MONTHLY UPDATE
AUGUST 2023

22 YEARS
Protecting India with Pride

HDFC Life
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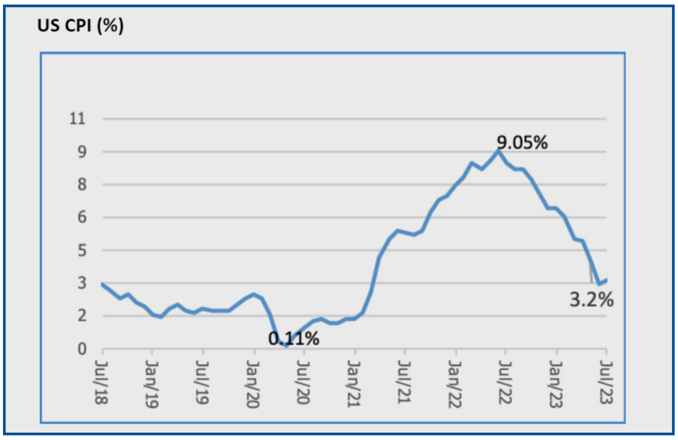
Market Outlook

HDFC Life - Monthly Update (September 2023)

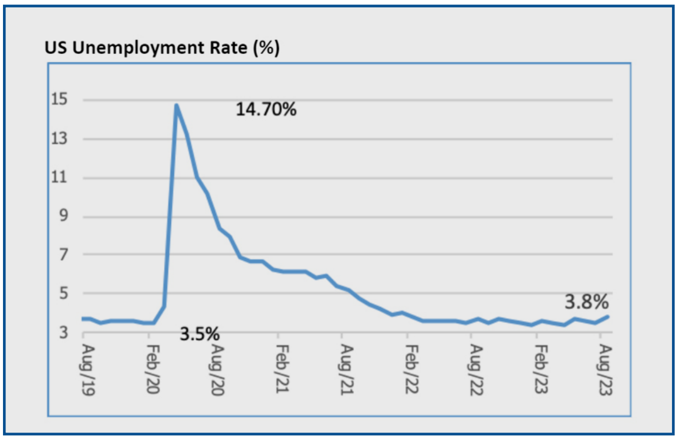
Global Macro Review

US CPI (%)



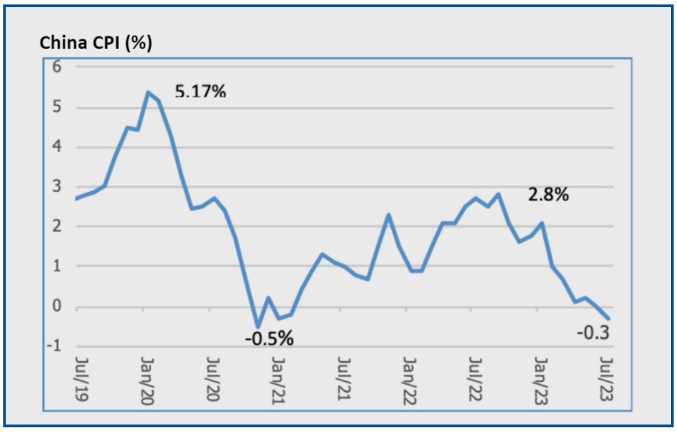
- US CPI for Jul'23 came in at 3.2% YoY,marginally lower than market expecatation 3.3%. An encouraging development was core inflation falling from 4.8% YoY in June to 4.7% YoY in July. Within the core componenets, core goods inflation led the fall.
- The impact of Fitch ratings downgrade on the US sovereign rating on the overall market sentiment was modest. The main development has been the shift of expectations to a 'soft-landing' scenario in the US economy that was visible in the sharp rise in US longer-end yields. However with labor market showing early signs of re-balancing the extent of uptrend in the US bond yields were arrested.

US Unemployment Rate (%)



- The US unemployment rate drifted higher from 3.5% to 3.8% for the month of Aug due to rise in labour force participation rate to 62.8% from 62.6%.
- US NFP surprised marginally to the upside printing in at 187K (expectations:170K), although downward revisions to the tune of 110K were made in the previous two months indicating that hiring was weaker than previously expected. The increase in labour supply also resulted in lower growth in hourly earnings which came in at 0.2%MoM vs 0.4% in July.

