

# Market Outlook

## July 2020

## Inflation:

**Consumer Price Index(CPI):** The provisional figure for May'20 was not released in view of the nationwide lockdown to contain spread of COVID-19 pandemic. Nonetheless the government released the retail food price inflation numbers which rose to 9.28% in May 2020, compared to 10.49% in Apr 2020 as supply chains were partially getting restored.

## Deficit:

**Fiscal Deficit:** India's fiscal deficit in the first two months through May stood at Rs 4.66 lakh crore or 58.6% of the budgeted target for the current fiscal year. Net tax receipts during April-May period were Rs 33,850 cr, while total expenditure was Rs 5.12 lakh crore, indicating the government was front-loading its budgeted spending to combat the impact of pandemic.

## IIP and Manufacturing & Services PMI:

**Index of Industrial Production (IIP):** India's factory output contracted by 55.5% in Apr 2020 as against a de-growth of 18.3% reported in Mar'20. However for May'20 the number looks better on the back of de growth of just 23.4% as against 38.1% reported in Apr 2020 in the 8 core sector numbers released at the end of the month.

**Wholesale price index (WPI):** India saw a deflation in wholesale prices in May 2020 as the WPI contracted 3.21%. The wholesale Food inflation eased 1.13% in May'20 from 2.55% in the preceding month. The Department of Promotion of Industry and Internal Trade (DPIIT) resumed releasing detailed WPI data after suspending it for a month.

**Trade Deficit:** India's exports contracted for the third straight month by 36% in May'20 to \$19.05 bn. Imports also plunged 51% to \$22.20 bn in May, leaving a trade deficit of \$3.15 bn,. During the two month of the current fiscal, the exports fell 48% to \$29.41 bn, while imports shrank by 6% to \$39.32 bn, leaving the trade deficit at \$9.91 bn.

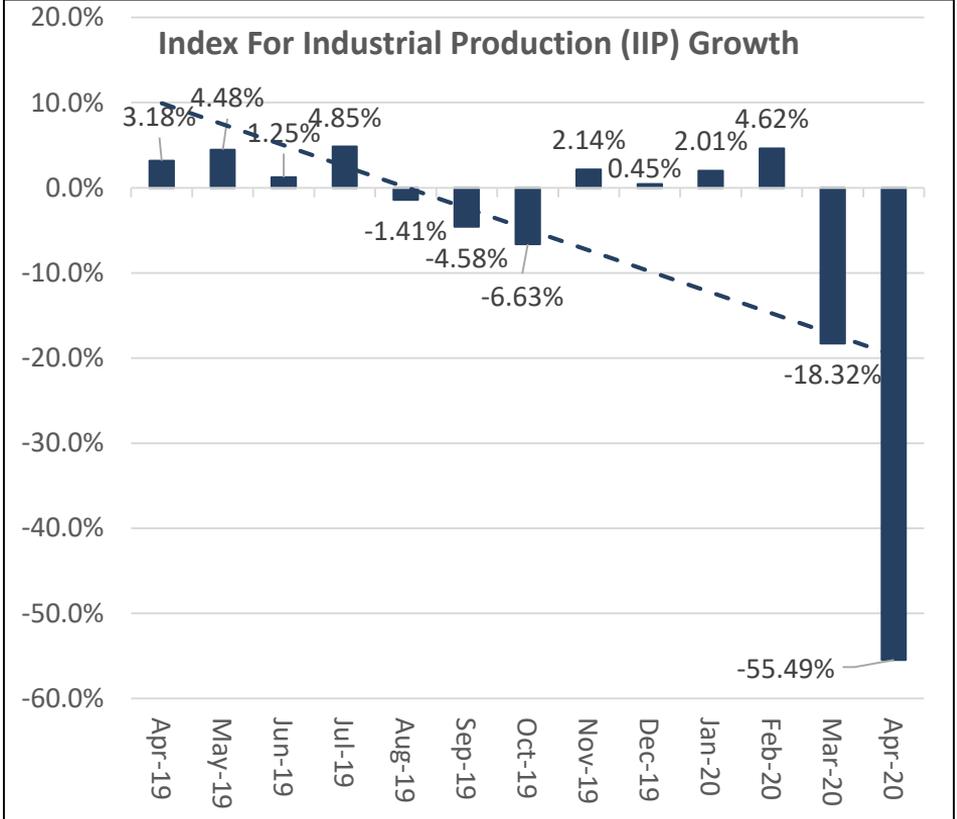
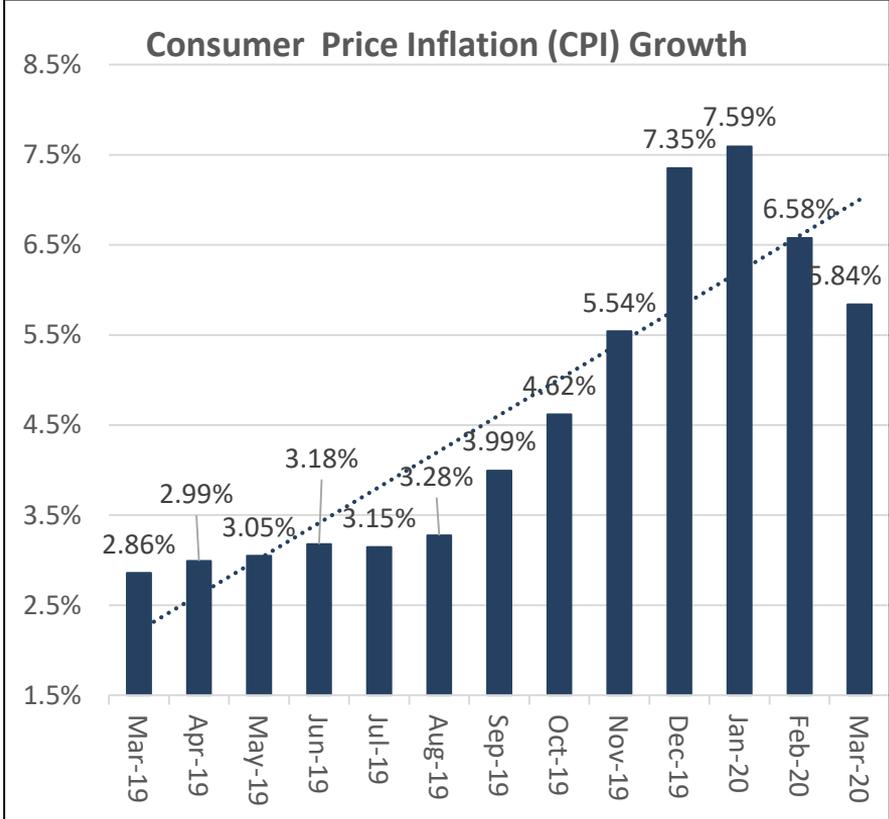
**Manufacturing & Services PMI:** India's manufacturing PMI was reported at 47.2 in Jun'20. The services PMI on the other hand too rose at to 33.7 in Jun'20. Though the number in June is higher than May's reading but it is the third month in a row that India's manufacturing PMI has been lower than 50.

