisker away from the breaking point $\sim 78\%$ ($1 - \text{SLR}\% - \text{CRR}\%$)
- Attractive rates meant that 79% of incremental deposits were term deposits with share of deposits bearing more than 6% return increasing 25pp y/y to 87% in FY24.

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

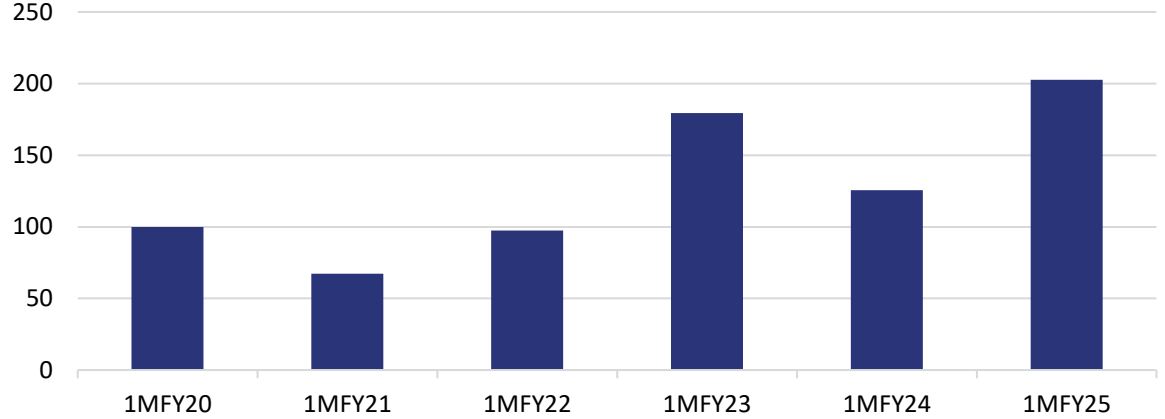
- Incomplete rate transmission in lending rates, especially to the outstanding book has ensured WALR (o/s) has increased only ~ 20 bps in 12 months, while transmission to deposit rates has been much fuller

INSURERS PICK UP IN FY25 FROM WHERE THEY LEFT IN FY24

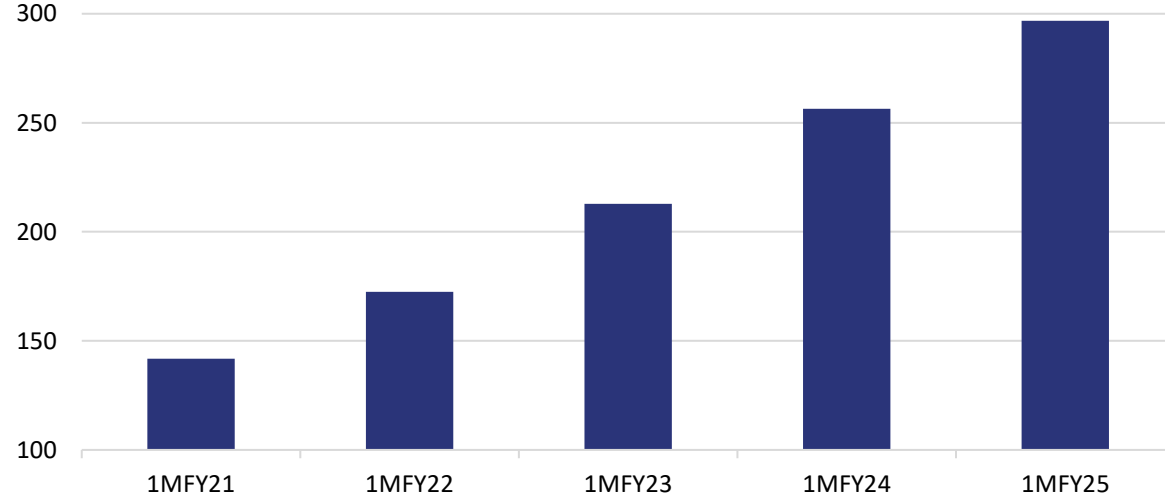
NEW LIFE INSURANCE POLICIES (mn units)



FIRST YEAR PREMIUM- LIFE INSURANCE (Rs. bn)



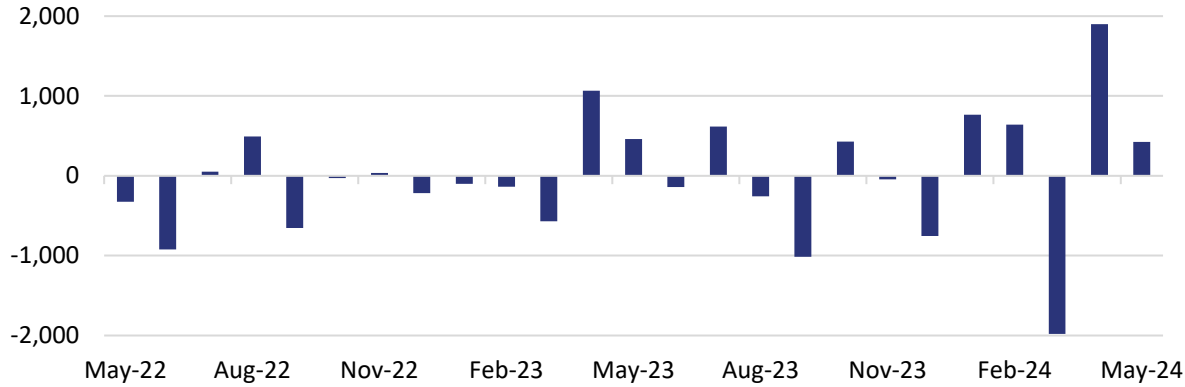
GROSS DIRECT PREMIUM- NON- LIFE INSURANCE (Rs. bn)



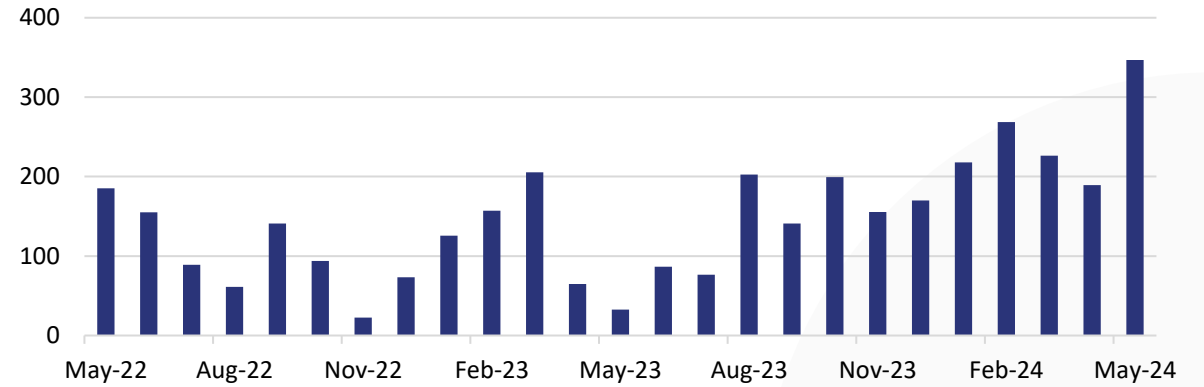
- Life insurers new business premiums surged a massive 61.2% y/y in Apr'24, owing to low base of Apr'23 when changes to tax laws were enacted
- For non-life insurers, FY25 started with a robust premium growth of 15.6% y/y, underpinned by strong growth in health, motor and fire segments

EQUITY MF SEE HUGE INFLOWS IN MAY'24

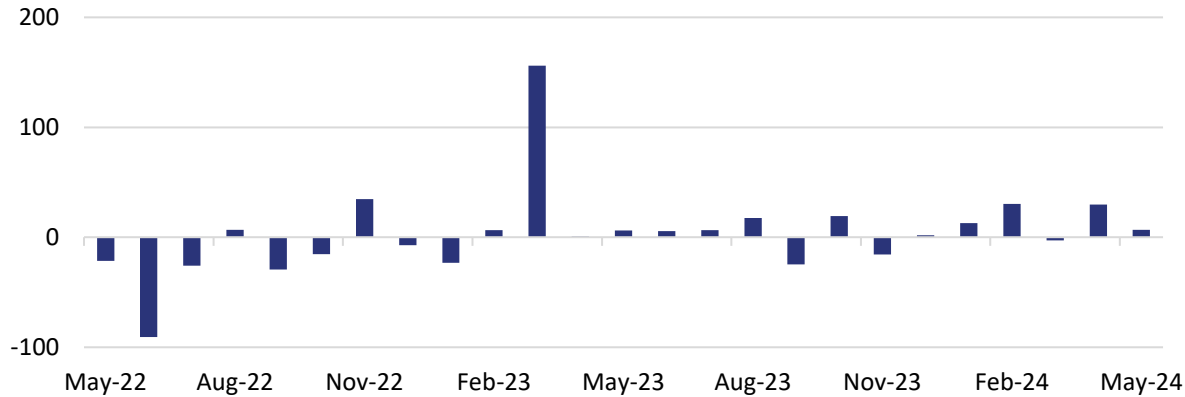
OPEN ENDED SCHEME: INCOME/DEBT MF NET INFLOW (Rs. bn)



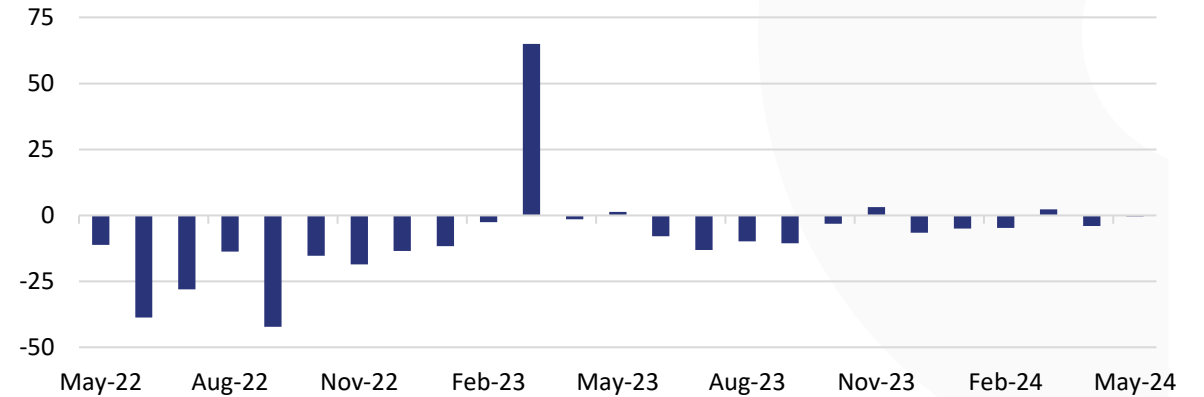
OPEN ENDED SCHEME: EQUITY MF NET INFLOW (Rs. bn)



CORPORATE BOND NET INFLOW (Rs. bn)

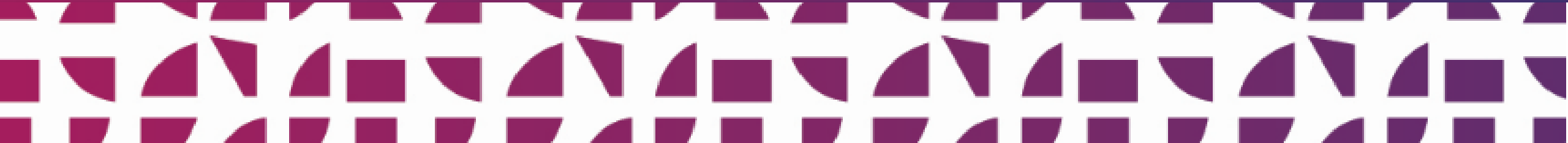


BANKING AND PSU FUND NET INFLOW (Rs. bn)



