

# Monthly Report

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December 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	BUY	SELL
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

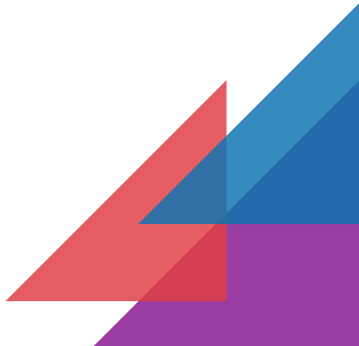
INDEX	PREVIOUS	CHANGE
SET	1,292.81	-15.97
NIFTY	879.72	-14.49
BSE	1,925.37	-29.35
SENSEX	1,067.20	-16.76
FINNIFTY	359.21	-0.35
INDIA VIX	1,474.72	-26.59
INDIA 10Y	1,895.79	-13.47
INDIA 5Y	1,916.51	-1.38
INDIA 3Y	1,527.49	-22.73
INDIA 2Y	1,741.50	-10.98
INDIA 1Y	2,125.65	-6.39
INDIA 6M	369.61	
INDIA 3M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

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

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# Executive Summary

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The month of Nov 2018 saw most of the major markets gain as the **U.S. Federal Reserve (Fed) seemed to become dovish on interest rates**. Investors had much to look forward post the G20 summit. U.S. and China were expected to iron out their differences further and provide a respite to the trade conflict affecting the global economy for a while.

U.S. markets were buoyed by the outcome of the mid-term elections and the U.S. Fed chair's comments. Investors also looked forward to the further progress between U.S. and China. European markets bucked the trend and lost amid Brexit concerns and tensions between the European Union and Italy.

Asian markets gained on the back of predictions that the U.S. Fed has become dovish and may slow down its pace of interest rate hikes. Investors also became hopeful of a solution to the trade problems between the two nations.

Indian equity markets had many reasons to gain, foremost being a **stronger rupee, lower crude oil prices**, U.S. Fed chairman's speech and expectations of resolving trade tensions further. The factor that kept markets restricted was cautious stance of investors before the release of important economic data and ahead of elections in some states.

Bond yields declined as global crude oil prices slid and the rupee strengthened. The Reserve Bank of India (RBI) conducting Open Market Operations (OMO) to boost liquidity supported sentiment. Market sentiment got better when retail inflation for Oct 2018 came lower than expected, igniting hopes that interest rates would remain unchanged.



Moving forward, investors will keep their eyes on the upcoming state elections, movement of crude oil prices and rupee and U.S.-China trade relations among other factors. Bond yields will depend on global crude oil prices. With the general election year drawing close, focus will be on the fiscal deficit targets.



Slowdown in growth of the Indian economy in the second quarter of FY19 following moderation in consumption demand and subdued services sector activity are likely to weigh on investor sentiment.



The Monetary Policy Committee (MPC) in its fifth bi-monthly monetary policy review for FY19 kept key policy repo rate on hold at 6.50%. The move comes as MPC is of the view that even though retail inflation came down sharply in Oct 2018, core inflation remained at elevated levels. .




MPC also noted that concerns of a global trade war, slowing down of global demand and tightening of monetary policies across the globe may adversely impact the growth prospects of the Indian economy.



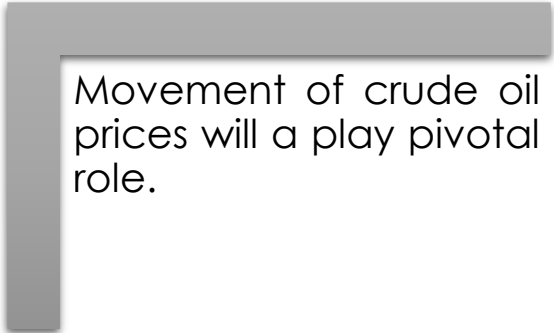
Global growth fears and monetary policy stances by major central banks across the globe could keep investors cautious.



The Federal Reserve in its Dec policy review is expected raise key policy although investors anticipate a less aggressive policy stance in 2019.



The European Central Bank (ECB) is also likely to unwind its bond-buying programme by the end of the year. .

