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## Macro-economic developments

- As per the World Economic Outlook report published by IMF in October 2021, the global economic recovery is continuing, even as the pandemic resurges in most part of the world. The global economy is projected to grow at 5.9% in 2021 and 4.9% in the subsequent year. For India IMF maintained GDP growth forecast for FY22 at 9.5% and 8.5% for FY23.
- In the November 2021 meeting the Federal Reserve announced that it will begin the tapering pace of its asset purchase later in November. On a monthly basis there will be reduction of $15 billion. This move was in line with the market expectations. Before this, the US Fed was doing a monthly purchase of $120 billion as a part of its quantitative easing programme. The US benchmark 10 Year treasury yield increased to a high of 1.69% in October from 1.46% at the end of September and finally closed the month by up 7 bps.
- The US GDP grew at a 2% quarter-on-quarter (annualized) rate in Q3 CY21, below market expectations. The deceleration in the GDP number in the third quarter was more than accounted for by a slowdown in PCE (Personal Consumption Expenditure). A resurgence of COVID-19 cases resulted in new restrictions and delays in the reopening of establishments in some parts of the country.
- The Indian government cut the excise duty on petrol and diesel by INR 5 & INR 10 per litre respectively. Following the Centre's decision, most of the states have also reduced the VAT they charge locally on auto fuel. This move will have a curbing effect on the government's revenue. However, it would be a breather for retail consumers and in short run it may give extra space to ease out inflation to some extent.
- India's current account balance recorded a surplus of US$ 6.5 billion (0.9% of GDP) in Q1 of FY22 as against a deficit of US$ 8.1 billion (1% of GDP) in Q4 FY21 and a surplus of US$ 19.1 billion (3.7% of GDP) in Q1 of FY21. The surplus in the current account in Q1 of FY22 was mainly due to contraction in the trade deficit to US$ 30.7 billion from US$ 41.7 billion in the preceding quarter as well as improvement in net services receipts
- According to preliminary data released by the government, India's merchandise trade deficit was $22.94 billion in Sep 2021. Merchandise exports rose $33.44 billion in Sep from $27.56 billion in the same period last year, while imports rose $56.38 billion in Sep from $30.52 billion last year
- The consumer price index based inflation touched five-month low of 4.35% in Sep 2021--slower than 5.59% in the prior month due to sharp slowdown in food prices. Food inflation further moderated to 0.7% in Sep 2021 from 3.1% in the previous month. However, the inflation rate in fuel increased to 13.63% in the reported month from 12.94% in the previous month. Core CPI (ex-Food, & beverages, fuel) Inflation remain elevated as it rose to 5.9% in September from 5.8% in the previous month.
- IHS Markit Purchasing Managers' Index (PMI) rose to 55.9 in October--expanding for the fourth consecutive month even as it stayed below the February 2021 reading of 57.5. India's manufacturing activity gained momentum in October, hitting a seven-month high, as companies scaled up production in anticipation of improvement in demand. Services PMI has also risen to 58.4 in October compared to 55.2 in the previous month.
- The Union Cabinet has approved the PM GatiShakti National Master Plan, which includes a multi-modal connectivity implementation, monitoring, and support mechanism. The Prime Minister announced a ₹100 lakh crore national master plan for multi-modal connectivity in order to enhance infrastructure and lower logistic costs while also boosting the economy. Its goals include lowering logistic costs, increasing cargo handling capacity, and shortening turnaround times.
- Brent crude oil price witnessed a sharp rally during the month as it gained around 7% to close the month at above $84/bbl. However due to increase in the U.S. crude inventories it registered marginal fall at the end of the month.
- Indian rupee depreciated around 0.9% against the US dollar in the month of October 2021 and was a relative underperformer within peer Asian currencies during the month.

