asset 360ONE

panorama

March 2024

Key Insights:

Economic activity appears to be slowing down, in contrast to the strong 8.4% Q3 GDP growth

- Gross Value Added, a better indicator for growth, slowed down to 6.5% YoY in Q3FY24 from 7.7% in Q2
- Agricultural sector contracted in Q3, as advance estimates suggest disappointing rabi production
- However, forecasts suggest that climatic conditions will turn favourable for monsoon 2024
- Job creation has decelerated, potentially affecting urban consumption
- FMCG growth slowed down in Q3 due to a moderation in urban volume growth and a decline in prices

Household consumption is shifting towards processed food and non-food items

- Rural consumption has grown at a 9.2% CAGR since 2011-12, surpassing the urban 8.5% CAGR
- Share of food in total consumption expenditure has come down, driven by a decline in cereals consumption
- However, the share of processed food has risen, now representing nearly one-tenth of total expenditure
- Among non-food items, the share of expenditure on transportation and durable goods has increased

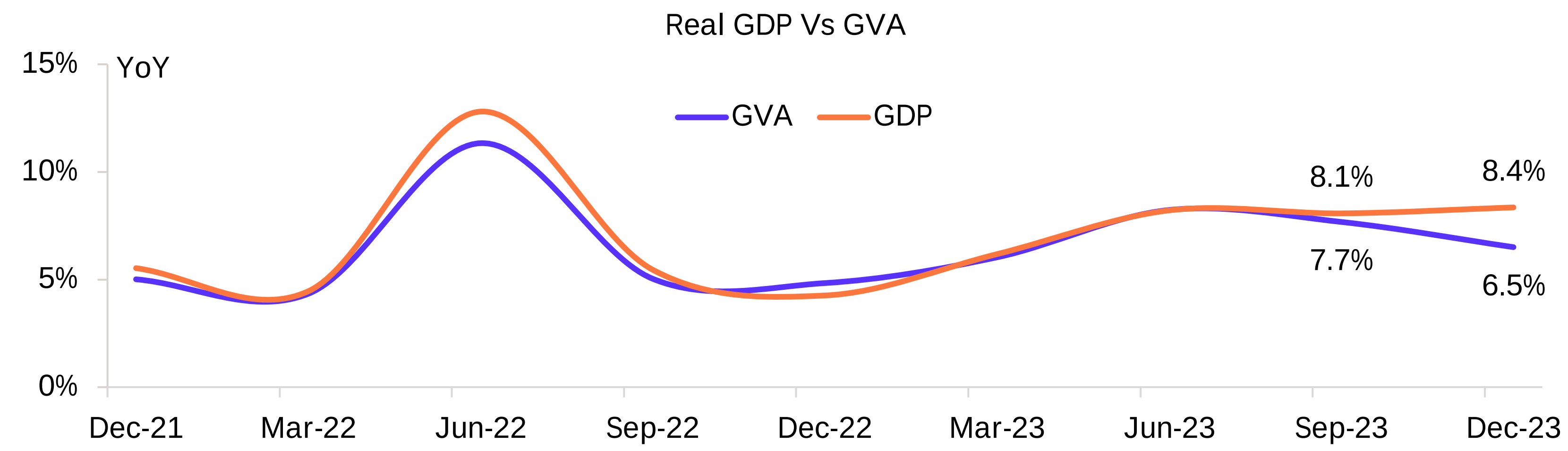
Gold outlook brightens amid central banks' demand, geopolitical risks, rate-cut expectations

- Real interest rates correlate negatively with gold prices, while ETF gold holdings correlate positively
- ETFs have reduced gold holdings, yet gold prices remained resilient due to increased central bank demand
- Rising geo-political tensions and expectations of monetary policy easing by global central banks favour gold
- Central banks' gold demand is likely to stay high as they diversify FX assets away from the US dollar

Growth Assessment

Gross Value Added (GVA) better indicator of growth than GDP for Q3

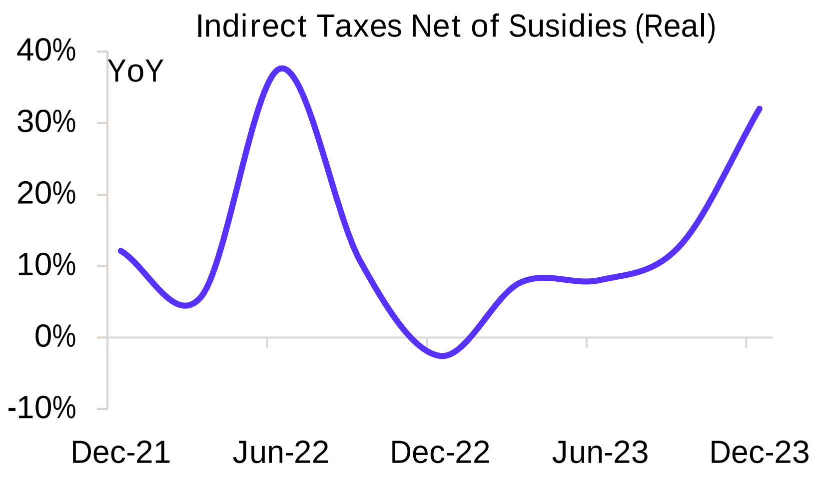
Gross Domestic Product (GDP) boosted by a sharp contraction in subsidy expenditure in the Dec'23 quarter

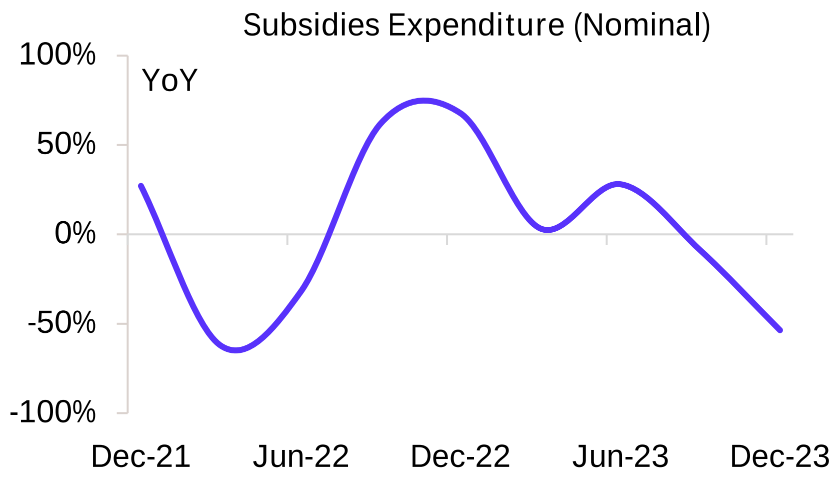


A wide divergence between Gross Value Added (GVA) and Gross Domestic Product (GDP) was witnessed in Q3FY24

GDP improved from 8.1% YoY in September 2023 to 8.4% YoY in December 2023, while GVA slowed from 7.7% YoY to 6.5% YoY during the same period

GDP = GVA + indirect taxes net of subsidies (indirect taxes - subsidies)





Indirect taxes net of subsidies grew by 32% YoY in Dec quarter in real terms, boosting the GDP growth in Q3

The increase was driven by a 54% YoY contraction in subsidies outgo by the Central Government during the Dec quarter

