



January 2025

ECONOMY OUTLOOK - JANUARY 2025



Brickwork Research

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Economy Outlook

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Summary

1. The Reserve Bank of India (RBI) has decided to maintain a steady repo rate of 6.5% due to rising inflation and slowing India's GDP growth, which has reached a seven-quarter low of 5.4% for the July-September 2024 period
2. Indian economy is expected to grow at 6.5% in FY25, following a sluggish first half of the current fiscal year, driven by gains in agricultural and industrial activity, according to the Finance Ministry's Monthly Economic Review
3. India's retail inflation has decreased significantly in November 2024 to 5.48% from a 14-month high of 6.21% in October 2024. The decline was primarily due to moderation in food prices, particularly vegetables and edible oils, which are major components of the consumer price index (CPI) basket
4. India's wholesale inflation, as measured by the WPI, showed a notable easing with the WPI increasing by 1.89% in November 2024, a decrease from the previous month's 2.36% increase
5. India's manufacturing sector experienced a decline in November 2024, with the Purchasing Managers' Index (PMI) dropping to 56.5 from 57.5 in October 2024
6. In November 2024, India's services sector showed strong performance, with the Services Purchasing Managers' Index (PMI) at 58.4, slightly down from October's 58.5, indicating its resilience and significant economic role
7. India's core sector experienced a significant recovery in the last four months of 2024, reaching a four-month high growth rate of 4.3% in November 2024, a significant increase from the previous month growth of 3.7%, following a consistent upward trajectory since September
8. India's industrial production in October 2024 saw a 3.5% year-on-year growth, marking a slight increase from the 3.1% recorded in September 2024 but significantly lower than the 11.9% growth recorded in October 2023
9. India's merchandise trade deficit reached a record high of \$37.84 billion in November 2024, a significant increase from the \$27.1 billion recorded in October 2024
10. In December 2024, the Nifty 50 index showed a negative trend, ending 2.6% lower. However, the index ended the year at 23,645, an 8.8% increase, despite facing challenges in December
11. India's foreign exchange reserves experienced a significant decline in December 2024, dropping to \$644.39 billion as of December 20, 2024, marking a significant decrease of approximately \$8.5 billion in just one week
12. In December 2024, the Indian rupee experienced a significant depreciation against the U.S. dollar in December 2024, culminating in a record low due to a combination of global economic factors and domestic challenges
13. Global crude oil prices saw modest gains in December 2024, with Brent benchmarks rising by over 2% during the month
14. The US Federal Reserve reduced interest rates by 0.25% to a range of 4.25%-4.50% on 18 December 2024. The Fed's decision marks a third consecutive rate cut, coming after a 25-basis-point reduction in November 2024 and a larger 50-basis-point cut in September 2024
15. Britain's economy contracted for a second consecutive month in October 2024, ahead of the new government's first budget. According to the Office for National Statistics, Gross Domestic Product (GDP) fell by 0.1 percent month-on-month in October, the same as in September. This was the first consecutive drop in monthly GDP, since March and April 2020
16. The European Central Bank (ECB) has cut key interest rates by 25 basis points for the fourth time this year on December 12, 2024
17. The Bank of Canada (BoC) reduced its key interest rate by 50 basis points to 3.25% from 3.75% on December 11 2024, marking its fifth consecutive reduction since June 2024 and reflects the central bank's response to several concerning economic indicators pointing towards a slowdown in growth

India's economy in December 2024 reflects a period of resilience and growth, positioning the country as a significant player on the global economic stage. The year has been marked by a projected GDP growth rate of 6.6% for the fiscal year 2024-25, continuing the momentum from previous years and reinforcing India's status as the world's fifth-largest economy. This growth trajectory is noteworthy as it narrows the gap with Germany, which currently holds the fourth position. The economic landscape has been shaped by various factors, including robust financial stability, strategic policy measures, and a favourable investment climate

The Gross Domestic Product (GDP) per capita has also seen significant improvement, with a growth rate of 2.73% in 2024. The per capita income reached nearly INR 200,000 (approximately USD 2,336), a remarkable increase from INR 71,609 (USD 836.4) in 2012. This increase represents a staggering 175% rise over the past decade, driven by population growth, increased demand for employment, and expanding economic activities

The Reserve Bank of India's Financial Stability Report (FSR) for December 2024 highlights several critical aspects of the banking sector and overall economic health. Notably, gross non-performing assets (NPAs) have declined to a 12-year low of 2.6% as of September 2024. This improvement is attributed to effective recovery efforts and strategic write-offs of legacy bad loans, alongside a slowdown in the accumulation of new bad assets. However, challenges remain, particularly with a growing liquidity deficit in the banking system, which stood at INR 2.43 trillion (USD 28.38 billion) as of late December. This deficit has been influenced by tax outflows and foreign exchange interventions by the central bank

Foreign Direct Investment (FDI) inflows have played a pivotal role in bolstering India's economic performance in 2024. Cumulative FDI inflows from 2000 to 2024 reached USD 1.03 trillion, with Mauritius and Singapore being the largest contributors. The services sector emerged as the leading recipient of FDI, accounting for approximately 16% of total inflows, equivalent to USD 115.19 billion. This sector includes financial services, IT, and business outsourcing, reflecting its critical role in driving investment and economic growth

Despite the overall positive outlook, certain challenges persist within the economy. The July-September quarter saw GDP growth slow to 5.4%, primarily due to high food inflation affecting consumer spending patterns. Nevertheless, continued government support and monetary policy adjustments have helped stabilize the situation. The RBI has maintained steady interest rates while easing monetary conditions to foster recovery

The rural economy has shown signs of rebounding, contributing positively to overall growth expectations for FY 2024-25. Consumer spending patterns are shifting towards discretionary durable goods and services, indicating changing lifestyles among Indian households. This shift is creating new business opportunities across various sectors

Infrastructure investment remains a cornerstone of India's economic strategy, with significant public spending aimed at enhancing connectivity and supporting industrial growth. The construction sector has experienced robust activity, contributing to overall GDP growth

BWR VIEW

As India navigates through these dynamic economic conditions, it is essential to acknowledge the interplay between domestic policies and global economic trends. While external factors such as geopolitical tensions and sluggish global trade may pose challenges to export performance, India is likely to benefit from increased capital inflows as multinational companies seek to optimize operational costs

In summary, India's economy stands at a crucial juncture characterized by impressive growth figures and evolving consumer dynamics. The combination of strong GDP growth projections, improved financial stability within the banking sector, and substantial FDI inflows underscores India's potential for sustained economic expansion in the coming years. As policymakers continue to address existing challenges while fostering an environment conducive to investment and innovation, India is poised to solidify its position as an emerging global economic powerhouse in the years ahead

RBI Keeps Repo Rate Unchanged at 6.5%; Cuts CRR by 50 bps to 4% and Lowers FY25 GDP Growth Projections to 6.6%

• Repo Rate Unchanged

- The Reserve Bank of India (RBI) has decided to maintain a steady repo rate of 6.5% due to rising inflation and slowing India's GDP growth, which has reached a seven-quarter low of 5.4% for the July-September 2024 period
- This marks the 11th consecutive meeting where the rate has remained unchanged since February 2023, reflecting the central bank's cautious approach amid challenging economic conditions
- The committee's decision, based on a 4:2 majority, was made cautiously due to ongoing inflationary pressures and a slowing economic growth outlook

• Cut in Cash Reserve Ratio (CRR)

- The RBI has reduced its Cash Reserve Ratio from 4.5% to 4%, with the aim of improving liquidity and potentially reducing borrowing costs

• GDP Growth Projections Revised Downwards

- The RBI revised its FY25 GDP growth forecast to 6.6%, down from 7.2%, due to sluggish economic activity, with Q2 FY25 GDP growth at a seven-quarter low of 5.4%

Real GDP Growth Estimates		
Period	Current Forecast	Previous Forecast
FY 2024-25	6.6%	7.2%
Q3	6.8%	7.4%
Q4	7.2%	7.4%
Q1 FY2025-26	6.9%	7.3%
Q2 FY2025-26	7.3%	-

• Inflation Forecast Adjustments

- The inflation projection for FY25 was revised upwards to 4.8%, up from the earlier estimate of 4.5% driven by volatile food prices, which led to a CPI increase of 6.21% in October 2024

Inflation Estimates		
Period	Current Forecast	Previous Forecast
FY 2024-25	4.8%	4.5%
Q3	5.7%	4.8%
Q4	4.5%	4.2%
Q1 FY2025-26	4.6%	4.3%
Q2 FY2025-26	4.0%	

(For further details, please refer to BWR Economic Brief, 06 December, 2024, <https://www.brickworkratings.com/Research/RBI-Monetary%20Policy-meet-outcome-%20December%202024.pdf>)

BWR VIEW

This decision by the RBI comes as it aims to balance economic growth and inflation, with the MPC's cautious stance addressing concerns over high food prices and global economic uncertainties affecting domestic stability

The CRR cut benefits consumers seeking loans, but its impact on borrowing rates will depend on banks' response to increased liquidity and their decision to pass on benefits

The CRR cut aims to alleviate liquidity issues in the banking sector and boost lending capacity, which has been affected by reducing foreign exchange interventions and capital outflows, while maintaining moderate core inflation despite rising food prices

Maintaining Repo rate is a part of a broader strategy to balance inflation control with economic growth support, aiming to achieve sustainable inflation alignment and address growth challenges

The RBI's steady repo rate reflects a commitment to balancing inflation control with economic growth support, providing borrowers with stable borrowing costs and enabling financial planning without sudden changes

The revised GDP growth projections highlight Indian economy's challenges, but suggest certain sectors may perform well. Policymakers must navigate complexities to foster sustainable growth and manage inflation

