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Global Economic Briefs

- *The US Federal Reserve kept its key policy rates on hold for the third consecutive time on Dec 13th. The Fed also signaled that it expects to make three quarter-point cuts to their benchmark interest rates next year, fewer than the five envisioned by market participants.*
- *Fed Chair Powell noted that while there is a probability of a recession next year, he still sees a path toward a so-called soft landing, where the Fed can bring inflation down to its 2% target without a huge hit to economic activity.*
- *Norway's central bank surprised markets by raising its key policy rates on Dec 14, saying that a final hike in the current cycle was needed to ensure that inflation does not remain too high for an extended period.*
- *The Organisation of Petroleum Exporting Countries (OPEC) expects world oil demand to grow to 2.2 million barrels per day (bpd) in 2024 for an average of 104.4 million bpd, unchanged from its previous assessment. The oil cartel said in a report that oil demand is expected to be supported by resilient global GDP growth, amid continued improvements in economic activity in China.*
- *In its latest Global Economic Outlook report, Fitch Ratings predicts a significant drop in world growth to 2.1% in 2024, down from the robust performance in 2023. According to Fitch Ratings, the resilience of global growth in 2023 was driven by the normalisation of consumption in China and a resurgence in US growth. However, looming challenges like China's ongoing property slump, the eurozone's economic stagnation, and the full impact of recent monetary tightening are expected to contribute to the slowdown.*
- *According to the World Bank, China's economy will slow significantly in 2024, with annual growth falling to 4.5% from 5.2% in 2023. China's recovery from the Covid pandemic remains fragile, dogged by weakness in the property sector and in global demand for China's exports, high debt levels and wavering consumer confidence.*

Indian Economy: Agriculture & Rural Belts

- *Gross value added of "agriculture & allied activities" in India expanded at the 18-quarter low of 1.2% (y-o-y) during Q2, FY24. This was indicative of the lacklustre kharif sowing season that was impacted by the advent of El Nino.*
- *Area sown under rabi crops till December 8th was 79.5% of its normal area. However, sowing is still down by 2.7% (y-o-y). Except for the oilseeds, all major rabi crops have posted a y-o-y decline in the area sown under them. Higher sowing of mustard has pushed the overall rabi sowing upwards during the rabi sowing season so far.*
- *The slowing pace of the Northeast monsoon has aggravated the decline in water levels of major reservoirs. Barring the Eastern region, all regions have reported lower water storage positions this year. High water levels are critical for the ongoing rabi sowing season.*
- *Rural income stress has cast its shadow on demand for fast moving consumer goods (FMCG), said the industry executives at the CII's FMCG summit. According to them, while urban demand for FMCG was rising, there is yet to be a revival in rural demand.*

Indian Economy: Economic & Policy Briefs

- *Indian economy expanded by 7.6% (y-o-y) in Q2, FY24, driven by rich government spending (both consumption & investment) and a rebound in manufacturing, mining & construction activities. A favourable base from the previous year also helped.*
- *According to S&P Global Ratings, India's growth prospects will remain strong in the medium term, with GDP growing by 6.4-7.0% annually in the fiscal years 2024-2026. India's robust domestic activity is likely to offset headwinds from high food inflation and weak exports.*
- *The Monetary Policy Committee (MPC) of RBI kept the policy rates unchanged in its monetary policy review on Dec 8th amid rising risks to inflation on the back of rising food inflation. The MPC also retained the policy stance at "withdrawal of accommodation." While interest rates on loans and deposits are set to remain unchanged, certain segments of loans are expected to cost more as the RBI recently hiked risk weights on consumer credit exposure of banks and NBFCs, credit card receivables, bank credit to NBFCs, etc.*
- *Almost a third of the personal loans of Rs 41 trillion of banks is unsecured, according to rating agency Care Edge Ratings. Unsecured credit growth was primarily facilitated by the advent of fintech and digital channels.*
- *India's headline CPI inflation increased from 4.87% (y-o-y) in Oct 2023 to 5.55% (y-o-y) in Nov 2023, primarily led by a sharp pick up in "food & beverages" inflation from 6.29% to 8.02% in just a month's time. However, core CPI inflation further eased to 4.12% in November from 4.25% in the previous month. India's annual WPI inflation re-entered into a growth zone after a gap of eight months and stood at 0.26% in Nov 2023 versus -0.52% in the previous month, led by a sharp annual increase in food and minerals' inflation rates.*
- *The RBI in its latest report on State Finances, has raised concerns over the fiscal management of some states as they have exceeded the target of a budgeted fiscal deficit of 4.0% of GSDP in the current fiscal. These states are Arunachal Pradesh, Goa, Himachal Pradesh, Manipur, Punjab, Sikkim, Tripura and J&K. The national average is 3.1%. These states have debt levels surpassing 35% of GSDP compared to the national average of 27.6%.*
- *India's central government is likely to stick to the budgeted estimate of a total tax collection target of Rs 33.61 trillion for the current fiscal in the revised estimates, as per the Ministry of Finance officials. So far, direct tax collection is up 20.0% and indirect tax is higher by 5.0%. We have data for the first eight months of the fiscal year.*