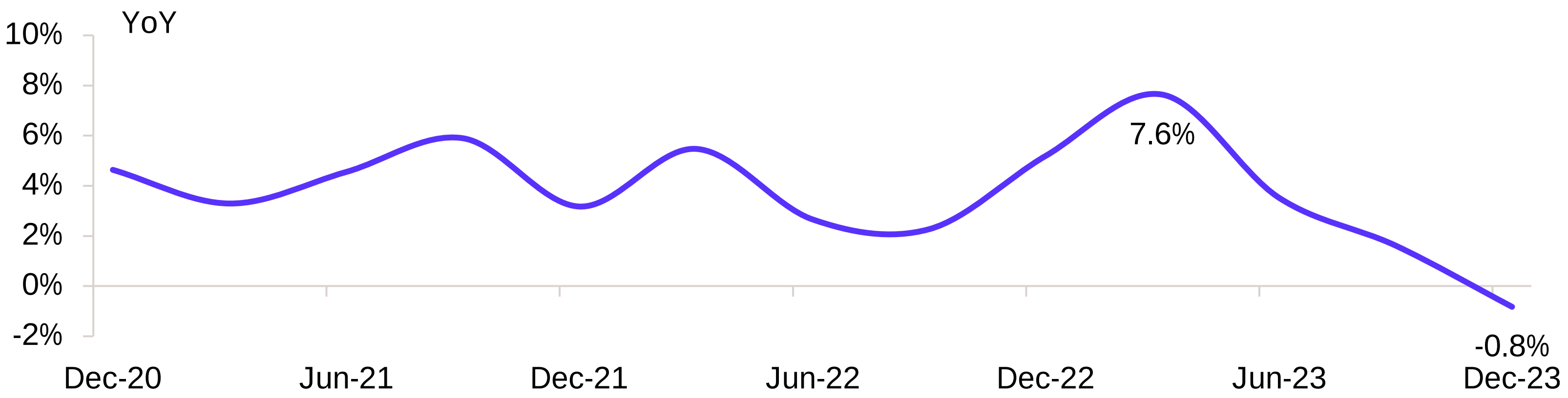
Thus, GVA is a better indicator of growth than GDP for the December quarter

Source: MOSPI, CMIE, 360 ONE Asset Research

Agriculture sector contracts in Q3 on weak crop production

Rabi (winter crop) production estimates disappoint following weak kharif production attributed to erratic monsoon

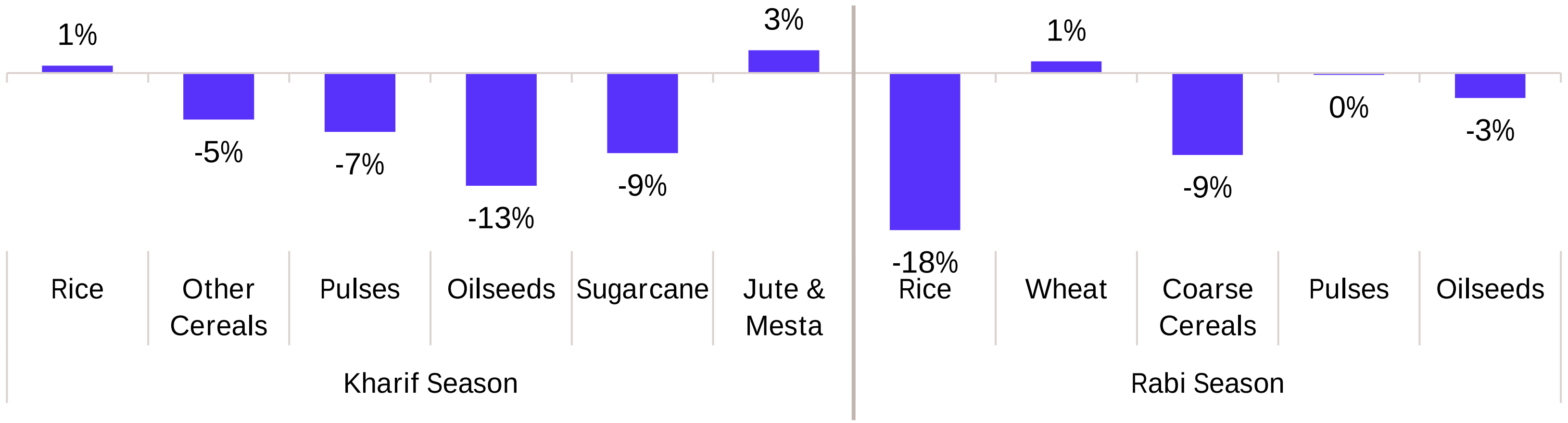
Agriculture Sector GVA



Agriculture GVA recorded a contraction of 0.8% YoY in Q3FY24, down from a muted growth of 1.6% YoY in the previous quarter

Agricultural growth continues to slow down from a peak of 7.6% YoY in the Mar'23 quarter due to the uneven temporal and spatial distribution of the last monsoon season

Agriculture Production 2023-24: Advance Estimates (YoY)



Weak agricultural production has been holding back recovery in the rural sector and keeping food inflation high

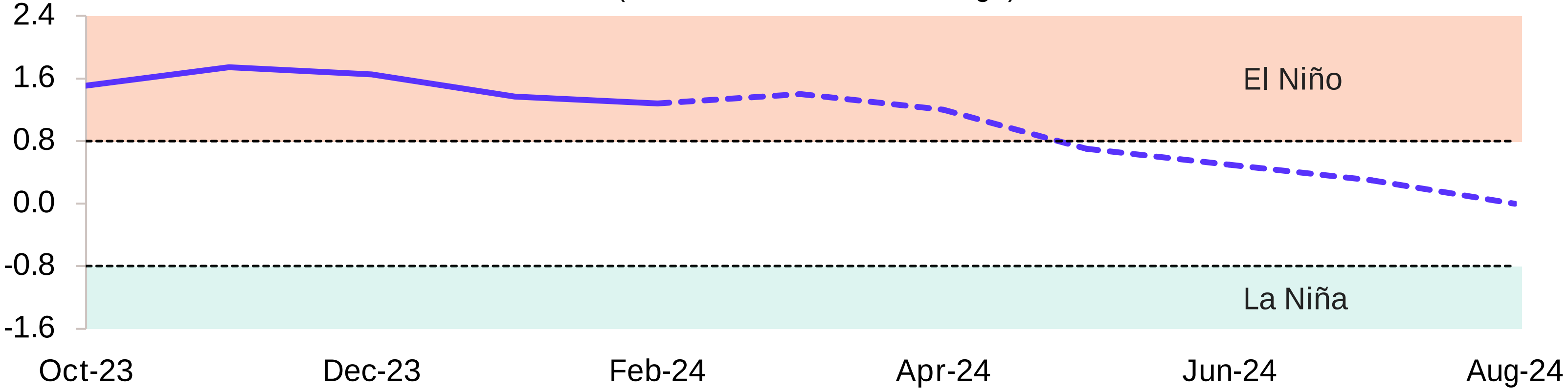
The monsoon season in 2024 will be crucial for recovery in the agri sector and easing of food inflation

Source: MOSPI, CMIE, 360 ONE Asset Research

Forecasts suggest climatic conditions favor a normal monsoon in 2024

El Niño is expected to transition to neutral by May-Jun’24, and the IOD is expected to turn positive

