marketbuzz

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January 2025

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CONTENT

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View from the Top

On the global, U.S. equity markets rose following the release of closely watched U.S. consumer price inflation data for Nov 2024 that came in line with economic estimates, and the report has boosted confidence that the U.S. Federal Reserve will cut interest rates by another quarter point on 18th Dec, 2024. Gains increased even more as investors reacted positively to the release of the U.S. Federal Reserve's preferred readings on the U.S. personal consumption expenditures (PCE) price index for Nov 2024, which came below economists' expectations. European equity markets closed on a mixed note. The market rose as investors were analysing the European Central Bank's choice to reduce interest rates by 25 basis points on 12th Dec 2024 and are considering the likelihood of an additional reduction in the first quarter of 2025. However, gains were limited by concerns regarding political instability in several significant European nations, apprehensions about a possible government shutdown in the U.S., and the prospect of tariffs imposed on the European Union have negatively impacted overall sentiment. Asian equity markets mostly rose after Japan's service sector activity returned to growth in Nov 2024. Gains increased even more as recent U.S. restrictions on semiconductor exports to China have turned out to be milder than initially anticipated. The Japanese market rose as data revealed that the country's GDP grew at a faster pace in Jul-Sep of 2024 than initially reported due to upward revisions in capital investment and exports.

Back home, domestic equity markets remained volatile during the month under review as markets rose initially after the former U.S. President and Republican candidate took a decisive lead in the 2024 U.S. election, which increased the expectation of tax cuts and increased government spending in the U.S.

In the domestic debt market, bond yields fell during the month following the weaker-than-expected domestic GDP growth data for the second quarter of FY25, as market participants expecting that could pave the way for an earlier rate cut by the RBI. Gains were extended following an ease in U.S. Treasury yields after the newly elected U.S. President told that he will nominate a prominent fund manager as Treasury secretary, who is seen a fiscal conservative and will likely to want to keep a leash on U.S. deficits.

Outlook

Going forward, the key triggers for domestic equity markets will be Union Budget 2025, focusing on fiscal policies and government spending along with third quarter earnings of corporates. Given the muted spending by the government in Apr to Sep of FY25 so far, markets believe that the government will increase its capital expenditure with focus on building infrastructure, boosting manufacturing and creating sustainable energy in the rest of the fiscal year. Actions of the President-elect in the U.S., the U.S. Federal Reserve’s stance on inflation versus growth and geopolitical tensions will also play a major role in determining the performance of the markets.

Moving ahead, Indian government is expected to continue the fiscal consolidation at the Union budget 2025, which is a positive for debt markets and with the government borrowing program ending soon, the demand supply imbalance is likely to remain favorable. With the new RBI governor at control, market participants will be looking forward to the domestic rate cuts. A good Rabi harvest and softening of vegetable prices will increase the confidence of the central bank, which would open up space for easing to support growth. The domestic liquidity has remained tight, which may prompt some durable action from the RBI including Open Market Operations purchases along with other tools. Global factors such as tariff hikes on emerging markets, the fiscal situation in the U.S. under the new administration, China's fiscal expenditure composition and lingering global geopolitical risks will play a pivotal role in determining the timing and depth of India's rate cut cycle in the forthcoming quarters.

We are pleased to bring to you the latest version of the Monthly Market Buzz for December. Happy Reading!!!

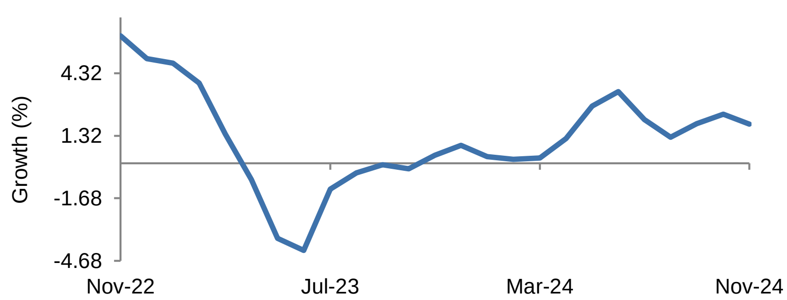
Deepak Gaddhyan
Head – Retail Liabilities & Wealth Management

INDIAN ECONOMY

Economic Releases in December-2024			
Key Indicator	**Period**	**Actual**	**Previous**
Repo Rate	Dec-24	6.50%	6.50%
Reverse Repo	Dec-24	3.35%	3.35%
CRR	Dec-24	4.00%	4.50%
Index of Industrial Production (IIP)	Oct-24	3.50%	3.10%
Wholesale Price Index Inflation(WPI)	Nov-24	1.89%	2.36%
Export (Y-o-Y)	Nov-24	-5.28%	16.77%
Import (Y-o-Y)	Nov-24	28.40%	2.01%

