

# Macro & Strategy

Financial markets bullish on FY22 and liquidity, macros recovering

5 August 2020

## INDIA | MACRO & STRATEGY | Monthly Dashboard

Our views on the economy and equities: As covid cases surge in India and some cities shuttle between lockdown/opening, economic variables are seen rebounding in June due to pent-up activity post unlock. Real test will start in August-October'20 once pent-up demand-supply tapers and sense of real activity will emerge. While some economic segments are anticipated to RELATIVELY gain from Covid situation, it will not be able to prevent economic slowdown in FY21 as the (1) risk of covid infection will continue to limit economic activity until vaccination/immunity develops and (2) Job/income losses due to business loss and lockdown. Segments to fare better: (1) Personal mobility (PVs/2Ws), (2) WFH and Work-at-Home (WAH) (+Consumer durables) (3) Digitization (+ IT, E-commerce), (4) Healthcare (+Pharma, hospitals, pathology), (5) Staples (packaged and health-based food), and (6) Rural outperformance (tractors, 2Ws, Agri inputs) owing to government and crop benefits. Additional economic benefits are seen by way of government's capex spending (so far so good), Atmanirbhar Bharat (+ Consumer durables/Electronics/Chemicals), low interest rates, and surplus domestic/global liquidity. In the upcoming RBI's monetary policy, street is fairly divided owing to high inflation; we expect RBI to frontload 25bps cut in order to support growth, as monetary space opens up in 2H owing to extremely comfortable inflation estimates.

For June 2020, PC India Index rose by a minor 3% mom vs. 2% last month (decline of -9% yoy); all macro indicators improved sequentially from the previous month.

In July 2020, Nifty 50 Index inched was up by 8% mom; Mid-cap index by 5% and small cap index by 6%. Current valuations: Nifty trading near peak valuations (1-year fwd PE at 20.7x) since 2005; on P/BV it's still cheap at 2.4x (below LTA); Mid-cap index is trading above LTA on PE and PBV basis. Nifty indices: Auto, FMCG, IT, Pharma, Realty, Metals and Services are trading above +1SD. Bank, Energy, and Infra trading near long term average. Media and PSU banks trading below -1SD.

### Growth trends

- **India's Q1FY21 GDP expected at -25%:** Shuttle between lockdown/ opening and minimal economic activity in the first quarter will be reflected in the GDP growth rate. For June 2020, IIP to continue recovering (reflecting reduction in decline of core sector data). Composite PMI showed signs of recovery. Gross tax collections contracted by 23% yoy but trebled vs. April-May led by Indirect tax revenue.
- **Q2 2020 GDP – China in green, others in deep red:** GDP has contracted in US and EU while China output grew by 3.2%. As per Bloomberg's consensus expectations for Q2 2020, GDP is estimated to contract further in Japan.
- **Business growth indicators: All Recovered from bottom**
  - **RECOVERING:** Auto sales is picking up while Air traffic is minimal with limited destinations and seats. Highest recovery in cement production. Improvement in Steel & Electricity production. Fuel consumption/Rail freight/Port Volume still low. Q1FY21 Toll collections to contract by minimum 50%.

### External factors – Trade Surplus

- **Trade surplus:** Trade balance in surplus; exports recovered well/ imports benign, annual growth rates at -12%/-48% yoy.
- **Forex:** Reserves stood at US\$ 507bn (up by US\$ 13bn mom).
- **Currency:** Rupee stable. **Global currencies:** CNY appreciated, while YEN and EUR depreciated.
- **Capital flows:** Capital flows expected to be positive with the help of FDI.

### Banking indicators – Weak

- **Commercial paper issuances and LAF** declined by Rs 343bn/1348bn mom.
- **Deposit and M3** improved while bank credit remained flat mom. For FYTD21, CIC, M3, and deposit growth fared well, as compared to last year; weakness continued in credit growth (-0.9% vs. no change same time last year).
- **Median MCLR** fell by 15bps mom at 7.7% - down 110bps from its peak in February 2019.
- **Spreads** – Corporate: Gsec yield gap narrowed to 117bps in June 2020 from 152bps in May 2020.
- **Term premium** – 10-year Gsec: 1-year Gsec yield gap widened to 216bps vs. 194bps in May 2020.

### Inflation and monetary policy – BRENT prices surged

- **India:** CPI moderated to 6.1%, core inflation at a 16-month high at 5.2%.
- **Global:** Inflation has risen in US, EU and China. Stable in Japan.
- **Bond yields: IND10yr: US10yr:** Difference between India and US government bond yields fell to 510bps vs. 540bps last month.
- **Commodity prices:** London MX index increased by 8% mom, Brent prices up by 26% mom.

### Equity markets – Trended higher

- **India:** Nifty 50 inched up by 8% mom.
- **Global:** FTSE Emerging Markets Index inched up by 9%, FTSE World index was up by 8% mom.
- **One-year forward PE** for Nifty strengthened to 18.2x vs. 16.2x in May 2020. FTSE Emerging/World Index PE traded at 14.2x/19.1x vs. 13.1x/17.8x in May 2020.

