

MONTHLY MACRO INSIGHTS

April-2024



Together for more

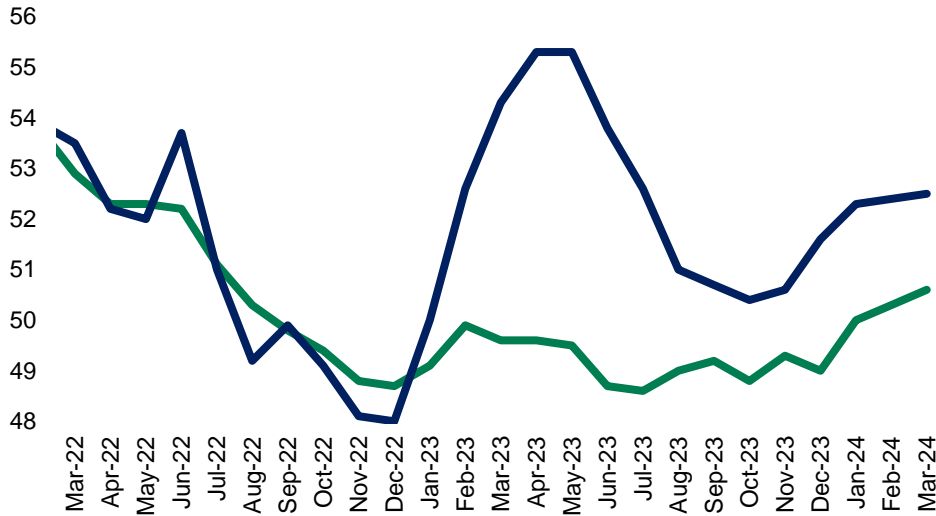
The word 'more' does not imply more returns or assurance of scheme performance. It refers to the additional value provided by the joint venture, as compared to Baroda AMC and BNP Paribas AMC individually.

Global Economy

Global Growth & Commodities

PMI Index

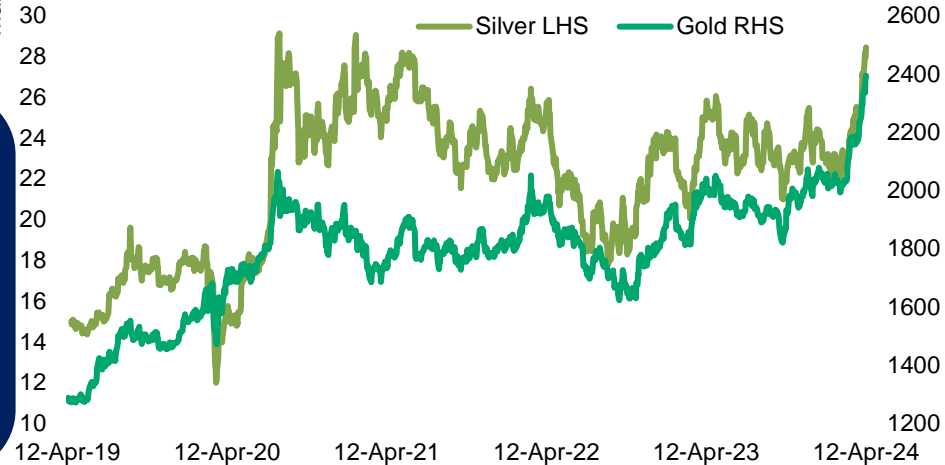
— Manufacturing PMI — Services PMI



Brent \$/bl

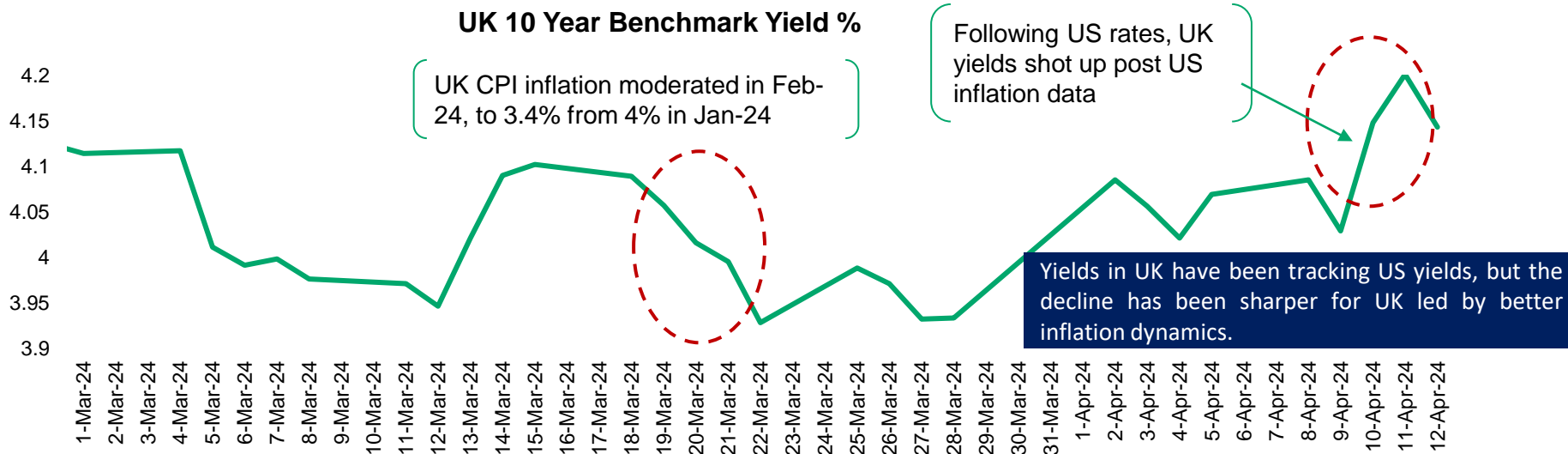
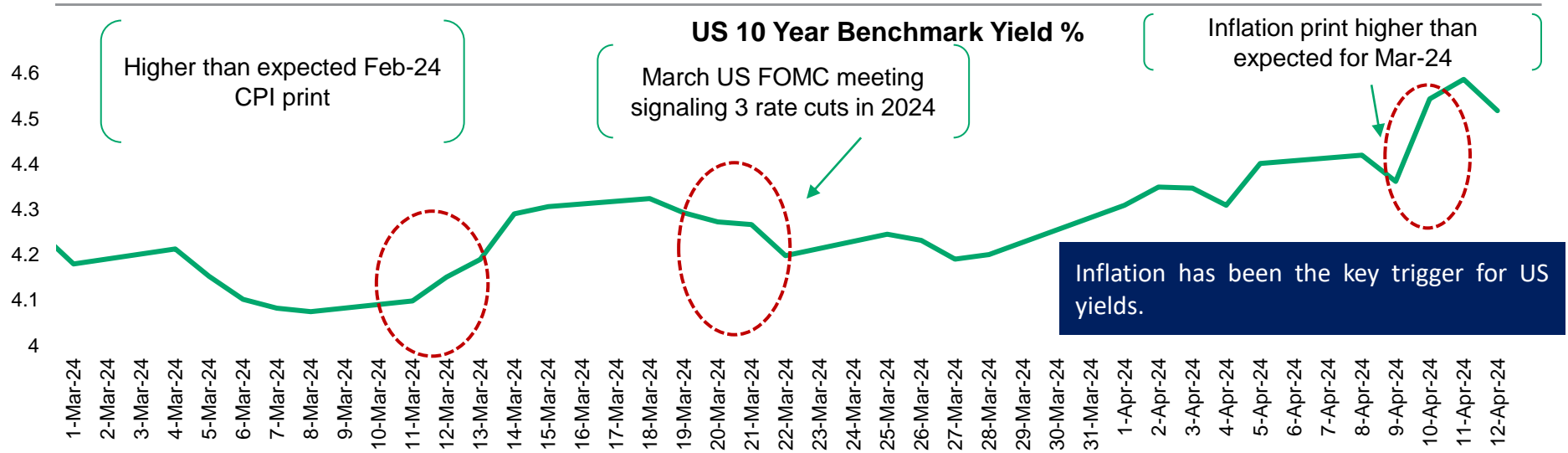


