MONTHLY MACRO REVIEW

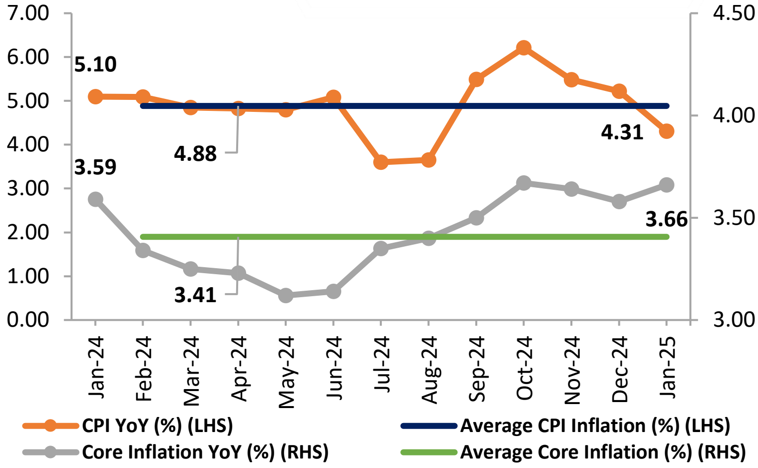
February 2025

BONANZA WEALTH

CPI INFLATION

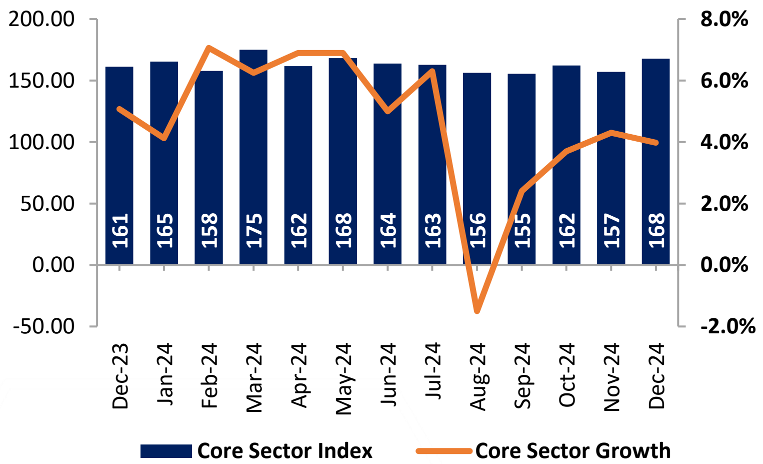
India's consumer price index (CPI) inflation moderated to 4.3% in Jan--25 from 5.2% in Dec-24, mainly because food inflation slowed down. There was a decrease in inflation for food and beverages from 7.7% to 5.7%. At the same time, core inflation remained subdued at 3.7%, staying below 4% for the past year. The fuel and light category remained in deflation. The moderation in food prices has aided CPI inflation to move closer to its target. Vegetable inflation saw a significant reduction, dropping from 26.6% to 11.3%. Deflation in spices (-6.8% YoY) and a fall in the inflation of pulses (2.6% YoY), eggs (1.3% YoY), and cereals (6.2%) further contributed to the decrease in food inflation. We expect a brightened outlook for food inflation due to strong agricultural production, which is resulting in a seasonal correction of food prices.

The arrival of the fresh harvest and well-progressed rabi sowing amid comfortable reservoir levels should continue to ease some pressure on food prices. However, it is important to monitor inflation in edible oils due to import dependence and external risks from geopolitical conflicts and policy uncertainties. Given these factors, we anticipate that the moderation in inflationary pressure should support another 25-bps rate cut in the April MPC meeting.



