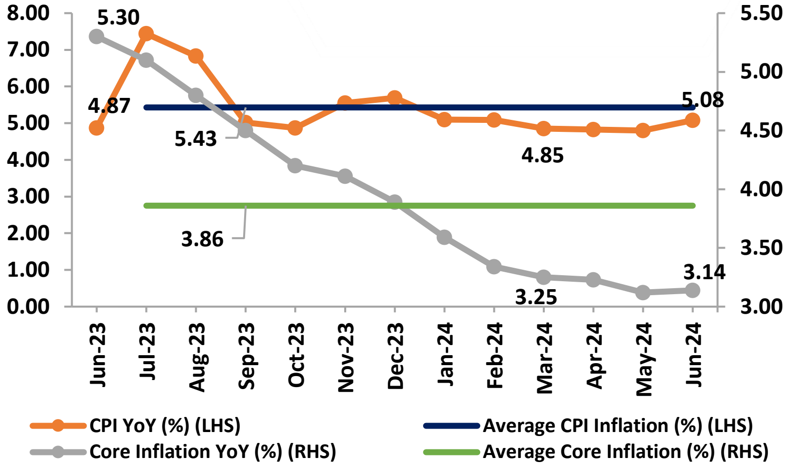
MONTHLY MACRO REVIEW

July 2024

BONANZA WEALTH

CPI INFLATION

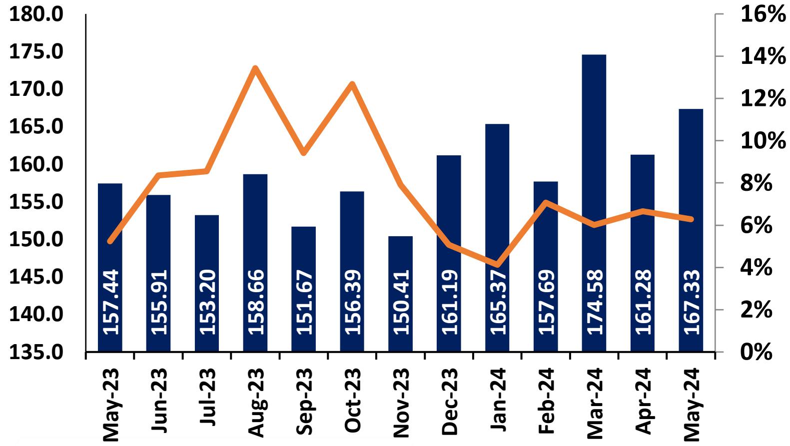
In Jun-24, India's Consumer Price Index (CPI) inflation saw a sharp uptick to a 4-month high of 5.1% (Provisional) from 4.8% in May-24, primarily due to rising food prices. May CPI print revised to 4.8%, from previously 4.75%. The inflation in food basket inched up, driven by higher prices of vegetables, pulses, and cereals. Staple vegetable prices have seen a significant rise. This sequential price increase is a result of reduced output from the previous year, shortened shelf life of vegetables due to heatwaves, and increased demand during last month's festive season. However, deflation in the fuel and light category has mitigated the overall inflation.



The Core CPI, a non-volatile component of the CPI, largely remained steady at 3.14%, slightly up from 3.12% in May-24. We expect a favourable base effect until Jul-24 to help mitigate price pressures. Food inflation is expected to decrease, supported by a normal monsoon and new harvests. Monitoring Kharif sowing and geopolitical risks is important. Lower core inflation reflects recent disinflationary growth. If food inflation moderates, a modest 50 basis points reduction in the RBI's policy interest rate in the second half of the fiscal year is anticipated.

CORE SECTOR

The Index of Eight Core Industries (ICI) sector growth slows to 6.3% in May-24 (Provisional) as against 6.7% (revised) in Apr-24, with a double-digit rise in coal and electricity output offsetting contractions in three sectors output.



During April-May this fiscal, the output of these sectors was up 6.5 per cent against 4.9 per cent in the same period last fiscal. The eight core industries contribute 40.27% to the IIP. Notable increase in output growth were seen Coal production by 10.2%, Natural gas by 7.5%, Refinery products by 0.5%, Steel by 7.7%, Electricity by 12.8%. While the decline in output were seen in Crude oil by 1.1%, Fertilizers by 1.7% and Cement by 0.8%.