Gold and Silver

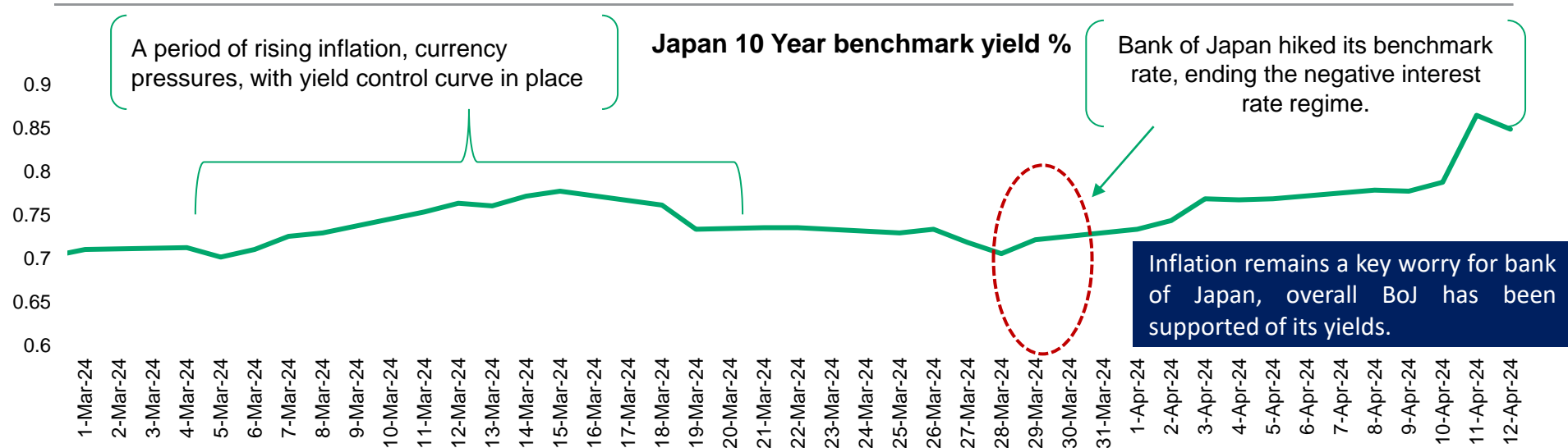


- Economic growth has been divergent across economies.
- Growth indicators have seen some pickup starting 2024 but is still not broad based.
- On the contrary, gold prices have shown sharp pickup led by Central banks gold buying and current geopolitical tensions.
- Brents prices are elevated around 90\$/bl led by supply cuts amidst the Israel and Iran logrollerheads.

