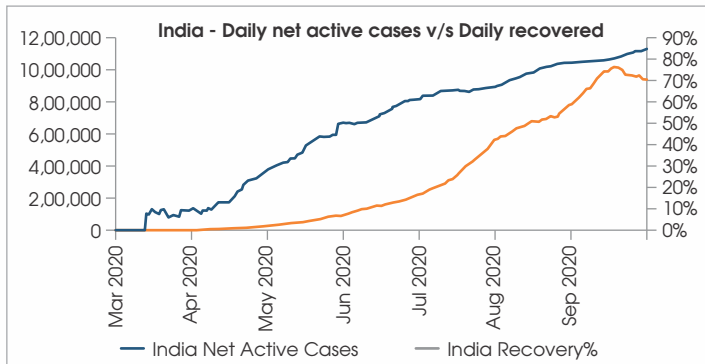


Indian markets were largely flat during September, with the Nifty 50 down a marginal 1.2% for the month. The multi-cap mutual fund related circular by market regulator, SEBI, did cause a huge initial surge in the broader markets. However, post regulator clarity, stocks cooled off and the BSE Mid-cap and BSE Small-cap 250 indices finally ended marginally higher at 0.3% and 3.1% MoM, respectively. Global markets also had a flattish to softer trend amidst bouts of large swings led by news flows related to US elections, Covid, USD movement and US stimulus package. Both FPIs and DII's turned net sellers in equities to the extent of USD587mn & USD44mn respectively\*.

As we approach the coming quarter, there are quite a few things to be optimistic about and a few things that we need to track. Amidst signs of economic recovery and Covid vaccine, we also have US elections and the quarterly result season that can lead to wild market swings. Let us look at a few of them:

## Covid update

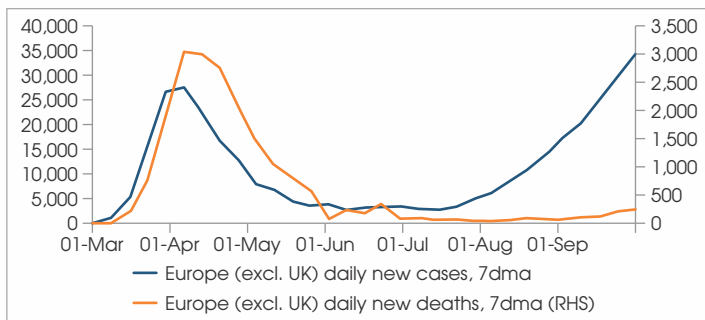
The number of fresh cases in India continue to rise rapidly every day. India already has the second highest cases in the world and is soon catching up with US. However, a redeeming data point is the rapidly increasing recoveries. In fact, even the net active cases have been falling last few days and that is a sign of relief and hope.



Source: Johns Hopkins University

Globally also markets got worried with rising cases in Europe leading to a second wave scare. However, again the reassuring data point is the very low casualty rate.

## Europe (ex-UK) Covid-19 7-days average daily news cases and death



Source: Johns Hopkins University

Source\*: NSDL, PTI, ANI, Bloomberg, BSE

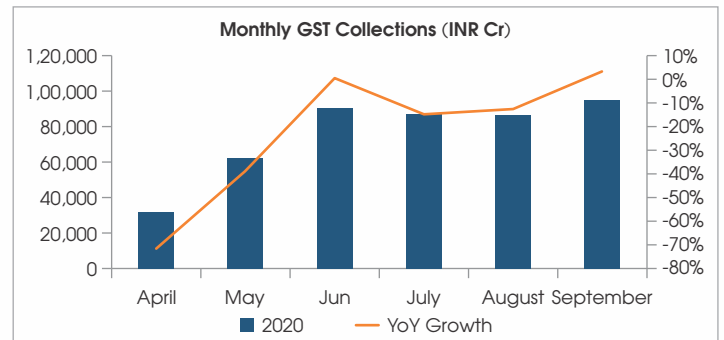
These datapoints make us believe that the intensity of the virus is reducing and hopefully with a vaccine expected soon, we would be past the peak in terms of covid related concern. This has emboldened the governments across the world to open-up, thereby leading to a revival in the economic activity.

