MONTHLY MACRO REVIEW

JULY 2023

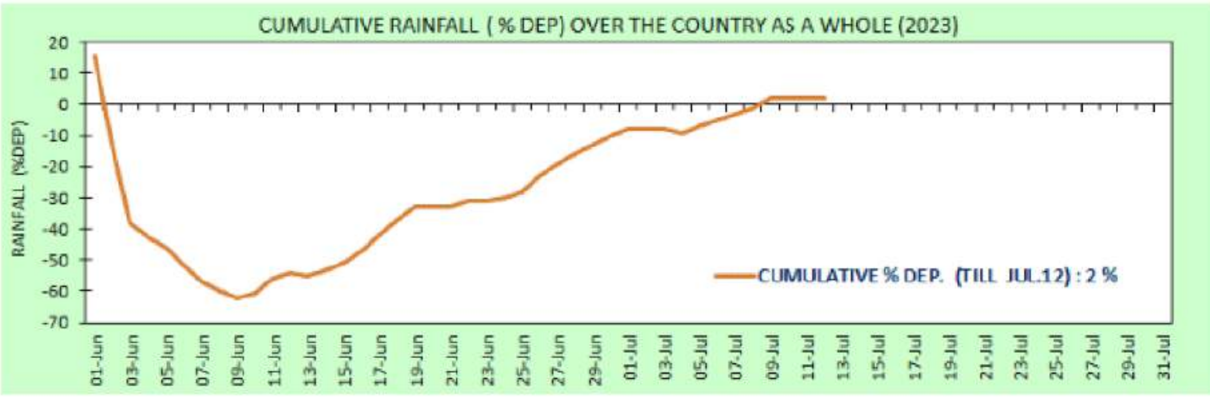
BONANZA WEALTH

MONSOON WATCH

The month of June marks the beginning of the Indian Monsoon season which is a significant event for the Indian capital market and economy. The monsoon season is a period that lays the foundation for a strong crop, which drives the rural economy. The IMD has forecasted the monsoon to be normal at 96% of the Long Period Average (LPA). According to the IMD, a normal monsoon is 96 - 104% of LPA. Therefore, the forecast for the current season is on the lower end of the normal monsoon. Sky Met private weather forecasted monsoon to be below normal at 94% of LPA. The primary reason for these forecasts can be attributed to a strong El Nino. El Niño is a cyclical climate pattern that occurs when the Central and Eastern Pacific Oceans warm above average. In India, El Niño typically results in below-average rainfall during the monsoon season.

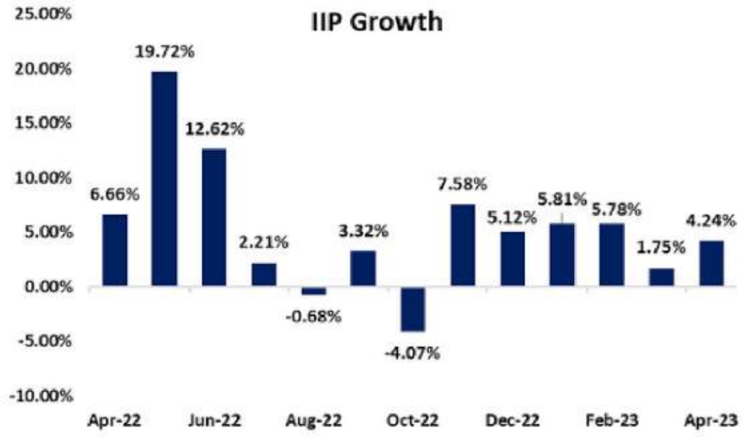
The southwest monsoon arrived with a delay of ˜7 days over Kerala and move slowly ahead, the delay was exasperated by cyclone Biparjoy over Gujarat and Rajasthan. The delayed onset led to large deficiencies across states, with Central and Southern India impacted the most. The rainfall deficit for the country as a whole reached ˜60%, however consistent and heavy rains towards the end of the month significantly reduced the deficit to 8%.

