MONTHLY UPDATE
OCTOBER 2021

20 YEARS
Protecting India with Pride

HDFC Life
Sar utha ke jiyo!

Oct, 2021

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

- *Warren Buffet*

Equity markets

Indices	29th Oct 2021	30th Sep 2021	1 Month Return (%)	1 Year Return (%)
BSE Sensex	59,306	59,126	0.3%	50%
S&P CNX Nifty	17,672	17,618	0.3%	52%
BSE 100	17,921	17,881	0.2%	53%
BSE Mid Cap	25,277	25,253	0.1%	70%
BSE Small Cap	27,982	28,082	-0.4%	88%

Source: Bloomberg

During Oct'21, domestic equity indices had a subdued performance - large cap and mid cap indices were flat MoM while small cap indices underperformed with BSE Small Cap Index down 0.4%. 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 50% and 52% respectively while BSE Mid cap and Small cap index were up 70% and 88% respectively.

During Oct'21, performance across the sector indices was mixed. The performance ranged from -6% to +6%. Auto and Banking sector gained the most; up 6% and 5% respectively while FMCG and Healthcare sector fell the most; down 6% and 4% each respectively. On a 1-year basis, Metals sector is the best performing sector gaining 144% followed by Realty and Utilities sector respectively. FMCG followed by Healthcare are the bottom two sectors; up 28% and 30% each respectively.

The yield of benchmark 10-year G-sec moved to 6.39% at the end of Oct'21 from 6.22% at the end of Sep'21.

Most major global equity indices were up during the month, except Shanghai Composite and Nikkei which fell 1% and 2% respectively. The NASDAQ Index rose the most, up ~7% during the month. On a 1 year basis, CAC 40 has gained the most; up 49%.

Commodities (USD)	1 Month Return (%)	One Year Return (%)
Gold	2%	-5%
Silver	8%	1%
Crude Oil	7%	134%
Copper	7%	43%
Aluminum	-5%	46%
Lead	14%	34%
Nickel	9%	29%
Tin	9%	117%
Zinc	13%	37%

Most major commodities rose during Oct'21 except Aluminum. Lead rose the most, up 14% during the month.

On a YoY basis, all the major commodities except gold have posted YoY gains. Crude Oil has appreciated the most.

Source: Bloomberg

Macro Economic Data

Indicators	Jul-21	Aug-21	Sep-21	Oct-21	Comments
IIP (YoY, %)	11.5%	11.9%			Industrial output grew 11.9% yoy in Aug'21 vs. 11.5% yoy increase in Jul'21. The recovery is broadbased as Mining, manufacturing and electricity recorded growth of 23.6%, 9.7% and 16%, respectively.
Core Sector (YoY, %)	9.9%	11.6%	4.4%		Core sector output grew 4.4% in Sep'21, following 11.6% growth in Aug'21. The recovery was driven by coal output (up 8.1% yoy), natural gas output (27.5% yoy) and cement output (10.8% yoy). However, output of crude oil declined by 1.7% yoy and electricity generation witnessed only a 0.3% yoy rise in Sep'21 vs 16% yoy rise in Aug'21.
RBI monetary policy (Repo Rate) (%)	4.00	4.00	4.00	4.00	RBI kept repo rate unchanged at 4% as on Oct'21. However, it has stopped the liquidity infusion measure of GSAP.
CPI inflation (%)	5.59%	5.30%	4.35%		CPI inflation moderated to 4.35% yoy in Sep'21 from 5.3% yoy in Aug'21 primarily led by the fall in food inflation to 1.6% yoy in Sep'21 from 3.8% yoy in Aug'21.
Trade Deficit ($, bn)	-11.0	-13.8	-22.9	-19.9	In Oct'21, exports grew by 42.3% yoy to $35.5bn, while imports grew by 62.5% yoy to $55.4bn, as a result trade deficit narrowed to $19.9bn in Oct'21 vs. $22.9bn in Sep'21.
GST Collection ($, bn)	1,164	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)	-1.51	0.28	1.79	-1.81	On equity side, FPIs sold $1.81bn in Oct'21, following an inflow of $1.79bn in Sep'21. On debt side, FII sold $0.21bn in Oct'21, following an inflow of $1.74bn in Sep'21.
FII Flows-Debt ($, bn)	-0.11	1.63	1.74	-0.21	
Exchange Rate (INR/USD)	74.39	73.15	74.25	74.88	Indian Rupee depreciated by 0.9% against the dollar during Oct'21, as it closed at 74.88 in the end of Oct'21 from 74.25 at the end of Sep'21.
GDP (%)					Real GDP grew by 20.1% in Q1 FY22 vs. 1.6% growth in Q4 FY21 led by the sharp jump in investment (56.7% in Q1 FY22 vs. 13.8% Q4 FY21)and HH consumption (19.3% in Q1 FY22 vs. 2.7% in Q1 FY21)

