MONTHLY MACRO INSIGHTS– MARCH 2023

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Highlights of the Month

GLOBAL

- ❑ **US FOMC March 2023-** US Fed increased rates by 25bps Fed fund rate at 4.75-5% now) while keeping its terminal rate expectations unchanged at 5.1%, signaling one more rate hike in May.
- ❑ **US Employment Numbers –** US economy added 236K jobs in Mar-23, compared to forecasts of 239K. Although the reading showed a number lowest since December 2020, it is still higher than the average job addition of ~194k jobs in March for US economy.

DOMESTIC

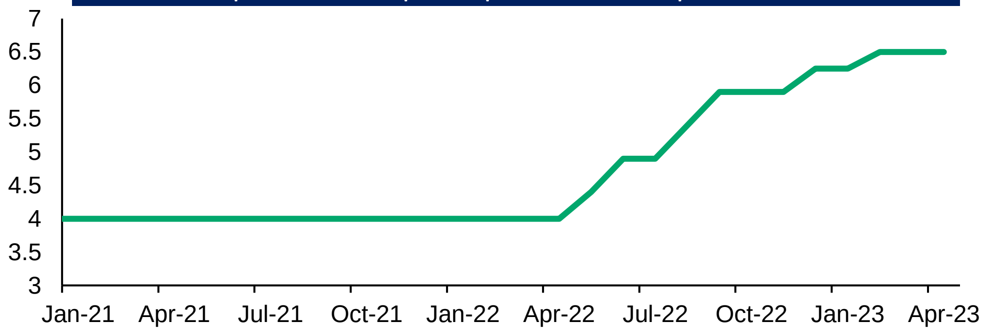
- ❑ **RBI MPC April 2023 -** RBI in its April MPC meet, surprised markets and held repo rate at 6.5%. The move challenged expectations of a 25bps rate hike and marked the RBI's first pause after 250bps of rate increases since May 2022.
- ❑ **Balance of Payment** - BoP posted a surplus of $11 Bn from a deficit of $30 Bn in the previous quarter. India's Q3 FY23 Current Account deficit moderated to 2.2% of GDP, led by improvement in goods trade deficit and services trade surplus. Capital account surplus improved, aided by higher banking capital inflows.
- ❑ **Liquidity -** Liquidity conditions remained tight irrespective of high government spends in last two months of the fiscal

Source: RBI, Bloomberg as on 10.03.2023

Monetary Policy April 2023 – Wait and Watch

Repo rate %

The action is in line with our expectation of a pause, though majority of market was expecting a 25-bps last hike. RBI policy could be a perfect example of pause and not pivot.



Inflation YoY%					
Projections	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	FY24
MPC April-2023	5.1	5.4	5.4	5.2	5.2
MPC Feb-2023	5.0	5.4	5.4	5.6	5.3

Growth %					
Projections	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	FY24
MPC April-2023	7.8	6.1	6.2	5.9	6.5
MPC Feb-2023	7.8	6.2	6.0	5.8	6.4

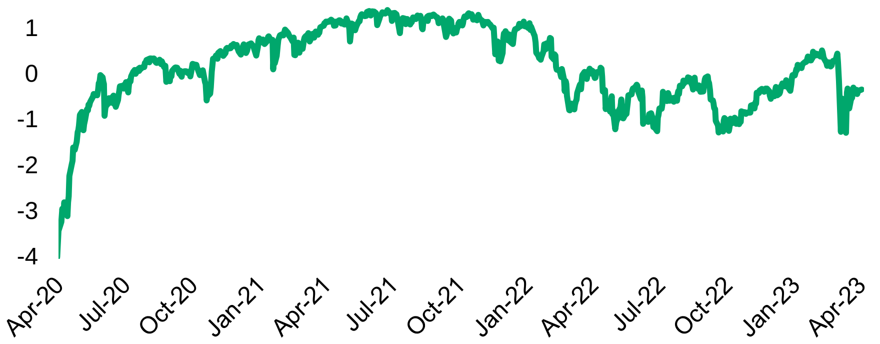
Source: RBI, Bloomberg as on 10.03.2023

Key Highlights from MPC April 2023 –

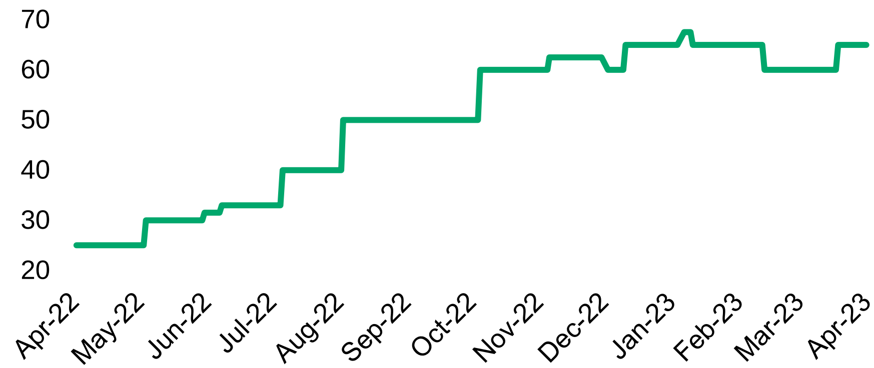
- MPC in its April-2023 monetary policy unanimously decided to keep the repo rate unchanged at 6.5% and with a vote of 5-1, decided to remain focused on withdrawal of accommodation.
- RBI has revised down the inflation projection from 5.3% to 5.2% for FY24.
- Followed by their change in assumption of average annual brent prices at 85$/bl (down from earlier assumption of 95$/bl in Feb-2023 policy).
- Projections reflect that the spike seen in food prices in Q4 FY23 will moderate, followed by decline in input cost pressures.
- Erratic monsoon and volatile food prices are the key upsides to these projections
- RBI has upgraded its GDP estimates for FY24 to 6.5% from 6.3%, signaling resilience in the domestic economic activity.
- Key reasons for a GDP upgrade can be attributed to stronger agri and higher capex spend.
- Supportive CAD also means a lower drag on GDP for FY24.