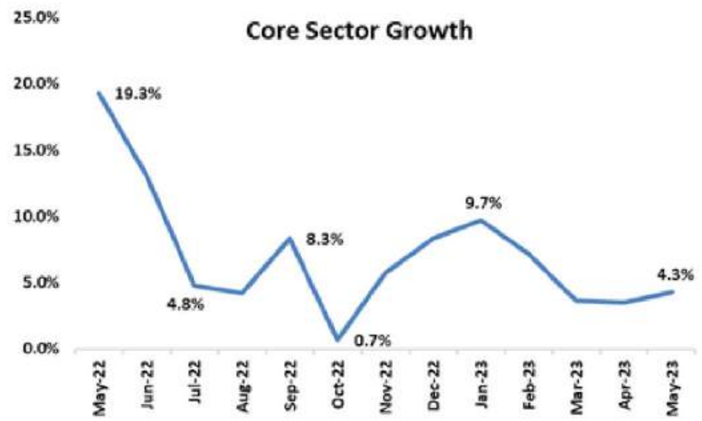
Another important point to note is the distribution of the rainfall. The region-wise rainfall distribution as of 12/07/2023 is as follows: East & North East India has recorded the highest deficit of 24.1%. Northwest India recorded heavy rainfall receiving 115.4% excess of LPA. While Central and Southern India has recorded normal rainfall. The country as a whole has received rainfall 2% above LPA.



IIP GROWTH

The headline industrial growth jumps to 4.2% in Apr - 23 as against 1.1% in Mar - 23. The Apr - 23 industrial growth figure was significantly higher than Mar - 23 (revised to 1.7%), mainly driven by Manufacturing and Mining. As per sector-based classification, the manufacturing sector grew in the first month of FY24, as production rose by 4.9% YoY (v/s 1.2% in Mar - 23). The manufacturing sector output constitutes more than 3/4 of the overall Index of Industrial Production (IIP) output. Surprisingly, the mining sector output grew by 5.1% on Apr - 23, despite unseasonal rains which hampered mining activities. The third sector, electricity, output declined by 1.1% YoY for a second straight month on Apr - 23. However, on an MoM basis, electricity generation increased by 2.3%. According to the use-based classification, except for consumer durables all other 5 categories have shown positive growth in Apr - 23, on a YoY basis. The consumer non-durable sector saw growth of 10.7% YoY against de-growth of 2.7% in Mar - 23, Infrastructure goods production also experienced double-digit growth of 12.8%. Consumer durables sector output contracted by 3.5% for the fifth consecutive month, indicating weakness in discretionary spending.





