MONTHLY MACRO-INSIGHTS

FEB- 2025

Baroda BNP PARIBAS MUTUAL FUND

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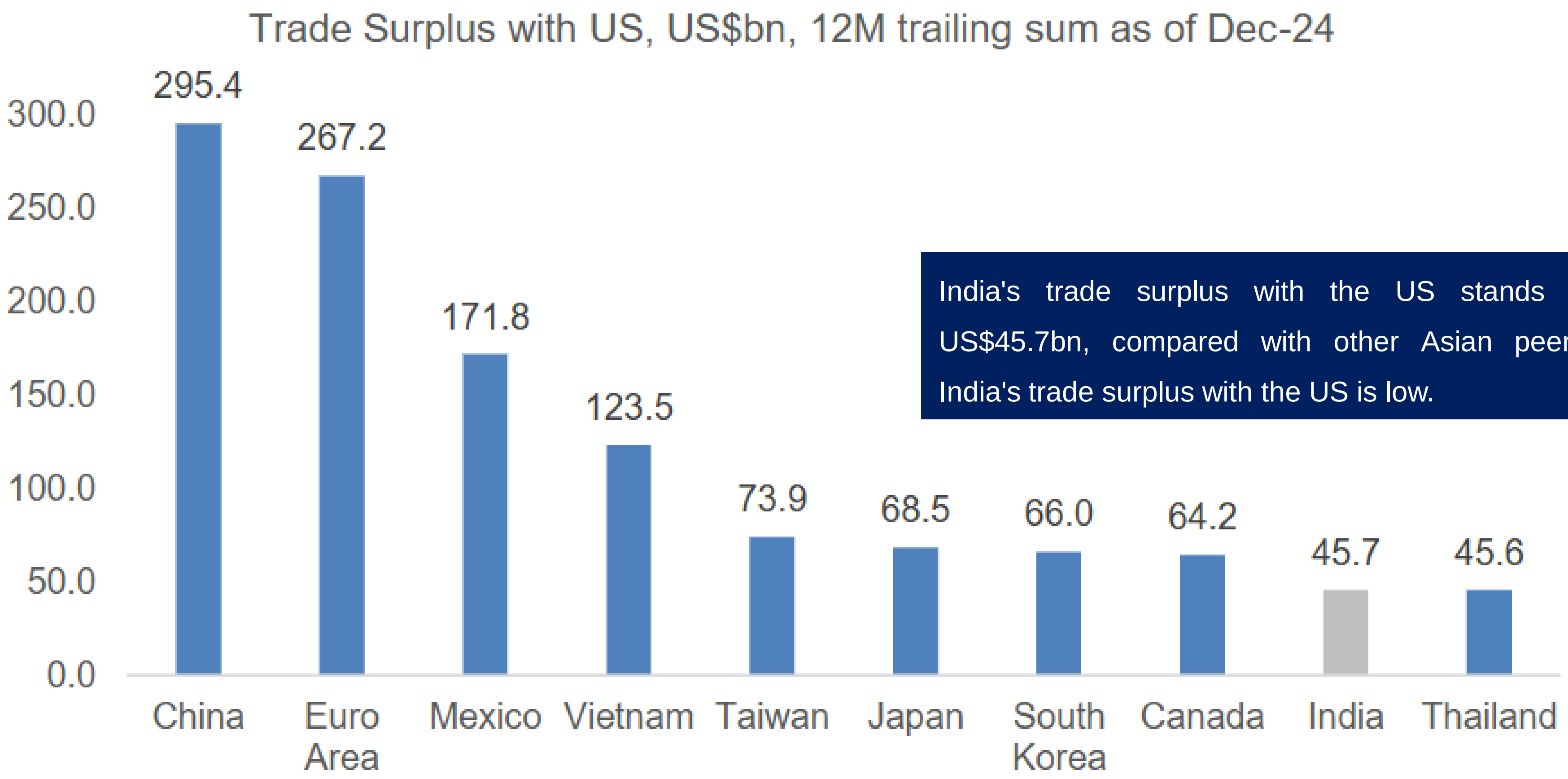
Global Economy

What we cover this month?

- ❑ US – Tariffs and Threats
- ❑ Will dollar continue the strength?
- US Inflation and Dollar Index
- ❑ India – Liquidity, Growth and Inflation
- ❑ RBI – The cut!
- The outlook!

Tariff Threats – Whom does it hurt the most?

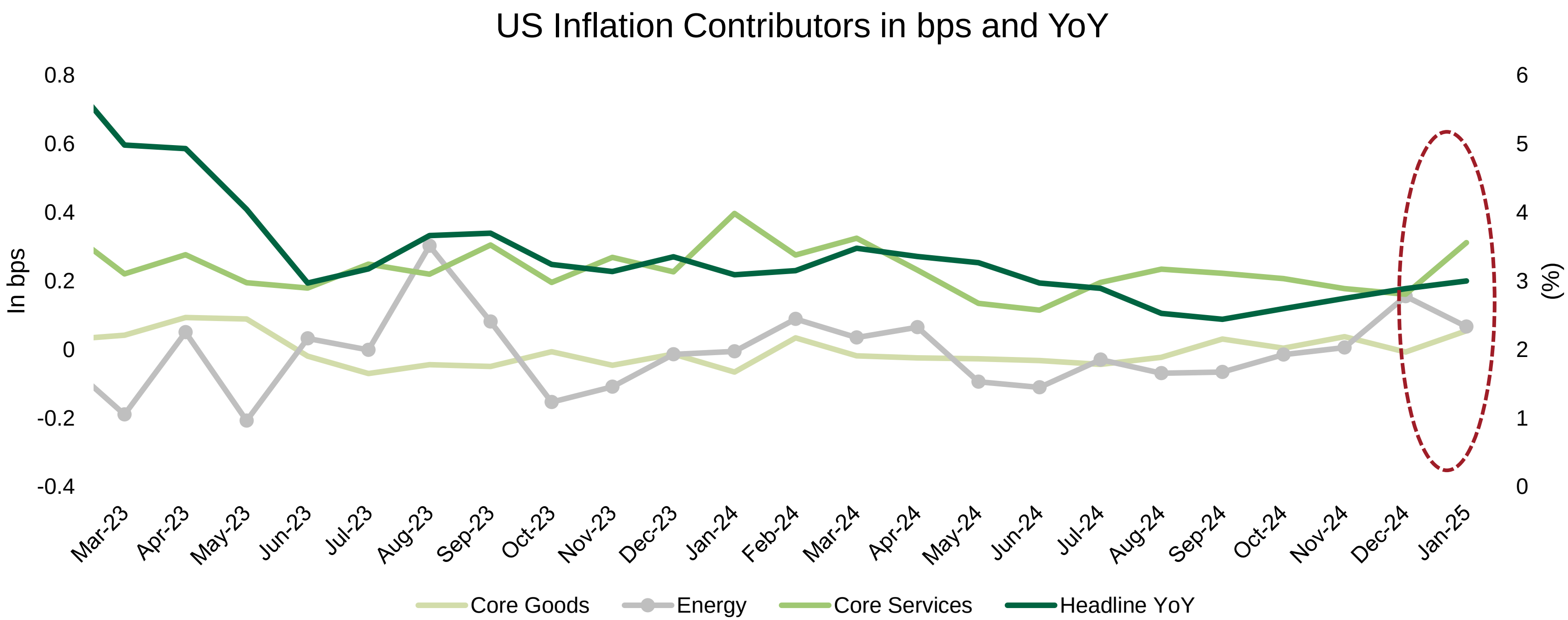
- China and Euro area have the highest trade surplus with US, making them prone to higher sensitivity with tariff threats.



