Market Outlook

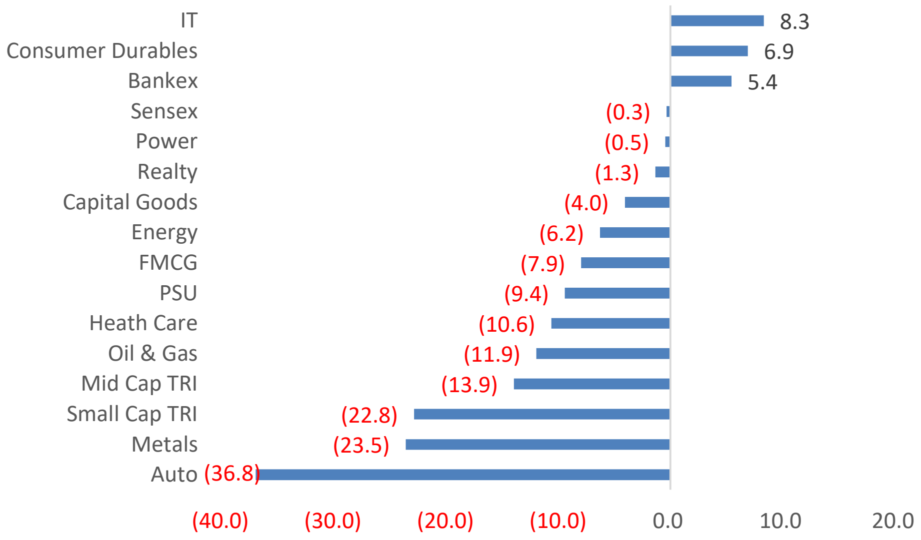
August 2019

TATA CAPITAL WEALTH

Equity Roundup - Movement in July

Index	Closing Value	1-Month Return (%)	1 Year Return (%)
U.S			
S&P 500	3013.18	1.31	6.90
Nasdaq	8175	2.11	6.56
Dow Jones	26860.6	0.98	5.54
Europe			
DAX	12189	-1.69	-4.81
FTSE 100	7587	2.17	-2.09
Asia/Pacific			
Nikkei	21522	1.15	-4.58
KOSPI	2025	-4.98	-11.79
Hang Seng	27778	-2.68	-2.82
Domestic			
Sensex	37481	-4.86	-0.33
Nifty	11118	-5.69	-2.10
BSE Mid cap TRI	16260	-7.56	-13.89
BSE Small cap TRI	14982	-10.60	-22.77
BSE 100 TRI	13390	-5.61	-2.29
BSE 200 TRI	5530	-5.67	-3.62
BSE 500 TRI	17061	-6.07	-5.28

Data as on 31 July 2019
TRI – Total Return Index



*S&P BSE Sectoral Indices movement between 30 June'19 to 31 July'19 in % terms

- Performance of 10 out of 13 sectoral indices ended in red in July 2019.
- Auto sector witnessed highest fall amongst all. It fell by 36.8% as prominent car making companies suffered drop in sales.
- IT sector was the highest gainer which rose by 8.3% in July 2019, followed by Consumer Durables which rose by 6.9%.

Equity Market Roundup - Key Takeaways

- **Factors which affected Indian Equity Markets:** The key benchmark indices ended the month of July deep in the red on the back of domestic and global factors. **Global cues** such as continued US – China **trade woes**, **geopolitical tension**, **strong US monthly job data** released earlier during the dashing hopes of an aggressive rate cut by US Fed. Among the **domestic factors** that took a tool on the market were – **weak set of corporate earnings**, **slow progress of the monsoon**, continued **disappointment in auto sales numbers** and **cut in IMF growth forecast** for India.
- **Unsatisfactory budget proposal** of tax on share buyback, additional surcharge on HNIs, increase in public share holding from 25% to 35% acted as dampeners for the market.
- Losses were capped by **strong flows by domestic institutional investors (DIIs),** however the **heavy outflow by foreign institutional investors (FIIs)** played a spoil sport.
- **Domestic data points: CPI continued its upward trajectory** to eight-month high of 3.18% in June 19 on the back of high food prices. Nonetheless, this is still below the RBI medium term target of 4.0%.
- **India's Index of Industrial Production (IIP) growth rose 3.1% YoY in May 2019** as against upwardly revised 4.3% in Apr 2019 (3.4% reported earlier) and a growth of 3.8% reported in the corresponding period last year.
- **Core sector** reported a staggering **50 month low at 0.2%** on the back of contraction in oil related sectors and cement production.
- **Global data points:** At the fag end of the month **US Fed cut rates by 25 bps**, this is the first in a decade. However the its commentary remained fairly Hawkish. Owing to the trade dispute with US, **China reported the slowest growth** in 27 years at 6.2% for Q2 2019.
- **Performance:** Nifty (-5.68%) and Sensex (-4.86%) witnessed the worst July since 2002. Higher blood bath was witnessed in the Mid & Small Cap segment with BSE Mid Cap sinking 7.87% and the BSE Small Cap diving 10.87%. Though the US markets closed the month on a strong note, the European and Asian peers ended the month on a mixed note.

