Macro Pulse
Report

April 2024

From the desk of the Chief Economist

Dear Readers,

We are in the middle of the "Great Indian Summer" with intense heat conditions prevailing over large parts of the country. But the heat is not only from the weather but also the general election activity continuing across India. The voting for all the constituencies are set to conclude by June 1 and the results are to be announced on June 4. While there is a significant expectation around the return of the ruling party, an element of uncertainty always creeps in before the announcement of such results.

Going by the high frequency economic indicators, the Indian economy has continued with the momentum that it picked up in the previous fiscal. GDP growth in FY24 is now expected to be north of 7.8%. The volume growth in retail automobile sales in Apr-24 has been a robust 27% which highlights a possible revival in the rural markets apart from the pre-election demand. There are signs of a steady pickup in private capital expenditure. The likelihood of the announcement of new economic reforms is also high after the election results. Currently, we peg the GDP growth for FY25 at 6.7% with the base factor also coming into play.

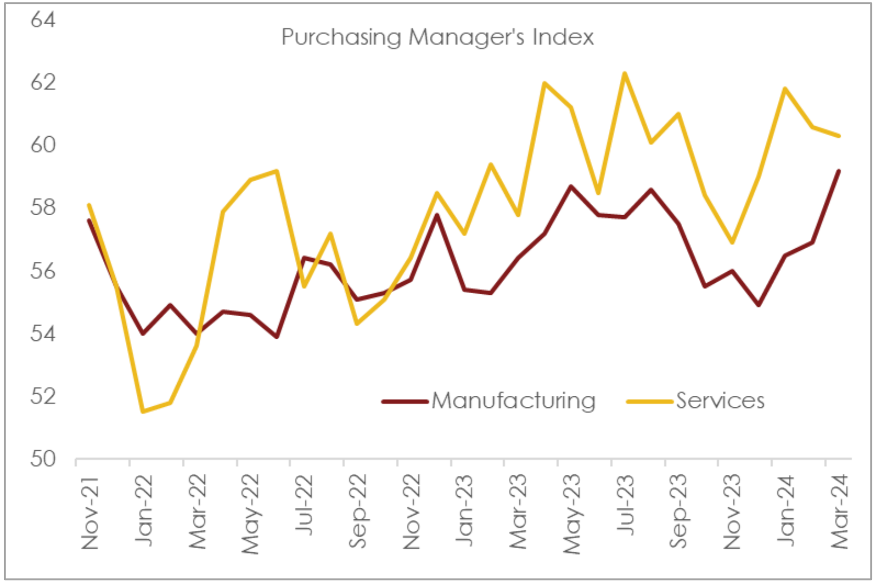
Globally as well as in India, inflation is facing resistance while moving downwards towards the targets set by the central banks. The resilience in economies like the US has not allowed retail inflation to move below 3.0%, actually a reversal in the inflation path has been seen. In India, headline retail inflation is likely to hover around 5% given the stickiness in food inflation that has been in evidence over the last few months in addition to the seasonal impact expected in the summer months. The implication of sticky inflation and economic resilience implies a prolonged wait for rate cuts, both in US and in India. Clearly, there is a significant uncertainty today whether any rate cuts will be announced by Fed or RBI in calendar 2024. This will keep foreign capital flows volatile for a longer period.

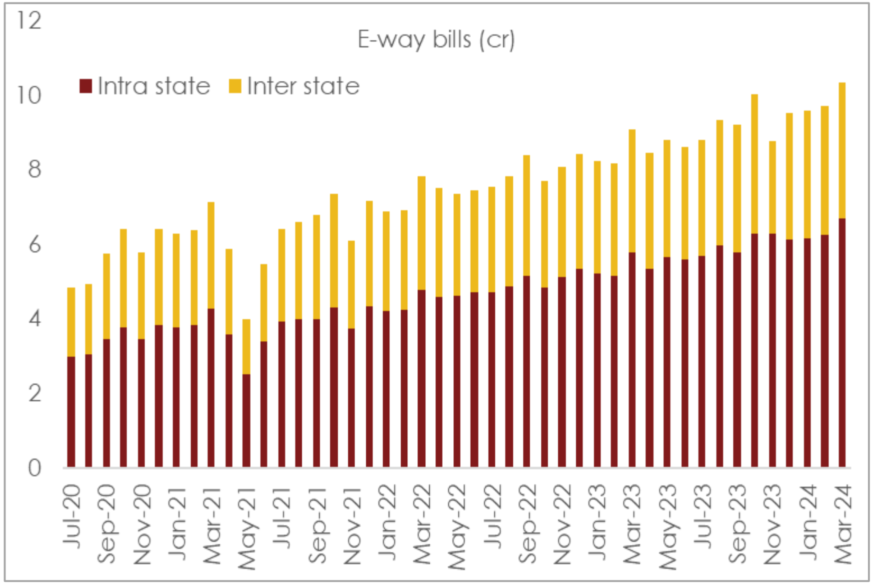
But as long as the Indian economy chugs along and the monsoon obliges this year, we don't have much to worry about. Cheers,
- Suman Chowdhury, Chief Economist and Head – Research

Q4 FY24: Economic activity remained resilient

Domestic economic activity remained resilient in Q4 FY24, as validated by high frequency indicators such as PMI, GST collections, Auto sales, Cargo traffic among others.

Q4 economic activity is likely to have found support from – (i) Net exports being less of a drag as global growth momentum remains conducive (ii) Rabi production holding up well and (iii) Tensions in Red Sea region not having any major impact

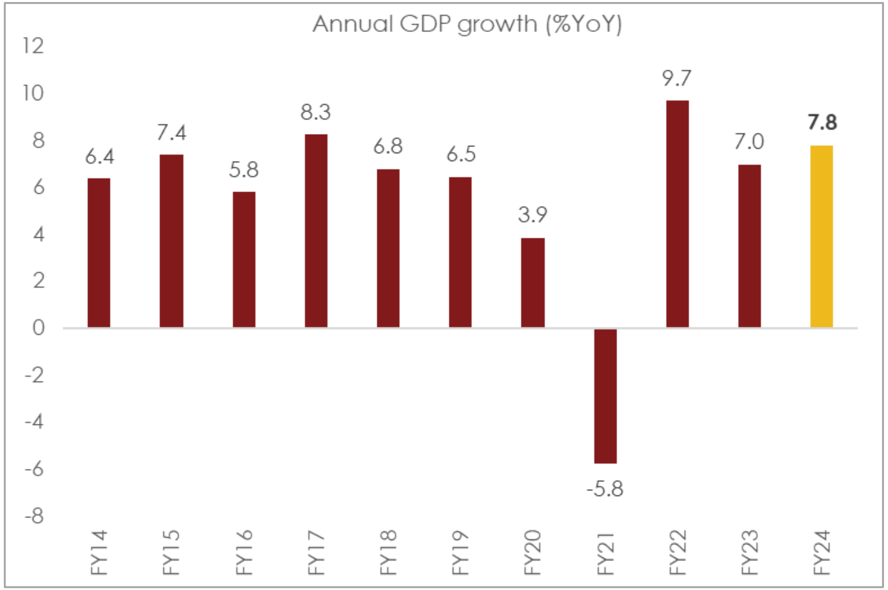


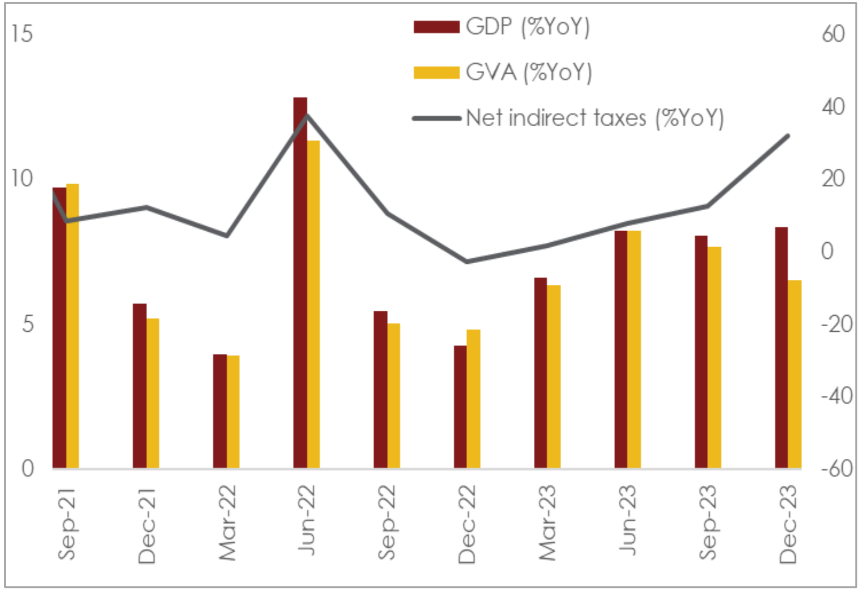


We peg FY25 growth at 6.7%

As such, basis data available so far, we believe there is a strong possibility of an upside to NSO's implied Q4 FY24 GDP/GVA growth pegged at 5.9%/5.4% respectively.
As per our computation, FY24 GDP growth therefore could be revised up by 20 bps to 7.8%

For FY25, we continue to hold a view of a moderation in growth. The wedge between GVA and GDP growth seen in FY24 should correct in FY25. As such, we expect GDP to moderate by ~100 bps, but GVA to ease more modestly by ~50 bps i.e., to 6.7% and 6.5%, respectively.



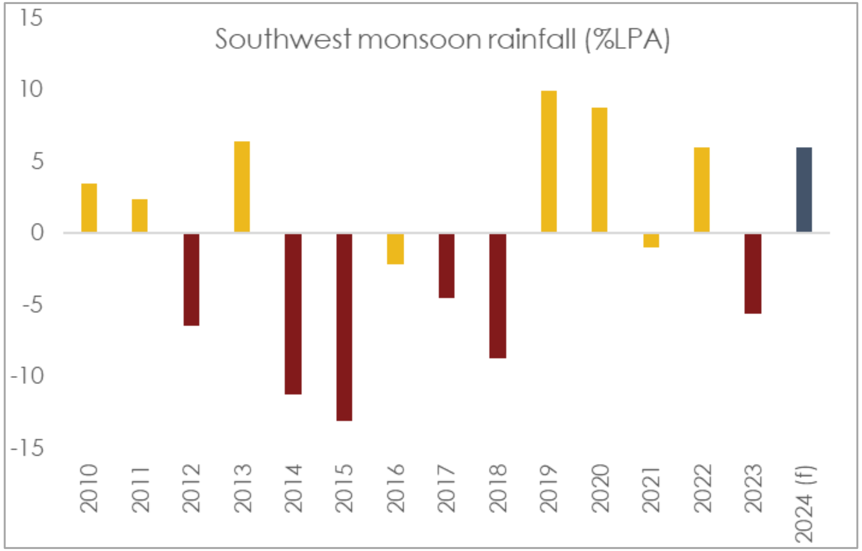


Growth expectations converging higher for FY25 now

Global institutions, including credit rating agencies, have revised up India's FY25 global growth forecast, now largely converging in the range of 6.8-7.0%

