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Economic Round-up: May 2022

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With EU countries announcing a ban on most of Russia's oil imports, oil prices are likely to remain elevated. This is expected to pose upside risks to global inflation which may push central banks to hike rates further. Higher prices are also expected dent recovery in growth, thus lending support to fears of growth slowdown. On the brighter side, China has eased Covid-19 restrictions and has also announced stimulus package to support growth. This may provide some cushion to global growth.

Global growth slowdown: Due to resurgence in Covid-19 cases in China and continuation of war between Russia and Ukraine, supply chains had been impacted, thus pushing global commodity prices up. While there has been some relaxation in supply chain bottlenecks, and commodity prices have come down from their peaks, they still remain at elevated levels, impacting global inflation. This is also expected to affect profit margins of companies, push central banks to aggressively hike rate, create a high interest environment and dent consumer demand, which may slowdown recovery in growth. However, we do not see a recession looming.

Global Central Banks: There remains deviation in global central bank actions, with US Fed, BoE, RBNZ, and RBI hiking rates, ECB remaining on standby, and BoJ and PBOC remaining accommodative. US Fed has recently announced biggest (in 2 decades) rate hike of 50bps. Various Fed officials have indicated that this trend might continue if inflation is not curbed. BoE also hiked rate by 25bps this month, its 4th rate hike since Dec'21.

Key macro data releases: Latest data shows that India's real GDP rose by 8.7% in FY22, lower than NSO's previous estimate of 8.9% and RBI's 9.1% expectation. All sectors (except construction) of GVA witnessed downward revision. Most of the downgrade was visible in mining, manufacturing, agriculture and trade and hotels. India's growth moderated in Q4FY22 too, by 3.9% compared with an increase of 4.7% in Q3FY22. The slowdown was led by moderation in services activity including trade, transport on the back of pandemic induced restrictions. Nominal GDP was however revised a tad upward (19.5% versus 19.4%), which in turn helped centre to lower its fiscal deficit for FY22 from 6.9% to 6.7%. Buoyant revenue growth also played a part in this.

Separately, CPI print remains elevated in Apr'22 at 7.8% (~8-year high), with core CPI also up (66bps) at 7% in Apr'22. Given the trajectory of retail inflation with food and core inflation remaining elevated, we see a case for RBI hiking repo rate by another 25-35bps.

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Global developments

Global recession-unlikely

Second estimates of US GDP show that in Q1CY22 growth (QoQ, annualised basis) was weaker than earlier estimated (first estimates) and fell by (-) 1.5% versus (-) 1.4% decline expected earlier. This is also much lower than 6.9% increase in Q4CY21. While growth is expected to have recovered in the current quarter (est.: +2.3% growth) with robust consumer spending and healthy employment levels (monthly addition of ~400,000 jobs), it is still expected to be on a lower trajectory than what it was in Feb'22. Analysts are now expecting CY22 growth to come in at 2.5%, much lower than 4.2% expected in Feb'22. High inflation (due to war and Covid-19) and faster than anticipated rate hike by Fed, have dampened the investment. It is now expected that inflation in US might have peaked (8.3% in Apr'22 versus 8.5% in Mar'22) and US Fed will pause hiking rates in the latter part of the year to avoid pushing the economy into a recession.

In UK, monthly estimates of GDP showed that following 0.7% increase in GDP in Jan'22, growth flattened (0%) in Feb'22 and contracted by 0.1% (est.: 0%) in Mar'22. However, overall Q1CY22 growth slowed to 0.8% (QoQ) from 1.3% in Q4CY21. In the current quarter too, growth remains affected as composite PMI reading slipped to 51.8 in May'22 from 58.2 in Apr'22. Surveys also show that both businesses and households remain cautious in the wake of rising living costs, delayed shipments and labour shortages. Businesses are also expecting dip in their margins and weak order growth in the remaining part of the year. Despite impending slowdown, analyst expect BoE to continue to its rate hike cycle to tame inflation and increase rates by more than 100bps (from current 1%) by the end of CY22.

