THE MONTH GONE BY

An insightful roundup of relevant stories in the recent month backed by interesting data points

During the Age of Sail (mid-16th century to the 19th century), trading companies relied heavily on large ships to transport spices, silk, tea and other valuable goods. However, larger vessels were fraught with risks ranging from adverse weather conditions, theft and the potential for shipwrecks. Any disaster could wipe out the entire cargo, leading to devastating financial consequences.

Companies devised a strategy to tackle this challenge – Goods were distributed across multiple smaller ships to spread the risk and minimize the possibility of losing an entire shipment in case of an adverse event. Moreover, utilizing smaller ships improved logistical planning and coordination among traders.

Just as how smaller ships were able to navigate choppy waters by restricting the losses and coordinating effectively; a portfolio invested across various asset classes could help navigate choppy market conditions, reduce the impact of market volatility and facilitate better risk-adjusted returns.

BENEFIT OF EACH ASSET CLASS

EQUITY	DEBT	GOLD/SILVER ETFs	REITs/InvITs
Tends to perform well during economic growth periods, facilitating long-term capital appreciation	Provides reasonable stability during economic downturns	Potential hedge against market uncertainties and high inflation environment	Opportunity to enhance the portfolio yield

InvITs: Units of Infrastructure Investment Trust, REITs: Units of Real Estate Investment Trust, ETFs: Exchange Traded Funds.

While we ponder about the course ahead, it is important to connect the dots with key market events of December 2024.

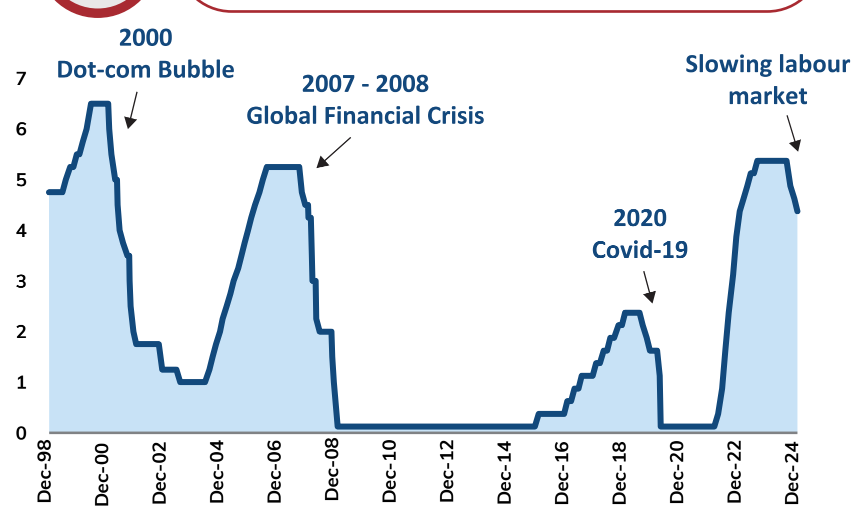
The U.S. Federal Reserve announced its third interest rate cut of 2024 – Is there more than meets the eye?

ICICI PRUDENTIAL MUTUAL FUND

The Federal Reserve reduced its key interest rate by 25 basis points to a target range of 4.25%-4.50%, making it easier for businesses to borrow and households to take on credit. **However, here is the twist – The central bank signalled a slower pace of rate cuts next year to tackle inflation.**

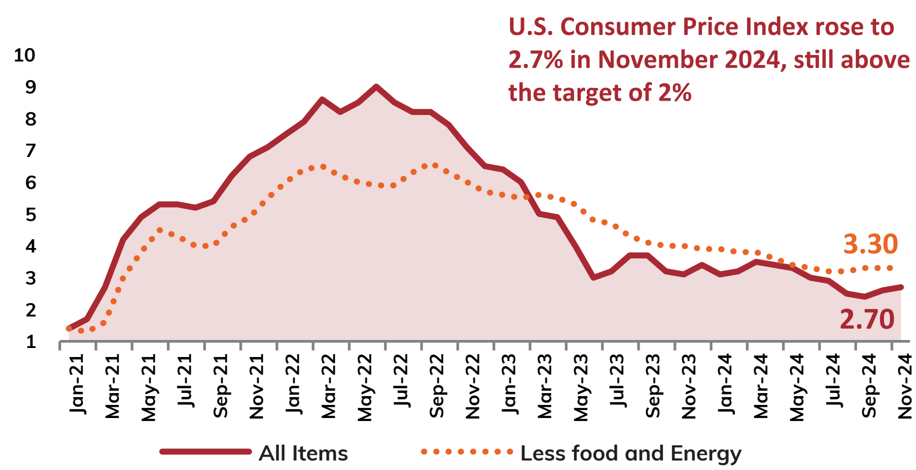
Inflation has been stubborn in recent months, ticking up to 2.7% in November 2024. The potential of import tariffs, tax cuts and an uptick in government spending could drive prices higher. **The Federal Reserve has revised headline inflation projections upwards to 2.5% in 2025 from the earlier estimate of 2.1%.**

U.S. FEDERAL FUNDS TARGET RATE (%)



Source: Data as on December 18, 2024. Reuters, Federal Reserve
The Federal Funds target rate chart reflects the midpoint of the Federal Reserve's target range. U.S.: United States

U.S. CONSUMER PRICE INDEX (%)



Source: U.S. Bureau of Labor Statistics, Year-on-Year % Change

Economic momentum continues to display strength in the light of resilient consumer spending, a pick-up in business investment and steady job creation. The central bank raised the growth outlook to 2.1% in 2025, also stating that the nation's growth has far outpaced that of other developed economies. **Additionally, the unemployment rate was revised to 4.3% in 2025 from the earlier 4.4%, indicating that the labour market is gradually rebounding.**

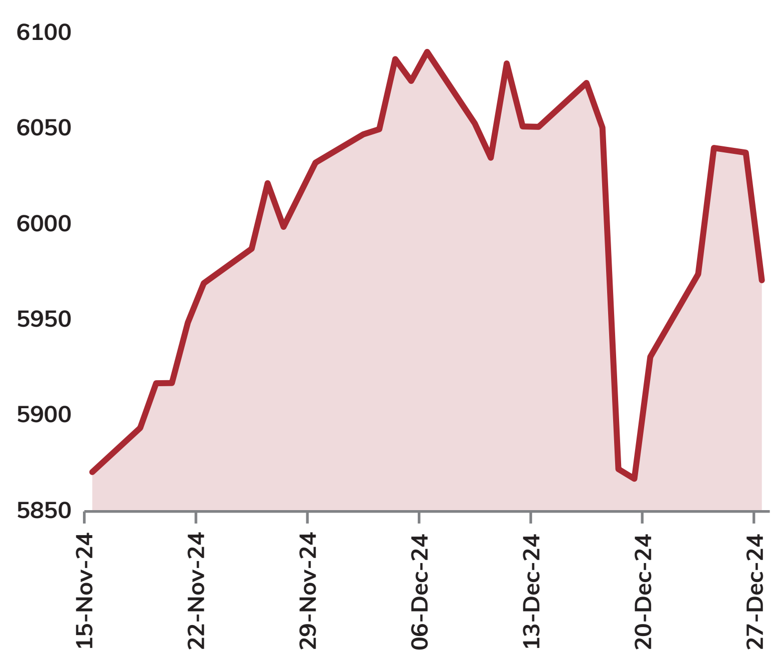
As the economy embarks on a new phase with a hawkish tilt, **the course of further rate cuts could depend on economic policies by the government, the behaviour of inflation and evolving labour market conditions.**

Cautious tone of the U.S. Federal Reserve – A Bitter Pill to Swallow for Equity Markets?

Market participants anticipated the Federal Reserve to cut interest rates in December 2024. However, they were caught off guard when the central bank indicated fewer rate cuts in 2025 – a sharp deviation from the earlier projection of four rate cuts.

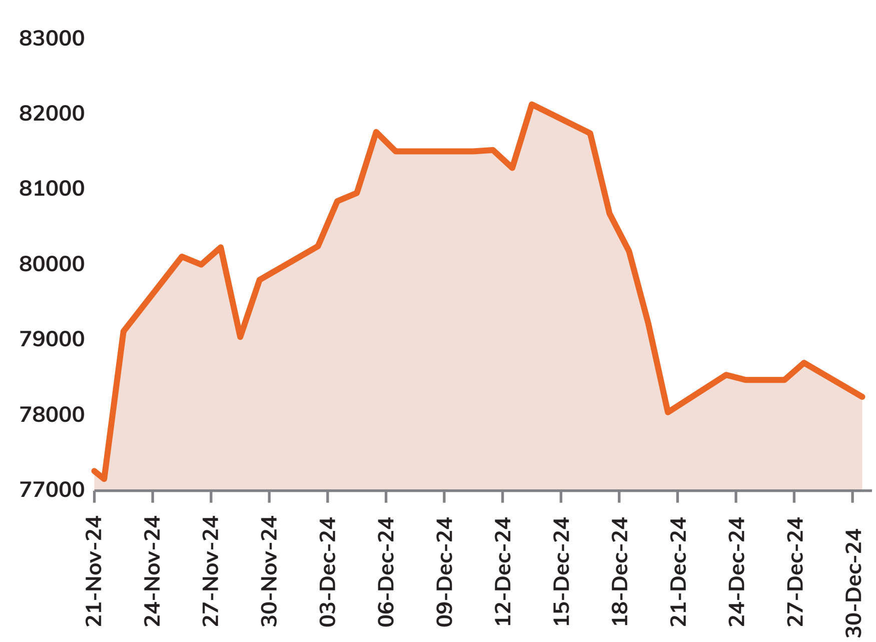
While the U.S. Treasury yields and the dollar rose in response to this decision, stocks began to tumble. **The S&P 500 slid from 6070 to 5872 levels, witnessing a steep fall of 3% on December 18, 2024.** The Indian stock market, that has been struggling with high valuation concerns and subdued corporate earnings growth, plunged during the month as clouds of global uncertainties resurfaced.

S&P 500 (CLOSING LEVEL)



Source: Reuters, Data as on December 27, 2024

BSE SENSEX (CLOSING LEVEL)



Source: BSE, Data as on December 30, 2024

Markets are reeling under the pressure of brewing tariff wars and flaring geopolitical conflicts. The Federal Reserve slated, "When the path is uncertain you go a little bit slower".

