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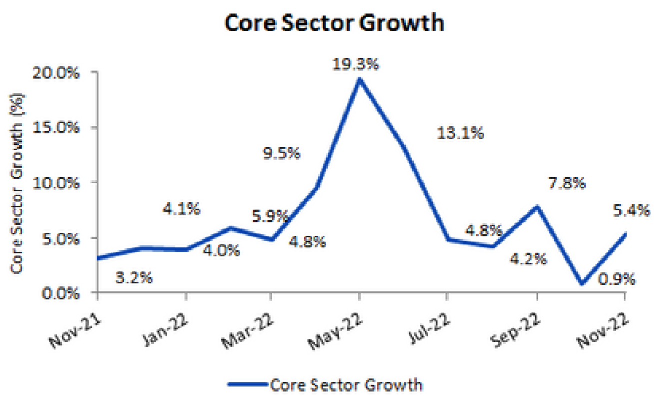
MONTHLY MACRO REVIEW

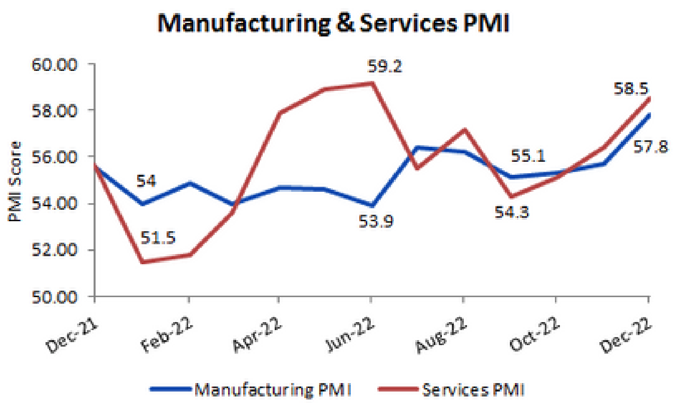
JANUARY 2023

BONANZA WEALTH

CORE SECTOR

Core sector grew by 5.4% in Nov'22 compared to 3.2% in Nov'21. Coal production rose by 12.3%, fertilizers by 6.4%, steel by 10.8%, cement by 28.6% and electricity by 12.1% in Nov'22. On the other hand, the output of crude oil declined by 1.1%, natural gas by 0.7% and refinery products by 9.3%. Core sector growth stood at 8% in April-November this fiscal as against 13.9% during the same period last fiscal. Growth in Nov'22 comes in the wake of the 0.9% increase in Oct'22, which was a 20-month low on account of a high base and weak activities. It may be noted that although the core sector posted good growth in November, the recovery was not broad-based. Hence, IIP is expected to slow in Nov'22 as core sector contributes roughly 40% of the weighting of the items in the IIP. November core output is significant because it would be the last set of macro data that will be factored in the first advance estimates of GDP, which came in at 7% for FY23, a slight improvement over RBI's projections of 6.8%.



