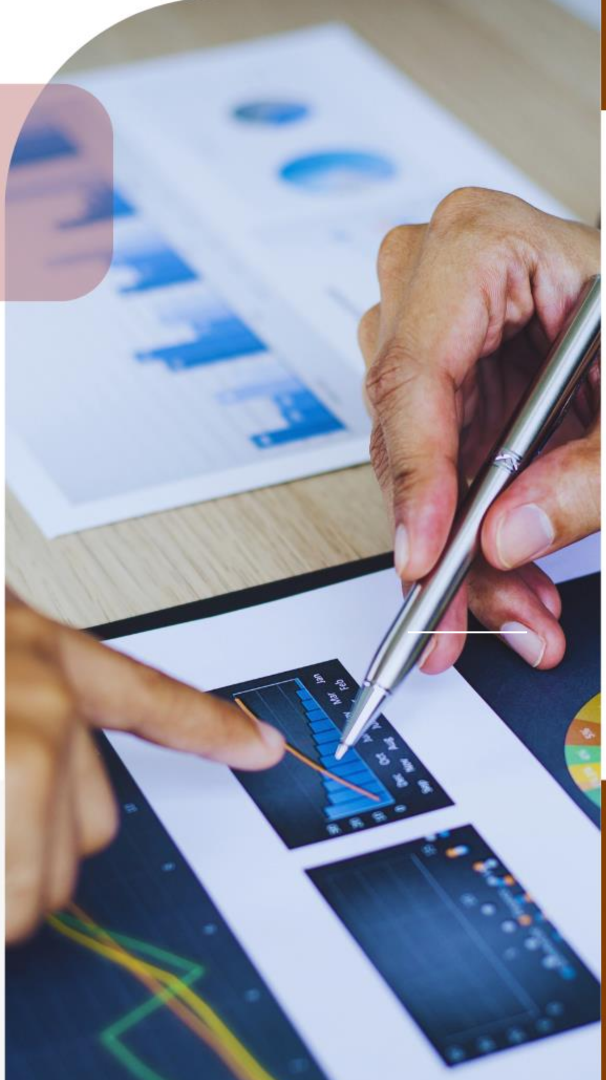
Macro Pulse
Report

May 2024



From the desk of the Chief Economist

Acuite RATINGS & RESEARCH

Dear Readers,

India thirstily waits for the monsoon as it endures a torrid summer. The good news is that IMD has forecast the timely onset of monsoon on May 31 in Kerala apart from earlier predicting that rainfall will be above normal in this year. On the other hand, the "Great Indian election" is more than half underway, with results expected in another 2 weeks. In other words, two uncertainties of the year – monsoon and political stability will be addressed soon.

The GDP figures for Q4FY24 will also be announced shortly. Given the robust GDP figures reported in the first 3 quarters of the fiscal, a GDP growth print of around 6.8% (our forecast) will enable FY24 overall growth to stand at 7.8%. For FY25, we peg the growth now at 6.8%, which reflects the solid momentum in the domestic economy despite the base factor, the spectre of geo-political risks and the impact of high interest rates on the urban consumption trajectory. The favourable monsoon is expected to act as a tailwind which will help to strengthen agricultural growth and rural demand. Both public and increasingly private sector capex will remain the other driving tailwind for the economy.

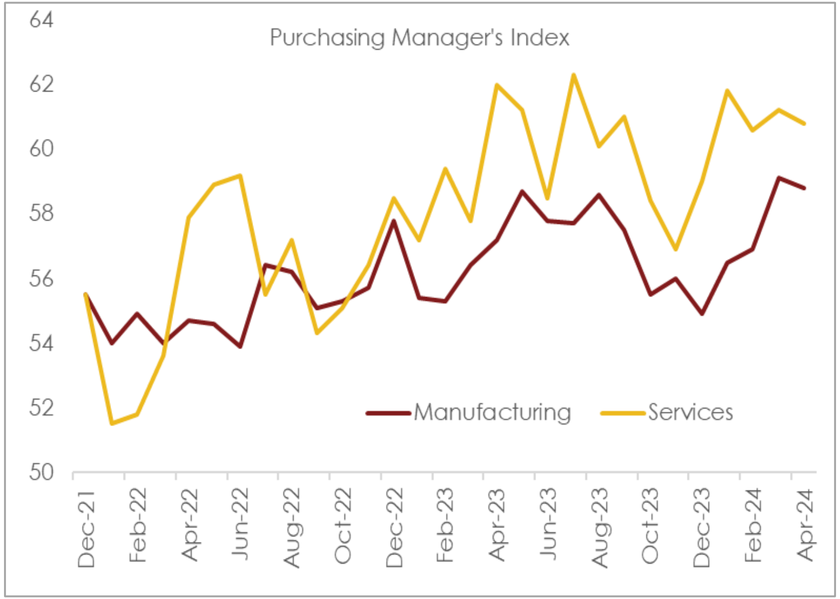
The current stability in headline retail inflation is surely a comfort factor although the stickiness in food inflation amidst a severe summer continues to be a matter of concern to the policymakers. Hopefully, food prices will see a progressive moderation with the play out of monsoon. While we expect the inflation print to average around 4.5% in the base case, there are risks that it may face resistance in dropping to lower levels. The implication of sticky inflation and economic resilience imply a prolonged wait for rate cuts. Clearly, there is a significant uncertainty today whether any rate cuts will be announced by RBI in calendar 2024. In case of US, the number of projected rate cuts in 2024 has already dropped from 4-5 to 1-2 and that too back ended.

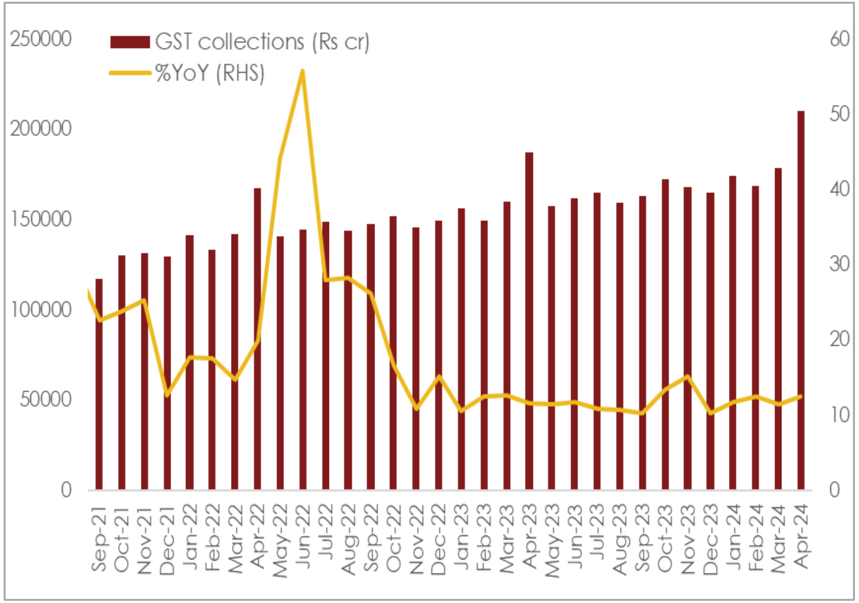
For now, let's hope the rain gods will listen to our prayers. Cheers,
- Suman Chowdhury, Chief Economist and Head – Research

Economic activity resilient at the start of FY25

India Composite Purchasing Managers' Index (PMI) remained firm at 61.5 in Apr-24 after posting 61.8 in Mar-24, led by continued strength in both manufacturing and service sectors, driven by increased new orders.

GST collections for Apr-24 soared to a record high of Rs 2.1 tn, translating into a healthy 12.4%YoY growth. Record collections were driven by a strong increase in domestic transactions (up 13.4%) along with imports (up 8.3%).

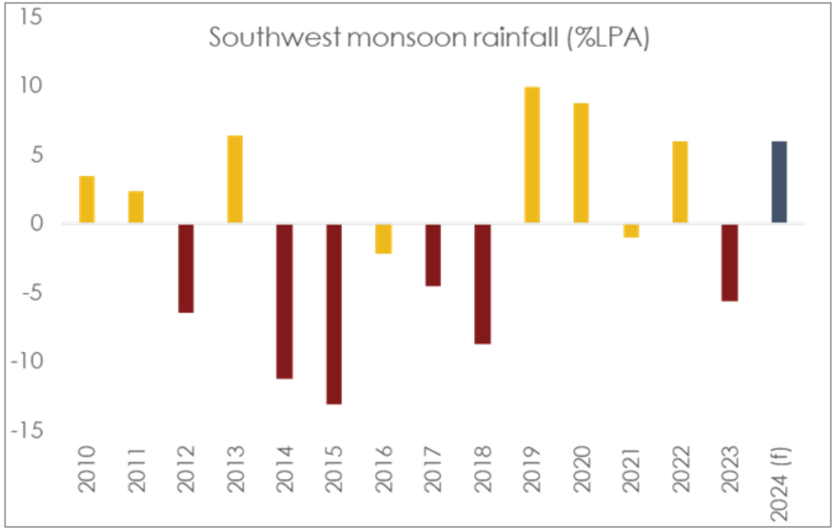


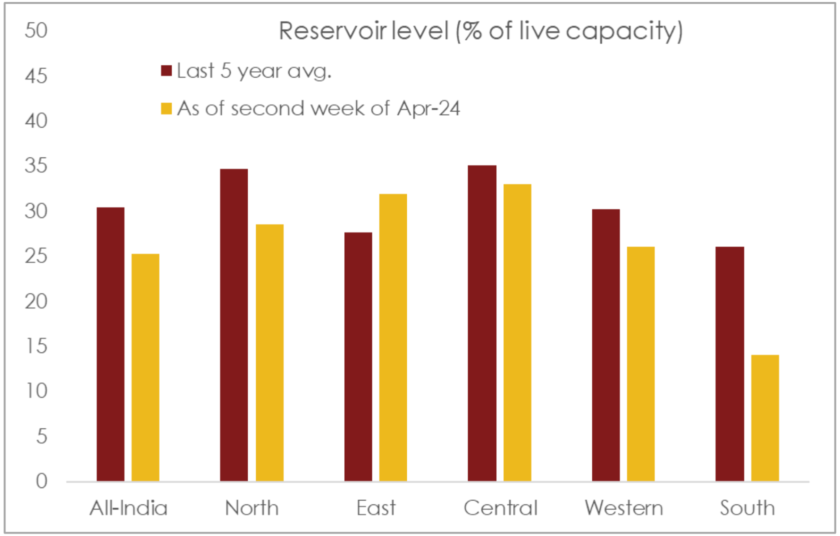


IMD expects 'Above normal' monsoon

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).

