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Global outlook

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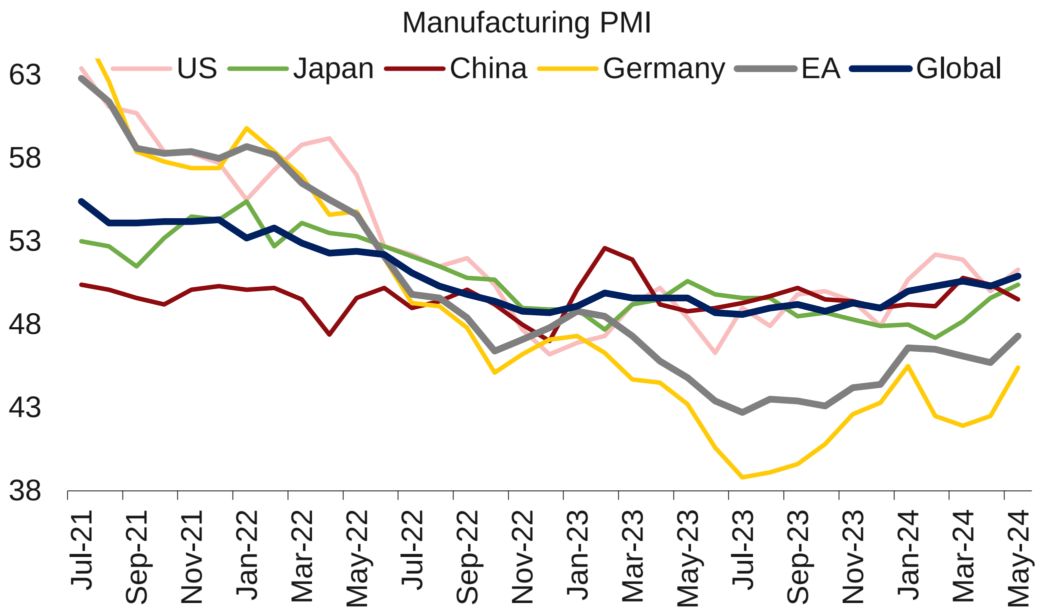
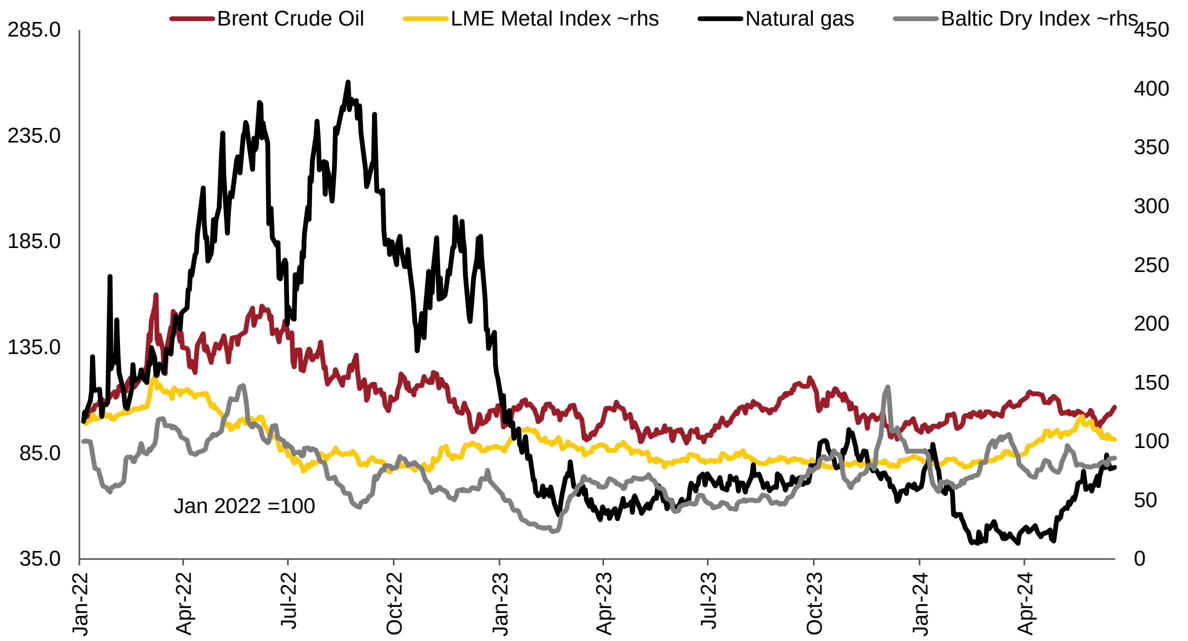
Some signs of stabilization in global growth

