

MONTHLY MACRO-INSIGHTS

OCTOBER 2024



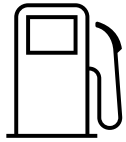
Together for more

Global Economy

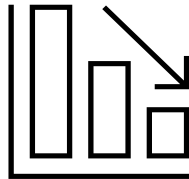
Global Macro and Key Events



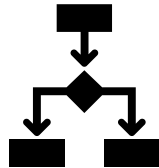
Fed Pivot and US Yields



Geopolitical Tensions and Commodities



China Growth and Economic Stimulus



What does it mean for India?

FED FOMC September -2024

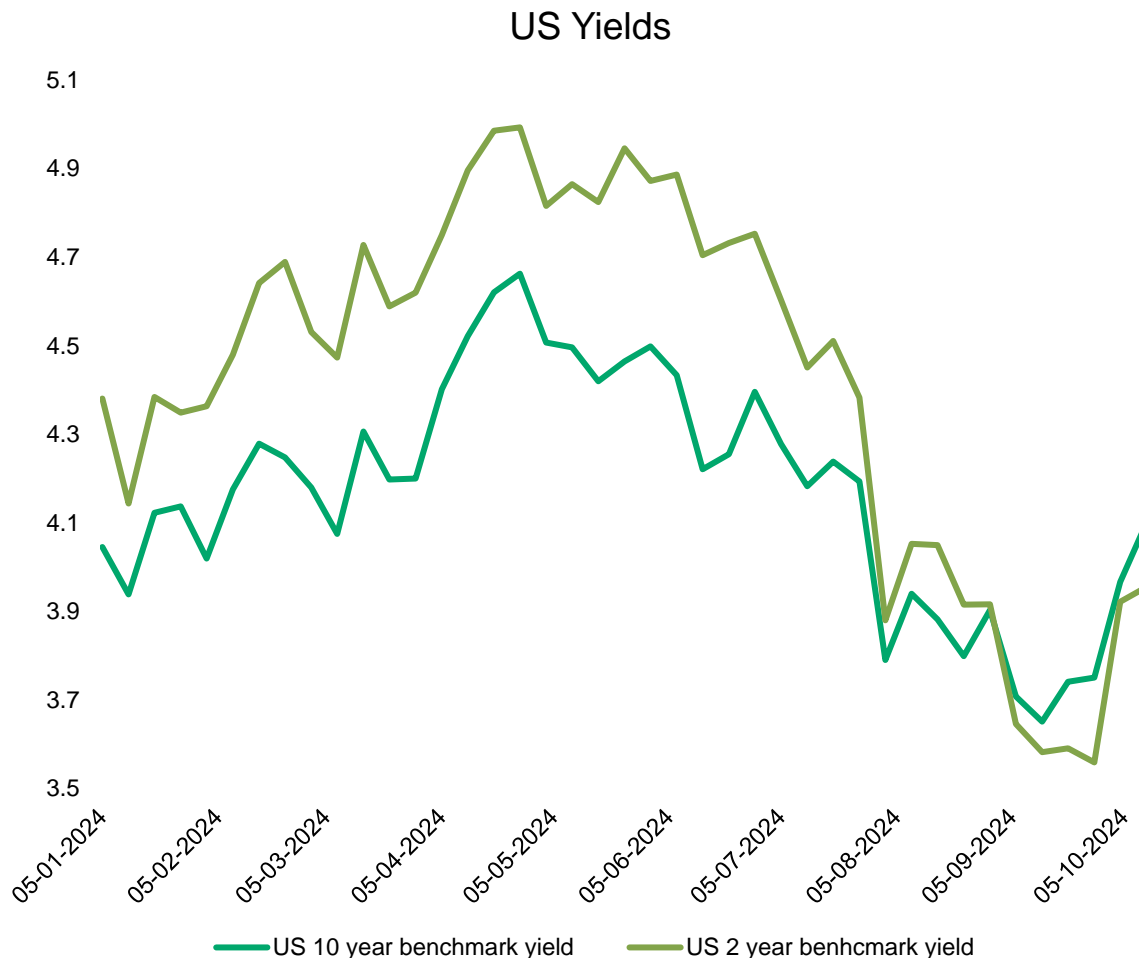
Variable	FED FOMC		
	Economic Projections %	2024	2025
Change in Real GDP	September 2024 FOMC	2.0	2.0
	June 2024 FOMC	2.1	2.0
Unemployment rate	September 2024 FOMC	4.4	4.4
	June 2024 FOMC	4.0	4.2
PCE Inflation	September 2024 FOMC	2.3	2.1
	June 2024 FOMC	2.6	2.3
Federal funds rate	September 2024 FOMC	4.4	3.4
	June 2024 FOMC	5.1	4.1