CORE SECTOR

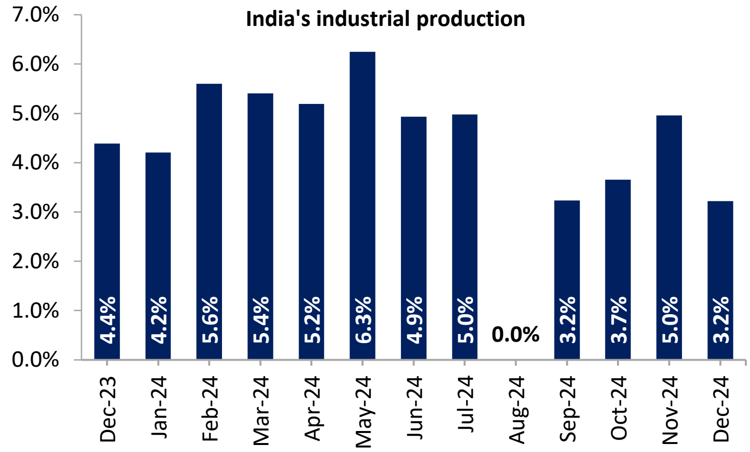
The Index of Eight Core Industries (ICI) grew by 4% in Dec-24, as against a 4.3% growth in Nov-24. This growth is attributed to increased output in five out of eight core constituents. The final output for Sep-24 was revised to an expansion of 2.4%. Notably, positive output growth was seen in coal (5.3%), crude oil (0.6%), refinery products (2.8%), fertilizers (1.7%), steel (5.1%), cement (4%), and electricity (5.1%). Meanwhile, contractions in output were observed in natural gas (-1.8%). Cement production grew 4% in December, a notable decrease from the 13.5% growth in November.



However, this slowdown is attributed to base effects from the previous year, with production volumes jumping 12.4% over the previous month. The cumulative growth rate of the ICI during Apr-Dec stood at 4.2%. While the outlook for the Q4FY25 appears positive, a sustained and broad-based revival across all sectors is still anticipated. Experts attribute the overall slowdown in core sector growth to a high base effect and weaker performance across several sectors. Coal production growth was lower due to the high base of the previous year, while refinery products growth was affected by lower domestic and export demand.

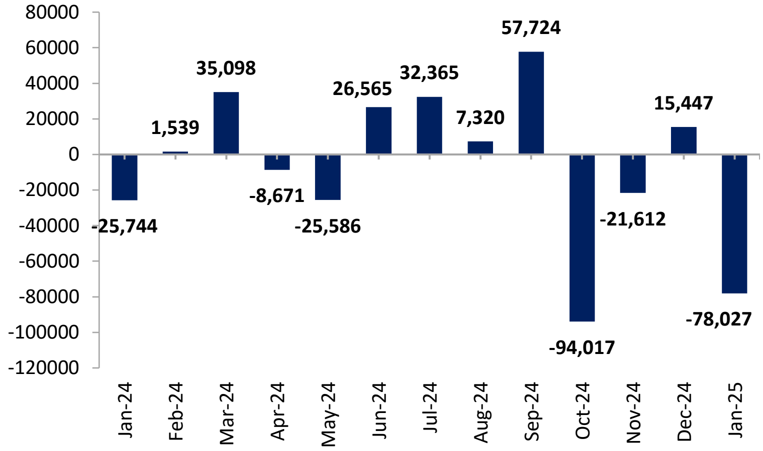
IIP GROWTH

India's industrial production growth moderated to 3.2% in Dec-24, down from 5% in Nov-24, primarily due to a weaker manufacturing sector. However, the electricity and mining sectors saw accelerated output. The Index of Industrial Production (IIP) grew by 3.9% in Q3 FY25, recovering from the previous quarter's 2.7%, aligning with the GDP First Advance Estimate, which projected improved industrial growth in H2 FY25. Manufacturing output slowed to a four-month low of 3% in Dec-24, compared to 5.5% in Nov-24, partly attributed to an unfavourable base. Out of 23 subcategories, sixteen witnessed growth. Export-driven sectors like wearing apparel and textiles grew by 5.4% and 1.3%, respectively. Mining output accelerated to 2.6% in Dec-24 from 1.9% in Nov-24, and electricity output increased to 6.2%. Within use-based classification, almost all categories recorded growth: Primary Goods (3.8%), Capital Goods (10.3%), Intermediate Goods (5.9%), Infrastructure goods (6.3%), Consumer durables (8.3%), and Consumer non-durables (7.6%). Looking ahead, an uneven consumption recovery is a concern, with urban demand showing signs of moderation while rural demand improves. Factors such as the expected moderation in food inflation and the easing of income tax are expected to boost consumption.



