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Macro Pulse Report

September 2024

From the desk of the Chief Economist

Dear Readers,

The first half of the year is almost over and we are in the midst of the great Indian festive season. GDP data for the first quarter of the fiscal highlighted that the economic activity in the country has moderated slightly with GDP growth at 6.7%, with the gap between GVA and GDP print narrowed. Private consumption has seen a revival on the back of better rural demand prospects and overall better monsoon. It's also expected that the current festive season will provide a boost to consumption activity particularly in the urban areas. With a strong pickup in public capital expenditure and a rise in private investments expected in the second half of the year, we have revised our FY25 GDP forecast to 7.0% from 6.8%.

Globally, the US Fed hit the pivot in its rate cycle with a relatively large 50 basis point cut, signalling a larger disinflationary trend worldwide with weaker demand conditions and lower commodity prices despite high geo-political risks. With slowdown concerns in China, its central bank has slightly reduced the short term rates and more stimulus measures are likely. Nevertheless, RBI may not display an urgency to opt for a rate cut rightaway in the upcoming MPC meeting, given its concerns on the volatility in food inflation. While the headline CPI inflation has cooled down to around 3.5% in the last two months, its high linkage with food inflation and the risks of excess rainfall in some parts of the country may delay the much awaited pivot from RBI. Debates around "flexible inflation targeting" are on the rise and some argue that food prices, often subject to supply shocks, distort the inflation figure, making it harder for central banks to set long-term policy. But we don't expect RBI to back down from its focus on food inflation so soon. A rate cut is likely in Dec'24 only if the monthly headline inflation print stabilizes below 4.5%.

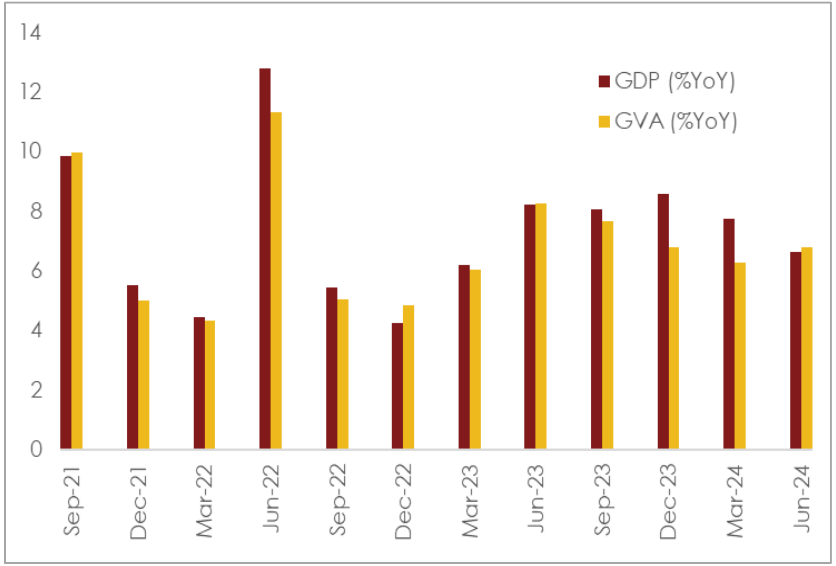
Expectedly, the Fed rate action has led to higher FPI flows in the month of Sep'24 and a stronger rupee that reversed its trajectory after touching the level of 84.0. India's forex reserves continue to get stronger at over USD 690 bn although the trade deficits have seen a spurt, partly due to higher gold imports.

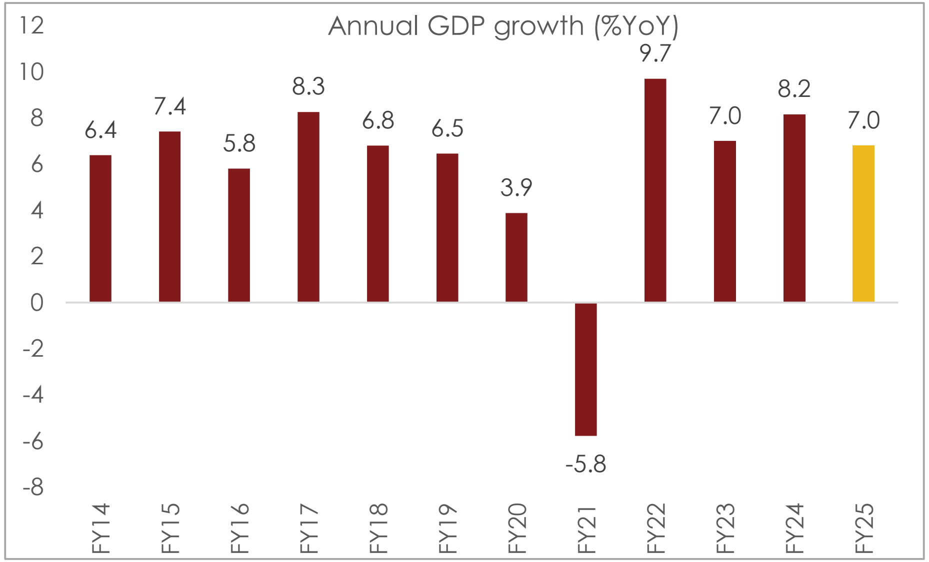
-Suman Chowdhury, Chief Economist and Head – Research

Q1 FY25 GVA growth stronger than anticipated…

India's Q1 FY25 GDP came broadly in line with expectations, at 6.7%YoY. GVA growth, however, surprised on the upside, at 6.8%YoY – higher than GDP growth as well as corresponding Q4 FY24 growth at 6.3%.

This reaffirms the resilience of economic activity in Q1 FY25, despite the quarter expected to have faced the adverse impact of heat waves, delayed rains and national elections. **Post Q1 FY25 data, we revise our FY25 GDP growth forecast up by 20 bps to 7.0%.**

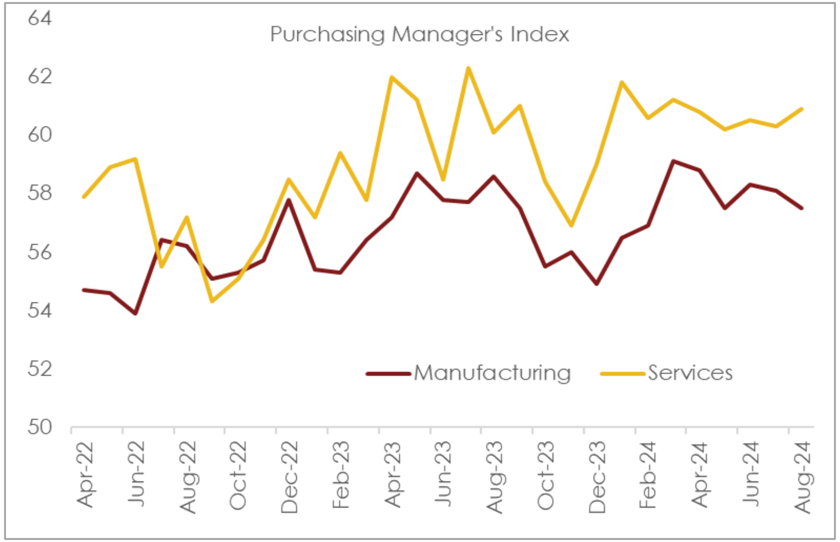


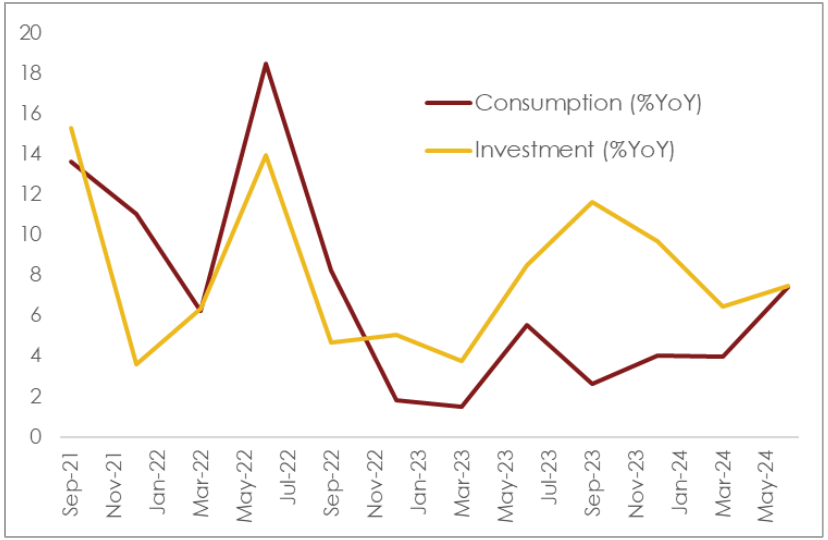


Economic activity continues to retain momentum in Q2 FY25

Broadly, the PMI index for both manufacturing and services continues to remain buoyed, well above the long-period average, notwithstanding monthly volatility.

Consumption growth showed signs of recovery in Q1 FY25, likely aided by a nascent turnaround in rural demand. As such, the gap between consumption and investment growth narrowed considerably at the start of FY25.

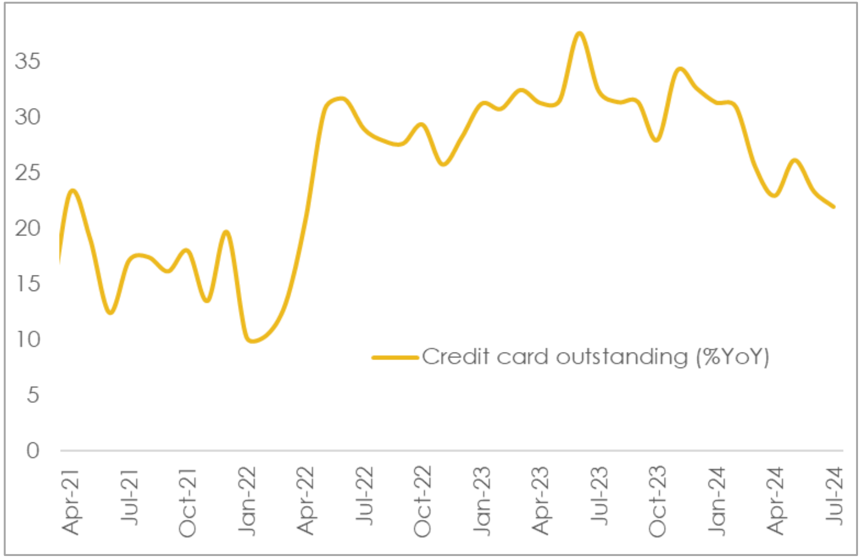


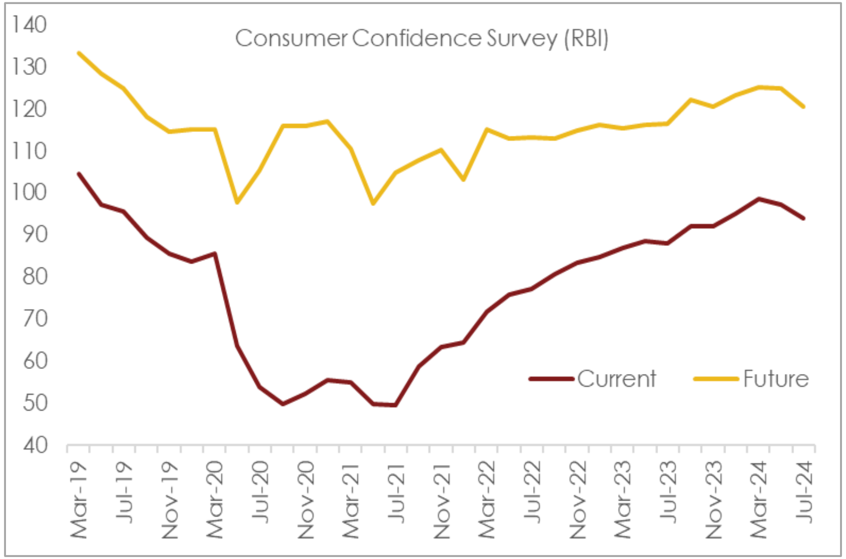


Urban consumption to likely face headwinds

While urban consumption has held up well so far, the 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 the growth in credit card spending to have come off over the last two quarters.