India's trade surplus with the US stands at US$45.7bn, compared with other Asian peers, India's trade surplus with the US is low.

Source: Morgan Stanley, Latest Available data as on 14-02-2025

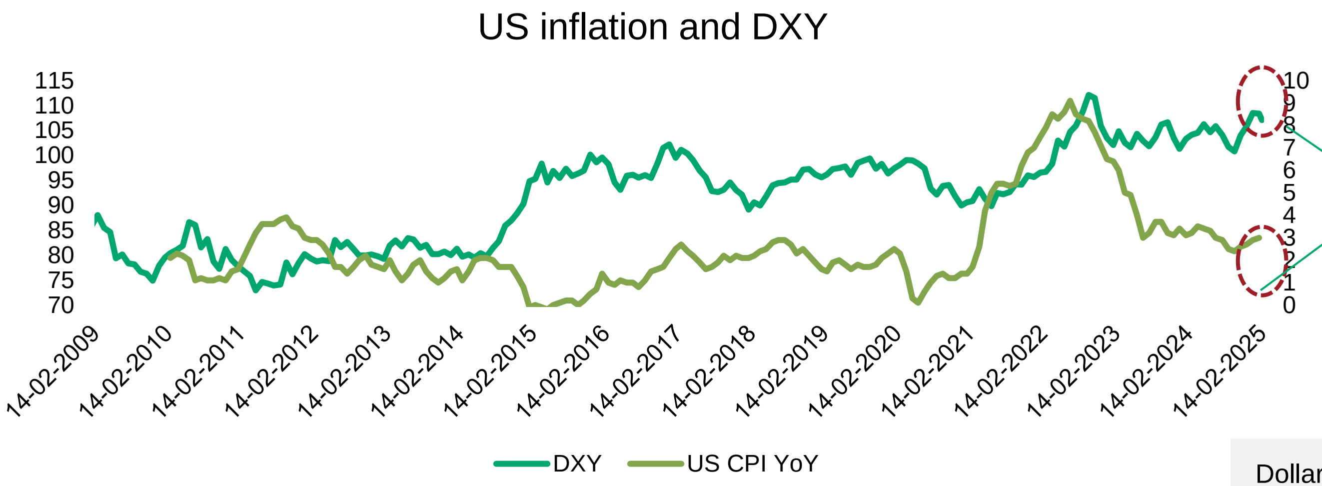
US inflation and Tariffs



- US headline CPI edged up further to 3.0% from 2.9% in Dec'24 steadily rising over the last five months.
- Alongside the m-o-m increase of 0.5%, it is the highest since Aug'23.
- Energy inflation is rising after a decline for five months, which had helped the headline so far.
- Core inflation however remains set at 3.3% (3.2-3.3%) for the last eight months. M-o-m core at 0.4% is the highest in ten months.
- **Going forward, if US imposes tariff hikes will this eventually lead to further rise in inflation in coming months?**

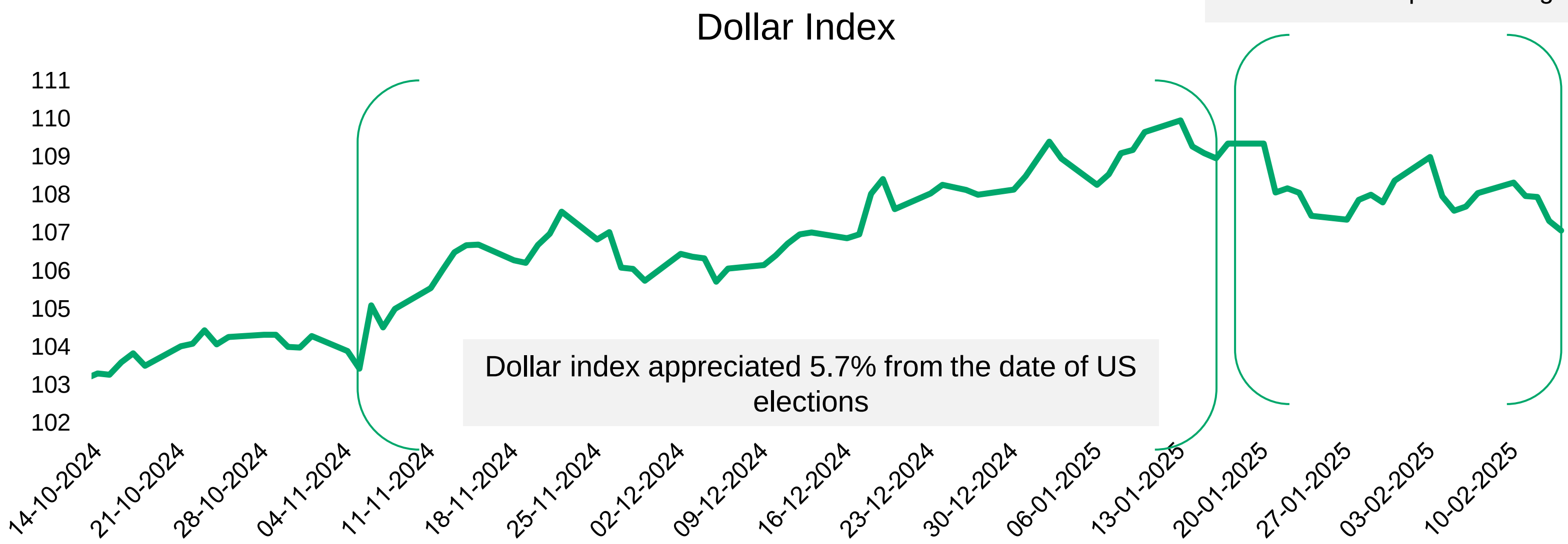
Source – Bloomberg, Data as on 13.02.2025

DXY, Inflation and Trump !



