MONTHLY MACRO REVIEW

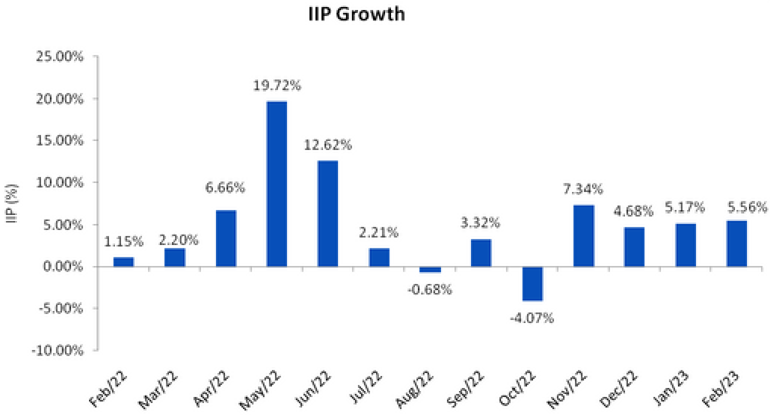
MAY 2023

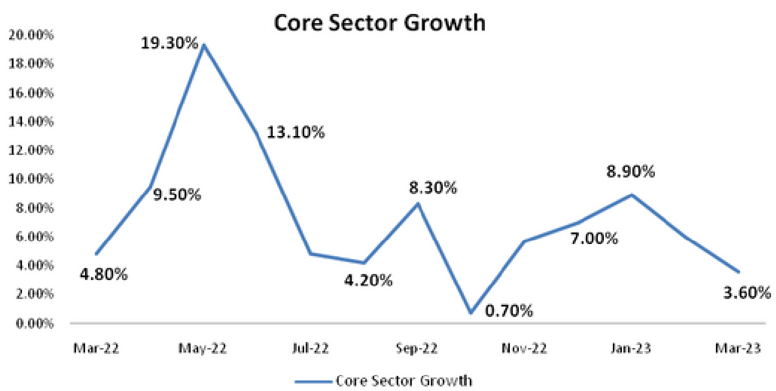
BONANZA WEALTH

IIP GROWTH

India's Industrial Production (IIP) for the month of Feb – 23, registered a growth of 5.56% Y-o-Y higher by 39 bps from the previous month. Electricity and Manufacturing were the primary drivers for growth clocking in at 8.21% and 5.31% respectively. A big positive seen in the IIP data was the 12.14% growth in the consumer non-durables sector, even outperforming the Capital Goods sector (10.10% for Feb – 23) which has been consistently the best-performing pocket of the economy since Apr – 22. All core sectors barring consumer non-durable showed slower growth compared to Jan – 23.

Early signs of a minor slowdown are visible as the M-o-M trajectory of the headline IIP number peaked in Jan – 23 and contracted by 5.32% in Feb – 23. This is the first contraction after Oct – 22 and the largest during the previous 11 months. Primary Goods / Intermediate Goods / Infrastructure saw a sharp contraction of 6.62% / 6.77% / 4.48%, whereas Capital Goods and Consumer Durables were resilient declining by 1.20% and 1.09% only.





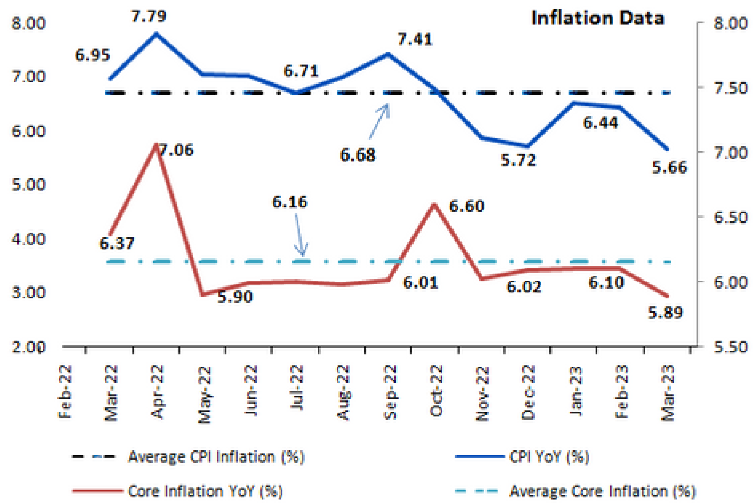
CORE SECTOR

In March, the output growth in India's eight core sectors dipped for the second consecutive month to reach a 5-month low of 3.6% as against 4.8% in the same period last year. The production of coal rose to 12.2%, natural gas by 2.8%, refinery products by 1.8%, fertilizers by 9.7% and steel by 8.8%. However, the output of crude oil declined by 2.8%, cement by 0.8% and electricity by 1.8%. The cumulative growth rate of the Index of Eight Core Industries (ICI) in 2022-23 was 7.6% (provisional), as against 10.4% in 2021-22. Unseasonal rains impacted output in sectors such as electricity and cement. On a positive note, steel, coal, and fertilizers all showed good growth. India's petroleum refinery production climbed by 1.5% Y-o-Y in March – 23 despite a 2.8% Y-o-Y fall in crude oil production due to the country's record-high imports of cheap Russian crude.

