



# Market Outlook December 2020

## Inflation:

**Consumer Price Index (CPI):** CPI inflation stood at 7.61% in Oct. —the highest since May 2014—compared with 7.27% in Sep. as vegetables and pulses prices soared. Core inflation rose to 5.47% in Oct. 2020—the highest in at least a year—compared to 5.35% in Oct. 2019. Retail inflation has now stayed above the MPCs target of 4% (+/-2) for the seventh straight month.

## Deficit:

**Fiscal Deficit:** India's fiscal deficit reached 119.7% of the full-year target in the first seven months of the ongoing financial year as the coronavirus pandemic continued to be a drag on the government's finances. The gap between revenue and expenditure was at Rs. 9.53 lakh cr during Apr-Oct. The deficit stood at 102.4% of the budgeted target in the year-ago period.

## IIP and Manufacturing PMI:

**Index of Industrial Production (IIP):** After a six-month contraction India's Industrial output was back in positive territory, as it grew by 0.24% in Sep. However for Oct. the number is expected to look gloomy on the back of de-growth of just 2.5% as against revised 0.1% contraction in Sep. in the 8 core sector numbers released at the end of Nov.

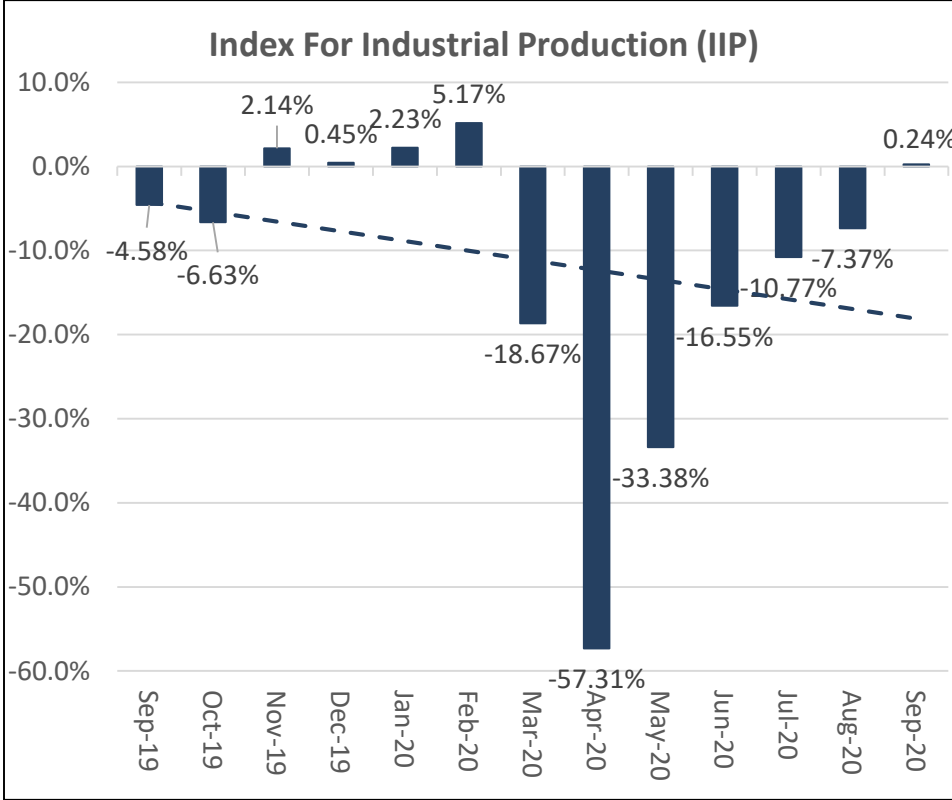
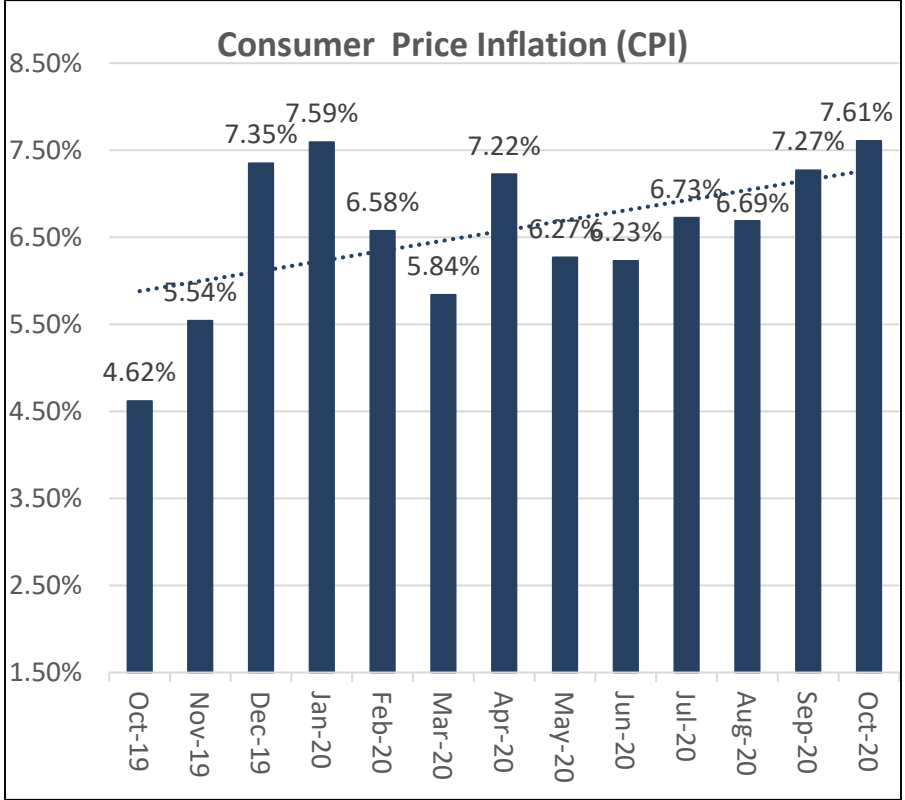
**Wholesale price index (WPI):** India's inflation measured by the WPI inched up in Oct. to an eight-month high of 1.48%, primarily because of a rise in the prices of manufactured items. This is the third straight month that WPI inflation is in positive territory after a gap of four months, when production was disrupted because of the nationwide and regional lockdowns.

**Trade Deficit:** In November, India Exports slipped by 9.07% to \$23.43 bn and Imports too dipped by 13.33% to \$33.39 bn, leaving a trade deficit of \$9.96 bn, compared a shortfall of \$12.75 bn in the same month last year. For Apr. – Nov. 2020-21 the exports declined by 17.84% Y-o-Y while imports fell by 36.56% Y-o-Y.

**Manufacturing & Services PMI:** Growth in the Indian manufacturing sector lost momentum in Nov. with the Purchasing Managers' Index (PMI) falling to a three-month low of 56.3 from an over 12-year high of 58.9 in Oct. India's Services PMI expanded for second month in a row at 53.7 in Nov. even as it fell from 54.1 in Oct.

