



IDFC MUTUAL FUND

FIXED INCOME OUTLOOK



August 2017

Key trends that drive our strategy

Significant fall in headline & core CPI Inflation; Headline CPI expected to meet RBI long term target of slightly above “4%”

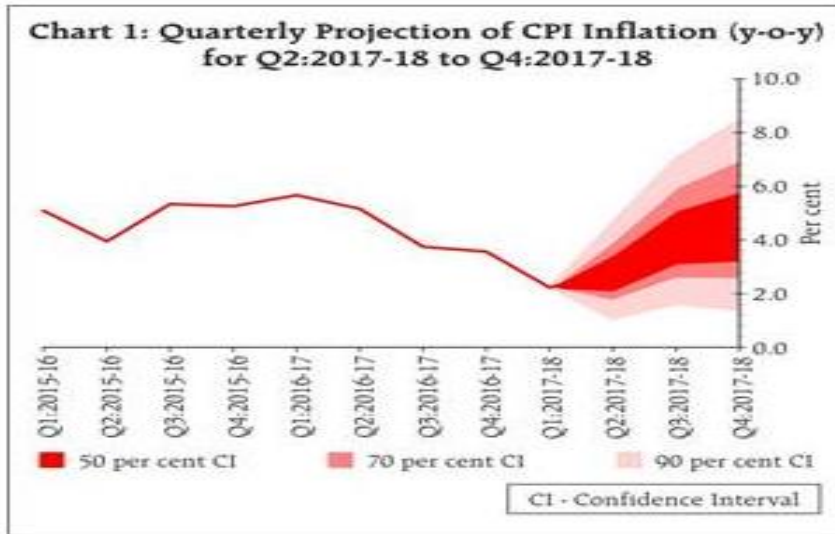
Slowdown in domestic growth

Deposit rates expected to remain low on weak credit demand & easy liquidity in foreseeable future

