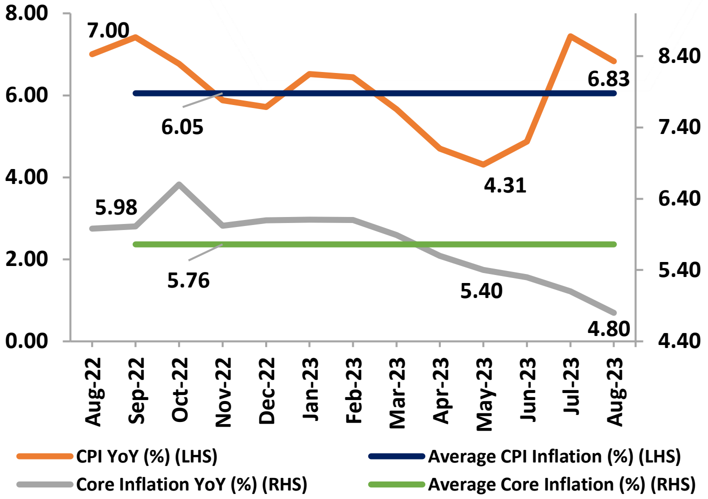
MONTHLY MACRO REVIEW

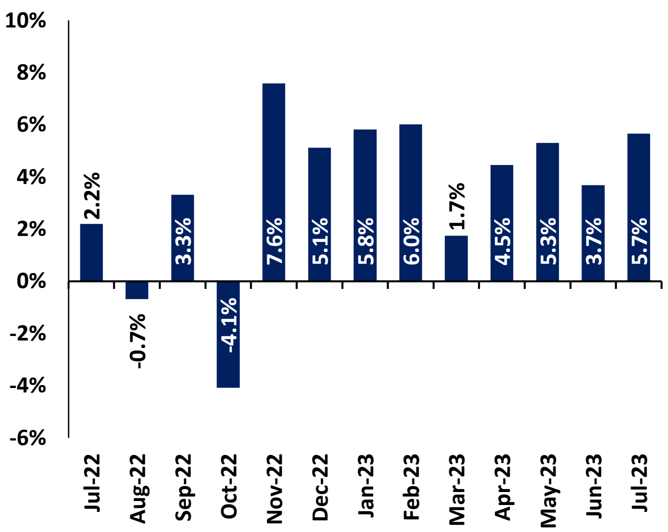
OCTOBER 2023

BONANZA WEALTH

CPI INFLATION

In Aug-23, India's Consumer Price Index (CPI) inflation witnessed a decline to 6.83% from 15-month high of 7.44% recorded in the previous month. This was primarily due to a sequential contraction in vegetable prices. However, it is noteworthy that inflation remained above the Reserve Bank of India's (RBI) upper tolerance band despite the 61-basis point decrease. Similarly, core inflation also moderated from 5.1% in July 2023 to 4.8% in August 2023, mainly driven by a reduction in inflation in housing, personal care, and recreation. Although food inflation eased from 10.57% in July 2023 to 9.19% in August 2023, cereals & pulses, milk, and spices remained elevated, indicating that food inflation still poses a risk to headline inflation figures. This is particularly concerning as the impact of El Nino on inflation persists, and lower reservoir levels due to poor rainfall could have a negative impact on rabi output. Overall, while there have been some positive developments in terms of inflation, the situation with food inflation remains a concern.