A good rainfall activity will help replenish reservoir levels, which currently are below LPA, especially in Southern India



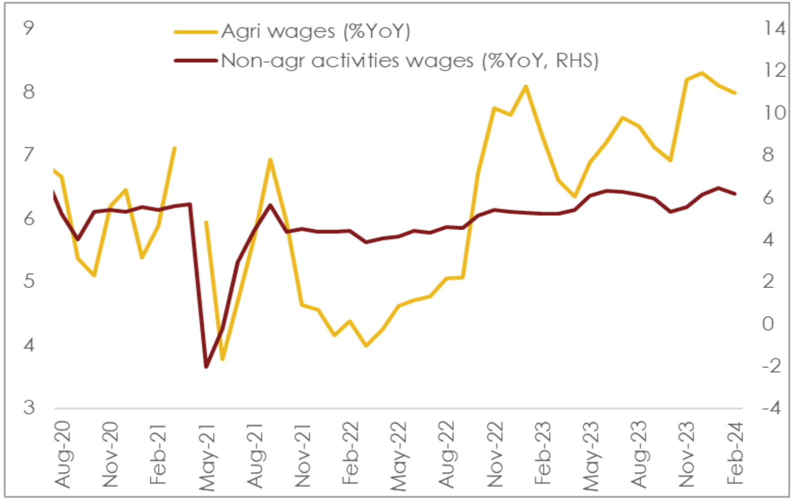


…which will aid agri/rural recovery

Historically, we find evidence of agricultural 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.

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 etc.

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**	



Urban consumption to likely face headwinds

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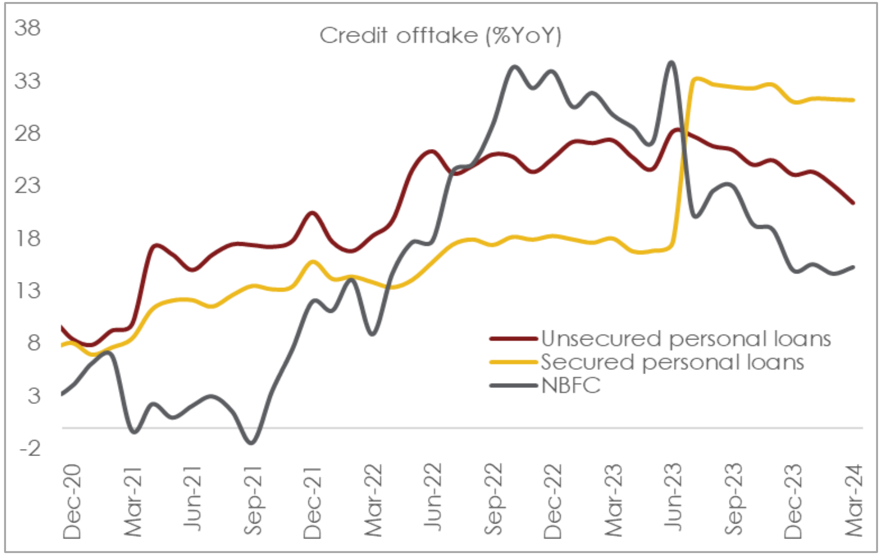
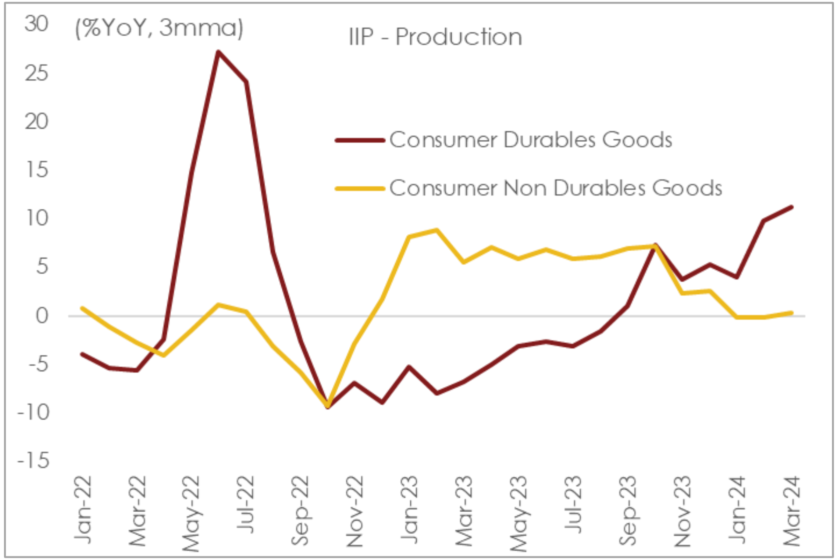
While urban consumption has held up well so far, impact of lagged monetary policy tightening as well as regulatory measures to curb the pace of unsecured lending, are expected to weigh on its pace in FY25, esp. wrt discretionary demand. We note bank lending to NBFC sector has nearly halved since its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

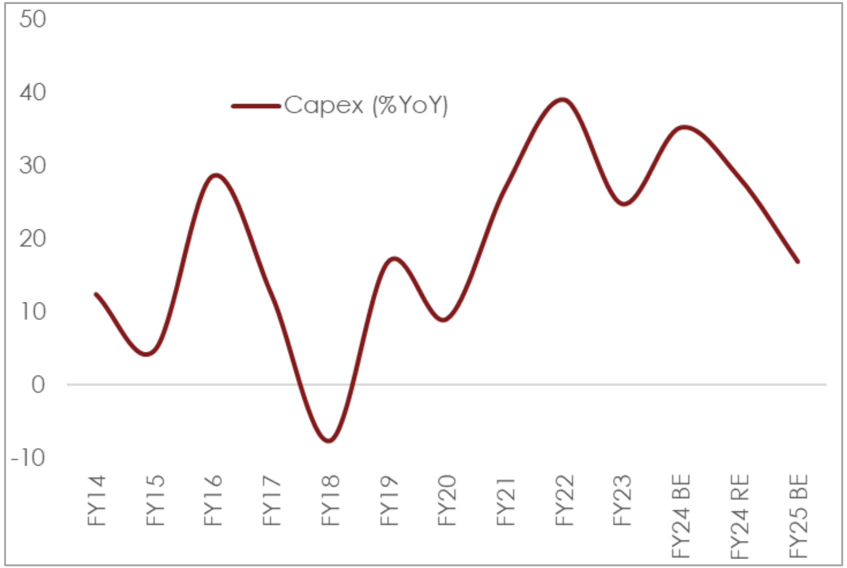


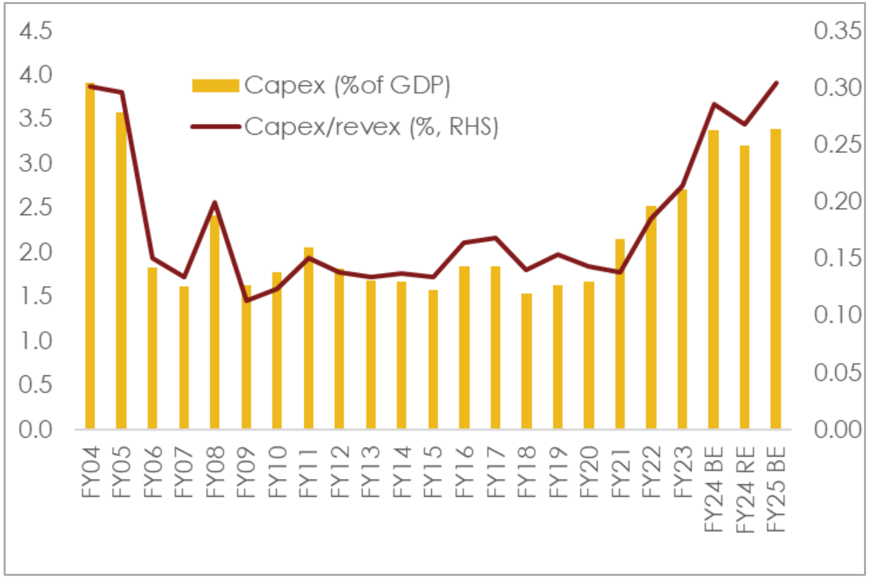


Capex support to growth intact

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.

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.

