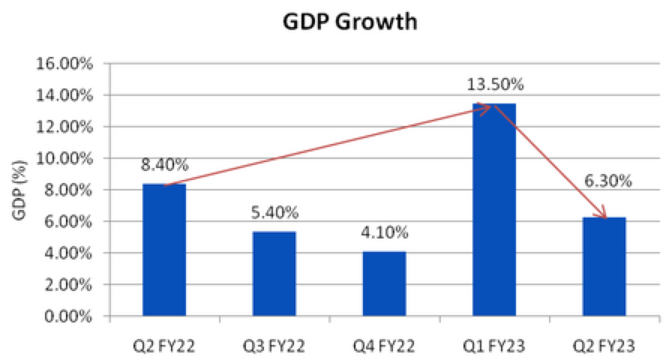
MONTHLY MACRO REVIEW

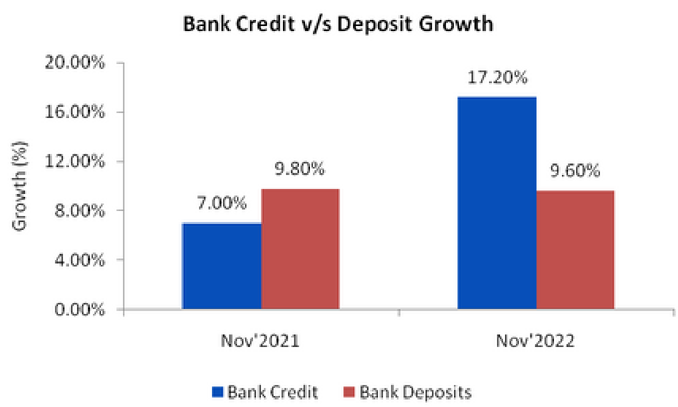
DECEMBER 2022

BONANZA WEALTH

GDP GROWTH

GDP growth slowed to 6.3% YoY in Q2 FY23 as compared to 13.5% YoY in Q1 FY23 and 8.4% in Q2 FY22. Growth slowdown was led by contraction in the manufacturing sector (-4.3% in Q2 vs 4.8% in Q1) owing to the impact of high input prices on margins in certain sectors. Further, normalization was observed in growth rates compared to previous quarter due to waning Covid effect. However, service activity, especially contact services, travel and transport (14.7% in Q2 vs 25.7% in Q1) continued to exhibit resilient recovery. On the demand side, private consumption (as % of GDP; 58.4% in Q2 vs 59.9% in Q1) declined as the pent-up demand effect faded and elevated inflation hurt consumer spending. Going forward, a significant increase in steel consumption and the sale of commercial vehicles augurs well for coming quarters while export growth slowdown and weak consumption could present downside risks to the GDP outlook.