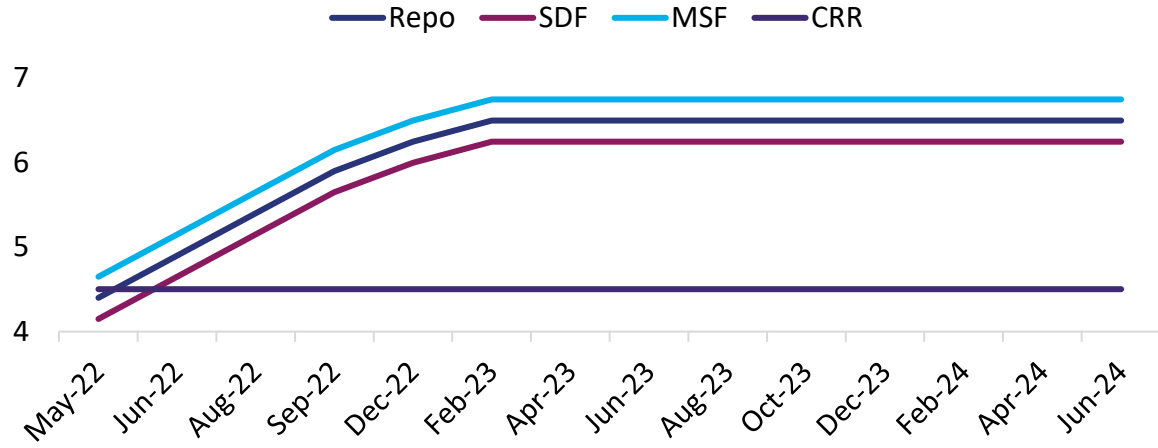
- Equity mutual funds rose sharply in May'24, seeing net inflows of Rs. 347 bn (more than 10x that of Rs. 32 bn in May'23)
- Debt fund inflows remained muted owing to calmer rates and moderation in supply of corporate papers

03 MONETARY POLICY AND YIELDS

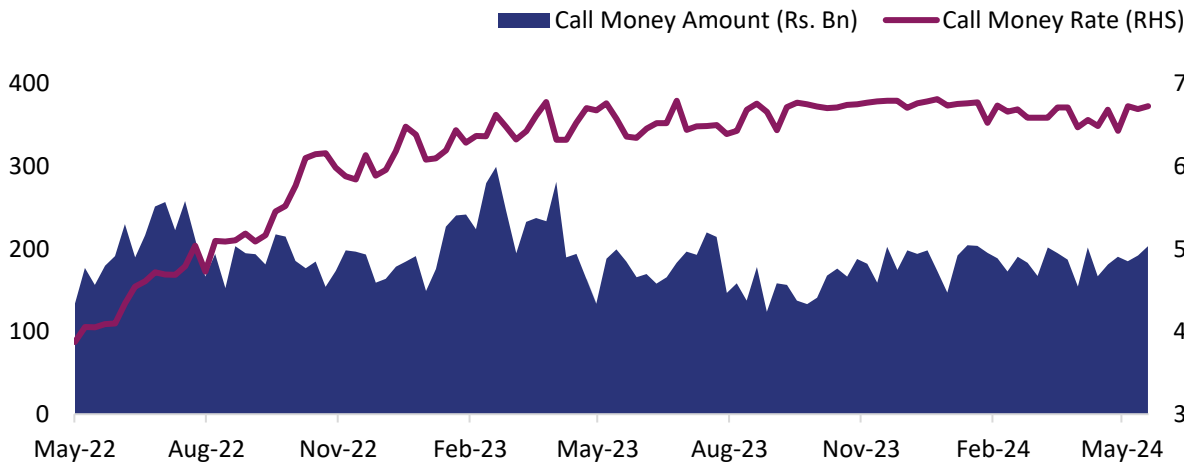


RBI MAINTAINS STATUS QUO IN JUN'24

RBI POLICY RATES (%)



WACR RATE (%)



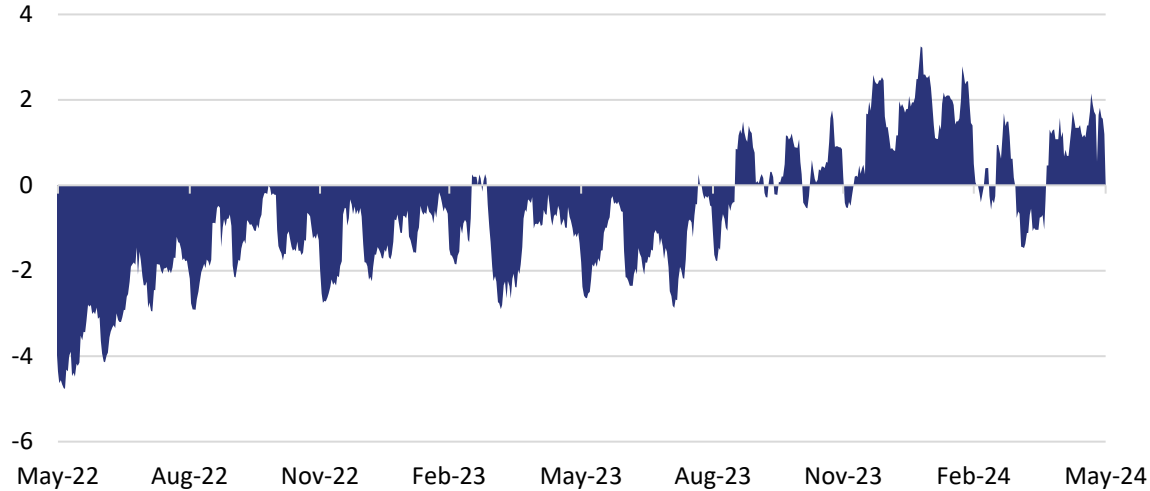
STANCE OF POLICY

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

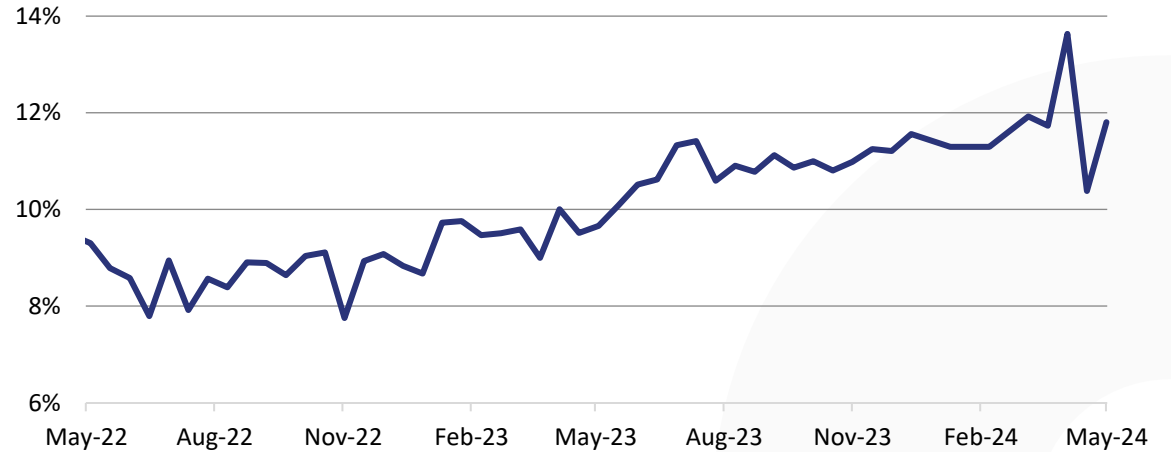
- RBI kept the policy rate and stance unchanged at 6.5% with a 4-2 vote in Jun'24, a less decisive margin from 5-1 vote earlier
- *The continued glide path of fiscal consolidation, anticipated global monetary easing, bond-inclusion flows starting this month, cooling inflation, and expected rate cuts in late CY24 or early CY25, ensure a descent of 10Y yields to 7% over the medium term*

RBI CAREFULLY CURATES LIQUIDITY AS CONDITIONS EVOLVE

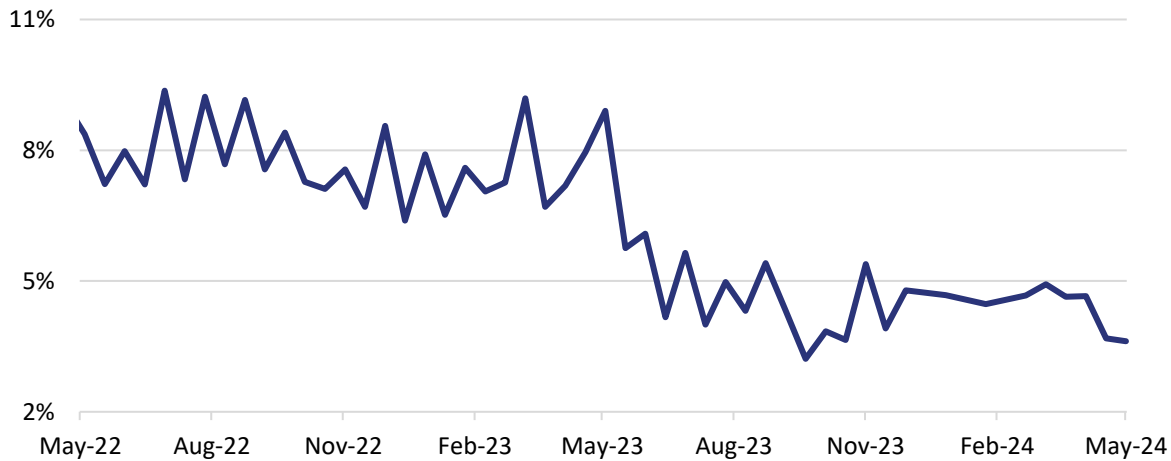
BLOOMBERG INDIA LIQUIDITY INDICATOR (Rs. trn)



MONEY STOCK M3 (% Y/Y)



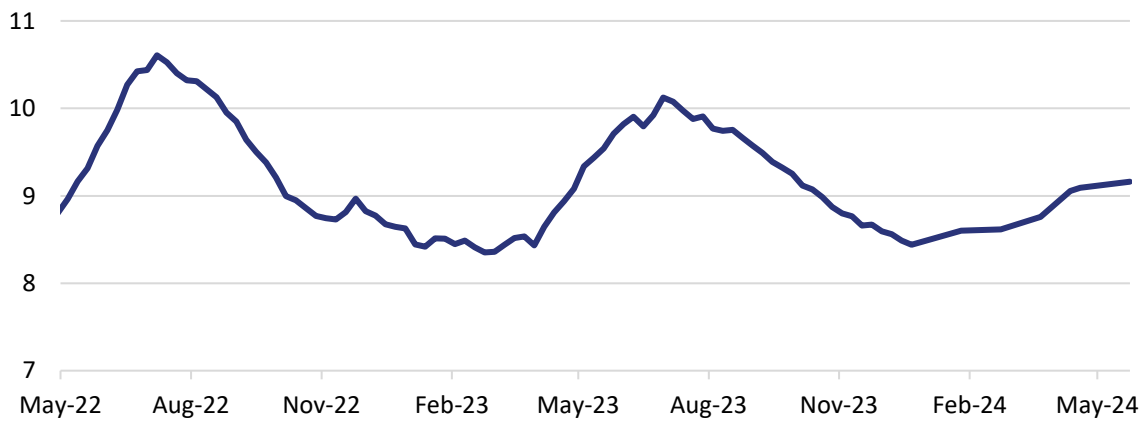
CURRENCY WITH PUBLIC (% Y/Y)



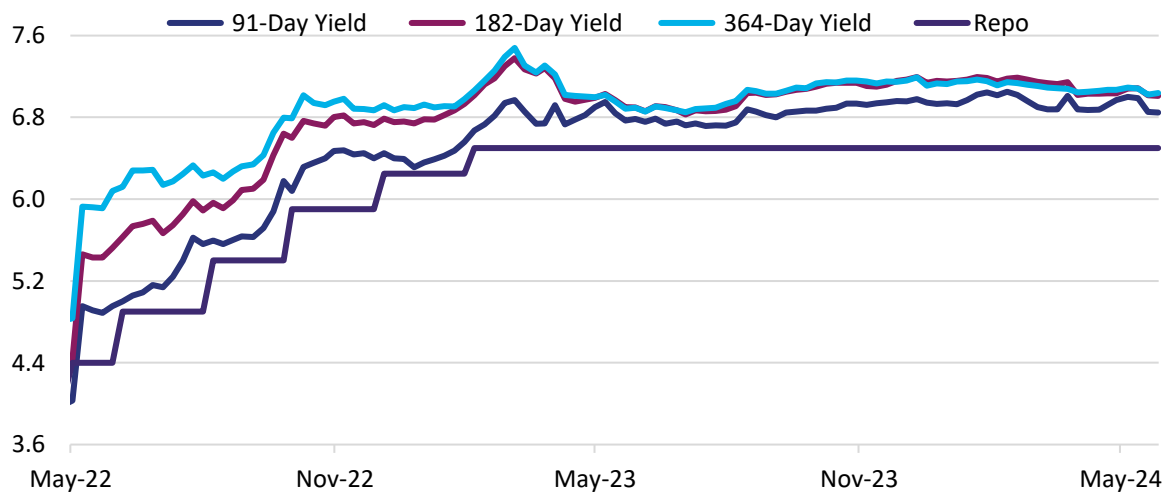
- Liquidity remains taut in recent times but is expected to alleviate soon owing to bumper dividend by RBI and pick up of Union spending on swearing in of new government
- Money stock has steadily risen in the past year with rising deposits. This is even as growth in currency with public has dwindled

