

Monthly Report

June 2018



Executive Summary

Indian Economy

Indian Equity Market

Indian Fixed Income

Global Equity Market

Global Fixed Income

Currency

Commodity

Mutual Fund Corner

SET Trading by Groups

GROUP	INDEX	CHANGE
IT	1,087.84	12.38
FM	8,047.42	24.24
IND	12,803.00	51.32
FIN	3,009.95	12.06

Key Indices

INDEX	PREVIOUS	CHANGE
SET	1,292.81	-15.97
NIFTY	879.72	-14.49
BSE	1,925.37	-29.35
SENSEX	1,067.20	-16.76
FINNIFTY	359.21	-0.35
INDIA VIX	1,474.72	-26.59
INDIA 10Y	1,895.79	-13.47
INDIA 5Y	1,916.51	-1.38
INDIA 3M	1,527.49	-22.73
INDIA 1Y	1,741.50	-10.98
INDIA 6M	2,125.65	-6.39
INDIA 3M	369.61	
INDIA 1Y	200.02	

- Paper & Printing
- Petrochem & Chem
- Packaging
- Steel
- Prop & Construct
- Construct Materials
- Property Dev
- Property Fund
- Construct

Executive Summary



Investors turned anxious as U.S.-China trade war tensions resurfaced in May 2018 and fresh differences arose between U.S. and North Korea. These, together with other developments, kept major global markets under pressure. U.S. markets managed to inch up as crude oil prices increased and economic data improved. However, the U.S. administration planning to impose tariffs on imports from Canada, European Union (EU) and Mexico restricted the gains. Also, the U.S. government's changing stance on Chinese imports kept markets guessing.

The tense political scenarios of Spain and Italy kept European markets weak, though later in the month the situation came under control. The market fall was cushioned by upbeat quarterly earnings and rise in crude oil prices.

Fear of U.S. and China trade war resurfaced and pressurised Asian markets. Political uncertainty in Italy and U.S. President's change in stance over talks with North Korea kept investors wary. Strength in crude oil and positive economic data came to the rescue.

Indian equity markets ended flat in the midst of high volatility. Other than the global factors such as trade war fears, North Korea-U.S. problems, and U.S. sanctions on Iran, Karnataka polls kept market participants nervous. Increase in inflation and a weak rupee made investors worry that the Monetary Policy Committee (MPC) could raise interest rates in its forthcoming meeting.

Bond yields rose following increase in global crude oil prices and increase in domestic inflationary pressures. Losses were restricted when the Reserve Bank of India (RBI) relaxed rules for foreign investment in government securities.

Meanwhile, MPC in its bi-monthly meeting held on Jun 6, 2018, raised interest rates by 25 basis points to 6.25%, the first hike in more than four years. The step was taken to combat high inflation and weakness in rupee, but the committee maintained its neutral stance on monetary policy.



Investors will track the developments around government formation in Karnataka. The central opposition leaders from the state are likely to visit New Delhi to discuss the list of ministers and portfolio allocation with the party high-command, ahead of the cabinet expansion in the southern state.



Surge in global crude oil prices has once again raised fears of fiscal slippage as it is expected to have a cascading effect on India's import bill. In addition, movement of the rupee against the greenback and stance adopted by foreign portfolio investors will be closely tracked.



RBI is trying to boost the attractiveness of the domestic debt market by easing rules for foreign investment in government securities. However, bond yields have continued to move north given the lack of positive triggers in the domestic debt market.



Moving ahead, the bond yield trajectory will be dictated by how a slew of factors pan out namely systematic liquidity, domestic inflationary pressures and the distribution of monsoons.

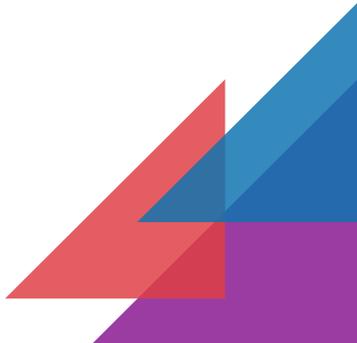
Global cues likely to impact buying interest include the latest protectionist move adopted by the U.S. President on the trade front.

