MONTHLY MACRO REVIEW

April 2024

BONANZA WEALTH

RBI’s MPC Policy Decision

The Reserve Bank of India's Monetary Policy Committee (MPC) met from April 3-5, 2024, and kept the repo rate unchanged at 6.5% while retaining its focus on withdrawal of policy accommodation to align inflation with the 4% target.

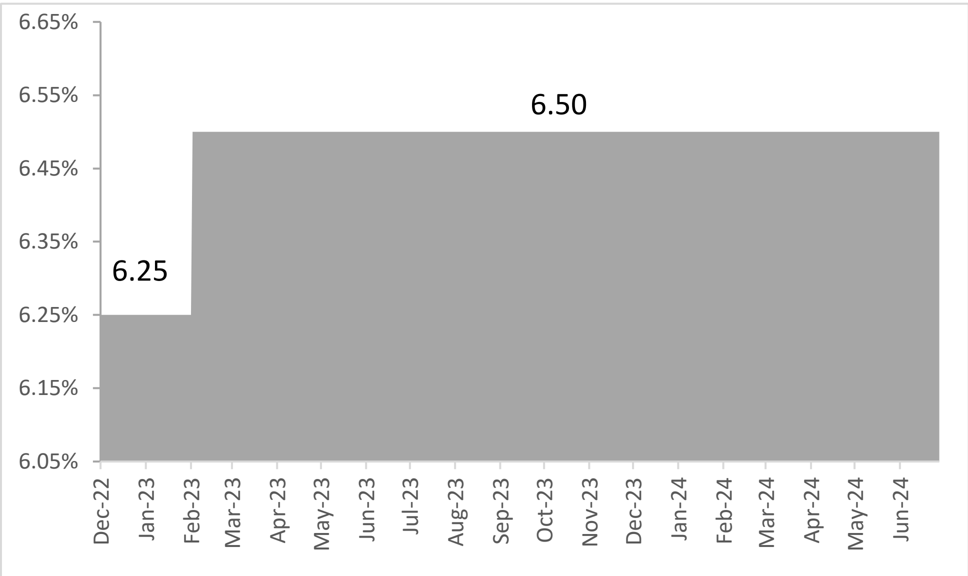
On the growth front, the MPC appeared optimistic about India's economic prospects. As per the second advance estimates, India's real GDP grew by an impressive 7.6% in FY24, surpassing the 7% growth achieved in the previous year. The momentum remains robust, with Q3 FY24 GDP expanding by a stellar 8.4% year-on-year. The growth is being propelled by buoyant domestic demand, with investment activity acting as a key driver.

For FY25, the RBI has projected GDP growth of 7%, moderating slightly from FY24 levels. However, this projected growth rate continues to be among the highest globally. The growth outlook is underpinned by expectations of a normal monsoon boosting rural demand, rising urban consumption backed by improving consumer confidence, an uptick in the private capital expenditure cycle, and strengthening exports amid a recovery in global growth.

Turning to inflation, the trajectory remains uneven, but the overall trend is moderating. Headline CPI inflation cooled to 5.1% in Jan-Feb – 24 from 5.7% in Dec – 23, aided by a sustained decline in core inflation to 3.4% in February. However, food inflation remained elevated at 7.8% in February due to persistently high vegetable prices.

For FY25, the RBI has projected headline CPI inflation of 4.5%, with quarterly prints ranging from 3.8% in Q2 to 4.9% in Q1. The outlook is laden with risks emanating from potential supply disruptions, adverse weather events impacting food prices, and volatility in global commodity prices amid geopolitical tensions.

