MONTHLY MACRO REVIEW

February 2024

BONANZA WEALTH

FED POLICY Decision

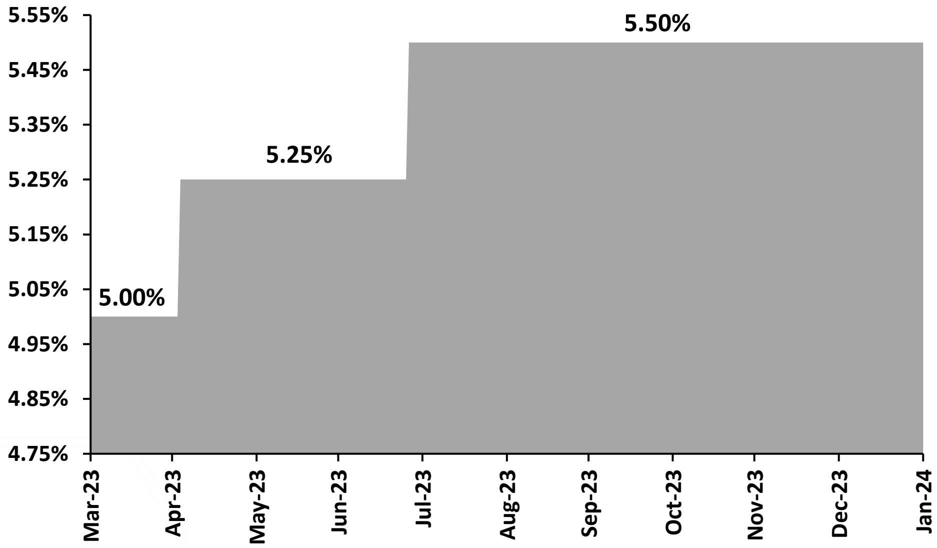
The Federal Open Market Committee (FOMC) unanimously decided to keep the target range for the federal funds rate unchanged at 5.25% - 5.50% on 31st Jan 2024. The decision offered a temporary relief to the market however one statement regarding the March meeting sent the market tumbling.

Despite a welcome decline in headline and core PCE inflation readings, both remain above the Committee's long-run objective. Total PCE prices rose 2.6%, while core PCE prices rising 2.9% year-over-year in Dec – 23. Similarly, the job growth has moderated from its highs but remains healthy. The unemployment rate stays near historic lows, averaging 165,000 per month over the past three months with the unemployment rate stands at 3.7%, reflecting the tight labour market.

Considering recent data, the FOMC signalled the policy rate have likely peaked for the current tightening cycle. However, the economic outlook remains uncertain, and further policy adjustments may be necessary. FOMC cautioned reducing policy restraint too soon or too much could result in a reversal of the progress and ultimately require even tighter policy to get inflation back to 2%. At the same time, reducing policy restraint too late or too little could unduly weaken economic activity and employment.

Mr. Powell explicitly said "…I don't think it's likely that the Committee will reach a level of confidence by the time of the March meeting to identify March as the time to do that (rate cut)…". This statement spooked the market resulting in a sell-off. However, this also make the possibility of a rate cut in Apr – 24 very high.

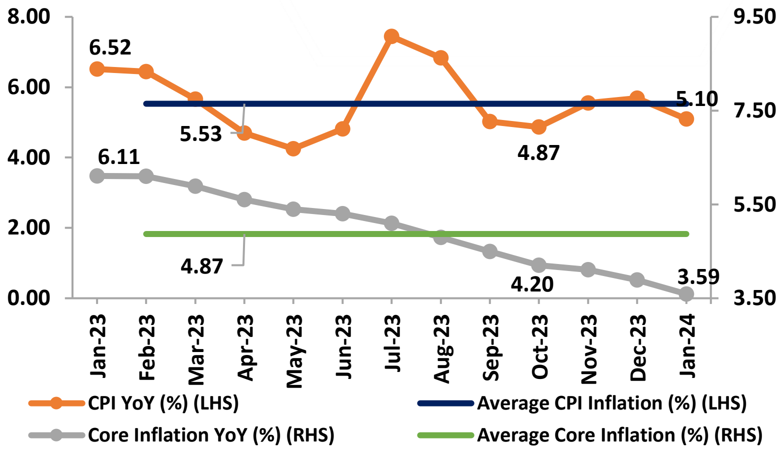
Overall, the policy statement reiterated the FOMC's unwavering commitment to utilizing all available tools to achieve its dual mandate of restoring price stability to promote a sustainable and inclusive economic environment.



