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CRISIL IndiaInsights

Oct – Nov 2019

The monsoon trail

The southwest monsoon confounded weather forecasters this year. First, the onset of rains, due by June 1 each year, was delayed by a week. Upon arrival, rainfall was scanty and deficient. As of June-end, all-India rains were 36% below normal. Thereafter, it had a change of heart, and swiftly moved from being deficient to surplus, in a matter of 2-3 weeks. Finally, it ended with 10% surplus.

Up to 4% surplus is considered normal. However, the spread suggests a skewed distribution. Uneven distribution of rains – both spatial and temporal – meant that sowing was initially slow, but gained pace later. However, excess rains damaged crops, in addition to life and property, in some regions. The extent of crop loss, in particular, proves difficult to ascertain.

Where rains were weak, presence of healthy irrigation cover helped (like in Uttar Pradesh and Bihar), but in parts of West Bengal, where irrigation coverage is low, poor rains spoilt crop production, especially paddy. Then again, in regions with excess rainfall, where damage was extensive, cost of production for farmers is likely to have risen due to re-sowing and increased use of fertilisers to improve crop yields.

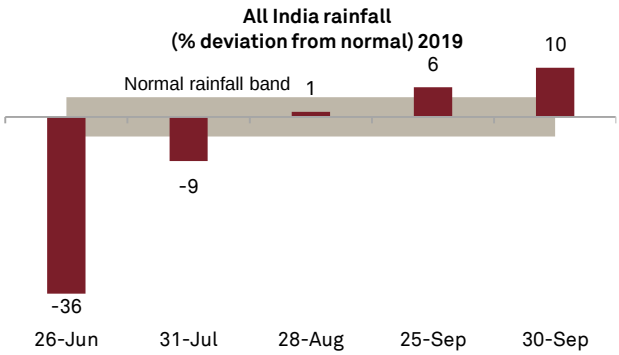
Spatial and temporal distribution was skewed, though presence of healthy irrigation cover in a few states came to rescue in areas where rains were scanty

Overall, kharif production is expected to end slightly lower than last year, but rabi output could be healthy given good irrigation and groundwater levels. Given the squeeze in kharif output, food prices have started seeing a mild uptick. For the current fiscal so far, food inflation is at 2.6%, compared with 1.8% in the corresponding period of last fiscal. That, coupled with an increase in minimum support prices, could result in slightly higher food prices this fiscal. However, given that farmer incomes have been under duress for the last few years, this minor lift to their incomes is welcome.

	FY18	FY19	FY20F
GDP (y-o-y %)	7.2	6.8	6.3
CPI inflation (%, average)	3.6	3.4	3.6
Fiscal deficit (% of GDP)	3.5	3.4	3.3#
10-year G-sec yield (%, March)	7.6	7.5	7.1
CAD (% of GDP)	1.8	2.1	2.2
Rs per $ (March)	65.0	69.5	71.0

Note: #Budget target, F = Forecast
Source: Central Statistics Office (CSO), RBI, budget documents, Ministry of Finance, CRISIL Research

The making of a monsoon

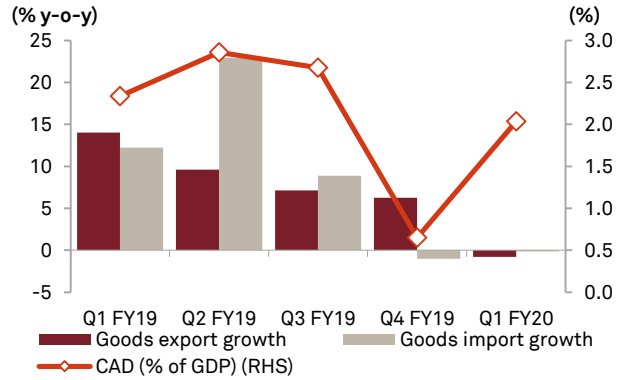


Source: Indian Meteorological Department, CRISIL

Balance of Payments

Slippery CAD, robust FDI

- India's current account deficit (CAD) rose to 2% of GDP in Q1 fiscal 2020 from 0.7% in the previous quarter on account of a higher goods trade deficit as well as a lower services trade surplus
- Sharper fall in exports relative to imports widened CAD. However, capital inflows rose, leading to appreciation in the rupee
- Foreign direct investment (FDI) inflows jumped to $13.9 billion net in Q1 -- the highest since September 2016
- CRISIL expects India's CAD to average 2.2% of gross domestic product (GDP) in fiscal 2020 compared with 2.1% in fiscal 2019