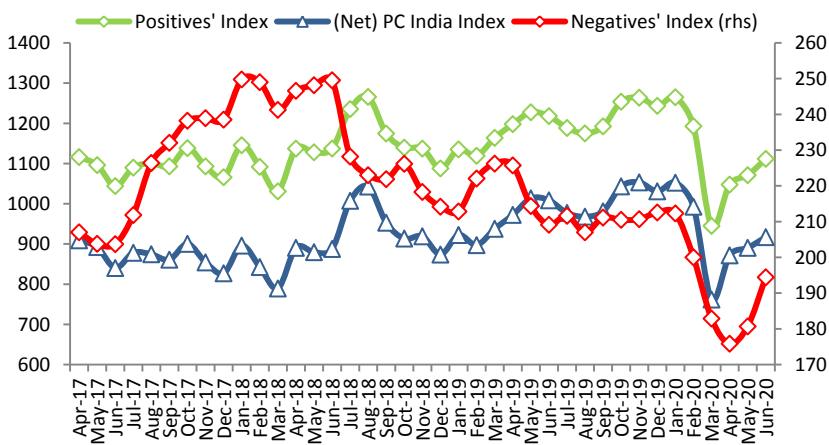
Anjali Verma, Research Analyst ([anverma@phillipcapital.in](mailto:anverma@phillipcapital.in)) | Navaneeth Vijayan, Research Associate ([nvijayan@phillipcapital.in](mailto:nvijayan@phillipcapital.in))

**Data for July 2020 – Forex, Nifty and Currency fare well**

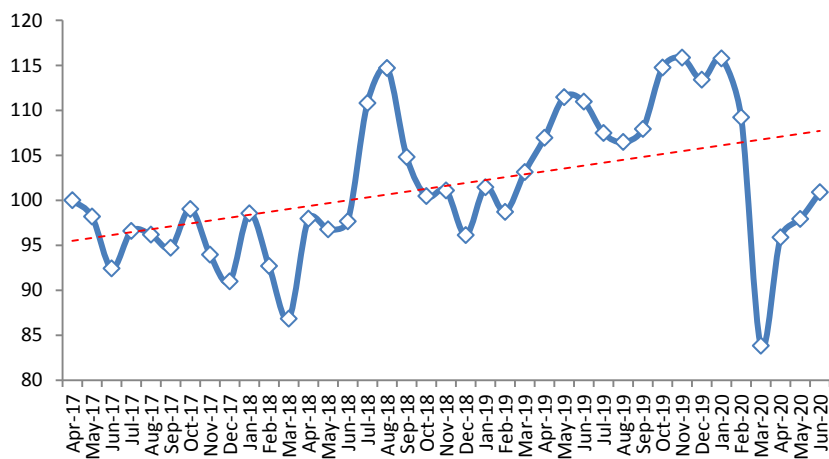
- Forex reserves inched up by US\$ 16 bn mom.
- Manufacturing PMI deteriorated to 46 in July vs. 47.2 last month.
- Stable CP issuances and net liquidity. INR appreciated by 1% mom.
- Oil prices inched up by 6% mom.
- Nifty 50 Index further trended higher, up 7% mom.

**PC India Index increased slightly for the third consecutive month in June 2020 as Positives’ index inched up. Index was supported by increase in auto sales, forex reserves, capital flows, financial markets, industry index, and trade surplus. The index came under pressure from bank credit, fuel consumption, air traffic, rail freight, tax collection, and higher crude prices.**

