

Macro Economics

Chart Book–June 2024



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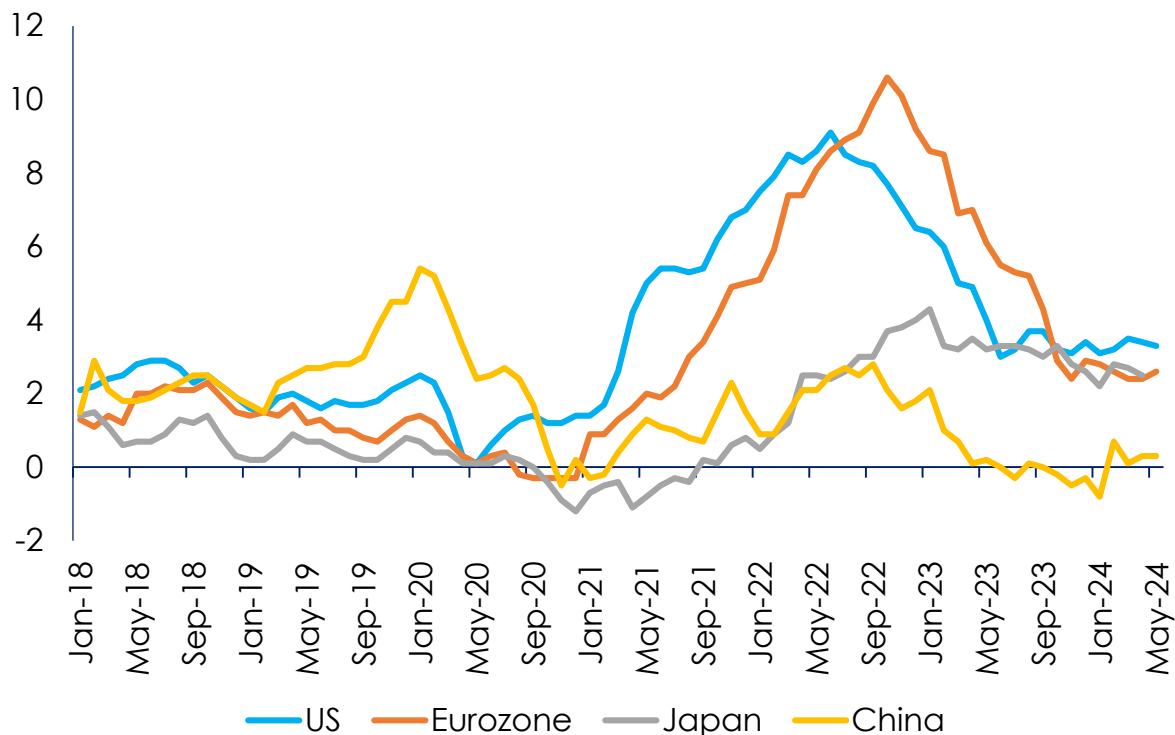
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GLOBAL ECONOMY

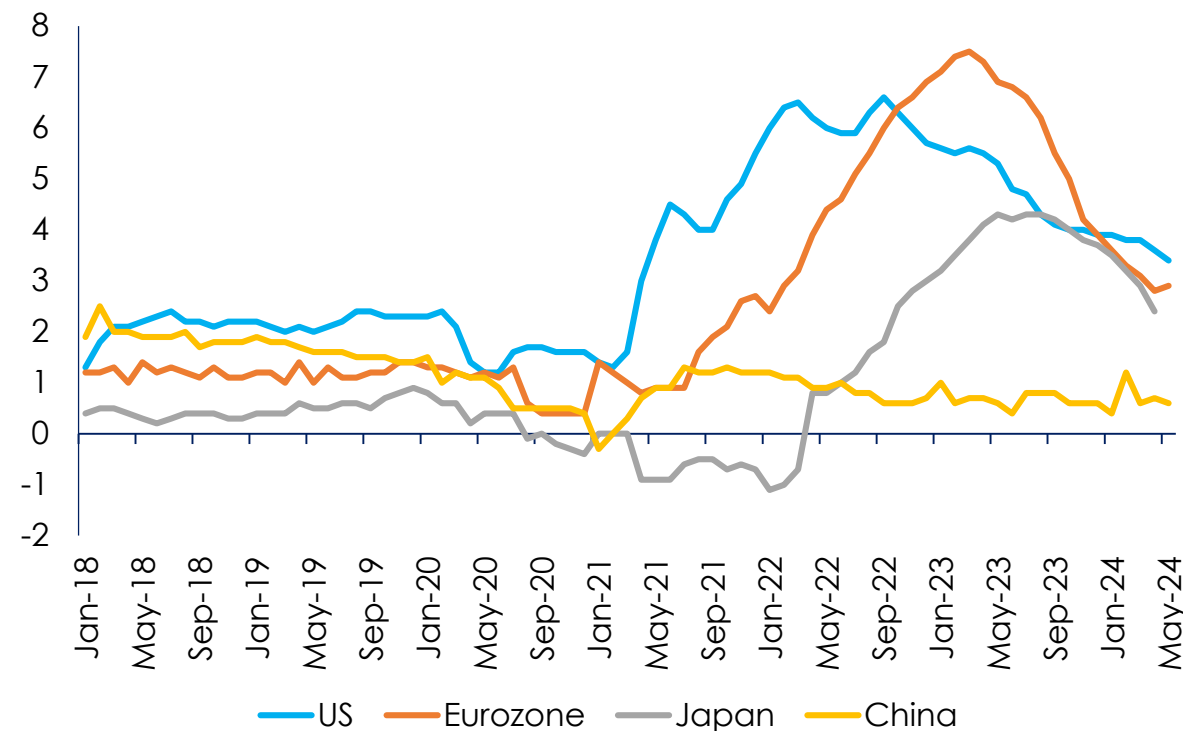


Global Inflation Cooling For Now

Inflation in Key Global Economies YoY%



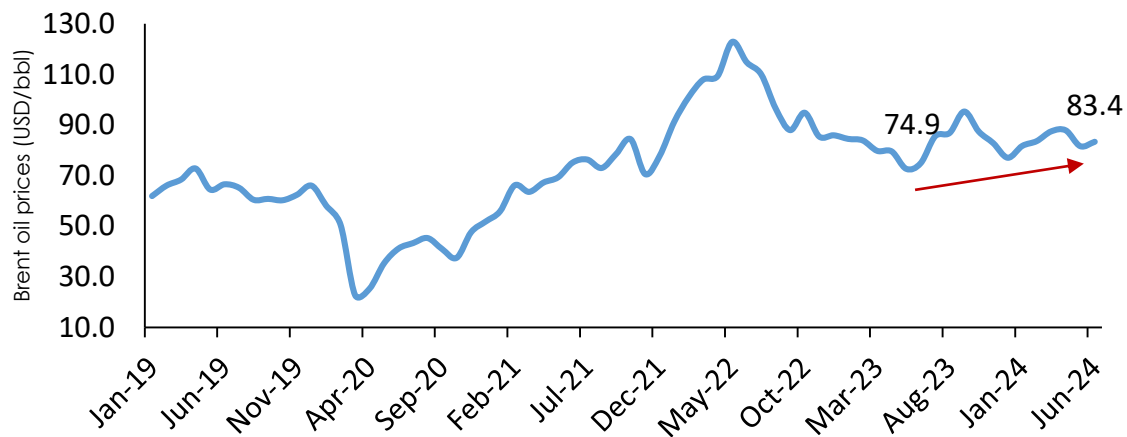
Key Global Economies- Core CPI YoY%



- In the US, incremental moderation in inflation has been slower than expectation, largely due to sticky shelter costs as well as some other core services like hospital and transportation.
- Eurozone on the other hand is witnessing a declining trend in CPI. In a major policy move the European Central Bank in June 2024 decided to cut policy interest rate by 25 bps after keeping rates stable since October 2023.
- In Japan, the CPI inflation has considerably moderated from the peak, however recent wage hikes in the country could lead to some uptick in inflation.
- On the other hand, inflation in China remains low amid subdued domestic demand.

Commodity Led Inflation Likely Underway

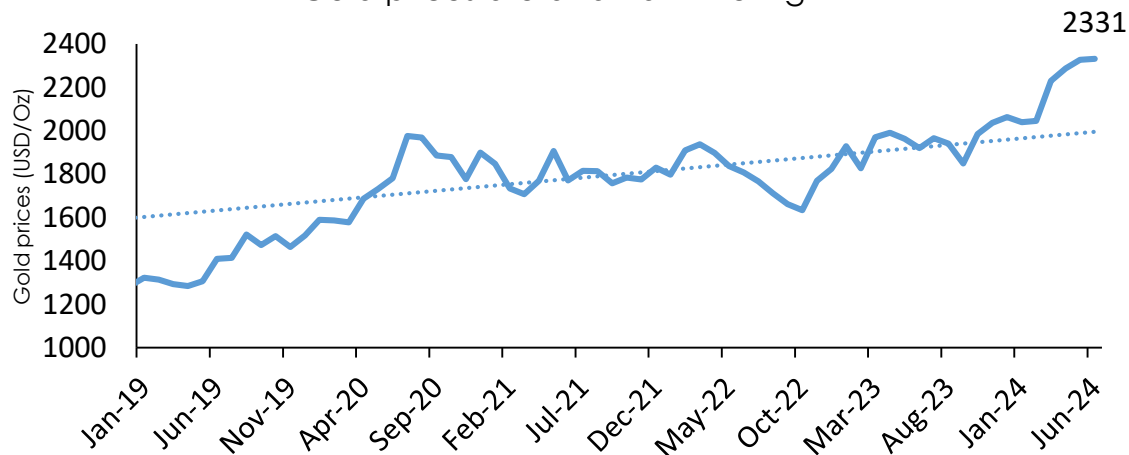
Brent oil prices remain substantially higher than an year ago



Copper prices accelerating amid global supply concerns along with growing demand



Gold prices are at an all time high

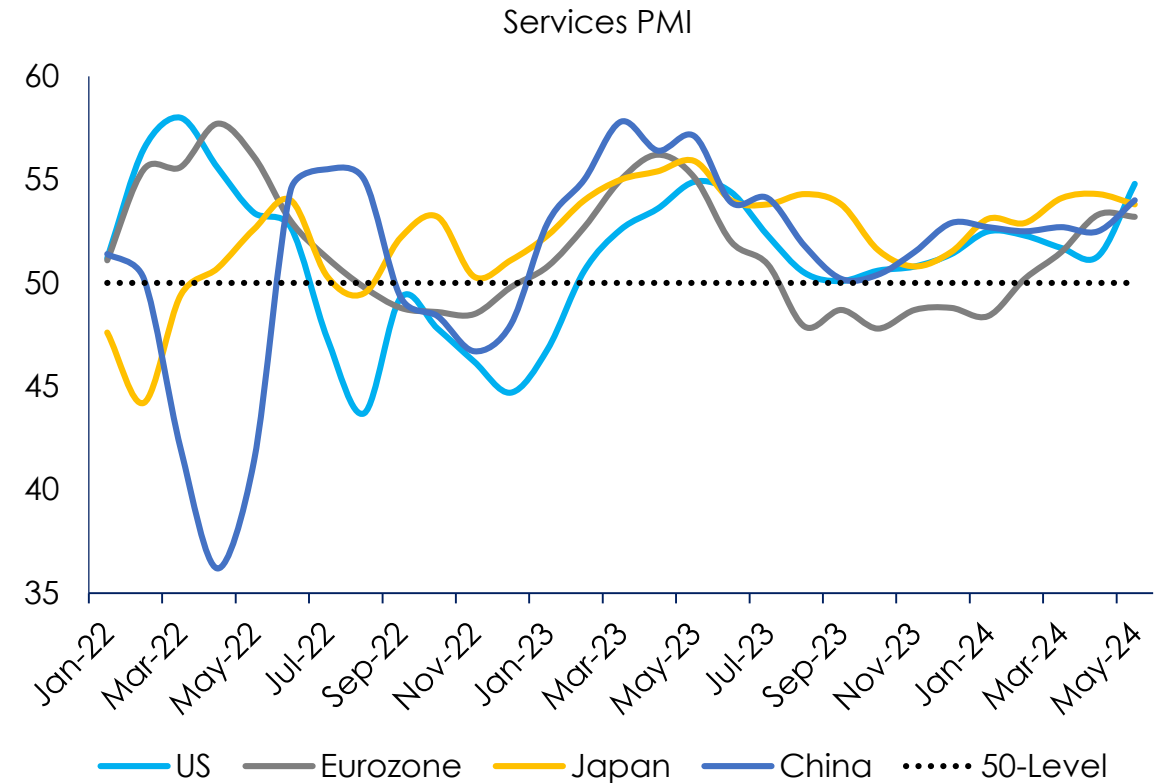
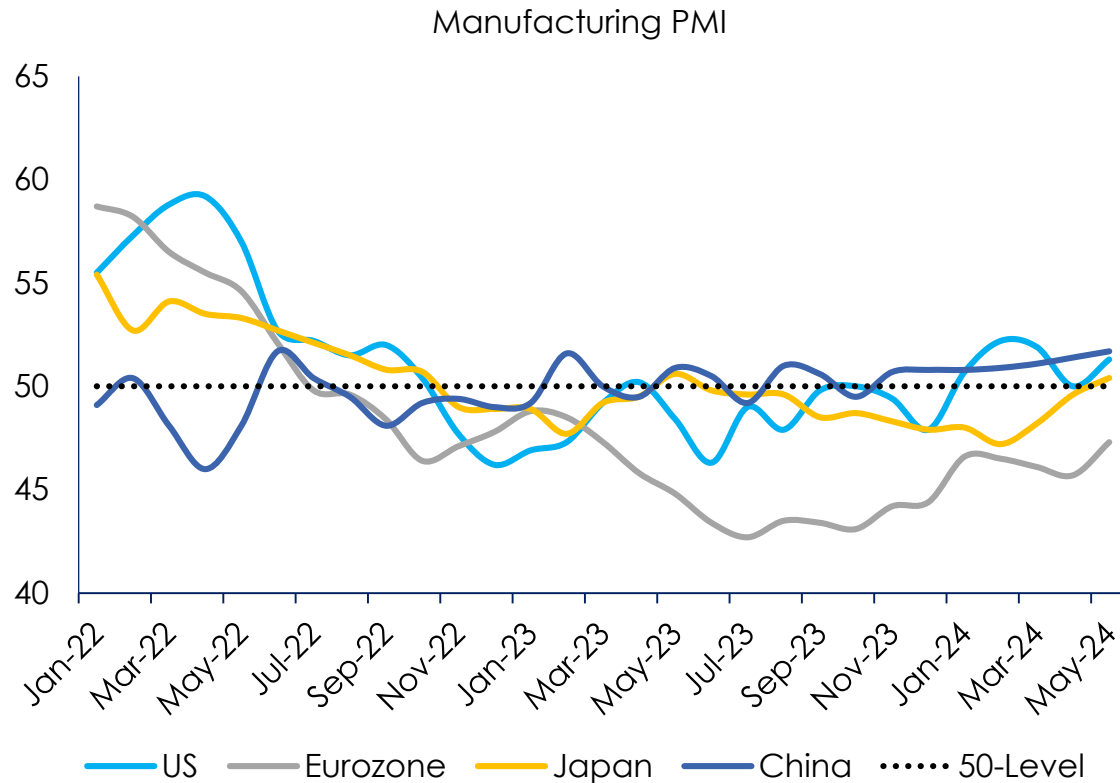


- Globally, key commodities are witnessing an uptrend.
- Persistent increase in global commodity prices could spur fresh inflationary concerns, thereby prompting Central Banks to keep interest rates **"higher for longer"**.
- In a major policy move, Eurozone and Canada decided to reduce interest rates in June 2024. However, further cuts could be stalled if commodity prices continue the up move.

