DARASHAW 1926 ALL ABOUT TRUST

Third Bi-Monthly Monetary Policy FY2025 - Aug 08, 2024

Major Highlights:

MPC 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%.

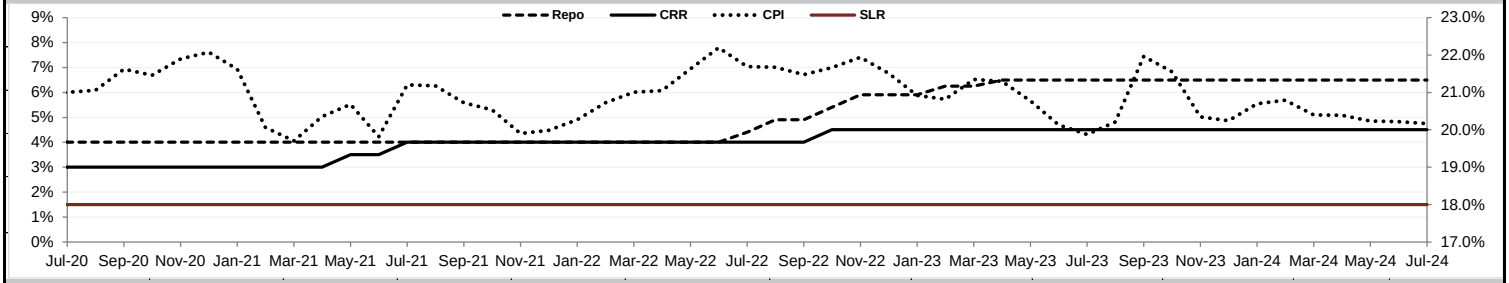
MPC voted 2:1 to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns with the target, while supporting growth.

CPI inflation is projected at 4.5% for FY24-2025; 4.9% in Q1 FY25; 4.4% in Q2 FY25; 4.7% in Q3 FY25 & 4.3% in Q4 FY24.

Real GDP growth projection is upwardly revised to 7.2% for 2024-2025; 7.1% in Q1 FY25; 7.2% in Q2 FY25; 7.3% in Q3 FY25 and 7.2% in Q4 FY25 with risks evenly balanced.

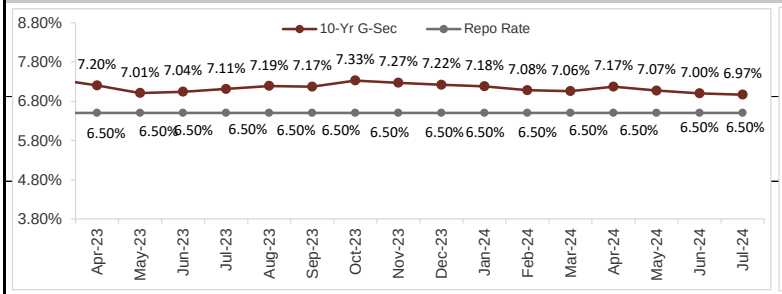
Interest Rate Trajectory

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



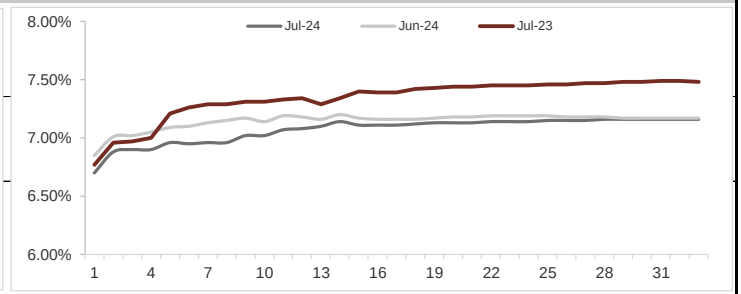
Benchmark: 10-Year GOI Yield Trajectory

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



G-Sec Yield Curve w.r.t Tenure

Jul 2024 | Jun 2024 | Jul 2023



Key Takeaways

Global Economy: The global economy is expected to remain steady in FY25 with heterogeneity across regions. The economy has shown signs of recovery and is likely to accelerate in FY25, despite prevailing concerns about the current contraction of manufacturing sector. Financial markets experienced volatility as investors remained cautious given the divergence of monetary policy across leading central banks, which are exercising caution in their efforts to combat inflation, meanwhile there has also been tightening by few central banks. Even though the short-term outlook of economy is positive, there has been major challenges like Demographic shifts, climate change, geopolitical tensions and fragmentations, rising public debt and new technologies impacting the medium-term outlook..