CP ISSUANCES INCREASED IN MAY'24

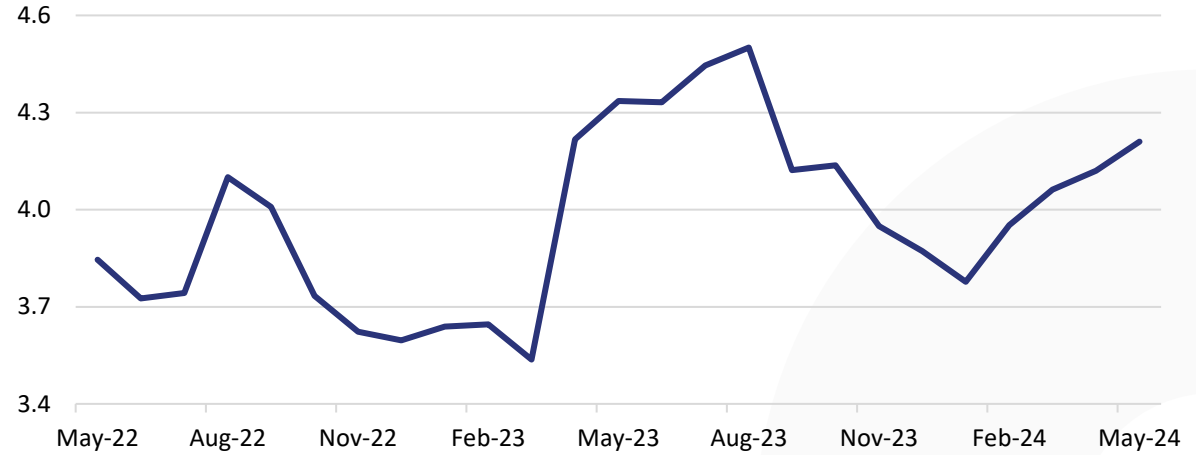
T-BILL OUTSTANDING (Rs. trn)



T-BILL PRIMARY YIELDS & REPO (%)



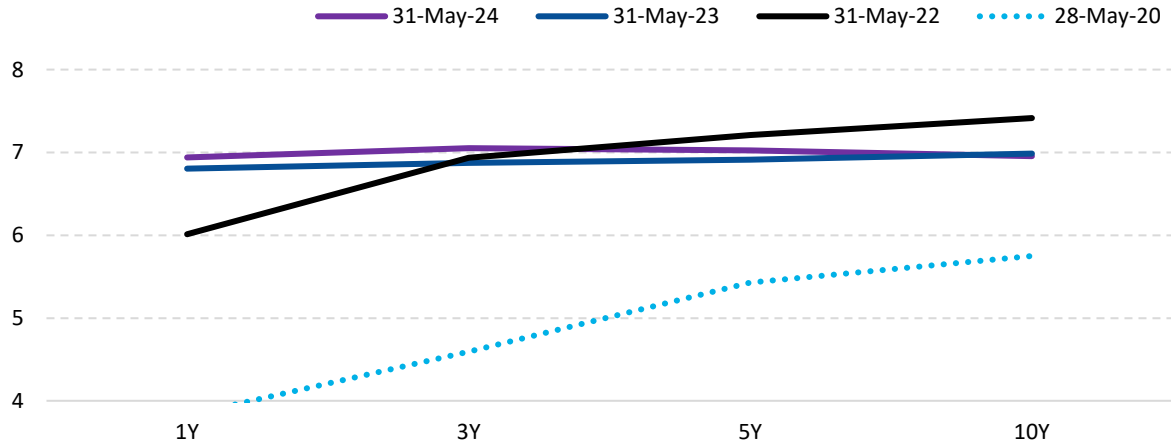
COMMERCIAL PAPER OUTSTANDING (Rs. trn)



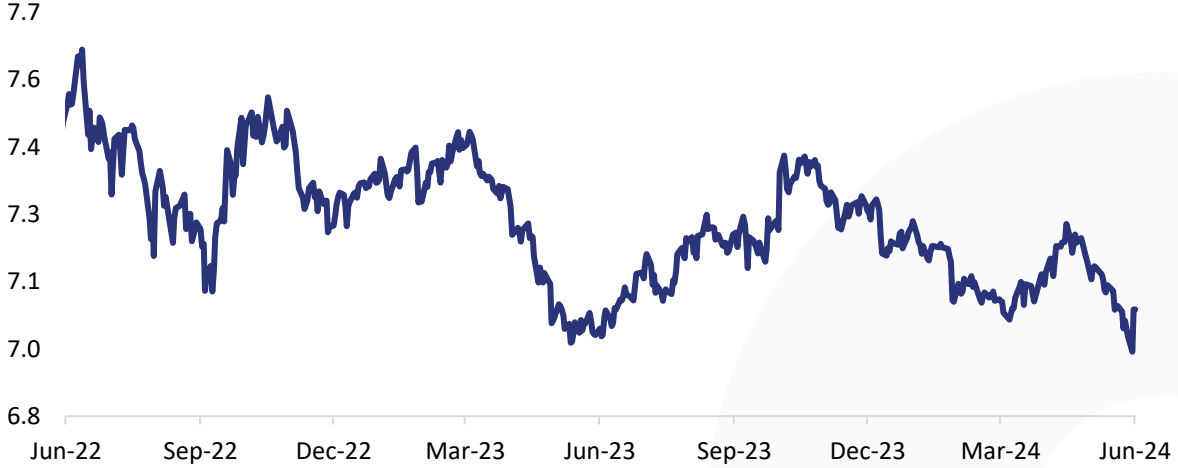
- High CP issuances from financial services and infra-led companies, driving up the o/s figures overall
- T-bill yields eased at the end of May'24, owing to large RBI dividend indicating easing future liquidity conditions

10Y UNION G-SEC YIELDS DANCE AROUND THE 7% HANDLE

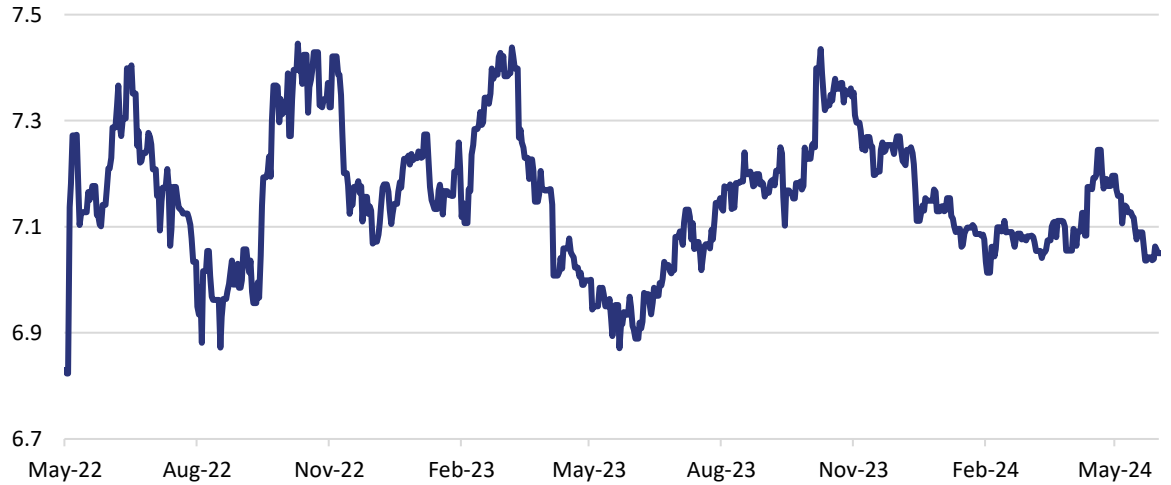
YIELD CURVE (%)



G-SEC YIELD (10 YEARS) (%)



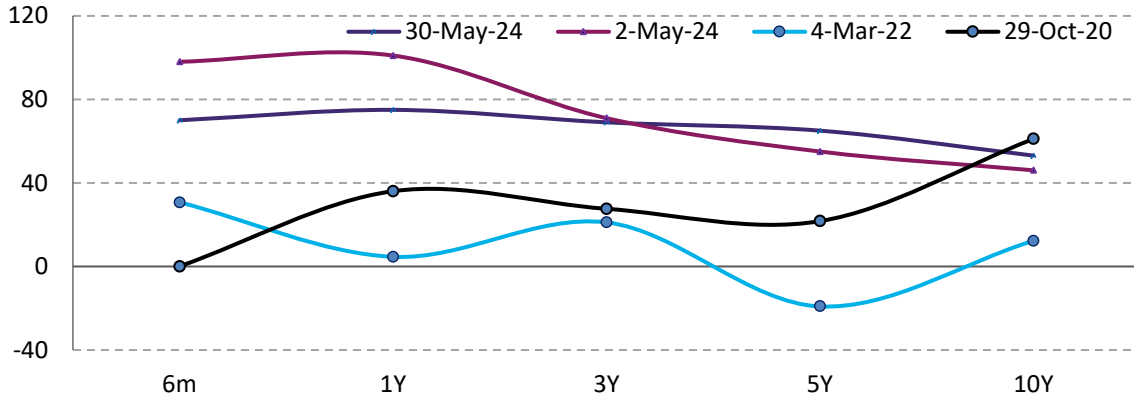
G-SEC YIELD (5 YEARS) (%)



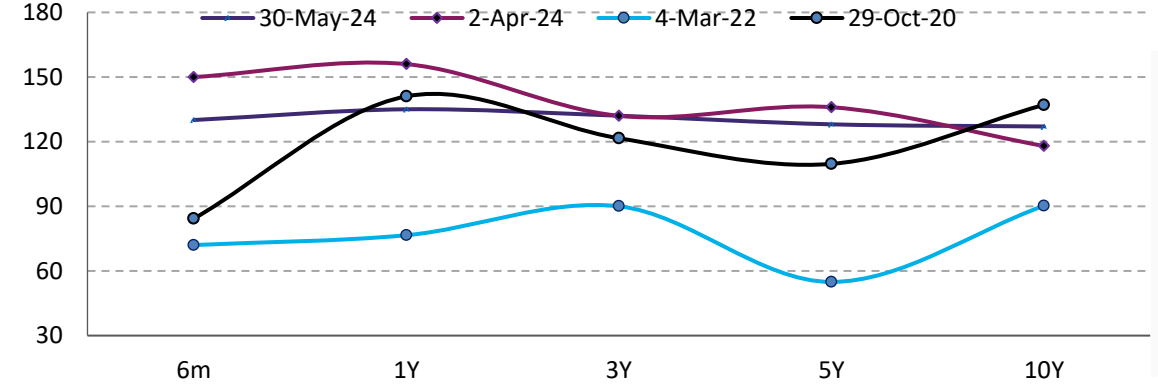
- 10Y yields fell to sub 7% levels owing to lower-than-expected fiscal deficit and sovereign outlook improvement. Yields further ebbed on exit poll results
- Since then, they have jumped to the upper side of 7% following election results and RBI policy

CORPORATE SPREADS UP FROM PANDEMIC ERA

FIMMDA CORPORATE AAA SPREAD OVER GILT CURVE (bps)