**PC India Index- Slight pickup in June 2020**



**Net PC India Index (April 2017 = 100)**



Source: PhillipCapital India Research

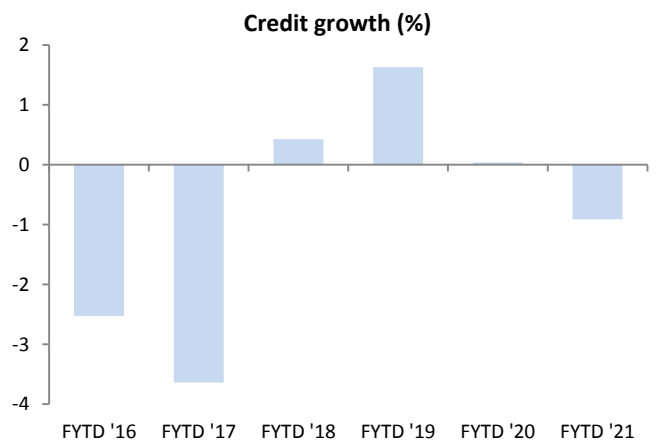
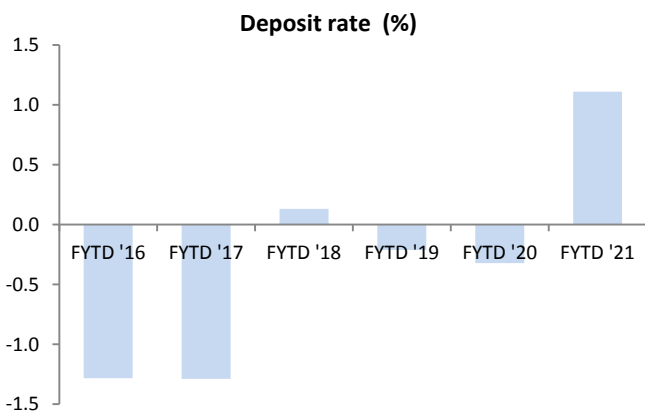
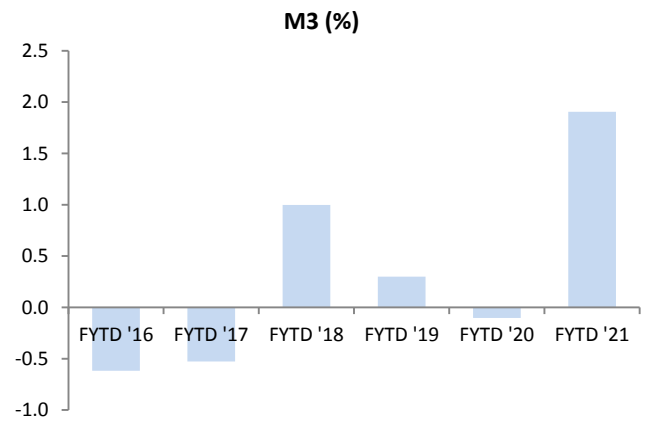
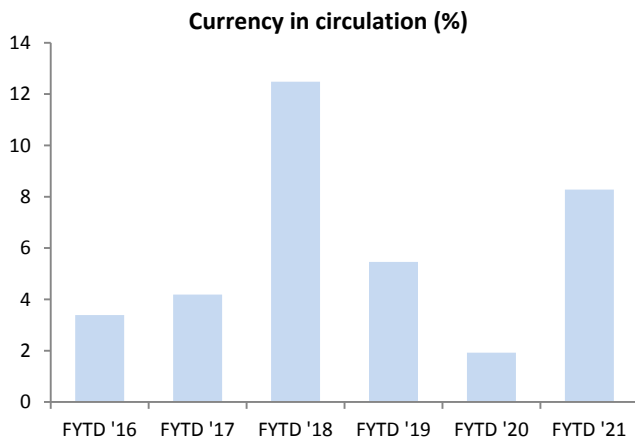
### PC India Index- what is it?

We have taken into account various important domestic as well as global factors, economic and industry variables, production indices and prices, as well as various asset classes. Weights are assigned to each variable to arrive at Positive Index, Negative Index, and Net Index. Positive Index is the weighted average of all the factors that are positive for India. Negative Index is the weighted average of all the factors impacting India negatively. **“Net PC India index = Positive index - Negative Index”**.

