RATINGS & RESEARCH

Macro Pulse Report

June 2024

From the desk of the Chief Economist

Dear Readers,

Not just in GDP growth but India is also displaying leadership in sports. After a long wait of thirteen years, we have won the World Cup in T20 cricket and in a really impressive manner! Congratulations to Team India!

In the last one month, there has been three developments which have mitigated the potential uncertainty in the domestic economic environment to a large extent. One, the GDP figures for Q4 and FY24 were released and it did throw up a positive surprise! Compared to a 7.0% growth in FY23, the economy posted a stellar figure of 8.2% in FY24. However, GDP in FY24 has been amplified by a robust growth in Net Indirect Taxes. The true gauge of economic activity – i.e., GVA growth stood at 7.2% in FY24 (100 bps below GDP) and in fact, Q4 GVA growth at 6.3% was close to consensus estimate. Nevertheless, the economy appears to be in good throttle in Q1FY24 given the high-frequency indicators and we peg the growth figure for FY25 at 6.8%.

The second development has been the completion of the general elections and the virtual reinstatement of the past government (albeit in a Coalition) with a strong likelihood of a continuity in existing economic policies. Revised Union Budget is set to be presented in the month of July and one can expect additional measures to boost consumption in the economy. However, fiscal consolidation will continue to be a priority of the government with a fiscal deficit target of 4.5% of GDP in FY26.

Third, the progress of the Indian monsoon though it has been less than the expectations. While the monsoon onset was timely in early June, the subsequent intensity and coverage in East, Central and North India has been weak so far, leading to a monthly deficiency of 11% and a delay in the kharif sowing. Nevertheless, the rains in July and onwards are expected to be better as per the IMD forecasts.

Cheers,

- Suman Chowdhury, Chief Economist and Head – Research

FY24 GDP zooms past 8.0%

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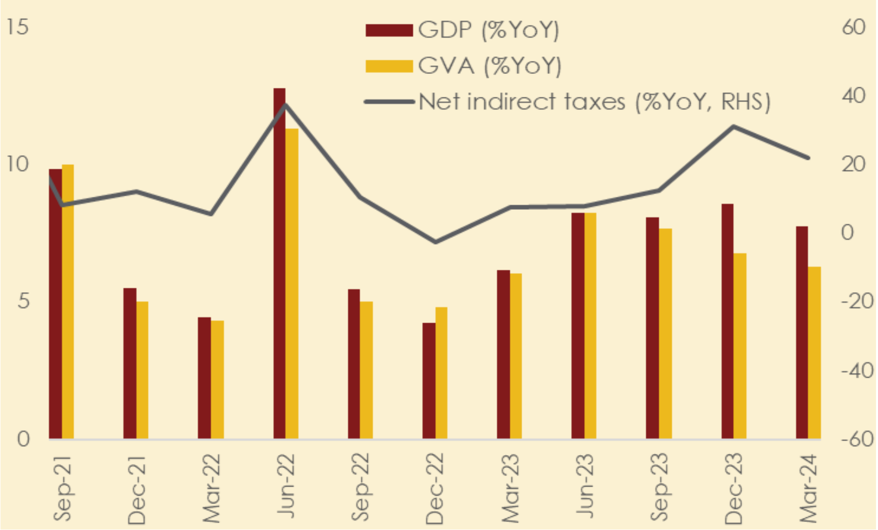
- India's GDP in Q4 FY24 moderated, albeit less than expected, posting an annualized growth of 7.8% (vis-a-vis our and market expectation of 6.9%). This combined with upward revision to Q3 growth number, translated to a stellar 8.2% FY24 GDP growth compared to 7.0% in FY23.

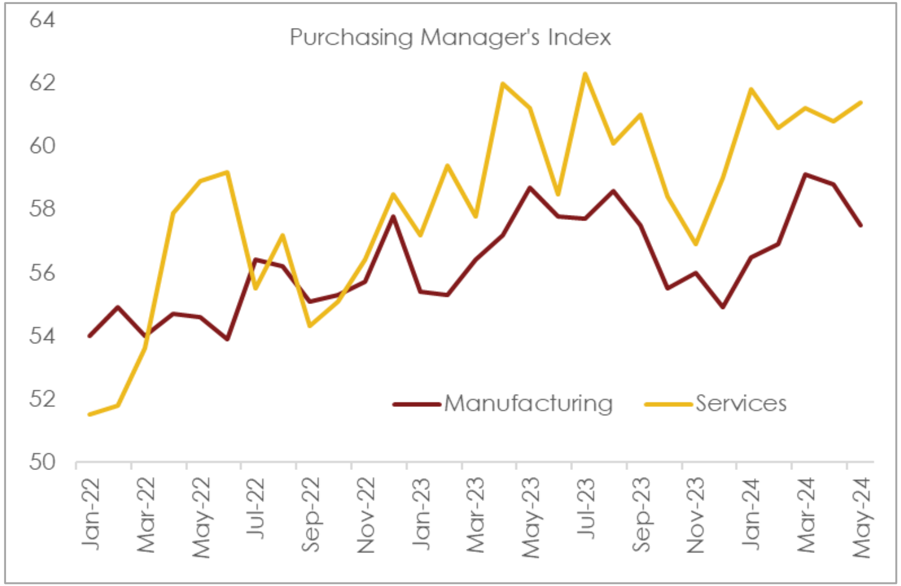
- However, GDP in FY24 has been amplified by a robust growth in Net Indirect Taxes (as tax collections soared while subsidy payouts declined on an annualized basis). The true gauge of economic activity – i.e., GVA growth stood at 7.2% in FY24 (100 bps below GDP). In fact, Q4 GVA growth at 6.3% was close to consensus estimate, captures the moderation in economic activity in every subsequent quarter of FY24.

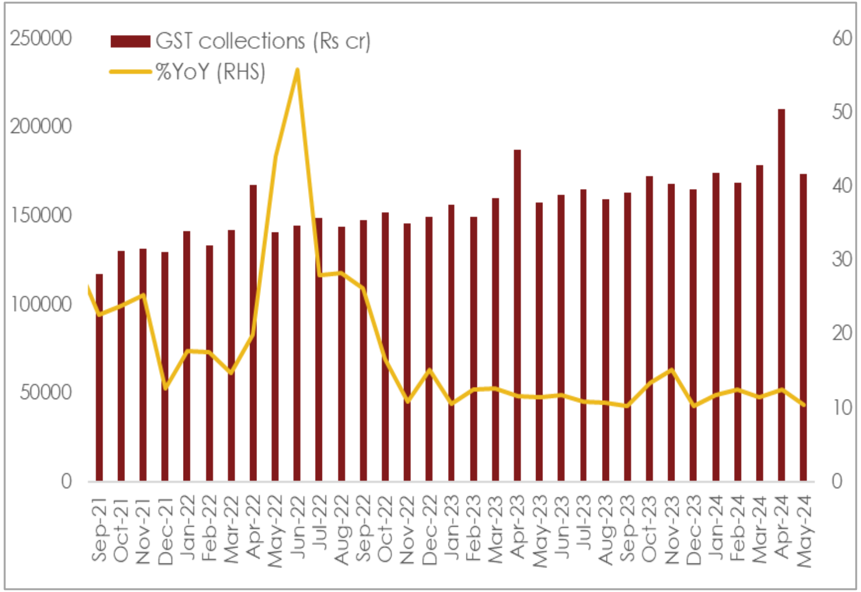


Economy remains resilient at start of FY25

India Composite PMI edged lower to 60.5 in May-24 from 61.5 in the previous month. This marks the fifth consecutive print above 60 (the level of 50 denotes the cutoff for expansion).

GST collections normalized to Rs 1.73 lakh cr in May-24 from the year-end induced bump up in Apr-24 (Rs 2.1 lakh cr) – in line with Q4 FY24 average, to clock an expansion of 10.0% on annualized basis. Further, provisional figures of total advance Tax collections for FY25 (as on Jun 17, 24) have shown a growth of 27.3% on annualized basis.

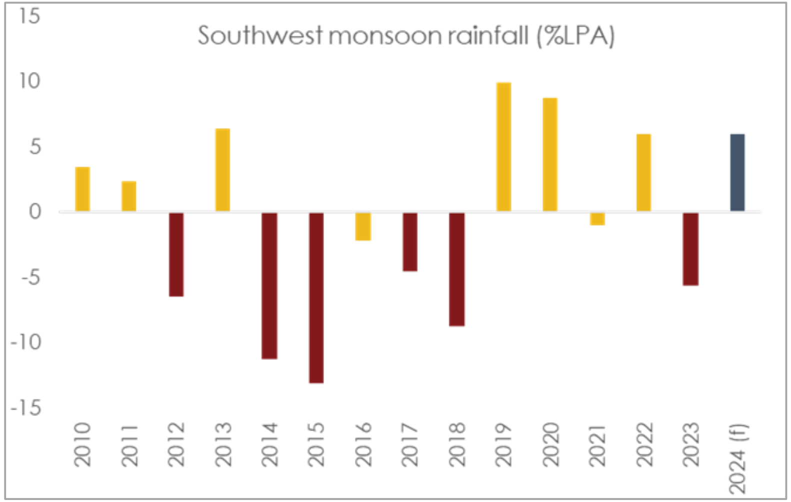


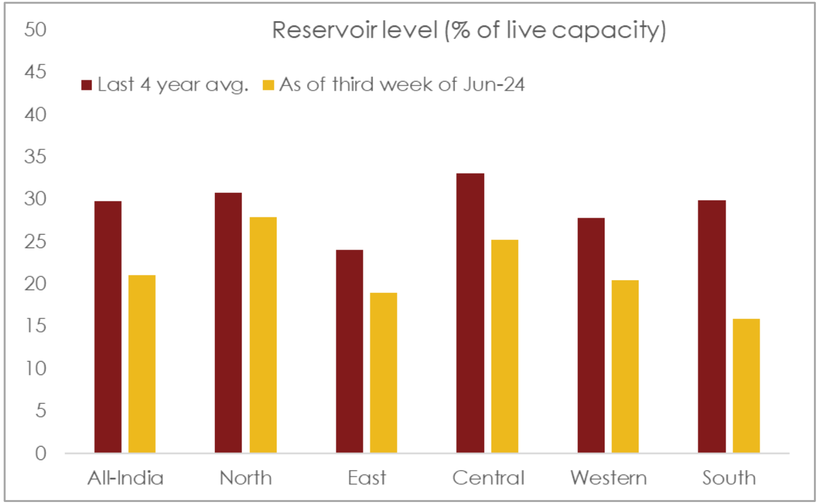


IMD retains 'Above normal' monsoon outlook

In its 2nd long-range forecast, IMD retained its 2024 monsoon forecast at 106% of LPA i.e., translating into 'Above normal' sub-category. On a probability basis, IMD attaches a 90% probability to rainfall being 'Normal or better', with only an outside 10% chance of rainfall turning out to be 'Below normal or worse'

