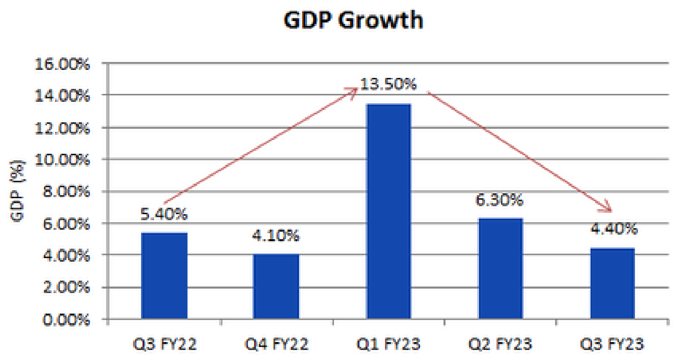
MONTHLY MACRO REVIEW

MARCH 2023

BONANZA WEALTH

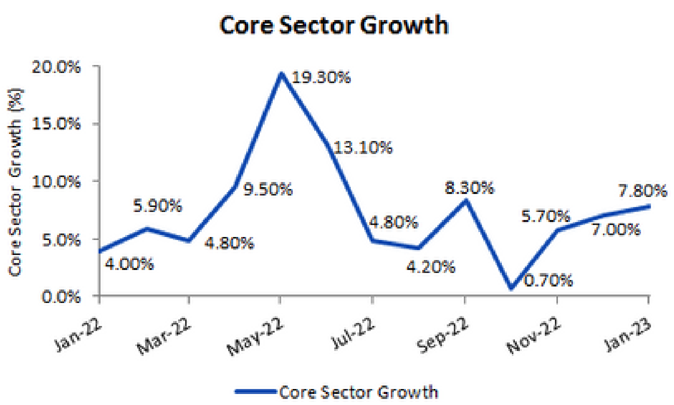
GDP GROWTH

GDP growth slowed further to 4.4% YoY in Q3 FY23 as compared to 6.3% YoY in Q2 FY23 and 5.2% in Q3 FY22. The loss in growth momentum was due to fading away of favorable base effect, slowdown in consumption due to high inflation & rising borrowing costs amid a recessionary global outlook. The slowdown was led by contraction in the manufacturing sector (-1.1% in Q2 vs -3.6% in Q1) reflecting weakness in consumer demand and exports. Exports contracted to 22.9% of GDP in Q3 FY23 as compared to 23.9% of GDP in Q2 FY23. However, the agriculture sector showed improved numbers of 3.7% in Q3 vs 2.4% in Q2 with kharif output outpacing the previous trend. Also, continued rise in the services sector activity provided support. Going forward, India could continue to face challenges with rising interest rates and fall in consumer activity in the US, India's key export market.



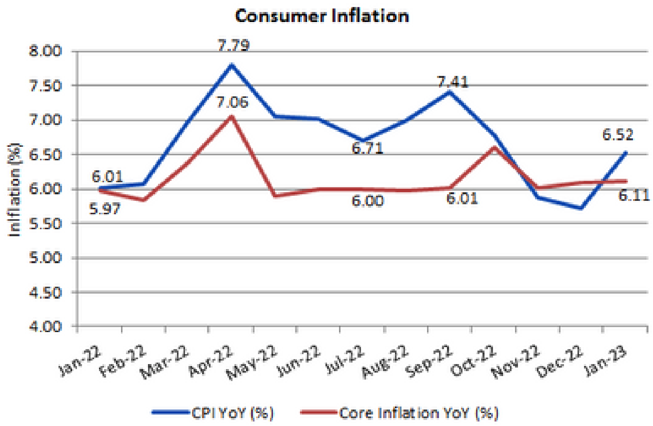
CORE SECTOR

The output of India's eight core infrastructure sectors rose by 7.8% in Jan'23 compared to 4.0% in the same month last year. Coal production rose by 13.5%, fertilizers by 17.9%, electricity by 12%, steel by 6.2%, cement by 4.6%, natural gas by 5.3% and refinery products by 4.5%. Only crude oil output witnessed decline of 1.1%. The growth rate of the core sectors stood at 7.9% in April-Jan this fiscal as against 11.6% during the same period last fiscal. Seven out of eight sectors witnessed positive growth amidst higher capex push by the government and aided by a favourable base effect. Double-digit growth in fertilizers, coal and electricity is indicative of steady industrial activity and high growth in the services sector. Growth in fertilizer output indicates higher supplies mainly for non-crops as well as replenishing inventory.

