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India's CPI inflation accelerated to a 3-month high of 4.81% YoY in Jun-23

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India's CPI inflation accelerated to a 3-month high of 4.81% YoY in Jun-23 from 4.31% in May-23. The liquidity for the month averaged at a surplus of 1.65 lakh crores and the forex reserves swelled to a 15-month high of \$609 billion. The rupee appreciated slightly against the US dollar and closed at 81.93 on 26th July as against 82.03 the previous month.

In its July meeting, the US FOMC hiked the benchmark lending rate by 25 bps, putting it in the target range of 5.25-5.5%. This is the highest the interest rate has been since 2001. The rate hike was however on expected lines and future rate actions are going to be data dependent. The US Inflation Rate is at 3%, compared to 4% last month and 9% last year. The US 10-year yield bonds had touched an intra-month low of 3.73% and high of 4.1%, closed at 3.86% as on 26th July.

In the absence of any other significant event during the month, the domestic rate markets remained rangebound. The 10-year GOI benchmark reached an intra-month low of 7.05% and high of 7.18%, closing at 7.1% as on 26th July. With liquidity being comfortable, the overnight rates traded in the range of 6.10% and 6.55%.

Near term outlook for debt markets

The CPI inflation in Q1 FY24 at 4.6% was in RBI's target band (2-6%) after overshooting it consecutively for 5-quarters. However, the CPI projection for the FY at 5.3% which is above the target of 4% and thus RBI will be mindful of letting its guard down early. The MPC is expected to maintain a status quo on rates and stance for the upcoming meeting in August. The yields are expected to remain rangebound with some volatility emanating from higher crude prices and higher net supply of government bonds.