One Shinhan

India's Economy & FX Market Outlook in 2024

- Rise of India as the Next China

Lee Young Hwa
SHB S&T Center
T : 02-2151-2617
E : younglee@shinhan.com

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Executive Summary

India's Economy & FX Market Outlook in 2024

USD/INR, Expected to Gradually Move Downward

USD/INR Is Expected to Show a Gradual Decline, Driven by the Conclusion of the Fed's Interest Rate Hikes and a Moderation in India's Inflation Rate

< Weakness >

- Growth slowdown in the US and China → Weakening of global growth momentum
- Prolonged high inflation and high-interest rates → Reduced corporate investments, foreign capital outflow
- Escalation of the Middle East conflicts → Disruption in oil supply → Increase in inflationary pressure and trade deficit
- Uncertainty related to the general election → Possibility of financial market turmoil including stock market plunge in case of re-election failure

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< Opportunity >

- End of global monetary tightening → Easing of the 3-high issues (high interest rates, high inflation, high unemployment) and improved financial conditions
- Alternative production bases to replace China, Attractive incentives for foreign investment → Expansion of FDI inflow
- Inclusion in the GBI-EM (Global Bond Index-Emerging Markets) → Reduced borrowing costs, acting as a buffer for capital outflows
- Expansion of service exports / increase in imports of Russian oil → Reduction in trade deficit

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< Overall >

Economy: Sustained Strong Growth

Despite uncertainties surrounding the Fed's monetary tightening, prolonged high interest rates, and escalating geopolitical tensions in the Middle East, the domestic economic fundamental, along with foreign investment inflow, is expected to drive the economy to maintain growth in the 6% range

Exchange rate: Expected to rise in 1H and fall in 2H (Annual Average: 82.3 Rupee)

With the conclusion of the Fed's interest rate hikes and a moderation in domestic inflation in India, the dollar's strength is expected to ease, leading to a gradual decline in the rupee exchange rate

Sources: SHB S&T Center

India's Economy & FX Market Outlook in 2024

Global and Indian Economic Indicator Outlook Table

Outlook for Key Global and Indian Economic Indicators

		GDP			CPI			Key Rates			Economy Outlook and Implications
		22	23	24	22	23	24	22	23	24	
Bloomberg Consensus	Global	3.5	2.8	2.6	8.7	6.1	4.4	5.39	7.14	6.02	Amidst differentiate growth resilience depending on the level of monetary tightening, there is a possibility of being plagued by political-geopolitical risks.
	U.S.	2.1	2.2	1	8	4.1	2.7	4.5	5.5	4.9	With the alleviation of concerns about overheating due to the disappearance of excess savings & decline in commercial real estate, there's limited expectations of the Fed's rate cut in 2H.
	Eurozone	3.3	0.5	0.8	8.4	5.6	2.7	2.5	4	3.6	With limited fiscal capacity, the prolonged Russia-Ukraine war and the aftermath of rate hikes are expected to lead to sustained low growth, possibly falling below 1%.
	Japan	1.1	1.8	1	2.5	3.1	1.9	-0.1	-0.1	-0.04	While the relatively gradual monetary policy normalization may boost the growth rate, there is a risk of a sudden policy reversal if relative inflationary pressures become pronounced.
	China	3	5	4.5	2	0.5	1.8	3.65	3.5	2.95	Although economic stimulus and increased liquidity mitigate concerns of policy inadequacy, there is remains limits of quantitative expansion and supply driven growth structure.
S&T Center	S.Korea	2.6	1.2	1.8	5.1	3.5	2.2	3.25	3.5	3	Exports are increasing centered around semiconductor industry due to inventory reduction. But due to factors such as household debt, domestic demand is decreasing, making it difficult to perceive substantial growth, resulting in a low-growth scenario.
	India	9.1	6.2	6.3	6.7	5.4	4.7	6.25	6.5	5.9	Supported by strong domestic economic fundamentals and foreign capital inflows, it is expected that growth will continue in the 6% range.

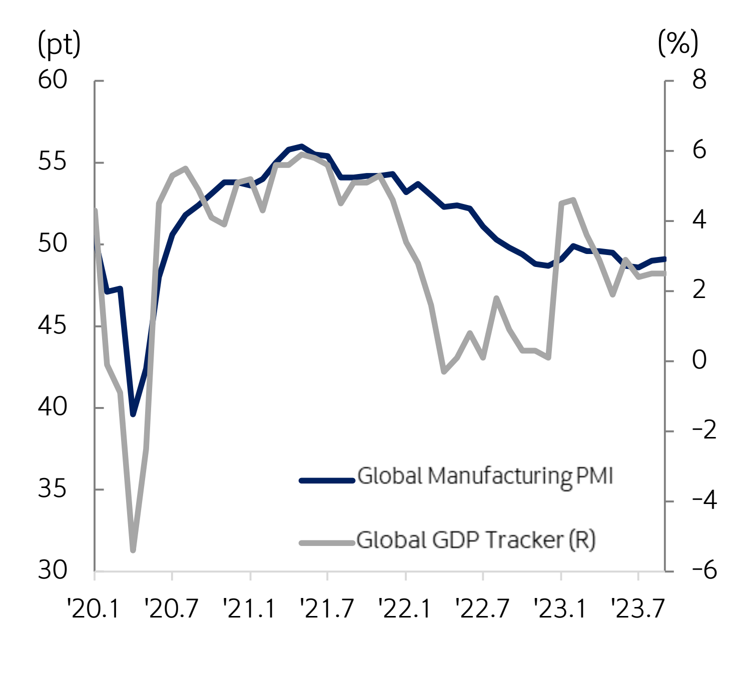
Sources: SHB S&T Center

Global Economic Recovery Stalled by Inflation and Prolonged Tightening

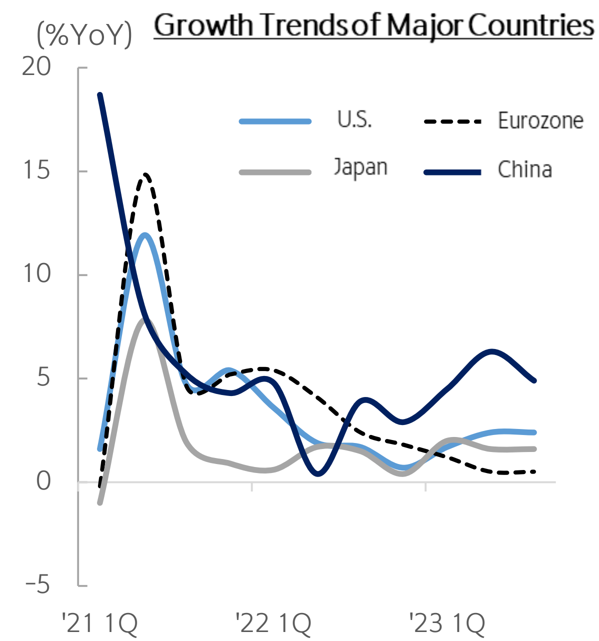
Widening Economic Gap Between Advanced Countries as the US Economy Maintains Relative Strength

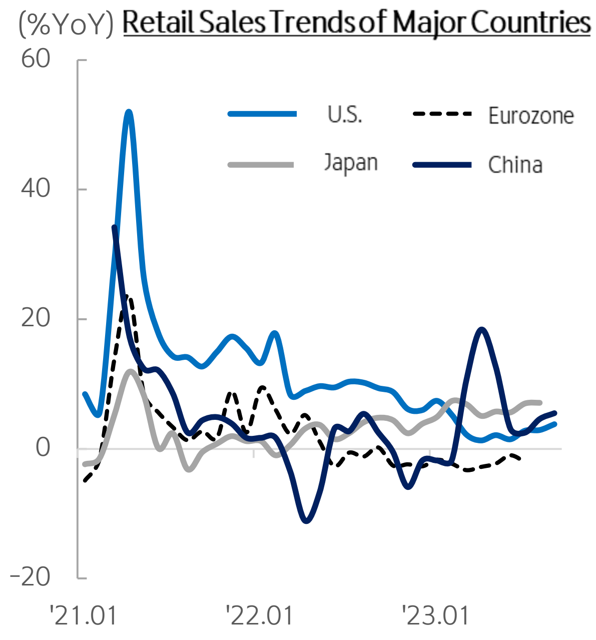
- As global economic recovery stalls amid prolonged inflation and monetary tightening, major economies such as the US, China, and the Eurozone are experiencing divergent economic trends.
  - ▶ Contrary to expectations, the US economy remains robust, while the Eurozone experiences prolonged economic weakness, particularly in Germany.
  - ▶ China is facing growth limitations due to a weak real estate market and a decline in consumer confidence.

Weak Global Manufacturing and Export Conditions / Widening Economic Gap Between the US and Other Advanced Countries



Sources: Refinitiv, Bloomberg, SHB S&T Center





Sources: Refinitiv, Bloomberg, SHB S&T Center

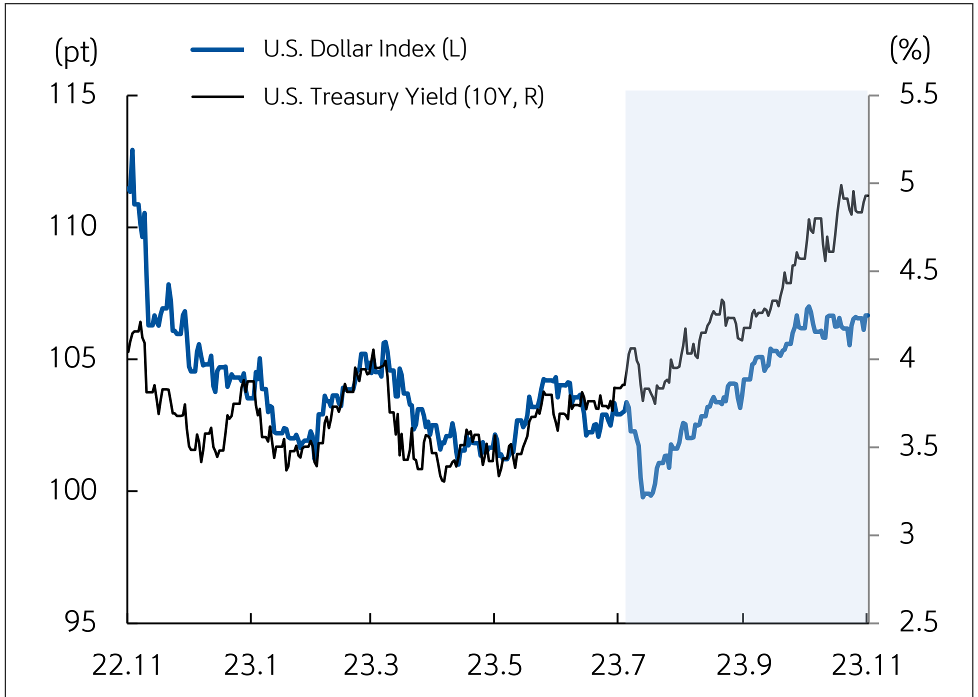
Part Ⅱ
2023 Review :
① Global
Financial Market

US Treasury Yields Surge on Expectations of Soft Landing of the Economy & Prolonged Tightening Policy

USD Strengthens on Fears of Chinese Crisis and Rising Middle East Risks

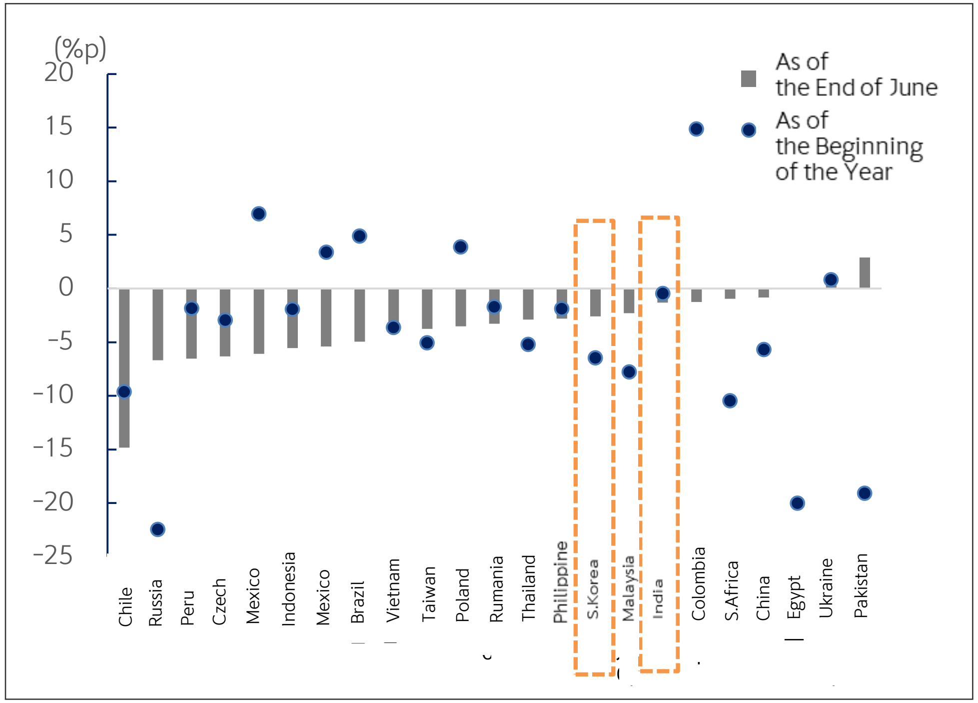
- US treasury yields surged and the US dollar strengthened on expectations of soft landing of the economy and the Fed's prolonged tightening stance.
  - ▶ At the beginning of the year, the dollar appeared to be weakening due to expectations on the Fed's tightening policy ending. However, it rose amid concerns over the delay in US debt ceiling negotiation and default worries. While there was some retracement after the agreement, the US dollar strengthened again, driven by the Fed's outlook of prolonged high interest rates and concerns over a crisis originating from China.