On a geographical basis, IMD expects rainfall in 3 of the 4 geographical regions to be 'Normal or better'. Specifically, it forecasts 'Above normal' rainfall in Central India and South (>106% of LPA) and 'Normal' over Northwest India. In contrast, 'Below Normal' rainfall activity is expected over NE India (<94%). A good rainfall activity will help replenish reservoir levels, which currently are below LPA, especially in Southern India



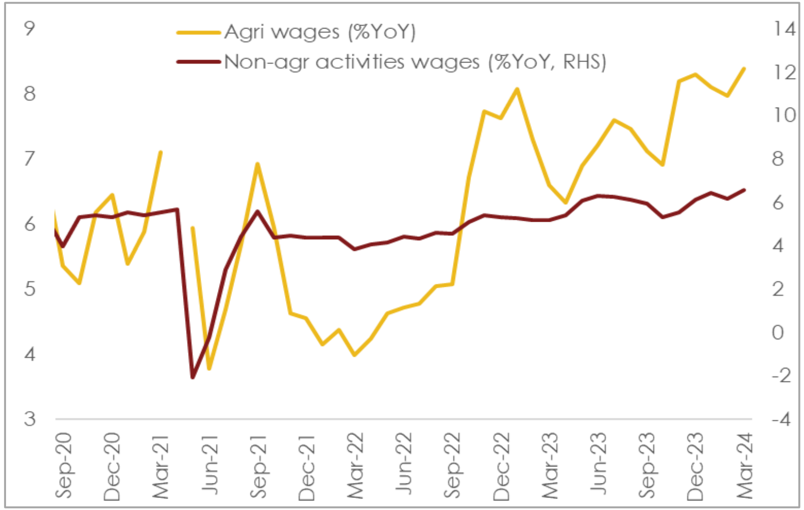


...to aid Agri/Rural recovery

Historically, we find evidence of agri performance surpassing trend growth in years of above normal monsoon. Since 1970, of 18 such episodes of above normal monsoon, agri GDP has outperformed trend growth (i.e., 3.5-4%) in 15 years. As such, we expect Agri growth to bounce back to clock an above trend growth in FY25, also aided by a favourable base.

Agri performance in years of Above normal monsoon (1970-2023)		
Agri Growth (%)	**No. of years when monsoon was Above normal**	**Avg. agri growth**
<4%	3	0.3
4-6%	7	4.7
>6%	8	9.4
Total	18	

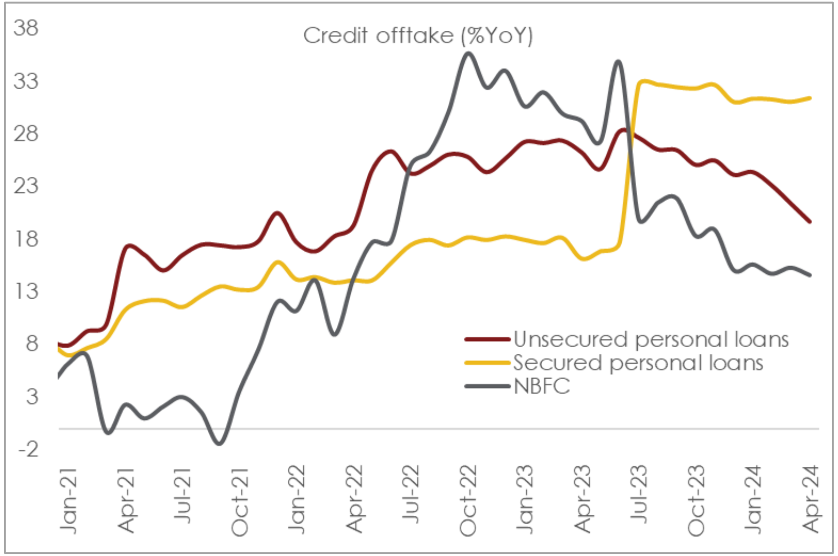
In addition to support from agri led improvement in incomes, rural consumption could continue to gradually recover aided by healthy growth in agriculture wages (at 8%+), a healthy Rabi output, moderation in retail inflation along with indirect measures of income support such as reduction in LPG cylinder price, extension of free foodgrain program amidst ongoing support from MSP hikes though lower vs last season

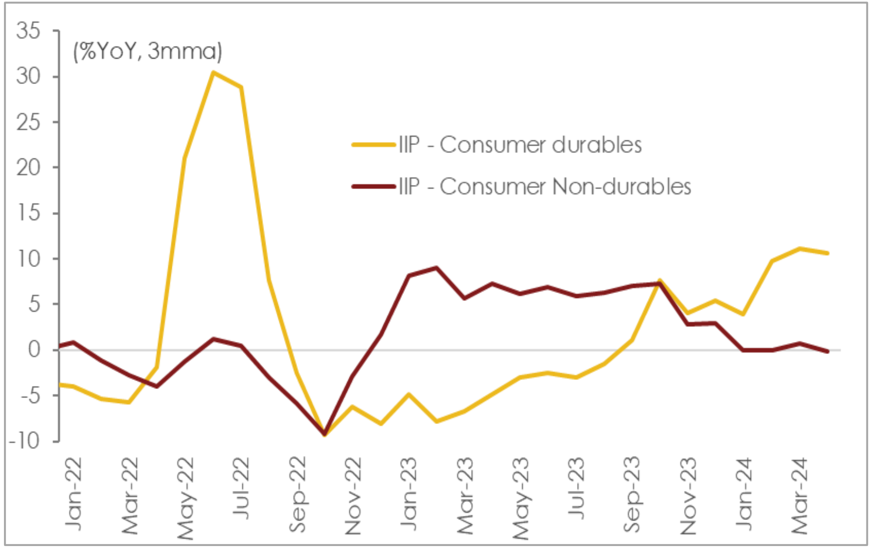


Urban consumption may face headwinds

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, esp. on discretionary demand. We note bank lending to NBFC sector has nearly halved vis-à-vis its peak in Jun-23.

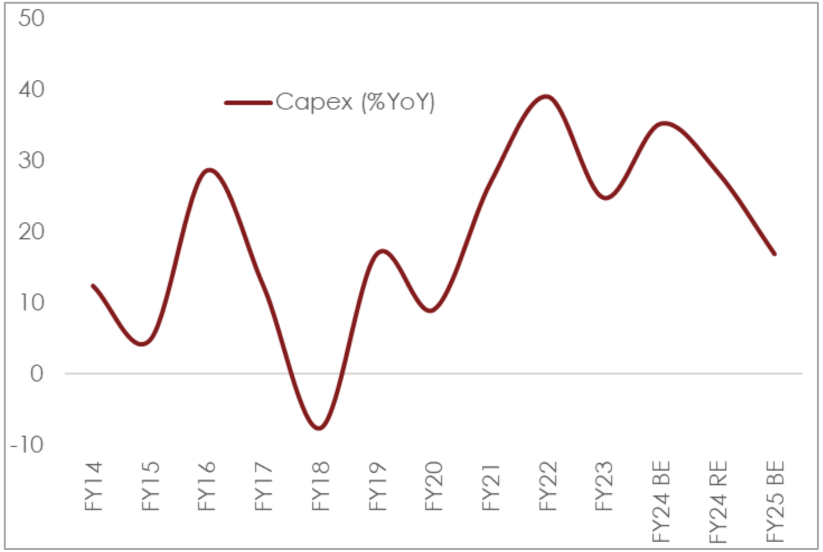
Subdued growth outlook for IT industry coupled with rise in price of discretionary products such as cars, televisions and smartphones as prices of several commodities like copper and aluminum, could additionally weigh on price-sensitive demand component.



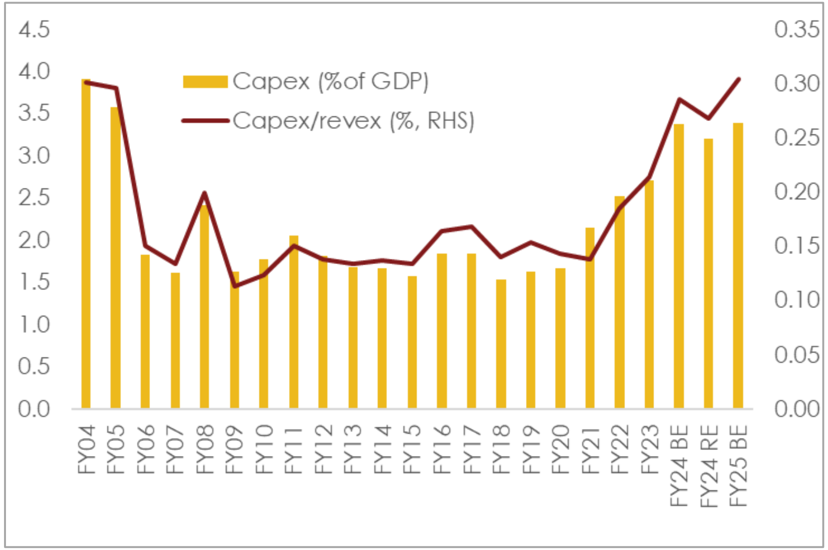


Capex support to growth intact

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. All eyes now on the Union Budget that will be presented by the new coalition government in Jul-24.



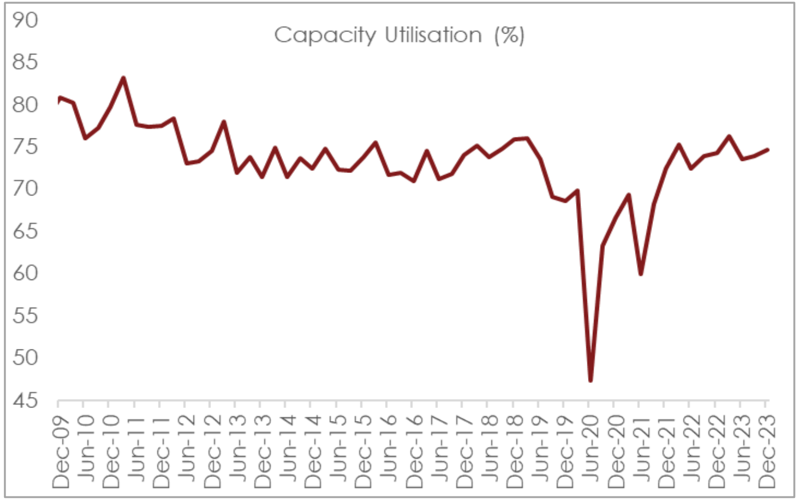
The slowdown in the pace of capex spending notwithstanding, capex as a % of GDP is expected to improve to 3.4% in FY25 from 3.2% in FY24, along with an improvement in quality of spending (ratio of capex/revex) – underscoring that the capex thrust of the Government remains intact.

