

MONTHLY MACRO-INSIGHTS

MAY- 2025



Baroda
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MUTUAL FUND



Together for more

Global Economy

What we cover this month?

❑ Will dollar continue the strength?

US Economy - Signs of Changing UST- USD relationship

❑ India – Liquidity, Growth and Inflation

❑ RBI Rates and Liquidity

Outlook!

Key Events in April- May-2025

- ❑ RBI reduced the repo rate by cumulatively by 50bps to 6.00% from 6.5% in Feb-25 and April-25 policy.
- ❑ US tariffs lowered for China, but still remain higher than before.
- ❑ US Fed meeting delivered a pause after the uncertainty around US inflation and US tariffs.
- ❑ RBI on cumulative basis infused ~2.45 trn in FY26 through liquidity measures.
- ❑ India's 10-year benchmark yield softened lower than 6.3% led by RBI's rate cutting cycle and durable liquidity infusion.
- ❑ India Inflation has softened further to 3.2% in April-25 led by declining food prices.

Global Trade – Moderated Volumes

Global PMI new exports orders



Data compiled April 2025 using PMI data updated to March.

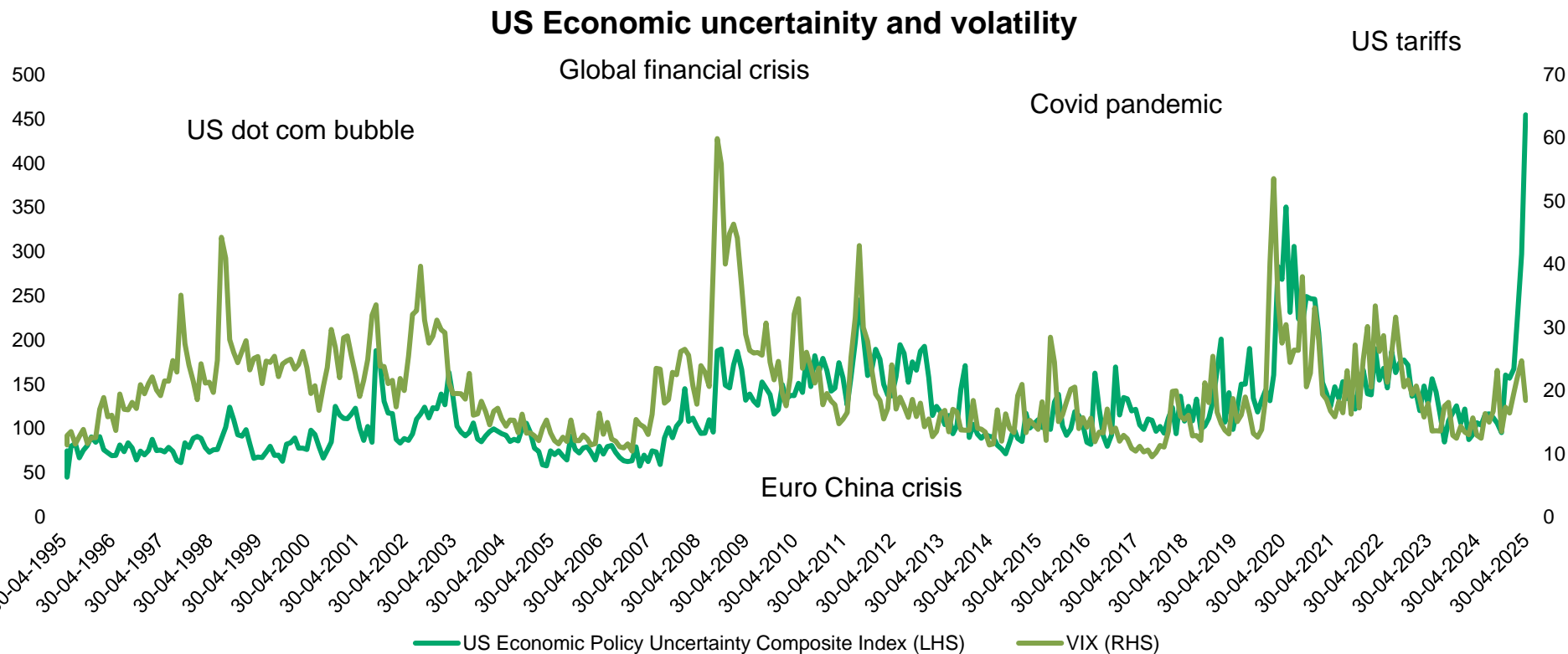
PMI (Purchasing Managers' Index) value of 50 = no change on prior month