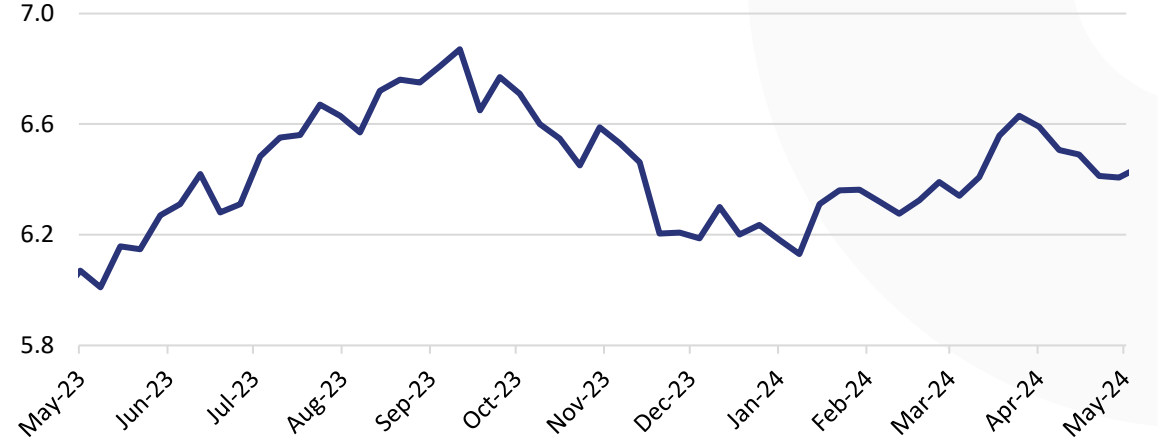
FIMMDA CORPORATE AA SPREAD OVER GILT CURVE (bps)



OIS 1- YEAR (%)



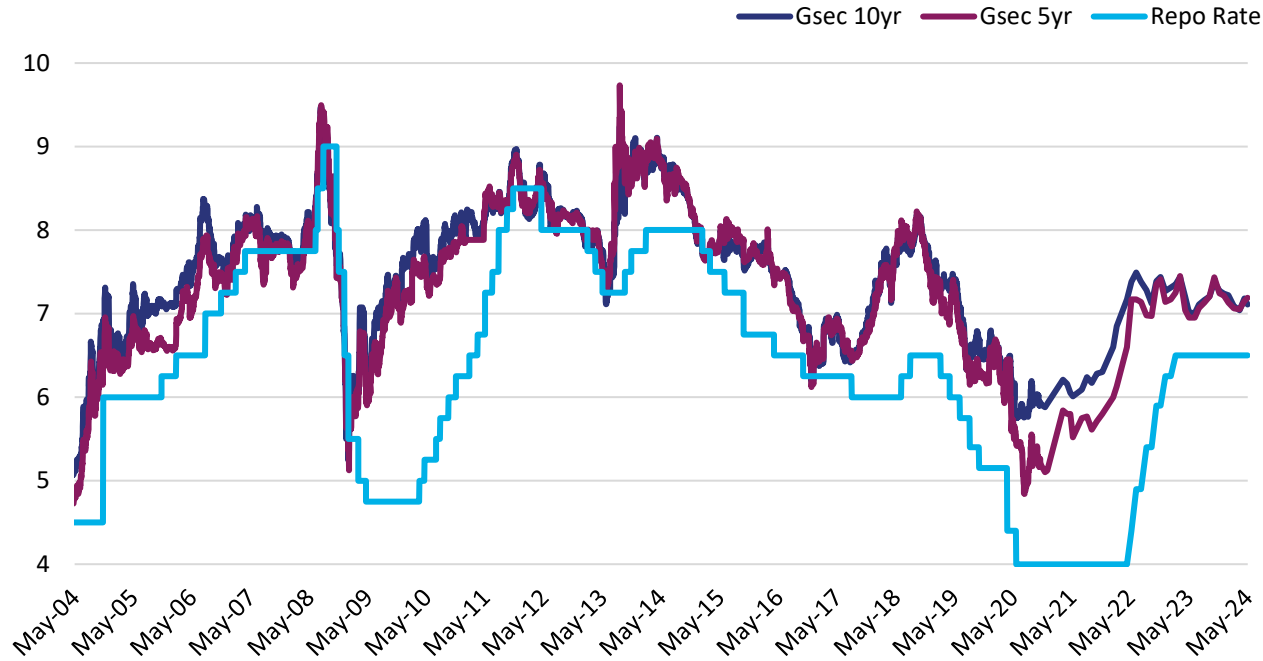
OIS 5 -YEAR (%)



- OIS rates have steadily declined in May'24 indicating the markets are yet not pricing in rate cuts in the near term

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 ~8.5% of GDP in FY24
- 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

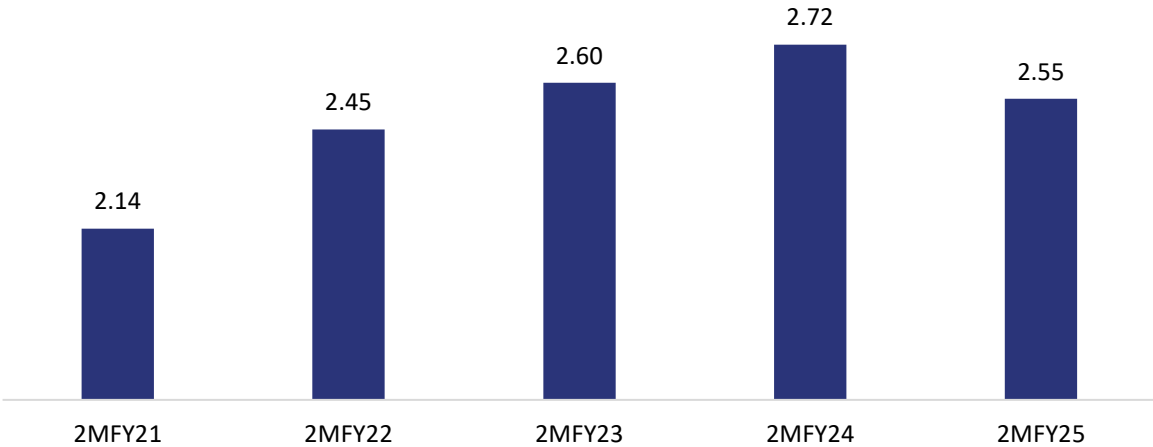
- Higher CPI print than estimate
- Higher crude price- impact on fiscal, inflation
- Higher govt. borrowing
- Currency volatility – 2013 and 2018 example

CAPITAL MARKETS

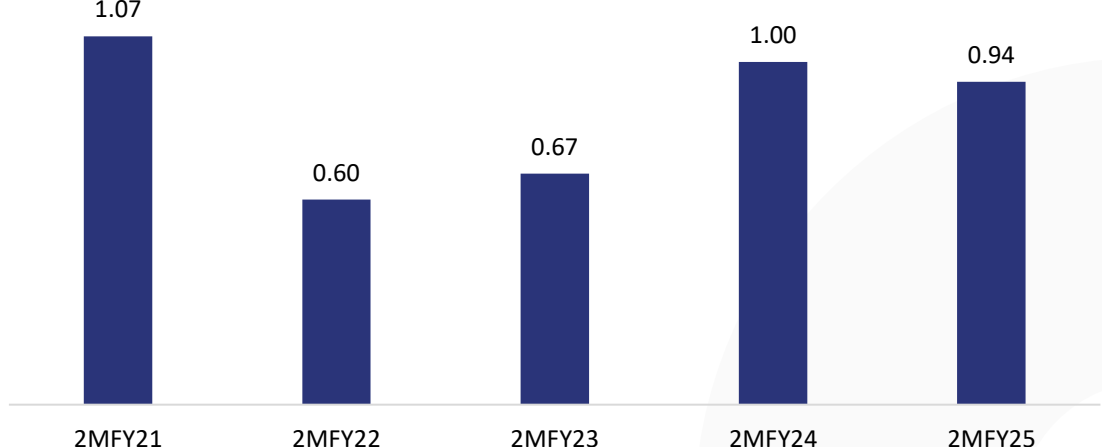


UNION'S G-SEC BUYBACK INITIATIVE MET WITH STYMIED RESPONSE

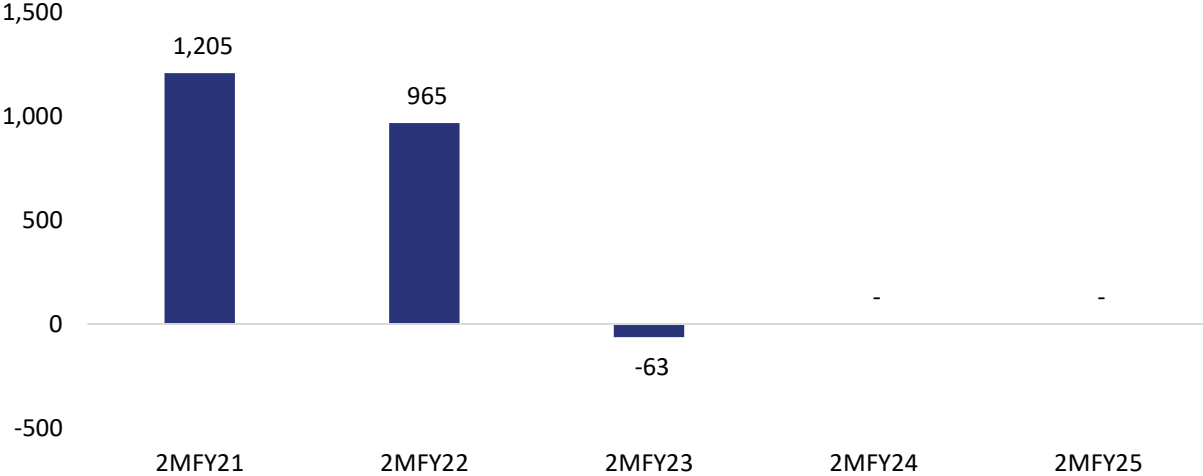
G-SEC: GROSS AMOUNT RAISED (Rs. trn)



SGS BIDS ACCEPTED YTD (Rs. trn)



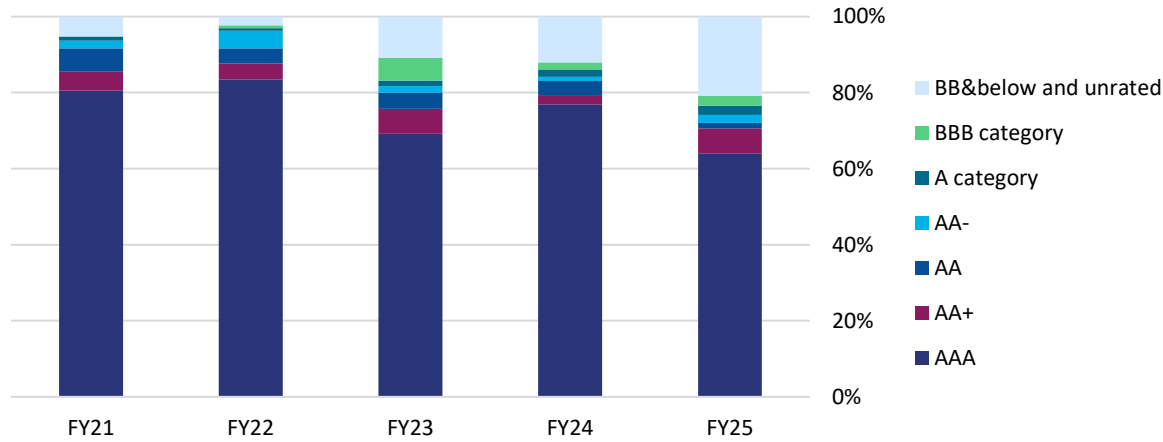
CUMULATIVE NET OMOS (Rs. bn)



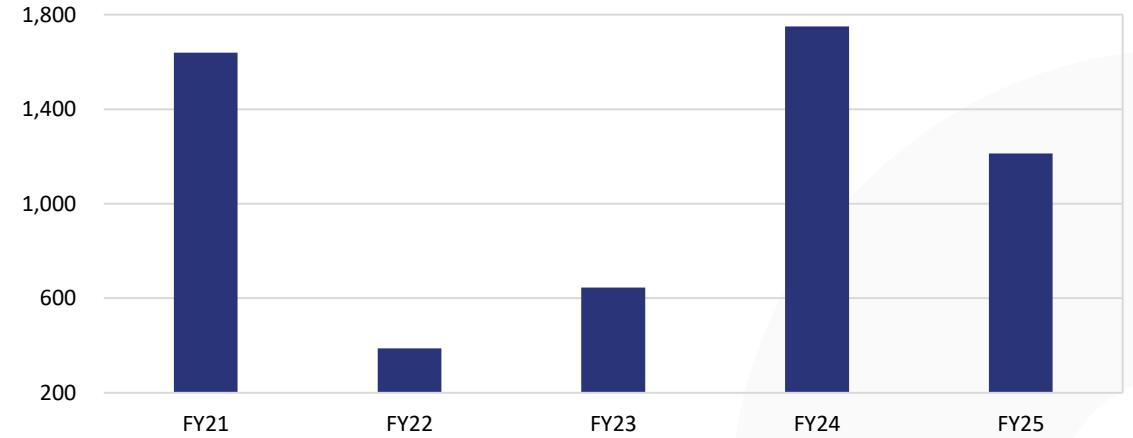
- Union's decision to repurchase G-Sec maturing in the next 6-9 months to inject liquidity is being met by subdued responses by market participants
- Notably, out of the notified Rs. 2 trn, only Rs. 230 bn worth of G-Sec has been bought back
- Despite a bulky SGS issuance calendar, less than half of the amount has been actually issued with many states holding back on raising capital in Q1 till date.