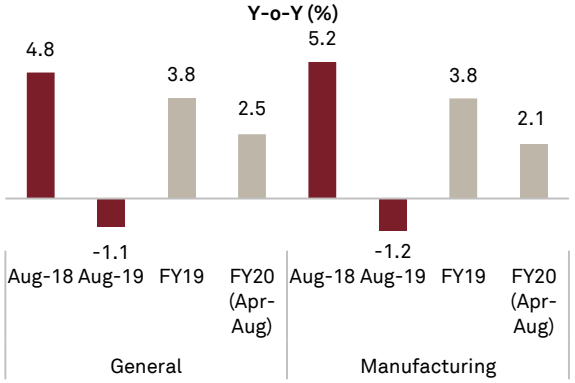


Source: RBI, CEIC, CRISIL Research

Industrial Production

Entering negative zone

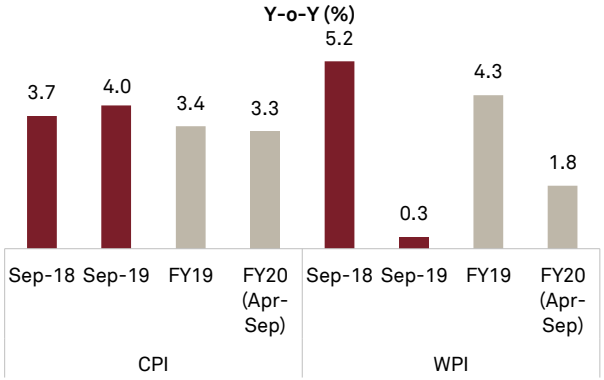
- Index of Industrial Production (IIP) fell 1.1% in August, posting the first contraction in over 2 years
- Manufacturing and electricity drove the decline
- Lead indicators for September show continued weakness, making industrial activity in the second quarter weaker than Q1
- The second half of fiscal 2020 may look somewhat better, aided by a low base effect, favourable interest rates, and budgetary measures tilted towards consumption



Inflation

Sudden spurt

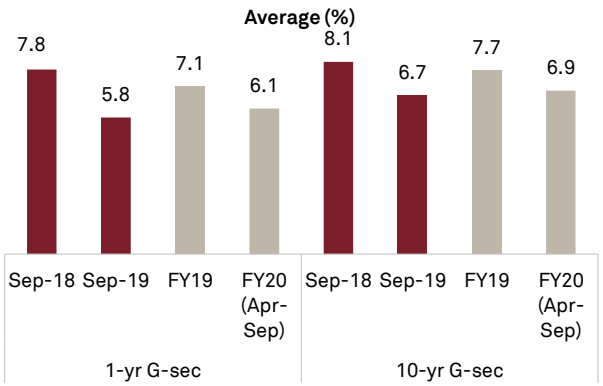
- Consumer Price Index (CPI) inflation rose from 3.21% in August to 3.99% in September, led by higher food inflation
- Food inflation rose sharply, largely on the back of vegetable prices and continued high inflation in pulses, meat and fish
- However, core inflation softened and fuel inflation slid further into negative territory
- CRISIL forecasts CPI inflation to average 3.6% this fiscal, compared with 3.4% in fiscal 2019 on account of rise in food inflation