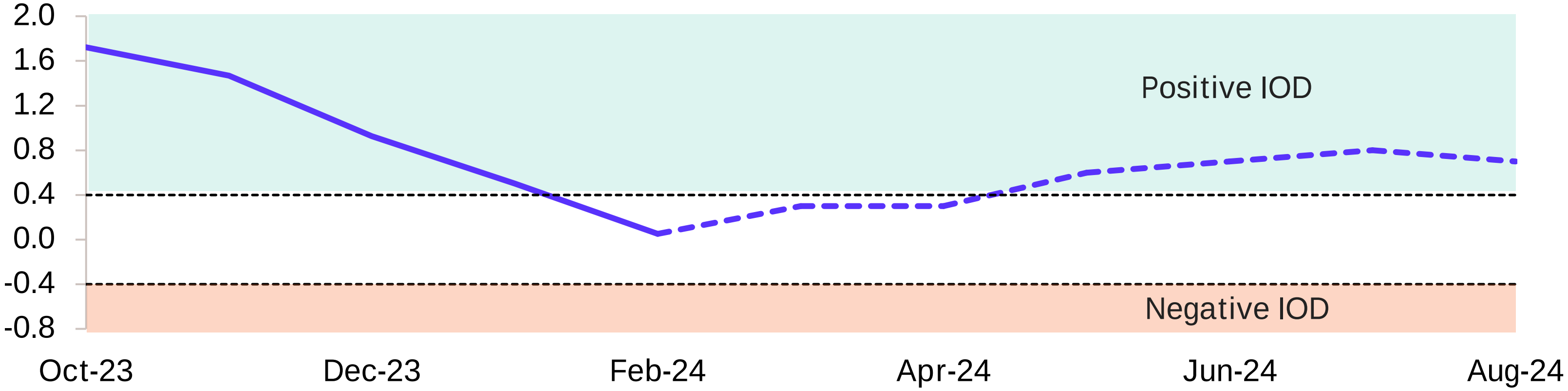
Monthly Sea Surface Temperature Anomalies for NINO 3.4 region
(°C above or below average)



El Niño conditions adversely affect the Indian monsoon, leading to poor rainfall and, consequently, impacting agricultural production

El Niño is expected to transition to a neutral phase (neither El Niño nor La Niña) by the time the Indian monsoon sets in

Monthly Sea Surface Temperature Anomalies for IOD region
(IOD index °C)



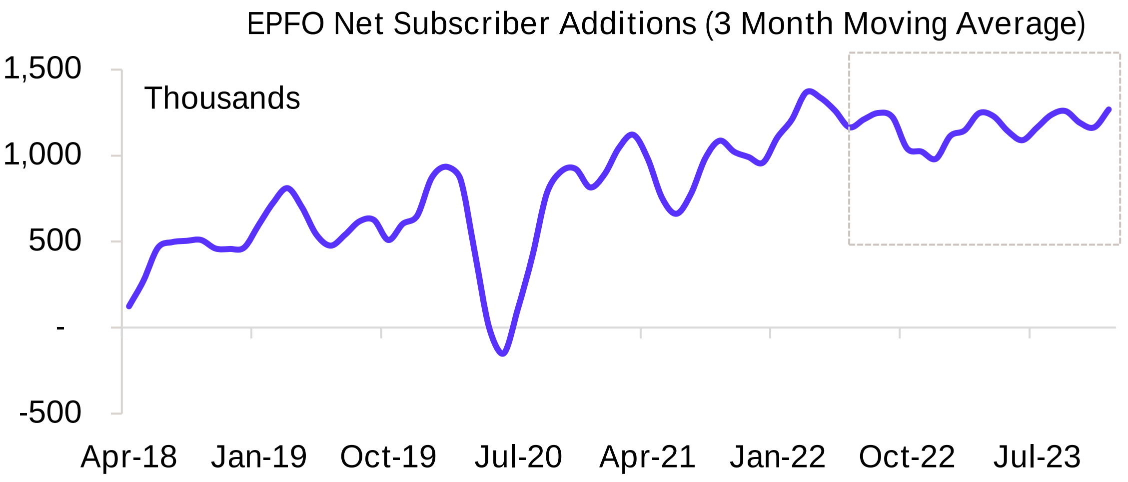
A positive Indian Ocean Dipole (IOD) leads to higher monsoon rainfall and more active (above-normal rainfall) monsoon days in the Indian subcontinent, while a negative IOD leads to less rainfall and more monsoon break days (no rainfall)

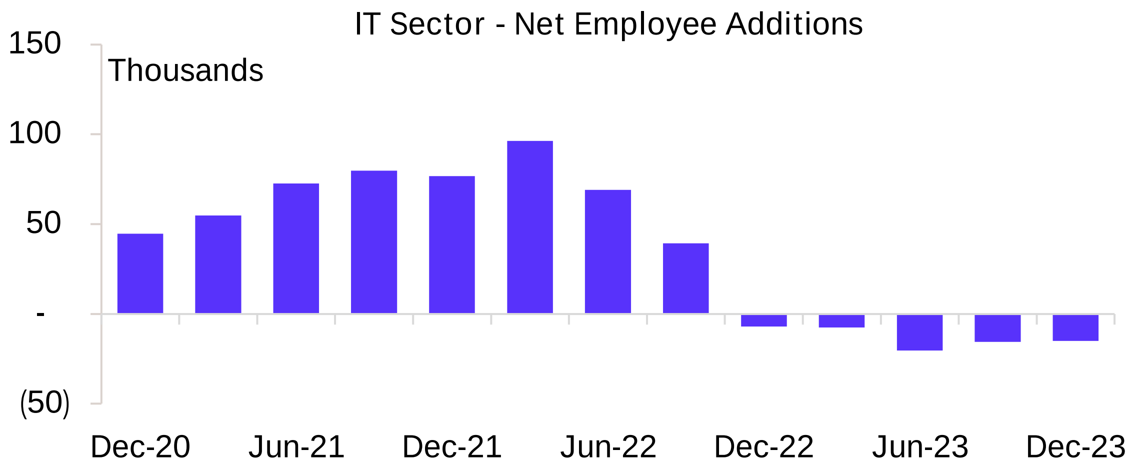
IOD conditions are expected to turn positive before the onset of the Indian monsoon in 2024

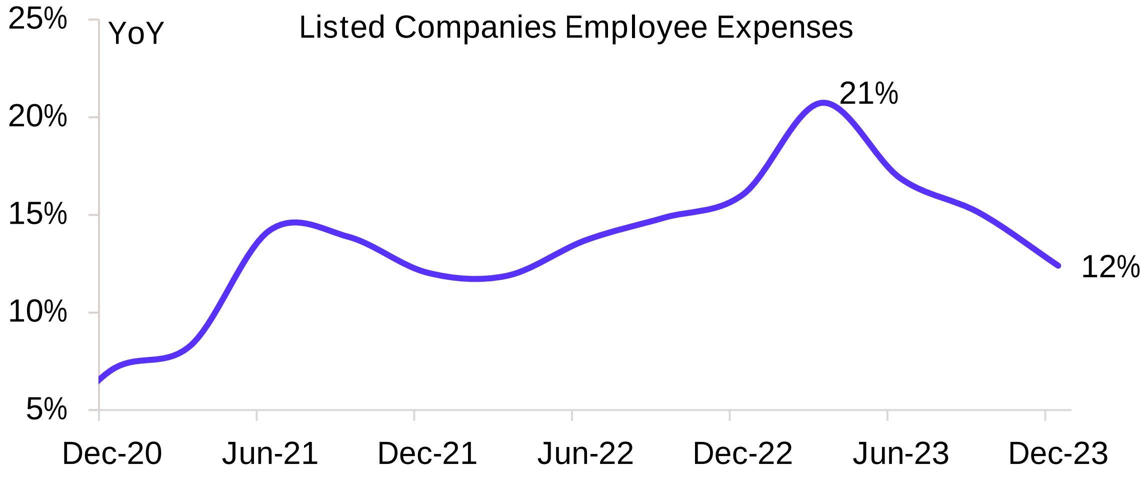
Source: Australia Bureau of Meteorology (Model Run: 2 March 2024), 360 ONE Asset Research

Job creation has slowed down, would impact urban consumption

EPFO net subscriber additions are flat, IT sector workforce is declining, and employment expenses growth is decelerating







Various indicators suggest a slowdown in employment generation –

1. EPFO net subscriber additions have plateaued post the peak in March 2022
2. The IT sector workforce has been declining for the past 5 quarters
3. Listed companies' employee expenses growth has slowed down from 21% YoY in March 2023 to 12% YoY in December 2024
4. Naukri JobSpeak index also indicates a gradual slowdown in hiring activity (see: Panorama December 2023)