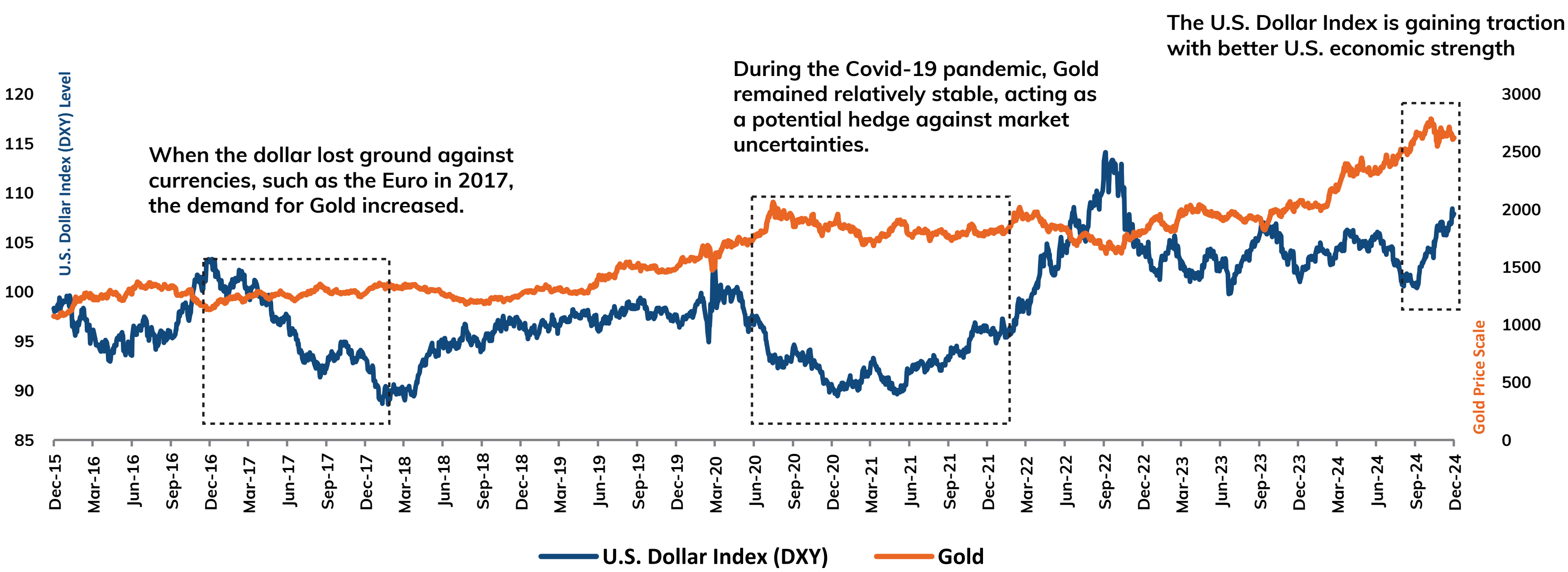
All that Glitters is not Gold – Is the Yellow Metal losing its shimmer?

ICICI PRUDENTIAL MUTUAL FUND

After shining to new highs during the year, the upward momentum of Gold prices has slowed considerably from the high of $2783/ounce on October 30, 2024 to $2,606/ounce on December 20, 2024. Rising U.S. Treasury yields and further strength in the U.S. dollar followed by the elections contributed to the decline.

The U.S. Dollar Index (DXY) surged to a high of 108 in December 2024. When the dollar strengthens, it makes Gold expensive for investors as they would have to exchange more of their domestic currency to buy the same amount of the yellow metal. Consequently, a rising U.S. Dollar Index could exert pressure on gold prices.

GOLD PRICES (LBMA, $/OUNCE) AND U.S. DOLLAR INDEX LEVEL



Source: LBMA: London Bullion Market Association and Refinitiv. Data as on December 23, 2024. The gold price in India was around ₹75,944/10 gm on December 23, 2024.

The trajectory of Gold depends on Central banks accumulating the precious metal to diversify reserves amid flaring geopolitical tensions, political developments in the U.S. and buying interest from Chinese consumers.

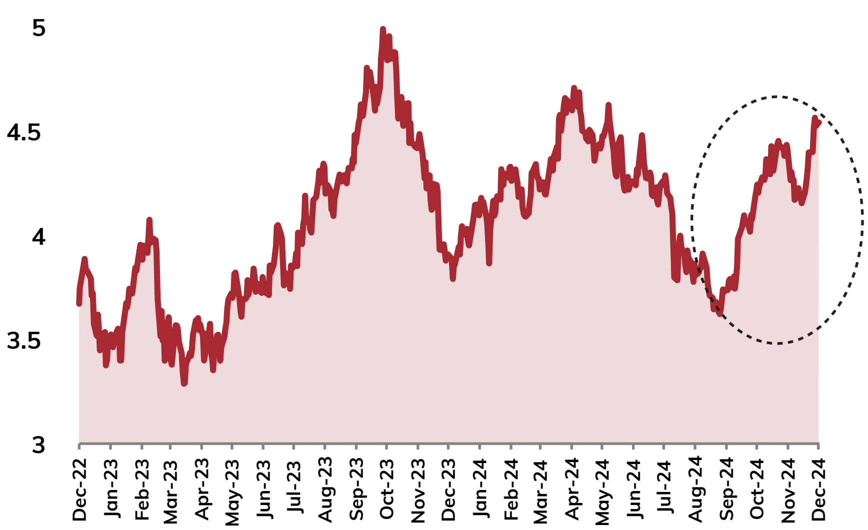
U.S. Treasury Yields continue to climb?

The U.S. 10-Year Treasury yields rose from 3.72% on September 20, 2024 to around 4.52% on December 20, 2024 even though the U.S. Federal Reserve cut interest rates.

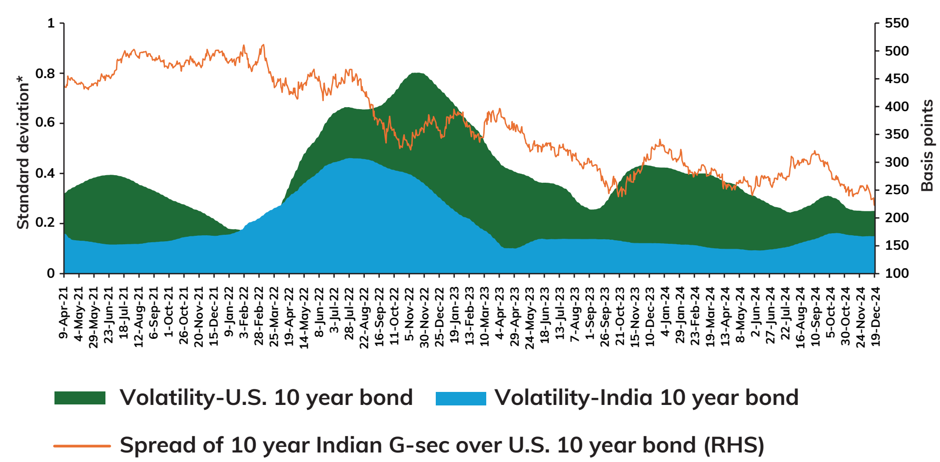
The central bank dialed down expectations for interest rate cuts in 2025 with median signals indicating only two rate cuts during the year. The backdrop was wired by an upward revision in the U.S. Gross Domestic Product in 2025 and a drop in initial unemployment claims. As the U.S. elections moved to a clear outcome, markets started factoring higher budget deficits with an increase in government spending and potential tax cuts.

The spread of the 10-year Indian G-sec yield over the 10-year U.S. bond dropped to 222 bps as on December 19, 2024 from 310 bps in mid-September. Foreign Portfolio flows to the Indian debt market turned positive to ₹12,512 crore in December 2024* after witnessing outflows in October and November. Investors are now watchful of the RBI's mechanism to foster growth and the potential for interest rate cuts in the future.

U.S. 10-YEAR TREASURY (%)



VOLATILITY AND SPREAD-BOND MARKET



Note: * 12-months rolling standard deviation. Reserve Bank of India Bulletin, December 2024. RHS: Right-Hand Side

Source: Reuters, Data as on December 24, 2024. G-sec: Government security. Bps: basis points. RBI: Reserve Bank of India. *FPI inflows into Indian debt market of December 2024 is up to December 31, 2024. FPI inflows in Indian debt market includes Debt-General Limit, Debt-VRR and Debt-FAR. VRR: Voluntary Retention Route. FAR: Fully Accessible Route.

The OPEC is in a tight spot as demand-supply dynamics of the oil market hurl challenges

ICICI PRUDENTIAL MUTUAL FUND

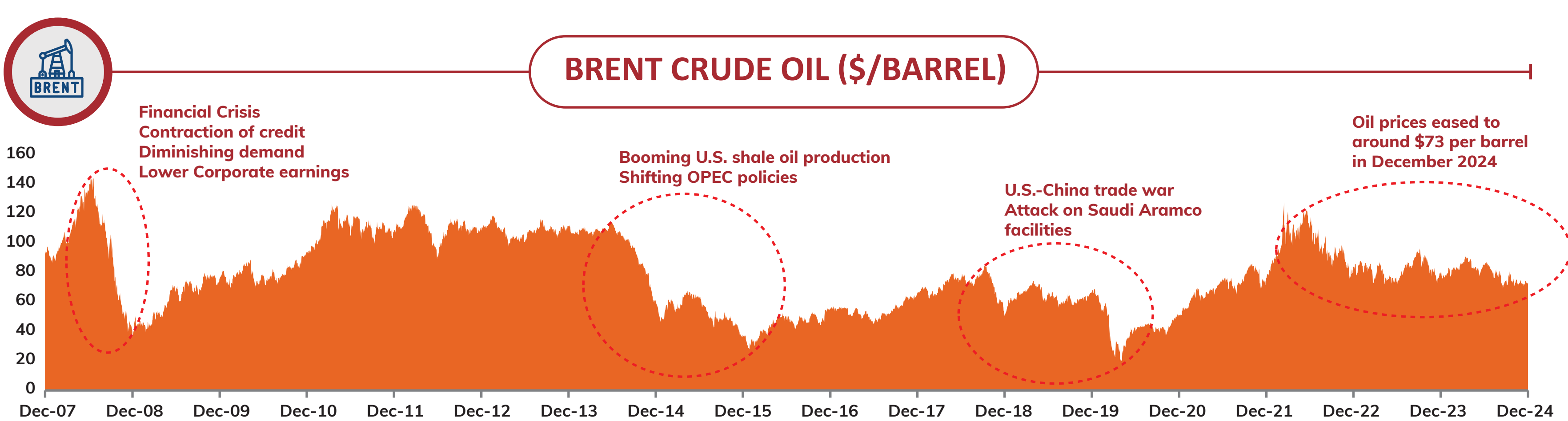
The OPEC (Organization of the Petroleum Exporting Countries) took two key decisions after evaluating the broader picture – **Firstly, the cartel decided to postpone its crude oil production increase until April 2025. Secondly, the 2025 global oil demand growth forecast was lowered to 1.45 million bpd from the previous assessment of 1.54 million bpd.**

World Oil Demand, million bdp

World oil demand	2024	1Q25	2Q25	3Q25	4Q25	2025	Change 2025/24	
							Growth	%
Total OECD	45.76	44.89	45.63	46.56	46.37	45.87	0.11	0.23
Total Non-OECD	58.06	59.27	58.74	59.03	60.55	59.40	1.34	2.31
Total World	103.82	104.16	104.37	105.59	106.92	105.27	1.45	1.40
Previous Estimate	104.03	104.29	104.63	106.31	107.00	105.57	1.54	1.48

Source: Organization of the Petroleum Exporting Countries (OPEC). World Oil Demand in 2025 is Forecast. Bpd: barrel per day. OECD: Organization for Economic Co-operation and Development

Geopolitical tensions intensified in December 2024 as a raft of sanctions were imposed by the European Union on Russia's shadow fleet of tankers that enabled oil trade. **During the year, Oil demand dwindled** as China, a major driver of global oil consumption, grappled with anemic economic growth. **This combination of declining oil demand and increasing oil supply from non-OPEC countries, such as the U.S., Brazil and Canada pose the risk of imbalance.**



Source: Refinitiv. Data as on December 24, 2024.

