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Global outlook

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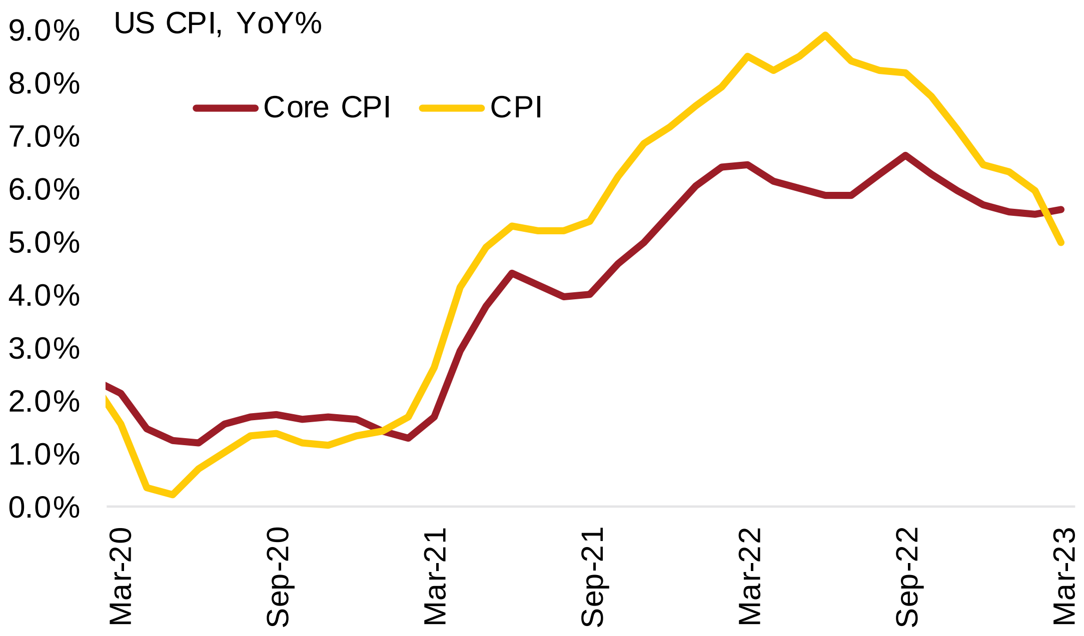
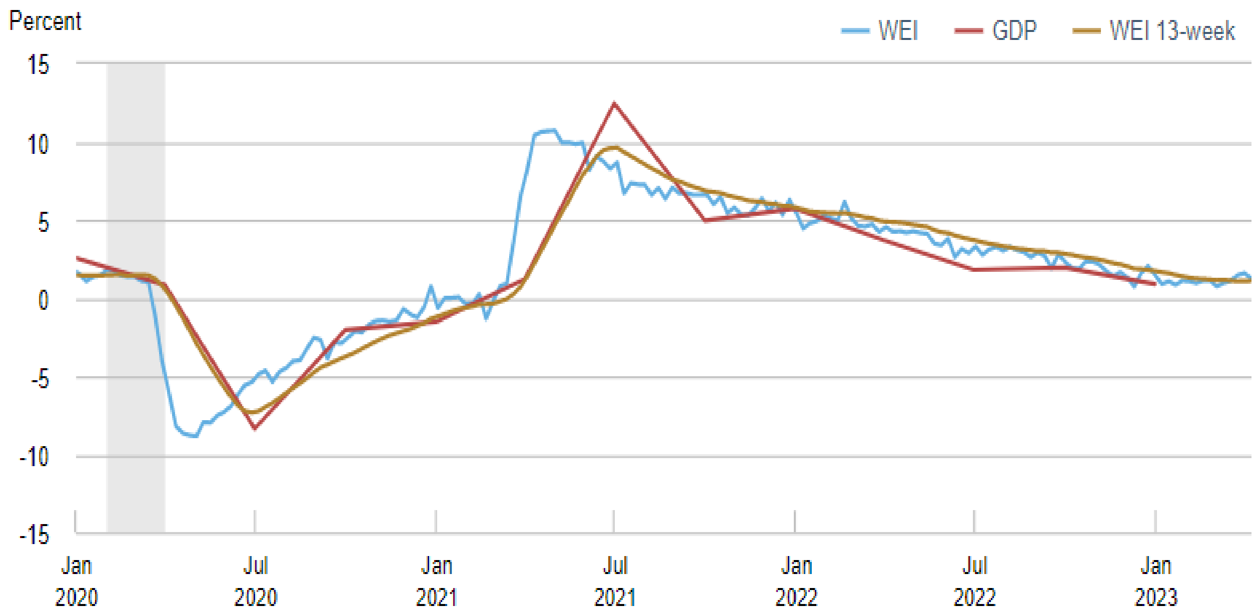
US: Inflation pressures easing but still significantly above target

Growth conditions are slowing





- Core services inflation to take time to decline as labour market remains strong
- The fall in house prices take time to reflect in CPI

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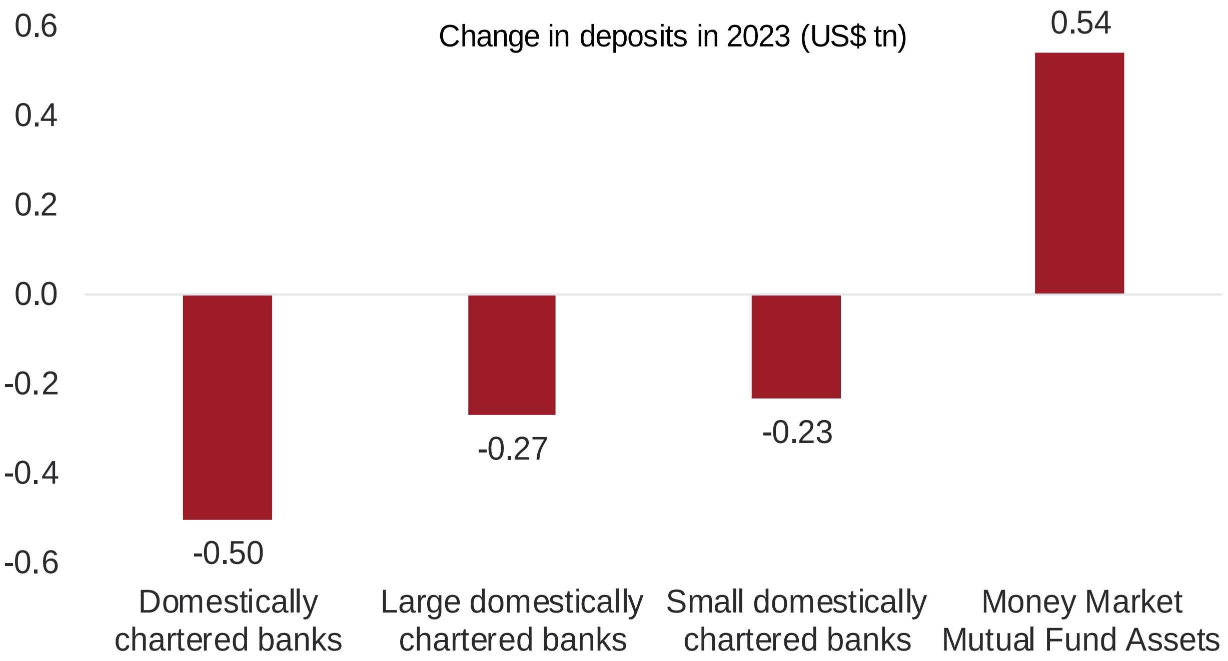
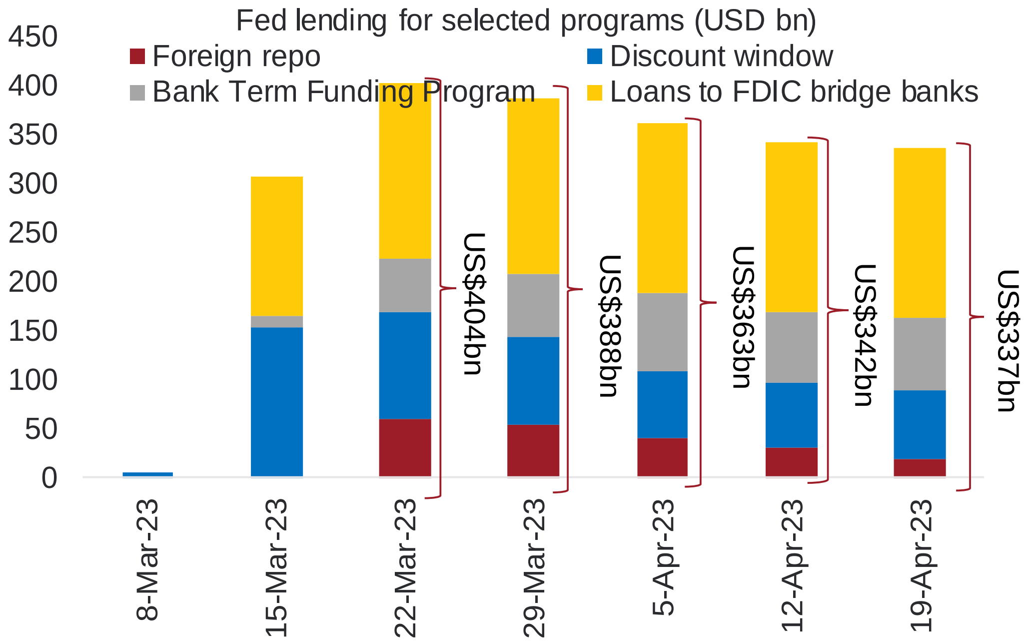
Source: CEIC, IDFC FIRST Bank Economics Research.

