Macro Perspectives

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L&T Finance

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Global Economic Briefs

- According to the World Bank's latest Global Economic Prospects report, *global growth has slowed sharply* and is projected to decelerate from 3.1% in 2022 to 2.1% in 2023. World Bank stated that the global economy is in a "precarious position" and the risk of financial stress in emerging market and developing economies (EMDEs) is intensifying amid elevated global interest rates.
- The *CPI inflation in the US declined to 4% on a yearly basis in May from 4.9% in April.* This reading came in slightly below the market expectation of 4.1%. Even the core CPI inflation edged lower to 5.3% from 5.5% as expected. Currently, markets are fully pricing a no change in the US Fed rate on June 14th, compared to 75% probability earlier in the day.
- *British wage growth soared and employment also jumped in the three months to April*, according to the Office for National Statistics, raising expectations that the Bank of England (BoE) would raise interest rates again, perhaps several times, as the UK contends with one of the highest inflation rates among major advanced economies.
- *Euro zone economy fell into a technical recession in Q1, 2023 as per the Eurostat report.* Going forward, growth is expected to remain soft in the Euro zone despite a downtrend in global energy prices, as monetary policies have dented investment spending and still-present inflationary pressures have constrained consumption.
- *China's central bank lowered a short-term lending rate for the first time in 10 months* on June 13th, to prop up a stalling post-pandemic economic recovery. The cut to the lending rate signals possible easing for longer-term rates over the next week and beyond as demand and investor sentiments continue to remain weak in China.
- *Water scarcity is seen as the most significant and potentially most important component of the wider climate crisis*, and researchers say that large Asian economies like India and China will be the most affected from these water shortages.
- *Crude oil prices continue to stay under pressure despite a surprise output cut by the world's top exporter Saudi Arabia* last week. High Russian oil flows into the global markets, increased US production, and concerns over demand amid a weak economic outlook weighed down the market sentiment. Brent crude price is hovering between $74.3-75.08 per barrel currently.

Indian Economy: Agriculture & Rural Belts

- *Monsoon rains may be patchy in the Indian hinterland until the first week of July*, according to extended-range forecasts by both the IMD and Skymet Weather. The main reason for the poor June rains is extremely severe cyclone Biparjoy.
- *The sowing of kharif crops — paddy, pulses, oilseeds, sugarcane and cotton have commenced*, with 7.83 million hectare (MH) sown, which is marginally higher than the year-ago period, as per the data released by the ministry of agriculture last week. However, sowing will be delayed hereafter because of the slow progress of the monsoon so far.
- *There is a high probability of El Nino this year* and its impact on the agriculture would depend on the severity of monsoon failure and on its temporal & regional distribution.
- *India's wheat and rice stocks in the Central Pool was at over 57.9 MT on June 1st, which has placed the country in a comfortable position* to meet its requirements of food grains. Moreover, the Indian

government has imposed a stock limit on the amount of wheat stocks that traders & retailers can hold as a part of its efforts to control surging prices of the grain.
- *Mandi prices of kharif crops like oilseeds and pulses are currently ruling above their minimum support prices (MSPs)* due to robust demand and inadequate domestic output. Reportedly, India's central government recently announced a substantial hike in the minimum support price of these crops.