US Treasury Yields Surge Amid Expectations on Soft Landing of the US Economy and Prolonged High Interest Rates



Sources: Bloomberg, SHB S&T Center

US Dollar Strengthens / Emerging Currencies Weakened Due to Escalating China-Induced Crisis and Middle East Risks



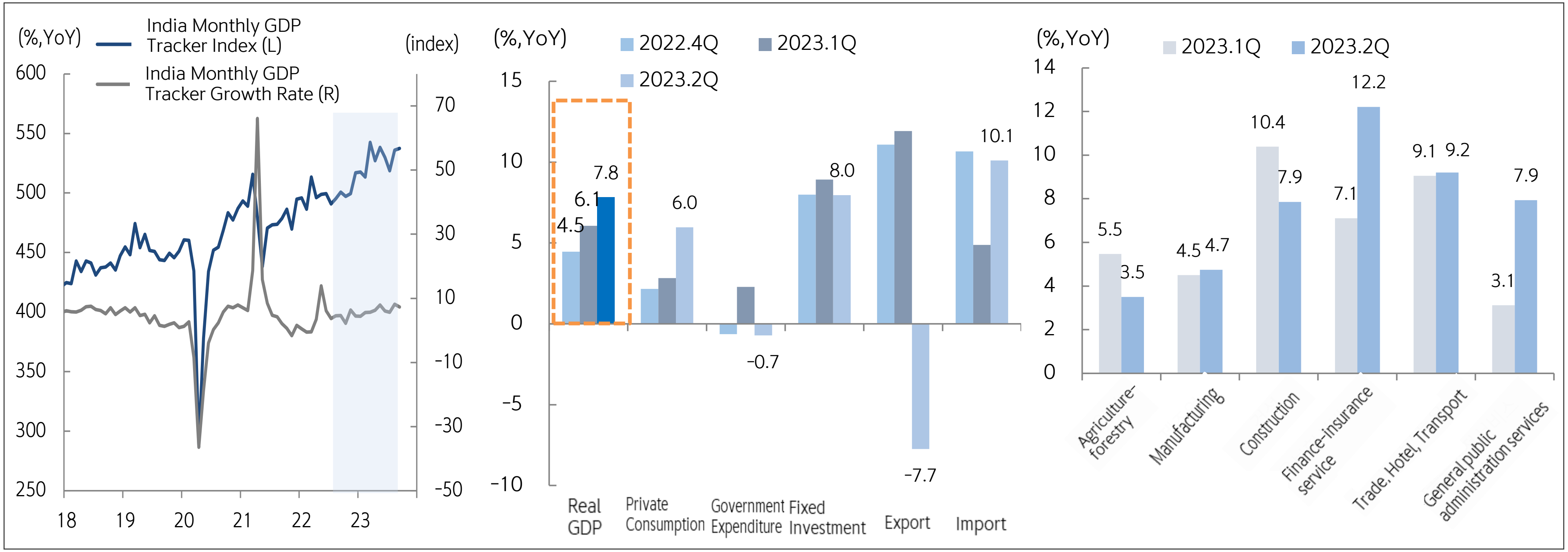
* As of the end of October, Exchange Rate Appreciation and Depreciation of Major Emerging Market Currencies Against the Dollar
Sources: Bloomberg, SHB S&T Center

India's Economy Showed Strong Growth Amid Favorable Domestic Economic Conditions

Government Spending and Increased Foreign Investment Contributed to Economic Growth

- During the first half of the year, the Indian economy displayed strong growth, driven by robust domestic demand, despite financial uncertainties like global demand weakening and prolonged high interest rates.
  - ▶ Despite a sluggish global economy, sustained growth in domestic consumption and the service sector contributed to a 6.1% growth in 1Q and a 7.8% growth in 2Q.
  - ▶ With increased public capital spending and government support policies for revitalizing the manufacturing sector, coupled with the diversification of supply chains of global corporations, foreign investment increased.

India's Economy Showed Strong Growth Despite Global Headwinds, Driven by Robust Domestic Demand



Sources : Bloomberg, CEIC, SHB S&T Center

Part Ⅱ

Review in 2023 :

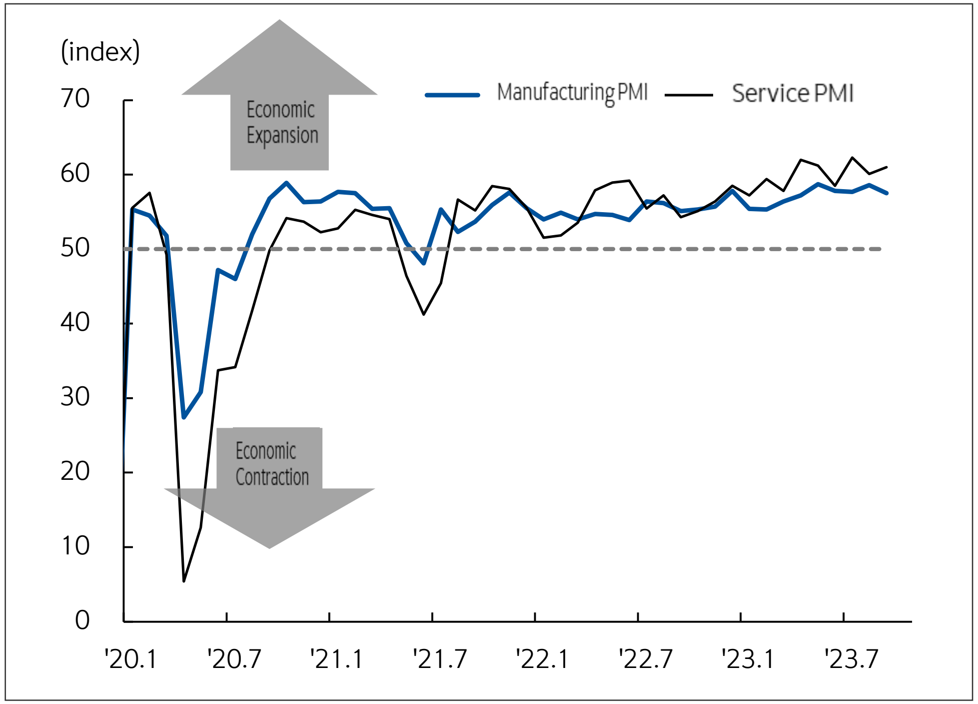
③ Indian Economy

Stable Supply Chain Improvements and Strong Domestic and International Demand Drive

Favorable Trends in Manufacturing, Services, and Industrial Production

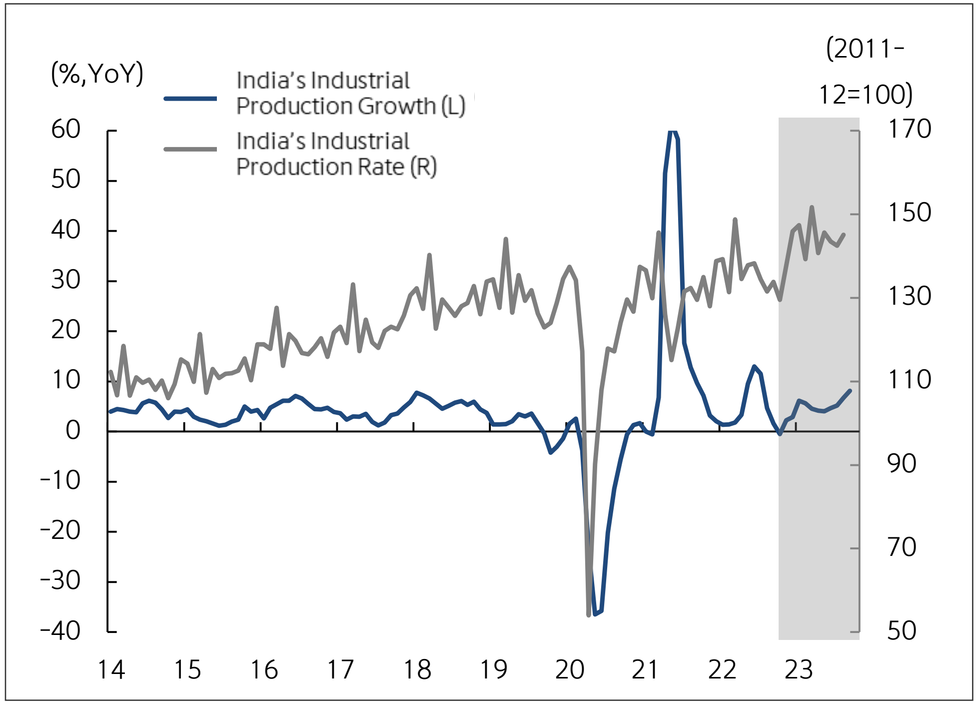
- The manufacturing sector continued to expand as both demand and production have significantly increased, but there has been a slight slowdown in the growth of new orders since September.
- The service sector sustained recovery trend as demand surged and revenue and production increased accordingly, expanding business activities and new hiring.
- Industrial production experienced a robust growth, primarily driven by the recovery in both domestic and global demand, with a focus on capital goods, construction, and infrastructure products.

Manufacturing and Service Sector Growth Continued



Sources : Bloomberg, CEIC, SHB S&T Center

Industrial Production Showed a Positive Trend Due to Recovery in Demand



Sources : Bloomberg, CEIC, SHB S&T Center

Part Ⅱ

Review in 2023 :

③ Indian Economy

Slowdown in Consumption and Inflation Led to Increase in Real Income, Resulting in Modest Improvement

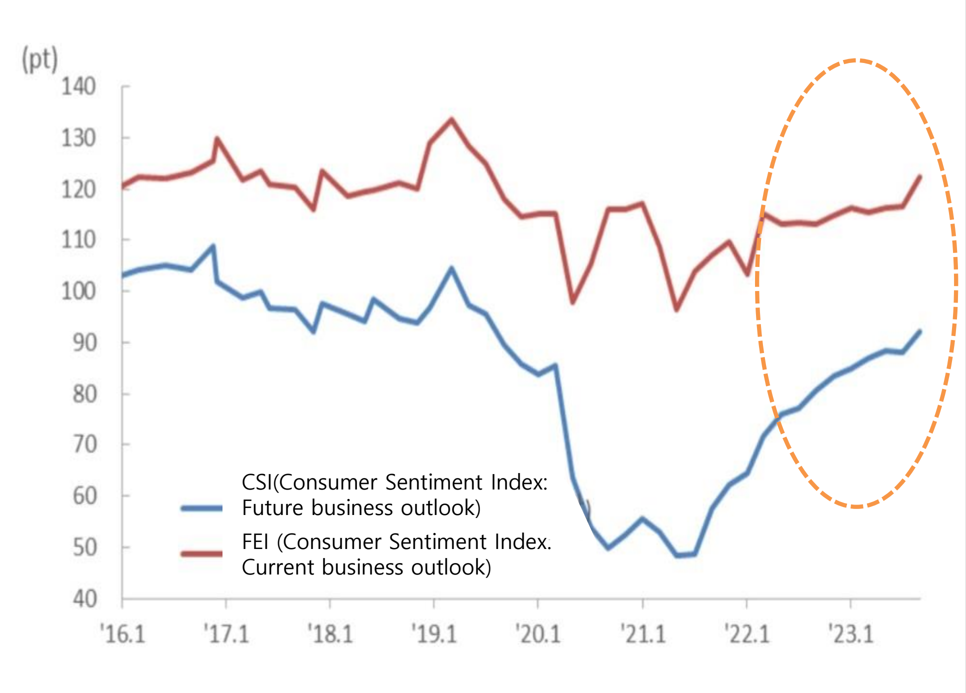
Job Creation Led to a Decrease in Unemployment Rates in Both Urban and Rural Areas

● As inflation subsided, household real income increased, leading to improved consumer confidence. Economic growth generated job opportunities, resulting in a decrease in unemployment rate .

▶ With the end of the pandemic, there has been a surge in demand, leading to an increase in automobile sales. Government's income tax reductions and the normalization of offline retail distribution channels also contributed to increase in consumer spending.

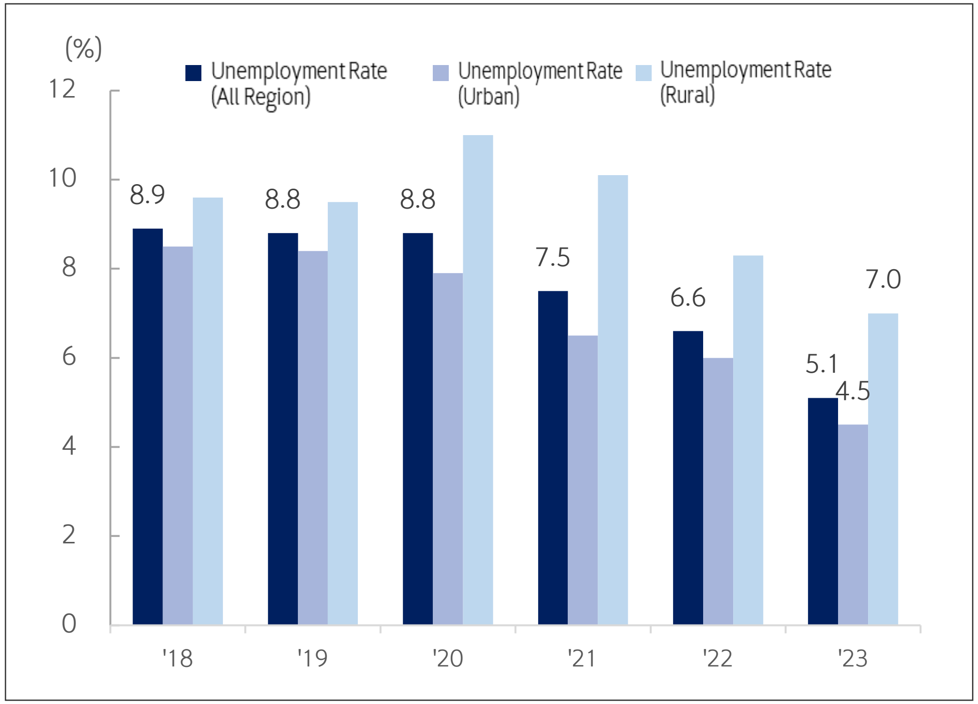
▶ In 2023, the unemployment rate was significantly reduced to 5.1%, compared to the previous year's 6.6%. Both urban (6.0% → 4.5%) and rural (8.3% → 7.0%) areas saw a decrease.

