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# #THE **BIG** PERSPECTIVE

— Tailored exclusively for NRIs —

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# Global outlook

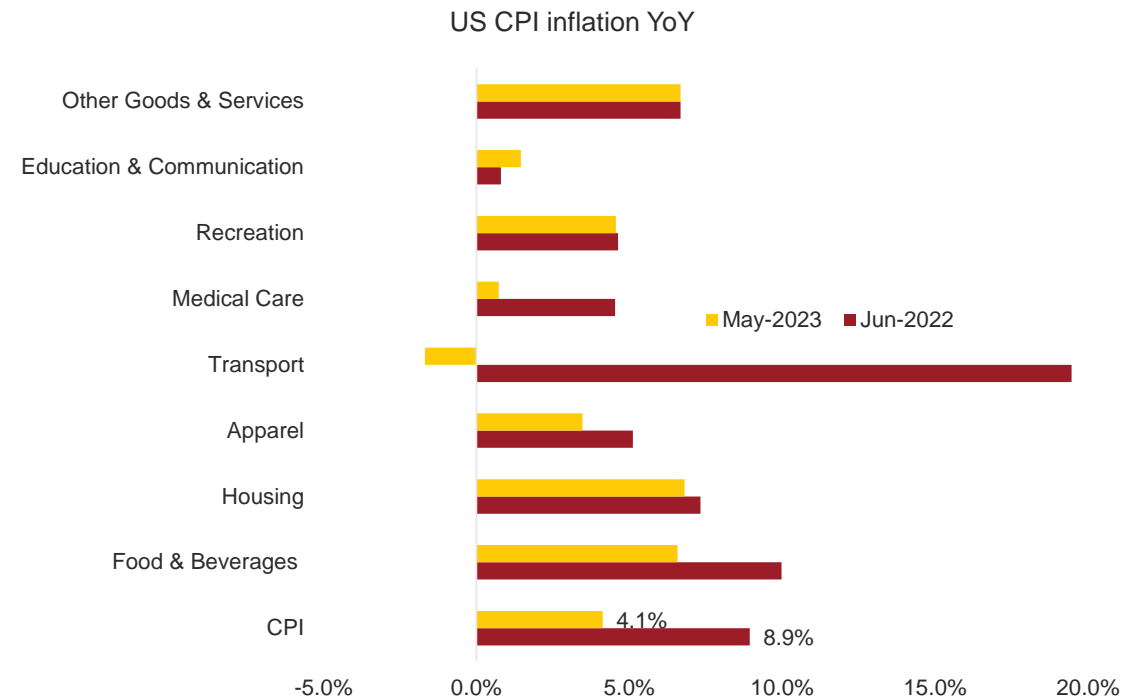
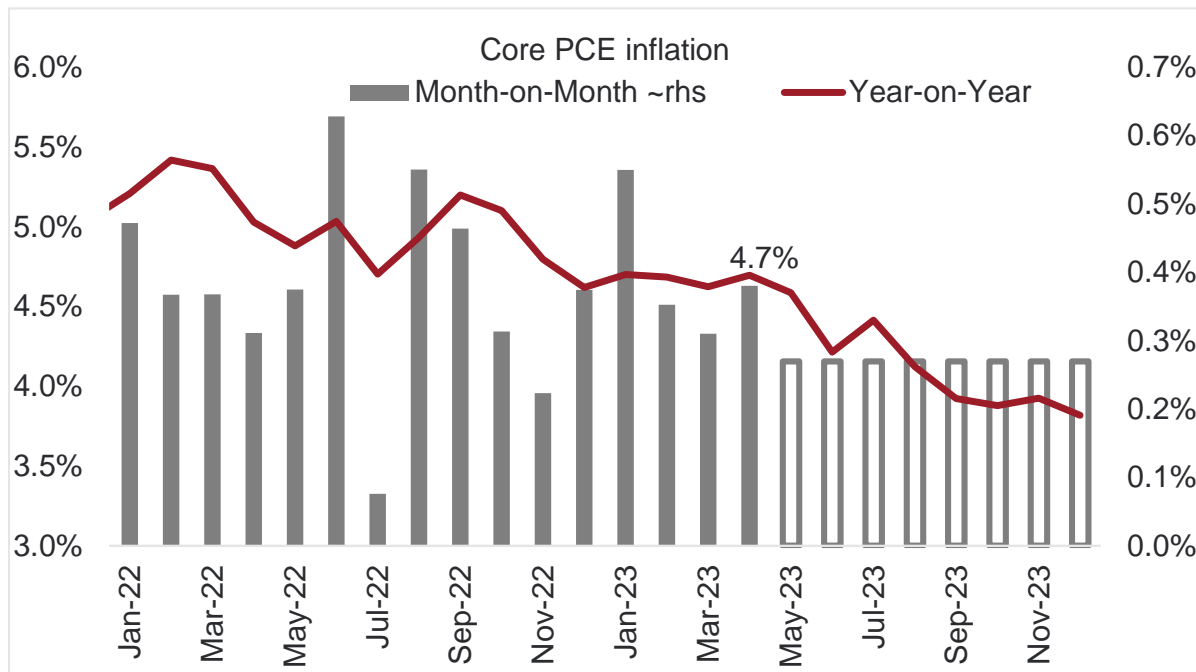
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# US: Inflation pressures easing but still significantly above target

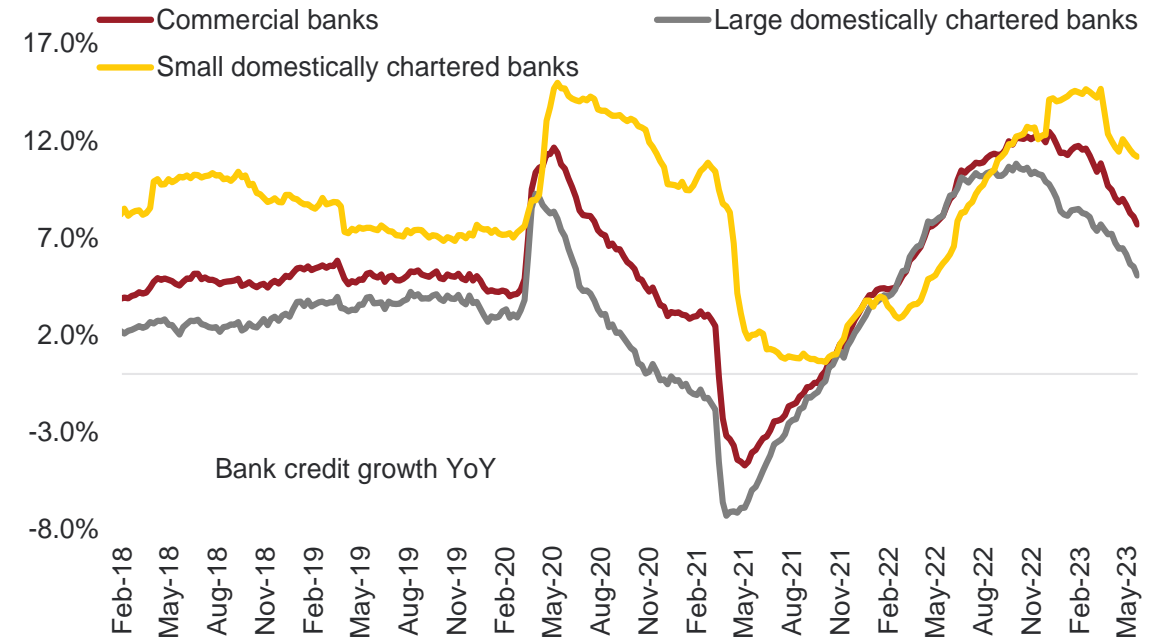
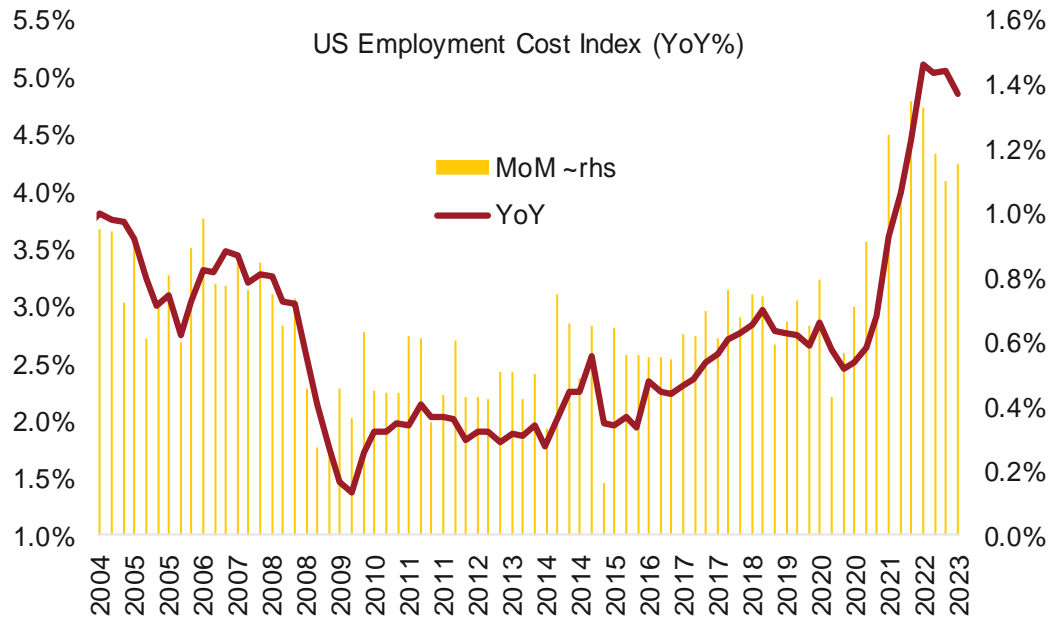
US consumer demand holding