## Equity market developments and Outlook

- After seeing an initial gain till mid of the month, the benchmark Nifty 50 index closed on a flattish note with a marginal gain of 0.80%. The broader markets indices viz. Nifty Midcap 50 index and Nifty Smallcap 100 delivered +2.8% & -1.1% respectively in October.
- The top sectoral performers during the month of October 2021 were Auto, Consumer Durables, Bank, Power, Capital Goods while FMCG, Healthcare Index, Realty, IT, Oil and Gas & Metal were among the bottom performing sectors.
- Global markets extended gains as the MSCI world index returned 5.6% in October. Developed markets outperformed emerging and Asian markets.
- For the US markets, the benchmark S&P 500 index recorded a gain of 6.9% during the month. Within Europe, major markets like Germany, UK and France also gained 2.8%, 2.1% & 3% respectively. Within Asian markets Indonesia, Singapore & Hong Kong topped the charts while markets like China, Japan & South Korea underperformed in October.
- Foreign portfolio investors (FPIs) flows recorded a net equity outflow of ₹16,584 crores in the month of October compared to a net equity inflow of ₹8,348 crores in the previous month.
- Domestic Institutional Investors (DIIs) inflow slowed down a bit, but they remained a net buyer of ₹4,471 crores in the month of October compared to net inflow of ₹5,949 crores in the previous month.
- Q2 FY22 quarterly results have largely been in line with expectations, despite higher input cost impacting margins especially in certain sectors like Auto. Earnings upgrades in the global commodity sectors have offset moderate downgrades in domestic consumption sectors.
- Despite the elevated valuations, the corporate earnings recovery, healthy pick-up in economic activity post the second wave and global liquidity-has helped markets remain buoyant and touch new record highs. We expect corporate earnings and economic recovery to be healthy going forward. Factors like major central bank action/stance on interest rates and commodity prices may cause some volatility in the short term.
- Investors can continue to invest systematically in the equities. Any market volatility/dips can be used as an opportunity by them to increase their equity exposure gradually (as per their individual risk profile)

## Fixed Income market developments and Outlook

- Bond yields rose during the month due to liquidity normalization measures announced by the RBI, rising crude oil prices and expectation of US Fed taper which caused some hardening of global bond yields.
- Yield on the 10-year benchmark paper (6.10% GS 2031) rose to close at 6.39% as compared to the previous month close of 6.22% - up 17 bps. Post the close of the month, bond yields softened a bit on the back of excise duty cut in fuel.
- The key highlights of the RBI Bi-Monthly Monetary Policy in October 2021 were as follows:
  - ➢ The Repo & Reverse Repo rates remain unchanged at 4.00% & 3.35%, respectively. Bank rate & Marginal Standing Facility rate were also unchanged at 4.25%. CRR is maintained at 4.00% of Net Demand and Time Liabilities (NDTL)
  - ➢ GDP Growth for FY22 is maintained at 9.5%. For Q2FY22, it is projected to be 7.9% (against 7.3%); 6.8% for Q3FY22 (against 6.3%); and maintained at 6.1% for Q4FY22. Real GDP growth for Q1FY23 is maintained at 17.2%
  - ➢ CPI inflation is projected at 5.3% for FY22 (against 5.7% in the previous policy); 5.1% for Q2FY22 (5.9% earlier); 4.5% for Q3FY22 (against 5.3% in previous policy); and maintained at 5.8% for Q4FY22 with risk broadly balanced. CPI inflation for Q1FY23 is projected 5.2% (against 5.1% earlier)
  - ➢ RBI announced calendar for conducting fortnightly Variable Rate Reverse Repo (VRRR) auctions of INR 4.5 Trillion (Oct 22nd 2021). INR 5 Trillion on Nov 3rd 2021; INR 5.5 Trillion & INR 6 Trillion on Nov 18 2021 & Dec 3 2021, respectively
  - ➢ The RBI may also consider complementing the 14-Day VRRR auctions with 28-Day VRRR auctions in a similar calibrated fashion
  - ➢ Taking into account the rising popularity of the Immediate Payment Service (IMPS) mode of money transfer, the Reserve Bank of India (RBI) has increased the transaction limit from ₹2 lakh to ₹ 5 lakh
  - ➢ The Monetary Policy Committee (MPC) of the RBI voted unanimously in favour of keeping the policy repo rate unchanged. The MPC also decided, with 5 to 1 majority, to continue with the accommodative stance for as long as deemed necessary to revive and sustain growth on a durable basis and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward
  - ➢ The RBI has retained its growth projection at 9.5% for FY22 led by signs of recovery in all sectors of the economy and fast pace of vaccination
  - ➢ The risks to this growth are resurgence of a third wave in the coming months, high crude oil prices, and any slowdown in exports can cause a moderation in global economic activity for short-term
- Gross GST revenue in October stood at INR 1,30,127 crore, a 24% year-on-year jump and a 36% increase over October 2019. Collections of the indirect tax, widely seen as an improved economic activity, have exceeded INR 1 lakh crore for the fourth month in a row, after they plunged below the benchmark in June due to the devastating second wave of Covid-19
- Foreign Portfolio Investors (FPIs) flows in debt markets slowed down to a net inflow of ₹854 crores in the month of October 2021, compared to a net inflow of ₹10,949 crores in the previous month
- The RBI's priority is to still provide impetus to support the economic growth recovery. We expect that the RBI will continue to intervene to support bond yields and keep them in check, to ensure an orderly and efficient completion of the large market borrowing programme. Therefore, we believe that the central bank will continue to be accommodative for some time (at least through this calendar year), with an eye on the inflation trajectory.
- From an investment perspective we prefer the shorter to medium term part of the yield curve.

Ver: Oct 2021