Global Real Policy Rates

Real Policy Rates for Key Economies					
	Current	3 months ago	6 months ago	1 year ago	Comments
US	2.2	2	2.1	2.25	Real policy rate in the US have been closer to or higher than 2.0% level for an year now. Higher real policy rate for an extended period could dampen growth.
Eurozone	1.65	2.1	1.6	-1.5	Eurozone in a major policy move decided to reduce policy interest rate by 25 bps after keeping rates stable since October 2023. With this decision, real policy interest rate in Eurozone has moderated below 2.0% level.
Japan	-2.6	-2.6	-2.7	-3.4	Japan, in March 2024 ended the negative interest rate policy. Currently, the policy rate range is 0-0.1%. Japan could see further policy tightening if inflation keeps on increasing.
China	3.2	3.4	3.8	3.6	China has been witnessing extremely lower inflation and even deflation in some months due to depressed domestic demand. People's Bank of China has been supporting growth through easy monetary policy, either by reducing rates or by infusing liquidity into the system.
India	1.8	1.7	0.8	1.6	India currently has a tight monetary policy. In India, inflation has not seen a unilateral downtrend like US and Eurozone as domestic food inflation remains volatile. Further, growth in India remains resilient, giving RBI the needed space to analyse the evolving growth-inflation dynamics.

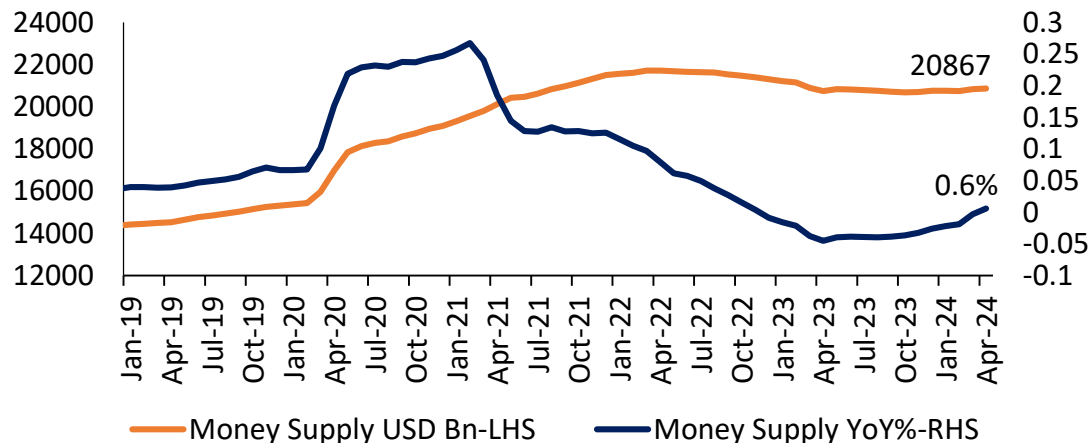
Global Growth Indicators Show Some Improvement



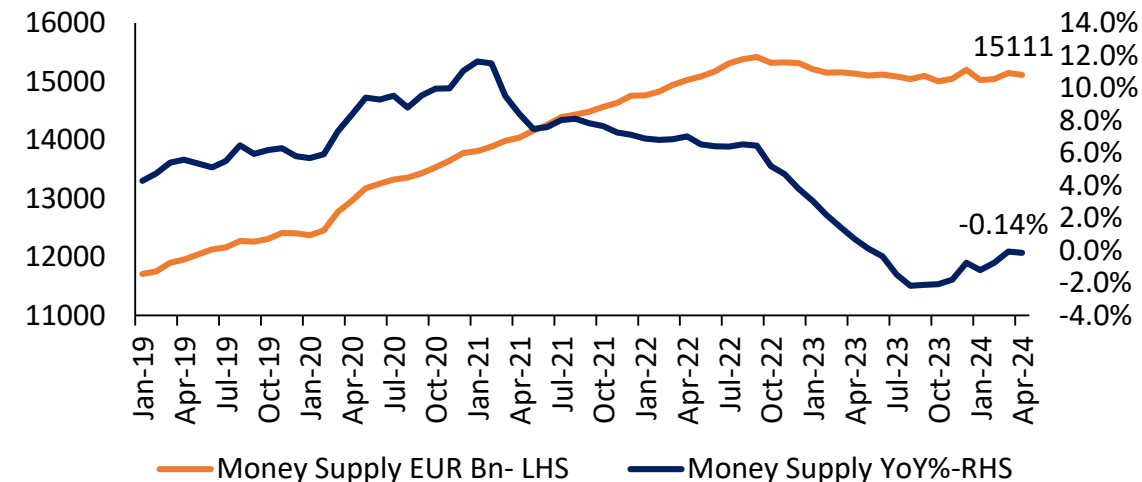
- Manufacturing Purchasing Manager's Index (PMI) indicates that the growth momentum has improved across the key global economies, although reading for Eurozone still remain below 50-level. On the other hand, Japan's manufacturing PMI reading in May 2024 was higher than 50 after being in contraction for the last twelve months.
- In services, PMI numbers show that the key global economies continue to observe decent growth.

US Witnesses Increase In Money Supply, Contraction Of Money Supply Slows In Eurozone

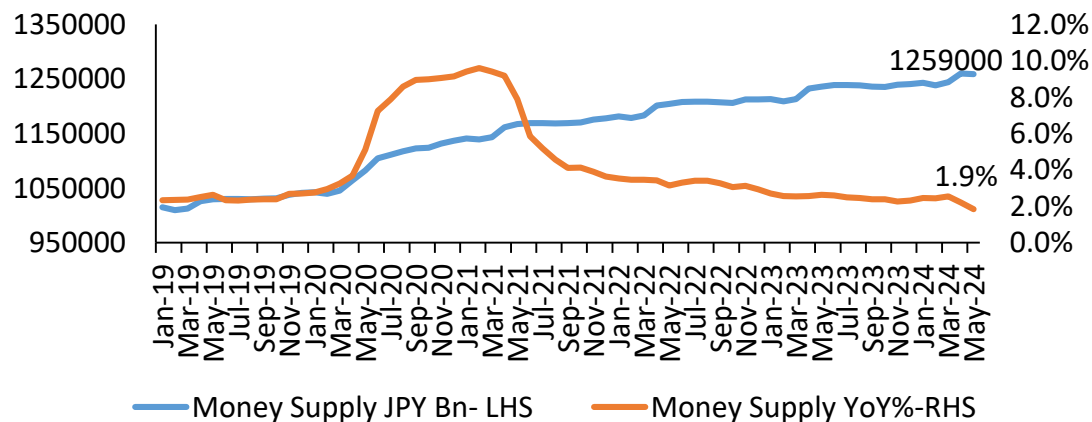
United States- Money supply increased after contracting for 16 straight months



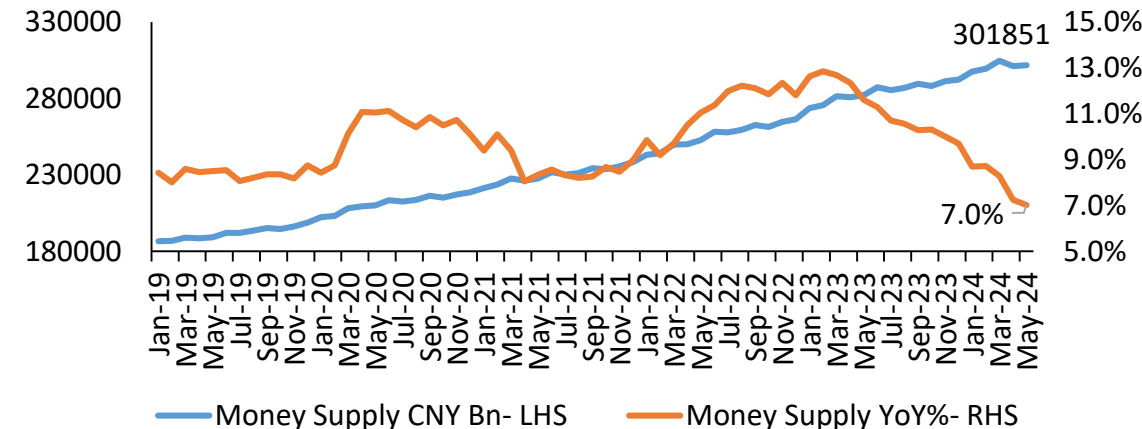
Eurozone- Contraction in money supply slows



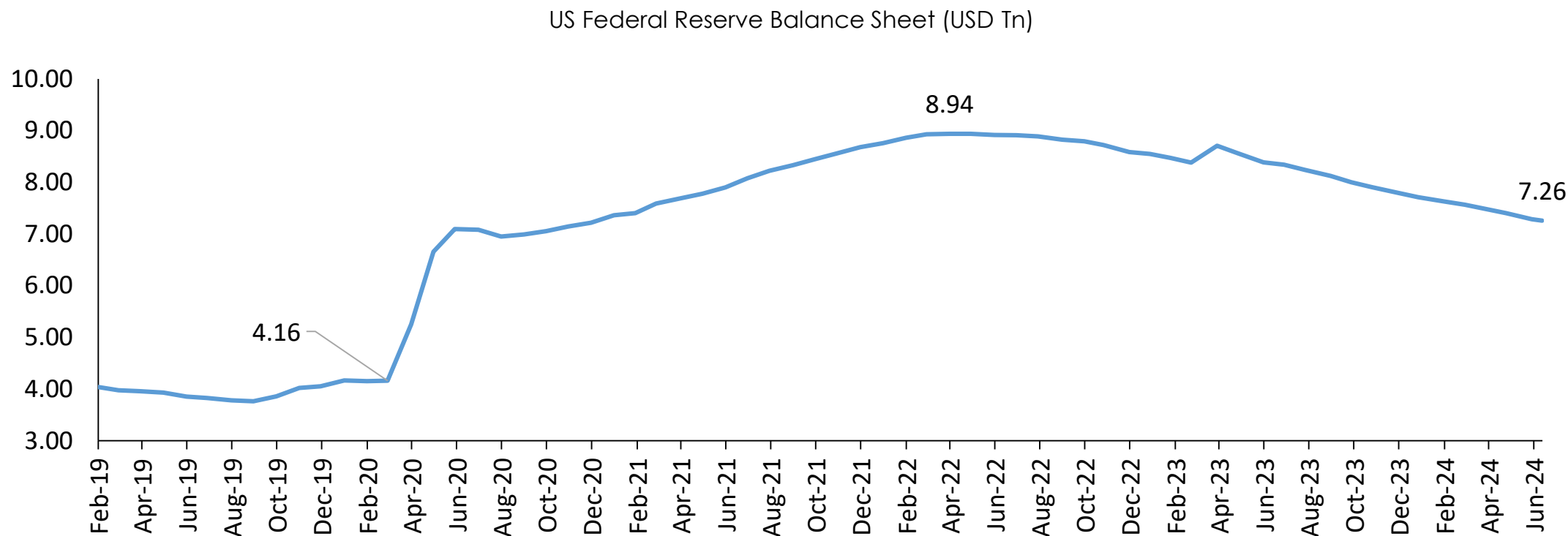
Japan: Money supply continues to expand, albeit at a slower pace



