



MONEY MARKET AND FX VIEW

February 10, 2025

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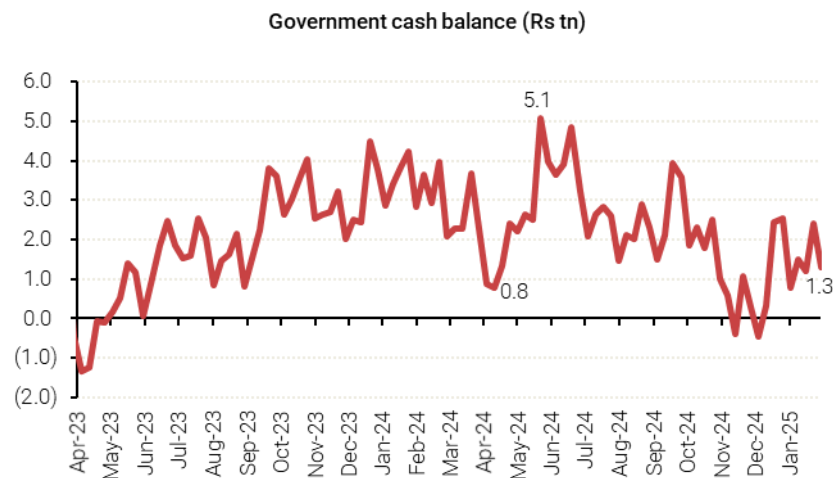
WEEKLY LIQUIDITY METER

System liquidity deficit eases amid RBI measures

- System liquidity deficit eases amid RBI measures.** Liquidity continued to remain in the deficit zone, but the tightness eased driven by CRR drawdown, RBI's FX swap auction and net government spending, more than compensating for excise/customs related tax outflows. Average net LAF deficit eased to Rs0.97 tn for the last week as compared to ~Rs1.75 tn at the end of the week prior. Overnight rates fell by 34 bps to 6.26%, aided by RBI's liquidity easing measures. Core liquidity (Net LAF adjusted for cash balances) is estimated to have turned marginally positive after staying in deficit zone over the last four weeks. Going into this week, **we expect banking system liquidity deficit to ease marginally driven by RBI's OMO purchases, although given the pressure on INR, expected RBI intervention may offset the improvement. While in February, we estimate core liquidity to remain near neutral to marginally in surplus, we estimate the core liquidity to again turn deficit from March warranting more measures by the RBI then.**
- Government cash balances moderate.** For the week ended January 31, government cash balances fell to Rs1.3 tn from Rs2.4 tn in the previous week, driven by month-end government spending. **Given the liquidity movements last week, we expect the cash balances to have remained steady at around Rs1.3 tn. For the current week, we expect cash balances to further moderate to Rs1.2 tn.**
- CIC normalizes.** For the week ending January 31, CIC rose by ~Rs6.7 bn (CIC has risen by around Rs892 bn in FYTD25 compared to Rs421 bn in the same period last year). The current CIC outstanding at 36.0 tn is at 11.1% of GDP.

Liquidity forecast for Feb 08 - Feb 14, 2025			
Inflows	Amount (Rs bn)	Outflows	Amount (Rs bn)
Coupon inflows	212	Auctions	
Redemptions		- T-bill	280
- T-bill	219	- State Govt.	183
- SDL + UDAY	120	- Central Govt.	220
OMO	200		
Government spending	300	Currency in circulation	20
Total inflows	1,051	Total outflows	703
		Net aggregate liquidity	348
		Liquidity as of Feb 07	(1,078)
		Liquidity as of Feb 07	(730)

Source: RBI, CEIC, Kotak Mahindra Bank estimates



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MARKET-O-METER

Bond markets to remain supported | Pressure on INR continues | CPI, WPI, IIP awaited

