Macro Perspectives

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L&T Financial Services

Dr. Rupa Rege Nitsure
Group Chief Economist

Global Briefs

- The IMF has lowered its global growth projection for 2021 by 0.1 percentage point to 5.9% in its latest World Economic Outlook report. It has cited the possibility of aggressive COVID variance, and dangerous divergences in global economic prospects as the reason for the concern. The report also said the prolonged impact of COVID could lead to global GDP dropping by a significant $5.3 trillion over the next five years.
- On Oct 13th, the US Federal Reserve signaled it could start reducing its crisis-era support for the US economy by the middle of next month, with a growing number of its policymakers concerned that high inflation could persist longer than previously thought.
- Industrial output in the Euro zone fell back below pre-pandemic levels in August as supply chain bottlenecks restricted production of many products, such as German cars, raising concerns that the bloc's economic rebound may run out of steam.
- China's economy continues to cool as the nation's housing slump intensifies, while supply-chain bottlenecks are keeping a tight grip on the recoveries in the U.S. & Europe.
- Global Brent crude price reached a multi-year high on October 25th of $85.99 per barrel before steadying, as tight global supply and strengthening fuel demand in the U.S. & beyond supported prices.
- According to Bloomberg, the global economy's supply crunch is propelling inflation at such a fast pace that central bankers may be forced to respond, even though fixing that imbalance is beyond their power.

Indian Agricultural & Rural Scene

- Even as the coal crisis continues in the country, a urea shortage seems to be the next big problem for several states. Now with the commencement of Rabi crop sowing, this urea problem may cause a bigger problem for farmers. The Central government has recently approved an additional fertiliser subsidy of Rs 28,655 crore for the Rabi planting season. The subsidy is paid to fertiliser companies as compensation for selling their products to farmers below market prices.
- The number of Indian households under debt and the amount they owed increased between 2012 and 2018, shows an analysis of the latest government data by Dvara Research, a policy research organisation focused on financial inclusion and social protection. This rise in indebtedness is sharper among rural households (84%) than urban (42%), as per the analysis. Two other significant conclusions from this survey are that women-led households are less indebted and that the southern states of India show higher levels of indebtedness.
- Mandi prices of eight out of 10 major monsoon-sown crops are currently trading below their benchmark rates in leading producing states, as per reports. This might be beneficial to restrain food price inflation but does not augur well for the farmers' cash-flows.

India's Economic & Policy Developments

- Rating agency ICRA expects India's real GDP for Jul-Sept, FY22 to have grown by 7.7% (y-o-y), trailing the pre-Covid level of Jul-Sept, FY20. However, the rating agency has clarified that September print was not as good as the quarter, indicating that the recovery remains uneven.
- This finding of ICRA is supported by the Mint analysis also. Ten of the 16 high-frequency indicators considered in Mint's monthly macro tracker fell into the red, or below their five-year average trend, in September, 2021. This was the worst showing on the tracker since May. The deterioration was driven by the consumption segment.

L&T Finance holdings Limited
Brindavan, Plot No. 177
C. S. T Road, Kalina, Santacruz (E)
Mumbai - 400 098, India

T +91 22 6212 5343
E rupa.nitsure@ltfs.com

- Escalating prices of fuel, untimely rains and costlier kitchen staples like onion, potato & tomato are dampening festive spirit in Indians, as per the latest survey-based reports.
- If the current trend in prices of natural gas, crude, coal and electricity continues till December 2021, and if the actual increase is around 5% till March 2022, then the potential impact of that on India's consumer price inflation would be around 1%, as per the research report by Nomura Holdings.
- The RBI has announced new scale-based regulations for NBFCs applicable from Oct. 2022, as NBFCs are largest net borrowers from the financial system. According to RBI, many NBFCs have grown and become systemically important and their risk profile has changed.
- As per official reports, India's central government has received Rs 5.3 billion as dividend tranches from as many as four central public sector enterprises (CPSEs) this year. These include IRCON, NHPC, CONCOR and Hindustan Copper Ltd. In the current financial year, the central government has received Rs 85.7 billion so far as dividend from CPSEs. Besides this, an amount to the tune of Rs.91.1 billion has been mobilised through the disinvestment of the minority stake in CPSEs.
- It is believed that the impact of Fed taper is likely to be more muted for India this time compared to the 2013 taper tantrum due to a well-contained CAD and overall BOP surplus on the one hand and record high forex reserve & comfortable import cover on the other hand.
- Recently released MPC minutes of the last monetary policy review reveal that a majority of India's MPC remained focused on growth, while taking comfort from the recent decline in headline CPI inflation.

