MONTHLY FACTSHEET

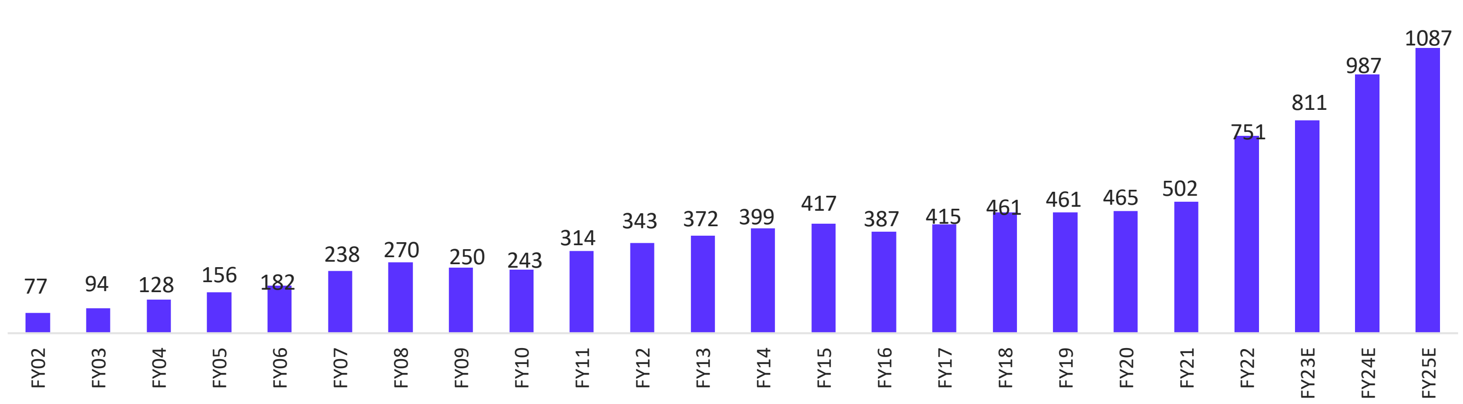
May 2023

MONTHLY MARKET UPDATE

Macro Economy & Event Update

Macro-Economic Indicators	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22	Nov-22
Consumption						
Two-wheeler sales (%YoY)		9.0	8.8	5.0	3.9	17.7
Passenger car sales (%YoY)		-8.5	0.2	10.5	-0.8	28.2
Credit Card Outstanding (% YoY)		30.9	29.2	29.6	26.4	24.5
Nominal Rural wages (% YoY)			5.9	6.4	7.4	7.0
Industrial Sector						
Industrial Output (%YoY)			5.6	5.2	4.7	7.3
Manufacturing PMI	57.2	56.4	55.3	55.4	57.8	55.7
Railway freight Container Service (%YoY)		8.1	4.3	5.5	7.8	5.1
Energy Consumption (YoY)	-1.8	-2.1	7.7	12	9.8	12.3
Aviation Cargo (% YoY)		-0.9	2.1	-3.7	-5.9	-2.3
Inflation						
CPI (%YoY)		5.7	6.4	6.5	5.7	5.9
WPI (%YoY)		1.3	3.9	4.7	5	5.8
Deficit						
Fiscal Deficit (% of full year target)			82.8	67.8	56.6	55.7
Trade Deficit ($ bn)		-19.7	-16.2	-16.5	-22.1	-23.3
Services						
Air passenger traffic: Domestic (% YoY)		21.4	56.8	95.6	14.2	11.5
GST collections (Rs. Bn)	1870	1601	1496	1559	1495	1486
E-way Bill (Mn)		90.9	81.8	82.4	84.1	80.7
Direct tax collection (% YoY)			7.7	1.1	2.5	2
Money & Banking						
Credit Growth (%YoY)		15	15.5	16.3	14.9	16.1
Industry Credit (%YoY)		5.7	7	8.7	8.6	13.1
Deposits (%YoY)		9.6	10.1	10.5	9.2	9.8
Currency in circulation (%YoY)		7.9	8.1	8.6	8.2	7.7
Forex reserves ($bn)	584	578	563	574	563	553
INR/USD (month end)	81.8	82.2	82.7	81.7	82.8	81.6
10Y G-Sec yield (%)	7.12	7.32	7.43	7.38	7.32	7.29
Net FPI flows: Equity ($bn)	1.4	1	-0.6	-3.5	1.4	4.4
Net FPI flows: Debt ($bn)	0.1	-0.3	0.3	0.4	-0.2	-0.2
DII ($bn)	0.3	3.4	2.3	4.1	2.9	-0.8

