MONTHLY MACRO REVIEW

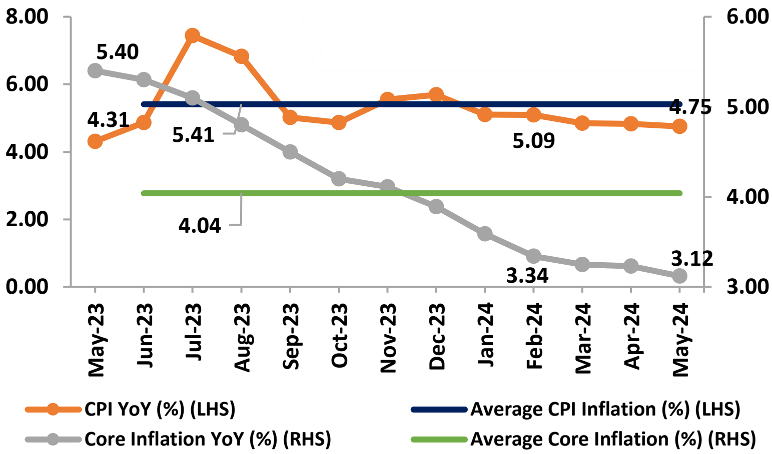
June 2024

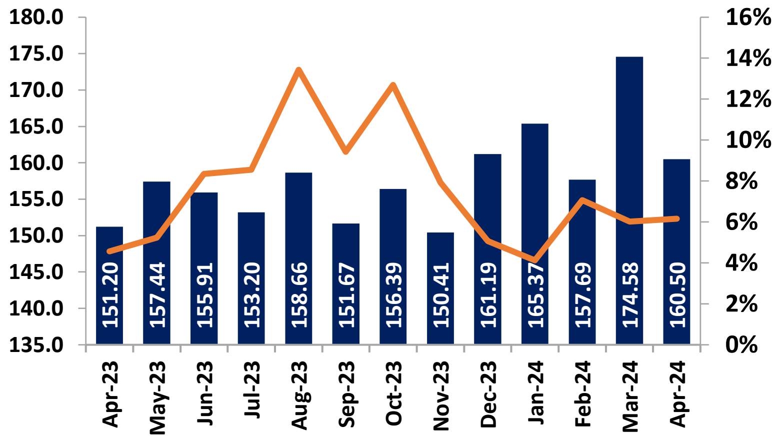
BONANZA WEALTH

CPI INFLATION

In May-24, India's Consumer Price Index (CPI) inflation eased to the lowest in a year at 4.75%, a marginal decrease from 4.83% in Apr-24. The CPI in Dec-23 was 5.69% and has been moderating since then. The inflation came in below expectations due to a sharper than expected fall in core inflation and almost flat food inflation. Under the food basket, pulses and vegetables have been experiencing double-digit inflation for almost a year now, while the fuel and light category remained in deflation.

The Core CPI, a non-volatile component of the CPI, continued to remain in its downward trajectory, declining further to 3.12%, contracting from 3.23% in Apr-24. Anticipated government interventions and recent price reductions are expected to mitigate potential upward price pressures until July 2024. A normal monsoon improves the food inflation outlook, but external risks should be monitored. The decrease in core inflation indicates that recent growth has primarily been disinflationary. If food inflation moderates, a modest 50 basis points reduction in the RBI's policy interest rate in the second half of the fiscal year is anticipated.





CORE SECTOR

The Index of Eight Core Industries (ICI) sector witnessed a 6.2% growth in Apr-24 (Provisional), as against 5.2% (revised to 6.0%) in Mar-24. The final growth rate for the ICI in Jan-24 has been revised to 4.1%. Following the latest revision, the overall ICI growth for FY24 now stands at 7.6% (compared to the previously estimated 7.5%) as against the 7.8% growth in FY23.

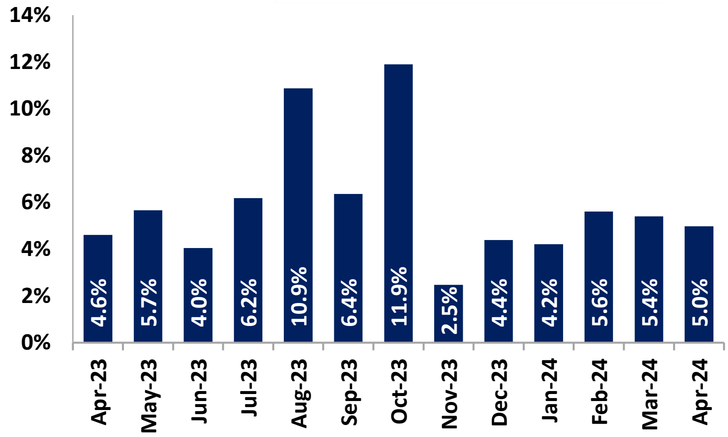
Notable increases were observed in coal production (7.5%), crude oil (1.7%), natural gas (8.6%), refinery products (3.9%), steel (7.1%), cement (0.6%), and electricity (9.4%). Fertilizers experienced a decrease of 0.8%, attributable to a high base, with fertilizer output shrinking for the fourth consecutive month.

