MONTHLY MACRO-INSIGHTS

NOVEMBER 2024

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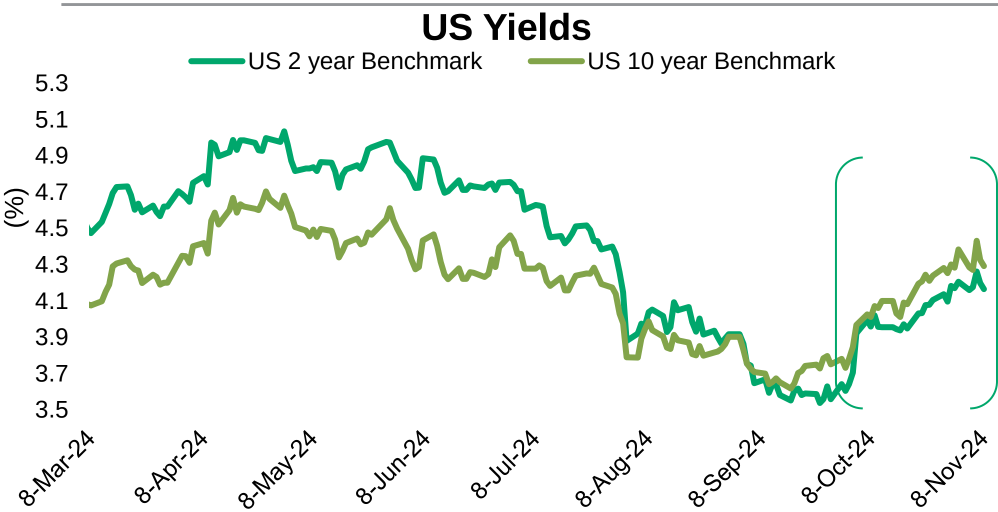
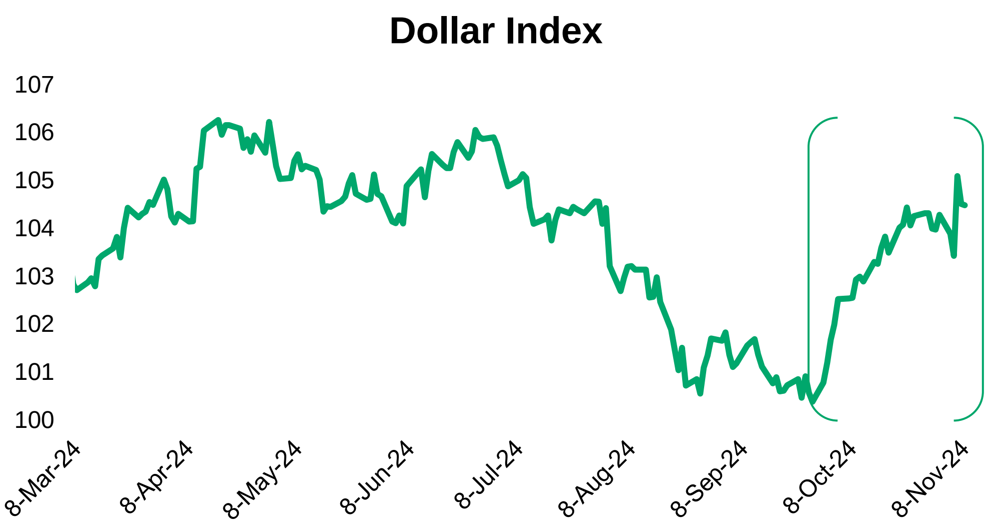
Global Economy

US economy has shown more positive signs from the Sept'24 meeting, FED in its Nov'24 Policy went ahead with a cut…..Why?





- FOMC delivered another rate cut in November policy but slowed the pace of cut from 50bps to 25bps.
- The tone of the policy was slightly hawkish with description of the economy to be strong, and inflation as having been slightly stronger than expected.
- Irrespective of the uncertainty from Trump's fiscal and trade policy, FED has avoided any policy error and maintained continuity.
- Also, Fed argues for a rate cut citing that policy conditions remain restrictive.
- Currently the rates are higher than during the Sep'24 policy led by stronger US data, fear of return of inflation.
- Dollar index continues its strength with marginal decline post FED policy.
- We expect Fed to deliver another 25bps rate cut in Dec'24 and will be watchful of economic data and policies meeting by meeting.

