



MONEY MARKET AND FX VIEW

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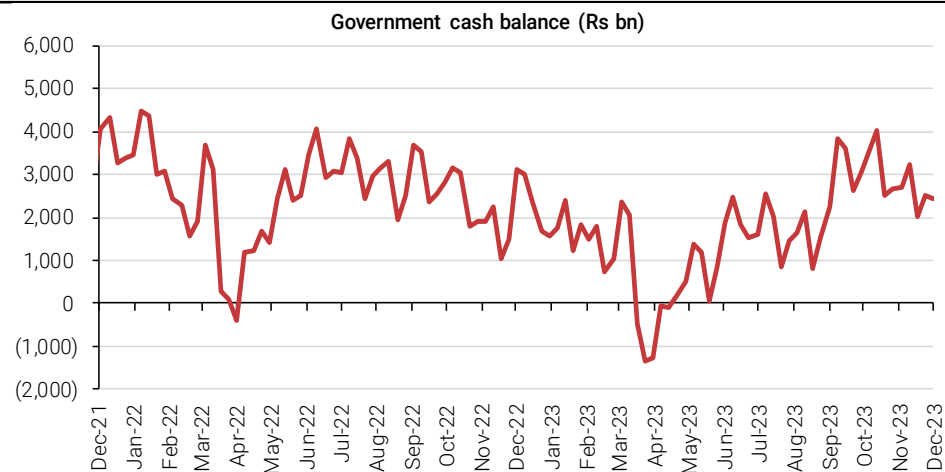
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LIQUIDITY METER

System liquidity conditions to remain tight

- System liquidity to remain tight.** System liquidity conditions tightened significantly last week amid heavy outflows from GST and advance tax collections and muted government spending. On a W-O-W basis, liquidity tightened to Rs2.6 tn (from a deficit of Rs593 bn on December 15, 2023). The average overnight money market rates hovered in a range of 6.77%-6.80% through the week. **This week, we expect system liquidity to remain tight followed by an easing next week amid heavy month-end government spending. Notably, the government has adequate room to spend in 4QFY24 and we expect the government to run down on its cash balance in the coming months.**
- Government cash balance to remain high.** Government cash balance was broadly in line with our expectations at ~Rs2.4 tn as on December 15, 2023 (from ~Rs2.5 tn as on December 8, 2023). Based on the movement in the liquidity numbers last week, we expect cash balances to have surged to ~Rs4.5 tn amid GST and advance tax collections. **Going into this week, we expect cash balances to remain high (but moderate) to ~Rs4 tn amid some month-end government spending.**
- CIC trends.** CIC was broadly unchanged at Rs33.7 tn in week ending December 15, 2023. The current CIC outstanding is at 11.3% of the FY2024BE GDP. In FYTD24, CIC has fallen by Rs108.5 bn compared to an increase of Rs1.08 tn in the same period last year.

Liquidity forecast for the week Dec 23-29, 2023			
Inflows	Amount (Rs bn)	Outflows	Amount (Rs bn)
Coupon inflows	221	Auction	
Redemptions		- Tbill	240
		- State Govt	248
		- Central Govt	300
Government spending	750	Currency in circulation	(50)
Total inflows	1,251	Total outflows	738
		Net aggregate liquidity	512
		Liquidity as of Dec 22	(2,618)
		Liquidity as of Dec 29	(2,106)