SUBDUED YIELDS TEMPT LOWER RATED PAPER OFFERINGS

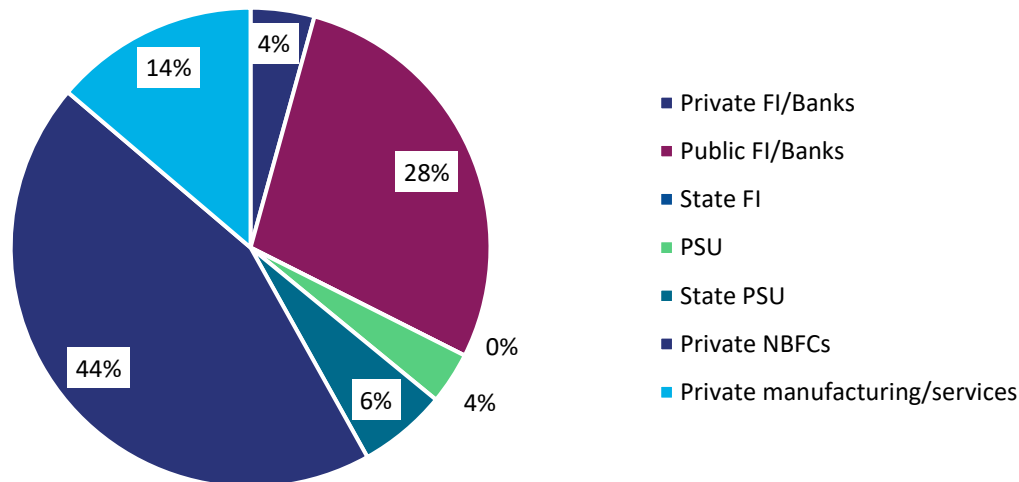
GROSS ISSUANCE (Rs. bn) WITH RATING SPLIT (%) UPTO 2MFY25



GROSS ISSUANCES – 2MFY (Rs. bn)



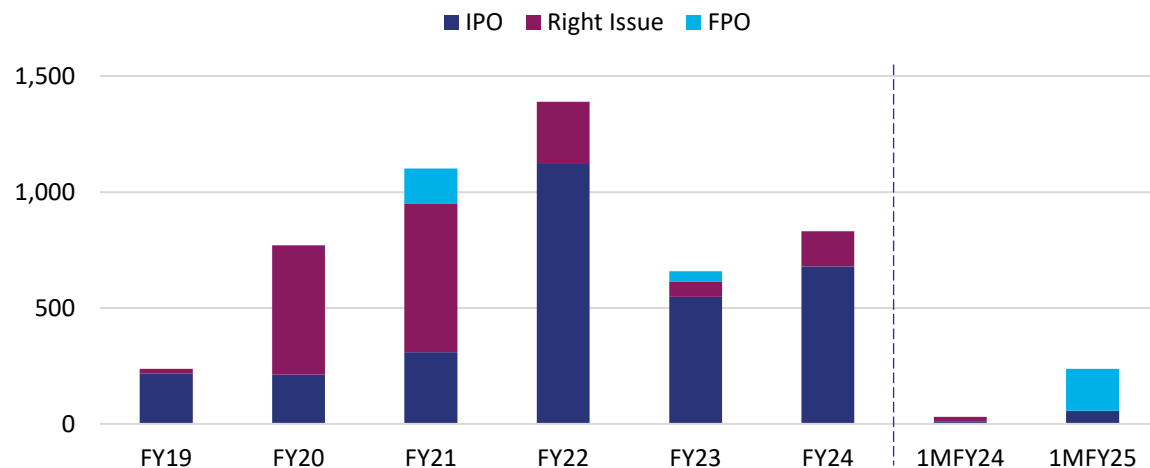
ISSUER TYPE WISE GROSS ISSUANCES BY AMOUNT- 2MFY25



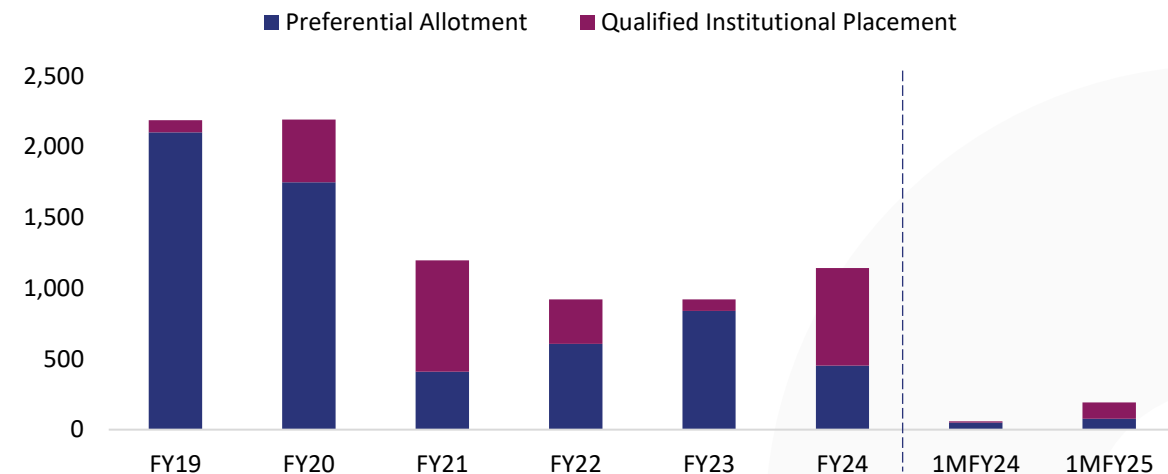
- Bond market issuances gather steam in 2MFY25, albeit lower than that in 2MFY24, owing to subdued yields.
- Notably, higher amount of lower rated papers are being issued in FY25 than any of the previous 5 years
- NBFCs, public banks and other FIs are the major suppliers of corporate papers.

TELECOM DIALS UP EQUITY ISSUANCES

PUBLIC ISSUES BY CORPORATES (Rs. bn)



PRIVATE PLACEMENTS BY CORPORATES (Rs. bn)



EQUITY CAPITAL RAISED (Rs. bn)

Sector	FY24	1MFY25
Telecommunication	1.3	222.7
Financial Services	170.2	11.8
Capital Goods	121.4	8.0
Construction	7.7	5.7
Consumer Durables	46.4	1.4
Others	483.9	4.0
Total	830.9	253.7

- 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
- QIPs maintain their momentum in FY25, after a hefty FY24, due to continued domination by financial services companies

05 GLOBAL SNAPSHOT



EQUITY INDICES CONTINUE RELENTLESS RALLY IN MAY'24

COMMODITY	%1M CHANGE	%1Y CHANGE
LME Metals Index	2%	18%
Copper	0%	23%
Aluminium	2%	18%
Iron Ore 62% Fe*	7%	13%
Gold	1%	20%
Brent Crude	-2%	7%
Natural Gas	26%	24%
Newcastle Coal	-3%	7%

CURRENCIES	%1M CHANGE	%1Y CHANGE
DXY Index	0%	1%
USD/EUR	-1%	-1%
USD/JPY	2%	12%
USD/GBP	-1%	-2%
USD/CNY	0%	2%
USD/INR	0%	1%
USD/RUB	-2%	11%

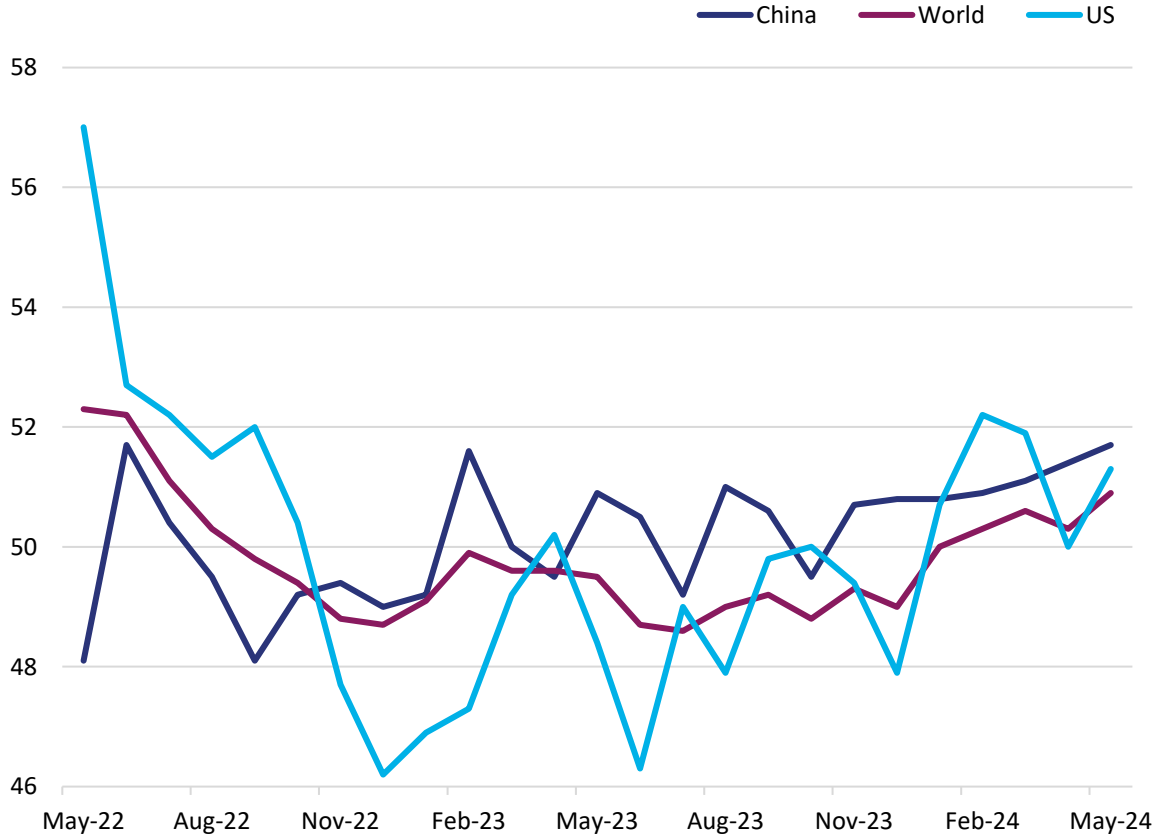
EQUITY INDICES	%1M CHANGE	%1Y CHANGE
S&P 500	3%	23%
Nikkei 225	2%	23%
STOXX Europe 600	3%	13%
FTSE 100	1%	9%
BSE Sensex 30	4%	22%
Hang Seng	0%	-3%
IBOV	-5%	8%

- Crude oil prices retreated in May'24 as extension of cuts by OPEC+ countries was mingled with caveat of tapering of voluntary cuts, amidst high crude inventory build-up vs expectations of drawdown
- Greenback experienced a mixed May'24, mirroring a volatile yields scenario, as rise in USD due to stubborn CPI numbers was offset by weak GDP data
- Gold continued its rise in May'24, on the back of strong Chinese demand, as central banks prop up their reserves. Silver prices are also on the ascendancy