Improved Consumer Sentiment due to Slowdown in Inflation, with Optimism about the Future Economic Conditions



* The indicator is reported bi-monthly, and the latest data available is for September 2023
Sources: RBI, SHB S&T Center

Economic Growth led to Job Creation and a Decrease in Unemployment Rates



Sources: Ministry of Statistics and Program Implementation, CIEC, SHB S&T Center

Part Ⅱ

Review in 2023 :

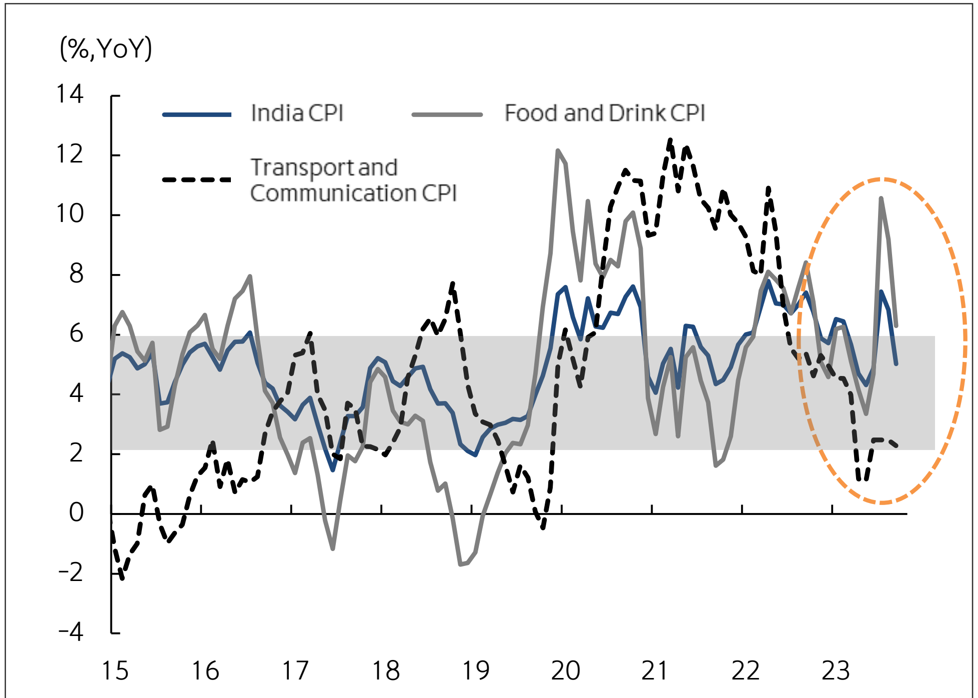
③ Indian Economy

Food Prices Rose Again Due to Unusual Weather Resulting in Inflation

But Stabilized Thanks to Government Export Control Measures and Beginning of Harvest Season

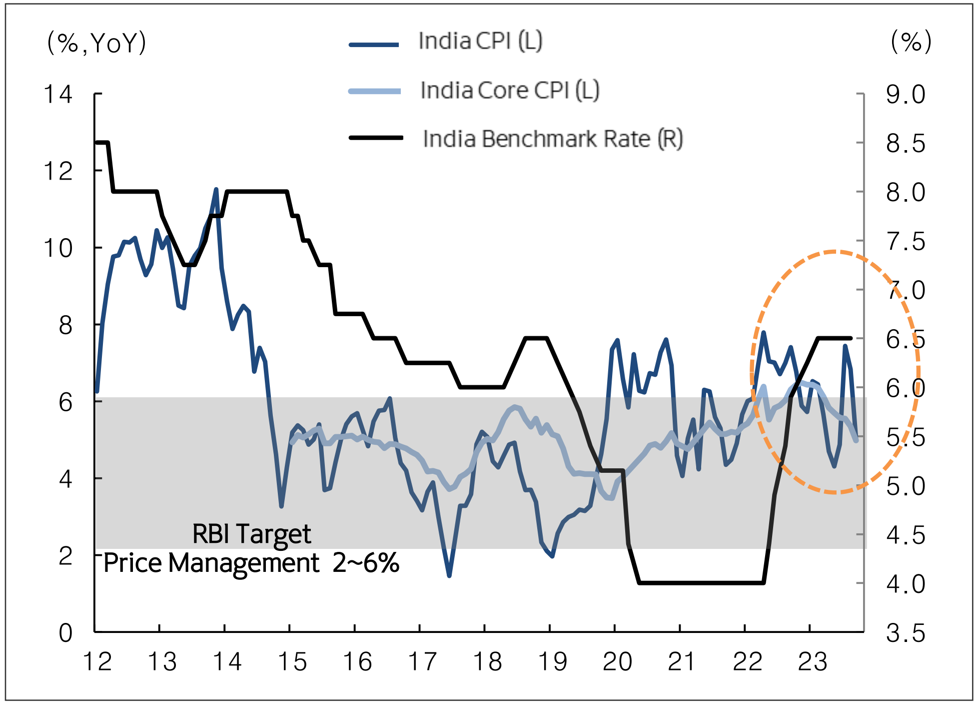
- Inflation, which had been moderating due to falling commodity prices and base effects, rose again due to a sharp increase in food prices caused by unusual weather conditions, exceeding the central bank's target.
- Later on, due to the government's ban on export of certain rice varieties and implementation of tariffs, along with the onset of the harvest season, inflation dropped to the 5% range by September.
  - ▶ With the start of the harvest season, tomato prices, which had surged by over 1,700% compared to the lowest prices of the year, stabilized and the hike in food prices moderated.
- RBI is maintaining its policy to keep the interest rate steady to support economic recovery as it predicts food prices would surge only in the short term.

Consumer Prices Turned Up Again on Surging Food Prices



Sources : Bloomberg, CEIC, SHB S&T Center

RBI Allowed Temporary Inflation to Support Economic Recovery



Sources : Bloomberg, SHB S&T Center

Part Ⅱ

Review in 2023 :

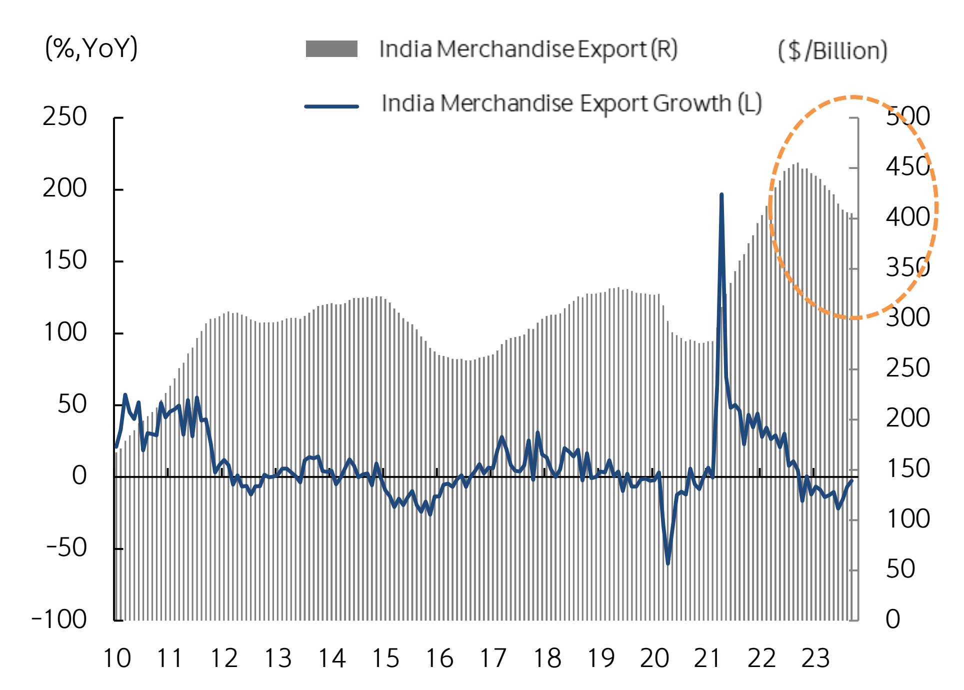
③ Indian Economy

Global Economic Slowdown Weighs on Trade,

But Trade Deficit Narrows on Falling Commodity Prices

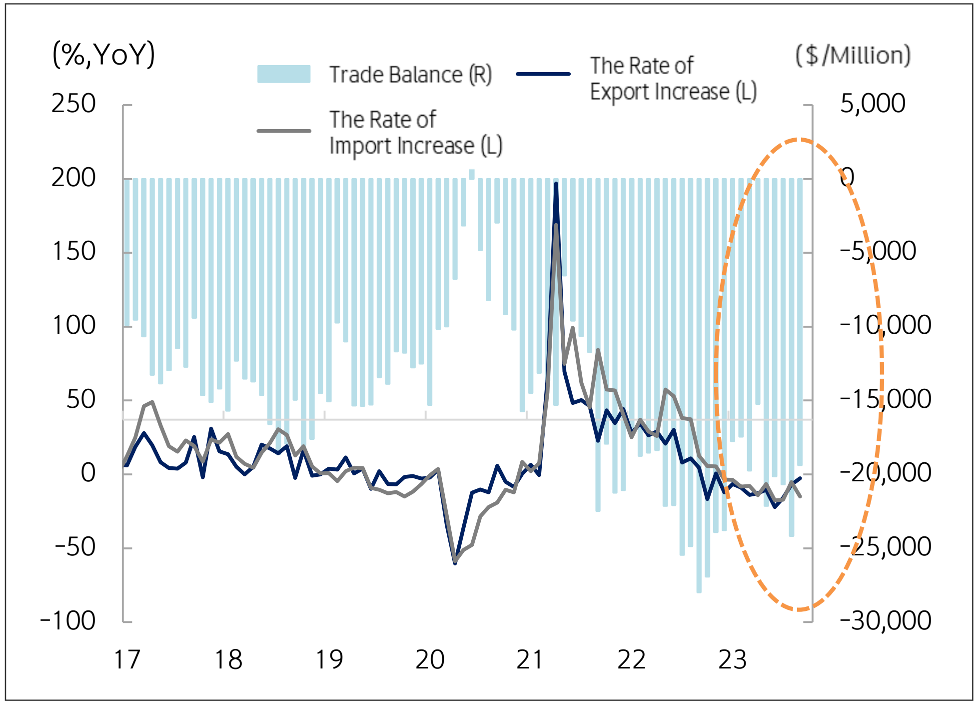
- Trade volume decreased due to weak external demand and export restrictions, but trade deficit expansion was limited due to stable commodity prices.
  - ▶ While overall exports decreased due to a global economic slowdown, petroleum and gemstone exports increased. Recently, the decline in exports has slowed down, showing signs of recovery.
  - ▶ From January to September, accumulated Indian merchandise exports and imports were $326 billion and $492.6 billion, resulting in a trade deficit of $166.6 billion.

Global Economic Slowdown Due to Decrease in Export Demand, Resulting in Declining Exports



Sources : Bloomberg, CEIC, SHB S&T Center

Export Slowed Down, But Trade Deficit Expansion Was Limited Due to Commodity Price Decline



Sources : Bloomberg, SHB S&T Center

Part Ⅱ

Review in 2023 :

④ Indian

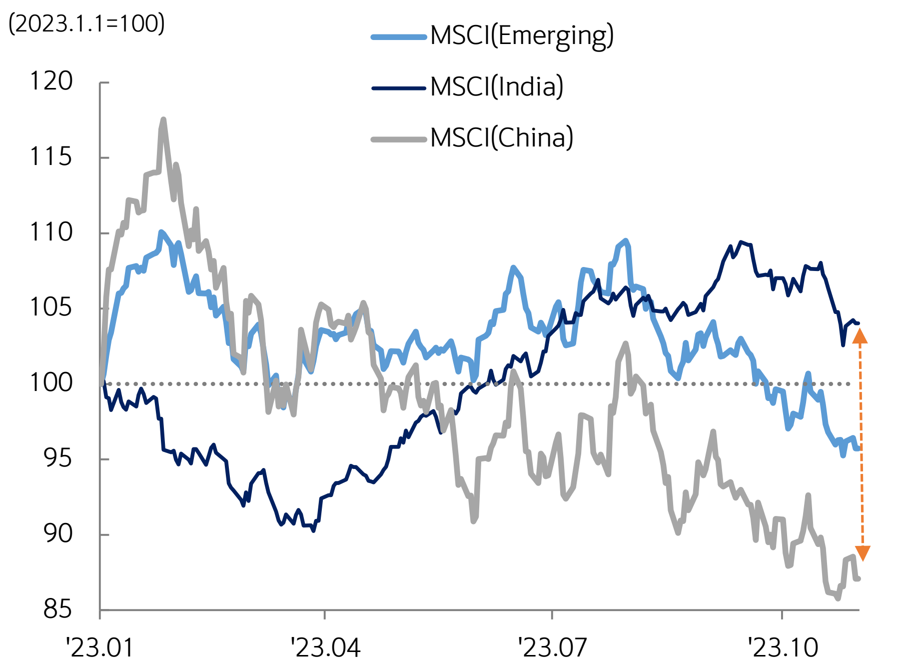
Financial Market

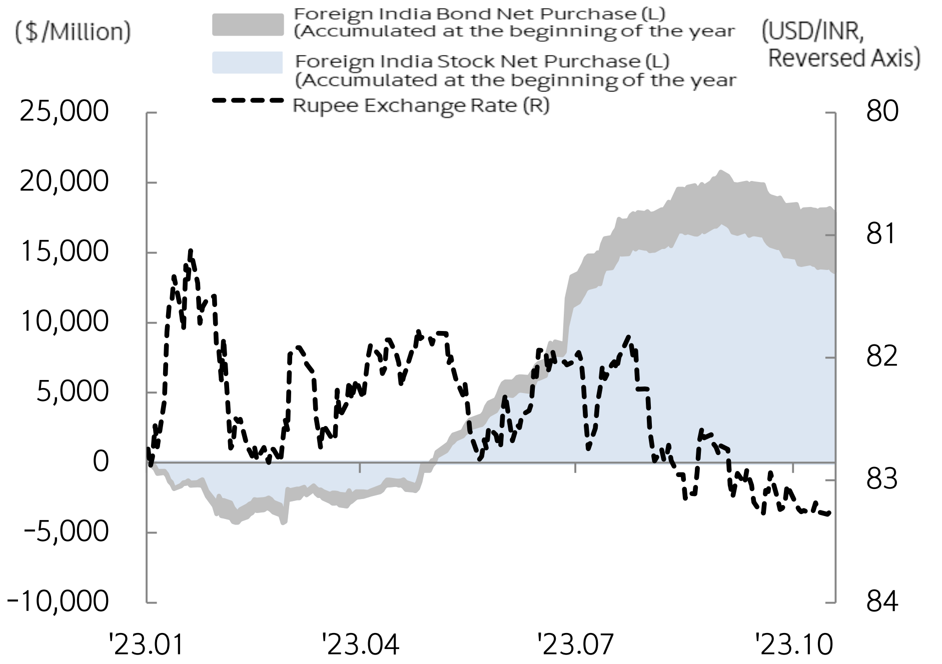
Despite Internal/External Shocks Such as Rising US Treasury Yields and the Middle East Risk,

The Stock Market Showed Resilience Due to Policy Support and Inflow of Funds as an Alternative to China

- The stock market remained resilient despite both internal and external shocks, reflecting government policies to boost investment, robust private consumption, and the inflow of funds as an alternative to China
  - ▶ Fears of a slowdown in the Chinese economy and concerns over property market instability have led to an influx of alternative investment funds into the stock market. Inclusion in the GBI-EM index has also been a positive factor, leading to an expansion in bond fund inflows.
    - ** The MSCI India Index rose 4.0% in the first 10 months of 2023, outperforming the MSCI Emerging Markets Index, which fell 4.3%, and the MSCI China Index, which fell 12.9%*
    - ** Foreign investors have been net buyers of Indian assets in 2023, with cumulative purchases of $126.57 billion in stocks and $42.62 billion in bonds as of October 30, 2023*
  - ▶ USD/INR rose to around 83 rupee, driven by a strong dollar and rising oil prices due to the Fed's aggressive interest rate hikes.

