Macro Pulse
Report

March 2024

From the desk of the Chief Economist

Dear Readers,

As we begin the new fiscal year FY25, "all is not quite on the external front". While the domestic economy has entered into the year with an optimistic note, more clouds have gathered on the geo-political horizon. There is a greater likelihood of a larger conflict between Israel and Iran given the latest developments in terms of direct drone and missile attacks. Needless to say, this will have a significant impact on global crude oil prices and global markets, thereby clouding the strong economic outlook for the Indian economy.

There is enough positivity though on the domestic front. GDP growth in FY24 is now expected to be slightly higher than 7.6%, the last estimates from NSO given the strong macro-economic indicators seen in the fourth quarter. Headline retail inflation has subsided to below 5.0% despite the higher food inflation induced by El Nino phenomenon; core inflation has dropped below 3.5% and wholesale inflation is nominal for now. Private capital expenditure is finally witnessing a steady uptick. There is also the expectation of higher economic reforms after the national elections with the strong likelihood of the current government reinstated to power. India's financial sector remains healthy with a strong regulatory oversight and the foreign exchange reserves are at a high.

Despite the overall buoyancy in the Indian economy, there is still a fragility in consumption demand and particularly rural demand. Private consumption growth has been sluggish at an estimated 4.4% in FY24 and remains an area of concern. Hopefully, we will see an improvement in rural demand in the current fiscal. The good news is the forecast of a normal monsoon with the exit of El Nino and the advent of La Nina. We can only hope and pray that Western disturbances don't spoil the strong outlook for our economy.

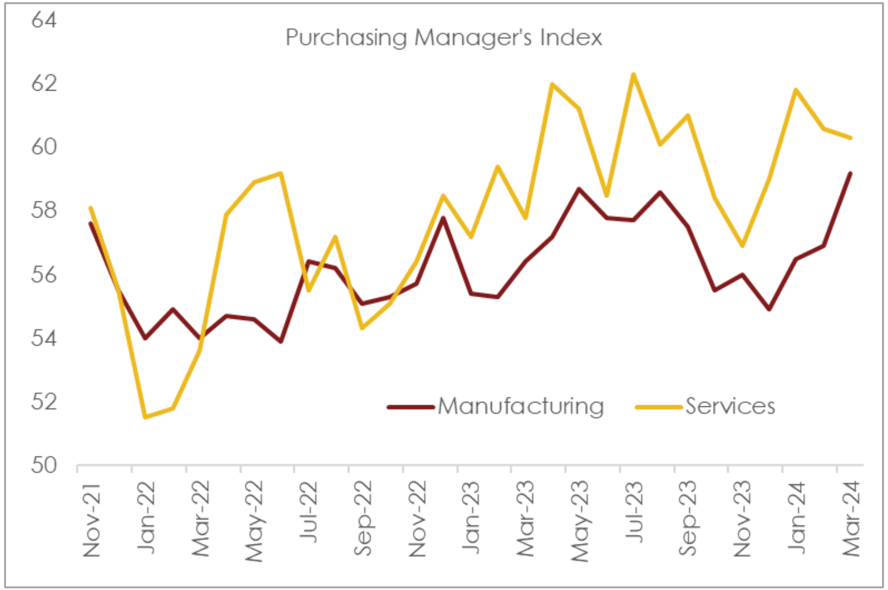
Cheers,

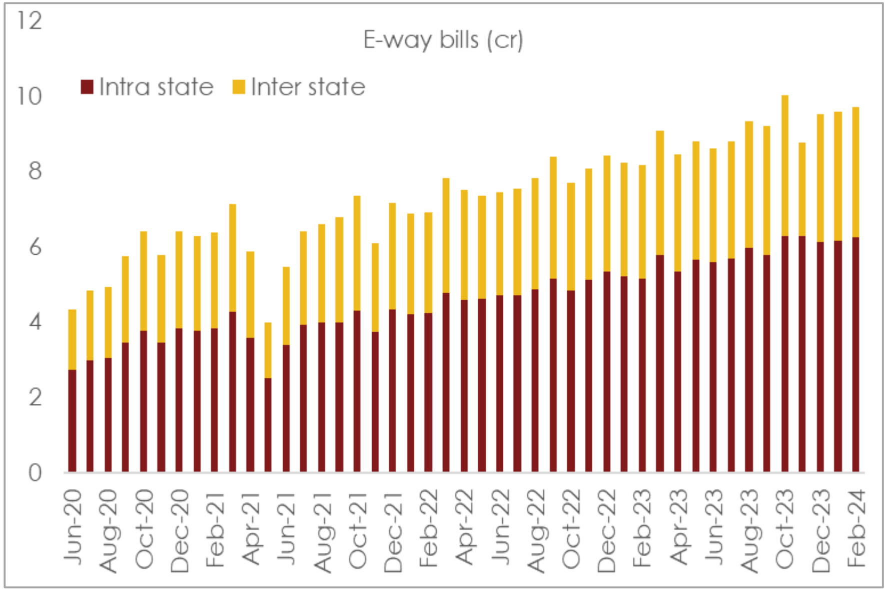
- Suman Chowdhury, Chief Economist and Head – Research

Q4 FY24: Economic activity displays resilience

Domestic economic activity continued to remain 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 didn't exert a marked impact.

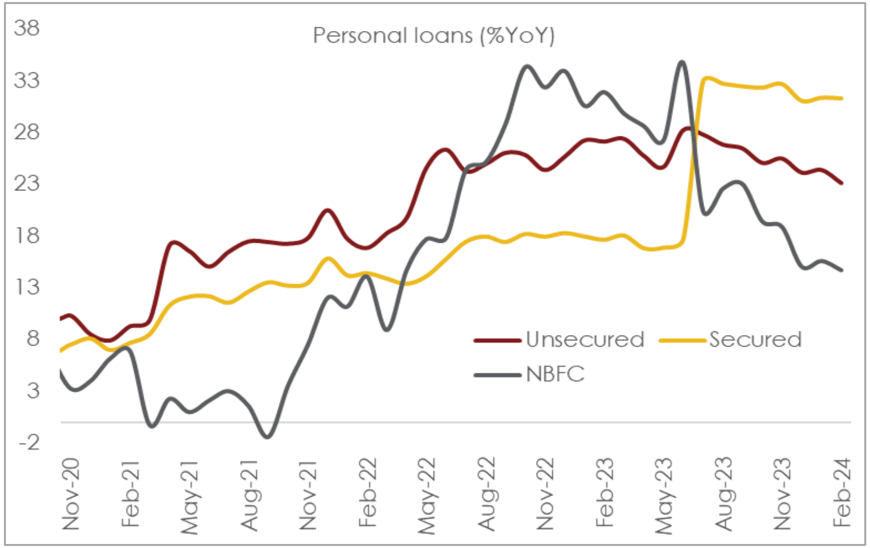


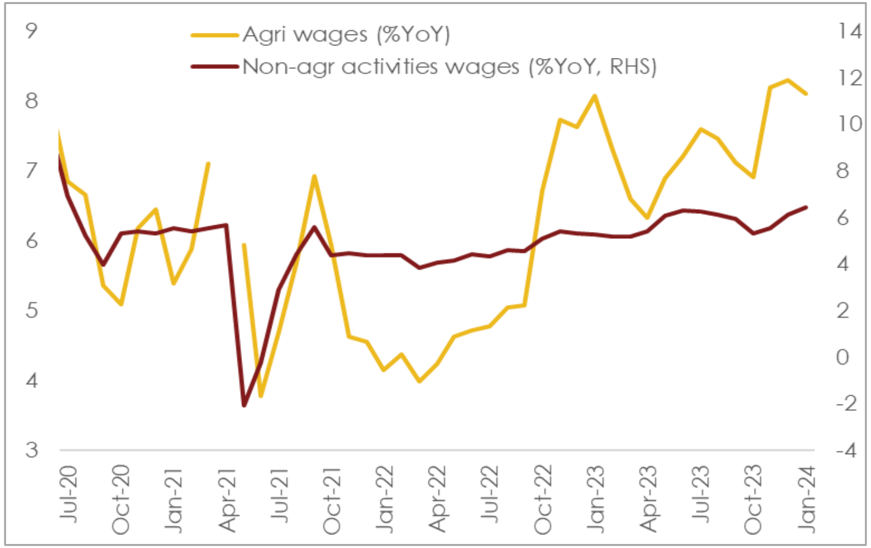


FY25 outlook: Urban consumption to face headwinds, rural on recovery path

While urban consumption has held up well so far in FY24, impact of lagged monetary policy tightening as well as regulatory measures to curb the pace of unsecured lending, are expected to weigh on the pace of urban consumption 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 rise in agriculture wages, upward adjustment in MSPs, 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.