**Retail Inflation continued to be above the upper tolerance limit of RBI of 6% for the seven consecutive month in October**

**After six consecutive months of contraction factory output gained marginally in September**

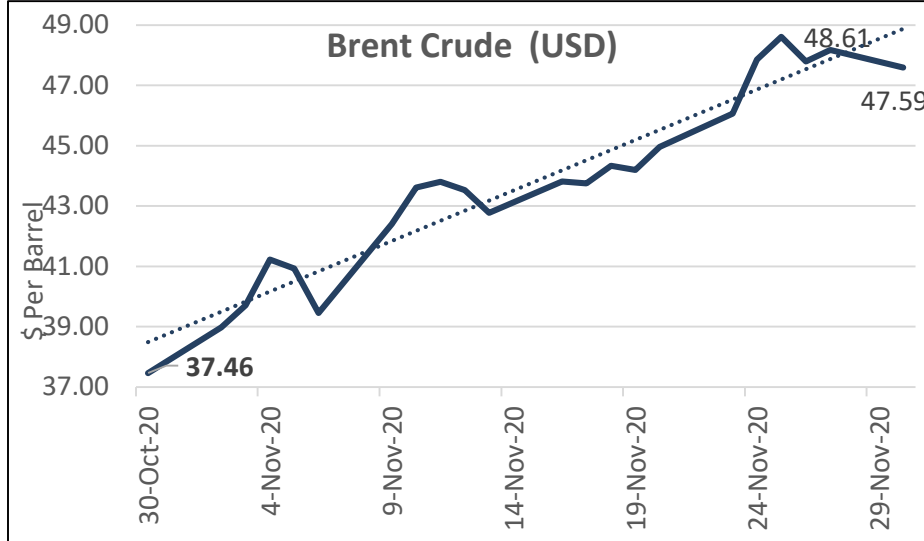
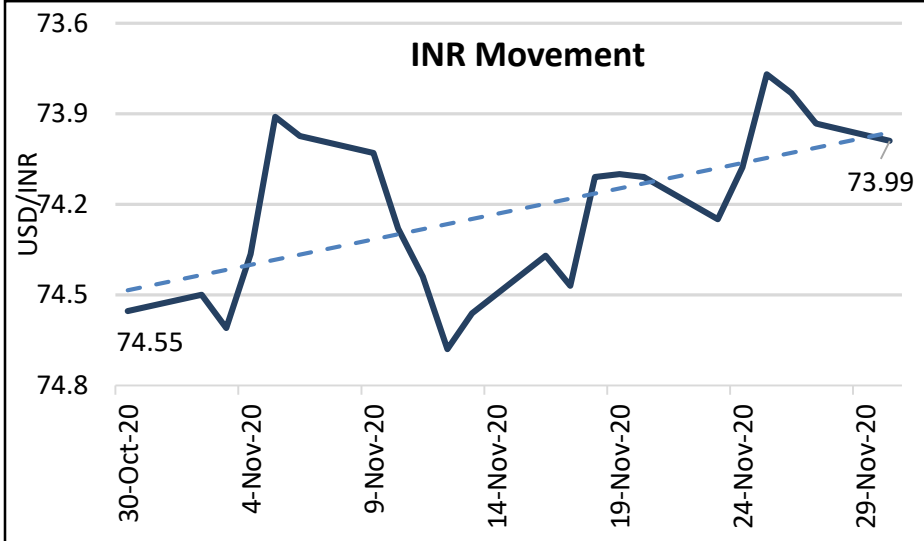


Source: DBIE, RBI

	Current	Month Ago	Quarter Ago	Year Ago
<b>Economic Indicator</b>				
Consumer Price Index (CPI)	7.61% (Oct-20) ↑	7.27% (Sep-20)	6.73% (Jul-20)	4.62% (Oct-19)
Wholesale Price Index (WPI)	1.48% (Oct-20) ↑	1.32% (Sep-20)	-0.25% (Jul-20)	0.00% (Oct-19)
Industrial Production (IIP)	0.24% (Sep-20) ↑	-7.37% (Aug-20)	-16.55% (Jun-20)	-4.58% (Sep-19)
GDP	-7.5% (Sep-20) ↑	NA	-23.9% (Jun-19)	4.4% (Sep-19)
Trade Deficit (\$ bn)	9.96 (Oct-20) ↑	2.91 (Sep-20)	4.83 (Jul-20)	12.75 (Oct-19)
<b>Commodity Market</b>				
Brent Crude (\$/barrel)	47.59 (30-Nov-20) ↑	37.46 (30-Oct-20)	45.28 (31-Aug-20)	60.23 (29-Nov-19)
Gold (\$/oz)	1,780.90 (30-Nov-20) ↓	1,879.90 (30-Oct-20)	1,978.60 (31-Aug-20)	1,496.60 (29-Nov-19)
Silver (\$/oz)	22.59 (30-Nov-20) ↓	23.65 (30-Oct-20)	28.59 (31-Aug-20)	17.28 (29-Nov-19)
<b>Currency Market</b>				
USD/INR	73.99 (30-Nov-20) ↑	74.55 (30-Oct-20)	73.25 (31-Aug-20)	71.75 (29-Nov-19)


 signifies positive movement over Q-o-Q
 
 signifies negative movement over Q-o-Q

# INR and Brent Crude Performance



**INR Performance:** The rupee appreciated to close the month at 73.99 in Nov'20 from 74.55 in Oct'20. The rupee appreciated against the greenback in the beginning of the month following a record **rise in FII flow into the domestic equity market**. It further rallied on **selling of the greenback by foreign banks**. However, gains were limited on **likely intervention by RBI through buying of greenbacks by state-run banks**.

**Brent Crude:** After a plummeting for two straight months, crude prices rose by a handsome ~27.0% in November from a \$ 37.46 per barrel to \$47.59 per barrel. Brent crude prices rose on hopes that the **COVID-19 vaccine will improve the demand outlook** of the commodity. Hopes that **OPEC and its allies will delay a planned increase in oil output** also added to the gains. However, gains were capped after data from the **American Petroleum Institute showed that U.S. crude stocks rose and increase in coronavirus infection cases** across the globe hurt the demand outlook of the commodity.



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# Equity Markets - Review

**Performance:** Indian equity market witnessed sharp rally in November. The benchmark indices **S&P BSE Sensex and Nifty 50, surged 11.45% and 11.39%, respectively**, largely helped by record high FPI inflow.

## **Domestic factors that played out for the Indian markets:**

- **Q2 FY21 earnings season was much better than expected**, with broad based beats and upgrades.
- Investors took positive cues after the **Indian manufacturing sector PMI rose to the highest level in more than a decade** in Oct 2020.
- **FPIs recorded their highest-ever monthly inflows** of USD8.3bn into Indian equities in the month of November, however, DIIs remained net equity sellers in November with outflows of USD6.5bn.
- Finance minister's fresh stimulus package of **Atmanirbhar Bharat 3.0**, spike in auto sales due to rise in demand during festive season and encouraging domestic services data also supported market.