# Inflation and Industrial Production Trajectory



Retail Inflation numbers for Apr & May'20 were not released only price movements of selected sub-group of CPI were released.

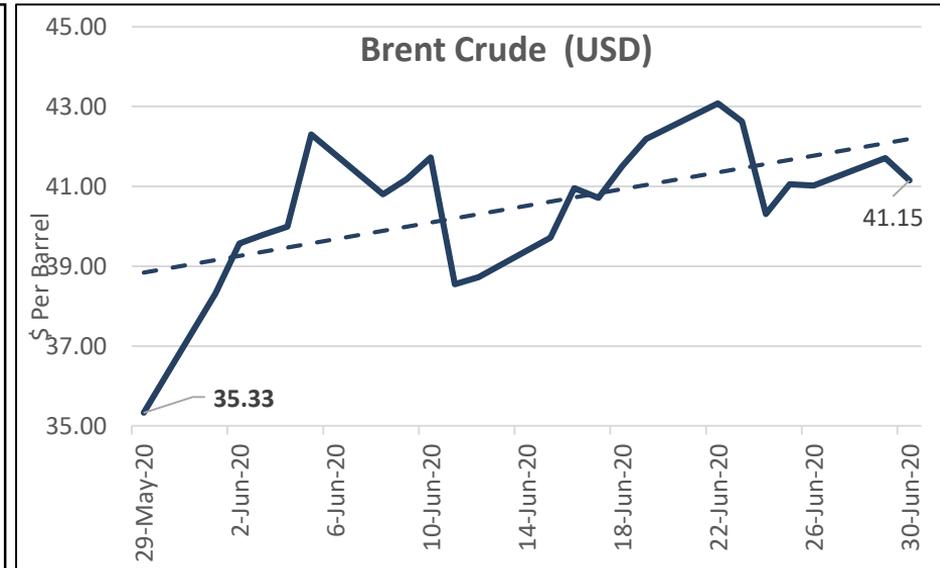
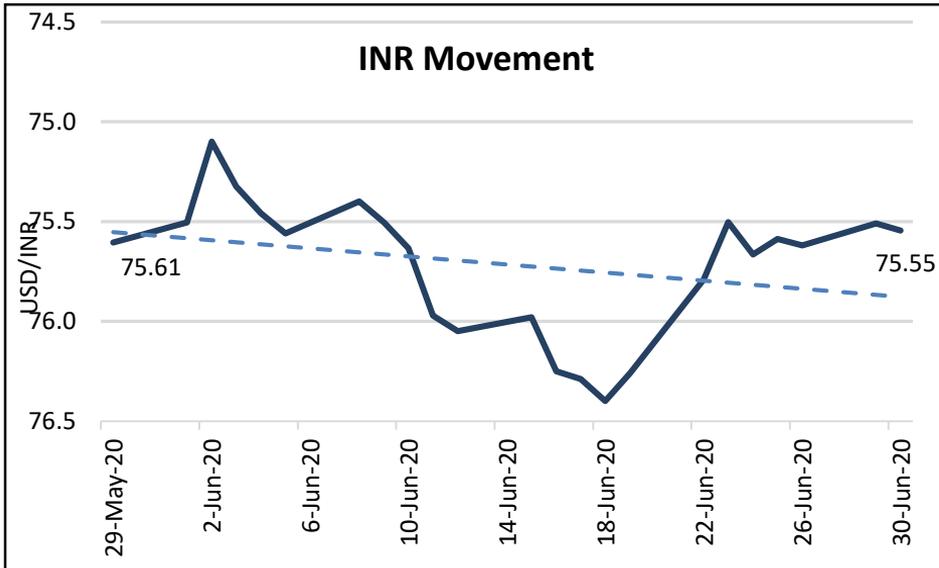
Apr'20 being the first complete month to a strict lockdown the industrial output numbers were hit hard.



Source: DBIE, RBI

	Current	Month Ago	Quarter Ago	Year Ago
<b>Equity Net Flows</b>				
Mutual Funds (Rs. Cr)	-612 (Jun-20) ↓	6,522 (May-20)	30,056 (Mar-20)	6,232 (Jun-19)
FII's (Rs. Cr)	21,832 (Jun-20) ↑	14,569 (May-20)	-61,973 (Mar-20)	2,595 (Jun-19)
<b>Economic Indicator</b>				
Consumer Price Index (CPI)	NA (May-20)	NA (Apr-20)	6.58% (Feb-20)	3.05% (May-19)
Wholesale Price Index (WPI)	-3.21% (May-20) ↓	NA (Mar-20)	2.26% (Feb-20)	2.79% (May-19)
Industrial Production (IIP)	-55.49% (Apr-20) ↓	-18.32% (Mar-20)	2.01% (Jan-20)	3.18% (Apr-19)
GDP	3.10% (Mar-20) ↓	NA	4.10% (Dec-19)	5.70% (Mar-19)
Trade Deficit (\$ bn)	3.15 (May-20) ↓	6.76 (Apr-20)	9.85 (Feb-20)	15.36 (May-19)
<b>Commodity Market</b>				
Brent Crude (\$/barrel)	41.15 (30-Jun-20) ↑	35.33 (29-May-20)	22.74 (31-Mar-20)	66.55 (28-Jun-19)
Gold (\$/oz)	1,800.50 (30-Jun-20) ↑	1,751.70 (29-May-20)	1,596.60 (31-Mar-20)	1,437.50 (28-Jun-19)
Silver (\$/oz)	18.64 (30-Jun-20) ↑	18.68 (31-May-20)	14.19 (31-Mar-20)	15.23 (30-Jun-19)
<b>Currency Market</b>				
USD/INR	75.55 (30-Jun-20) ↑	75.61 (29-May-20)	75.34 (31-Mar-20)	69.95 (28-Jun-19)
EURO/INR	84.86 (30-Jun-20) ↑	83.91 (29-May-20)	83.11 (31-Mar-20)	78.40 (28-Jun-19)
GBP/INR	93.68 (30-Jun-20) ↑	93.34 (29-May-20)	93.57 (31-Mar-20)	87.53 (28-Jun-19)
YEN/INR (per 100)	69.94 (30-Jun-20) ↓	70.11 (31-May-20)	70.07 (31-Mar-20)	63.91(30-Jun-19)

# INR and Brent Crude Performance



**INR Performance:** After touching low of 76.40, the Indian rupee ended a tad higher at 75.55 in Jun'20 from 75.08 in May'20. The rupee rose against the greenback following **gains in the domestic equity** market after **government announced a phased re-opening of the economy**. It lost the gained ground on **weak growth outlook by the U.S. Fed** and amid **escalating geopolitical tensions between U.S. and China**. However it ended the month on flat note as domestic equities rose for the domestic equities continued their upward rally.