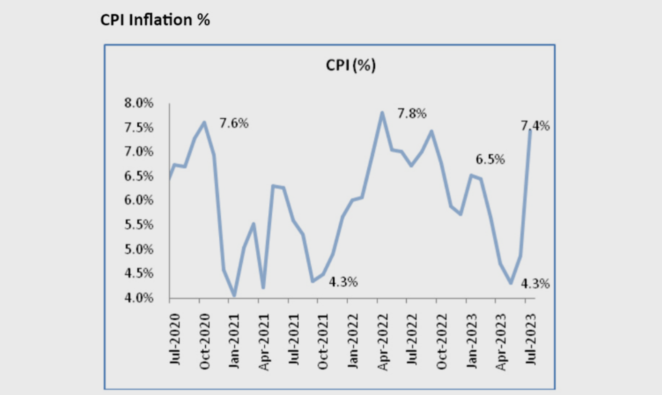
China CPI (%)



- Chinese CPI came in at -0.3% YoY for the month of July'23 Vs 0% in the previous month this was largely due to fall in food price nad high base of last year,however the demand continues to remain below trend driven by ongoing weakness in property sector despite ongoing stimulus provided.

India Macro Review

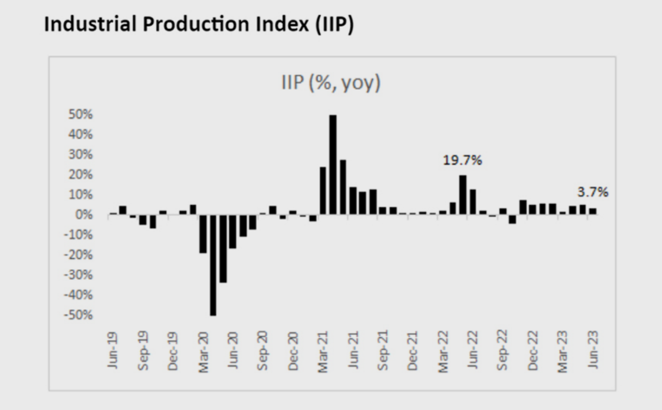
CPI Inflation %



Source: MOSPI

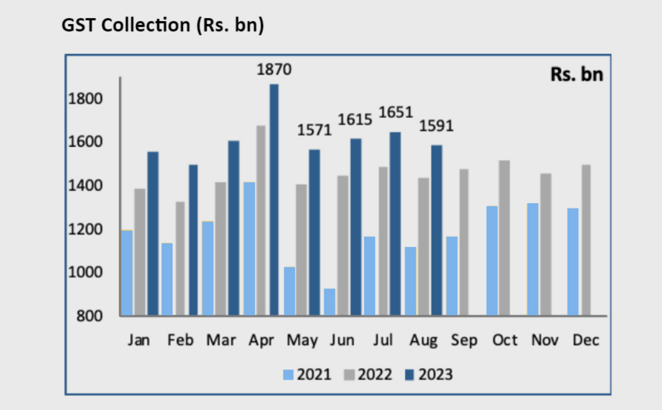
- CPI for Jul'23 stood at 7.4% vs 4.9% in Jun'23 as food CPI which constitutes the 45.9% has increased to 10.6% in Jul'23 from 4.7% in Jun'23. Within food, inflation for Vegetables, Spices, Pulses, and Cereals have increased sharply.
- Fuel inflation which constitutes 6.8% of the CPI moderated to 3.7% in Jul'23 vs. 3.9% in Jun'23.

Industrial Production Index (IIP)



- Industrial Production (IIP) growth for Jun'23 came at 3.7% vs. 5.3% growth during May'23 as Manufacturing output growth decelerated to 3.1% in Jun'23 vs. 5.8% in May'23. However, Mining and Electricity output grew by 7.6% yoy and 3.1% yoy in Jun'23 respectively.
- The increase in the Industrial production index reflects the gaining momentum in production activities. Monthly IIP nos can be volatile and difficult to draw a trend from the same.

