Macro Perspectives

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L&T Financial Services

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Global Briefs

- Releasing their outlook at the WEF Annual Meeting 2022 at Davos, ***the World Economic Forum's Community of Chief Economists said it expected lower economic activity, higher inflation, lower real wages and greater food insecurity globally in 2022***, pointing to the devastating human consequences of the fragmentation of the global economy.
- The International Monetary Fund (IMF) too has warned against global economic fragmentation as a consequence of Russia's invasion of Ukraine, saying that ***undoing decades of integration will make the world poorer and more dangerous***. The IMF may need to further trim forecasts for economic growth this year but doesn't expect a global recession yet.
- According to the International Labour Organisation (ILO), ***the global job market is at risk of doing a U-turn on its path towards recovering to pre-Covid-19 levels as lockdowns in China and the war in Ukraine weigh on economies***. The agency estimated that there was the equivalent of 112 million fewer full-time jobs in Q1, 2022 compared with pre-Covid levels.
- In its report titled "Profiting from Pain", the Oxfam International said ***as the cost of essential goods rises faster than it has in decades, billionaires in the food & energy sectors are increasing their fortunes by $1 billion every two days.*** The Covid-19 pandemic has seen one new billionaire emerging every 30 hours, while nearly one million people could be pushed into extreme poverty every 33 hours this year.
- ***Global central banks hoping that high inflation would ease through improving global supply chains saw little relief through April as new coronavirus lockdowns in China and the war in Ukraine lengthened delivery times and drove costs higher***, new analyses from the New York Federal Reserve and others indicates.

Indian Agricultural & Rural Scene

- ***Rating agency Moody's has warned that the prolonged high temperatures are credit negative for India*** as that could exacerbate inflation and hurt growth. Persistent high temperatures, which are affecting much of the northwest of the country, will curb wheat production and could lead to extended power outages.
- ***India banned wheat exports earlier this month as a severe heat wave reduced output and domestic prices reached all-time highs***. However, the country has stated that it will continue to allow exports to countries that request supplies "to meet their food security needs." Kristalina Georgieva, the head of the IMF, urged India on May 24 to reconsider its ban on wheat exports, saying the country could play an important role in international food security and global stability.
- ***There is a stalemate in the Indian wheat market as traders and exporters await policy clarity, following the restriction on exports last week***. Large exporters continue to hold on to their stocks and have stopped taking further deliveries from suppliers. This has led to local prices of the staple to rebound to pre-ban levels of Rs.2,250-2,300 per quintal, about five per cent above the minimum support price.
- ***At least 66 districts (9%) in India, a majority from Gujarat (25), UP (14) and Maharashtra (11), have still not received any pre-monsoon showers (from March till May 23)*** despite a good rain forecast for May.

India's Economic & Policy Briefs

- ***India's CPI inflation continued to rise in a more broad-based manner, reaching an eight-year high of 7.8% in April and surpassing the RBI's upper bound for the fourth month in a row.*** India's WPI inflation crossed 15.0% in April & was at the highest level in at least nine years, driven by higher food & fuel prices. With prices of key inputs like metals & chemicals in double digits, it won't be too long before these start being reflected in retail prices.
- Concerned over various factors like rising inflation, external sector pressures (capital outflows, higher trade deficit, weaker rupee) and the expectation of aggressive tightening by the US Federal Reserve and the perception that the RBI had fallen behind the curve, ***the MPC (RBI) raised the policy repo rate by 40 bps and CRR by 50 bps in an off-policy cycle in the first week of May, 2022. This made the effective rate higher by 80 bps, as there was a rate action in the April policy via SDF*** (i.e., Standing Deposit Facility).
- The RBI has approved the payment of Rs 303.1 billion as dividend to the government for FY22 versus the dividend of Rs 991.22 billion for FY21 by maintaining the contingency risk buffer at 5.50%. ***The dividend payment comes after the economy comes under stress from the war in Ukraine and fears for the world economy.***

