

MONTHLY REPORT

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NIFTY 50
Closing- **11387.5**
PE – **32.29x**
PB – **3.20x**
Div Yield – **1.46**

**NIFTY MIDCAP
100**
Closing – **16682.6**
PB – **2.17x**
Div Yield – **1.50**

10 Yr GOI Yield
6.14%

CRUDE

45.05
\$/bbn

USD/INR

73.40

GOLD
1965
\$/Oz

Data as on Aug 31 2020
Source: Bloomberg

MACRO ECONOMICS

Indicators	Aug-20	Jul-20	Jun-20	May-20	Apr-20	Mar-20	Feb-20	Jan-20	Dec-19	Nov-19	Oct-19	Sep-19	Aug-19
Sensex	1.46%	7.94%	7.68%	-9.22%	14.4%	-23.1%	-5.95%	-1.3%	1.1%	1.9%	3.6%	3.6%	-0.4%
Nifty	1.65%	7.66%	7.53%	-8.43%	14.7%	-23.2%	-6.35%	-1.7%	0.9%	1.8%	3.2%	4.1%	-0.9%
Nifty Midcap	7.39%	4.55%	10.78%	-4.94%	15.4%	-30.9%	-6.79%	5.3%	-0.7%	3.9%	3.5%	2.4%	-1.7%
Nifty SmallCap 250 Index	11.98%	4.63%	14.93%	-5.34%	12.9%	-33.7%	-7.10%	7.1%	0.5%	1.6%	1.7%	4.4%	-2.2%
S&P 500 Index	7.42%	6.32%	1.84%	2.72%	12.7%	-12.5%	-8.41%	-0.2%	2.9%	3.1%	2.4%	1.7%	-1.8%
Nifty 50 EPS TTM (Rs)	391.56	412.37	436.87	466.06	507.81	516.60	511.30	517.07	523.22	458.04	458.13	462.02	470.8
Nifty 50 Price/Earnings (PE Ratio)	29.08	26.92	23.58	19.37	19.42	16.64	21.91	23.13	23.26	26.32	25.85	24.84	23.4
Nifty Midcap 100 (PE Ratio)	26.70	23.45	20.45	14.68	14.42	14.26	20.69	21.29	19.83	19.27	18.05	17.05	15.8
Bank Credit Growth (%)	5.54%	5.83%	6.18%	6.24%	-17.76%	6.19%	6.04%	7.14%	7.94%	7.83%	8.91%	8.78%	10.14%
Bank Deposit Growth (%)	10.17%	10.84%	11.02%	10.66%	42.51%	7.94%	9.01%	9.08%	10.28%	10.03%	10.26%	9.38%	9.74%
Debt Market Indicator													
RBI Repo Rate (%)	4.00	4.00	4.00	4.00	4.40	4.40	5.15	5.15	5.15	5.15	5.15	5.40	5.4
G-sec 10 year Yield (%)	6.14	5.83	5.89	5.76	6.11	6.14	6.37	6.60	6.55	6.47	6.45	6.70	6.6
1 Year Tbill (%)	3.75	3.66	3.73	3.87	4.08	4.97	5.33	5.66	5.48	5.47	5.60	5.60	5.9
Corp Bond 10 Yr AAA Yield (%)	6.91	6.53	7.05	7.28	7.47	7.51	7.43	7.83	7.61	7.74	7.84	7.87	7.7
Corp Bond 10 Yr AA Yield (%)	7.69	7.37	7.78	7.92	8.13	8.18	8.07	8.47	8.27	8.36	8.47	8.46	8.3
Corp Bond 10 Yr A Yield (%)	9.10	8.77	8.84	8.73	9.52	9.67	9.62	9.84	9.74	9.61	9.50	9.82	9.7
Corp Bond 5 Yr AAA Yield (%)	6.01	5.67	6.16	6.38	6.83	7.02	6.80	7.15	7.14	7.14	7.29	7.44	7.4
Corp Bond 1 Yr AAA Yield (%)	4.78	4.31	4.98	5.72	6.10	5.97	5.99	6.26	6.26	6.15	6.52	6.82	6.9
CD 1 Yr (%)	3.86	3.75	4.05	3.99	4.79	5.12	6.17	5.95	6.05	5.79	5.87	6.42	6.5
Commodity & Currency													
Gold Price (USD)	1965	1957	1781	1730	1687	1577	1586	1589	1515	1464	1513	1472	1520
Gold (Rs/10gm)	50981	53099	48304	48200	47260	40989	42352	40694	38806	37876	38650	37475	38405
Crude(\$)	45.05	42.94	41.15	35.33	20.15	22.74	50.52	58.16	68.44	62.43	60.23	60.78	60.43
INR/1 USD	73.40	74.85	75.51	75.62	75.74	75.54	72.18	71.35	71.31	71.74	70.93	70.87	71.41
INR/1 EURO	87.41	87.96	84.78	83.91	82.24	82.78	79.49	78.74	79.87	78.90	79.17	77.30	78.83
Flows													
FII-Equity (Rs.cr)	45637	9506	18684	13000	-309	-62433	2854	9719	8089	22489	14657	6674	-15552
FII-Debt (Rs.cr)	-4155	-2453	-1714	-20507	-12009	-60934	-58	-11214	-5350	-3223	5056	-1913	11415
DII-Equity (Rs.cr)	-8418	-7695	-3689	5108	-6846	28451	9155	-2687	1805	-4844	3427	11029	17406
DII-Debt (Rs.cr)	23647	31018	41364	11500	-9811	-12492	18229	32690	45492	39418	42048	31354	50315

