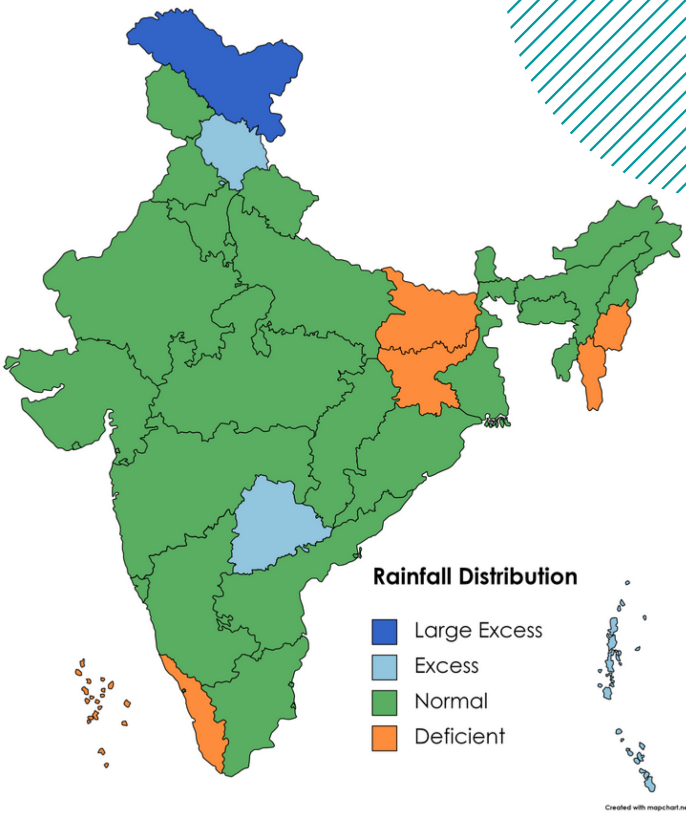
MONTHLY MACRO REVIEW

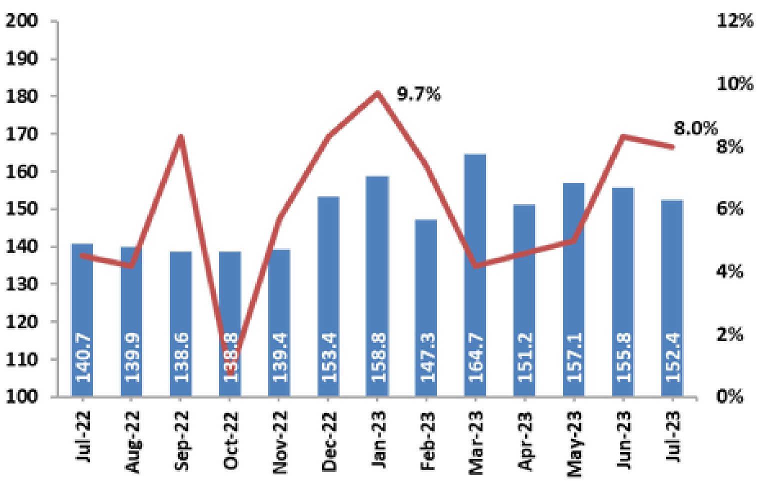
SEPTEMBER 2023

BONANZA WEALTH

MONSOON WATCH

As of Sept 11th, there has been a 10% overall deficit of Long Period Average (LPA) rainfall in the country. The reduced rainfall was a result of a rise in monsoon break days, leading to a 36% deficiency against the historical LPA. The Southern Peninsula and East and north-northeast India have been among the worst-hit regions, experiencing a 17% shortfall. According to data available from the Indian Meteorological Department (IMD), 12 states have experienced a deficiency, which translates to 30% of the land area of the country. Kerala (-46%), Jharkhand (-37%), and Bihar (-27%) received the lowest amount of rainfall among all the states. As a consequence, there has been a significant depletion in the water reserves. Despite the unpredictable rainfall, the area cultivated under Kharif crops has increased slightly in comparison to the previous year. A successful Kharif crop season would necessitate a strong conclusion to the monsoon by the end of September, and the IMD has forecasted normal rainfall (91 - 109% LPA) during this period. The favourable conditions of the Indian Ocean Dipole (IOD) could enhance the probability of above-normal rainfall in September. However, any exacerbation in the El Nino conditions could nullify the effects of the IOD and affect the rainfall and its distribution over the following month.