US inflation and dxy movement shows elevated US inflation has led to declining dollar index.

Dollar index depreciated by 2.1% from the date Trump took charge in office



- Both the graphs show a downward bias for Dollar index(DXY).
- We expect DXY to soften further from current levels.

Summary of Events and Our View

- ❑ US Inflation to be a key watch, Why?
- ▪ FOMC rate cutting cycle to proceed cautiously after Trump tariffs threats and implying spillovers on inflation.
- ▪ Quantum of rate cut to come down and even the possibility of no cut if inflation heats up further.
- ❑ EM growth – Economic outlook defined by divergence and currency pressures to remain
- ▪ Uncertainty around the tariff hikes to keep the EM currencies under pressure.
- ▪ 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 eventually –

- ▪ High US Debt calls for a weak dollar
- ▪ US CPI – Signals no drastic tariff hikes safeguards US CPI

The table reflects rate data for 2024

Source: BBNPP Research, Data as on Feb,12, 2025

Domestic Economy

Key Events in Jan-Feb-25

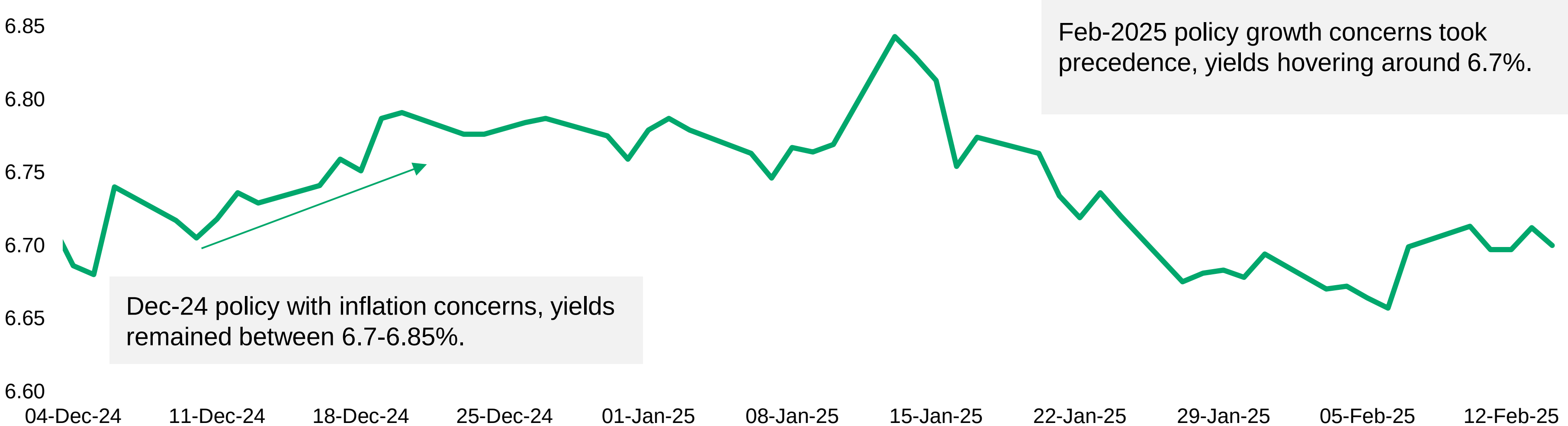
- ❑ Union Budget – 2025-26
- ❑ RBI reduced the repo rate by 25bps to 6.25% from 6.5%.
- ❑ US tariffs threats looms global economy.
- ❑ US FOMC meeting delivered a pause after the uncertainty around US inflation and US tariffs.
- ❑ USD/INR depreciated to a new low of 87.96 led by global headwinds.
- ❑ RBI cumulative OMO purchases have been around Rs. 60,000 crores since Jan-25.
- ❑ India's 10-year benchmark yield in the face of global headwinds has remained resilient, hovering in the range of 6.7% - 6.75%.
- ❑ India Inflation has softened further to 4.3% in Jan-25 led by declining food prices.

RBI MPC Feb-2025 – Growth takes precedence!

RBI Forecast	FY25 E	FY26 E
CPI Inflation	4.8%	4.2%
GDP Growth	6.4%	6.7%
FY26 E	**GDP Growth**	**CPI Inflation**
Q1	6.7%	4.5%
Q2	7%	4%
Q3	6.5%	3.8%
Q4	6.5%	4.2%

- RBI monetary policy committee (MPC) after a span of 5 years unanimously **delivered a rate cut of 25bps.**
- Tone of the policy was dovish with Economic Growth to have taken precedence over inflation.
- Currency concerns were evident in this monetary policy.
- RBIs commitment to provide sufficient liquidity to the banking system was re iterated and was encouraging.

