



Nippon **india** Mutual Fund

Wealth sets you free

Fixed Income

Market Outlook

April 2025



Good gets *better*

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

Fixed Income Market Update and Outlook

Market Update

Improving Domestic Macro Dynamics amidst looming reciprocal tariff fears

March'25 saw improving domestic inflation, trade, currency, fiscal and liquidity dynamics ahead of US reciprocal tariff announcement. While US doubled the tariff on all Chinese goods to 20% by early March (with China imposing retaliatory tariff on specific goods) and 25% tariff on all steel and aluminium by Mar 12th, the global markets were more concern about upcoming US reciprocal tariff announcement on Apr 2nd.

India

Inflation:

CPI inflation eased to 3.61%y/y in Feb-25 (Jan 2025: 4.26% y/y, Last year same period: 5.10%y/y). This was better than the consensus (4%y/y). Along with favourable base effect, the sequential decline in monthly food and muted momentum in clothing and fuel prices helped in bringing down the inflation. Core inflation rose to 3.95%y/y (Jan 2025: 3.67%y/y; Last year same period: 3.37%y/y). Food inflation eased to 3.84%y/y in Feb 2025 from peak 9.7%y/y in Oct 2024 – Below 4% levels first time since May 2023. Excluding veggies, headline inflation rose to 3.95%y/y (Previous month: 3.67%y/y; Feb 2024: 3.37%y/y).

Fiscal:

April-Feb 2024-25 gross tax receipts grew by ~11%y/y – driven by robust direct tax collections and resilient indirect taxes. Net tax receipts growth was modest on account of record front-loaded devolution to the states. Record high RBI dividend and robust PSU dividends resulted in acceleration in non-tax receipts growth. During the same period, expenditure growth (both revenue expenditure and capex) was muted. As a result, Fiscal deficit stood at 86% of budget estimates (~Previous year similar period lvs). March GST growth was modest at 10%y/y at Rs. 1.96 trn and FY25 GST growth was muted at 9.4%y/y.

Auction Calendar:

RBI announced 1H (Apr-Sep) 2025 G-sec auction calendar of Rs. 8 trn (1H FY25: Rs. 7.4trn), with 54% of gross issuances in 1H (~last yr similar period). While benchmark 10 yr get 26% share in overall 1H issuances, the longer maturities (30 yr and above) have 35% share. RBI announced 1Q (Apr-June) T-bill calendar of Rs. 2.47 trn – lower than 1Q FY25 T-bill auction of Rs. 2.61 trn – with lower weekly auction size of Rs.19,000 cr (1Q FY25: Rs. 27,000 cr). RBI also announced 1Q (Apr-June) SGS auction calendar of Rs. 2.73 trn (1Q FY25 calendar: Rs. 2.54 trn)

Liquidity:

After improving to -ve average Rs. 1.63 trn in Feb 2025, the system liquidity improved further to -ve Rs. 1.20 trn in March on government spending, RBI's OMOs and FX swap auctions. From lowest -ve Rs. 57,000 cr by mid-January, the core liquidity turned positive by March and improved to Rs. 2.07 trn by March end on aggressive RBI's liquidity infusion measures. RBI has already announced robust OMO calendar for April, indicating its support to provide adequate liquidity.

External Sector:

3Q FY25 (Oct-Dec) current account deficit improved to 1.1% (Jul-Sep 2024: 1.8%) on lower trade deficit, robust net services exports and improved NRI remittances. Driven by global cues, capital flows turned negative in 3Q on negative foreign flows (both FDI & FPIs) and banking capital.

The Feb'25 Trade deficit eased to record low to ~US\$14 bn (Jan 25: US\$23 bn), on muted imports. While the Apr-Feb 2024-25 exports growth was flattish (due to drag from oil exports), core exports (excludes oil and gold) grew at resilient ~8%/y. Similarly, import growth was modest at 3.5%/y driven by modest core import growth. Feb 2025 net service exports grew robust at 31%/y and Apr-Feb 2024-25 growth was buoyant 14%/y.

Net FPI inflows turned positive in March to US\$3.8 bn (driven by debt) after remaining negative in prior two months. FY2024-25 witnessed tepid US\$2.7 bn inflows (mainly through debt) driven by global cues as against buoyant US\$41 bn in FY2023-24.