Source: S&P Global Market Intelligence, S&P Global PMI surveys with J.P. Morgan

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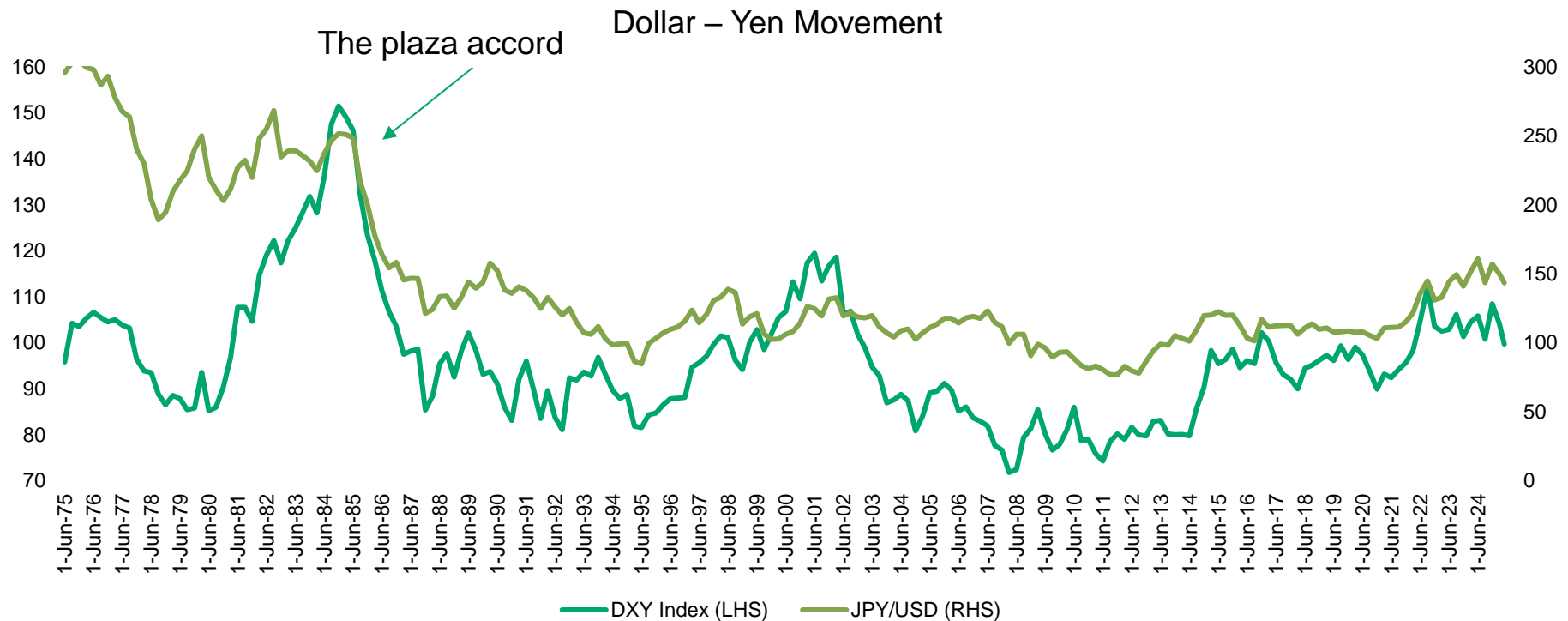
- Weaker current market conditions combined with rising levels of economic uncertainty and trade volatility had a noticeable impact on business confidence during April.
- Sentiment fell to a near five-year low, with weaker outlooks in the US, the Euro area and China.

US – US Uncertainty and Global Risk Reversion



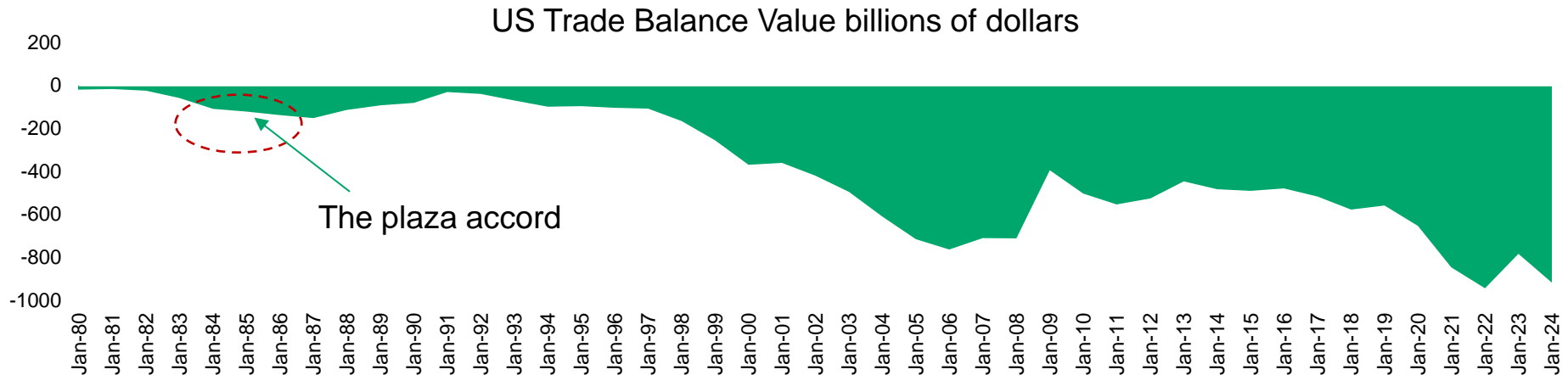
- Rising policy uncertainty, shifting growth patterns and volatile investor sentiment mark a changed investment paradigm.
- While trade policy details may vary across trade partners, broader implications should be more uniform: rising costs, potentially slowing growth, and stickier inflation.