India 10 year benchmark yield %



Source – Bloomberg, Data as on 12.02.2025

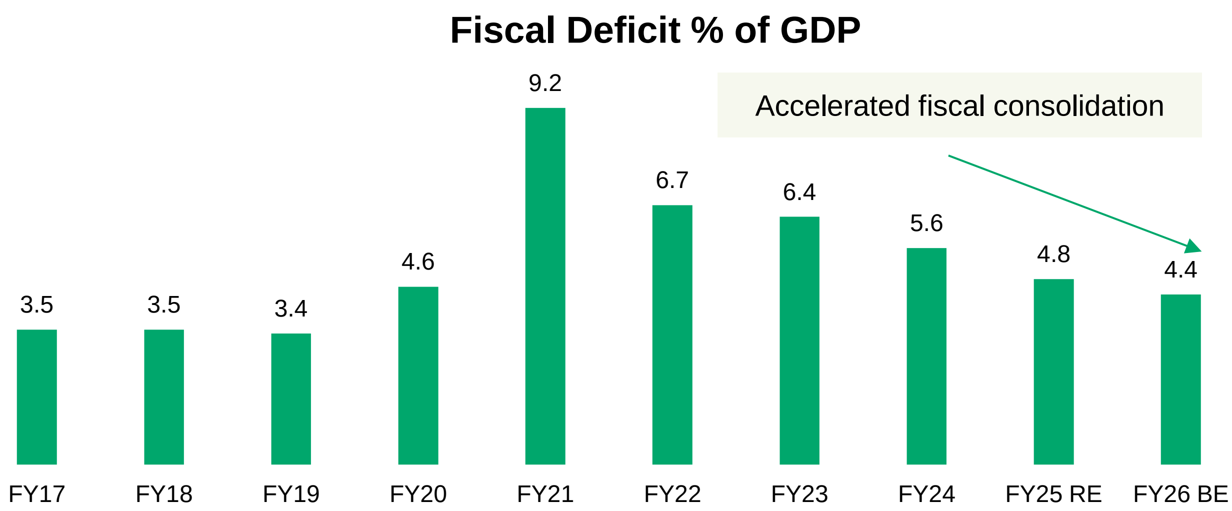
Union Budget 2025-26

A Budget inclusive of growth while maintaining fiscal discipline.

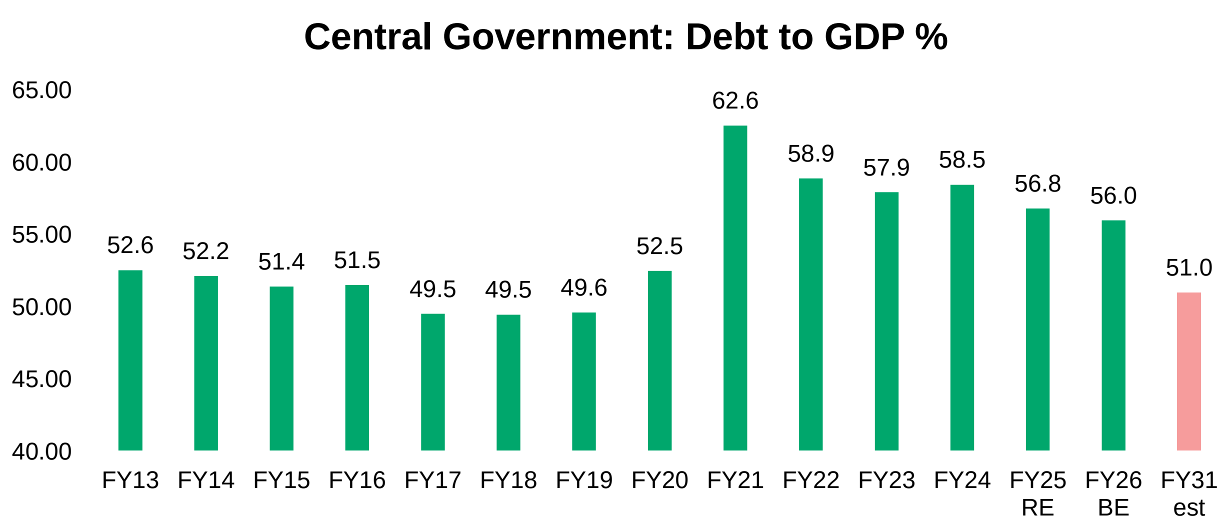
Union Budget 2025-26: Key Takeaways

- **Changes to Income Tax**: More money in the hands of the middle class
- **Fiscal Consolidation**: A Balance of Growth and Discipline
- **Capital Expenditure**: Support Continues
- **Revenue Projections:** Achievable, Credible Projections

Budget FY26: The path to fiscal consolidation continues….



- The government targets to lower the government debt to GDP ratio from 57% now to 51% by FY31, which implies fiscal deficit would decline to ~3.5-3.6% by FY31.

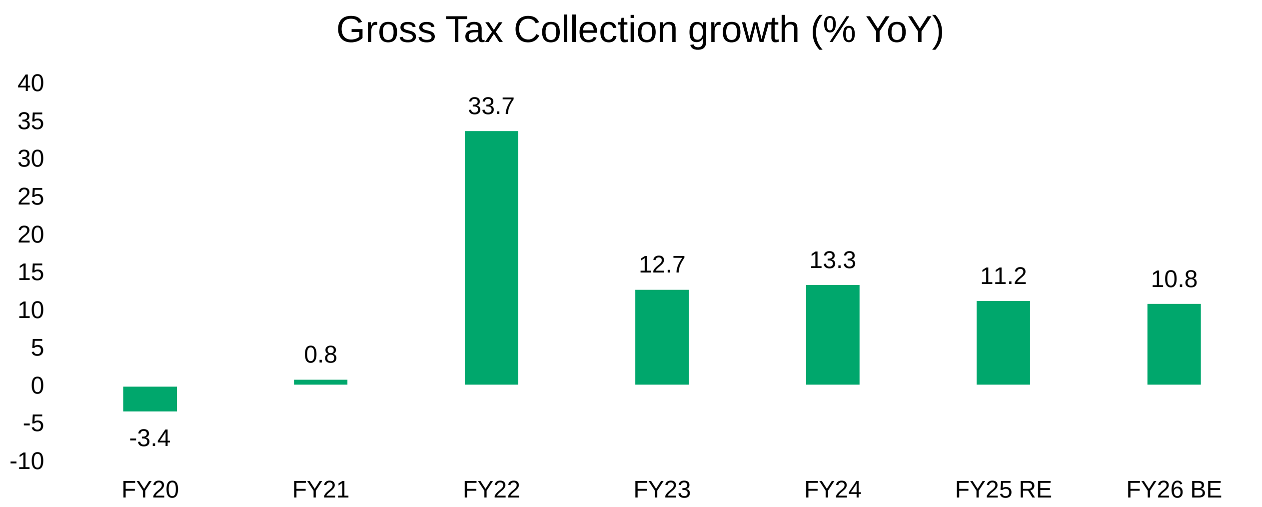


- The centre's debt to GDP ratio is projected to maintain its ~1ppt reduction path over the next 5 years.

