

RESEARCH

BOB ECONOMICS RESEARCH | MONTHLY ECONOMIC BUFFET

Economic Round-up: September 2023

BOB ECONOMICS RESEARCH | INVESTMENT TRENDS

What's the latest on non-government investment?

Daily macro indicators

Indicator	03-Oct	04-Oct	Chg (%)
US 10Y yield (%)	4.80	4.73	(6bps)
India 10Y yield (%)	7.23	7.24	0bps
USD/INR	83.21	83.24	(0.0)
Brent Crude (US\$/bbl)	90.9	85.8	(5.6)
Dow	33,002	33,130	0.4
Hang Seng	17,331	17,196	(0.8)
Sensex	65,512	65,226	(0.4)
India FII (US\$ mn)	28-Sep	3-Oct	Chg (\$ mn)
FII-D	103.4	168.1	64.7
FII-E	(345.3)	(100.5)	244.8

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: MONTHLY ECONOMIC BUFFET

Macro data points from the US, China are showing that economy is maintaining momentum /recovering, while in Eurozone and UK weakness in activity persists. In the US, continued tightness in labour market, and strength in domestic consumption (retail sales) also nudged Fed to revise upwards its GDP projections for CY23 and CY24. CPI estimates for CY23 are also projected to be higher than earlier anticipated. In Eurozone and UK on the other hand, central banks expect weaker economic activity in the remaining part of CY23. Winter season and rising international oil prices pose further threat to inflation. Recovery in China however offers a glimmer of hope to global demand. Pick up manufacturing and non-manufacturing PMIs, along with improvement in industrial output, retail sales and policy support by the government (RRR cut), has led to upward revision in various analysts forecasts for China's CY23 GDP growth. Going ahead, while major central banks are expected to keep monetary policy restrictive, its impact on growth will be watched more closely.

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INDIA ECONOMICS: INVESTMENT TRENDS

Investment picture in FYTD24 i.e. H1FYTD24 has remained fuzzy. CMIE data shows that new project announcements have fallen to its lowest since Jun-04. Cumulative H1 figure is also far lower compared to same period of previous year. Sector wise, a sharp fall was witnessed in transportation sector, which was earlier propped up by aviation. Manufacturing has lagged though core capital goods such as machinery and metals showed moderate increase.

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MONTHLY ECONOMIC BUFFET

05 October 2023

Economic Round-up: September 2023

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Sonal Badhan

Economist

Global growth: Global growth remains unpredictable with US economy not slowing as much as anticipated, China showing signs of recovery and Eurozone and UK economies faltering more than expected. In the US, lower jobless claims, pick up retail sales and industrial output, improvement in employment sub-index for ISM manufacturing PMI and higher than expected job openings indicate that economy remains on solid ground so far. On the other hand, slowdown in demand from China, has hampered manufacturing activity in Eurozone and UK. However, now with china showing signs of improvement, global demand may also pickup, leading European economies out of their slumber.

Global Central Banks: In Sep'23, US Fed and BoE held rates unchanged, while ECB hiked its main policy rate by 25bps to 4%. While Fed's policy statement was more hawkish and signalled one more rate hike in CY23 and fewer rate cuts in CY24, analysts expect BoE to remain on continued pause now. In case of ECB, a lot will depend on the inflation trajectory, which may get impacted by rising international oil prices. For now, ECB president signalled that if policy was left at current restrictive levels, inflation may come back within the targeted ranged in the planned time frame. On the other hand in Asia, PBOC continues to loosen its monetary policy to support growth, and BoJ is hinting that discussions might be underway to formulate a gradual exit from its ultra-loose policy.

Key macro data releases: India's current account deficit (CAD) for the first quarter of FY24 came in at 1.1% of GDP as against 2.1% last year. In absolute terms the deficit was almost half of that last year at \$ 9.2bn (\$ 17.9bn in Q1FY23). The improvement in CAD was mainly due to a lower trade deficit of \$ 56.6bn as against \$ 63bn last year. This improvement was mainly due to the declining commodity prices globally. This will change track given the recent increase in crude oil prices which has been above \$ 90/bbl in Sep'23 and is nearing \$100/bbl in the coming days. We expect CAD to be in the region of 1.5-1.8% of GDP for the year.



INVESTMENT TRENDS

05 October 2023

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Dipanwita Mazumdar
Economist

We tried to look at the funding side of investment as well to get a clear picture. But there as well, it remains blurry. Bank funding is tilted towards consumer driven retail loans, with industry falling far behind. However, here what is bit of a respite is that core capital goods sectors such as basic metals, engineering and infra are holding up better than the industry average in terms of growth.

Capital raising through debt and equity market is also bit confusing. Prima facie, through the debt route only NBFCs and HFCs are raising capital but our study has shown that NBFCs are in turn deploying their funds for lending to industry.

In terms of equity issuances in the primary market, manufacturing as well as core capital goods firms have fared well.

For foreign capital flows, ECB flows have picked pace but the sectoral flow of it is towards refinancing and on lending purpose with infra receiving a minor share in total flows.

For FDI as well, biasedness prevails towards services sector.

Investment in Q2FY24 started on a somber note

CMIE data showed that new project announcements in Q2FY24 has fallen sharply. It amounted to Rs 1.2 lakh crore, which was the lowest level since Jun-04. The quarterly picture is indeed volatile and there is a certain trend in pattern of announcements that is seen historically. For example in Q2, generally the pace of announcement is weaker. But the drop in new project announcement in Q2FY24 is the lowest since Jun-04. Even cumulatively for H1FY24, the announcements stand much lower at Rs 7.8 lakh crore compared to previous year's level of Rs 11.8 lakh crore in the same period.



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