**Brent Crude:** After plummeting in Mar'20 crude continued its recovery streak for the third straight month in Jun'20, gaining ~16% to close the month at USD 41.15 per barrel. Prices gained on the back of on reports that that the **OPEC and Russia were moving closer to a compromise on the duration for extending oil output cuts** and **International Energy Agency increased its oil demand forecast for 2020**. Gains were partially erased on fears over a second wave of coronavirus infections and **U.S. Fed projected deeper contraction in U.S. economy**. Source: Investing.com



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# Equity Markets - Review

**Performance:** The Indian Equity benchmark indices witnessed rally in the month of June 2020 with **Nifty 50 and S&P BSE Sensex rose by 7.5% and 7.7% respectively in June 2020**. Rally was mainly supported by DGCA's approval for treatment for COVID-19 drug and ease of lockdown in several parts of country.

## Positive Factors:

- Increase in recovery rate and positive development of **DGCA's approved treatment for COVID-19 drug** and ease of lockdown across nation also cheered market sentiments.
- U.S. **Federal Reserve's corporate bond-buying programme** led to expectation of higher foreign fund inflow in the domestic market.
- U.S. President **Donald Trumps decision to keep the trade deal with China intact** also supported market sentiments.
- The Govt. told the Supreme Court it was **withdrawing 96% of the demands for AGR related dues raised against non-telecom PSUs**.

## Negative Factors:

- **World Bank projected India's economy to contract 3.2% in FY 2021** due to prolonged lockdown and stringent measures to restrict spread of covid-19, which brought all business activities to a halt.
- **A global rating agency revised its outlook on India's sovereign ratings from 'Stable' to 'Negative'**. The reason behind the downgrade is a weakened growth outlook, increasing public debt burden and stress in some parts of financial system. The global rating agency retained its rating at 'BBB-', the lowest investment grade.
- Additionally, **geo-political tension between India and China at the Ladakh border** kept investors on the sidelines.

**Outlook:** Central banks across globe are taking actions in order to support economy and a step by step reopening of economy has resulted in positive returns for domestic and global indices, however, **possible spike in Covid-19 cases post reopening may raise fear of renewed lockdown and derail hope of market recovery**. Markets are likely to remain watchful for increase in Covid 19 cases post reopening. At this juncture, **we believe, volatility will prevail in equity markets till we see flattening of virus curve, vaccine for Covid-19 and signs of economic recovery**.

# Equity Dashboard – June 2020

Index	Closing Value	1-Mth Return (%)	YTD Return (%)	1 Yr Return (%)	Current Value		
					P/E	P/B	Dividend Yield
S&P BSE Sensex	34916	7.7	-15.4	-11.4	22.55	2.61	1.13
Nifty 50	10302	7.5	-15.3	-12.6	26.32	2.94	1.55
Nifty 100	10487	7.5	-14.5	-11.7	26.89	3.05	1.48
Nifty 200	5350	7.8	-14.5	-12.3	29.05	2.88	1.48
Nifty 500	8475	8.3	-14.2	-12.3	29.35	2.82	1.47
Nifty Midcap 100	14704	10.8	-14.0	-16.7	88.29	1.97	1.49
Nifty Smallcap 100	4615	15.3	-20.9	-25.6	18.19	1.73	1.41

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

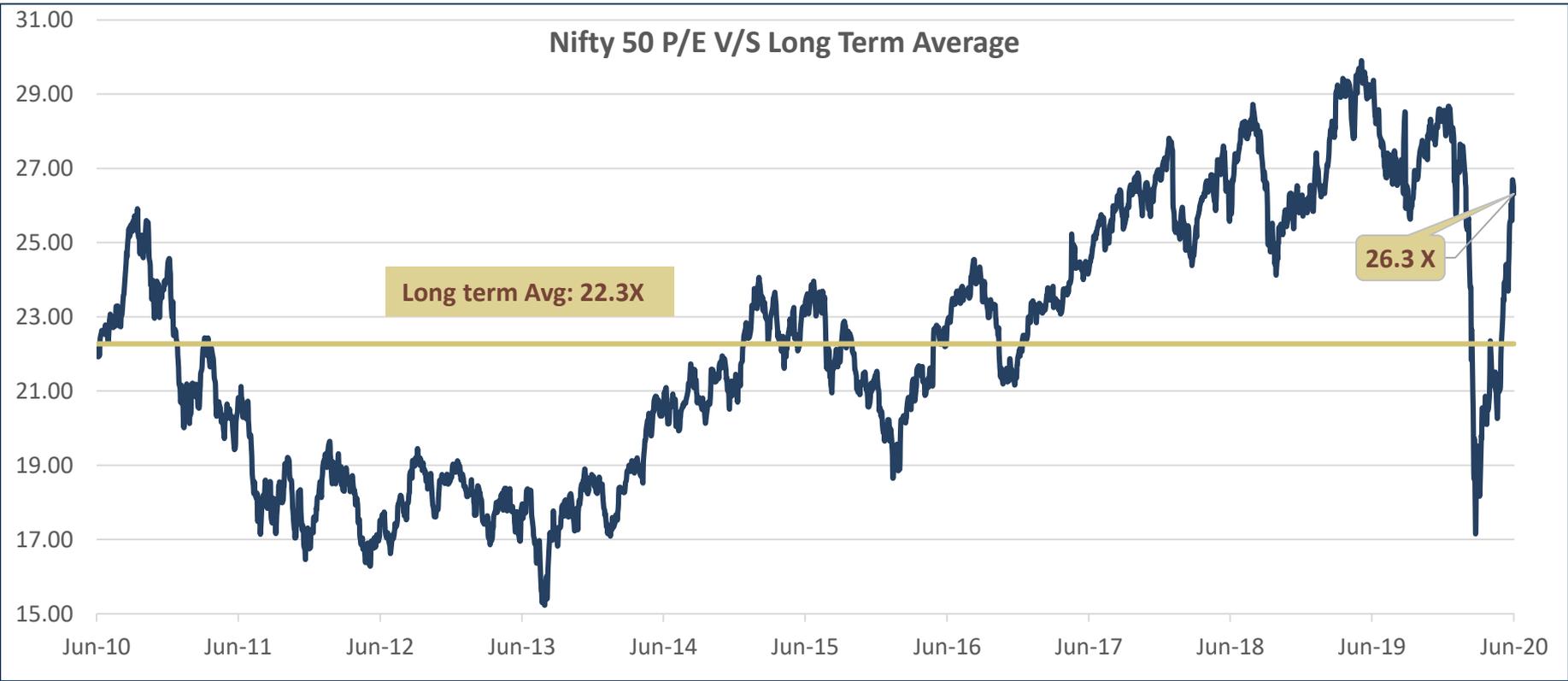
- All Broader Indian equity market indices closed in the month in the green with the Sensex and Nifty 50 clocking a gain of 7.7% and 7.5% respectively. However higher gains were recorded in the Mid Cap & Small Cap Indices proving **this rally to be more broad based**.
- All the sector based indices closed the month on the positive territory with the **Energy and Realty posting double digit gains**. While the rally in the energy sector was backed by RIL; the realty stocks on hopes of attracting huge capital from investors post COVID-19.
- Investors took positive cues from government's announcement to **ease lockdown in phased manner** across the country after almost two months of strict measures. Besides **U.S. Federal Reserve's expanded bond-buying programme**, which led to expectation of higher foreign fund inflow in the domestic market.
- FIIs were net buyers, whereas MFs were marginally net sellers during the month.

