

GLOBAL MACRO & MARKETS

Global equities surged higher in May amid a robust corporate earnings season, strong economic data releases and continued vaccination progress. MSCI World rose 1.3% higher, majorly led by Euro 50 (+1.6%) while S&P 500 (+0.6%) and Nikkei (+0.2%) lagged the up move. MSCI EM rose 2.1%, led by NIFTY India (+6.5%), Bovespa Brazil (+6.2%) and MOEX Russia (+5%). Oil prices climbed 3.1% MoM to seven-week high as inelastic short-term supply and bullish forecasts of recovering demand provided a macro tailwind. Similarly the London Metal Exchange (LME) Metals index rose 4.1% over the month. US Dollar index declined 1.6% over the month as signs of recovery outside of the US pushed currencies higher against the greenback.

DOMESTIC MACRO AND MARKET

With number of COVID cases in the country moving down from the peak, Indian Market touched another high in the month of May. SENSEX gained 6.5% but underperformed BSE MidCap index (+7.1%) and BSE SmallCap index (+8.9%). Sector wise, Materials (+9.4%), Consumer Discretionary (+8.9%), Energy (+8.8%) were the key outperformers while HealthCare (+4.9%), IT (+4%) and Staples (+4.9%) were the laggards. Net profits of 46 companies (in Nifty-50 which have reported results so far) increased 156% YoY and 5.6% QoQ. Market breadth rose in May with 95% of stocks above their respective 200-day moving averages. FPIs bought US\$37 mn of Indian equities while Domestic Institutional Investors (DIIs) bought worth US\$283 mn in the month of May.

India's high frequency data update:

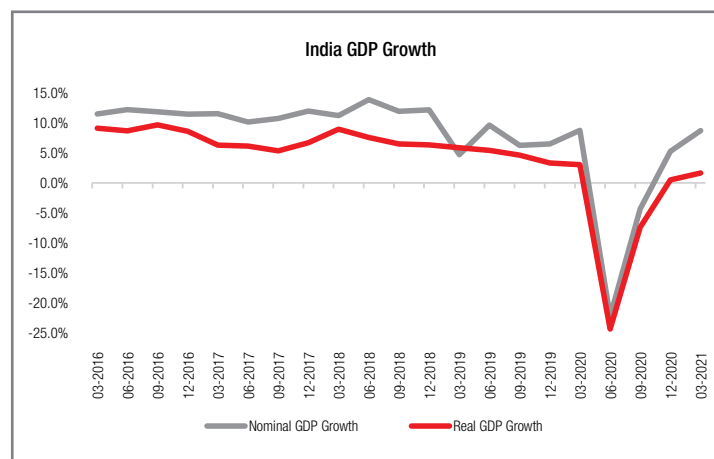
Macro data remain soft owing to horrific 2nd Covid Wave..

- **Manufacturing PMI:** Manufacturing PMI dropped to a 10-month low of 50.8, pointing to marginal improvement in business conditions that was weakest in current 10-month sequence of expansion.
- **Power consumption:** Power consumption in the month of May was 9.3% below May-19 due to lockdown restrictions across various states in the country.
- **Core sector production:** Core sector production contracted by 2.3% on March'19 base as against a YoY fall of 3.8% in February and a fall of 8.6% in March last year.
- **Industrial Production:** Manufacturing IIP fell by 2.9% below the March-19 base as against a YoY fall of 3.7% in February and a fall of 22.8% in March of last year.
- **Credit growth:** Credit growth declined to 6% YoY as of 7-May against YoY growth of 6.5% as observed on 8-May 2020. Aggregate deposit growth also declined marginally to 9.9% YoY.
- **Inflation:** CPI inflation moderated to 4.3% in April as against 5.5% in March. Core inflation moderated to 5.2% and was led by inflation in transport and communication (11%).
- **GDP Growth:** Real GDP growth rose to 1.6%yoy in 4QFY21 compared to a slightly upward revised print of 0.5% in 3QFY21. Nominal GDP growth improved sharply to 8.7% (5.2% in 3QFY21). FY2021 GDP growth fell by 7.3% as against an increase of 4% in FY2020 on the back of sharp contraction in 1HFY21 due to stringent nationwide lockdowns.

RBI announced additional measures to support the economy: (1) reopening debt restructuring scheme for borrowers (individuals, small businesses and MSMEs) with outstanding dues of up to Rs250 mn and classified as standard as of March 31, 2021, (2) second purchase of Gsec of Rs350 bn under G-SAP 1.0 on May 20, (3) special three-year long-term repo operations (SLTRO) of Rs100 bn at repo rate for small finance banks, and (4) providing an on-tap liquidity of Rs500 bn to banks providing credit (classified under priority sector) to Covid-related healthcare infrastructure companies.

COVID second-wave significantly receded, medical-infra stress reducing. India's COVID case addition is down 55% from peak and active cases are down 49% since peaking three weeks back. The test positivity ratio has declined to an 8-week low of 8.7%, with testing near record-high 2.1m/day. After some lull, the pace of vaccinations has started to pick up in the last week of May. Over 220 mln vaccination doses have been administered so far with meaningful progress expected in June.

Chart of the month: 4QFY21 GDP data showed that the economy was on a gradual recovery path. Rebound in nominal GDP remains particularly strong. However, the momentum has slowed down as states re-imposed restrictions in 1QFY22 to counter the second Covid wave.



Common Source: ICICI Securities, Nippon India Mutual Fund Research

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