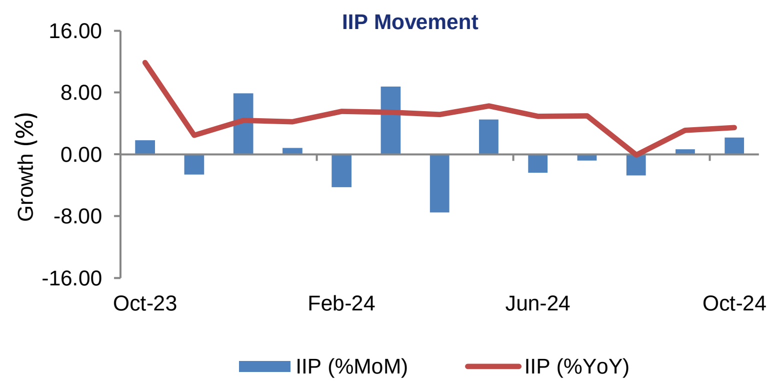
Source: RBI, Refinitiv

Monthly WPI Movement



Source: Office of the Economic Adviser, Ministry of Commerce & Industry

IIP Movement



Source: Reuters

- The Monetary Policy Committee (MPC) in its fifth bi-monthly monetary policy review of FY25 kept key policy repo rate unchanged at 6.50% for the eleventh consecutive time. The standing deposit facility rate also remained unchanged at 6.25%. Four out of six members voted to keep the policy repo rate unchanged. The MPC also decided to continue with the neutral monetary policy stance and to remain unambiguously focused on a durable alignment of inflation with the target, while supporting growth. The RBI has decided to reduce the cash reserve ratio of all banks to 4.0% of net demand and time liabilities in two equal tranches of 25 bps each w.e.f. the fortnight beginning Dec 14, 2024 and Dec 28, 2024.

- The consumer price index-based inflation eased to 5.48% YoY in Nov 2024 compared to 6.21% in Oct 2024, driven by moderating vegetable prices and stabilized edible oil costs. Consumer food price inflation decreased to 9.04% YoY in Nov 2024 from 10.87% in Sep 2024.

- India’s current account deficit (CAD) moderated marginally to US$ 11.2 billion (1.2% of GDP) in Q2 FY25 from US$ 11.3 billion (1.3% of GDP) in Q2 FY24, despite a worsening trade deficit driven by higher gold imports. Services exports rose significantly to $44.5 billion, helping offset the larger trade gap.

- Index of Industrial production (IIP) rose 3.5% YoY in Oct 2024, as compared to 3.1% rise in Sep 2024. Production in mining, manufacturing and electricity witnessed a growth of 0.9%, 4.1% and 2.0%, respectively, in Oct 2024.

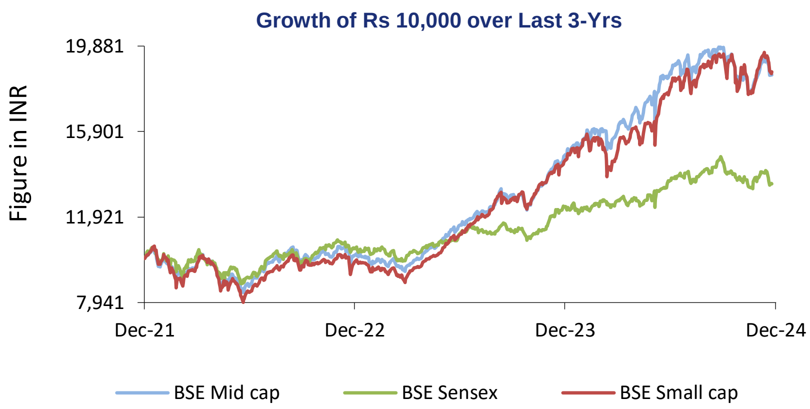
- Government has scrapped the windfall profit tax on domestically produced crude oil and exported jet fuel, diesel, and petrol, due to declining international oil prices. The government has collected Rs. 44,000 crore from the windfall tax since it was first imposed in Jul, 2022.

- The Department of Financial Services (DFS) of Finance Ministry has proposed imposing severe penalties on insurance companies and intermediaries, such as banks and insurance brokers, for mis-selling, in an amendment to the Insurance Act 1938. The DFS has proposed levy of fine ranging from a minimum of Rs. 1 crore to a maximum of Rs. 5 crore for mis-selling. However, individual agents will be exempted from this as insurers will be responsible for their acts. The DFS has proposed imposing a penalty ranging from Rs. 10 lakh to Rs. 1 crore for selling insurance policies without registration or invalid license.