China: Money supply continues to expand, albeit at a slower pace

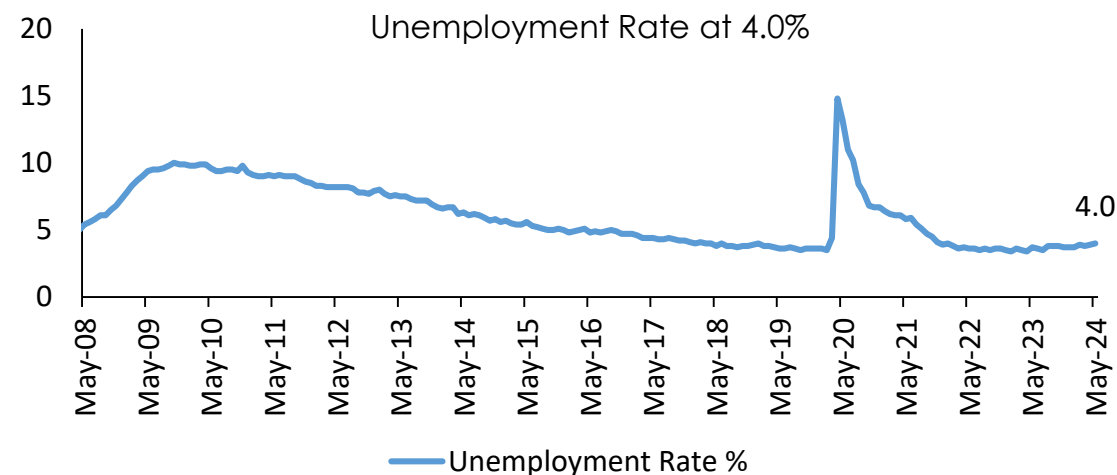
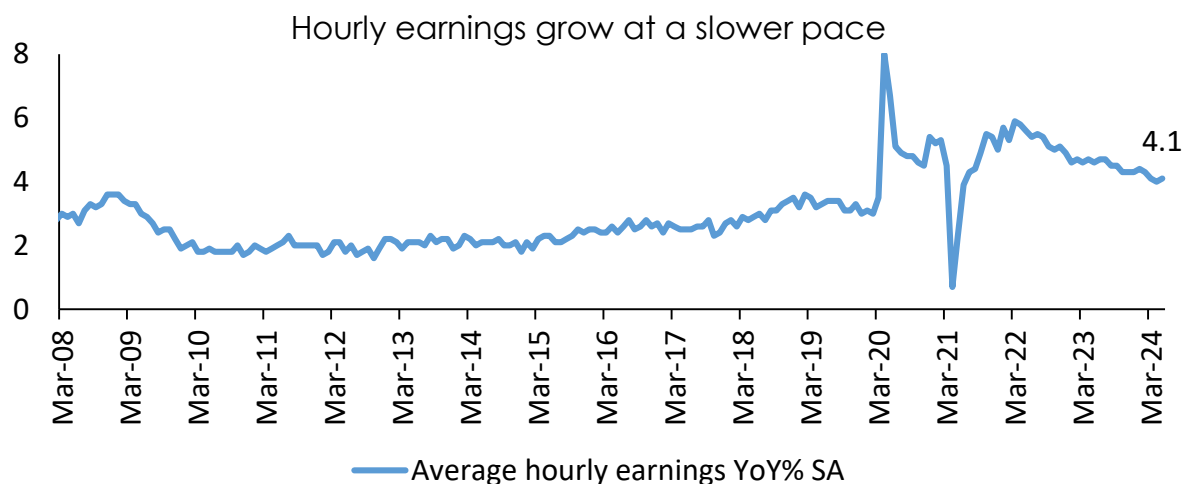
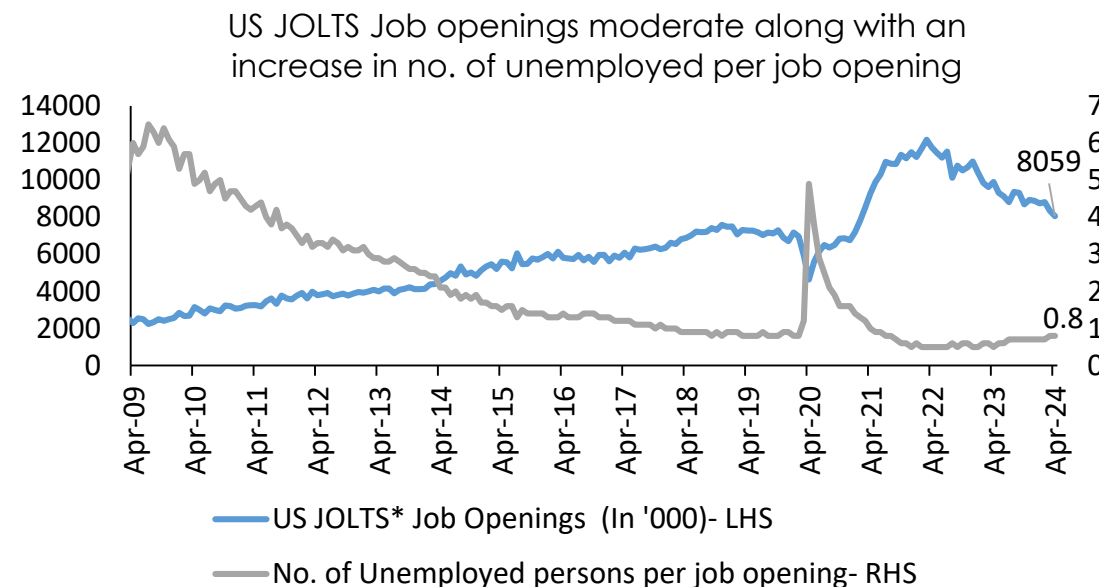
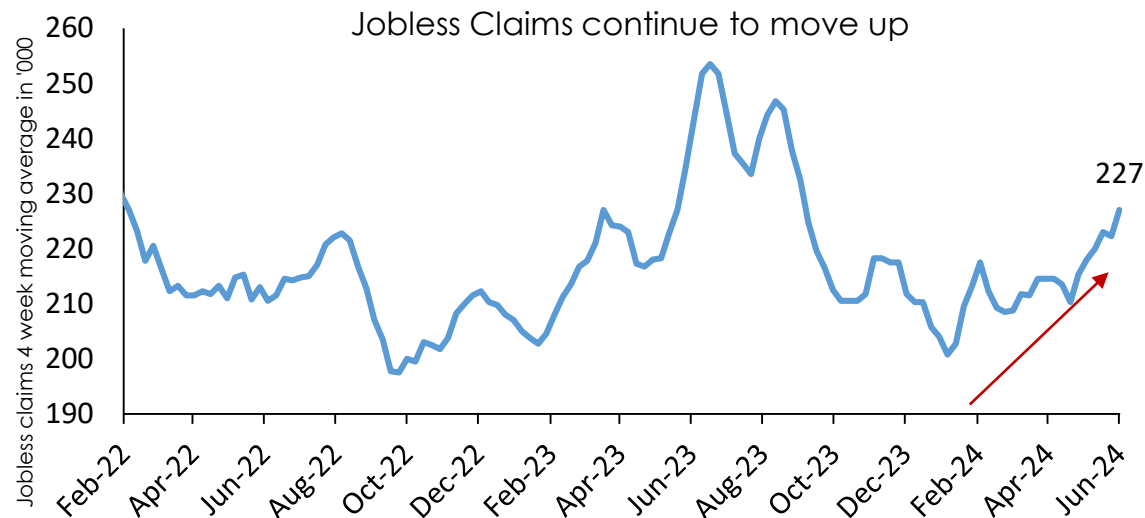


US Fed's Balance Sheet Continues To Shrink



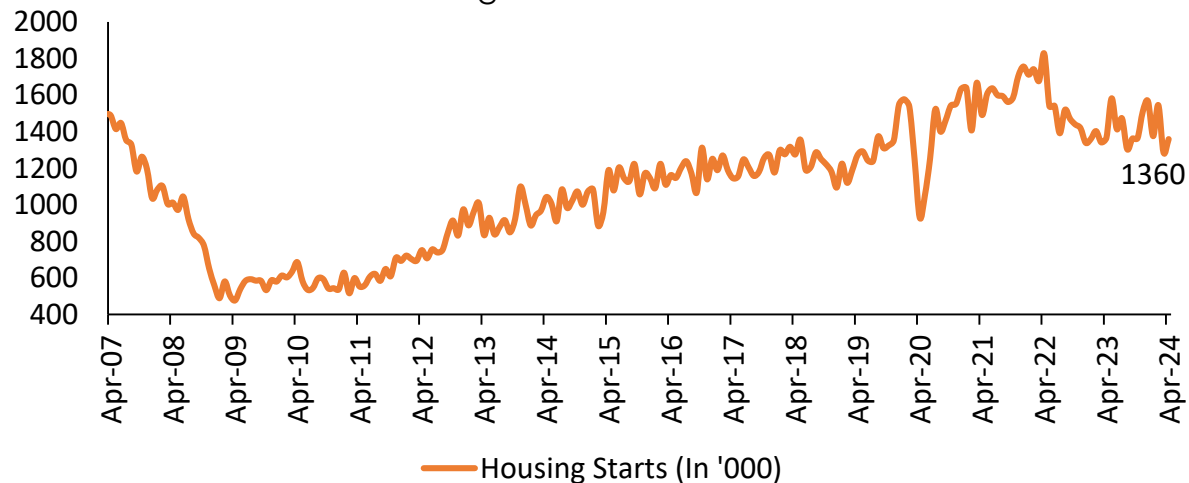
- In tandem with the contractionary monetary policy, the US Federal Reserve has been actively running down its balance sheet thereby draining excess liquidity from the system.
- US Federal Reserve (FED) balance sheet has shrunk by ~USD 1.7 Tn from the peak witnessed in April 2022, compared to an increase of USD 4.8 Tn during January 2020-April 2022.
- The US Federal Reserve in May 2024 policy decided to reduce the redemption cap for treasury securities from USD 60 billion to USD 25 billion, while keeping the redemption cap for agency debt/agency mortgage-backed securities unchanged at USD 35 billion.

Labour Market Showing Some Signs Of Moderation

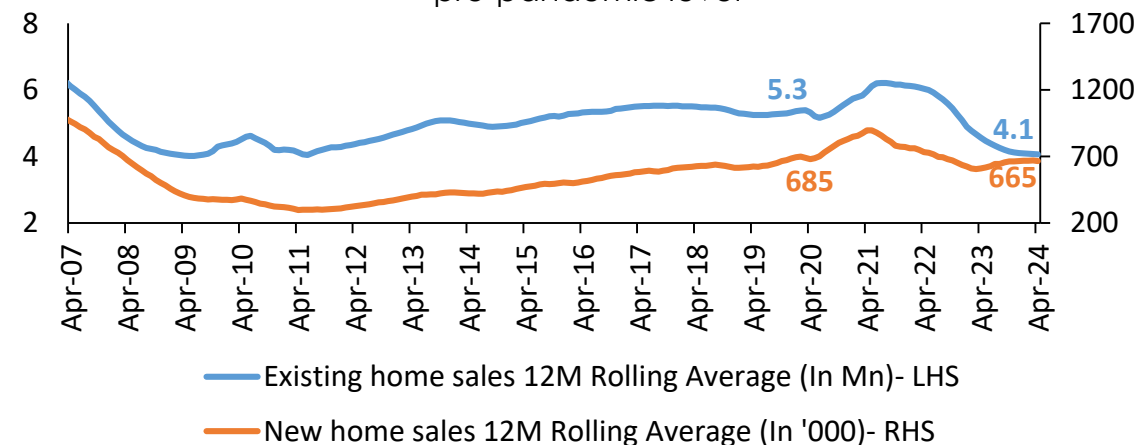


US Housing Markets Remain In Stress

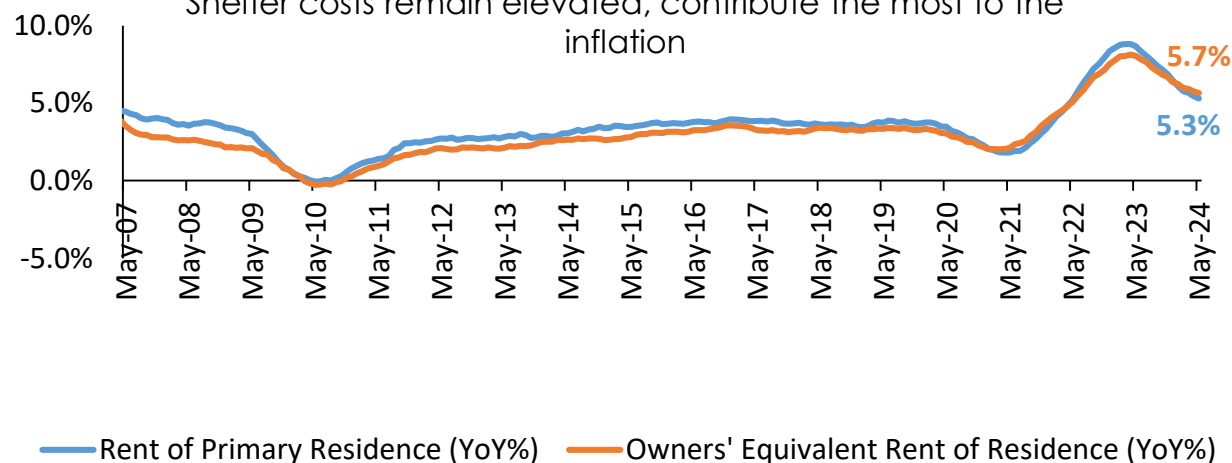
Housing starts continue to soften



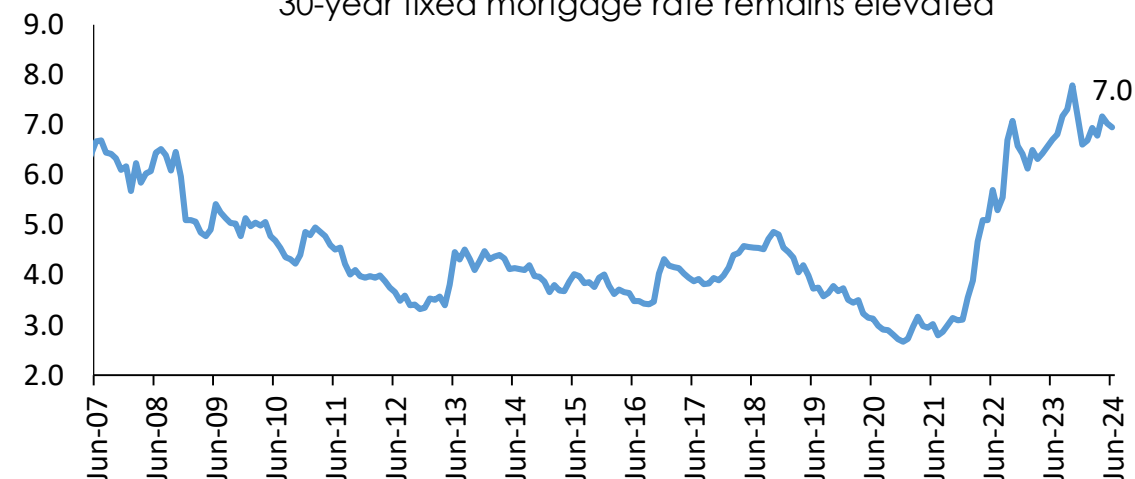
Slower momentum in home sales continues, sales below pre-pandemic level



