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GROWING RELATIONSHIPS THROUGH DATA

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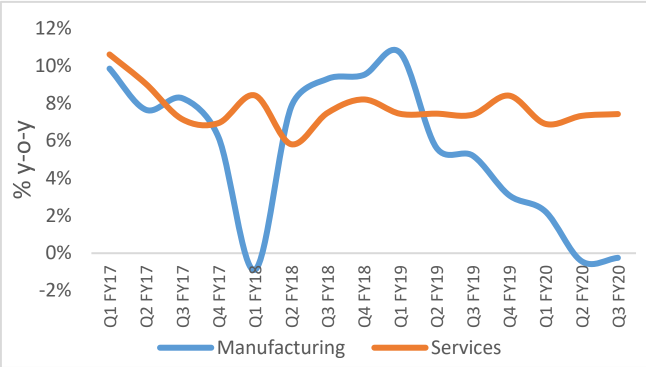
View from the top

The global economy is facing a crisis that has not been witnessed before. Various countries are announcing lockdowns and placing restrictions on commerce and movement of people between countries and within country disrupting business and common life; the impact of which is yet to be understood completely. The situation is still unfolding. The channels of disruption are multiple from manufacturing to oil to the financial sector with probability of new shocks. As per UNCTAD, the coronavirus (COVID-19) outbreak could cause global foreign direct investment (FDI) to fall by 5% -15%. A broad sample of the top 5,000 listed companies tracked by UNCTAD showed earnings forecasts for fiscal year 2020 have been revised down by an avg of 9% in early March. Since China is a manufacturing hub, the slowdown of manufacturing in China due to the COVID-19 outbreak has been estimated to cause in a US$ US50 billion decrease in exports across global value chains. As lockdowns and restrictions increase in other global manufacturing hubs, the extent of impairment would increase. Since the impact on economies is through supply and demand shocks, add to it the fear and pessimism of an uncertain event, it is becoming increasingly difficult for Governments worldwide to develop effective strategies to combat the current problem. Sectors with greater linkages in the global supply chain such as automobiles, electronics and chemical products will continue to face raw material and component shortages.

With the global economy showing signs of slowdown, commodity prices have witnessed a decline led by the fuel group. The precipitous fall in oil prices and other commodities will impact the economies of many countries producing oil, gas and mineral raw materials. The probability of companies going bankrupt and countries entering into recession have increased and India will not remain decoupled. Green shoots of recovery were visible towards the end of 2019 and early 2020, however, since the pandemic gathered momentum since early March 2020, and country wide lockdown announced since 25th March, growth is expected to fall. The fall in India's GDP growth is estimated to be between 0.1 - 0.2 percentage points from our earlier estimate of 5% for FY20. The current situation is also highly dependent on the proactive measures taken by the Government. However, accurate quantitative estimation will vary and has a high probability of being revised as the severity and prevalence of the outbreak remains uncertain. In cognizant of the current situation, the government is likely to take fiscal measures, despite the fact it has no fiscal room. Specific measures such as special-purpose loans to companies facing liquidity constraints, accepting delayed payments of loans by MSMEs, and other affected sectors related to aviation, hotel, tourism and trade and support to hospitals and public for treatment should be considered. Not only in India, various countries have been taking both fiscal and monetary stimulus measures to support their economy. The impact of the monetary and fiscal stimulus measures on the debt levels of countries and businesses, including India raise concerns about debt sustainability and a slower pace of recovery. The pandemic is yet to unfold completely and even after this episode subsidies, it will take time to unwind the impact of the loss.

