Macro Perspectives

October 17, 2022

L&T Financial Services

Dr. Rupa Rege Nitsure
Group Chief Economist

Global Briefs

- **The International Monetary Fund (IMF) now expects global economic growth to slow down by almost 0.2 percentage points in comparison to its July forecast.** According to the latest data, the global economy will grow by 2.7% in 2023 resulting in recession in some countries. This is the "weakest growth profile" since 2001, excluding the acute phase of Covid-19 pandemic and the global financial crisis.
- **The IMF prediction reflects "significant slowdowns" for the largest economies** as America's GDP contracted in the first half of 2022, followed by the Euro area's contraction in the second half of 2022, and prolonged Covid-19 outbreaks and lockdowns in China with a growing property sector crisis.
- **In its new report, the UNDP has estimated that 54 countries, accounting for more than half of the world's poorest people, now need immediate debt relief** to avoid even more extreme poverty. A serious debt crisis is unfolding across developing economies, and the likelihood of a worsening outlook is high. The warning comes as the IMF & World Bank hold meetings in Washington this week amid rising global recession worries & a crop of debt crisis from Sri Lanka, Pakistan, Chad, Ethiopia and Zambia.
- **The US CPI inflation advanced to a 40-year high in September to 8.2% (y-o-y) with the core CPI at 6.6%.** US policymakers have responded with the most aggressive tightening since the 1980s, but so far, th labour market & consumer demand have remained resilient. The unemployment rate returned to a five-decade low in September, and businesses continue to raise pay to attract and retain the employees to meet demand.
- **EM governments that borrowed heavily in dollars when interest rates were low are now facing a surge in refinancing costs, evoking flashbacks to Asia's 1990s debt crisis** and stoking fears of a default wave. Sovereign dollar bonds from a third of the countries in Bloomberg's EM Sovereign Dollar Debt Index are trading with a spread of 1000 bps or more over US Tresuries, a generally accepted metric of distress.
- **On the eve of a landmark Communist Party congress that's set to confirm Xi Jinping's third term in power, China's economy is confronted with one of its most challenging periods** in decades as household & business confidence plummets. This is largely a condequence of Xi's zero-tolerance approach to combating Covid infections and a crack-down on property sector debt.
- **British Prime Minister Liz Truss, just over a month into the job, is already seen as increasingly unlikely to ride out the turbulence within her own Conservative party** & the financial markets, with her former leadership rival Rishi Sunak the odd-on favourite to make a comeback for 10 Downing Street.

Indian Agricultural & Rural Scene

- **The mood about Rabi sowing is quite buoyant.** Area sown under mustard saw a sharp increase during the week ended 14 October 2022 to around 0.43 million hectares, as against 69 thousand hectares during the same period last year. Reportedly, in case of wheat, area under cultivation is expected to be at least 10% higher on year, due to remunerative prices and favourable weather conditions.
- **Foodgrain stocks, including rice and wheat, in the central pool managed by the Food Corporation of India were 51.1 MT as of 1st October 2022.** It is 66% higher than the buffer norm and strategic reserve of 30.7 MT.
- **India's central government is expected to soon announce the nutrient-based fertiliser subsidy for the rabi season**. The rates for the same are likely to increase compared to the kharif season. Companies have already imported the required quantity to ensure sufficient availability during the sowing season.
- **It is time for rural demand to make a comeback, believes global financial services firm Morgan Stanley.** Wider reopening, improving labour market conditions and enhancing terms of trade for the rural sector will aid this recovery, according to the firm.

India's Economic & Policy Briefs

- **India is facing a variety of risks like falling Forex reserves, rising current account deficit (CAD), prolonged high inflation, tighter monetary policy conditions, etc., that may shake its sovereign credit metrics, S&P Global Ratings said on Oct 12th.** Currently, the agency has 'BBB- with a stable outlook' investment grade on India.

L&T Finance holdings Limited
Brindavan, Plot No. 177
C. S. T Road, Kalina, Santacruz (E)
Mumbai - 400 098, India

T +91 22 6212 5343
E rupa.nitsure@ltfs.com

- **While the World Bank has revised India's GDP growth projection for FY23 downwards to 6.5% from 7.5% earlier, the IMF has cut it to 6.8% from 7.4% earlier,** both citing the reasons like prolonged Russia-Ukraine war, tighter financial conditions, weak external demand, etc. UNCTAD has pegged India's growth in 2022 at 5.7%.
- **India's merchandise exports grew by 4.82% (y-o-y) in September to touch an eight month low of $35.45 billion, while imports growth slowed to 8.66% (y-o-y) to a five month low of $61.16 billion during the month,** narrowing the trade deficit to $25.71 billion, as per the data released by the ministry of commerce and industry. India's CAD widened to $23.9 billion in the quarter Apr-Jun, 2022 from $13.4 billion in Apr-Jun, 2021. At this level, the CAD amounts to 2.8% of GDP.
- **India's WPI-based inflation eased to 10.7% in Sept from 12.4% in Aug on the back of moderation in global commodity prices and a favourable statistical base but CPI-inflation spiked to a five-month high of 7.4% from 7.0% between Aug & Sept,** primarily due to higher prices of food articles, esp vegetables & fruits and sticky core inflation. The last MPC minutes showed divergent views of MPC members on the future rate trajectory, with financial stability increasingly in focus.
- **According to Reuters news, Indian consumers are lapping up everything from cars, houses & television sets to travel & jewellery in the festive season** that began in September as revealed by the early data-points. This is expected to give a fillip to growth prospects despite economic gloom elsewhere in the world.
- **Indian banks' credit growth accelerated to 16.3% (y-o-y) for the fortnight ended Sept 23rd,** while deposit growth was at 9.0%. It can be noted that the current fiscal has seen a steady rise in credit growth due to economic growth, borrowers' shift to banks as against other credit substitutes amid rising interest rates and other factors.

