

# MONTHLY MACRO-INSIGHTS

MARCH- 2025



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# Global Economy

# What we cover this month?

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❑ Will dollar continue the strength?

US Economic Indicators – Signs of Slowing Growth?

❑ India – Liquidity, Growth and Inflation

❑ RBI Rates and Liquidity

Outlook!

# Dollar index decline and US growth signs.....Is it a sign of worry ?

Dollar Index



- The dollar index has declined by ~4%, as trade uncertainties and mounting economic concerns in the US weighed on the currency.

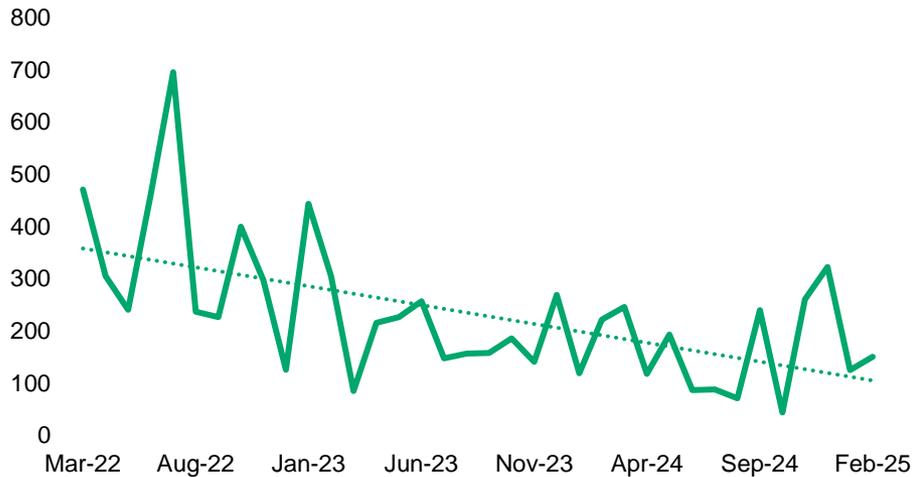
- Japanese yen appreciated by ~1.2% on month to date basis in March and is hovering closer to a month high.
- A rising interest rate outlook by Bank of Japan has remained supportive of yen.
- Euro appreciated by ~5% month to date as
- Germany had agreed on a debt overhaul and a significant increase in state spending.

