



marketbuzz



CONTENT

INDIAN ECONOMY	1
INDIAN EQUITY MARKET	2
INDIAN FIXED INCOME	3
GLOBAL EQUITY MARKET	5
GLOBAL FIXED INCOME	5
CURRENCY	6
COMMODITY	6

View from the Top

Global equity markets rose during the month under review on growing possibility of an interest rate cut by the U.S. Federal Reserve in this year after U.S. gross domestic product climbed by 1.3% in the first quarter of 2024, compared to the previously reported 1.6% jump. Prospects of an interest rate cut improved further after data showed that consumer prices in the U.S. increased by 0.3% in Apr 2024, a somewhat smaller amount than anticipated. Market sentiments were further boosted after the Central Bank of Sweden lowered interest rates for the first time in eight years on May 8, 2024. However, gains were capped after minutes from the latest U.S. Federal monetary policy review showed that most of the U.S. Federal Reserve officials advocated for keeping interest rates higher for a longer period. Markets also remained under pressure as a trade war with the U.S. escalated, and the Chinese military dispatched bombers armed with live missiles for mock strikes as part of its Taiwan drills.

Back home, domestic equity markets fell as market participants exercised caution and remained on the sidelines as they awaited the outcome of the general elections for 2024. Sentiments were also dampened amid uncertainty as to what policy the U.S. Federal Reserve adopts in the coming months. Losses were extended due to concerns of global geopolitical tensions as Gaza ramped up its attacks in Rafah, southern Gaza. However, further losses were restricted after India's consumer price index-based inflation eased to a 11-month low of 4.83% on an annual basis in Apr 2024 which led to expectations of a rate cut by the Reserve Bank of India.

In the domestic debt market, bond yields fell after the U.S. Federal Reserve maintained interest rates as expected but sounded less hawkish than anticipated in its monetary policy concluded on May 1, 2024. Yields fell further as the Indian government decided to continue pumping money into the banking system in the upcoming weeks after reducing the supply of Treasury bills for the first quarter of FY25.

Outlook

Domestic equity markets moving forward will be dictated by the outcome of the general elections. Reports of close contest in some areas and low voter turnout has led to uncertainty regarding the outcome of the general elections. There is anticipation that if the current government is re-elected with a comprehensive victory, then it will have the much-required mandate to push through politically difficult reforms in land acquisition and labour that are crucial for boosting the growth prospects of the domestic economy. On the global front, monetary policy actions by key central banks across the globe will remain in sharp focus. Developments in the Middle East will also be closely tracked. In addition to the above-mentioned factors, movement of the rupee against the greenback, global crude oil prices and transaction trends by foreign institutional investors is also expected to have its impact on the domestic equity market in the coming months.

The outcome of the 2024 Lok Sabha election, which is scheduled to be announced on Jun 4, 2024, may have a significant impact on bond yields in the days ahead. A reduction in capital expenditure by the government may result an ease in bond yields and vice versa. After a record surplus transfer from the central bank, the government's strong cash position was further reinforced, which sparked beliefs that borrowing would be reduced once the new government took office. Additionally, market participants will be watching the RBI's monetary policy decision, which is due on Jun 7, 2024, with the central bank expected to maintain the status quo on interest rates.

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

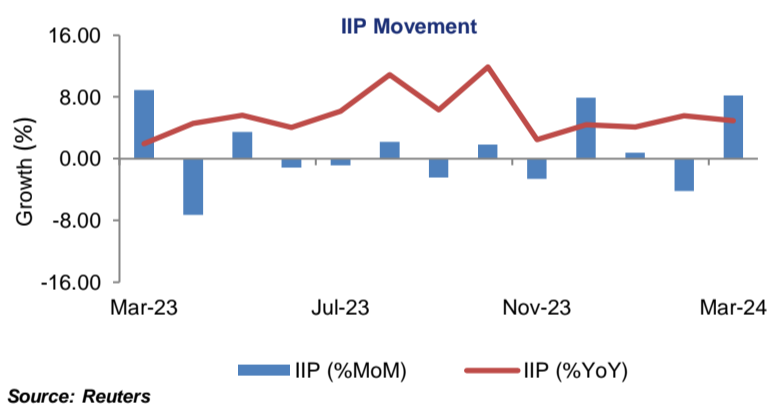
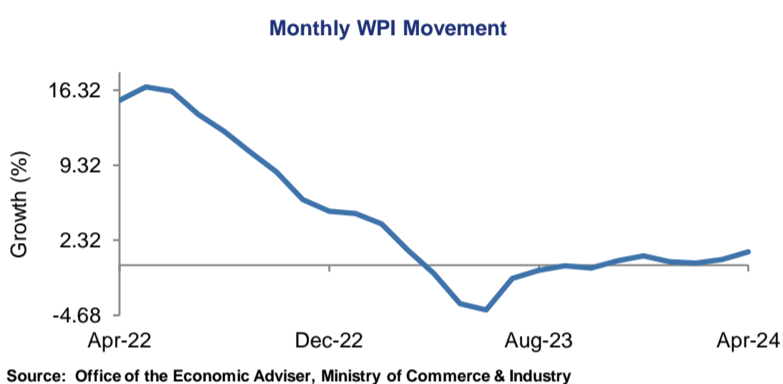
Deepak Gaddhyan
Head – Retail Liabilities & Wealth Management