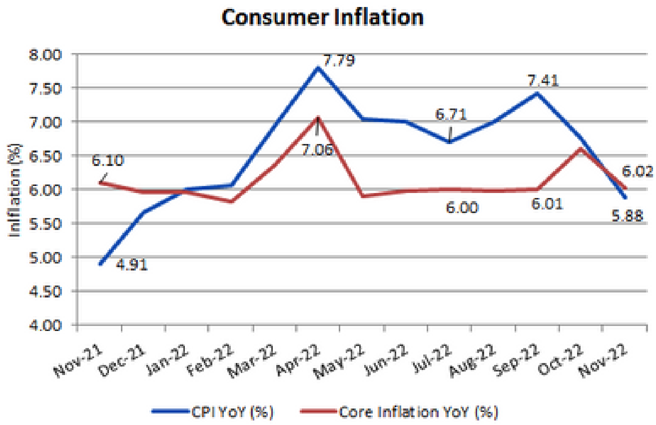


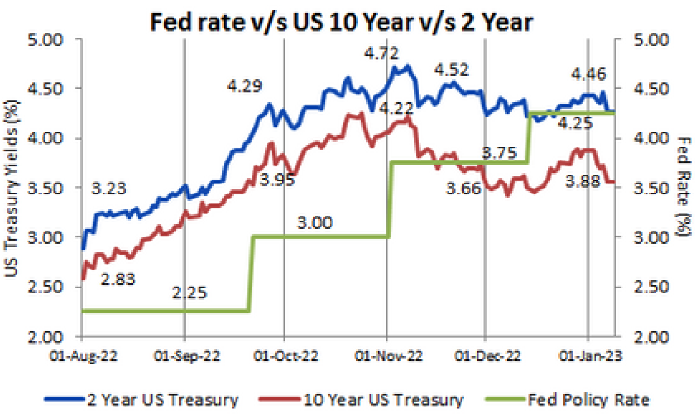
PMI INDICATORS

S&P Global India Manufacturing Purchasing Managers' Index (PMI) rose to 57.8 in Dec'22, up from 55.7 in Nov'22, highlighting a very positive ending to 2022 at Indian manufacturers, as business conditions improved to the greatest extent in over two years. Demand resilience boosted sales growth in Dec'22, with the rate of increase picking up to the quickest since Feb'21. International demand for Indian goods also improved, but did so to a lesser extent than in Nov'22. The upturn in output was sharp and the best seen since Nov'21. On the other hand, the S&P Global India Services PMI rose from 56.4 in Nov'22 to 58.5 in Dec'22, highlighting the strongest rate of expansion since mid-2022. For 2023, companies signaled strong optimism towards the outlook for output. Although, competitive pressures and inflation concerns remained, the overall level of positive sentiment was above its long-run average.

INFLATION

Consumer Price Inflation (CPI) declined to a 11-month low in Nov'22 at 5.88% as compared to 6.77% in Oct'22 aided by decline in food inflation and a higher base. Core inflation, which excludes inflation due to food and fuel, remained elevated at 6.02% in Nov'22 as compared to 6.6% in Oct'22 as the second order effects of inflation during the previous months was felt across all components of the core. Even on a sequential MoM basis, the core seems to be on a rising trend. However, the good news is that the incremental rise is beginning to fade. Overall, headline inflation temporarily dropped to within the RBI's 2%-6% target range as food prices moderated. Going forward, the direction of food prices will be determined by the ability of the healthy rabi sowing this season to offset the impact of higher rice, wheat and edible oil prices. For now, the headline inflation is likely to claw back upwards into the 6-7% zone. For Dec'22, inflation is expected in the range of 6.3%-6.5%.



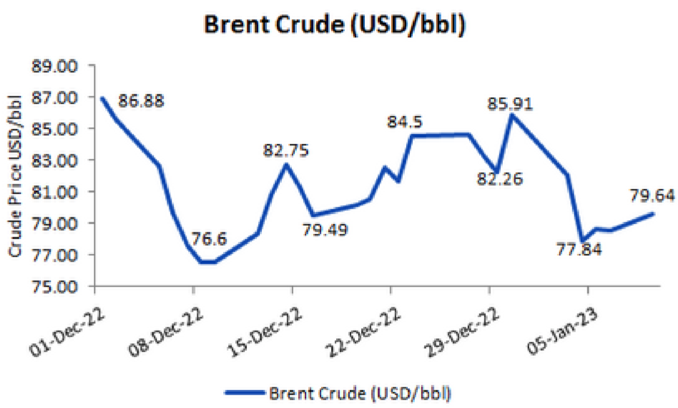


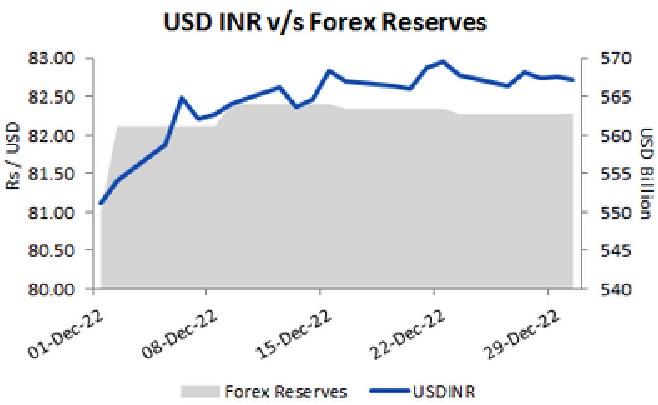
FED DECISION

The US Federal Reserve announced another 50 bps interest rate hike in its December 13-14 meeting, raising the federal funds rate to a target range of 4.25%-4.50%, the highest in 15 years. Along with the increase came an indication that officials expect to keep rates higher through next year, with no reductions until 2024. The expected terminal rate where Fed expects to end the rate hikes was put at 5.1%. The Fed committee noted that a restrictive policy stance would need to be maintained until the incoming data provided confidence that inflation was on a sustained downward path to 2%, which was likely to take some time. Given the Fed's resolve, traders and analysts expect Fed to increase the target Fed Funds rate by another quarter point in its upcoming meeting on Feb 1.

