MONTHLY MACRO REVIEW

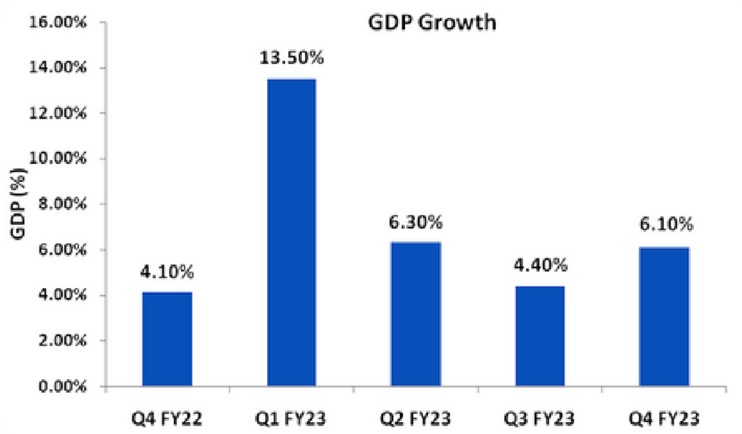
JUNE 2023

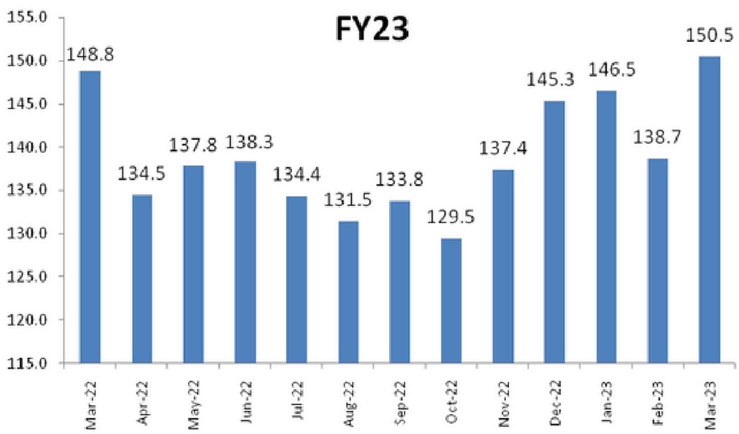
BONANZA WEALTH

GDP GROWTH

India reported a blowout GDP growth number for Q4FY23 accelerating to 6.1%, from 4.4% in Q3FY23 and 4.10% in Q4FY22. This is a significant outperformance as RBI estimation for Q4FY23 was 5.10%. The GDP growth for FY23 as a whole stood at 7.2% again ahead of the RBI estimation of 7.0%. The key drivers for this stellar show were a robust Construction, Electricity, Manufacturing and Agricultural sectors in Q4FY23, supported by the services sector which grew at a multi-decade high pace; for the full year Capital, Infrastructure and Primary Goods segments delivered a standout performance. Importantly, it was observed that rural demand witnessed a revival and the potential to drive growth higher while urban demand continues to be buoyant.

For FY24, the RBI has marginally raised the GDP growth rate to 6.5%, while the quarterly GDP growth rate trajectory is plotted as 8% in Q1FY24, 6.5% in Q2FY24, 6% in Q3FY24, and 5.7% in Q4FY24. Further, RBI Governor believes conditions are conducive to boosting the private CapEx cycle





IIP GROWTH

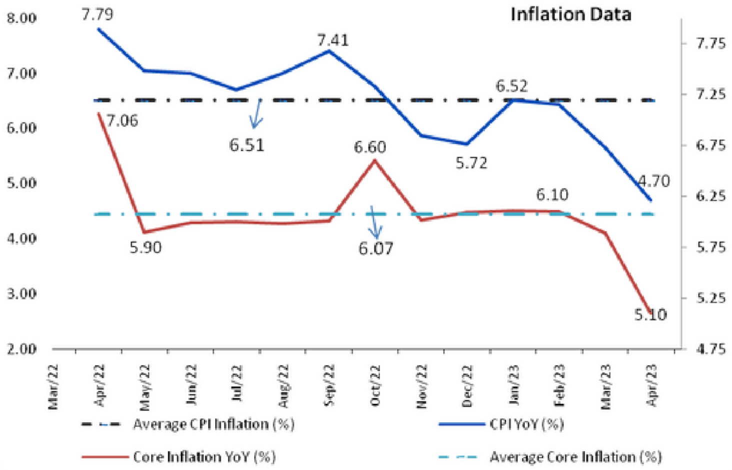
The Index of Industrial Production (IIP) in India rose by a measly 1.1% Y-o-Y in Mar - 23 despite a low base. This was a sharp decline against the 5.8% growth in Feb - 23 (which was revised up from 5.60%). The mining sector grew by 6.79%, while the manufacturing sector underperformed and remained flat at 0.48% growth, electricity witnessed a contraction of 1.57%.