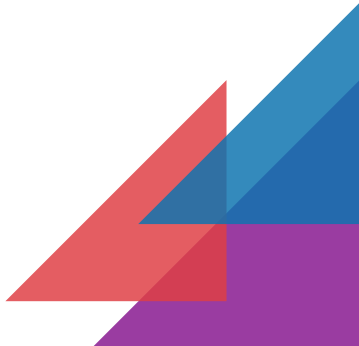


Movement of crude oil prices will a play pivotal role.

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# Domestic Economy

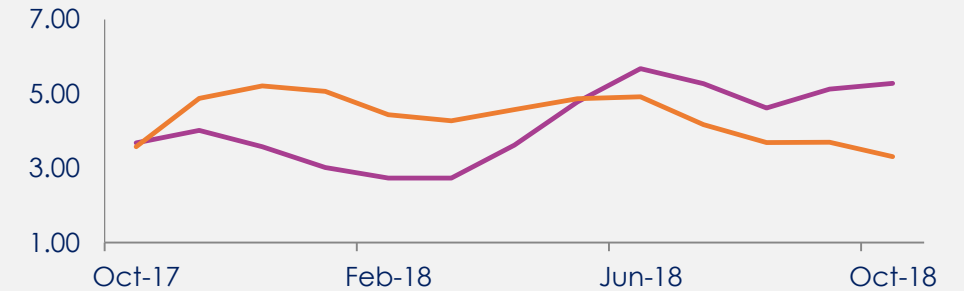
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Key Indicators	Period	Actual	Previous
Consumer Price Index (CPI)	Oct-2018	3.31%	3.70%
Wholesale Price Index (WPI)	Oct-2018	5.28%	5.13%
Index of Industrial Production (IIP)	Sep-2018	4.50%	4.70%
Gross Domestic Product (GDP)	Sep-2018	7.10%	8.20%
Core Sector Output (%)	Oct-2018	4.77%	4.28%
Export (Y-o-Y)	Oct-2018	17.86%	-2.15%
Import (Y-o-Y)	Oct-2018	17.62%	10.45%