Further, continuously elevated oil prices pose serious upside risks to global inflation, thus also pushing economy towards growth slowdown. EU countries have recently reached an agreement to ban 90% if Russian oil imports by the end of the year. As per the measures undertaken in the 5th economic sanction package, 75% of oil imports from Russia will be impacted immediately. This has already pushed oil prices above US$ 120/bbl and it is currently trading near US$ 123/bbl. This may push more central banks to hike rates aggressively, implying pressure on economic growth.

RBI's surprise hike

RBI in its off-cycle meeting today raised policy rate by 40bps to 4.40% (since Dec'18). Accordingly, the upper (MSF, bank rate) and lower (SDF) bound stands at 4.65% and 4.15% respectively. In another unexpected move, CRR has also been increased by 50bps to 4.5% (since 24 May 2021), which will amount to liquidity withdrawal of Rs 870bn from the system. RBI clearly surprised markets by going for a rather abrupt 40bps hike in policy rate, signalling withdrawal of accommodation and also hiking the CRR rate. Bond markets reacted negatively by trading as high as 7.47% during the announcement.

If we closely look at the policy document, there is clear signalling that the inflation trajectory is indeed a concern. Statements such as *1) 'Confronted by elevated inflationary pressures that have shifted the future trajectory of inflation upwards', 2) 'collateral risk that if inflation remains elevated at these levels for too long, it can de-anchor inflation*

expectations' and 3) *'Sustained high inflation inevitably hurts savings, investment, competitiveness and output growth'*, are indicative of the fact that the focus has changed to inflation at the current juncture.

We expect another 50-75bps policy rate hike during the year with another increase in the June policy. We expect RBI's CPI projection to go for another round of upward revision. Our CPI forecast is at 5.5-6%, with a clear upward bias towards 6%.

Global central bank decisions

The Federal Reserve announced its biggest interest rate increase in more than two decades against the background of fast rising prices. The Fed's benchmark interest rate was raised by 50bps to a target rate range of between 0.75% and 1%. This is the largest rate hike since 2000 and follows a 25bps increase in March, the first increase since December 2018. Also, the fact that the Fed is finally moving away from zero shows confidence in the state of employment. But the speed with which interest rates are expected to go up highlights major concern on inflation (just like in our case). The EIU expects the Fed to raise rates seven times in 2022, reaching 2.9% in early 2023. Starting in June, the Fed will shrink their US$ 9tn asset portfolio, a policy move that will further push up borrowing costs.

The rate increase announced was a unanimous decision. Higher costs will percolate to consumers in the form of more expensive mortgages, credit cards and other loans. The rate for a 30-year fixed-rate mortgage averaged 5.1% in the week ending May 26. That's up sharply from under 3% in November.

Bank of England too raised its interest to its highest since CY09 by hiking the policy rate by 25bps to 1%. This is the 4th consecutive rate hike by BoE since Dec'21, as inflation is now expected to breach the 10% mark. CPI has already reached 7.8% in Apr'22 from 6.2% in Mar'22.

On the other hand, PBOC has been seen pumping liquidity into the system, to support the battered economic growth. Covid-19 lockdown restrictions have led to dip in economic activity in the last few months, as result PBOC has announced more stimulus measures (after reduction in RRR and LPR). These include: launching of 100bn Yuan (US$ 15bn) re-lending facility to support transport, logistics and storage related sectors. In addition, 100bn Yuan have also been allocated for loans to production and storage of coal.

Recently Chinese government has also announced a slew of measures to revive GDP growth, to meet its 5.5% target for CY22. These measures range from accelerating infrastructure spending, to promote purchase of cars and home appliances to boosting financing efficiency by allowing domestic companies to list in Hong Kong to raise capital. Additionally, government has vowed to lower real borrowing costs, accelerate local special bond issuances, and provide tax credit rebates to sectors/industries hit the most by Covid-19 restrictions.

Special studies

Corporate investment in H1-FY22

Since FY20 gross fixed capital formation component of India's GDP has been modest and showed a declining trend from 29.5% in FY19 to 26.6% in FY21. In FY21, it declined by 8.3% in current prices. In H1FY22, GFCF had improved to 27.8% and for the year is expected to be 28.3% as per NSO estimates. The Covid-19 induced lockdown that led to significant economic disruption in the economy has been responsible to a large extent for this volatile nature of investment in the economy.

