India: The Economic Pathway

November 2023

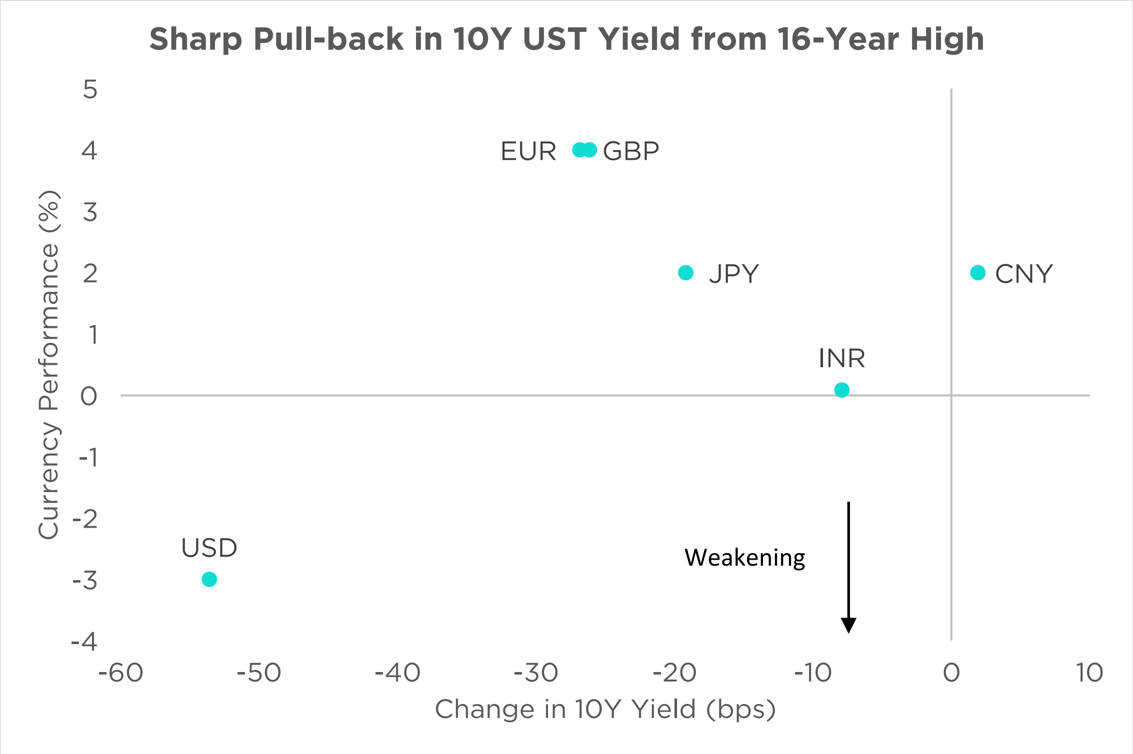
Global Economy

Inflation Eases; Growth Concerns Linger

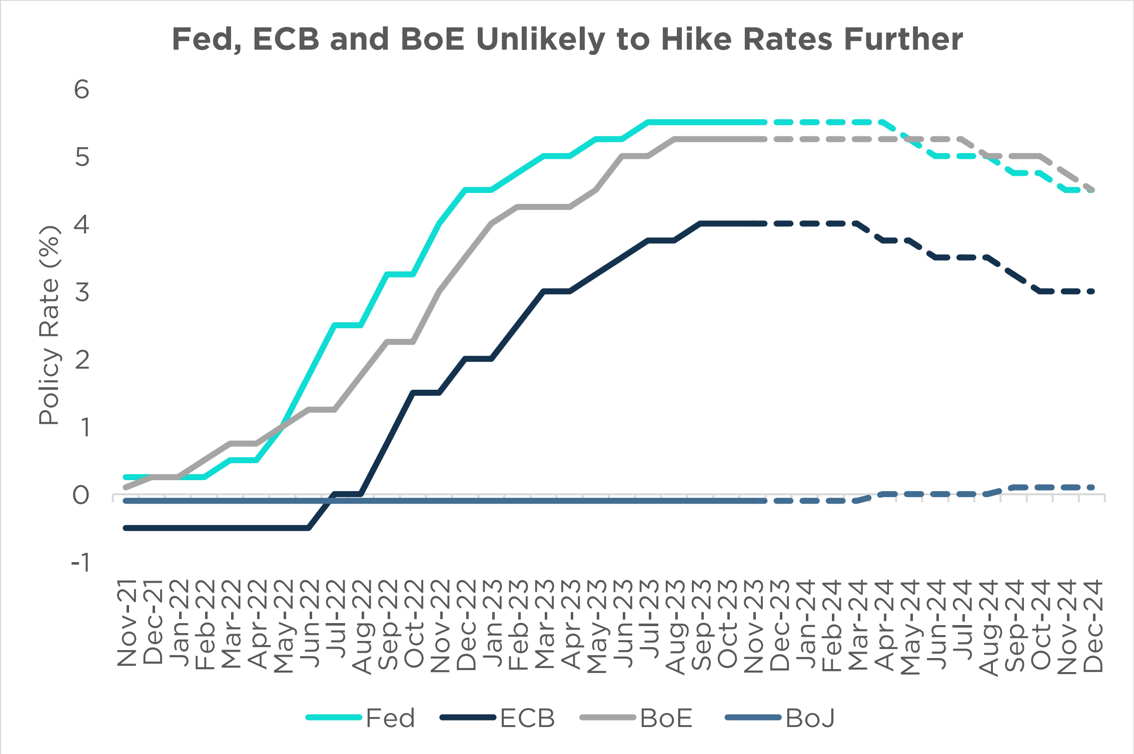
Latest Economic Data Releases & Monetary Policy Outcome					
	U.S.	**Euro Area**	**U.K.**	**Japan**	**China**
PMI Manufacturing	**46.7** (implied contraction for 12th consecutive month)	**43.8** (implied contraction for 17th consecutive month)	**46.7** (implied contraction for 16th consecutive month)	**48.1** (implied contraction for 6th consecutive month)	**49.5** (implied first contraction since Jul 23)
PMI Services	**51.8** (lowest in 5 months)	**48.2** (implied contraction for 4th consecutive month)	**50.5** (implied first expansion in three months)	**51.7** (second lowest level since Dec 22)	**50.4** (implied 10th consecutive month of expansion)
Headline Inflation (YoY)	**3.2%** (vs 3.7% in previous month and slightly lower than market expectations)	**2.9%** (slightly lower than market expectations)	**4.6%** (lowest since Oct 21)	**3.3%** (remains above BoJ's target for 19th consecutive month)	**-0.2%** (lower than market expectations of 0.1% fall)
Core Inflation (YoY)	**3.7%** (lowest since May 21)	**4.2%** (lowest since Jul 22)	**5.7%** (lowest since Mar 22)	**2.9%** (slightly lower than forecasts)	**0.6%** (lowest in four months)
Unemployment Rate	**3.9%** (highest since Jan 22 and slightly above market expectations)	**6.5%** (slightly higher than market expectations)	**4.2%** (slightly lower than market expectations)	**2.6%** (slightly lower than previous month)	**5%** (same as in previous month but lowest since Nov 21)
Monetary Policy	Fed kept fed fund rate at 22 year high of 5.25-5.5% for a second consecutive time in Nov. Policymakers remained focused on returning inflation to the 2% target while avoiding excessive monetary tightening. However, they did not rule out a future rate hike.	ECB kept its deposit facility rate at a record of 4% in Oct, following 10 consecutive rate hikes. Policymakers reflected a cautious stance amidst gradual easing of inflation and rising recession concerns.	BoE kept its benchmark interest rate at a 15 year high of 5.25% for the second consecutive time in Nov amidst recent signs of economic slowdown in U.K. and stubbornly high inflation relative to peers.	BoJ kept interest rates unchanged in Oct (short term: -0.1%; 10Y bond yields: around 0%). However, it tweaked its YCC policy by redefining 1% as a loose upper bound rather than a rigid cap and removed a pledge to defend the level.	PBOC injected net liquidity of CNY 600bn via a one-year medium term lending facility (MLF) – the biggest such injection since 2016. However, it left interest rate unchanged at 2.50%.

