

# CANARA ROBECO

## Macro Review & Fixed Income Market Outlook

### Global Economy Update:

#### Macro Backdrop:

- ✚ The global activity is moderating amidst momentum of a halting decline in inflation, flattening of consumer confidence, and some easing of labour market conditions.
- ✚ Despite moderate easing, financial conditions remain tight, especially in housing and credit markets.
- ✚ In its Economic Outlook of May 2024, the OECD projected global growth at 3.1 per cent in 2024 (same as in 2023), before edging up to 3.2 per cent in 2025 on the support from stronger real income growth and lower policy interest rates.
- ✚ These projections place global growth lower than the pre-pandemic average (2013-2019) of 3.4 per cent.
- ✚ The outlook is levelling across economies, with Europe and most low-income economies gaining pace recently, while the US economy is moderating and many large EMEs are poised for a stronger performance.
- ✚ The global supply chain pressures index (GSCPI) and the container shipping costs have moderated since February 2024.
- ✚ The geopolitical risks (GPR) index has, however, edged up since mid-April 2024 due to rekindling of tensions between Iran and Israel.
- ✚ The J.P.Morgan Global Composite PMI Output Index rose for the seventh successive month to post 53.7 in May, up from 52.4 in April and its highest level since May 2023.
- ✚ The rate of global economic growth hit a 12-month high in May, as new work intakes strengthened.
- ✚ The upturns in business activity and new orders also showed improved breadth, with all six of the sub-sectors covered by the survey registering expansions in both.
- ✚ The J.P.Morgan Global Services PMI Business Activity Index rose to a 12-month high of 54.1 in May. Input price and output charge inflation were both unchanged compared to April.

### Indian Economic Growth:

#### Macro Backdrop:

- ✚ India is projected to remain the fastest growing major economy.
- ✚ The Indian economy has demonstrated marked resilience in the face of geopolitical headwinds imparting supply chain pressures.
- ✚ While revising India's GDP growth upwards by close to 2 percentage points for 2023-24, the IMF's April 2024 World Economic Outlook (WEO) alludes to the robustness of growth expected in 2024 and 2025 which is projected to remain strong at 6.8 per cent in 2024 (FY25) and 6.5 per cent in 2025 (FY26), reflecting continuing strength in domestic demand and a rising working-age population.
- ✚ The OECD's May 2024 Economic Outlook points to strong momentum in India in recent monthly indicators and expects strong investment and improving business confidence in India to sustain real GDP growth.
- ✚ India's manufacturing growth slowed to a three-year low in May 2024, as per the HSBC Purchasing managers' Index (PMI) data.
- ✚ The India PMI fell to 57.5 last month, which was lower as compared to 58.8 in April.
- ✚ The May final outcome also marked a decline as against the preliminary estimate of 58.4.
- ✚ Although this marked the slowest monthly manufacturing growth in the last three years, it remained above the long-run average of 53.4.

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- ✚ Growth in India's services sector activity slowed to a five-month low in May due to weakened domestic demand.
- ✚ The final HSBC India Services Purchasing Managers' Index, compiled by S&P Global, fell to 60.2 in May from April's 60.8, contrary to a preliminary reading predicting a rise to 61.4.
- ✚ Despite the slowdown, the index remained above the 50 mark, indicating growth, for the 34th consecutive month.
- ✚ New export orders surged at a record pace, with broad-based demand from across the globe.
- ✚ India's total exports (Merchandise and Services combined) in April 2024 is estimated to be USD 64.56 Billion, exhibiting a positive growth of 6.88 per cent over April 2023.
- ✚ Main drivers of merchandise exports growth during April 2024 include Electronic Goods, Organic & Inorganic Chemicals, Petroleum Products and Drugs & Pharmaceuticals.
- ✚ Electronic goods exports increase by 25.8% from USD 2.11 Billion in April 2023 to USD 2.65 Billion in April 2024.
- ✚ Exports of Organic and Inorganic Chemicals increase by 16.75% from USD 2.14 Billion in April 2023 to USD 2.50 Billion in April 2024.
- ✚ Drugs and pharmaceuticals exports increase by 7.36% from USD 2.26 Billion in April 2023 to USD 2.43 Billion in April 2024.
- ✚ Petroleum products exports up by 3.10% from USD 6.42 Billion in April 2023 to USD 6.62 Billion in April 2024.
- ✚ Total imports (Merchandise and Services combined) in April 2024 is estimated to be USD 71.07 Billion, exhibiting a positive growth of 12.78 per cent over April 2023.
- ✚ Gross GST revenue collection in May 2024 stands at ₹1.73 lakh crore; Records 10% y-o-y growth.

