



MONEY MARKET AND FX VIEW

April 15, 2024

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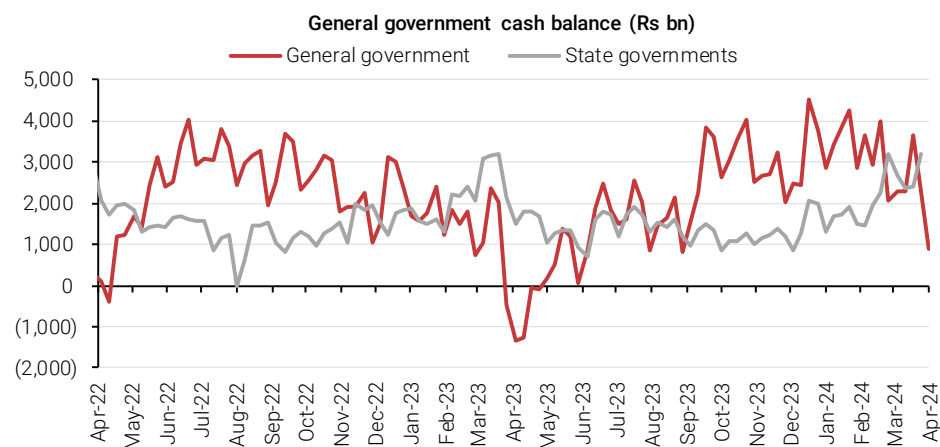
LIQUIDITY METER

Liquidity conditions to move into deficit zone

- Liquidity conditions to move into deficit zone.** System liquidity conditions, adjusting for CRR build-up, remained in surplus territory. On a w-o-w basis, liquidity surplus moderated to Rs806 bn as on April 12, 2024 (from Rs1.48 tn on April 5, 2024). Accordingly, the average overnight money market rates increased by 3 bps on a w-o-w basis to end the week 6.51%. **Going ahead, in the early part of the week, we expect system liquidity to remain in surplus zone, before falling into marginal deficit towards the end of the week led mainly by GST collections.**
- Government cash balances to increase.** General government cash balances as on April 5, 2024 fell sharply to Rs879 bn (from Rs2.3 tn in the previous week) due to month-end government spending (cash balances were higher than our expectations due to lower-than-expected spending). Based on the movement in the liquidity numbers last week, we expect the government cash balance to increase marginally to around Rs986 bn as on April 12, 2024. **This week, we expect government cash balances to increase further to around Rs1.7 tn led by GST collections.**
- CIC trends.** For the week ending April 5, CIC increased by around Rs159 bn to Rs35.3 tn (CIC increased by around Rs383 bn in the same week last year). The current CIC outstanding is at 12% of the FY2024SAE GDP.

Liquidity forecast for the week April 15 - 19, 2024			
Inflows	Amount (Rs bn)	Outflows	Amount (Rs bn)
Coupon inflows	179	Auction	
Redemptions		- T-bill	270
- T-bill	239	- State Govt.	19
- SDL	10	- Central Govt.	300
Government spending	350	GST	950
		Currency in circulation	160
Total inflows	777	Total outflows	1,699
		Net aggregate liquidity	(922)
		Liquidity as of Apr 12	806
		Liquidity as of Apr 19	(116)

