MONTHLY MACRO REVIEW

DECEMBER 2023

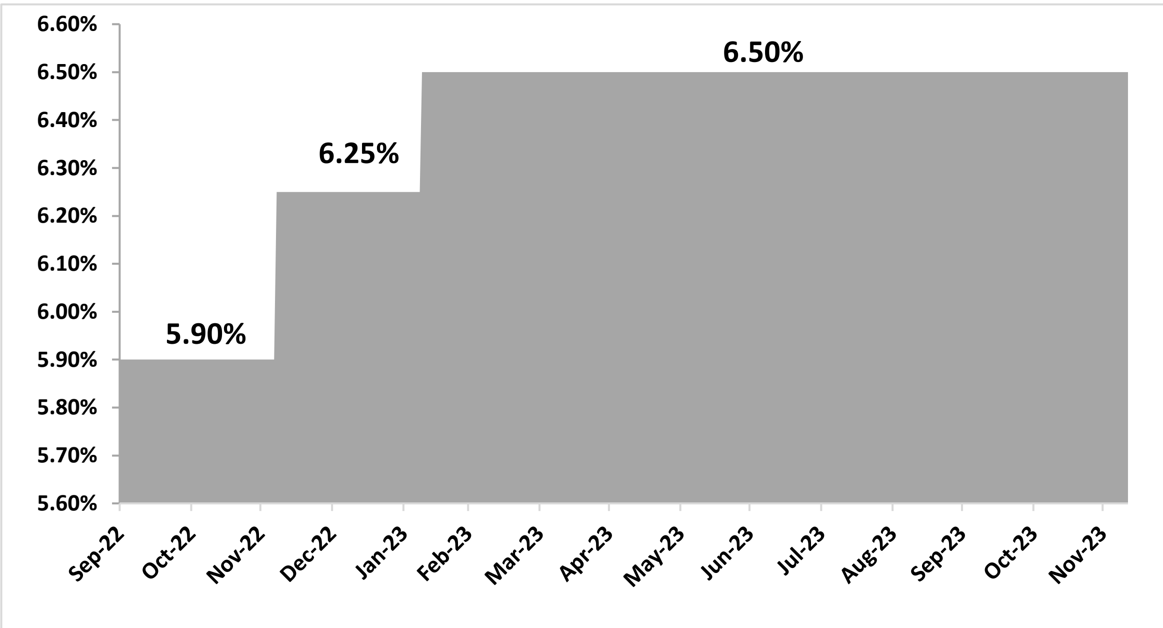
BONANZA WEALTH

RBI MONETARY POLICY COMMITTEE

The RBI Chief (Governor) announced the decision of the Monetary Policy Committee (MPC) on Friday, December 8, 2023, which was in line with the expectations of the D-Street. The MPC kept policy rates unchanged at 6.5% for the fifth successive instance. Further, MPC with a 5:1 majority chose to focus on the withdrawal of accommodation to ensure inflation aligns with the long-term target while maintaining growth. Moderating headline and core inflation, strong domestic activity, and robust data from high-frequency macroeconomic data such as PMI, GST, Core Sector, etc., were the rationale behind maintaining the status quo.

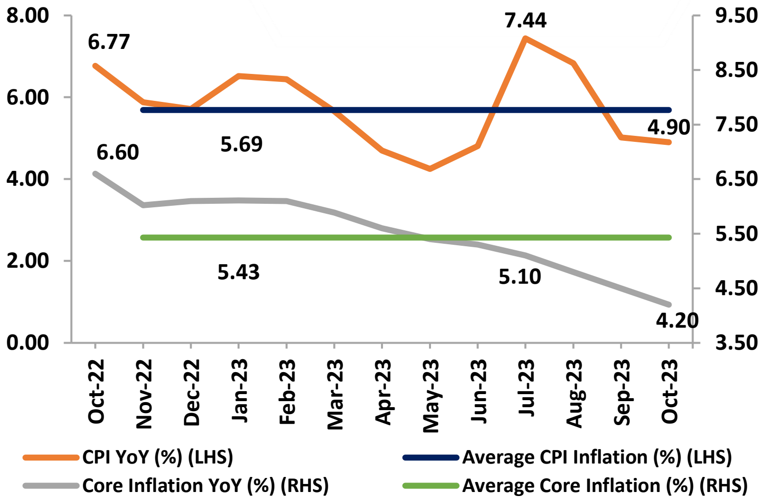
The Governor sounded upbeat on the conditions of the domestic economy which showed higher than anticipated growth in Q2FY24 of 7.6%, which is driven by investment and government consumption. The manufacturing sector is gaining strength by easing input costs and improving demand conditions. A recovery in rural demand supported by consistent urban demand is a big positive. Therefore, based on these factors and the data at hand, the RBI raised the FY24 GDP growth forecast to 7.0% from 6.5%.