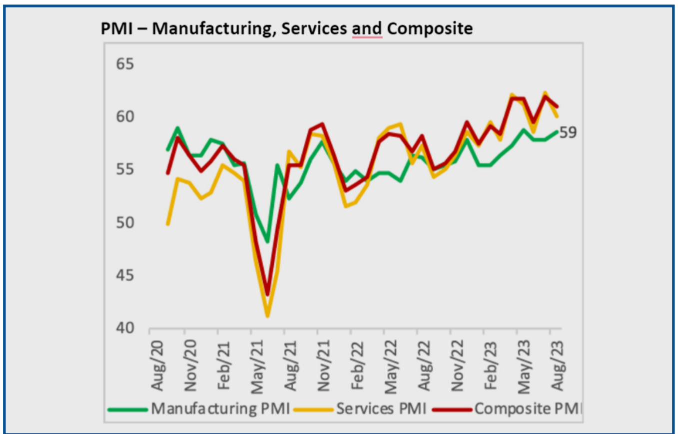
GST Collection (Rs. bn)



- GST revenues for the month of Aug'23 came at Rs. 1,591bn showing a 10.8% YoY as CSGT (14.6%), SGST (15.6%) and IGTS (7%) increased sharply.
- Avg. monthly GST collections have increased to Rs. 1.7 lakh crore in FY23 vs. Rs. 1.5 lakh crore in FY22 and Rs. 1 lakh crore in FY20 continuing to display very high buoyancy.

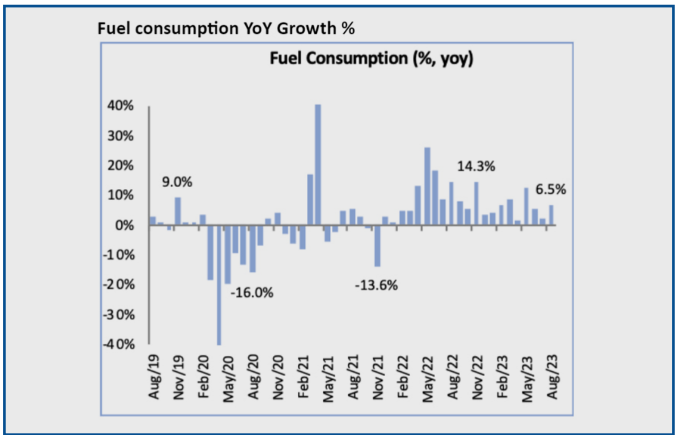
India Macro Review

PMI



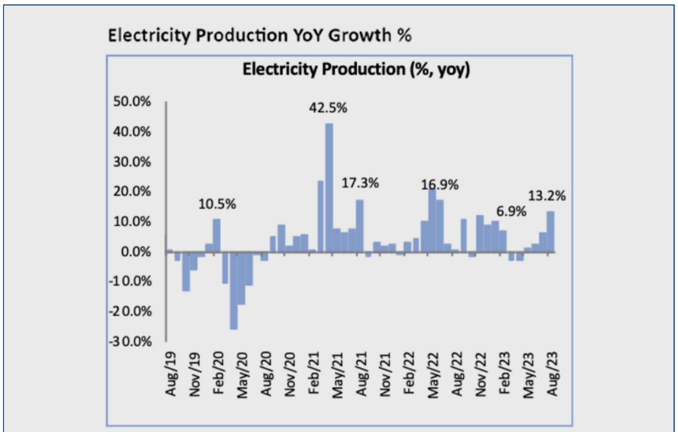
- India Manufacturing PMI increased to a 3-month high of 58.6 in August 2023 from 57.7 in July. India Services PMI dropped to 60.1 in August 2023 from an over 13-year high of 62.3 in the previous month.

Fuel consumption YoY Growth %



- Fuel consumption grew by 6.5% in Aug'23 vs. 2.1% growth in Jul'23. Within fuel category, consumption for petrol and diesel grew 2.9% and 5.2% respectively .

