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# MONTHLY OUTLOOK MAY' 24


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# April Recap

***"Monetary policy should be forward-looking, aiming to anticipate and mitigate potential economic risks." - Stanley Fischer***

If the month of March was largely dominated by inflation related news and monetary policy expectation related moves, April offered diverse factors to influence the markets and investor approach, chief among them being renewed geopolitical tensions, FED meeting and Japanese Yen.

**GEOPOLITICS:**
After relative calm was seen in March, tensions in the Middle East reared its head again in the past month, keeping investors on the edge and higher volatility in various asset classes. Initial action was reportedly by Israel whose airstrike on Iranian embassy complex in Syria killed sixteen people including eight of the Islamic Revolutionary Guard Groups. Even as the numerous countries condemned the attack and just as feared, Iran countered with hundreds of drones and missiles on Israel leading to two intense weeks, though most of those weapons were neutralized without any casualty. Iran said with this they had replied Israel's attack and would react only if Israel did further act. Since then, a lot of diplomatic efforts globally prevailed Israel to restrain it from further attacks. Subsequently though explosions echoed over an Iranian city on 19th April in what sources said was an Israeli attack, but Tehran played down the incident and indicated it had no plans for retaliation - a response that appeared gauged towards averting region-wide war. The limited scale of the attack and Iran's muted response appeared to signal a successful effort by diplomats who have been working to avert all-out war since an Iranian drone and missile attack on Israel the previous week.

# April Recap

**BOJ TAKES ON YEN SPECS**

For long Japanese authorities have been protesting the one-way weakness in Yen. Although they shifted away from negative interest rate policy and hiked rate first time since 2007, Yen had continued to weaken further by 7% to hit 160.24, despite intense speculation about intervention.

However, Bank of Japan chose an opportune time to act by intervening on 29th April, a holiday for Japan markets when markets were thin after the USD made a new 34 year high above 160. The surprise element, illiquid conditions and the extreme short position in Yen, helped their action to achieve success, bringing down the Dollar to 155 levels. It was followed up again on 2nd May in the twilight hours of the day (again thin market), after which USD hit a low of below 152. Just the previous night, FED had concluded their policy meeting and came out with a relatively less hawkish statement which had seen a general sell-off in the Dollar. Bank of Japan has reportedly spent more than 60 billion USD in intervention.

**HAS BOJ BEEN SUCCESSFUL?** To get Yen to their desired level (presume around 140 considering 10% readjustment from 155 which had been a line in the sand according to many), other fundamentals need to change. Either FED rate cut expectations have to improve (probabilities are very low right now) or BOJ has to tweak their policy like reducing QE in small doses (which won't be ruled out). Otherwise there is a risk that after a bout of profit taking and reducing short positions, market will revert to its favourite CARRY PLAY and start selling Yen again.

# April Recap

Yen's recovery has helped the Asian currencies to recover led by the Chinese Yuan. There were fears earlier that an unchecked Yen weakness would lead Chinese to depreciate their currency which will also see other Asian currencies including INR decline. That fear has been alleviated at least for now.

**FED MEETING** - The recent big meeting of the Federal Reserve had some important decisions. The head of the Fed, Chair Powell, said -

1.The next move by them is unlikely to be a rate hike.
2.Tapered QT by a larger amount than expected USD 35 bio, from June onwards.
3.They might cut interest rates if they see job market easing.
4.While they believed that the policy is restrictive and expect to hit inflation target of 2%, the confidence in the same is low right now.

Markets responded positively to FED/Powell statements, with stocks and bonds rallying and Dollar seeing a modest fall. Markets now await the monthly CPI data due on 15th May.

# Key Economic Data for Major Countries

The month saw steady improvement in the Euro Zone data in both coincident and forward-looking indicators. Germany, in particular, showed a good recovery with IFO and ZEW surveys showing a vastly improved sentiment for business and economy going forward.

At the same, inflation in Euro Zone remained well contained, closer to its 2% target.Euro Zone growth jumped strongly to 0.5% in Q1 from flat growth last quarter. They also posted another strong Current Account surplus 12 months to February 2024. Majority in the ECB favour a policy rate cut in June.