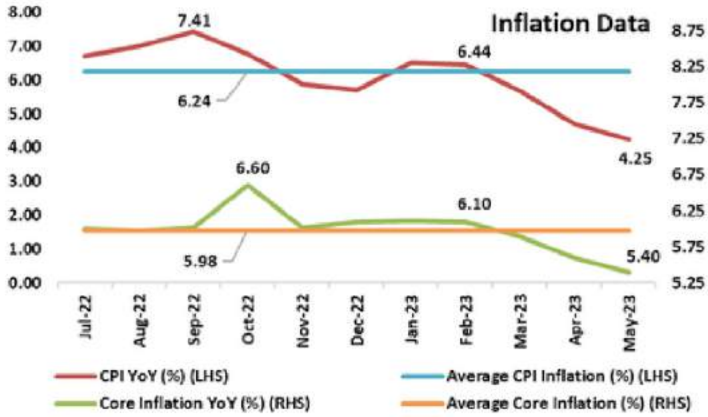
CORE SECTOR

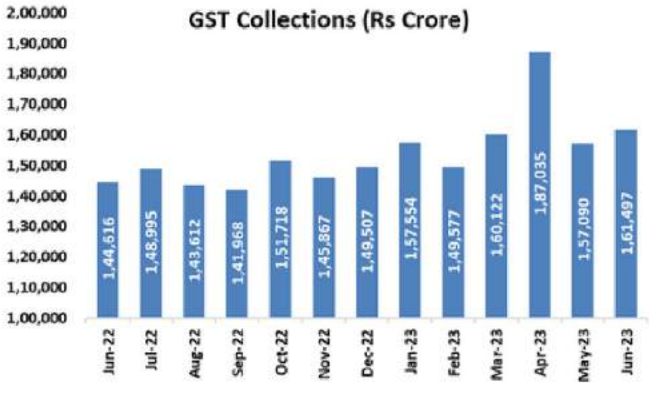
India's growth of eight key infrastructure sectors slowed down to 4.3% in May - 23 due to a fall in output of crude oil, natural gas and electricity. Core sector growth was 19.3% in May - 22, while in Apr - 23 the growth rate was 4.3%. During April - May of this fiscal year, output for growth of these eight industries slowed to 4.3%, compared to 14.3% in the same period last year. Coal production rose by 7.2%, refinery products by 2.8%, fertilizers by 9.7%, steel by 9.2%, and cement by 15.5% in May - 23. On the other hand, the output of crude oil declined by 1.9%, natural gas by 0.3% and electricity by 0.3%. In May - 23, the growth broadly remained unchanged despite solid growth in cement, fertilizer, steel and coal output even as the electricity generation, crude oil and natural gas production declined in the month, putting pressure on the overall index.

INFLATION

For May - 23, the Consumer Price Inflation (CPI) continued its downward trajectory for the fourth consecutive month, falling to 4.25% owing to a favourable base. Retail inflation in India has fallen to its lowest level since Apr - 21, bringing it closer to the RBI's target range of 4 (+/-2)%. Core CPI (i.e., CPI excluding food and fuel) fell to 5.4% in May - 23, as against 5.6% in April - 23. The decline in inflation was supported by a slowdown in food prices of fruits and oil, even as prices for eggs, meat and vegetables remain at elevated levels. Prices for non-food items were also moderated in May - 23.

The latest inflation print comes days after RBI's Monetary Policy Committee (MPC) decided to leave policy rates unchanged at 6.5% for the second meeting in a row. The RBI maintained its tone hawkish by leaving rates unchanged to meet its target of 4%. Volatile crude prices and uncertain monsoons pose a risk of higher inflation.





GST COLLECTION

GST collection for the month of Jun - 23 increased to Rs. 1,61,497 from Rs. 1,57,090 in May - 23 marking a 2.8% M-o-M increase and an 11.8% Y-o-Y increase which was Rs. 1,44,616 in Jun - 22. Collection from Import declined by 6.5% to Rs. 40,064 on Jun - 23 from Rs. 42,829 in the previous month. The primary driver for the boost in the GST collections was on account of an 18% increase in domestic transactions (including import of services) over May - 23. This is the 4th consecutive month where GST collection when been above Rs. 1,50,000.

In order to promote the electronic manufacturing industry further, the GST council slashed the GST on electronic items including smart TVs and mobile phones among others from 31.3% to 12%. This would result in a marked drop in prices making purchases more affordable for customers. The Top 5 states contributed 53.6% of the total collection for the month with Maharashtra itself accounting for 21.5%.

PMI INDICATORS

The Composite Purchasing Managers Indicator (C-PMI), for Jun - 23 came in at 59.4, which constituted of Manufacturing PMI (M-PMI) at 57.8 and Services PMI (S-PMI) at 58.5. Both M-PMI and S-PMI have moderated marginally from 58.7 / 61.2 in May - 23.

Indian goods manufacturers witnessed an uptick in new work orders during June which were among the strongest months seen since February 2021. The elevated demand for Indian goods resulted in better realisation underpinned by robust expansion in input purchasing, to satisfy the demand. The acceleration in manufacturing has reduced, however, M-PMI firmly remains in the expansion zone. Similar to the Manufacturing sector, service providers noted a sharp expansion in inflows of new business at the end of Q1FY24 on the back of output growth despite moderating to a 3-month low. There was a notable increase in prices for the services rendered in India and at a 6-year high. Trends for selling prices were similar in manufacturing and services, with both sectors noting slightly quicker increases.