- **Bond markets to remain supported.** Bond markets started last week on a positive note aided by softer US treasury yields and crude oil prices, alongside expectations of a dovish RBI MPC policy. **US Treasury yields eased last week as amid mixed economic data and delays to the tariff hikes on imports from Canada and Mexico. Further, the US Treasury Secretary's reference to the 10-year treasury yield being the key gauge of getting lower interest rates provided comfort to the markets suggesting limited upside. While paring some of the fall post the US NFP report, the 10-year treasury yield has fallen by ~12 bps from last week's high of 4.60%.** The domestic benchmark 10Y G-Sec yield softened by nearly 5 bps intra week to lows of 6.65% ahead of the policy. However, the in-line 25 bps of Repo rate cut in the absence of stance change and liquidity easing measures pared the gains, with the 10-year yield currently trading near 6.72%. **Going ahead, we expect bond markets to remain supported amid (1) OMO purchases, (2) lower supply and (3) policy easing. However, global uncertainties could keep the overall range for rest of FY25 between 6.60% to 6.80%.**
- **Pressure on INR to continue.** The FX space continues to be dominated by uncertainty surrounding the escalation of trade war and reaffirmation of a prolonged pause by the Fed. After reaching a one-month high at the beginning of last week at around 110, DXY strength eased through the week due to tariff delays, reaching lows of ~107.3. Today, DXY has opened stronger on the back of fresh tariff announcements by Trump on steel and aluminium, breaching 108 levels. FII flows remain neutral in the month of February as sell-off in equities has been countered by buying in debt by FPIs. (February witnessed net inflows of US\$0.1 bn: equity: (-)US\$0.9 bn, debt: US\$1.0 bn). USDINR opened a tad below 88.00 levels today post fresh tariff worries. While RBI's intervention managed to cap the break out above 88-levels for now, we expect near term volatility and INR depreciation to continue. We note that the accentuated moves in USDINR witnessed lately has brought the currency to near fair value. However, given the unrelenting global uncertainties **in the near term we expect the pressure on INR to continue.**
- **Steady US labor report confirms a prolonged Fed rate pause; BOE provides a hawkish cut.** Nonfarm payroll (NFP) additions in US for January was at 143K; lower than consensus expectations of 169K. However, upward revisions to previous two months, lower unemployment rate and robust momentum in average hourly earnings confirmed tightness in the labor market. Markets continue to price in two rate cuts by the Fed in CY2025. Separately, BoE delivered a hawkish 25 bps policy rate cut to 4.5%, revising inflation forecasts higher.
- **Markets await India inflation data.** This week, markets await January CPI data (consensus: 4.5%, Kotak: 4.5%), driven largely by deceleration in food inflation even as core inflation holds up. January WPI inflation is estimated at 2.9% and December IIP at 3.6%.

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
FY2024	15,430	16,731	10,071	25,501	11,029	483	7,269	18,298
1QFY25	3,720	3,469	1,458	5,178	2,374	(135)	813	3,187
2QFY25	3,677	3,244	2,398	6,075	3,068	(1,110)	1,839	4,907
3QFY25	3,820	3,976	2,532	6,352	2,281	128	1,703	3,984
4QFYTD25	1,740	2,148	1,204	2,944	2,670	109	882	3,552
FYTD25	12,957	12,836	7,592	20,549	10,393	(1,008)	5,238	15,630

Notes:

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

Source: RBI, CEIC, Kotak Economics Research

DEBT-O-METER

General government finances

Monthly receipts and expenditure of the central government, March fiscal year-ends FYTD25

(Rs bn)	FY2025BE	9MFY25	9MFY24	Change (% , yoy)	% of RE
Gross tax revenues	38,535	27,504	24,825	10.8	71
Direct taxes	22,515	16,247	14,347	13.2	72
- Corporation tax	9,800	7,409	7,217	2.7	76
- Income tax + other taxes	12,715	8,837	7,130	24	70
Indirect taxes	16,020	11,231	10,443	7.5	70
- Customs duty	2,350	1,702	1,582	7.6	72
- Excise duty	3,050	1,996	2,025	(1.4)	65
- Service tax	1	0	4	(91)	36
- GST	10,619	7,532	6,832	10.2	71
Net tax revenues	25,570	18,431	17,221	7.0	72
Non-tax revenues	5,310	4,477	3,124	43	84
Non-debt capital receipts	590	273	297	(7.9)	46
Total receipts	31,470	23,180	20,719	11.9	74
Total expenditure	47,165	32,321	30,542	5.8	69
- Revenue expenditure	36,981	25,468	23,806	7.0	69
- Capital expenditure	10,184	6,853	6,736	1.7	67
Fiscal deficit	15,695	9,141	9,823	(6.9)	58