Focusing on inflation, the Governor cautioned that CPI inflation for Nov – 23 and possibly Dec – 23 would witness a spike on account of food inflation. The overall inflation outlook would be based on the movement of food prices, elevated sugar prices and the progress of Rabi sowing. Considering these elements, the CPI inflation projection for FY24 was maintained at 5.4%. The Governor reiterated that the target of 4% CPI is yet to be reached and will continue the same path. And in a move that tweaks the liquidity management of banks, the RBI has now allowed banks reversal of liquidity facilities under SDF and MSF even during holidays and weekends starting from 30th December 2023. This decision would allow better fund management for the banks.



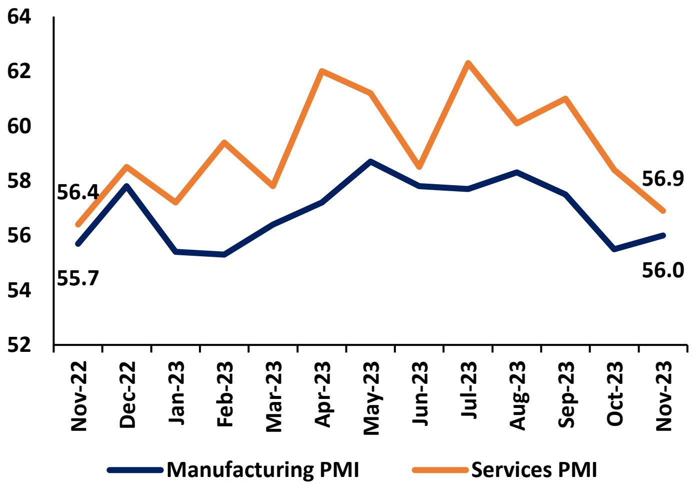
CPI INFLATION

India's Consumer Price Index (CPI) continued easing for the fourth month in a row to 4.9% in Oct – 23, supported by deflation in Fuel and Light category due to additional subsidy on LPG and a supportive base. Although CPI print for Oct – 23 remained within central bank's target range of 4 (+/- 2) % for the second straight month, it has now exceeded the medium-term target of 4 percent for 49 consecutive months. Core CPI, which is non-volatile component of CPI, moderated by 30 bps MoM to 4.2% in Oct – 23 from 4.5% in Sep – 23. On a YoY basis, Core CPI inflation has softened by ~176 bps. Food inflation has remained largely stable at 6.2% in Oct – 23 as against 6.3% a month earlier. Fuel and light category continued its downward trajectory for second consecutive month by -0.4% in Oct – 23. The recent decline in inflation is comforting, but uncertainties persist due to weak agricultural prospects. Grim outlook for cereals and pulses raises concerns. CPI expected at 5.3 – 5.4% for the next two quarters, with a projection of 5.4% for FY24. Despite this, RBI maintains a vigilant and hawkish stance, with any policy changes expected in Q2 FY25 as CPI approaches the 4% target.