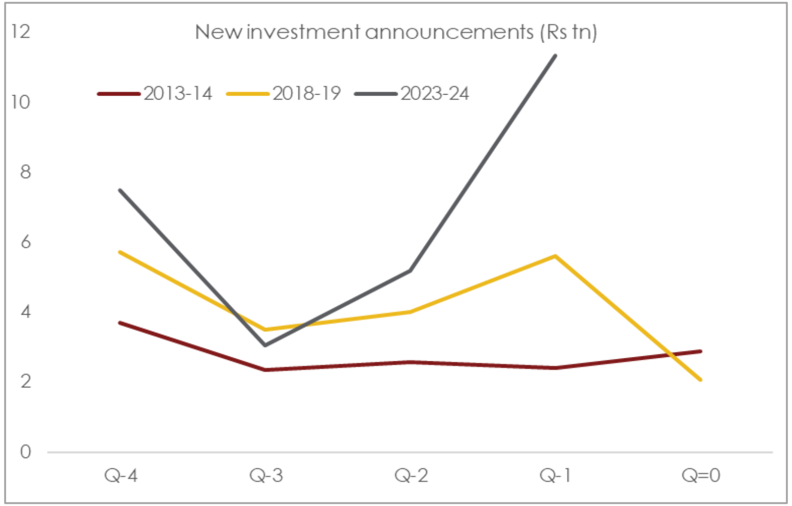


Private capex recovery sees green shoots

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 (albeit somewhat waning), private capex recovery remains uneven. The FY25 Union Budget to be presented by the new government in Jul-24 is expected to provide fresh cues.

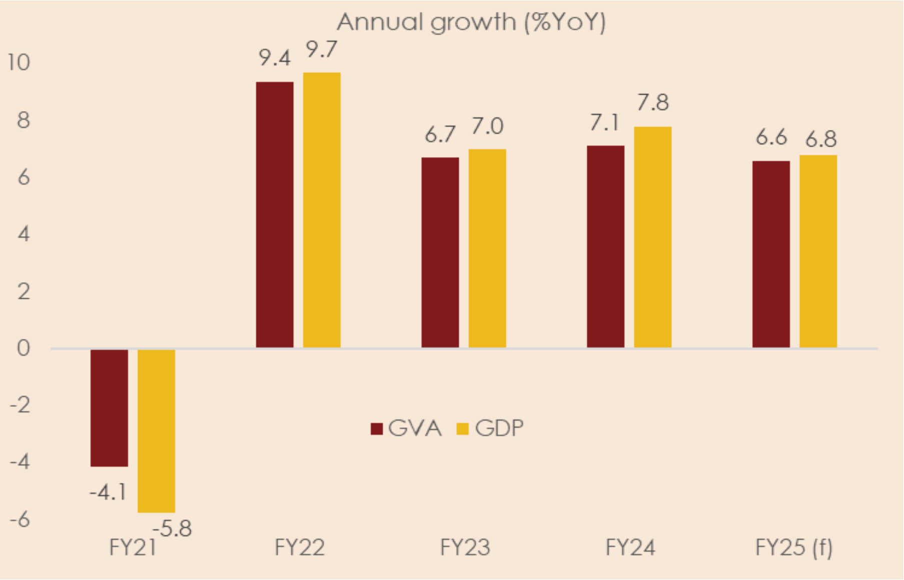
New investment announcements however have shot up in Mar-24 quarter to Rs 11.9 tn - the highest in FY24, defying the historical trend of new investments typically remaining sluggish prior to general elections. For Dec-23 quarter, new investments were revised up to Rs 5.2 tn from Rs 2.1 tn earlier. This validates a possibility of private capex turnaround in H2 FY25.





We peg FY25 growth at 6.8%

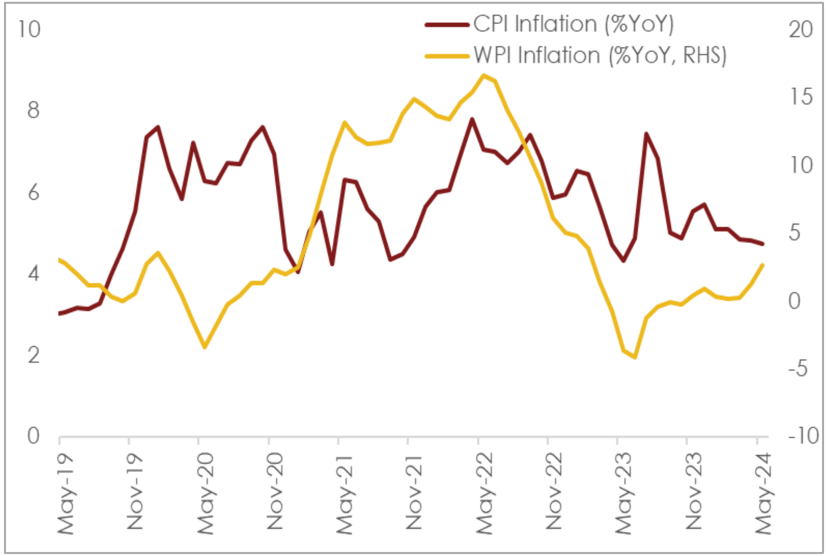
- For FY25, we continue to hold a view of a moderation in growth amidst normalization in demand for discretionary goods & services (i.e., urban demand primarily) along with waning of support from input costs and an unfavorable statistical base.
- Though we do expect agriculture sector to bounce back, with support from investments continuing into FY25.
- 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 ~50-60 bps i.e., to 6.8% and 6.6% respectively.
- Having said so, the GVA moderation is likely to be largely statistical, with underlying momentum remaining close to the medium-term trend.

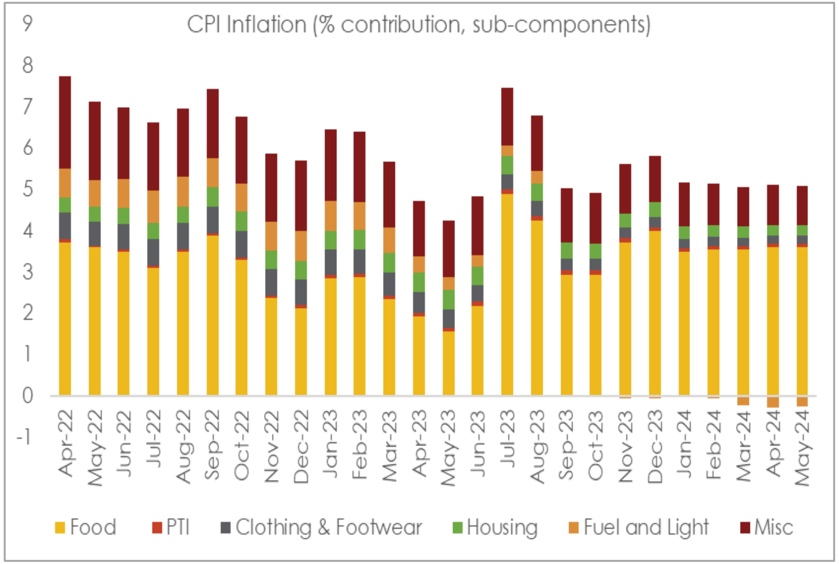


May-24 CPI inflation as per expectations

India's CPI inflation posted a mild deceleration to 4.75% YoY in May-24 from 4.83% in Apr-24, to surprise market consensus expectation of approximately 4.9% on the downside. In comparison, WPI continued its upward ascent, coming in at 2.61%YoY in May-24 – the highest reading in 15 months.

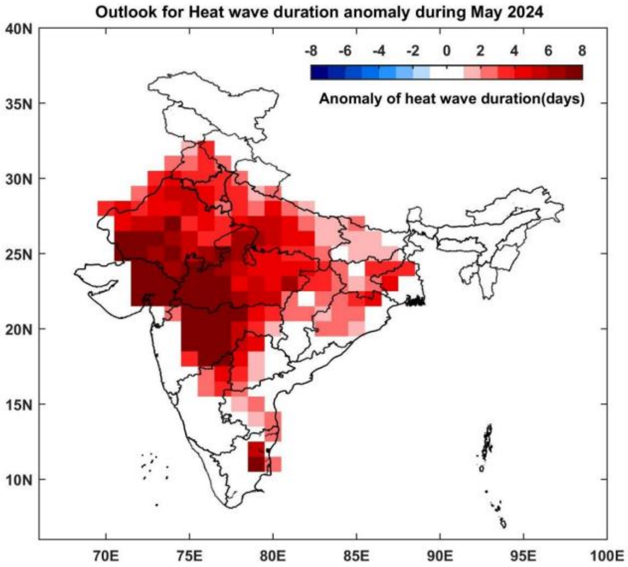
While headline inflation has turned somewhat more stable in the last 5 months, food prices continue to contribute heavily to headline print.





Heat wave impact on veg prices

Above normal Maximum and Minimum temperatures have prevailed in NW and parts of Central India in May-Jun 2024, so far. As per IMD's latest update (as of 18th Jun-24), heat wave to severe heat wave conditions likely to continue over many parts of North India during next 24 hours and gradually abate thereafter due to approaching Western Disturbance towards Northwest India



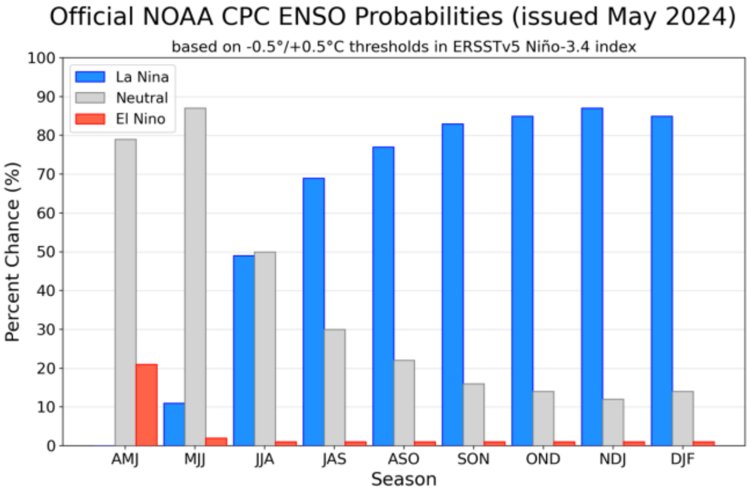
After remaining somewhat subdued until May-24 end, vegetable prices have shot up in Jun-24, led by tomatoes and onions among others. Sharp rise in case of tomatoes can be attributed to heatwave induced damage to crop as well as rain-induced disruption in supply chain especially in Southern India.