DEX depreciated for second consecutive month. With reduced pressure, INR appreciated marginally in March and stood on average 86.64 against dollar (Feb 2025: 87.05; Jan 2025: 86.27; Dec 2024: 84.99; Nov: 84.36; Oct: 84.03). FY25 rupee has depreciated by ~2.6%, with major depreciation occurring during Dec-Feb period.

Yield Levels & Spreads:

Fixed income market yields eased during the month on improving macros, declining crude, appreciating INR, FPI inflows in debt market, expectations of RBI's rate cut in April policy and RBI's aggressive OMO auctions. 10-year G-sec yields moved in the narrow range of 6.68%-6.74% in first half, only to ease to 6.58%-6.67% in second fortnight of the month (Feb 2025: 6.66%-6.72%) on aggressive RBI's OMO auction announcement. 10 yr G-sec closed the month lower at 6.58% (Feb 2025: 6.72%). Average 10-year term premia were steady at average~15 bps during the month (Feb 2025: 16 bps).

Like G-sec, 10-year SDL moved in narrow range of 7.14%-7.20% during first fortnight of the month and eased to 6.94%-7.11% in second fortnight of the month (Dec/Jan/Feb range: 7.05%-7.14%) and closed the month lower at 6.96% (Feb 2025: 7.15%; Jan 2025: 7.09%). March SDL primary issuances were seasonally high at Rs.2,24,897 cr (Feb 2025: Rs. 1,22,593 cr; Jan 2025: Rs. 86,944 cr). The average spread between 10 yr SDL over G-sec stood at 43 bps during the month (Feb 2025: Rs. 40 bps; Jan 2025: 36 bps; FY25 average: 35 bps).

AAA bonds moved in narrow range in first fortnight of the month (7.38%-7.40%) and ease thereafter to move in the range of 7.17%-7.40% in second half of the month. 10 yr AAA PSU closed the month lower at 7.17% (Feb 2025: 7.39%; Jan 2025: 7.22%; Dec 2024: 7.20%; Nov 2024: 7.31%).



Global

Monetary Policy:

March saw major global central banks keeping policy rates unchanged and preferring data dependent approach. Going forward, the central banks (CBs) are likely to prefer gradual rate cut cycle on back of sharp rise in global uncertainties.

Rise in Trade Uncertainty:

The month saw sharp rise in US trade policy related uncertainty. While US implemented doubling of tariff on all goods from China to 20% and levy 25% tariff on all steel and aluminium goods, there was lots of uncertainty regarding reciprocal tariff to be announced by US President at the start of April.

Financial Markets:

US Treasury bond (UST) yields were range-bound during the month driven by tariff and growth concerns. US 10 Yr Treasury bond (UST) yield moved in the range of 4.22%-4.38% and close the month marginally lower at 4.23% (Feb 2025: 4.24%, Jan 2025: 4.58%, Dec 2024: 4.58%).

After appreciating sharply from Oct through January, the dollar index (DXY) continued to depreciate for second consecutive month. DXY depreciated by 3% (Feb 2025: -ve 1.3%_{m/m}). Crude Oil continued to depreciate by 4% in Mar 2025, after declining by ~5% in Feb.

Market View

- » Improving domestic macros in form of growth moderation, inflation below 4%(Feb'25), fiscal deficit on track and improving current account balances driven by net services exports and remittances to be monetary policy supportive.
- » April'25 MPC, the RBI cut the policy rate by 25 bps to 6% – in line with consensus expectations. RBI changed the stance from 'Neutral' to 'Accommodative', which reasserts that growth to take preference over inflation in RBI's future actions. In his statement, the RBI Governor define accommodative stance and clearly indicated "that going forward, absent any shocks, the MPC is considering only two options – status quo or a rate cut."
- » Consumption boost via tax cut yet fiscally prudent Budget and RBI's dovish monetary policy is likely to bode well with growth-inflation dynamics and thereby supporting for fixed income yields.
- » That said, sharp rise in global uncertainty and announcement of prohibitive reciprocal tariffs by US raises downside risk to global growth and upside risk to volatility in financial markets.
- » Going forward, the market focus may be on US tariff related announcement/actions, currency & UST (US Treasury Bond) movement and RBI's commentary and actions.
- » Market likely to remain positive on duration due to RBI's aggressive OMO auctions.

Common Source:

RBI, CSO, FAO, CEIC, NSO, US Federal Reserve, US Treasury department, Commerce Ministry of India, Finance Ministry of India

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