In addition, RBI's latest consumer confidence for the month of Jul-24 indicated a dip in both current and future confidence of urban consumers – marking the first decline in this year so far. All sub-categories, barring spending, namely income, economic conditions, employment, and price level – recorded a deterioration.

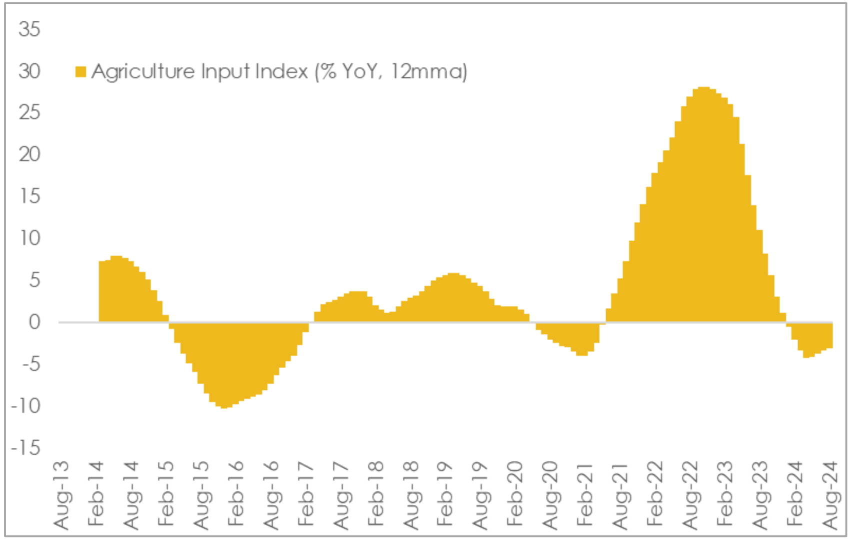


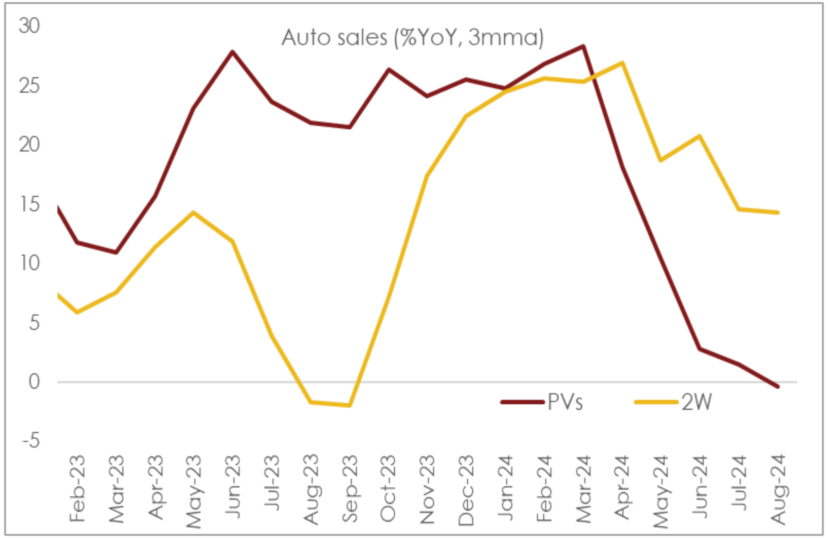


Rural economy beginning to turnaround

Agri input costs, on a trend basis (12mma), remain in contraction over the last 6 months, offering support to the agriculture sector.

Reflecting the improving rural sentiment, two-wheeler sales growth has been holding up well, as opposed to passenger vehicles, which have seen growth slip into contraction. Pick-up in monsoon performance and the onset of the festive season should improve rural demand, which continues to be supported by the Government's fiscal spending.

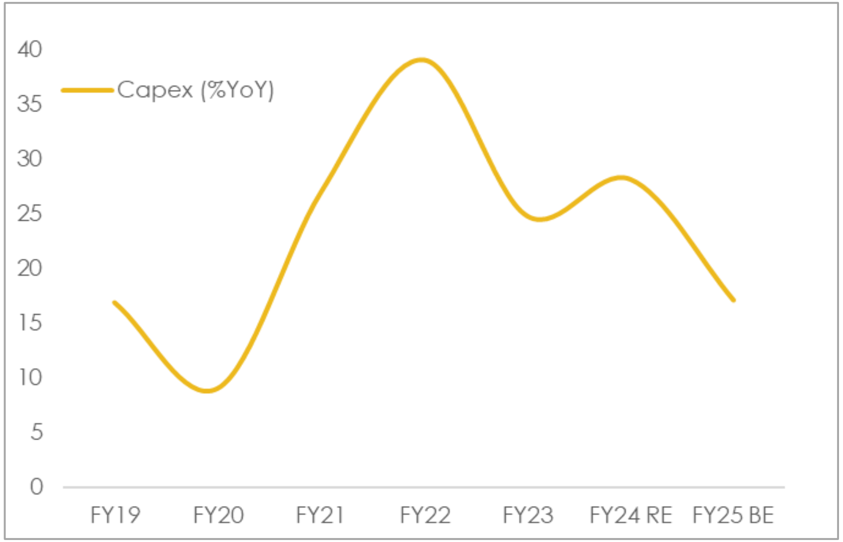


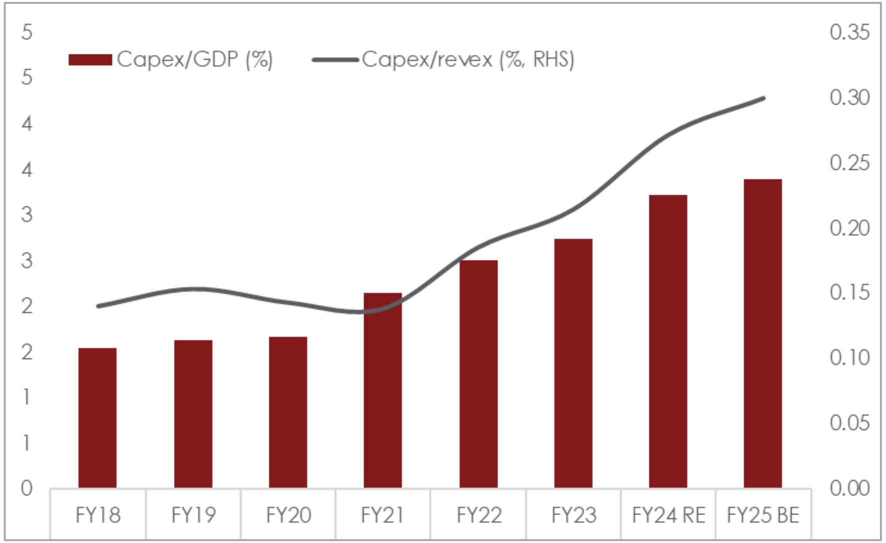


Capex support to growth intact

The Union budget maintained the level of capex at Rs 11.1 tn – i.e. unchanged from the interim budget. In annualized terms, though this translates into a growth of ~17% in FY25, compared to ~30% growth on average in the last 4 years. However, it still remains a significant supporter to the growth.

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 the quality of spending (ratio of capex/revex).

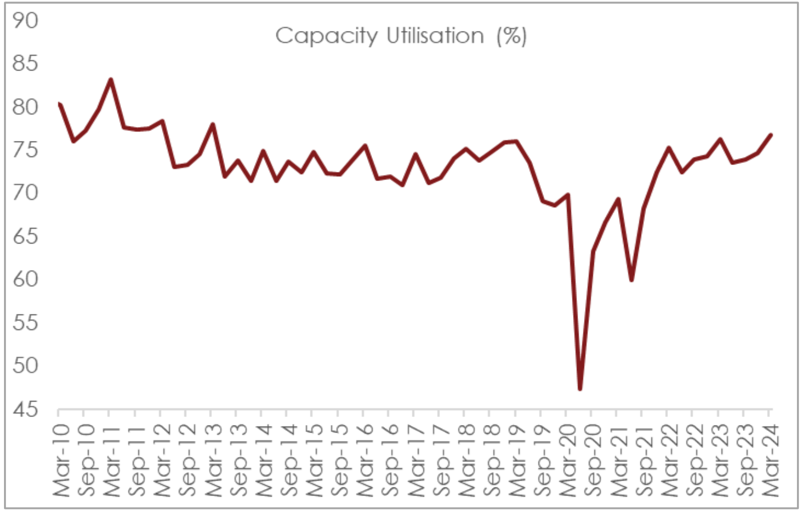


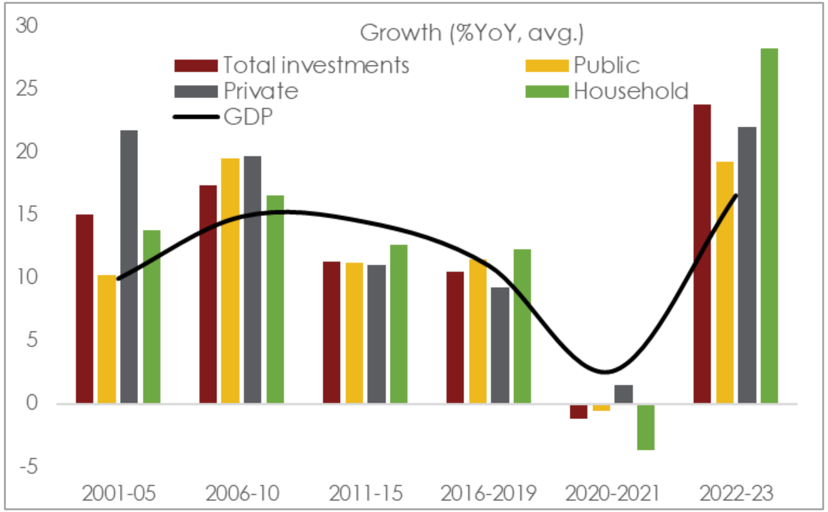


Private capex recovery underway

Capacity utilisation levels have improved to ~75% on a trend basis over the last 5 quarters as per RBI's OBICUS survey. Despite healthier corporate balance sheets and comfort from the global commodity cycle, private capex recovery remains uneven. A more broad-based take-off can be expected in the coming quarters.

Private capex in nominal terms has grown faster than GDP growth after Covid-19 but the recovery in private investment to GDP ratio to 10.8% in 2023 still stands significantly below its previous peak of 18.3% in 2008. As per RBI, a significant rise in envisaged capital investment of private corporates, based on the projects sanctioned by banks/FIs during FY24, points to an upbeat investment cycle in FY25.