Vegetables (%MoM)	Mar-24	Apr-24	May-24	Jun-24
Bitter Gourd	5.9	3.3	-1.6	6.7
Brinjal	-5.7	-3.5	2.9	26.7
Cabbage	4.6	1.9	2.6	14.1
Cauliflower	11.8	11.7	6.9	20.7
Chilly	8.9	0.3	-3.8	11.5
Garlic	-35.6	-6.9	13.6	14.8
Ginger	5.8	9.4	6.8	12.2
Okra	-8.7	-6.9	-9.5	24.2
Onion	-0.8	-9.5	-3.1	28.3
Peas	18.3	44.2	73.4	27.9
Potato	14.5	15.9	12.9	8.8
Tomato	0.6	-11.0	0.8	62.7
All Vegetables	**-4.9**	**0.3**	**4.9**	**19.7**

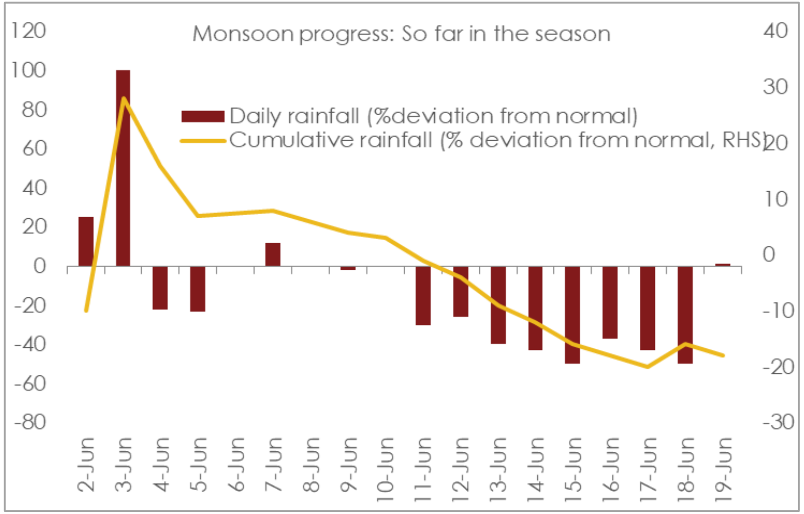
Jun-24 data is upto 19th Jun-24

‘Above normal’ monsoon to offer reprieve

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 imminent, with ENSO-neutral favored in Apr-Jun and May-Jul-24. La Niña may develop in Jun-Aug-24 (49% chance) or July-September (69% chance).



IMD expects ‘Above normal’ monsoon at 106% of LPA in 2024, compared to a ‘Below normal’ turnout in 2023 at 94% of LPA. This should offer reprieve to inflation beginning Jul-24, though we will keep a close watch on spatial and temporal distribution of monsoon. Jun-24 monsoon progress has been lagging at an All-India level, with a cumulative deficiency of 11%, albeit the gap has reduced in last week.



Global crude prices back in comfort zone

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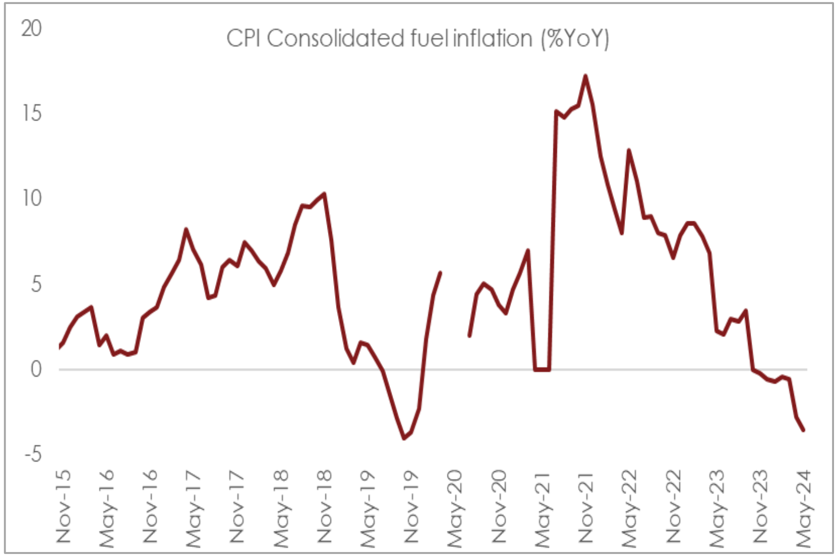
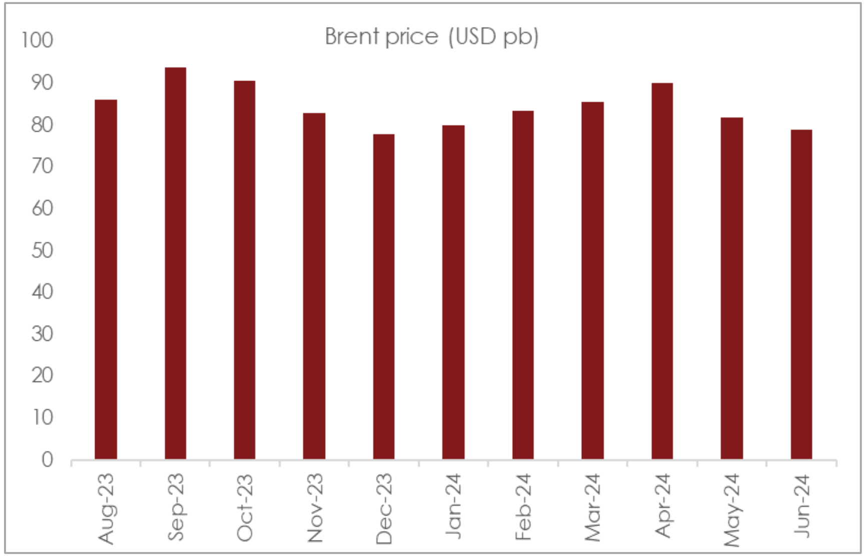
Fuel inflation continues to offer comfort. It was the Rs 100 reduction in LPG cylinder and Rs 2 per litre reduction in petrol and diesel price each in Mar-24, that had imparted disinflationary impulse in months of Mar-Apr-24; offsetting the impact of rise in global crude oil prices.



After peaking in April-24, global crude oil prices eased through May-24 and early Jun-24, on the back of rising US crude production, demand weakness and on hopes for an Israel-Gaza ceasefire. The Brent futures after easing in early Jun-24 have hardened around USD 85-86 pb on the back of renewed escalation in Middle East tensions



Kharif MSP hikes: Non-inflationary

Crop	Variety	% revision in MSP	
		FY24	FY25
Paddy Common	Common	7.0	5.4
Paddy Grade A	Grade A	6.9	5.3
Jowar Hybrid	Hybrid	7.1	6.0
Jowar Maldandi	Maldandi	7.9	6.1
Bajra		6.4	5.0
Maize		6.5	6.5
Ragi		7.5	11.5
Arhar (Tur)		6.1	7.9
Moong		10.4	1.4
Urad		5.3	6.5
Cotton Medium Staple	Medium Staple	8.9	7.6
Cotton Long Staple	Long Staple	10.0	7.1
Groundnut in shell		9.0	6.4
Sunflower seed		5.6	7.7
Soyabean Black	Black		
Soyabean Yellow	Yellow	7.0	6.3
Sesamum		10.3	7.3
Nigerseed		6.1	12.7
Average		**7.5**	**6.9**

Keeping in mind, that MSPs have seen a lower hike vis-à-vis last year, the impact on CPI inflation is likely to be small and disinflationary from MSP hike at approx. 10 bps, ceteris Paribas.

Inflation impact	FY24	FY25	Annualised impact
CPI	61 bps	52 bps	-10 bps
WPI	23 bps	19 bps	-5 bps

Headline domestic CPI inflation on track for now

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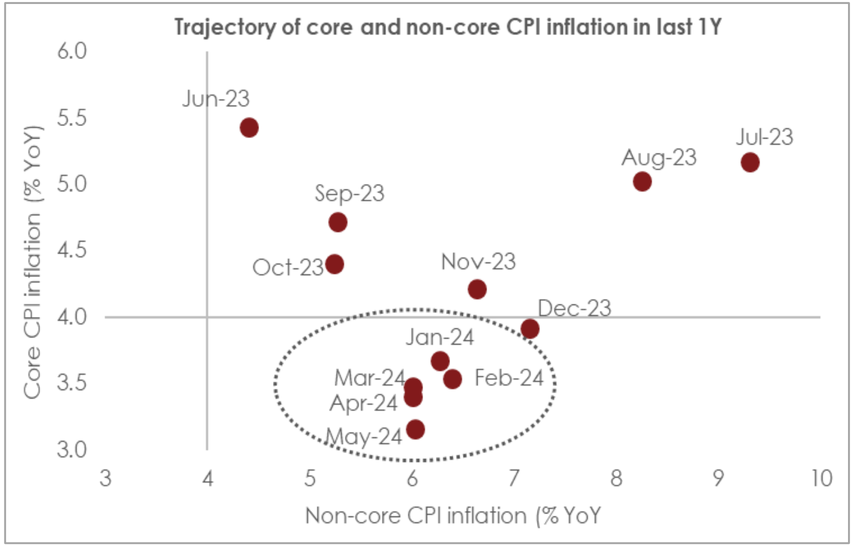
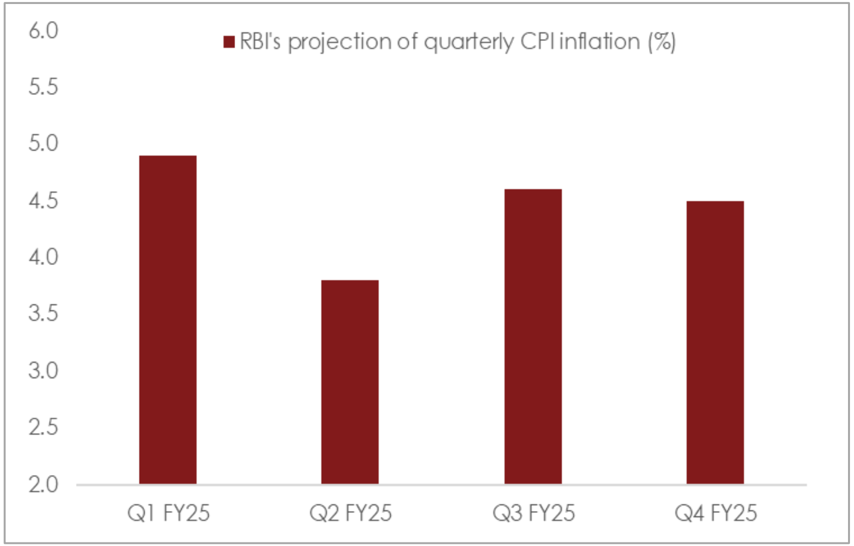
Although, non-core retail inflation has ranged between 6.0-6.5% in CY24 so far, core retail inflation has been sliding lower to record low levels, which in turn is helping to stabilize headline retail inflation between 4.5-5.0% range.

RBI continues to project FY25 CPI inflation at 4.5%, lower than FY24 inflation of 5.4%.