Source: Refinitiv, CareEdge. Note: We have reported latest data available as on November 28, 2023. For U.S., ISM PMI Manufacturing and Non-Manufacturing has been reported. For U.S., Core PCE inflation has been reported, as it is Fed's preferred inflation measure.

Markets Expect Policy Rates have Peaked in the West



Source: Refinitiv, CareEdge. Data represents change/performance b/w Nov 01 to 27, 2023.

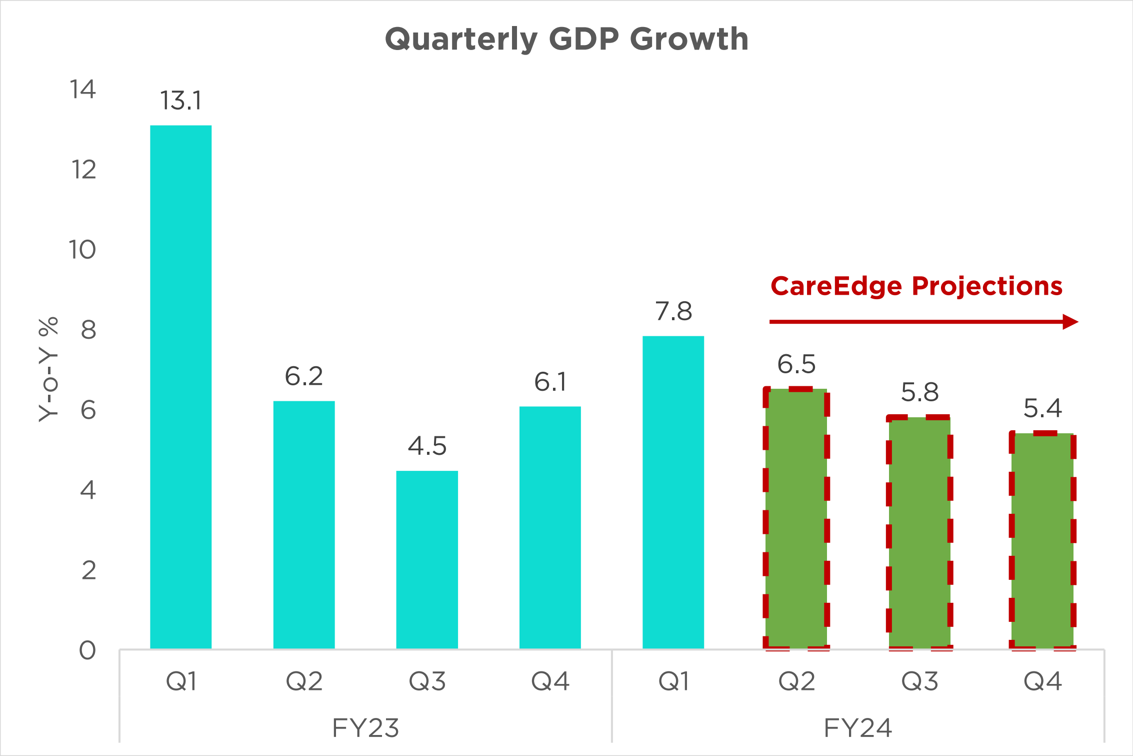


Source: Refinitiv, CareEdge. Data as on November 28/29, 2023, and reflects market expectations of most probable outcome for future interest rate trajectories.

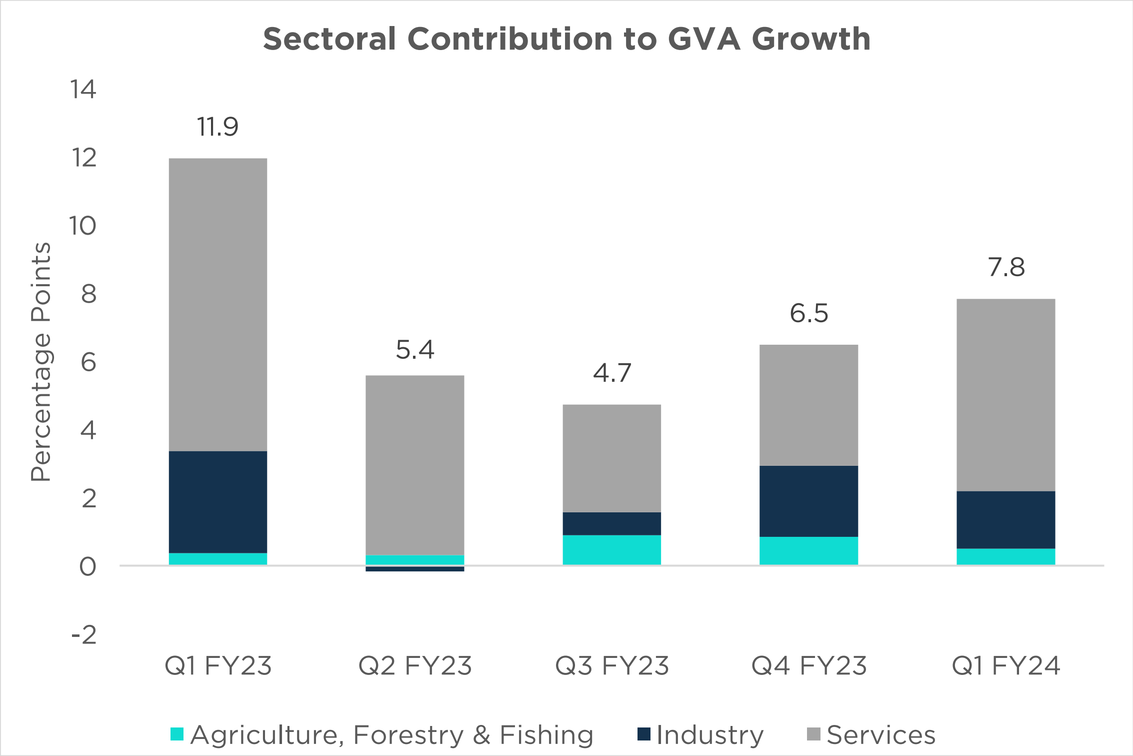
- 10Y UST yields have retreated on account of less hawkish policy outlook from Fed, moderate bond issuance plan by Treasury for Q4 and emerging signs of softness in the U.S. economy (such as cooling in labour markets and inflation and lower than expected PMIs).
- Markets expect Fed to begin rate cuts sooner in H1 CY24 vs H2 CY24 expected earlier.