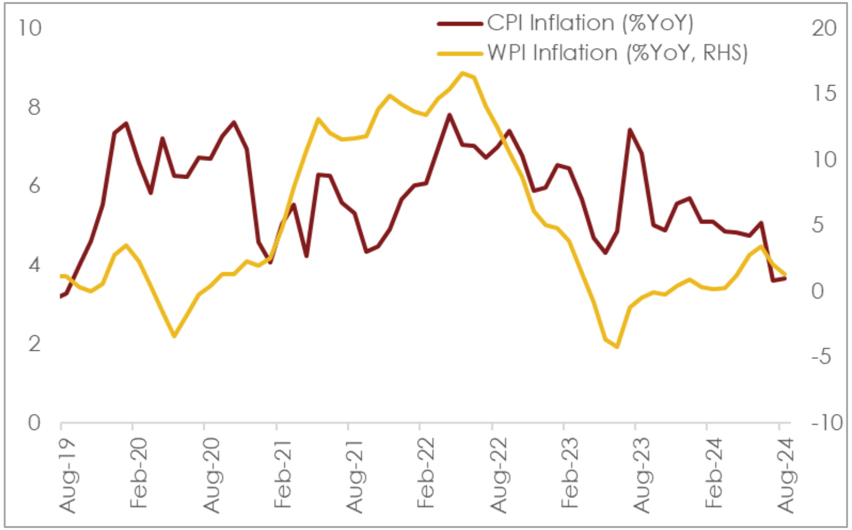


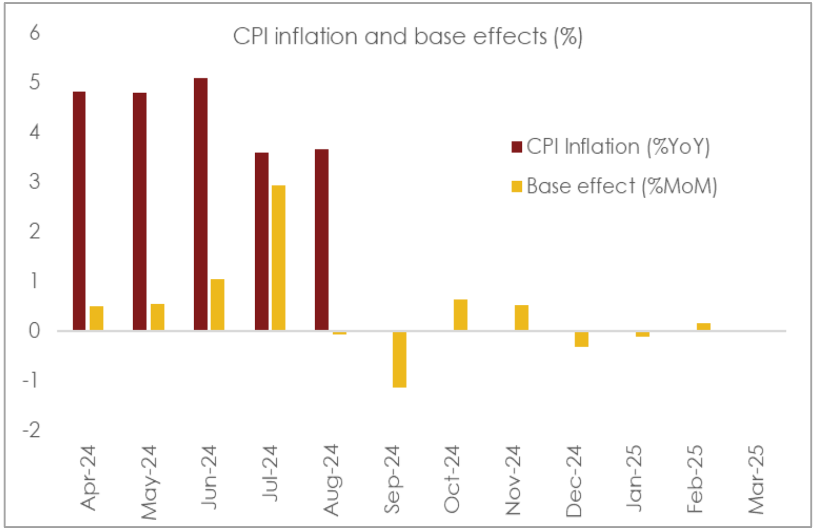


CPI inflation inches higher in Aug-24

Defying expectations of a moderation, CPI inflation in Aug-24 rose marginally to 3.65%YoY from 3.60% in Jul-24. WPI inflation in contrast, dropped to 1.31% in Aug-24 vs 2.04% in Jul-24

While the statistical base impact was largely neutral in Aug-24, food prices declined less than expected in the month.



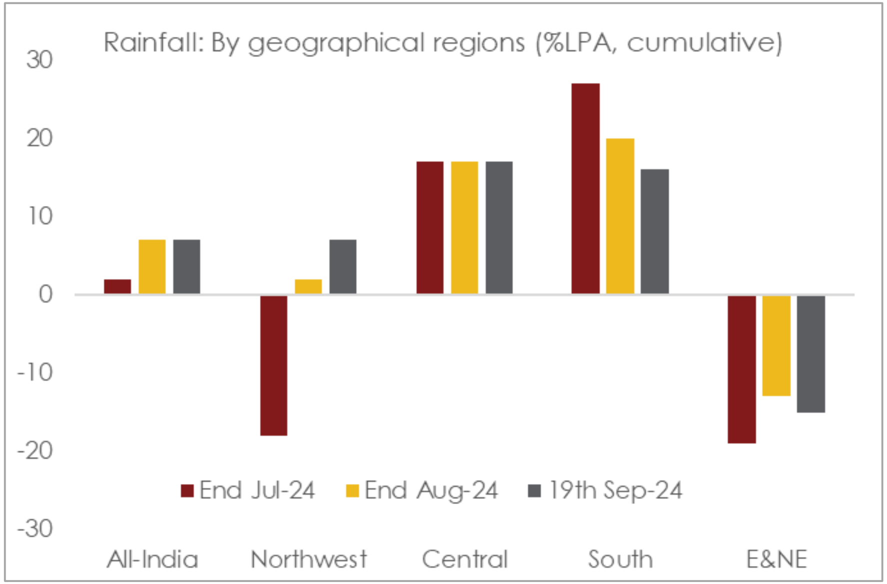


Vegetable prices correct, albeit less than expected

Vegetable prices corrected marginally after the steep run-up over Jun-24 and Jul-24. Nonetheless, Aug-24 registered the first sequential downdraft in food prices in the last 7 months.

This comes amidst improved spatial distribution of rainfall and improved prospects for key Kharif crops.

Vegetables	Jun-24	Jul-24	Aug-24
Potato	12.2	16.7	1.2
Onion	24.1	20.5	7.8
Raddish	13.9	11.3	2.1
Carrot	5.4	13.7	8.0
Garlic	4.7	5.2	7.3
Ginger	6.8	3.7	-4.1
Spinach etc.	11.5	4.9	2.7
Tomato	48.8	41.7	-28.8
Brinjal	17.0	12.0	2.3
Cauliflower	16.6	24.5	4.5
Cabbage	14.1	18.0	0.4
Green Chillies	14.1	4.5	-6.4
Lady finger	3.6	2.9	-8.4
Parwal	-6.4	0.6	-1.6
Pumpkin, Gour	11.5	11.9	-1.4
Peas	10.0	32.7	-2.3
Beans	11.1	-1.7	-10.7
Lemon	-7.4	-10.5	-5.3
Others	7.3	5.3	-2.4
CPI veggies	**14.2**	**14.1**	**-2.5**

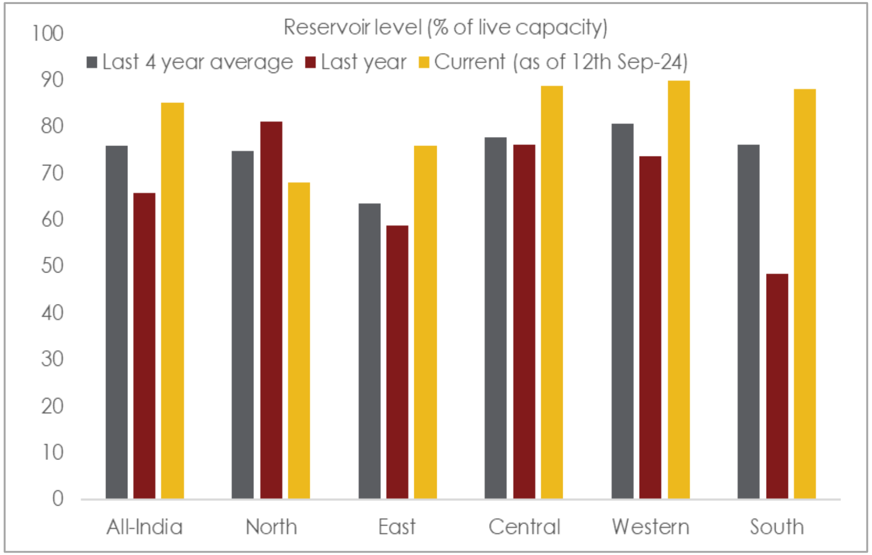


Spatial distribution of rainfall improves, augurs well for agri output

Total area sown under all Kharif crops has risen by ~2.2% (as of 17th Aug-24) led by rice, pulses and coarse cereals.

Sowing Progress of Kharif crops (as on 17th Sep-24, in lakh ha)					
Crop	Normal Area	2023	2024	%YoY vs. normal area	%YoY
Paddy	**401.6**	**393.6**	**410.0**	-2.0	4.2
Pulses	**136.0**	**118.4**	**127.8**	-12.9	7.9
Arhar	45.6	40.7	46.5	-10.6	14.1
Urdbean	36.8	32.3	30.4	-12.3	-5.6
Moongbean	37.0	31.3	35.3	-15.4	12.7
Coarse Cereals	**181.0**	**183.1**	**189.7**	1.1	3.6
Jowar	16.0	14.2	15.5	-11.2	9.3
Bajra	72.6	70.9	69.9	-2.4	-1.4
Ragi	11.0	8.9	10.9	-19.3	23.6
Maize	77.0	83.7	87.5	8.7	4.6
Oilseeds	**190.2**	**190.4**	**193.3**	0.1	1.5
Groundnut	45.3	43.8	47.9	-3.4	9.4
Soybean	123.0	123.9	125.1	0.7	1.0
Sesamum	10.3	12.1	11.2	17.5	-7.2
Castor	9.1	9.2	7.7	1.8	-16.9
Sugarcane	**51.2**	**57.1**	**57.7**	11.7	1.0
Jute & Mesta	**6.7**	**6.7**	**5.7**	-1.2	-14.0
Cotton	**129.3**	**123.7**	**112.5**	-4.4	-9.1
Total	**1096.0**	**1072.9**	**1096.7**	-2.1	2.2

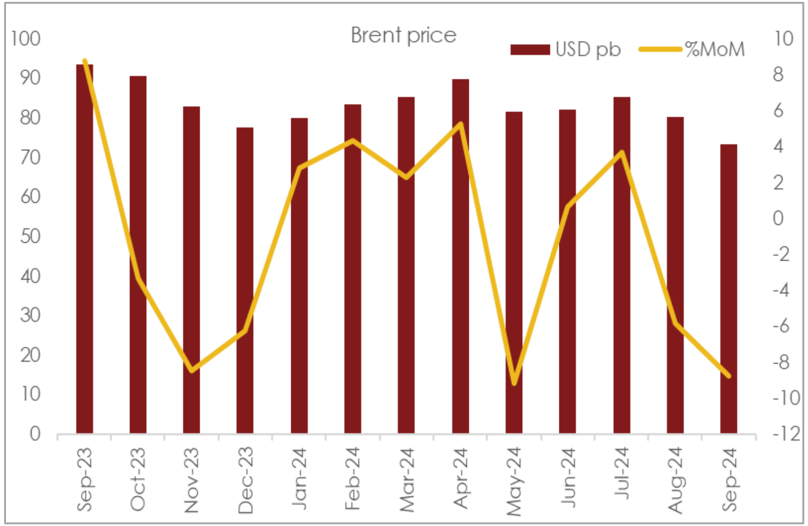
Pick-up in rainfall, as well as its improved spatial distribution, has also led to the replenishment of water levels in key reservoirs to comfortable levels. This, coupled with the delayed onset of La Nina (71% chance in Sept-Nov-24), bodes well for Rabi season.

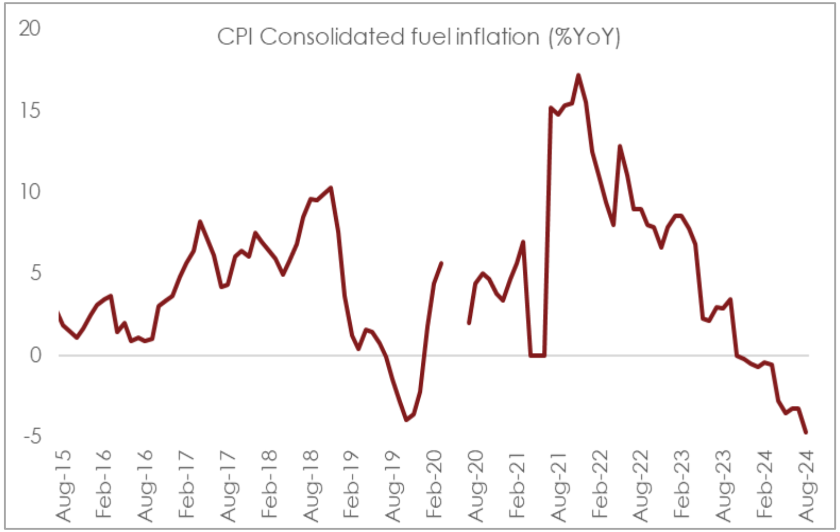


Global crude prices moderate further, could allow domestic fuel price cuts

Global crude oil prices have eased further in Sep-24 (avg of USD ~74 pb) on concerns of weakening global demand validated by a downgrade to the oil demand outlook by OPEC in its latest energy outlook.