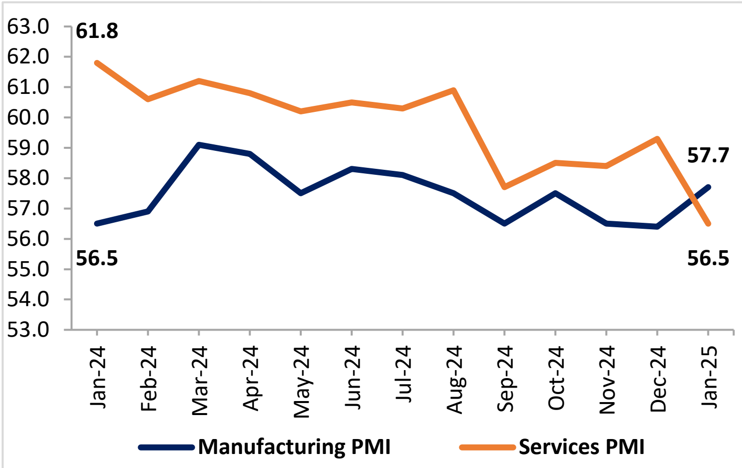
FII FLOWS

In Jan-25, Foreign Portfolio Investors (FPIs) were net sellers in Indian equities market, divesting Rs. 78,027 crore making Jan-25 as the worst opening month in terms of flows. Indian equities are facing a lot of headwinds on account of geopolitical tensions, global economic slowdown, elevated interest rates, weak corporate earnings, persistent inflation, and heightened investor uncertainty amid the ongoing tariff war triggered by the US. Debt saw net inflows of Rs. 816 crore, bringing the total FPI infusion for FY24 to Rs. 99,833 crore. Sector-wise, in Dec-24, major inflows were seen in Others (Rs. 1,210 crores), Textiles (Rs. 602 crores), and Chemicals (Rs. 355 crores) while major outflows were seen in Oil & Gas (Rs. 24,929 crores), Automobile and Auto Components, (Rs. 8,347 crores) and FMCG (Rs. 6,471 crores). Additionally, steep valuations in Indian markets have further exacerbated selling pressures. Experts further believe that with the recent sharp fall in equities, India's equity valuations have contracted significantly, with earnings yields exceeding 5% since Sep-24. This contraction reflects a combination of downward revisions to GDP growth and a sharp 130bps increase in US bond yields. Notably, this occurred despite a cumulative 100bps rate cut by the US Federal Reserve since Sep-24.



PMI INDICATORS

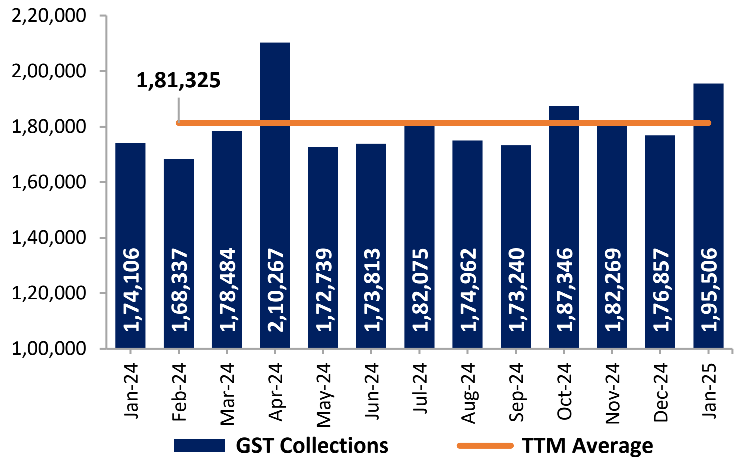
In Jan-25, the HSBC India Manufacturing PMI reached 57.7 in January, signalling a marked improvement in the manufacturing sector's overall health. This rate of expansion was the fastest since July of the previous year. Manufacturers benefited from a substantial increase in new orders, driven by stronger domestic demand and increased international sales. Total new business expanded at the quickest rate in six months, with new export orders experiencing their best rate of expansion in almost 14 years. The HSBC India Services PMI came in at 56.5 for January, which indicated a sharp rate of expansion, although it was lower than December's figure of 59.3. This figure represented the lowest rate since Nov-22. Output growth was linked to strong demand conditions, new business wins and investments in technology. New business continued to increase strongly, but the rate of expansion softened to a 14-month low. The HSBC India Composite Output Index registered 57.7, a decrease from December's 59.2, marking a 14-month low; despite this, the figure remained above the series average, reflecting a strong upturn. This increase was supported by strong demand and strategic pricing, although growth was limited by strong competition.