Key Readings around the policy -

- It's not about inflation anymore
- SEP and Market expectations
- Market Reaction

- Future trajectory of FED rate cuts and the quantum to depend on the labor market conditions than inflation.
- Also, we expect FED to frontload more cuts than indicated in the dot plot.
- The shift in the communication and gap in the dot plot gives us the confidence that FED can deviate from its SEP projections.
- On the domestic front, we expect RBI to lag the FED in terms of rate cut.
- We expect RBI to change the policy stance to neutral in the Oct-2024 MPC meet.
- Domestic rate cutting cycle is expected to begin in Q4 of FY25, aligning with our inflation expectations.

US Yields – The post pivot story!

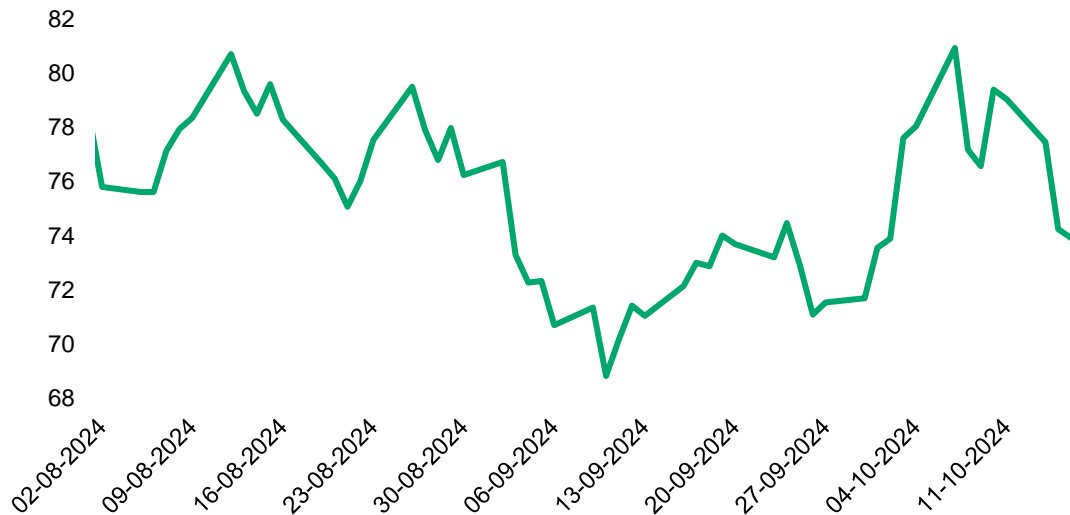


US Yields Post the FED pivot remained volatile.

- US 10-year benchmark yields rose back to 4.1% levels on back of sticky inflation data and higher than expected US jobs growth data.
- Interestingly, post the pivot, US 2 year irrespective of a pickup remained lower than the 10 year yields, which was not the case before.
- US yields continue to remain volatile as US growth indicators remain strong and the fear of inflation persists.
- Adding to the volatility are the geopolitical concerns impacting the crude prices.

Brent prices and Geopolitics?