INDIAN ECONOMY

Economic Releases in May-2024			
Key Indicator	Period	Actual	Previous
Repo Rate	May-24	6.50%	6.50%
Reverse Repo	May-24	3.35%	3.35%
CRR	May-24	4.50%	4.50%
Index of Industrial Production (IIP)	Mar-24	4.90%	5.60%
Wholesale Price Index Inflation(WPI)	Apr-24	1.26%	0.53%
Export (Y-o-Y)	Apr-24	0.84%	-0.53%
Import (Y-o-Y)	Apr-24	7.86%	-4.55%

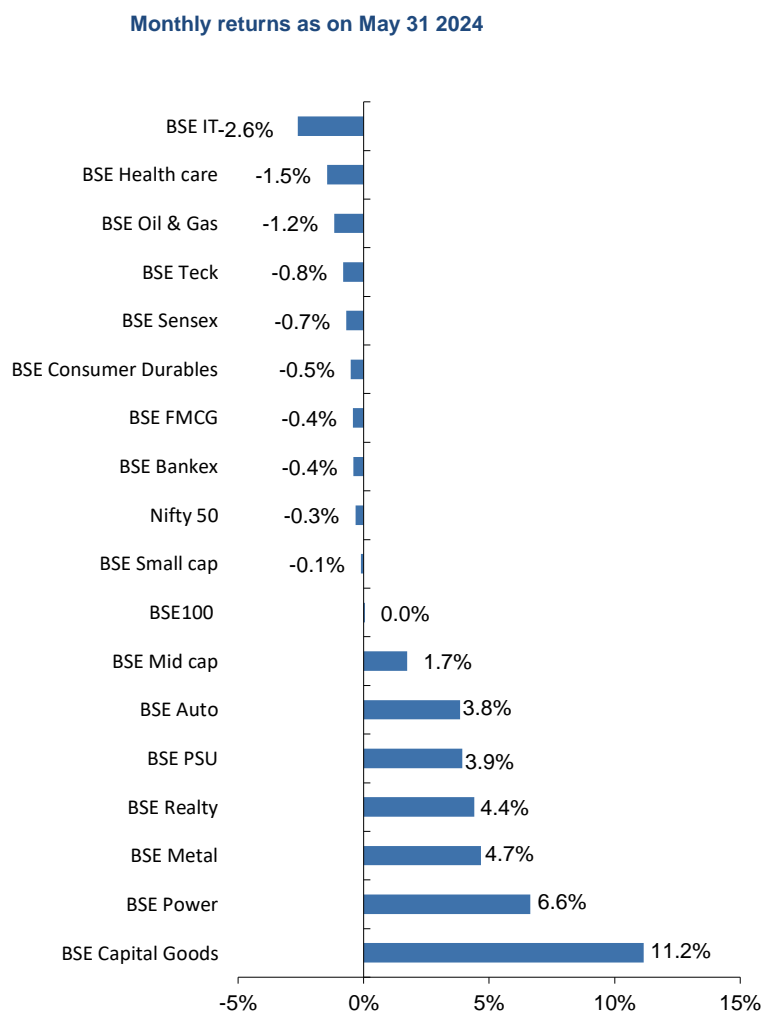
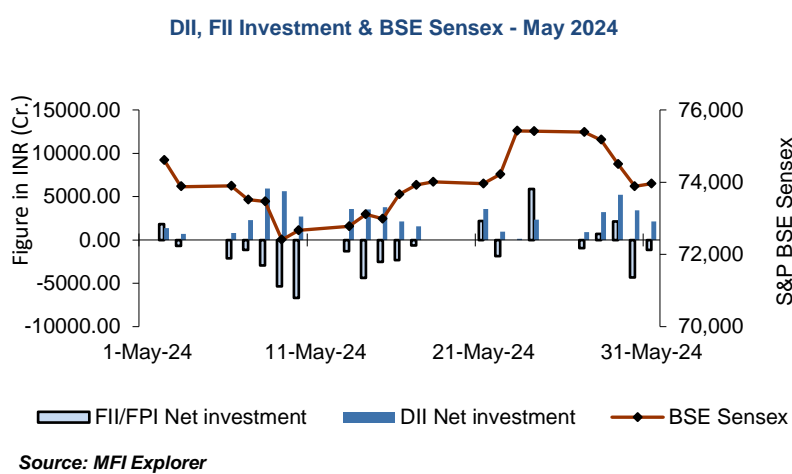
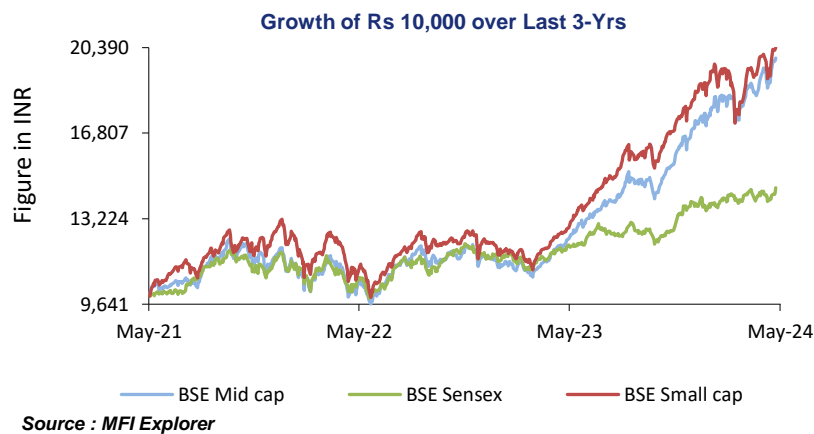
Source: RBI, Refinitiv