Indian Economy: Economic & Policy Briefs

- *While India's recent growth prints have exceeded estimates, major investment firms including Nomura, HSBC & Goldman Sachs predict a slowdown in the current fiscal year* due to factors such as elevated borrowing costs and slowing global growth. Consumer demand is expected to decline as wealth concentrates among the rich.
- *World Bank too has revised India's real GDP growth projection for FY24 downwards to 6.3% from 6.6% estimated earlier.* It has attributed the likely growth slowdown to private consumption that is constrained by high inflation and rising borrowing costs. Even government consumption is expected to be impacted by fiscal consolidation.
- *On June 8th, India's central bank unanimously decided to keep the policy repo rate unchanged at 6.5%, along with maintaining the "withdrawal of accommodation" stance (except one member who dissented),* citing persistence of inflation above the target level. While the projection for the headline CPI inflation was curtailed to 5.1% for FY24, the GDP growth estimate was retained at 6.5%.
- *While India's retail inflation eased from 4.7% in April to 4.3% in May, India's wholesale deflation further intensified from -0.9% in April to -3.48% in May.* Besides a strongly favourable statistical base, the significant easing of food, fuel and core inflation rates have contributed to the moderation of overall inflation. Against the backdrop of economic uncertainties, the disinflation process is expected to be slow and protracted, said the RBI Governor.
- *According to the rating agencies, Indian banks' profit margins might contract in FY24 due to the rising deposit costs.* According to a global investment firm CLSA, *NBFCs' cost of bank borrowings is likely to decline largely in FY25 and not in FY24*, as transmission through floating rates happens with a lag of 1-12 months. Similarly, the cost of NCDs for NBFCs is likely to go up in FY24, as the NCDs issued post-Covid (in FY21-22) at very low interest rates will come up for repayment in FY24/25.
- There is an expectation that *the RBI may increase risk weights on unsecured personal loans* (consumer loans) and credit cards and, or float a discussion paper on how to monitor the space more efficiently, as the growth in these loans is observed to be excessive.

Indian Economy: Industry & Services Sectors

- *India's industrial production growth was at 4.2% (y-o-y) in April 2023*, driven by both the mining (up 5.1%) and manufacturing (up 4.9%) sectors. This was over & above the 6.7% growth posted in April, 2022. Growth in manufacturing was primarily driven by pharmaceutical & chemical products, basic metals, electrical equipment, machinery & equipment, transport equipment, printing & recorded media, etc.
- *A sustained negative growth in the production of consumer durables for eight out of the past nine months* reflects the weakness in urban consumption demand, especially from the middle-income groups.
- According to government officials, *the Central government will weigh in on the move to 'course-correct' as regards production-linked incentives (PLI) schemes* in sectors that have seen little

progress. So far, progress has been sluggish for the sectors – steel, textiles, battery, white goods, solar photovoltaic, and automotive. A detailed analysis is being conducted by relevant ministries.

- *Moody's Investors Service has raised concerns about several large Indian corporates facing refinancing risk in 2024.* This risk stems from a combination of higher interest rates in the international financial market and a potential deterioration in their financial positions. Around US$ 8 billion worth of corporate debt issued by Indian companies is set to mature in 2024 and would require refinancing.
- *India's services sector exhibited remarkable resilience in May,* even as the pace of growth slightly eased from the previous month.

Indian Financial Markets

- *Liquidity in the banking was estimated to be in a surplus of Rs 1.60 trillion as of today (June 14).* Surplus liquidity is expected to narrow starting today due to outflows of around Rs 900 billion to Rs 1 trillion as advance tax payments for Q1, FY24. Also, outflows on payments for state government securities worth Rs 292.31 billion are also scheduled today.
- *In spite of moderating CPI inflation readings, yields on government bonds are showing a hardening bias tracking a rise in US treasury yields.* Trading volumes are also low, as traders are keeping to the sidelines ahead of the US FOMC's monetary policy decision. Indian government bond yields inched slightly higher after the RBI maintained its status quo on policy rates & stance last week.
- The *long-term G-Sec bond yields are expected to slowly increase due to the increased supply of long-duration bonds* as per the Government's borrowing calendar, besides the regular state Development Loans.
- In the corporate bond market, *more hardening is seen for the yields on three-year bonds than on five-year or ten-year bonds*, as demand for three-year paper is robust.
- *Indian rupee rose to a one-month high of 82.10 per US dollar today, helped by India's relatively better macro fundamentals, FII inflows and weaker dollar against major global currencies*. The US dollar declined today on rising expectations of a pause in rate hikes by the US Federal Reserve.
- India's benchmark equity indices closed higher today for the third straight session. The calendar 2023 has seen large FII net inflows, a majority of which has happened in the months of April & May. *According to Goldman Sachs, Indian market's solid fundamentals will continue to lure long-term investors.*