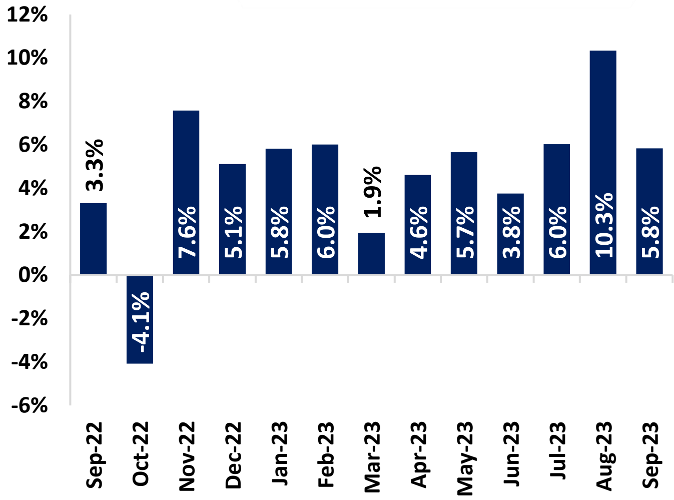
PMI INDICATORS

India's Purchasing Managers' Index (PMI) data for Nov – 23 paints a mixed picture of the country's economic health. While the manufacturing sector continues to witness robust growth, the services sector experienced a slight deceleration. Manufacturing PMI (M-PMI) for India rose to 56.0 in November, up from 55.5 in October. This indicates that the manufacturing sector expanded at a faster pace in November, marking nearly 40-months of continuous expansion (more than 50) in M-PMI. Output and new orders both grew at a faster pace, supported by strong domestic demand. Business confidence remains strong, but concerns over rising inflation in the immediate short term are starting to emerge. The Services PMI (S-PMI) for India fell to 56.9 in November, down from 58.4 in October. This is the lowest reading of S-PMI so far in FY24. The decline is attributed to subdued demand. However, new business orders continued to increase, albeit at a slower pace.



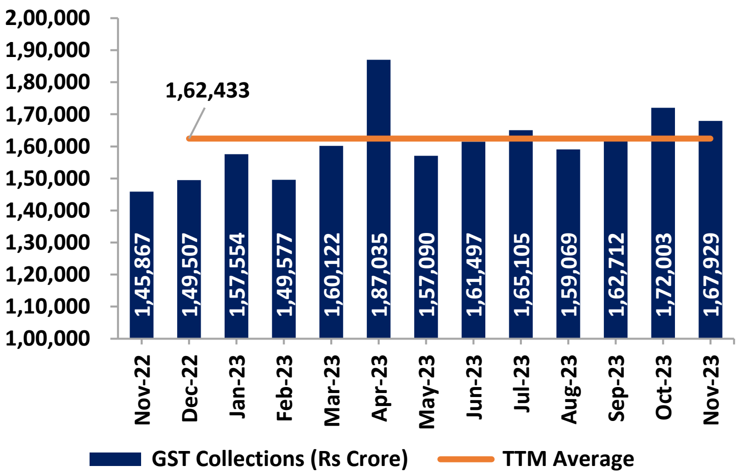
IIP GROWTH

In Sep – 23, India's industrial production (IIP) rose by 5.8% (Provisional) however a slowdown from the previous month's 10.3% (Final), which was 14-month high. The sharp sequential correction was witnessed in manufacturing and electricity sectors, impacting overall IIP growth. The IIP print of Sep – 23 revealed a good growth in Mining (11.5%), Manufacturing (4.5%) and Electricity (9.9%) on a YoY basis despite a deceleration on a sequential basis. Manufacturing output hit a three-month low of 4.5% in September. Out of the 23 categories within the manufacturing sector, 14 witnessed a YoY increase in output. Within the manufacturing sector, output of basic metals (constitutes a weight of 12.8%) witnesses a growth of 12.5%, continued to log double-digit growth in Sep – 23. Within the use-based classification, Consumer goods output saw a sharp slowdown, with only modest growth in consumer durables. Infrastructure and construction goods output grew by 7.5%, slowing from the previous months. Looking ahead, industrial activity faces challenges from slowing global growth and risks to rural demand, despite a moderation in inflationary pressure. Weather-related uncertainties and lower Kharif output further amplify risks. A sustained and widespread improvement in consumption is crucial for future industrial momentum.