Dollar decline – A sneak into the past ?

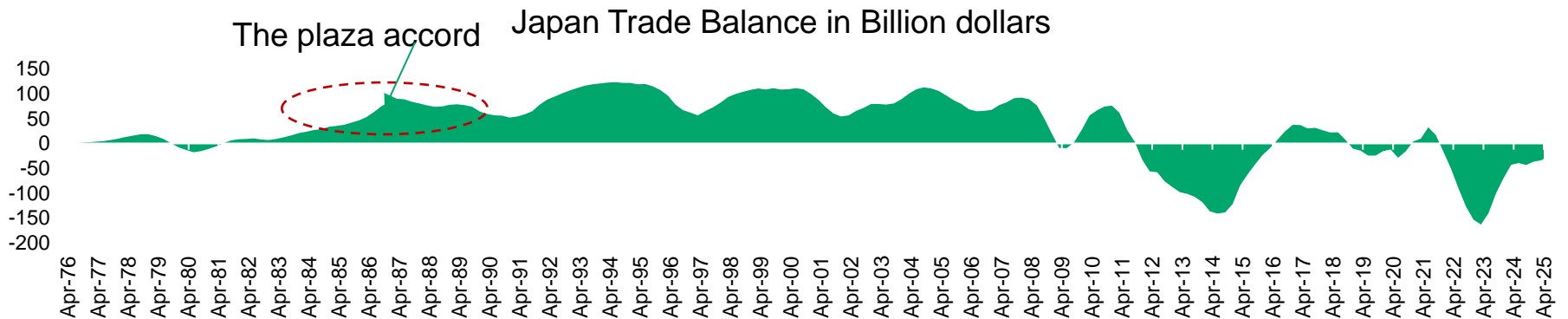


- US trade concerns reflects in the dollar decline. But past reflects that not all currency competitiveness leads to higher trade balance.
- The latter also reflects US fiscal situation and expected inflationary problems if the tariffs remain elevated.

Does the dollar depreciation solve US problems?



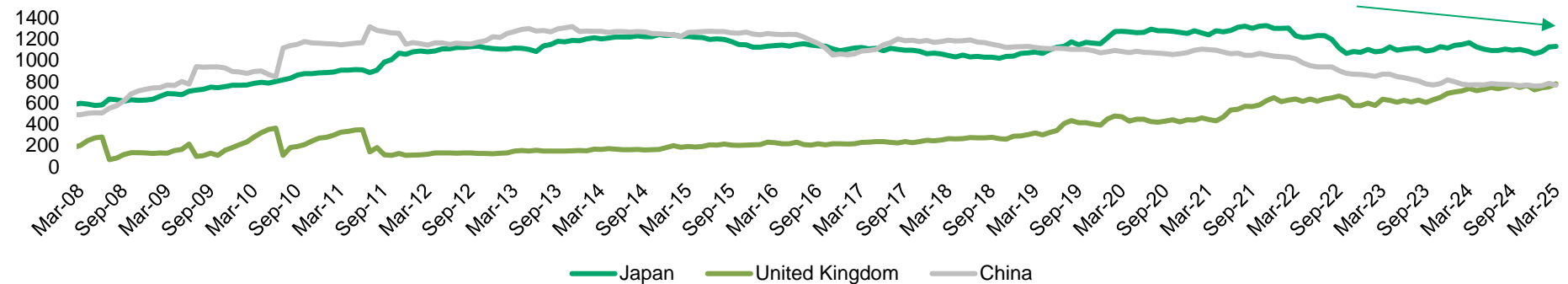
- Post the plaza accord, US deficit trade balance reduced, although not in the way initially intended.
- While it successfully weakened the dollar, leading to a decrease in the US trade deficit with some countries it largely failed to address the primary objective of reducing the trade deficit with Japan.
- The underlying structural issues of the trade deficit, such as low private savings and high government borrowing in the US, remained unaddressed.