Domestic CPI fuel inflation continues to drift lower, offering comfort to inflation granularity. If the recent downside in global prices persists, there remains a possibility of a cut in domestic oil prices. An INR 2/ litre reduction in the price of petrol and diesel could impart a direct disinflationary impact of 20 bps on headline inflation.



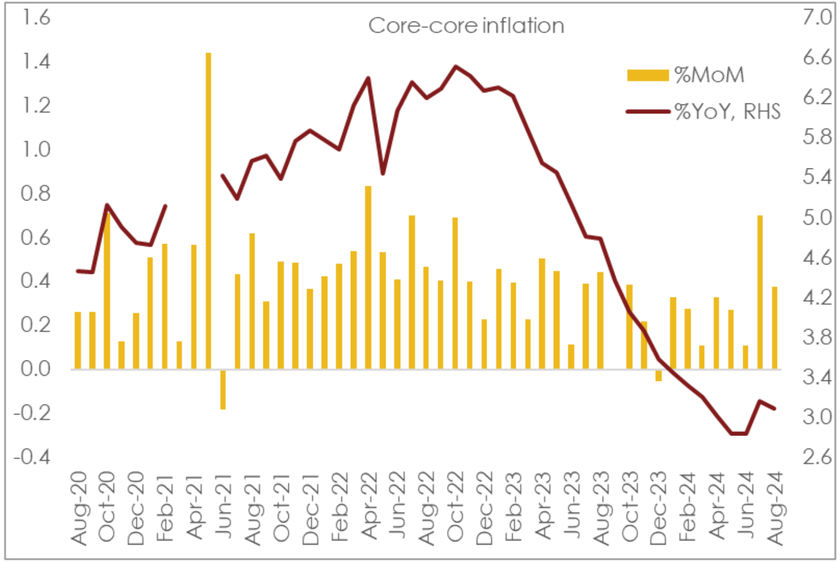


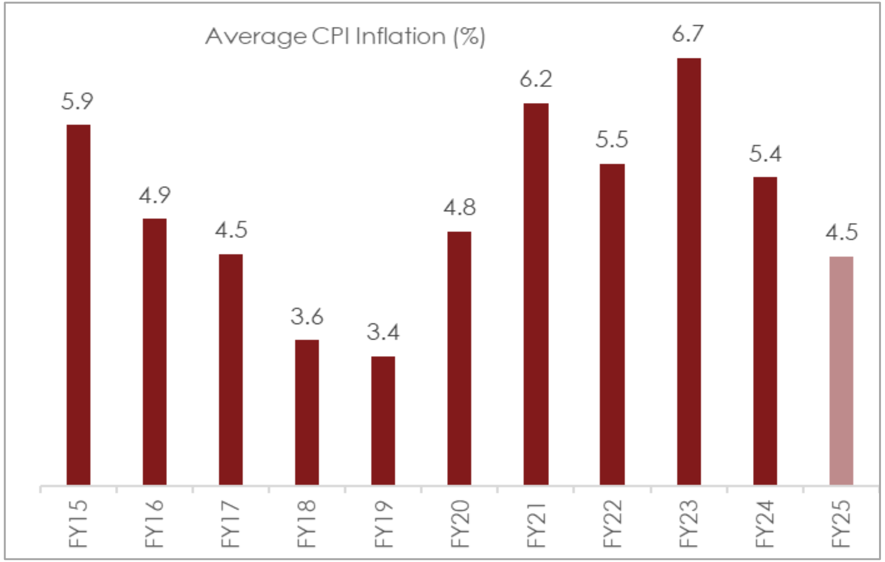
CPI inflation to align closer to target in FY25

Core-core CPI inflation bottomed out in Jun-24. The increase in mobile telephone tariffs, which came on board in Jul-24, marked an inflexion point for the series. Core-core inflation in Aug-24 eased marginally but would have been higher in the absence of custom duty reductions in precious metals announced in the Budget.

Core-core inflation is likely to follow a marginally ascending trajectory here on, though likely to be capped by the recent moderation in international commodity prices.

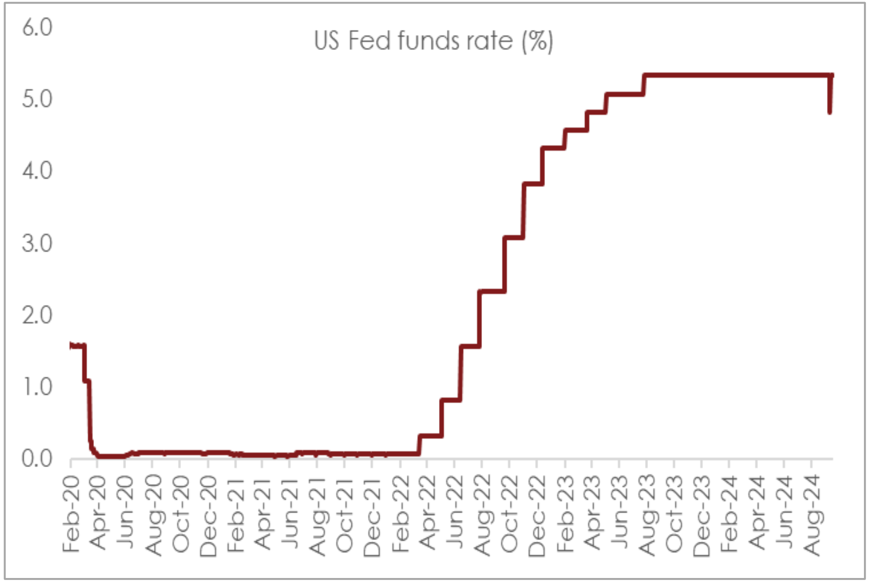
As of now we hold on to our CPI inflation to average at 4.5% in FY25 vs. 5.4% in FY24.



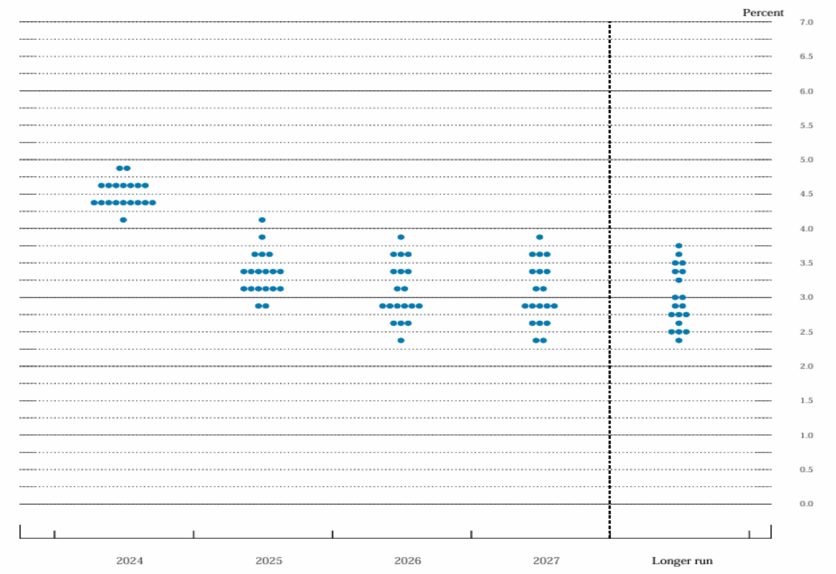


Fed pivots with a 50bps cut

The U.S. Federal Reserve delivered a 50bps cut in Sep-24, as it commenced its rate easing cycle. As per the policy statement, the U.S. economy is strong overall, and the labour market has cooled while inflation has substantially eased. The Fed fund rate now stands in the range of 4.75-5.00%



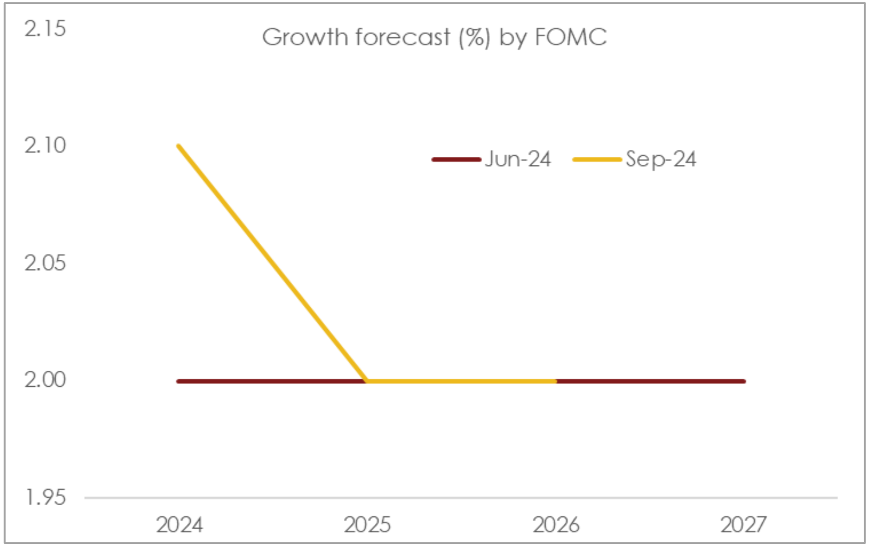
Considering additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. From its dot plot, the FOMC indicates an incremental 50 bps rate cut in CY24 and a 100 bps rate cut in CY25

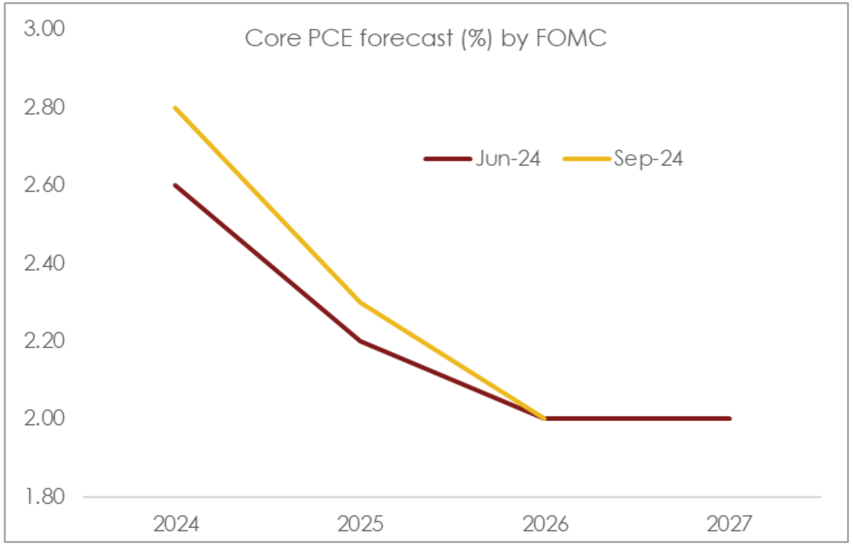


FOMC revises Q4 growth and inflation forecast lower

The FOMC downgraded Q4-24 growth, citing the softening of the U.S. economic activity, adjusting 2024 growth lower to 2.0% from 2.1% earlier (as of Jun-24)

The FOMC now expects core PCE to be at 2.6% in Q4-25 vs. 2.8% earlier and to gradually descend towards 2.0% by 2026.