Domestic Economy

GDP Growth To Moderate in Coming Quarters



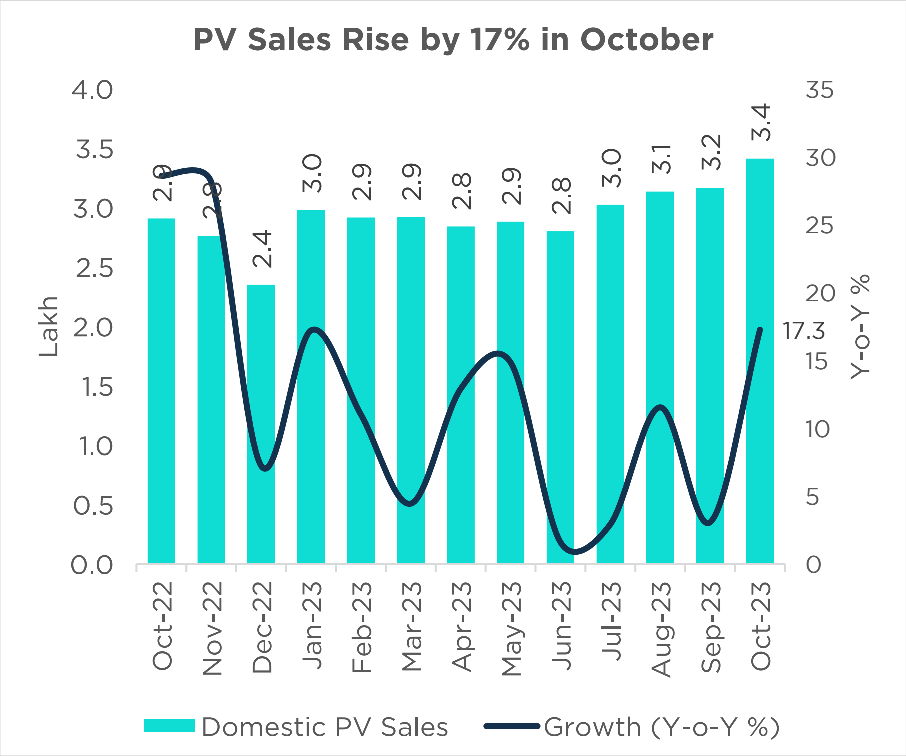
Source: MOSPI

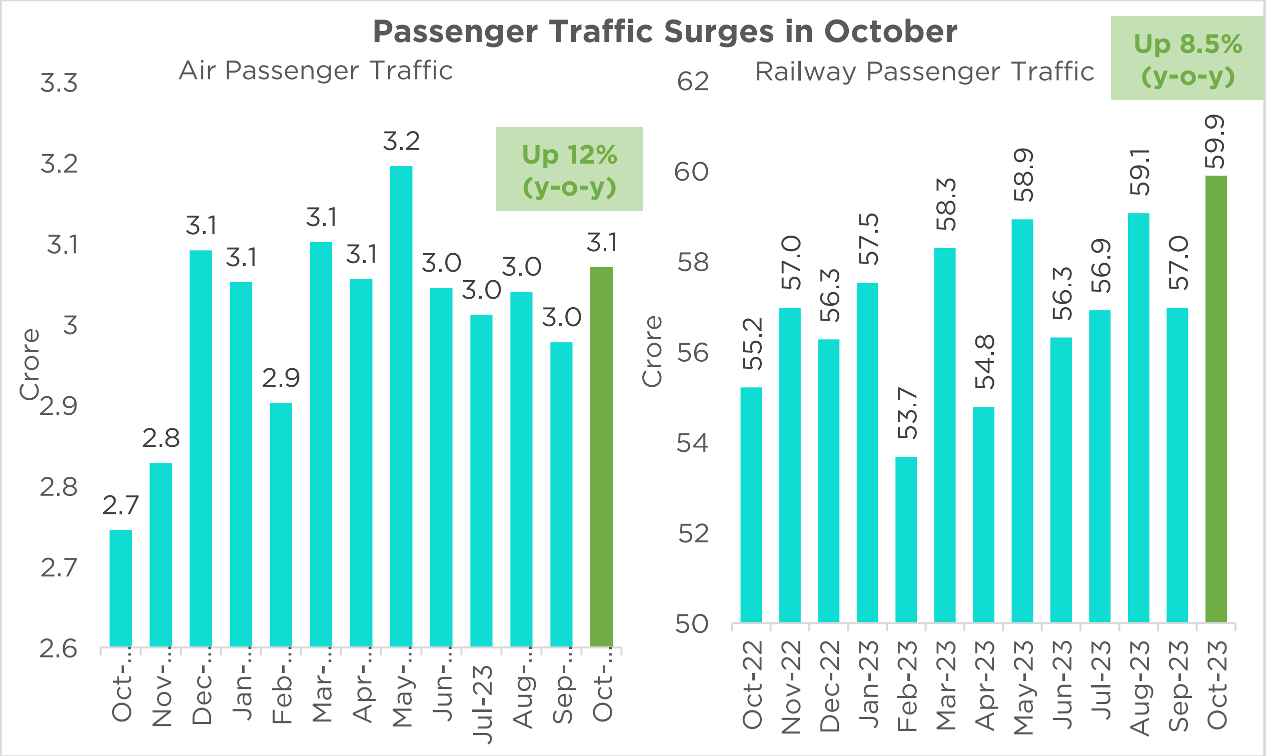


Source: MOSPI

- FY24 GDP growth projected at 6.3%, mainly led by services sector. Agriculture sector growth could be weak given the poor monsoon.

Festive Cheer for Urban Demand





Source: CMIE; CEIC

- GST collections, E-way bills generation, credit growth, PV sales and passenger traffic put up an encouraging show in October on the back of festive cheer.
- Rural demand weakness despite buoyancy in urban demand is indicative of the lopsided recovery in domestic consumption scenario.

