

LIQUIDITY, VALUATIONS AND EVENTS

July - September
2018

MOVEMENTS OF MAJOR INDICES

Sectoral Index	Country	30 th June 2017	31 st March 2018	30 th June 2018	3-Month Returns (%)	1-Year Returns (%)
FTSE 100	UK	7,313	7,045	7,637	8%	4%
Nasdaq	US	6,140	6,949	7,510	8%	22%
S&P BSE SENSEX	India	30,922	32,969	35,423	7%	15%
Nikkei 225	Japan	20,033	21,031	22,305	6%	11%
NIFTY 50	India	9,521	10,114	10,714	6%	13%
CAC 40	France	5,121	5,130	5,324	4%	4%
DAX	Germany	12,325	11,941	12,306	3%	0%
Dow Jones	US	21,350	23,848	24,271	2%	14%
NYSE	US	11,762	12,309	12,504	2%	6%
Hang Seng	Hong Kong	25,765	30,023	28,955	-4%	12%
Seoul Composite	South Korea	2,392	2,419	2,326	-4%	-3%
Jakarta Composite	Indonesia	5,830	6,141	5,799	-6%	-1%
RTS Index	Russia	1,001	1,227	1,154	-6%	15%
Shanghai Composite	China	3,192	3,122	2,847	-9%	-11%
KLSE Composite	Malaysia	1,764	1,858	1,692	-9%	-4%
Bovespa	Brazil	62,900	83,874	72,763	-13%	16%

MOVEMENT OF SECTORAL INDICES

Sectoral Index	30 th June 2017	31 st March 2018	30 th June 2018	3-Month Returns (%)	1-Year Returns (%)
S&P BSE TECK Index	5,524	6,513	7,165	10%	30%
S&P BSE FMCG	10,428	10,290	11,213	9%	8%
S&P BSE BANKEX	26,278	27,198	29,251	8%	11%
S&P BSE SENSEX	30,922	32,969	35,423	7%	15%
NIFTY 50	9,521	10,114	10,714	6%	13%
S&P BSE Health Care	14,190.58	13,157.62	13,921.76	6%	-2%
S&P BSE AUTO Index	23,408	24,057	23,838	-1%	2%
S&P BSE METAL Index	11,374	13,322	13,064	-2%	15%
S&P BSE Capital Goods	17,076	18,477	17,488	-5%	2%
S&P BSE OIL & GAS Index	13,203	14,614	13,660	-7%	3%
S&P BSE Realty Index	2,043	2,230	2,073	-7%	1%
S&P BSE PSU	8,113	7,861	7,292	-7%	-10%
S&P BSE Power Index	2,226	2,126	1,947	-8%	-13%
S&P BSE Consumer Durables	16,013	22,262	20,207	-9%	26%

FOREIGN INSTITUTIONAL INVESTOR (FII) FLOWS

FII Flows in Equity

(in Rs. Crore)	Apr – 18	May – 18	Jun – 18	TOTAL
Gross Purchase	1,01,183	1,08,111	1,29,594	3,38,888
Gross Sale	1,06,735	1,18,171	1,34,425	3,59,332
Net Investment	-5,552	-10,060	-4,831	-20,443

FII Flows in Debt

(in Rs. Crore)	Apr – 18	May – 18	Jun – 18	TOTAL
Gross Purchase	33,485	19,336	15,526	68,346
Gross Sale	43,520	38,990	26,497	1,09,007
Net Investment	-10,036	-19,654	-10,970	-40,660

**Total Net FII Flows in
Jun - Sep 2018**

**- Rs. 61,104
Crore**

Source: SEBI



DOMESTIC INSTITUTIONAL INVESTOR (DII) FLOWS

(in Rs. Crore)	Apr – 18	May – 18	Jun – 18	TOTAL
Gross Purchase	2,40,356	1,66,033	78,930	4,85,319
Gross Sale	2,02,644	1,36,833	64,784	4,04,261
Net Investment	37,712	29,201	14,146	81,059

Source: SEBI

MF ACTIVITY

Equity

(in Rs. Crore)	Apr – 18	May – 18	Jun – 18	TOTAL
Gross Purchase	57,585	62,429	50,113	1,70,127
Gross Sale	46,299	48,738	43,559	1,38,596
Net Investment	11,287	13,691	6,555	31,532

Debt

(in Rs. Crore)	Apr – 18	May – 18	Jun – 18	TOTAL
Gross Purchase	1,71,450	1,67,159	1,71,439	5,10,048
Gross Sale	1,51,285	1,79,272	1,33,464	4,64,021
Net Investment	20,165	-12,113	37,974	46,026

Source: SEBI

**Total Net MF Activity
in Apr - Jun'18**

**Rs 77,558
Crore**



DOMESTIC EVENTS

WIDENING TRADE DEFICIT

- The central government's fiscal deficit stood at \$16.6 billion in June, higher compared to the \$14.6 billion deficit recorded in May. The June number was the highest in 5 years, i.e., since the \$19.1 billion gap reported in May 2013.
- A higher trade deficit is likely to have an adverse impact on the current account deficit, which is already under pressure due to falling foreign inflows and higher oil prices. It is also likely to further put a strain on the Rupee.