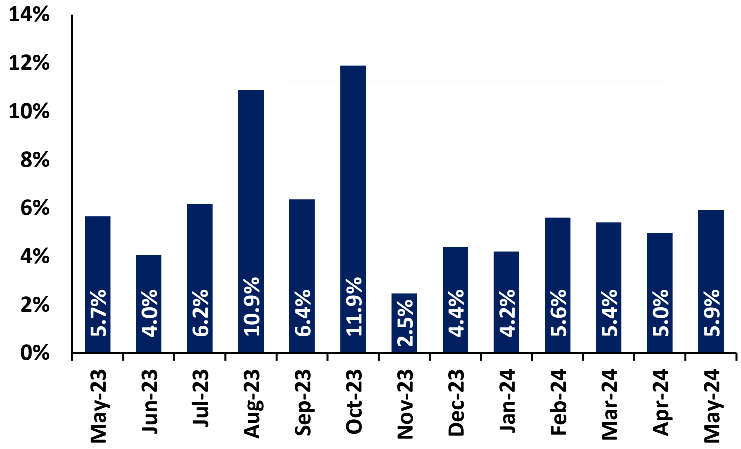
The growth in both electricity and coal is likely triggered by higher demand amid the heatwaves observed in most parts of the India in May. Fertilisers' production dipped for the fifth straight month. The decline in cement production is due to a high base effect of last year and slowdown in infrastructure projects during the month due to elections.

IIP GROWTH

India's Industrial Production (IIP) output grew by 5.9% (Provisional) in May-24 as against 5.0% (Final) in Apr-24. This marks the highest growth seen in the last seven months. Within the sector-based classification, all sectors witnessed growth: Mining (6.6%), Manufacturing (4.6%), and Electricity (13.7%). Out of the 23 categories within the manufacturing sector, seventeen saw a YoY increase in output.

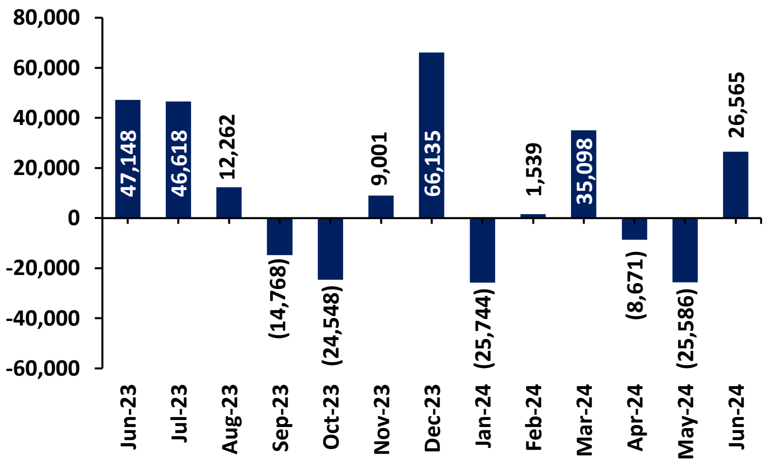
Basic metals, accounting for 12.8% of the weight, witnessed a growth of 7.8% YoY, and Coke and refined petroleum products, accounting for 11.8% of the weight, witnessed a growth of 2.0%. Within the use-based classification, almost all categories recorded growth: Primary Goods (7.3%), Capital Goods (2.5%), Intermediate Goods (2.5%), Infrastructure goods (6.9%), Consumer durables (12.3%), and Consumer non-durables (2.3%).

Industrial activity performed better-than-expected in May, driven by strong growth in electricity output and manufacturing. The consumer goods segment showed promise, but sustained improvement in overall consumption remains critical in the months ahead.



FII FLOWS

In Jun-24, Foreign Institutional Investors (FIIs) turned net buyers in Indian equities ahead of the Union Budget and India's inclusion in JP Morgan's bond index. FIIs infused Rs. 26,565 crores in Indian equities market. FIIs brush aside all worries related to elections after being net sellers in the last 2 months. It is attributed to the positive anticipation surrounding the continuity of reforms under the Modi 3.0 government, effectively dispelling prior concerns associated with elections.

