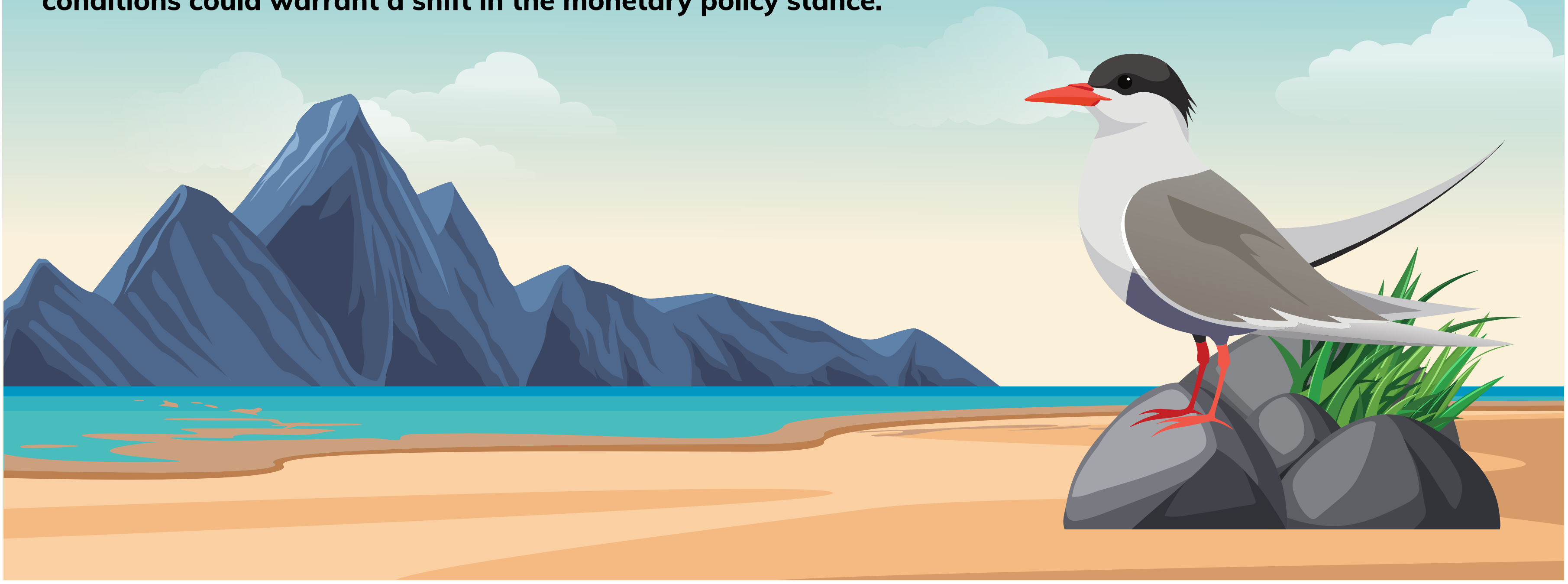
ICICI PRUDENTIAL MUTUAL FUND

# THE MONTH GONE BY

## An insightful roundup of relevant stories in the recent month backed by interesting data points

The **Arctic Tern** is known for its migratory journey, which is generally longer than other bird species. As the temperature drops, **the bird travels thousand miles** from the Arctic regions of North America to **warmer climates of the Southern Hemisphere.**

**Just as how the Arctic Tern migrates based on the varying weather conditions; changing macroeconomic conditions could warrant a shift in the monetary policy stance.**



The Covid-19 pandemic disrupted supply chains and strained household financial savings. The U.S. Federal Reserve introduced stimulus measures in 2020 to facilitate a pickup in consumer spending and revive businesses.

Gradually, the prices of goods increased with a rise in demand. While the U.S. economy saw itself crawling out of the pandemic woods, it was time to wrestle again – this time, with inflation. To combat elevated price levels, the U.S. Federal Reserve began raising interest rates to make borrowing expensive, which would eventually bring down inflation. This worked as inflation began to moderate.

Just as the economy breathed a sigh of relief, the slowing labour market began to nag. This time, the financial markets eagerly waited for an interest rate cut to boost market sentiment. What happened next?

**The 'Month Gone By' newsletter of September 2024 focuses on key market events of the month and unfolds the ripple effect of the U.S. interest rate cut.**

# The U.S. economy is in good shape. Why did the Federal Reserve opt for a big interest rate cut?

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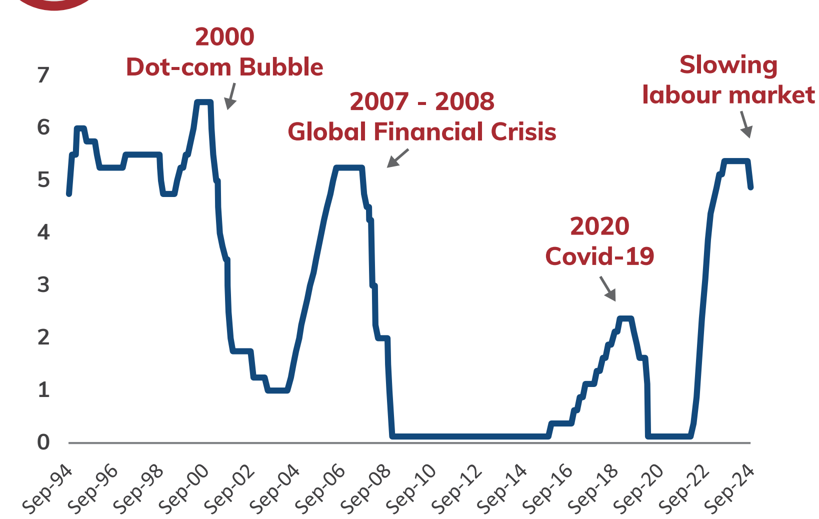
**The U.S. Federal Reserve delivered what markets across the globe longed for – its first interest rate cut in over four years. The central bank lowered its benchmark interest rates by 50 basis points to a range of 4.75%–5.00%.**

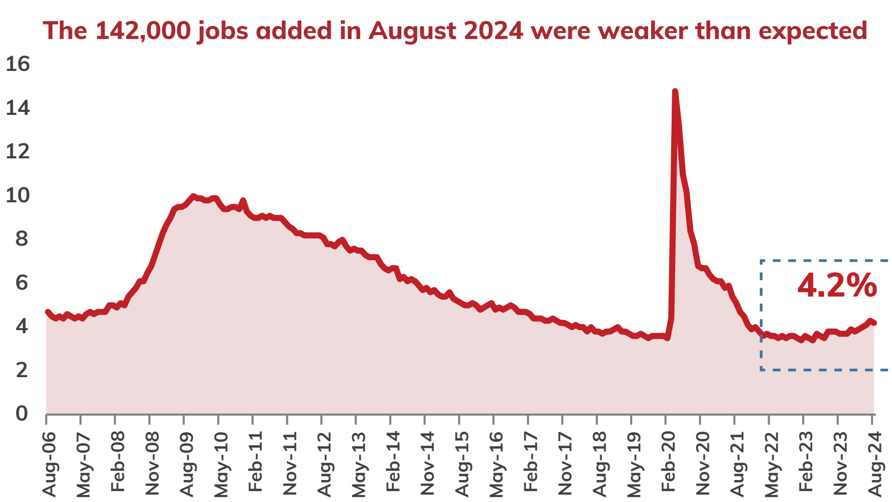
**As inflation cooled significantly from 9.1% in June 2022 to 2.5% in August 2024** and is now closer to the target of 2%, **the Federal Reserve's concern has shifted to the job market.** The Unemployment rate stood at 4.2% in August 2024, which is still higher than 3.7% witnessed during the beginning of the year.

## U.S. FEDERAL FUNDS TARGET RATE (%)




Source: Data as on September 18, 2024. Reuters, Federal Reserve. The Federal Funds target rate chart reflects the midpoint of the Federal Reserve's target range. U.S.: United States

## U.S. UNEMPLOYMENT RATE (%)




Source: Data as on August 2024. U.S. Bureau of Labor Statistics
U.S.: United States

**What is the impact? A rate cut would reduce the cost of borrowing, encouraging businesses to invest and scale their operations. Cheaper car loans, home loans, mortgages would lead to higher consumer spending and boost economic growth, stimulating the job market.**

This is not the end of monetary easing – **The Federal Reserve has signaled more rate cuts in 2024 and 2025,** which could navigate the U.S. economy towards a soft landing.