US banking sector – Financial Stability risks not over yet





- Deposit outflow from banks to money market funds
- Borrowing at Fed borrowing window gradually reduces

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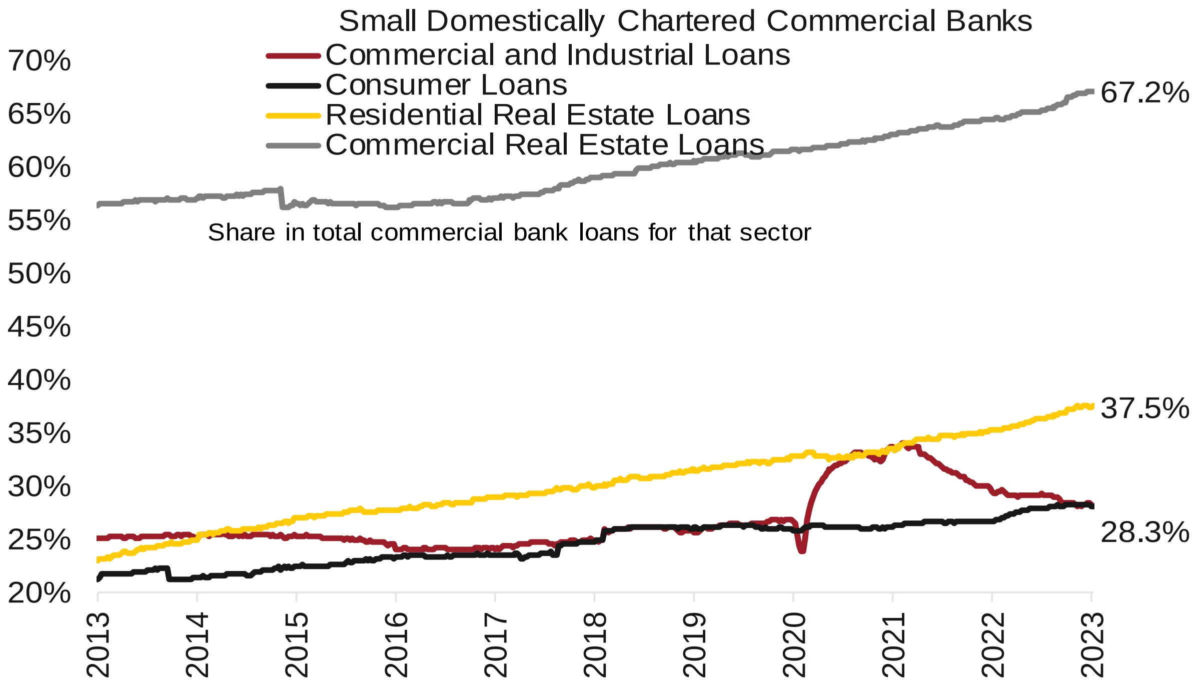
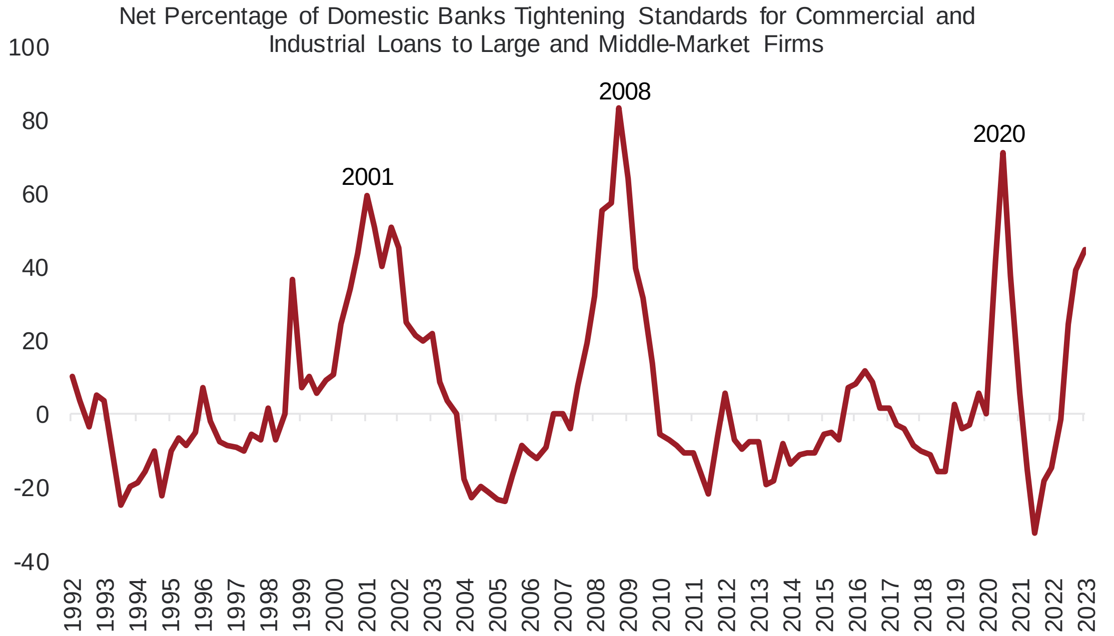
Source: Bloomberg, IDFC FIRST Bank Economics Research.

Fed likely to deliver a dovish hike in May

Expected to remain on pause post May





Forward guidance on rate hikes softened

- In the policy statement, ‘ongoing rate increases’ was replaced with ‘anticipate some additional policy firming’

Fed likely to be dovish as growth conditions have weakened

- Bank credit conditions tighten significantly, increasing chances of much softer growth in the US

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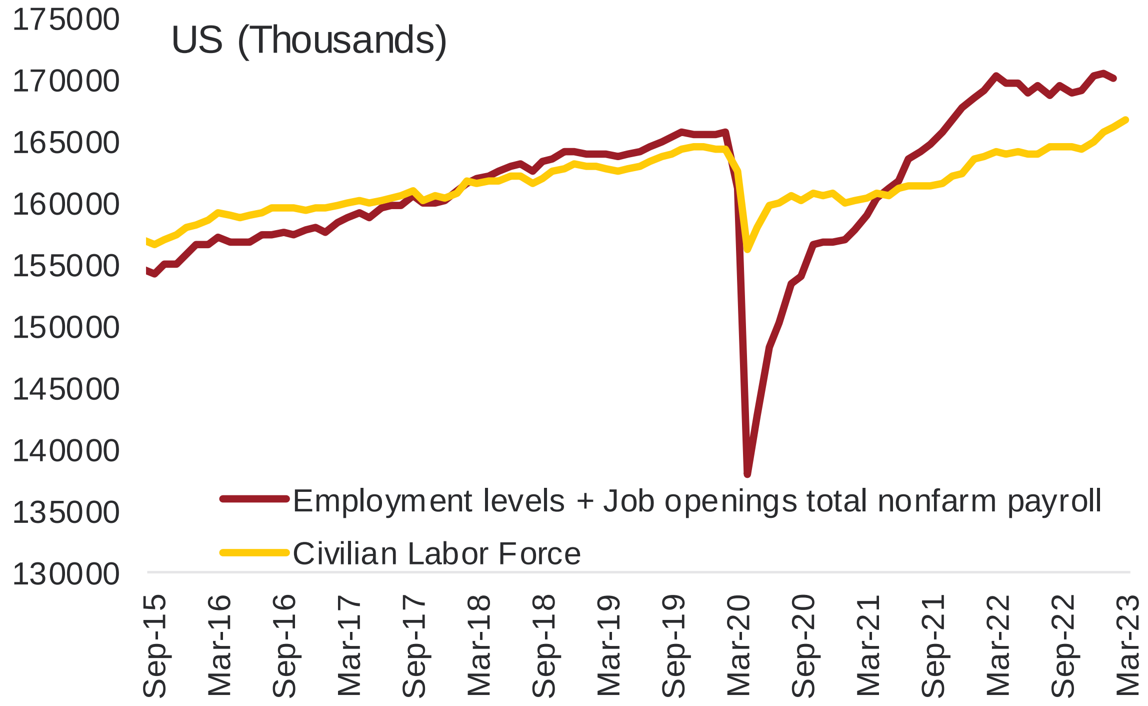
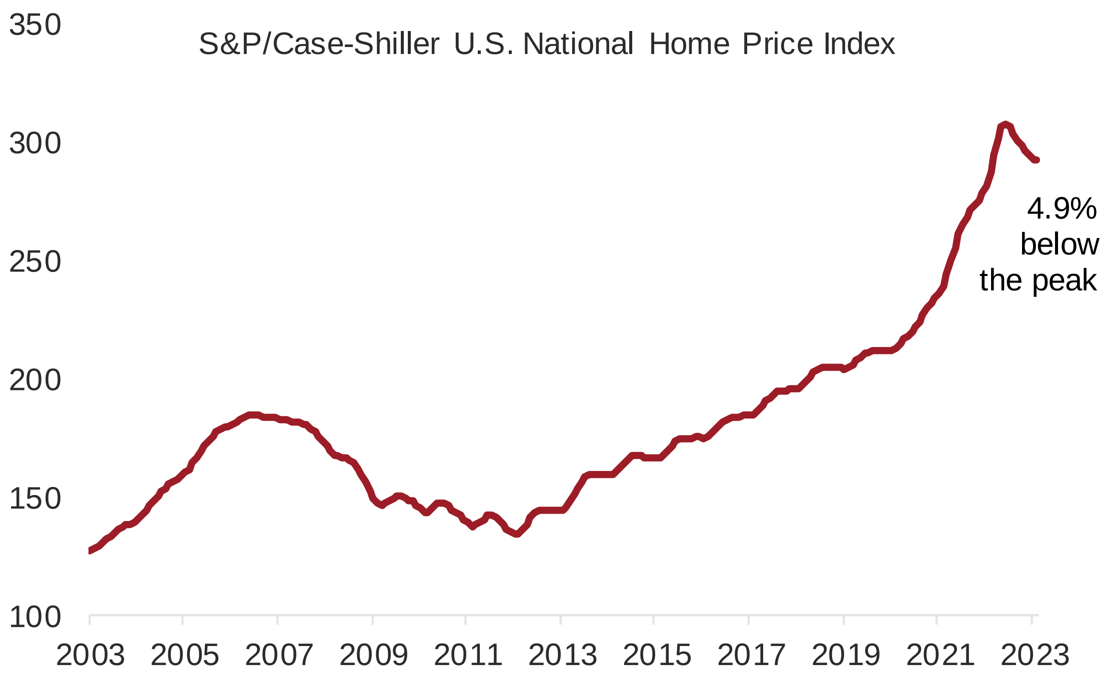
Source: Fed, CEIC, IDFC FIRST Bank Economics Research.