CPI INFLATION

India's Consumer Price Index (CPI) inflation moderated to 5.1% in Jan-24, breaking its upward trajectory of past 2 months. The moderation was driven by a favourable base and cooling of food prices. Although CPI print remained within the RBI tolerance band of 2-6%, but it has now spent 52 consecutive months above RBI medium target of 4%. Within food items, fruits and vegetables have contracted over sequential basis by 2% and 4.2%, respectively.

On the other hand, the Core CPI, a non-volatile component of CPI, remained in its declining trajectory by falling further to 3.6% from 3.9% in Dec-23 staying below the 4% threshold for two consecutive months. The recent reduction in LPG prices have contributed to deflation in Light and Fuel category, which is reflecting reduction in Core CPI. Headline inflation is declining, but food inflation remains high. Rabi sowing is promising, but Kharif production will decrease, requiring government interventions. Favorable base effect until July 2024 will mitigate upward price pressure risks, and an early harvest arrival should ease prices further.

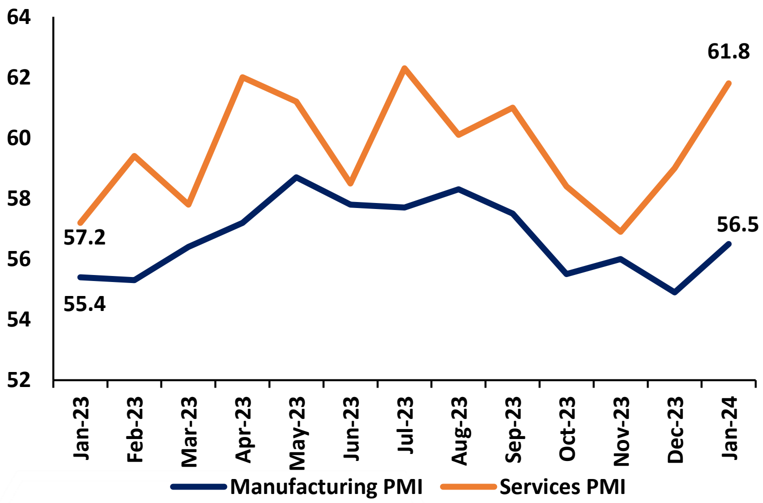


PMI INDICATORS

India's January PMI data showcased encouraging signs of continued economic growth. The composite PMI climbed to 61.2, indicating robust expansion across both manufacturing and services sectors. Manufacturing PMI reached a four-month high at 56.5, fuelled by rising new orders and production. Service sector PMI was 61.8 on the back of the sharpest rate of expansion in 6 months.

Encouragingly, employment also saw positive momentum, with both manufacturing and services witnessing job creation. However, inflationary pressures persist, with input costs rising in both sectors. While manufacturers passed on some cost increases to clients, service providers absorbed a larger share, potentially impacting margins.