Agency	FY24		FY25	
	Previous	Revised	Previous	Revised
IMF	6.7	7.8	6.5	6.8
ADB	6.7	7.6	6.7	7.0
World Bank	6.3	7.5	6.4	6.6
S&P	6.4	7.6	6.4	6.8
Fitch	6.3	7.8	6.5	7.0

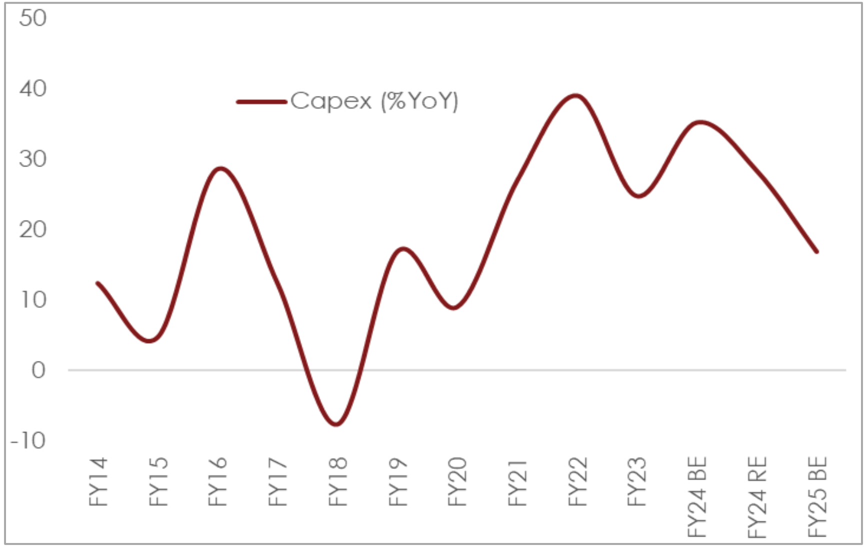
A strong support to domestic growth in FY25 is expected from 'Above normal' monsoon activity, pegged at 106% of LPA by Indian Meteorological Department (IMD). Historically, we find evidence of agriculture growth overshooting long term trend sizably, in years of 'Above normal' monsoon activity.

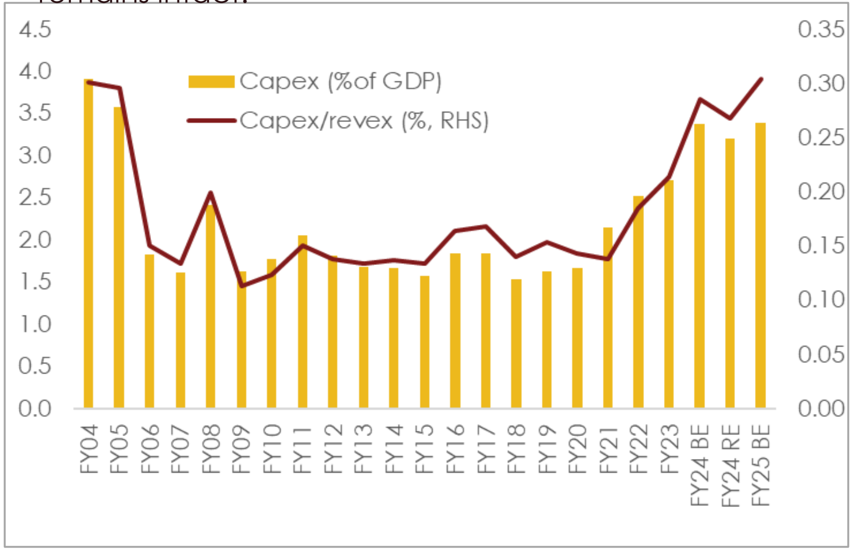


Capex support to growth intact

The interim budget, keeping in mind the aim to consolidate meaningfully on fiscal deficit, had to somewhat take the pedal off from capex spending. In annualized terms, capex is budgeted to grow by ~17% in FY25, compared to >30% growth on average in the last 4 years.

The slowdown in the pace of capex spending notwithstanding, capex as a % of GDP is expected to improve to 3.4% in FY25 from 3.2% in FY24, along with an improvement in quality of spending (ratio of capex/revex) – underscoring that the capex thrust of the Government remains intact.



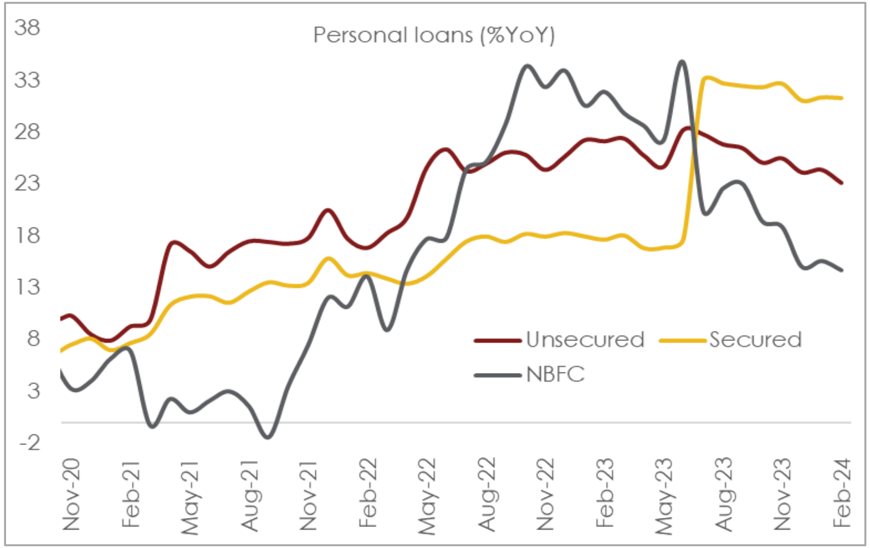


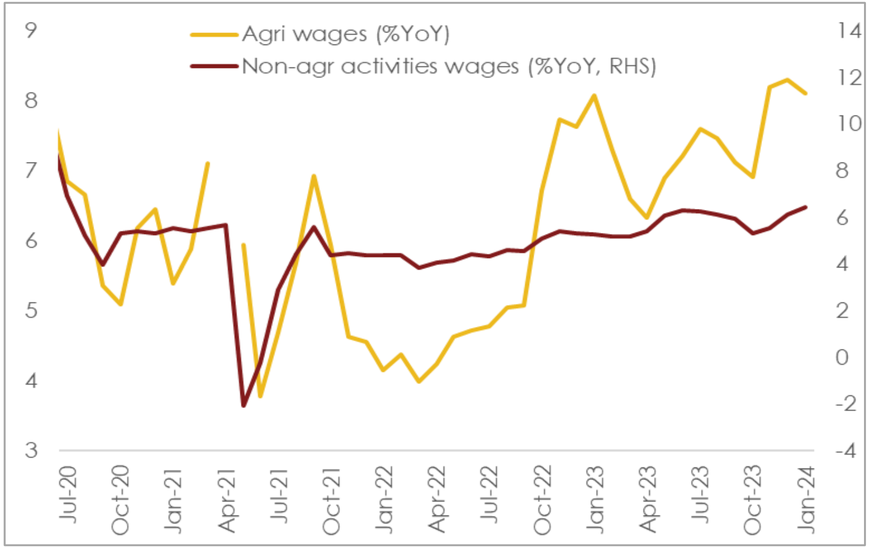
The recently released BJP manifesto ahead of national elections reinforces Government's focus on developing world class infrastructure, if elected to power again.

Urban consumption to face headwinds, rural on recovery path

While urban consumption has held up well so far, impact of lagged monetary policy tightening as well as regulatory measures to curb the pace of unsecured lending, are expected to weigh on its pace in FY25. We note bank lending to NBFC sector has nearly halved since its peak as of Jun-23

In contrast, rural consumption could continue to gradually recover aided by healthy growth in agriculture wages (at 8%+), a healthy Rabi output, moderation in retail inflation along with indirect measures of income support such as reduction in LPG cylinder price, extension of free foodgrain program etc. The expectation of normal monsoon in 2024 too augurs well for the sector.

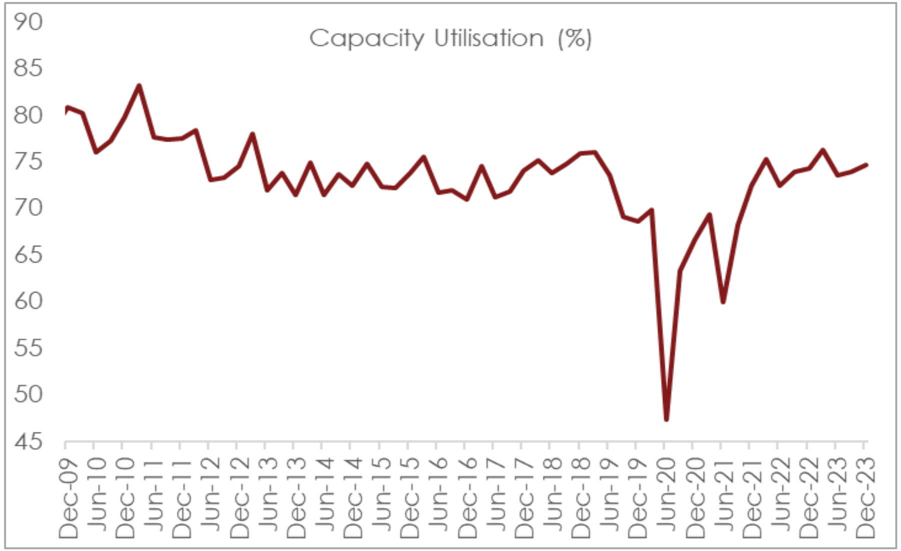


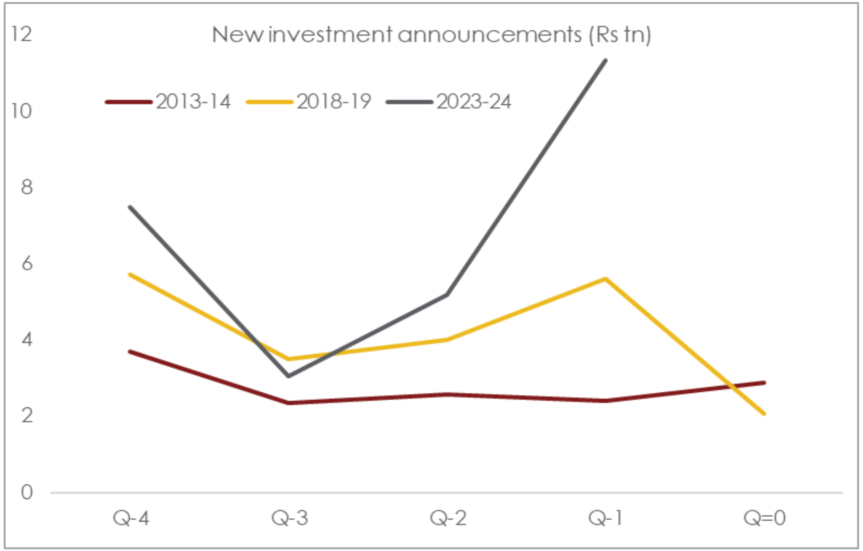


Private capex recovery sees green shoots

Capacity utilisation levels have improved to ~74% on trend basis, over the last 5 quarters as per RBI's OBICUS survey. Despite healthier corporate balance sheets and comfort from global commodity cycle, private capex recovery continues to wait in the wings; expected to pick-up more materially post general elections in FY25