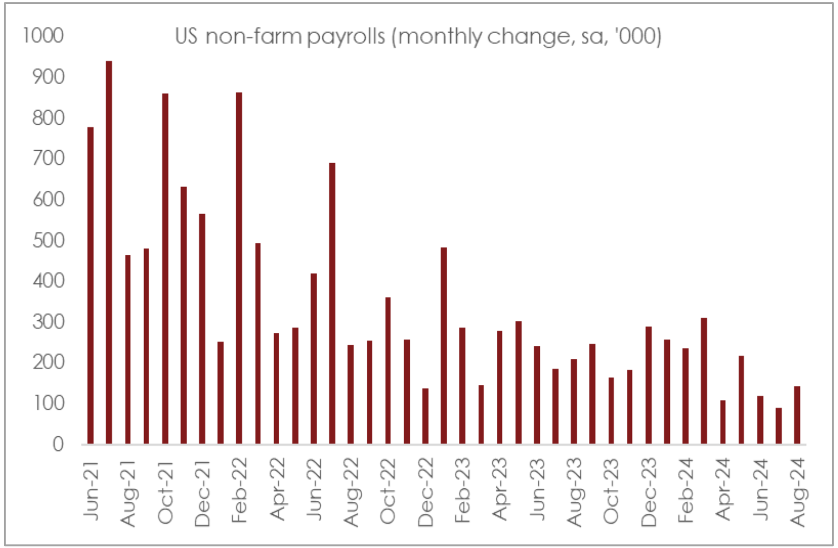


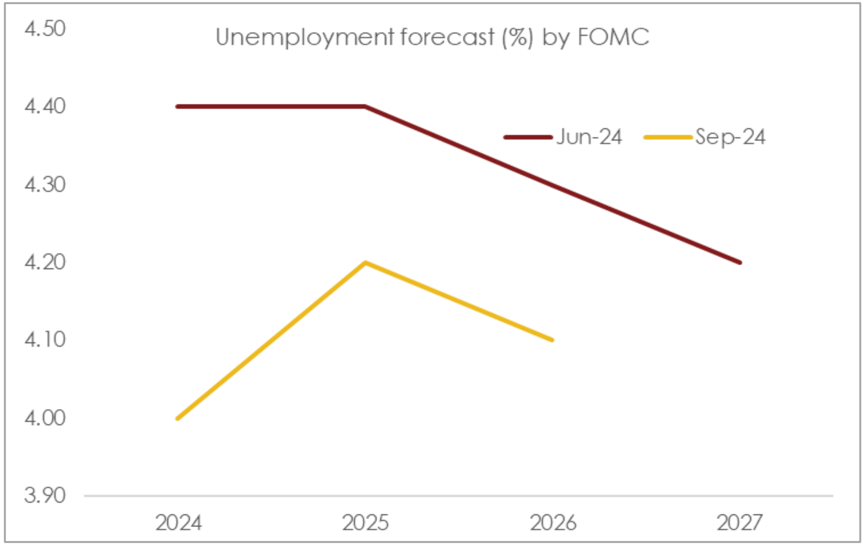


Labour market cooling off...

Labour market conditions are easing, as reflected by the sharp moderation in Non-farm payrolls, job openings, and a rise in jobless claims.

In a validation of the same, FOMC revised up its 2024 unemployment rate forecast to 4.4% from 4.0% earlier.





Snapshot of Apr-Jul FY25 fiscal performance

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The cumulative fiscal deficit for the period Apr-Jul FY25 stood at 17.2% of the budget estimate, significantly lower than 36.6% of actuals in the corresponding period in FY24. Higher momentum in revenue receipts along with moderation in expenditure momentum (attributed to the election season) resulted in lower accretion of fiscal deficit on FYTD basis.

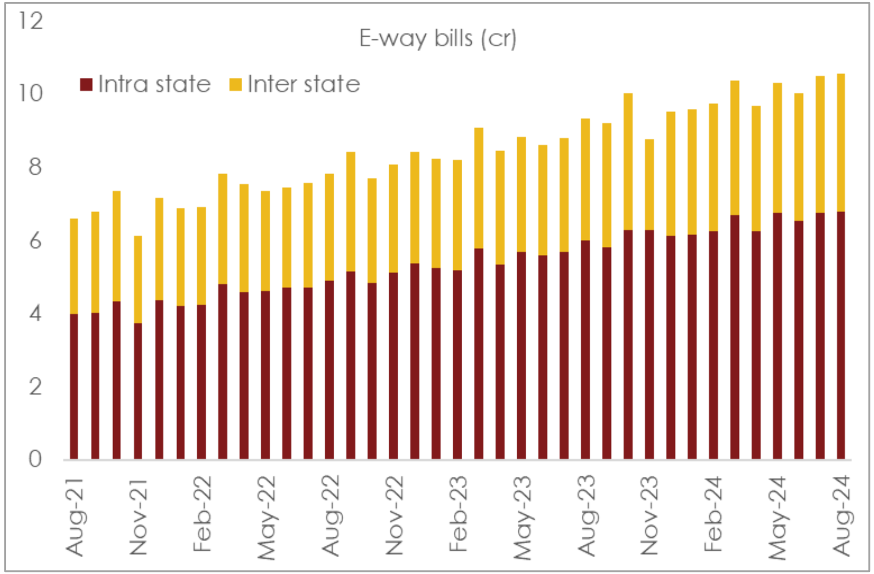
Key Fiscal Variables (Cumulative position, as of July)				
	% of FY Actual/Target		%YoY	
	FY24	FY25	FY24	FY25
Revenue Receipts	27.9	32.5	0.7	33.6
Net Tax	25.0	27.7	-12.6	22.8
Non-Tax	44.5	55.3	99.6	68.8
Non-Debt Capital Receipts	22.7	8.2	-54.5	-53.4
Total Receipts	**27.8**	**31.9**	**-1.4**	**32.0**
Revenue Expenditure	30.4	28.0	15.9	-2.3
of which, Interest Payments	*28.2*	*28.2*	*5.6*	*9.3*
of which, Major Subsidies	*34.1*	*33.0*	*28.5*	*-10.9*
Capital Expenditure	33.4	23.5	52.0	-17.6
Total Expenditure	**31.1**	**27.0**	**22.5**	**-5.8**
Fiscal Deficit	**36.6**	**17.2**	**-**	**-**

Tax collection maintains strong momentum, E-way bills clock in record high

On aggregate basis, tax collection depicts strong FYTD momentum, thereby hinting at a likelihood of it exceeding the budgeted target for FY25. However, there are internal variations. While the upside is being led by income tax and to an extent by customs, corporate tax, excise, and GST collections are trailing their respective budget estimates.

E-way bills generated clocked a record high of 10.55 cr in Aug-24. This is likely to keep GST collections supported, though annualized growth is expected to slip into single digits in the coming months (also amidst higher refunds)

Growth in key tax categories	Apr-Jul FY24 (% YoY)	Apr-Jul FY25 (% YoY)	FY25 BE (% change)
Gross Tax	**2.8**	**21.3**	**10.8**
Corporate Tax	-10.4	4.8	12.0
Income Tax	6.4	53.4	13.6
Customs	27.5	3.8	2.0
Excise	-10.5	0.8	4.5
GST	9.8	9.5	11.0
Net Tax	**-12.6**	**22.8**	**11.0**



Notwithstanding some initial dip, quality of spending to improve in FY25

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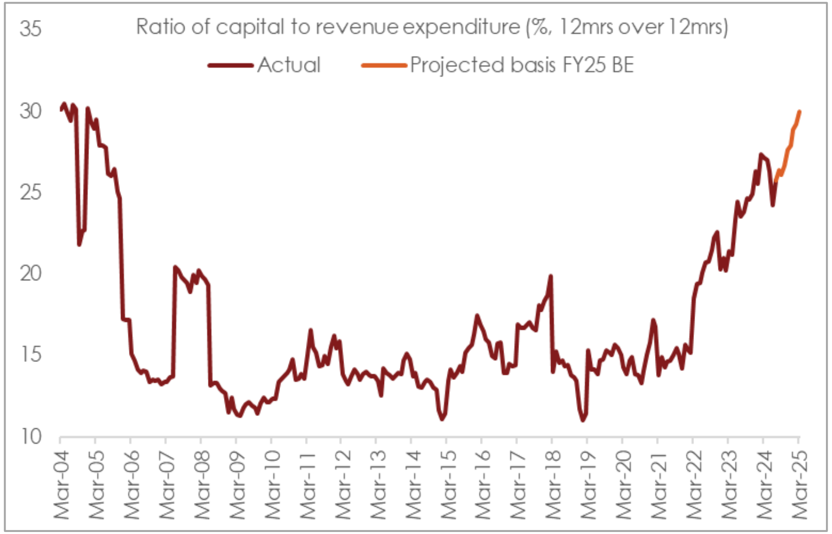
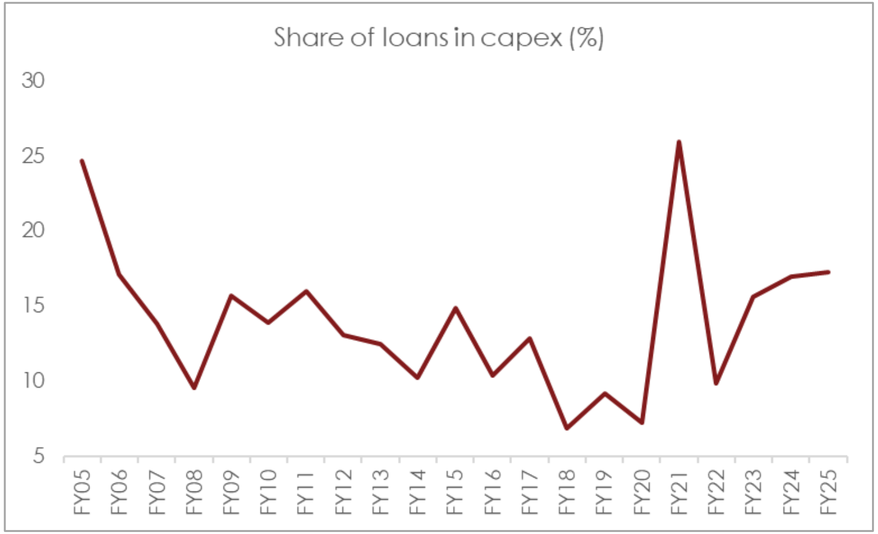
Election related freeze on spending resulted in some dip in the quality of spending (decline in capex/revex ratio) over Apr-Jul FY25. However, the FY25 BE indicates that the trend would reverse in the remaining 8 months.

The composition of capex has tilted modestly towards incrementally higher long-term loans to states (tied to specific policy objectives).