China changes monetary policy stance to 'moderately loose' for the first time in nearly 14 years

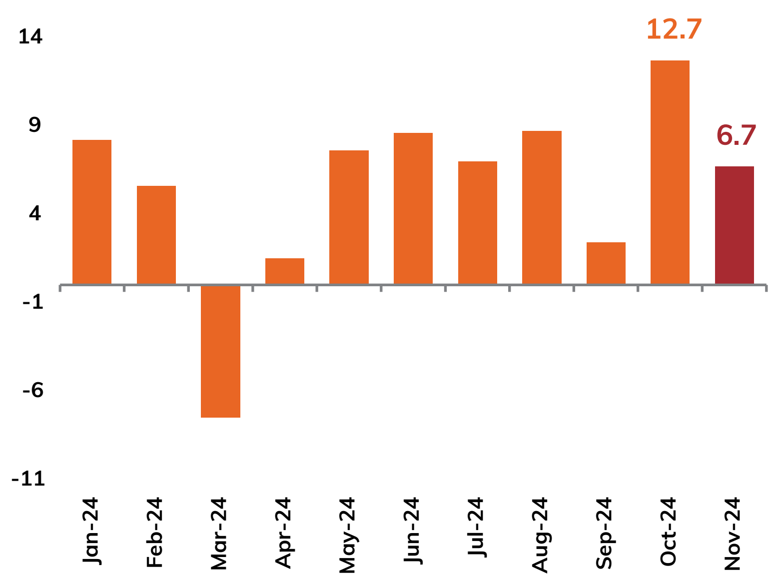
The Chinese economy is combating challenges from multiple fronts – Economic growth is patchy, consumer spending is fragile, the real estate sector is in doldrums and retail sales dropped in the recent month. Also, exports slowed sharply to 6.7% in November 2024 from a year earlier, down from the 12.7% increase in October 2024.

Beaten down by deflation and left with limited investment alternatives, Chinese investors continue to seek the relative stability of bonds as a result of which, China's 10-year government bond yields dropped to a low of around 1.70% in December 2024.

CHINA 10-YEAR GOVERNMENT BOND YIELDS (%)

Source: Reuters, Data as on December 24, 2024.

CHINA EXPORTS (YEAR-ON-YEAR %)



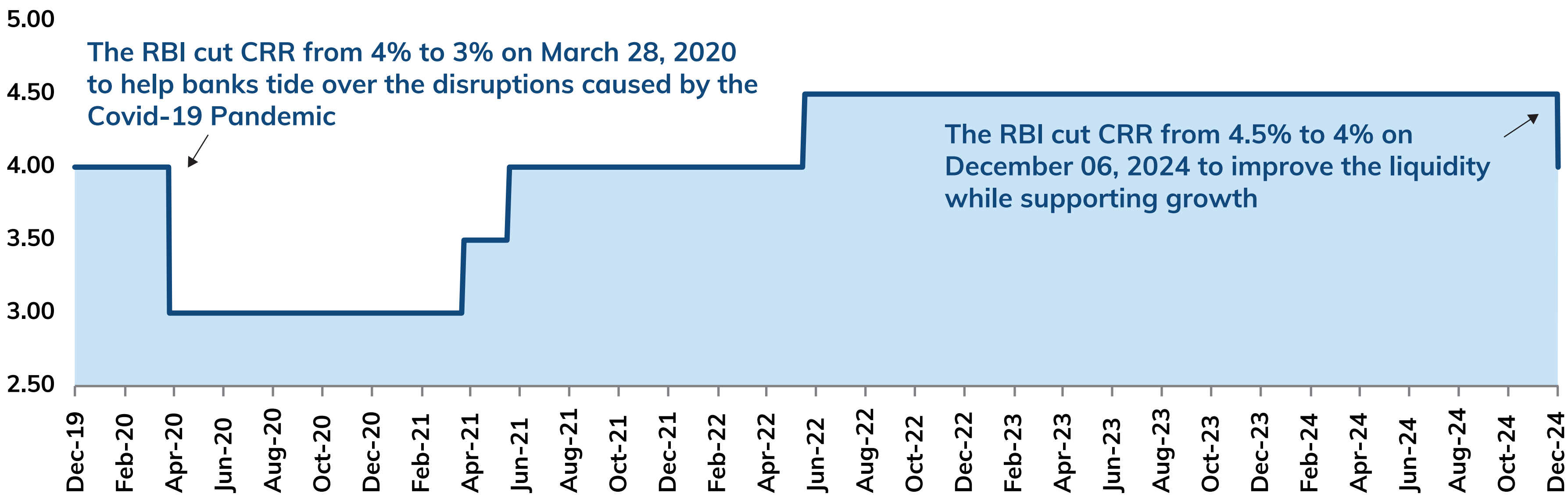
Source: General Administration of Customs

To bolster economic growth, China announced the shift to an 'appropriately loose' monetary policy and a more proactive fiscal policy. How could this decision support a battered economy? a) Boost domestic demand by supporting consumption and enhancing investment efficiency b) Promote innovation and productivity growth c) Stabilize foreign trade d) Support the ailing housing market e) Focus on other social development objectives, such as rural development, social welfare, etc. (Source: Chinese Communist Party Politburo meeting, December 2024).

A Tightrope walk for the RBI – What did the Monetary Policy Committee decide in the December 2024 meeting?

The Reserve Bank of India (RBI) decided to keep the repo rate unchanged at 6.5% and maintain a neutral policy stance. However, the Cash Reserve Ratio (CRR) was cut by 50 basis points to 4%, which would infuse ₹1.16 lakh crore into the banking system.

CASH RESERVE RATIO (%)



Source: Reserve Bank of India (RBI)

What does a lower Cash Reserve Ratio imply?

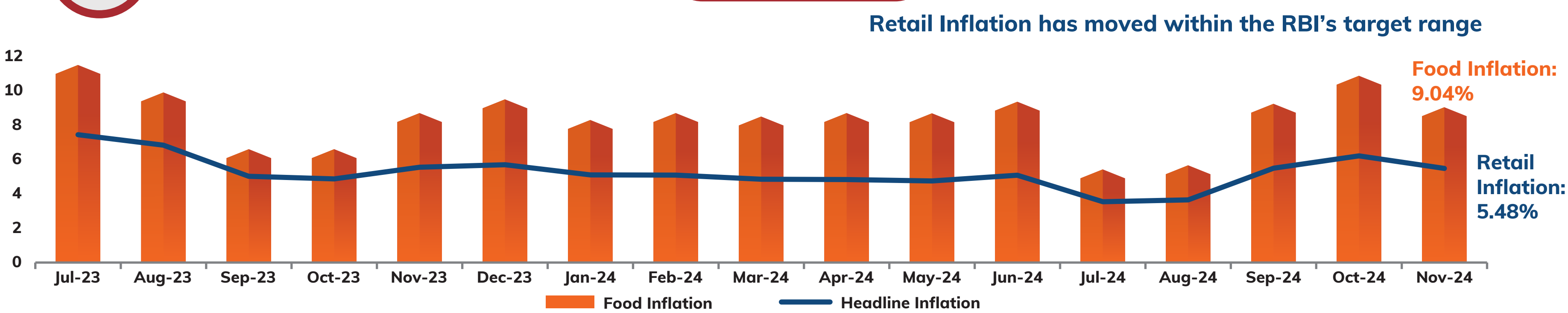
- Just as how fuel is required for an engine to function, banks require adequate liquidity to provide credit. **With a lower CRR ratio, banks will have to park a lesser portion of their deposits with the RBI, which would increase their lending capacity.**
- **Greater liquidity into the system and reduced costs for banks would provide the much needed credit offtake** and support the financial performance.
- **Loans sanctioned for housing, business operations, etc. would encourage investments and consumer spending.**

India's Retail Inflation moderated in November 2024 – Falls within RBI's Tolerance Band

ICICI PRUDENTIAL MUTUAL FUND

India's retail inflation, based on the Consumer Price Index (CPI), cooled to 5.48% in November 2024, down from 6.21% in October 2024, driven by easing food prices – a relief for households. Food inflation, which has been a persistent challenge, slowed down to 9.04% in November 2024 from 10.87% in the preceding month.

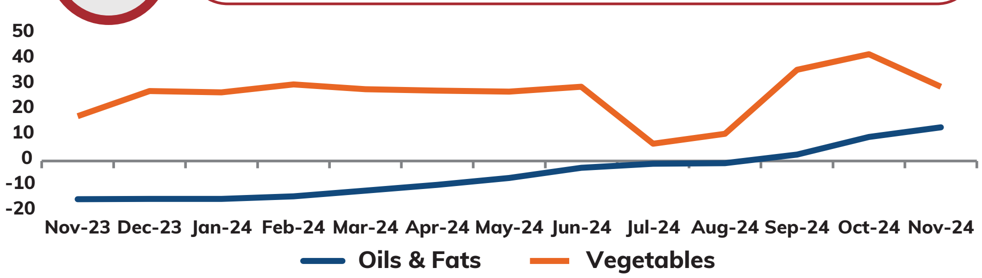
INFLATION (%)



Source: Centre for Monitoring Indian Economy (CMIE), Data as on November 2024. RBI: Reserve Bank of India

Within the food basket, Vegetable prices declined significantly to 29.33% year-on-year in November 2024 from 42.18% in October 2024. Prospects for agriculture remain positive on the back of favourable monsoon, adequate reservoir levels and higher minimum support prices. **While the prices of vegetables, pulses, fruits, eggs, spices and milk products fell, that of Oils and Fats continued to rise.**

VEGETABLE AND OILS & FATS INFLATION (%)



Group	Weightage	Nov-24 (YoY)	Oct-24 (YoY)
Food and beverages	45.86%	8.2%	9.7%
Pan, tobacco and intoxicants	2.38%	2.4%	2.5%
Clothing and footwear	6.53%	2.8%	2.7%
Housing	10.07%	2.9%	2.8%
Fuel and light	6.84%	-1.8%	-1.6%
Miscellaneous	28.32%	4.3%	4.3%

Source: Centre for Monitoring Indian Economy (CMIE), Ministry of Statistics and Programme Implementation (MOSPI). Data as on November 2024. YOY: Year-on-Year

RBI to Introduce Secured Overnight Rupee Rate (SORR) – A new benchmark based on secured money market transactions

Currently, the Mumbai Interbank Offer Rate (MIBOR), based on the overnight interbank call rate, is used as the benchmark rate for overnight money market transactions.

With an aim to further develop the interest rate derivatives market and improve the credibility of interest rate benchmarks, the Reserve Bank of India proposed to introduce the Secured Overnight Rupee Rate (SORR). This new benchmark would be based on all secured money market transactions, including both overnight market repo as well as tri-party repo (TREPS).

What could be the benefits of SORR over MIBOR?

Wider Coverage of transactions: MIBOR represents only 2% of the money market as it is based on the interbank call money market. Conversely, SORR would account for higher market volumes as it encompasses transactions executed in both market repo and TREP components.

Broader Range of Market Participants: SORR would capture a broader range of market participants, such as mutual funds and other financial institutions.

Increased credibility and transparency: SORR will rely on actual transactions in the secured money market, which would reflect market dynamics in a better manner – paving the path for greater transparency in benchmark-setting.

