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Monthly Report

July 2018

What's Inside

Executive Summary

What Happened Last Month

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The month of June saw lackluster performance by major global markets as the trade conflict between the U.S. and China intensified. Gains made by the U.S. markets were almost erased when the U.S. government resorted to aggressive measures on the trade front. The U.S. planned to impose a 25% tariff on Chinese imports worth $50 billion and China warned of countermeasures, if the former did so.

European markets fell burdened by trade war tensions, but the downside was limited when euro zone countries came to a consensus on helping Greece in its massive debt management. The Bank of England (BoE) did not change interest rates but policymakers looked divided as the chief economist was in favour of interest rate hike.

Asian markets declined too because of trade war concerns and Fed's decision to keep raising interest rates in 2018. China easing restrictions on foreign investments brought some respite.

Indian equity markets declined over foreign fund outflow concerns in the light of recent rate hike by the U.S. Federal Reserve (Fed). Rise in global crude oil prices and the ongoing trade war between U.S. and China dented market sentiment. Investors feared that the Monetary Policy Committee (MPC) could hike interest rates more than expected in the fiscal to combat rising retail inflation. Consumer Price Index (CPI)-based inflation grew in May 2018 and came in above the Reserve Bank of India's (RBI) medium-term target.

Bond yields rose after the MPC hiked key interest rate for the first time since Jan 2014. MPC increased repo rates by 25 basis points to 6.25% and cited risks that may lead to an increase in domestic inflationary pressures in the country. Weaker rupee added to the losses.

Domestic Market Outlook

The MPC in the monetary policy review kept its policy stance and guidance neutral. At present, it cannot be concluded whether MPC will go for a rate hike in its next monetary policy review scheduled on Aug 1, 2018. Thus, market participants will track incoming macroeconomic data points especially on the inflation front to gauge MPC's future course of action.

Crude oil prices will remain in focus as they have a direct impact on inflation and subsequently on MPC's stance on interest rates. The upcoming quarterly corporate earnings and progress of monsoon is likely to give direction to the course of the Indian equities.

Market participants will wait to see what policy central banks adopt across the globe since it may have a bearing on the foreign fund inflow into the Indian economy.

In addition, market participants will also track the stance adopted by foreign portfolio investors and movement of the rupee against the greenback, especially as the domestic currency has seen new lows.

Global Market Outlook

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The U.S.-China trade row is overshadowing markets for a while now and it seems it will continue to do so as the two countries are nowhere close to a resolution.

The U.S. President's aggressive stance on the issue and China's countermeasures could prove detrimental for global economic growth.

Market participants will watch out for policy that the central banks adopt across the globe.

Crude oil prices will be closely tracked as supply constraints push the black gold up.

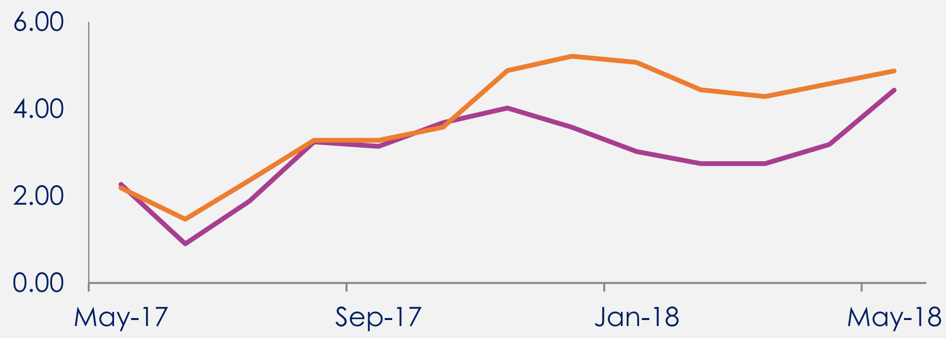
Domestic Economy

Indian Economy

Key Indicators	Period	Actual	Previous
Consumer Price Index (CPI)	May-2018	4.87%	4.58%
Wholesale Price Index (WPI)	May-2018	4.43%	3.18%
Index of Industrial Production (IIP)	Apr-2018	4.90%	4.60%
Gross Domestic Product (GDP)	Mar-2018	7.70%	7.00%
Core Sector Output (%)	May-2018	3.64%	4.63%
Export (Y-o-Y)	May-2018	20.18%	5.17%
Import (Y-o-Y)	May-2018	14.85%	4.60%

