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Global outlook

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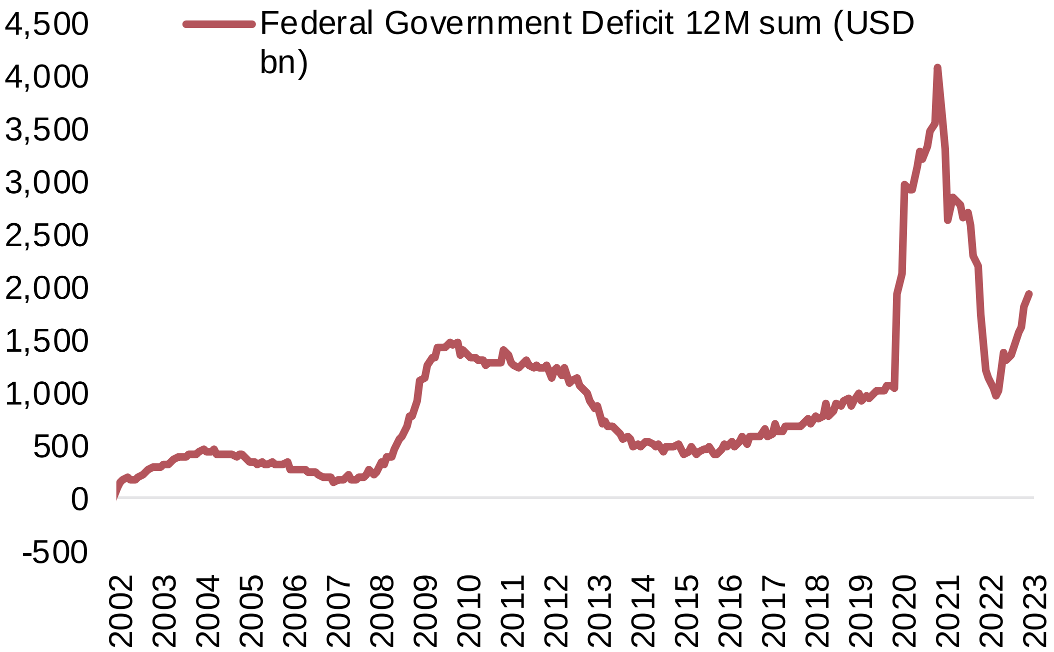
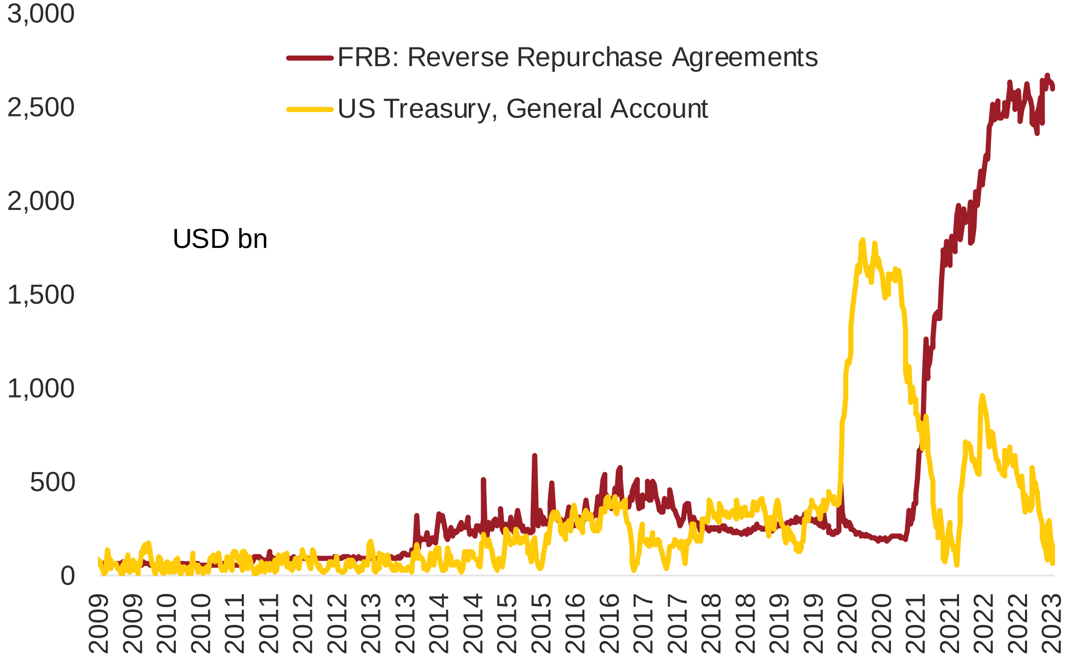
US: Debt ceiling to add near-term volatility

In case debt ceiling not increased could result in short-term growth shock



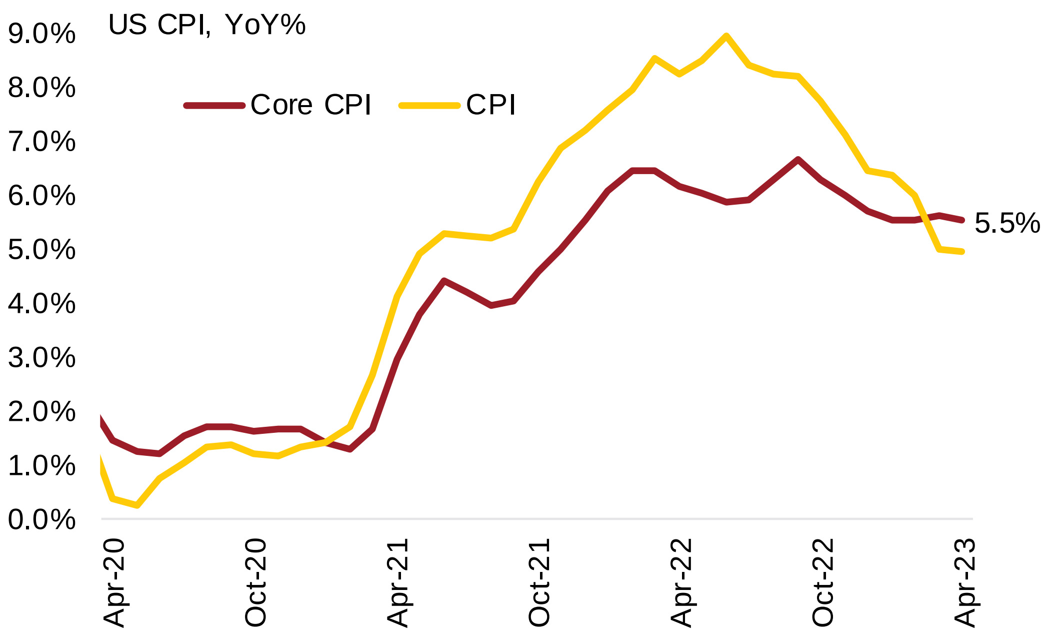


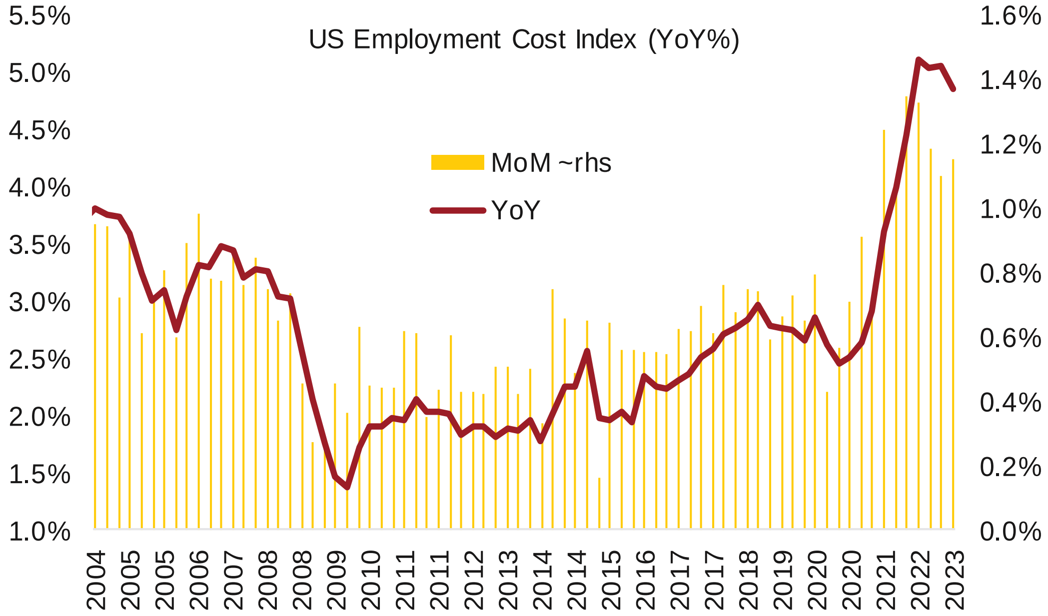
- Debt ceiling of US$31.4tn reached on January, 2023. As per US government projections they have funds till June 1st
- In case the debt ceiling isn't increased, debt servicing payments will be made first to avoid sovereign default. Could result in short-term growth shock to the US
- **In base case a deal is expected to be reached with agreement made on expenditure cuts**

Source: CEIC, IDFC FIRST Bank Economics Research.

