Macro Perspectives

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L&T Financial Services

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Global Briefs

- The global economy is turning increasingly "stagflationary" with a toxic mixture of weak demand and accelerating prices. According to Bloomberg, the worrying recent data include the smallest hiring of Americans in seven months, deterioration in Germany's Ifo business climate index, a crumbling of China's services sector and a weakening of global manufacturing.
- Global trade recovery during the summer is beginning to wane, according to some early warning signs pointing to the negative effects of widespread COVID-19 outbreaks in the manufacturing centres of East Asia. A dramatic decline in exports from Taiwan, which makes many of the computer chips used in cars and mobile phones, has combined with temporary port closures and lockdowns in Australia, China and Japan to cut the level of global trade.
- While the financial world waits for the Federal Reserve to start reversing its ultra-loose policy stance, recent moves by a few other central banks signal a reversal in the accommodative stance even as COVID-19 continues to create economic challenges around the world. Recently central bank of South Korea and central banks in Latin America and Eastern & Central Europe have raised interest rates to beat back inflation. The Bank of Canada has already cut back on its bond purchases and could proceed to raise borrowing costs in 2022 & the Reserve Bank of New Zealand (RBNZ) is expected to lift rates by the end of this year.
- The European Central Bank (ECB) kept its monetary policy unchanged on September 9th but decided to slow down the pace of net asset purchases under its pandemic emergency purchase programme.
- Properties in the cities are expected to be back in favour globally over the next 12 months, according to independent real estate consultancy Knight Frank. Its Global Buyer Survey, which represents the views of over 900 Knight Frank clients across 49 markets, revealed that out of those respondents who were more inclined to move in the next 12 months, 38% were looking at city locations with 33% opting for the suburbs.

Indian Agri & Rural Scene

- Until Sept 12th, the monsoon deficiency was 6% across India. While August received 24% less rainfall than it usually does, September has so far seen 16.4% excess rain, as per the Met data.
- Farmers in India have sown kharif (summer) crops across 109.7 million hectares until Sept 10th in 2021-22 (Jul-Jun), down nearly 1% from a year ago. While rice, total pulses, sugarcane and jute & mesta have witnessed higher sowing on year, the sowing of other major kharif crops like coarse cereals, oilseeds and cotton are still lagging behind on year.
- According to experts, heavy rains in September can impact standing crops, particularly pulses. But the heavy rain spell will fill reservoirs in Gujarat, Rajasthan where there was a very long dry spell in August which will be useful for the rabi crops.
- On Sept 8th, India's cabinet approved 2-9% increase in minimum support prices (MSPs) of rabi crops for the coming marketing season starting April. According to the government's press release, concerted efforts were made over the last few years to realign the MSPs in favour of oilseeds, pulses, and coarse cereals to encourage farmers to shift to larger area under these crops and adopt the best technologies and farm practices, to correct demand-supply imbalance.
- According to the latest round of National Sample Survey, Indian farmers are now predominantly labourers, as they earn more from wages than from cultivation, and this has happened for the first time ever. The disintegration of land parcels has continued unabated for two decades and "landlessness" has increased. About 35% households in rural India were indebted as on June 30th 2018, while this proportion was lower at 22.4% in urban India.

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India's Economic & Policy Developments