# The ripple effect of the rate cut was felt globally. How did the Indian stock market react?

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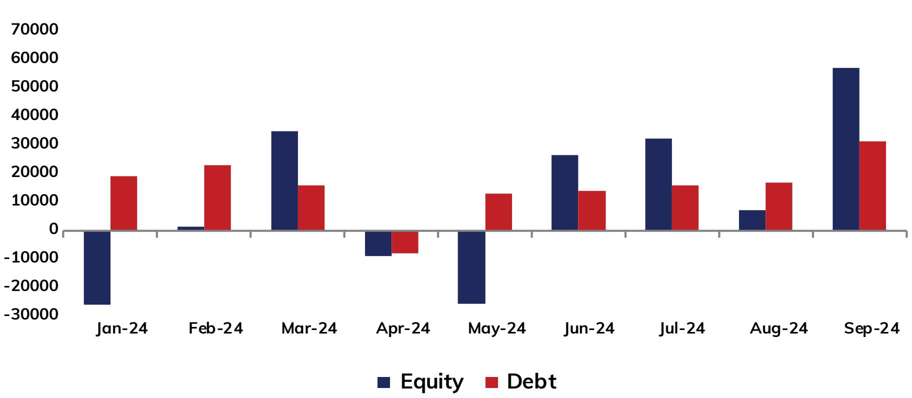
**The BSE Sensex surged to an all-time high of 85,978 on September 27, 2024 while the Nifty 50 crossed the 26,000 mark,** reacting positively to the U.S. interest rate cut decision. **The slash in the U.S. key interest rate could lead to greater foreign capital into India** as investors look to borrow at lower interest rates and invest in high-yielding assets of emerging markets.

**Foreign Portfolio Investors (FPI) bought Indian equities worth ₹57,724 crore in September 2024,** the highest monthly inflow in 2024.

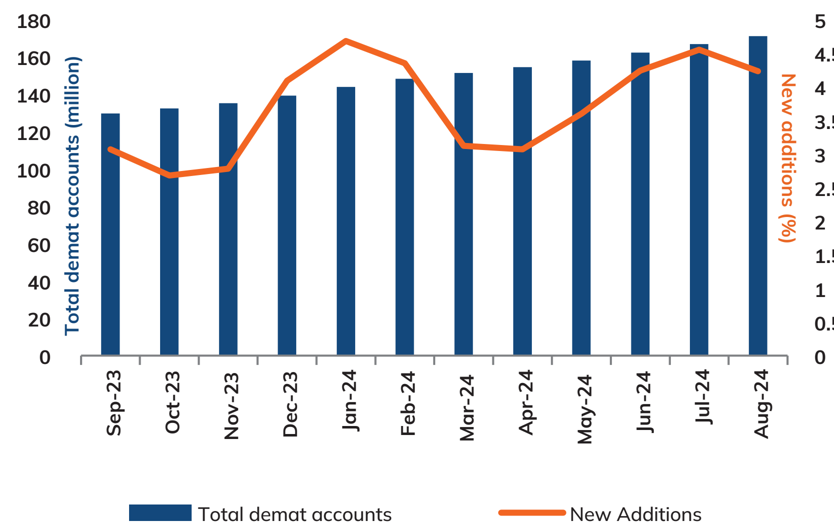
**Digitization, increased awareness about equity investing and a surge in Initial Public Offerings (IPO)** contributed to a rise in **India's dematerialization accounts to 171.1 million as of August 31, 2024.**

## FPI INVESTMENT (₹, CRORE)




Source: National Securities Depository Limited (NSDL), FPI data of September 2024 is up to September 30, 2024. The Debt component includes Debt General Limit, Debt VRR and Debt FAR. FPI: Foreign Portfolio Investors. VRR: Voluntary Retention Route. FAR: Fully Accessible Route

## TOTAL DEMAT ACCOUNTS (MILLION)




Source: CDSL, NSDL

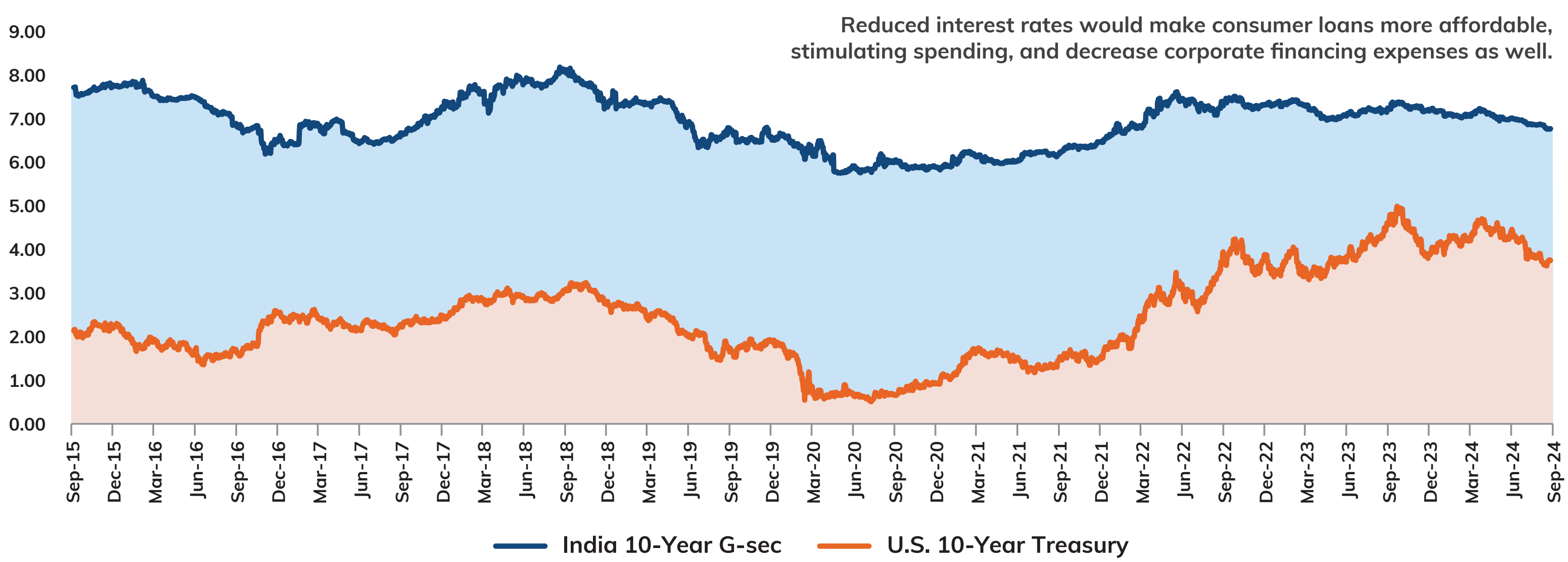
# What does the Federal Reserve's jumbo rate cut imply for bond investors?


**After peaking at 4.70% in April 2024, the U.S. 10-Year Treasury yields began a downward trend** as a steady fall in inflation built the narrative for a rate cut.

Much of the impact of the 50 bps rate cut seems to be factored into the market as **yields rose from 3.71% on September 19, 2024 to around 3.79% on September 25, 2024. Investors have ruled out the possibility of a near-term recession in the U.S. as inflation has eased significantly since the pandemic era and the real gross domestic product (GDP) increased at an annual rate of 3.0% in the second quarter of 2024,** driven by an increase in consumer spending and business investment.

**India's benchmark 10-year bond yields hovered near 6.74% on September 25, 2024** on the back of robust domestic private consumption, continued foreign inflows into the Indian debt market and solace that the U.S. economy's soft landing is on track.

## 10-YEAR GOVERNMENT BOND YIELDS (%)




Source: CRISIL Research, Data as on September 25, 2024, G-Sec: Government Securities. The GDP data source is U.S. Bureau of Economic Analysis, third estimate.

# China's 10-year government bonds declined to a record low

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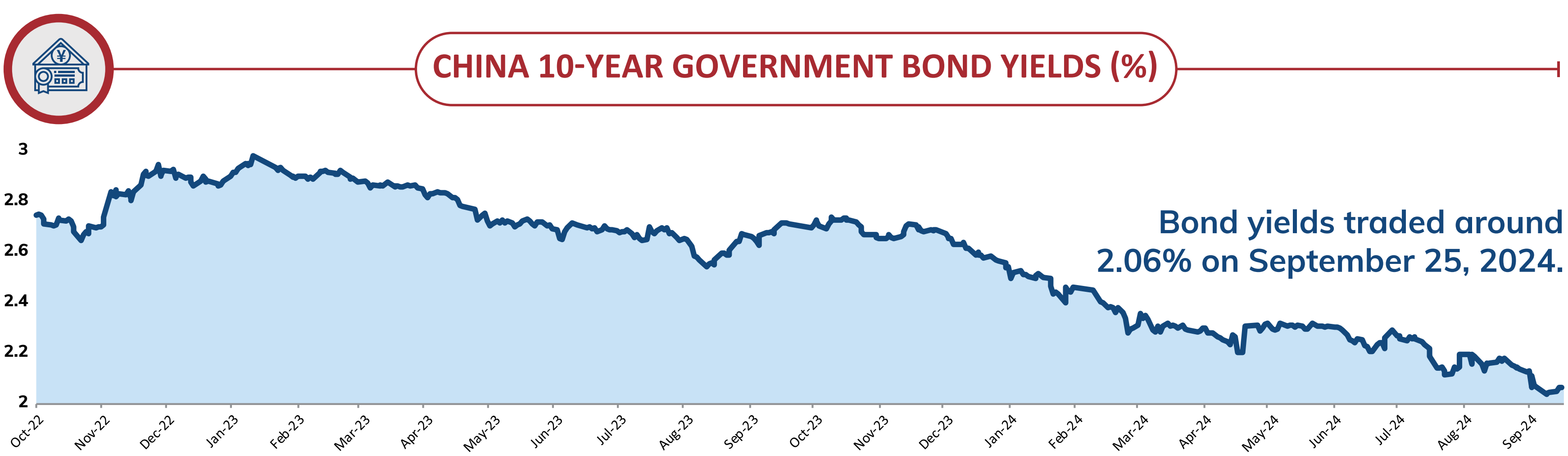
**Investors have developed a bitter taste for Chinese assets such as real estate and equities as the economy** wrestles with property debt crisis and a patchy recovery. **Limited investment alternatives pushed the demand for Chinese government bonds,** driving **China's 10-year government bond yields to a record low of 2.04% on September 18, 2024.**