US: Inflation pressures easing but still significantly above target

US consumer demand holding

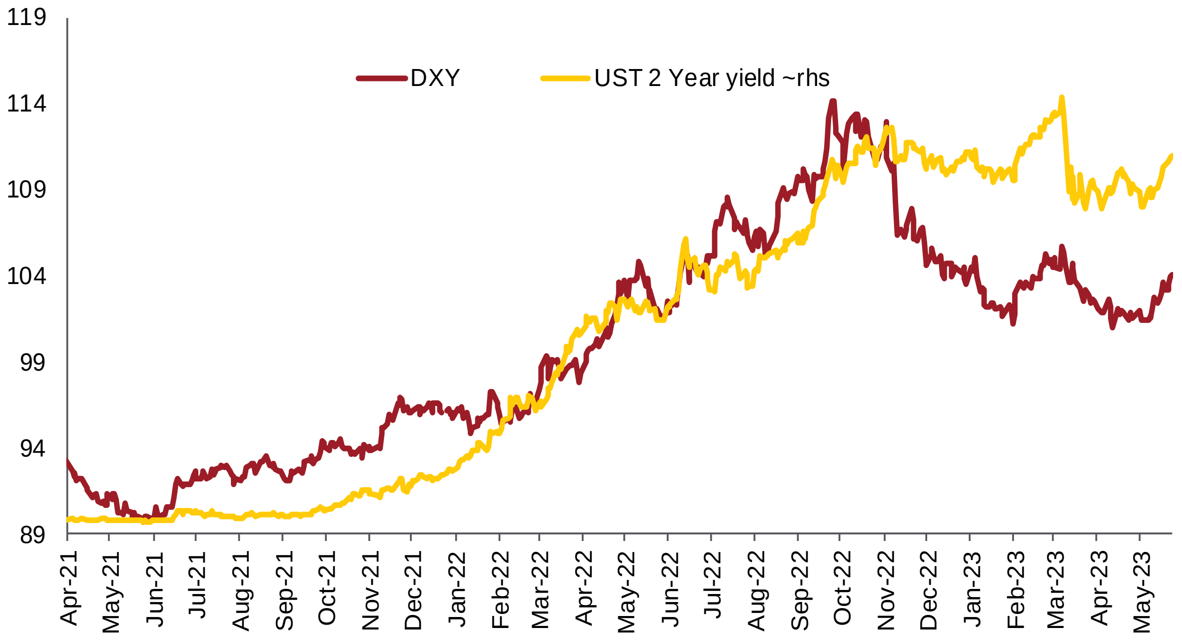


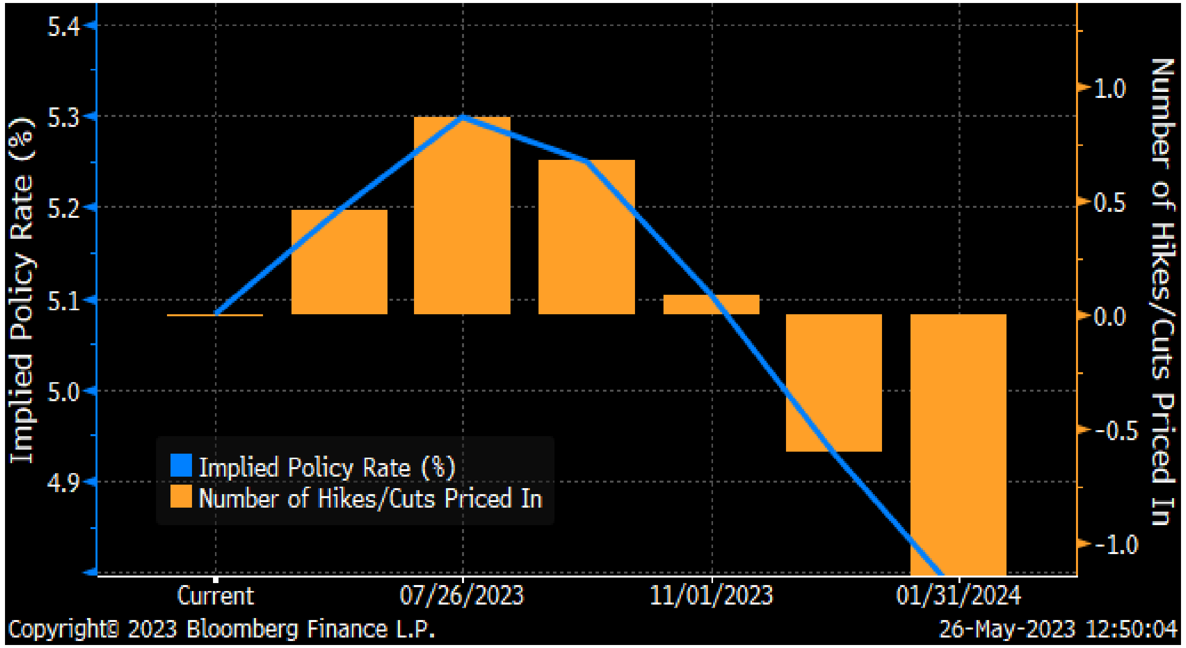


- Core services inflation to take time to decline as labour market remains strong
- Atlanta Fed GDPNow at 2.9% for Q2 2023

Source: CEIC, IDFC FIRST Bank Economics Research.