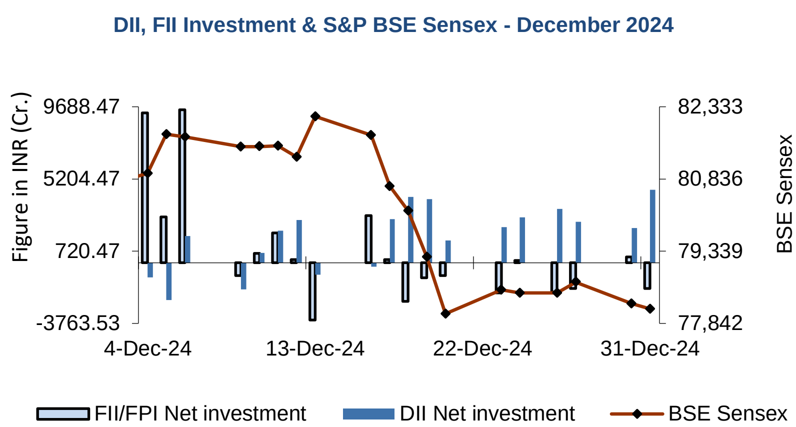
- The Lok Sabha passed the Banking Laws (Amendment) Bill, 2024, which allows bank account holders to have up to four nominees in their accounts.

- According to a consultation paper published by the SEBI, the capital market regulator has asked AMCs and Depository Participants to provide details of mutual funds and stock holdings of investors in DigiLocker. Further, DigiLocker users can provide nominee details for their DigiLocker account. Upon death of an investor, DigiLocker will send an intimation to the nominee via SMS and email to access the digital information of the deceased.

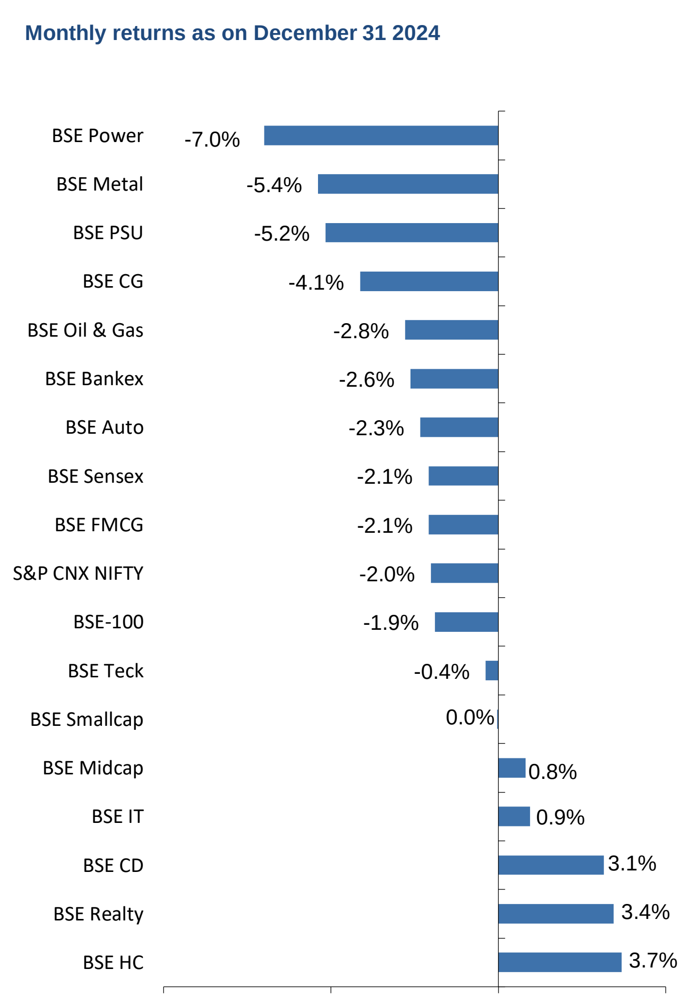
Indian Equity Market



Source : MFI 360 Explorer



Source: MFI 360 Explorer



Source: MFI 360 Explorer

- Domestic equity markets rose initially on expectations of policy easing by the RBI following the weaker-than-expected GDP figure in the second quarter of FY25 of domestic economy. Meanwhile, the RBI monetary policy committee in its Dec 2024 policy meeting kept repo rate unchanged at 6.5% for the eleventh consecutive time but reduced the cash reserve ratio by 50 bps to 4.0% to boost liquidity.

- Gains were extended following a positive global outlook after the U.S. Federal Reserve's Chairman commented about the resilience of the U.S. economy. Sentiment was boosted following a positive turnaround from foreign institutional investors to domestic equity markets in the first half of the month.