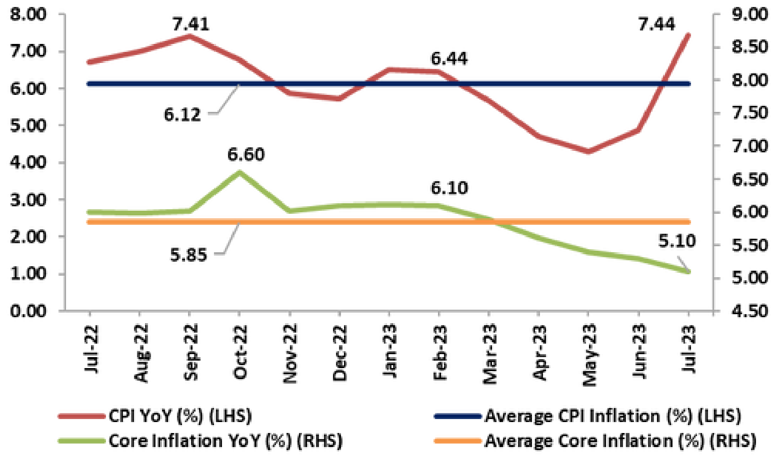


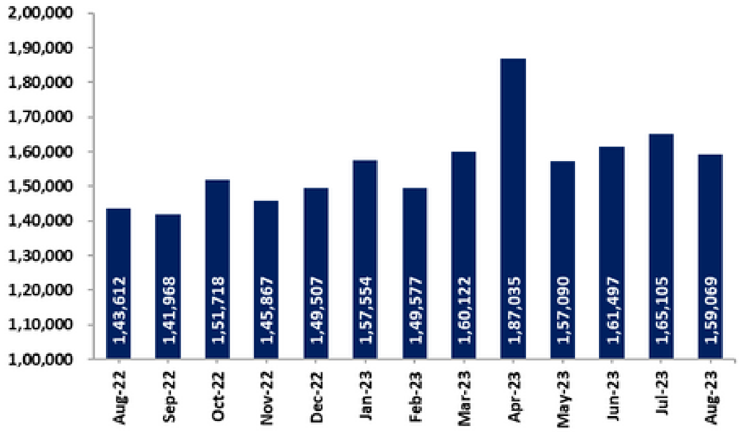
CORE SECTOR

In July - 23, the Index of Eight Core Industries (ICI) showed a growth of 8.0% (provisional). However, the overall output was lower by 2.2% than the previous month of June. The noteworthy fact is that all eight sectors recorded a Y-o-Y growth for the first time since May - 22. The latest estimate for June - 23 print has been revised slightly upwards to 8.3% from the earlier estimated 8.2%. Crude oil production witnessed growth for the first time in 14 months. ICI growth has marginally slowed to 8% from 8.3% in the previous month due to a low-base effect. Coal production has risen by 14.9%, crude oil by 2.1%, natural gas by 8.9%, refinery products by 3.6%, fertilizers by 3.3%, steel by 13.5%, cement by 7.1%, and electricity by 6.9% in Jul - 23. The steel output has witnessed a double-digit growth for the ninth consecutive month, whereas the natural gas production has grown at the fastest pace recorded since Feb - 22.

INFLATION

India's consumer price inflation (CPI) rose to a record-breaking 15-month high of 7.44% in July - 23 driven by high food and vegetable prices. The CPI has expanded for the second consecutive month breaching the RBI's upper tolerance limit of 6% for the first time in five months. Core inflation fell to 5.1% in July - 23, marking the first decline in four months from 5.3% in June - 23. In July 2023, the Consumer Food Price Index (CFPI) increased significantly to 11.51%, compared to 4.55% in June 2023. The CPI inflation has experienced a substantial increase, primarily due to a significant surge in vegetable prices. It is noteworthy that the contribution of vegetables alone to the headline inflation was ~30% MoM, despite it having only 6.04% weight in the overall CPI basket. To ease supply challenges, the government has started taking various measures like importing tomatoes from Nepal or releasing onion from buffer stock. Going forward, we expect CPI inflation to remain high for the month of Aug - 23 mainly due to food inflation and start cooling off from Sep - 23.