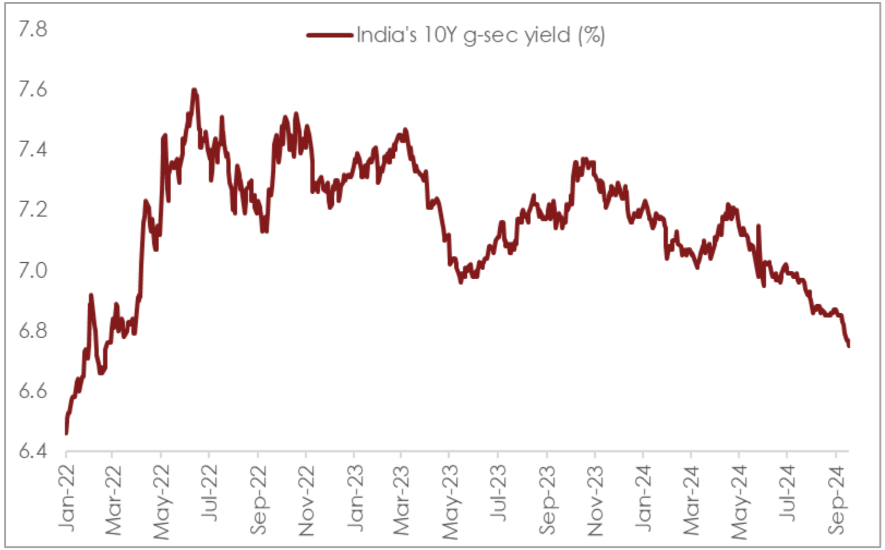
Note: FY25 depicts the cumulative trend for Apr-Jul period

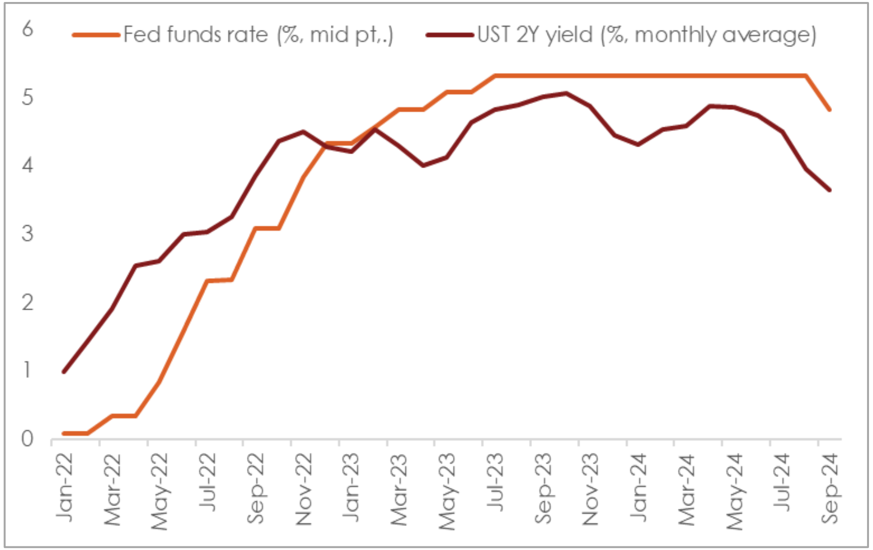
We expect FY25 fiscal deficit target of 4.9% of GDP to be met.

G-sec yield back to its pre-Russia-Ukraine war levels

India's 10Y g-sec yield moderated for third consecutive month. Currently trading at 6.75%, it is down 26 bps since end Jun-24. This is not just the lowest level since the RBI started normalizing monetary policy in Apr-22, but it also stands lower than the level before the Russia-Ukraine war of 6.76%.

Short dated U.S. yields have dropped to a 25-month low with the Fed embarking on the path of monetary policy easing in Sep-24. Post the 50 bps rate cut in the fed funds rate in Sep-24, the interest rate futures market is currently attaching a probability of 28%, 50% and 22% for 50 bps, 75 bps and 100 bps rate cuts respectively over Nov-Dec 2024.

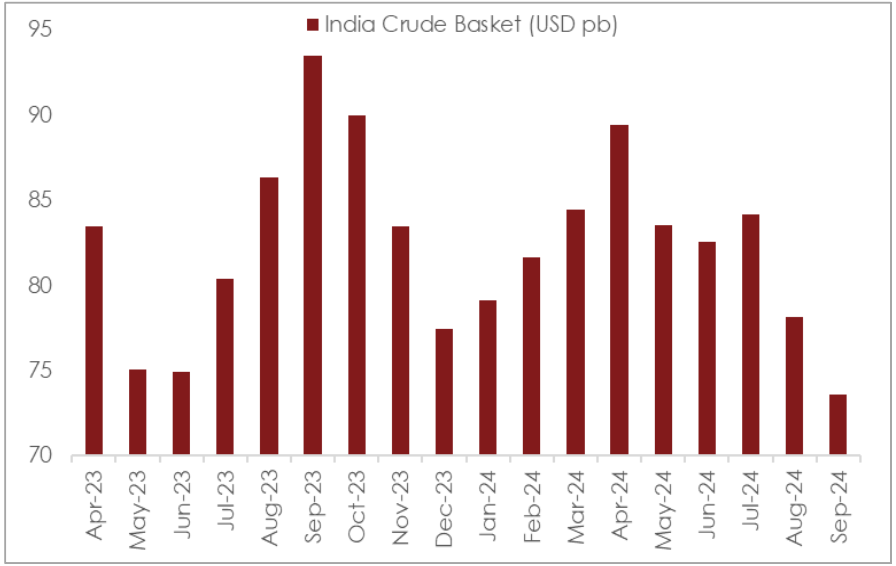


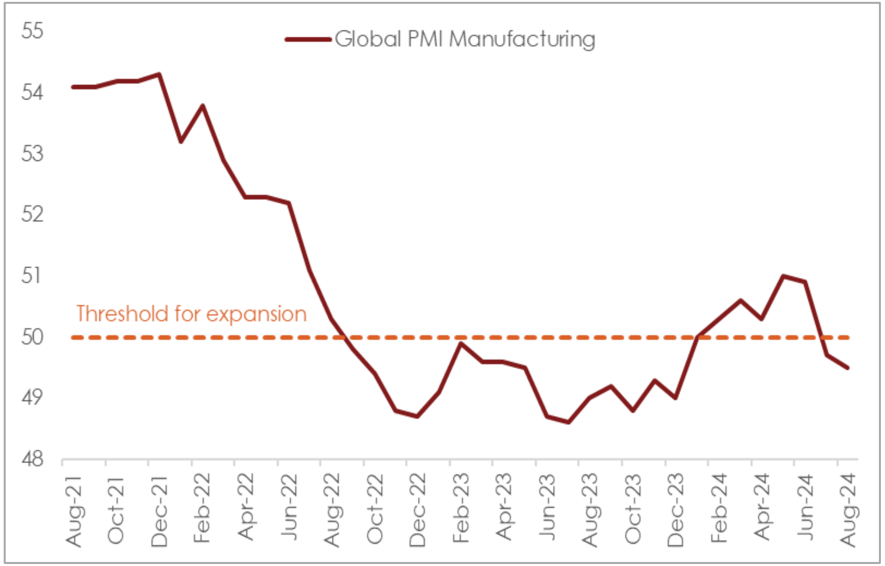


Global factors remaining in favour

After peaking in Apr-May 2024, most international commodity prices have since moderated. Notably, crude oil price has softened from its recent peak of USD 89 pb in Apr-24 to USD 74 pb in Sep-24 so far.

Recent softness in international commodity prices reflects moderation in global demand conditions and lack of signs of worsening of the Middle East crisis.

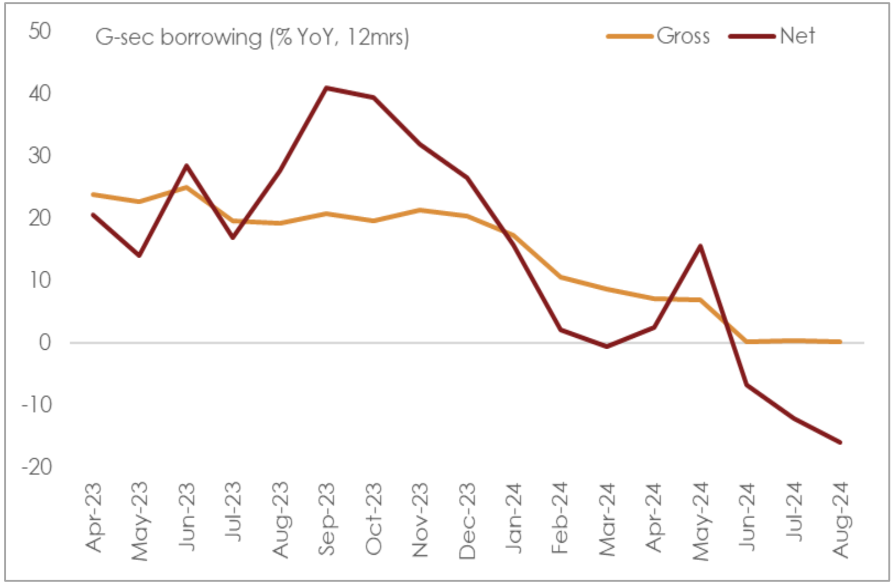


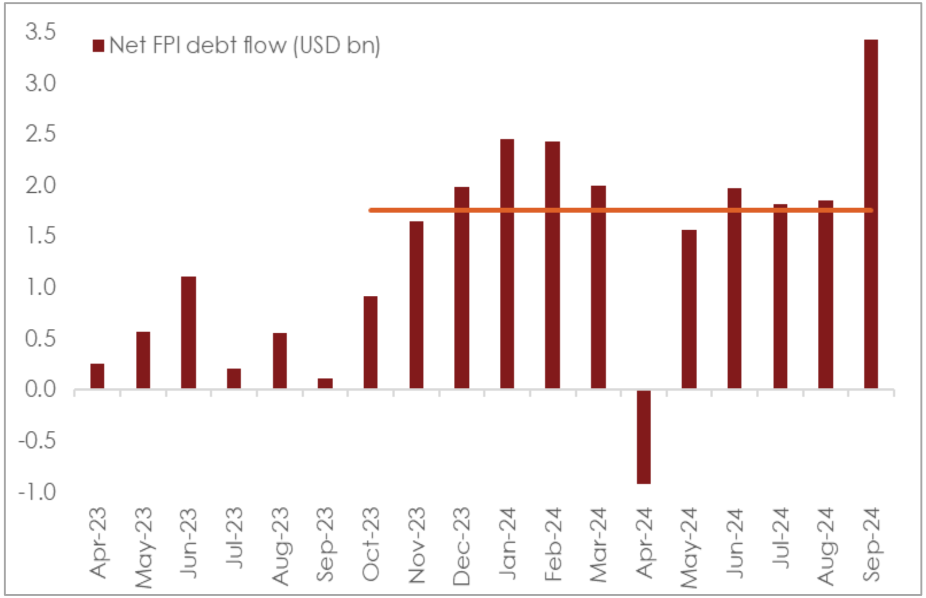


Supply-demand situation supporting sentiment

The benefit of fiscal consolidation is manifesting via annualized contraction in net g-sec supply.

This has coincided with healthy FPI demand for g-secs. After the announcement of India's inclusion in the JPM EM Bond Index in Sep-23, the FPI debt flow has averaged USD 1.8 bn on a monthly basis. The month of Sep-24 has so far recorded the highest inflow of USD 3.4 bn.