Despite Internal/External Shocks, India's Stock Market Showed Resilience, Driven by Government Policies to Boost Investment, Strong Private Consumption, and the Inflow of Funds as an Alternative to China





Sources : Bloomberg, CEIC, SHB S&T Center

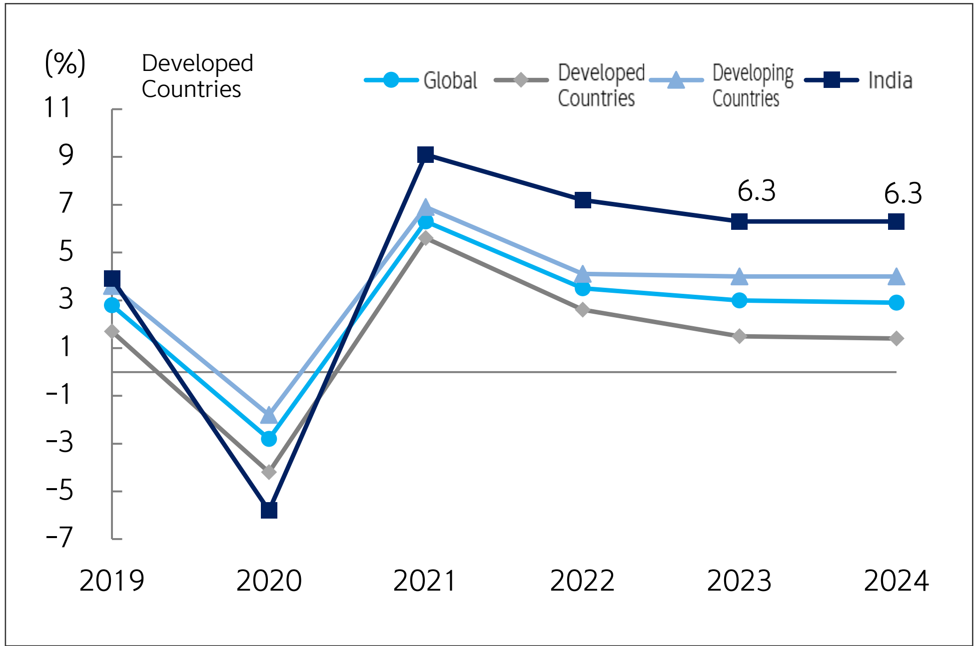
Global Economy Faces Challenges as Slowdown in Chinese Economy and Manufacturing Sector Continue

May Take Considerable Amount of Time to Achieve the Price Stability Target

- Global economy will slow down due to the deepening economic woes in China and weakness in the manufacturing sector. The inflation target is unlikely to be achieved before 2025.
  - ▶ IMF revises down its global economic growth forecast due to the crisis in China's real estate market and high inflation
    ** The global economic growth rate is projected at 3.0% for 2023 and 2.9% for 2024 (as of the October 2023 IMF World Economic Outlook)*

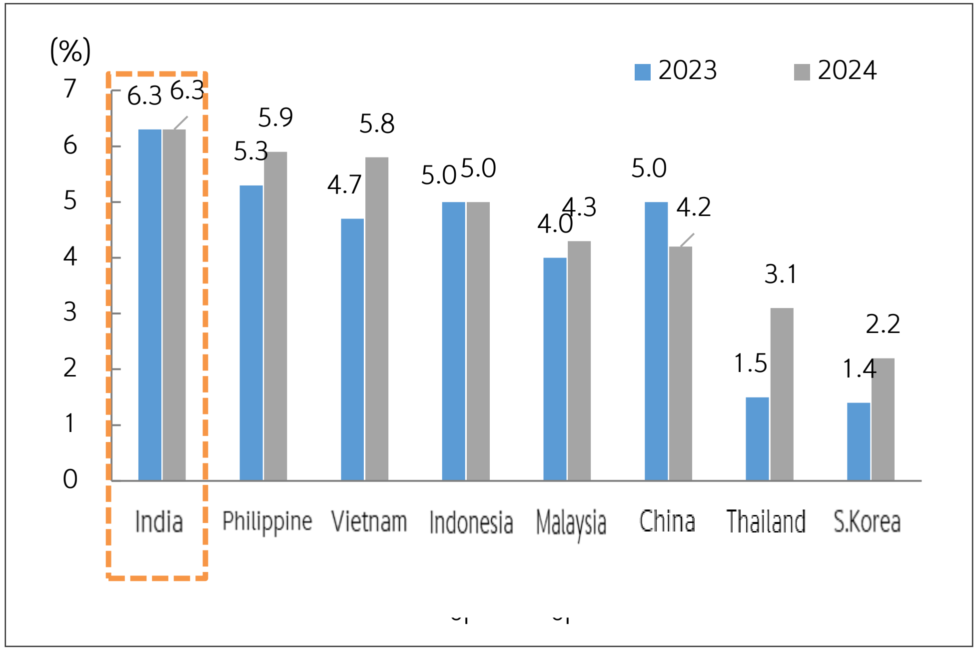
- The Indian economy is expected to show rapid growth, with a robust domestic consumption leading to a projected growth rate of 6.3% for FY24 and FY25.

Due to the Aftermath of the Chinese Real Estate Market Crisis, Global Economic Growth Is Expected to Slow Down



* IMF's projections for 2023 and beyond
Sources: IMF WEO(2023.10), SHB S&T Center

India Is Expected to Be a Top Performer in Asia Due to Strong Domestic Consumption



Sources: IMF WEO(2023.10), SHB S&T Center

Part Ⅲ

Forecast for 2024 :

② Indian Economy

Expected to Maintain 6% Growth

Worsening Middle East Crisis and Prolonged High Interest Rate Policies are Growth-Inhibiting Factors

- In 2024, the Indian economy is expected to maintain its strong growth in the 6% range, despite uncertainties related to the Fed's tightening policies, prolonged high interest rates, and the escalating geopolitical instability in the Middle East. This is attributed to the sound domestic economic fundamentals, economic stimulus from increased public capital expenditure, and the inflow of foreign investment funds.

- However, there is a possibility of hindrances to India's economic growth, including the escalating Middle East crisis leading to a surge in oil prices and increased inflation concerns, as well as lengthening of the Fed's high interest rate policy.

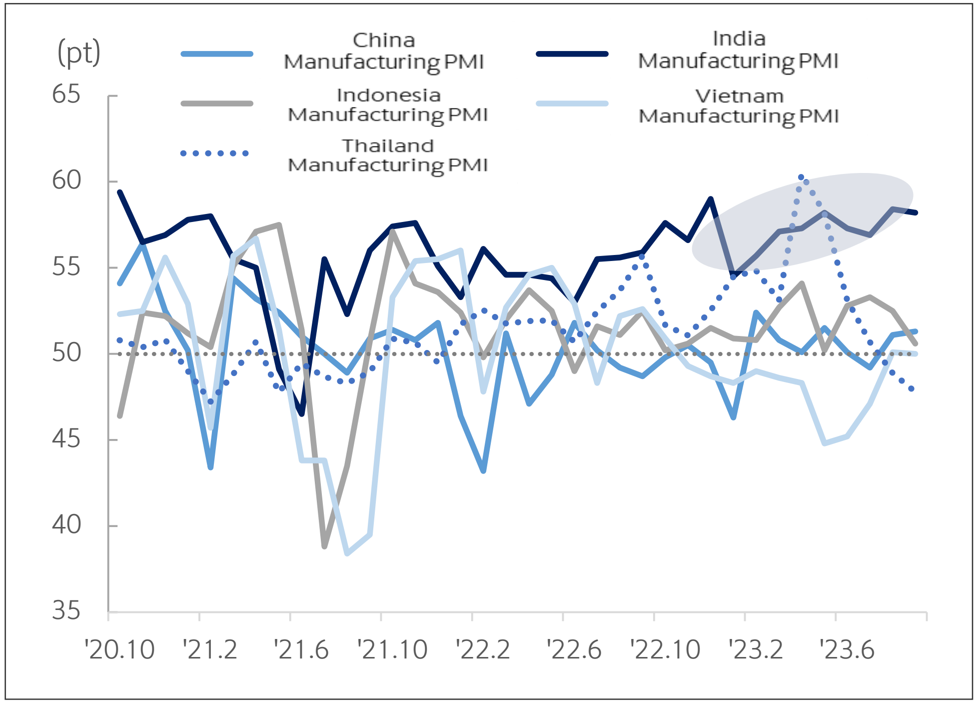
2024 Indian Economic Outlook: Key Institutions Consensus

(%, %p)

Institution	Quarterly					Yearly	
	Q4 23	Q1 24	Q2 24	Q3 24	Q4 24	FY23	FY24
Median	5.8	5.1	6.4	6.3	6.6	6.2	6.4
Average	5.8	5.1	6.5	6.2	6.5	6.1	6.3
Highest	7.9	7.0	10.2	7.3	7.1	6.8	8.3
Lowest	4.6	2.9	4.6	4.9	4.3	4.6	5.0
Goldman Sachs	7	5.2	8.6	4.9	6.6	6.2	-
Barclays	5.9	6.2	6.4	6.2	6.8	6.3	6.5
Bloomberg Economics	6.2	6.4	6.7	6.2	7.1	6.8	6.9
Deutsche Bank	6.0	5.0	6.0	6.5	6.5	6.2	6.5
HSBC Holdings	5.1	4.8	5.5	6.3	6.5	6.2	6.5
IndusInd Bank Ltd	5.8	5.7	6.6	6.4	-	6.5	6.4
Kotak Securities	5.4	4.9	5.9	6.5	6.4	6.2	6.3
MUFG	6.5	5.8	5.9	6.1	6.9	6.5	6.4
Societe Generale	6.3	4	4.6	5.5	-	6.5	6.6

* Annual forecasts are based on fiscal years (FY24: April 2023 to March 2024, FY25: April 2024 to March 2025)
Sources : Bloomberg, SHB S&T Center

Robust Indian Manufacturing Sector Compared to Other Asian Countries



Sources : Bloomberg, SHB S&T Center

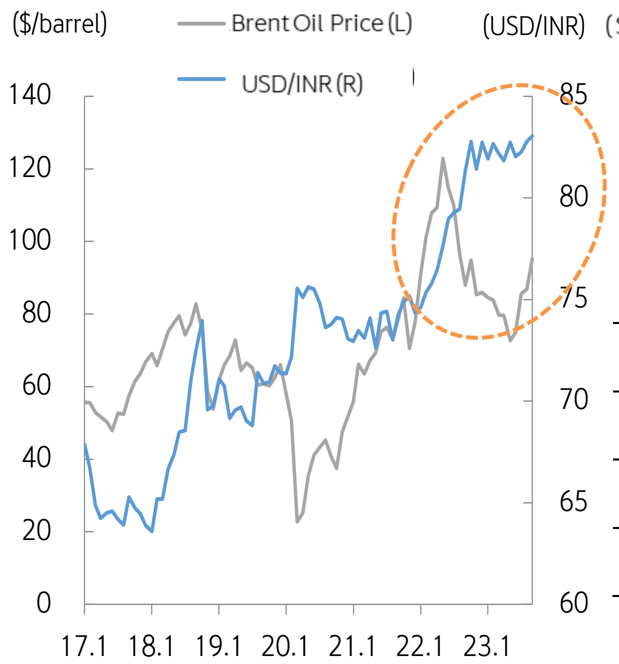
Geopolitical Tensions to Keep Oil Prices High, While Inflation Concerns Persist

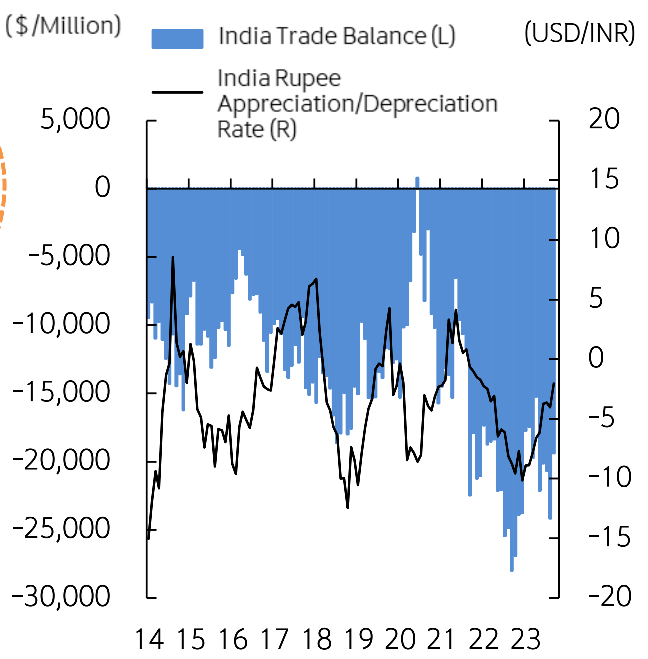
Saudi Oil Production Delay and Other Supply Concerns Could Lead to Oil Price Surge

- Oil prices, which had been rising steeply due to production cuts by oil-producing countries, surged further due to the Israel-Hamas conflict. Uncertainty persists depending on the development of the conflict.
  - ▶ The normalization of Saudi-Israel relations has been delayed, leading to a delay in Saudi's oil production increase. Unless the suspicion of Iranian involvement is resolved, the US may intensify sanctions against Iran.

- The increase in oil prices translates into higher import costs for India, the world's third-largest oil-consuming country, leading to consumer price inflation and a deteriorating trade balance.