Growth in manufacturing GVA lowest in 10 quarters in Q3 FY20

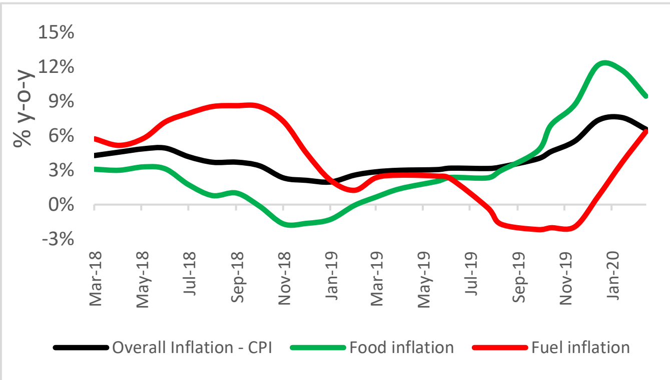


Source: MOSPI

Real Sector

- Gross Domestic Product grew by 4.7% during Q3 FY20, lowest since Q1 FY14. Gross fixed capital formation declined for the 2nd consecutive quarter. Private final consumption expenditure grew by 5.9%, highest in 3 quarters.
- Gross Value Added grew by 4.5% during Q3 FY20, lowest since Q1 FY14. Services sector grew by 7.4%, industry by 0.1% and agriculture by 3.5%.
- The Index of Industrial Production (IIP) increased by 2.0% in Jan 20. Manufacturing sector grew by 1.5% in Jan 20 compared to a growth of 1.3% in Jan 19. Electricity sector output grew by 3.1%, a 6-month high.
- Output of the Eight core industries increased by 2.2% in Jan 20. Output increased across 5 of the 8 industries. While natural gas production (-9.1%) contracted the most, coal production (8.0%) grew the most.
- GST revenue collections stood at around Rs 1.1 tn in Feb 20. This is the 4th consecutive month that collections have crossed Rs 1 tn.

Elevated food and fuel inflation keep CPI high in Feb 20

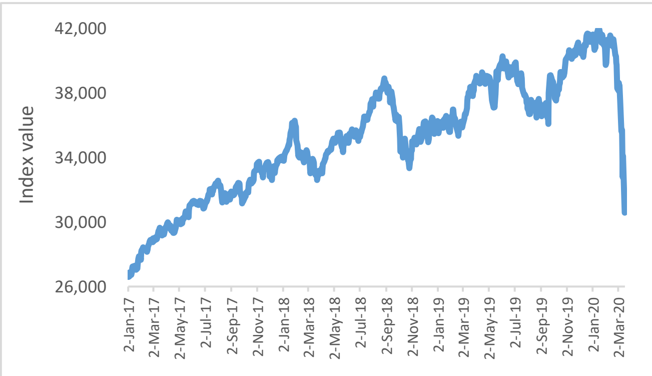


Source: MOSPI

Price Scenario

- WPI inflation moderated to 2.3% in Feb 20, a 3-month low. Core WPI inflation contracted, for the 8th consecutive month, by 0.8% in Feb 20. However, the pace of contraction has been declining.
- Inflation in food articles moderated to 7.8% in Feb 20 from 11.5% in Jan 20. Vegetable inflation moderated to 30.0% in Feb 20 from 52.7% in Jan 20.
- Inflation in the crude petroleum segment contracted by 1.4% in Feb 20, a 3-month low. Manufacturing inflation increased to 0.4% in Feb 20, an 8-month high.
- Retail inflation moderated to 6.6% in Feb 20, a 3-month low, on the back of softening vegetable inflation. However, inflation of milk and oil was the highest since Jul 15 and Apr 13, respectively.
- Inflation in the fuel & light segment stood at 6.4% in Feb 20, highest since Dec 18.