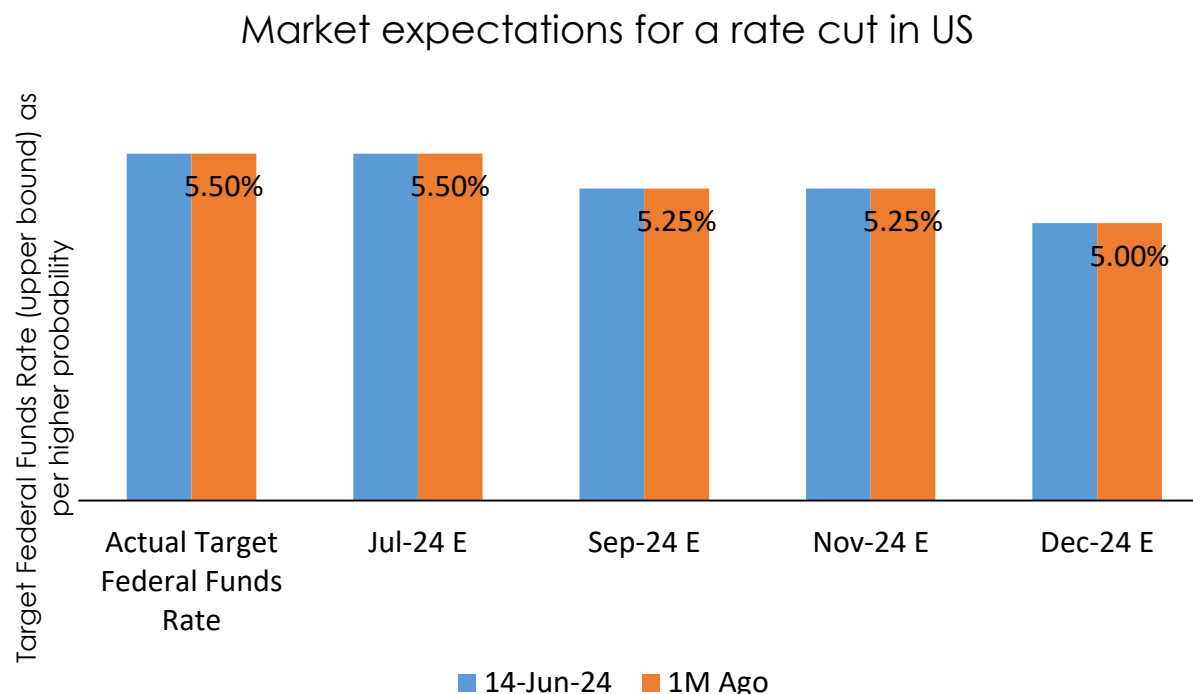
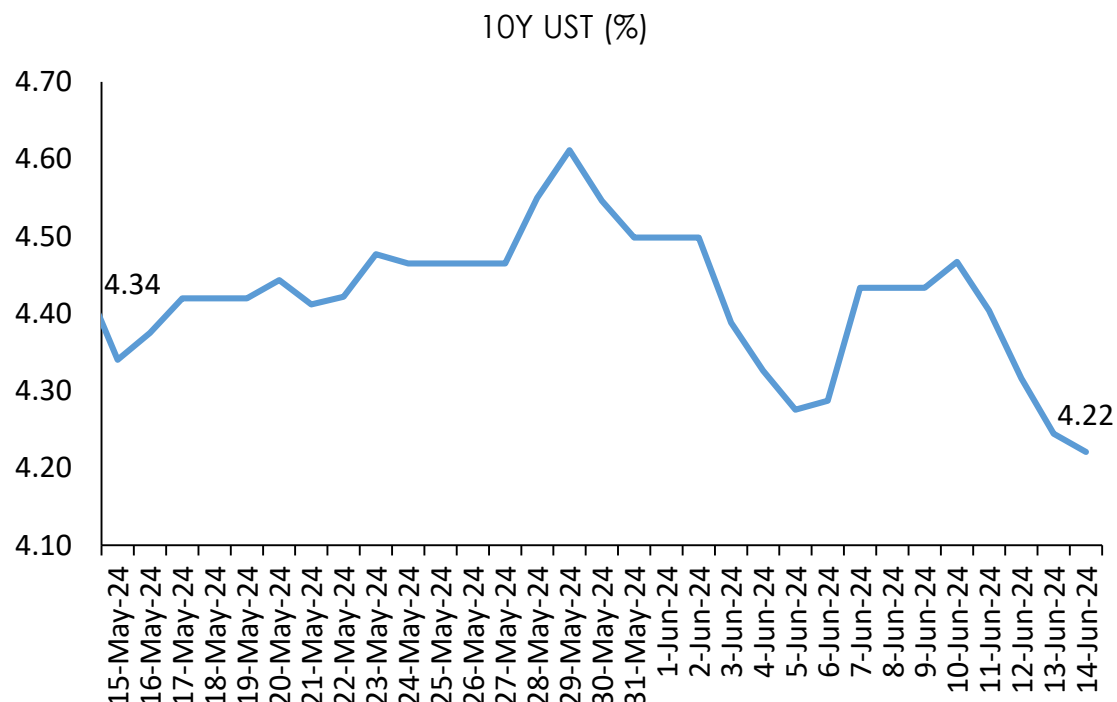
Shelter costs remain elevated, contribute the most to the inflation



30-year fixed mortgage rate remains elevated

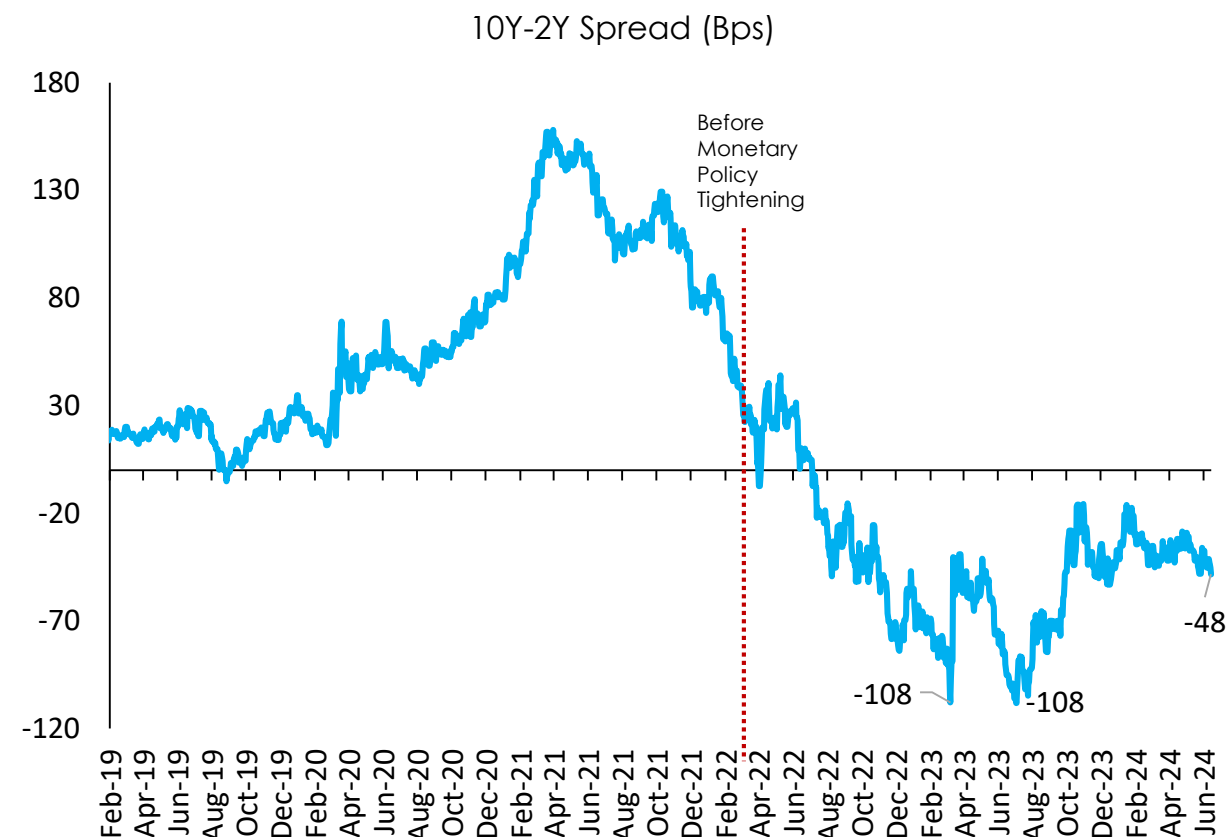
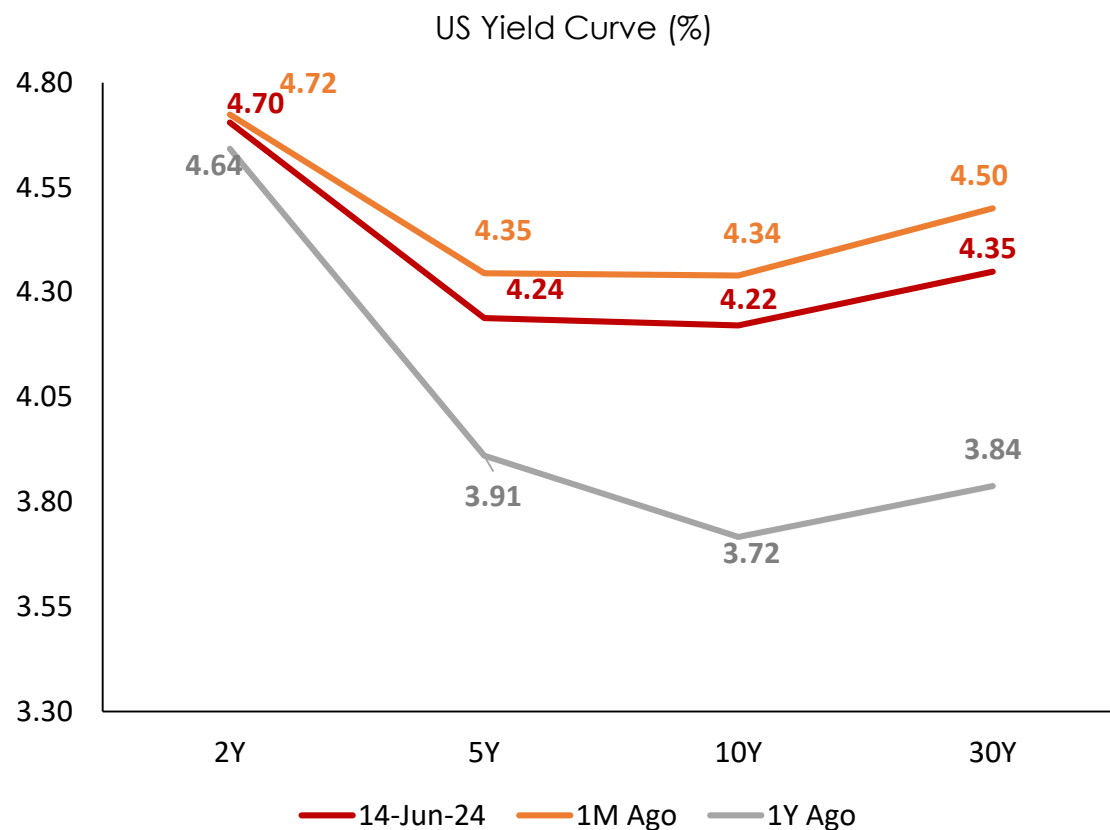


Markets Remain Optimistic About 50 Bps Rate Cut In 2024



- In June 2024 meeting, the US Federal Open Market Committee (FOMC) unanimously decided to maintain the federal funds target range at 5.25-5.50%.
- The US Federal Reserve remains concerned about the higher inflation prints and stands ready to keep the current level of interest rates for an extended period.
- The markets remain optimistic about two rate cuts of 25 bps each in 2024 (September 2024 & December 2024) despite US Federal Reserve factoring in only one rate cut of 25 bps in 2024.

Yield Curve Movement-US



- In June 2024, the US yield curve has shifted downwards as CPI inflation and labour market data for May 2024 pointed towards a better possibility for rate cuts in 2024.
- The spread between US 10Y-2Y still remains negative, though the negative spread has marginally increased from May 2024.

INDIAN ECONOMY

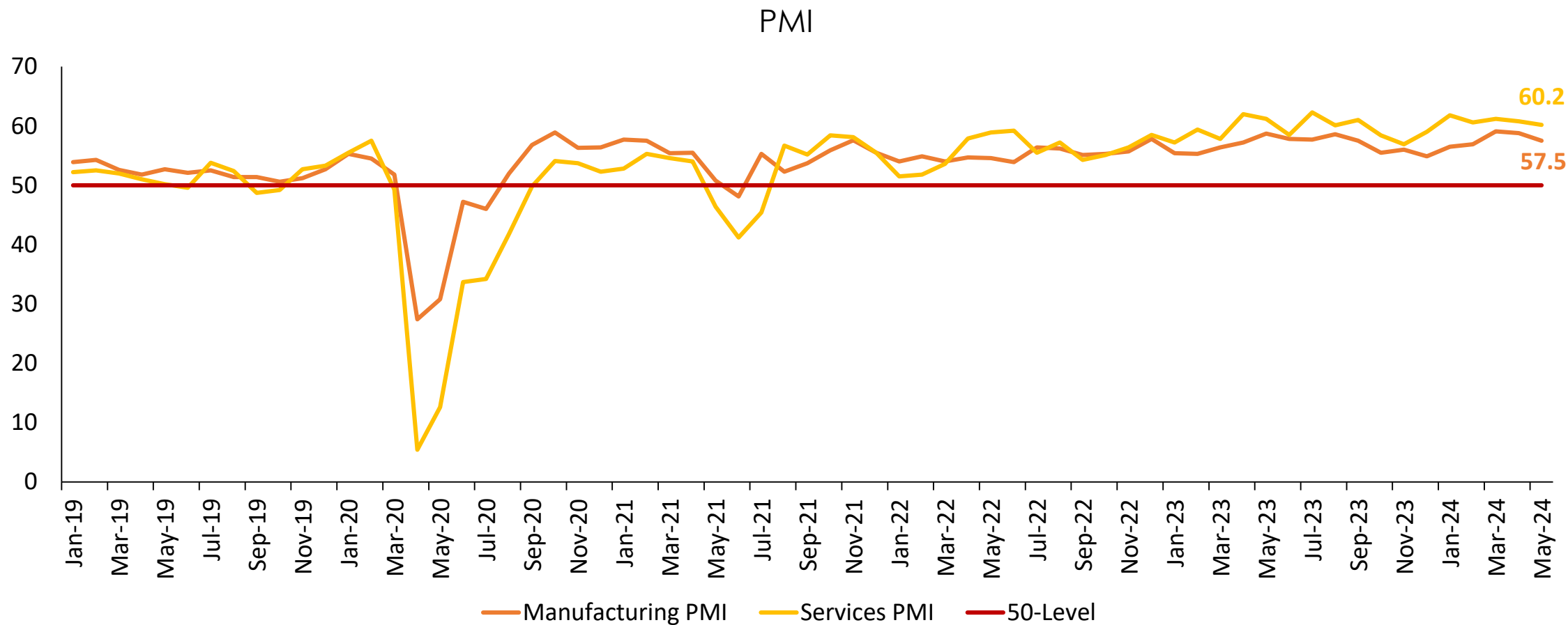


8-core Sector & Index Of Industrial Production Broadly Indicate Continued Strength

Eight Core Sectors YoY%														
Weights		30-Apr-23	31-May-23	30-Jun-23	31-Jul-23	31-Aug-23	30-Sep-23	31-Oct-23	30-Nov-23	31-Dec-23	31-Jan-24	29-Feb-24	31-Mar-24	30-Apr-24
100.00	Core industries	4.6	5.2	8.3	8.6	13.4	9.5	12.7	7.9	5.1	4.2	7.1	6.0	6.2
10.3	Coal	9.1	7.2	9.7	15.0	17.9	16.0	18.4	10.9	10.8	10.6	11.6	8.7	7.5
9.0	Crude oil	-3.6	-1.9	-0.7	2.1	2.2	-0.4	1.3	-0.4	-1.0	0.6	7.9	2.1	1.7
6.9	Natural gas	-2.8	-0.4	3.5	8.8	10.0	6.5	10.0	7.5	6.7	5.5	11.2	6.3	8.6
28.0	Refinery products	-1.5	2.8	4.5	3.5	9.6	5.5	4.3	12.4	4.1	-4.3	2.6	1.6	3.9
2.6	Fertilizers	23.5	9.7	3.5	3.3	1.8	4.2	5.3	3.3	5.9	-0.6	-9.5	-1.3	-0.8
17.9	Steel	16.6	11.9	21.3	14.9	16.4	14.8	13.6	9.7	8.3	9.2	9.1	6.5	7.1
5.4	Cement	12.4	16.0	9.9	6.9	19.7	4.7	17.0	-4.8	3.8	4.1	9.1	10.6	0.6
19.9	Electricity	-1.1	0.9	4.2	8.0	15.3	9.9	20.4	5.8	1.2	5.7	7.5	8.6	9.4