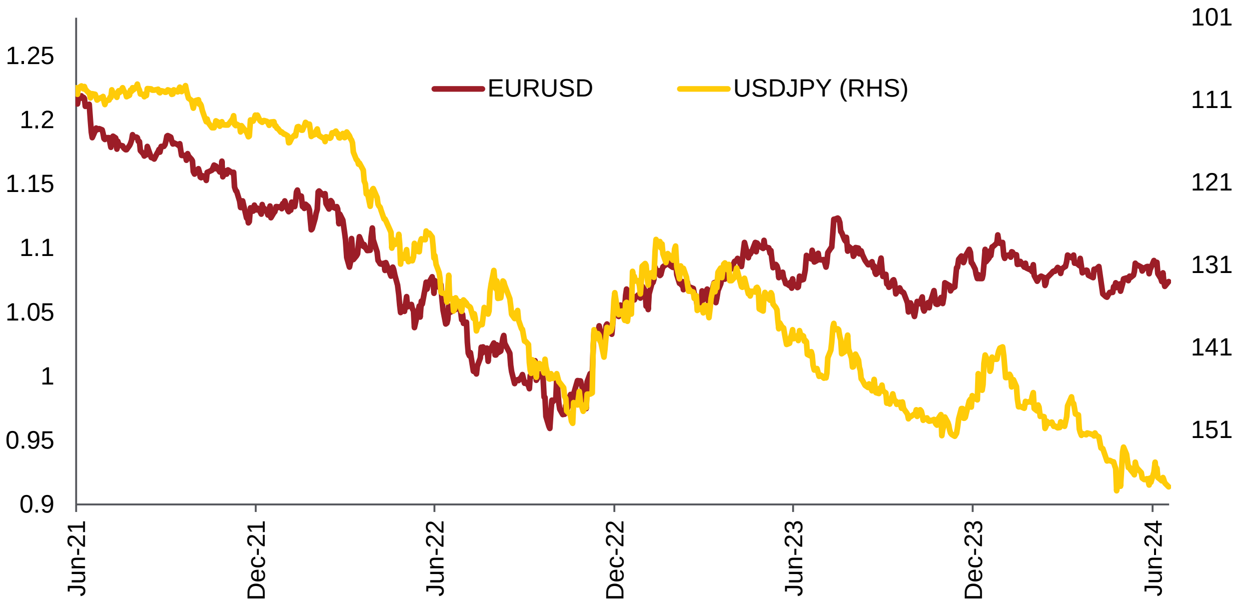


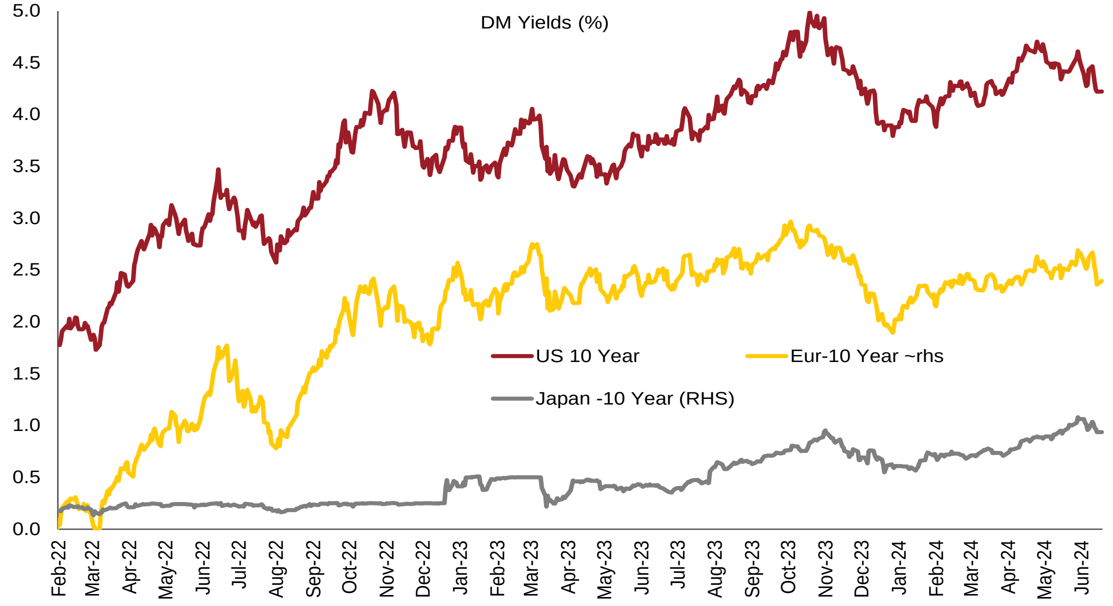


- Unwinding of market expectation of Fed rate cut supporting rise in UST yields, and dollar strength
- Monetary policy divergence expected in DM space, as growth conditions in other DMs remains weaker compared to US

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

Near-term dollar strength supported by a hawkish Fed





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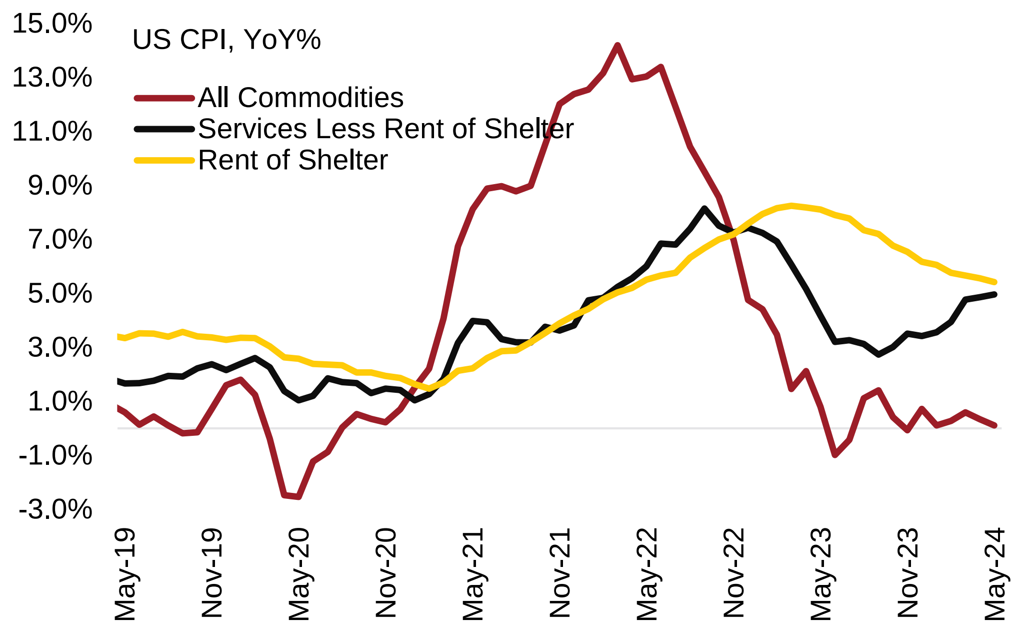
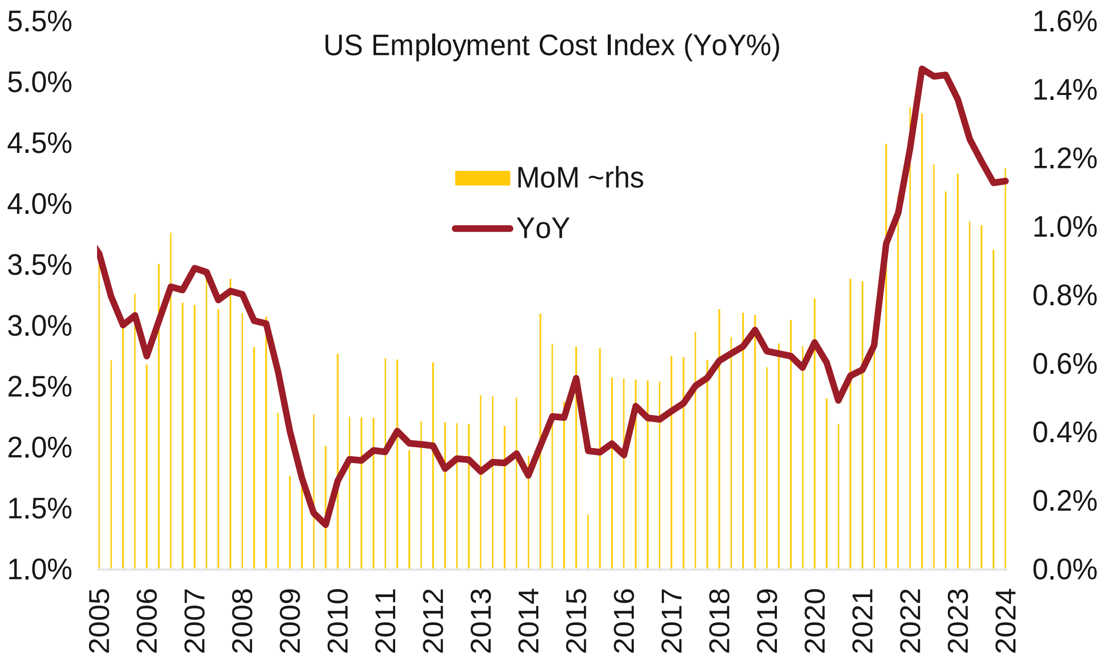
Fed rate cuts might get delayed and will be shallow





- Strong growth in the US is keeping core services inflation elevated in the US
- **At the earliest Fed rate cut can start is by September 2024. In calendar year 2024 two to three Fed rate cuts are expected**