## Indian economic indicators

The gradual opening up of the Indian economy has started to lead to a revival for sure. Various indicators have off late started to reflect a gradual but sure uptick in the economy.

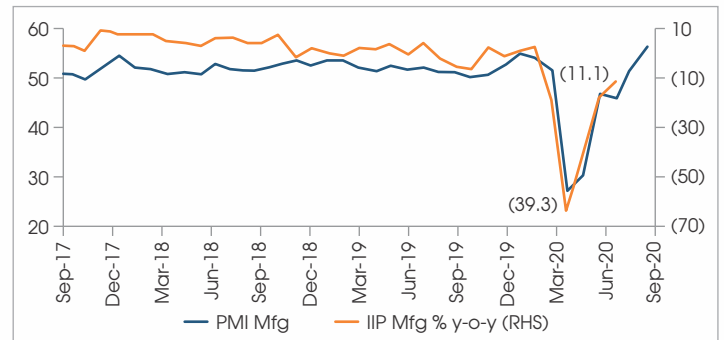
### Few highlights

GST collections for September 20 came in at 4% higher than September 19.



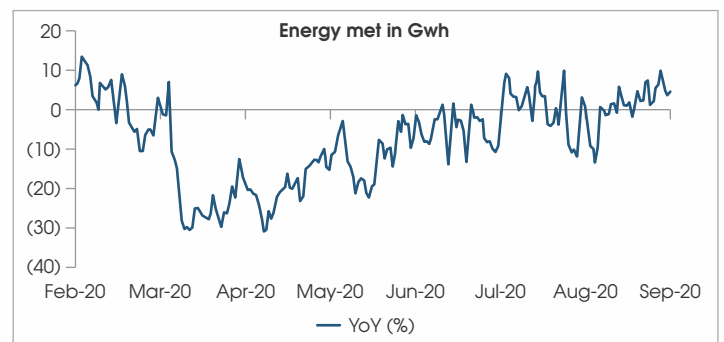
Source: GST Council Website

Manufacturing PMI for September 20 came at 56.8, indicating expansion and at a 8-year high.



Source: Bloomberg

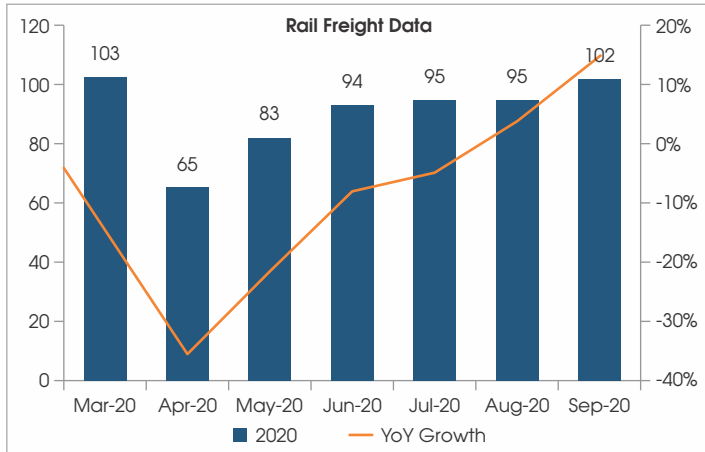
Power demand for September 20 grew at 4.6% y-o-y.



Source: Axis Capital, POSOCO

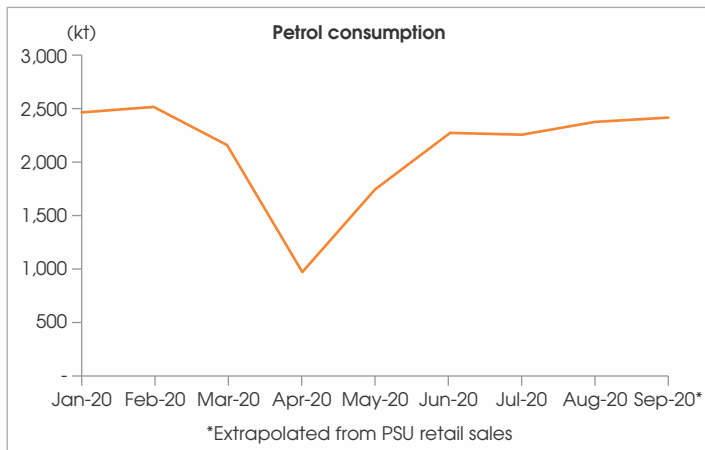
October 2020

Railway freight revenues surged 14% in September 20 compared to the corresponding period last year.