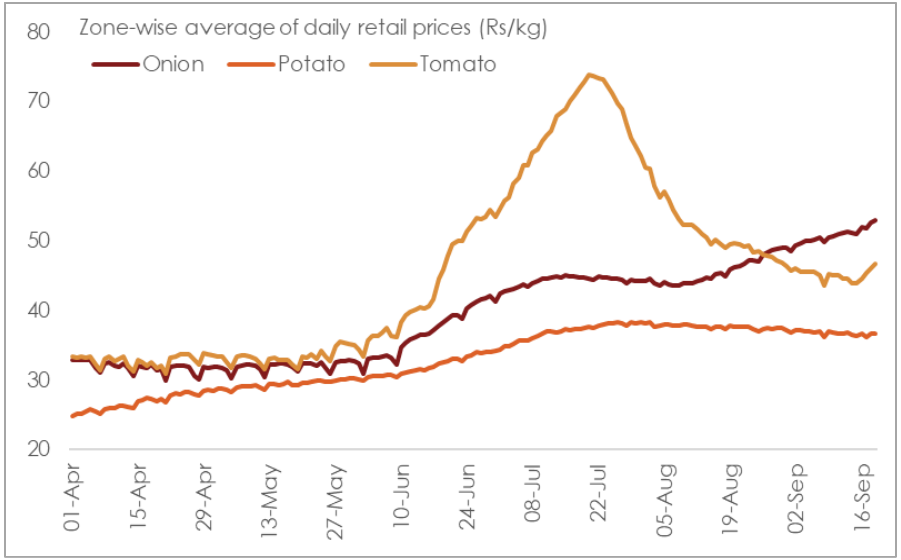


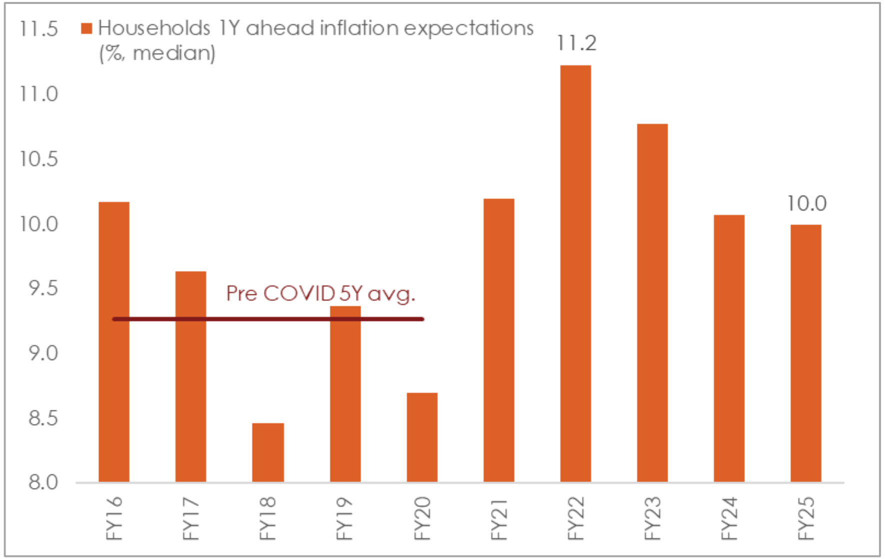


However, there is still some caution on the inflation front

The food price correction in Aug-24 turned out to be somewhat underwhelming. High-frequency data for Sep-24 suggests a lack of any substantial incremental correction in price pressures for key vegetable items. Perhaps, the seasonal price correction would manifest over Oct-Nov 2024 with arrival of kharif and seasonal produce.

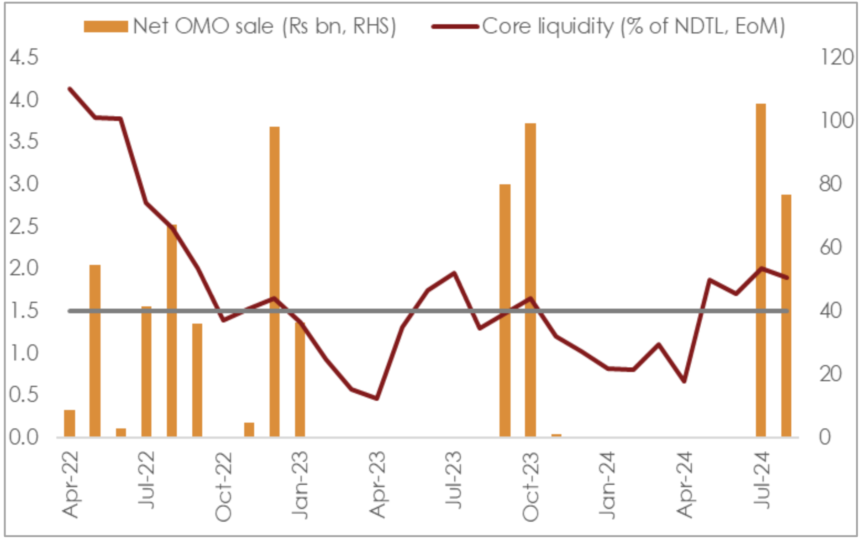
Lagged impact of past increases in input prices along with price pass-through in certain sectors (like telecom) has reversed the declining trend in Core CPI inflation. In addition, notwithstanding the moderation in last 2-3 years, household inflation expectations continue to remain elevated and above the pre-COVID levels.



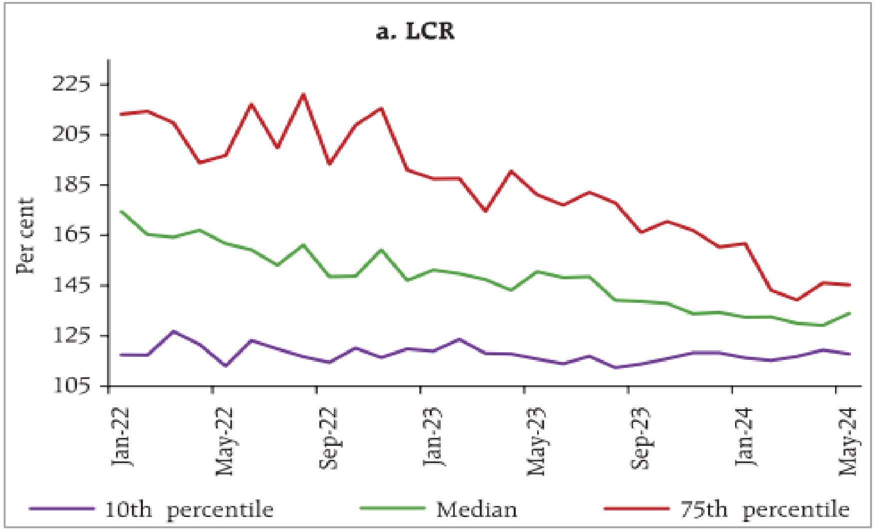


Rates outlook

With core liquidity surplus breaching the comfort threshold of 1.5% of NDTL, the RBI has conducted OMO sales worth Rs 228 bn so far since Jul-24. This could continue amidst bond index inflows.



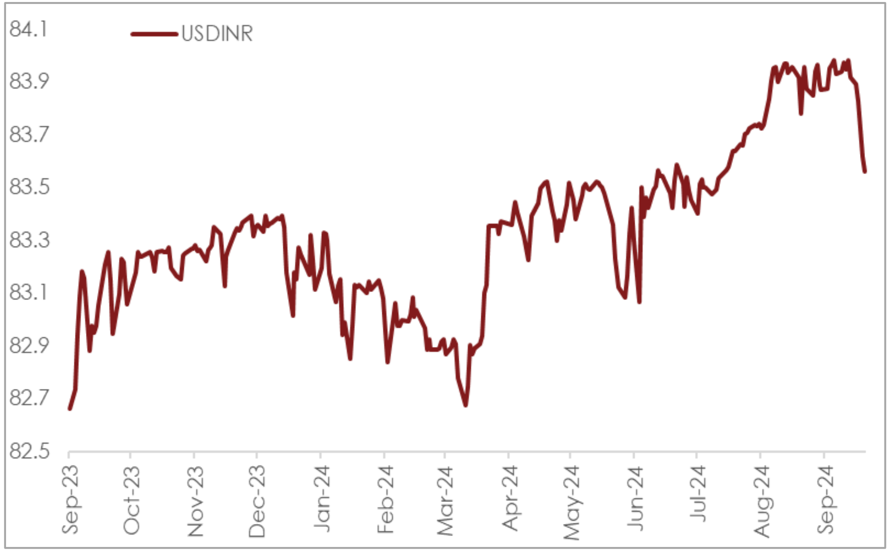
RBI's draft circular on the proposed changes in the Basel III framework on banks' liquidity standards (effective Apr-25) could result in ~10% decline in the LCR, thereby potentially spurring g-sec demand worth Rs 3-4 trillion.



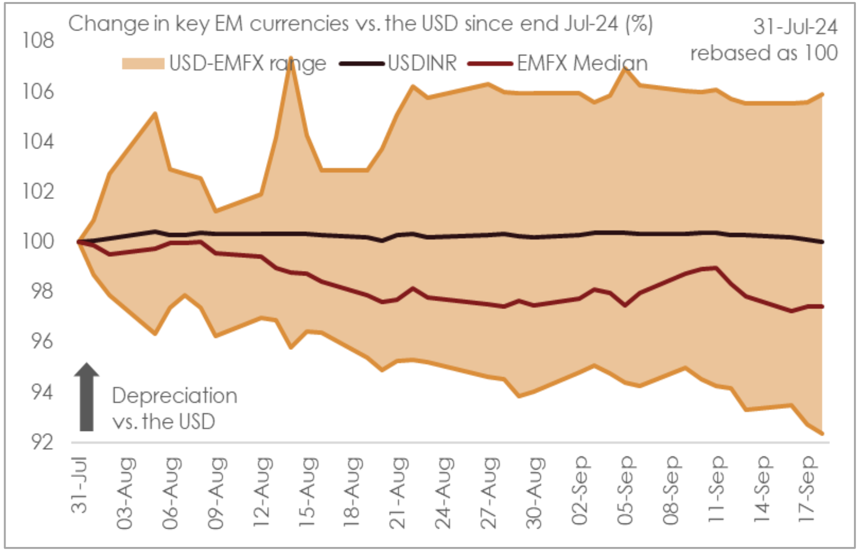
While our Mar-25 target of 6.75% for the 10Y g-sec yield has been met earlier than anticipated, we currently refrain from any revision, while attaching a downside risk. Geopolitics and domestic food price uncertainty would be key risks to watch.

Despite recouping some of its recent losses, INR remains a relative underperformer

Trading within the 83.5-83.6 range currently, INR is currently at its strongest levels since mid Jul-24.



However, since Aug-24, while most of EM Asian currencies have strengthened, INR has underperformed.

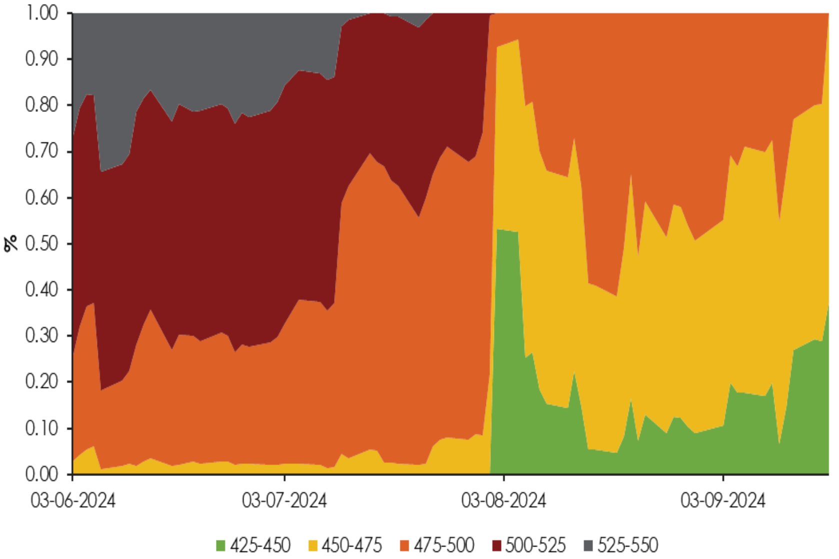


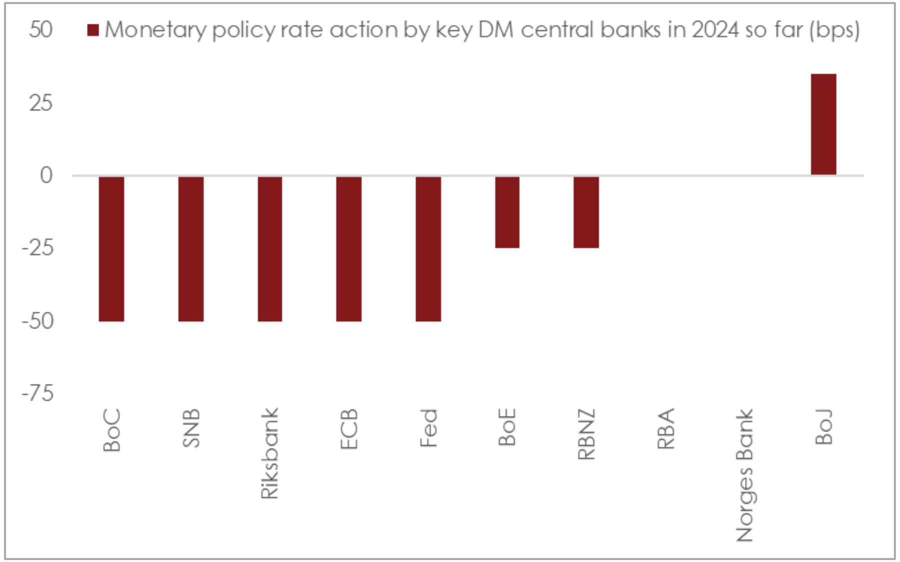
Note: EM currencies that have appreciated (in descending order) since end Jul-24 are MYR, THB, IDR, PHP, KRW, ZAR, PLN, BRL, CNY, and VND. Currencies that have weakened in the same period are RUB, COP, ARS, TRY, BDT, and MXN.