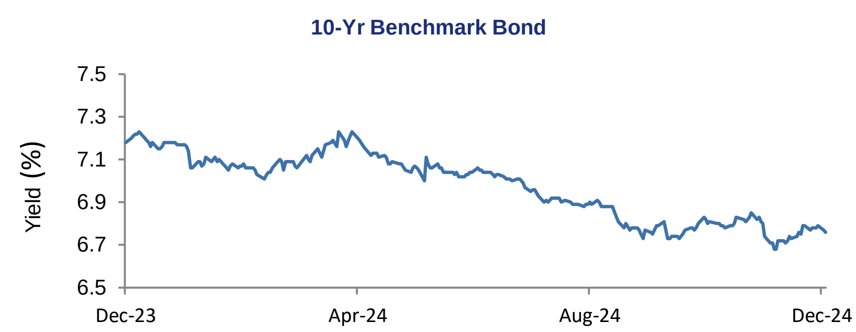
- However, the trend reversed, in the second half of the month as the U.S. Federal Reserve's hawkish tone on interest rate cuts in 2025 dampened the market sentiment. After slashing interest rates by 25 bps in Dec 2024 monetary policy meeting as widely expected, the U.S. Federal Reserve warned that it remains cautious about further rate cuts amid inflation concerns, as the central bank cautioned that inflation may take one to two years to return to the 2% target.

- Persistent selling by the foreign institutional investors in domestic equity markets in the second half of the month along with rupee's record fall against the U.S. dollar, further extended the losses.

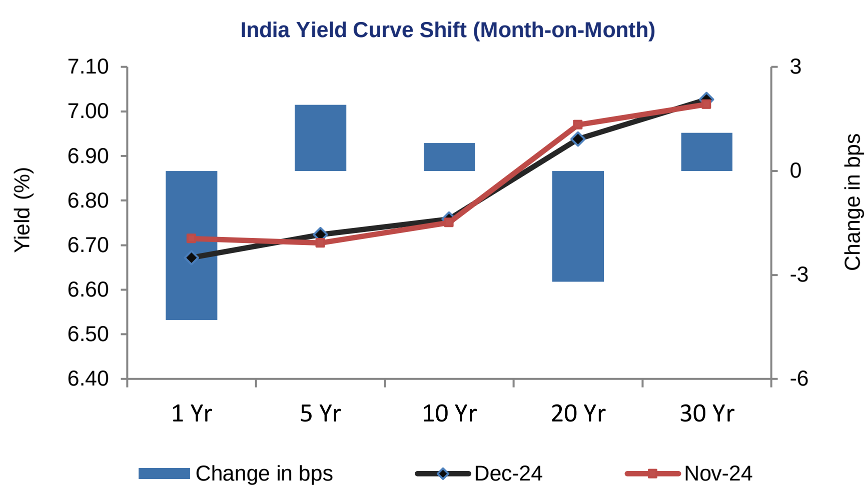
- On the BSE sectoral front, BSE Metal plunged 5.39% as steel stocks faced selling pressure after the Karnataka government tabled a bill to tax mines and mining land. The Bill proposes to levy a tax from Rs. 20 to Rs. 100 per tonne for different minerals. The sector fell further due to the failure of the so-called stimulus and the expectation of a Chinese economic recovery. BSE Healthcare rose 3.69% amid weak markets buoyed by positive outlook and strong growth expectations for the Indian pharmaceutical sector, particularly during the winter season. Additionally, the outlook for contract drug manufacturers improved on expectations of higher tariffs on China, which could benefit Indian companies. BSE Consumer Durables gained 3.15% on expectations of a revival in consumer spending driven by the year-end holidays. Further, as ease in domestic retail inflation rate in Nov 2024 also boosted the sentiment for the sector.