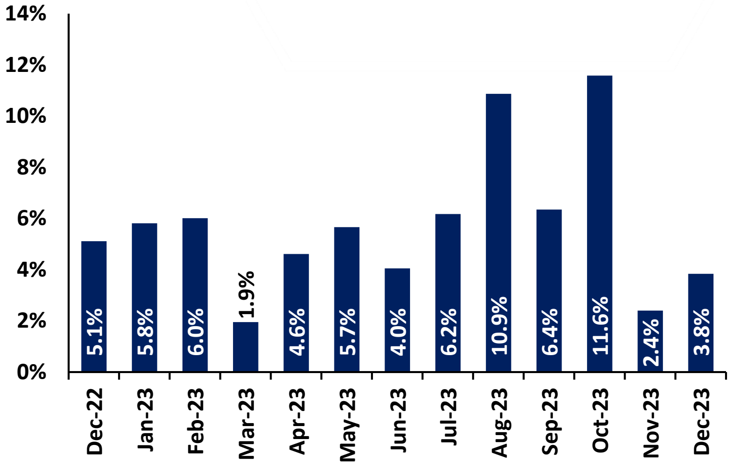
Looking ahead, the key focus remains on input cost inflation which rose at the quickest rate in three months. Prolonged inflationary pressures could prompt the RBI to hold rates higher to manage inflation, potentially impacting borrowing costs and business sentiment.



IIP GROWTH

India's Industrial Production (IIP) for Dec-23 inched up to 3.8% (provisional), the latest IIP print is above from Nov-23 print of 2.4%. Meanwhile, IIP for Apr-23 to Dec-23 grew by 6.1% as against same period last year at 5.5%. IIP grew despite sharp fall in core sector, which constitutes 40% weight of IIP. The sequential growth in IIP was driven by broad-based growth, despite unfavourable base.

Within the sectoral based, all sectors witnessed growth, Mining (5.1%), Manufacturing (3.9%), and Electricity (1.2%). Out of the 23 categories within the manufacturing sector, twelve saw a YoY increase in output. Basic metals, accounting for 12.8% of the weight, witnessed a growth of 7.3%. Within the use-based classification, with all categories recording growth. Primary Goods (4.62%), Capital Goods (3.20%), Intermediate Goods (3.37%), Infrastructure goods (4.10%), Consumer durables (4.78%), Consumer non-durables (2.06%). Primary goods witnessed sequential moderation in Dec-23, with all five other showing improvement. We expect IIP print for Jan-24 to be in upward trajectory based on other high frequency data.

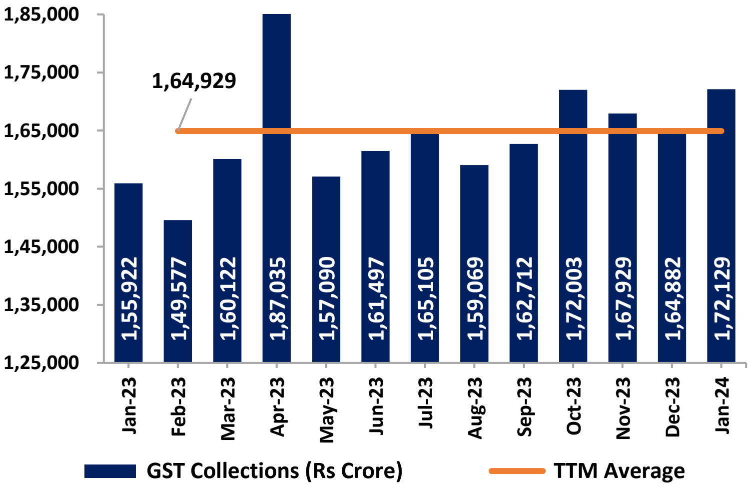


GST COLLECTIONS

The Gross GST collections for Jan – 24 marked a robust 10.4% Y-o-Y growth to reach Rs. 1,72,129 crs. This surpasses the Rs. 1,55,922 crs collected in Jan – 23 and represents a healthy 4.4% increase on a Q-o-Q basis from Dec – 23 Rs. 1,64,882 crs.

This impressive performance signifies the third time in FY24 that Gross GST collections have breached the Rs. 1.70 lakh crore mark, and the second-highest monthly collection ever recorded. Furthermore, the total collection for the period Apr – 23 to Jan – 24 stands at a commendable Rs. 16,69,451 crs, reflecting a 11.6% Y-o-Y increase compared to the previous year's Rs. 14,96,348 crs. This translates to a TTM average Gross GST collection of Rs. 1,64,929 crs.