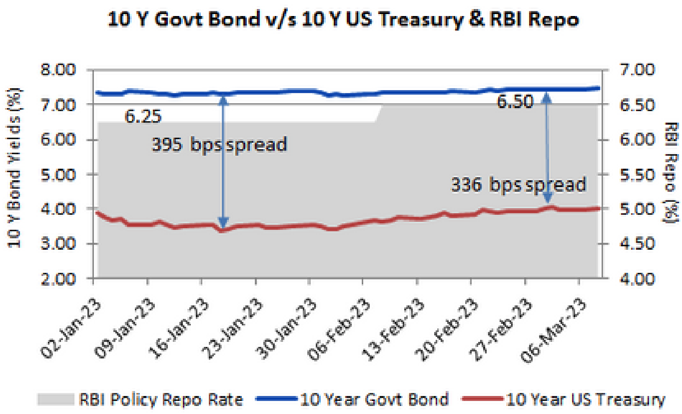


INFLATION

CPI clocked 6.52% in Jan'23 as compared to 5.72% in Dec'22 on higher food prices and sticky core inflation. The prices of cereals and milk continued to increase. Prices of cereals rose more than 16% year-on-year, milk rose 8.8% and eggs rose by 8.8% from last year, even as prices of vegetables fell 11.7%. Core CPI (i.e., CPI excluding food and fuel) inflation rose to 6.11% in Jan'23 as compared to 6.10% in Dec'22 primarily due to rise in prices of clothing & footwear, household goods & services and personal care & effects. Core inflation is likely to remain elevated given the ongoing pass-through of higher input costs by producers. The unexpectedly large jump in headline consumer price inflation in Jan'23 is likely to put RBI in a dilemma with respect to further rate hikes even as domestic growth slowed down in the third quarter on the one hand and the Fed anticipates more rate hikes on the other. For Feb'23, we expect CPI to remain over the 6% levels at 6.50% - 6.75%.



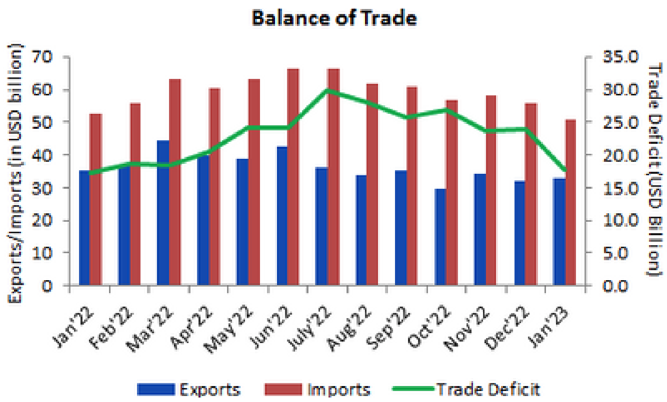
MONETARY POLICY

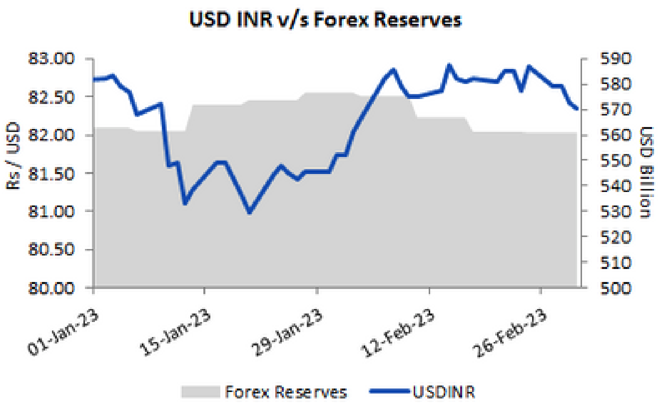


The RBI's Monetary Policy Committee (MPC) had hiked the repo rate by 25 bps to 6.50% in Feb'23. The minutes of the policy, released on Feb 22nd, indicated that four out of six MPC members had opted for a hike in the policy rate. According to the minutes, the MPC decided to remain focused on withdrawal of accommodation to ensure that inflation remains within the target, while supporting growth. While the inflation projections indicate moderation towards 5.3% in FY24, the disinflation towards the target rate is uncertain on account of sticky core inflation, uncertainty in food prices, global market volatility and rising non-oil commodity prices. However, MPC members acknowledged that excessive front-loading of rate hikes carried the risk of over-shooting which may have persistent deleterious effects on growth and macro stability as there are generally more lags in monetary policy transmission in India.