Source: RBI, CEIC, Kotak Mahindra Bank estimates



DEBT-O-METER

Bond markets under pressure

- **Bond markets under pressure.** Bond markets remained under pressure last week amid worsening geopolitics in the middle east causing crude oil prices to rise, and upside surprise to the March US CPI inflation print. Crude oil prices hovered around US\$90/bbl through the week. The 10-year and 2-year US treasury yields were already on an upward trajectory at the beginning of the week. Following US CPI inflation upside surprise, the 10-year and 2-year treasury yields surged 18 and 23 bps, before ending the week marginally lower (though they were higher by 12 bps and 15 bps on a w-o-w basis). Tracking these cues, the new Indian 10-year benchmark yield (**7.10% GS 2034**), in a holiday-shortened week, opened on a weaker footing, and ended the week at 7.15% (6 bps higher on a w-o-w basis). **Despite the adverse global cues, the bond markets have opened this week with a marginal positive bias, amidst in-line with expectations of headline CPI, lower SDL and G-Sec supply. We expect the new 10-year G-sec yield to trade in the range of 7.10-7.20% in the near term as markets remain wary of the evolution of the geopolitical situation in the Middle East.**
- **Domestic inflation in line with expectations; global risks increasing.** March CPI inflation at 4.9% moderated from February's 5.1% (Kotak: 4.9%). Food inflation fell to 8.5% (8.7% in February). Sequentially, food inflation increased 0.2% (0.1% mom in February), led mainly by meat and fish, cereals, vegetables, and fruits. Fuel and light inflation contracted 3.2% ((-)2.6% mom) owing to LPG price cuts. Core CPI inflation (CPI, excluding food and beverages, and fuel) moderated marginally to 3.3% (February: 3.4%). Sequentially, core CPI increased 0.2% (0.3% in February), led by personal care and effects (mainly gold and silver). We estimate core inflation to average 4% in FY2025. We expect headline inflation in the coming months to remain at sub-5% levels (barring the summer months). **However, in the near term we see upside risks to our 1QFY25 average inflation of 5% from (1) the high temperatures causing volatile food inflation, (2) geopolitical risks and ongoing OPEC+ supply cuts pushing up crude oil prices and (3) higher non-energy commodity prices. These risks could continue to pose a challenge to the last mile disinflation, as noted by the RBI Governor as well. Overall, we do not see inflation settling durably around the 4% target before FY2026 (FY2025 and FY2026 average headline inflation is expected at 4.5% and 4.2%, respectively). While we maintain our call for a 50 bps rate cut starting in 3QFY25, we note increasing risks of further delays to the RBI's rate cuts from (1) rising crude oil prices, (2) a further push-back to the timing of the US Fed's rate easing cycle and (3) volatile food inflation.**
- **Markets await April RBI MPC minutes.** The minutes of April MPC meeting will be released later this week. The meeting was in line with expectations with growth and inflation forecasts remaining unchanged from the previous meeting. However, it will be important to remain watchful of the members' tones given the changing geopolitics in recent weeks.

DEBT-O-METER

General government finances

Monthly receipts and expenditure of the central government, March fiscal year-ends

(Rs bn)	FY2024RE	11MFY24	11MFY23	FYTD24	
				Change (% , yoy)	% of BE
Gross tax revenues	34,372	28,899	25,473	13.4	84.1
Direct taxes	19,578	16,019	13,159	22	81.8
- Corporation tax	9,227	7,527	6,418	17	81.6
- Income tax + other taxes	10,352	8,492	6,741	26	82.0
Indirect taxes	14,794	12,836	12,280	4.5	86.8
- Customs duty	2,187	1,964	1,890	3.9	89.8
- Excise duty	3,036	2,538	2,695	(5.8)	83.6
- Service tax	5	5	3	54.6	93.4
- GST	9,566	8,330	7,693	8.3	87.1
Net tax revenues	23,239	18,495	17,322	6.8	79.6
Non-tax revenues	3,758	3,603	2,486	45	95.9
Non-debt capital receipts	560	361	589	(39)	64.5
Total receipts	27,557	22,459	20,397	10.1	81.5
Total expenditure	44,905	37,473	34,936	7.3	83.4
- Revenue expenditure	35,402	29,417	29,034	1.3	83.1
- Capital expenditure	9,502	8,056	5,902	36	84.8
Fiscal deficit	17,348	15,014	14,539	3.3	86.5

Monthly receipts and expenditure of the state governments, March fiscal year-ends (Rs bn)