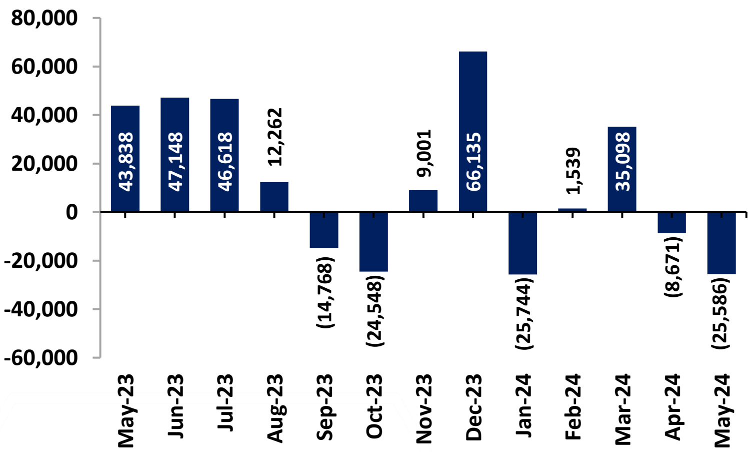
Notably, the decline in cement output growth from 10.6% in Mar-24 to 0.6% in Apr-24 may be attributed to a slowdown in government capex during the parliamentary elections. Conversely, electricity output demonstrated robust growth due to heightened demand caused by heatwaves and consistent business activity.

IIP GROWTH

India's Industrial Production (IIP) grew by 5.0% (Provisional) in Apr-24, as against 4.9% (revised to 5.4% Final) in Mar-24. While growth in the Mining and Electricity sectors accelerated, manufacturing sector growth moderated. Within the sector-based classification, all sectors witnessed growth: Mining (6.7%), Manufacturing (4.0%), and Electricity (10.2%). Out of the 23 categories within the manufacturing sector, sixteen saw a YoY increase in output. Basic metals, accounting for 12.8% of the weight, witnessed a growth of 8.1%, and Motor vehicles, accounting for 4.86% of the weight, logged growth of 11.4% YoY.

Within the use-based classification, almost all categories recorded growth: Primary Goods (7.0%), Capital Goods (3.1%), Intermediate Goods (3.2%), Infrastructure goods (8.0%), Consumer durables (9.8%), while Consumer non-durables fell to (2.4%). The infrastructure/construction goods output growth is supported by the government's capital expenditure focus. Private sector investment intent and manufacturing sector capacity utilization are rising, indicating positive signs for private capex revival. Good monsoon prospects can boost rural demand, but challenges persist from high food inflation. It is crucial to closely monitor monsoon distribution. Overall, sustained improvement in consumption and private capex is critical for industrial activity.





FII FLOWS

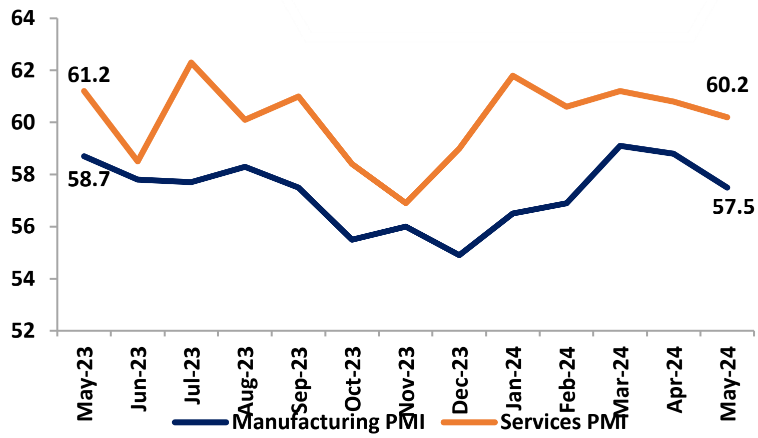
In May-24, Foreign Institutional Investors (FIIs) nearly tripled their selling in Indian equities from Apr-24. FIIs pulled out Rs. 25,586 crores from the Indian equity market. India recorded the highest FII outflows in May-24 among the emerging markets due to election uncertainty and the spike in the volatility index (VIX). Involuntarily, major positive data came on the last day of the month, such as better-than-expected GDP growth and lower-than-expected fiscal deficit. Hopefully, its positive impact will be seen in the coming months. However, the bulk of the selling by the FPIs happened in the first half of May, with the second half calmer. FIIs started buying into India's debt market with a total inflow of Rs. 13,044 crores, a month after turning negative in Apr-24. Sector-wise, in May-24, major inflows were seen in Capital Goods, Consumer Services, and Telecommunication, while major outflows were seen in Financial Services, Information Technology, and Oil & Gas. The next test for FPIs would be whether the government can continue to follow a reformist path that combines growth, price stability, and fiscal prudence.

