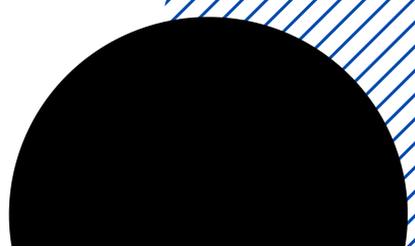
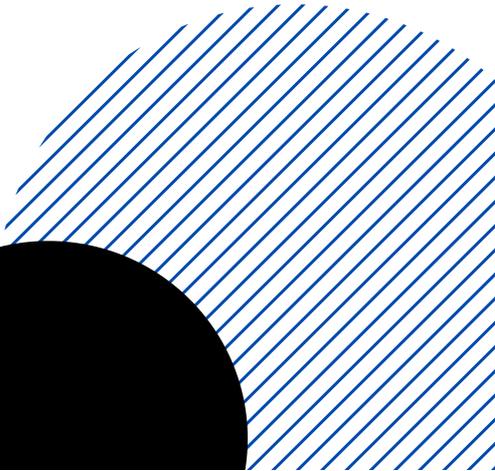


MONTHLY MACRO REVIEW

OCTOBER 2022

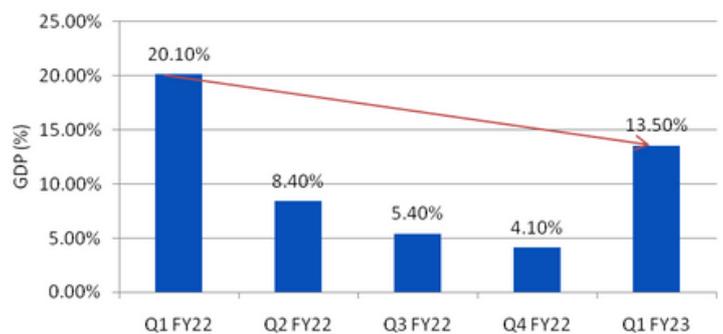
BONANZA WEALTH



GDP GROWTH

The Indian economy grew by 13.5% YoY in Q1 FY23 as compared to 20.1% in FY22. The double-digit growth during the quarter is attributable to the low base of the corresponding quarter of last year (Q1 FY22), which experienced lockdowns due to the impact of the second wave of Covid-19. Despite double-digit growth numbers, the economy displayed sluggish recovery on account of the negative impact of the Ukraine war as export growth slowed during the quarter. However, the share of private consumption (59.9% of GDP in Q1 FY23 v/s 54.0% of GDP in Q1 FY22) and fixed investment (34.7% of GDP in Q1 FY23 v/s 32.8% of GDP in FY22) went up, suggesting resilience in the economic recovery. While post Covid demand recovery seems to be strong, it is likely that RBI's rate hikes to combat inflation may have some slowdown effect on demand growth.

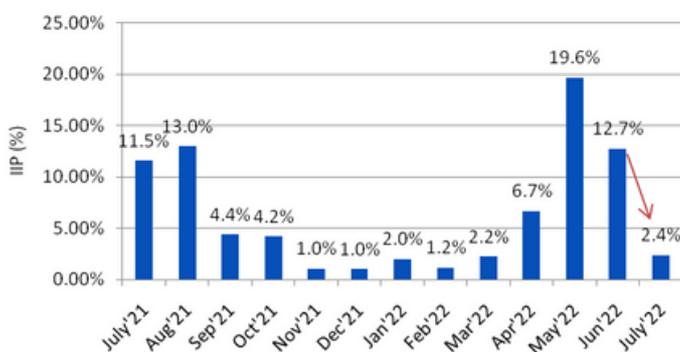
GDP Growth



IIP GROWTH

Industrial growth slowed in July at 2.4% YoY as compared to 12.7% in June. The primary reason for the moderation in growth may be due to the waning of a favorable base effect. In July, the manufacturing and electricity sectors posted significant drops in their growth rates, while the mining sector posted a 3.3% drop in its output. Within the use-based classification, five out of six types of goods (including primary goods, capital goods, intermediate goods, infra goods and consumer durables) witnessed a sharp drop in output growth as compared to the same month last year, which largely indicates normalization of these indicators post the Covid year comparisons. Going forward, numbers are likely to improve as growth is seen to be coming back in some sectors.