24 states' finances, Rs bn	FY2024BE	11MFY24	11MFY23	Change (% , yoy)		
				11MFY24	11MFY23	FY2024 (% of BE)
Receipts	38,389	25,973	24,027	8.1	17	67.7
Revenue Receipts	38,151	25,847	23,972	7.8	17	67.7
Tax revenue	27,820	20,793	18,172	14.4	20	74.7
- State Goods and Services Tax	9,193	6,985	5,953	17.3	22	76.0
- Stamps and Registration Fees	2,207	1,625	1,419	14.5	21	73.6
- Land Revenue	162	106	91	17	7	65.5
- Sales Tax	4,043	2,861	2,834	0.9	12.0	70.8
- State Excise Duties	2,672	1,992	1,765	12.9	16	74.5
- State's Share of Union Taxes	7,777	6,002	5,031	19.3	23	77.2
- Other Taxes and Duties	1,765	1,222	1,078	13.3	29	69.2
Non-tax revenue	3,241	2,005	1,734	16	14	61.9
Grants	7,090	3,049	4,066	(25)	5.7	43.0
Capital receipts	238	126	55	130	(59)	53.0
Expenditure	46,957	32,000	28,497	12.3	11.9	68.1
- Revenue Expenditure	38,626	27,265	24,841	9.8	12.0	70.6
- Capital expenditure	8,331	4,735	3,656	30	10.8	56.8
Fiscal balance	(8,568)	(6,027)	(4,471)	34.8	(8.5)	70.3

Source: RBI, CEIC, Kotak Economics Research

Gross borrowings of state governments, March fiscal year-ends (Rs bn)

Gross borrowings	FYTD24	FYTD25	Indicated borrowings	
			(FY2024)	Actual (% of indicated)
Andhra Pradesh	30.0	40.0	70.0	57.1
Assam	10.0	10.0	10.0	100.0
Himachal Pradesh		10.0	10.0	100.0
Maharashtra	30.0	100.0	120.0	83.3
Meghalaya	3.0	1.0	1.0	100.0
Punjab	15.0	30.0	40.0	75.0
Tamil Nadu		10.0	40.0	25.0
Telangana		25.0	30.0	83.3
Total	88	226	373	60.5

DEBT-O-METER

Summary of market borrowings

Quarterly summary of market borrowings by central and state governments, March fiscal year-ends (Rs bn)

Rs bn	Gross supply				Net supply			
	G-Sec	T-bill	SDL	Total dated SLR	G-Sec	T-bill	SDL	Total dated SLR
1QFY22	3,185	5,353	1,446	4,631	2,133	2,493	1,111	3,244
2QFY22	3,838	3,215	1,644	5,482	3,497	(1,766)	1,247	4,744
3QFY22	2,950	3,880	1,573	4,523	2,197	(707)	1,041	3,238
4QFY22	1,300	4,766	2,353	3,653	803	643	1,519	2,322
FY2022	11,274	17,214	7,016	18,290	8,631	663	4,917	13,548
1QFY23	3,900	5,247	1,102	5,002	2,550	2,649	618	3,168
2QFY23	4,390	3,704	1,661	6,051	3,466	(1,018)	1,171	4,637
3QFY23	3,480	3,588	1,811	5,291	2,626	(803)	1,239	3,865
4QFY23	2,440	4,566	3,009	5,449	2,440	(166)	2,161	4,601
FY2023	14,210	17,105	7,584	21,794	11,083	661	5,188	16,271
1QFY24	4,410	4,963	1,677	6,087	2,822	1,890	1,218	4,040
2QFY24	4,470	3,899	1,903	6,373	4,470	(870)	1,113	5,583
3QFY24	4,180	3,611	2,460	6,640	1,962	(762)	1,765	3,727
4QFY24	2,370	4,258	4,030	6,400	1,775	225	3,173	4,948
FYTD24	15,430	16,731	10,071	25,501	11,029	483	7,269	18,298
1QFYTD25	680	873	226	906	680	337	128	808
FYTD25	680	873	226	906	680	337	128	808

Note:

(a) Gross and net supply of T-bills include non-competitive amounts as well.