This study analysed the trends in corporate investment in capital defined as change in outstanding gross fixed assets which includes property, Plant and Equipment and capital work in progress for a set of 2,241 companies (excluding financial sector). The period looked at was September 2021 over March 2021, which would give an idea of investment taking place in different sectors of the economy during the first half of the year. Data was taken from the published balance sheets of companies for half year ending September 2021.

Results: In the first 6-months of FY22, net investment in gross fixed assets of the sample companies has increased by Rs 20,058 crore over March. 522 companies had increased the size of their gross fixed assets by Rs 39,419 crore while 812 had reduction of Rs 19,361 crore. The balance 907 companies witnessed no change in gross fixed assets.

Out of 33 industries, 18 industries had shown positive accretion of investment in assets with aggregate increase of around Rs 24,000 crore. But within these industries only 7 sectors had investment of above Rs 500 crore each.

Sector wise, crude oil, automobile and industrial gases and fuels comprise the major share in capital formation. Other industries where there was noteworthy investment are chemicals, telecom, construction and mining. For sectors such as logistics, textiles, iron and steel, media and entertainment and infrastructure sectors, capital accumulation has fallen in the first 6-months of H1FY22.

How high is price of petrol in India?

Rising fuel prices in India had led to considerable debate on which government, state or central, should be lowering their taxes to keep prices under control. The rise in fuel prices is mainly due to the global price of crude going up. Governments have acted differently in various countries on fuel pricing. Further, a stronger dollar has added to the cost of crude oil which is refined by the OMCs. Just how high were the prices in India (before excise duty cut by the central government) compared to other countries?

For a set of 106 countries for which data was available, the price in India at $ 1.35/litre ranked 42nd. Hence there were over 50 countries where the price were higher. This should provide some comfort that in absolute terms India is not an outlier. The median price was around $ 1.22/litre.

Fuel prices in India were at par with those in Australia, Turkey, and South Korea. However, the price is very high in case of Hong Kong, Finland, Germany, Italy, Netherlands, Greece, France, Portugal and Norway where it is above $ 2/litre.

Amongst comparable countries (per capita wise), prices are much lower in Vietnam, Kenya, Ukraine, Bangladesh, Nepal, Pakistan, Sri Lanka, Venezuela. Countries that are major oil producers have much lower prices.

Prices when juxtaposed with the per capita income, showed that wherever prices are higher, the per capita income is much higher than in India. Therefore, the economic pain caused is much higher for countries with low per capita income as its direct and indirect effect on inflation is higher which in turn impacts the lower income groups the most.

Philippines had comparable petrol price but has a per capita income higher than India by over 50%. Countries which have a lower per capita income like Kenya, Bangladesh, Nepal, Pakistan, and Venezuela have much lower price of petrol and hence are impacted less than India. Therefore it made a strong case for the government to lower taxes on fuel to protect the interest of the people.

Have investment intentions turned around?

New projects announced by non-financial companies, which includes manufacturing, mining, electricity, non-financial services, and construction & real estate, had jumped nearly 7x by FY09 to Rs 26.7 lakh crore from Rs 4.1 lakh crore in FY96. New projects announced since then have not been able to cross this peak, even though they had reached Rs 23.7 lakh crore by FY16. New project announcements had fallen to Rs 8.4 lakh crore in FY21 but recovered to Rs 14.3 lakh crore in FY22. However, this print is still below the pre-pandemic (FY20) level of Rs 18 lakh crore and also below FY15/16 levels.

Over the period, some notable deviations have been observed in the change in share of non-financial companies. In case of manufacturing, share of new projects announced had peaked at 54.4% in FY05, and since then has hovered at an average of 25.8% between FY06 to FY20. In FY20, new projects announced in the manufacturing sector had fallen to 17.8%, but rose sharply to 38.3% in FY21 and further to 43.5% in FY22. FY22 print is the highest since FY05. This could be the case as manufacturing sector was less hit by the subsequent waves of Covid-19, compared with services sector.

Separately, share of new projects announced (% of non-financial companies) in mining rose to 4.9% in FY21 from 1.9% in FY20. On the other hand, electricity's share in new projects announced saw a dip in in FY21 to 18.3% but has since recovered sharply to 31.8% in FY22.