Source: MOSPI, Thomson Reuters Eikon

## Monthly CPI & WPI Movement

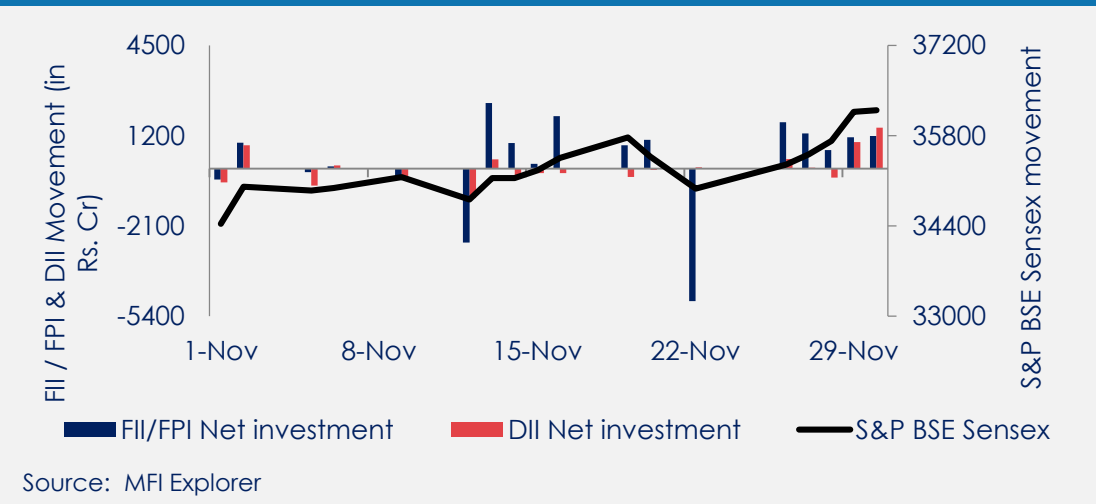


Source: MOSPI

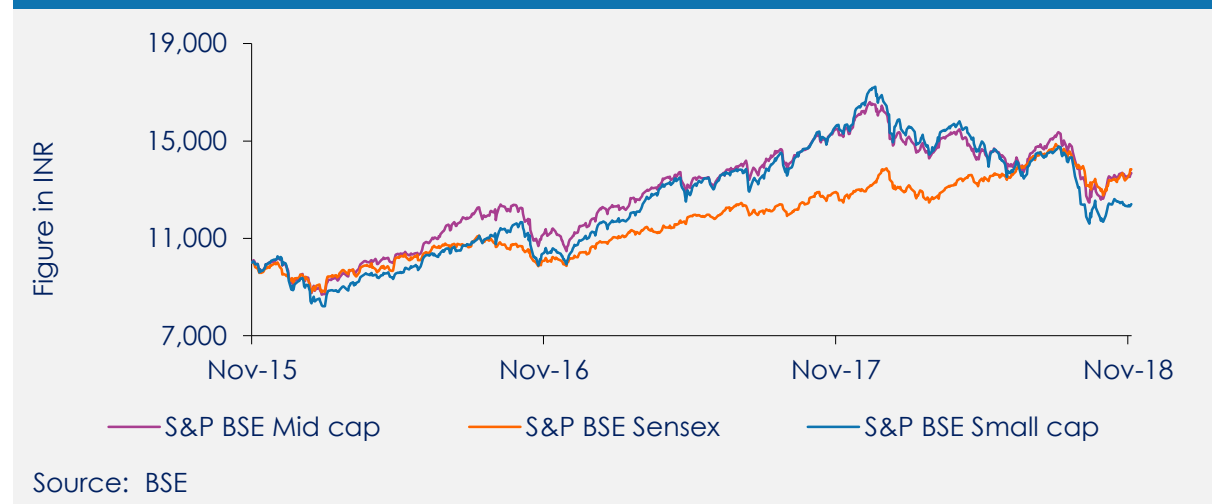
- The **MPC in its fifth bi-monthly monetary policy review for FY19 kept key policy repo rate on hold** for second consecutive time after it increased the same by 25 bps each in its earlier bi-monthly policy reviews held in Jun and Aug.
- The **growth of the Indian economy slowed significantly in the second quarter of FY19** after peaking in the first quarter. The slowdown came as consumption demand moderated and the services sector remained subdued to some extent. GDP slowed to 7.1% in Q2FY19 as against a growth of 8.2% in Q1FY19. However, the growth rate was higher compared with 6.3% registered in the same period of the previous year.
- The Index of Industrial Production (IIP) slowed to 4.5% in Sep 2018 as against growth of 4.7% in the previous month.
- The consumer price index-based (CPI) inflation or retail inflation came in at a 13-month low of 3.31% in Oct 2018 compared with 3.70% in the previous month .