PMI INDICATORS

In May-24, India's manufacturing PMI slipped to a three-month low of 57.5 from 58.8 in Apr-24, attributed to reduced working hours stemming from intense heatwaves, impacting production volumes. Services PMI slowed to a five-month low to 60.2, due to weakened domestic demand. Despite the slowdown, both the index remained above the 50 mark, indicating growth.

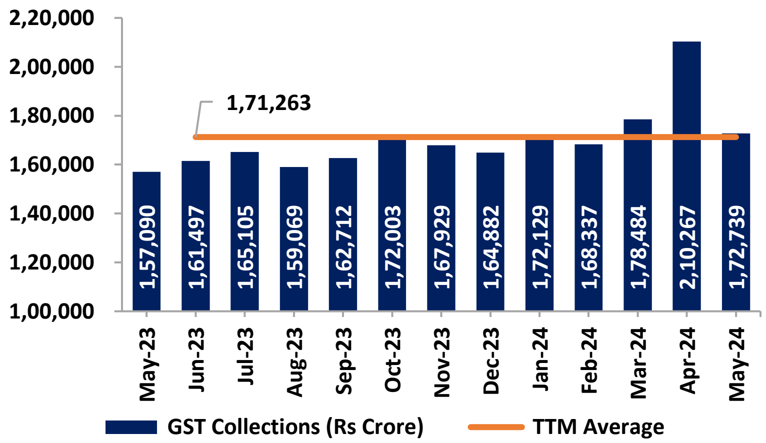
Despite the slowdown, domestic demand exhibited resilience, whereas new export orders experienced a notable surge, driven by strong global demand for Indian services. The May Composite PMI Output Index for India stood at 60.5, down from the previous month's 61.5. Cost pressures further intensified, with input price inflation reaching a nine-month high at the composite level, leading to price hikes by firms.

Business confidence strengthened, supporting job creation across both manufacturing and services. While there has been a moderation in growth rates, the PMI data presents a promising outlook for the Indian economy, characterized by robust domestic and international demand, solid business confidence, and increasing employment. Sustained policy support is crucial amid intensifying price pressures.



GST COLLECTIONS

The Gross GST collections for May-24 demonstrated a robust 10.0% YoY growth, accounting to Rs. 1,72,739 crores. This increase was primarily propelled by a substantial rise in revenues from domestic transactions, reflecting a 15.3% surge, despite a 4.3% decline in imports. Following adjustments for refunds, the net GST revenue for May-24 totalled Rs. 1.44 lakh crore, indicating a 6.9% growth compared to the corresponding period in the previous year.

