Seventh Bi-Monthly Monetary Policy FY2025 - April 05, 2024

Major Highlights:

MPC unanimously voted to keep the Repo Rate under the LAF unchanged at 6.50%. Consequently, Standing Deposit Facility rate was kept unchanged at 6.25% and Marginal Standing Facility and Bank Rate were kept unchanged at 6.75%.

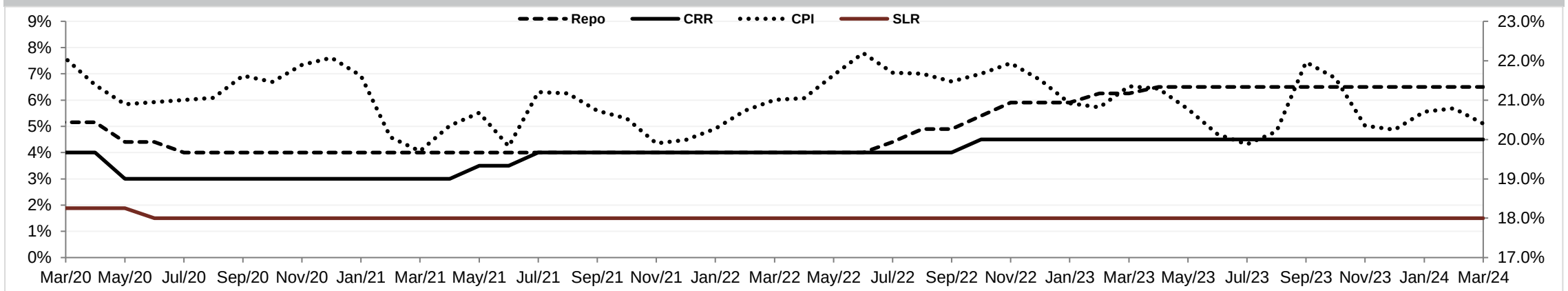
MPC voted 5:1 to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns with the target, while supporting growth.

CPI inflation is projected at 5.4% for FY23-2024, with 5.0% in Q4 FY23 and the projection for FY24-25 stood at 4.5%; 5.0% in Q1 FY25; 4.0% in Q2 FY25; 4.6% FY25; 4.7% IN Q4 FY25.

Real GDP growth projection is upwardly revised to 7.0% for 2024-2025; 7.2% in Q1 FY24; 6.8% in Q2 FY24; 7.0% in Q3 FY24 and 6.9% in Q4 FY24 with risks evenly balanced.

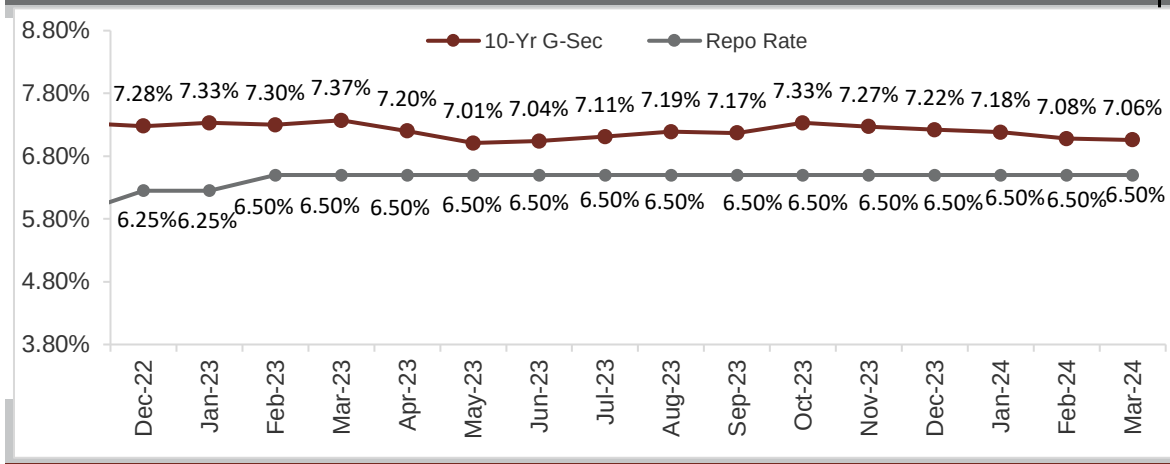
Interest Rate Trajectory

Repo Rate | CRR | CPI Inflation | SLR (RHS)