- Core services inflation to take time to decline as labour market remains strong
- MoM Core inflation needs to average at ~0.3% to meet FOMC forecast of 3.9%YoY by Q4 2023

# Tight labour market keeps services inflation elevated

Bank credit growth slowdown to limit Fed hawkishness



## Services inflation to remain sticky

- Structural shortfall in labour market to take time to reduce
- Wage growth remains elevated

- Slowdown in bank credit growth to reduce the need for Fed hawkishness

# Fed likely to hike policy rates in July 2023

Past rate hiking cycle show how far Fed is prepared to go to get inflation under control

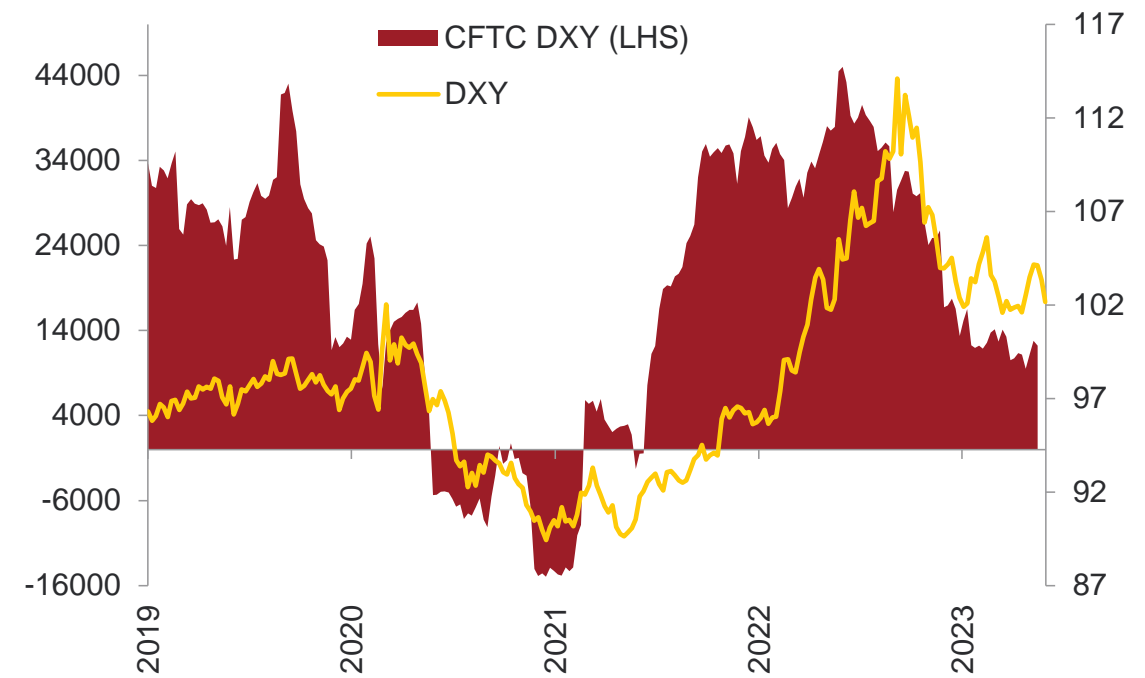
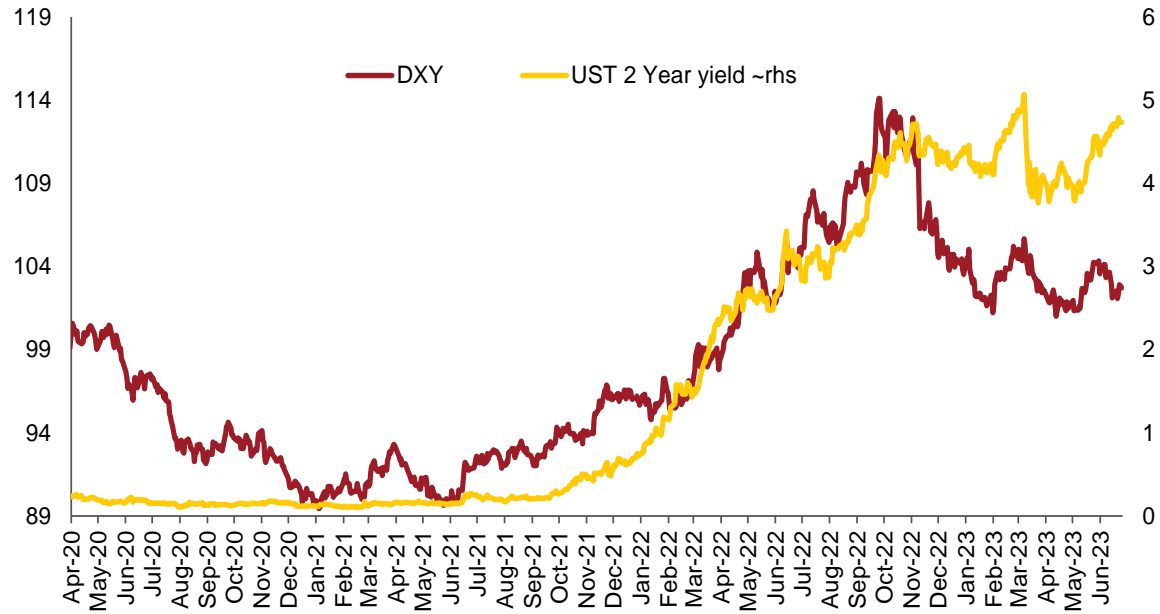
FOMC Tightening Episodes						
First Tightening Action	Initial FFTR Target (%)	Final Tightening Action	Final FFTR Target (%)	Total Tightening (percentage points)	Core PCE at final rate hike	Q4 GDP growth (YoY) in the year rate hike stopped
31-Mar-83	8.5	Aug. 9, 1984	11.5	3.00	4.2	5.6
29-Mar-88	6.5	16-May-89	9.81	3.31	4.4	2.7
Feb. 4, 1994	3	Feb. 1, 1995	6	3.00	2.4	2.2
30-Jun-99	4.75	16-May-00	6.5	1.75	1.7	2.9
30-Jun-04	1	29-Jun-06	5.25	4.25	2.4	2.6
Dec. 16, 2015	0.00-0.25	Dec. 19, 2018	2.25-2.50	2.25	2.1	2.3
<b>March 16 2022</b>	<b>0.125</b>		<b>5.125</b>	<b>5.00</b>	<b>4.7</b>	<b>1.6</b>