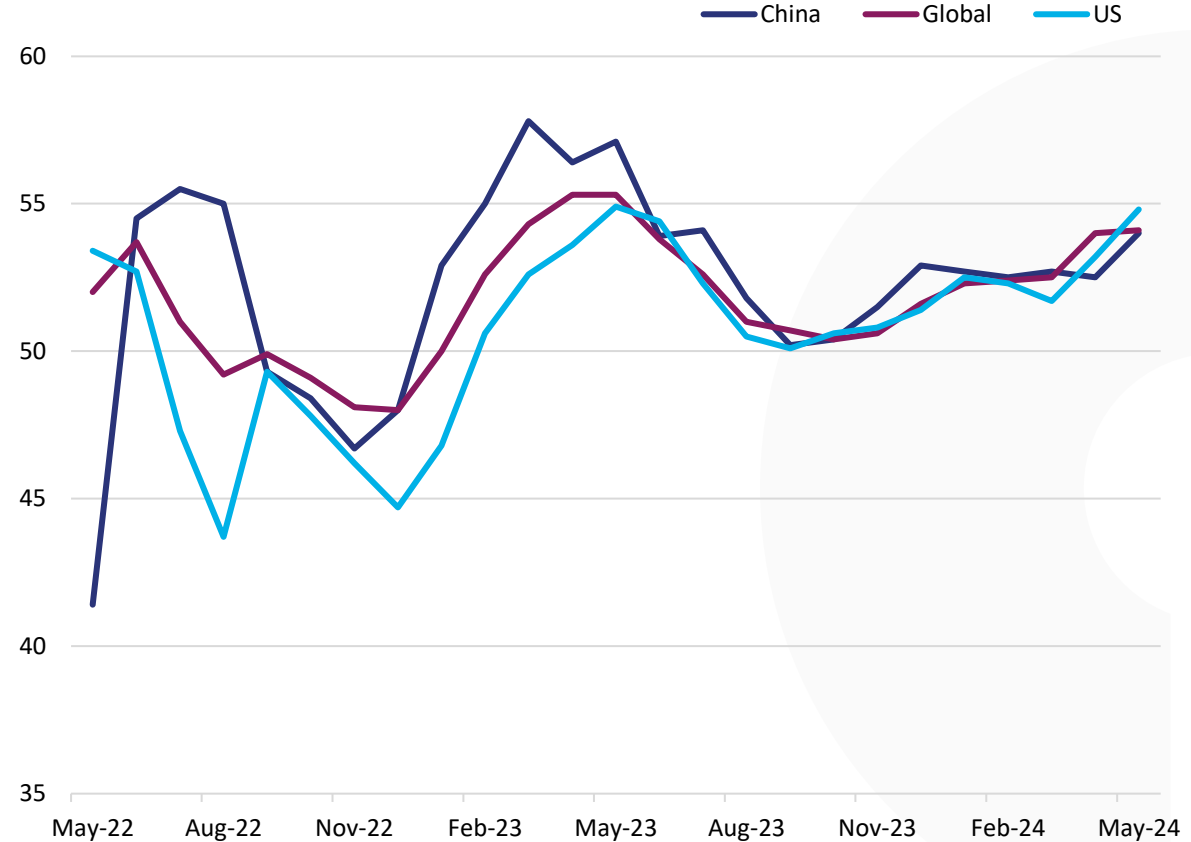
1Y & 1M change are as of 3 Jun'24, * CFR China

GLOBAL COMPOSITE PMI AT HIGHEST LEVEL IN A YEAR

WORLD PMI- MANUFACTURING



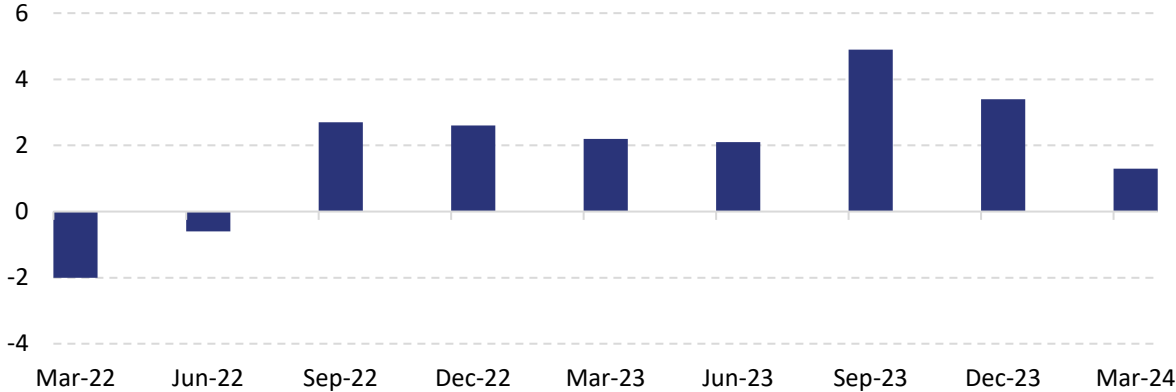
WORLD PMI- SERVICES



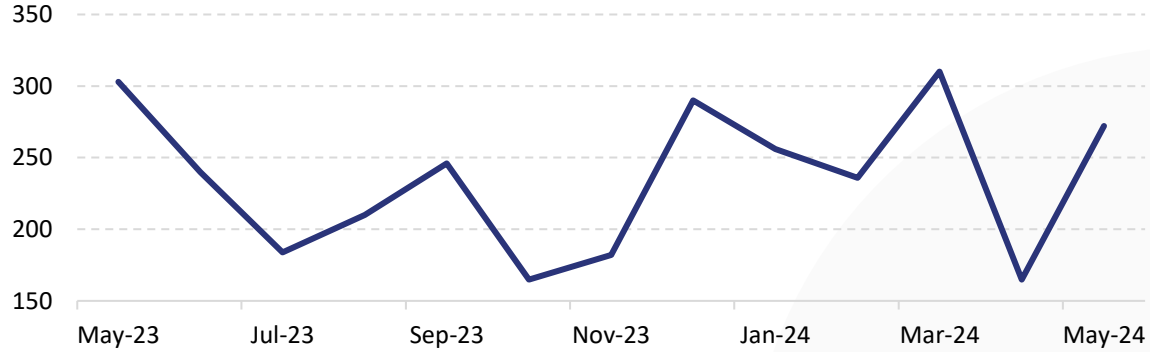
- Global manufacturing upturn in May'24 was underpinned by rising intake in new businesses and renewed vigour in international trade flows. US manufacturing activity rose sharply on the back of improved customer demand, amid muted economic conditions as input cost inflation rose to 13-month high.
- Services activity rose at the fastest pace in 12-months with a broad-based growth across sectors. US services saw a marked expansion with output growth hitting 1Y high

MIXED DATAPOINTS CLOUD US OUTLOOK

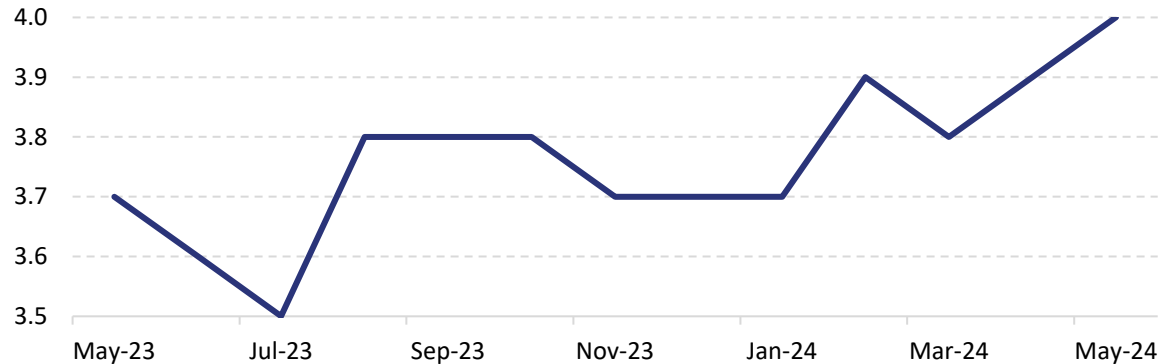
US REAL GDP GROWTH (% Q/Q SAAR)



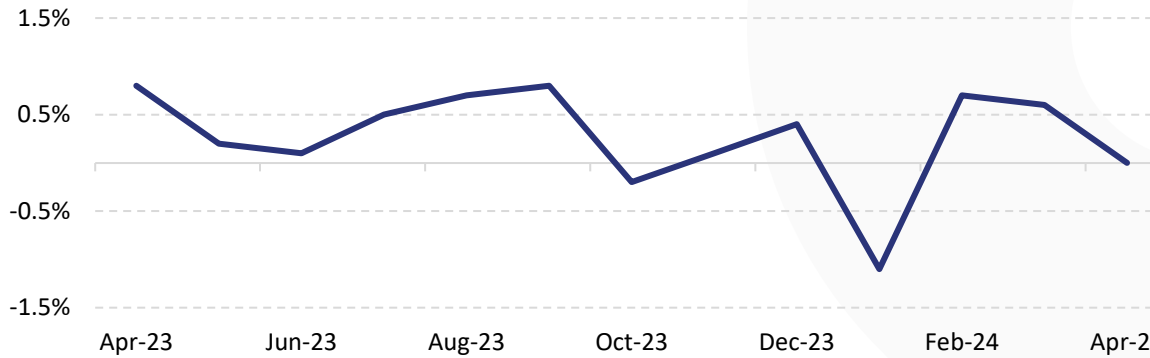
CHANGE IN NON-FARM PAYROLL ('000 M/M)



UNEMPLOYMENT RATE (%)



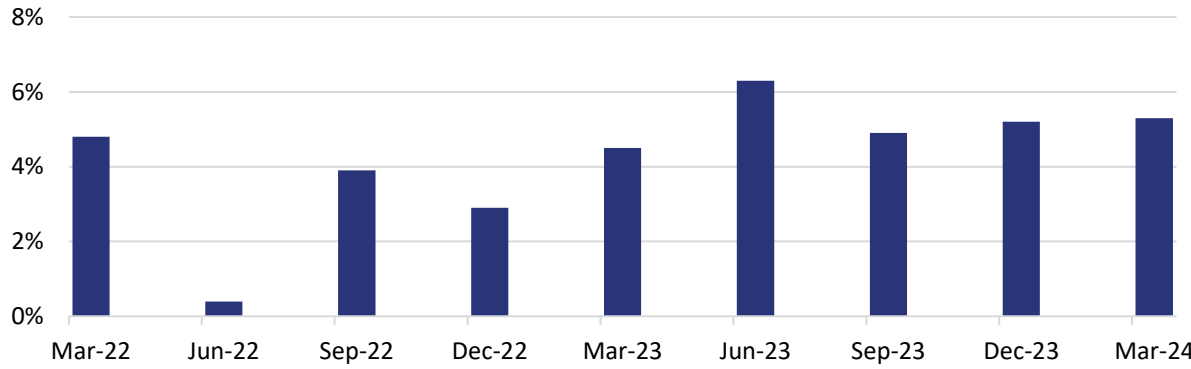
RETAIL SALES (% M/M)



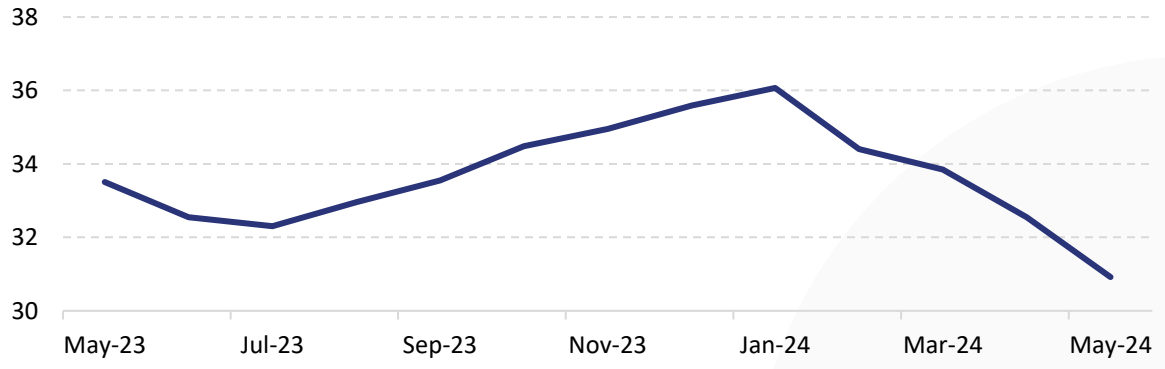
- US real GDP was further downgraded to 1.3% q/q saar in Q1CY24, from an already disappointing FAE of 1.6% q/q saar, due to downwards revisions to strong consumer spending, amidst signs of high interest rate and inflation pressuring household budgets.
- Employment continued to trend up in several industries, led by health care; government; leisure and hospitality; and professional, scientific, and technical services. Average hourly earnings were up 0.4% m/m and at 4.1% on a y/y basis