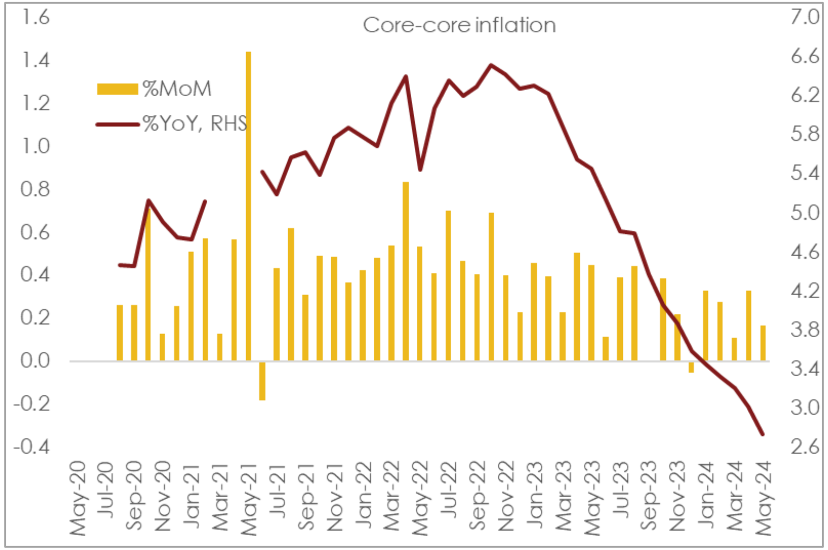


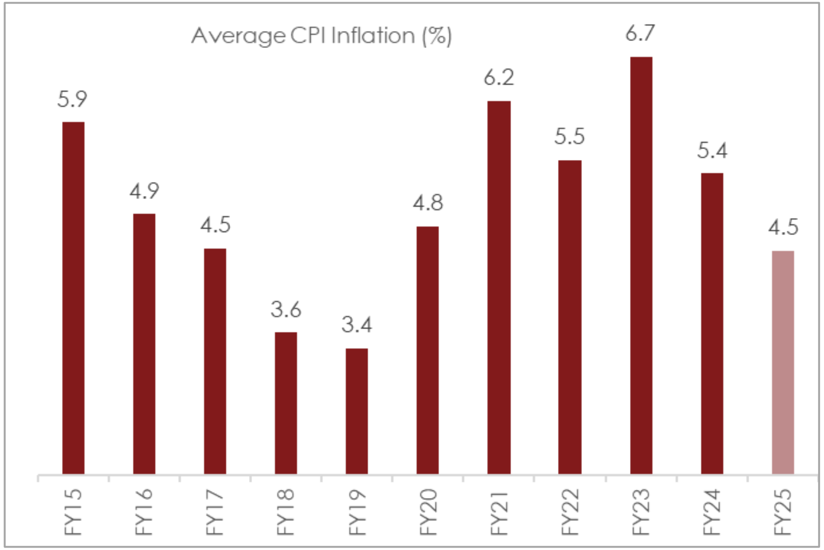
Note: Average inflation during Apr-May FY25 stood at 4.8%. Even if Jun inflation rises to 5.0-5.2%, RBI's forecast of 4.9% for Q1 will be realized.

CPI inflation to align closer to target in FY25

Domestic core inflation continues to moderate, remaining at record low levels, imparting comfort to inflation dynamics.

We expect CPI inflation to average at 4.5% in FY25 vs. 5.4% in FY24. Progress of monsoon remains on close watch along with upside risks from global commodity prices.





Snapshot of FY24 fiscal performance

The fiscal deficit outturn for FY24 was better than the revised estimates, with headline fiscal deficit seeing a reduction of Rs 811 bn on account of revex compression and higher revenue realization. As a ratio to GDP, FY24 fiscal deficit printed at 5.6% vs. RE of 5.8% (and FY23 level of 6.4%).

Snapshot of FY24 fiscal position			
	Revised Estimate (Rs bn)	Provisional (Rs bn)	Difference (Rs bn)
Revenue Receipts	26997	27284	287
Net Tax	23239	23265	26
Non-Tax	3758	4019	261
Non-Debt Capital Receipts	560	605	45
Total Receipts	**27557**	**27889**	**332**
Revenue Expenditure	35409	34940	-469
of which, Interest Payments	10554	10639	84
of which, Major Subsidies	4135	4135	1
Capital Expenditure	9496	9485	-10
Total Expenditure	**44905**	**44425**	**-479**
Fiscal Deficit	**17348**	**16537**	**-811**

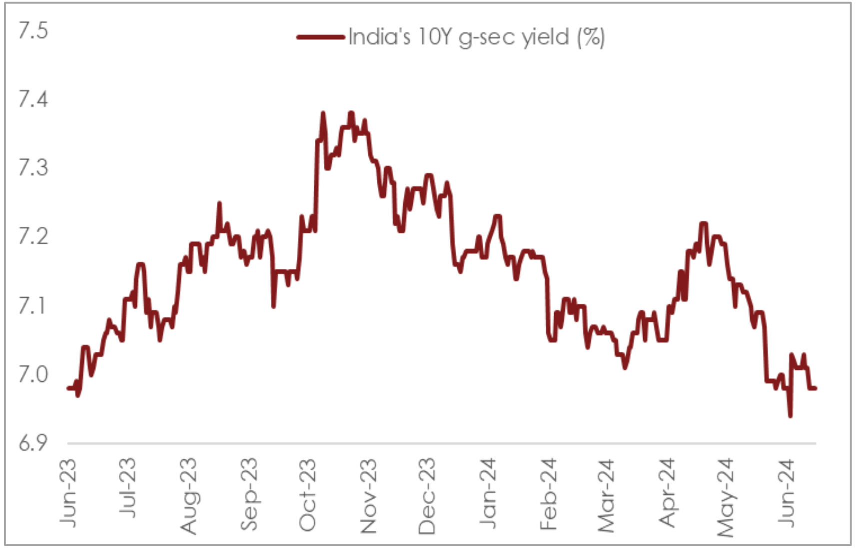
Snapshot of Apr-24 fiscal performance

The fiscal deficit for the month of April stood at 12.5% of interim budget estimates (IBE) for FY25, higher than 8.1% of actuals, as seen in the corresponding period in FY24. Although revenues clocked relatively higher pace of accretion in FY25 so far, higher fiscal deficit was led by a relatively higher pace of expenditure.

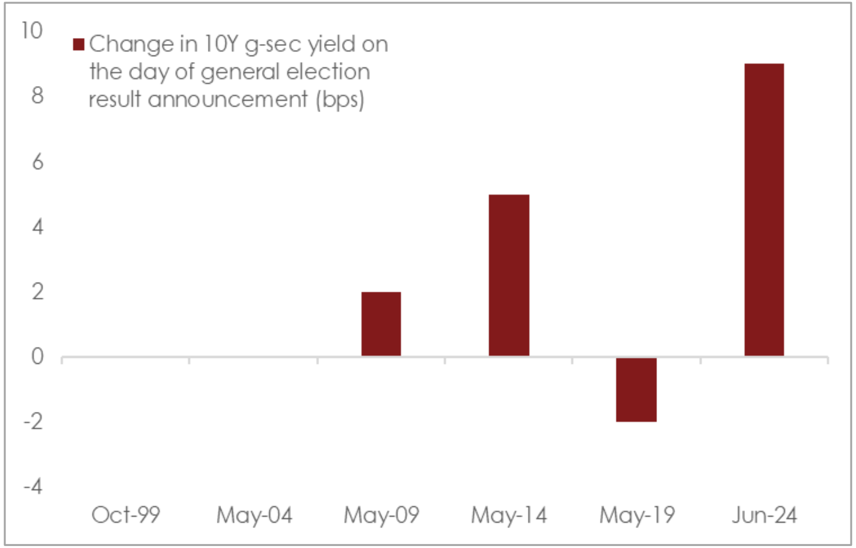
Key Fiscal Variables (Cumulative position, Apr)				
	% of FY Actual / Target		%YoY	
	FY24	FY25	FY24	FY25
Revenue Receipts	6.2	7.1	-13.6	25.0
Net Tax	6.8	7.1	-13.9	16.4
Non-Tax	2.7	6.8	-8.2	149.1
Non-Debt Capital Receipts	1.1	1.3	-81.6	62.1
Total Receipts	**6.1**	**6.9**	**-14.7**	**25.1**
Revenue Expenditure	6.5	8.9	15.2	43.7
of which, Interest Payments	4.5	10.8	16.1	167.6
of which, Major Subsidies	6.7	5.1	147.9	-22.9
Capital Expenditure	8.3	8.9	-0.6	26.5
Total Expenditure	**6.8**	**8.9**	**10.6**	**39.3**
Fiscal Deficit	**8.1**	**12.5**	**-**	**-**

G-sec yields recoup their post election losses

India's 10Y g-sec yield has moderated by 6 bps to 6.97% currently…

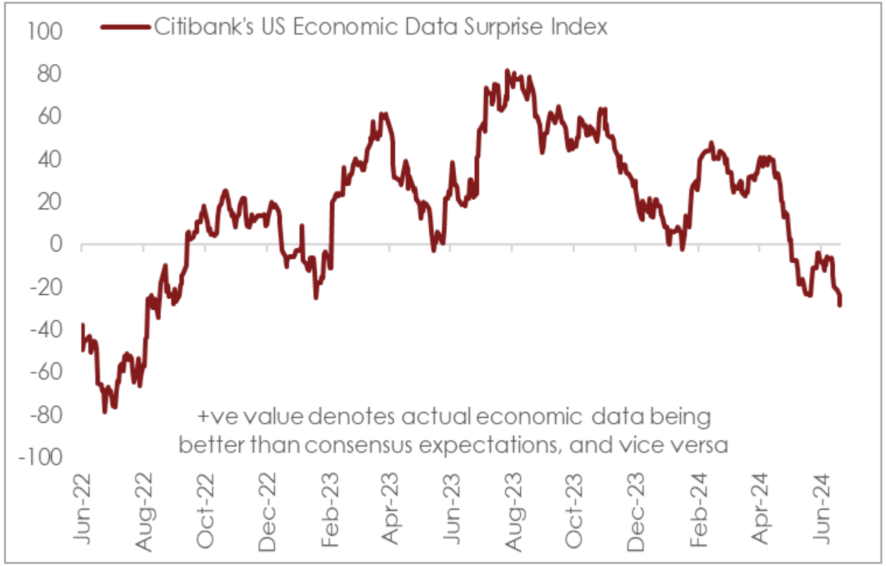


…recouping most of its post election losses seen earlier this month.