According to media reports, the White House is planning to impose steel and aluminum tariffs on Canada, Mexico and the EU. The same has raised speculation over probable retaliation by some of the major U.S. allies.

The rate hike stance of the U.S. Federal Reserve (Fed) will continue to impact market sentiment. Meanwhile, stronger than expected U.S. jobs growth in May instilled confidence among investors about the strength of the U.S. economy to withstand further rate hikes.

Investors will continue to monitor the political developments in Italy and Spain.

Domestic Economy



Key Indicators	Period	Actual	Previous
Consumer Price Index (CPI)	Apr-2018	4.58%	4.28%
Wholesale Price Index (WPI)	Apr-2018	3.18%	2.47%
Index of Industrial Production (IIP)	Mar-2018	4.40%	7.00%
Gross Domestic Product (GDP)	Mar-2018	7.70%	7.00%
Core Sector Output (%)	Apr-2018	4.65%	4.44%
Export (Y-o-Y)	Apr-2018	5.17%	-0.66%
Import (Y-o-Y)	Apr-2018	4.60%	7.15%

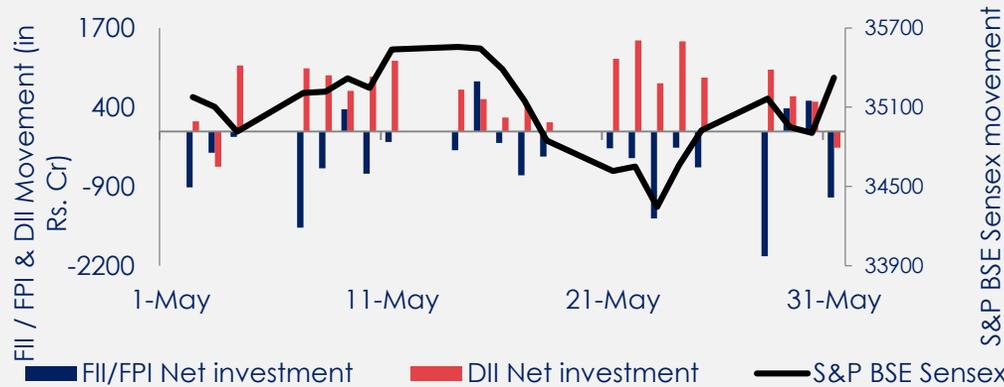
Source: MOSPI, Thomson Reuters Eikon

Monthly CPI & WPI Movement



- The Gross Domestic Product (GDP) at 2011-12 prices of the Indian economy witnessed a growth of 7.7% YoY in the fourth quarter of FY18, better than the growths of 5.6%, 6.3% and 7.0% in the Q1, Q2 and Q3 of FY18, respectively. For FY18, the Indian economy grew 6.7%.
- The MPC, in its second bi-monthly policy review for 2018-19, increased the key policy repo rate by 25 basis to 6.25% and retained its “neutral” stance.
- The Consumer Price Index (CPI)-based inflation grew 4.58% in Apr 2018, up from 4.28% in Mar 2018 and from 2.99% in Apr 2017.
- India’s Index of Industrial Production (IIP) marked a five-month low at 4.4% YoY in Mar 2018 as against downwardly revised growth of 7.0% (7.1% originally reported) in Feb 2018.
- India’s Wholesale Price Index-based inflation (WPI) rose to four-month high to 3.18% in Apr 2018 from a provisional 2.47% growth in Mar 2018 and 3.85% in Apr 2017.