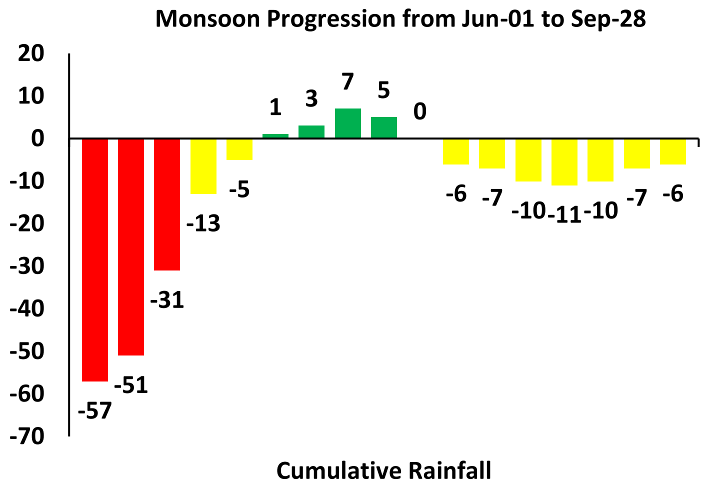


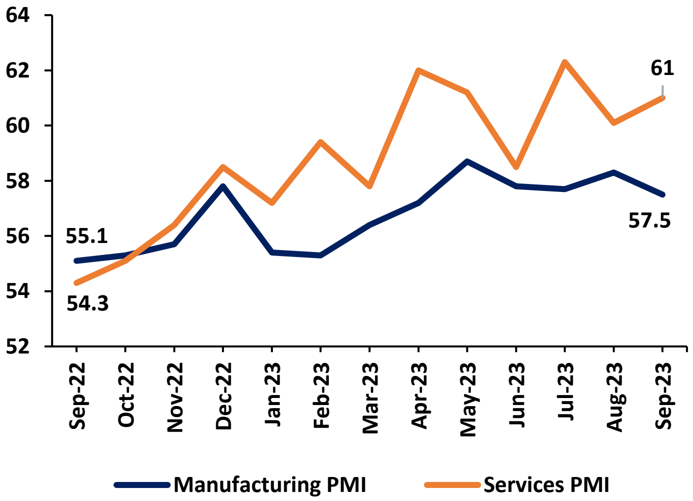
IIP GROWTH

In July 2023, the Index for Industrial Production (IIP) in India grew by 5.7%, marking a five-month high, as compared to 3.8% growth in June 2023. The growth was primarily supported by a favorable base effect and a broad-based improvement across all sub-sectors, except consumer durables which contracted for the second consecutive month. Within the sectoral-based classification Mining, Manufacturing, and Electricity grew by 10.7%, 4.6%, and 8.0%, respectively. Among the 23 categories within the manufacturing sector, 14 witnessed YoY growth. The output of basic metals recorded a growth of 12.8%, while chemicals and chemical products witnessed a decline of 7.4% in July 2023. Within the use-based classification, infrastructure and construction goods registered an uptick of 11.4% in Jul-23, continuing its double-digit streak for four months due to the government's strong push on infrastructure spending. The consumption demand is expected to improve during the upcoming festive season. However, elevated inflation levels remain a threat to the consumption demand.

MONSOON WATCH

The monsoon season has concluded with a 6% deficit against the Long Period Average (LPA) after three years of above-normal rainfall. The intensified El Nino conditions, primarily in the second half, have been identified as the main culprit for this. According to IMD data, 25 sub-divisions received normal rainfall, covering approximately 71% of India's total area. The Director-General of the India Meteorological Department (IMD) has indicated a delayed monsoon withdrawal this year, therefore parts of the country may experience bouts of rainfall. The monsoon season was marked by various weather patterns, including the Biparjoy cyclone, the presence of El Nino conditions leading to erratic rainfall, and a positive Indian Ocean Dipole (IOD) that counterbalanced the effects of El Nino. The current water reservoir levels are a matter of concern, with a 73% deficit compared to 88% last year, which could potentially weaken the Rabi crop output.