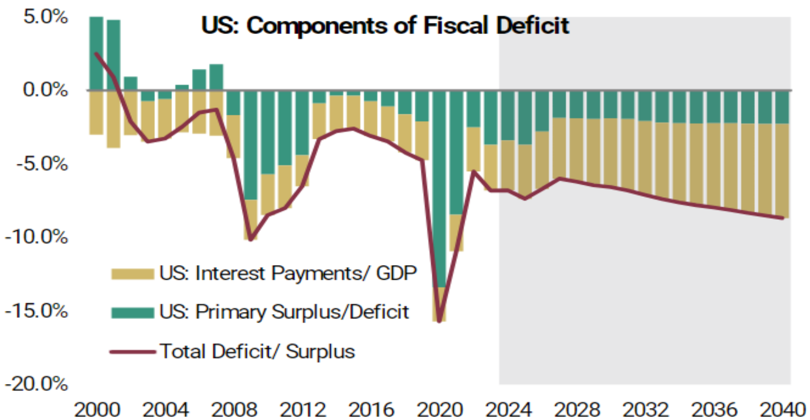
Source: Bloomberg, FOMC, data as on 08.11.2024

Trump wins the 2024 Presidential elections, the fear of unleashing of disrupting trade and fiscal policies……

Policy Action		Economic Impact					
		Headline PCE prices	Real Consumer Spending	Real Investment	Real Exports	Real Imports	Real GDP
Trump Trade Proposal	60% incremental tariff on Chinese imports and blanket 10% tariff on all other imports to the US	0.9%	-3.0%	-3.1%	-1.7%	-9.4%	-1.4%

- Above estimates reflect a faster response in prices and a drag in US real economic activity.
- Under such circumstance it becomes tricky for FED to continue with an interest rate cutting cycle.
- If implemented the fear of rising rates and additional fiscal burden through interest components adds to a dual problem for US.

- US interest costs are steadily rising as the cost of debt reprices to the current yield curve.
- Over time, the ratio of interest expense on the debt to GDP will continue to rise
- Therefore, the fiscal consolidation needed to stabilize the debt-to-GDP ratio increases, as well.
- Markets need to assess the credibility of fiscal policy, and the implied scrutiny is expected to increase the interest burden.



Source: Morgan Stanley Research

The uncertainty of Trump policy and depreciating EM currencies?

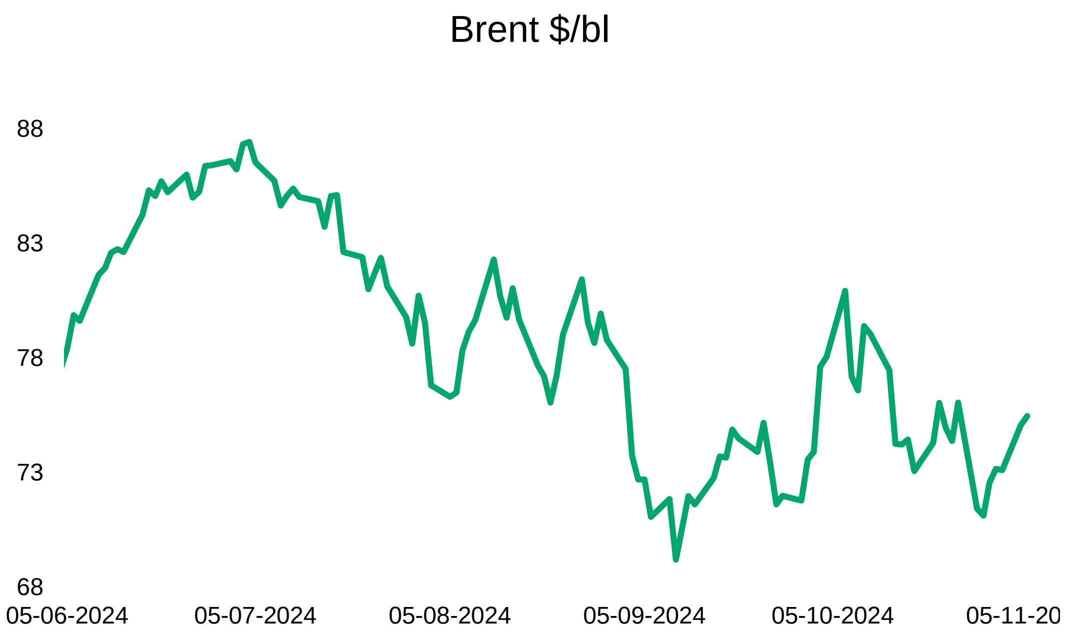
	Thailand	India	Indonesia	China	Brazil	Japan	UK	Eurozone
Period	USD/THB	USD/INR	USD/IDR	USD/CNY	USD/BRL	USD/JPY	GBP/USD	EUR/USD
1 month	1.51%	0.49%	0.11%	1.33%	2.85%	2.79%	-1.08%	-1.79%
3 month	-3.38%	0.49%	-1.40%	-0.26%	2.62%	3.46%	1.69%	-1.25%
6 month	-7.79%	1.03%	-2.34%	-0.93%	11.82%	-2.06%	3.72%	0.33%
CYTD	-0.90%	1.37%	1.77%	0.81%	17.31%	8.12%	1.85%	-2.37%
1 year	-4.12%	1.32%	0.14%	-1.63%	15.94%	0.89%	5.52%	0.69%