FED FOMC Mar-2023

US Financial Conditions index

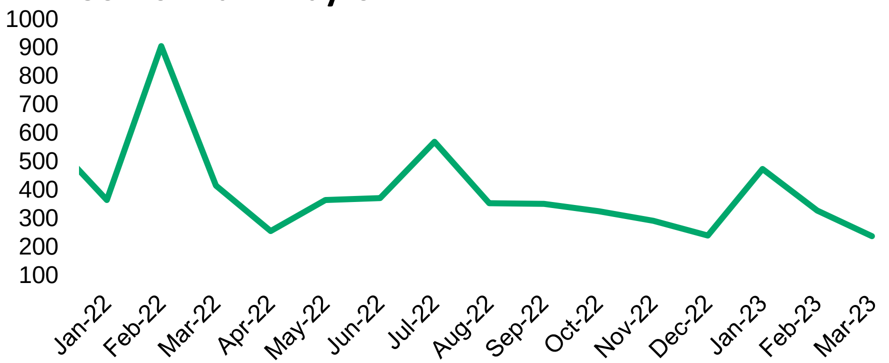


US Recession probability (%)



- FOMC in Mar-23 meeting hiked fed fund rate by 25bps. FED has projected fed fund rate at 5.1% for 2023, implying one more rate hike.
- Contrary to this, fed also noted the current stress in the US banking system and depicted a change of tone from earlier aggressive rate hike polices.
- Topping it up, in its latest economic projections FOMC revised down US GDP projections for 2024 to 1.2% from earlier projected 1.6%.

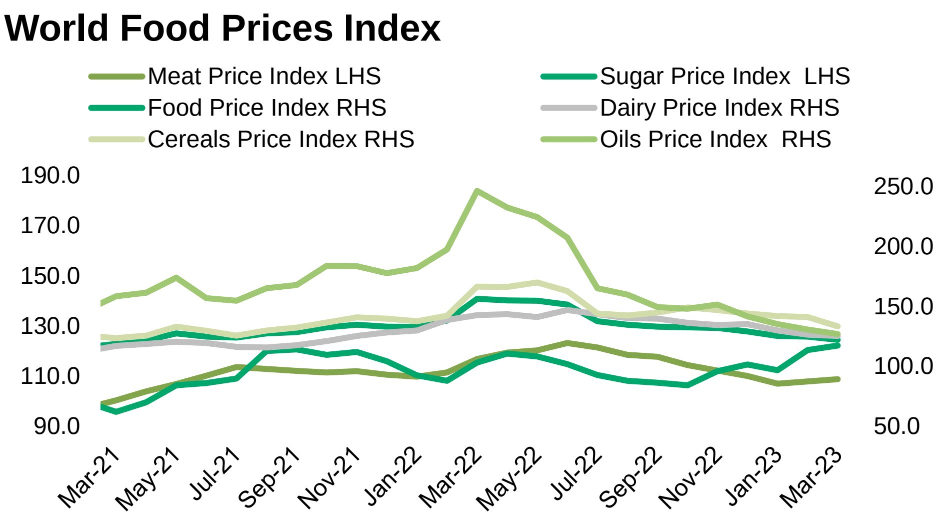
US Non Farm Payroll

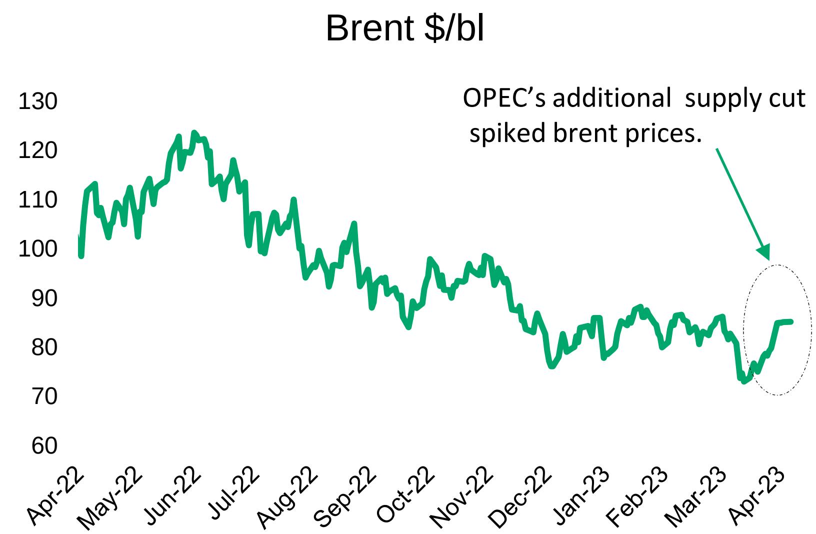


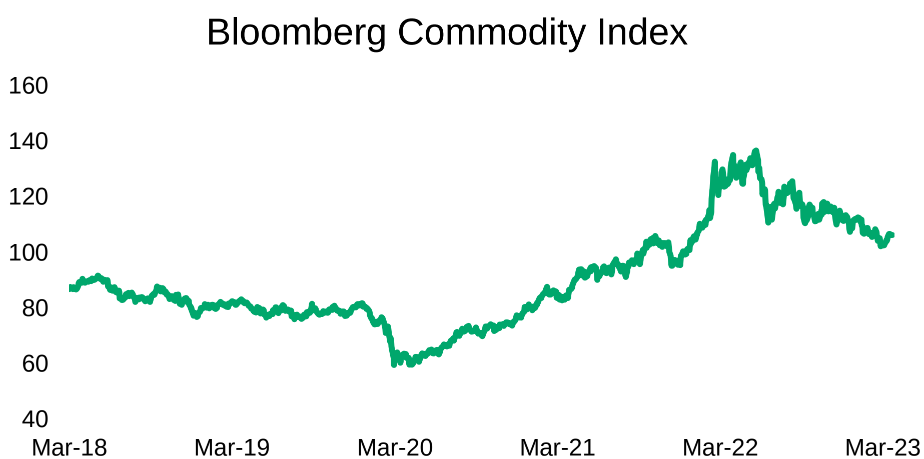
Source: Bloomberg as on 10.03.2023

FOMC Projections			
	2023	2024	2025
Change in GDP March-23	0.4	1.2	1.9
December Projections	0.5	1.6	1.8
Change in PCE March-23	3.3	2.5	2.1
December Projections	3.1	2.5	2.1
FED Fund rate March-2023	5.1	4.3	3.1
December Projections	5.1	4.1	3.1