Indian Fixed Income

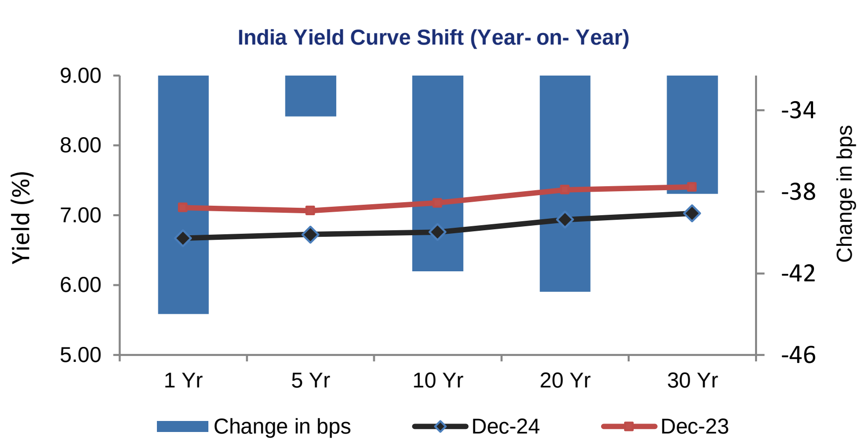
Indicators (Yield %)	December 31, 2024	November 29, 2024
Call Rate	6.88%	6.75%
FBIL 1 Mn Term Mibor	7.16%	7.09%
10-Yr benchmark bond	6.76%	6.75%
Reverse Repo	3.35%	3.35%
Repo	6.50%	6.50%
Bank Rate	6.75%	6.75%
CRR	4.00%	4.50%
Source: Refinitiv		



Source: CCIL



Source: Refinitiv



Source: Refinitiv

- Bond yields declined initially on expectations of monetary easing by the RBI following the weaker-than-expected domestic economic growth data of Q2 FY25. However, yields rose after the RBI maintained the repo rate at 6.50% in Dec 2024 monetary policy meeting. Losses were extended after the U.S. Federal Reserve reduced the interest rate by 25 bps in its Dec 2024 policy meeting and flagged a slower pace of policy easing in 2025, pointing to stable labour market and sticky inflation. Yields rose further tracking a sharp fall in the domestic currency w.r.t. U.S. dollar that weighed on overall investors' appetite. However, losses were limited after the minutes of the RBI's Dec 2024 policy meeting indicated a possibility of a rate cut in Feb 2025.

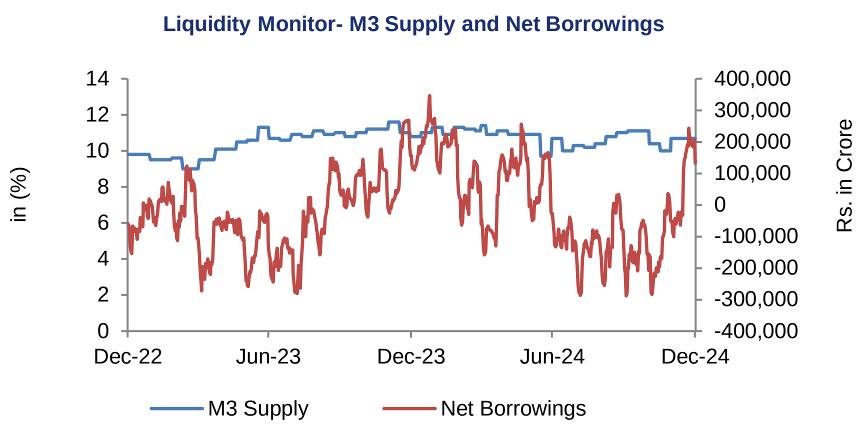
- Yield on the 10-year benchmark paper (6.79% GS 2034) rose by 1 bps to close at 6.76%, compared with the previous month's close of 6.75%.

- Bond yields started the month with fall on expectations of monetary easing by the RBI following the weaker-than-expected domestic economic growth data of Q2 FY25.

- Gains were extended after jobs data of U.S. in Nov 2024 reaffirmed the expectations of rate cut by the U.S. Federal Reserve in Dec 2024. However, the trend reversed after the RBI maintained the repo rate at 6.50% in Dec 2024 monetary policy meeting.

- Meanwhile, the U.S. Federal Reserve reduced the interest rate by 25 bps in its Dec 2024 policy meeting, however, flagged a slower pace of policy easing in 2025, pointing to stable labour market and sticky inflation.

- Losses were widened tracking a sharp fall in the domestic currency w.r.t. U.S. dollar that weighed on overall investors' appetite. However, losses were limited after the minutes of the RBI's Dec 2024 policy meeting indicated a possibility of a rate cut in Feb 2025.