- The consumer price index-based inflation eased slightly to 11-month low of 4.83% YoY in Apr 2024 compared to 4.85% in Mar 2024. The number remained within the RBI's upper tolerance level for the eighth consecutive month. Consumer food price inflation grew to 8.70% in Apr 2024 from 8.52% in Mar 2024.
- India's wholesale price index (WPI) based inflation accelerated by 1.26% YoY in Apr 2024 as compared to 0.53% in Mar 2024. Positive rate of inflation in April, 2024 is primarily due to increase in prices of food articles, electricity, crude petroleum & natural gas, manufacture of food products, other manufacturing products.
- Industrial production growth in India (IIP) slowed to 4.9% YoY in Mar 2024, as compared to 5.6% rise in Feb 2024. Production in the manufacturing industry increased by 5.2%, mining by 1.2% and electricity by 8.6% in Mar 2024.
- Government data showed that Gross Domestic Product (GDP) of the Indian economy at constant (2011-12) prices witnessed a growth of 7.8% in the fourth quarter of FY24. In the Jan-Mar quarter of last year, the GDP growth rate was 6.2%. On the sectoral front, the growth of the manufacturing sector soared to 8.9% in Q4 of FY24 from 0.9% in same quarter of previous fiscal year. However, Agriculture, Livestock, Forestry & Fishing slowed to 0.6% in Q4 of FY24 compared to 7.6% growth in Q4 of FY23.

- The RBI advised lenders to make larger provisions for infrastructure projects that are still under construction and requested that they maintain close oversight of any emerging stress. During the project's construction phase, the RBI has suggested that banks set aside 5% of the loan amount. This can be lowered to 2.5% once a project is up and running, and to 1% once it begins to bring in enough money to meet the lenders' demands for repayment.
- The capital market regulator SEBI has asked investment advisors to periodically share details of the bank account in which they receive fees, their social media activities and their certifications with SEBI. Investment advisors will also need to report about inspections done by SEBI on them and complaints lodged against them, in every 6 months.
- The corporate affairs ministry is considering a quicker way to transfer shares, dividends, and matured debentures in inactive accounts that haven't been claimed in more than seven years. After following the correct procedures and receiving Investor Education and Protection Fund Authority's approval, the ministry intends to permit companies to settle claims. The authority will transfer unclaimed papers to companies for refunds within 15 days.
- The RBI has finalized a framework for self-regulatory organizations (SROs) in the fintech sector. These SROs will be industry-led, responsible for regulatory standards, ethical conduct, market integrity, dispute resolution, and fostering transparency.