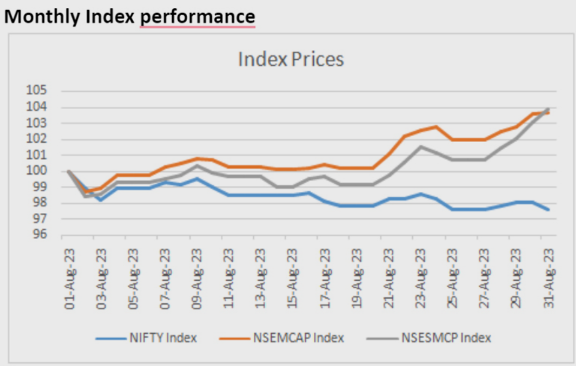
Electricity Production YoY Growth %



- Electricity production up 13.2% YoY in Aug'23 vs. 6.1% YoY in Jul'23. The sharp jump is due to weak monsoons leading to strong demand from irrigation pumps and household AC's.

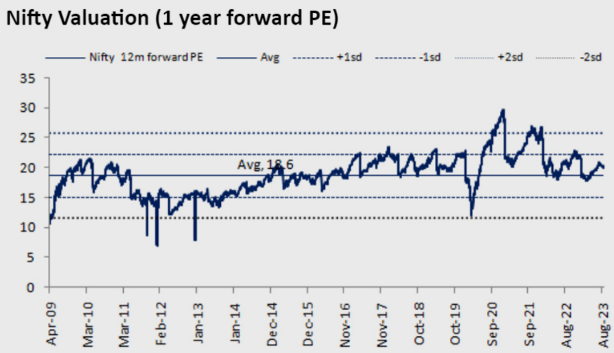
Equity Outlook and Positioning

Monthly Index performance



- Equity markets posted a mixed month in Aug'23 with large cap indices underperforming midcaps and smallcaps. Nifty 50 closed the month with a return of -2% while CNX Midcap Index was up 4% and Small Cap up 4%.
- Capital Goods, IT and Pharma sector outperformed while Banks, FMCG and Oil & gas sector under performed during the month.

Nifty Valuation (1 year forward PE)

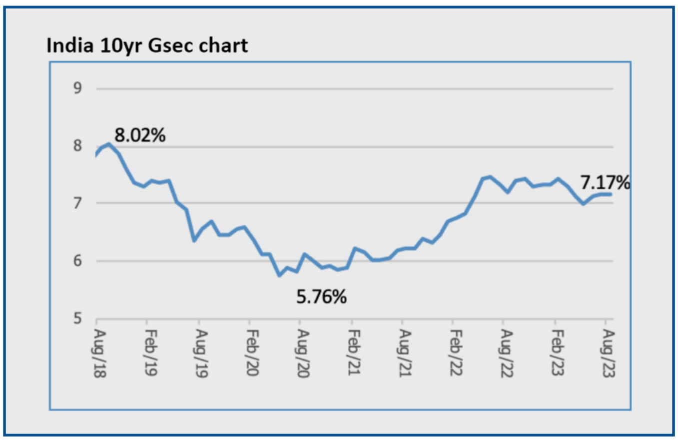


Source: Bloomberg

- In India, inflation worries have increased off late with spike in vegetable prices and uneven monsoon. Real GDP for Q1FY24 came in at 7.8% yoy - a near 5 year high excluding COVID. Within this private consumption revived and capex too was strong. However, nominal GDP growth slowed sharply to just 8% YoY – a post COVID low. Trends in the same are also critical in shaping up credit growth, GST collections, corporate topline, etc.
- With regards to high frequency data, it remains a mixed bag with segments like credit growth, GST collections, premium consumption like SUV sales, electricity generation and government capex holding up well, but moderation is seen in exports, direct taxes, mass consumption items (small cars, 2Ws, etc.). However, the comforting part is that domestic monetary conditions still remain relatively benign with banking sector liquidity being in surplus
- Nifty earnings over FY23-25 are now expected to grow at a CAGR of 13.9%. Nifty is currently trading at a valuation of 20.8x FY24 and 18.2x FY25. 1-yr forward valuations are higher than long term averages. Given the headwinds of weak domestic demand, a challenged global macro with some signs of financial stress and an uncertain inflation outlook, we continue to be cautious in the short term. However, we would be optimistic from a medium to long term point of view as we expect a cyclical recovery in the economy and earnings after several years of sub-par growth.

