MONTHLY UPDATE
AUGUST 2020

HDFC Life

Sar utha ke jiyo!

August 2020

"The secret of getting ahead is getting started."

- Mark Twain

Equity markets

Indices	31st July 2020	31st Aug 2020	1 Month Return (%)	1 Year Return (%)
BSE Sensex	37,606.89	38,628.29	2.72%	3.47%
S&P CNX Nifty	11,073.45	11,387.50	2.84%	3.30%
BSE 100	11,158.96	11,480.92	2.89%	3.06%
BSE Mid Cap	13,759.11	14,661.37	6.56%	8.86%
BSE Small Cap	13,021.76	14,336.18	10.09%	14.37%

Source: Bloomberg

In Aug'20 equity markets continued the uptrend. While large cap indices gained in the range of 2.7% to 2.9%, mid and small cap index outperformed the larger indices by gaining 6.6% and 10.1% respectively. On a 1-year basis markets have now turned into positive trajectory. Sensex and Nifty have gained 3.5% and 3.3% respectively while Mid cap and small index are up 8.9% and 14.4% respectively.

During Aug'20, Metal sector gained the most at 12.9% followed by banking sector at 9.7%. FMCG, IT and Oil & gas sector posted decline. On a 1 year basis, Healthcare, Auto, IT and metal sector are outperforming the large cap indices.

The yield of benchmark 10-year G-sec changed to 6.08% at end Aug'20 vs 5.84% at the end of Jul'20. New 10 year instrument was issued in late Jul'20, yield for this instrument moved to 6.12% at end Aug'20 vs 5.77% at end Jul'20

All the major global equity indices posted gains during the month of Aug'20. Nasdaq and Dow Jones posted the highest gains of 9.6% and 7.6% respectively whereas FTSE gained the least at 1.1%.

Commodities (USD)	1 Month Return (%)	One Year Return (%)
Gold	-0.4%	29.4%
Silver	15.4%	53.2%
Crude Oil	5.8%	-22.7%
Copper	4.0%	18.0%
Primary Aluminum	5.0%	2.7%
Lead	4.9%	-2.2%
Nickel	11.5%	-14.2%
Tin	-0.3%	9.2%
Zinc	8.5%	14.1%

Source: Bloomberg

All the major commodities except Gold and Tin posted gains during the month of Aug'20. Silver gained the most by 15.4% during the month.

On a YoY basis, performance of the major commodities was mixed. Gold and Silver appreciated the most while Crude declined the most.

Macro Economic Data

Indicators	May'20	Jun'20	Jul'20	Aug'20	Comments
IIP (%)	-33.90%	-16.60%			Industrial output declined by 16.6% in Jun’20, following 33.9% contraction in May’20, mainly led by the fall in manufacturing output (-17.1% in Jun'20 vs. -38.4% in May'20) and mining output (-19.8% in Jun'20 vs. -20.5% in May'20).
Core Sector (%)	-22.00%	-13.00%	-9.60%		Core sector output contacted by 9.6% in Jul’20, following 13% decline in Jun’20, led by the contraction in cement output (-13.4% in Jul'20 vs. -6.8% in Jun'20) and steel output (-16.3% in Jul'20 vs. -25.4% in Jun'20).
RBI monetary policy (Repo Rate) (%)	4.00	4.00	4.00	4.00	RBI kept repo rate unchanged at 4% in Aug'20. During Feb'19- May'20 RBI cut the repo are by 250bps.
CPI inflation (%)	6.30%	6.20%	6.90%		CPI inflation rose to 6.9% in Jul’20 from 6.2% in Jun’20 led by increase in food inflation to 8.7% in Jul’20 from 7.9% in Jun’20
Trade Deficit ($, bn)	-3.15	0.8	-4.8		In Jul’20, exports fell 10.2% to $23.6bn, while imports declined by 28.4% to $28.5bn, as a result trade balance turned deficit of $4.8bn in Jul’20 vs. $790mn surplus in Jun’20.
GST Collection ($, bn)	620	909	874	864	Total gross GST revenue collections in Aug’20 stood at Rs. 864bn, following Rs. 874bn collection in Jul’20.
FII Flows-Equity ($, bn)	1.93	2.89	1.02	6.29	On equity side, FPIs purchased $6.3bn in Aug’20, following an inflow of $1bn in Jul’20. On debt side, FII sold $0.45bn in Aug’20, following outflow of $0.33bn in Jul’20.
FII Flows-Debt ($, bn)	-3.03	-0.2	-0.33	-0.45	
Exchange Rate (INR/USD)	75.64	75.53	74.77	73.6	Indian Rupee appreciated by 1.6% during Aug'20, as it closed at 73.60 in the end of Aug’20 from 74.77 at the end of Jul’20 per dollar.
GDP (%)		-23.90%			India’s GDP contracted by 23.9% yoy in 1QFY21 – the worst decline in a quarter ever – against the consensus estimate of -18%. Barring Govt. expenditure, which grew by 16.4% in 1QFY21 – the highest in the last three years – all the other key categories of GDP witnessed a sharp decline in output during the quarter. GDP, excl. Govt. Expenditure, fell even more sharply by 29.3% during the quarter. HH consumption declined by 26.7%, while Investment fell by 47.5% during the quarter.
Kharif Sowing (%)				7.5%	Kharif sowing is up 7.5% yoy as of 28th Aug’20 majorly led by the jump in sowing of rice (10%) and Oilseeds (13%).