Interest Rate

Tax cut spooks yields

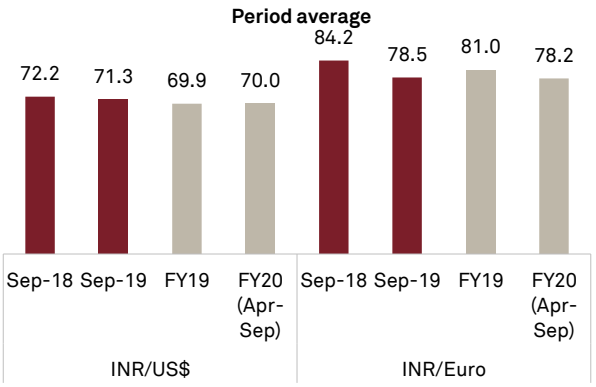
- Fears of fiscal slippage sent benchmark bond yields rising for the first time in 7 months. Yield on the 10-year government security (G-sec) averaged 6.67% in September, 17 basis points (bps) higher on-month but 142 bps lower on-year
- The sharp cut in corporate tax rate which added to fiscal woes and an outflow of foreign capital from the debt market exerted pressure on the 10-year G-sec yields
- In contrast, one-year G-sec yields continued to ease on rate cut expectations



Rupee

Semblance of stability

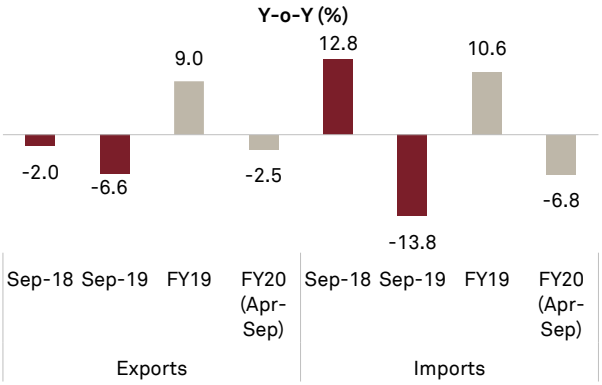
- With pressures on the rupee easing somewhat in September, the domestic currency averaged 71.3/$, 0.3% weaker on-month and 1.2% stronger on-year
- Reduction in merchandise trade deficit and foreign portfolio investor inflows helped reduce pressure on the rupee
- However, the strengthening US dollar continued to exert pressure. The dollar index gained 0.3% on-month in September
- CRISIL expects the rupee to settle at 71/$ average in March 2020 compared with 69.5/$ in March 2019



Trade

Spinning downward

- Merchandise exports[1] slid 6.6% on-year in September, following a 6% decline in the previous month. Imports declined by a steeper 13.8%
- Trade deficit contracted to $10.9 billion from $13.5 billion in the previous month and $15 billion in September last year
- Petroleum products, engineering goods and gems and jewellery drove decline in exports
- Oil and gold were the main contributors to the slump in imports



Global developments

Parameters		US	UK	EA	Japan	China
GDP (q-o-q, annualised %)	Q2-2019	2.0	-0.2*	0.2*	1.3	6.2^
CPI inflation (y-o-y %)	Aug'19	1.7	1.7	1.0	0.3	2.8
Trade balance (national currency, billion)	Aug'19	-54.9	-1.5	14.7	-136.3	44.58#
Policy rate (%)	Sep'19	1.75-2.00	0.75	0.0	-0.1	4.2

Note: *Not annualised, ^y-o-y, #$ billion
Source: Statistical bureau, respective countries

- The US real GDP growth[2] in Q2 2019 remained unrevised at 2% on-quarter. Private consumption expenditure, helped by low unemployment and rising wages, and government spending were the key contributors to Q2 growth. However, lower exports and investments shaved off a part of the growth. On the US-China trade war front, there seemed to be a sort of truce with the US deciding to postpone the tariff hike scheduled for October, with the trade deal under negotiation
- The International Monetary Fund (IMF) lowered the euro area (EA) 2019 real GDP growth forecast by 10 bps to 1.2%. The EA growth is forecast to pick up to 1.4% in 2020, as per the IMF. In a welcome move, the United Kingdom (UK) and the European Union agreed upon a Brexit deal on October 17, 2019. In the UK, uncertainty around the deal has already weighed heavily on growth prospects and some indicators suggest the economy may contract again in Q3, after declining by 0.2% in Q2, which is akin to recession
- After postponing it twice in the past, Japanese Prime Minister Shinzo Abe went ahead with a sales tax hike, to 10% from 8%, starting October 1
- China's Q3 growth slowed down to 6.0%, from 6.2% in Q2. That is its weakest quarterly growth rate since 1992. Given the ongoing trade spat with the US and weak domestic demand, the IMF also recently pared down China's 2019 GDP growth forecast from 6.2% to 6.1%. That means the growth would move nearer to the lower end of the government's target range of 6-6.5% for the year