Source: Bloomberg, W2W Research

Summary:-

- Global activity is recovering sharply aided by easing of lockdowns and fiscal & monetary support. Indicators like PMI are showing improvement.
- India's GDP growth contracted substantially by 23.9% YoY in 1Q FY21, but PMI indicates an improvement in 2Q.
- Key high frequency indicators are showing improvement, albeit with some moderation, as COVID curve is yet to flatten.
- Rural economy aided by above-average monsoon and Kharif sowing higher YoY. Global macro factors such as low oil prices and stable currency continue to be in India's favour.
- USD has entered a bear market and a weaker USD boosts EM flows and assets. However, domestic flows continue to be negative even though SIP flows have been steady.

Debt Market Review

- Bond yields rose by ~28 basis point, thereby ending at 6.11%. The bonds witnessed significant sell off after the release of MPC minutes which were construed as hawkish by market participants.
- This was the final MPC meet for the three external members as their 4 year tenure came to end. All the MPC members felt that the economy needed further policy support & recommended retaining accommodative stance. The Governor reiterated that, there is headroom available for easing which needs to be used judiciously.
- India's GDP growth contracted substantially in 1Q FY21, but PMI indicates an improvement in 2Q. With recovery expected in Q3 and Q4 FY21, India's FY21 GDP growth projected at -5% to -6% YoY. Key high frequency indicators showing improvement, albeit with some moderation, as COVID curve is yet to flatten
- July inflation printed at 6.9% yoy (consensus: 6.3%), while June inflation was also revised higher by 20 basis point to 6.2%. Both food inflation and core inflation accelerated in the latest reading.
- Core inflation (CPI Ex-Food Ex-Fuel) climbed to 5.87% on a year on year basis as compared to 5.33% in June, on substantial price hikes in components like personal care and effects, education and transport and communication.
- FII remained net sellers in the debt market to the tune of Rs. 4,155 crs compared to Rs 2,455 cr in the previous month. While DII remained net buyers in Debt market to the tune of Rs 23,647 crs for the month of August 2020 as compared to Rs 31,018 crs in the previous month.

