DARASHAW 1926
ALL ABOUT TRUST

Second Bi-Monthly Monetary Policy FY2025 - June 07, 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%.

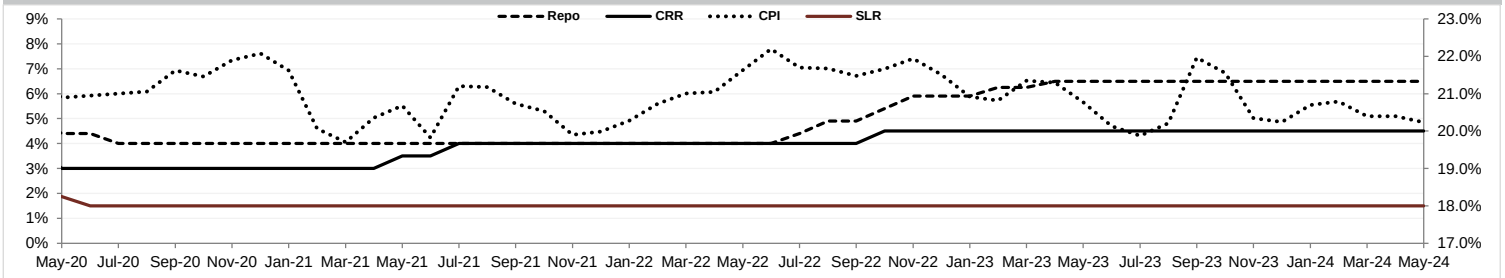
MPC voted 4:2 to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns with the target, while supporting growth.

CPI inflation is projected at 4.5% for FY24-25, with 4.9% in Q1 FY25; 3.8% in Q2 FY25; 4.6% in Q3 FY25; 4.5% in Q4 FY25.

Real GDP growth projection increased to 7.2% for FY24-25; 7.3% in Q1 FY25; 7.2% in Q2 FY25; 7.3% in Q3 FY25 and 7.2% in Q4 FY25 with risks evenly balanced.

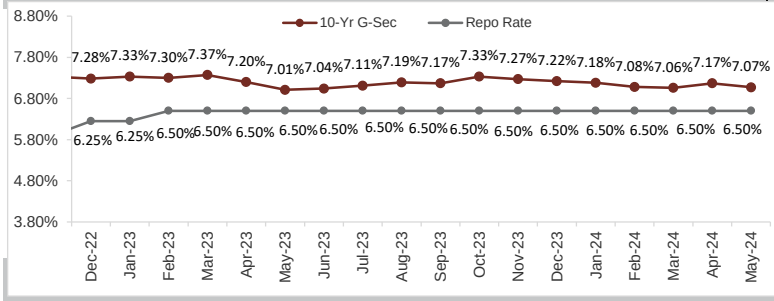
Interest Rate Trajectory

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



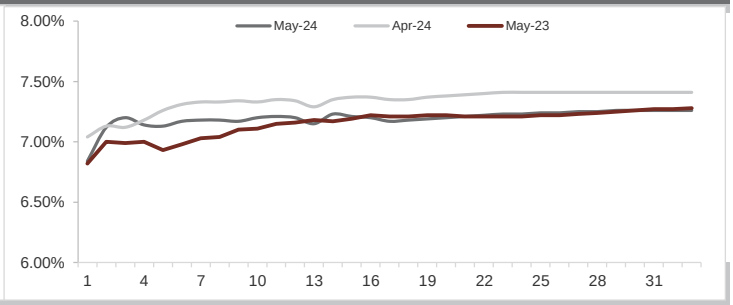
Benchmark: 10-Year GOI Yield Trajectory

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



G-Sec Yield Curve w.r.t Tenure

May 2024 | April 2024 | May 2023



Key Takeaways

Global Economy: The global economy is expected to sustain its momentum in FY24 and remain resilient given a rebound in global trade. The central banks remained steadfast and data dependent in their efforts to combat inflation. The market expectations regarding the timing and pace of interest rate cuts are also changing with incoming data and central bank communication. Furthermore, the US dollar and sovereign bond yields remained range bound, while gold prices witnessed an upsurge on safe haven demand. The equity markets across the globe, gained in both advanced and emerging market economies since the last MPC meeting.