Versus the dollar

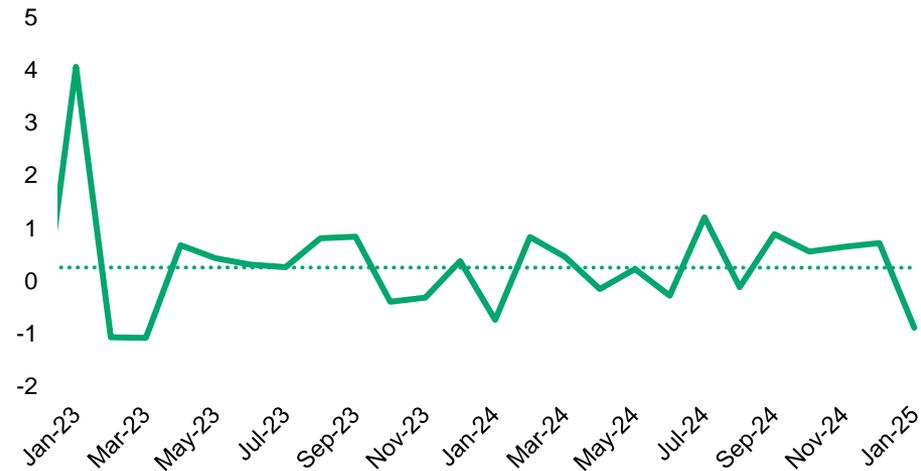


# US Economic indicators – Is the economy feeling the heat!

## US Non farm payroll – MoM Change



## Retail Sales



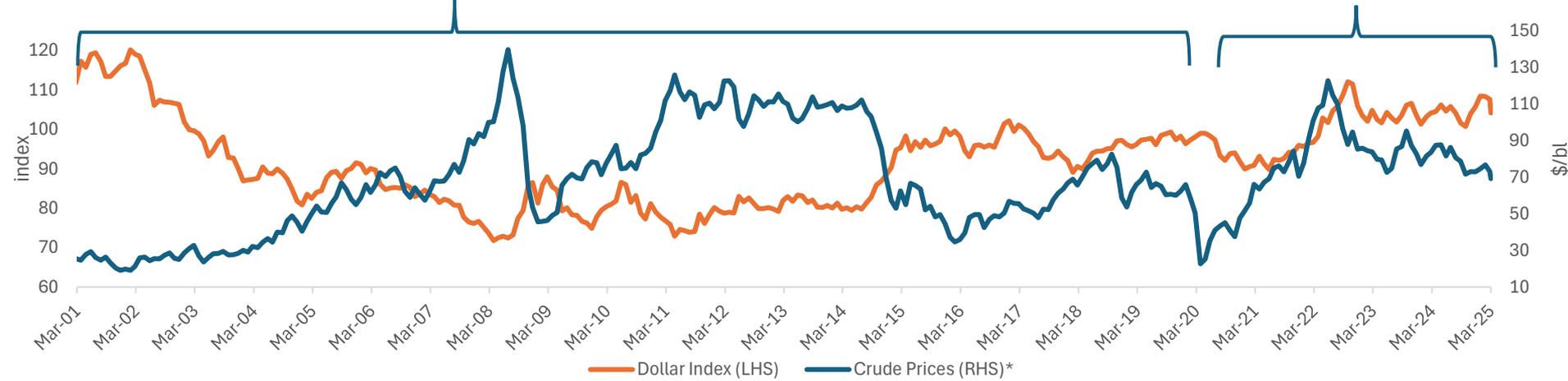
- US retail sales contracted by 0.9% m/m in Jan-25. It is the sharpest decline since March-2023.
- US non farm payroll month has seen a slow decay in the monthly job change.
- The crackdown on immigration may lead to a much sharper-than-expected downturn non farm payroll growth in 2025.

# Brent, Gold and Dollar - Broken Correlation

## Dollar and Brent

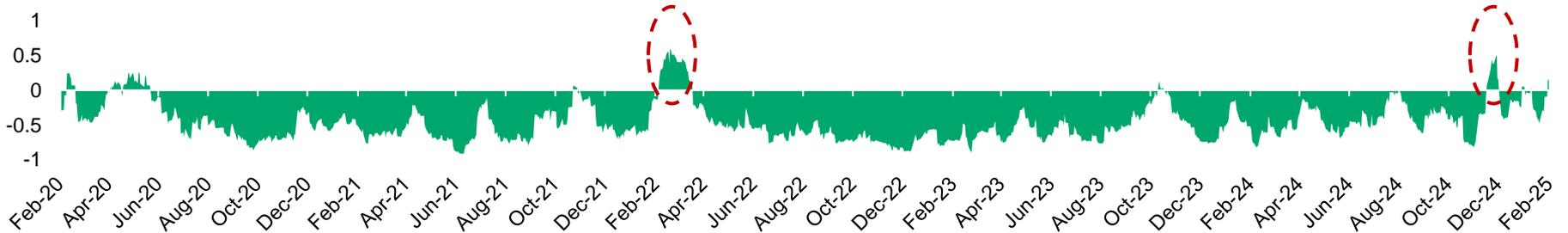
Correlation between dollar index and Brent from March 2001-2020 is -0.8.

Correlation between dollar index and Brent from Mar-2020-2025 is 0.5



Is the new world order changing? Is the new world order (fluctuating geopolitical dynamics) seen in changing historical correlation in gold/brent and dollar?

## Correlation - Gold and DXY



# 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

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# Domestic Economy

# Key Events in Feb- March-25

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- ❑ 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.
- ❑ RBI cumulative OMO purchases have been around INR 2 trillion 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 3.6% in Feb-25 led by declining food prices.