Indian Equity Market



- Domestic equity markets fell initially during the month under review after the U.S. Federal Reserve kept interest rates steady for a sixth consecutive time. According to the U.S. Federal Reserve, “The economic outlook is uncertain, and the Committee remains highly attentive to inflation risks.” The outcome dampened expectations of an early rate cut by the U.S. Federal Reserve this year which led to concerns of foreign fund outflow from the domestic capital markets.
- Losses were extended due to concerns of global geopolitical tensions as Gaza ceasefire talks ended without a deal after the Israeli military ramped up its attacks in Rafah, southern Gaza. Later during the month Israel warned that its war in Gaza could extend until the end of the year which too kept the markets on tenterhooks.
- On the domestic front, sharp selling by foreign portfolio investors ahead of the outcome of the general elections also contributed to losses in domestic equity market. Volatility in the market too weighed on the sentiment as the same is expected to continue in the market before the outcome of the general elections. Lower voter turnout led to election jitters which kept markets under pressure.
- Sentiment in the domestic equities continued to remain subdued after meeting minutes from the two-day U.S. Federal Reserve monetary policy review ended May 1 showed that U.S. Federal Reserve officials advocated to hold interest rates higher for a longer period and “many” questioned whether the monetary policy was restrictive enough to bring inflation down to their target. The minutes poured cold water on hopes that the U.S. Federal Reserve may cut interest rates soon. Market participants also exercised caution as they remained on the sidelines and awaited the outcome of the general elections and India GDP data for Q4FY24. Investors are keen to see whether the new government post general election results can continue policy reforms and execute policy decisions confidently.
- On the BSE sectoral front, BSE Capital Goods rose the most by 11.16% followed by BSE Power and BSE Metal which rose 6.64% and 4.68% respectively. Capital goods sector benefitted on the back of a favorable macroeconomic environment and as multiple companies in the infrastructure and capital goods segment reported upbeat earning numbers for the quarter ended Mar 2024. According to reports, some of the large capital goods and engineering companies have a strong order book because of which they are creating new facilities and adding capacities.

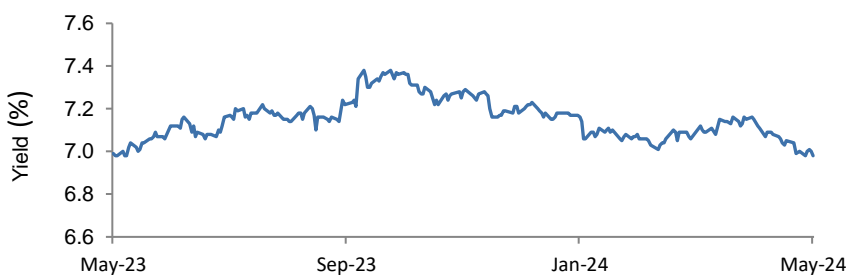


Indian Fixed Income

Indicators (Yield %)	May 31, 2024	April 30, 2024
Call Rate	6.69%	6.67%
FBIL 1 Mn Term Mibor	7.80%	7.06%
10-Yr benchmark bond	6.98%	7.15%
Reverse Repo	3.35%	3.35%
Repo	6.50%	6.50%
Bank Rate	6.75%	6.75%
CRR	4.50%	4.50%