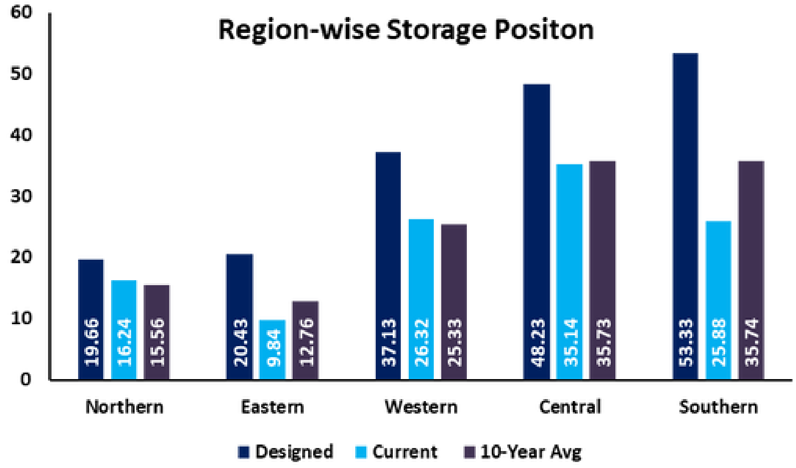
GST COLLECTION

GST collection for the month of Aug - 23 came in at Rs. 1,59,069 crs a 10.8% increase over Aug - 22. However, there was marginal moderation Q-o-Q of 3.7% falling from Rs. 1,65,105 crs. Collection from import continued to increase for a second month in succession to reach Rs. 44,566 crs in Aug - 23 from Rs. 42,079 crs in Jul - 23. The average GST collection for FY23 till Aug - 23 is Rs. 1,65,959 crs, indicating improved tax buoyancy. The government has settled Rs. 37,581 crs to CGST and Rs. 31,408 crs to SGST from IGST. The total revenue of the Centre and the States in the month of August 2023 after regular settlement is Rs. 65,909 crs for CGST and Rs. 67,202 crore for the SGST, totalling Rs. 1,33,111 crs.

The Top 5 states contributed 53.5% of the total collection for the month with Maharashtra itself accounting for 20.3% at Rs. 23,282 crs.

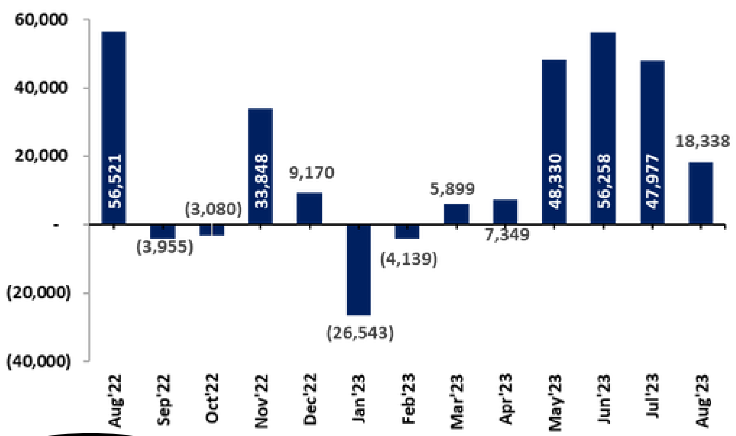
RESERVOIR LEVELS

As we approach the end of the monsoon season, it is important to assess the status of water reservoir levels in the country and regions to gain insight into the outlook for agricultural and other activities. The Central Water Commission monitors the live storage status of 150 reservoirs, including 20 reservoirs for hydroelectric projects, on a weekly basis. According to the report published for reservoir levels as of 31/08/23, the live storage available in these reservoirs is 113.417 Billion Cubic Meters (BCM), which is 63% of the total live capacity. However, this data point is lower than the 146.828 BCM of 31/08/22 and below the 10-year average of 125.117 BCM, which raises concerns.



