Macro Perspectives

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Global Economic Briefs

- The World Economic Forum's 'Global Risks Report' released recently found that *false & misleading information, supercharged with advanced AI, is the most severe global risk* over the next two years. The report also lists climate change and environmental risks as the biggest threats in the long term.
- According to the IMF chief, economic realities have shifted since the IMF's October forecast growth of 2.9% for the year 2024. *While inflation could recede without throwing major economies into a recession, a drawn-out Israel-Hamas war and Houthi attacks in the Red Sea are threatening new price pressures and supply-chain woes.*
- As per the IMF's analysis, around three quarters of the effects of tighter monetary policy have already fed through to the US economy. However, there is more transmission still to feed through in the Euro area, where interest rate hikes started later.
- *Forecasters in the leading economists' survey have become more optimistic about the US economy* with 74% of respondents thinking that it is headed for a soft landing, that is a return of inflation to around the Fed's 2% target without the economy experiencing a recession.
- *Initial applications for US unemployment benefits unexpectedly dropped last week* to the lowest level in more than a year, underscoring the resilience of the labour market to start the year.
- *Euro zone growth has been hovering on either size of zero for most of 2023* and only a mild pick up is seen in 2024, helping to cool inflation, which has overshot the ECB's target for years and forced policymakers to raise interest rates to record highs last year.
- *China's economy for the Oct-Dec 2023 quarter grew at a quicker rate*, allowing the Chinese government to hit its target of about 5% annual growth for 2023, even though trade data and the economic recovery remain uneven. Japanese firms in China, however, expect China's economic prospects in 2024 to remain grim on the back of increased economic uncertainty and lingering weakness in demand.
- The *year 2024 is going to be democracy's biggest year ever, as more than half of the world's population across more than 40 countries – will go to the polls*. National elections will be held in the US, India, Indonesia, Russia, the UK, Pakistan, Bangladesh, Taiwan, Mexico, and South Africa to name just a few.

Indian Economy: Agriculture & Rural Belts

- *A lag in the sowing of Rabi (winter) crops in India further declined to 0.7% (y-o-y) as on 12 Jan 2024*, primarily led by an increased sowing of wheat in Uttar Pradesh, Bihar & Madhya Pradesh. Besides wheat, both coarse cereals and oilseeds too have reported a year-on-year increase in the area sown under them. But area under pulses and rice retain a significant lag.
- *To cool the retail prices of mass consumption rice varieties, the Central Government is considering to sell rice from its surplus stocks at subsidised rates in the retail markets*. The prices of these rice varieties have remained high despite curbs on certain exports and open market sales by the Food Corporation of India.
- *Water levels in major reservoirs of India dropped for the 14th consecutive week*, with 11 states witnessing water storage below normal. South India is particularly vulnerable and likely to witness

challenges in the rice and pulses production. Despite excess rainfall in the peninsular region, 75% of districts have received deficient or no rainfall, emphasising the widespread nature of the issue.

- *Deficient rainfall has impacted rural demand in India.* According to a report by All India Consumer Products Distributors Federation, FMCG sales in rural India are 20-30% lower than usual. Retail sales growth of motorcycles (used primarily in rural belts) has slowed from 24.6% in Nov 2023 to 5.3% in Dec 2023. Retail sales of tractors (including exports) have contracted by 21.3% in Dec 2023 versus a growth of 1.5% in Nov 2023.
- *There is some hope for a partial recovery in rural demand in Q1, FY25*, as increased government spending in the election year is expected to stimulate consumption among the masses.

