FIRST LIGHT

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RESEARCH

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India's CAD at comfortable level

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CEMENT

Monsoon keeps activity slow; non-trade prices revive from lows

SUMMARY

INDIA ECONOMICS: BALANCE OF PAYMENTS

India's current account deficit was recorded at 1.1% of GDP in Q1 FY25, compared with a surplus of US$ 0.5% of GDP in Q4 FY24. This was led primarily by a pickup in merchandise deficit. Services receipts and remittance inflows also slowed marginally. There was a precipitable slowdown in the capital account surplus, led by a sharp moderation in FPI inflows, even as FDI inflows saw a much-needed revival. As a result, there was a marked reduction in BoP surplus, to US$ 5.2bn compared with US$ 30.8bn in Q4. The outlook for India's balance of payment position remains positive, led by lower commodity prices and an expected recovery in merchandise exports. Services receipts and remittances too are expected to be higher, as the global monetary policy cycle turns favourable. Overall, we expect CAD at 1-1.2% of GDP in FY25.

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INDIA ECONOMICS: FED IMPACT

Fed recently delivered a super-sized rate cut of 50bps, bringing its policy rate down to 4.75-5%. The dot plot shows that another 50bps cut can be expected in the remainder of CY24 and then a cumulative 100bps cut in CY25. While this is more hawkish than expected, the view appears to be originating from targeting unemployment rate at 4.4% even next year, and headline and core PCE at targeted 2% mark. Latest projections have lowered GDP and inflation numbers, but indicated increase in unemployment rate estimates.

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CEMENT

- Cement prices in September 2024 fell by 8% YoY but gained marginally MoM by 2% as the monsoon continued a relatively extended spell
- Trade and non-trade price gap narrowed by ~ Rs20/bag from Rs 50/bag in August to Rs30/bag in September as lower prices were unprofitable
- Meaningful price hikes are likely only post the festive season (Diwali) on the back of genuine demand revival

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BALANCE OF PAYMENTS

30 September 2024

India's CAD at comfortable level

Aditi Gupta
Economist

India's current account deficit was recorded at 1.1% of GDP in Q1 FY25, compared with a surplus of US$ 0.5% of GDP in Q4 FY24. This was led primarily by a pickup in merchandise deficit. Services receipts and remittance inflows also slowed marginally. There was a precipitable slowdown in the capital account surplus, led by a sharp moderation in FPI inflows, even as FDI inflows saw a much-needed revival. As a result, there was a marked reduction in BoP surplus, to US$ 5.2bn compared with US$ 30.8bn in Q4. The outlook for India's balance of payment position remains positive, led by lower commodity prices and an expected recovery in merchandise exports. Services receipts and remittances too are expected to be higher, as the global monetary policy cycle turns favourable. Overall, we expect CAD at 1-1.2% of GDP in FY25.

Current account in deficit:

India's current account swung back into a deficit of US$ 9.7bn or 1.1% of GDP in Q1 FY25 from a surplus of US$ 4.6 bn in Q4 FY24 (0.5% of GDP). In Q1 FY24, the current account deficit (CAD) stood at US$ 8.9bn or 1% of GDP. The sequential pickup in CAD was led by higher merchandise deficit, which picked up to US$ 65.1bn in Q1, from US$ 52bn in Q4 FY24. Net services receipts were lower at US$ 39.7bn in Q1 versus US$ 42.7bn in Q4. This was led by non-software exports, as software receipts noted an improvement despite challenging macroeconomic landscape. Remittances receipts also moderated sequentially from U$ 28.7bn in Q4 to US$ 26.4 bn in Q1 but are expected to pick up in the remaining quarters. Support for CAD stemmed from lower outflows on account of investment income, which moderated to US$ 10.7bn in Q1 compared with US$ 14.8bn in Q4 FY24.

Capital account surplus:

Capital account surplus in Q1 FY25 moderated sharply on a sequential basis from US$ 25.6bn in Q4 to US$ 14.5bn in Q1. This was majorly led by a sizeable slowdown in FPI inflows which eased to US$ 0.9bn from US$ 11.4bn in Q4 FY24. This was concentrated mainly in the equity segment, and can be attributed to a widespread risk-aversion in the domestic markets during the election period. This was further exacerbated by a slowdown in both banking deposit inflows, particularly NRI deposits. On the positive side, there are signs of a revival in FDI inflows. In Q1 FY25, net FDI inflows rose to a 5-quarter high at US$ 6.3bn, compared with a paltry US$ 2.3 bn in Q4 FY24. ECB inflows were steady at US$ 1.7bn.

FED IMPACT

30 September 2024

Does Fed decision impact those of other central banks?