Indian Economy: Industry & Services Sectors

- *India's industrial production growth accelerated to 16-month high of 11.7% in October, mainly due to double-digit growth in manufacturing, power and mining sectors' output. During April-October 2023-24, the IIP growth works out to be 6.9%, up from 5.3% in the corresponding period a year ago.*
- *The third quarter of 2023 saw a major boost in demand for consumer durables. Less-price sensitivity and boosted affordability due to EMI offers, augured well for premium products. Demand for consumer durables was also influenced by seasonality.*
- *Sales volumes of two & three wheelers rose by 0.38 million units from 1.61 million units in November 2022 to 1.99 million units in November 2023, which represented a 24.2% growth in sales volumes.*
- *According to the Services Export Promotion Council (SEPC), India's services exports touched US\$*

192 billion so far in this financial year. It is expected to reach US\$ 400 billion by the end of FY24. The SEPC said that sectors such as telecom, computer, information, and transport and travel, have recorded healthy growth rates.

- *Hiring mandates put out by IT services companies are showing a 5-6% year-on-year increase in hiring as of Dec 2023, according to data sourced by The Economic Times. Recruitments in the IT sector had almost frozen in the last couple of quarters due to weak tech demand globally. Several IT companies now expect a revival in hiring in 2024, with improvement in IT spending.*

Indian Financial Markets

- *As per the RBI's data, at the end of the trade on Dec 14th, liquidity in the banking system was in a deficit of Rs 442.85 billion as against Rs 387.75 billion on Dec 13th. Liquidity deficit marginally widened on account of the first tranche of advance tax payments which took place.*
- *To take care of the liquidity deficit, the RBI conducted a seven-day variable rate repo auction for a notified amount of Rs 1 trillion today (Dec 15th).*
- *Government bonds and the rupee gained on Dec 14th after the US Federal Reserve meeting signaled an end of the rate tightening path and raised expectations to cut interest rates thrice in 2024. Between Dec 13 & Dec 15, the yield on 10-Yr GOI paper has declined by 8 bps to 7.18% and the rupee has gained 0.25% against the US dollar to 83.19.*
- *However, there was no runaway rally in the corporate bond market. The rally in government bonds did not translate into corporate bonds due to an expected increase in the supply of issuances and a persistent crunch in the banking sector liquidity.*
- *Indian stocks too responded positively to the dovish comments from the US Federal Reserve. Hopes of political stability in 2024, an improving macroeconomic backdrop, the weakening dollar & US bond yields amid expectations of a 2024 US rate cut cycle have fueled bullish momentum in Indian stock markets.*
- *The US Energy Information Administration (EIA) has revised its Brent oil price forecast downwards for 2023 and 2024 in the latest Short Term Energy Outlook (STEO), released this week. The revised forecast predicts the Brent spot price to average at \$82.40 per barrel in 2023 (versus \$83.99 predicted earlier) and at \$82.57 per barrel in 2024 (versus \$93.24 predicted earlier).*

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