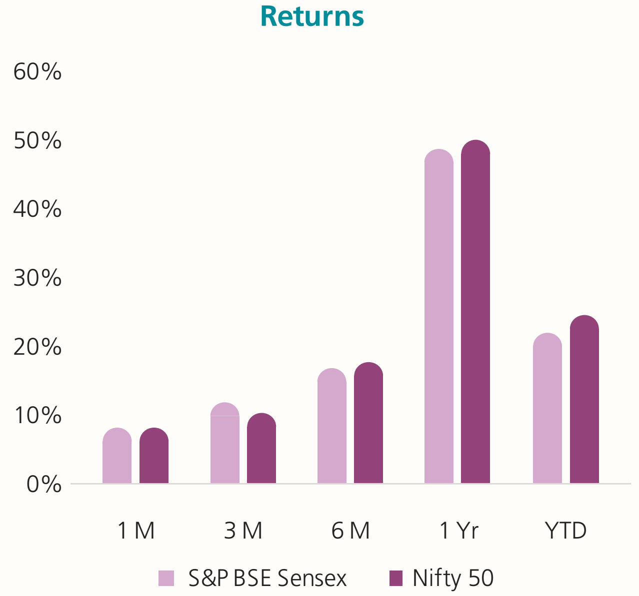
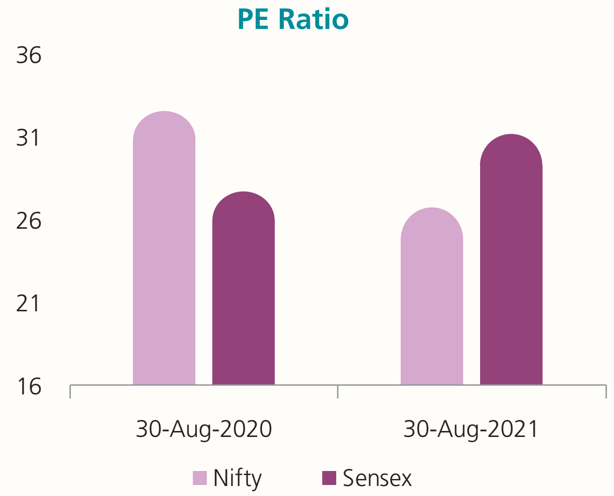
Nifty after trading in a tight range during the month of July rallied in August (+8.7%) closed above 17000 levels at month-end to register the best monthly gains in CY21 led by gains in all heavyweight stocks. However, the broader market took a bit of a breather after strong gains in Jul with BSE Mid-cap and BSE Small-cap indices gaining 3.3% and 0.5% respectively. Indian markets are enjoying a considerable bull run, with Year-to-date gains of 20%+, supported by global liquidity. MSCI India continued its significant outperformance in Aug vs MSCI EM as Indian equities rose a substantial 11% ($ terms) and outperformed broader markets in August (MSCI APxJ/EM: +1.9%/+2.4%).





Past performance may or may not be sustained in the future.

GLOBAL MARKETS

Global equities had a solid run - up 2.4% in August. Strong growth, solid earnings surprises and Fed's accommodative stance have led global equities higher. Chinese equities remained flat led by weakness in July activity data and continued regulatory overhang.

Worldwide, major indices also displayed an uptrend with the US S&P500 up (+2.9%), along with Nikkei (+2.9%), while Euro Stoxx (+2.0%) and FTSE (+1.2%) also registering positive gains. Hang Seng was the worst performer with (-0.3%) returns.

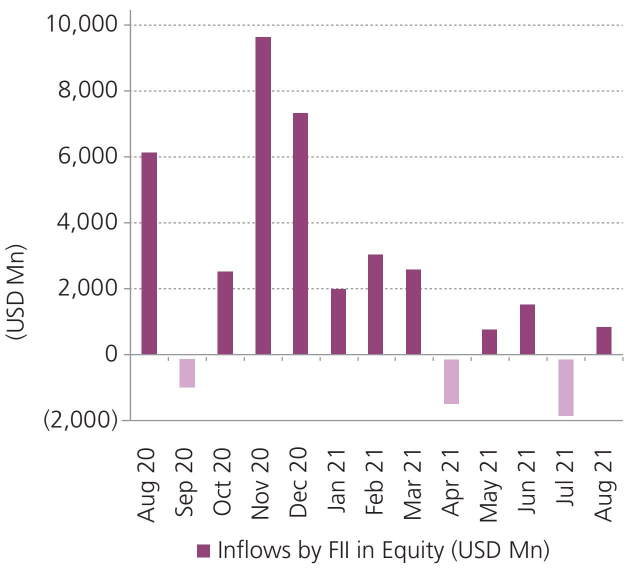
SECTOR PERFORMANCE

By sector, Utilities, Communication Services, IT and Staples outperformed while Materials, Consumer Discretionary and Health Care were notable laggards in August. June-q results were strong (benefitting from the lower base last year), but reflected increasing margin pressure and moderation in top-line momentum. Among sectoral indices, Power, IT and oil & gas gained more than 10%. Metals and realty indices which were the best performers in July ended with a marginal loss of 3.1% and 2.1%.