Global Yields – Different Regions Different Problems



Global Yields – Different Regions Different Problems

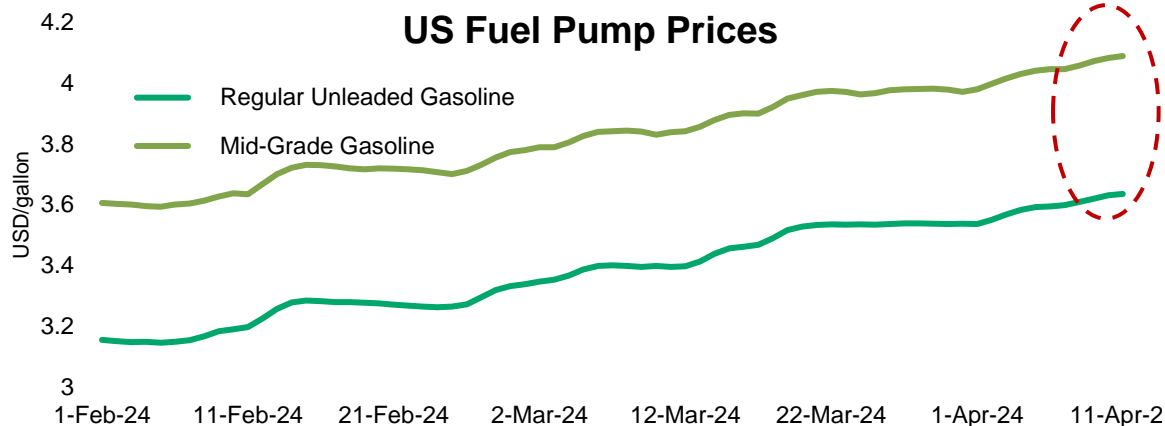


US Inflation – Energy elevates the pain!

	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	YoY March-2024
All items	0.4	0.1	0.2	0.2	0.3	0.4	0.4	3.5
Food	0.2	0.3	0.2	0.2	0.4	0	0.1	2.2
Energy	1.2	-2.1	-1.6	-0.2	-0.9	2.3	1.1	2.1
Energy commodities	1.8	-4.3	-3.8	-0.7	-3.2	3.6	1.5	0.9
Gasoline (all types)	1.6	-4.3	-4	-0.6	-3.3	3.8	1.7	1.3
Fuel oil	6.4	-6.4	-1.1	-3.3	-4.5	1.1	-1.3	-3.7
Energy services	0.3	0.4	1	0.3	1.4	0.8	0.7	3.1
Electricity	0.8	0.4	1	0.6	1.2	0.3	0.9	5
All items ex food & energy	0.3	0.2	0.3	0.3	0.4	0.4	0.4	3.8
Services ex energy services	0.5	0.3	0.5	0.4	0.7	0.5	0.5	5.4
Shelter	0.6	0.3	0.4	0.4	0.6	0.4	0.4	5.7
Transportation services	0.7	0.9	1	0.1	1	1.4	1.5	10.7

- US CPI inflation came at 3.5% y/y in March-2024 vs 3.2% y/y in Feb-2024.
- Both Feb and Mar. numbers reflect higher contribution to inflation from energy basket.
- Core inflation remained sticky with elevated services inflation.

- Gasoline prices in US remain elevated for first ten days of April-2024, thus we assume the contribution from elevated energy basket is to continue even in April-2024.

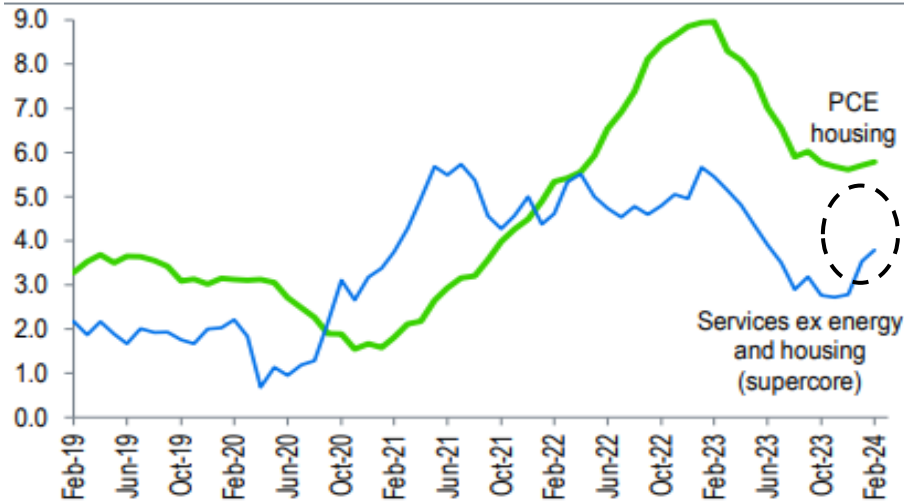


Source: Bloomberg, Data as on 12.04.2024

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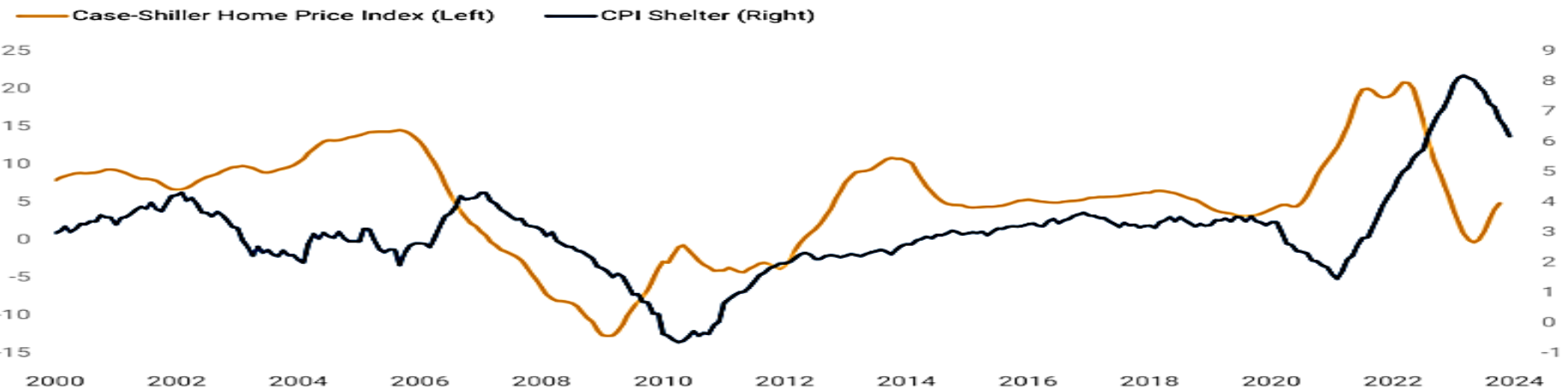
US Inflation- Too late to wait ?

