MONTHLY MACRO REVIEW

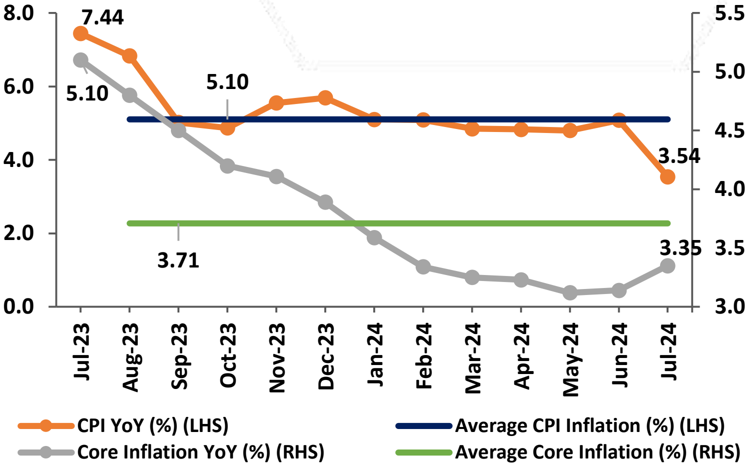
August 2024

BONANZA WEALTH

CPI INFLATION

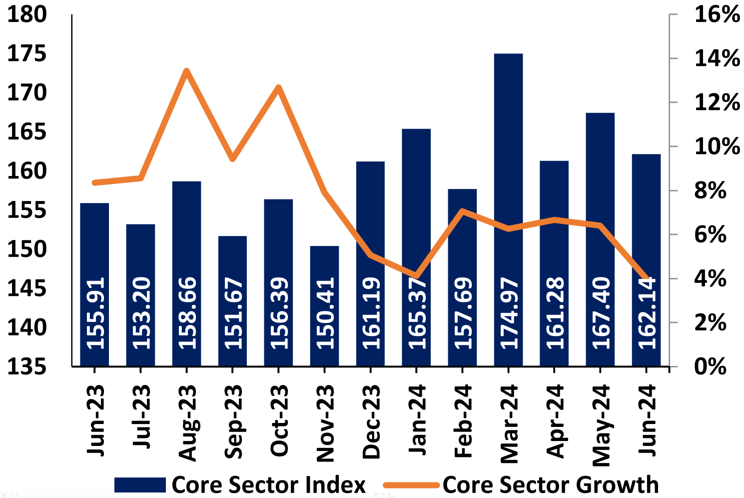
In Jul-24, India's Consumer Price Index (CPI) inflation moderated to multi-year low largely led by favourable base effect. CPI eases to 3.5% in Jul-24 from 5.1% a month earlier. Moderation in inflation were largely broad-based across all the major heads except telecommunications and personal care. The inflation in food basket moderated to 5.1% in Jul-24 from 8.4% a month earlier on the back of spices which saw the lowest inflation rate at 1.43% and oil and fats which also remained in deflation. Inflation on vegetables prices have also dipped notably to 6.8% from 29.3% last month.

The Core CPI, a non-volatile component of the CPI, rose marginally to 3.4% in Jul-24 up from 3.1% in Jun-24, reflecting recent hikes in telecom tariffs and the upward revision of fuel prices in certain states. In the next few months, there is an expectation of reversal in the current inflation trend due to unfavourable base effects. Despite healthy growth momentum, there is a risk of elevated food inflation. Early Kharif harvests may help lower food prices, but monitoring rainfall and geopolitical uncertainties is crucial.



CORE SECTOR

The Index of Eight Core Industries (ICI) sector growth tapers to 20-month low of 4.0% (provisional) in Jun-24 (Provisional) as against 6.4% (revised) in May-24, mainly due to high base effect from last year. For the Q1FY25, the ICI grew by 5.7% (provisional) as against 6.0% in Q1FY24. The final growth rate of ICI for Mar-24 is 6.3% (earlier 6.0%). The eight core industries contribute 40.27% to the IIP. Notable increase in output growth were seen in Coal Production by 14.8%, Natural Gas by 3.3%, Fertilizer by 2.4%, Steel by 2.7%, Cement by 1.9%, and Electricity by 7.7%. While the decline in output were seen in Crude oil by 2.6% and Refinery products by 1.5%.