## **Global factors that shaped the graph of the Indian markets**

- Market rose sharply following positive global news of development of **high efficacy coronavirus vaccine** and hopes for imminent availability.
- Positive global cues provided additional support to the gains after the **U.S. President elect was given the go-ahead to begin his White House transition.**
- Market sentiments were buoyed by expectations of **better global trade ties and hopes of more monetary stimulus measures by the new U.S. President-elect.**
- Investors were also keeping watchful eyes on Covid-19 cases, as in India it declined from their peak in mid-September, however, **EU and the US witnessed increase in Covid-19 cases pushing reluctant governments back into lockdowns** impacted the European economy.

**Outlook:** Equity market has witnessed sharp rally following Joe Biden's victory in US presidential election, development of potential high efficacy COVID-19 vaccine, strong FII flows & improved earnings reported by Indian companies in Q2 . **The markets have taken a large move on the upside and may consolidate at these levels before taking further direction based on economic recovery and Q3 corporate earnings.**

# Equity Dashboard – November 2020

Index	Closing Value	1-Mth Return (%)	YTD Return (%)	1 Yr Return (%)	Current Value - Trailing		
					P/E	P/B	Dividend Yield
S&P BSE Sensex	44150	11.4	7.0	8.2	31.5	2.9	0.9
Nifty 50	12969	11.4	6.6	7.6	35.7	3.7	1.2
Nifty 100	13080	11.3	6.6	7.4	36.0	3.7	1.2
Nifty 200	6728	11.8	7.6	8.2	40.2	3.5	1.3
Nifty 500	10719	11.9	8.6	9.2	40.6	3.5	1.3
Nifty Midcap 100	19715	15.5	15.3	14.5	395.9	2.6	1.8
Nifty Smallcap 100	6573	13.0	12.7	13.0	42.6	2.8	1.7

Data as on 30 Nov'20; Source: ICRA MFI, NSE and BSE website.

- During the month the **key benchmark indices touched a record high** with the **Sensex and Nifty crossing the 44,000 and 13,000 respectively**. Not only did the key benchmark indices rally, the **MidCap & SmallCap too closed the month higher** indicating the rally was more broad based.
- Investors took positive cues from a **record high manufacturing PMI** reported, **better than expected September quarter results, positive news flow in the vaccine front**, expectations of **better global trade ties** and **hopes of more monetary stimulus** measures.
- Most of the sectoral indices closed the month with significant gains with the **Metal**, metal stocks **Bankex and Capital Goods closing in gains of over 20% during the months**. While the rallied on the back of metal prices swirling up, the banking stocks were up on robust earnings numbers and Capital Goods were up on the factory output and PMI spiked.
- **While FIIs were recoded the biggest monthly flow in November, MFs were net sellers for the month**. For the calendar year and for the full year too the FII were net buyers and the MF were net sellers.

Index*	1-Mth Return (%)	YTD Return (%)	1 Yr Return (%)
Metal	24.5	-2.0	4.5
Bankex	23.7	-7.6	-6.4
Capital Goods	20.2	0.5	-2.1
PSU	16.2	-23.9	-25.1
Power	15.6	3.8	3.9
Auto	14.9	8.9	11.2
Realty	14.3	-9.6	-4.8
Consumer Durables	12.3	8.1	8.7
Oil & Gas	9.3	-10.1	-12.6
Telecom	8.7	3.9	3.8
FMCG	7.4	2.8	0.0
Health Care	5.5	51.3	49.4
IT	2.7	39.8	45.4
Energy	-2.4	12.6	10.0

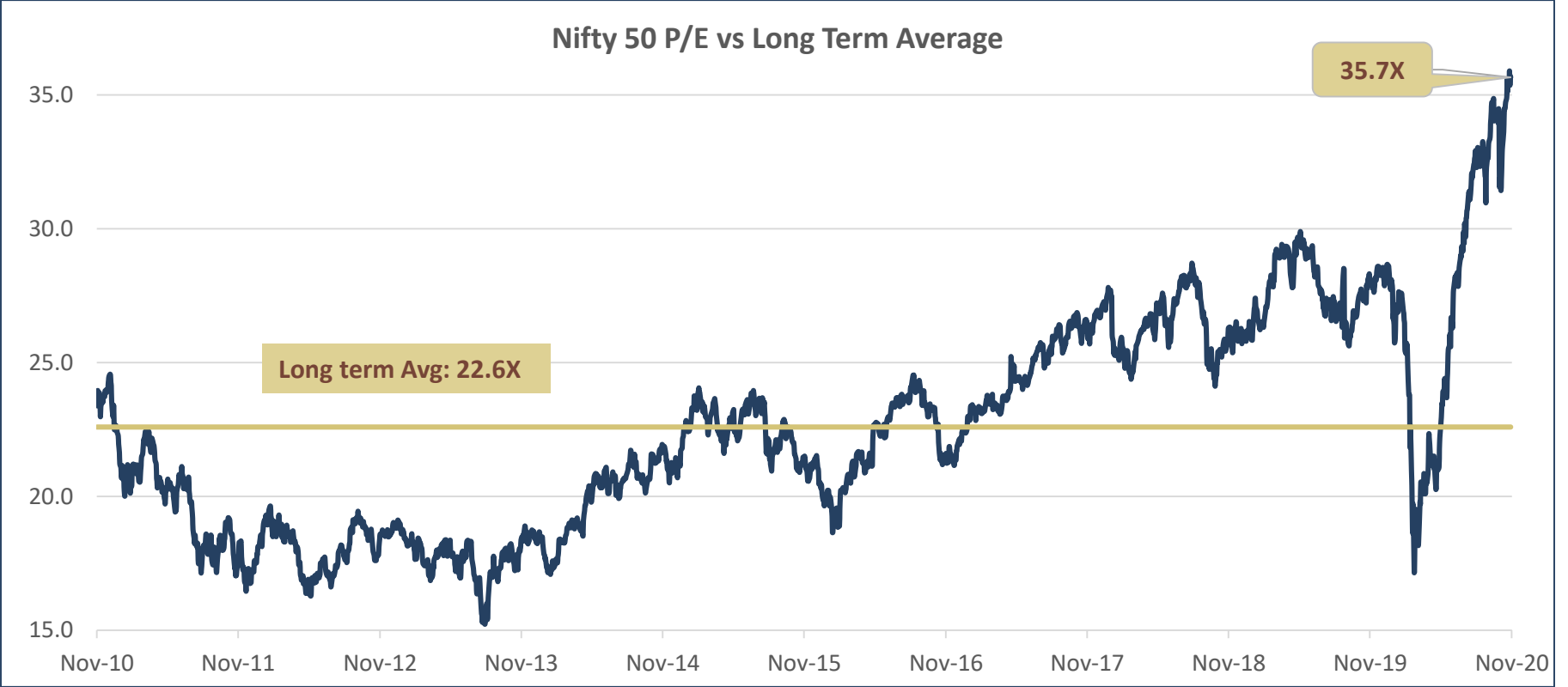
\*S&P BSE Sectoral Indices . Source: ICRA MFI

Equity Flow (Rs. Cr.)	1-Mth	YTD	1 Yr
FII	60,358	108,245	115,584
MF	-30,760	-27,581	-25,776