**The People's Bank of China governor unveiled a raft of stimulus measures** to boost the economy, some of which are:

- **The seven-day reverse repurchase rate** will be lowered to 1.50% from 1.70%.
- **The Reserve Requirement Ratio (RRR) lowered** by 0.5 percentage points, unleashing 1 trillion yuan (about $142 billion) in liquidity.
- **Reduced the minimum down-payment ratio for second-home buyers** from 25% to 15%.
- **The Medium-term lending facility (MLF)** is expected to be cut by 0.3 percentage points.
- **Loan Prime Rate (LPR) and deposit rates** would drop by 0.20 to 0.25 percentage points.
- **The central bank will cover 100% of the loans taken by local governments** to buy unsold homes with cheap funding, up from 60%.




Source: Reuters, Data as on September 25, 2024. Source of stimulus measures: The People's Republic of China

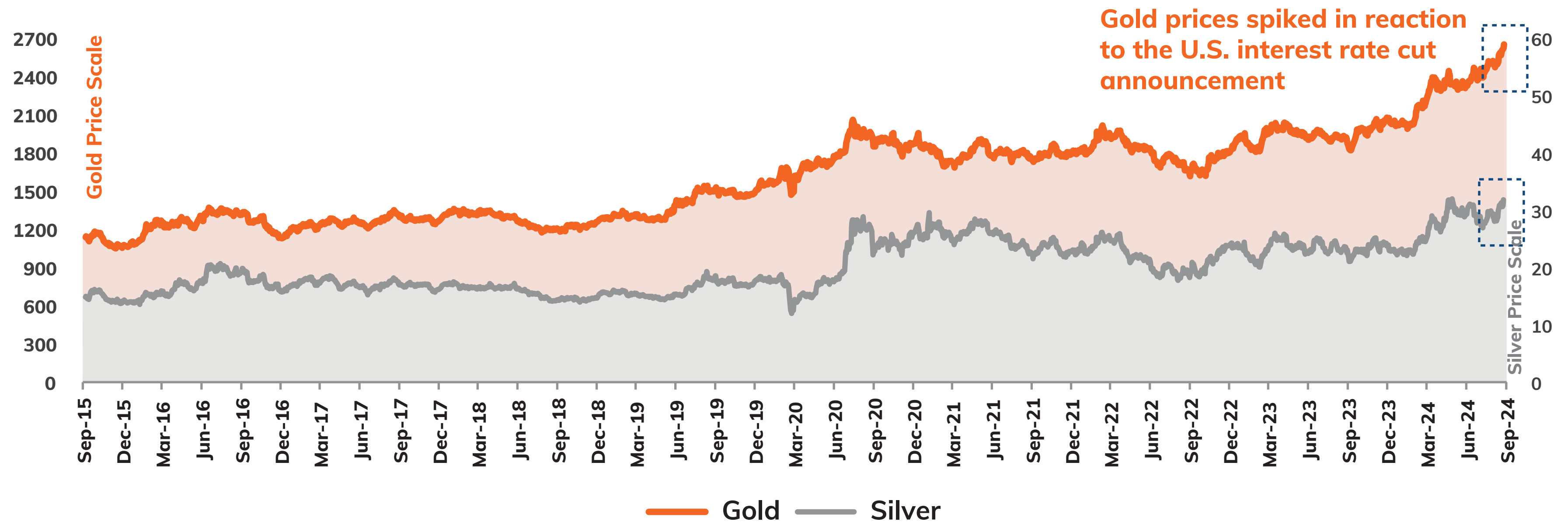
**While China's exports expanded by 8.7% year-on-year to $308.65 billion in August 2024,** indicating growing demand from abroad; **imports saw a modest increase of 0.5% as the domestic picture remains bleak. (Source: Reuters)**

# Is Gold still on a winning streak?


**Gold prices shined to a record high of around $2,668/ounce (LBMA price) on September 26, 2024,** fueled by the **U.S. interest rate cut, a weakening dollar, central banks accumulating the yellow metal to diversify their reserves and mounting tensions in the Middle East.** The demand for gold is **expected to remain upbeat during the upcoming festive season** as Indians tend to buy Gold jewellery, coins and bars during auspicious days.

**Silver is also considered an important precious metal** for its **store of value and extensive usage in the industrial landscape. With a rise in demand for semiconductors and automotive electronics, the demand for silver could also increase.** Silver prices traded around $32/ounce (LBMA price) on September 26, 2024.

## GOLD AND SILVER PRICES (LBMA, $/OUNCE)




Source: London Bullion Market Association, Data as on September 26, 2024. The gold price in India was around ₹75,750/10 gm as on September 26, 2024.

# Is the Indian rupee on the path to recovery?

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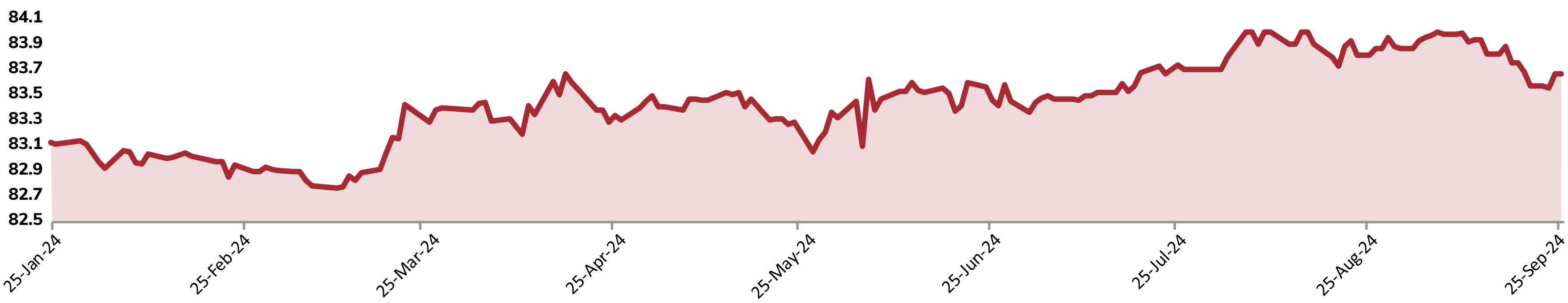
**After steadily weakening against the dollar for most of 2024, the rupee strengthened to around 83.60 against the dollar on September 25, 2024** from the 84 level observed in August 2024. When U.S. interest rates rise, foreign investors tend to flock to U.S. bonds, increasing the demand for dollars. **On the other hand, an interest rate cut augurs well for foreign inflows into India, which could support the rupee.**

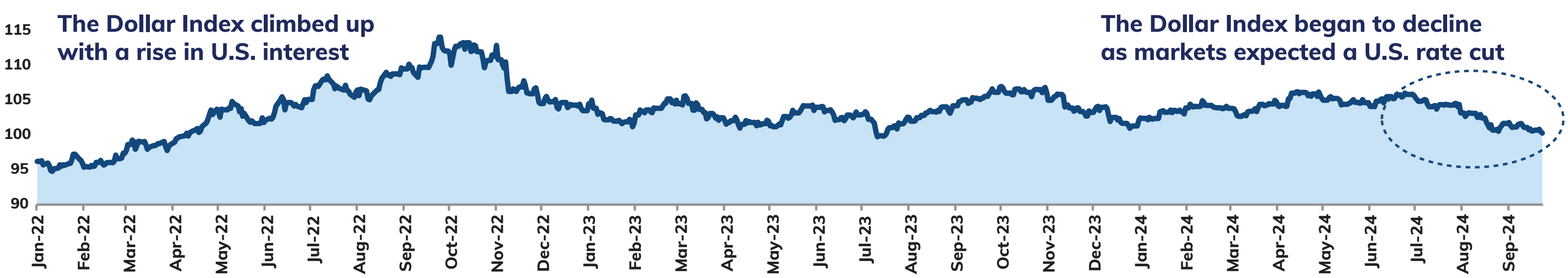
## USD/INR




Source: Refinitive, Data as on September 25, 2024. USD: U.S. Dollar. INR: Indian Rupee

**The U.S. dollar index, a measure of the value of the U.S. dollar relative to a basket of foreign currencies, slipped to low of around 100 levels in September 2024** from the 106 level observed in April 2024.

