Market Commentary

PIONEER WEALTH MANAGEMENT

As imperative it could have been and what was being foreseen for days to come, the US Fed raised the federal funds rate by 75 bps to the 3%-3.25% range during its September meeting, the third straight three-quarter point increase and pushing borrowing costs to the highest since 2008. The impact of the hike was expected to be felt across the world.

In view of ongoing improvement in domestic economic activity and expected support from festive season demand, Monetary Policy Committee (MPC) proactively continued to prioritize anchoring inflation expectations so as to avert likely second round effects of inflation. Accordingly, the MPC increased the policy repo rate by 50bps to 5.9%. The committee remained focused on withdrawal of accommodation to steer inflation to be within target band as well as to support medium term growth. In fact, the rate hike was completely in line with Indian market expectations.

Slowing global growth, tighter liquidity conditions hampering global demand and resulting impact on domestic exports, among other factors led the MPC to lower GDP growth estimates for FY23 from 7.2% to 7%. Inflation projection has remained unchanged for the FY23 at 6.7%.

As far as debt markets are concerned, yield on the 10-year benchmark paper (7.26% GS 2032) jumped by 9 bps to close at 7.45% (7th October 2022) compared with the previous close of 7.36%. Reserve money grew 12.9% on a yearly basis for the week ended Sep 30, 2022 compared to an increase of 13.8% in the same period of the previous year.

On the macro-economic front, India's exports dropped 3.5% in September 2022 to $32.62 billion, while imports slid below $60 billion for the first time in seven months to $59.35 billion, 5.44% higher than a year ago. The trade deficit stood at $26.73 billion for the month. S&P Global India Services Purchasing Managers Index fell to 54.3 in Sep 2022 from 57.2 in Aug 2022.

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India’s services sector fell in Sep 2022 amid substantial easing in demand amid high inflation. The overall S&P Global India Composite PMI Output Index slowed to 55.1 in Sep from 58.2 in Aug as both manufacturing and services sectors cooled on falling demand.

India's foreign exchange reserves dropped to the lowest since July 2020 to $532.66 billion, a $4.9 billion decline continuing for a ninth consecutive week. They were $537.52 billion at the end of the previous week ended 23 September. The rupee breached the key 82 per dollar level on Friday, weakened for four straight weeks, with traders saying the RBI had likely intervened occasionally over the period to arrest the pace of currency's fall. Surging crude oil prices, continuing apprehensions of more US Fed rate hikes and widening trade deficit are pushing the rupee to new lows, with experts opining that the downward trend is likely to continue in the near term.

Mixed cues from the global markets along with strong foreign capital inflows helped to boost the market sentiments. However, concerns for weakening rupee against the greenback and poor domestic service sector activity data for the month of September restricted the upside movement during the week.

For the month of September, net DIIs purchased Rs. 14119.75 crores worth of equities, whereas the net FIIs sold Rs. 18308.30 crores.