Global Inflation showing signs of easing



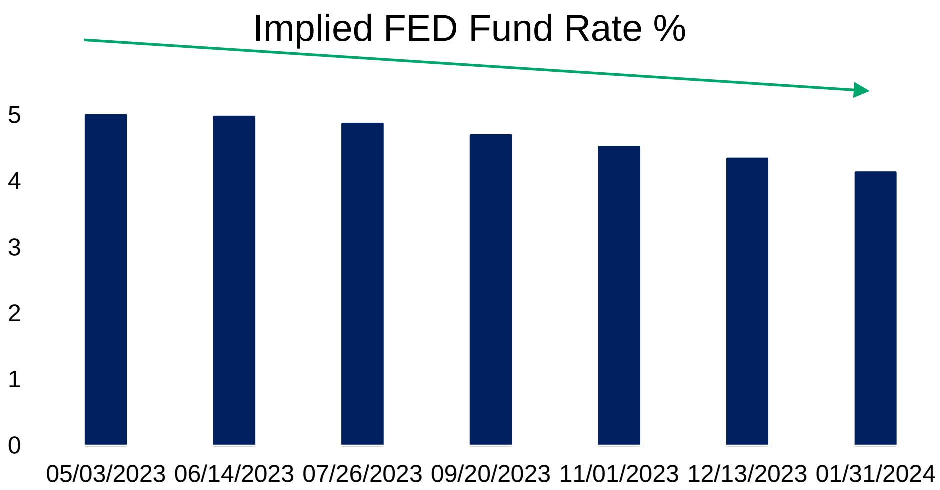


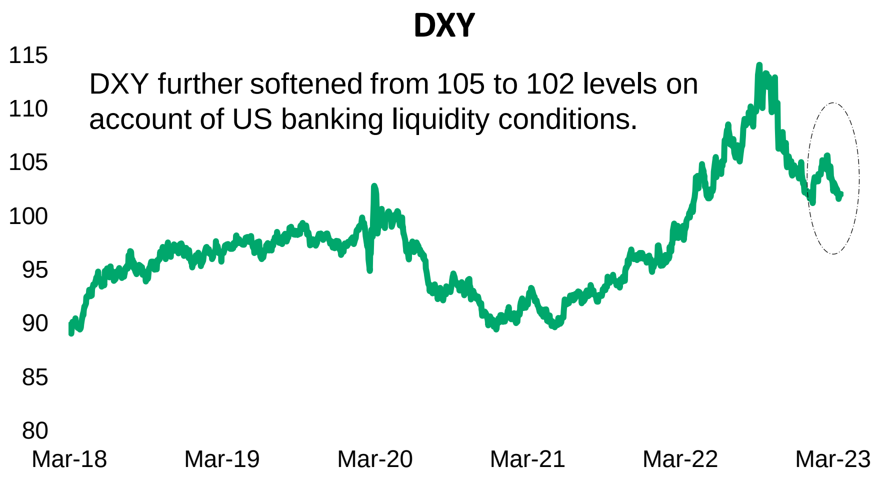


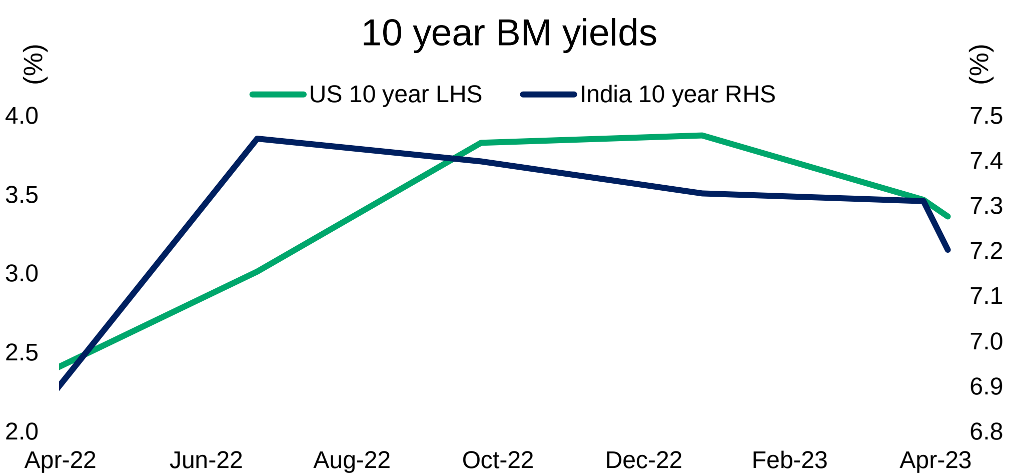
- ❑ World food price index continued the downward trend in March-2023.
- ❑ Commodity prices declined from its peak led by concerns on global demand dynamics.
- ❑ Recently, brent prices spiked from ~73$/bl to ~85$/bl as OPEC announced additional supply cut.

