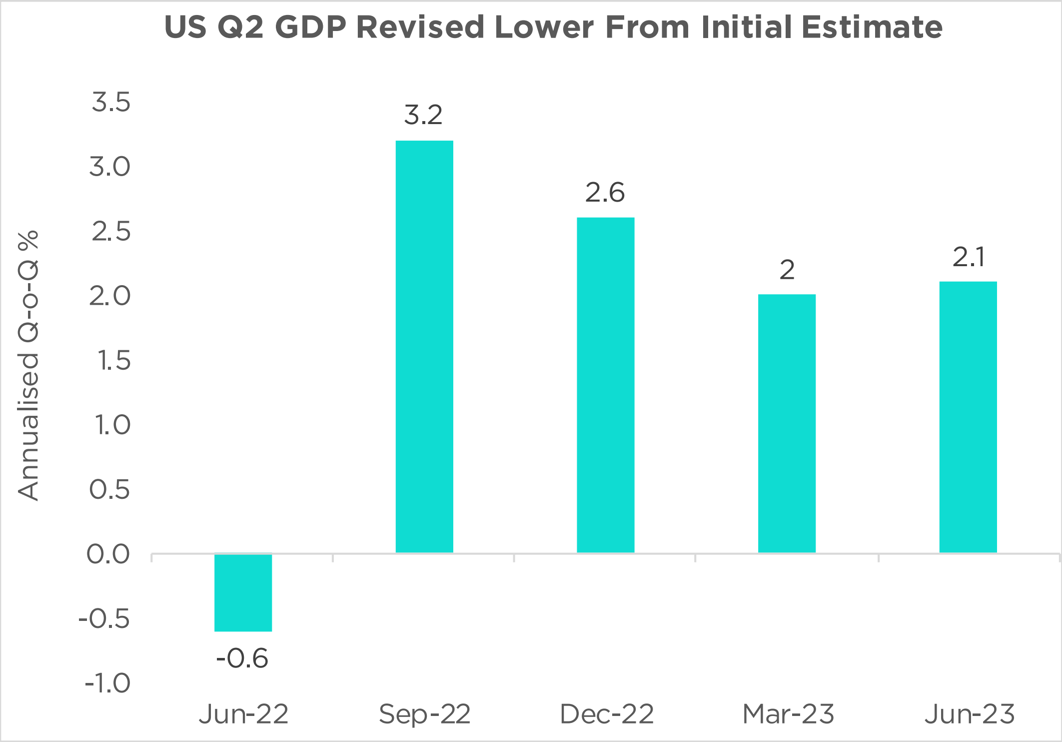
India: The Economic Pathway

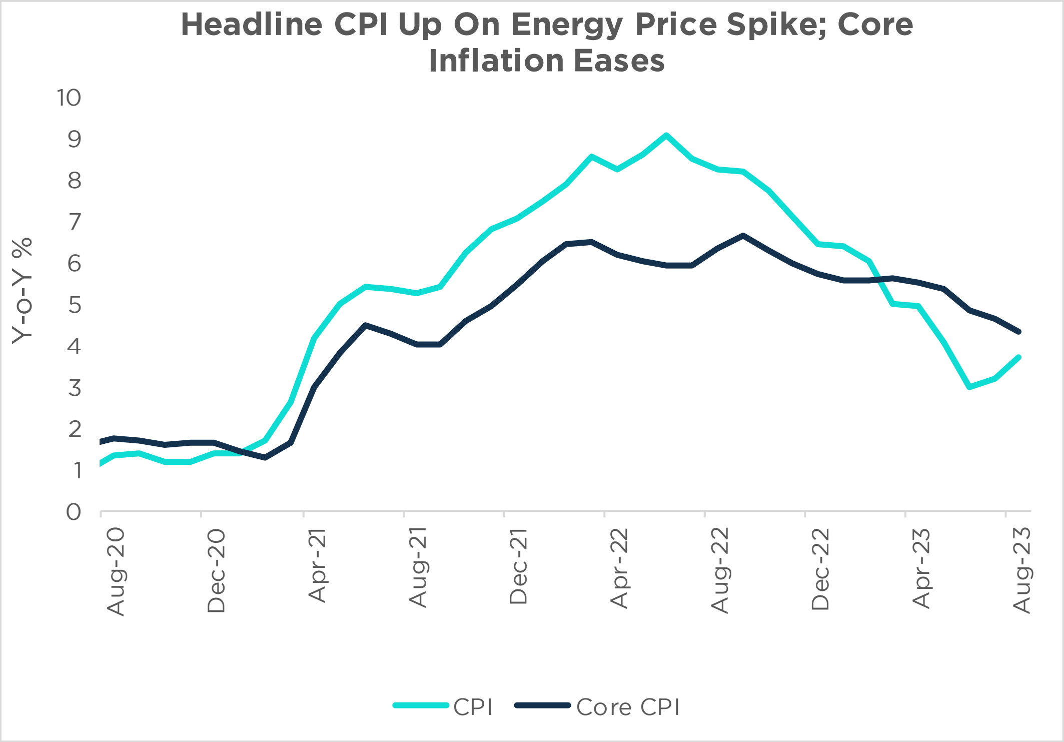
September 2023

Global Economy

US Q2 GDP Revised Lower; Core CPI Eases to 2-Year Low



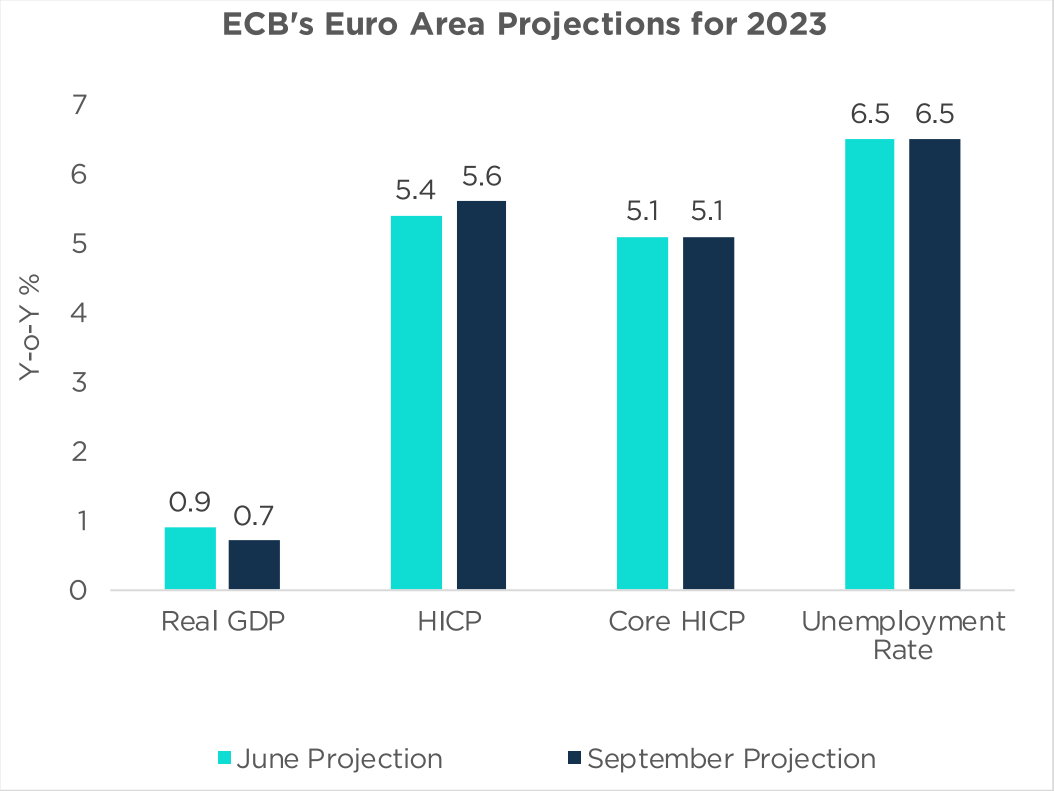
Source: Refinitiv



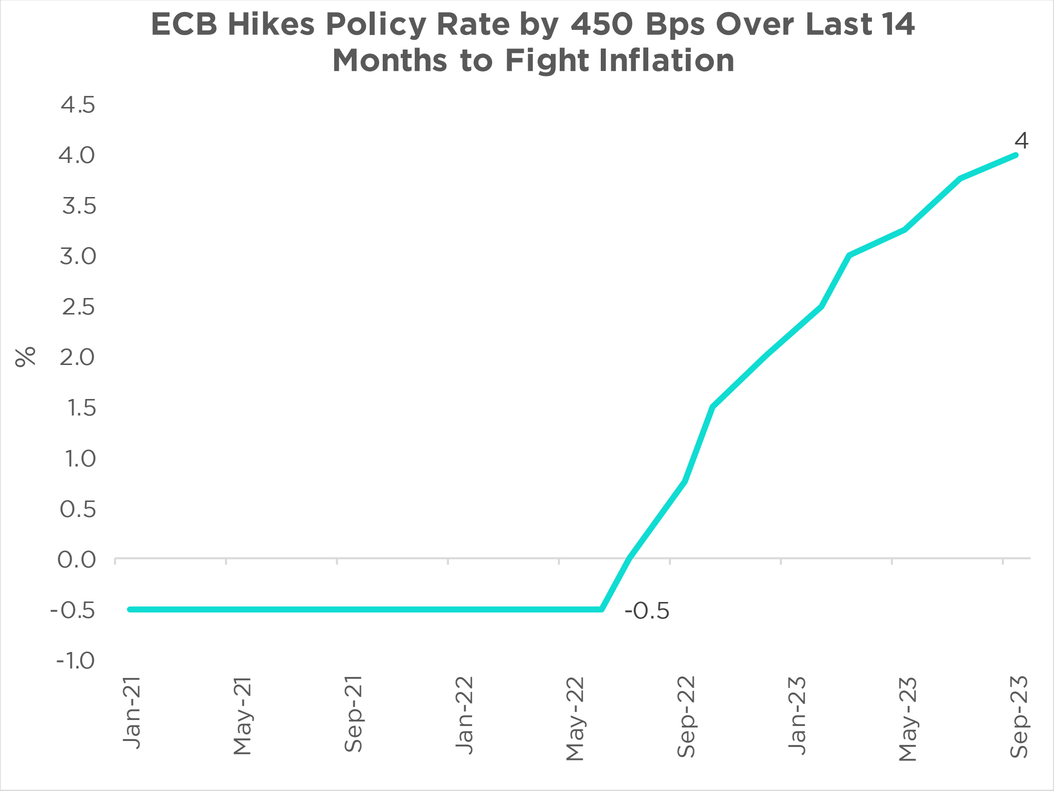
Source: Refinitiv

- US Q2 GDP growth was revised lower to 2.1% q-o-q annualised from initial estimate of 2.4%, though still marking a slight increase from the previous quarter.
- Headline CPI inched up to 3.7% (vs. 3.6% expected) on the back of rising energy prices. Core inflation eased to 4.3% y-o-y, the smallest gain since September 2021.
- With growth cooling and the narrative of sticky core inflation fading, markets expect the Fed to be broadly done with rate hikes.