Source: Bloomberg, Data as on May,15, 2025

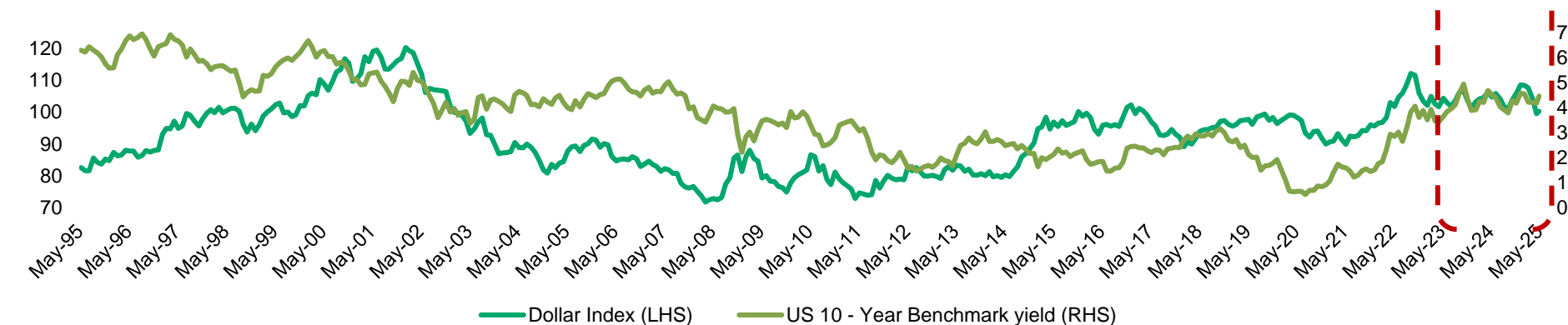
The USD- depicting cooling US economic strength, UST- Depicts changing winds!

Changing US Debt Ownership in \$ Billions



- The USD-UST duo has recently been moving in tandem with the duo rising and falling parallelly. The reasons can be attributed to uncertain US economic strength and trade policies and decreasing reliability post the Russia Ukraine war in US treasuries.