CRUDE OIL

Brent crude prices traded in the range of $76.59 per barrel to $86.88 per barrel in Dec’22. Crude prices continued their decline at the start of the month as strong economic data in US revived concerns that the Federal Reserve will rapidly lift borrowing costs to tame inflation, weighing heavily on crude outlook. Prices witnessed a rebound in the middle of the month after OPEC stuck to its forecasts for global oil demand growth of 2.25 million bpd in 2023, saying that while economic slowdown was "quite evident" there was potential upside such as from a relaxation of China's zero-Covid policy. Expectations of lower Russian exports of crude from the Baltic region in December, further supported the prices even as China eased travel restrictions. However, sharp increase in Covid cases in China raised serious concerns over a potential global outbreak while continued rise in interest rates by central banks across the world also weighed on investors’ sentiment, keeping crude prices subdued to end the year.



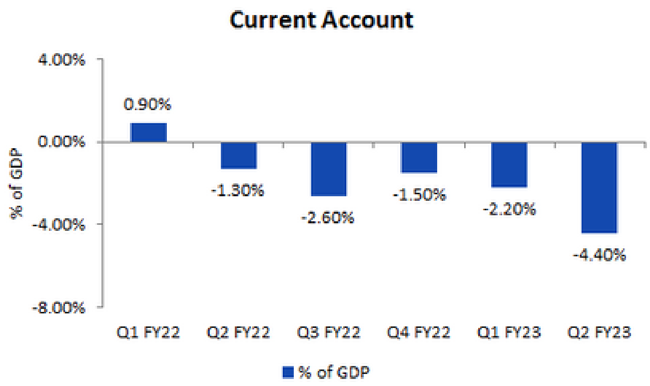


RUPEE MOVEMENT

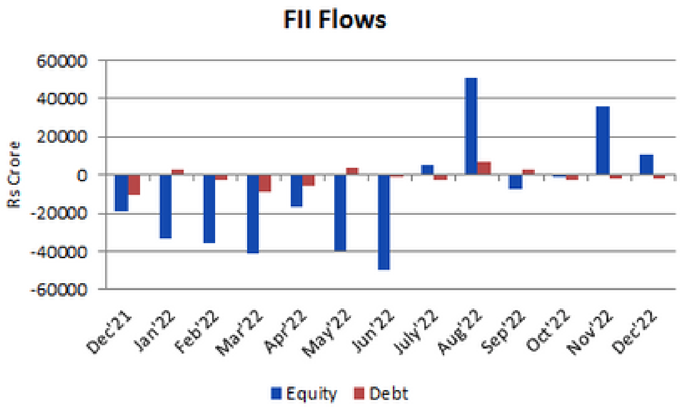
In the month of Dec’22, Rupee depreciated by 1.7% against USD. The Rupee, which started the month at 81.37/USD depreciated to 82.72/USD at month end as RBI added approx. $12 billion to the forex reserves in Dec’22. The Indian rupee ended 2022 as the worst-performing Asian currency declining 11.3%, its biggest since 2013, as the dollar rocketed on the U.S. Fed’s aggressive monetary policy stance to tame inflation. The rupee was also affected due to spike in oil prices sparked by the Russia-Ukraine conflict, which pushed India’s current account deficit to a record high in the Sep'22 quarter in absolute terms. In 2023, the rupee is likely to benefit from easing commodity prices. However, recession risks, tight global monetary policy conditions, geopolitical uncertainties and direction of equity flows will be the key factors shaping the direction of the Rupee going forward. Most analysts, expect the Rupee to depreciate in the near term on account of gloomy global conditions.

CURRENT ACCOUNT

India's current account balance recorded a deficit of $36.4 billion (4.4% of GDP) in Q2 FY23, up from $18.2 billion (2.2% of GDP) in Q1 FY23 and a deficit of $9.7 billion (1.3% of GDP) a year ago [i.e., Q2 FY22]. The primary reason for the current account deficit was the widening of the merchandise trade deficit to $83.5 billion from $63.0 billion in Q1 FY23 and an increase in net outgo under investment income. Net outgo from the primary income account, mainly reflecting payments of investment income, increased to $12.0 billion from $9.8 billion a year ago. On the other hand, services exports reported a growth of 30.2% on a YoY basis on the back of rising exports of software, business and travel services. Going forward, decline in crude prices is likely to help narrow the deficit, however, global recessionary trends may offset these gains through reduced exports.