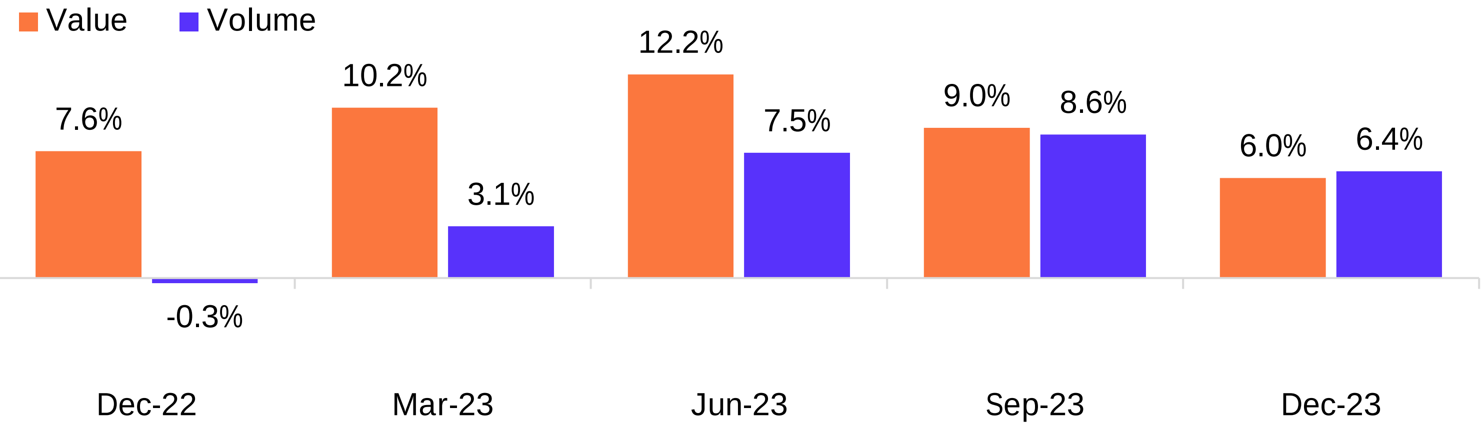
Source: Avendus Spark, Ace Equity, CMIE, 360 ONE Asset Research

Note: Listed companies' employee expenses based on a sample of 3000+ companies

FMCG market growth slows down in Q3, both in volume and value terms

Volume growth in FMCG witnessed a sharper slowdown in urban regions than in rural regions

FMCG Market Growth (%YoY)

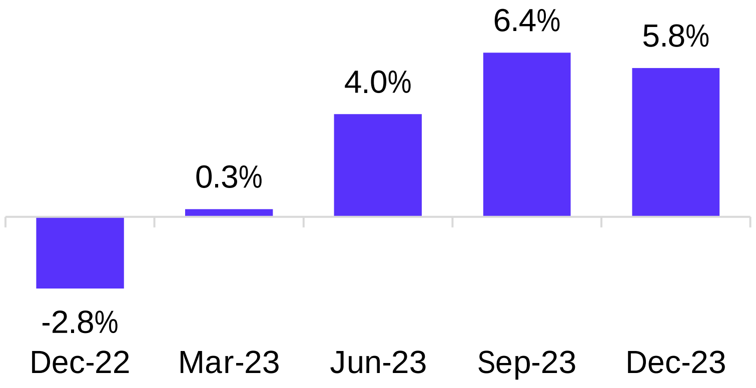


FMCG value growth slows down from 12.2% in Jun'23 quarter to 6% YoY in Dec'23

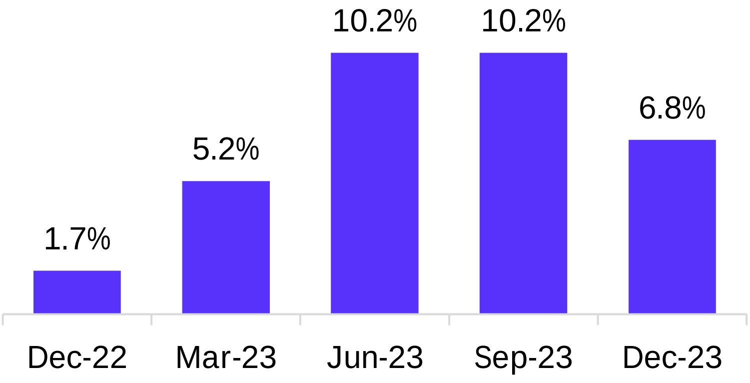
Volume growth declines to 6.4% in Dec'23 from 8.6% in the previous quarter

FMCG value growth falls below volume growth in **Dec'**23 quarter on account of price correction

FMCG Volume Growth (%YoY) - Rural



FMCG Volume Growth (%YoY) - Urban



The decline in volume growth is driven by a sharp fall in urban volume growth

Rural volume growth also declined in December 2023 after recovering over the past 2-3 quarters

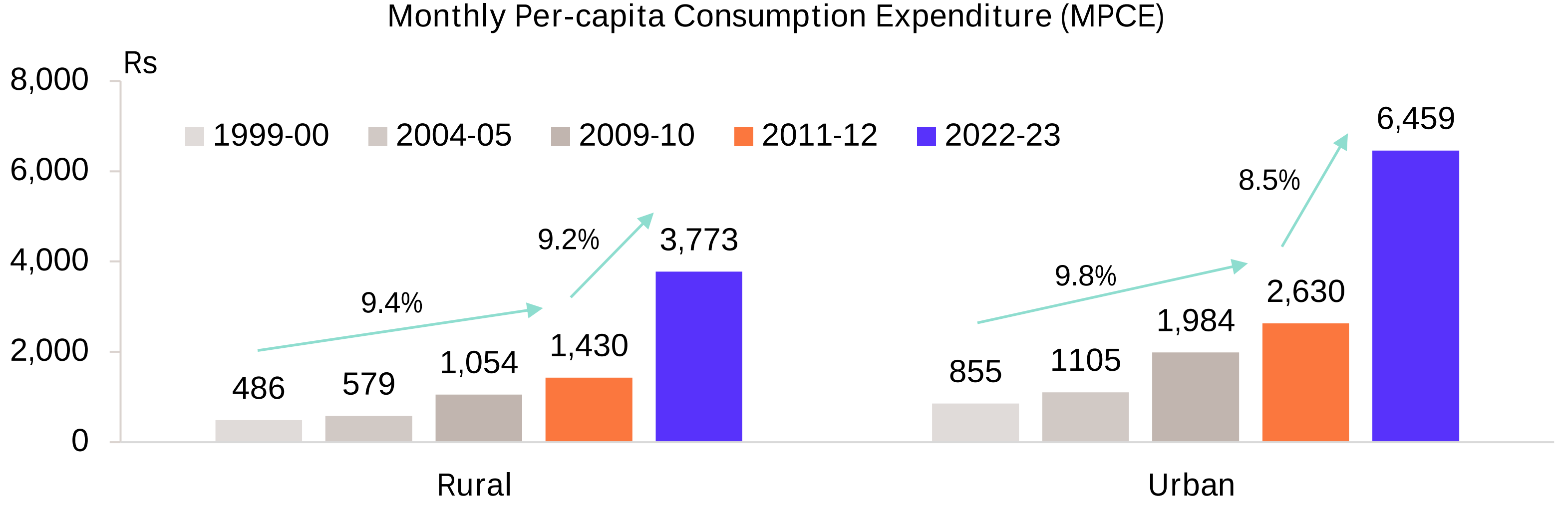
Urban growth hinges on the recovery in employment generation, while rural growth depends on improvement in the agricultural sector