GROWTH

- India's GDP grew by 7.7% in the quarter ending March'18. The growth rate was 7% in the previous quarter.
- The RBI retained GDP growth forecast for 2018-19 at 7.4%
- Purchasing Managers' Index (PMI): Both Manufacturing and Service sector activities picked up in June.

PMI (SERVICES)		PMI (MANUFACTURING)	
Apr-18	51.4	Apr-18	51.6
May-18	49.6	May-18	51.2
Jun-18	52.6	Jun-18	53.1

- Index of Industrial Production (IIP)
 - The pick up in factory output in April is a reflection of higher manufacturing activity

	Mar-18	Apr-18	May-18	Jun-18
IIP (%)	4.4	4.9	3.2	To be released

INFLATION & RBI POLICY

- Inflation has been on a rising trend.
- WPI reached a 4.5-year high in June.

	Apr-18	May -18	Jun-18
Wholesale Price Index (WPI)	3.18	4.43	5.77
Consumer Price Index (CPI)	4.58	4.87	5.0

- In its June Monetary Policy, RBI hiked the repo rate by 25 basis points (bps) to 6.25%— the first rate increase in four years. This is because of rising inflation, higher GDP growth rate and concerns over inflationary pressures because of factors such as increasing crude oil prices, rising minimum support prices etc. The global risk factors include geopolitical risks and trade protectionism.
- Bad loans:
 - The latest Financial Stability Report (FSR) from the RBI (Reserve Bank of India), gives a baseline scenario of bank's gross NPAs rising to 12.2% by March 2019 from 11.6% in March 2018.

MAJOR REFORMS

To boost inflows of foreign funds into Indian capital markets regulator SEBI decided to raise the investment limit for foreign portfolio investors (FPIs) in central government securities and corporate bonds in 2 tranches.

SEBI eased the disclosure norms for IPOs & tightened the definition for 'promoter group' to prevent fraudulent transactions. 'immediate relatives' are included within the definition of promoter.

RBI has asked banks to upgrade its ATMs in a phased manner, which includes implementation of anti-skimming and whitelisting solutions.

The housing loan limits for eligibility under Priority sector lending will be revised to Rs 35 lakh in metros from Rs 28 lakh and to Rs 25 lakh in other centres.

The Government plans to spend Rs 4,000 crore this year to create new jobs in the country and it has already employed 40 lakh new job seekers through Pradhan Mantri Rojgar Protsahan Yojana.

SEBI has set up a panel that will look at ways to make listing attractive for startups. It also doubled the investment limit of "angel funds" in venture capital firms to Rs 10 crore to provide a boost to funding of early stage start-ups in the country.

SEBI allowed debt issuers to review ratings by agencies. This has been done to prevent 'rate shopping' and 'pick-and-choose approach'

The government proposes to set up charging stations for electric vehicles every 3 kilometres in cities with million-plus population and smart cities, and every 50 km on busy national highways

The income tax (I-T) department has cautioned salaried taxpayers against under-reporting their income or inflating their deductions in assessment year 2018-19.

RISING RETAIL PARTICIPATION IN FINANCIAL MARKETS

- Primary Markets

- According to a study by EY India India recorded the highest IPO activity in the world in the first half of 2018. There were 90 initial public offerings (IPOs) which raised \$ 3.9 billion.

- Mutual funds

- Investors pumped in Rs. 1.4 lakh crore in mutual fund schemes in the April to June'18 quarter. This is a whopping 43% rise from last year.
- The total assets under management (AUM) in the mutual fund industry has shot up to Rs. 23.4 lakh crore at the end of June – an annual growth of 20%.
- Mutual funds collected Rs. 7,304 crore via systematic investment plans (SIPs) in May, 9% higher than the April collection.