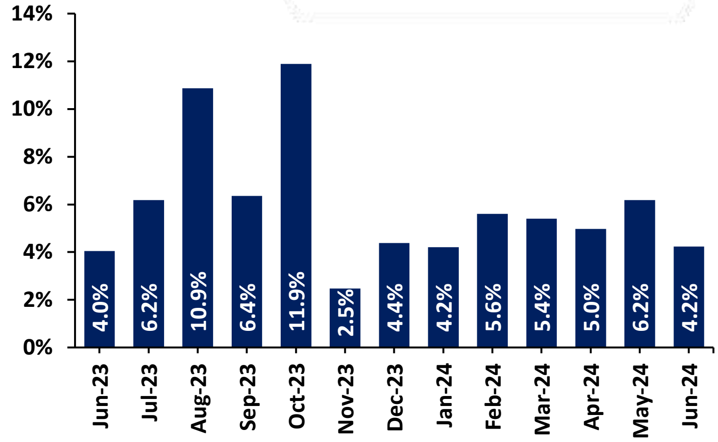
Other than base effect, the fall in ICI growth is also linked to contraction in refinery products. Refinery products carry a weight of 28.04% in ICI basket, contraction of 1.5% was the major dampener to overall growth. This was largely due to lower-than-expected Gross Refining Margins (GRM) in last quarter. With the monsoon normalizing and the Kharif sowing picking up momentum, the production of fertilizers has been picked up. The higher MSP offered to farmers has also helped to boost demand for fertilizers.

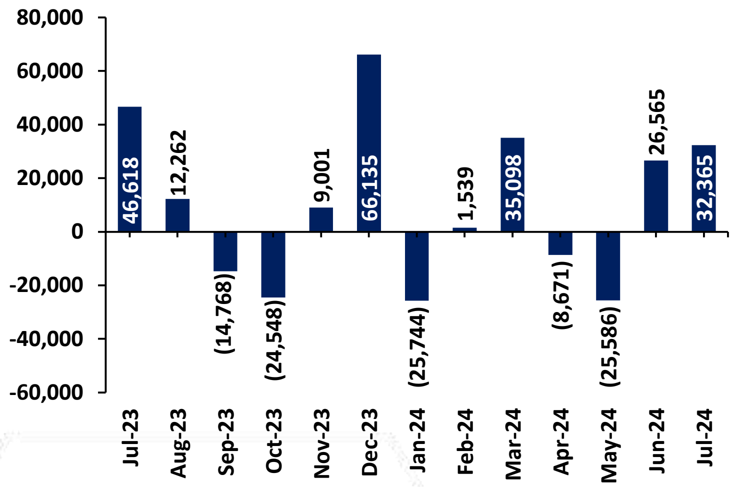
IIP GROWTH

The India's Industrial Production (IIP) slowed to 4.2% (Provisional) in Jun-24 from a 7-month high of 6.2% (Final) in May-24. The IIP print for May-24 has been revised upwards to 6.2% from 5.9%. On a sectoral basis, mining (10.3%), manufacturing (2.6%) and electricity (8.6%) experienced growth while the slowdown in manufacturing and electricity outpaced the growth in mining thus weighing down the overall performance of the IIP.

Out of the 23 categories within the manufacturing sector, fourteen saw a YoY uptick in output. Basic metals accounting for 12.8 % weight grew by 4.9% YoY while textiles and leather & related products output contracted by -1.7% and -3.9%, respectively. Within use-based classification, almost all categories recorded growth: Primary Goods grew by 6.3%, Capital Goods grew by 2.4%, Intermediate Goods grew by 3.1%, Infrastructure goods grew by 4.4%, Consumer durables grew by 8.6%, while consumer non-durables contracted by 1.4%.

Key factors influencing consumption to watch include the trends in food inflation and the spatial and temporal patterns of rainfall. Furthermore, the resurgence of private investment will be essential to observe in the upcoming quarters.