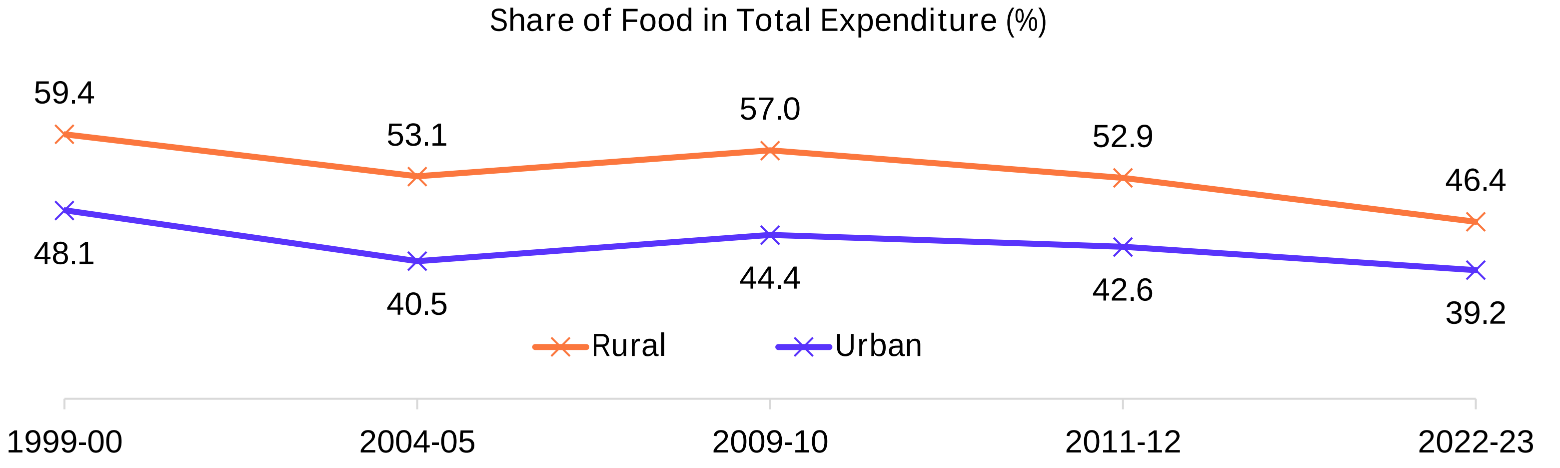
Source: Avendus Spark, NielsenIQ, Business Standard, 360 ONE Asset Research

Shifting Consumption Patterns

Rural consumption growth surpassed urban over the last decade

The share of food in both rural and urban consumption expenditure is declining





Source: MOSPI, 360 ONE Asset Research

Note: MPCE growth rate on Compounded Annual Growth Rate (CAGR) basis

Rural monthly per capita consumption expenditure (MPCE) has increased at a 9.2% CAGR since 2011-12, compared to an 8.5% CAGR in urban

Urban MPCE was 1.7 times rural MPCE in 2022-23, lower than the 1.8 times in 2011-12

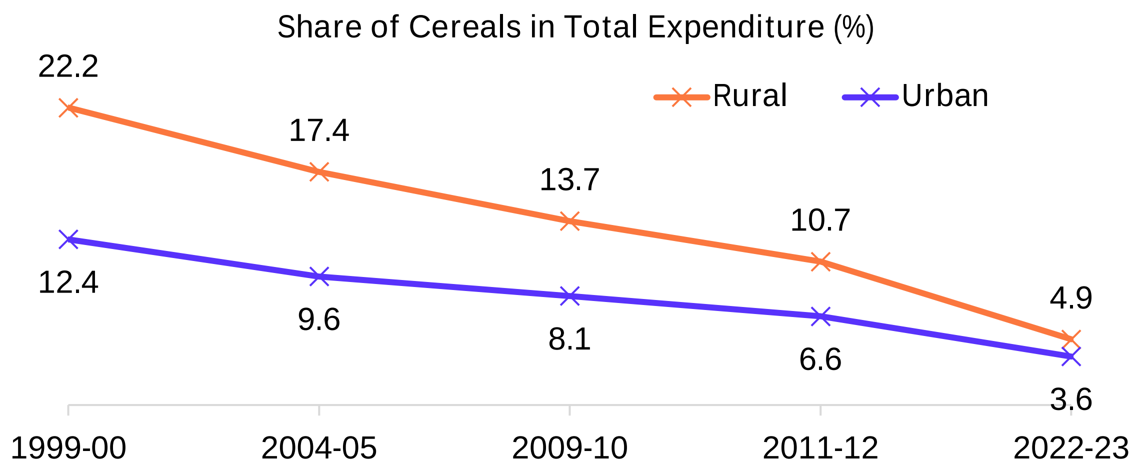
The share of food in total consumption expenditure has come down in both rural and urban areas

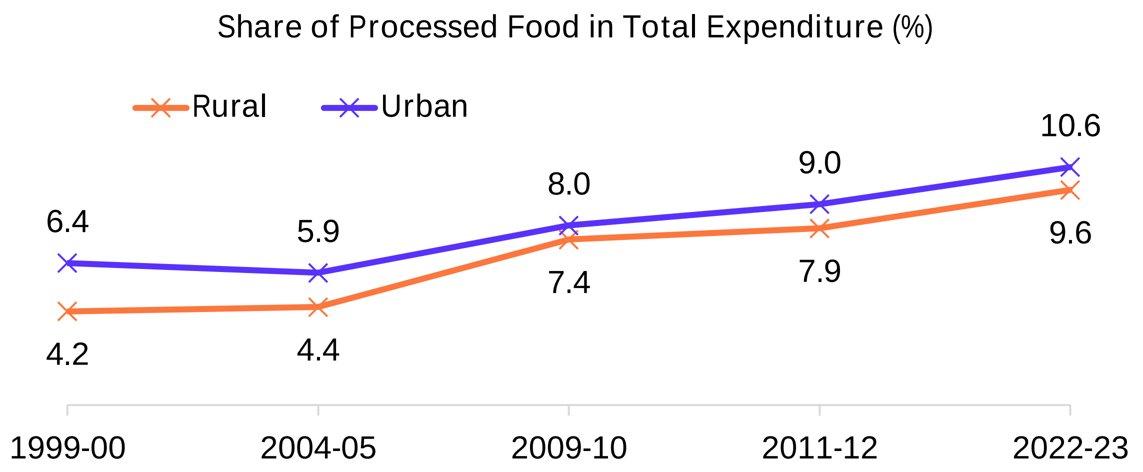
The gap in the share of food in total expenditure between rural and urban areas has also reduced over the past decade

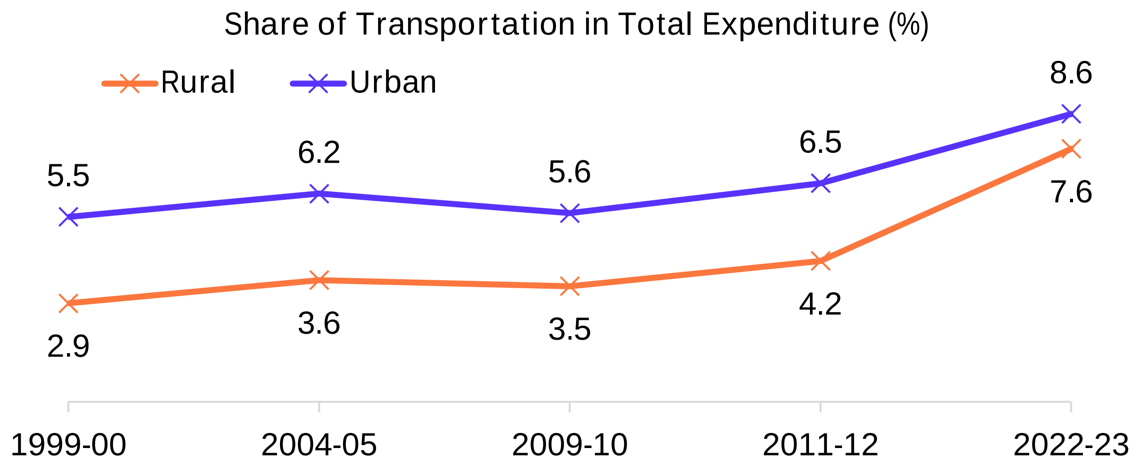
The share of food in the current CPI basket, at 45.9%, is expected to decrease in the next base year revision. The lower share of food should also reduce volatility in the headline CPI