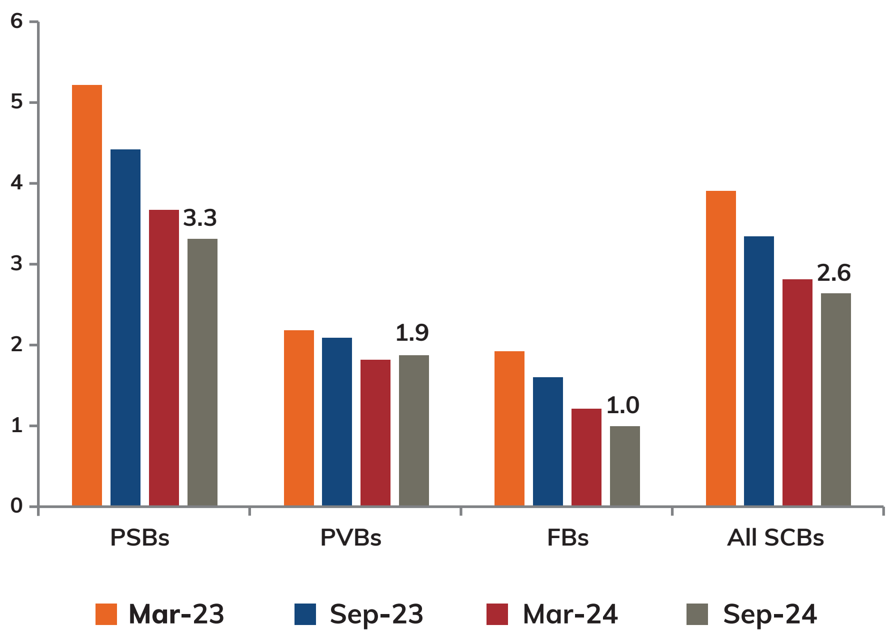
The RBI has requested the support of Financial Benchmarks India Limited (FBIL) to take the proposal forward.

Source: Reserve Bank of India (RBI)

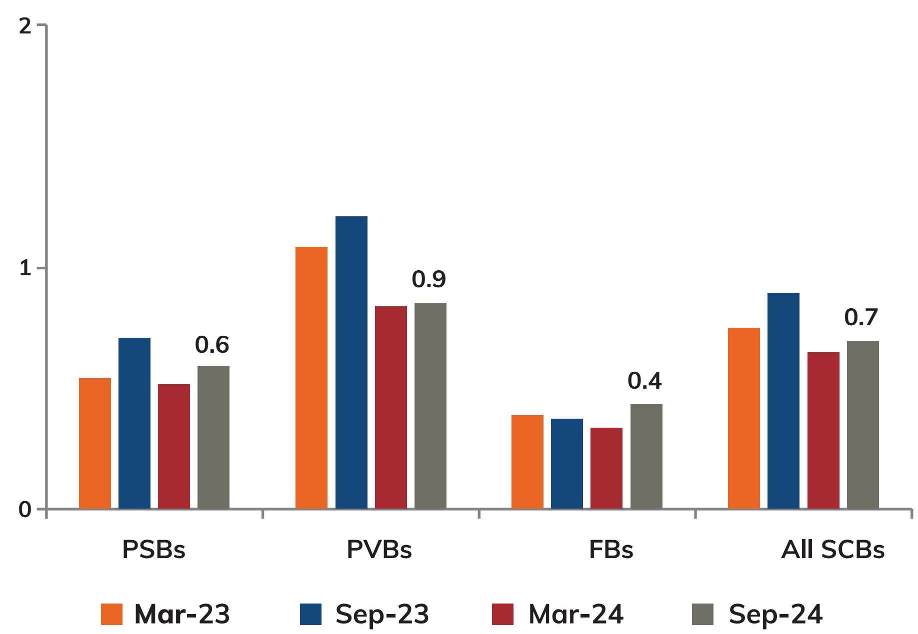
The Asset Quality of Indian banks improves

The asset quality of Scheduled Commercial Banks improved with the Gross non-performing asset ratio declining to a 12-year low of 2.6% in September 2024, driven by lower slippages, higher write-offs and steady credit demand. The net Non-Performing Assets declined to 0.60% in September 2024, owing to stronger provision buffers.

GROSS NON-PERFORMING ASSETS (%)



HALF-YEARLY SLIPPAGE RATIO (%)



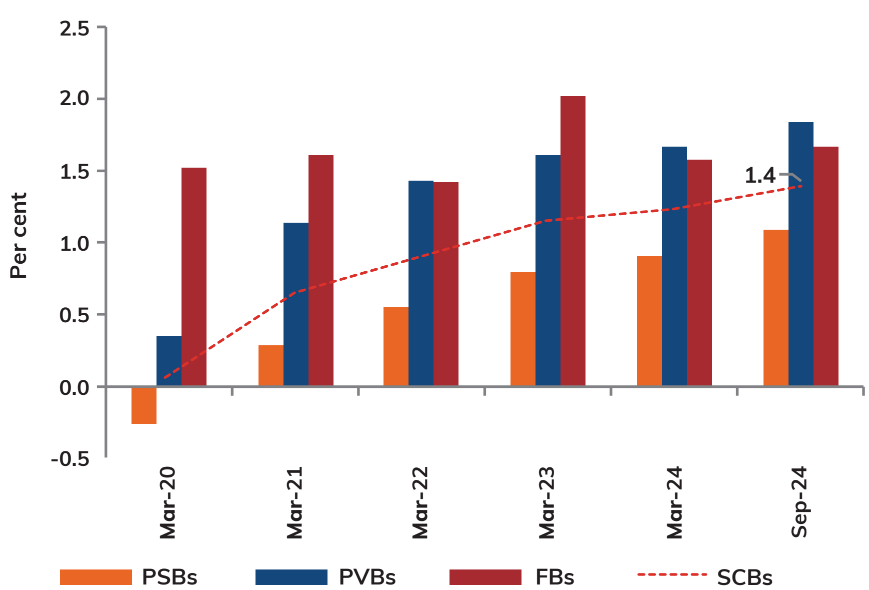
Source: Financial Stability Report, December 2024. Reserve Bank of India. PSBs: Public Sector Banks. PVBs: Private Sector Banks. FBs: Foreign Banks. SCBs: Scheduled Commercial Banks.

Profitability Ratios of Banks - Thumbs Up or Thumbs Down?

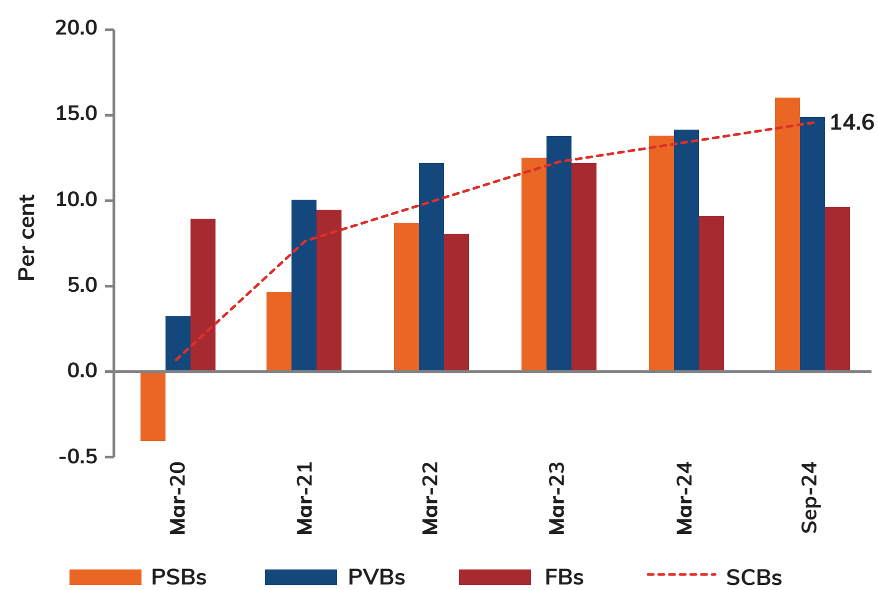
Profitability of banks improved for the sixth consecutive year in 2023-24 with both public sector banks and private sector banks exhibiting an increase in return on assets (ROA). The Return on Assets improved to 1.4% in end-September 2024 and Return on Equity stood at 14.6% for the same period (Data includes overseas operations).

PROFITABILITY RATIOS OF BANKS (%)

RETURN ON ASSETS



RETURN ON EQUITY



Source: Off-site returns (global operations). Reserve Bank of India, Report on Trend and Progress of Banking in India (2023-24) report. The above data includes overseas operations. PSBs: Public Sector Banks. PVBs: Private Sector Banks. FBs: Foreign Banks. SCBs: Scheduled Commercial Banks.

Going forward, policy makers would have to remain vigilant with respect to potential risks in the financial system amidst escalating geopolitical tensions, rapidly emerging new technologies and increasing climate-related risk.

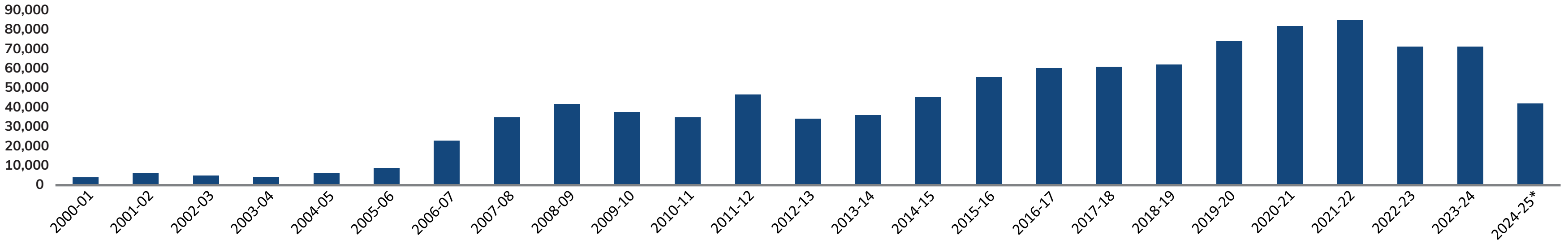
India's FDI Journey reached a milestone of $1 Trillion

ICICI PRUDENTIAL MUTUAL FUND

In 1991, India experienced severe balance of payment crisis – the Government was compelled to initiate the LPG (Liberalization, Privatization and Globalization) reforms, that opened doors for foreign investment in India.

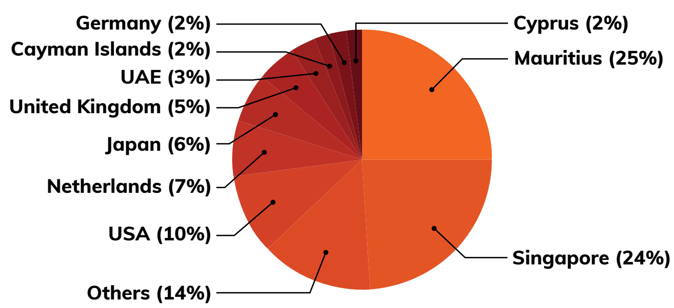
Over the years, the Government introduced several initiatives, such as the 'Make in India' campaign, to augment FDI inflows into India. Additionally, FDI policies were liberalized particularly in retail, defence, insurance and single-brand retail trading. **Foreign Direct Investment (FDI) inflows into India reached $1 trillion from the April 2000 to September 2024 period.**

TOTAL FDI INFLOWS INTO INDIA (US $ MILLION)

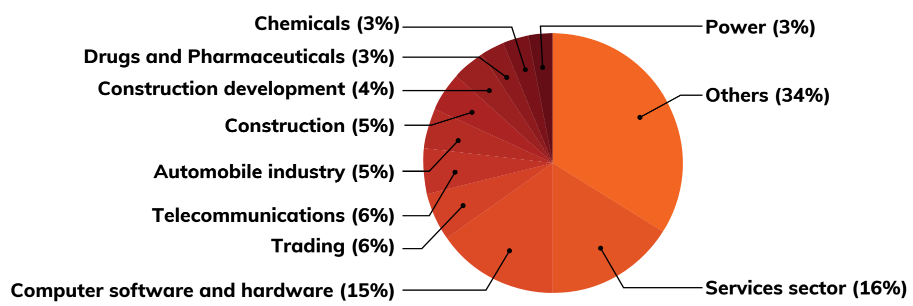


Source: Department for Promotion of Industry and Internal Trade. Financial Year Data. | *2024-25 data is up to September 2024 and is a Provisional Figure.