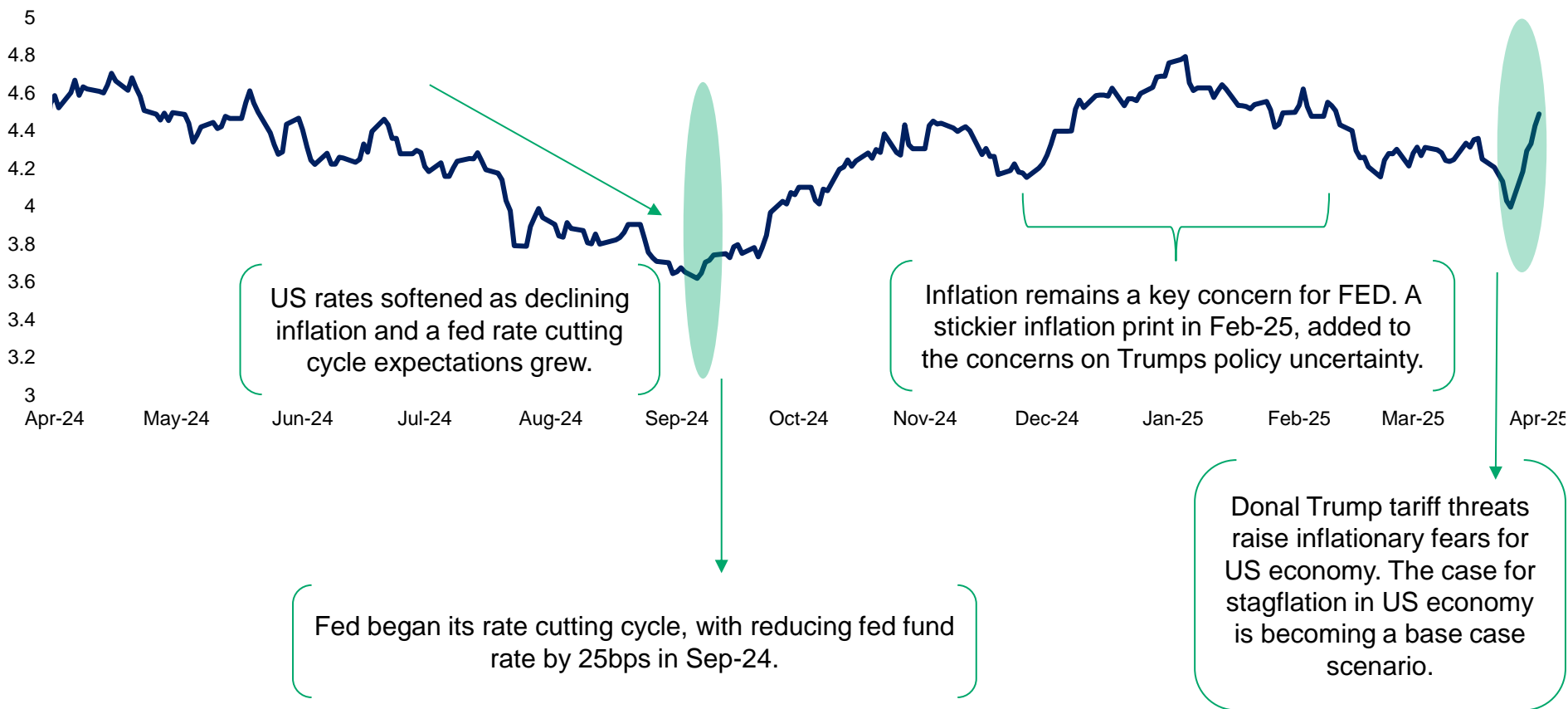
USD-UST



Source: Bloomberg, Data as on May,20, 2025

US Yields – A trend of ups and downs

US 10 year benchmark yield



Past performance may or may not be sustained in future and is not a guarantee of any future return

Source: Bloomberg, Data as on May,15, 2025

Summary of Events and Our View

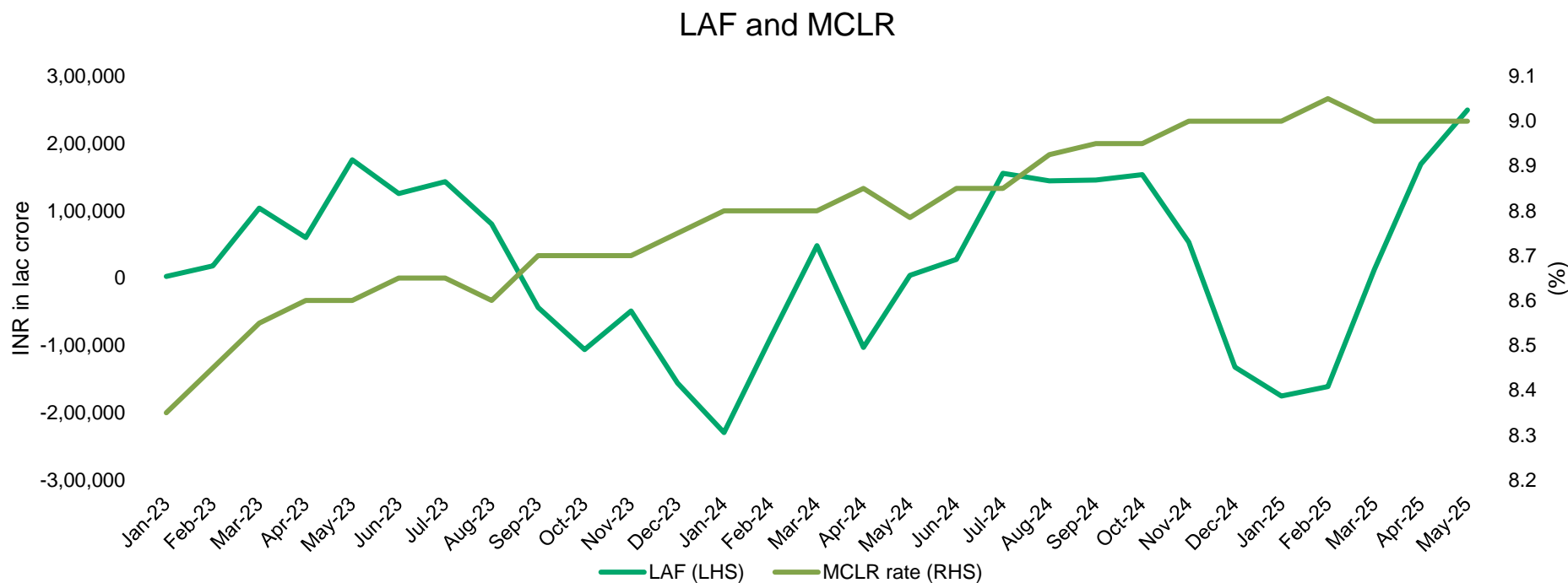
- ❑ US Inflation to be a key watch, Why?
 - FOMC rate cutting cycle to proceed cautiously after Trump tariffs and implying spillovers on inflation.
 - Quantum of rate cut to come down and even the possibility of no cut if inflation heats up further.
 - The actual impact on growth and inflation is yet to pan out and will be a key watch.
- ❑ Emerging Markets growth – Economic outlook defined by divergence and currency pressures to remain
 - China's economy to be supported by stimulus both fiscal and monetary further adding pressure to yuan and other EM currencies.
 - The USD and EM FX – Global FX vulnerable to tariffs, weaker trade, and higher US rates

