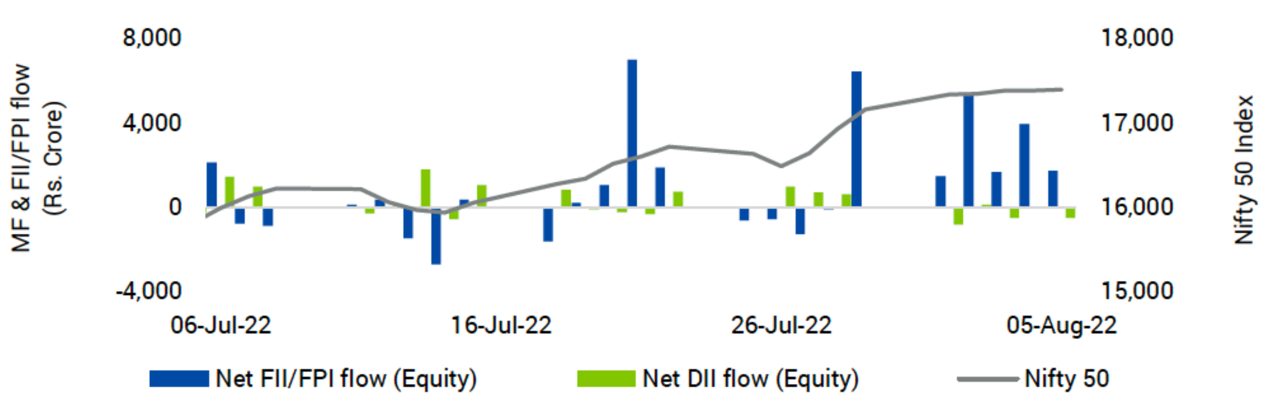
Market Commentary

PIONEER WEALTH MANAGEMENT

After the US, Will inflation ease in India? After a record 9.1 percent year-on-year (yoy) increase in June, the highest since 1981, US consumer price inflation decelerated to 8.5 percent in July. The data released on Wednesday showed a month-on-month pause too as opposed to forecasts of a 0.2 percent increase. Decelerating inflation has, in turn, eased fears of sharp rate hikes by the US Federal Reserve for the rest of 2022. However, central banks usually wait to see a trend of deceleration over a few months and a more broad-based softening of prices. For now, the inflation slowdown is driven mainly by a fall in crude and energy prices. High food inflation remains a bugbear, so do high rent and wage growth.

In any case, July inflation data brought optimism to risk assets, triggering a rally in global equity markets. Which in turn has seen FII's turning net buyers after selling for almost 10 consecutive months. Up until mid of August FII's have bought a net of Rs 14,841.66 Cr in Indian equities which is a positive start to the month of August. However in the same period DII's have turned net sellers after a long time selling Rs 4243.78 Cr.

FII and DII Investment vs Nifty 50



Source: NSDL, SEBI & NSE

Indian equities would take further cues from the domestic CPI data to be released on Friday. According to a Reuters poll of 48 economists conducted between August 2-9, retail inflation likely fell to an annual 6.78 percent in July, a five-month low, from 7.01 percent in June. But it will stay well above the Reserve Bank of India's (RBI) upper tolerance limit for the seventh consecutive month. While softening fuel and energy prices internationally could bring some relief, the outlook is uncertain due to the uneven monsoon this year and a weak rupee. Prices of key food items such as palm oil, sugar, soyabean and rapeseed are up, while cotton prices too are at record highs.

In the Macro Economic front According to S&P Global, India's Manufacturing Purchasing Managers' Index rose to 56.4 in Jul 2022 from 53.9 in May 2022. The manufacturing sector in India expanded at its highest rate in eight months in Jul as result of strong increases in output and new orders as demand increased as a result of decreasing pricing pressure.