Construction sector had taken a backseat due to Covid-19 pandemic and is seen to be behind the curve in recovery. Share of new projects announced (% of non-financial companies) in the construction sector in FY22 has fallen to its lowest (2.6%) since FY00 (1.2%). It is also lower than 7.4% in FY21 and 17.5% in FY20 (pre-pandemic level). Services activity (other than financial) has also not fully recovered from the pandemic as % share of new projects announced in FY22 dropped to 19.9% (lowest since FY96—16.7%) from 31.1% in FY21 and 40% in FY20.

In FY22 there has seen some shift in the investment pattern with the Private sector taking up a more definite role in terms of announcements. It does indicate that the government policies to crowd in private sector investment may begin showing results. However, the current war situation and uncertainty in the markets could prolong this process.

There has been a revival in investment announcements in FY22 post the pandemic period. Within non-financial companies too, it has emerged that manufacturing sector is taking the lead so far, while services and construction sector lag behind.

At the macro level, data till FY21 suggests that household sector continues to be a dominant player in the overall investment scenario, and their role may strengthen even further going forward, as government provides support to MSMEs. Private non-financial companies too continue to retain the position of a major player in FY21, followed by public non-financial corporations.

Trends in FPI flows in India

FPIs play an important role in the economy in terms of providing support to the equity and debt market besides adding strength to the foreign capital flows. This study analysed data on FPIs over a span of 25-years to understand trends. These flows have been analysed in terms of trends in movement of equity and debt flows, sources of these flows and the sectors preferred by them. India's share in overall flow of FPIs is also looked at after which we conjectured the prospects for FY23.

Emerging markets have continued to remain an attractive destination for international portfolio investment. In a span of over 25 years since FY98, India has witnessed portfolio outflows in 7 years only, the remaining have had inflows. The first bout of this outflow was post the Asian Financial crisis; however it was short lived one as the country made a stronger than expected comeback. As of FY22, net FPI flows has dipped to US$ 16 bn with Net equity outflow of US$ 18.5 bn and Debt inflow of US$ 0.3 bn. However, in the last decade, there have been more occurrences of negative new inflows.

In terms of sources of FPI, USA had the largest share (37%) in Mar'22, followed by Mauritius (11%), Singapore (8%), Luxembourg (8%) and UK (3%). With a large share from the USA it can be intuitively seen that any development on the economy as well as policy can have an impact on the flow of FPIs. A strong US economy goes with a conservative monetary stance which involves high interest rates as is the case today. This would tend to deter funds from moving out as higher returns are earned by them in the domestic market.

Across different sectors, financial sector tops the chart over the years as the largest contributor of over US$ 183.3bn in FY22. This was followed by investments in oil & gas, utilities and auto sector. For FY17 and in FY12, software services was one of the top 2-sectors for FPI contribution, followed by sovereign investments (investment in government bonds). The picture since then has changed with other sectors grabbing a larger pie.

What to expect in FY23? : The present situation where inflation is high and central banks in the west are aggressive in raising rates does not augur well for investments in the fixed income segment. Therefore debt inflows could be shaky this year. The best case scenario

will be marginal positive net flows. But for this to work out, the economic numbers that come out must be very positive. In short, FPI flows may not provide too much support to the balance of payments and we may have to rely more on FDI to counter the higher current account deficit (CAD).

The Coal-Power crisis explained

In India, power is generated from conventional (Thermal, Nuclear & Hydro) and renewable sources (Wind, Solar, Biomass etc.). 75% of the electricity is generated in the country through thermal plants which use coal. India is also the second-largest importer of coal after China. The country has large domestic and imported coal reserves to meet these enormous requirements.

India's average electricity demand (peak demand) in the month of Apr'22 stood at around 192,989 MW, highest in the last 10 years compared with average demand of 186,172 MW in Mar'22. Further, aggravating heat wave conditions across the country has added to this demand requirement. While, heat conditions are likely to subside in the coming weeks but it will pick up again in Jul'22 and Aug'22.