# Three pillars to help support growth!

## Rates

- RBI in the Feb-25 MPC meeting reduced the repo rate by 25bps.
- The policy has seen a shift of focus to domestic growth from inflation.
- RBI's growth projection depicts the concerns on growth to have seeped in the GDP projections which is now estimated at 6.4% from earlier estimations of 7.2%.

## Liquidity Measures

- RBI in order to support the domestic liquidity and reduce the deficit has given various liquidity measures like OMO purchases (~2 lac crore till date starting from Jan-25).
- RBI has also supported domestic liquidity through FX swap operations.

## Regulatory easing

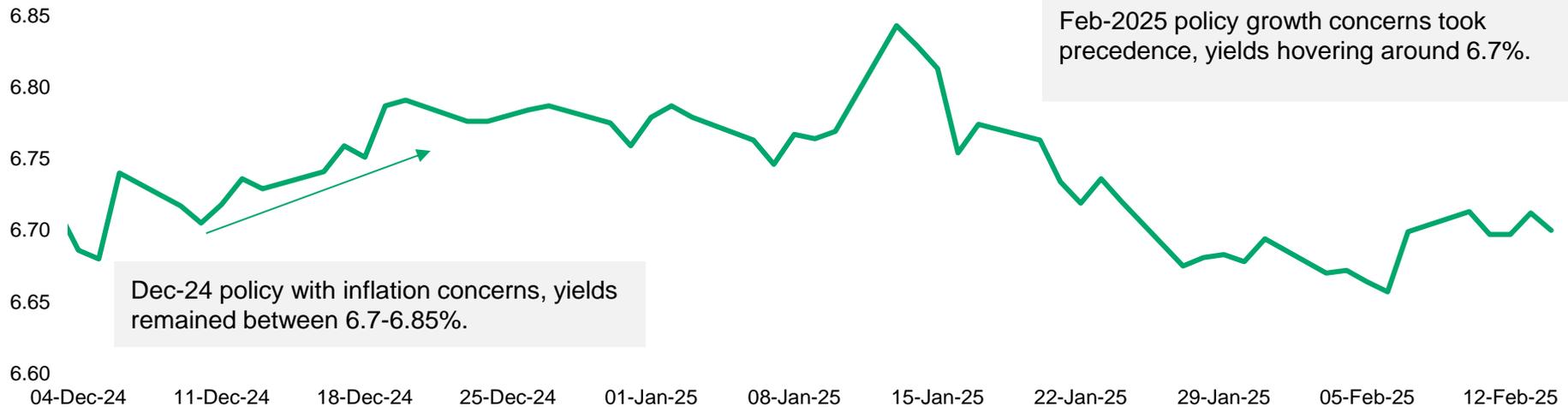
- RBI has already begun to ease the earlier laid restrictions, with the recent roll back of the risk weights on bank credit to NBFC sector.