Source: MOSPI, Thomson Reuters Eikon

Monthly CPI & WPI Movement



Source: MOSPI

- Current Account Deficit (CAD), rose to $13.0 billion or 1.9% of GDP in Q4 of 2017-18, up from $2.6 billion or 0.4% of GDP in Q4 of 2016-17.
- India's fiscal deficit for the period from Apr to May of 2018 stood at Rs. 3.45 lakh crore or 55.3% of the budget estimate for FY19. However, this is lower than 68.3% of the budget estimate in the corresponding period of the previous year.
- Index of Industrial Production (IIP) grew 4.9% in Apr 2018 as against upwardly revised growth of 4.6% (4.4% originally reported) in Mar 2018 and 3.2% in Apr 2017.
- The Consumer Price Index (CPI)-based inflation or retail inflation grew 4.87% in May 2018, up from 4.58% in Apr 2018 and from 2.18% in May 2017. This marked a four-month high.
- India’s Wholesale Price Index-based inflation (WPI) sharply rose to 4.43% in May 2018 from a provisional 3.18% in Apr 2018 and 2.26% in May 2017. This marked a 14-month high.

Domestic Equity Market (1/2)

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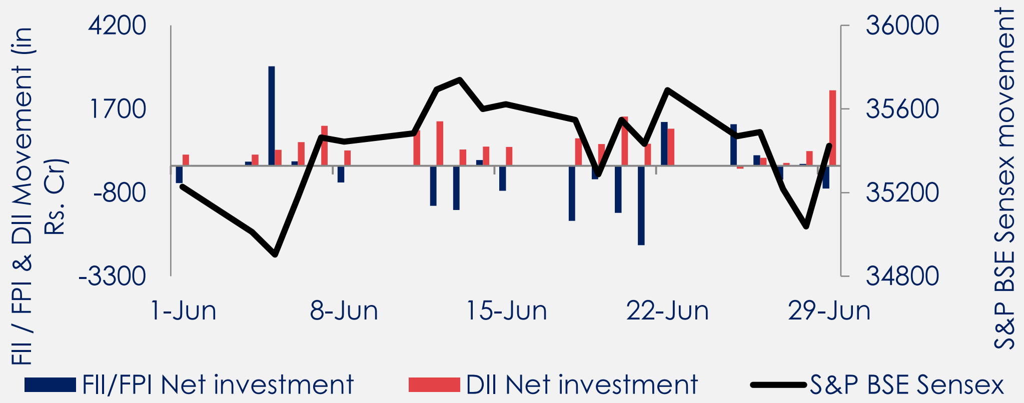
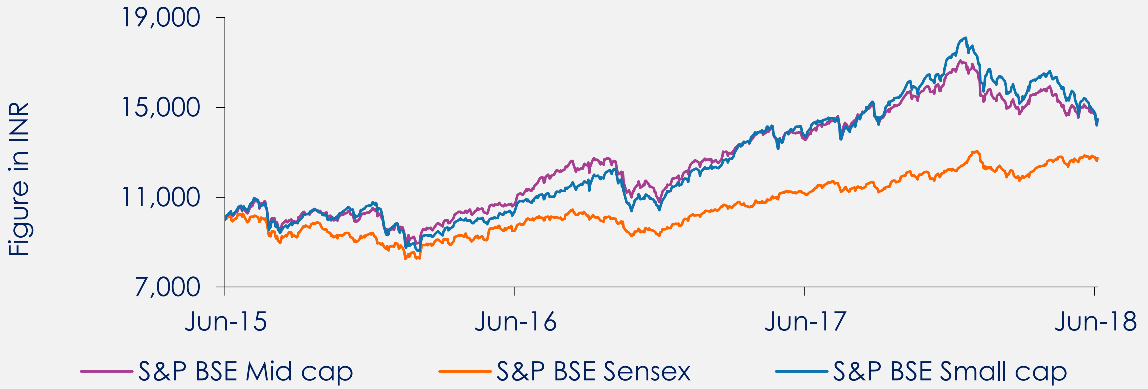
DII, FII/FPI Investment and S&P BSE Sensex - During the Month