## U.S. DOLLAR INDEX (DXY)




Source: Refinitiv, Data as on September 25, 2024.

# Oil prices on a downward trajectory – OPEC has a plan for price stability

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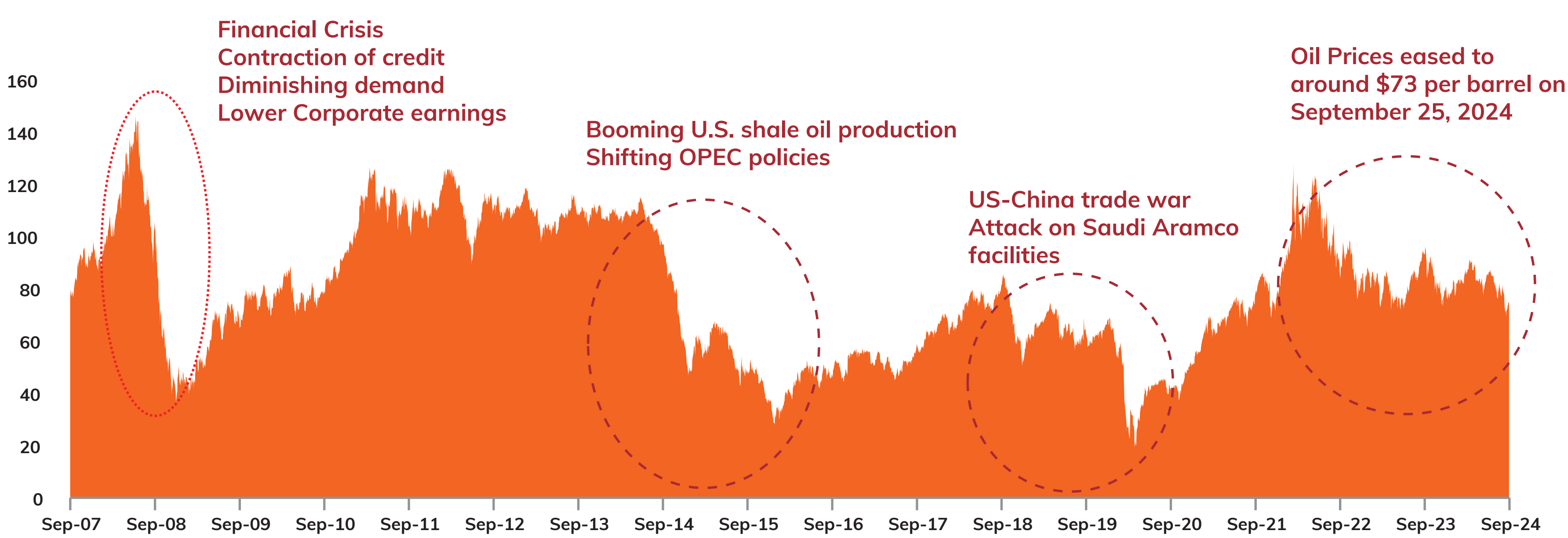
**In September 2024, Brent crude oil prices tumbled below $70 per barrel first time since December 2021** due to a demand-supply imbalance in the market. Amid the decline, **the Organization of the Petroleum Exporting Countries (OPEC) decided to pause its planned oil output hike until November 2024-end** and subsequently phase it out on a monthly basis.

**What are the demand related concerns?** China, the world's largest crude oil importer, **grapples with weak demand and refineries operating at lower levels.** While U.S. manufacturing activities slowed in August 2024, **the interest rate cut could fuel energy demand.**

**The oil market is also wrestling with supply related challenges:** **A portion of Libya's production was halted in August 2024** due to a political standoff. **Geopolitical uncertainties in the Middle East continue to impact international trade, posing a risk to global oil supply.**

## BRENT CRUDE OIL ($/BARREL)



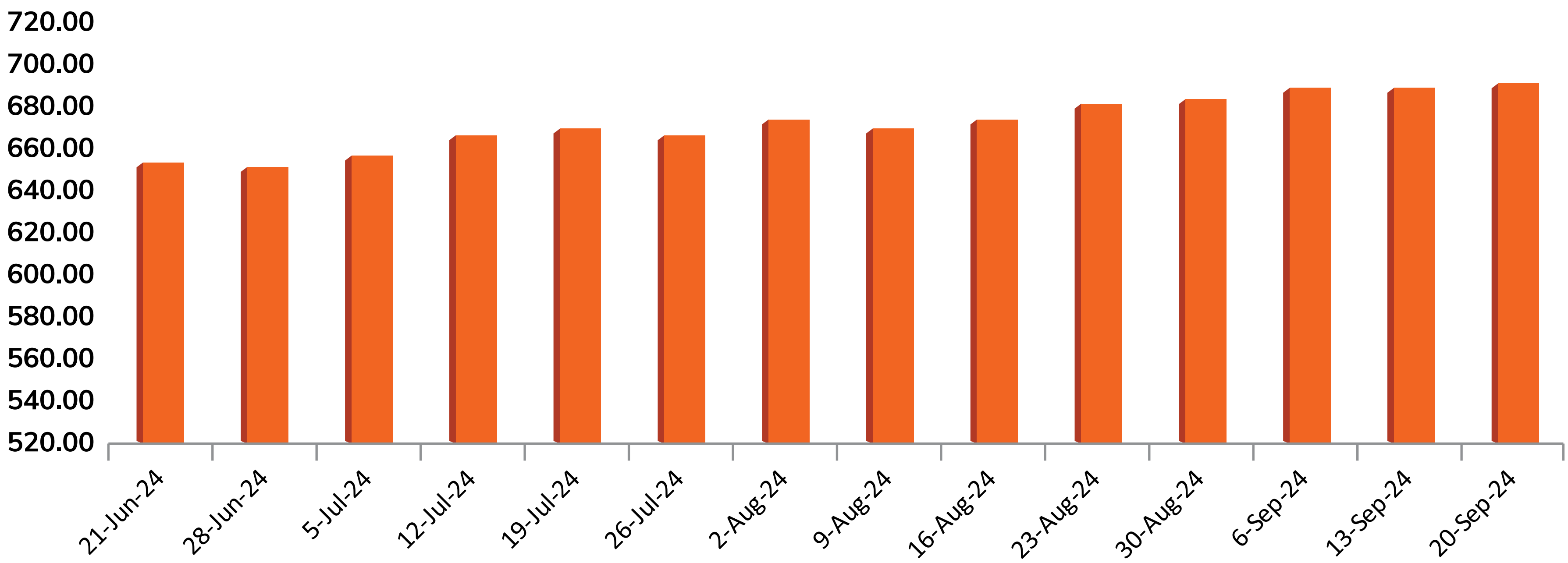

Source: Refinitiv. Data as on September 25, 2024.

# India's foreign exchange reserves test yet another record high in September 2024

**India's foreign exchange reserves have surged to a high of $692.296 billion for the week ended on September 20, 2024.** Gold reserves increased to $63.613 billion in the latest filing, compared to $62.887 billion recorded in the week ended September 13, 2024.

**A healthy level of foreign exchange reserves** could act as a buffer against global financial turbulence and **defend the rupee in times of volatility.**

## INDIA'S FOREIGN EXCHANGE RESERVES (US $, BILLION)




Reserve Bank of India (RBI), Reuters, Data as on September 20, 2024.