Source: RBI, CEIC, Kotak Economics Research

FX-METER

Firm US Dollar weighs on INR

- INR weighed down by global risk-off.** Following a string of robust economic data in the US, the higher-than-expected CPI inflation last week caused a further push-back to the onset of US Fed's rate easing cycle. Markets now expect the Fed to start easing rates from September instead of June 2024 a month ago (around 50bps cut in CY2024). The DXY index surged to a five month high of 106.1 last week before settling marginally lower. The escalation in Middle East tensions weighing on risk sentiments, and driving crude oil prices higher along with ECB's dovish tilt has further provide a lift-off to the DXY index. Tracking these cues, the INR opened the week on a weaker footing and depreciated through week. On a w-o-w basis, the INR depreciated by 0.15% (ending the week at Rs83.42/US\$), although outperforming most of its Asian peers. Given the increasing global risks, **we see room for USD-INR to breach 83.50 levels in the near term, although the pace maybe be determined by RBI's FX intervention. We expect the USD-INR to trade in the range of 83.25-83.75 in the near term.**
- US inflation surprises on the upside.** US March CPI inflation came in higher-than-expected at 3.5% (consensus: 3.4%; February: 3.2%) with 0.4% mom increase – primarily boosted by the shelter and energy components. Core CPI also surprised on the upside at 3.8% (consensus: 3.7%; February: 3.8%) while increasing sequentially by 0.4%. The CPI print follows a strong labor market report leading to market expectations of the first rate cut shifting to September from June earlier.
- ECB maintains status quo; rate cuts likely from June.** The European Central Bank (ECB), in line with expectations, kept its three key interest rates unchanged. The ECB noted that inflation was moderating due to moderating wage growth, firms' labor cost absorption in their profits, restrictive financial conditions, and past rate hikes. It also maintained its quantitative tightening plans: fully reinvest principal payments from maturing securities under PEPP in 1HCY24, while reducing the PEPP portfolio by EUR7.5 bn per month on average in 2HCY24. **Going ahead, we expect the ECB to kickstart its rate cut cycle from June, given that inflation has evolved in line with expectations in the Eurozone (and without any upside surprises). However, any further worsening of the Middle East tensions could cause oil prices to rise further, causing further delays to rate cuts.**

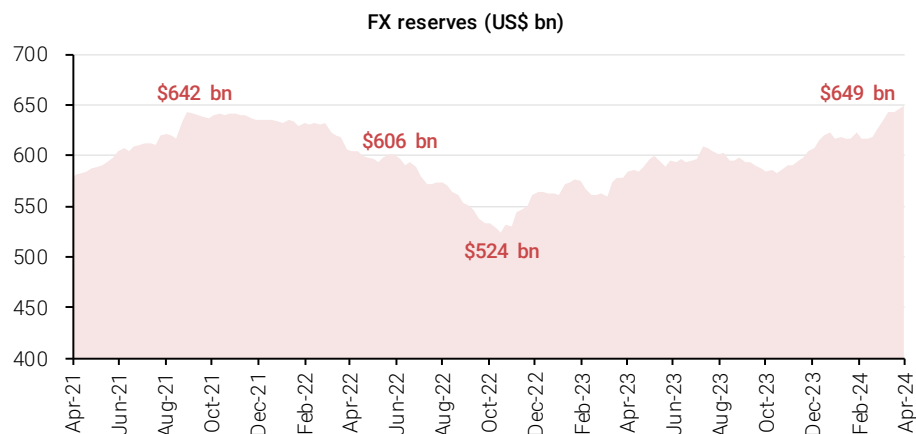
		Implied Fed Funds rate (%)						
		4.00	4.25	4.50	4.75	5.00	5.25	5.50
FOMC meeting dates	01-May-24					0.0	4.8	95.2
	12-Jun-24				0.0	0.9	21.5	77.6
	31-Jul-24			0.0	0.3	8.6	42.4	48.7
	18-Sep-24		0.0	0.1	3.9	23.1	45.1	27.8
	07-Nov-24		0.0	1.1	8.6	28.6	40.8	20.9
	18-Dec-24	0.0	0.5	4.6	18.0	34.3	31.4	11.1