Tight labour market to prevent a rate cut in 2023





Services inflation to remain sticky

- Structural shortfall in labour market to take time to reduce
- House prices just 4.9% below the peak

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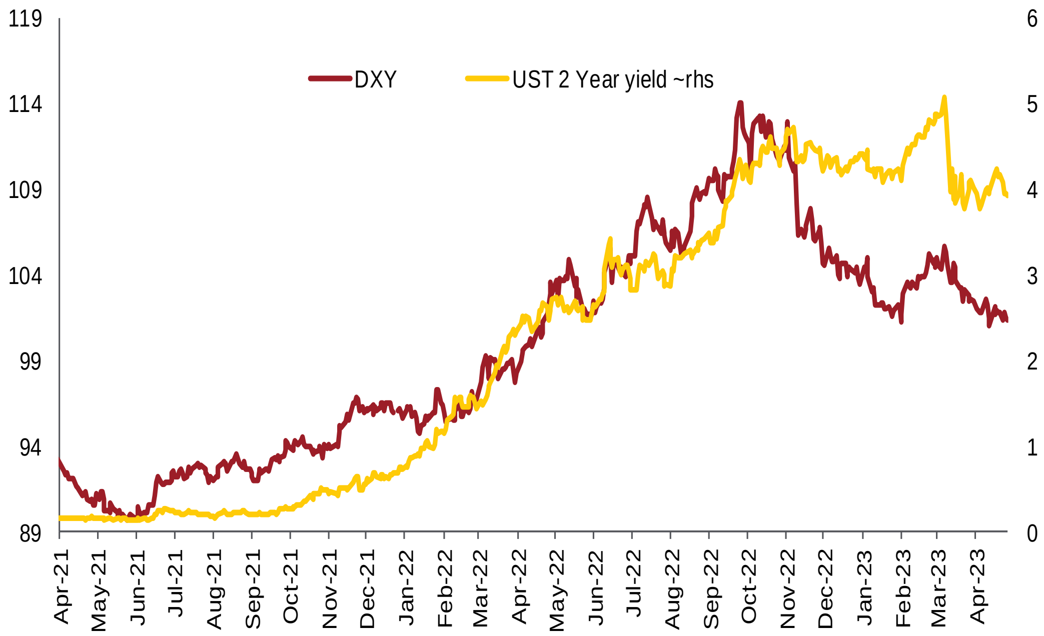
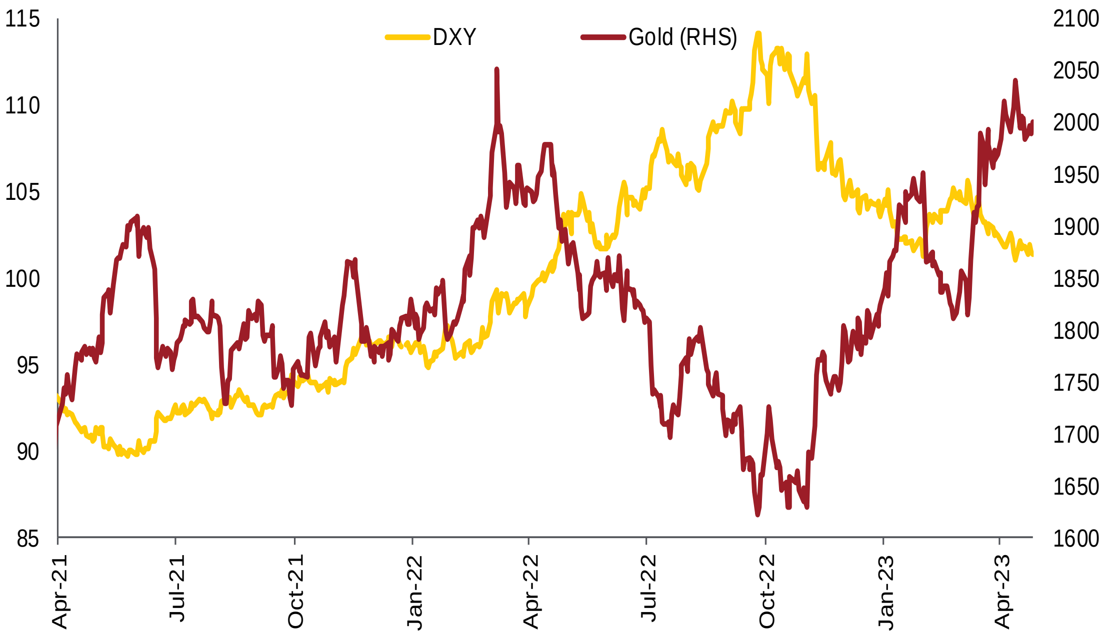
Source: Fed, CEIC, IDFC FIRST Bank Economics Research.

Dollar to find support once markets' price-in a Fed pause post May





- Dollar weakness driven by market expectation of rate cuts in H2 2023; Once this expectation changes to Fed remaining on pause post May, dollar strength to resurface
- The rally in gold due to weakness in dollar