Index*	1-Mth Return (%)	YTD Return (%)	1 Yr Return (%)
Energy	13.3	1.4	12.1
Realty	12.0	-30.7	-28.2
Bankex	9.7	-33.8	-30.5
PSU	8.5	-29.8	-37.7
Auto	8.4	-17.4	-14.7
Consumer Durables	7.2	-18.7	-22.2
Oil & Gas	7.0	-14.1	-14.4
Power	6.3	-18.2	-24.8
Metal	5.9	-30.9	-35.1
IT	5.8	-3.8	-4.9
Capital Goods	4.3	-24.1	-35.2
Health Care	3.9	21.1	26.2
Telecom	3.5	17.0	32.0
FMCG	3.3	-1.3	-0.9

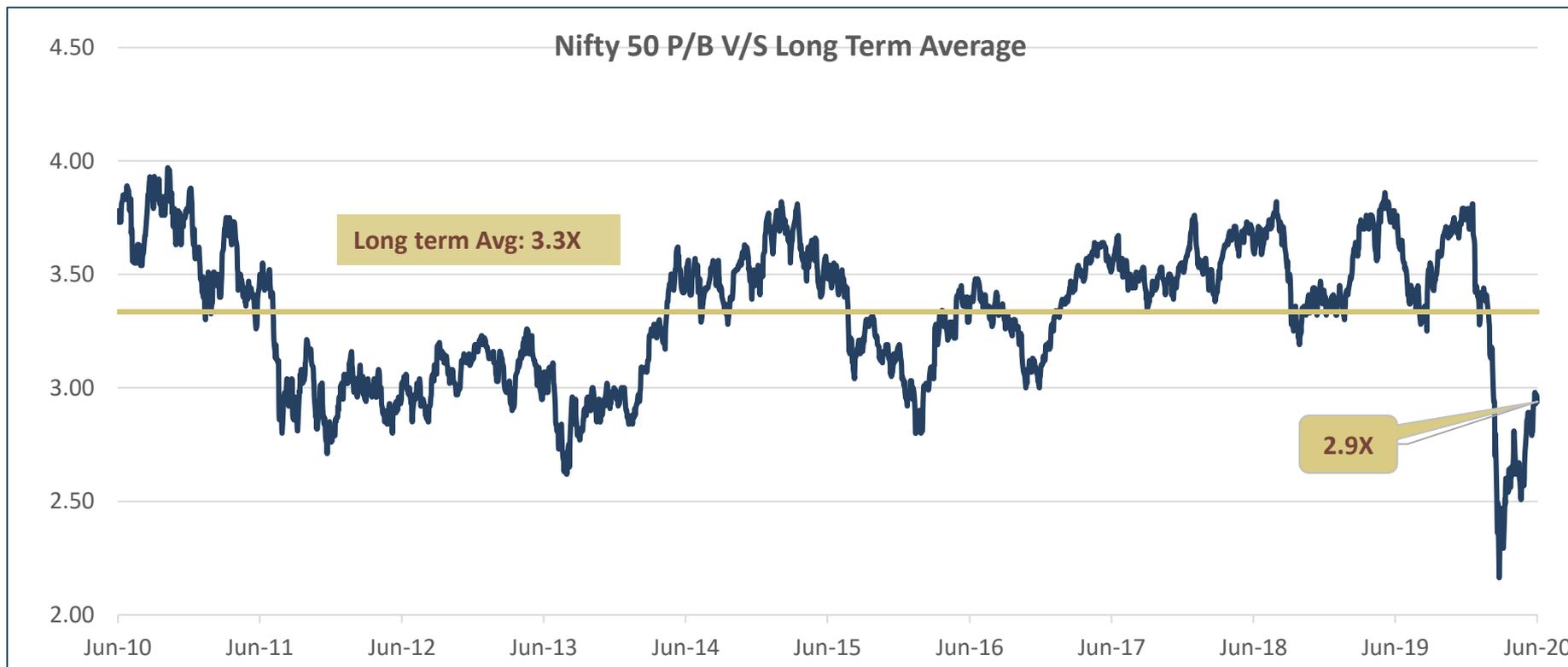
\*S&P BSE Sectoral Indices . Source: ICRA MFI

Equity Flow (Rs. Cr.)	1-Mth	YTD (CY)	1 Yr.
FII	21,832	-18,513	3,961
MF	-612	39,248	83,188