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



Source: MFI Explorer

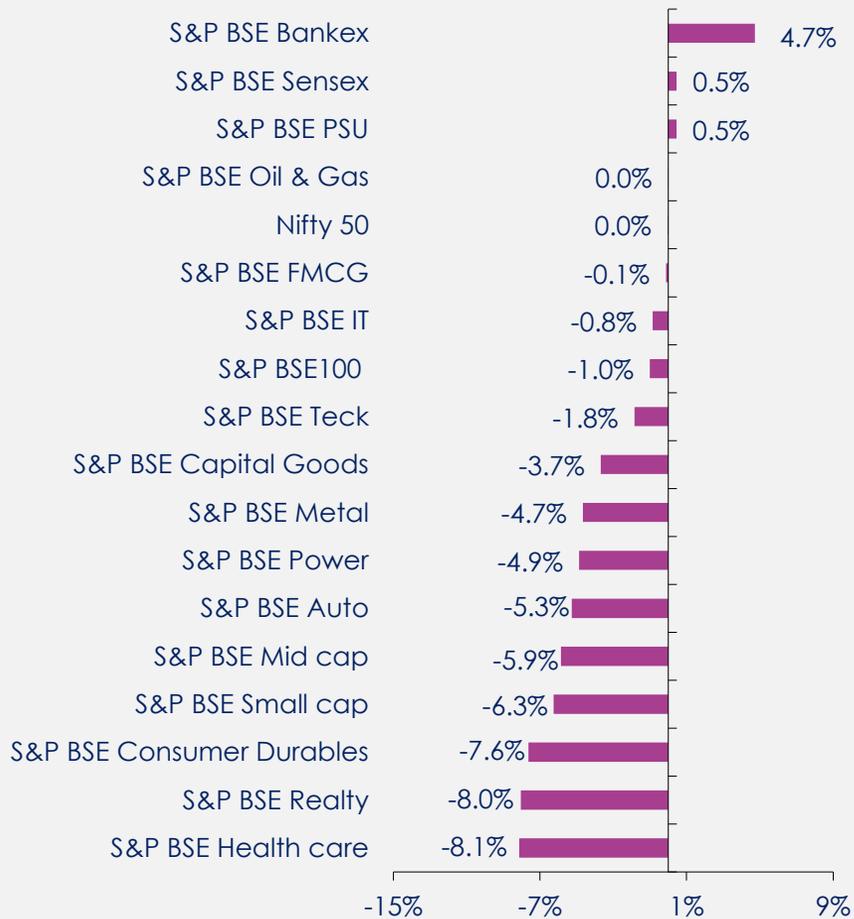
Growth of Rs 10,000 over Last 3-Yrs



Source: BSE

- Indian equity markets managed to end the month on a flattish note after witnessing considerable volatility. Key global events that impacted buying interest included U.S.-China trade talks, upcoming summit between the U.S. and North Korea, U.S. sanctions on Iran, political uncertainty in Italy and Spain and the U.S. Fed's interest rate outlook. On the domestic front, election results in Karnataka and subsequent developments on government formation in the state kept market participants jittery.
- Initially, buying interest was impacted by mixed set of economic data. Nikkei Manufacturing Purchasing Managers' Index (PMI) rose in Apr 2018 due to faster expansions in output and new orders. However, growth of eight core sectors slowed to a 3-month low in Mar 2018.
- Markets soon recovered as concerns over a faster pace of rate hike by the U.S. Fed eased following weaker than expected U.S. jobs data for Apr 2018.

Monthly returns as on May 31, 2018



Source: MFI Explorer

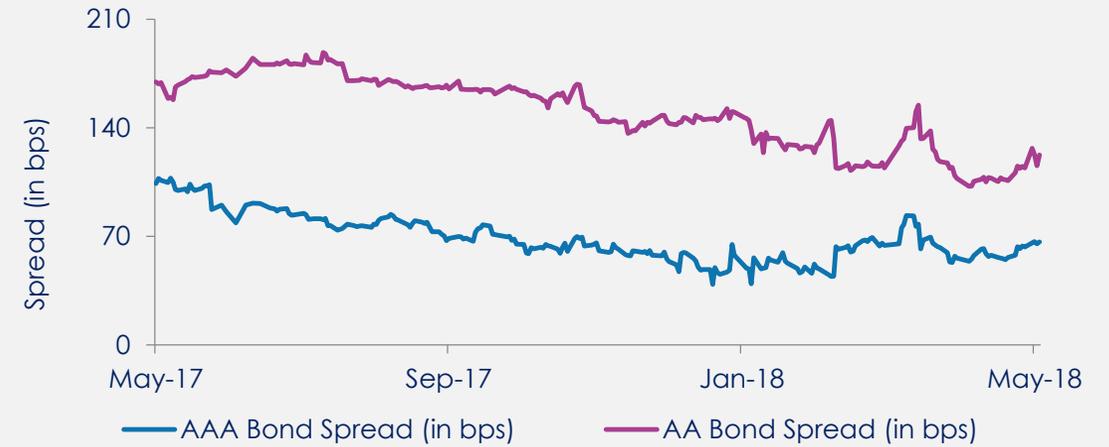
- Announcement of purchase of government bonds worth up to Rs. 10,000 crore on May 17, 2018, added to the gains.
- Gains soon started to erode as stocks of oil marketing companies came under pressure due to U.S. President's sanctions on Iran.
- In the interim period, markets witnessed decline after the ruling party reportedly fell short of majority in the Karnataka state elections. Later, the chief opposition party and one other regional political party agreed to enter an alliance to form government in Karnataka.
- Towards the end, investors tracked developments on U.S.-China trade talks and breathed a sigh of relief after the U.S. hinted for the landmark summit with North Korea. Further, political uncertainty in Italy eased after the country managed to form a new government.
- Check in the rise of global crude oil prices also provided some relief to domestic investors.
- On the BSE sectoral front, majority of the indices closed in the red and S&P BSE Healthcare was the major loser, followed by S&P BSE Realty. Meanwhile, S&P BSE Bankex stood as the major gainer.