# RBI MPC Feb-2025 – Growth takes precedence!

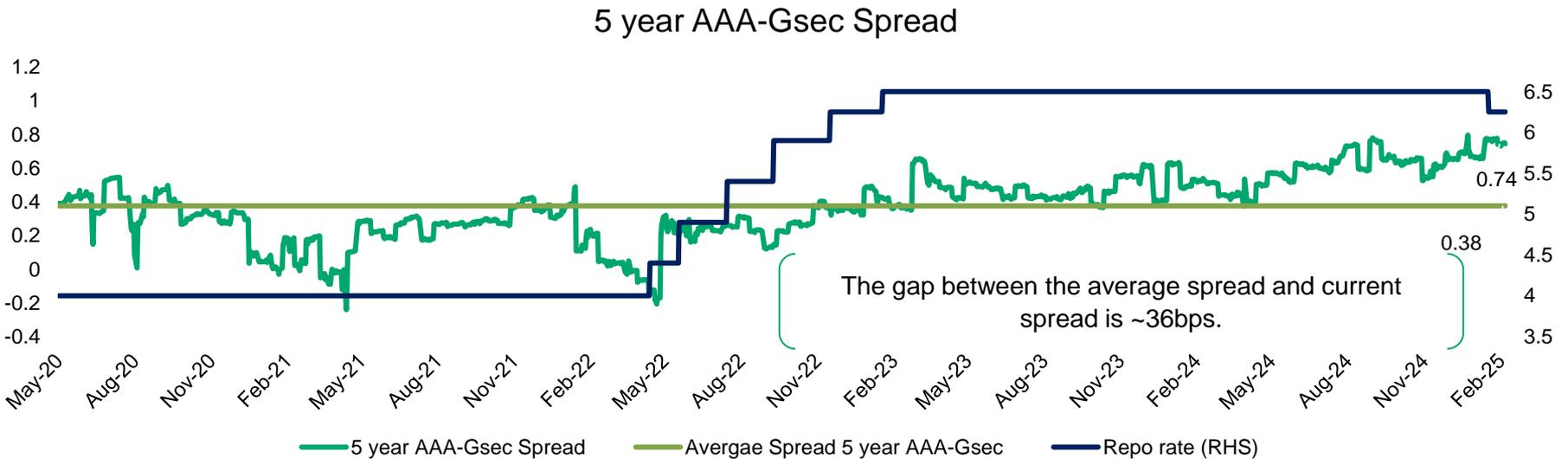
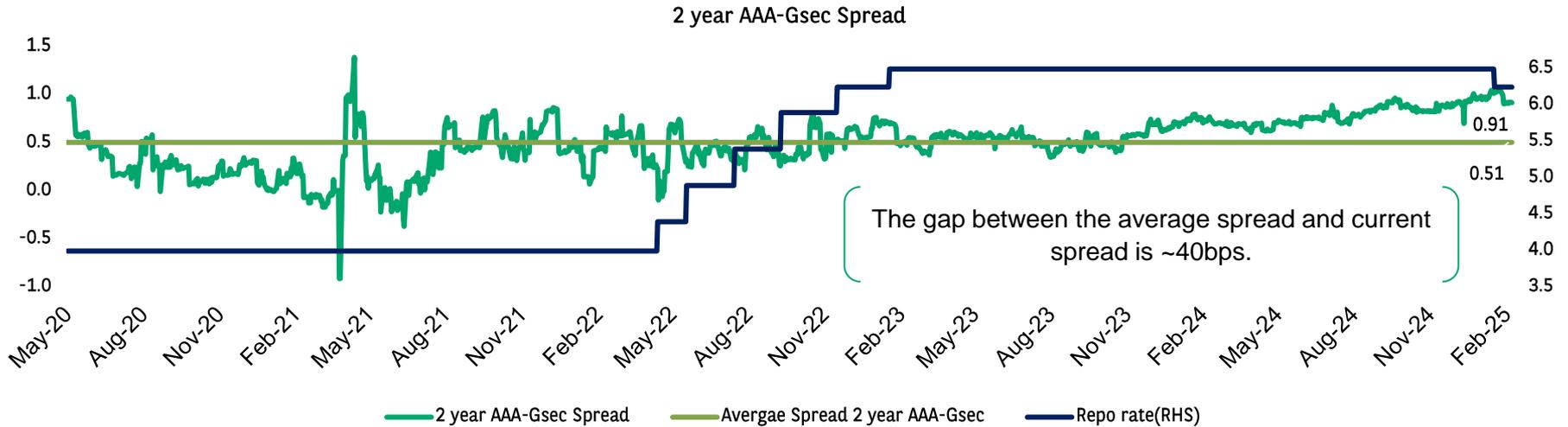
RBI Forecast	FY25 E	FY26 E
CPI Inflation	4.8%	4.2%
GDP Growth	6.4%	6.7%
FY26 E	GDP Growth	CPI Inflation
Q1	6.7%	4.5%
Q2	7%	4%
Q3	6.5%	3.8%
Q4	6.5%	4.2%

- 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.
- RBI's commitment to provide sufficient liquidity to the banking system was reiterated and was encouraging.