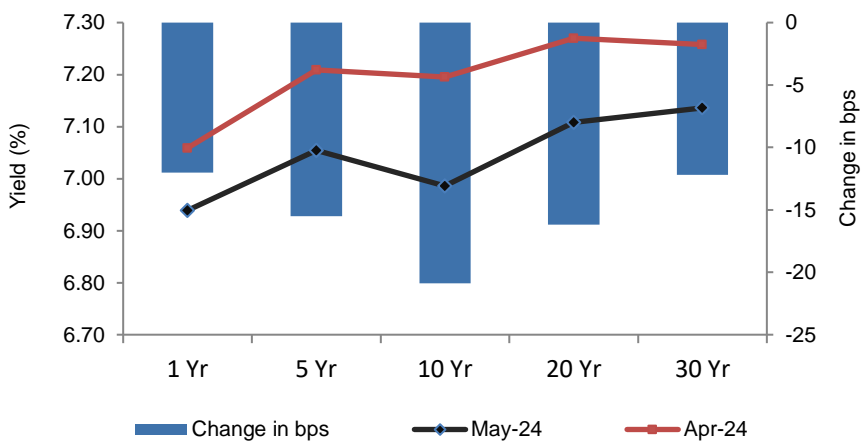
Source: Refinitiv

10-Yr Benchmark Bond



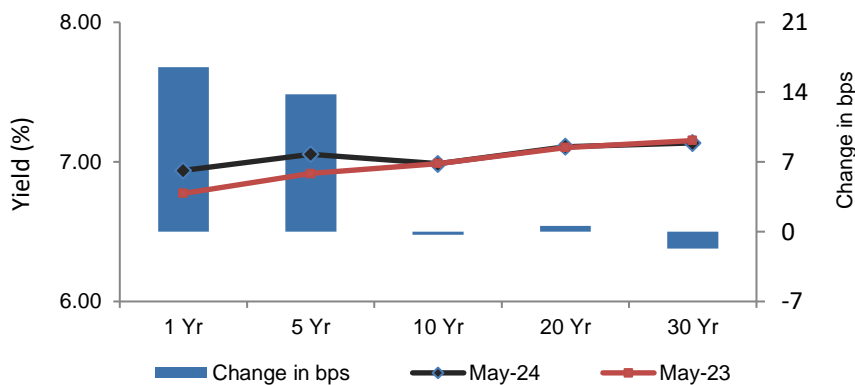
Source: CCIL

India Yield Curve Shift (Month-on-Month)



Source: Refinitiv

India Yield Curve Shift (Year-on-Year)



Source: Refinitiv

- Bond yields fell in tandem with the U.S. Treasury yields after the U.S. Federal Reserve maintained interest rates as expected but sounded less hawkish than anticipated in its monetary policy concluded on May 1, 2024. Yields fell further as the Indian government decided to continue pumping money into the banking system in the upcoming weeks after reducing the supply of Treasury bills for the first quarter of FY25. Gains were extended after the RBI approved a record surplus transfer of Rs. 2.11 lakh crore to the government for the fiscal year ended on Mar 31, 2024. However, gains were restricted following increase in U.S. Treasury yields that rose back toward the 4.50% mark.

- Bond yields decreased in tandem with the U.S. Treasury yields after the U.S. Federal Reserve maintained interest rates as expected but sounded less hawkish than anticipated in its monetary policy concluded on May 1, 2024.

- Gains were extended with a significant drop in U.S. Treasury yields as a result of weaker-than-expected U.S. employment data.

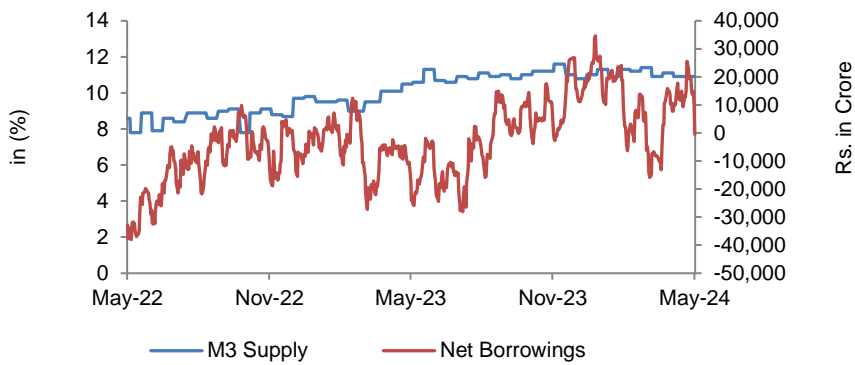
- The unexpected announcement of the Indian government's bond buyback resulted in further gains.

- In the meantime, yields fell after the Indian government decided to continue pumping money into the banking system in the upcoming weeks after reducing the supply of Treasury bills for the first quarter of FY25.

- Yields declined further after the RBI approved a record surplus transfer of Rs. 2.11 lakh crore to the government for the fiscal year 2023-24.

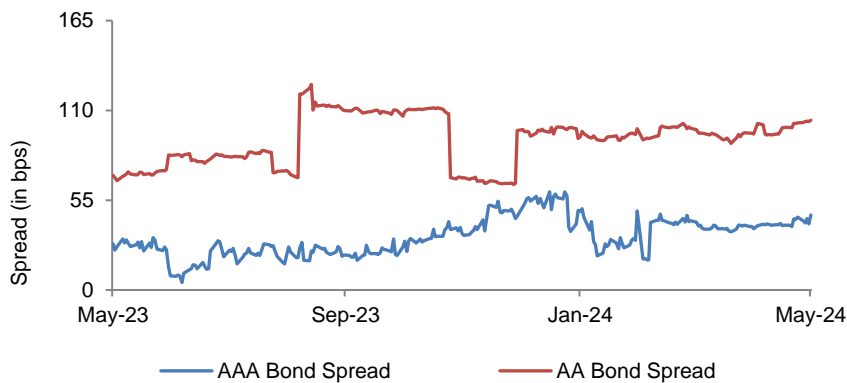
- However, gains were restricted following increase in the U.S. Treasury yields that rose back toward the 4.50% mark.

