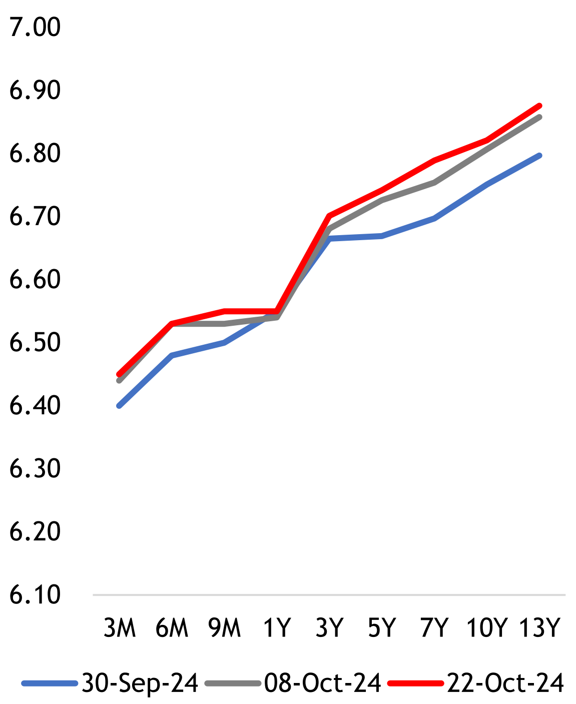
23rd Oct 2024

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



Source: Bloomberg, UBI Research

In India, fading rate cut expectations post RBI governor remarks led 10-year benchmark hardened from 6.76% to 6.83%. Additionally, the streak of FPI outflows continued in domestic markets during Oct-24 amounting to USD 8.8 Bn of which USD 0.3 Bn clocked in debt. In US, Initial jobless claims fell by 19k from the previous week's 14 month high, reaching 241k for the week ending 11th October. Also, the US retail sales data for September was stronger than market expectations illustrating resilient consumer spending that continues to power the economy. Currently, as per CME FEDWatch Tool, markets are pricing in 89% probability of 25bps rate cut in November FOMC meet while the probability of 50bps rate cut have diminished.

Resilient US economy keeping yields and DXY up

- On the labour market front, US weekly jobless claims fell unexpectedly to 241k for the week ending 11th Oct-24 which is below the previous week's tally of 260k by 19k.
- US retail sales data for September was stronger than market expectations illustrating resilient consumer spending. The headline increase of 0.4% M-o-M for September was ahead of expectations of 0.3%, however, the core measure came in solid at 0.7%, much higher than expectation of 0.3%.
- The US yields have jumped to 4.21% and DXY continued its strong footing breaking the key barrier of 104.00 on election uncertainty and safe haven demand. Further, the as per CME FEDWatch Tool, markets are pricing in 89% probability of 25bps rate cut in November FOMC meet while the probability of 50bps rate cut have diminished.

India 10-year benchmark jumps on fading rate cut worries

- The India 10-year benchmark jumped off from 6.76% to 6.83% during the week due to following reasons:
  - Globally, the US 10-year yields jumped post retail sales data showed economic resilience lowering the expectations of deep rate cut in Nov-24 meeting.
  - Domestically, the RBI Governor surprised markets by asserting strongly that rate cuts at this juncture will be very risky and very premature in a Bloomberg forum last week. Post the shift in MPC's policy stance to neutral in October policy, various sections of the market were expecting rate cuts starting December (our view was maintained at February 2025). Hence, now there is deferment of rate cut expectations in the market. Our view has broadly been of rate cuts "later rather than sooner" hence the elements of surprise was relatively low for us (India: Conundrum between C-D Ratio and Real Rates).
  - For the market activity during Oct-24, it is observed that the Foreign Banks were on selling spree and PSU Banks on buying side. This was last observed in the month of Apr-24. Till 21st Oct-24, Foreign Banks have sold 20,637 Crore of G-Secs whereas PSU Banks bought Rs.31,159 Crore of G-Secs.
  - FPI outflows in debt is very limited despite Rupee clocking record low. The Debt segment has witnessed outflows amounting to Rs.2,511 Crore during Oct-24. However, it is miniscule compared to the equity segment, with outflows hitting a record high of Rs.72,136 Crore, breaching Mar-2020 outflows of Rs.61,973 Crore with USD/INR depreciating to record levels.
- The Indian G-Sec yield curve has been shifting upwards post RBI MPC earlier in this month. It is the long duration beyond 5 year segment which is showing greater more hardening. In previous weekly reports, we have suggested shifting higher allocation to lower end of the curve.
- RBI in its monthly bulletin pointed towards slackening in economic growth momentum in Q2FY25 but suggests this slowdown may be temporary. Based on high frequency indicators the GDP for Q2FY25 projected at 6.8%. "Some high frequency indicators have shown a slackening of momentum in the second quarter of 2024-25, partly attributable to idiosyncratic factors like unusually heavy rains in Aug & Sept, Pitru-Paksh - goods and services tax (GST) collections; automobile sales; bank credit growth; merchandise exports and the manufacturing purchasing manager's index (PMI)." However, the RBI's nowcast suggests that this slowdown is temporary as the Dussehra-Diwali season on the horizon, the signs of economic revival via consumption growth is encouraging.