Source: Bloomberg as on 10.03.2023

Interest Rates – Changing Directions







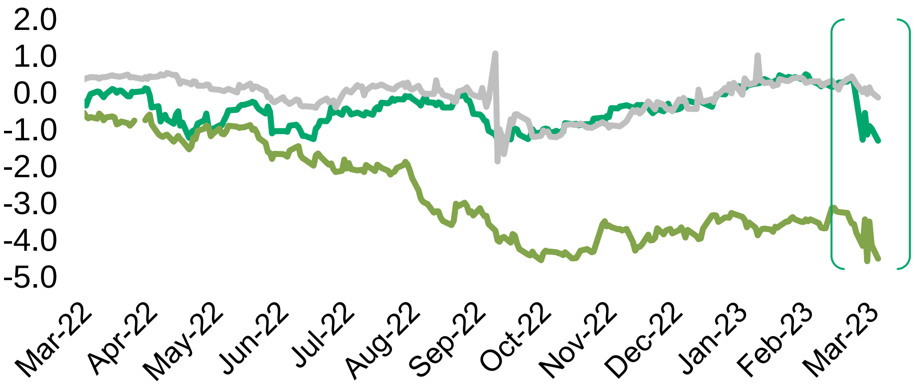
- ❑ Markets are bracing up for a trade-off between financial stability concerns and the conduct of disinflationary monetary policy.
- ❑ India 10-year yield softened from ~7.3% to 7.2% levels after the surprise pause by RBI in April-23 MPC meet.

Source: Bloomberg as on 10.03.2023

Global Markets – Growth & Sentiments

Financial Stability Index

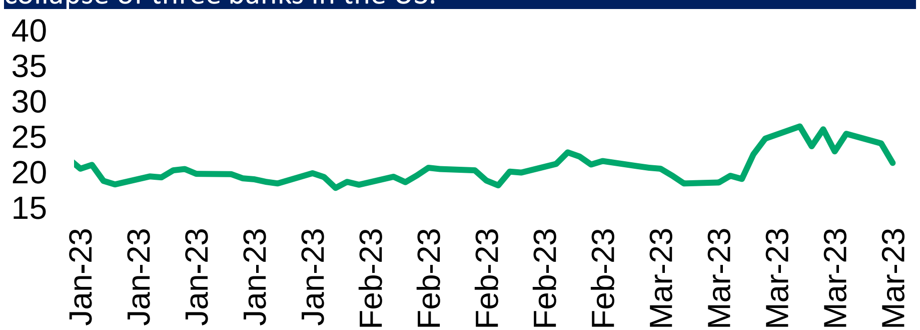
A positive value indicates accommodative financial conditions, while a negative value indicates tighter financial conditions relative to pre-crisis



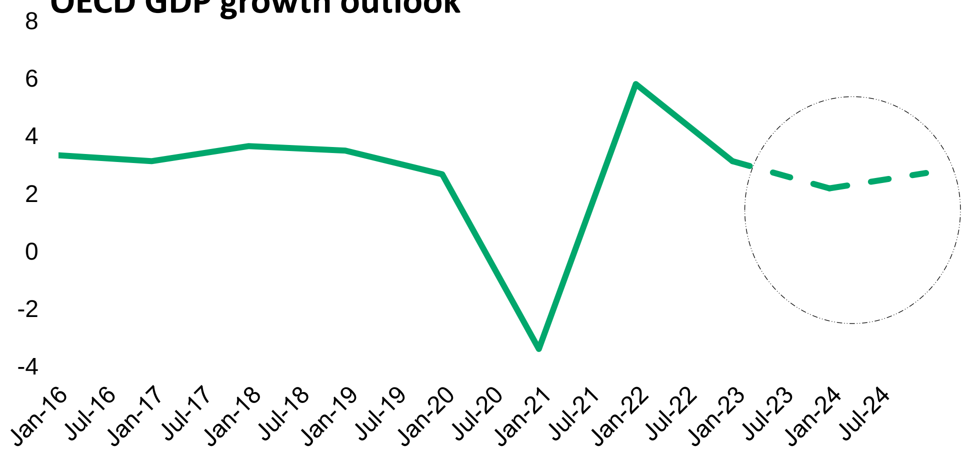
- Just as markets were pricing in the possibility of further tightening of financial conditions, collapse of three banks in the US raised concerns regarding financial stability.
- FED in its last FOMC meeting acknowledged the stress in the regional banks.
- Topping it up, in its latest economic projections FOMC revised down US GDP projections for 2024 to 1.2% from earlier projected 1.6%.
- Global growth slowed in 2022 to 3.2%, mainly weighed down by Russia's war of aggression in Ukraine and the associated cost-of-living crisis in many countries. Growth is projected to remain at below-trend rates in 2023 and 2024.

VIX

Bouts of volatility have unsettled investor sentiments with the collapse of three banks in the US.



