

MONTHLY UPDATE

SEPTEMBER 2022



Sep, 2022

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

- Warren Buffet

Equity markets

Indices	30 th Sep 2022	31 st Aug 2022	1 Month Return (%)	1 Year Return (%)
BSE Sensex	57,427	59,537	-4%	-3%
S&P CNX Nifty	17,094	17,759	-4%	-3%
BSE 100	17,575	18,222	-4%	-2%
BSE Mid Cap	24,854	25,408	-2%	-2%
BSE Small Cap	28,453	28,651	-1%	+1%

Source: Bloomberg

During Sep'22, domestic equity indices were weak – Large cap indices fell 4% MoM while the Small and Mid cap Indices outperformed, down 1-2% MoM each. On a 1-year basis, the Large Cap indices have underperformed the Mid and Small cap indices. Over the past one year, Sensex and Nifty were down 3% each while BSE Mid cap and Small cap index were down 2% and up 1% respectively.

During Sep'22, performance across the sector indices was mixed. The performance ranged from -9% to +1%. FMCG and Healthcare sector outperformed the most; up 1% each while Utilities and Real Estate sector underperformed; down 9% MoM respectively. On a 1-year basis, Utilities sector is the best performing sector gaining 48% followed by Auto and Capital Goods sector respectively. IT and Real Estate are the bottom two sectors; down 20% and 18% each respectively.

The yield of benchmark 10-year G-sec moved to 7.4% at the end of Sep'22 from 7.19% at the end of Aug'22

Global equity indices fell during the month. The HANGSENG and NASDAQ Index were the worst performing indices, down 14% and 10% each respectively during the month while the FTSE fell the least, down 5% MoM. On a 1 year basis, FTSE fell the least, down 3% YoY.

Commodities (USD)	1 Month Return (%)	One Year Return (%)
Gold	-3%	-4%
Silver	+6%	-12%
Crude Oil	-9%	12%
Copper	-3%	-17%
Aluminum	-8%	-24%
Lead	-2%	-9%
Nickel	-2%	17%
Tin	-10%	-41%
Zinc	-14%	+1%

Most major commodities fell during Sep'22. Zinc and Tin fell the most, down 14% and 10% each, respectively.

On a YoY basis, most major commodities have posted YoY declines. Nickel has appreciated the most up 17% YoY.

Source: Bloomberg

Macro Economic Data

Indicators	Jun-22	Jul-22	Aug-22	Sep-22	Comments
IIP (YoY, %)	12.7%	2.4%	-	-	Industrial output grew by 2.4% yoy in Jul'22 vs. 12.7% yoy growth in Jun'22, mainly led by the increase in electricity output (2.3% yoy in Jul'22) and Manufacturing output (3.2% yoy in Jul'22)
Core Sector (YoY, %)	13.2%	4.5%	3.3%	-	Core sector output grew by 3.3% yoy in Jul'22 led by the increase in coal output (7.6% yoy), refinery products (7%) and fertilizers (11.9%).
RBI monetary policy (Repo Rate) (%)	4.90	4.90	5.40	5.90	RBI increased the repo rate by 50bps to 5.9% in Sep'22 vs. 5.4% in Aug'22. RBI has increased the Repo rate by 190bps in the CY22 YTD.
CPI inflation (%)	7.0%	6.7%	7.0%		CPI inflation increased to 7% in Aug'22 from 6.7% in Jul'22, led by the jump in food inflation from 6.7% in Jul'22 to 7.6% in Aug'22
Trade Deficit (\$, bn)	-24.2	-30.0	-28.7	-26.7	In Sep'22, exports declined by 3.5% to \$32.6bn, while imports grew by 5.4% to \$59.4bn, as a result trade deficit marginally narrowed to \$26.7bn vs. \$28.7bn in Aug'22.
GST Collection (\$, bn)	1446	1490	1436	1477	Total gross GST revenue collections in Sep'22 stood at Rs. 1,477bn, following Rs. 1,436bn collection in Aug'22.
FII Flows-Equity (\$, bn)	-6.44	0.62	6.44	-0.90	On equity side, FPIs sold \$0.90bn in Sep'22, following an inflow of \$6.44bn in Aug'22. On debt side, FII bought \$0.51bn in Sep'22, following an inflow of \$0.48bn in Aug'22.
FII Flows-Debt (\$, bn)	-0.18	-0.26	0.48	0.51	
Exchange Rate (INR/USD)	78.94	79.42	79.72	81.55	Indian Rupee depreciated by 2.25% during Sep'22, as it closed at 81.55 in the end of Sep'22 from 79.72 at the end of Jul'22 per dollar.
GDP (%)	13.5%	-	-	-	Real GDP grew by 13.5% in Q1 FY23 led by the sharp increase in investment (19.3% in Q1 FY23) and HH consumption (25.9% in Q1 FY23)

