Srinivas Rao Ravuri,
Chief Investment Officer

Macro-economic developments

- India's real GDP growth declined to a seven-quarter low of 5.4% in July-September 2024, significantly below the 6.7% growth in the previous quarter and 8.1% in the same period in 2023. This was also far below the market estimates of 6.5%. The slowdown was largely attributed to weaker manufacturing growth and a contraction in mining and quarrying. In its recent MPC meeting, RBI has reduced CRR (Cash Reserve Ratio) to 4% from 4.5%, the CRR cut follows a lower-than-expected Q2 FY25 GDP growth number, which prompted the RBI to revise its FY25 GDP growth projection downward to 6.6% vs 7.2% earlier projection.
- India's fiscal deficit for the period from Apr to Oct of FY25 stood at ₹7.51 lakh crore or 46.5% of the Budget Estimates (BE) of the current fiscal. India's merchandise trade deficit widened sequentially to $27.14 billion in Oct 2024 compared to $20.78 billion in Sep 2024, however, the deficit narrowed on an annual basis compared to $30.43 billion in Oct 2023. Exports surged 17.26% YoY to $39.20 billion in Oct 2024, and imports increased 3.88% YoY to $66.34 billion during the same period.
- According to the data of the Department for Promotion of Industry and Internal Trade, foreign direct equity investment (FDI) witnessed a 45% jump at $29.8 billion in the first six months of FY25. Singapore continued as the top investor with $7.53 billion FDI during Apr-Sep of this fiscal. This was followed by investment from Mauritius, Netherlands, the United Arab Emirates and the United States.
- Purchasing Managers' Index or PMI is an economic indicator, which is derived after monthly surveys of different companies. The index shows trends in both the manufacturing and Services sector. A PMI above 50 indicates growth or expansion while below 50 indicates contraction in Manufacturing and Services activity in the economy. The India's Manufacturing Purchasing Managers' Index fell to 56.5 in Nov 2024 compared to 57.5 in Oct 2024, the pace slowed slightly due to pricing pressures and competition. Whereas the Services Purchasing Managers' Index eased marginally in Nov 2024 to 58.4 as compared to 58.5 in Oct 2024. The Composite PMI, which combines manufacturing and services data, also fell to 58.6 from 59.1.
- The combined Index of Eight Core Industries increased by 3.1% YoY in Oct 2024 as compared to 12.7% growth in Oct 2023. The production of the Eight Core Industries remained mixed in Oct 2024 over the corresponding month of last year, with coal witnessed the highest rate of growth with 7.8% followed by Refinery Products with 5.2% growth, while Crude Oil fell the most by 4.8% followed by Natural Gas by 1.2%.
- The Index of Industrial Production (IIP) grew by 3.5% in October, compared to a revised estimate of 3.1% in September. This marked the second consecutive month of IIP growth, after the index contracted by 0.1% in August. In September, the industrial output had rebounded by 3.1%. The recovery in India's industrial output continued in October, driven by a climb in manufacturing and a modest pickup in mining and electricity generation.
- Gross GST collections rose by 8.5% to over ₹1.82 lakh crore in November, driven by domestic transactions. Net collections increased by 11% to ₹1.63 lakh crore after refunds, with significant contributions from CGST, SGST, and IGST. However, on monthly basis, collections dipped by approximately 2.7%, down from ₹1.87 lakh crore in October.