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- ***India's Central Government too has taken five major steps to slash down food & fuel inflation.*** The government has permitted the import of 2 MT of crude soy and sunflower oil per annum, for two years, at zero customs duty. It has also cut basic customs duty on crude palm oil to 10% till September. It has put a cap on the sugar exports and included it under the 'restricted category' with effect from June 1. It has also banned wheat exports to bring stability to wheat prices. It has reduced central excise duty on petrol by Rs 8 per litre and by Rs 6 on diesel to reduce the price of petrol by Rs 9.5 per litre and diesel by Rs 7. States like Kerala, Rajasthan, Maharashtra, Odisha and many more also reduced the value added tax on the fuel prices following the central government announcement. This will have a wide effect on the prices of food and all other goods due to lower transportation costs. Last but not the least, the Government has decided to give an additional Rs 1.10 trillion to the farmers as a fertiliser subsidy.
- ***According to analysts, the government's recent moves could hurt growth and its fiscal deficit could widen by 40-50 bps.*** Moreover, higher borrowing costs due to rate hikes and measures such as export taxes (that can slow capital spending) will hurt growth prospects.
- ***Over the past few months, the RBI has brought out the heavy artillery to defend the rupee, but another significant drop in its arsenal of reserves will be alarming for foreign investors,*** says Abhishek Goenka, founder and chief executive officer at IFA Global in an interview to Informist. India's foreign exchange reserves stood at $593.28 billion as on May 13, down around $49 billion from the peak in October. During the same period, the rupee depreciated over 9% against the US dollar as the war between Russia and Ukraine, as well as the prospect of policy tightening by major central banks pushed emerging markets out of favour.
- ***India's merchandise exports rose by 21.1% (y-o-y) to USD 23.7 billion during 1-21 May 2022, according to government official.*** The key sectors that recorded healthy growth in exports include petroleum products, engineering goods and electronic goods. During the period under review, petroleum products, engineering and electronic goods' exports grew by 81.1%, about 17% and about 44%, respectively.

India's Industrial & Services Sectors

- ***India Ratings and Research (Ind-Ra) has given a neutral outlook for the infrastructure sector for FY23, with negative outlook for airports and wind power projects.*** According to the ratings agency, headwinds for infrastructure sectors during FY23 are downward revision in economic outlook, elevated commodity prices, rising interest rates, land acquisitions delays, construction stage risks and counterparty risks.
- ***The rise in global interest rates and the depreciation of the rupee is likely to reduce the appetite of India Inc to mobilise funds through external commercial borrowings (ECBs)*** in the coming months.
- ***Weak rupee has adversely impacted the fast moving consumer goods companies.*** Prices of many inputs, including packing materials, are linked to the value of the rupee as well as global commodity prices.
- ***As per the FADA data, during April, 2022 apart from passenger vehicles and tractors which grew handsomely by 12% & 30%, two-wheelers, three-wheelers and commercial vehicles are yet to turn green*** as these categories were down by -11%, -13% & -0.5%, respectively.
- ***India's services exports touched a record high in 2021-22 largely led by software services, and professional and management consulting services***, even as contact sectors like travel, recreational services, and construction remained affected due to the pandemic.

Indian Financial Markets

- ***Liquidity in the Indian banking system is currently estimated to be in a surplus of Rs 3.30 trillion.*** Liquidity surplus has narrowed due to outflows on account of GST payments and a hike in the CRR of banks that sucked out around Rs 870 billion from the banking system.
- ***Government bond market is witnessing very high volatility***. The yield on 10-Yr benchmark paper had touched a high of 7.40% on May 4th, when RBI tightened the policy off-cycle in an aggressive fashion. This was up by 67 bps since the beginning of this year. While the movement in US treasury yields and crude oil price influence day to day movement in the G-Sec yields, concerns over India borrowing extra due to the Government's fiscal measures are weighing on the sentiment. Traders will closely observe the impact of the government's growth boosting & inflation curbing measures on the Government's revenues.
- ***Yields on corporate bonds are confined to a narrow range*** currently amid very low trade volumes. Everybody is waiting for the June policy action. While the shorter-end segment still sees some traction, the longer-end segment remains muted due to lack of supply.

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- ***The rupee has been depreciating against the US dollar on worries of stagflation and aggressive interest rate hikes by the US Federal Reserve.*** In May alone, the rupee has dropped to a record low five times. The rupee now at 77.53 (on May 25th), closed at a record low of 77.74 to a dollar on May 19th. This was the fifth time that the rupee had hit a record low during the month. Foreign outflows from India's equity and debt market have been "quite significant" of late ($4.38 billion in May 1-24), and if the trend continues, the rupee could depreciate towards 78.50 within two-to-three month, according to Forex experts.
- ***As per the Reuter's poll, Indian equity markets will mark their first annual decline in seven years in 2022 as higher interest rates and weakening growth prospects reduce the chances of a quick rebound from this year's already sharp drop.*** India's benchmark BSE Sensex has fallen by 9.32% so far during FY23.
- ***Brent crude price rose to $114.55 a barrel on May 25th, buoyed by tight supplies and the prospect of rising demand from the summer driving season in the US*** – the world's biggest crude consumer. Global crude supplies continue to tighten as buyers avoid oil from Russia, the world's second-largest exporter.

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