Source: RBI, CEIC, Kotak Mahindra Bank estimates

MARKET METER

Markets trade in a range

- **Bond markets trade in a range.** Indian bond market traded in a range in the early part of the week. However, higher crude oil prices and a marginal pick up in the US treasury yields caused the Indian 10-year G-sec yield rose through the week to close higher at 7.19% (3 bps on a W-O-W basis). In the US, year-end thin volumes and the lower-than-expected November PCE inflation data extended the downtrend in the US treasury yields: on a W-O-W basis, while the 10-year US treasury yield was broadly unchanged, the 2-year yield was lower by 12 bps. However, protracted geopolitical conflicts drove up crude oil prices by 3.3% on a W-O-W basis. **We continue to expect the benchmark 10-year G-sec to trade in a range of 7.10-7.25% in the near term.**
- **MPC minutes reflect continuing concerns on food inflation; shift in stance likely soon.** The minutes of the December RBI MPC meeting continued to reflect members' concerns on inflation (mainly food inflation) stemming from adverse weather events, and supply-side constraints. Members reiterated the need to stay focused on the 4% inflation target. Governor Das noted that "the projected inflation (4.7%) in Q3 of next year... is perilously close to 5%" which called for the need of an actively disinflationary monetary policy. However, members were comforted by the resilient growth and the downward trend in services and core goods inflation. Dr Patra noted that recent GDP data reinforced the view that the output gap in India had turned positive since the start of the year. On real policy rates, Dr Goyal noted that if inflation was to moderate sustainably to 4% by mid-2024, real rates will be too high without any action being taken. Dr Varma noted that a sustained moderation in the inflation trajectory (barring transient food price spikes) would make a "compelling case" for continuously calibrating the nominal policy rate "to keep the real interest rate slightly below 1.5%" (from more than 2% currently). The focus on real policy rates, in our view, reflects the onset of differing views on the policy stance which should begin manifesting in split votes in the upcoming policies. **We maintain our view of a pause by the RBI in 1HCY24, with a likely shift in stance to neutral in 1QFY25.**
- **INR remains in a range.** INR opened last week on a stronger footing trading at sub-83 levels aided by softness in the US Dollar. However, through the course of the week, the INR was weighed down by rising crude oil prices and continued RBI intervention. The DXY index fell through the week, closing at 101.7 (0.8% lower on a W-O-W basis) amid a softer-than-expected GDP and November PCE (and core PCE) inflation. Tracking these cues, the USD-INR depreciated by 0.4% intra-week to end the week at 83.15. **We continue to expect the USD-INR to trade in the 82.75-83.50 range in the near term.**

DEBT-O-METER

General government finances

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

(Rs bn)	FYTD24				
	FY2024BE	7MFY24	7MFY23	Change (% , yoy)	% of BE
Gross tax revenues	33,609	18,345	16,096	14.0	54.6
Direct taxes	18,317	10,242	16,096	(36)	55.9
- Corporation tax	9,227	4,820	16,096	(70)	52.2
- Income tax + other taxes	9,090	5,422	16,096	(66)	59.7
Indirect taxes	15,292	8,075	16,096	(49.8)	52.8
- Customs duty	2,331	1,244	16,096	(92.3)	53.4
- Excise duty	3,390	1,502	16,096	(91)	44.3
- Service tax	5	4	16,096	(100)	86.6
- GST	9,566	5,325	16,096	(67)	55.7
Net tax revenues	23,306	13,020	16,096	(19.1)	55.9
Non-tax revenues	3,017	2,658	16,096	(83)	88.1
Non-debt capital receipts	840	230	16,096	(99)	27.4
Total receipts	27,163	15,907	13,856	14.8	58.6
Total expenditure	45,031	23,944	21,437	11.7	53.2
- Revenue expenditure	35,021	18,475	17,347	6.5	52.8
- Capital expenditure	10,010	5,469	4,090	34	54.6
Fiscal deficit	17,868	8,037	7,581	6.0	45.0

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

25 states' finances, Rs bn	Change (% , yoy)					
	FY2024BE	7MFY24	7MFY23	7MFY24	7MFY23	FY2024 (% of BE)
Receipts	41,834	19,350	17,432	11.0	22.4	46.3
Revenue Receipts	41,417	19,260	17,393	10.7	22.6	46.5
Tax revenue	30,073	15,318	13,104	16.9	27.3	50.9
- State Goods and Services Tax	9,992	5,238	4,431	18.2	28.1	52.4
- Stamps and Registration Fees	2,355	1,224	1,048	16.8	27.1	52.0
- Land Revenue	198	126	85	47.6	25.8	63.5
- Sales Tax	4,505	2,178	2,198	(0.9)	17.1	48.3
- State Excise Duties	2,699	1,387	1,235	12.3	22.0	51.4
- State's Share of Union Taxes	8,374	4,220	3,308	27.6	34.6	50.4
- Other Taxes and Duties	1,951	945	798	18.4	34.7	48.4
Non-tax revenue	3,474	1,602	1,308	22.5	27.0	46.1
Grants	7,870	2,341	2,982	(21.5)	4.1	29.7
Capital receipts	417	90	39	128.7	(27.1)	21.6
Expenditure	50,801	23,747	20,900	13.6	13.3	46.7
- Revenue Expenditure	41,553	20,128	18,470	9.0	14.6	48.4
- Capital expenditure	9,249	3,620	2,430	48.9	4.2	39.1
Fiscal balance	(8,967)	(4,397)	(3,467)	26.8	(17.5)	49.0