US PCE and Service ex housing & energy inflation % 6mma (6 months moving average)



- House prices and rental prices are determined by supply and demand factors that don't always move in tandem.
- Similarly for US, CPI shelter basket and the home price index shows a lag in transfer of declining home prices in the rent index.
- Recent US inflation has shown sticky shelter prices, which are expected to decline with a lag, but also meanwhile we have seen pickup in other commodity prices with their respective spillovers on inflation.

Percent change from a year ago.



What does it mean for India ?

Global Inflation

- US inflation dynamics remain a key watch for India, as it will be the driver of FOMC's move on rate cuts.

Global Growth outlook

- Global growth outlook remains clouded given divergence in country wise growth dynamics.
- US economic indicators reflects robust growth dynamics on the other hand economies like euro area, UK, China have weak momentum in their growth indicators.
- Current global dynamics impart lot of uncertainty regarding global monetary dynamics.

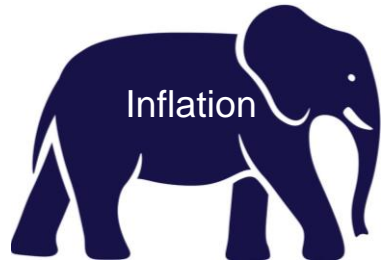
Commodity Outlook

- India is a net importer of crude oil, thus any commodity shock to crude prices arising out of geopolitical conflicts, supply cuts from OPEC etc poses upside risk to India's trade deficit and import inflation.
- Recent pick up in brent prices and other commodities will be reflected in April-2024 trade balance data and if the tensions escalate, the impact will have spillovers for a longer duration.

Domestic Economy

RBI Monetary Policy April-2024 – A Status Quo policy!

RBI – In a wait and watch mode!



RBI optimistic on Inflation but with caution on food inflation

- RBI has projected FY25 inflation at 4.5%.
- RBI's optimism on inflation is driven by robust Rabi harvest and early indicators of a normal monsoon.
- The upside risks to inflation can arise from uptick in brent prices, climate shocks impacting food inflation.
- These risks if materialize, may impact food inflation.
- Thus, RBI's tone on inflation is to wait and watch.



MPC is pretty much comfortable with growth

- RBI 's tone on growth dynamics depicted a favorable outlook going forward.
- MPC has retained its growth projections at 7% for FY25.
- Overall domestic growth is expected to be supported by normal monsoon, government capex and some early signs of pickup in private capex.



RBI to remain nimble footed on liquidity

- RBI is expected to remain nimble footed on liquidity management by providing / absorbing through repo operations to achieve operational rate closer to repo.

RBI Projections and Market Impact

RBI's Inflation Estimates

Inflation YoY%

	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	FY25
MPC February -2024 Policy	5.0	4.0	4.6	4.7	4.5
MPC March-24 Policy	4.9	3.8	4.6	4.5	4.5

- RBI has revised the Q2 FY'25 inflation at 3.8% from earlier projected 4%.
- Summer months will be crucial in deciding the inflation trajectory.

RBI's Growth Estimates

Growth YoY%

	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	FY25
MPC February -2024 Policy	7.2	6.8	7.0	6.9	7.0
MPC March-24 Policy	7.1	6.9	7.0	7.0	7.0

- RBI MPC retained their FY25 real GDP estimates at 7.0% with minor tweaks to quarterly profile.
- RBI's estimates provide a optimistic view on growth in FY25.