Domestic Economy: Domestic economic activity continued to thrive with the First Advance Estimates (FAE) projecting real GDP growth at 7.2% for FY24-25. Industrial activity sustained its momentum, driven by stable urban demand and strong investment activity. This is reflected in significant steel consumption, high capacity utilization, and solid financial performance from manufacturing firms with improved profit margins, and the Government's ongoing commitment to infrastructure investment. The Manufacturing PMI exhibited expansion, along with a strengthening future activity index. Services sector activity maintained momentum on the back of strong domestic demand and stable global prospects. On the demand side, household consumption benefits from a recovery in rural demand and consistent discretionary spending in urban areas. Improved agricultural performance enhances prospects for rural consumption, while robust activity in the services sector supports sustained urban consumption. Investment activity continues to be bolstered by the Government's persistent focus on capital expenditures, along with visible signs of a resurgence in private investment.

On Inflation: Average headline inflation increased to 5.1% in Jun'24 from 4.8% in Apr'24-May'24 compared to 6.7% in FY23, while increased food price inflation is the major contribution of 75% to headline inflation. Further, easing of food inflation is expected from the surplus in the south-west monsoon and healthy progress in sowing.

On Liquidity: The RBI proactively conducted two-way operations under Liquidity Adjustment facility to maintain the inter-bank overnight rate close to the policy repo rate. System liquidity transited from deficit in Jun'24 to surplus conditions in Jul'24. 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 amidst uneven expansion marked by a manufacturing slowdown and stable services activity. Inflation is gradually receding across major economies. Financial market sentiment had been fluctuating on the back of several central banks cautiously transitioning towards policy pivots through forward guidance and rate cuts, while others are implementing tightening measures. Looking forward, higher cumulative kharif sowing, sustained profitability in manufacturing supported by rising domestic demand, and the sustained buoyancy in services are anticipated to strengthen economic activity in FY24-25. The spill overs from protracted geopolitical tensions, volatility in international financial markets and geo-economic fragmentation, however, pose risks on the downside. Household consumption is anticipated to improve, and prospects for fixed investment remain promising due to 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.

DARASHAW 1926
ALL ABOUT TRUST

Darashaw's Technical Outlook (As on August 08, 2024) 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 September 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%.

Technical Outlook: Nifty 50

The Nifty had 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 (261.8% Fibonacci retracement level of the 2020 fall) which was indicative of further upsides. However, since the Nifty has faced resistance around the 161.8%, 261.8% and 423.6% Fibonacci retracement levels of the 2008 fall, the up-move could extend to test the 685.4% Fibonacci retracement level of the 2008 fall placed around 30384. The Daily RSI displaying a Negative Divergence accompanied by the Daily MACD facing resistance at its Trigger Line are near term concerns. Immediate support is placed at 24074 (23 July 2024 Low) on a Daily Close basis. Key near term supports are placed between 23796 (erstwhile Weekly Supply Line) and 23627 (38.2% Fibonacci retracement level of the up-move 21281 to 25078) on a Weekly Close basis.

Market Reaction: Bond Markets

The 10-year benchmark opened unchanged from the close of the previous session at 6.86% which coincided with the day's low. Thereafter, the yields reversed their trajectory and traded upwards towards the day's high of 6.89% before closing the day at 6.86%.

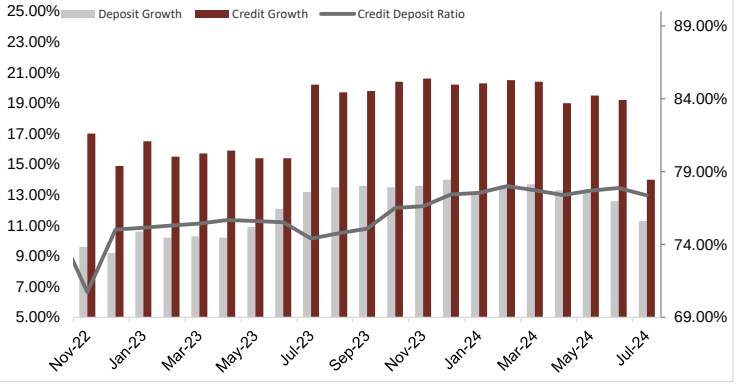
Market Reaction: Equity Markets (Nifty 50)