# The flexibility to participate in credit default swaps: An impetus for the mutual fund industry?

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**What is a credit default swap?** Imagine you purchase a **corporate bond.** While you expect regular returns through coupon payments, **there is always the risk of the company defaulting on its payments.** A credit default swap could come to your rescue, where you **enter into a contract with a seller to safeguard you against the potential risk.** In exchange for a premium, **the seller commits to cover any loss that could arise if the company falters.**

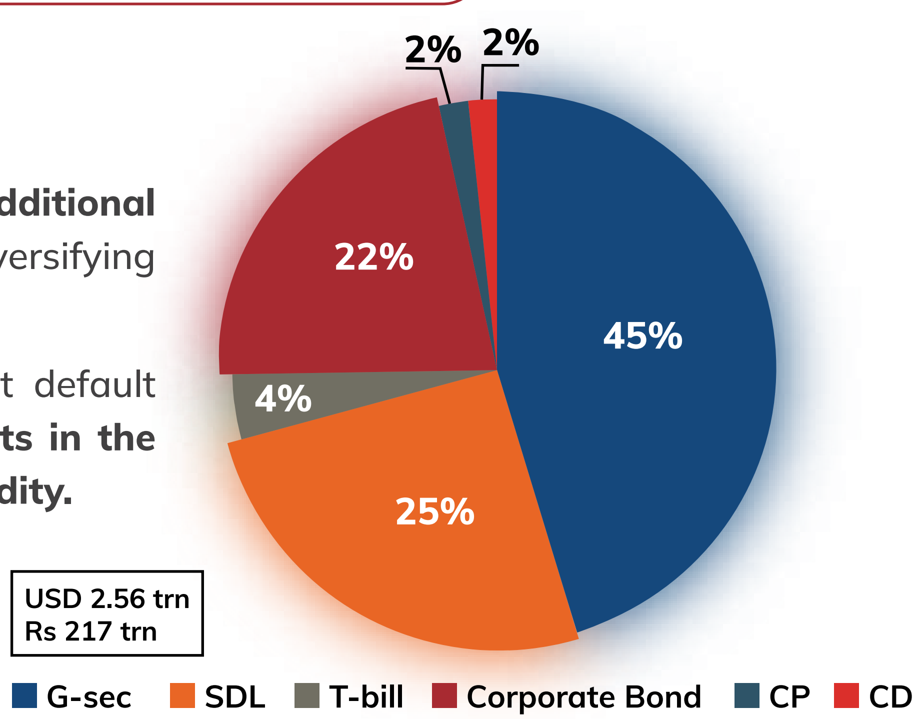
**SEBI has cleared the path for mutual funds to buy and sell credit default swaps (CDS) under specific conditions (SEBI Circular, September 20, 2024).** As per the framework, mutual funds in India would be permitted to buy credit default swaps only for the purpose of **hedging the credit risk on the corporate bonds** held by them in various schemes.

## OUTSTANDING BOND MARKET (MARCH 2024)

**There are two key benefits of this decision:**

**Firstly, Credit default swaps will serve as an additional investment product** for mutual funds when diversifying the portfolio.

Secondly, the flexibility to buy and sell credit default swaps could **broaden the base of participants in the corporate bond market and increase the liquidity.**




Source: SEBI, CP: Commercial Paper. CD: Certificate of Deposit. SDL: State Development Loans. Data as of March 31, 2024, the corporate bond outstanding accounts for 22% of the total outstanding in the bond market. trn: trillion.

# India's Mutual Fund Industry has a story to share

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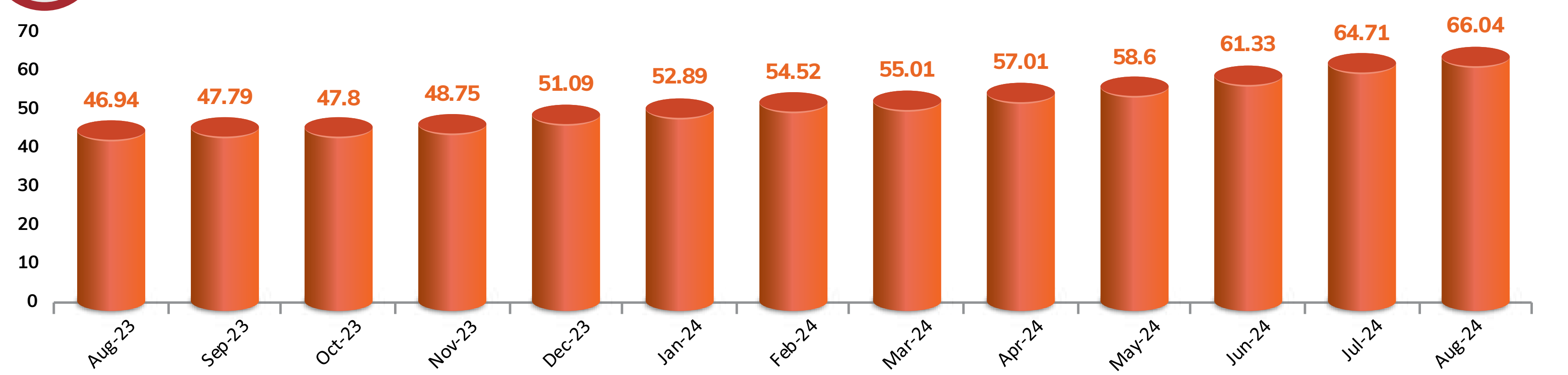
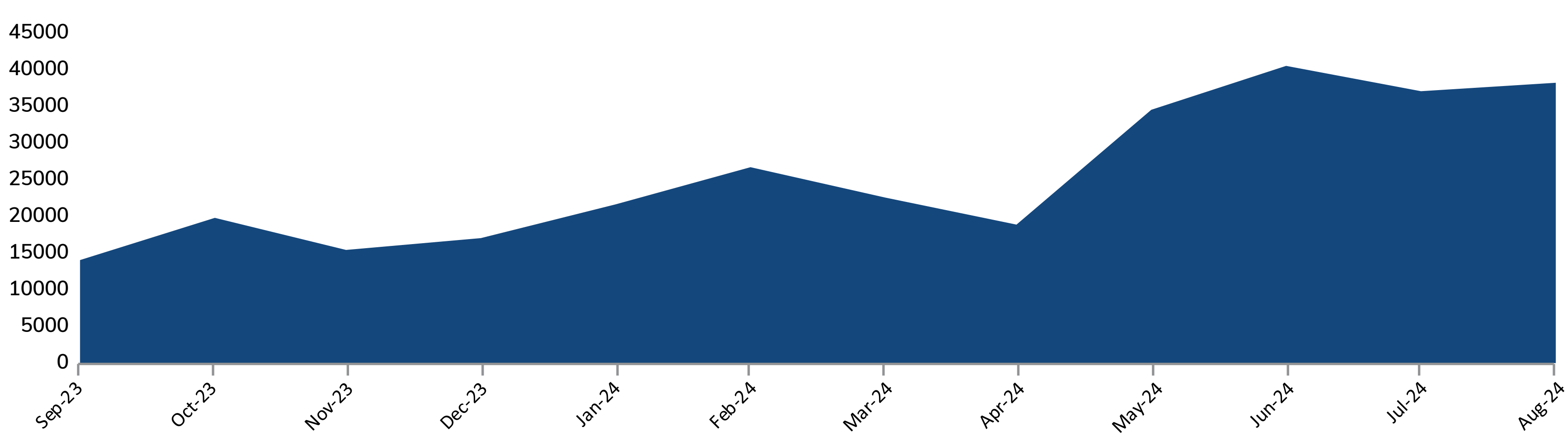
**The Average Assets Under Management (AAUM) of the Indian mutual fund industry increased from ₹46.94 lakh crore in August 2023 to ₹66.04 lakh crore in August 2024,** denoting a 40.70% increase in assets.

## AVERAGE ASSETS MANAGED BY THE INDIAN MUTUAL FUND INDUSTRY (₹, LAKH CRORE)




**Equity mutual funds garnered inflows of ₹38,239 crore in August 2024,** aided by New Fund Offerings (NFO) and a surge in systematic monthly investments.

## NET EQUITY MUTUAL FUND FLOWS (₹, CRORE)




Source: Association of Mutual Funds in India (AMFI)