The situation in US was seen quite the opposite. Inflation continued to be sticky closer to 3.5% vs. target of 2% while many economic indicators showed weakness including forward looking indicators like Consumer Confidence and Leading Economic Index.

While manufacturing showed a mixed picture as per various data points, Jobless rate increased to 3.9% while new job creation in April fell to 175000 from 234000 in March, with average working hours also slipping. Employment index in the manufacturing and services PMI were much weaker

# Key Economic Data for Major Countries

GDP for Q1 as per first estimate slipped quite a bit coming at 1.6% from 3.4% final estimate for Q4 of 2023 (although 2nd and 3rd estimates can see it upwardly revised). Some analysts have already started to see a stagflationary situation emerging in US economy (a combination of low growth with high inflation).

| | U.S.A | EUROPE | U.K. | JAPAN | CHINA | INDIA |
|---|---|---|---|---|---|---|
| Particulars | current vs. prev. | current vs. prev. | current vs. prev. | current vs. prev. | current vs. prev. | current vs. prev. |
| GDP QOQ | 1.6 VS. 3.4% | 0.3 vs. 0% | 0.2 vs. 0% | 0.1 vs. -0.8% | 5.3 vs. 5.2% | 8.4 vs. 8.1% |
| | | | | | | |
| Ind. Prod YOY | 0 vs. -0.3% | *-6.4 vs. -6.6 | 1.4 vs. 0.3% | *-6.7% vs. -3.9% | 4.5% vs. 7% | 5.7 vs. 3.8% |
| | | | | | | |
| PMI MFG | 50 vs. 51.9 | 45.6 vs. 46.1 | 49.1 VS. 49.9 | 49.9 vs. 48.2 | 50.4 vs. 50.8 | 58.8 vs. 59.1 |
| PMI SERV | 51.3 VS. 51.7 | 52.9 vs. 51.5 | 55 vs. 53.1 | 54.6 vs. 54.1 | 51.2 vs. 53 | 61.2 vs. 60.3 |
| | | | | | | |
| Jobless Rate | 3.9 vs. 3.8 | 6.5% vs. 6.5% | 4.2% vs. 4% | 2.6% vs. 2.6% | 5.2% vs. 5.3% | 8% vs. 6.8% |
| | | | | | | as per CMIE |
| Inflation | | | | | | |
| Headline | 3.5 vs. 3.2 | 2.4 vs. 2.4 | 3.2% vs. 3.4% | 2.7 vs. 2.8 | 0.1 vs. 0.7 | 4.85 vs. 5.09 |
| Core | 3.8 vs. 3.8 | 2.7 vs. 2.9 | 4.2% vs. 4.5% | 2.6 vs. 2.8 | 0.6 vs. 0.3 | 0.034 |
| | | | | | | |
| Consumer Confidence | 97 vs. 104 | *-14.7 vs. -14.9 | *-19 vs. -21 | 38.3 vs. 39.5 | 89.1 vs. 88.9 | 125.2 (rbi) |
| Leading Eco. Index | *-0.3 vs. 0.2 | 101.1 vs. 101.8 | 75.5 vs. 75.8 | 111.8 vs. 109.5 | 152 vs. 151.8% | |
| POLICY RATE | 5.25-5.5% | 4.50% | 5.25% | 0.00% | 3.45% | 6.50% |

# Key Economic Data for Major Countries

Among other economies, UK data was steady to stronger with GDP and Industrial Production in particular improving, but employment situation was concerning as rate climbed to 4.2% from 4% and new job creation was negative. Inflation was again on the lower side giving rise to speculation of rate cut by BOE.

China saw deflationary situation re-emerging and general activity levels remaining subdued. Retail Sales and Industrial Production came lower than previous month, Trade balance was much lower with both Imports and Exports registering a sharp fall. Overall, there is expectation of some more policy support for the economy to recover.

India's business activity both in manufacturing and services remained well into the expansionary territory, with the former at the second fastest growth rate in last 3 years. India's foreign exchange reserves hit a new all-time high of USD 648 bio, though it has since declined due to fall in value of foreign currency assets and intervention.