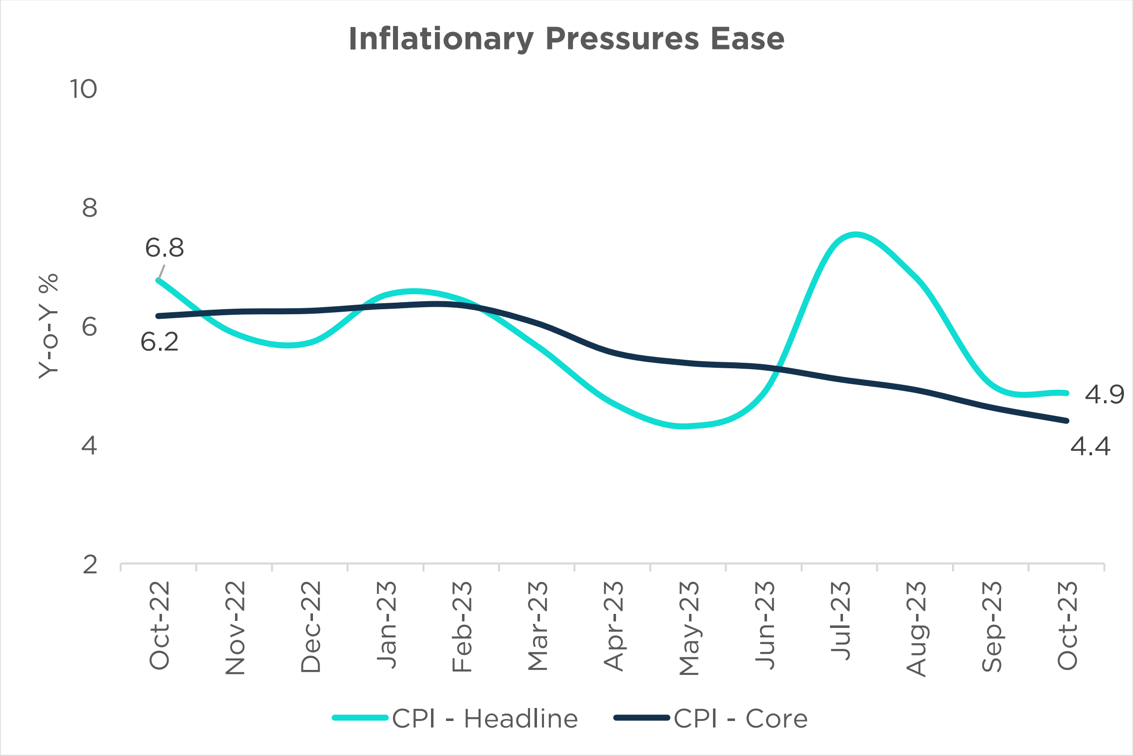
Rural Demand Recovery Still Weak

		Oct-2022	Nov-2022	Dec-2022	Jan-2023	Feb-2023	Mar-2023	Apr-2023	May-2023	Jun-2023	Jul-2023	Aug-2023	Sep-2023	Oct-2023
Domestic Sales of Two Wheelers	Lakh	15.8	12.4	10.5	11.8	11.3	12.9	13.4	14.7	13.3	12.8	15.7	17.5	19.0
Domestic Sales of Three Wheelers	Lakh	0.5	0.5	0.4	0.5	0.5	0.5	0.4	0.5	0.5	0.6	0.6	0.7	0.8
Farm Tractor Sales*	Y-o-Y %	3.6	4.4	19.2	16.0	11.8	10.1	-13.0	-2.4	-0.7	0.0	-4.1	-15.6	-5.3
Consumer Non-Durables (IIP)	Y-o-Y %	-13.0	10.0	7.9	6.5	12.5	-1.9	11.4	9.0	0.6	7.9	9.6	2.7	
Rural Unemployment Rate	%	8.2	7.6	7.4	6.4	7.2	7.8	7.7	6.9	8.8	7.8	7.1	6.2	10.8

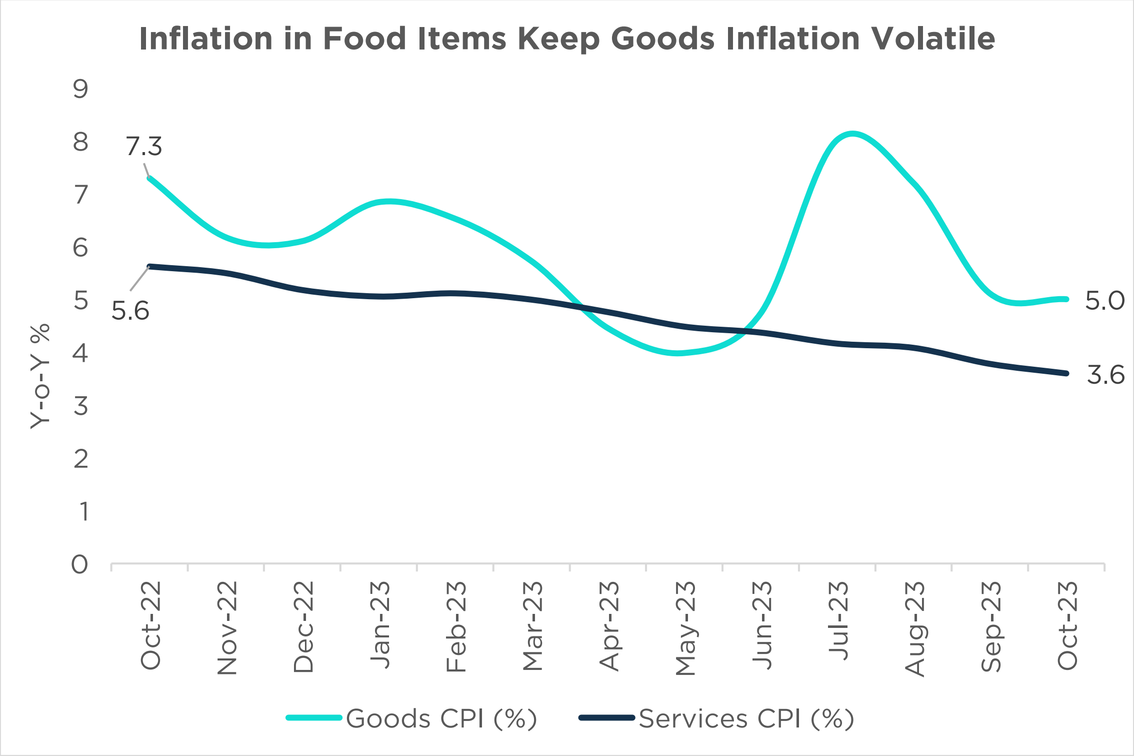
Source: CMIE, CEIC; *Includes Exports

- While sales of two and three-wheelers accelerated in October, farm tractor sales growth continued to contract for the seventh month in a row.
- Rural unemployment rate spiked beyond 10% in October owing to season factors as well as weak monsoon.
- Going ahead, meaningful recovery in rural demand remains critical for the consumption scenario in the economy.

