



Macro-economic developments

- IMF (International Monetary Fund) in its April 2023 World Economic Report highlighted that the world economy is still recovering from the unprecedented disruptions of the last three years, and the recent banking turmoil in the US and Europe has increased uncertainties. It expects global output growth to fall from 3.4% last year to 2.8% in 2023,

before rising to 3% in 2024, mostly unchanged from its January projections.

- As per IMF, advanced economies are expected to see a pronounced growth slowdown from 2.7% in 2022 to 1.3% in 2023. Growth in AEs is expected to slow down precipitously to 1.3% in CY23 from 2.7% in CY22. Within this group, UK and Germany are likely to experience a recession in CY23, with growth expected to contract by 0.3% and 0.1% respectively. For Euro Area as a whole, GDP is expected to rise by only 0.8%, after increasing by 3.5% in CY22. Even in US, growth will be lower at 1.6% compared with a 2.1% increase in CY22. Japan is the only major economy which may witness an expansion in GDP growth in CY23.
- As per IMF, growth in emerging market and developing economies (EMDEs) is expected at 3.9% in CY23, marginally lower than 4% in CY22. Within this group, growth in China is expected to rebound sharply to 5.2% in 2023 from 3% in 2022 led by a removal of Covid-19 restrictions. This is offset to an extent by a slowdown in growth in India, Brazil and South Africa.
- IMF has projected a growth rate of 5.9% and 6.3% for India in FY24 and FY25 respectively. Notably, this is lower than RBI's forecast. Despite this, India is likely to remain the fastest growing major economy. Global headline inflation is set to fall from 8.7% in 2022 to 7% in 2023 on the back of lower commodity prices but underlying core inflation is proving to be stickier.
- The US annual inflation (CPI) continued to lower at 5% from 6% in Feb, 6.4% in Jan 2023 and from 6.5% in Dec 2022, less than market forecasts of 5.2%, lowest reading in last 2 years. However, it's still well above the Federal Reserve's 2% target. The Personal Consumption Expenditures (PCE) Price Index, declined to 4.2% on a yearly basis in March from 5.1% in Feb 2023. The annual Core PCE Price Index, the Federal Reserve's preferred gauge of inflation, edged lower to 4.6% from 4.7% in the same period, compared to analysts' forecast of 4.5%. On a monthly basis, Core PCE inflation and PCE inflation rose 0.3% and 0.1%, respectively.
- The US 10-year Treasury yield, trading around ~3.5%, remaining marginally below the three-month high of 4.1% touched on March 2nd. On the policy side, The Federal Reserves approved its 10th interest rate increase in just a little over a year and dropped a tentative hint that the current tightening cycle is at an end. In a unanimous decision, the central bank's Federal Open Market Committee raised its benchmark borrowing rate by 0.25 percentage point. The increase takes the fed funds rate to a target range of 5%-5.25%, the highest since August 2007.
- India's current account deficit declined to US\$ 18.2 billion (2.2% of GDP) in Q3 of FY23 from US\$ 30.9 billion (3.7% of GDP) in Q2 of FY23 and US\$ 22.2 billion (2.7% of GDP) a year ago. The decrease in deficit came due to narrowing of the merchandise trade deficit to US\$ 72.7 billion in Q3 of FY23 from US\$ 78.3 billion in Q2 of FY23. India recorded a current account deficit of 2.7% of GDP in Apr-Dec 2022 as compared to 1.1% during same period in previous fiscal year due to sharp increase in the merchandise trade deficit.
- As per Reserve Bank of India, India's foreign exchange reserves climbed by \$4.53 billion each week as of April 28, 2023, reaching \$588.78 billion. The largest component of the foreign exchange reserves, India's foreign currency assets, increased by \$4.99 billion to \$519.48 billion.
- India's Index of Industrial Production (IIP) growth accelerated to 5.6% in Feb 2023 as against rise of 1.2% in Feb 2022. Manufacturing output rose 5.3% YoY in Feb 2023. Mining and electricity output rose 4.6% and 8.2%, respectively. As per use-based classification, capital goods grew 10.5% in the reported month.
- In Apr 2023, manufacturing output in India increased to its highest level since Jan 2023. The S&P Global Manufacturing Purchasing Managers' Index rose to 57.2 in Apr 2023 from 56.4 in Mar 2023. The increase came amid stronger factory orders and production.
- India's merchandise exports decreased in Mar 2023 by 13.89% to \$38.38 billion compared to \$44.57 billion in Mar 2022. Imports declined 7.89% to \$58.11 billion in Mar 2023 as against \$63.09 in Mar 2022. The nation's trade deficit for the month of Mar 2023 was \$19.73 billion.
- India's core sector growth accelerated by 3.6% in Mar 2023 as compared to 7.2% increase in the previous month. All sectors witnessed growth except crude oil, electricity and cement sector that contracted 2.8%, 1.8% and 0.8%, respectively. Coal sector witnessed the maximum growth of 12.2% followed by

fertilizer and steel sector that rose 9.7% and 8.8%, respectively. The cumulative growth in the eight core industries in FY23 was 7.6%, slower than FY22 that witnessed 10.4% growth.