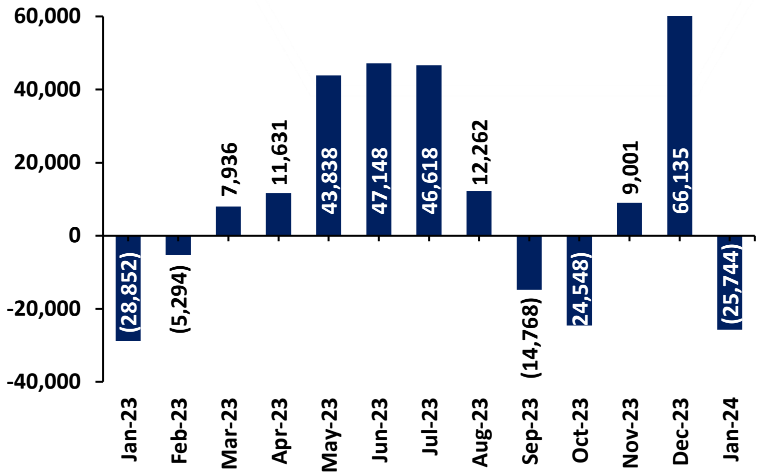
Echoing the positive sentiment, the Union Budget speech highlighted the positive impact of GST implementation on state revenue generation. The finance minister said the combined SGST revenue and compensation released to states during the post-GST period 2017-18 to 2022-23 observed a remarkable tax buoyancy of 1.22. This is in stark contrast to the pre-GST era of 2012-13 to 2015-16, where the tax buoyancy of state revenues was a mere 0.72.

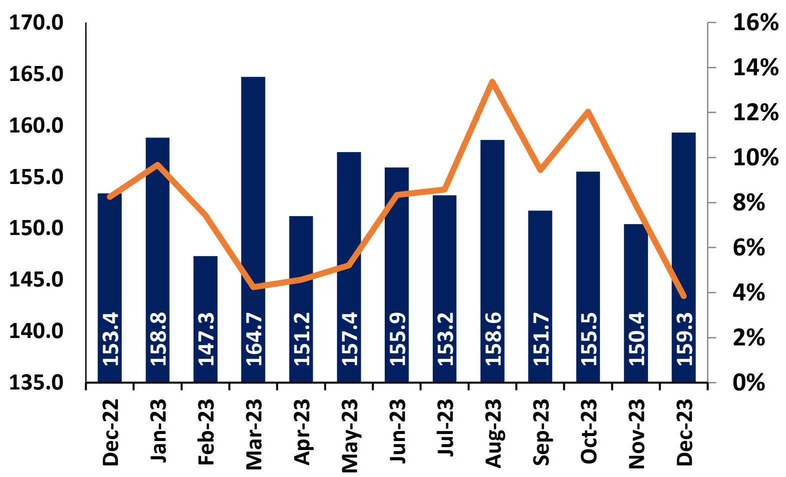


FII FLOWS

In Jan-24, Indian equity market have witnessed highest outflows as Foreign Institutional Investors (FIIs) pulling out Rs. 25,744 crores from Indian exchanges. This marks the highest FIIs outflows from Indian equity markets since Jan-23. This sell-off could mainly be attributed to caution ahead of India's Union Budget and concerns over FED policy. The disappointing quarterly results of select major banks and coupled with a concern over elevated valuations of domestic equities also played role. However, debt segment saw an inflow of Rs. 19,126 crores.

Sector-wise, in Jan-24, major inflows were seen in IT, Oil & Gas and Telecommunication. While major outflows were seen in Financial Services, FMCG, and Automobiles and ancillaries. India's economy sees stable growth with manageable inflation and borrowing costs. Government capex should balance fiscal deficit and growth. H1 2024 may see equity volatility due to elections and global changes in central banks' views on interest rates.