FOMC forecast Q4 2023 at 3.9%

FOMC forecast 2023 at 1%

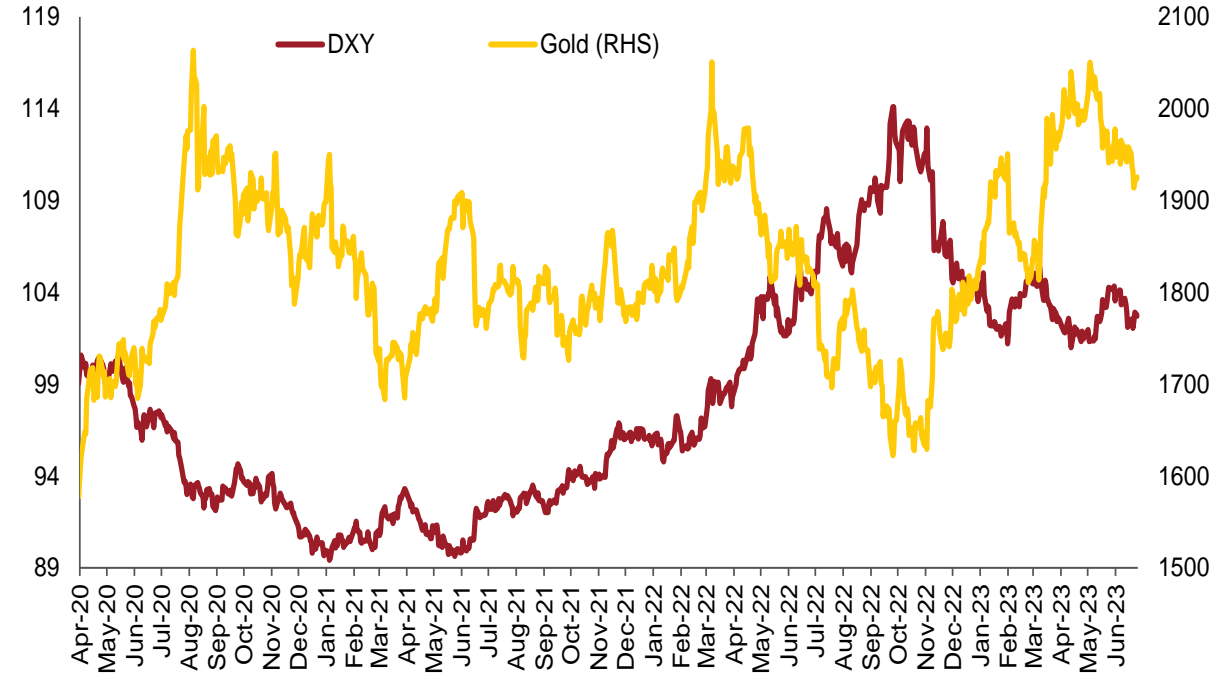
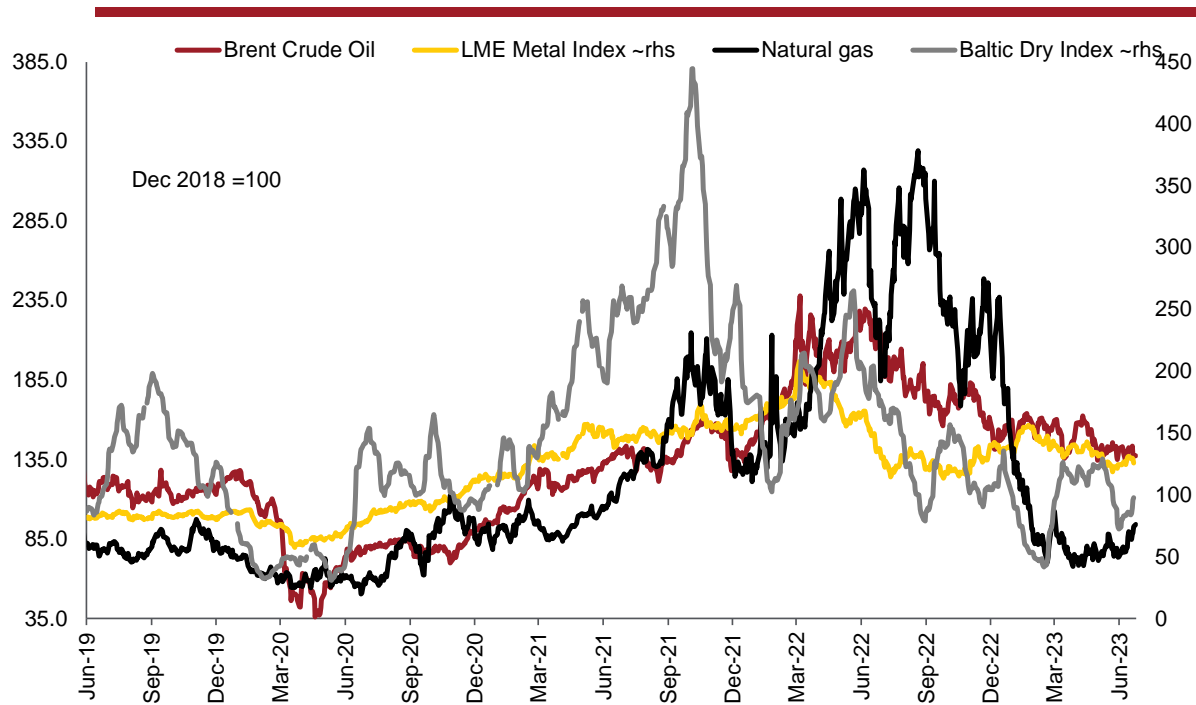
- Core PCE inflation will need to show more improvement to remove the risk of further rate hikes
- Atlanta Fed GDPNow at 1.8% for Q2 2023

# Post the rate hiking cycle, growth differentials to drive currencies



- Markets are now pricing-in one Fed rate hike by July and rate cut expectations pushed out to 2024
- Commentary from Fed members remains hawkish
- Relative strength of the US economy outweighs other DMs, will provide strength to dollar post rate hiking cycle

# Commodity prices to stay weak



- Commodity prices to stay muted with weak China recovery and Fed remaining higher for longer
- Gold prices to weaken with moderation in inflation and dollar likely to find some strength

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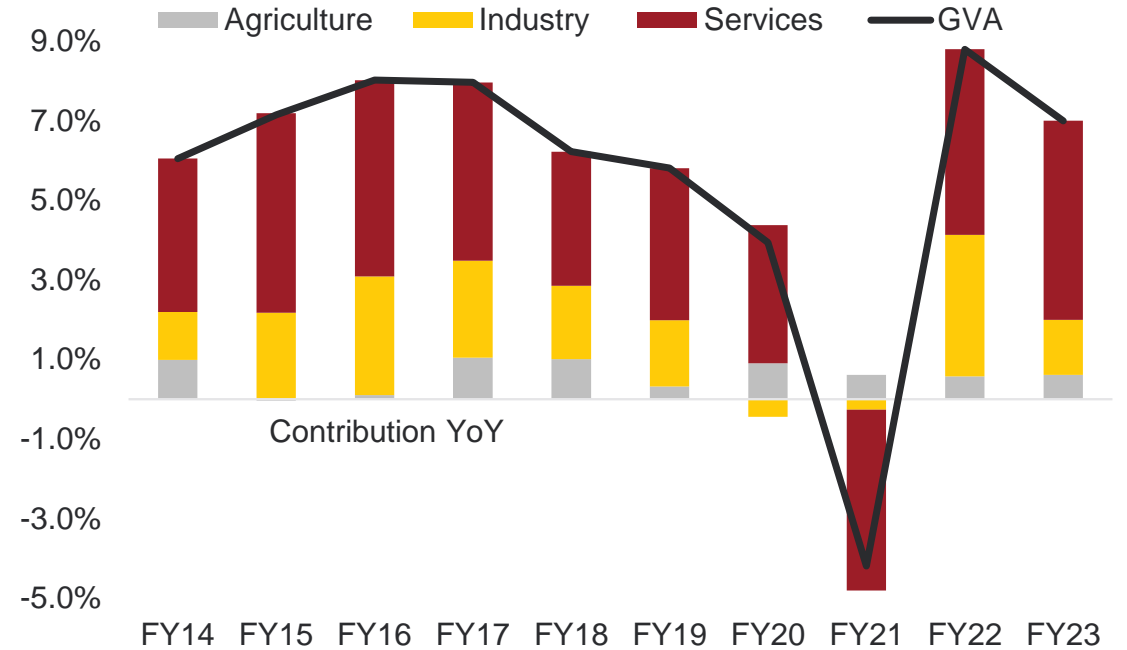
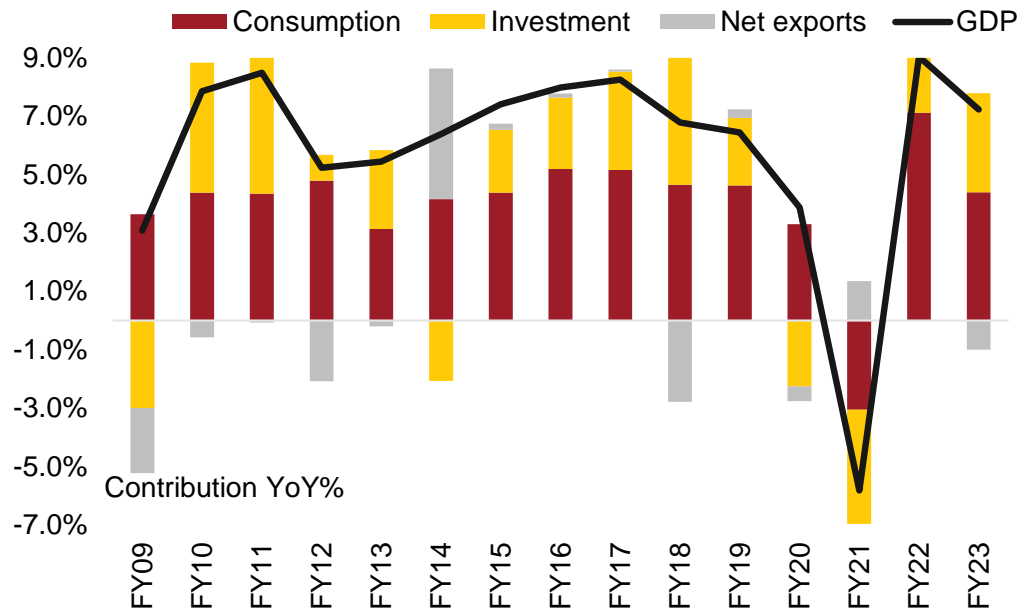
# India outlook