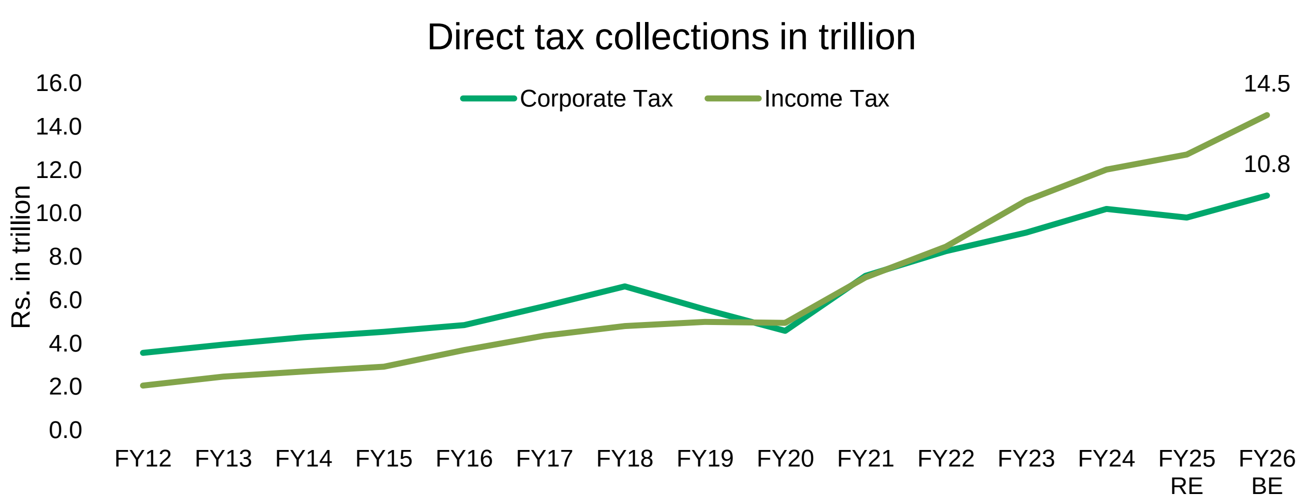
Source: Union Budget 2025-26 documents

Budget FY26: Revenue estimates achievable….

- Overall tax collection growth estimates are in line with nominal GDP growth and any large miss is unlikely.



- After foregoing ~Rs. 1 trn. through tax exemptions, income tax collection is estimated at Rs. 14 trn. , a growth rate of 14% from FY25 RE.

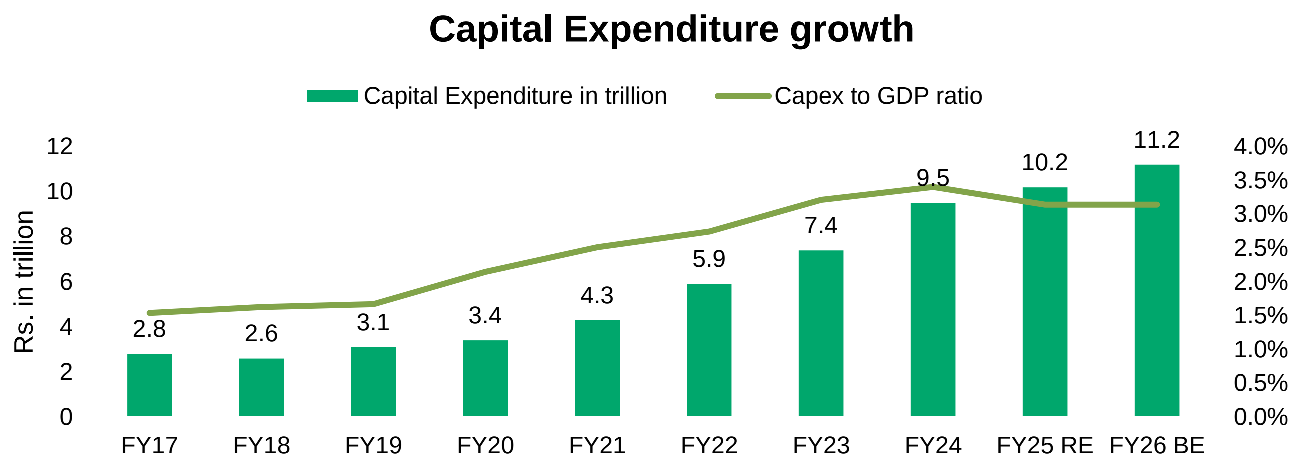


Source: Union Budget 2025-26 documents

Budget FY26: Capex push through states and ministries…

- Capex to GDP ratio doubled over FY20-24 and is now being maintained at those levels.

- FY26 Union budget saw greater allocation to states, housing and defense.