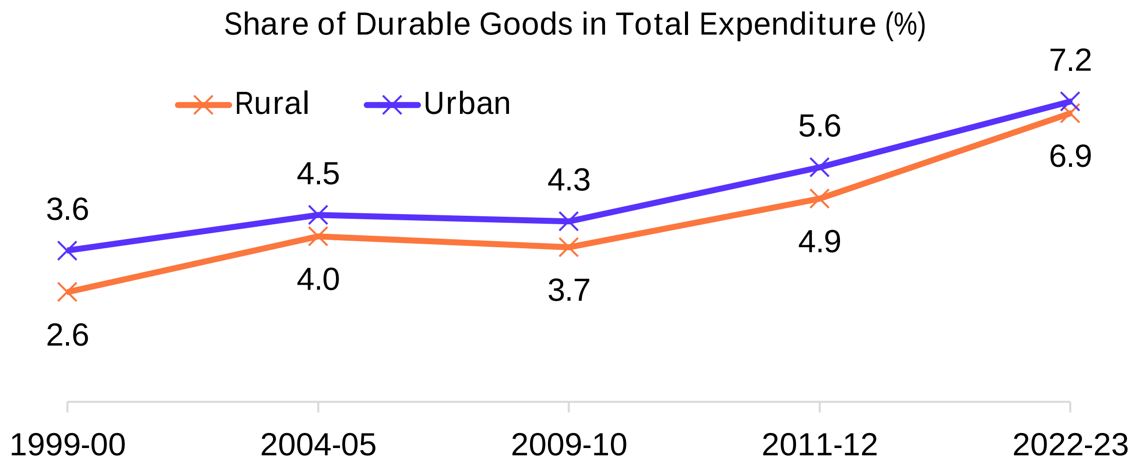
Cereals' share has dropped, while processed food's share has risen

Among non-food items, the share of expenditure on travel and durable goods has increased considerably





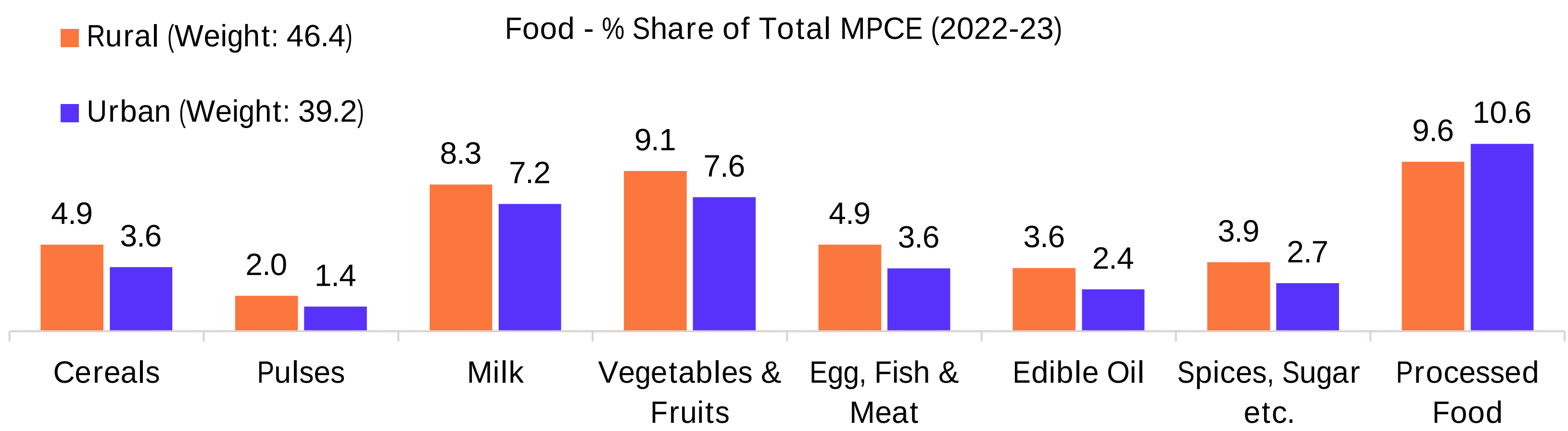




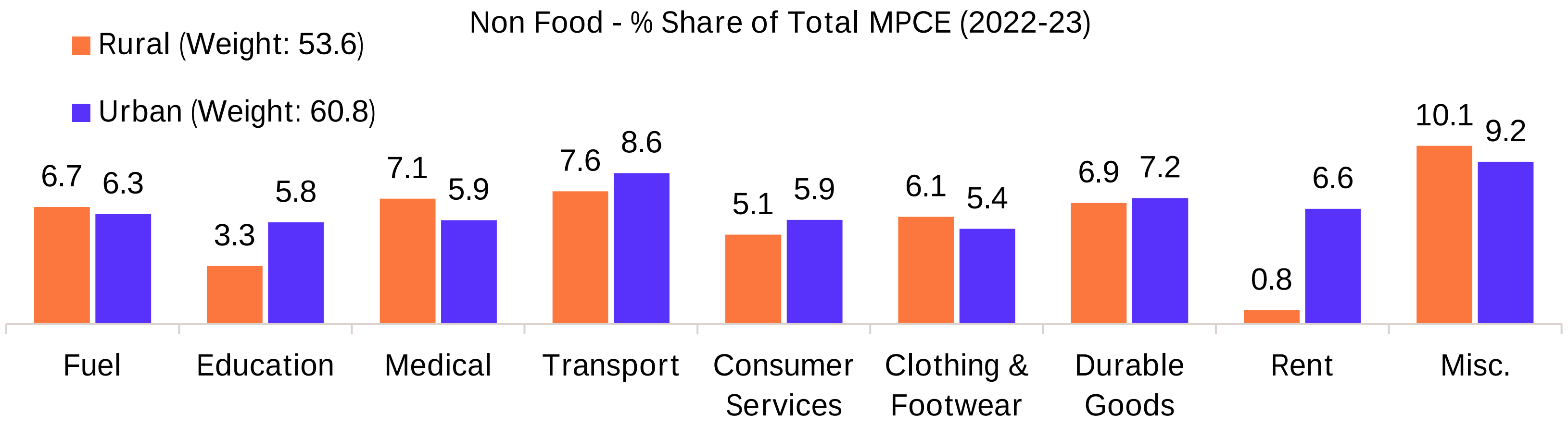
Source: MOSPI, 360 ONE Asset Research

Processed food now accounts for almost one-tenth of the expenditure

Rural households spend a higher share on medical expenses and a lower share on education compared to urban HHs



Rural households spend a higher share on all categories of food except processed food compared to urban households



Rural households spend a higher share on medical expenses and a lower share on education compared to urban households

Rent accounts for 6.6% of total expenditure in urban areas, compared to just 0.8% in rural areas