Sensex tumbles to the lowest in almost 3 years

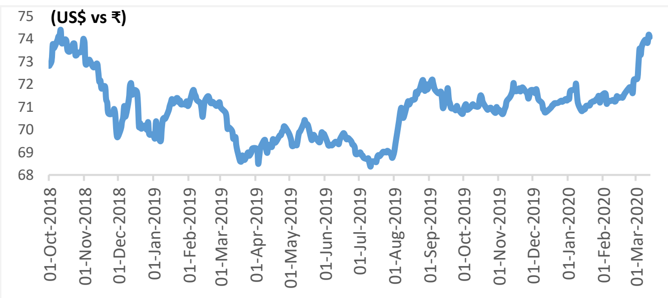


Source: BSE

Money & Finance

- Bank credit grew by 6.9% in Feb 20, lowest since Nov 17. Deposits grew by 10.2% in Feb 20 as compared to 10.0% in Feb 20.
- Bank credit to industry grew by 2.5% in Jan 20, highest in 3 months. Bank credit to services sector grew by 8.9% in Jan 20, highest in 5 months.
- Bank credit to infrastructure sector grew by 5.1% in Jan 20, lowest since Oct 18. Bank credit to the Gems & Jewellery sector continued to decline for the 11th consecutive month by 12.4% in Jan 20.
- Average yield of the 10-year G-sec stood at 6.18% as on Mar 06, 2020, a multi-year low.
- The RBI decided to undertake two 6-month US Dollar sell/buy swaps (US$ 2 bn each) to provide liquidity to the foreign exchange market and conduct Long-Term Repo Operations (Rs 250 bn) during Mar 20.

Rupee depreciates sharply to the lowest level since Oct 18



Source: RBI

External Sector

- Merchandise exports increased for the 1st time in seven months, by 2.9% to US$ 27.6 bn in Feb 20. Merchandise imports also increased for the 1st time in nine months, by 2.5% to US$ 37.5 bn.
- Oil imports in Feb 20 increased by 14.3% to US$ 10.8 bn from US$ 9.4 bn in Feb 1 9. Merchandise trade deficit stood at US$ 9.9 bn in Feb 20, lowest in a year.
- Global brent crude oil price decreased to US$ 35.73 per barrel in Mar 20.
- Foreign exchange reserves continued to increase and stood at US$ 487.2 bn as on Mar 06, 2020 – highest ever.
- Net Foreign Institutional Investments stood at US$ 1.3 bn in Feb 20, a 3-month high.
- The 6-month LIBOR rate stood at 1.68% in Feb 20, lowest since Dec 17. The 12-month LIBOR rate stood at 1.74% in Feb 20, lowest since Sep 17.

Dun & Bradstreet's Macro Economic Forecasts			
Variables	Forecast	Latest Period	D&B's Comments
I.I.P Growth Real GVA Growth	4.0% - 4.5% Feb-20 Q3 FY20(F) 4.5%	2.1% Jan-20 Q2 FY20(P) 4.4%	Index of industrial production (IIP) is expected to register slightly higher growth in the month of Feb 2020. Tentative signs of recovery were visible during the beginning of the quarter, indicated by the increase in the optimism levels, before the COVID 19 pandemic gathered force in late Feb. Lockdowns and restrictions on commercial activities and people gatherings are likely to strongly impact global and domestic growth from March 2020 onwards
Inflation W.P. I Inflation C.P.I (Combined)	2.35% - 2.5% Mar-20 6.5% - 6.6% Mar-20	2.26% Feb-20 6.58% Feb-20	Slowdown in demand and production activities, a sharp fall in the global price of crude oil, and price decreases in other major commodities such as energy, base metals and fertilizers etc. are expected to exert downward pressure on inflation. Moreover, market prices of some of the commodities such as vegetables and protein items have come down from the high levels witnessed during the previous few months
15-91 days T-Bills 10-year G-Sec Yield Bank Credit	5.1% - 5.0% Mar-20 6.5% - 6.7% Mar-20 6.5% - 6.7% Mar-20	5.10% Feb-20 6.66% Feb-20 6.93% Feb-20	The COVID-19 induced increased risk aversion and the tightening of financial conditions has resulted in hardening of yields and widening of spread between the short-term and long-term bond yields. The intervention of the RBI in the market to provide liquidity is expected to keep yields under check, which in turn will soften the corporate bond yield
Exchange Rate INR v/s US$	73.8-73.9 Mar-20	71.49 Feb-20	Rupee is expected to witness depreciation pressures along with other Asian currencies due to the COVID 19 outbreak and its impact on trade, global growth and increase in risk aversion amongst foreign investors
All figures are monthly average			