Dollar finds support as markets' expectation of rate cuts reduces

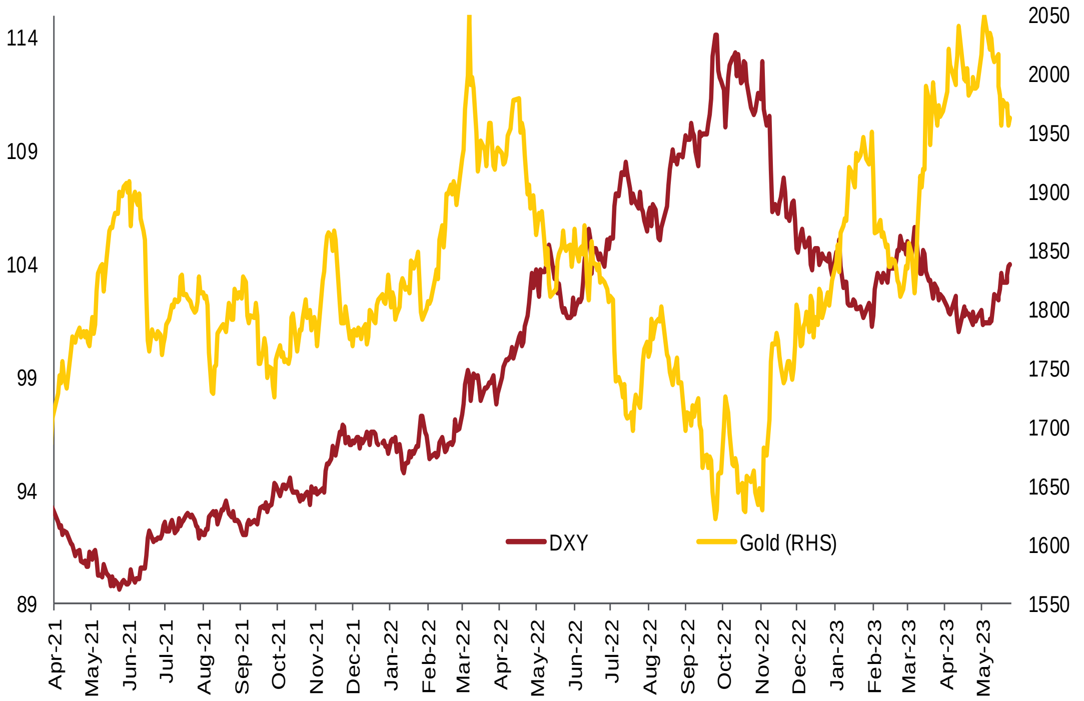


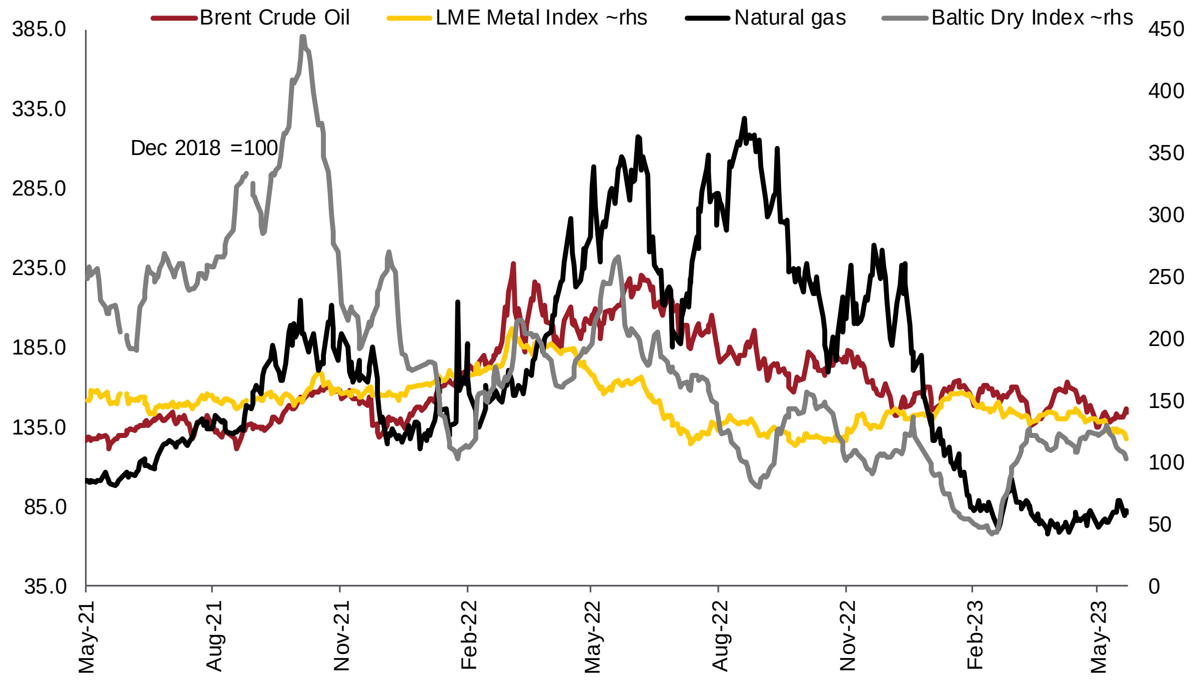


- Markets are now pricing-in shallow rate cuts by the Fed
- Commentary from Fed members remains hawkish
- Further scope for dollar strength as markets start pricing-in Fed remaining on pause

Source: Fed, CEIC, IDFC FIRST Bank Economics Research.

Commodity prices to weaken as dollar gains strength





- Gold prices weaken as dollar strength resurfaces
- Crude oil prices remain low due to global growth worries and subdued recovery in China

Source: Fed, CEIC, IDFC FIRST Bank Economics Research.