Brent Price \$/bl



- Brent prices were trading around 82\$/bl in July-2024.
- In Sep-2024 the prices saw a steady decline to around 70\$/bl and is currently around it.
- As the tensions between Israel and Iran worsened brent prices jumped backed to ~80\$/bl.
- Eventually as the escalation faded, we saw brent prices declined back to 73\$/bl.
- Considering the sharper decline, it is somewhere clear that brent prices in the mid term is expected to follow the global growth dynamics and any escalation in the geopolitics will be a short term shock.

The decline in brent prices is led by –

- Crude supply and demand forecast showcases lower demand in 2025. the demand and supply dynamics have started to price in the brent price.

MMBPD	2025 F	2024 F	2023	2022	2021	2020
Total World Supply	104.6	102.2	101.9	100.2	95.7	93.8
Total World Consumption	104.6	103.1	102.2	100.1	97.5	91.7
Change	0.01	0.91	0.28	-0.16	1.84	-2.14

Source: Bloomberg, Data as on 11.10.2024

Key Global Triggers

US FOMC 2024 meetings

- Widely anticipated event which is expected to be the key trigger for global flows.
- The key watch will be the quantum of rate cutting in Nov and December meetings.

US Elections

- US elections crucial for geopolitics. The risk from trade wars and import tariffs by US could weigh on China and other emerging market economies.
- Such tariffs are expected to lead to high inflation and could pressure US fiscal deficits.

China's Growth Outlook

- China's growth outlook remains significant in tow aspects. China's consumption power fuels growth outlook of neighboring economies.
- Secondly, slowdown in China has keep a deflationary phase and has contributed to moderating inflation pressures globally.

OPEC + Production cut

- In current scenario of falling crude prices, OPEC + decision on further production cuts could lead to upside risks to current crude prices.

What does it mean for India ?

US Monetary Policy pivot

- US monetary pivot is expected to trigger flows to emerging market economies as interest differential narrows.
- India is favorably placed amongst this backdrop.
- Domestic monetary policy is expected to follow the suite with a lag.

Commodity Prices

- Decline in brent prices remains favorable for India's trade deficit and second line effects on India's inflation.
- Decline in key metals prices is expected to keep the input cost inflation in control.

China and other EM's policy response

- China's deflationary phase and ultra loose monetary has kept the commodities under control. Whereas, some pressure on INR remains due to depreciating yuan.
- Japan's policy problem is witnessing a short-term fix where yen is under control and Japanese yields softened post expectations of US pivot.