ECB Revises Growth, Inflation Projections for 2023



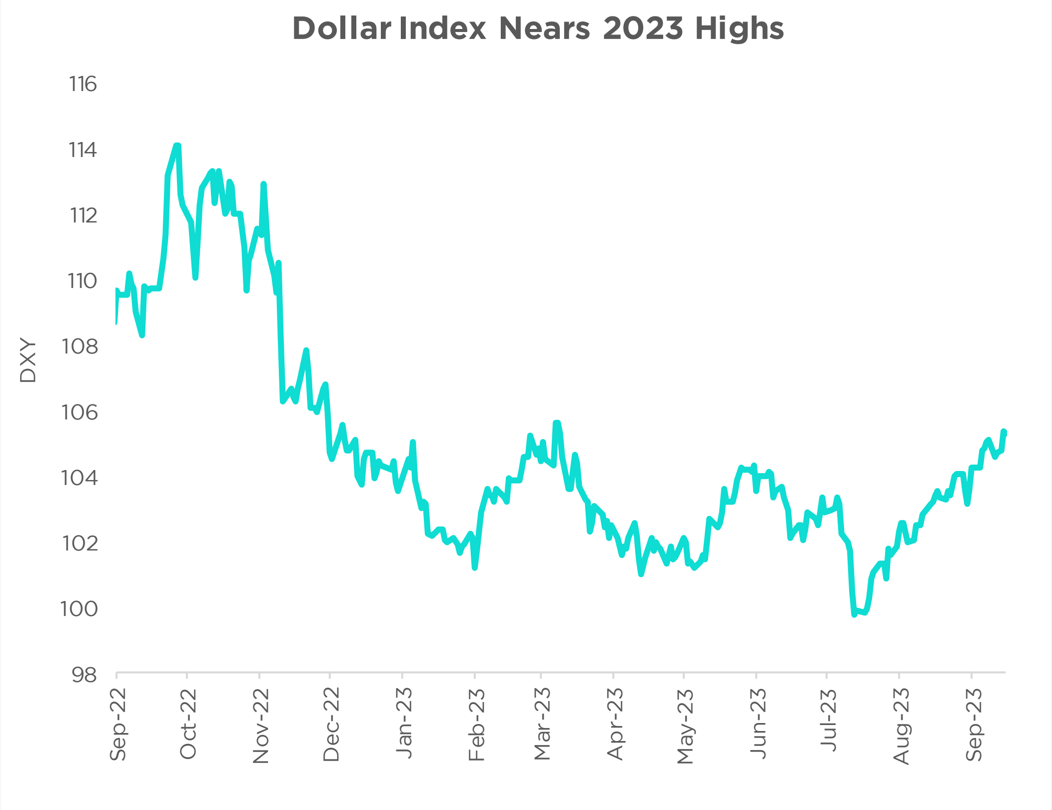
Source: European Central Bank



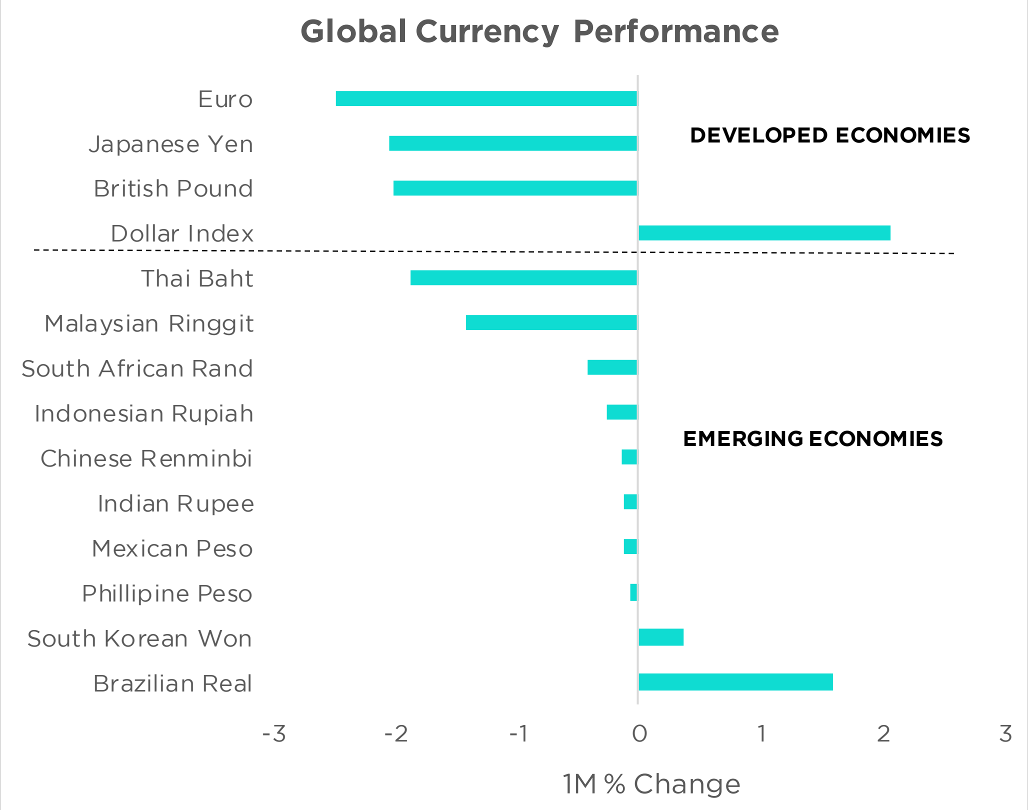
Source: Refinitiv

- ECB lowered its GDP growth forecast for 2023 citing the impact of tightening on domestic demand and weakening international trade environment.
- Inflation forecasts were revised upwards, reflecting a higher path for energy prices.
- With growth prospects remaining bleak, the ECB is likely to hit the brakes on its current rate hike cycle.

Dollar Makes A Comeback



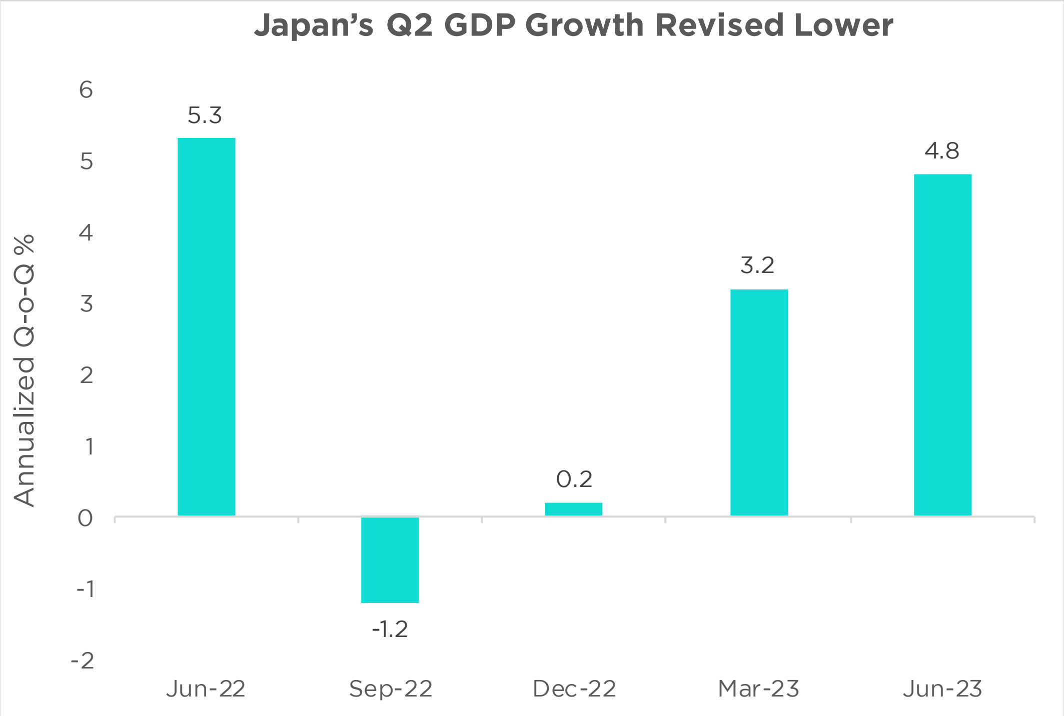
Source: CEIC



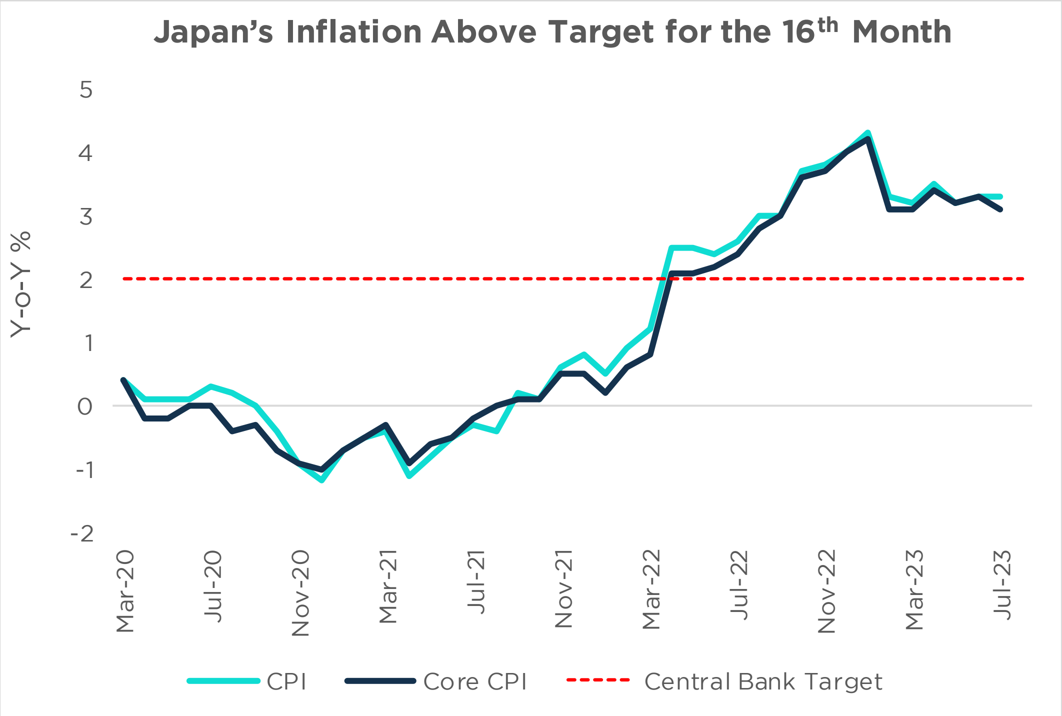
Source: CEIC

- Dollar index inched closer to 2023 highs, buoyed by a slew of positive economic data from the US, fueling bets of rates remaining higher for longer.