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

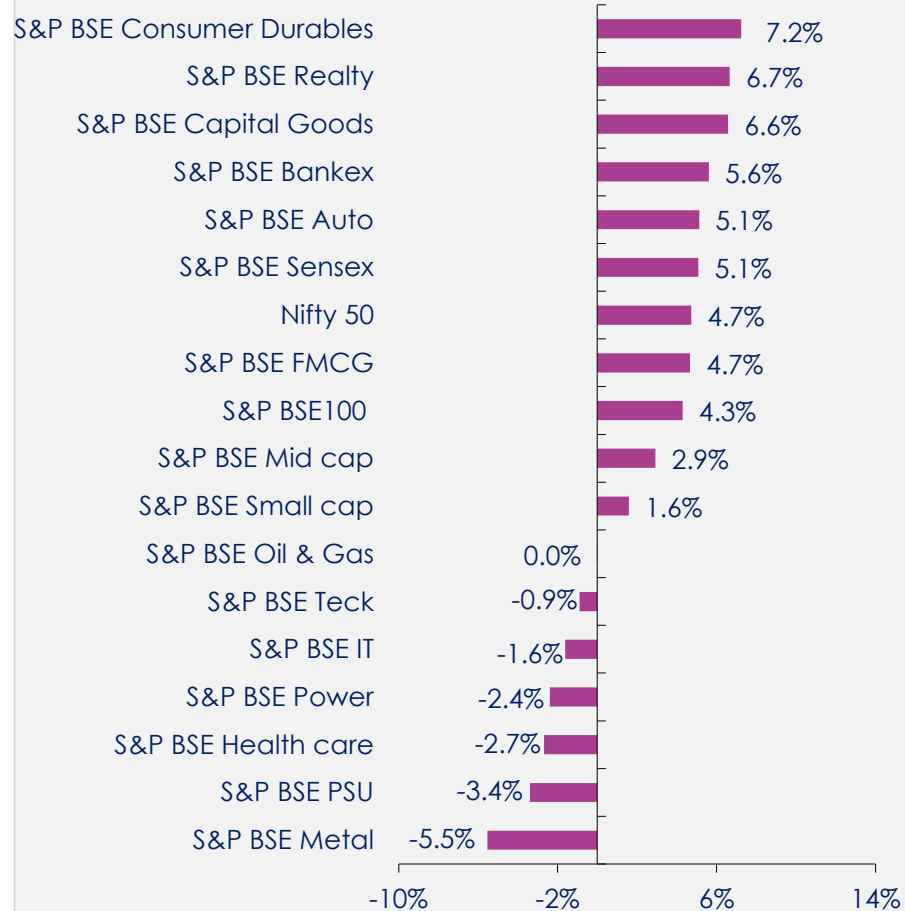


## Growth of Rs 10,000 over Last 3-Yrs



- After two consecutive months of fall, markets posted gains in Nov 2018 because of weak crude oil prices and a stronger rupee along with encouraging quarterly earnings. Optimism on less aggressive policy stance by the U.S. Fed and expectations of progress on trade talks between U.S. and China also acted as catalysts. The RBI's board advised the bank to support small businesses and give banks more time to fulfil capital regulations.
- As the month commenced, markets got support from strong quarterly earnings, fall in global crude oil prices and strengthening of the rupee against the greenback. Positive economic data supported investor sentiment too.
- **Rift between the RBI and the government seemed to lessen** after the board meeting suggested liberalising norms for weak banks in order to boost lending in the economy. However, a section of investors seemed cautious on the outcome as the board has decided to form an expert committee to advice on whether the RBI's reserves are adequate since there have been requests from the government for access to surplus reserves.

## Monthly returns as on November 30, 2018



Source: MFI Explorer

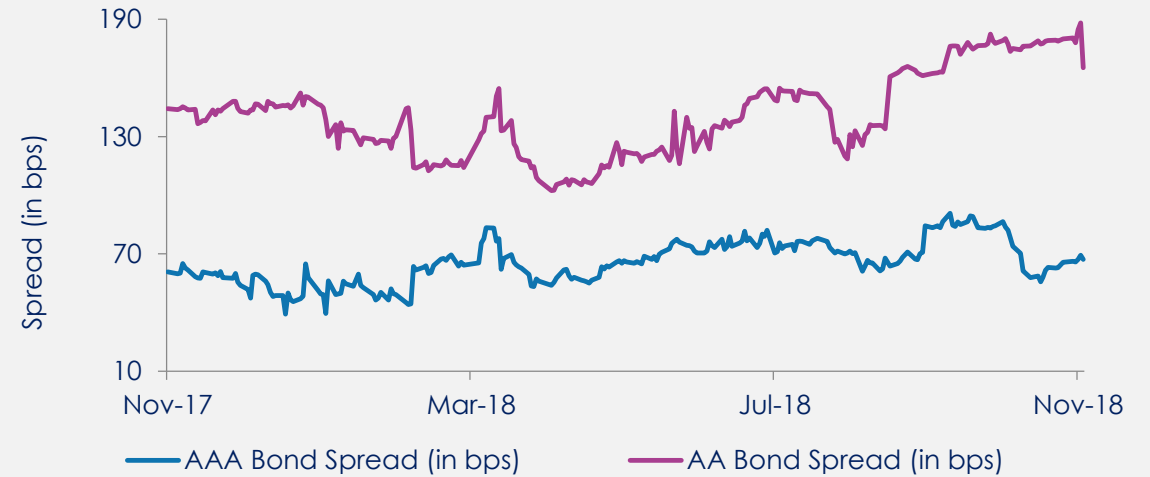
- Additionally, market participants became optimistic on **less aggressive policy stance by the U.S. Fed** after the Fed chief in its latest speech stated that the policy rate is below the neutral rate. This could mean Fed might go slow with interest rate hike in 2019..
- On the global front, investors became hopeful that U.S.-China might progress further on trade talks and would help to reduce the global trade tensions.
- On the BSE sectoral front, the indices closed on a mixed note. S&P BSE CD stood as the major gainer followed by S&P BSE Realty and S&P BSE CG. Meanwhile, S&P BSE Metal stood as the major loser followed by S&P BSE PSU and S&P BSE HC.
- In the banking space, the RBI has relaxed rules for non-banking financial companies (NBFCs) to sell or securitise their loan books. It has decided to relax the minimum holding period (MHP) requirement for originating NBFCs, in respect of loans of original maturity above 5 years, to receipt of repayment of six-monthly instalments or two quarterly instalments (as applicable).