Source: ICRA MFI

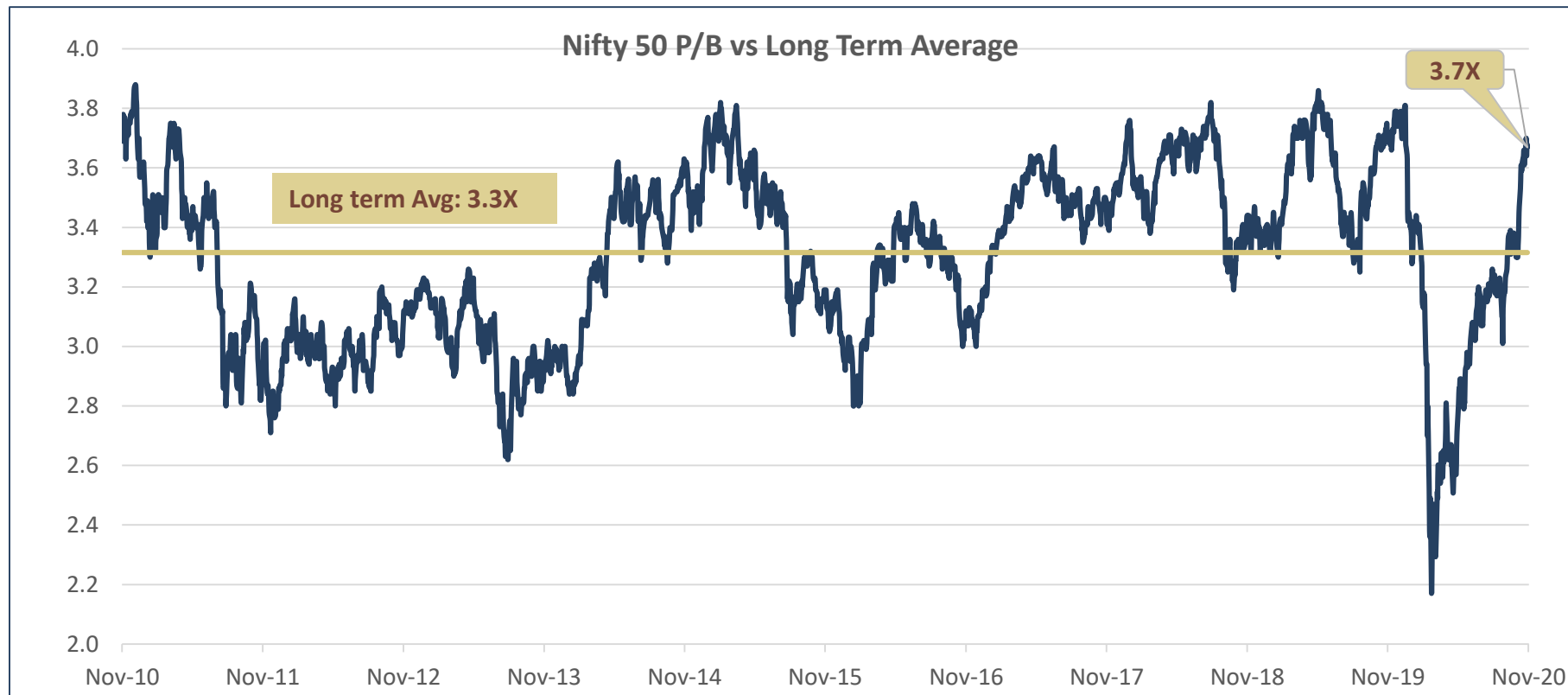


**Nifty 12-month trailing P/E of 35.7x is above its historical long term average of 22.6x**

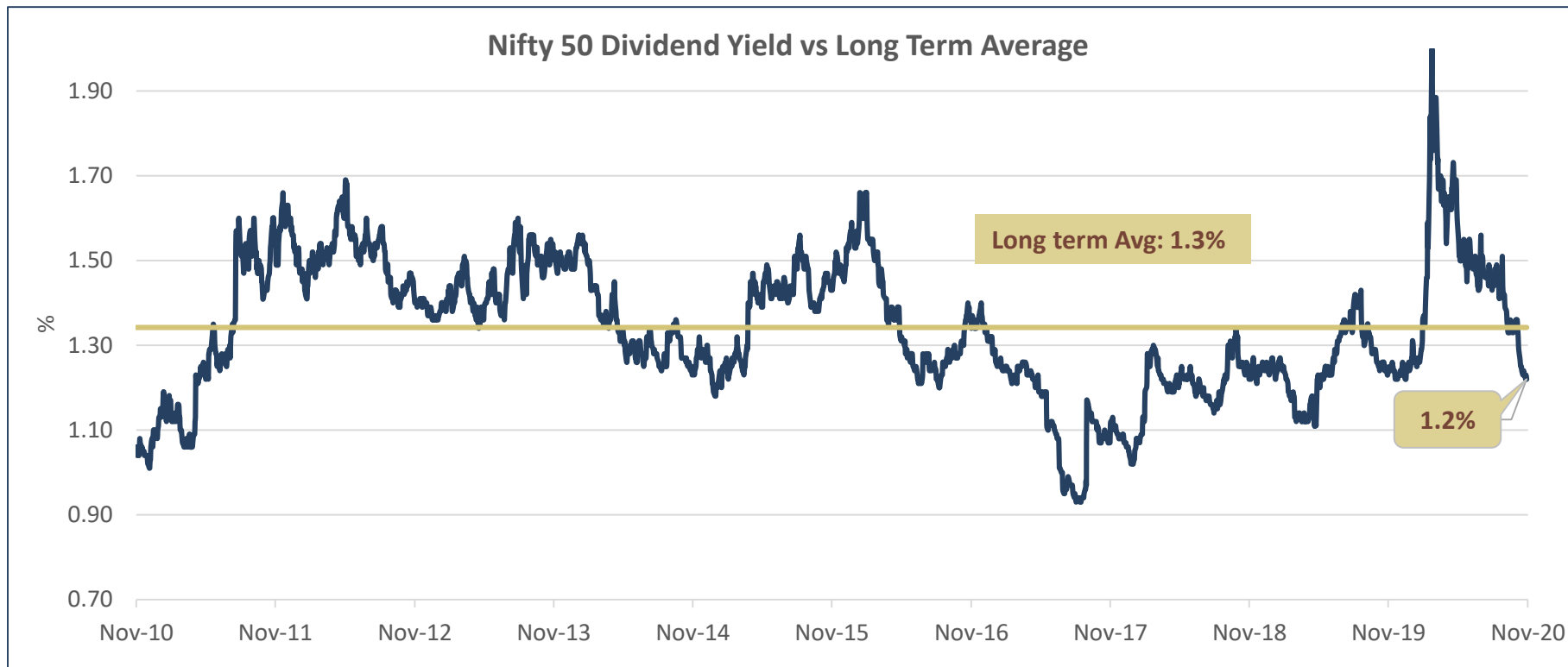


Source: NSE India

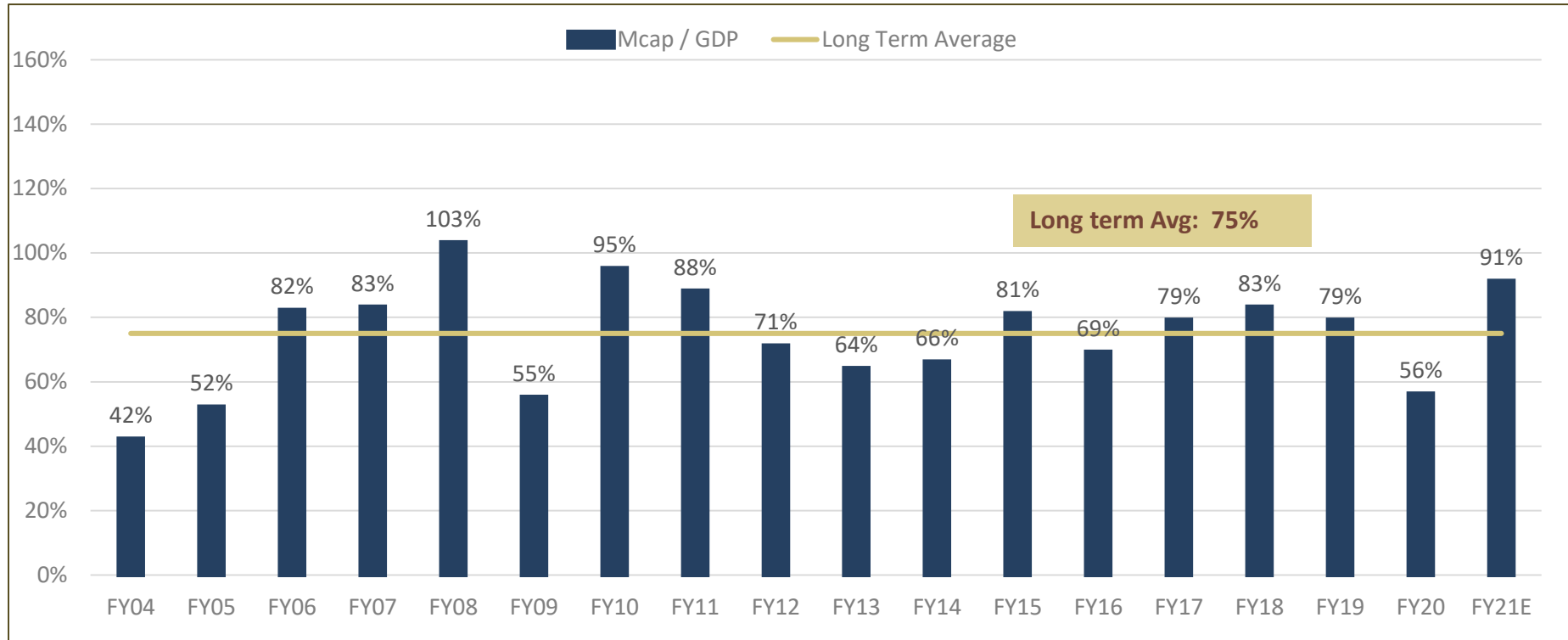