Given the importance of coal in total power generation any supply side disruptions in terms of availability of feedstock can affect production. This had been an issue in Apr'22 as domestic coal actual stock (in days calculated in terms of domestic coal actual stocks-000 metric tonnes/ Power plants daily coal requirement) fell to just 9 days from a high of 31 days seen during May'20. In 88 out of 136 thermal power plants, inventory in terms of actual coal stock (in number of days) fell as on 28 Apr 2022 compared to 31 Mar 2022. Around 43 thermal plants had stocks lasting not more than 3 days, 58 thermal plants had stocks lasting not more than 4 days which is generally the definition of criticality in thermal plants. Hence 101 plants had come under the super critical stock category.

The crisis had resulted in the form of shortages of power in several states in April which continued in May. This led to outages which had the potential to disrupt overall production in the economy as both manufacturing and services require power to operate in an efficient manner. If not resolved, there can be an impact on overall growth in the economy.

Study on Employment

Employment is one of the leading indicators of growth as an increase in the same is a signal that more jobs are being created which will generate income and demand. However, the concept is amorphous given the high level of informality in the economy. Various approaches have been taken to capture the job scene which is through surveys or data from the EPFO.

Company annual reports provide accurate numbers on the headcount as of the end of the year and can be used to measure the growth in employment over a period of time. Our study uses this approach to gauge how employment has moved in the last 5-6 years. We have taken a sample of 2,019 companies and looked at the employment trend since Mar'16. The CAGR of past 5 years has been only 1.9% against CAGR of real GDP of 3.5% during the same period. Excluding the Covid-19 induced slowdown which was visible in Mar'21 print, CAGR of employment has been 2.5%. Contact intensive sectors such as hospitality, retail, media and entertainment have been impacted the most due to

Covid-19. Notably only 9 out of 27 industries (finance, real estate, IT, banks and healthcare, amongst others) which we evaluated posted better growth in employment numbers in CAGR terms (5 years) compared to industry as a whole. In compensation terms, per employee cost has registered a CAGR growth (5 years) of 5.7%, higher than average CPI of 4.5% during the same period. Whereas employment in sectors such as crude oil, telecom and capital goods, the share has moderated, on account of falling production.

Admittedly this approach looks at the organized sector only and using yearend data which can have limitations. Attrition is common but it is assumed that in the overall scheme workers move from one industry to another or within the same industry and the numbers would be subsumed in the aggregate numbers. The sample evens out data by removing the impact of mergers as this can skew the picture.

Key policy announcements

- Centre had recently announced multiple measures to ease inflation. These included: Rs 8/lt cut in additional excise duty on petrol; Rs 6/lt cut in additional excise duty on diesel; additional; Rs 1.1 lakh crore fertilizer subsidy (over and above Rs 1.05 lakh crore budgeted for FY23); Rs 200 subsidy per gas cylinder (upto 12 cylinders) to ~9 crore beneficiaries of PM Ujjwala Yojna; reduction in customs duty on raw materials and intermediaries for plastics products, and iron and steel. Export duty has been levied on some steel products (up 15%) and iron ore (up to 50% from 30% earlier). Import duty on ferronickel, coking coal, PCI coal has been cut from 2.5% to 0%, while the duty on coke and semi-coke has been cut from 5% to 0%. Import duty on Naphtha has been reduced to 1% from 2.5%, and on PVC to 7.5% from 10%. These measures are expected to reduce the cost of final products.

- The Union Cabinet has approved the Amendments to the National Policy on Biofuels -2018. These include: to allow more feedstocks for production of biofuels; to advance the ethanol blending target of 20% blending of ethanol in petrol to ESY 2025-26 from 2030; to promote the production of biofuels by units located in Special Economic Zones (SEZ)/ Export Oriented Units (EoUs); and to grant permission for export of biofuels in specific cases. This will give an impetus to the vision of India becoming 'energy independent' by 2047.

- GoI has announces some relaxation in its wheat export notification. Following this, wheat consignments which have been handed over to Customs for examination and have been registered into their systems on or prior to 13.5.2022, such consignments would be allowed to be exported. The Government of India had earlier restricted wheat exports to manage the overall food security situation in India and to support the needs of neighbouring and vulnerable countries that are adversely affected by the sudden changes in the global market for wheat and are unable to access adequate wheat supplies.