## India 10 year benchmark yield %



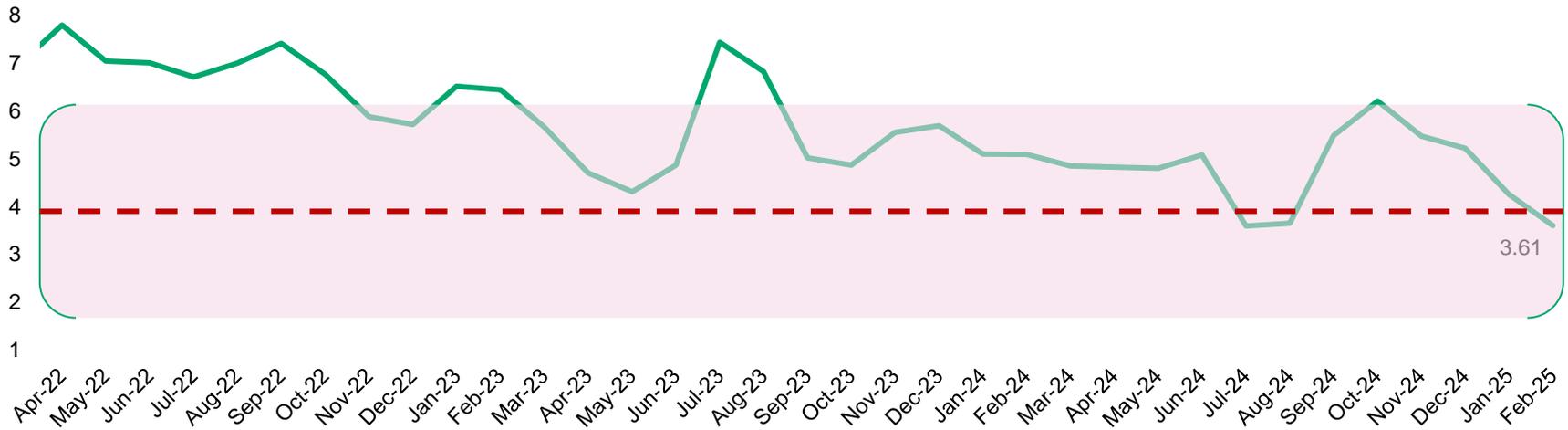
# A rate cutting cycle with potential spread opportunity