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

25 states' finances, Rs bn	FY2025BE	8MFY25	8MFY24	Change (% , yoy)		FY2025 (% of BE)
				8MFY25	8MFY24	
Receipts	43,693	24,330	21,478	13.3	5.7	56
Revenue Receipts	43,259	24,275	21,363	13.6	5.4	56
Tax revenue	33,494	20,303	17,149	18.4	11.2	61
- State Goods and Services Tax	11,064	6,727	5,890	14.2	16	61
- Stamps and Registration Fees	2,639	1,570	1,387	13.2	15.0	60
- Land Revenue	193	117	129	(9.3)	42.6	61
- Sales Tax	4,547	2,581	2,463	4.8	(2.0)	57
- State Excise Duties	3,058	1,713	1,568	9.3	10.4	56
- State's Share of Union Taxes	9,715	6,436	4,631	39	11	66
- Other Taxes and Duties	2,278	1,159	1,080	7.3	16.3	51
Non-tax revenue	3,596	1,664	1,712	(2.8)	21	46
Grants	6,169	2,308	2,503	(7.8)	(27)	37
Capital receipts	435	55	114	(52)	74	13
Expenditure	53,974	29,210	26,600	9.8	12.7	54
- Revenue Expenditure	44,534	25,298	22,533	12.3	8.9	57
- Capital expenditure	9,440	3,912	4,067	(3.8)	39	41
Fiscal balance	(10,281)	(4,880)	(5,123)	(4.7)	56	47

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

Gross borrowings	FYTD24	FYTD25	Indicated borrowings (FYTD25)	Actual (% of indicated)
Andhra Pradesh	655.0	690.6	550.0	126
Assam	155.0	129.5	165.5	78
Bihar	380.0	420.0	420.0	100
Chhattisgarh	130.0	65.0	145.0	45
Goa	23.0	10.5	32.0	33
Gujarat	285.0	232.0	465.0	50
Haryana	370.0	330.0	360.0	92
Himachal Pradesh	63.0	67.0	101.0	66
Jammu & Kashmir	131.3	126.7	92.8	137
Karnataka	500.0	600.3	1000.0	60
Kerala	288.3	390.0	282.5	138
Madhya Pradesh	285.0	350.0	440.0	80
Maharashtra	740.0	900.0	1740.0	52
Manipur	11.0	10.0	9.0	111
Meghalaya	13.6	18.8	26.5	71
Mizoram	8.2	9.3	9.5	98
Nagaland	17.5	5.5	20.5	27
Puducherry	2.0	9.0	14.5	62
Punjab	409.9	378.3	324.9	116
Rajasthan	545.5	575.7	522.6	110
Sikkim	14.3	10.0	29.8	34
Tamil Nadu	870.0	900.3	950.0	95
Telangana	409.0	497.1	524.0	95
Uttarakhand	28.0	64.0	90.0	71
Uttar Pradesh	577.0	290.0	720.0	40
West Bengal	419.1	465.0	1035.0	45
Subtotal	7,331	7,544	10,070	75
Grand Total	7,347	7,592	10,227	74