	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
<b>Fiscal</b>														
Gross tax collection (yoy %)	-7.3	2.7	25.5	-5.4	-4.8	-0.7	-2.6	-19.6	7.2	13.2	-14.4	-44.3	-37.3	-22.7
<b>Foreign Trade</b>														
Export (RsBn)	30.0	25.0	26.3	26.1	26.0	26.4	26.0	27.4	26.0	27.7	21.4	10.4	19.1	21.9
Import (RsBn)	45.4	40.3	39.8	39.6	36.9	37.4	38.1	38.6	41.1	37.5	31.2	17.1	22.2	21.1
Capital flows (USD bn)	9.4	14.3	8.2	5.4	8.5	9.2	6.1	5.8	14.8	8.2	-4.2	3.3	4.6	6.3*
Forex Reserves (USD bn)	421.9	427.7	429.6	428.6	433.6	442.6	451.1	457.5	471.30	481.54	475.56	479.46	493.48	506.84
<b>Industry</b>														
IIP (Index)	135.4	129.3	131.8	126.2	122.9	124.0	128.8	134.5	137.4	133.5	117.7	56.3	88.4	100.6*
Composite PMI (Index)	51.7	50.8	53.9	52.6	49.8	49.6	52.7	53.7	56.3	57.6	50.6	7.2	14.8	37.8
Cement Production (Index)	149.3	147.9	146.5	127.7	131.3	137.0	142.4	159.2	164.1	160.7	129.8	22.5	117.3	137.7
Steel Production (Index)	161.8	159.3	151.7	150.0	141.2	149.5	154.9	165.2	155.4	152.9	129.6	33.3	92.1	105.4
<b>Banking</b>														
M3 (yoy, %)	9.9	10.1	10.6	9.9	9.7	10.6	9.8	10.4	11.2	10.2	8.8	10.7	11.7	12.3
Bank Credit (yoy,%)	12.4	12.0	12.1	10.1	8.8	8.9	8.0	7.1	8.3	7.5	6.2	6.7	6.2	6.2
Deposits (yoy, %)	9.7	10.0	10.6	9.7	9.4	10.3	9.7	10.1	11.2	10.0	7.9	9.8	10.7	11.0
Median MCLR (%)	8.8	8.7	8.6	8.5	8.5	8.4	8.3	8.3	8.3	8.2	8.2	8.0	7.9	7.7
CP Issuance (Rs Bn)	5520	5039	5094	4972	4597	4623	4584	4149	4220	4002	3445	4172	4258	3915
LAF (Rs Bn, Daily Average)	-393.2	456.3	1259.2	1359.4	1152.1	1956.5	2383.4	2564.1	3178.0	2998.2	2966.1	4751.5	5118.4	3770.5
<b>Consumer</b>														
Automobile Sales ('000)	1965.6	1875.2	1712.5	1710.7	1880.1	2042.3	1674.7	1285.8	1603.7	1546.3	1007.8	0.0	317.6	1126.2
Fuel Consumption (yoy %)	2.5	-2.2	3.8	3.3	0.7	-2.0	8.8	0.3	0.1	4.5	-17.8	-45.8	-23.1	-7.8
Air Traffic (yoy %)	2.9	6.2	3.0	3.9	1.2	4.0	11.2	2.5	2.2	9.0	-33.1	-100.0	-97.7	-83.5
<b>Infrastructure</b>														
Toll collection (yoy, %)	6.2	6.2	-5.2	-5.2	-5.2	-11.3	-11.3	-11.3	-13.0	-13.0	-13.0	-50.0*	-50.0*	-50.0*
Port volume (YoY,%)	-0.4	-0.4	3.3	1.1	-0.3	-5.3	-0.7	6.6	2.5	3.9	-5.0	-21.1	-23.3	-14.7
Rail Freight (YoY, %)	2.8	2.0	1.6	-6.1	-6.6	-8.1	0.9	4.3	2.8	6.5	-13.9	-35.3	-21.2	-7.7
<b>10 Year G-Sec Yields (Avg)</b>														
India	7.3	6.9	6.5	6.5	6.7	6.7	6.5	6.6	6.6	6.4	6.2	6.3	6.1	5.8
United States	2.4	2.1	2.0	1.6	1.7	1.7	1.8	1.9	1.8	1.5	0.9	0.7	0.7	0.7