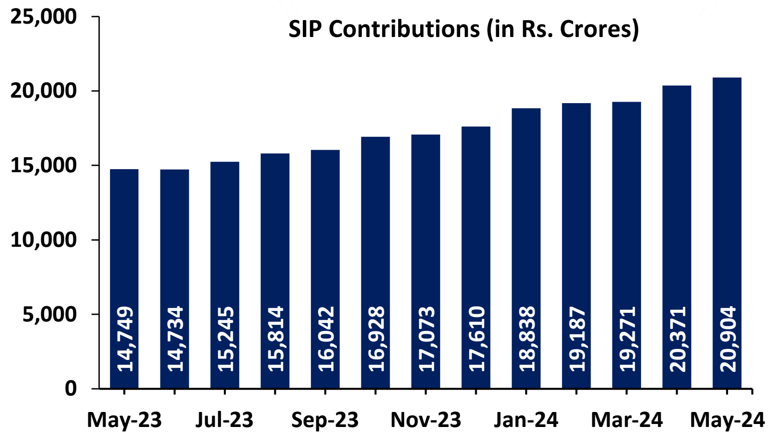


In May-24, CGST comprised Rs. 32,409 crores, SGST comprised Rs. 40,265 crores, IGST comprised Rs. 87,781 crores, and Cess comprised Rs. 12,284 crores. Maharashtra led in GST collection for May-24, amassing Rs. 23,536 crores, followed by Karnataka at Rs. 10,317 crores and Gujarat at Rs. 9,800 crores. For 2-month period of FY25, the Finance Ministry has accumulated Rs 3.83 lakh crore, reflecting an 11.3% year-on-year increase. These recent GST collections signify a favourable trend for India's economy, underscoring robust domestic consumption and buoyant import activity. These statistics portend well for the country's fiscal health and economic recovery endeavour's, signalling resilience amidst global uncertainties.

Mutual Fund Participation

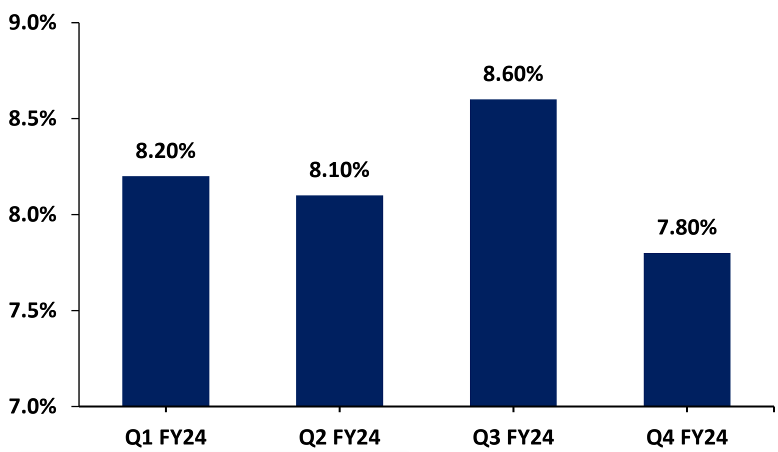
The equity mutual funds inflows surged by 83.42% to reach a historic high of Rs. 34,697 crores in May-24. The net inflow into equity mutual funds surpassed the Rs. 30,000 crore mark for the first time in May-24, as the previous record for net inflows was Rs. 28,463 crores in Mar-22. Inflows into open-ended equity funds remained in the positive zone for the 39th month in a row in May, fuelled by sectoral and thematic funds, which saw net buying of Rs. 19,213.43 crore during May-24.

Additionally, small-cap and mid-cap funds experienced robust inflows of Rs. 2,724.67 crore and Rs. 2,605.70 crore, respectively, while investor interest in large-cap funds remained moderate, with net investments totalling Rs. 663.09 crore during the month. The investment via systematic investment plans (SIPs) rose to Rs. 20,904 crore in May-24, against Rs. 20,371 crore in Apr-24. The number of new SIPs registered in May-24 stood at 49,74,400, while the SIP AUM was the highest ever at Rs. 11.53 lakh crore for May-24, compared with Rs. 11.26 lakh crore for Apr-24. The strong performance of the Indian MF industry was attributed to political stability, which created a conducive environment for sustainable economic growth, attracting investments and encouraging long-term investments.



