

Dr. Rupa Rege Nitsure
Chief Economist

Global Economic Briefs

- In a speech at the World Governments Summit in Dubai, managing director of the International Monetary Fund (IMF), Kristalina Georgieva said the IMF was confident on global economic outlook despite uncertainties around war and geopolitics as the global economy has remained resilient.
- According to a report by Bank of America (BoA), the biggest players in the global economy are on different trajectories and markets around the world are reflecting the shifting landscape. In BoA's view, the US economy continues to show remarkable resilience, European growth has faltered, and China faces the most challenging outlook amid real estate woes, deflation, and demographic headwinds.
- JP Morgan research forecasts global core inflation to remain sticky at around 3.0% in 2024. In the US, inflation has cooled significantly but remains above target. Against a challenging growth backdrop, the road to lower inflation looks bumpy in the UK and the Euro zone. In China, deflationary pressures are likely to ease in 2024, with headline CPI inflation trending up modestly to 0.9% (y-o-y) and core CPI inflation reaching 1.2%. In Ems (excluding China & Turkey), JPM research expects both core & headline inflation to decline by 100 bps over the course of 2024.
- Shipping restrictions on the Panama Canal (due to the reduced water levels in the Canal) are having a far bigger price impact on liquefied natural gas cargoes than security issues in the Red Sea, according to TotalEnergies chief executive Patrick Pouyanne.
- Despite weaker economic data from Europe, the alignment of monetary policies between the Fed and ECB, and other central banks, has restrained the US dollar from significant gains (currently at 103.93), keeping it within a narrow trading range. The short-term outlook for the US dollar hinges on the upcoming CPI report and subsequent Federal Reserve commentary.
- With crude oil prices oscillating between \$78 and \$82 per barrel and geopolitical tensions in West Asia escalating alongside disruption in the Red Sea, the oil market faces a complex landscape. Additionally, the slowdown in China adds a layer of uncertainty.
- US inflation cooled in January 2024 to 3.1% (y-o-y), yet remained elevated in the latest sign that the pandemic-fuelled price surge is only gradually and fitfully coming under control.
- The Democratic-led US Senate passed on Feb 13th a \$95.34 billion aid package for Ukraine, Israel and Taiwan, although it faced an uncertain path ahead in the Republican-controlled House of Representatives.

Indian Economy: Agriculture & Rural Belts

- The two peak winter months in north India, December and January, had nearly 100% rain deficit in at least six states and two union territories as per India Meteorological Department (IMD).
- The sowing season for rabi crops concluded on February 2nd, with a slight increase in overall acreage compared to the previous year. However, concerns arose over the sown area under pulses, which saw a decline of 6 lakh hectares (3.6%) from the previous year.
- Against the backdrop of depleting stocks of wheat, the government has asked key wheat growing states like Uttar Pradesh, Punjab, Haryana, Madhya Pradesh & Rajasthan to prepare for early procurement.
- Retail sales of tractors and two wheelers posted a growth of 21.2% (y-o-y) and 14.96% (y-o-y) in January 2024, aided by wedding demand and improved elections-led spending in rural belts.