Data Releases

GDP

India's real GDP rose by 8.7% in FY22 after declining by (-6.6%) FY21. The recovery was led by mining (11.5% versus -8.6%), construction (11.5% versus -7.3%) and public administration & other services (12.6% versus -5.5%). Going ahead, we expect the economy to clock 7.2% growth in FY23 with downward bias against the risk of global slowdown, elevated global inflation print and thin corporate margins. However, a mix of fiscal and monetary policy is expected to boost growth prospects.

GVA growth decelerated by 3.9% in Q4FY22: India's growth moderated in Q4FY22 by 3.9% compared with an increase of 4.7% in Q3FY22. The slowdown was led by moderation in services activity including trade, transport on the back of pandemic induced restrictions. Contracting in manufacturing activity (-0.2% from 3.7% in Q3) added to the pain, as the conflict between Russia-Ukraine (Feb-onwards) resulted in global supply shortage and pushed global commodity prices to an all-time high. Further, mining sector decelerated by 6.7% (9.2% in Q3FY22). Additionally, significant moderation was seen for public admin and defence activity (7.7% against 16.7% in Q3FY22). Agriculture remained the only bright spot at it clocked 4.1% growth in Q4 as against 2.5% in Q3FY22.

On expenditure side, consumption spending was severely impacted with growth moderating to 1.8% in Q4FY22 as the economy battled the 3rdvariant of Covid-19. Both exports and imports also slowed by 16.95 and 18% respectively. However, pace of government spending improved in order to meet their budget targets (5.1% from 2.1% in Q3FY22). Investment too registered an uptick at 5.1% in Q4FY22 (2.1% in Q3).

Fiscal

Centre's fiscal position in FY22 improved more than anticipated as the government was able to lower its fiscal deficit (% of GDP) to 6.7% from budgeted 6.9%. However, this was mainly on account of upward revision to FY22 nominal GDP. Although some key notable trends in FY22 were: significant jump in centre's net revenue (excess of Rs 90,000 crore), sharp miss in disinvestment proceeds and marginal uptick in subsidy and revenue spending. We maintain our fiscal deficit forecast for FY23 at 6.6%.

Centre's overall receipts rose to Rs 22.1 lakh crore in FY22 compared with government's revised estimates (RE) of Rs 21.8 lakh crore. Within this, revenue receipts for FY22 have come in at Rs 21.7 lakh crore, compared with RE of Rs 20.8 lakh crore, implying an excess of ~90,000 crore. Both tax and non-tax receipts posted better than projected growth. Net tax revenue receipts are up at Rs 18.2 lakh crore (27.6% YoY) versus RE of Rs 17.7 lakh crore (23.8%), while non-tax revenue settled at Rs 3.5 lakh crore (67.6%) versus RE of Rs 3.1 lakh crore (51.1%)

With the help of higher revenue growth, government was able to spend slightly more than budgeted in FY22. Total spending by the centre was at Rs 37.9 lakh crore (100.6% of target) compared with RE of Rs 37.7 lakh crore. The jump was mainly seen in revenue spending, which rose to Rs 32 lakh crore compared with RE of Rs 31.7 lakh crore. On the other hand, capital expenditure missed the target (Rs 6 lakh crore) marginally and settled at Rs 5.9 lakh crore. Within revenue spending, subsidies were at Rs 4.5 lakh crore

in FY22 versus RE of Rs 4.3 lakh crore. Amongst the subsidies, slippage was only marginal in case of food subsidies (Rs 2,500 crore) and more on account of fertilizer subsidies (Rs 13,536 crore). However, government made savings on petroleum subsidies.

Core industries

India's eight core output rose to a 6-month high by 8.4% in Apr'21 from 4.9% in Mar'21, supported by favourable base. Coal production clocked double digit growth of 28.8% in Apr'22, after contracting by 0.1% in Mar'22. Output of petroleum fertilizers and electricity also improved by 9.7% and 10.7% respectively in Apr'22. However, moderation was seen in the output of natural gas, fertilizers and cement. Steel output contracted by 0.7% compared with an increase of 5% in Mar'22.