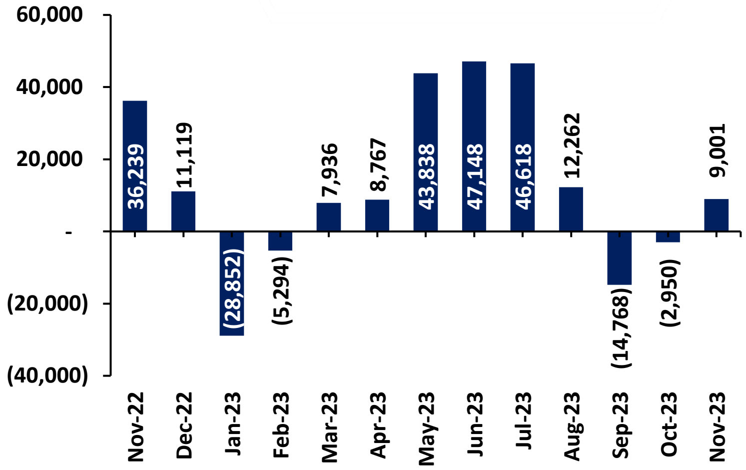
GST COLLECTIONS

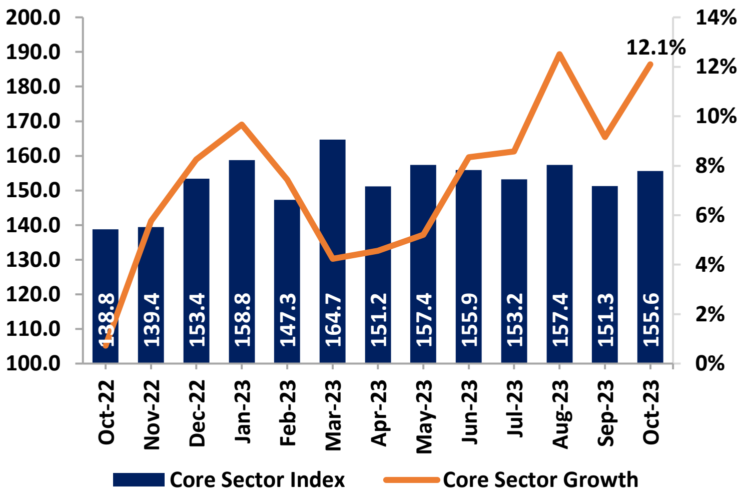
In Nov – 23, the Goods and Service Tax (GST) collected amounted to Rs. 1,67,929 crs, recording a strong growth of 15% Y-o-Y. During the month, the revenues from domestic transactions (including import of services) were 20% higher than the revenues from these sources during the same month last year. Further, this is the sixth time that the gross GST collection has crossed Rs. 1.60 lakh crore mark in FY24. The gross GST collection for FY24 up to Nov – 23 were Rs. 13,32,440 crs, averaging ₹1.66 lakh crs per month, which is 11.9 % higher than the gross GST collection for FY23 up to Nov - 22 (Rs. 11,90,920 crs, averaging Rs. 1.49 lakh crs per month). Notably, the GST data reveals a 4.49% M-o-M decline in collection from imports, with their value standing at Rs. 40,234 crs. The breakdown of GST collections reveals the CGST at Rs. 30,420 crs, SGST at Rs. 38,226 crs, IGST at Rs. 87,009 crs (including imports), and Cess at Rs. 12,274 crs. After regular settlement the total revenue for Centre and states stood at Rs. 68,297 crs and Rs. 69,783 crs, respectively.



FII FLOWS

In Nov – 23, FII turned net buyers in the Indian capital markets after selling into Indian equities for 2 straight months. Indian capital markets witnessed net inflows of Rs. 24,546 crs with equity segment registering inflows of Rs. 9,001 crs, whereas the debt segment saw an inflow of Rs. 14,860 crs making its highest ever FII flows invested in debt segment since October 2017. CY23 was the first time in 4 years, FII become net buyers in Indian debt markets on the back of recent inclusion of Indian government bonds in JP Morgan Government Bond Index. Sector-wise, in Nov – 23, major inflows were seen in Capital Goods, Consumer Services and Others. While major outflows were witnessed in the Financial Services, Power and FMCG. The recent surge in the FII flows was fuelled by an upswing in sentiment, driven primarily by a decline in US yields and the expected peak in interest rates in the US, complemented by strong economic growth in India. Furthermore, recent India's GDP print of 7.6% and sustain political stability before General Elections 2024 has boosted FII confidence in Indian equities.