Indian Economy: Economic & Policy Briefs

- Median projection of India's real GDP growth for FY24 in the 86th round of the RBI's Survey of Professional Forecasters (SPF) emerged as 7.0%. Latest round of the survey was conducted in January 2024 in which 45 professional forecasters participated. Median estimate of GDP growth for the following fiscal FY25 has been revised up to 6.5% from 6.3%.
- India's CPI based inflation declined to 5.1% (y-o-y) in January 2024 (exactly matching our in-house projection), aided by a favourable statistical base and a sequential decline in the prices of oils & fats, fruits, vegetables, pulses, sugar & spices, thanks to the government's supply side measures. Core CPI inflation eased to 3.6%, thanks to the sustained tightening bias in the RBI's monetary policy.
- India's WPI inflation eased to a three-month low of 0.27% (y-o-y) in Jan 2024, led by a moderation in domestic food prices and global commodity prices.
- The credit exposure of banks to NBFCs stood at Rs 15.2 trillion in Dec, 2023. This is a 15.1% year-on-year growth which is much slower than the rate witnessed in Nov, 2023 and the approximately 27.0% average growth for the past 12 months, according to a report by CareEdge.
- The provisional figures for direct tax collections continue to grow at a steady pace. Direct tax collections up to 10th Feb 2024 were at Rs 18.4 trillion. This is 17.3% higher than the gross collections in the same period a year-ago.
- Rising profits of PSBs could produce about \$ 2 billion in dividends for the government in the next fiscal year, according to the Finance Ministry sources. The 12 state-run banks have reported net profits amounting to Rs 980 billion in three quarters ending December, 2023.
- According to the Exim Bank, India's merchandise exports are likely to decline to \$435.3 billion in FY24 from \$447.4 billion in FY23. In comparison to the March 2023 quarter, merchandise exports are expected to increase by nearly 3.0% to \$118.2 billion in the March 2024 quarter.

Indian Economy: Industry & Services Sectors

- India's factory output (as measured by IIP) grew by 3.8% (y-o-y) in Dec, 2023, led by a 3.9% growth in manufactured products production and 5.1% growth in the mining sector activity. Within manufacturing sector, the segments food products, beverages, textiles, coke, pharmaceuticals, rubber products, basic metals, fabricated metals, electrical equipments, and transport equipments posted positive growth rates in Dec 2023. As per the use-based industrial classification, capital goods sector is growing at a faster pace than consumer goods sector in the economy.
- India's PMI for manufacturing too came in at 56.5 – highest in the past four months. Both domestic new orders and export orders grew healthily in Jan 2024, as per the PMI sample that primarily comprises of large companies.
- Jan 2024 marked a record-breaking month for the passenger vehicle (PV) segment, with retail sales touching 393,250 units. This reflects a 13% increase on a year-on-year basis, surpassing the previous record set in Nov 2023, as per the FADA data.
- In the FMCG space, the general trade channel, also referred to as kirana stores, saw sluggish volume growth in single digits during the Dec 2023 quarter, in contrast to double-digit growth rates seen in modern trade. Firms like Hindustan Unilever and Marico stated that, in terms of growth rates, they have seen the modern trade channel surpassing the general trade channel.

Indian Financial Markets

- At the end of trade on Feb 13th, the liquidity deficit in the banking system was at Rs 2.05 trillion, as against Rs 2.13 trillion at the end of trade on Feb 12th, according to data from the RBI. Banks have been using funds from the RBI's liquidity infusions to ease the cash crunch.
- On Feb 12th, the RBI conducted two four-day variable rate repo auctions for Rs 250 billion each. Banks borrowed Rs 500 billion through both tenders. The RBI set a cut-off rate of 6.70% on the first tender, and 6.66% on the second. The reversal of both the tenders will take place on Feb 16th.
- The difference between yields on government and corporate bonds continues to shrink as the former rose following the RBI's hawkish commentary in the last policy (8 Feb) and the reverse repo auctions conducted by the central bank last week. This dashed hopes for any early rate reduction.
- Indian rupee has been trading soft as the higher-than-expected US inflation data boosts the US dollar. The hawkish stance of the RBI may cap the rupee's downside to some extent.
- ICICI Direct predicted earlier this month that the Indian stock market can see a significant spike in the coming months with 2024 being an election year. In the past three decades, the median market returns in election years have been 17.0%.

Disclaimer: The views expressed in this newsletter are personal views of the author and do not necessarily reflect the views of L&T Finance. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. L&T Finance Group and/ or its Affiliates and its subsidiaries make no representation as to the accuracy, completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability about the same. L&T Finance Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render L&T Finance Group liable in any manner whatsoever and L&T Finance Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.