This situation is directly linked to the distribution of rainfall during the current monsoon season. A closer look at regional reservoir water levels reveals that Northern India is at 82.6%, Eastern India is at 48%, Western India at 71%, Central India at 73%, and Southern India at 49%. There are 50 reservoirs that are below 50%, and of these, 37 are below 40%. For example, the state of Kerala, which has a 43% rainfall deficit this season, has reservoir levels 49% below normal. Similarly, for the states of Bihar (-66%) and Uttar Pradesh (-41%), reservoir levels are significantly lower than normal storage.

Therefore, to prevent a severe shortage of water supply for agricultural, domestic, and industrial purposes in any region, a strong conclusion to the monsoon season is necessary, with a normal distribution across the nation.

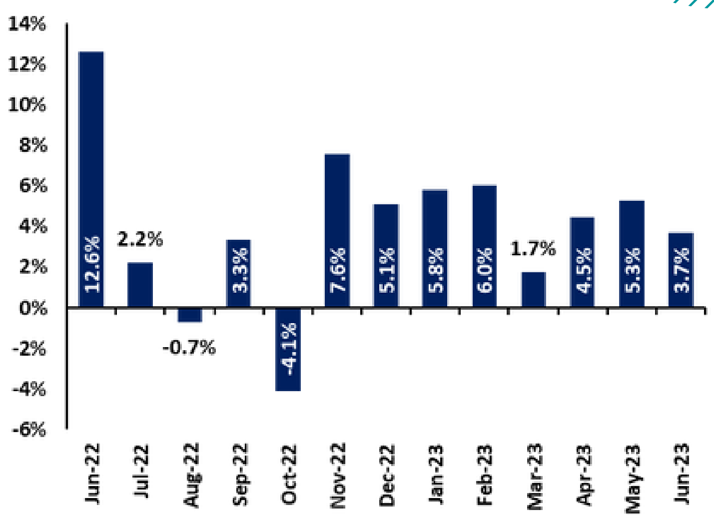


FII FLOWS

On Aug - 23, FII inflows fell sharply to Rs. 18.338 crs in capital markets with the equity segment recording inflows of Rs. 12,262 crs, whereas the debt segment saw net inflows of Rs. 4,800 crs. Spooked by possible rate hikes by FED, FIIs reallocated their funds to the US treasury resulting in higher bond yields and a stronger dollar. Fears of rate hikes have also triggered outflows from other emerging markets. Sector-wise, in August, major inflows were seen in Power, Capital Goods and IT. While major outflows were witnessed in the Financial Services Metals and mining sectors. A favourable environment for future earnings growth is expected due to lower commodity prices and improved supply chains. Currency volatility is a primary concern, worsened by dry weather in September. The upcoming election year may cause stock market volatility due to policy reforms. It is important to monitor economic trends.

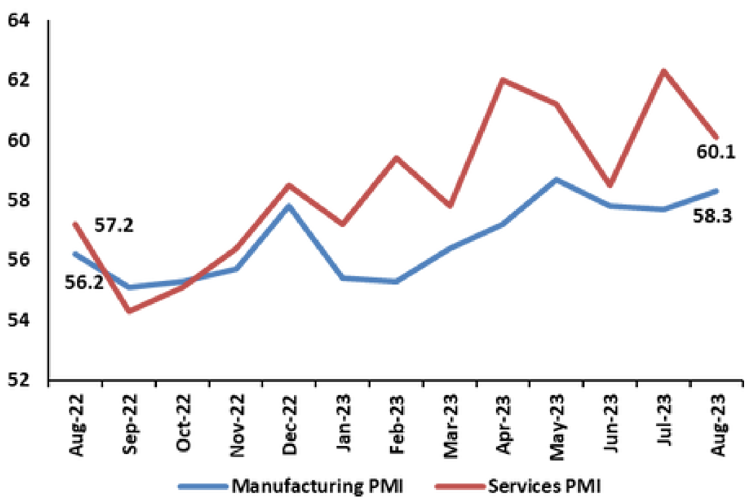
IIP GROWTH

India's Industrial Production (IIP) slowed down to a three-month low of 3.7% (provisional) in June - 23 as against 5.2% (revised to 5.3% actual) in May'23. The decline in IIP is mainly attributed to poor performance by the manufacturing sector. In June, within the sectoral-based classification, mining (7.6%) and electricity (4.2%) supported IIP growth, while manufacturing was laggard in overall IIP decline. The manufacturing sector output slowed down to 3.1% compared to 5.7% in May. Out of the 23 categories within the manufacturing sector, 14 witnessed a YoY decline in growth. The major decline in the manufacturing sector can be seen in chemicals (-2.2%), textiles (-0.3%) and wearing apparel (-23.3%). Within the use-based classification, 5 out of 6 categories registered growth on a YoY basis, only consumer durables output declined. Infrastructure/construction goods posted a growth of 11.3% over a 9.4 % expansion in the same period a year ago. The rise in inflation due to an increase in food prices is putting pressure on domestic demand. Growth in domestic demand would be key for revival in IIP.