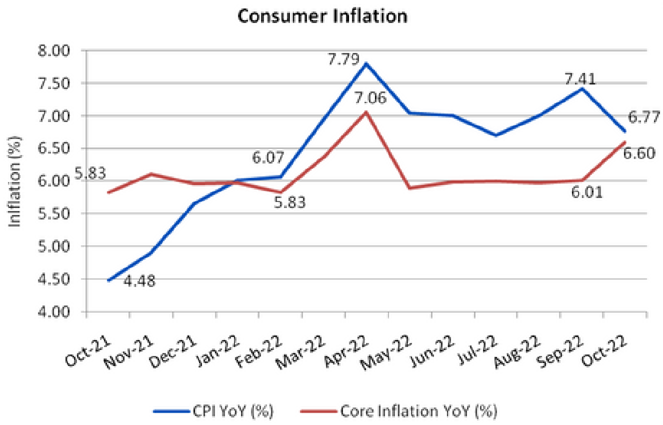


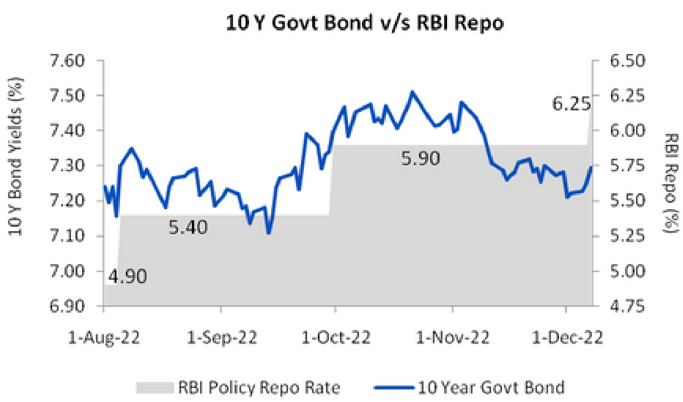
CREDIT GROWTH

Outstanding bank credit surged by 17.2% for the fortnight ended 18th Nov'22 as compared to just 7.0% in Nov'21. On the other hand, aggregate deposits rose by 9.6%, slightly lower than last year's 9.8%. On an absolute basis, outstanding bank credit stood at Rs 129.5 lakh crore while bank deposits stood at Rs 172.9 lakh crore. FY23 has witnessed a steady rise in credit growth driven by a variety of reasons, including economic growth, borrowers' shift to the bank as against other credit substitutes amid rising interest rates. While urban demand appears robust, rural demand, which was muted has also started taking off. Commercial bank credit growth too has been surging, led by services (22.5%), personal loans (20.2%), agriculture (13.6%) and industry (13.6%).

INFLATION

Consumer Price Inflation (CPI) cooled to a three-month low of 6.77% in Oct'22 from 7.41% in Sep'22, led by decline in food inflation. However, core inflation, which excludes inflation due to food and fuel, rose to 6.6% in Oct'22 from 6.1% in Sep'22 primarily driven by higher prices of clothing & footwear (10.2%), personal care & effects (7.0%) and household goods & services (7.6%). Food inflation eased on the back of a favorable base effect and due to decline in vegetable prices while fuel prices remained elevated. Although inflation declined on a YoY basis, data shows that inflation expanded on a MoM basis. Overall, headline CPI continued to remain elevated over the upper level of the 2-6% range set by the RBI as exogenous price shocks such as geopolitical factors and supply chain disruptions continue to exert upward inflationary pressures. Given this scenario, inflation is likely to remain elevated, even though we expect it to cool down in the range of 6.2%-6.4% for the month of Nov'22.



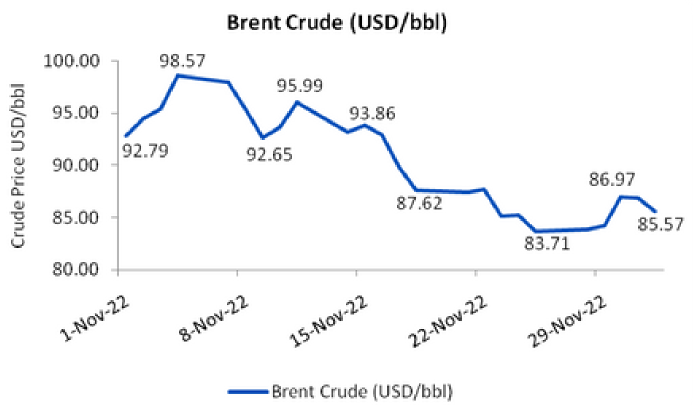


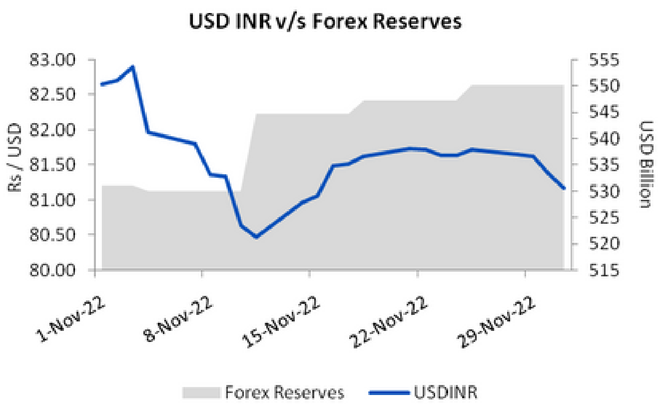
MONETARY POLICY

The RBI's Monetary Policy Committee (MPC) hiked the repo rate for the fifth time in a row, this time by 35 bps to 6.25% in its Dec 7th meeting. MPC was of the view that further calibrated monetary policy action is warranted to keep inflation expectations anchored, break the persistence of core inflation and contain second round effects. In line with this thought process, the RBI decided to continue its withdrawal of accommodation. Additionally, the RBI lowered its expectations for GDP growth in FY23 from 7% to 6.8% and maintained its inflation expectations for FY23 at 6.7% taking into consideration uncertainty in commodities prices and forecasting average crude oil price at $100 / bbl for FY23. Overall, the MPC's decision was in line with the street expectations. However, this also means that room for further rate hikes gets narrowed keeping in mind the sustenance of growth momentum.