Index of Industrial Production-IIP YoY%														
Weights		30-Apr-23	31-May-23	30-Jun-23	31-Jul-23	31-Aug-23	30-Sep-23	31-Oct-23	30-Nov-23	31-Dec-23	31-Jan-24	29-Feb-24	31-Mar-24	30-Apr-24
		4.61	5.66	4.05	6.18	10.87	6.35	11.89	2.47	4.39	4.21	5.6	5.41	4.98
100.0	Sector-Based													
14.4	Mining	5.15	6.4	7.56	10.68	12.35	11.5	13.14	7.01	5.2	6.02	8.13	1.3	6.69
77.6	Manufacturing	5.47	6.32	3.51	5.26	9.98	5.13	10.58	1.31	4.62	3.64	4.87	5.76	3.89
8.0	Electricity	-1.13	0.85	4.22	7.99	15.26	9.87	20.38	5.76	1.23	5.63	7.53	8.62	10.24
100.0	Used based													
34.1	Primary Goods	1.94	3.59	5.31	7.67	12.36	8.02	11.36	8.45	4.76	2.94	5.93	3.03	7.03
8.2	Capital Goods	4.41	8.11	2.87	5.15	13.05	8.37	21.67	-1.11	3.7	3.24	1.05	6.59	3.14
17.2	Intermediate Goods	1.67	3.43	5.18	3.22	7.37	6.13	9.53	3.42	3.7	5.27	8.68	5.52	3.22
12.3	Construction	13.43	12.98	13.33	12.56	15.71	10.13	12.61	1.55	5.5	5.48	8.51	7.43	7.95
12.8	Consumer Durables	-2.35	1.49	-6.78	-3.62	6.02	0.97	15.93	-4.83	5.24	11.58	12.37	9.53	9.81
15.3	Consumer Non-Durables	11.38	8.95	0.55	8.33	9.93	2.66	9.29	-3.38	3.04	0.3	-3.49	5.29	-2.39

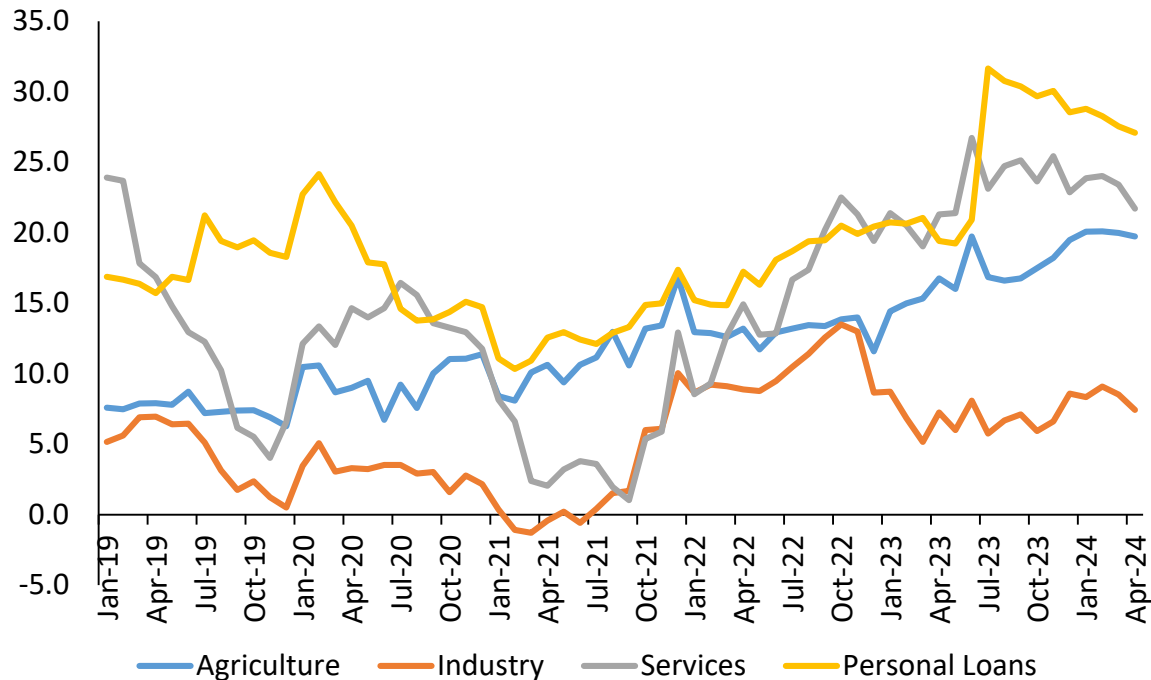
Purchasing Manager's Index Continues To Expand



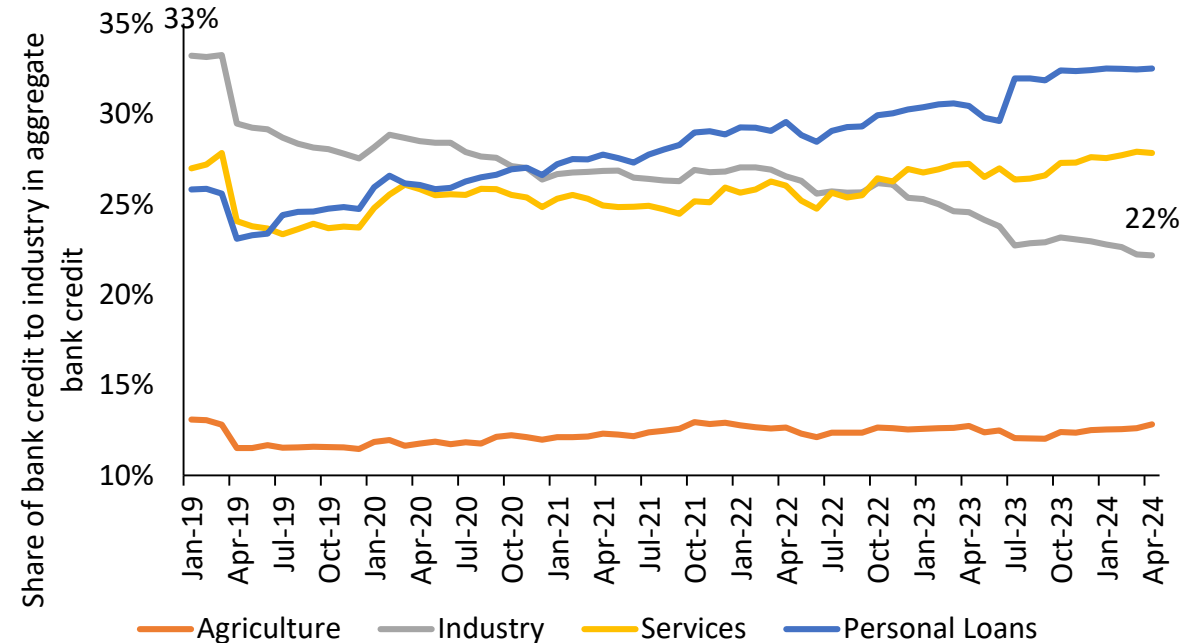
- Purchasing Manager's Index (PMI) is an economic indicator derived from the monthly survey of the private sector companies.
- In India, PMI has been consistently above the 50-level in both manufacturing and services sectors.

Sectoral Credit Deployment

Sectoral Bank Credit Growth YoY%



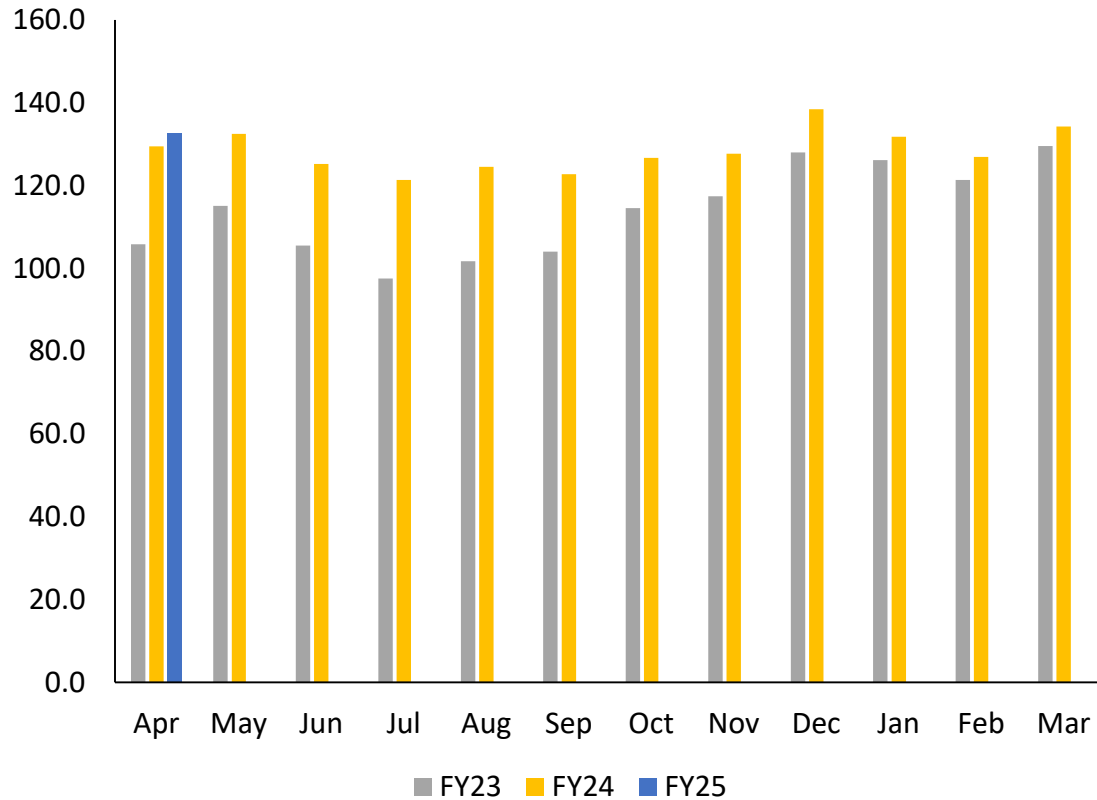
Share of industry continues to decline in aggregate bank credit



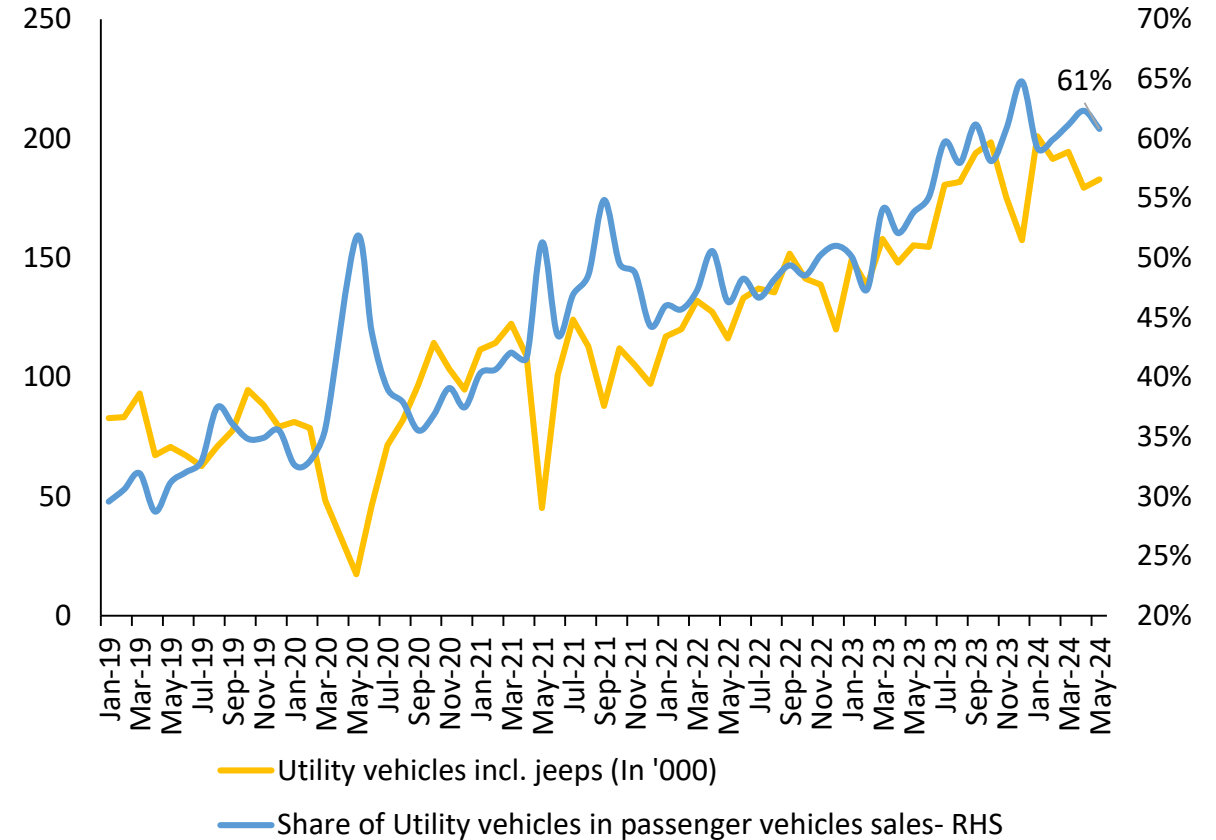
- Credit deployment remains strong despite aggressive rate hikes delivered by the RBI.
- Credit growth trend seems specifically promising in the services sector, although, bank credit to NBFCs has slowed following the recent policy changes by the RBI.
- Recent policy actions by RBI have also slowed growth in personal loans.
- As personal and services credit demand momentum cools off, there is headroom for credit to industry to grow.