FII FLOWS

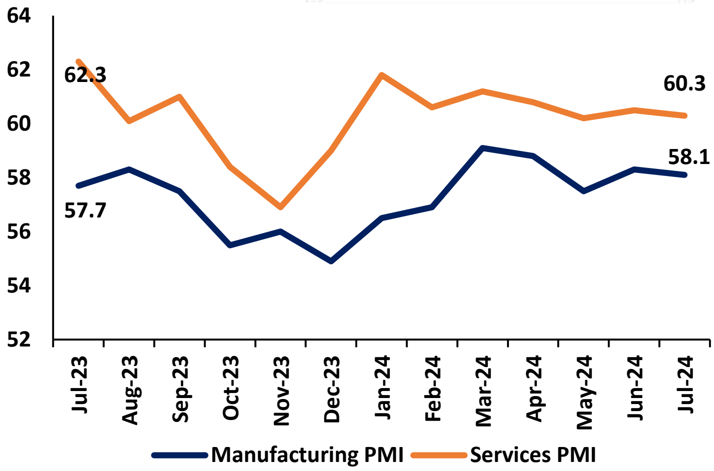
In Jul-24, Foreign Institutional Investors (FIIs) remained net buyers for second consecutive month in Indian equities on account of strong economic outlook, expectation on fed rate cut and government fiscal discipline. FIIs infused Rs. 32,365 crores in Indian equities market in Jul-24.

For FY25, net FII investments in equity stands at Rs. 24,672 crores in the country. This resurgence in flows could be attributed to a stable political environment, ongoing economic reforms, and appealing market valuations within India. In Jul-24, FIIs infused Rs. 22,363 crores in Indian debt market. Sector-wise, in Jun-24, major inflows were seen in Information Technology, Metals & Mining, and Automobile and Auto Components, while major outflows were seen in Financial Services, Power and Construction.

In July, there were mixed developments, including positive impacts from the general election and lower-than-expected current account deficit, and negative measures such as higher securities transaction tax rates and increased taxes on capital gains.

PMI INDICATORS

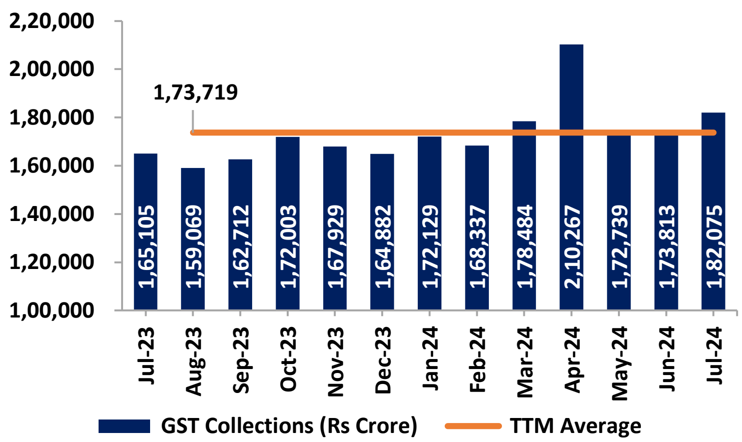
The latest PMI data for India's Manufacturing and Services sectors shows that economic activities are going on steady during Jul-24. The Manufacturing PMI remained robust at 58.1, although slightly lower from 58.3 in Jun-24. The sector saw strong growth in new orders, output and international sales with job creation remaining historically high. However, input costs recorded sharp growth, which in turn pushed selling prices up at the highest rate in nearly 11 years. The Services PMI posted 60.3, down slightly from June's 60.5, marking the 36th consecutive months of expansion. Responding service companies reported that strong demand, higher spending on technology and growing online presence were the main drivers behind this growth.



Growth in new orders from abroad in the services sector increased at the third-strongest pace since 2014. Both sectors faced higher input costs, with service firms reporting higher labour and materials costs. The Composite PMI Output Index posted at 60.7, indicating continued strong growth momentum across the private sector. While both manufacturing and services sectors showed robust performance, there are both near and medium-term concerns over inflation underpinned by increased input cost and output price inflation. Eventually, the PMI data points show that India is still rapidly growing as an economy—supported by a strong domestic and external demand.

