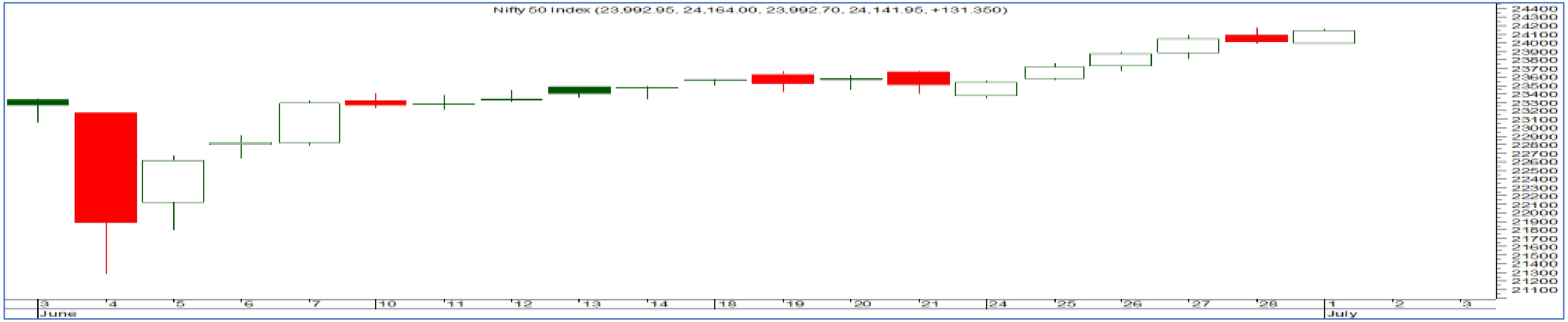
MONTHLY STRATEGY REPORT

03 July 2024

Nifty Chart for June 2024



The Month Gone By

India's benchmark stock index, the Sensex, roared back to record its biggest monthly gain in six months, surging 6.9% in June, while Nifty 50 rose 6.6%. This impressive rally was driven by optimism surrounding the return of the Bhartiya Janata Party-led government and a positive global market environment. The return of foreign portfolio investors (FPIs) and continued buying by domestic investors amid prospects of strong economic growth, policy continuity, and an above-normal monsoon are the major factors that boosted the market in June. Since June 4th, major indices have climbed ~10%, significantly reducing the country's risk profile by reversing net outflows (QTD) from FIIs.

This market rally is also boosted by positive expectations for the upcoming budget. There is a growing sense of optimism that the newly formed government, committed to pro-growth policies, will expand on this agenda through a range of measures in the upcoming fiscal year.

All sectors ended in the green during the month, the information technology (IT) sector emerged as the leader of the June rally, delivering a stellar return of 11.3%. This was closely followed by the telecommunication and the consumer discretionary index, which registered gains of 10.9% and around 9% respectively.

The Sensex and the Nifty 50— ended the first half of the current calendar year with healthy gains. The Nifty 50 rose 10.5 per cent, while the Sensex clocked a 9.4 per cent gain in the first six months of 2024. On the other hand, the mid- and small-cap segments of the market outperformed the benchmarks with significant margin even though experts have warned of their unsustainable valuations. The Nifty Midcap 150 index jumped 25 per cent, while the Nifty Smallcap 250 index has seen a gain of 22 per cent year-to-date (YTD).

Key Positives during the Month

- India's net direct tax collections have surged by 21 per cent year-on-year to over Rs 4.62 lakh crore from April 1 to June 17.
- India’s petrol and diesel consumption broke all records in May 2024, aided by higher demand for auto fuels due to campaigning and voting in the ongoing Lok Sabha elections. Diesel usage rose by 2.4 per cent Y-o-Y and 6.3 per cent M-o-M in May to 8.4 MT, while petrol consumption was up 3 per cent Y-o-Y and 6 per cent M-o-M to 3.5 MT.
- Unemployment rate in India, among persons aged 15 years and above, saw a significant drop in May 2024. It fell to 7 per cent in the month, which was its lowest recorded since September 2022. In April 2024, the unemployment rate was at a much higher 8.1 per cent.
- The annual consumer inflation rate in India eased to 4.67% in May of 2024 from 4.83% in the previous month, to mark the slowest increase in consumer prices in one year. From the prior month, Indian consumer prices rose by 0.48% for a second consecutive month.
- Industrial output in India rose by 5% on an annual basis in April 2024, following a 4.9% growth in the previous month.
- Total passenger vehicle sales in India climbed 4.3% from a year earlier to 300,795 in May 2024, after a 1.2% rise in the previous month.
- Domestic air passenger traffic went up 4.4 per cent to around 1.37 crore in May.
- India's fiscal deficit for the first two months of FY25 stood at Rs 50,615 crore, or 3 percent of the estimate for the whole year. This favourable fiscal position is attributed to a strong cash balance and buoyant revenues, including a substantial RBI dividend.
- India's infrastructure output, which accounts for about two-fifths of the country's industrial production, rose 6.3% year-on-year in May, decelerating from April's 6.7% expansion, hurt by a contraction in cement and crude oil and a slowdown in refinery products and steel.
- Non-food bank credit saw a 16.2% growth in May 2024 compared to 15.5% a year ago.
- The Reserve Bank of India kept its benchmark policy repo at 6.5% for the eighth consecutive meeting in June 2024. Additionally, the central bank revised the economic growth forecast for the fiscal year 2025 to 7.2% from 7%.
- India recorded a current account surplus of $5.7 billion in the quarter ending in March of 2024, swinging from the $1.3 billion deficit in the previous three-month period, to mark the first surplus since the quarter ending in June 2021.

- India's power consumption surged by 15% to 156.31 BU in May 2024 due to scorching heat, leading to increased use of cooling appliances. Peak power demand hit a record high of 250.07 GW, surpassing the previous peak of 243.27 GW.

- India’s manufacturing sector grew at faster pace in June this year compared to the previous month on the back of increased new orders and output, reflecting strong growth momentum in the economy. The HSBC India manufacturing Purchasing Managers’ Index (PMI), compiled by S&P Global, accelerated to 58.3 in June this year from 57.5 in the previous month.

- The GST collections in June continue to maintain the momentum at Rs 1.74 lakh crore, as the May collections were recorded at Rs 1,72,739 crore. Annually, June collections represent an approximate 8% growth from the corresponding period last year, indicating a slowdown in the pace of collections seen.

Key Negatives during the Month

- Services PMI was revised lower to 60.4 in May 2024 from 61.4 in the preliminary estimates and after a final 60.8 in the prior month. This was the 34th consecutive month of expansion in services activity.

- India’s wholesale prices climbed by 2.61% year-on-year in May 2024, accelerating from a 1.26% rise in the previous month. Monthly, wholesale prices rose 0.20%, easing from an upwardly revised 1.06% growth in April.

- India’s merchandise trade deficit was at $23.8 billion in May of 2024, a seven-month high, compared to $19.1 bn on April 2024. While exports rose nearly 9 percent from April to $38.13 billion in May, imports shot up 14.45 percent to $61.91 billion. Imports soared by 7.7% to $61.90 billion on a YoY basis, while exports jumped by 9.1% to $38.13 billion.

- India’s rainfall deficit stood at 17.1% until June 27. Ten of the 36 states and UTs continued to witness over 50% deficiency in rainfall, with Chandigarh facing the highest levels of deficit at 91%.