Defying historical trend of new investments typically remaining sluggish prior to general elections, Mar-24 saw new investments worth Rs 11.9 tn being announced - the highest in FY24. For Dec-23 quarter, new investments were revised up to Rs 5.2 tn from Rs 2.1 tn earlier. This further validates the possibility of private capex turnaround in H2 FY25

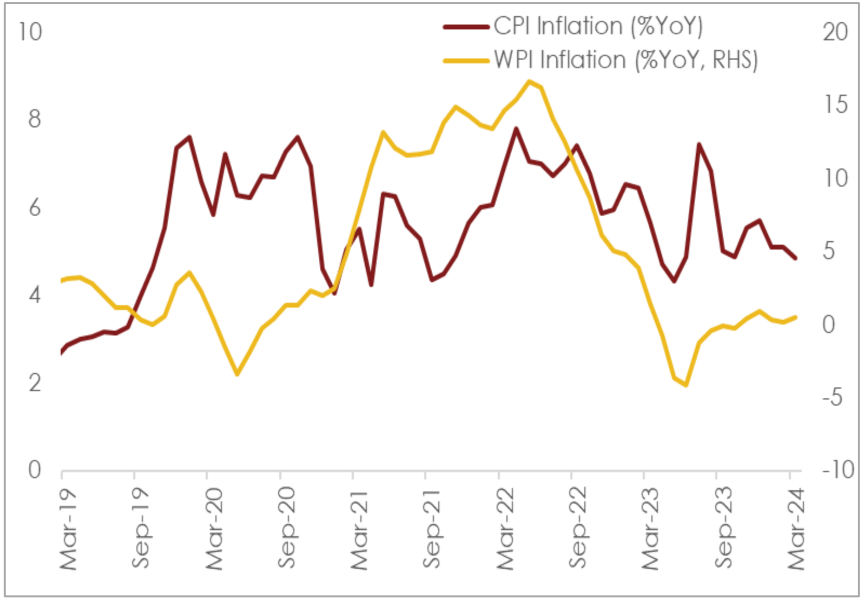


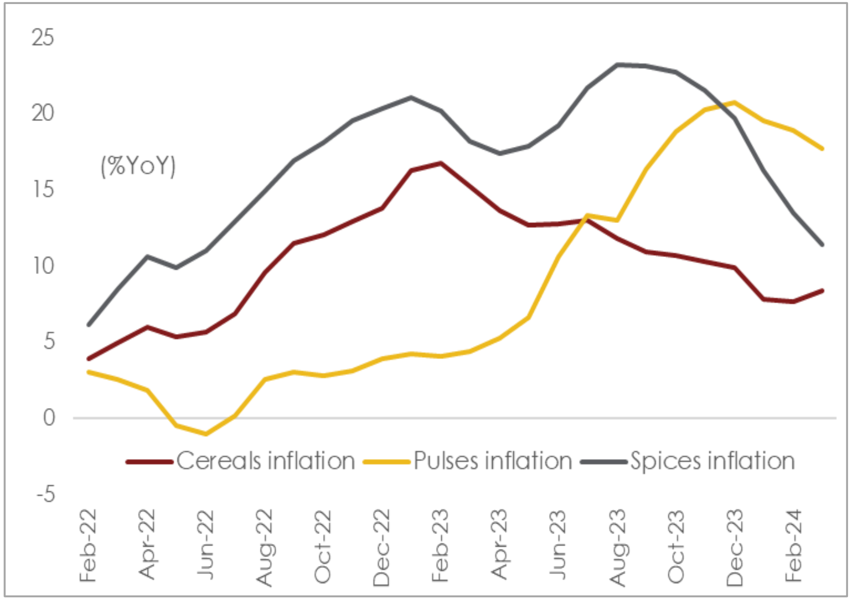


Mar-24 inflation moderates, food remains a concern

India CPI inflation eased to 4.85% in Mar-24 from 5.09% in Feb-24. The key highlight was the strengthening of disinflationary impulse from reduction in retail fuel prices along with persistence of core inflation at record low levels.

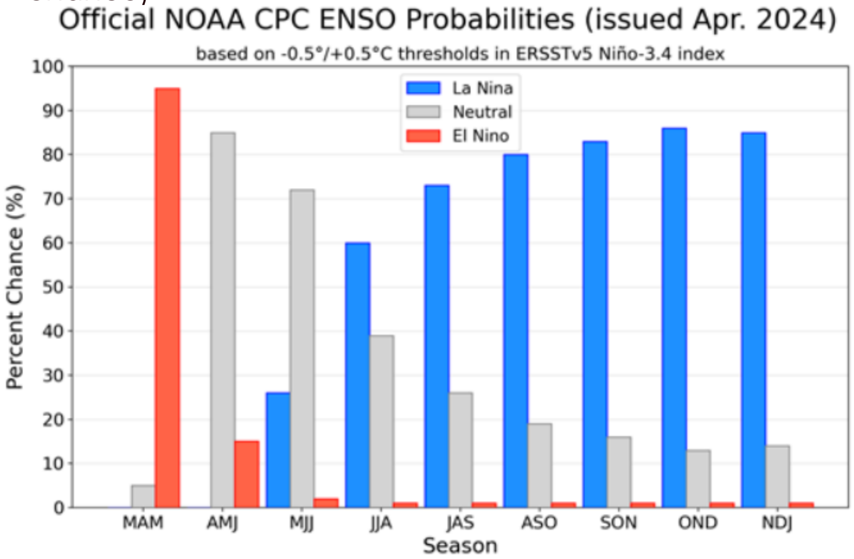
Meanwhile, food inflation continued to display stickiness at elevated levels, for several sub-categories. The expectation of a severe heat wave in Q1 FY25, could keep food price pressures somewhat intact in the near term



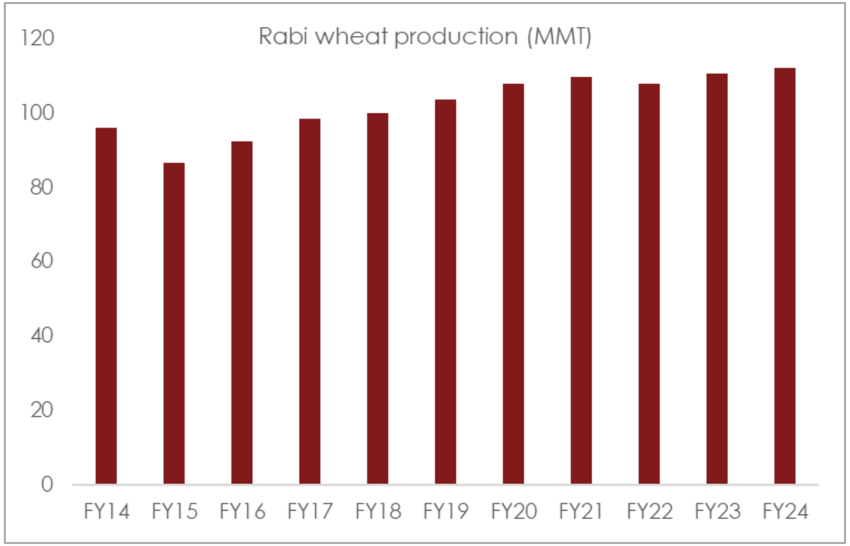


El Nino to turn neutral

The impact of heatwave is however expected to be short-lived, as build-up of La Nina conditions bodes well for a normal monsoon outturn, which in turn should help douse transient food supply shocks. As per NOAA, a transition from El Niño to ENSO-neutral is likely by Apr/Jun-24 (85% chance), with the odds of La Niña developing by Jun/Aug-24 (60% chance)

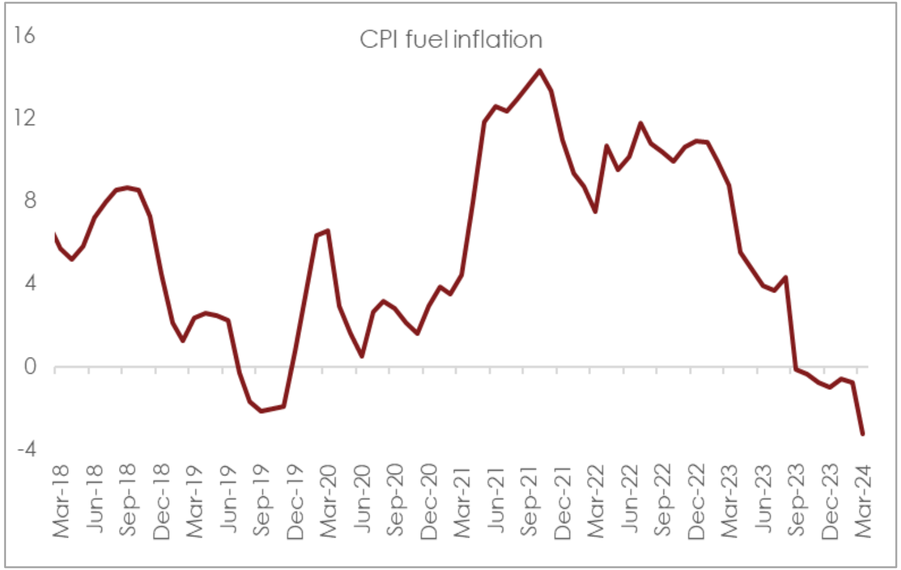


In addition, Rabi wheat output is likely to clock close to Government's estimate of a record peak of 112 mn tons. Procurement for the season is going on in full swing, with the Government targeting to up wheat procurement by 18% to 31 mn tons in 2024 in a bid to replenish its depleting buffer stocks of the foodgrain.

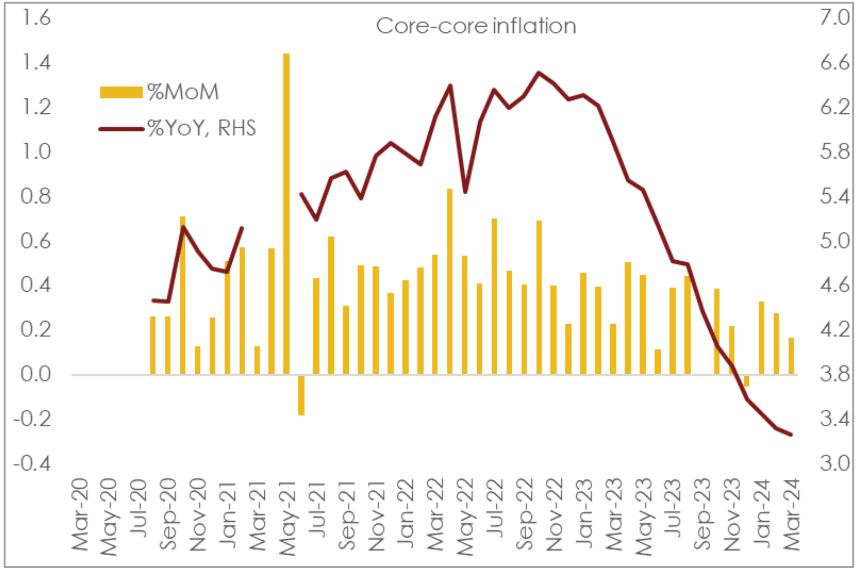


Fuel and core inflation offer comfort

The Rs 100 reduction in LPG cylinder (announced on 8th Mar) and Rs 2 per litre reduction in petrol and diesel prices (announced on 15th Mar) each will continue to keep fuel inflation in check in Apr-24, despite crude oil prices having risen by ~7.0% MTD owing to escalation of geopolitical tensions.