Source: MFI Explorer

Growth of Rs 10,000 over Last 3-Yrs



Source: BSE

- Indian equity markets witnessed muted growth during the month with Nifty 50 dropping marginally. Concerns over foreign fund inflow in the light of recent rate hike by the Fed, the rally in global crude oil prices and the ongoing trade war between U.S. and China dented market sentiment. Retail inflation numbers fueled worries over multiple rate hikes by the MPC in the current fiscal. Nonetheless, positive outcome of the U.S. and North Korea Summit soothed investor nerves.
- Investor sentiment soured towards the beginning of the month as positive impact of the growth of Gross Domestic Product (GDP) in the fourth quarter of FY18 was overshadowed by slowdown in India's manufacturing sector activity in May 2018. Final reading of a private survey showing contraction in domestic services sector during the same period played a spoilsport, as well.

Domestic Equity Market (2/2)

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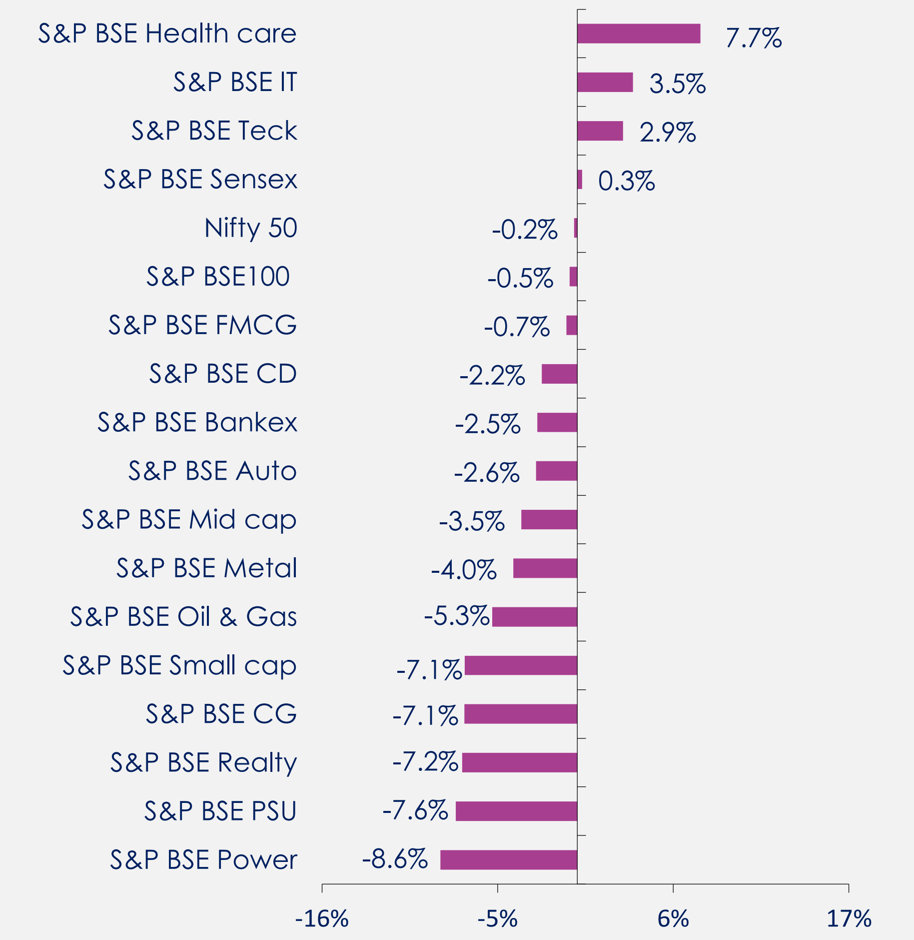
Monthly returns as on June 29, 2018



Source: MFI Explorer

- Markets managed to recover on the back of the neutral stance adopted by the MPC in the second bi-monthly policy of FY19. The highly anticipated U.S.-North Korea summit also generated buying interest.

