

MONTHLY UPDATE

NOVEMBER 2021



Sar utha ke jiyō!

Nov, 2021

“Chains of habit are too light to be felt until they are too heavy to be broken.”

- Warren Buffet

Equity markets

Indices	30 th Nov 2021	29 th Oct 2021	1 Month Return (%)	1 Year Return (%)
BSE Sensex	57,065	59,306	-4%	29%
S&P CNX Nifty	16,983	17,672	-4%	31%
BSE 100	17,319	17,921	-3%	33%
BSE Mid Cap	24,688	25,277	-2%	46%
BSE Small Cap	27,937	27,982	0%	66%

Source: Bloomberg

During Nov'21, domestic equity indices had a subdued performance - large cap and mid cap indices were down 3-4% MoM while mid and small cap indices outperformed with BSE Mid Cap Index down 2% while the BSE Small Cap Index was flat MoM. On a 1-year basis, the mid and small cap index have outperformed the large cap indices. Over the past one year, Sensex and Nifty were up 29% and 31% respectively while BSE Mid cap and Small cap index were up 46% and 66% respectively.

During Nov'21, performance across the sector indices was mixed. The performance ranged from -9% to +4%. Utilities and IT sector gained the most; up 4% and 3% respectively while Metals and Banking sector fell the most; down 9% each. On a 1-year basis, Real Estate sector is the best performing sector gaining 84% followed by Metals and Utilities sector respectively. FMCG followed by Auto are the bottom two sectors; up 17% and 19% each respectively.

The yield of benchmark 10-year G-sec moved to 6.33% at the end of Nov'21 from 6.39% at the end of Oct'21.

Global equity indices had a mixed performance during the month. The NASDAQ Index rose the most, up ~2% followed by S&P 500 which rose 1% during the month. The HANGSENG Index and Nikkei fell the most, down 7% and 4% respectively. On a 1 year basis, NASDAQ has gained the most; up 29%.

Commodities (USD)	1 Month Return (%)	One Year Return (%)
Gold	1%	2%
Silver	-4%	3%
Crude Oil	-16%	49%
Copper	-1%	27%
Aluminum	-2%	30%
Lead	-5%	11%
Nickel	4%	27%
Tin	4%	115%
Zinc	-6%	16%

Most major commodities fell during Nov'21 except Nickel and Tin which were up 4% during the month.

On a YoY basis, all the major commodities have posted YoY gains. Tin has appreciated the most.