Sonal Badhan
Economist

Fed recently delivered a super-sized rate cut of 50bps, bringing its policy rate down to 4.75-5%. The dot plot shows that another 50bps cut can be expected in the remainder of CY24 and then a cumulative 100bps cut in CY25. While this is more hawkish than expected, the view appears to be originating from targeting unemployment rate at 4.4% even next year, and headline and core PCE at targeted 2% mark. Latest projections have lowered GDP and inflation numbers, but indicated increase in unemployment rate estimates.

In this study, we examine the relation between Fed actions on global central banks. Historical data shows that most central banks move according to domestic conditions and are not necessarily linked with decisions taken by the Fed. As such, we do not expect RBI to change its course following this development and maintain our view that the earliest possibility of a rate cut is in Dec'24. We also believe the stance will be kept unchanged in the Oct'24 policy. Further, as major central banks have embarked upon rate cut cycles, we have also highlighted the real rates and widening spread between US and India 10Y G-Sec yields from the point of view of investor decisions. Resilience in domestic economy, and relatively attractive rates will imply that India remains a key market for foreign investors.

How Fed moved

Fed action: The Federal Reserve Bank of US (Fed), decided to lower the policy rate by 50bps in its latest meeting in Sep'24, thus bringing the policy rate down to 4.75-5%. Before the meeting, analysts were split between possibilities of 25bps or 50bps cut, as macro data points provided mixed signals. On one hand, while labour market was showing signs of cooling down, on the other hand, core CPI noted some build up in pressure in Aug'24. Non-farm payrolls in the US rose by 142k in Aug'24 (+114 in Jul'24) versus estimated increase of 160k. Manufacturing sector saw 24k decline in payrolls, following 1k increase in the previous month. On the price front, while headline CPI followed the expected trajectory and rose by 0.2% (MoM) in Aug'24, unchanged from Jul'24, core CPI inched up by 0.3% (est.: 0.2%) from 0.2% last month. Even headline PPI rose, by 0.2% (est.: 0.1%), following flat growth (0%) in Jul'24.

So what helped Fed move?: In the press conference, Chairman Powell highlighted that since the Jul'24 policy meeting, the central bank took into account two inflation and employment reports (Jul and Aug), and a Quarterly Census of Employment and Wages (QCEW) report which indicated that past payroll numbers may get revised downward in the coming months.

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CEMENT

30 September 2024

Monsoon keeps activity slow; non-trade prices revive from lows

- **Cement prices in September 2024 fell by 8% YoY but gained marginally MoM by 2% as the monsoon continued a relatively extended spell**
- **Trade and non-trade price gap narrowed by ~ Rs20/bag from Rs 50/bag in August to Rs30/bag in September as lower prices were unprofitable**
- **Meaningful price hikes are likely only post the festive season (Diwali) on the back of genuine demand revival**

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Attempts of price hikes failed as cement prices reverts back: All India cement prices in September '24 were ~8% lower YoY at Rs 330/bag compared to Rs 360/bag in September'23 (Rs 322/bag in Aug'24). Our channel checks indicate, prices did show some MoM respite especially in the non-trade segment as that segment sustained price hikes indicating minor demand revival.

Non-trade segment reverse from sharp weakness; trade segment listless: Cement prices in the trade segment showed faster reversal from the hikes in the earlier part of the month. However, the gap between trade and non-trade prices narrowed (at Rs50/bag earlier) to ~Rs 30/bag at the Pan-India levels. Prices gained pace by Rs 10-20/bag in the non-trade segment, as prices at Rs 220-230/bag in August 2024 were clearly unsustainable. However, volumes stayed tepid in the trade segment and non-trade segment with a decline of ~ 5-10% MoM in Sept' 2024. Overall demand stayed dull contributed by the inauspicious period towards the end.

South and East India faces highest pricing pressure: Cement prices fell the most in East and South by 18%/10% YoY (up 1%/flat MoM) ahead of the All-India average of ~ 8%. This was followed by North and West that fell by ~6% each. Central India remained the best option with a fall of 2% YoY. Prices in Western and Central India reversed by ~4% MoM after a fall in August 2024. Demand was down by 5-10% MoM (on a weak base) in the southern region, while activity was slow in western and eastern India largely due to the monsoon. Our channel check indicates price reversal will be faster in the western/northern region compared to South and East.

Meaningful reversal only post festive season: Early indications from our channel checks (23 across the country) indicate that genuine price hikes in the trade and non-trade segment will be operational only post festivities (mid-November). Price hikes are announced in October; however, sustainability will be the key.

No change in stance: We maintain our positive stance on UTCEM, and retain our HOLD ratings on JKCE and ACEM with a positive bias. There is no change in our negative stance on TRCL, JKLC and ORCMNT and we maintain our SELL rating.

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