COUNTRY-WISE FDI IN INDIA (% OUT OF TOTAL FDI EQUITY INFLOWS)



SECTOR-WISE FDI IN INDIA (% OUT OF TOTAL FDI EQUITY INFLOWS)



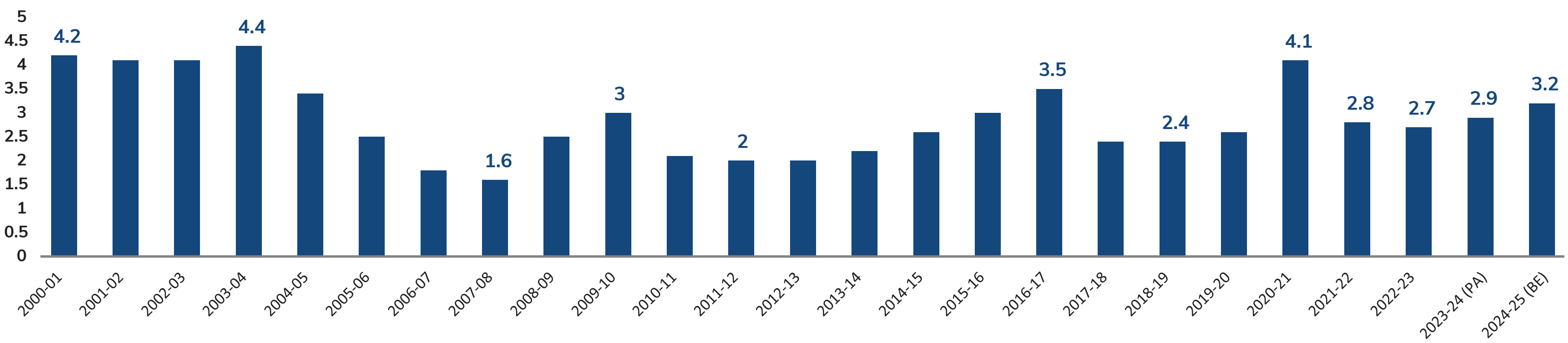
Source: Department for Promotion of Industry and Internal Trade. Financial Year Data. FDI: Foreign Direct Investment. U.S.A.: The United States of America. UAE: United Arab Emirates. The sector(s) /stock(s) mentioned in this presentation do not constitute any recommendation of the same and ICICI Prudential Mutual Fund may or may not have any future position in these sector(s)/stock(s). The portfolio of the scheme is subject to changes within the provisions of the Scheme Information Document of the Scheme.

An Insight into the Finances of Indian States

ICICI PRUDENTIAL MUTUAL FUND

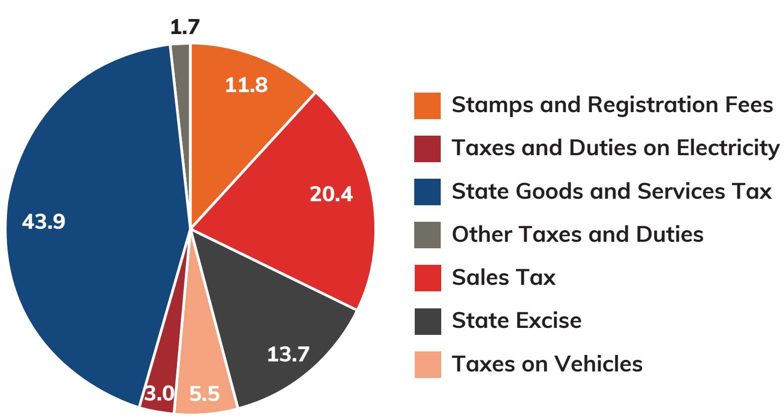
The Fiscal Deficit of a state is when the total expenditure exceeds the revenue received. The gross fiscal deficit of Indian States declined significantly from 4.2% of India's GDP in 2000-01 to 2.7% of India's GDP in 2022-23. **In 2023-24, the Gross Fiscal Deficit increased marginally with higher allocation towards capital outlay and curtailment of revenue expenditure.**

GROSS FISCAL DEFICIT OF INDIAN STATES (% OF GDP)

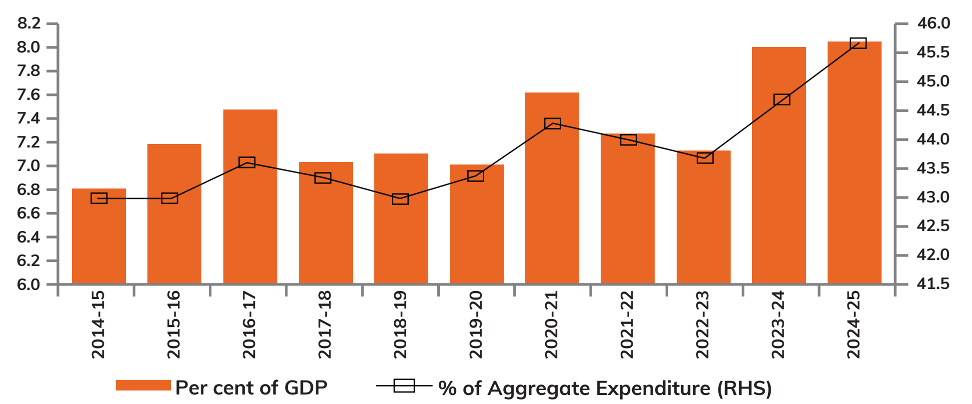


Source: Budget documents of State governments; and Comptroller and Auditor General of India (CAG). PA: Preliminary Actuals. BE: Budget Estimates.

SHARE IN OWN TAX REVENUE IN 2024-25 (%)



SOCIAL SECTOR EXPENDITURE (% OF GDP)



Source: Budget documents of State governments and Comptroller and Auditor General of India (CAG). GDP: Gross Domestic Product

While the fiscal deficit is under control, States have to be mindful of the overall debt position, that stands at 28.5% of India's GDP as of end-March 2024, well above the 20% level recommended by the Fiscal Responsibility and Budget Management (FRBM) Review Committee.

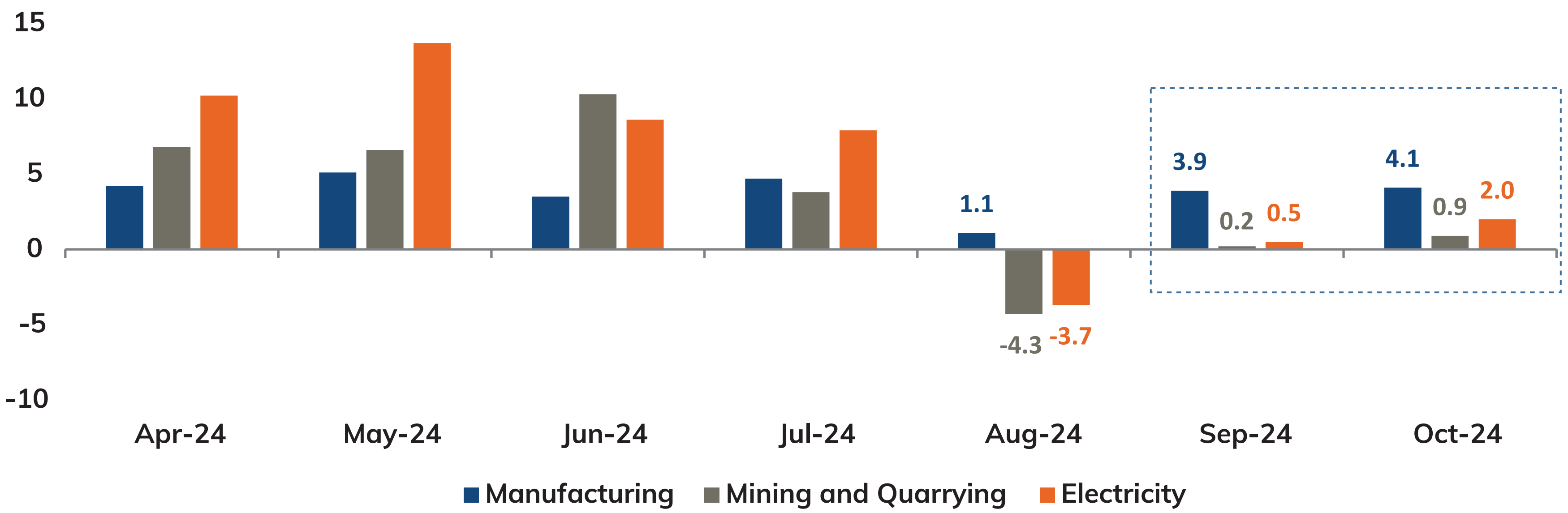
India's Industrial Output continues to rebound

ICICI PRUDENTIAL MUTUAL FUND

Industrial output rose to a three-month high of 3.5% year-on-year in October 2024, up from 3.1% recorded in September 2024, driven by a broad-based recovery in the output of manufacturing, mining and electricity amidst the festive season.

The manufacturing output grew by 4.1% in October 2024, compared to 3.9% in September 2024, supported by demand for electronics, apparels, food products and transport equipment during festive. **Electricity output registered an improvement with growth of 2% in October 2024, up from 0.5% in September 2024. Mining output grew marginally by 0.9% in October 2024** with an increase in activity as monsoons retreated.

INDEX OF INDUSTRIAL PRODUCTION - MANUFACTURING, MINING AND QUARRYING, ELECTRICITY (YEAR-ON-YEAR %)



Source: Centre for Monitoring Indian Economy (CMIE), CareEdge Ratings.

Government capital expenditure is expected to pick up in the medium term, facilitating better performance of infrastructure-related segments. While demand from urban segments have been subdued in recent months due to higher price levels, improved soil conditions and healthy reservoir levels would support crop yields, encouraging rural consumption.

The RBI raised the collateral-free loan limit to ₹2 lakh for farmers – What are the key benefits?

The silver lining to the recent Gross Domestic Product (GDP) growth was the agriculture sector growth that improved from 1.7% in Q2FY24 to 3.5% in Q2FY25. With an aim to further support the agriculture sector, the Reserve Bank of India (RBI) has raised the collateral-free agricultural loan limit from ₹1.6 lakh to ₹2 lakh, effective from January 01, 2025.

- Aims to support small and marginal farmers – that account for over 85% of the farming community.
- Amid high input costs, increasing the loan ceiling would ease the financial burden of farmers and stimulate rural economic activity.
- Enhance financial inclusion in the agricultural sector and facilitate easier access to Kisan Credit Card (KCC) loans.

The Government of India launched the National Mission on Natural Farming (NMNF):

- Natural farming is instrumental in maintaining healthy soil, improving crop diversity and reducing costs for farmers.
- With an outlay of ₹2,481 crore, the mission targets to reach 1 crore farmers and cover 7.5 lakh hectares in the next two years.
- 10,000 Bio-input Resource Centres (BRCs) will be set-up for availability of ready-to-use natural farming inputs. (Source: Cabinet Press Release, November 2024).

