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Macro-economic developments

- The U.S. PCE and CPI inflation reached to its 40-year highs in Jan'22 (6.1% and 7.5% respectively) while core PCE inflation (the FOMC's preferred target) surged to 5.2%, the highest since April 1983. Federal Reserve Chief, Jerome Powell n tis latest meeting indicated the 25 bps rate hike in March. This has resulted hardening in bond yields. After seeing a substantial hardening till mid of the month, the US benchmark 10-year treasury yield touched the high of 2% and closed at 1.82% at the end of February 2022.
- India's gross domestic product (GDP) grew 5.4% on a yearly basis for the quarter ended Dec 31, 2021 as compared to a growth of 8.5% in the previous quarter and a growth of 0.7% in the same period of the previous year. The growth in GDP during FY22 was estimated at 8.9% as compared to a contraction of 6.6% in FY21.
- India's fiscal deficit for the period from Apr to Jan of FY22 stood at 58.9% of the annual budget target for FY22. The fiscal deficit was 66.8% of Revised Estimate (RE) of FY21 during the corresponding period of the last fiscal. The total receipts of the government for the same period stood at ₹18.71 lakh crore or 85.9% of the Revised Estimates (RE) for FY22 as compared to 80.1% of the RE of FY21 in the corresponding period of the previous year. The tax (net) revenue so far was at 87.7% of the RE of FY22 as compared to 82% of RE of FY21 in the corresponding period of last fiscal.
- The index of eight core industries witnessed a growth of 3.7% in Jan 2022 as compared to a growth of 4.1% in the previous month and a growth of 1.3% in the same period of the previous year. The cement sector witnessed a maximum growth of 13.6% followed by natural gas sector and coal sector that grew 11.7% and 8.2% respectively. All the core sectors witnessed growth barring crude oil sector and fertilizers sector that contracted 2.4% and 2.0% respectively. For the period from Apr to Jan of FY22, the index of eight core industries witnessed a growth of 11.6% in as compared to a contraction of 8.6% in the same period of the previous year.
- India's merchandise trade deficit widened to $17.42 billion in Jan 2022 from $14.49 billion in Jan 2021. The trade deficit thus widened by 20.23%. Merchandise exports grew 25.28% YoY to $34.50 billion in Jan 2022 from $27.54 billion in Jan 2021. Merchandise imports grew 23.54% YoY to $51.93 billion in Jan 2022 from $42.03 billion in Jan 2021.
- India's Index of industrial output (IIP) grew 0.4% YoY in Dec 2021 slower than 2.2% during Dec 2020. IIP rose at its slowest rise in 10 months during the reported period. Manufacturing output contracted 0.1% in Dec 2021 while mining and electricity grew at 2.6% and 2.8%, respectively. The third wave of the pandemic led to lockdowns across the country causing disruptions in economic activities.
- The Foreign Direct Investment inflows has shown a continuous increase from US$ 45.15 billion in 2014-15 to US$ 81.97 billion in 2020-21. During the last five financial years, Foreign Direct Investment (FDI) inflows worth US$ 339.55 billion have been reported into India.
- Brent crude oil prices surged 13.27% during the month of Feb 2022. The substantial increase in prices due to persisting concerns over escalating geopolitical tensions between Russia and Ukraine. It closed at $100.99/bbl compared to the last month of $89.16/bbl.
- Indian rupee depreciated around 0.72% against the US dollar in the month of Feb 2022 and closed at INR 75.49/$, relatively a stable performer within peer Asian currencies in last few months.