BALANCE OF TRADE

In Jan'23, exports declined to $32.9bn, a decline of 6.6% over the previous month while Imports declined to $50.7bn, a decline of 3.6% over Dec'22. The trade deficit for Jan'23 was estimated to be $17.8bn. Service sector exports remain very strong and positive as services exports have risen to $32.2bn, a growth of 49.1% over Dec'22 and imports have grown to $15.8bn, a growth of 19.3% in Dec'22 leading to a service trade surplus of $16.5bn. Global growth is estimated to decline to 2.9% in 2023, while India continues to post better growth numbers despite external headwinds. This seems to be having a two-way effect on India's trade. On the one hand, it is reducing exports as there is decline in global growth resulting in weak export demand while on the other hand, increasing imports as domestic demand remains resilient due to relatively stable growth. In spite of strong global headwinds, with two months remaining in FY23, India's overall exports is projected to grow at 17.33% during FY23.



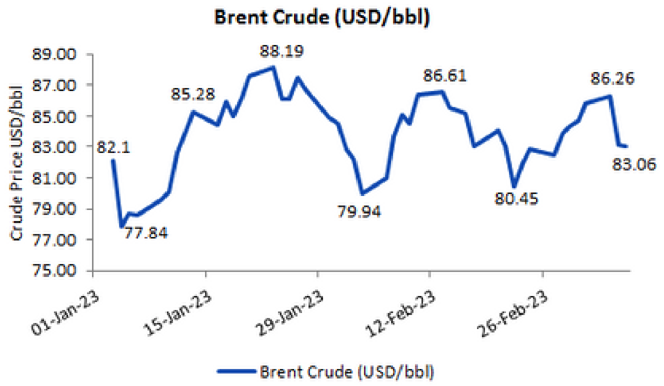


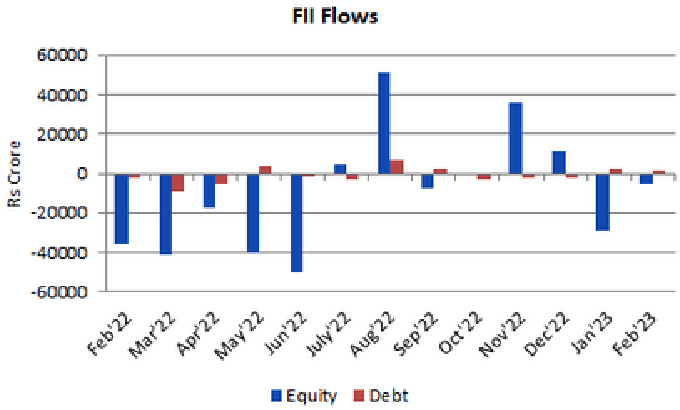
RUPEE MOVEMENT

In the month of Feb'23, the Rupee depreciated by 1.11% versus the USD. The Rupee, which began the month at 81.73 per dollar, ended the month at 82.64 per dollar. Notwithstanding the fact that the forex reserves declined by $15 billion in February, the rupee has continued to fall. The rupee has suffered as a result of fluctuations in crude oil prices, significant capital outflows by foreign investors, and a stronger dollar index. The current Federal Reserve interest rate is 4.75%, up from 25 basis points in February. During its next meeting, there is a risk that the Fed may hike interest rates, although the rate hike may be less pronounced. The current account deficit remains the most important factor to watch right now; aside from that, FPI flows and oil prices will decide the exchange rate in the future.

CRUDE OIL

Brent crude prices traded in the range of $79.91 per barrel to $86.61 per barrel in Feb’23. Oil prices fell by 3% at the start of the month, after strong U.S. jobs data raised concerns about higher interest rates and as investors sought more clarity on the imminent EU embargo on Russian refined products. Prices rose soon after as investors felt more comfortable with risk a day after the Federal Reserve chair's remarks eased concerns about future interest rate hikes. However, prices declined again as interest rate hike worries resurfaced amid mounting supplies through build-up in U.S. crude oil and distillate inventories. Crude prices ended the month at $83 per barrel. Going forward, crude prices are likely to remain subdued on account of uncertainty in the global economy while Fed maintains its focus on taming inflation in US.