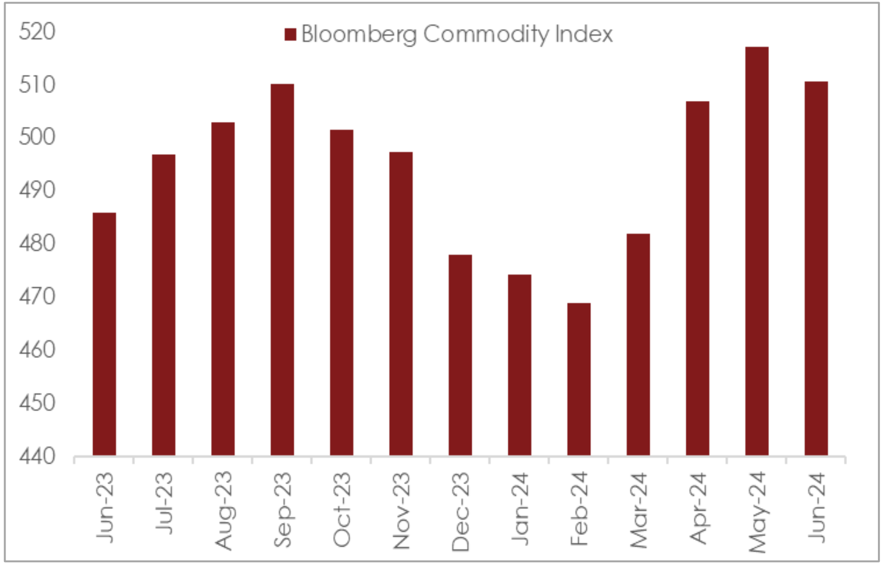


Global factors remain in favour

Softer than expected US economic data has kept a lid on global rates in recent weeks.



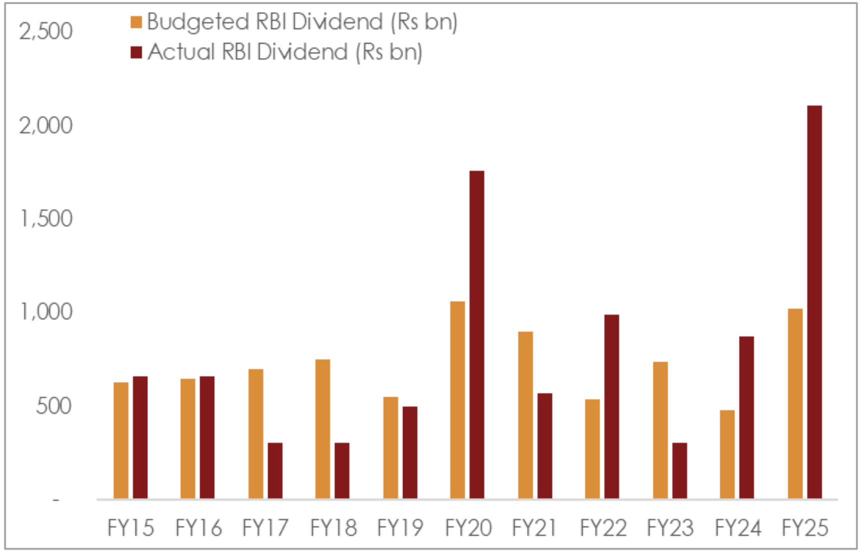
After three back-to-back months of increase, global commodity prices showing signs of moderation in Jun-24 so far.

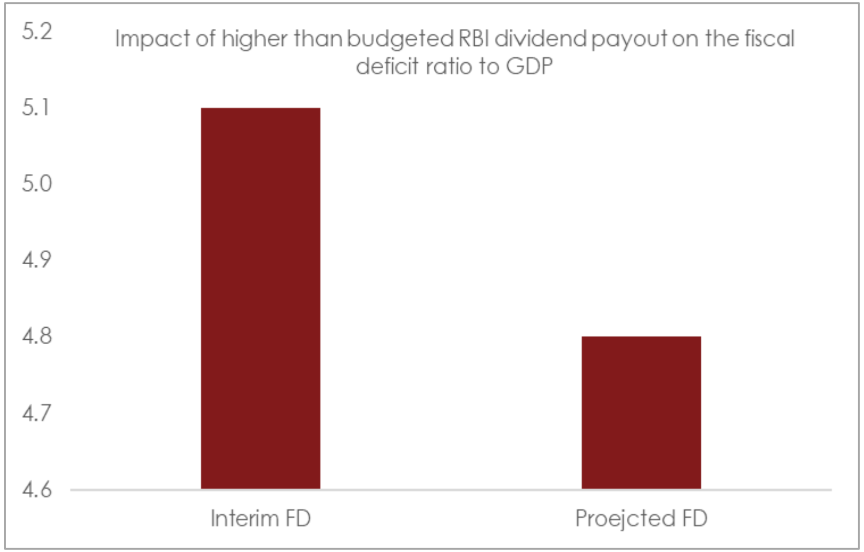


RBI dividend to offset fiscal risks

We believe risk of fiscal slippage is extremely low in FY25 in the backdrop of record high dividend payout from the RBI (which is approximately Rs 1.1 tn more than interim budget expectations).

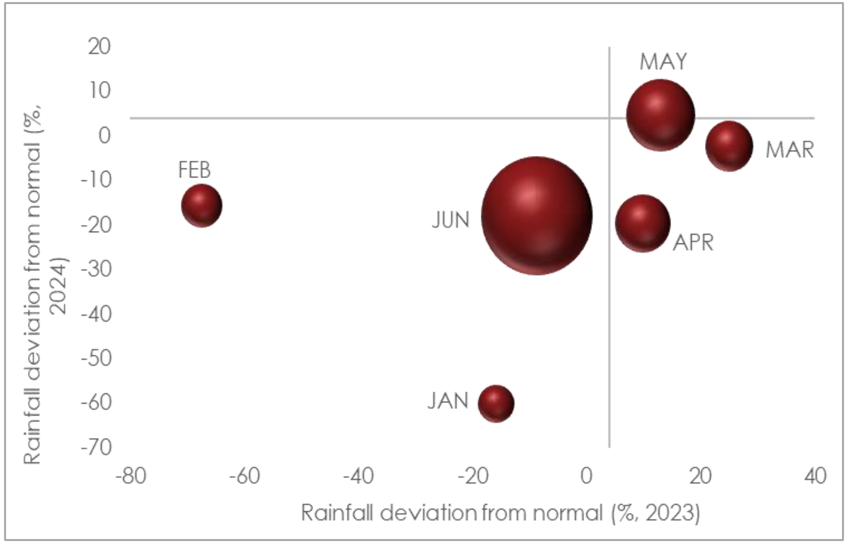
Higher RBI dividend on its own will provide ~30 bps downside to the fiscal deficit target (as per the interim budget) of 5.1% of GDP.





MPC to maintain pause in the near-term, opt for a shallow rate easing cycle thereafter

Although the IMD forecasts south-west monsoon season to result in 6% surplus rainfall, the performance in Jun-24 so far has been underwhelming, with a cumulative deficit of 17%.



Note: Size of the dot represents the month's share in annual rainfall

Amidst last few months of consecutive upward pressure on commodity prices (esp. metals), input prices (WPI) have started to harden. This could potentially have a lagged impact on output prices (CPI).

WPI food inflation has been rising continuously for last 4 months in a row; currently stands at 7.2% YoY

After staying negative for 11 months, WPI fuel inflation has been in positive territory since Apr-24; currently stands at 2.6%

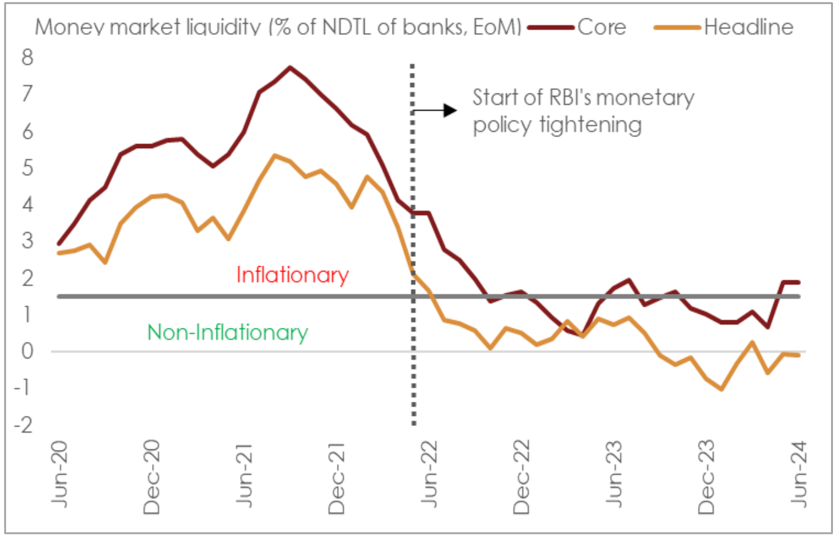
After staying negative for 14 months, WPI core inflation turned positive in May-24; currently stands at 0.1%

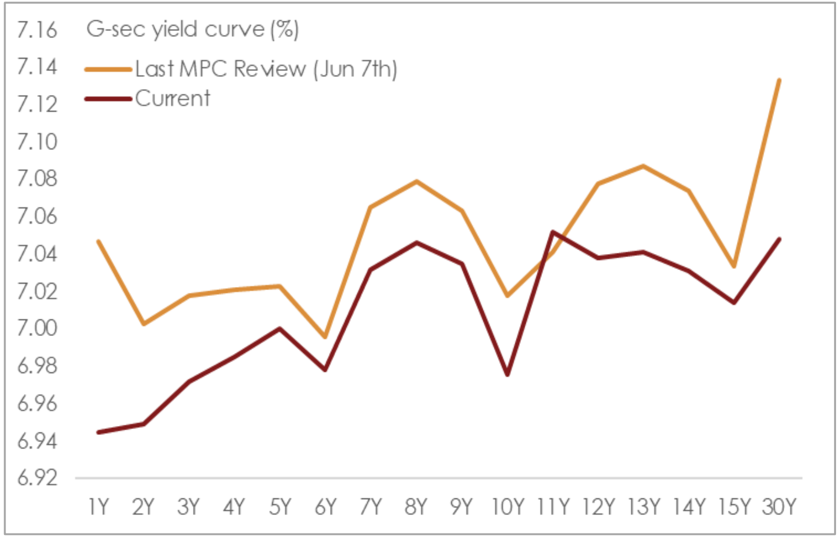
With likelihood of first rate cut from the US Fed in Sep-24, we expect the RBI to pivot in Oct-24. Our expectation of cumulative rate cut from the RBI in FY25 stands at 50 bps.

Rates outlook

Ongoing buybacks/ pruning of T-Bill borrowing, while supporting bond market sentiment, is seen as a cash management tool with no impact on net liquidity (which has benefitted from the record high RBI dividend).

The g-sec yield curve has marginally flattened since the last policy review in Apr-24. A good monsoon could hopefully result in further flattening in H2 FY25.