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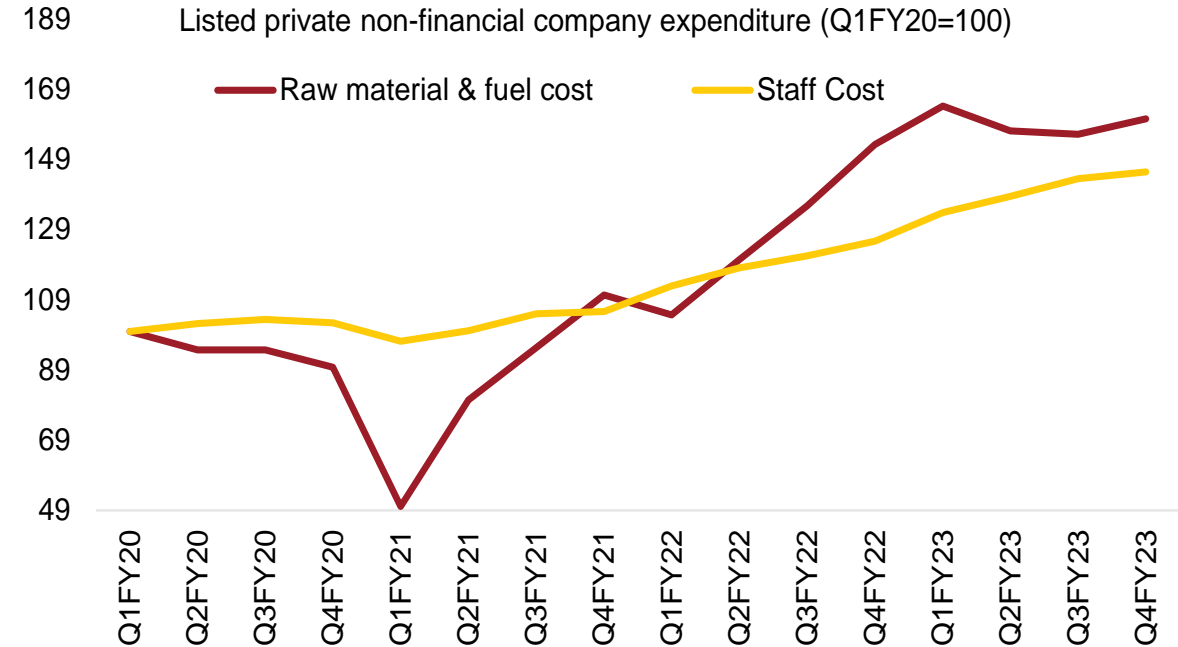
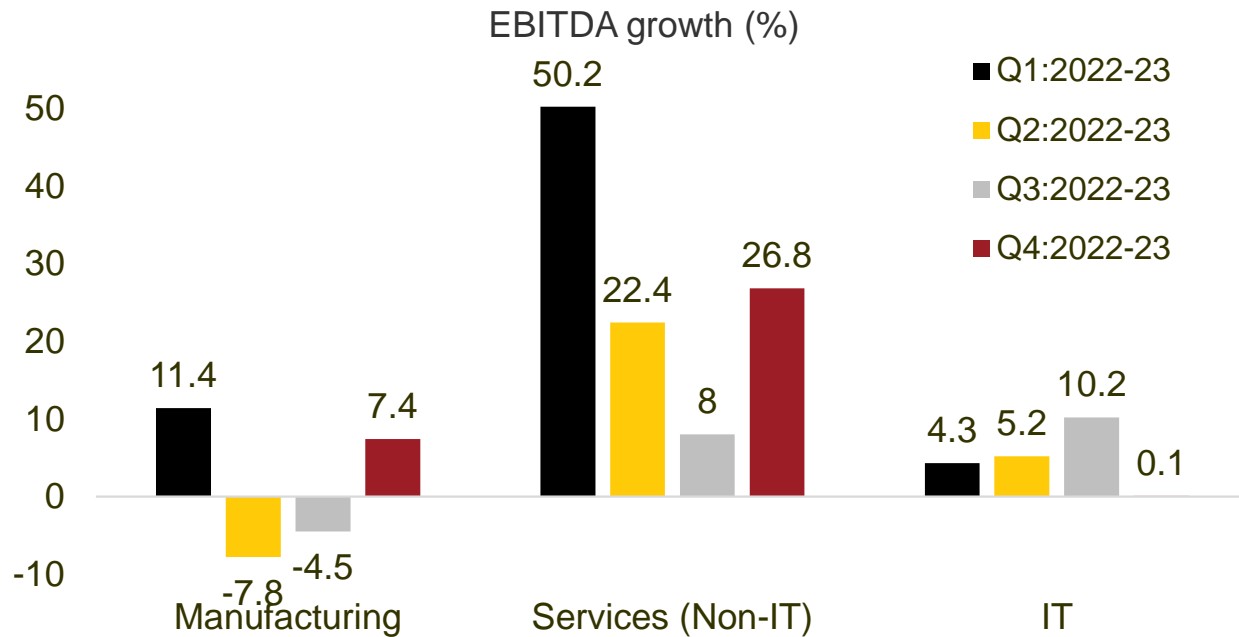


# Consumption & investment led recovery



- Sector-wise growth led by services with pick-up in ‘trade, hotels and transportation’ and ‘real estate and financial services’
- Manufacturing sector growth supported by reduction in input cost pressures

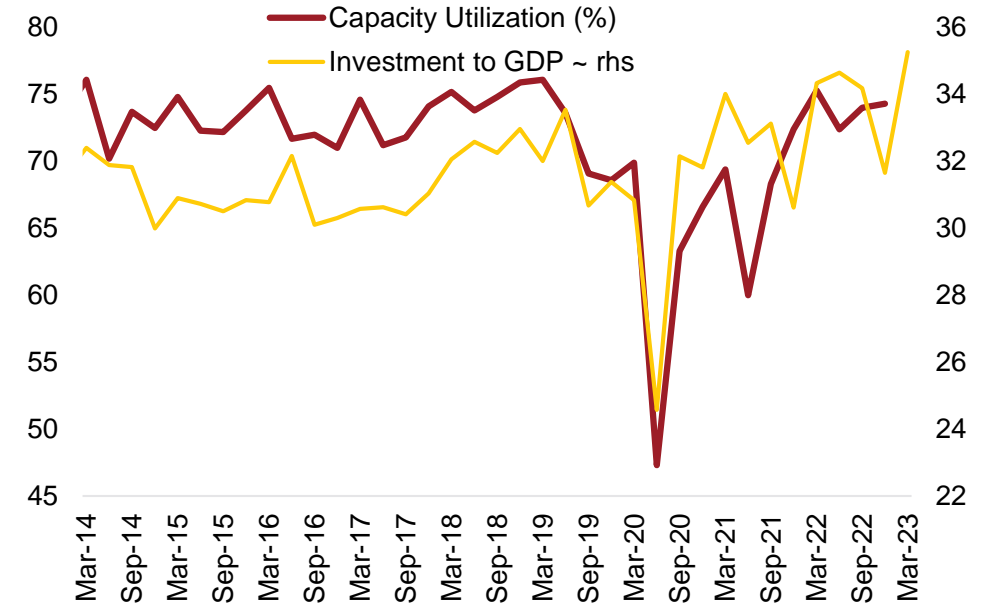
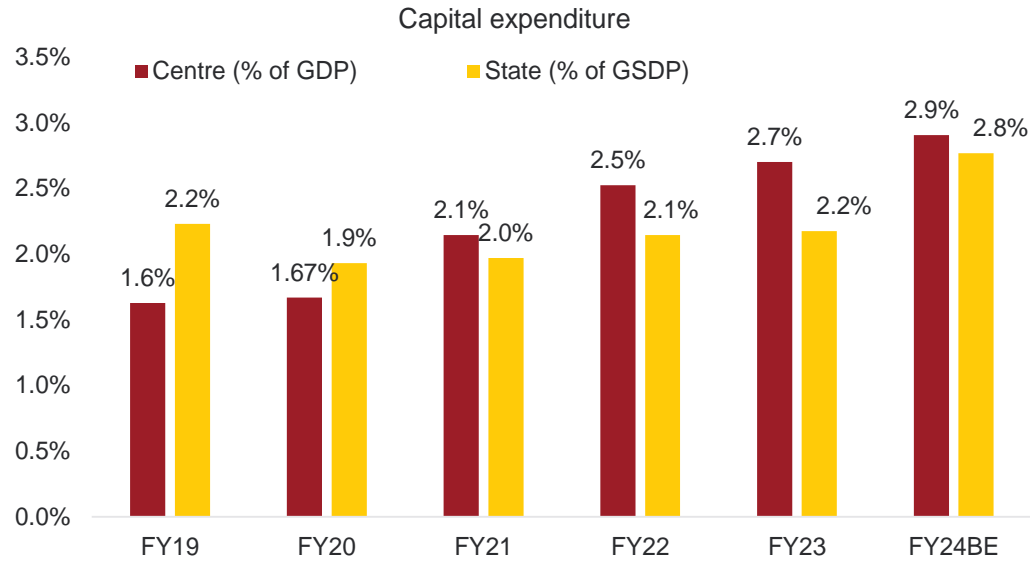
# Improvement in company profitability as input costs reduce



- Sector-wise growth led by services with pick-up in ‘trade, hotels and transportation’ and ‘real estate and financial services’
- Manufacturing sector growth supported by reduction in input cost pressures

