



Macro-economic developments

- The U.S. annual inflation rate slowed more than expected to 8.5% in July of 2022 from an over 40-year high of 9.1% hit in June, and below market forecasts of 8.7%. Excluding volatile food and energy prices, core CPI rose 5.9% annually and 0.3% monthly; compared with respective estimates of 6.1% and

0.5% respectively. On a monthly basis, the consumer price index was flat as energy prices broadly declined 4.6% and gasoline fell 7.7%. That offset a 1.1% monthly gain in food prices and a 0.5% increase in shelter costs.

- The US benchmark 10-year Treasury yield remain elevated during the month. However, it accelerated 3.1% than moderated to 3% but again reached and closed at 3.2% at the end of Aug 2022, which is 50 bps up from its previous month's close of 2.7%.
- The European Central Bank (ECB) hiked its key interest rates by 75 basis points and indicated further rate hikes, prioritizing the fight against inflation. The ECB raised its deposit rate to 0.75% from zero and lifted its main refinancing rate to 1.25%, their highest levels since 2011. The ECB also revised its inflation expectations upwards - to an average of 8.1% in 2022.
- India's gross domestic product (GDP) grew 13.5% on a yearly basis for the quarter ended Jun 30, 2022 as compared to a growth of 20.1% in the same period of the previous year. During Jun 2022 quarter, Gross Value Added (GVA) agriculture grew at 4.5% while manufacturing grew 4.8%. Public administration, defense and other services, which represent government expenditure, grew 26.3% during the Jun quarter, boosting overall economic growth. Among other sectors, mining and quarrying and construction grew 6.5% and 16.8%, respectively.
- Index of eight core industries grew 4.5% in Jul 2022 as compared to a growth of 13.2% in Jun 2022 and a growth of 9.9% in Jul 2021. All sectors witnessed growth except crude oil and natural gas sector. Crude oil sector fell 3.8% and natural gas sector fell 0.3% in Jul 2022. The maximum growth was in the coal sector, which witnessed a growth of 11.4% followed by refinery and fertilizer sector growing 6.2% each.
- India's fiscal deficit stood at 20.50% of the Budget Estimates (BE) from Apr to Jul of FY23. The revenue deficit stood at 16.40% of Budget estimate. Total receipts stood at ₹7.86 lakh crore or 34.4% of the budget target as compared to 34.6% in the corresponding period of the previous year. Total expenditure stood at ₹11.27 lakh crore or 28.6% of the budget estimate as compared to 28.8% in the corresponding period of the previous year.
- India's Index of industrial output (IIP) grew 12.3% YoY in Jun 2022 slower than 13.8% rise in June 2021. As per the sectoral classification, manufacturing sector rose 12.5% YoY from 13.2% in the year ago period. Mining sector growth eased to 7.5% from 23.1% while electricity surged to 16.4% from 8.3%. According to use-based classification, growth in primary goods and consumer nondurables accelerated while slowed in capital goods, intermediate goods, infrastructure/construction goods and consumer durables.
- India Services Purchasing Managers' Index rose to 57.2 in Aug 2022 from 55.5 in Jul 2022. India's services sector accelerated in Aug 2022 on the strength of significant growth in new orders and an uptick in business activity. Stronger growth in new business, continued increases in demand, job creation, and overtime labour were the causes of the recovery in growth.
- India's Manufacturing Purchasing Managers' Index fell to 56.2 in Aug 2022 from 56.4 in Jul 2022. India's manufacturing sector continued to grow in Aug, with new orders and production reaching their highest levels since Nov 2021. In Aug, new orders were boosted by demand, driving output growth to a nine-month high. Additionally, a surge in exports and optimistic predictions for the upcoming year helped to support production numbers.
- India's merchandise exports rose 2.14% YoY to \$36.27 billion in Jul 2022. Similarly, imports jumped 43.61% YoY to \$66.27 billion in Jul 2022 due to over 70% rise in crude oil imports. Thus, trade deficit almost tripled to \$30.00 billion in Jul 2022 as against trade deficit of \$10.63 billion in Jul 2021.
- India's external debt rose 8.2% YoY to USD 620.7 billion as of Mar 2022. According to the status report on India's external debt published by the ministry, rupee-denominated debt, estimated at 31.2% of it, was the second highest, with 53.2% of it being in U.S. dollars.
- Brent crude oil prices were remained volatile however moderated substantially to 12.3% during the month of Aug

2022. The crude oil prices are still on the higher side and remained range bound during the month. Prices fell as market participants worried over the possibility of an economic recession later this year. This has led to moderation in crude oil prices, from its highs of \$123.58/bbl, it closed at \$96.49/bbl.