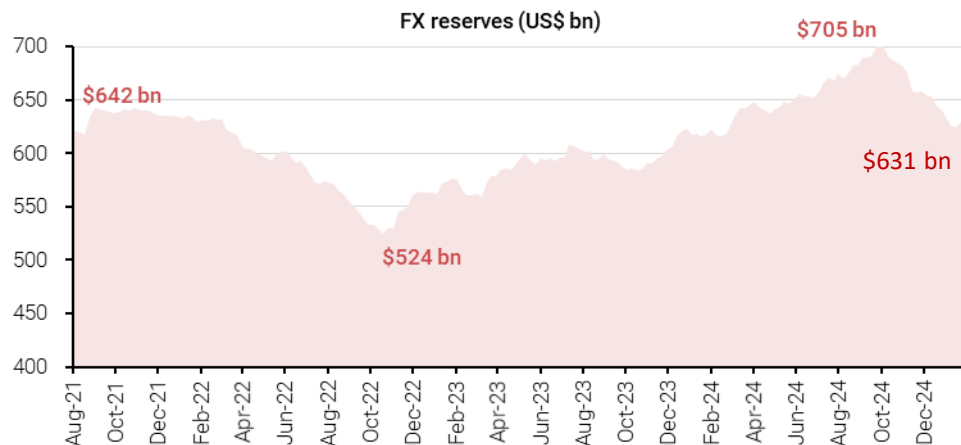
Source: RBI, CEIC, Kotak Economics Research

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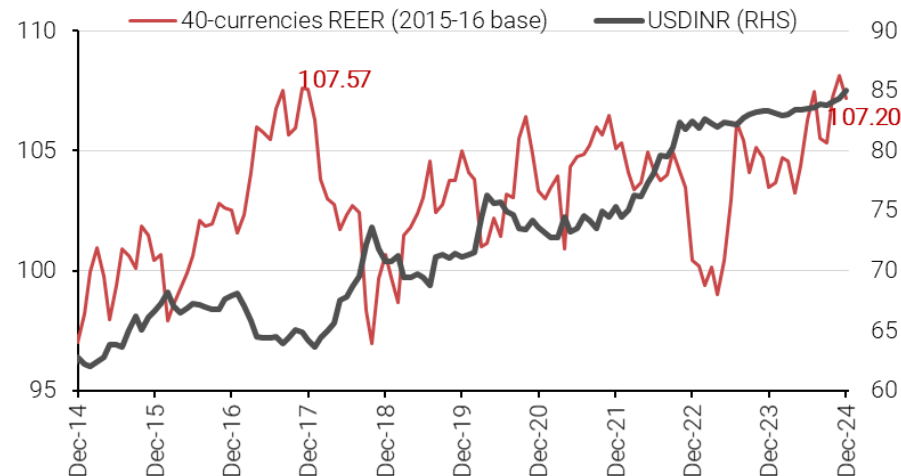
FX-METER

FPI flows turn volatile

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



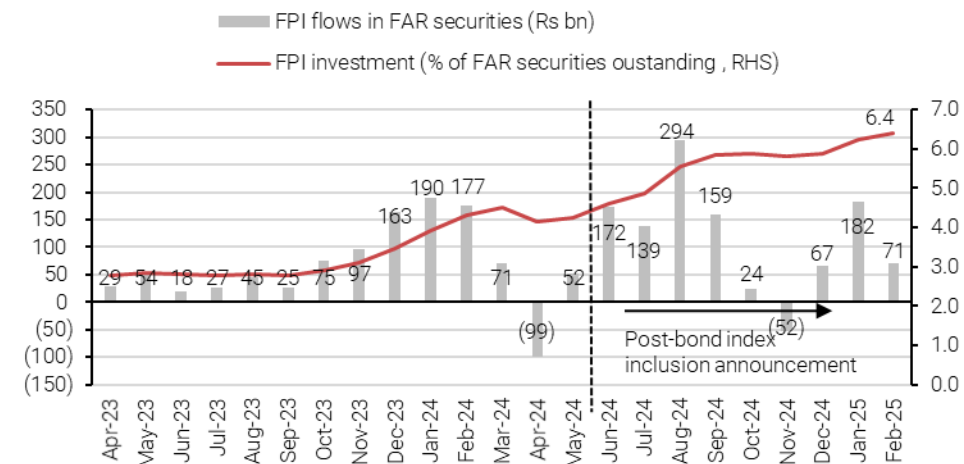
Trend in 40-currency real effective exchange rate index (2015-16=100)



Quarterly profile of FPI flows (US\$ bn)