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

India outlook

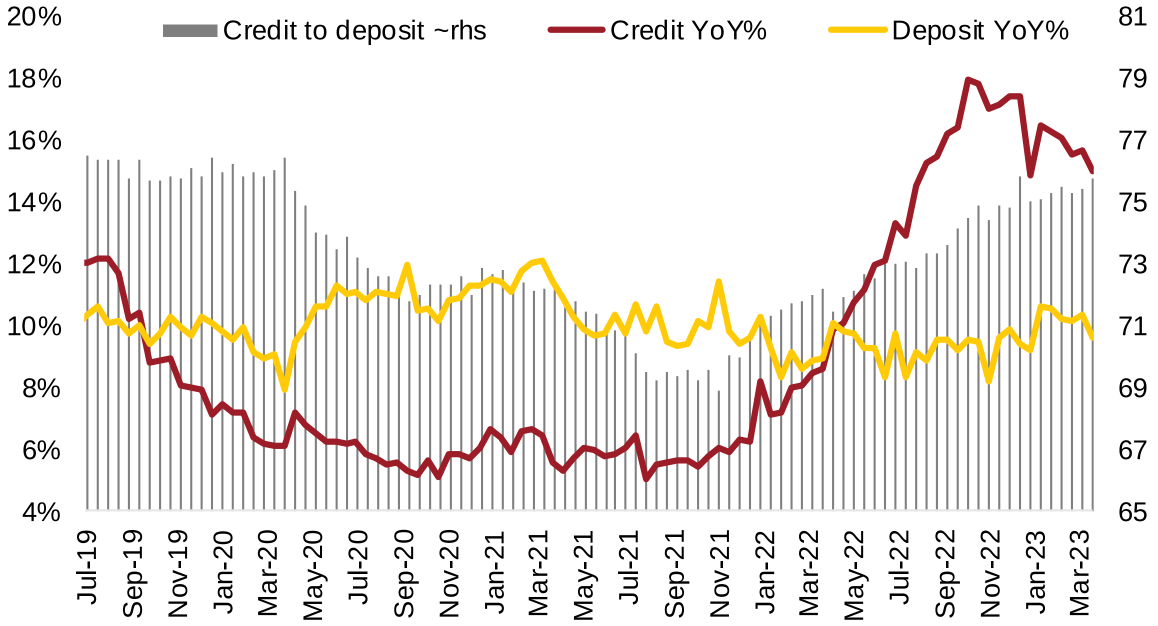
Growth heatmap

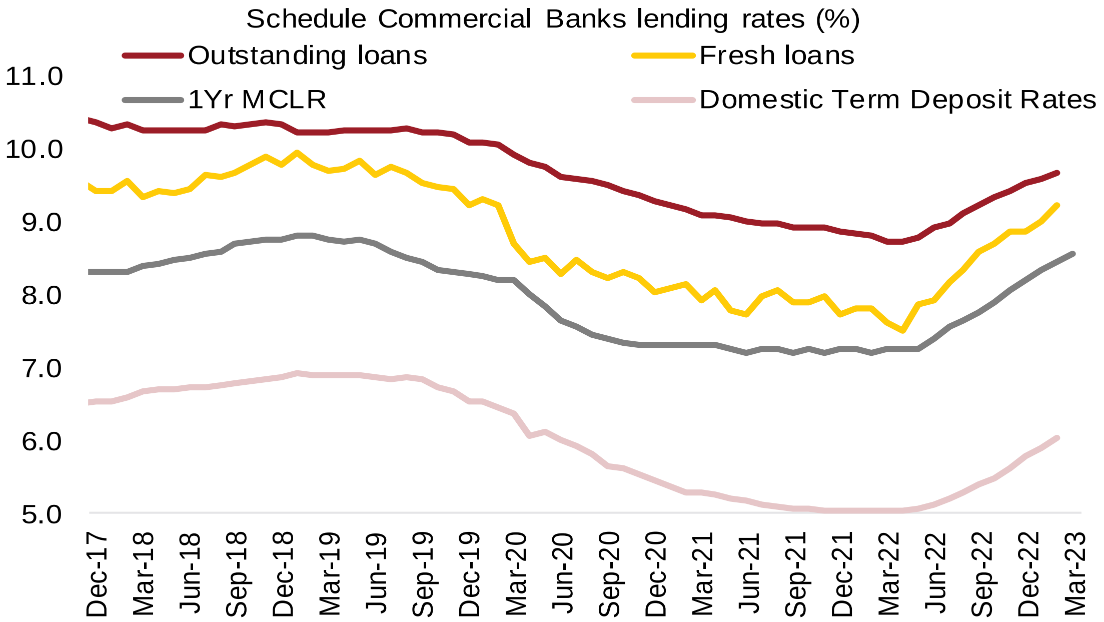
YoY%, PMI in levels	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
Industry													
Industry production	2.2%	6.7%	19.7%	12.6%	2.2%	-0.7%	3.3%	-4.1%	7.6%	4.7%	5.5%	5.6%	
Manufacturing PMI	54.00	54.70	54.60	53.90	56.4	56.2	55.1	55.3	55.7	57.8	55.4	55.3	56.4
Industry credit	7.5%	8.0%	8.8%	9.5%	10.5%	11.4%	12.6%	13.6%	13.1%	8.6%	8.7%	7.0%	
Infrastructure index	4.8%	9.5%	19.3%	13.1%	4.8%	4.2%	8.3%	0.7%	5.7%	7.0%	8.9%	6.0%	
Electricity demand	6.6%	14.7%	24.5%	16.7%	3.6%	1.8%	12.7%	0.0%	11.0%	11.6%	13.7%	9.9%	-2.2%
Construction													
Steel consumption	-0.1%	1.2%	19.6%	8.8%	13.8%	14.0%	12.8%	12.7%	13.4%	12.0%	9.7%	21.6%	13.6%
Cement production	9.0%	7.4%	26.2%	19.7%	0.7%	2.1%	12.4%	-4.2%	29.1%	9.5%	4.6%	7.3%	
Services													
Services PMI	53.60	57.90	58.90	59.20	55.50	57.20	54.30	55.10	56.40	58.50	57.20	59.40	57.80
Transport Services													
Railway freight	11.1%	17.7%	21.0%	19.3%	17.5%	15.7%	10.3%	0.8%	4.3%	6.0%	6.4%	4.7%	3.0%
Domestic aviation cargo traffic	-24.4%	13%	153.4%	80.9%	37.4%	20.8%	11.6%	-6.0%	15.9%	10.7%	-8.1%	-8.6%	
Shipping Cargo	1.3%	5.5%	8.9%	13.5%	15.1%	8.0%	14.9%	3.6%	2.0%	10.4%	12.2%	12.0%	
GST E-way bills	9.7%	28.0%	84.1%	36.2%	17.8%	18.7%	23.7%	4.6%	32.0%	17.5%	19.7%	18.4%	16.3%
Financial and Real Estate Services													
Bank credit	8.6%	10.1%	11.1%	12.1%	14.5%	15.5%	16.4%	17.8%	17.2%	14.9%	16.3%	15.5%	15.0%
Bank Deposit	8.9%	9.8%	9.3%	8.3%	9.2%	9.5%	9.2%	9.5%	9.6%	9.2%	10.5%	10.1%	9.6%
Stamp duty revenue	22%	46.9%	235.4%	45.9%	7.7%	10.1%	9.7%	-8.3%	13.2%	9.7%	8.4%		
Public Services													
Central govt revenue expenditure ex interest	-26%	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	7%	12.1%	7.2%	19.3%	31.8%	33.5%	35.5%	18.8%	33.0%	14.5%	23.8%		
Consumption													
Domestic PV sales	-3.9%	-3.8%	185.1%	19.1%	11.1%	21.1%	92.0%	28.6%	28.1%	7.2%	17.2%	11.0%	4.5%
2W sales	-20.9%	15.4%	255.3%	24.0%	10.2%	17.0%	13.5%	2.3%	17.7%	3.9%	5.0%	8.8%	9.0%
Domestic Aviation passenger traffic	37.7%	87.8%	474.7%	247.9%	97.9%	54.9%	49.0%	30.4%	12.6%	14.6%	96.8%	57.4%	
Railway passenger traffic	52.9%	116.2%	478.1%	237.6%	168.6%	113.6%	87.6%	62.2%	51.1%	40.7%	64.5%	29.8%	20.5%
Personal loans	12.6%	14.4%	16.3%	18.1%	18.7%	19.4%	19.4%	20.1%	19.6%	20.0%	20.4%	20.4%	
Petrol + Diesel consumption	6.5%	10.3%	36.9%	23.7%	7.7%	12.6%	11.9%	6.6%	16.0%	6.4%	13.1%	7.8%	2.7%
Rural wages	4.3%	4.4%	4.5%	4.8%	4.9%	5.0%	5.0%	5.8%	6.4%	6.3%	6.4%		
Investment													
Central Govt Capital expenditure	429.9%	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	15.7%	-17.8%	9.8%	-7.3%	23.3%	41.9%	-5.0%	-9.7%	51.1%	16.3%	31.2%		
Capital goods production	2.4%	12.0%	53.3%	28.6%	5.1%	4.3%	11.4%	-2.9%	20.7%	7.8%	10.7%	10.5%	
External trade													
Exports	26.4%	29.1%	20.8%	30.1%	7.9%	10.9%	4.7%	-11.5%	9.7%	-3.1%	1.6%	-0.4%	-13.9%
Imports	29.0%	26.1%	57.4%	53.1%	38.2%	37.2%	12.6%	8.0%	10.7%	1.6%	-0.5%	-4.8%	-7.9%

Source: CEIC, IDFC FIRST Bank Economics Research

Bank credit growth remains strong at 15%

Deposit growth ~10%



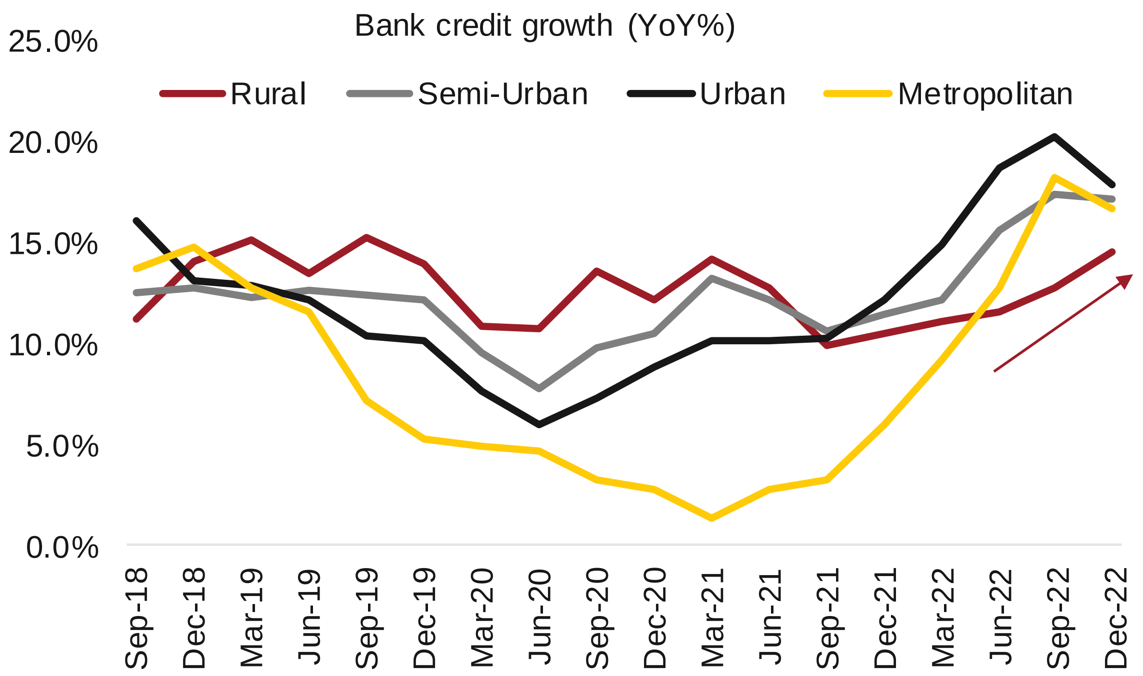


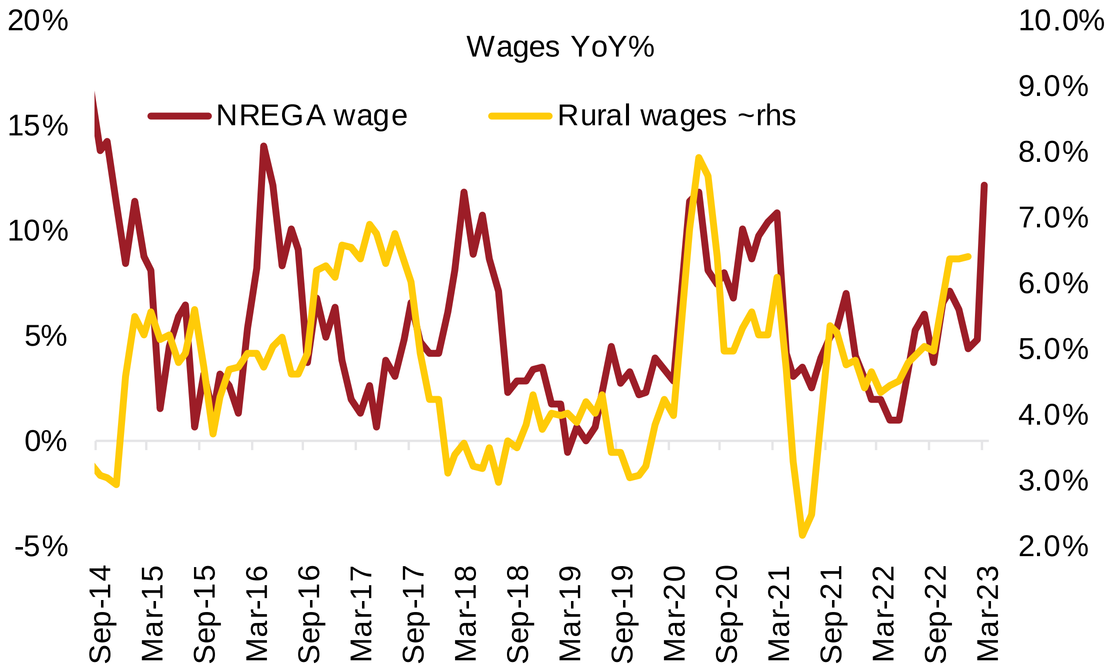
- Credit growth has held-up despite better transmission

	FYTD23 (Apr-Feb)
Outstanding loans weighted average lending rates	0.93
Fresh loans weighted average lending rates	1.61
1Yr MCLR	1.20
Domestic term deposit rates	0.99
Repo rate	2.50