- Stands for appreciation
+Stand for depreciation

- A Trump presidential victory lent more strength to the DXY, increasing on expectations of high growth-high inflation and hence high-interest rate scenario for the US.
- Higher interest rates in the US has triggered risk of persistent flight of capital away from the Emerging market economies.

Source: Bloomberg, Internal Research data as on 14.11.2024

Brent prices and Geopolitics?



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

- 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- Million barrels of oil per day

Source: Bloomberg, Data as on 05.11.2024

Key Global Triggers

US FOMC 2024 meetings

- Widely anticipated event which is expected to be the key trigger for global flows.
- The uncertainty regarding Trump's trade and fiscal policies is expected to keep even the FED watchful.

China's Growth Outlook

- China's growth outlook remains significant in two aspects. China's consumption power fuels growth outlook of neighboring economies.
- Secondly, slowdown in China has kept 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.

Source: Internal Research

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.
- Recent outflows from EM's led by uncertainties US monetary and fiscal policy dynamics directly pressures INR.
- 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.

Source: Internal Research

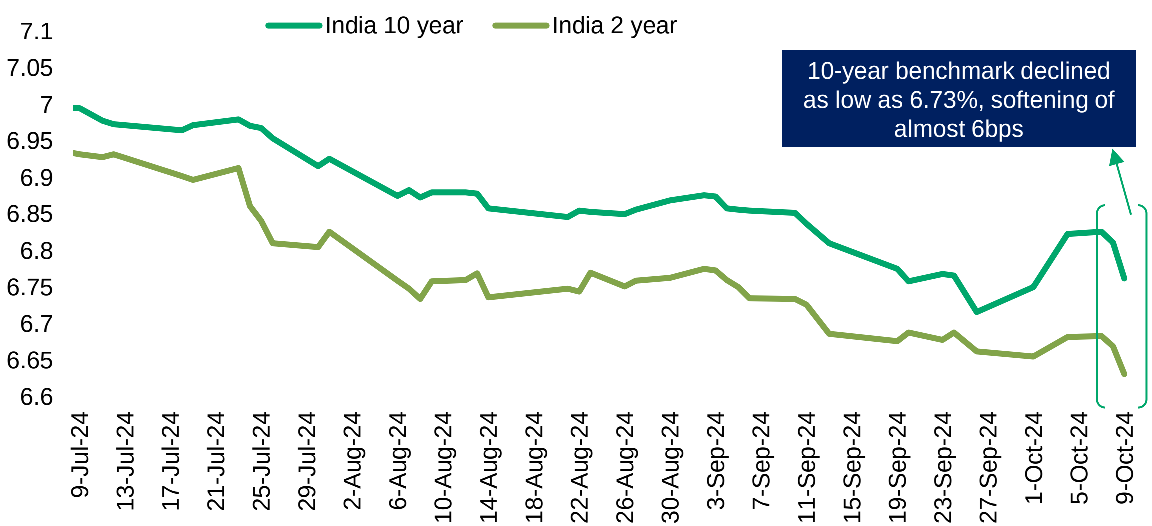
Domestic Economy

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 %

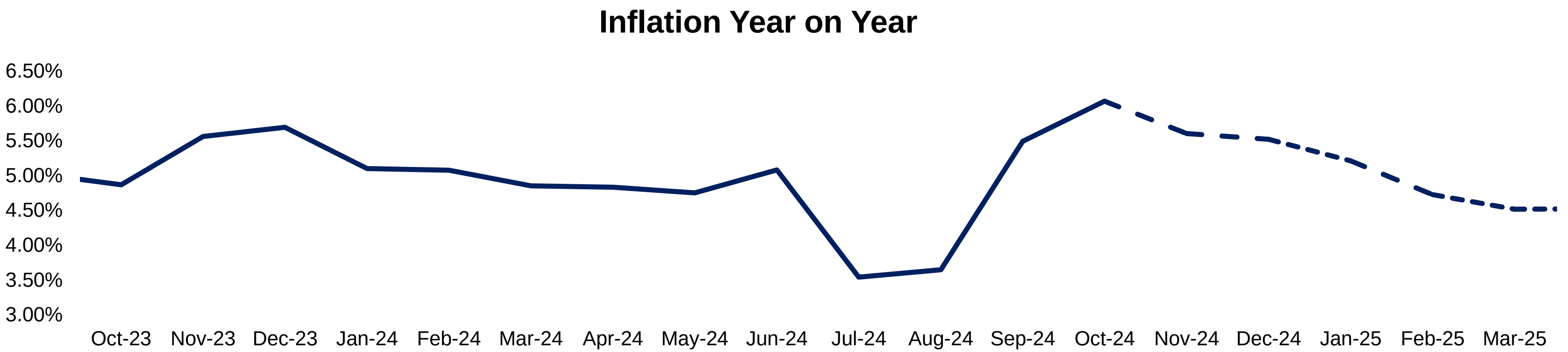


Our View –

- 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.

Source: Bloomberg, Data as on 09.10.2024

Domestic Inflation –Food the culprit!

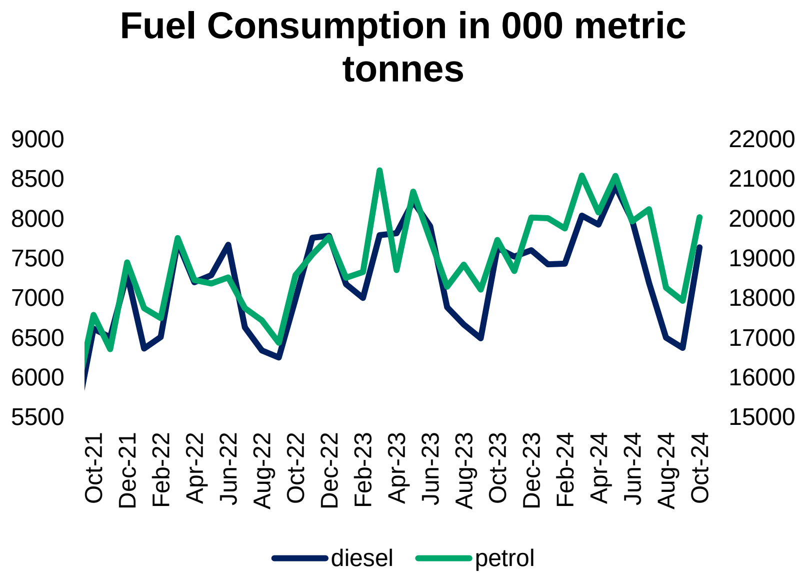


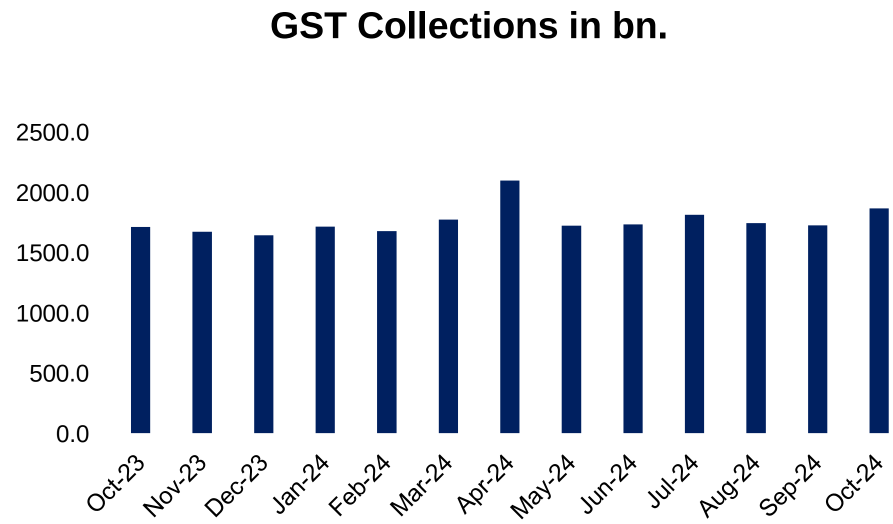
Commodity	Prices Movement in Oct-2024	Direction
Edible Oil	15%	⬆
Vegetables	37%	⬆
Pulses	1%	⬆
Cereals	1%	⬆