Headline Inflation Moderates; Food Inflation Unchanged



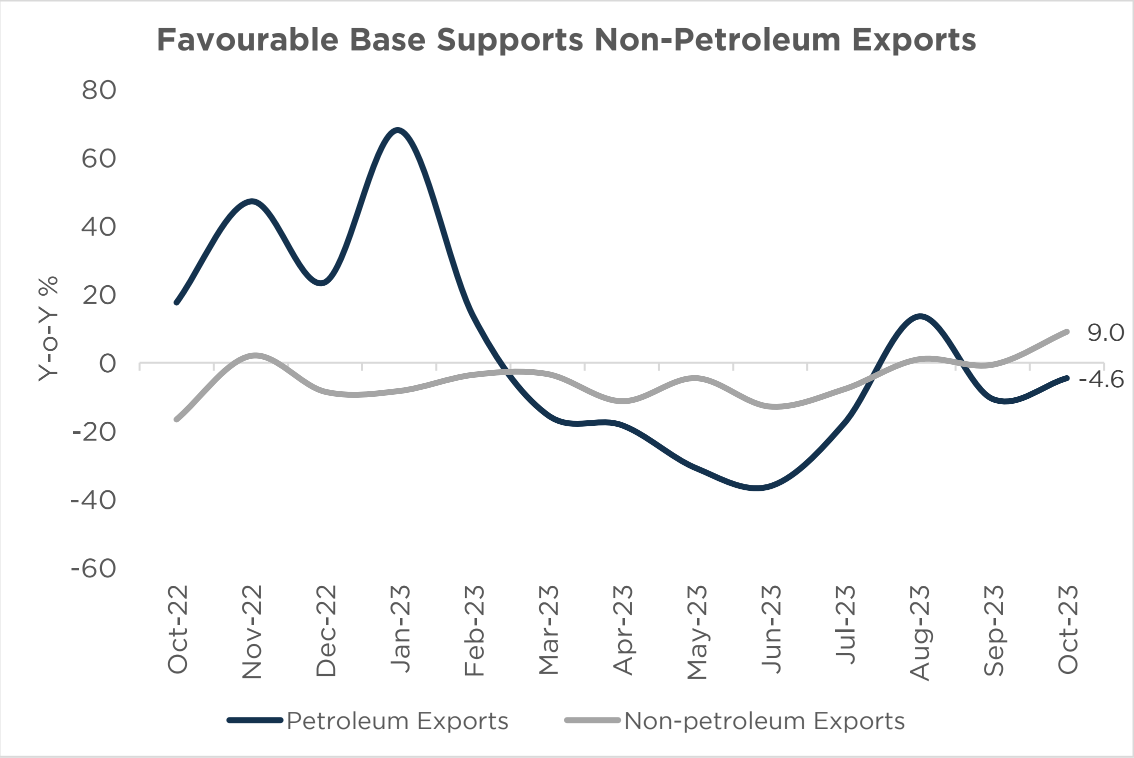
Source: CEIC & CareEdge



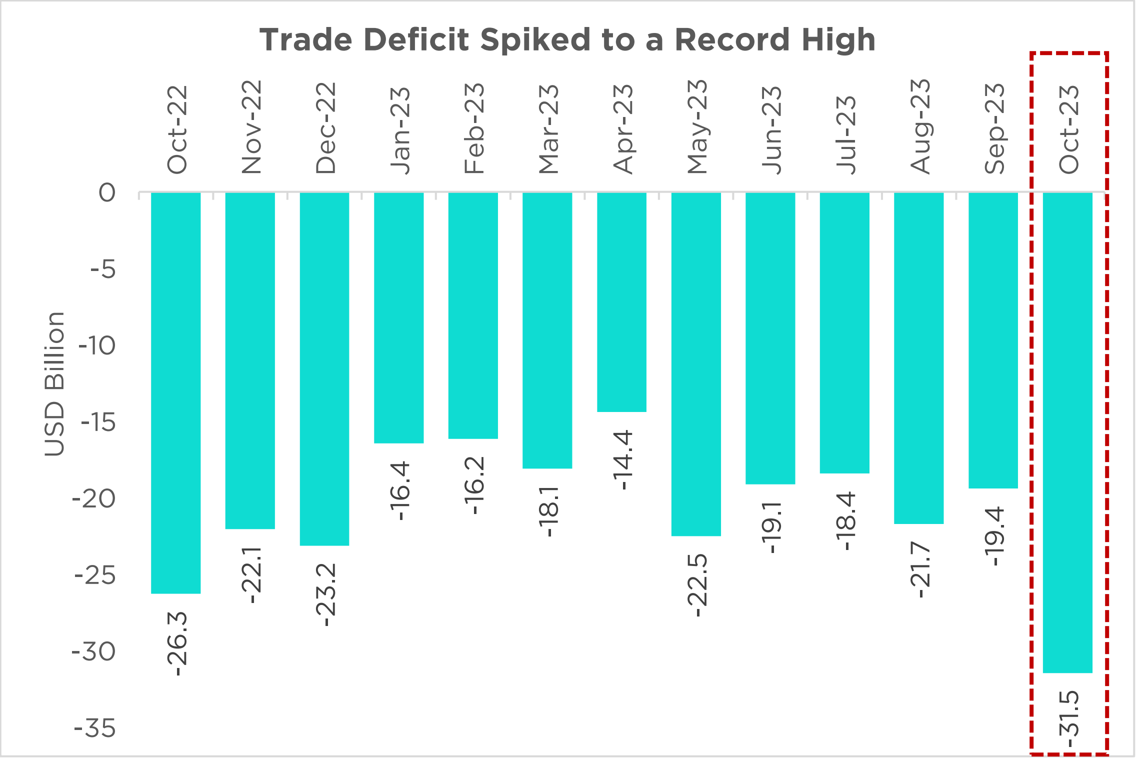
Source: CEIC & CareEdge

- CPI inflation eased to a 4-month low of 4.9% in October helped by deflation in fuel and light category and a supportive base.
- Food inflation was unchanged at 6.2% in October with major food components (cereals, pulses and spices) witnessing sticky double-digit inflation.
- CPI inflation is projected to remain range-bound around 5.3-5.4% in the next two quarters.
- FY24 CPI inflation is projected lower at 5.4% (earlier projection 5.6%) due to correction in vegetable prices and lower-than-expected inflation in September.