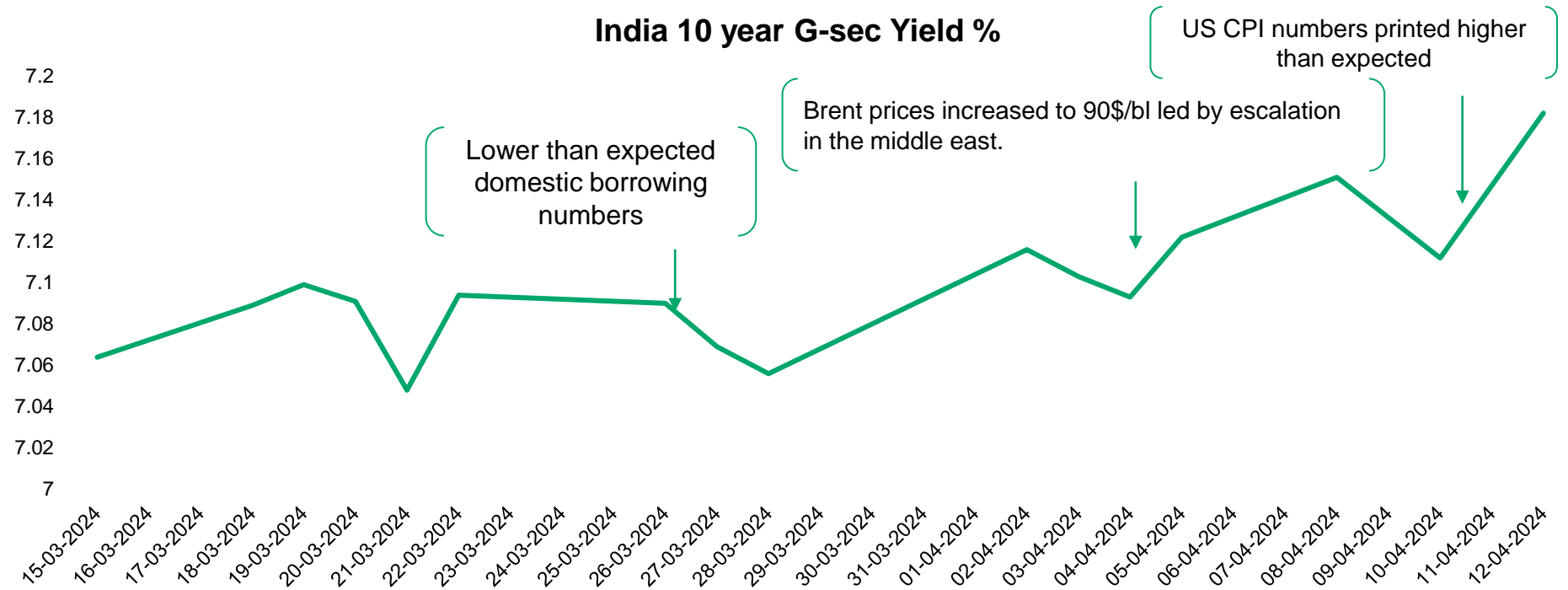
Market Impact

- Post RBI monetary policy market rates inched up marginally.
- India's 5-year and 10-year G-sec rates, inched up by ~3bps.
- Overall, the movement in rates implied a status quo policy with no surprises.

Market Rates	Pre- Policy %	Post Policy %	Change in bps
Repo Rate	6.50	6.50	0.00
3 Months CP	7.80	7.80	0.00
12 Months CP	8.05	8.15	0.10
3 Months CD	7.54	7.51	-0.03
12 Months CD	7.44	7.40	-0.04
5 Year G-sec	7.06	7.09	0.03
10 Year G-sec	7.09	7.12	0.03
10 Year AAA Corporate Bond	7.48	7.50	0.02
3 Year AAA PSU Bond	7.57	7.58	0.01

India Rates

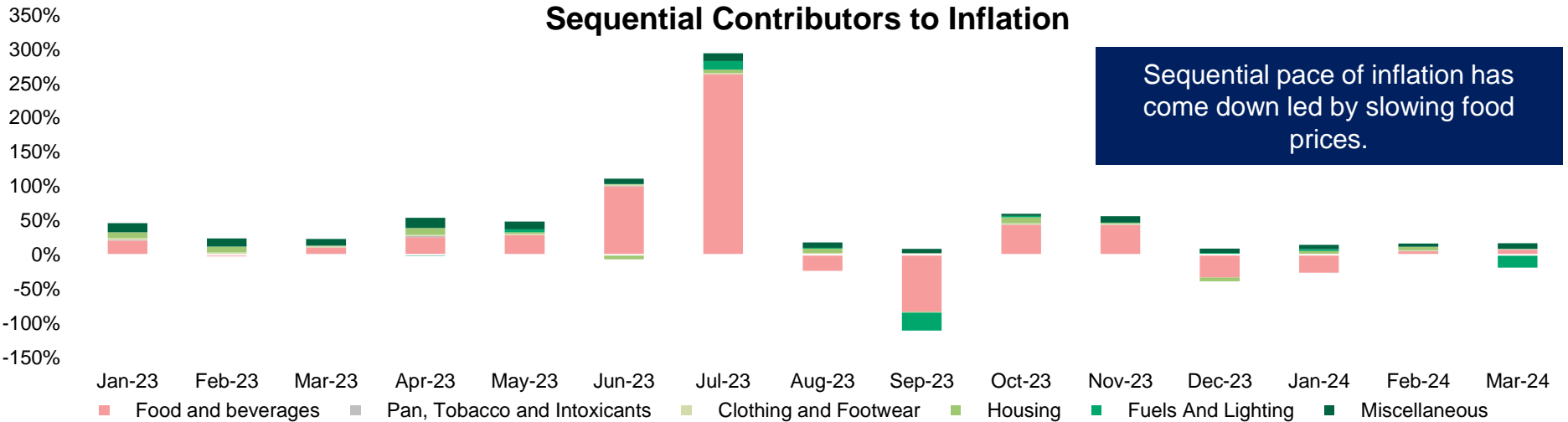
India 10 year G-sec Yield %



- India's 10-year benchmark yield inched up to ~7.18% led by increase in brent prices and higher than expected US CPI numbers.
- Elevated US CPI has pushed the rate cut expectations and thus is reflective in the 10 year benchmark yield.

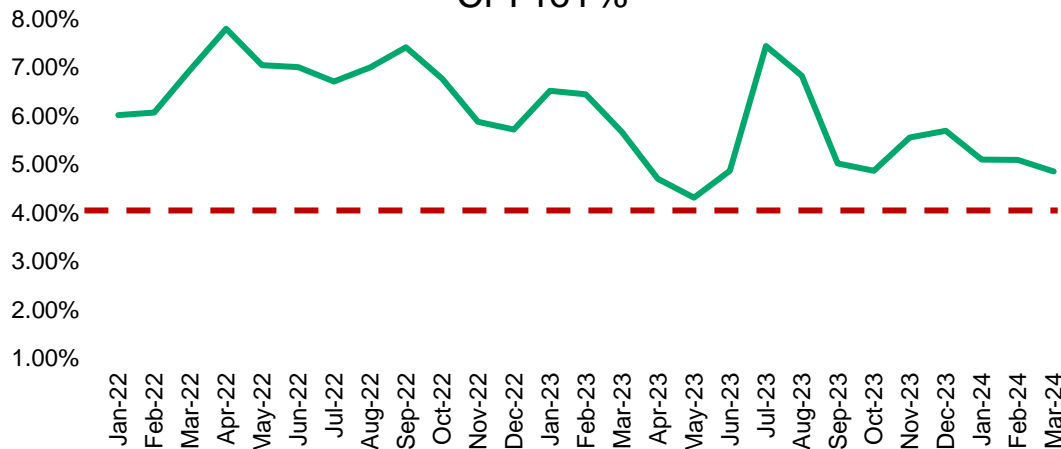
Inflation – Moderation in Core CPI continues!

Sequential Contributors to Inflation



Sequential pace of inflation has come down led by slowing food prices.