CRUDE OIL

Brent crude prices traded in the range of $83.71 per barrel to $98.57 per barrel in Nov'22. Crude prices were on a consistent decline during the month. Crude prices slipped during the first half of Nov'22 on fears of recession on account of higher-than-expected rate hikes by the Fed and fresh concerns that Covid outbreaks will dent fuel demand in China. Relatively warmer weather in North America and reducing concerns about winter heating fuel supplies coupled with a build-up in supplies in Europe, further drove down oil prices. Crude price declines on signs of weaker demand in Europe and United States and a period of recession in the UK are likely to offset price gains due to OPEC's decision to cut oil production by 2 mbpd and EU embargo of Russian crude exports starting Dec 5. Given the above scenario, crude prices are likely to remain range bound in the short term with a negative bias.



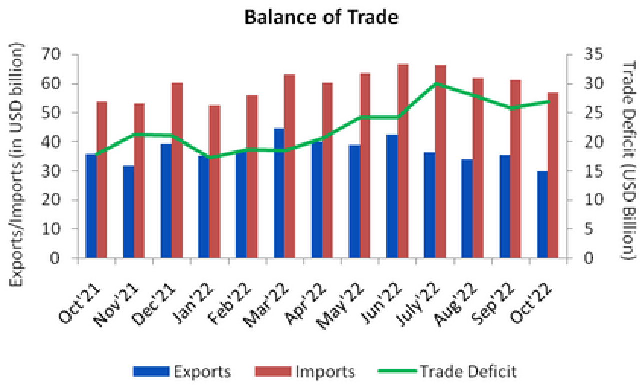


RUPEE MOVEMENT

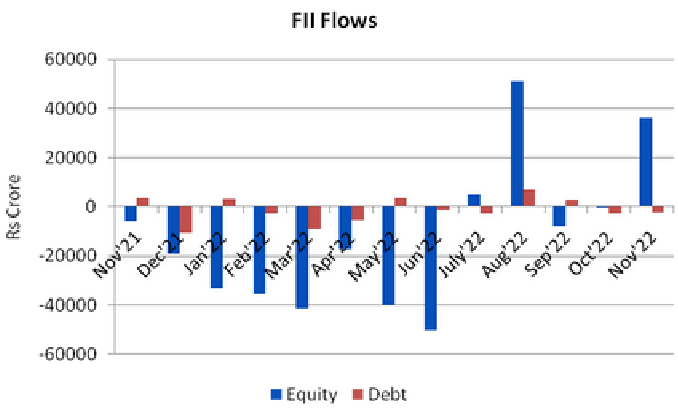
In the month of Nov'22, the Rupee reversed direction and gained 1.7% against the dollar. The Rupee, which started the month at 82.77 / USD appreciated to 81.37 / USD at month end. Rupee touched a high of 82.90 / USD at the beginning of the month after the Fed announced another 75 bps rate hike in its Nov 1-2 meeting. However, the Rupee turned direction after US inflation came in well below expectations at 7.7%, raising hopes of lower quantum of rate hikes by the Fed going forward. The subsequent decline in the dollar index led to appreciation across currencies benefitting the Rupee overall. This allowed the RBI to stop selling its forex reserves and accumulate more reserves instead. The anticipation of lower Fed rate hikes, reopening of China and declining US inflation are likely to provide more policy room and easier financial conditions and also allow for portfolio inflows into emerging markets like India.

BALANCE OF TRADE

Merchandise exports in Oct'22 were $29.8 billion, as compared to $35.4 billion in Sep' 22, showing a decline of 19% on a sequential basis. Merchandise imports also declined from $61.2 billion in Sep'22 to $56.7 billion in Oct'22. The merchandise trade deficit in Oct'22 was estimated at $26.9 billion as against $25.7 billion in Sep'22, widening by 4.6%. Exports in October fell below $30 billion for the first time in nearly 20 months. Slowing global demand is weighing on merchandise exports while some moderation in imports could be attributed to softening of global commodity prices. At the same time, the impact of the terms of trade shock due to the war in Ukraine is getting gradually normalized. The overall trade situation is a reflection of toughening global trade conditions amid demand slowdown on account of high inventories, elevated inflation, economies entering recession, high volatility in currencies and geopolitical tensions.