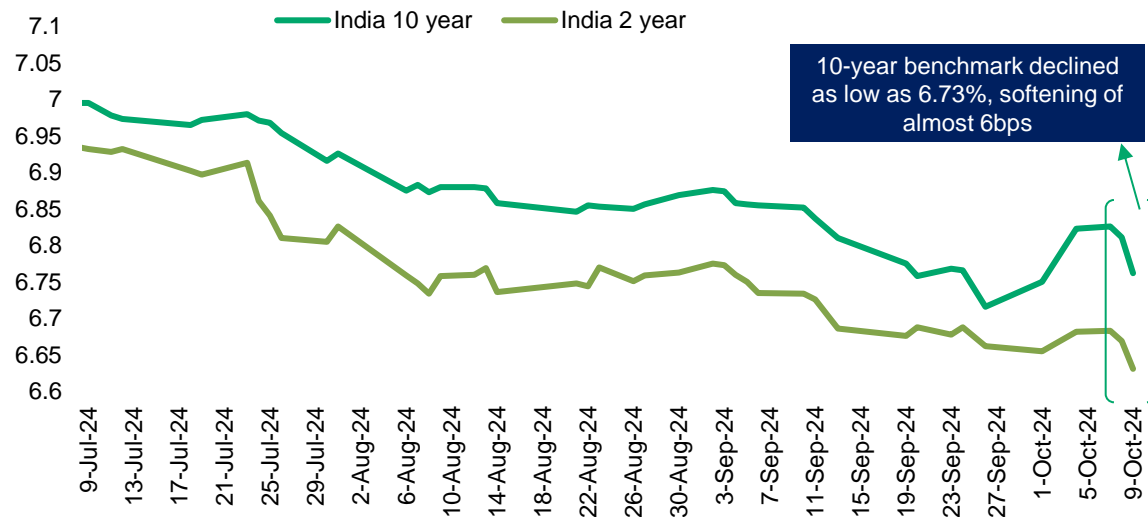
Domestic Economy

RBI MPC Oct-2024 – A Step towards Accommodation

In today's RBI MPC meeting, key decisions that were undertaken-

- RBI MPC decided to keep the repo rate on hold at 6.5% with a voting ratio of 5:1.
- The key highlight of the policy was the unanimous decision to change stance to **'Neutral'** from **'Withdrawal of Accommodation'**.
- Headline projections for growth and inflation remain unchanged.

India Benchmark Yields %



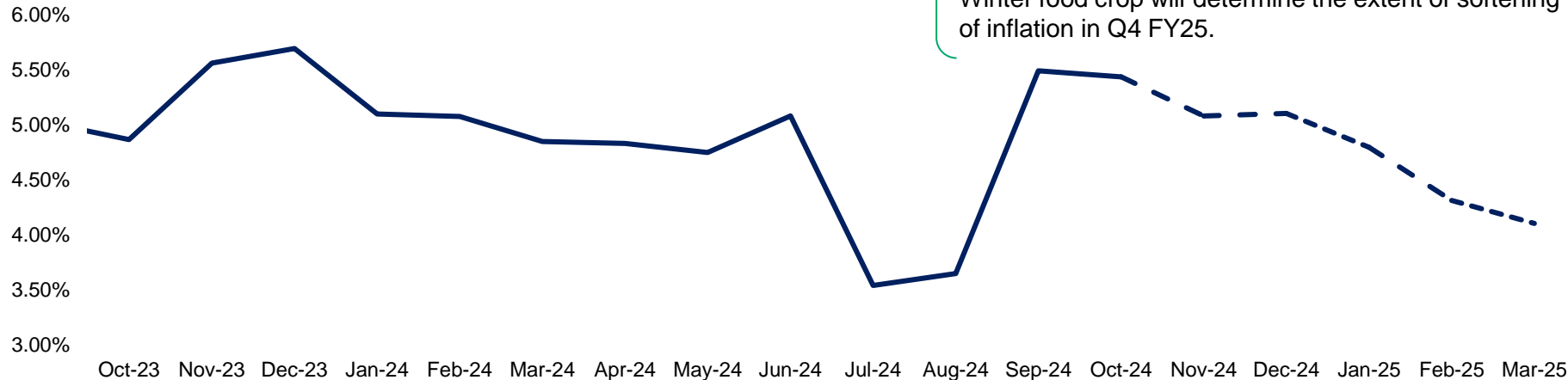
Our View –

- Overall, the policy was in line with our expectations of a stance change and the language on inflation remained cautious.
- On growth, no change in the projections reinstates RBI's expectations of robust economic activity in India and gives RBI the space to follow a pivot that aligns with its inflation target.
- The stance change bodes well for our view on liquidity conditions as it provides greater flexibility to act based on evolving conditions and thus also supports our view on the short-term rates.
- Going forward, we expect RBI MPC policy to follow the inflation trajectory and any space for a domestic pivot is expected in Q4 FY25, where we expect inflation to be closer to RBI's 4% target driven by winter food crop arrival.
- Having said that, current geopolitical conditions remain a risk to our inflation and growth projections.

Domestic Inflation –Food the culprit!

Inflation YoY%

The last lag of inflation is witnessing food price shocks. Winter food crop will determine the extent of softening of inflation in Q4 FY25.



Commodity	Prices Movement in Oct-2024	Direction
Edible Oil	8%	↑
Vegetables	15%	↑
Pulses	1%	↑
Cereals	1%	↑

- Shocks to headline inflation in September-2024 led by pickup in food prices, disrupts the expected softening of the inflation trajectory and complicates the policy outlook.
- Following the uptick in food prices, which is expected to stay in October as well, the expectations of headline inflation in Q3 FY25 is tracking above 5%, diminishing any expectations of rate cut in December-2024.
- Having said that, we expect the volatility in perishable food prices to continue and the decline to be sharper in Q4 FY25 with the arrival of winter crops.