Sector Moves/G-Sec Yield Moves Over the Month

BSE Indices	Jun-24	May-24	% chg	Mar-24	% chg
Sensex	79,033	73,961	6.9	73,651	7.3
Smallcap	52,130	47,264	10.3	43,166	20.8
Midcap	46,158	42,853	7.7	39,322	17.4
500	35,634	33,344	6.9	32,043	11.2
200	11,106	10,432	6.5	10,100	10.0
100	25,398	23,771	6.8	23,294	9.0
Auto	57,293	53,026	8.0	49,142	16.6
Bankex	59,641	55,772	6.9	53,515	11.4
Capital Goods	72,324	70,056	3.2	60,943	18.7
Consumer Durables	58,827	54,915	7.1	52,277	12.5
FMCG	20,550	19,529	5.2	19,318	6.4

BSE Indices	Jun-24	May-24	% chg	Mar-24	% chg
Healthcare	37,110	34,890	6.4	35,053	5.9
IT	36,951	33,199	11.3	35,645	3.7
Metal	33,051	32,713	1.0	28,196	17.2
Oil & Gas	29,473	28,640	2.9	27,644	6.6
Power	7,955	7,699	3.3	6,702	18.7
PSU	21,204	20,888	1.5	18,275	16.0
Realty	8,635	7,980	8.2	7,108	21.5
TECK	17,164	15,674	9.5	16,111	6.5
G Sec Bond Yields	7.01	6.98	3bps	7.05	-4bps
Nifty	24,011	22,531	6.6	22,327	7.5

Global Markets

Indices	Jun-24	May-24	%Chg	Mar-24	%Chg
US - Dow Jones	39,119	38,686	1.1	39,807	-1.7
US - Nasdaq	17,724	16,735	5.9	16,379	8.2
UK - FTSE	8,164	8,275	-1.3	7,953	2.7
Singapore - Strait Times	3,333	3,337	-0.1	3,224	3.4
Japan - Nikkei	39,583	38,496	2.8	40,369	-1.9
Indonesia - Jakarta Composite	7,078	6,971	1.5	7,263	-2.5
India - Sensex	79,033	73,961	6.9	73,651	7.3
India - Nifty	24,011	22,531	6.6	22,327	7.5
Hong Kong – Hang Seng	17,719	18,080	-2.0	16,541	7.1
Germany - DAX	18,235	18,498	-1.4	18,492	-1.4
Chinese - Shanghai composite	2,967	3,087	-3.9	3,041	-2.4
Brazil - Bovespa	123,898	122,098	1.5	128,106	-3.3

- World markets ended the month of June on a mixed note. India - Sensex, India – Nifty, US-Nasdaq, Japan – Nikkei, Indonesia - Jakarta Composite, Brazil - Bovespa, and US - Dow Jones were up by 6.9%, 6.6%, 5.9%, 2.8%, 1.5%, 1.5% and 1.1%, respectively during the month while Chinese - Shanghai composite, Hong Kong – Hang Seng, Germany - DAX, , UK – FTSE and Singapore - Strait Times and were down by 3.9%, 2.0%,1.4%, 1.3% and 0.1% each respectively.

- US, stock indices finished at record highs after reassurances from the Federal Reserve that it still sees a cut to interest rates as likely this year. Indices rose after the government reported that inflation pressures eased in May, data that investors hope could move the Federal Reserve closer to cutting its benchmark interest rate from a 23-year peak. The main indices remain close to all-time highs, boosted by the enthusiasm surrounding artificial intelligence. The broad-based S&P 500 index is up almost 15% so far this year, while the tech-heavy Nasdaq Composite has gained almost 18%. The blue-chip Dow Jones Industrial Average has lagged, by contrast, gaining just under 4% in the first half of the year.

- Japan's Nikkei rose to its highest close in more than two months, as investors shifted focus to value stocks from semiconductor and other high-tech, while a weaker yen also lent support to export-related shares. The rise in U.S. tech stocks has generated a strong tailwind for Japanese equities, becoming the driving force. After retreating in April, the index had struggled to get above the 39,400 level amid tepid company revenue outlooks and concerns about currency and bond market volatility.

- Indonesian Index was higher at the close of the month, as gains in the IDX Finance, IDX Infrastructure and IDX Agriculture sectors led shares higher.

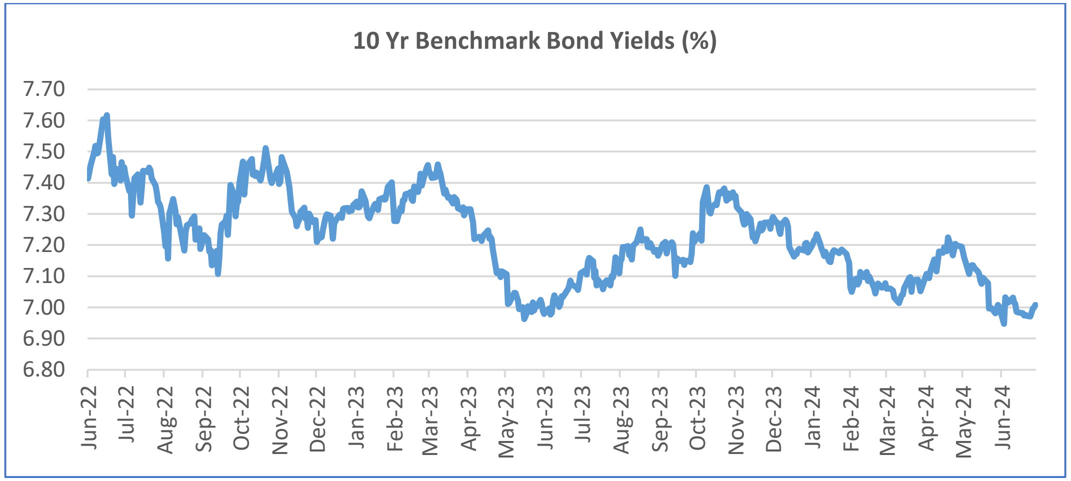
- Chinese Index fell as a slew of economic data underlined the country's bumpy recovery and the People's Bank of China (PBOC) left a key policy rate unchanged, disappointing some who had expected a rate cut following surprisingly soft bank lending data. Also fears of US rate hikes and weak domestic economic fundamentals weighed heavily on the Index. Mainland China Index dropped, affected by consumer sector and non-ferrous metal industry downturns. Overall sentiment was lax as China's sluggish economic data and trade frictions with the European Union weighed on the sentiments.

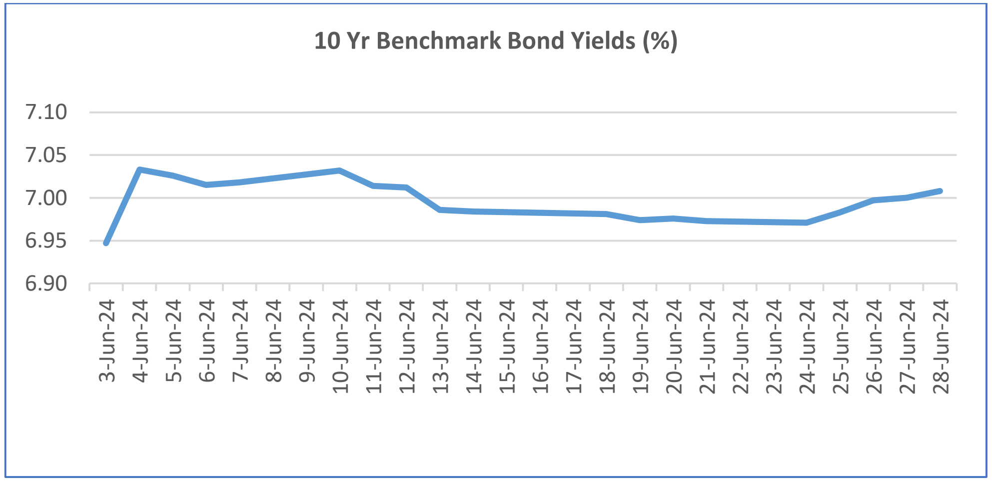
- Hong Kong stocks hit a month’s low due to strong U.S. employment data impacting Fed rate cut expectations. Also denting sentiment was China inflation data that sparked worries about domestic demand in the world’s second biggest economy. Furthermore, sentiments weighed down after reports that the Biden administration is considering further restrictions on China's access to chip technology used for artificial intelligence. Hong Kong markets were playing catch-up with the global markets sell-offs following robust US non-farm payroll report that rolled back rate-cut expectations.

