MONTHLY MACRO REVIEW

January 2024

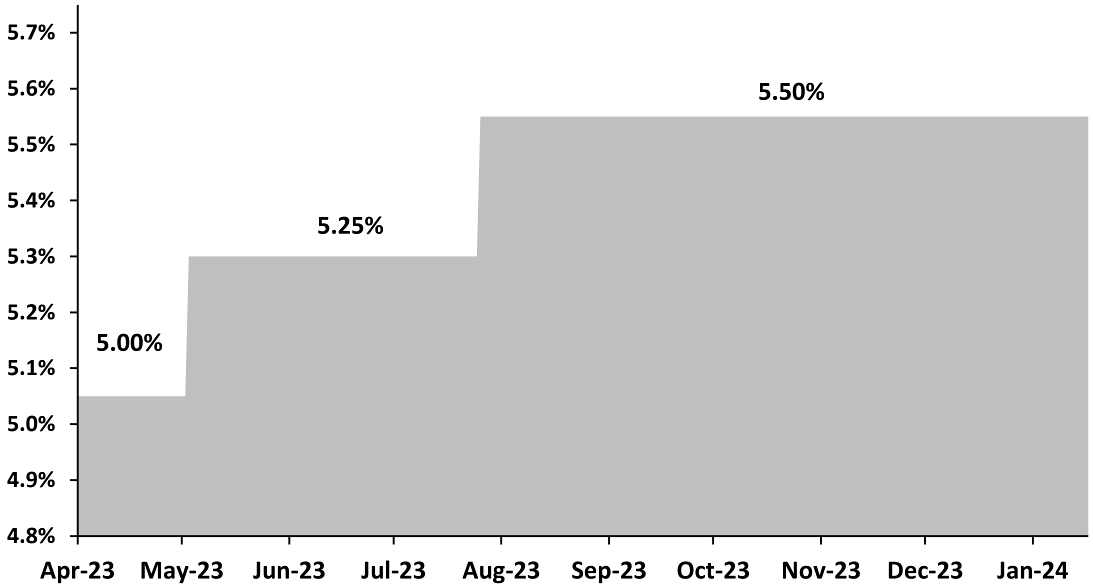
BONANZA WEALTH

FED POLICY Decision

In the closing days of the year, the Federal Reserve's (Fed) recent statements have drawn attention to the intricacies of their monetary policy and the economic landscape. The Fed acknowledges positive strides, noting a reduction in inflation without a consequential surge in unemployment. The spotlight, however, remains on the commitment to restoring inflation to the targeted 2%. The Federal Open Market Committee (FOMC) has been proactive in its approach, implementing significant tightening measures in the past year. This includes raising the policy interest rate by 5.25 percentage points and actively reducing securities holdings. The latest decision to maintain the current policy interest rate and continue securities reduction signals a prudent, cautious stance amid lingering uncertainties and potential risks.

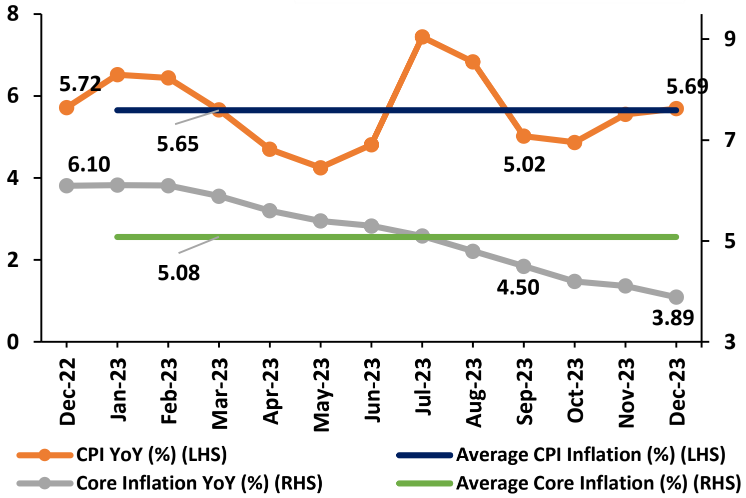
Economic indicators scrutinized by the FOMC revealed a notable deceleration in growth. The US economy is projected to expand by around 2.5% for the year, supported by resilient consumer demand and improving supply conditions. However, challenges persist in the housing sector, where activity has plateaued due to higher mortgage rates, and business fixed investment feels the weight of elevated interest rates. The Summary of Economic Projections (SEP) sets the stage for the coming year, anticipating a cooling of GDP growth to 1.4%. This projection underscores the need for vigilant economic management to navigate the intricacies of the current economic environment.