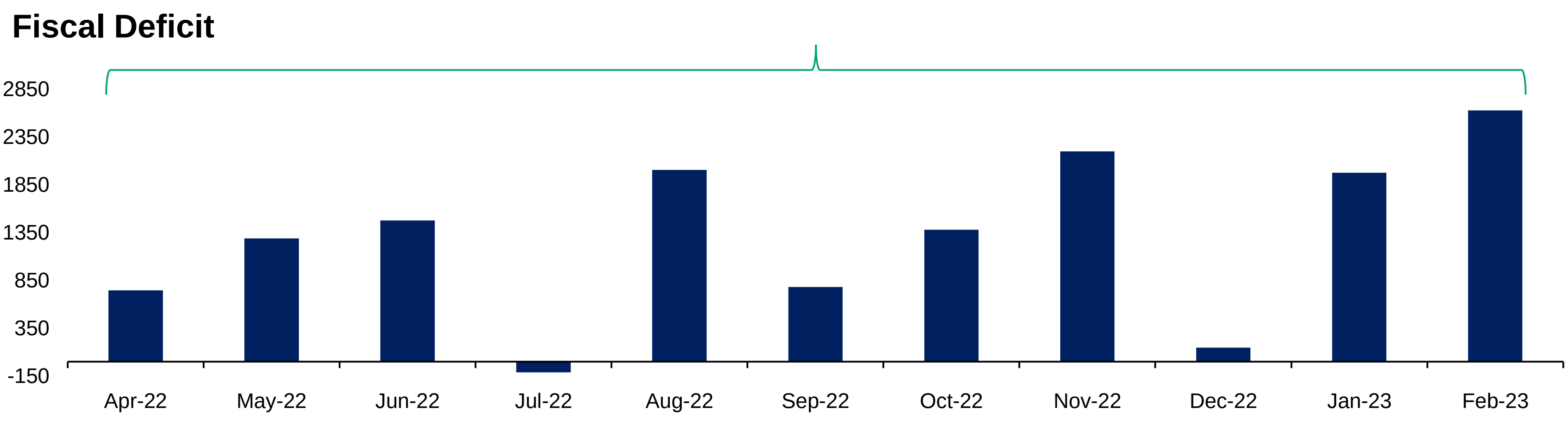
OECD GDP growth outlook

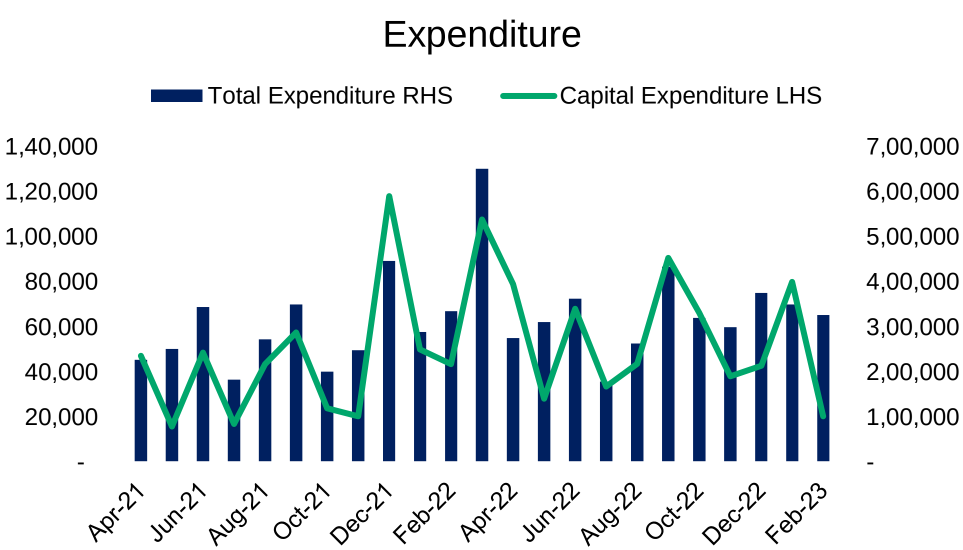


Source: Bloomberg as on 10.03.2023

Domestic Economy & Outlook

Fiscal Position in line with estimates



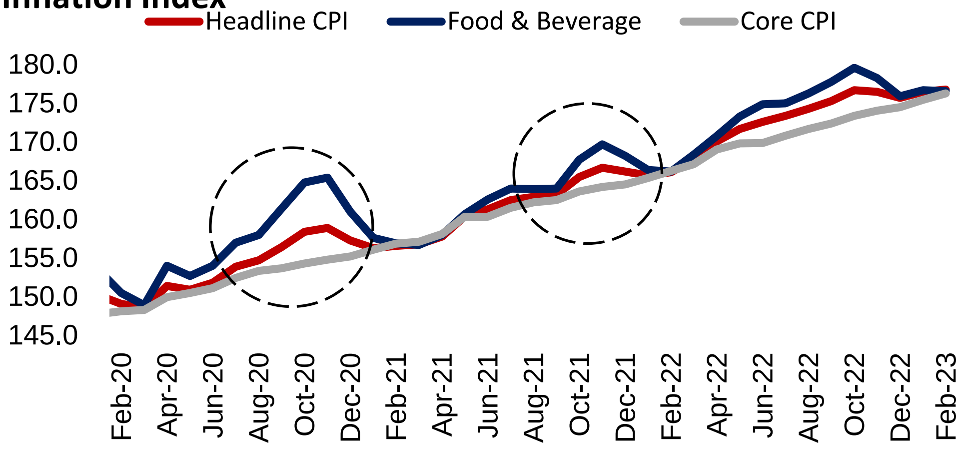


- Fiscal deficit has touched 82.% of the revised budget estimates.
- Higher gross tax collections is expected to keep the fiscal deficit within target.
- Total expenditure has touched 83.4% of the revised budget estimates and still has a space of ~6.9 lakh crore for remaining fiscal.

Source: CGA, Bloomberg as on 10.03.2023

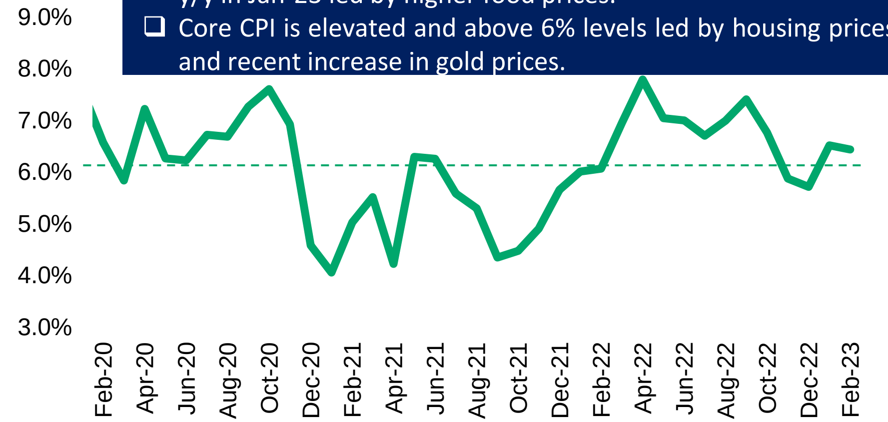
Domestic Inflation to have peaked!