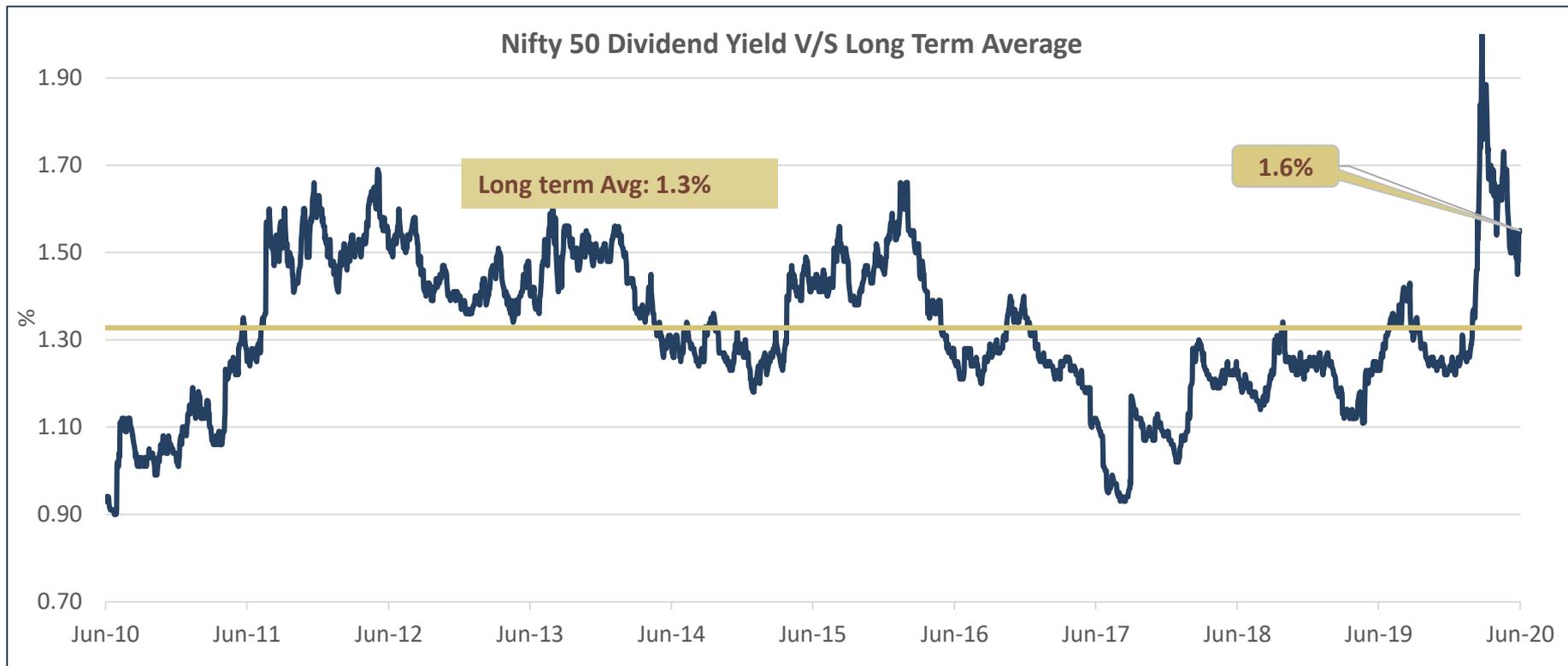
**Nifty 12-month trailing P/E of 26.3x is above its Long Term average of 22.3x**



At 2.9x, the Nifty Trailing P/B is well below the historical average of 3.3x.