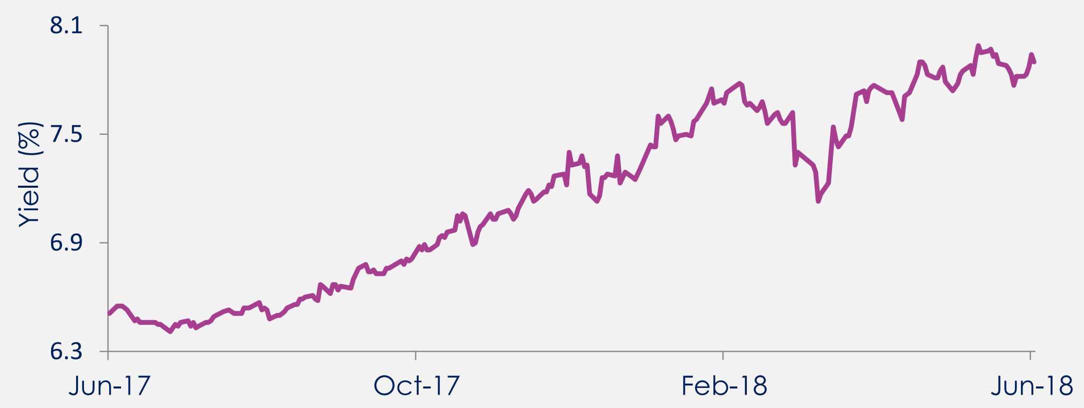
- Thereafter, markets took a hit after the CPI-based inflation grew in May 2018 and stood above the RBI's medium-term target. This raised concerns of more rate hikes by the central bank. Meanwhile, improved industrial production data for Apr 2018 provided some support.

- Concerns over foreign fund outflow reignited after U.S. Fed raised key interest rates and forecasted faster pace of rate hikes in 2018. Rise in domestic trade deficit to a four-month high level in May and worries over trade war between U.S. and China kept investors wary.

- On the BSE sectoral front, majority of the indices closed in the red. S&P BSE Power was the major loser, followed by S&P BSE PSU and S&P BSE Realty. Stocks of oil marketing companies fell after oil prices surged to one-month high due to the risk of supply disruptions. Banking stocks witnessed decline after the RBI reportedly stated that gross non-performing assets (NPA) ratio of banks is likely to surge from 11.6% in Mar 2018 to 12.2% by Mar 2019.

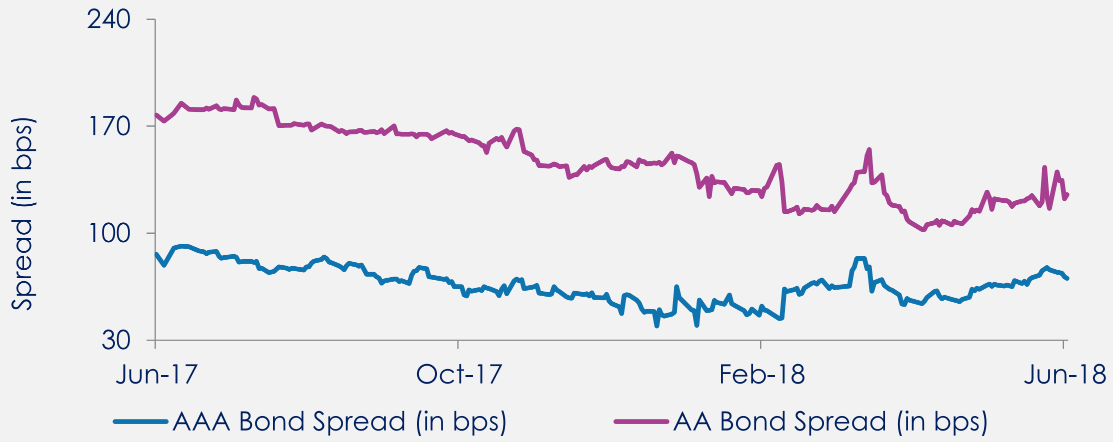
Fixed Income (1/2)

