# Market Outlook

Abakkus
Believe in the Basics

**October 2022**

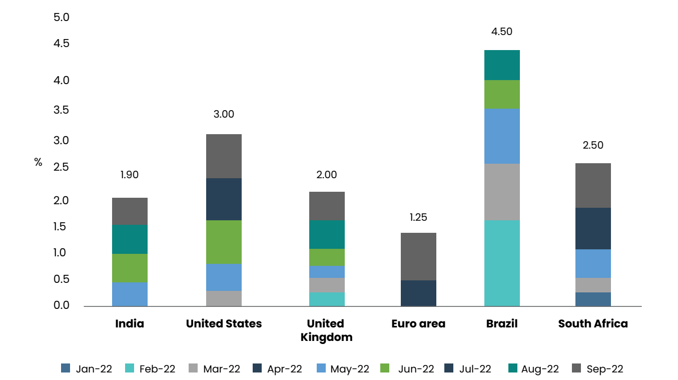
## Market Update

Volatility across asset classes and across the world seems to be the order of the day. In line with the global trend, Indian markets were also very choppy in the month of September 2022, though significantly resilient in comparison. NIFTY50 ended the month down 3.7%, while the broader markets also ended negative with S&P BSE Midcap and S&P BSE 250 SmallCap being down 2.2% & 0.6% respectively. US Fed remained hawkish and raised rates by another 75 bps, while the Dollar Index continued to hit new highs. UK government's expansionary fiscal policies amid elevated global inflation roiled the global currency markets and resulted in risk-off sentiment in equities. Real Estate, Power and Oil & Gas were the worst performing sectors while defensives: Pharma and FMCG were top performing sectors for the month. Post the strong August inflows, FII's were again net sellers in the month of September'22 to the tune of ~USD 903 mn. Domestic institutional inflow was strong with a net buy of ~USD 1.7 bn, aiding stability in the markets.

## Macro Update

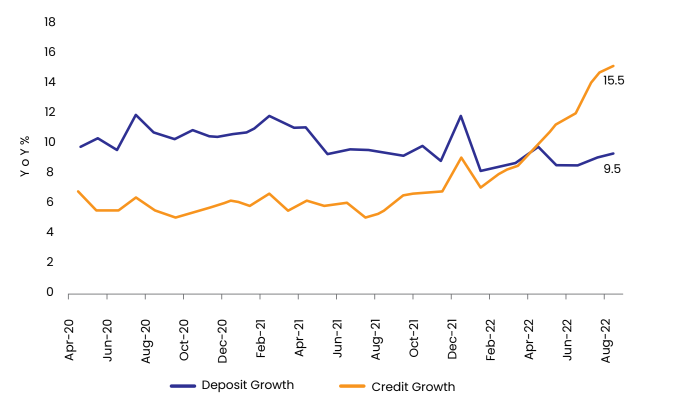
On the macro front, along expected lines, RBI raised repo rate hike by 50 bps points which now stands at 5.9%. RBI marginally reduced its FY23 real GDP forecast from 7.2% earlier to 7.0%. Current account deficit in Q1FY23 widened to USD 23.9 bn (2.8% of GDP) from USD 13.4 bn in 4QFY22 (1.5% of GDP). Credit-deposit ratio rose 73.3% in August'22 due to pick-up in credit demand. India's CPI inflation inched higher to 7.0% in August'22 due to higher food prices, compared to 6.7% in July'22. WPI inflation eased to 12.4% in August'22.

**Change in Policy Rates Since January 2022**




Source: Bank for International Settlements; Note: Change in Policy Rates Since January 2022

**Credit Growth Outpaces Deposit Growth**




Source: Bloomberg, CEIC

India's exports rose marginally 1.6% to USD 33.9 bn in Aug'22 while India's imports rose 37.3% to USD 61.9 bn in Aug'22.