Source: CME, Kotak Economics Research

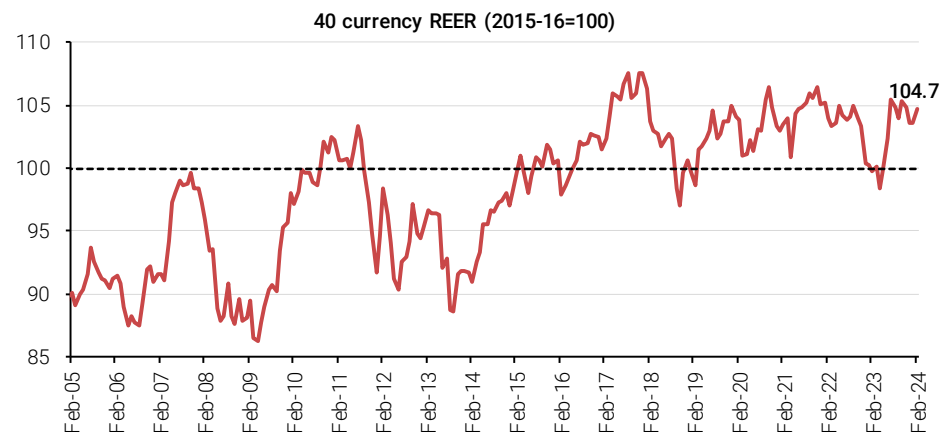
FX-METER

Robust FPI inflows in FY2024 | momentum fizzles at the start of FY2025

Trend in RBI's FX reserves (US\$ bn)



Trend in 40-currency real effective exchange rate index (2015-16=100)

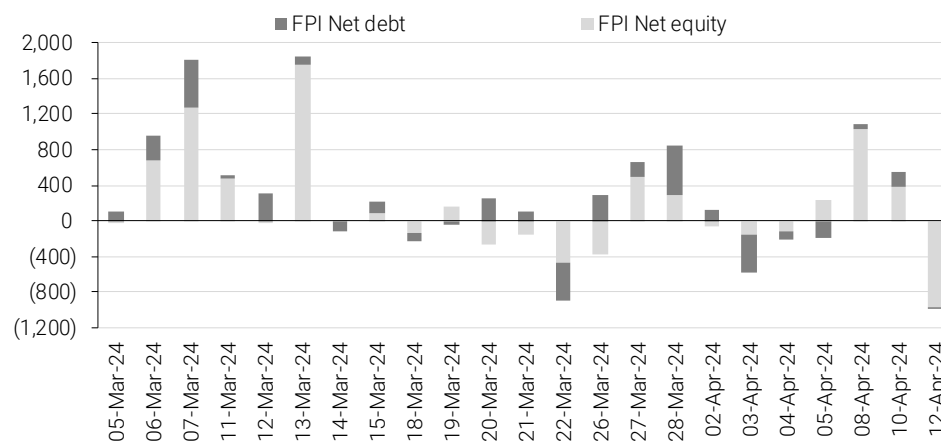


Quarterly profile of FPI flows (US\$ bn)

US\$ bn	FPI Net equity	FPI Net debt	Total FPI flows
1QFY22	0.8	(1.1)	(0.4)
2QFY22	0.4	3.2	3.7
3QFY22	(4.8)	(1.6)	(6.4)
4QFY22	(13.5)	(0.5)	(14.0)
FY2022	(17.1)	0.0	(17.1)
1QFY23	(15.0)	(1.5)	(16.5)
2QFY23	6.0	0.4	6.5
3QFY23	5.5	(0.5)	5.0
4QFY23	(2.5)	0.4	(2.1)
FY2023	(6.0)	(1.1)	(7.1)
1QFY24	13.6	1.7	15.4
2QFY24	3.6	1.5	5.1
3QFY24	6.7	4.8	11.5
4QFY24	1.4	7.1	8.5
FY2024	25.3	15.2	40.4
1QFYTD25	0.4	(0.4)	(0.0)
FYTD2025	0.4	(0.4)	(0.0)