CPI YoY%

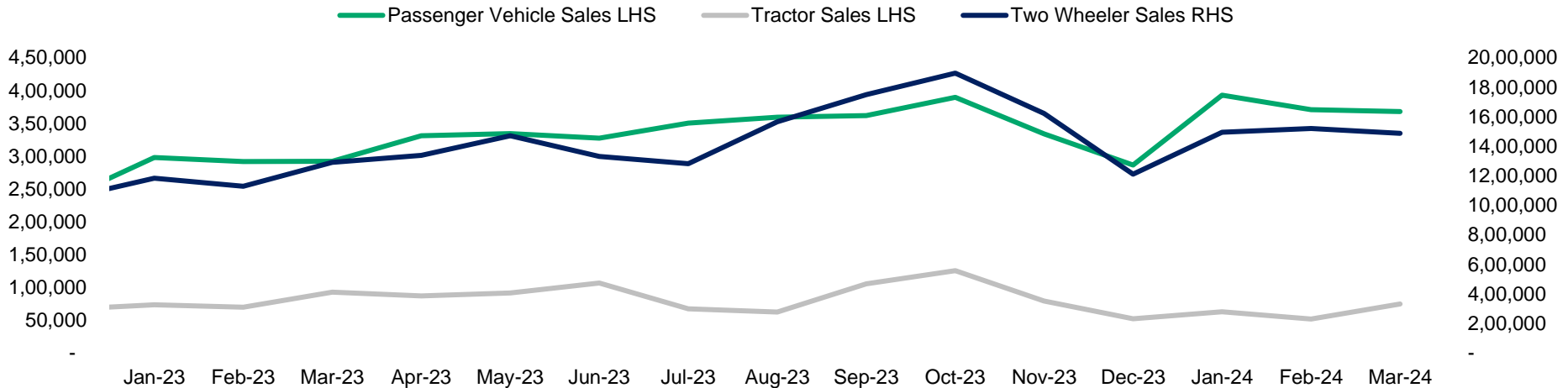


- CPI inflation in March-2024 moderated to a 9-month low of 4.85% y/y in March-2024 vs 5.09% y/y in Feb-2024.
- The softening was led by decline in fuel and light inflation.
- Core inflation declined to 3.24% y/y in March-2024 vs 3.34% y/y in Feb-2024.
- Sequentially core inflation increased at a 3-month low pace of 0.17% m/m in March-2024.
- After remaining flat in Feb-2024, fruits and vegetables saw a sequential uptick of ~2% m/m and 0.3% m/m respectively.
- Pickup in gold prices and summer food inflation will offset some favorable base for April-24 CPI.

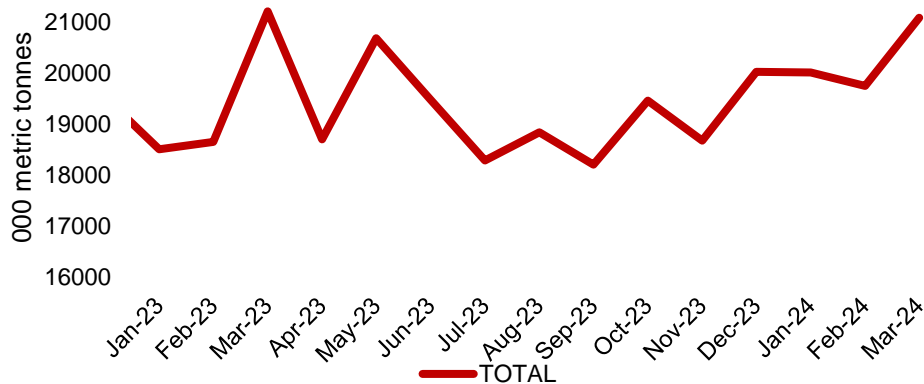
Source: Bloomberg, Data as on 14.04.2024