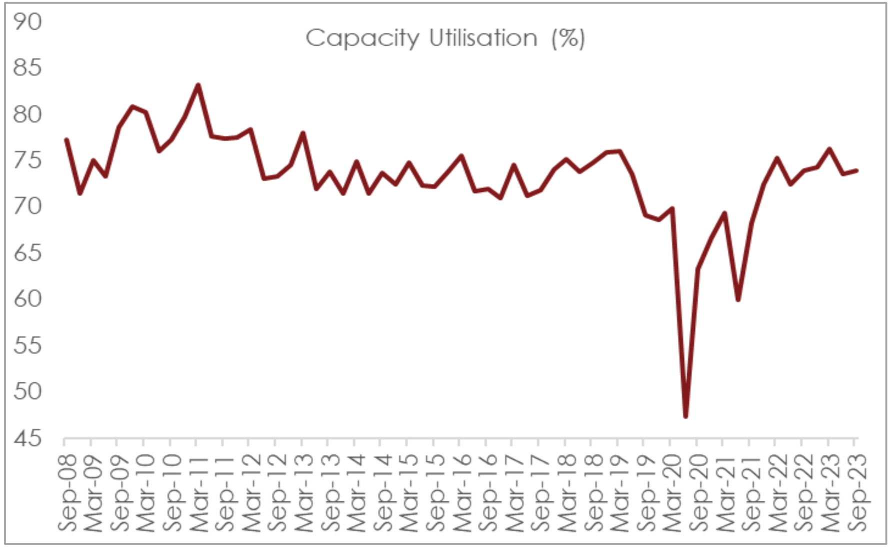


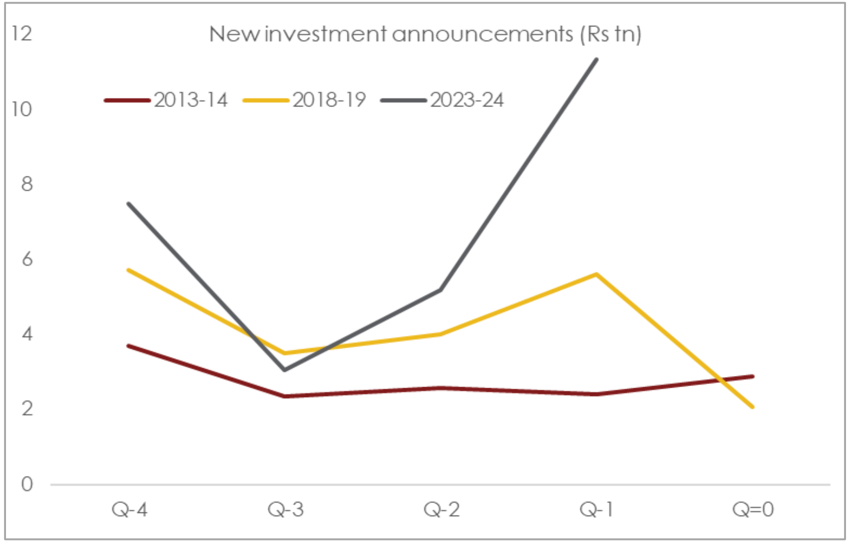


Broader private capex recovery remains elusive

Capacity utilisation levels have improved to ~74% on trend basis, over the last 4 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

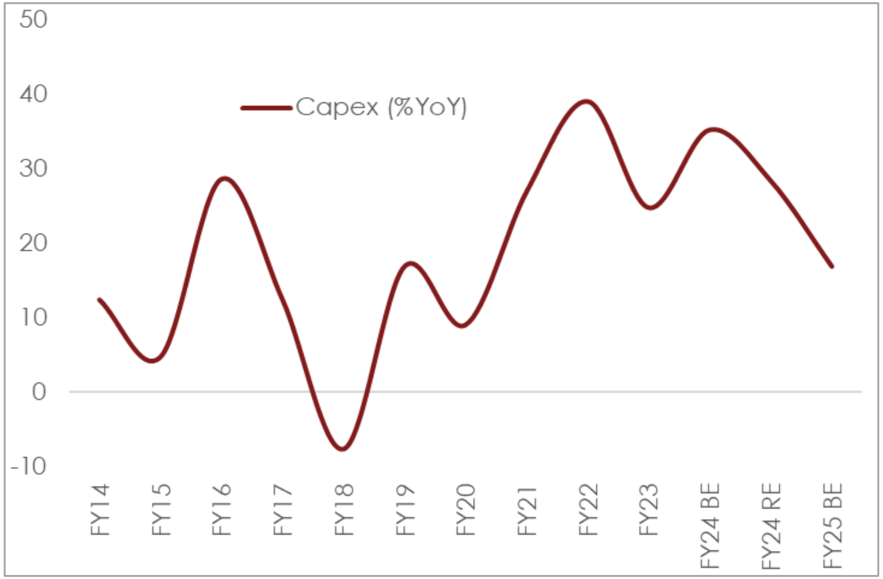


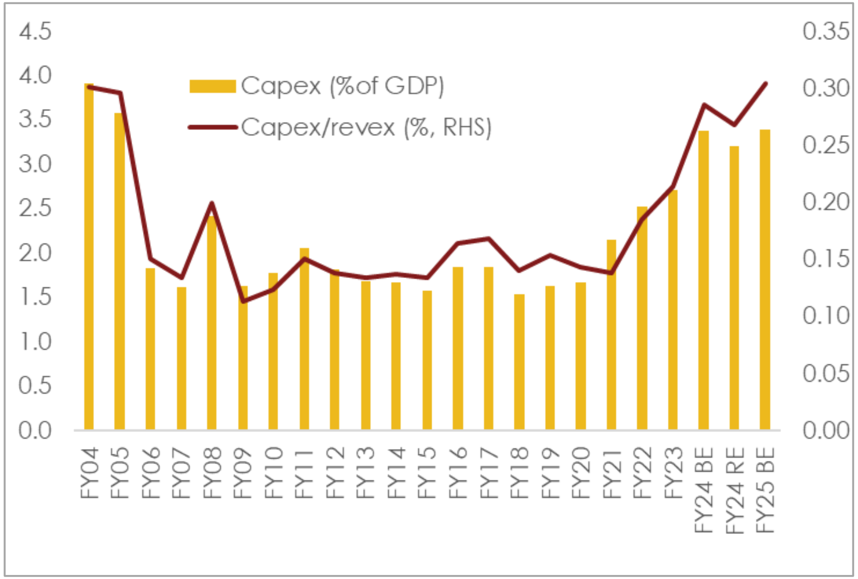


Capex support to growth intact

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.

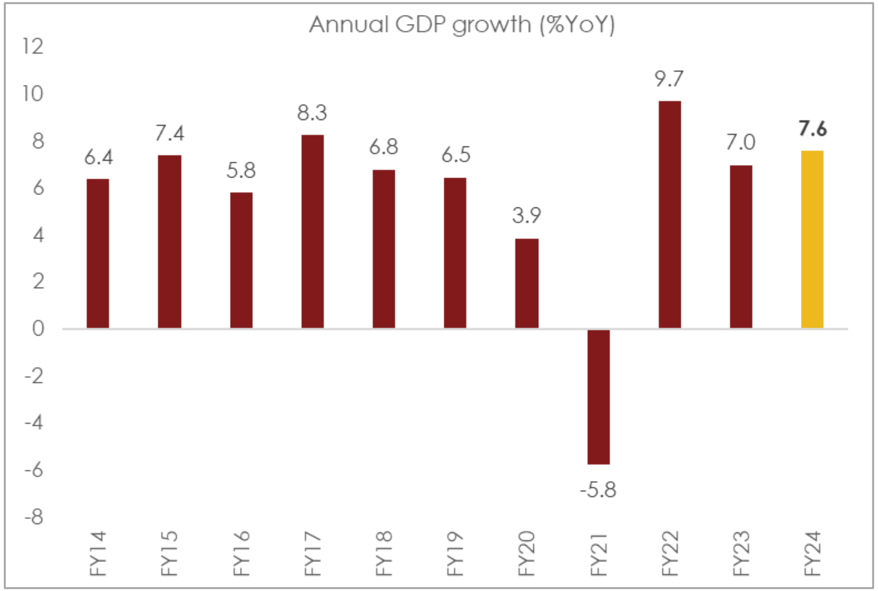


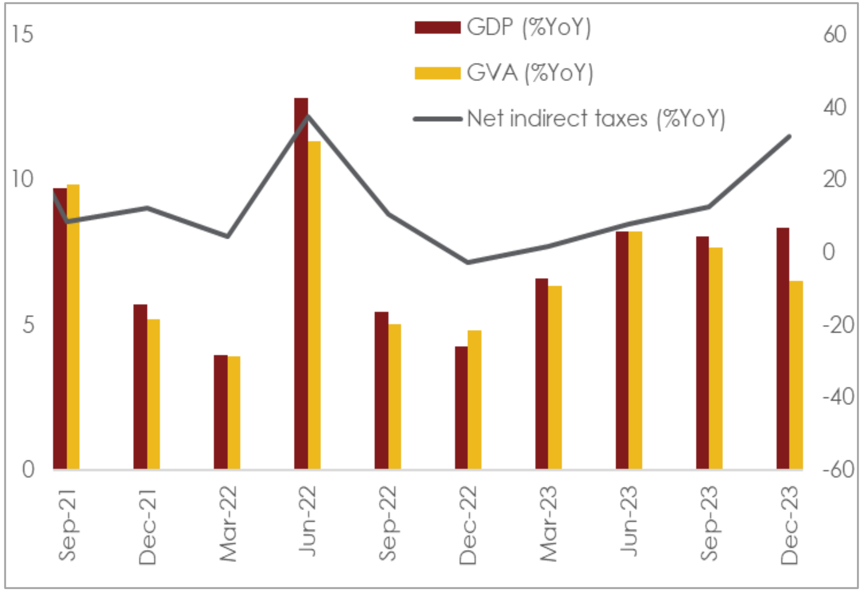


FY24 GDP: Could be revised up by 20 bps to 7.8%
FY25 GDP: Forecast upped to 6.8%

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

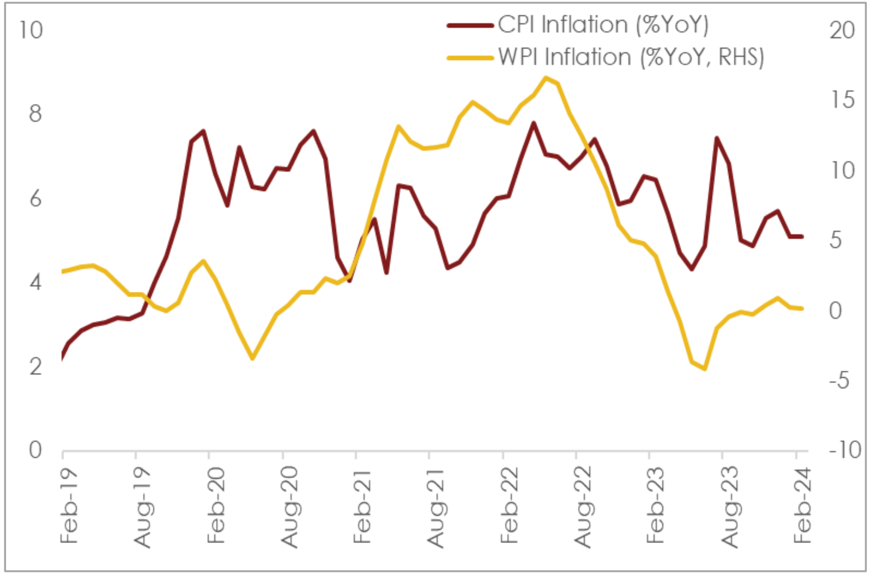
For FY25, we continue to hold a view of a moderation in growth. The wedge between GVA and GDP growth seen in FY24 should correct in FY25. As such, we expect GDP to moderate by ~100 bps, but GVA to ease by more modestly by ~50 bps to 6.8% and 6.6% respectively.