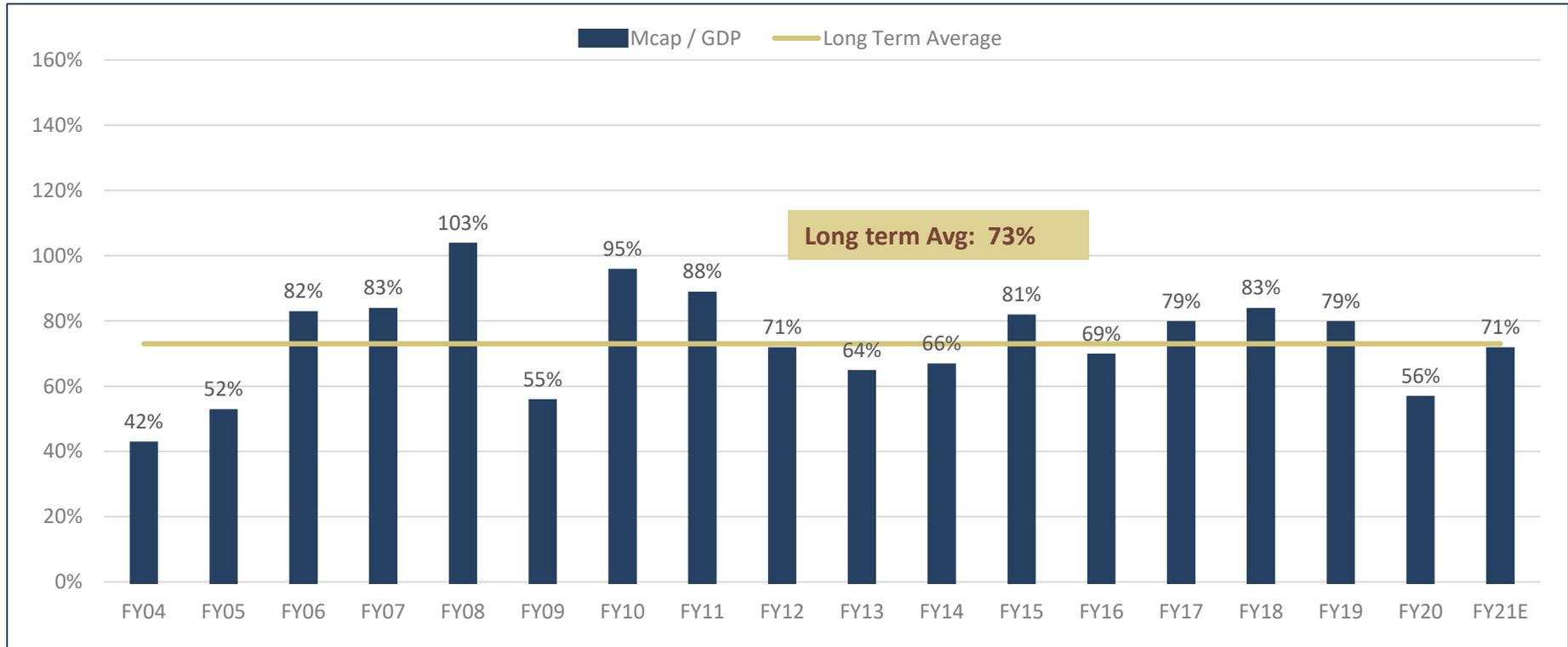


**At 1.6%, the Nifty Trailing Dividend Yield is above the historical average of 1.3%.**

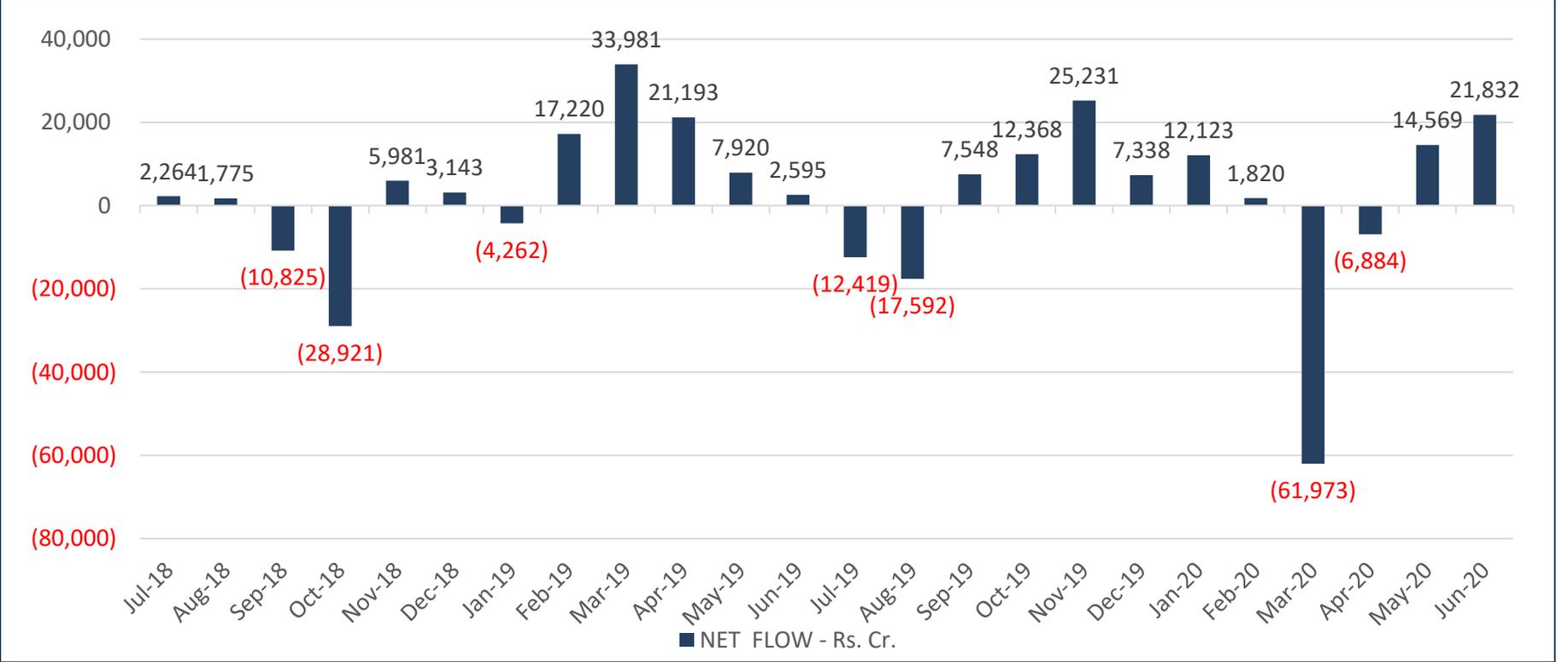


Source: NSE India

On Market Capitalisation to GDP parameter the market is trading at near long term average

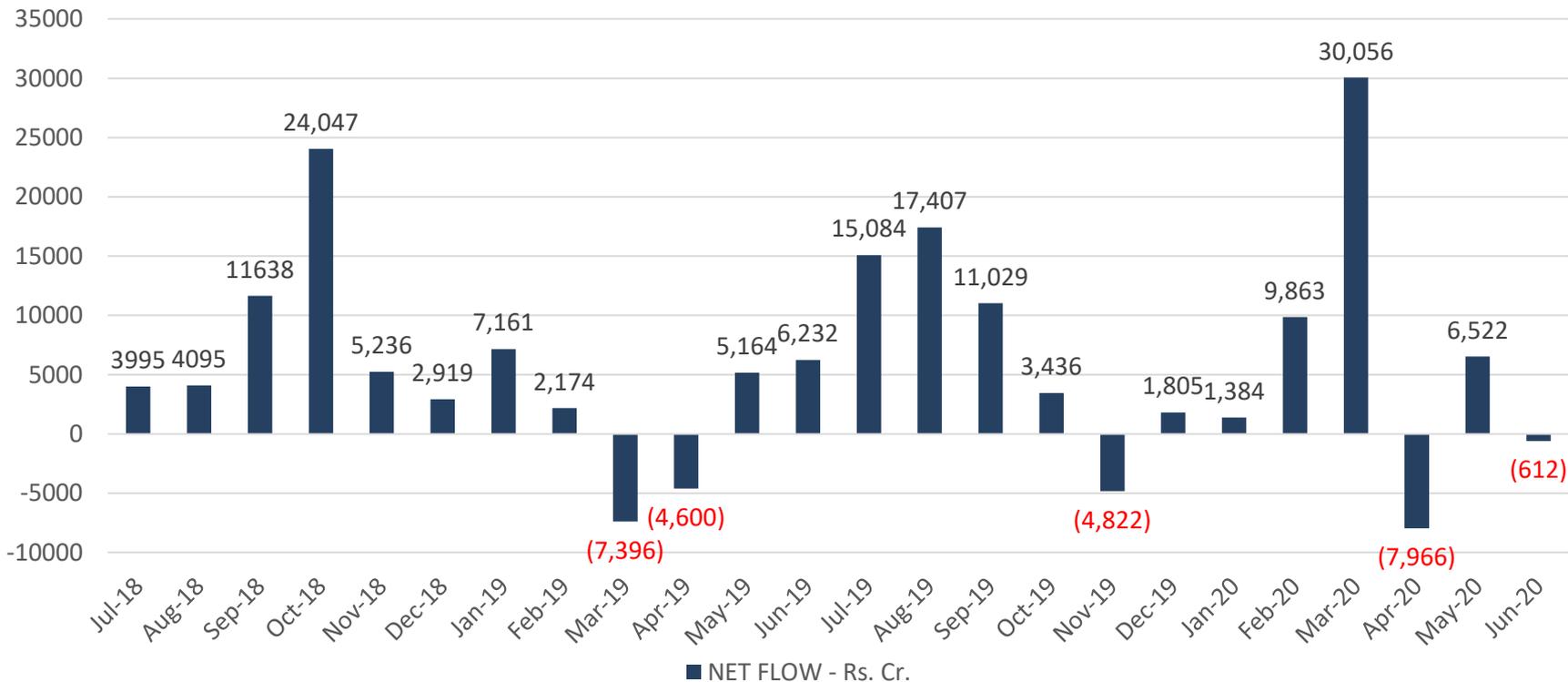


**After being net sellers in Mar & Apr'20, FII were net buyers for the second consecutive month in Jun'20 to the tune of Rs. 21,832 cr**



Source: ICRA MFI

After being a net buyer in May'20, the MFs recorded a marginally negative flow in Jun'20 to the extent of Rs. 612 Cr.