CHINA TO RAMP UP POLICY SUPPORT AS HOUSING STIMULUS REAPS REWARDS

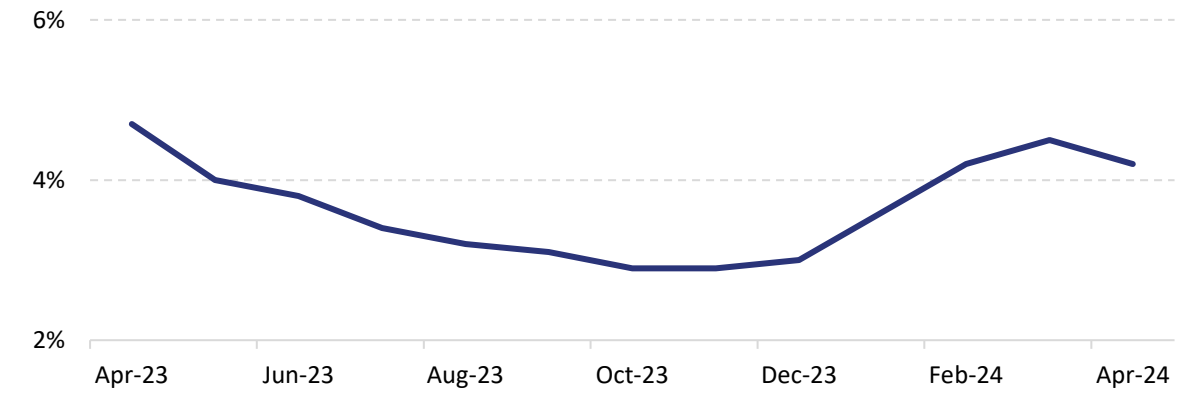
CHINA REAL GDP GROWTH (% Y/Y)



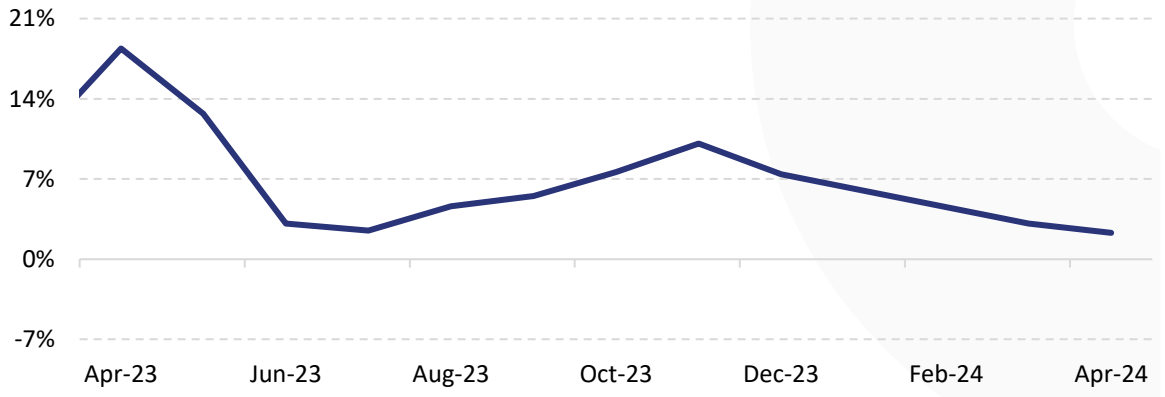
AGGREGATE FINANCING (CNY TRN) – 12M CUMULATIVE ROLLING



FIXED ASSET INVESTMENT (% Y/Y)



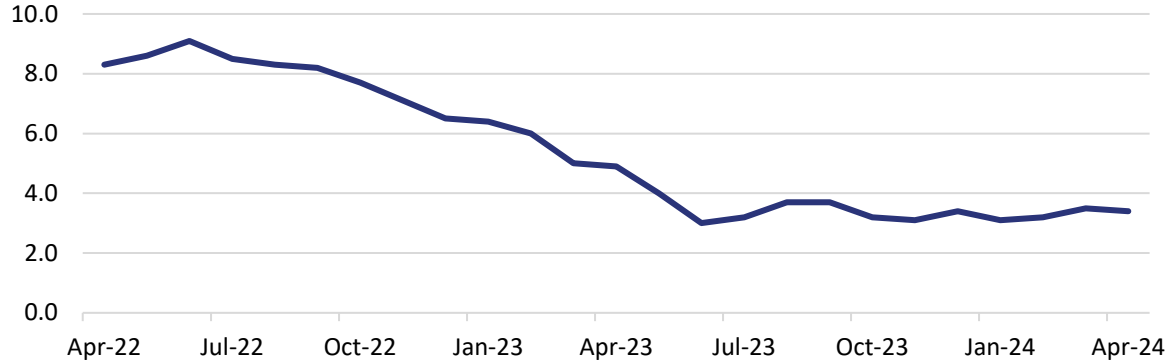
RETAIL SALES (% Y/Y)



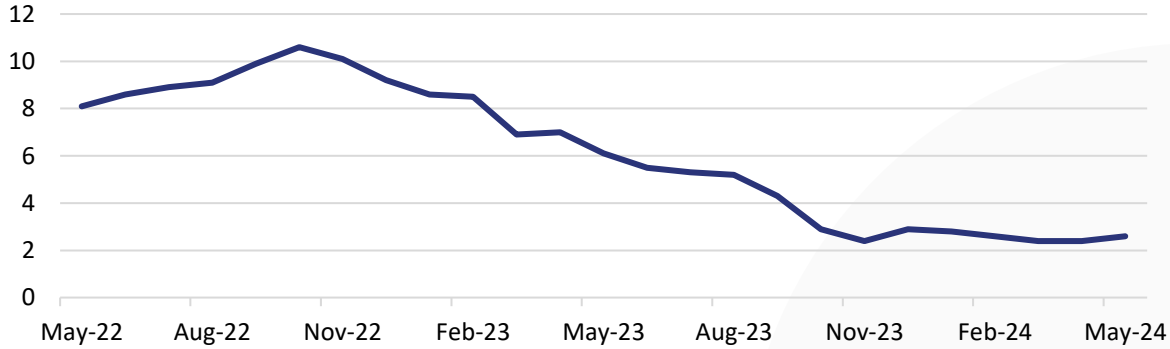
- China's economic data alluded to a slower growth on the consumer side while industrial activity remains upbeat, with major indicators showing improved production, exports and employment. Policymakers are concerned with slower loan growth as aggregate financing continues tanking, amidst shaky investments
- Politburo has committed to step up policy support both fiscally and monetarily, starting with long-term loans for project financing, as modest housing stimulus starts bearing fruit

INFLATION IS SLOWING DOWN, BUT SLOWER THAN CENTRAL BANKS WANT

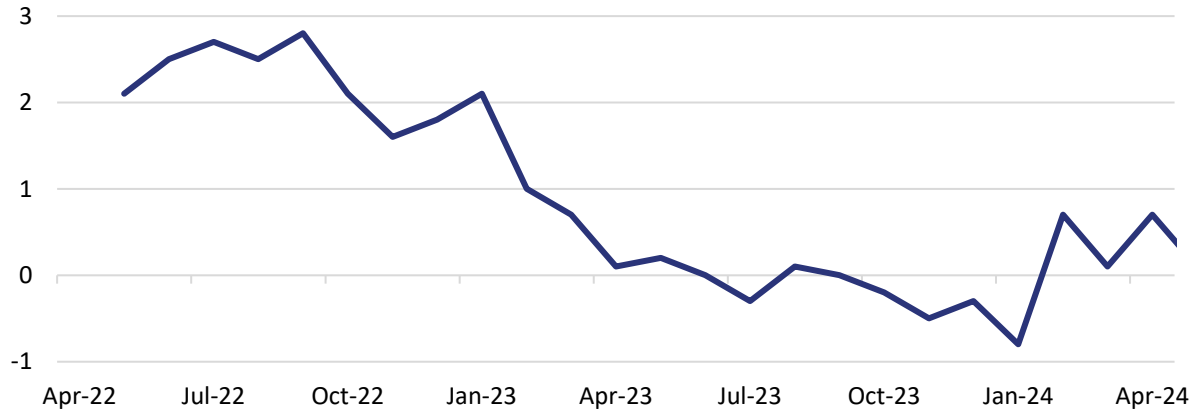
US CPI (% Y/Y)



EUROZONE CPI (% Y/Y)



CHINA CPI (% Y/Y)



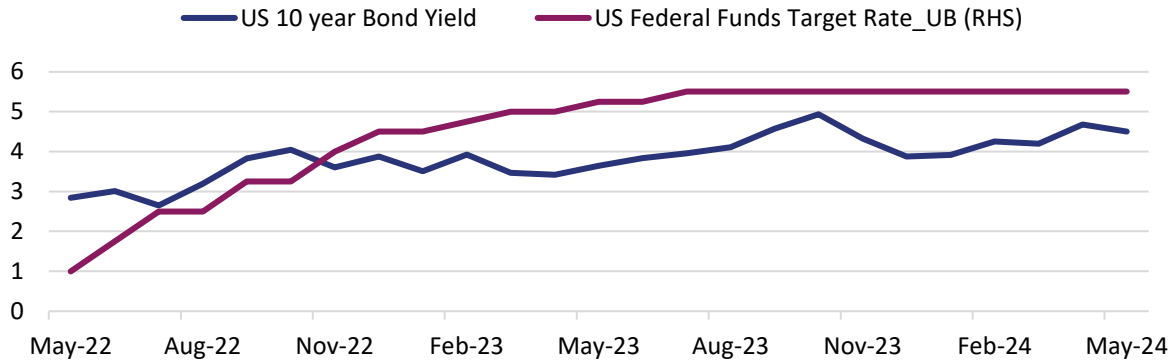
JAPAN CPI (% Y/Y)



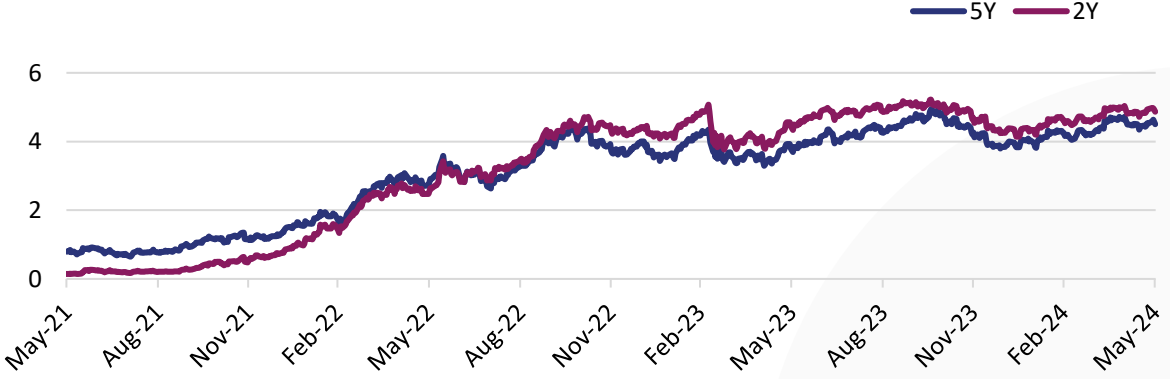
- Central Bankers in Asia are concerned with the stickiness of inflation which is again on a downward path, while Europe’s subdued price rise is threatened by energy prices
- Softer than expected US inflation with slower services gain provides no respite to US Fed, as officials await consistent disinflationary cues before acting on rates