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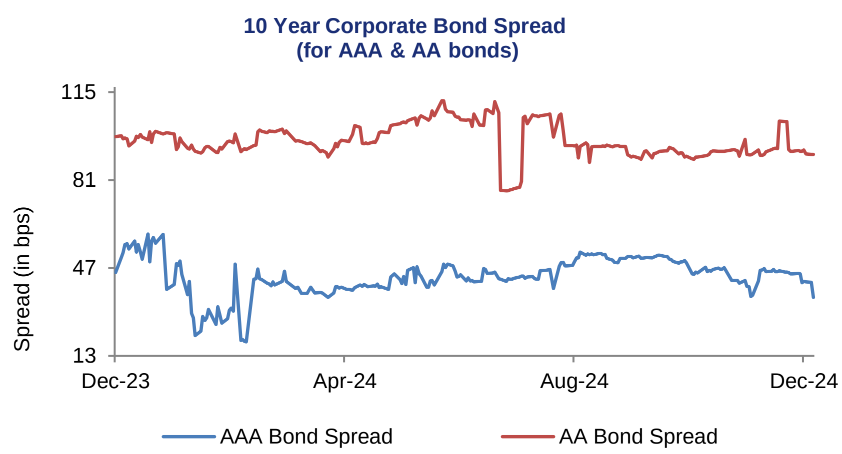
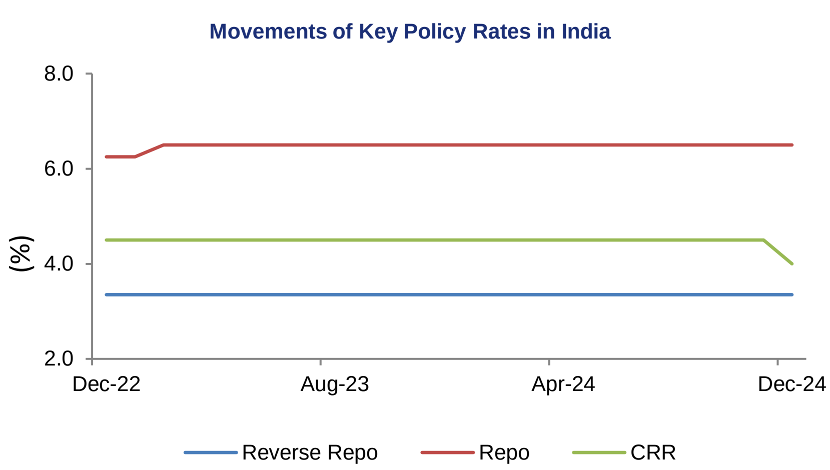
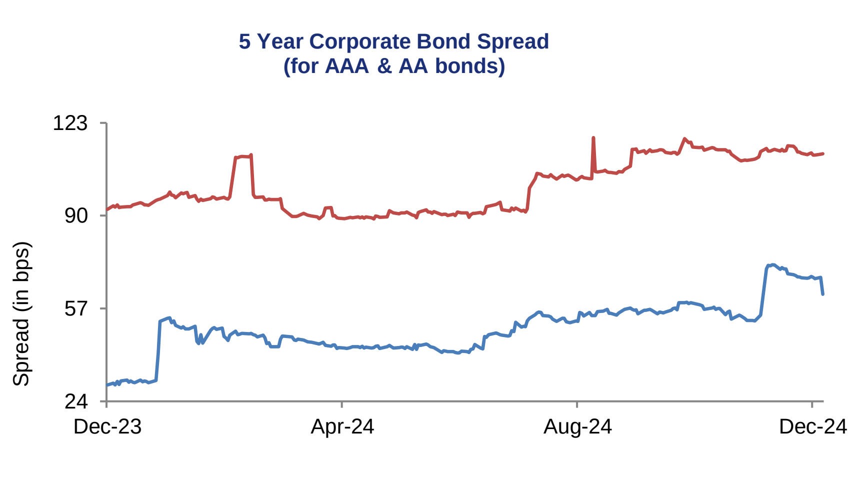


Source: Refinitiv



Source: RBI



Source: Refinitiv

- The central bank of India conducted auctions of 91-, 182- and 364-days Treasury Bills for a notified amount of Rs. 76,000 crore in Dec 2024, compared to the same amount in the previous month. The average cut-off yield of 91-, 182- and 364-days Treasury Bills stood at 6.47%, 6.62% and 6.61%, respectively, during the month under review compared with the average yield of 6.46%, 6.64% and 6.62%, respectively in the previous month.

- The RBI also conducted auction of state development loans (SDL) for a total notified amount of Rs. 1,12,891 crore (for which amount of Rs. 1,13,391 crore was accepted), which is slightly lower than the scheduled amount of Rs. 1,13,616 crore during Dec 2024. The average cut-off yield of 10-year SDL rose to 6.64% during Dec 2024 from 6.49% in the previous month.

- In addition, the RBI also conducted auction of government securities for a notified amount of Rs. 1,28,000 crore in Dec 2024, for which full amount was accepted with no devolvement on primary dealers.