# The Comeback of India's Private Consumption – Consumers are filling their Shopping Carts

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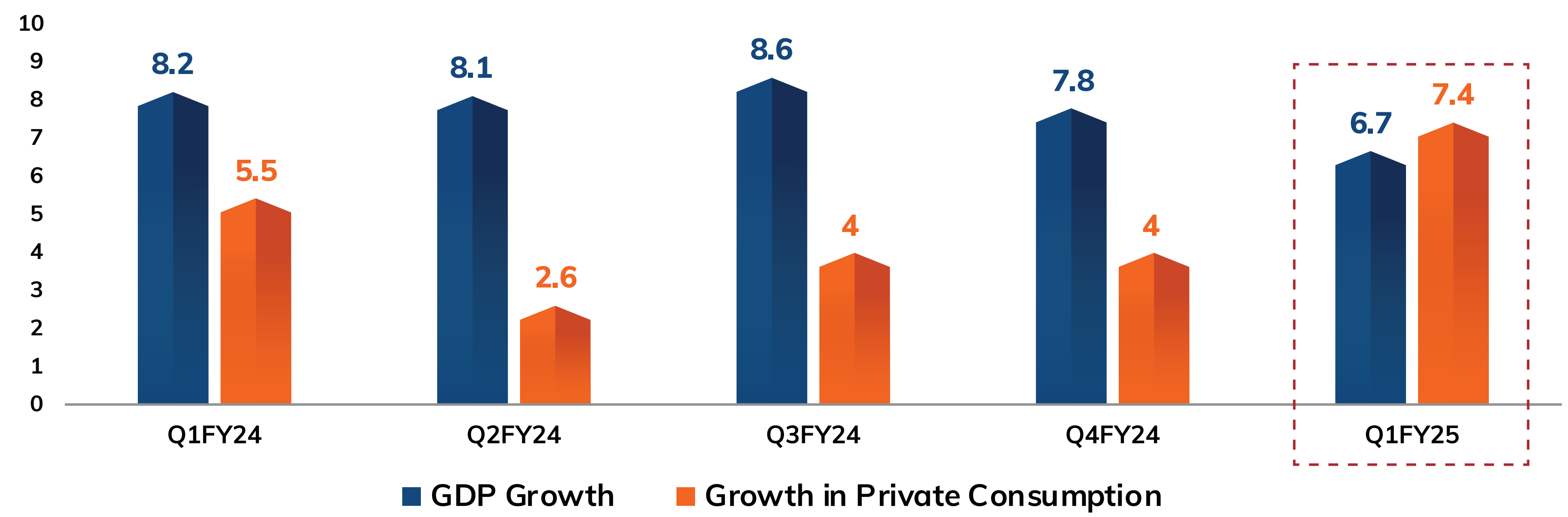
**The Covid-19 pandemic outbreak impacted the spending pattern of households, casting a shadow on the growth prospects –** While the demand for essential goods and healthcare products increased; spending on travel, consumer durables and entertainment declined sharply in 2020. **Gross Domestic Product (GDP) grappled as private consumption, the mainstay of aggregate consumption, began to lag.**

**Private consumption has now rebounded significantly to 7.4% growth in Q1FY25,** leaving behind a feeble 4% witnessed in Q4FY24. This has been supported by **improving rural demand conditions as the sale of 2-Wheelers picked up and demand for work under the MGNREGA contracted.**

## GDP AND PRIVATE CONSUMPTION GROWTH (%)




Source: Ministry of Statistics and Program Implementation (MOSPI), Reserve Bank of India (RBI), GDP: Gross Domestic Product. MGNREGA: Mahatma Gandhi National Rural Employment Guarantee Act. GDP: Gross Domestic Product

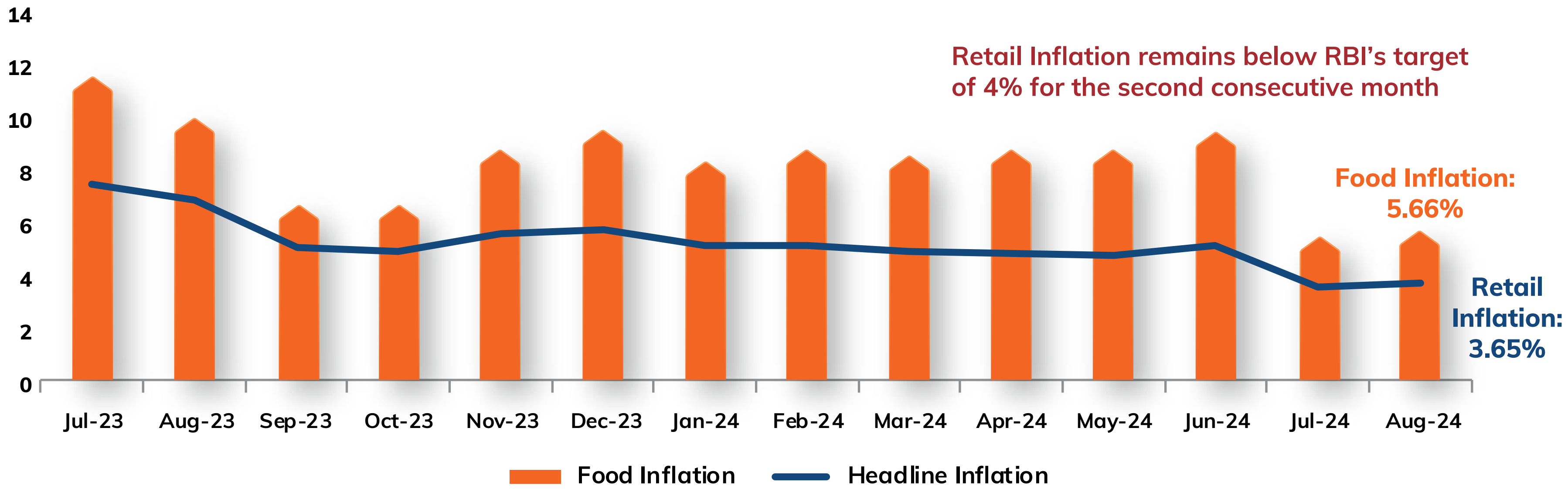
**Gross Fixed Capital Formation, another indicator of consumer confidence, grew at a robust rate of 7.5% in Q1FY2025,** indicating a revival in investment activities by businesses. **Increased investment and private consumption would boost manufacturing activities,** contributing to the economic growth.

# India's retail inflation has moderated since April 2022 but there is still a distance to cover

**Food inflation has become a persistent challenge –** A visit to the local vendor would reveal more about the rising prices of vegetables than any newspaper headline. **The food basket inflation inched up to 5.66% in August 2024, owing to a rise in prices of fruits, vegetables and eggs.**

**India's Retail Inflation, based on Consumer Price Index (CPI), moved up moderately to 3.65% in August 2024 from 3.54% in July 2024,** primarily due to stubborn food prices. **The inflation print remained below the central bank's target of 4%** for the second consecutive month, which is a positive development for the economy.

## INFLATION (%)




Source: CMIE: Centre for Monitoring Indian Economy, Data as on August 2024. RBI: Reserve Bank of India

**Volatile global crude oil prices, geopolitical tensions affecting supply chains and an upward revision in the mobile tariff rate are potential stumbling blocks** for the inflation outlook.

# India's merchandise trade deficit widens – Which factors are to blame?

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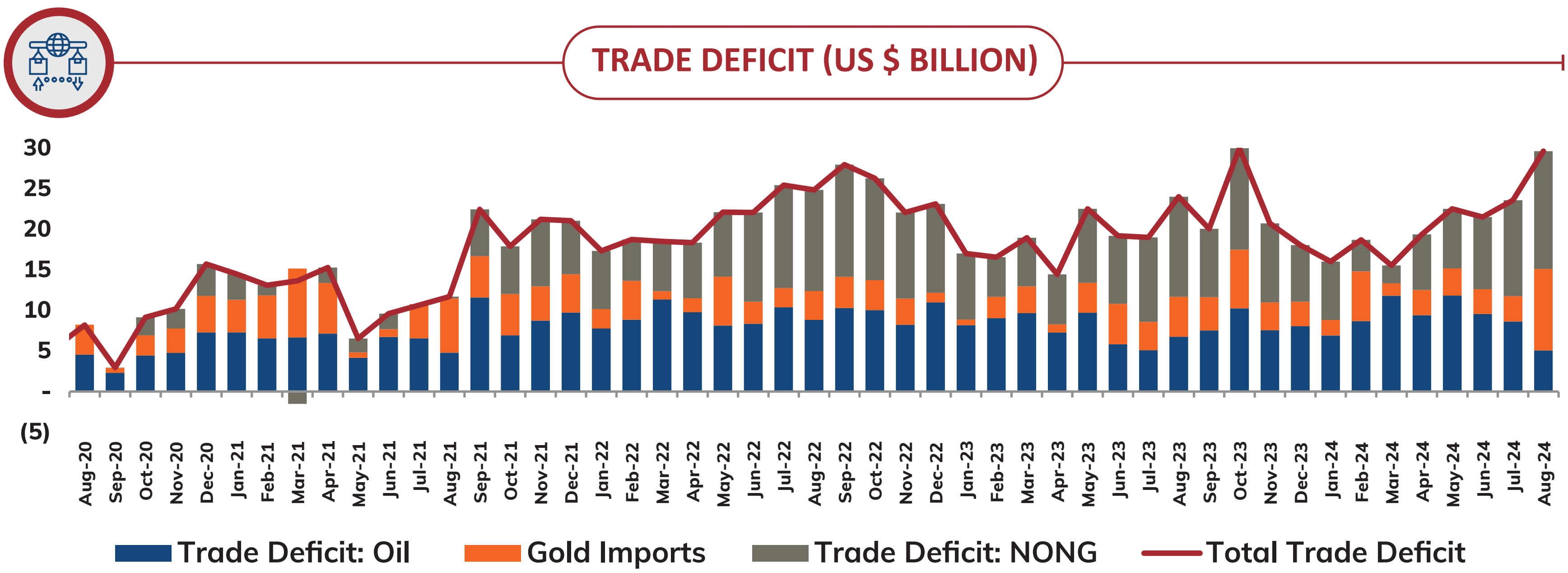
**India's merchandise trade deficit widened to a 10-month high $29.65 billion in August 2024 from $23.5 billion in July 2024,** primarily due to a decline in exports and muted global demand.