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

# Domestic Inflation

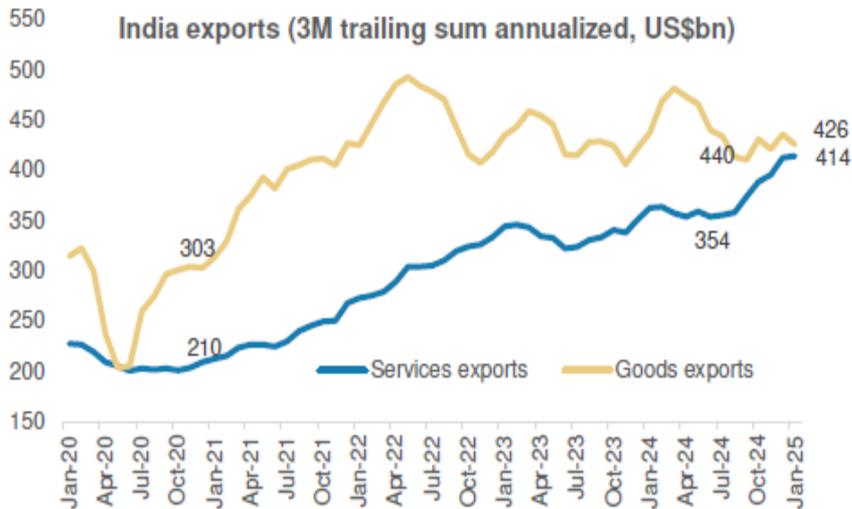
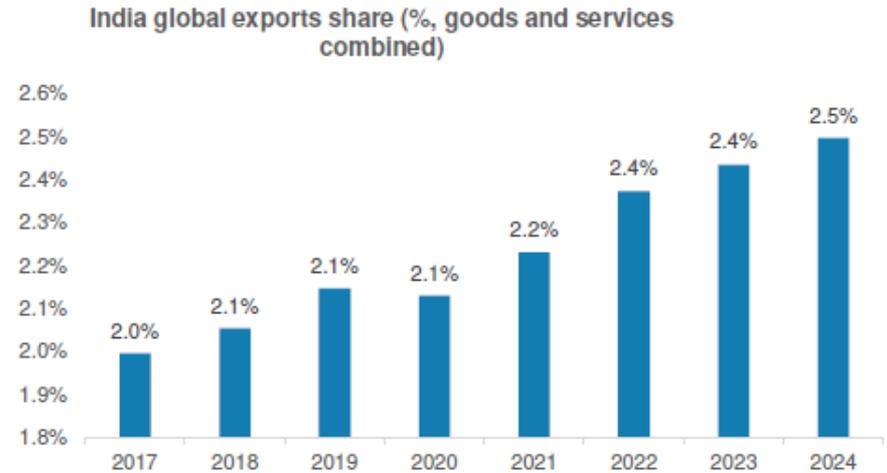
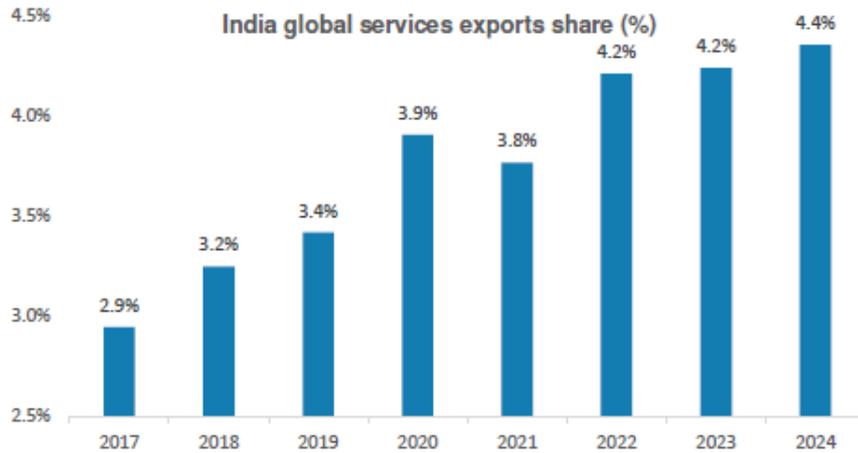
Headline CPI YoY%



- Headline inflation has softened to 3.61% y/y in February-25 led by a continued decline in vegetable prices.
- The decline was also supported by a decrease in other food items.
- The estimate for March CPI inflation is tracking around 3.8%, after accounting for the continued decline in food prices in March-25 as well.
- The daily food price data by the department of consumer affairs indicates further decline in vegetable, eggs, cereals, and pulses prices in first two weeks of March-25. The policy space to cut interest rate is supported by easing in inflation.