- Fiscal policy remains expansionary, supporting employment creation

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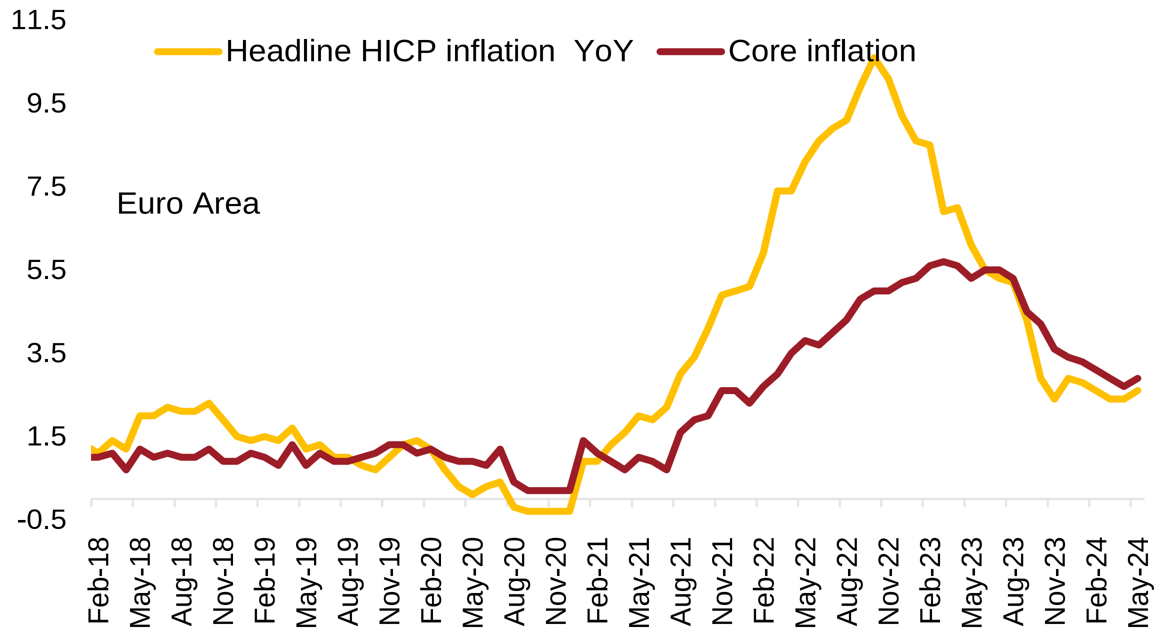
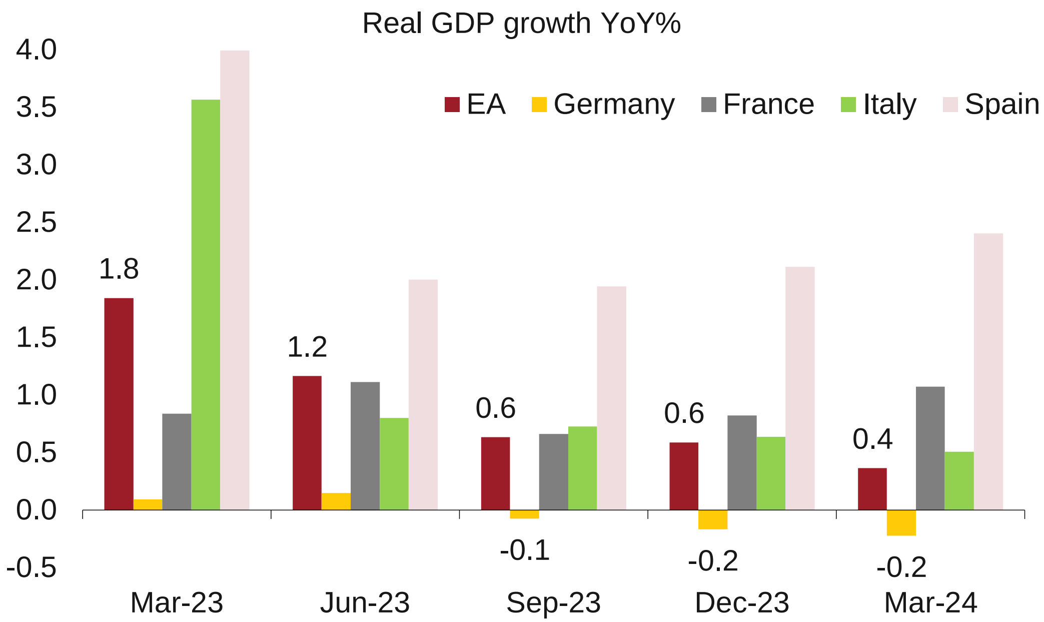
Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

Near-term Euro weakness with Hawkish Fed & political uncertainty





- In the near-term EUR weakness to be driven by ECB rate cut cycle starting before the Fed
- EUR to get some support from improving trade surplus which is driven by contraction in imports (domestic demand weakness)

	Jun 2024	Sep 2024	Dec 2024	Mar 2025
EURUSD	1.06-1.05	1.07	1.08-1.09	1.09-1.10

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Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

In FY24 India attracted equity and debt FPI inflows

Net foreign Debt Investments in various countries							
USD bn	Korea	Indonesia	Malaysia	Philippine	Thailand	India	China
FY20	54	22	-1	54	-3	-8	63
FY21	78	36	9	78	2	-6	233
FY22	93	39	2	93	9	0	30
FY23	45	54	1	45	4	-1	-129
FY24	59	72	1	58	-1	15	96

Net foreign Equities Investments in various countries							
USD bn	Korea	Taiwan	Indonesia	Philippine	Thailand	India	China
FY20	-16	-14	-2	-1	-4	-1	18
FY21	-10	-8	-1	-3	-5	37	247
FY22	-20	-20	4	1	3	-17	-14
FY23	0	-19	2	-2	0	-6	4
FY24	15	2	1	0	-5	25	-119