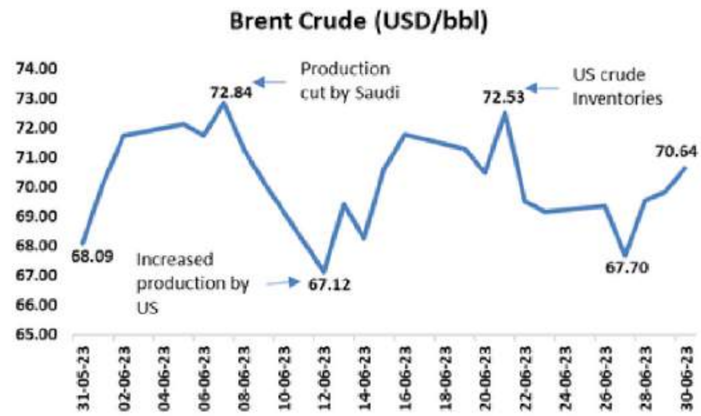
RUPEE MOVEMENT

For the month of Jun - 23, the rupee appreciated by 0.71% against the USD. The Rupee closed at 82.09 / USD as against the May-23 close of 82.68 / USD. Further, the forex reserve of RBI was also bolstered by $5.91 billion, reaching $595.05 billion on Jun - 23. Despite fears of a FED rate hike in the June meet, the rupee strengthened to 81.79 / USD supported by strong macro fundamentals, FII inflows and a weak greenback against other emerging economies. The dollar index regained lost ground as FED decided to leave interest rates unchanged at 5.15% after enacting 10 straight rate increases. However, the FED cautioned that two more interest rate hikes are expected in 2023. Strong PMI data showed that business activity remained robust, sustained growth in GDP and due to improving Current Account Deficit (CAD), the rupee is expected to be in the range of 81.00 - 83.00 / USD.

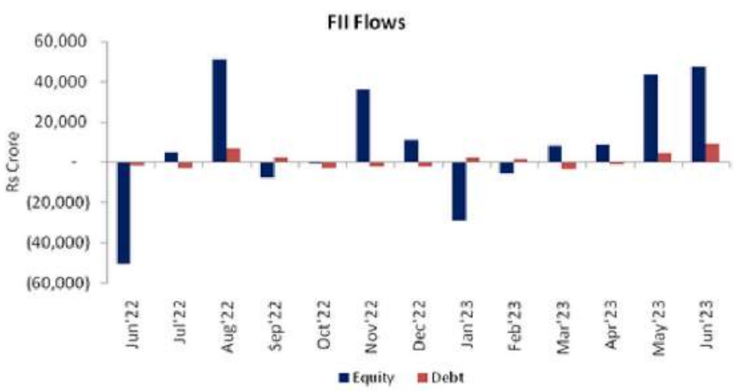
CRUDE OIL

Jun - 23 was yet another volatile month which closed at $ 70.64/ bbl. Oil prices jumped more than $2 a barrel to reach $72.84 / bbl at the start of the month when the world's largest exporter of Crude Oil Saudi Arabia pledged to cut production by an additional 1 mn bbl/day from July, which bring the total output down to 9 mn bbl /day which is a multi-year low. This voluntary cut by Saudi is over and above the production cut announced by OPEC. However, prices fell precipitously to a low of $ 67.12 / bbl on 12/06/2023 as sentiments were weighed down by increased US production, high Russian oil flows into the global market and fears over demand scenario due to a weak global economic outlook.

Price slowing moved back towards month high as lower Crude Oil Inventories in the US boosted sentiments. Prices failed to sustain these levels as a hawkish Federal Policy Rate commentary pulled prices down to $ 67.70 / bbl.