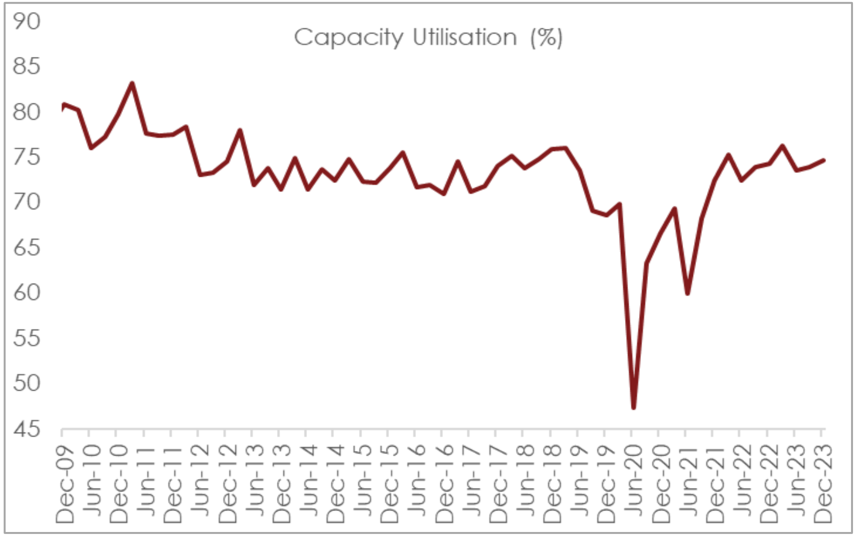


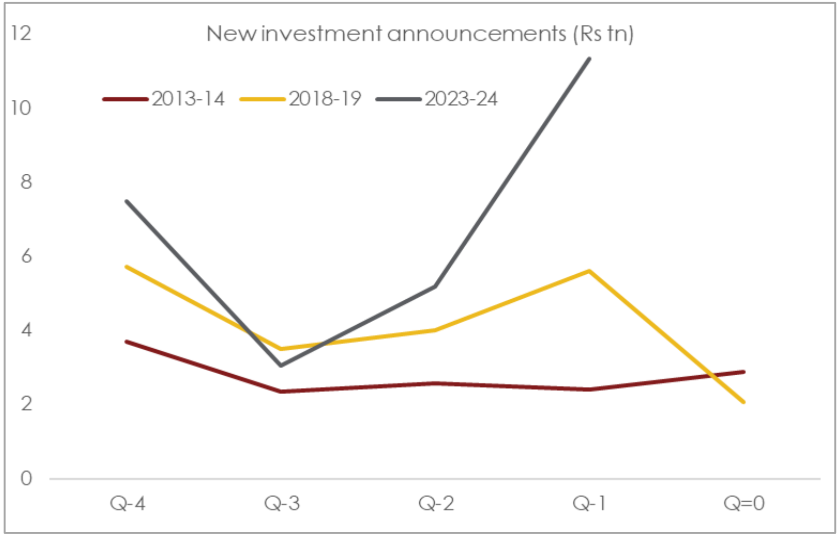


Private capex recovery sees green shoots

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, private capex recovery continues to wait in the wings; expected to pick-up more materially post general elections in FY25

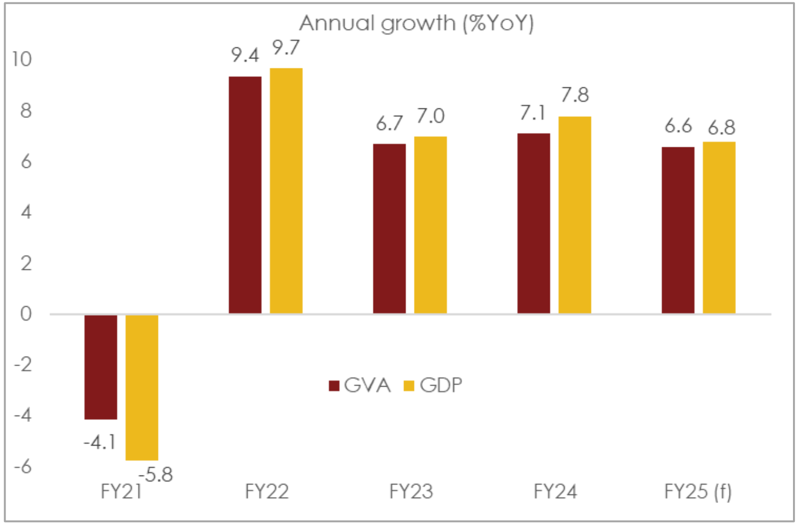
….however, new investment announcements in Mar-24 shot up to Rs 11.9 tn - the highest in FY24, defying the historical trend of new investments typically remaining sluggish prior to general elections. For Dec-23 quarter, new investments were revised up to Rs 5.2 tn from Rs 2.1 tn earlier. This further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





We peg FY25 growth at 6.8%

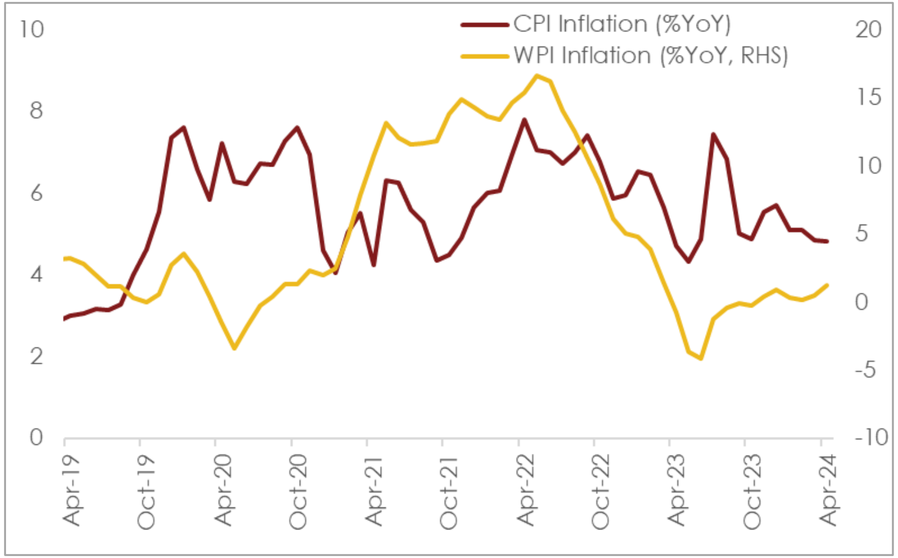
- We believe there is a strong possibility of an upside to NSO's implied Q4 FY24 GDP/GVA growth pegged at 5.9%/5.4% respectively. As per our computation, FY24 GDP growth therefore could be revised up by 20 bps to 7.8%
- For FY25, we continue to hold a view of a moderation in growth. The wedge between 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 6.8% 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

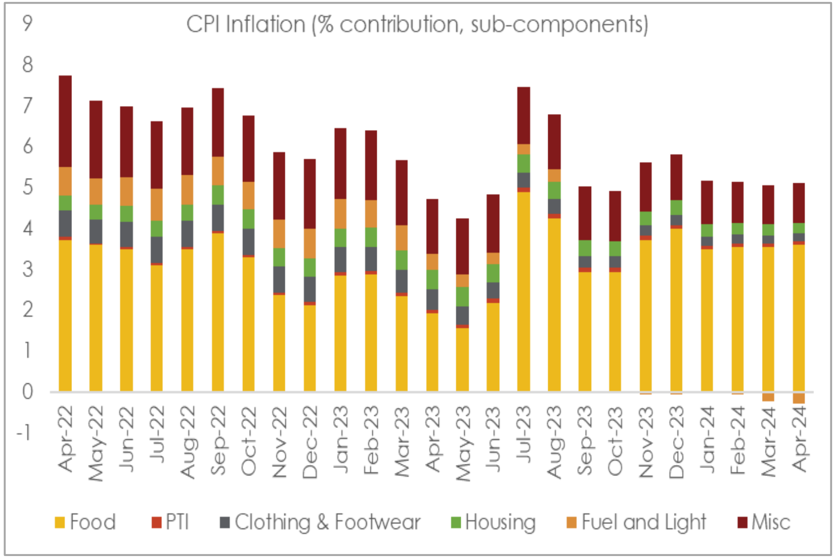


Apr-24 CPI inflation stabilizes

India's CPI inflation remained steady in Apr-24, with headline print coming at 4.83% YoY vs. 4.85% in Mar-24. In contrast, the WPI inflation rose sharply to 1.26% YoY in Apr-24 from 0.53% in Mar-24.

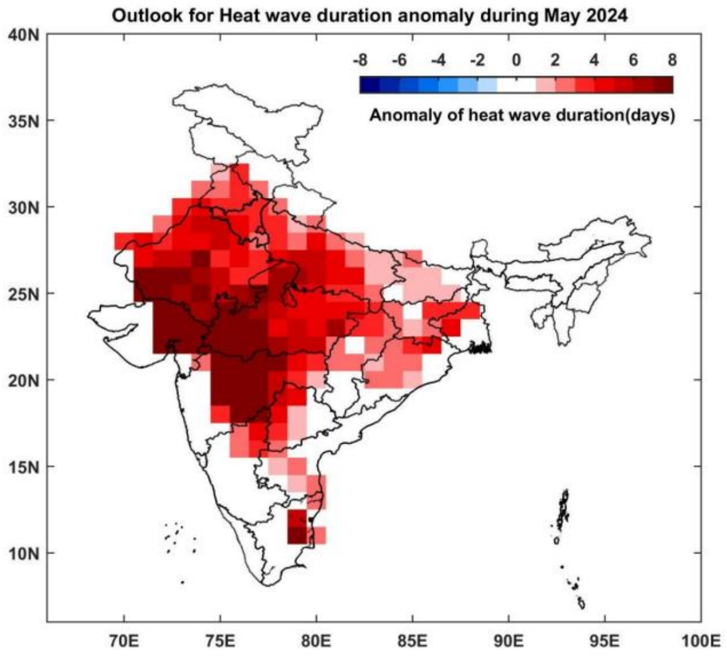
While headline inflation has drifted lower in the last one year, contribution of food continues to remain elevated.





Heat wave impact on watch

Above normal Maximum and Minimum temperatures are likely to prevail in most parts of the country in May-24, as per IMD.