GLOBAL EQUITY MARKET

Performance of Major International Markets (as on December 31,2024)		
Indices	**Country**	**1 Mth (%)**
United States		
Nasdaq 100	U.S.	0.39
Nasdaq Composite	U.S.	0.48
Asia Pacific		
SET Composite Index	Thailand	-1.91
Jakarta Composite	Indonesia	-0.48
Straits Times Index	Singapore	1.29
KOSPI Index	South Korea	-2.30
Nikkei Stock Average 225	Japan	4.41
Taiwan SE Weighted Index	Taiwan	3.47
Shanghai Composite Index	China	0.76
BSE Sensex	India	-2.08
S&P/ASX 200	Australia	-3.28
Europe		
FTSE 100	U.K.	-1.38
CAC 40	France	2.01
DAX Index	Germany	1.44
Source: MFI 360 Explorer & Refinitiv		

United States

- U.S. equity markets rose as investors reacted positively to the release of the U.S. Federal Reserve's preferred readings on the U.S. personal consumption expenditures (PCE) price index for Nov 2024, which came below economists' expectations.

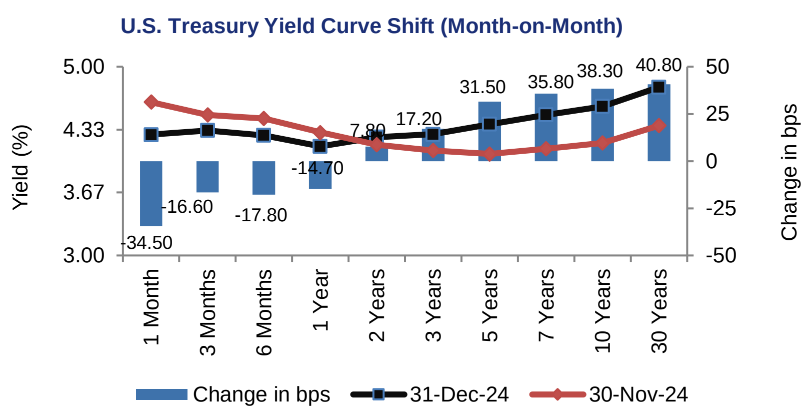
Europe

- European equity markets closed on a mixed note. The market rose as investors were analysing the European Central Bank's choice to reduce interest rates by 25 basis points on 12th Dec 2024 and are considering the likelihood of an additional reduction in the first quarter of 2025. However, gains were limited by concerns regarding political instability in several significant European nations, apprehensions about a possible government shutdown in the U.S., and the prospect of tariffs imposed on the European Union have negatively impacted overall sentiment.

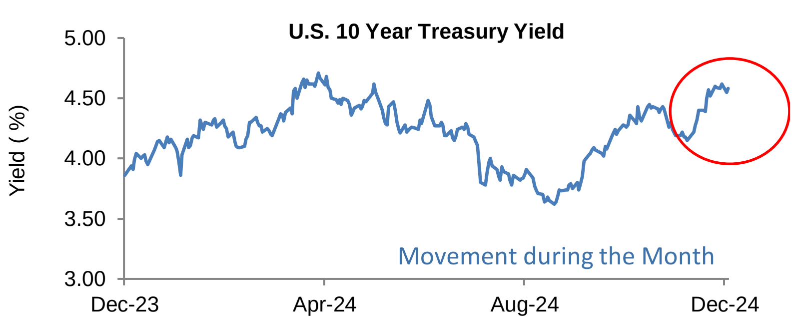
Asia

- Asian equity markets mostly rose after Japan's service sector activity returned to growth in Nov 2024. Gains increased even more as recent U.S. restrictions on semiconductor exports to China have turned out to be milder than initially anticipated.

GLOBAL FIXED INCOME - U.S. TREASURY



Source: Refinitiv



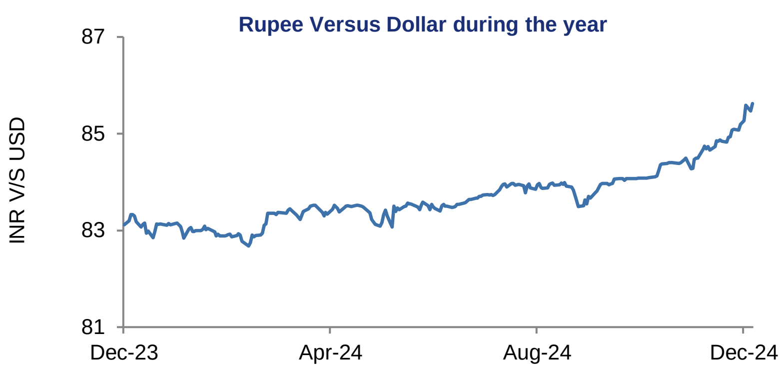
Source: Refinitiv

- Yields on the 10-year U.S. Treasury rose by 39 bps to close at 4.58% from the previous month's close of 4.19%.
- U.S. Treasury prices fell after data revealed that U.S. producer price inflation exceeded forecasters' expectations for Nov 2024 but displayed some underlying weakness.
- Further, prices fell following the anticipated reduction of interest rates by 25 basis points by the U.S. Federal Reserve on 18th Dec, 2024 but flagged that it will slow the pace of easing in 2025 amid a stable labor market and inflation that has become stickier than normal.
- However, losses were restricted after data showed that U.S. personal consumption expenditures (PCE) price index inflation in the world's largest economy moderately cooled in Nov 2024, which bolstered expectations of two more rate reductions in 2025.

