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ECONOMY OUTLOOK - DECEMBER 2024



Brickwork Research

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Economy Outlook

Contents

India Need Comprehensive Policy Responses to Deal With Rising Inflation, Currency Depreciation, and High Unemployment	4
India's Retail Inflation Surges to 6.2% in October 2024; Posing challenges for consumers and policymakers.....	6
Wholesale Inflation Hits Four-Month High at 2.36%: Food Prices Drive Inflation	7
Manufacturing PMI Rises to 57.5 in October; Strong Demand Fuels Manufacturing Growth	9
India's Services PMI Soars to 58.5 in October 2024 on Strong Demand	10
India's Flash PMI Shows Strong Growth Amid Rising Inflation: Rose to 59.5 in November, up from 59.1 in October	10
India's Core Sector Shows Recovery, Rises to 3.1% in October 2024 Driven by Coal, Petroleum Refinery Products and Steel.....	11
India's Industrial Production Grows 3.1% in September 2024 driven by the manufacturing sector	12
India's Trade Deficit Widens to \$27.14 Billion; Exports Surge at Fastest Rate in 28 Months.....	14
Stock Markets.....	16
Forex	17
India's Forex Reserves Continues Decline from Record Highs; Drop to \$656.58 Billion as of November 22.....	17
Rupee	19
Oil.....	20
GLOBAL	21

Summary

1. Retail inflation in India rose from 5.49% to 6.21% in October 2024, primarily due to a 42% year-on-year increase in food prices, particularly vegetables
2. India's Wholesale Inflation reached a four-month high of 2.36% in October 2024, primarily due to increased food prices, particularly vegetables and manufacturing prices
3. India's Manufacturing Sector witnessed significant growth in October 2024 with the Purchasing Managers' Index (PMI) in India rising to 57.5 from 56.5 in September 2024, indicating strong expansion in the manufacturing sector
4. India's Services PMI surged to 58.5 in October 2024, marking the 39th consecutive month of significant growth in the sector, surpassing the long-term average of 54.1, indicating a sector rebound after previous challenges
5. Flash India PMI for November 2024 shows a robust performance in India's private sector, marking the highest level since August 2024, with the Composite Output Index rising to 59.5 from 59.1 in October 2024. The increase in economic activity is attributed to new business gains and robust export sales
6. India's Eight Core industries experienced a 3.1% growth in output in October 2024, a significant recovery from a 1.6% contraction in August 2024, largely due to robust performance in coal and petroleum refinery products
7. India's Industrial Production rebounded in September 2024 with a 3.1% year-on-year growth, from a 0.1% contraction in August 2024, primarily driven by the manufacturing sector, which experienced a 3.9% growth
8. India's Merchandise Trade Deficit increased to \$27.14 billion in October 2024, up from \$20.78 billion in September 2024. This increase was primarily due to a 3.9% rise in imports and a 17.25% increase in exports compared to the same month last year
9. The Indian Equity Market experienced significant volatility in November 2024, with a decline in major indices and substantial foreign portfolio investor outflows
10. India's Foreign Exchange Reserves have experienced a significant decline, with a \$1.31 billion decrease as of November 22, 2024, marking an eighth consecutive week of decline, following a record drop of \$17.76 billion in November 2024
11. The Indian Rupee experienced significant declines in November 2024, reaching an all-time low of 84.5075 against the dollar, making it one of the worst-performing currencies in Asia
12. Brent Crude Oil faced downward pressure in November 2024 due to demand concerns and geopolitical issues
13. US Federal Reserve Cuts Interest Rates; Future cuts depend on economic developments and Trump's fiscal policies
14. Federal Reserve Chair Jerome Powell Emphasizes Caution on Rate Cuts
15. Bank of England Cuts Interest Rates to 4.75%: Gradual Reductions Expected Ahead
16. UK Public Sector Borrowing Hit Record High in October 2024 led by Debt Interest Payments



India's recent economic performance has raised significant concerns, particularly following the announcement of a disappointing GDP growth rate of 5.4% for the second quarter of 2024, marking the slowest expansion in seven quarters. This decline is symptomatic of broader economic challenges facing the country, including high inflation, stagnant consumer spending, and a struggling labor market. Economists attribute the slowdown to various factors, including reduced private consumption, which comprises about 60% of India's GDP, and rising food prices that have severely impacted household purchasing power

The retail food inflation rate surged to 10.87% year-on-year in October 2024, which has further strained consumer budgets. High inflation rates have been particularly pronounced in essential items such as vegetables, with prices for potatoes and onions soaring nearly 50% compared to the previous year

This inflationary pressure has led to a decrease in urban consumption patterns, as many households tighten their belts in response to rising costs. Despite some signs of recovery in rural areas due to better harvests, urban consumers are facing increasing financial stress. Corporate performance has also contributed to the economic slowdown, with many companies reporting subdued financial results. Key indicators such as industrial production and bank lending have shown a deceleration, suggesting that businesses are cautious about future investments amid uncertain economic conditions. The Reserve Bank of India has maintained its growth forecast at 7.2% for the fiscal year; however, many analysts expect actual growth to fall below this figure as they revise their projections downward in light of recent data

Income stagnation has adversely affected demand across various sectors. The share of affordable cars and homes in total sales has significantly diminished, indicating a contraction in consumer confidence and spending capacity. The ongoing economic challenges are compounded by external factors such as geopolitical tensions and fluctuations in global commodity prices. These elements can disrupt supply chains and exacerbate inflationary pressures within India. Furthermore, the Indian economy's reliance on agricultural performance means that adverse weather conditions could further impact growth prospects

Despite these challenges, some economists remain cautiously optimistic about a potential recovery in the latter half of the fiscal year. Government expenditure is expected to increase following recent elections, which could stimulate economic activity. Additionally, improved agricultural output may bolster rural consumption and provide some relief from inflationary pressures

However, for a sustainable recovery to take hold, structural reforms are necessary to address underlying issues such as labor market rigidity and the need for increased productivity across various sectors. The government must also focus on enhancing investment climates to attract both domestic and foreign capital. This includes improving infrastructure and simplifying regulatory frameworks that currently hinder business operations

In summary, while there are glimmers of hope for recovery driven by rural consumption and government spending initiatives, significant hurdles remain for the Indian economy. The recent GDP figures underscore a critical moment for policymakers who must navigate these complexities while ensuring that growth benefits all segments of society rather than just a privileged few. The path forward will require concerted efforts to stabilize inflation, stimulate consumer demand, and foster an inclusive economic environment that can sustain long-term growth amidst global uncertainties

BWR VIEW

FUTURE OUTLOOK

Economic Projections

Despite current challenges, analysts at Brickwork Ratings maintain a cautiously optimistic outlook for India's economy. The Asian Development Bank (ADB) forecasts GDP growth at 7% for FY2024 and 7.2% for FY2025, citing potential improvements in agricultural output and urban consumption as key drivers. However, these projections hinge on several factors including government fiscal policies and external economic conditions

Risks Ahead

The Indian economy faces multiple risks moving forward, including geopolitical tensions that could disrupt global supply chains and commodity prices. Weather-related risks also pose a threat to agricultural output, which is vital for rural spending and overall economic stability. Moreover, persistent inflation may limit the Reserve Bank of India's ability to adopt more accommodative monetary policies that could stimulate growth

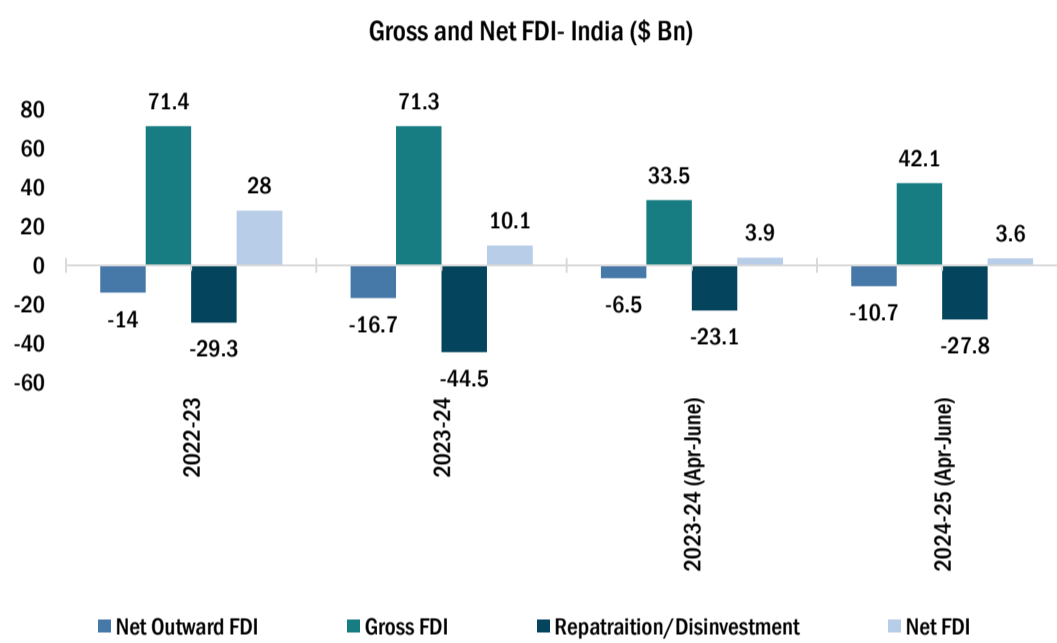
Conclusion

The recent downturn in India's GDP growth rate highlights critical vulnerabilities within the economy that need addressing. Rising inflation, currency depreciation, and high unemployment rates are symptoms of deeper structural issues that require comprehensive policy responses aimed at fostering inclusive growth

As India navigates these challenges, it must focus on creating an environment conducive to broad-based economic participation—ensuring that benefits are shared across all segments of society rather than concentrated among a select few. Addressing these issues will be crucial for restoring confidence in India's economic trajectory and achieving sustainable growth in the coming years