Fed's monetary policy pivot to have a moderate impact on the USD

Interest rate futures market currently attach a strong likelihood of 75 bps additional cumulative rate cut from the US Fed before the end of 2024. This is higher than the cumulative rate reduction scope of 50 bps, as indicated in Fed's latest dot plot presented in Sep-24.

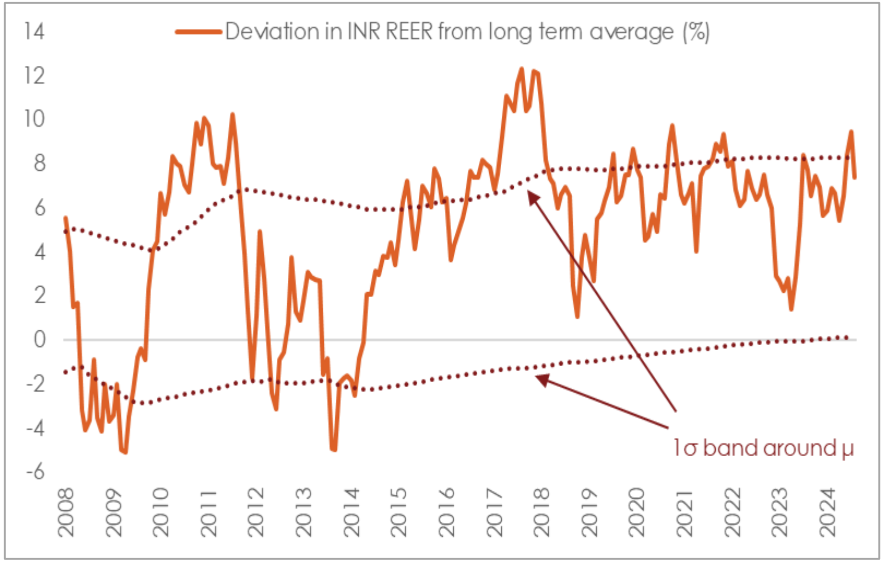
Starting with 50 bps rate reduction, the Fed now stands at par with other key peers that had a head start in the current rate easing cycle. While this could weigh on the USD in the near term, the impact would be moderate as other central banks are likely to follow suit, as well as aggressive market pricing for the Fed rate cut.



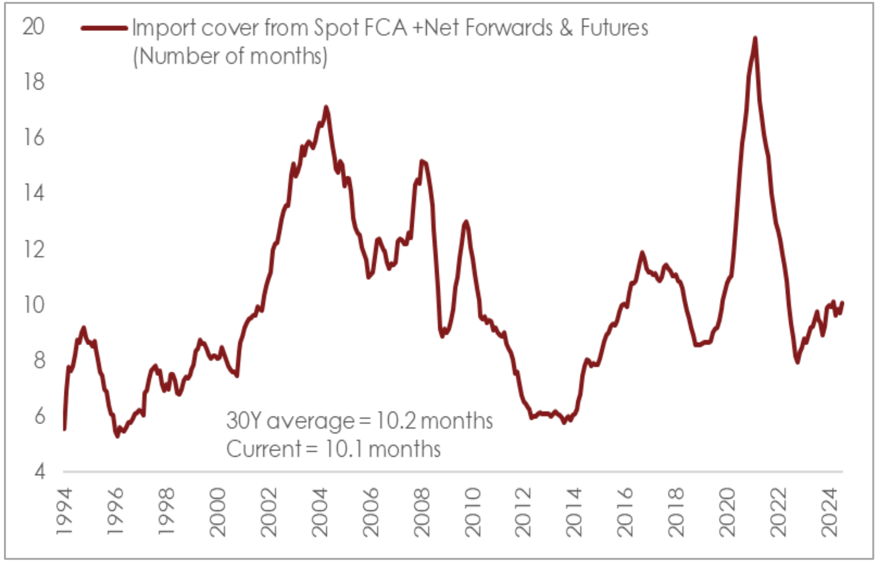


Rupee overvaluation provides room for further reserve accumulation

INR is currently ~7% overvalued basis the REER's long period average. This points towards space for some adjustment.



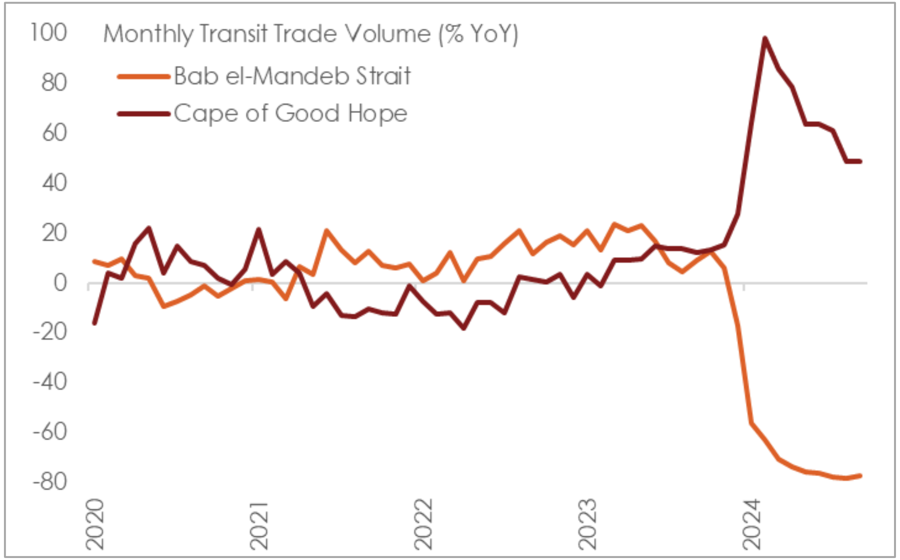
The RBI has been building its import cover to bolster country's FX firepower. We expect the same to continue in FY25 amidst stretched INR overvaluation levels.

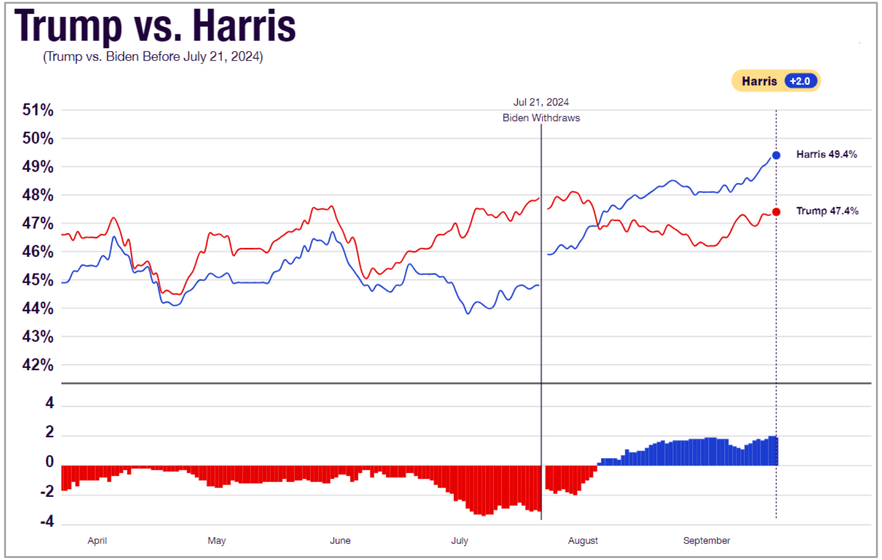


Global trade and political uncertainty needs a close watch

The long drawn and ongoing Red Sea disturbance has led to a massive rerouting of merchant ships, thereby resulting in time and cost escalations. Moreover, momentum in trade is now exhibiting early signs of fatigue.

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-backed globalization.





Note: US Presidential betting odds as per average of polls estimated by Real Clear Politics as of Sep 19, 2024.

Key domestic macro parameters remain in support

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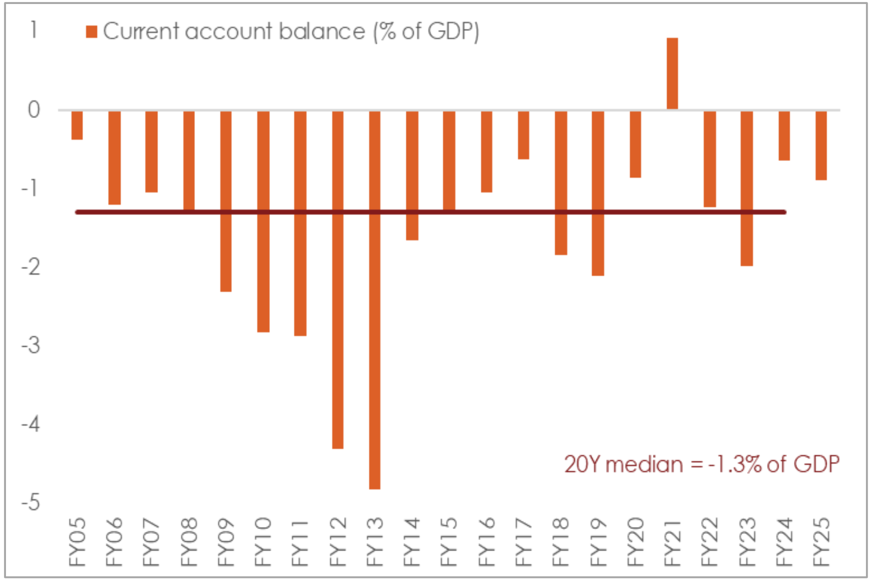
IMF projects India to be the fastest growing country within G20 over the course of 6-years.

Year	Fastest Growing G20 Country	GDP growth of fastest growing country	Average G20 GDP growth excl. fastest growing country
2024	India	7.0%	2.0%
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%

After printing at 0.7% of GDP in FY24, India's CAD is projected to remain below its long-term trend in FY25, at 0.9% of GDP (with some upside risk).



Although domestic macros remain in INR's support, we continue to expect a mild depreciation in FY25, with a move towards 84.5 by Mar-25. Worsening of geopolitical risks, further unwinding of JPY carry trade, and Fed rate trajectory are key sources of risk to the view.

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 9,900 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 Contact:

Suman Chowdhury
Chief Economist & Head of Research
Ph: + 91-9930831560
suman.chowdhury@acuite.in

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

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