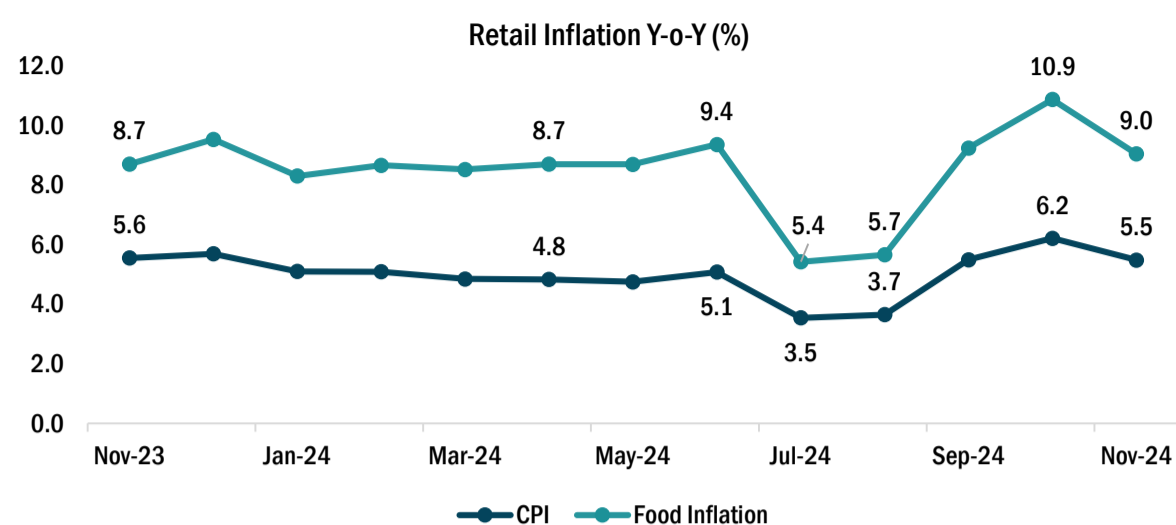
Indian Economy to Grow at 6.5% in 2024-25: Finance Ministry

- Indian economy is expected to grow at 6.5% in FY25, following a sluggish first half of the current fiscal year, driven by gains in agricultural and industrial activity, according to the Finance Ministry's Monthly Economic Review
- India's GDP growth rate declined to a seven-quarter low of 5.4% in the July-September 2024 quarter, down from 6.7% in the previous quarter
- The ministry cited the Reserve Bank of India's (RBI) monetary policy stance as one of the factors contributing to the slowdown in the first half of FY25
- The outlook for the third quarter (October-December) looks bright, with rural demand remaining resilient and urban demand picking up in the first two months of the quarter, according to the report
- The rise in Minimum Support Price (MSP) for rabi crops, along with high reservoir levels and sufficient fertiliser availability, creates a positive outlook for rabi sowing. Industrial activity is expected to pick up momentum

OECD Anticipates Steady Global Growth and a Reduction in Inflation

- According to the Organization for Economic Cooperation and Development's (OECD) recent Economic Outlook, the global economy is projected to remain resilient in spite of significant risks.
- It expects that the global GDP growth is likely to reach 3.3% in 2025, slightly up from 3.2% in 2024, with a similar growth rate of 3.3% anticipated in 2026.
- The Economic Outlook highlights ongoing uncertainty. A worsening of the conflicts in the Middle East could disrupt energy markets, affecting both confidence and growth. Increased trade tensions may also pose a risk to trade growth. Unexpected developments in growth or the pace of disinflation could lead to significant corrections in financial markets. However, there is potential for positive surprises in growth as well, according to OECD.
- It further stated the improvements in consumer confidence, for example if buying power recovers quicker than expected, it may boost spending. An early resolution to major geopolitical conflicts could also improve sentiment, and lower energy prices, it added
- Moreover, the OECD reported that global inflation is expected to ease significantly over the next few years. Inflation is projected to decline further, dropping from 5.4% in 2024 to 3.8% in 2025, and reaching 3.0% in 2026, aided by the still restrictive stance of monetary policy in most countries, it added

Retail Inflation in India Drops to 5.48%; Food Inflation Moderates led by notable drop in vegetable prices



Source: RBI

- India's retail inflation has decreased significantly in November 2024 to 5.48% from a 14-month high of 6.21% in October 2024
- The decline was primarily due to moderation in food prices, particularly vegetables and edible oils, which are major components of the consumer price index (CPI) basket
- Inflation rate in November 2023 stood at 5.55%, indicating a slight decrease in the year-on-year inflation rate, reflecting improvements in certain economic conditions and price stabilization efforts

Key factors that contributed to the easing of retail inflation in India in November 2024:

1. **Moderation in Food Inflation:** The food inflation rate decreased from 10.87% in October 2024 to 9.04% in November 2024. The decrease in inflation was due to decrease in vegetables' prices, which had previously contributed to food inflation reaching high levels
2. **Vegetables prices:** The moderation in vegetable prices in November, which rose by 29.33% Y-o-Y as against a much higher 42.18% increase in October 2024., significantly reduced overall food inflation, a significant factor in the decrease in overall inflation
3. **Stabilization of Edible Oil Prices:** The stabilization of edible oil prices in November 2024 following a significant increase in prices earlier due to increase in import duty reduced overall food inflation pressure
4. **Decline in Pulses and Cereal Prices:** Pulses and cereal prices experienced a significant decrease in inflation, dropping from 7.43% in October 2024 to 5.41% in November 2024, while overall food inflation decreased to 9.04% from 10.87% the previous month
5. **Impact of a Good Monsoon:** The favorable monsoon season led to a robust summer crop harvest, stabilizing vegetable prices, and is expected to boost winter crop production, reducing food inflation pressures
6. **Seasonal Factors:** Winter's seasonal transition leads to lower vegetable prices, causing a 4.5% decline in November 2024. The arrival of kharif crop is expected to further ease food prices in December 2024
7. **Core Inflation:** Core inflation, excluding food and fuel prices, remained stable at 3.6%, suggesting that inflation pressures outside food and energy were relatively contained
8. **Fuel and Light:** Inflation for fuel and light decreased significantly from -1.39% in October 2024 to -1.83% in November 2024, indicating reduced pressure on consumer prices
9. **Global Commodity Prices: Softening of global energy and commodity prices** also led to stabilizing inflation rates across various sectors and creating a more favorable economic environment for consumers
10. **Rural versus Urban Inflation:** Rural inflation decreased to 5.95% in November 2024, while urban inflation fell to 4.83%, reflecting broader trends across different demographics

BWR VIEW

India's retail inflation in November 2024 was slowed by falling vegetable prices, resulting in a broader food inflation decline and paving the way for potential monetary policy adjustments. The reduction in food prices is anticipated to impact the overall economic environment and potentially prompt the Reserve Bank of India (RBI) to reconsider its monetary policy stance

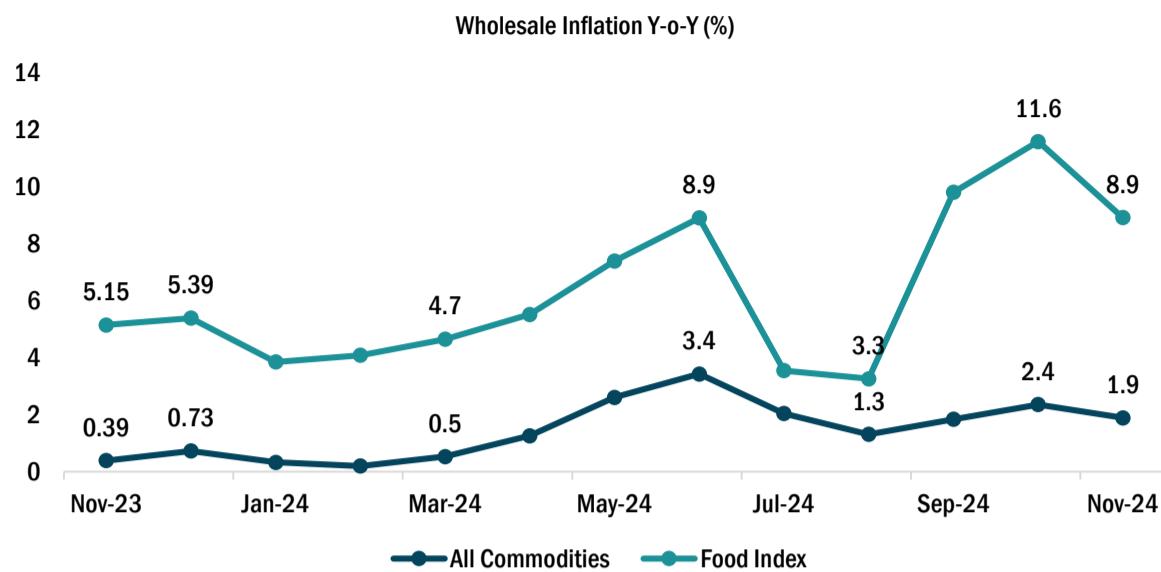
Monetary Policy Implications: The easing of retail inflation is seen as a positive sign as it remains within the RBI's target range of 2-6%, potentially paving the way for future rate cuts by the RBI in early 2025, if food prices stabilize and economic growth remains subdued

We expect the favourable agricultural conditions, including a good monsoon season and adequate reservoir levels, are expected to support winter crop sowing and production, easing food supply pressures and reducing prices

The RBI's recent decrease in inflation may offer more flexibility for future policy adjustments, particularly if the downward trend persists

We expect the RBI to cut interest rates in early 2025, bolstered by the easing of inflation, especially amid slowing economic growth

India's Wholesale Inflation Declines to 1.89% in November led by food inflation; Fuel and Power Prices Continue to Decline



Source: Ministry of Commerce & Industry, Government of India

- India's wholesale inflation, as measured by the WPI, showed a notable easing with the WPI increasing by 1.89% in November 2024, a decrease from the previous month's 2.36% increase
- The easing inflation is attributed primarily to a decrease in food prices, particularly vegetables, which experienced a significant decrease in price growth compared to the previous year, with the WPI Food Index inflation decreasing from 11.59% in October to 8.92% in November
- On a month-on-month basis, wholesale inflation edged down by 0.06% following a revised increase of 0.90% in October 2024
- This easing of wholesale inflation marks the 13th consecutive month of inflationary trends in India, primarily influenced by fluctuations in food and manufacturing prices, indicating a cooling trend with potential broader economic implications