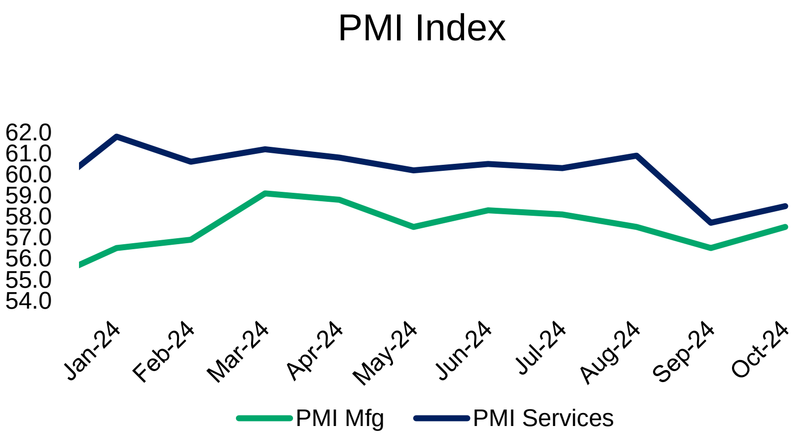
- Headline inflation picked up sharply from 5.5% in Sep-2024 to 6.21% in Oct-2024.
- The pickup has been attributed to shocks to food inflation which became sharper in Oct-24.
- These shocks have disrupted the expected softening of the inflation trajectory.
- The expectations of headline inflation in Q3 FY25 is tracking above 5.5%, 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.

Source: Bloomberg, Data as on 12.11.2024

India’s growth concerns!