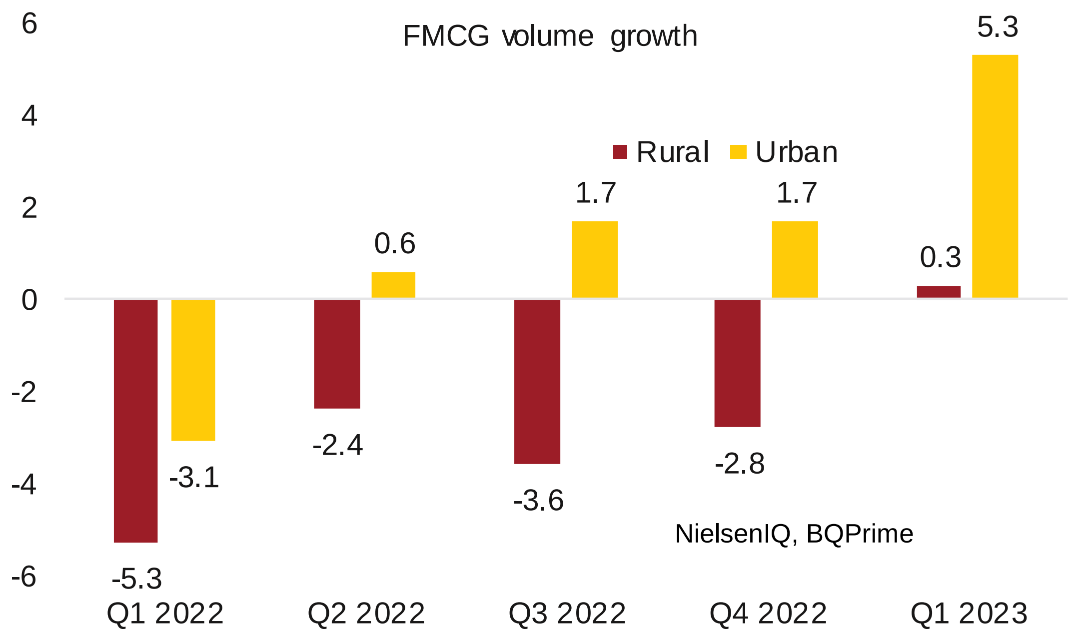
India outlook

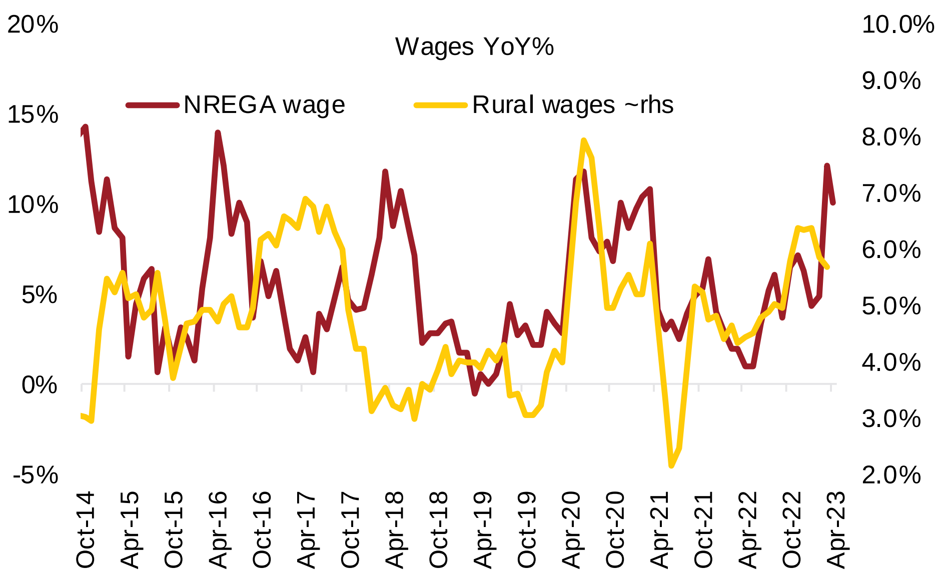
Growth heatmap

YoY%, PMI in levels	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23
Industry													
Industry production	6.7%	19.7%	12.6%	2.2%	-0.7%	3.3%	-4.1%	7.6%	5.1%	5.5%	5.8%	1.1%	
Manufacturing PMI	54.70	54.60	53.90	56.4	56.2	55.1	55.3	55.7	57.8	55.4	55.3	56.4	57.2
Industry credit	8.0%	8.8%	9.5%	10.5%	11.4%	12.6%	13.6%	13.1%	8.6%	8.7%	7.0%	5.7%	
Infrastructure index	9.5%	19.3%	13.1%	4.8%	4.2%	8.3%	0.7%	5.7%	8.3%	8.9%	7.2%	3.6%	
Electricity demand	14.7%	24.5%	16.7%	3.6%	1.8%	12.7%	0.0%	11.0%	11.6%	13.7%	9.9%	-1.7%	-3.9%
Construction													
Steel consumption	2.8%	17.9%	8.8%	13.8%	14.0%	12.8%	12.7%	13.4%	12.0%	9.7%	21.6%	20.8%	7.2%
Cement production	7.4%	26.2%	19.7%	0.7%	2.1%	12.4%	-4.2%	29.1%	9.5%	4.6%	7.4%	-0.8%	
Services													
Services PMI	57.90	58.90	59.20	55.50	57.20	54.30	55.10	56.40	58.50	57.20	59.40	57.80	62.00
Transport Services													
Railway freight	17.7%	21.0%	19.3%	17.5%	15.7%	10.3%	0.8%	4.3%	6.0%	6.4%	4.7%	3.0%	-0.6%
Domestic aviation cargo traffic	13%	153.4%	80.9%	37.4%	20.8%	11.6%	-6.0%	15.9%	10.7%	-8.1%	-8.6%	-4.6%	
Shipping Cargo	5.6%	8.8%	13.5%	15.1%	8.0%	14.9%	3.6%	2.0%	10.4%	12.2%	12.0%	1.5%	1.3%
GST E-way bills	28.0%	84.1%	36.2%	17.8%	18.7%	23.7%	4.6%	32.0%	17.5%	19.7%	18.4%	16.3%	12.2%
Financial and Real Estate Services													
Bank credit	10.1%	11.1%	12.1%	14.5%	15.5%	16.4%	17.8%	17.2%	14.9%	16.3%	15.5%	15.0%	15.9%
Bank Deposit	9.8%	9.3%	8.3%	9.2%	9.5%	9.2%	9.5%	9.6%	9.2%	10.5%	10.1%	9.6%	10.2%
Stamp duty revenue	46.9%	235.4%	45.9%	7.7%	10.1%	9.7%	-8.3%	13.2%	9.7%	8.4%	19.2%		
Public Services													
Central govt revenue expenditure ex interest	3%	23.9%	-14.3%	-27.7%	-6.5%	19.5%	48.8%	18.0%	-12.3%	12.6%	4.3%		
State government revenue expenditure ex interest	12.1%	7.2%	19.3%	31.8%	33.5%	35.5%	18.8%	33.0%	14.5%	23.8%	28.7%		
Consumption													
Domestic PV sales	-3.8%	185.1%	19.1%	11.1%	21.1%	92.0%	28.6%	28.1%	7.2%	17.2%	11.0%	4.5%	31.7%
2W sales	15.4%	255.3%	24.0%	10.2%	17.0%	13.5%	2.3%	17.7%	3.9%	5.0%	8.8%	9.0%	16.5%
Domestic Aviation passenger traffic	87.8%	474.7%	247.9%	97.9%	54.9%	49.0%	30.4%	12.6%	14.6%	96.8%	57.4%	21.6%	
Railway passenger traffic	116.1%	478.1%	237.6%	168.6%	113.6%	87.6%	62.2%	51.1%	40.7%	64.5%	29.8%	20.5%	20.2%
Personal loans	14.4%	16.3%	18.1%	18.7%	19.4%	19.4%	20.1%	19.6%	20.0%	20.4%	20.4%	20.6%	
Petrol + Diesel consumption	10.3%	36.9%	23.7%	7.7%	12.6%	11.9%	6.6%	16.0%	6.4%	13.1%	7.8%	2.7%	7.0%
Rural wages	4.4%	4.5%	4.8%	4.9%	5.0%	5.0%	5.8%	6.4%	6.3%	6.4%	5.9%	5.7%	
Investment													
Central Govt Capital expenditure	67.5%	77.8%	40.1%	98.5%	0.5%	57.5%	176.5%	87.1%	-63.7%	59.8%	-53.2%		
State government capital expenditure	-17.8%	9.8%	-7.3%	23.3%	41.9%	-5.0%	-9.7%	51.1%	16.3%	31.2%	45.7%		
Capital goods production	12.0%	53.3%	28.6%	5.1%	4.3%	11.4%	-2.9%	20.7%	7.8%	10.7%	10.5%	8.1%	
External trade													
Exports	29.1%	20.8%	30.1%	7.9%	10.9%	4.7%	-11.5%	9.7%	-3.1%	1.6%	-0.4%	-7.2%	-12.7%
Imports	26.1%	57.4%	52.9%	38.2%	37.2%	12.6%	8.0%	7.4%	1.5%	-0.6%	-4.9%	-4.9%	-14.1%

Source: CEIC, IDFC FIRST Bank Economics Research

Urban areas lead consumption recovery



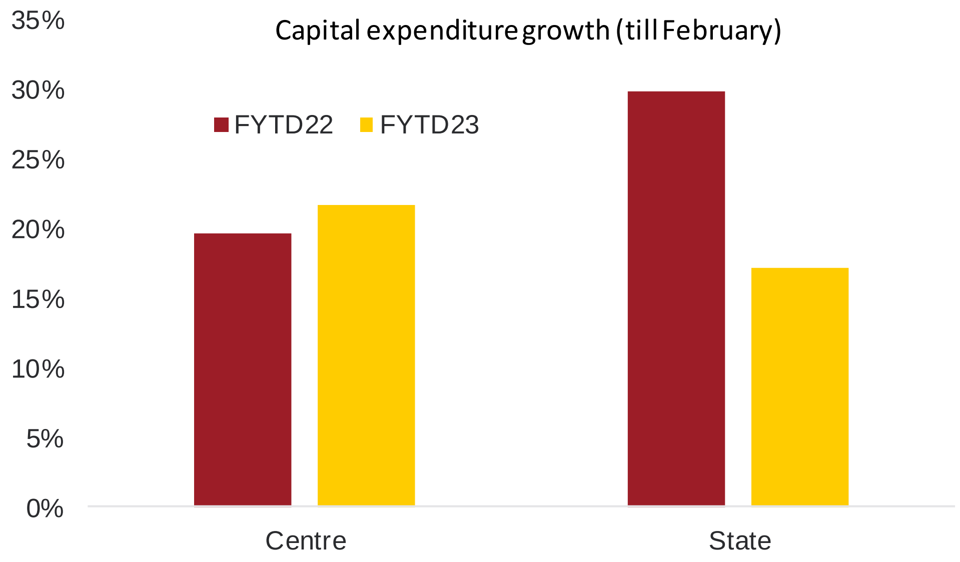


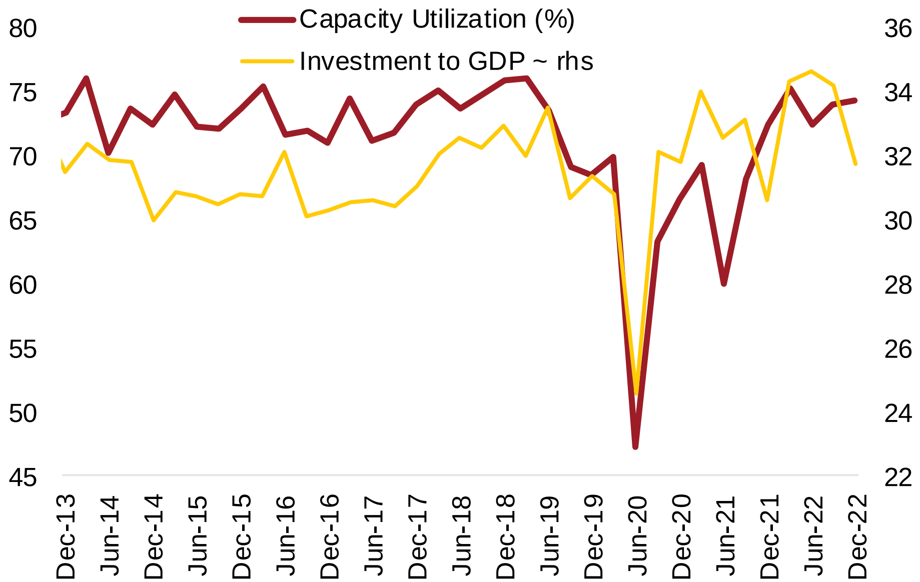
- Nascent signs of rural recovery as wage growth picks-up