- European Indices edged lower despite U.K. inflation falling back to the Bank of England’s target. Index slipped tracking losses in European stocks after French President Emmanuel Macron called a snap parliamentary election, while uncertainty around the timing of interest rate cuts in the United States also weighed.

G Sec Market:

- Indian G-Sec yields rose by 3 bps during June 2024, to end the month at 7.01%. Bond yields rose even as most of the domestic government bonds under the Fully Accessible Route were included in the JPMorgan emerging market debt index on Jun 28, 2024. India's bond market has attracted significant overseas inflows. Indian sovereign bonds have already received $8 billion into the fully accessible securities route since this announcement came in September 2023. Indian government bond yields rose tracking a spike in US Treasury yields after strong economic data dampened bets of rate cuts by the Federal Reserve.





Fund Activities

	Net Buy / Sell	Net Buy / Sell	Open Interest	Open Interest	Remarks
	Jun-24	May-24	Jun-24	May-24	
FII Activity (Rs in Cr)					**FII Activity (Rs in Cr)**
Equities (Cash)	25940.3	-25259.7			FIIs were large net buyers in Jun-24
Index Futures	38280.8	-8791.5	34008.5	28199.7	FIIs were net buyers with a rise in open interest
Index Options	-144083.5	-360652.1	335953.2	358225.5	FIIs were net sellers with a fall in open interest
Stock Futures	16353.6	6505.6	298570.5	268857.8	FIIs were net buyers with a rise in open interest
Stock Options	-3040.2	1920.1	16223.7	16390.4	FIIs were net sellers with a fall in open interest
MF Activity (Rs in Cr)					**MF Activity (Rs in Cr)**
Equities (Cash)	20359.0	48099.0	-	-	MFs were large net buyers in Jun-24 (till 27th June 2024)

- FIIs were net buyers in the debt market, buying a net amount of Rs 17823.5 in June 2024 as compared to net buying of debt worth of Rs 8367.5 cr in May 2024. Mutual funds were net sellers of debt papers, selling Rs 5130.3 cr in June 2024 (till 27th June 2024) as against Rs 44096.4 cr of net selling in May 2024.
- The average daily volume on the BSE in June 2024 rose by 55.0% MoM. NSE's daily average volume rose by 40.7% MoM. The average daily derivatives' volume on the NSE rose by 17.0% MoM to Rs 38,65,142 cr in June 2024.

Commodities

- In June 2024, the Reuters/Jefferies CRB Index of 19 raw materials rose by 0.1% to close at 290. The index was pulled down by a decrease in Wheat (down 19.6%), Cotton (down 16.1%), Corn (down 14.7%), Nickel (down 12.3%), Cocoa (down 10.7%), Orange Juice (down 10.2%), Silver (down 9.2%), Soybeans (down 5.7%), Aluminium (down 4.8%), Lean Hog (down 1.7%), Gold (down 0.4%). However, Crude Oil, Sugar, Copper, Coffee, Live Cattle, and Natural Gas were up by 12.2%, 8.6%, 3.0%, 3.0%, 1.1%, and 0.8% respectively.

Commodity	Jun-24	May-24	% Chg	Mar-24	% Chg
Gold	2337.0	2345.8	-0.38	2238.4	4.40
Crude Oil	86.4	77.0	12.24	83.2	3.86
Aluminium	2524.5	2652.5	-4.83	2337.0	8.02
Copper	9599.0	10040.0	-4.39	8867.0	8.26
Zinc	2937.5	2969.5	-1.08	2439.0	20.44
Nickel	17291.0	19710.0	-12.27	16749.0	3.24
Tin	32739.0	33042.0	-0.92	27451.0	19.26
Lead	2224.0	2273.0	-2.16	2055.0	8.22

- Gold prices fell despite softer US yields as notwithstanding lower yields, a slightly firmer US Dollar weighed on it. Gold came under pressure as traders are uncertain about timing and quantum of rate cuts. Risk appetite was weak in emerging markets on the close election outcome in India.

- Crude oil prices posed a gaining streak and rose to the highest level in nearly two months due to optimism towards summer fuel consumption in the Northern Hemisphere, alongside a draw in the US stockpiles. The two-week gains in crude oil prices represent a 7% increase for both Brent and WTI futures. Prices also rose as concerns build over escalating conflict in Europe and the Middle East.

- Cutting down of positions by participants on easing demand from consuming industries mainly kept aluminium prices lower. Prices also fell on a stronger dollar, stronger-than-expected US job statistics, and mixed trade numbers from main metals customer China.

- Copper experienced a decline primarily influenced by the stability of the U.S. dollar following the Federal Reserve's indication that interest rate cuts would be postponed until the end of the year. This stabilization in the dollar pressured copper prices downward. Concurrently, a significant influx of copper to LME-registered warehouses in Taiwan and South Korea was observed as Chinese producers capitalized on high LME prices in May to export copper. As a result, LME copper inventory increased over the last month. Data also showed that top consumer China’s economic data highlighted persistent weak spots in the metal’s biggest market. The world’s second-biggest economy released figures that bolstered concerns over a disappointing demand recovery.

- Global nickel prices may have hit a floor, and participants see a market recovery driven by strong demand from the steel sector and as a surplus of ore supplies shrinks after Indonesia slowed production permits. Mining approvals in top producer Indonesia faced delays this year for various minerals including nickel, causing a drop in ore inventories at smelters and forcing some companies to import ore from the Philippines. The nickel price mirrored other base metals, finding a peak on May 20 before inverting to the downside. By the close of June 20, nickel prices had fallen over 19%, returning to their lowest level since early April.

Given below is a table that shows the depreciation (-)/appreciation (+) of the US Dollar against various currencies in June 2024. The dollar edged higher as traders awaited a key U.S. retail sales report and comments from Federal Reserve officials to better gauge the timing and pace of interest rate cuts.

Currencies

USD to:	Jun-24	May-24	% chg	Mar-24	% chg
Pakistani rupee	278.20	278.32	0.0	277.64	0.2
Hong Kong dollar	7.81	7.82	-0.1	7.83	-0.3
Chinese yuan	7.27	7.24	0.4	7.23	0.5
Indian rupee	83.36	83.42	-0.1	83.35	0.0
Taiwan dollar	32.50	32.47	0.1	31.95	1.7
Singapore dollar	1.36	1.35	0.3	1.35	0.4
Argentine peso	911.00	895.50	1.7	857.49	6.2
Euro	0.93	0.92	1.2	0.93	0.3
Thai baht	36.76	36.77	0.0	36.46	0.8
Malaysian ringgit	4.72	4.70	0.2	4.73	-0.3
Indonesian rupiah	16370.00	16245.00	0.8	15850.00	3.3
Japanese yen	160.83	157.31	2.2	151.37	6.2
Brazilian real	5.56	5.24	6.1	5.00	11.2
South Korean won	1380.73	1381.68	-0.1	1349.48	2.3
Russian Rouble	85.75	90.10	-4.8	92.50	-7.3
Turkish Lira	32.65	32.23	1.3	32.43	0.7
South African Rand	18.19	18.81	-3.3	18.94	-4.0

- Brazil's real fell against the US dollar hitting its lowest point in a year and a half amid rising fiscal concerns.