10-Yr Benchmark Bond



Source: CCIL

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



Source: Thomson Reuters Eikon

- Bond yields rose in May following rise in global crude oil prices and more than expected increase in domestic inflationary pressures in Apr 2018. Losses were restricted after global crude oil prices fell to some extent at the end of the month and RBI relaxed rules for foreign investment in government securities.
- Yield on the 10-year benchmark bond (7.17% GS 2028) rose 6 bps to close at 7.83% from the previous month's close of 7.77% after moving in a wide range of 7.55% to 7.95%.

Key Indicator	May-18	Apr-18	May-17
Call Rate	5.94%	6.02%	6.02%
10-Yr benchmark bond	7.83%	7.77%	6.66%
Reverse Repo*	6.00%	5.75%	6.00%
Repo*	6.25%	6.00%	6.25%
Bank Rate*	6.50%	6.25%	6.50%
CRR	4.00%	4.00%	4.00%

Source: CCIL,RBI; *As per Bi-monthly Monetary Policy as on 06-06-18

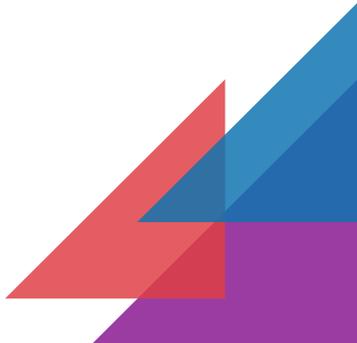
Liquidity Monitor- M3 Supply and Net Borrowings



Source: Thomson Reuters Eikon

- Bond yields fell further after RBI unexpectedly announced to conduct an open market purchase of government securities for an aggregate amount of Rs. 10,000 crore and a government official indicated that the central bank will continue buying bonds through Open Market Operations (OMO).
- However, the trend reversed after the U.S. President withdrew from the Iran nuclear deal and the global crude oil prices shot up to a three and a half year high. Surge in global crude oil prices led to concerns that MPC might increase interest rates. Market sentiment was further dampened after both CPI and WPI-based inflation grew in Apr 2018.
- Meanwhile, global concerns over U.S. and China trade talks weighed on the debt market. Speculation over a lower possibility of another open market purchase of government bonds by RBI also added to the losses.
- Political uncertainty in Italy, weakness in the domestic currency and absence of positive triggers in the domestic debt market also had a bearing on market sentiment. However, further losses were restricted after global crude oil prices fell to some extent towards the end.

Global Equity & Debt Market



Performance of Major International Markets (As on May 31, 2018)

Indices	Country	1 Mth
Nasdaq 100	U.S.	5.48
S&P 500	U.S.	2.16
DJ Industrial Avg	U.S.	1.05
SET Composite Index	Thailand	-2.99
Jakarta Composite	Indonesia	-0.18
Straits Times Index	Singapore	-5.14
KOSPI Index	South Korea	-3.67
Nikkei Stock Average 225	Japan	-1.18
Taiwan SE Weighted Index	Taiwan	2.04
Shanghai Composite Index	China	0.43
S&P BSE Sensex	India	0.46
S&P/ASX 200	Australia	0.49
FTSE 100	U.K.	2.25
CAC 40	France	-2.21
DAX Index	Germany	-0.06

Source: Thomson Reuters Eikon

United States

- U.S. markets initially got support on stronger global crude oil prices that gained following the U.S. President's decision to withdraw from the Iran nuclear deal. Further, stronger than expected job growth in May inculcated confidence among investors about the strength of the U.S. economy to withstand further rate hikes. However, the upside was limited in the wake of the latest protectionist move adopted by the U.S administration.