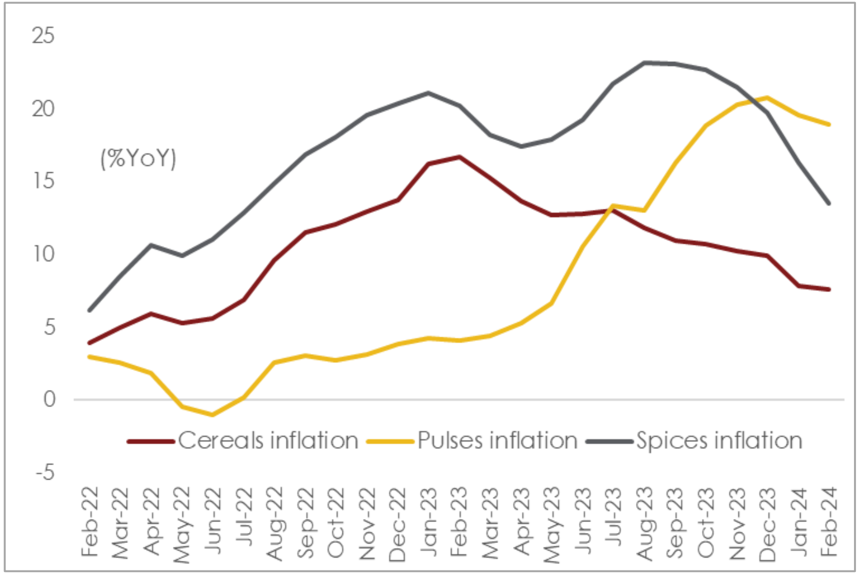


Feb-24 inflation steady, food price pressures remain on watch

India CPI inflation remained steady in Feb-24, coming in at 5.09%YoY compared to 5.10% in Jan-24. While vegetable prices rose to defy winter seasonality, contraction in fuel prices offset the increase.



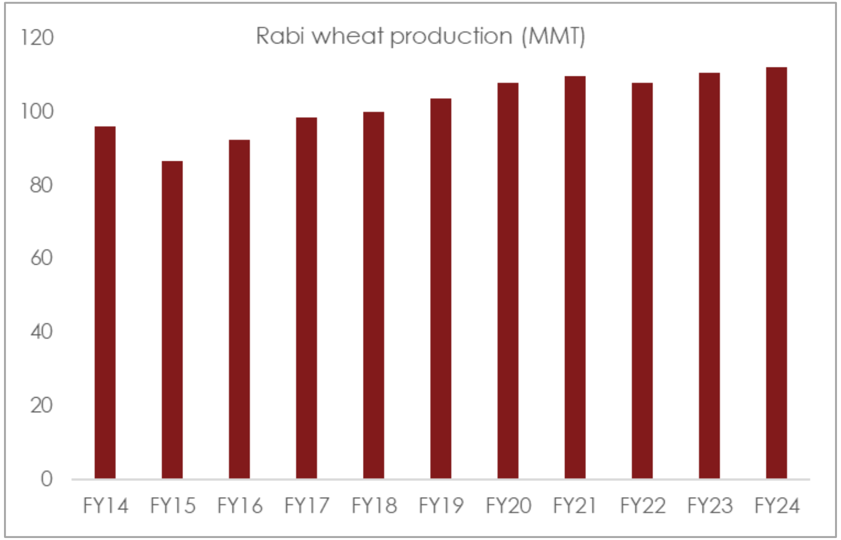
Food inflation continues to remain elevated for staples such as cereals, pulses and spices, though there are signs of moderation in recent months.

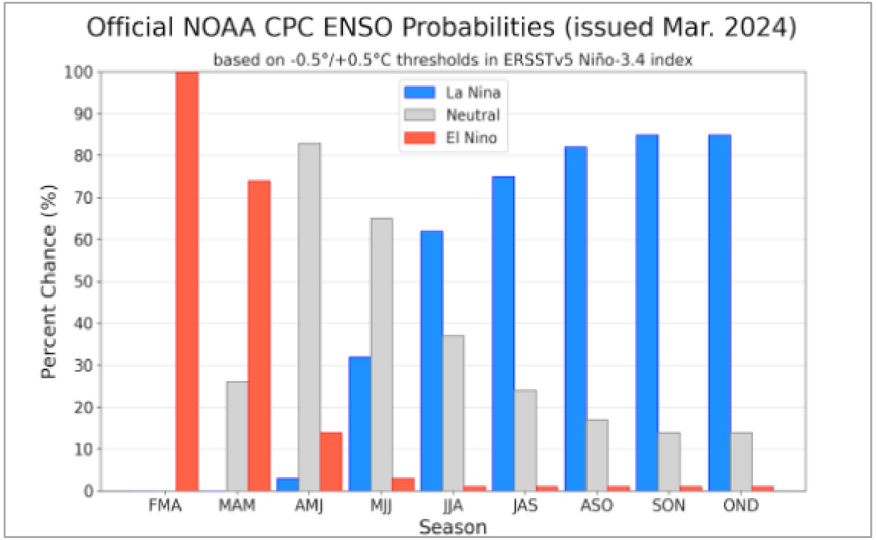


Rabi production holds up, El Nino on watch

Area sown under Rabi crops, after a slow start, ended the season a tad above historical norms. As per Government's 2nd advance estimates, wheat production is likely to clock at a record high of 112 mn tons.

Global agencies anticipate ENSO conditions turning 'Neutral' by Apr-24, which should augur well for 2024 Southwest monsoon.

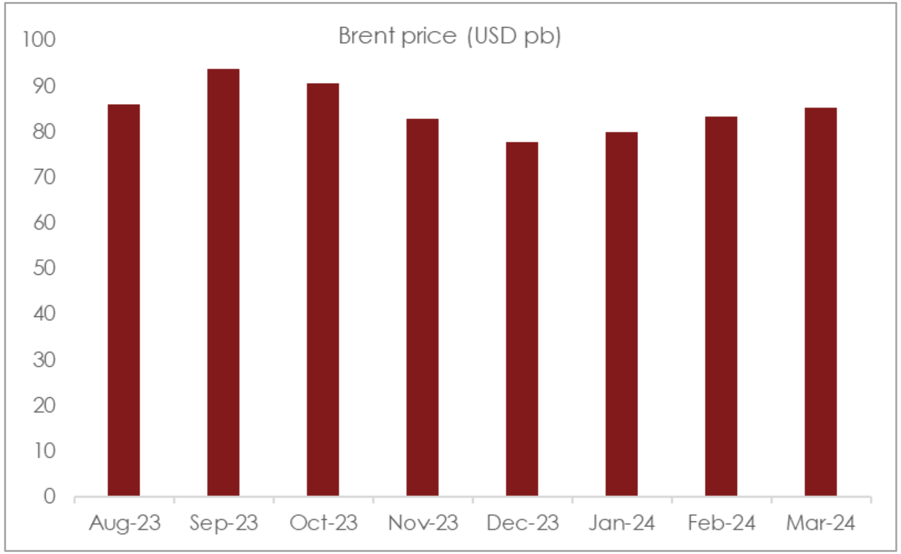


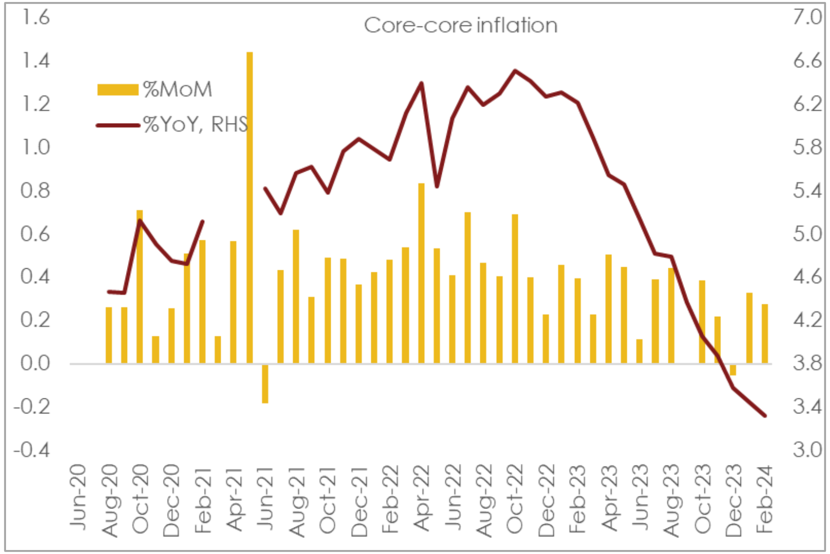


Fuel and core inflation offer comfort

Crude oil price has remained largely steady, despite tensions in the Red Sea region. In addition, the Rs 100 reduction in LPG cylinder (announced on 8th Mar) and Rs 2 reduction in petrol and diesel prices (announced on 15th Mar) will offer further comfort.

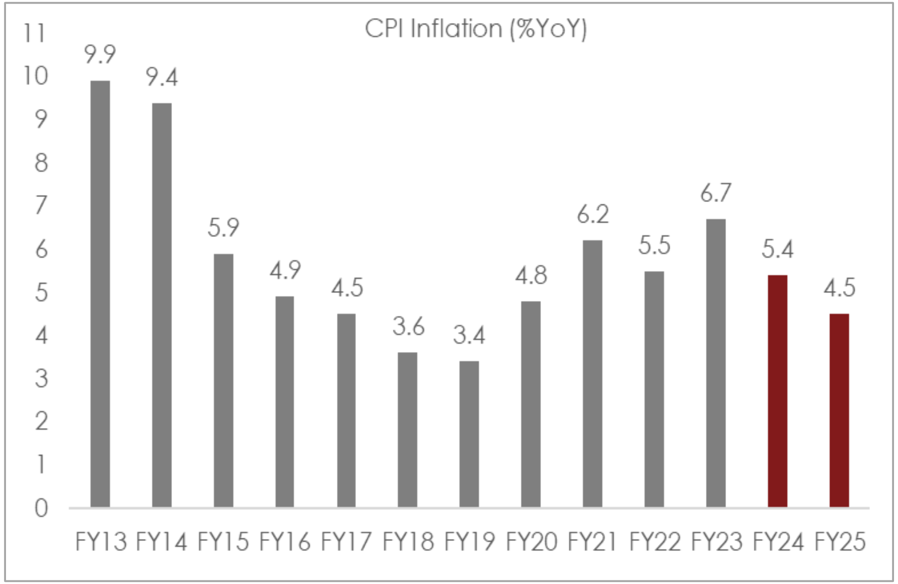
Domestic core inflation continues to moderate, slipping to a fresh record low of 3.3%YoY in Feb-24.