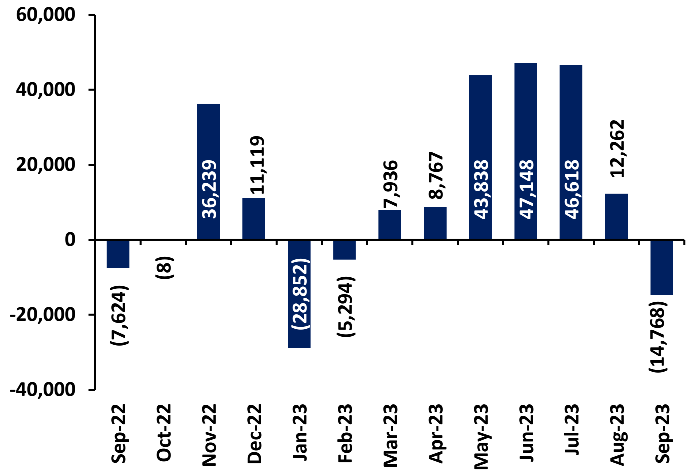


PMI INDICATORS

According to the PMI data for September 2023, the Indian economy has exhibited strength and resilience. The Manufacturing PMI (M-PMI) indicated a modest decline from August 2023, dropping from 58.6 to 57.5. The Service PMI (S-PMI), on the other hand, grew from 60.1 to 61.0. As a result, the Composite PMI (C-PMI) ticked upward, reaching 61.0 from 60.9 in August 2023. The service sector data showed a significant increase in new business orders for Indian service providers - the second-fastest rate since June 2010. Firms noted a surge in demand from foreign clients, especially from Asia, Europe, and North America. Although goods producers witnessed a slight slowdown in growth, new orders supported sustained expansions in output. The growth of new export orders also softened from August's nine-month high but remained healthy. After a surge in inflation to a one-year high in August 2023, mainly due to food price inflation, a softening in inflation is beneficial for producers. Overall, the data suggests that the Indian economy is in a strong position, with the service sector leading the way in growth.

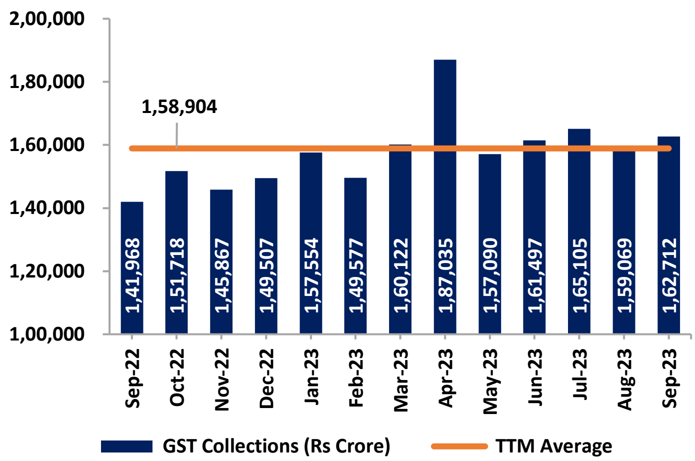
FII FLOWS

In September 2023, Foreign Institutional Investors (FII) withdrew a total of Rs. 13,810 crores from the Indian capital markets. The outflows were mainly seen in the equity segments, which recorded Rs. 14,768 crores, while the debt segment saw net inflows of Rs. 998 crores. Despite this, Indian benchmarks remained buoyant and delivered positive returns, touching record-breaking highs, primarily due to strong domestic institutional investor (DII) flows and the successful G20 meet. However, there was some consolidation, as US treasury yields hit a 16-year high, and Brent crude prices almost touched $98 per barrel in the last week of September. Sector-wise, the Capital Goods, Consumer Services, and Financial Services sectors saw major inflows, while the Power, Oil & gas, and Metals & mining sectors experienced major outflows. Going forward, the increase in bond yields and crude prices may keep inflation elevated, thus discouraging FIIs from investing in riskier markets and favouring safer options.