India's Gross FDI increased by 26% in H1FY25, while Net FDI moderated

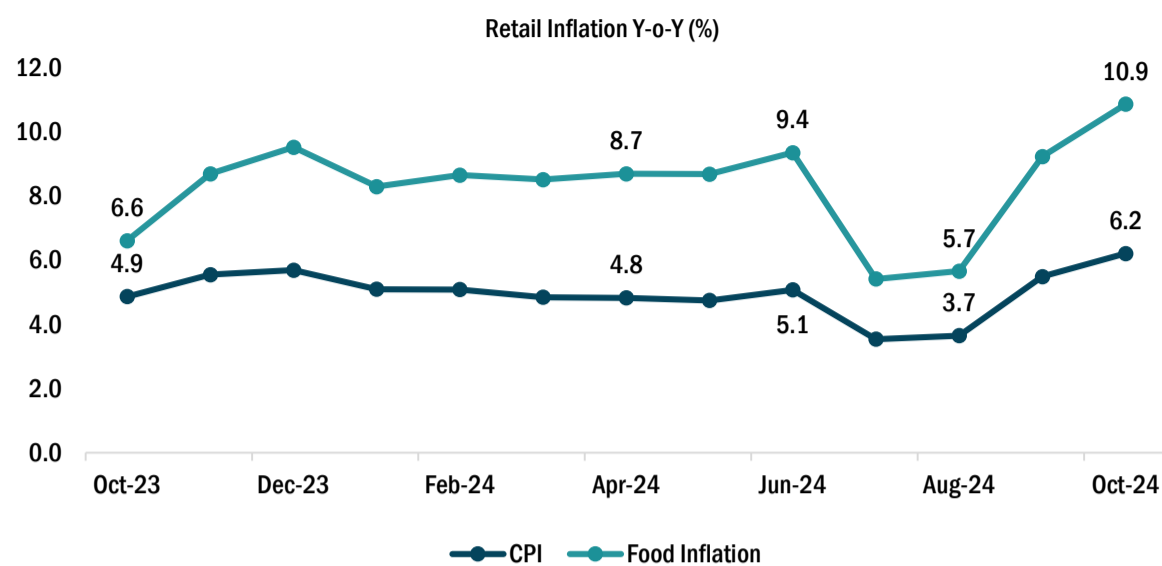
- India's gross inward foreign direct investment (FDI) increased 25.7% in H1FY25, reaching \$42.1 billion from \$33.5 billion a year ago, primarily due to substantial investments in manufacturing, financial services, electricity, and communication sectors
- Despite a rise in gross FDI, net FDI inflows decreased to \$3.6 billion in H1FY25 from \$3.9 billion a year ago, primarily due to increased repatriation and outward investments
- Manufacturing, financial services, electricity, and communication services accounted for two-thirds of gross FDI inflows, while Singapore, Mauritius, the Netherlands, UAE, and the US contributed three-fourths of the total FDI
- **Repatriation and Outward FDI:** Repatriation or disinvestment increased to \$27.8 billion in the first six months of FY25, up from \$23.1 billion in April-September 2023 period. The trend suggests an increasing number of foreign investors withdrawing their investments or profits from India
- The rise in outward FDI indicates that Indian companies are also investing more abroad, impacting net FDI figures as these outflows counterbalance incoming investments



Foreign Portfolio Investment Flows Turned Negative in October 2024

- In October 2024, India's foreign portfolio investment (FPI) flows turned negative for the first time in four months, marking a significant shift in investor sentiment due to global uncertainty, geopolitical tensions, and rebalancing by global portfolio managers
- Net FPI outflows reached a record \$11 billion, marking the highest level since the start of the COVID-19 pandemic, according to the Reserve Bank of India (RBI)
- Foreign investors are shifting their focus to Chinese equities due to attractive valuations and recent stimulus measures, leading to substantial sell-offs in the equity segment
- China introduced a \$1 trillion stimulus package in October 2024 to revitalize its economy, aiming to stabilize the domestic market and attract foreign investment by enhancing Chinese equities appeal
- Among sectors, Financial services, oil, gas, consumable fuels, and fast-moving consumer goods experienced the highest outflows in October 2024, reaching a net FPI outflow of \$3.4 billion in November 2024 (up to November 14, 2024)
- This indicates Indian markets are facing challenges due to a complex global economic landscape, geopolitical developments, and investor preferences affecting capital flows

India's Retail Inflation Surges to 6.2% in October 2024; Posing challenges for consumers and policymakers



Source: RBI

- Retail inflation in India increased significantly in October 2024 from 5.49% in September 2024 to reach 6.21%
- The increase is primarily due to the significant rise in food prices, particularly vegetables, which have risen by over 42% year-on-year (y-o-y)
- This surge in inflation in India has exceeded the Reserve Bank's 6% upper tolerance limit for the first time since August 2023, indicating persistent price pressures, particularly in food prices during the festive season, raising concerns about consumer purchasing power and potential monetary policy adjustments
- In October 2023, retail inflation was 4.87% lower than a year ago, indicating a significant increase over the past year
- The last time inflation exceeded the 6% threshold was in August 2023, indicating a concerning trend that could impact economic stability and future consumer spending patterns

Key Highlights:

- **Food Inflation:** The Consumer Food Price Index (CFPI) recorded a substantial inflation rate of 10.87% in October 2024, up from 9.24% in September 2024, primarily due to higher prices for vegetables, fruits, and oils
 - Onion prices surged from Rs 40-60 per kilogram to Rs 70-80 per kilogram in October 2024, while cereals and edible oils also experienced significant price hikes while prices for pulses, eggs, sugar, and spices decreased
- **Rural versus Urban Inflation:** Rural inflation reached 6.68% in October 2024, while urban inflation was recorded at 5.62%, indicating higher price pressures for rural consumers compared to urban counterparts
- The surge in retail inflation reflects broader economic challenges and may slow economic growth due to reduced purchasing power for middle-income households and pressure on corporate earnings
- Inflation surge raises consumer purchasing power concerns and may delay RBI's potential interest rate cuts, despite previously maintaining neutral monetary policy stance
- The RBI's inflation forecast for the October to December 2024 quarter has been skewed by a recent spike, potentially necessitating tighter monetary policies in the future
- Inflation may ease in November 2024 due to favourable base effects and potential vegetable price softening, potentially influencing RBI's monetary policy decisions, especially regarding interest rates
- The sharp increase in inflation raising concerns about consumer demand, especially in urban areas. Economists suggest this could hinder RBI's near-term interest rate cuts as inflation remains above target levels

BWR VIEW

The recent rise in India's retail inflation to 6.21% in October 2024 is expected to significantly influence the Reserve Bank of India's (RBI) future monetary policies

The RBI is expected to take a cautious approach to interest rate adjustments, prioritizing inflation control and evaluating economic growth indicators due to the recent inflation spike

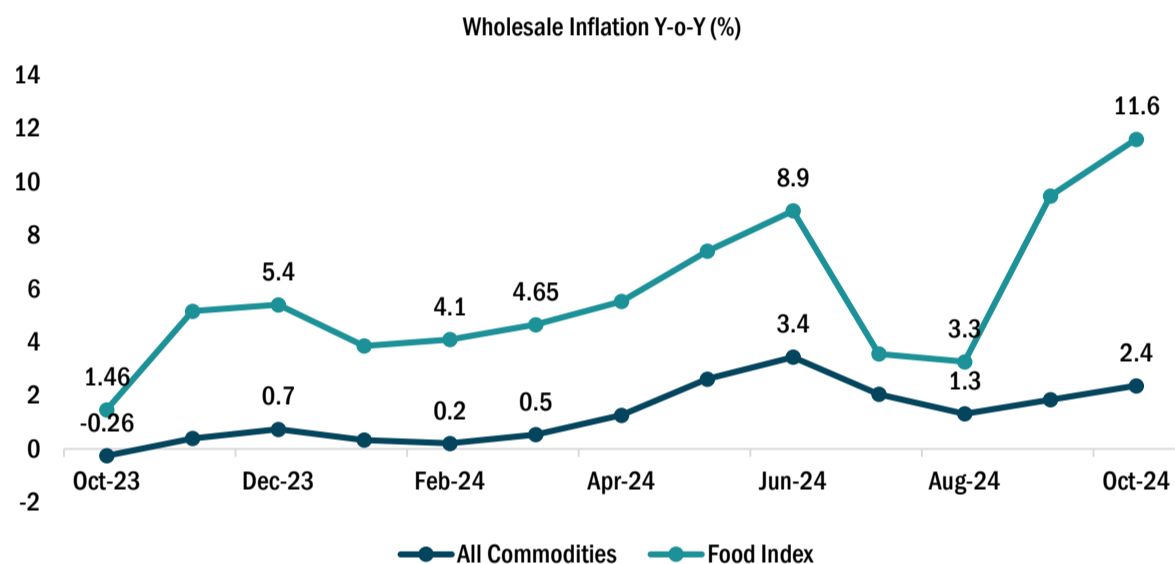
Economists predict high food prices will keep inflation above 5%, with RBI likely to maintain current interest rates during December's monetary policy review before considering cuts in early 2025

India's retail inflation is reaching a critical point due to rising food prices, affecting edible oils and vegetables. This poses challenges for the Reserve Bank of India (RBI) in managing economic pressure and stabilizing inflation within targeted ranges. The surge in inflation and modest industrial production growth prompt experts to adjust their outlook on potential RBI interest rate cuts

Key Factors Contributing to Inflation Spike:

- **Surge in Food Prices:** Food inflation surged to 10.87% in October 2024, primarily due to higher prices for essential commodities like vegetables, pulses, and oils. The surge in food prices was due to seasonal fluctuations and weather disruptions, including unseasonal rains, impacting supply chains in major producing states like Karnataka and Maharashtra
- Further, the global supply chain challenges and increased demand have led to a 9.5% inflation rate in the edible oil category. Moreover, the government's decision to raise import taxes on edible oil in mid-September worsened the situation. The government has increased the basic customs duty on crude and refined edible oils by 20 percentage points
- **Fading High Base Effect:** The low inflation rate of the previous year led to a diminished high base effect, allowing for more significant inflation increases
- **Core Inflation Increase:** Core inflation, excluding food and energy prices, reached a 10-month high of 3.7%, indicating broader price pressures beyond food items, indicating inflationary trends

Wholesale Inflation Hits Four-Month High at 2.36%: Food Prices Drive Inflation



Source: Ministry of Commerce & Industry, Government of India

- India's wholesale inflation reached a four-month high of 2.36% in October 2024, up from 1.84% in September 2024
- The rise in inflation rate was primarily due to significant increases in food prices, particularly vegetables, and a notable rise in manufacturing prices
- Wholesale inflation has consistently increased since negative rates in 2024, as evidenced by the upward trend observed in recent months.

Key Factors Influencing Wholesale Inflation

- **Food Prices:** The WPI for food articles increased to 11.59%, the highest since June 2022, primarily due to a 63.04% increase in vegetable prices as well as sharp price increases across cereals and oilseeds
 - This was largely due to surge in vegetable prices, which rose 63% compared to the previous month, with potatoes and onions experiencing sharper increase in inflation rates by 78.73% and 39.25%, respectively
 - Primary food article inflation increased significantly to 13.5%, up from 3.2% in the previous month, indicating a significant increase in food costs
- **Manufactured Products Price Increases:** Manufacturing Products prices also contributed to the inflationary pressure. The inflation rate for manufactured products rose 1.50%, the highest in three months, driven by rising costs in food manufacturing.