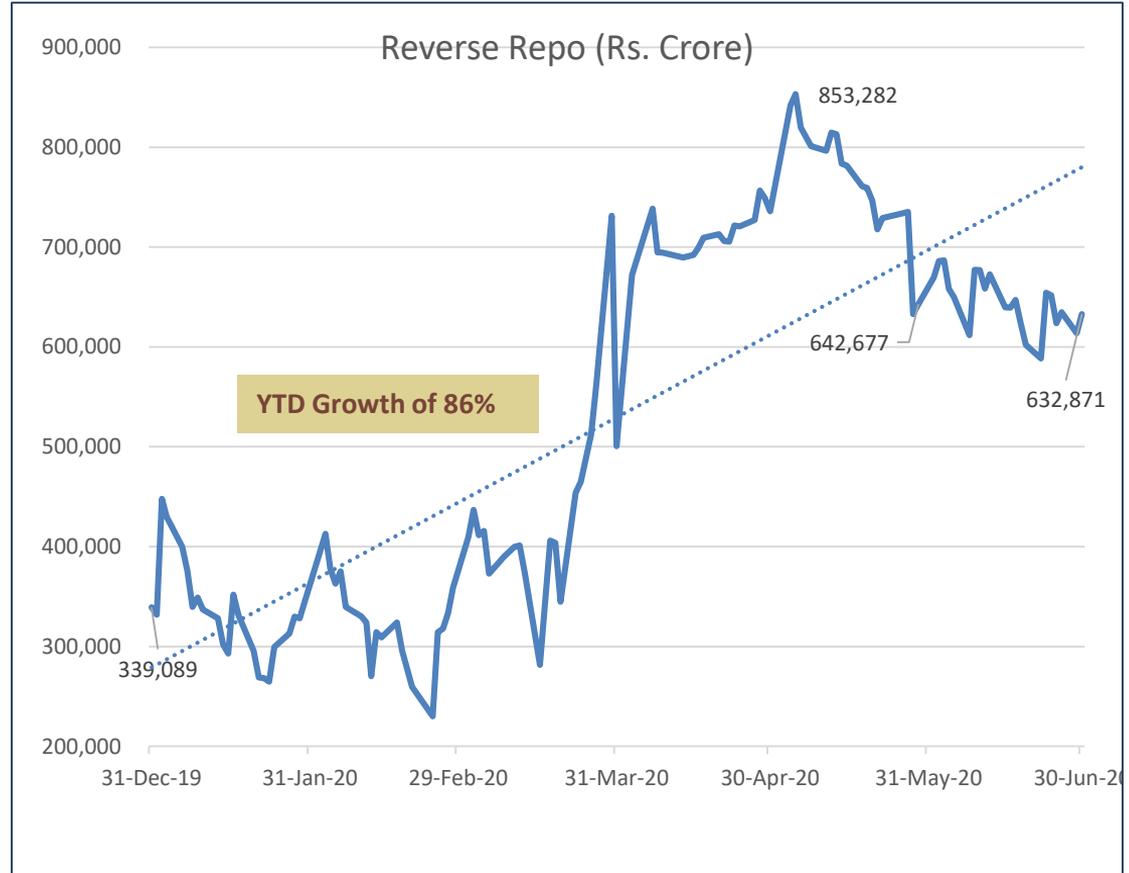
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# Debt Markets - Review

