July 2024

FUND MANAGERS COMMUNICATIONS

Global Market: During the month of June 2024: In US markets Dow Jones was up by 1.12%, S&P 500 was 3.47%, Nasdaq was up by 5.91%. Among European markets FTSE100 was down by - 1.34%, DAX down -1.43%, CAC -6.42%. In Asia Nikkei was up 2.82%, Shangai was down by -3.57%, Nifty50 was up by 7.68%. MSCI's 47-country world stocks index has clocked up a punchy 11% since January.

Rates: US fed has kept rates on Hold in its June policy meeting. The European Central Bank went ahead with its first interest rate cut since 2019 a decrease of 25 basis points, citing progress in tackling inflation, bringing the historically high deposit rate down to 3.75%. Recent Fed commentary indicates for lower rates in future.

Average inflation in G-20 economies softened to 5.9% in Apr. In the past few months, inflation prints, which were sticky, have been seeing some moderation. Inflation in the US rose less than expected, suggesting easing in price pressures. While the Central bank of Canada and the ECB have cut interest rates, the Fed is likely to hold as inflation remains above its 2% target.

Domestic Market: India's GDP grew 8.2% in FY24, marking the rare third consecutive year of over 8% growth. Growth was driven by the government's commitment to capex and strong real estate demand, though slow consumption growth is a concern.

India’s external sector has shown resilience in 2024, with improvement in the goods trade balance and an 8.6% increase in the services trade surplus in the first four months of 2024. However, global prospects are uncertain. US economic growth is expected to slow, with pandemic-related savings depleted and weaker job growth. Concerns about China's ability to sustain growth persist, as recent fiscal measures have not revived property market demand.

Fund Flow: FII flows were positive in June 24 with inflows of Rs.24386 crores. DII flows remained healthy with inflows of Rs.26783 crores during the month.

RBI Policy: In line with our and market’s expectations, the RBI delivered a status-quo policy with no change in repo or liquidity stance. The Central bank revised up its FY25 growth forecast but kept inflation outlook unchanged.

Growth revised up; inflation forecast unchanged. On strong momentum in manufacturing and services, along with better rainfall expectation, FY25 GDP forecast was revised up to 7.2%. Inflation, meanwhile, was unchanged at 4.5%. According to the apex bank, disinflation in the last few months has been slower and although core CPI has declined, volatility in food continues amid unpredictable weather.

Consumer price Inflation (CPI): India’s May’24 CPI inflation at 4.75% was slightly below our 4.85% expectation. The average CPI for the quarter is expected below the RBI’s 4.9% forecast. The CPI inflation is expected to ease from current levels as expectations of normal monsoon would likely support farm output, along with benign crude prices. Also, government welfare support programs could see demand revival, which would reverse the current downtrend in core inflation. With easing liquidity post the general elections and growth still strong, the RBI is likely to continue to hold rates. With the ECB and the Central Bank of Canada cutting interest rates and the US likely to lower rates ahead, the RBI is likely to change its stance to neutral.

IIP: Industrial production growth for Apr’24 at 5% was above our and consensus expectations. Growth was broad-based on the production side but on use-based categorisation, non-durables production contracted. The industrial production story is playing out in line with our expectations. We have continued to highlight muted participation by the private sector due to election uncertainty and consumption growth being driven by prices but not volumes. Moving toward the second half of the year, we are seeing better prospects for policy continuity, which would aid confidence, and a pickup in rural demand. The latest inflation print came softer than expected, post a dovish tone toward rate expectations. We continue to hold the view that private investments would pick up from Q3 FY25. Risks to the outlook stem from weakening global growth, which can drag down our core exports thus impacting industrial production. Further, higher commodity prices if sustained, will impacting margins.

CAD: As Per our expectations, the current account turned into surplus in Q4 FY24. We reckon there are reasons to believe this trend will be reversed in the first two quarters of FY25. Emerging fractures in the global economy means Indian exports will take a hit, while a likely revival in India's rural sector will raise imports. This, paired with higher commodity costs, which were favourable last year, will have an adverse effect on India's current account deficit. On the other hand, policy continuity and the stable macroeconomic context for India means equity inflows are likely to return, and flows around the inclusion of government bonds in global indices means strong capital flows overall. On balance, we think the BoP will hold in surplus territory, supported by strong capital flows.

GST Collection: Goods and Services Tax (GST) collections rising about 7.74% to about ₹1.74 lakh crore. PMI: The HSBC India Manufacturing PMI came in at 57.5 in May 2024.

Auto: Jun'24 2W wholesale volumes rose to double digits, notably surpassing our estimate because of a large build-up of stocks, driven by anticipation of demand improvement ahead. Similarly, PVs grew in low single digits on stock filling, more than we expected. CV volumes declined in mid-single digits due to weak truck volumes despite robust bus volumes, broadly as we expected. Tractors grew slightly, a bit above our expectations. Ahead, we expect good volume trajectories across segments, with 2Ws outstripping others. We expect 11% FY25 volume growth for 2Ws, 5% for each PVs and CVs and 4% for tractors. We retain our sanguine view on the auto sector.
Credit and deposit growth re-accelerate. Credit growth increased to 20.7% (16% excl. the HDFC merger), from 19% the previous month. Deposit growth also accelerated, to 14%, driven by a good increase in demand deposits and an uptick in time deposits. In liquidity, we see things improving with government spendings likely to return now that the elections are behind. This would be aided by higher capital flows, both of which can remove the stress from inter-bank liquidity.

Equity Market Outlook: The uncertainty over the election outcome is now over, although coalition government, the majority still remains with the existing government. Also the policy continuity would be there as major portfolios ministry remains with the same existing ministers. With couple of state elections approaching closer and looking at latest election verdict we believe some of the populist and socialist measure could be part of the budget in July along with the ongoing reforms. The government has the head room for expenditure backed by strong tax collection both Direct and Indirect taxes along with very well supported strong dividend payout to government by government backed entities.

With Inflation, interest rate and fiscal deficit under control along with strong economic activities data we believe the economy to maintain its growth momentum. Domestic liquidity likely to provide cushion to Indian equity market and with FII turning back the markets are likely to sustain at higher levels in spite of recent run up in the equity market. Although valuation in the market has been above average, with earning season again kick starting from this week we believe the cushion to be provided to valuation.

Correction if any would be shallow and it would be more of time correction or consolidation. However, stock specific activity is likely to continue the momentum. Long term outlook remains positive.

Regards,
Mayur Shah
(Fund Manager-Anand Rathi Advisors Ltd.)

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