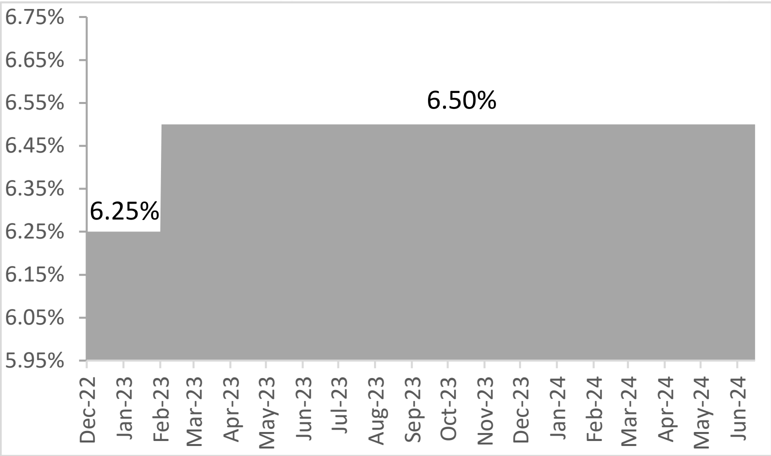
GDP GROWTH

India's GDP growth for the Q4FY24 exceeded expectations, reaching 7.8%, although it was slower compared to the revised 8.6% (previously 8.4%) in Q3FY24. The full-year 2023-24 GDP growth has been revised to a robust 8.2% from the second advance estimate of 7.6% growth. Additionally, growth at constant prices in Gross Value Added for FY24 was similarly revised upward, from 6.9% to 7.2%, driven by the manufacturing sector, which saw a GVA increase of 9.9% in 2023-24 compared to a 2.2% contraction in 2022-23. This growth can also be attributed to the mining and quarrying sector, which grew by 7.1% in FY24 compared to 1.9% in FY23. Looking ahead, we anticipate a moderation in India's GDP growth; however, the estimate remains healthy at around 7% for this year. To sustain growth momentum, the most crucial factor will be an improvement in private consumption. With a normal monsoon expected this year, a revival in rural consumption demand is anticipated. Furthermore, a moderation in food inflation is imperative for the revival of rural consumption. Sustained consumption growth and high government capital expenditure will contribute to the pickup of the private capital expenditure cycle.



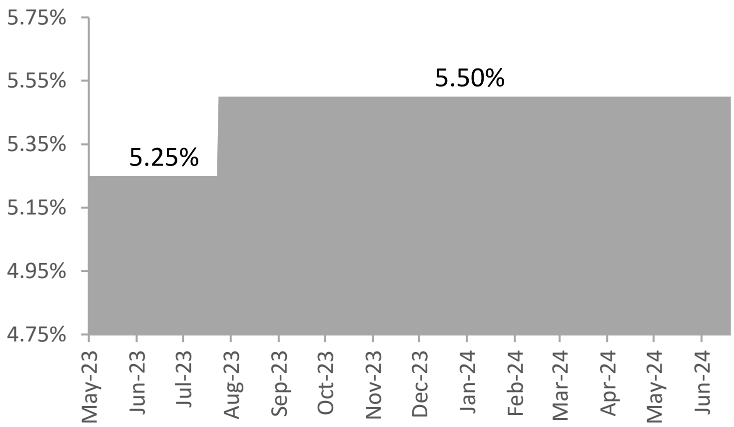
RBI's MPC Policy Decision

The Monetary Policy Committee (MPC) of the Reserve Bank of India, in its Jun-24 meeting, has opted to keep the repo rate unchanged at 6.5% for the eighth consecutive time. Additionally, the committee has affirmed its commitment to gradually on withdrawal of accommodation to prevent an acceleration of inflation while simultaneously supporting economic growth. During the Apr-24 meeting, the MPC projected the Consumer Price Index (CPI) to be at 4.5% and real GDP growth at 7.0% for the FY25, with the latter subsequently being revised to 7.2%. For FY25, Q1 GDP growth is estimated at 7.3%, while Q2 at 7.2%, Q3 at 7.3%, and Q4 at 7.2%, with risks being evenly balanced. The MPC observed an improvement in the growth-inflation dynamics since its last meeting, citing resilient economic activity driven by robust domestic and investment demand. While headline inflation has begun to ease, concerns remain regarding potential disruptions from volatile and elevated food inflation in the near term. Furthermore, the RBI has raised the limit for banks raising bulk deposits from Rs. 2 crore to Rs. 3 crore for commercial banks and small finance banks. In addition, the central bank will establish a Digital Payments Intelligence Platform leveraging advanced technologies to mitigate payment fraud risks.



FED Rate Decision

During its meeting on Jun-24, the Federal Reserve announced its decision to maintain the interest rates within the current range of 5.25% to 5.50%. This decision reflects the seventh consecutive meeting in which the FED has chosen to keep the rates steady, thereby sustaining the federal funds rate at its highest target range in 23 years. Chair Jerome Powell emphasized that while there has been a slight reduction in inflation, it continues to surpass the 2% target, thus necessitating ongoing vigilance. The FED is anticipated to reduce interest rates only once for the remainder of 2024, as indicated by its "dot plot." This is a significant decrease from the three rate cuts forecasted following its Mar-24 meeting. Chair Powell emphasized the significance of maintaining consistently positive inflation data before contemplating rate reductions, highlighting that recent readings have not instilled adequate confidence to warrant policy easing. While acknowledging the robust labor market and improving economic indicators, the Fed remains apprehensive about the persisting inflation. It is anticipated that the Fed will commence rate reductions towards the end of the year as inflation continues to stabilize. This approach will enable the Fed to exercise patience, maintaining higher rates for a longer duration and refraining from premature rate cuts.



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