European Union	-0.08	-0.27	-0.34	-0.63	-0.57	-0.45	-0.33	-0.27	-0.27	-0.43	-0.52	-0.43	-0.50	-0.40
Japan	-0.062	-0.135	-0.145	-0.230	-0.229	-0.166	-0.096	-0.019	-0.020	-0.062	-0.029	-0.006	-0.010	0.013
China	3.3	3.2	3.2	3.0	3.1	3.2	3.2	3.2	3.1	2.8	2.6	2.5	2.7	2.8
<b>GDP (yoy growth rates, %)</b>														
India	5.2	5.2	4.4	4.4	4.4	4.1	4.1	4.1	3.1	3.1	3.1	-25.0*	-25.0*	-25.0*
United States	2.3	2.3	2.1	2.1	2.1	2.3	2.3	2.3	0.3	0.3	0.3	-9.5	-9.5	-9.5
European Union	1.5	1.5	1.6	1.6	1.6	1.3	1.3	1.3	-2.6	-2.6	-2.6	-14.4	-14.4	-14.4
Japan	0.9	0.9	1.7	1.7	1.7	-0.7	-0.7	-0.7	-1.7	-1.7	-1.7	-8.6**	-8.6**	-8.6**
China	6.2	6.2	6.0	6.0	6.0	6.0	6.0	6.0	-6.8	-6.8	-6.8	3.2	3.2	3.2
<b>Inflation (CPI) (yoy growth rates, %)</b>														
India	3.0	3.2	3.1	3.3	4.0	4.6	5.5	7.4	7.6	6.6	5.8	7.2	6.3	6.1
United States	1.8	1.6	1.8	1.7	1.7	1.8	2.1	2.3	2.5	2.3	1.5	0.3	0.1	0.6
European Union	1.2	1.3	1.0	1.0	0.8	0.7	1.0	1.3	1.4	1.2	0.7	0.3	0.1	0.3
Japan	0.7	0.7	0.5	0.3	0.2	0.2	0.5	0.8	0.7	0.4	0.4	0.1	0.1	0.1
China	2.7	2.7	2.8	2.8	3.0	3.8	4.5	4.5	5.4	5.2	4.3	3.3	2.4	2.5
<b>Unemployment Rate</b>														
United States	3.6	3.7	3.7	3.7	3.5	3.6	3.5	3.5	3.6	3.5	4.4	14.7	13.3	11.1
European Union	6.7	6.7	6.7	6.7	6.7	6.6	6.6	6.5	6.5	6.5	6.4	6.6	6.7	7.1
<b>Currency (vs. USD)</b>														
Indian Rupee	69.8	69.4	68.8	71.2	71.4	71.1	71.5	71.2	71.3	71.5	74.4	76.2	75.7	75.7
Euro	1.12	1.13	1.12	1.11	1.10	1.11	1.10	1.11	1.11	1.09	1.11	1.09	1.09	1.13
Yen	110.0	108.1	108.3	106.2	107.5	108.2	108.9	109.1	109.3	110.0	107.7	107.8	107.2	107.6
Yuan Renminbi	6.9	6.9	6.9	7.1	7.1	7.1	7.0	7.0	6.9	7.0	7.0	7.1	7.1	7.1
<b>Global Commodity Prices</b>														
London MX Index	2833	2779	2818	2753	2809	2805	2796	2813	2810	2649	2445	2361	2421	2610
Brent (\$/bbl)	70.3	63.0	64.2	59.5	62.3	59.6	62.7	65.2	63.7	55.5	33.7	26.6	32.4	40.8
<b>Indices</b>														
Nifty50	11923	11789	11118	11023	11474	11877	12056	12168	11962	11202	8598	9860	9580	10302
FTSE Emerging Markets Index	510	516	529	493	507	511	528	545	562	542	444	439	455	495
FTSE World Index	335	339	349	334	344	345	359	367	377	373	300	307	323	347
<b>Positives' Index</b>	1228	1218	1189	1175	1192	1254	1264	1243	1265	1193	945	1047	1071	1112
<b>Negatives' Index</b>	214	209	212	207	211	210	211	213	212	200	183	176	181	194
<b>(Net) PC India Index</b>	<b>1013</b>	<b>1009</b>	<b>977</b>	<b>968</b>	<b>981</b>	<b>1043</b>	<b>1053</b>	<b>1031</b>	<b>1052</b>	<b>993</b>	<b>762</b>	<b>872</b>	<b>890</b>	<b>917</b>