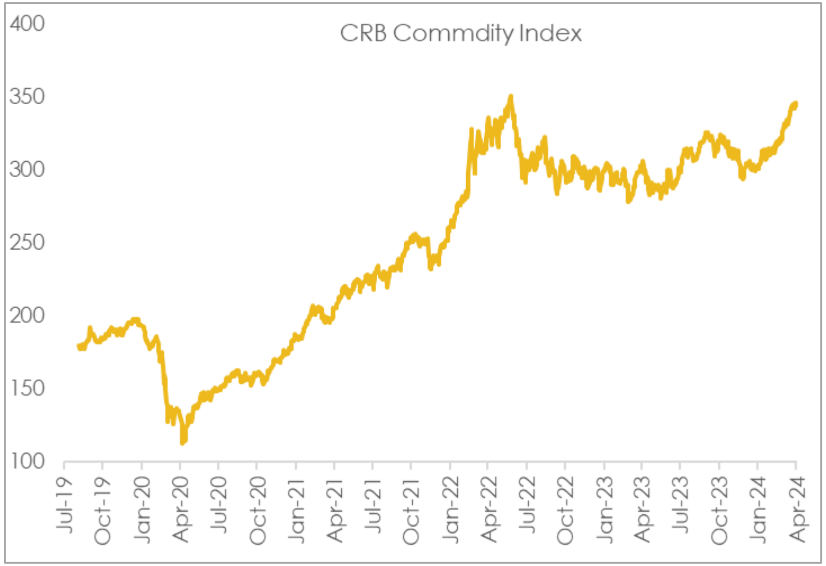
Domestic core inflation continues to moderate, slipping to a fresh record low of 3.25%YoY in Mar-24.

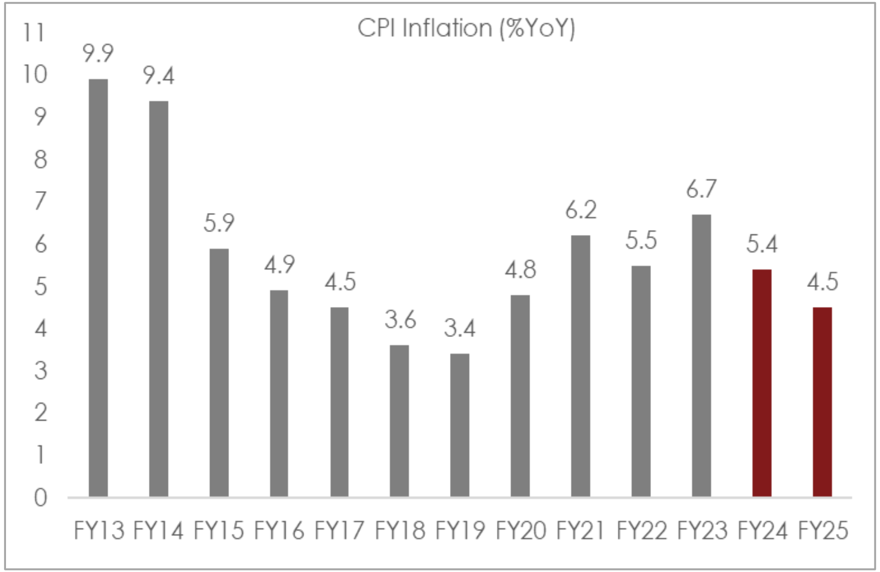


CPI inflation to align closer to target in FY25 ….but, upside risks emerging

CRB commodity index has risen by ~7.3% in Apr-24, so far reflecting the rally in crude oil and metal prices amidst uncertainty arising from geopolitical conflict between Israel and Iran

We expect CPI inflation to average at 4.5% in FY25 vs. 5.3% in FY24, after incorporating the impact of recent reduction in price of petrol, diesel and LPG (to the tune of 30bps) and 'Above normal' rainfall forecast. Upside risks from global commodity prices remain on close watch.





If crude price average close to USD 100 pb in FY25 (not our base case), it could add ~50 bps upside to CPI inflation

Snapshot of Apr-Feb FY24 fiscal performance

The FYTD accretion to fiscal deficit stood at 86.5% of revised estimates (RE) for FY24, higher than 83.9% of actuals, as seen in the corresponding period in FY23. While cumulative expenditure disbursal maintained the same pace, tax receipts and non-debt capital receipts have lagged last year's momentum.

Key Fiscal Variables (Cumulative position, Apr-Feb)				
	% of FY Actual/Target		%YoY	
	FY23	FY24	FY23	FY24
Revenue Receipts	83.1	81.9	10.6	11.6
Net Tax	82.6	79.6	17.0	6.8
Non-Tax	86.9	95.9	-19.8	44.9
Non-Debt Capital Receipts	81.6	64.5	62.4	-38.6
Total Receipts	**83.1**	**81.8**	**11.6**	**10.1**
Revenue Expenditure	84.1	83.1	9.2	1.3
of which, Interest Payments	*86.1*	*83.5*	*18.9*	*10.2*
of which, Major Subsidies	*87.3*	*88.1*	*23.4*	*-21.4*
Capital Expenditure	80.2	84.8	21.7	36.5
Total Expenditure	**83.4**	**83.4**	**11.1**	**7.3**
Fiscal Deficit	**83.9**	**86.5**	**-**	**-**

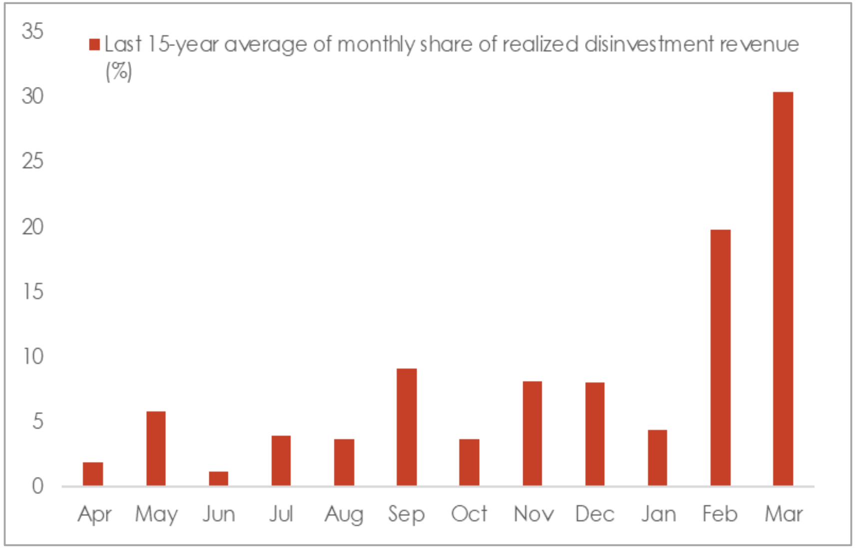
Net tax collection could see a minor shortfall in FY24; disinvestments lag

Basis the run-rate in gross tax collections over Apr-Feb, the revised target for FY24 appears within reach (although possibility of individual misses cannot be ruled out). However, net tax collection could potentially see some minor shortfall on account of high tax devolution to states.

Growth in key tax categories	FY24 RE (% change)	Apr-Feb FY24 (% YoY)	Mar-24 (% YoY)
Gross Tax	12.5	13.4	8.1
Corporate Tax	11.7	17.3	-7.6
Income Tax	22.7	25.8	29.1
Customs	2.5	3.9	-8.5
Excise	-4.8	-5.8	0.5
GST	12.7	8.4	47.5
Net Tax	10.8	6.8	29.9

Note: Annualized change for Apr-Feb FY24 is on provisional basis while that for Mar-24 is implied from the revised estimates.

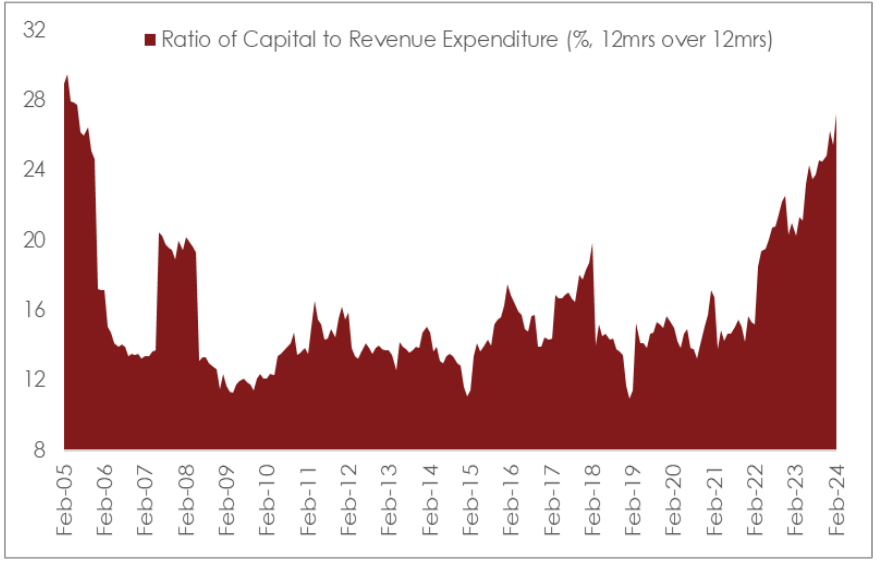
Cumulative disinvestment revenue realized until February stood at Rs 126 bn vs. the revised target of Rs 300 bn. Although, historical relationship suggests that ~50% of the full year disinvestment revenue is realized in the last 2-months of the year, proximity to general elections and lack of any executable pipeline in the near term, portends a slippage.



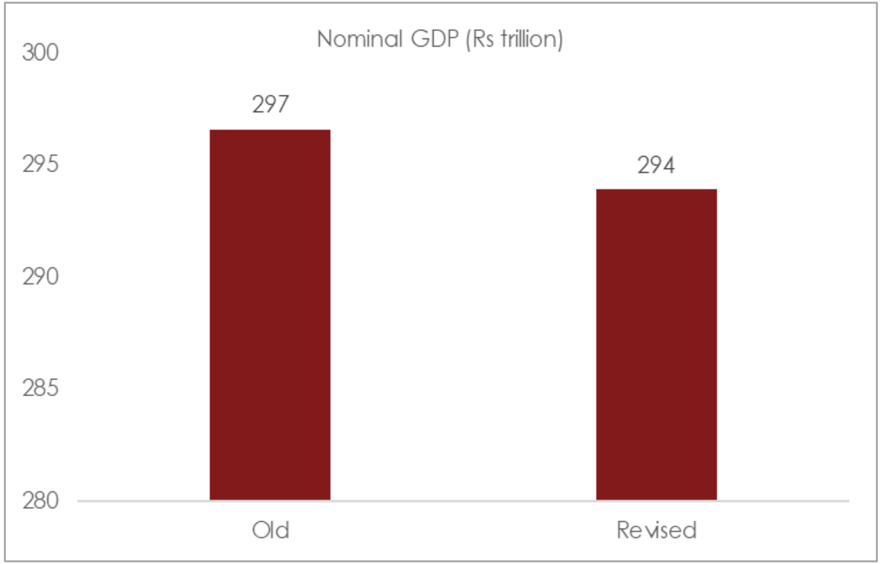
Quality of spending continues to improve; FY24 fiscal deficit target to be achieved

Acuite RATINGS & RESEARCH

Ratio of capex to revex touches almost a two-decade high, highlighting policy thrust of quality of fiscal spending.