[1] All trade figures are in $ terms
[2] All growth numbers are seasonally adjusted and annualised, unless stated otherwise

Data Summary

	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
Industrial Production*						
General	3.2%	4.5%	1.2%	4.6%	-1.1%	-
Mining	5.1%	2.3%	1.5%	4.8%	0.1%	-
Manufacturing	2.5%	4.4%	0.2%	4.5%	-1.2%	-
Electricity	6.0%	7.4%	8.2%	4.8%	-0.9%	-
Primary Goods	5.1%	2.2%	0.4%	3.5%	1.1%	-
Capital Goods	-1.4%	-2.1%	-6.8%	-7.2%	-21.0%	-
Intermediate Goods	3.0%	12.5%	12.6%	14.7%	7.0%	-
Infrastructure and Construction Goods	-0.7%	3.0%	-1.9%	3.5%	-4.5%	-
Consumer Durables	2.2%	0.2%	-10.2%	-2.7%	-9.1%	-
Consumer Non-Durables	5.4%	8.1%	7.1%	8.4%	4.1%	-
Inflation*						
WPI-All Commodities	3.2%	2.8%	2.0%	1.2%	1.1%	0.3%
WPI-Primary Articles	6.6%	6.8%	6.4%	5.5%	6.4%	5.5%
WPI-Manufactured Products	1.9%	1.5%	1.0%	0.3%	0.0%	-0.4%
WPI-Fuel & Power	3.8%	2.0%	-2.1%	-3.6%	-4.0%	-7.1%
CRISIL Core Inflation Indicator (CCII)	2.2%	2.1%	1.7%	1.1%	1.0%	0.9%
CPI-(combined)	3.0%	3.0%	3.2%	3.1%	3.3%	4.0%
Current Account						
Exports*	0.2%	3.5%	-7.9%	2.0%	-6.0%	-6.6%
Imports*	3.7%	3.3%	-10.0%	-10.4%	-13.4%	-13.8%
FOREX Reserves ($ billion)**	418.5	421.9	427.7	429.6	428.6	433.6
Markets##						
BSE SENSEX	39,032	39,714	39,395	37,481	37,333	38,667
NIFTY 50	11,748	11,923	11,789	11,118	11,023	11,474
SENSEX P/E	29	29	28	27	26	27
Exchange Rate#						
INR/$	69.43	69.77	69.45	68.81	71.15	71.33
INR/GBP	90.53	89.65	87.97	85.87	86.49	88.14
INR/ 100 YEN	78.03	78.05	78.39	77.23	79.12	78.54
INR/EURO	62.20	63.44	64.30	63.59	66.94	66.35
INR/Chinese Yuan	10.33	10.19	10.06	9.99	10.08	9.98
Interest Rates##						
Base rate$	8.95%-9.40%	8.95%-9.40%	8.95% - 9.40%	8.95% - 9.40%	8.95% - 9.40%	8.95% - 9.40%
1-Year GoI Paper@	6.51%	6.45%	6.20%	6.01%	5.85%	5.75%
10-Year GoI Paper@	7.39%	7.29%	6.94%	6.52%	6.50%	6.67%

Note: *Growth y-o-y, #Monthly averages, ##Month-end, @Semi-annualised, $10 banks, **As on September 27, 2019

Source: RBI, Government of India, Bombay Stock Exchange, CSO, CRISIL Research

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