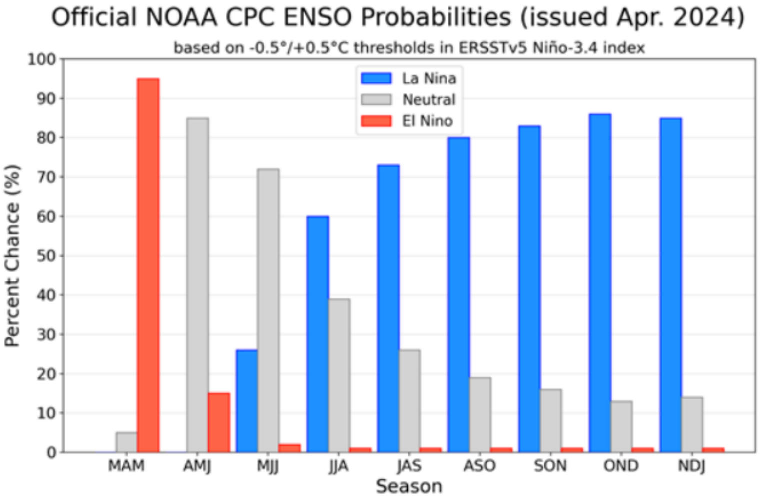


Price pressures in vegetables though have remained low in Apr-24, but are on an uptrend since second week of May-24. Heatwaves are expected to keep price pressures in perishables (vegetables, fruits & milk), pulses and sugarcane intact in Q1 FY25.

Vegetables (%MoM)	Mar-24	Apr-24	May-24 so far
Bitter Gourd	5.9	3.3	-1.1
Brinjal	-5.7	-3.5	7.3
Cabbage	4.6	1.9	2.4
Cauliflower	11.8	11.7	3.1
Chilly	8.9	0.3	-2.8
Garlic	-35.6	-6.9	8.9
Ginger	5.8	9.4	4.7
Okra	-8.7	-6.9	-10.7
Onion	-0.8	-9.5	-3.6
Peas	18.3	44.2	51.3
Potato	14.5	15.9	14.4
Tomato	0.6	-11.0	-3.8
All Vegetables	**-4.8**	**0.2**	**3.8**

‘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 likely by Apr/Jun-24 (85% chance), with the odds of La Niña developing by Jun/Aug-24 (60% 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.

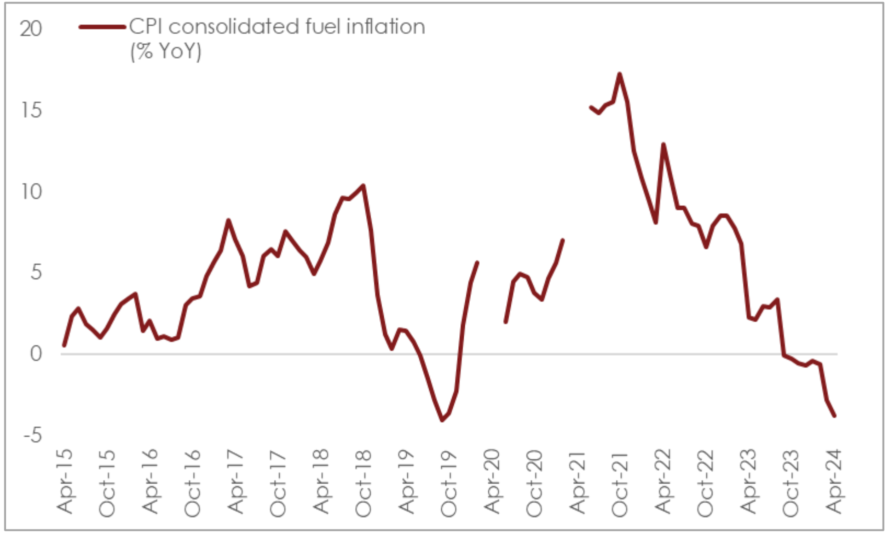
IMD expects monsoon to hit the Kerala coast on May 31, which is a day earlier than its usual onset date of June 1.

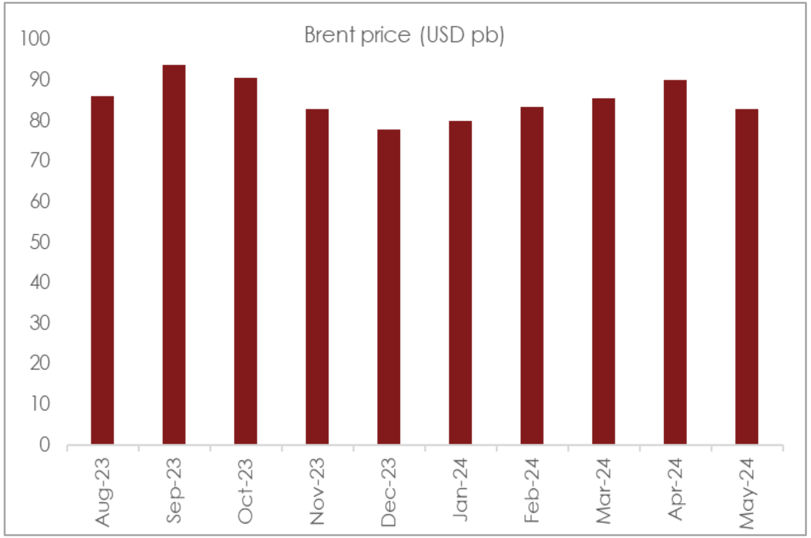
2024 Southwest Monsoon forecast: IMD		
Category	Rainfall (%of LPA)	Probability
Excess	>110	30
Above Normal	**104-110**	**31**
Normal	96-104	29
Below Normal	90-96	8
Deficient	<90	2

Global crude prices back in comfort zone

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 has continued 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.

After rising by 5.3%MoM in Apr-24, global crude oil prices have eased in May-24 (by 7.9% on MTD basis), on the back of rising US crude production and on hopes for an Israel-Gaza ceasefire.

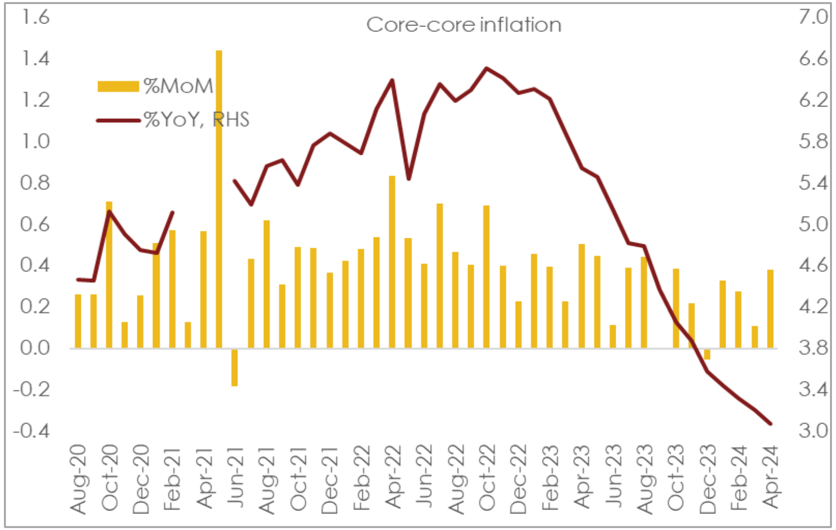


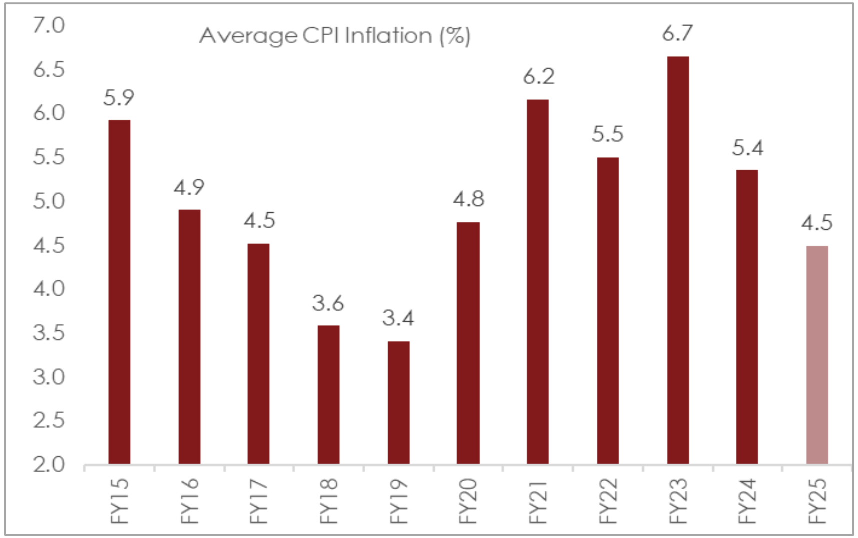


CPI inflation to align closer to target in FY25

Domestic core inflation continues to moderate, remaining at record low levels

We expect CPI inflation to average at 4.5% in FY25 vs. 5.3% in FY24, after incorporating the impact of reduction in price of petrol, diesel and LPG (announced in Mar-24, to the tune of 30bps) and 'Above normal' rainfall forecast. Upside risks from global commodity prices remain on close watch.