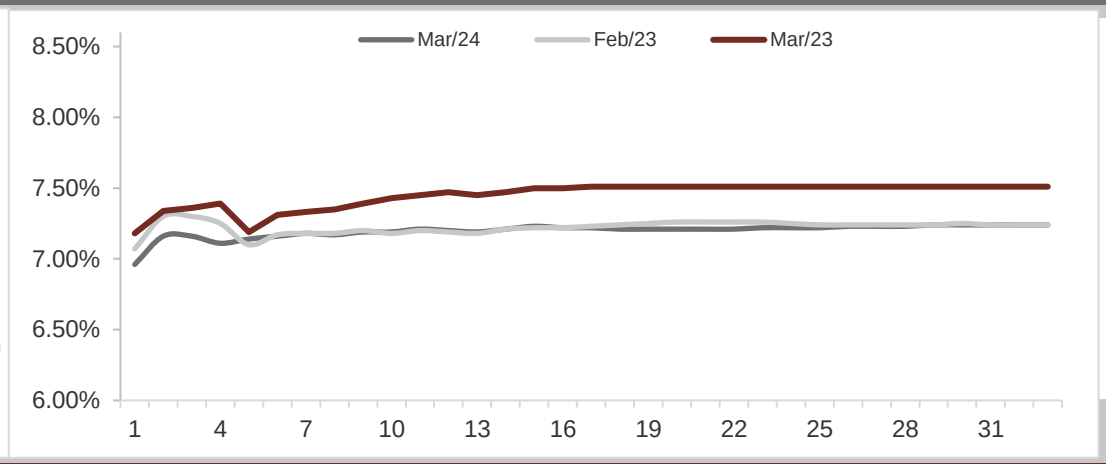
Benchmark: 10-Year GOI Yield Trajectory

10-Year Benchmark G-Sec Yield Vis-à-vis Repo Rate (MoM)



G-Sec Yield Curve w.r.t Tenure

Mar 2024 | Feb 2023 | Mar 2023



Key Takeaways

Global Economy: The global economy is expected to remain steady in FY24 with heterogeneity across regions. The economy has shown signs of recovery and is likely to accelerate in FY24, despite prevailing concerns about the current weakness in global trade momentum. Financial markets experienced volatility as investors remained cautious given the timing and pace of rate cuts by leading central banks, which are exercising caution in their efforts to combat inflation. Elevated levels of public debt and its impact on macroeconomic stability has been a major challenge across many countries, including some advanced economies (AEs). The global public debt to GDP ratio is forecasted to reach 100% by the end of the decade, with AEs exhibiting notably higher levels compared to emerging market economies (EMEs). India's fiscal consolidation efforts and economic growth trajectory anticipated a gradual decline in government debt, freeing up space for strategic investments like green transitions.

Domestic Economy: Domestic economic activity continued to thrive with the First Advance Estimates (FAE) projecting real GDP growth at 7.3% for FY23-24. The economic momentum observed in FY23-24 is anticipated to continue in FY24-25, despite challenges like reduced rainfall and reservoir levels, agricultural activity remains robust. Industrial activity gained momentum, on the back of improved performance of the manufacturing sector coupled with financial reports from corporate entities in manufacturing indicating increased profit margins. The Manufacturing PMI exhibited expansion, along with a strengthening future activity index. Services sector activity is expected to remain resilient on the back of strong domestic demand and stable global prospects. On demand front, improving employment and moderating inflation, coupled with a rebound in agriculture, are expected to boost household consumption. Rural demand gained momentum on the back of declining MNREGA demand and the extension of PMGKAY, while urban consumption remains robust due to improved income levels. Investment activity continues to be aided by the robust expansion in public sector capex, further bolstered by net external demand.

On Inflation: Average headline inflation eased to 5.5% from Apr'23-Dec'23 compared to 6.7% in FY22-23, while persistent food price inflation and geopolitical tensions contributed to supply chain disruptions and price fluctuations in crucial commodities like crude oil.

On Liquidity: The RBI proactively injected liquidity through main and fine-tuning repo operations to alleviate tightness. With increased government spending boosting liquidity, the RBI conducted six variable rate reverse repo auctions from Feb'24, to absorb excess liquidity. Short-term rates fluctuated while long-term rates remained stable, indicating improved inflation expectations, reflected in the easing term spread in the G-sec market.