Growth Indicators – Is the moderation cyclical?

Year	Average Calendar Year Sales			YoY		
	Passenger Vehicles	Two-Wheeler	Tractor	Passenger Vehicles	Two-Wheeler	Tractor
2021	2,29,032	12,05,794	85,719			
2022	2,71,693	12,99,501	86,993	18.6%	7.8%	1.5%
2023	3,29,699	14,22,930	84,308	21.4%	9.5%	-3.1%
2024	3,55,907	15,80,314	75,285	7.9%	11.1%	-10.7%

Auto sales numbers reflect robust economic growth. Tractor sales continue to reflect weak rural sentiment. Average annual sales in 2024 (till sep-2024, reflect the a PV sales to have increased by 7.9% y/y.

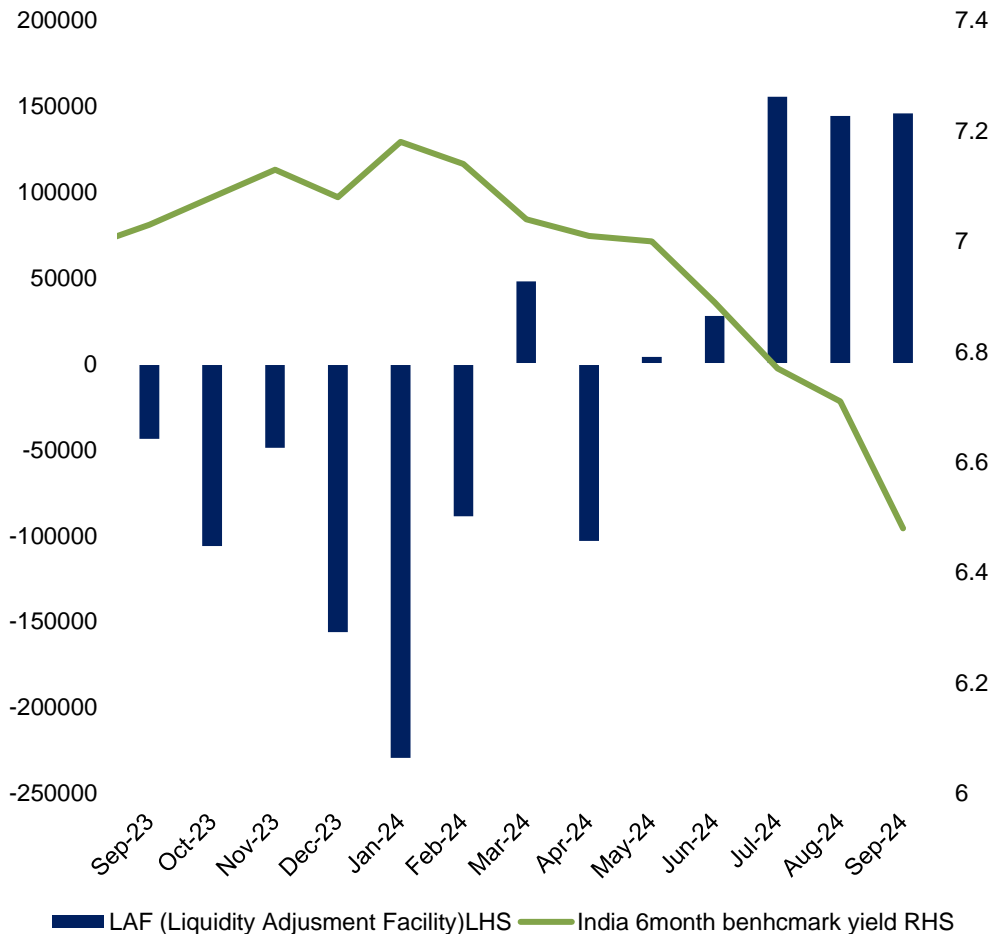
Manufacturing Production

% of Total Manufacturing Industries Showing sequential Decline in August	
Historical Average (2012-2023)	52.9%
Aug-24	52.2%

Manufacturing activity decline in Aug-2024 is inline with seasonal activity seen in the month of August.