Source: CEIC, Kotak Economics Research

Trend in FPI flows over the last one month (US\$ mn)



MACRO-METER

Credit growth continues to outpace deposit growth

Key asset-liabilities of the banking sector and money supply, March fiscal year-ends

March 22, 2024	Outstanding	Fortnightly change	FYTD change	Change (Rs bn unless mentioned otherwise)	
	(Rs bn)	(Rs bn)	(Rs bn)	FY2024/FY2023	FY2023/FY2022
Aggregate deposits	204,753	552	24,313	13.5%	9.6%
- Demand	24,439	693	2,634	2,634	1,077
- Time	180,314	(141)	21,679	21,679	14,709
Aggregate deposits (excl. HDFC merger)	203,670	574	23,231	12.9%	9.6%
Bank credit	164,347	1,211	27,594	20.2%	15.0%
- Food	231	(86)	32	32	(351)
- Non-food	164,116	1,297	27,563	27,563	18,190
Bank credit (excl. HDFC merger)	159,040	1,222	22,287	16.3%	15.0%
Investment	61,057	10	6,905	6,905	6,862
Investment (excl. HDFC merger)	60,141	16	5,990	5,990	6,862
Key ratios (%)					
- Credit-Deposit ratio	80.3				
- Credit-Deposit ratio (excl. HDFC merger)	78.1				
- Incremental C-D ratio	113.5				
- Incremental C-D ratio (excl. HDFC merger)	95.9				
- Investment-Deposit ratio	29.8				
- Investment-Deposit ratio (excl. HDFC merger)	29.5				
Money supply	249,386	911	25,948	11.7%	9.0%
Money supply (excl. HDFC merger)	248,303	933	24,866	11.2%	9.0%