Source: Indian Railways

Petrol and diesel sales as also toll collections are back to near pre-Covid levels.



Source: Media articles, PSU Retail sales

Car & 2-wheeler sales surged for the month of September 20.

### September Vehicle Sales Data

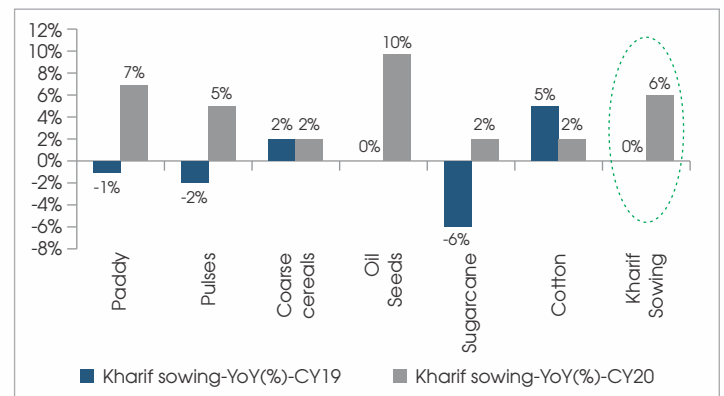
OEM	Sep-20	YoY change %
Bajaj Auto	4,41,306	9.8%
Hero Motocorp	7,15,718	16.9%
Maruti Suzuki	1,60,442	30.8%
Mahindra and Mahindra	79,306	-1.3%
TVS Motors	3,27,692	14.0%
Hyundai	59,913	3.8%
Toyota Kirloskar	8,116	-20.5%
Kia Motors	18,676	147.2%
Honda 2Wheelers	5,26,865	8.5%

Source: Company Data

As we head into the festive season and as the country opens up further, we expect the uptick in the economy to only pick up pace and revert to normal pre-Covid levels.

### A great monsoon ends/Agri economy

India has been blessed with an above normal monsoon for the second year in succession. More importantly the spatial distribution of the monsoon has been very good. This has led to a substantial increase in area under cultivation and should lead to a record agri produce. With ground water levels much higher than the long-term average, the winter crop produce also should be excellent. The government has recently also increased the MSP (minimum support price) and that should mean that the income in the hands of farmers and rural India should be very good and aid to the economic recovery.



Source: Agricoop

### Path breaking reforms by Indian government

It is widely said that never let a crisis go waste. And this seems to be what the Indian government's thought process has been which has gone ahead and pushed through long pending farm and labour reforms. Along with the thrust on "Atmanirbhar" (self reliance and Make in India) initiative, these reforms have the potential of huge long-term benefits.

**Farm bills:** The three agri reforms cleared recently – curtailing monopoly of APMCs, eliminating stock limits on traders for several commodities and permitting contract farming would facilitate remunerative prices through competitive alternative trading channels to promote efficient, transparent and barrier-free movement of agri produce. This could encourage private investment and increase productivity.

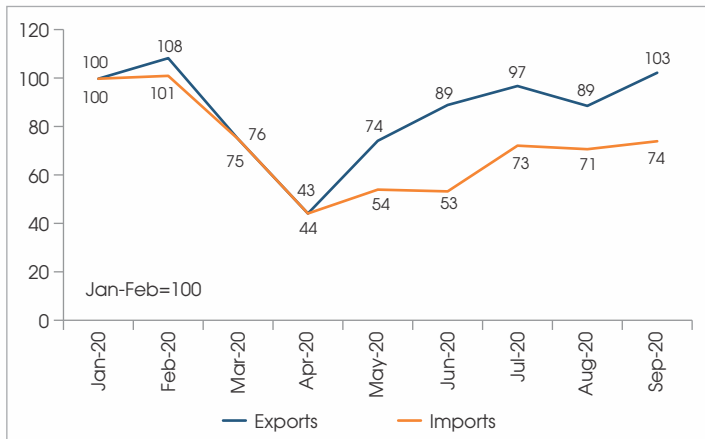
**Labour Reform:** India had 44 labour laws that have been replaced by four labour codes, the first passed in 2019 guaranteed minimum wages to more workers. Following up on that government passed three bills which will merge 25 existing laws. Key change being allowing full freedom to factories of up to 300 employees to hire and fire workers without seeking any statutory permission vs 100 employees before.