At 3.7x, the Nifty Trailing P/B is above the historical long term average of 3.3x.



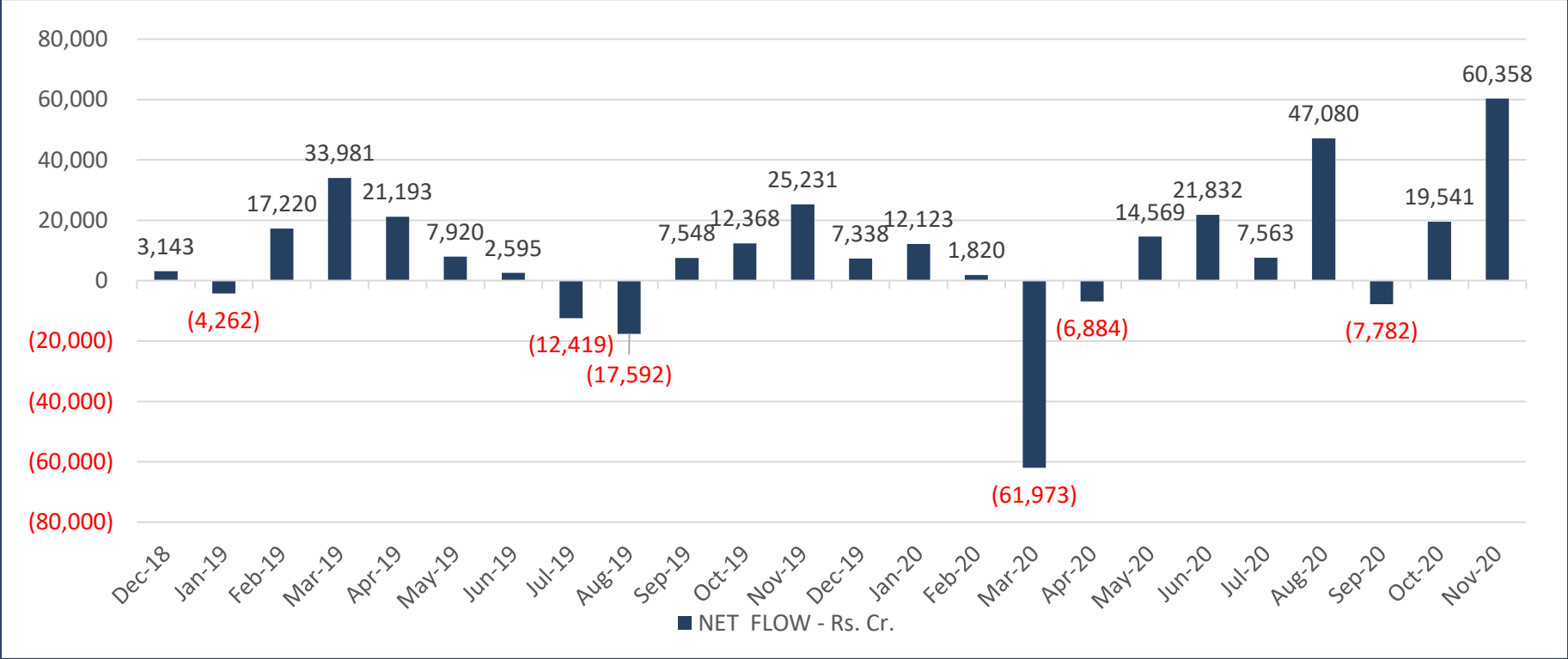
**At 1.2%, the Nifty Trailing Dividend Yield is below the historical long term average of 1.3%.**



On Market Capitalisation to GDP parameter the market is trading above the historical long term average