GST COLLECTIONS

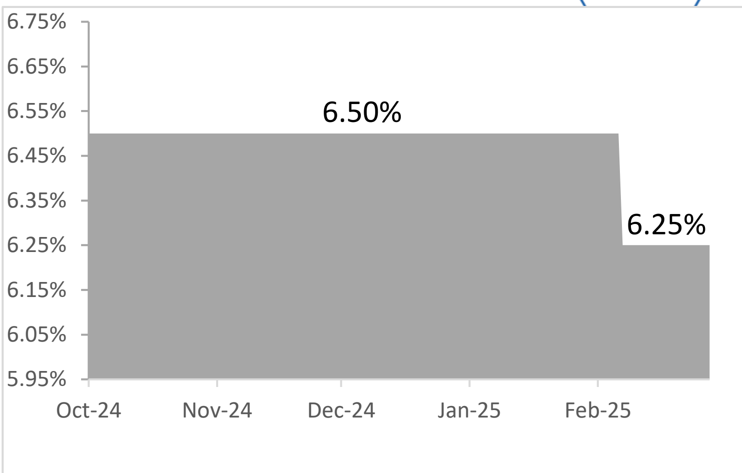
India's gross Goods and Services Tax (GST) revenue collection for Jan-25 reached Rs. 1,95,506 crore, a 12.3% YoY increase. This marks a 10.54% MoM increase from Dec-24, making it the highest in nine months. According to government data, gross GST revenue from domestic transaction grew by 10.0% YoY to Rs. 1,47,124 crores, whereas import of goods was up by 19.8% YoY to Rs. 48,382 crores. Following adjustments for refunds, the net GST revenue for Jan-25 totalled at Rs. 1,71,653 crores, reflecting a growth of 10.9% YoY. YTD gross collections now stand at Rs. 18,29,073 crores, a 9.4% YoY.

CGST comprised Rs. 36,077 crores, SGST comprised Rs. 44,942 crores, IGST comprised Rs. 1,01,075 crores, and Cess comprised Rs. 13,412 crores. Maharashtra led the states in GST collections, contributing Rs. 32,335 crore, a significant 14% YoY increase. Followed by Karnataka and Gujarat, with collections of Rs. 14,353 crore and Rs. 12,135 crore, respectively. The recent GST collections reflect a positive trajectory for India's economy, underscoring robust domestic consumption and buoyant import activity. The figures bode well for the country's fiscal health and economic recovery efforts, signalling resilience amidst global uncertainties.



RBI's MPC Policy Decision

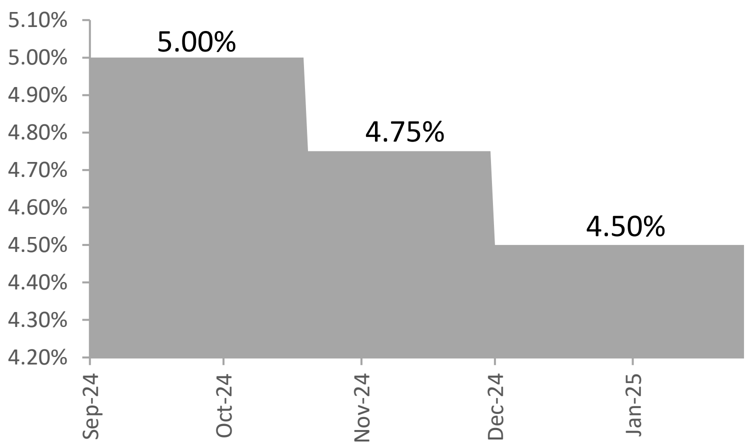
The Reserve Bank of India (RBI) Monetary Policy Committee (MPC) has implemented a repo rate cut of 25 bps, bringing the rate down to 6.25% in its Feb-25 meeting. This decision marks the first reduction in the repo rate in nearly five years, with the last cut occurring in May 2020. The central bank's move is intended to boost economic activity by lowering borrowing costs, potentially leading to reduced interest rates on loans for homes and cars. While supporting growth, the MPC aims to maintain a neutral monetary policy stance, allowing flexibility in response to the macroeconomic environment and to ensure inflation aligns with its target. RBI Governor Sanjay Malhotra expects food inflation pressures to ease significantly. The RBI projects a real GDP growth of 6.7% for the FY26. Furthermore, the RBI has projected retail inflation at 4.2% for the FY26, with an expected average of 4.5% in Q1FY26, 4% in Q2FY26, 3.8% in Q3FY26, and 4.2% in Q4FY26. For the FY25, the RBI forecasts a CPI inflation figure of 4.8%. The interventions in the forex market are intended to smoothen volatility without targeting a specific exchange rate.