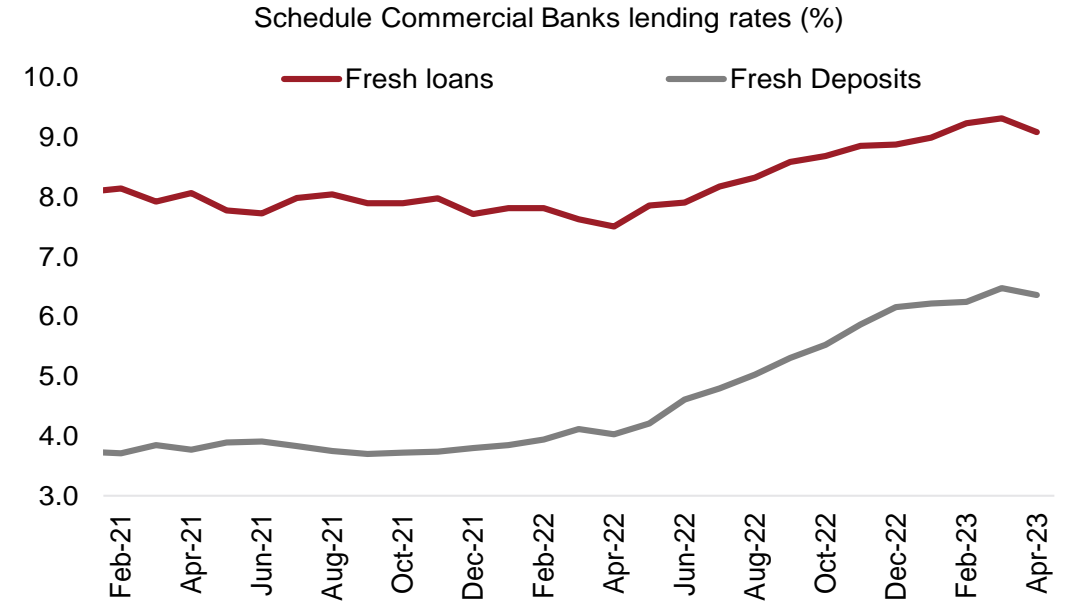
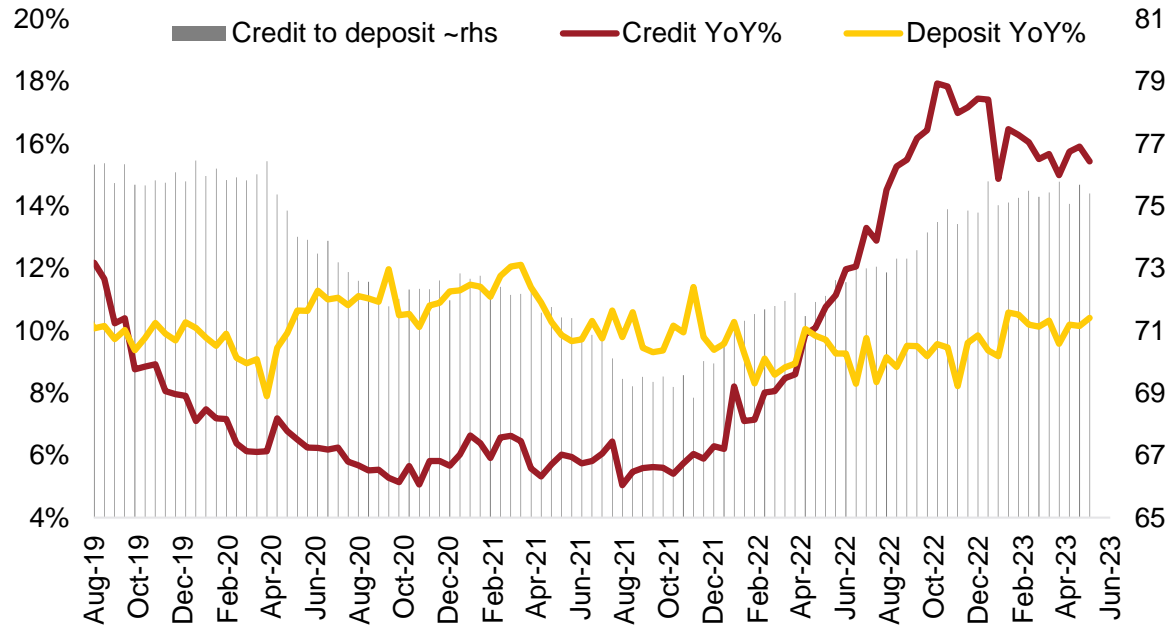
# Capex cycle recovery led by Centre expenditure

Improvement in capacity utilization to support capex



- Manufacturing capacity utilization is higher than long-run average
- Central government key support to capex cycle
- Downside risk from weak export growth

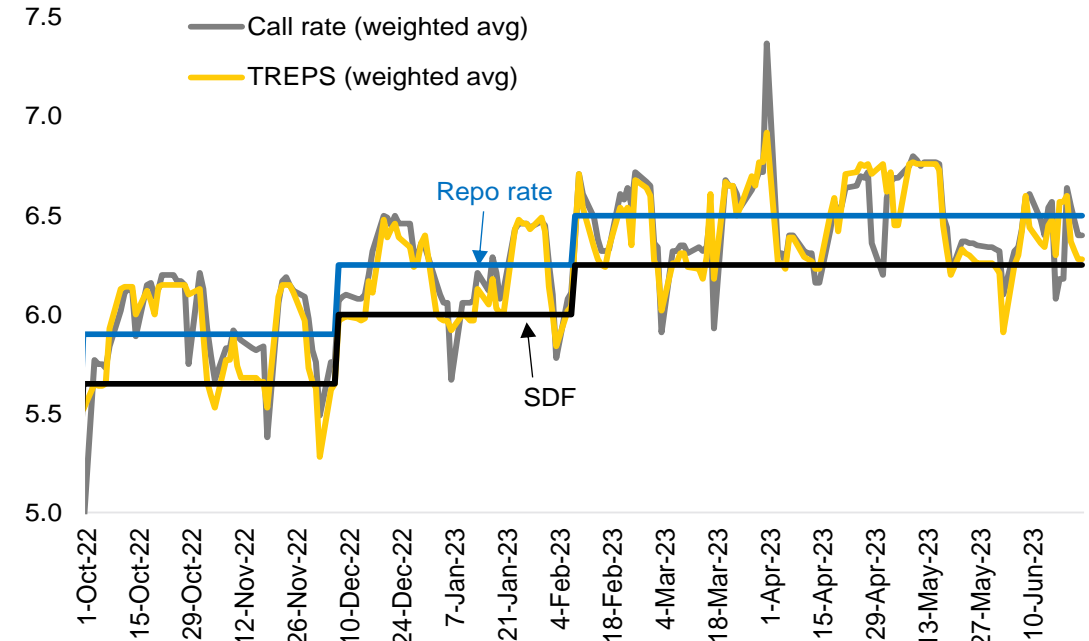
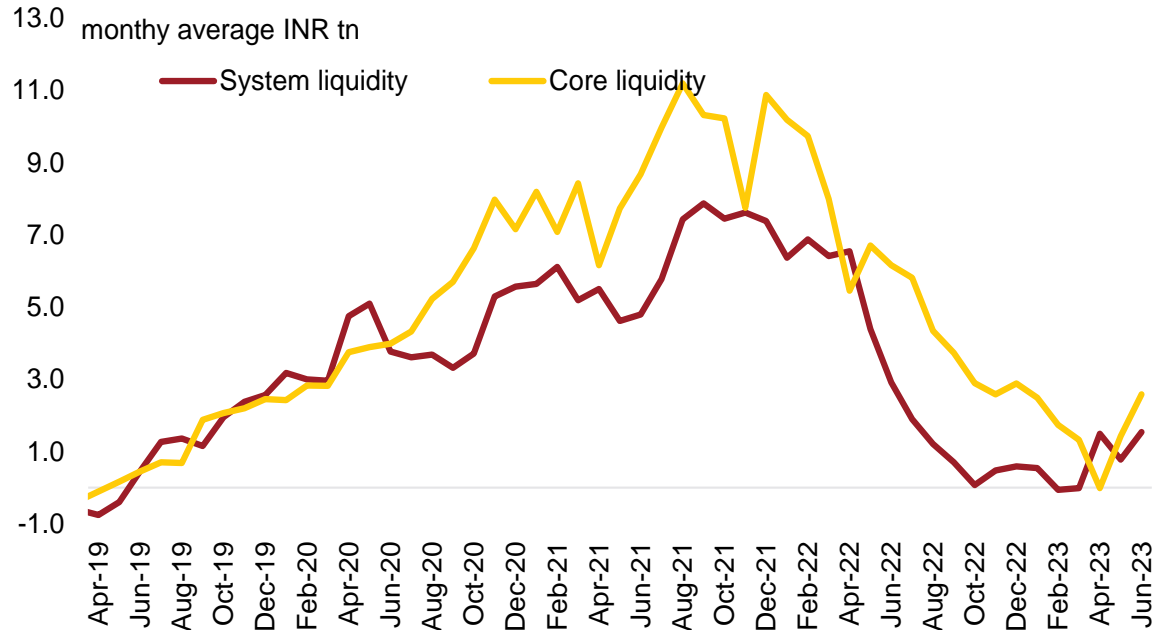
# Credit growth remains strong at 15.4%



- A large part of the transmission of the rate hikes has already taken place
- Credit growth remains strong while deposit growth continues to lag at 11.8%
- Interests on fresh loans and deposits reduced marginally in April 2023 post pause by RBI