On Outlook: In the near term, global growth is projected to maintain stability in FY24 on the back of a resilient performance amidst several macro headwinds. Inflation is gradually seen to decrease. Financial market sentiment had been fluctuating amid speculation about early central bank pivots in advanced economies (AEs), leading to rallies in equity markets, yet uncertainty persisted regarding the timing of interest rate cuts. Looking forward, the recovery in rabi sowing, sustained profitability in manufacturing, and the underlying resilience of services are expected to bolster economic activity in FY24-25. Household consumption is anticipated to improve, and prospects for fixed investment remain promising due to an upturn in the private capex cycle, and continued government focus on capital expenditure.

View: The Indian economy is confidently advancing on a robust, consistent, and transformative growth trajectory. The RBI reiterated to reduce inflation to the target of 4% , maintaining economic equilibrium and enhanced the economy's strength and stability, paving the way for sustained higher growth.

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Darashaw's Technical Outlook (As on December 04, 2023) and Capital Market Reaction

Technical Outlook: 10-Year GOI Yields

The yields have been correcting after making their high at 7.61% (June 2022). The medium-term indicators have been indicative of weakness in the yields. However, the June 2022 Low of 7.07% has acted support for the yields on a Quarterly Close basis. The yields are currently trading below the said low of 7.07%. A Quarterly Close below the same remains important to confirm medium-term weakness in the yields. In that scenario, the next bounce areas for the yields would be around 6.63% and 6.24%. However, the yields could revisit the low of 5.65% and subsequently test 5.36% - 5.29% zone. Since the yields are trading away from their 4-Day EMA and the Daily Lower Bollinger, a bounce in the yields is likely in the near term. Considering the decreasing Fibonacci retracement sequence and the quantum of counter-trend bounces of the yields during the recent down-move of the yields since the high of 7.39%, the yields could test the 7.11% - 7.14% zone in event of a near term bounce. A Weekly Close above 7.24% is important to indicate culmination of the down-move of the yields since the high of 7.39%. However, to suggest continuation of the up-move of the yields since the May 2020 Low of 5.65%, a Monthly Close above 7.45% (June 2022 Monthly Closing peak) is required which would be confirmed by a Weekly Close above 7.61%.

Market Reaction: Bond Markets

The 10-year benchmark opened unchanged from the close of the previous session at 7.07% and initially traded downwards to make a low of 7.04%. Thereafter, yields traded with an upward bias to make a high of 7.09%, before closing the day at the same level.

