



Macro-economic developments

- The US government released its second estimate of 2QCY23 GDP which moderated to ~ 2.1% (seasonally adjusted QoQ change annualized) against an expectation of 2.4% (seasonally adjusted QoQ change annualized). The updated estimates primarily reflect downward revisions to private inventory investment and nonresidential fixed investment that were partly offset by an upward revision to state and local government spending.
- Personal Consumption Expenditure (PCE) Fed's preferred gauge of inflation continued to moderate in line with consensus expectation with headline printing at 3.3% YoY and 0.2% MoM while core PCE came in at 4.2% YoY and 0.2% MoM. The 10 Year US treasury yield remained volatile and ranged between 4.01% to 4.34% during the month of Aug'23 compared to 3.74% - 4.06% previous month.
- India's Gross Domestic Product (GDP) at Constant (2011-12) prices witnessed a growth of 7.8% in the first quarter of FY24. GVA growth rose by 7.8% in Q1FY24, up from 6.5% in Q4FY23. Most significant increase was noted in financial, real estate & professional services (12.2% in Q1 versus 7.1% in Q4), and public administration & defence (7.9% versus 3.1%). In the Apr-Jun quarter last year, the GDP growth rate was 13.1%. On the sectoral front, the growth of the manufacturing sector slowed to 4.7% in Q1 of FY24 from 6.1% in same quarter of previous fiscal year. However, growth of Agriculture, Forestry & Fishing improved to 3.5% in Q1 of FY24 from 2.4% in Q1 of FY23. Also, growth of Financial, Real Estate & Professional Services accelerated to 12.2% in Q1 of FY24 from 8.5% in Q1 of FY23.
- India's Index of Industrial Production (IIP) growth rose 3.7% in Jun 2023 as against rise of 12.6% in Jun 2022. Manufacturing output rose 3.1% YoY in Jun 2023. Mining output rose 7.6% and electricity output rose 4.2%, infrastructure/construction goods grew 11.3% in the reported month.
- As per Department for Promotion of Industry and Internal Trade showed, foreign direct investment (FDI) into India fell 34% YoY to \$10.94 billion in the Jun quarter of 2023. Inflows fell in the areas of trading, automobiles, pharma, and computer hardware and software. The leading industries receiving foreign investment were services and construction (infrastructure). Singapore was the top source of FDI with inflows of almost \$3 billion, followed by the Netherlands, at \$1.5 billion.
- India's manufacturing PMI increased to 58.6 in Aug 2023 from 57.7 in Jul 2023, marking its highest level since May 2023. While strong growth in new orders and output propelled India's industrial growth at its quickest rate in three months in August, job creation fell to a four-month low.
- India's services Purchasing Managers' Index (PMI) fell to 60.1 in Aug 2023 from 62.3 in Jul 2023. S&P Global India Composite PMI Output Index also cooled to 60.9 in Aug from 61.9 in Jul. In spite of increased inflationary pressures, the overall environment is still favorable, as seen by the business survey, which revealed record-breaking export levels due to strong international demand.
- India's eight core sectors grew by 8% YoY in Jul 2023 after hitting a five-month high of 8.3% in Jun 2023. All the sectors have seen positive growth on yearly basis. Coal witnessed maximum growth of 14.9% in Jul followed by steel with 13.5% growth.
- India's fiscal deficit for the period from Apr to Jul of FY24 stood at ₹ 6.06 lakh crore or 33.9% of budget estimates of the current fiscal. India's fiscal deficit stood at 20.5% of the budget estimate in the corresponding period of the previous fiscal year. Total expenditure stood at ₹13.81 lakh crore or 30.7% of the budget estimate as compared to 28.6% of the budget estimate in the corresponding period of the previous fiscal year.
- Central Government's revenue position in FYTD24 (Apr-Jul'23) is seeing some moderation as its net revenue rose by 0.7%, softening from 3.6% increase Q1FY24. Gross tax collections have also slowed to 2.8% from 3.3%. This is largely on account of steady contraction in direct tax collections (-1.1% versus -1%) and slowdown in indirect tax collections (6.9% versus 7.8%). Non-tax revenue growth also eased (99.6% versus 149.3%). on the spending front, overall expenditure growth accelerated sharply to 22.5% from 10.8% as of Q1FY24. This was due to significant jump in revenue spending (15.9% versus -0.1%). Capex growth on the other hand slowed (52% versus 59.1%).
- India's merchandise trade deficit contracted to \$20.67 billion in Jul 2023 from \$25.43 in Jul 2022. Merchandise imports fell 17.01% YoY to \$52.92 billion in Jul 2023 while merchandise exports declined 15.88% to \$32.25 billion.
- India has been witnessing deficient rainfall in the month of August and it stands at 32% below LPA compared with a 13% (above LPA) surplus rainfall received back in July. Against this, for the cumulative period, rainfall is down by 8% below LPA (6% below LPA in the previous week) compared with a surplus of 7% (above LPA) for last year. Overall Kharif sowing has inched up marginally with much higher acreage in rice. However, pulses sown area continue to lag for the same period. Below normal rains has been witnessed in Central, Southern Peninsula and Eastern region. The impact of this scanty rainfall is likely to be reflected through higher prices in the coming months.
- Brent crude oil price averaged USD86.2/bbl in Aug'23 (up 8% MoM), amid inventory drawdown in the US coupled with extension of voluntary production by Saudi Arabia until Sep'23.
- INR depreciated against USD to a record-low of 83.15/\$ on 17 Aug 2023. However, it has since stabilized. Despite this sharp

depreciation in the second-half of the month, INR has managed to gain 0.2% in this period. For the month, INR against USD is 0.6% lower. INR has performed better than its peers other Asian currencies.