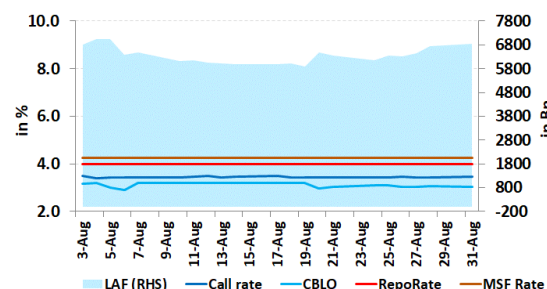
Debt Market Outlook

- 10-year GSec has been broadly stable and range bound since mid May. The current crisis is that of a health crisis but eventually leading to shutdown of economic activity across the globe.
- Given the pandemic, that has led to a steep fall in GDP for the 1st quarter of fiscal 2020-21, RBI is intent on supporting government borrowings at low yields and when markets took up yields by 40bps, post release of hawkish RBI August policy minutes, the central bank came out with supportive measures and a strong statement on keeping down yields
- RBI announced operation twist of Rs 20,000 crore that is purchase securities with tenures between 4 and 12 years, and sell short-dated securities maturing in October and November. This would resultantly flatten the yield curve and accelerate monetary transmission in the system.
- The central bank also temporarily increased banks' investment limit under the held-to-maturity (HTM) portfolios from 18% to 19.5% of NDTL. This would likely create additional demand for government bonds which would act as support for bond yields
- Liquidity continues to be in surplus at Rs 4.54 trillion.
- We continue believing that the current situation clearly portrays that monetary policy rates are likely to stay low for long. Short-medium term segment of the yield curve looks attractive with good risk reward benefit.

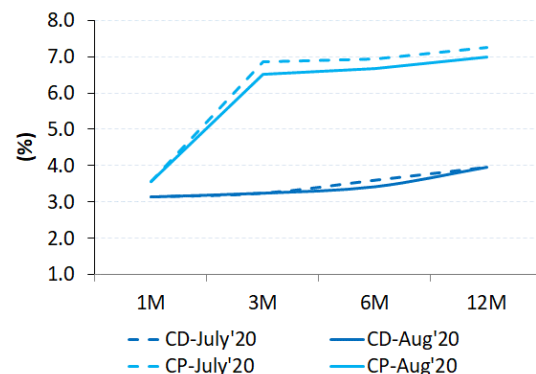
Investment Strategy

- Good quality & medium term bonds looks attractive. Spreads over the repo rate represents good opportunity. Thus we advise our investors to invest our recommended Banking & PSU Debt funds, corporate Bond funds and Short Duration Funds.
- We also advise investors to utilize the recent volatility and weakness in markets to invest into G-Sec funds with horizon of 4 to 7 years. Investors should allocate 10%-15% of their portfolio to G-sec fund as that will provide attractive carry and gain.