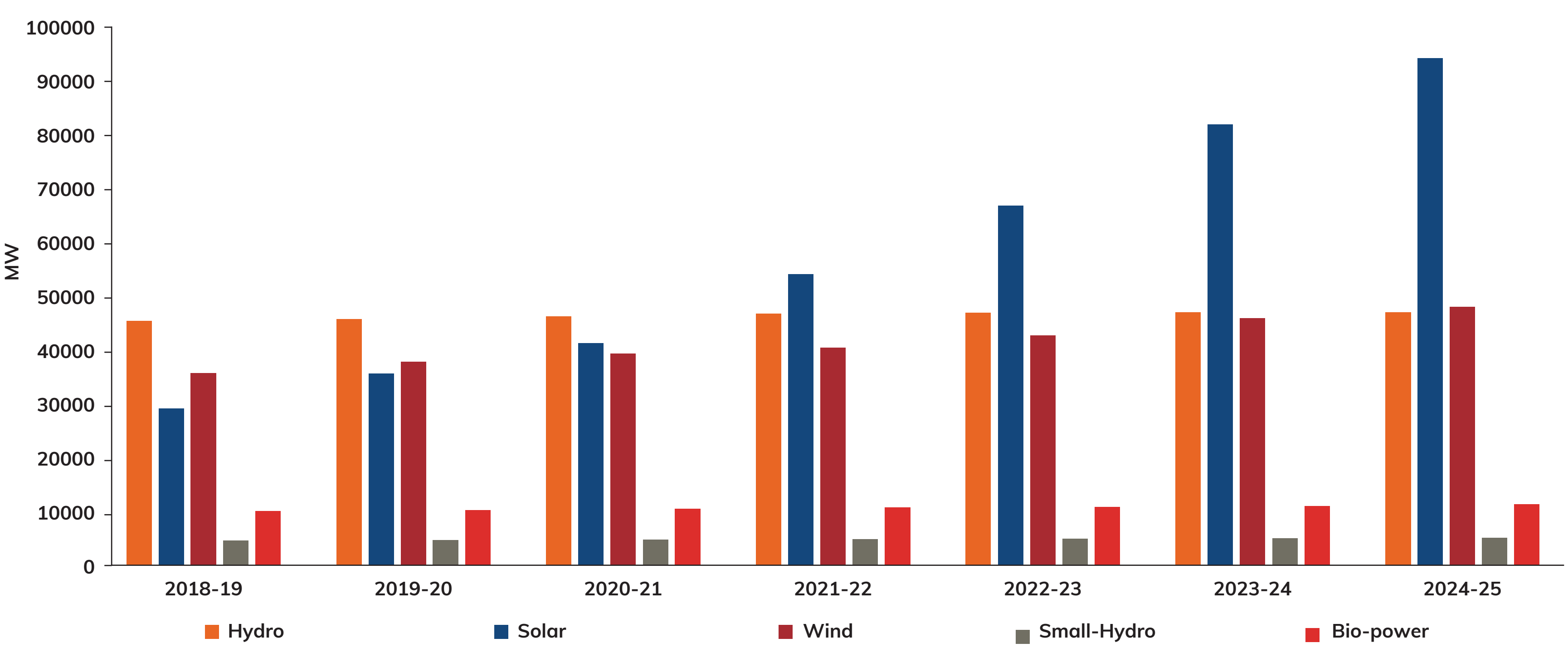
India's focus on the Power of Renewable Energy

ICICI PRUDENTIAL MUTUAL FUND

On the renewable energy front, India has made significant progress in recent years led by the addition of installed capacity of solar, wind and hydro. **In November 2024, India's renewable energy capacity reached 205.5 GW and total non-fossil energy capacity stood at 213.7 GW, accounting for more than 46% of the country's total installed capacity.**

Substantial progress has been made under the PM Surya Ghar Muft Bijli Yojana (PMSGMBY) with 6.3 lakh installations completed within 9 months of launch of the scheme in February 2024. By November 2024, over ₹3,100 crore was also disbursed to more than four lakh consumers as subsidy under the scheme. Installations under the scheme could exceed 10 lakhs by March 2025 paving the way for a sustainable future in rooftop solar energy (Source: Reserve Bank of India).

RENEWABLE ENERGY INSTALLED CAPACITY (MEGAWATT)

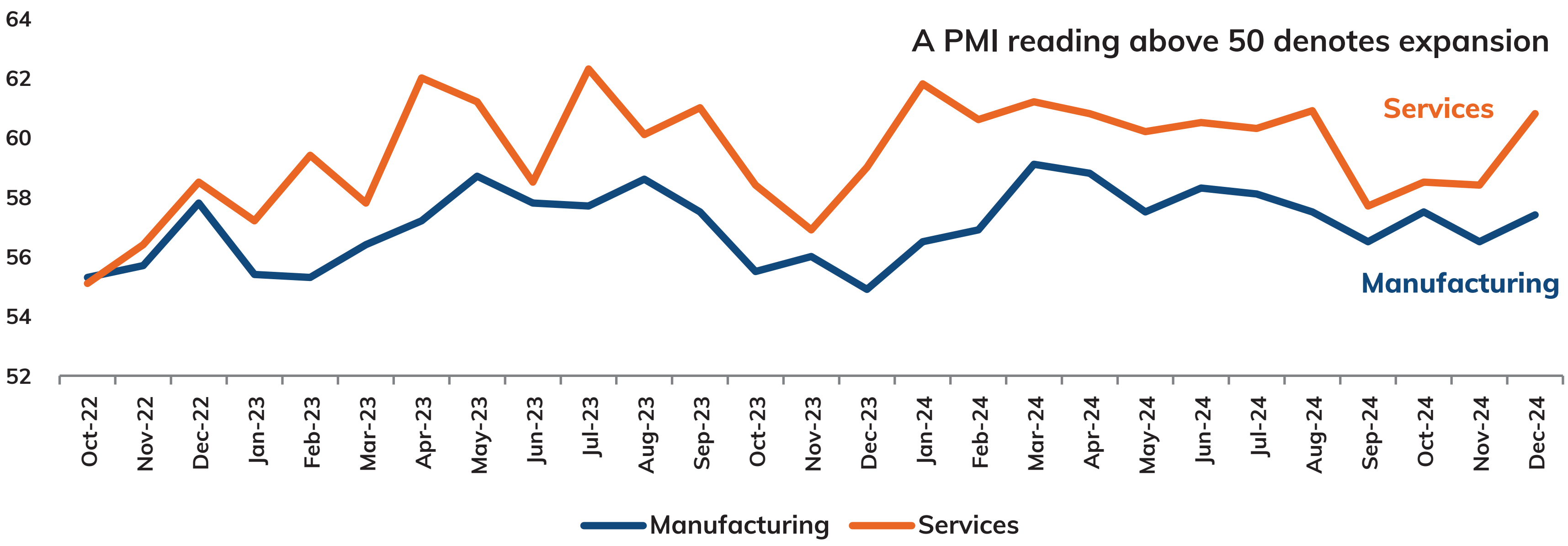


Source: NITI Aayog, Central Electricity Authority (CEA), Reserve Bank of India Bulletin, December 2024. GW: Gigawatt. MW: Megawatt.

India's manufacturing and services sector displayed growth with increased new business inflows

HSBC Flash India Services PMI Business Activity Index climbed to 60.8 in December 2024 from 58.4 in November 2024. Also, the HSBC Flash India Manufacturing PMI improved to 57.4 in December 2024, up from 56.5 recorded in November 2024, indicating stronger business conditions. A rise in production, new orders and employment underpinned the recovery, supported by a rise in domestic demand.

INDIA'S PURCHASING MANAGERS' INDEX (PMI)



Source: The HSBC Flash India PMI® is compiled by S&P Global from responses to questionnaires sent to survey panels of around 400 manufacturers and 400 service providers. Manufacturing variables: Output, new orders, new export orders, backlogs of work, stocks of finished goods, employment, quantity of purchases, suppliers' delivery times, stocks of purchases, input prices, output prices, future output. Services variables: Business activity, new business, new export business, outstanding business, employment, input prices, prices charged, future activity.

Improving international demand for Indian goods and services continued to boost total sales with a sustained upturn in new export orders. **The overall level of positive sentiment rose to its highest since September 2023 –** Both manufacturers and services firms became more upbeat towards output prospects for the upcoming year, with an anticipation of better demand and customer relations.

However, input costs for items like food, freight, and labour rose, compelling manufacturers to increase their selling prices during the month.

Foreign Portfolio Investors stage a comeback in December 2024

After offloading Indian equities worth ₹94,017 crore in October 2024 and ₹21,612 crore in November 2024 led by concerns over high market valuations and ongoing geopolitical tensions in the Middle East, Foreign Portfolio Investors (FPIs) have now turned net buyers.

FPIs bought ₹15,446 crore of Indian equities in December 2024* with net investments in sectors, such as Financial services, Information Technology, Capital goods, etc. – The structural story of India remains resilient on the back of strong macroeconomic fundamentals and improvement in external sector outlook. Retail inflation has eased within the tolerance bank of the central bank. India's industrial output rebounded and manufacturing activities gained traction with growth in new orders. Sustained government spending on infrastructure is expected to further stimulate economic activity and investment.

MONTHLY FPI NET INVESTMENTS (₹, CRORE)

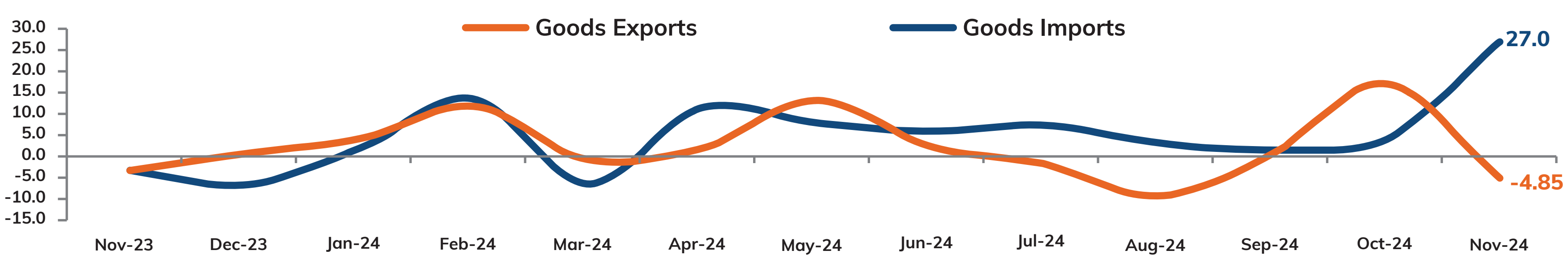
Source: National Securities Depository Limited (NSDL). *December 2024 data is up to December 31, 2024. U.S.: United States of America. FPI: Foreign Portfolio Investors. The sector(s) /stock(s) mentioned in this presentation do not constitute any recommendation of the same and ICICI Prudential Mutual Fund may or may not have any future position in these sector(s)/stock(s). The portfolio of the scheme is subject to changes within the provisions of the Scheme Information Document of the Scheme.

Trade deficit widens to a record high due to Gold Rush

Merchandise imports grew 27% year-on-year to $69.95 billion in November 2024, driven primarily by a rise in Gold imports. The demand for the yellow metal increased during the festive and wedding season, contributing to the 331.4% year-on-year surge in gold imports.

Merchandise exports fell 4.85% year-on-year to $32.1 billion in November 2024 from the remarkable growth of 17.3% in October 2024 with a contraction in key exports sectors, such as petroleum products, gems and jewellery and chemicals.