Downward revision in FY24 Nominal GDP base from Rs 297 tn to Rs 294 tn will increase the revised fiscal deficit ratio target from 5.8% to 5.9%.

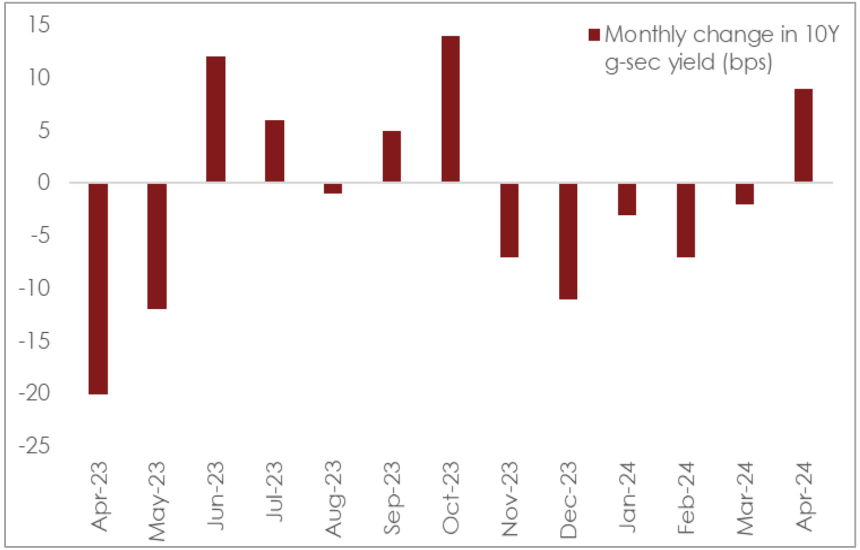


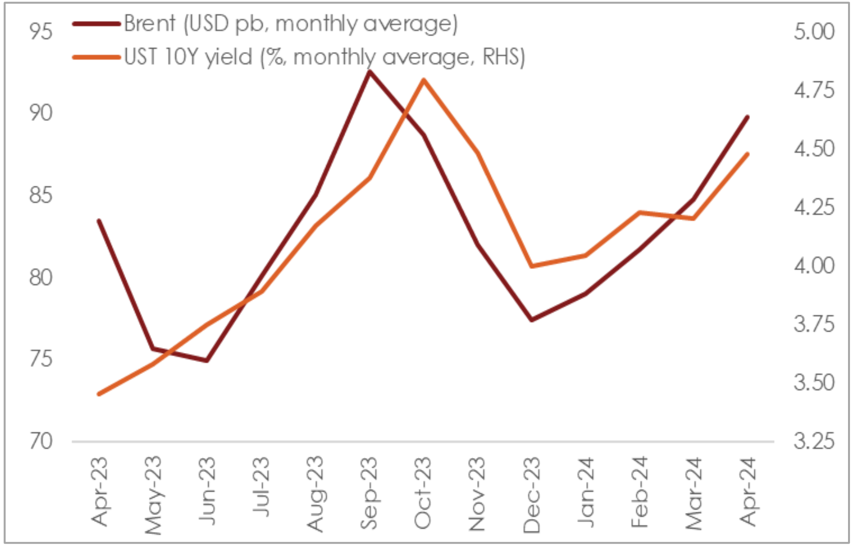
Notwithstanding the lower GDP denominator effect, we believe the government will adhere to the revised fiscal deficit target of 5.8% by fine-tuning expenditure towards the end of the year.

G-sec yields rise for the first time in 6-months

After dropping cumulatively by 35 bps between Nov-23 and Mar-24, India's 10Y g-sec yield has risen by 9 bps in Apr-24 so far and is currently hovering around 7.14% levels.

Global sentiment has turned adverse amid the recent hardening of US yields as well as crude oil prices amidst escalating geopolitical conflicts.

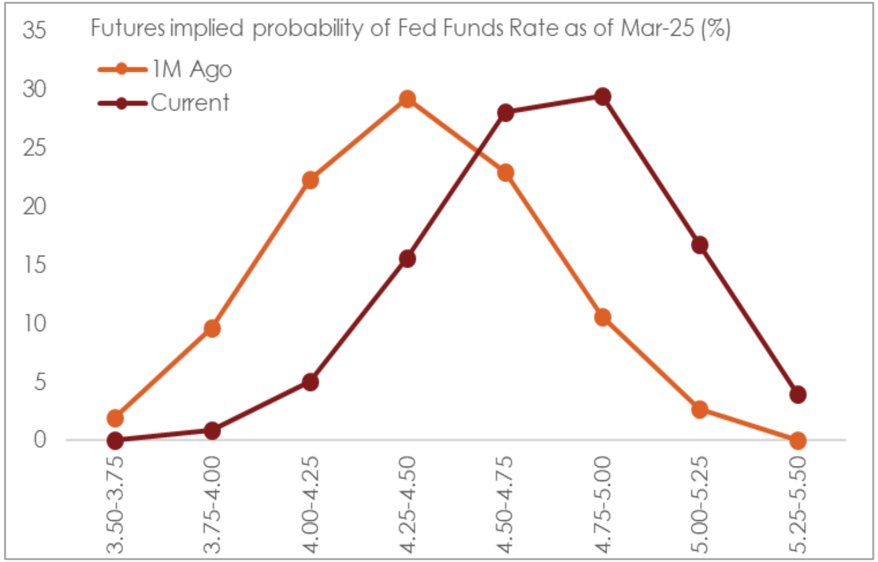


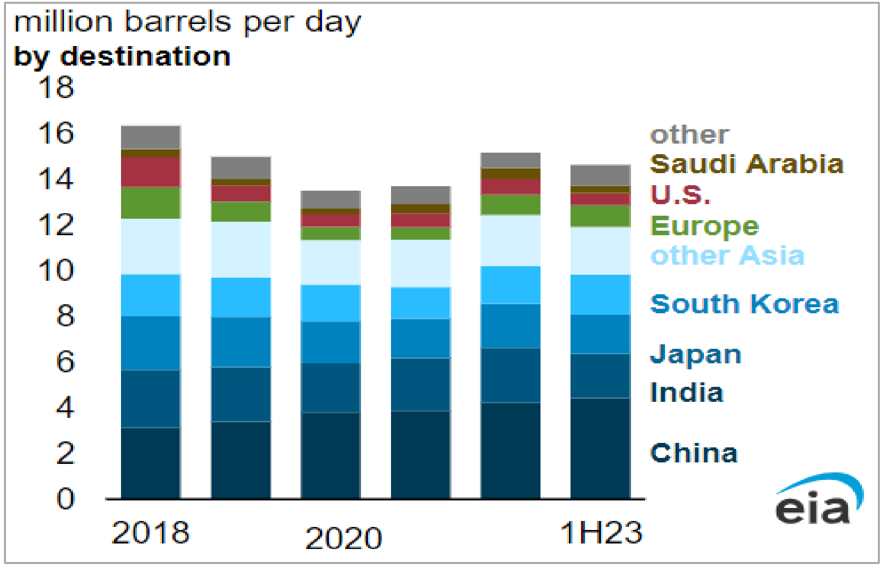


Key concerns: Delay in anticipated Fed pivot and worsening of geopolitical risk

Persisting resilience in US economic data is pushing back market expectations of the commencement of rate easing cycle from the Fed. Currently, ~53 bps of cumulative rate cut is priced in by Mar-25, with likelihood of first rate cut in Sep-24.

Iran-Israel conflict has raised concerns over potential disruption in the Strait of Hormuz, a key shipping chokepoint that sees ~21% of global petroleum liquid consumption, passing through. China, India, Japan, and South Korea accounting for 67% of all Hormuz crude oil and condensate flows in the first half of 2023.

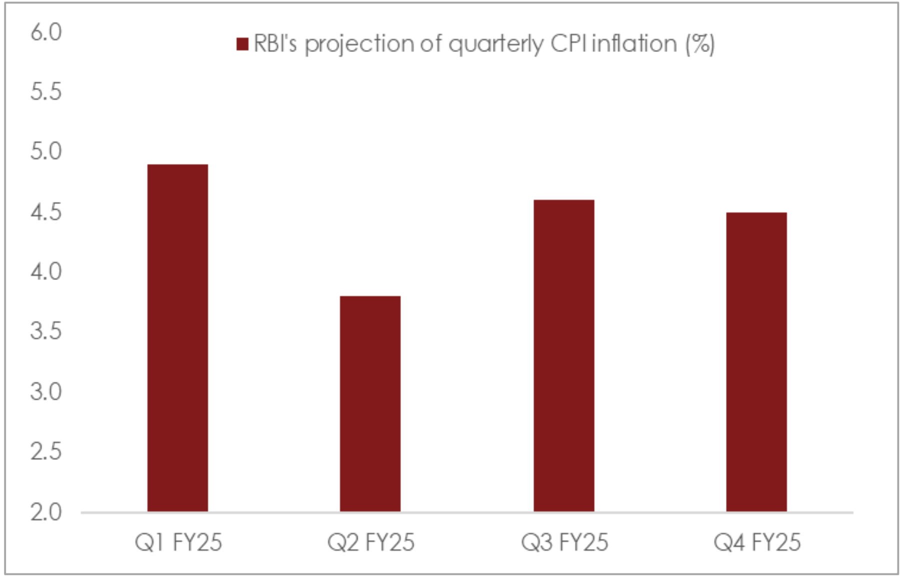




Inflation projection offers comfort despite food related risks

As per the RBI, CPI inflation is projected to moderate to 4.5% in FY25 from 5.4% in FY24.

Although there are concerns over severe heatwaves during Apr-Jun 2024, IMD's forecast of 6% surplus rainfall during the upcoming south-west monsoon season could offer comfort to food inflation.