- The yen fell to the weakest level since 1986, fanning speculation authorities may be soon being forced to support the currency again in a bid to stem the biggest depreciation in the developed world. The Japanese currency fell, blowing past levels that last led officials to intervene in the market in April. The yen has weakened more than 12% this year, raising the price of imports, hurting Japanese consumers, and causing growing unease among businesses.

- The peso is suffering its fastest fall since Argentina's 2002 economic collapse as dwindling reserves keep the Central Bank from trying to prop up the currency by intervening in the foreign exchange market. The peso, meanwhile, has been hit in the parallel market by a slowdown in dollar purchases from the central bank.

- The Turkish lira plunged to an all-time low against the U.S. dollar. Lira, has fallen by approximately 11.50 percent in the first six months of 2024. The currency was already under heavy pressure, continued its slide unabated after the 650 basis point interest rate hike by the central bank in Ankara.

- The dollar was firm against the euro which hovered near a more than one-month low amid continued concerns about the political outlook in Europe. The market also braced for a slew of top-tier economic data from China as investors sought clarity on how much the world's second-largest economy is struggling to gain momentum. The euro fell following the advance of far-right parties in European elections and major losses for President Emmanuel Macron’s alliance that prompted him to call a snap election.

- The rupiah's decline highlights the broader vulnerability of Asian currencies amidst the dollar's resilience. Indonesia’s rupiah fell to a four-year low pressured by a strong dollar even as the local central bank intervenes in the foreign exchange market to maintain investor confidence, while most other Asian currencies drifted within tight ranges.

- China's yuan weakened to a fresh seven-month low against a broadly stronger dollar. The currency's decline was exacerbated by a weaker central bank guidance, setting it on track for its sixth consecutive monthly drop in June. Over the past week, the yuan has hovered near the lower end of its daily official trading band. This trend reflects concerns over capital outflows into the higher-yielding dollar and speculation that the central bank may be tolerating depreciation.

- The Russian rouble surged against the dollar in low-liquidity trade driven by exporters' foreign currency sales ahead of a tax deadline. Sanctions on Moscow Exchange and its clearing agent, the National Clearing Centre (NCC), have led to a range of varying prices and spreads as trading shifted to the over-the-counter (OTC) market on June 14, obscuring access to reliable pricing for the Russian currency.

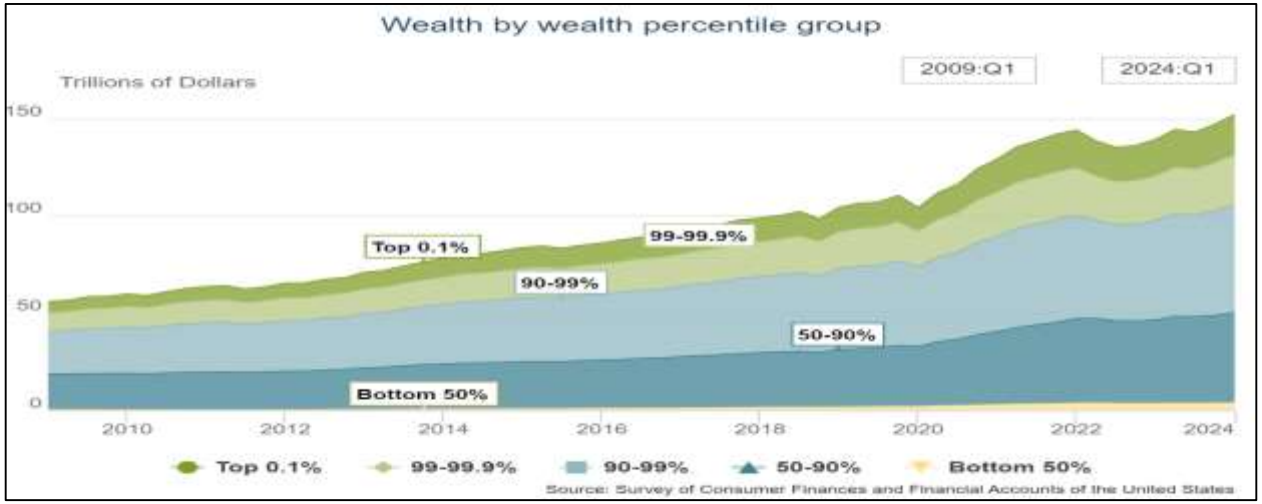
- The South African Rand rose, with investors hoping the ANC and DA were positioning to form an alliance to govern the country.

- The Indian rupee rallied to log its best performance since December 2023 after exit polls projected a third term for Indian Prime Minister Narendra Modi's party and alliance, boosting investor confidence. The rupee's strengthening also spurred importer hedging which eroded the currency's gains, while traders also cited bids from state-run banks when the local currency rose above 83. The Currency appreciated against the US dollar amid a fresh inflow of foreign capital and positive sentiment in the domestic equity markets.

Outlook Going Forward

US household wealth rises aided by rising stocks

- U.S. household wealth rose to a record of more than $160 trillion in the first three months of 2024 thanks to the stock market's record run and gains in real estate, Federal Reserve data showed.
- Household net worth rose 3.2%, or by $5.1 trillion, with the appreciation of equity holdings accounting for the lion's share of the gain at $3.8 trillion, the Fed said in its quarterly snapshot of the nation's private and public sector finances.
- The benchmark Standard & Poor's 500 Index gained 10.6% in the first quarter on a total return basis, including reinvested dividends.
- Real estate value growth added another $0.9 trillion, and upticks in other assets including cash and money market funds accounted for the rest of the increase. Household net worth has nearly doubled in the past decade.
- Total nonfinancial debt rose by 4.5%, led by a 6.2% increase in the federal government's obligations, although that snapped a run of three straight quarters of federal debt growth exceeding 10%. Household debt grew 2.9% and business nonfinancial debt climbed by 4%.

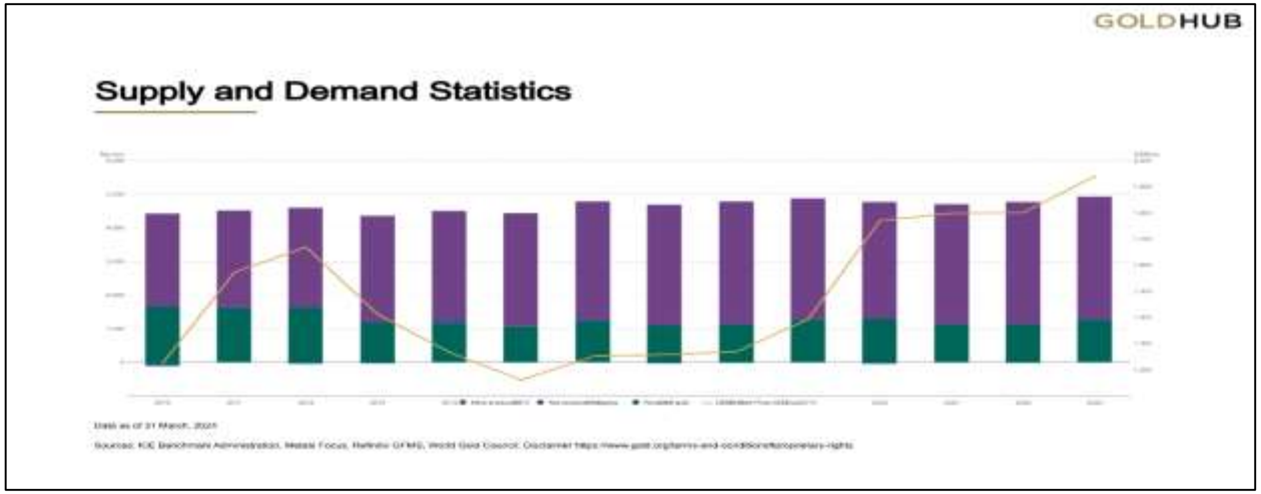


Moody's puts several U.S. regional banks on downgrade review over commercial real-estate concerns