Inflation Index



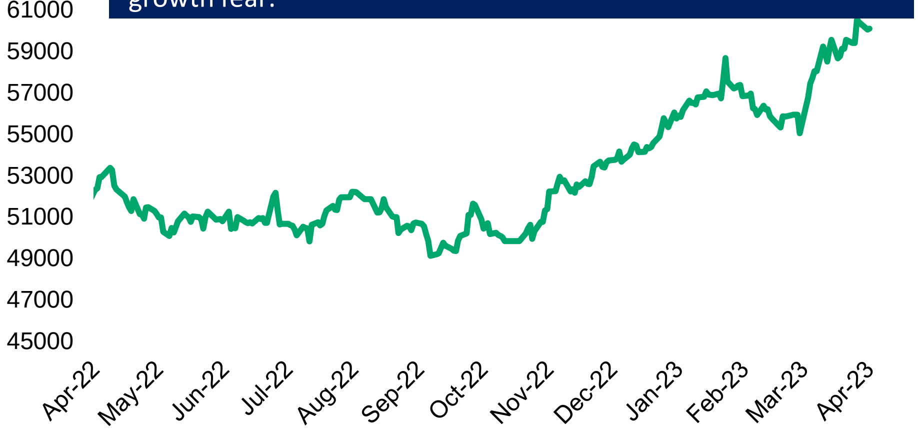
CPI YoY

- Headline CPI came at 6.44% y/y in Feb-23, higher from 5.72% y/y in Jan-23 led by higher food prices.
- Core CPI is elevated and above 6% levels led by housing prices and recent increase in gold prices.



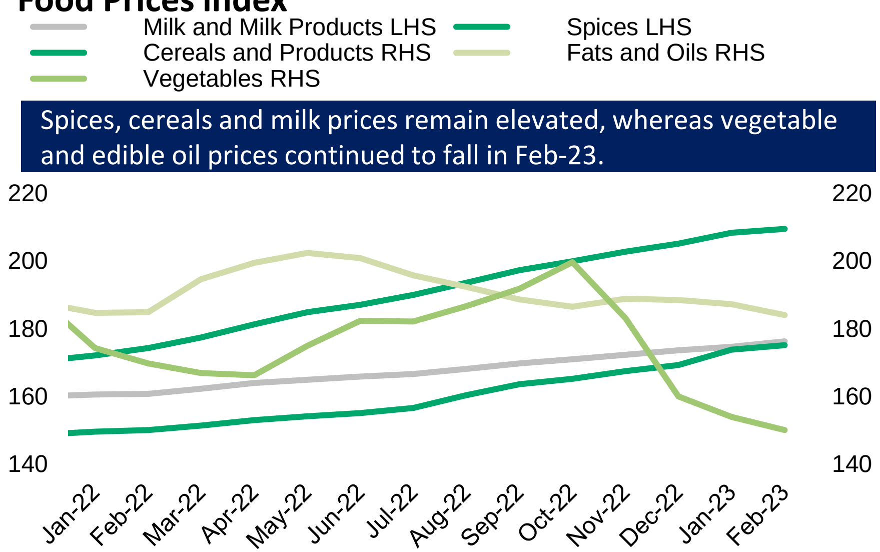
Gold Prices in Rs.

Gold prices increase by 1.6% m/m in Mar-23 led by global growth fear.



Food Prices index

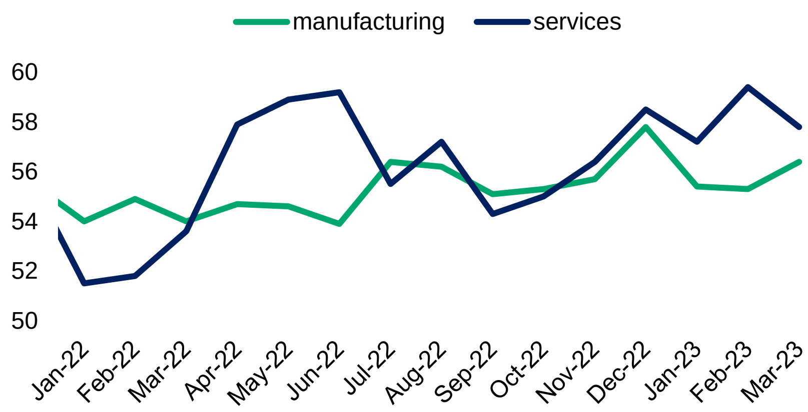
Spices, cereals and milk prices remain elevated, whereas vegetable and edible oil prices continued to fall in Feb-23.



