**Debt markets**

Indian Bond yields witnessed volatility during the month of April. The Benchmark opened positively with a downward movement of 6-7 bps on the expectation of 25 bps rate cut which was later delivered by RBI in its bi-monthly policy. However, post policy and during the month bond yields remained under pressure on account of rising crude oil prices and bond supply pressures.

The 10 Y G-sec opened at 7.27% which was the lowest yield of the month. But the continuous uptick in oil prices and profit booking immediately after the policy could not keep the rates at opening levels. As a result of this the 10 year benchmark yield closed the month at 7.41% vs. previous month's close of 7.36%. Brent crude price rose by almost 5$ and crossed 74 $ per barrel during the month.

Liquidity in the month of April remained negative at average Rs-0.72 trillion from previous month's average of Rs-0.59 trillion (Rev Repo-Repo-Marginal Standing Facility-Standing Liquidity Facility + term repo/re-repo).

Money Market rates rose up with 3m CD rates at 7.40% and 1Y CD at 7.80%, primarily due to continuous supply of issuances by Banks, Corporates etc. and also due to high deficit in system liquidity caused by less Government spending and increased currency in circulation.

INR traded in the range of 68.4250/$ to 70.2612/$ and finally closed the month at 69.5663/$ in April vs 69.1612/$ in March. India's forex reserves rose to $418.5 bn as on 26th April from $406.66 bn in last week of March.

**Domestic Macro Factors**

**Industrial Production**

India's industrial production growth slowed to 0.1% in February vs. 1.4% in January (revised from 1.7% earlier reported). This was well below market expectation of 2.0%. The slowdown was mainly led by a sharp decline in capital and intermediate output which respectively printed at -8.8% in February vs. -3.4% in January and -4.9% in February vs. -3.2% in January. In other sectors, growth in manufacturing and mining activity slowed respectively to -0.3% in February vs. 1.0% in January and 2.0% in February vs. 3.9% in January. Growth in electricity sector rose slightly to 1.2% in February vs. 0.9 in January. In terms of use-based classification, the growth in consumer durables category declined to 1.2% in February from 2.3% in January. Consumer non-durables sector grew to 4.3% in February vs. 3.3% in January. Infrastructure growth declined sharply to 2.38% in February vs. 6.8% January.

**External Trade**

India's external trade deficit widened to $ 10.9 bn in March vs. $ 9.6 bn in February. This was above market expectation of a deficit of $ 9.7 bn. Import growth increased to 1.4% in March vs. -5.4% in February. Imports increased to $ 43.44 bn in March vs $ 36.2 bn in February. Oil imports rose by 5.5% in March vs. contraction of 8.1% in February. Gold imports increased to $ 3.3 bn in March vs. $ 2.6 bn in February. Non-oil, non-gold imports rose to $ 28.4 bn in March vs. $ 24.3 bn in February. Exports growth printed at 11% in March vs. 2.4% in February. Exports rose to $ 32.6 bn in March from $ 26.7 bn in February. The pick-up in export growth was led by Engineering goods, Chemicals, Petroleum Products and Pharmaceuticals.

**Fiscal**

The GST collection for the month of April increased to Rs1,13,865 crores, from previous months collection of Rs1,06,577 crore mainly due to high compliance and increased returns. The Rs1,13,865 crore collected includes Central GST of Rs21,163 crores, State GST of Rs28,801 crore, Integrated GST of Rs54,733 crores and Cess of Rs9,168 crores.

**Inflation**

Headline CPI inflation increased at 2.86% in March from 2.57% in February mainly due higher food price inflation. This was in line with the market expectation of 2.80%. Core inflation eased at 5.1% in March vs 5.4% in February. Food inflation printed at 0.3% in March vs -0.7% in February. The core-core inflation (CPI ex-food & beverages, fuel, petrol, diesel and housing rent) reduced to 5.6% in March from 6.1% in February. Fuel inflation rose to 2.4% in March vs. 1.2% in February. Housing inflation remained flattish at 4.9% in March vs. 5.1% in February.

WPI inflation rose to 3.18% in March from 2.93% in February. This was in line with market expectation of 3.23%. It was the highest wholesale inflation rate since December, as prices rose faster for food and fuel products. Inflation for primary articles rose to 5.07% in March vs. 4.84% in February. WPI food articles rose 5.7% in March vs. 4.3% in February. Fuel and power sector combined inflation printed at 5.4% in March from 2.2% in February. Inflation for manufactured goods printed 2.2% in March vs. 2.3% in February.

**Outlook**

MPC minutes released during the month pointed out slack in global growth outlook and its likely impact on the domestic economy, which is already showing some signs of a slowdown. This current slowdown in some sectors is exacerbated due to negative base effect and pre-election uncertainty which may have led to postponement of consumption.

Most MPC members took comfort from the fact that CPI inflation has been repeatedly revised downwards and that it is expected to remain below 4% through this fiscal year. However, the medium-term outlook remains uncertain, given risks to oil prices and summer monsoon. The whole soft inflation premise is based largely on continuation of softer food inflation and moderate to slightly high core inflation. This can easily be put off by reversal in food inflation in expectation of poor monsoon and pick up economic activity.

On fiscal front the minutes highlighted the need to monitor the developments on budget deficit trend as most MPC members cautioned about the medium-term risks to inflation arising from potential fiscal slippage. Fiscal slippages, if any, directly affects the monetary policy transmission. Even in current markets this is visible in form of high spreads available in bonds. Further any fiscal responses to deal with agrarian distress resulting from low food prices can impart a significant upside risk to the inflation trajectory.

The last month has also seen short term rates shooting up as liquidity situation worsened, uncharacteristically though in first month of financial year, as government cash balances kept mounting in restricted spending environment pre-election. This is expected to ease in coming days as government spending picks up and RBI deploys liquidity easing measures like recent Forex swaps, OMO etc.

Crude prices may remain volatile as news flows on escalation of US -China trade war and suspension of waiver on Iran sanctions will remain in market focus.

We see one more rate cut though it may not be there in next policy as MPC will not have any meaningful data on the fiscal situation and monsoon before August policy. Hence, short funds like Money market fund, Low Duration Fund, Banking & PSU Debt Fund, Short Term Debt fund and Credit Risk Fund offer better risk adjusted opportunities than long bond funds. We continue to recommend Liquid, Money market and Low duration funds for shorter holding periods. Short duration funds with accrual focus for investors with 9 to 12 months focus while we recommend mid duration and systematic deployments in long duration funds for investors with 36 months and greater investment horizon.