MASHREQ GLOBAL DIGEST ASIA

October 27 – November 02

This issue of Market Digest provides an analysis of key macroeconomic indicators and economic developments across the Asia region, with a special focus on India. In addition, it offers insights into major financial developments.

Overview of India's Economy

IMF: India Leads Growth

The IMF's latest report highlights India as the world's fastest-growing economy, with growth driven by investment and private consumption. India's GDP growth is projected to remain at 7% for FY25 and 6.5% for FY26, as the economy returns to its potential post-pandemic. With strong rural consumption and expanding public infrastructure investment, India's economic momentum stands out in the Asia-Pacific, which is expected to contribute about 60% to global growth this year. The IMF also notes a regional shift from manufacturing to tradable services like finance and ICT, particularly in India and the Philippines.

Reference: Business Standard

India's Economic Outlook and Risks

India's monthly economic report highlights geopolitical conflicts and trade policy uncertainty as major risks to its economy. The government projects growth of 6.5% to 7% for the current fiscal year, down from 8.2% last year, citing these heightened risks. While rural demand is improving, urban demand is moderating due to soft consumer sentiment and seasonal purchasing patterns. The report notes that retail inflation is under control, with September's rate at 5.49%, driven by rising food prices. Despite these challenges, a positive agricultural outlook and expected festive season demand provide a hopeful economic outlook.

Reference: Reuters

Fiscal Deficit at 29% of Full-Year Target

India's fiscal deficit for April-September was 4.75 trillion rupees ($56.50 billion), over 29% of the annual target. Net tax receipts reached 12.65 trillion rupees, 49% of the goal, while total spending was 21.1 trillion rupees, about 44% of the annual budget. Capital expenditure was 4.15 trillion rupees, lower than last year's 4.9 trillion. To meet the annual capital spending target of 11.1 trillion rupees, the government must spend 1.16 trillion rupees monthly from October to March, a challenging prospect. The fiscal deficit target is set at 4.9% of GDP, down from 5.6% last year.

Reference: Reuters

India to Boost FDI After 5-Year Low

The Indian government is considering allowing foreign investors to use "mezzanine instruments," a mix of equity and debt, to boost foreign direct investment (FDI), which has fallen to a five-year low of $71 billion in 2023-24. This change aims to liberalize capital markets and could attract an additional $20-30 billion in overseas capital. Currently, India's foreign exchange laws restrict these investment types. While the finance ministry supports the proposal, concerns about potential currency volatility remain. The Finance Minister highlighted the need for $100 billion in annual FDI to meet investment goals.

Reference: Reuters

Can India Achieve Developed Economy Status by Mid-Century?

India aims to achieve developed-country status by 2047, but significant challenges lie ahead. To meet this target, India must outpace China's per capita income growth by 3.5% annually. Despite strengths like a robust software industry and effective public services, India faces stark inequalities: While the country has 167 billionaires, more than 129 million people still live in poverty, and education quality is lacking. Historically, while India and China had similar living standards, China's economic reforms led to much faster growth. To achieve its 2047 goal, India must address critical issues in labor, education, trade, and regulation. Current strict labor laws, insufficient education quality, protectionist trade policies, and bureaucratic red tape hinder progress. Without substantial reforms, India risks remaining a middle-income country, impacting its role in the global economy by 2050.

Reference: Zawya

India Becomes 4th in Forex Reserves

India has become the fourth-largest holder of foreign exchange reserves globally, surpassing USD 700 billion for the first time, following China, Japan, and Switzerland. As of late September, reserves increased by USD 12.588 billion in a week, though a drop was seen due to RBI interventions to stabilize the rupee. These reserves can now cover over a year of imports, providing a buffer against economic shocks. The RBI's management has contributed to a more stable rupee, enhancing the attractiveness of Indian assets for investors.

Reference: Economic Times

Indian Bank Loan Growth Slows in September

Indian banks saw loan growth moderate to 14.4% in September, down from 15.3% last year, as the Reserve Bank of India's crackdown on excessive retail lending takes effect. Personal loan growth halved to 12.1%, and credit card loans dropped to 18%. Meanwhile, credit to industry rose by 9.1%. Analysts predict higher stress levels in personal loans due to rising defaults among over-leveraged borrowers.