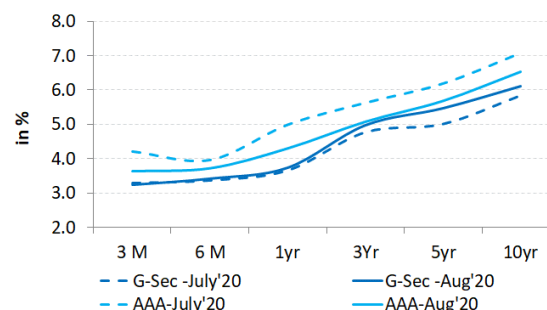
LAF and Money Market Rate Movement



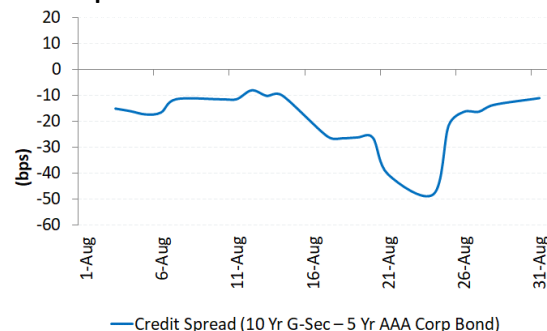
CD Rate Movement



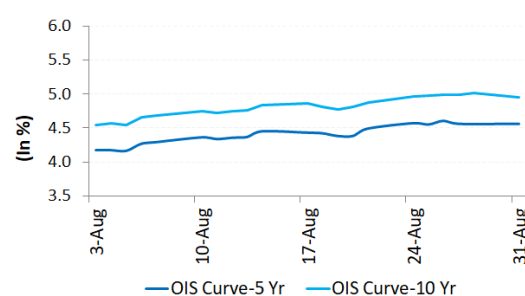
G-Sec and AAA Corp Bond Yield Movement



Credit Spread



OIS Curve



Equity Market Review

- Indian equities continued their upward momentum during the month (4.6%), however the last trading day of the month saw a sharp correction (-2.5%) on account of renewed tensions along the India-China border at Ladakh
- In August and over the last 3-month basis, Small Caps significantly outperformed Mid and Large Caps. Since the bottom in March-20, Large, Mid and Small Caps have bounced 50%, 52% and 66% respectively.
- On a sectoral front, the stars of the year – IT, Telecom and Pharma were the key laggards for August. Metals, Infra, Capital goods and Private Banks were the key outperformers.
- India's GDP contracted 23.9% in the April-June quarter of 2020, compared with an expansion of 3.1% in the previous quarter, and a 5.2% growth in the year-ago quarter.
- India's combined index of eight core industries contracted 9.6% in July from a year ago. The core sector output, which had contracted a sharp 37.9% in April, as the country went into a stringent lockdown, had shrunk 22% in May and 12.9% in June.
- India's federal fiscal deficit in the four months to end-July stood at Rs 8.21 lakh crore, or 103.1% of the budgeted target for the current fiscal year.
- India IHS Markit manufacturing Purchasing Managers' Index (PMI) stood at 52 in August, up from 46 in July, while the services PMI rose to 41.8 in August compared to 34.2 in July. The composite PMI came in at 46 in August, up from 37.2 in July.
- FII remained net buyers in the Equity market to the tune of Rs. 45,637 crs compared to Rs 9,506 cr in the previous month. While DII remained net sellers in Equity market to the tune of Rs 8,418 cr for the month of Aug 2020 as compared to Rs. 7,695 crs in the previous month

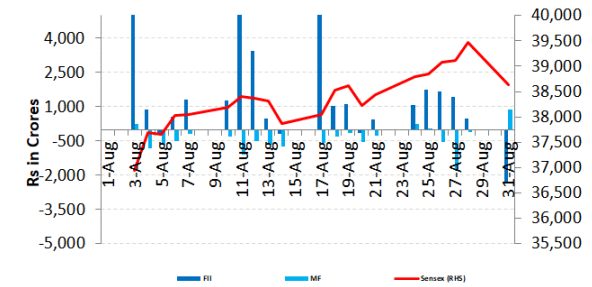
Equity Market Outlook

- Equity markets rose for the third month in a row and continued on its recovery trajectory from the COVID-19 correction phase.
- Also on positive side, given the high recovery rate and low fatality rate in Covid-19, the Government shall continue to unlock the economy. Already Unlock.4 is in force and by December, significant portion of the economy would have opened.
- Further, there is a possibility of vaccine towards the end of calendar year or early next year. This could lead to normalcy in daily life.
- Although the GDP for QE June was significantly negative. We expect that, with every succeeding quarter there could be an improvement over the previous quarter and the narrative of the markets will change accordingly.
- Also, Agriculture has been the silver lining in the Q1FY21 GDP and likely to mark a durable upswing in Indian GDP.
- The recent pattern of improvement in tractor sales and unemployment rate depicts another step forward in demand revival.
- Furthermore, there could be significant Impact on economic growth in FY21; sharp rebound in FY22; normalcy in growth likely from FY23 onwards. Strong rural support likely to result in better outlook for Indian economy and stable environment for investments

Investment Strategy

- India's long term growth story remains intact since it is better placed in terms of fundamentals. We recommend our aggressive-moderate investors to invest with a medium to long term view. We recommend our investors to invest in Large Cap Funds and Focussed Funds in a staggered manner (over the span of 3 -6 months).
- Also as part of tactical allocation, we recommend investing in recommended Banking & Financial Services Funds through STP or SIP for 6 to 9 months with an investment horizon of 3-5 Years

Sensex, FII & MF Movement



Indices Performance

Index	31-Aug-20	31-Jul-20	Change	% Chg
India				
Sensex	38,628	37,607	1021.4	2.7%
Nifty	11,388	11,073	314.0	2.8%
US				
Dow Jones	28,430	26,428	2001.7	7.6%
Nasdaq	11,775	10,745	1030.2	9.6%
EC				
FTSE 100	5,964	5,898	65.8	1.1%
Asia				
Nikkei 225	23,140	21,710	1429.8	6.6%
Hang Seng	25,177	24,595	581.7	2.4%
Shanghai Comp	3,396	3,310	85.7	2.6%
Bovespa	99,369	102,912	-3543.0	-3.4%
RTS	1,618	1,618	-0.5	0.0%
Other				
MSCI WORLD	2,456	2,305	150.5	6.5%
MSCI EM	1,102	1,079	22.6	2.1%
MSCI EM Asia	609	591	18.3	3.1%