**Production Linked Incentive:** Boost large scale domestic manufacturing of goods to bring about import substitution and increase global market penetration.

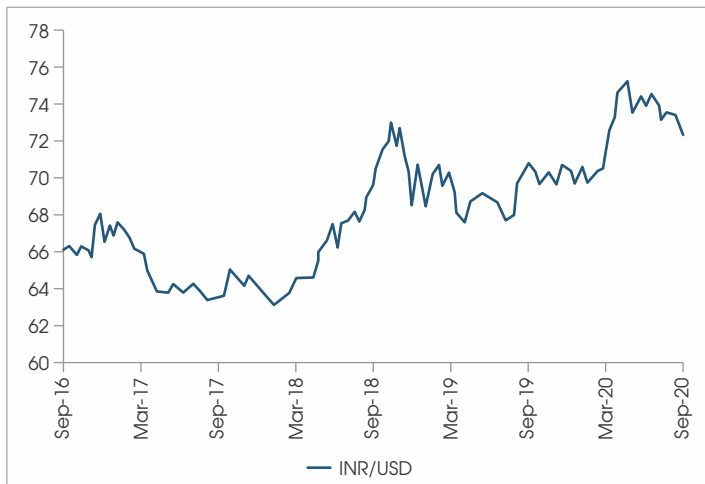
## External Sector

India's export growth returned to positive territory in the month of September 20, growing 5.3% y-o-y. This is very heartening and raises expectations of increasing exports going forward. By products, rice, pharmaceuticals, cotton yarn, ready-made garments, engineering and chemicals showed positive traction. Our interaction with various companies leads us to believe that some move away from sourcing from China is visible, especially in US and Europe and the effect of higher tariffs on imports from China into US are also benefitting Indian exports. Reducing trade deficit and strong invisible inflows will mean that India would end up with a strong current account surplus and that should aid stability and strength in Indian Rupee.

### Pace of normalization of trade



Source: CEIC, Axis Research



Source: Bloomberg

## Things to watch out for

The coming couple of months have quite a few events, each of them capable of causing huge volatility in global financial markets. With the world correlated in the near-term, Indian markets would also not be immune to this volatility.

The upcoming US elections in November have the potential to cause uncertainties right till December. More so, if the election results turn out to be much closer than expected. The redeeming factor is that the markets are already factoring to a large extent the likely outcome and that reduces the probability of huge corrections.

The upcoming earnings season is also an important event to watch out. This would be the first quarter after some resemblance of stability and unlocking of economic activity post Covid. The earnings for the Indian corporates are expected to be better than the June quarter numbers, by and large, and therefore should not cause concerns to the investors. The banking sector results though would be watched closely as they would indicate the extent of financial stress in the economy, being the first quarter post the expiry of the loan moratorium.

Among other factors to watch out for would be the India-China geopolitical tensions in the Ladakh valley as also the progress on Covid related issues and vaccine.

## Market Outlook

The markets have seen a massive rally post the panic lows witnessed in March. After the initial surge in the bell weather blue chip large caps, lately the broader markets have also seen decent and aggressive participation. The gradual unlocking of the economy and the improving macro-economic figures lend optimism. As mentioned earlier, we expect the September quarter corporate results to be better than expectations and that should lend support to the markets. At the same time, being selective is advocated as the strong rally has meant that there is over optimism in some areas. We move into a period of big events and that should lead to large swings and volatility. We would advocate any correction due to this to be an ideal investment scenario.

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