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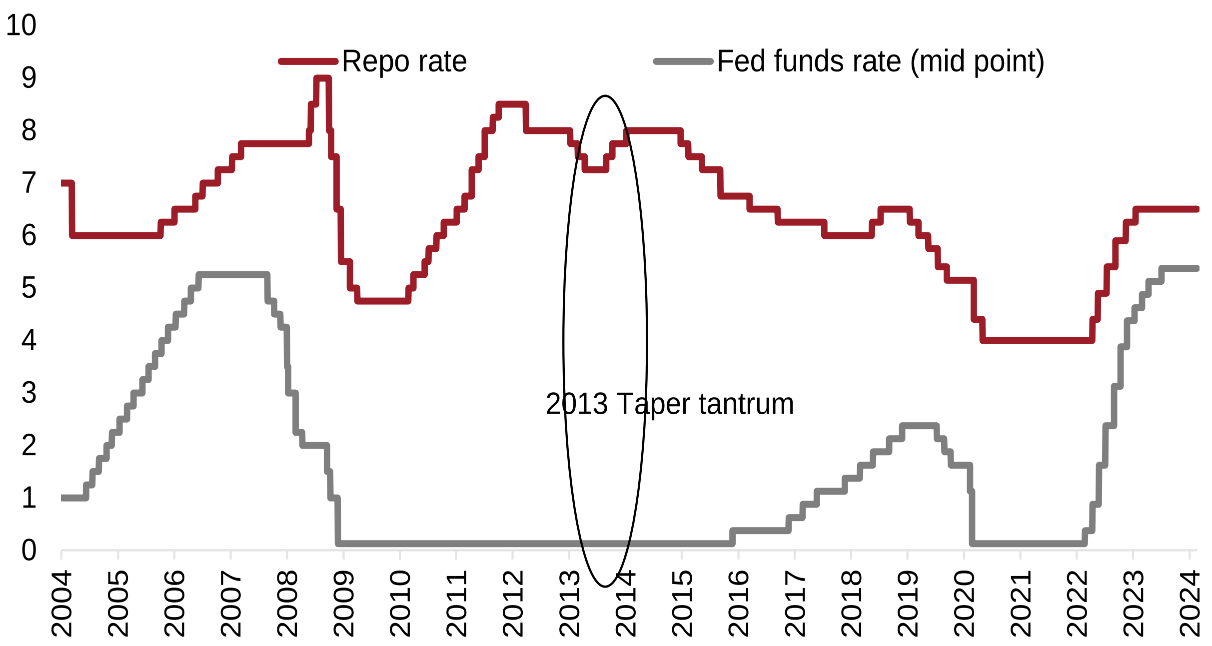
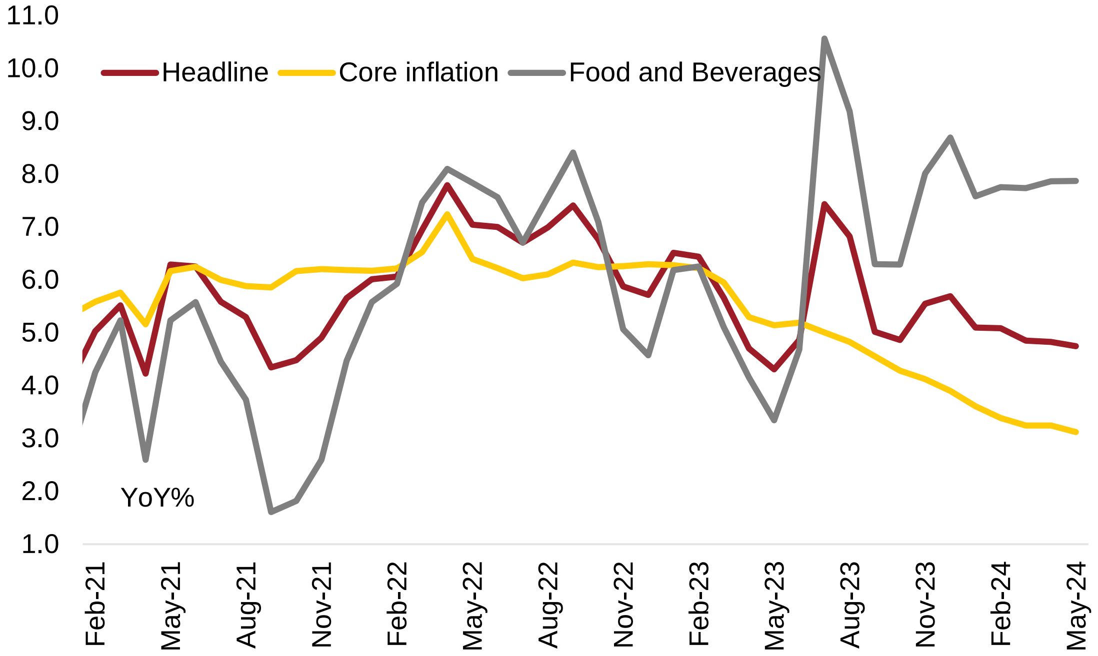
Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

India outlook

Strong growth provides RBI policy space to remain on pause

Shallow RBI rate cut cycle to start from October 2024





- The risk of delayed start to RBI rate cut cycle remains – hawkish Fed and elevated food inflation
- RBI rate cut cycle is expected to lag the Fed as the interest rate differentials have reduced to historical lows

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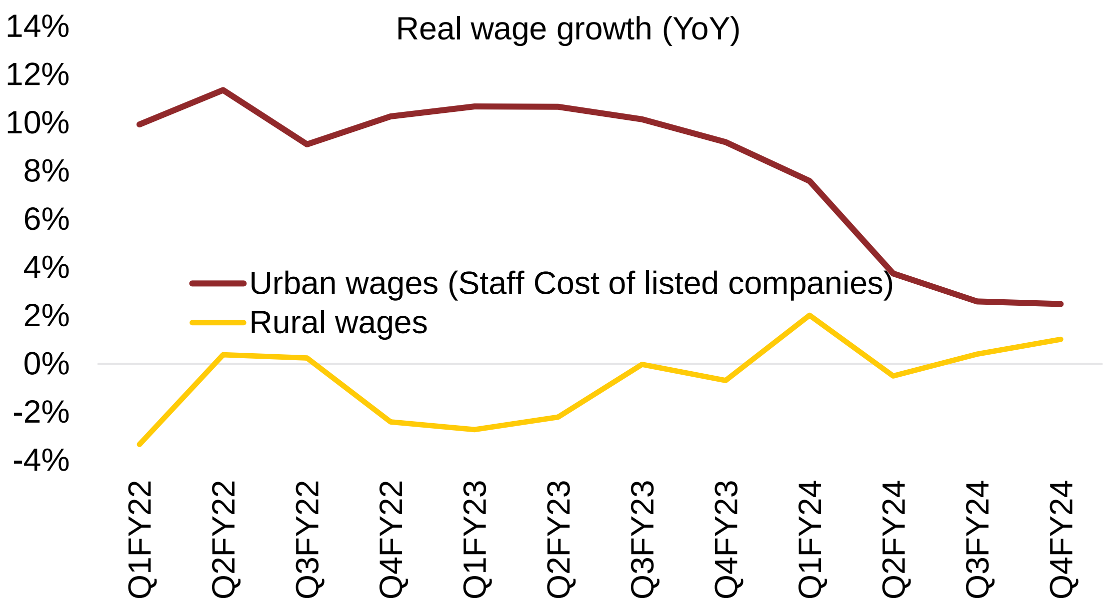
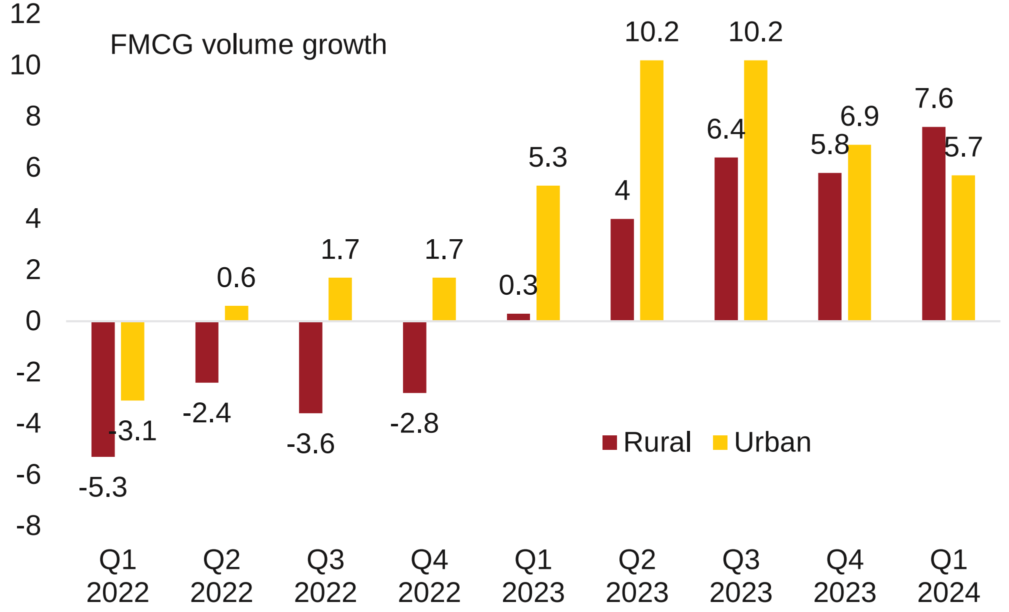
Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