Our View- We expect dollar index to weaken further–

- High US Debt calls for a weak dollar
- US CPI – watchful on any transmission of tariff hikes

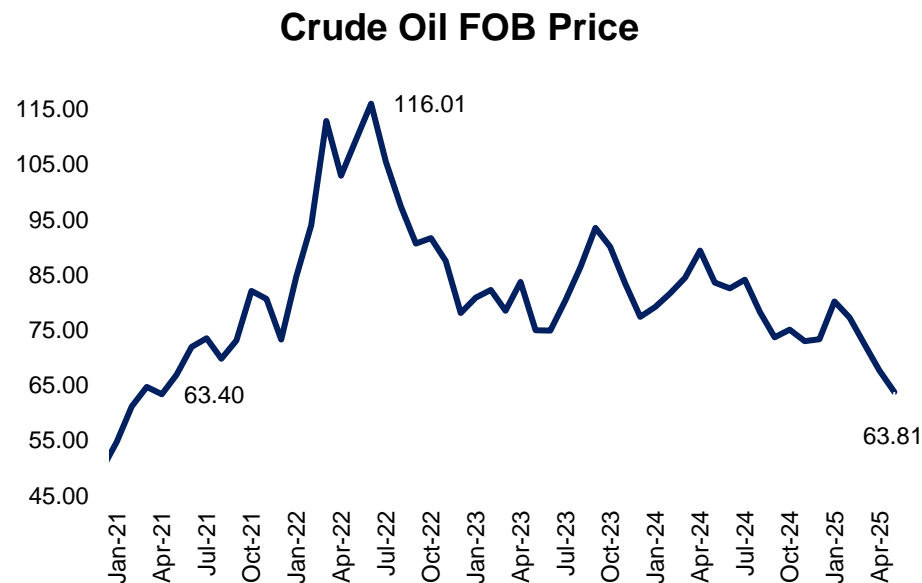
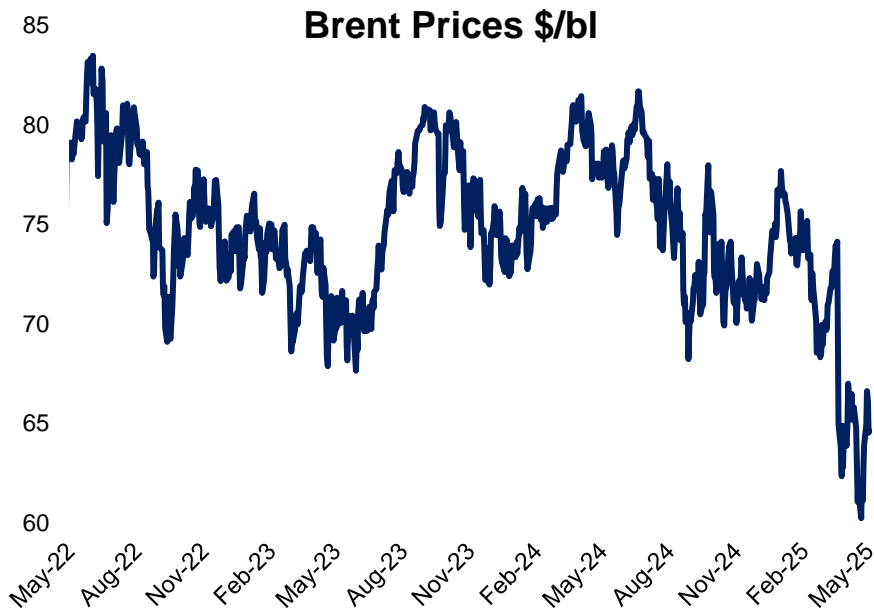
Domestic Economy

Liquidity – In spirit of the stance!



- Banking and durable liquidity are currently comfortable, and financial conditions have significantly eased in past four months.
- RBI announced OMO purchase of INR 1.25tn for the month of May-25, taking total OMO purchase in FY26 to INR2.45tn.
- RBI liquidity management is focused on faster and more effective transmission of rate cuts.
- Going ahead, we expect cash balances to rise sharply driven by the RBI dividend and GST collections.