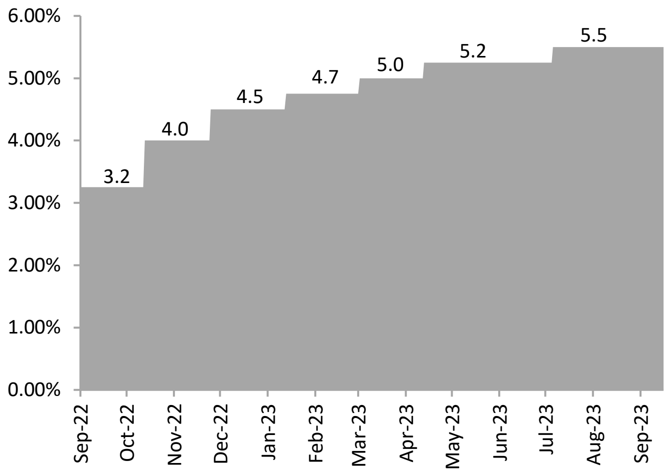
GST COLLECTIONS

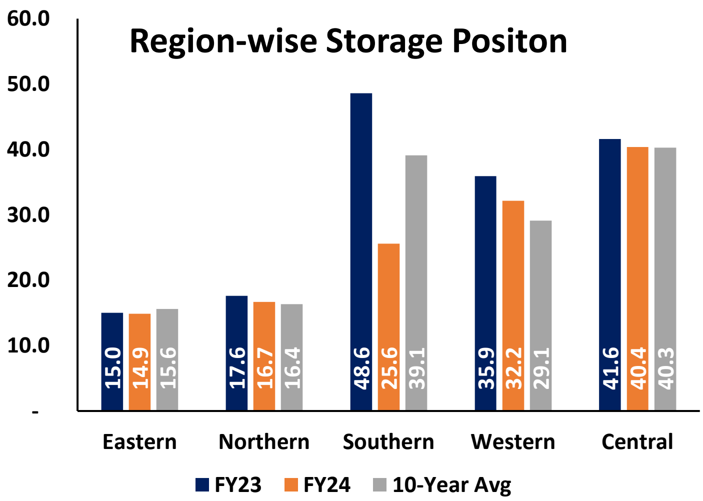
The Goods and Services Tax (GST) collection for the month of September 2023 amounted to Rs. 1,62,712 crores, indicating a year-on-year (YoY) growth of 14.61% and a month-on-month (MoM) growth of 2.29%. The gross GST collection for the first half of fiscal year (H1FY24) stood at Rs. 9,92,508 crores, which is 11% higher than the gross GST collection for the same period in the previous fiscal year (H1FY23) of Rs. 8,93,334 crores. The average monthly gross collection in H1FY24 is Rs. 1.65 lakh crores, which is 11% higher than the average monthly gross collection for H1FY23, where it was Rs. 1.49 lakh crores. It is noteworthy that the gross GST collection has crossed the Rs. 1.60 lakh crore mark for the fourth time in FY24. Additionally, it is encouraging to observe that the collection from imports has reduced marginally to Rs. 44,145 crores from Rs. 44,566 crores, indicating a positive development. The top 5 states account for >50% of the total collections for the month, with Maharashtra being the highest.



FED POLICY

On September 20th, the Federal Reserve convened and announced its decision to maintain the current policy rates, with the fed funds rate targeted between 5.25%-5.5%, marking the highest in over two decades. The Federal Reserve also signalled its expectation to implement one more hike before the end of the year, with fewer cuts projected for next year. The Federal Reserve also significantly revised its economic growth expectations for this year, projecting the gross domestic product to rise by 2.1%. The Federal Reserve has a firm focus on reducing inflation to and below the 2% level. In this regard, Federal Reserve Chair Mr Powell stated, "...The worst thing we can do is to fail to restore price stability...”. He further added, "...if you don’t restore price stability, inflation comes back and ... you can have a long period where the economy is just very uncertain, and it’ll affect growth.”