Outlook

Global equity markets outperformed India in October with developed markets taking the lead. Rally in developed markets was broad-based with US S&P 500 being the strongest at 6.9% while European markets were up between 2-5%. MSCI Emerging markets, on the contrary, was up only 0.9% compared to MSCI World at 5.6%.

Metal prices presented a mixed picture. On one hand, Aluminum and HR Steel prices were down 5% each; on the other most of the remaining metals had a strong rally with Lead and Zinc leading the way with appreciation of 13.9% and 13.1%, respectively while Copper, Nickel and Tin were up between 6.3-8.7%. Crude oil has been on a boil for some time now and it moved up a further 6.5% to US$84 per barrel now. This is a major concern for a large importer like India with implications for external account as well as domestic inflation.

Inflation is emerging as a problem not just for India but also for several other economies. This has led to calls for faster policy normalization, especially when economic data in most developed countries, especially the ones that have managed to vaccinate faster like the US, has been strong. The minutes of US Fed FOMC's September meeting highlighted that the Fed could begin tapering as soon as mid-November and target a finish by Mid-2022.

It is heartening that we are in the middle of the ongoing festival season in India and as of now, the active caseload stands at a manageable 0.16mn (the cumulative number of confirmed cases stands at 34.2mn). We also crossed a key milestone of 100cr vaccine doses with a total of 1054.3mn vaccine doses having been administered till October 29 (728.9mn first doses and 325.4mn second doses).

In a major boost to India's divestment efforts, Air India was finally sold to Tata Sons. In a followup to NIP (National Infrastructure Pipeline), the Prime Minister launched "Gatishakti", a National Master Plan that attempts to break the silos of departmentalism. In the proposed Plan, all the existing and proposed economic zones would be mapped along with the multimodal connectivity infrastructure on a single platform. Individual projects of different Ministries would be examined and sanctioned within the parameters of the overall Plan, leading to synchronisation of efforts. The National Master Plan will employ modern technology for coordinated planning and ensuring timely clearances and flagging potential issues, thereby reducing time and cost overruns.

The ongoing Q2 results season has been encouraging so far with better than expected results from IT, Financials, Pharma, Consumer durables, Telecom and Cement. Auto and Consumer Staples have been below expectations but at an overall level, Nifty estimates have so far remained unchanged which is a good outcome as there was a fear of downgrades getting into the earnings season.

FII sold nearly $1.2bn worth of Equities in cash markets during October. DIIs, on the other hand, were net buyers to the extent of $22mn. For the calendar year, both FIIs and DIIs have been net buyers worth $7.3bn and $3.8bn, respectively.

