

**US Q2 GDP growth rate of 3% which is an upward revision to the second estimate has exceeded expectations. As positive economic data from US flows in last week, market participants are still debating on the quantum of rate cut from FED in the upcoming meetings. Currently, the CME FEDWatch tools shows 59% probability of 25 bps rate cut in September meeting while that for 50bps cut jumped to 41% post contraction seen in manufacturing PMI data. During the week, high volatility was seen in global yields while domestic yields are relatively rangebound. Indian bond yields have remained in the range of 6.84%-6.87% even with Q1-FY25 GDP growth coming in lower at 6.7% vis-à-vis RBI forecast of 7.1%. The April-July FY25 fiscal numbers came in at Rs.2.77 lakh cr (17.2% of BE), which was way lower vis-a-vis Rs.6.06 lakh cr (33.9% of BE) a year ago signaling relatively subdued government contribution to growth.**

**US macro data forcing market participants to reassess the Fed rate cut quantum**

- The US economy grew by 3% on an annual basis in Q2, compared to the second estimate of 2.8% that provide positive surprise. The upward revision can be attributed to robust pace of consumer spending which has grown by 2.9% annually, up from previously 2.3%. Additionally, the PCE report indicated spending remained strong, but real disposable income growth remained weak.
- On 3<sup>rd</sup> Sep'24, the ISM released manufacturing PMI for August which indicated an increase from 46.8 in July to 47.2. Still, the PMI reading remained below 50 indicating a contraction in the manufacturing sector. Post PMI data indicating contraction, the probability of rate cut by 50bps in September FOMC meeting has jumped to 41%, according to CME FedWatch tool.
- The economic data is giving mixed signals to the market about the health of US economy. In this regard, the markets will stay focused on the US labour market releases due this week, like August non-farm payrolls data which is expected to rise by 165k as against 114k along with unemployment rate is expected to slightly decline by 4.2% as against 4.3% in July
- Dollar index during the month of Aug'24 slipped c.3% moving to lowest levels since Dec-2023. Further, the US 10-year yield has shown high volatility and is currently trading at 3.82%.

**RBI Governor asserted that growth numbers were positive despite being lower than forecast:**

- Q1FY25 GDP growth clocked 6.7% y/y, (vis-a-vis RBI estimate of 7.1%), while it was in line with our expectations. The key source of surprise was the GVA growth number which saw a much sharper than expected pickup. The wedge between GDP and GVA was a major surprise in the data as it became negative for the first time since Q1FY24 on a sharp drop in net indirect taxes growth. The RBI Governor commented that the data is strong as “components and main drivers responsible for the GDP growth like consumption, investment, manufacturing, services and construction have registered a growth of more than 7%”.
- Fiscal deficit for April-July FY25 came in at Rs 2.77 lakh crore (17.2% of BE) vis-a-vis Rs 6.06 lakh crore (33.9% of BE) in same period last year. It was also way lower than over 77% seen in pre-Covid period. More importantly, in comparison to Q1FY25, where we saw fiscal deficit at 8.1% of BE, it widened in July.
- Gross GST collections in August increased by 10% YoY to Rs 1.75 lakh crore, but lower compared to Rs 1.82 lakh crore last month. In August 2023, GST collections were up 11% YoY to Rs 1.59 lakh crore.

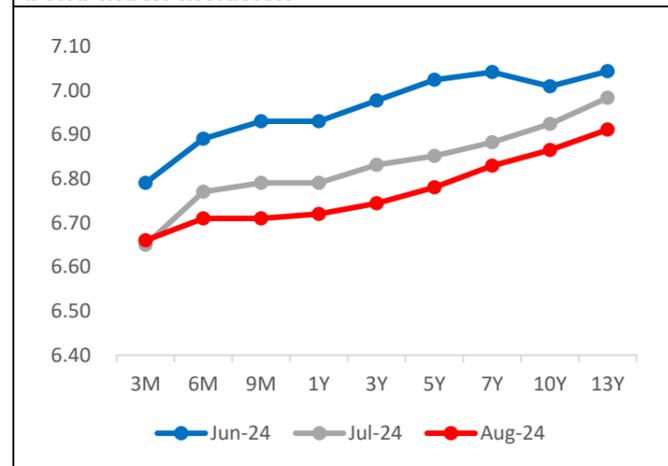
**IGBs yield curve shifting downwards due to consistent FPIs inflows under Debt segment:**

- IGB yield curve shifted downward during the month of Aug 2024 (Fig. 1). G-Sec yields have softened across the curve by 5-9 bps except in 3-month segment where it hardened by 1 bps in comparison to Jul-24.
- Overall market activity was also fulfilling in terms of volumes (Fig.2). Foreign Banks continued buying momentum with purchase of c.Rs.30,047 Crore of G-Secs and an equivalent amount was sold by PSU Banks. Mutual funds buying saw a jump of more than 51% MoM amounting to Rs.17,985 Crore. Primary Dealers remained on selling side during Aug-24 to the tune of Rs.24,546 Crore. Private Banks sold G-Secs for Rs.6,171 Crore whereas Others bought IGBs worth Rs.12,326 Crore.
- FPIs invested Rs.17,953 Crore in debt segment in Aug-24 alone and during FYTD25, total FPI investment stands at Rs.53,083 Crore of which Rs.40,316 crore were made in July & August, post JP Morgan EM Bond Index inclusion on 28<sup>th</sup> Jun'24.

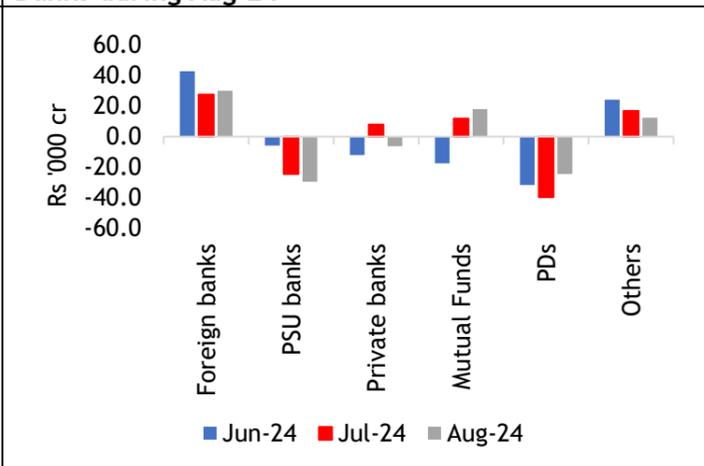
**Money market developments:**

- Weighted Average Call Rate (WACR) continues to hover around repo rate (6.50%) despite surplus liquidity with the RBI actively absorbing the same using VRRRs apart from OMO sales, to align with policy stance.
- During Aug-24, the banking system liquidity has remained in surplus with an average of Rs.1.51 lakh crore, with the switch seen since end-June.

**Fig. 1: Shift in yield curve on FPI flows post JPM bond index inclusion**



**Fig.2: Continued buying momentum from foreign Banks during Aug-24**



Source: CCIL, Bloomberg, CEIC, NSDL, UBI Research

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