Urban consumption expected to slow

Rural demand expected to rise

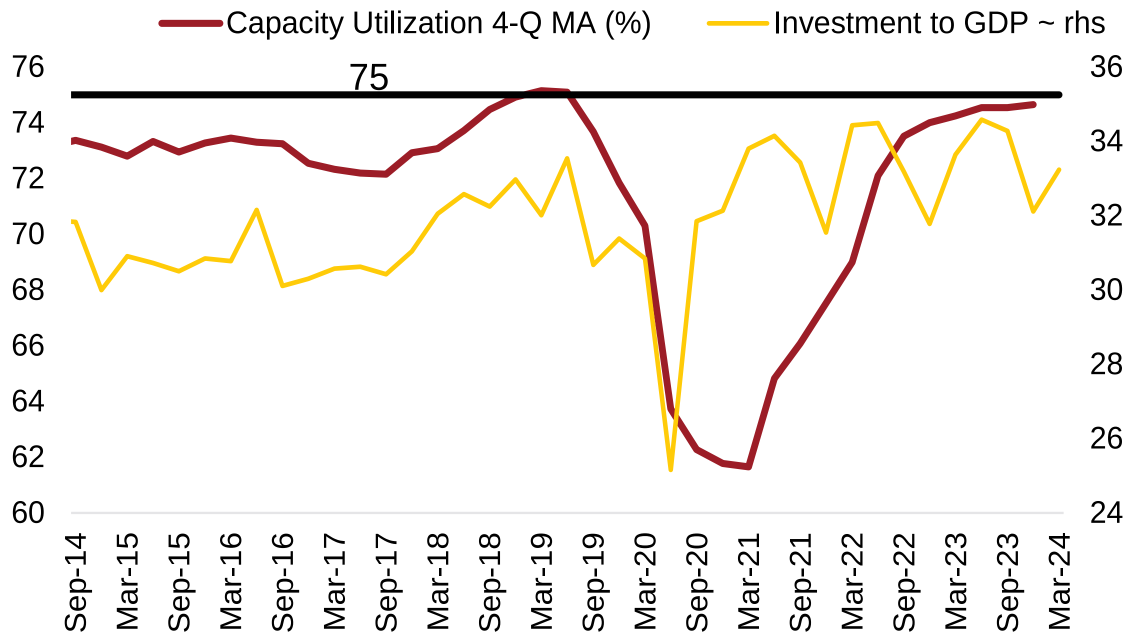


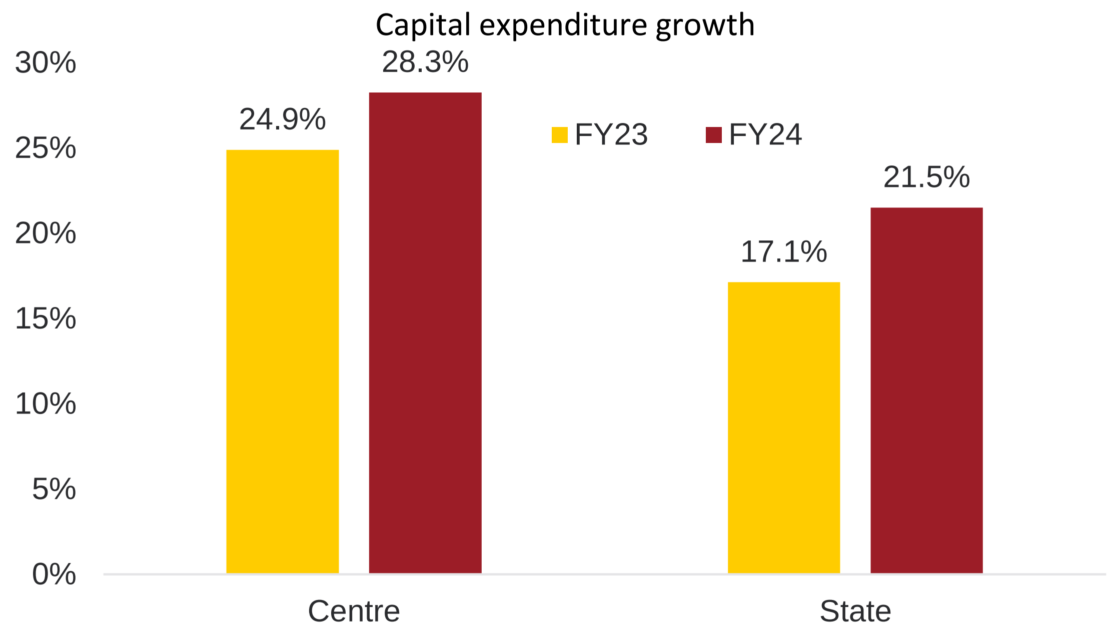


Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

Capex cycle supported by rising capacity utilization

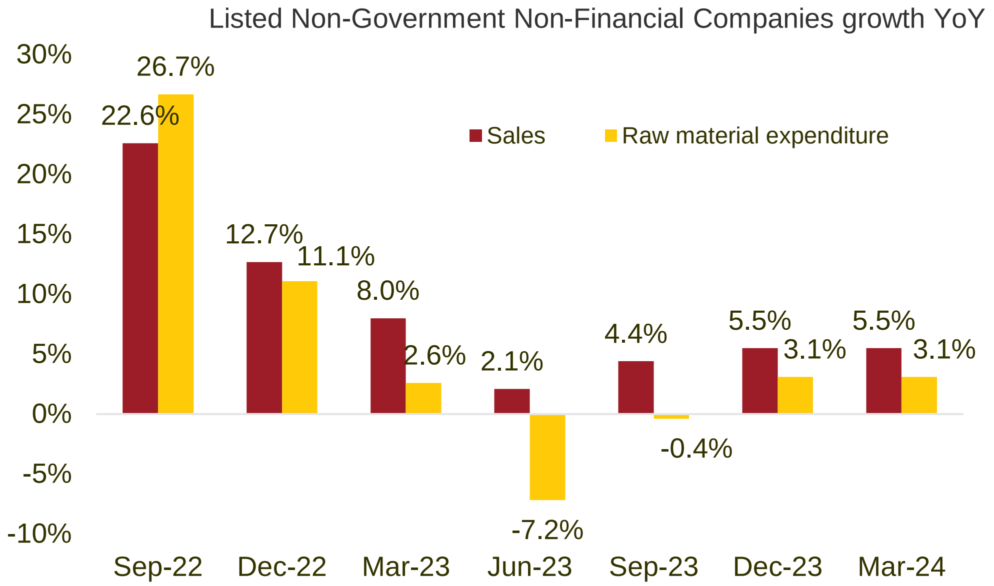
Continued support from government capex





Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

Listed company profit growth moderate as input cost rise



Listed Non-Government Non-Financial Companies					
EBITDA (YoY)	**Q4FY23**	**Q1FY24**	**Q2FY24**	**Q3FY24**	**Q4FY24**
Manufacturing	7.4	2.8	25.6	15.6	4.5
Services (Non-IT)	26.8	28.7	19.4	27.4	13.5
IT	0.1	16.4	6.7	5.9	13.4
Sales (YoY)	**Q4FY23**	**Q1FY24**	**Q2FY24**	**Q3FY24**	**Q4FY24**
Manufacturing	5.3	0.1	4.2	3.7	6.1
Services (Non-IT)	20.5	4.5	1.9	12.9	10.4
IT	16	10.9	5.9	3.2	3.1
Expenditure (YoY)	**Q4FY23**	**Q1FY24**	**Q2FY24**	**Q3FY24**	**Q4FY24**
Manufacturing	4.9	-3.1	1.6	4.1	4.6
Services (Non-IT)	18.6	-7.5	-1.7	11.9	8.4
IT	17.5	10.9	6.0	3.0	3.0