Merchandise Trade Deficit Shoots Up



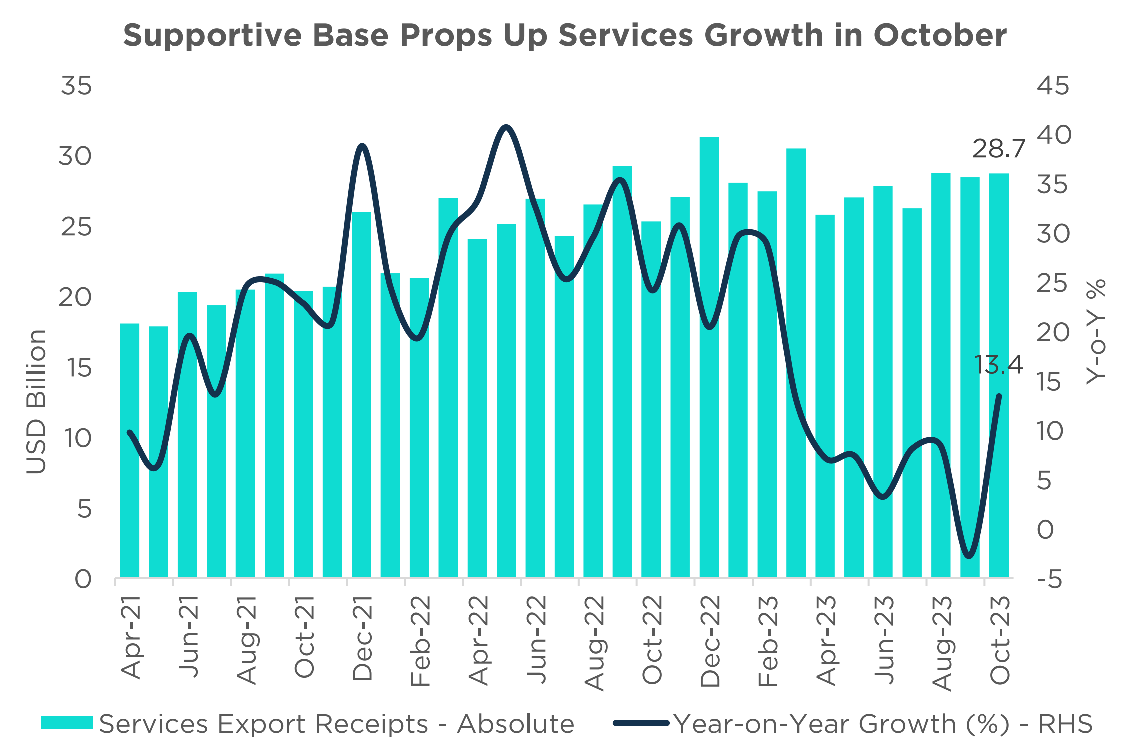
Source: CMIE



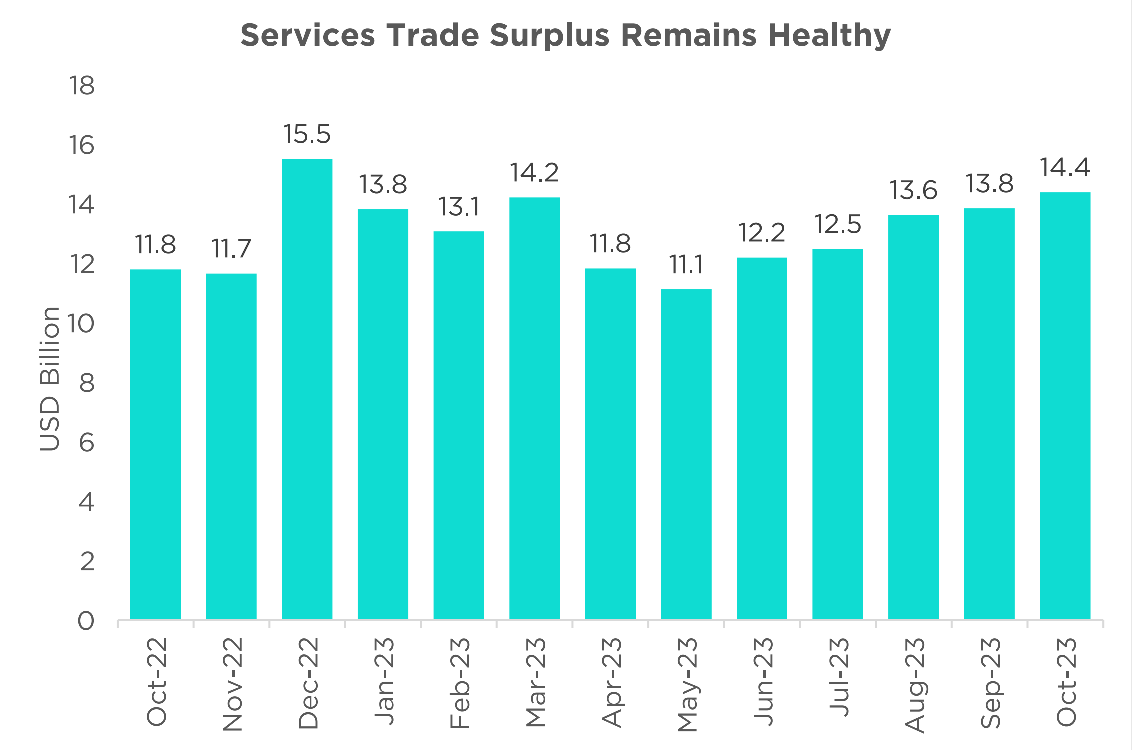
Source: CMIE

- Overall imports grew by a strong 12.4% in October, more than double of the overall export growth at 6.3% translating into a record high trade deficit.
- Higher imports were on account of a festive led spike in gold imports and elevated oil import bill at a 7-month high level.
- Going ahead, we expect the merchandise trade deficit to narrow on account of waning festive demand.