US\$ bn	FPI Net equity	FPI Net debt	Total FPI flows
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
1QFY25	(1.0)	1.2	0.2
2QFY25	9.7	8.4	18.1
3QFY25	(11.8)	0.3	(11.5)
4QFYTD25	(9.3)	2.7	(6.6)
FYTD25	(12.4)	12.6	0.2

Share of FAR securities in G-secs (%), and change in FPI flows in FAR securities (%)



Source: CEIC, CCIL, Kotak Economics Research

MACRO-METER

Domestic activity indicators turning patchy

Growth in select economic activity indicators (% yoy) unless specified otherwise

	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25
Manufacturing															
PMI manufacturing (sa)	56.0	54.9	56.5	56.9	59.1	58.8	57.5	58.3	58.1	57.5	56.5	57.5	56.5	56.4	57.7
Industrial credit (ex HDFC)	5.5	7.5	7.5	8.4	8.0	6.9	8.9	7.7	10.2	9.8	9.1	8.0	8.1	7.4	
Petroleum products consumption (industrials)	(5.0)	14.8	11.3	11.1	(4.0)	15.5	(0.7)	3.1	21.7	(10.8)	(13.4)	7.2	16.0	(8.1)	(1.0)
IIP manufacturing	1.3	4.6	3.6	4.9	5.9	4.2	5.1	3.5	4.7	1.2	3.9	4.4	5.8		
Electricity demand	6.2	0.8	5.5	8.9	10.0	9.0	13.6	8.0	4.0	(3.7)	0.5	(0.4)	3.7	5.2	
Steel production	12.8	10.1	2.3	13.5	7.2	5.7	6.2	1.0	10.0	3.9	1.6	4.1	4.0	3.3	
Construction															
Steel consumption	14.6	12.6	11.5	7.0	12.5	9.6	15.9	19.5	14.4	10.0	11.8	8.9	9.5	5.2	
IIP cement	(4.7)	3.8	4.1	7.8	10.6	0.2	(0.6)	1.8	5.1	(2.5)	7.6	3.1	13.5	4.0	
Core infrastructure	7.9	5.1	4.2	7.1	6.3	6.9	6.9	5.0	6.3	(1.5)	2.4	3.7	4.4	4.0	
Home loan (ex HDFC)	12.8	11.7	14.1	13.6	17.1	13.9	16.9	18.2	19.3	18.8	19.5	19.4	20.1	19.4	
Services															
PMI services (sa)	56.9	59.0	61.8	60.6	61.2	60.8	60.2	60.5	60.3	60.9	57.7	58.5	58.4	59.3	56.5
Services credit (ex HDFC)	22.2	20.0	21.0	21.4	20.8	19.5	20.7	15.1	15.9	15.6	15.2	14.1	14.4	13.0	
Domestic air passenger traffic	9.0	8.3	4.6	4.8	3.7	2.4	4.4	5.8	7.3	5.7	6.4	8.1	11.9	8.2	
Airport cargo	5.3	10.8	15.5	22.7	17.3	10.0	15.6	15.9	18.1	12.5	18.0	14.5	9.7	8.0	
Consumption															
Personal credit (ex HDFC)	17.7	16.3	17.0	16.6	17.6	15.3	17.8	16.6	17.9	16.9	16.9	16.6	17.3	16.1	
Average no. of daily GST e-way bills (mn)	2.9	3.1	3.1	3.4	3.3	3.2	3.3	3.3	3.4	3.4	3.6	3.8	3.4	3.6	3.8
GST collections	10.3	10.4	12.5	11.5	12.4	10.0	7.7	10.3	10.0	6.5	8.9	8.5	7.3	13.6	
Passenger vehicle sales	21.0	21.7	31.9	27.0	26.0	1.3	4.0	3.1	(2.5)	(1.8)	(1.4)	0.9	4.0	10.0	
Non-oil imports	(1.2)	0.8	3.8	20.0	(5.2)	7.5	(0.5)	0.0	3.1	12.1	2.6	(6.0)	19.5	5.9	
Fuel consumption (retail)	0.5	(0.9)	5.7	7.4	4.8	5.7	2.6	2.2	7.1	2.3	0.2	3.8	8.4	7.0	5.0
FASTag (INR bn)	53.0	58.6	55.6	55.8	59.4	55.9	59.1	57.8	55.8	56.1	56.2	61.1	60.7	66.4	66.1
Labor market															
Naukri job index	(23.3)	(15.6)	(11.1)	(7.5)	(10.8)	(2.7)	(1.8)	(7.6)	11.8	(3.4)	(3.8)	10.0	2.0	8.7	3.9
All India unemployment rate (%)	8.9	8.7	7.4	8.1	7.4	8.1	7.3	9.0	7.7	8.5	7.7	8.9	7.7	7.8	7.9
- Rural	8.7	8.0	6.5	7.9	7.1	7.8	6.5	8.9	7.2	8.4	7.0	8.9	7.4	7.4	7.7
- Urban	9.3	10.1	9.1	8.6	8.1	8.7	8.7	9.0	8.6	8.7	9.1	8.7	8.2	8.4	8.4
Rural															
Rural wages (men)	6.6	6.5	6.3	6.5	6.2	5.8	4.9	4.7	4.7	5.8	6.2	6.3	6.3		
Two wheeler sales	31.3	16.0	26.2	34.6	15.3	30.8	10.1	21.3	12.5	9.3	15.8	14.2	(1.1)	(8.8)	
Tractor sales	6.4	(19.8)	(15.3)	(30.6)	(23.1)	(3.0)	0.0	3.6	1.6	(5.8)	3.7	22.4	(1.3)	14.0	
Employment demanded under MNREGA (sa, mn)	27.1	26.0	24.9	24.3	24.4	24.9	24.4	21.6	23.4	26.4	25.6	26.1	27.0	27.9	28.1
Fertilizer sales	(2.6)	(1.1)	(7.5)	(11.3)	3.4	(1.8)	0.5	7.1	(2.0)	(10.7)	(9.5)	(10.8)	1.6	10.7	