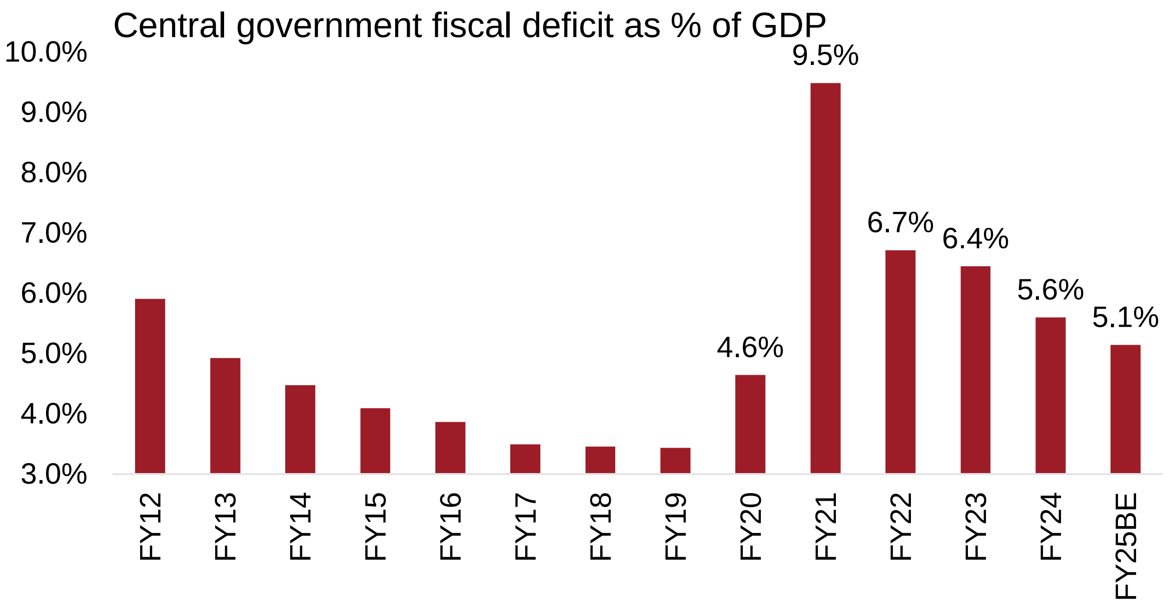
FY24 GDP growth got support from transient factors which will be missing in FY25:

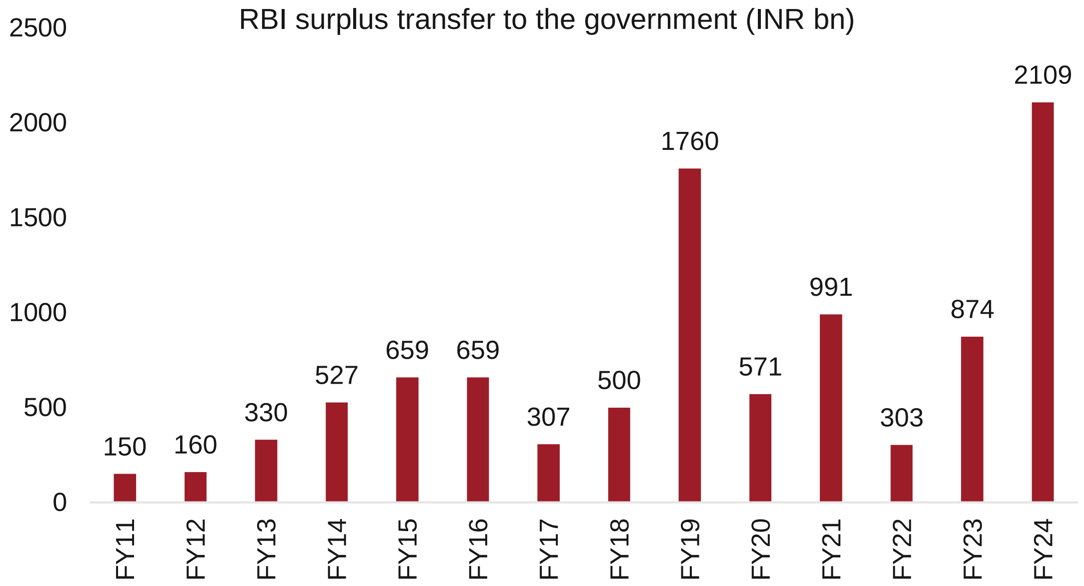
1) GDP deflator growth which decelerated in FY24 (1.3% in FY24 v/s 7.0% in FY23) is expected to rise in FY25, with higher WPI inflation.
2) Input costs had declined sharply in FY24, which had boosted companies' profit growth. In FY25 input costs are expected to rise, resulting in moderation in profit growth.
3) Net taxes less subsidies growth jumped by 19.1%YoY in FY24, which boosted GDP growth, due to sharp decline in subsidy expenditure. In FY25, the decline in subsidy expenditure is expected to be more moderate based on Interim Budget.