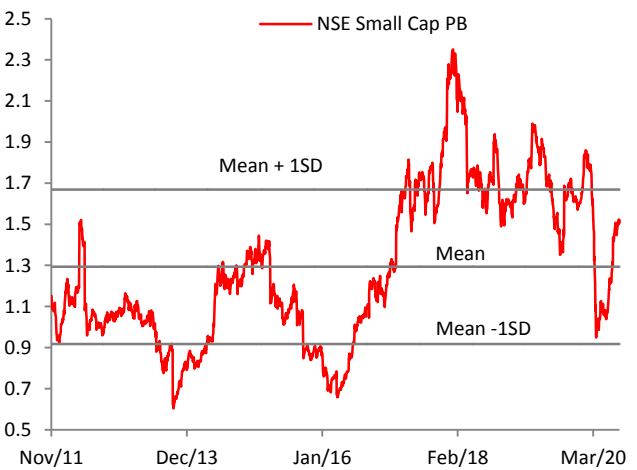
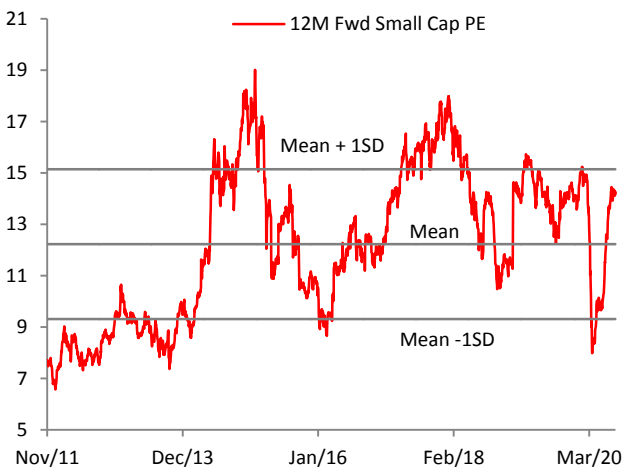
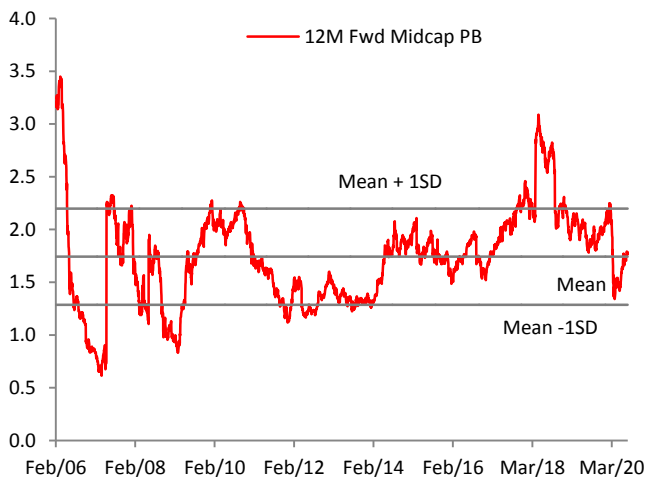
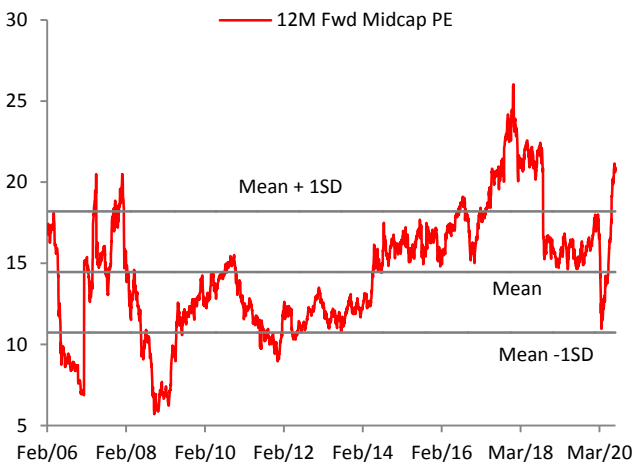
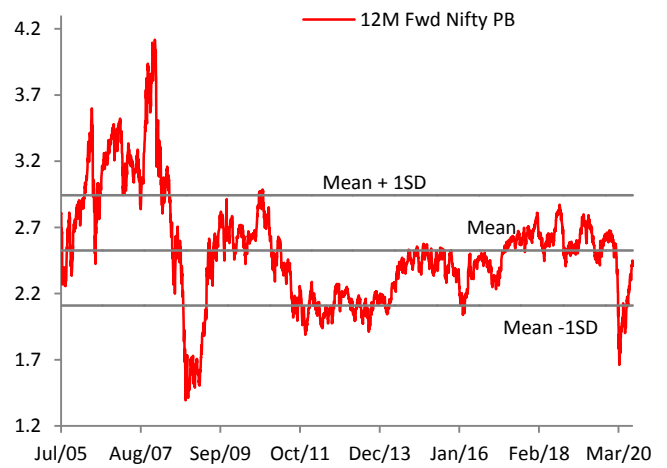
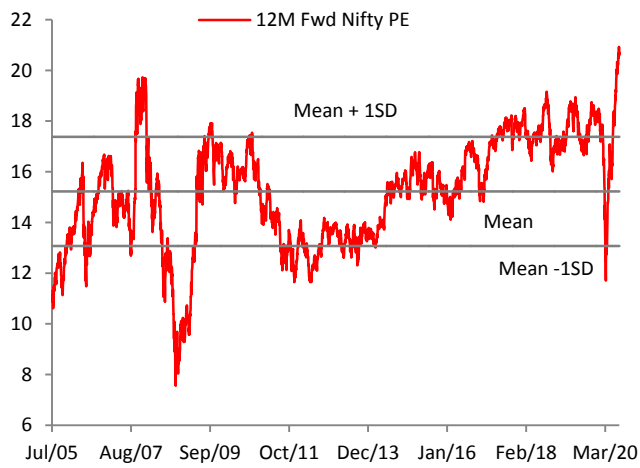
Source: RBI, CSO, PPAC, SIAM, Various Ministries, Bloomberg \*Our estimate \*\*Bloomberg consensus estimate; Quarterly reported data is assumed stable for three months