IIP Growth



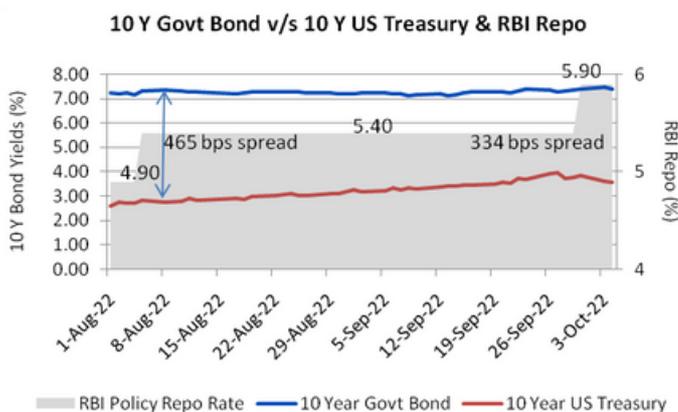
FED RATE DECISION

The US Federal Reserve announced its decision to raise interest rates by 0.75 percentage points, following its September 20-21 meeting, raising the federal funds rate to a target range of 3.0% to 3.25%. The Fed reasoned that with robust job gains in the recent months and with low unemployment rate, it is imperative to bring down elevated inflation. While the hike was in line with market expectations, Fed's signal that it will keep hiking rates until the funds level hits a "terminal rate," or an end level of 4.6% next year, resulted in decline in US equity markets and rise in bond yields. The yield on the 2-year Treasury note has surged beyond 4.2%, its highest level since 2007 and the yield on the benchmark 10-year Treasury rose to over 3.70%, its highest level since February 2011. It may be useful to note the significant inversion, with short-term rates higher than long-term rates, pointing towards the risk of a recession.



RBI MONETARY POLICY

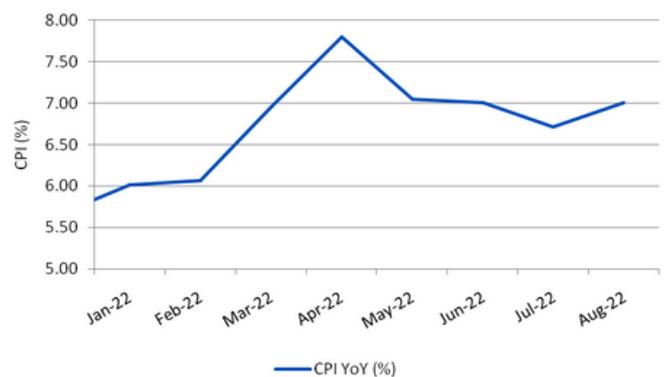
The RBI raised the policy repo rate by another 50 bps on 30th Sep to 5.90% citing aggressive monetary policy actions and even more aggressive communication from global central banks. The RBI stressed its focus on withdrawal of accommodation in order to combat elevated levels of inflation, which has been consistently over the higher end of the target of 6% since the beginning of the year. The rate hike is also aimed at moderating the decline in the Rupee, which has depreciated below the 81.5/\$ levels. On the other hand, the interest rate differential between the US Fed funds rate and the Indian Policy repo rate is somewhat restored after RBI's rate hike, preventing the sole reliance on forex reserves to keep the Rupee from accelerating downwards.



INFLATION

India's headline inflation climbed back to 7% in Aug'22 after easing temporarily at 6.71% in July'22, primarily driven by food inflation. Notably, fuel inflation eased sequentially but not large enough to counter the rise in food and beverage inflation. Due to seasonality effect, vegetable inflation increased from July to August. Another factor influencing food was inconsistent rainfall. In the coming months, fuel, oils & fats inflation is expected to ease though inflation is likely to remain above the RBI tolerance band in the current year. The war in Ukraine continues to disrupt global markets for food and energy. Overall, price pressures are expected to weigh on the Sep'22 inflation print as well due to food inflation and are likely to keep CPI elevated over 7% at 7.2 - 7.4% in Sep'22.

