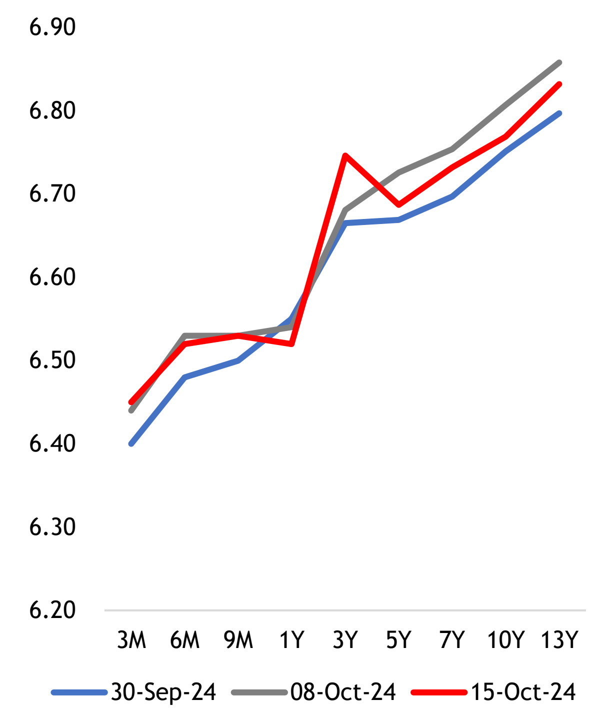
India FI Weekly: Upward push in global yields capped domestic gains

16th Oct 2024

Fig 1: India yield curve move pre and post policy; (%)



Source: Bloomberg, UBI Research

The US CPI for 6th consecutive month came in at 2.4% for Sept'24, the lowest since Feb'21. The reading is lower than previous month reading of 2.5% whereas higher than expected (2.3%). However, the market surprise is that the annual core consumer price inflation rate in the US which excludes food & energy edged up higher to 3.3% in Sep'24 above market expectations of 3.3%. Fed has already signaled that they expect lower interest rates as inflation cools, however, the current print feels bumpier than expected. Currently, as per CME FEDWatch Tool, 50 bps of cut is ruled out and the probability of 25bps cut jumped to 94% for Nov'24 meeting. In India, post MPC we have seen INR depreciate beyond Rs.84/$ mark. Even the Foreign flows under Equity and Debt segment were positive in Sep'24, the FPIs have been on a selling spree in October till date.

IIP slow down, WPI & CPI humped up, a cause of concern

- IIP came in negative by 0.1% in Aug'24, from 4.7% in previous month and vs 10.9% in Aug'23. The reading indicated a sharper slowdown, than our estimate of 0.4%. This was the index's first contraction since Oct'22, mainly attributed to high base effect (Aug'23 was driest in more than 100 years thereby boosting IIP) as well as impact of monsoon over industrial activity. Also, auto production and exports in contraction zone has affected manufacturing growth.
- India CPI inflation for Sept'24 sprung a rude surprise as it spiked to 5.49% vs 3.65% in August while it was better aligned with our above consensus (5-5.3%) estimate of 5.4%. This sharp upturn was led by expected thinning of high base effect and partly because of firming up of food prices especially vegetables (36.0%) during the month; core inflation also hardened to 3.51%, in line with our estimate of 3.46%, pushed up by a spurt in gold prices. Consequently, CPI-ex veg spiked to 3.36% vs. 3.07% last month, yet stayed subdued.
- The WPI for Sep'24 rose to 1.84% from August's 4 month low of 1.31% with an unfavourable base pushing prices higher on a Y-o-Y basis while an increase in food prices drove sequential momentum. Inflation in food items shot up to 11.53% last month against 3.11% in August. This was led by 48.73% increase in vegetables prices against (-)10.11% in August.
- The retail inflation is projected to average 4.5 per cent in 2024-25 and align with the target on a durable basis by 2025-26, RBI deputy governor Michael Debabrata Patra said. He added that the Indian experience is unique in view of the incidence of repetitive shocks to food and fuel prices, making monetary policy challenging.