Services Trade Balance Steady



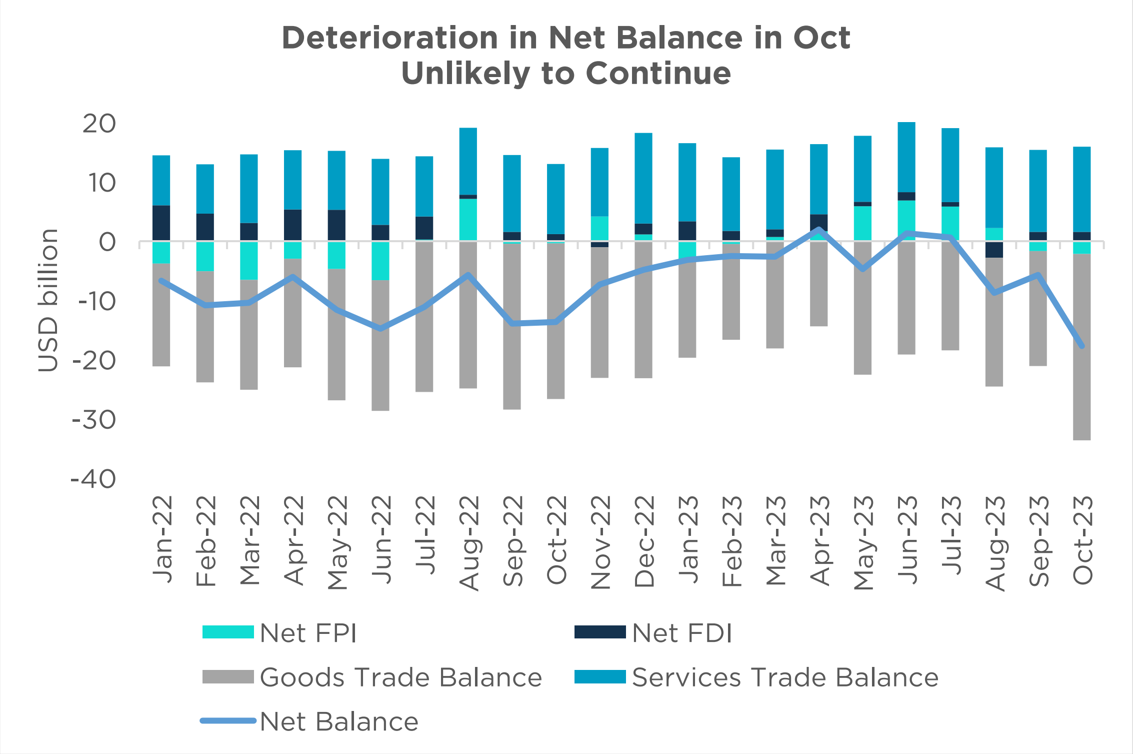
Source: CEIC



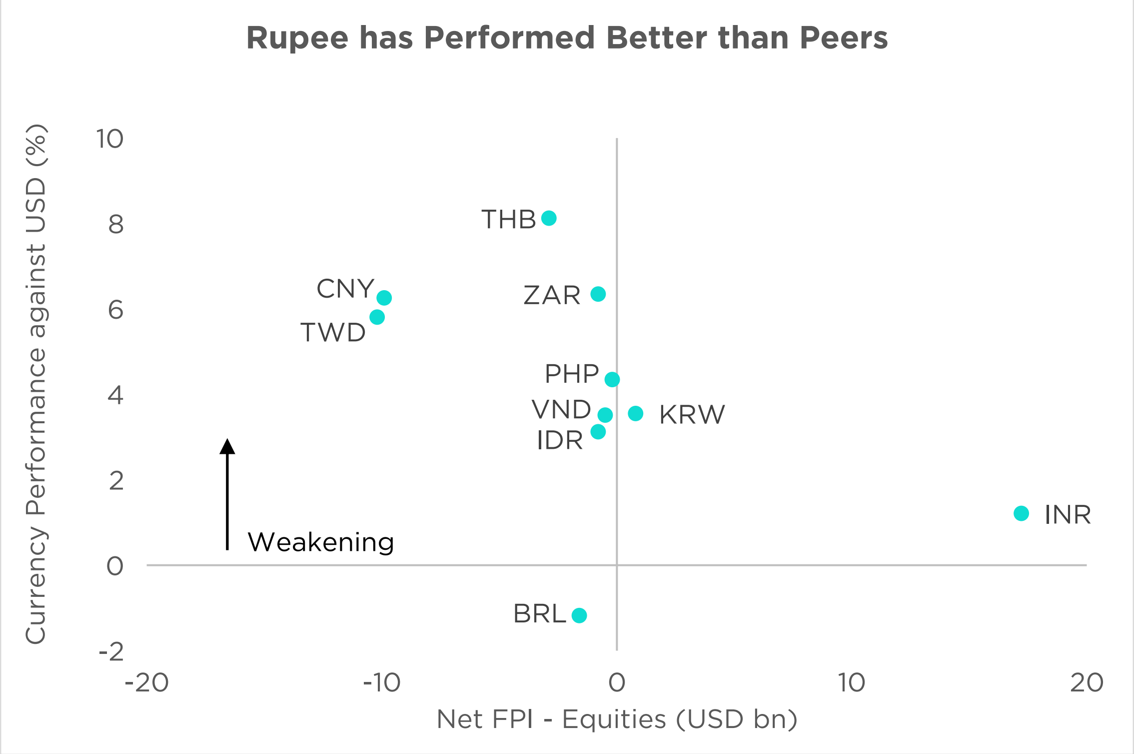
Source: CEIC

- Monthly services export receipts have stabilised above USD 25 billion while growth is seen plateauing in the recent months.
- For the remainder of the fiscal, weakening global tech spending remains a key watchout for India's services exports.
- Surplus from services trade has remained upbeat at USD 89.4 billion so far in FY24, higher compared to USD 77.3 billion a year ago.
- Services exports are projected to rise only marginally for the full fiscal on account of last year's high base.

External Sector Outlook Remains Favourable



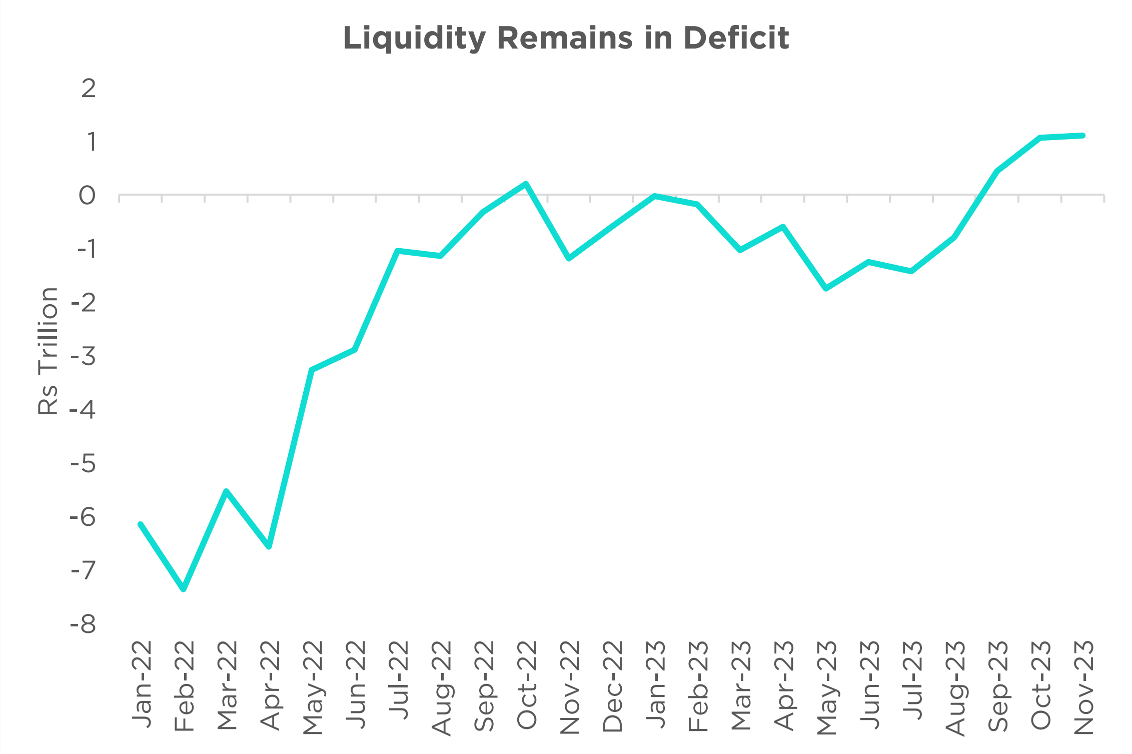
Source: CMIE, CareEdge. Note: Net Balance = Net FPI + Net FDI + Goods Trade Balance + Services Trade Balance. Net FDI Oct 23 data is based on assumption.



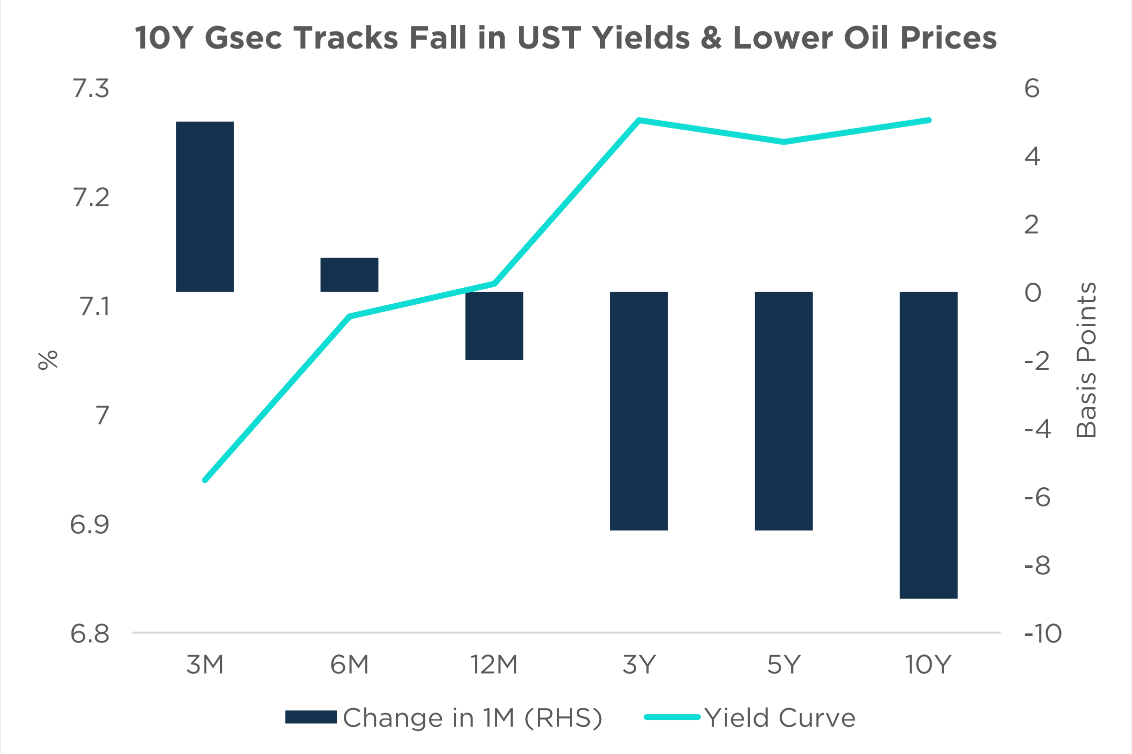
Source: RBI, Institute of International Finance, Refinitiv, CareEdge. Data is for Apr-Sep 2023.