In the labour market, while conditions remain tight, recent months have seen a moderation in job gains. The unemployment rate, holding steady at 3.7%, coexists with persistent inflation above the 2% target. The Fed's commitment is evident in its determination to gradually reduce inflation, with a median projection reaching the 2% mark by 2026. As uncertainties persist, the Fed's cautious and measured approach aims to balance economic stability with the need for continued progress. The Fed remains dedicated to meticulously monitor incoming data, ensuring a trajectory that fosters maximum employment and sustained price stability for the US economy in the long run.



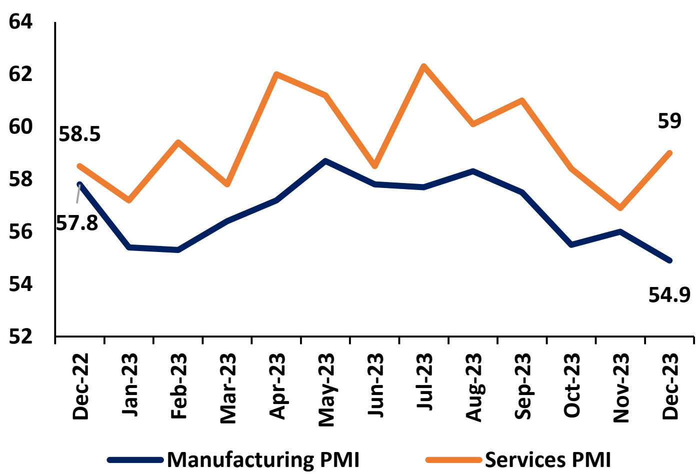
CPI INFLATION

India's Consumer Price Index (CPI) inflation rate rose to 5.69% in Dec-23, marking a four-month high, primarily due to persistent food price pressures and unfavorable base effect. The non-perishable items like cereals and pulses, along with double-digit inflation in fruits and vegetables, have been the major drivers of this trend. However, the CPI print for Dec-23 marks the fourth consecutive month within the central bank's target range of 4 (+/- 2) %. On the other hand, the Core CPI, a non-volatile component of CPI, showed signs of easing by moderating 22 bps MoM to 3.9% in Dec-23, below the RBI's target of 4%. This is due to declining fuel prices and moderating inflation in categories like clothing and education. Furthermore, on a YoY basis, Core CPI has moderated by ~221 bps, reflecting easing commodity prices and subdued demand-side pressures. However, food inflation remains a significant concern, with prices growing 8.7% YoY in the sector. The situation might ease in Q1FY24 due to favorable base effects and new crops. But uncertainties regarding Rabi sowing and a decline in Kharif production require close monitoring. In summary, RBI intervention and monetary tightening are crucial for managing inflation and achieving long-term price stability.