## Inflation:

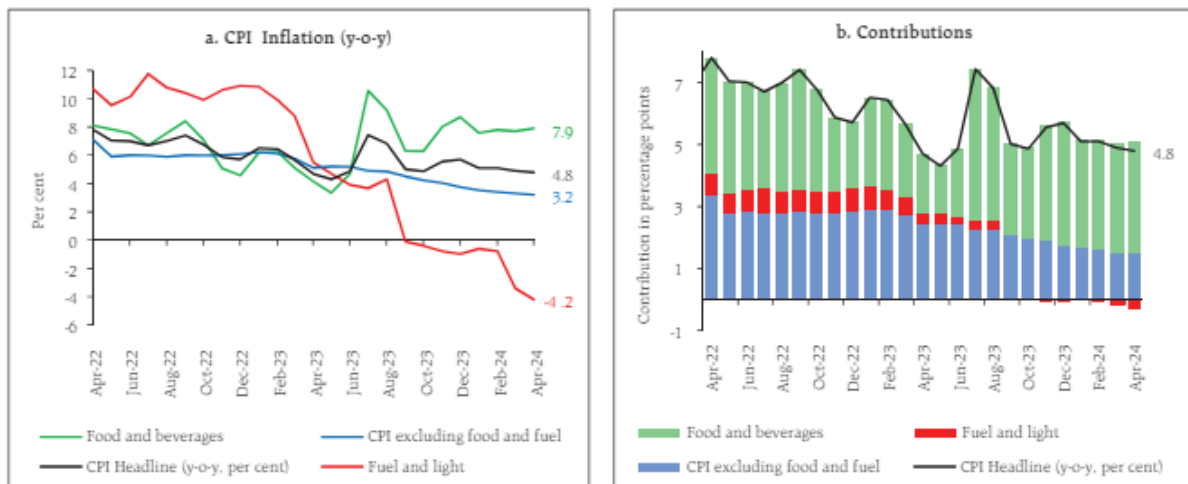
### Global:

- ✚ Headline inflation exhibited reticence in traversing the last mile of disinflation and remained above target in most economies.
- ✚ In the US, consumer price index (CPI) inflation eased to 3.4 per cent in April from 3.5 per cent in March, while the headline personal consumption expenditure (PCE) inflation increased to 2.7 per cent in March from 2.5 per cent in February.
- ✚ As per flash estimates, euro area inflation remained unchanged at 2.4 per cent in April.
- ✚ Among EMEs, inflation moderated in Brazil while it ticked up in China in April.
- ✚ Core and services inflation remained higher than headline inflation across major AEs.

### India:

- ✚ CPI inflation moderated to 4.8 per cent in April 2024 from 4.9 per cent in March as a positive momentum of 48 bps was more than offset by a favourable base effect of 51 bps.
- ✚ Food inflation (y-o-y) edged up to 7.9 per cent in April from 7.7 per cent in March.
- ✚ Fuel and light prices deflation deepened to around (-) 4.2 per cent in April from (-) 3.4 per cent in March, mainly on account of sharper deflation in LPG prices on a y-o-y basis. Electricity prices, however, recorded a y-o-y inflation of 10.2 per cent in April 2024.
- ✚ Core inflation eased further to 3.2 per cent (y-o-y) in April from 3.3 per cent in March, the lowest in the current CPI (2012=100) series.
- ✚ Inflation in housing, household goods and services, and health prices remained steady.
- ✚ In terms of regional distribution, rural inflation stood at 5.43 per cent, higher than urban inflation (4.11 per cent) in April 2024.
- ✚ Majority of the states experienced inflation less than 6 per cent.

## Trends and Drivers of CPI Inflation:



Source: National Statistical Office (NSO); and RBI staff estimates

## Bond Yields & Spreads:

- Indian yields trended lower in May 24 on global cues as well as on expectations of passive flows from June 24 on back of inclusion in J.P.Morgan EM Bond Index.
- India 10Y benchmark traded below 7% after almost a year on softer US data and stable India CPI.
- Markets are pricing in likely two rate moves in 2024.
- Markets are pricing first US FED move in September 2024.
- RBI expected to remain in status quo mode in the upcoming June Monetary Policy (MPC) meet.
- Liquidity moved both ways with RBI dynamically managed liquidity mismatches through variable repo rate (VRR) auctions and variable reverse repo rate (VRRR) auctions.
- Bond yield curve remained flat with longer term yields softening on demand from investors.
- Corporate bond spreads remain rangebound in absence of any rate cut expectations in near term.

## Outlook:

- The Union election threw a surprise as the NDA government achieved a slimmer majority of 293 seats while BJP slipped to 240 seats, compared to 2019 results.
- This may likely impact the quality of expenditure which had been focused on infrastructure. Some diversion is expected to support rural consumption.
- However, the fiscal deficit is likely to remain around 5.1% as indicated in the vote-on-account budget.
- Extra RBI dividend of more than Rs. 1 lakh crore should support any extra government outlays.
- Market dynamics are likely to be influenced by global factors as RBI is likely to remain in pause mode.
- Markets will look towards the formation of government and full year budget, likely in July, for further domestic cues.
- With the US rate easing cycle likely in 2024, the question remains only on timing of rate cuts.
- FII flows have been strong ahead of Index inclusion with FII debt inflows of USD 7.88bn (CYTD).
- The influx of foreign funds is anticipated to be liquidity-positive, further contributing to the positive sentiment surrounding bonds.

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- ✚ Looking ahead to the medium and long term, the effect on bonds is expected to be positive due to inclusion in JP Morgan Bond Index, as the demand for Government Securities (G-Sec) is likely to drive yields downward.
- ✚ Coupled with anticipated rate moves from the US FED, RBI may change to neutral stance in next few policies.
- ✚ We may expect about 50bps rate cut from RBI in FY2025.
- ✚ We anticipate that over the next few months, 10-year yields may trade in 6.90-7.10% range.

Source: RBI, MOSPI, PIB, CMIE, FIMMDA, NSDL, IMF, J.P.Morgan, ECI, S&P Global, Bloomberg, Internal Research.

Note: Data updated as available in the beginning of the month.

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