Liquidity continued to remain buoyant, expecting a dip in last week

- The system liquidity surplus of Rs.1.75 lakh crore, during last week, has come down to Rs.0.74 lakh crore. The same got reflected as Call WAR has risen from 6.11% to 6.65%. Further, today the T-Bills cut off came in at 91D-6.479%, 182D-6.597% and 364D-6.599% which is 3-6bps up as compared to previous week cut-off.
- As per RBI weekly data, the currency in circulation has increased by Rs.29,662 Crore during the week ended 11th Oct'24. The government balance which got swollen to more than Rs.4 lakh crore during mid Sep-24 has been reduced to Rs.2.38 lakh crore during the week ended 11th Oct'24. We expect it to expand in upcoming week due to GST collections putting pressure on existing surplus liquidity. The push in government spending may lower government balance letting liquidity to ease by month end.
- The Credit-Deposit wedge narrowed to 98bps as of 04th Oct-24. Despite surplus systemic liquidity, funding issues for the banking system persist, with the 1 year CD rates still hovering at close to 7.60%, 100bps above the 1 year T-Bill rate.

Fig.2: Buying switched from Foreign Banks to PSU Banks in Oct-24; (Rs.in Crore)

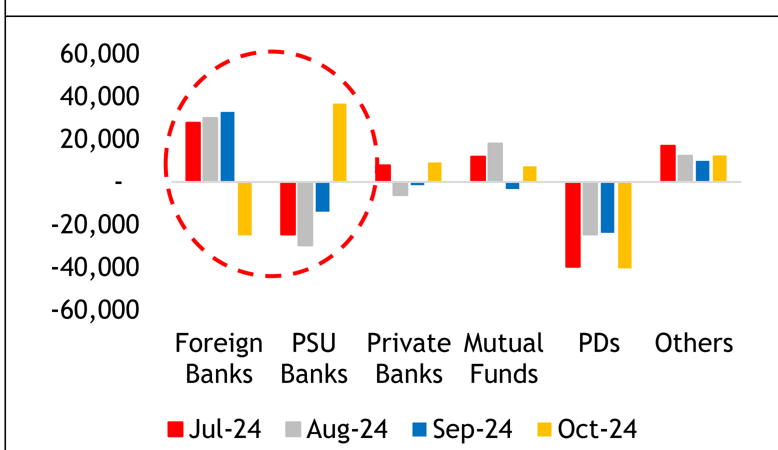
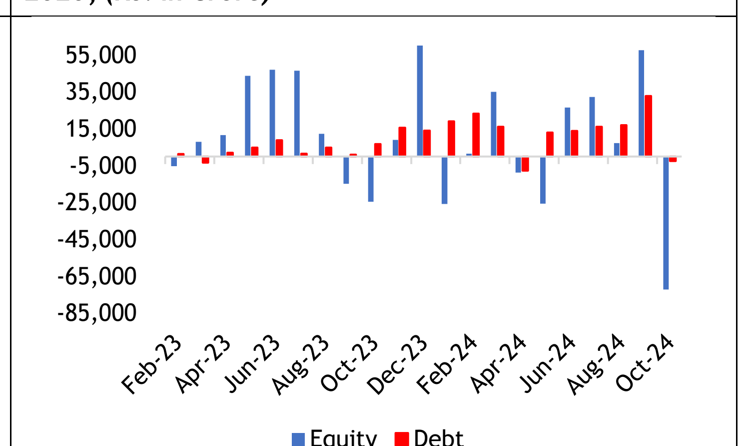


Fig.3: FPI outflows in equity on record high since Mar-2020; (Rs. In Crore)



Source: Bloomberg, NSDL, UBI Research

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