## 10-Yr Benchmark Bond



Source: CCIL

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



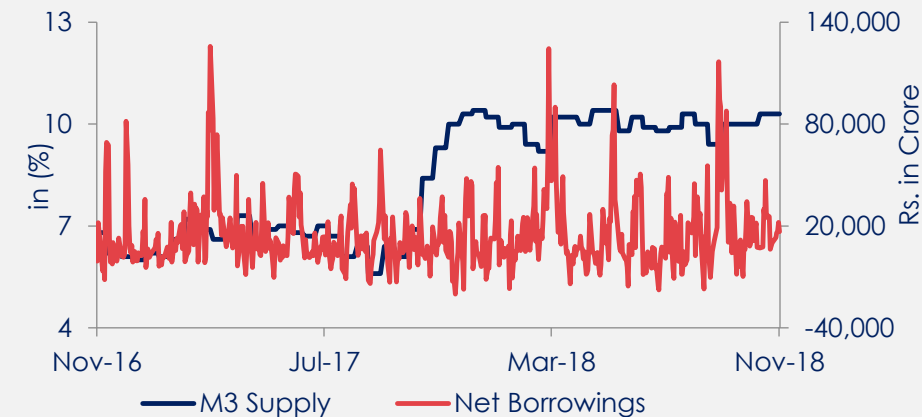
Source: Thomson Reuters Eikon

- Bond yield fell consistently following **slide in global crude oil prices and surge in Indian rupee against the U.S. dollar**. Both these factors were the major reasons for surge in bond prices during Nov 2018. Indian rupee surged 5.90% against the U.S. dollar while Brent crude oil prices fell sharply by 23.2% during Nov 2018. Oil prices surged on oversupply concerns and worries over global economic slowdown. Lower crude prices helped reduce concerns over expanding current account deficit and inflationary pressures.
- Yield on the 10-year benchmark bond (7.17% GS 2028) fell 24 bps to close at 7.61% from the previous month's close of 7.85% after moving within a wide range of 7.58% to 7.84%. This was the biggest fall in the last eight months.

Key Indicator	Nov-18	Oct-18	Nov-17
Call Rate	6.41%	6.43%	5.89%
10-Yr benchmark bond	7.61%	7.85%	7.06%
Reverse Repo	6.25%	6.25%	5.75%
Repo	6.50%	6.50%	6.00%
Bank Rate	6.75%	6.75%	6.25%
CRR	4.00%	4.00%	4.00%

Source: CCIL,RBI

## Liquidity Monitor- M3 Supply and Net Borrowings



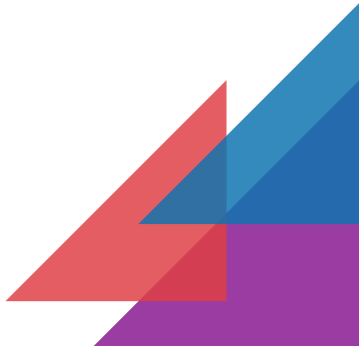
Source: Thomson Reuters Eikon

- Yields fell further after the **RBI announced buying of bonds worth Rs. 40,000 crore in Dec 2018** via open market operations to support banking system liquidity.
- However, gains were restricted on better than expected U.S. jobs data. The rise in U.S. Treasury yield also pulled Indian bond yields higher. Bouts of recovery in crude oil prices in between along with profit booking in bonds restricted further fall in yields.
- Meanwhile, yield rose as investors were cautious ahead of the RBI board meeting on Nov 19. However, the outcome of the meeting eased market concerns over tight liquidity to some extent.
- On the liquidity front, the overnight call rate traded in a range from 6.01% to 6.48% during the month compared with that of the previous month when call rates traded in the range of 5.92% to 6.58%. Banks' net average lending to the central bank through the LAF window stood at Rs. 14,537.73 crore in Nov 2018 compared with Rs. 19,939.46 crore in Oct 2018.

