Macro Perspectives

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L&T Finance

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Global Economic Briefs

- After 12 months in a row of falling annualised inflation numbers, the latest inflation print for the US (as on July 31st) was 3.18% - slightly higher. The risk of "stagflation" for the US has subsided relatively quickly as the economy remained strong from the continued strength of both the consumer and the labour market.
- The US dollar index has approached near a two-month high of 102.80 on August 14th amid sustained pull back in risky assets. The US treasury yields continue to edge higher following last week's CPI and PPI readings with the 10-year bond yield currently quoting near eight-month high of 4.16%.
- Annualised CPI for China declined by 0.3% in July and this "deflation" has been accompanied by other signs of economic weakness, including a sharp slowdown in GDP growth, sluggish retail sales, a fall in exports, and a renewed downturn in real estate prices.
- Global crude oil prices declined more than 1% today (Aug 14) as concerns about China's faltering economic recovery and a stronger dollar weighed against seven weeks of gains on tightening supply from OPEC + output cuts.
- The near-term economic outlook for the euro area has deteriorated, due largely to weaker domestic demand. High inflation and tighter financing conditions are dampening spending. This is weighing especially on manufacturing output, which is also being held down by weak external demand.
- According to the latest survey by Oxford Economics, businesses now see geopolitical tensions as the biggest threat to the global economy. Around 36% of businesses polled view geopolitical tensions as top risks currently – such as those related to issues over Taiwan, South Korea and Russia-NATO.

Indian Economy: Agriculture & Rural Belts

- From 5% excess rain at the end of July, a weak monsoon spell in August has led to a 3% rain deficiency across India as of August 13, as per the IMD report. This is due to the impact of El Nino. However, there is a possibility of a temporary revival of the monsoon around August 18. The second half of August may see slightly better rainfall activity than the first half.
- Sowing of kharif crops is over in almost 90% of the normal area during the week ended August 11, with acreage of rice being higher by almost 4.92% (y-o-y). On the other hand, sowing of arhar and urad – the main pulses were down on year by 5.41% and 13.49%, respectively. Paddy sowing is down so far in Andhra Pradesh, Assam, and Odisha.
- India's consumer goods industry expanded at its fastest pace in six quarters during the April–June, 2023 period, driven by softening inflation and an upswing in rural consumption, according to market research firm NielsenIQ.
- The unemployment rate in India declined in July driven by increased demand for agricultural labour in rural areas. The CMIE data showed that the total joblessness rate in India fell to 7.95% in July, from 8.45% in June. While the rural unemployment rate declined to 7.89%, from 8.73% in June, the urban unemployment rate increased to 8.06% from 7.87% in the same period.

Indian Economy: Economic & Policy Briefs

- While the RBI has retained its GDP forecast of 6.5% for the year FY24 in its latest monetary policy review unveiled on August 10, the NIPFP has lowered it to 6.0% from 7.2% earlier, to be driven by global headwinds.
- On expected lines, the RBI kept policy rates, policy stance (withdrawal of accommodation) unchanged for the third time in a row in its last monetary policy (Aug 10). Even though the headline inflation has been rising since June 2023, it was primarily on the back of a surge in food prices, especially that of vegetables. The RBI expects vegetable price shock to reverse quickly post the monsoon season but possible El Nino weather conditions, domestic prices of cereals & pulses and global food & energy prices may act as a spoilsport. Hence, the RBI has raised its inflation projection for FY24 to 5.4% from 5.1% earlier. It expects inflation to stay at 5.2% in Q1, FY25 - much higher than its target of 4.0%. This means the battle against inflation is far from over and any chance of a rate cut has moved further away - to the second half of FY25, for now.
- As excess liquidity fuels inflation, the RBI has imposed an incremental CRR on the banks' NDTL. Through this, the RBI will absorb liquidity between Rs 1.1 trillion & Rs 1.2 trillion. Currently, liquidity is in the surplus of Rs 2 trillion. As CRR is a cost to the banking system, banks have already raised their MCLR following this move.
- Despite a favourable statistical base, the deflation of WPI has rapidly declined for India in July 2023 on account of a sharp sequential pick up in food prices, especially vegetable prices. This is a pure supply shock, as manufactured products price inflation has eased sequentially. This means demand is still not that strong. His vindicates the RBI's move to extend the "pause" and watch the situation carefully.
- Higher tax devolution, increased revenues and reduced subsidy expenditures have led to an enhanced quality of public spending for State governments in Q1, FY24, according to India Ratings and Research (Ind-Ra). This trend is expected to continue, supported by tax devolution and interest-free capex loans provided by the Central government. While MP, AP, and Gujarat contributed significantly to the capex surge, Maharashtra, Karnataka, HP and Chhattisgarh experienced a decline.

Indian Economy: Industry & Services Sectors

- India's agricultural exports witnessed a decline of 14% (y-o-y) in Q1, FY24 due to reduced shipments of cereals, livestock products, and processed foods. Shipments of non-basmati rice, comprising the largest chunk in the export basket, fell by 2.7% in dollar value at $1.5 billion. The central government had imposed export restriction on non-basmati in July 2023 to contain rising domestic prices.
- India's IIP grew by 3.7% (y-o-y) in June 2023 versus 5.3% in May. The growth was weaker primarily on account of a weak growth print for the manufacturing sector, especially the consumer goods segment. Consumer durables' (a proxy for urban demand) production growth again slipped to negative zone of -6.9% (y-o-y) in June 2023.
- According to a report in Business Standard (Aug 14), the share of slow-moving orders in the overall order book of Larsen & Toubro (L&T) is at a multi-year low. This has led to a renewed focus on fast-moving orders. A mix of factors such as commodity price fluctuations, robust order inflow and strong sectoral demand have put capital goods order book in the fast lane.

- Services sector, which accounts for more than half of India's GDP, posted its fastest expansion in 13 years in July 2023 on the back of strong demands in both domestic as well as international markets, according to a survey conducted by S&P Global. Looking at the sub-sector data, Finance & Insurance was the brightest spot regarding business activity and new orders, topping the growth rankings in both instances. As for inflation, the sharpest increase in input costs was seen in Consumer Services.

Indian Financial Markets

- Liquidity in the banking system remains in surplus. At the start of trade today (Aug 14), it was estimated to be in surplus of Rs 1.84 trillion versus Rs 2.64 trillion on August 11th.
- Yield on India's 10-Yr bond has spiked from 7.15% on Aug 10 to 7.21% on Aug 14, driven by expectations of an elevated print for CPI inflation for July and a relatively hawkish monetary policy of the RBI on Aug 10th. By imposing an incremental CRR on a temporary basis, the RBI has done a quasi-rate hike of a smaller quantum to tackle rising inflation.
- Yields on corporate bonds, especially on '3-5'-year papers have hardened post the announcement of the monetary policy, as the RBI has raised its inflation projection to 6.2% for Q2, FY24 from 5.2% earlier factoring in the rising food articles' inflation. In the secondary market of corporate bonds, mutual funds are observed to be on the selling side and moving towards short-term bonds.
- Indian rupee slipped to a near 10-month low of 82.95 per US dollar on Aug 14th, tracking a stronger dollar which led to losses across Asian currencies. But RBI's likely dollar sales helped cap the losses. According to the FX experts, the rupee is broadly taking cues from the dollar index and fundamentals point to a broad strength in the US dollar.
- After months of investing heavily in Indian equities, foreign investors have become cautious and pumped in a net amount of less than Rs 35 billion in the Indian equity markets so far during August 2023. Strength in the dollar index and the US 10-Yr bond yield remaining well above 4.0% is a short-term negative for FPI flows to EMs like India.