Source: Bloomberg

Macro Economic Data

Indicators	Jul-21	Aug-21	Sep-21	Oct-21	Comments
IIP (YoY, %)	11.9%	3.1%			Industrial output grew 3.1% yoy in Sep'21 vs. 11.9% yoy increase in Aug'21 mainly due to fading of low base effect. Mining, manufacturing and electricity recorded a growth of 8.6%, 2.7% and 0.9%, yoy respectively.
Core Sector (YoY, %)	11.6%	4.4%	7.5%		Core sector output grew 7.5% in Oct'21, following 4.4% growth in Sep'21. The recovery was driven by coal output (up 14.6% yoy), natural gas output (25.8% yoy) and refinery products output (14.4% yoy). However, output of crude oil declined by 2.2% yoy and electricity generation witnessed only a 2.8% yoy rise in Sep'21.
RBI monetary policy (Repo Rate) (%)	4.00	4.00	4.00	4.00	RBI kept repo rate unchanged at 4% as on Nov'21. However, it has stopped the liquidity infusion measure of GSAP.
CPI inflation (%)	5.30%	4.35%	4.48%		CPI inflation increased to 4.48% yoy in Oct'21 from 4.35% yoy in Sep'21 primarily led by the increase in food inflation to 1.8% yoy in Oct'21 from 1.6% yoy in Sep'21.
Trade Deficit (\$, bn)	-13.8	-22.9	-19.9	23.3	In Nov'21, exports grew by 26.5% yoy to \$29.9bn, while imports grew by 57.2% yoy to \$53.2bn, as a result trade deficit widened to \$23.3bn in Nov'21 vs. \$19.9bn in Oct'21.
GST Collection (\$, bn)	1,120	1,170	1,301		Total gross GST revenue collections in Oct'21 stood at Rs. 1,301bn, following Rs. 1,170bn collection in Sep'21.
FII Flows-Equity (\$, bn)	0.28	1.79	-1.81	-0.79	On equity side, FPIs sold \$0.79bn in Nov'21, following an outflow of \$1.81bn in Oct'21. On debt side, FII bought \$0.13bn in Nov'21, following an outflow of \$0.21bn in Oct'21.
FII Flows-Debt (\$, bn)	1.63	1.74	-0.21	0.13	
Exchange Rate (INR/USD)	73.15	74.25	74.88	75.16	Indian Rupee depreciated by 0.4% against the dollar during Nov'21, as it closed at 75.16 in the end of Nov'21 from 74.88 at the end of Oct'21.
GDP (%)		8.4%			Real GDP grew by 8.4% in Q2 FY22 vs. 20.1% growth in Q1 FY22(due to low base effect) led by the increase in investment (11% in Q2 FY22 vs. 56.7% Q1 FY22), HH consumption (8.6% in Q2 FY22 vs. 19.3% in Q1 FY22) and Government consumption (8.7% in Q2 FY22 vs. 4.8% contraction in Q1 FY22)

Outlook

Indian equity markets suffered the biggest 1 month fall since March 2020 in November due to several factors ranging from uncertainty over emergence of more contagious heavily-mutated COVID strain Omicron, global risk-off driven by accelerated taper worries and disappointing listing of India's largest IPO. A sharp rally in DXY (made 16 month high) too weighed on the EMs; including India which witnessed overall FII outflows of USD 0.8 bn. The outflows in the secondary market were higher but were partly offset by their healthy participation in the primary market. DIIs, however, continued to support the market with buying of USD 4.1bn during the month.

In the US, the Federal Reserve signaled in its two-day monetary policy meeting that it will soon begin reducing the pace of its monthly bond purchases and Senate passed more than US\$1 tn infrastructure bill. US, along with China, India, Japan, South Korea and UK decided to increase oil supply in the market by releasing their strategic reserves to cool down the rising crude oil prices (Brent crude prices declined 17% in the month). In India, PM Modi announced the decision to repeal the 3 contentious farm laws as farmer unions continued to oppose them despite several round of talks and the central government reduced excise duty on petrol by Rs5/liter and diesel by Rs10/liter. Telecom operators announced tariff hikes and Reliance Industries called off its deal with Saudi Armco.

The recent correction can be pegged to uncertainty over the impact of new COVID-19 variant Omicron. What happens next depends on whether the initial fears around Omicron are realized. Supply pressures have intensified, while a new COVID wave depressing European mobility has prompted a downward revision to Euro area growth forecast. The global expansion is in the midst of its first resiliency test and we should get some evidence of the direction in which we are headed over the next couple of weeks.

September quarter earnings came in marginally above expectations led by Metals and Oil & Gas sector. Large private banks fared well on asset quality. There were 2 important visible trends: a) an improving demand environment amid reopening of the economy; b) pressure on operating margins on back of higher input costs.

Consensus Nifty earnings are expected to record a 28% CAGR over FY21-23. Corporate earnings are on a structural upswing in India, supported by a shift in market share to organised players, cost control measures, disciplined capital allocation and a cyclical recovery in commodities. The risks to current expectations is demand slow down (pent-up demand subsides and base demand recovery is weaker than expectations) and persistent higher input cost pressure. Globally higher inflation expectations and faster than expected normalcy in monetary policy are the key risks for equities. And now then there is an additional uncertainty on the likely course the pandemic takes with emergence of Omicron. In this overall context, valuations at 21x FY23 earnings are quite full, making us 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.