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

Capex cycle recovery led by Centre expenditure

Improvement in capacity utilization to support capex

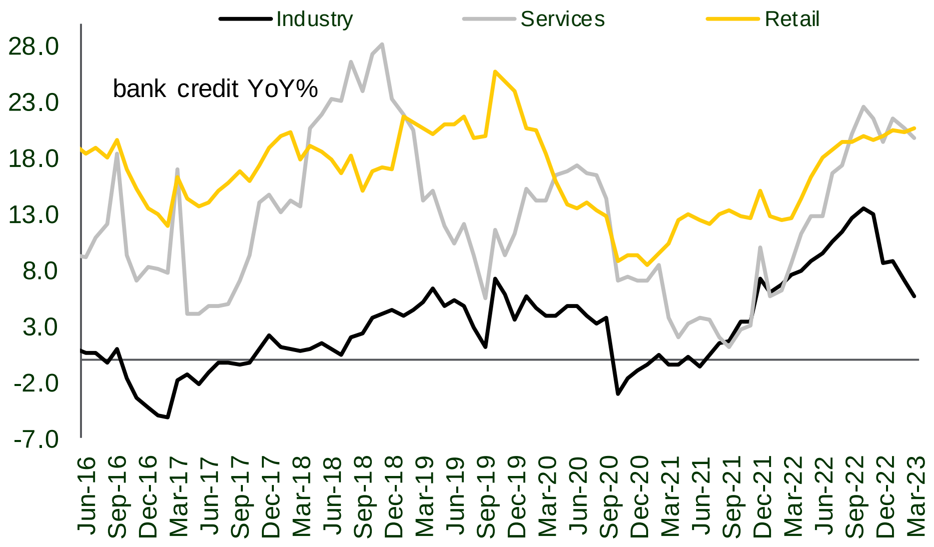


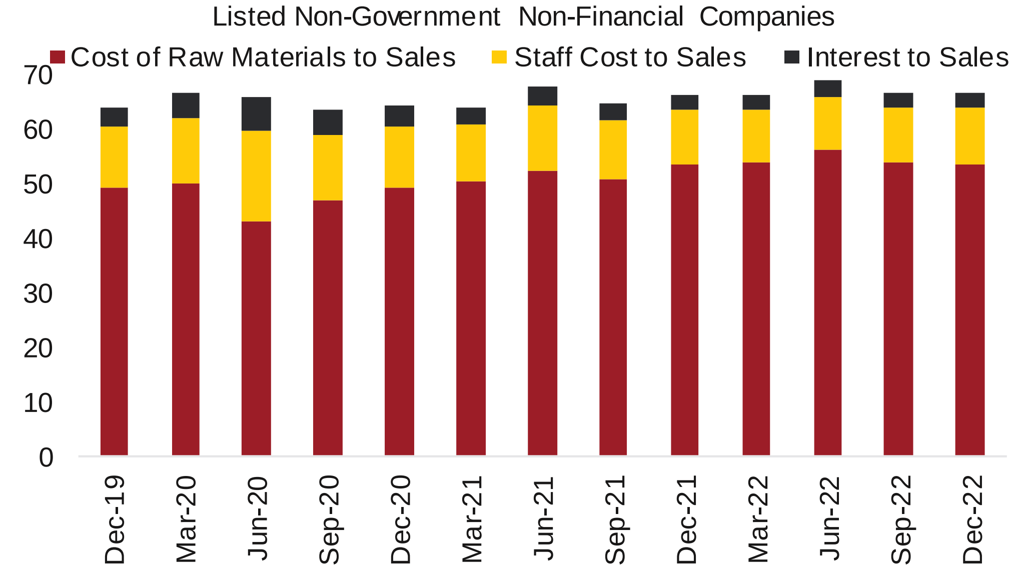


- Manufacturing capacity utilization is higher than long-run average
- Central government key support to capex cycle
- Downside risk from weak export growth

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

Limited impact of rate hikes till now





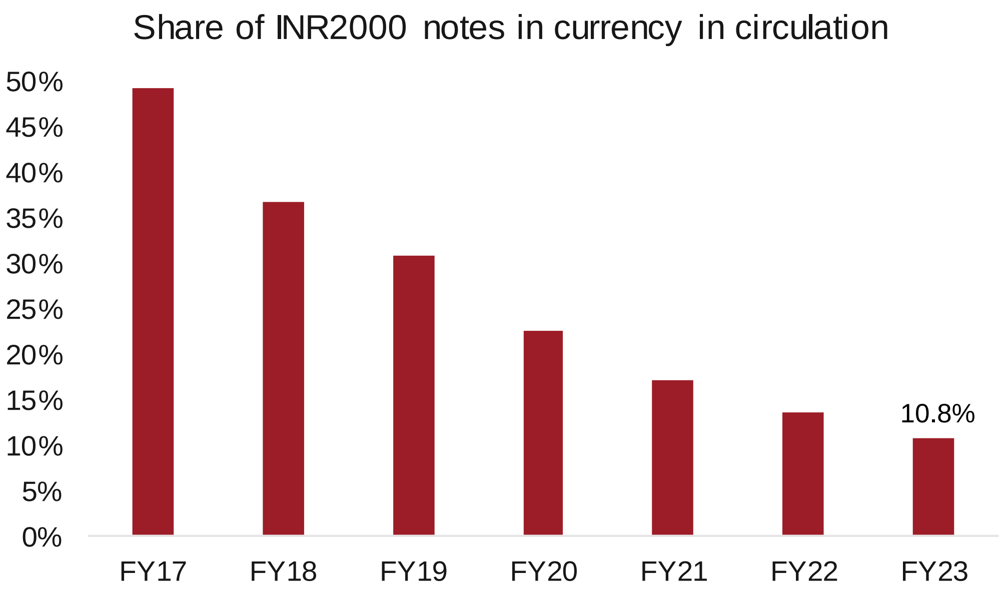
Change in interest rates (March 2023 over March 2022)	FY23
Outstanding loans weighted average lending rates	0.98
Fresh loans weighted average lending rates	1.69
1Yr MCLR	1.30
Domestic term deposit rates - outstanding	1.13
Domestic term deposit rates - fresh	2.36
Reverse repo / SDF	2.90

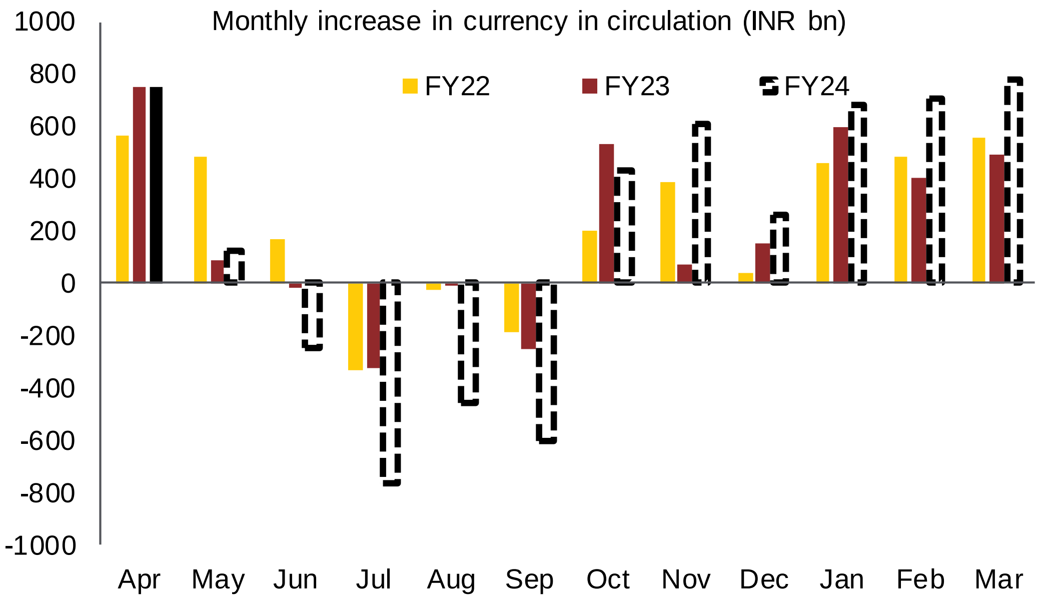
- A large part of the transmission of the rate hikes has already taken place
- Limited impact seen on growth with moderation in industry credit, while retail and services credit remains strong
- Interest cost to sales ratio for companies remains lower than pre-pandemic levels