Equity market developments and Outlook

- The benchmark Nifty 50 index delivered negative 3.15% return. The broader market indices Nifty Midcap 50 index and Nifty Smallcap 100 also delivered negative returns of 6.97% & 11.44% respectively in Feb 2022.
- Except Metals & Consumer Durables sectors, all other sectors delivered negative returns. Media, Realty, Oil & Gas, PSU, Auto, Banking and Financial Services were among the bottom performing sectors.
- On account of escalating geopolitical concerns between Russia-Ukraine, the MSCI world index was down 2.65% during the month of Feb 2022.
- For the US markets, the benchmark S&P 500 index fell 3.14% and closed in red during the month. Within Europe, major markets like Germany and France also delivered 6.53% & 4.86% negative returns, respectively while UK market outperformed. Within Asian markets, South Korea, China, Thailand, Malaysia, Indonesia, & Brazil markets closed in green while Russia (Till 25th February 2022), Hong Kong, India & Japan were down -34.10%, -4.58%, -3.15% and -1.76% respectively.
- Foreign portfolio investors (FPIs) outflows continued and increased to ₹37,689 crores in the month of Feb 2022 compared to a net equity outflow of ₹35,975 crores in the previous month.
- Domestic Institutional Investors (DIIs) healthy inflows continued with total inflows were ₹42,084 crores in the month of Feb 2022 compared to net inflow of ₹21,928 crores in the previous month.
- Higher commodity prices, inflation & on-going geopolitical concerns between Russia-Ukraine leading to increase in crude oil prices, may cause some market volatility in the short term. Market valuations have moderated from their highs due to recent correction, albeit it is still above the long-term average. However, the economic recovery will continue to be healthy going forward as domestic economy gradually returns to normalcy.
- 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 markets have also witnessed substantial volatility in February, bond yields continued on the rising trend during the month on the back of escalating geopolitical tensions between Russia and Ukraine led to increase in global crude oil prices which will further increase inflationary pressures. Yield on the 10-year benchmark paper (6.10% GS 2031) rose to 6.88% in the beginning of the month however moderated slightly and closed at 6.77%, compared to the previous month close of 6.68% - up 09 bps.
- The RBI in its monetary policy review kept the repo rate unchanged at 4.0%. The reverse repo rate thus remained unchanged at 3.35% and the marginal standing facility rate and the bank rate also stood unchanged at 4.25%. The MPC also decided to continue with its accommodative stance on the monetary policy. All the members of the MPC unanimously voted for keeping the policy repo rate unchanged while one member had reservations regarding continuing with the accommodative stance on the monetary policy.
    - The MPC noted that private consumption continued to remain subdued while there is some uncertainty to the future outlook due to the ongoing COVID-19 pandemic. Thus, the MPC decided to maintain status quo on its monetary policy as it is of the view that the ongoing domestic recovery is still incomplete and needs continued policy support.
    - MPC expects inflation to moderate in H1:2022-23. MPC projected retail inflation at 5.3% for FY22. Retail inflation for Q4FY22 was projected at 5.7%. Assuming that monsoons will be normal in 2022, retail inflation for FY23 was projected at 4.5% with retail inflation for Q1FY23 at 4.9%; Q2FY23 at 5.0%; Q3FY23 at 4.0%; and Q4FY23 at 4.2%.
    - MPC projected the real GDP growth for FY23 at 7.8%. Real GDP growth for Q1FY23 was projected at 17.2%, for Q2FY23 at 7.0%, for Q3FY23 at 4.3% and for Q4FY23 at 4.5%.
- The gross GST collections for the month of February 2022 was at ₹1,33,026 crore. The revenues for the month of February 2022 are 18% higher than the GST revenues in February 2021 and 26% higher than the GST revenues in February 2020. This would be the fifth time when the GST collections have crossed ₹1.3 Lakh Crore mark. The continuous robust GST collections indicate that the third COVID wave didn't impact economic activity much and collections may remain robust going forward.
- Consumer Price Index (CPI) rose to 6.01% YoY in Jan 2022 compared to 5.66% in Dec 2021 and 4.91 % in Nov 2021. This would be the highest figure registered after June 2021 (6.26%). Rise in inflation is attributable to lower base particularly in food; ex food inflation moderated to 6.4%- lowest in last 9 months. The consumer food price index (CFPI), which accounts for 39% of the CPI basket has increased from 0.68% in September 2021 to reach 5.43% in January 2022. The Core CPI marginally moderated to 6.18% from 6.19% in the previous month.
- Foreign Portfolio Investors (FPIs) registered outflow of ₹3,458 crores in the month of Feb 2022, compared to a net inflow of ₹ 4,847 crores in the previous month.
- From an investment perspective we prefer the short to medium term part of the yield curve.

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