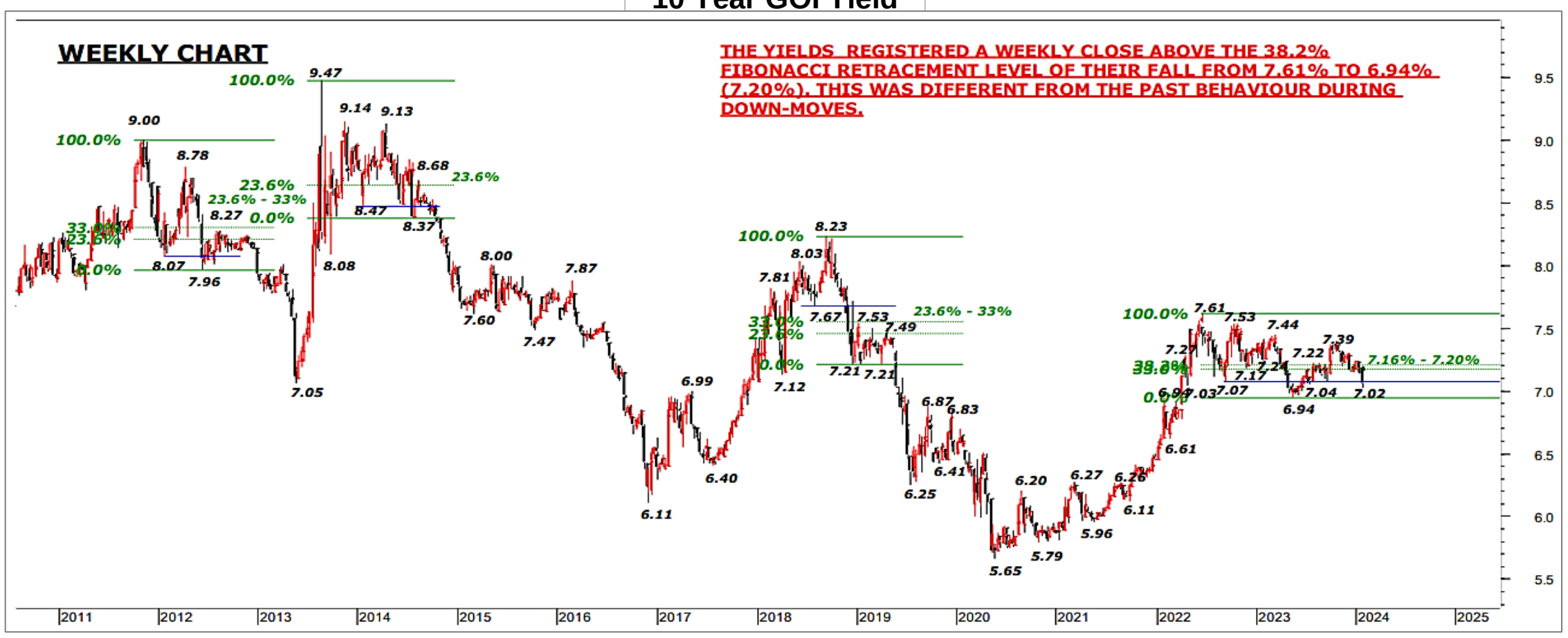
Technical Outlook: Nifty 50

The Nifty has witnessed a strong up-move after testing the key support area between 18887 and 18604 at its October 2023 Low of 18837. The Nifty negotiated past its resistance area which was placed between 20222 (September 2023 High) & 20390 which was indicative of further upsides. The Nifty has registered its December 2023 Quarterly Close decisively above the 423.6% Fibonacci retracement level of the 2008 fall (19638). Hence, the larger up-move is expected to continue. Nifty is likely to test the target area placed between 23723 (423.6% Fibonacci retracement level of the 2019 – 2020 fall on a Monthly Close basis) and 25311 (561.8% Fibonacci retracement level of the 2008 fall). A Daily Close below the intervening low of 21137 would confirm the said pattern which would give Targets of 20194 (Ratio) and 20150 (Arithmetic). These targets coincide with the support area placed between 20507 (upper end of the Weekly Gap of area between 20500 & 20291) & 20222 (September 2023 high). A decisive Daily Close above 22124 would negate the potential Double Top formation and would lead to continuation of the up-move.

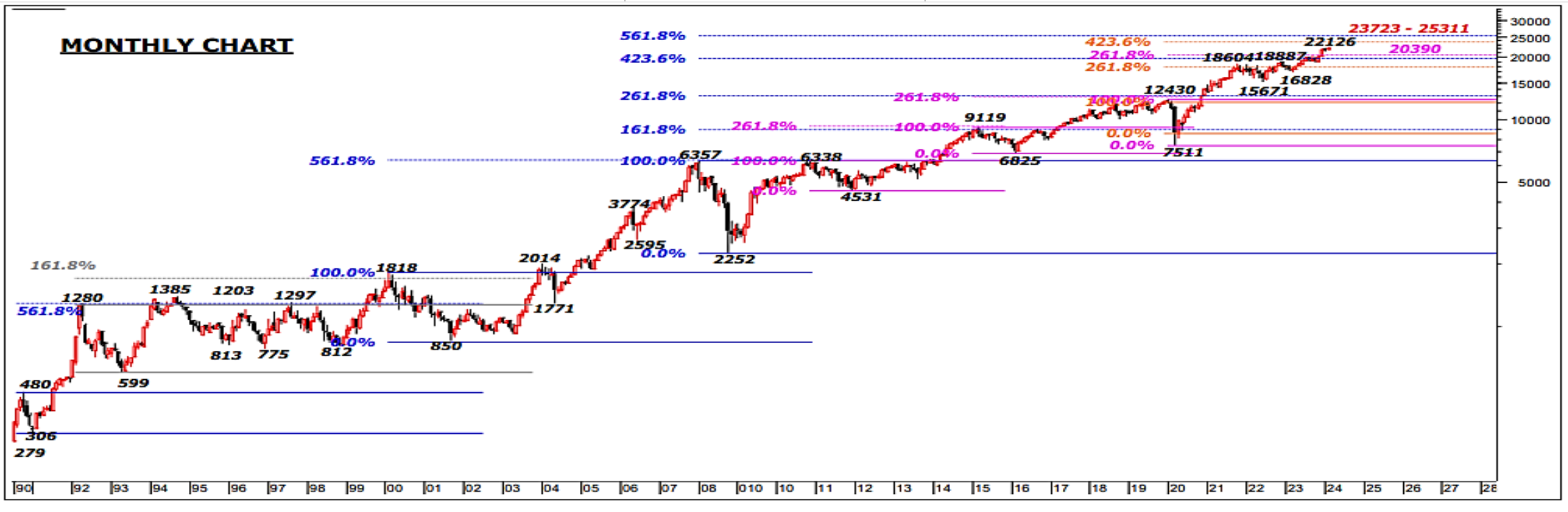
Market Reaction: Equity Markets (Nifty 50)

