Macro Perspectives

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L&T Financial Services

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Global Briefs

- According to the Reuters news, governments worldwide are easing quarantine rules, reviewing coronavirus curbs and dialling back pandemic-era emergency support as they bid to launch their economies back into some version of normality. But China remains a stand-out with "Covid-zero" policy.
- The World Bank has warned that global economy faces a "grim outlook", as the aftershocks of the pandemic continue to weigh on growth – especially in poor countries. Its latest forecast predicts global growth to slow to 4.1% in 2022 from 5.5% in 2021. It attributed the slowdown to virus threats, government aid unwinding and an initial rebound in demand fading.
- Global fund managers have cut back on their bullishness on technology stocks to the lowest since 2008 as tightening by central banks remains a top risk to markets this year, according to the monthly fund managers' survey by Bank of America Securities.
- On January 19th, the US President Joe Biden said, "Given the strength of our (US) economy and pace of recent price increases, it is appropriate – as Fed Chairman Powell has indicated – to recalibrate the support that is now necessary". Biden said he respects the Fed's independence, but underscored that the central bank is tasked with taming inflation.
- China lowered mortgage lending benchmark rates on January 20th, as monetary authorities step up efforts to prop up the slowing economy, after data earlier in the week pointed to a darkening outlook for the country's troubled property sector.
- According to Reuters, the European Union threatened "massive" economic sanctions if Moscow attacks Ukraine, and US Secretary of State Antony Blinken rallied allies ahead of last-ditch crisis talks with Russia aimed at preventing war. Western countries are seeking to present a united diplomatic front before Blinken meets Russian Foreign Minister Sergei Lavrov in Geneva today (Jan 21) seen as one of the last chances to stop Russia from attacking.

Indian Agricultural & Rural Scene

- The sowing of rabi (winter) crops in India, mostly consisting of wheat, pulses, oilseeds and coarse cereals, for the current season (2021-22) has largely been completed with the total sown area reported to be marginally higher (1.2%, y-o-y until Jan 14th) than the previous year.
- Uneven rainfall, delayed harvesting of kharif crops, losses of standing crops due to unseasonal & extreme rainfall events, adverse impact of fertiliser shortage on rabi sowing in many parts of the nation, low level of mandi prices for the majority of kharif crops in relation to their minimum support prices, increased unemployment in rural belts & a low rate of growth of daily wages as revealed by the MGNREGA portal and increasing positivity rates of Omicron infections in rural belts pose significant risks to rural cash-flows in the coming quarters.
- After a gap of two years, terms of trade have become unfavourable to the agricultural sector as the prices of non agricultural goods & services have increased at a much faster pace than the prices agricultural commodities. This combined with relatively lower rural wages, does not augur well for the larger rural economy.

India's Economic & Policy Briefs

- With Omicron variant of coronavirus fast spreading in the country, ICRA Ltd. expects that India's GDP growth for Q4 FY22 would be sub 5.0%, i.e., 40 basis points below its earlier projection of 5.0% to 5.5%. Furthermore, even as there has been evidence of economic recovery becoming more broad-based in the third quarter of FY22, it is yet to attain the durability being sought by the central bank as a precursor to policy normalisation, says ICRA Ltd.

- Covid-19 pandemic has severely dented consumer confidence in India, as per the January 2022 bulletin of RBI. Amongst the survey indicators, household income was impacted the most by the pandemic induced restrictions causing consumer confidence to hit multiple lows during this period.
- India's CPI inflation at a five-month high of 5.59% in December and WPI inflation at 13.56% reflect the pressure of strong cost push factors due to elevated global commodity prices and supply-side disruptions.
- According to a Moneycontrol survey of 10 economists, India's central government should meet its fiscal deficit target for fiscal 2022. And while some consolidation is expected in fiscal 2023, it is likely to be modest, with the median of economists' estimates suggesting the 2022 Budget will set a fiscal deficit target of 6.1% of GDP for the next financial year. However, ICRA expects central government to miss the fiscal deficit target of 6.8% for FY22 and projects it at 7.1% of GDP. According to ICRA, the net tax revenue gains to the central government will be nullified by the expected large miss on receipts from disinvestments and back-ended spending on items included in the Second Supplementary Demand for Grants such as food & fertiliser subsidy, equity infusion into Air India Asset Holding Ltd., etc.
- According to the Ministry of Commerce, India is on track to achieve the target of $650 billion export set for goods and services in the ongoing fiscal. Out of the total, $400 billion will be merchandise exports and the remaining $250 billion will be services exports. India's exports grew richly by almost 50.0% (y-o-y) during Apr-Dec, FY22.

India's Industrial & Services Sectors

- India's industrial output, measured by the index of industrial production, rose by just 1.4% (y-o-y) in November 2021 despite a favourable base effect. Among consumer goods, production of durables fell by 5.6%, while that of non-durables rose by just 0.8% reflecting continued weakness in demand.
- Tractor sales in India dropped to a 20-month low of 55,614 units in December 2021. These were 25.4% lower than in the preceding month and 22.5% lower than in the year-ago month.
- India's finished steel production too has stagnated in December, 2021. However, cumulative finished steel production during April-December 2021, rose by 23.2% over April-December 2020. A total of 83 million tonnes of finished steel was produced during the nine months ended December 2021.
- According to a PMI survey, India's services sector activity moderated in December, 2021 as business activity and sales rose at a softer pace, while price pressures and the possibility of new waves of COVID-19 affected business sentiment.

Indian Financial Markets

- Liquidity in the banking system is currently estimated to be in a surplus of over Rs 5.64 trillion. Surplus liquidity is expected to decrease in the coming days due to outflow on account of goods and services tax payments. Yesterday, the RBI conducted a variable rate repo operation to infuse liquidity factoring in the larger than expected outflow on account of GST.
- A combination of factors including firming up of crude oil prices (Brent at $87.17 per barrel today), risks to inflation and swifter-than-expected interest rate increases signaled by the US Federal Reserve have contributed to the hardening of bond yields. The 10-Yr GOI benchmark yield has risen from 6.45% on 31st December to 6.63% today (Jan 21st).
- During this week, yields on corporate bonds maturing in three- to five-year space had surged 20-25 basis points, while those on 10-year bonds increased by nearly 8-10 bps following the movement in domestic government bonds, global treasury yields and higher crude oil prices.
- Indian rupee has become highly volatile and developed a depreciation bias on the back of firm US dollar & risk aversion in the global markets. Other dampeners are crude oil prices and persistent FII outflows. On

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Dec 17th, rupee had crossed 76 against the US dollar before hovering in the range of 74.40 to 74.60 in the recent weeks.

- Indian equity markets are witnessing a sharp downfall since the last few sessions, turning flat for 2022 so far. Analysts expect Indian equity markets to deliver modest returns, undergo correction and be volatile in 2022 as the RBI is likely to raise rates and unwind excessive liquidity support in the next few quarters to tame inflation. The rally in equities has slowed amid rising inflation, economic disruption caused by the newer variants of the coronavirus and prolonged global supply chain woes.
- Oil prices are at their highest levels since 2014 — Brent crude hit $88.3 per barrel on January 20th - up 27% since December 1, when it was trading at $69.5. UBS expects crude oil demand to reach record highs this year and for Brent to trade in a range of $80-90 a barrel for now.

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