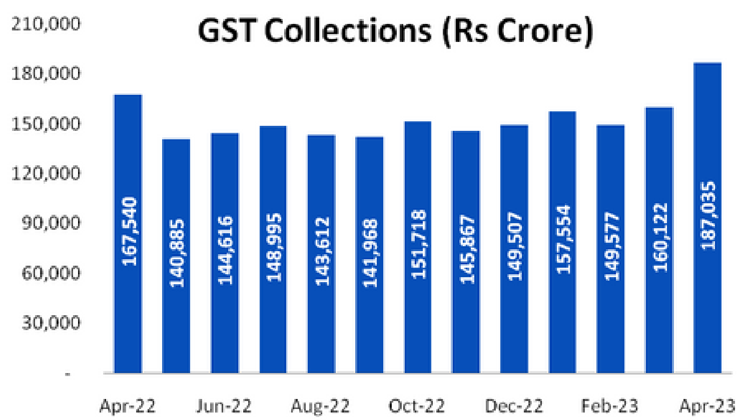
INFLATION

The decision by the RBI MPC to keep policy rates unchanged was vindicated, as inflation cooled off sharply to 5.66% from 6.44% last month. CPI inflation now stands at a 15-month low, as core inflation has tapered by 30 bps to 5.80% during the month, aided by a decline in food inflation. Food inflation saw a big drop to 4.79% from 5.95% attributed to quick moderation in vegetable, oil & fats prices especially in the rural regions. Cereal prices remained high, a direct result of the weak kharif output and fruits becoming expensive as prices increased by 7.55%.

Although core inflation has eased a little but remained elevated and far from the core inflation target of 4% by RBI. Headline inflation has remained above the 4% level for the last 42 months and until there is a meaningful decline in the core inflation, headline inflation will also stay elevated. During FY23 core inflation declined to 5.89% (Mar - 23) from a peak of 7.06% (Apr - 22), but the average rate of core inflation throughout FY was 6.15%.



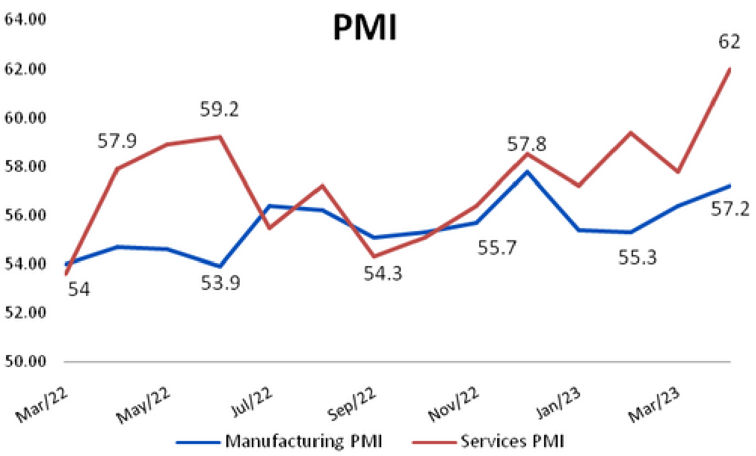
GST COLLECTION



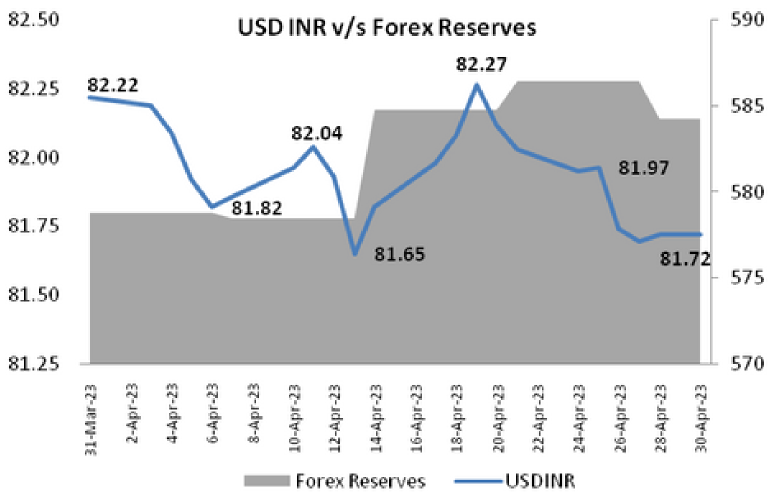
GST collection for the month of Apr - 23, topped Rs. 1.87 lakh crs which is the highest ever monthly collection since the GST rollout. GST collections have shown a structural uptrend in collection over the past 12 months, as the collections for Apr - 23 were 16.81% higher M-o-M and 11.64% higher Y-o-Y. One important point to note here is that the GST collection from Imports has declined to Rs. 35,873 crs in Apr - 23 from Rs. 37,562 crs in Apr - 22. Also, out of the Rs. 1.87 lakh crs, Rs. 68,228 crs of GST was collected on 20th Apr (due date for filing GSTR-3B and making payment) through ~9.8 lakh transactions, this is the highest single-day collection surpassing the previous record of Rs. 57,846 crs. Furthermore, the total number of e-ways bills generated during Mar - 23 stood at ~9 cr indicating a growth of 11% over Feb - 23. The GST data indicates India's domestic economy is strong and resilient in the face of global headwinds.