Japan Q2 GDP Growth Revised Lower; Inflation Stays Above Target



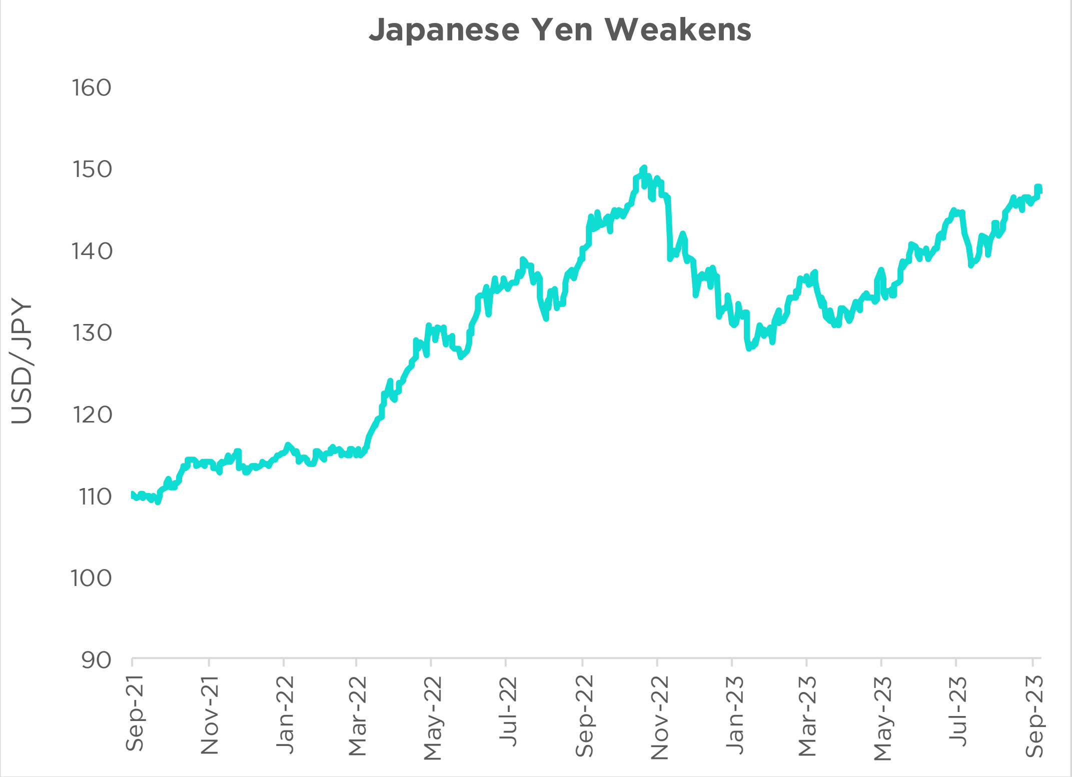
Source: Refinitiv



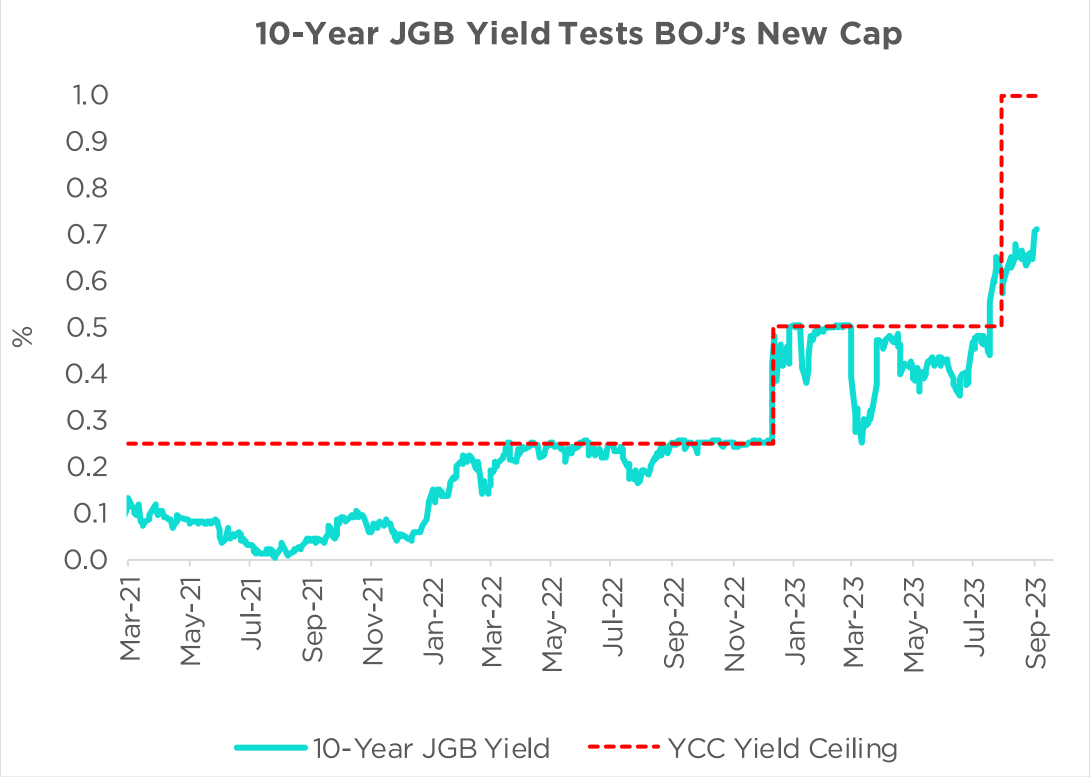
Source: Refinitiv

- Japan's Q2 GDP growth was revised lower to 4.8% from preliminary estimate of 6%, on the back of a fall in capex.
- Inflation stayed above Bank of Japan's target of 2% for the past 16 months, amidst healthy wage growth, fueling bets of an exit from its loose monetary policy.

JPY Depreciates; JGB Yields Test BOJ's New Upper Ceiling



Source: Refinitiv



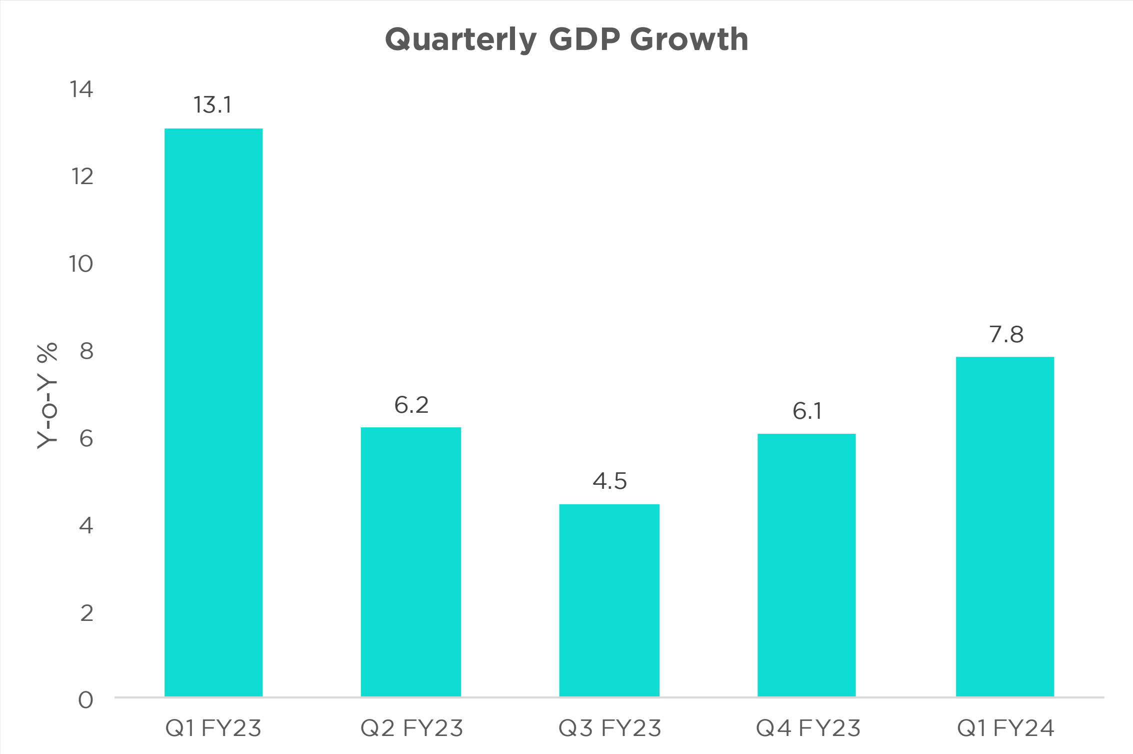
Source: Refinitiv

- JPY slipped below levels where Japanese officials intervened last September to rein in the weakness in the currency.
- 10-year JGB yield moved higher, testing BOJ's new upper ceiling of its yield curve control (YCC) framework.
- Announcement of BOJ's bond purchase amounts for Oct-Dec period on Sep 29 remains a key trigger for further hints on the monetary policy trajectory.

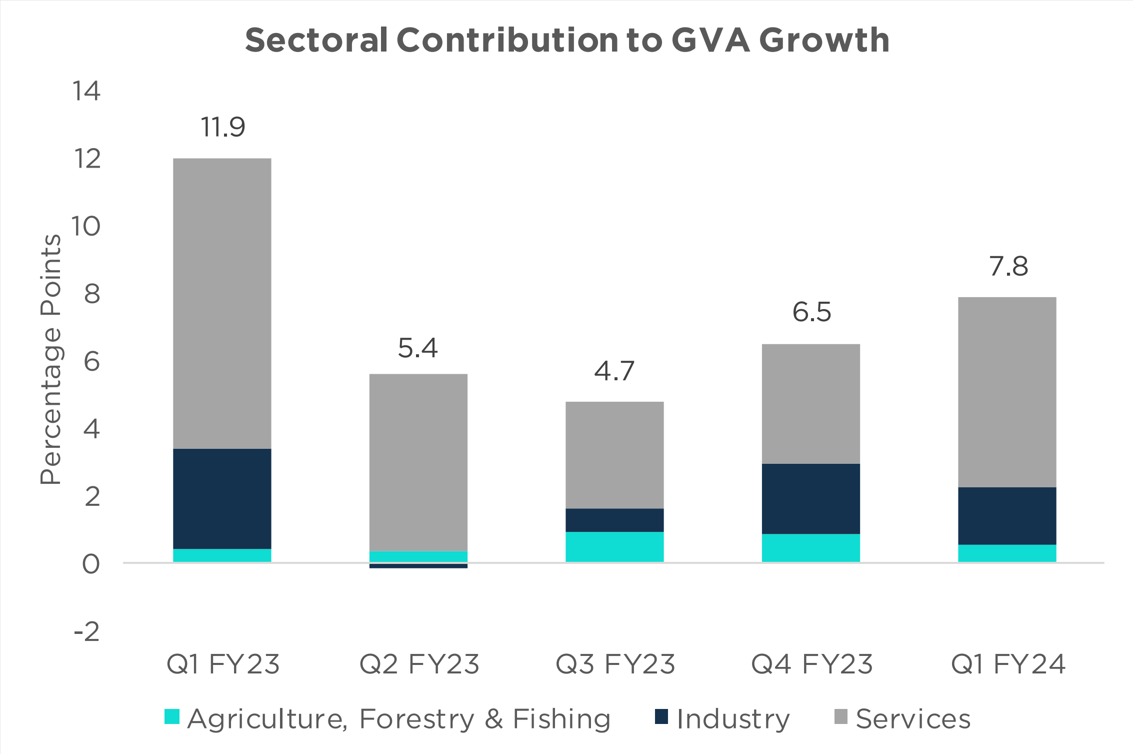
Domestic Economy

GDP Growth Accelerates to 7.8% in Q1 FY24

CareEdge RATINGS



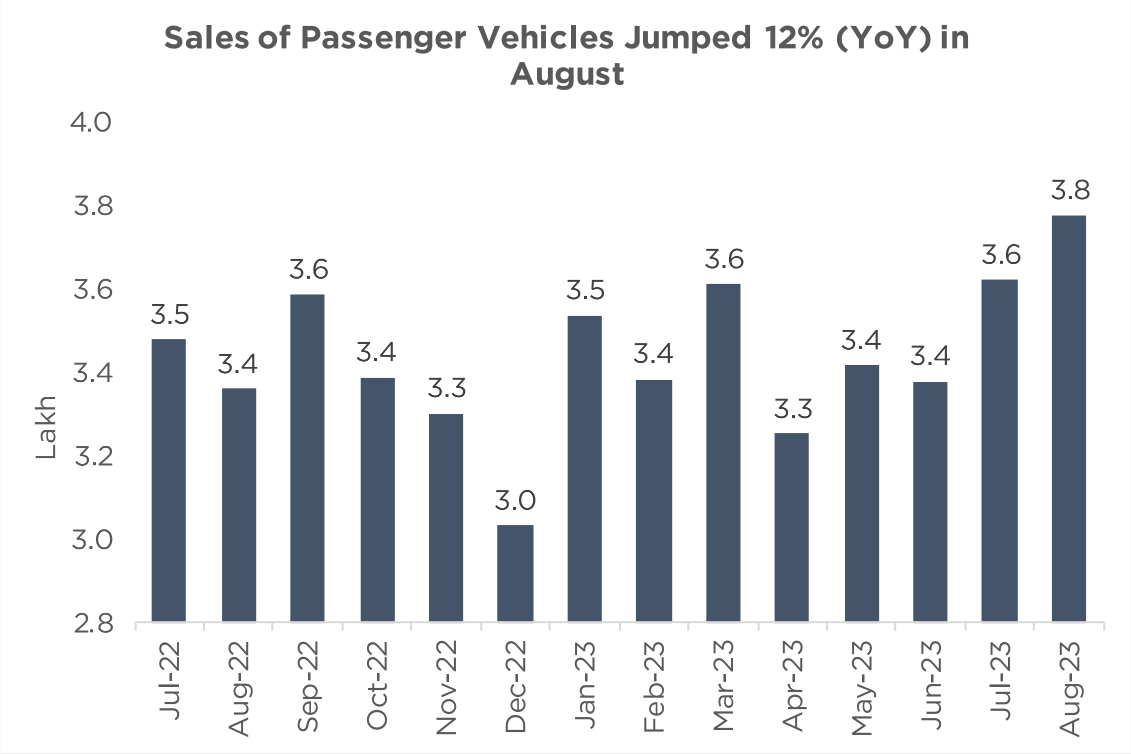
Source: MOSPI



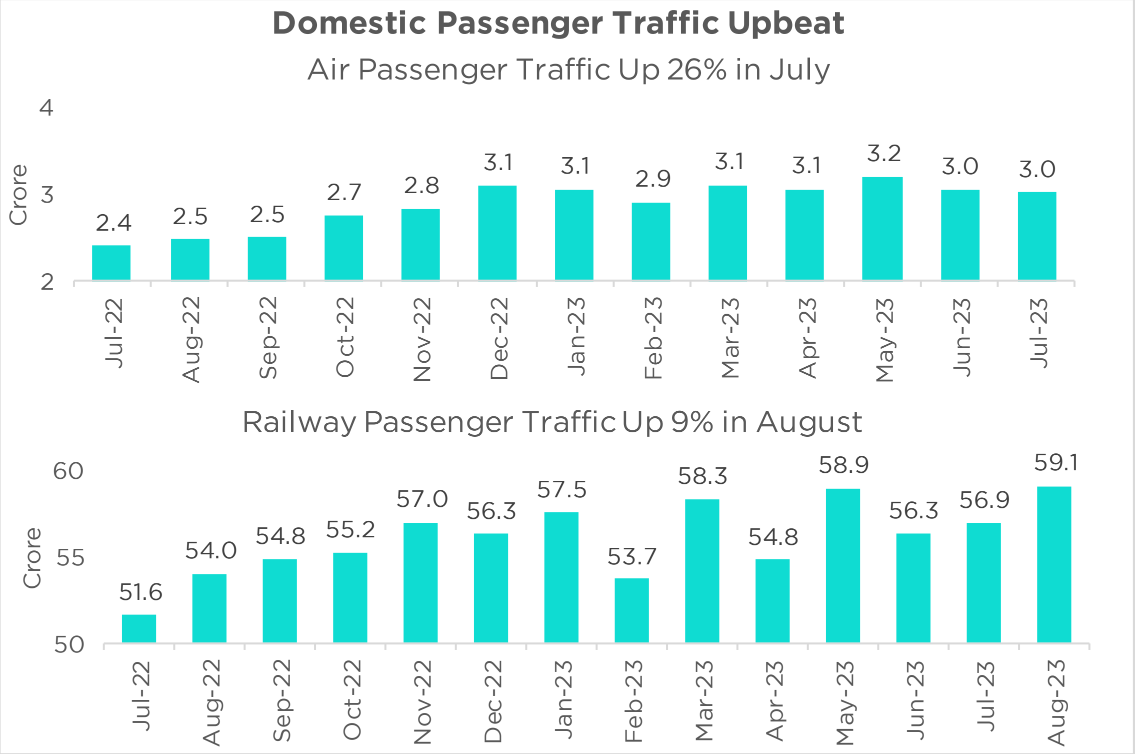
Source: MOSPI

- Supportive base, continued strength in services and construction activities supported GDP growth in Q1.
- Momentum in the manufacturing sector continued on the back of favourable demand conditions and lower input prices.
- Growth numbers are expected to moderate in the coming quarters; FY24 GDP growth is projected at 6.5% with risks tilted towards the downside.