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

Gross borrowings	Indicated borrowings			Actual (% of indicated)
	FYTD23	FYTD24	(FYTD24)	
Andhra Pradesh	453.0	549.5	440.0	124.9
Arunachal Pradesh	0.0	6.7	6.7	100.0
Assam	129.0	127.5	140.5	90.7
Bihar	250.0	280.0	260.0	107.7
Chhattisgarh	0.0	80.0	90.0	88.9
Goa	9.5	20.0	34.0	58.8
Gujarat	240.0	150.0	280.0	53.6
Haryana	280.0	310.0	375.0	82.7
Himachal Pradesh	80.0	53.0	68.0	77.9
Jammu and Kashmir	50.5	115.7	61.0	189.7
Jharkhand	20.0	0.0	0.0	0.0
Karnataka	280.0	240.0	460.0	52.2
Kerala	154.4	258.0	190.5	135.4
Madhya Pradesh	120.0	230.0	350.0	65.7
Maharashtra	450.0	600.0	650.0	92.3
Manipur	8.7	11.0	5.5	200.0
Meghalaya	17.5	13.6	17.5	77.9
Mizoram	9.9	6.6	6.5	101.5
Nagaland	13.2	17.5	16.5	106.1
Odisha	0.0	0.0	0.0	0.0
Puducherry	4.0	0.0	2.0	0.0
Punjab	299.6	359.9	338.0	106.5
Rajasthan	280.0	460.0	410.0	112.2
Sikkim	8.8	9.5	14.0	67.9
Tamil Nadu	450.0	710.0	630.0	112.7
Telangana	260.0	359.0	347.0	103.5
Tripura	0.0	0.0	3.0	0.0
Uttar Pradesh	140.0	507.0	685.0	74.0
Uttarakhand	5.0	23.0	54.0	42.6
West Bengal	330.0	335.0	525.0	63.8
Total	4,343	5,833	6,460	90.3

Source: RBI, CEIC, Kotak Economics Research

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
1QFY21	3,460	6,128	1,673	5,133	2,154	3,430	1,391	3,545
2QFY21	4,200	5,417	1,863	6,063	4,200	1,009	1,590	5,790
3QFY21	2,840	3,254	2,023	4,862	2,165	(1,426)	1,575	3,740
4QFY21	3,203	2,904	2,430	5,633	2,912	(1,488)	2,029	4,941
FY2021	13,703	17,703	7,988	21,691	11,431	1,525	6,585	18,016
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	619	3,169
2QFY23	4,390	3,704	1,661	6,051	3,466	(1,018)	1,136	4,602
3QFY23	3,480	3,588	1,811	5,291	2,626	(803)	1,257	3,883
4QFY23	2,440	4,566	3,009	5,449	2,440	(166)	2,162	4,602
FY2023	14,210	17,105	7,584	21,794	11,083	661	5,174	16,256
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
3QFYTD24	3,850	3,258	2,252	6,102	1,632	(812)	1,559	3,191
FYTD24	12,730	12,120	5,833	18,563	8,924	208	3,890	12,814

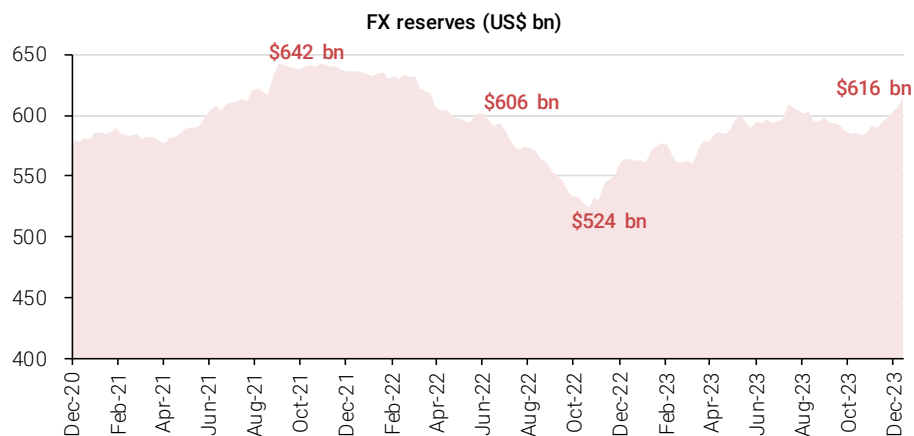
Note:

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

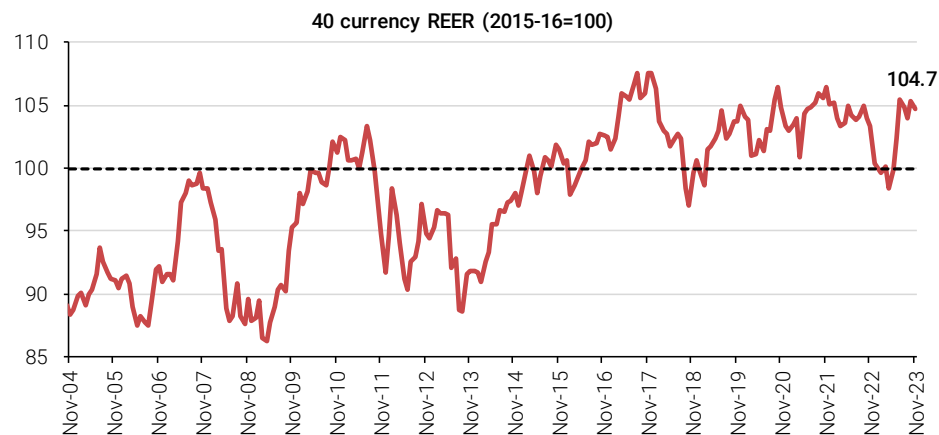
Source: RBI, CEIC, Kotak Economics Research

Robust FPI inflows in December

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



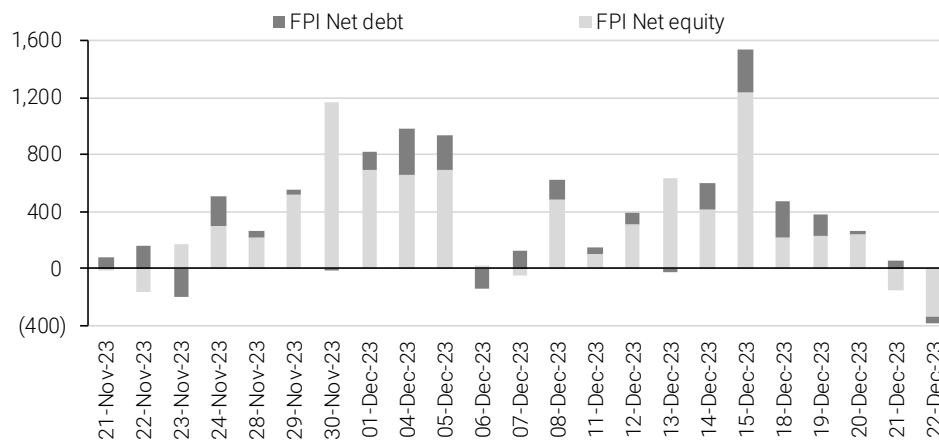
Trend in 40-currency real effective exchange rate index (2015-16=100)



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
3QFYTD24	5.0	4.3	9.3
FYTD24	22.3	7.5	29.7

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



Source: CEIC, Kotak Economics Research

MACRO-METER

Credit growth continues to outpace deposit growth

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

December 1, 2023	Outstanding	Fortnightly change	FYTD change	Change (Rs bn unless mentioned otherwise)	
	(Rs bn)	(Rs bn)	(Rs bn)	FY2024/FY2023	FY2023/FY2022
Aggregate deposits	198,809	2,290	18,370	13.4%	9.9%
- Demand	23,342	270	1,537	2,448	2,212
- Time	175,467	2,021	16,833	21,119	13,508
Aggregate deposits (excl. HDFC merger)	197,548	2,313	17,109	12.7%	9.9%
Bank credit	158,298	2,090	21,545	20.8%	17.5%
- Food	417	14	218	(99)	(348)
- Non-food	157,881	2,075	21,327	27,335	19,821
Bank credit (excl. HDFC merger)	152,516	2,116	15,763	16.4%	17.5%
Investment	60,342	(356)	6,191	9,130	4,442
Investment (excl. HDFC merger)	59,299	(335)	5,147	8,087	4,442
Key ratios (%)					
- Credit-Deposit ratio	79.6				
- Credit-Deposit ratio (excl. HDFC merger)	77.2				
- Incremental C-D ratio	117.3				
- Incremental C-D ratio (excl. HDFC merger)	92.1				
- Investment-Deposit ratio	30.4				
- Investment-Deposit ratio (excl. HDFC merger)	30.0				
Money supply	241,598	2,248	18,160	11.8%	9.1%
Money supply (excl. HDFC merger)	240,337	2,269	16,899	11.2%	9.1%

Source: RBI, CEIC, Kotak Economics Research

MACRO-METER

High frequency data mostly holding up | rural demand showing some fatigue

Select economic activity indicators (% , yoy)

