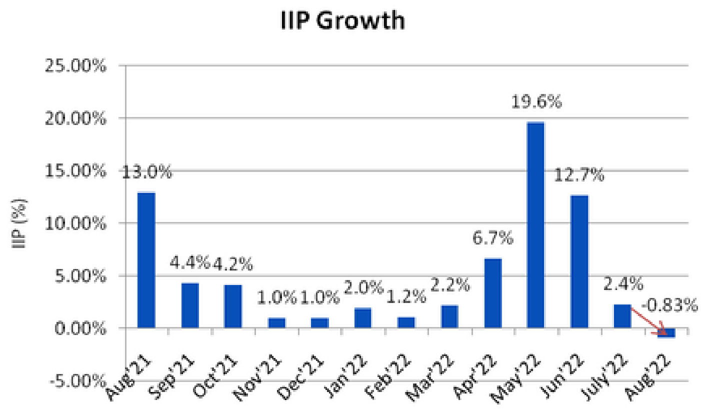
MONTHLY MACRO REVIEW

NOVEMBER 2022

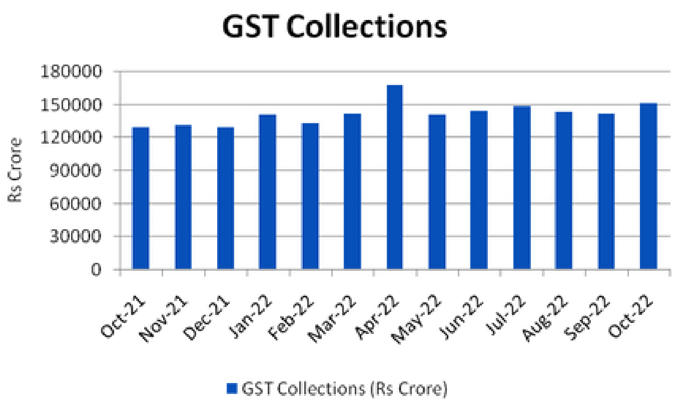
BONANZA WEALTH

IIP GROWTH

Industrial growth contracted in August by 0.83% marking the first negative growth after 17 consecutive months of positive IIP growth. While the mining and manufacturing sectors contracted at -3.9% and -0.7% respectively, the electricity sector posted growth of a mere 1.4%. A combination of global recession fears, higher rates, Central bank rate hikes and supply chain constraints have resulted in growth slowdown. Export heavy segments such as electrical equipment, pharma, apparel and textiles have driven the export led slowdown. Within the use-based classification, both the consumer segments i.e. durables and non-durables, witnessed contraction in output growth as compared to the same month last year. However, other high frequency indicators such as GST e-way bills indicate consumption is likely to bounce back during the festive season.