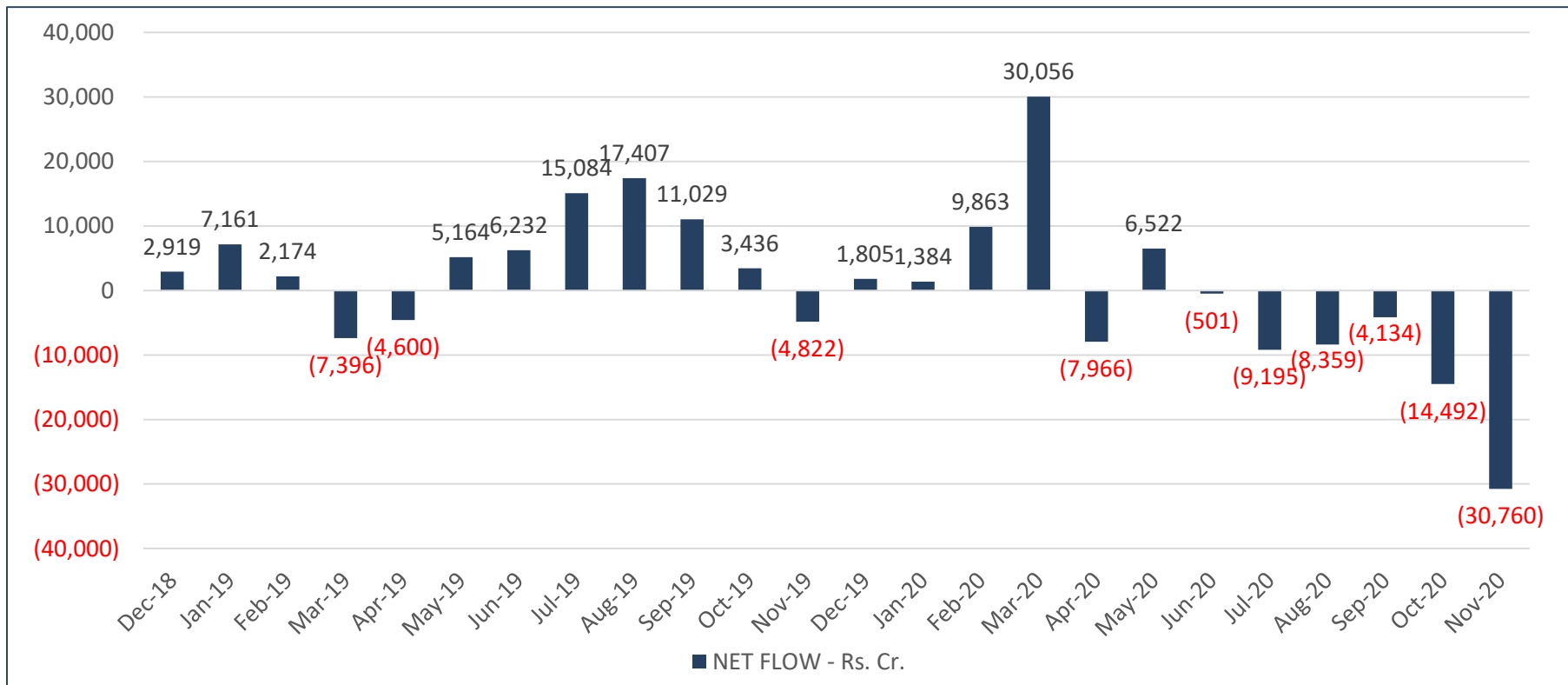


**The FII recorded the biggest monthly flow ever in November 2020 to the tune of Rs. 60,358 cr**



Source: ICRA MFI

**MFs were net sellers for the sixth consecutive month in November to the tune of Rs. 30,760 cr even as the broader market rallied.**





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# Debt Markets - Review

- The India 10-Year Government Bond yields **closed the month up by 3 bps at 5.91% in November**. Bond prices initially fell during the month as market participant's **awaited the outcome of the U.S. presidential elections**. However, losses almost reversed after the **RBI announced more OMO to help clear out a record borrowing schedule**. During the latter part of the month market participants remained **cautious ahead of the GDP for the September quarter of 2020**.
- The government announced its **3rd set of fiscal measures amounting to Rs. 2.65 lakh crore** i.e. 1.4% of GDP, the fiscal cost of it felt in the current year would be 0.5% - 0.6% of GDP.
- **GST numbers in November had come in line with earlier month** and a tad higher than the same month previous year.
- At the end of the month the **economy technically entered into a recession** with the GDP for September quarter coming in the negative territory for the second straight quarter.
- The **Retail price inflation** was however a dampener as it came **above the RBI upper tolerance limit of 6.0%** for the seventh consecutive month in September. After being the negative zone for six consecutive months **IIP Bounced back in the positive territory in September**.

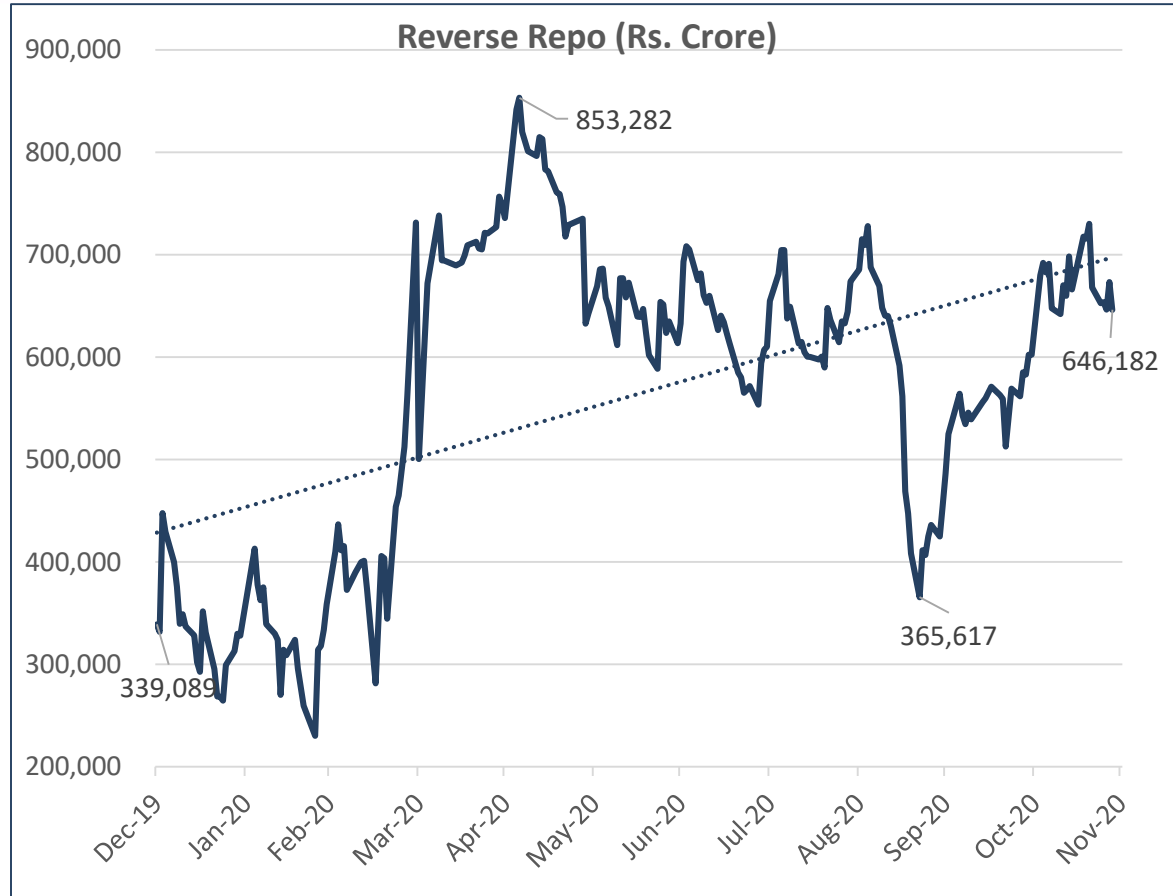
## Outlook:

- On its part RBI has been aggressive in handling the crisis and though it did not cut the rates in the last three policy meets it managed to sound **"Dovish"** by keeping the **"Accommodative"** stance till **March 2022** and by using **unorthodox measures** like TLTROs, Operation Twists, OMOs for SDLs, easing of prudential norms and the latest being **allowing RRBs to tap the LAF, MSF, call and notice money market** the RBI has not left any stone unturned in supporting growth. While the **Government on its part by providing credit guarantee has helped to provide a multiplier effect**. All these measures have been successful in **easing the credit spreads** for better rated corporates and **reducing the term premium** as it is somewhat elevated.
- With the **September quarter GDP coming in at better than expected**, the **guidance for the full year being revised upwards** by RBI and the **high frequency data** coming in better than expected and the **short term rates falling below the policy rates** what remains to be seen how long will the RBI continue its Accommodative stance.



# Money parked in Reverse Repo window has been inching up once again

RBI's primary, clear and present dilemma is juggling between nascent growth and persistent inflation. On persistent efforts by RBI to keep **liquidity ultra easy** and **accommodative policy for a long tenure**, November witnessed **short-term corporate and government borrowing rates remaining below its policy benchmark rates** for an extended period. This led to the jump in the flows in the more lucrative reverse repo window. During the month under review the **banks on an average are parking Rs. 6.75 lakh crore to the reverse repo window** as against Rs. 5.57 lakh crore in October.

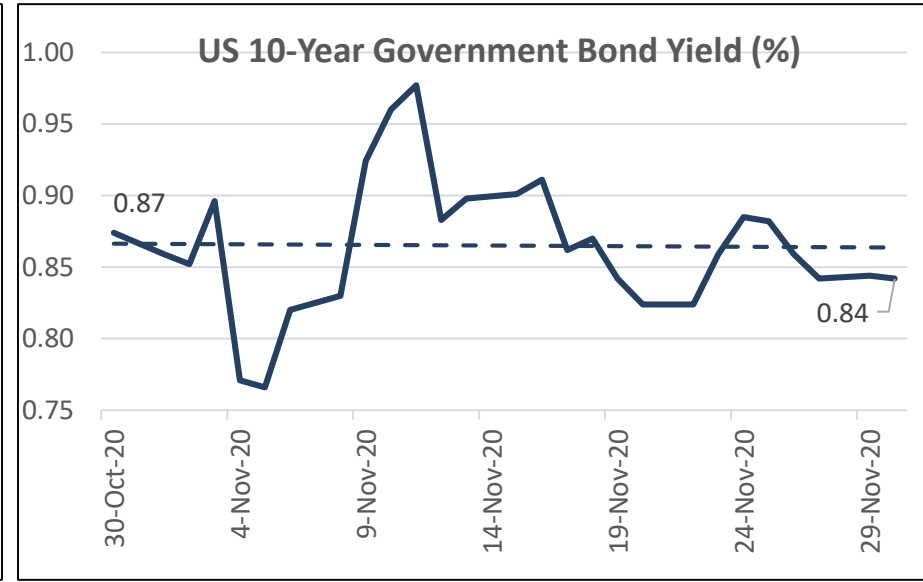
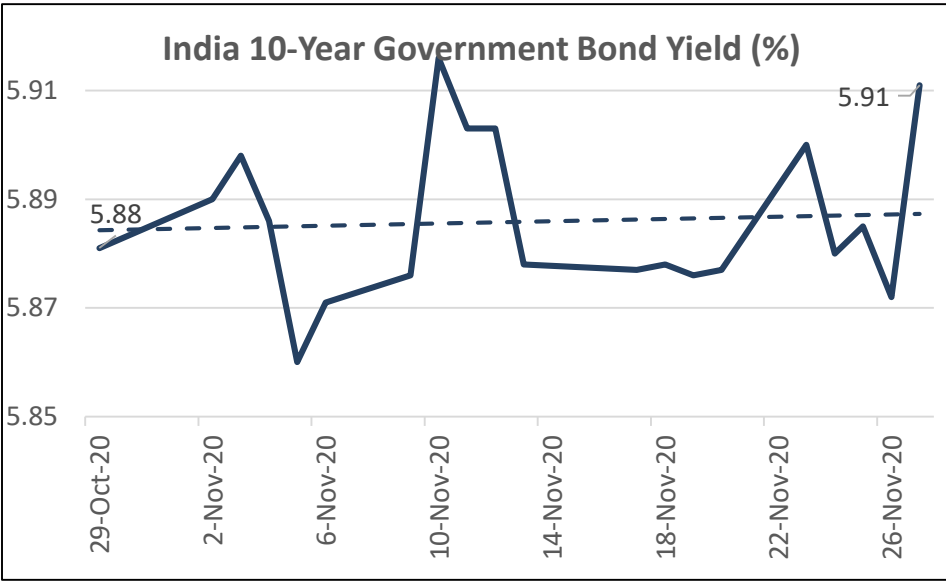


# Debt Dashboard – November 2020

	Latest (30 Nov'20)	One Month Ago (31 Oct'20)	One Quarter Ago (31 Aug'20)	Half Year Ago (31 May'20)	One Year Ago (30 Nov'19)	M-o-M Change (bps)
<b>Interest Rates</b>						
Repo rate	4.00%	4.00%	4.00%	4.00%	5.15%	0
SLR	18.00%	18.00%	18.00%	18.00%	18.50%	0
<b>CD Rates</b>						
3 month	2.95%	3.20%	3.25%	3.40%	5.05%	-25
6 month	3.18%	3.43%	3.43%	3.90%	5.40%	-25
1 Year	3.60%	3.80%	3.95%	4.40%	5.80%	-20
<b>CP Rates</b>						
3 month	3.15%	3.25%	3.50%	4.40%	5.35%	-10
6 month	3.55%	3.53%	3.75%	5.40%	6.35%	3
1 Year	3.95%	3.75%	4.05%	5.70%	6.75%	20
<b>T-Bill/G-sec</b>						
91 Days	2.92%	3.19%	3.26%	3.25%	4.95%	-27
364 Days	3.35%	3.45%	3.58%	3.41%	5.11%	-10
India 10 Year G-Sec Yield	5.91%	5.88%	6.08%	6.01%	6.46%	3
<b>AAA Corp. Bonds (PSU)</b>						
1 Year	3.77%	3.85%	4.60%	4.70%	5.95%	-8
3 Year	4.68%	4.62%	5.16%	5.35%	6.58%	6
5 Year	5.42%	5.48%	5.80%	5.70%	6.80%	-7
<b>AAA Corp. Bonds (Non-PSU) HFC</b>						
1 Year	4.02%	4.07%	5.14%	6.25%	6.60%	-5
3 Year	4.88%	4.93%	5.62%	6.80%	7.18%	-5
5 Year	5.75%	5.92%	6.29%	6.90%	7.49%	-17
<b>International Markets</b>						
10 Year US Treasury Yield	0.84%	0.87%	0.71%	0.64%	1.77%	-3

- With the exception of 6 months & 1 Year Commercial Papers yields in the money market fell significantly with glut of cash chasing assets.
- Both the India & the U.S. 10 year yields closed the month on flat note.
- With respect to the yields in long term AAA Corp. Bond - PSU & NBFC Papers all of them largely eased.
- The key policy rate and the reserve ratio were kept unchanged for the 3<sup>rd</sup> consecutive policy meet held on 4 December 2020.