Nifty EPS



Source: Bloomberg, RBI, Spark Capital.

Equity Market

In Indian Equity Markets: Month Gone by

In April, the NSE Nifty 50 and BSE Sensex, India's benchmark equity indices, closed higher and recorded monthly gains of 4.1% and 3.6% respectively. The S&P BSE Mid-cap and Small-cap indices performed even better than the benchmarks, achieving gains of 5.9% and 7.3% respectively throughout the month. Amongst sectoral indices, Real Estate, Auto, PSU and Industrials were among the top performers, with monthly gains of 14.8%, 7.4%, 7.2% and 7%, respectively. However, the IT sector underperformed with index, down by 3.4% MoM due to ongoing banking sector stability concerns in the US and forecasts of a global growth slowdown.

FPIs were net buyers in Indian equities for the second consecutive month, purchasing $1.4 bn, while DII investment was muted at $0.3 bn. Despite concerns around another regional bank collapse in the US, Indian equities remained insulated, bolstered by the RBI's decision to pause policy rate hikes.

In April 2023 policy, the RBI opted to maintain the policy repo rate at 6.5%, citing a desire to observe the impact of past rate hikes on inflation. However, the Governor emphasized that this was merely a pause, not a change in direction, and that it was critical to remain vigilant regarding upward inflation risks. The released minutes of the RBI MPC during the month were in agreement, with members noting the near-term risks to inflation (unseasonal rainfall and weak monsoon) and the need to monitor the impact of cumulative policy measures taken thus far. In March 2023, India's CPI fell within the target range, declining from 6.4% in Feb 2023 to 5.7% YoY. Furthermore, the March WPI in India fell to 1.34% YoY, largely due to deflation in manufactured goods. This reduction in manufacturing product inflation bodes well for India's core CPI in the coming months.

India's growth indicators released in the past month have been positive. The Manufacturing PMI for April 2023 was 57.2, up from 56.4 in March 2023, with strong figures for output, new orders, and employment. India's PMIs continue to outperform those of other major global economies. Additionally, credit growth remains robust at 15.9% YoY as of April 7th, driven by the strong performance of the retail and services sectors. In April, GST collections hit an all-time high of Rs 1.9 trillion, driven by robust underlying economic momentum and the end-of-the-financial-year effect. E-way bill generations in March 2023 were also at an all-time high of 91 million. In contrast, global data has shown softness, with manufacturing PMIs contracting in the US, China, Europe, and Japan.

Other key developments in the month:
(1) OPEC+ announced surprise cuts in oil production,
(2) Skymet expects the upcoming monsoon to be 'below normal', whereas IMD expects normal monsoon, (3) IMF lowered India's FY2024 GDP growth projection to 5.9% from 6.1%.