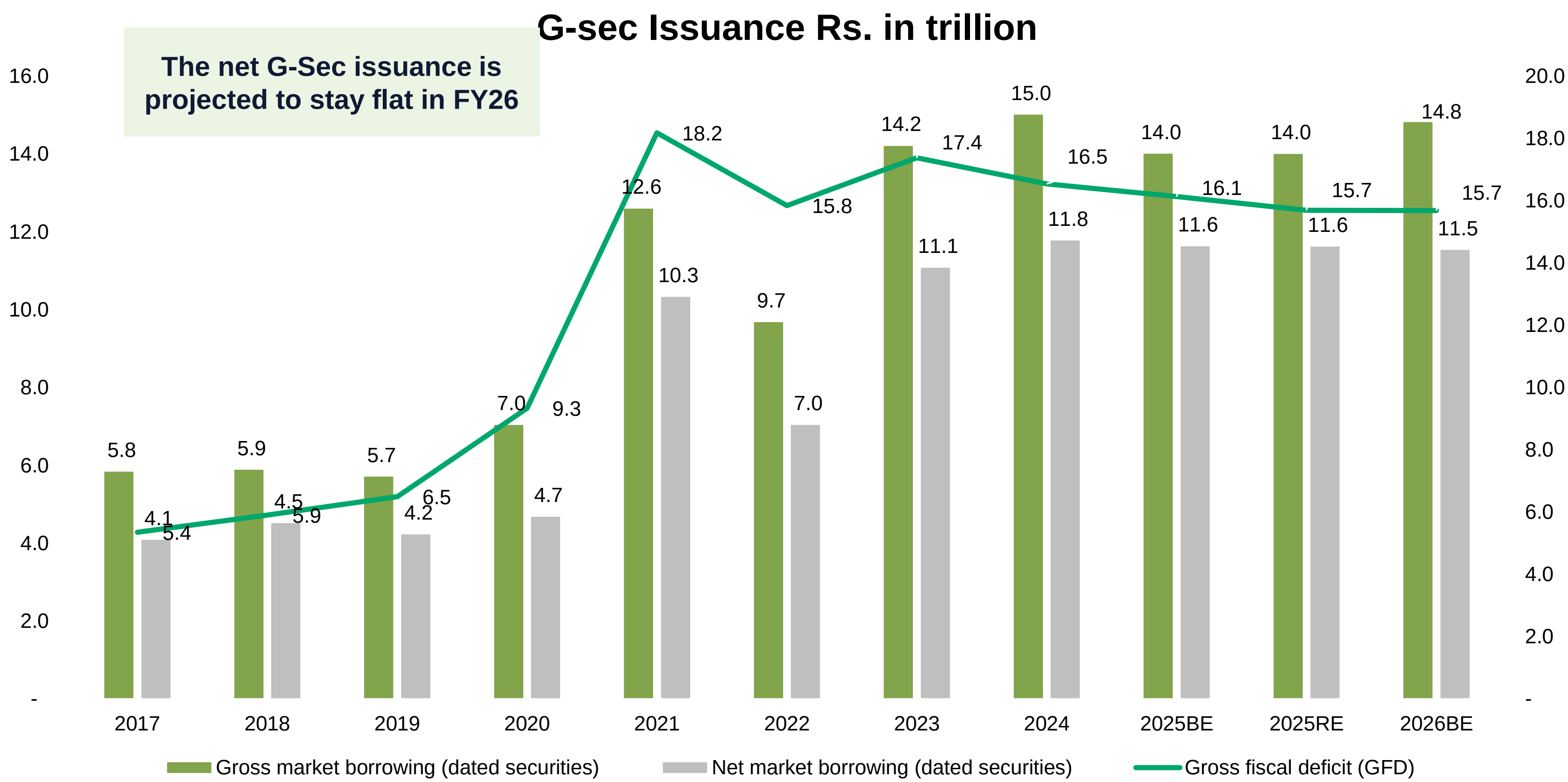


Ministry wise expenditure Rs. in bn.	FY25 RE	FY26 BE	% Change
Road Transport and Highways	2,725	2,722	0%
Railways	2,520	2,520	0%
Defence	**1,705**	**1,924**	**13%**
States	**1,394**	**1,706**	**22%**
Communications	42	190	352%
Housing and Urban Affairs	316	376	19%
Atomic Energy	125	120	-4%
Petroleum	3	66	2100%
BSNL Infusion	720	338	-53%
Finance	187	509	172%
Others	447	740	66%
Total	**10,184**	**11,211**	**10%**

Source: Union Budget 2025-26 documents

Budget FY26: Market Borrowing remains flat….

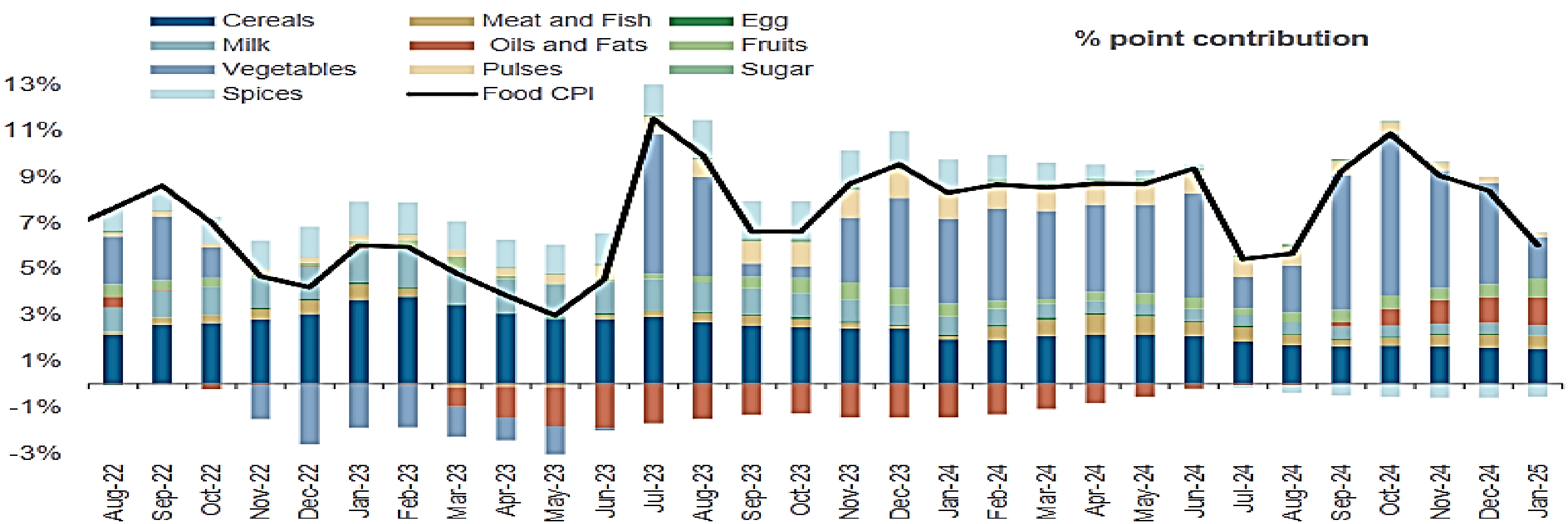
The net G-Sec issuance is projected to stay flat in FY26



Source: Union Budget 2025-26 documents

Domestic Inflation – Receding food shock!