- Indian rupee marginally depreciated around 0.24% against the US dollar in the month of Aug 2022 and closed at INR 79.66/\$. The Indian Rupee has depreciated breaching the 80/\$ mark earlier, but has fared relatively better than a number of peer emerging market currencies. This has been on the back of active RBI intervention to keep the rupee relatively competitive. However, in last few months forex reserves in India has been moderated substantially from its high.

Equity market developments and Outlook

- August 2022 was the second consecutive month when the Indian market ended positive. The Nifty 50 Index surged 3.5% during the month. It was up 9% in July. The other market cap indices, Nifty Midcap 50 & Nifty Smallcap 100 indices outperformed large cap and delivered 5% returns each.
- On the sectoral front - Except for IT which fell 2.6% during the month, rest all other sectoral indices closed positive. Power, Capital Goods and Consumer Durables indices gained around 15%, 8% and 8% respectively.
- After a significant rise in the month of July 2022, the MSCI world index fell 4% during the month of Aug 2022. The U.S. benchmark S&P 500 index fell 4% during the month. Within Europe, major markets like UK, France & Germany also fell 2%, 5% & 5% respectively.
- Within Asian markets, only Hong Kong & China were down 1% & 2%, respectively. However, Thailand, Indonesia, Malaysia & Japan markets were up 4%, 3%, 1% & 1%, respectively.
- Foreign portfolio investors (FPIs) flows remained positive and registered a significant jump to ₹53,994 crores during the month of Aug 2022 compared to a net equity inflow of ₹6,720 crores in the previous month.
- Domestic Institutional Investors (DIIs) flows turned negative to ₹7,069 crores in the month of Aug 2022 compared to net inflow of ₹10,546 crores in the previous month.
- Amidst an environment of global growth slowdown, Indian macro-economic fundamentals are better placed on a relative basis. Though India's growth is also expected to witness deceleration in the coming fiscal year, it remains one of the fastest growing major economies in the world. Inflation in India is elevated and is only marginally higher than the RBI threshold band, which compares favorably to other developed countries where inflation is hovering at multi-decade highs. Also, the monsoon season has been normal this year, and this augurs well for controlling food inflation levels in the country.
- Investors can continue to invest systematically in equities. Any market volatility/dips can be used as an opportunity to increase their equity exposure gradually, as per their individual risk profile.

Fixed Income market developments and Outlook

- After seeing a rise in the initial part of the month, the 10-year benchmark yield remained range bound, fell marginally 2% during the month and closed at 7.18%, which is 14 bps down compared to the previous month close of 7.32%. It further moderated to 7.13% however; it again went up as currently it is trading at around 7.18% level.
- India's consumer price index-based inflation (CPI) eased to 6.71% in Jul 2022 as against 7.01% in Jun 2022, compared to market forecasts of 6.78%. However, remains well above the RBI's tolerance limit of 4-6% for the seventh consecutive month. Although CPI touched its lowest level in five months, it continued to remain above the upper limit of Reserve Bank of India's medium-term target. Consumer Food Price Index (CFPI) also eased to 6.75% in Jul as compared to 7.75% in Jun. Fuel and light inflation accelerated to 11.76% from 10.39% in Jun 2022. The Core CPI (ex food and fuel) also moderated to 10-months low to 5.79% in July.
- The Gross Goods and Services Tax (GST) collections rose to ₹1.43 lakh crore for August (for sales in July), sequentially lower than the previous month but 28.2%. Monthly GST revenues have remained above the ₹1.4 lakh crore mark for the last six months. The YoY growth in GST revenue during April-August 2022 is 33%, and is continuing to "display very high buoyancy".
- Foreign Portfolio Investors (FPIs) flows turned positive to ₹4,199 crores in the month of Aug 2022, compared to a net outflow of ₹2,318 crores in the previous month.
- From an investment perspective, we prefer the short to medium term part of the yield curve.