**FYTD growth trends (Till 30<sup>th</sup> June of respective years, %)**



Source: RBI, PhillipCapital India Research

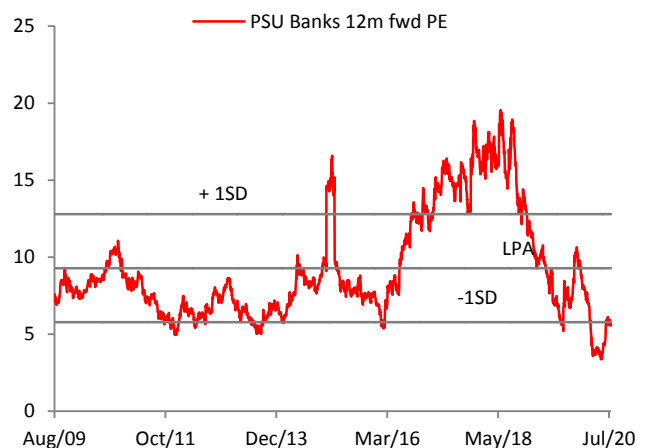
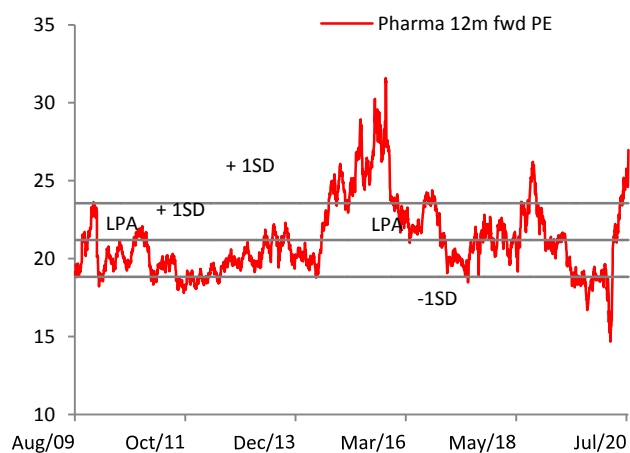
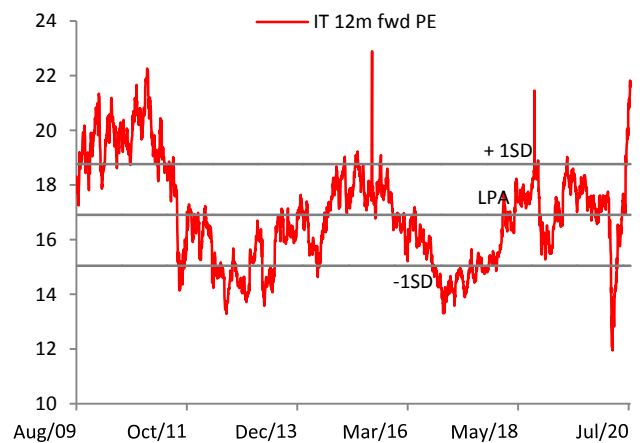
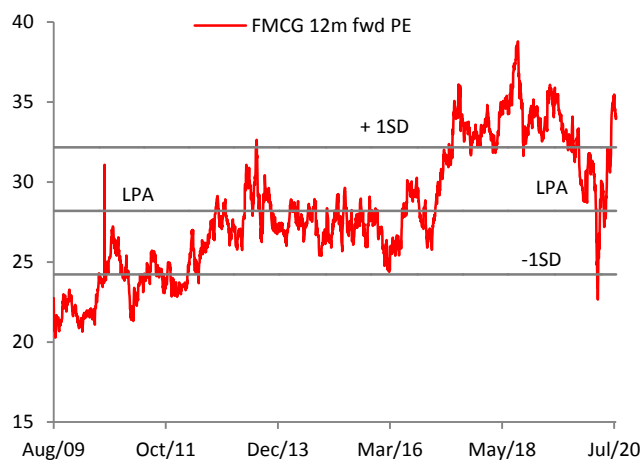
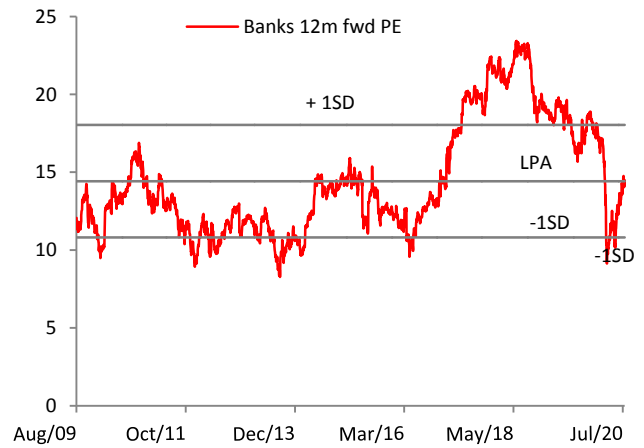
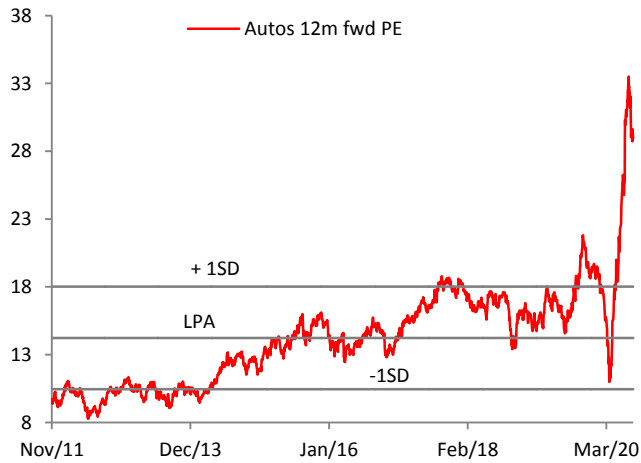
Nifty valuation charts