Liquidity & Rates

Liquidity & Rates



LAF- Liquidity Adjustment Facility

What is driving the liquidity surplus?

- Continued government spending has managed to keep liquidity comfortably in surplus zone.
- India's 6-month g-sec rates have softened to 6.7% and overnight rates are tracking the liquidity conditions and have remained below repo rate.

Liquidity Outlook –

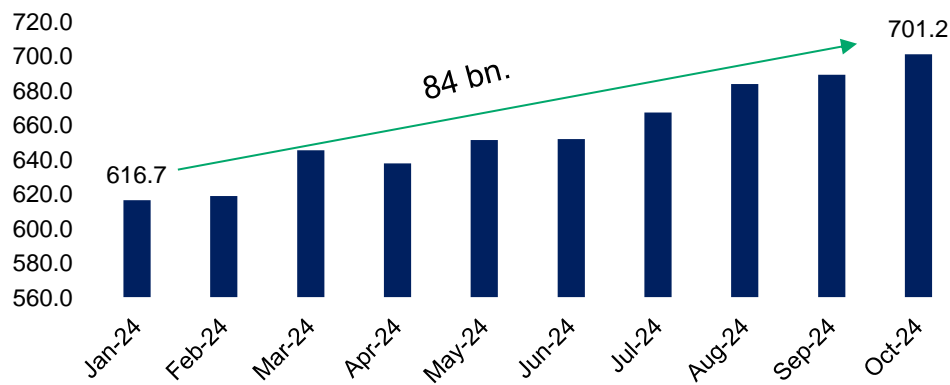
- Government cash balances is expected to have picked up to around Rs 2 trn due to indirect and direct tax collections.
- Hence, we can say that government's WMA balances are coming down and is visible in liquidity numbers.
- We remain positive on liquidity outlook given expectations of stance change in Q3 2024.

Currency and Reserves

India FPI Flows in USD million

Date	Equity	Debt-General Limit	Debt-FAR
Jan-24	-3,094	2,379	-
Feb-24	184	2,696	-
Mar-24	4,241	1,636	-
Apr-24	-1,034	-1,309	-
May-24	-3,058	1,048	-
Jun-24	3,180	1,786	-
Jul-24	3,870	2,667	-
Aug-24	873	2,131	-
Sep-24	6,890	156	2,739
Oct-24	-7,898	-343	311
Total	3,973	12,882	3,136

Forex Reserves in USD bn.



- **FPI flows** – FPI flows remained robust in CY2024.
- This remains supportive of India's capital account and currency.
- **Brent Prices** – Brent prices have fallen by ~8% from RBI's monetary policy estimate of 85\$/bl. A positive development for India's current account deficit.
- Despite appreciating bias, INR has remained range bound at around 83.9 levels.

But why is INR still not appreciating ?

- **RBI intervention-** The most likely reason why rupee is range bound is RBI's fx intervention. RBI is likely absorbing the dollar inflows in the economy. This consistent dollar buying by the central bank has not allowed the rupee to appreciate.
- FX reserves have now crossed the \$700 bn mark.
- This adds to our positive bias on INR.