GST COLLECTIONS

The gross GST collections for Jul-24 recorded a 10.3% YoY growth to Rs. 1,82,075 crores is the third-highest ever. The recent surge in GST collections reflects a positive economic trend for India, highlighting strong domestic consumption and robust import activity. Domestic revenue grew 8.9% in July, but GST revenue from imports was higher at 14.2%. Following adjustments for refunds, the net GST revenue for Jul-24 totalled at Rs 1,44,897 crores, reflecting a growth of 14.4% compared to the same period last year. CGST comprised Rs. 29,773 crores, SGST comprised Rs. 37,623 crores, IGST comprised Rs. 85,930 crores, and Cess comprised Rs. 11,779 crores.



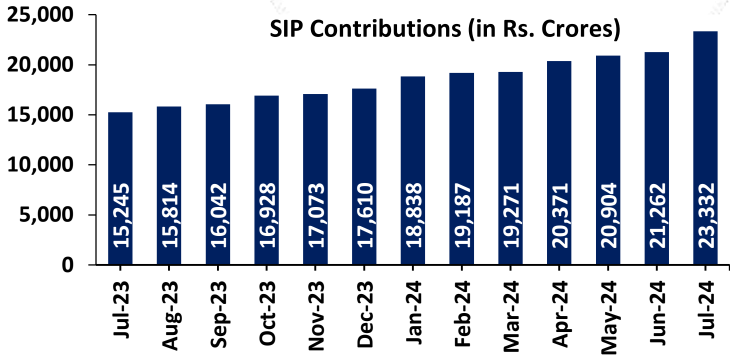
Maharashtra led in GST collection for Jul-24, collecting Rs. 28,970 crores, followed by Karnataka at 13,025 crores and Gujarat at 11,015 crores. The recent Union Budget 2024 announced in July, envisages GST revenues to expand 11% in FY25. These collections are based on supply transactions during June, which is typically a slow offtake month before the onset of the festive season.

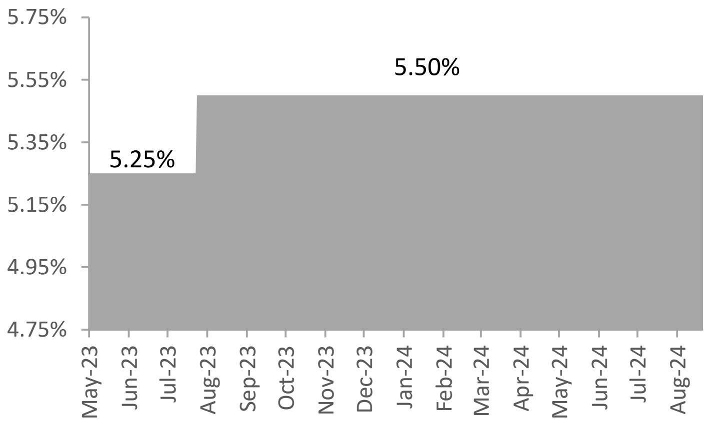
Retail Participation

The open-ended equity mutual funds inflow slipped 8.61% to Rs. 37,113 crores in Jul-24 as against record high Rs. 40,608 crores recorded in Jun-24. The dip in mutual funds inflows could be linked to a decline in inflows in both large-cap and mid-cap funds. Despite the decline, inflows into equity mutual funds have remained in the positive zone for the 41st month in a row.

In Jul-24, net assets under management (AUM) of the mutual fund industry rose to hit Rs 64,96,653.14 lakh crore. Large-cap funds witnessed a decline of 31% to Rs. 670 crores whereas mid-cap funds witnessed a decline of 35% to Rs. 1,644 crores. Small cap also declined by 7% to Rs. 2,109 crores. On the other hand, multi cap funds witnessed an 50.5% jump in inflows to Rs 7,084.61 crores.

The investment via systematic investment plans (SIPs) climbing to Rs.23,332 crore in July from Rs.21,262 crore in June. The number of new SIPs registered in Jun-24 stood at 72,61,928, while the SIP AUM was the highest ever at Rs. 13.09 lakh crore for Jul-24, compared with Rs 12.44 lakh crore for Jun-24.