The prices of vegetable and animal oils and fats in manufactured products increased by 20.2% in October 2024, reversing previous contractions, reflecting broader food sector trends affecting both raw and processed items

BWR VIEW

The rise in wholesale prices are likely to lead higher retail prices and potentially increasing consumer price index (CPI) inflation, indicating broader economic challenges related to price stability. This could affect consumer purchasing power, reduce discretionary spending, and impact economic growth by cutting back on non-essential purchases

Economists predict that while food inflation may slightly ease in November due to favourable agricultural outputs, the overall WPI may remain susceptible to global commodity price fluctuations

November wholesale inflation is predicted to stabilize around 2.36%, similar to October's figures, largely due to ongoing food price, manufacturing costs pressures and an unfavourable base effect from the previous year

The anticipated bumper kharif harvest in India is expected to significantly affect food prices in the coming months, potentially causing a moderate increase in food inflation

In addition to food items, inflation in other manufacturing sectors such as machinery and equipment, as well as motor vehicles, also contributed to the overall increase in the wholesale inflation

- **Seasonal and Base Effects:** The increase in wholesale inflation was influenced by a negative base effect from the previous year, with WPI inflation at -0.26% in October 2023
 - The year-on-year increase in WPI inflation, compared to a low base from October 2023, is accentuated by the comparison to the previous year's deflationary conditions
- **Global Commodity Prices:** West Asian tensions have led to increased global crude oil prices, affecting wholesale prices across various categories, compounded by adverse base effects from the previous year
- **Decline in Fuel and Power Prices:** While food prices increased, Fuel and power prices saw a 5.79% decline, primarily due to decreased petrol and diesel prices. This decline in fuel prices somewhat moderated the overall inflation impact from other sectors
 - The decrease in fuel prices reduced core inflation, excluding volatile items like food and energy, and alleviated upward pressure on manufacturing costs, maintaining a stable core WPI inflation level
- **Core Inflation:** The core inflation rate, which excludes volatile items like food and energy, increased from 0.1% to 0.3% in the previous month
- **Monthly Trends:** On a month-on-month basis, wholesale prices increased by 0.97%, following a revised increase of 0.13% in September 2013

Key Factors Contributing to the Rise in Food Prices

- **Weather Related Disruptions:** Adverse weather conditions have significantly disrupted agricultural production, particularly in the supply of key vegetables like tomatoes, onions, and potatoes, leading to sharp price hikes
- Global supply chain issues and increased demand have led to a rise in edible oil prices, exacerbating food inflation
- **Manufactured Food Products:** The increase in the prices of manufactured food products, particularly processed foods, have also contributed to the overall rise in food inflation
- **Increased Demand:** Post-pandemic, consumer demand has rebounded, intensifying pressure on food prices, particularly in urban areas with slightly lower inflation rates
- **Economic Factors:** The rising costs of production and transportation have led to inflationary pressures on food items due to the overall economic environment
- The RBI aims to maintain retail inflation at 4%, addressing challenges posed by current inflationary trends with a tolerance band of two percentage points
- India's wholesale inflation rate for October 2024 has been significantly impacted by rising food prices, particularly vegetables, and modest increases in manufactured goods, which will likely shape economic policy and consumer pricing strategies going ahead
- Rising food prices pose significant challenges, but the decline in energy costs provided relief, moderated inflation, and supported economic stability
- Global commodity price fluctuations, especially for metals and crude oil, could impact wholesale price trends, potentially causing upward pressure on WPI inflation if the trends persist

BWR VIEW

Further, favourable agricultural conditions, such as a favourable monsoon season, adequate reservoir levels, and higher minimum support prices, are expected to boost winter crop sowing and overall agricultural productivity. This is expected to alleviate food inflation in India in the coming months, bolstering the country's economic outlook despite potential external challenges

The future inflation trends in India will be influenced by the ongoing fluctuations in food and manufacturing prices

The inflationary environment remains complex, despite decreased fuel prices, and require close monitoring by the policymakers to ensure consumer prices and economic stability

Manufacturing PMI Rises to 57.5 in October; Strong Demand Fuels Manufacturing Growth

- India's manufacturing sector witnessed significant growth in October 2024 with the Purchasing Managers' Index (PMI) in India rising to 57.5 from 56.5 in September 2024, indicating strong expansion in the manufacturing sector
- The increase is a recovery from an eight-month low and indicates increased demand for goods both domestically and internationally
- The reading suggests continued expansion in the manufacturing sector, as a PMI above 50 indicates growth

Key Highlights:

- **New Orders:** New orders surged significantly, surpassing historical averages over two decades, and international sales rebounded after a decline in September 2014
- **Output Growth:** Manufacturers increased production in consumer and investment goods categories due to favourable market conditions and strong demand
- **Employment:** The sector experienced a significant increase in hiring, with 10% of surveyed firms reporting increased employment, leading to the first decline in backlogs of work in over a year
- **Inflationary Pressures:** Inflationary pressures in materials, labor, and transportation costs have led to a three-month high in input prices, while output prices have also increased significantly, exceeding historical trends
- **Business Confidence:** Manufacturers are experiencing high business confidence due to high expectations of continued strong consumer demand and upcoming product releases.

The increase in manufacturing PMI was attributed to several key factors:

Strong Demand Growth:

- **New Orders:** New orders, both domestic and international, have surged significantly, surpassing the historical average for the past two decades, indicating a strong demand for manufactured goods
- **Export Recovery:** New export orders rebounded from September 2024 low, driven by contracts from Asia, Europe, Latin America, and the U.S. markets

Increased Production:

- **Production Ramp-up:** Manufacturers increased production in consumer and investment goods categories to meet rising demand and manage larger order volumes
- **Hiring Boost:** The manufacturing sector experienced a hiring boost, with 10% of firms reporting increased employment, supporting production capacity and reducing backlogs for the first time in over a year

Positive Market Conditions

- **Favourable Economic Conditions:** Companies experienced favourable economic conditions due to buoyant demand, positive sales pipelines, successful marketing initiatives, and the introduction of new products, fostering growth
- **Business Confidence:** High business confidence was observed due to anticipated consumer demand and upcoming product launches, which prompted manufacturers to invest in production capabilities

Inflationary Pressures

- **Input Costs:** Inflationary pressures led to a three-month high in input prices due to increased costs for materials, labor, and transportation, prompting some firms to raise their selling prices

BWR VIEW

India's manufacturing sector, despite facing challenges like rising costs and competitive pressures, is demonstrating resilience through robust international demand and steady employment growth

However, rising inflation is posing challenges for manufacturers in cost management and pricing strategies as they navigate economic conditions

India's Services PMI Soars to 58.5 in October 2024 on Strong Demand

- India's Services PMI showed a significant recovery in October 2024, rising to 58.5 from 57.7 in September 2024. This marks a significant growth in the services sector for the 39th consecutive month, surpassing the long-term average of 54.1
- The PMI reading for October 2024 showed a recovery from a September low, indicating a sector rebound after previous challenges, which is seen as promising

Key Highlights:

- **Strong Demand and Sales Growth:** The Services PMI reflects a significant increase in demand, both domestically and internationally, with promising new export sales from clients across various regions, including Africa, Asia, Americas, Middle East, and UK
- **Job Creation:** Employment in the services sector increased at its fastest pace in 26 months, with 13% of survey participants reporting job creation, compared to 9% in September
- **Input Costs:** In October 2024, India's services sector experienced the fastest increase in input costs in three months, significantly impacting businesses.
 - Rapid increase in input costs was due to higher food and wage expenses, despite positive growth indicators, while overall inflation rates remained below long-term averages
 - Despite this cost pressure, the services sector experienced robust growth fuelled by high demand and business activity expansion
- Business sentiment remains positive, with expansion expected due to seasonal demand spikes for festivals and weddings in Q3 of FY25

Key factors contributed to the rise:

- **Elevated Consumer Demand:** The services sector experienced a significant increase in consumer demand, driven by a robust sales pipeline and anticipated sustained consumption, especially during festive seasons and wedding periods
- **International Sales Growth:** The increase in export sales, driven by increased demand from international markets like Africa, Asia, the Americas, and the UK, significantly boosted overall business activity

Employment Growth

- **Job Creation:** The employment index experienced its highest growth rate in 26 months, with companies rapidly adding new employees, indicating confidence in future business conditions and supporting overall economic activity
 - Businesses faced capacity pressures due to increased demand, leading to companies hiring more employees to meet their growing customer base effectively
 - Strong consumer demand, optimistic business sentiment, capacity pressures, and economic recovery have contributed to significant increase in employment in the services sector

Business Activity Expansion

- **Increased Output and Orders:** The Business Activity Index showed strong growth at 57.2, indicating ongoing output expansion, while new orders remained robust at 57.4, suggesting service providers are effectively meeting rising demand
- **Sector-wide Growth:** In October, the services sector experienced broad-based expansion with fourteen industries reporting growth compared to twelve in September 2024
- **Positive Business Sentiment:** Companies remain optimistic about future growth, leading to the highest rate of staff recruitment in two years, with 13% of surveyed firms reporting job creation, up from 9% in September 2023, indicating a strong belief in sustained demand and economic stability

India's Flash PMI Shows Strong Growth Amid Rising Inflation: Rose to 59.5 in November, up from 59.1 in October

While India's Services Sector Hits New Heights, manufacturing Sector Experiences Marginal Slowdown

- Flash India PMI for November 2024 shows a robust performance in India's private sector, marking the highest level since August 2024, with the Composite Output Index rising to 59.5 from 59.1 in October 2024