Nifty earnings are expected to grow at a CAGR of 22% from FY21-23. Near term is going to be volatile given multiple headwinds, ranging from US Fed taper to a potential negative surprise on course of interest rate hikes to margins from high commodity prices. And then there is an additional uncertainty on the likely course the pandemic takes. In this overall context, valuations at 21.6xFY23 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 rose during the month in line with crude prices and US treasury yields, both of which continued to move up. The 10yr UST yield rose sharply from its previous close of 1.50% to 1.70% before cooling down and closing at 1.56%. Brent Crude Oil prices too rose to close at USD 83.60 per barrel, compared to its previous close of USD 78.6 per barrel. The biggest impact of the adverse global conditions was seen in Indian Overnight Indexed Swap (OIS) yields, where the 5yr OIS curve rose by 35bps during the month. In line with its announcement at the Monetary Policy meeting, the RBI conducted multiple Variable Reverse Rate Repos (VRRR) ranging from 3 to 14 days to absorb the excess liquidity in the system and even announced a 28day VRRR for the first time. The cut-offs for all the VRRR auctions, irrespective of the tenure, continued to come at the highest possible rate of 3.99%, just shy of the current Repo rate at 4%, again indicating RBI's tolerance for higher yields. Moreover, the absence of any fresh OMO or OT, even when the 10yr benchmark reached 6.4% yield, indicated RBI's tolerance of rising 10yr benchmark yield. The 10yr benchmark bond closed higher at 6.39% from its previous close of 6.22%.

Among data releases, India's CPI inflation cooled down to 4.35% in Sep-21 from its previous reading of 5.3% for the month of Aug-21, on account of a favorable base effect. Food Inflation cooled down to 1.6% as compared to 3.7% in the previous month. Core inflation (CPI Ex-Food Ex-Fuel) moderated slightly to 5.7% from the previous month's print of 5.8%. Headline WPI inflation came marginally higher at 10.7% YoY in Sep-21 from 11.4% YoY in Aug-21.

India's trade deficit in October came at $19.9 bn after the record high of $22.59 bn in the previous month. Among other economic data, IIP growth for August 2021 printed at 11.9% against a reading of 11.5% in July 2021. Goods and Services Tax (GST) revenue collection for October came at Rs 1,30,127 cr. India's Nikkei Markit Manufacturing PMI rose to 55.9 in Oct 2021, against 53.7 in the previous month, and the Services PMI jumped to a decade high of 58.4 in Oct from 55.2 in the previous month.

Market Outlook –

Recent data releases have been pointing to a return to pre-Covid levels of economic activity. As the economy improves, RBI is expected to gradually roll-back the accommodative policy measures. Secondly, though inflation has been softening on the back of a favorable base effect, recent rise in food prices, as also the rise in commodity prices globally, is likely to increase inflation pressures. With the favorable base effect fading off from next month, inflation is likely to rise going forward. And lastly, the reduction in RBI's buying support in the bond market, has increased the likelihood that even the reduced supply in bonds may overwhelm the markets, in absence of any positive trigger.

Globally, the US Fed is likely to begin tapering its bond purchases in the upcoming meeting at the beginning of November. Moreover, the rising commodity prices and a rise in inflation is likely to push US yields higher, adding to pressure for a rise in EM bond yields, including Indian bond yields.

The only silver lining to the outlook of rising bond yields, is the Government's fiscal balance. Fiscal deficit for H1 FY22 was at 35% of the full year deficit vis-à-vis the 80% or higher levels seen in the past. This provides a buffer to the Government to be able to meet its deficit target, even if the high-ticket disinvestment targets are not realized in the current year. Continued fiscal prudence can lead to lower market borrowing, thereby easing the supply side pressures. However, any relief on this front is likely to be back-ended as measures such as excise duty cut, additional expenditure, etc can reduce the surplus. Secondly, any positive confirmation on the inclusion of domestic bonds in any of the global bond indices, will be positive, as the inclusion is expected to lead to a large amount of FPI demand for bonds. However, the process is quite long drawn and may only fructify next year, with limited impact in the current year. We expect bond yields to continue hardening, especially at the short end of the curve, as RBI starts raising policy interest rates soon, in addition to the liquidity absorption that is already underway.