Key Factors Contributing to Easing Wholesale Inflation

- **Moderation in Food Prices:** The primary driver behind the easing inflation was a significant reduction in food prices, particularly vegetables. Food inflation decreased to 8.63% in November, primarily due to a decrease in food prices, particularly vegetables, from 63.04% in October 2024 to 28.57% in November 2024, and a decrease in onion prices
 - Onion prices rose by only 2.85% in November 2024, a significant drop from 39.25% in the previous month. This cooling off of vegetable prices contributed significantly to the overall decline in food inflation.
- **Manufacturing Prices:** In contrast, manufacturing prices saw an uptick, with manufacturing prices reaching a 22-month high of 2.0% in November 2024, up from 1.50% in October 2024, due to increased food products and pharmaceuticals
- **Fuel and Power:** Fuel and power segment experienced -5.83% deflation, slightly worse than previous month's -5.79%, primarily due to falling petrol and diesel prices
- **Decrease in Primary Articles Index:** The primary article index decreased by 1.20%, resulting in a significant decrease in wholesale inflation compared to the previous month, which saw more growth.
- **Seasonal Decline in Vegetables Prices:** Vegetable prices decreased significantly from 63.04% in October 2024 to 28.57% in November 2024, largely due to fresh harvests increasing supply and alleviating previous price pressures
- **Favourable Monsoon Conditions:** The monsoon season led to a robust summer crop harvest, stabilizing vegetable prices and ensuring adequate supply, especially for staples like tomatoes and onions, which had previously experienced price increases
 - The monsoon season has improved agricultural output, resulting in robust crop production and adequate soil moisture, supporting Rabi harvest and alleviating food inflation pressures in the coming months

BWR VIEW

Easing in food price inflation offering some relief from ongoing food and manufacturing sector pressures, suggesting potential stabilization in consumer prices in the future. However, persistent deflation in fuel and power sectors and rising inflation in manufactured products necessitate further monitoring

Despite signs of easing inflationary pressures, particularly in food prices, the persistent nature of wholesale inflation suggests challenges for the Indian economy

The data indicates positive inflation, but significant fluctuations in certain categories could impact future economic policies, especially regarding interest rates set by the Reserve Bank of India

The Reserve Bank of India (RBI) maintained the key interest rate but reduced the cash reserve ratio for banks to ease monetary conditions, emphasizing the need to align inflation with its 4% target for sustained economic growth

India's wholesale inflation outlook for December 2024 is cautiously optimistic, with expectations of continued moderation influenced by easing food prices and stable manufacturing costs, with WPI inflation expected to hover around 1.90%, following the November trends

India's wholesale inflation outlook is cautious due to its connection to food prices and economic conditions. Food price fluctuations, a significant driver of wholesale inflation, have been a key factor in November, reflecting ongoing agricultural product price volatility

However, the easing of wholesale inflation is expected to influence the Reserve Bank of India's monetary policy with expectation of a potential interest rate cut during its February 2025 review meeting

- **Declining Prices of Key Staples:** Staples like tomatoes and onions experienced significant price corrections, with onions' retail price declining for the first time since July 2023 and tomatoes experiencing a significant drop due to increased mandi arrivals
 - Apart from vegetables, food inflation in pulses, fruits, and cereals also decreased. Pulses saw inflation dropping from 7.43% in October to 5.41% in November, while cereal inflation slightly decreased from 6.94% to 6.88%, contributing to a broader decrease in overall inflation.
- **Stabilization of Edible Oil Prices:** Government interventions, including duty hikes, stabilized edible oil prices after volatility, positively impacting the overall food inflation index
- **Core Inflation:** Core inflation, excluding volatile items like food and energy, remained at 0.5%, indicating slight upward pressure compared to the previous month.

The reduction in wholesale inflation has several potential impacts on the Indian economy.

- Easing of inflation indicate a positive shift in food pricing dynamics, potentially impacting consumer spending and monetary policy decisions
- **Monetary Policy Considerations:** The Reserve Bank of India's Monetary Policy Committee is cautious about interest rate adjustments due to inflationary pressures, but recent easing may allow room for future adjustments if consumer inflation declines
- **Future Projections:** It is predicted that favorable agricultural conditions could further reduce food inflation, thereby fostering a more stable economic climate for 2025

India's Manufacturing Growth Faces Pressure as the PMI Declines to 56.5 in November 2024; Input Costs Surge

- India's manufacturing sector experienced a decline in November 2024, with the Purchasing Managers' Index (PMI) dropping to 56.5 from 57.5 in October 2024
- Despite the decline, the PMI remained above the 50-mark, indicating continued growth in the manufacturing sector
- This moderation in manufacturing growth was attributed to increased competition and rising price pressures, with input cost inflation reaching its highest level since July, notably affecting chemicals, cotton, leather, and rubber
- Manufacturers increased their selling prices by the steepest rate since October 2013 to offset increased costs of input, labor, and transportation
- Despite facing challenges, international demand for Indian goods has significantly improved, with new export orders increasing at the fastest pace in four months. The growth was bolstered by favourable demand conditions, despite being impeded by intense competition and high prices

Key Factors Influencing November's Manufacturing Performance:

- **Domestic and International Demand:** The manufacturing sector experienced a decline in new orders due to increased competition and rising prices, but the volume of new work remained high, indicating ongoing production growth
 - The slowing expansion rate for new orders indicates a weakening of domestic demand, impacting manufacturers' output levels.
- **Export Market:** New export orders reached a four-month high, indicating strong international demand for Indian manufactured goods, thereby reducing domestic market challenges and positively impacting the PMI
- International demand showed improvement, with new export orders rising rapidly in four months, primarily from markets like Bangladesh, China, Colombia, Iran, Italy, Japan, Nepal, UK, and US

Inflationary Pressures

- Input costs rose with inflation reaching its highest level since July, causing increased input costs and raw material expenses for manufacturers, affecting profit margins due to rising wage costs in the services sector
- Companies increased output charges since October 2013, attempting to offset high input costs but also posing a risk of decreasing demand.

BWR VIEW

The growth in India's manufacturing sector in November 2024 was moderated by competition and rising costs. Strong export demand and stable production support resilience, but inflationary pressures necessitate strategic adjustments

New export orders saw growth, but not enough to offset the overall slowdown, indicating challenges in international markets. Export growth rate slowed compared to previous months

Production and Capacity Utilization

- Manufacturing output grew moderately, supported by domestic and international demand, despite signs of strain due to challenges.

Employment Trends

- Manufacturing sector employment remains stable, but job creation rate is subdued due to rising input costs and competitive pressures

Supply Chain Dynamics

- Supply chain conditions remain stable, but global disruptions and increased raw material demand lead to input cost inflation, impacting manufacturers' pricing strategies

Business Confidence

- Business confidence improved despite growth slowdown, with firms optimistic about future output, supported by sustained demand and potential inflationary pressure easing

India's Services PMI declines slightly to 58.4 in November 2024; Job Creation Hits Record Levels

- In November 2024, India's services sector showed strong performance, with the Services Purchasing Managers' Index (PMI) at 58.4, slightly down from October's 58.5, indicating its resilience and significant economic role

Key Factors Influencing Services PMI Performance:

- **Strong Domestic and International Demand**
 - The services sector experienced a significant increase in new business, particularly in international demand, which has been at its fastest pace since August
 - The services sector experienced a boost in export orders, primarily from clients in Asia, Europe, Latin America, and the US.
 - The growth in export orders was due to increased international demand, thereby enhancing overall business activity and supporting overall service demand and sustaining sector growth
- **Record Employment Growth**
 - The services sector experienced the fastest employment growth since December 2005, indicating improved business confidence and anticipation of sustained demand
 - Firms increased employment levels due to their efforts to meet increasing demand and effectively manage backlogs
- **Rising Input Costs and Output Prices**
 - The sector experienced significant inflation due to higher labor and material expenses, prompting companies to raise their selling prices at the fastest rate in nearly 12 years
 - Inflationary pressures, particularly from food and wages, led to increased input costs, but moderated compared to previous months, easing service provider price inflation, promoting profitability and sector stability.
- **Business Confidence**
 - Business confidence surged to a six-month high, driven by optimism about sustained demand growth and successful marketing strategies to drive new business.
- **Business Sentiment and Future Outlook**
 - The business outlook has seen a significant improvement, with the future activity sub-index reaching its highest in six months, driven by predictions of strong demand and favorable market conditions

Consequently, India Composite PMI for November 2024 showed a slight decrease in November 2024 at 58.6, down marginally from 59.1 in October 2024 indicating a sharp rate of expansion, with the goods-producing sector experiencing a larger slowdown but still experiencing faster growth than the service economy

Flash India Services PMI Business Activity Index has shown significant growth

- However, the **Flash India Composite Output Index** recorded a strong growth rate of 60.7 at the end of 2024, indicating faster increases in output at both goods producers and service providers, marking the strongest growth rate for four months

BWR VIEW

India's services sector showed strong performance in November 2024, driven by demand, employment growth, and positive business sentiment, but rising input and output costs pose challenges

International demand has led to growth across various services sectors, indicating a broad-based recovery attributed to external market dynamics

International demand supports India's business activity and predicts future growth in its services sector, highlighting its crucial role in driving economic expansion during this period

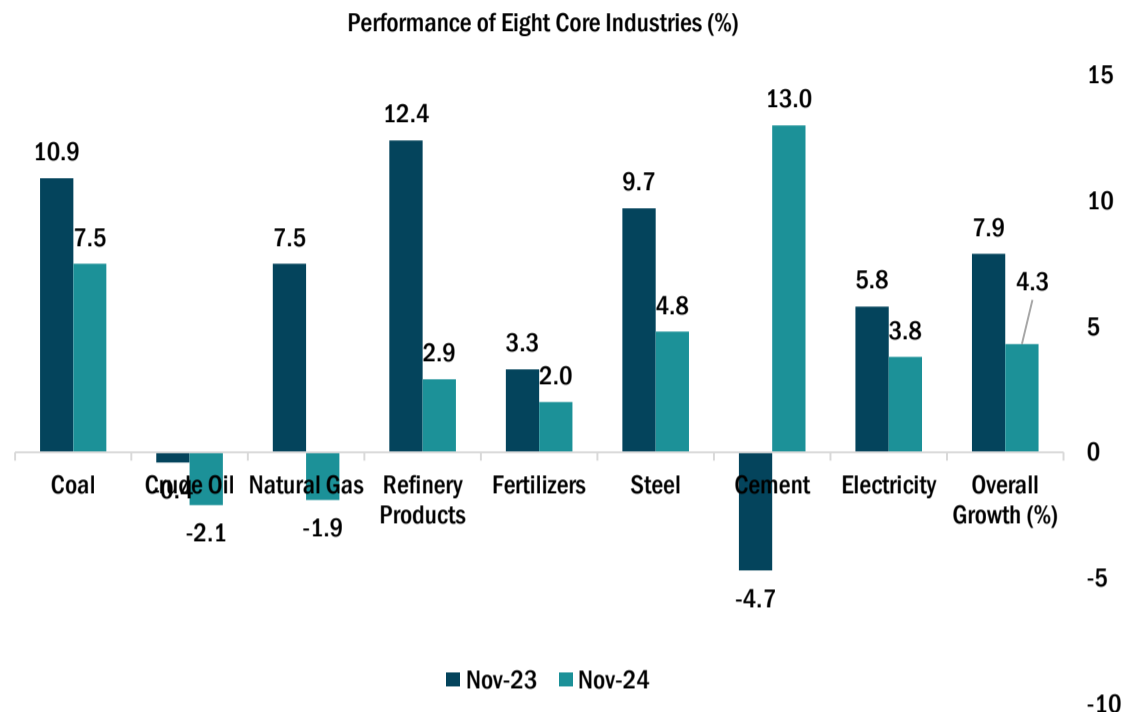
The Reserve Bank of India is expected to maintain its current policy stance until early next year, monitoring inflation trends and economic growth indicators due to the significant increase in input costs and output prices