PMI

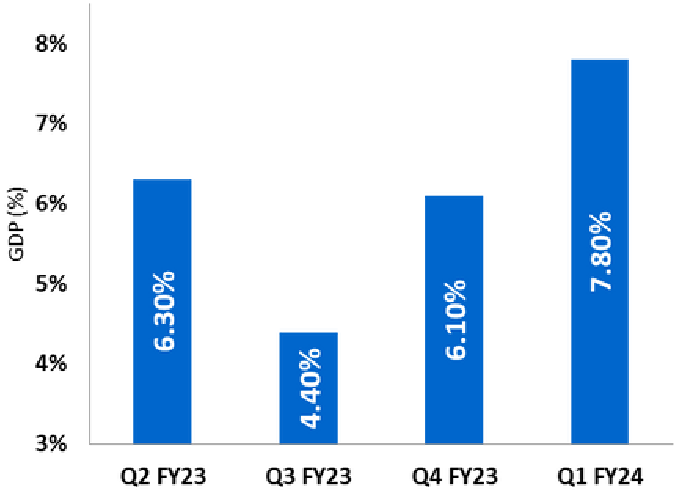
The Composite Purchasing Managers Indicator (C-PMI), for Aug - 23 came in at 60.9, which down marginally from 61.9 in Jul - 23. The moderation was account of the moderation in Service PMI (S-PMI) which was at 60.1 against 62.3 in Jul - 23. Despite the slight slowdown, the service sector continues to be the driving force of the economy growing at a robust pace. The Manufacturing PMI (M-PMI) on the other hand witnessed an increase which stood at 58.3 up from 57.7 in Jul - 23.



The strength of demand was vital to the manufacturing sector which saw a surge in new orders last seen in Jan - 21. This strong demand encouraged Indian manufacturers to ramp up production, which meant output rose for the 26th successive month. Similarly, the service sector also indicated a sharp rise in new export business from the Asia Pacific, European, and North American regions. The overall expansion was one of the strongest in 13 years as new business increased for the 25th successive month.

GDP GROWTH

India's GDP grew by 7.8% for the quarter that ended June - 23 as compared to the same quarter in the previous year. While this growth number appears to be impressive, it is important to note that there is a base effect at play here. If we consider the CAGR of Real GDP between June - 19 and June - 23, the growth rate is a measly 3.2%. Hence, the 7.8% growth rate is not a sudden surge in GDP but rather a reflection of the recovery from the adverse effects of the pandemic-induced lockdown. The Services sector was the top performer during this period. Financial, Real Estate and Professional Services witnessed a growth rate of 12.2%, while Trade, Hotels, Transport and Services related to Broadcasting grew by 9.2%.



The construction sector has demonstrated notable growth, generating substantial employment opportunities with a growth of 7.9%. The manufacturing sector has also exhibited significant progress, posting a growth rate of 4.7% despite a decrease from last year's 6.1%, indicating a steady recovery from its pre-pandemic lows of 0.04%. With the government's efforts to enhance the manufacturing sector's contribution, expectations are high that the industry will continue to gain momentum, achieving high single-digit to low double-digit growth rates in the forthcoming quarters.

A noteworthy observation from Q1 GDP data is the robust expansion of 6% in private consumption. Additionally, the Gross Fixed Capital Formation, which serves as an indicator of Capex, accounted for 34.7% of the GDP. This figure remained stable Y-o-Y, with a marginal decline Q-o-Q from 35.3% in March - 23. However, the overall deficit incurred as a result of the trade balance (Imports - Exports) stood at 6.4% of the GDP, up from 2.3% in Q1FY23. It is worth noting the significant rise in the "discrepancies" number, which after proper allocation among the relevant categories, can improve the outlook.

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