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# Global Equity & Debt Market

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## Performance of Major International Markets (as on Nov 30, 2018)

Indices	Country	1 Mth
Nasdaq 100	U.S.	-9.22
S&P 500	U.S.	-4.87
DJ Industrial Avg	U.S.	-1.64
SET Composite Index	Thailand	-4.63
Jakarta Composite	Indonesia	0.63
Straits Times	Singapore	3.27
KOSPI	South Korea	3.31
Nikkei Stock Average 225	Japan	-2.25
Taiwan SE Weighted Index	Taiwan	-10.63
Shanghai Composite Index	China	-5.03
S&P BSE Sensex	India	-6.34
S&P/ASX 200	Australia	-2.80
FTSE 100	U.K.	-2.07
CAC 40	France	-7.45
DAX Index	Germany	-8.95

Source: Thomson Reuters Eikon

### United States

- U.S. markets largely remained positive led by the results of the highly anticipated mid-term elections, which came largely in line with expectations. Initial concerns over interest rate outlook was outweighed by comments of U.S. Fed chief in a speech to the Economic Club of New York later during the month. The remark raised speculation regarding U.S. central bank adopting a dovish stance on key interest rate.

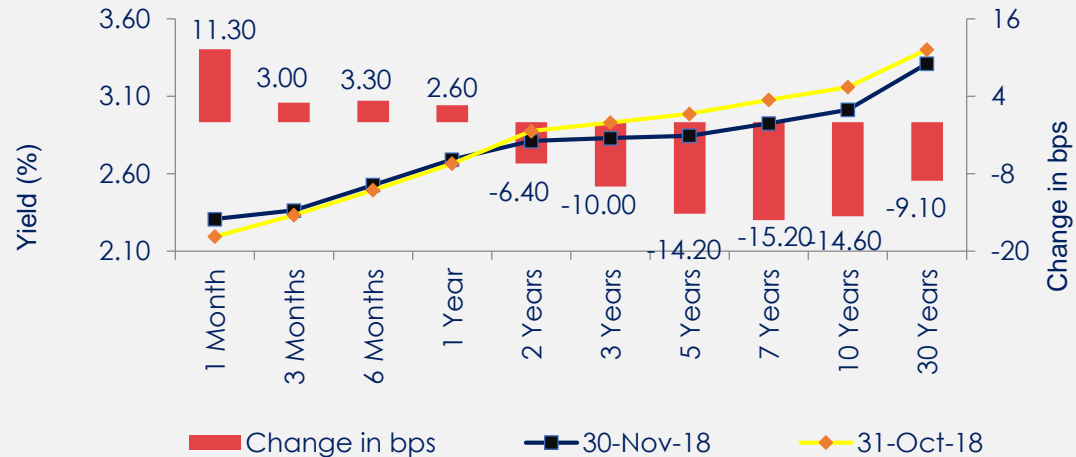
### Europe

- Initial uncertainty over Brexit kept European markets under pressure. Losses were capped as investors sighed relief later following EU leaders' decision to back U.K.'s Brexit agreement and political declaration that sets up the frame work of the future trade relationship. Series of weak economic data further soured market sentiment.

### Asia

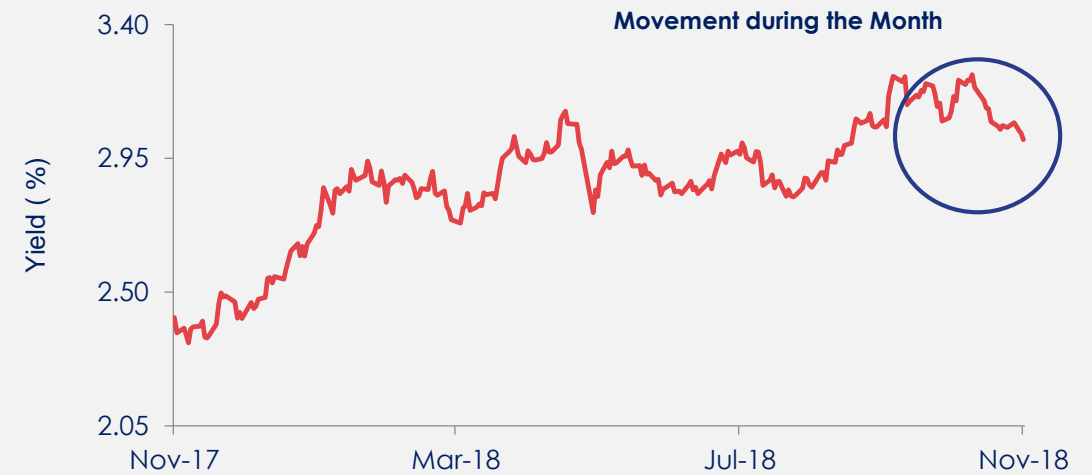
- Majority of the Asian markets went up during the month. Concerns over faster pace of U.S. interest rate hike took a backseat following comments of U.S. Fed chief in a speech to the Economic Club of New York. Optimism over resolution of the ongoing trade turf between U.S. and China continued to provide underlying support to the market sentiment.