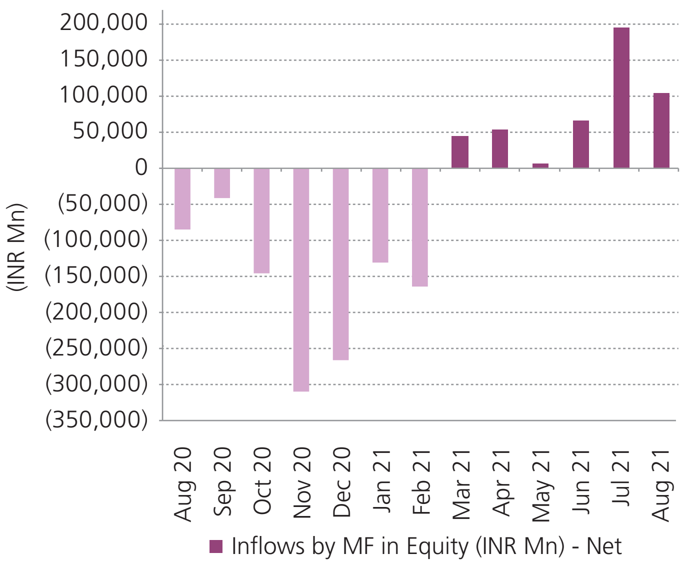
INSTITUTIONAL ACTIVITY

FIIs turned to net buyers of Indian equities again (+$628mn, following -$1.7bn in July). Q1'21 saw $7.3bn of inflows, while Q2 ended at a modest $758mn of net buying. DIIs remained big net equity buyers for the sixth month running (+$930mn, vs +$2.5bn in July). Mutual funds were net equity buyers at US$1.4bn while insurance funds net sold US$521mn of equities in August. Mutual fund and insurance fund flow data is as of 26- August.

Inflows by FII in Equity (USD Mn) - Net



Inflows by MF in Equity (INR Mn) - Net



MACRO-ECONOMIC DEVELOPMENTS

India's GDP 1QFY22 real GDP growth rose to 20.1% compared to 1.6% in 4QFY21. Year-on-year growth rates are extremely buoyant because they come off a very depressed base, with the economy having contracted more than 24% in the same quarter the previous year. However, GDP sequentially contracted 23% (q/q, saar) as per JPM estimates in the midst of the second wave. The sequential contraction was partially mitigated by strong export growth -- the only component to register positive sequential growth on the demand side.

CPI inflation came down to 5.6% in July from 6.3% in May and June, helped by a large base effect and softening food price momentum. On a year-on-year basis, core-core inflation softened from 5.4% to 5.1%, also helped by a favorable base effect.

June IP came in at 13.6%yoy led by a gradual pick-up in sequential momentum. Despite the June rebound, IP remains below its pre-pandemic level. Within IP, the slowest to recover by June have been capital goods (81% of the pre-pandemic level) and consumer durables (83%).

As India's economy continued to open in July, both the manufacturing and services PMIs improved vs June. The manufacturing index jumped 7pts MoM to 55.3 while the services index rose by 4pts to 45.4— remaining below 50 for a third consecutive month. The composite index rose from 43.1 to 49.2 but remained below the expansionary threshold of 50 for the third month.

India's FX reserves are close to its all-time peak, standing at $617bn currently. FX reserves have increased by US$5.7bn in the last 4 weeks. INR rallied (up 1.9%) and ended the month at 73.01/$ in August.

Benchmark 10-year treasury yields was up 2bps and ended the month at 6.22%. Brent oil price declined 5.5% to ~$71/bbl in August.

Fiscal deficit for Apr-Jun was Rs3.21tn or 21.3% of the budgeted FY22 deficit (at Rs.15.1tn or 6.8% of GDP). GST collections grew 30% YoY in August (Rs 1.12tn, from Rs 1.16tn in July).

OUTLOOK

The vaccination pace against Covid-19 has increased sharply from under 2mn a day in the middle of May to over 8.0mn now. As of 31 August, c.653mn shots have been administered in India (c.37% of the population has taken one shot+). We expect a majority of adults to be vaccinated by Dec 2021 but the larger cities are ahead and can possibly open ahead of the November festive season.

Finance Minister announced a National Monetization Pipeline (NMP) envisaging total asset monetization potential of Rs6trn over FY22-25. This should help government raise fiscal resources and limit the further sharp increase in government debt.

Monsoon trends worsened to 9% below average in Aug from -1% in end-July. While the rice (key summer crop) producing regions received adequate rainfall, this may impact the winter crop due to low reservoir levels in wheat producing regions. More importantly, this poses a risk to rural sentiment which has already been battered by the second wave.

Overall, increased vaccination efforts and removal of restrictions, stimulative monetary policy and strong export demand boosted by the constructive global environment should help the economic recovery gain momentum in the coming quarters, in our view.

Source: Bloomberg, MSCI