Consumers Continue To Splurge On Travel And Premium Vehicles

Domestic Air Passenger Traffic (In Lakhs)



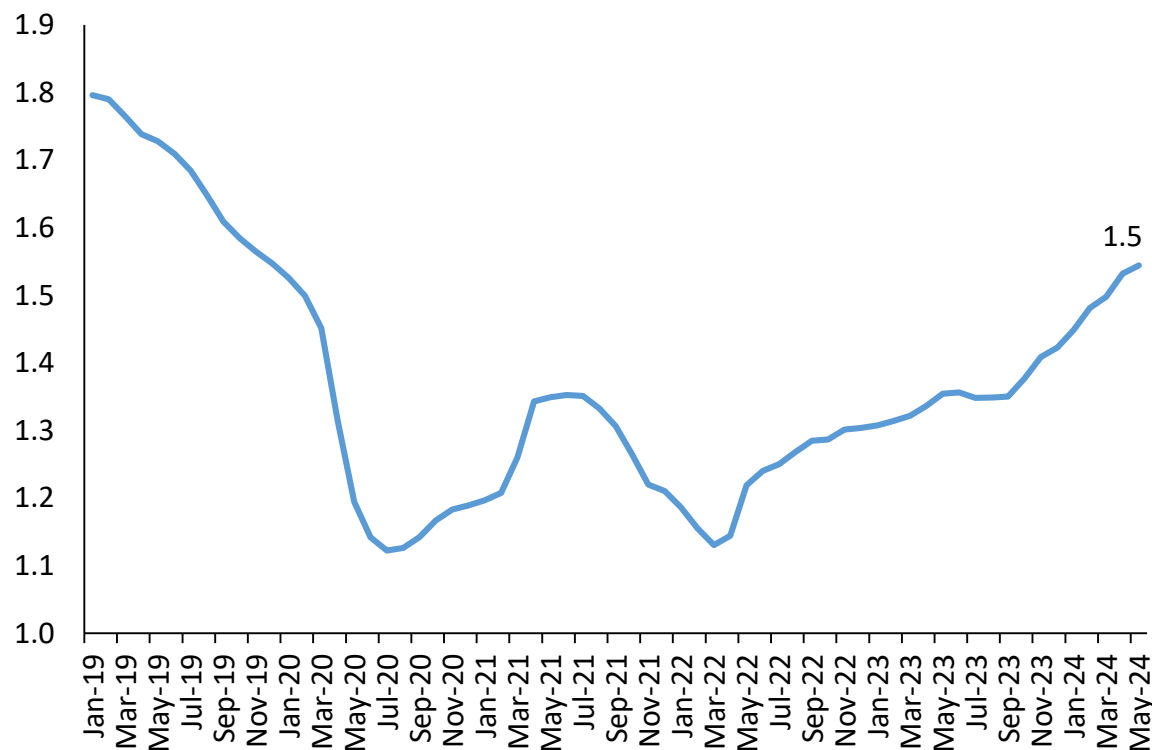
Sales of Utility Vehicles remain robust



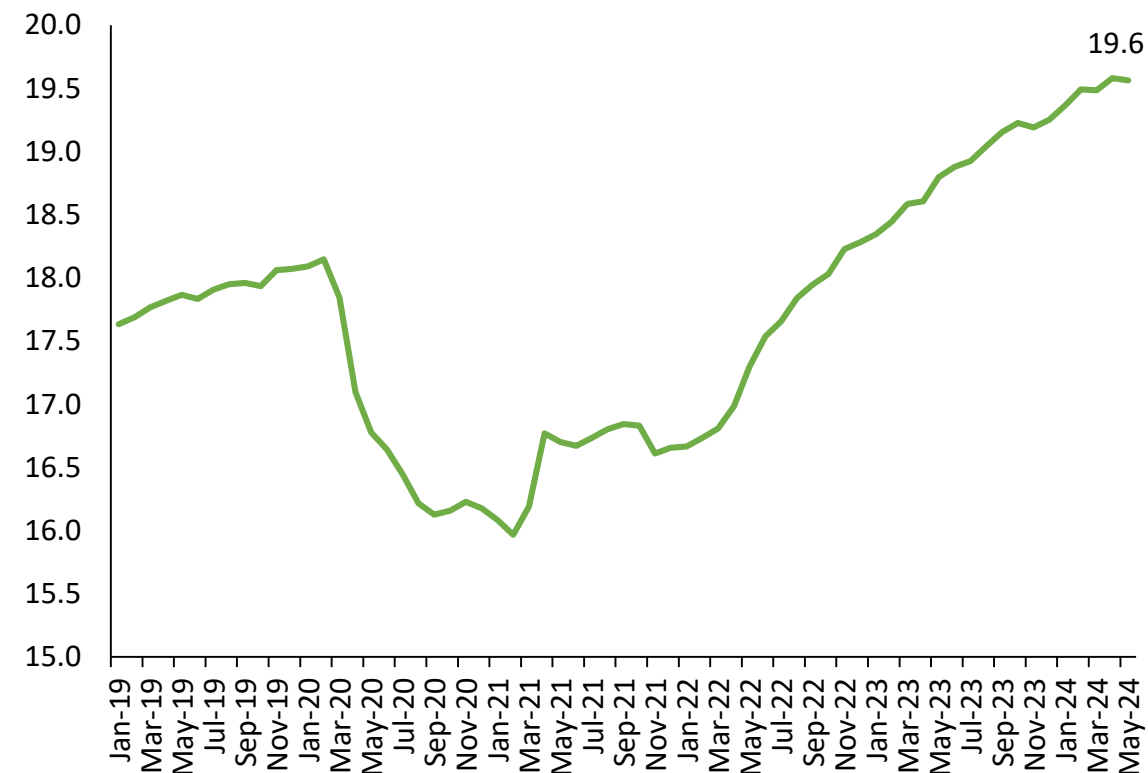
- Trend in domestic air passenger traffic indicates continued resilience.
- Sales of utility vehicles continue to grow, indicating shift in consumer preference towards premium products.

Domestic Sales Of Two Wheelers And Petroleum Products Remain Strong

Domestic Two-Wheeler Sales- 12M Rolling Average (Million)



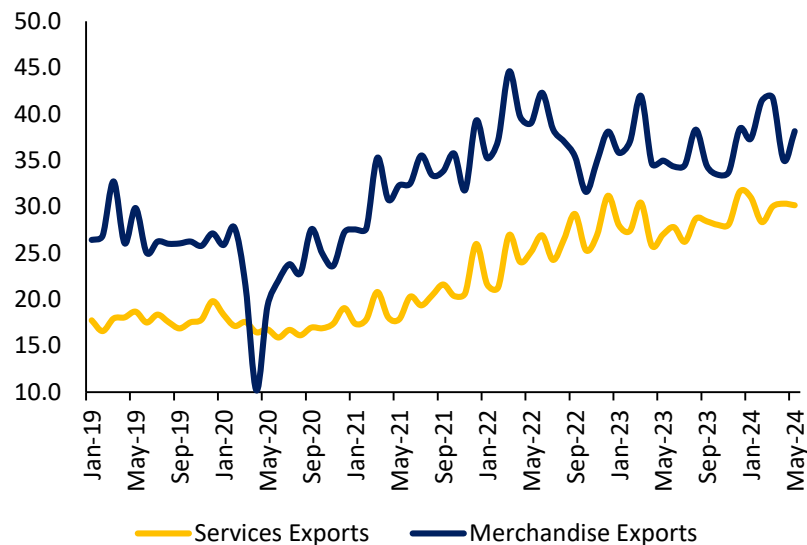
Sales of Petroleum Products -12M Rolling Average (Million Tonnes)



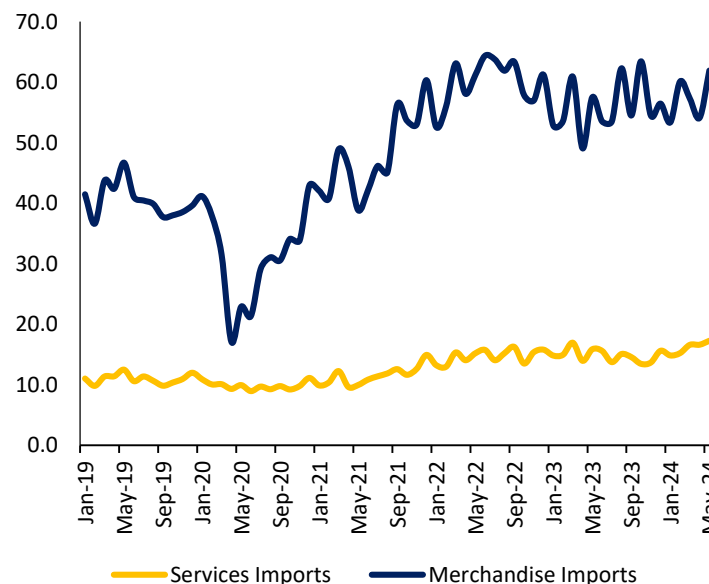
- Sales of petroleum products have been strong, indicating resilient demand and strong economic activity.
- Two-wheelers have seen a rebound in domestic sales in the recent months, and has been observing strong double-digit growth since October 2023.

Trade Deficit Remains Supported By Higher Services Exports

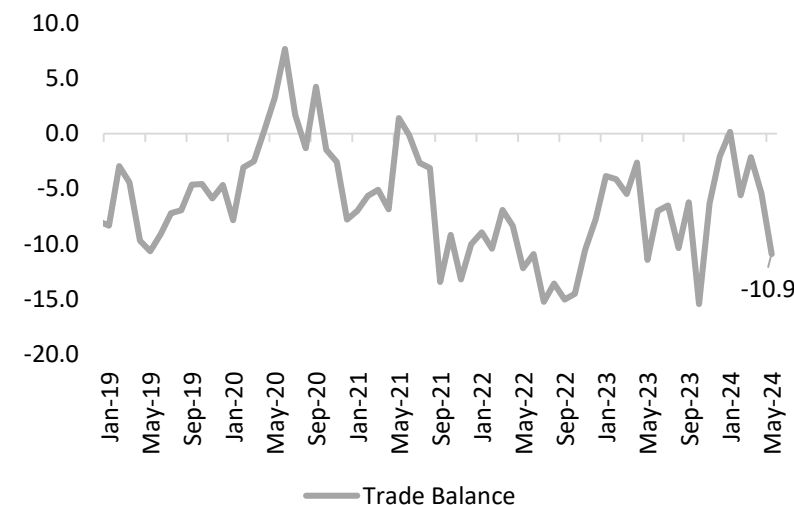
India's merchandise exports losing steam, services exports remain strong (USD Bn)



India's Imports remain resilient



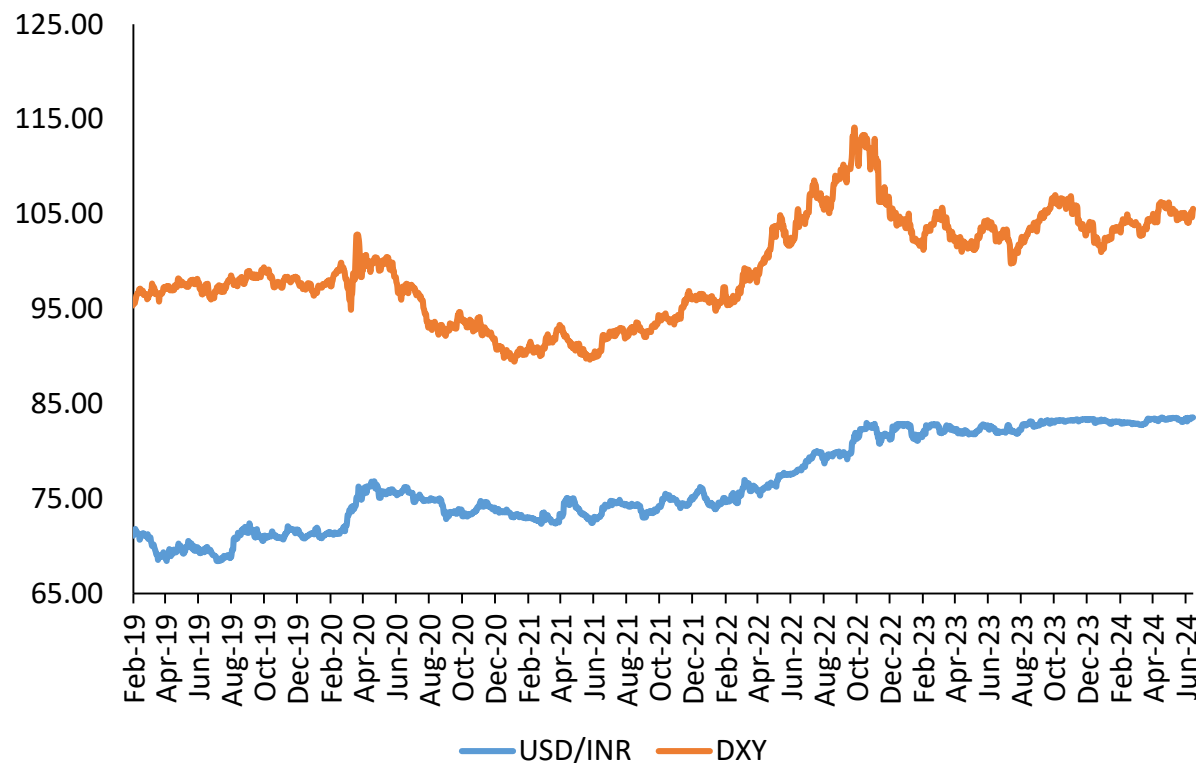
Trade deficit (merchandise+services) widens, highest deficit since October 2023



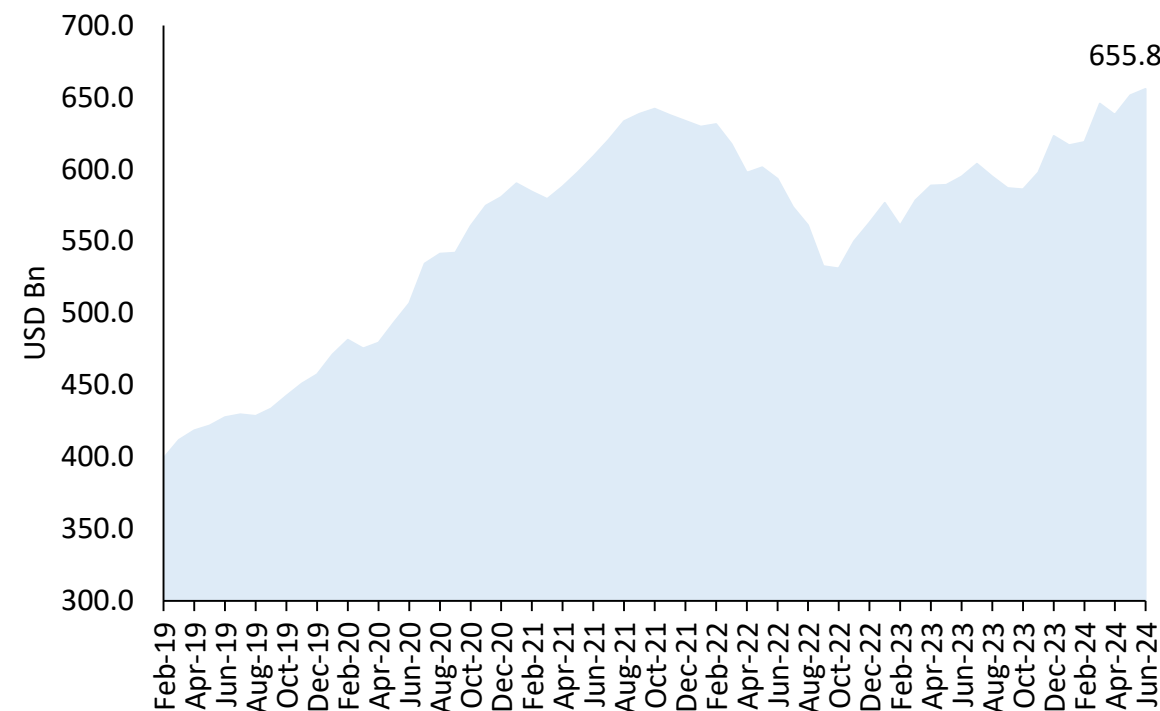
- India continues to witness strong services exports, while exports of merchandise exports continue to be volatile.
- Higher monthly increase in imports than exports led the merchandise trade deficit to widen in May 2024 to USD 23.8 Bn from USD 19.1 Bn in April 2024. Net services inflow stood at USD 12.9 Bn in May 2024, marginally lower than USD 13.7 Bn in April 2024.
- Overall trade deficit (merchandise + services) in May 2024 widened to USD 10.9 Bn from USD 5.4 Bn in April 2024.
- The gap between exports and imports could further squeeze with potential improvement in merchandise exports in the coming years.