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**	**-**	**-**

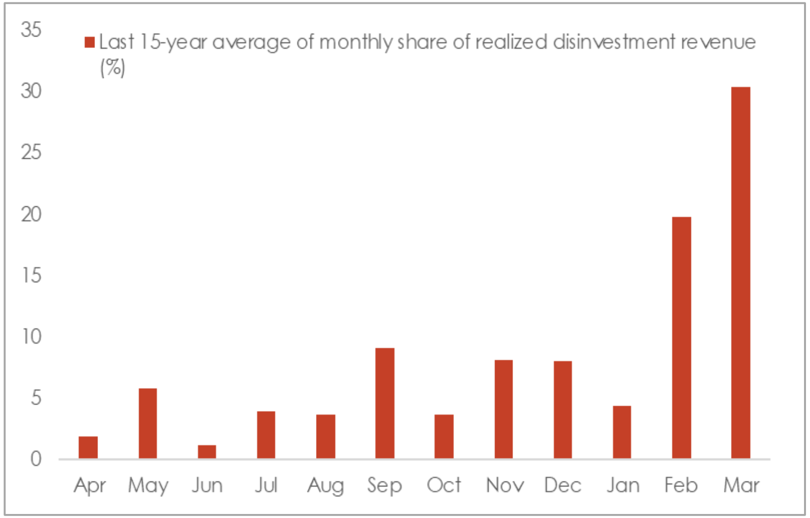
Net tax collection could see a minor shortfall in FY24; disinvestments lag

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

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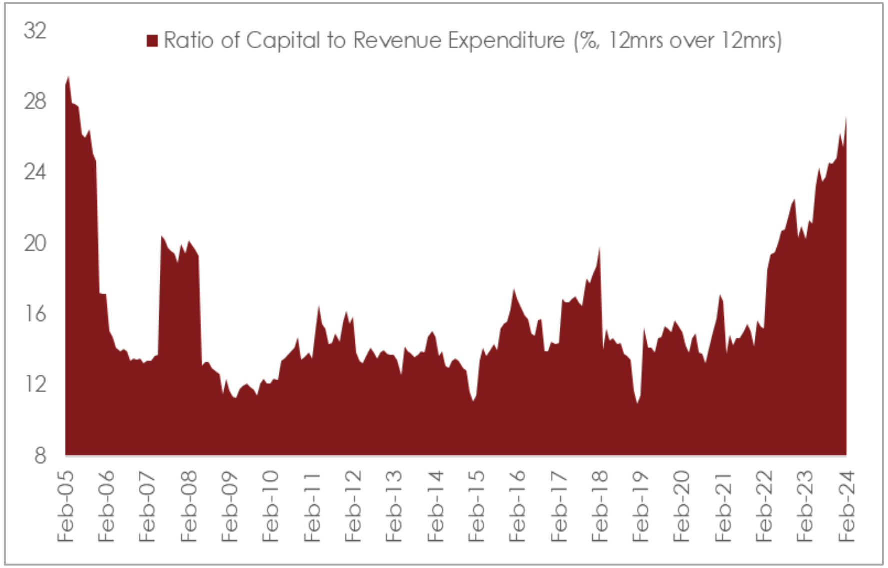
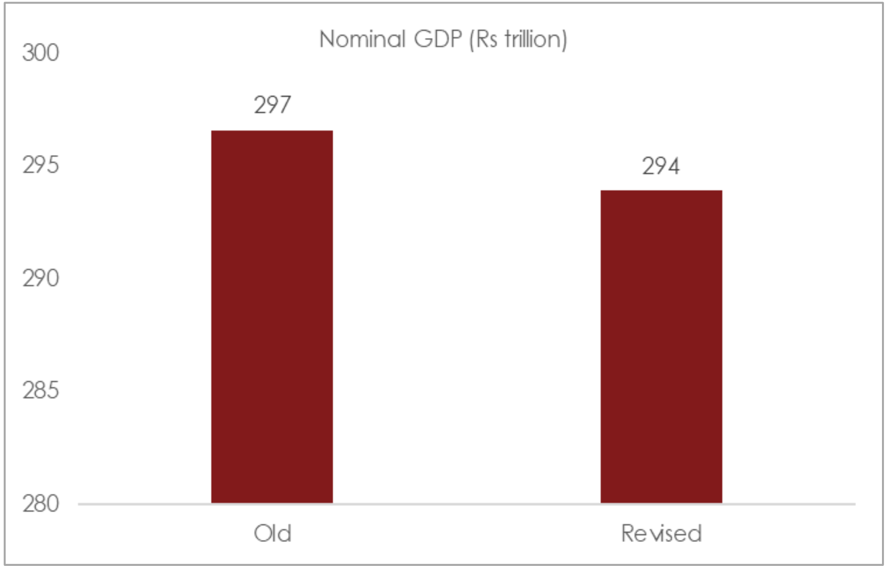
Ratio of capex to revex touches almost a two-decade high, highlighting policy thrust of quality of fiscal spending.



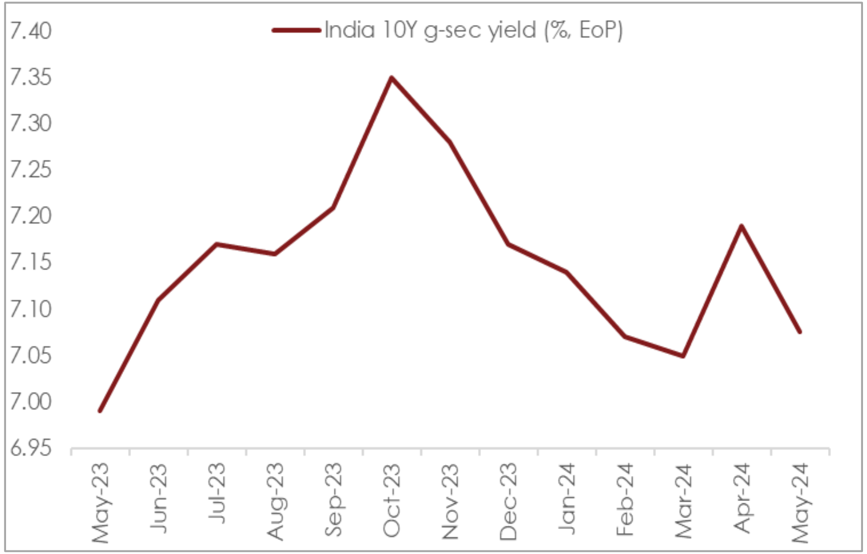
Downward revision in FY24 Nominal GDP base from Rs 297 tn to Rs 294 tn will increase the revised fiscal deficit ratio target from 5.8% to 5.9%.



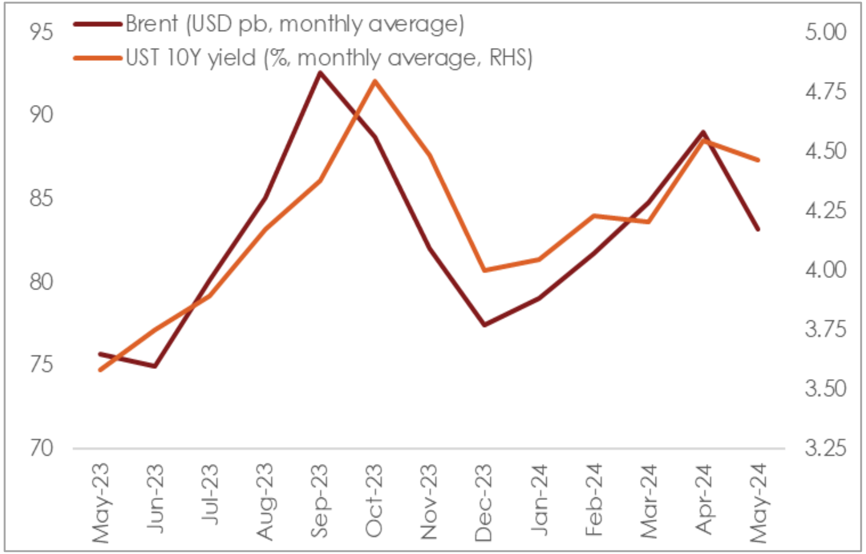
Notwithstanding the lower GDP denominator effect, we believe the government will adhere to the revised fiscal deficit target of 5.8% by fine-tuning expenditure towards the end of the year.

G-sec yields recoup most of their recent loss

India's 10Y g-sec yield is showing signs of stability after recent losses.

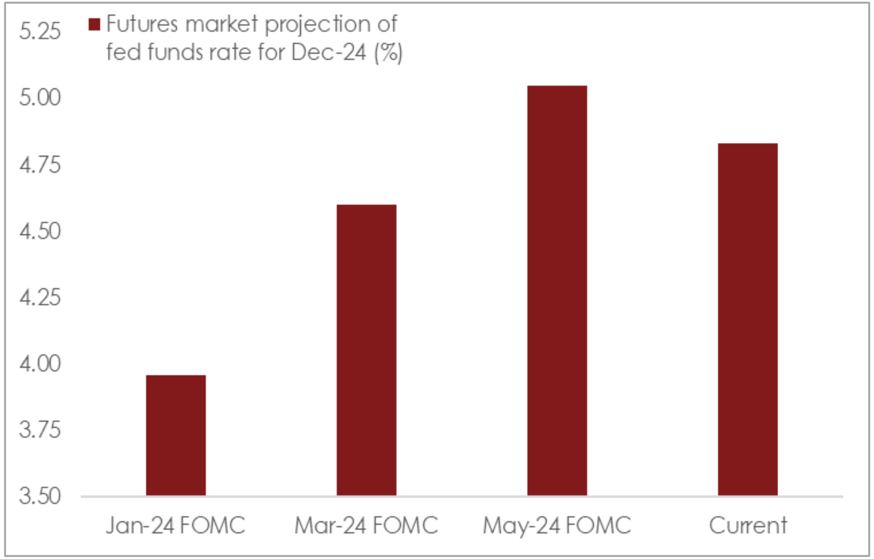


Key global factors, viz., crude oil price and UST yields, have softened over the course of last few weeks.

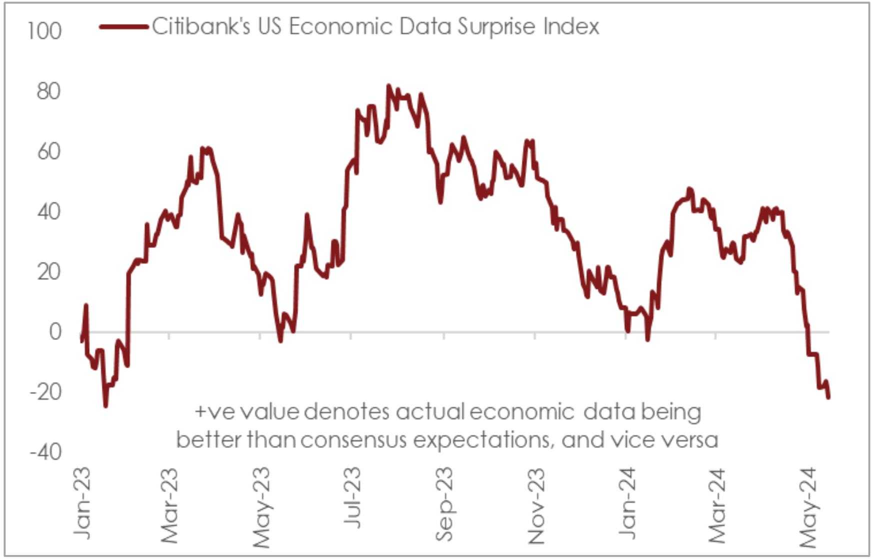


US rate cut expectations vacillate

Market participants have once again priced in 2 Fed rate cuts before the end of 2024 compared to 1 at the time of May 1st FOMC meeting…



…as recent US economic data has surprised on the downside*



* Key data posting a downward surprise include ISM Mfg and Non-mfg for Apr-24, Retail Sales for Apr-24, NFP for Apr-24, Core CPI for Apr-24 etc.