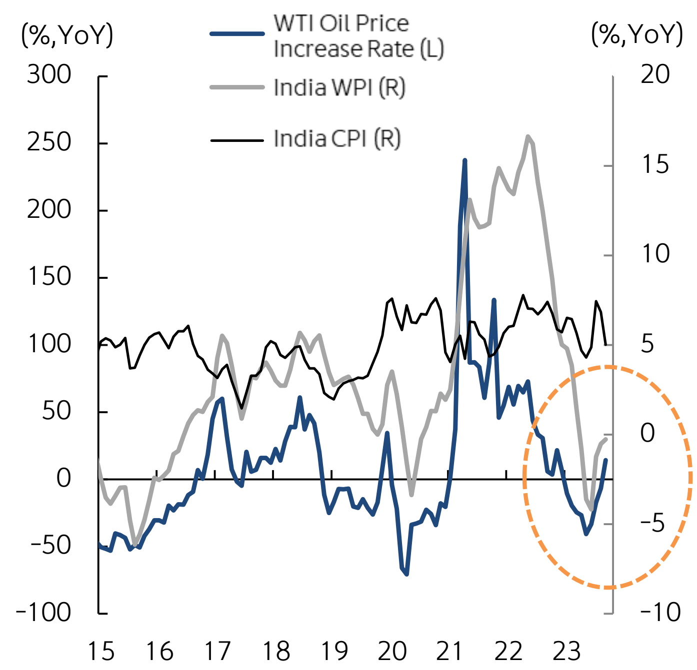
Cost Increase Due to High Oil Prices→ Trade Balance Deterioration → Rupee Depreciation Pressure Increasing





Sources : Bloomberg, SHB S&T Center

The Possibility of CPI Rising Due to the Rebound in Wholesale Price Index (WPI) Inflation



Sources : Bloomberg, SHB S&T Center

Part III

Forecast for 2024 :

③ Major Issues

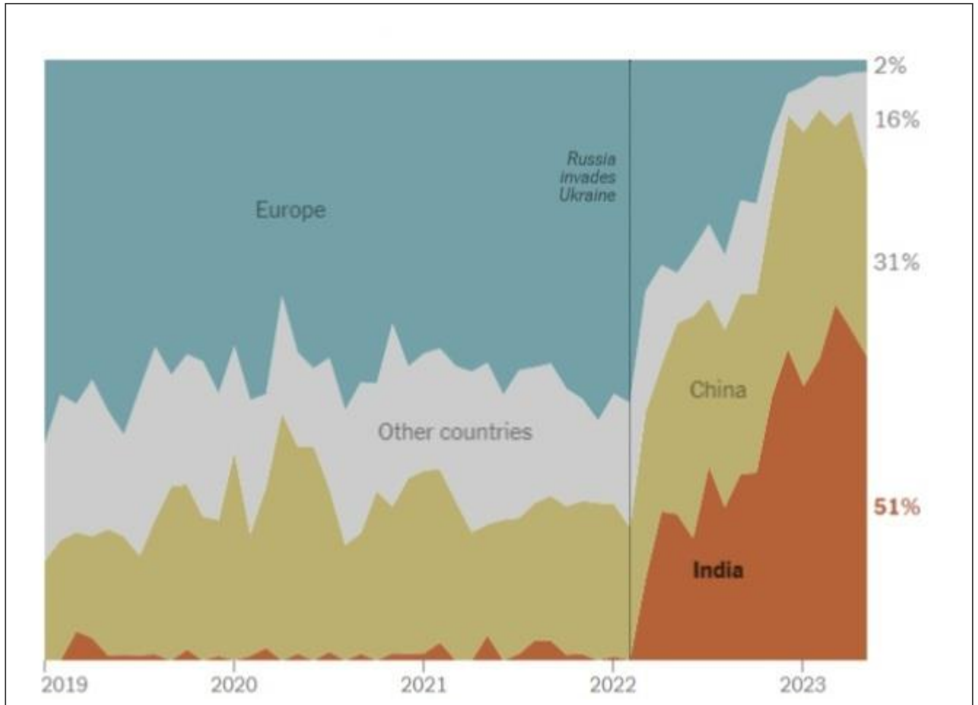
Russia-Ukraine War Spurs Expansion of Russian Oil Imports

Cost Reduction May Improve Profitability and Decrease Trade Deficit

- India has been importing Russian oil at low prices in large quantities and processing it into diesel and aviation fuel for export to Europe, despite Western sanctions on Russian oil imports.
  - ▶ In the first half of FY2023 (April to September), India imported an average of 1.76 million barrels of Russian oil per day, more than doubled compared to the same period last year.

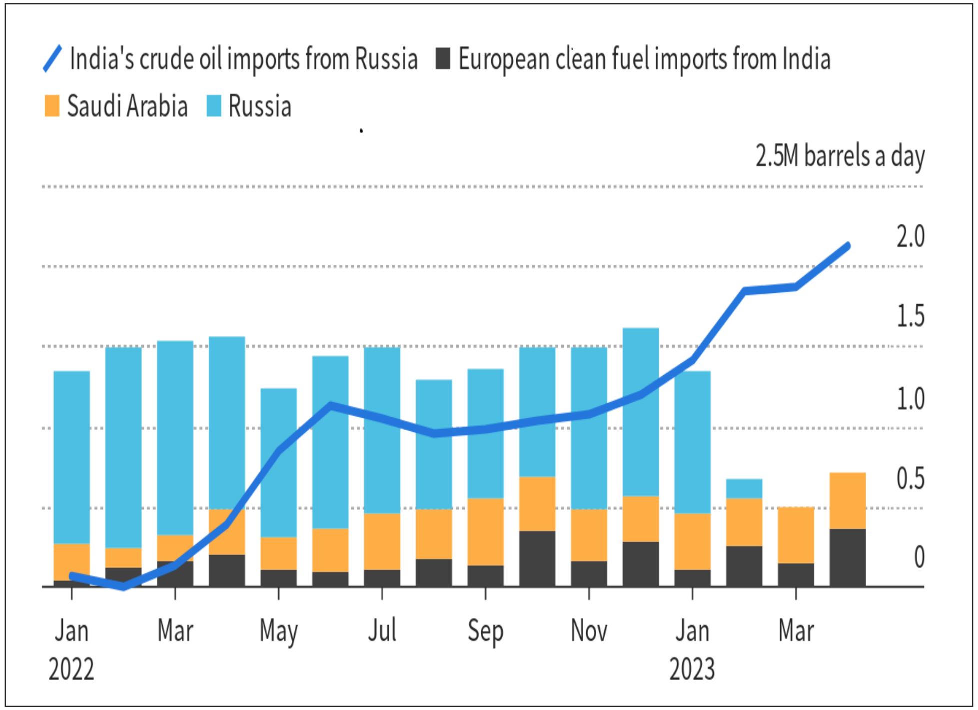
- Some of the negative impacts due to uncertainty in the Middle East have been offset, with expectations on improved profitability and a reduction in trade deficit due to cost-saving measures.

Russia Increases Sales to India After US and EU Ban Crude Oil Imports



Sources: Kpler, SHB S&T Center

Europe's Reliance on Indian Raw Material Imports Increases After Russia-Ukraine War



Sources: Kpler, Bloomberg, SHB S&T Center

Part Ⅲ

Forecast for 2024 :

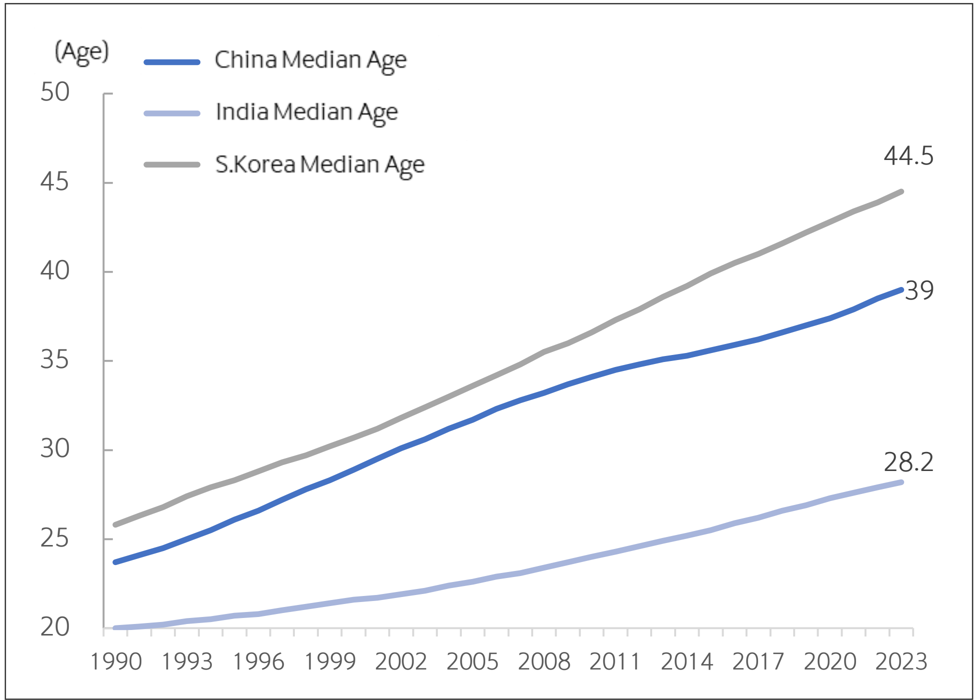
③ Major Issues

Beneficiary of De-Sinicization, Focus Turns Towards India

Expectations on Consumer Market Growth Centered Around the Young Population

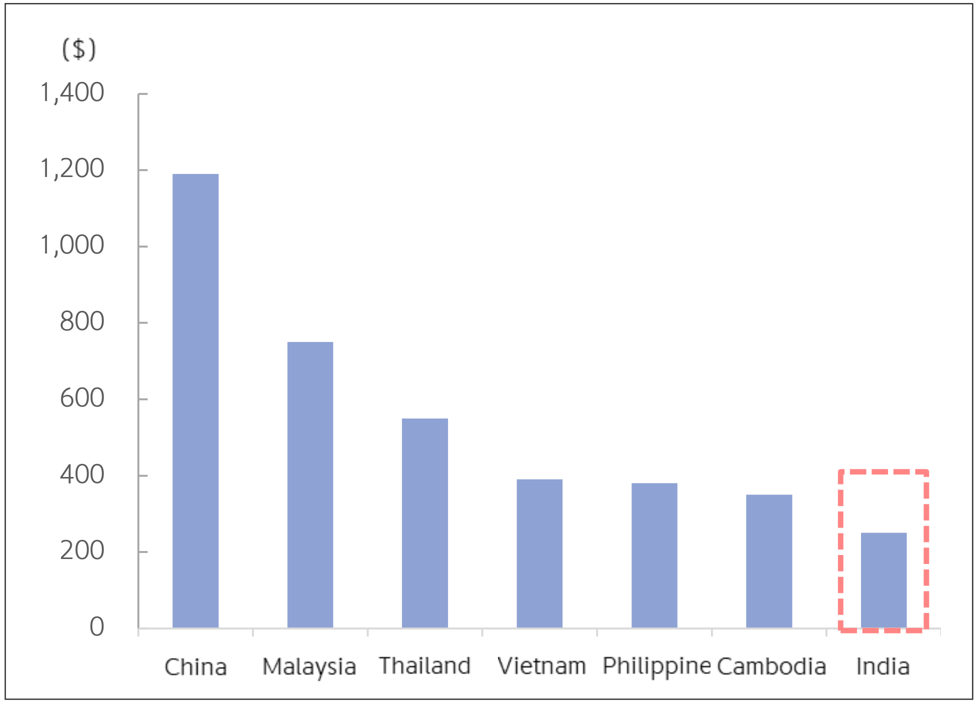
- India is gaining attention due to its growth potential and its status as an alternative manufacturing base and investment destination, given the ongoing US-China tensions, the spread of COVID-19, and the economic slowdown in China.
- As the world's most populous nation with over 1.4 billion people, India has a median age of 28, lower than China's 39. Also, the average monthly wage is only 20% of China's.
- The IMF forecasts that India's contribution to global economic growth will increase from the current 16% to 18% by 2028.

Young India with a Median Age of 28



Sources: UN, Bloomberg, SHB S&T Center

Average Monthly Wages in Asian Countries



Sources: ILO, Bloomberg, SHB S&T Center

Part III

Forecast for 2024 :

③ Major Issues

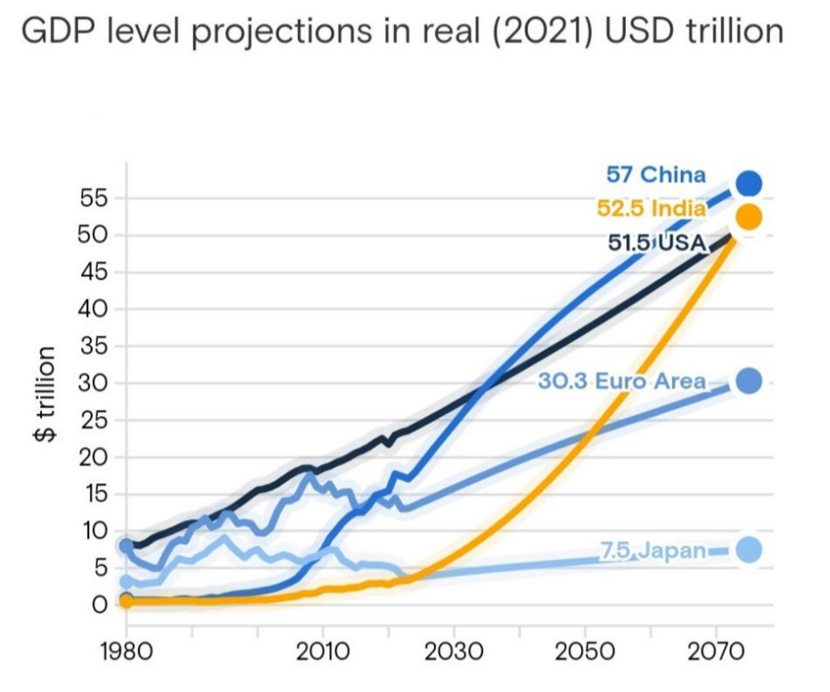
Projected Leap to Become the World's Second-Largest Economy by 2075

Efforts to Expand Access to the Global Market Through FTA Expansions

- Due to the world's largest population, low dependency ratio, and technological innovation, India is expected to become the world's third-largest economy by 2030 and the second-largest by 2075 (GS).