Reference: Reuters

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Asia’s Economy at a Glance

IMF Warns of Rising Risks for Asia's Economy

The IMF warns that Asia's economic risks are increasing due to trade tensions, challenges in China's property sector, and potential market volatility. Persistent price pressures from China could escalate trade conflicts with neighboring countries. The IMF forecasts Asia's economy to grow 4.6% in 2024 and 4.4% in 2025, slightly revised upward but below last year's 5.0%. Concerns include possible retaliatory tariffs and the impact of U.S. policy changes if Donald Trump returns to power. China's growth is expected to slow from 5.2% in 2023 to 4.8% in 2024 and 4.5% in 2025.

Reference: Reuters

Thailand To See 3% Growth in 2025

Thailand's economy is expected to grow by 3% in 2025, supported by spending, exports, investment, and tourism, following a projected 2.7% growth this year. The Finance Minister aims for growth to approach 3.5% next year, aided by 55 billion baht ($1.6 billion) in soft loans for housing. Despite concerns over a strong baht affecting exports and tourism, arrivals are forecasted at 36 million this year and 39 million in 2025, and exports are expected to rise by 2.9% this year and 3.1% in 2025.

Reference: Investing.com

China's Factory Activity Expands for First Time Since April

China's October PMI rose to 50.1, indicating expansion for the first time since April, and surpassing expectations. The production sub-index was at 52, while new orders were at 50. However, inventories and employment remained in contraction. The non-manufacturing PMI improved to 50.2. Analysts expect moderate economic improvement in Q4 due to easing policies, with a fiscal stimulus announcement anticipated after the parliamentary meeting ending November 8. Recent surveys show increased manufacturing output and orders, reflecting some recovery despite ongoing economic challenges.

Reference: CNBC

BOJ Hints at December Rate Hike

The Bank of Japan (BOJ) held its interest rate steady at 0.25%, while hinting at a possible rate hike in December, citing improvements in the U.S. economy. Governor Kazuo Ueda noted that domestic wages and prices are aligning with forecasts, and recent U.S. data has alleviated some concerns. Although the BOJ slightly revised its core inflation forecast for fiscal 2025 downward, it remains committed to achieving a 2% inflation target. Ueda emphasized the importance of monitoring economic data for future policy decisions, acknowledging that recent political changes in Japan may complicate the path to rate normalization.

Reference: Reuters

Markets

Market Dashboard

- The major averages are ending a volatile week, with the S&P 500 down 1.4% and the Nasdaq off 1.5%, impacted by post-earnings declines in Microsoft and Meta. October was challenging, with the S&P 500 and Dow both falling around 1% and 1.3%, respectively. The October jobs report showed just 12,000 new jobs, well below the 100,000 estimate, marking the weakest job growth since December 2020, while the unemployment rate held at 4.1%. Traders are not overly concerned, attributing the poor data to temporary factors like hurricanes and a Boeing strike, suggesting it won't sway the Fed's expected 25 basis point rate cut on Nov. 6-7. Additionally, the upcoming U.S. presidential election on Nov. 5 is contributing to market volatility.

- Bitcoin gained around 4% this week as investors poured money into funds tracking the cryptocurrency, betting on Donald Trump’s return to the White House despite expected volatility during election week. In October, Bitcoin soared about 12% fueled by expectations of Trump’s pro-crypto stance.

- Gold prices fell on Friday due to a stronger U.S. dollar and rising Treasury yields, although weak job growth data fueled expectations for a Federal Reserve rate cut, limiting losses. Prices dropped 1.5% on Thursday after reaching a record high of $2,790.15. With a close race in the U.S. presidential election and geopolitical tensions, gold remains a popular hedge against uncertainty. However, high prices are impacting physical demand in Asia.

- Oil prices rose slightly on Friday after falling more than 4% earlier in the week, spurred by reports of Iran preparing a retaliatory strike on Israel from Iraq. Iran, a member of OPEC, produced about 4 million barrels per day (bpd) in 2023 and is projected to export around 1.5 million bpd in 2024, up from an estimated 1.4 million bpd in 2023. Additionally, oil prices were supported by expectations that OPEC+ may delay its planned December production increase due to concerns over weak demand and rising supply, with a decision possible as early as next week.

- The dollar fell against the euro as weak U.S. jobs data raised concerns about the economy's strength. The disappointing hiring figures led traders to speculate on potential interest rate cuts by the Federal Reserve, causing a shift in sentiment that favored the euro and resulted in the EUR/USD pair rising.

Indicators	25-Oct-24	1-Nov-24	% Change
S&P 500	5,808.12	5,728.80	-1.37%
Bitcoin	66,642.41	69,482.47	4.26%
Gold	2,747.69	2,735.16	-0.46%
Crude Oil	76.05	73.10	-3.88%
EUR/USD	1.0824	1.0844	0.18%

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