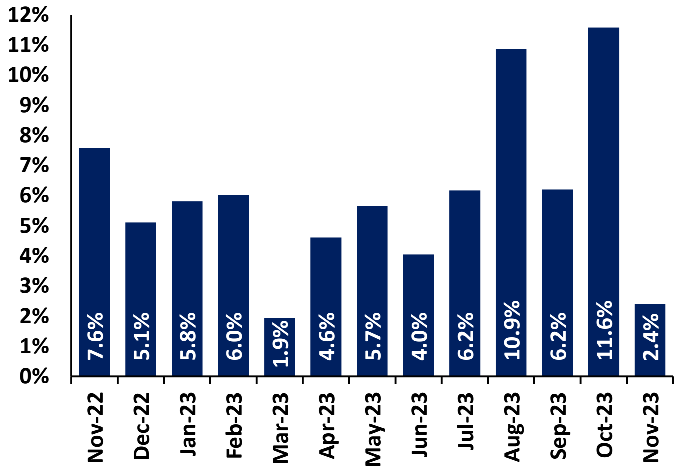
PMI INDICATORS

India's economic activity exhibited a contrasting picture in Dec - 23, as reflected by the Manufacturing PMI (M-PMI) slipped to 54.9 from 56.0 in Nov - 23, marking an 18-month low. This deceleration was primarily driven by softer new orders and output growth. In contrast, the services PMI painted a more upbeat picture, as Service PMI (S-PMI) climbed to 59.0, its highest reading in three months. This surge was fuelled by robust new orders and buoyant business activity, suggesting sustained momentum in the services sector. The divergent paths of manufacturing and services point to a nuanced economic outlook for India. While manufacturing faces headwinds from global uncertainties and softening domestic demand, the services sector appears resilient, underpinned by strong domestic consumption and rising optimism. Private sector activity rose to a greater extent in December, reversing the slowdown seen in November as the Composite PMI increased from 57.4 to 58.5, signalling a sharp rate of expansion that was the strongest since September.



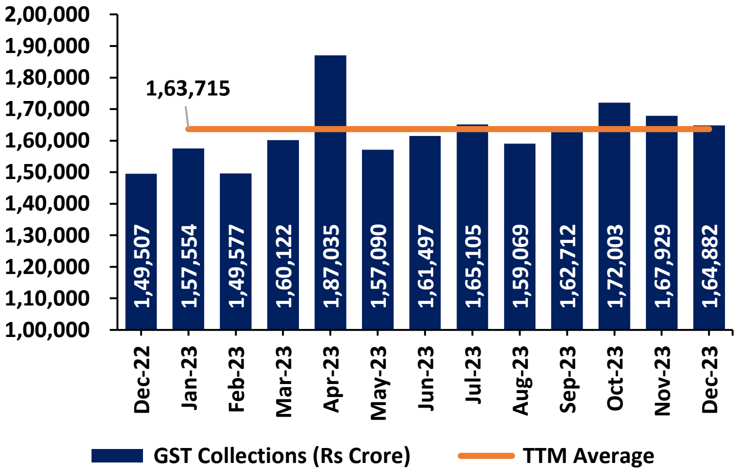
IIP GROWTH

India's Industrial production (IIP) for Nov-23 came in at a 2.4% (Provisional), marking an 8-month low after Oct-23 growth at 11.6% (Final). The sharp decline in IIP is primarily attributed to a high base and contraction in manufacturing activity. This was due to fewer working days in November because of Diwali holidays. The YoY basis performance showed a broad-based moderation in Mining, Manufacturing, and Electricity, with the latter two sectors seeing a sharp sequential contraction. The manufacturing sector, which is a critical component of IIP, recorded a mere 1.2% growth compared to 10.2% in the previous month. Out of the 23 categories within the manufacturing sector, only six saw a YoY increase in output. Basic metals, accounting for 12.8% of the weight, witnessed a growth of 7.2%. Within the use-based classification, half of the categories slumped negatively. Primary Goods (8.45%), Capital Goods (-1.11%), Intermediate Goods (3.49%), Infrastructure goods (1.48%), Consumer durables (-5.36%), Consumer non-durables (-3.56%). The slump in capital goods and consumer goods is mainly due to declining infrastructure spending, lower capex budgets from the government, and weakness in consumption.