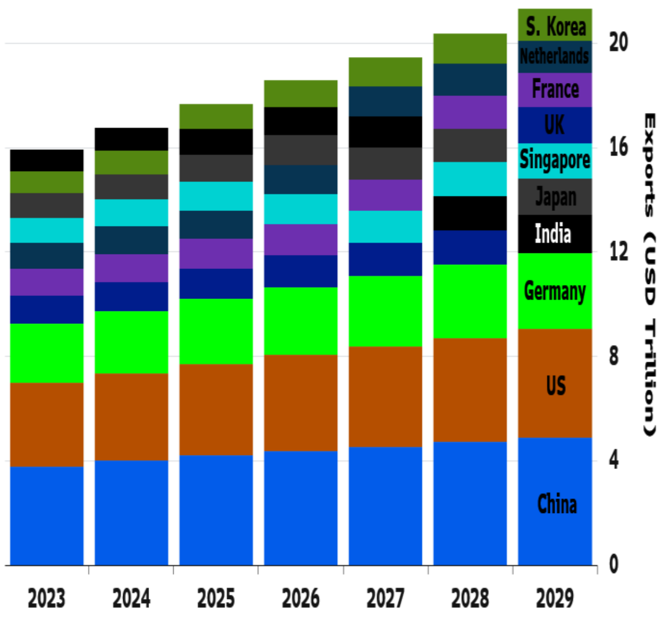
- Foreign Trade Policy (FTP2023) implemented in April: Aims for reaching $2 trillion in exports and becoming the world's fourth-largest exporting country by 2030 and pushes for trade payments in rupees.
  - ▶ India, which had refrained from participating in international trade agreements including FTAs, is making efforts to enter the global market such as signing FTAs with Australia and the UAE last year and participating in IPEF.

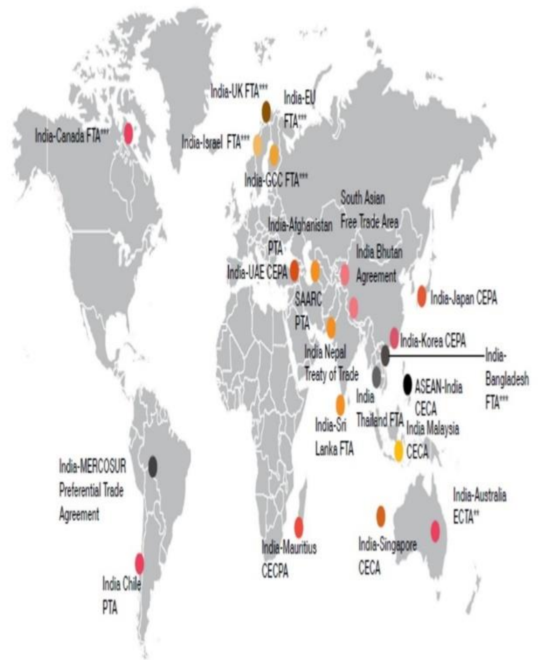
India is Expected to Become the World's Second-Largest Economy in 50 Years



Sources: Goldman Sachs Research, SHB S&T Center

Efforts to Expand FTAs and Increase Participation in the Global Market in Pursuit of Becoming the World's Fourth-Largest Exporter





Sources: Recitation of KOTRA Oerseas Economic Information Platform, Bloomberg, SHB S&T Center

Part Ⅲ

Forecast for 2024 :

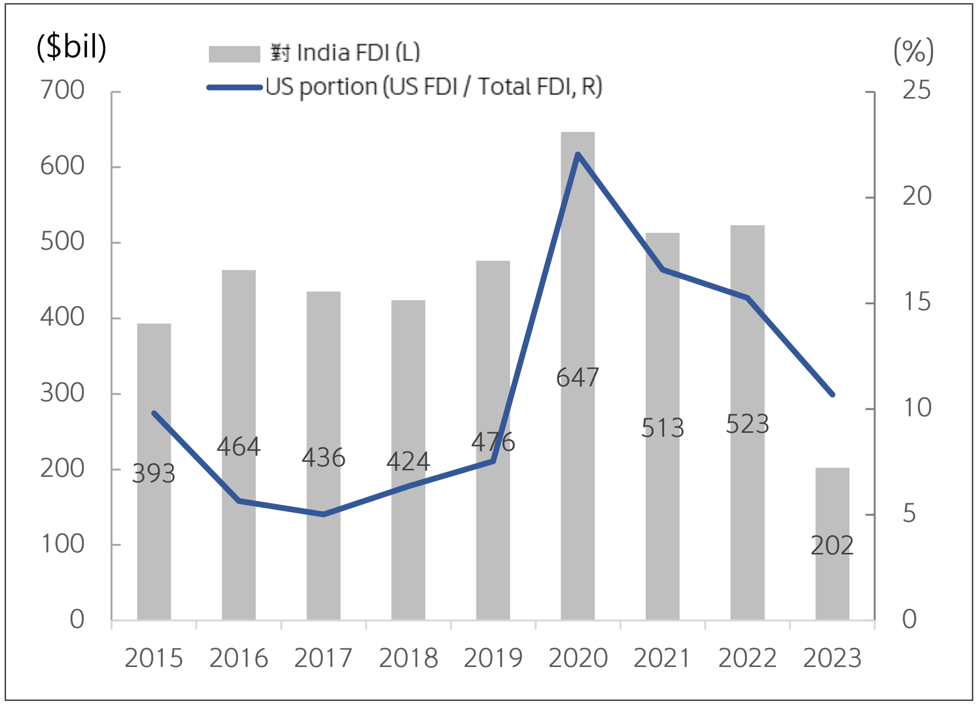
③ Major Issues

Active Surge in FDI After 2020 & Sharp Increase in High-Tech Manufacturing Investments

Global Companies Embrace China+1 Strategy, Highlighting Value

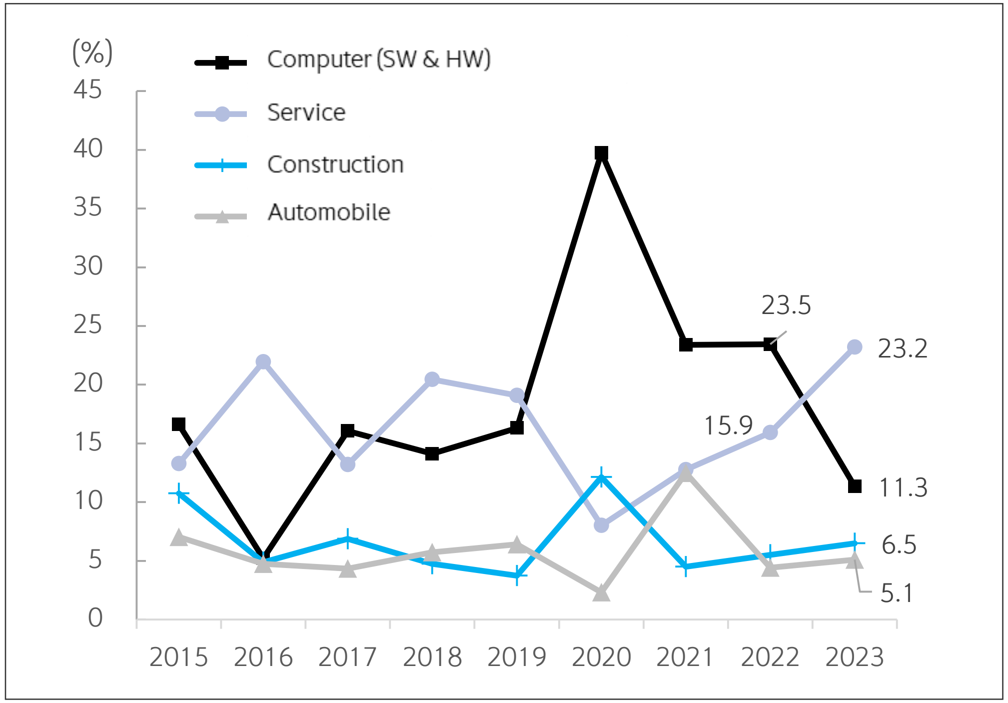
- US-led FDI towards India surged since 2020. In terms of industries, investments have been concentrated mainly in high-tech manufacturing, particularly in the computer-related sector.
- After COVID-19, as global companies pursue the China+1 policy, India's value as a substitute production base is highlighted.
- The government's manufacturing promotion policies, such as the PLI program offering various incentives, along with the domestic market potential, play a crucial role in the growth of India's manufacturing industry.
- The manufacturing sector's contribution to India's GDP is expected to increase from the current 15.6% to 21% by 2031. (MS)

Active Increase in Investment into India Since 2020



* Inflow Criteria, Cumulative for January to June 2023
Sources: Bloomberg, CEIC, SHB S&T Center

Foreign Direct Investment (FDI) into India by Sectors



* Inflow Criteria, Cumulative for January to June 2023
Sources: Bloomberg, CEIC, SHB S&T Center

Part III

Forecast for 2024 :

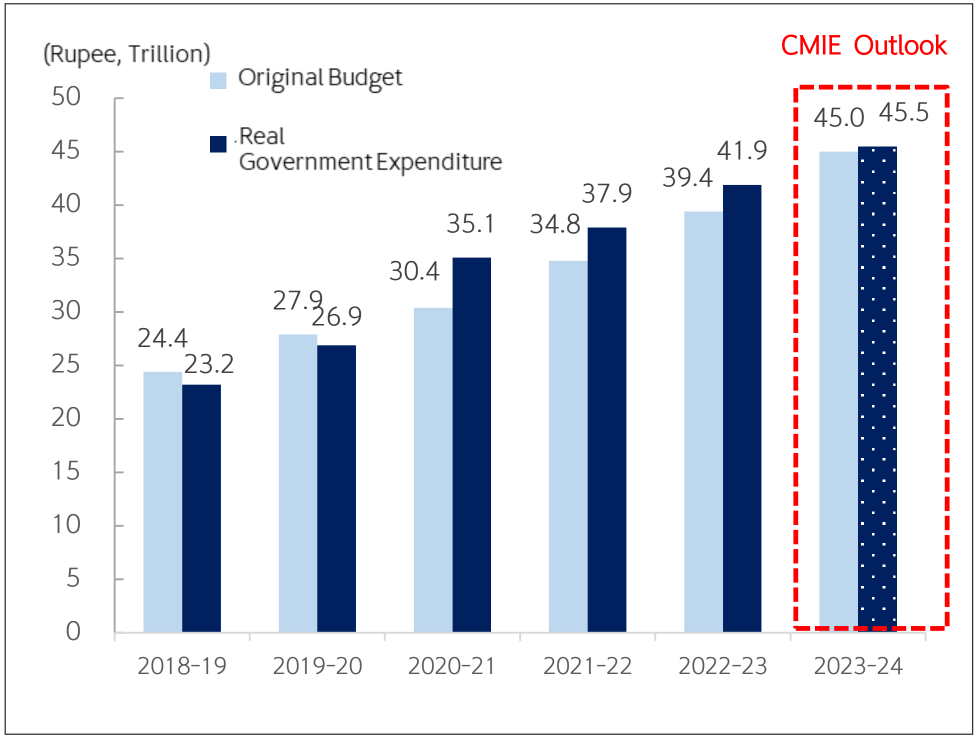
③ Major Issues

Testing of Indian Government Policies and Fiscal Status

Decrease in Fiscal Deficit Is Anticipated as Stimulus Effect of Fiscal Expenditure Becomes Evident

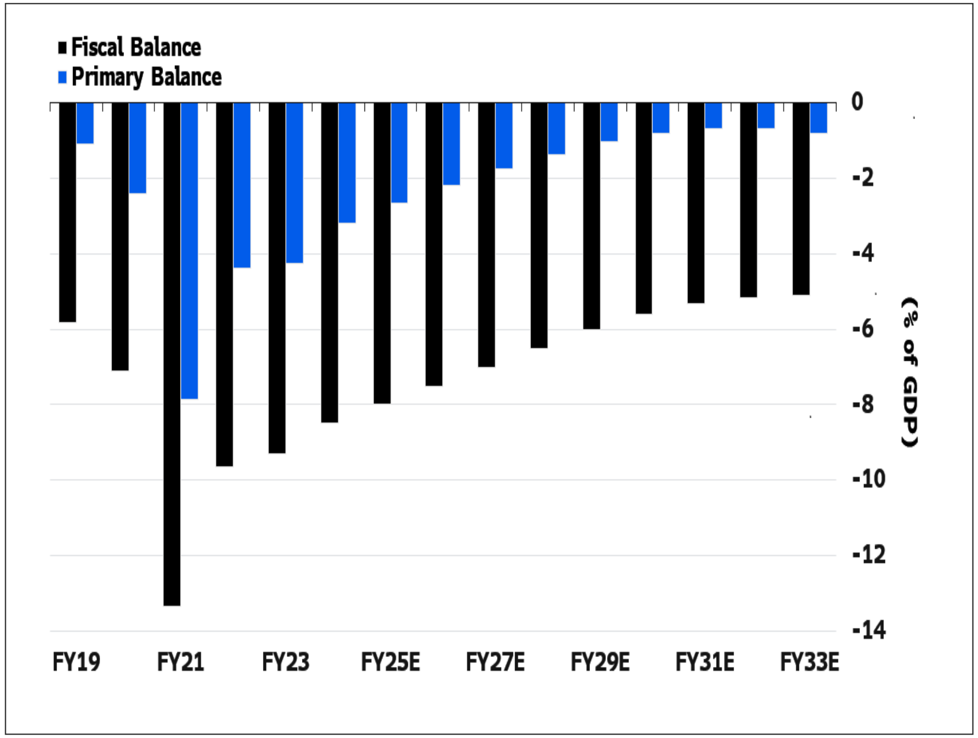
- Ahead of the 2024 general election, fiscal spending for economic stimulus has increased including job creation, etc. By the end of FY2024, distribution of pandemic-related aid is expected to be ceased, allowing for additional fiscal flexibility. The anticipated economic boost through the expansion of public investment and other fiscal expenditures is expected to lead a reduction in fiscal deficit.
  - ▶ The fiscal balance, which was at 9.3% of GDP in FY2023, is projected to decrease to 8.5% in FY2024 and further decline to the 5% range by FY2033.