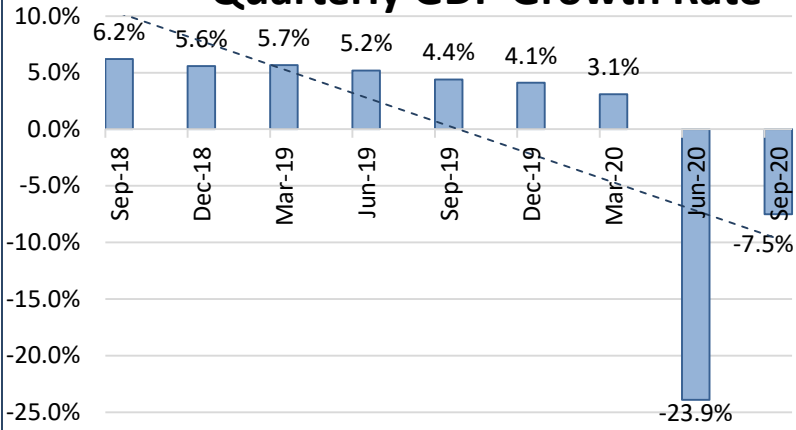
# Yields Movement Across - India and U.S.



- **10-year India Government Bond Yield:** The India 10-Year Government Bond yields closed the month up by 3 bps at 5.91% in November. Bond prices initially fell during the month as market participant's appetite remained tepid, while the **market awaited fresh positive triggers as well as the outcome of the U.S. presidential elections**. However, losses almost reversed at the end after the **RBI announced more OMO to help clear out a record borrowing schedule**. During the later half of the month market participants remained **cautious ahead of the GDP for the Sep quarter of 2020**.
- **U.S. Treasury Yield:** Though the U.S. Treasury yield was volatile during the month it closed on flat note down 3 bps at 0.84%. Prices rose initially amid **uncertainty regarding the outcome of the U.S. Presidential election results**. Gains were extended on **renewed concerns over COVID-19 pandemic** following a surge in coronavirus infection cases across the globe. However the gains were capped as prospects of a **potential COVID-19 vaccine boosted market sentiments**.

# Key Highlights - Macro-Economic Data Released – Q2FY21 GDP

## Quarterly GDP Growth Rate



Industry	% Growth	
	Q2FY20	Q2FY21
Agriculture, Forestry & fishing	3.5%	3.4%
Mining & Quarrying	-1.1%	-9.1%
Manufacturing	-0.6%	0.6%
Electricity, Gas, Water Supply & Other Utilities Services	3.9%	4.4%
Construction	2.6%	-8.6%
Trade, Hotel, Transport, Communication & Services Related to Broadcasting	4.1%	-15.6%
Financial, Real Estate & Professional Services	6.0%	-8.1%
Public Administration, Defence & Other Services	10.9%	-12.2%
<b>GVA At Basic Prices</b>	<b>4.3%</b>	<b>-7.0%</b>

Country	% GDP Growth	
	Q1FY21	Q2FY21
China	3.2%	4.9%
U.S.	-9.0%	-2.9%
Indonesia	-5.4%	-3.6%
Sweden	-7.7%	-4.1%
France	-18.9%	-4.3%
Euro Area	-14.8%	-4.4%
Italy	-17.9%	-4.7%
Austria	-14.5%	-5.3%
Japan	-10.3%	-5.9%
<b>India</b>	<b>-23.9%</b>	<b>-7.5%</b>
UK	-21.5%	-9.6%

### Key Highlights:

- **Indian economy officially entered into recession** in the fag end of November 2020 when the **July – Sep 2020 quarter GDP was announced at a negative 7.5%** as against the preceding quarter contraction of 23.9% and a growth of 4.4% reported in the corresponding quarter in 2019. This was the **fastest rebound QoQ** witnessed among major economies.
- The most surprising aspect of Q2 data is **the positive growth registered by the manufacturing industry**, part of which was explained by weak base.
- Further, the data suggest that the **improvement from the September quarter is despite, and not because of government spending**. The data showed that Government Final Consumption Expenditure (GFCE) in GDP and the Public Administration, Defence and Other Services in GVA have actually worsened between the June and September quarter. In contrast, both Private Final Consumption Expenditure (PFCE) - refers to what a you and I spend on consumption; and Gross Fixed Capital Formation (GFCF) – refers to the demand generated by investment made by economy by business / firms; which measures investment, registered an improvement.

## Key Announcements:

- The RBI's MPC has unanimously decided to keep the repo rate **unchanged at 4.00%** and reiterated to continue with the “Accommodative” stance till March 2022.
- **Real GDP growth for FY21 to contract by 7.5% instead of 9.5% forecasted in the last meeting.** GDP growth may turn positive by the third quarter instead of the fourth forecasted in the last meeting.
- Though, **inflation is expected to come down** in the **third and fourth quarter** of the current fiscal as supply constraints ease, the pace would be slower than the one projected in October 2020.

## Growth & Inflation Outlook

- RBI stated that the **signs of recovery are far from being broad based and is dependent upon sustained policy support.** **GDP Growth** projections for **FY21** were **revised upwards from a contraction of 9.5% projected in October 2020 to 7.5%.** For the current quarter i.e. **Q3FY21** growth would be **marginally positive at 0.1%** instead of a contraction projected in October 2020 meet. Further, the **Q4FY21** number is forecasted at **0.7%** on the back of low base effect and for **H1FY22** the number is forecasted at **6.5% - 21.9%** with risk evenly balanced.
- RBI's **outlook on inflation turned adverse** after last 2 months of CPI Inflation being above 7% (7.3% in September 2020 and 7.6% in October 2020). It projected CPI Inflation at **6.8% for Q3FY21, 5.8% for Q4FY21 and 5.2% to 4.6% for H1FY22.**

## Measures to Combat the Crisis

- RBI decided to **include more sectors in the on tap TLTRO scheme** that was announced after the last policy meet in order to build synergy with the government's emergency credit guarantee scheme.
- In order to conserve capital and ensuring credit flow, the **commercial and co-operative banks will not give out dividends this year** and retain all the profits. Further, to **enhance the resilience of NBFCs,** the Governor also proposed to **put in place criteria and parameters for the declaration of dividends.**

# Thank You

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