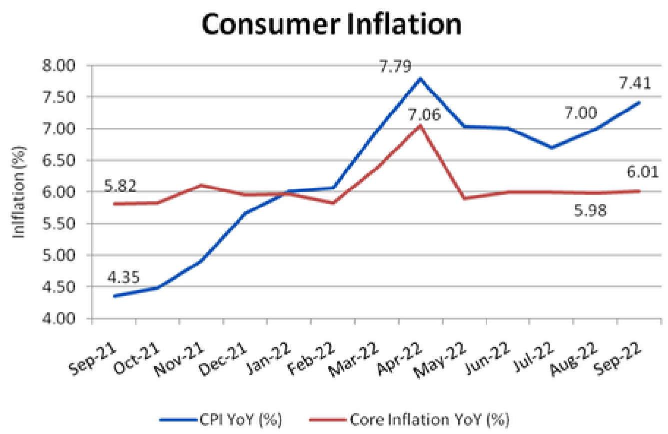
GST COLLECTIONS



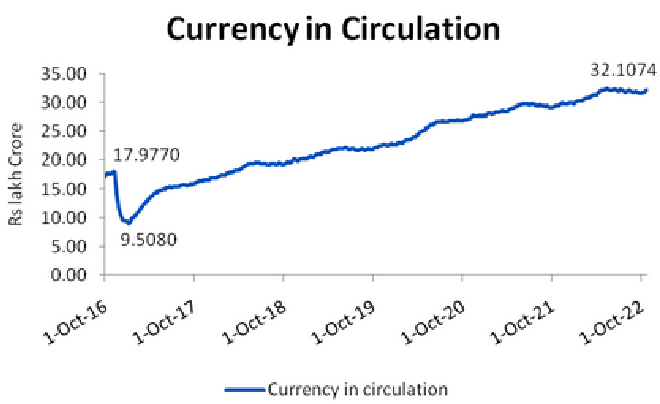
Goods and Services Tax (GST) collections rose to Rs 1,51,718 crore for October, the second highest level since the roll-out of the indirect tax regime in July 2017. Even though domestic transactions recorded the second highest growth after Apr'22, the share of collections from imports fell to 25% in October from 28% in September and 30% in August. High inflation rate, increase in retail prices of many consumption goods, the festive season demand, and actions taken to ensure compliance supported the rise in GST collections. Additionally, September saw generation of 8.3 crore e-way bills, which is significantly higher than the 7.7 crore e-way bills generated in Aug'22. With the festive season continuing, the GST collections can further be expected to go up. This coupled with the revamped focus of the government on tax collections can lead to further increase in collections in the coming months.

INFLATION

India's headline inflation surged to 7.41% in Sep'22 from 7.00% in Aug'22, led by rise in food inflation. Core inflation, which excludes inflation due to food and fuel, remained sticky at elevated levels of around 6.01%. Inflation that averaged around 3.9% before the pandemic suddenly went out of control. It not only surged past the 4% target, but is well above the upper tolerance band of 6% for three straight quarters, forcing the RBI to write to the government on how it intends to bring it down to 4%. To this effect, the monetary policy committee (MPC) met on 3rd Nov'22 to discuss the report to be submitted to the Government explaining the deviation from inflation targets. For the month of Oct'22, inflation is likely to remain elevated at 6.8% - 7.0%, on account of excess rainfall in October causing damage to key crops and leading to rise in food prices.



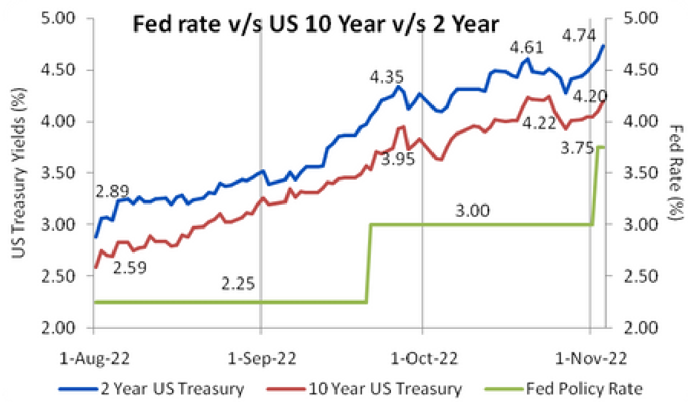
MONEY SUPPLY



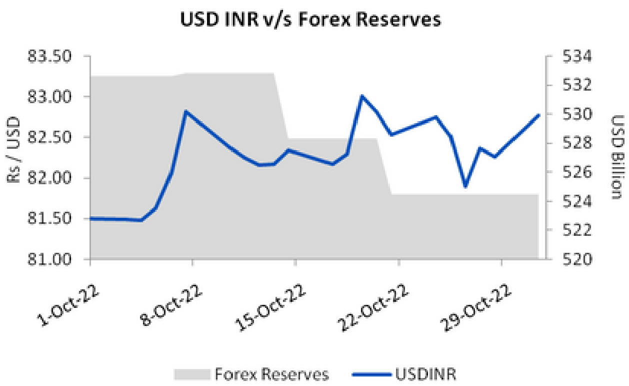
According to RBI's fortnightly data on money supply, the currency with the public increased to Rs 30.89 lakh crore (out of Rs 32.1 lakh crore currency in circulation) as on 21st Oct'22. At these levels, the currency with the public is 71.8% higher than the level seen just prior to demonetization. On a YoY basis, the currency with public grew by 9.3%. However, for the first time in 20 years (2009 being an exception), currency in circulation declined during Diwali week. This is attributable to increased acceptance of digital payments in the country. A lower currency in circulation also is akin to a cash reserve ratio (CRR) cut for the banking system, as it results in less leakage of deposits and it is likely to impact monetary transmission positively.