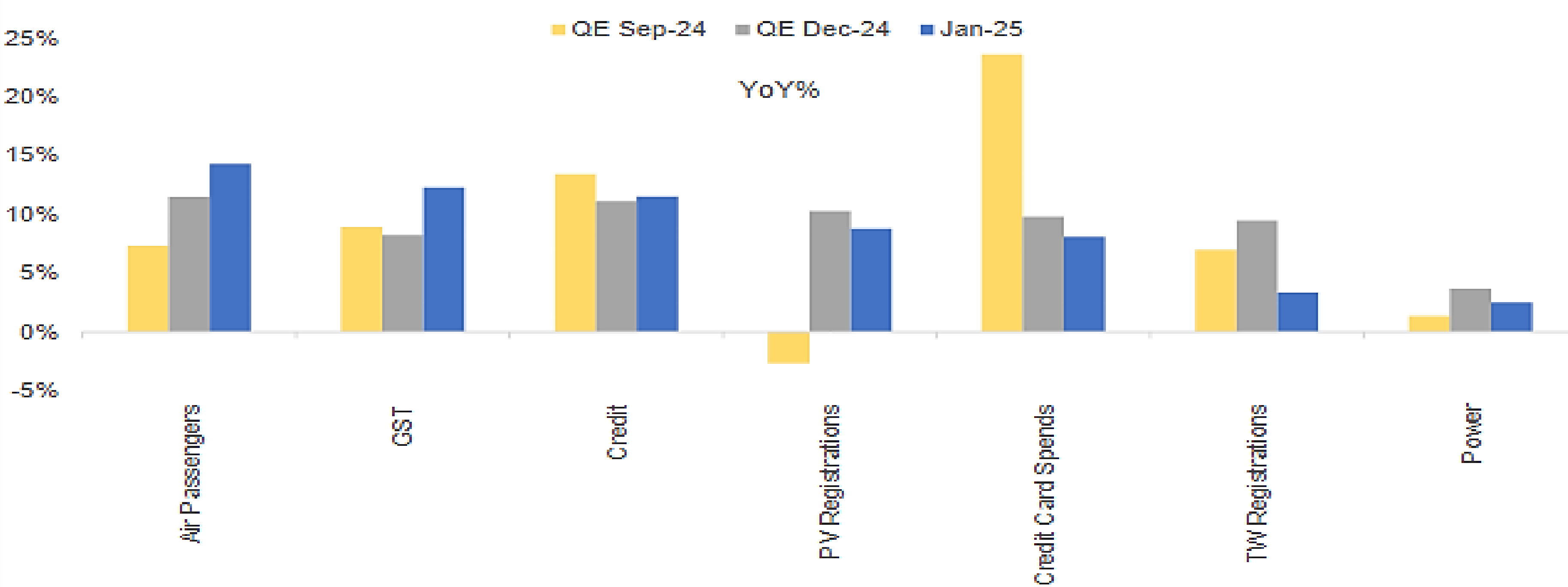
Vegetable inflation bringing the headline down!



- India CPI Inflation in January-25 declined to 4.31% y/y vs 5.2% in December-24 and lower than market expectations of 4.5%.
- The decline was led by sharp fall in vegetable prices and a favorable base effect.
- Core inflation inched higher, led by an increase in gold and silver prices.
- Headline inflation has softened to 4.3% in January-25 led by favourable base effect and sharper decline in vegetable prices.
- The estimate for February CPI inflation is tracking around 4.1%, after account for continued decline in food prices.
- The policy space to cut interest rate is supported by easing in inflation pressures more than weakness in growth.

Source: Bloomberg, Data as on 12.02.2025

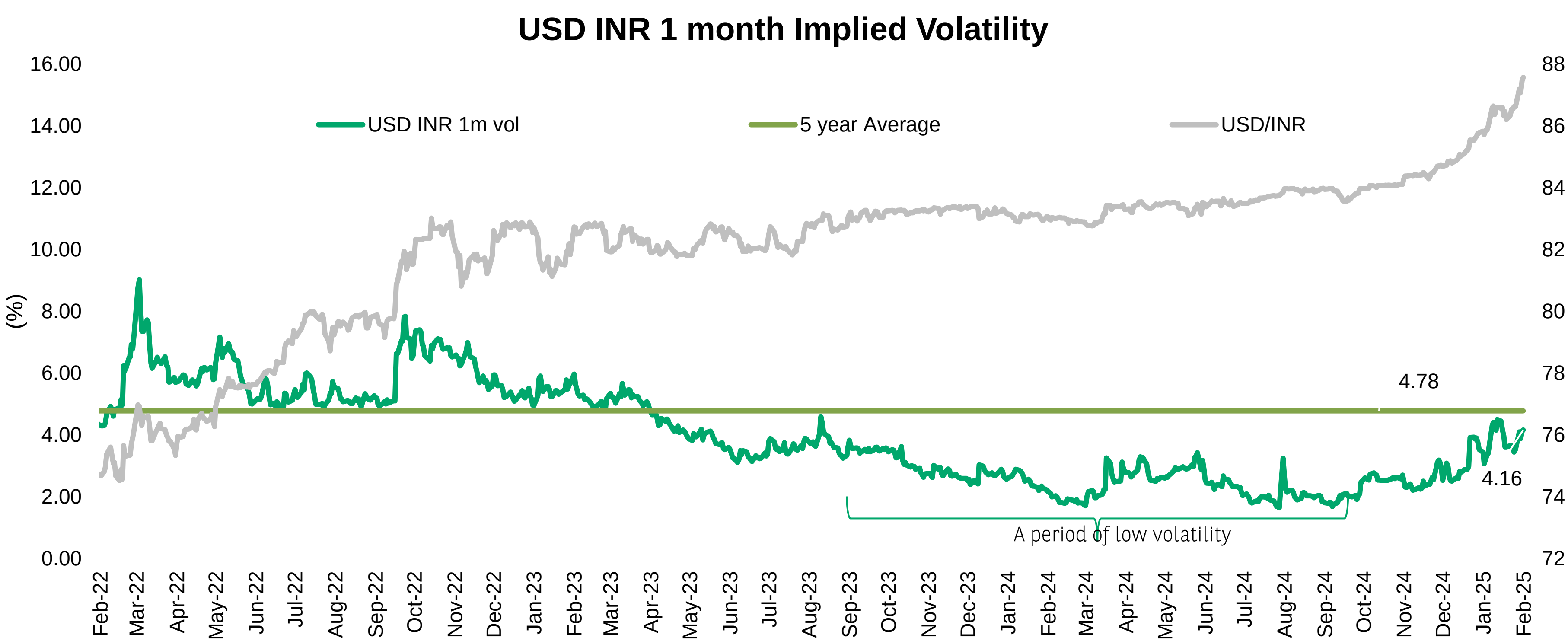
Growth Indicators – Uneven weakness



- Domestic indicators give out a mixed picture.
- Services related economic indicators like air passengers etc continue to remain robust.
- Overall GST collection too reflect a robust economic activity.
- But certain pockets of economic activity especially the interest sensitive sectors continue to show weak growth relative to last year.