Government Expenditure Is Expected to Exceed the Budget Proposal for Fourth Consecutive Year



Sources: Ministry of Finance, CMIE, SHB S&T Center

Fiscal Deficit Expected to Decrease to 4.5% of GDP by FY2028



* The primary fiscal balance is the ratio of the fiscal balance excluding interest payments to GDP
Sources: Bloomberg Economics, SHB S&T Center

Part Ⅲ

Forecast for 2024 :

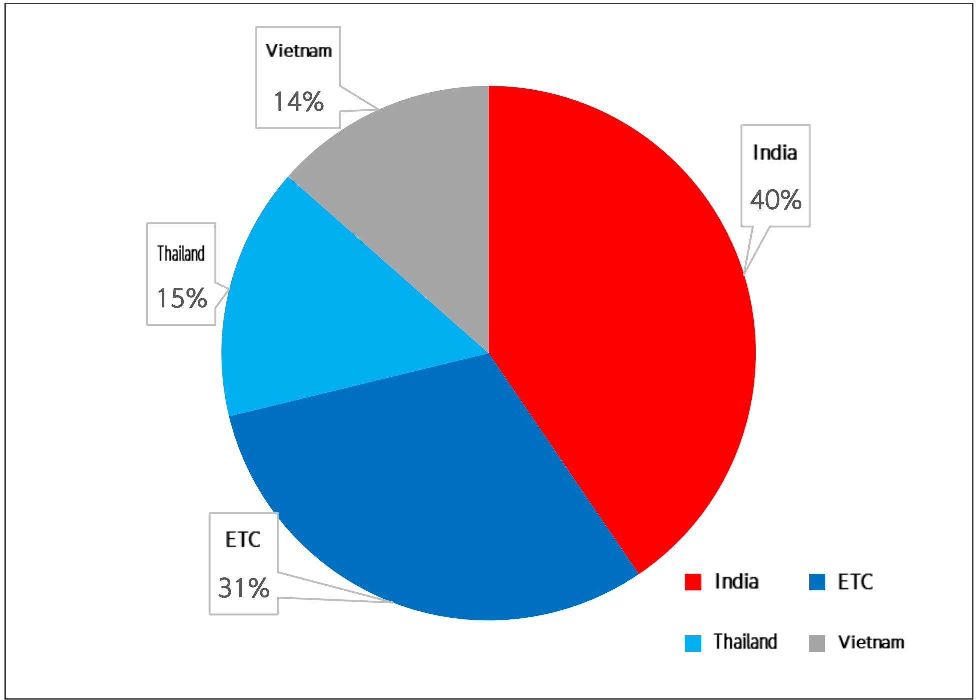
③ Major Issues

The Government Implements Agricultural Export Restrictions as Concerns Rise Over Grain Supply

Decrease in Farm Income & Escalation of Food Security Risks in Major Importing Countries Are Anticipated

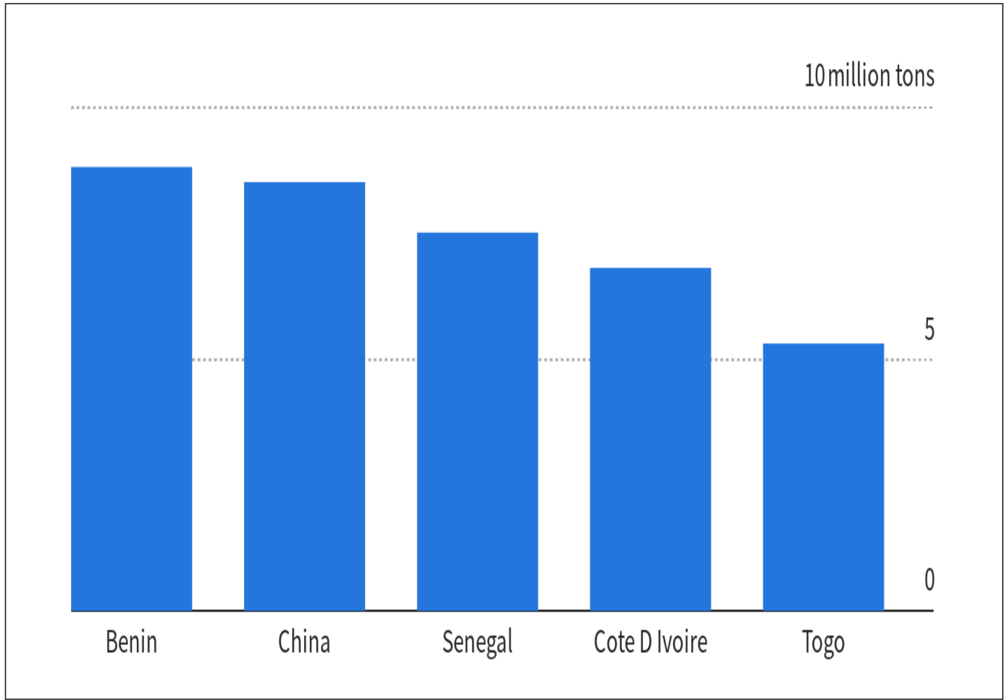
- Leading up to next year's general election, the Indian government takes measures, such as imposing tariffs and prohibiting exports, in response to heightened concerns over grain supply instability due to abnormal weather conditions.
- Such are measures to prevent a sharp rise in food prices, but concerns arise as farmers might lose opportunities to sell at higher prices in the global market, leading to potential decline in farm incomes.
- In response to requests related to food security from neighboring countries, export permissions were granted to some nations. But there are heightened concerns over the impact on African countries that are particularly reliant to Indian rice exports.

India, the World's Largest Rice Exporter



* Global Rice Export Market Share by Country for the Years 2022-2023
Sources: USDA Foreign Agricultural Services, SHB S&T Center

The Top 5 Importers of Indian Rice



* Trade Statistics for the Years 2022-2023
Sources: India Minnistry of Commerce, SHB S&T Center

Part III

Forecast for 2024 :

③ Major Issues

Absence of Prominent Opposition Candidates in the April-May Elections

Investment Attractiveness Would Increase with a Successful Re-Election But Should Be Cautious of Capital Outflows in Case of Failure

- While general elections are scheduled in April-May 2024, Modi's potential third term is highly expected as there is no prominent opposition candidates.
  - ▶ In July 2023, the I.N.D.I.A (Indian National Development and Inclusion Alliance), a coalition of 26 opposition parties, was established to prevent the ruling party, Bharatiya Janata Party (BJP), from securing a third term.
- If re-election is secured with an overwhelming victory, the continuity of government-led economic growth policies is expected to enhance India's investment attractiveness further.
  - ▶ In the event of a re-election failure, there is a possibility of a panic sell-off in the financial markets, similar to the historic stock market plunge that followed the confirmed shift in power after the 2004 general elections.

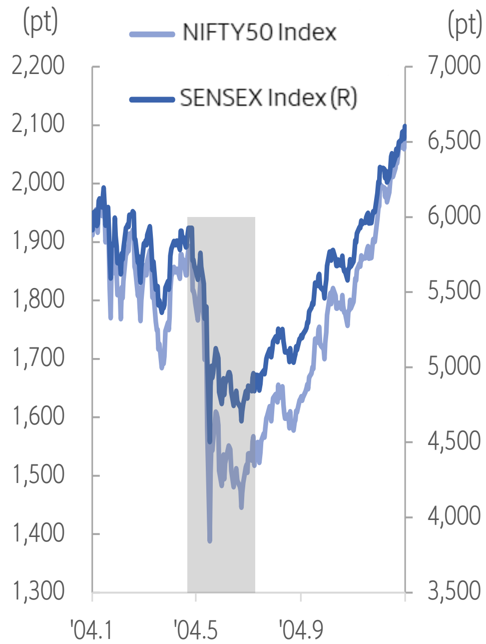
Results of the 2014 and 2019 General Elections

	'14 General Election : Turnout 65.3%			'19 General Election: Turnout 67.4%	
	1st	2nd	3rd	1st	2nd
Leader	 Narendra Modi	 Rahul Gandhi	 Jayal alithaa	 Narendra Modi	 Rahul Gandhi
Party	Bharatiya Janata Party	Indian National Congress	All India Anna Dravida	Bharatiya Janata Party	Indian National Congress
Election Districts	Varanasi	Ahmedabad	Non-Candidacy	Varanasi	Ahmedabad
Previous Result	116	206	9	282	44
Seat Won	282	44	37	303	52
Polling Rate	31.34%	19.52%	0.27%	37.36%	19.49%

Sources: Wikipedia, SHB S&T Center

Information on the Upcoming General Election & Stock Market Trends Immediately Following the 2004 General Elections

	'24 General Election: Majority of 272 seats	
	1st	2nd
Leader	 Narendra Modi	 Mallikarjun Kharge
Party	Bharatiya Janata Party	I.N.D.I.A
Election Districts	Varanasi	Karnataka
Previous Result	303	52
Approval Rate	52%	-



Sources: : Wikipedia, Mood of the Nation poll, SHB S&T Center

Part III

Forecast for 2024 :

③ Major Issues

Indian Bonds Are to Be Included in the GBI-EM Index from June 2024

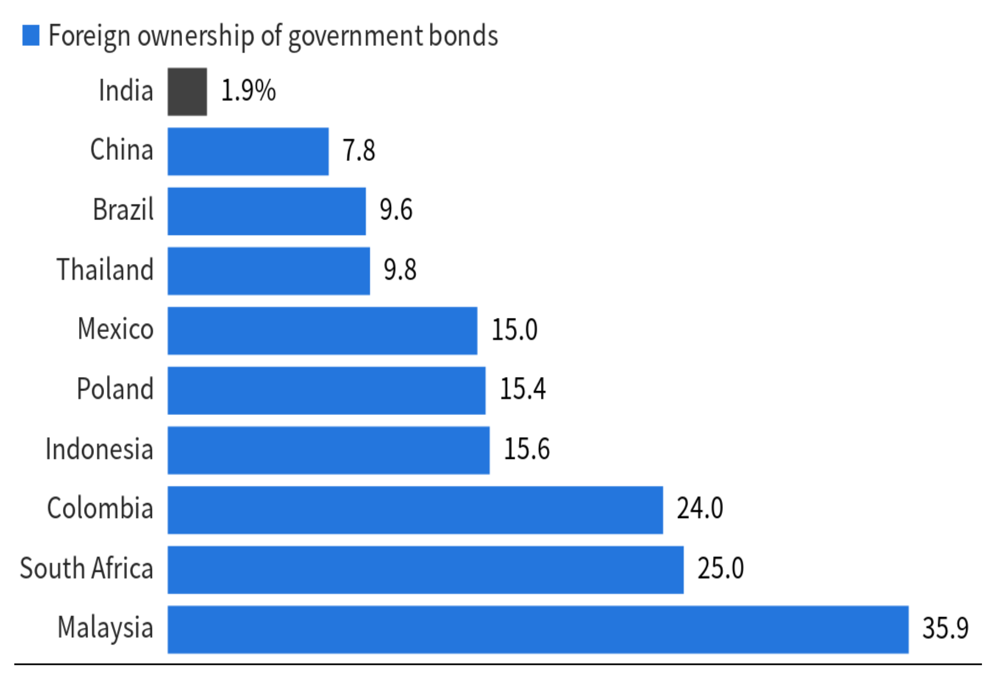
Anticipating Inflows of Tracker Funds That Could Contribute to Foreign Exchange and Bond Market Stability

- Indian government bonds are set to be included in the JP Morgan Bond Index for Emerging Markets (GBI-EM) from June 2024. The inclusion comprises 23 types of bonds with a total value of $338 billion.
  - ▶ The weight of India in the index is set at 10% from June 2024 to March 2025, with a monthly increase of 1%, introducing a phased approach for inclusion.

- Increase in inflow of related tracker funds, contributing to a stable funding base and contributing to exchange rate stability in the Indian bond market.

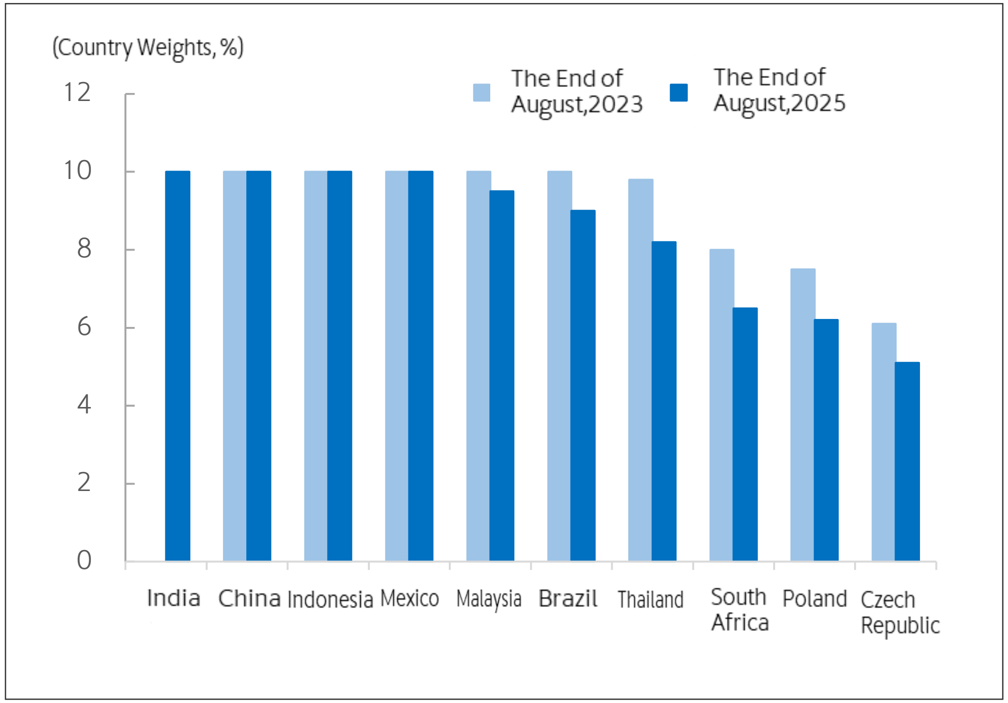
▶ However, it is important to note that the expansion of capital inflows may increase the sensitivity of the Indian bond market to external factors.