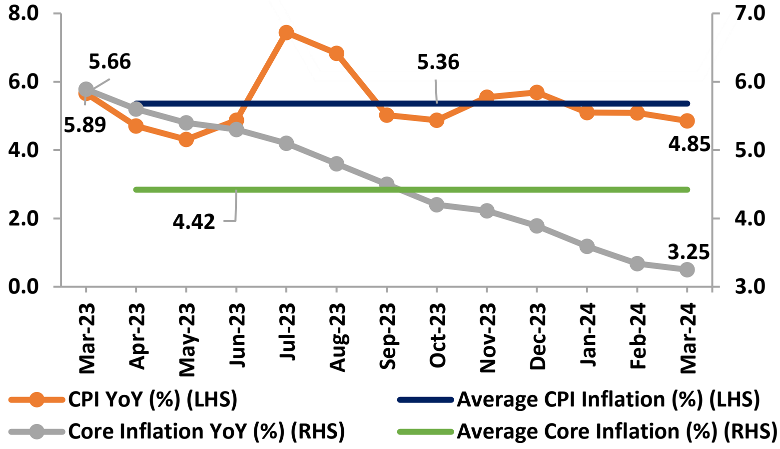
Overall, while flagging upside risks to inflation, the MPC appears confident in achieving the 4% target given the strong growth momentum. The policy priority seems firmly secured on preserving the hard-earned disinflation gains to secure macroeconomic stability and entrench inflation expectations.



CPI INFLATION

In April 2024, India's consumer price index (CPI) inflation eased to ten-month low of 4.85%. The moderation in inflation was driven by the Fuel and Light category, which saw a YoY decline of 3.2% (down by 2.6% MoM) due to a reduction in subsidised LPG cylinder and Kerosene prices. This was primarily due to the dip in subsidised LPG cylinder and Kerosene prices. Although there has been a broad-based moderation in the overall CPI basket, food inflation continues to remain high despite marginal deceleration.

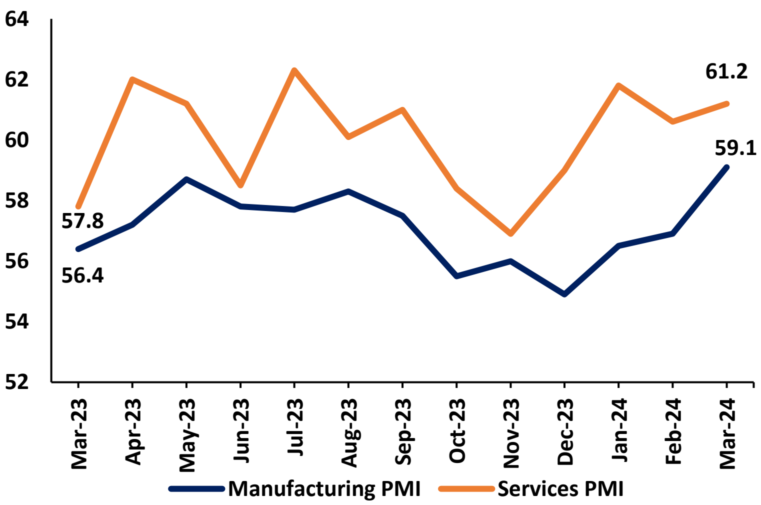
In the latest RBI's MPC meeting, the decision to keep the repo rate unchanged at 6.5% was announced for the seventh consecutive time. The Core CPI, a non-volatile component of the CPI, has further eased to 3.25% from 3.34% in February, staying below the 4% threshold for four consecutive months. External risks to the inflationary outlook have increased in the past few months due to rising global commodity prices. This is due to OPEC production cuts, trade disruptions and increased demand from major consumers. High commodity prices can impact domestic consumption, leading to higher pass-through.



PMI INDICATORS

Based on the Manufacturing and Services PMI data, indicated India's economic momentum remained robust in Mar-24, signalling a strong close to FY24. The Manufacturing PMI climbed to a 16-year high of 59.1, driven by the sharpest increases in output and new orders since Oct-20. Notably, export orders rose the fastest since May-22, reflecting buoyant global demand. Manufacturers stepped up hiring and input stockpiling to meet the surge in orders.