- The Indian economy contracted 7.5% sequentially in the June quarter after adjusting for seasonality, according to the S&P Global Ratings. The rating agency, however, expects strong economic growth in the coming quarters. However, given India's weak fiscal settings and high stock of debt at around 90% of GDP, fast nominal GDP growth is going to be very important in order to prevent any further erosion of fiscal settings and to enable some degree of fiscal consolidation.
- India Ratings and Research has changed the outlook for India's retail non-banking financial companies (NBFCs) and housing finance companies to 'improving' from 'stable' for the second half of 2021-22. NBFCs with a diversified asset mix and non-overlapping customer segments could be considered better placed, according to the agency.
- As per the recommendations of the 15th Finance Commission, the Ministry of Finance has released the sixth monthly installment of revenue deficit grant of Rs 98.7 billion to 17 states. With this, a total amount of Rs 592.3 billion has been released to the eligible states as Post Devolution Revenue Deficit Grant (PDRD) in the current financial year.
- India's exports grew strongly for the sixth consecutive month in August by 45.2% (y-o-y), while imports grew for the ninth consecutive month in August by 51.5%, taking the cumulative trade deficit for Apr-Aug, 2021 to $ 55.77 billion versus $22.74 billion in Apr-Aug, 2020.
- India's CPI inflation stood at 5.30% (y-o-y) in August, 2021 versus our estimate at 5.89% & consensus at 5.60%. Inflation rate declined from the previous month's 5.59% primarily on account of a sharp deceleration in food inflation and also in core inflation reflecting continued weakness in aggregate demand.
- India's WPI inflation surprised on upside as it rose to 11.39% in August, 2021 versus our estimate at 10.82% and consensus at 10.8% after two soft month-on-month prints. An increase is primarily driven by the manufactured product prices.

India's Industrial & Services Sectors

- India's industrial output, measured by the index of industrial production (IIP), rose by 11.5% (y-o-y) in July 2021 versus our forecast of 10.6% and the consensus estimate at 10.4%. Sequentially also the growth was a tad better compared to the previous two months but still not as robust as it was in March, 2021.
- Seasonally adjusted IHS Markit India Manufacturing Purchasing Managers' Index (PMI) moderated to 52.3 in August 2021 from 55.3 in July 2021. However, despite this fall the August 2021 reading of the index indicates an improvement in overall operating conditions for the second straight month. The PMI for the services sector reported an improvement in August from 45.4 in July to 56.7 in August, 2021 after three consecutive months of contraction.
- Major automotive OEMs, except for Maruti Suzuki India (MSIL), reported positive sales growth in August 2021. Sales of MSIL were severely marred by chip shortage. Domestic sales of MSIL fell by 9% (y-o-y). On the contrary, two wheeler manufacturers reported a decline in domestic sales. All major two wheeler manufacturers such as Hero MotoCorp, Honda Motorcycles & Scooter India (HMSI), TVS Motor and Bajaj Auto reported a fall in domestic sales in August 2021.
- Steelmakers are witnessing sluggish demand in the domestic market due to a slowdown in construction activity and production cut in the automotive industry due to an acute chip shortage. This has prompted top steelmakers to increase exports to keep their inventories low.

Indian Financial Markets

- Liquidity in the banking system is estimated to be in a huge surplus of over Rs 8.61 trillion as against Rs 8.41 trillion on Sept 9th. The liquidity surplus is expected to narrow in the coming days due to outflows on account of advance tax payment for Jul-Sept, auctions and currency in circulation leakage.

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- While the benign CPI print for August has improved the sentiment in India's government bonds market, a consistent rise in crude oil prices over the last week, firmness in the US treasury yields, the RBI's variable rate reverse repo auctions & higher scheduled borrowing by the central government would keep the gains capped for government bonds. Yield on the 10-year benchmark G-Sec has hovered between 6.16% - 6.20% during September so far.
- Total funds raised through corporate bonds in August rose 49% sequentially even as the total number of bonds issued declined by 20%. A combination of higher quantum and fewer issuances can be explained by the fact that a large chunk of the amount was raised through a few big-ticket deals by public sector entities.
- Indian rupee has mildly depreciated from 73.05 in early September to 73.68 per US dollar as of today (Sept 14). Rupee has had a stable run this year on account of two reasons – foreign fund flows into the Indian market & RBI's active management of volatility. However a rebound in crude oil prices, widening of CAD and a likely normalisation of the US monetary policy remain the major downside risks for Indian rupee.
- Indian stocks have gained more than 17% in the current financial year so far led by easy financial conditions and the resurgence of FII funds into equities. In the broader market, small-cap and mid-cap stocks have continued to attract investors.
- The price of India's crude oil basket rose by 76 cents to $72.01 per barrel yesterday (Sept 13). Crude oil prices have been rising as the OPEC said in its latest report that demand in 2022 is expected to exceed pre-pandemic levels.

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