Urban Demand Holding Up Well



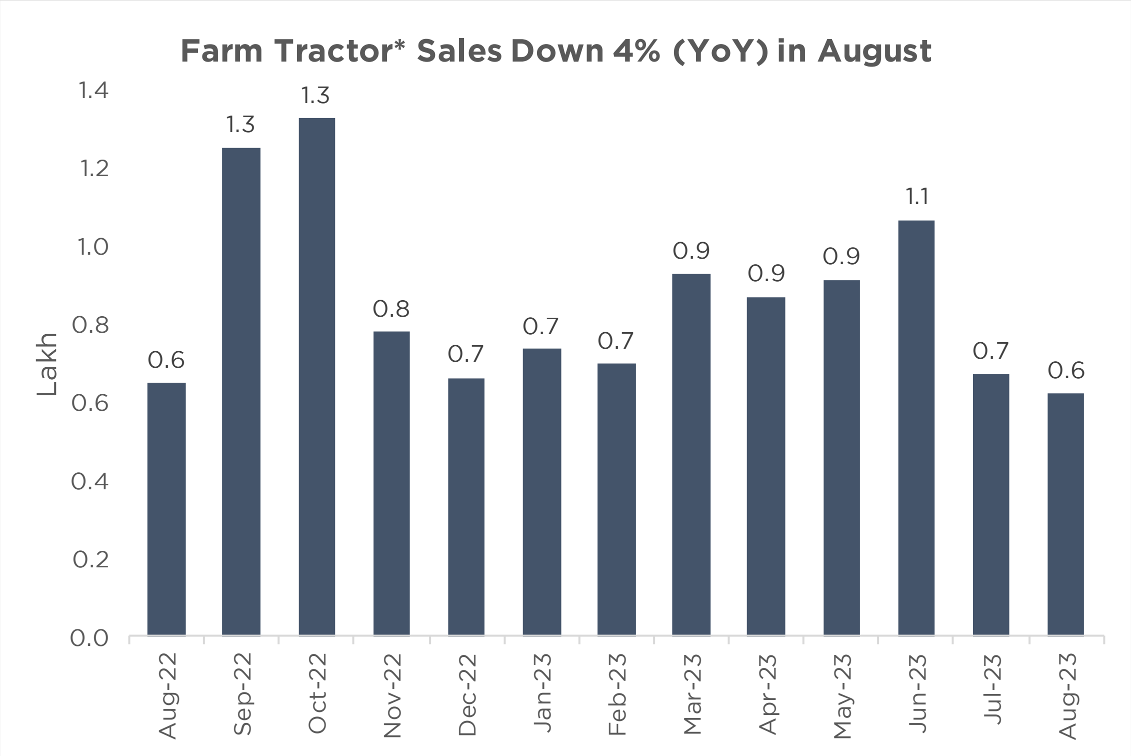
Source: CMIE



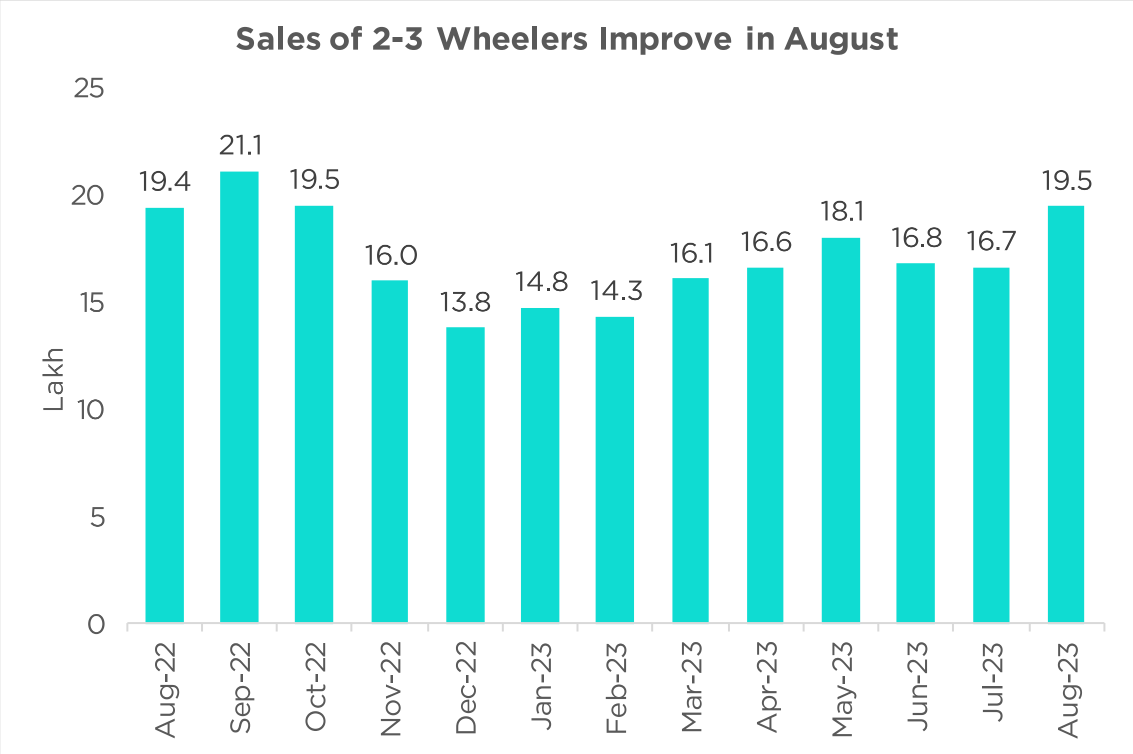
Source: CEIC

- Urban demand indicators such as sales of passenger vehicles, retail credit growth, and domestic passenger traffic continued to put up an encouraging show.
- Going ahead, though elevated inflation continues to pose a headwind, the upcoming festive season could bode well for consumption demand.

Rural Demand Shows Some Recovery



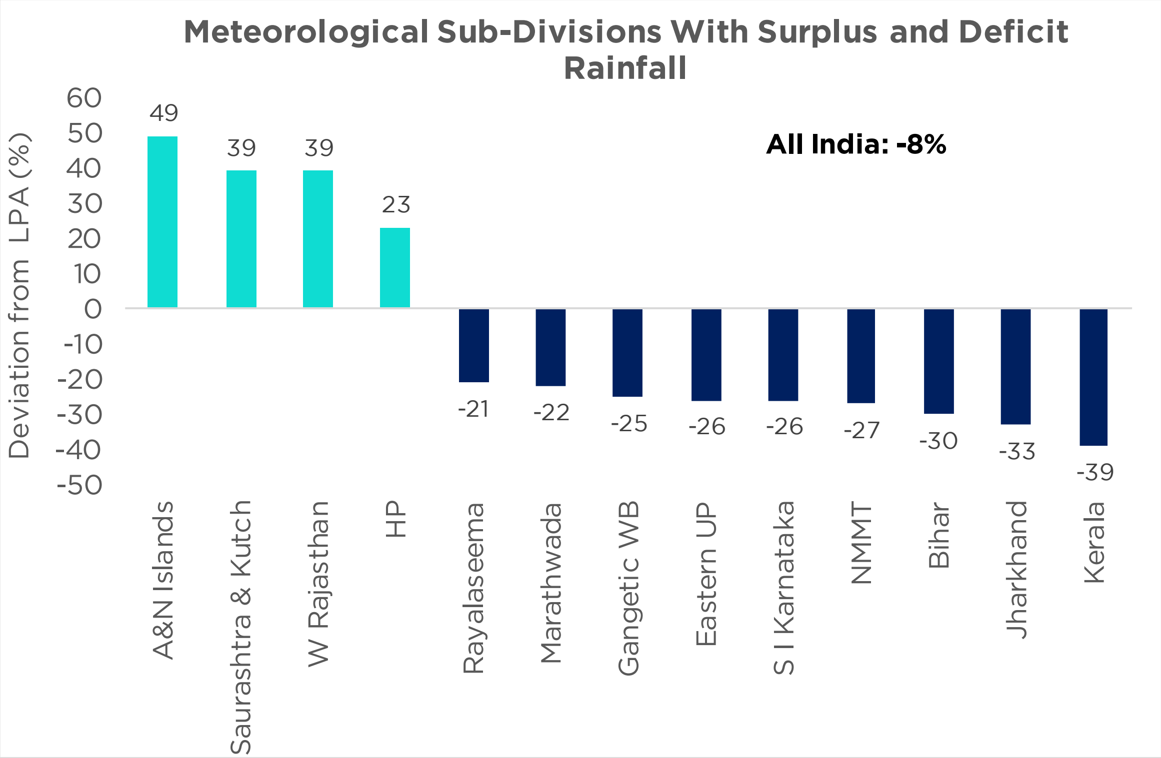
Source: CEIC; *Includes Exports



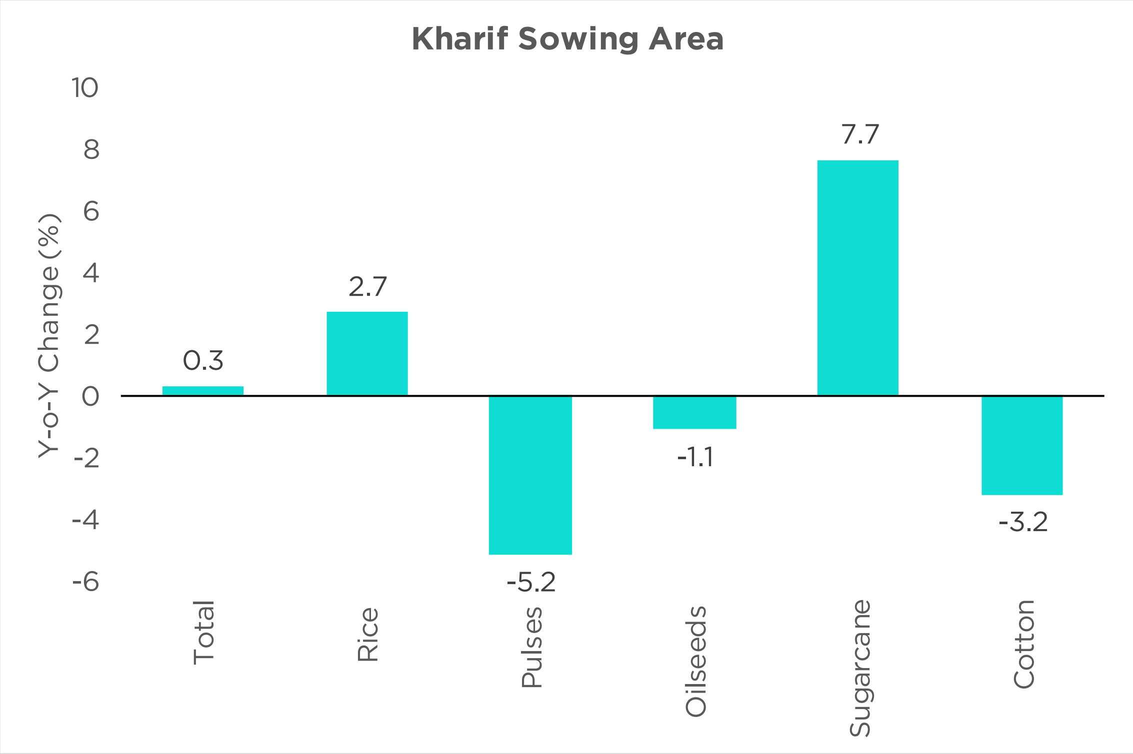
Source: CMIE

- Rural demand indicators such as 2-3 wheelers sales and industrial output of consumer non-durable goods point towards some improvement.
- Going ahead, sustained periods of elevated food inflation and monsoon-related vagaries could pose a threat to the rural demand recovery.