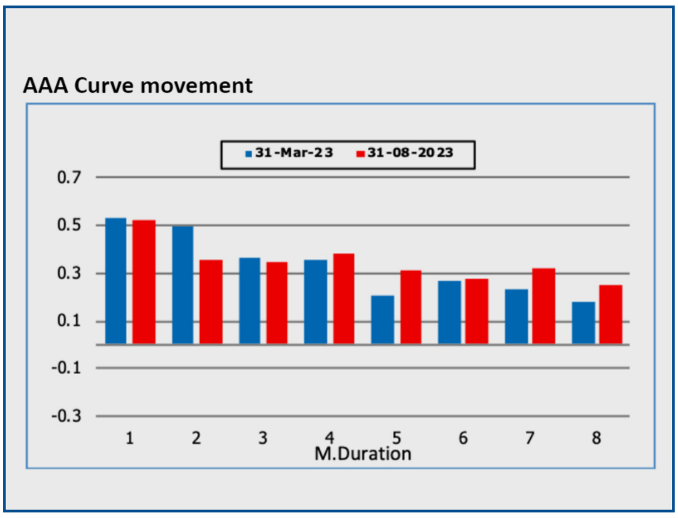
Debt Outlook and Positioning

India 10yr Gsec chart



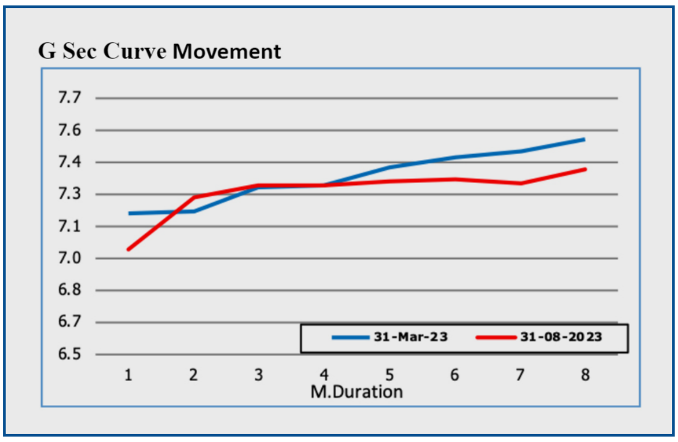
- US bond yields continue to rise largely driven by sovereign downgrade due to its ballooning fiscal deficit, higher borrowing plan and hawkish Fed minutes. The US 10 yr yield rose by 15bp for the month and closed at 4.11%.
- In India, the 10yr benchmark bond yield remained broadly flat at 7.17% for the month largely driven by strong demand from pension and insurance company's also lower supply in SDL capped the rise in yields.

AAA Curve movement



- The MPC as expected kept repo rate unchanged at 6.5%, However RBI introduced an incremental CRR of 10% on the increase in their NDTL. However, this change has been projected as a temporary measure to absorb surplus liquidity. The MPC also chose to look through the transient spike in inflation due to a spike in tomato prices but communicated their readiness to deploy additional policy tools if inflation showed signs of generalization. We expect CPI to fall from current level due active supply side measures undertaken by the government.
- The mixed set of economic data in the US, seem to indicate a gradual slowing of the economy, fueling expectation of a pause in the forthcoming FOMC meeting. However, in the absence of a sharp slowdown, the Fed is likely to maintain rates at high levels for an extended period.

G Sec Curve Movement



- In India, though the MPC had decided to look through high food inflation as temporary in nature, any stickiness due to adverse monsoon may push RBI to raise rates further to prevent a generalization of the inflation pressures. The adverse demand-supply balance of H1 is likely to be reversed in H2 as net supply of bonds is likely to be lower, and will help prevent yields from rising sharply. The inflation concerns and the counter-acting demand-supply balance are expected to keep yields within a narrow range.

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