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

Union Budget to remain growth focused

RBI dividend to provide fiscal space of 0.2% of GDP





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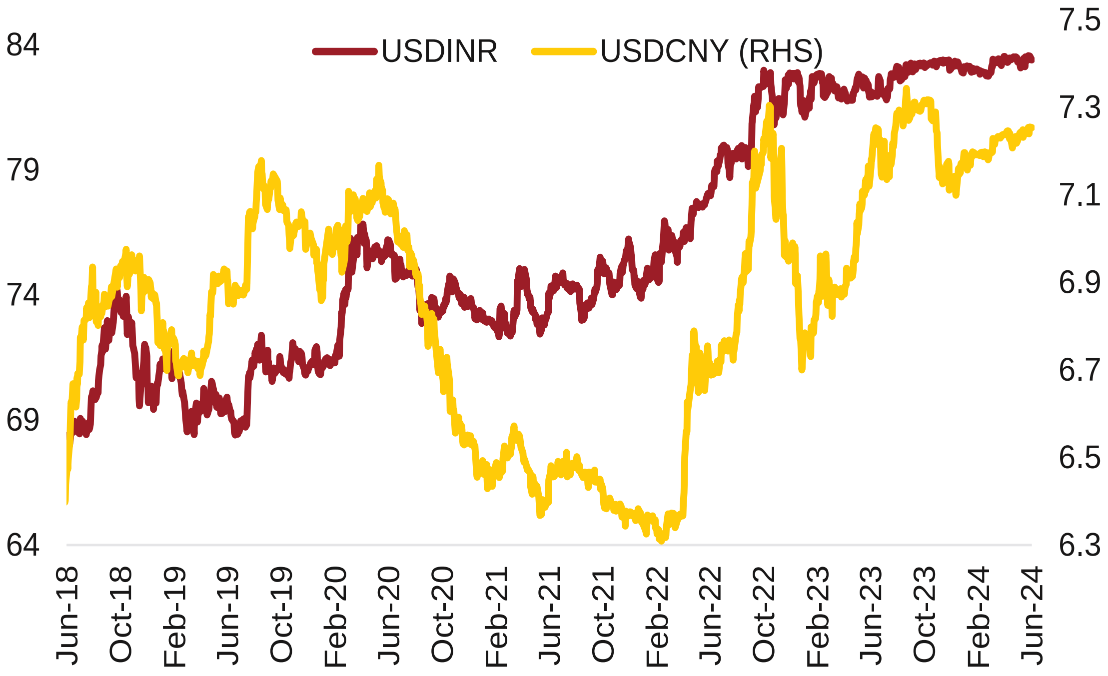
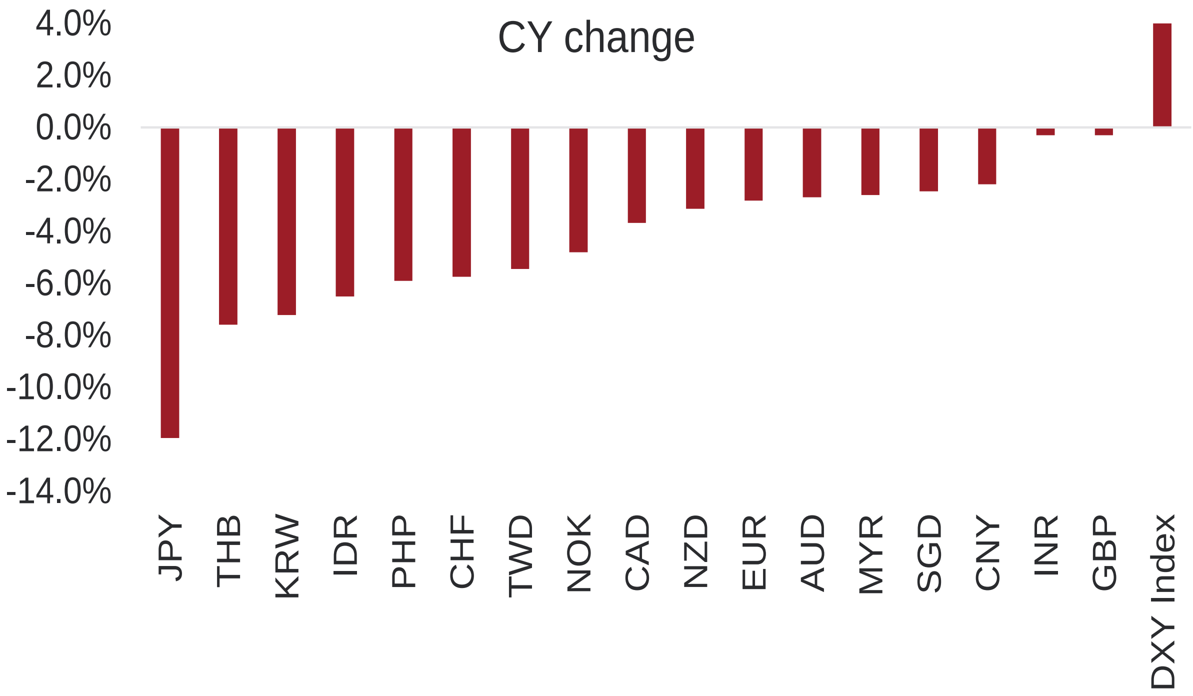
Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

Weakness in INR driven by Dollar strength and CNH weakness





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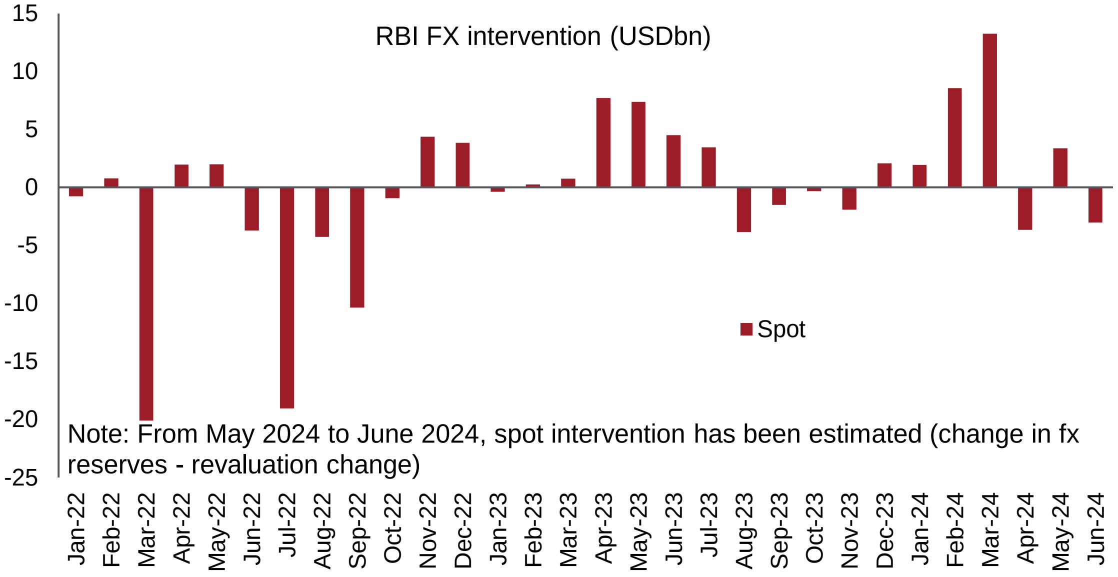
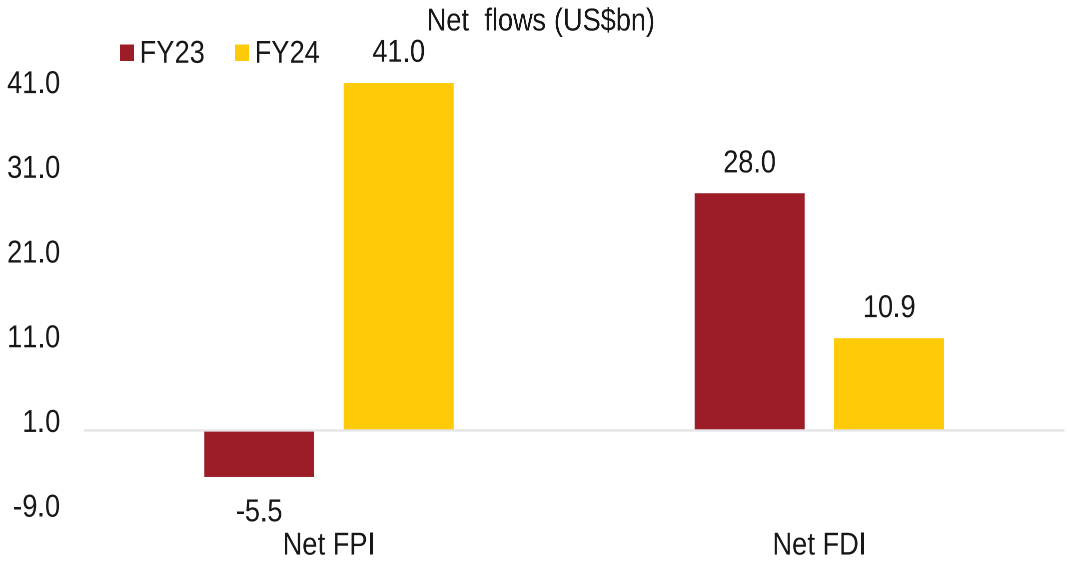
Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

INR to trade with appreciating bias in H2FY25

Supported by pick-up in capital inflows in H2FY25





- INR appreciation expected in H2FY25 with pick-up in capital inflows and Fed rate cut cycle
- RBI intervention to limit volatility in USDINR