India's manufacturing sector is experiencing slowdown trend due to rising costs and competitive pressures, but optimism is bolstered by government support and anticipated demand growth

The services sector is expected to expand going ahead, potentially overcoming manufacturing challenges, and strategic investments and policy initiatives will be crucial for a resilient economic environment

- The **HSBC Flash India Manufacturing PMI**, recovered from a two-month low in November 2024 to 57.4 in December 2024, indicating a substantial improvement in manufacturing sector conditions compared to the series history
- The **HSBC Flash India Services PMI Business Activity Index** experienced a significant growth, reaching 60.8 in December 2024, marking the 41st consecutive month of expansion, largely due to a robust demand environment

India's Core Sector Growth Slows to 4.3% in November 2024; Cement and Coal Drive Core Sector Performance



Source: Ministry of Commerce & Industry, Government of India

- India's core sector growth experienced a slowdown in November 2024, registering an increase of 4.3% compared to 7.9% in the same month the previous year
- India's core sector experienced a significant recovery in the last four months of 2024, reaching a four-month high growth rate of 4.3% in November, a significant increase from the previous month growth of 3.7%, following a consistent upward trajectory since September

Sectoral Performance:

- **Cement:** In November 2024, India's cement sector experienced the highest growth among its core sectors, experiencing a 13% increase in output driven by a rebound in construction activities, increased infrastructure spending, and a low base effect from the previous year
 - The growth rate marked a significant rebound from 3.1% growth in October 2024 and a recovery from a contraction of 4.7% in November 2023.
- **Coal:** Coal production increased by 7.5% due to improved mining operations, increased power and industrial demand, and government initiatives to boost domestic production and reduce imports
- **Steel:** The steel sector experienced a 4.8% increase in output, driven by increased demand from construction and manufacturing industries and government-led infrastructure projects
- **Electricity:** Electricity generation increased by 3.8% due to increased industrial activity and higher residential consumption due to seasonal factors
- **Electricity:** Electricity generation increased by 3.8% due to increased industrial activity and higher residential consumption due to seasonal factors
- **Refinery Products:** The production of petroleum refinery products increased by 2.9%, indicating a consistent demand for these products both domestically and internationally
- **Fertilizers:** Fertilizer production increased by 2% during the rabi sowing season, in line with the agricultural sector's demand
- **Crude oil and Natural Gas:** Crude oil and natural gas production declined by 2.1% and 1.9%, respectively, due to aging oil fields, lack of new discoveries, and maintenance shutdowns impacting output

BWR VIEW

India's core sectors are experiencing a recovery phase over the past four months, largely due to strong cement production and consistent performance in coal and electricity, indicating economic recovery in construction and manufacturing, but overall growth remains lower than last year

However, the overall growth rate is subdued compared to previous years, indicating broader economic challenges that have led to revisions in GDP forecasts by economists and institutions

The core sector's performance is crucial as it contributes 40.27% to the Index of Industrial Production, a key indicator of India's overall industrial health

November's data indicates a recovery from October's lows, but it also underscores ongoing challenges in critical sectors for India's economic growth

In 2024, India's core sectors showed mixed performance, with cement recovering and coal and electricity stable, while crude oil and natural gas experienced declines. The overall trend suggests gradual recovery, but slower growth rates compared to previous years

Key factors influencing the performance

- **Monsoon Impact:** The monsoon rains in India have led to a resurgence in construction activities, boosting cement and steel production
- **Government Infrastructure spending:** Government infrastructure spending has increased demand for core sector industries, particularly steel and cement, due to continued investment in infrastructure projects
- **Industrial Activity:** The rise in industrial production and manufacturing has significantly increased the demand for electricity and coal
- **Global Economic Conditions:** The performance of the refinery products and natural gas sectors was influenced by fluctuations in global demand and prices
- **Supply Chain Dynamics:** Post-monsoon, enhanced supply chain efficiencies contributed to the overall growth in core sector output

India's Industrial Production Grows 3.5% in October 2024 led by resilient Manufacturing Sector

Index of Industrial Production, Y-o-Y Growth

	Mining	Manufacturing	Electricity	General
October 2024*	0.9	4.1	2.0	3.5
October 2023	13.1	10.6	20.4	11.9
Weight in IIP	14.4	77.6	8.0	100

Source: Ministry of Commerce & Industry, Government of India

Index of Industrial Production, April 2024-October 2024

	Mining	Manufacturing	Electricity	General
Y-o-Y Growth	3.6	3.8	5.4	4.0

Source: Ministry of Commerce & Industry, Government of India

* Figures for October 2024 are Quick Estimates

Sector-wise Classification

	Primary Goods	Capital Goods	Intermediate goods	Infrastructure/construction goods	Consumer durables	Consumer non-durables
Oct-2024*	2.6	3.1	3.7	4.0	5.9	2.7
Oct- 2023	11.4	21.7	9.5	12.6	15.9	9.3
Sep- 2024	1.8	3.6	3.6	3.2	6.5	2.2
Weight in IIP	34.1	8.2	17.2	12.3	12.8	15.3

* Figures for October 2024 are Quick Estimates

- India's industrial production in October 2024 saw a 3.5% year-on-year growth, marking a slight increase from the 3.1% recorded in September 2024 but significantly lower than the 11.9% growth recorded in October 2023
- The festival season boosted consumer demand, especially in durables and garment manufacturing, with garment manufacturing experiencing a 7.1% surge due to increased export orders and partly due to a political crisis in Bangladesh
- Industrial production has shown a positive trend, with 18 out of 23 manufacturing industry groups experiencing growth compared to October 2023
- This data reflects a recovery in India's industrial output driven by improvements across key sectors. This upward trajectory suggests a strengthening industrial landscape as the economy progresses through 2024

Key Contributors to Growth:

The growth in industrial output was driven by improvements across various sectors:

BWR VIEW

India's industrial sector experienced positive momentum in October 2024, with notable performances in manufacturing, electricity, and mining, highlighting a broad-based recovery across various use-based categories

Meanwhile, the RBI's revised GDP growth forecasts and broader economic indicators necessitate monitoring of upcoming data to evaluate the sustainability of this industrial growth trajectory. The Reserve Bank of India (RBI) has revised its 2024-25 growth forecast to 6.6% due to factors like industrial activity slowdown and unexpected inflation spikes. Despite these challenges, it is crucial to monitor upcoming data to assess the sustainability of this industrial growth trajectory

The 3.5% growth in October 2024 represents a significant improvement from the 3.1% increase in September 2024 and a rebound from the 0.1% contraction in August 2024

The positive trend indicates a potential recovery in industrial activities, possibly due to increased festive demand and consumer spending during the holiday season

Going ahead, the festival season's momentum is expected to continue to positively impact industrial output in the coming months driven by a favourable base effect and sustained consumer demand

The April-October 2024 industrial output saw a 4% increase, a decrease from the revised 7% growth in the previous year

In the short-term, India's industrial production outlook appears optimistic, supported by the boost from the festival season, but there are potential long-term challenges that could impact its performance

- **Manufacturing Sector:** In October 2024, the manufacturing sector, a significant component of the Index of Industrial Production, experienced a growth of 4.1% compared to 10.6% the previous year
 - Within this sector, significant contributors included:
 - Basic Metals (+3.5%)
 - Electrical Equipment: (+33.1%)
 - Coke and refined petroleum products (+5.6%)
- **Electrical Equipment:** The sector experienced a 33.1% increase, contributing significantly to industrial growth, primarily due to increased production of electric heaters, small transformers, and optical fiber connectors
- **Manufacture of Basic Metals:** The Basic Metals Manufacturing sector experienced a 3.5% growth, notably in steel pipes, tubes, galvanized products, and mild steel bars and rods
- **Coke and Refined Petroleum Products:** Coke and Refined Petroleum Products category experienced a 5.6% growth, indicating a surge in petroleum refining and related processes
- **Mining:** Mining sector growth decreased to 0.9% from 0.2% in the previous month, indicating a slowdown from the 13.1% growth in the same month last year
- **Electricity:** The electricity generation sector experienced a 2% growth in October 2024, a decrease from the 0.5% recorded in September 2024 and significantly lower than the 20.4% growth in October 2023
- **Cumulative Growth:** From April to October 2024, overall industrial output increased by 4%, lower than the 7% growth recorded during the same period in 2023

Use-Based Classification:

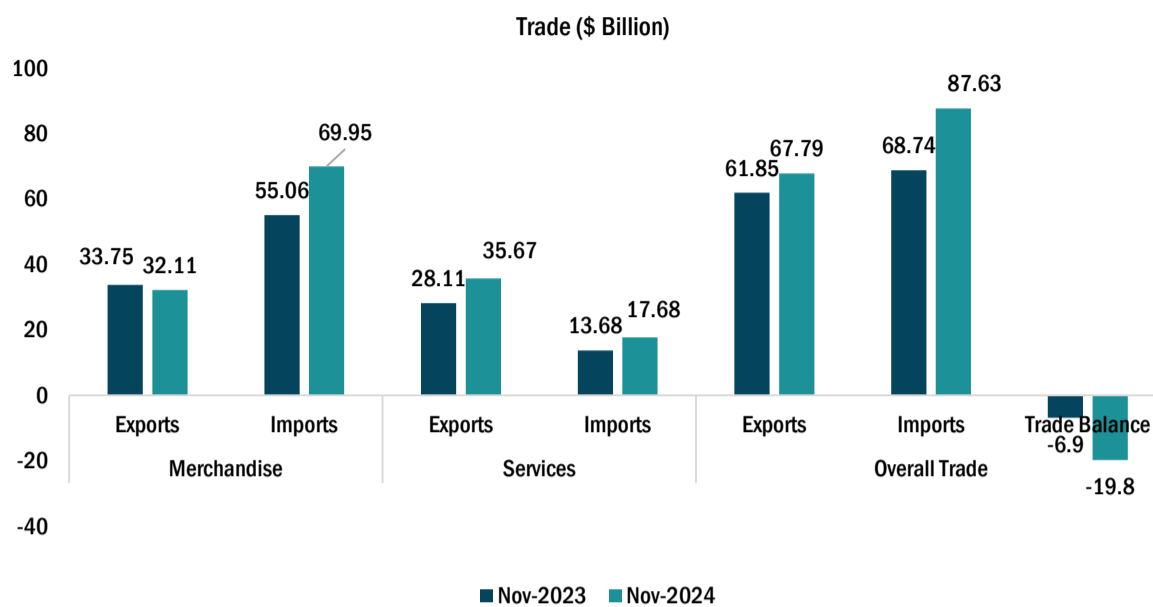
- **Primary goods** production increased by 2.6%, indicating a rise in essential raw material production
- **Capital Goods** production rose 3.1%, indicating a rise in investments in machinery and equipment, is a positive indicator for future industrial capacity
- **Intermediate Goods** saw a 3.7% increase, indicating an increase in the production of goods used as inputs in other industries
- The **infrastructure and construction goods** sector experienced a 4% increase, indicating a surge in construction and infrastructure development activities
- **Consumer durables and non-durable goods** reported growths of 5.9% and 2.7% respectively, reflecting a surge in both long-lasting and short-term products