Domestic Economy: Domestic economic activity continued to remain resilient. In particular, manufacturing activity continued to gather momentum, on the back of strengthening domestic demand. In May '24, the manufacturing PMI exhibited robust performance and is currently the highest in the world. The service sector remained buoyant, with the PMI services index at 60.2 in May'24, indicating continued robust expansion in activity. Private consumption witnessed recovery amid steady discretionary spending in urban areas coupled with a revival in rural demand on the back of an improvement in farm sector activity. Investment activity continued to gain traction, accounting to the ongoing expansion in non-food bank credit. Looking forward, the positive forecast of above normal south-west monsoon by IMD is expected to boost kharif production and replenish the reservoir levels, thereby strengthening agricultural sector activity which is further expected to boost rural consumption.

On Inflation: CPI inflation softened further during Mar-Apr'24, but ongoing food inflation pressures offset the benefits of core disinflation and deflation in fuel groups. Core inflation softened for the 11th consecutive month since Jun'23. Additionally, service inflation eased to a historically low level, while goods inflation remained contained. The exceptionally hot summer season and low reservoir levels may put stress on the summer crop of vegetables and fruits thereby affecting global food prices. These trends could accentuate the recent increase in input cost conditions for firms. Meanwhile, the forecast of above normal monsoon bodes well for the kharif season.

On Liquidity: During the current financial year so far, system liquidity transited from surplus to deficit conditions and back to surplus in early Jun'24. The RBI was seen to absorb the surplus liquidity through VRRR auctions during the first half of Apr'24, while injecting liquidity through VRR operations in the later part of Apr-May'24. Banks' recourse to MSF under the LAF remained low during FY24-25 so far. Across the term money market segment, the yields on CDs, CPs issued by NBFCs and 3-month T-bills also eased, post the decision of the RBI to transfer INR 2.11 lakh Cr as surplus to the Central Government for FY23-24. As the economy remains robust and resilient, the board decided to utilise this opportunity to increase the risk provisioning under the contingent reserve buffer (CRB) to 6.5% of the Reserve Bank's balance sheet for FY23-24 compared to 6.0% in FY22-23 further strengthening the Reserve Bank's balance sheet.

On Outlook: In the near term, global economic activity is rebalancing and is expected to grow at a stable pace in FY24. Inflation has been moderating unevenly, with services inflation staying elevated and slowing progress towards targets. Uncertainty on the pace and timing of policy pivots by central banks is keeping financial markets volatile. Non-energy commodity prices have firmed up, while the US dollar and bond yields are exhibiting two-way movement with spillovers to emerging market currencies. Gold prices have surged to record highs on safe haven demand. Headwinds from geopolitical tensions, volatility in international commodity prices, and geoeconomic fragmentation, however, pose risks to the outlook. Headline inflation has seen sequential moderation since Feb'24, albeit in a narrow range from 5.1% in February to 4.8% in Apr'24. Food inflation, however, remains elevated due to persistence of inflation pressures in vegetables, pulses, cereals, and spices.

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 May 31, 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 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