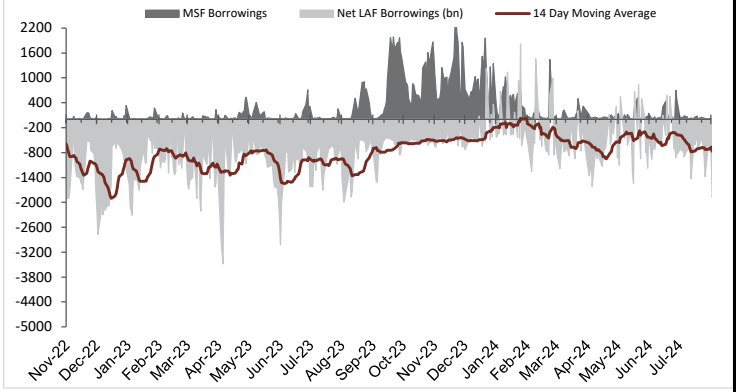
Benchmark Indice opened the session lower from the previous trading session. Thereafter, the indices continued to trade with a downward bias and reached a low of 24,079.70 before closing the session 0.81% lower from the close of the previous day.

10 Year GOI Yield

Nifty 50

DARASHAW
1926
ALL ABOUT TRUST





Y-o-Y Growth (%)	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Change	Jul-23
Policy Rates									YoY	
Repo	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	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	**Dec-23**	**Jan-24**	**Feb-24**	**Mar-24**	**Apr-24**	**May-24**	**Jun-24**	**Jul-24**	**Change**	**May-23**
Deposit Growth	14.00%	13.10%	13.60%	13.70%	13.30%	13.30%	12.60%	11.30%	**0.40**	10.90%
Credit Growth	20.20%	20.30%	20.50%	20.40%	19.00%	19.50%	19.20%	14.00%	**-1.40**	15.40%
Credit-Deposit Ratio	77.44%	77.55%	78.00%	77.71%	77.38%	77.69%	77.87%	77.37%	**1.75**	75.62%
Incremental Credit-Deposit Ratio	95.75%	95.01%	97.44%	92.98%	26.06%	55.34%	68.36%	57.55%	**-8.59**	66.14%
Macroeconomics	**Dec-23**	**Jan-24**	**Feb-24**	**Mar-24**	**Apr-24**	**May-24**	**Jun-24**	**Jul-24**	**Change**	**May-23**
IIP (Growth)	4.20%	3.80%	5.60%	4.90%	5.00%	5.90%	NA	NA	-	5.20%
Inflation (WPI)	0.73%	0.27%	0.20%	0.53%	1.26%	2.61%	3.36%	NA	-	-3.48%
Inflation (CPI)	5.69%	5.10%	5.09%	4.85%	4.83%	4.75%	5.08%	NA	-	4.31%
Manufacturing PMI	54.90	56.50	56.90	59.10	58.80	57.50	58.30	58.10	**-0.60**	58.70
Services PMI	59.00	61.80	60.60	61.20	60.80	60.20	60.50	60.30	**-0.90**	61.20
FII Flow - Debt (INR Bn)	183	198	224	136	-109	88	150	224	**191**	33
FII Flow - Equity (INR Bn)	661	-257	15	351	-87	-256	266	324	**-115**	438

NA - Data Not Released

www.darashaw.com

Disclaimer:-
This report has been issued by Darashaw & Company Pvt Ltd (CIN- U67120MH1994PTC076656) registered with Securities and Exchange Board of India ("SEBI") as a Stock broker, Merchant banker, Portfolio manager, Research analyst. The information herein has been obtained from various sources and is meant only for general reading purposes. Darashaw does not guarantee its veracity, accuracy or completeness. Neither the information nor any opinion expressed constitutes an offer, or an invitation to make an offer, to buy or sell any securities. This research report is not prepared for any particular recipient. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investor may seek financial and other advice before relying on the data set out in this report. It is possible that any possible inferred change in position of such securities may not happen. Investor should note that income from such securities, if any, may fluctuate and that each security's price or value may rise or fall. Past performance is not necessarily a guide for future prospect and performance.