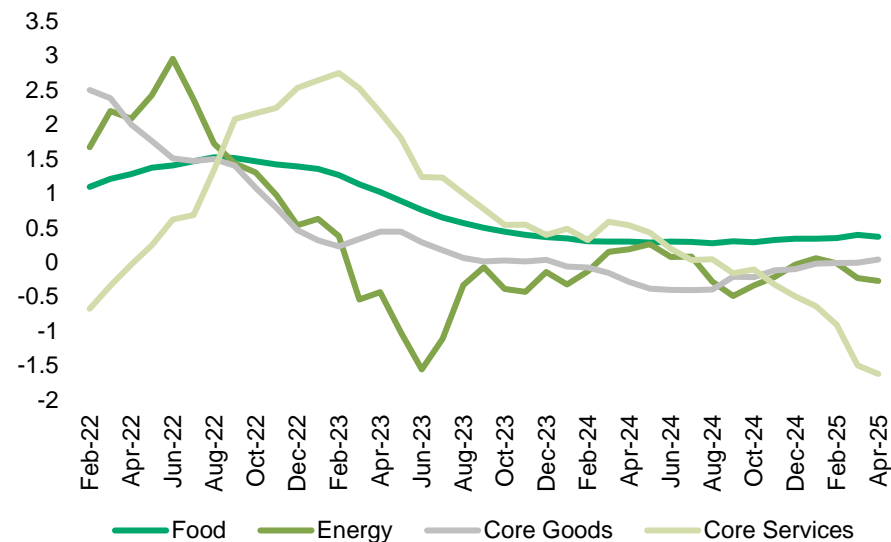
Lower brent prices seep into basket price!



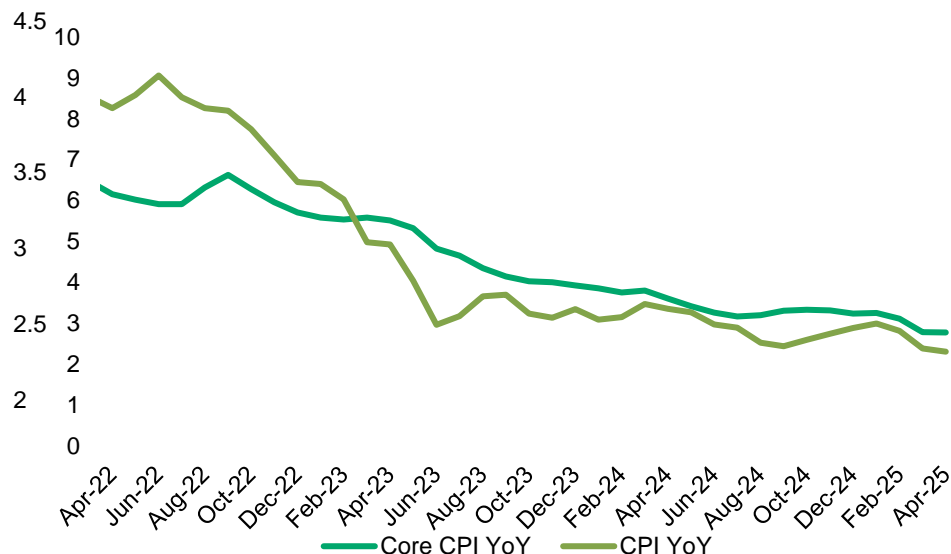
- On average, crude oil accounts for 48% of India's annual goods trade deficit.
- Commodities with direct exposure to crude oil prices have a 4.4% weight in the CPI basket (gasoline and diesel weight: 2.3%).
- The sharp drop in crude oil prices has important implications for India's various macroeconomic parameters.

Domestic Inflation – Food driven respite!