CORE SECTOR

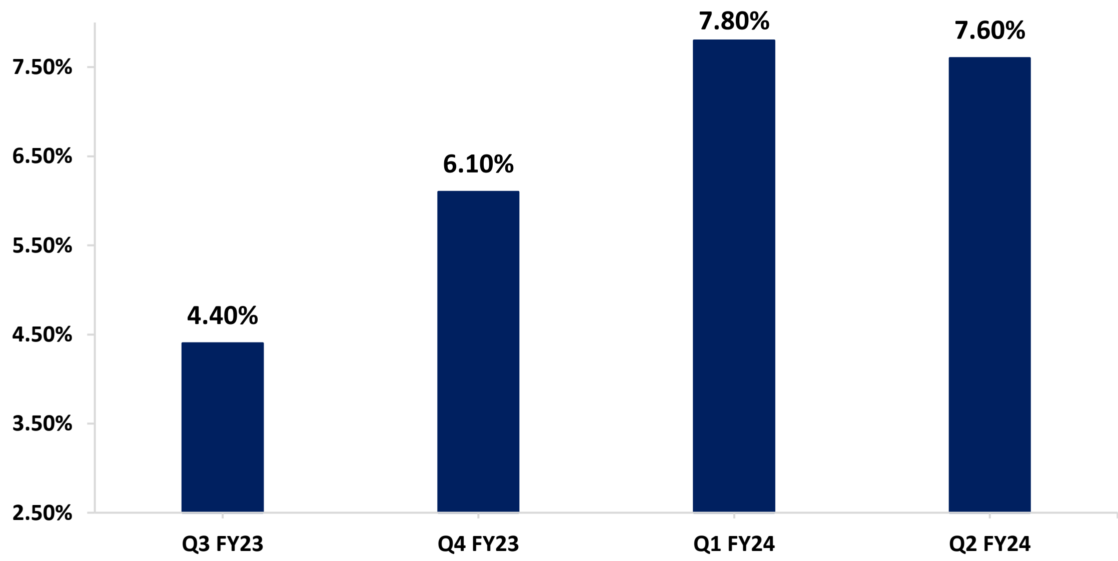
The Eight Core Industries (ICI) index witnessed robust growth in Oct – 23, registering a 12.1% increase compared to Oct – 22. Although, the sharp uptick was mainly on account of low-base effect but for last five months ICI growth exceeding 8%, highlighting the strong traction in the infrastructure sector. In Oct – 23, all eight sectors clocked growth for only the third time in 18 months, and four of 8 sectors posting double-digit growth. The coal production has risen by 18.4%, crude oil by 1.3%, natural gas by 9.9%, refinery products by 4.2%, fertilizers by 5.3%, steel by 11.0%, cement by 17.1%, and electricity by 20.3% in Sep – 23. Fertilizers production increased by 5.3%, the highest in five months. Refinery products rose by 4.2% versus a 3.1% contraction in October. Crude oil output grew by 1.3%, marking the third month of growth in the past 13 months. Overall, the notable core sector growth in Oct – 23 augurs well for the Indian economy as continued support from the government, a good monsoon season, and favourable policy changes are projected to boost economic development in the months to come. However, close attention is required to reduce the potential risks caused by global uncertainty and inflation.

GROSS DOMESTIC PRODUCT (GDP)

The recently released Q2FY24 GDP data suggests that the Indian economy is making significant progress, despite the fragile global economic scenario. The data reveals a remarkable growth of 7.6% Real GDP against 6.2% in Q2FY23. It is worth noting that the Q2FY24 GDP growth has surpassed all expectations, including the RBI's forecast of 6.5%. Given the sustained GDP growth of 7.5% in H1FY24 and benign inflation, the RBI has raised the growth forecast for FY24 GDP to 7.0%. During the press conference, the MPC committee recognized that the 7.0% growth forecast is a conservative estimate, and the actual growth rate may surpass expectations. Consequently, we anticipate that the GDP growth rate for FY24 will be in the range of 7.2% – 7.5%.

Upon closer examination of the GDP data, it becomes apparent that the Manufacturing and Construction sectors experienced the highest growth rates, with 13.9% and 13.3%, respectively. This was followed by double-digit growth in Electricity and Mining. The Q2FY24 GDP number witnessed a significant increase in activity in these sectors, indicating an accelerating pace that is expected to be sustained for the remainder of the year. Additionally, Gross Fixed Capital Formation (GFCF) grew in Q2FY24 at 35.3% as compared to 34.7% in Q1FY24. GFCF is a crucial indicator used to gauge investments made in the economy for future business activities. This marks a clear indication that the capital expenditure cycle is beginning to take root and will further intensify over the coming quarter, aided by increased private sector capex, in addition to infrastructure capex spending by the government.

In Q2FY24, Private Final Consumption Expenditure (PFCE) experienced a slight moderation, declining by 50 basis points to reach 56.8%. This decrease is 250 basis points lower than the same period in Q2FY23. The decline was partly attributed to the delay in the festive season, which resulted in consumers and firms postponing their consumption. Consequently, we anticipate a substantial increase in this figure in Q3FY24.



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