BWR VIEW

Looking ahead, IIP is expected to grow in the range of 5-7% in November 2024, attributed to the improvement in core sector performance. The positive outlook suggests a need for a broad revival for sustained economic growth, despite mixed performance across core industries

India's Trade Deficit Hits Record High in November 2024 led by Gold Imports

Gold Imports Hit All-Time High



Source: Government of India, Ministry of Commerce & Industry

- India's merchandise trade deficit reached a record high of \$37.84 billion in November 2024, a significant increase from the \$27.1 billion recorded in October 2024
- This surge was led by increased imports primarily, Gold and Petroleum Products. Gold imports surged 332% to \$14.86 billion in November 2024, compared to \$3.44 billion in November 2023
- Total merchandise imports rose by 27% to around \$69.95 billion, while exports contracted by 4.85% to \$32.11 billion, marking the lowest level in two years

Key factors influencing the trade deficit:

1. Surge in Gold Imports

- The trade deficit was significantly impacted by a surge in gold imports, primarily due to increased demand ahead of the holiday season
- Gold Imports:** Gold imports surged to \$14.8 billion in November 2024, doubling from October's \$7.13 billion, driven by festive season consumer demand, investment surge, and rising global gold prices

2. Decline in Merchandise Exports

- India's merchandise exports decreased significantly in November 2024 to \$32.11 billion from \$39.2 billion in October 2024 and \$33.75 billion recorded in November 2023
- This decline followed a robust 17% growth in October 2024, highlighting a significant shift in export performance
- The decrease in exports was primarily due to decreased petroleum prices and a significant drop in gems and jewellery exports, which fell by 26.26%
- The decrease in global petroleum prices resulted in a 49.7% decrease in petroleum product exports, amounting to around \$3.7 billion for the month
- This decrease negatively impacted overall export revenues, leading to a 4.8% contraction in total merchandise exports, amounting to \$32.1 billion
- Gems and Jewellery** exports decreased by 26% to \$2.06 billion, possibly due to reduced global demand and possibly increased domestic consumption
- Global Economic Slowdown:** The demand for Indian exports was impacted by slowed economic growth in key markets and persistent inflation.
- The global economic slowdown has resulted in a decrease in demand for Indian goods, especially in key markets like the United States and Europe
- Fluctuations in Commodity Price:** The decline in crude oil prices significantly impacted the value of petroleum product exports, a crucial part of India's export basket
- Currency Valuations:** The appreciation of the Indian rupee in real effective exchange rate terms increased the cost of Indian goods in the international market, negatively impacting export competitiveness

BWR VIEW

The trade deficit is predicted to boost India's current account deficit to around 2.8% of GDP in Q3 FY25, reaching its highest level in over two years, up from the initial estimate of 2%. To address this, the government is focusing on exports to 20 high-potential countries

The trade deficit increase is putting additional pressure on the Indian rupee, which is experiencing volatility due to portfolio outflows and external economic pressures

The widening of India's trade deficit in November 2024 is a multifaceted issue influenced by gold imports, declining exports, increased import demand, seasonal factors, and currency depreciation, necessitating a comprehensive approach

The widening of trade deficit has raised concerns about the rupee's stability and its depreciation against the US dollar and is anticipated to further strain the Indian rupee, which has already been impacted by three months of portfolio outflows

The substantial trade deficit puts downward pressure on the rupee and can hinder economic growth by reducing export competitiveness and over-reliance on imports. The overall export performance of some sectors, such as non-petroleum products, has shown weak growth, indicating potential long-term economic implications

3. Increased Overall Imports

- **Total imports** surged by 27% to \$69.95 billion in November 2024, primarily gold, from \$66.34 billion the previous month, exacerbated the trade imbalance by boosting essential commodities and electronics
- **Electronics and Machinery:** India's increasing demand for technology and infrastructure development has led to an increase in imports of electronics and machinery
- **Crude Oil and Petroleum Products:** Despite decreasing global prices, substantial imports of crude oil and petroleum products remained to meet domestic energy requirements
- **Energy Imports:** Despite decreasing crude oil prices, domestic energy needs remained high, primarily met through high oil import volumes, significantly contributing to the import bill
- **Capital Goods and Electronics:** The imports of machinery, electronics, and other capital goods experienced a surge due to increased industrial demand and consumer consumption

4. Domestic Consumption Patterns

- The festive season boosted domestic consumption patterns, particularly in gold and electronics, leading to increased imports
- India's increasing demand for consumer goods and luxury items indicates a structural shift requiring adjustments in domestic production capabilities to reduce reliance on imports

5. Global Economic Environment

- Slow growth in major economies and global commodity price movements, which affect both export and import values, impacted Indian export demand
- The drop in global petroleum prices impacted export revenues and trade dynamics, with fluctuations in global demand and economic slowdowns in major trading partners like China

6. Currency Depreciation

- The Indian rupee reached an all-time low against the U.S. dollar, reaching 85.2525 per dollar, causing imports to become more expensive and exacerbating the trade deficit

7. Seasonal and Festive Demand

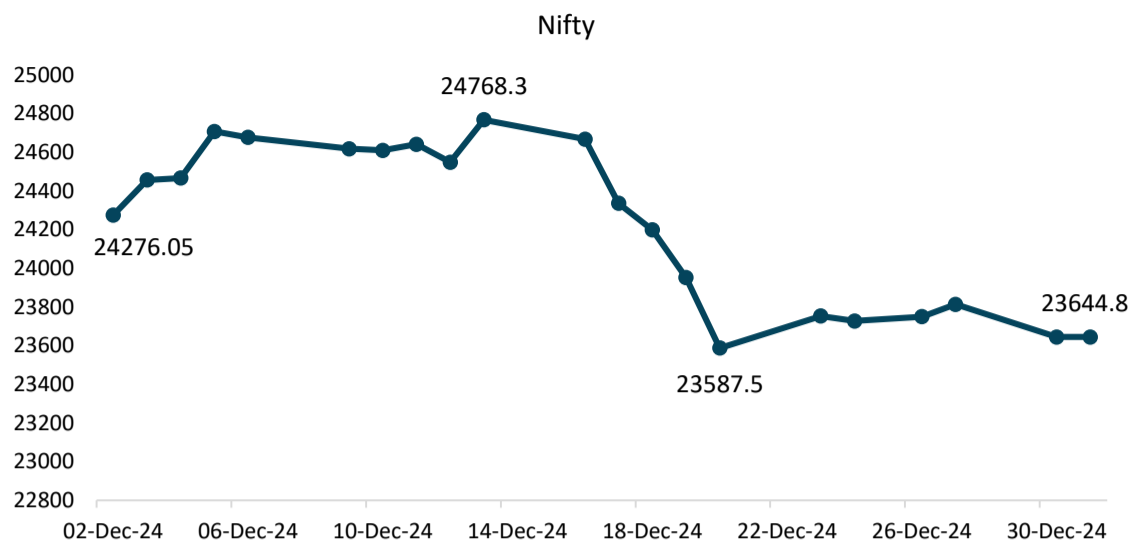
- The Indian festival season and wedding season, leading to increased consumer spending on gold and electronics, has contributed to a surge in imports

Service Sector Performance:

- **Services Exports:** The estimated value of services exports rose 26.8% y-o-y to \$35.67 billion in November 2024 from \$28.11 billion in November 2023
- **Services Imports:** Services imports were estimated at \$17.68 billion, which represents a 29.2% rise from \$13.68 billion in the same month last year
- **Total Exports (Merchandise + Services):** Combined exports for November 2024 were estimated at \$67.79 billion, showing a 9.59% growth compared to \$61.85 billion in November 2023
- **Total Imports (Merchandise + Services):** Total imports surged to \$87.63 billion, reflecting a substantial 27.47% increase from the previous year

Stock Markets

Nifty Faces Headwinds: Ends December Month with a Decline



Source: BSE and NSE

- In December 2024, the Nifty 50 index showed a negative trend, ending 2.6% lower. However, the index ended the year at 23,645, an 8.8% increase, despite facing challenges in December
- December is a traditionally a volatile month for the Indian equity markets, influenced by seasonal consumer spending and investor optimism about the upcoming year. However, in December 2024, the country faced external geopolitical tensions and uncertainties regarding economic policies, posing challenges
- Throughout December, the Nifty 50 index faced challenges, including a record sell-off by foreign institutional investors, resulting in significant volatility due to global economic factors, corporate earnings reports, and foreign investor activities
- Investors' sentiments remained cautious as they awaited further economic indicators and macroeconomic data releases, which are crucial for future market directions
- The Nifty 50 began the month trading near its 200-day moving average, indicating a cautious market sentiment
- In December, FIIs' aggressive selling due to global economic concerns and fund reallocation to emerging markets increased market volatility and prompted cautious trading among domestic investors in the Indian equity market
- Further, the Reserve bank of India's monetary policy decision significantly influenced market dynamics. The Reserve Bank of India (RBI) reduced the Cash Reserve Ratio by 50 basis points in December 2024, aiming to infuse liquidity into the banking system and support economic growth by releasing approximately Rs 1 trillion

