October 2024

FUND MANAGERS COMMUNICATIONS

Global Market: During the month of September 2024: Major Equity indices in US markets Dow jones was up by 1.85%, S&P 500 up by 2.02%, Nadaq was up by 2.68%. In Europe DAX was up by 2.08%, FTSE 100 was down by -1.52%. In Asia Nikkei was down -0.15%, Shangai was up by 18.69%, Nifty 50 was up by 2.23%.

The IMF kept its 2024 global GDP growth forecast unchanged at 3.2% and raised its 2025 forecast by 0.1% to 3.3%. The global economy is set for modest growth over the next two years amid cooling activity in US, a bottoming out in Europe and stronger consumption & exports for CHINA. Growth projection for India is at 7% for 2024 and 6.5% in 2025.

Crude oil prices has fallen to 3 years low during the month, amid expectations of slower demand led by expected softness in Global economy & higher oil supply. Lower oil prices are supportive for India, being a large oil importer & consumer. However with the latest tension emerging in middle east between Iran & Israel one has to keep a close watch on the oil price movement.

The G-20 Manufacturing PMI hit a five-month low in Aug'24. JPM global manufacturing PMI indicated declines in 18 of 31 surveyed economies, including the US, Europe and Japan, while India continued to post the fastest expansion and China returned to expansionary territory. New orders and global trade flows weakened for a second month, while input prices rose due to higher shipping costs. Another worrying trend was the weakening of global trade flows, which were subdued for the second successive month, while prices firmed up reflecting higher shipping costs.

Our G20 GDP-weighted industrial production measure contracted in Jun'24, continuing its decline from the previous month. European countries experienced significant decreases, and Japan saw a notable year-on-year drop. Chinese production is trending downward, while the US reported better growth figures.

US Economy: The Fed kicked off its easing cycle with a 50bps cut, and guided for more rate cuts in coming next few quarters. US inflation cooled for the fifth straight month and rose less than expected in August 2024 at 2.5% thus becoming more supportive for rate cuts. Unemployment rate came at 4.2%, in Jobs data Non farm payrolls increase by 142,000.

Domestic Market: PMI: The PMI in India was 56.5 in September 2024. This was a slight decrease from the previous month, and indicated a softer expansion in factory activity.

India's Core sector output contracted 1.8% in Aug'24, compared to 13.4% in Aug'23 and 6.1% in Jul'24. Six of the eight components saw contraction, while steel and fertilizers recorded growth. The overall weakness was due to the high base and delayed monsoon withdrawal.

Credit growth: In Aug'24, credit growth held steady at 13.6%, while deposit growth rose to 10.8%, driven by demand and time deposits. The credit slowdown is in accord with trends, where a high LDR was followed by slower credit growth.

RBI Policy: The RBI delivered another status-quo policy, keeping the repo rate unchanged at 6.5%. The RBI kept its projections on growth and inflation unchanged at 7.2% and 4.5% respectively. The next policy meeting is scheduled for 7-9th Oct'24.

Fund Flow: FII flows were positive in the month of September 24 with inflows of Rs.49792 crores. DII flows remained healthy with inflows of Rs.24191 crores during the month.

Consumer price Inflation (CPI): In contrast to market expectations, India's CPI inflation was slightly higher at 3.65% in Aug'24. An important point here is that the present print indicates the inflation is likely to be lower than the RBI projection for the second consecutive quarter; thus, indicating a downwards revision in the full year projection. The outlook for inflation is positive as commodity prices continue to fall led by crude oil.

IIP: Industrial production growth for Jul'24 was flat at 4.8% while the Jun'24 figure was revised upward to 4.7%. A pickup in industrial production growth was anticipated. The recent figures for Q1 FY25 GDP indicate both consumption and investment picked up pace and got into a better balance. Ahead, the government's commitment to its capital expenditure plans could lead to a surge in infrastructure spending, stimulating economic activity. Furthermore, better rainfall and increased sowing are likely to boost rural demand. Consequently, we expect a notable increase in growth during H2 FY25. Nevertheless, potential risks to this forecast stem from global growth weaknesses and rising geopolitical tensions.

Trade Deficit: The merchandise trade deficit widened to $29.7bn, the highest in the last ten months. The Services trade surplus, on the other hand, expanded to a seven-month high. India's current account deficit in Jun'24 (Q1 FY25) rose to $9.7bn (1.1% of GDP), reversing the surplus of $4.6bn (0.5% of GDP) in the quarter ended Mar'24. The widening trade deficit was the major factor for this.

GST Collection: GST collections in September hit Rs 1.73 lakh crore, marking a growth of 6.5 per cent year-on-year.

Auto Numbers: Two Wheelers maintained strong growth momentum, wholesale volumes rose to double digits in anticipation of good festive season. PVs came slightly lower on easing of demand and high dealer stocks. CV volumes slipped, lagging our estimate, due to the slow pickup in infrastructure/capex and heavy rains. Tractor volumes saw an uptick, along with strong management commentaries on demand. Ahead, we expect good volumes, with 2Ws outstripping others. Also, we expect tractor volumes to grow in double digits in H2 FY25.

Boosting the local defence manufacturing, the Defence Acquisition Council (DAC), on 3rd SEP 2024 accorded Acceptance of Necessity (AoN) for 10 capital acquisition proposals amounting to Rs 1,44,716 crore. From the total cost, 99% is from indigenous sources. This would be positive for companies in Defence sector.

Equity Market Outlook: After a strong rally in markets in first half of calendar year 2024, markets are consolidating with sector rotation taking place. Some of the stocks in PSU, Defence, Railway and select midcaps where valuations got stretched has witnessed profit booking, while stocks in Pharma, IT, FMCG and Consumer durables has seen recovery in last two months. Going ahead all eyes will be on Q2FY25 results season, as Q1FY25 quarter was relatively a muted quarter due to election and extended summers, to sustain the equity valuations at this levels, earnings uptick will be required.

With stable Inflation, interest rate, softer oil prices and fiscal deficit under control along with strong economic activities data we believe the economy to maintain its growth momentum in coming quarters. 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.

In Near term, news flow on geo political issues in middle east, strong rebound in Chinese markets led by government policy stimulus and Q2FY25 results season starting in October would be keenly watched.

Although valuation in the market have been above average, 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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