CURRENCY

Movement of Major Currencies (as on December 31, 2024)				
Currency	**Value (as on 31-Dec-2024)**	**1 Mth**	**3 Mth**	**1 Yr**
U.S. Dollar	85.62	84.50	83.79	83.12
Pound Sterling	107.46	107.46	112.16	106.11
Euro	89.09	89.36	93.53	92.00
Yen (Per Rs.100)	55.00	56.00	59.00	59.00

Source: RBI

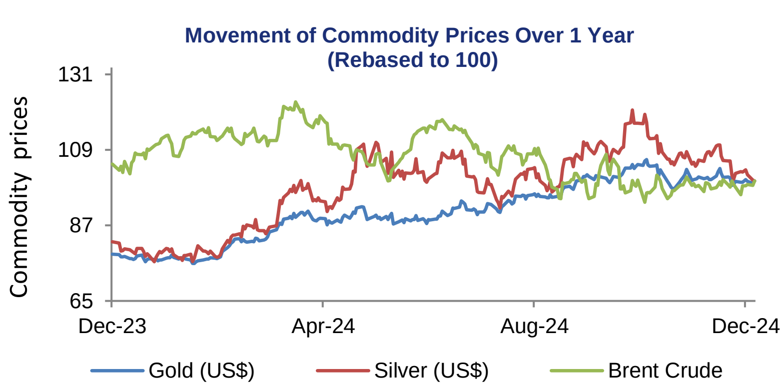


Source: RBI

COMMODITIES

Performance of Various Commodities					
Commodities	**Last Closing (31-Dec-24)**	**Returns (in %)**			
		1 Wk	**1 Mth**	**6 Mth**	**1 Yr**
Crude Brent ($/Barrel)	76.52	1.45	1.42	-13.78	-4.70
Gold ($/Oz)	2623.81	0.41	-1.12	12.82	27.21
Gold (Rs/10 gm)	75913.00	0.36	-0.64	6.08	20.61
Silver ($/Oz)	28.87	-2.49	-5.64	-0.87	21.52
Silver (Rs/Kg)	85851.00	-1.88	-3.92	-2.26	17.57

Source: Refinitiv



Source: Refinitiv

INR

- Rupee fell against the U.S. dollar due to strong greenback demand. Further, prices fell due to disappointing macroeconomic data. Losses increased due to likely outflows from the domestic equities market. Further, prices fell after data showed that India's merchandise trade deficit widened to a record high in Nov 2024. Losses increased even more due to declines in most Asian peers. However, losses were restricted after the Indian central bank decided to maintain its policy rates.

EURO

- Euro fell against the U.S. dollar on concerns about political uncertainty in France. Further, prices fell following the European Central Bank's decision to cut interest rates on 12th Dec 2024. Losses increased further after the U.S. Federal Reserve delivered a widely expected interest rate cut while also indicating it would slow the pace of its monetary policy easing cycle in 2025.

Crude

- Brent crude oil prices rose, supported by OPEC's choice to postpone its plans for production increases, alongside escalating worries regarding tensions in the Middle East. Further, prices rose following the ongoing conflict between Russia and Ukraine, and expectations of increased demand from China following the recent stimulus measures contributed. Gains increased after data showed a sharp drop in U.S. crude inventories in the week ended 20th Dec, 2024. However, gains were restricted by concerns about the outlook for oil demand, especially from the world's second-largest economy, China. Further, prices fell as investors looked ahead to the U.S. Federal Reserve's decision on interest rates for directional cues.

Gold

- Gold prices fell as markets began to understand the ramifications of the new President's election victory and its possible effects on U.S. interest rate forecasts. Further, prices fell as comments from the U.S. Federal Reserve Chair raised uncertainty about any aggressive rate cut move by the central bank. Losses increased after the U.S. Federal Reserve signaled a rate-cut slowdown in 2025. However, losses were limited after data showed that slowdown in the U.S. personal consumption expenditures (PCE) price index inflation for the month of Nov 2024, which raised hopes of a few rate cuts in 2025.

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All information mentioned in this document pertains to the month ended December 31, 2024.