Analysis of third advance agriculture estimates

According to the 3rd advance estimates, India's foodgrain production is expected to be up by 23.8mn tonne than average production of last 5-years. However the pace of improvement has decelerated by 1.3% (314.5mn tonne) in the agriculture year 2021-22 compared with growth of 4.5% in 2020-21 (310.74mn tonne). This is led by declining Rabi production by 0.4% in AY 2021-22 compared with an increase of 4.2% last year. Within Rabi, production of wheat (106.41mn tonne for AY2021-22) is estimated to have registered sharp decline by 2.9% and is much lower than the target level (110mn tonne). Lower output has been attributed to early onslaught of summer and extreme heat wave conditions. Notably, production of gram (17.4% from 7.5% last year), rapeseed and mustard (15.1% from 11.9%) and linseed (17.1% from -8.3% last year) have improved in the AY2021-22.

Production of Kharif crops moderated to 2.9% (4.7% previous year) for the same time period. Rice output has moved up by 4.3% compared with a growth of 4.6% in AY2020-21. Overall production of pulses has clocked double digit growth at 11% in AY22 from 8.6% in AY21. Production of groundnut (-1.9% from +1.7% in AY21) and niger seed (-14.3% from 2.4% in AY21) declined in AY22, while that of castor seed improved marginally (-8.6% from -10.6%). Output of cotton is also expected to fall sharply by (-) 10.5% in AY22 compared with a decline of (-) 2.3% in AY21, which has manifested itself in the higher price of cotton today.

Currency outlook: Pressure on INR

With easing lockdown restrictions in China and stimulus measures announced by UK and China, global growth concerns abated. As a result, DXY eased and other global currencies edged up. Investors have also pared back expectations of more than stated aggressive rate hikes by Fed, while ECB is expected to kick-start the rate-hike cycle sooner than expected amidst record-high inflation. In India, INR depreciated to a record-low of 77.73/$ in the last fortnight but has since found support at the 77.5/$ level. However, higher domestic inflation, FPI outflows, risks to domestic growth outlook and a widening trade deficit continue to weigh on the Rupee. We expect INR to trade in the range of 77.5-78/$ in the next fortnight with a depreciating bias.

Trade- Record-high exports

India's trade deficit expanded to US$ 20.1bn in Apr'22 from US$ 18.5bn in Mar'22. While headwinds for exports have risen as the global growth outlook remains marred by concerns over monetary policy tightening, Russia-Ukraine war and China's Covid-19 situation. On the other hand, imports are likely to remain high amidst elevated commodity prices, especially oil. We thus expect India's trade deficit to widen further in FY23. We expect CAD at 2.5-3 % of GDP. This will put further pressure on INR.

India's exports rose by 30.7% in Apr'22, compared with 19.8% in Mar'22 on a YoY basis. This was led by a pickup in both oil (127.5% versus 115.4% in Mar'22) and non-oil (17.7% in Apr'22 versus 8.9% in Mar'22) exports. Within non-oil exports, exports of engineering goods witnessed an improvement to 22% in Apr'22 from 17% in Mr'22. Other items such as drugs and pharmaceuticals (9.5% in Apr'22 versus 4.2% in Mar'22), organic and inorganic chemicals (32.3% in Apr'22 from 22% in Mar'22) also accelerated.

Import growth also accelerated to 31% in Apr'22 from 24.2% in Mar'22. This was led by an increase in oil imports to 87.5% in Apr'22 from 83% in Mar'22. Even gold imports declined at a slower pace of 72.4% in Apr'22 compared with a decline of 87.7% in Mar'22. Reflecting the impact of higher commodity prices, India's imports rose to a fresh record-high of US$ 60.7bn in Mar'22 from US$ 55.4bn in Feb'22. On the other hand, non-oil-non-gold imports lost some momentum and rose by 32.2% in Apr'22 compared with 35.7% in Mar'22.