Equity market developments and Outlook

- The Nifty ended 2.5% lower MoM at 19,254 in Aug'23, after scaling new highs in Jul'23. The Nifty is up 6.3% in CY23TD. Similarly, midcaps/smallcaps have outperformed largecaps and have risen 24%/26% vs. 6% rise for the Nifty in CY23TD. The 12-month trailing P/E for the Nifty is at 21.8x nearing to its LPA of 22x (1% discount). At 3.3x, the 12-month trailing P/B ratio for the Nifty is above its historical average of 3x (11% premium). The other market cap indices, Nifty Midcap 50 & Nifty Smallcap 100 were up by 3% & ~5% respectively and outperformed Large Cap.
- On the sectoral front – Oil & gas (-5%), banks (-4%) and FMCG (-2.7%) were the bottom performer, whereas consumer durables (+4.2%), IT (+2.7%) and capital goods (+2.7%) gained the most.
- The MSCI world index was down by 3% during the month of Aug 2023. The U.S. benchmark S&P 500 index fell ~2%, within Europe, major markets like UK, Germany & France also fell by 3%, 3% & 2% respectively during the month.
- Within Asian markets; most of the major markets fell, only Thailand & Indonesia closed in green with ~1% & 0.3% gain while Hong Kong, China & Singapore declined ~9%, 5% & 4% respectively in Aug 2023.
- Foreign portfolio investors (FPIs) flows remained positive but witnessing continue slow down to ₹14,295 crores during the month of Aug 2023 compared to a net equity inflow of ₹33,994 crores in the previous month.
- Domestic Institutional Investors (DIIs) flows remained positive and registered inflow of ₹14,489 crores in the month of Aug 2023 compared to net inflow of ₹7,707 crores in the previous month.
- 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

- 10-year G-Sec yield marginally down by 1bps and traded in the range of 7.15-7.25% in Aug'23 compared to 7.06-7.18% in Jul'23. The gap between short and long end curve (6month and 30 Year paper) has reduced from 50bps as on 31 Jul'23 to 34bps as on 31 Aug'23. Average system liquidity surplus was at ₹1.2 lakh crore in Aug'23 compared to ₹1.6 lakh crore in Jul'23.
- The Monetary Policy Committee (MPC) in its third bi-monthly monetary policy review of FY24 kept key policy repo rate unchanged at 6.50% with immediate effect for the third consecutive time. The standing deposit facility (SDF) rate also remains unchanged at 6.25%. All six members unanimously voted to keep the policy repo rate unchanged. The MPC also remained focused on withdrawal of accommodation to ensure that inflation progressively aligns with the target, while supporting growth. Five out of six members voted in favour of the same.
- MPC projects CPI inflation at 5.4% higher than 5.1% in the previous meeting for FY24, with Q2 at 6.2%, Q3 at 5.7% and Q4 at 5.2%. Also, real GDP growth for 2023-24 is projected at 6.5% with Q1 at 8.0%; Q2 at 6.5%; Q3 at 6.0%; and Q4 at 5.7%, with risks broadly balanced. Real GDP growth for Q1:2024-25 is projected at 6.6%.
- India's consumer price index-based inflation (CPI) rose to 7.44% in Jul'23 from 4.8% in June'23, on YoY basis. The surge was on account of 702bps jump in food inflation, led by 37.3% jump in vegetable inflation from 0.9% decline in Jun'23, on YoY basis. Barring eggs and meat, all components of food noted sharp pickup. Double digit inflation is seen for cereals (13% in Jul'23 from 12.7% in Jun'23), pulses (13.3% from 10.5%) and spices (21.6% from 19.2%).
- Core CPI (excl. food and fuel) has moderated to 5%. Considerable drop was visible for clothing and footwear (5.6% in Jul'23 from 6.2% in Jun'23, on YoY basis). Other than that, housing (9bps drop), household goods and services (33bps drop) and education (37bps drop) showed moderation in its pace.
- According to India's revenue secretary, GST receipts increased 11% to ₹1.60 lakh crore in Aug 2023 on an annual basis. This is due to increased compliance and more effective tax collection. The start of festival season may also result in greater monthly GST collections due to the rise in consumer spending on things like homes, vehicles, holidays, and other consumer goods.
- According to the latest data released by the RBI, India's foreign exchange reserves rose by \$4.039 billion, reaching \$598.897 billion for the week ending Sep 1. It should be noted that the nation's foreign exchange reserve hit an all-time high of USD 645 billion in Oct 2021. The reserves have been decreasing as the central bank uses them to defend the rupee amid pressures caused majorly by global developments.
- Foreign Portfolio Investors (FPIs) flows remained positive and increased to ₹10,259 crores in the month of Aug 2023, compared to a net inflow of ₹3,113 crores in the previous month.
- From an investment perspective, we prefer the medium to long term part of the yield curve.