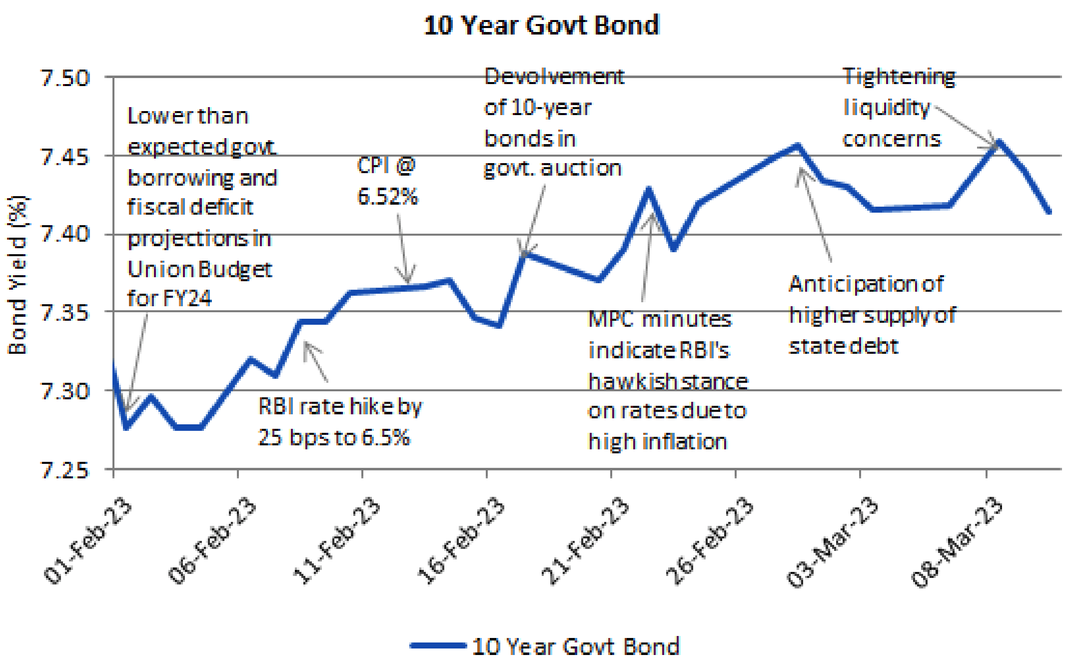


FOREIGN FLOWS

February witnessed net FII outflows to the tune of Rs 4,139 crore. Out of this, equity outflows were at Rs 5,294 crore whereas the debt segment saw net inflows of Rs 1,392 crore. Overall, the outflows moderated during the month as compared to January. Outflows from India have been triggered mainly by the high valuations in India and inflows into other markets have been triggered by their relatively cheaper valuations. The opening up of the Chinese economy and improving prospects there has played an important role in the massive flows to China. Sector-wise, energy, material and utilities witnessed major outflows while capital goods, commercial & professional services and software services witnessed inflows. FIIs can be expected to sell more since the risk-free return is quite attractive considering the muted expectations from the equity markets in the short-term.

10 YEAR BENCHMARK GOVERNMENT BOND YIELDS:

Yields on the 10-Year benchmark bond - 7.26% GS 2033 - traded in the range of 7.27% to 7.46% in Feb'23. Yields followed a rising trend throughout the month of Feb'23. Initially, yields declined on lower than expected market borrowing and fiscal deficit projections by the Government in the Union Budget for FY24. However, yields rose thereafter for the rest of the month after RBI hiked policy rate by 25 bps to 6.50%, CPI crossed the 6% levels again after two months. Devolvement of 10-year bonds in the G-Sec auction, anticipation of higher supply of state debt and tightening liquidity conditions sent the yields further upwards at 7.45%. The interesting thing is that for the first time in India's bond market history, yields on 10-year and 30-year government securities are at the same level, indicating yield inversion which means that bond traders and investors expect uncertainty in the short to medium term. With the recent slowdown in growth numbers and economic uncertainty globally, it seems likely that the Fed or RBI may go soft on interest rate hikes in their respective upcoming policy meets. Given this scenario, we expect the yields to follow sideways movement in the month of Mar'23. Therefore, we expect bond yields to trade in the range of 7.30% - 7.55% in the month of Mar'23.



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