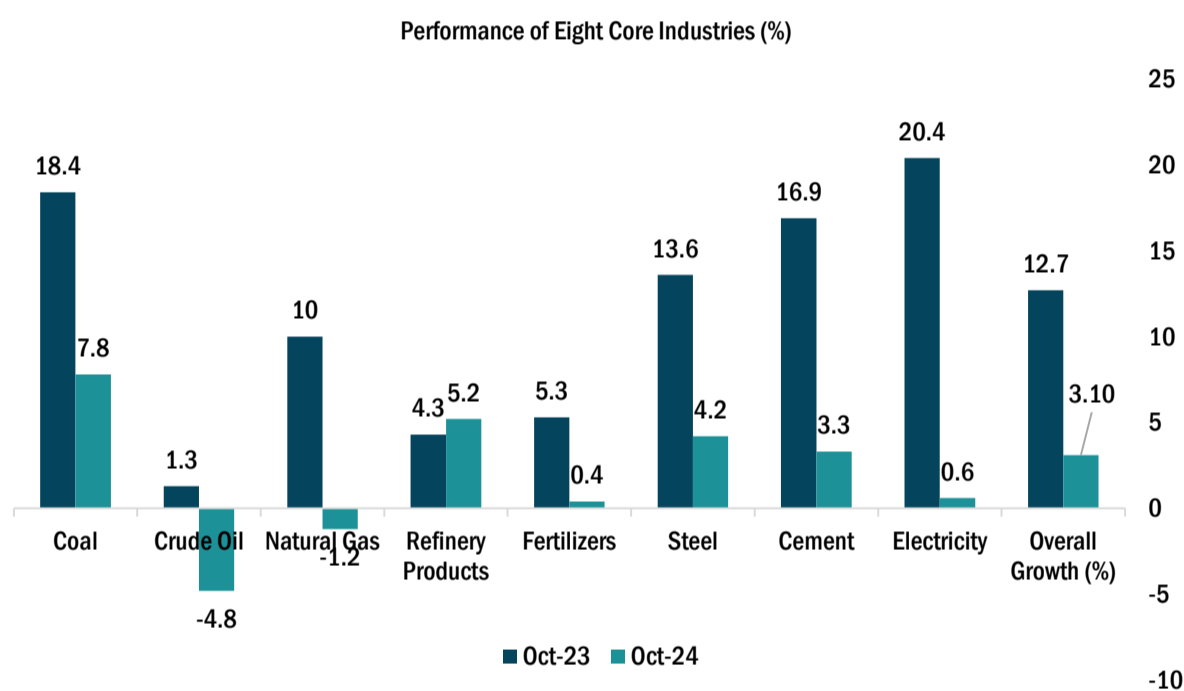
BWR VIEW

Despite positive indicators, inflation and rising input costs pose potential economic headwinds, necessitating ongoing sustainability monitoring due to potential economic headwinds

Rising input costs in India's services sector pose challenges for profit margins and operational strategies, but strong demand and proactive business responses have mitigated the impact, enabling continued expansion and job creation

- The increase in economic activity is attributed to new business gains and robust export sales
- India's flash services sector experienced its fastest growth since 2005, reaching a PMI of 59.2, indicating robust business activity and job creation
- The flash Manufacturing PMI slightly decreased to 57.3 from 57.5 in October, despite a marginal slowdown, despite strong performance in new orders and international sales.
- India's composite PMI, combining manufacturing and services, reached 59.5, largely due to the services sector's significant growth
 - The increase in Composite PMI reflects accelerated growth in the services sector, with manufacturing remaining a significant contributor despite a minor slowdown
- New orders have expanded at their fastest pace since August, indicating robust domestic demand and increasing international sales, especially to Asia, Europe, and the Americas
- This growth comes amid rising cost pressures, particularly in raw materials and food, leading to the steepest increase in selling prices since February 2013

India's Core Sector Shows Recovery, Rises to 3.1% in October 2024 Driven by Coal, Petroleum Refinery Products and Steel



Source: Ministry of Commerce & Industry, Government of India

- India's eight core industries saw a 3.1% growth in output in October 2024, up from the 2.4% growth recorded in September 2024
- This marks a significant recovery from a contraction of 1.6% in August 2024. The growth is primarily attributed to robust performance in various sectors, particularly coal and petroleum refinery products
- Core sectors experienced a 4.1% cumulative growth from April to October 2024, a decrease from the 8.8% growth recorded in the same period last year, indicating challenges in sustaining higher rates due to adverse base effects and global demand fluctuations
- The October 2024 growth represents an improvement from September 2024, it reflects a significant slowdown from the robust 12.7% growth recorded in October 2023

Key Factors Contributing to Growth

- **Coal Production: Coal production was a major driver as** India's coal production rose 7.8% in October 2024, significantly contributing to the overall growth, leading to a total output of 84.45 million tonnes, compared to the previous year's output of 78.57 MT
 - Production from captive and other entities increased by 41.75% in October 2024, reaching 16.59 MT, indicating improved operational efficiency and output from non-public sector players.
 - Coal dispatches increased by 36.83% from October 2023 to 82.89 MT, with captive and other entities alone experiencing a significant increase.

BWR VIEW

Coal production's growth in October 2024 boosted the core sector's output highlighting its economic significance and impacting industrial growth metrics

The current growth is a rebound from earlier contractions in core sectors, with a 1.6% decline in August 2024 and improvement from 2.4% in September, driven by strong performances in key industries like coal and petroleum refining

The growth in coal production and petroleum refinery products, crucial for energy supply and industrial activity, and infrastructure development in sectors like steel and cement, indicate robust demand and operational improvements, indicating long-term economic growth and employment generation

- **The petroleum refinery product** output increased by 5.2%, contributing to overall core sector performance despite declines in other areas, despite its substantial weight (28.04%) in the Index of Industrial Production
 - In October 2024, Indian refineries processed 21.3 million MMT of crude oil, a 4.4% increase from the previous year, resulting in a 5.3% increase in petroleum product output to 23 MMT
 - Further, exports of petroleum product increased by 12.7% In October 2024 due to international demand for petcoke, fuel oil, and aviation turbine fuel, boosting refinery output
 - India is expected to receive \$87 billion in investments over the next decade to meet its increasing petrochemical demand along with boost refining capacity and petrochemical intensity, aiming to adapt to market changes and ensure sector growth
 - The growth in refinery product was fuelled by improved refining capacity, enhanced crude processing, increased crude oil imports, robust export performance, and government policies enhancing infrastructure and industrial activity
- The **steel production** increased by 4.2%, indicating a positive trend in construction-related activities
- **Cement production** has increased by 3.3%, indicating a continued demand for infrastructure development
 - These two sectors are vital for construction and infrastructure development. The growth in both these sectors indicating recovery in construction-related activities and crucial for construction and infrastructure development
- **The electricity generation** saw a modest increase of 0.6%, indicating some stability in energy supply despite fluctuating demand
- Government spending on infrastructure projects, particularly in steel and cement sectors, is boosting growth and sustaining industrial activity.
- **Fertilizers production** experienced a slight increase of 0.4%

However, **two sectors experienced declines:** Crude oil production decreased by 4.8% and natural gas production fell by 1.2%

- The decline in crude oil production in October 2024 was due to operational and technical challenges faced by state-owned oil companies, including aging infrastructure and inefficiencies in extraction processes
- The global oil market has been influenced by a surplus of supply particularly from U.S. shale oil production, causing low prices and discouraged investment in new projects
- Natural gas production declined by 1.2% due to supply-side constraints, including maintenance activities and project delays, hindering the ability to meet demand
- Further, reduced demand from industrial consumers, possibly due to economic slowdowns or shifts towards alternative energy sources, has led to lower production levels, prompting producers to scale back output

India's Industrial Production Grows 3.1% in September 2024 driven by the manufacturing sector

Index of Industrial Production, Y-o-Y Growth

	Mining	Manufacturing	Electricity	General
September 2024*	0.2	3.9	0.5	3.1
September 2023	11.5	5.1	9.9	6.4
Weight in IIP	14.4	77.6	8.0	100

Source: Ministry of Commerce & Industry, Government of India

Index of Industrial Production, April 2024-September 2024

	Mining	Manufacturing	Electricity	General
Y-o-Y Growth	4.1	3.7	6.1	4.0

Source: Ministry of Commerce & Industry, Government of India

* Figures for September 2024 are Quick Estimates

BWR VIEW

The government must continue to support growth by addressing challenges like declining crude oil production and natural gas supply constraints to ensure effective economic performance

The eight core industries, accounting for 40.27% of the IIP, are expected to significantly impact GDP, contributing to economic stability and expansion

Experts suggest modest growth in the core sector in India is due to increased government spending and investment in steel and cement, crucial for infrastructure development

Going ahead, continued government initiatives and improved economic conditions is expected to lead to further recovery and growth in these sectors in the coming months

Sector-wise Classification

	Primary Goods	Capital Goods	Intermediate goods	Infrastructure/construction goods	Consumer durables	Consumer non-durables
Sep- 2024*	1.8	2.8	4.2	3.3	6.5	2.0
Sep- 2023	8.0	8.4	6.1	10.1	1.0	2.7
Aug- 2024	-2.6	0.5	3.0	2.2	5.3	-4.5
Weight in IIP	34.1	8.2	17.2	12.3	12.8	15.3

* Figures for September 2024 are Quick Estimates

- India's industrial production rebounded in September 2024 with a 3.1% year-on-year growth, from a 0.1% contraction in August 2024, primarily driven by the manufacturing sector, which experienced a 3.9% growth, while electricity generation and mining activity saw modest gains of 0.5% and 0.2%, respectively
- This growth was compared to a significant 6.4% growth in September 2023. The IIP growth for the first half of the fiscal year (April-September 2024) was 4%, down from 6.2% in the previous year

Key Contributors to Growth:

- **Manufacturing Sector Recovery:** The manufacturing sector, which accounts for a significant portion of industrial output, experienced a 3.9% growth rebound from a contraction in the previous month
 - Within manufacturing, coke and refined petroleum products increased by 5.3%, basic metals grew by 2.5%, chemicals and chemical products rose by 4.9% and food products experienced a growth of 4.4%
- **Electricity Generation and Mining:** Electricity generation and mining activity experienced modest growth of 0.5% and 0.2% respectively, contributing positively to overall industrial output despite lower growth rates compared to manufacturing
 - The recovery in mining output was significantly aided by the alleviation of rainfall disruptions, which had previously affected various sectors, leading to increased production levels.
 - Heavy rainfall had disrupted mining activities in the last few months, leading to reduced output and operational challenges. As rainfall eased, mining operations could resume effectively, allowing for increased production levels.
 - The modest increase in the mining sector indicates a stabilization compared to the previous month's contraction, despite ongoing challenges within the industry

The rise in India's mining output in September 2024 can be attributed to several key factors:

- **Increased production:**
 - **Coal Production:** Coal production in India increased by 2.6% in September 2024, contributing over 50% of the country's mineral production and meeting energy requirements
 - **Cement and Steel:** Cement and steel production experienced a 7.1% and 1.5% growth, respectively, due to strong demand from construction and infrastructure projects
 - **Refinery Products:** In September, refinery products experienced a 5.8% growth, significantly contributing to the overall industrial output
- **Consumer Durables Surge:** Consumer durables experienced a 6.5% increase, indicating increased consumer demand and spending patterns, which is crucial for sustaining economic growth. In contrast, consumer non-durables production increased by 2% in September 2024, a decrease from the 2.7% growth recorded in September 2023
- **Intermediate goods** increased by 4.2% while consumer durables registered the highest growth at 6.5%. Other categories like primary goods and capital goods also experienced increases, indicating strong demand across consumer and industrial sectors
- **Improved Economic Conditions:** September 2024 saw a more stable weather, potentially improving operational conditions for industries like mining and electricity generation, following unfavorable weather conditions in August 2024
- Further, the festive season in October 2024 may have boosted production as businesses increased output to meet anticipated demand

BWR VIEW

India's industrial production rebounded in September 2024, thanks to strong manufacturing growth, improved economic conditions, increased capacity utilization, and supportive government policies.