Core Sector

The combined Index of eight core industries (ICI) sector grew by 3.8% in Dec-23, lowest in 14 months. In Nov-23, ICI print was at 7.8% (revised to 7.9%), driven by coal and refinery products. In 9MFY24, the output grew by 8.1% YoY, the same in line with the 9MFY23. In Dec-23, ICI has recorded growth across all sectors except crude oil which declined. Coal production has risen by 10.6%, natural gas by 6.6%, refinery products by 2.6%, fertilizers by 5.8%, steel by 5.9%, cement by 1.3% and electricity by 0.6%.

The only laggard was crude oil which de-grew by 1.0%. The moderation in ICI is attributed to high base and slowdown in infrastructure spending. Steel production showed decent growth given the high base effect, driven by growing demand for capital goods and automobiles. Going ahead, the ICI may moderate further in the fourth quarter due to less favourable base.

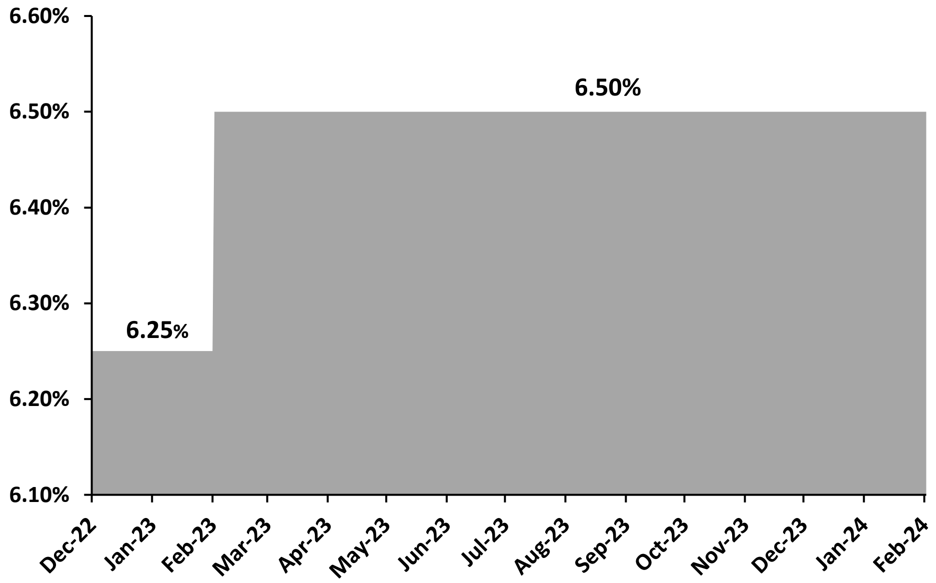
RBI MPC

The Reserve Bank of India's (RBI) Monetary Policy Committee (MPC) held the repo rate at 6.5%, marking the sixth consecutive time along with the policy stance being unchanged at withdrawal of accommodation. This underscores the RBI's cautious approach which disappointed the market. The consensus was, although the rates may remain unchanged, the policy stance would shift to neutral. Inflation, although declining from its earlier highs, remains above the RBI's target range of 2-6%. The unchanged stance was one of the causes for the immediate sell-off.

Headline CPI inflation for Dec – 23 stood at 5.7%, while Core Inflation continued the downward trajectory to reach 3.9%. The RBI projected inflation for FY24 at 5.4% and for FY25 at 4.5 with the quarterly breakdown being Q1: 5%, Q2: 4%, Q3: 4.6%, Q4: 4.7%.

With regards to GDP growth the RBI's MPC projects FY25 at 7% with the quarterly breakdown being Q1: 7.2% (raised from 6.5%), Q2: 6.8%, Q3: 7%, Q4: 6.9%), highlighting an optimistic outlook for the Indian economy. This aligns with IMF and World Bank estimates, further reinforcing confidence.

Additionally, a significant announcement was made by Governor Das regarding the extension of Key Fact Statement for retail and MSME loans is designed to provide customers with a clear understanding of the actual annualised interest rate and the overall financial commitment associated with the loan, including all fees and additional charges. This would effectively have an impact the non-interest income of banks, leading to massive downturn in the financial stocks.



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