Sector Performance

Sector Index	31-Aug-20	31-Jul-20	Change	% Chg
BSE Auto	17,685	16,490	1195.9	7.3%
Bankex	26,973	24,599	2373.4	9.6%
BSE CD	22,758	21,479	1279.2	6.0%
BSE CG	13,742	12,735	1006.7	7.9%
BSE FMCG	11,348	11,445	-97.0	-0.8%
BSE HC	18,388	18,285	102.9	0.6%
BSE IT	18,055	18,251	-195.7	-1.1%
BSE Metal	8,834	7,826	1008.1	12.9%
BSE Oil	13,083	13,174	-91.0	-0.7%
BSE Power	1,670	1,539	130.9	8.5%
BSE PSU	5,144	4,919	225.1	4.6%
BSE Real	1,758	1,576	182.7	11.6%
BSE TECK	8,703	8,840	-136.9	-1.5%

Source: Bloomberg, W2W Research

GOLD

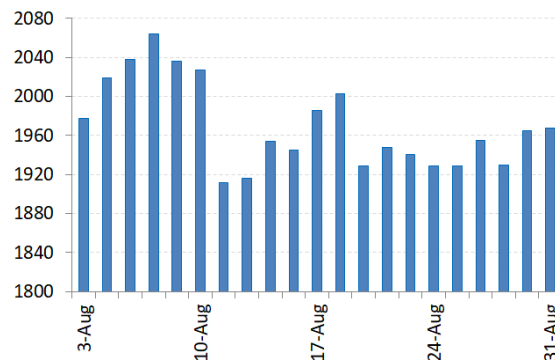
Gold Review

- Boosted by global stimulus measures to support a battered economy, negative real rates and a weaker dollar, the metal had surged more than 30% this year, surpassing the previous all time high set in 2011.
- The slide in U.S. real yields into negative territory has been a key driver of gold's rally, with the metal becoming attractive relative to bonds. But a recovery in yields helped sour the sentiment in gold, especially with some indicators showing the metal trading at overbought levels.
- Global oil supply rose by 2.5 mb/d to 90 mb/d in July after Saudi Arabia ended its voluntary 1 mb/d cut, the UAE exceeded its OPEC+ target and US production started to recover. Global refinery intake is recovering, but the pace will lag behind the demand rebound as product inventory levels are very high.
- Depositories data showed that foreign portfolio investors (FPI) pulled out Rs 675 crore from which lead Ruppee 4 paise down at 73.18 against the US dollar tracking weakness in the domestic equity market and outflows from foreign institutional investors (FI).

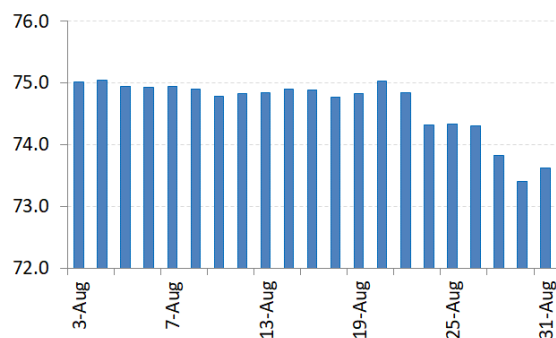
Outlook

- Global central banks have saturated markets with extraordinary liquidity steps to offset the economic damage inflicted by the coronavirus, sending gold 26% higher this year as it is considered a shield against inflation and currency debasement.
- The appreciation pressure on the rupee remains unabated amid persistent capital flows and the weak dollar globally.
- RBI's admission to the effect that recent INR appreciation has helped in containing imported inflation has further boosted the rupee
- We believe, if the U.S. Federal Reserve does not announce any fresh fiscal push while the ECB announces some stimulus package, "in dollar terms, gold will face some headwinds,"

International Gold Movement



USD/INR Movement



Source: Bloomberg, W2W Research

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