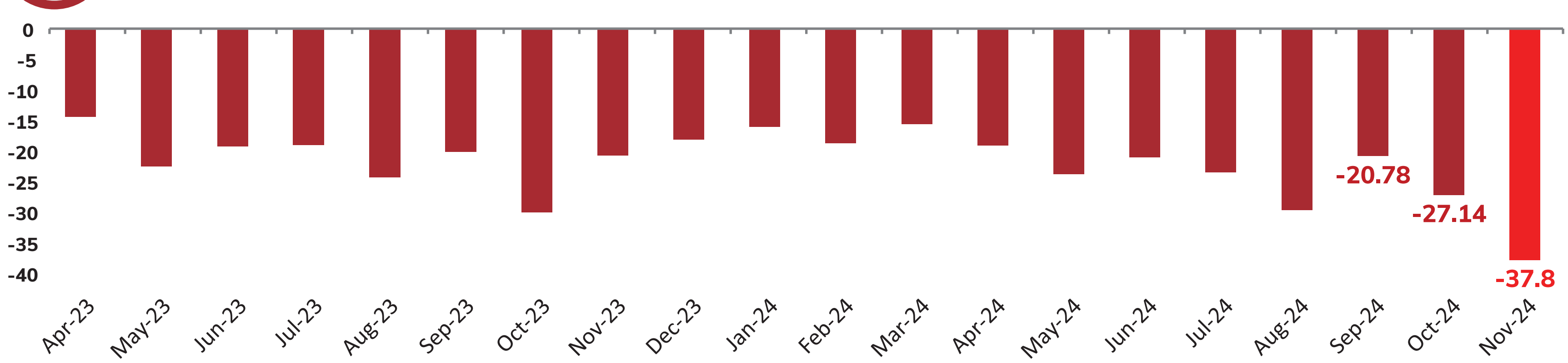
MERCHANDISE IMPORTS AND EXPORTS (YEAR-ON-YEAR %)



Source: Ministry of Commerce and Industry, CEIC, CRISIL

With a notable rise in merchandise imports, **India's trade deficit widened to a record high of $37.8 billion in November 2024 from $27.1 billion in October 2024.**

INDIA'S MERCHANDISE TRADE BALANCE ($, BILLION)

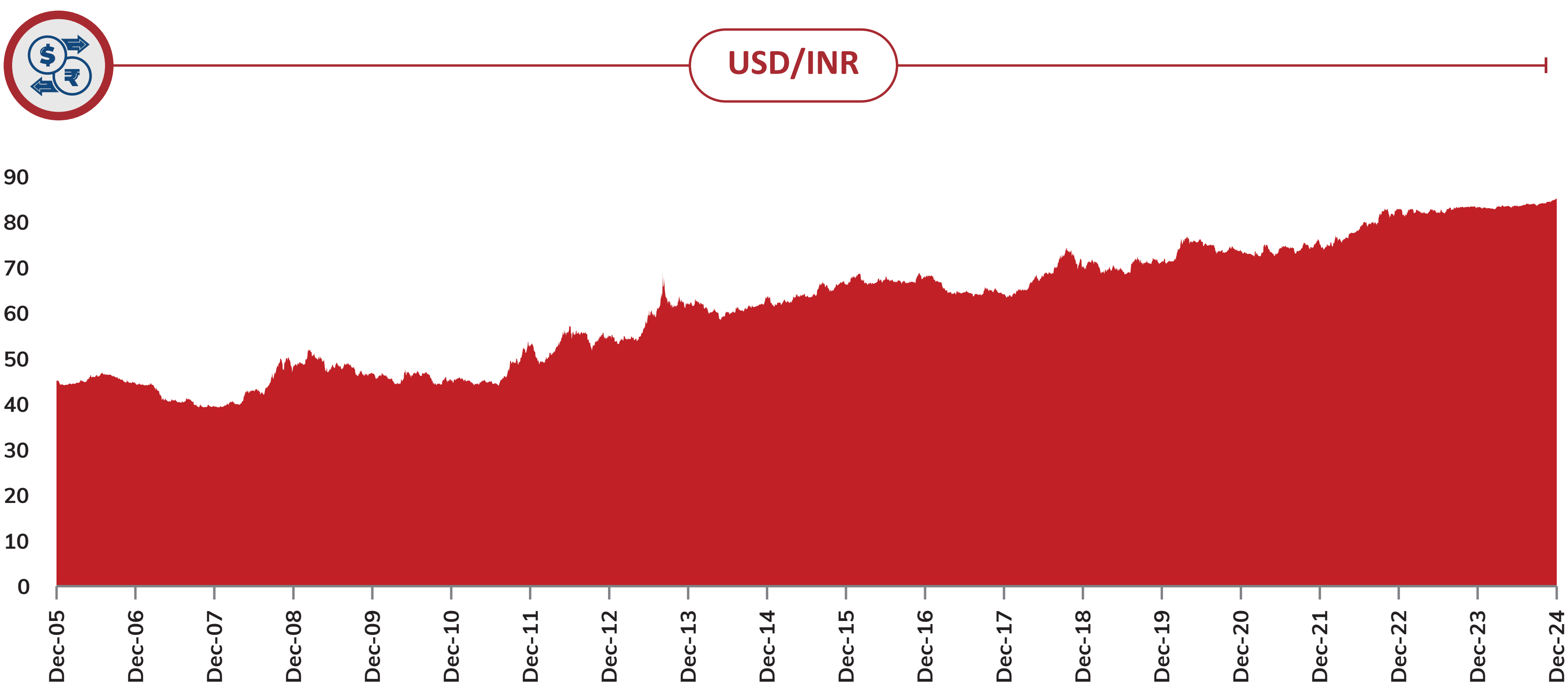


Source: Ministry of Commerce and Industry

The Indian Rupee is sliding down a slippery path

Those planning an overseas trip to celebrate the New Year, faced a challenge – A stronger dollar against the domestic currency may have overshoot their travel budget. **The Indian rupee plummeted to yet another low of around 85.50 against a roaring U.S. Dollar in December 2024.**

Heightened geopolitical conflicts, a rise in the U.S. Treasury yields, lower crude oil prices and Foreign Portfolio Investor (FPI) outflows from Indian equities in recent months led to an increase in demand for dollars. The dollar may continue to gain momentum on the back of a conducive macroeconomic environment in the U.S. coupled with fiscal stimulus measures.



Source: Refinitiv, Data as on December 24, 2024.

After climbing to a high of $704.89 billion for the week ended September 27, 2024, India's foreign exchange reserves fell to $644.39 billion as of December 20, 2024 (Source: Reserve Bank of India). A healthy level of foreign exchange reserves is vital for an economy as it acts as a buffer against global financial turbulence, which could be directed to defend the rupee in times of volatility.

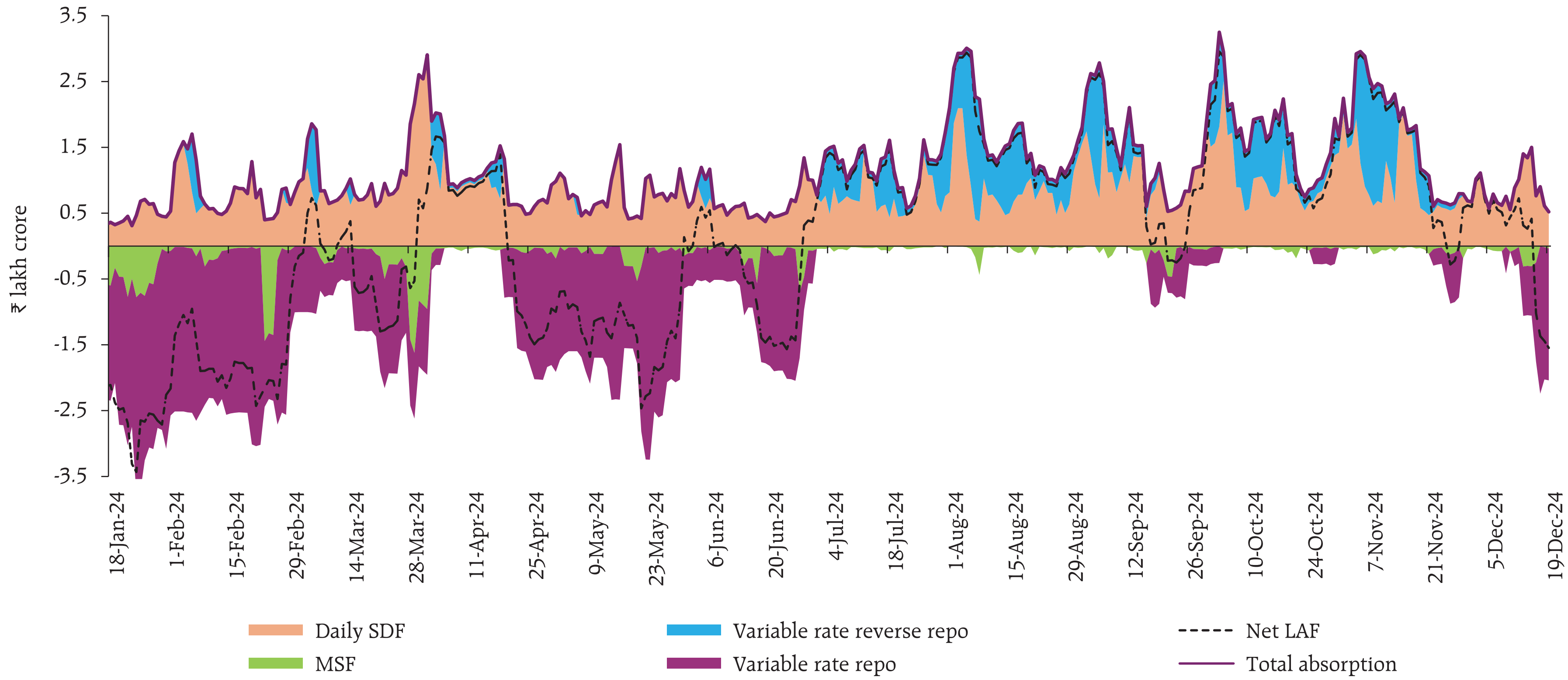
Liquidity Operations by the Reserve Bank of India

ICICI PRUDENTIAL MUTUAL FUND

System liquidity moderated in the second half of November 2024 with the build-up in government cash balances on account of an increase in currency in circulation, goods and services tax (GST) collections and capital outflows. System liquidity forayed into the deficit territory during December 16-19, 2024 on account of advance tax payments.

Considering liquidity tightness due to advance tax payments, the Reserve Bank of India conducted one main and six fine-tuning VRR operations during December 09-20, 2024, cumulatively injecting ₹4.4 lakh crore into the banking system.