Liquidity Monitor- M3 Supply and Net Borrowings



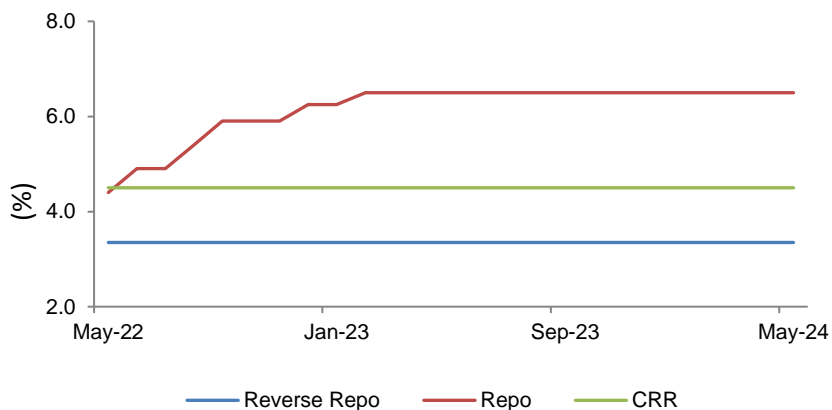
Source: Refinitiv

10 Year Corporate Bond Spread (for AAA & AA bonds)



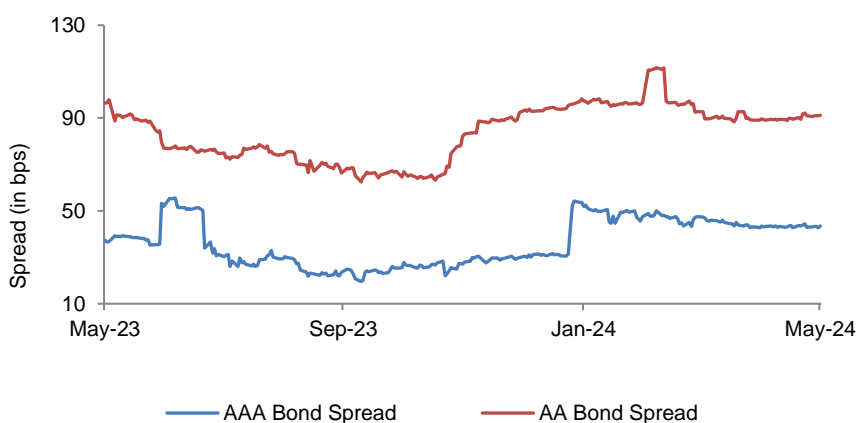
Source: Refinitiv

Movements of Key Policy Rates in India



Source: RBI

5 Year Corporate Bond Spread (for AAA & AA bonds)



Source: Refinitiv

- The central bank of India conducted auctions of 91-, 182- and 364-days Treasury Bills for a notified amount of Rs. 1,05,000 crore in May 2024, compared to Rs. 1,08,000 crore in the previous month. The average cut-off yield of 91-, 182- and 364-days Treasury Bills stood at 6.94%, 7.05% and 7.06%, respectively, during the month under review compared with the average yield of 6.89%, 7.03% and 7.06%, respectively in the previous month.
- The RBI also conducted auction of state development loans (SDL) for a total notified amount of Rs. 42,800 crore (accepted amount was Rs. 42,800 crore), which is much lower than the scheduled amount of Rs. 86,650 crore during May 2024. The average cut-off yield of 10-year SDL fell to 7.41% during May 2024 from 7.49% in the previous month.
- In addition, the RBI also conducted auction of government securities for a notified amount of Rs. 1,37,000 crore in May 2024, for which the amount of Rs. 1,31,000 crore was accepted with no devolvement on primary dealers.
- Yield on 5-year & 10-year gilt papers fell by 16 & 22 bps, respectively. Yield on 5-year & 10-year paper corporate bonds decreased by 15 & 14 bps, respectively. Difference in spread between corporate bond and gilt securities expanded by 1 and 8 bps on 5-year and 10-year papers, respectively.

GLOBAL EQUITY MARKET

Performance of Major International Markets (as on May 31, 2024)		
Indices	Country	1 Mth (%)
United States		
Nasdaq 100	U.S.	6.28
Nasdaq Composite	U.S.	6.88
Asia Pacific		
SET Composite Index	Thailand	-1.63
Jakarta Composite	Indonesia	-3.64
Straits Times Index	Singapore	1.33
KOSPI Index	South Korea	-2.06
Nikkei Stock Average 225	Japan	1.46
Taiwan SE Weighted Index	Taiwan	3.81
Shanghai Composite Index	China	-0.58
BSE Sensex	India	-0.70
S&P/ASX 200	Australia	0.49
Europe		
FTSE 100	U.K.	1.61
CAC 40	France	0.10
DAX Index	Germany	3.16

Source: MFI Explorer & Refinitiv

United States

- U.S. equity markets rose after the Labor Department released a report indicating that Apr 2024 consumer prices in the U.S. increased by 0.3%, a somewhat smaller amount than anticipated, increasing the likelihood that the U.S. Federal Reserve will lower interest rates later this year. Further, the market rose after the Commerce Department reported that the U.S. personal consumption expenditures (PCE) price index rose by 0.3% for the third straight month in Apr 2024, matching economists' estimates.

