

Dr. Rupa Rege Nitsure
Group Chief Economist

Global Briefs

- The US President John Biden has acknowledged the likelihood that US and allied sanctions on Russia in retaliation for an invasion of Ukraine would have significant blowback on the American economy, including possible price hikes and disruption to the nation's energy supply. He has warned that Russia could still invade Ukraine within days, and the No. 2 diplomat at the US Embassy in Moscow was expelled as tensions flared anew in the worst East-West standoff in decades. NATO allies accused Russia of misleading the world with "disinformation" by saying it was returning some troops to their bases – one of the gestures Russia made this week that briefly cooled temperatures and raised hopes for peace.
- Brent crude oil price hit \$100 per barrel for the first time since 2014. Oil prices have risen sharply due to growing tensions between Russia and Ukraine on chances of disruption in oil production.
- Consumer price inflation is running rampant in the U.S. (at 7.5%, y-o-y) and the Federal Reserve is preparing to embark on a series of interest-rate increases starting in March to try to douse price pressures. Before the pandemic, inflation in the U.S. had been rising at an average of 1.5% a year.
- Bundesbank Governor Joachim Nagel became the second central banker in the last few days to indicate that the ECB may raise rates later this year. The European Commission estimated that annual inflation in the Euro area will rise from 2.6% in 2021 to 3.5% in 2022 before coming down to 1.7% in 2023. The outlook for inflation, but also for the overall economy in Europe, is also dependent on tensions between Ukraine and Russia.
- In 15 of the 34 countries classified as advanced economies (AEs) by the International Monetary Fund's World Economic Outlook, 12-month inflation through December 2021 was running above 5%. Such a sudden, shared jump in high inflation (by modern standards) has not been seen in more than 20 years. This inflationary surge is not limited to wealthy countries alone. Emerging markets and developing economies (EMDEs) have been hit by a similar wave, with 78 out of 109 EMDEs also confronting annual inflation rates above 5%. That share of EMDEs (71%) is about twice as large as it was at the end of 2020.

Indian Agricultural & Rural Scene

- Area sown under rabi (winter crops) was up 1.5% (y-o-y) until Feb 4th and the main drivers of growth this year were oilseeds (up 22.8%, y-o-y) and pulses (1.3%, y-o-y). The sown area under oilseeds is expected to increase further during the next season as the Union Budget for FY23 has proposed to give an additional focus on it.
- For the week ending on Feb 10, live water storage position in India's 140 major reservoirs is higher than last year's storage position as well as higher than the average of last 10 years' storage position. However, water storage position has deteriorated this year (y-o-y) in Andhra Pradesh, Gujarat, Chattisgarh, Tripura, Nagaland & UP.
- Procurement of kharif crops in the current marketing season has been higher (y-o-y) at the national-level but has declined in the states – Andhra Pradesh, Haryana, Odisha, Punjab, Uttar Pradesh & West Bengal as per the latest statistics available as on 11 February, 2022.
- Given the stresses on rural incomes (coming from unfavourable terms of trade & elevated unemployment levels), demand challenge faced by rural India will take two to three quarters to go away, warn experts. This is being said by many FMCG and two-wheeler companies in their recent communication to investors.
- Though early days, Indian meteorologists point towards a neutral La Nina during the initial phase of the four-month monsoon season during 2022 that starts from June. However, a clear picture will emerge around Late May or early June.