FOMC Meeting

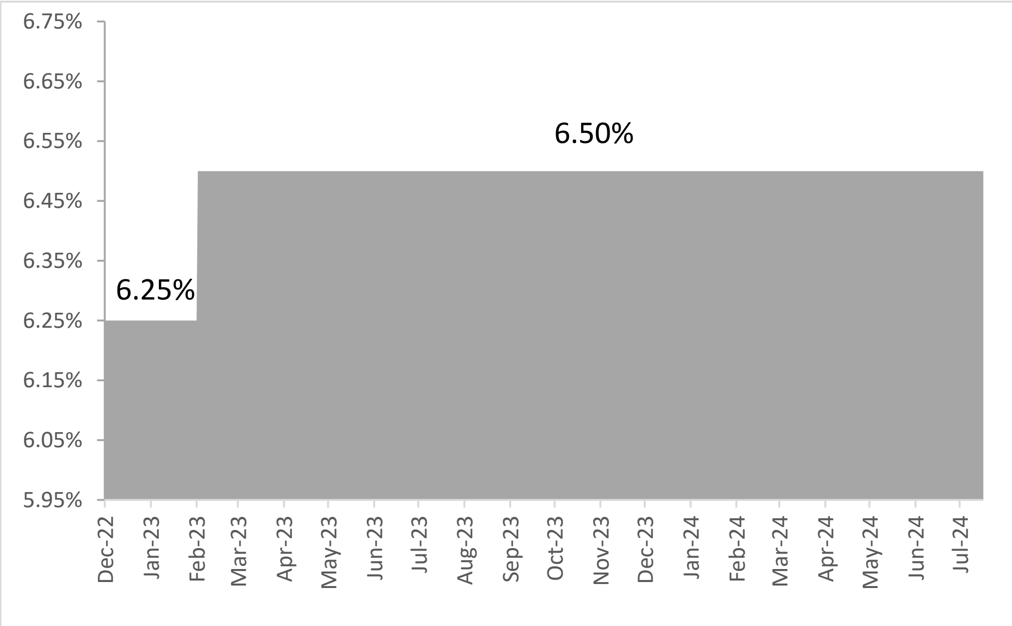
The Federal Reserve announced at its July FOMC meeting to keep its benchmark interest rate unchanged for the twelfth straight month at 5.25% to 5.50%. This decision reflects the eighth consecutive meeting in which the FED has chosen to keep the rates steady, thereby sustaining the federal funds rate at its highest target range in 23 years.

Fed chair Jerome Powell hinted for the first rate cut in four years, citing progress towards lower inflation and a cooler job market. He stated that if US inflation continues to fall, a reduction in the policy rate could be discussed at the September Fed meeting. A fall in US interest rates is expected to boost US growth, positively impacting India's IT sector and other exports.

Additionally, a cheaper US dollar could strengthen the Indian rupee, encouraging capital inflows into the country. Analysts suggests that while US markets have outperformed and China has lagged, a US rate cut could revitalize interest in Emerging Markets like India.

RBI’s MPC Policy Decision

The Monetary Policy Committee (MPC) of the Reserve Bank of India, in its Aug-24 meeting, has opted to keep the repo rate unchanged at 6.5% for the ninth consecutive time. MPC has also decided by a 4-2 majority to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns to the target, while supporting growth. RBI Governor Shaktikanta Das explained the reason for opting out to cut rates was due to sudden spike in Jun-24 inflation primarily driven by food inflation, which remain stubborn. During the Aug-24 meeting, MPC has maintained its FY25 CPI inflation forecast at 4.5%, with Q2 projected at 4.4%, Q3 at 4.7%, and Q4 at 4.3%. CPI inflation for the Q1FY26 is projected at 4.4%. The risks are evenly balanced. RBI Governor also kept the Marginal Standing Facility (MSF) and the Standard Deposit Facility (SDF) rates unchanged at 6.75% and 6.25%, respectively. He also pointed out that headline inflation to moderate in Q2FY25 due to favourable base effect, however this trend may reverse in Q3FY25. For FY25, MPC has maintained real GDP growth forecast for FY25 at 7.2%, with Q1 GDP growth revised to 7.1% (vs. earlier 7.3%), Q2 at 7.2%, Q3 at 7.3%, and Q4 at 7.2%, with risks being evenly balanced. Real GDP growth for the first quarter of 2025-26 is projected at 7.2%.



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