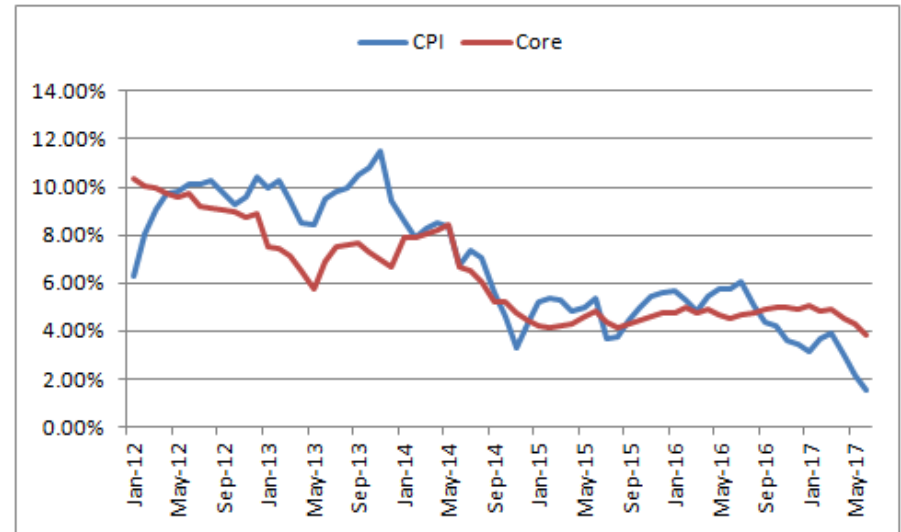
Global deflation trade waning over

Sharp fall in headline inflation

RBI reduces its Mar-18 CPI outlook



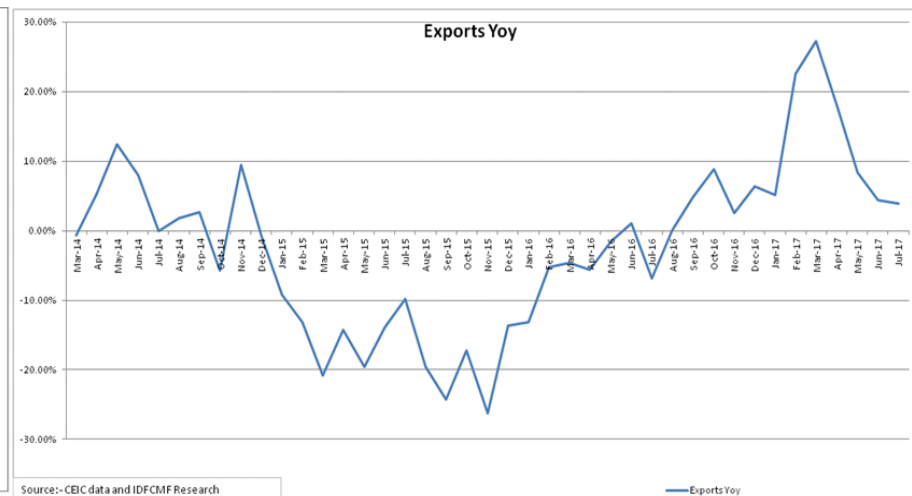
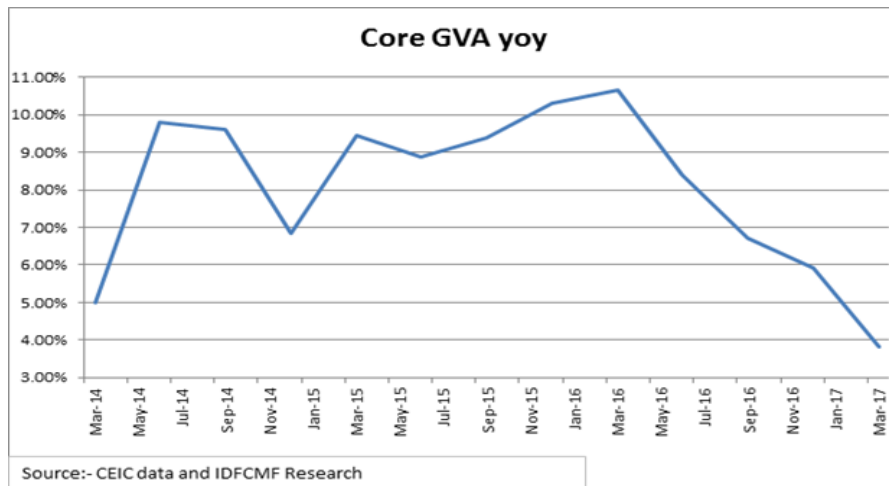
Source: RBI



Source: CEIC

- ✓ Majority of the upside risks mentioned in the previous policy statements like GST, pay commission, distribution of monsoon, Govt's food management, fiscal slippage due to farm loan waivers have dissipated.
- ✓ RBI acknowledged that Core CPI has fallen significantly & is expected to remain stable as roll out of GST has been smooth & monsoon has been normal which "will contain" upside pressure on headline CPI.