FOREIGN FLOWS



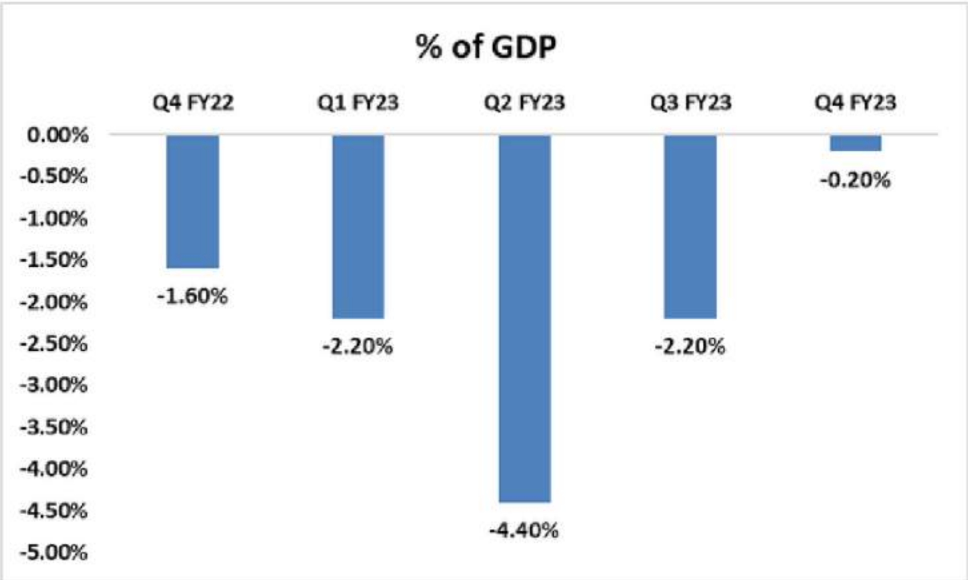
Jun - 23 witnessed net FII inflows of Rs. 56,258 crore, of which, equity inflows were at Rs. 47,148 crore whereas the debt segment saw net inflows of Rs 8,937 crore. As macro fundamentals improved, June saw the highest FII inflows in the last 10 months, surpassing Rs. 50,000 crore. This is the fourth consecutive month where FIIs were net buyers. Aside from improved macroeconomic indicators, favourable market sentiment after the Fed decided to pause rate hikes, concerns over growth in other emerging markets and a possible slowdown in developed economies drove FII flows into India. Sector-wise, in June, major inflows were seen in Financial Services, Automobiles and Capital Goods. While major outflows were witnessed in Information Technology, Services and Media & Entertainment.

BALANCE OF PAYMENTS

India's Current Account Deficit (CAD) declined to $1.3 bn (0.2 % of GDP) in Q4FY23 from $16.8 bn (2.0 % of GDP) in Q3FY23 and $13.4 bn (1.6 % of GDP) in the same period last year. The CAD for FY23 was $67.05 bn which is 2% of GDP up from 1.2% for FY22. The primary reason for this improvement in CAD sequentially was a notable reduction in the deficit from merchandise trade to $52.58 bn from $71.33 bn while services trade remained robust. The CAD has significantly improved in H2FY23 due to lower oil prices and increased service exports. Export of software services contributed ~2/3rd of the total net Service exports during FY23.

On the capital account front, there was a net inflow of $4.69 bn in Q4FY23 and a net inflow of $ 22.83 for FY23 as a whole. This was despite Foreign Portfolio Investor (FPI) being a net seller of $1.66 bn / $ 5.15 bn in Q4FY23 / FY23 respectively; FPI outflow dropped significantly from $15.2 bn in Q4FY22. Foreign Direct Investment (FDI) jumped more than 3x Q-o-Q rising to $ 6.33 bn from $2.03 bn, compensating for the FPI outflows.

Cumulatively for FY23, FDI received was $27.98 bn down from $38.6 bn in FY22. Private transfer receipts, which mainly represent the remittances sent by Indians who are employed overseas, have increased by 20.8% to $28.6 bn over Q4FY22. FY23 saw expatriates remit $101.77 bn.



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