- Moody's Ratings has placed the long-term debt ratings of Old National Bancorp. and several other U.S. regional banks on review for downgrade amid concerns over commercial real-estate exposure.
- Moody's published separate statements on Thursday for all the banks affected - WaFd (WAFD), Peapack-Gladstone Financial (PGC), F.N.B. (FNB), Old National Bancorp (ONB), First Merchants (FRME) and Fulton Financial (FULT).
- Rationale for the downgrade warning by Moody's analysts was the same for all those lenders: "as a regional bank with a substantial concentration in commercial real estate (CRE) loans, it faces ongoing asset quality and profitability pressures as higher-for-longer interest rates heighten the longstanding risks of CRE for banks' creditworthiness especially during cycle downturns," said Moody's.
- The analysts explained that during the lengthy period of low U.S. interest rates that preceded the Federal Reserve's hiking cycle from 2022, "many regional banks chose to build and maintain meaningful concentrations in CRE, which is a volatile asset class."
- Moody's broke down exposure for each bank, such as Peapack-Gladstone, of which it said CRE represented 479% of the lender's tangible common equity as of March 31, while for Old National, the percentage was 279%.

Gold is getting harder to find as miners struggle to excavate more, World Gold Council says

- The gold mining industry is struggling to sustain production growth as deposits of the yellow metal become harder to find, said the World Gold Council. According to data from the international trade association, mine production inched up only 0.5% in 2023 compared to a year ago. "It's getting harder to find gold, permit it, finance it, and operate it," said WGC's John Reade.
- "We've seen record first quarter mine production in 2024 up 4% year on year. But the bigger picture, I think about mine production is that, effectively, it plateaued around 2016, 2018 and we've seen no growth since then," WGC Chief Market Strategist John Reade said.
- In 2022, the growth was 1.35% year on year, the year before it was 2.7%, while in 2020, global gold production logged the first decline in a decade, sliding 1%.
- Large-scale gold mining is capital-intensive, and requires significant exploration and development, taking an average of 10 to 20 years before a mine is ready for production, according to WGC.
- Even during the exploration process, the likelihood of a discovery progressing into the development of a mine is low, with only about 10% of global gold discoveries containing sufficient metal to warrant mining.
- Around 187,000 metric tons of gold has been mined to date, with the majority coming from China, South Africa and Australia. Gold reserves that can be excavated are estimated at around 57,000 tonnes, according to the United States Geological Survey.
- Aside from the discovery process, government permits getting harder to secure and requiring more time to come through have made mining more difficult, Reade added. Securing licenses and permits needed before mining companies can start operations can take several years.
- Additionally, many mining projects are planned for remote areas that require infrastructure such as roads, power, and water, resulting in added costs in building these mines and financing operations, Reade said.



Gold remains in demand across the globe for different reasons

- Demand for gold in Asia is surging despite prices hovering near the record highs it hit in May, industry officials say, as buyers snap up the metal to hedge against geopolitical and economic uncertainty.
- Lower confidence in other investment options, such as real estate and equities, is also a factor behind the demand for gold, analysts say.
- "When the macro-economic backdrop returns to normal, when real estate and equities are more interesting, I think that price sensitivity will return," Ruth Crowell, chief executive of the London Bullion Market Association, told Reuters.
- In Japan, there are more gold bulls than bears despite record high prices, according to Bruce Ikemizu, chief director of the Japan Bullion Market Association.
- Chinese investors grappling with currency devaluation, a protracted real estate downturn and trade tensions are also finding value in gold, experts said. China's purchases of gold coins and bars surged 27% in the first quarter of this year.
- "The trend in the market has been that if the consumer wants to buy gold, they will. The price doesn't matter," Albert Cheng, CEO of the Singapore Bullion Market Association, told Reuters on the sidelines of the Asia Pacific Precious Metals Conference.
- Elsewhere in Asia, retail investors have been pouring money into the safe-haven asset, with the metal finding increased acceptance among younger buyers.

Fed's $1 trillion pile of paper losses are turning into actual losses - with more in sight

- The Federal Reserve's roughly $1 trillion pile of paper losses stemming from its underwater securities holdings have begun to turn into more than $100 billion in actual losses, with no relief in sight.
- Fed Chair Jerome Powell said that easing inflation still isn't yet near enough to the central bank's 2% yearly target for interest rates to be lowered from a two-decade high.
- The longer rates stay high, however, the harder it will be for the Fed to repair its balance sheet. Importantly, restrictive rates also could end up costing the Fed around $100 billion a year well into the next decade, according to Ali Meli, chief investment officer of Monachil Capital Partners, a credit fund he founded in 2019.
- Meli arrived at that estimate by digging through the Fed's financial statements, which showed a $948.4 billion unrealized loss at the end of 2023 on assets bought on the open market, compared with more than $1 trillion of unrealized losses at the end of 2022.
- How did the Fed get here? The central bank aggressively used its balance sheet during the 2007-2009 financial crisis and the 2020 COVID-19 market panic to sop up bonds that otherwise would have been in the portfolios of asset managers, 401(k)s and other investment vehicles.
- To help tally the costs of the Fed's pandemic-era support, Meli tracked the central bank's interest expenses, which have been climbing since last year. Interest expenses were positive at nearly $68 billion in 2022, but last year accounted for the bulk of its $114.3 billion loss reported in March.
- Lower rates could help repair some of the paper losses in the Fed's portfolio.
- The U.S. central bank has been shrinking its balance sheet from a nearly $9 trillion peak by letting some bonds mature each month, without reinvesting the proceeds. The process was slowed starting in June, as the Fed attempts to tighten financial conditions without triggering a recession or shocks to the financial system.
- Forecasters still expect the Fed's balance sheet to stabilize in this cycle at around $7 trillion, to help ensure liquidity in financial markets.

Global Traders Flood American Markets in Search for Safety (Bloomberg)

- Stung at home by fraught politics and flat economies, international investors are squeezing themselves further into the crowded trade that is American markets.
- Over May 2024, about $30 billion of fresh money has flooded into stock funds, with 94% of the allocations lavishing US assets — tech shares in particular — according to EPFR Global data compiled by TD Securities.
- The buy-America trade keeps working for now. The S&P 500 outpaced the rest of the world this week by the widest margin in 15 months, while long-dated Treasuries rallied 3.5% for the best run of 2024.
- Belying debt woes and widening political gulfs, America is increasingly the only game in town for international traders starved for stability amid European election stress and China's monetary struggles.
- Foreign interest in the US credit market is running similarly high. During the first quarter of 2024, overseas investors poured $187 billion into US company notes, according to Torsten Slok, chief economist at Apollo Global Management. That's a 61% jump from the same time last year.
- "The US has the biggest and most innovative companies with strong earnings growth but profit also from its safe haven status," said Ulrich Urbahn, Berenberg's head of multi-asset strategy. "Momentum begets momentum. FOMO is clearly also a reason."