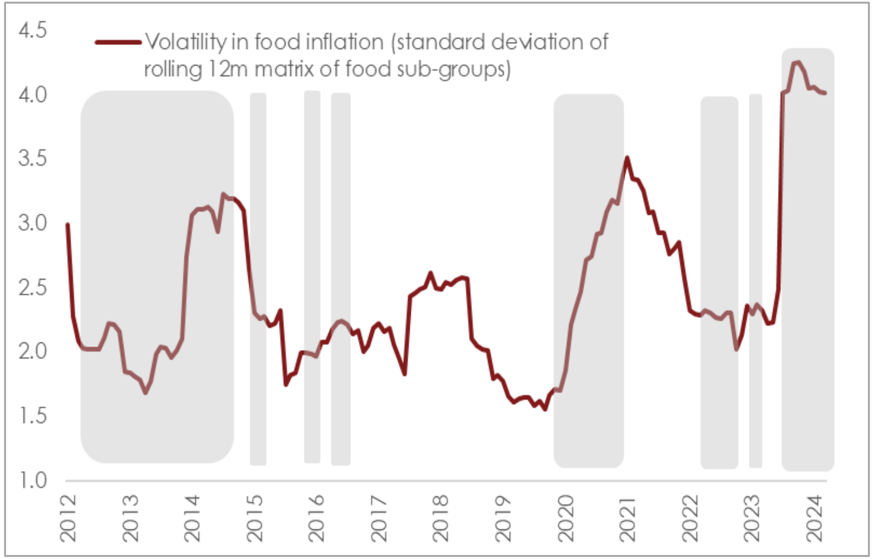
IMD's 2024 south-west monsoon forecast

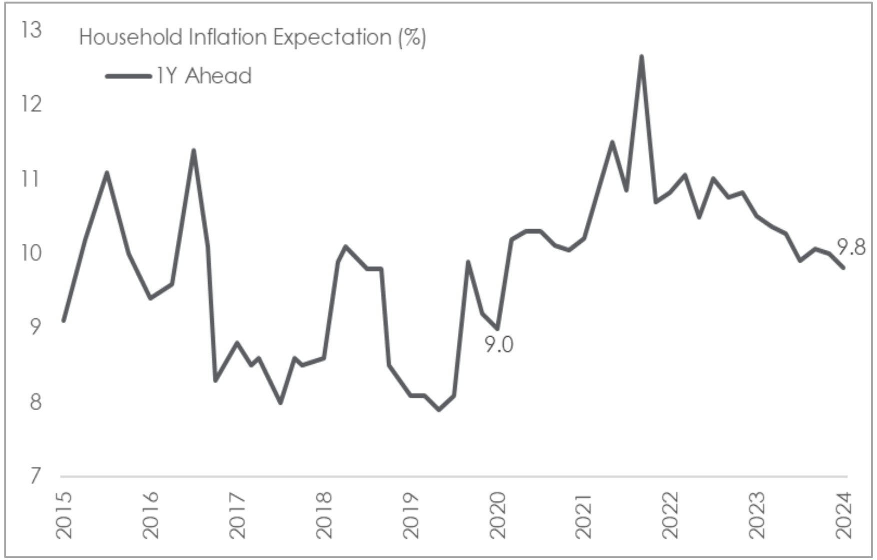
Category	Rainfall (% of LPA)	Probability (%)
Excess	>110	30
Above normal	104-110	31
Normal	96-104	29
Below normal	90-96	8
Deficient	<90	2

MPC expected to maintain pause in the near-term

Erratic weather pattern in the recent past along with some adverse geopolitical spillovers has kept food inflation volatile and elevated.

Notwithstanding ongoing moderation, long term inflation expectations of households are yet to get align with their pre pandemic levels.





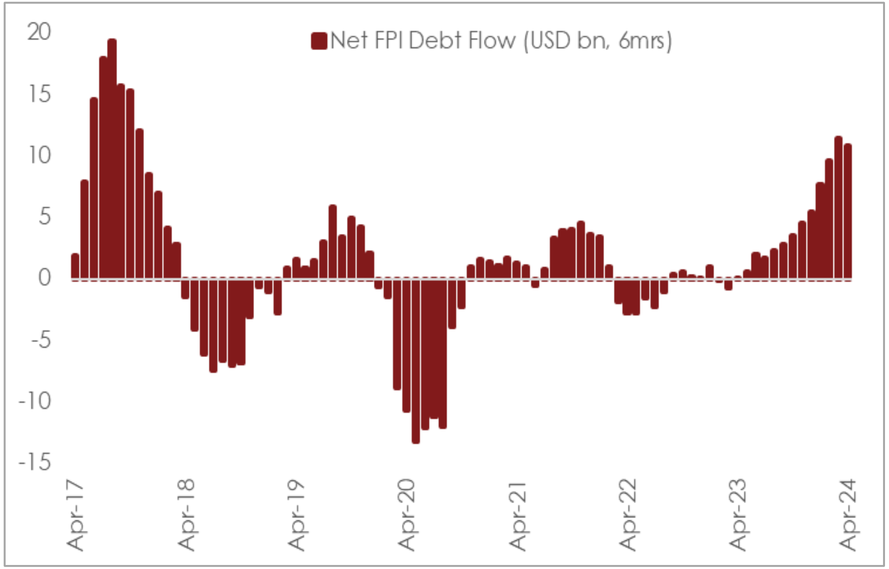
Note: Shaded cells indicate periods of more than 6% annualized food inflation

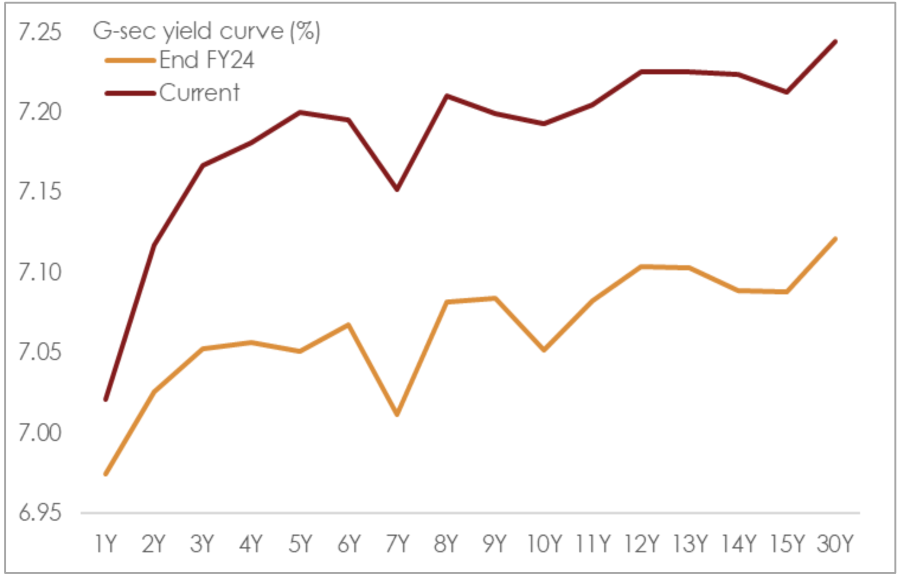
We expect MPC to maintain pause in Jun-24 policy review. With anticipated pivot by the US Fed getting pushed to Sep-24 at the earliest, our view of RBI pivoting in Aug-24 now faces a risk of getting rolled over to Oct-24..

Rates outlook

Since the announcement of India's inclusion in the JPM's EM Bond Index, the country has seen cumulative debt portfolio inflow of USD 11.7 bn.

The g-sec yield curve has steepened amidst increase in global yields and crude oil prices. A good monsoon could hopefully result in some flattening in H2 FY25.



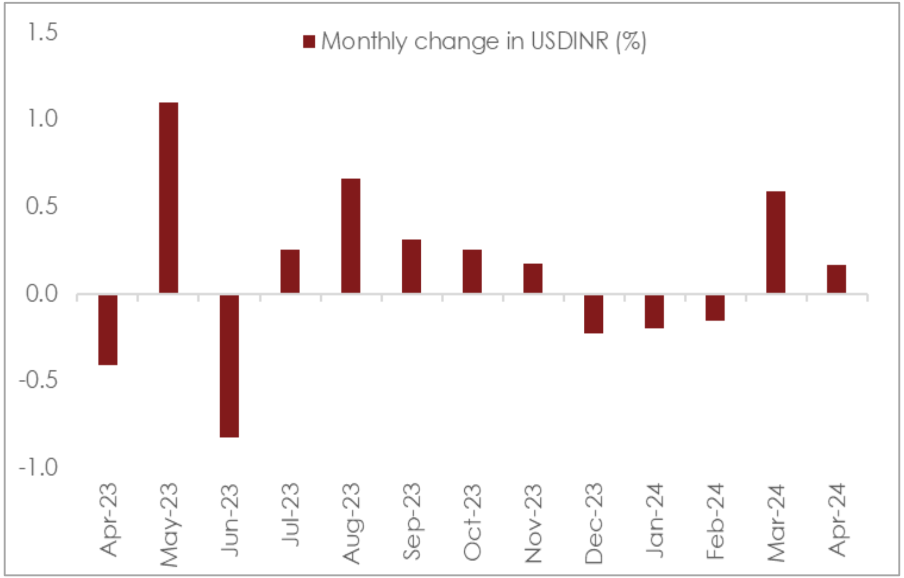


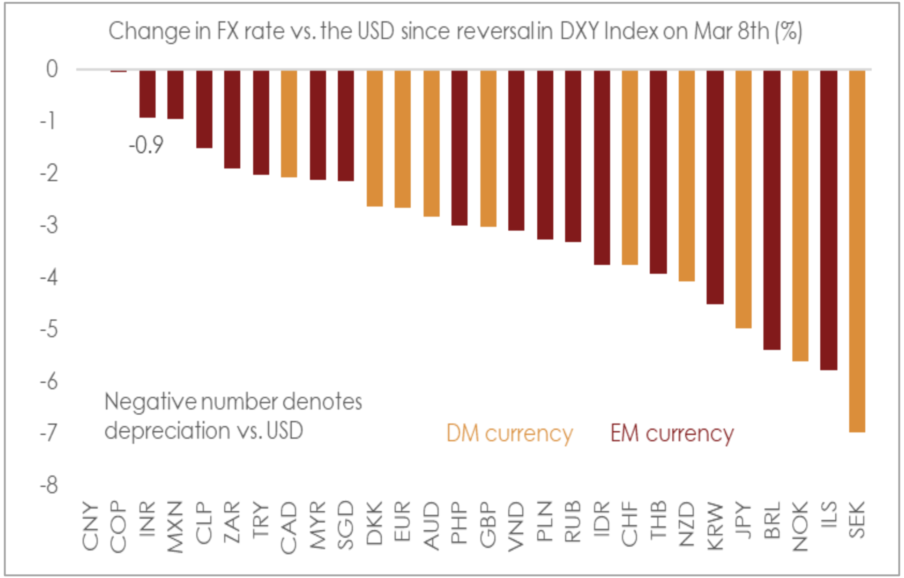
While we expect 10Y g-sec yield to slide towards 6.50% by Mar-25, emerging likelihood of a delay in RBI policy easing would provide an upside risk.