10-Yr Benchmark Bond



Source: CCIL

10 Year Corporate Bond Spread (for AAA & AA bonds)



Source: Thomson Reuters Eikon

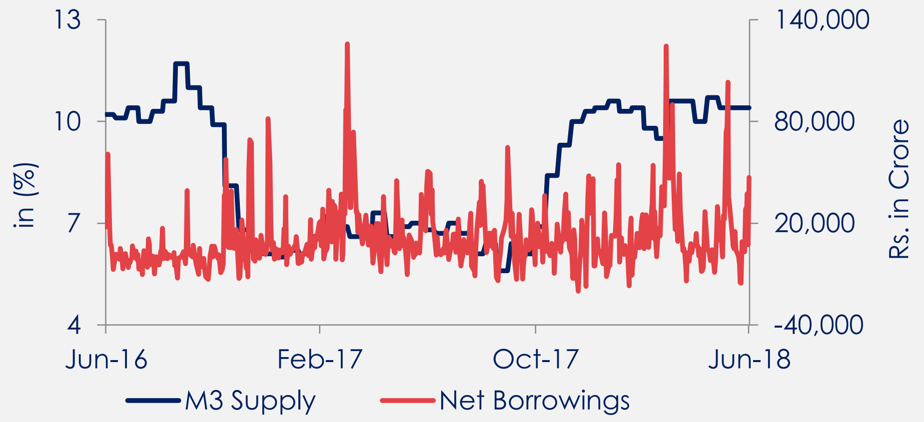
- Bond yields rose in Jun after the MPC hiked key interest rates for the first time since Jan 2014. MPC increased repo rates by 25 basis points to 6.25% and cited risks that may lead to an increase in domestic inflationary pressures in the country. Increase in interest rates by the U.S. Fed in its monetary policy review and indication of two more rate hikes in 2018 weighed on market sentiment. Rise in global crude oil prices and a weaker rupee over the month added to the losses.
- Yield on the 10-year benchmark bond (7.17% GS 2028) rose 7 bps to close at 7.90% from the previous month's close of 7.83% after moving within a wide range of 7.77% to 8.00%.

Fixed Income (2/2)

Key Indicator	Jun-18	May-18	Jun-17
Call Rate	6.21%	5.94%	6.11%
10-Yr benchmark bond	7.90%	7.83%	6.51%
Reverse Repo	6.25%	6.00%	6.00%
Repo	6.00%	5.75%	6.25%
Bank Rate	6.50%	6.25%	6.50%
CRR	4.00%	4.00%	4.00%

Source: CCIL,RBI

Liquidity Monitor- M3 Supply and Net Borrowings



Source: Thomson Reuters Eikon

- Bond yields witnessed volatility initially because of uncertainty around MPC's stance in its monetary policy review scheduled on Jun 6, 2018. All uncertainties were put to rest after MPC hiked key interest rate for the first time since Jan 2014 and bond yields surged.
- The uptrend in bond yields continued after the U.S. Fed increased interest rates by 25 basis points and indicated two more rate hikes this year. Market participants remained wary amid media reports stating that the Union cabinet may discuss raising minimum support prices of some crops by up to 15% in its next meeting.
- Bond yields rose further after OPEC agreed on a modest increase in oil production in the meeting which fueled concerns that oil prices might continue to hover at elevated levels. Rally in global crude oil prices at the end of the month and a weaker rupee raised worries of a faster pace of consumer inflation growth going forward
- However, further losses were restricted as market participants resorted to short covering. Minutes of MPC's monetary policy review held on Jun 6 showed that policymakers decided to retain the neutral stance as they preferred waiting for more clarity on inflation, which added to the gains.

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Global Equity & Debt Market

Global Equity Market

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Performance of Major International Markets (as on June 29, 2018)		
Indices	**Country**	**1 Mth**
Nasdaq 100	U.S.	1.05
S&P 500	U.S.	0.48
DJ Industrial Avg	U.S.	-0.59
SET Composite Index	Thailand	-7.61
Jakarta Composite	Indonesia	-3.08
Straits Times Index	Singapore	-4.65
KOSPI Index	South Korea	-4.00
Nikkei Stock Average 225	Japan	0.46
Taiwan SE Weighted Index	Taiwan	-0.35
Shanghai Composite Index	China	-8.01
S&P BSE Sensex	India	0.29
S&P/ASX 200	Australia	3.04
FTSE 100	U.K.	-0.54
CAC 40	France	-1.39
DAX Index	Germany	-2.37

Source: Thomson Reuters Eikon

United States

- U.S. markets initially edged higher following upbeat economic data and as one of the ECB board members indicated that the central bank is likely to withdraw its bond purchasing programme. Gains were capped on renewed trade war concerns between U.S. and China and as the U.S. proposed the Foreign Investment Risk Review Modernization Act, that would help to protect from potential threats of foreign investment. The U.S. Fed raised interest rates and forecasted two additional rate hikes this year.