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



Source: Thomson Reuters Eikon

## U.S. 10 Year Treasury Yield



Source: Thomson Reuters Eikon

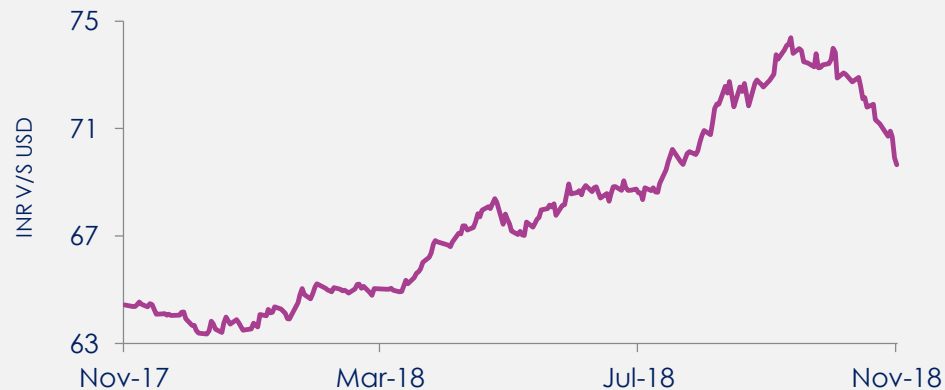
- Yields on the 10-year U.S. Treasury bond fell 15 bps to close at 3.01% compared with the previous month's close of 3.16%. The paper moved in a range of 3.01% to 3.23%.
- U.S. Treasury prices grew following weak U.S. durable goods orders and slowdown in U.S. manufacturing in Oct 2018. Weak U.S. productivity in the third quarter of 2018 added to the gains. Further, optimism about Britain's exit from the EU prompted investors to pursue the safety of government bonds.
- Safe haven appeal of U.S. Treasuries improved further due to a sharp decline in global crude oil prices that fuelled concerns of slowing global growth. Gains were extended following statement from the U.S. Fed chief which hinted that an end to the bank's interest-rate hike cycle is closer.

## Movement of Major Currencies

Currency	Value	1 Mth	1 Yr
U.S. Dollar	69.66	73.99	64.43
Pound Sterling	89.08	94.10	86.80
Euro	79.36	83.92	76.49
100 Yen	61.43	65.36	57.00

Source: RBI

## Rupee Versus Dollar during the year



Source: RBI

## INR

- The rupee surged against the greenback as more than 20% drop in global crude oil prices boosted market sentiment. **Gains in the domestic equity market further strengthened the rupee.**
- A favourable outcome of the crucial board meeting between the government and the RBI also supported the domestic currency. The greenback continued to remain under pressure after comments by the U.S. Fed chief indicated that the U.S. central bank might be at the end of the monetary tightening cycle.

## EURO

- The euro fell initially against the greenback after the European Commission cut its forecasts for Italian growth for this year and the next two years, lower than the growth numbers that Italy had projected in its draft budget. Slump in global crude oil prices raised concerns about global growth which also weighed on the common bloc currency.
- However, losses were neutralised as political risks in euro zone receded to some extent. Comments by the U.S. Fed chief raised expectations that the U.S. central bank is closer to the end of its rate-hike cycle.