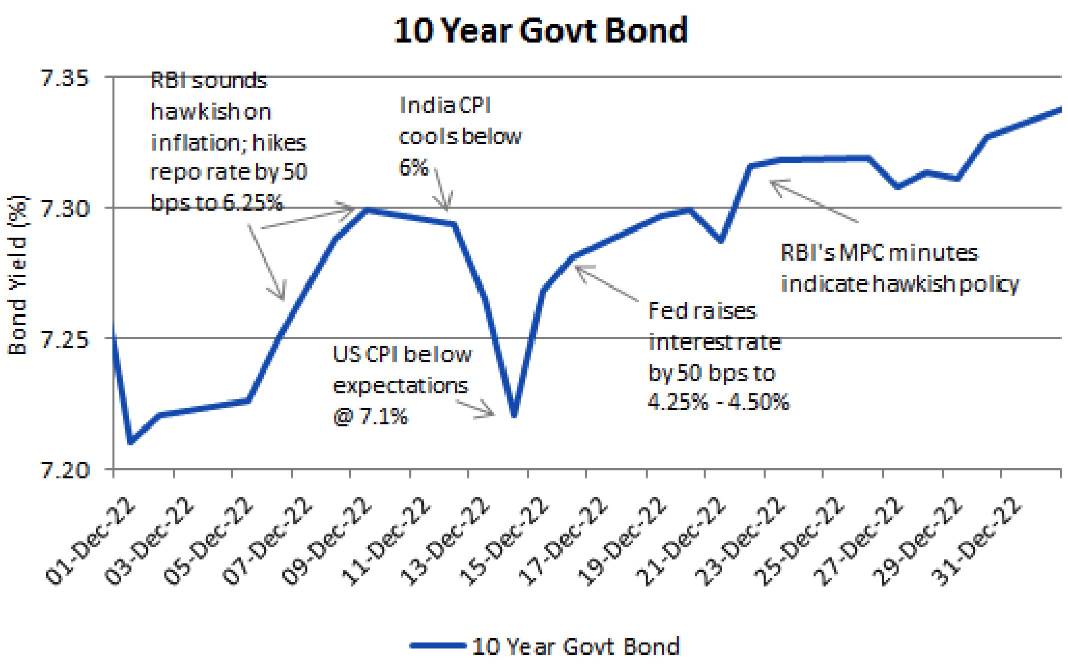
FOREIGN FLOWS



November witnessed net FII inflows to the tune of Rs 9,171 crore. Out of this, equity inflows continued the previous month's momentum at Rs 11,119 crore whereas the debt segment saw continued outflows of Rs 1,945 crore. In the first half of December, FPIs were buyers in auto, capital goods, FMCG, and real estate stocks. They were sellers in consumer durables, oil & gas, power, and financials. Concerns over Covid in China dampened the investor sentiments, and strong economic data from the US indicating continuation of the Fed's hawkish stance led to slowdown in the equity flows as compared to the previous month. Some of the key events that will drive FII flows in 2023 include global economic uncertainties, the Fed pivot, re-opening of China, geo-political uncertainties driven by Russia-Ukraine and China-Taiwan and the direction of crude prices.

10 YEAR BENCHMARK GOVERNMENT BOND YIELDS:

Yields on the 10-Year benchmark bond – 7.26% GS 2032 – traded in the range of 7.18% to 7.34% in Dec'22. Yields had declined in the initial days of the month on the back of strong buying of Indian Government bonds by foreign investors and banks amid expectations of softening in terms of policy expectations from both RBI and Fed. Stability in terminal fed funds pricing helped ease financial conditions and boosted demand for carry. However, yields rose after US posted strong economic data from its manufacturing and services sectors, indicating Fed may continue on with its rate hikes. Further, RBI's and Fed's expected rate hikes followed by hawkish policy expectations drove yields upwards despite cooling inflation prints on both domestic and global fronts. Going forward, the 10-Year benchmark bond yield is expected to rise further on the back of higher government borrowings leading to elevated supply coupled with a likelihood of tapering demand from banks. On the other hand, falling crude prices and recessionary uncertainties may act as a cap on rising yields. Given this scenario, we expect bond yields to trade in the range of 7.20% – 7.50% in the month of January 2023.



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