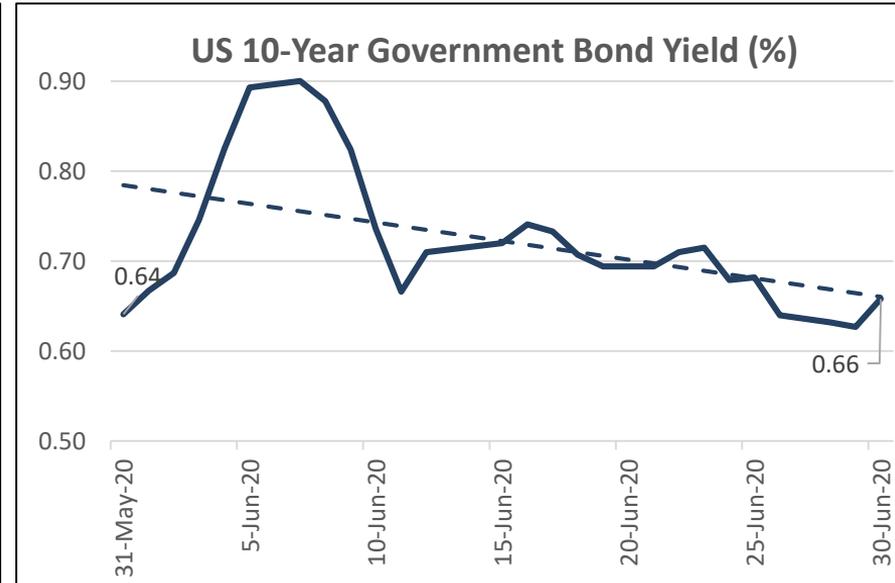
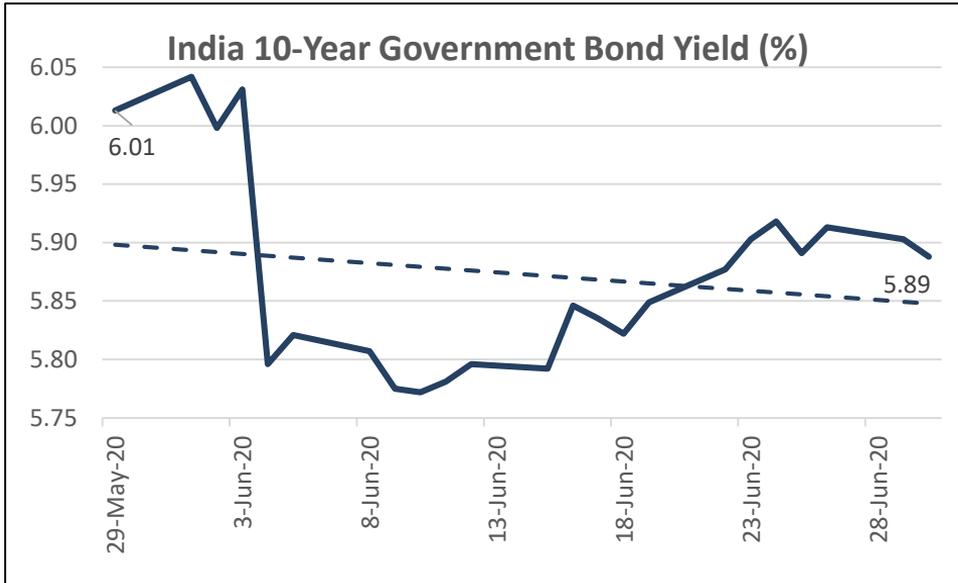
- The 10-year Indian Government Bond yields slipped by 12 bps to close the month at 5.89% from 6.01% in May'20.
- **Factors that helped the yields to rally:** The RBI conducted a “**switch auction**” mid month, where it replaced sovereign bonds maturing in next two financial years with that of longer dated ones. Though this will help government to manage market borrowing programme extending near term repayments amid an economic crisis; but a fallout of this approach is an upward pressure on yields. Additionally, **no improvement seen in the unemployment rate in May in contrast to April** also hardened the yields.
- The **IMF announced the steepest cut for India GDP for FY21 to contraction of 4.5%** as against growth of 1.9% reported in April. **World bank** too projected **Indian economy to contract by 3.2% and the world to contract by 5.3%** during this fiscal.
- **Factors that assisted in cooling-off of yields:** To compensate itself for the expected poor direct & indirect tax collection, the Government, **raised fuel prices for 22 straight days in a row**. According to government officials generally, a hike of Rs 1 per litre adds about Rs 14,000 crore for the whole year, taking normal consumption.
- After crossing an important milestone of **foreign exchange reserve of \$500 bn** on 5 Jun'20, the RBI's weekly supplement reported the countries foreign reserve rise to a record high of \$507.6 bn in the week ending 12 Jun'20. This rise in foreign reserves is mainly on account of the high foreign investments that the country is receiving. This helped in the cooling off of yields and a stronger currency.
- Days after **Moody's downgraded** India sovereign rating the other two international rating agencies too made their announcements. While **Fitch Ratings downgraded India** outlook from 'stable' to 'negative' on the back of the pandemic which has significantly weakened India's growth outlook for this year and exposed the challenges associated with a high public-debt burden; S&P on the other hand affirmed India's 'BBB-/A-3' sovereign rating; outlook 'stable'.
- **Outlook:** It is believed that though the **policy rates may not have much room to fall** as risks to medium term inflation are weighed against the near-term disinflationary impact of the crisis, the RBI still has its set of unconventional tools to bring down the yields and thus the credit spreads. At the beginning of this month as India enters the “Unlock 2” phase and as tensions between US-China ease and India-China rise the **ability of the country to flatten the COVID curve and the unfolding of the events in the international front will govern the markets.**

# Money parked in Reverse Repo window steadily decreased

In May as the money parked in the reverse repo window by banks touched the high of Rs. 8.5 lakh crore and the RBI again in an unscheduled policy meeting announced a cut in the policy rates and the reverse repo rate under the LAF stood adjusted at 3.35% the money parked under this window decreased steadily. During the month under review the **banks on an average are parking Rs. 6.45 lakh crore to the reverse repo window** (of the RBI where they earn interest), because banks do not see any credit off-take.



	Latest (30 Jun'20)	One Month Ago (29 May'20)	One Quarter Ago (31 Mar'20)	Half Year Ago (31 Dec'19)	One Year Ago (28 Jun'19)	M-o-M Change (bps)
<b>Interest Rates</b>						
Repo rate	4.00%	4.00%	4.40%	5.15%	5.75%	0
SLR	18.00%	18.00%	18.00%	18.50%	19.00%	0
<b>CD Rates</b>						
3 month	3.15%	3.40%	4.60%	5.10%	6.35%	-25
6 month	3.50%	3.90%	5.50%	5.68%	6.90%	-40
1 Year	3.95%	4.40%	5.60%	6.00%	7.20%	-45
<b>CP Rates</b>						
3 month	3.45%	4.40%	5.75%	5.40%	6.85%	-95
6 month	4.00%	5.40%	6.70%	6.20%	7.75%	-140
1 Year	4.70%	5.70%	7.00%	6.70%	7.85%	-100
<b>T-Bill/G-sec</b>						
91 Days	3.13%	3.25%	4.34%	5.00%	5.98%	-12
364 Days	3.46%	3.41%	4.89%	5.22%	6.14%	5
India 10 Year G-Sec Yield	5.89%	6.01%	6.14%	6.55%	6.88%	-12
<b>Corporate Bonds (PSU)</b>						
1 Year	4.25%	4.70%	6.00%	6.15%	7.35%	-45
3 Year	5.15%	5.35%	6.30%	6.78%	7.45%	-20
5 Year	5.65%	5.70%	6.50%	7.05%	7.48%	-5
<b>Corporate Bonds (Non-PSU) HFC</b>						
1 Year	4.60%	6.25%	6.90%	6.65%	7.90%	-165
3 Year	5.60%	6.80%	7.20%	7.30%	8.10%	-120
5 Year	6.20%	6.90%	7.35%	7.60%	8.22%	-70
<b>International Markets</b>						
10 Year US Treasury Yield	0.66%	0.64%	0.67%	1.92%	2.05%	2
3 Months LIBOR	0.31%	0.36%	1.45%	1.94%	2.33%	-5
12 Months LIBOR	0.57%	0.68%	0.97%	2.00%	2.18%	-11



- 10-year India Government Bond Yield:** The India 10 year benchmark yield closed lower at 5.89% . The yields fell sharply during the first week of the month post the **unscheduled but rather expected policy action of by RBI during the end of May**. However this fall was restricted **by concerns over rising debt supply and absence of any action by the RBI to support the market**.
- U.S. Treasury Yield:** U.S. Treasury yield gyrated in the month of June to end the month flat at 0.66%. Yields rose as on hopes of a **quick post-pandemic recovery** after the U.S. manufacturing activity came off an 11-year low in May as businesses in the region reopened. The yields fell as U.S. Federal Reserve in its monetary policy review pledged to continue its asset purchase in order to provide support to the U.S. economy. The U.S. Federal Reserve made no policy changes as expected and **indicated that it would keep interest rates near zero through 2022**.

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