CPI inflation: To average 5.4% in FY24; align closer to target in FY25

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)



Factors on watch
Impact of Israel-Hamas tensions Tensions in Red Sea region remain on watch
Waning of El Nino expected by Apr-May-24
Durability of price pressures seen in cereals, pulses and spices
2024 Southwest monsoon performance IMD to release its First stage forecast by second week of Apr-24

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

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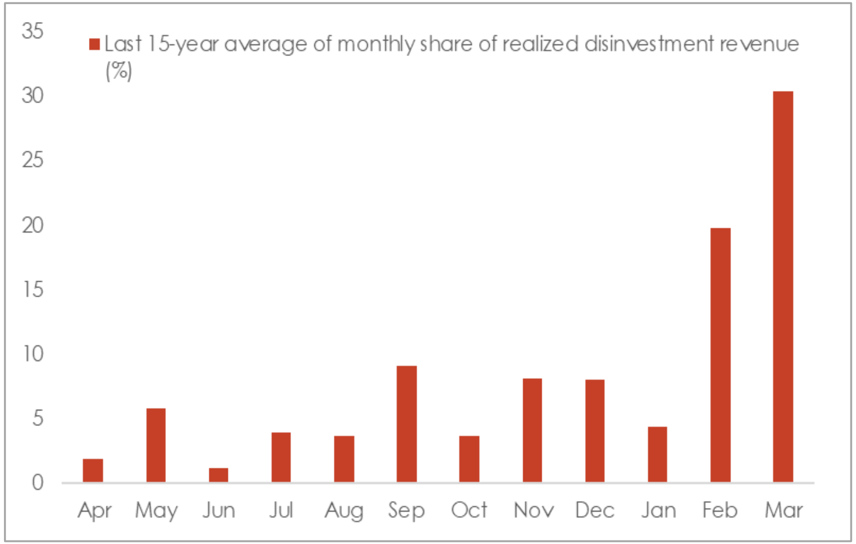
Basis the run-rate in gross tax collections over Apr-Feb, the revised target for FY24 appears within reach (although possibility of individual misses cannot be ruled out). However, net tax collection could potentially see some minor shortfall on account of high tax devolution to states.

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**

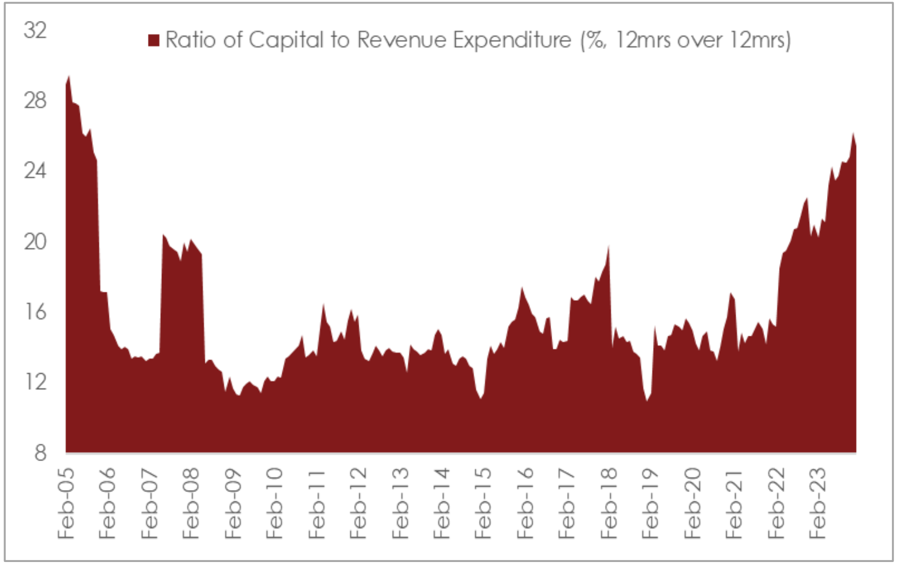
Note: Annualized change for Apr-Feb FY24 is on provisional basis while that for Mar-24 is implied from the revised estimates.

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.

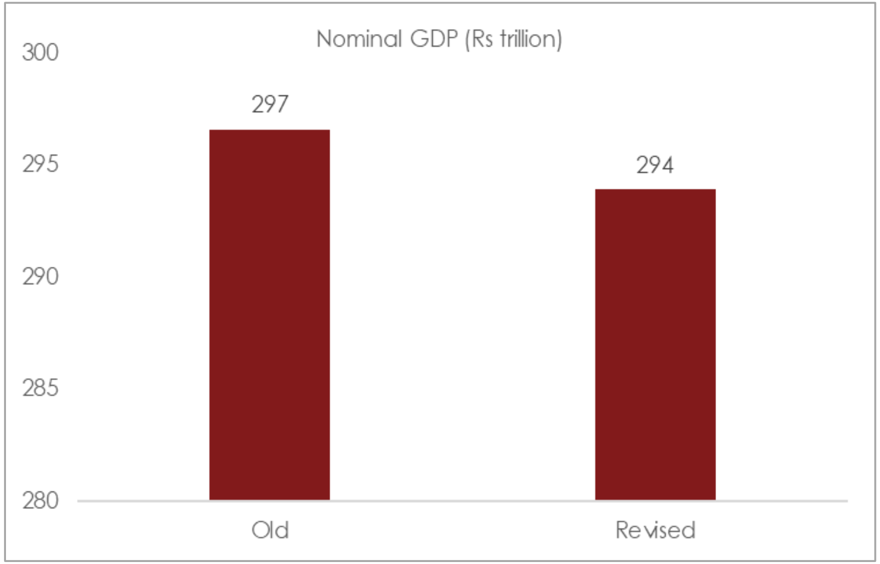


Quality of spending continues to improve; FY24 fiscal deficit target to be achieved

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



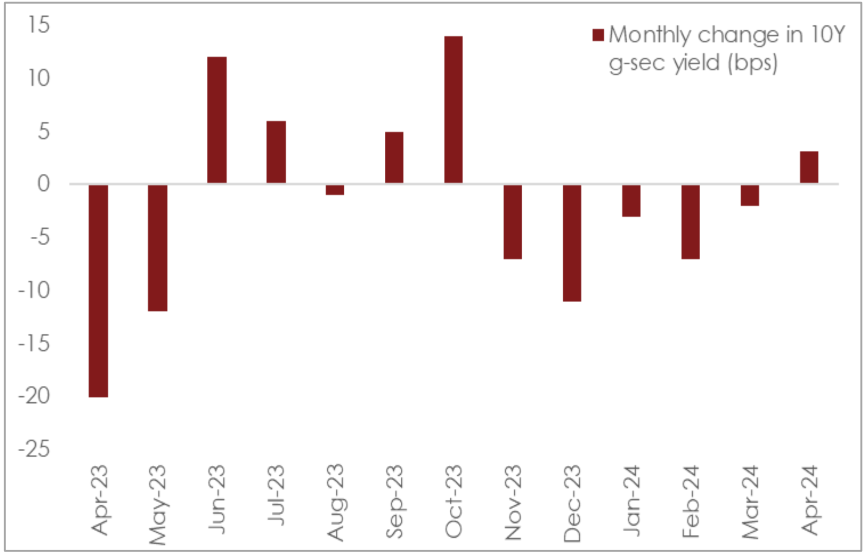
Downward revision in FY24 Nominal GDP base from Rs 297 tn to Rs 294 tn will increase the revised fiscal deficit ratio target from 5.8% to 5.9%.



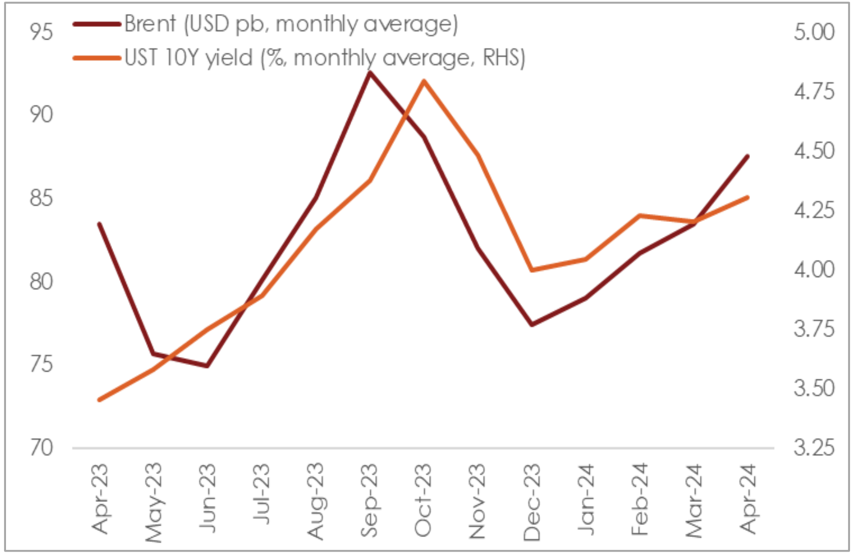
Notwithstanding the lower GDP denominator effect, we believe the government will adhere to the revised fiscal deficit target of 5.8% by fine-tuning expenditure towards the end of the year.

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 modestly by 3 bps at the start of Apr-24.