CPI Inflation firms up

CPI inflation rose to nearly 8 year high (8.3% in May'14) to 7.8% in Apr'22 (est.: 7.5%) from 7% in Mar'22. With this, the CPI print has surpassed RBI's mandate for the third consecutive month now. Food inflation rose further by 8.4% in Apr'22 (17-month high) from 7.7% in the previous month. Within food, prices of vegetables, fruits, spices, cereals and milk rose the most. Vegetable inflation remained elevated and in double-digit at 15.4% in Apr'22 (highest since Nov'20) compared with 11.6% in Mar'22. Fruit prices also rose by 5% from 2.5% last month and milk prices were up by 5.5% versus 4.7% in Mar'22.

Core inflation rose by 66bps to 7% in Apr'22. The increase was board-based (barring personal care and effects). Significant jump was seen in fuel light component (10.8% versus 7.5% in Mar'22) and transport and communication (10.9% versus 8%). Apart from this, increase was also visible in prices of clothing and footwear (9.9% versus 9.4%), education (4.1% versus 3.6%), recreation & amusement (7.3% versus 7%)), health (7.2% versus 7%) and housing (3.5% versus 3.4%). Only personal care and effect index showed slight moderation (8.6% versus 8.7%).

Given the trajectory of retail inflation with food and core inflation remaining elevated, we see a case for RBI hiking repo rate by another 25-35bps. Rising global inflation, depreciating rupee (contributing to imported inflation) and looming threat over EU's embargo on Russian oil makes our case stronger for a repo rate hike by RBI.

WPI at 14.5% in Mar'22

In line with our expectations (forecast of 15.1%), WPI for Apr'22 had come in at 15.1%, up from 14.5% in Mar'22. This is the highest print on record in the current (2011-12) series. All sub-heads (food, fuel, and manufacturing) registered an acceleration in inflation in Apr'22, with fuel and power inflation noting the sharpest increase.

Food inflation in Apr'22 is at its highest (8.9%) since Jan'22 (9.6%) and has moved up from 8.7% in Mar'22. This is led by jump in prices of vegetables (23.2% in Apr'22 versus 19.9% in Mar'22), fruits (10.9% versus 10.6%), milk (5.1% versus 2.9%), and spices (14.6% versus 13.8%).

Fuel and power inflation in Apr'22 rose to 38.7% from 34.5% in Mar'22, led by increase in the mineral oil index (62.5% versus 50.1% in Mar'22). Within mineral oils, price increase was mostly broad-based (barring Bitumen). Pressure was most visible in items like Kerosene (118% versus 81%), ATF (105% versus 75%) and furnace oil (65% versus 46%).

Core inflation in Apr'22 accelerated for the third consecutive month to 11.1% from 10.9% in Mar'22. Manufactured products inflation was also up at 10.9% in Apr'22 from 10.7% in Mar'22. Of the 22 commodity indices, 12 indices rose at a faster pace in Apr'22 than Mar'22 led by paper products, fabricated metal products, other manufacturing items, electrical equipment, and other non-metallic mineral products.

IIP- Industrial output up

Industrial output rose to 1.9% in Mar'22 from 1.5% in Feb'22 led by improvement in manufacturing electricity sectors. Manufacturing output rose by 0.9% in Mar'22 following 0.5% rise in Feb'22, while electricity production was up by 6.1% from 4.5% in the previous month. On the other hand, mining output eased to 4% in Mar'22 from 4.5% in Feb'22. On an annual basis, overall industrial production was up by 11.3% in FY22 compared with a decline of (-) 8.4% in FY21. This is the highest print in the current (2011-12) series. Notably, over a 2-year horizon, IIP index is 26.5% above the pre-pandemic level, signally recovery in economic activity. All sub-sectors have performed well with manufacturing output up by 29.6%, electricity by 30% and mining by 10.4%.

Within use-based classification, primary and consumer goods have registered an improvement. Primary goods clocked to 5-month high at 5.7% in Mar'22 from 4.6% in Feb'22. Consumer durables and non-durables also fell at slower pace of (-) 3.2% (-8.7% in Feb'22) and (-) 5% (-5.8% in Feb'22), respectively. However, output of capital, intermediate and infra goods moderated. Out of capital goods eased to 0.7% from 2% in Feb'22, while that of intermediate goods eased to 0.6% from 3.7%. Output of infra goods was down to 7.3% from 9.1% last month. On an annual basis, barring primary and consumer non-durables, all the other sectors registered double digit growth in FY22.

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