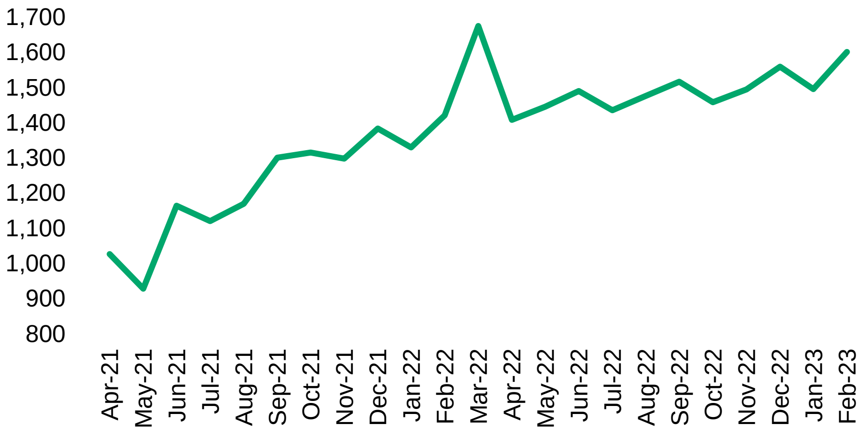
Source: RBI, Bloomberg as on 10.03.2023

Domestic Growth – Signs of Resilience

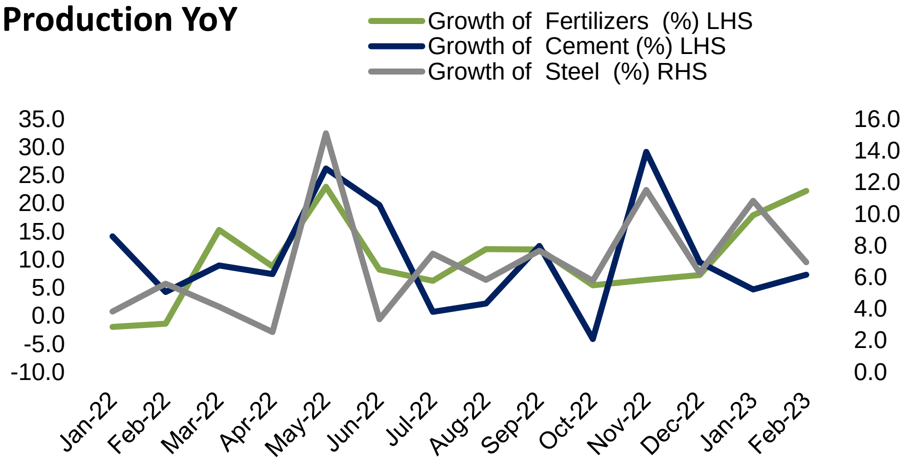
PMI INDEX



GST Collection in bn



Production YoY



Source: EAIN, Bloomberg as on 10.03.2023

- ❑ India services PMI remained resilient at 57.8 in Mar-23 despite showing a decline from 59.4 in Feb-23, indicating a continued momentum in services activity as demand conditions remain favorable.
- ❑ GST collection for Mar-23(for economic activity in Feb-23) touched 1.6 lakh crore, second highest collection till date.
- ❑ Robust GST revenues have been supportive of govt's fiscal deficit target.
- ❑ Cement production improved in Feb-23 as governments' thrust on completion of infrastructure projects and strong momentum in Real Estate .

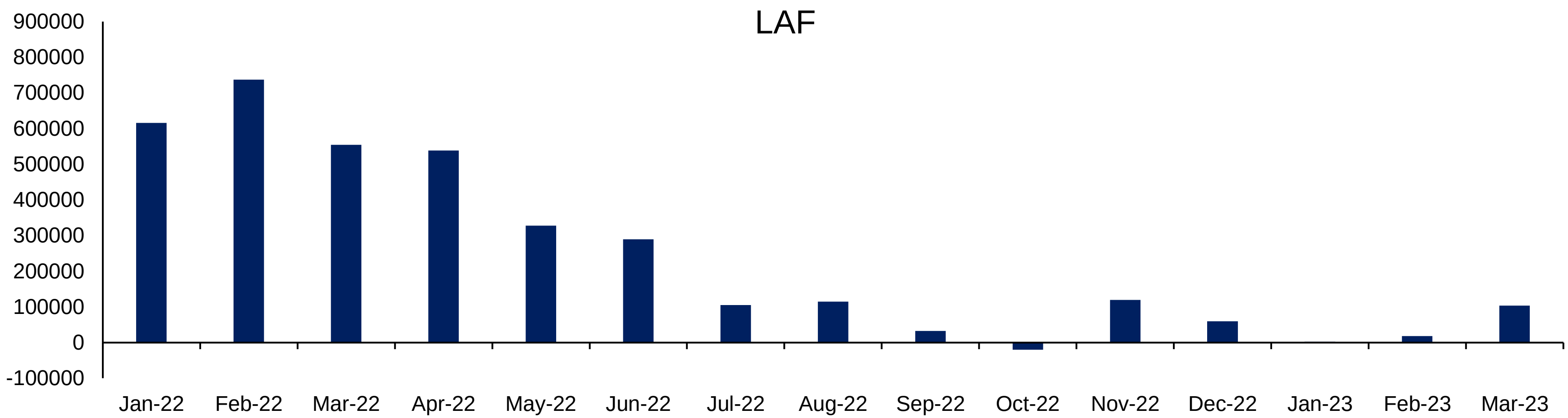
Borrowing Programme H1 FY24

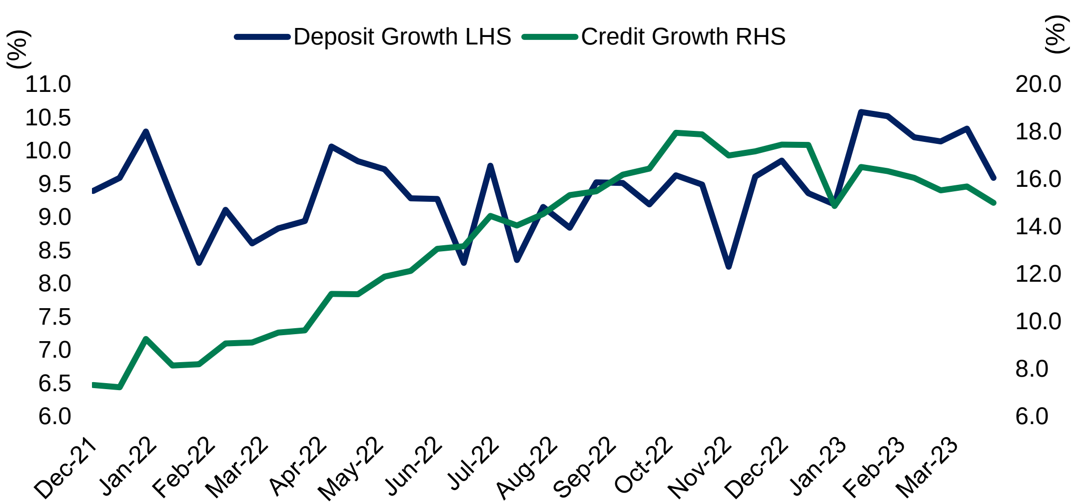
Gross Issuance (INR Tn)						
Tenor	Apr-Sep'23	% of Total H1 FY24	Apr-Sep'22	% of Total H1 FY24	Net Change	% change in weightages
FRB	0	0	0.52	0	-0.52	0.00%
Up to 5yr	0.56	6.31%	0.52	5.86%	0.04	0.45%
5yr	1.04	11.71%	1.17	13.18%	-0.13	-1.47%
7yr	0.91	10.25%	0.91	10.25%	0	0.00%
10yr	1.82	20.50%	1.69	19.03%	0.13	1.47%
14yr	1.56	17.57%	1.36	15.32%	0.2	2.25%
14yr and above	2.99	33.67%	2.28	25.68%	0.71	7.99%
Total	8.88		8.45		0.43	-1.91%
Total Market Borrowing	15.43		14.21			