PMI INDICATORS

The Composite Purchasing Managers Indicator (C-PMI), for Apr – 23 came in at 61.6, which constituted of Manufacturing PMI (M-PMI) at 57.2 and Services PMI (S-PMI) at 62.0. The M-PMI climbed to a four-month high in Apr – 23, supported by strong new business orders, boosted international sales and favourable supply-chain conditions. Although manufacturers reported higher operating costs in April, the overall rate of inflation remained lower than its long-run average. Indian firms were optimistic that output volumes will increase in the next 12 months. The S-PMI surged to a 13-year high as international demand for Indian services strengthened further in April, with new export orders growing for the third month in a row and at the quickest rate in the quarter. The finance and insurance sector recorded the strongest increase in output. Despite the significant acceleration in sales growth and the improved business sentiment towards the outlook, the increase in employment seen in April was negligible.



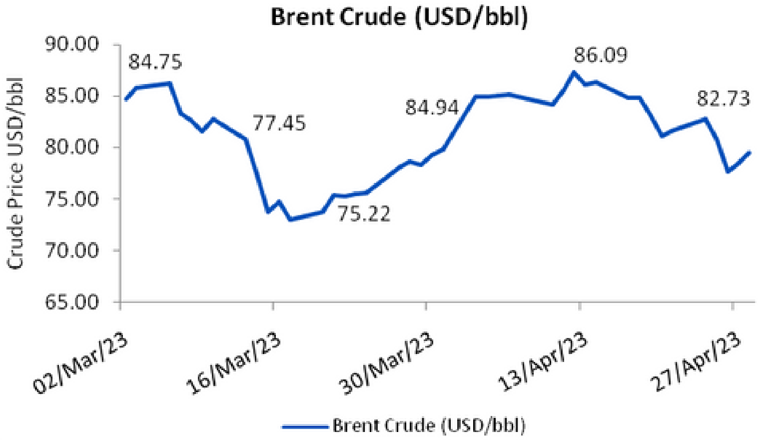
RUPEE MOVEMENT



The Rupee closed at 81.72/$ for Apr – 23, appreciating by 50 paise from 82.22/$ (Mar – 23) marking appreciation for two consecutive months. The Forex reserves also climbed to reach $ 584.25 bn, the highest since Jul – 22. Rupee continued to be volatile during Apr – 23 and remained range bound as shown in the chart. A sharp appreciation was seen, when headline CPI inflation and core inflation showed signs of abatement along with robust IIP Y-o-Y growth data. This was nullified by depreciation on the back of weaker-than-expected earnings of export-oriented major Indian companies with soft guidance for the near term, steep fall in crude oil inventories, higher than expected inflation in Europe and other key macroeconomic indicators regarding the US. There was little reaction in the currency markets to the weak Q1CY23 GDP growth recorded by the US which indicates that a slowdown in the global economy is priced in.