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

Rural areas credit growth recovers gradually



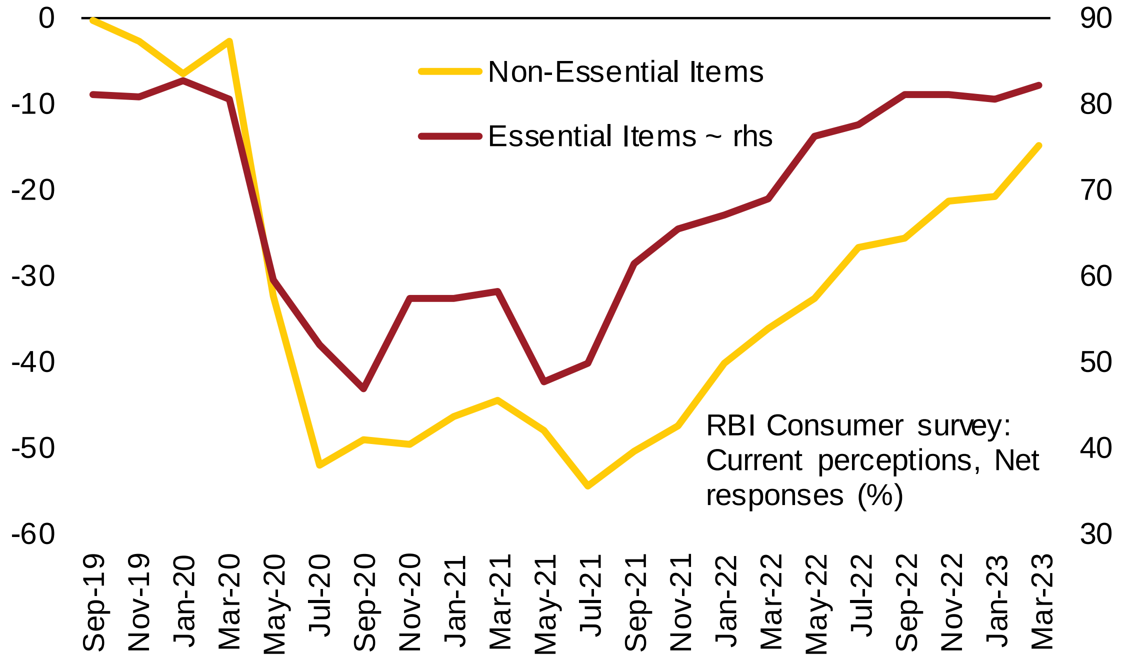


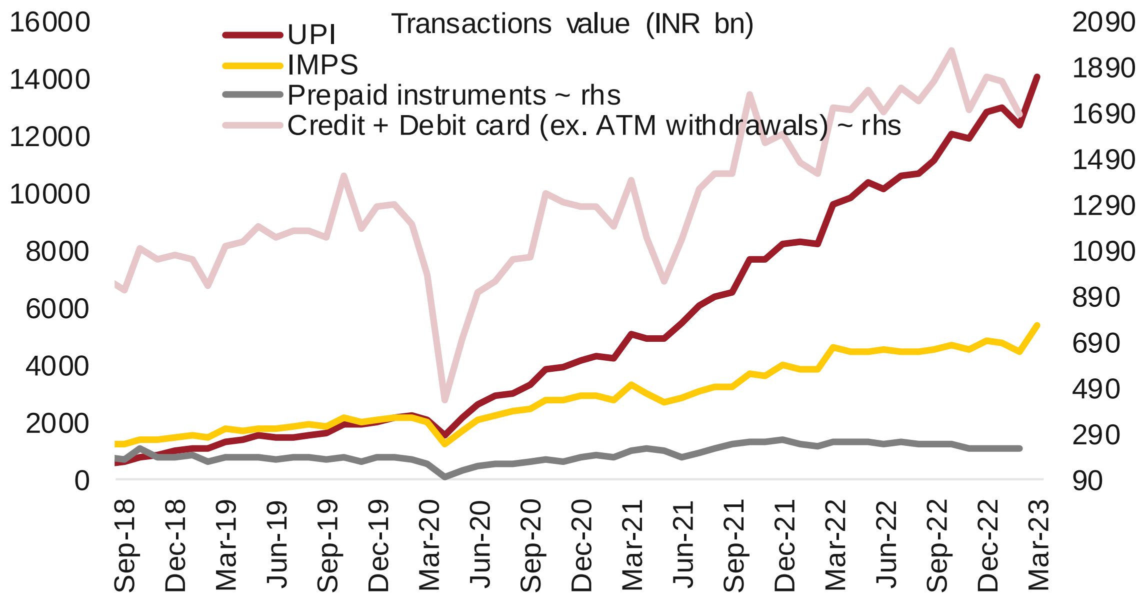
- Supported by improvement in rural wage growth

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

Consumer sentiment improves

Spending intent on non-essential items less negative





- Consumer sentiment supported by improvement in income and employment conditions

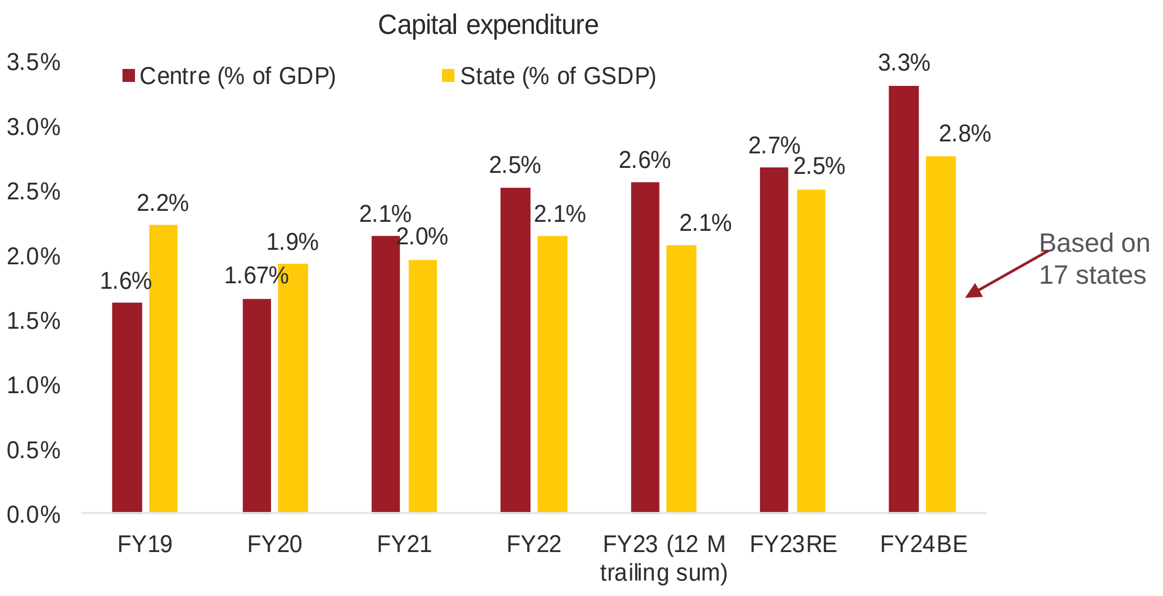
Rise in electronic transactions also indicate rise in formal sector activity

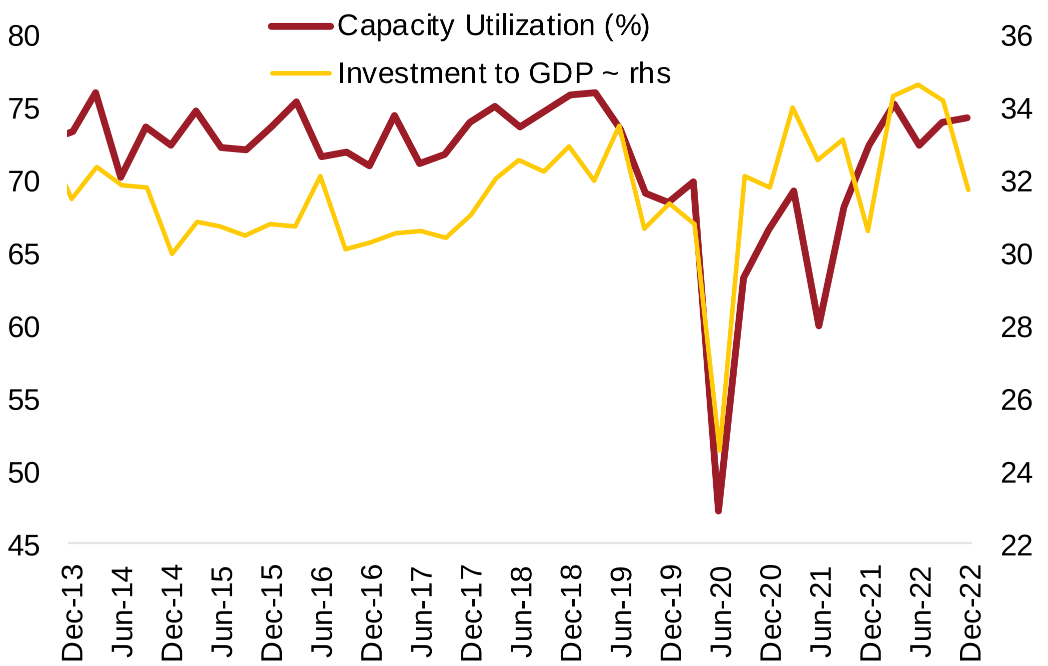
- UPI transaction higher by 65% in FY23 and credit & debit cards by 25%
- Cash usage lower by 12% in FY23

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

Capex cycle supported by Government expenditure

and improving capacity utilization





- Manufacturing capacity utilization is higher than long-run average
- Central government key support to capex cycle