Key factors influencing Nifty Performance

The Nifty 50 index's performance in December 2024 was influenced by various factors, creating a complex market environment. Key elements include:

- **Sector Performance:** The IT sector, comprising 13% of the Nifty 50 index, experienced significant selling pressure, leading to the overall decline of the Nifty 50. The Nifty hit all-time high in September witnessed significant correction since then, losing approximately 9.37% by the end of December largely due to disappointing corporate earnings from key IT companies, impacting investor sentiment and sector confidence
- **Market Sentiment:** Investor sentiment was impacted by rising U.S. interest rates and inflation concerns, leading to a cautious trading environment at the end of the year
- **Portfolio Rebalancing:** Institutional investors, including mutual funds and FIIs, often rebalance their portfolios in December to meet annual performance goals, leading to increased buying activity and potential stock price increases
- **Foreign Institutional Investor (FII) Activity:** In Q4 2024, Foreign Institutional Investors (FIIs) sold equities worth over Rs 1.77 lakh crore, causing market volatility and dampening investor sentiment
- **Economic Indicators:** Disappointing corporate earnings in Q2 FY2025 coupled with downward revision of GDP growth forecast by the Reserve Bank of India, from 7.2% to 6.6%, has further impacted market confidence

BWR VIEW

The Indian equity market's outlook remains positive, with expectations of modest gains in emerging markets like financials and technology in 2025, despite global uncertainties and potential economic slowdowns

Significant market movement is expected to emerge following the corporate earnings season, which is set to begin in January

Going ahead, potential volatility cannot be ruled out due to global economic conditions, inflationary pressures, and government policies, with the Reserve Bank of India's inflation outlook, anticipates consumer price inflation to be around 4.8% for FY25, causing concern

Sectoral Performance:

- **Top Performers:** The Nifty Metal sector experienced a 4.37% increase in the month of December 2024 driven by strong demand, while Nifty Realty experienced a 3.24% average gains during the month due to renewed real estate interest
- **Underperformers:** Nifty Pharma and FMCG sectors experienced modest gains of around 0.87%, while some FMCG stocks experienced declines due to sluggish growth forecasts

Global Economic Influences:

- **Interest Rate Decision:** The US Federal Reserve's 25 basis point reduction in the key lending rate in November 2024 and hawkish monetary policy caused global market uncertainty, impacting the Indian stock market, leading to significant declines in major indices
- **Rising Global Interest Rates:** Countries around the world including United States, United Kingdom have been responding to easing inflation by increasing interest rates. Global interest rate hikes have increased borrowing costs for businesses, reducing consumer spending and corporate profitability, thereby affecting investor confidence

Domestic Economic Conditions

- **Slower GDP Growth Forecast:** India's 2025 GDP growth forecast has been revised from 6.1% to 5.8% due to global economic challenges and rising inflation, impacting key sectors and the Nifty 50's performance
- **Inflation and Commodity Prices:** High inflation and rising commodity prices have strained corporate margins, leading to a decline in stock prices across various sectors

Sector Specific Challenges:

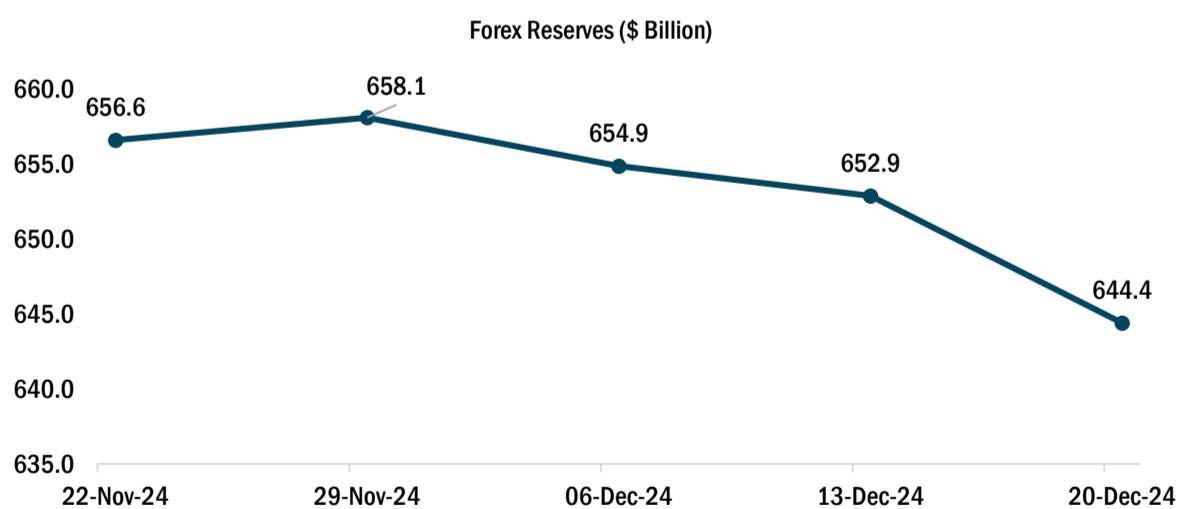
- **Weak Performance in Key Sectors:** The IT sector, including major stocks like Wipro and Infosys, experienced significant losses on the Nifty 50, while the auto and banking sectors also experienced declines
- **Increased Volatility:** The India VIX, a measure of market volatility, experienced a 2.5% spike, indicating increased investor uncertainty, leading to risk-averse trading behaviour and a negative impact on stock performance

Initial Public Offerings (IPOs)

- India became Asia's leading market for IPOs in 2024, surpassing China, thanks to Swiggy and Hyundai Motor. The National Stock Exchange of India led in primary listings value, surpassing Nasdaq and the Hong Kong Stock Exchange, driven by robust domestic investment

Forex

India's Forex Reserves Witnessed Continued Decline, Drops To \$644.39 Billion



Source: RBI

- India's foreign exchange reserves experienced a significant decline in December 2024, dropping to \$644.39 billion as of December 20, 2024, marking a significant decrease of approximately \$8.5 billion in just one week
- This decline follows a previous drop of \$1.98 billion the week before, marking a continued downward trend and also marks the lowest in over a seven-month low due to forex position pressures

- In comparison, the forex reserves reached \$604 billion, a year-over-year increase of \$40.39 billion compared to the same period last year
- The decline in reserves follows a period of steady growth after hitting all-time high in September 2024. The reserves reached a record high of \$704.89 billion at the end of September 2024, but have since fallen by approximately \$60.5 billion.

Recent Trends in Forex Reserves

- The forex reserves reached their peak at \$704.9 billion at the end of September 2024. The reserves have been decreasing steadily, with a decline of approximately \$8.5 billion in the week ending December 20th, following a drop of \$1.98 billion the previous week
- **Foreign Currency Assets:** The Foreign Currency Assets (FCA), a significant portion of reserves, experienced a decline of approximately \$6 billion from \$562.58 billion to \$556.56 billion during the period

Factors Influencing the Decline:

1. Central Bank Interventions

- The Reserve Bank of India (RBI) is actively intervening in the forex market to manage liquidity and stabilize the Indian rupee, which has experienced fluctuations against the US dollar
- The RBI's interventions are crucial for forex market stability, managing liquidity and preventing depreciation to foster investor confidence and support economic growth, especially as the rupee hit record lows

2. Revaluation Effects

- Exchange rate fluctuations affect foreign currency assets' value, a key component of forex reserves, with appreciation or depreciation of currencies causing significant dollar value adjustments. In December, foreign currency assets experienced a \$6 billion decrease due to revaluation impacts

3. Capital Outflows

- India's capital outflows, particularly from foreign portfolio investors (FPIs), have risen to over \$14 billion in recent months, putting pressure on the rupee and forex reserves, prompting the RBI to sell dollars

4. Weakening Rupee

- The Indian rupee's depreciation has reached an all-time low against the US dollar, causing a decline in forex reserves and requiring frequent RBI interventions

5. Global Economic Factors

- External economic conditions, such as a stronger US dollar and changing global central bank policies, have impacted India's forex reserves, increasing volatility and uncertainty in capital flows

Gold Reserves

- The values of Gold reserves decreased from \$68.06 billion on December 13, 2024 to \$65.73 billion by December 20, 2024, resulting in a \$2.33 billion reduction

BWR VIEW

India's forex reserves experienced a drop in December 2024, but the outlook for 2025 remains optimistic due to strategic RBI interventions and favourable market conditions, suggesting potential for recovery and growth in India's forex reserves throughout the year

India's foreign exchange reserves are projected to gradually recover in the coming months, reaching approximately \$655 billion as of late December 2024, with forecast of upward trends to \$668 billion in 2025 and \$742 billion by 2026

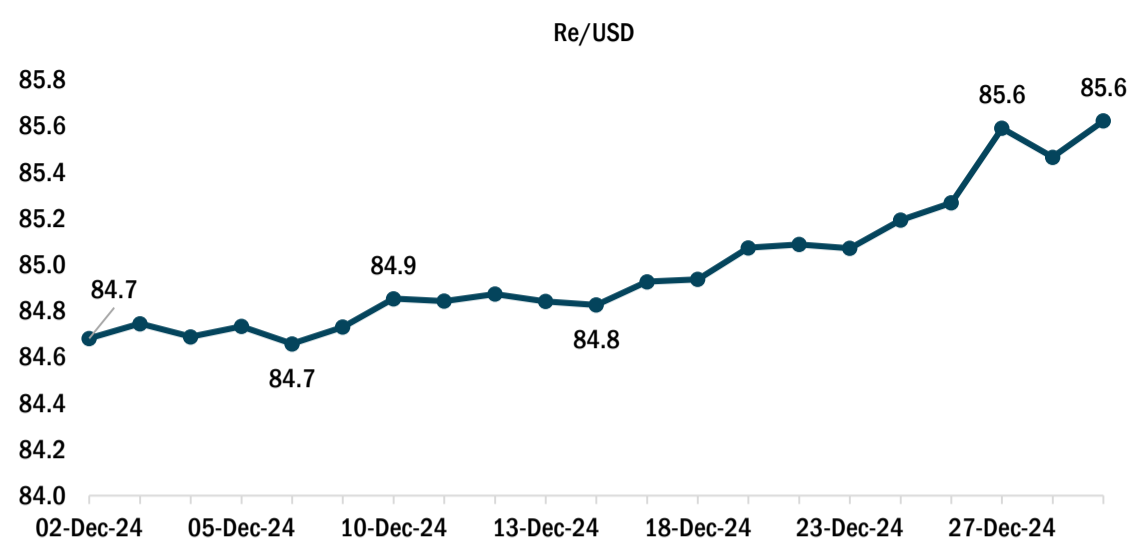
The decline in forex reserves raises concerns about India's economic growth trajectory, influenced by foreign outflows and global economic conditions, prompting policymakers to boost growth while managing external vulnerabilities