Equity market developments and Outlook

- Indian equity markets remained volatile in the month of November. The Nifty managed to close above the 24,100 level after falling below 23,400 during the month. Nifty closed marginally down by 0.3% whereas Mid & Small Cap indices were up 1.02% & 0.26% respectively.
- On the sectoral front, IT (+6%) was the best-performing sector, followed by consumer durables (+3%) and capital goods (+2.3%). Power, metals and oil & gas indices declined 4.3%, 2.4% and 2.3% respectively.
- Global markets ended mixed. The Philippines, Indonesia and Hong Kong declined 7.4%, 6.1% and 4.4%, respectively, whereas the US SPX (+7.5%), Singapore (+5.1%) and Australia (+3.4%) were the major gainers.
- In November, Foreign Portfolio Investors continued to sell Indian equities for second straight month, but at a slower pace vs. October's record outflows. While brief buying was seen in 2H of November, overall month saw net outflows of USD 2.6bn, driven by stretched valuations, weak quarter results and possible reallocation of global flows. Among EMs, India saw the third-highest outflows of USD 2.6bn, following Taiwan USD 8bn and Korea USD 3.2bn.
- Indian equity markets are currently grappling with an economic slowdown which was first reflected in weak corporate earnings for Q2FY25 and further corroborated by a disappointing GDP report released later in the month. This slowdown is triggering earnings downgrades, which is impacting the key driver of post-COVID market growth—strong earnings expansion.
- The situation is exacerbated by continued selling by the Foreign Portfolio Investors (FPIs) and a rise in equity supply in the primary markets through IPOs, QIPs, preferential issues, and promoter block sales. Nonetheless, strong inflows from Domestic Institutional Investors (DIIs) have helped mitigate the impact on market prices, limiting the extent of the broader market correction.
- Looking ahead, much depends on the anticipated recovery in economic activity in the second half of FY25. If the current trend of weak growth continues, it could further hamper equity market performance. However, equity remains a superior asset class in the long-term as India is on a structural growth path.
- Despite the recent correction, valuations remain elevated, as earnings have also been downgraded proportionately. At 24,610 (As on 12-Dec-2024), the Nifty50 is trading at a P/E of 23.8x FY25 earnings, which is a 26.6% premium over the 10-year average one-year forward P/E of 18.8x.
- 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

- Domestic 10Y yield was marginally down and traded in the range of 6.74-6.87% in Nov'24, broadly in the same range as last month. Most of the decline is attributable to the last trading session where it fell sharply by 9bps. This is led by weaker than expected GDP print in Q2FY25. The gap between 3M and 30Y paper rose to 54bps in Nov'24 compared to 47bps seen in Oct'24. Major realignment occurred for the 6-10Y part of the curve which moderated significantly, while short end yield remained sticky monitoring underlying domestic liquidity conditions.
- The Reserve Bank of India's (RBI) Monetary Policy Committee (MPC) has maintained policy rates for the 11th consecutive time. The repo rate remains at 6.5%, the Standing Deposit Facility (SDF) at 6.25%, and the Marginal Standing Facility (MSF) at 6.75%. The committee unanimously retained its neutral stance, emphasizing inflation alignment with targets while supporting growth.
- To ease potential liquidity stress and support economic activity, the RBI has decided to reduce the cash reserve ratio (CRR) by 50 basis points, restoring it to 4% of net demand and time liabilities (NDTL). The reduction, implemented in two tranches from December 14 and December 28, 2024, which will release ₹1.16 lakh crore into the banking system.
- The RBI acknowledged persistent food inflation pressures in Q3 but expects a moderation in Q4, supported by higher agricultural output. On this backdrop, the FY25 Consumer Price Index inflation forecast has been revised upward to 4.8% from the earlier 4.5%, reflecting these short-term pressures.
- System liquidity remained in surplus in October-November due to higher government spending, despite increased currency circulation and capital outflows. The RBI balanced liquidity via variable rate operations, ensuring alignment of overnight interbank rates with the policy rate.
- India's CPI (Consumer Price Index-based) inflation moderated in November to 5.48%, compared to 6.21% in October. Prices of food items continued to exert pressure, rising by 9.04%. The top five items showing the highest year-on-year inflation in November are garlic (85.14%), potato (66.65%), cauliflower (47.7%), cabbage (43.58%), and coconut oil (42.13%).
- INR continues to remain under pressure and traded at record low in Nov'24. It depreciated by 0.5% last month, following 0.3% decline in Oct'24. It has started Dec'24 also on a weaker note, as it has fallen even lower to 84.7/$ mark. Stronger US$ has been the key driver of this trend. In Nov'24 alone, DXY rose by 1.7%, following 3.2% rise in Oct'24. Significantly elevated US yields are supporting dollar strength. Even though US10Y yields cooled off a bit towards the end of the month, they still remain much above the 4% mark.
- Foreign Portfolio Investors (FPIs) turned positive and registered net inflows of ₹876 crores compared to an outflow of ₹4,551 crores of the previous month.
- From an investment perspective, we prefer the short – medium term part of the yield curve.