Note: Red is the lowest value and green the highest for each indicator since April 2023 till date. Source: CEIC, CMIE, PPAC, Kotak Economics Research

MACRO-METER

Credit-Deposit ratios beginning to ease

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

Jan 24, 2024	Outstanding	Fortnightly change	FYTD change	Change (Rs bn unless mentioned otherwise)	
	(Rs bn)	(Rs bn)	(Rs bn)	FY2025/FY2024	FY2024/FY2023
Aggregate deposits	221,289	(222)	16,537	10.3%	13.2%
- Demand	25,129	347	691	1,579	1,983
- Time	196,160	(570)	15,846	19,119	21,415
Aggregate deposits (excl. HDFC merger)	220,647	(201)	16,977	10.6%	12.5%
Bank credit	178,748	741	14,426	11.4%	20.3%
- Food	562	(15)	331	106	(45)
- Non-food	178,186	756	14,095	18,206	27,106
Bank credit (excl. HDFC merger)	174,332	646	15,292	12.5%	16.1%
Investment	66,355	71	5,290	6,614	7,795
Investment (excl. HDFC merger)	65,847	157	5,705	7,040	6,861
Key ratios (%)					
- Credit-Deposit ratio	80.78				
- Credit-Deposit ratio (excl. HDFC merger)	79.01				
- Incremental C-D ratio	87.23				
- Incremental C-D ratio (excl. HDFC merger)	90.22				
- Investment-Deposit ratio	29.99				
- Investment-Deposit ratio (excl. HDFC merger)	29.84				
Money supply	266,954	(161)	17,555	9.3%	11.0%
Money supply (excl. HDFC merger)	266,311	(149)	17,995	9.6%	11.0%

Notes:

- (a) FYTD change for deposit, and credit (excluding HDFC merger) has been taken over March 22, 2024 (last available fortnight for end-FY2024).
- (b) Incremental credit-deposit ratio (excluding HDFC merger) is based on the above calculation.

Source: RBI, CEIC, Kotak Economics Research

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