# RBI: Comfortable with tighter liquidity conditions

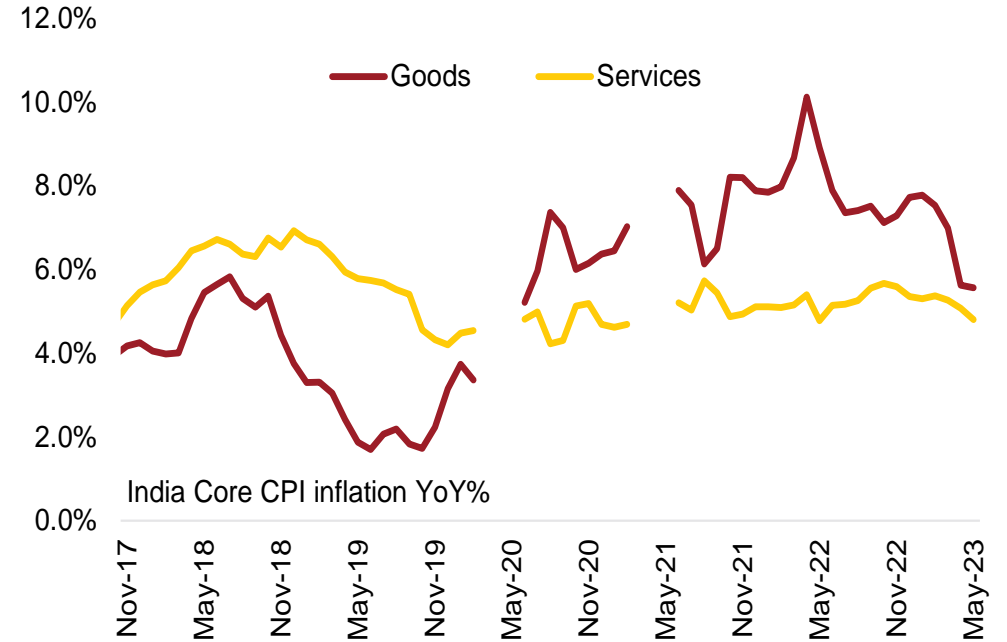
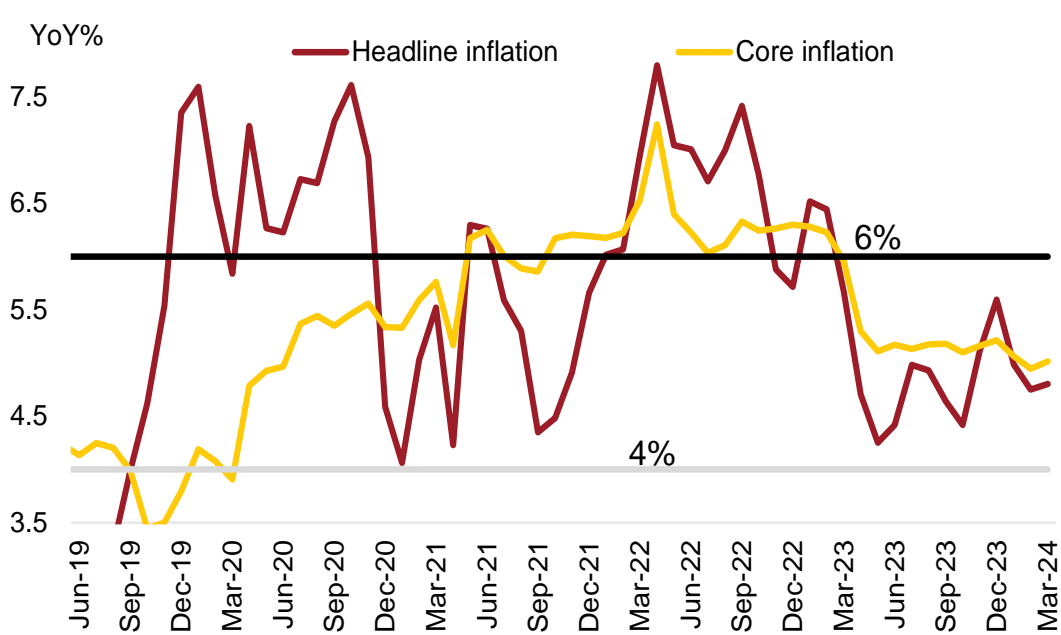
Chances of OMO infusion lower



- RBI's liquidity management focus is to keep overnight rates near repo rate
- Liquidity conditions are likely to stay comfortable till mid-FY24 with BoP surplus in Q1FY24 and impact of 2000 rupee note on currency in circulation
- The option of durable liquidity infusion by RBI likely in Q4FY24, depending on BoP dynamics

# RBI: Terminal repo rate expected at 6.50%

FY24 CPI inflation ~5.0% v/s 6.7% in FY23

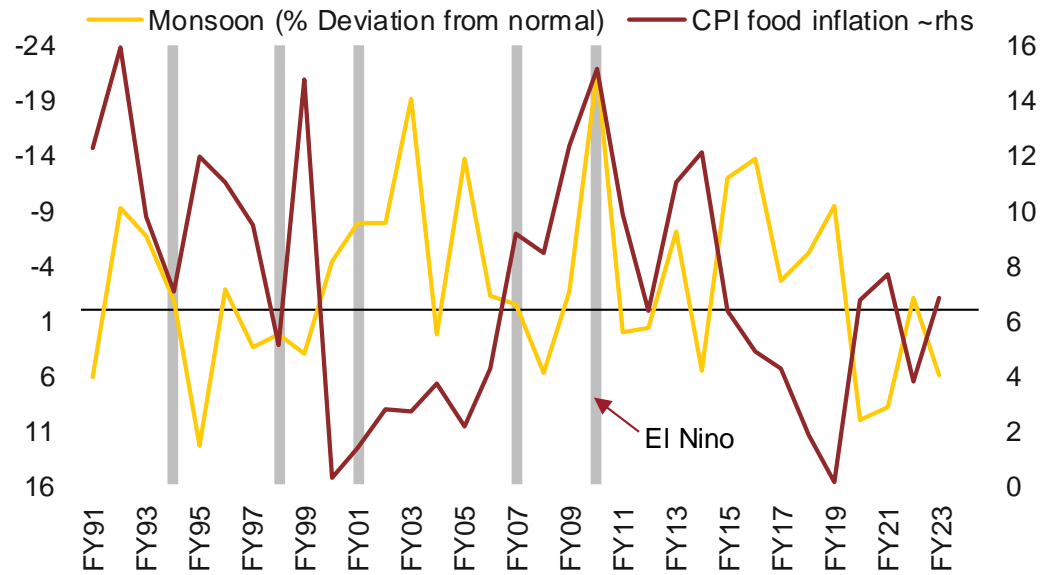


## On pause till at least December 2023

- As inflation remains above target in FY24 and growth conditions remain strong
- Stance change not expected anytime soon with liquidity remaining comfortable till H1FY24

# Risk to inflation- Monsoon: Impact depends on distribution

El Nino conditions likely



	Monsoon (deviation from LPA)	El Nino	CPI	CPI food	Rural wages	Global food prices	Food grain production (YoY%)
FY07	-0.4	1	6.8	9.1	5.7	12.1	4.2
FY08	5.7		6.2	8.4	7.9	18.2	6.2
FY09	-1.7		9.1	12.4	10.7	5.5	1.6
FY10	-21.8	1	12.4	15.1	15.8	-4.5	-7.0
FY11	2		10.4	9.9	18.2	17.5	12.1
FY12	1.6		8.4	6.3	19.9	10.8	6.1
FY13	-7.1		9.9	11.1	18.2	-2.6	-0.8
FY14	5.6		9.4	12.1	14.4	-0.9	3.1
FY15	-11.9		5.9	6.4	5.1	-4.4	-4.9
FY16	-13.8	1	4.9	4.9	4.8	-14.1	-0.2
FY17	-2.6		4.5	4.2	5.6	6.1	9.4
FY18	-5.2		3.6	1.8	5.2	0.3	3.6
FY19	-9.4	1	3.4	0.1	3.6	-3.4	0.1
FY20	10.00		4.8	6.7	3.7	-0.8	4.3
FY21	9.00		6.2	7.7	5.8	5.4	4.4
FY22	-1.00		5.5	3.8	4.2	28.0	1.6
FY23	6.00		6.8	6.8	5.2	9.5	2.5

- In the past a large deficit in monsoon doesn't necessarily result in adverse food inflation, even if food production is hit.
- Other factors play a role such as rural wages, global food inflation

# 10-yr g-sec expected to rise to 7.25% by September

by September



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Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research