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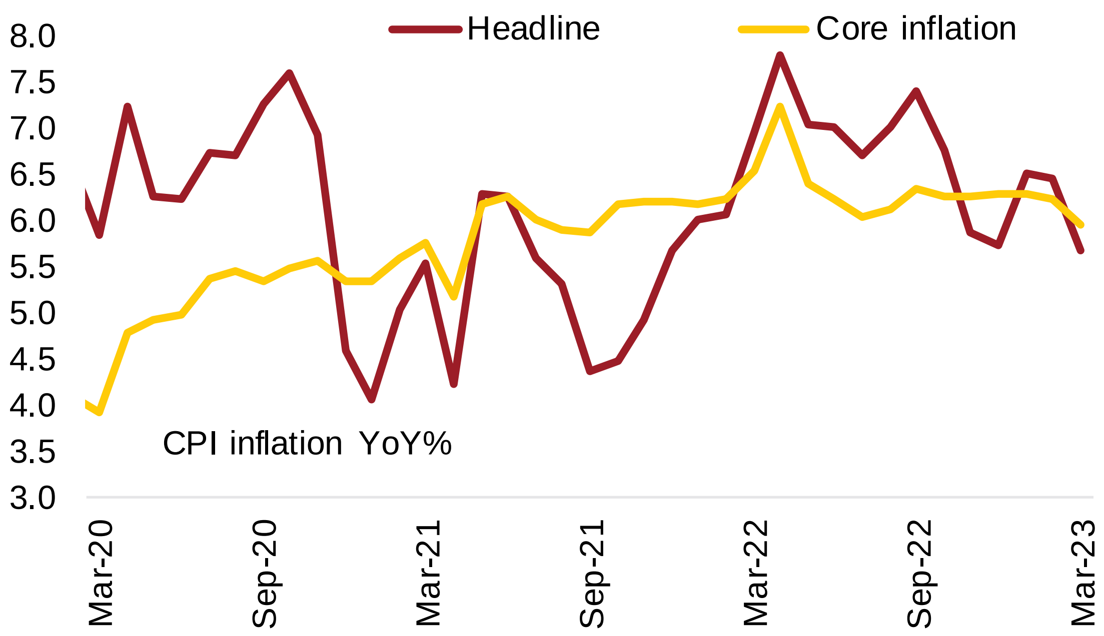
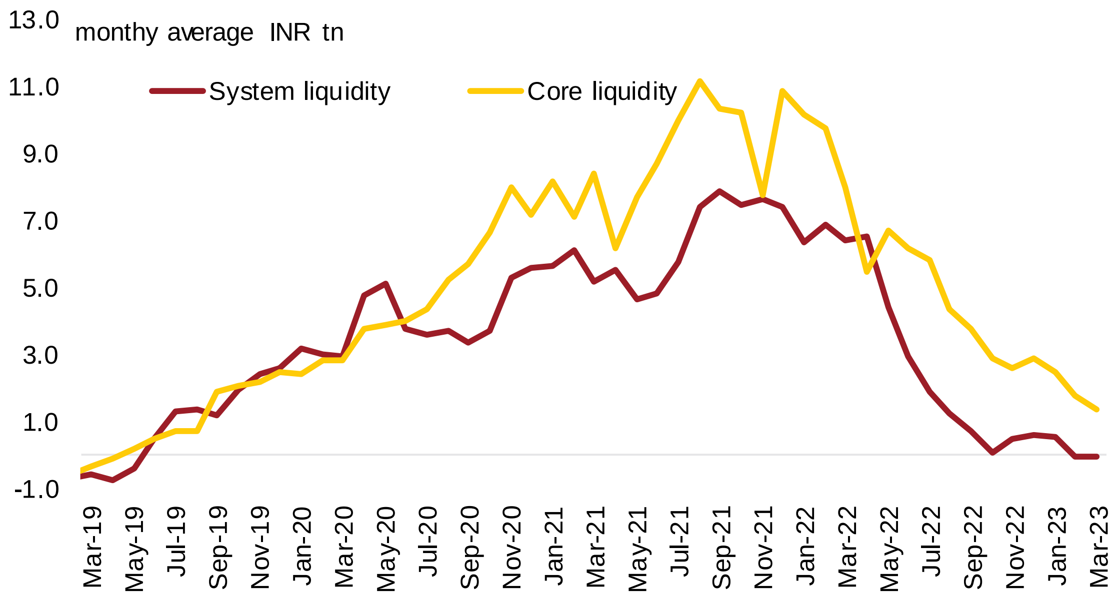
Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

RBI: Terminal repo rate expected at 6.50%

FY24 CPI inflation ~5.5% v/s 6.7% in FY23





On pause till December 2023

- 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 liquidity conditions to tighten in FY24

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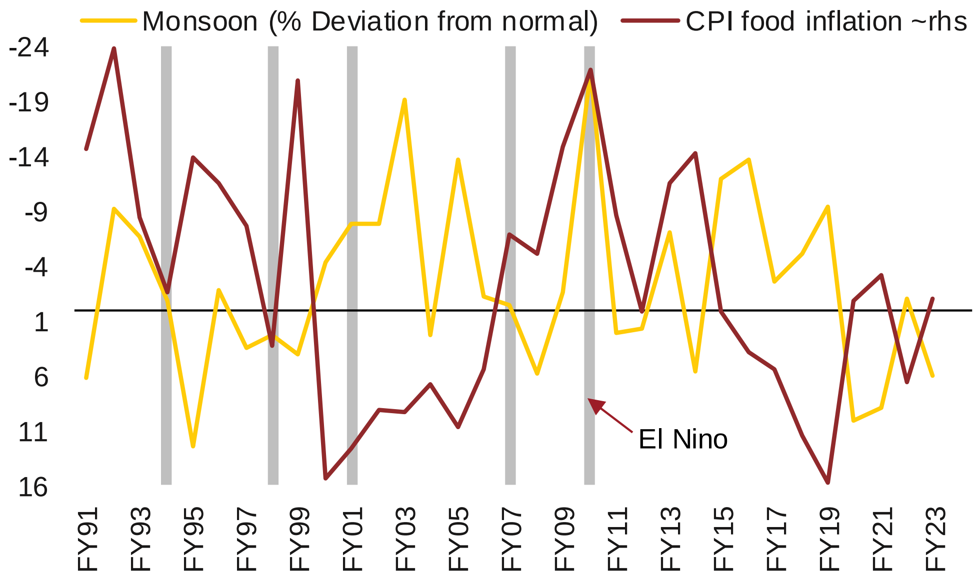
Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

Risk to inflation- Monsoon: Impact depends on distribution

El Nino conditions likely



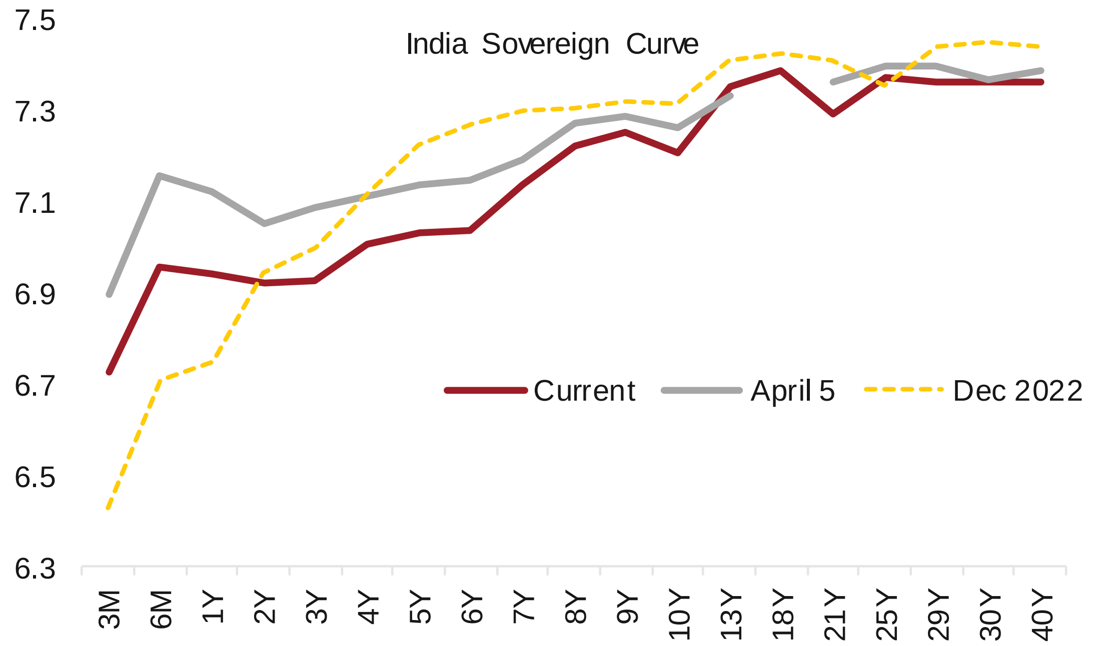
	Monsoon (deviation from LPA)	El Nino	CPI	CPI food	Rural wages	Global food prices	Food grain production (YoY%)
FY07	**-0.4**	**1**	**6.8**	**9.1**	**5.7**	**12.1**	**4.2**
FY08	5.7		6.2	8.4	7.9	18.2	6.2
FY09	-1.7		9.1	12.4	10.7	5.5	1.6
FY10	-21.8	1	12.4	15.1	15.8	-4.5	-7.0
FY11	2		10.4	9.9	18.2	17.5	12.1
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