The underperformance in the manufacturing sector is attributed to a contraction in consumer durables & non-durables and a slowdown in primary goods, capital goods industries and infrastructure goods. The decline in electricity generation was due to the high base of Mar - 22 and lower demand from the industrial sector.

IIP grew by 5.10% for FY23, which optically shows a massive decline from 11.4% in FY22. However, 11.4% of FY22 was registered on a low base of FY21 which was disrupted by COVID.

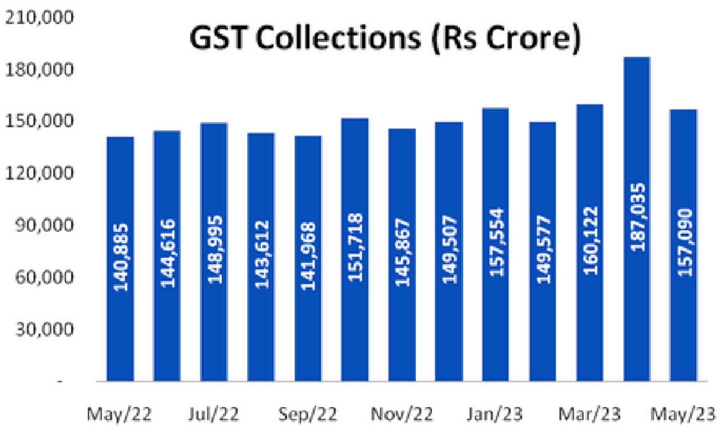
INFLATION

India's consumer price inflation (CPI) sharply corrected to 4.70% in May from 5.66% in April which is the lowest level since Nov - 21. Therefore, cumulatively over the previous 2 months, CPI inflation is abated by 174 bps and is fast approaching RBI's medium-term target inflation rate of 4%. The Core Inflation has also dropped to 5.10% from 5.80%. The sharp fall in the Y-o-Y CPI inflation was driven by a significant 1) decline in Vegetables and Oil & Fats 2) M-o-M decline in the prices of Cereals, Eggs, and Oil & Fats 3) High base. Prices for Vegetables, Fruits, and Milk continued to increase; however, the pace of increase has slowed down.



The RBI has cut its forecasted inflation for FY24 to 5.1% from 5.2%, on the back of the positive surprise provided by the data for inflation for the month of Apr - 23. The quarterly breakdown of inflation projection stands as Q1FY24 at 4.6%, Q2FY24 at 5.2%, Q3FY24 at 5.4% and Q4FY24 at 5.2%. The major risk, however, lies in how El Nino will impact the agricultural output.

GST COLLECTION



The Goods and Services Tax (GST) collections in India for May - 23 stood at Rs. 1,57,090 crs, clocking a 12% growth Y-o-Y, however, there was a 16% decline M-o-M. The GST collections have been healthy for the past 17 months of holding above the Rs. 1.4 lakh crs mark. However, this is only the sixth month since the inception of GST in 2017 that the collections have crossed the Rs. 1.5 lakh crs mark. The collections from imports have also seen a marked increase to Rs. 42,829 crs which is 19.39% higher M-o-M and 11.53% Y-o-Y. The total revenue of the Centre and the States in the month of May - 23 after the regular settlement was Rs. 63,780 crs and Rs. 65,597 crs, respectively.

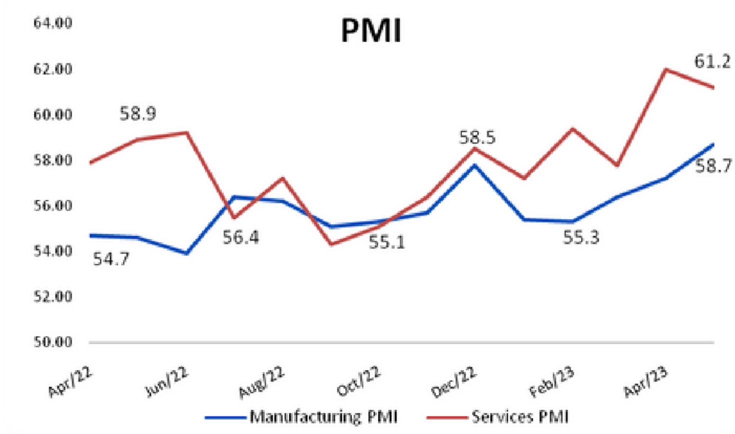
Maharashtra contributed Rs. 23,536 accounting for ~20% of the total domestic GST collections. The top 5 states contributed ~53% of the total domestic GST collection.