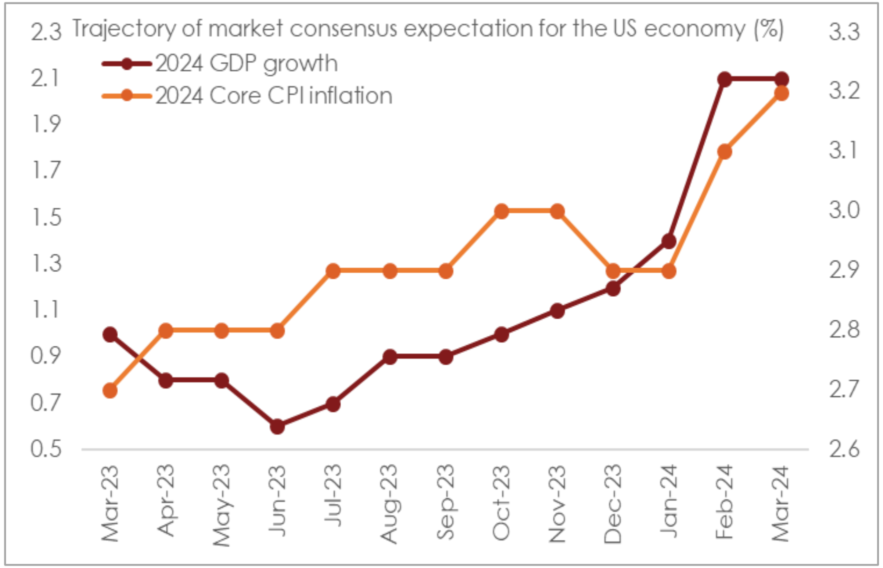


International crude oil price and UST yields have been gradually inching up since last 3-months



Expectations around US economic resilience and oil prices on watch

Over the course of last 12-months, market participants have revised up their forecasts for 2024 GDP growth and Core CPI inflation for the US by 110 bps and 50 bps respectively.



Ongoing geopolitical conflicts and economic resilience in key countries has started to provide a mild upside to commodity prices, esp. crude oil.

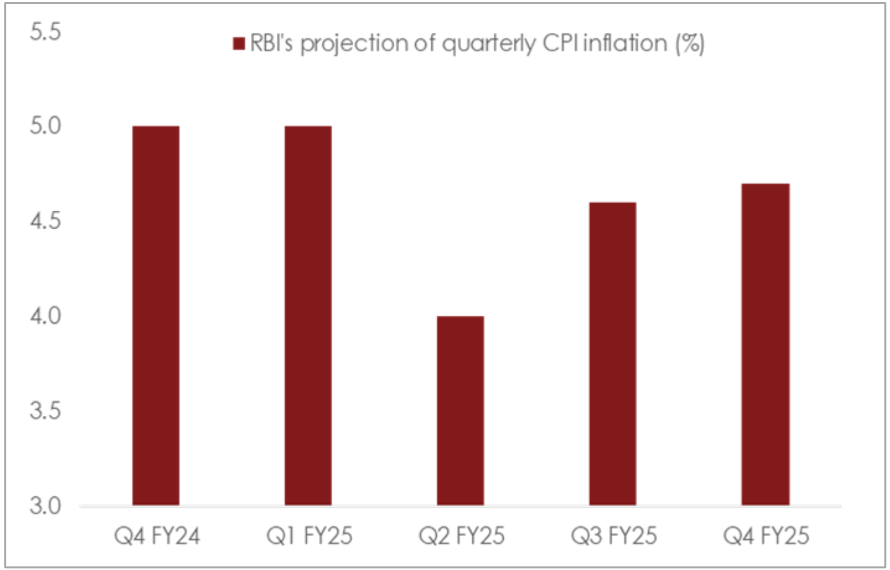
Year	Average price of Brent (USD pb)	Change over previous FY (%)
FY22	80	74.6
FY23	95	19.1
FY24	82	-13.7
FY25*	85	3.6

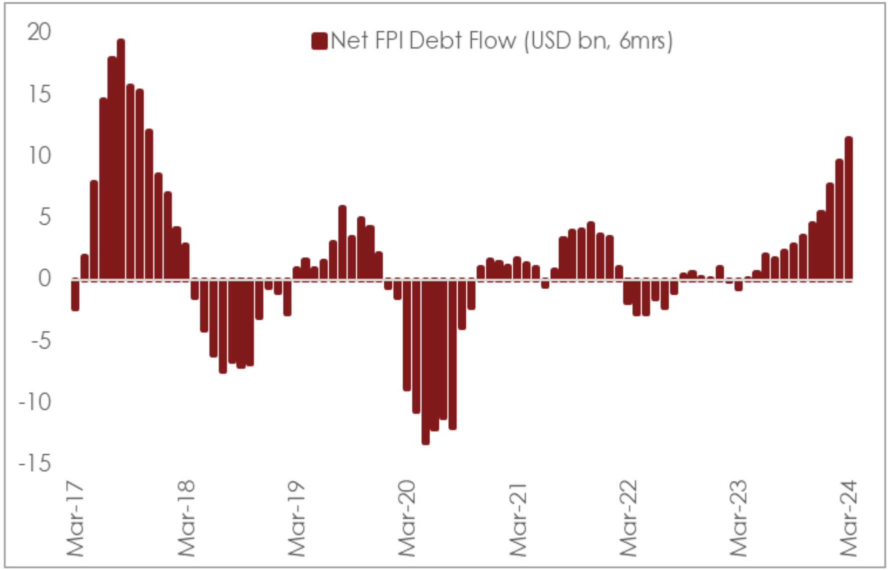
Note:
(i) Data for FY25 depicts the average of the near month futures contract between Apr-24 and Mar-25.
(ii) Oil analysts polled by Refinitiv upped their 2024 average Brent price forecast from USD 81.1 in Feb-24 to USD 82.3 pb in Mar-24.

Inflation projection and g-sec demand outlook appear supportive

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

On 6-month rolling basis, debt portfolio flows have touched their highest level in 7-years as market participants position ahead of India's inclusion in JP Morgan's EM Bond Index from Jun-24 onwards.





*Recent cut in fuel price (Rs 100 pc for LPG, Rs 2.1 pl for diesel, and Rs 2 pl for petrol) would provide a downside of 20-30 bps.

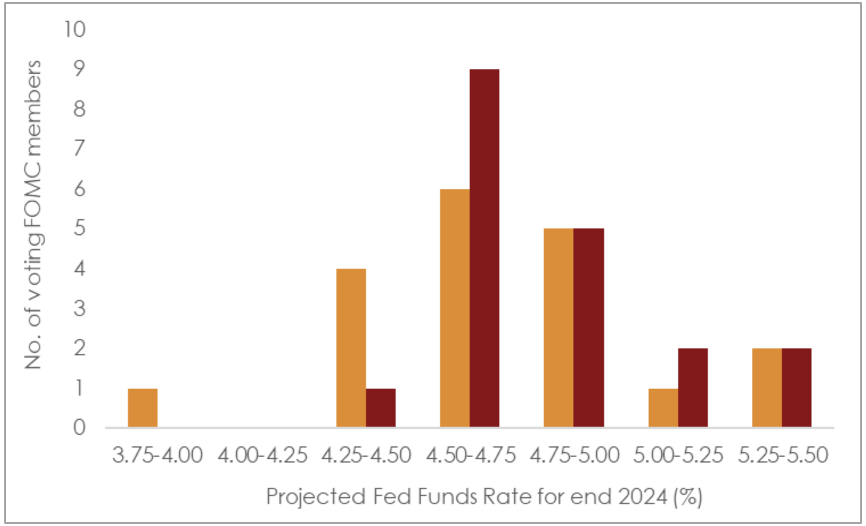
MPC likely to maintain pause in the near-term

Although, most inflation metrics are now below their pre COVID levels, inflation expectations continue to remain elevated. In addition, CPI inflation is yet to convincingly align with its target of 4%.

Inflation metric	Latest	Pre-COVID
CPI	5.1%	6.6%
Core CPI	3.5%	4.0%
WPI	0.2%	2.3%
Household Inflation Expectation (1Y Ahead)	10.0%	9.2%

Note: Pre COVID levels pertain to the comparable months of Jan/Feb of 2020.

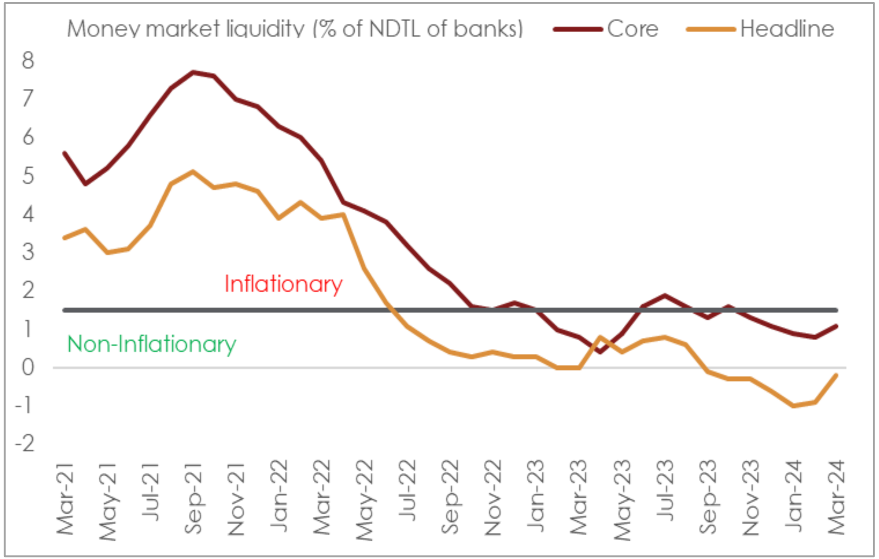
US economic resilience has led to a rightward shift in the FOMC voting pattern despite the median projected fed funds rate for end-2024 remaining unchanged at 4.50-4.75%, implying 75 bps cumulative cut. A potential delay in US slowdown would delay the much-anticipated pivot.



