AXIS BANK

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Macro Flash

Fed confirms rate cut room limited while slowing QT, mixed India macro picture with inflation risks, and India MPC comfort with market pricing of no rate cuts.

Global rate cuts continue to be priced out, with the slightly less hawkish Fed having little impact on concerns of minimal 2024 easing.

- In the FOMC meeting, they held rates as expected, indicating a longer time-frame for confidence on inflation, and tapered QT more than expected.
- The cap on treasury runoffs was reduced by USD 25 bn to 25 bn, as opposed to the 30 bn expected by markets.
- The Fed also indicated that a hike would be justified by data showing policy was not restrictive, but that this was unlikely.
- Market pricing continues to show broad division between 0-50 bps rate cuts in 2024, while a poll of analysts remains skewed to a larger quantum of rate cuts.
- Driving caution on rates is continued improvement on macro data - seen in the OECDs composite leading indicator for the US now indicating above-trend growth. At the same time, 3 inflation readings have come in stronger than expected.
- Market projections of US growth continues to be raised, while that of the Eurozone remains soft - driven by data divergence. But of late, Eurozone data have been improving, albeit from a low base.
- Driving the growth dichotomy is the fiscal side, with the US expected to run a 6% deficit for the current year as well, while the Eurozone is closer to 3% (this is uneven across countries).
- Hidden in the Fed's March dotplot is a mild increase to the long-term rate - to 2.625% from 2.5% - this was at 4.25% in 2012. Market pricing currently indicates a 4%+ long term rate.
- Questions are being asked as to whether a cut is possible by September - unless inflation and activity data are unambiguously good and election risks ahead - as with December given the risk of tariffs.
- Like in 2015, a single cut for this year with more in later years remains a possibility.
- Global FX volatility is being watched, with divergence between Fed and ECB rate cuts the primary driver.
- Within this is the BOJ, which suddenly finds itself stuck between a weakening JPY and stronger data - but has not yet chosen a more hawkish path in response - this has led to even further JPY volatility.

India macro picture mixed on growth, inflation risks becoming increasingly apparent.

- An extract of high-frequency indicators shows mixed trends for Feb and Mar, with the former boosted by an extra working day (leap year), and the latter given to year-end effects.
- Within these numbers, reversion of core sector IIP is indicative of fading of the leap year effect, but warm weather has boosted electricity demand - boding well for coal and transportations.
- GST collections at Rs. 2.1 tn for Apr follow the year-end effect, with a higher skew to services collections. Car registrations have been strong in March.
- At the same time, reduction in hotel operating metrics bode unfavourably for the travel and hospitality sector, but consumption in the retail sector is seen in better credit as well as retail sales.
- Credit growth continues unabated, with only limited slowing in unsecured retail loans and a slow recovery in industrial lending.
- Slower deposit growth has seen a pickup in issuance of CDs - with outstanding back at 2014 levels, helped by a recent easing in issuance conditions - this is also mirrored in wholesale deposits.
- Inflation remains dichotomous, with strong core disinflation coupled with unfavourable food trends.
- This is seen in a broadening of food inflation as well as unseasonal rise in vegetable prices from already high levels - in addition to higher global edible oil and wheat prices.
- Risks are stemming from recovery in precious and industrial metals - the former driven by concerns around fiscal dominance and central bank demand, while the latter is driven by stronger Chinese growth expectations.
- Higher commodity prices also reduce corporate margins, and help reverse the quirk in GDP overstating real growth in the manufacturing sector when prices were low (like FY24).
- A La-Nina monsoon as predicted by the IMD is seen as boosting agriculture and rural demand - while this reduces food inflation, it can boost core inflation.
- A weak monsoon this year would be negative - low soil moisture and reservoir levels co-exist in a number of districts in India.
- Trade numbers contained many records - the highest annual core merchandise exports, strongest services exports, lowest merchandise deficit since FY17 when stripping out COVID years, and the first Q4 current account surplus since FY07 when stripping out crisis years.
- Recovery in consumption could boost imports, with lower global savings hurting financial inflows.

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