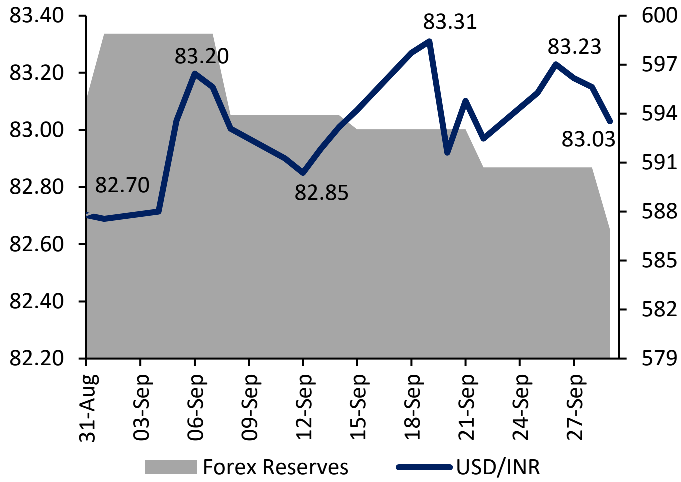


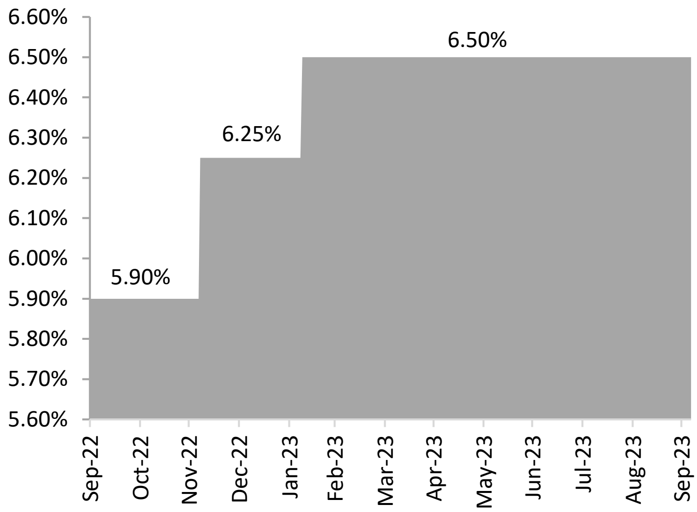
RESERVOIR LEVELS

The Central Water Commission has recently released its report on the status of water reservoirs across the country, as of September 29th, 2023. The report indicates that the total live water level in the reservoirs is currently 129.669 BCM, which represents 73% of the total live storage capacity. This figure is lower than the position recorded last year, which was 158.744 BCM, and the 10-year average of 140.472 BCM. The decline in the water level is partly attributed to the below-average rainfall experienced in India during the most recent monsoon season, which has just ended. Moreover, the distribution of rainfall has been uneven, leading to a significant drop in reservoir levels. Southern India, although receiving normal rainfall, has experienced the largest deviation from the 10-year average, with reservoir levels measuring 25.6 BCM, which is only 48% of the total capacity for the region. In contrast, Western India is in a better position, with water levels exceeding last year's levels.

RUPEE MOVEMENT

In Sep-23, the Indian rupee saw a 0.4% depreciation against the US$ due to the increase in interest rates and US bond yields. This led foreign investors to sell Indian currency. The rupee was supported by India's Current Account Deficit (CAD), which reduced by almost 50% to US$ 9.2 billion in Q1FY24 from US$ 17.9 billion in Q1FY23. Despite the recent decline of the rupee against the US dollar, it has stabilized as the Reserve Bank of India (RBI) has utilized forex reserves by US$ 7.95 billion, reaching US$ 586.91 billion in September 2023. The exchange rate of USD/INR may fluctuate between 82 to 84, whereas the US Dollar Index may remain strong, but US Treasury yields may moderate. However, oil prices are expected to remain elevated, and India's current account deficit will remain manageable. RBI interventions will help to soothe rupee volatility and imported inflation.





RBI MONETARY POLICY

The RBI's Monetary Policy Committee (MPC) has kept the key policy repo rate unchanged at 6.50%, for the fourth consecutive time. The repo rate was last increased by 25 basis points to 6.50% in Feb-23. During the meeting, the RBI Governor highlighted that the transmission of the 250-basis points repo rate cut is still incomplete. The policy stance has been kept unchanged as 'withdrawal of accommodation,' with a 5:1 majority of members intending to curtail money supply to ensure price stability and control inflation while supporting growth. Although the GDP and CPI Inflation forecast for FY24 remain unchanged at 6.5% and 5.4%, respectively, minor adjustments have been made to the CPI Inflation forecast for Q2FY24, which has been raised to 6.4% (up by 20 bps), and Q3FY24 has been reduced to 5.6% (down by 10 bps). The MPC expressed hope that the recent reduction in domestic LPG prices, coupled with a lowering of vegetable prices, will provide some relief to price pressures in the near term. The MPC's decision to maintain the current policy repo rate demonstrates a desire to maintain stability, but the RBI needs to be more proactive in managing inflation and balancing competing interests.

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