Higher taxes, more inflation and lost benefits: how you pay the price for supersized U.S. debt

- As economies grow, a government can finance some additional spending by adding to the money supply at about the same pace without boosting inflation. Of course, many governments print more and risk accelerating inflation. The U.S. government is a prime example.
- Fifty-four percent of global trade is invoiced in dollars, and 59% of foreign central bank reserves are held in U.S. currency. Dollars, Treasury bonds, and other dollar-denominated securities and assets are widely held abroad in private accounts to maintain liquidity and as secure investments.
- To provide additional liquidity for an expanding global economy, the U.S. Treasury sells bonds to foreign investors. This permits Americans to finance large federal deficits and annually consume more than they produce through a trade deficit equaling 3% of GDP.
- As a result, Americans enjoy lower taxes, bigger entitlements programs and a strong currency that collectively is worth about $850 billion a year. All this is enabled by global confidence that U.S. fiscal and monetary policies will keep the purchasing power of the dollar strong and stable relative to other currencies by avoiding excessive inflation.
- U.S. budget deficit is 'out of line with long-term fiscal sustainability.'
- It's a privilege that comes with living in the U.S. But recently the International Monetary Fund effectively scolded Washington for abusing what it called America's "exorbitant privilege." The IMF expressed concern that the U.S. federal budget deficit is "out of line with long-term fiscal sustainability."
- Those are strong words in the polite world of international financial diplomacy, but trouble has been brewing for years. In the wake of the 2008-'09 global financial crisis through the COVID-19 pandemic, the U.S. Federal Reserve enabled historically low interest rates.
- After the Fed finally responded with higher interest rates, inflation has stubbornly resisted the Fed's 2% goal. But the Fed should stay the course until it does. An IMF study of roughly 100 periods of high inflation across 56 countries found that central banks which deal with inflation forcefully see their economies experience longer-term growth.

- Washington could face a fiscal crisis in 2025 or 2026, because the IMF projects that the U.S. deficit will soar to 7.1% of GDP. International investors then could balk at absorbing so many new bonds, turning the recent ascent of the dollar into a rout.
- Under those circumstances, permanently elevated borrowing requirements would make federal finances and inflation difficult to control, as debt service would grow faster than nominal GDP.
- Both foreign central banks and investors would then seek alternatives to the dollar, driving down the value of the greenback against other currencies and pushing up both U.S. import prices and inflation.
- Americans then would either pay higher taxes or see cuts in entitlements, which account for 63% of federal spending. Otherwise, the U.S. would recklessly put international confidence in the dollar at risk.

The UAE is set to be the No. 1 ‘wealth magnet’ in the world, new report shows

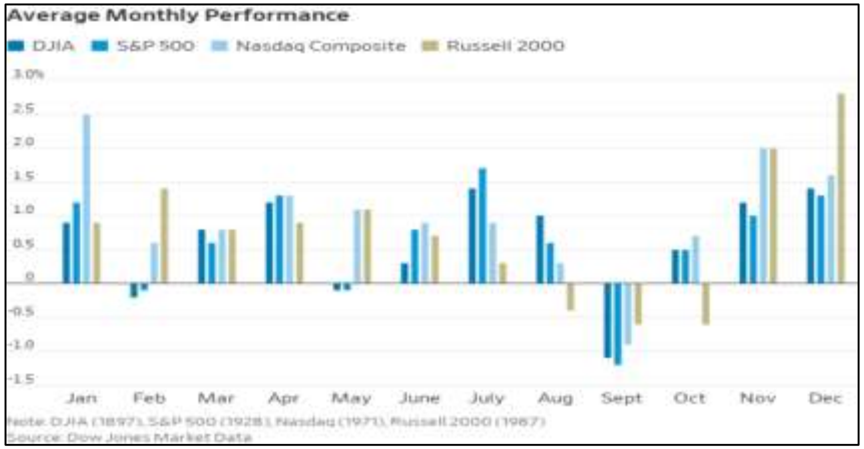
- The United Arab Emirates is set to lead for the third year in a row as the world’s top destination for the wealthy, expecting to see a record-breaking inflow of 6,700 millionaires by year end, according to The Henley Private Wealth Migration Report 2024. The United States comes in second for attracting foreign high-net-worth individuals and is projected to see an inflow of 3,800 millionaires in 2024. China expects to see the biggest millionaire exodus with a projected 15,200 HNWIs anticipated to leave the country by the end of the year.
- A record-breaking 128,000 millionaires, or high net worth individuals with liquid investable wealth of $1 million or more, are expected to relocate in 2024, according to the report. That number surpasses the previous record of 120,000 millionaires that was set last year, according to Henley, adding that 2024 is “shaping up to be a watershed moment in the global migration of wealth.”
- The data for the report was supplied by global wealth intelligence firm New World Wealth and features insights on the inflows and outflows of millionaires and their migration patterns globally.
- “This great millionaire migration is a canary in the coal mine, signaling a profound shift in the global landscape and tectonic plates of wealth and power, with far-reaching implications for the future trajectory of the nations they leave behind or those which they make their new home,” said Dominic Volek, group head of private clients at Henley & Partners, said in the report.
- “As the world grapples with a perfect storm of geopolitical tensions, economic uncertainty, and social upheaval, millionaires are voting with their feet in record numbers, seeking greener pastures and safer harbors for their assets and family interests,” said Volek in the report.
- The UAE is increasingly solidifying its position as a safe haven for high-net-worth individuals globally, owing largely to the country’s favorable tax policies, strategic location, world-class infrastructure and more, according to the report.
- The Middle Eastern country also offers a “golden visa” aimed at attracting talent to reside in the UAE. The visa is aimed at “providing long-term residence to foreign investors, entrepreneurs, and talented individuals including specialists, students, and researchers who make a significant investment to the country,” according to Henley & Partners.
- China expects to see the biggest millionaire exodus with a projected 15,200 HNWIs expected to leave the country by year end, according to the report. The UK comes in second, projected to see a net loss of 9,500 millionaires by the end of 2024, followed by India, which is expected to lose 4,300 millionaires this year. The UK, previously one of the top destinations for the wealthy globally, has recently seen a big outflow of millionaires.

Warren Buffett and other billionaires are buying blue-chip energy stocks. Here's why.

- Energy sector is keeping the lights on for investors. Billionaires like Warren Buffett have been ploughing huge sums into energy stocks. For example, this month through June 17, Buffett's Berkshire Hathaway (BRK.A) (BRK.B) deployed $434.8 million into Occidental Petroleum (OXY) at prices up to $60.43 per share, adding to the company's already huge position.
- There is a deleveraging effect due to higher oil prices. "Most of the large-cap energy companies have capital allocation priorities that benefit the equity holder." Companies are reducing debt, buying back stock and raising dividends.
- Recession fears have knocked energy stocks down to attractive levels. Investors have sold energy stocks since April as concerns grow about an economic slowdown or recession. OPEC will continue to support oil prices: Demand for crude should remain favorable in part because of continued economic strength, Cook says. On the supply side, he predicts that U.S. production growth will remain muted, and the Organization of the Petroleum Exporting Countries (OPEC) will continue to restrain supply to support prices.
- The AI boom will turn investors more bullish on energy stocks. A year ago, many investors thought renewables would soon drive down oil and natural gas consumption. But AI has changed that, given how much electricity server farms use. "Now there is recognition that the growth rate in electricity demand will necessitate expansion in all forms of energy," says Cook.
- Investors need to diversify away from tech: Much of the S&P 500 gains have been driven by big advances in a few megacap tech names. This has left a lot of money managers with big, concentrated positions in these stocks. "There is a need for portfolio managers to broaden out," says Cook. One place they might go is energy.
- Hot weather this summer will drive demand for cooling. Storage is relatively light. Liquid-natural-gas exports could double over the next six years. All of this suggests natural-gas's price strength, which will help energy companies.