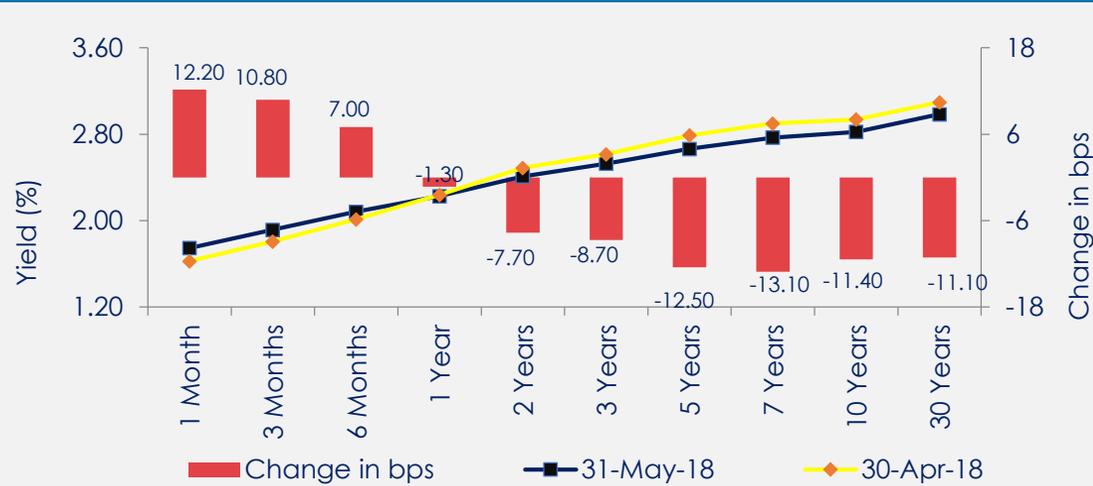
Europe

- European markets mostly remained weak due to political uncertainty in Italy and Spain. Later, markets breathed a sigh of relief after reports that Italy has managed to form a new government. The U.S. government's protectionist moves further acted as a spoilsport. However, a slew of upbeat quarterly earnings from industry majors restricted the fall.

Asia

- Asian markets remained subdued as speculations over a global trade war resurfaced. Political uncertainty in Italy also raised concerns although later two political parties renewed efforts to form a coalition government. U.S. President cancelling the planned summit with North Korea initially too kept investors wary. But later, the U.S. President indicated that the country is open to discussion with North Korea.

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 fell 12 bps during the month to close at 2.82% compared with the previous month's close of 2.94%.
- U.S. Treasury prices rose after minutes of U.S. Fed's latest policy meeting indicated that rate hike might occur moving forward, but not at an aggressive pace. Meanwhile, the quarterly refunding programme aimed at financing U.S.' massive fiscal deficit missed market expectations, thereby adding to the gains.
- However, gains were capped after the U.S. President pledged to help a Chinese telecommunications company that has been penalised for violating U.S. sanctions with Iran. Prices fell further due to surge in U.S. retail sales in Apr 2018 that came in line with market expectations and U.S. trade deficit significantly narrowed in Mar 2018.

Movement of Major Currencies

Currency	Value	1 Mth	1 Yr
U.S. Dollar	67.45	66.78	64.55
Pound Sterling	89.79	92.89	82.64
Euro	78.79	80.74	72.14
100 Yen	62.04	61.08	58.15

Source: RBI

Rupee Versus Dollar during the year



Source: RBI

INR

- The Indian rupee weakened against the U.S. dollar and touched 16-month low but retreated to some extent at the end. Rupee fell due to continuous demand for greenback from oil importers and corporates. Market sentiment dampened following increase in global crude oil prices.
- Rupee fell further as obstructions in trade talks between the U.S. and China renewed fears of trade war. Losses in the domestic equity markets following a global sell off amid political crisis and uncertainty over Italy's membership of the euro also hurt the domestic currency.