Skewed Rainfall is Concerning



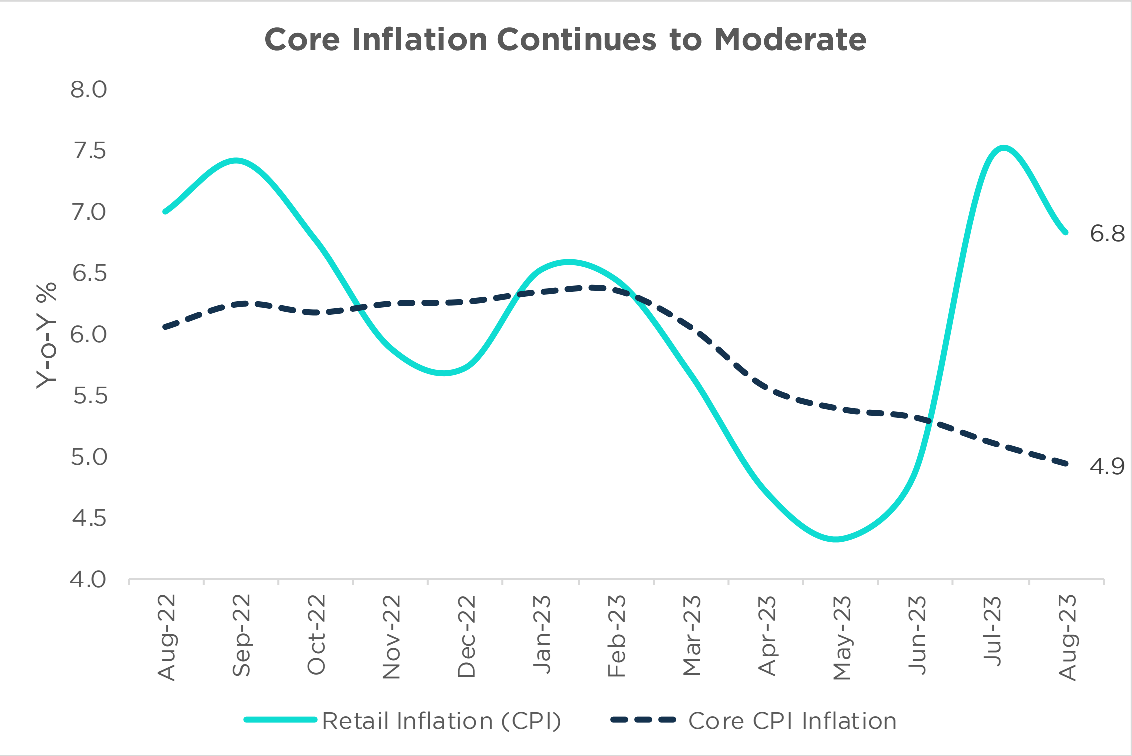
Source: CEIC; CareEdge. Data as on 17th September 2023, NNMT is Nagaland, Manipur, Mizoram and Tripura



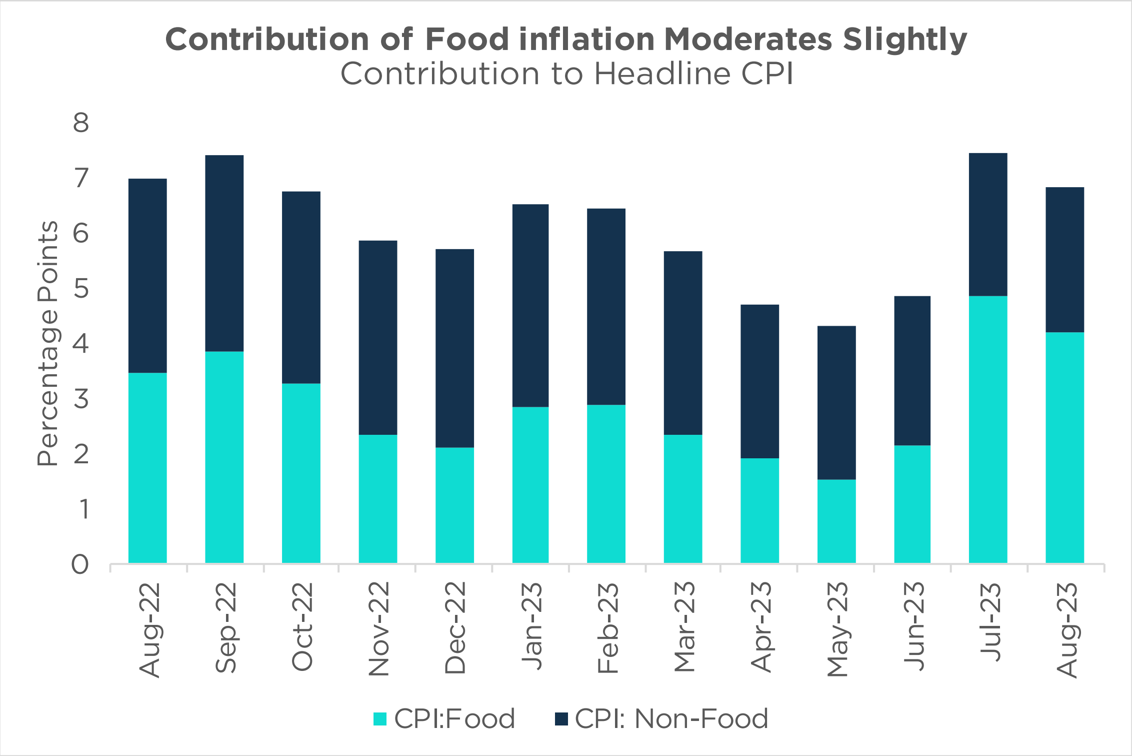
Source: CEIC; CareEdge. Data as on 15th September 2023

- Damage to food crops due to deficit rainfall in eastern and southern India, along with flooding in certain parts of northwest India, can add to upside risks to inflationary pressures.

Retail Inflation Eases But Stays Above 6%



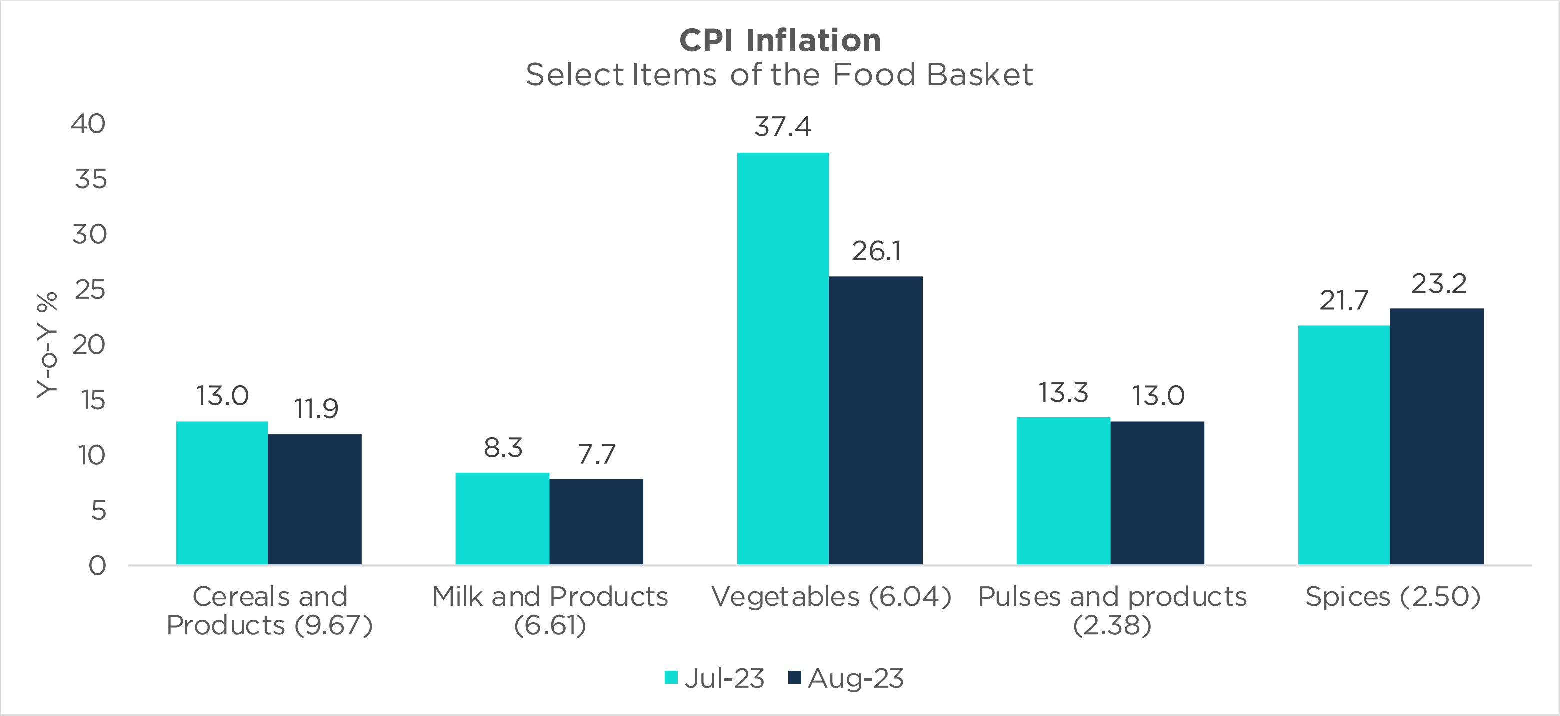
Source: MOSPI & CareEdge



Source: MOSPI & CareEdge

- Easing in food prices supported the moderation in retail inflation in August.
- More importantly, core inflation continued on a downward trajectory easing to 4.9% in August, the lowest level seen in the last 39 months.
- We project CPI inflation to moderate to 5.8% and 5.2% in Q3 and Q4, respectively.