INR Remains Stable, Higher FX Reserves Offer Comfort

USD/INR & DXY



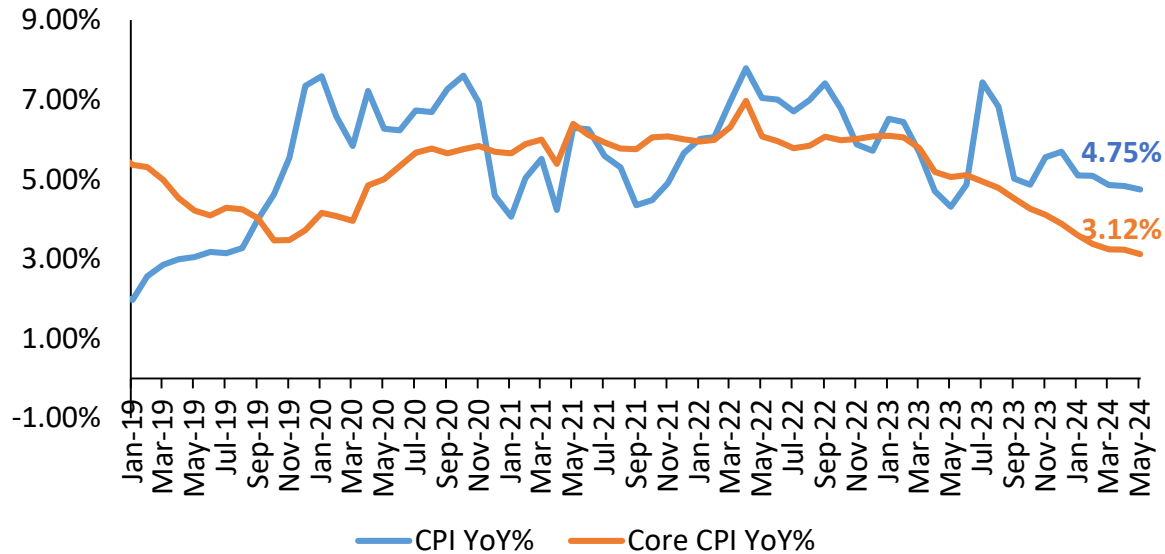
India's FX Reserves reached the highest level



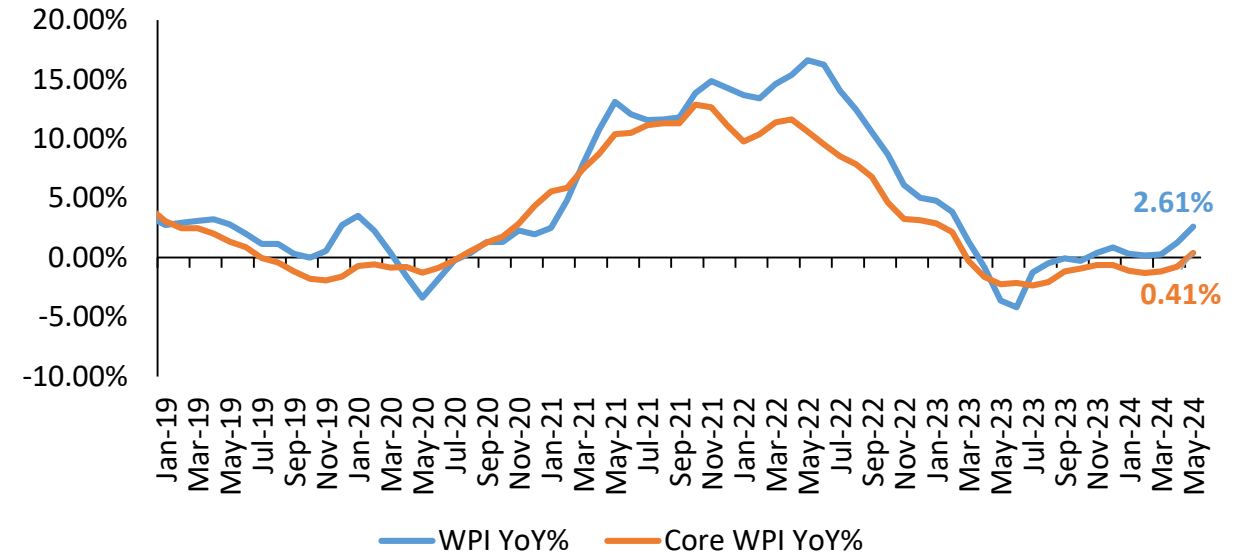
- INR remains relatively steady despite higher volatility in the USD.
- India's FX reserves reached the highest level of USD 655.8 on June 07, 2024.

Domestic Retail Inflation Is Volatile, Wholesale Prices Inching Up Gradually

Elevated food prices keep headline inflation higher than 4.0%

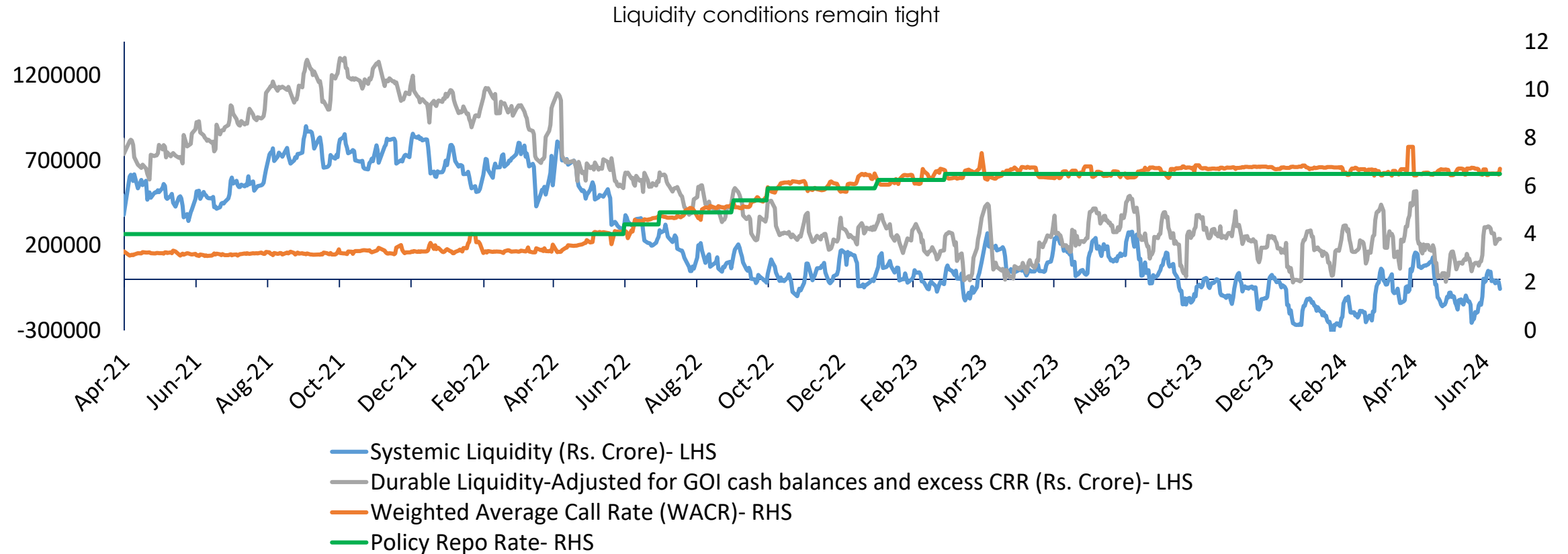


Headline wholesale inflation at 2.61%, core inflation highest since February 2023



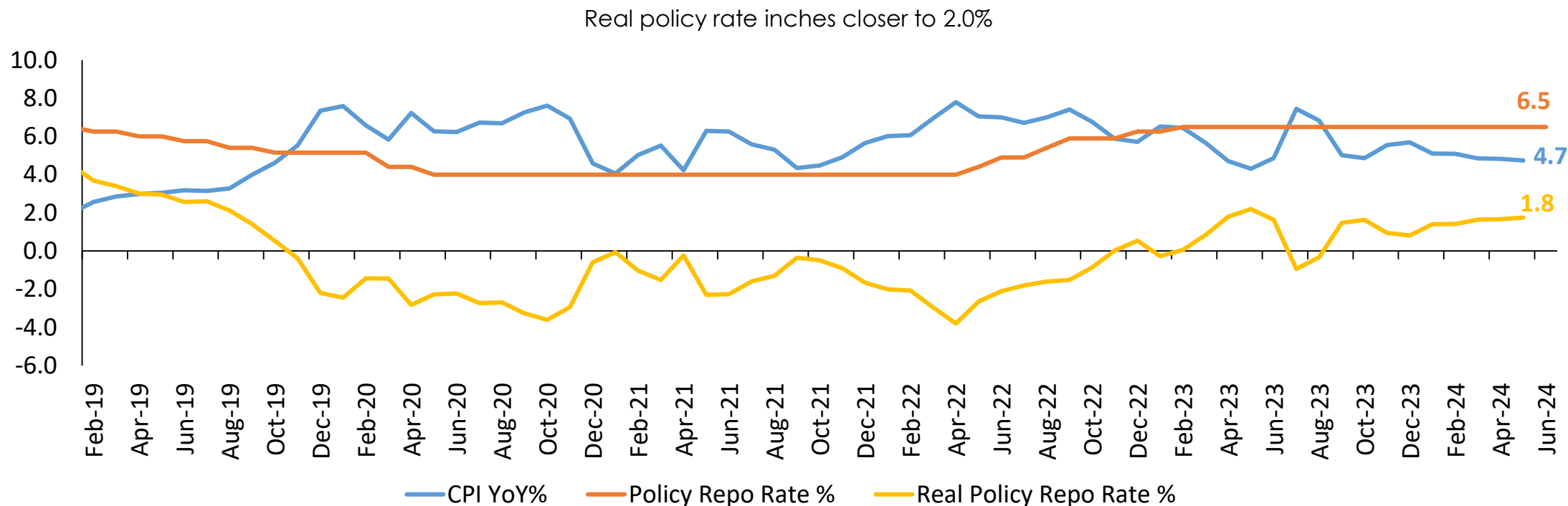
- Domestically, inflationary conditions have remained slightly uncertain in the past few months due to volatility in food items like pulses, vegetables, spices, cereals, etc.
- Continued supply-side measures are essential to curb any near-term spike in inflation especially in the food segment.
- Wholesale inflation on the other hand, was positive for the seventh consecutive month in May 2024, led by increase in prices of all three key segments. Manufactured products segment which has been observing deflation for the last fourteen months, noted an increase in prices in May 2024.
- Global commodities are observing upswing in prices which could likely keep wholesale inflation elevated in the coming months.

Systemic Liquidity Conditions Tighten



- The liquidity conditions have significantly tightened since the start of the rate hike cycle in 2022.
- Since September 2023, systemic liquidity has remained broadly in deficit, keeping the WACR broadly above the policy repo rate.
- Systemic liquidity after being comfortable towards the end of FY'24, has tightened due to lower spending by the Government along with outflows related to GST and advance tax.
- Adjusted for the government cash balances which are held by the RBI, the liquidity broadly remains in surplus.

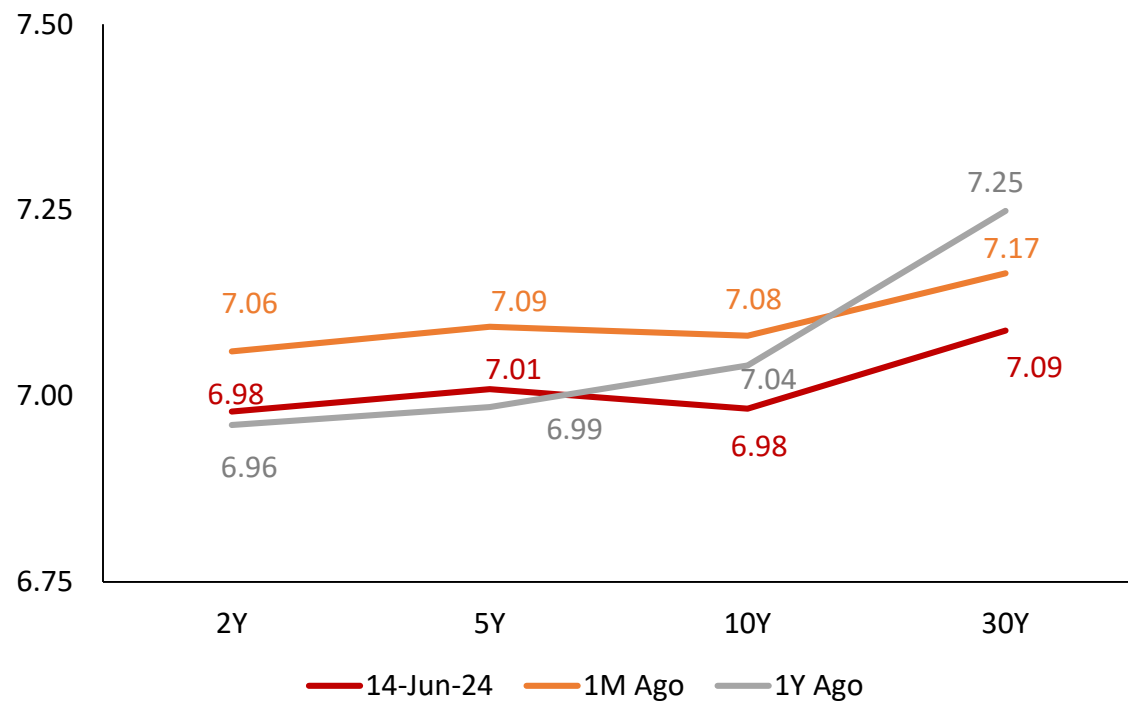
RBI-MPC Remains Concerned About Inflation



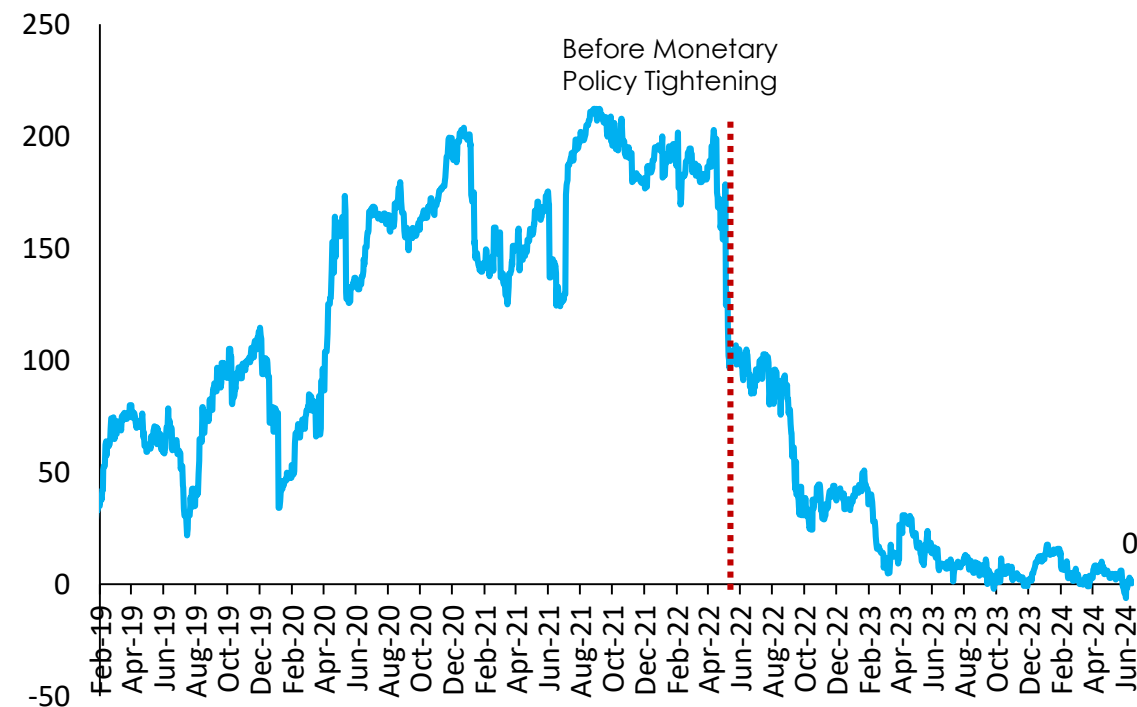
- In June 2024 monetary policy meeting, the Monetary Policy Committee (MPC) kept the policy rate unchanged at 6.50%.
- Domestic inflation has moderated significantly from the peak witnessed in 2022 due to elevated levels of interest rates, tighter liquidity conditions and supply-side measures. However, it continues to be higher than the RBI's target.
- Going forward, upside risks to domestic inflation remains primarily from the food basket. Also, recent volatility in the global commodity prices could also add to inflationary pressures.
- RBI remains wary about reducing the policy rate too soon, with a clear focus to bring inflation closer to the target of 4.0%.