The decrease in India's forex reserves poses significant challenges to currency stability, trade dynamics, and economic health, necessitating swift policy measures from both the government and RBI

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

Rupee

Rupee Hits New Low Against US Dollar in December 2024



Source: RBI

- In December 2024, the Indian rupee experienced a significant depreciation against the U.S. dollar in December 2024, culminating in a record low due to a combination of global economic factors and domestic challenges
- The rupee's value dropped from 84.68 INR per USD at the start of the month to 85.64 INR per USD by the end of the month
- The Indian rupee closed at Rs 85.6150 on December 31, marking around 3% depreciation for the year and extending its seventh consecutive year of decline
- The depreciation of the rupee was primarily driven by the strengthening of the U.S. dollar, driven by a hawkish stance from the Federal Reserve coupled with strong U.S. economic indicators and ongoing geopolitical tensions, particularly related to U.S.-China trade relations
- The dollar index, a measure of the US against major currencies, reached its highest level in over two years in December 2024 fuelled by robust economic data and the Federal Reserve's indication of a reduced likelihood of future interest rate cuts
- Trump's election strengthened the dollar due to anticipated fiscal spending and protectionist trade policies, leading to higher Treasury yields and attracting investors to dollar-denominated assets
- This change in investor sentiment has further impacted emerging market currencies, including the Indian rupee
- On the domestic front, India's slowing economic growth further weighed on the Indian rupee. Data showed that India's economic growth is slowing, with GDP rates declining in the latter part of the year, presenting several challenges domestically
- Further, widening of India's trade deficit due to increased imports, raising concerns about its economic sustainability and foreign investment attraction
- Foreign portfolio investors (FPIs) withdrawn capital from Indian markets in Q4 2024, selling \$11.7 billion worth of equities, causing a further downward pressure on the rupee
- In December 2024, the rupee fluctuated between ₹84.57 and ₹85.50, indicating market conditions and investor sentiment's impact on its value. The most significant drop in the last two months of the year was Rs 2 in December 2024, primarily due to Foreign Institutional Investment outflows totalling around ₹1.70 lakh crore
- The depreciation in the U.S. dollar was primarily due to its 6.9% growth in 2024, driven by strong economic indicators and geopolitical tensions, particularly with China
- Further, decline in India's foreign exchange reserves, which fell from \$704.89 billion in September to \$644.39 billion in December 2024, causing the rupee's weakness due to rising oil import costs and a widening trade deficit

Comparative Performance

- The rupee depreciated by around 2.8% in the year 2024, but remained resilient compared to other Asian currencies due to RBI interventions and India's robust economic fundamentals, despite more pronounced declines against the U.S. dollar

December 2024 saw a significant depreciation of the Indian rupee against the U.S. dollar, highlighting the complexities of currency management. As 2025 unfolds, the rupee's trajectory will be closely monitored by policymakers, investors, and market participants

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

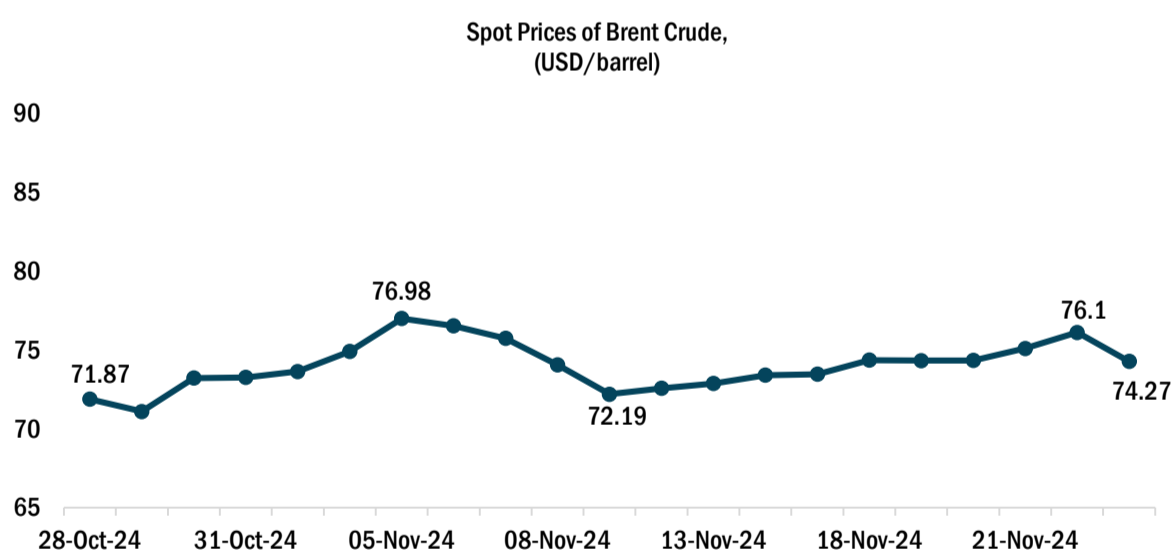
The rupee is expected to weaken further, with predictions ranging from ₹84.35 to ₹85 per dollar in the coming weeks. RBI interventions have helped curb declines, but sustained interventions may deplete forex reserves. The upcoming monetary policy meetings of the RBI for potential interest rate adjustments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

Key factors contributing to Depreciation of Rupee

- **Capital Outflows:** There was significant outflows of foreign capital from the Indian markets by the foreign portfolio investors, totalling around \$11.7 billion from Indian equities in Q4 2024, compared to \$12 billion in inflows during the first nine months of the year 2024, leading to increased selling pressure on the rupee
- **Widening Trade Deficit:** India's trade deficit widened to reach \$26.83 billion in October 2024, causing a surge in demand for U.S. dollars to fund imports and subsequently weakening the rupee
- **Strengthening US Dollar:** The U.S. dollar index surged due to a stronger dollar against various currencies, causing other currencies, including the rupee, to weaken.
- **High Inflation Rates:** India's high inflation rates, exceeding the Reserve Bank's target range of 6.77% in October 2024, have weakened the attractiveness of investments compared to countries with lower rates
- **Geopolitical Tensions and Economic Uncertainty:** Global geopolitical tensions and economic uncertainties have led to increased market volatility and investor caution, reducing investors' confidence in emerging markets like India
- **Sluggish Economic Growth:** Slowdown in India's economic growth has heightened concerns over currency stability, impacting investor sentiment and capital inflows
- **Reserve Bank of India (RBI) Intervention:** The RBI's forex intervention strategy, aimed at stabilizing the rupee, significantly reduced foreign exchange reserves from \$704 billion to \$644 billion by December 2024, thus limiting the RBI's ability to support the rupee effectively
 - The Reserve Bank of India (RBI) intervened in the foreign exchange market to support the rupee's depreciation by selling U.S. dollars from its reserves, but the rupee continued its downward trajectory, highlighting the limitations of its intervention in the face of global and domestic headwinds

Oil

Brent Crude Holds Steady in December 2024



Source: U.S. Energy Information Administration

- In December 2024, global crude oil prices saw modest gains, with Brent benchmarks rising by over 2% during the month

Price Performance Overview:

- **Early December:** At the beginning of the month, prices were relatively stable. The month began with Brent crude prices dropping to \$74.35 per barrel due to lower China demand and anticipated production increases by OPEC
- **Mid-December:** As the month progressed, prices saw a slight increase. By mid-December, the crude oil prices rose slightly to \$74, but remained relatively stagnant due to mixed economic signals and inventory data
- **End of December:** Towards the end of the month, crude oil prices fluctuated, ending the month at \$74.58
- In December 2024, Brent crude's trading range remained relatively stable, maintaining levels between \$73 and \$76 per barrel, despite economic pressures, thanks to US inventory declines and positive China signals, indicating a stable trading environment

- Renewed optimism about China's economic recovery, bolstered by positive manufacturing data, has significantly influenced Brent prices, potentially boosting fuel demand due to government stimulus measures

Several factors influenced these price movements:

- **Chinese Economic Activity:** Positive economic data, especially from China, contributed to increased industrial demand and support for oil prices due to the expansion of Chinese manufacturing activity in December
 - China's manufacturing sector expansion in December led to price increases, while plans to issue record special bonds in 2025 to stimulate economic growth further bolstered market sentiment
 - Further, market optimism is fuelled by expectations of policy support to stimulate global economic growth, including anticipated interest rate cuts by the U.S. Federal Reserve and proactive measures by China's leadership
- **Supply and Demand Dynamics:** Ongoing production cuts by major oil producers, including Saudi Arabia and Russia, to tighten supply and balance the market amid concerns of oversupply supported the oil prices
- **OPEC+ Production Cuts:** OPEC+ has decided to maintain production cuts until April 2025 to stabilize the market amid rising non-OPEC supplies and support falling prices
 - Throughout 2024, global oil demand concerns, particularly in major consuming countries, led to downward pressure on prices. Both OPEC and IEA revised 2025 demand forecasts, anticipating global oil supply to surpass demand despite OPEC+ production cuts
- **Geopolitical Tensions:** Heightened Middle East geopolitical tensions, primarily involving Iran and Israel, have led to potential disruptions to oil supply routes, causing price volatility
- **Inventory Levels:** Crude oil inventories in the US decreased, while gasoline and distillate stocks increased due to decreased demand. U.S. crude stocks decreased by 1.2 million barrels, while gasoline inventories increased by 7.7 million barrels and distillate stocks increased by 6.4 million barrels, affecting market perceptions of supply and demand balances
- **Seasonal Demand Factors:** Colder weather in the U.S. and Europe increased demand for heating fuels like diesel, resulting in higher oil prices

BWR VIEW

Going ahead, crude oil prices are expected to remain stable in 2025, with the U.S. Energy Information Administration predicting an average Brent crude price of \$74 per barrel. However, global economic conditions, geopolitical developments, and policy changes could impact these projections

Donald Trump's return to the U.S. presidency has raised concerns about potential policy changes that could impact the oil market with anticipation of faster permitting processes for federal lands

Trump's administration plans to boost domestic oil production by easing regulations and expediting drilling permits, potentially leading to a market surplus. This increase in supply is expected to pressure prices, with Brent crude prices projected to average between \$65 and \$75 per barrel in 2025