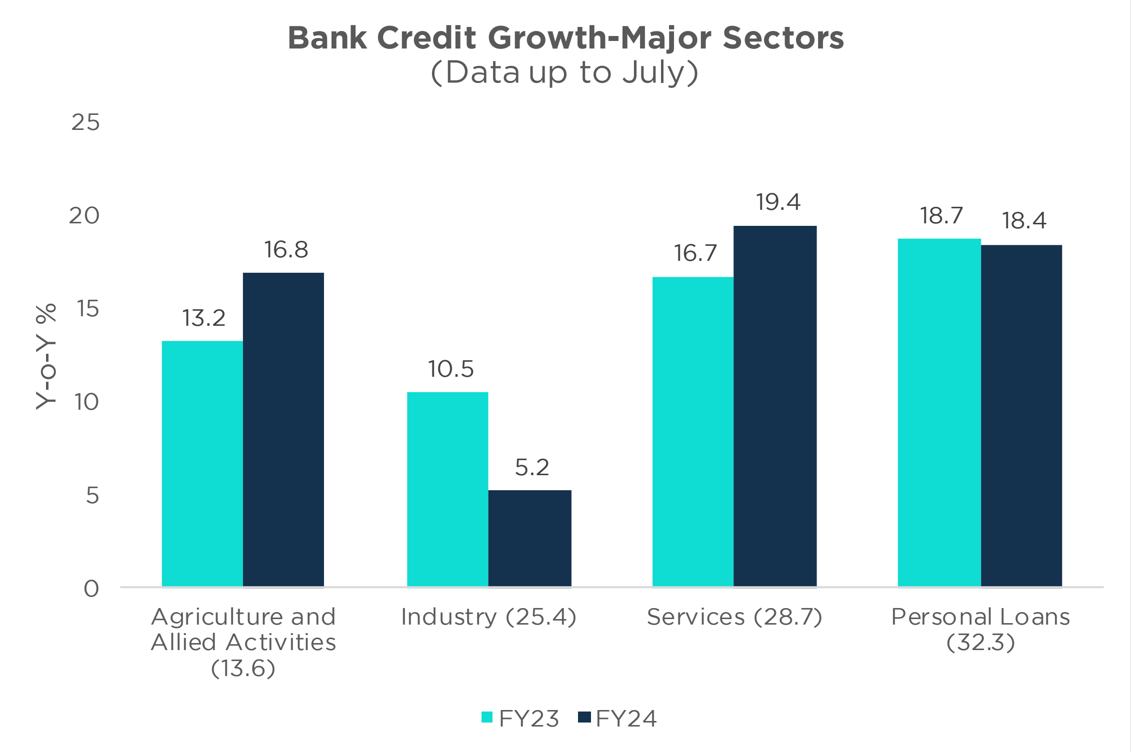
Food Inflation Remains a Pain Point



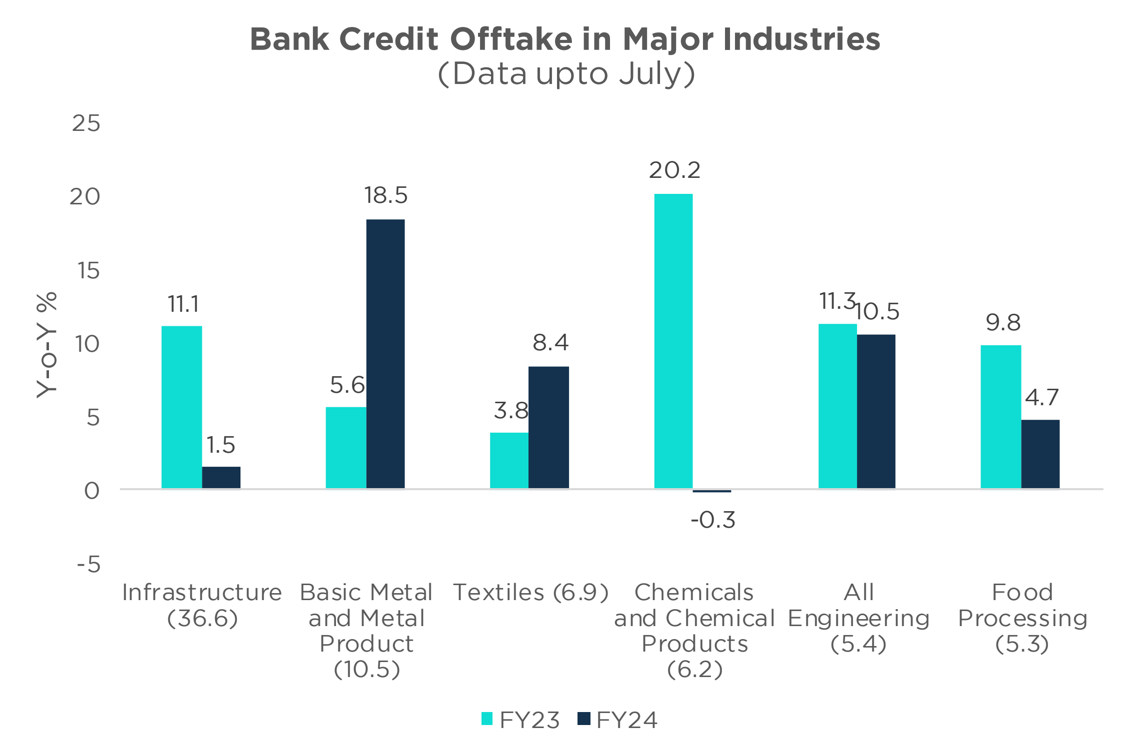
Source: MOSPI; Note: Figures in bracket represent % share in overall CPI

- Food inflation moderated to 9.2% in August from 10.6% in the previous month mainly due to softening of vegetable inflation.
- However, inflation continued to remain elevated in categories such as cereals and pulses despite the government's efforts to contain the price pressures.
- Prices of vegetables, cereals, and milk could moderate gradually by the end of FY24 on improving supply conditions.
- Food inflation could remain a pain point on account of the skewed rainfall distribution and weak kharif sowing.

Bank Credit Offtake Healthy



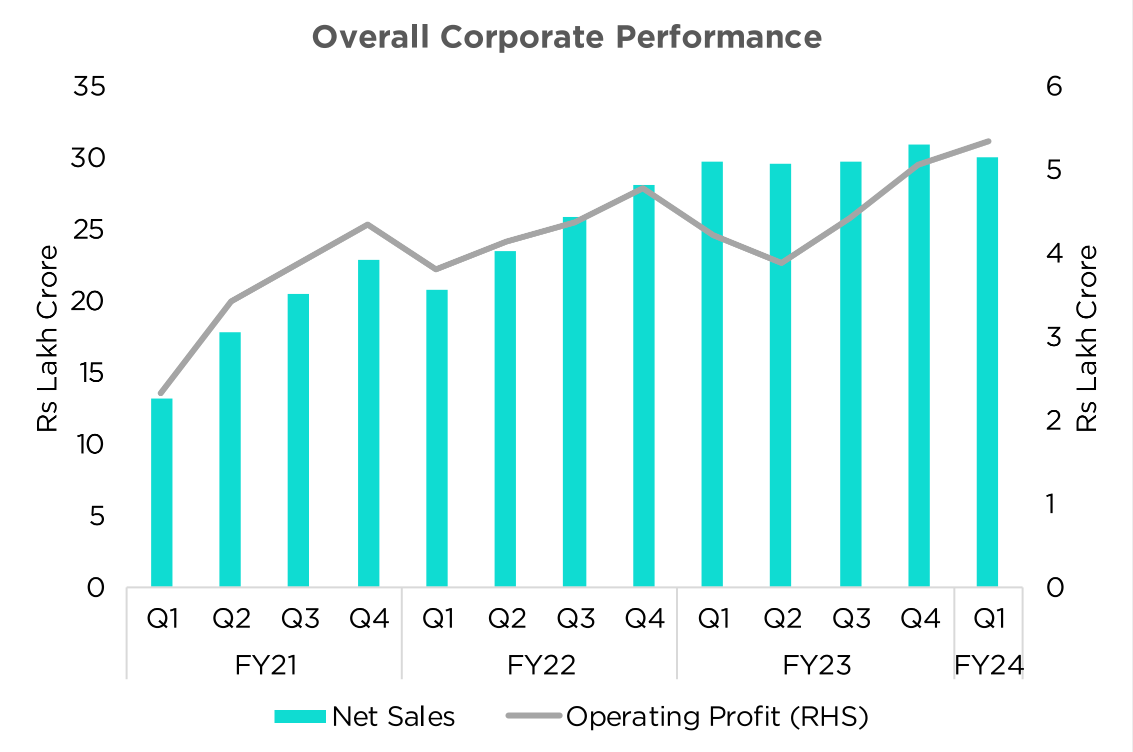
Source: RBI; Note: Figures in bracket represent % share in total; Growth rates for FY24 exclude the impact of the merger of a non-bank with a bank.

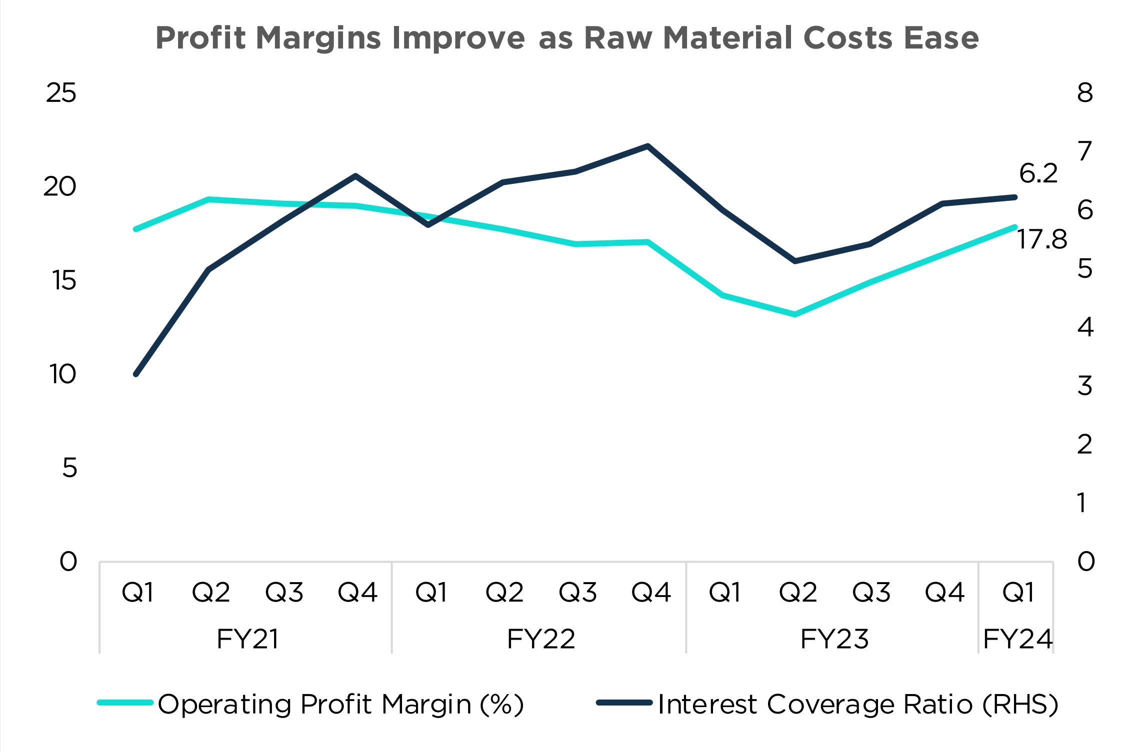


Source: RBI; Note: Figures in bracket represent % share in total industrial credit.

- Gross bank credit increased by 14.7% in FY24 (up to July) around the same as last year
- Bank credit growth led by services and personal loan segment.

India Inc's Profit Soars, Sales Slow in Q1 FY24





Source: Ace Equity & CareEdge; Note: Results based on a sample of 2,076 listed non-finance companies.

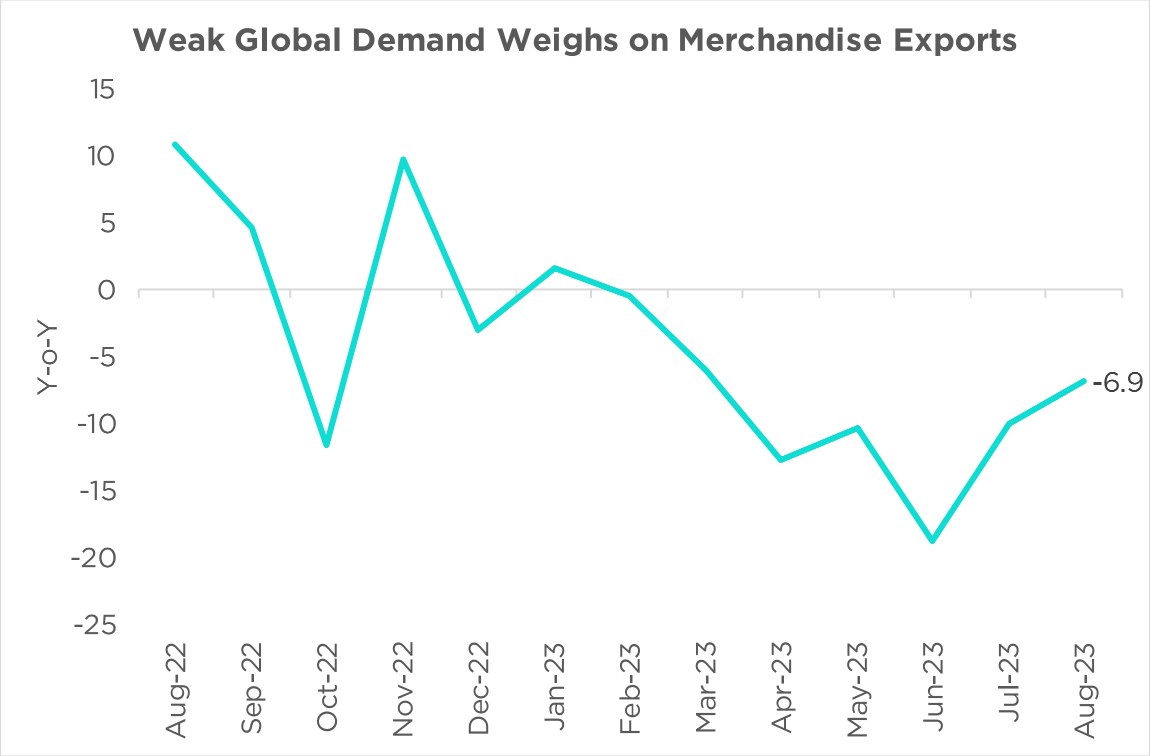
- For a sample of 2076 listed non-finance companies, operating profit rose by 26% (y-o-y) in Q1 FY24 compared to 6% growth in Q4 FY23.
- Net sales grew by a muted 0.6% (y-o-y), slowing from 10% growth in the last quarter as weak overseas demand, and lower global commodity prices weighed.