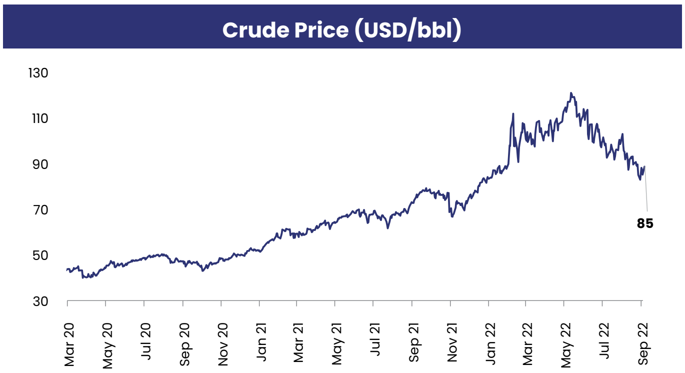
GST collection rose 26% to INR 1.47 lakh crore in September'22 and have remained over the INR 1.40 lakh-crore mark for the seventh straight month. Corporate and income tax collections grew at a 23.6% and 33.2%, respectively, during the first five months of this fiscal year vs pre-COVID five-year average of 8.8% and 16.4% respectively. Buoyancy in tax collections clearly indicates that the domestic Indian economy remains quite strong and resilient.

Crude cooled down to USD 85/ bbl as demand is softening and it reinforced our view of crude headed lower in the medium to long term. In line with a fall in international rates, govt has cut windfall profit tax on locally produced crude oil to Rs 8,000 per tonne from Rs 10,500 per tonne and scrapped the levy on the export of jet fuel with effect from October 2. The Dollar index has risen above 114, highest level in nearly 20 years. This impacted rupee which is now hovering around 81.5.

FY period: April-Mar, CPI: Consumer Price Index, WPI: Wholesale Price Index FII: Foreign Institutional Investors, GST: Goods & Services Tax, DII: Domestic Institutional Investors Fed: US Federal Reserve, IIP: Index of Industrial Production, GSec: Government of India Dated Securities, GOI: Government of India, FDI: Foreign Direct Investment, CAD: Current Account Deficit, YTD: Year To Date, CY: Calendar Year, WTI: West Texas Intermediate

Inflation numbers released with 1 month lag, Core Sector number released with 1 month lag, IIP number released with 2 month lag

Source: NSDL, PTI, ANI, Bloomberg, BSE, NSE, Abakkus Estimates, RBI




Source: Bloomberg

**Quarterly Earnings Preview**

Corporate earnings will continue to remain strong, ex metals and oil and gas. Domestic demand has been strong, as the first normal festive season in three years, sets in. At the same time, impact of sharp input costs in the aftermath of the Russia/Ukraine conflict will be felt in this quarter. However, with a sharp fall thereafter in commodity prices, outlook for H2 FY23 is pretty positive.

**Monsoon Update**

Monsoon season ends with cumulative surplus at 7.0% above normal level. This is the fourth successive year of good monsoon and should bode for the rural and agri economy.

**Market Outlook**

We are going through a cycle of heightened global news flow, events and uncertainty. Financial conditions have tightened following aggressive monetary policy action across the world to combat surge in inflation. This has caused higher volatility in financial markets and USD has strengthened to a two-decade high. Central banks and governments are grappling with the rapidly changing economic outlook and this was reflected in United Kingdom where currency plunged upon government move to cut taxes and within days they were forced to rethink on their strategy. At the same time, we believe that Central banks all over the world, will have to loosen their tough and aggressive rate hike plans to ease this upheaval in financial markets.

The Indian economy and to some extent, financial markets have come out relatively unscathed so far. The INR has been amongst the best performing currencies vs the USD. Domestic demand remains stable with accelerated credit growth at 16.2% YoY. Seasonally adjusted manufacturing capacity utilization reached the highest level in three years, standing at 74.3% in Q2FY23. Outlook for Rabi season also augurs well with reservoir levels at 87% of full capacity vs a 10-year average of 77%. The central bank data trends suggest stronger domestic demand from robust credit growth, capacity utilization, winter harvest prospects and capital goods demand. However, downward risks to exports are possible, due to headwinds from geopolitical tensions, tightening global financial conditions and slowing external demand restrict GDP outlook.

From a global investor perspective, Indian equities are coming back in focus, given the resilient economy and currency. A view of moving away from EM funds and China funds into India specific funds is also slowly gaining pace. This flow should act as an added strength for Indian equities. However, we have to be conscious of the global events and news flow and avoid chasing momentum. In the near term, as we enter the earnings season, we expect stock specific volatility as many companies/sectors will witness margin compression owing to high input prices. At the same time, if festive demand is good then markets may like to ignore near-term noise and just focus on the positives. We would prefer to be in the latter camp.

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