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

10-yr g-sec expected to rise to 7.4%

Over next 6 months



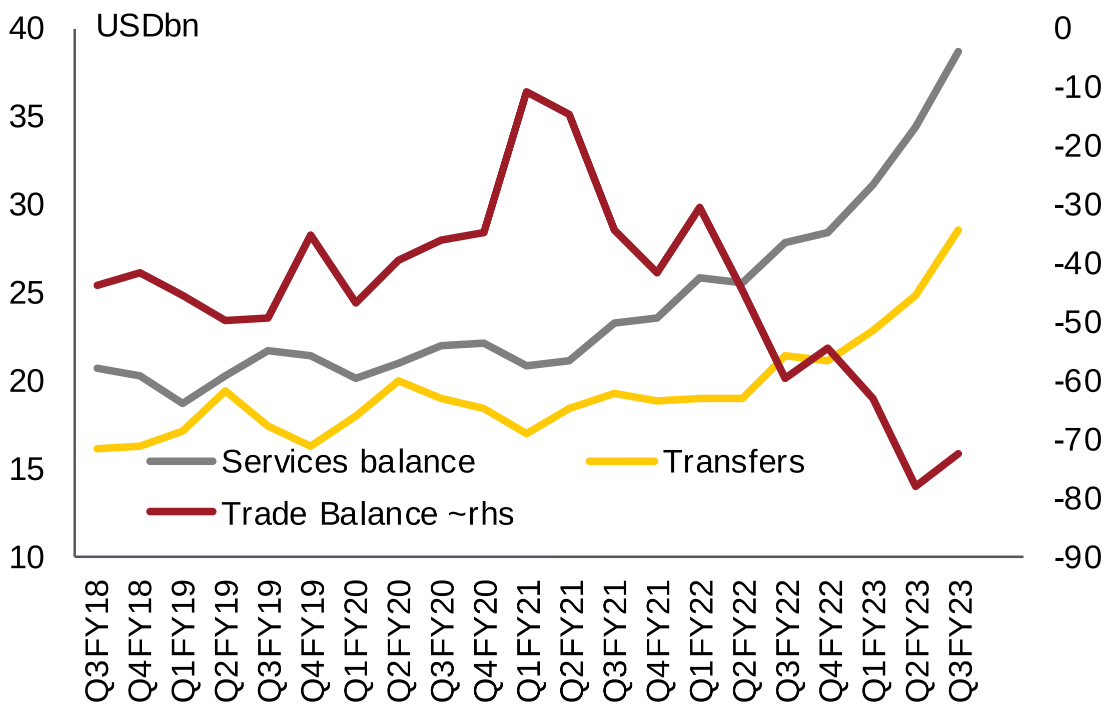
	H1 net issuance				
INR bn	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**
April	680	474	487	1026	954
May	850	810	699	820	539
June	158	870	947	703	1558
July	252	1700	1224	1620	1360
August	790	1300	1115	746	1360
September	680	1200	1159	1100	1750
H1	**3410**	**6354**	**5631**	**6016**	**7522**
FY	**4740**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

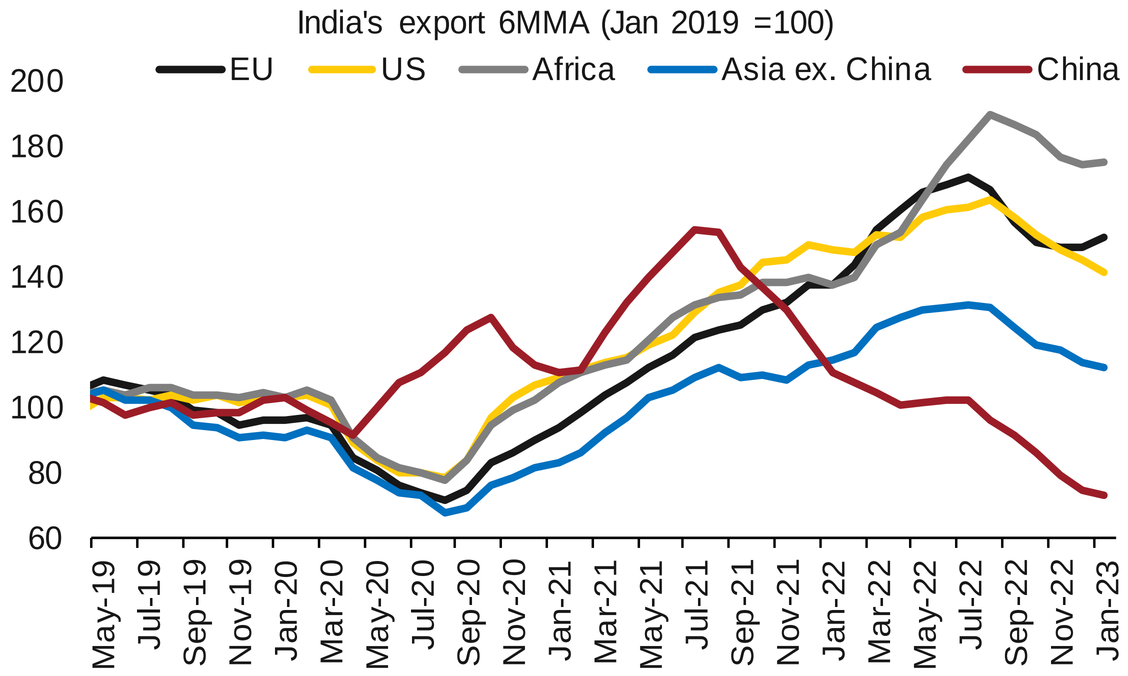
- 10-yr g-sec yield can be contained at 7.4% only with support from RBI in the form of substantial OMO purchases. The supply-demand factors are likely to be less supportive in FY24. We don’t expect RBI to cut rates in calendar year 2023

Source: Bloomberg, RBI, IDFC FIRST Bank Economics Research

FY24 CAD to narrow as oil prices remain ranged

Improvement limited by external demand weakness





- Current account deficit to narrow as crude oil prices likely to remain ~US$85pb in FY24. However, weakness in exports to limit improvement. FY24 current account deficit expected at 2.0% of GDP v/s 2.1% in FY23

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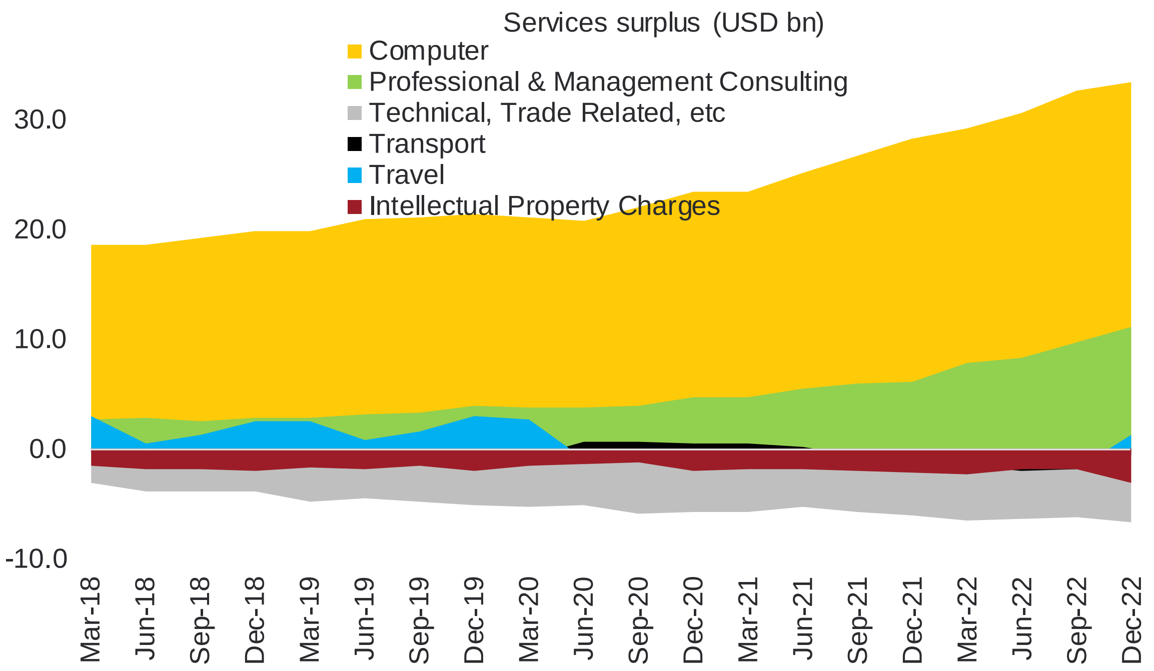
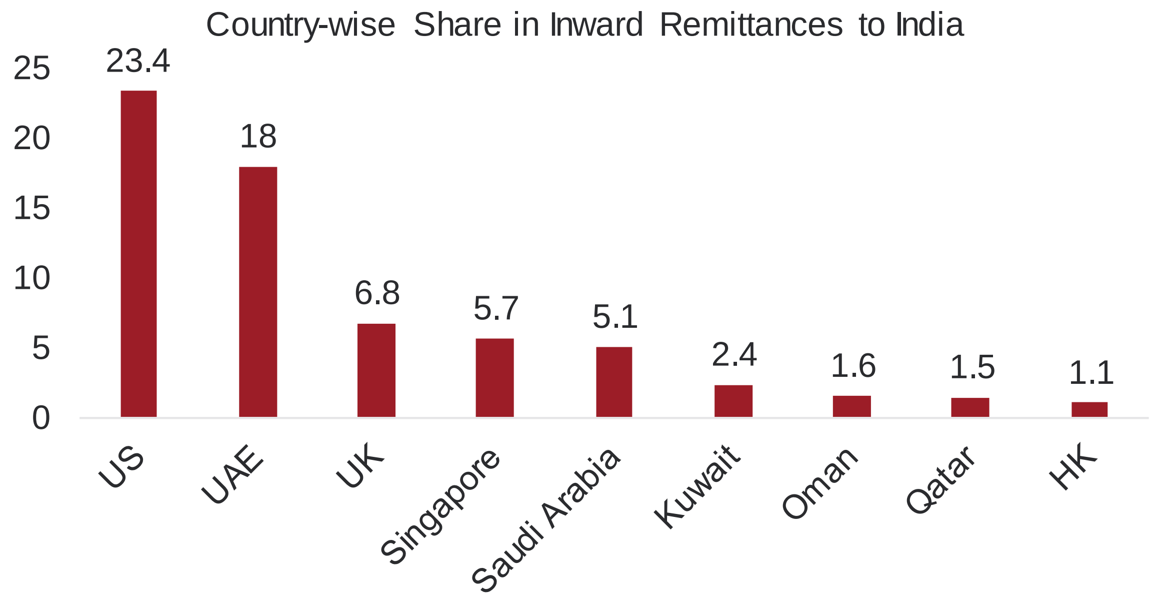
Source: CEIC, IDFC FIRST Bank Economics Research