FED DECISION

The US Federal Reserve announced a fourth consecutive 75 bps interest rate increase and signaled a potential change in how it will approach monetary policy to bring down inflation, following its November 1-2 meeting, raising the federal funds rate to a target range of 3.75% - 4.00%. Although Fed's chairman Jerome Powell dismissed the idea that Fed would pause soon on interest rate hikes, he mentioned that the pace of tightening could be slowed going forward. The yields on the 2-year Treasury note surged beyond 4.7% while the yields on the benchmark 10-year Treasury rose to over 4.20%. The interest rate differential between the 10 Year US Treasury and the 10 Year Indian Govt. Bond narrowed further to 325-330 bps.



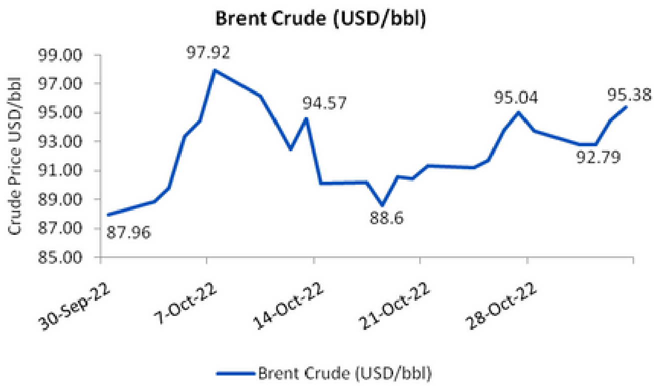
RUPEE MOVEMENT

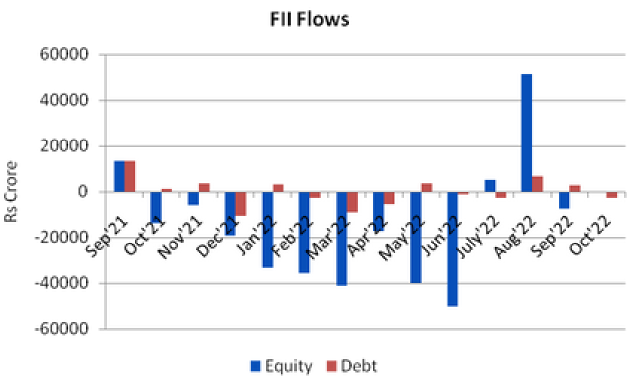


The Rupee depreciated by a further 1.5% from $81.51 / USD at the end of Sep'22 to $82.77 towards the end of Oct'22. This depreciation came on the back of a 3.5% decline in the previous two months. During this three month period the dollar index has appreciated steeply by 5.8%. Although the forex reserves have declined by $8 billion in October alone and a total of $50 billion in the 3-month period, Rupee has continued its decline. The US Fed raised interest rates by 1.5% during this period and has given no indication of pausing on rate hikes. However, its indication that rate hikes may not be as steep as 75 bps per meeting has led to relative calm in the markets and prevented further decline in the Rupee.

CRUDE OIL

Brent crude prices traded in the range of $88.60 per barrel to $97.92 per barrel in Oct'22. Crude prices rose at the beginning of the month after OPEC+ decided to tighten global supply by cutting crude production by 2 million barrels per day (mbpd). However, oil prices declined subsequently as a stronger US Dollar, recession worries and flare-up in Covid-19 cases in China increased fears of slowing global demand. Going forward, crude prices are expected to remain volatile as EU sanctions on Russian crude and oil products will take effect in December and February. On the other hand, there is considerable uncertainty with respect to the demand outlook given a deteriorating global macro scenario while a possible loosening up of COVID-19 curbs in China in the fourth quarter and in 2023, could set oil demand on recovery and offer further upside to oil prices.