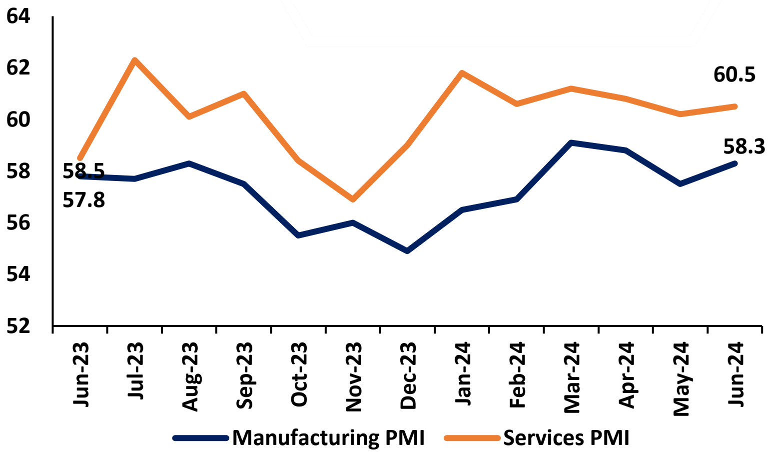


India's inclusion in the JP Morgan Bond Index is expected to reduce the government's borrowing costs and lower the cost of capital for Indian businesses. In Jun-24, FIIs infused Rs. 14,955 crores in Indian debt market. Sector-wise, in Jun-24, major inflows were seen in Financial Services, Telecommunication, and Consumer Services, while major outflows were seen in Metals & Mining, Construction, and Oil & Gas.

The focus will soon shift to the Budget and Q1 earnings, affecting foreign investment sustainability, while the bond index aims to attract foreign investment into the Indian debt market. India remains a preferred market for FIIs.

PMI INDICATORS

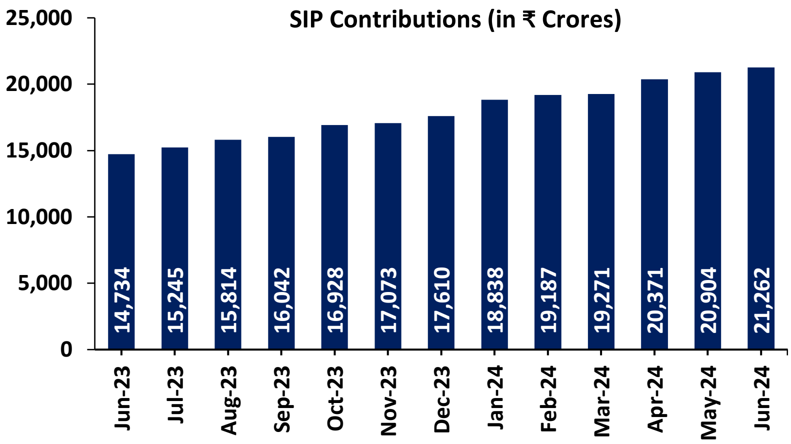
The Manufacturing PMI climbed to 58.3 in June from 57.5 in May indicating improved business conditions and surpassing its long-term average. Factories experienced quicker growth in output and new orders, with job creation hitting a record high since 2005. The Services Business Activity Index rose to 60.5 from 60.2 pushed by strong domestic demand and unprecedented international orders leading to the fastest job growth in 22 months. The Composite PMI Output Index reached 60.9 showing sharp growth in both sectors.



The Jun-24 PMI data for India points to strong economic activity in manufacturing and services. Both industries saw high new order inflows and increased business activity. While input costs increased, inflation slowed in services. However, factories raised selling prices at the quickest rate in over two years. Despite the positive outlook, factory optimism fell to a three-month low, and service providers' confidence dropped to an 11-month low due to market uncertainty and worries about competition. Still, the data suggests India's private sector started the fiscal quarter, with both sectors adding to economic growth. The PMI figures well above the 50-point mark, show substantial expansion in India's economy.