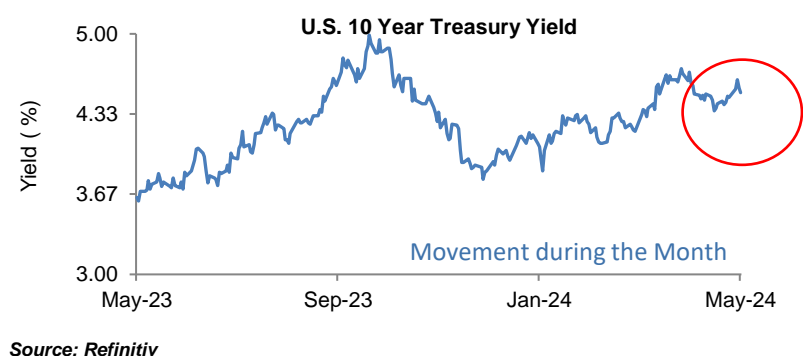
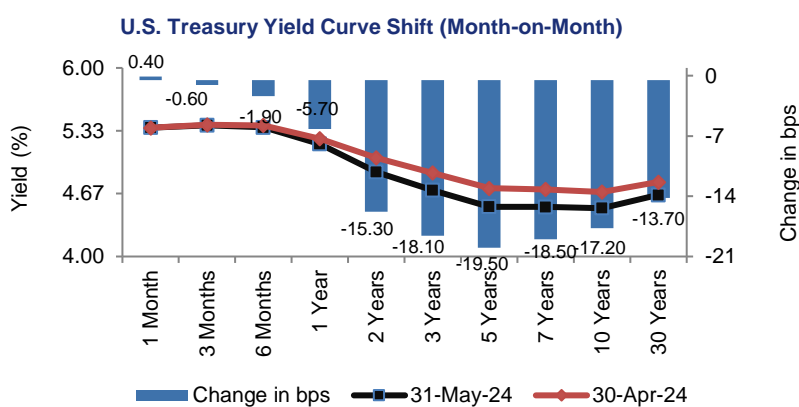
Europe

- European equity markets rose after data indicating a lower-than-anticipated increase in U.S. consumer prices in Apr 2024 helped allay worries about the trajectory of interest rates. Further, the market rose as investors positively responded to the most recent set of economic data from the U.S. and Europe and remained generally upbeat about interest rate cuts by many central banks.

Asia

- Asian equity markets mostly rose as investors remained optimistic about the trajectory of inflation and the likelihood of two interest rate reductions by the U.S. Federal Reserve in 2024. Further, the market rose as fresh signs of cooling in the U.S. labor market revived prospects for U.S. rate cuts this year.

GLOBAL FIXED INCOME - U.S. TREASURY



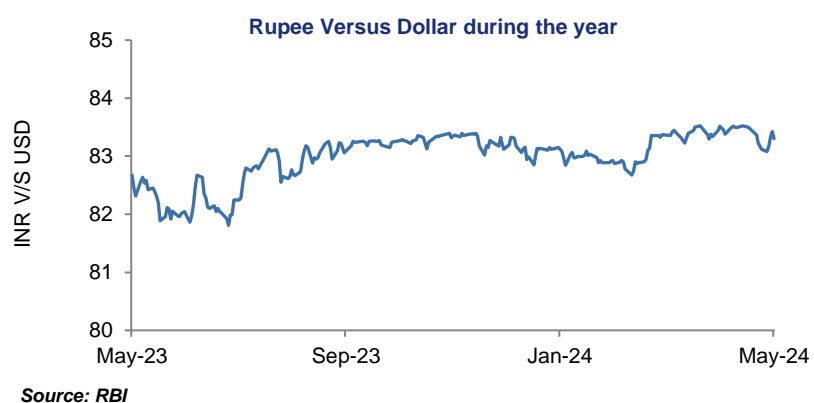
- Yields on the 10-year U.S. Treasury fell by 17 bps to close at 4.51% from the previous week's close of 4.68%.
- U.S. Treasury prices rose after the Labor Department showed that U.S. jobless claims climbed to 231,000 in the week ended May 4th 2024, an increase of 22,000 from the previous week's revised level of 209,000, which fueled hopes the U.S. Federal Reserve will soon start lowering interest rates.
- Gains were extended further after data revealed that the largest economy in the world expanded more slowly in the first quarter of 2024 than initially anticipated due to a revision in consumer spending, indicating that the Federal Reserve may be able to lower interest rates this year.
- However, gains were restricted following information demonstrating the labor market's and business activity's ongoing strength, which supports predictions that the Federal Reserve will take its time cutting interest rates this year.