Outlook

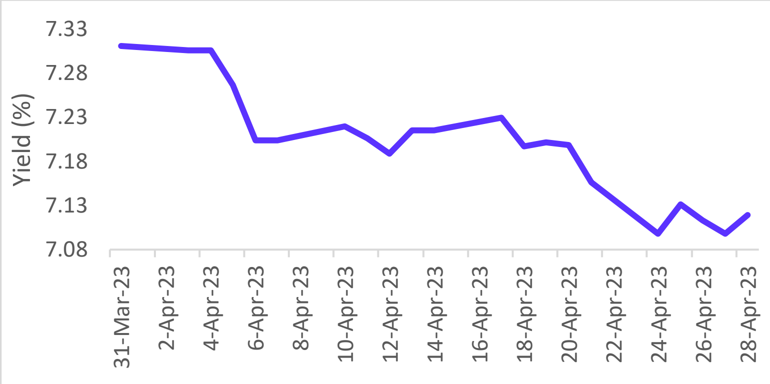
The Indian markets might remain volatile in the short term due to heightened global risks on growth and financial stability. Despite continued stability concerns in the US banking system, we do not expect significant spill-over into the Indian banking sector. This is largely due to the fact that Indian banks are well-capitalized, with GNPA ratios at multiyear lows and robust provision coverage. Additionally, Indian banks have diversified retail deposits, and the impact of yield increases on banks' long-duration portfolios has been modest. Overall, Indian banking stocks are trading at attractive valuations, and their assets are expected to grow in double digits with low credit costs, albeit with some normalization of margins as deposit rates catch up to the increase in yield on assets.

The recent upheaval in the US banking industry implies a potential restriction in credit availability, indicating that the Federal Reserve's cycle of increasing interest rates may be coming to an end sooner than expected. If the Fed were to pause its rate hike cycle, it could have a favourable impact on emerging market equities, particularly in India. However, failure to raise the US debt ceiling in time remains a risk to global equities. If the US Treasury fails to pay its debt obligations, it could lead to a massive risk-off environment, resulting in large FPI outflows from emerging markets.

Given the current environment, we believe that a bottom-up investment approach is the most suitable. Over the medium term, the fundamental outlook of the economy appears attractive as the investment cycle is in the early stages of recovery. Regarding sectors, we have a positive view on domestically inclined sectors compared to export-oriented sectors. Domestic cyclicals, such as Financials, Autos, and Industrials, are well-positioned in the current environment. Our long-term view on the economic cycle remains bullish, led by a pickup in private sector capex, the government's commitment to infrastructure spending, opportunities arising from the shift of global supply chains, and a rebound in the housing cycle. Moreover, low corporate and housing leverage, coupled with a robust banking sector, are likely to act as catalyst for economic growth in the medium to long term.

Debt Market

10 Year Benchmark Bond Movement



Spread Movement

Spreads	Maturity Period	AAA	AA	A
28-Apr-23	1 Yr	71	134	328
	3 Yr	60	128	301
	5 Yr	58	125	294
	10 Yr	53	122	298
31-Mar-23	1 Yr	60	118	321
	3 Yr	71	137	312
	5 Yr	68	128	294
	10 Yr	50	127	299

Bond yields rallied to seven-month low with 10-year benchmark G-sec closing at 7.12% easing 19 bps for the month. Unexpected rate pause by MPC in India, lower CPI print, supportive commodity prices and easing U.S bond yields kept sentiments high among bond investors.

Markets:

Bond prices appreciated on back of supportive global and local macro-economic parameters, better demand of bonds in primary auctions. Corporates bond yields mirrored the g-sec rally while there was almost parallel shift of ~20 bps in the yield curve but for the month, longer-tenure outperformed the yield curve. While spreads in 3-5year compressed by 3-5 bps across major bond issuers. Average liquidity remained same to previous month in negative surplus of ~1.25 lakh crore as overnight rates rose from 6.45 to 6.75 levels mainly due to 15-day VRRR window (worth Rs 1.2tn), as the overnight liquidity under SDF continued to drain (average of Rs 860bn last week compared to Rs 1.2tn the week prior). The favourable momentum rose with the 10-year yield trading near 7.13% after the MPC minutes confirmed the pause in the foreseeable future, we expect the 10-year benchmark yield to range between 7.10-7.20% in the near-term.

Macros:

Indian macros continue to show resilient demand trends with strong cement / Steel production picked-up by 10%/8% mom in the month. Auto sales saw 11% growth vs. -4% decline in the previous month. Fuel consumption growth improved to 6% yoy vs. 5% in the last month. Rail freight growth stable at 4% yoy. While softer growth was seen in electricity production registering -2% decline vs. 8% growth in the previous month. Air traffic growth softened yoy. Port volume growth softened to 1% yoy. Bank credit disbursal continued to improve; but growth softened slightly to 15% yoy. Deposit/M3 growth was lower.