Source: Bloomberg, PhillipCapital India Research

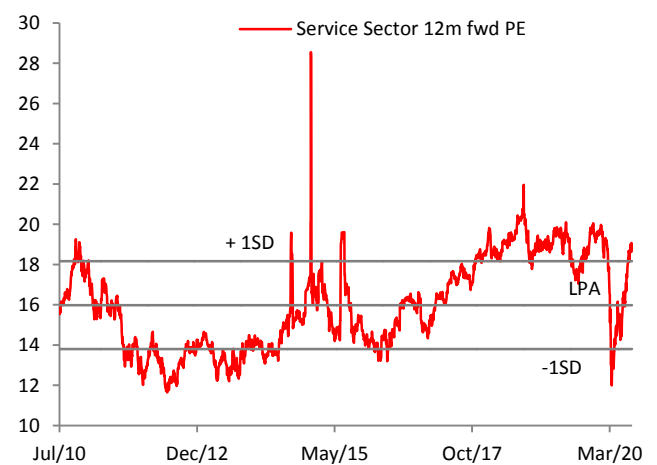
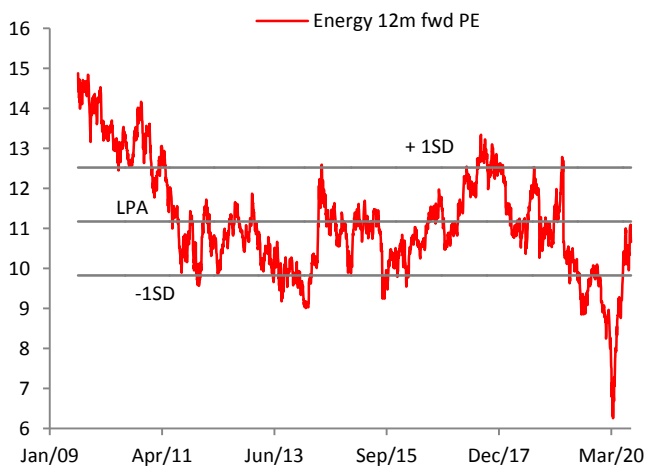
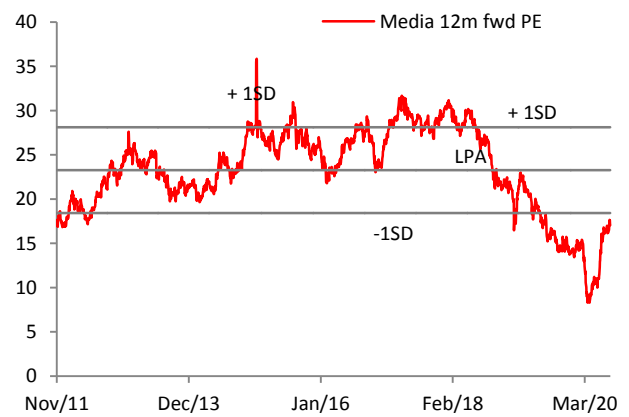
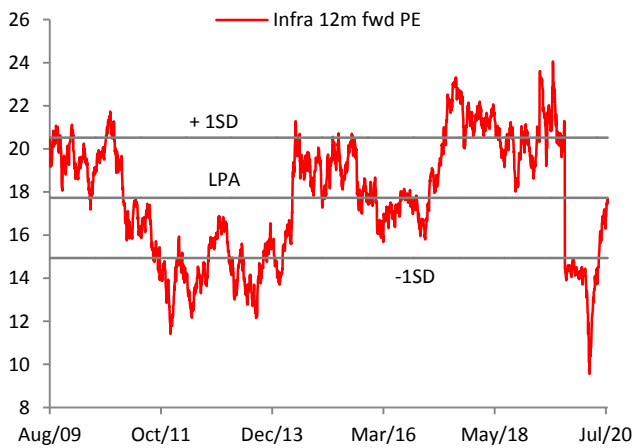
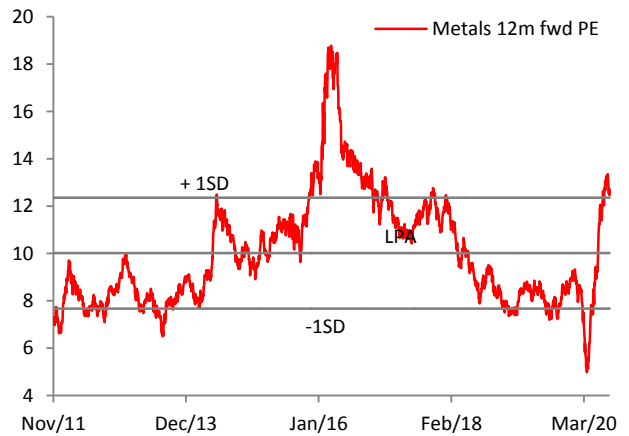
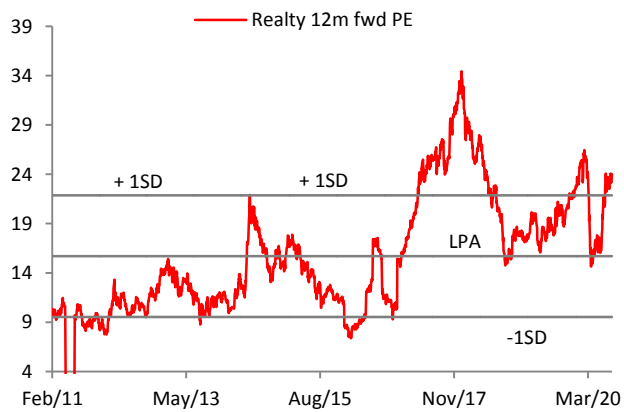
**Nifty indices:** Auto, FMCG, IT, Pharma, Realty, Metals and Services are trading above +1SD. Bank, Energy and Infra trading near long term average. Media and PSU banks trading below -1SD.

**Nifty Sectoral indices**



Source: Bloomberg, PhillipCapital India Research

Nifty sectoral indices



Source: Bloomberg, PhillipCapital India Research

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