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

2000 note withdrawal to have limited impact

Could reduce currency leakage by max INR500bn in FY24



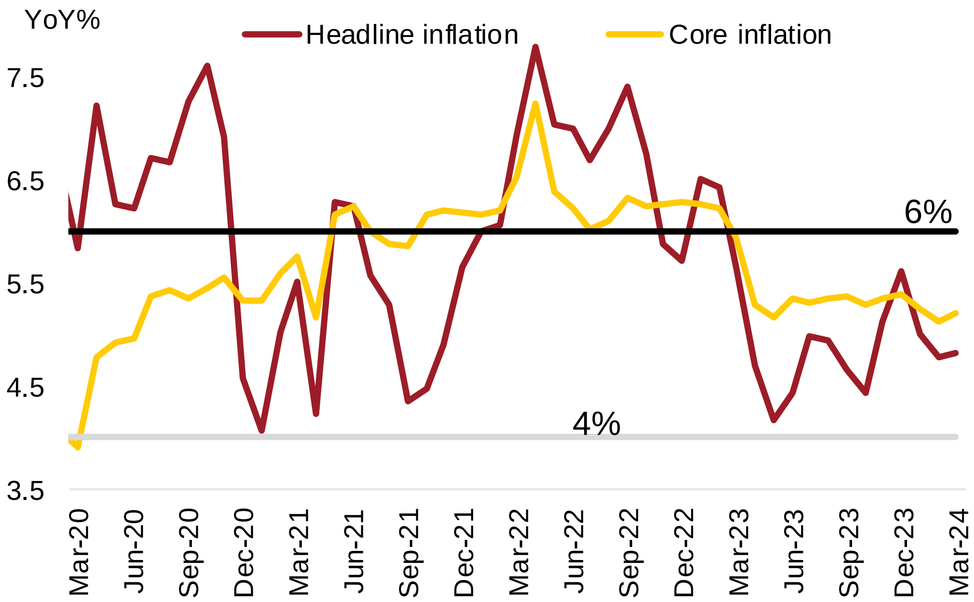


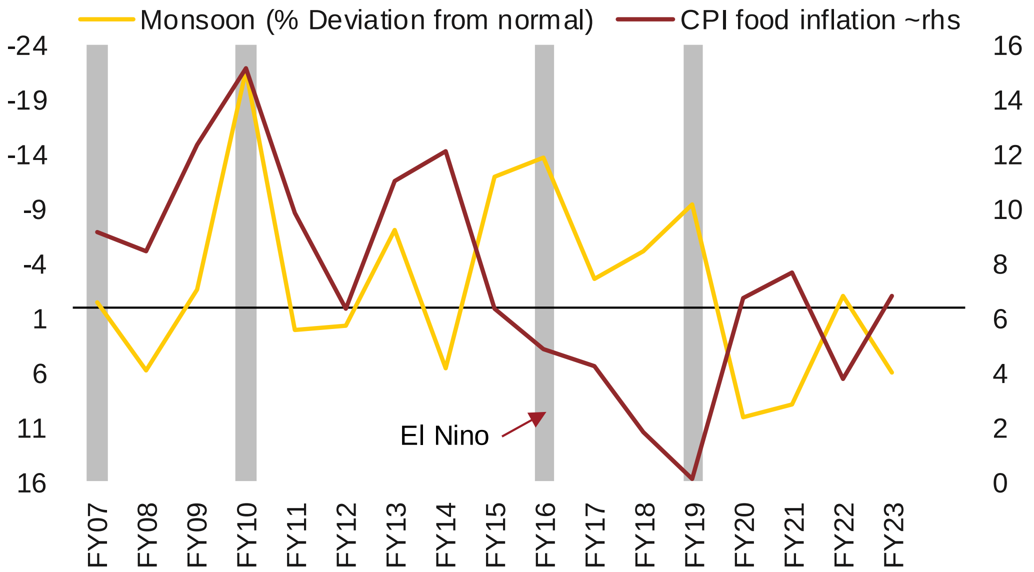
- This is different from demonetization – INR2000 note remains legal tender; only 10.8% of currency in circulation impacted, longer time given to exchange notes
- Is expected to support banking system liquidity till September by reducing currency leakage and supporting bank deposit growth. The impact is likely to wane in H2FY24
- The transient liquidity infusion likely to push back durable liquidity infusion towards Q4FY24

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

RBI: Terminal repo rate expected at 6.50%

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



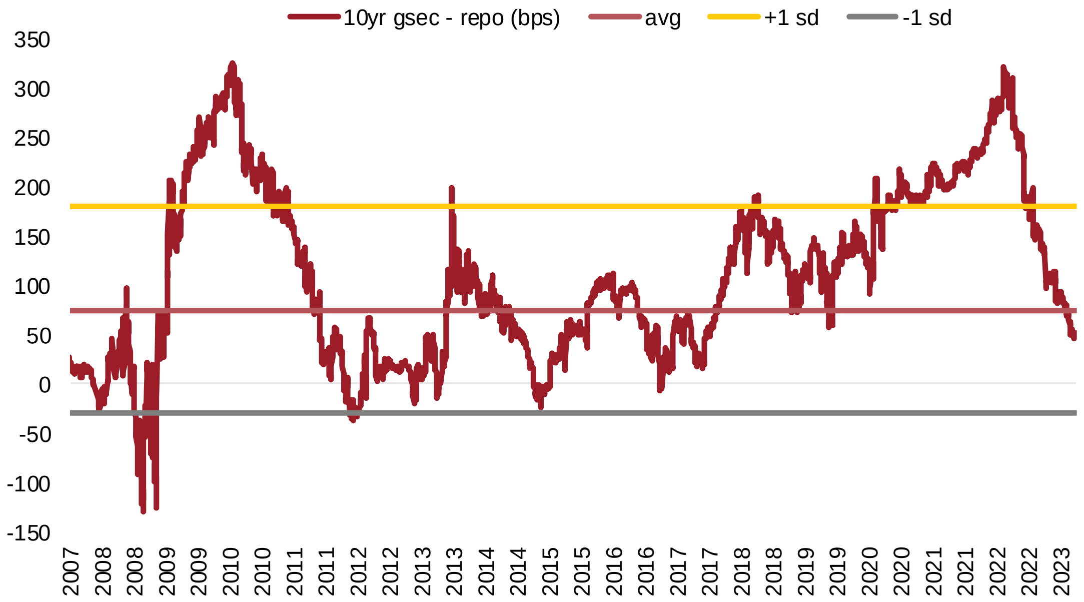


- Threshold to raise policy rates in June much higher given that inflation is expected to reduce to sub 5% in Q1FY24 (due to base-effect)
- Stance likely to be retained as withdrawal of accommodation in June
- Liquidity management will be key going forward. We expect durable liquidity infusion by RBI towards the end of FY24
- Key risk to inflation outlook is monsoon performance

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

10-yr g-sec expected to rise to 7.25%

Till September 2023



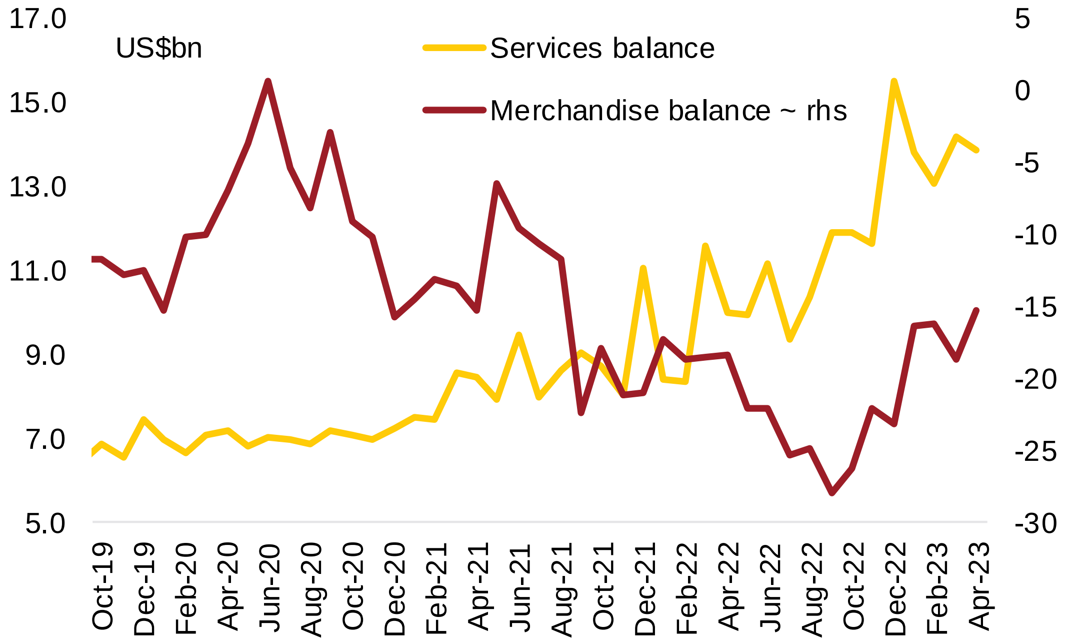
	H1 net issuance				
INR bn	FY20	FY21	FY22	FY23	FY24
April	680	474	487	1026	954
May	850	810	699	820	539
June	158	870	947	703	1558
July	252	1700	1224	1620	1360
August	790	1300	1115	746	1360
September	680	1200	1159	1100	1750
H1	**3410**	**6354**	**5631**	**6016**	**7522**
FY	**4740**	**11431**	**8631**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

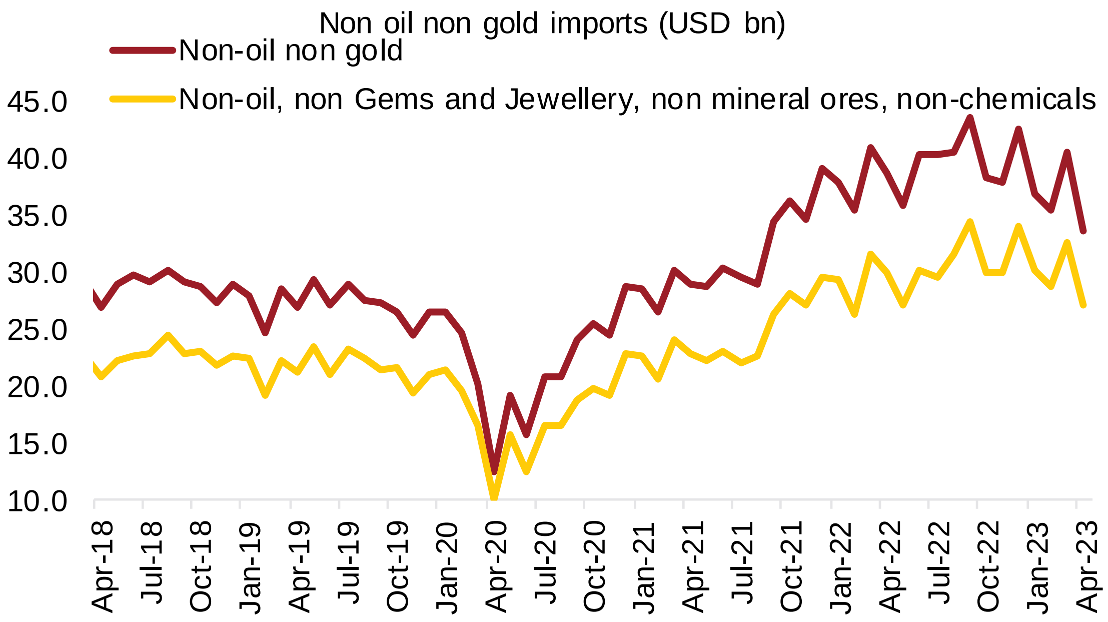
- Market appetite has been better than expected and liquidity is expected to be better with reduction in current account deficit and transient liquidity boost from INR2000 notes withdrawal
- Our forecast assumes RBI remaining on pause