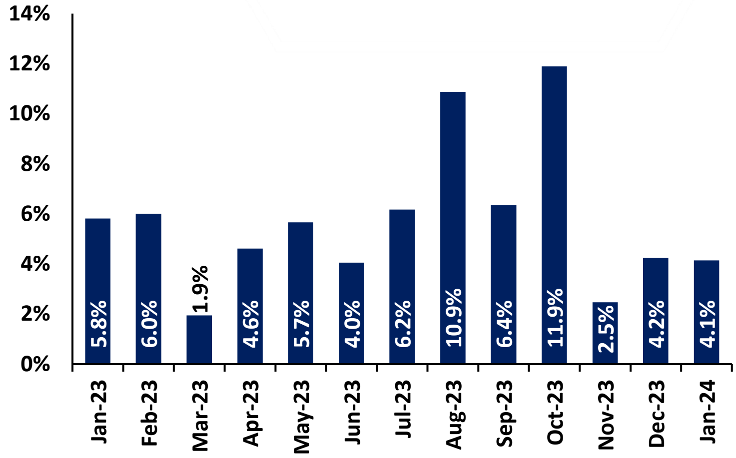
The Services PMI also painted a promising picture, rising to 61.2 on Mar-24, one of the strongest growth rates in over 13 years. The sector witnessed a series-record upturn in new export orders, fuelled by robust demand from key markets like Africa, Asia, Europe, and the Americas. Service providers increased employment at the joint-fastest rate since November 2022 to expand capacity. However, the robust demand aggravated price pressures, with input and output costs rising faster across both sectors. The Composite PMI climbed to 61.8, with the second strongest private sector output growth in nearly 14 years. Looking at the PMI data India's economic resilience is underscored amid global uncertainties and will provide a strong platform for growth in FY25.



IIP GROWTH

India's Industrial Production (IIP) grows by 5.7% (provisional) in Feb-24 as against 3.8% in Jan-24, on the back of favourable base. Broad based growth, with improvement seen across the mining, manufacturing, and electricity sectors, driven by a favorable base effect. Meanwhile, IIP for Apr-23 to Feb-23 grew by 5.9% as against same period last year at 5.6%. Within the sectoral based, all sectors witnessed growth, Mining (8.0%), Manufacturing (5.0%), and Electricity (7.5%). Out of the 23 categories within the manufacturing sector, nineteen saw a YoY increase in output. Basic metals, accounting for 12.8% of the weight, witnessed a growth of 8.8% and motor vehicles, accounting for 4.86% of the weight, witnessed a growth of 11.6%.

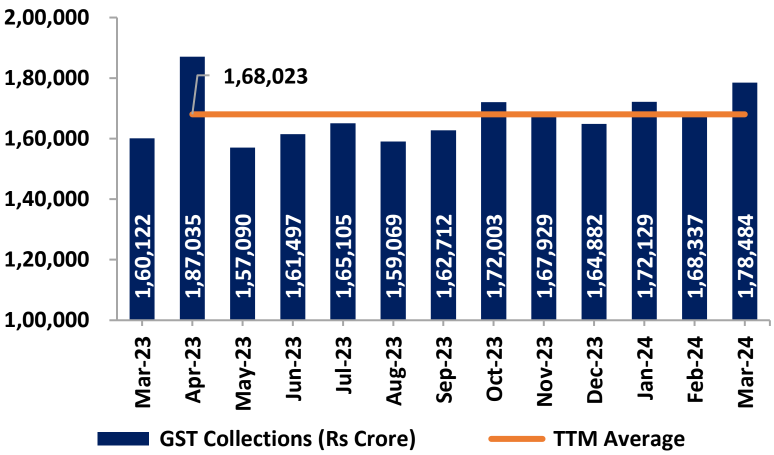
Within the use-based classification, with all categories recording growth. Primary Goods (5.93%), Capital Goods (1.24%), Intermediate Goods (9.51%), Infrastructure goods (8.51%), Consumer durables (12.28%), while Consumer non-durables fell to (-3.81%). Government capex focus to drive infrastructure/construction sector. Rural demand, moderating price pressures, and normal monsoon to support consumption. Industrial activity to gain pace with private investment and consumption improvement.