Outlook

Post hitting a bottom in March 20, Nifty 50 has returned more than 50% since then, aided by strong global liquidity driven by both fiscal and monetary stimuli, abating fear around the pandemic and opening up of the economy. Globally, policy support continues to be the single most important driver for financial markets and positive news on that front continued. At the annual Jackson Hole symposium, Fed Chair Powell outlined revision to the central bank's policy framework. He described dual objectives of the Fed — a more "broad-based and inclusive goal" for maximum employment and the flexible use of "average inflation targeting," which enables monetary policy to "aim to achieve inflation moderately above 2 percent for some time" following periods when inflation has been below that level. This implies policy rates will stay low for longer and is positive for risk assets.

Back home RBI increased SLR holding limit for banks to 22% of NDTL from the current 19.5%. This will increase absorption capacity of banks to buy government bonds thus allaying some of the concerns of the bond markets. RBI continued so support markets with Operation Twist which helps keep lid on the medium to long term yields. Banks especially the large private banks, also used buoyant capital markets to shore up balance sheet with equity capital raise. This strengthening of balance sheet will help banks to navigate asset quality challenges post moratorium and reduces tail risk in the banking sector.

On COVID, while the growth rate of virus spread in India moderated over August, absolute daily cases touched new high which might adversely impact the economic recovery. India had one of the severest lockdowns globally and GDP print reflected that with fall of 23.9% in Q1 of FY21. The economic reopening has been slower and while the activity levels have improved, there are signs of plateauing of activity levels now. However, listed companies performance has been better than market expectations, with stringent cost control and cash preservation effectively deployed as tools to offset the headwinds from the lockdown induced volume / revenue declines. While part of the cost may come back with revenues some of it could be permanent with sector consolidation and technology driving productivity gains. Rural India outperforming urban is a consensus commentary from all sectors. Overall, management commentaries indicate continued MoM improvement in demand after easing of the lockdown restrictions.

Geopolitical tensions flared up once again along the India-China border spooking the markets on last day of the month. Government wishes to rapidly curtail its $51bn trade deficit with China given rising geo-political issues. Most imports are not hi-tech & could be localized but lack of scale is the key factor driving imports. To achieve scale, government is aiming to step-up exports and has taken a targeted approach this time: a) visible in PLI scheme announced for Mobiles, Pharma sectors already & plans to introduce similar schemes for Textiles, Auto Ancillaries, White Goods etc.; b) recent import curbs on 101 defense items (comprised Rs3.5tn procurement over FY16-20) and increase in FDI, c) permitting commercial coal mining by inviting global firms. We believe import substitution presents big opportunity for India firms.