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

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

Sharp reduction in trade deficit and surge in services



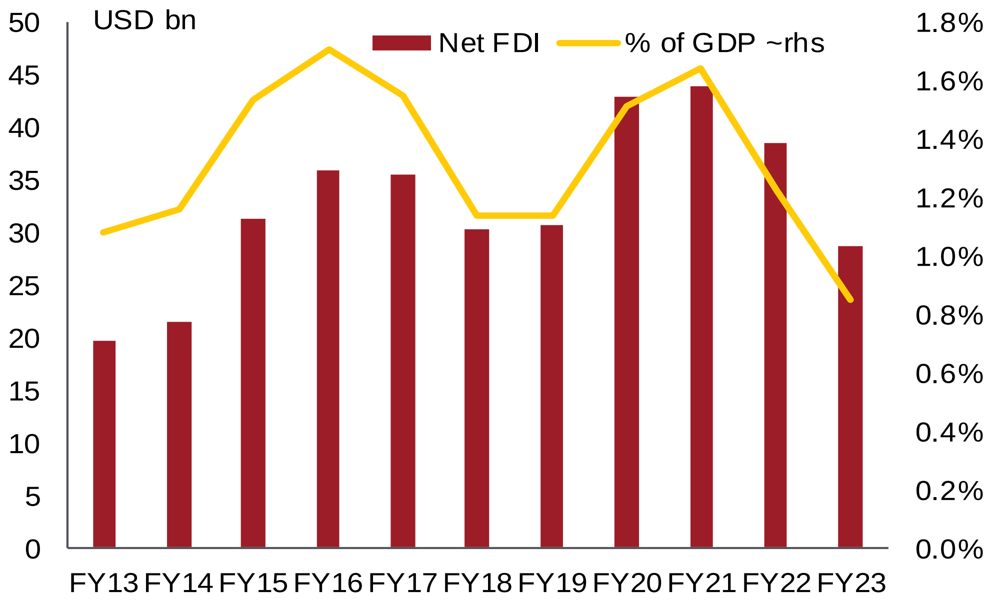


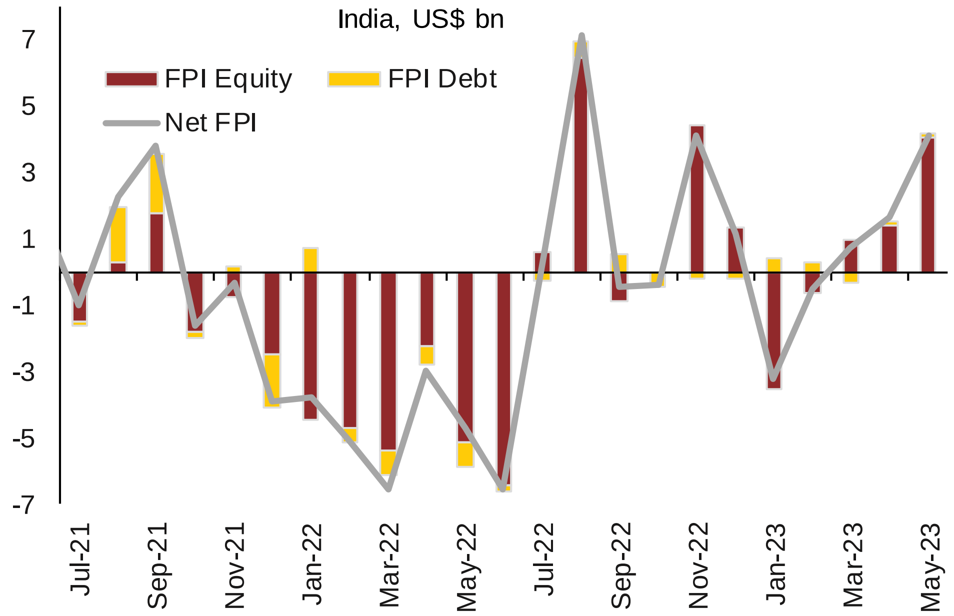
- Current account deficit to narrow as crude oil prices remain subdued in FY24.
- Trade deficit expected to narrow as import decline outpace decline in exports
- Services surplus remains supported by growth recovery in DMs and Global Capability Centers (GCCs)

Source: CEIC, IDFC FIRST Bank Economics Research

Capital flows– FDI inflows decline in FY23

FPI picks-up in FY24



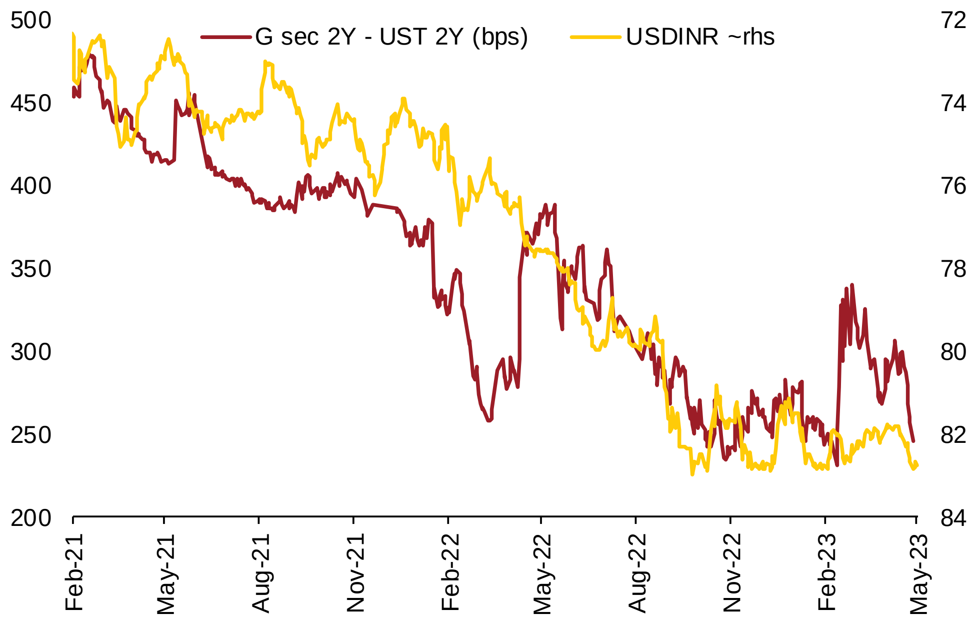


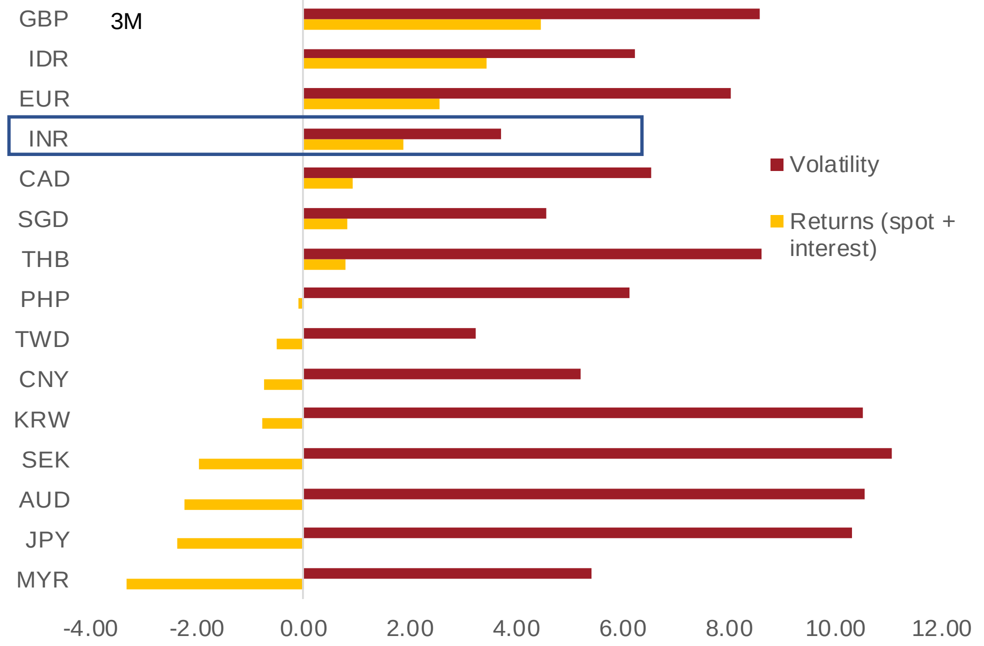
- FDI inflows decline to US$28.7bn in FY23 from US$38.6bn in FY22, reflecting global growth weakness
- FPI inflows in FYTD24 at US$5.7bn (-US$5.5bn in FY23)