TIMELINE FOR US RATE CUTS PUSHED AHEAD

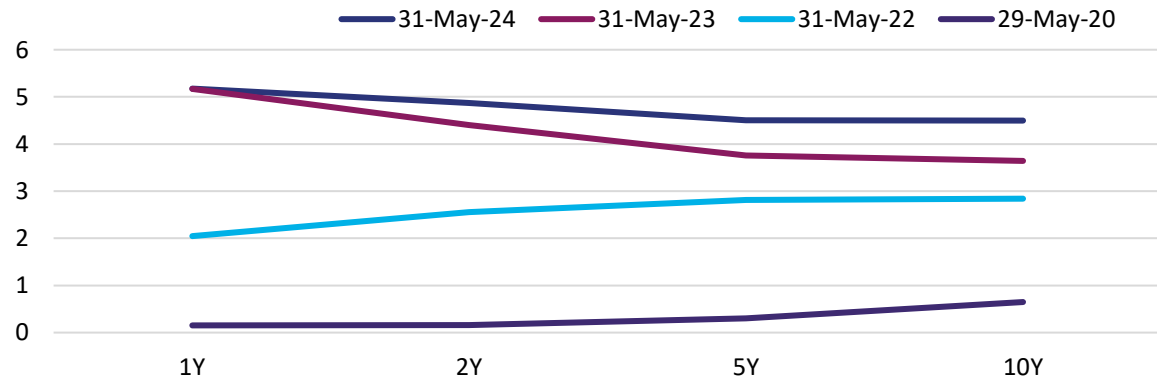
US 10-YEAR G-SEC YIELD VS POLICY RATE (%)



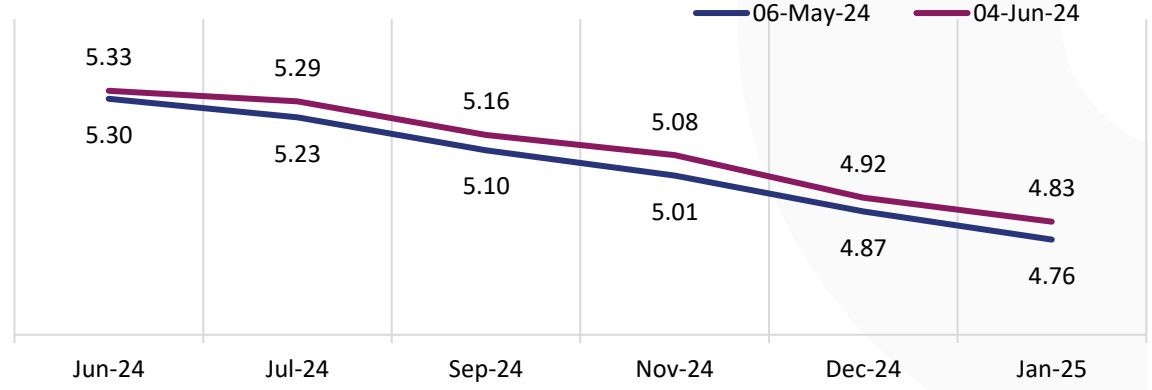
US 2Y AND 5Y G-SEC YIELD (%)



YIELD CURVE (%)



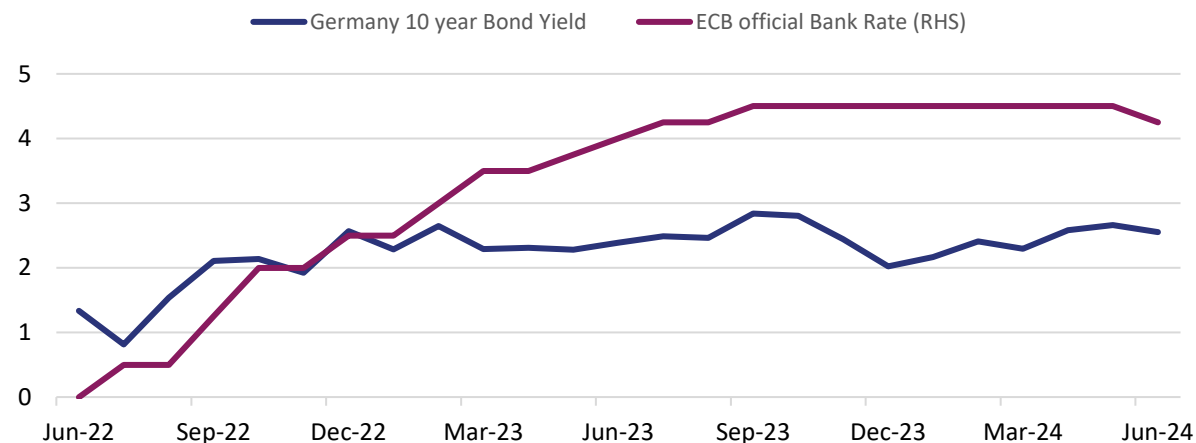
MARKET-IMPLIED PATH OF US FED POLICY RATE (%)



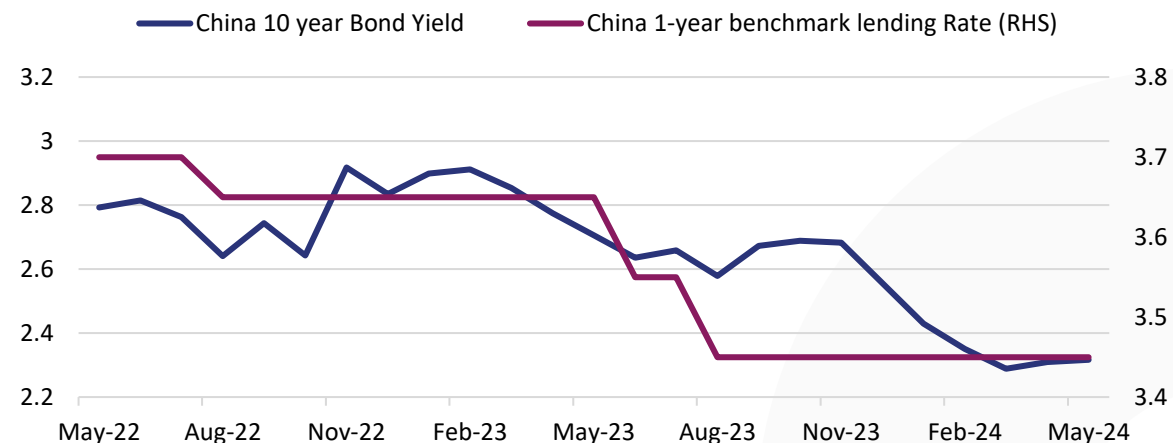
- US yields experienced a topsy turvy May'24, with sticky services inflation, hawkish Fed comments and weak auctions demand as market participants gauge the size and timing of potential rate cuts. Notably, weak auctions demand has led to a bearish flattening in the yield curve, as Fed's cautious approach weighs on market sentiments.
- Market expectations of rate cuts have further been tempered to 1-2 cut in CY24, with probability of Sep'24 cut dwindling to 52% in May'24 from 78% in Apr'24.

CERTAIN CENTRAL BANKS HAVE STARTED THEIR RATE CUTS

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%

- In line with expectations, the ECB slashed its key rates by 25bps, while keeping an eye out on inflation. Markets expect the ECB to stay put in Jul'24, before itching for a cut in Sep'24
- Canada cut its policy rate by 25bps, as its Central Bank's preferred gauges of core inflation slowed. Shelter prices remain the only bad apple in the inflation basket for Canada

ECONOMIC CALENDAR



GLOBAL ECONOMIC CALENDAR – (10 JUN – 20 JUN)

Date	Area	Event	Period
10	JN	GDP SA QoQ	1Q F
10	JN	BoP Current Account Balance	Apr
10	TU	Industrial Production YoY	Apr
11	WO	OPEC Monthly report	Apr
11	UK	ILO Unemployment Rate 3Mths	Apr
11	BZ	IBGE Inflation IPCA YoY	May
11	GE	Wholesale Price Index YoY	May
11	CH	FDI YTD YoY CNY	May
12	JN	PPI YoY	May
12	CH	PPI YoY	May
12	GE	CPI YoY	May F
12	UK	Monthly GDP (MoM)	Apr
12	UK	Industrial Production MoM	Apr
12	UK	Trade Balance GBP/Mn	Apr
12	TH	BoT Benchmark Interest Rate	Jun
12	IN	CPI YoY	May
12	IN	Industrial Production YoY	Apr
12	US	CPI YoY	May
12	US	Real Avg Weekly Earnings YoY	May
12	US	FOMC Rate Decision (Upper Bound)	Jun
12	IN	Trade Balance	May
13	SP	CPI YoY	May F
13	US	PPI Final Demand MoM	May
14	AR	National CPI YoY	May
14	JN	Industrial Production MoM	Apr F
14	IN	Wholesale Prices YoY	May

Date	Area	Event	Period
14	FR	CPI YoY	May F
14	PD	CPI YoY	May F
14	EC	Trade Balance SA	Apr
14	US	U. of Mich. Sentiment	Jun P
14	RU	GDP YoY	1Q P
14	RU	CPI YoY	May
17	JN	Core Machine Orders MoM	Apr
17	CH	1-Yr Medium-Term Lending Facility Rate	Jun
17	CH	Industrial Production YoY	May
17	CH	Retail Sales YoY	May
17	CH	Fixed Assets Ex Rural YTD YoY	May
17	CH	Property Investment YTD YoY	May
17	CH	Surveyed Jobless Rate	May
17	IT	CPI EU Harmonized YoY	May F
18	AU	RBA Cash Rate Target	Jun
18	EC	ZEW Survey Expectations	Jun
18	EC	CPI YoY	May F
18	HU	Central Bank Rate Decision	Jun
18	US	Retail Sales Advance MoM	May
18	US	Industrial Production MoM	May
19	JN	Trade Balance	May
19	UK	CPI YoY	May
19	SA	CPI YoY	May
19	US	NAHB Housing Market Index	Jun
19	RU	PPI YoY	May
20	BZ	Selic Rate	Jun

GLOBAL ECONOMIC CALENDAR – (20 JUN – 28 JUN)

Date	Area	Event	Period
20	NZ	GDP YoY	1Q
20	CH	1-Year Loan Prime Rate	Jun
20	GE	PPI YoY	May
20	ID	BI-Rate	Jun
20	SZ	SNB Policy Rate	Jun
20	NO	Deposit Rates	Jun
20	UK	Bank of England Bank Rate	Jun
20	US	Housing Starts	May
20	US	Building Permits	May
20	EC	Consumer Confidence	Jun P
20	PY	Monetary Policy Rate	Jun
21	AU	Judo Bank Australia PMI Mfg	Jun P
21	UK	GfK Consumer Confidence	Jun
21	JN	Natl CPI YoY	May
21	JN	Jibun Bank Japan PMI Mfg	Jun P
21	UK	Retail Sales Inc Auto Fuel MoM	May
21	FR	HCOB France Manufacturing PMI	Jun P
21	GE	HCOB Germany Manufacturing PMI	Jun P
21	EC	HCOB Eurozone Manufacturing PMI	Jun P
21	UK	S&P Global UK Manufacturing PMI	Jun P
21	US	S&P Global US Manufacturing PMI	Jun P
21	US	Existing Home Sales	May
24	NZ	Trade Balance NZD	May
24	GE	IFO Business Climate	Jun
24	IN	BoP Current Account Balance	1Q
25	SP	GDP YoY	1Q F

Date	Area	Event	Period
25	SP	PPI YoY	May
25	CA	CPI YoY	May
25	US	Conf. Board Consumer Confidence	Jun
25	VN	CPI YoY	Jun
26	AU	CPI YoY	May
26	GE	GfK Consumer Confidence	Jul
26	FR	Consumer Confidence	Jun
26	US	New Home Sales	May
26	RU	Industrial Production YoY	May
27	JN	Retail Sales YoY	May
27	CH	Industrial Profits YTD YoY	May
27	PH	BSP Overnight Borrowing Rate	Jun
27	SW	Riksbank Policy Rate	Jun
27	SA	PPI YoY	May
27	TU	One-Week Repo Rate	Jun
27	US	GDP Annualized QoQ	1Q T
27	US	Core PCE Price Index QoQ	1Q T
27	US	Advance Goods Trade Balance	May
27	US	Pending Home Sales MoM	May
27	GE	Retail Sales MoM	May
28	MX	Overnight Rate	Jun
28	JN	Jobless Rate	May
28	UK	GDP YoY	1Q F
28	FR	PPI YoY	May
28	CZ	GDP YoY	1Q F
28	IN	Eight Infrastructure Industries	May

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