India Stable Growth

Auto Sales



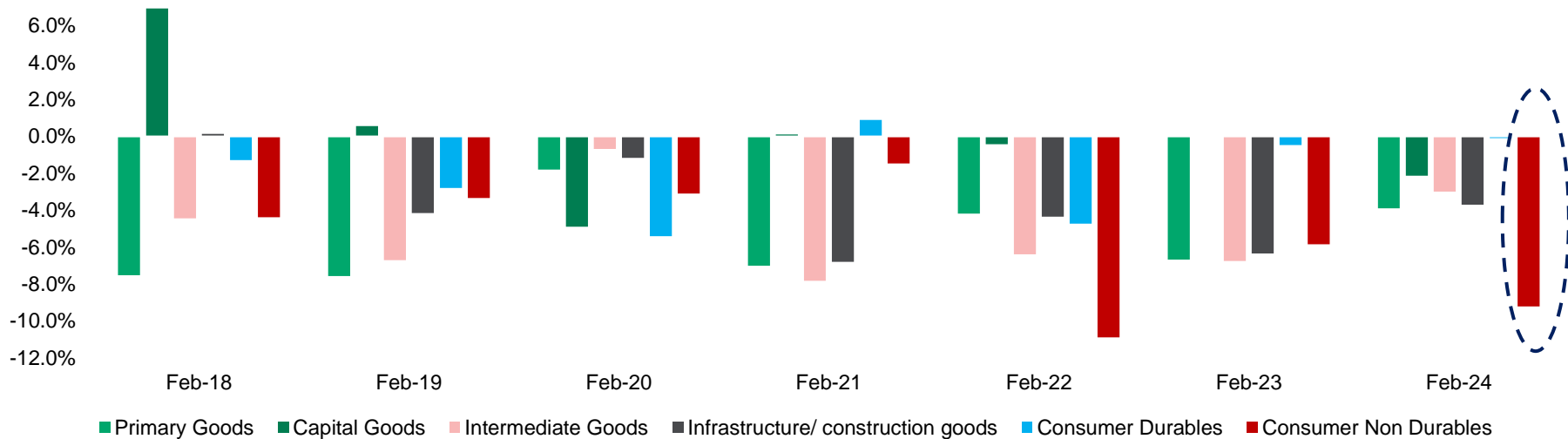
Total Petroleum Products Consumption



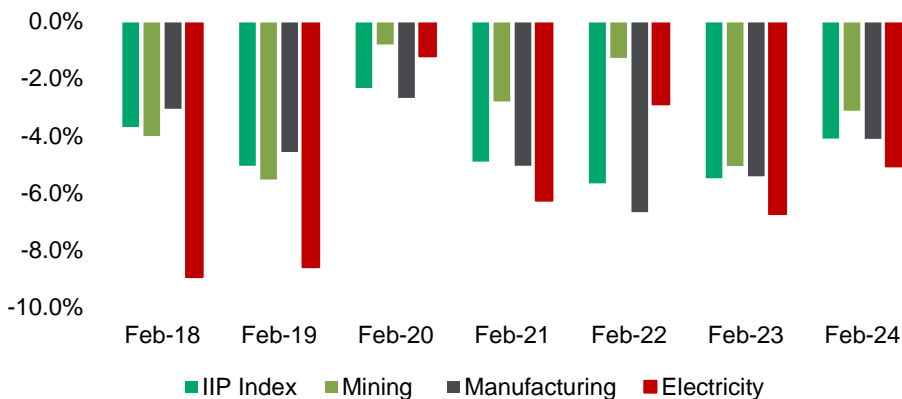
- Both PV sales and two-wheeler sales remained stable in March-2024
- Tractor sales recorded another month of weak sales.
- FY25 monsoon will be a key watch to determine rural activity.
- Fuel consumption picked up in Mar-2024, implying a robust economic activity especially led by urban economy.

Decoding IIP Growth!

IIP - User Based Category Growth %

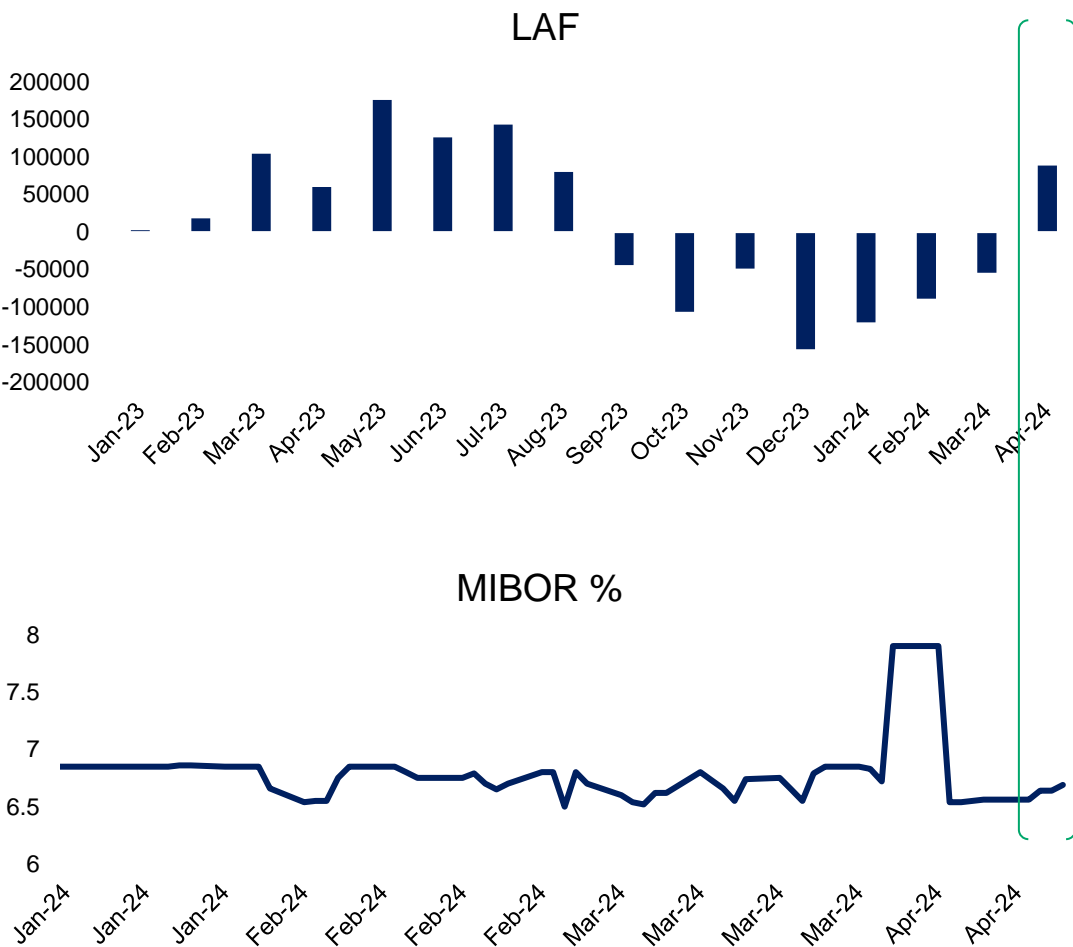


IIP Indexes



- IIP index grew by 5.7% y/y in Feb-2024 lower than market expectations of 6.5% growth.
- The drag is visible in the user-based category. Consumer nondurables have contracted by ~9% m/m in Feb-2024.
- Consumer nondurable is a key indicator to gauge rural economy.
- Monsoon activity will be a key variable to watch to understand rural demand outlook.

Liquidity & Rates



- System liquidity conditions turned surplus in April-2024 led by increase in government spending.
- General government cash balances as on April 5, 2024, fell sharply to Rs 1052 bn (from Rs2.3 tn in the previous week) due to month-end government spending.
- Overnight rates have remained closer to the repo rate.
- Going ahead, we expect system liquidity to remain in surplus zone, before falling to neutral towards the end of the month led mainly by GST collections.