CURRENCY

Movement of Major Currencies (as on May 31, 2024)				
Currency	Value (as on 31-May-2024)	1 Mth	3 Mth	1 Yr
U.S. Dollar	83.30	83.52	82.92	82.68
Pound Sterling	105.93	104.64	105.03	102.38
Euro	90.12	89.34	89.86	88.36
Yen (Per Rs.100)	53.00	53.00	55.00	59.00

Source: RBI



INR

- Rupee fell against the U.S. dollar due to weakness in other Asian peers and negative trends in the domestic equity market. Further, prices fell due to election-related risks. However, losses were restricted after U.S. consumer prices increased less than anticipated in Apr 2024, raising hopes that the Federal Reserve could deliver an interest rate cut as early as Sep 2024. Gains were enhanced further following the Reserve Bank of India's expected intervention.

EURO

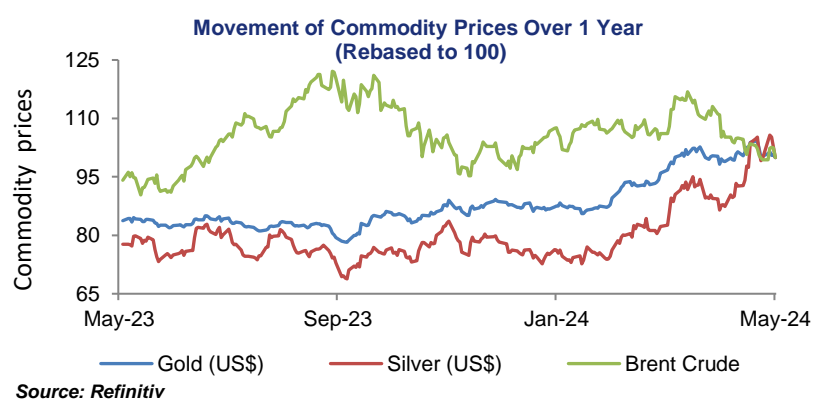
- Euro rose against the U.S. dollar following a less than expected increase in U.S. consumer prices in Apr 2024, which raised expectations that the Federal Reserve would announce an interest rate reduction as early as Sep 2024. Further, prices rose following economic data that continued to indicate a deterioration of the U.S. labor market. Gains were increased after revised data showed that gross domestic product, the broadest measure of economic activity, grew at a slower pace than previously expected in the first quarter of 2024.



COMMODITIES

Performance of Various Commodities					
Commodities	Last Closing (31-May-24)	Returns (in %)			
		1 Wk	1 Mth	6 Mth	1 Yr
Crude Brent (\$/Barrel)	80.55	0.61	-9.87	-5.45	10.81
Gold (\$/Oz)	2,326.97	-0.29	1.81	14.30	18.58
Gold (Rs/10 gm)	72,127.00	0.52	0.49	15.51	19.95
Silver (\$/Oz)	30.38	0.12	15.58	20.30	29.38
Silver (Rs/Kg)	92,323.00	2.94	15.28	21.59	30.20

Source: Refinitiv



Crude

- Brent crude oil prices fell amid easing Middle East tensions and signs of weak U.S. demand. Prices fell further as worries arose regarding the future of oil demand as a result of slowing economic growth. Losses extended further due to worries that rising interest rates will dampen demand and slow economic growth. However, losses were restricted amid increased hostilities in the Middle East and expectations that major oil-producing countries will support output reductions at an upcoming meeting. Gains were enhanced after data showing a sharp drop in U.S. crude inventories in the week ended May 24th, 2024. Prices rose further on hopes of an interest rate cut in Sep 2024.

Gold

- Gold prices rose amid rising geopolitical concerns in the Middle East that increased demand for the precious metal, and the U.S. Federal Reserve rate cut hopes. Further, prices rose after data showed a considerably larger than anticipated increase in U.S. unemployment claims in the week ending May 4th, 2024, which raised expectations that the U.S. Federal Reserve would soon begin cutting interest rates. Gains extended further after data revealed that U.S. consumer prices increased less than anticipated in Apr 2024, increasing the likelihood that the U.S. Federal Reserve will lower interest rates later this year.

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

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