- India's fiscal deficit stood at nearly 82.8% of the Budget Estimates (BE) from Apr to Feb of FY23. The revenue deficit stood at 83% of Budget estimate. Total receipts stood at ₹20.40 lakh crore or 83.9% of the budget target. Total expenditure stood at ₹34.94 lakh crore or 83.4% of the budget estimate.
- Brent crude oil prices fell marginally around 0.3% during the month of Apr 2023, the Brent crude closed at \$79.54/bbl compared to \$79.77/bbl previous month close. It remained below the \$80/bbl mark during the month.
- The Indian rupee against USD remained range bound during the month of April 2023. INR has relatively performed better than the Asian peers. However, INR soared to 82.22/\$ during Apr 2023, the lowest in one month and not far from the record low of 83 touched on Oct 19th 2022. It closed at 81.86/\$ compared to 82.12/\$ in the previous month.

Equity market developments and Outlook

- The Nifty 50 Index gained 4% in the month of April 2023. The other market cap indices, Nifty Midcap 50 & Nifty Smallcap 100 also gained 6% & 7% respectively and outperformed Large Cap.
- On the sectoral front - All sectors ended in green, except IT. The IT index was down 3.4% while Realty, Auto, PSU & Capital Goods were the top performers, delivered 14.8%, 7.4%, 7.2% & 7% respectively.
- The MSCI world index was up ~2% during the month of April 2023. The U.S. benchmark S&P 500 index returned positive to ~2% while within Europe, major markets like UK, France & Germany also gained 3%, 2% & 2% respectively during the month.
- Within Asian markets, Thailand, Hong Kong & Taiwan were the bottom performers, fell 5%, ~3% & 2% respectively while major markets like Japan, Indonesia & China were the top performers, delivered positive return 3%, ~2% & ~2% respectively in Apr 2023.
- Foreign portfolio investors (FPIs) flows remained positive and registered an inflow of ₹15,733 crores during the month of Apr 2023 compared to a net equity inflow of ₹14,944 crores in the previous month.
- Domestic Institutional Investors (DIIs) flows turned negative and registered outflow of ₹5,131 crores in the month of Apr 2023 compared to net large inflow of ₹20,764 crores in the previous month.
- Investors can continue to invest systematically in equities. Any market volatility/ dips can be used as an opportunity to increase their equity exposure gradually, as per their individual risk profile.

Fixed Income market developments and Outlook

- Global bond yields traded mixed in Apr'23 influenced by varied macroeconomic factors. India's 10Y yield have exhibited quite a bit of downswing in Apr'23, falling by almost 20 bps, currently it is trading at 7.04% levels. This was post RBI's surprise move of interest rate hike pause, defying market expectations of another 25bps hike. Further, a lower than expected inflation reading, favorable crude oil price and improved appetite for sovereign securities led 10 year yield softening.
- Yields across all tenor fell in Apr'23; even the short end curve exhibiting quite a bit of correction, which was not observed in the past two months. Thus the entire yield curve of India shifted downward. Liquidity remained in surplus to the tune of Rs 1.6 lakh crore, supported by RBI's fine tuning through SDF. We believe, India's 10Y yield to trade range bound with a downward bias in May'23. Further, it will be supported by the softening of CPI data in Apr'23.
- India's consumer price index-based inflation (CPI) rose 5.66% in Mar 2023, down from 6.44% in Feb 2023, the lowest since December of 2021. Consumer Food Price Index (CFPI) also eased to 4.79% in Mar 2023 as compared to 5.95% in Feb 2023. The inflation rate for vegetables contracted 8.51%, while that for cereals rose 15.27% in Mar 2023. Inflation in spices rose 18.21% in Mar 2023. While core CPI inflation moderated a bit to 5.7% in Mar 2023 vs 6.1% in Feb 2023.
- The Gross GST collection in April 2023 is all time high, ₹19,495 crore more than the next highest collection of ₹1.67 lakh crore, in April 2022. The gross GST revenue collected in the month of April, 2023 is ₹1.87 lakh crore of which CGST is ₹38,440 crore, SGST is ₹47,412 crore, IGST is ₹89,158 crore (including ₹34,972 crore collected on import of goods) and cess is ₹12,025 crore (including ₹901 crore collected on import of goods). The revenues for the month of April 2023 are 12% higher than the GST revenues in the same month last year. The collections for April 2023 mark the second straight month that collections have risen, with the Centre raking in ₹1.49 lakh crore in February 2023 and ₹1.60 lakh crore in March 2023.
- Foreign Portfolio Investors (FPIs) flows turned slightly positive to Rs. 475 crores in the month of Apr 2023, compared to a net outflow of ₹2,439 crores in the previous month.
- From an investment perspective, we prefer the medium term part of the yield curve.