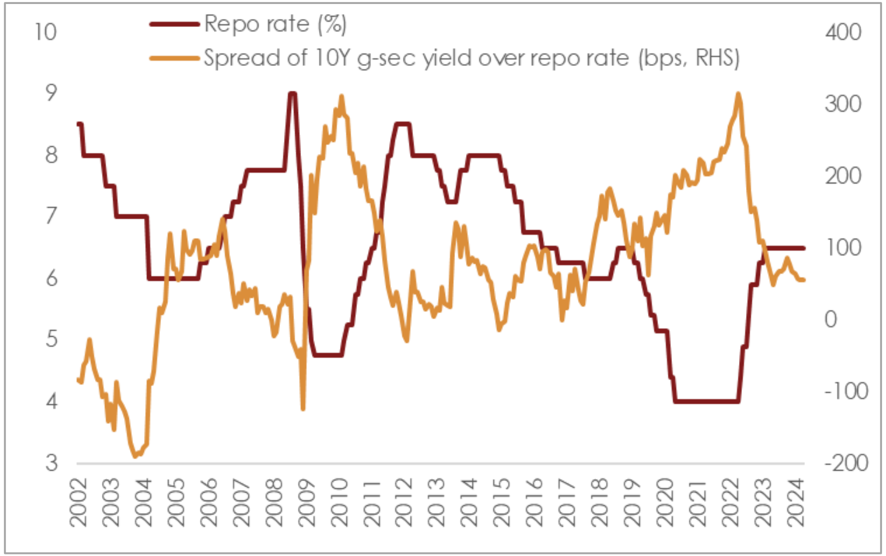
We expect MPC to maintain pause in Apr-24 policy review. Post the anticipated Fed pivot in Jun-24, a shallow rate easing cycle (comprising of 75 bps cumulative cut) from the RBI could commence from Aug-24 onwards.

Rates outlook

Although the average monthly liquidity improved a tad in Mar-24, it remains in the non-inflationary territory. Going forward, core liquidity surplus could moderate towards 0.8-1.0% of NDTL in Q1 FY25 from 1.1% in Mar-24.



Comfort on inflation and expectation of a turn in global monetary policy cycle has helped to compress g-sec term premium.

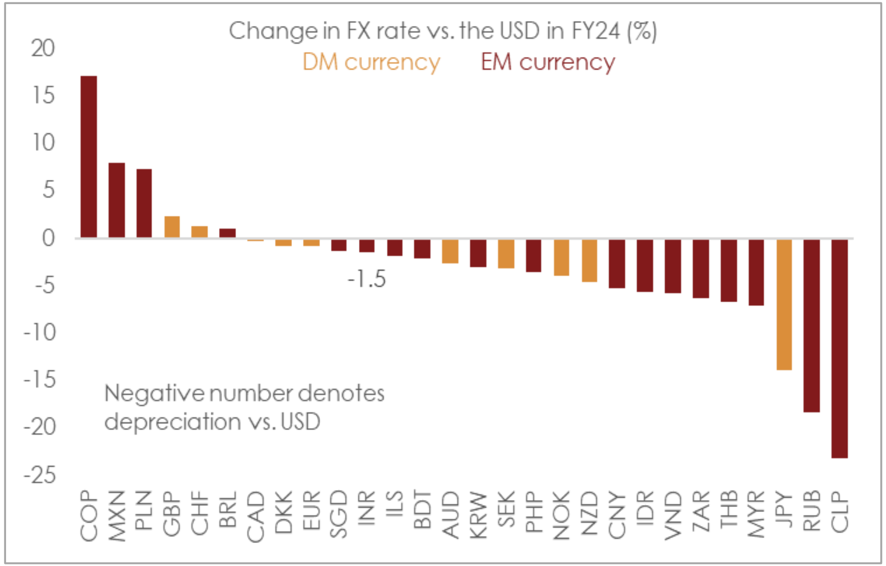


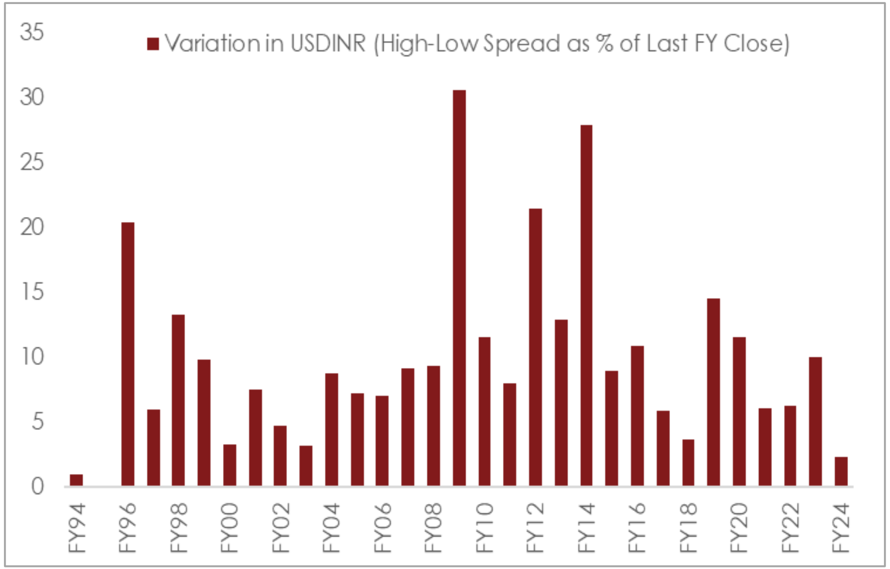
We expect 10Y g-sec yield to slide lower towards 6.50% by Mar-25. Geopolitical uncertainty and any delay in Fed pivot could potentially provide an upside risk.

INR was one of the most stable currencies in FY24...

Although INR depreciated by 1.5% in FY24, it was the most benign outcome in last five episodes of annualized weakness seen in rupee. Further, INR escaped wild gyrations seen by some of the peer DM and EM currencies.

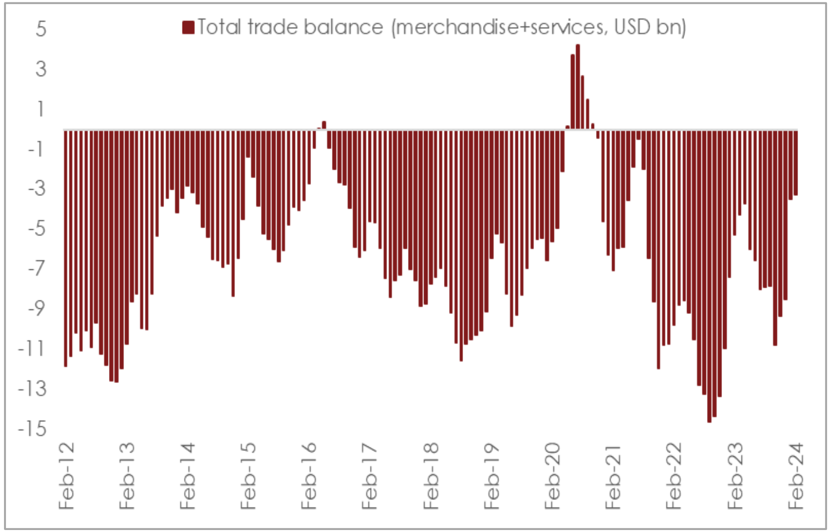
Relative to its own history, INR saw extremely subdued volatility (lowest in nearly three decades) in FY24.





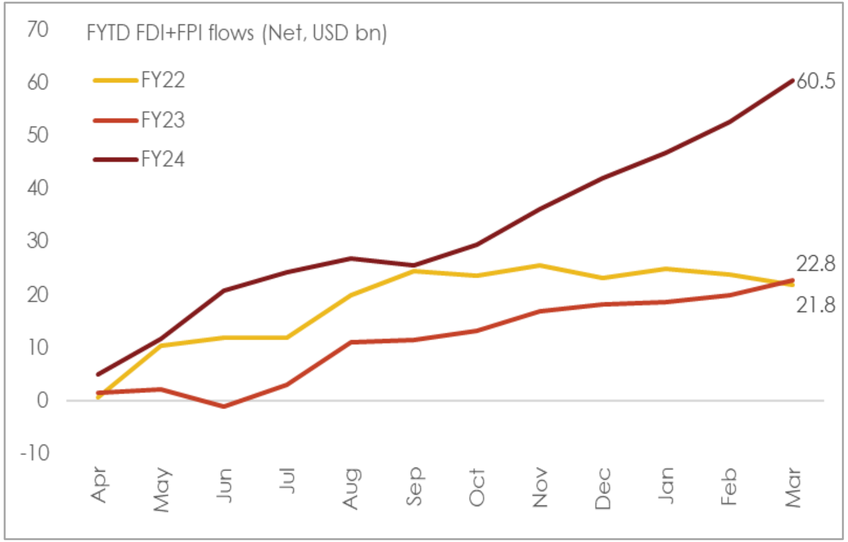
…amidst sharp correction in trade deficit and healthy momentum in capital flows

India's total trade (goods+services) deficit has corrected sharply from an average of USD 7.6 bn in Q1-Q3 FY24 to an avg. of USD 2.9 bn over Jan-Feb FY24 amidst moderation in commodity prices and domestic demand along with improvement in exports.



We expect CAD to be contained at 0.8% and 1.0% of GDP in FY24 and FY25 (vs. 2.0% in FY23) respectively.

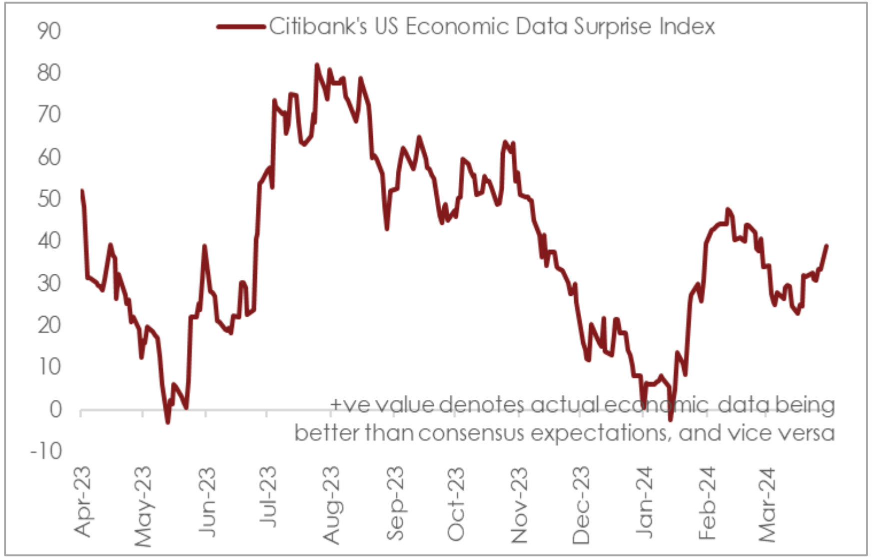
Foreign investment flows have been strong, primarily supported by portfolio inflows in FY24.