FOMC Meeting

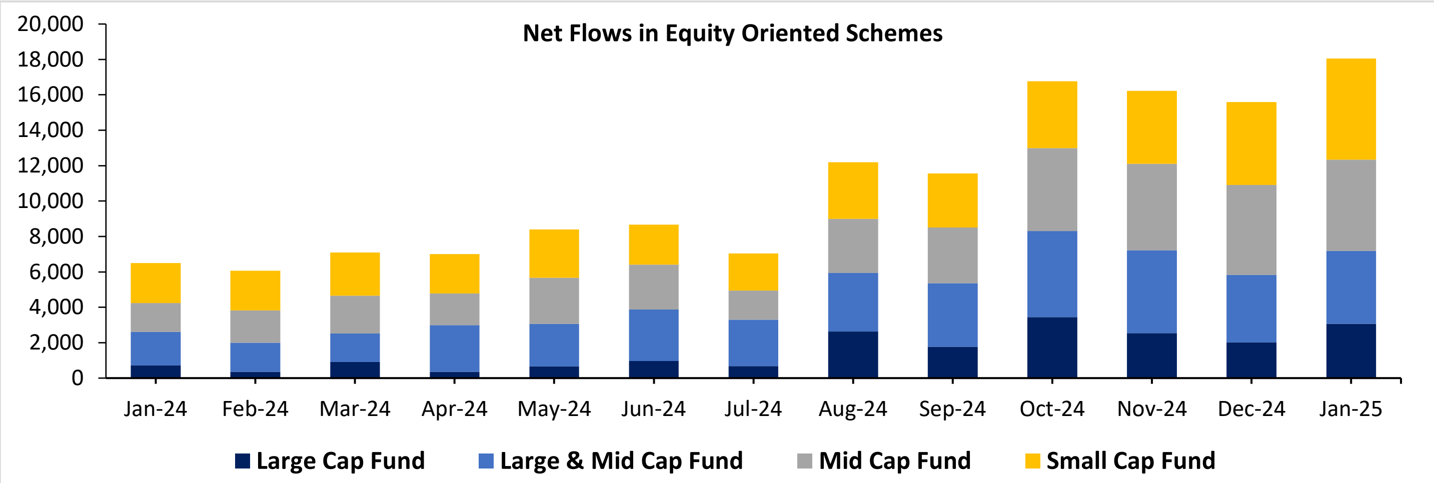
The Federal Open Market Committee (FOMC) has unanimously decided to hold steady the policy rates, remaining unchanged at 4.25% - 4.5%, after cutting rates by a full percentage point in late 2024. The decision, made at the first Federal Open Market Committee (FOMC) meeting in 2025 under the new political regime, reflects a cautious stance amid concerns that "inflation remains somewhat elevated". Although markets initially reacted negatively, stocks trimmed losses as Fed Chair Jerome Powell downplayed the omission, clarifying that it did not signal any shift in policy direction. Powell emphasised the Fed is in no rush to cut rates and requires seeing "real progress" on inflation or significant weakness in the labour market before considering further cuts.

The Fed's decision to pause rate cuts comes after data indicated a stall in the progress of bringing inflation down to the central bank's 2% target, with inflation rising more than expected in Dec-24 to 2.9%. The current monetary policy stance aims to be restrictive enough to prevent excessive risk-taking without weakening the labour market. The committee voted unanimously to keep lending rates unchanged and will monitor incoming data to adjust the monetary policy stance if risks emerge that could impede the bank's goals.

