

## **Macro Flash**

**Extreme strength in GDP attributable to statistical quirks, underlying growth momentum moderate with some caveat; liquidity management continues to be watched.**

### **India's Q3 GDP growth indicated very strong growth**

- As per the second advance estimate Q3 GDP came in at 8.4% YoY, implying FY24 growth at 7.6%.
- However, the quick growth is largely an artifact of lower subsidies paid in the quarter, owing to how GDP is computed from GVA.
- GVA is the more reliable indicator and is derived from more readily available numbers, while GDP can be worked out by adjusting GVA for indirect taxes net of subsidies.
- GVA growth for Q3 was around expectations at 6.5% YoY, with slower manufacturing - as visible in corporate sector and IIP numbers - and construction - with slower cement growth.
- As against this, services growth benefited from stronger transportation and financing, implying FY24 GVA growth at 6.9%.

### **India core inflation is exceptionally well-behaved, but food inflation playing spoilsport**

- Latest inflation readings showed core inflation falling to 3.6% - the weakest since before the pandemic.
- However, food inflation is worsening - as seen in the diffusion within the food inflation basket of items with double digit inflation rising.
- Part of the problem is vegetables, where winter disinflation was less than expected, setting up a high base from which prices can rise in the summer.
- But apart from this, prices of rice are still rising, while those of pulses hold at high levels. Prices of sugar will also likely be high with global and national political trends.

### **Global rate cut pricing has reversed, following stronger data**

- The past month saw market pricing of global rate cuts turn cautious, a contrast to the heavily aggressive rate cuts priced in at year-end.
- This has been brought about by stronger activity data, as well as a halting of ongoing disinflation across developed markets.
- The global picture currently sits uneasy, with growth conditions depending on fiscal stimulus, a risk given the elections cycle.
- Also a risk in the election cycle is potential tariff hikes, which can lead inflation higher over time too.

### **RBI is once again intervening to build reserves**

- Latest RBI data show that the net FX position, which had turned short in Q3, is now once again long - with evidence that further accumulation is now being sterilised into forward markets.
- The appreciation has been driven by a sharp narrowing of the trade deficit with merchandise and services both doing well per seasonal norms. At the same time capital inflows are doing well, with bond index-related flow being seen as foreign bank demand on behalf of custodians over many weeks.
- While FX reserves are now at reasonable levels, past history indicates that a higher margin over IMF ARA levels might be desirable.

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