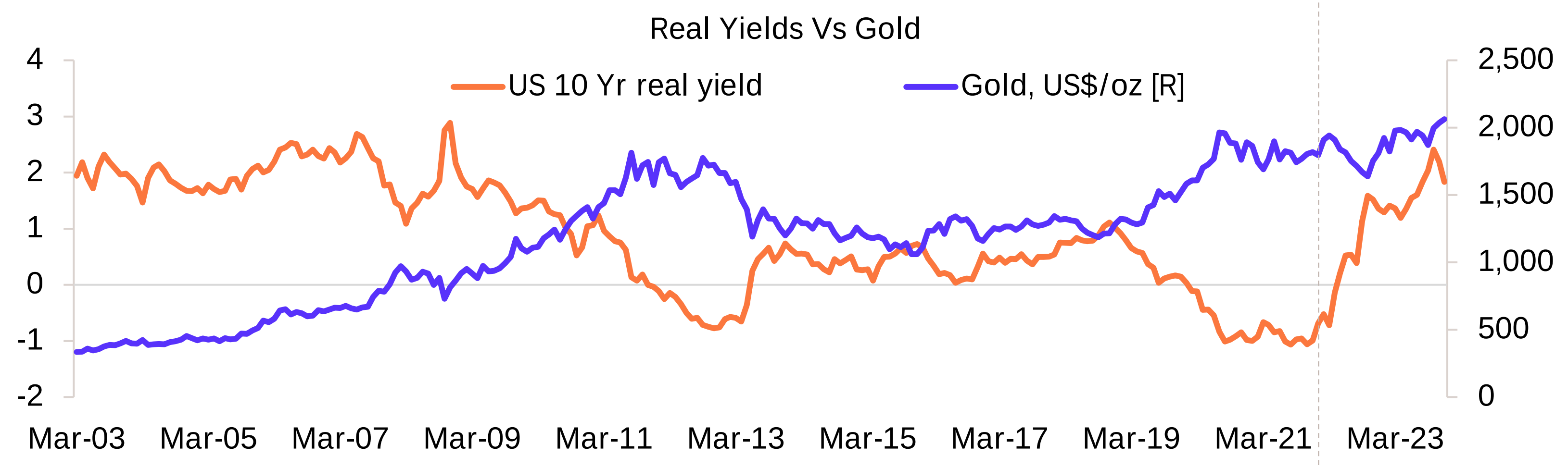
Transportation accounts for a significant share of total expenditure in both rural and urban regions

Source: MOSPI, 360 ONE Asset Research

Gold Outlook

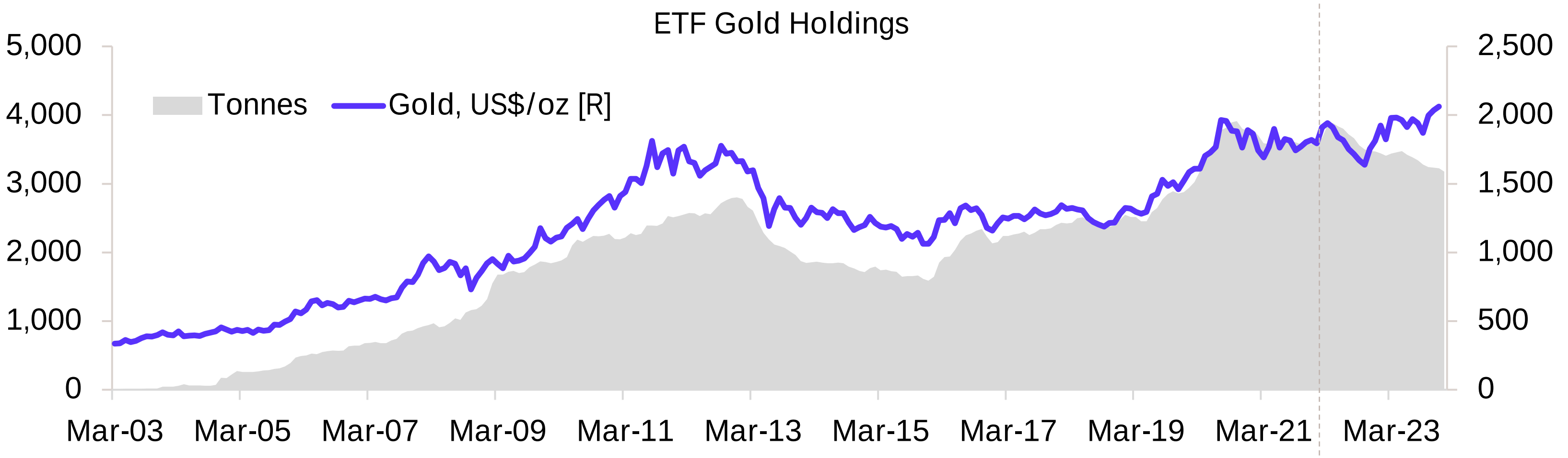
Gold prices have held up despite a steep increase in real interest rates

ETF gold holdings have come down as real interest rates rose, but gold prices remained resilient



Generally, real interest rates are negatively correlated with the price of gold

However, over the last two years, gold prices have not corrected despite a steep increase in real interest rates



ETF gold holdings have also reduced as real interest rates rose

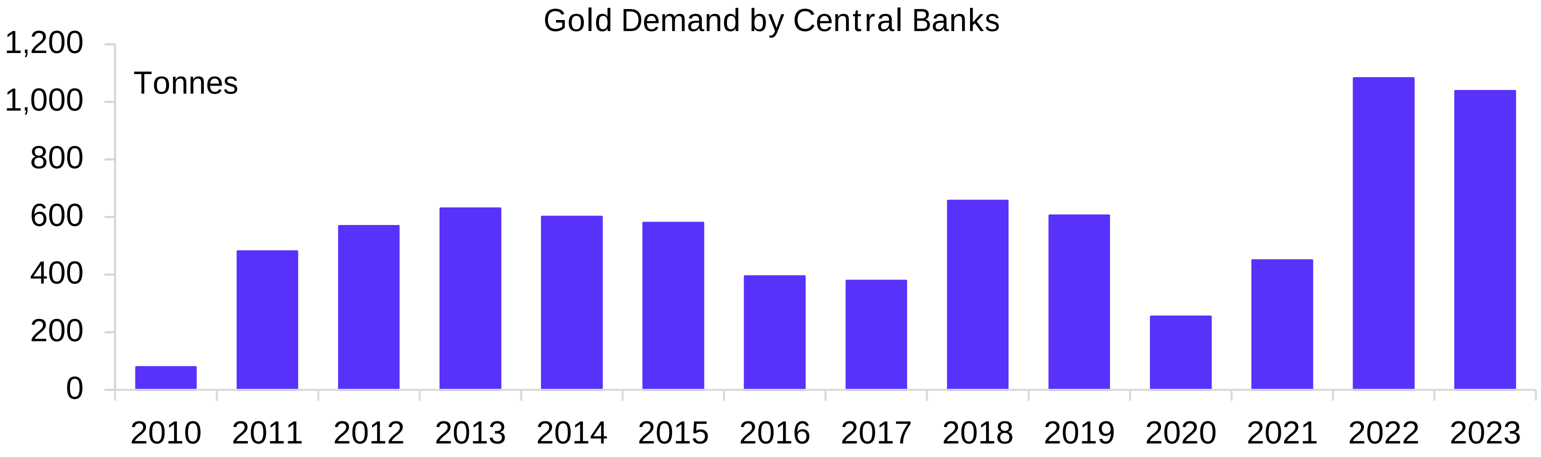
There is a strong positive correlation between ETF gold demand and gold price

However, gold prices remained resilient despite the reduction in ETF gold holdings