Despite moderate depreciation, INR remains one of the outperformers

INR continued to weaken for second month in a row…

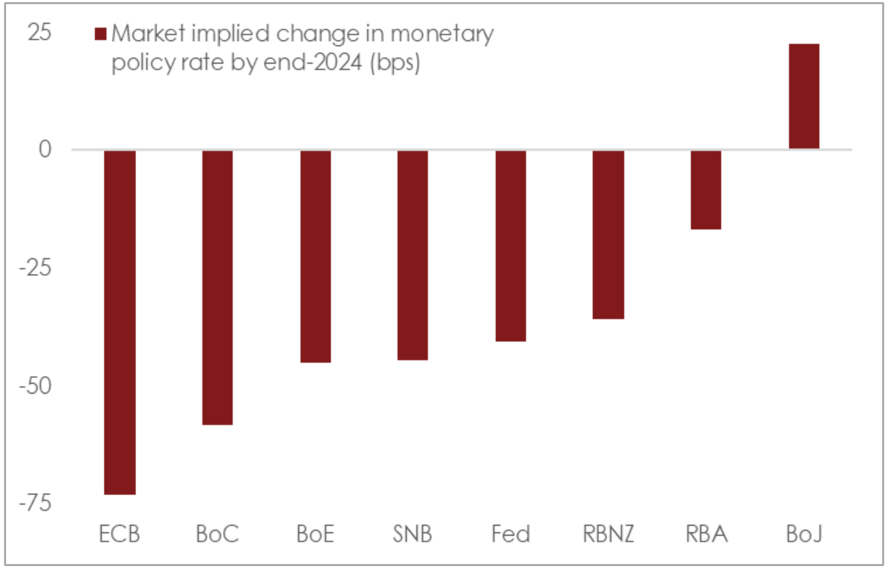
…however, it remains as one of the outperformers among key DM and EM currencies



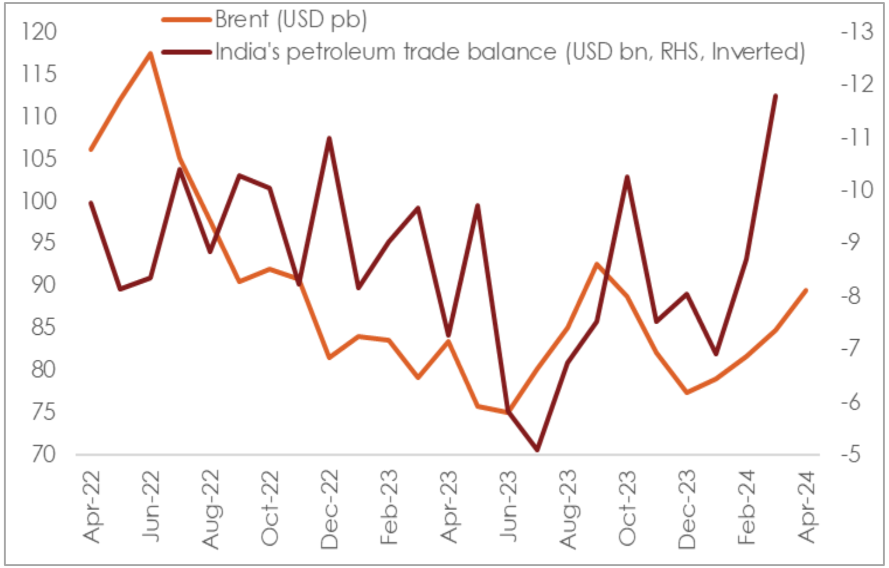


Immediate triggers: Delay in Fed pivot and rise in oil price

Continued resilience in US economic data has once again pushed back market expectations of the beginning of Fed rate cut from Jun-24 to Sep-24. Fed is now expected to be 5th in order of central banks with respect to pricing of incremental easing in 2024, down from 1st at the beginning of the year.



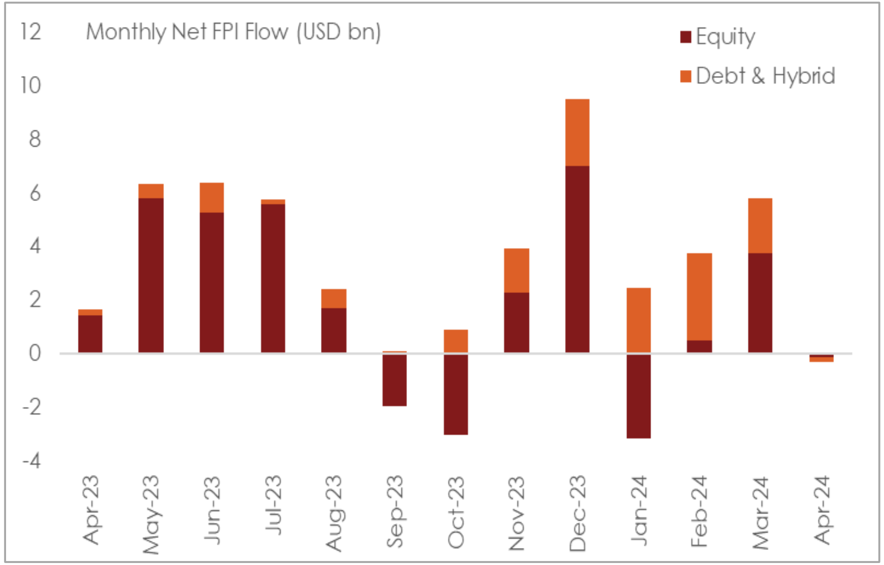
Crude oil price has hardened towards USD 90 pb levels in Apr-24 amidst escalation of geopolitical conflicts in the Middle East. Notably, petroleum trade deficit touched its highest monthly level in Mar-24.

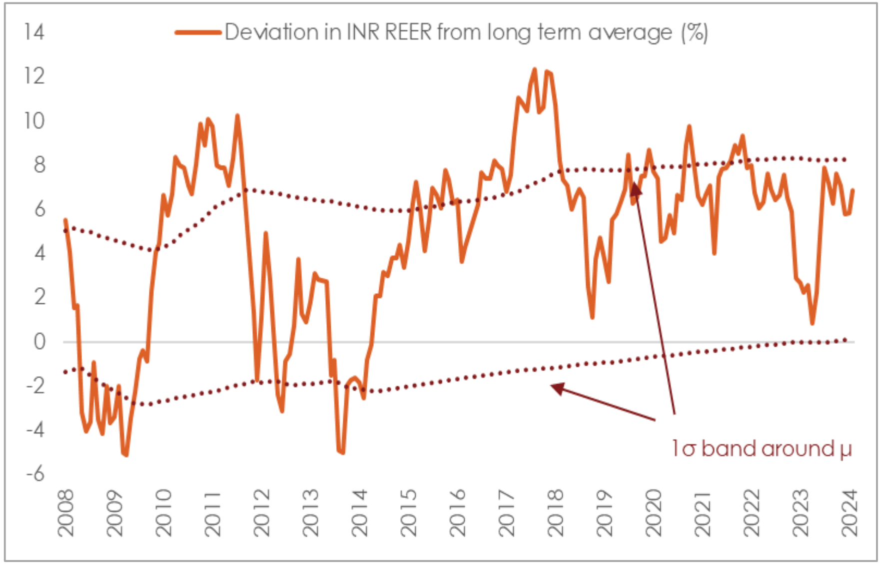


Nervousness in flows?

Reassessment of Fed rate trajectory and escalation of geopolitical conflict could potentially dampen portfolio flows in the near-term. The month of Apr-24 has seen a net outflow of USD 0.3 bn so far.

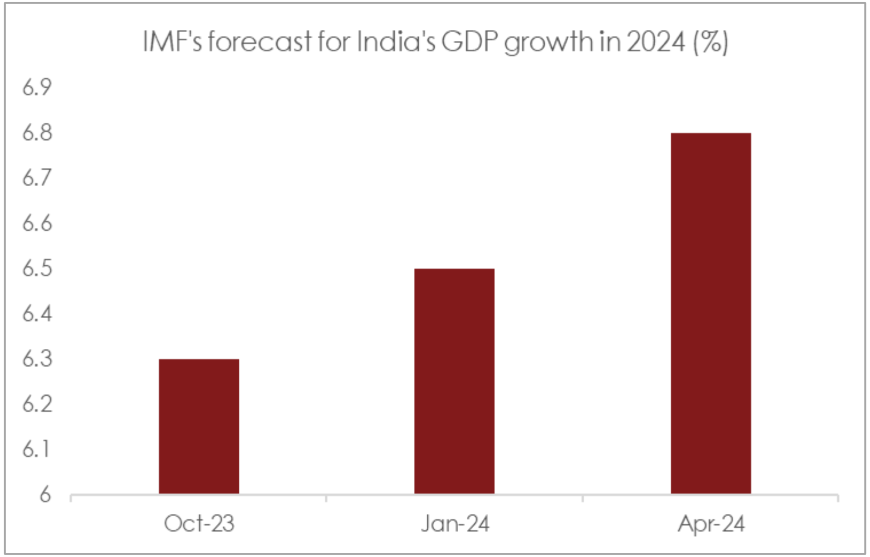
Meanwhile, INR's overvaluation (6-7% vis-à-vis the long-term trend) provides a reason for mild adjustment.



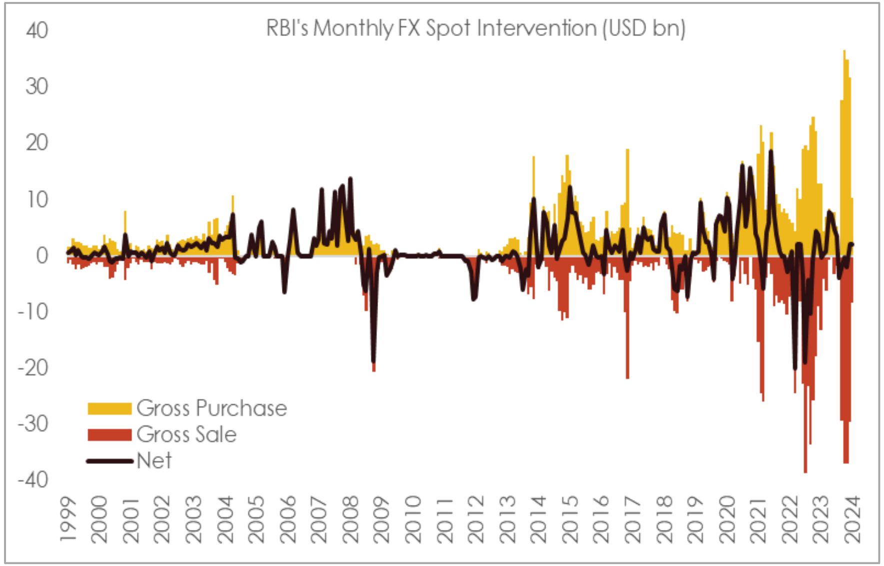


Rupee outlook

Ongoing growth upgrades and expectation of a moderate current account gap of 1.0% of GDP in FY25 (though geopolitical factors could impart an upside) bodes well for INR stability.



The RBI has upped its two-sided intervention to curb volatility. This is likely to continue amidst prevailing geopolitical uncertainty.