July is historically a great month for U.S. stocks. Here’s why this year might be different.

- The U.S. stock market is on pace to finish the first half of 2024 on a positive note, with a rally in some of the world’s largest technology companies propelling major stock indexes to multiple all-time highs. If the past is any guide, the good times for U.S. equities may keep rolling into July — but not every stock may enjoy this summertime rally.
- Since 1928, July has emerged as the best month of the year, on average, in terms of stock-market performance. Over that time frame, the S&P 500 has experienced a gain of 1.7% in July and finished the month higher more than 60% of the time, according to Dow Jones Market Data.
- Meanwhile, the Dow Jones Industrial Average has delivered an average monthly advance of 1.4% in July, also making it the best month of a year for the blue-chip index dating back to 1897. The Dow has recorded positive returns in nearly 65% of Julys since then, according to Dow Jones Market Data.



DOW JONES MARKET DATA

- The three major stock indexes have been up for nine consecutive July periods, while the small-cap Russell 2000 index has risen seven straight times.
- Such strength inevitability stirs talk of a summer stock rally, but investors should beware the hype, as it has historically been the weakest rally of any season, said Jeffrey Hirsch, editor of the Stock Trader's Almanac and Almanac Investor Newsletter.
- July begins what is usually the Nasdaq Composite's worst four months of the year and has averaged a monthly gain on that index of less than 1% since 1971. Over that time frame, July has been the sixth best performing Nasdaq month, according to Dow Jones Market Data.
- Since 1928, the first 15 days of July have been the best two-week trading period of the year for equities, and they tend to fade after July 17. The S&P 500 has been positive for nine straight Julys, posting an average return of 3.7%. The Nasdaq 100 has an even better record, posting gains in 16 straight Julys, with an average return of 4.6%, he noted.

Why inflation could take several years to get back to 2%, Cleveland Fed researcher says

- 'Left to its own devices without shocks, how fast does inflation move to 2%?' Cleveland Fed economist Randal Verbrugge asks. 'Not very fast.' Officials at the Federal Reserve are expecting inflation to keep easing over the next two years and have penciled in a return to their 2% target in 2026.
- But a senior research economist at the central bank's Cleveland branch, Randal Verbrugge, is warning that it could actually take several years to reach that target - a level designated by the interest-rate-setting Federal Open Market Committee as consistent with maximum employment and price stability. That's because of what he calls intrinsic characteristics of inflation that make it unlikely to get to 2% in a timely way. The model he came up with shows inflation will still be above target, at 2.7%, by the second quarter of 2025 and close to, but slightly above, 2% as of mid-2027.
- The central bank looks for inflation to average 2% over time but has consistently missed that mark since April 2021 - and, in turn, has left interest rates at a 23-year high of between 5.25% to 5.5%. On June 12, the Fed released median projections showing PCE and core PCE inflation should fall to 2% in 2026, though Fed Chair Jerome Powell has long made it clear that policymakers do not need to wait to get there before cutting interest rates.
- In an interview with MarketWatch, Verbrugge expanded upon a paper he wrote in May that outlined why "the last half mile" of inflation could prove to be so stubbornly resistant. He identifies three big forces that tend to push inflation around: a recession, an overheating economy, and supply-chain pressures. Absent any of those forces, he says, inflation generally carries durable, "intrinsic" properties that tend to make it move sluggishly toward 2% when it is not being pushed.
- Earlier this month, Powell conceded that it could take a little longer to get inflation down to 2%. The central bank has selected 2% as the level consistent with its mandate for full employment and price stability in the long run on the belief that businesses and households make sounder decisions, and the economy works better overall, when inflation remains low and stable.
- All this year, the consensus forecast of top analysts, as reflected by the Blue Chip Economic Indicators, has been for PCE inflation to come close to 2% in 2025 - sooner than Verbrugge's model indicates.
- Inflation's intrinsic persistence is based on how people form expectations about the future and how prices are set in the economy, Verbrugge said. He makes the argument for why businesses could keep raising prices even during a time when they expect inflation to be falling.
- "Inflation just doesn't move very fast back to 2% unless it's being pushed there by some external force or some intrinsic force that's outside of the norm," he said. "Most people view the movement to 2% as being a strong force. My model says it doesn't zoom back down there - it trudges back down."

- To get there, Verbrugge's model indicates "that, if there are no more pushes from improving supply chains, the only other place that would give you a downward push is a recession. If you don't have a recession, then be patient because it's going to take a while." A recession would help firms decide that instead of raising prices 4% or wages by 3.5% this year, they can do so slowly over time, he said.

Stocks are headed for a 'summer squall,' Citi warns

- Citigroup equity strategist Scott Chronert has a list of reasons why this summer could see a pullback in the stock market. U.S. stocks could be headed for a "summer squall," according to a Citigroup equity strategist, who rattled off a handful of reasons why markets might face a pullback in this historically quieter period for markets.
- To be sure, Citigroup's Scott Chronert still expects the S&P 500 to finish the year at or around his target of 5,600, which he debuted in June as Wall Street scrambled to keep pace with a relentlessly rising index. But in his latest report, Chronert said he expects a few bumps along the way.
- Valuations top Chronert's list of potential sources of instability for stocks, given levels that remain rich relative to history. High valuations have typically impeded forward returns, according to Citi's analysis.
- The large-cap index's forward price-to-earnings ratio, which measures how much investors are willing to pay per dollar of expected earnings over the coming year, currently stands at 21.1, above the 90th percentile from the past 40 years. The S&P 500 is even more richly valued on a trailing 12-month basis, Citi data show.
- In the past, when valuations have been this stretched, the median one-year forward return for the index has been -4%.
- So far, high valuations haven't dimmed investors' enthusiasm for stocks. Instead, a gauge of investor sentiment frequently employed by Citi analysts is pointing toward euphoria, while the Cboe Volatility Index, better known as the Vix or Wall Street's "fear gauge," is languishing near its lowest level since 2019. This suggests market could be primed for a burst of volatility if a negative catalyst arrives.
- According to Chronert, a number of potential threats could loom ahead. Some standouts on his list included the upcoming 2024 U.S. election, the risk of another hotter-than-expected inflation print and geopolitical concerns, which spurred a brief selloff in stocks earlier this year.
- As Chronert sees it, the only positive justifying further upside for stocks right now is the expectation that firms in the S&P 500 will continue to see earnings grow at a robust clip.
- Citigroup's tempered outlook arrived just as investors were about to enter what historically has been their strongest stretch of the calendar year on Monday. According to an analysis from Goldman Sachs Group, the first two weeks of July have typically coincided with a gain of more than 2% for the S&P 500.

The risk of a euro crisis is rising

- The risks of a new crisis in the single currency area, like the meltdown it suffered over a decade ago, are rising. But the conditions are probably not ripe to trigger one yet.
- The main current fear is that France, where the far-right Rassemblement National (National Rally) dominated the first round of snap parliamentary elections, may enter a period of extreme political instability and fiscal profligacy. This could lead to a sharp rise in yields on French government bonds.
- Other highly indebted euro zone members, especially Italy, could suffer contagion. The single currency would then be on the ropes. France and Italy are much bigger economies than Greece and the other euro zone members which were at the centre of the last crisis.

