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Macro-economic developments

- The U.S. Federal Reserve Chief Jerome Powell during Congressional testimony indicated that it may taper its monthly asset purchase program at a quicker pace which led the U.S. equity markets fell as fears about the new Covid variant, omicron dampened market sentiments amid reports that Covid-19 vaccines are likely to be less effective against Omicron. The US benchmark 10 Year treasury yield increased to a high of 1.67% in November from 1.57% at the end of October and finally closed the month by down 12 bps at 1.45%.
- Core US PCE inflation excluding food and energy increased 0.4% mom in October of 2021, in line with forecasts and higher than 0.2% in the previous month. The annual rate accelerated to 4.1% which was also in line with market expectations. Including food and energy, the PCE index rose 5%, the fastest gain since November 1990, rising inflation worries are the main source of gradual reduction stimulus the Fed is providing through bond purchases, these actions are fueling markets anticipation that the interest rates may rise sooner than expected earlier.
- India's fiscal deficit for the period from Apr to Oct 2021 stood at ₹5.47 lakh crore or 36.3% of the budget estimate for FY22 as compared to 119.7% in the corresponding period of the previous fiscal. Tax revenue stood at ₹10.53 lakh crore or 68.1% of the budget estimate for FY22 as compared to 35.2% in the corresponding period of the previous fiscal. Total expenditure stood at ₹18.27 lakh crore or 52.4% of the budget estimate for FY22 as compared to 54.6% in the corresponding period of the previous year. Total receipts stood at ₹12.80 lakh crore or 64.7% of the budget estimate for FY22 as compared to 31.5% in the corresponding period of the previous year.
- The index of eight core industries grew 7.5% in Oct 2021 as compared to a growth of 4.5% in Sep 2021 and 0.5% contraction in Oct 2020.
- India's merchandise exports in November rose by 26.49 per cent to USD 29.88 billion on account of healthy growth in sectors such as engineering, petroleum, chemicals and marine products, according to provisional data released by the government on Wednesday. The exports stood at USD 23.62 billion in November 2020. Imports in November were at USD 53.15 billion, an increase of 57.18 per cent over USD 33.81 billion in the same month of 2020, leaving a trade deficit of USD 23.27 billion.
- India's Manufacturing Purchasing Managers' Index (PMI) rose to 57.6 in Nov 2021 from 55.9 in Oct 2021. Manufacturing activity increased to a ten month high in Nov due to high domestic demand.
- The Central Board of Indirect Taxes and Customs notified the hike in Goods and Service Tax (GST) rate from 5% to 12% on fabrics, apparel and footwear with effect from 01, Jan 2022. The proposed increase is intended to address the problem of Inverted Duty Structure that a tiny sector of the textile value chain is experiencing, as mentioned at the GST Council's 45th meeting.
- Brent crude oil price witnessed a sharp decline during the month as it fell around 17% due to the growing concerns over the new COVID-19 variant and demand plunged worldwide, it closed at $70.57/bbl.
- Indian rupee depreciated around 0.4% against the US dollar in the month of November 2021, relatively a better performer 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 fell -3.9%. The broader market indices Nifty Midcap 50 index and Nifty Smallcap 100 have also delivered negative returns of -3.8% & -1.1% respectively in November.
- The top sectoral performers during the month of November 2021 were Power, IT, Healthcare & Capital Goods, while Metal, Bank, PSU, Auto, Realty, Oil and Gas & FMCG were among the bottom performing sectors.
- Developing concerns over the new COVID-19 variant, led most of the global indices to deliver negative returns. MSCI world index returned -2.3%.
- For the US markets, the benchmark S&P 500 index returned -0.83% during the month. Within Europe, major markets like Germany, UK and France also fell -3.6%, -2.5% & -1.6% respectively. Within Asian markets only Taiwan & China markets closed in green while Russia registered the lowest -11% return in the month of November.
- Foreign portfolio investors (FPIs) flows recorded a substantial reduction in net equity outflow of ₹ 5,710 crores in the month of November compared to a net equity outflow of ₹16,584 crores in the previous month.
- Domestic Institutional Investors (DIIs) inflows were very strong at ₹ 30,560 crores compared to net inflow of ₹ 4,471 crores in the previous month.
- Despite the prevailing uncertainty over the new COVID variant, we expect that the economic recovery will continue to be healthy going forward. Factors like major central bank action/stance on interest rates, rising inflation, commodity prices and third wave may dampen the market sentiments which can eventually 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 remained flattish during the month in anticipation of early US rate hike, low crude oil prices and developing worries over new COVID-19 variant.
- Yield on the 10-year benchmark paper (6.10% GS 2031) fell to close at 6.33% as compared to the previous month close of 6.39% - down 6 bps. Post the close of the month, bond yields are trading on a flattish note.
- India's GDP witnessed a growth of 8.4% in the second quarter of FY22 as compared to a contraction of 7.4% in the same period of the previous year.
  - Private consumption (PFCE) growth at 9% YoY vs. -11% last year; Sequential growth of 9% vs. 17% decline in the previous quarter due to COVID-19 second wave
  - Government expenditure registered 9% YoY growth vs. -24% last year. Weakened by 14% QoQ vs. 8% decline in the previous quarter. It is expected that the Q3 would be better than Q2.
  - GFCF (investments) growth was strong at 11% YoY and it improved by 12% sequentially. Exports/Imports registered 20%/41% YoY growth; Exports strengthened by 9% QoQ and imports by 17% (higher oil prices and strong non-oil imports).
- Q2FY22 GVA at 8.5% vs. 18.8% last quarter and -7.3% in Q2FY21
  - Industrial growth saw a 7% YoY growth led by 15% growth in mining (favourable base), 9%/6% growth in electricity/manufacturing. Sequentially, industries grew by 5% with decline in mining by 14% (due to seasonality) while manufacturing/electricity grew by 8%/5%.
  - Agriculture GVA at 4.5% YoY growth as seen in the last quarter vs. 3% a year ago. Similar seasonal decline of 16% QoQ as seen in Q2FY21.
  - Services growth at 10% YoY vs. 16% last quarter. Sequential growth of 15% vs. 15% decline in the previous quarter. Trade/ hotels/ transport (heavy-weight) expectedly strengthened by 25% QoQ followed by Administrative & defence services (25%) and Construction (9%). Financial, insurance, & real estate services continued improvement for the second quarter with 7% growth vs. 19% in the previous quarter.
- Gross GST revenue in November stood at INR 1,31,526 crores, a 25% year-on-year jump. Consistent increase in collections of the indirect tax are indicating an improved economic activity and better compliance by the taxpayers contributed to this growth, have exceeded INR 1 lakh crores for the fifth straight month in a row. Market participants are anticipating the upward momentum will remain robust for the rest of the fiscal FY22.
- CPI inflation for the month of Oct 2021 accelerated a bit to 4.48% YoY (due to increase in food & Misc. Items inflation). Core inflation (ex food and fuel) moderated at 6.17%YoY in Oct 2021 compared to 6.25%YoY in June 2021. Food inflation was a big contributor in October, rising 2.6% over September. Within the food basket, vegetables alone rose 14.5% from September levels, reflecting the impact of heavy rains and fuel shortage and/or higher prices. Edible oils and sugar also added their bit as rising over 1% from September levels.
- Foreign Portfolio Investors (FPIs) flows in debt markets also increased to a net inflow of ₹ 1,151 crores in the month of November 2021, compared to a net inflow of ₹ 854 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: Nov 2021