RBI left policy rate and stance unchanged, as widely expected. Good thing is that inflation has further moderated to 4.85% in March from 5.09% in February, though a policy rate cut is quite some time away.

# Key Economic Data for Major Countries

**BOND MARKET:**

Bond yields had big swings during the month, particularly in the U.S. but ended much higher compared to previous month.

| Bond Market Moves | | | | | |
|---|---|---|---|---|---|
| COUNTRY | 2 Y Yield | | 10 Y Yield | | |
| | Current | Apr'24 | Current | Apr'24 | Last Year |
| U.S.A. | 5.04% | 4.63% | 4.68% | 4.21% | 3.43% |
| GERMANY | 3.03% | 2.82% | 2.59% | 2.29% | 2.32% |
| U.K. | 4.55% | 4.19% | 4.41% | 3.86% | 3.72% |
| JAPAN | 0.28% | 0.19% | 0.87% | 0.73% | 0.40% |
| INDIA | 7.14% | 7.03% | 7.20% | 7.05% | 7.12% |

Sticky inflation data from US, FED members' hawkish statements, rate cuts being pushed back and continued heavy bond issuances by the Treasury. In Europe yields ticked up after a raft of stronger economic data and other regions followed the US yields higher.

Yields retreated somewhat after Euro Zone inflation came lower and FED meeting indicating no plans to hike rate and tapering of QT. Indian Yields moved in a familiar range between 7.10 and 7.25.

# Key Economic Data for Major Countries

**Equity Markets:**

Overall markets ended on a negative note during the month, the main driver being fears of inflation remaining sticky and possibly no rate cuts this year from the FED.

| Indices | 30th April 2024 | 28th March 2024 | Abs Change | % Change | All time high |
|---|---|---|---|---|---|
| Dow Jones | 37,815 | 39,807 | -1992 | -5.00 | 39,889 |
| S&P 500 | 5,035 | 5,254 | -219 | -4.17 | 5,264 |
| Nasdaq | 15,657 | 16,379 | -722 | -4.41 | 16,538 |
| German DAX | 17,932 | 18,492 | -560 | -3.03 | 18,514 |
| UK FTSE | 8,144 | 7,952 | 192 | 2.41 | 8,259 |
| China Composite | 3,104 | 3,041 | 63 | 2.07 | 6,124 |
| Japan Nikkie | 38,405 | 40,369 | -1,964 | -4.87 | 41,133 |
| India Nifty 50 | 22,604 | 22,326 | 278 | 1.25 | 22,783 |

Among major markets, only UK FTSE made a new all-time high. Technically, a double top was made in the global benchmark composite as well as the US S&P 500 indices. A similar formation made in December 2022 saw these markets fall by nearly 25%. Considering current stretched valuation, mixed corporate numbers and signs of slowing US economy, cannot rule out a good correction again.

Indian indices stood out during the month by posting MOM gain and hitting a new all-time high, although technicals here too suggest possibility of a good correction.

# Key Economic Data for Major Countries

**Currency Markets:**

Dollar Index continues in its broad range of 102 and 17 and last month it touched the higher end of the range, before retreating once again.

| Currency | 30th April 2024 | 28th March 2024 | Abs Change | % Change |
|---|---|---|---|---|
| USD Index | 106.31 | 104.49 | 1.82 | 1.74 |
| EURUSD | 1.0665 | 1.0793 | -0.0128 | -1.19 |
| GBPUSD | 1.249 | 1.2623 | -0.0133 | -1.05 |
| USDJPY | 157.8 | 151.31 | 6.49 | 4.29 |
| USDCNH | 7.2538 | 7.2517 | 0.0021 | 0.03 |
| USDINR | 83.45 | 83.35 | 0.1 | 0.12 |

As mentioned earlier, Yen had a much wider range during the month, initially weakening to new 34 year low and later recovering on intervention.As happened in October 2022, if Yen recovers towards 140 (which we presume BOJ will target) it can rub off on Dollar Index (rise in other major currencies like EURO, GBP and Yuan) particularly if US data continues to come weaker.