Source: Bloomberg, Data as on March,12, 2025

# India Growing Services Exports

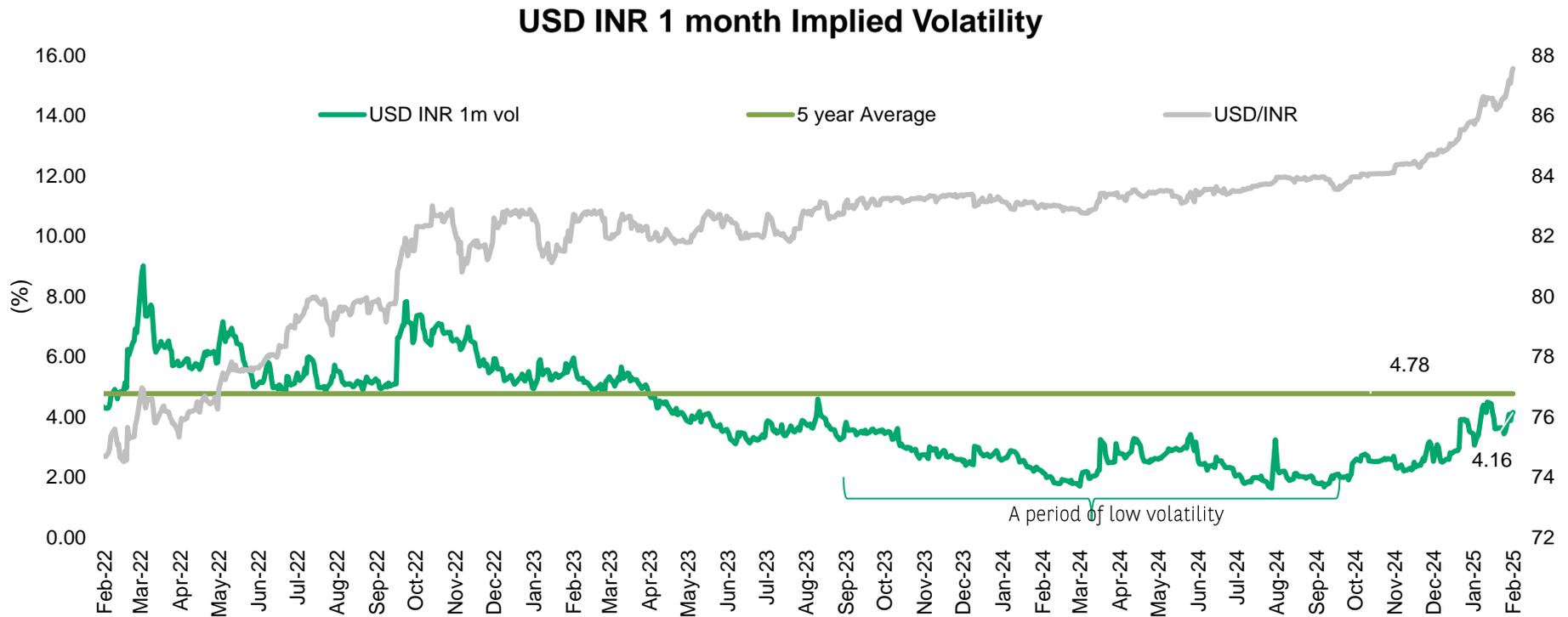


- India's services exports have now close to doubled since 2020.
- More importantly, India has also continued to gain services export market share, with its share now rising from 3.9% in 2020 to 4.4% in 2024.

Source: Morgan Stanley Research, Data as on March,12, 2025

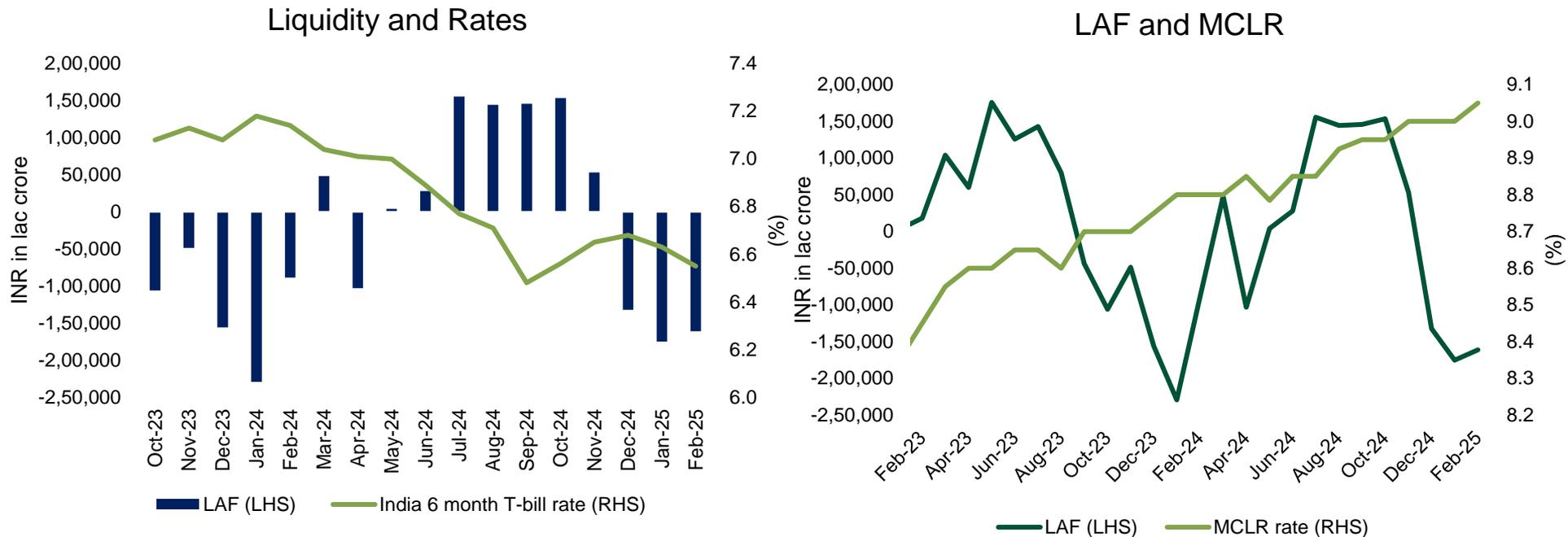
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# INR- The depreciation continues!