Economists expressed concerns about industrial momentum, with GDP growth projections lower than market expectations for Q2 of fiscal year. IIP growth for September 2024 was only 2.6%, indicating improvement but underlying challenges

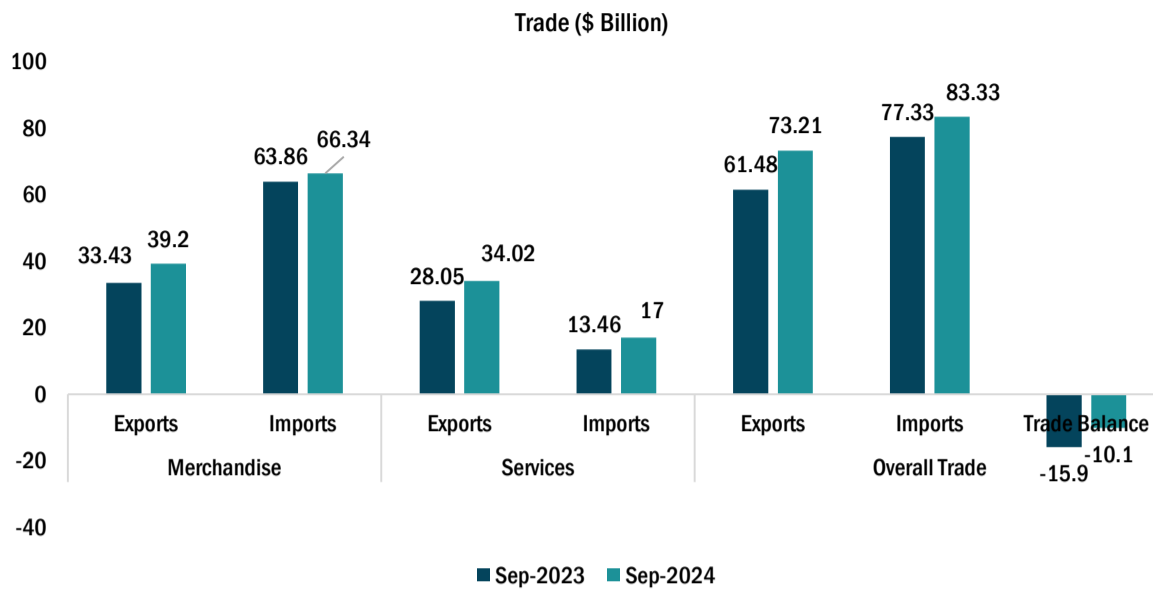
The manufacturing sector, particularly in basic metals and electrical equipment, has demonstrated resilience with substantial growth rates and playing a crucial role in India's industrial output

The IIP growth in September 2024 marks a significant recovery from August's 0.1% contraction, suggests a potential turnaround in industrial activity, potentially boosting investor and business confidence in the economic outlook.

If this growth momentum persists, especially with government infrastructure spending and improved rural demand due to favourable monsoon conditions, industrial output may see further increases in the coming months, however caution is advised due to sluggish external demand, especially in export-oriented sectors like textiles and apparel

India's Trade Deficit Widens to \$27.14 Billion; Exports Surge at Fastest Rate in 28 Months

Merchandise Exports Show Strong Growth Amid Global Challenges



Source: Government of India, Ministry of Commerce & Industry

- India's merchandise trade deficit widened to \$27.14 billion in October 2024, up from \$20.78 billion in September 2024, a significant increase from \$33.43 billion in October 2023
- The widening of trade deficit was primarily due to a significant rise in imports, which rose by 3.9% to \$66.34 billion and a 17.25% increase in exports to \$39.2 billion compared to the same month last year

The increase in India's trade deficit in October 2024 can be attributed to several key factors:

- Exports Surge at Fastest Rate in 28 Months:** Merchandise exports increased by 17.3% YoY to \$39.2 billion in October 2024, compared to \$33.43 billion in the same month last year. This surge in exports was the fastest growth rate in 28 months and was primarily driven by the rise in engineering goods, electronic goods, and textiles, with significant increases in these sectors
 - Although merchandise exports rose strongly but this was insufficient to counteract the rise in imports, resulting in a widening trade gap
- Surge in Imports:** Total merchandise imports rose 3.9% to \$66.34 billion in October 2023, driven by seasonal factors like higher crude oil volumes and gold imports during the festive season
- Economic Conditions and Global Market Dynamics:** Global economic environment, including oil price fluctuations and commodity demand, impacts trade balances, while geopolitical tensions and major market slowdowns can affect export performance
- Overall Trade Performance:** India's trade performance for April-October 2024 period saw a 7.28% increase in exports to \$468.27 billion, and a 7.05% growth in imports to \$531.51 billion. Services exports also witnessed a remarkable increase, rose by 12.51% y-o-y to \$34.02 billion in the previous year

Services Trade: The services trade saw an increase in exports to \$34.02 billion in October 2024 from \$28.05 billion in October 2023, while imports increased to \$17 billion from \$13.46 billion last year, resulting in a services surplus of \$17 billion, partially offsetting the merchandise trade deficit

Several sectors in India experienced significant growth in exports, contributing to an overall increase, with the highest growth observed in the following sectors:

- Rice:** Rice exports increased by 85.8% y-o-y to \$1.05 Billion in October 2024 due to the removal of a government ban on non-basmati rice exports
- Electronic Goods:** The Electronic Goods sector experienced a 45.7% growth, with exports increasing from \$2.36 billion in October 2023 to \$3.43 billion in October 2024
- Engineering Goods:** The engineering goods exports saw a 39.4% increase to approximately \$11.26 billion, up from \$8.08 billion in the previous year

BWR VIEW

The festival season in October leads to increased imports, consumer spending, and inventory build-up among businesses, preparing for increased sales

The trade deficit rises due to seasonal factors, especially during the Hindu festival season, despite global economic challenges. Indian exports, especially engineering goods, textiles, and rice, show resilience, with 85% growth in October

The trade deficit remains a concern as India's economic stability is threatened by a trade deficit, where imports outpace exports, causing a negative balance and posing a significant risk

Commerce Secretary Sunil Barthwal emphasized manufacturing competitiveness's role in export growth, predicting \$800 billion in total exports for the year if current trends persist, highlighting India's robust export performance despite external economic pressures

India's growth in exports indicates a robust manufacturing sector, but simultaneous rise in imports widens the trade deficit, indicating challenges from rising import costs, especially for essential commodities like crude oil and gold, despite enhancing export capabilities

Indian exporters have demonstrated resilience amid global economic volatility, potentially mitigating pressures from rising imports, especially in commodities like crude oil and gold during festive seasons

India's Department of Commerce predicts a total export of \$800 billion for the fiscal year, driven by strong performance in engineering goods, electronic goods, and textiles, supported by initiatives like the Production Linked Incentive scheme

- The Ready-Made Garments (RMG) category experienced a 35.1% growth, indicating a robust demand for textile products
- Jute Products experienced a 37% increase in exports, indicating strong performance in this traditional sector, while tobacco also showed a 34.3% growth rate
- Handicrafts exports saw a 32.7% increase, while coffee exports grew by 32.4% due to increased global demand
- The Organic and Inorganic Chemicals sector experienced a significant increase of approximately 27.35%

The increase in India's merchandise imports in October 2024 was influenced by several significant factors:

- **Crude Oil Imports:** Crude oil imports increased 13.3% due to seasonal demand and higher global oil prices, reflecting ongoing energy market recovery after the pandemic
- **Electronic Goods:** The imports of electronic goods increased by 6.8% due to strong domestic demand, particularly during the festive season, which typically drives increased spending on such items
- **Vegetable Oil:** Vegetable oil imports surged by 50.9%, largely due to increased consumption and food-related purchases during the festive period
- **Machinery and Non-Ferrous Metals:** India's infrastructure development continues to boost manufacturing and construction sectors, with an 8.7% increase in machinery imports and a 26.1% increase in non-ferrous metals imports
- **Gold Imports:** Gold imports remained high at \$7.14 billion, up from \$4.39 billion in September 2024, despite a slight year-on-year contraction, largely due to traditional buying patterns during the festival season
 - The increase in gold purchases has exacerbated the trade deficit by increasing the overall import bill

India Exim Bank Forecasts Q3 FY2025 Merchandise Exports at \$107.5 billion

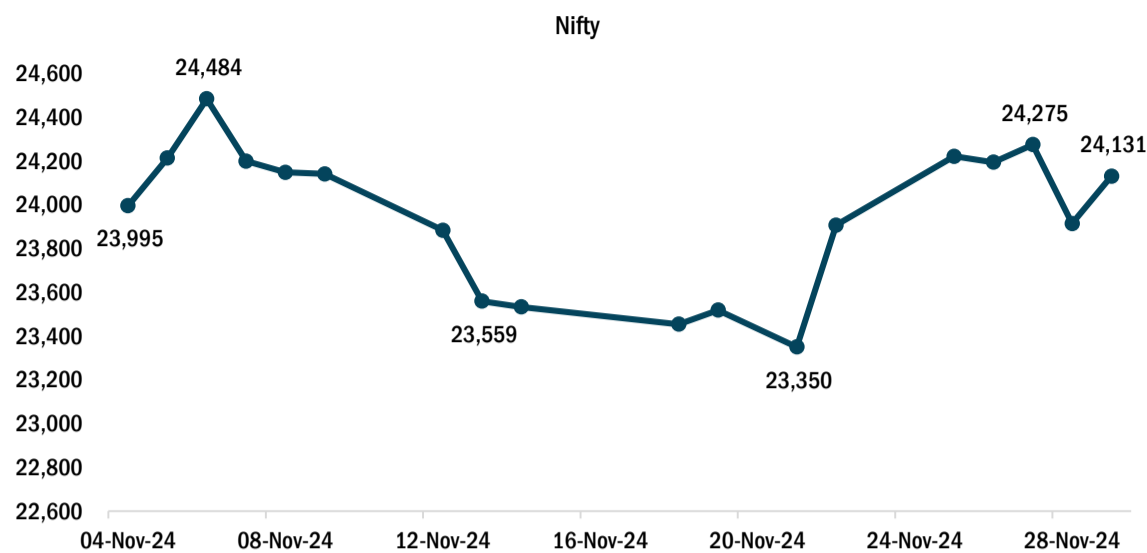
India Exim Bank predicts India's merchandise exports to reach \$107.5 billion in the October-December 2024 quarter, a year-on-year growth of 1.85%, with non-oil exports expected to rise by 7.39%