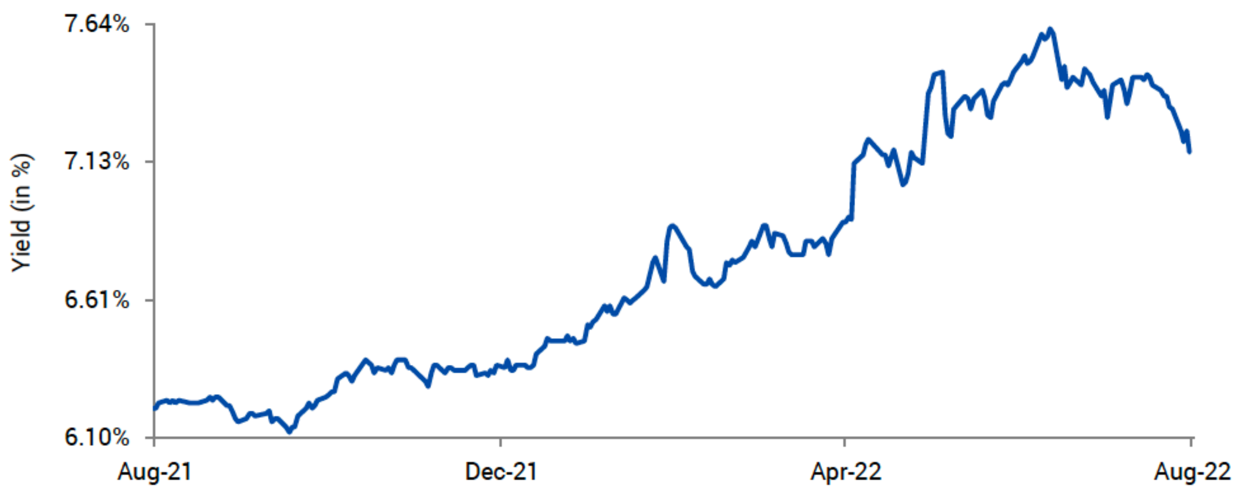
The Monetary Policy Committee (MPC) in its bi-monthly monetary policy review raised key policy repo rate by 50bps to 5.40%. All the members of the MPC unanimously voted to raise the key policy repo rate. With this rate hike, the repo rate is now back to pre-pandemic levels and stand at the highest level since Aug 2019. Thus, MPC has so far raised the repo rate by 140 bps in this fiscal. This is the third consecutive rate hike by the Committee since it embarked on a policy tightening spree from May this year. It also decided to remain focused on withdrawal of accommodation to ensure that retail inflation remains within the target going forward, while supporting growth.

On the Domestic front the equity markets extended their winning run for the third consecutive week. Markets rose on the back of continued buying by foreign institutional investors. A fall in global crude oil prices also added to the gains which gave some respite to market participants regarding the burgeoning import bill of the country. Robust macro economic data and up beat corporate earning numbers for the quarter ended Jun 2022 to contributed to the upside. Data showed that output of eight core infrastructure sectors grew 12.7% in June against 9.4% in the same period of the previous year. Market sentiments also remained upbeat as India's manufacturing sector activity gained momentum in Jul 2022 hitting an eight-month high on the back of significant uptick in business orders.

Gains were extended towards the end of the week after the decision by the Monetary Policy Committee to raise the repo rate by 50bps came in line with investor expectations.

In the Domestic Debt market the bond yields fell during most part of the week following decline in global crude oil prices, which eased concerns about high inflationary scenario. However, most of the gains were restricted after the Monetary Policy committee increased key policy repo rate by 50bps. Yield on the 10-year benchmark paper (6.54% GS 2032) fell by 2bps to close at 7.30% as compared to the previous week's close of 7.32%.

10 - Year benchmark G-Sec Movement



For now the market sentiments are of the view that retail inflation had reached its peak and will start moderating moving ahead. Also, there are hopes that much of the front loading of rate hikes had been done and the pace of monetary policy tightening may slowdown moving ahead.