Macro-economic developments

- The International Monetary Fund maintained its status of fastest-growing economy for India and raised India's FY25 growth projection to 7% from 6.8%. The latest upgrade reflects carryover from upward revisions in 2023 and considers improved prospects for private consumption, particularly in rural areas.
- The Asian Development Bank (ADB) kept its prediction for India's GDP growth at 7% for FY25, as projected in its Apr 2024 outlook and retained the inflation forecast at 4.6% for the year. According to the ADB, robust growth in industry driven by manufacturing and strong demand for construction led by housing and stronger-than-expected fiscal position of the central government could provide a further boost to growth.
- India's fiscal deficit for the period from Apr to Jun of FY25 stood at ₹ 13.57 lakh crore or 8.1% of Budget Estimates (BE) of the current fiscal. India's fiscal deficit was at 25.3% of the BE in the corresponding period of the previous fiscal year. Total expenditure stood at ₹9.70 lakh crore or 20.4% of the BE as compared to 23.3% of the BE in the corresponding period of the previous fiscal year.
- According to the Union Budget 2024-25, the government has lowered its fiscal deficit target for FY25 to 4.9% of gross domestic product from the interim budget goal of 5.1% and aims to beat its FY26 target of containing the fiscal gap at 4.5%. The government lowered its planned gross market borrowing for the fiscal ending Mar 2025 by ₹12,000 crore to ₹14.01 lakh crore in Union Budget 2024-25 from ₹14.13 lakh crore, which was announced at the time of the interim budget in Feb 2024.
- The Manufacturing Purchasing Managers' Index edged down slightly to 58.1 in Jul 2024 compared to 58.3 in Jun 2024. The latest reading indicated strong growth in Jul 2024, driven by solid demand, despite facing cost pressures. New orders and output experienced significant growth, with exports rising at the second-highest rate in 13 years.
- India's Services Purchasing Managers' Index (PMI) fell marginally to 60.3 in Jul 2024 as compared to 60.5 in Jun 2024. The services sector remained strong in Jul 2024 due to robust demand, resulting in significant job creation, despite elevated cost pressures leading to the highest selling price inflation in seven years. Composite PMI was down fractionally to 60.7 from 60.9 in the same period.
- The eight Core Industries increased by 4.0% in Jun 2024 as compared to 8.4% in Jun 2023. The production of most of the Eight Core Industries recorded growth in Jun 2024 over the corresponding month of last year except crude oil and refinery products. Coal witnessed the maximum growth at 14.8% in Jun 2024 followed by electricity with 7.7% growth.
- According to the Central Board of Direct Taxes, direct tax collections in FY25 have surged by almost 20% to ₹5.74 lakh crore, driven by personal income tax flows. This increase in revenue could provide the government with greater fiscal flexibility in the upcoming budget presentation. Additionally, corporate profits are also on the rise, as evidenced by the advance tax collections. These positive developments may have an impact on the fiscal deficit in the budget for this fiscal year.
- IIP growth in June was at 4.2% (May: 6.2%). As per the sectoral classification, manufacturing activity increased 2.6% (May: 5%), mining increased 10.3% (6.6%) and electricity production increased 8.6% (13.7%). In terms of the use-based classification, all categories registered growth, except for consumer non-durables.
- India's merchandise trade deficit widened to $20.98 billion in Jun 2024 from $19.19 billion in Jun 2023. Exports surged 2.56% to $35.20 billion in Jun 2024 from $ 34.32 billion of the same month of previous year and imports also rose by 4.99% to $56.18 billion from $53.51 billion during the same period.
- The central and state governments have collected ₹1.82 lakh crore in goods and services tax (GST) in July'24, marking a 10.3% YoY increase from ₹1.65 lakh crore in July 2023. Compared to June 2024, which recorded a total gross GST revenue of ₹1.74 lakh, July'24 saw a 4.8% increase.

Equity market developments and Outlook

- The Nifty touched a fresh high of ~25k before ending 3.9% up MoM at 24,951 in Jul'24. The index closed higher for the second successive month and recorded the second-best MoM returns in the last seven months. The Nifty is up 14.8% in CY24YTD. Midcaps and small caps outperformed large caps by 1.9% and 0.6%, respectively, in Jul'24. Similarly, in CY24YTD, midcaps and small caps have outperformed large caps and have risen 27.7% and 26.4%, respectively, vs. a 14.8% rise for the Nifty. The Nifty is trading at a 12-month forward P/E ratio of 21x, above its LPA of 20.4x (at a 3% premium). Conversely, its P/B ratio of 3.4x represents a 23% premium to its historical average of 2.8x.
- Among sectors, Technology (+13%), Healthcare (+10%), Consumer (+9%), Media (+8%), and Utilities (+6%) were the top gainers, whereas Metals (- 2%), Private Banks (-1%), and Real Estate (-1%) were the laggard MoM.
- Among the key global markets, India (+4%), Brazil (+3%), Indonesia (+3%), the UK (+2%), and the US (+1%) ended higher in local currency terms. However, Taiwan (-4%), Japan (-1%), Korea (-1%), and China (-1%) ended lower MoM in Jul'24.
- Over the last 12 months, the MSCI India Index (+37%) has significantly outperformed the MSCI EM Index (+4%). Over the last 10 years, the MSCI India Index has notably outperformed the MSCI EM index by a robust 209%.
- During the last 12 months, midcaps and small caps have gained 56% and 64%, respectively, while large caps have risen 26% only. During the last five years, midcaps have outperformed large caps by 147%, while small caps have outperformed large caps by 123%.
- India's share in the global market cap stood at 4.4%, its all-time high and above its historical average of 2.7%. India is among the top 10 contributors to the global market cap. The top 10 contributors accounted for ~81% of the global market cap as of Jul'24.
- Foreign portfolio investors (FPIs) flows remained positive with the inflow of ₹19,419 crores during the month of July '24 compared to a net equity inflow of ₹48,263 crores in the previous month.
- For the last 12 straight months, Domestic Institutional Investors (DIIs) flows have been positive and registered inflow of ₹23,486 crores in the month of July'24 compared to large net inflow of ₹1,19,172 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