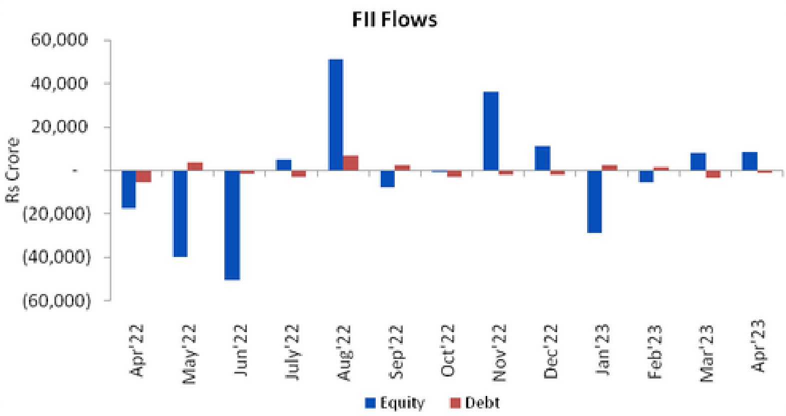
CRUDE OIL

Brent crude prices traded in the range of $77.69-88.19 per barrel in Apr - 23. Oil prices dipped slightly at the start of the month, after gaining for three weeks in a row, as fears of future interest rate rise, which might dampen demand, were partially offset by the likelihood of a tighter market owing to supply cuts by OPEC+ countries. Soon after, crude oil rose by 2% to its highest level in over a month as cooling US inflation data fuels expectations that the Federal Reserve is near the peak of the interest-rate cycle. However, the price declined mid-month on the strengthening dollar and concern about the growth outlook despite the upbeat economic data of China. By the end of the month, crude oil prices dropped to monthly lows despite U.S. crude inventories contracting more than expected, spooked by a possible recession in the U.S. going forward. It is expected that global oil prices would remain volatile due to China's reopening and weak economic activity in the West.



FOREIGN FLOWS

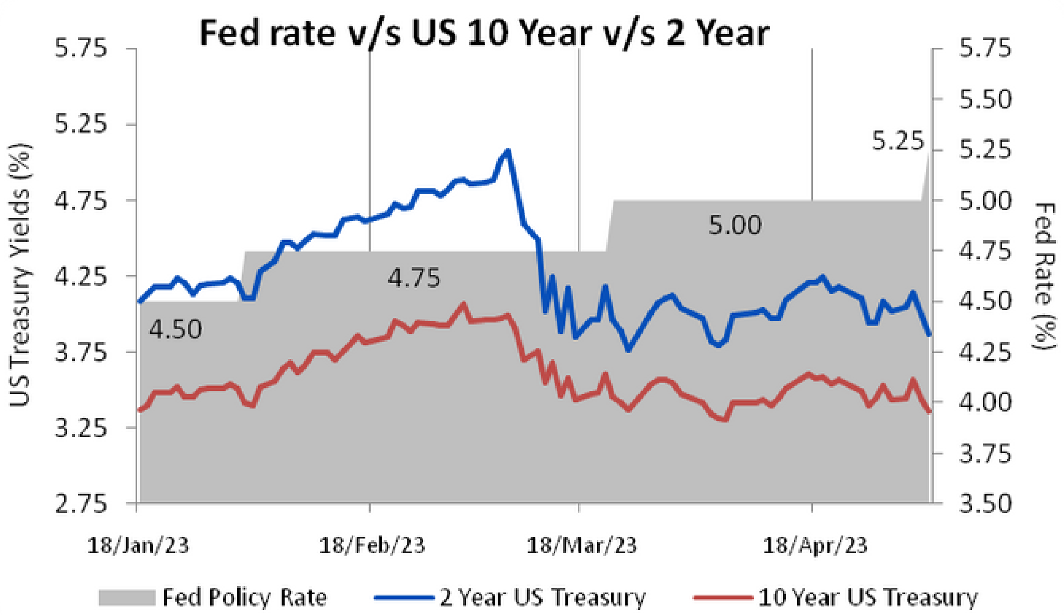
Apr - 23 witnessed net FII inflows of Rs. 13,545 crs. The equity segment received net inflows of Rs. 11,631 crs whereas the debt segment saw net inflows of Rs. 805 crs. FPI remained net buyers in April, after FPI infused a net sum of Rs. 7,936 crs in March, mainly driven by bulk investment in the Adani Group by GQG partners. The key reason for this inflow was the stabilization of global scenarios, easing fears about the financial crisis in the United States and Europe, and the appreciation of the rupee. Financial Services, Automotive and IT saw major inflows in April, while major outflows were seen in Oil & Gas, Realty and others. The Indian economy's stability in comparison to other developing economies, as well as its affordable valuation, may continue to attract FPIs.



FED DECISION:

Being committed to achieving the target inflation rate of 2% and maintaining maximum employment, the US Federal Reserve raised policy fund rates by 25 bps effective 3rd May 2023 bringing the target range of the federal funds to 5.00 – 5.25%. This is in line with the market expectation however, investors were unnerved by the comment made by Federal Reserve Chairman (Mr Powell) "...that inflation is going to come down not so quickly". He further added "...it will take some time, and in that world, if that forecast is broadly right, it would not be appropriate to cut rates and we won't cut rates..", this indicates that interest rates are near the peak and however, they are prepared to continue increasing the rate if more policy tightening is warranted based on economic data.

The Fed has raised the rate by 500 bps over the past year, which has significantly tightened the credit market and led an instability in the banking sector, consequently, another U.S. regional bank, PacWest Bancorp, reported troubles overnight. Addressing this issue, Mr Powell reassured that conditions have broadly improved since early March, and the U.S. banking system is sound and resilient.



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