Source: RBI, CEIC, Kotak Economics Research

MACRO-METER

Domestic demand remains resilient

Select economic activity indicators (% yoy)	Jan-23	Feb-23	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
Manufacturing															
PMI manufacturing (sa)	55.4	55.3	56.4	57.2	58.7	57.8	57.7	58.6	57.5	55.5	56.0	54.9	56.5	56.9	59.1
Credit growth (industry)	8.7	6.8	5.6	7.0	6.0	8.0	5.6	6.6	7.1	5.9	6.6	8.6	8.3	9.1	
Petroleum products consumption (industrials)	(2.6)	10.7	26.9	(8.8)	15.0	9.5	(1.3)	13.3	12.8	(2.9)	(5.0)	10.0	13.7	3.3	(10.6)
IIP manufacturing	4.5	5.9	1.5	5.5	6.3	3.5	5.3	10.0	5.1	10.6	1.3	4.5	3.6	5.0	
Railways freight traffic	3.8	3.6	3.8	3.5	1.9	(1.9)	1.5	6.4	6.7	8.5	4.3	6.4	6.4	10.1	
Steel production	11.5	9.3	10.1	6.5	15.3	13.8	14.6	16.6	14.6	14.1	18.5	12.9	6.4	13.5	4.3
Construction															
Steel consumption	9.0	14.7	15.3	8.0	7.8	15.8	17.6	21.5	18.7	15.3	14.5	13.7	12.3	7.0	9.9
IIP cement	4.7	7.4	(0.2)	12.4	15.9	9.9	6.9	19.7	4.7	17.0	(4.8)	3.8	5.7	10.2	
Core infrastructure	9.7	7.4	4.2	4.6	5.2	8.4	8.5	13.4	9.4	12.7	7.9	4.9	4.1	10.2	
Credit growth (home loans)	15.7	15.2	15.2	14.5	14.6	15.0	36.9	37.0	36.6	36.9	37.0	35.6	37.2	36.7	
Services															
PMI services (sa)	57.2	59.4	57.8	62.0	61.2	58.5	62.3	60.1	61.0	58.4	56.9	59.0	61.8	60.6	61.2
Credit growth (services)	21.4	20.5	19.7	21.5	21.3	26.6	23.6	24.7	25.0	23.6	25.4	22.9	23.9	24.0	
Domestic air passenger traffic	95.8	56.8	21.4	22.2	15.2	18.8	24.7	22.8	18.4	10.8	9.0	8.3	4.6	4.8	
Airport cargo	(4.1)	0.4	1.4	0.0	(0.3)	(0.8)	(1.2)	6.9	(0.3)	13.1	6.6	10.8	15.5	22.7	
Consumption															
Credit growth (personal loans)	20.7	20.6	21.0	19.7	19.5	21.2	31.1	30.6	30.3	29.7	30.1	28.5	28.8	28.3	
Average no. of daily GST e-way bills (mn)	2.7	2.9	2.9	2.8	2.8	2.9	2.8	3.0	3.1	3.2	2.9	3.1	3.1	3.4	3.6
GST collections (Rs bn)	1,496	1,601	1,870	1,571	1,615	1,651	1,591	1,627	1,720	1,679	1,649	1,721	1,683	1,785	
Passenger vehicle sales	17.2	11.0	4.5	31.7	13.5	2.0	19.2	27.7	17.7	33.9	21.0	21.7	31.9	27.0	26.0
Non-oil imports	(8.1)	(8.6)	2.3	(12.5)	(5.8)	(9.9)	(7.8)	3.3	(11.6)	13.8	(2.7)	3.4	2.4	17.8	
Fuel consumption (retail)	8.8	5.5	1.1	5.3	11.4	3.3	3.7	4.3	5.0	7.2	0.5	(0.9)	5.7	7.2	5.0
FASTag (mn)	48.1	46.8	50.7	51.5	54.4	52.0	49.8	51.8	50.9	55.4	53.0	58.6	55.6	55.8	59.4
Labor market															
Naukri job index	1.7	(2.2)	5.2	(5.2)	(0.5)	(2.9)	(18.8)	(5.7)	(8.6)	1.2	(23.3)	(15.6)	(11.1)	(7.5)	
All India unemployment rate (%)	7.1	7.5	8.1	8.5	7.6	8.5	7.9	8.1	7.0	9.4	8.9	8.7	6.8	8.0	7.6
- Rural	6.4	7.2	7.8	7.7	6.9	8.8	7.8	7.1	5.9	9.8	8.7	8.0	5.8	7.8	7.4
- Urban	8.6	7.9	8.6	10.3	9.1	8.1	8.1	10.1	9.4	8.5	9.3	10.1	8.9	8.5	8.2
Rural															
Rural wage growth	6.5	5.9	5.7	5.7	6.3	6.6	6.6	6.4	6.2	5.6	6.0	6.3	6.5		
Two wheeler sales	5.0	8.8	9.0	16.5	17.4	1.7	(7.2)	0.6	0.8	20.2	31.3	16.0	26.2	34.6	15.3
Tractor sales	16.0	11.8	10.1	(13.0)	(2.4)	(0.7)	(0.0)	(4.1)	(15.6)	(5.3)	1.5	(21.3)	(14.5)	(25.7)	(19.5)
Employment demanded under MNREGA (sa, mn)	26.9	26.5	27.6	29.6	30.9	29.5	29.7	28.7	28.7	28.4	27.4	26.5	25.3	24.9	24.7
Fertilizer sales	18.0	9.9	19.0	(13.9)	2.1	1.7	4.4	2.7	5.7	10.4	(5.5)	(3.1)	(9.1)	(13.5)	0.6

Source: CEIC, CMIE, PPAC, Kotak Economics Research

Color code > (Mean + 1SD) >= Mean & <= (Mean + 1SD) < Mean >= (Mean - 1SD) < (Mean - 1SD)

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