Domestic inflation projection offers comfort

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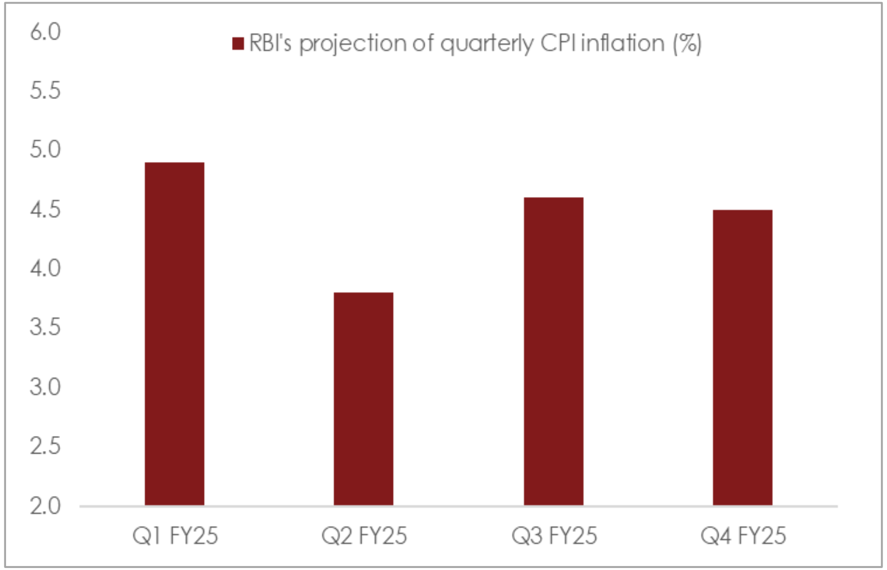
As per the RBI, CPI inflation is projected to moderate to 4.5% in FY25 from 5.4% in FY24.

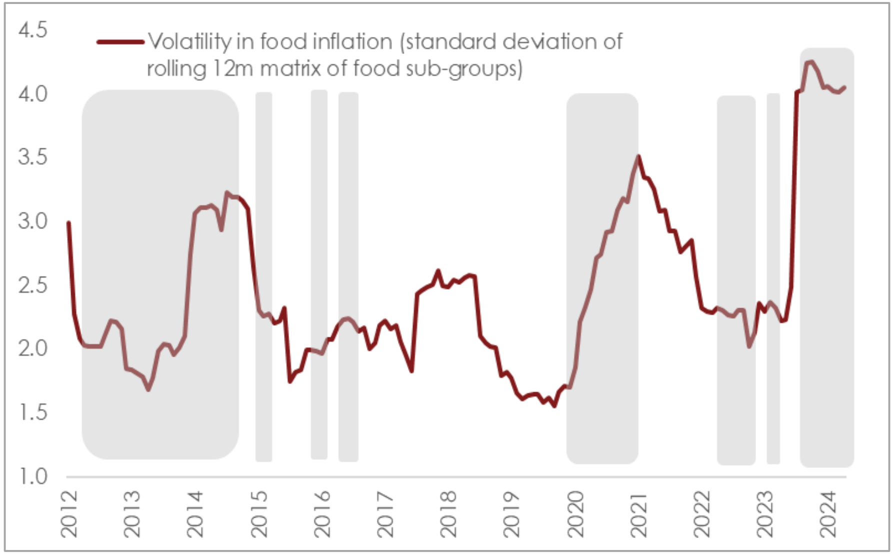
Although there are concerns over severe heatwaves during Apr-Jun 2024, IMD's forecast of 6% surplus rainfall during the upcoming south-west monsoon season could potentially suppress the food price pressures.



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

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



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

The Jan-May period normally has a share of ~15% in India's annual rainfall. In 2024, this entire period has posted a deficiency in rainfall. Although the numbers are not significant, it does point towards likelihood of higher temperatures in the summer season, potentially imparting volatility in price of some of the food items.

Month	Share in total (%)	Rainfall in 2024 (% of normal)
Jan	1.5	-60
Feb	2.0	-16
Mar	2.6	-2
Apr	3.4	-20
May	3.4	-11

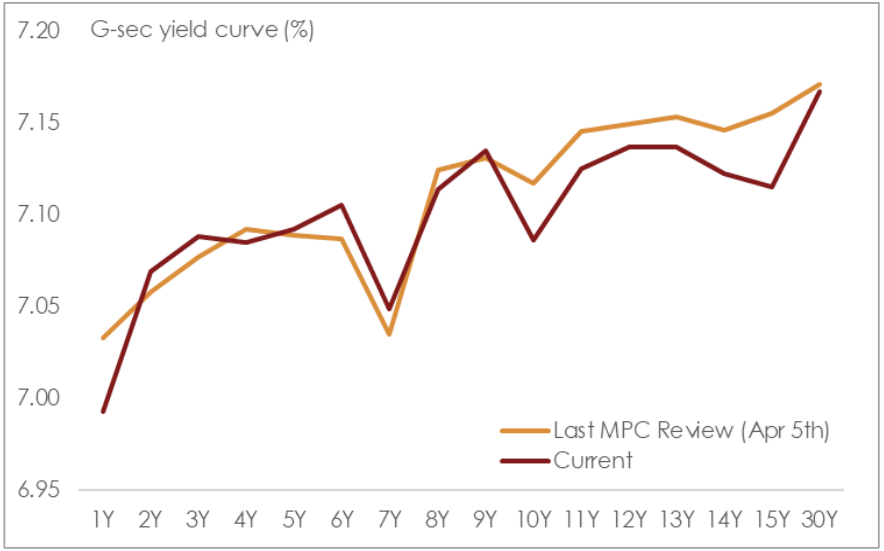
With likelihood of first rate cut from the US Fed in Sep-24, we expect the RBI to pivot in Oct-24. Our expectation of cumulative rate cut from the RBI in FY25 stands at 50 bps.

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 in FY25.

G-sec Buybacks in FY25 so far		
Date	**Announced (Rs bn)**	**Completed (Rs bn)**
9-May	400	105
16-May	600	21
21-May	600	NA
Change in T-Bill Borrowing Calendar in Q1 FY25		
Date	**Initial (Rs bn)**	**Revised (Rs bn)**
24-May	220	120
30-May	220	120
6-Jun	220	120
13-Jun	220	120
20-Jun	220	120
27-Jun	220	120

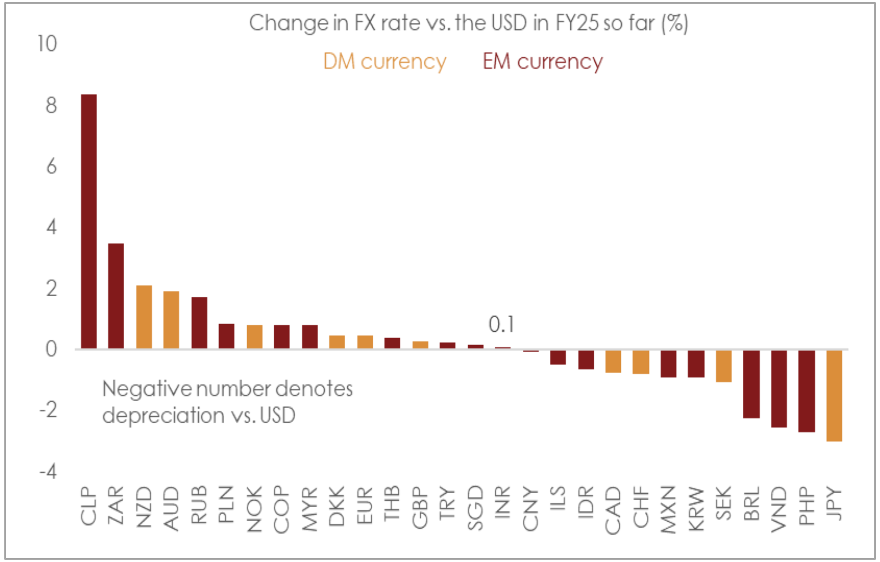
The g-sec yield curve has marginally flattened since the last policy review in Apr-24. A good monsoon could hopefully result in further flattening in H2 FY25.



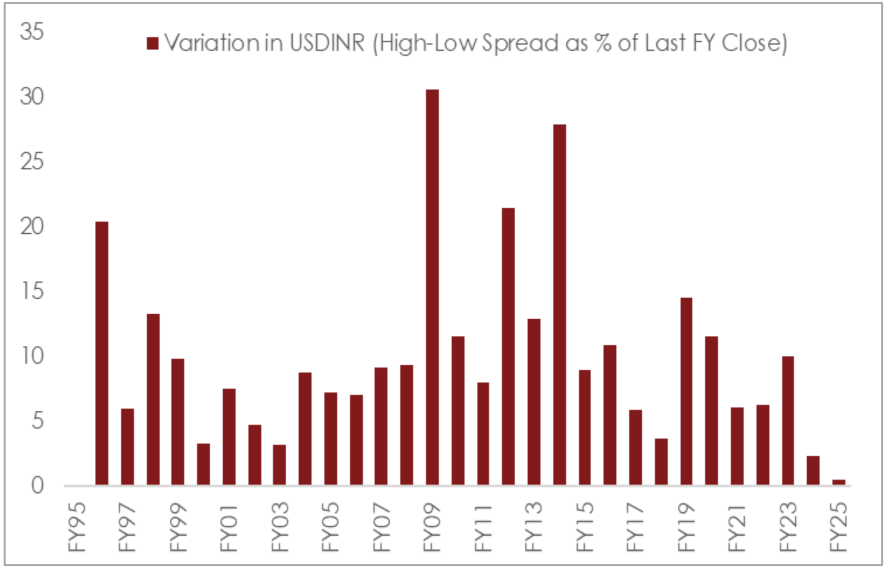
We expect 10Y g-sec yield to slide lower towards 6.75% by Mar-25. Geopolitical uncertainty and any delay in Fed pivot could potentially provide an upside risk.

