Macro Perspectives

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L&T Financial Services

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Global Briefs

- Russia's invasion of Ukraine is imposing a severe stagflationary shock to the global economy, raising prices as energy supply is threatened and squeezing incomes both for households and companies on the back of expensive essential commodities. While Europe will have to deal with larger influx of refugees than in 2015, the return of coronavirus to China once again threatens global supply chains. Given the uncertainty in the economic environment, the OECD said this week that it was not in a position to present its usual global economic outlook.
- Russia said it would work out practical arrangements by March 31st for foreign companies to pay for its gas in rubles, raising the probability of supply disruptions as Western nations have so far rejected Moscow's demand for a currency switch.
- President Putin's recent order to charge "unfriendly" countries in rubles for Russian gas has boosted the currency after it fell to all-time lows when the West imposed sanctions against Moscow over its invasion over Ukraine.
- According to Ruchir Sharma, a noted fund manager, China is less likely to back Russia while facing troubles of its own in the form of systemic risk in the property sector (as the spread bet high-yield bonds in the overseas Chinese market & government bond is at a staggering 3,000 bps) and early signs of Japanification (i.e., rising debt, shrinking population & market turmoil).
- China's Covid lockdowns are likely costing the country at least $46 billion a month or 3.1% of GDP, in lost economic output , and the impact could double if more cities tighten restrictions.
- During the COVID-19 recession, the US FOMC reduced the target range for the federal funds rate to near zero and began large purchases of US treasury securities and agency mortgage-backed securities. Although the recession ended nearly two years ago, US monetary policy settings remain set near peak accommodation—with the policy rate only 0.25 percentage points higher now and the size of the Fed's balance sheet at nearly $9 trillion. According to James Bullard (the President & CEO of Federal Reserve Bank of St. Louis), the FOMC must now follow through with policy rate increases & balance sheet runoff to protect policy credibility with respect to the 2% inflation target.
- Inflation is catching up to Southeast Asia, fueling speculation that rapidly increasing prices of food, energy and services could force the region's central banks to raise interest rates sooner than expected. In response to rising prices, the Monetary Authority of Singapore is expected to further tighten monetary policy in April. The central bank tightened its policy in October and January, making it the first among Southeast Asian economies to do so. Even the Malaysian & the Indonesian central banks are expected to move up their timelines depending on how quickly consumer prices rise and how quickly advanced economies raise interest rates.

Indian Agricultural & Rural Scene

- India's agriculture sector is evolving due to the boom of agri-tech startups. According to data by Inc42, there are 1000 agri-tech start-ups in India as of 2020 with $400 million plus funding raised by agri-tech startups during the period 2014 to 2020. According to the same research, India's agri-tech industry has the potential to reach about $24 billion in revenue by the year 2025.
- As per official reports, a total of 74.1 million metric tonnes of paddy was procured in Kharif Marketing Season, FY22, till 27 March 2022. The procuring states/union territories include Chandigarh, Gujarat, Assam, Haryana, Himachal Pradesh, Jammu & Kashmir and Jharkhand, among others. So far, 10.5 million farmers have been benefitted with the minimum support price value of Rs.1.4 trillion.
- India's central government has notified fresh wage rates under its rural job guarantee programme NREGS for the year FY23, with 21 out of 34 states and Union Territories getting less than 5% increase and 10

states getting more than 5% hike. There is no change in the wage rates of three states – Manipur, Mizoram and Tripura.

- Recovery from Covid has widened India's urban-rural divide, as per the Citi report. Citigroup's broad recovery index indicated a 9.6% jump in demand in urban regions. In contrast, the rural consumption index rose 3.6% and stayed below pre-pandemic levels. Seven of the nine indicators including fuel consumption, car sales, Google mobility are around their pre-Covid levels driving urban recovery, but rural activity remains a drag with subdued tractor, two-wheelers sales and diesel consumption. Demand revival in rural India, which comprises about two-thirds of the nation's population and is a crucial market for manufacturers of consumer goods, is key for India's recovery.