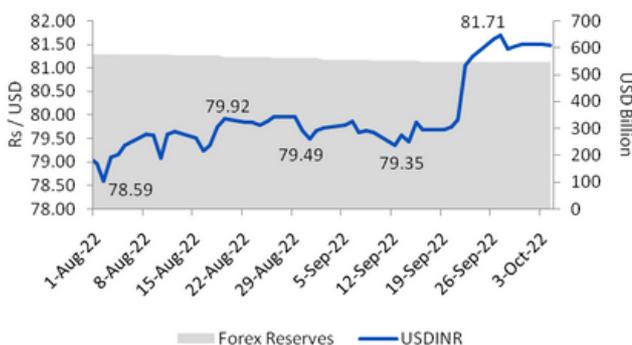
Consumer Inflation



RUPEE MOVEMENT

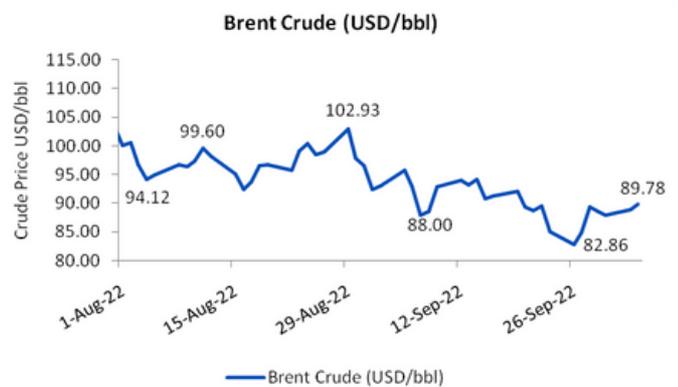
The Rupee depreciated by approximately 3.5% from Rs 78.96/USD at the start of August to a high of Rs 81.71/USD towards the end of September. The Rupee underwent a steep depreciation after the Fed signaled aggressive rate hikes to tame inflation. On the one hand, RBI has been unsuccessfully trying to stem the decline in the Rupee by selling dollars. The RBI has sold approximately \$90 billion this year to arrest the decline in the Rupee. Alternately, increasing the repo rate and restoring the interest differential may provide stability but may not reverse the trend.

USD INR v/s Forex Reserves



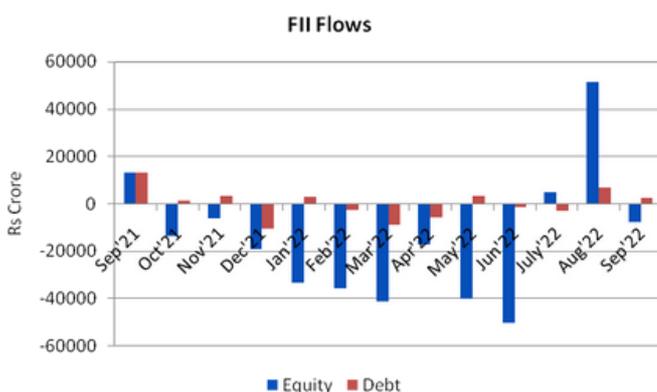
CRUDE OIL

Brent crude prices have been the only positive factor for the Rupee and the bond yields. Crude prices declined from around \$102/bbl at the start of September to less than \$90/bbl at the beginning of October. Interest rate increases by central banks in numerous oil-consuming countries have raised fears of an economic slowdown that could squeeze oil demand. The crude prices have declined on the back of a strong dollar. However, prices are likely to rebound and remain range-bound around the \$90 to \$100 levels as disruption from the Russia-Ukraine war may hit the oil market, with European Union sanctions banning Russian crude set to start in December along with a plan by G7 countries for a Russian oil price cap looking set to tighten supply. All eyes are on OPEC+ nations including Russia and what they will do when they meet on Oct. 5, having agreed at their previous meeting to cut output modestly. However, OPEC+ is producing well below its targeted output, meaning that a further cut may not have much impact on supply.