March CPI print expectedly moderated to 5.66% after two consecutive above-6% readings. Core inflation surprised on the downside. Though favourable base effects are expected to keep 1QFY24 inflation comfortably around 5.1%, March CPI inflation moderated to 5.66%, led by a favourable base effect and broad easing across food & beverages and core inflation. Sequentially, headline inflation increased 0.2% (broadly the same pace as in February). Meanwhile, rural inflation moderated sharply to 5.5% (February: 6.7%) and urban inflation moderated to 5.9% from 6.1%. We estimate the FY2024E average CPI inflation at 5.4%, IMD has predicted a normal monsoon, while Skymet has predicted below normal monsoon this year, Probability of El Nino during May-July has increased sharply to 62% from 40% earlier.

During FY23, exports have shown an increase of 6.0% YoY (USD 447.5bn) led by oil exports at 40.1% YoY (USD 94.5bn), while non-oil exports dipped by -0.5%YoY (USD 352.9bn). During FY23, imports have increased by 16.5% to USD 714.2bn compared with USD 613.1bn in the same period last year resulting in trade deficit increasing to USD 266.8bn vs. USD 191.1bn in the same period last year. Non-oil non-gold imports fell to USD 38.7bn in March (-5.4% YoY), against this backdrop, consensus estimate shows India's CAD at 1.8% of GDP in FY24 from 2% of GDP in FY22, this is much better figure against the start of previous year with war pushing up all commodity prices.

Key take-aways from important MPC meeting: Members emphasized that the cumulative impact of earlier hikes is yet to be transmitted to domestic economy. Most members pointed out that effective interest rates have increased more than policy rate which will have an impact on growth. Members were of the opinion that while headline inflation is above 6% in January-February period, the same is estimated to see a deceleration in coming months, overall a dovish statements by majority of MPC members.

Global:

Easing inflation, waning labour market strength, lacklustre business activity points to a US slowdown. After raising rates on expected line in May by 25bps to 5%-5.25%, FED delivered a dovish commentary as Fed no longer says that it "anticipates" further rate increases would be needed instead that that it will watch incoming data to determine if more hikes “may be appropriate”, we think US Fed could keep rates on hold for the rest of 2023 and start cutting rates from early next year. Elevated interest rates across the globe exert pressure on growth as US and EU saw subdued growth while growth picked-up in China. Meanwhile, the OPEC+ production cuts have been overshadowed by increasing global slowdown concerns weighing on crude oil prices falling from month high of 86$ in brent prices. Hence the global backdrop is more supportive for bond prices although with fiscal resources arguably stretched, central banks globally are approaching the end of tightening cycle with certain major economies making their last leg of raising rates by 25bps like EU, Australia and Norway during the month. US 10-year benchmark breached 3.40% levels closing at 3.47 easing 6 bps importantly the 2-year yield rallied to 3.65 against the close of 4.13 implying the markets are expecting rate cuts to be delivered earlier then estimated.

Outlook:

The RBI paused its hiking cycle at its recent meeting, against the consensus forecast for a hike. While the market has already reacted, we now believe the market’s focus has turned to when the RBI can start to cut rates. Although as markets get more confident of pricing in rate cuts globally and commodity prices continue to reflect the demand side weakness, India curve is likely to price in earlier i.e. on backdrop of FEB easing 125-150 bps in coming year, RBI is expected to follow the same although with lesser magnitude assuming normal monsoon and supportive commodity prices. We see MPC awaiting for more clarity on oil prices and monsoon in coming months as they would also get an understanding on US Fed trajectory by June and monsoon by August. Thus, we see a pause in next policy and change in stance in August. The door for rate cut can open up in next financial year. We are also expecting RBI to take assertive actions on liquidity front in coming months with higher maturities line-up, injecting liquidity by various monetary tools supporting short end of the yield curve. As an investment recommendation, we reiterate our call on longer-tenure bonds and do think we are still distance away from yield curve becoming steep.