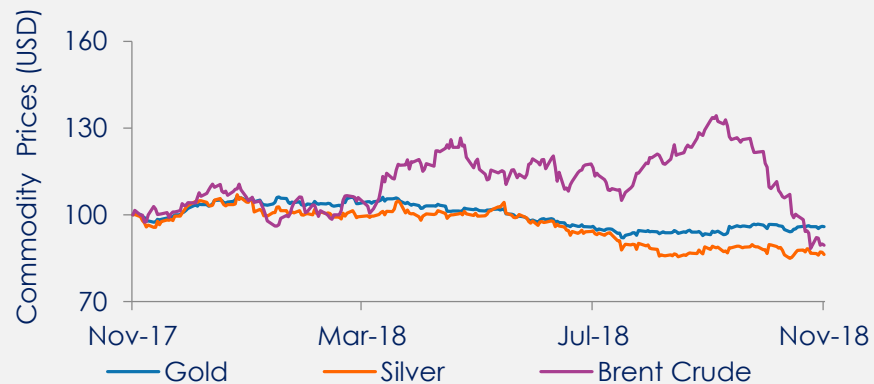


## Performance of Various Commodities

Commodities	Value	1 Mth	1 Yr
Crude Brent (\$/Barrel)	57.55	75.82	64.32
Gold (\$/Oz)	1221.88	1222.59	1274.36
Gold (Rs/10 gm)	30240	31688	29236
Silver (\$/Oz)	14.171	14.44	16.42
Silver (Rs/Kg)	35519	37899	37974

Source: Thomson Reuters Eikon, MCX

## Movement of Commodity Prices Over 1 Year



Source: Thomson Reuters Eikon

## Crude

- Brent crude prices slumped below \$60 per barrel level amid fears of oversupply and the slowdown in the global economy owing to geopolitical factors. **Oil demand is expected to get slower from China and U.S. in 2019.**
- Simultaneously, supply has been rising with massive growth in U.S. crude inventories, and high production in Saudi Arabia and Russia. However, easing trade tensions between U.S. and China gave some comfort to the commodity.

## Gold

- Gold prices witnessed initial pressure after the Fed left its current interest rate unchanged but reiterated its stance for hiking interest rates soon. In addition, improved Chinese import and export growth data reduced the bullion's appeal although the country's producer price inflation slowed for the fourth consecutive month in Oct 2018.
- Later, gold prices recovered as the **safe haven appeal revived following the unexpected resignations by British ministers in opposition to the newly-agreed Brexit deal.** Gains were moderated as concerns over the Italian budget eased coupled with the Brexit agreement.

## Category wise performance of Mutual Funds

Equity	6 Mnth	1 Yr	3 Yr	5 Yr
Large Cap Fund	-0.32	1.03	9.65	13.86
Mid cap Fund	-7.75	-9.99	8.73	20.13
Large & Mid Cap Fund	-4.12	-5.28	10.52	17.22
Small cap Fund	-13.30	-15.58	8.91	21.16
Multi Cap Fund	-2.22	-2.37	9.98	16.47
Focused Fund	-3.82	-4.20	10.17	16.37
Value Fund	-5.94	-7.21	9.85	18.53
Sectoral/Thematic	-4.16	-3.42	9.85	15.50
Dividend Yield Fund	-5.84	-5.94	9.36	13.79
Contra Fund	-3.71	-2.09	11.56	16.77
ELSS	-3.55	-3.84	10.19	16.45

Debt	6 Mnth	1 Yr	3 Yr	SI
Liquid Fund	6.70	6.82	6.88	7.34
Ultra Short Duration Fund	6.28	6.23	7.09	7.68
Credit Risk Fund	4.95	4.58	7.36	7.66
Corporate Bond Fund	6.63	4.70	6.96	7.63
Gilt Fund	7.95	3.09	7.19	7.69
Medium to Long Duration Fund	6.84	2.79	6.34	7.98

Source: MFI Explorer; \* Returns less than 1 year are absolute, greater than 1 year are Compounded Annualized, # As on 30-Nov-2018

- The month of Nov witnessed a lower inflow in equity segment worth Rs. 5236.48 crore against Rs. 24047.32 crore a month ago while in the debt space, inflows stood at Rs. 51392.57 crore against Rs. 27364.51 recorded in Oct.
- Equity mutual funds across categories posted higher returns following improvements in the domestic markets. Both large and large & mid cap categories posted returns in-aligned to the benchmark indices as S&P BSE Sensex and Nifty 50 .
- Under the debt category, gilt funds continued to perform better than the short-term peers following fall in bond yields as the monthly yields witnessed its the biggest fall in the last eight months. Fall in global crude oil prices along with stronger rupee also boosted the debt market sentiments.

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