

Over the weekend, Joe Biden announced to drop out of the 2024 Presidential race and endorsed Vice President Kamala Harris to succeed him as Democratic candidate. US yield curve is showing signs of steepening amidst geopolitical doldrums and probability of 25bps rate cut in Sept-24 jumping to 98%. Domestically, news of OMO sales by RBI kept the downward momentum in yields limited as flows in FAR securities surpassed \$1Bn mark post IGBs index inclusion since 28th Jun-24. In the current week, the final FY25 Union Budget to be watched out for with respect to the fiscal deficit target and borrowing numbers.

US yield curve steepens:

- Last week, Fed Reserve Chairman, Jerome Powell stated that the latest inflation in June including the whole data for second quarter of consumer prices during 2024 does represent progress with three better readings. Additionally, he hinted about waiting for target of 2% to take further monetary policy measures may imply “waiting for too long”.
- We witnessed easing of US 10 year yield to 4.14% levels post Fed officials’ speeches and the CME FedWatch Tool showing the odds for 25-basis-point rate cut in September with 98% probability.
- Markets are factoring the same as spread between US 10Y and US2Y narrowed down to 25bps from 50bps a month earlier thereby steepening the US yield curve.
- Over the weekend, US President Joe Biden on Sunday announced that he is dropping his re-election bid against former President Donald Trump in the upcoming 2024 US elections while endorsing Vice President Kamala Harris to succeed him as Democratic candidate. This has heightened political uncertainty in US presidential elections and brought Trump’s trade into play (i.e. sell US dollar which is down c.0.15% since announcement, bitcoin is up, while gold is up over uncertainty).

Foreign Flows in IGBs FAR securities surpassed \$1Bn mark:

- Foreign investment in Fully Accessible Route (FAR) securities has crossed over \$1Bn mark in the previous week amounting to \$1.5 Bn (~Rs.12,643 Crore) from since 28th Jun 2024 to 19th Jul 2024. This is in line with the expectations of average inflows of \$2 Bn a month.
- It is expected that the tempo will be maintained with India projected to reach the weight of 10% in the GBI-EM Global Diversified Index over a 10 month period. Total inflows expected to the local bond market is worth \$20-25 Bn.

Monsoon turns to 1% deficit:

- Monsoon in India as on 22nd July’24 has again slipped into a deficit of 1% vis-à-vis 1% surplus recorded on 09th.
- The latest ENSO update from the Australian Bureau of Meteorology is at La Nina watch meaning there are some signs that a La Nina may form in the Pacific Ocean later in 2024. Historical data shows a clear correlation between Indian monsoon surplus/deficit and La Nina/El Nino event. Hence, monsoon progress is likely to be favourable in the coming weeks, after the El Nino last year weighed on monsoon rainfall in India.

Economic Survey tabled today, now all eyes on Union Budget due tomorrow:

- As per the Economic Survey of FY2023-24 was tabled today, real GDP growth for FY25 was projected at 6.5 to 7% with inflation expected to be 4.5% in FY25 focusing on managing food prices and core inflation. The Economic Survey emphasised the need for achieving long-term price stability, with a focus on strengthening price monitoring mechanisms, increasing domestic production of essential food items, and managing seasonal price spikes. It also prioritises on the need for significant job creation until 2036, with a focus on skill development and collaboration between government, academia, and the private sector.
- India Budget for FY25 is to be presented tomorrow. Budget expectations along with surplus liquidity situation likely to drive the yield curve in the near term. We expect the Fiscal space c.0.55% of GDP (RBI dividend bounty of 0.4% and tax bounty of 0.15%) distributed amongst Revenue (0.22%) & Capital expenditure (0.13%) and further lowering the deficit by 0.20% in FY25 (Watch our Podcast on : [Union Bank of India Fincast](#)).

Fig-1: Consistent FPIs +ve flows in FAR Securities since 28th Jun-24

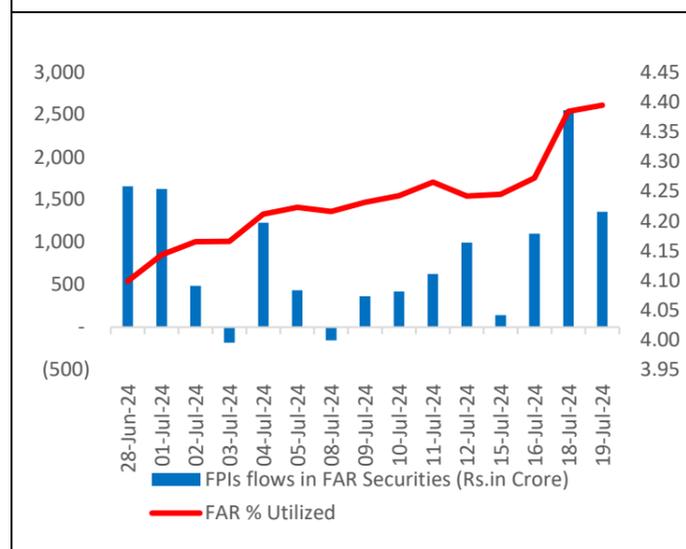
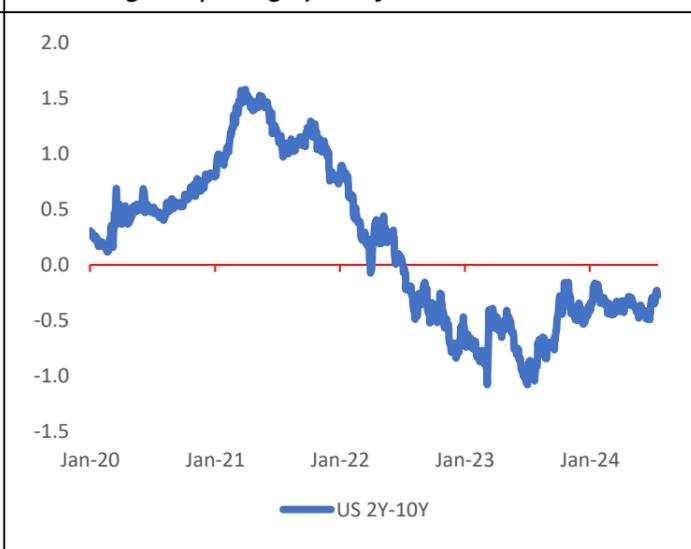


Fig-2: US 2Year to 10Year spread showing an uptick indicating steepening of the yield curve



Source: Reuters, NSDL and UBI Research

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