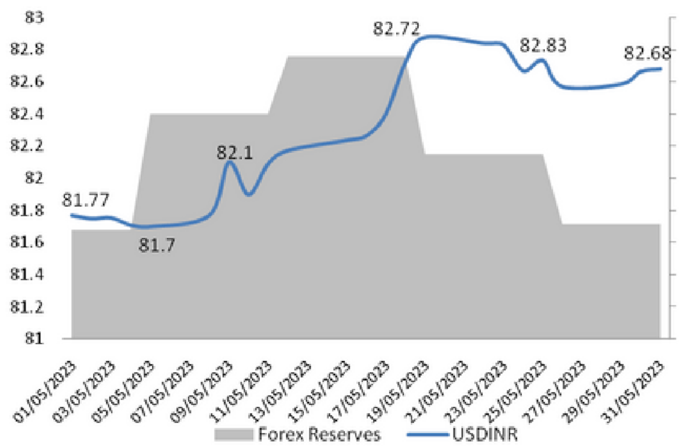
PMI INDICATORS

The Manufacturing-PMI (M-PMI) and Services-PMI (S-PMI) for India continued to expand in May 2023, with both PMIs coming in above 50, the threshold for growth. The M-PMI rose to 58.7 from 57.2 in April which is a 31-month high. Demand demonstrated strength, with factory orders rising at the fastest pace since January 2021. Firms generally associated the upturn with advertising, demand strength and a favourable economic climate.

While the S-PMI marginally moderated to 61.2 from 62.0 in Apr - 23 continues to be the driving force of the economy. Strong demand was underpinned by another monthly increase in new business by service providers. External demand for Indian services continued to improve, which can be appreciated by a fourth successive monthly rise in new export business.

The Composite-PMI (C-PMI) remained flat at 61.6, which suggests that the Indian economy is continuing to grow at a healthy pace despite global macroeconomic headwinds.





RUPEE MOVEMENT

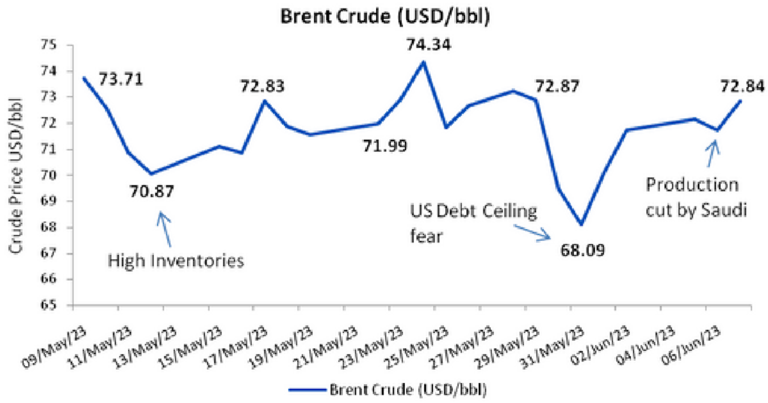
Rupee Movement: The Rupee depreciated by 1.17% against the USD in May-23 due to an economic slowdown and uncertainty over the US debt ceiling. The rupee, which began the month at 81.77 per USD, ended at 82.68 per USD as a result of the US debt ceiling issue, better-than-expected US economic data, and hawkish statements from Fed members. The forex reserves reached a high of USD 599.53 billion which was the highest level since June-2022, before closing the month at USD 589.14 billion.

The RBI has cut its inflation forecast for FY24 to 5.1% from 5.2% due to positive data from April 23. The RBI has raised the GDP growth rate to 6.5% for FY24, with quarterly growth rates of 8% in Q1FY24, 6.5% in Q2FY24, 6% in Q3FY24, and 5.7% in Q4.

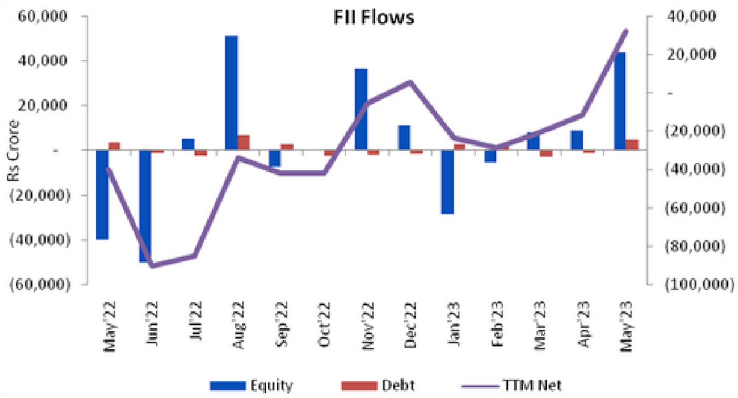
CRUDE OIL

Crude Oil prices witnessed massive volatility during the month of May - 23. During the start of the month, prices were under pressure as US Crude Oil inventories came much higher than expected and reached $70.87/bbl from 73.71/bbl. Crude Oil prices steadily came back above $74/bbl over the course of the last 2 weeks of the month as stronger-than-expected Initial Jobless claims boosted hopes of demand recovery in the US aided by the tapering in CPI inflation in various major economies.