FY24 CAD: Invisible surplus to slow as US growth slows





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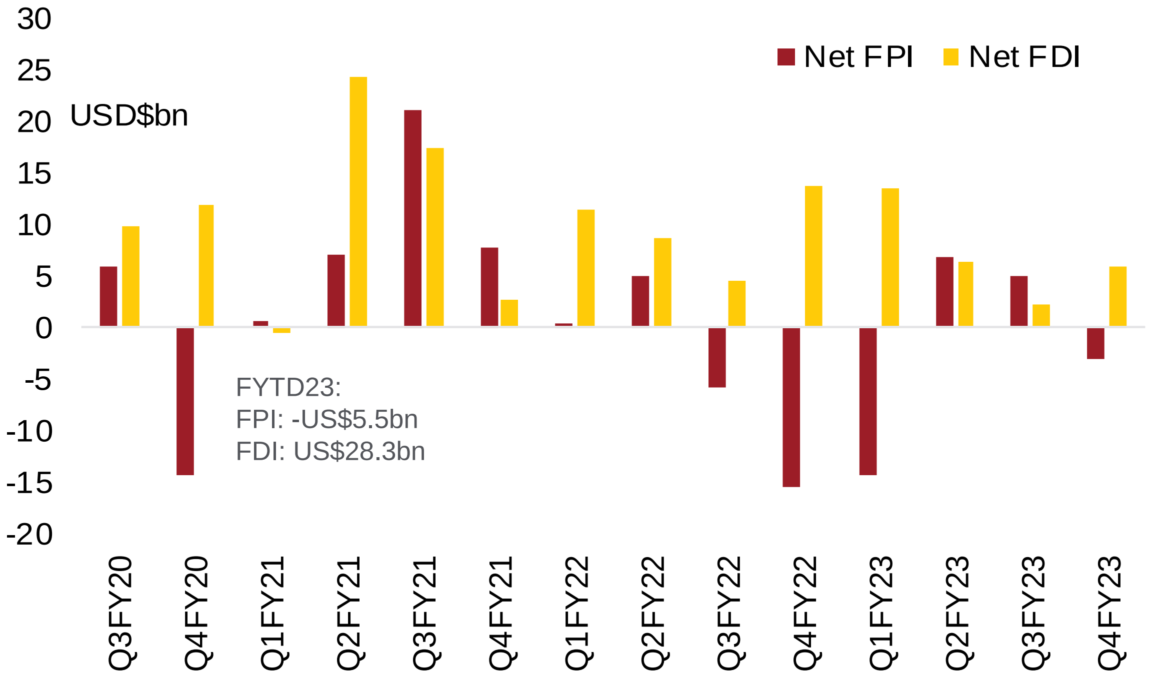
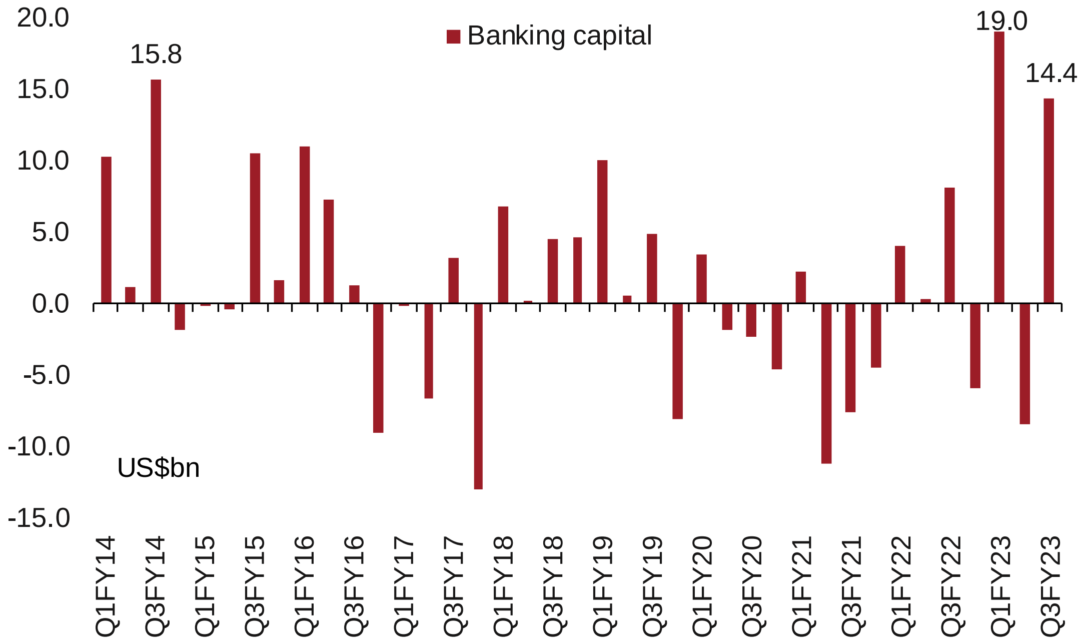
Source: CEIC, IDFC FIRST Bank Economics Research

Capital flows– FPI flows turn negative in Q4FY23

FDI still stable





- Banking capital inflows at US$25bn in first three quarters of FY23

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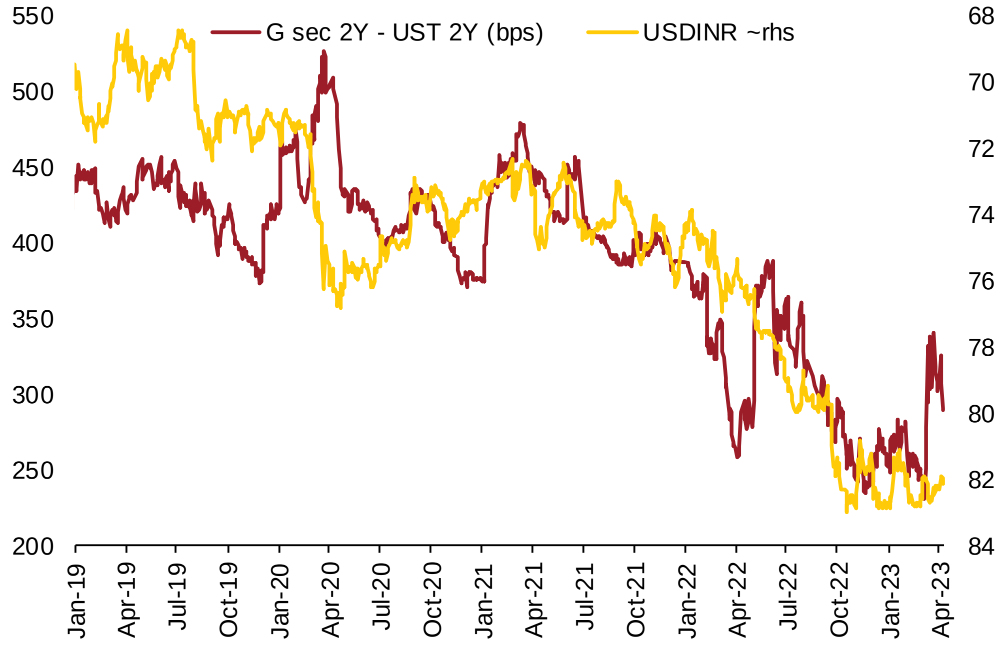
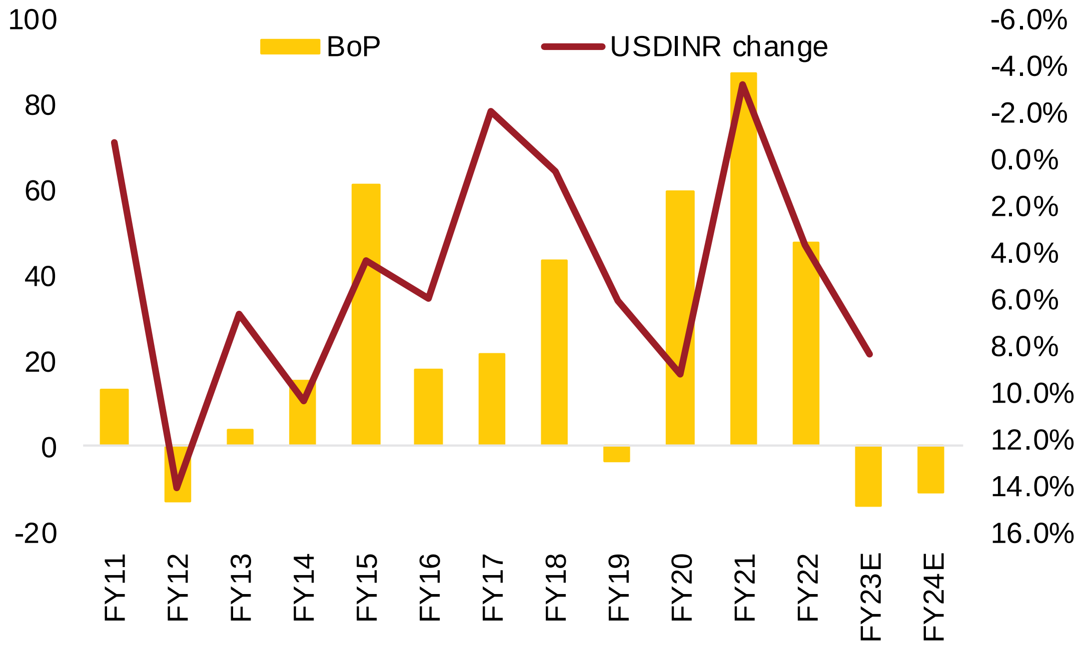
Source: CEIC, IDFC FIRST Bank Economics Research

USDINR – Mild depreciation pressures

USDINR expected to trade between 81 to 82 in the near-term; Weaken to 84.00 by mid-2023





Depreciation supported by

- Interest rate differentials between India and US at historical lows
- Improvement in Current account deficit to be limited by export weakness
- India to start FY24 with lower FX reserve cover
- Risk-off sentiment to keep portfolio flows volatile
- RBI intervention to limit volatility in USDINR.
- Banking capital inflows expected to normalize in FY24; hence BoP expected to be in deficit in FY24

Source: CEIC, IDFC FIRST Bank Economics Research

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