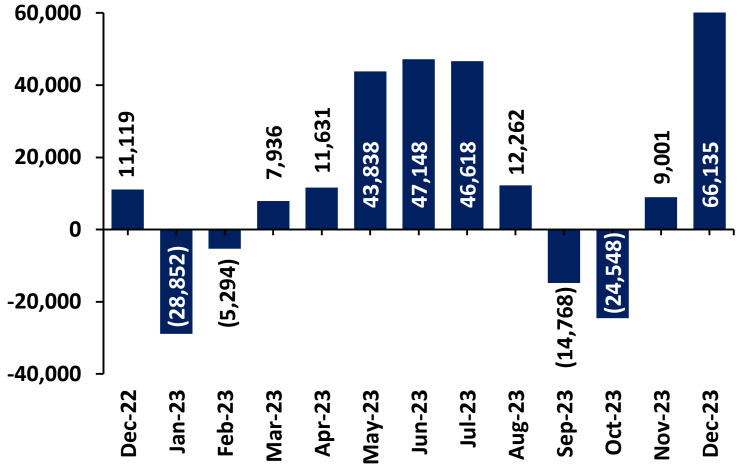
GST COLLECTIONS

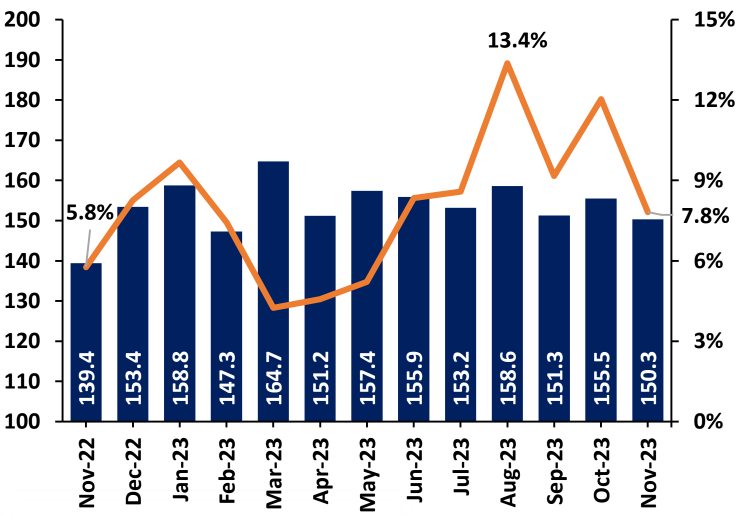
India's Goods and Services Tax (GST) collections in Dec - 23 clocked in at Rs. 1,64,882 crores, marking a 10.3% year-on-year growth but a slight dip from November's tally of Rs. 1,67,929 crores. While the decrease may raise eyebrows, a closer look reveals a positive story of resilience and continued economic activity. During the Apr-Dec - 23 period, gross GST collection witnessed a robust 12% YoY growth, reaching Rs. 14.97 lakh crore, as against Rs. 13.40 lakh crore collected in the same period of the previous year (Apr-Dec - 22). The government has settled Rs. 40,057 crores to CGST and Rs. 33,652 crores to SGST from IGST. The total revenue of the Centre and the States in the month of Dec 2023 after regular settlement is Rs. 70,501 crores for CGST and Rs. 71,587 crores for the SGST. While the December dip warrants monitoring, the overall trend remains positive. With the festive season behind us and global uncertainties lingering, it will be crucial to observe how GST collections fare in the coming months. Continued focus on boosting domestic demand and streamlining compliance procedures will be key to maintaining this positive momentum.



FII FLOWS

During CY23, the Indian equity market experienced a significant boost, thanks to the substantial contribution of Foreign Portfolio Investors (FPIs). In total, FPIs invested an impressive amount of Rs. 1,71,107 crores, with the month of December alone accounting for approximately 40% of the total inflows for the year, at Rs. 66,134 crores. Debt segment also saw an inflow of Rs. 14,156 crores. In CY23, FII have invested total of Rs. 60,217 crores in Indian debt market. Sector-wise, in Dec-23, major inflows were seen Financial Services, Capital Goods, and IT. While major outflows were witnessed in the Media & Entertainment, Oil & Gas, and Textiles. This investment surge can be attributed to various favourable factors, such as stable economic conditions, and the Fed announcing rate cuts in CY24. This investment influx highlights India's growth potential and economic resilience, positioning the country as an attractive destination for foreign investors.