Sectoral Picture Mixed in Q1 FY24

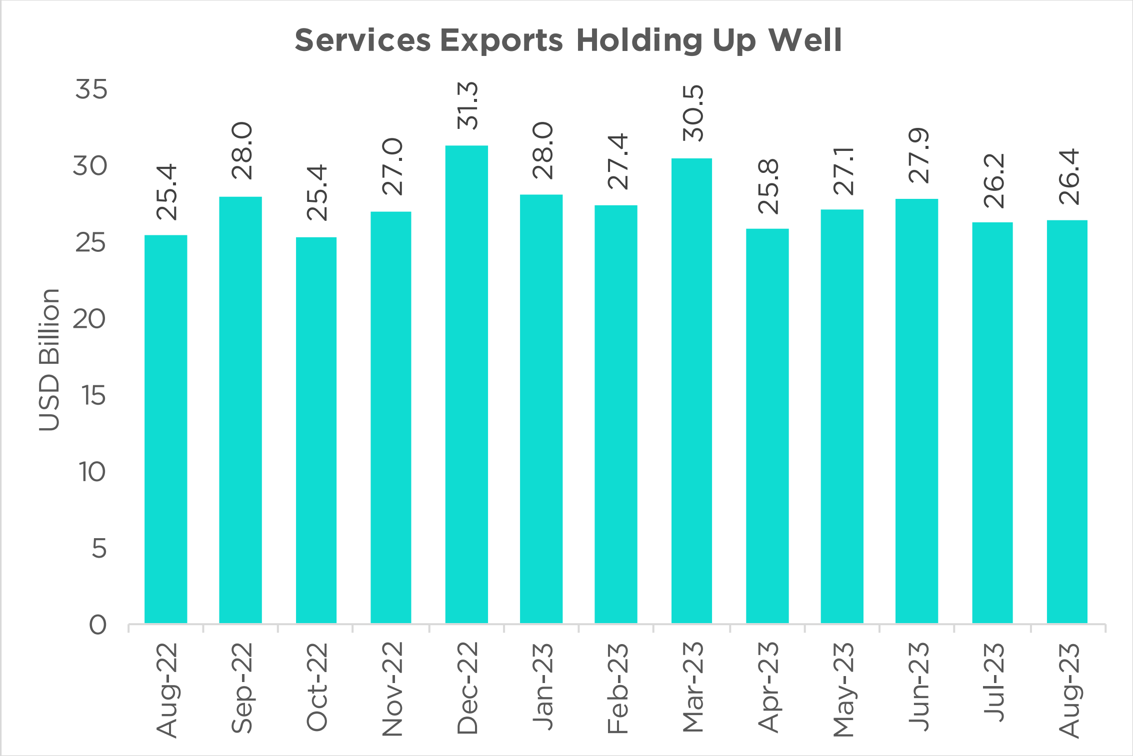
		Net Sales (Y-o-Y %)		
		Less than 0	0-20	Above 20
Operating Profit (Y-o-Y %)	Less than 0	Chemicals Non - Ferrous Metals Textile	Iron & Steel	Media & Entertainment
	0-20	Power	Telecom Cement Realty Retailing FMCG IT White Goods	Infrastructure Hospitality
	Above 20	Oil & Gas Logistics	Pharmaceuticals & Drugs Capital Goods	Aviation Automobile & Ancillaries

Source: Ace Equity & CareEdge; Note: Results based on a sample of 2,076 listed non-finance companies

Merchandise Exports Remain Pressured



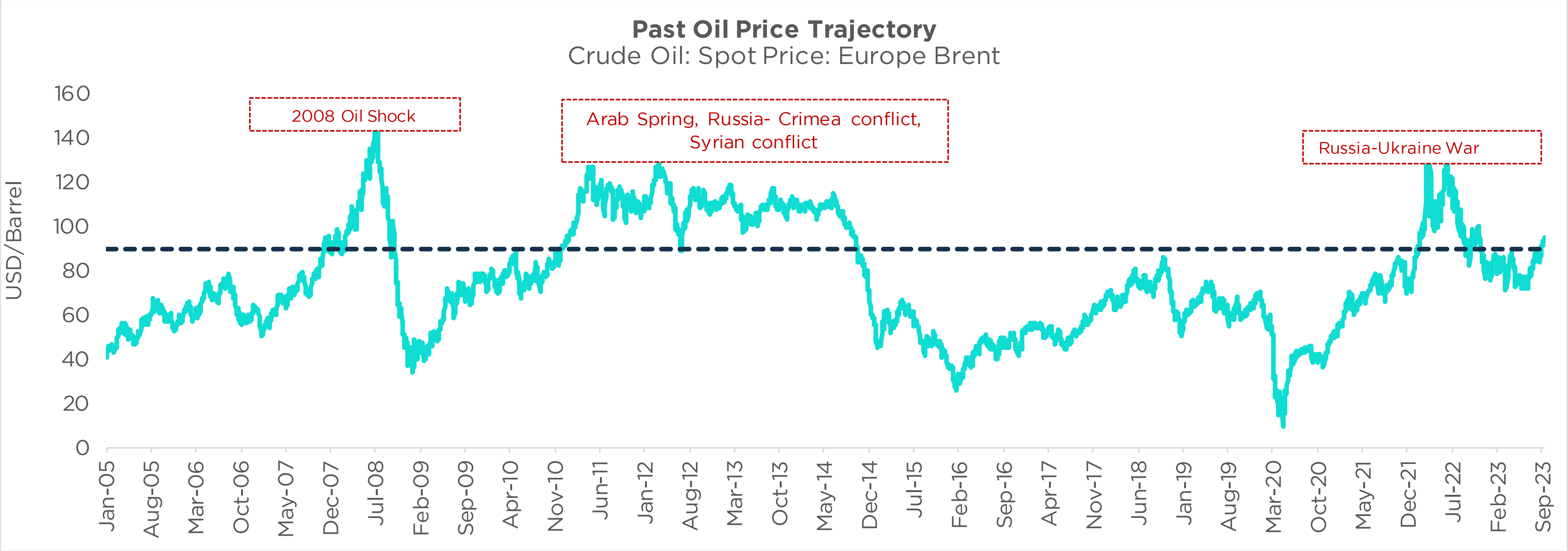
Source: CMIE



Source: CEIC

- Exports of engineering goods, petroleum & crude products, textiles, gems & jewellery, and organic & inorganic chemicals have remained pressured contracting on an annual basis so far in FY24.
- Services exports have been holding up well remaining above USD 25 billion for thirteen months in a row.

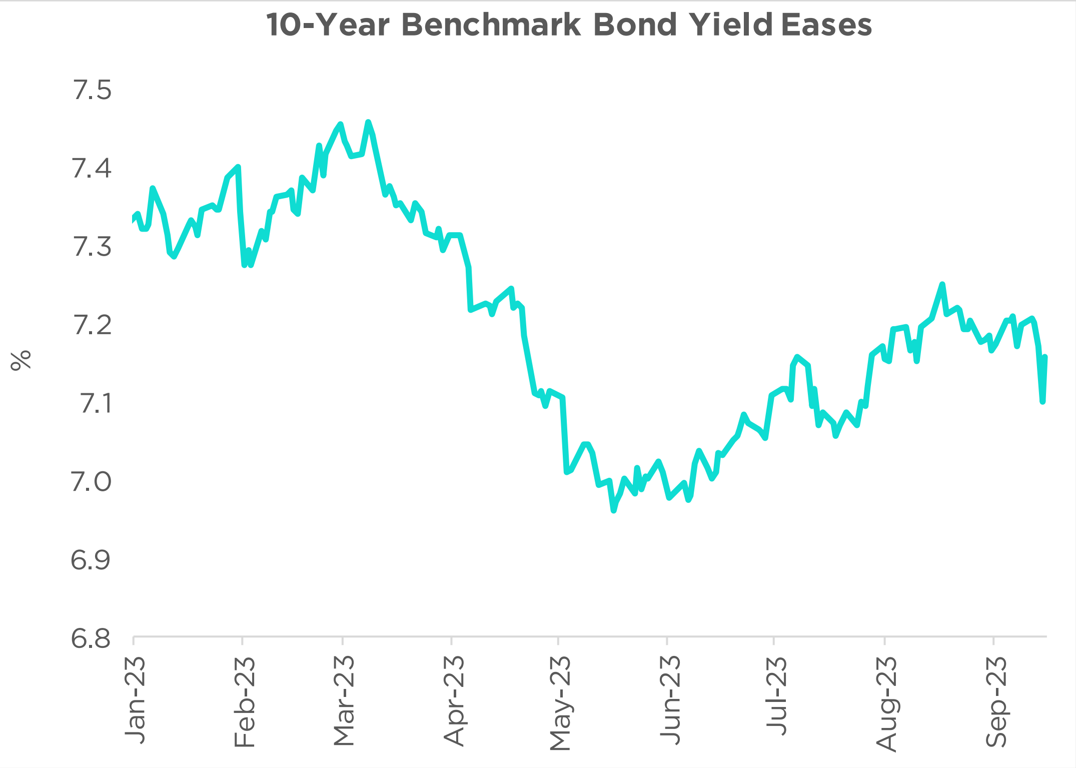
Production Cuts Keep Brent Prices Elevated



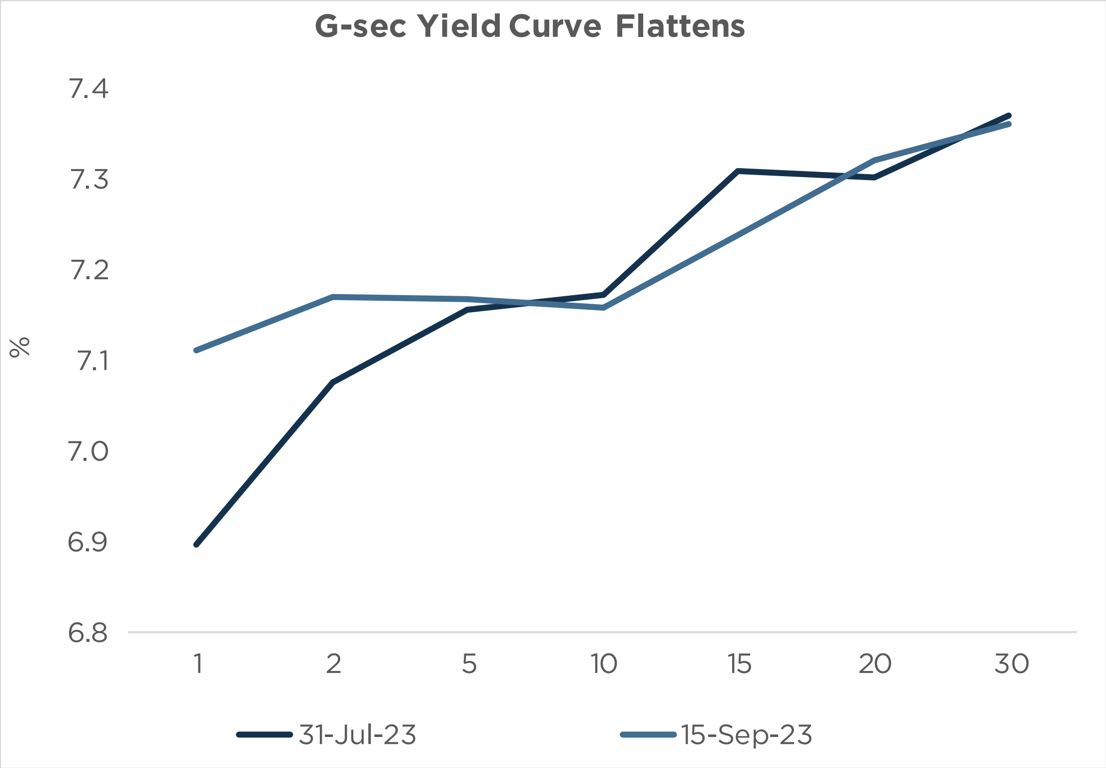
Source: CEIC

- Recent surge is primarily due to supply reduction announcements from key players such as Russia and Saudi Arabia.
- Brent crude prices likely to average between USD 87-92 per barrel for the remainder of FY24.
- India's CAD (% of GDP) to rise by 20 bps if global crude prices stays around the current level for rest of FY24; Impact on inflation and fiscal balance to be minimal.