Source: Data as on August 2024. CEIC, PIB. NONG: Non-oil-non-gold

**Contraction in exports: India's merchandise exports contracted to $34.71 billion in August 2024** as geopolitical conflicts in West Asia impeded global trade. Global businesses suffered severely due to inflationary pressures, particularly in European countries.

**China's Economic Slowdown: The Chinese economy has started exporting more Chinese goods at relatively lower prices,** making it challenging for other manufacturers to complete.

**Rise in Gold imports: Gold imports climbed to a record $10 billion in August 2024,** owing to **a reduction in customs duty from 15% to 6% and a surge in festive demand.**

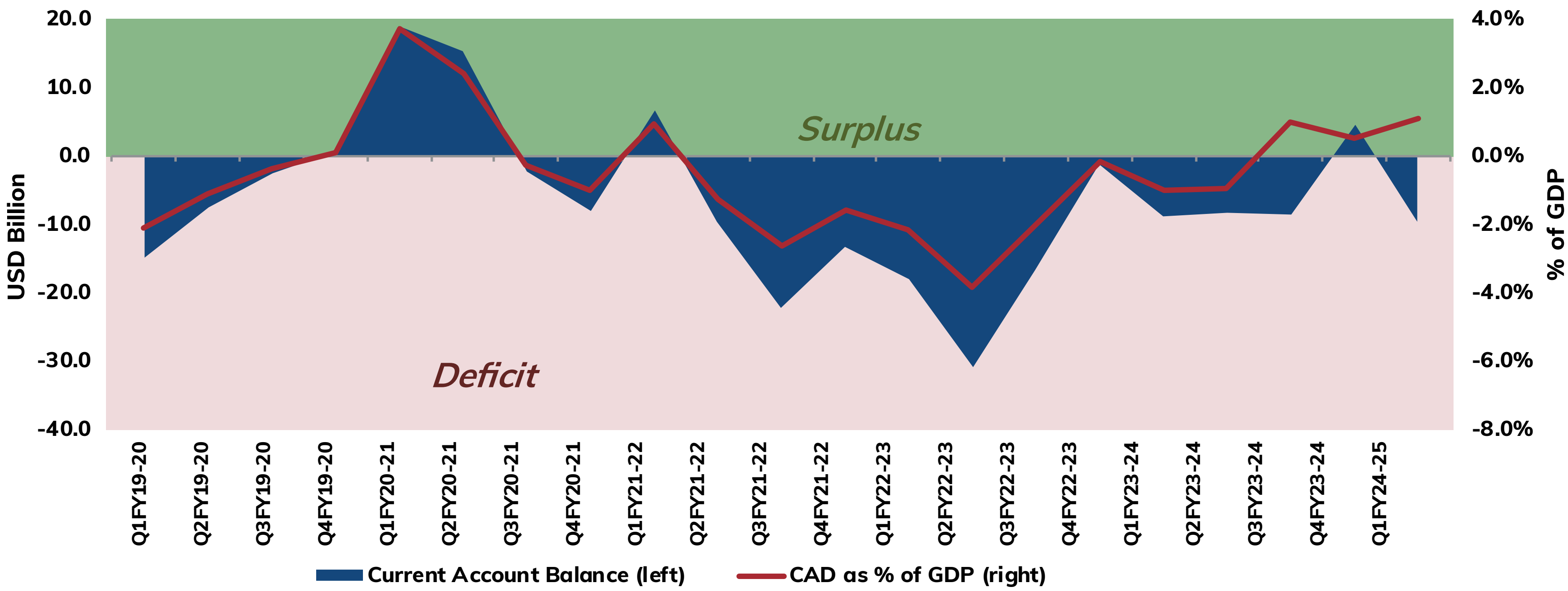
**Global supply chain disruptions: The Red Sea shipping crisis** and disruptions in the Suez Canal route have **pushed freight costs even higher.**

# Current Account Deficit (CAD) Widens to $9.7 Billion in Q1:FY2024-25


**According to the RBI, the CAD widened due to a rise in merchandise trade deficit to US$65.1 billion in Q1:2024-25 from US$56.7 billion in Q1:2023-24.**

- **Trade deficit from the net imports of POL# showed an increase to $30.8 billion** in Q1FY24-25 vs. $22.8 billion in the Q1FY23-24.
- **Brent crude oil prices** were trading higher around $80-$90 per barrel during the April-June 2024 quarter, indicating an impact on CAD mainly due to a higher oil bill.
- **Private transfer receipts,** mainly representing remittances by Indians employed overseas, increased to US$29.5 billion in Q1FY24-25 from US$27.1 billion in Q1FY23-24.
- **Net inflows under FPI** moderated to US$0.9 billion from US$15.7 billion in Q1FY23-24.

## TREND OF INDIA'S CURRENT ACCOUNT




Data for Q1FY2024-25 i.e. April 1, 2024 – June 30, 2024 is provisional. Source: RBI; CAD – Current Account Deficit; GDP – Gross Domestic Product; # POL – Petroleum, Oil & Lubricants. US$ - US Dollar.

# The Sugar Industry has a reason to celebrate

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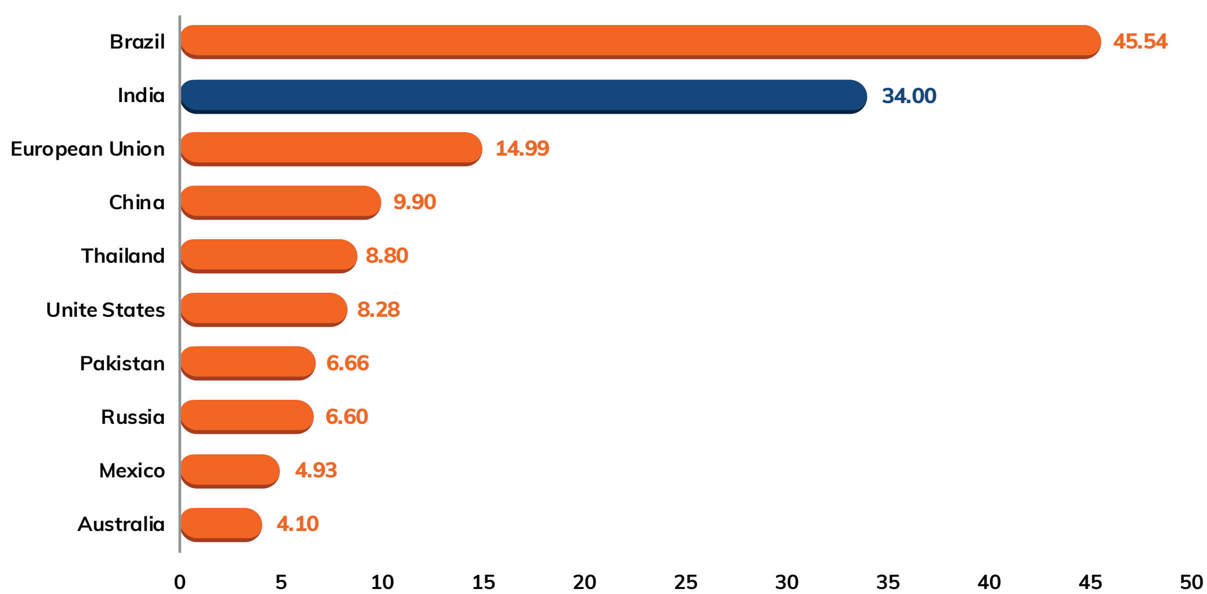
**On August 29, 2024, the Indian government lifted restrictions on sugar mills producing ethanol from sugarcane juice and syrup,** beginning from November 01, 2024.

**Why is this a significant development for India?**

**Support the cash flows of sugar producing companies:** **India is the world's second-largest sugar producing country after Brazil.** The government's decision is a much-needed relief to the sugar industry as it would **boost ethanol sales and reduce the high inventory of sugar companies.**

## TOTAL SUGAR PRODUCTION IN 2023/24 BY LEADING COUNTRIES (MILLION, METRIC TONS)




Source: Foreign Agricultural Service, U.S. Department of Agriculture: 2023/2024.

**Environmental Benefits:** **Ethanol is used widely across various industries, such as pharmaceuticals, manufacturing and the fuel industry.** When blended with gasoline, it reduces the carbon emissions, proving to be an effective biofuel.