Yield Curve Movement- India

India Yield Curve



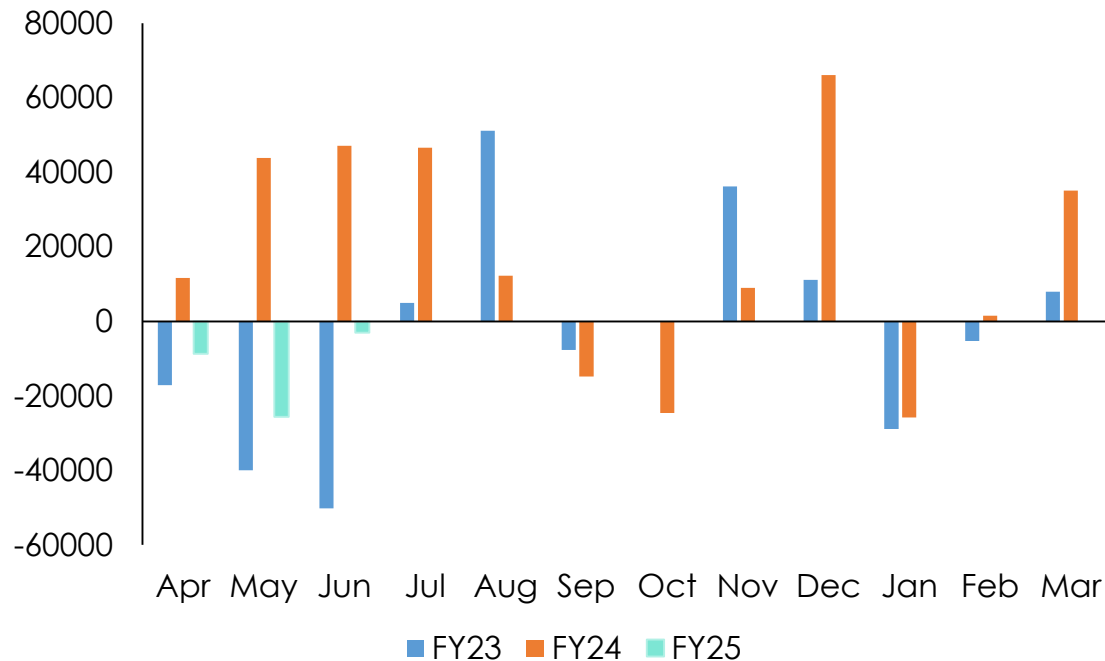
10Y-2Y Spread (Bps)



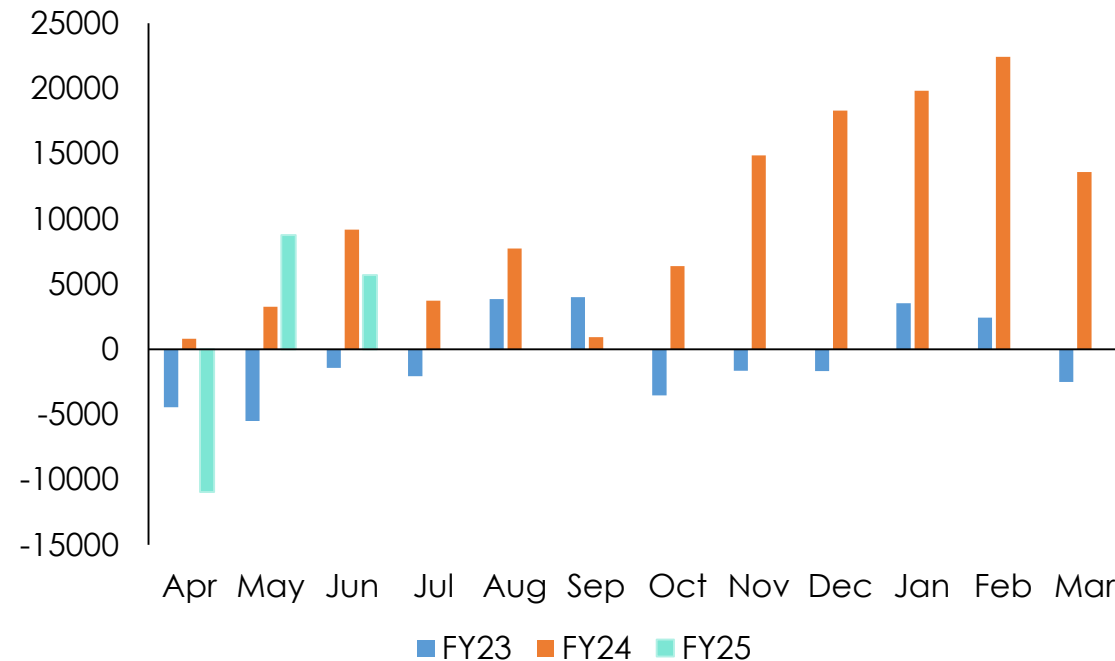
- So far in June 2024, yields across the curve have softened, tracking movement in US treasury yields and also due to favourable domestic demand-supply dynamics.
- 10Y-2Y and 30Y-2Y spreads stood at 0 bps and 11 bps, respectively on June 14, 2024, only marginally changed from a month ago levels.

FIIs Pull Out Money From Equity Markets, Inflows Sustain In Debt Markets

Buying/Selling in Equity Markets (Rs. Crore)



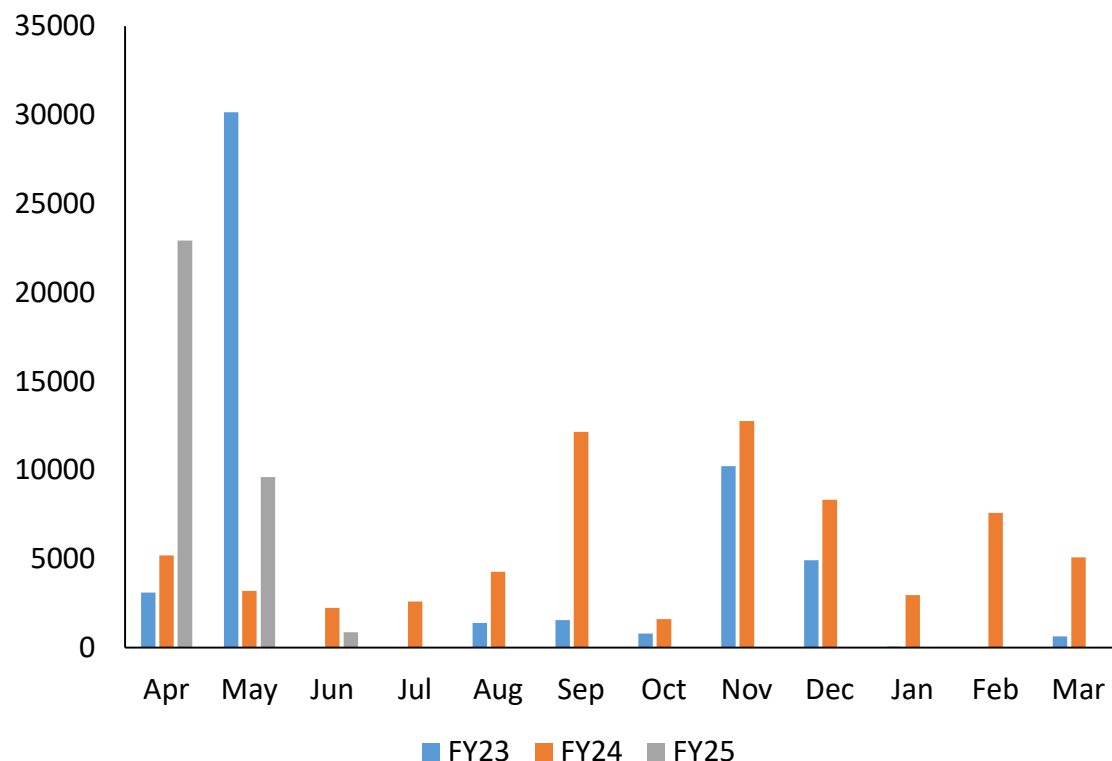
FII- Buying/Selling in Debt Markets (Rs. Crore)



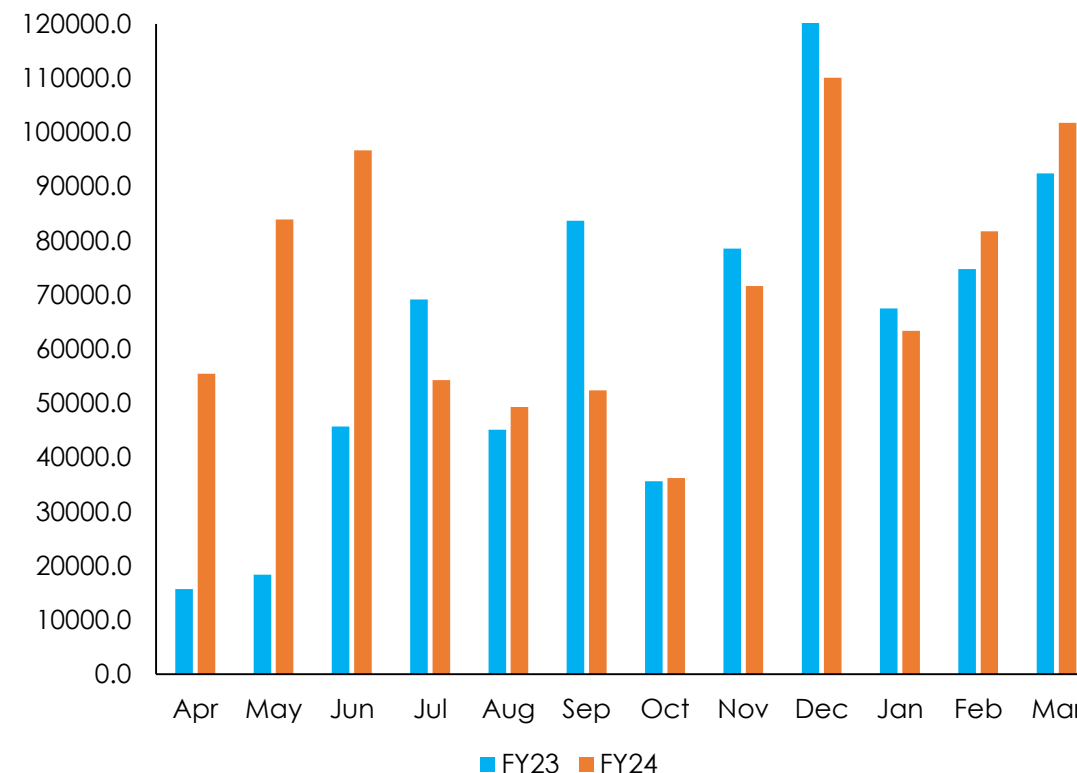
- In the first three months of the current financial year, FIIs have been net sellers in the equity market as the domestic markets remain volatile.
- On the other hand, debt markets after seeing outflows in April 2024, have been observing FII inflows supported by favourable triggers for the domestic bond market.

IPOs/FPOs Rise, Corporate Debt Issuances Also Strong

IPO/FPO (Rs. Crore)



Corporate Debt Issuances remain strong (Rs. Crore)



- IPO/FPO momentum continues in FY'25, with companies raising Rs. 32,531 Crore during April-May 2024, 288% higher than April-May 2023.
- Corporate debt issuances in FY'24 stood at Rs. 8.6 Lakh Crore, higher than Rs. 7.6 Lakh Crore in the previous financial year.

- Globally, inflation readings have been broadly softening, although upside risks to inflation persist due to geo-political tensions and recent price volatility in global commodities like gold, copper, Brent oil and silver.
- Timing of when the US Federal Reserve would embark on a rate cut cycle remains uncertain as the inflation readings still remain higher than the target of 2.0%. However, incremental softening of labour market data could prompt the US Federal Reserve to embark on a rate cut cycle.
- Eurozone in a major policy move decided to cut policy interest rate by 25 bps, despite inflation being higher than the target of 2.0%. Going forward, further rate cut decisions would be guided by the inflation trajectory, which could potentially surprise on the upside due to recent surge in global commodity prices.
- China's economy continues to be under stress, however the Central Bank and the Government remain focussed on announcing measures to support growth. Thus, People's Bank of China is expected to maintain easy monetary policy for an extended period.
- In a major policy shift, Bank of Japan (BoJ) ended negative interest rate policy and moved away from the yield curve control. Future policy tightening might be required if inflation sees further increases.
- India's economy continues to witness strong growth momentum led by higher investments. While the Central Government has done the heavy lifting so far in terms of capex, there are signs that the private led capex cycle is underway.
- We expect the RBI to remain vigilant and maintain status quo till the time it is absolutely sure about a sustainable downtrend in CPI towards the target of 4.0%.
- Banking system liquidity in India remains tight for now with RBI infusing liquidity through variable rate repo auctions. Going ahead, as more inflows through government spending comes into the system, liquidity conditions could possibly ease.

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