- 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.

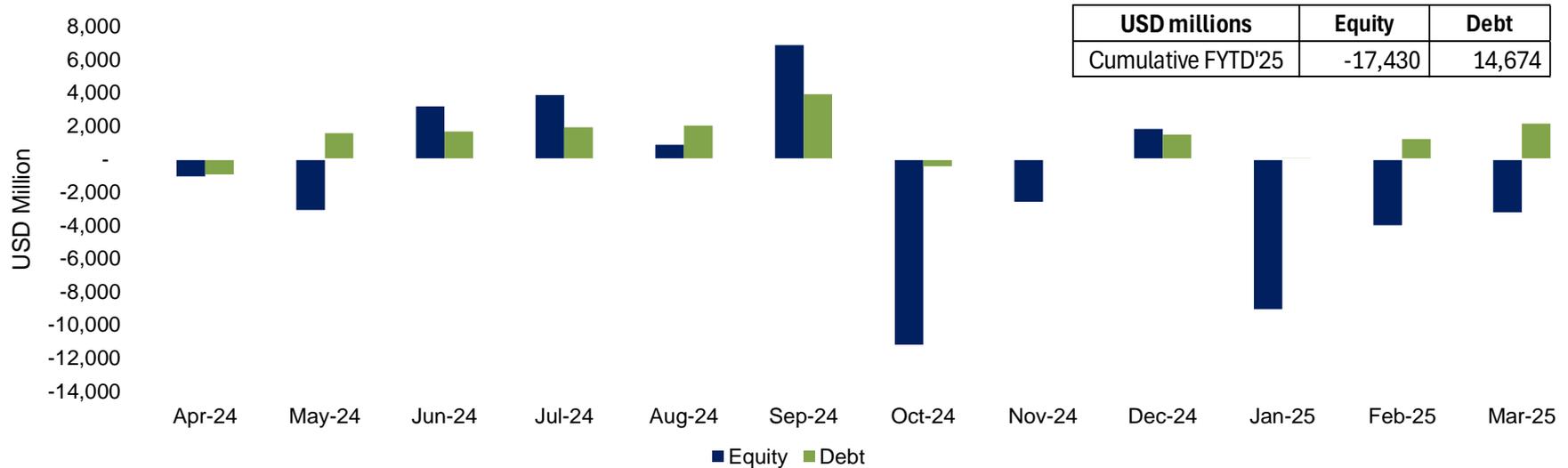
# Liquidity and Rates



- 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.
- Net LAF deficit eased to Rs1.6 trn at the end of Feb-2025.
- India benchmark T-bill rates following the deficit declined to 6.55%.
- Benchmark rates like MCLR are yet to reflect the current RBI rate cut.

# India FPI Flows – Equities outflows declined; Bonds remained attractive

Foreign flows remain supportive of domestic bond markets



- India has witnessed a decline in the net FPI outflows from the equity markets. Whereas India's Fixed Income markets continue to witness inflows.

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

# 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.	↓

# 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.**
- 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.**
- 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.
- 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 already elevated and attractive and a rate cut going forward may compress the current spreads.
- **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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