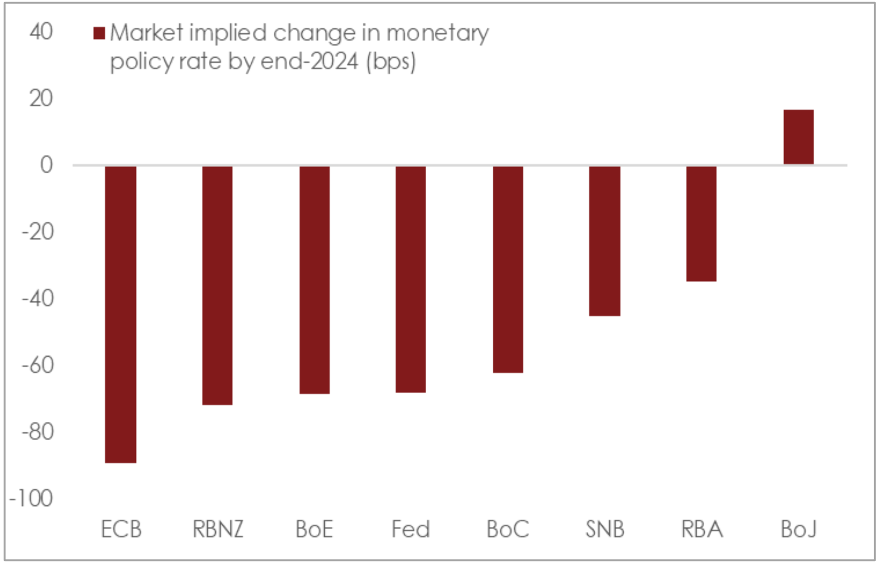
Note: FDI figures after Jan-24 is an extrapolation basis last 24-m trend

Strength in US data pushing back rate cut expectations

At an aggregate level, US economic data continues to surprise upwards…

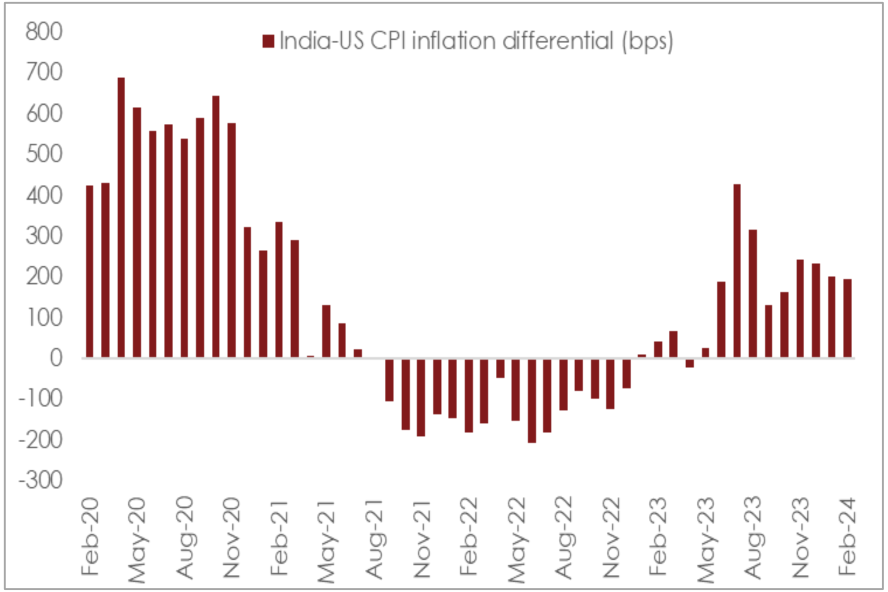


…this has resulted in market participants no longer expecting the US Fed to lead the DM rate easing cycle. The SNB has already taken the lead with a surprise cut in Mar-24. Over the next 3-quarters of 2024, ECB is expected to take the lead in rate easing cycle.

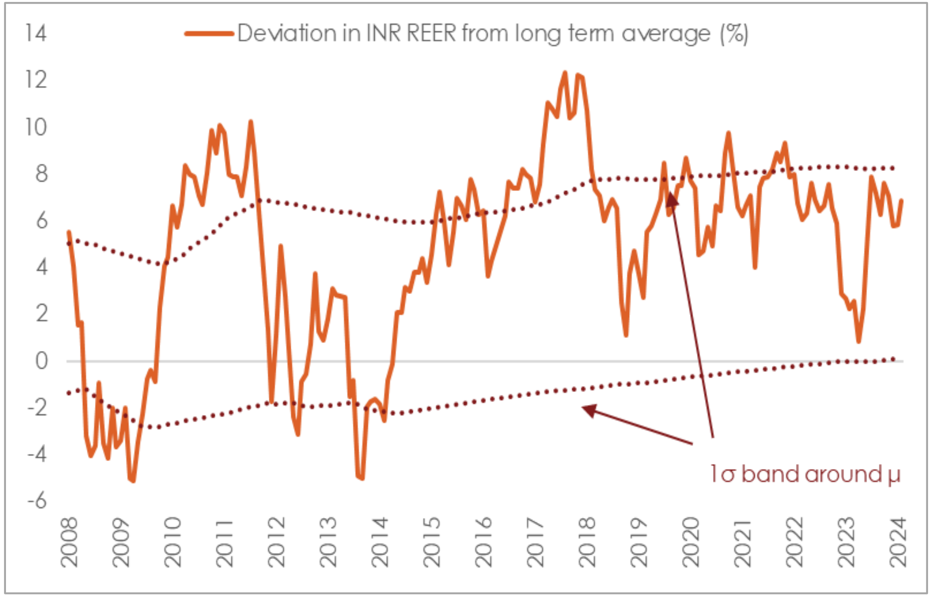


However, inflation differential continues to provide a rationale for a mild weakness in INR

Inflation differentials continue to remain in favor of the US over India…

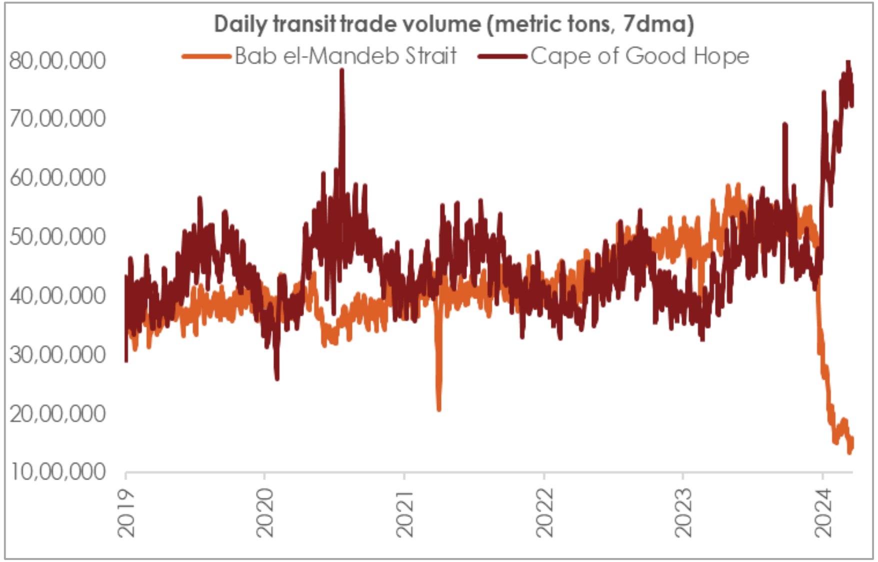


…thereby keeping INR in the overvaluation (6-7% vis-à-vis the long-term trend) territory.

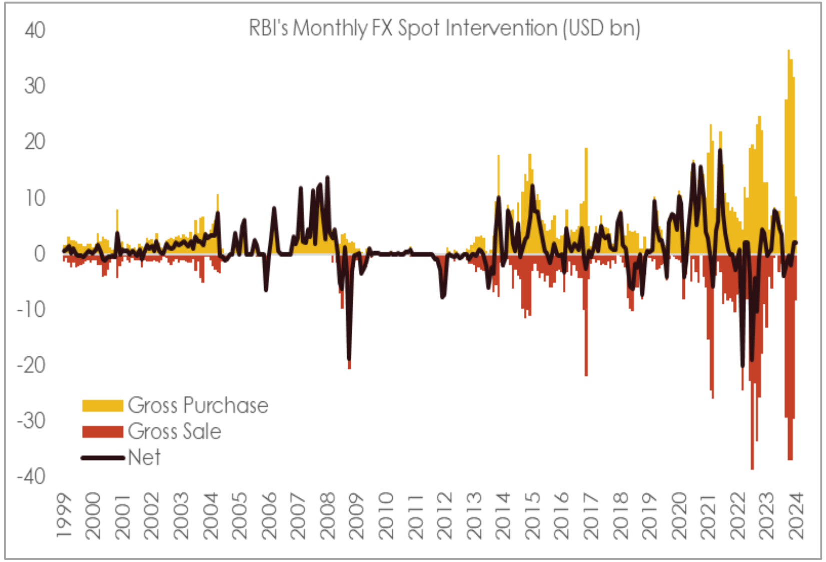


Rupee outlook

Although the initial impact of the ongoing disturbance in the Red Sea region appears minimal on India's trade statistics, it needs to be monitored closely.



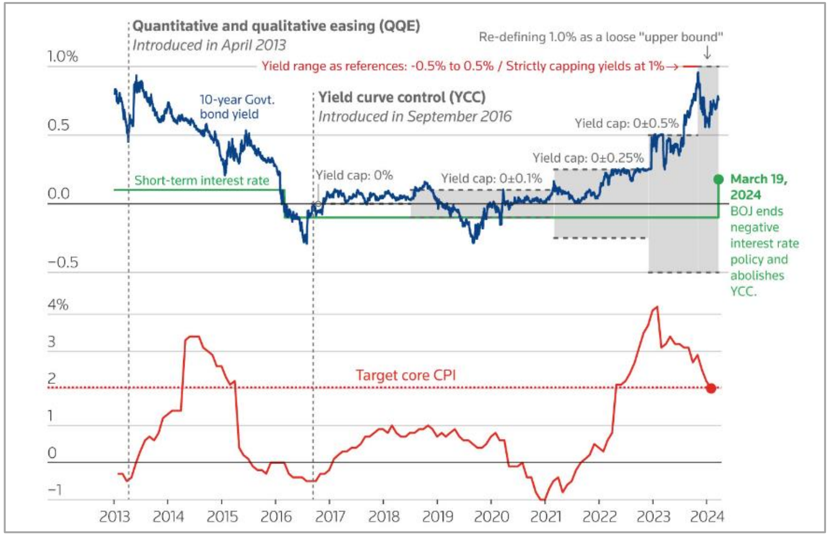
The RBI has upped its two-sided intervention to curb volatility. This is likely to continue amidst prevailing geopolitical uncertainty.