Trump's policies may boost US energy independence and domestic costs, but they may contribute to global oversupply, potentially lowering crude oil prices in the future

Further, Trump's proposed tariff policies, including significant tariffs on imports from China, could potentially reduce global economic growth and oil demand. China's slowdown could exacerbate the decline in oil prices, as analysts predict a decrease in global oil demand

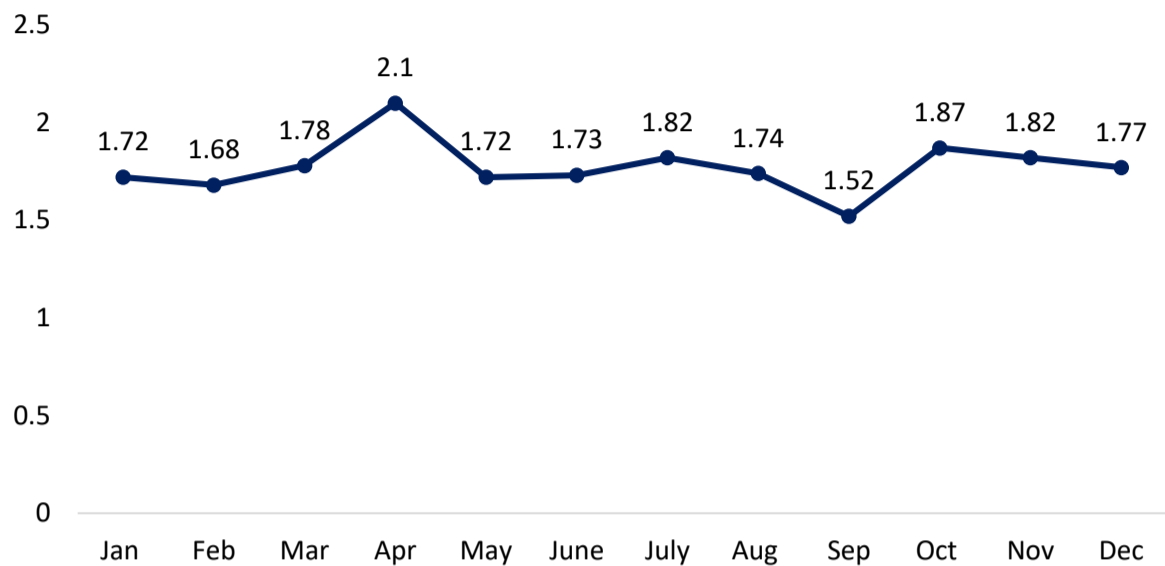
Moreover, China's economic policies and growth trajectory are crucial to global oil demand, with optimism that policy support could boost economic growth and potentially increase fuel demand

Other Macro-Economic Indicators

GST Collections

The monthly trends in India's GST collections reflects a marginal decline compared to November 2024, the GST collections in December was primarily driven by domestic transactions which grew 8.4%.

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

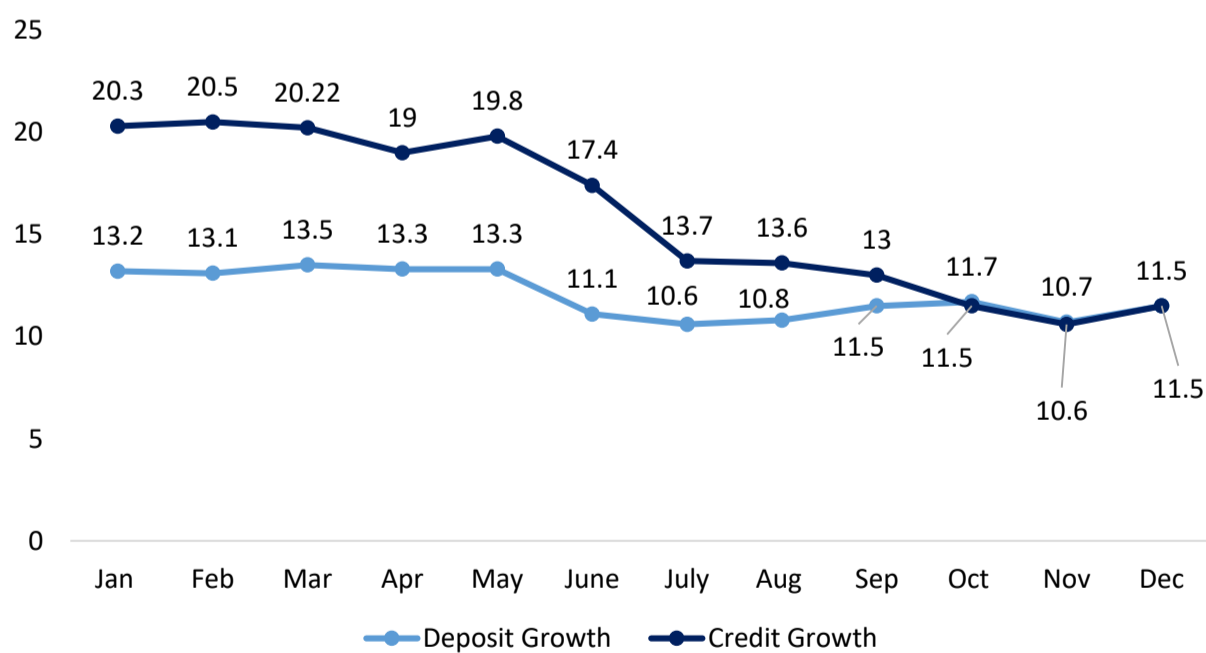


Sources: GST Council, Press Information Bureau.

Deposit & Credit Growth Rate

The banking sector experienced deposit growth of 11.5%. This growth reflects a robust increase in household savings and a shift towards safer investment options amidst economic uncertainties. Similarly, credit growth also stood at 11.5%, this marks a decline from earlier peaks, indicating a more cautious approach to lending by banks due to emerging risks in certain segments.

Deposit & Credit Growth % 2024 - Monthly Trend



Source: RBI

BWR VIEW

The collection figure for December indicates a slight slowdown in growth compared to November 2024, when collections stood at ₹1.82 lakh crore, this dip in growth rates is common after the festive season and could also be a sign of broader economic trends, such as a slowdown in consumer spending. While the December collections still demonstrate resilience and sustained domestic activity, the rise in refunds and the slower growth rate may prompt the government to explore measures to boost consumption during the upcoming budget discussions.

The data from December 2024 illustrates a dynamic banking environment in India where deposit growth is robust but accompanied by a more tempered approach to credit expansion. Major banks are adapting their strategies to focus on securing deposits while navigating the challenges posed by economic conditions and changing consumer preferences. As the sector moves into 2025, maintaining this balance will be crucial for sustaining growth amidst evolving market dynamics

GLOBAL

US Federal Reserve Cuts Interest Rate by 0.25%, Signals Slower Pace of Cuts Ahead

- The US Federal Reserve reduced interest rates by 0.25% to a range of 4.25%-4.50% on 18 December 2024
- The Fed's decision marks a third consecutive rate cut, coming after a 25-basis-point reduction in November 2024 and a larger 50-basis-point cut in September 2024
- The Federal Reserve has revised its forecast, now anticipating just two rate cuts in 2025, a decrease from the four it predicted in September when it last released economic projections
- The central bank now expects the federal funds rate to settle at a median level of 3.9% by the end of 2025, up from its previous forecast of 3.4%
- The Fed is now projecting that inflation could be higher in 2025, at 2.5%, compared to its September forecast, which predicted price increases would ease to 2.1% by next year.

Britain's Economy Shrinks for Second Consecutive Month in October 2024

- Britain's economy contracted for a second consecutive month in October 2024, ahead of the new government's first budget
- According to the Office for National Statistics, Gross Domestic Product (GDP) fell by 0.1 percent month-on-month in October, the same as in September. This was the first consecutive drop in monthly GDP, since March and April 2020
- Economists had predicted a monthly expansion of 0.1%.
- The services sector showed no growth, while output in the manufacturing and construction industries fell in October 2024.

ECB Cuts Interest Rates Again by 25 Basis Points to 3%; Fourth Rate Cut in 2024

- The European Central Bank (ECB) has cut key interest rates by 25 basis points for the fourth time this year on December 12, 2024
- The new rates will take effect on December 18, 2024, reducing the deposit facility rate to 3.00%, the main refinancing operations rate to 3.15%, and the marginal lending facility rate to 3.40%
- The ECB's rate cut is a strategic move to boost economic growth and manage inflation, with expectations of continued easing in response to ongoing economic challenges
- The ECB's decisions were primarily influenced by a favorable inflation outlook, anticipating a gradual decrease towards its medium-term target
- The ECB predicts a 2.4% average headline inflation in 2024, decreasing to 2.1% in 2025 and further to 1.9% in 2026. The gradual decrease in inflation suggests the ECB's confidence in its ability to achieve its medium-term target of 2%
- Core inflation, excluding volatile items like energy and food, is expected to stabilize around the ECB's target of 2%. The ECB rate cuts aims to boost borrowing and investment amid a slowdown in Eurozone economic growth

Bank of Canada Cuts Interest Rates by 50 basis points to 3.25%

- The Bank of Canada (BoC) reduced its key interest rate by 50 basis points to 3.25% from 3.75% on December 11 2024, marking its fifth consecutive reduction since June 2024 and reflects the central bank's response to several concerning economic indicators pointing towards a slowdown in growth
- The Bank of Canada has been making significant interest rate cuts throughout 2024, totaling a reduction of 175 basis points since the easing cycle began in June 2024
- The decision to cut rates by the BoC is a response to concerns about slowing economic growth in Canada, fuelled by rising unemployment rates to 6.8%, the highest level since early 2017, and weak business investments
- The central bank stated that it is aiming to stimulate growth and maintain price stability despite a slight inflation increase, remaining within the BoC's 2% target

- The Bank of Canada has cut interest rates to support economic growth amid slowing growth and rising unemployment rate, aiming to address labor market challenges, particularly for young people and newcomers, and counter negative trends
- The BoC has indicated that while it may continue to reduce rates, future adjustments are expected to be more gradual. The BoC predicts smaller future cuts, with the current rate within the bank's neutral range of 2.25% to 3.25%, indicating a more cautious monetary policy in 2025
- The BoC is expected to continue its easing strategy into 2025, potentially lowering rates to 2.25% by the end of that year, but there remains uncertainty about the pace and extent of future cuts.

* Views are personal

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