	Jun 2024	Sep 2024	Dec 2024	Mar 2025
USDINR	83.50	83.00	82.50	82.50

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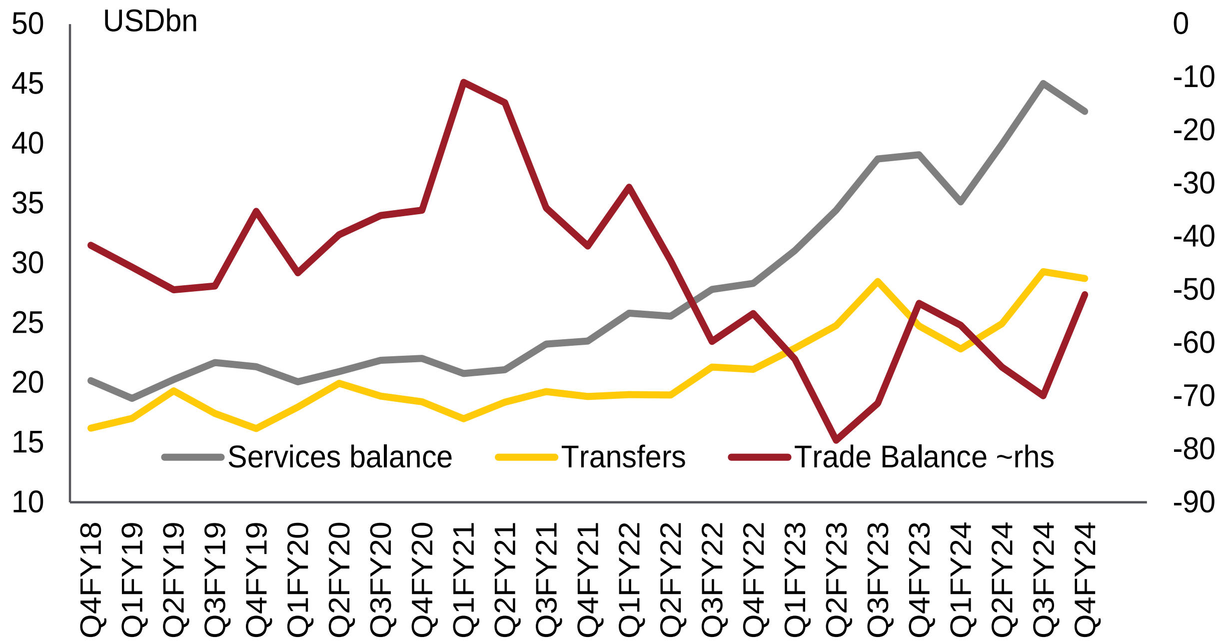
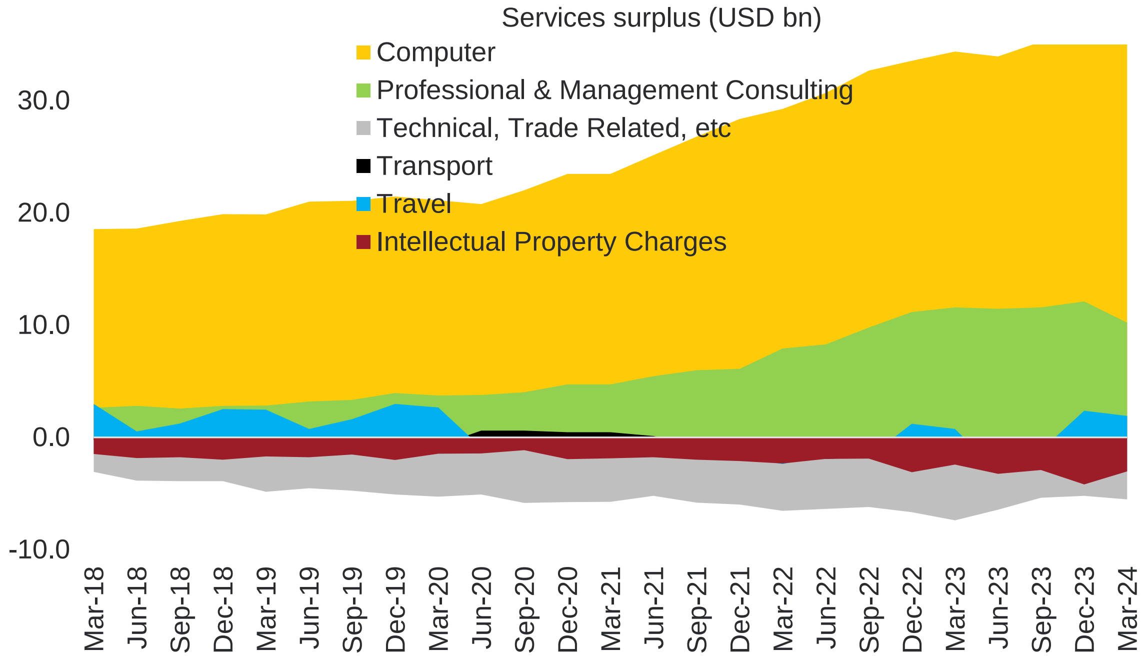
Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

FY25 CAD to remain contained at 1.3% of GDP





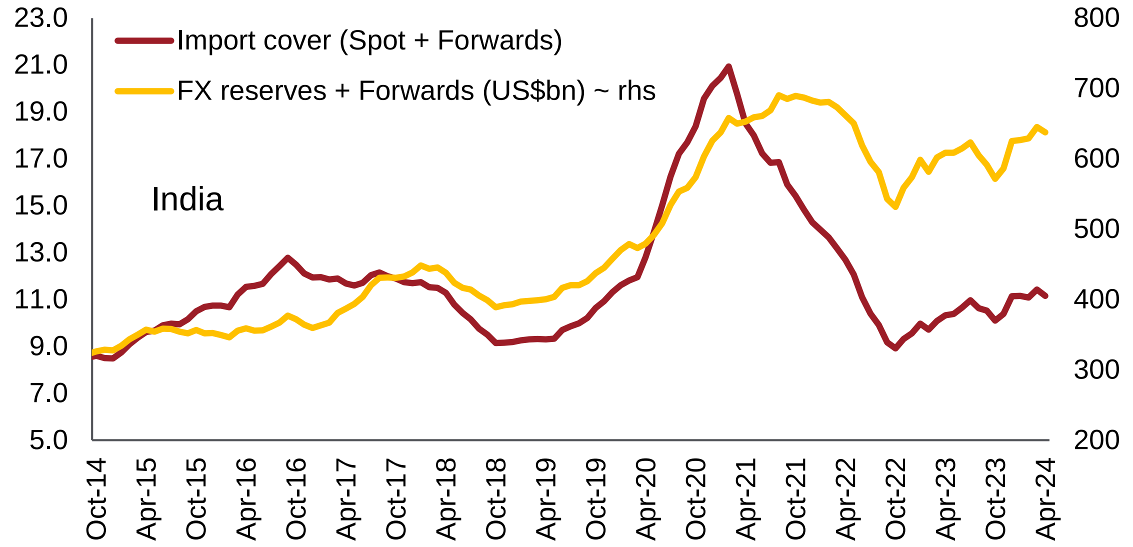
India crude basket	US$85pb	US$100pb	US$120pb
Current account deficit (as % of GDP)	1.3	1.7	2.2

Moderate CAD

- Builds-in slowdown in merchandise and services exports

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

FX reserves remain adequate



	FX reserves (US$ bn)	Volatile capital flows (as % of FX reserves)	FX reserves as % of short-term external debt (residual maturity)	Import cover (Spot + Forwards)
FY14	304	96%	174%	7.0
FY22	606	63%	227%	13.0
FY23	578	62%	211%	9.8
FY24	646	60%	219%	11.3

- FX reserves remain adequate with import cover (spot reserves plus forwards) at more than 11 months v/s taper tantrum low of 7 months in 2013

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

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