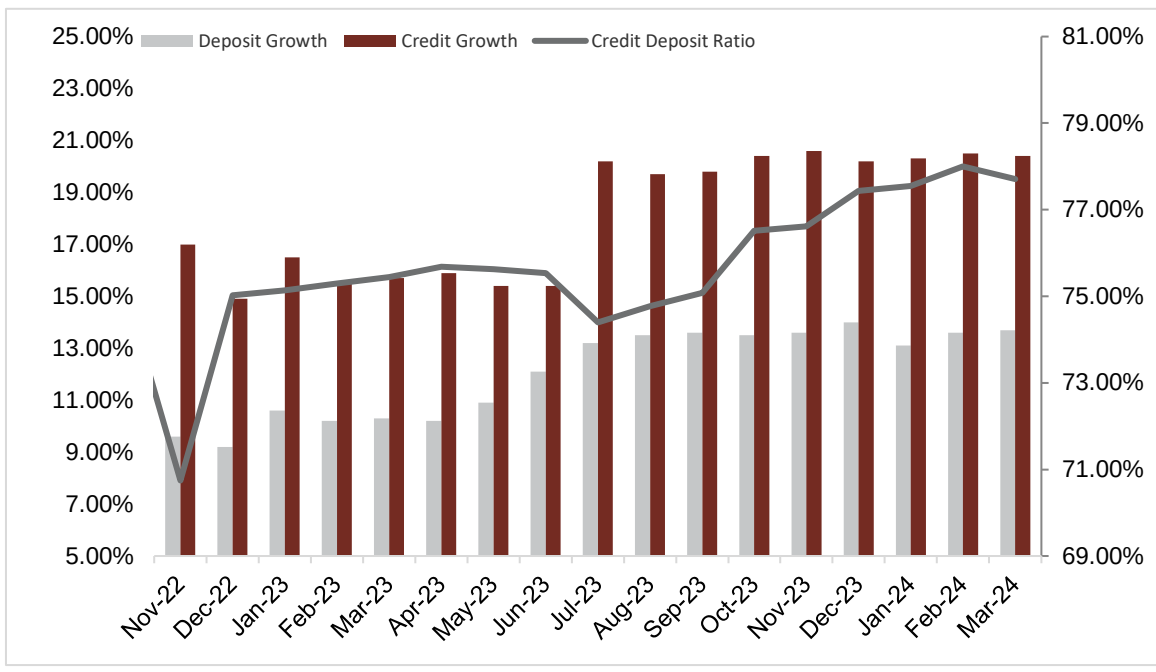
Benchmark Indice opened the session higher from the previous trading session. Thereafter, the indices reversed their trajectory and trade with a downward bias and reached a low of 21,708 before trading downwards, closing the session 1.12% lower from the close of the previous day.

