



Bullish for India Assets: USD Negative Trend, Fed Pause, Lower Inflation, and Neutral Oil Outlook

Two forces dominate the performance of Emerging Markets assets: US interest rates and the US Dollar. But in the case of India, there's a big game influencer — energy prices. As a net energy exporter, India's inflation is heavily influenced by energy costs.

In the first quarter of 2023, the US dollar embarked on a multi-year downward trend, signaling a potential 20% debasement according to Purchasing Power Parity models. While short-term volatility will persist, this weakened USD will bolster the INR and attract liquidity towards rupee assets.

Meanwhile, the FED, led by Chair Powell, shows a leaning towards pausing in interest rate hikes to assess the impact of previous rapid rate hikes. The market is even pricing in the end of the Fed's hiking cycle.

Globally, signs of easing inflation are emerging, with our core assumption for developed markets resting at 3–4% over the next 12 months.

Oil prices present a neutral outlook for the next year, with the risk of a US recession outweighing supply concerns. This bodes well for India, as low or neutral oil prices will help control inflation.

Affirming our stance, lower inflation in India (April inflation fell to eighteen-month lows, at 4.7% from 5.7% in March), and global developments reinforce the idea of a prolonged pause in interest rate hikes from the Reserve Bank of India. In the upcoming policy meeting, we anticipate the Monetary Policy Committee to consider a shift to a 'neutral with a tightening bias' stance to solidify the rate hikes pause.

This combination of factors sets the stage perfectly for the INR and India assets and makes India irresistible for foreign investors. Global investors, confident in the long-term story and wanting to play 6%+ GDP growth, eagerly await any substantial correction as an opportunity to increase their exposure to India. We share this sentiment and will seize any macro turmoil as a chance to boost our investments in both public and private equities, and bonds in the Indian market.

Have a good flight, Indian market!

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