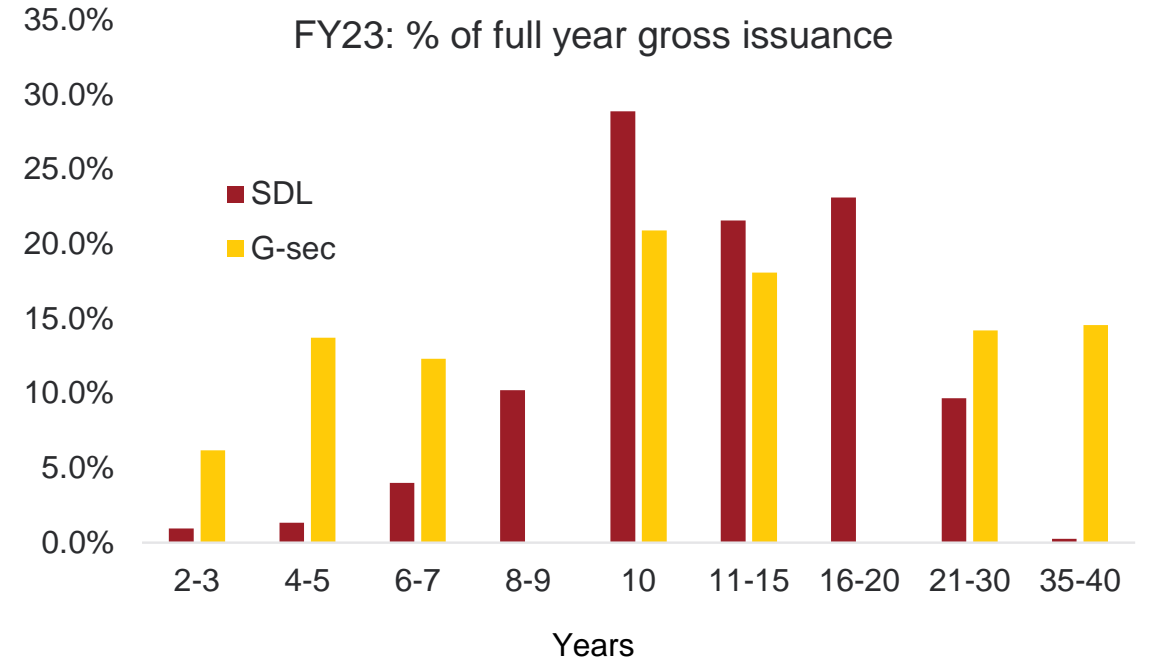
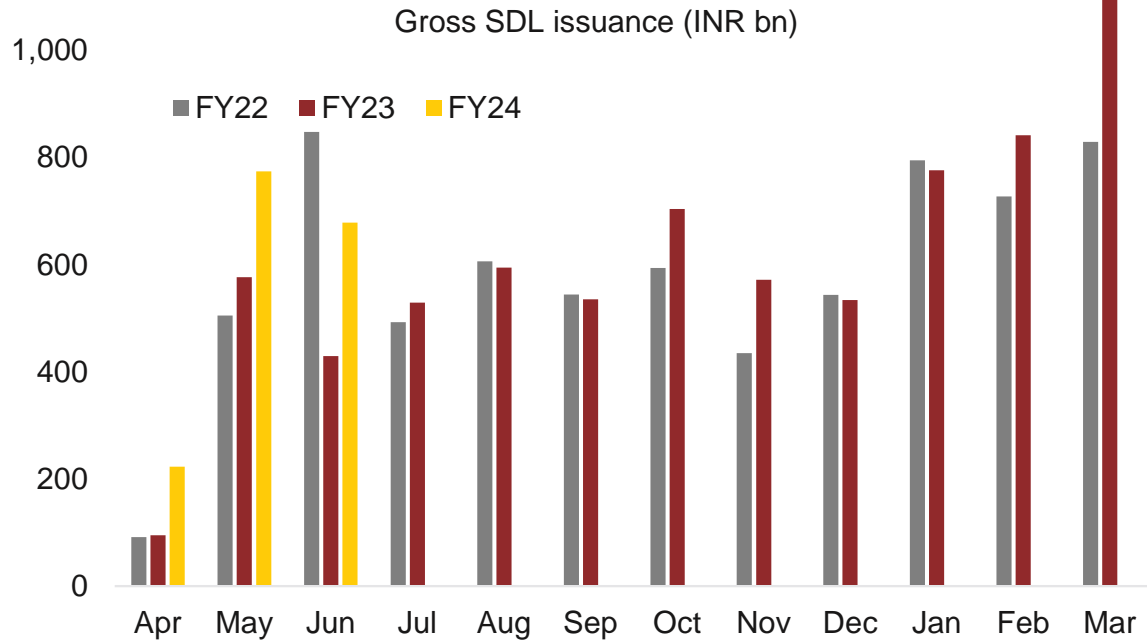
# Central Government securities - Supply dynamic

	Distribution of gross issuance	
	H1 FY23 actuals	H1 FY24
Up to 5y	20.4%	18%
10 and 14	36.7%	38%
30 and 40 yr	27.6%	34%
FRB	4.3%	
7yr	11.0%	10%

INR bn	H1 net issuance				
	FY20	FY21	FY22	FY23	FY24
April	680	474	487	1026	954
May	850	810	699	820	539
June	158	870	947	703	1558
July	252	1700	1224	1620	1360
August	790	1300	1115	746	1360
September	680	1200	1159	1100	1750
<b>H1</b>	<b>3410</b>	<b>6354</b>	<b>5631</b>	<b>6016</b>	<b>7522</b>
<b>FY</b>	<b>4740</b>	<b>11431</b>	<b>8631</b>	<b>11083</b>	<b>11809</b>

- Supply dynamics to be less favourable with rise in g-sec and SDL supply

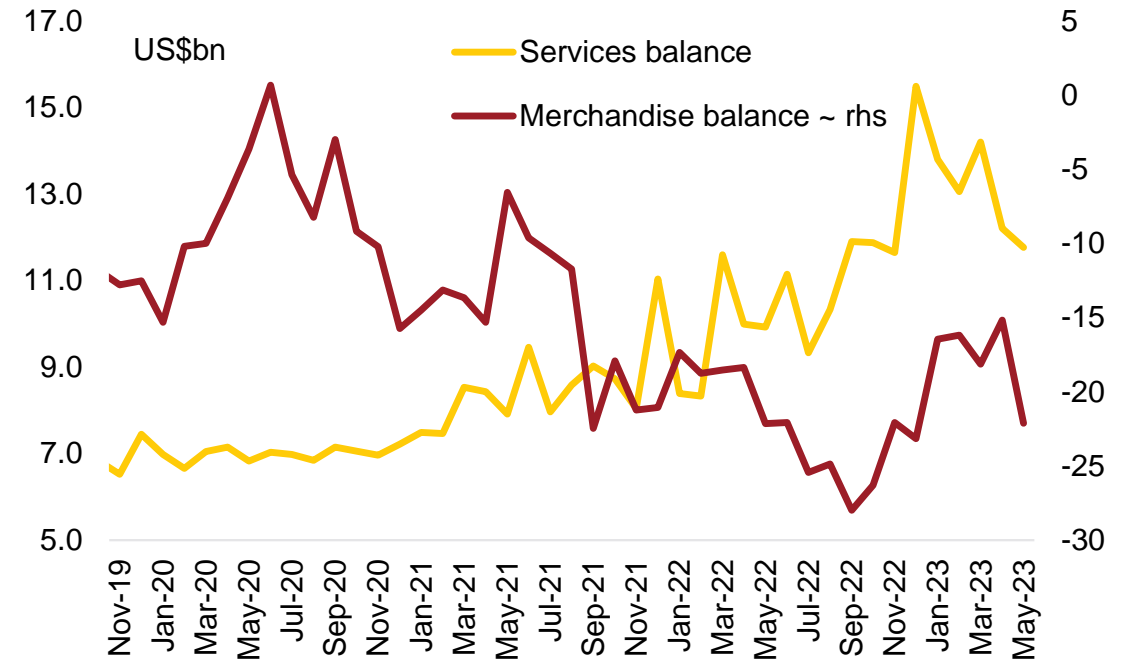
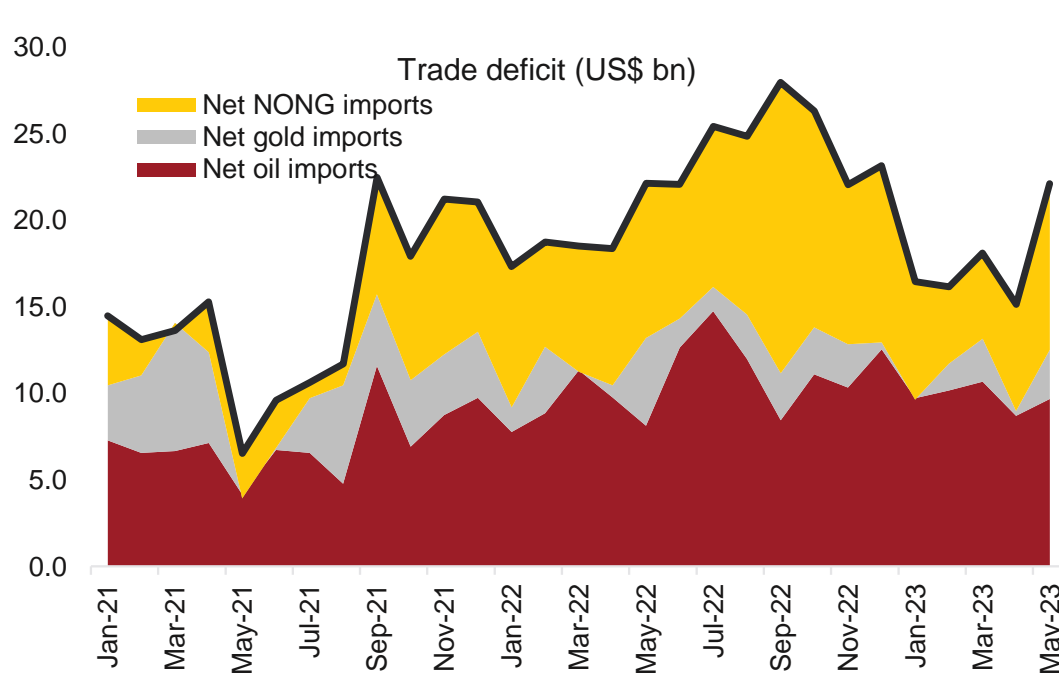
# State government bond supply to pick-up in FY24