- **Total Merchandise Exports:** Expected to be \$107.5 billion, up 1.85% from the previous year
- **Non-Oil Exports:** Forecasted to grow to \$91.7 billion, representing a 7.39% increase
- **Non-Oil and Non-Gems Exports:** Estimated at \$82.7 billion, with a growth of 7.8% year-on-year

India's export outlook is positive due to robust economic activity, improved manufacturing and services sectors, and anticipated global monetary easing. However, risks include geopolitical tensions, economic uncertainties, and protectionist policies potentially disrupting global supply chains

Stock Markets

Indian equity markets experienced a month of significant fluctuations in November 2024



Source: BSE and NSE

- **The Indian equity market experienced significant volatility in November 2024, with a decline in major indices and substantial foreign portfolio investor outflows**
- November 2024 saw significant declines in Indian equity indices due to FPI outflows and negative market sentiment, with cautious optimism as investors await economic data releases and corporate earnings reports

Nifty Decline: The Nifty 50 experienced a 0.3% decline in November 2024, largely due to negative sentiment and FPI withdrawals, resulting in an overall outflow of \$14 billion

- The Nifty began the November 2024 month positively but fell to its lowest levels in five months, closing at 23,883 points on November 12, 1.07% below the previous day, due to FPI selling and disappointing corporate earnings
- The situation worsened further as the Nifty experienced its largest single-day drop in two months, dropping by 1.5% on November 28. The decline was exacerbated by FPIs offloading shares worth Rs 11,756 crore, driven by uncertainties about U.S. interest rates and inflation data

Investor sentiment remained cautious due to a combination of factors:

FPI Selling Pressure: The Indian equity market experienced selling pressure in November, with FPIs withdrawing Rs 22,420 crore, causing the Nifty and Sensex to drop. The significant outflows have led to heightened volatility in the stock market

- On November 29, FPIs sold shares worth Rs 4,383.55 crore, while domestic institutional investors net bought Rs 5,723.34 crore, indicating mixed investor sentiment
- The market was influenced by expectations of upcoming economic data releases, including GDP figures, leading to increased uncertainty and profit booking among investors

Market Volatility Indicators: FPIs' relentless selling has increased market volatility, leading to cautious trading behaviour among investors and exacerbating market declines, as evidenced by the Nifty VIX index's elevated level

- The Nifty VIX index showed increased volatility, indicating caution among market participants about potential future declines unless significant volatility decreases

Sectoral Impact: Foreign investment outflows led to significant declines in various sectors like PSU Banks, Metals, and FMCG, resulting in losses exceeding 5%, reflecting widespread negative sentiment

Significant FPI (Foreign Portfolio Investor) outflows in November 2024, were driven by several interrelated factors:

- **Rising US Bond Yields:** US bond yields surged to 4.42%, making US assets more appealing than emerging markets like India, prompting investors to shift funds from Indian equities to safer US bonds
- **Strengthening US Dollar:** Stronger US dollar increased the cost of holding assets in other currencies, leading to a preference for dollar-denominated investments

BWR VIEW

Sustained FPI selling raises concern as it could hinder Indian equity market recovery due to high valuations and weak Q2FY25 corporate earnings reports, awaiting significant market conditions or investor sentiment shift

Going ahead, significant fund outflows potentially deterring investors and reducing confidence in Indian equities' stability, making it challenging for companies to raise capital through public offerings

FPIs reducing investment, potentially hindering economic expansion, especially in industries heavily reliant on foreign investment for development and innovation

Investors are shifting their focus to sectors with better growth prospects or attractive valuations, potentially leaving traditional sectors like manufacturing and infrastructure underfunded and potentially impacting long-term growth

Indian equity markets are expected to recover in December 2024, but investors should stay vigilant. Experts predict a positive macroeconomic stability in the Indian economy, with improved demand and government spending, despite slower corporate earnings growth in the first half of the fiscal year

RBI's Monetary Policy Committee meeting on December 6 will be closely monitored as the MPC is convening amid a backdrop of slowing economic growth and elevated inflation, raising concerns about the economy's overall health

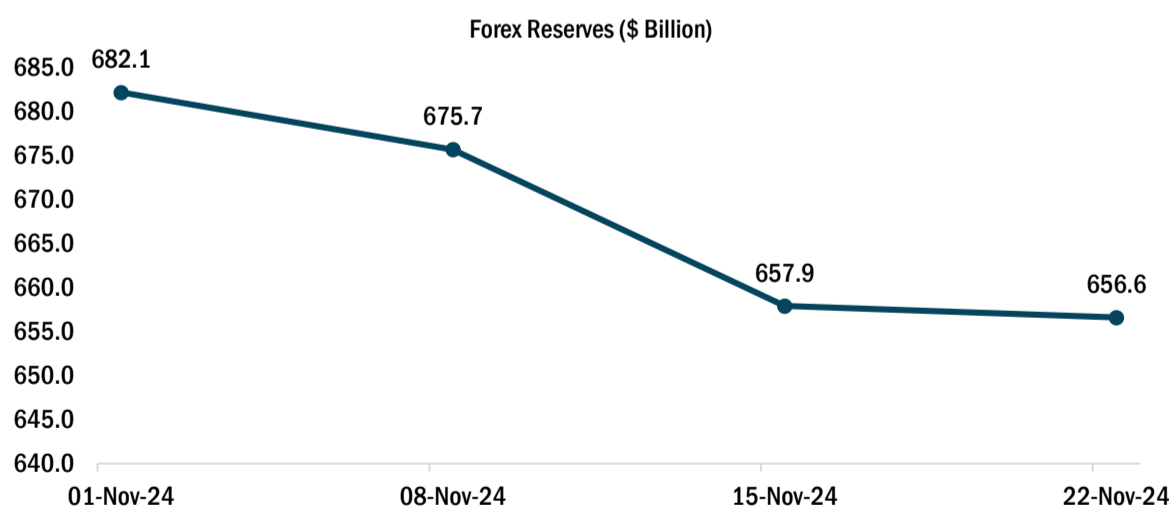
The MPC is expected to maintain its neutral monetary policy stance, aiming to balance inflation control with economic growth support with potentially implementing rate cuts in February 2025 based on inflation data and economic performance

While, the repo rate cut seems unlikely in December 2024, the Reserve Bank of India (RBI) may consider reducing the Cash Reserve Ratio (CRR) to increase liquidity in the banking system without affecting the repo rate

- The US dollar's strengthening in November has boosted investor interest in US-denominated assets, as rising bond yields and expectations of a robust US economic outlook have compelled FPIs to shift their investments towards US markets
- The strengthening dollar exacerbated negative sentiment towards emerging markets, with FPIs withdrawing from Indian equities in November, highlighting economic slowdown and inflation pressures
- **Economic Slowdown Concerns:** Investors are cautious due to fears of a slowdown in the Indian economy, weak corporate earnings, and high valuations. Analysts have downgraded Q2FY25 earnings expectations, prompting FPIs to reassess their positions in Indian stocks
- **Shift in Investment Focus:** The "Sell India, Buy China" trend emerged as FPIs shifted investments to Chinese markets due to better growth prospects and lower valuations, and was influenced by Trump Trade, with expectations of pro-business policies favouring US equities over Indian ones
 - The "Trump Trade" phenomenon, triggered by Donald Trump's election victory in November 2024, significantly impacted global investor sentiment, causing both optimism and caution across various markets
 - Trump's election led to a significant rally in US stock indices, with the S&P 500 rising over 3%, fuelled by optimism about tax cuts, deregulation, and increased government spending under Trump's administration, resulting in a global "risk-on" sentiment.
- **High Valuation:** The perception that Indian stock valuations were stretched, leading many Foreign Direct Investments (FPIs) to liquidate their positions, particularly in large-cap stocks, to seek more affordable opportunities elsewhere
- **Geopolitical and Global Economic Factors:** Geopolitical tensions and global economic uncertainties led to FPI outflows, causing investors to become risk-averse and prefer safer investments
- **Liquidity Tightening:** FPIs withdrawing significant amounts from Indian equities tightened market liquidity, causing reduced trading volumes and increased volatility, making investors more cautious about entering or remaining in the market
- **Impact on Emerging Markets:** The Trump Trade, despite benefiting US markets, posed challenges for emerging economies. The strengthening dollar and rising bond yields led to increased capital outflows, while tariff fears and potential trade restrictions impacted emerging market stocks

Forex

India's Forex Reserves Continues Decline from Record Highs; Drop to \$656.58 Billion as of November 22



Source: RBI

- India's foreign exchange reserves have seen a significant decline in recent weeks, with reserves standing at \$656.58 billion as of November 22, 2024, a \$1.31 billion decrease from the previous week
- This marks an eighth consecutive week of decline, following a record drop of \$17.76 billion in the week ending November 15, which brought the reserves down to \$657.89 billion primarily due to pressures on the Indian rupee and fluctuations in foreign currency assets

BWR VIEW

The decline in India's forex reserves comes amid economic challenges, slowdown in GDP growth to 5.4% in FY25, primarily due to weak manufacturing and mining sectors. India, despite facing challenges, remains one of the fastest-growing large economies globally, surpassing China's growth rate during this period

- India's forex reserves have decreased by \$48 billion since reaching an all-time high in September 2024, indicating ongoing market volatility and potentially impacting the country's economic stability and growth prospects
- Interventions to support the rupee resulted in a significant decrease in India's foreign exchange reserves, reaching around \$656.6 billion by late November

Several factors have contributed to the decline in India's foreign exchange reserves including:

- **Strengthening of the US Dollar:** The US dollar's significant appreciation has led to a depreciation of other currencies, including the Indian rupee, increasing import costs and impacting India's reserves, which are primarily held in dollars
 - The US dollar has appreciated significantly after the recent US Presidential elections with the dollar index rising from 103-104 to 107.5, exacerbating rupee's depreciation against the dollar
- **Reserve Bank of India's Interventions:** Interventions by the RBI to support the rupee resulted in a significant decrease in India's foreign exchange reserves. The Reserve Bank of India (RBI) has been selling dollars to stabilize the rupee and reduce foreign exchange market volatility, leading to a depletion of forex reserves to protect the domestic currency
- **Capital Outflows:** Foreign portfolio investors are withdrawing investments from Indian equity markets due to US Federal Reserve tightening monetary policy, causing increased demand for dollars and pressure on reserves, as interest rates rise.
- **Increasing Imports:** India's rising import levels have increased dollar demand for payments, putting pressure on forex reserves as dollar buying outpaces selling
- **Valuation Losses:** The decline in reserves is largely due to valuation losses from the appreciation of the dollar and declining gold prices. The Strengthening of the US dollar impacts foreign currency assets in other currencies, a significant part of India's forex reserves
- **Global Economic Factors:** Global economic conditions, including geopolitical tensions and market dynamics post-elections, have influenced investor sentiment and currency stability, leading to a decline in reserves
- **Declining Gold Prices:** Gold prices have fallen significantly in the international markets in the recent months, impacting India's forex reserves and total reserves, as a significant portion of these reserves are held in gold

Key Components of the Forex Reserves

- **Foreign Currency Assets:** Foreign currency assets, the largest reserve component, decreased by \$3.043 billion to \$566.791 billion in the week ending November 22, influenced by non-US currency fluctuations
- **Gold Reserves:** In contrast, gold reserves increased by \$1.828 billion, totalling \$67.573 billion
- **Special Drawing Rights:** India's Special Drawing Rights decreased by \$79 million to \$17.985 billion, while its reserve position with the IMF also saw a minor decrease

BWR VIEW

The decrease in forex reserves typically increases pressure on the Indian rupee, which has already depreciated by 1.52% against the dollar in 2024

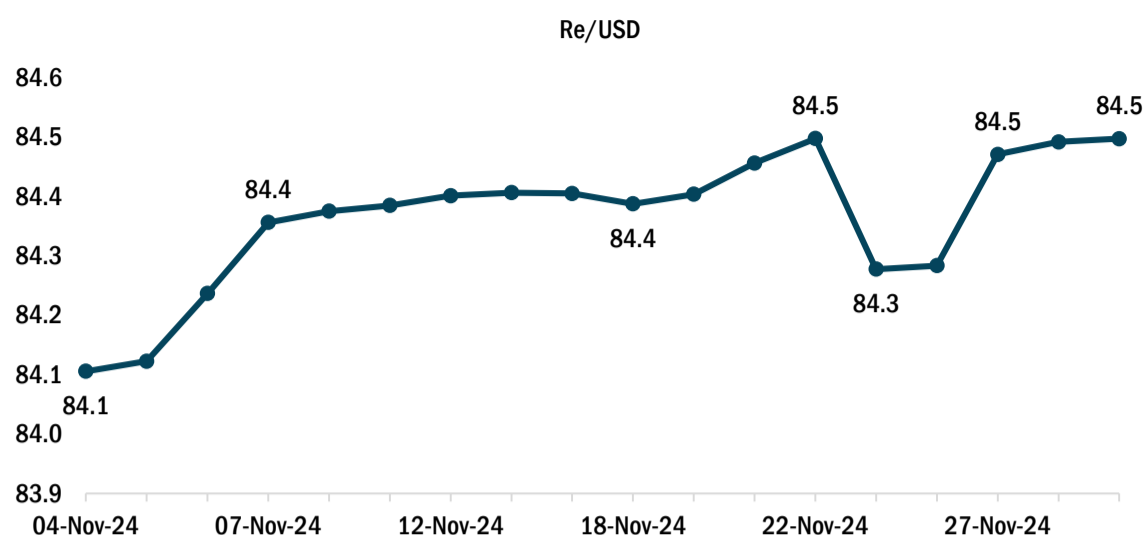
The declining reserve position in India could lead to investor confidence erosion, capital outflows, and increased volatility in stock and bond prices

Reserve decline coincides with economic slowdown, dropping to 5.4% in July-September 2024 quarter, hindering government's ability to implement fiscal policies or stimulate growth through investments

The decline in India's forex reserves presents significant economic challenges, impacting currency stability, inflation rates, investor confidence, and overall growth prospects

Rupee

Rupee hit an all-time low of 84.5075 against the dollar in November 2024



Source: RBI

- The Indian rupee (INR) faced significant challenges in November 2024, making it one of the worst-performing currencies in Asia
- The Indian rupee weakened against the dollar and other currencies in November 2024, however, performed slightly better than the South Korean won but the performance was significantly worse than regional currencies like the Thai baht and Malaysian ringgit

Record Low Levels: Following a series of declines throughout the November 2024 month, the rupee reached an all-time low against the US dollar on November 28, reaching 84.5075 on November 28, dropping from 84.4525 in the previous session

- The Indian rupee earlier during the month hit an all-time low of 84.30 on November 7, 2024 due to a bullish dollar outlook following Donald Trump's election victory, boosting US economic growth and potential tariffs
- The rupee again reached a record low of 84.50 per USD on November 21, 2024 due to rising inflation and expectations of hawkish monetary policy from the Reserve Bank of India
- The rupee fluctuated around record lows throughout the month and experienced a 1.6% decline by the end of November 2024, ranking as the second worst-performing currency in Asia, following the South Korean won
- The RBI intervened in the foreign exchange market by selling dollars through state-run banks to stabilize the rupee, preventing further depreciation amid increasing dollar demand from importers and foreign banks.
- The RBI's efforts to stabilize the rupee amid depreciation pressures were partially effective but the rupee reached a record low partly due to market forces including foreign capital outflows and a strengthening dollar

Contributing Factors:

- **Inflation Pressures:** In October 2024, domestic inflation reached 6.2%, raising economic stability concerns and delaying expectations for interest rate cuts by the RBI, leading to lack of confidence among investors regarding India's economic stability and growth prospects, resulting in the further depreciation of the rupee
- **Foreign Investment Outflows:** Significant foreign portfolio investment (FPI) outflows totalling around \$1.5 billion in November followed by around \$11 billion outflows in October 2024 exerted additional downward pressure on the rupee
- **Global Dollar Strength:** The rupee's weakness was exacerbated by a bullish US dollar outlook due to Donald Trump's fiscal policies including tax cuts and deregulations, and rising geopolitical tensions. Such policies boosted investor confidence in the US economy, leading to increased demand for US dollars and putting pressure on the Indian rupee
- **Rising Crude Oil Prices:** With rise in global crude oil prices and India being a net importer of oil has led to higher import costs, resulting in increased demand for dollars, and weakened rupee
 - Geopolitical tensions, particularly in West Asia, have led to rising oil prices and market uncertainty.
- **Market Sentiment:** Investors' concerns about India's growth rate stability led to bearish sentiment towards the rupee, causing a decrease in domestic capital market positions

BWR VIEW

The Indian rupee experienced significant challenges in November 2024, reaching a record low against the US dollar, with economic indicators like inflation and foreign investment trends influencing market perceptions and currency valuation

The Reserve Bank of India's November 2024 efforts to support the rupee, including market interventions and foreign currency management, faced challenges from global dollar strength and domestic inflation pressures

The rupee could further depreciate if current economic conditions, such as geopolitical tensions and domestic growth challenges persist

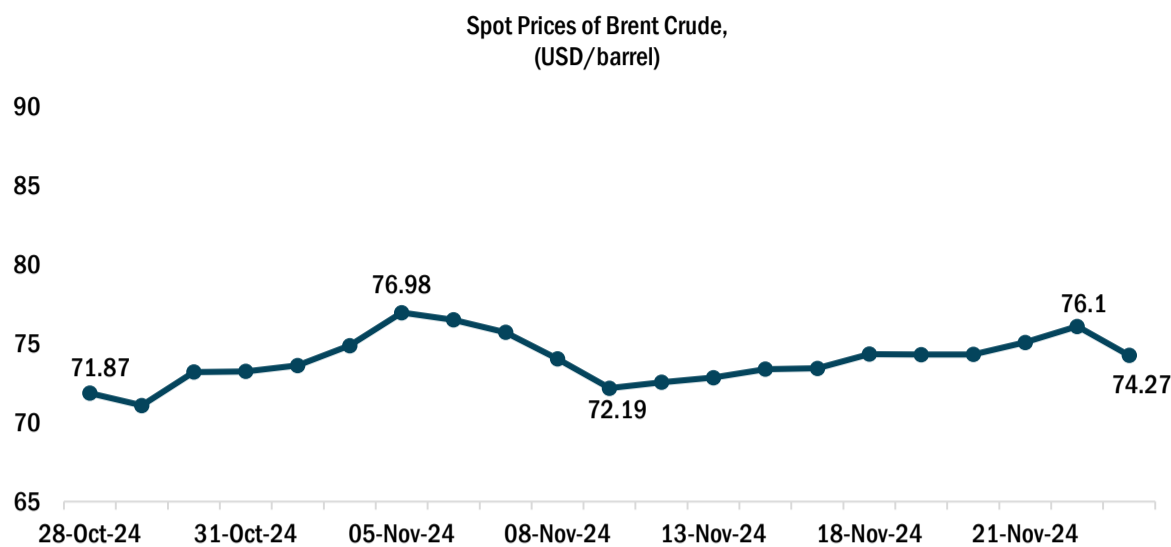
The RBI's increased non-deliverable forward (NDF) position suggests limited support capacity, potentially causing a quicker decline in the rupee's value if market pressures persist unabated

Estimates indicate that RBI's intervention efforts to stabilize the rupee have been significant as short position in the NDF market is expected to have risen to \$65 billion to \$70 billion, suggesting limited support capacity, potentially causing a quicker decline in the rupee's value if market pressures persist unabated

The rupee is expected to weaken further, with predictions ranging from ₹84.35 to ₹85 per dollar in the coming weeks. RBI interventions have helped curb declines, but sustained interventions may deplete forex reserves. The upcoming monetary policy meetings of the RBI for potential interest rate adjustments in the first week of December 2024 will be crucial for determining the trajectory of the rupee

Oil

Brent Crude oil managed to maintain its footing in November amid Global Uncertainty