- US 10Y yields ended lower by 36 bps in Jul'24 at 4.03% vs 4.39% in the last month. US PCE price index which is Fed's preferred gauge of inflation eased to 2.5% in Jun'24 from 2.6% in May'24. US Fed in its recent policy meeting unanimously voted to keep the current benchmark rates of 5.25-5.5% steady at the current juncture, in line with expectations. However, it indicated about the progress that has been made towards nearing the Central bank's target of 2%. Fed Chair stated that 'reduction in policy rate could be on table soon as next meeting in Sep'24'. According to the CME FedWatch Tool, the probability of a 25bps rate cut stands at 86.5% for Sep'24.
- Following a 25bps rate cut in Jun'24, ECB left rates unchanged in Jul'24 and highlighted they will remain data dependent. The committee noted that they will keep rate restrictive as long as needed. On inflation front, prices in Eurozone climbed up 2.65 in Jul'24 from 2.5% in Jun'24. This makes it complicated for ECB to lower rates again in the next meet scheduled in Sep'24 given the recent uptick in inflation.
- In the UK, BoE reduced the rates for the first time in the last 4-years. With the 25bps rate cut, the policy rates currently stands at 5% with a vote of 5-4. This is expected to provide relief to the households and support the housing market as the mortgage costs is expected to be lower.
- In a policy divergence from other Central Bank, BoJ as anticipated has hiked policy rate by 15 bps for the 2nd time in over 17-years moving away from the ultra-loose monetary policy. Additionally, it was also announced to lower the bond purchasing programme by half to Yen 3tn/month by Q1CY26.
- On the domestic front, India's 10Y yield eased by 8bps and traded in the range of 6.91-7.12% in Jul'24 from 6.90%-7.04% in Jun'24. 10Y yield touched the 6.91% mark, lowest in over 28-months given the favorable supply-demand dynamics. Additionally, the government in the budget had reduced its gross borrowing to ₹14 lakh crore as it plans to remain fiscally prudent with fiscal deficit target of 4.9% of GDP in FY25. The short end part of the curve has softened. The spread between 3M and 30Y edged up to 40bps in Jul'24 from 26bps in Jun'24, given the long-end part of the curve is broadly stable.
- Average system liquidity surplus in Jul'24 turned out to be ₹1,02,718 crore in Jul'24 from a deficit of ₹54,660 crore in Jun'24. However, it must also be noted that there has been some fall in banking system liquidity surplus (defined as incremental deposit-incremental credit incremental investment) to ₹70,950 crores (as of 12 Jul 2024) compared with ₹2.71 lakh crore in Jun'24. Going forward, with some easing of credit growth, liquidity will continue to get some support in the near term.
- The RBI's Monetary Policy Committee (MPC) for the 9th consecutive time kept the policy rates unchanged, by keeping repo rate steady at 6.5%, SDF at 6.25% and MSF and bank rate at 6.75%. Stance was also retained at "withdrawal of accommodation" with 4-2 vote. The MPC last raised the repo rate by 25 bps to 6.50% in its Feb 2023 meeting. On the inflation front, for FY25, RBI kept its inflation projection unchanged at 4.5%. However, increased quarterly estimates for 2QFY25 & 3QFY25 by 60 & 10 bps respectively while 4QFY25 estimate reduced by 20 bps. On the growth front, RBI maintained its FY25 GDP projection to 7.2%
- CPI inflation moderated to 3.54% in July'24 from 5.08% in June'24 mainly on the back of a high base for food inflation. Food & beverage inflation slowed to 5.1% in Jul'24 from 8.4% in Jun'24 and 10.6% in Jul'23. Core inflation stood at 3.35% up from 3.14% in June'24. The increase in core inflation mainly reflects the increase in telecom tariffs. Transport & communication inflation rose by 1.8% MoM above our estimate of a 1.3%MoM increase but was offset by a more muted increase in personal care & effects inflation (reflecting higher gold prices).
- Crude oil prices remained in the upwards trajectory due to ongoing supply-side concerns amid escalating tensions in the Middle East, however in the later part of the month it started to decline in July'24, it averaged at USD 80.63 $/bbl (significantly down 4.45% MoM) compared to an average of 78.79 $/bbl in June'24, closed at USD 77.91 $/bbl.
- In contrast to most global currencies which rose against the dollar, INR declined. It was down by (-) 0.4% in Jul'24 hovering at 83.73/$, close to its lifetime low of 83.74/$. This is also in contrast to the performance of MSCI EM index, which gained (0.3%) due to dip in DXY index. However, amongst the set of 11 currencies, which fell against the US$, it fell the least. Post the announcements made in the Union Budget, gold importers increased the purchase of dollar. Also, equity inflows were impacted as capital gain taxes were increased/rationalized. Incremental debt inflows outpaced equity inflows (following the inclusion into JP Morgan EM Bonds Index) in Jul'24 when compared with Jun'24.
- Foreign Portfolio Investors (FPIs) flows remained positive and witnessed an inflow of ₹21,864 crores in the month of July'24, compared to a net inflow of ₹17,823 crores in the previous month.
- From an investment perspective, we prefer the medium-term part of the yield curve.