Outlook

The bullish market sentiments of July and August reversed in September with Nifty correcting by 3-4%. Nonetheless, Q2FY23 has been better with Nifty moving up by 8%, largely recouping the Q1FY23 loss. Nifty has significantly outperformed its peers in Q2FY23. Globally, most markets are below their June lows, but Nifty is still 10% above the same. While Indian economy is doing relatively better, it remains to be seen if this outperformance can sustain.

On the global front, Fed raised rates by 75bps and reiterated its hawkish stance. They mentioned that they need compelling evidence of disinflation before changing course. As a result, they have increased their end 2022 rate guidance by 100bps and are guiding for another 125bps, this despite marking down their Q4 GDP growth projections. In a nutshell, Fed is fine with keeping growth under check to curb inflation. Such hawkish Fed stance amid slowing global growth has its impact in global asset markets with unprecedented volatility in global currency, bond and equity markets.

On the domestic front, RBI raised rates by another 50bps, which was largely on expected lines. However, unlike Fed RBI was less hawkish. It noted that growth impulses are broadening and hence it has upgraded its H2FY23 real GDP growth forecast. On the inflation front, it retained its FY23 forecast of 6.7% with risks being largely balanced. However, it mentioned that outlook is getting clouded by uneven rainfall, and pick up in services. Nonetheless, unlike western world India is relatively better placed both on growth as well as inflation.

On the high frequency data there is a clear divergence between domestic and external recovery. Domestic high frequency data remains strong as seen in car sales (>20% YoY in Q2FY23), credit growth (9 year high), GST collections of INR1.47tn (26% YoY) and record home registrations. However, exports are slowing down, which in turn is weighing on industrial trade and activity. While, global slowdown could weigh on some segments of growth in Indian economy as well, we think domestic demand should be relatively more resilient.

While, growth is holding up there are still some concerns on the macro-stability front. CPI inflation has started to moderate, but still remains elevated at 6%+ for month of August. Also, high trade balance along with hawkish Fed is resulting in pressure on INR. Banking sector liquidity has declined sharply from INR8tn in April to ~INR0.5tn in September.

On the flows front, FIIs became net sellers again in September to the tune of USD1.4bn, after being net buyers in previous two months. DII flows turned positive to USD1.8bn in September, after outflows in August.

Going ahead, outlook is mixed. On the positive side, domestic growth is getting more broad-based. Further, commodity prices are now easing, which should lower the inflationary pressures and potential RBI tightening. Bank balance sheets are now strong and banks are focusing on growth rather than on conserving capital. However, global growth has slowed down decisively and unlike past, central banks still remain hawkish. This could weigh on growth outlook going ahead.