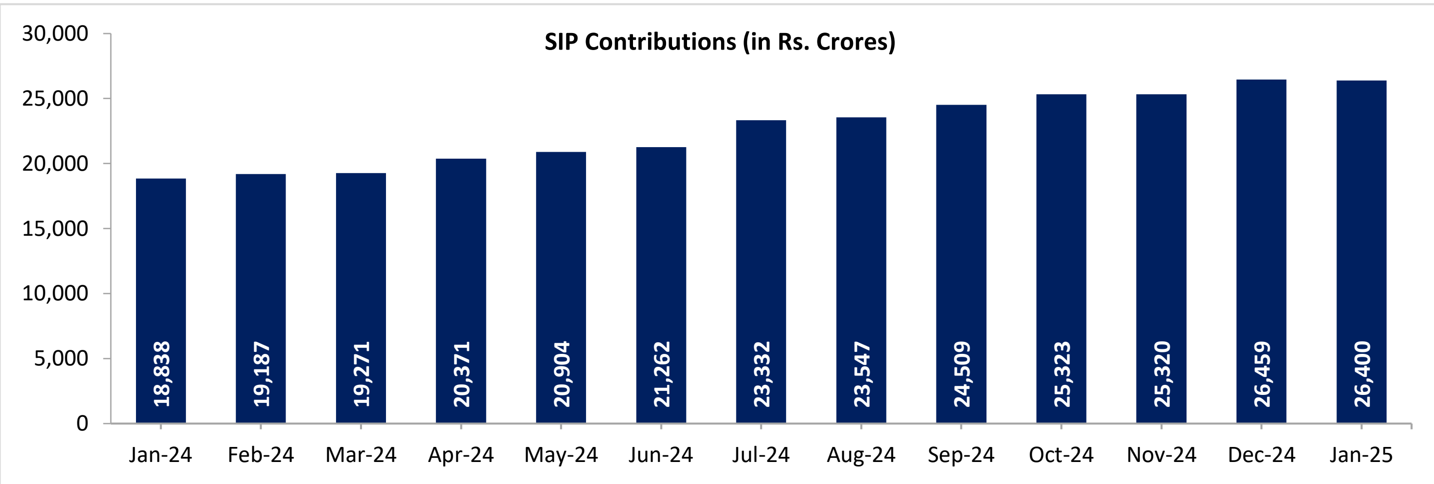


MUTUAL FUND FLOWS

In Jan-25, the Indian mutual fund industry experienced a strong resurgence, with total inflows reaching Rs. 1,87,551 crore, a considerable shift from the Rs. 80,355 crore outflow in Dec-24. Open-ended equity mutual funds continued their positive trend, attracting Rs. 39,688 crore and marking their 47th consecutive month of net inflows. The industry's net assets under management (AUM) also saw an increase, reaching Rs. 67.25 lakh crore. Within the equity fund sector, small cap funds saw inflows of Rs. 5,721 crore, while mid-cap funds took in Rs. 5,148 crore. Large cap funds also experienced a surge, increasing 52.3% to Rs. 3,063.33 crore. However, Sectoral/Thematic Funds experienced a decrease, with inflows of Rs. 9,017 crore. The debt fund segment rebounded significantly with net inflows of Rs. 1,28,653 crore, driven by substantial investments in Liquid Funds (Rs. 91,593 crore) and Money Market Funds (Rs. 21,916 crore). In Jan-25, market volatility led investors to seek safer investments such as large-cap stocks, resulting in increased investment in them. There was also net buying of debt funds, particularly as money flowed back into liquid and money market funds, marking a rebound in debt funds following treasury outflows from active debt funds in Dec-24.



Systematic Investment Plan (SIP) inflows remained strong, staying above ₹26,000 crore for the second month at ₹26,400 crore, reflecting a 40.14% YoY increase compares to Jan-24. The number of new SIPs registered in Jan-25 stood at 56,18,831. SIP Accounts reached to 10.27 crore. The SIP AUM stood at Rs. 13.20 lakh crore in Jan-25 compared to 13.63 lakh crore in Dec-24.



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