LAF- Liquidity Adjustment Facility
MIBOR- Mumbai Interbank Offer Rate



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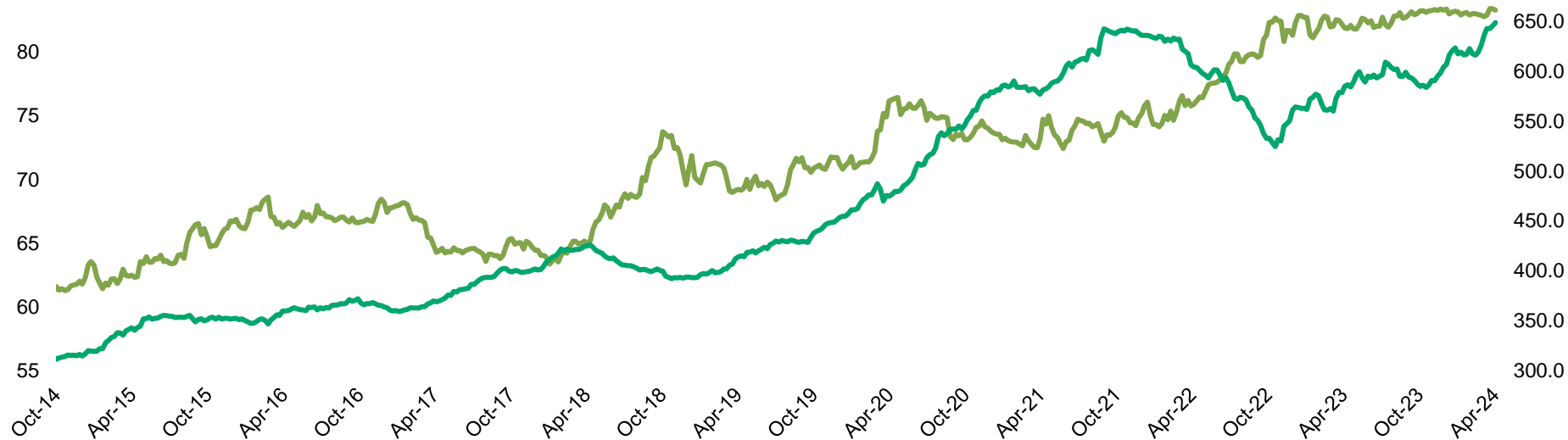
Source: Bloomberg, Data as on 12.04.2024

India FX Reserves and Currency

FX-INR

— USD INR — FX Reserves

Any sharp volatility in INR has led to RBI's intervention in the FX market supported by robust FX reserves.



- India's FX reserves have touched a whopping 645 USD billion, which is equivalent to ~12 months of import cover.
- India's foreign exchange reserves increased by US\$ 63.8 billion, which is one of the highest among major foreign exchange reserves holding countries.
- USD INR depreciated to 83.3 levels led by weak Asian currencies against a strengthening dollar index.

Economic Variable and Impact on Yields

Economic Variable	Our View	Impact on yields
Growth	Rural economy remains a fragile spot in India's overall robust growth outlook. Indicators like tractor sales, consumer nondurable highlight some stress in the rural economy.	↔
Inflation	Inflation trajectory looks optimistic, further confidence added by RBI's inflation projection for FY25 at 4.5% y/y.	↓
Domestic Liquidity	Liquidity deficit has turned into surplus post government spending.	↓
Fiscal Health	Lower than expected government borrowing programme 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	Global commodities have shown a pickup in April-2024 arising out of supply cuts, uneven demand outlook and current tensions between Israel and Iran.	↔
Global Monetary Policy Stance	Recent pickup in US economic activity and strong inflation momentum has delayed the onset of rate cuts in US. We expect US fiscal and debt dynamics to be the primary trigger of rate cuts in US.	↔

Fund Positioning going ahead...

❑ Money Market funds Positioning-

- Neutral banking system liquidity - operative rate is at repo vs of msf rate in prev qtr
- Money market yields softened as govt spending added to banking system liquidity and overnight rates avg are near repo rate.
- The neutral to surplus liquidity warrants relatively higher duration in all money market funds

❑ Short to Medium Term Funds -

- We expect we are close to start of the rate cutting cycle with increased banking liquidity to start with.
- Hence, we are increasing our duration of core allocation along with tactical duration calls,
- Maintaining the credit quality and liquidity of the portfolio

❑ Duration Funds –

- We expect we are close to start of the rate cutting cycle with increased banking liquidity to start with.
- Hence, we are increasing our duration of core allocation along with tactical duration calls,
- Potential active/passive flows due to India's inclusion in the JP Morgan GBI-EM and other indices imparting duration comfort
- Softening bias on inflation bodes well towards central banker's rhetoric shifting from inflation to growth.

Past performance may or may not be sustained in future and should not be used as a basis of comparison with other investments. 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.

Fixed Income Outlook

- Global economic activity remains divergent across economies. The divergence is sharp in Advanced economies .
- There is uncertainty regarding US FOMC rate cutting cycle, given elevated inflation and strong growth.
- Current geopolitical tensions have elevated the risks to commodity prices and the duration of shock.
- On the contrary US fiscal dynamics have gotten worse, implying the two fundamentals of economics are on logger heads.
- Amidst this heightened global scenario, India's fundamentals remain strong.
- We get some respite from two factors from global uncertainties and its impact on domestic inflation –
- Firstly, government has actively been managing the shocks to food and fuel prices through fiscal policies,
- Secondly India doesn't have an equal impact of global commodities vis a vis their movement.
- Given the current global dynamics, the bigger trigger for India's yield is expected to come from improving government bond supply demand dynamics post the JP Morgan India Bond inclusion.
- We expect India yields to soften from current levels and any uptick to be an opportunity to invest.

India Yield Curve %



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