Growth recovery will be gradual with uncertainty around pandemic, asset quality behavior post moratorium, fiscal constraints of both state and central government and India-China conflict. On the positive note management commentaries sounds upbeat and corporate India has demonstrated resilience against odds. After vertical rise from the bottom Nifty now trades at 19x FY22E. We expect optimism to subside in near term as further upside hinges on demand / earnings normalization and abatement of the spread of COVID-19 pandemic. We believe that markets are likely to be rangebound for some time now but the volatility is expected to continue.

Fixed Income Market

Fixed Income Market Review –

Bond yields hardened during the month as the relentless supply pressure took its toll on market appetite for bonds. The amounts accepted at the weekly auctions invariably had a green shoe amount, which effectively increased the supply over the scheduled amounts. The lack of rate cuts by the RBI at the beginning of the month had set a defensive tone for the month. Subsequently, CPI data released in the month showed a rise to 6.93% YoY in July vs. 6.23% YoY in June, driven largely by a broad-based surge in food prices and increase in price levels for fuel and gold. Food CPI increased to a three-month high of 9.6% YoY in July from 8.7% YoY in June. Core CPI registered a further uptick to 5.9% YoY in July from 5.3% YoY in June.

The minutes of the August MPC meeting, released in the latter half of the month, turned out to be more hawkish than expected by the market. The members were primarily concerned about the rising inflation albeit also concerned about growth. One member emphasized that if inflation were to persist above the target band for another quarter, the MPC would be constrained by mandate to undertake 'remedial action' to manage inflation. The adverse inflation and the hawkish minutes dented market confidence. Bond yields rose sharply.

At the end of the month, RBI stepped in to cool the markets. RBI announced simultaneous OMO purchase and sell and followed up with other measures as well –

- Option for banks to unwind its previous TLTRO @ 5.15% with another long term repo worth 1lac crs at current repo rate of 4%
- Increased the limit of HTM (Hold To Maturity) category from 19.5% to 22%, paving way for banks to buy more Govt. securities. This increases the banks capacity to purchase under HTM catergory by over Rs. 3 lakh crore.
- Announced 2 more simultaneous OMO purchase and sell for a future date

Bond yields softened from the high levels. The 10-year benchmark Government security ended the month at 6.12%, sharply higher than 5.84% at the end of the previous month.
Among other economic data, the Index of Industrial Production recovered further in June, to -16.6% yoy from -33.9% yoy in May as nationwide lockdown rules were relaxed further. WPI contracted at a slower pace, clocking -0.58% YoY in July vs. -1.8% YoY in June. On a sequential basis, WPI rose marginally by 1% MoM in July. Goods and Services Tax (GST) revenue collection in August stood at Rs86,449, marginally lower than July collection of Rs 87,422 crore. India's real GDP growth collapsed to -23.9% on a year-over-year (yoy) basis in Q2 2020, probably the worst in seven decades, compared to +3.1% in Q1 2020. The plunge was led by both investment and private consumption. Government Consumption strengthened to 16.4% YoY from 13.6% in Q4 FY20. India's Nikkei Markit Manufacturing PMI rose to 52 in August from 46 in July, and the Services PMI rose sharply to 41.8 in August from 34.2 in July.

Market Outlook –
With the recent respite provided by the RBI in the form of additional OMO and HTM increase, the yields have cooled off for now, but the continued heavy bond supply by the Government every week, is keeping the markets cautious. Expectation of continued RBI support in the form of OMO purchases is expected to keep the yields in check, though any signs of omission from the central bank in terms of market support can lead yields higher.

With inflation hardening beyond RBI's comfort zone in the recent months, expectations of a rate cut in the near future have diminished, putting pressure on the shorter end of the curve. The markets are also nervous due to fears of a further increase in the Governments' borrowing numbers for the second half of the year. However, with the GDP contracting by 23.9% in Q1 FY21, , RBI is expected to unveil further measures to maintain low yields and support the faltering economy. Further movements in the bond yields will depend largely on the timing and extent of the measures that RBI is expected to undertake during the year.