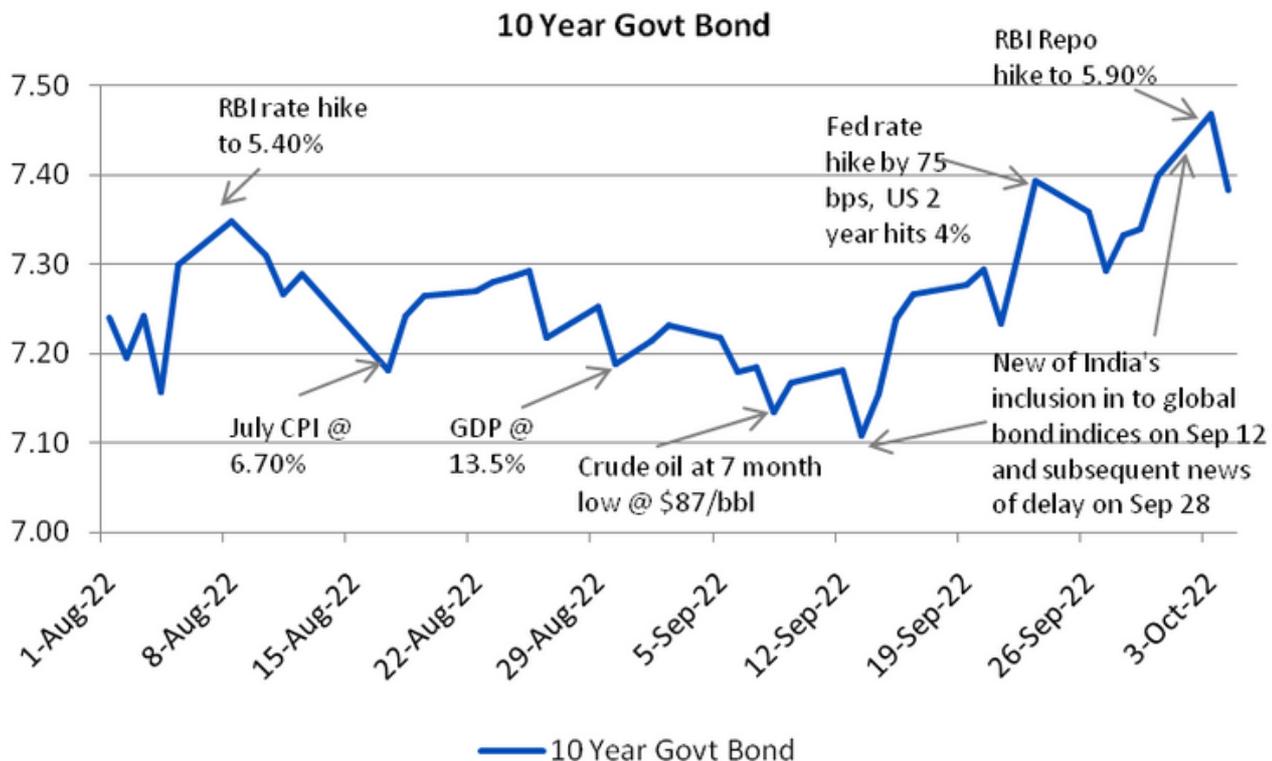
FOREIGN FLOWS

September witnessed net FII outflows to the tune of Rs 3,955 crore. Out of this, equity outflows measured up to Rs 7,624 crore while the debt segment saw net inflows of Rs 2,557 crore. The September outflows have come on the back of a strong buying sentiment in August, primarily due to recession fears in major economies, coupled with global monetary policy tightening to combat high inflation around the world. Demand for dollars coupled with a depreciating Rupee have also led to foreign outflows.



10 YEAR BENCHMARK GOVERNMENT BOND YIELDS:

Yields on the 10-Year benchmark bond - 6.54% GS 2032 - have risen from a low of 7.11% on 13th Sep 2022 to 7.47% as on 3rd Oct, 2022. Yields had eased in July and August, on expectations that inflation had peaked and amid bets of progress towards including Indian bonds in global indexes. In early September, debt markets had begun to cool down on account of the sharp correction in global commodity prices including the crude oil prices and the steep fall in global bond yields. However, Fed's rate hike coupled with a hawkish stance and RBI's follow up rate hike have led the bond yields to reverse back upwards. Moreover, delay in inclusion of Indian debt in global bond indices have led to reversal of yields. Looking forward, on the one hand we have Government's borrowing program, persistent inflation concerns and global central bank policies likely to drag yields upwards and on the other hand, we have global recession fears likely causing a downward effect. Given this scenario, yields are likely to remain in the range of 7.30% - 7.65% in the month of October.





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