Europe

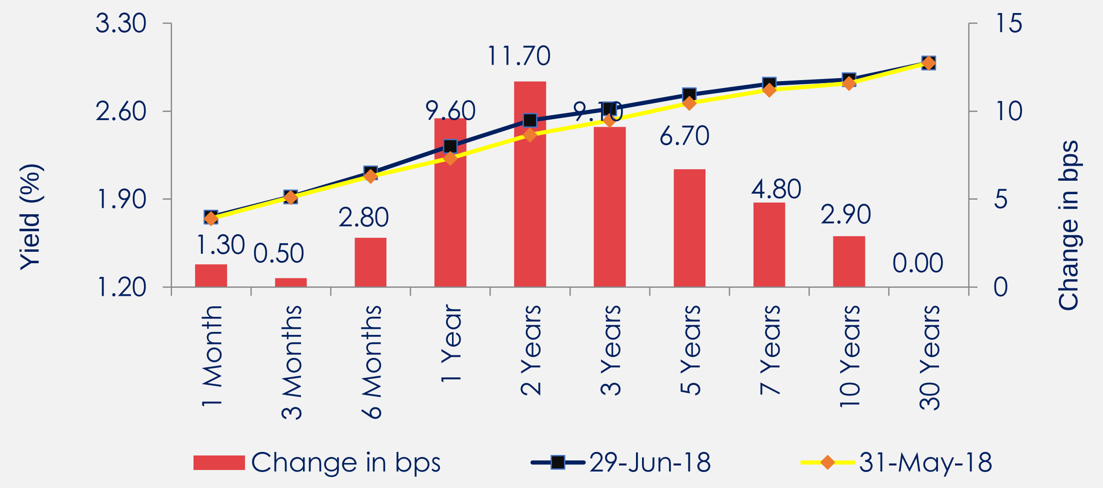
- European markets also fell on trade war concerns and as the ECB chief warned of growing risks from global factors. Some respite was seen after euro zone nations agreed to get Greece out of its eight-year bailout programme and the Italian economy minister said that the nation has no plan to leave the euro area. The EU summit reached a consensus on immigration policy.

Asia

- Trade war tension and the Fed's decision to raise interest rates dampened the Asian markets as well. Some respite was seen as China eased restrictions on foreign investments and as the People's Bank of China decided to lower the reserve ratios of some banks. Meanwhile, the BoJ decided to keep its monetary policy steady.

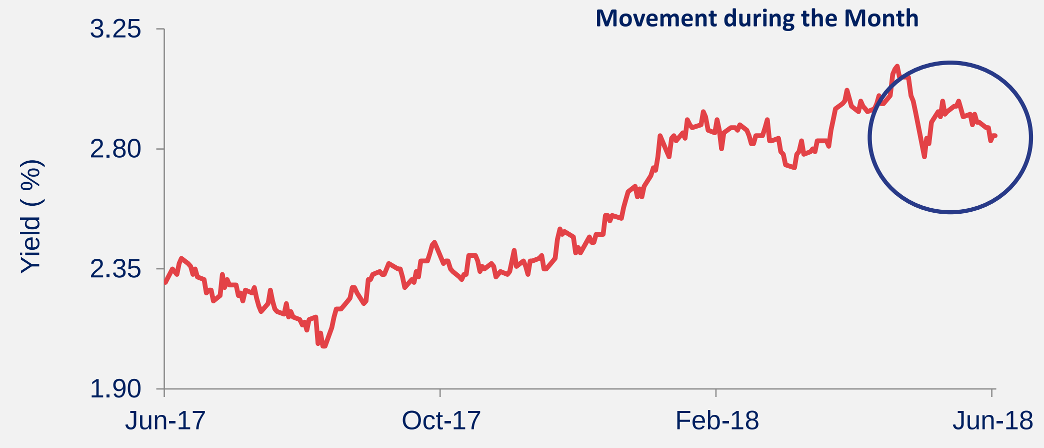
Global Debt Market

U.S. Treasury Yield Curve Shift (Month-on-Month)