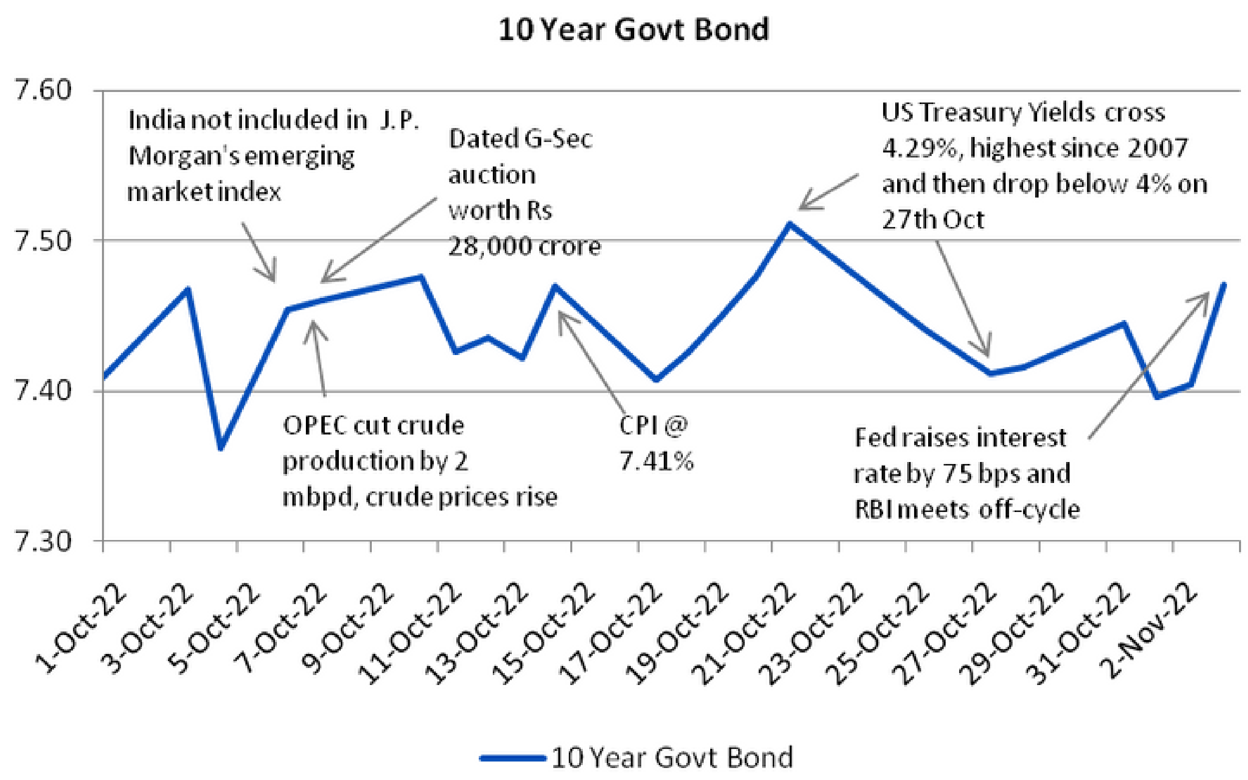


FOREIGN FLOWS

October witnessed net FII outflows to the tune of Rs 3,080 crore. Out of this, equity flows were relatively muted with an outflow of Rs 8 crore whereas the debt segment saw net outflows of Rs 2,770 crore. Foreign flows have remained relatively stable considering an uncertain global environment involving Fed rate hikes and dampening global demand amid fears of global recession. Flows in November seem to have turned the tide with equity inflows to the tune of over Rs 15,280 crore upto 4th Nov'22. The Indian markets have reflected a sense of stability during this year's festive season.

10 YEAR BENCHMARK GOVERNMENT BOND YIELDS:

Yields on the new 10-Year benchmark bond – 7.26% GS 2032 – traded in the range of 7.36% to 7.51% in Oct'22. The yields on the new 10-year bond have almost converged towards yields in the old benchmark at the end of the month and its volumes have also surged past the old benchmark i.e. 6.54% GS 2032 during the month. Yields, which had risen towards the end of Sep'22 remained elevated but range bound during the month. The non-inclusion of Indian bonds in J.P. Morgan's Emerging Market Index, rise in crude prices on account of OPEC's production cut and rise in US treasury yields in anticipation of Fed's rate hike, all contributed to the bond yields trading at higher levels. Going forward, yields are likely to driven by inflation numbers and Fed's position on rate hikes. Given this scenario, yields are likely to remain in the range of 7.20% - 7.50% in the month of November.



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