INR begins FY25 on a stable note

INR has strengthened by 0.1% in FY25 so far. It has escaped both positive and negative swings and emerged as a stable currency at a global level.

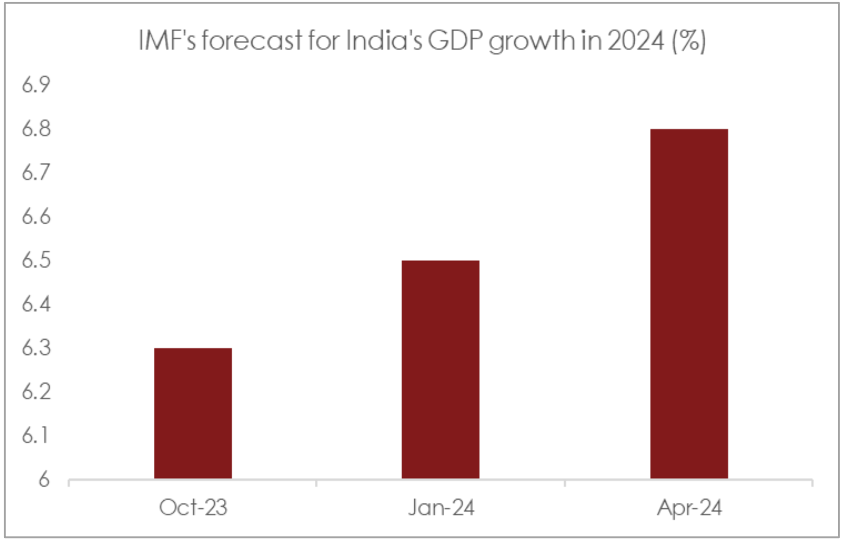


Relative to its own history, INR continues to see extremely subdued volatility (lowest in nearly three decades).

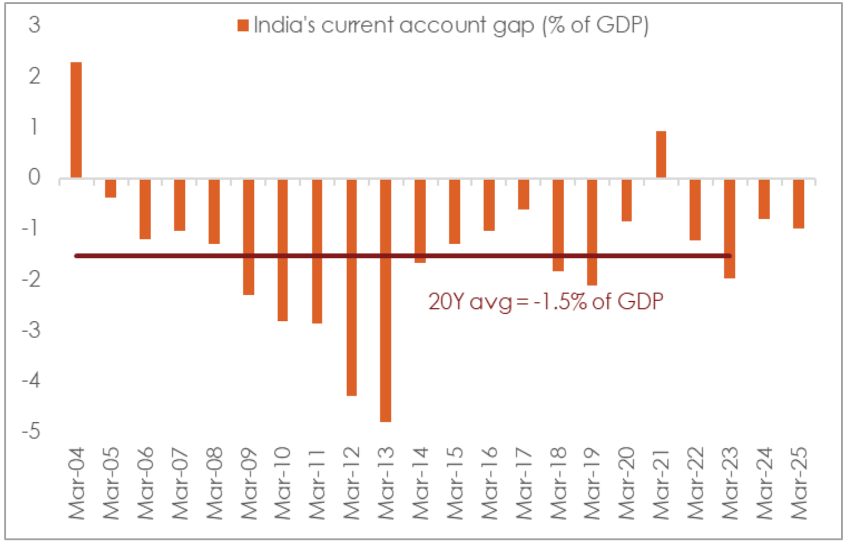


Key macro parameters remain in support

Ongoing growth upgrades and expectation of alignment of inflation with its target bodes well for INR stability.



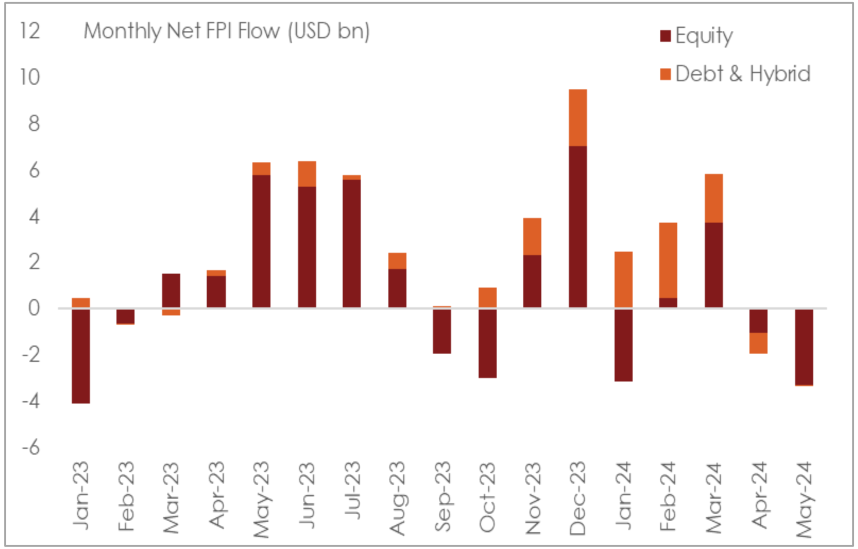
India's CAD is projected comfortably below its long-term trend in FY24 (at 0.8% of GDP) and FY25 (1.0% of GDP).

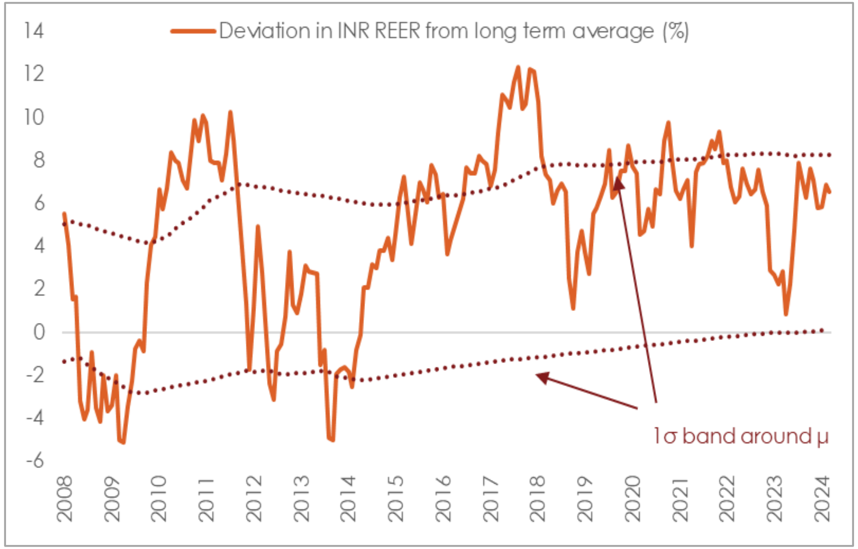


However, caution building up on portfolio flows and valuation

FPIs sold USD 5.3 bn since the start of FY25, on escalation in geopolitical risks and rising uncertainty on Fed's monetary policy trajectory.

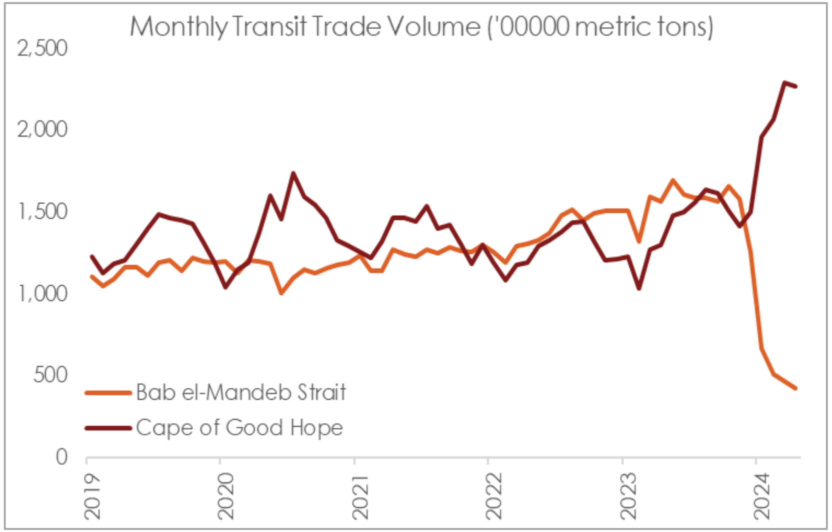
Meanwhile, 6-7% overvaluation in INR (on REER basis) continues to tilt the balance in favour of a mild depreciation.