Source: Thomson Reuters Eikon

U.S. 10 Year Treasury Yield



Source: Thomson Reuters Eikon

- Yield on the 10-year U.S. Treasury bond grew 3 bps during the month to close at 2.85% compared with the previous month’s close of 2.82%. The paper moved in a range of 2.82% to 2.98%, amid volatility.
- U.S. Treasury prices fell due to increase in rates by the U.S. Fed and indication of further rate hikes in 2018. Political turmoil in Italy and Spain drawing to an end and chances of the ECB soon winding down its massive bond purchase programme in 2018, added to the losses.
- However, losses were restricted over downbeat U.S. consumer spending data for May 2018 and escalating trade war tensions between U.S. and China.

Currency Market

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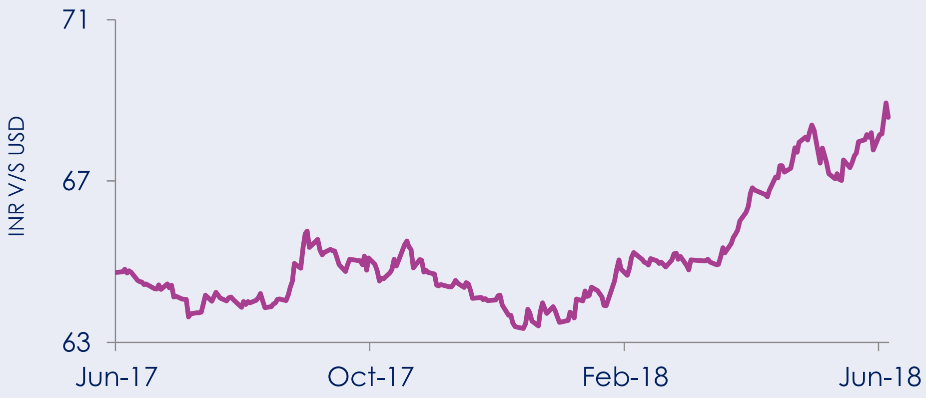
Movement of Major Currencies

Currency	Value	1 Mth	1 Yr
U.S. Dollar	68.58	67.45	64.74
Pound Sterling	89.93	89.79	84.26
Euro	79.85	78.79	74.00
100 Yen	62.02	62.04	57.78

Source: RBI

Rupee Versus Dollar during the year



Source: RBI

INR

- The Indian rupee rose initially against the greenback after MPC retained its neutral stance on monetary policy even though it increased key policy rate by 25 bps. However, the trend reversed as the rupee plummeted and touched a near 5-year low after the Fed increased interest rates in its monetary policy review and indicated two more rate hikes in 2018. Increase in global crude oil prices and escalating trade tensions between U.S. and China kept market participants wary. Month-end dollar demand from importers also weighed on the rupee. However, selling of the greenback by state-run banks, private banks and exporters restricted further losses.

EURO

- The euro initially rose against the greenback on reports that ECB may bring an end to its massive bond buying programme by the year-end. However, the trend reversed after ECB indicated in its policy review that it may keep interest rates on hold and at record lows, well into the middle of next year. The euro bled further on escalating trade tensions between U.S. and China. However, most of the losses were made good after EU leaders reached an agreement on migration that eased concerns of political unrest in Germany.

Commodity Market

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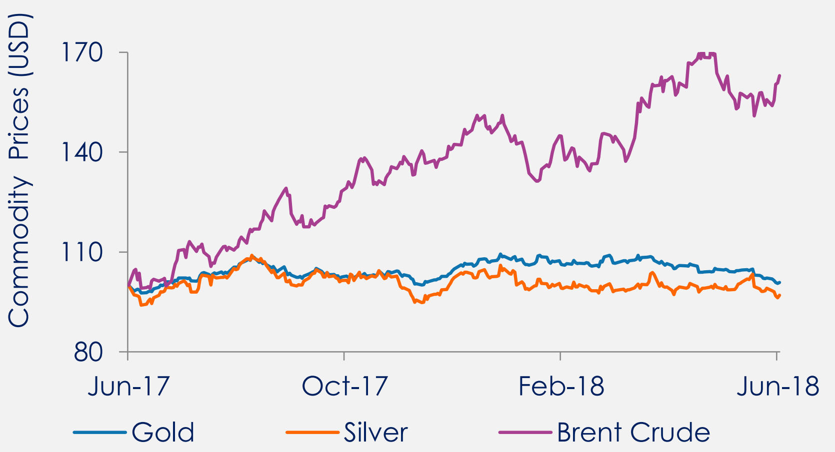
Performance of Various Commodities			
Commodities	**Value**	**1 Mth**	**1 Yr**
Crude Brent ($/Barrel)	76.78	76.74	47.12
Gold ($/Oz)	1252.25	1297.92	1241.20
Gold (Rs/10 gm)	30341	31026	28803
Silver ($/Oz)	16.08	16.35	16.57
Silver (Rs/Kg)	39221	39803	38496