Decoding Yield Signals

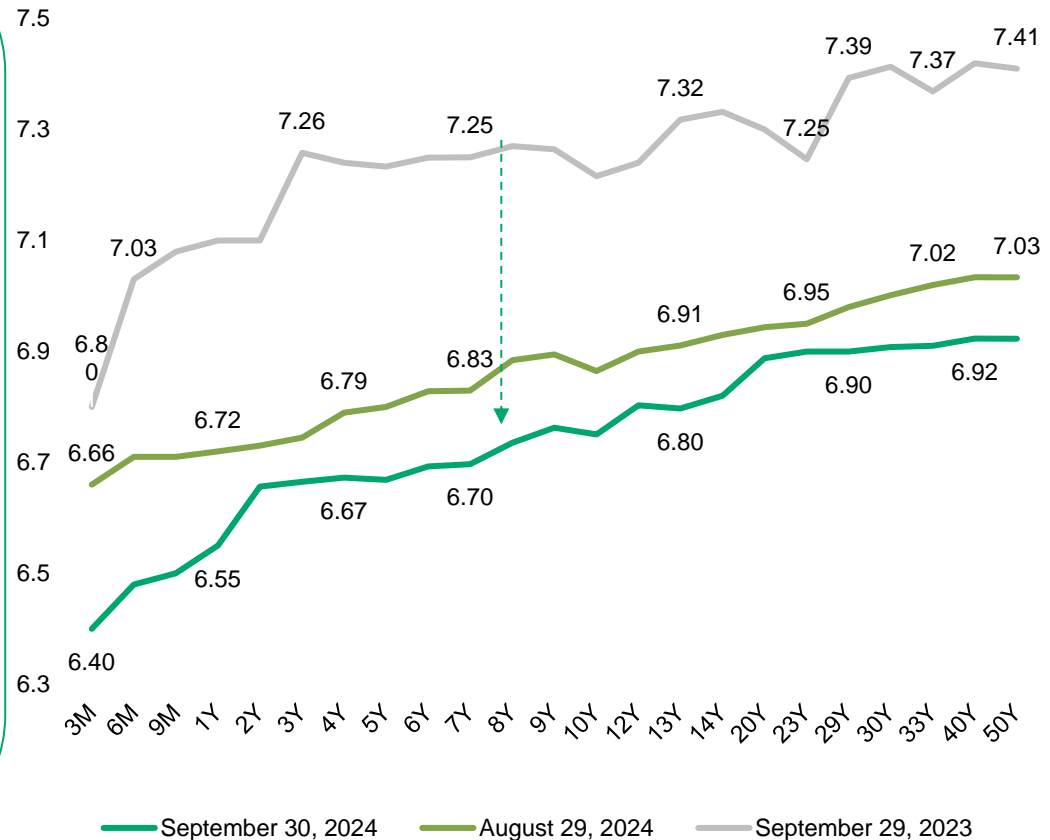
Economic Variable	Our View	Impact on yields
Growth	Rural economy remains a fragile spot in India's overall robust growth outlook.	↔
Inflation	Inflation trajectory looks optimistic with a few bumps, we expect inflation to average at 4.7% y/y in FY25.	↔
Domestic Liquidity	Liquidity conditions improved post election led by ongoing government spending.	↓
Fiscal Health	Lower than expected government borrowing is positive for the bond markets.	↓
RBI Monetary Policy	RBI is expected to maintain pause on repo until FED pivots. Till then RBI is expected to be in a wait and watch mode.	↔
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

Outlook

- India Fixed Income outlook has been driven by two key fundamentals.
- Firstly, Global Monetary policy dynamics will be the key trigger for global liquidity and flows. India is placed as a favorable destination amongst other emerging market economies. Also, we have already started to witness robust flows in both equity and debt segments.
- Secondly, domestic inflation remains a key watch for RBI's monetary policy decision making.
- Headline inflation is expected to remain above 4% for entire fiscal FY25, with some headroom of inflation's closest call to 4% in Feb-2024.
- Recent shocks to inflation has disrupted the softening of inflation trajectory.
- Our base case scenario of rate cut expectations remains the same. We expect RBI MPC policy to follow the inflation trajectory and any space for a domestic pivot is expected in Q4 FY25, where we expect inflation to be closer to RBI's 4% target driven by winter food crop arrival.
- Our view on rates remain optimistic with fundamentals aligning with fixed income outlook expectations of softening across the curve.

India Sovereign Yield Curve %



Past performance may or may not be sustained in future and is not a guarantee of any future return. Returns do not take into account the load, if any. Returns are for growth option. Different plans shall have a different expense structure. The performance details provided above for Hybrid Funds are for regular/distributor plan and the performance for Debt Funds are for direct plan.