EURO

- The Euro plunged against the U.S. dollar in May. The single currency fell as data showed a pickup in U.S. consumer spending, which led to rise in U.S. Treasury yields. Softer than expected economic data from the euro zone and Britain increased losses.
- Rising bond yields in Italy made investors nervous and developing political instability in Spain weighed on sentiment. However, losses were restricted at the end on reports that Italy's biggest party would make a renewed attempt to form a coalition government.

Performance of Various Commodities

Commodities	Value	1 Mth	1 Yr
Crude Brent (\$/Barrel)	76.74	76.66	49.04
Gold (\$/Oz)	1297.92	1314.95	1268.09
Gold (Rs/10 gm)	31026	31033	28839
Silver (\$/Oz)	16.35	16.31	17.29
Silver (Rs/Kg)	39803	38777	39691

Source: Thomson Reuters Eikon, MCX

Movement of Commodity Prices Over 1 Year



Source: Thomson Reuters Eikon

Crude

- Initially, Brent crude prices gained and traded at more than three-year-high level of \$81 per barrel after the U.S. decided to withdraw from a nuclear deal with Iran. This raised concerns over supply disruptions from the Middle East and ignited geopolitical tensions in the region. However, the upside was limited after the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC country Russia indicated to raise production level to meet the shortfall in supply from Iran and Venezuela.

Gold

- Gold prices initially remained weak as U.S. Treasury yields strengthened after the U.S. President decided to withdraw from an international nuclear deal with Iran. Easing concerns on political turmoil in Italy and possibility of U.S. and North Korea's scheduled summit in Jun 2018 further weighed on the bullion's prices.
- However, downside was limited on fears of probable trade war after the U.S. announced that it might impose tariffs on imported steel and aluminum from the EU, Canada and Mexico. Trade tensions between U.S. and China also resurfaced, outweighing initial optimism over resolution between the countries following first round of discussion.

Category wise performance of Mutual Funds

Equity	6 Mnth	1 Yr	3 Yr	5 Yr
Large Cap	1.96	8.84	8.48	14.6
Small/Mid Cap	-2.54	11.87	14.2	25.53
Diversified	0.3	9.85	9.82	16.65
Balanced	0.38	8.41	9.13	15.34
Banking	2.17	10.47	13.09	16.54
FMCG	4.93	18.52	15.47	15.39
Pharma	-7.02	-0.18	-4.71	11.55
Technology	22.85	37.76	10.79	20.54
Infrastructure	-6.71	7.39	10.07	17.84
Gold Funds	5.85	5.67	3.56	1.57

Debt	6 Mnth	1 Yr	3 Yr	SI
Liquid	6.62	6.56	7.00	7.30
Ultrashort Bond	5.49	6.15	7.35	7.58
Short-T Bond	2.87	4.66	7.13	7.67
Long-T Bond	1.37	3.58	7.04	7.79
Long T Govt Sec	-2.46	0.42	6.61	7.80
Short T Govt Sec	2.32	3.69	6.72	14.55

Source: MFI Explorer; * Returns less than 1 year are absolute, greater than 1 year are Compounded Annualized, # As on 31-May-2018

- The mutual fund industry witnessed buying spree in equity segment to the tune of Rs. 12,509.65 crore in May 2018 against previous month's purchase of Rs. 11,293.46 crore. However, the debt segment witnessed selling worth Rs. 20,080.81 crore in May against purchase of Rs. 20,164.96 crore in Apr 2018.
- In the equity space, barring banking sector, all the segments moved down during the month. Rise in crude oil prices, concerns over inflation level and renewed trade tensions across the major developed countries kept investors tensed. However, with the onset of South West monsoon in Kerala in the second half of the month and announcement by China that it will steeply reduce import tariffs for automobiles provided some relief to investors.
- In the debt space, investors shifted towards liquid and ultra-short-term categories. Bond yields rose in May 2018 following rise in global crude oil prices and more than expected increase in domestic inflationary pressures in Apr 2018. Losses were restricted after global crude oil prices fell to some extent at the end of the month and RBI relaxed rules for foreign investment in government securities.

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