Mutual Fund Participation

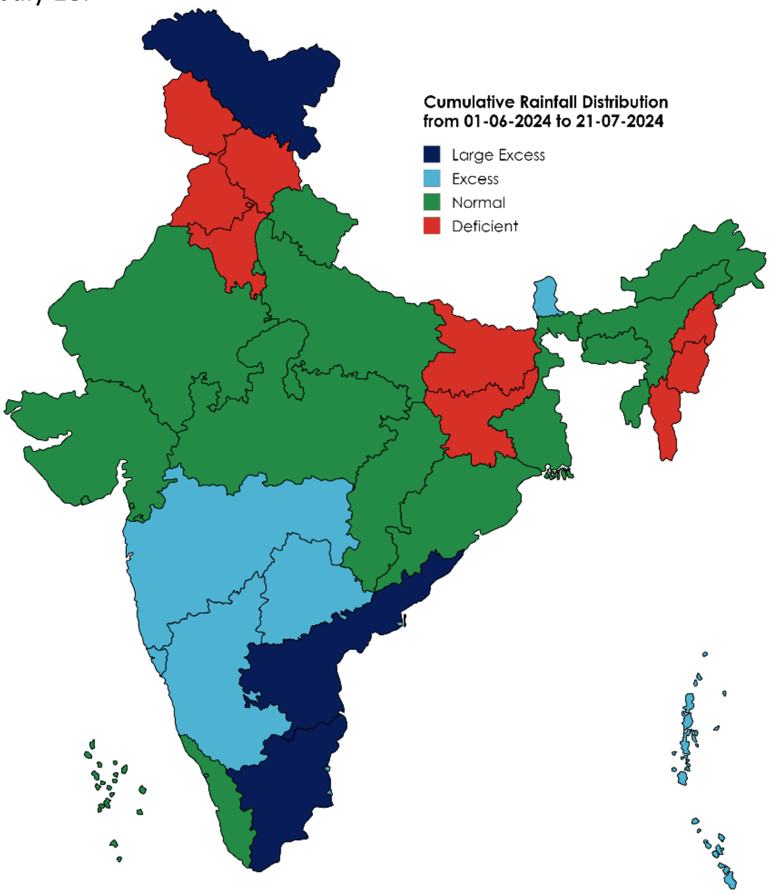
The equity mutual funds inflows surged by 17.04% to Rs. 40,608 crores in Jun-24 as against Rs. 34,697 crores in May-24. For the first time in Jun-24, the net inflows into equity mutual funds exceeded the Rs. 40,000 crore mark, only a month after surpassing the Rs. 30,000 crore mark. Inflows into open-ended equity funds remained in the positive zone for the 39th month in a row in June, fuelled by sectoral and thematic funds, which saw net buying of Rs. 22,352 crore, followed by multi cap funds which saw an inflow of Rs. 4,708 crore during Jun-24.



Also, large-cap and large & mid-cap funds witnessed an inflow Rs. 970 crores and Rs. 2,912 crores, respectively. The small cap funds saw inflows of Rs. 2,263 crores, 17% less than May-24. Mid-cap funds saw inflows of Rs. 2,528 crores, 3% less than last month. The investment via systematic investment plans (SIPs) rose to Rs. 21,262 crores in Jun-24, against Rs. 20,904 crores in May-24. The number of new SIPs registered in Jun-24 stood at 55,12,962, while the SIP AUM was the highest ever at Rs. 12.44 lakh crore for Jun-24, compared with Rs. 11.53 lakh crore for May-24.

Monsoon Watch

As of 22nd July, the distribution of rainfall in India has been uneven during June and July, leading to notable rain deficits ranging from 20-49% in nine states. Six states, mainly in the southern peninsula, have documented excessive rainfall from June 1 to July 20. Jharkhand has faced the highest deficit at 49%, while Tamil Nadu has seen an 83% surplus compared to their normal rainfall levels. Overall, the country has experienced just over a 1% deficit in cumulative rainfall, with northwest and east & northeast India being the most affected regions. Central India has not reported any rainfall deficit, contrasting with the south peninsula's 26% more than normal rainfall. A possible weak phase of the monsoon is expected in early August due to the delay in the formation of La Nina, a climate condition that usually brings good monsoon rainfall to the Indian subcontinent. Despite the uneven rainfall, the kharif (summer sown) crop sowing operations remain largely unaffected. The monsoon core zone areas, which rely on seasonal rains for farming, have received normal rainfall this month, enhancing water storage in the major 150 reservoirs in many states. The overall live storage in these reservoirs has improved from 20% of total capacity on June 27 to 29% on July 18.



The acreage for kharif crops, including paddy, pulses, and oilseeds, has shown an increase compared to the corresponding period last year, with over 60% of kharif sowing operations complete in the country. Millets have seen an 8% decline in sown area compared to the same period last year, despite the government's focus during the 'International Year of Millet' last year. Data released by the Agriculture Ministry on Friday indicates that the total area under kharif crop coverage has increased to 704 lakh hectares by July 19, compared to 680 lakh hectares in the same period last year.

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