6th May 2024

FUND MANAGERS **COMMUNICATIONS**

Global Market: As indicated by global PMI data, manufacturing and services remained in expansionary territory along with increased industrial production and growth in global trade; the global economy remains resilient. IMF revised up its global growth forecast for the world for CY24 to 3.2% (from 3.1%). US Economy is continuously surprising with strong data, with strong jobs data and stronger than expected manufacturing data, the hopes of rates cuts have delayed, resulting in hardening of bond yields.

Average inflation in G-20 economies rose to a one-year high in Feb'24. Inflation in the past few months has been sticky due to the hardening of service inflation. Escalations in the Red Sea resulted in supply-chain disruptions, whereas crude prices shooting up could keep inflation at higher levels, away from the Central banks' targets. This is likely to add to uncertainty over the timing of the rate cuts.

Global production improved. Feb'24 G-20 weighted industrial production further grew, with Asian countries showing robust growth. The same is supporting higher metals & crude oil prices, along with news flow on geopolitics in Middle East region. Tougher US sanctions on Russia and Iran entering the Middle East conflict are a risk to commodity prices.

During the month of April 2024 – US markets has closed with losses, Dow Jones losing 3.4%, S&P 500 down by 3.4% & Nasdaq drops 3.8%. Rising rate worries mainly weighed on Wall Street in April. The U.S. economy has been under pressure of high inflation and slowing growth. Meanwhile, rising geopolitical tensions give cues of inflation remaining hot in the near term. Meanwhile, in Q1, the U.S. economy grew at the slowest pace in two years as consumer and government spending cooled due to a sharp increase in inflation. U.S. gross domestic product (GDP) increased at a 1.6% annualized rate during January-March 2024, missing Wall Street expectations of a larger rise of 2.5%.Eurostoxx 50 ended 3% negative and Nikkei ended 4% lower for the month.

Central Banks: US FED has kept interest rates unchanged. Though rates may be nearing to end of rate hike cycle in US, markets have started assigning some probability of rate cut by end of this year, from US FED. Central banks action would be data dependent on inflation and growth.

Domestic Market: During the month Nifty 50 main index was higher by 1.2% m-o-m, while Nifty Midcap 100 was up 1.47%. Monsoon: The Indian Meteorological Department (IMD) has forecast "above normal" rain during the June-Sep monsoon, boosting prospects of a bountiful agricultural harvest that will likely ease inflationary pressure and bolster growth.
India Rating expects goods and services exports to grow 5.8% and imports to rise 8.8% in FY25, against 1.4% and 13.2% respectively in FY24. The same would be supportive for exports oriented sectors.

RBI Policy meet: RBI in its policy meet on 5th April 2024 has kept repo rate unchanged, as expected. GDP forecast is at 7% and CPI inflation projection for FY25 is at 4.50%. Based on the strong growth, high inflation and a lower likelihood of cuts by the Federal Reserve, the RBI is unlikely to cut rates this year. The second advanced estimates for FY24 placed India's GDP growth at 7.6% and RBI projection for 7% GDP growth for FY25. The next RBI policy meeting is scheduled during 5-7 th June 2024.

Textiles: India is working on an ambitious target to achieve $600 Billion of textile exports by 2047 from $44 billion in FY22 and the domestic market to grow to $1.8 trillion from $110 Billion in FY22.

DFC: As per media reports, three more Dedicated Freight Corridors (DFC) are being considered to push faster freight movement. The same will cover 4300 km with the estimated project cost being Rs.2 Lakh crore.

India has added a record renewable energy capacity of 18.48 GW in FY24, which is over 21% higher than 15.27 GW a year ago. However, as per media reports there is a need to add at least 50 GW of renewable energy capacity for the next 6 years to meet target of 500 GW of RE by 2030. The installed RE capacity stands at 190 GW including large hydro projects.

India's mobile phone exports has surged 35% y-o-y to $15 Billion ($11 Bn in 2023 & $ 5.8Bn in 2022). Apple contributed 65% or about $10 Bn in FY24 to exports. Industry is aiming for $50 Bn exports mark by 2026-27.