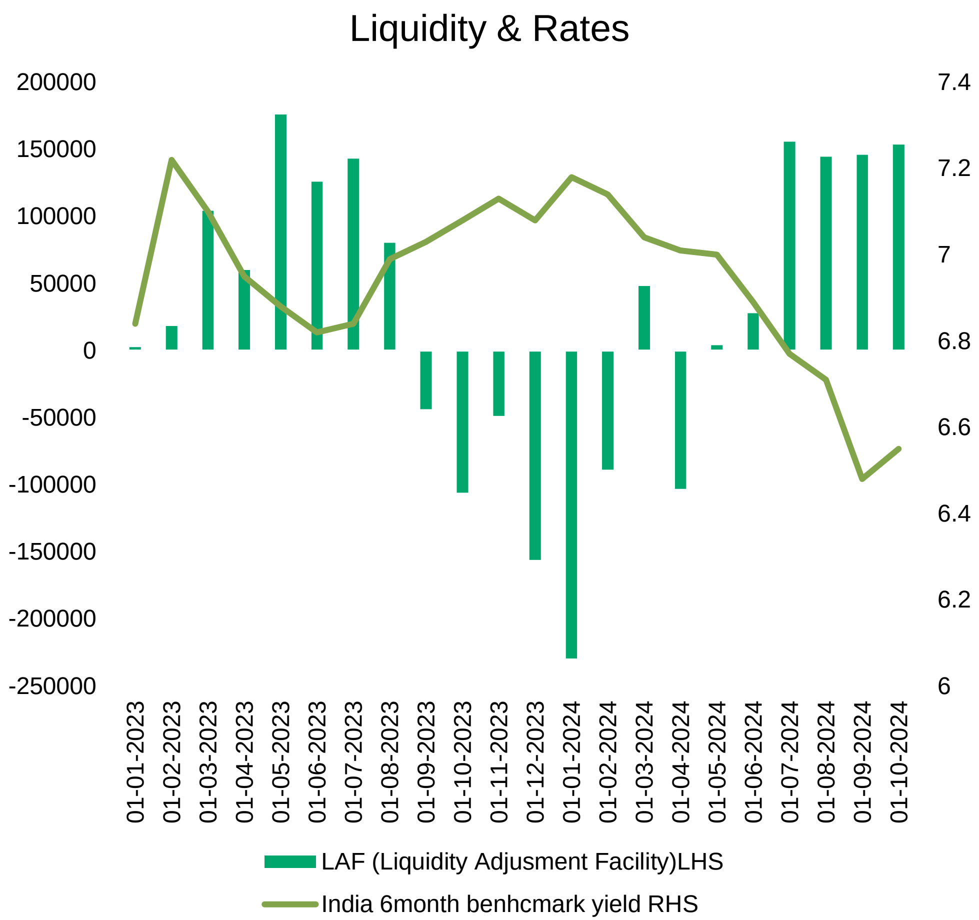




- India’s growth indicators have seen a pickup in October.
- The major sense of worry stems from the earning downgrades by major companies looking at weak demand outlook.
- We remain watchful of evolving growth dynamics.

Source: Bloomberg, Data as on Oct-2024

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 6.5% and overnight rates are tracking the liquidity conditions and have remained below repo rate.

Liquidity Outlook –

- Going ahead, we expect liquidity surplus to improve driven by heavy redemption, normalisation in CIC leakage and limited net auctions outflow. However, we remain watchful of RBI FX interventions.

WMA – Ways of means and advances

Source: Bloomberg, Data as on 31.10.2024

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.	↓

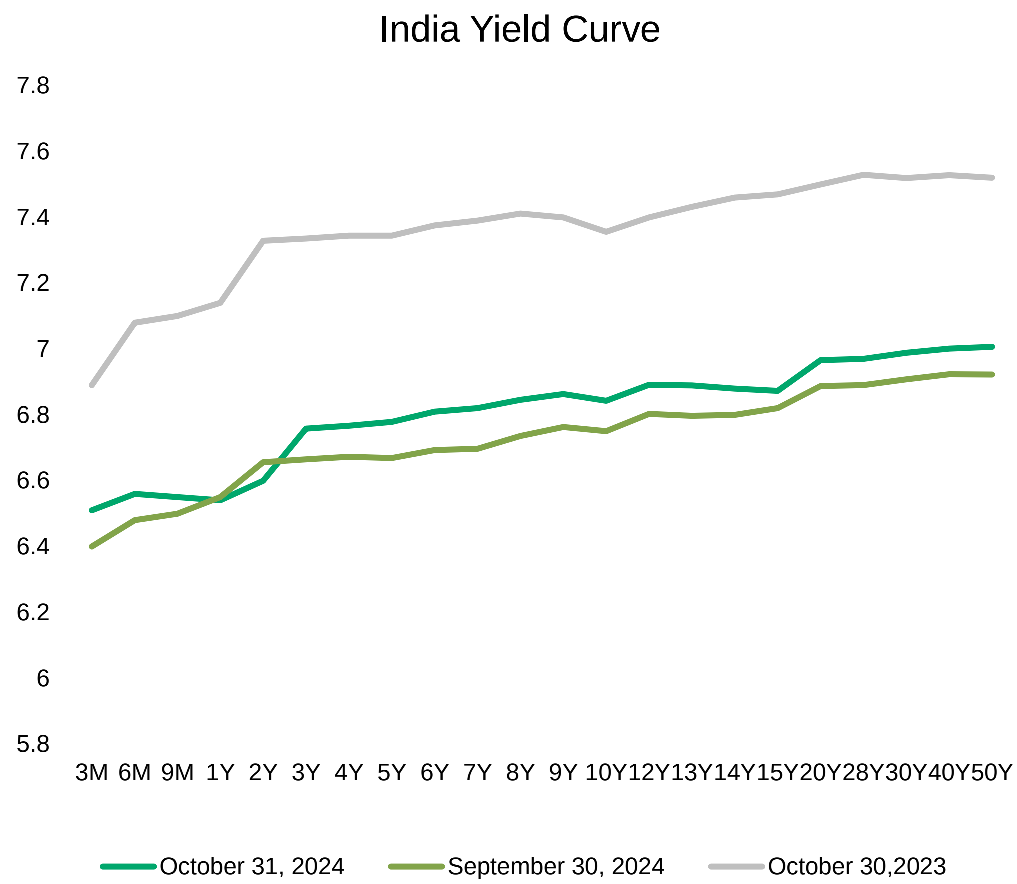
Source – Internal Research

Source: BBNP Paribas Research

Fixed Income Outlook

Outlook

- 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 4.2% in Feb-2024.
- Recent food 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.



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.

Source – Bloomberg, RBI, Data as on 31.10.2024