Fixed Income Market

Fixed Income Market Review –

Bond yields were quite volatile during the month, driven by sharp movements in US Treasury yields and Crude oil prices. The 10yr UST yield rose sharply from its previous close of 1.56% to 1.67%, during the month, before easing to 1.45% on fear of the new Covid variant “Omicron”. The initial rise in UST yields was driven by the change in the inflation view from a ‘transitory spike’ to a more persistent rise, by the US Fed Chairman Jerome Powell. Along with the change, he also hinted at accelerating the bond purchase taper by a few months. The discovery of a new Covid variant ‘Omicron’, having the potential to spread rapidly and negate the antibodies among vaccinated population, led to fears of a return to lockdowns. The outbreak led to a sharp deterioration in risk sentiments. Brent Crude Oil prices cooled down from USD 78.6 per barrel to USD 69.2 per barrel and the UST yields eased.

On the domestic front , RBI continued to absorb surplus liquidity through Variable Rate Reverse Repo (VRRR) auctions. The cut-offs for all the VRRR auctions, irrespective of the tenure, continued to come around the highest possible rate of 3.99%, just shy of the current Repo rate at 4%, indicating RBI’s tolerance for higher yields. Moreover, the RBI did not conduct any OMO or OT, reinforcing the markets’ views of RBI’s tolerance of rising yields. The 10yr benchmark bond rose to 6.40% during the month, before closing lower at 6.33% from its previous close of 6.39%.

Among data releases, India’s CPI inflation rose marginally to 4.48% in Oct-21 from its previous reading of 4.35% for the month of Sep-21. It rose by 0.7% m-o-m, seasonally adjusted, much higher than 0.1% m-o-m last month. Core inflation (CPI Ex-Food Ex-Fuel) came marginally higher at 5.8% from the previous month’s print of 5.7%. Headline WPI inflation for October 2021 printed at 12.5%, significantly higher than 10.7% recorded in September 2021.

India’s trade deficit in November came at \$23.3 bn higher than the previous month’s \$19.9 bn. Among other economic data, IIP growth for September 2021 printed at 3.1% against a reading of an upwardly revised 12% in August 2021. Goods and Services Tax (GST) revenue collection for November came at Rs 1,31,526 cr. India's Nikkei Market Manufacturing PMI rose to 57.6 in Nov 2021, against 55.9 in the previous month, and the Services PMI came at 58.1 in Nov from 58.4 in the previous month. Composite PMI also improved to 59.2 in Nov vs 58.7 in the previous month.

Market Outlook –

With economic activity returning to pre Covid levels as witnessed from GST collection and other high frequency indicators, RBI is expected to gradually roll-back the accommodative policy measures starting with narrowing of the corridor between Repo and Reverse Repo in the upcoming MPC.

Secondly, with the recent spike in food prices and hike in telecom tariffs, inflation is likely to rise from the low levels of the last two months. Coupled with the reduction in RBI’s buying support in the bond market, it is likely that supply in bonds will lead to higher yields, in absence of any positive trigger.

Globally, the US Fed has begun tapering its bond purchases by USD 15bn per month starting November 2021 and targets completion of the process by June 2022. In his recent testimony to US Senate, Powell hinted at accelerating this tapering to complete

the process earlier, leading to expectations of a faster rate hike cycle as well, and pushing bond yields higher.

However, the sudden emergence of the “Omicron” variant, has clouded the outlook. The uncertainty with respect to its transmissibility, severity, and the degree of vaccine and natural immunity escape have dampened growth expectations. It may take a few weeks more to get a more accurate assessment of this variant, which can re-shape future expectations. In the absence of any serious disruptions in activity, we expect bond yields to continue hardening as RBI gets started on its rate hiking cycle, in addition to the liquidity absorption that is already underway. However, the Omicron variant has the potential to change the outlook and we remain cautious till we get greater clarity on this front.