India's Economic & Policy Briefs

- The UNCTAD has revised India's real GDP growth projection for FY22 downwards to 4.6% from 6.7% after factoring in the impact of the Russia- Ukraine war in the form of trade sanctions, food inflation and financial instability.
- ICRA has revised India's real GDP growth projection for FY23 downwards to 7.2% from eight per cent, citing the Russia-Ukraine conflict and the associated surge in commodity prices. For FY22, the agency has lowered its GDP growth projection to 8.5%.
- S&P Global Ratings has stated that the recent surge in commodity prices due to the mounting Russia-Ukraine conflict will put more pressure on the RBI to normalise its monetary policy more quickly, including possible rate hikes. S&P further stated that India may face higher expenditure on items that the government subsidises, particularly food and fertiliser, if these markets are upended for an extended period.
- India is likely to witness intense cost-push pressures as the prices of imported coal are expected to go up by 45-55% during Apr-June, 2022 amid supply chain disruptions following the Ukraine-Russia conflict, according to a report by ICRA Ltd.
- Indian government's decision to extend the Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY) until Sept., 2022 is expected to cost the exchequer an additional Rs 800 billion, as per reports. Analysts opine that the move will take the fiscal deficit for FY23 to Rs.17.4 trillion from the budget estimate of Rs.16.6 trillion or 6.74% of GDP from the budget estimate of 6.4%.
- India's current account deficit (CAD) increased to US$ 23.0 billion (2.7% of GDP) in Q3, FY22 from US$ 9.9 billion (1.3% of GDP) in Q2, FY22 and US$ 2.2 billion (0.3% of GDP) a year ago, primarily on account of higher trade deficit. In the financial account while net foreign direct investment recorded net inflow of $5.1 billion, portfolio investment recorded net outflow of $ 5.8 billion.
- India's fiscal deficit at February-end was at 82.7% of revised estimates in Budget, according to official data released by the government on March 31st. The fiscal gap stood at Rs 13.17 trillion. The government expects the fiscal deficit to be at 6.9% of the GDP or Rs 15.91 trillion in the current financial year ending March 31, 2022.

India's Industrial & Services Sectors

- India's overall microfinance industry witnessed around 10% (y-o-y) rise in its total gross loan portfolio (GLP) to Rs 2.56 trillion during the third quarter of FY22 from Rs 2.32 trillion for the same period last fiscal, industry body MFIN said on March 29th. Historically, fourth quarter brings highest growth in the sector and therefore Q4, FY22 may show further consolidation in the industry. As per the CRIF Highmark report, the share of commercial & small finance banks in microloans is gradually coming down, while that of NBFC-MFIs is improving.
- India's automobile exports are likely to reach an all-time high during FY22 with shipments already touching the five million mark for the first time, driven by demand for made-in-India two-wheelers in Africa, Latin

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America and Southeast Asia. The growth in overseas shipments has come as a reprieve for the two-wheeler makers who have been struggling to increase volumes in the local market for the last three years.

- A surge in prices of cement and steel has resulted in a 10-12% increase in cost of construction of real estate developers. Prices of cement and steel have risen by over 20% yearly as of March 2022.
- From April 2022, the new TREM IV emission norms will be applicable to Indian tractors with engines bigger than 50 HP, while a big proportion of the overall industry of less than 50 HP will continue to be governed by TREM III A norms. The transition to new emission norms in the tractor industry is unlikely to be a major disruptor as it would apply only to vehicles with engine capacity higher than 50 HP, impacting around 10% of the overall industry volumes, according to ratings agency Icra.

Indian Financial Markets

- Liquidity in the banking system is estimated to be in a surplus of over Rs 7.27 trillion as on March 31st, 2022. The call rate for four-days loan ended at 3% as on 31st March, 2022.
- At 6.7% to 6.9%, Indian 10-year benchmark yield has remained stable throughout March despite pressures coming from war, rising oil & commodity prices and surging bond yields globally. This has happened because of RBI's positive communication and assurances that liquidity will remain in abundance. According to fixed income experts, "If the gap between the expectations and the reality stays for long, that could turn out to be another source of volatility and eventually a risk to financial market stability".
- Corporate bond yields have been largely tracking the movement in G-Sec yields. There is limited participation of traders in the secondary market and only big ticket issuers are active in the primary market.
- Rupee-Dollar exchange rate remained fairly stable during the calendar 2022 until Russia-Ukraine conflict escalated. Rupee crossed 77 per dollar on March 8th but stabilised thereafter. Going ahead, the US Fed rate hikes, oil prices and Current Account Deficit pressure pose downside risks to India's exchange rate. Crisil expects rupee to depreciate to 77.5 per US dollar by March 2023.
- Indian benchmark equity indices ended FY22 on a muted note, as lack of major triggers in the domestic market limited the movement for them on either side. However, the downside was limited on March 31st as investors drew comfort from a fall in crude oil prices after reports that the US was considering releasing 1 million barrels of oil per day from its strategic reserves for the next few months to ease supply pressures. The stock returns for FY22 as a whole were strong as investors drew comfort from the strong large corporate earnings during the year.
- International benchmark Brent crude oil futures fell 3.5% to $109.52 per barrel in the early trade on March 31st. This drop in the prices of the commodity came after reports said the US government is considering releasing 1 million barrels of oil per day for several months from the strategic reserve. This comes ahead of the ministerial meeting of the Organization of the Petroleum Exporting Countries and allies, which is scheduled for later on March 31st.