Rupee continued to move in a narrow range as seen in past few months. FII flows were negative, but weakness beyond 83.50 was resisted due to active Central Bank influence while downside also remained limited for the same reason along with oil importers presence.

# Outlook: Global

In the months ahead participants should be on the lookout for -

1. How inflation situation pans out in US economy even as it has moderated in many other countries.
2. Economic data from US for signs of further weakness. Yield curve (3m over 10 year) in US has been inverted for 17 months without a recession, which has not happened in the last 56 years. The negative spread of 1.17% is the lowest in 43 years.
3. Whether Europe can keep up the recovery momentum
4. Whether Japanese authorities are successful in soft-landing the Yen (getting the Dollar down to below 140 (– a level considered reasonable) or if it resumes weakness; whether they tighten their policy.
5. Whether Europe indulges in series of rate cuts or a one off easing in June as many expect.

On balance, expect USD to be slightly softer going in the coming months and test the lower end of its broad range, but unlikely to break the same.Turn in cyclical factors to the downside, Europe improving and increased concerns on US record debt and deficits will keep it pressured.

**RATE CUTS IN U.S. WILL BE THE INFLECTION POINT FOR THE DOLLAR.**

# Outlook: India

The USDINR has remained in tight ranges for several months (though shifted the range recently with flows ebbing) thanks to vigilant Central Bank, speculative activity almost wiped out from the Exchanges and also markets awaiting the outcome of ongoing general elections.

However, in the month of June expect high volatility and wider ranges in view of the political event. A strong government returning with modest majority will be Rupee neutral as that is well discounted, while a number above 400 for NDA may see rupee to rally (though that may be stopped by RBI unless accompanied by overall Dollar weakness). But a close result (less probable as of now) would likely see the rupee to weaken.Again, expect RBI to step in to arrest any undue weakness.

**Expected ranges till end of May are 83.10 to 83.60 and in the month of June expect 82.50 to 84.25 ranges.**

# Technical Outlook

**USDINR CMP 83.4675**

The currency pair remained in a narrow range for the month with central bank influence from both sides of the spectrum, although traded above 83.15 for the whole month. Essentially, new range was established for this month with 83.10 acting as a strong support zone across multiple time frames. Prior to 83.10, initial supports are expected at 83.25 levels – levels around which previous round of buying by oilers and central bank was observed.

On the upside selling action was visible above 83.50 levels with high for the month of April being limited to 83.5750. Similar can be the expectations for the month of May, with 83.57/60 acting as the initial resistance zone while 83.80 as the next level of resistance.

**USDINR is expected to remain muted for the month unless new triggers are observed.**

USD-INR Chart 23rd May 2022-6th May 2024

# Technical Outlook

**Commodity Outlook (Gold)**
**GOLD: COMEX: XAUUSD: CMP: USD 2318**

Bullish action of Gold finally took some breather after making the high at USD 2431 levels (in sync with the levels mentioned in the previous reports at USD 2410/2420). The significant bull move can continue with the temporary pause in bullish momentum for the month although the correction towards the initially expected support zone have been witnessed in the previous week.

The supports at USD 2275/2280 are the initial support levels while a much deeper correction can be towards USD 2200 (less likely).
Targets for the yellow metal in the medium to longer term is expected at USD 2600 or further higher.


XAU-USD 2018-June 2024

# Technical Outlook

**GOLD: MCX Gold (June): CMP: INR 71,150**

The yellow metal against INR on MCX also took a breather after making new highs in the past couple of months. The high made in the first few days of April around INR 73958 levels should hold for the month unless new triggers are in place for the gold to rally. The move on the upside went a bit further than the levels mentioned in the previous report but the overall targets for medium to longer term time frame remain further higher at around INR 76,500+.

Initial support zone for gold in MCX is at INR 69,950 levels, held corrective move in the past couple of weeks. The next support zone for Gold in MCX lies at INR 68250 although move towards these levels are less likely to be seen during the month.


MCX Gold Futures June 2021-May 2024

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