CPI Contributors

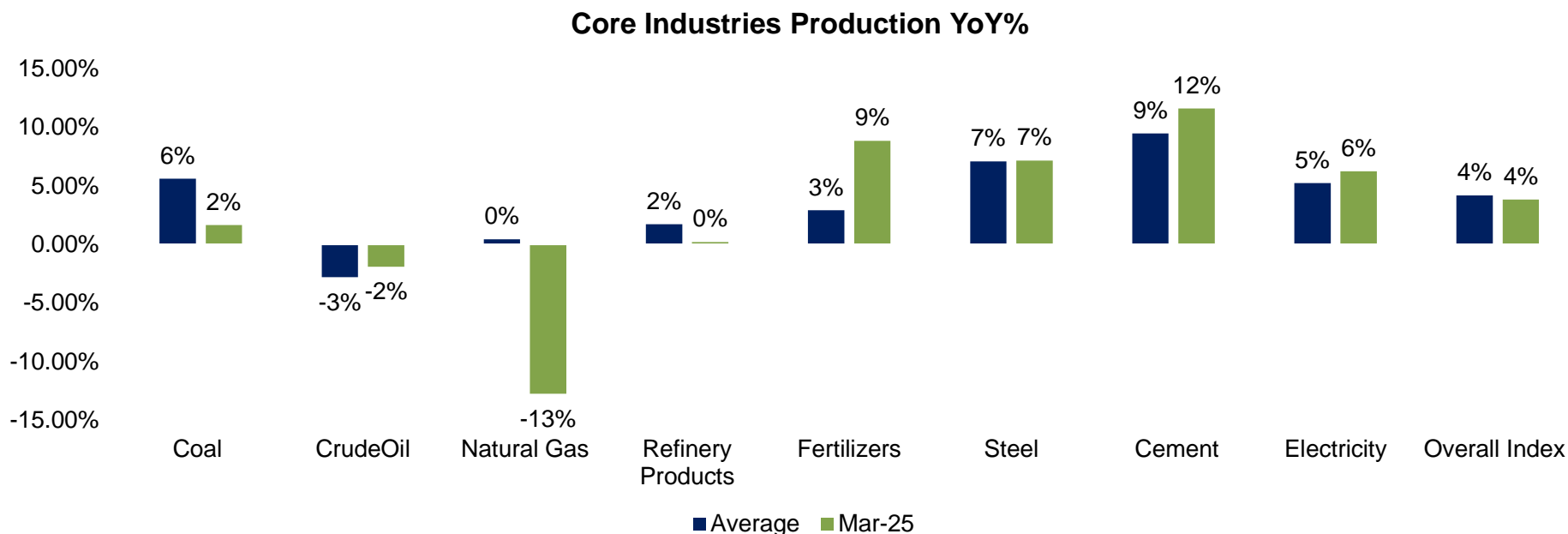


Headline Inflation



- The softening of food basket is a welcome development for headline inflation.
- Looking forward, the inflation trajectory remains positive and aligns with RBI's target range, we estimate inflation to average around 4-4.2% in FY26, with expectations of a normal monsoon based on IMD's first projection.
- Secondly, there is a weak global outlook that caps crude prices to limited volatility. Current decline crude prices remain positive for India's import inflation. Inflation at 3.16% builds an argument for deeper rate cuts.

Production activity reflects sluggish growth!



- Production activity remained sluggish and lower than the long term average in March-2025.
- The slowdown was led by refinery, crude oil and natural gas output, contracting sharper than seasonal decline.
- Capital intensive production sectors like steel and cement continue to perform with thrust still on capex.
- India's growth still remains sluggish in pockets of the economy visible in the above industries.

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Decoding Yield Signals

Economic Variable	Our View	Impact on yields
Growth	Economic activity remains a fragile spot as external environment remains volatile.	↓
Inflation	Inflation trajectory looks optimistic with a few bumps, we expect inflation to average at 4.1% Y/Y in FY26.	↓
Domestic Liquidity	Recent measures by RBI has effectively tackled the deficit liquidity conditions and is in surplus mode.	↓
Fiscal Health	Government's outlook on fiscal consolidation remains positive for the bond markets.	↓
RBI Monetary Policy	RBI MPC delivered another rate cut of 25bps, bringing down the repo rate to 6.00%.	↓
Global Commodities	Concerns on global economic outlook is visible in declining brent prices and softer commodity prices.	↓
Global Monetary Policy Stance	Global Monetary pivot has begun, tracking global inflation and growth dynamics.	↓

Fixed Income Outlook

- Global monetary policy dynamics have started witnessing bumps in their path to recalibrate the monetary rates.
- **The decline in the dollar index and US growth will be a key watch.**
- Trump's tariff threats and spillovers on currencies is the existing risk that is driving the markets volatile.
- **On the domestic front, evolving growth dynamics have taken center stage.**
- RBI's forward guidance and the rate cut gives us the confidence on growth supported future policy expectations.
- **Recent softening in domestic inflations paves the way for RBI to take calibrated policy decisions.**
- Having said that external headwinds continue weigh on INR which will have spillovers over domestic liquidity.
- RBI has been and is expected to continue infusing liquidity through OMO, FX swap in essence of the monetary policy stance.
- RBI's dividend is expected to keep the domestic liquidity in surplus.
- Irrespective of the tools, liquidity measures are expected to have an impact on the short end of the curve.
- The spreads on the short end are elevated and current liquidity expectations make them attractive.
- **Recent moves by RBI give us confidence that liquidity will be managed in spirit of the stance.**
- Having said that, the fundamentals of India's fiscal demand supply remain balanced and that is expected to maintain a downside bias on yields.

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