Nifty earnings are now expected to grow at ~15% CAGR over FY22-24. Near term is likely to be volatile given multiple headwinds from geo-political tensions and slowing growth to inflation and continued rate hikes. While we see risks of further earnings cuts, this could be cushioned by recent moderation in macro headwinds as cost pressures seem to abating with correction in crude, metals and agri-commodities prices. In this overall context, valuations after the current rally at ~18x FY24e 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

Global bond yields continued hardening in September as markets re-adjusted their rate hike expectations post the Jackson Hole commentary from the Fed and another round of interest rate hikes. On the domestic front the bond market sentiments remained supportive on expectation of inclusion of Indian bonds to Global Bond indices. An addition to the global bond indices would lead to inflows of about USD 25 – 30 bn over the period of the inclusion. India 10yr Government bond yield fell to a low of 7.07% during the month on these expectations and also aided by softening crude prices. Bonds gave up their gains towards the end of the month as global environment continued to turn adverse. The US CPI for August came at 8.3% YoY, above estimates of 8.1 % YoY. The FED hiked the policy rate by 75bps once again in its September meeting and signaled a firmer path for interest rates ahead. UK inflation remained elevated at 9.9% in the month of August, down marginally from its 40yr high of 10.1% in July. Eurozone inflation hit a new record high of 10% in the month of September'22. Brent crude prices continued to soften on fears of the aggressive rate hikes triggering a recession. Weak growth in China also weighed on oil prices Brent crude prices eased to USD 85.14 per barrel compared to its previous close of USD 95.6 per barrel.

The US 10yr yield continued to climb during the month to touch a high of 4.01% during the month but closed lower at 3.83%. The domestic 10yr benchmark bond rose sharply after the intra-month low of 7.07%, tracking the rise in global yields, closing the month at 7.40 % against 7.19% at the end of the previous month. The Indian Rupee depreciated to 81.94 / USD during the month before closing at 81.35 against 79.46 in the previous month.

India's CPI rose again to 7% for the month of August'22 from its 5-month low of 6.71% in the previous month driven mainly by higher food prices. Core inflation (CPI Ex-Food Ex-Fuel) remained flat at 6%. Headline WPI inflation eased to 12.4% YoY in August 2022 from 13.9% YoY in July 2022 led by easing of fuel prices and prices of other commodity prices.

India's trade deficit continued softening, to a still elevated figure of USD26.7 bn in September, against USD27.9 bn in August. The trade deficit widened to USD 154 bn in April-Sept this fiscal as against USD 76 bn in the same period last year. Among other economic data, IIP growth for July 2022 came at 2.4%, lower than the revised reading of 12.7% in June 2022. Goods and Services Tax (GST) revenue collection for September came at Rs 1.48lac cr. India's Nikkei Markit Manufacturing PMI fell marginally to 55.1 in September 2022, against 56.2 in the previous month, and the Services PMI eased to 54.3 from 57.2 in August. Composite PMI softened to 55.1 versus 58.2 in August 22.

Monetary Policy September 2022 Highlights –

- The RBI raised the repo rate for the fourth consecutive time by 50bp to 5.9%, following a 5:1 vote (Dr. Ashima Goyal voted for a 35bps hike), highlighting strong growth impulses and uncertainties from global factors.
- The policy stance of “withdrawal of accommodation” was left unchanged.
- The RBI changed the real GDP growth projection for FY23 to 7.0% from its previous projection of 7.2% as Q1 GDP surprised on the lower side

- The RBI kept the overall inflation projection for the current fiscal year unchanged at 6.7%.

Market Outlook –

With recent rate hike, RBI reinforced their commitment to contain inflation while balancing growth. However, going forward, RBI will have to be cognizant of global developments and rate hikes to calibrate its actions. The continued tightening of the US monetary policy coupled with higher domestic trade deficit is expected to keep the Indian rupee under pressure. The RBI will need to maintain its tight monetary policy in this environment to help support the Rupee.

The H2 borrowing calendar announced at the end of the month, had higher supply of long duration bonds. Over the last few months, banks' credit growth has significantly out-stripped deposit growth. This trend is likely to constrain banks' appetite for additional GSec purchases, thus curtailing some of the demand. Additionally, the global bond index managers continued to maintain India on the watch list and have not added it to the respective indices, dashing hopes of additional demand for bonds. We expect that yields are likely to trade within a range in the near term, though with an upside bias.

However, we remain watchful of developments on the global inflation and growth data. Any cooling of growth and inflation indicators, after the series of sharp rate hikes, can lead to markets pricing in a 'pivot' from the Central banks and bonds yields cooling off thereafter.