Fund Flow: FII flows turned negative in April'24 with outflows of Rs.35,692 crores. DII flows remained healthy with inflows of Rs.44186 crores during the month.

Consumer price Inflation (CPI): India's Mar'24 CPI inflation eased to 4.85%, down from 5.1% in Feb'24. The CPI for the quarter averaged 5%. The geopolitical situation has worsened during the month with heightened tension in the Middle East having already disrupted the supply chain. Crude-oil prices rose considerably in the past month, and escalations could worsen the situation. As inflation is sticky in the US amid strong economic growth, the chances of immediate rate cuts are diminishing. With strong growth expectations for the year, the RBI is likely to be more vigilant to ensure inflation moves toward its 4% target amid geopolitical uncertainties and food-price shocks.

IIP: Industrial production expanded to a three-month high of 5.7% in Feb'24 compared to 4.1% in Jan'24. Growth was broad-based for production with healthy acceleration across all categories. Apr'23-Feb'24 cumulative growth came to 5.9%, up from 5.6% in the same period last fiscal. Growth in production-based indicators was broad-based, but non-durables fell. Continued infra spends by the government and buoyancy in the real estate cycle suggests strength in infra and allied sectors. Exports too are likely to improve on rising prospects for better global growth. Finally, we see signs of rural demand recovery, which along with easing inflation, government hand-outs ahead of the elections and forecasts for above-normal rainfall would augur well for consumption.

Trade Data: Merchandise exports were steady in Mar'24, recording a slight, 0.7% y/y, fall. Exports at $41.7bn have been the highest in FY24. The record-high figure was driven by non-oil exports, which expanded 8% y/y despite heightened geopolitical tensions. Exports exhibited resilience in the past quarter despite concerns of global trade slowing. On the other hand, imports contracted 6% y/y with non-oil imports declining 6.6% y/y. The trade deficit narrowed to $15.6bn, the lowest in the past 11 months. The merchandise trade deficit overall for FY24 is estimated at $240bn vs. $265bn in FY23. The rupee, pressured by rising geopolitical tensions, is likely to be supported by the declining deficit. While the geopolitical environment is volatile on many fronts, the ability of the domestic economy to withstand shocks would test the Indian currency's resilience. Forex reserves have risen to record highs of nearly $650bn, providing a safety net for timely market interventions to curb extreme volatility.

PMI: The HSBC final India Manufacturing Purchasing Managers' Index, compiled by S&P Global, dipped to 58.8 in April from a 16-year high of 59.1 in March. Despite softening, it was above its long-run average and in expansionary territory for a 34th month.

GST Collection: Gross Goods and Services Tax (GST) collections surged to a record high of ₹2.10 lakh crore in the month of April. The GST collection has also registered a 12.4 per cent year-on-year growth.

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Monthly Auto Sales Data: Auto volume trends in Apr-24 remained on the existing trajectory, highlighted by continued double-digit growth for 2Ws and further weakening of momentum in 4Ws.

Indian Equity Market Outlook: The equity markets have shown significant rallies over the last year, except in China. However, rising commodity prices and high-interest rates could affect corporate earnings and market valuations. With ongoing geopolitical concerns, the short-term outlook for global equity markets seems unclear. Despite these challenges, India remains a bright spot. Robust domestic and foreign investment flows continue to support the Indian market, reflecting stronger fundamentals and a more optimistic outlook compared to other major markets. The interconnected nature of the Indian economy with the global market does pose risks of negative spillovers. However, with a likely normal monsoon, we expect an uptick in rural income ahead to aid bottom-of-the-pyramid consumption demand. Our strong fundamentals and consistent domestic investment flows provide a cushion. Uncertainty with respect to election might keep market nervous for a month however overall long term outlook on Indian Economy and Indian Equity markets remain constructive. Correction if any should be used to create the long term Equity Portfolio.

Regards,
Mayur Shah
(Fund Manager-Anand Rathi Advisors Ltd.)

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