India's Industrial & Services Sectors

- India's Ministry of Statistics & Programme Implementation (MoSPI) monitors infrastructure projects worth Rs 1.5 billion and above. Of the 1,670 such projects, 438 reported cost overrun of over Rs 4.3 trillion till September 2021 and 563 projects reported time overrun due to a host of issues including delay in land acquisition, forest or environment clearance, lack of infrastructure support and linkages, supply of equipment, fund constraints, geological surprises, change in scope, delay in tendering, shortage of labour, contractual issues, state-wise lockdown due to Covid-19, legal cases and law & order situation.
- A new report released by industry body NRAI shows that the Indian food services industry witnessed a massive decline of 53% in FY21, compared to the previous financial year on account of the pandemic.
- Discounts and benefits on buying a car are at a three-year low in the current calendar year as supply problems plague the market due to semiconductor shortage.
- Hiring in India's financial services sector is at an all-time high. Companies across investment banking, private equity and venture capital, asset management, institutional equities and private banking are beefing up their teams on the back of a buoyant capital market, all-time high deal making cycle, rush of IPOs, and a huge push for digitisation.

Indian Financial Markets

- Liquidity in the banking system is estimated to be in a surplus of over Rs 6.98 trillion today. Since August, the RBI has stepped up its efforts to absorb excess liquidity in the banking system by conducting variable rate reverse repo operations of varying tenures of up to 14 days. Yesterday (Oct 27), the RBI announced Rs 500 billion worth of 28-day variable rate reverse repo auction in line with its earlier guidance.
- India's 10-Yr G-Sec yield increased from 6.24% on Oct 1st to 6.39% on Oct 18th in line with the increasing global crude oil prices, the US treasury yields and the commencement of RBI's efforts towards liquidity normalisation. The RBI has been steadily increasing the tenure of its liquidity management operations to absorb liquidity on a durable basis and to set the stage for a reverse repo rate hike. The benchmark yield is currently hovering near 6.37%.

L&T Finance holdings Limited
Brindavan, Plot No. 177
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E rupa.nitsure@ltfs.com

- In the last one month, yields on top rated corporate bonds were up 10-15 bps across tenors because of domestic factors like rising G-Sec yields, suspension of G-SAP auctions and higher cut offs at VRRR auctions amid low demand from investors. Interest rates on short term debt instruments have also gone up by 35-40 bps in the recent week.
- Indian rupee depreciated against the US dollar by 1.9% during the first twelve days of October on the back of many concerns like elevated crude oil prices, near term possibility of Fed tapering, FPI outflows, etc. Currently, rupee is hovering near 74.92. We expect near term depreciation bias in the currency beyond 76 and its timing could be in sync with the timing of the US indicating tapering of QE purchases likely in Nov-Dec, 2021.
- Japan's Nomura Securities has downgraded Indian equities to "neutral." It had upgraded India to "overweight" back in February 2021, but now valuations appear "very stretched." They see an unfavourable risk-reward given valuations, as a number of positives appear to be priced in, whilst headwinds have started emerging.
- Global oil prices had hit a seven-year high of $86.50 per bbl on Oct 26th driven up by continued robust demand in the US and the tight global supply situation, which OPEC+ has signaled it will not alleviate for now with additional supply. The situation is expected to remain tense.

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