Foreign Ownership Percentage of Indian Bonds Remains Relatively Low Compared to Other Countries



* As of the end of 2022
Sources: Bloomberg, SHB S&T Center

Current Status of Countries Included in the GBI-EM Index and Their Weights



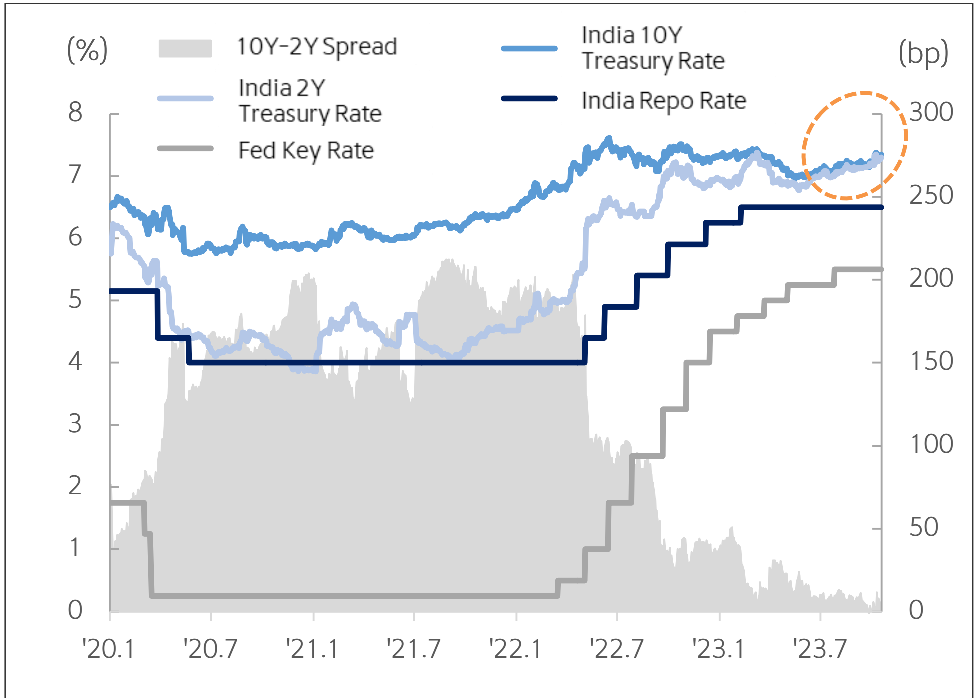
Sources: Bloomberg, JP morgan, SHB S&T Center

RBI Exercises Caution Amidst the Potential Rekindling of Inflation, Maintaining a Hawkish Standstill

Anticipated Attempts for Policy Rate Reduction in 2024 to Support Economic Recovery

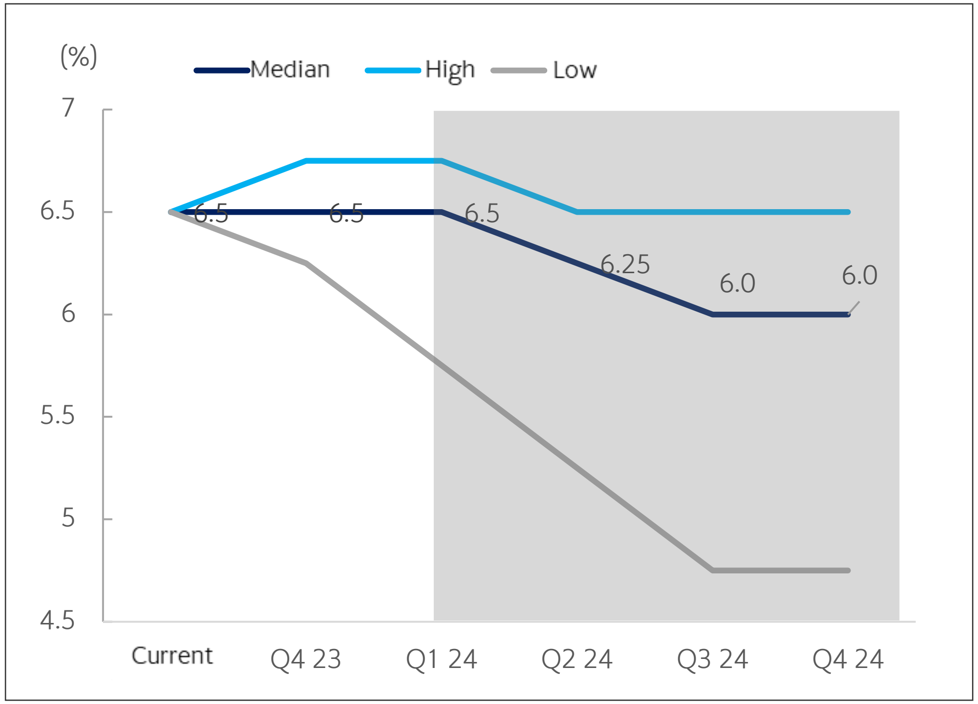
- The RBI, in an effort to defend against high inflation and rupee depreciation, raised the policy rate by a total of 250 basis points to 6.5% from May 2022 to February 2023 and has since maintained a freeze.
- Despite efforts to quell the upward trend in prices, concerns over potential inflation resurgence, fueled by rising oil prices, have prompted the RBI to take a cautious stance, preventing expectations for interest rate cuts.
- Policy rate cut to support economic recovery is expected to begin during 2024 2Q~3Q, with a projected reduction to 6.0% by the end of the year.
  ▶ The rise in market interest rates, influenced by the global increase in long-term interest rates, is expected to decline as expectations for a domestic policy rate cut grow following the clarification of the US pivot.

Market Interest Rates Surge Again, Driven by a Sharp Increase in US Treasury Yields and Risk Aversion



Sources: Bloomberg, SHB S&T Center

Distribution of Forecasts for India's Policy Interest Rates by Major Institutions



* Bloomberg Consensus's Median Forecast, End-of-Year Basis
Sources: Bloomberg

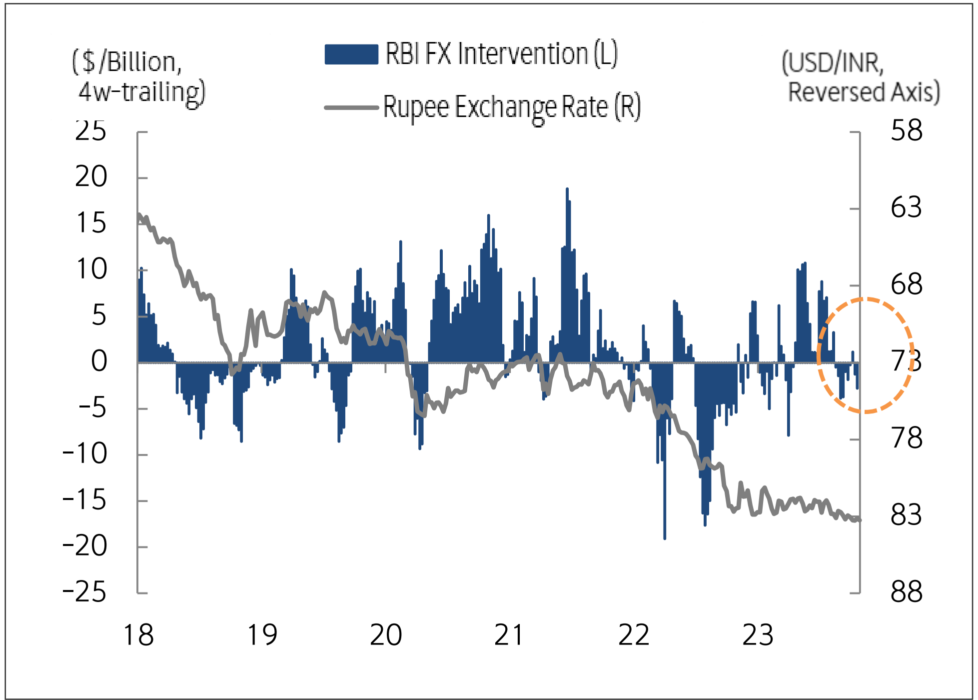
Decrease in FX Reserves Due to RBI's Active Foreign Currency Selling Response

Continued Intervention Expected for Exchange Rate Defense and to Regulate the Pace of Appreciation

- Despite the strengthening of the dollar due to the Fed's anticipated continuation of high interest rates and the surge in oil prices amid heightened Middle East tensions, RBI's intervention in foreign currency selling is expected to limit further appreciation of the rupee and contribute to easing volatility in the exchange rate.

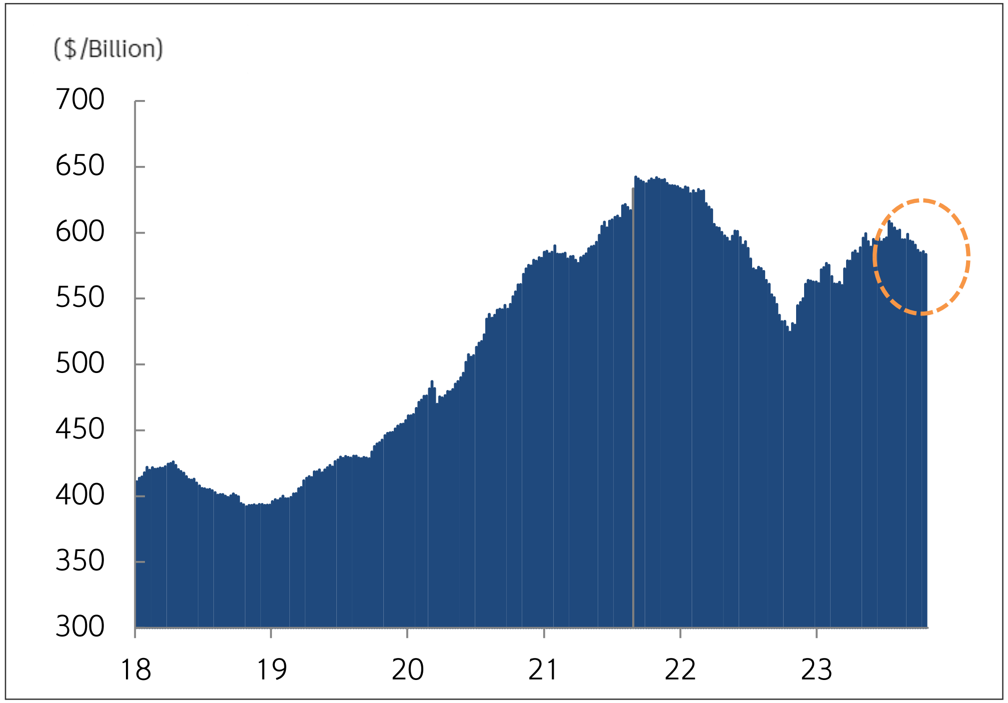
- FX reserves, after reaching a peak in July, have decreased to $584.7 billion in October due to measures for defending against a strong dollar and managing exchange rates. (India ranks 4th)

RBI Responds to Control the Pace of Exchange Rate Appreciation Through Foreign Currency Selling



Sources: Bloomberg, SHB S&T Center

Decrease in FX Reserves Due to Global Strong Dollar and RBI's Intervention in the FX Market



Sources: Bloomberg, SHB S&T Center

Part III

Forecast for 2024 :

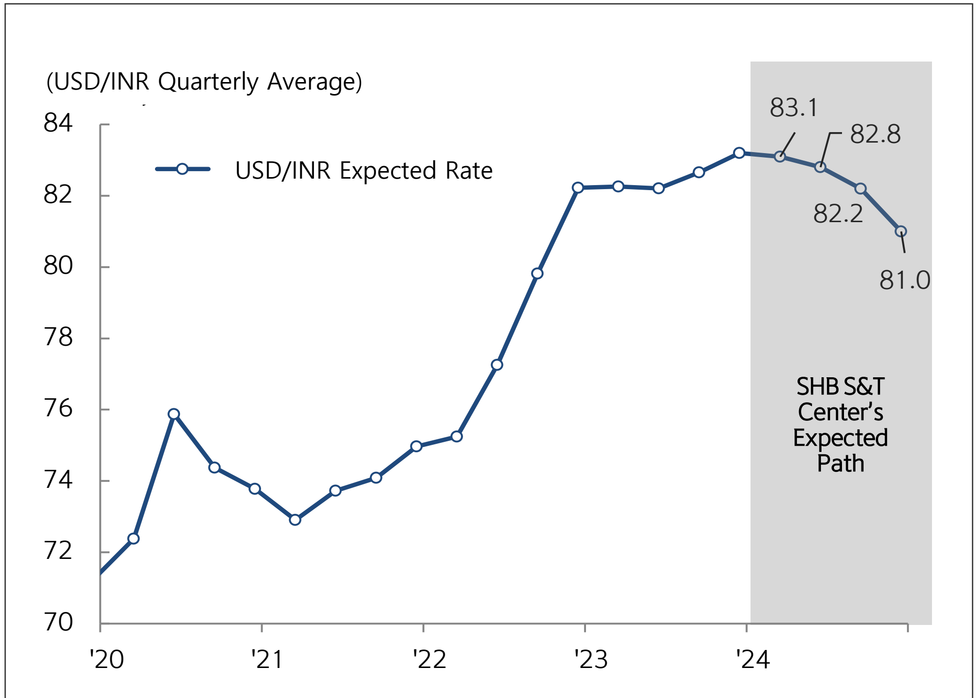
④ USD/INR

Gradually Fall Throughout 2024

USD/INR: 76.8 ~ 85.2 Rupee

- USD/INR would fall gradually throughout 2024 as strong USD trend eases on the Fed's rate hike seize and slowdown in India's inflation.
  - ▶ While global growth momentum is expected to weaken due to growth in US and China slow down, USD/INR will be stabilized downward due to major countries' early termination of rate hikes, sound domestic economy, and expansion of foreign capital inflow despite geopolitical risks in the Middle East and debt burden stemmed from prolonged high interest rate.
  - ▶ Yet, USD/INR would fall rather slowly due to the delay in the Fed's rate cuts and oil price uncertainty caused by the Middle East crisis.

Expected USD/INR Path in 2024



* Quarterly Average
Sources: Bloomberg, CEIC, SHB S&TCenter

2024 Outlook of USD/INR and Consensus of Major Institutions

SHB S&T Center *(Range)*	24.1Q(E)	24.2Q(E)	24.3Q(E)	24.4Q(E)	Yearly Avg.
	83.1	82.8	82.2	81.0	82.3
	(80.5~85.2)	*(79.2~84.9)*	*(78.0~84.5)*	*(76.8~84.0)*	*(76.8~85.2)*
Institutions Survey	**24.1Q(E)**	**24.2Q(E)**	**24.3Q(E)**	**24.4Q(E)**	
Median	82.5	82.3	82.0	81.3	
High	84.3	84.5	85.3	84.0	
Low	80.0	78.0	76.0	75.0	
Australia & NZ Banking	82.5	82.0	81.5	80.0	
BNP Paribas	82.4	82.3	82.2	82.0	
Capital Economics	82.3	81.5	80.8	80.0	
Commerzbank	81.5	81.5	81.0	81.0	
ING Financial	82.0	81.0	80.0	82.0	
Kotak Mahindra	83.5	83.0	83.5	84.0	
Maybank Singapore	83.5	83.0	82.5	82.0	
Nomura Bank	83.2	82.7	82.3	81.8	
RBC Capital Markets	83.5	83.6	83.3	83.0	
Wells Fargo	84.3	84.5	84.0	83.5	

Sources: SHB S&T Center, Bloomberg Consensus (After October 2023)
*1) SHB S&T Center's consensus is quarterly average and yearly average
*2) Bloomberg consensus is the closing value for the period

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