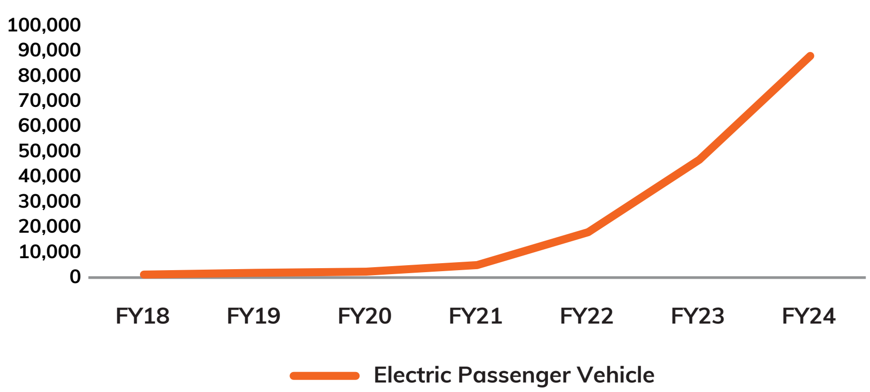
**Instrumental in India's objective to achieve 20% ethanol blending in petrol by 2025-26:** **The availability of ethanol could lower India's import dependency on oil** products and reduce the overall trade deficit bill.

# PM (E-DRIVE) Scheme: India shifts gears to a new Electric Vehicle (EV) policy

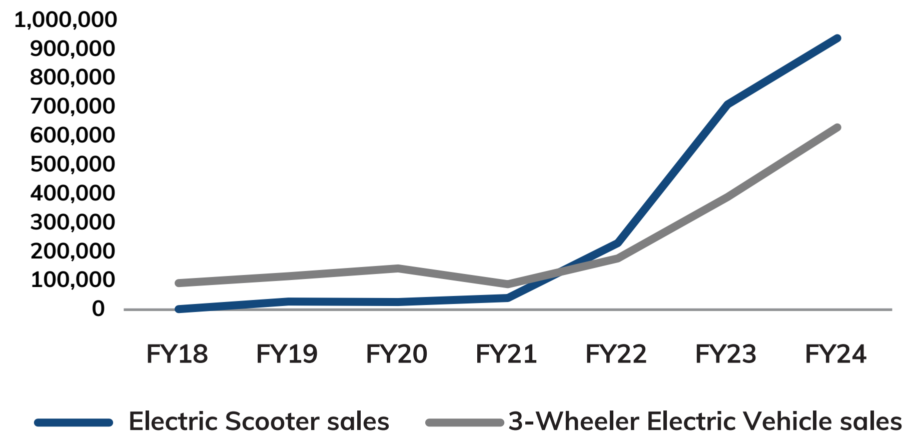
In **September 2024, the government announced the PM E-Drive Scheme with an outlay of ₹10,900 crore** over a period of two years. **The initiative would provide demand subsidies to deploy two-wheelers, three-wheelers, e-ambulances, e-trucks and other emerging electric vehicles.**

This is a significant step towards **increasing electric mobility across the country, enhancing investment across the electric vehicle chain and supporting domestic manufacturing.**

## ELECTRIC PASSENGER VEHICLE SALES IN INDIA (NUMBER OF UNITS)




## ELECTRIC SCOOTER AND 3-WHEELER SALES IN INDIA (NUMBER OF UNITS)



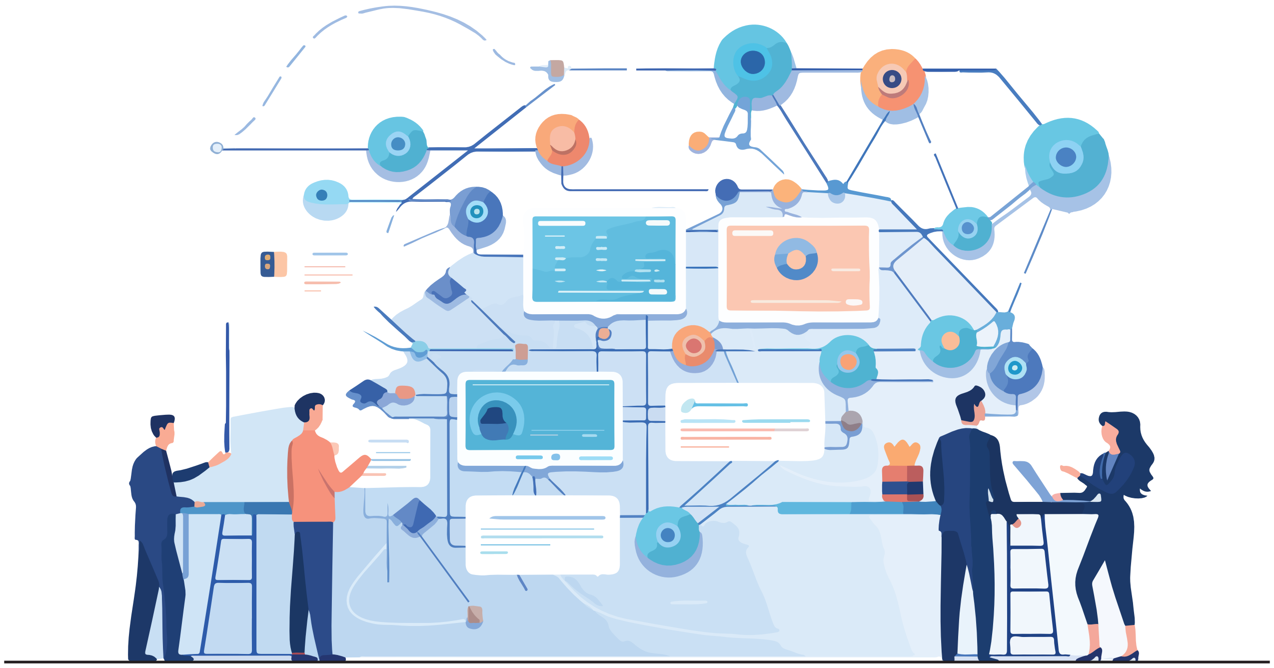

Source: Vahan, SIAM. FY: Financial Year Data. PM E-Drive Scheme: Electric Drive Revolution in Innovative Vehicle Enhancement Scheme, PM India Government Document

# Tapping Opportunities: India and Singapore ink agreements related to semiconductors and digital technology

**In September 2024, India and Singapore signed a key bilateral agreement** to partner in the arena of **semiconductors, digital cooperation, skill development and healthcare.**

**What are the key benefits of this collaboration?**

- **Singapore has expertise in producing low-end chips essential for electric vehicles and smartphones**. The collaboration would support India's ambition to position itself as a global semiconductor manufacturing hub.
- **The alliance would also strengthen India's Research and Development capabilities** and drive groundbreaking innovations.
- **The digital cooperation pact would focus on securing data transmission** through effective governance frameworks, which is crucial for businesses.
- **Upskilling workforce and equipping them with the requisite skills** would help bridge the talent gap.



# Other Key Developments

**The ECB cut interest rates for the second time during the year: In September 2024, the European Central Bank (ECB) lowered its key interest rate from 3.75% to 3.5% due to subdued economic activity,** a decline in investment, weak private consumption and slowing inflation (Data Source: European Central Bank).

**Indian Banking Liquidity forays into the Deficit zone: The Indian banking system liquidity stood at a deficit on September 17, 2024,** owing to advance tax payments and Goods and Services Tax (GST) obligations. **Liquidity could recoup as government spending picks up steam in the following months** (Source: Reserve Bank of India).

**The cross-border investment Tale:** Global trade relationships, technological advancements, expansion of markets and a boost to economic growth – there are several reasons to favour foreign investments. **India's net foreign direct investment (FDI) rose to $5.5 billion during the April-July 2024 as compared to $3.8 billion recorded a year ago** coupled with an improvement in gross inward FDI.

**A grand necklace of Industrial Smart Cities for India: In August 2024, The Cabinet Committee on Economic Affairs approved 12 new project proposals under the National Industrial Corridor Development Programme (NICDP)** with an estimated investment of ₹28,602 crore. A robust network of industrial nodes and cities would **support India's industrial sector and boost global competitiveness.** (Source: Government of India, Press Information Bureau).

**The buzz around a Small-ticket Systematic Investment Plan (SIP): Systematic Investment Plan contribution in mutual funds stood at a record high of ₹23,547 crore in August 2024** (Source: Association of Mutual Funds in India), indicating the inclination of investors towards disciplined investing. **SEBI is working with mutual funds to develop a new ₹250-per-month micro-SIP,** which could facilitate greater financial inclusion.

# And it is a wrap for the month

**September has been an eventful month for the financial markets** as the U.S. markets were gifted with the much-awaited interest rate cut. It would be interesting to see how the **global commodity markets shape up, the central bank interventions ahead, the trajectory of the rupee, interest rate differentials and the outcome of the U.S. elections. These factors could play a key role in steering the course of the financial markets ahead!**

## PICTURE OF THE MONTH

**Inflation has taken a back-seat for most of the central banks' decision pertaining to the monetary policy, but now with China's massive stimulus, which may result in China's growth picking-up, this may in-turn stoke inflation to move higher. Tricky times, let us see how things shape up!**


The images used in this document are only for illustration purpose.

# Disclaimer

**Mutual Fund investments are subject to market risks, read all scheme related documents carefully.**

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