LIQUIDITY OPERATIONS (₹ LAKH CRORE)



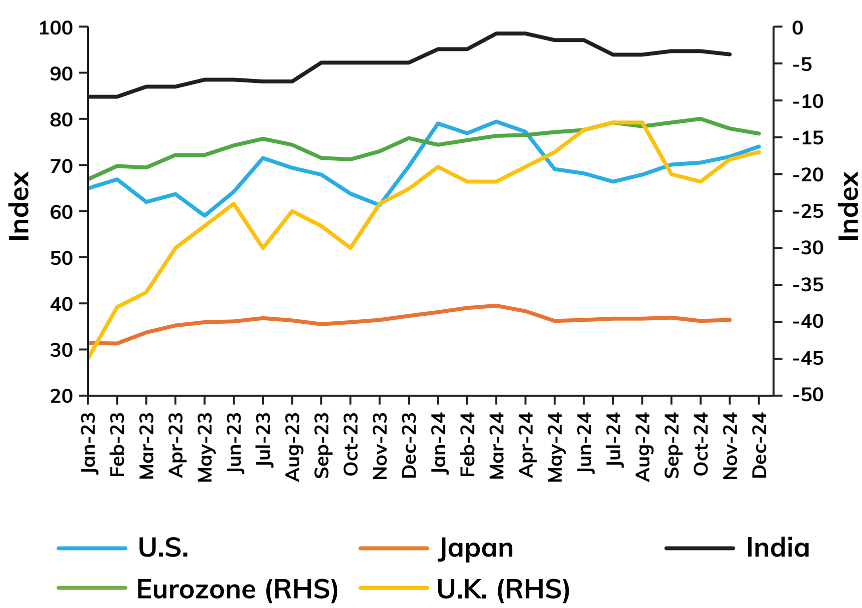
Source: Reserve Bank of India (RBI) bulletin, December 2024. LAF: Liquidity Adjustment Facility. SDF: Standing Deposit Facility. MSF: Marginal Standing Facility. GST: Goods and Services Tax. VRR: Variable Rate Repo

A sneak peek into the Consumer Sentiment Index

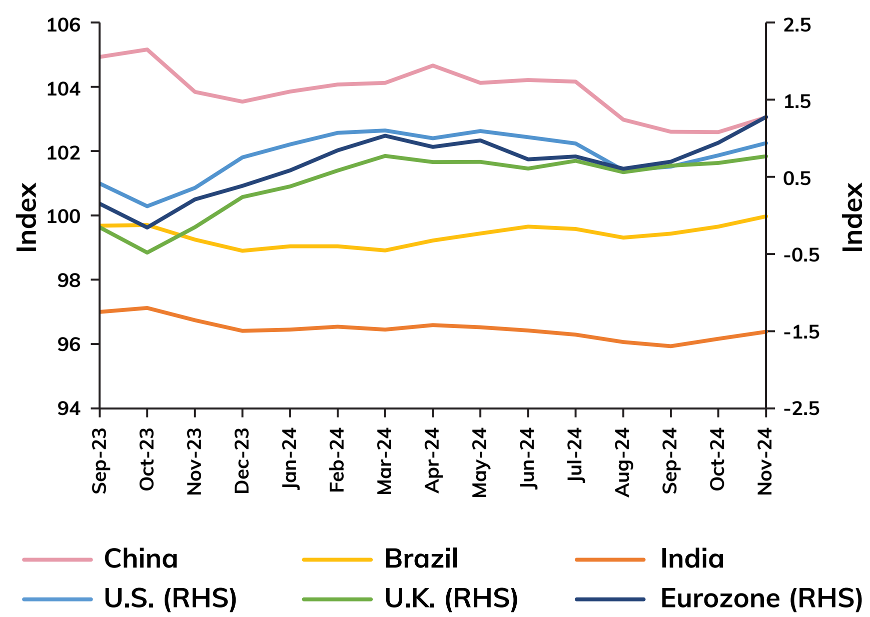
ICICI PRUDENTIAL MUTUAL FUND

Consumer confidence improved in the U.S. and the U.K., but worsened in the Euro area in December 2024. The European Central Bank (ECB) slashed its interest rates by 25 basis points to 3% in December 2024 as economic growth worsened and inflation slowed down (Source: European Central Bank).

CONSUMER SENTIMENTS



FINANCIAL CONDITIONS



Source: Reserve Bank of India (RBI) Bulletin, December 2024

1. Japan: A score above 50 indicates consumer optimism, below 50 shows lack of consumer confidence and 50 indicates neutrality.

2. Euro zone and U.K.: -100 indicates extreme lack of confidence, 0 denotes neutrality while 100 indicates extreme confidence.

3. India and U.S.: Higher the index value, higher is the consumer confidence.

4. For financial condition index (pertaining to EMEs constructed by Goldman Sachs), a reading below 100 is accommodative and vice versa.

As for the AEs, the index constructed by Bloomberg is a z-score where a positive value indicates accommodative/easy financial conditions and vice versa.

U.S.: United States, U.K.: United Kingdom. EMEs: Emerging Market Economies

Other Key Developments

India outpaces China in Green Tech Investments: In recent months, India has outpaced China as a destination for clean technology funding supported by its inclination to boost domestic green manufacturing and endeavour to become a clean technology exporter. Deals worth $2.4 billion were completed in the third quarter, more than four times the value of deals in China and the second-highest globally. (Source: Bloomberg NEF, Financial Express).

New Zealand Sinks into Recession: The Gross domestic product dived 1.0% in the September 2024 quarter, compared to the market forecasts of a 0.2% contraction (Source: Reuters). Weakness was witnessed across various sectors including manufacturing, utilities and construction. Household and government spending dropped during the quarter, while investments and exports also slumped.

Windfall Tax on Oil Abolished: The windfall tax was levied on domestically produced crude oil on July 01, 2022 post the outbreak of the Russia-Ukraine conflict when oil prices spiked above $100 per barrel. However, falling international crude oil prices in recent months and the consequent declining profits of domestic oil producers made government authorities re-visit their decision. The windfall tax on domestically produced crude oil and the export of diesel, petrol, and aviation turbine fuel has now been scrapped. (Government Authority, December 02, 2024).

The Production Linked Incentive (PLI) Scheme is reshaping industries: Launched in 2000, The PLI scheme aims to strengthen domestic manufacturing capabilities, reduce reliance on imports, promote innovation and provide employment opportunities. The scheme clocked an investment of ₹1.46 lakh crore, realized across 14 sectors, which has resulted in incremental production of ₹12.50 lakh crore with employment generation of 9.5 lakh individuals (Source: Ministry of Commerce & Industry, December 20, 2024).

RBI's decision to increase interest rate ceilings on FCNR(B) deposits: With an aim to attract more capital inflows, the Reserve Bank of India (RBI) has increased the interest rate ceilings on Foreign Currency Non-Resident Bank account deposits (FCNR(B)). Effective from December 06, 2024, banks are permitted to raise fresh FCNR(B) deposits with maturities of 1 year to less than 3 years at rates not exceeding the ceiling of overnight Alternative Reference Rate (ARR) plus 400 basis points (bps). Additionally, for deposits with maturities of 3 years to 5 years, the ceiling has been increased to overnight ARR plus 500 bps. This relaxation will be available till March 31, 2025.

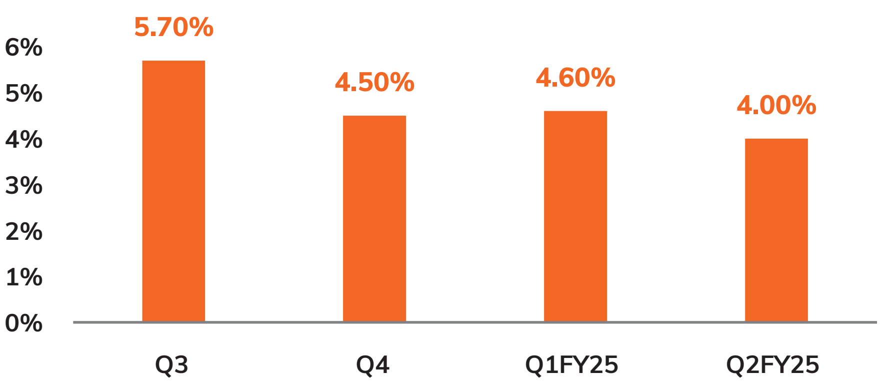
Decline in India's WPI Inflation: India's Wholesale Price Index (WPI) eased to 1.89% in November 2024, down from 2.36% in October 2024, on the back of slower increase in food prices (Source: Ministry of Commerce & Industry). While cereal inflation remained steady, prices of pulses decreased as that of vegetables, such as onions and tomatoes displayed price moderation.

Other Key Developments

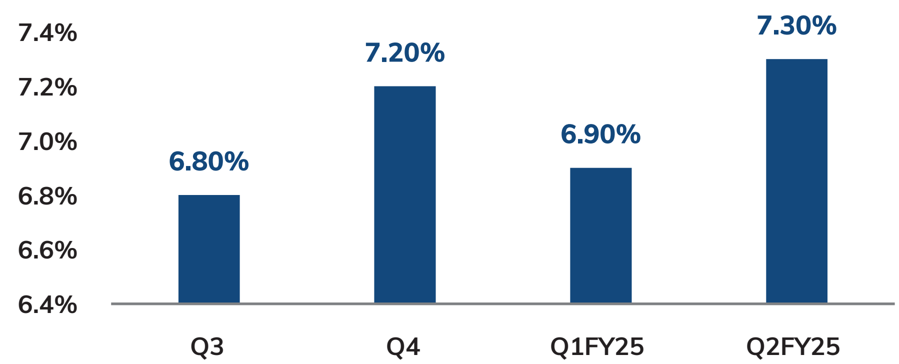
India's Current Account Deficit: The current account deficit of India stood at $11.2 billion (1.2% of GDP) in the July-September 2024 quarter, lower than the deficit of $11.3 billion (1.3% of GDP) registered in the same quarter a year ago. The moderation was supported by an increase in net services receipts, private transfer receipts coupled with net inflows under foreign portfolio investment and non-resident deposits. (Source: Reserve Bank of India).

RBI's Inflation and GDP Projections for FY2024-25:

INFLATION PROJECTION REVISED UPWARDS TO 4.8% FOR FY2024-25



REAL GDP PROJECTION REVISED DOWNWARDS TO 6.6% FOR FY2024-25



Source: Reserve Bank of India (RBI). GDP: Gross Domestic Product

GST Update: During the month, the Goods and Services Tax (GST) was revised on certain items as reviewed by the Council.

And it is a wrap for the month

Global financial markets are emitting mixed signals – While the S&P 500 climbed to a new high in November 2024, the index witnessed a pullback in reaction to the indication of fewer rate cuts in 2025. While the U.S. Dollar continued to strengthen, Gold prices remained lower than levels observed in October 2024. Crude prices have softened since October 2024 as global oil consumption fell.

The growth of the Indian economy could gain momentum in 2025, driven by domestic private consumption demand and sustained government spending on infrastructure. Additionally, Rural demand is trending upwards supported by improving growth of the agriculture sector. The central bank is constantly striving to adapt to the changing financial landscape where risks posed by geopolitical conflicts linger.

The U.S. Federal Reserve stole the limelight with a hawkish stance: "With today's action, we have lowered our policy rate by a full percentage point from its peak, and our policy stance is now signicantly less restrictive. We can therefore be more cautious as we consider further adjustments to our policy rate."

PICTURE OF THE MONTH

The images used in this document are only for representation purpose

Disclaimer

ICICI PRUDENTIAL MUTUAL FUND

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

In the preparation of the material contained in this document, the AMC has used information that is publicly available, including information developed in-house. Some of the material(s) used in the document may have been obtained from members/persons other than the AMC and/or its affiliates and which may have been made available to the AMC and/or to its affiliates. Information gathered and material used in this document is believed to be from reliable sources. The AMC however does not warrant the accuracy, reasonableness and / or completeness of any information. We have included statements / opinions / recommendations in this document, which contain words, or phrases such as "will", "expect", "should", "believe" and similar expressions or variations of such expressions, that are "forward looking statements". Actual results may differ materially from those suggested by the forward looking statements due to risk or uncertainties associated with our expectations with respect to, but not limited to, exposure to market risks, general economic and political conditions in India and other countries globally, which have an impact on our services and / or investments, the monetary and interest policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices etc. ICICI Prudential Asset Management Company Limited (including its affiliates), the Mutual Fund, The Trust and any of its officers, directors, personnel and employees, shall not liable for any loss, damage of any nature, including but not limited to direct, indirect, punitive, special, exemplary, consequential, as also any loss of profit in any way arising from the use of this material in any manner. Further, the information contained herein should not be construed as forecast or promise. The recipient alone shall be fully responsible/are liable for any decision taken on this material.