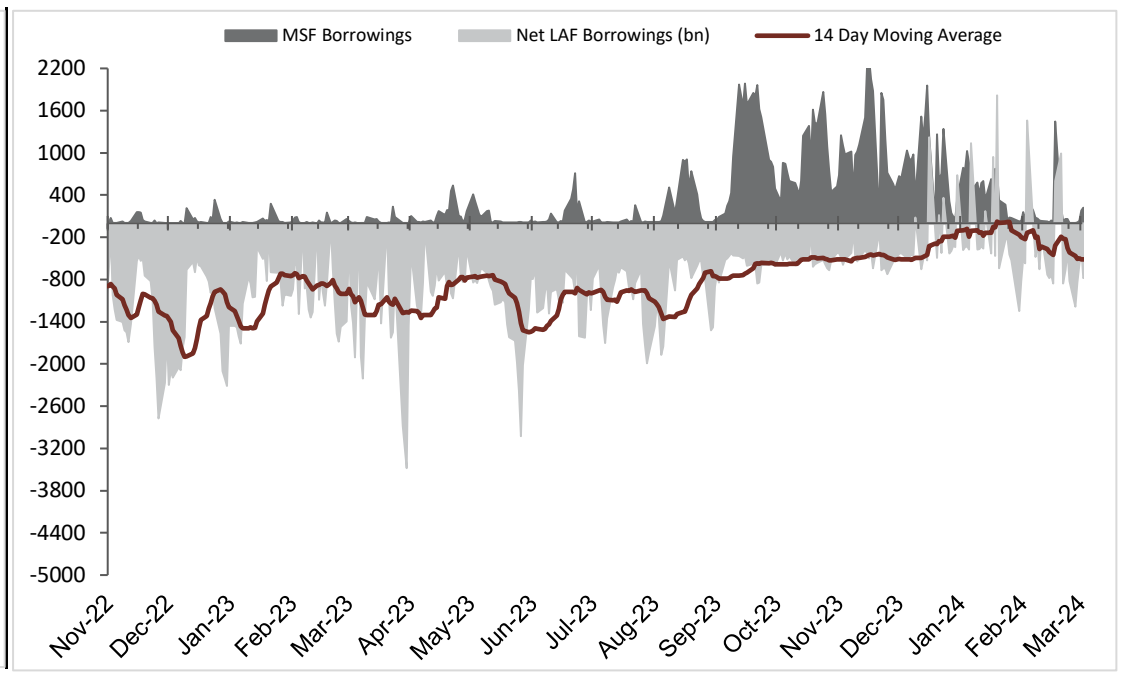
10 Year GOI Yield



Nifty 50







Y-o-Y Growth (%)	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-23	Feb-23	Mar-24	Change	Mar-23
Policy Rates									YoY	
Repo	6.50%	6.50%	6.50%	6.50%	6.50%	6.25%	6.50%	6.50%	**0.00**	6.50%
Rev Repo	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%	3.35%	**0.00**	3.35%
CRR	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	**0.00**	4.50%
SLR	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	**0.00**	18.00%
Credit Deposit Growth	**Aug-23**	**Sep-23**	**Oct-23**	**Nov-23**	**Dec-23**	**Jan-23**	**Feb-23**	**Mar-24**	**Change**	**Mar-23**
Deposit Growth	13.50%	13.60%	13.50%	13.60%	14.00%	10.60%	10.20%	13.70%	**3.40**	10.30%
Credit Growth	19.70%	19.80%	20.40%	20.60%	20.20%	16.50%	15.50%	20.40%	**4.70**	15.70%
Credit-Deposit Ratio	74.77%	75.08%	76.51%	76.61%	77.44%	75.14%	75.30%	77.71%	**2.27**	75.44%
Incremental Credit-Deposit Ratio	57.19%	64.31%	85.02%	86.26%	95.75%	114.97%	111.63%	92.98%	**-18.03**	111.01%
Macroeconomics	**Aug-23**	**Sep-23**	**Oct-23**	**Nov-23**	**Dec-23**	**Jan-23**	**Feb-23**	**Mar-24**	**Change**	**Mar-23**
IIP (Growth)	10.30%	5.80%	11.60%	2.40%	4.20%	5.20%	NA	NA	**-**	1.10%
Inflation (WPI)	-0.52%	-0.26%	-0.52%	0.26%	0.73%	4.73%	3.85%	NA	**-**	1.34%
Inflation (CPI)	6.83%	5.02%	4.87%	5.55%	5.69%	6.52%	6.44%	NA	**-**	5.66%
Manufacturing PMI	58.60	57.50	55.50	56.00	54.90	55.40	55.30	59.10	**2.70**	56.40
Services PMI	60.10	61.00	58.40	56.90	59.00	57.20	59.40	61.20	**3.40**	57.80
FII Flow - Debt (INR Bn)	77	9	64	149	183	35	24	136	**161**	-25
FII Flow - Equity (INR Bn)	123	-148	-245	90	661	-289	-53	351	**272**	79

NA - Data Not Released

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