Source: U.S. Energy Information Administration

- **Early November Surge:** The month began with Brent crude oil prices around \$75.20 per barrel, a continuation of a rising trend from previous months. Brent crude prices surged past \$80 in early November 2024 month due to geopolitical tensions, Ukraine conflict, and Middle Eastern oil supply concerns, but dropped to \$72 by mid-November due to eased military threats
- **Mid-November Decline:** By Mid November, crude oil prices dropped significantly to \$72 per barrel due to reduced demand from major consumer markets, particularly China, impacted by economic challenges
- **Mid to Late November:** Throughout the latter half of November 2024, Brent crude traded within a tight range, with the lowest recorded price at \$71.51 and the highest at \$73.181, reflecting a stable market but also being caution. due to upcoming OPEC+ meeting scheduled for December 5, 2024
- **End of November Stability:** Brent crude traded at \$72.86 per barrel as of November 29, 2024, with market sentiments stabilizing due to economic data and geopolitical developments

Key Influencing Factors

Geopolitical Tensions:

- **Middle East Instability:** Middle East tensions, mainly between Israel and Hamas, have raised concerns about supply disruptions and potential oil shipments, potentially leading to increased prices
- **Geopolitical Tensions:** The Ukraine conflict has heightened geopolitical risks, with increased sanctions on Russia due to US and UK support, affecting market perceptions of supply stability
 - The Ukrainian conflict has significantly impacted oil prices, with increased tensions and sanctions adding a geopolitical risk premium, leading to a temporary spike in prices due to potential supply disruptions
- **OPEC+ Production Cuts:** OPEC+ announced 2.2 million barrels of production cuts daily to stabilize prices amid weak global demand, lifting Brent crude prices above \$75 per barrel early in the month, despite fluctuating demand forecasts
 - OPEC+ decisions, including delaying output increases and maintaining production cuts, have significantly influenced market dynamics due to weak global demand, with their upcoming meeting expected to further shape expectations
- **Improved US Economic Data:** Economic data from the U.S. showed an increase in the S&P PMI for November 2024, indicating stronger fuel demand from the largest consumer, while weaker China demand signals contributed to price pressures. The U.S. S&P PMI for November 2024 increased to 55.3, indicating robust private sector growth and a stronger demand outlook from oil consumers, resulting in upward price pressure on Brent crude
- **China's Trade Policies:** In response to the economic challenges, China's new trade policies, including support for energy imports, aimed to boost trade and address economic challenges, potentially positively influencing market sentiment regarding future crude oil demand
- A softer U.S. dollar impacted commodity prices, including Brent crude, but was surpassed by broader market dynamics and geopolitical risks

BWR VIEW

Lower crude oil demand outlook in major markets like China have led to recent price declines, affecting global oil consumption patterns

Brent crude oil prices are expected to gradually recover in December 2024, influenced by geopolitical tensions and economic performance, based on global demand and supply conditions

Conflicts in the Middle East could cause volatility and price spikes, while continuation or extension of OPEC+ production cuts could significantly impact supply levels and pricing

The recovery of the global economy, particularly in major consumer markets like the U.S. and China, could potentially mitigate negative impacts on oil demand and sustain prices

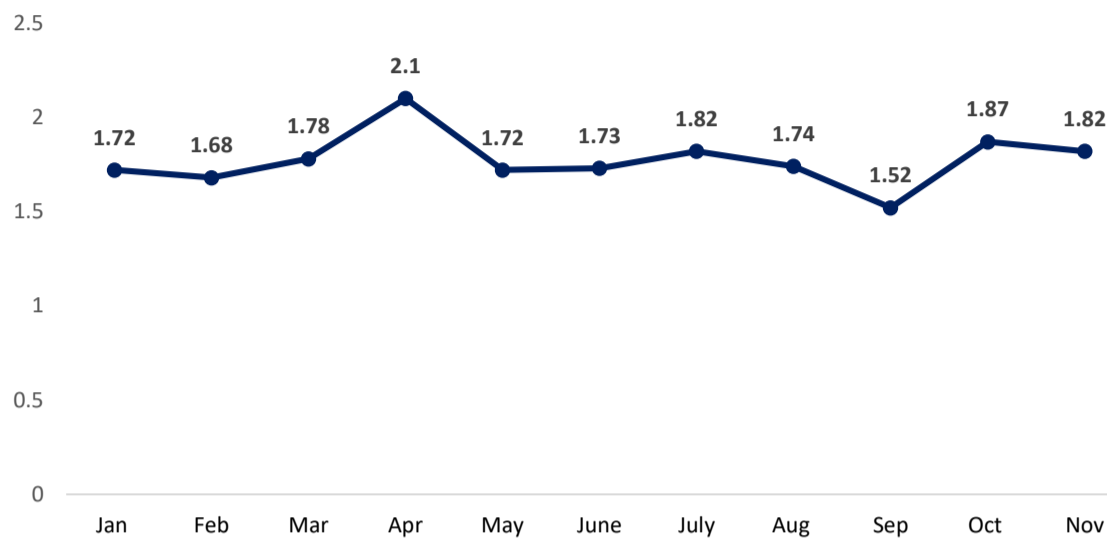
Geopolitical tensions may cause short-term Brent crude oil price increases due to supply concerns and market speculation, but long-term effects depend on global economic activity and OPEC+ responses

Other Macro-Economic Indicators

GST Collections

The monthly trends in India's GST collections reflects a marginal decline compared to October, the GST collections in November was primarily driven by domestic transactions.

GST Collections - Monthly Trend 2024 (Rs. Lakh Crore)



Sources: GST Council, Press Information Bureau.

Deposit & Credit Growth Rate

The trends in India's credit and deposit growth for 2024 indicate deposit growth has edged ahead of credit growth reaching 11.21%, Moderation in credit growth is led by the slowdown in growth of other personal loans, vehicle loans, and credit card balances.

Deposit & Credit Growth % 2024 - Monthly Trend



Source: RBI

BWR VIEW

The November GST collection figures reflect a complex interplay of factors affecting the Indian economy, including regulatory changes, consumer behaviour shifts, and regional disparities in economic performance. As the GST Council prepares for discussions on these trends, there may be a need for strategic adjustments to stimulate growth and align consumption with rising incomes.

The current alignment between credit and deposit growth is primarily a result of a deceleration in credit growth from its recent highs. This slowdown is influenced by multiple factors, including the RBI rise in risk weights for unsecured loans and loans to NBFCs, challenges in the unsecured retail loan segment of banks, and the RBI's directive for banks to reduce their high loan-to-deposit ratios.

GLOBAL

US Federal Reserve Cuts Interest Rates; Future cuts depend on economic developments and Trump's fiscal policies

- The U.S. Federal Reserve (US Fed) announced a 0.25 percentage point cut in its benchmark interest rate on November 7, 2024, marking its second consecutive rate cut of the year, following a significant half-point rate cut in September 2024
- With this cut, the federal funds rate has been reduced to a range of 4.5% to 4.75%
- The decision by the US Fed follows the recent U.S. presidential election, where President-elect Donald Trump secured another term
- The Fed's actions are viewed as a response to the current economic conditions, including a cooling of inflation, which is currently above the central bank's 2% target along with signs of cooling job market, and reducing high borrowing costs affecting economic activity
- The Federal Reserve is attempting to stimulate economic activity due to persistent high borrowing costs burdening consumers despite economic indicators of resilience
- The Federal Open Market Committee (FOMC) predicts further rate cuts, potentially dropping rates by 0.5 percentage points by the end of 2024 and potentially by a full percentage point in 2025. The trajectory indicates a continuous effort to promote economic growth while effectively managing inflation
- Economists predict continued rate cuts, but future adjustments will depend on Trump's policies and inflation effects. The Federal Reserve will be cautious, weighing economic data against potential policy changes from the White House

Federal Reserve Chair Jerome Powell Emphasizes Caution on Rate Cuts

- Federal Reserve Chair Jerome Powell has cautioned against rushing to cut interest rates due to the current strength of the U.S. economy
- The economy is not sending any signals that we need to be in a hurry to reduce rates, he added
- Powell stated that while inflation is nearing the Fed's 2% target, it has not yet reached that level. He emphasized the Fed's intention to proceed slowly and deliberately in the coming months

Bank of England Cuts Interest Rates to 4.75%: Gradual Reductions Expected Ahead

- Bank of England Cuts Interest Rates: The Bank of England (BoE) announced a significant interest rate cut on November 7, 2024, lowering the base rate from 5% to 4.75%
- The decision marks the second reduction in the current easing cycle, following a previous one in August 2024, with an 8-1 majority from the Monetary Policy Committee
- This decision by the BoE was on the anticipated lines due to falling inflation, which fell to 1.7% in September 2024, below the government's target of 2%

Reason for Cut:

- **Falling Inflation:** The decision was influenced by a significant decrease in UK inflation rates due to prior monetary tightening measures
 - This decline allows the Bank to reduce rates as part of its strategy to stimulate economic growth while maintaining price stability

Wage Growth Trends: Wage growth slows to its lowest in two years, urging rate cuts to stimulate economic activity by reducing consumer spending and borrowing costs

Future Outlook:

- The Monetary Policy Committee (MPC) plans to make further cuts if inflation remains low and stable, but will closely monitor economic indicators before making any adjustments
- However, inflation expectations for 2025 have increased following the budget announcement due to concerns about persistent wage growth and fiscal loosening, which could potentially lead to higher inflation levels beyond the target
- The upcoming CPI data due on November 20, 2024 will be crucial in evaluating inflation trends for the future

UK Public Sector Borrowing Hit Record High in October 2024 led by Debt Interest Payments

- In October 2024, the United Kingdom's public sector net borrowing increased significantly to £17.35 billion, up from a revised £16.13 billion in September 2024, marking a 7.6% increase from September 2024 and a 9.8% rise compared to the same month last year
- This figure was notably higher than market expectations of £12.3 billion, marking it as the second highest borrowing amount for October 2024 since records began in January 1993
- The month's borrowing surge was primarily due to rising public sector wage agreements and higher government debt interest payments, despite increased tax revenues
- **Debt Levels:** Net debt percentage of GDP increased to 97.5% in October 2024, a record high not seen since the early 1960s, from 97.1% in September 2024 and 95.9% a year earlier.
- **Public Sector Pay Increases:** Higher borrowing was primarily driven by substantial wage increases for public sector workers, including NHS staff and teachers
- These pay deals exceeded inflation and were backdated leading to increased government spending, which rose by £2.2 billion compared to the previous year
- **Rising Debt Interest Payments:** Debt interest payments reached £9.1 billion in October 2024, the highest since 1997, driven by high public debt levels of £2.7 trillion, equivalent to 97.5% of GDP
- **Total Government Expenditure:** The government's total expenditure for October was reported at £88.5 billion, leading to a financial year to date borrowing of £96.6 billion, which is £1.1 billion more than the same period last year. This underscores the fiscal challenges the UK government is facing as it tries to balance spending with revenue generation

* Views are personal

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