GST COLLECTIONS

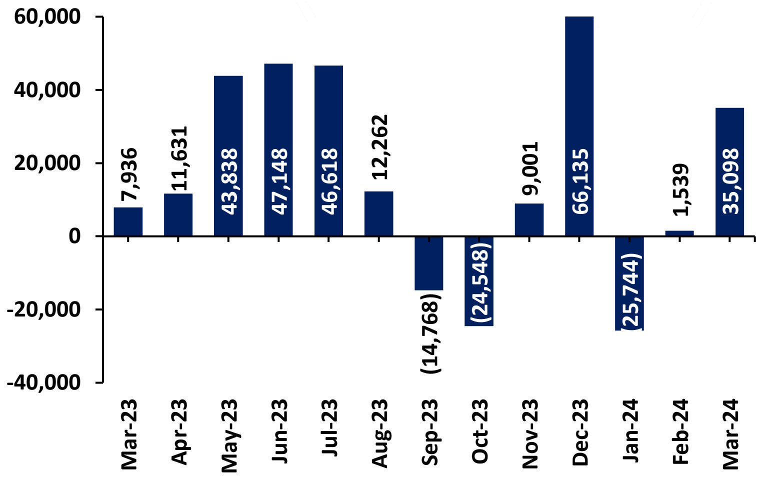
India's GST collections for Feb-24 exhibited robust growth of 12.5% year-on-year, reaching Rs. 1,68,337 crs. This positive trend is driven by a 13.9% increase in domestic transactions and an 8.5% rise in import-related GST. Net of refunds, GST revenue also witnessed a healthy 13.6% growth compared to February 2023. As of February, gross GST collections stand at Rs. 18.40 lakh crs, exceeding the same period last year by 11.7%. The average monthly collection also surpasses the previous year, reaching Rs. 1.67 lakh crs. Net of refunds, the growth holds steady at 13.0% for the year so far.

A detailed breakdown of February's collections reveals: CGST: Rs. 31,785 crs, SGST: Rs. 39,615 crs IGST: Rs. 84,098 crs (including Rs. 38,593 crs from imports) Cess: Rs. 12,839 crs (including Rs. 984 crs from imports). Following inter-governmental settlements, the final revenue for CGST and SGST stands at Rs. 73,641 crs and Rs. 75,569 crs respectively. The top 5 state account for 53.5% of the total GST collected with Maharashtra leading having collected Rs. 27,065 crs alone which is 21% of the total.

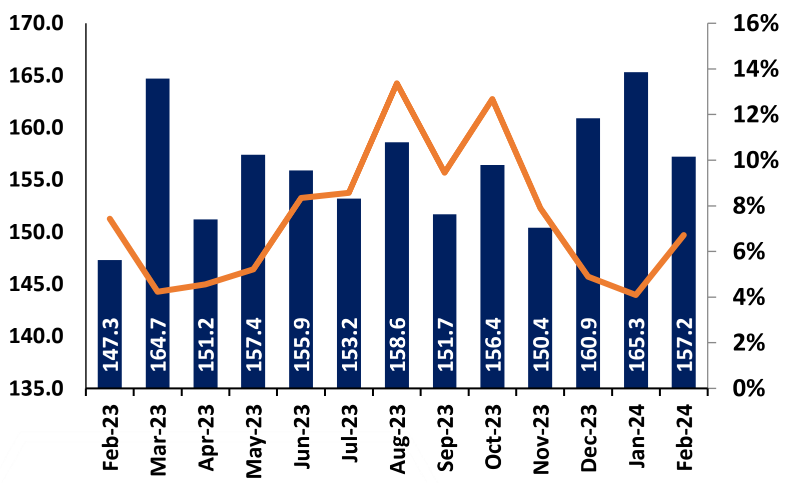


FII FLOWS

In Mar-24, Foreign Institutional Investors (FIIs) pumped in Rs. 35,098 crores in the Indian equity market, showcasing India's growth opportunity, strong macros, and resilience. While in FY24, FIIs have invested Rs. 2,08,212 crores in Indian equity market, making India top destination for foreign funds among Asian markets. Foreign investors are attracted to India's favourable macroeconomic conditions, including a softening inflationary outlook and potential interest rate reversal. The upcoming 2024 elections and growth in the defence, consumer, and infrastructure sectors are driving FII interest. It will be interesting to observe investor decisions in the future. FIIs remained net buyers in the debt segment, with a total inflow of Rs. 16,080 crores. Sector-wise, in Mar-24, major inflows were seen in Financial Services, Telecommunications and Others.



While major outflows were seen in Information Technology, Construction, and Oil & Gas. Foreign investors are currently risk-averse due to the emerging markets' slowdown, caused by high interest rates, core inflation, and above-average valuation. India is experiencing the ripple effect, expected to continue in H1CY24. India's economy is positive, with a bullish sentiment. FII flows will increase drastically. Liquidity is waiting to enter the market. Short-term slowdown possible but long-term trend is optimistic.