Source: CEIC, IDFC FIRST Bank Economics Research

USDINR – Mild depreciation pressures

USDINR expected to trade between 82 to 83 in the near-term; Weaken to 84.00 by mid-2023





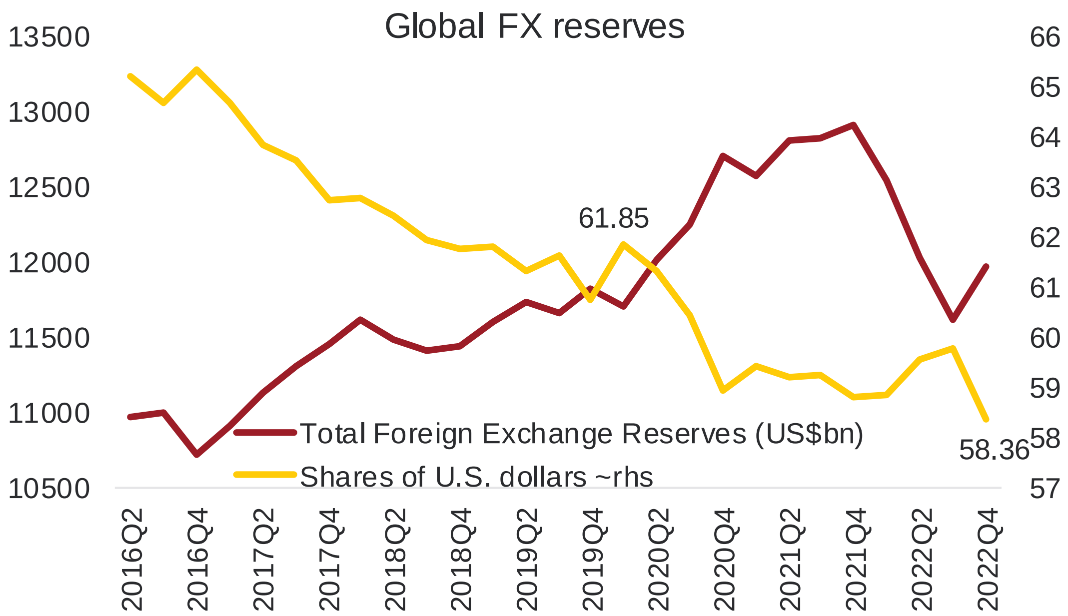
Depreciation supported by

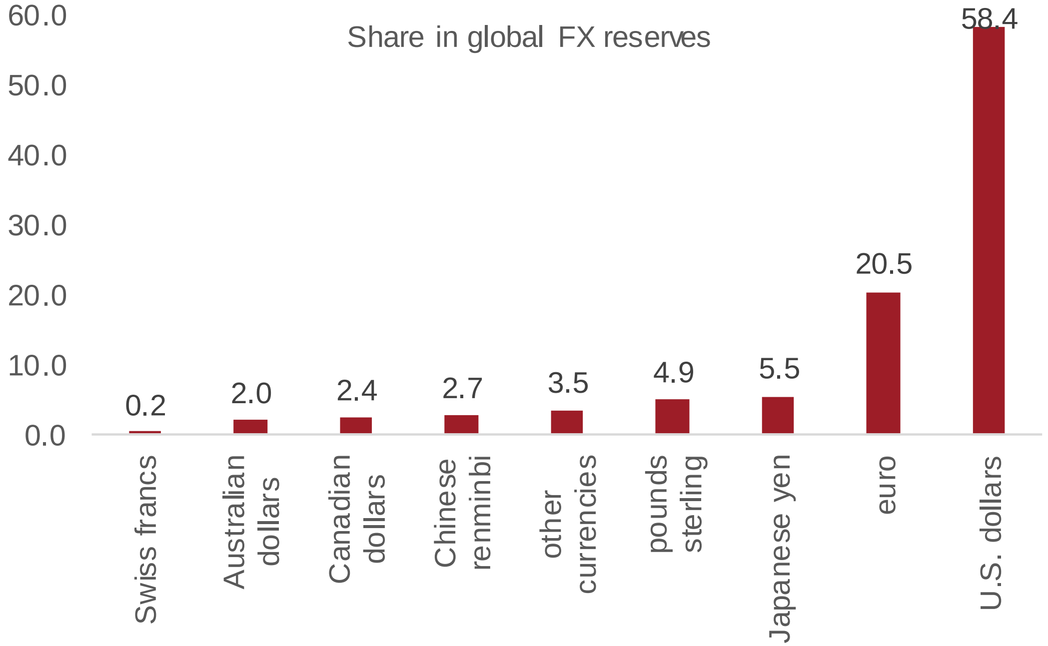
- Interest rate differentials between India and US at historical lows
- Risk-off sentiment to keep portfolio flows volatile
- RBI intervention to limit volatility in USDINR
- Banking capital inflows expected to normalize in FY24
- Reduction in current account deficit to ensure depreciation remains gradual

Source: CEIC, IDFC FIRST Bank Economics Research

Dollar still plays a dominant role in global trade

Accounts for majority of global FX reserves

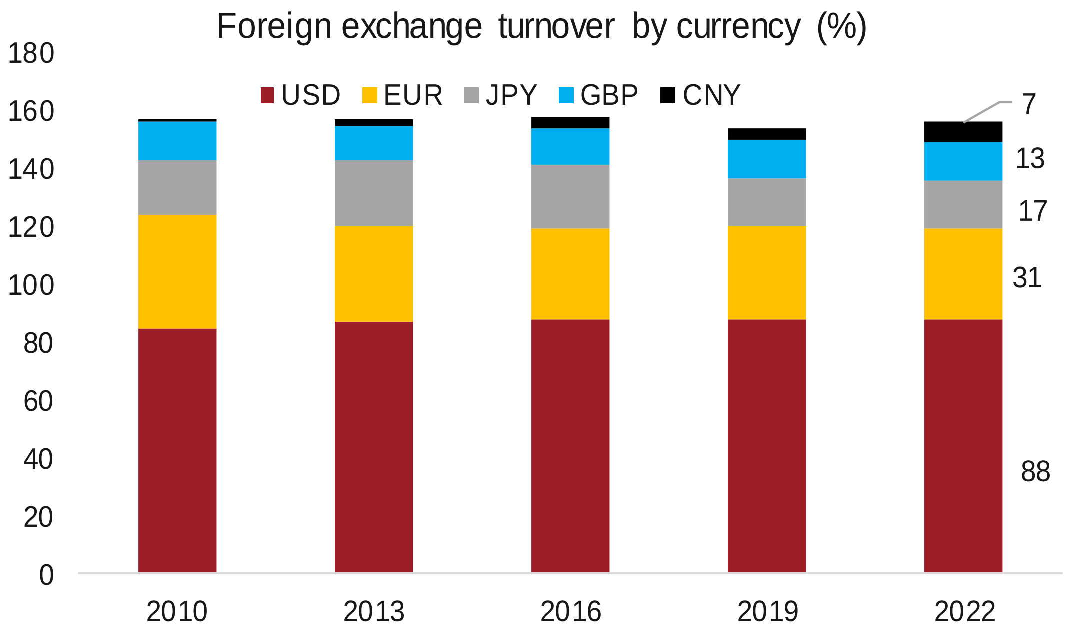




- Share of dollar in global FX reserves gradually reducing to 58.4% from 62% pre-Covid-19
- Share of other currencies gradually rising – Yuan and Canadian dollars

Source: CEIC, IDFC FIRST Bank Economics Research

Dollar still plays a dominant role in global trade



- 88% of foreign exchange turnover is done in dollars
- US has the second highest share in global merchandise trade

Source: CEIC, IDFC FIRST Bank Economics Research

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