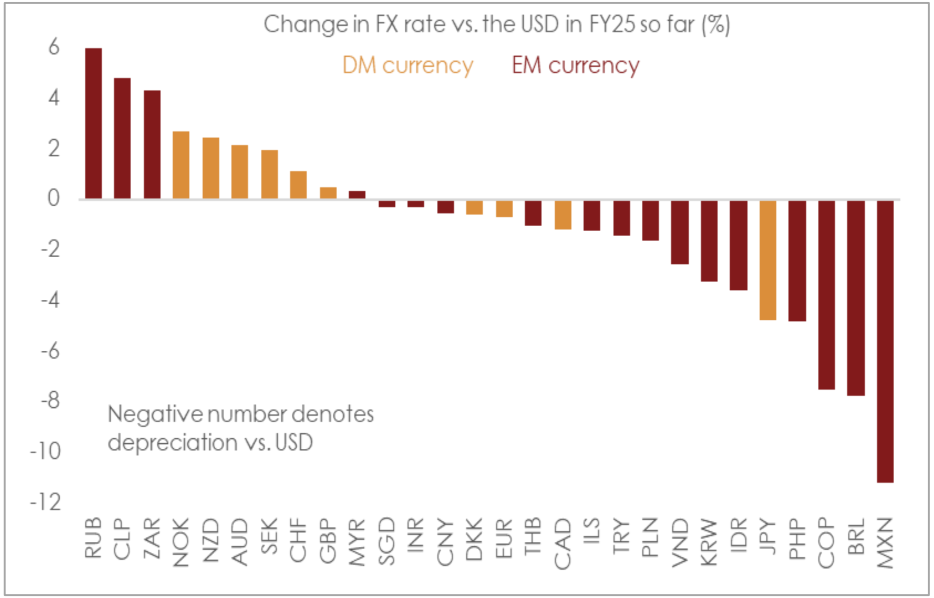


We expect 10Y g-sec yield to slide lower towards 6.75% by Mar-25. Geopolitical uncertainty and any delay in Fed pivot could potentially provide an upside risk.

Notwithstanding low volatility, INR continues to slip to record lows

INR weakened by 0.3% on FYTD basis, thereby escaping high volatility seen across major DM and EM FX crosses.

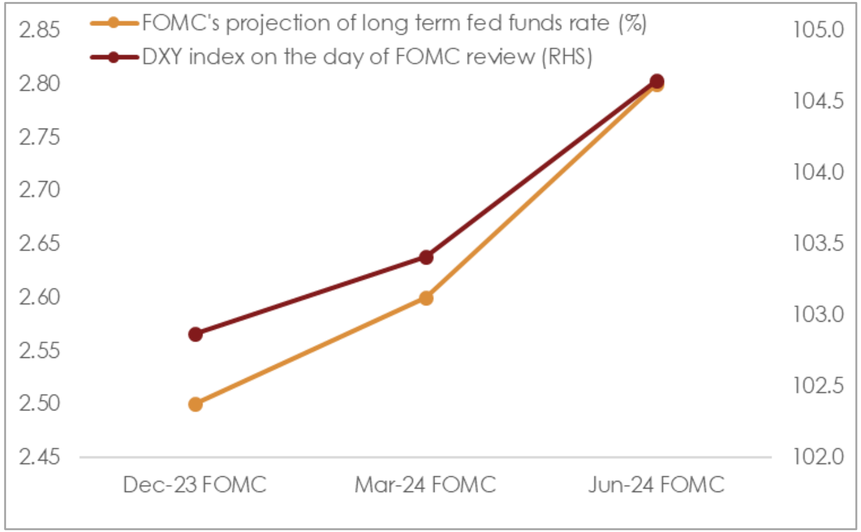
However, INR continues to slide to record low levels (currently trading close to 83.60 levels), albeit at a gradual pace.

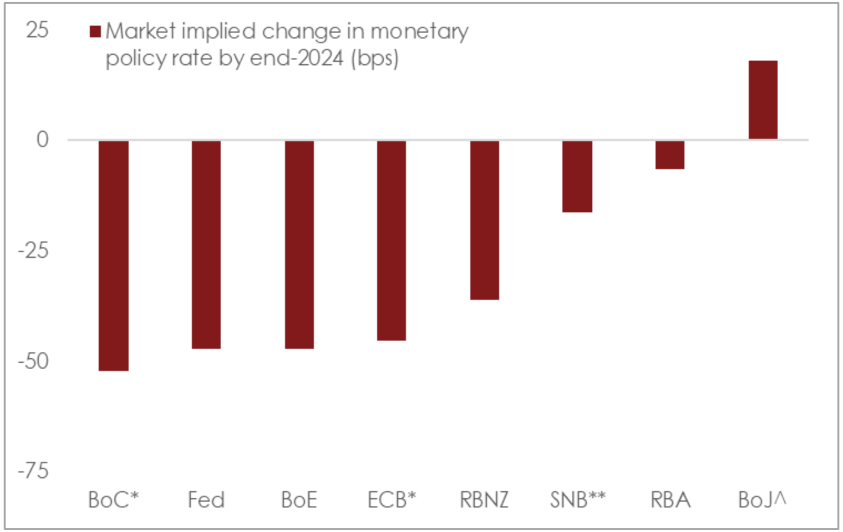


USD gaining change in Fed's pivot and scope

FOMC's projection of long-term fed funds rate has seen a 30 bps jump to 2.8% since Dec-23. This curtails the scope of monetary easing in the anticipated rate easing cycle.

Meanwhile, the FOMC has pushed back its first rate cut expectation, because of which market is currently pricing in ~40 bps cumulative rate cuts by end 2024. Since this is much lower than other key DM peers (some of them have already initiated easing), USD continues to find support.



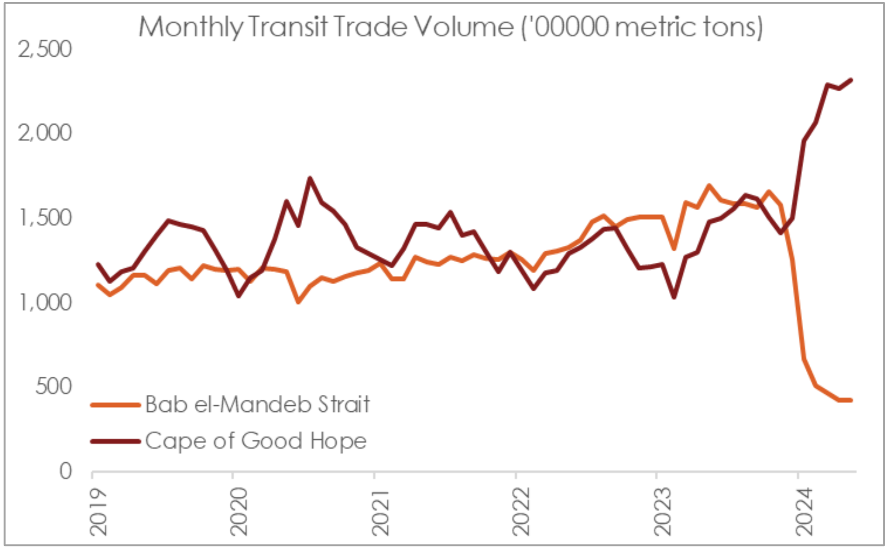


Note: *one rate cut in 2024; **two rate cuts in 2024; ^ one rate hike in 2024

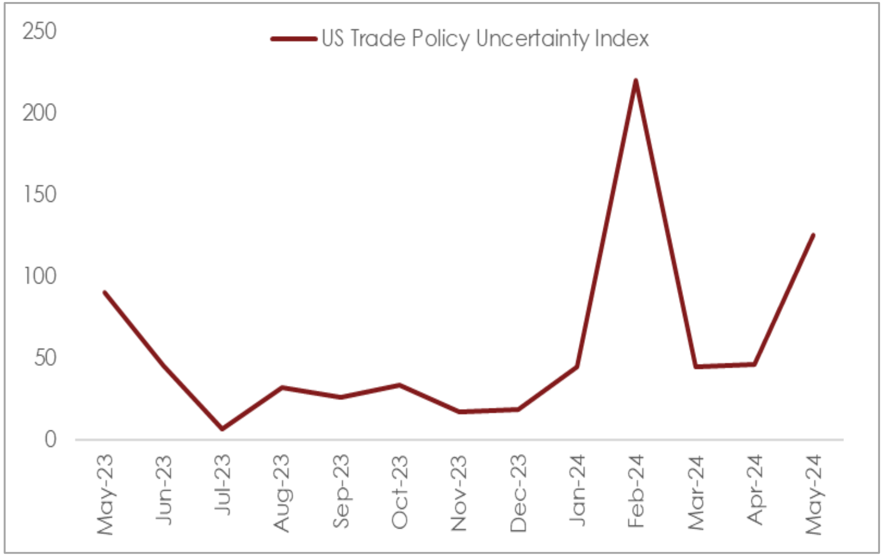
Uncertainty with respect to global trade persists

The ongoing Red Sea disturbance has led to a massive rerouting of merchant ships, thereby resulting in time and cost escalations.

Upcoming election cycle in the US has led to a higher threat of protectionist rhetoric, esp. targeted at China. This could once again undermine the spirit of trade-based globalization.



Note: As of May-24, there is no evidence to suggest any major adverse impact on India's trade performance



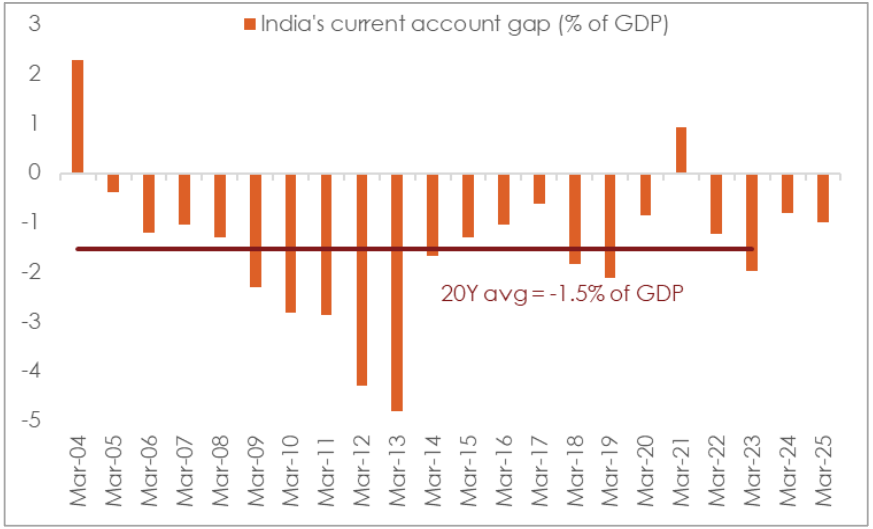
Note: Higher value of the index denotes rising uncertainty, and vice versa

However, key domestic macro parameters remain in support

IMF projects India to be the fastest growing country within G20 over the course of 6-years.