Core Sector

The combined index of eight core industries (ICI) sector grew highest in 4 months to 6.7% (provisional) in Feb-24 as against 4.1% (revised, previous 3.6%) growth in Jan-24. The growth was witnessed in all sectors except fertilizers. The final growth rate of the core sector index for Nov-23 has been revised to 7.9%. Coal production has risen by 11.6%, crude oil by 7.9%, natural gas by 11.3%, refinery products by 2.6%, steel by 8.4%, cement by 10.2% and electricity by 6.3%. The only laggard was fertilizers by -9.5% showing negative growth.

India's coal sector exhibited the highest growth of 11.6% among the eight core industries in February 2024, driven by a significant 11.83% increase in coal production to 96.60 million tonnes compared to the same period last year. The coal industry has consistently outperformed with double-digit growth over the past eight months, substantially higher than the overall growth of the eight core industries.

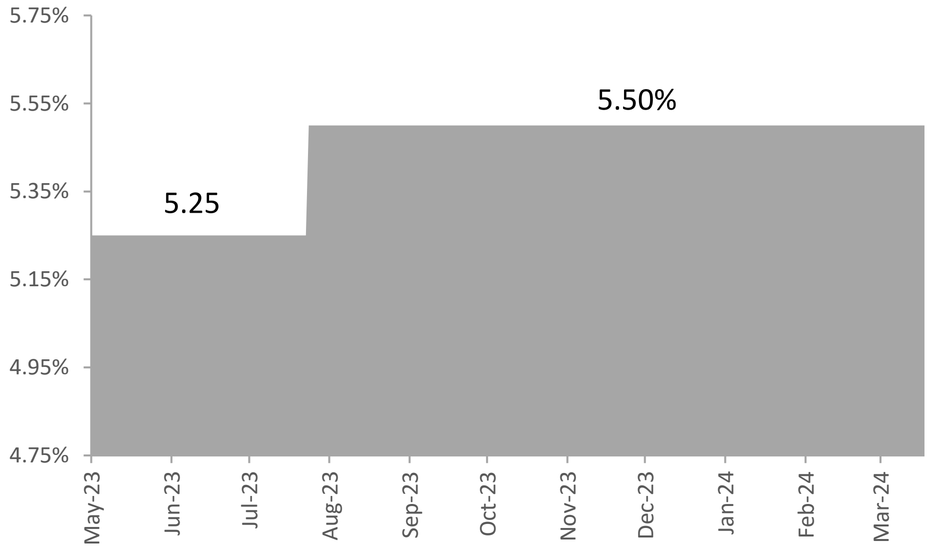
FED Rate Decision

The Federal Reserve Chair Jerome Powell (Powell), despite progress in bringing down inflation, emphasized that it remains too high, and the path forward is uncertain. According to Powell, the economy has been expanding at a solid pace, with GDP growth of 3.2% in Q4 2023 and 3.1% for the full year. However, the labor market, while relatively tight, is showing signs of rebalancing, with the unemployment rate edging up to 3.9% and wage growth moderating.

Inflation has eased significantly over the past year, with total PCE prices rising 2.5% and core PCE prices up 2.8% in the 12 months ending in February. The FOMC's median projection for total PCE inflation is 2.4% this year, 2.2% next year, and 2% in 2026. Notwithstanding the progress, the FOMC decided to maintain its current target range for the federal funds rate and continue reducing its securities holdings. Powell indicated that, if the economy evolves as expected, it will likely be appropriate to begin dialling back policy restraint later in the year.

However, Powell emphasized that the Committee wants to be cautious and gain greater confidence that inflation is moving sustainably down towards the 2% goal before making any adjustments to interest rates. He highlighted the risks of easing policy too soon or too much, which could result in a reversal of the progress on inflation, or easing too late or too little, which could lead to unnecessary weakening of economic activity and employment.

Overall, the FOMC's approach appears to be one of measured caution, as they continue to assess the evolving economic outlook and balance of risks to achieve their dual mandate of maximum employment and price stability.



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