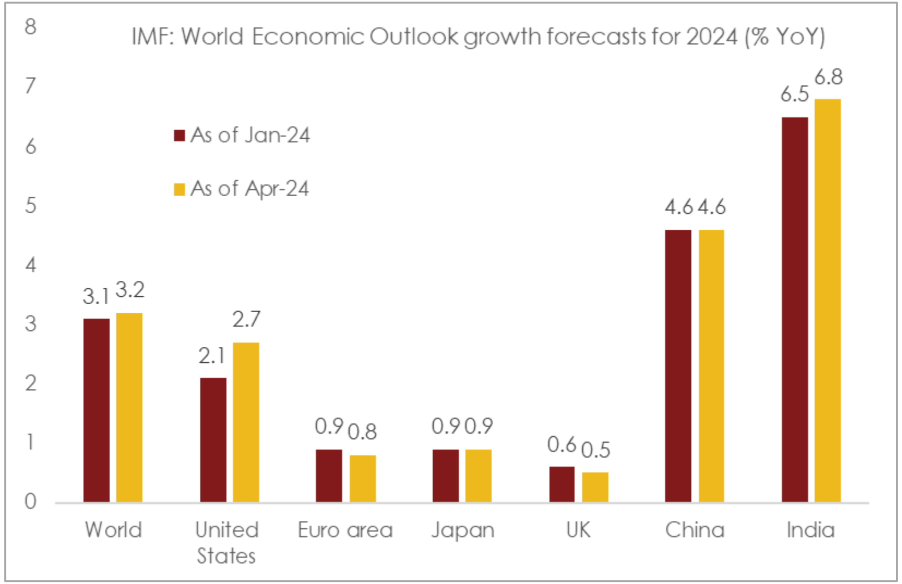


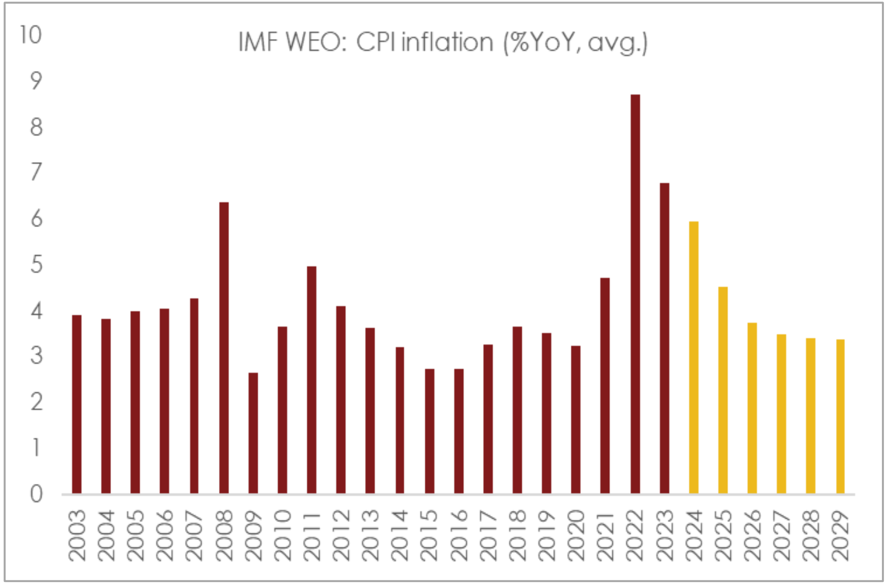
We continue to expect INR to post a mild depreciation in FY25, with a move towards 84.5 levels by Mar-25. Push back in case of Fed pivot and worsening of geopolitical risks could however put INR under some pressure.

Global growth to remain steady in 2024

As per IMF's Apr-24 World Economic Outlook (WEO) report, global economy is expected to continue to grow at a similar pace as in 2023 i.e., 3.2% - revised up by 10 bps vis-à-vis Jan-24 forecast.

IMF's outlook for 2024 inflation remained broadly unchanged – forecasting inflation to ease to 5.9% from 6.8% in 2023. This entailed a downward revision for advanced economies inflation, offset by an upward revision for EMDEs

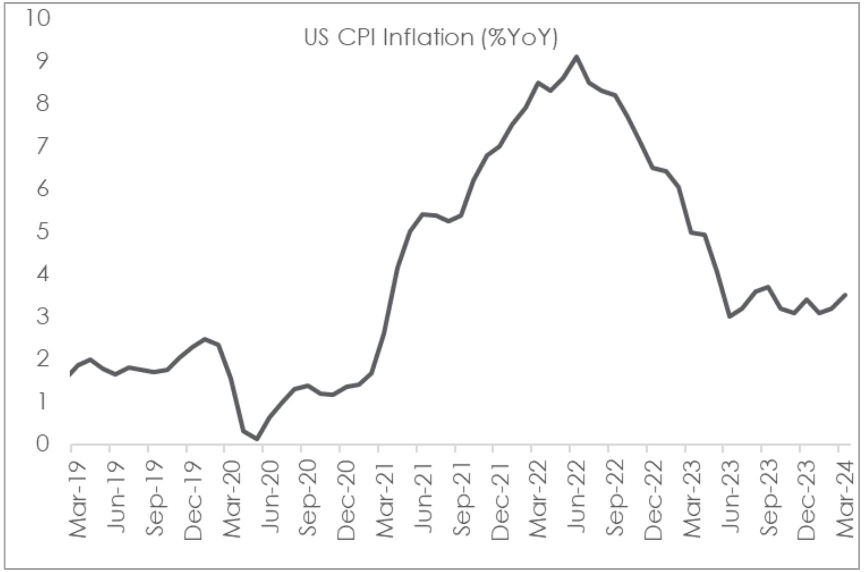




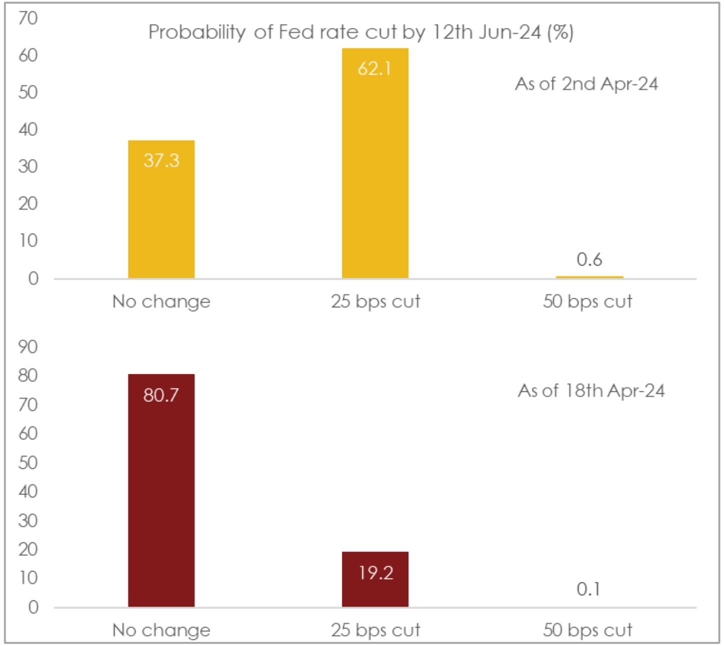
Fed rate cut expectations for Jun-24: Wait to get longer?

Acuite
RATINGS & RESEARCH

US CPI inflation came in hot at 3.5%YoY for Mar-24 to mark the biggest gain in six months (i.e., since Sep-23), driven by petrol and housing costs. Post the inflation data, Fed Chairman Powell has signaled delayed interest rate cuts, saying that the "*policymakers would wait longer than previously anticipated to cut rates*"



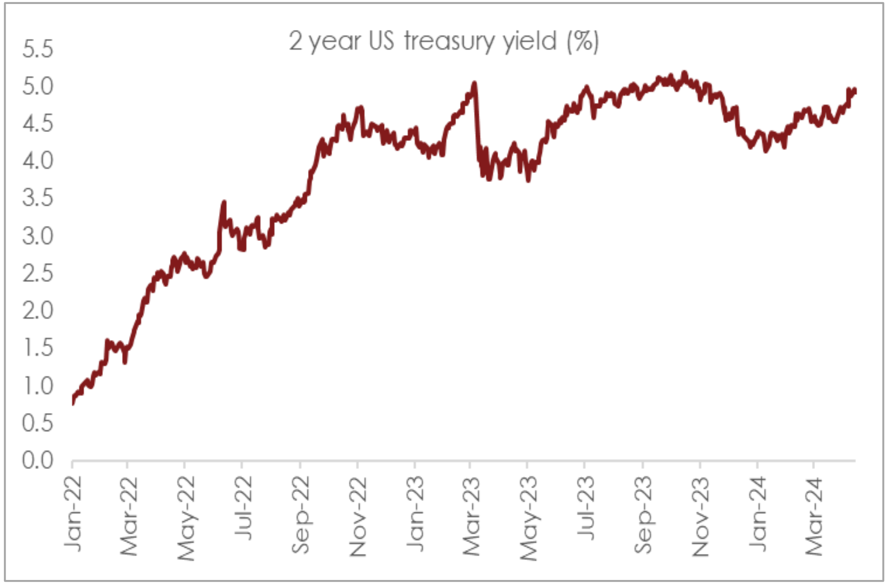
As such, market participants have adjusted sharply lower their expectation of a rate cut in Jun-24, to 19.2% as of 18th Apr-24 compared to 62.1% a fortnight ago.



US yields harden, DXY strengthens

The possibility of a slower pace of rate cuts than previously thought, along with fewer cuts in 2024 has driven US 2-year treasury yield from ~4.70% in early Apr-24 to close to 5.00% currently

Change in Fed rate cut timeline is affecting currency market as well. Expectation of major central banks likely delivering the first rate cut ahead of Federal Reserve has manifested in renewed strength for DXY – which has gained by ~2.0% in last one month



DM currencies, change vs.	1W Ago	1M Ago
DXY	0.6	2.0
EUR	-0.2	-1.7
JPY	-0.7	-2.3
GBP	-0.7	-2.0
CAD	-0.5	-1.4
AUD	-1.4	-1.3
CHF	0.0	-2.4
SEK	-1.8	-4.6
NOK	-1.3	-3.0
DKK	-0.5	-1.8

EM currencies, change vs.	1W Ago	1M Ago
CNY	0.0	-0.5
INR	-0.4	-0.6
KRW	-0.5	-2.8
RUB	-1.5	-2.2
BRL	-2.8	-4.0
MXN	-3.2	-0.9
IDR	-2.1	-3.0
TRY	-0.4	-0.2
TWD	-0.3	-1.7
PLN	-2.3	-2.3
THB	-0.4	-1.9
PHP	-1.1	-2.1
MYR	-0.6	-0.9
SGD	-0.5	-1.3
HKD	0.1	-0.1
VND	-1.7	-2.7
ZAR	-1.4	-0.5

About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 9,800 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Media Contact:

Sahban Kohari
Ph: + 91-9890318722
sahban@eminencestrategy.com

Analytical Contacts:

Suman Chowdhury Chief Economist & Head of Research Ph: + 91-9930831560 suman.chowdhury@acuite.in	Prosenjit Ghosh Group Chief Business Officer Ph: +91-9920656299 prosenjit.ghosh@acuite.in

Disclaimer

This report is based on the data and information (data) obtained by Acuité from sources it considers reliable. Although reasonable care has been taken to verify the data, Acuité makes no representation or warranty, expressed or implied with respect to the accuracy, adequacy or completeness of any Data relied upon. Acuité is not responsible for any errors or omissions or for the results obtained from the use of the report and especially states that it has no financial liability, whatsoever, for any direct, indirect or consequential loss of any kind arising from the use of its reports. Any statement contained in this report should not be treated as a recommendation or endorsement or opinion or a substitute for reader's independent assessment

Acuite
RATINGS & RESEARCH

We help you Decide

THANK YOU

+91 22 4929 4000 info@acuite.in +91 99698 98000

708, Lodha Supremus, Lodha iThink Techno Campus, Kanjurmarg (E), Mumbai 400 042