- Net FPI flows have turned positive so far in November following two consecutive months of outflows. Going ahead, moderation in UST yields should support FPI inflows.
- FDI flows are expected to remain moderate amidst uncertainties in global economic and business environment.

Liquidity Remains Tight; 10Y GSec Tracks UST Yields



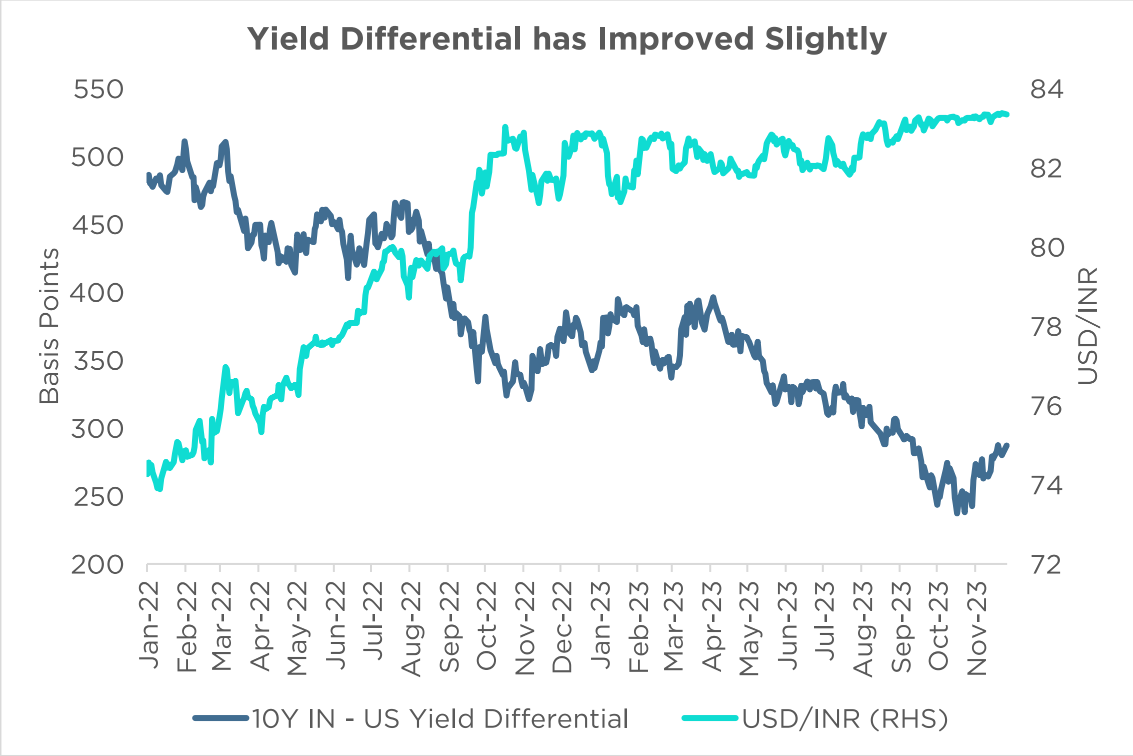
Source: CMIE, CareEdge. Data is for month-end and is as on November 28, 2023.
Note: Positive values imply liquidity deficit.



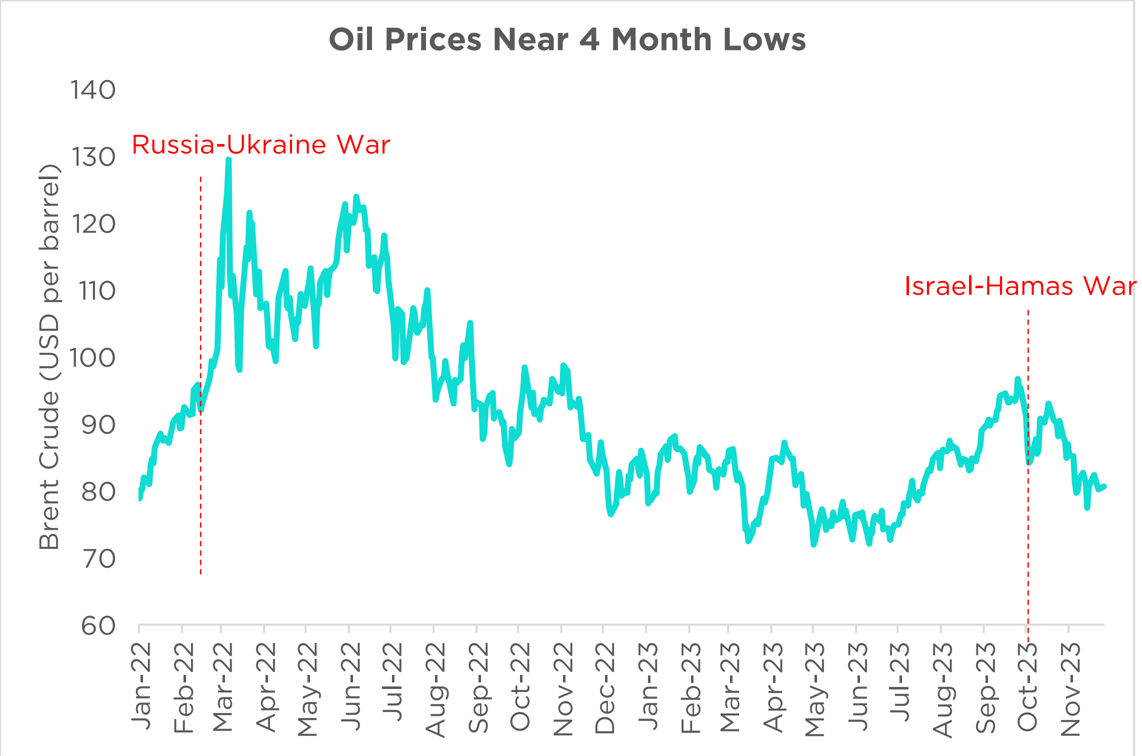
Source: Refinitiv, CareEdge. Data as on November 24, 2023.

- Higher currency demand during festival season along with FX intervention and OMO sales kept liquidity tight.
- Tight liquidity conditions weighed on short-term yields while long-term yields tracked fall in UST yields.
- Risks to inflation outlook persist given the weak prospects for kharif harvest and expected hit to rabi sowing amid lower reservoir levels.
- We expect RBI to hold status quo in December and start rate cuts in H1FY25.

Rupee Remains Rangebound



Source: Refinitiv, CareEdge. Data as on November 28, 2023.



Source: Refinitiv, CareEdge. Data as on November 28, 2023.

- Oil prices have retreated post initial jitters from the Israel-Hamas war on account of emerging global demand concerns along with record high crude oil output in the U.S.
- OPEC+ meeting and geopolitical tensions will remain key monitorables in the near term. Markets expect OPEC+ to extend or deepen production cuts in the November meeting.
- India has adequate forex reserves (~USD 595 bn and equivalent to an import cover of 10 months) to support RBI interventions to mitigate rupee volatility.

CareEdge Economy Outlook

Economic Growth

GDP growth projected at **6.3%** for FY24

Inflation

Average inflation projected at **5.4%** 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

October Round-Up

From the Economics Desk @ CareEdge	
IIP Report – September 2023	Read Here
CPI Report – October 2023	Read Here
CareEdge Economic Meter	Read Here
Forex Market Update	Read Here
Mauritius Economy Update	Read Here
Nepal Economy Update	Read Here

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