	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
Manufacturing															
PMI manufacturing	55.3	55.7	57.8	55.4	55.3	56.4	57.2	58.7	57.8	57.7	58.6	57.5	55.5	56.0	
Credit growth (industry)	13.5	13.1	8.6	8.7	7.0	5.7	7.0	6.0	8.0	5.7	6.6	7.1	5.9		
Petroleum products consumption (industrials)	8.8	5.2	11.7	3.4	7.5	17.3	(8.8)	15.0	9.5	(1.3)	13.7	12.2	(6.0)	(4.7)	
Average no. of daily GST e-way bills (mn)	2.5	2.7	2.7	2.7	2.9	2.9	2.8	2.8	2.9	2.8	3.0	3.1	3.2	2.9	
IIP manufacturing	(5.8)	6.7	3.6	4.5	5.9	1.5	5.5	6.3	3.5	5.3	9.3	4.9	10.4		
Railways freight traffic	0.8	4.3	6.0	6.4	4.7	3.0	(0.6)	(2.1)	(7.6)	(3.5)	2.2	4.2	4.6		
Steel production	2.2	9.0	(3.6)	9.3	14.3	11.6	6.5	15.3	13.8	14.6	16.6	14.6	14.1	18.5	
Construction															
Steel consumption	12.0	15.3	7.5	9.7	21.6	20.8	8.0	7.8	15.8	17.6	21.5	18.7	15.3	13.5	
IIP cement	(4.2)	29.1	9.5	4.7	7.4	(0.2)	12.4	15.9	9.9	6.9	19.3	4.6	17.1		
Core infrastructure	0.7	5.7	8.3	9.7	7.4	4.2	4.6	5.2	8.4	8.5	12.5	9.2	12.1		
Credit growth (home loans)	16.7	16.2	16.0	15.5	15.0	15.0	14.3	14.6	15.0	37.6	37.7	37.3	36.9		
Services															
PMI services	55.1	56.4	58.5	57.2	59.4	57.8	62.0	61.2	58.5	62.3	60.1	61.0	58.4	56.9	
Credit growth (services)	22.5	21.5	19.5	21.5	20.7	19.8	21.7	21.4	26.8	23.6	24.8	25.1	23.6		
Domestic air passenger traffic	29.8	11.5	14.2	95.8	56.8	21.4	22.2	15.2	18.8	24.7	22.8	18.4	10.8	9.0	
Airport cargo	(14.5)	(2.3)	(5.9)	(3.7)	2.1	1.4	0.0	(0.3)	(0.8)	(1.2)	6.9	(0.3)	13.1	6.6	
Consumption															
Credit growth (personal loans)	20.5	19.6	20.0	20.4	20.4	20.6	19.4	19.2	20.9	31.2	30.8	30.4	29.7		
Passenger vehicle sales	28.6	28.1	7.2	17.2	11.0	4.5	31.7	13.5	2.0	19.2	27.7	17.7	33.9	21.0	
Non-oil imports	0.5	4.8	(4.5)	(8.1)	(8.6)	2.3	(12.5)	(5.9)	(9.9)	(8.9)	2.0	(13.0)	13.8	(2.7)	
Mobility															
Diesel consumption	5.6	19.2	6.6	12.7	7.4	1.1	8.6	12.8	3.0	3.8	5.2	3.8	9.3	(3.0)	
FASTag (mn)	44.5	46.5	49.4	48.1	46.8	50.7	51.5	54.4	52.0	49.8	51.8	50.9	55.4	53.0	
Labor market															
Naukri job index	(2.7)	42.9	4.3	1.7	(2.2)	5.2	(5.2)	(0.5)	(2.9)	(18.8)	(5.7)	(8.6)	1.2	(23.3)	
All India unemployment rate (%)	7.8	8.0	8.3	7.1	7.5	8.1	8.5	7.7	8.5	8.0	8.1	7.1	10.1	9.2	8.8
- Rural	8.0	7.6	7.4	6.4	7.2	7.8	7.7	6.9	8.8	7.8	7.1	6.2	10.8	9.1	8.5
- Urban	7.2	9.0	10.1	8.6	7.9	8.6	10.3	9.1	7.9	8.1	10.1	8.9	8.4	9.4	9.6
Rural															
Two wheeler sales	2.3	17.7	3.9	5.0	8.8	9.0	16.5	17.4	1.7	(7.2)	0.6	0.8	20.2	31.3	
Tractor sales	3.6	4.4	19.2	16.0	11.8	10.1	(13.0)	(2.4)	(0.7)	(0.0)	(4.1)	(15.6)	(5.3)	1.5	
Employment demanded under MNREGA (sa, mn)	26.9	30.3	27.7	26.5	24.9	27.2	29.4	30.8	29.5	29.7	28.8	29.1	29.0	28.9	
Fertilizer sales	(2.4)	2.0	0.6	18.0	9.9	19.0	(13.9)	2.1	1.7	4.4	2.7	5.7	10.4	(5.5)	

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

Source: CEIC, CMIE, PPAC, Kotak Economics Research

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