- But this scenario does not seem imminent because Jordan Bardella, the far-right candidate for prime minister, has been toning down his party's fiscal promises. The National Rally has its eye on winning the French presidential election in 2027 and would be foolish to undermine its credibility by provoking a financial crisis before then.
- Investors are not very perturbed. Since President Emmanuel Macron called the election, the difference between yields on French and German 10-year government bonds has widened, from 49 basis points to 85 basis points. The contagion to Italy has been limited: the yield spread on its bonds relative to German bunds has risen to 162 basis points, from 133 basis points. Back in 2011, when Silvio Berlusconi was prime minister, the gap reached 560 basis points.
- That said, the medium-term outlook for the single currency is worrying. High debts, pressing spending needs and low growth in many countries at a time of rising nationalism and geopolitical conflict are storing up trouble.
- Italy's borrowing was 137% of national income last year while French debt was at 111%, according to the International Monetary Fund. Meanwhile, the two countries' fiscal deficits, were 7.2% and 5.5% of GDP, respectively.
- The European Commission, the EU's executive arm, last month concluded, that both countries – along with another seven which use the single currency and three that do not – have excessive deficits. In the coming months it will seek to persuade each to cut its debt ratio as part of the union's Excessive Deficit Procedure. France and Italy may have to tighten fiscal policy by 0.5% and 0.6% of GDP respectively if they get the maximum seven years to adjust, according to Bruegel, the think tank.
- Politicians will not want to cut public spending or raise taxes as this will undermine their popularity and dampen economic growth. But they may well negotiate a deal with the Commission. If so, markets should stay calm for now.
- The problem is that debt ratios are currently forecast to keep rising, reaching 145% of GDP for Italy and 115% for France by 2029, according to the IMF. So borrowing ratios will still stay high even after some fiscal trimming.
- It will also be hard to keep deficits down. All European governments will need to spend more money on defence, climate change and ageing populations in coming years. If Russia defeats Ukraine, countries are likely to engage in panic spending on arms.
- Euro zone countries will not just be able to grow out of their debts either. The French economy will expand at an average rate of just 1.3% over the next six years, while Italy will manage only 0.6%, according to the IMF.
- The EU could counter some of these forces if it could boost productivity and investment.

U.S. stocks could rise another 10% by the end of 2024 after a strong first half, history shows

S&P 500® Index Returns Exceeding 10%			
Year	1H Return	2H Return	Forward 12-Mo. Return
1991	12.4%	12.4%	10.0%
1995	18.6%	13.1%	23.1%
1997	19.5%	9.6%	28.1%
1998	16.8%	8.4%	21.1%
1999	11.7%	7.0%	6.0%
2003	10.8%	14.1%	17.1%
2013	12.6%	15.1%	22.0%
2019	17.3%	9.8%	5.4%
2021	14.4%	10.9%	-11.9%
2023	15.9%	7.2%	21.2%
2024	14.5%		
Average		**10.8%**	**14.2%**

SOURCE: BLOOMBERG LP, COMERICA WEALTH MANAGEMENT

- The U.S. stock market just scored a great first half of the year. If history is a guide, Wall street could be in for another robust six months, according to Comerica Wealth Management.
- Since 1990, there have been only 10 occasions where the S&P 500 has achieved a return greater than 10% in the first half of a year. In each instance, the large-cap benchmark index booked a positive return in the second half of the year, averaging a 10.8% return over the next six months and a 14.2% advance over the next 12 months, said a team of Comerica analysts led by John Lynch, chief investment officer (see chart above).

Q4FY24 results review

- Listed companies' combined net profits (adjusted for exceptional gains and losses) grew at the slowest pace in the last five quarters. The Q4FY24 (January-March 2024) results of 3,327 listed companies (compiled by Business Standard) witnessed net profit growth of 17.3% YoY. Sales have risen 8.5% YoY and 6.6% QoQ.
- Nifty 50 delivered a strong beat with a net profit growth of 12% year-on-year (YoY). Five Nifty companies, HDFC Bank, State Bank of India (SBI), ONGC, Tata Motors, and Coal India, contributed 72% of the incremental YoY accretion in earnings. Ex-Metals and Oil & Gas, Nifty's earnings grew 16% YoY.

- The earnings beat was driven by domestic cyclicals, such as Autos and Financials, along with Healthcare, Capital Goods, and Cement, while global cyclicals like Metals and Oil & Gas dragged down overall profitability.
- Operating margin for listed companies expanded 290 bps YoY to 26.8%, mainly helped by lower commodity costs. However PAT margin has risen only 50 bps YoY to 9.4% due to faster growth in interest and tax costs.

Expectation from the upcoming budget

- The forthcoming Union Budget due in July 2024 could continue the roadmap laid out in the previous Budgets barring a small course correction. It could largely retain the revenue and expenses projections made in the interim Budget (except for the windfall dividend from RBI). This additional receipt from the RBI could be used to i) cut the fiscal deficit target to 5.0% for FY25 from 5.1% in the interim Budget thus reinforcing the inclination to stick to fiscal consolidation; ii) make higher transfers to states for capex spend iii) increase transfer under PM KISAN from Rs.6000 p.a. to Rs.7500 p.a. iv) provide incentive to income tax payers to shift to the new tax regime by providing higher standard and other deductions/higher exemption limit/changes in tax slabs.
- While there exists a fear among investors about the probability of the Govt turning populist in the Budget post the recent poll outcome, we feel that the recent announcements of ministerial appointments and modest MSP hikes negates such a fear. The Govt is however likely to make extra efforts to win over a larger population of rural and urban poor by incurring targeted social welfare spends.
- The Budget could bring benefits to several sectors, including affordable housing, Industrials/Engineering, Consumer goods etc. Some sectors like IT and Pharma may be left largely untouched. The NDA 3.0 has already announced the decision to help 3 crore additional rural and urban households for the construction of houses.
- Measures to bring down the interest rates in the system could trigger higher business activity, new capex announcements, reduce the interest outgo for businesses and expand valuation of stocks. For this, sticking to the fiscal consolidation path and desisting the tendency to turn populist will be appreciated.
- Higher focus on capex (vs higher revenue expenses) in the Budget will send a good signal to the markets and investors – both local and global.
- The Union Budget could see the government paving the way for foreign-domiciled Indian startups to flip their corporate headquarters back to India — via the special economic zone of GIFT City — with minimal tax implications and to woo other companies to the Gift city with tax-breaks and other sops.
- MSME sector could receive special mention by way of measures to ease capital raising and relaxing norms in NPA recognition by Banks. Banks could get a leg up in deposit mobilisation by way of enhanced deduction for interest receipts by depositors. Agri revival could be a major thrust in the Budget and provisions may be made for rationalisation of GST rates on certain agricultural inputs; and enhanced capex may be considered for deployment in rural infrastructure such as irrigation, warehousing and cold chains.
- An Employment Linked Incentive scheme for labor intensive sectors like toys, textiles, furniture, tourism, logistics, small retail and media & entertainment may also be announced.
- We don’t think that there would be any major changes to the capital gains tax although we do not rule out higher tax burden in some form on the urban rich.

Going ahead

- Markets in the second half of calendar 2024 could be less ebullient than in the first half even as more and more experts feel worried about its over valuation. However, India is one of the few large markets that offer visible growth at a good pace over the next few years unaffected mostly by global developments. India`s economic activity remains resilient, driven by an uptick in capex (government + private), Real Estate (set for a multi-year upcycle) and strong urban consumption (per capita income crossed inflection point). Though the Indian story is intact, there may now be doubts about the corporate earnings growth and the valuations that India may get atleast till the new Govt starts delivering on reforms and stirring economic growth.
- A decent monsoon in terms of spread and intensity could improve the prospects of growth even further while bringing down inflation. A rate cut by the US Fed over the next few months could make equity as an asset class even more attractive benefitting Indian equities by way of more inflows. The Union Budget and the other policy announcements expected over the next few weeks will be analysed in detail to examine their impact on the economy, corporate earnings and valuations in general.

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