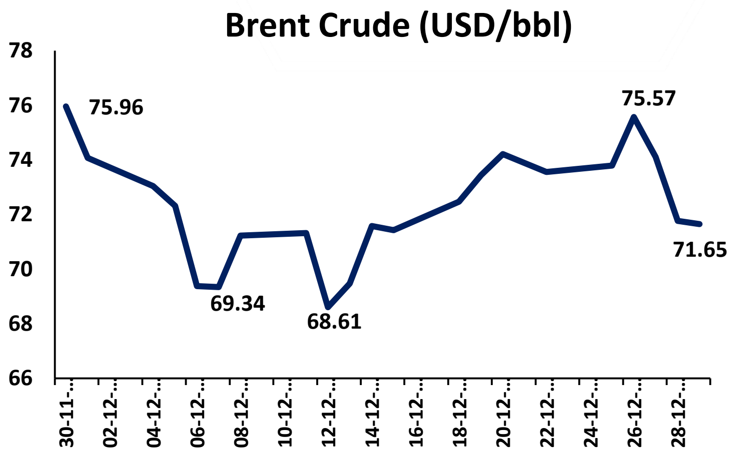


CORE SECTOR

India's eight core infrastructure (ICI) sectors grew by 7.8% in Nov-23, the slowest since May but higher than the Nov-22, growth was driven by coal and refinery products. In Nov-23, the ICI moderated from the double-digit growth witnessed in Oct-23 (12.0%). In Nov-23, ICI had recorded growth across key sectors: coal production has risen by 10.9%, natural gas by 7.6%, refinery products by 12.4%, fertilizers by 3.4%, steel by 9.1%, and electricity by 5.6%, highlighting broad-based growth. The only laggard was crude oil (-0.4%) and cement production (-3.6%) contracted due to a construction sector slowdown. The contraction in cement is linked to restrictions from air pollution, causing a decline in production. During the April-November period of FY24, the combined output of core industries expanded by 8.6% compared to the same period last year, demonstrating continued resilience. Despite the moderation, November's core sector growth suggests that India's industrial sector remains on track for a resilient year. Continued government focus on infrastructure development, coupled with supportive policy measures, could further bolster industrial activity.

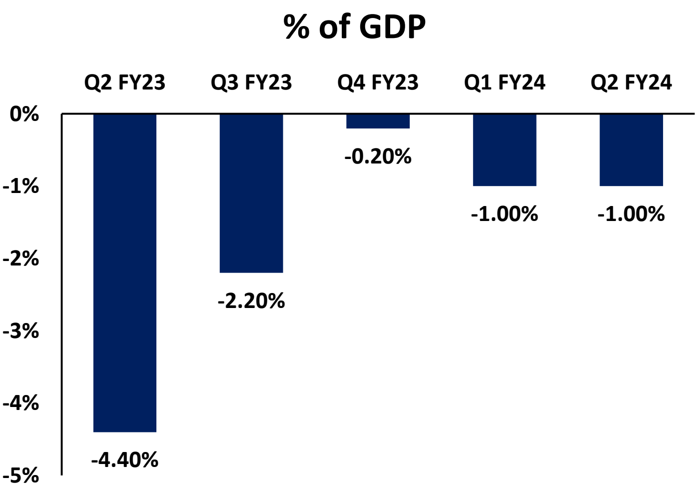
Crude Oil

The crude oil prices experienced considerable volatility on December 23, owing to several events. The month commenced with a weakness in the prices, primarily due to the anticipation of high crude inventories in the United States. As a result, the prices dropped below $70/bbl, touching a low of $68.61/bbl by December 12. The prices remained volatile because of the scheduled Federal Open Market Committee (FOMC) meeting during the same period. The Federal Reserve, during the meeting, retained the policy rates, signalling rate cuts in CY24, and boosting the sentiments, thereby driving the prices up from the lows. Additionally, the prices experienced an upswing due to the observed attacks on the major oil route in the Red Sea, causing them to reach a high of $75.57/bbl. However, as the disruptions were resolved towards the end of the month, the prices eventually closed down by 5.67% at $71.65/bbl.



Balance of Payment

As per the data released by the Reserve Bank of India (RBI), the current account deficit (CAD) of India has narrowed to $8.3 billion, which is approximately 1.0% of the GDP, in Q2FY24. This contrasts with the CAD of $9.2 billion (1.0% of GDP) in Q1FY24 and $30.9 billion (3.8% of GDP) in Q2FY23. For H1FY24, the CAD was 1.0% of GDP, compared to 2.9% in H1FY23. The reduction in the current account deficit on a YoY basis can be attributed to the narrowing of the merchandise trade deficit, which has decreased to US$ 61.0 billion from US$ 78.3 billion. Furthermore, the services exports have grown by 4.2% on a YoY basis, primarily due to the surge in exports of software, business, and travel services. Net service receipts have increased both sequentially and, on a YoY basis. Private transfer receipts, which mainly represent remittances by Indians employed overseas, amounted to US$ 28.1 billion, an increase of 2.6% from their level in the corresponding period of the previous year. In contrast, portfolio investment recorded a net inflow of US$ 20.7 billion in H124 as opposed to an outflow of US$ 8.1 billion in H1FY23. However, net foreign direct investment (FDI) inflow was lower at US$ 4.8 billion in H1FY24 than the US$ 19.6 billion recorded in H1FY23.



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