India's Industrial & Services Sectors

- **Over the past five months, India's power demand has increased by around 11%.** After expedited efforts to import coal amid a fuel crisis earlier this year, Coal India Ltd, the country's biggest coal miner, is now finding it tough to get buyers for its imported coal lying at the ports.
- **India's domestic air travel is back to pre-Covid levels while international traffic is lagging** because of continued restrictions in some countries. Aviation turbine fuel or jet fuel demand jumped 22.1% (y-o-y) to 264,00 tonne during the first half of October 2022.
- **Indian Railways recorded a revenue growth of 92% (y-o-y) in its passenger segment during Apr to Oct 8th 2022.** Over 74% of Indian railway's revenue comes from its freight operations though. Railways had recorded 25 straight months of best-ever monthly freight loading till September this year.
- **India's industrial production showed a contraction of 0.8% (y-o-y) in August. However, many leading indicators of demand have started showing an uptick in Aug-Sept 2022.** Retail sales in India grew by 21% (y-o-y) in Sept, 2022 over pre-Covid Sept, 2019, according to survey by Retailers Association of India (RAI). RAI attributes this growth to the arrival of festive season. Automobile sales too increased across categories in Sept, 2022 as manufacturers sent more vehicles to dealerships in order to meet demand during the festive season. An end of rainy season has brought good news to India's cement companies, as demand is growing from sectors such as infrastructure & construction. Cement firms have regained their pricing power on improving demand conditions.

Indian Financial Markets

- **Liquidity in the Indian banking system is estimated in a surplus of over Rs 114 billion today (Oct 17)** as against a deficit of Rs 25.59 billion on Friday (Oct 14). Liquidity has returned to surplus today because of some inflows on account of government spending.
- **The benchmark yield on India's 10-Yr bond has surged from 7.08% on Sept 13th to 7.48% on Oct 10th** led by the RBI's aggressive tightening amid hawkish US Federal Reserve. However, the recently released MPC minutes showed that some MPC members are growing increasingly uncomfortable with the sharp rate hikes. This has reduced the nervousness in the Indian G-Sec market. Yield on the US 10-Yr treasury too declined today 3.95% from the Friday's (Oct 14) level of 4.0%. Taking cues both from the MPC minutes and a fall in the US treasury yields, the benchmark yield fell to 7.40% today (Oct 17) from 7.47% on Friday. G-Sec traders expect the benchmark yield to trade in a narrow range of 7.40% to 7.50% in the absence of any major negative trigger.
- **The yield curve had flattened significantly in the past one month** as short-end bonds were pricing in sharp rate hikes in line with the Fed's aggressive stance. However, after the MPC minutes got released last week, short-term bond yields plunged. The fear of an off-policy rate hike in November has eased after the minutes.

L&T Finance holdings Limited
Brindavan, Plot No. 177
C. S. T Road, Kalina, Santacruz (E)
Mumbai - 400 098, India

T +91 22 6212 5343
E rupa.nitsure@ltfs.com

- **Yields on corporate bonds too fell in the secondary market today (Oct 17), tracking a similar movement in gilt markets**. However, the fact that liquidity is running low and festive season is also there, the rates are not expected to get corrected significantly.
- **During the current financial year so far, Indian rupee has depreciated by 8.7% until October 17th.** The rupee for a longer period remained the best median performer, though could not hold its fortress against the US dollar on the back of aggressive rate hikes by the US Federal Reserve. With a stronger US non-farm payroll data and sticky inflation, the probability of more number of aggressive rate hikes by the Fed remains very high. According to some Forex traders, if the RBI sets the rupee free in line with peers, the currency can move towards 84 per US dollar in the medium term. On the flip side, 81.20 and 80.50 shall act as the strong support for the US$-INR pair.
- **Stock markets across the globe are suffering from persistent volatility as inflation has kept investors on their toes**. Foreign investors have pulled out nearly Rs 75 billion from the Indian equity markets in the first two weeks of October on concerns of monetary policy tightening by the US Federal Reserve and other central banks globally, which could hamper global economic growth. Apart from India, FPI flows were negative for the Philippines, Taiwan and Thailand this month so far.
- **Both domestic and international crude oil prices are currently weighed down by concerns about the outlook for energy demand amid the rising possibility of a global recession.** The Brent crude price has eased from $96.19 per barrel on Oct 10 to $92.01 on October 17th.

Disclaimer: The views expressed in this newsletter are personal views of the author and do not necessarily reflect the views of L & T Financial Services. 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 Financial Services 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 with regard to the same. L&T Financial Services 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 Financial Services Group liable in any manner whatsoever and L&T Financial Services 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.

L&T Finance holdings Limited
Brindavan, Plot No. 177
C. S. T Road, Kalina, Santacruz (E)
Mumbai - 400 098, India

T +91 22 6212 5343
E rupa.nitsure@ltfs.com