10-Year Yield Eases; Yield Curve Flattens



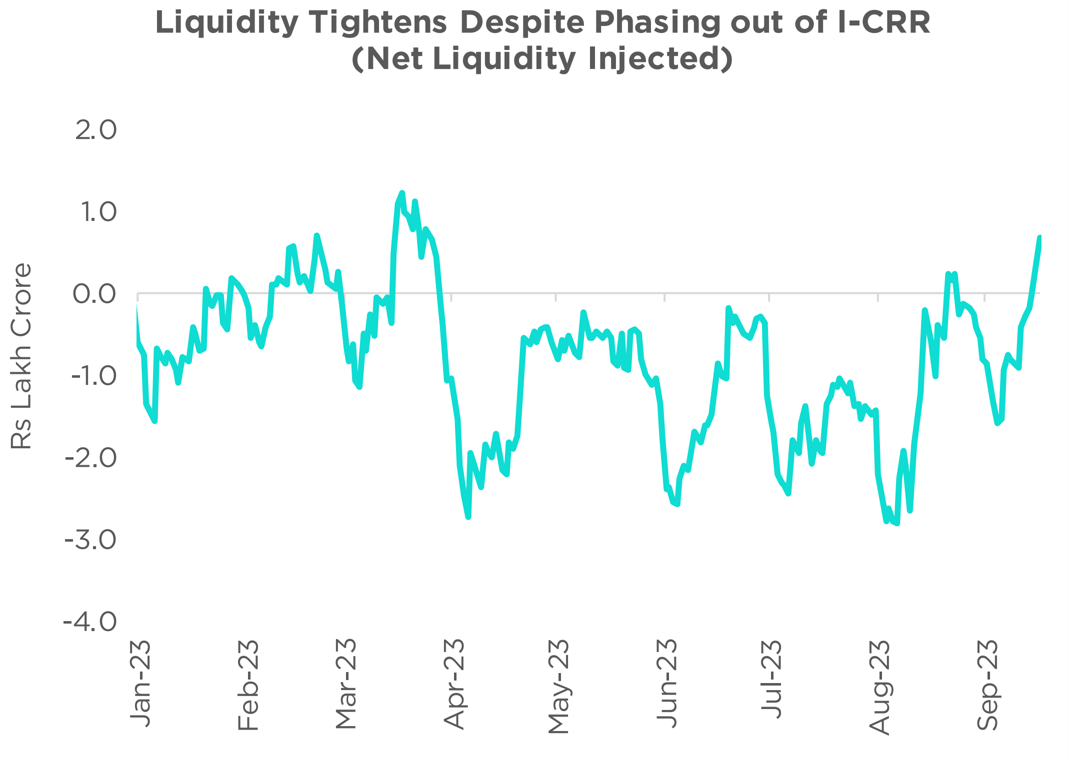
Source: Refinitiv



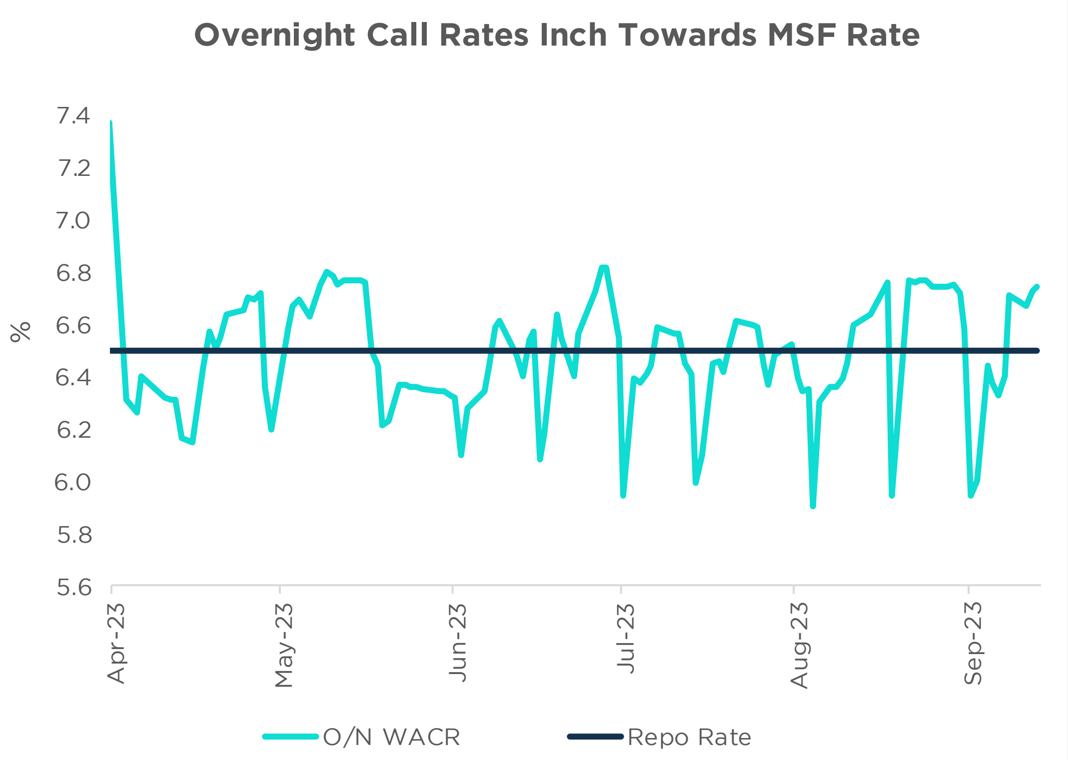
Source: Refinitiv

- 10-year bond yield came off multi-month highs following lower than expected domestic inflation.
- G-sec yield curve flattened, with mild inversion in the 2 and 10-year yields, as rates at the shorter end firmed amidst tightening liquidity.
- We expect the 10-year bond yield to trade within 7-7.2% range by end-FY24.

Liquidity Tightens; Call Rates Harden



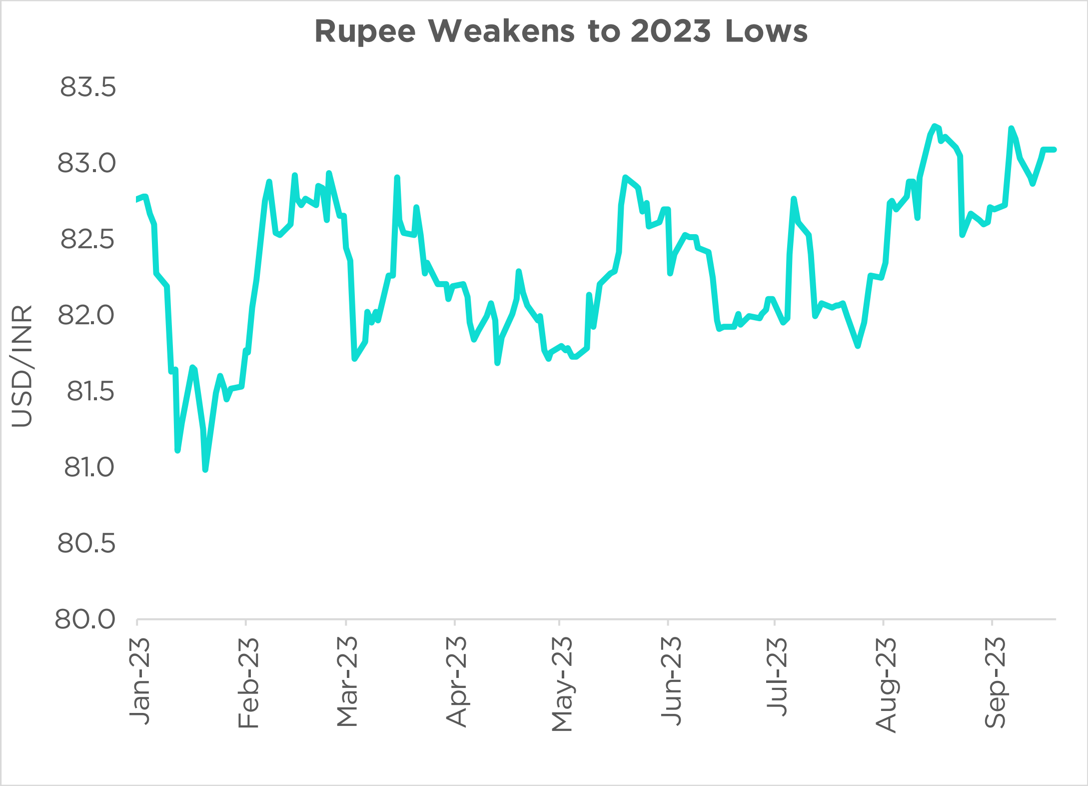
Source: Refinitiv



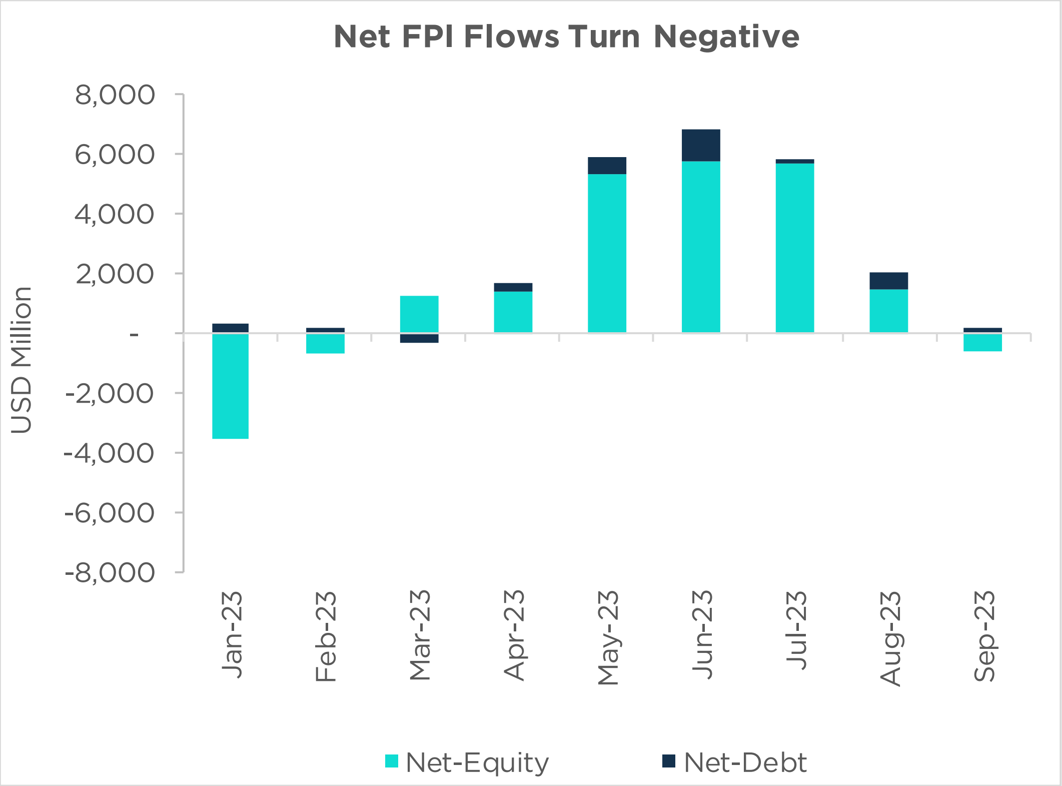
Source: Refinitiv

- Banking system liquidity turned to deficit on account of likely RBI FX intervention, healthy credit demand and tax outflows.
- Given concerns of elevated inflation, RBI would prefer to ensure there is just enough liquidity to meet credit demand in the coming months.
- Healthy government spending and redemption of government securities in the coming months could aid in maintaining a balance.
- RBI could conduct VRRR auctions during periods when call rates touch upper-end of the LAF corridor i.e MSF rate of 6.75%.

Rupee Depreciates Amidst Strong Dollar, Waning FPI Flows



Source: Refinitiv (Data for Sep 2023 up to Sep 15)



Source: CEIC (Note: Net Debt includes VRR; Data for Sep 2023 up to Sep 15)

- Rupee depreciated to its lowest level in 2023 amidst a narrowing yield differential, slowing FPI flows, weak Chinese yuan, and a rise in oil prices.
- Continued RBI FX intervention expected to aid rupee stability going ahead.

CareEdge Economy Outlook

Economic Growth

GDP growth projected at **6.5%** for FY24

Inflation

Average inflation projected at **5.6%** for FY24

Current Account Deficit

CAD (as % of GDP) projected at **1.8%** in FY24

Fiscal Deficit

Fiscal deficit (as % of GDP) pegged at **5.9%** in FY24

Interest Rates

10-Year G-Sec Yields to range between **7-7.2%** by end-FY24

Currency

USD/INR projected to be at **82-84** by end of FY24

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