Please send your feedback to Dr Arun Singh, Chief Economist.
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Impact of oil prices on Indian Economy

The spread of the novel Coronavirus disease has been declared a 'pandemic' by the World Health Organisation (WHO) as the contagious disease has already spread to around 200 nations. Since then the global crude oil prices have been plummeting due to a slowdown in demand for oil from China as it is the world's largest oil importer. To contain the falling oil prices OPEC held a meeting on March 8, to reduce the oil production in support to the falling oil prices. However, Russia's refusal to lower the crude oil production probably led to Saudi Arabia responding with slashing the selling price of its oil and announcing a massive increase in oil production. This further led to driving down the oil prices. The prices registered a multi-year fall of more than 30% which is worse than the collapse in 1991. The US Energy Information Administration (EIA) forecasted the oil prices to decrease from an average of around US$ 64 per barrel in 2019 to around an average of US$ 43 per barrel in 2020.
The precipitous fall in in oil prices and the other commodities is not a boon but a disaster in disguise. This fall in the commodity prices is a signal of how the COVID-19 pandemic is affecting the demand and the global growth. India is expected to gain from the fall in oil prices since the country imports 80% of its oil requirements and it is the world's third largest oil importer and fourth largest buyer of Liquified Petroleum Gas (LPG). However, the gains to India from the low oil price will be offset by not only by the fall in tax revenues of the government and the strong depreciation in rupee but also through the indirect impact of slowdown in global and domestic growth. However, with such an intense fall in crude oil prices, rupee should have appreciated due to a fall in dollar demand as crude oil is purchased in dollar in the global markets. But in the current situation, due to increasing risk averseness, dollar is strengthening compared to the other major currencies as it is the most liquid asset in the world therefore escalating its demand globally. Consequently, the value of rupee is depreciating in terms of dollar inspite of a major fall in crude oil prices.

Impact on India's key macroeconomic variables

Current Account Deficit – As a country that imports most of its crude oil requirements, a massive drop in crude oil prices falling below US$ 30 per barrel compared to US$64 per barrel on average in FY20 (till February) will have a direct impact on India's current account deficit (CAD). The national savings to India from the steep fall in oil prices is roughly estimated to be Rs 270 bn in FY20 considering the oil prices to remain at the current levels of US$ 37 per barrel compared to an average price of US$ 65 per barrel which was registered during the same period last year. By this calculation, government has extra reserves which it can either use to curb its fiscal situation or buy extra oil reserves. If the oil prices do not increase then the government will have the provision to increase its oil reserves for more than a month, if the fiscal conditions support as the demand for crude oil will remain muted.

Inflation: The increase in oil price would impact consumer price inflation both directly and indirectly through other commodities. The indirect impact of rise in oil prices has been estimated by computing the energy intensity of each sector. The average oil prices in January were at US$ 63 per barrel meanwhile in March it is expected to remain at around US$ 40 per barrel which is in line with the yearly estimates provided by the EIA. This decrease in oil prices will lead to around 226 bps fall in CPI inflation, taking in consideration both direct and indirect impact on inflation. Therefore, any decrease in the price of crude oil would tend to impact the inflation number substantially.

Government revenue: Lately, the government has been experiencing a fall in revenue collection amidst a slowdown at both domestic and global level. Due to anticipated decline in tax collection due to fall in oil prices, the government increased taxes on petrol and diesel by Rs 3/litre which included reduction in excise duty by Rs 2/ltr and increase in road cess by Rs1/ltr. But this drastic fall in oil price from US$ 63 per barrel in January and US$ 30 per barrel in March would deepen the woes of the government's revenue department at the state level as falling crude oil prices means falling revenue collection due to the ad-valorem nature of tax collection by the states. By ad-valorem tax, it means that the states charge the oil dealers a value added tax which is a percentage of the oil prices in the market. So, if the oil prices fall then the revenue collected by the states in the form of VAT falls.

Please send your feedback to Dr Arun Singh, Chief Economist.
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