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@lts.com

India's Economic & Policy Briefs

- The Nomura India Business Resumption Index (NIBRI) rose to 119.5 for the week ended 13 February 2022 from 114.2 in the prior week. The business resumption index is now 19.5 percentage points (pp) above pre-pandemic levels. As per Nomura, this is a 17.7 pp recovery in the NIBRI from its nadir and almost fully compensates for the third wave losses.
- The first half of Feb 2022 saw the number of e-way bills being generated for inter-state trade in goods under the GST system at 2359,000 a day which is 14% higher than the e-way bill generation in the first 16 days of Jan 2022, reflecting a pick-up in commerce after the spread of the Omicron variant of Covid-19 subsided.
- Retail price inflation, measured by the CPI, rose to 6.01% (versus our forecast of 6.02%) in January 2022 from 5.7% in December 2021. This is the highest inflation recorded in the last seven months. Retail inflation is driven by both the unfavourable statistical base for food inflation and the cost push pressures on consumer goods. Producer price inflation, measured by the WPI, declined to 12.96% (versus our forecast of 12.72%) in January 2022 from 13.56% in December 2021 primarily due to the favourable statistical base. Sequentially however price pressures are getting built-up globally in energy and non-energy commodities.
- On account of liquidity rebalancing through variable reverse rate repo (VRRR) auctions by the RBI, surplus liquidity in the Indian banking system has moderated with the daily net liquidity absorption falling to Rs 6.4 trillion in the second half of Jan to Feb, FY22 from Rs 7 trillion during Dec to mid-Jan of FY22.
- The RBI has extended the deadline for NBFCs to implement the new NPA recognition norms from 31 Mar 2022 to 30 Sept 2022. The norms have been made congruent with banks.
- While the RBI has not changed policy rates in its last announced monetary policy in February, commercial banks in India have started revising interest rates upwards in an indication that interest rate cycle has turned amid an uptick in loan demand.
- India's Ministry of Housing and Urban Affairs has approved the construction of more than 60,000 houses across five states under the Pradhan Mantri Awas Yojana (Urban). These include Andhra Pradesh, Chhattisgarh, Himachal Pradesh, Karnataka and Rajasthan.

India's Industrial & Services Sectors

- Industrial output, measured by the index of industrial production (IIP), rose by 0.4% (y-o-y) [versus our forecast of 0.5%] in December 2021. During this month, manufacturing sector output contracted 0.1% as against a rise of 0.8% in the preceding month. Industrial production has been surging for the past few months mainly due to low-base of last year, but the latest print suggests the base effect is waning.
- The capex support by India's Central government to States might be a regular feature in future budgets and is something that will be required for the infrastructure push, according to a report in Business Standard. The move is being planned as a lot of public infrastructures like mass transportation, rural roads and state highways are being built by states, and many of them will require multi-year support to expand their capacities.
- Big FMCG companies in India experienced a decline in the sales volume in rural areas during the December 2021 quarter. The rural sales in India accounts for nearly 30-40% for these companies. In order to revive the sales volume, these companies are relying on lower-priced packs, distribution expansion and increase in market spending.
- The Indian IT industry crossed \$200 billion revenue in FY22, by adding \$30 billion in the last year, as the rapid pace of technology adoption and migration to cloud post-pandemic boosted the demand for outsourcing services.

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E rupa.nitsure@ltfs.com

Indian Financial Markets

- Liquidity in the Indian banking system is currently estimated to be in a surplus of over Rs 7.35 trillion as against Rs 6.61 trillion on February 15th. The surplus widened post inflows of Rs 497.22 billion into the system on account of redemption of the 8.20%, 2022 bond on February 15th.
- Government bond yields that had become choppy post the Union Budget due to a record high gross market borrowing programme have now stabilised to some extent. Cancellation of weekly bond auction by the government for the second week in a row has improved the sentiment. The government is skipping borrowing through the sale of dated securities, citing its healthy cash balances. The government will also get GST inflows soon, which will further boost its cash balances.
- Corporate bond issuances across tenures and maturities have fallen 56% month-on-month in Jan 2022 due to a steep rise in borrowing costs following the spike in yields of government securities. According to data compiled by Prime Database, companies and banks raised Rs 26,018 crore in Jan 2022, sharply lower than Rs 59,551 crore raised in Dec 2021.
- Indian rupee has hovered in the range of 74.86 to 75.71 per US dollar in the month of Feb 2022 so far. Russia Ukraine crisis is expected to add support to the soaring crude oil price that may put further pressure on global central banks to tighten their monetary policies. This will trigger outflows of dollars from the emerging market economies including India leading to more weakness in Indian rupee against the US dollar.
- The current week created heightened volatility in the domestic equity markets on the back of continuously evolving geopolitical tensions between Russia and Ukraine. Both the benchmark indices have ended the week with a loss of 0.6%. According to the Informist's poll, volatility will remain the theme for the domestic market heading into an event-heavy coming week. The events lined up for next week include release of the RBI's February meeting minutes, a press conference ahead of the approval for Life Insurance Corp of India's public issue, and state assembly elections.

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