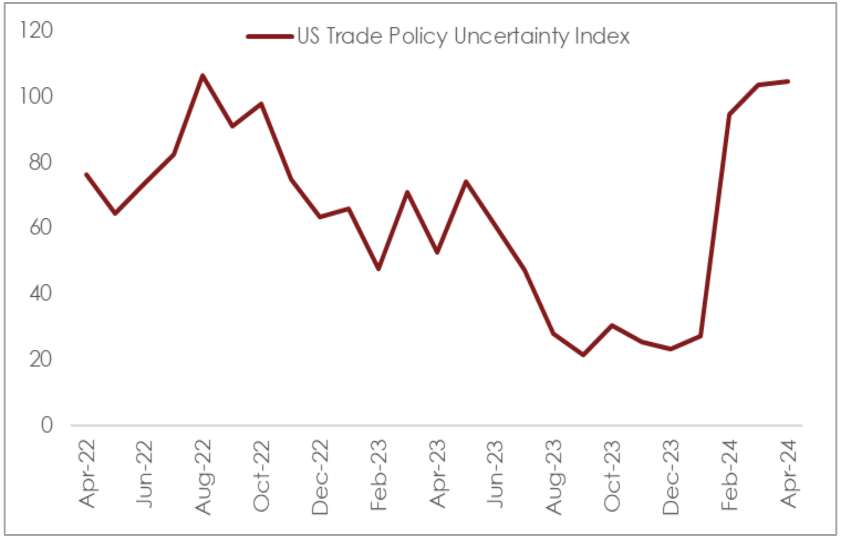
Uncertainty with respect to global trade persists

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



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

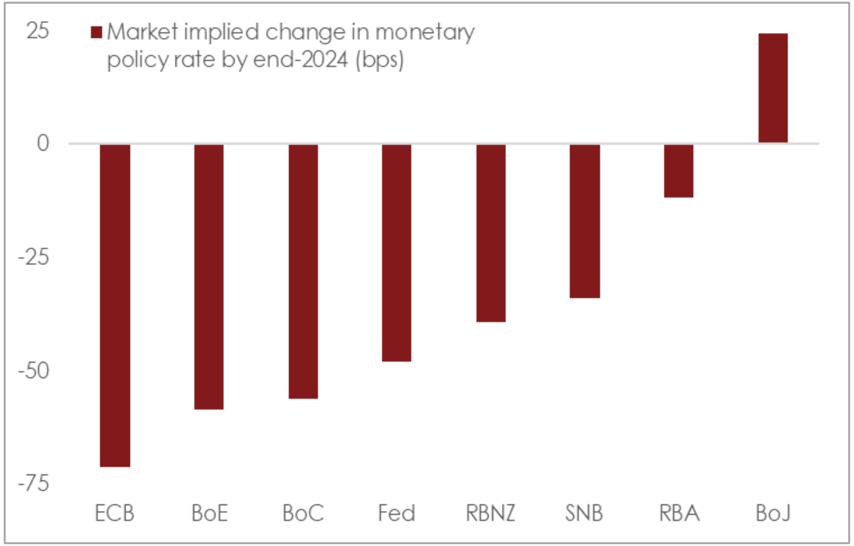
Upcoming election cycle in the US has led to a higher threat of protectionist rhetoric, esp. targeted at China. This could once again undermine the spirit of trade-based globalization.



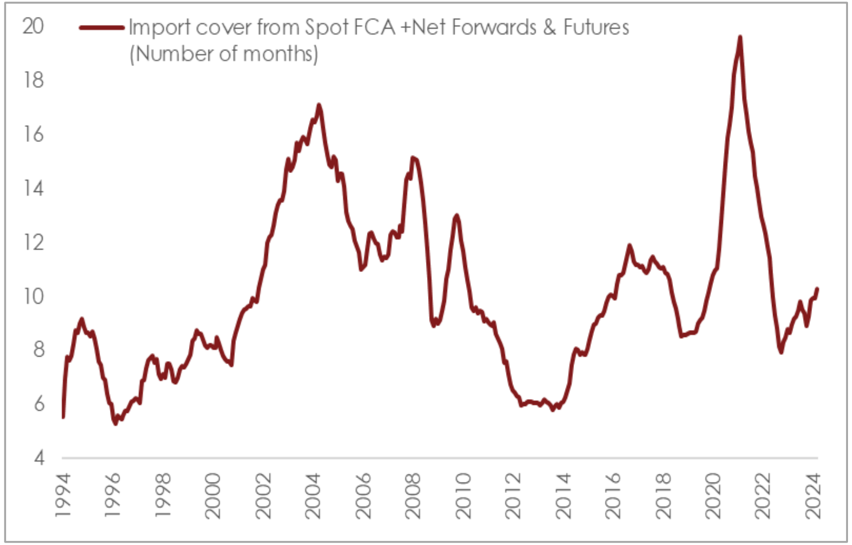
Note: Higher value of the index denotes rising uncertainty, and vice versa

Rupee outlook

The Fed is slipping in terms of anticipated monetary policy easing priced for delivery in 2024. This should provide some tailwind to the dollar.



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

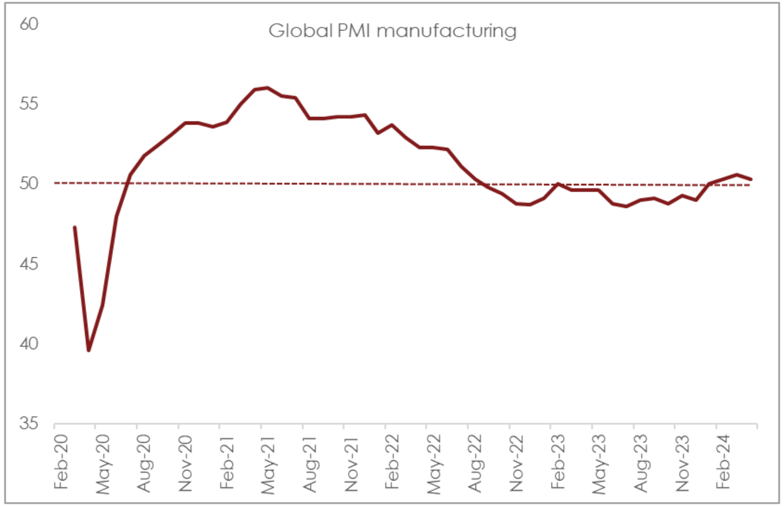


We continue to expect INR to post a mild depreciation in FY25, with a move towards 84.5 levels by Mar-25. Push back in case of Fed pivot and worsening of geopolitical risks could however put INR under some pressure.

Global manufacturing steadying

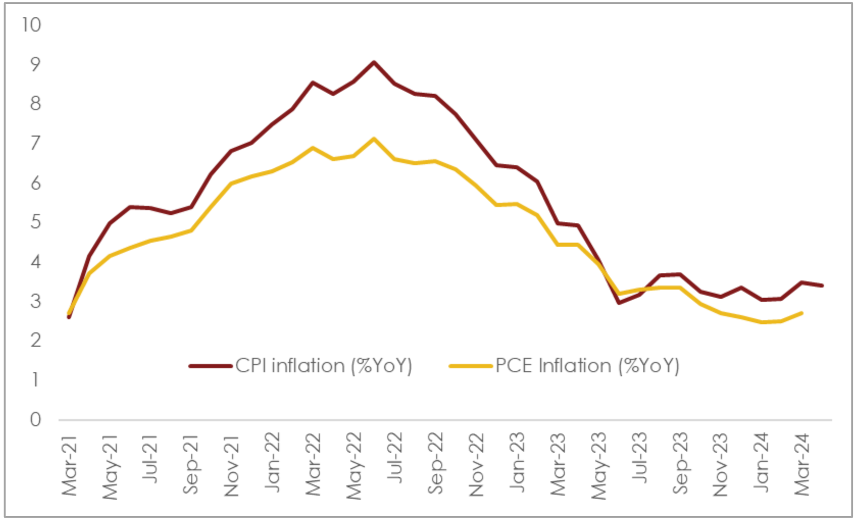
The J.P. Morgan Global PMI Composite Output Index - produced by S&P Global - rose to 52.4 in April, up from 52.3 in Mar-24. The headline PMI, despite remaining below the survey's long-run average of 53.2, is the highest in ten months and is consistent with annualized quarterly global GDP growth of approximately 2.7%

At 50.3, the Global Manufacturing PMI, remained above 50.0 neutral mark for a third successive month in Apr-24. The latest data signal an ongoing steadying of the global manufacturing economy so far in 2024 after almost one and a half years of decline.



Fed prolongs the “wait”

US CPI inflation accelerated in Q1-24, underscoring inflationary pressures remaining too high for the Fed. In its policy statement, Fed added the caveat that “in recent months, there has been a lack of further progress toward the Committee’s 2% inflation objective”.



Apr-24 CPI however rose less-than-expected to 3.4%YoY, suggesting that inflation resumed its downward trend at the start of the second quarter

Market participants are factoring in 1-2 rate cuts over the remainder of this year, between Sep and Dec-24.

Rate change	12th Jun-24	31st Jul-24	18th Sep-24	7th Nov-24	18th Dec-24
No change	**91.3**	**68.6**	32.9	21.2	9.6
Cut 25 bps	8.7	29.2	**49.7**	**43.8**	31.5
Cut 50 bps		2.2	16.2	28.2	**36.7**
Cut 75 bps			1.1	6.4	18.3
Cut 100 bps				0.4	3.7
Cut 125 bps					0.2

Yields ease, DXY loses ground

The possibility of a slower pace of rate cuts than previously thought, along with fewer cuts in 2024 has driven US 2-year treasury yields higher on a CYTD basis (+45 bps), though amidst shaky economic data and better than expected Apr-24 CPI print, yields have eased from recent peak

…for similar reasons, USD Dollar dropped to near 1 month low, below 105 threshold

	1W Ago	1M Ago
DXY	-0.5	0.4
EUR	0.8	0.9
JPY	-0.1	-3.7
GBP	1.0	0.4
CAD	0.3	-1.1
AUD	0.9	1.9
CHF	-0.3	-3.2
SEK	0.6	-3.1
NOK	0.9	-2.2
DKK	0.6	0.5

EM currencies, change vs.		
	1W Ago	1M Ago
CNY	0.0	-0.5
INR	0.2	-0.4
KRW	0.9	-1.9
RUB	1.8	1.0
BRL	0.6	-3.3
MXN	0.4	2.2
IDR	0.6	-2.1
TRY	-0.2	-4.7
TWD	0.6	-2.8
PLN	1.4	2.2
THB	1.3	-0.6
PHP	-0.4	-3.1
MYR	1.1	1.9
SGD	0.5	-0.1
HKD	0.2	0.3
VND	0.0	-3.8
ZAR	0.9	3.2

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