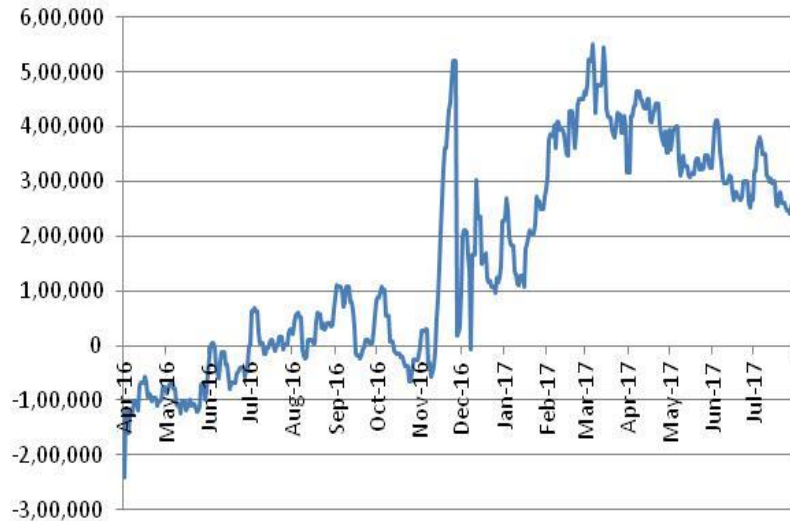
The growth challenge



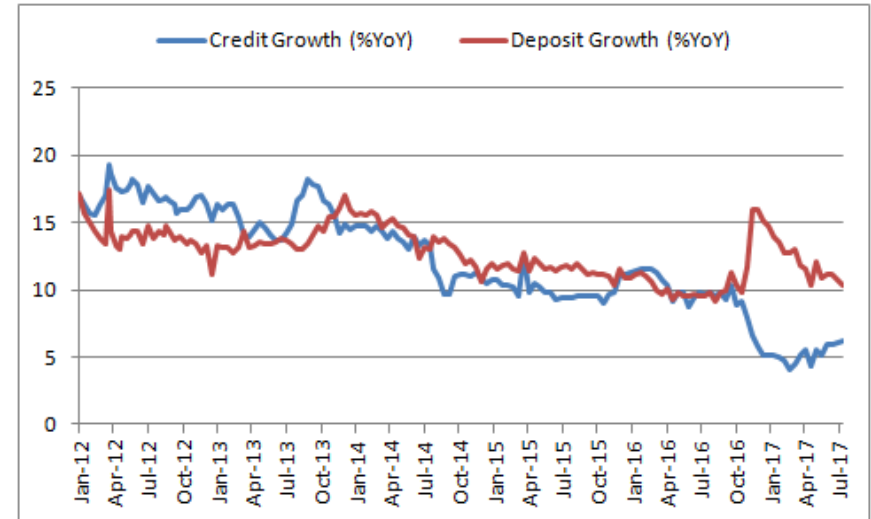
- ❑ Core GVA (gross value added adjusted for agriculture and government spending) – capturing the private sector business cycle – slowed from nearly 11% in March 2016 to less than 4% in March 2017
- ❑ Exports (~12% of GDP*) have fallen to 5.5% in the last 3 months from 17.3% in the 1st four months of CY2017
- ❑ Given the stressed balance sheets of banks & corporates, manufacturing sector unlikely to revive any time soon

* FY 17

Low credit growth/Easy Liquidity



Source: RBI



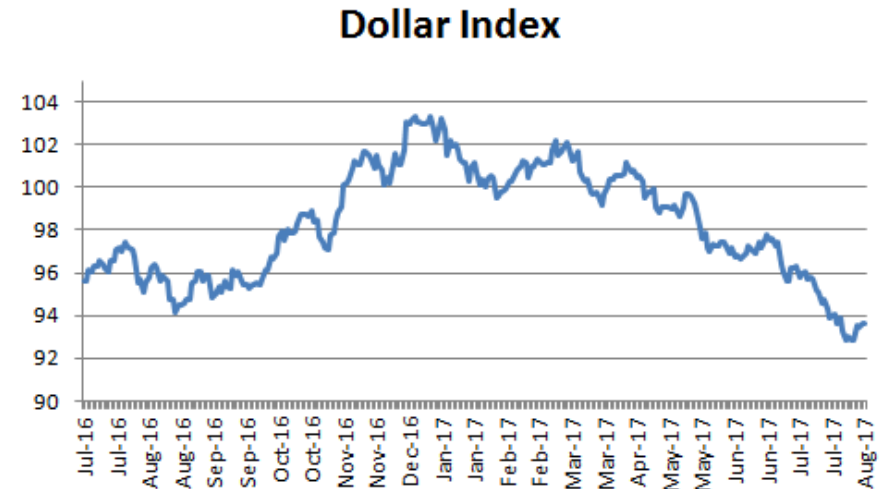
Source: RBI

- Liquidity expected to remain surplus in the near term
- Low credit pick up due to sluggish private sector
- Deposit rates to remain low

Abatement of Reflation trade



Source: Bloomberg



Source: Bloomberg

Reflation trade based on expectations of aggressive fiscal spending & significant dollar repatriation has run out of steam as the Trump administration has not been able to push its policies through

Summary

- Heightened concern on India's private sector growth
- Lack of headroom in fiscal spending to further impact growth:
 - RBI declared lesser dividend to government
 - Concerns over receipt from Power & Telecom
 - Possible that government's spending may take a back seat further putting pressure on growth
- Inflation in line with RBI projections
- We believe there is room for real rates to come down if inflation is in line with RBI projection & global volatility remains stable
- Low credit growth

Positive for Bonds

Fixed Income Strategy

- We continue to remain bullish on bonds
 - ❖ Weak Domestic growth
 - ❖ CPI & Core CPI remain well-anchored
 - ❖ Possibility of further rate cut as focus shifts to lower “real rates”

- Focus on being active on duration with long-bias currently

- Short end rates continue to remain attractive with liquidity surplus

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THANK YOU