- Government of India has pegged the borrowing program for H1FY24 at Rs 8.88tn, accounting for 57.6% of total borrowing for FY24 vs 59.4% in FY23.
- Borrowing structure remains tilted on the long end of the curve. ~33% of the total H1 FY24 (vs 25.6% in H1 FY23) issuances are in longer tenure i.e. in the 14 year and above basket.

Source: RBI as on 10.03.2023

Financial Indicators



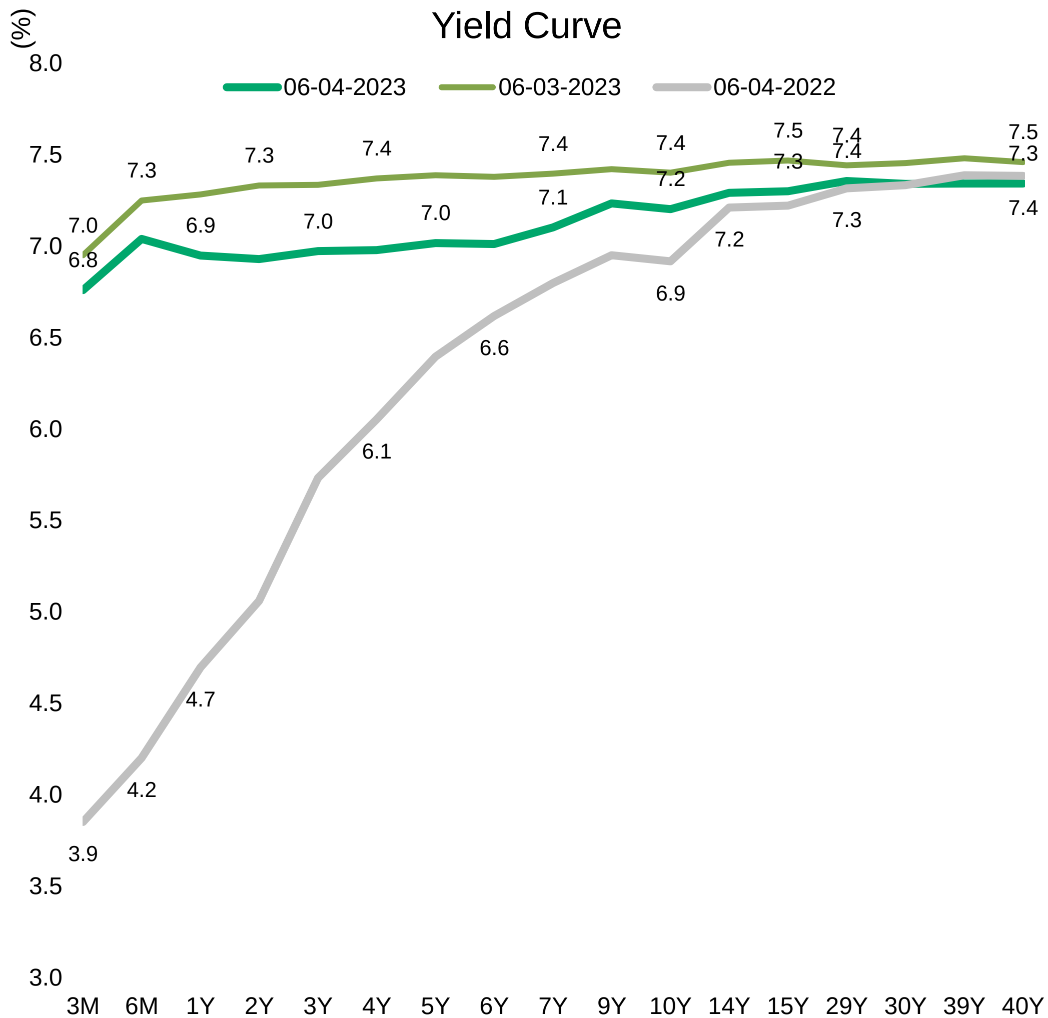


Source: RBI, Bloomberg as on 10.03.2023

- Liquidity turned into surplus by end of fiscal led by increase in government spending.
- Credit growth for Mar-23 eased to 15% from 15.7% in Feb-23 with y-o-y credit growth lower for industry (7% vs 8.7%), services (20.7% vs 21.5%), while personal credit remained steady at 20.4%.
- Deposit growth declined from 10.3% y/y in Feb-23 to 9.6% y/y in Mar-23. Sequentially deposit growth picked up.

Outlook

- Changing global monetary dynamics given the financial stability concerns have pretty much reflected in RBI's surprise pause in April-23 MPC meeting.
- The pause was not expected by the bond market and led to a rally in yields post the announcement.
- Fixed income market is getting attractive with slowly the rhetoric of the central bankers moving from inflation to growth and developed markets focusing on financial stability after the debacle of banks in Europe and USA.
- Post MPC pause decision, we expect it to be a long pause after which; the rate cutting cycles may start to pencil in.



Source: RBI, Bloomberg as on 10.03.2023