Source: Thomson Reuters Eikon,MCX

Movement of Commodity Prices Over 1 Year



Source: Thomson Reuters Eikon

Crude

- Brent crude prices witnessed volatility throughout the month. The OPEC and its allies' decision for a modest level of rise in oil production helped gains as investors expect that most of the member countries might take time to raise production. Lower output from Venezuela, Libya and production problems at one of Canada's largest oil sands facilities also supported gains. However, gains were restricted due to trade tension between U.S. and China after China threatened to impose duties on U.S. crude imports. Further, the U.S. urged other nations to stop crude import from Iran.

Gold

- Gold prices initially remained firm as concerns over trade war intensified after the U.S. President said the country could skip the upcoming G-7 summit. Escalating trade tensions between U.S. and China dented sentiment further. The EU also announced retaliation tariffs on U.S. imports on the back of U.S. government's threat to impose tariff on all car imports from the EU.
- Prices eased later after the Fed chairman hinted that the bank would continue to raise rates. Further, the People's Bank of China suggested that policymakers are prepared for outside shocks. Positive takeaways from the U.S.-North Korea summit further weighed on the bullion's prices.

Mutual Fund Corner

Category wise performance of Mutual Funds

Equity	6 Mnth	1 Yr	3 Yr	5 Yr
Large Cap	-2.21	8.61	8.5	14.83
Small/Mid Cap	-11.53	5.68	12.84	25.3
Diversified	-4.99	7.78	9.59	16.86
Balanced	-3.27	6.63	9.06	15.25
Banking	-2.22	6.5	12.51	17.14
FMCG	-0.53	14.38	15.55	16.02
Pharma	-7.05	1.04	-2.2	12.55
Technology	18.38	39.92	12.38	20.22
Infrastructure	-16.46	1.37	8.01	17.38
Gold Funds	3.05	4.15	3.02	2.57

Debt	6 Mnth	1 Yr	3 Yr	SI
Liquid	6.81	6.65	6.99	7.3
Ultrashort Bond	6.21	6.17	7.35	7.62
Short-T Bond	4.11	4.24	7.24	7.67
Long-T Bond	2.67	2.74	7.32	7.74
Long T Govt Sec	0.39	-1.1	7.3	7.7
Short T Govt Sec	3.47	3.15	6.81	6.58

*Source: MFI Explorer; * Returns less than 1 year are absolute, greater than 1 year are Compounded Annualized , # As on 29-Jun-2018*

- The mutual fund industry witnessed buying spree in equity worth Rs. 9,231.28 crore in Jun 2018 against previous month's purchase of Rs. 13,618.82 crore. The debt segment also witnessed buying worth Rs. 39845.22 crore in Jun 2018 against net sale of Rs. 14085.55 crore in May.
- In the equity space, most of the sectoral categories witnessed a lackluster performance. Banking sector witnessed decline after the RBI reportedly stated that gross non-performing assets (NPA) ratio of banks is likely to surge from 11.6% in Mar 2018 to 12.2% by Mar 2019. However, IT category bucked the trend and gained on the back of a weaker rupee.
- In the debt space, investors remained focused on liquid and ultra-short-term categories. MPC's decision to increase repo rates, U.S. Fed raising interest rates along with rise in global crude oil prices supported shorter duration funds.
- Gold ETF fell after Fed chairman hinted that the bank would continue to raise interest rates. Positive takeaways from the U.S.-North Korea summit further weighed on the bullion's prices.

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