Source: Morgan Stanley, Latest Available data as on 10-02-2025

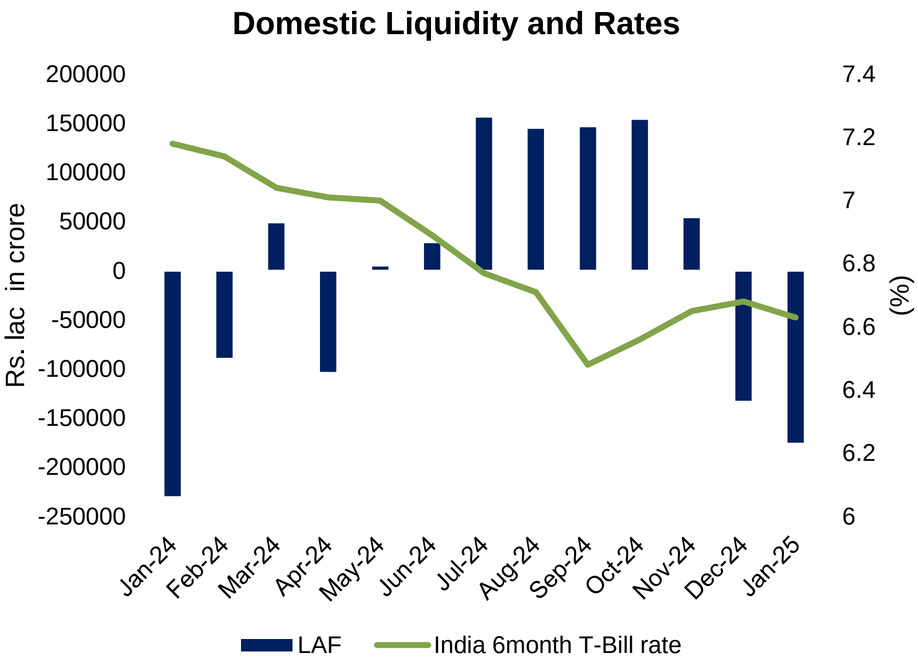
INR- The depreciation continues!

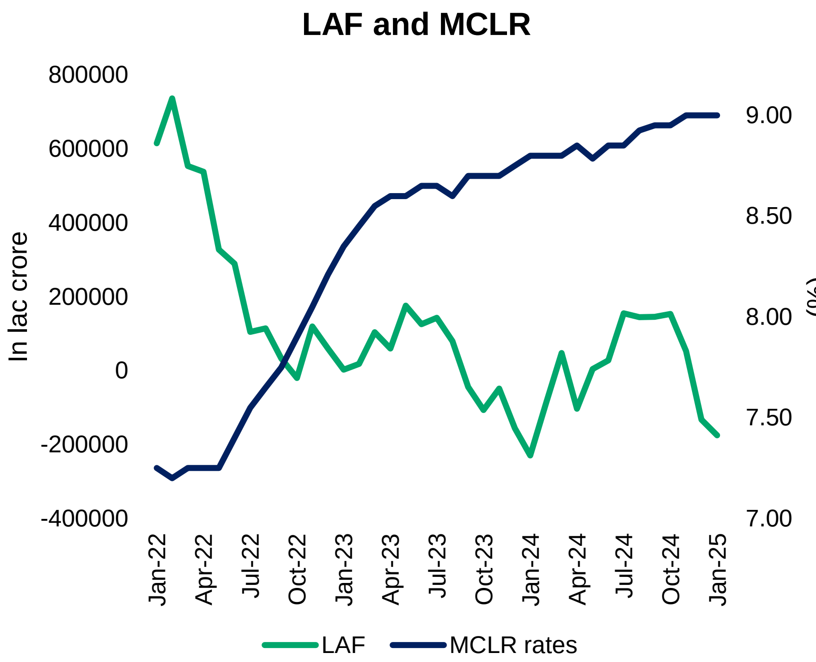


- The USD INR 1-month implied volatility indicates further depreciation in the INR and consequently pressure on Indian rates.
- Recent appreciation of INR, (expected intervention by RBI) was again offset with the continuing depreciation in the currency.

Source – Bloomberg, Data as on 12.02.2025

Liquidity and Rates





- 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 in second week of Feb-25 as compared to ~Rs1.75 tn around Jan-25 end.
- Overnight rates fell by 34 bps to 6.26%, aided by RBI's liquidity easing measures.
- Benchmark rates like MCLR are yet to reflect the current RBI rate cut.

Source: Bloomberg, Latest Available data as on 31-1-2025
LAF- Liquidity Adjustment Facility
MCLR- Marginal Cost of lending rate
VRR- Variable reverse repo

Decoding Yield Signals

Economic Variable	Our View	Impact on yields
Growth	Dent in the growth trajectory in Q2 FY25 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 4.8% Y/Y in FY25.	
Domestic Liquidity	Recent pressure on INR has been negative for liquidity which is expected to be managed by RBI operations.	
Fiscal Health	Lower than expected fiscal deficit is positive for the bond markets.	
RBI Monetary Policy	RBI MPC delivered a rate cut of 25bps, bringing down the repo rate to 6.25%.	
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.	

Source – Internal Research, Data as on 14.02.2025

Source: BBNP Paribas Research

Fixed Income Outlook

- Global monetary policy dynamics have started witnessing bumps in their path to recalibrate the monetary rates.
- **US FOMC's shift in the forward guidance and the recent pickup in inflation must be carefully monitored.**
- Trumps 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.**
- The recent Union Budget FY26 has tried to boost consumption through tax exemptions without foregoing fiscal discipline.
- The overall fiscal math remains credible in terms of tax collection.
- **When an economy takes measures to boost economy with out upsetting the debt discipline, it aligns with an optimistic debt market outlook in the long term.**
- Having said that external headwinds continue weigh on INR which will have spillovers over domestic liquidity.
- **Recent moves by RBI give us confidence that liquidity will be managed in spirit of the stance.**
- We expect RBI to use different methods of liquidity management to offset any major set back from global headwinds.
- Having said that, the fundamentals of India's fiscal demand supply remain balanced and that is expected to maintain a downside bias on yields.

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

Source – Bloomberg, RBI, Data as on 14.02.2025

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