GLOBAL EVENTS

CHINA

- Current Account Deficit
 - In May, China recorded its first quarterly current account deficit in 17 years. The deficit was \$28.2 billion in the first quarter of this year.
- China is staring at an economic slowdown
 - Investments, domestic demand and consumption showing signs of a cool off
 - Slowing export growth
 - Slowing housing market: Stricter controls on property buying have chilled sales activities, causing developers to cut back on new ventures, pulling down construction growth. Credit availability in the country has also been falling fast.
 - Harsh rules on pollution have also impacted growth
- The Chinese stock markets have entered a bearish phase over the above mentioned concerns and also on concerns over an intense trade war with the US

US ECONOMY

- Employment

- There was an improvement in the number of jobs added monthly
- The unemployment rate stood at 4% in June.

	Apr-18	May-18	Jun-18
Jobs added	175,000	244,000	213,000

- Growth

- The GDP grew by 2% (annual rate) in the January-March'18 quarter – lesser than the 2.9% growth reported in the previous quarter
- The growth rate was lower than expected

- Monetary Policy

- The US Federal Reserve raised the interest rate for the second time this year in June by 25 basis points (bps). This leaves the Fed Funds Target Rate in a range of 1.75 – 2%.
- The Fed upgraded their forecast to a total of four rate hikes in 2018.

INTENSIFIED TARIFF WAR

- Recently US President Donald Trump slapped 25% tariff on \$34 billion Chinese imports. Another \$16 billion was planned. He also threatened imposing tariffs on another \$200 billion in the near term.
 - In response China has decided to take retaliatory action and vowed to lodge complaints at the World Trade Organisation.
- The US announced tariff hikes on steel and aluminum, to which India responded by joining the EU and other trading partners. India notified the WTO of higher tariffs on more than 2 dozen goods from the US
- Fitch Ratings warned that in the worse case scenario of a global trade war in case the US imposes tariffs on China, the European Union (EU), Mexico and Canada leading to retaliation from these countries, could amount to halting \$2 trillion in global trade flow.
- The news flows related to tariff wars have rattled global financial markets.

RISING CRUDE OIL PRICES

- The crude oil prices have been rising. The Brent Crude oil price went up by almost \$8 to end the quarter at \$78/barrel. Rising crude oil price imposes macroeconomic concerns for an oil importing country like India.
- Some of the factors contributing to a surge in oil prices:
 - U.S. pressurizing allies not to import oil from Iran, or else face sanctions. Iran currently exports 2.9 million barrels per day (bpd) of crude oil and condensate to Asian and European markets.
 - Saudi Aramco is planning its IPO. Saudi Arabia would like oil prices to remain elevated, while appeasing President Trump.
 - Supply disruptions in Libya: Libya's two largest oil export terminals, Ras Lanuf and Es Sider, were knocked offline a few weeks ago after clashes between rival militias disrupted operations. Storage tanks were destroyed in the fighting, and an estimated 450,000 bpd of oil exports were disrupted.
- OPEC announced that it would restore about 1 million barrels per day to the market, beginning July. Iran had opposed the move, partially in protest of sanctions from the Trump Administration. In reality, the output increase isn't expected to exceed 700,000 barrels per day because some members are already pumping at maximum capacity. This will not be enough to cool prices significantly.

EVENTS TO LOOK OUT FOR

- DOMESTIC
 - Progress of reforms in the Monsoon session of the Parliament
 - Corporate earnings data
 - Progress of Monsoons
 - Inflation numbers
 - GDP growth numbers
- INTERNATIONAL
 - Global Tariff War Developments
 - US Fed Policy
 - Crude Oil Prices
 - Chinese economic indicators

OUTLOOK FOR ASSET CLASSES

Asset Class	Performance in Q2CY18	Start to End Value In Q2	Outlook for Q3CY18	Remarks
Debt	10-Year Gilt: Up 5 bps 3-M T Bill: Up 35 bps 6-M T Bill: Up 53 bps 3-M CP: Up 16 bps 1-Yr CP: Up 67 bps 10-Yr AAA Corp: Up 75 bps Call Rate: Up 8 bps	7.4 – 7.9 6.11 – 6.46 6.33 – 6.86 7.44 – 7.6 7.88 – 8.55 7.86 – 8.61 6.04 – 6.12	Yields nearing their top. Another rate hike by RBI is possible	Assumption: a. Crude prices will not go up significantly. b. Inflationary pressures will abate
Equity	Sensex: Up 7% Nifty: Up 6%	32,969 – 35,423 10,114 – 10,714	Flat to positive bias	Assumptions: a. Good Q1FY19 results b. Satisfactory progress of monsoon c. FII outflows to be gradual d. Domestic flows to MFs stable

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