- Gross supply expected at INR8.5tn in FY24 v/s INR7.6tn in FY23
- Higher supply from states will be concentrated in duration segment

# FY24 CAD to narrow to 1.8% of GDP v/s 2.1% in FY23

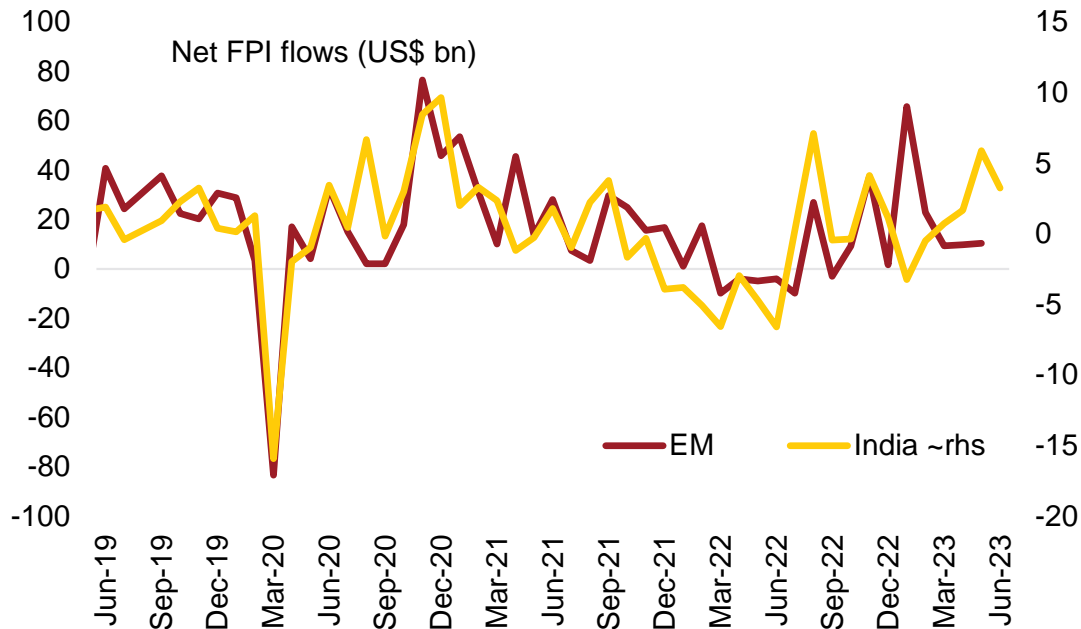
Sharp reduction in trade deficit and surge in services



- Current account deficit to narrow as crude oil prices remain subdued in FY24.
- Trade deficit expected to narrow as import decline outpace decline in exports
- Services surplus remains supported by growth recovery in DMs and Global Capability Centers (GCCs)

# FPI inflows surge to US\$10.8bn in Q1FY24

NRI deposits inflows rise in FY23

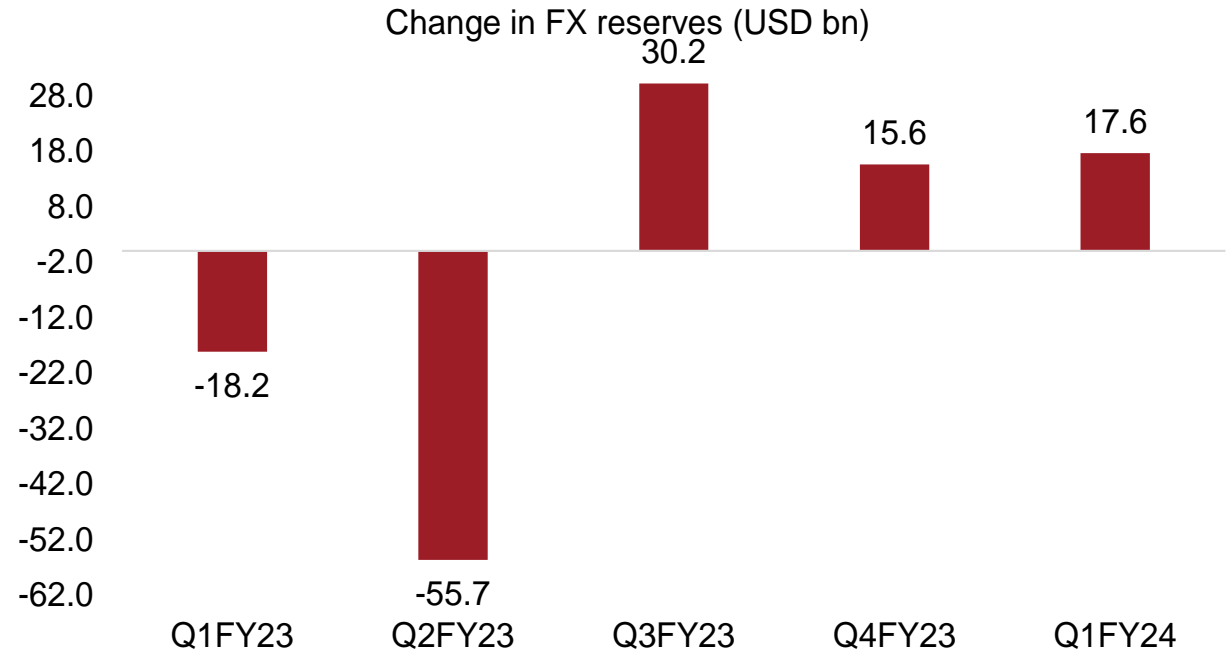
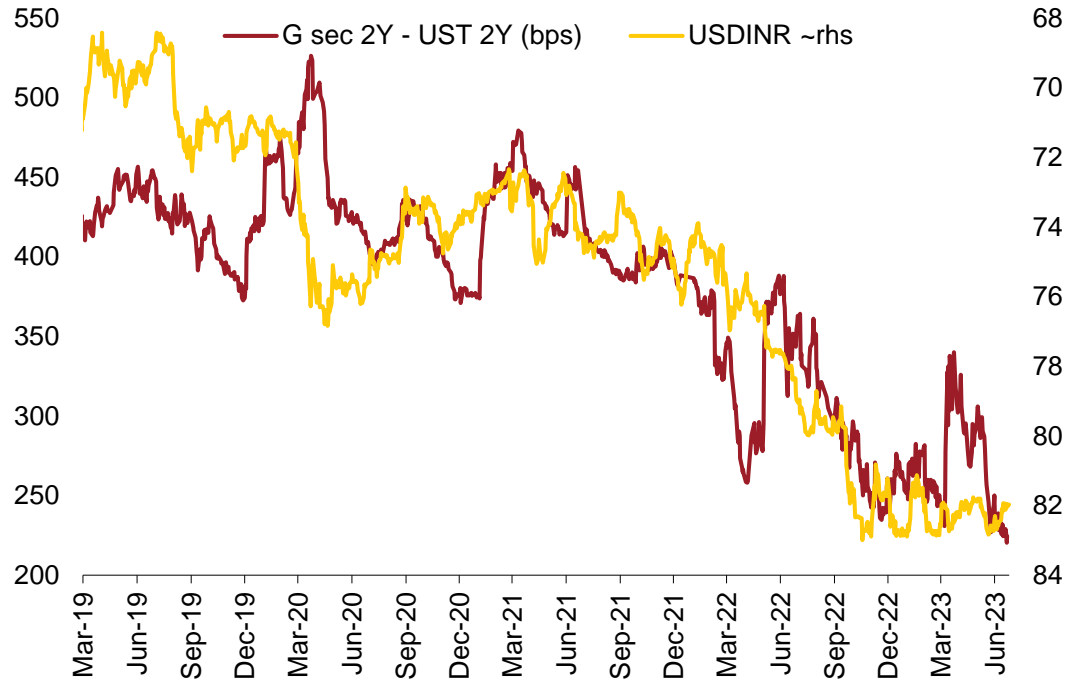


USD bn	Non Resident Indian Deposits	Foreign Currency Non Resident Accounts	Non Resident External Rupee Accounts	Non Resident Ordinary Rupee Accounts
FY22	3.2	-3.6	3.3	3.5
FY23	8.0	2.4	2.1	3.4

- Surge in FPI inflows is in equity as India has been able to differentiate itself from other EMs

# USDINR rangebound between 82-83

FPI picks-up in FY24



- Interest rate differentials between India and US at historical lows
- INR supported by pick-up in FPI inflows and narrow CAD
- RBI intervention to limit volatility in USDINR

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