Source: World Gold Council, 360 ONE Asset Research

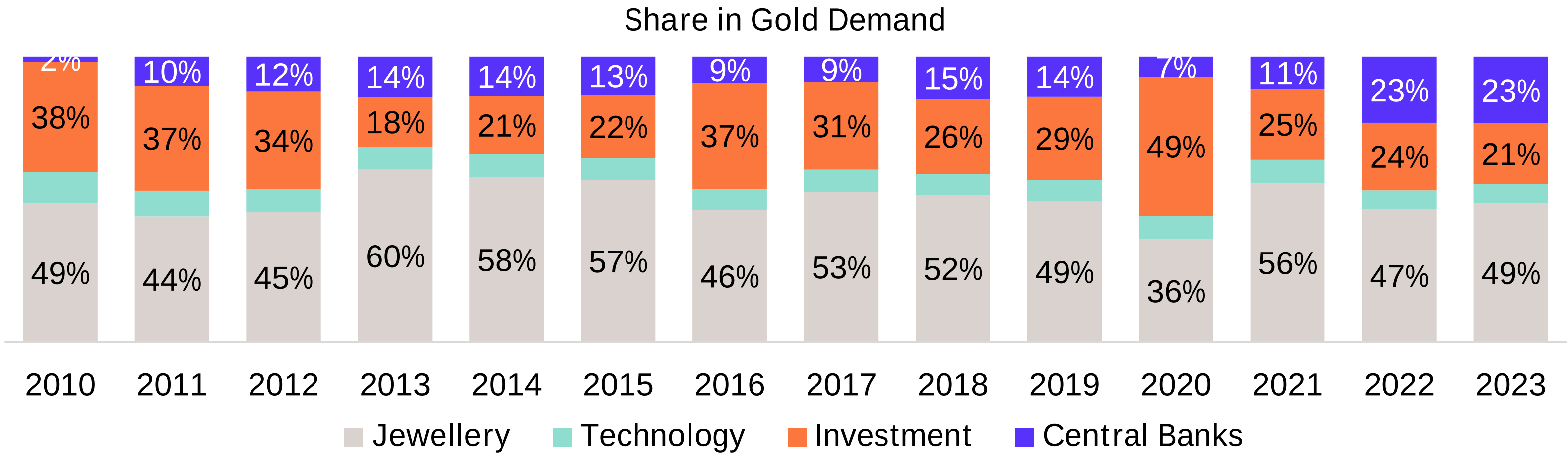
Higher demand from central banks has kept gold prices high

The share of central banks in total gold demand has increased to 23% in 2022-23 from an average of 11% in the 2010s



The steep increase in gold demand by central banks in 2022 and 2023 supported the gold prices

Central banks are diversifying their foreign exchange reserves away from the US dollar to increase their resilience in the event of sanctions

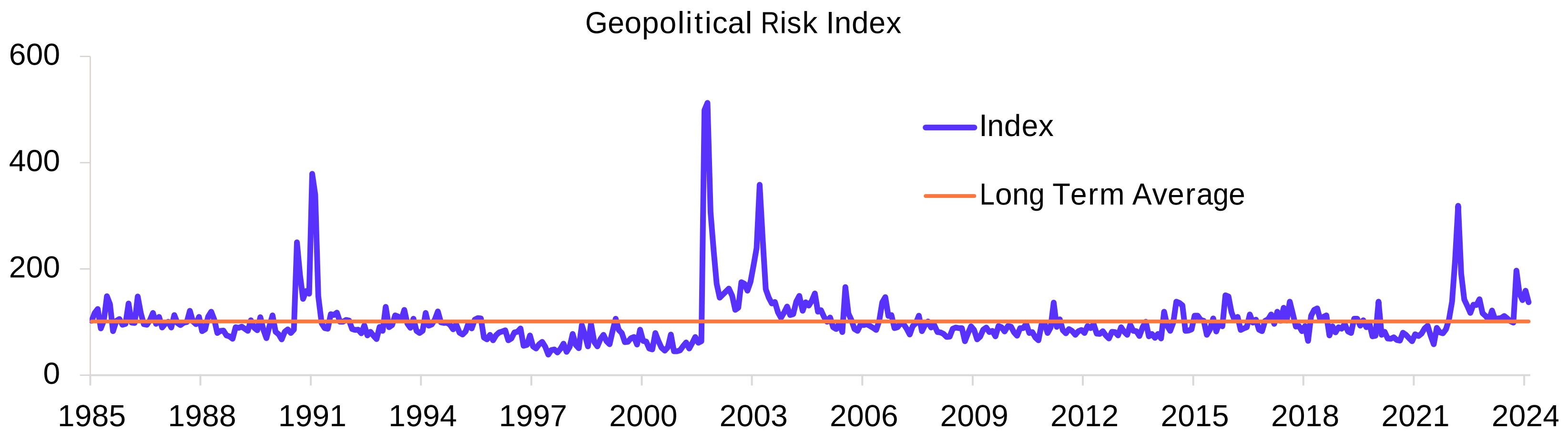


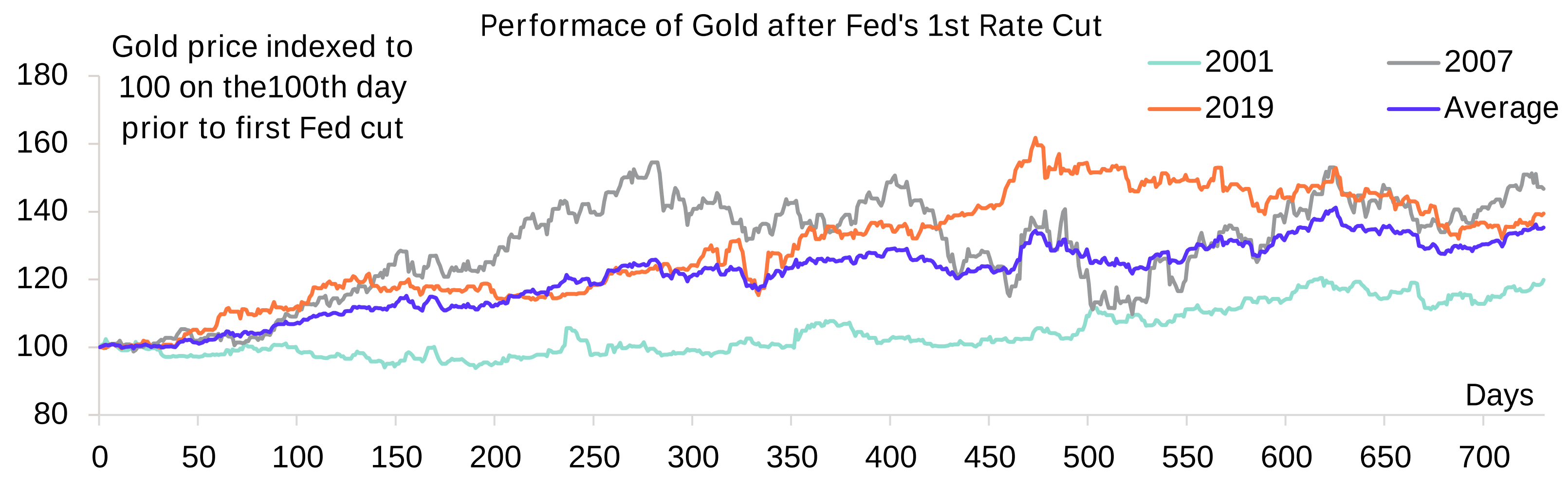
In the 2022-23 period, central banks' share of total gold demand rose to 23%, up from an average of 11% during the 2010s

Source: World Gold Council, 360 ONE Asset Research

Geopolitical tensions and monetary policy easing favor gold

Central banks' demand for gold should also remain high as they seek to diversify their assets away from the US dollar





The Geopolitical Risk Index, calculated by tallying articles concerning adverse geopolitical events in newspapers, is higher than the long-term average

This indicates that geopolitical risks persist above normal levels

Gold tends to perform well due to safe-haven demand when geopolitical risks are high

Central banks' demand for gold should also remain high amid geopolitical fragmentation

Central banks are expected to start easing monetary policy in 2024

This should bring down real yields and, thus, is positive for gold

Historically, gold has performed well post-Fed rate cuts

Source: https://www.matteoiacoviello.com/gpr.htm , Bloomberg, 360 ONE Asset Research

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