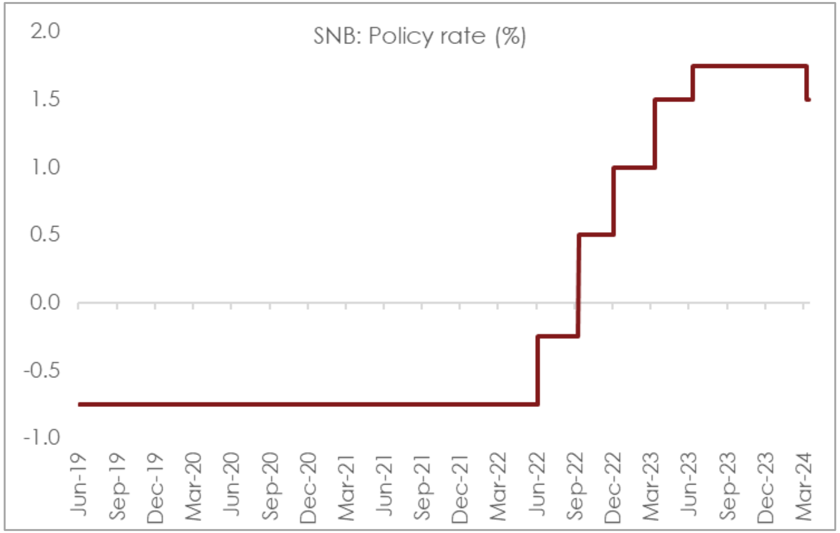
We continue to expect INR to post a mild depreciation in FY25, with a move towards 84.5 levels by Mar-25. Push back in case of Fed pivot and worsening of geopolitical risks could however put INR under some pressure.

BoJ exits negative interest rate policy
SNB surprises with a 25 bps cut

In a historic but well anticipated move, the Bank of Japan (BoJ) formally ended its ultra-easy and nonconventional monetary policy stance in Mar-24. The central bank said its negative interest rate and YCC policies had fulfilled their roles - marking the first interest rate increase since 2007.



Swiss National Bank (SNB) surprised markets with a 25 bps policy rate cut to 1.50%, accompanied by a lowering of its CPI forecast. The central bank also said it will adjust monetary policy again if necessary to ensure inflation remains in a range consistent with price stability, which makes another SNB rate cut in June sound quite likely.



Inflation and labour markets: Still not offering comfort to Fed

US CPI rose to 3.2%YoY in Feb-24 from 3.1% in Jan-24, led by increase in energy and housing prices. Ex volatile food and energy prices, core CPI accelerated 0.4% (forecast 0.3%) in Feb-24 and was up 3.8%YoY (forecast 3.7%)

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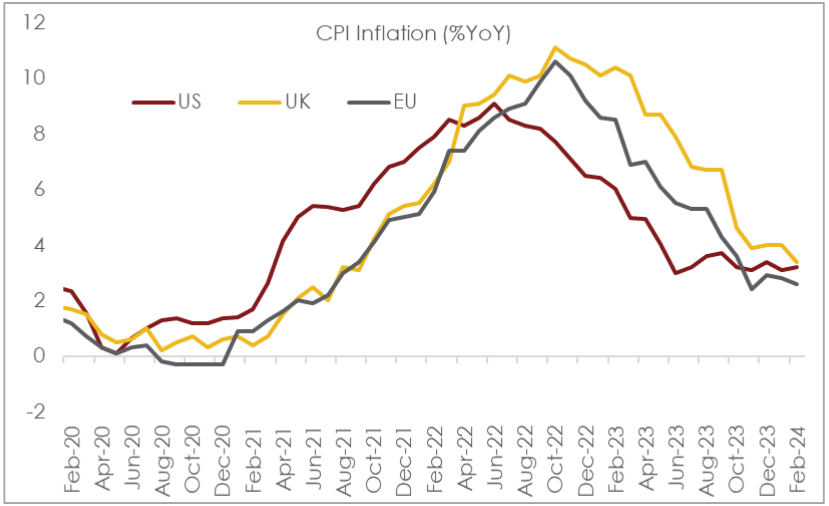
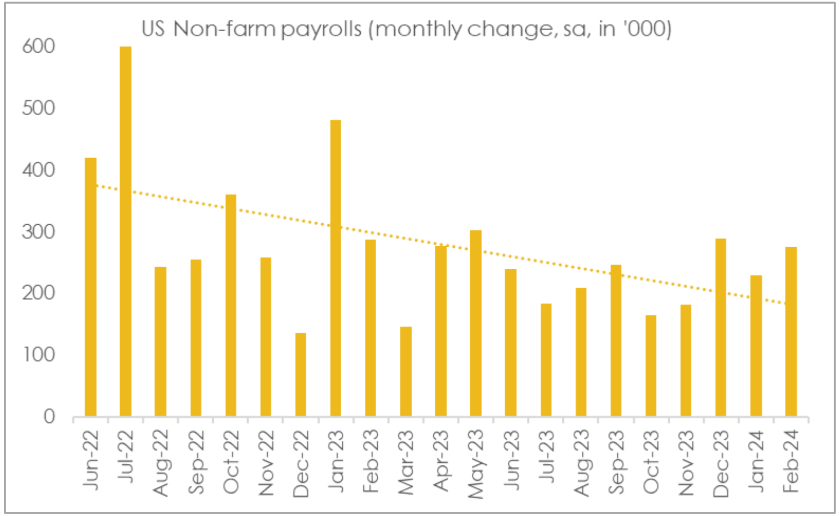


Beating expectations for fourth straight month, total Nonfarm payrolls increased 275K in Feb-24. Job gains for last two months however saw large downward revisions. While labour markets appear to be cooling somewhat, but still display resilience.

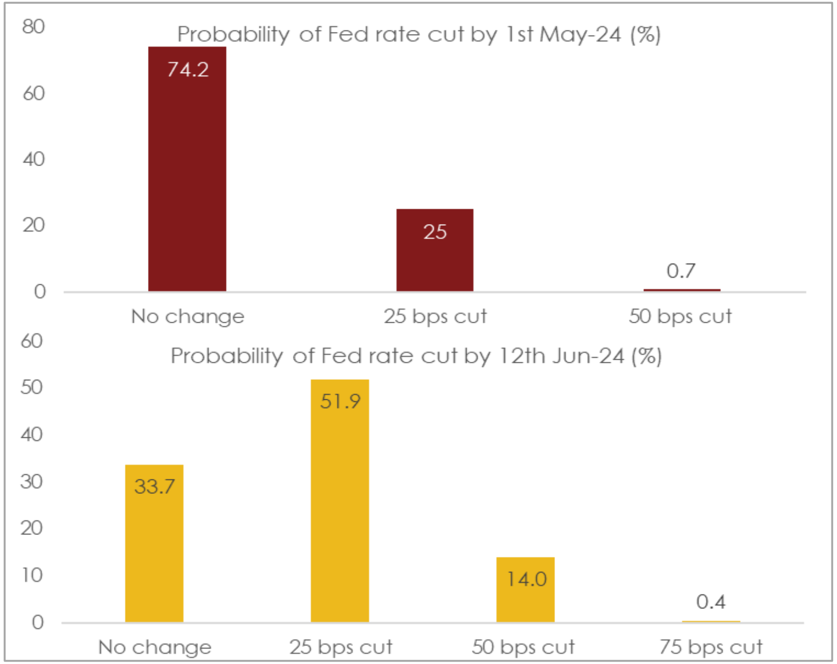


As widely anticipated, FOMC made no change to policy at the conclusion of its 20th Mar-24 policy meeting. However, in the press conference, Chair Powell seemed to downplay the relatively hot inflation prints so far this year and reaffirmed that less restrictive monetary policy is coming closer into view.

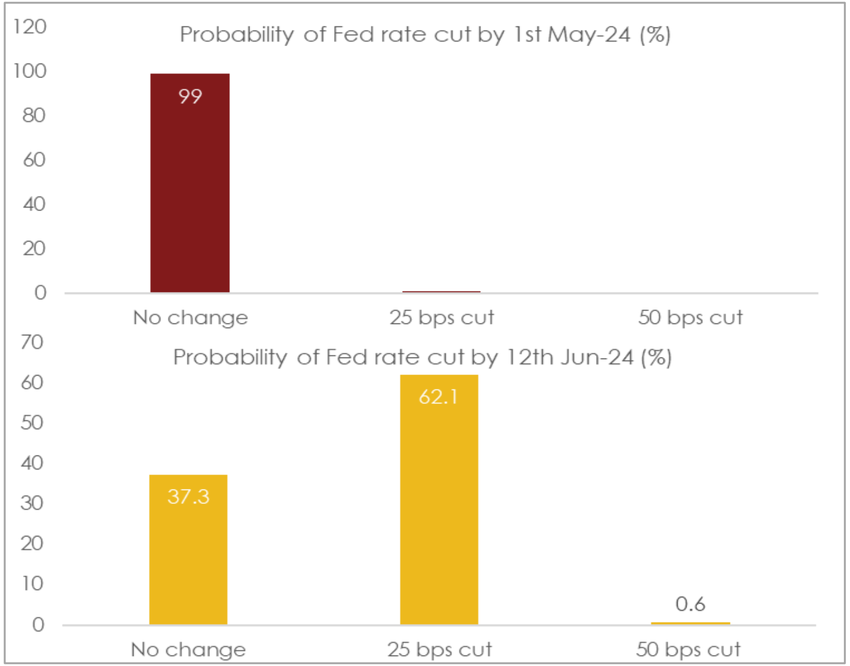
Rate cut by Fed to commence in Jun-24?

Markets are now pricing in nearly 62% chance of a rate cut cycle commencing in Jun-24, aligning with Federal Reserve's view of a cumulative cut of 75bps in 2024.

As of 4th Mar-24



As of 2nd Apr-24



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