Year	Fastest Growing G20 Country	GDP growth of fastest growing country	Average G20 GDP growth excl. fastest growing country
2024	India	6.8%	1.8%
2025	India	6.5%	2.5%
2026	India	6.5%	2.3%
2027	India	6.5%	2.2%
2028	India	6.5%	2.1%
2029	India	6.5%	2.1%

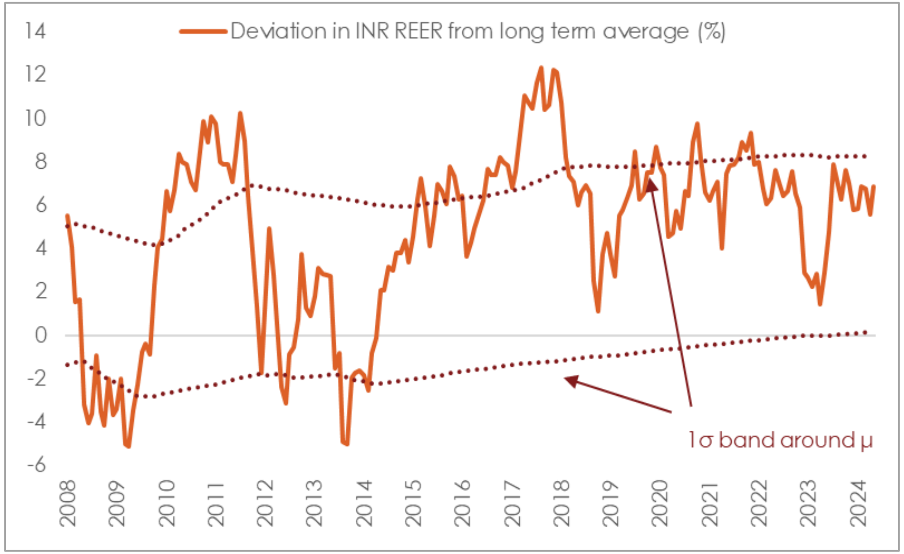
India's CAD is projected comfortably below its long-term trend in FY24 (at 0.8% of GDP) and FY25 (1.0% of GDP).

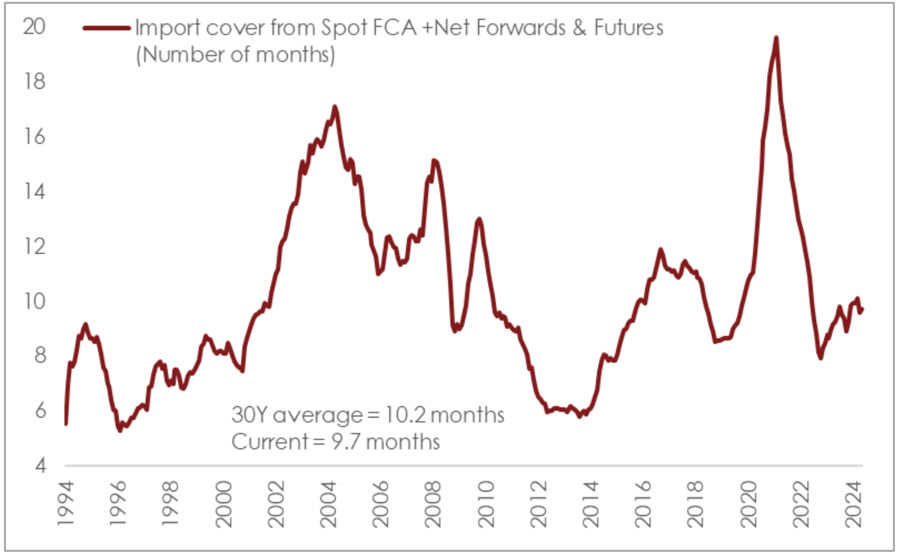


Rupee Outlook

INR is currently 6-7% overvalued basis the REER metric. This points towards space for some adjustment.

The RBI has been building its import cover to bolster country's FX firepower. We expect the same to continue in FY25.



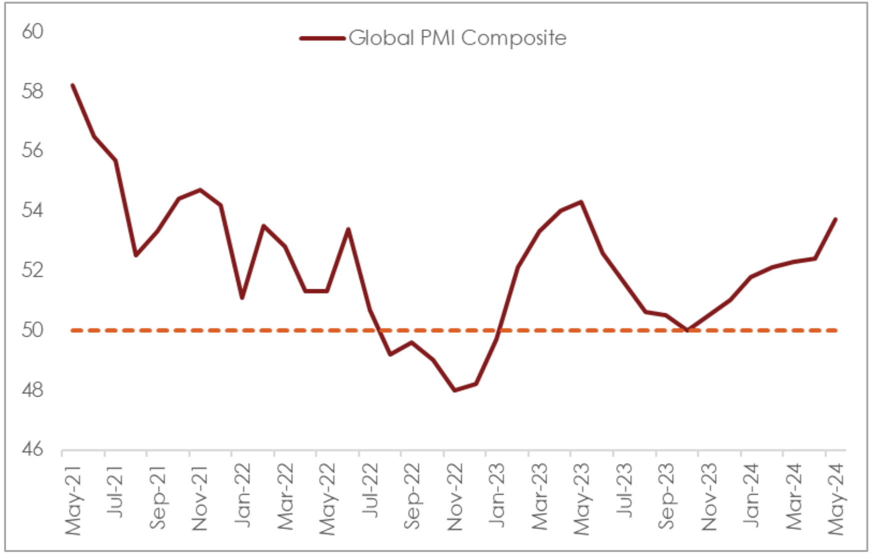


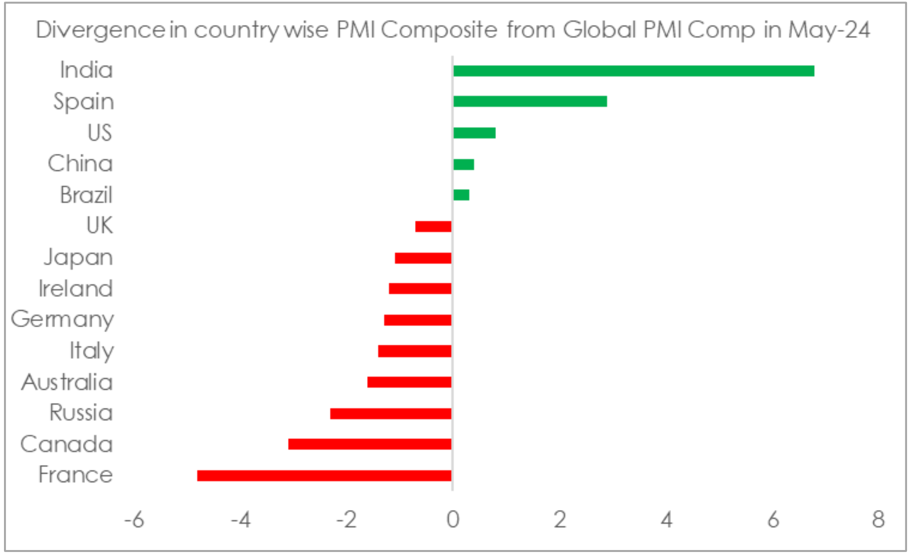
We continue to expect INR to post a mild depreciation in FY25, with a move towards 84.5 by Mar-25. Push back in case of Fed pivot, worsening of geopolitical risks, and potential domestic political uncertainty could however put INR under some pressure.

Headline global growth momentum improves, variation within economies

The J.P. Morgan Global PMI Composite Index touched a 12-month high of 53.7 in May-24, aided by an improvement in the manufacturing index (to a 22-month high level of 50.9) as well as the services index (to a 12-month high level of 54.1).

Notwithstanding the traction in Global Composite PMI, there are significant country level divergences. For the month of May-24, while India emerged as a key outperformer, France on the other hand was a noticeable underperformer.





…this is resulting in monetary policy divergence

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Multi-speed economic performance with respect to both growth and inflation is causing central banks to chart their own course. Although the US Fed has been on hold after its last rate hike in Jul-23, many EM and few DM central banks have taken monetary policy actions in last few months, with cuts outnumbering hikes by a significant margin. With Fed pivot expectations getting pushed back (likely to be corroborated by the FOMC dot plot in Jun-24), it will no longer serve as a necessary signalling condition for other central banks.

Rate hikes by number of central banks in 2024 so far

	DM	EM	Total
Jan	0	1	1
Feb	0	0	0
Mar	1	1	2
Apr	0	1	1
May	0	0	0
Jun	0	0	0

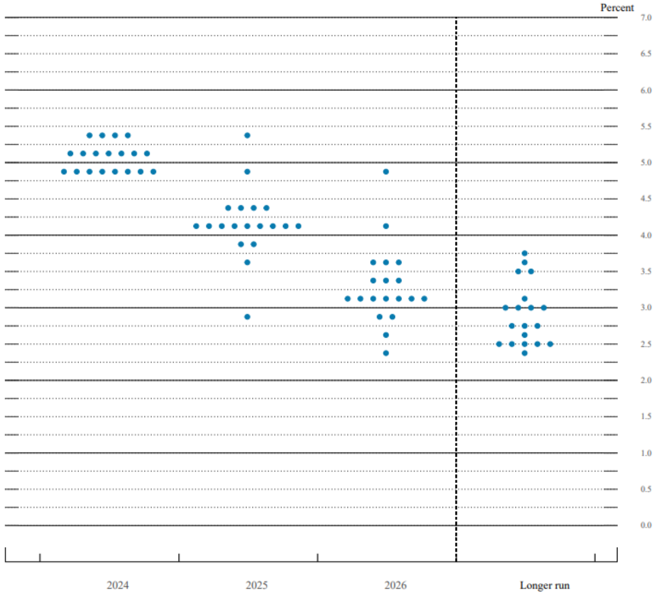
Rate cuts by number of central banks in 2024 so far

	DM	EM	Total
Jan	0	3	3
Feb	0	6	6
Mar	1	6	7
Apr	0	4	4
May	1	7	8
Jun	3	0	3

Note: DM countries/zones that have cut monetary policy rate at least once in 2024 are Switzerland, Sweden, Canada, & Eurozone
Note: EM countries that have cut monetary policy rate at least once in 2024 are Argentina, Brazil, Chile, Colombia, Czechia, Hungary, Israel, Mexico, & Peru

US monetary policy: One or two cuts?

US Federal Reserve's updated economic projections, released in Jun-24, shows that Fed officials have pared back their expectations for rate cuts this year, to one from the three seen in Mar-24, after stronger-than-expected inflation data in the first few months of 2024.



On the other hand, market participants still continue to expect the possibility of two rate cuts over the remainder of 2024

Rate change	31st Jul-24	18th Sep-24	7th Nov-24	18th Dec-24
No change	**89.7**	34.1	22.1	5.6
Cut 25 bps	10.3	**59.5**	**50.6**	29.3
Cut 50 bps		6.4	25.1	**44.1**
Cut 75 bps			2.3	19.4
Cut 100 bps				1.7

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