Then, towards the close of the month, Crude Oil prices slumped to $68.09/bbl the lowest level since the start of 2023 as traders were spooked by the uncertainty surrounding the US debt ceiling. There was a quick rebound seen once a resolution was reached by the US government. Finally, prices moved up as imports from China increased and there was a surprise announcement of the oil production cut of 1 million barrels per day by the Saudi.



FOREIGN FLOWS



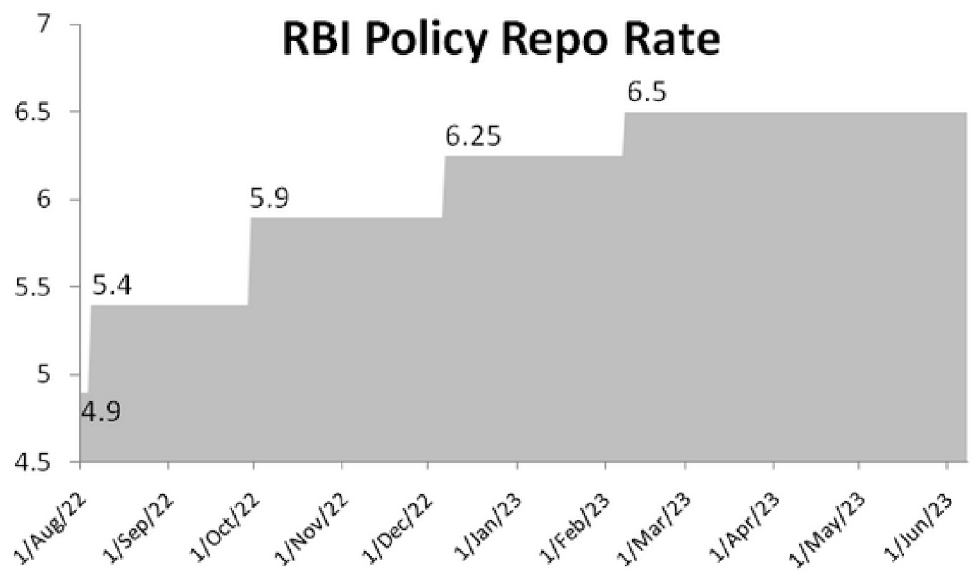
The month of May - 23 has witnessed the highest net inflows in 9 months of Rs. 48,330 crs. The equity segment received net inflows of Rs. 43,838 crs whereas the debt segment saw net inflows of Rs. 4,790crs. Furthermore, FPI TTM net investment went positive for the first time in 17 months in May, reaching Rs 74,974 crore. FPIs have returned to India after focusing on other emerging markets due to India's manageable CAD and the possibility that the peak interest rate is behind. FPI flows have been increased due to strong macroeconomic fundamentals, reasonable valuations of Indian equities, and a healthy earnings season, which indicate strong future growth prospects. Financial services, Automobiles and FMCG sectors saw major inflows in May, while major outflows were seen in the IT, Media & Entertainment and Power sectors. We expect the rally is still not over yet and the outlook is positive.

RBI MONETARY POLICY:

The Monetary Policy Committee (MPC) of the RBI kept the policy rates unchanged at 6.50% with a 5-1 majority, indicating an extended pause with the continued withdrawal of accommodation. Mr. Shaktikanta Das (Governor of RBI) indicated that the full transmission and effect of the unprecedented rate hikes since May - 22 to Feb - 23 has not been completely digested by the system. The governor also mentioned in his comments that conditions are currently conducive for the private CapEx cycle to thrive.

Although CPI inflation has moved considerably lower to an 18-month low and within the tolerance band during Apr - 23, the governor said "…headline inflation still remains above the target and being within the tolerance band is not enough. Our goal is to achieve the target of 4.0%…" Furthermore, the governor expressed concerns concerning the effects of El Nino and the consequent impact on agricultural production that can exaggerate inflation in the near term. This is visible as expected inflation for FY24 was marginally cut by 10 bps to 5.10% and from the quarterly breakdown of inflation that forecasts a rise in Q3FY24.

Therefore, it was opportune for the RBI MPC to continue to hold rates higher for longer and assess further policy action based on data for growth and inflation.



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