Indian Economy: Economic & Policy Briefs

- The *World Bank, in its latest Global Economic Prospects report, projects India's GDP to grow by 6.4% in the year FY25.* In FY26, the growth is expected to accelerate to 6.5%. Robust investment, supported by higher public investment and improved balance sheets of banks and corporates, as well as strong growth in services is likely to lead the expansion of the Indian economy.
- *According to India Ratings, the Indian economy is, at present, challenged with lower consumption growth* because high inflation is impacting people in the lower income brackets.
- *India's retail (CPI) inflation inched up to 5.69% (y-o-y) in Dec 2023 – the highest in four months, mainly on account of an unfavourable statistical base.* Sequentially (month-on-month), food prices declined for most of the essential commodities, thanks to the Government's timely supply-side measures. The RBI's sustained tightening helped reduce the core CPI inflation to below 4% level.
- *India's producer price (WPI) inflation also inched up to 0.73% (y-o-y) due to a y-o-y increase in the prices of food articles, machinery & equipment and electronic goods*. Reflecting the signs of weak demand, the manufactured products inflation stayed in the negative zone (-0.71%) in Dec 2023.
- During a fireside chat at the World Economic Forum in Davos, *the RBI governor stated that India's core inflation has started to move down, which gives confidence that monetary policy is working*, while commenting that maintaining financial stability despite multiple headwinds has been the biggest achievement in the last five years.
- *Given the uncertainty in food inflation (due to uneven rainfall, elevated temperatures), there are expectations that the RBI will not be in a hurry to reduce policy rates or change the stance*.
- According to fiscal experts, *fiscal consolidation and prioritisation of capital spending will be the highlights of the upcoming (interim) Union Budget.* Finance Minister may provide a medium-term roadmap for deficit management to reduce public debt burden. The debt-to-GDP ratio is about 81% for India. Given the weakness in rural demand, the Government could increase the funds under the rural employment guarantee scheme MGNREGA and higher payout for farmers.
- *India's merchandise exports increased by 1% (y-o-y) and imports declined by 4.9% (y-o-y), in Dec 2023*, taking the cumulative trade deficit to a five-month low of US$ 19.80 billion. However, net services exports also declined by 4.9% (y-o-y) to US$ 14.6 billion in Dec 2023.

Indian Economy: Industry & Services Sectors

- *Indian government's PLI scheme led to an investment of Rs 1.03 trillion till November*, with exports surpassing Rs 3.20 trillion since the scheme's implementation. While progress in some PLI schemes has been slower than expected, the most progress has been seen in mobile phone and pharmaceutical PLI schemes.

- *India is set to tap 12% of global iPhone production in FY24* – higher than the earlier plan of shifting around 9% of the total to India by FY24, which is the third year of the PLI scheme.
- *After the government's online monitoring system for the imports of electronic hardware items went live on Nov 1 2023, inbound shipments of laptops and tablets slipped in November* to a nine-month low of $225 million, contracting by 17.2% (y-o-y).
- *During the first eight months of FY24, India's industrial production grew by 6.4% (y-o-y) versus 5.6% in the corresponding period of FY23*. The main growth drivers were infrastructure/construction goods (11.1%), followed by capital goods (7.6%). The cumulative growth in consumer goods was relatively muted at 0.6% (y-o-y), reflecting a higher contribution of 'investments' rather than 'demand' in India's factory output growth during Apr-Nov, FY24.
- *India's services sector ended the year 2023 on a firm footing,* with activity expanding at its fastest pace in three months in December on buoyant demand and an optimistic year-ahead outlook, as revealed by the HSBC India Services PMI, compiled by the S&P Global.

Indian Financial Markets

- *At the end of the trade on Jan 18 2023, the liquidity deficit in the banking system stood at Rs 2.14 trillion.* In the last few months liquidity in the banking system has remained tight and stayed in deficit in January too.
- *Tightness in liquidity in consistent with the RBI's monetary policy stance of 'withdrawal of accommodation,'* which has helped the central bank control inflationary impulses effectively and improve the pace of transmission.
- *Yield on 1-Yr NBFC CP has gone up from 8.05% on Jan 1st to 8.45% as of today (Jan 19). However, during the first 18 days of January, the yields on 3-Yr and 5-Yr corporate bonds (AAA) have either stayed flattish or declined.*
- Indian government bonds could get an additional boost in 2024, with Bloomberg proposing their inclusion in its indices starting Sept 2024. The Bloomberg proposal comes months after JPMorgan said in Sept 2023 that Indian government bonds will be a part of its Government Bond Index-Emerging Markets (GBI-EM) global index suite from June 2024. *The inclusion of Indian government bonds in global indices is expected to bring rich flows of foreign money into the Indian sovereign debt market.*
- Indian rupee has been holding a positive ground on the modest decline in the US dollar. It was ~83.15 per USD around noon on 19th Jan 2023. However, *the rupee's upside might be capped due to the rise in the US treasury bond yields after the upbeat US economic data*. A movement in global crude oil price amid the geopolitical tension in the red sea may continue to weigh on the rupee as India is the third largest consumer of crude oil in the world.
- A favourable macro environment, rich domestic & FPI inflows into equity, India's inclusion in global bond indices and an improved sense of political stability have been supportive of Indian equity markets. *Currently, most sectors in India are trading at a premium to their respective last decade averages in terms of 'next 12 months' P/E multiples.*
- Brent crude prices marginally rose on Jan 18th, as the International Energy Agency joined producer group Organisation of Petroleum Exporting Countries in forecasting strong growth in global oil demand and as cold winter weather disrupted US crude output while the government reported a big weekly draw in crude inventories. *At present, global Brent crude price is hovering near 79.16 per barrel versus $85 per barrel in Oct 2023.*