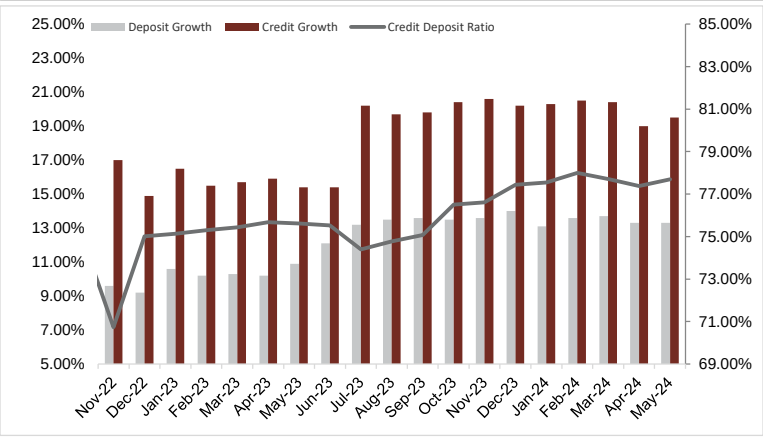
The Nifty has witnessed a strong up-move after testing the key support area between 18887 and 18604 at its October 2023 Low of 18837. The Nifty negotiated past its resistance area which was placed between 20222 (September 2023 High) & 20390 which was indicative of further upsides. The Nifty has registered 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.

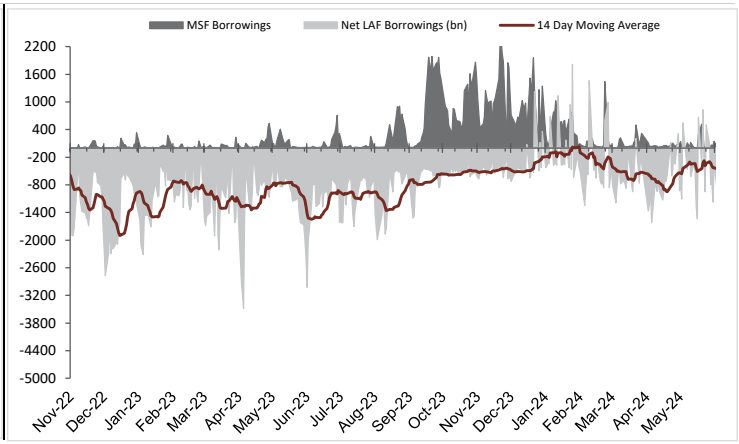
Market Reaction: Equity Markets (Nifty 50)

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 (%)	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Change	May-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	**Oct-23**	**Nov-23**	**Dec-23**	**Jan-24**	**Feb-24**	**Mar-24**	**Apr-24**	**May-24**	**Change**	**May-23**
Deposit Growth	13.50%	13.60%	14.00%	13.10%	13.60%	13.70%	13.30%	13.30%	**2.40**	10.90%
Credit Growth	20.40%	20.60%	20.20%	20.30%	20.50%	20.40%	19.00%	19.50%	**4.10**	15.40%
Credit-Deposit Ratio	76.51%	76.61%	77.44%	77.55%	78.00%	77.71%	77.38%	77.69%	**2.07**	75.62%
Incremental Credit-Deposit Ratio	85.02%	86.26%	95.75%	95.01%	97.44%	92.98%	26.06%	55.34%	**-10.80**	66.14%
Macroeconomics	**Oct-23**	**Nov-23**	**Dec-23**	**Jan-24**	**Feb-24**	**Mar-24**	**Apr-24**	**May-24**	**Change**	**May-23**
IIP (Growth)	11.60%	2.40%	4.20%	3.80%	5.60%	4.90%	NA	NA	**-**	5.20%
Inflation (WPI)	-0.52%	0.26%	0.73%	0.27%	0.20%	0.53%	1.26%	NA	**-**	-3.48%
Inflation (CPI)	4.87%	5.55%	5.69%	5.10%	5.09%	4.85%	4.83%	NA	**-**	4.31%
Manufacturing PMI	55.50	56.00	54.90	56.50	56.90	59.10	58.80	57.50	**-1.20**	58.70
Services PMI	58.40	56.90	59.00	61.80	60.60	61.20	60.80	60.20	**-1.00**	61.20
FII Flow - Debt (INR Bn)	64	149	183	198	224	136	-109	88	**55**	33
FII Flow - Equity (INR Bn)	-245	90	661	-257	15	351	-87	-256	**-694**	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.