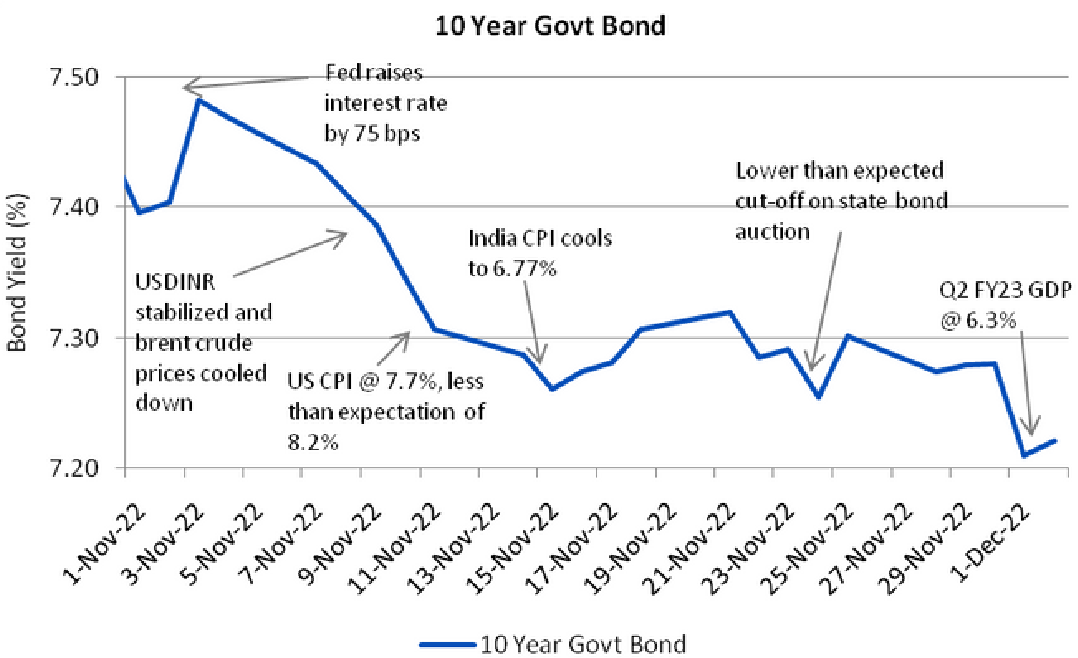
FOREIGN FLOWS



November witnessed net FII inflows to the tune of Rs 33,847 crore. Out of this, equity inflows surged at Rs 36,239 crore whereas the debt segment saw continued outflows of Rs 2,177 crore. Foreign flows reversed direction in the equity segment after declining US inflation data indicated Fed may slow its pace of tightening of interest rates. Stable corporate earnings in the second quarter of FY23 and surging bank credit growth led to heightened investor confidence in the domestic markets. However, the pace of inflows will be dictated by the course of global inflation, pace of rate hikes by Fed and geopolitical tensions between Russia and Ukraine.

10 YEAR BENCHMARK GOVERNMENT BOND YIELDS:

Yields on the new 10-Year benchmark bond – 7.26% GS 2032 – traded in the range of 7.21% to 7.48% in Nov'22. Yields peaked at the start of the month owing to uncertainty around US inflation and in anticipation of huge rate hikes by US Fed to combat rising inflation. However, yields have since cooled after US inflation for Oct'22 came in below expectations while domestic inflation also showed signs of abating as commodity prices moderated globally. As the FII flows came back to the Indian markets, the Rupee stabilized, warranting reduced forex intervention by the RBI. Although, yields rose temporarily post RBI's rate hike on Dec 7th, yields continued to decline on RBI's statement that inflation is on the path of moderation. Going forward, foreign investors and banks that have stepped up their purchases of Indian government bonds in the last few weeks are likely to buy more in December as stability in terminal fed funds pricing has helped ease financial conditions and boosted demand for carry. Having said that, higher Government borrowings are likely to offset the gains from above factors. Also, uncertainty around crude prices and other geopolitical factors are likely to prevent any major decline in bond yields. Given this scenario, we expect bond yields to trade in the range of 7.10% - 7.40% in the month of December.



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