Liquidity continued to remain buoyant, with call rate aligned with repo rate

- The system liquidity was in surplus during last week with currently at Rs.1.59 lakh crore in surplus. Today, the T-Bills cut off came in at 91D-6.451%, 182D-6.549% and 364D-6.543% which is 1-3bps up as compared to previous week cut-off.
- As per RBI weekly data, the currency in circulation has increased by Rs.11,320 Crore during the week ended 04th Oct'24. The government balance which got swollen to more than Rs.4 lakh crore during mid Sep-24 has been reduced to Rs.2.19 lakh crore during the week ended 04th Oct'24 due to following reasons:
  - Cancellation of T-Bills auction of Rs.40,000 Crore in the last fortnight of September.
  - Buyback of short dated G-Secs Rs.25,000 Crore last week and an announcement of additional Rs.25,000 Crore this week.
  - Release of Rs.1.78 lakh crore to states in tax devolution, including an advance of Rs.89,086 crore.
  - Quarter end spending and push towards capex spending as per budget plans since the run rate of expenditure is lower.
  - Net Direct Tax collections grew 18.3% to Rs.11.25 lakh crore as of 10th Oct'24. The IT department has collected Rs.9.51 lakh crore during the same period year ago.
- The RBI has done OMO sales of meagre Rs.20 Core during the week ended 04th Oct-24, taking the total OMO sales to Rs.24,060 Crore during FY2024-25.
- As per RBI WSS data the CD issuance has been lowered to Rs.39,380 Crore during the fortnight ended 04th Oct'24 as against Rs.67,552 Crore during the fortnight ended 20th Sep'24. This is a downfall of ~42% on account of half-year end. As of 04th Oct'24 the outstanding CDs amounts to Rs.4.68 lakh crore against Rs.2.90 lakh crore a year ago, a change of ~61% showing dependence of Banks on CDs for short term funding has risen. Even as Credit-Deposit wedge narrows to 150bps and with surplus liquidity prevailing the CD rates have remained buoyant. Post MPC, the 1 year CD rates have come off from 7.55-60 to 7.45-50 levels as the stance changed to "neutral", still the T-Bill CD spread is close to 100bps.
- On the flows front, this is first time post April-24 that the Debt segment has witnessed outflows during Oct-24. On the equity segment, the outflows hit a record high of Rs.66,301 Crore, breaching Mar-2020 outflows of Rs.61,973 Crore thereby pressing USD/INR to depreciate beyond 84/$ levels.

Strong US CPI. Low FX impact

- US Consumer Price Index rose 0.2% on MoM basis in September, pushing the annual inflation rate to 2.4%, slightly above market expectations of 0.1% and 2.3% respectively. This marks the lowest YoY rate since February 2021.
- Following the CPI data, US 2year has jumped to 4.09% and US 10year also made a high of 4.12% during last week. US PPI was reported flat for the month of Sept-24, beating forecasts of 0.1% and monthly core eased to 0.2% from 0.3%. Post PPI both US 2year and US 10year eased by 10bps.

Fig.2: CPI jumped as Veggies spoil the sport; (%)

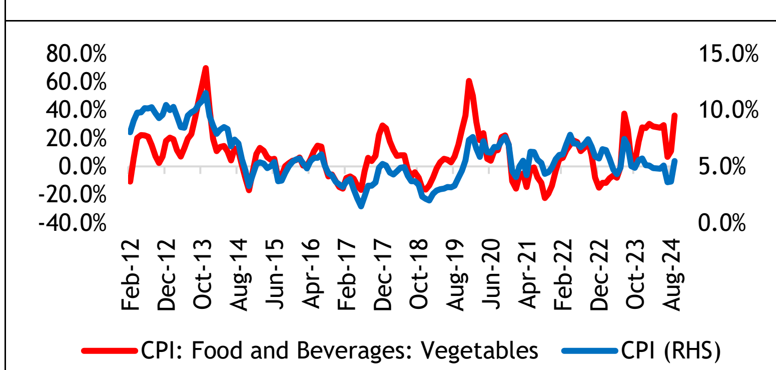
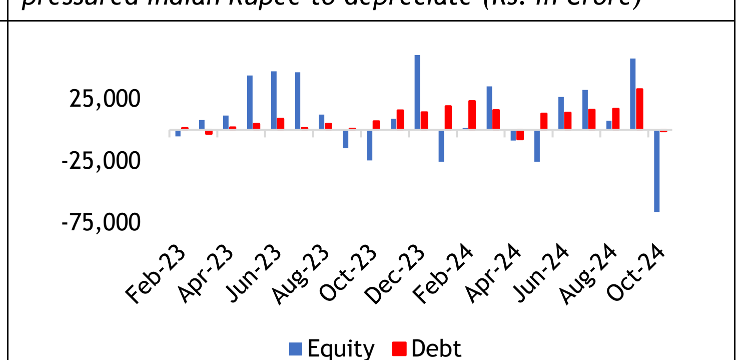


Fig.3: FPI outflows in equity on record high since Mar-2020 pressured Indian Rupee to depreciate (Rs. In Crore)



Source: NSDL, UBI Research

By:
Kanika Pasricha
kanika.pasricha@unionbankofindia.bank

Dhiraj Kumar
dhirajkumar@unionbankofindia.bank

Banking Research Team	
Kanika Pasricha **Chief Economic Advisor**	**kanika.pasricha@unionbankofindia.bank**
Suneesh K	suneeshk@unionbankofindia.bank
R Gunaseelan	gunaseelan@unionbankofindia.bank
Nidhi Arora	nidhiarora@unionbankofindia.bank
Rajesh Ranjan	rajeshranjan@unionbankofindia.bank
Jovana Luke George	jovana.george@unionbankofindia.bank
Amit Srivastava	asrivastava@unionbankofindia.bank
Rohit Yarmal	rohitdigambar@unionbankofindia.bank
S. Jaya Laxmi	s.jayalakshmi@unionbankofindia.bank
Dhiraj Kumar	dhirajkumar@unionbankofindia.bank
Akash Deb	akash510@unionbankofindia.bank
Shreyas Bidarkar	shreyas.bidarkar@unionbankofindia.bank