Macro Indicators

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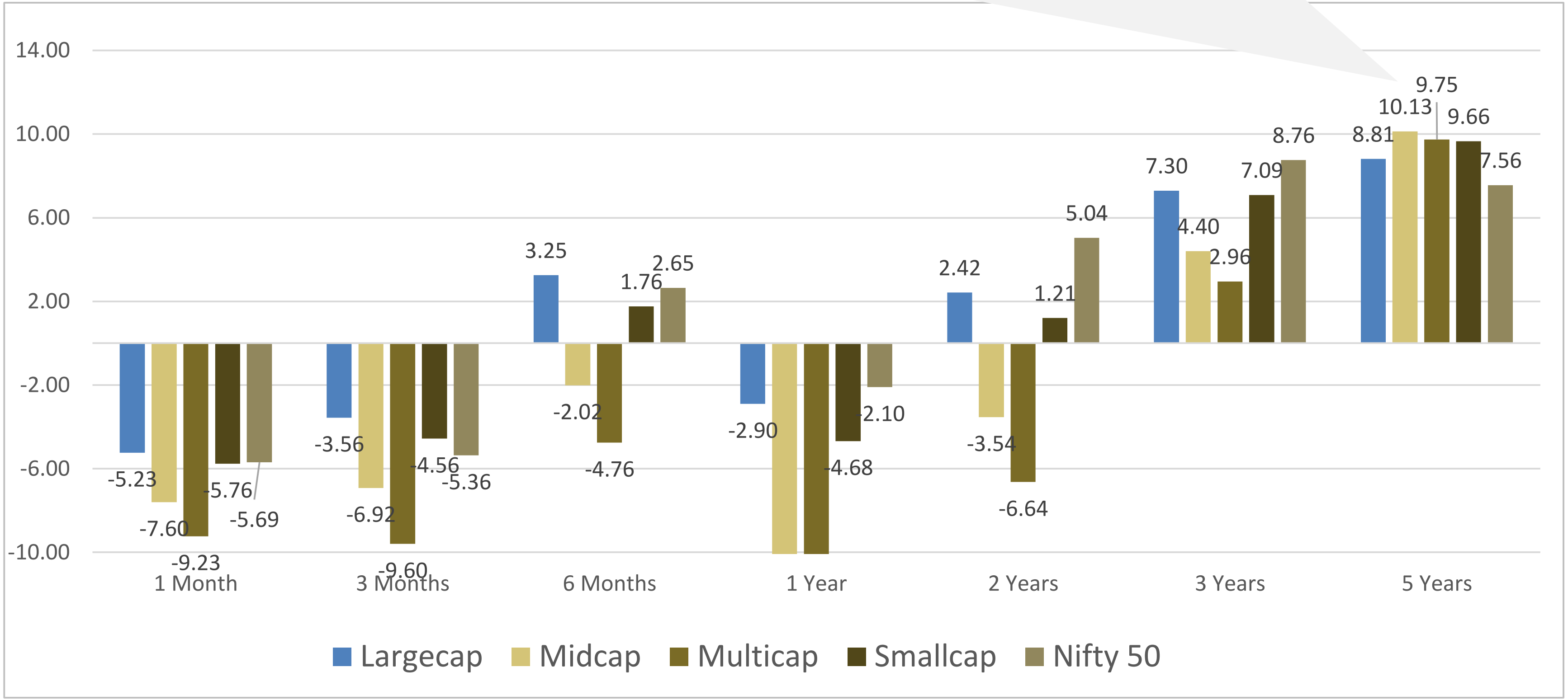
	Current	Quarter Ago	Year Ago
Consumer Price Index (CPI)	3.18% (Jun-19) ↑	2.86% (Mar-19)	4.92% (Jun-18)
Wholesale Price Index (WPI)	2.02% (Jun-19) ↓	3.18% (Mar-19)	5.68% (Jun-18)
Industrial Production (IIP)	3.10% (May-19) ↑	0.20% (Feb-19)	3.80% (May-18)
GDP	5.80% (Mar-19) ↓	6.60% (Dec-18)	8.10% (Mar-18)
Trade Deficit ($ bn)	15.28 (Jun-19) ↑	10.89 (Mar-19)	27.07 (Jun-18)
Commodity Market			
Brent Crude ($/barrel)	65.17 ↓	72.80	74.25
Gold ($/oz)	1437.80 ↑	1303.60	1270.10
Silver ($/oz)	16.41 ↑	15.07	16.01
Currency Market			
USD/INR	68.88 ↓	69.65	68.46
EURO/INR	76.29 ↓	78.11	80.04
GBP/INR	83.74 ↓	90.78	89.86
YEN/INR (per 100)	63.29 ↑	62.54	61.25
Equity Net Flows			
Mutual Funds & DIIs (Rs. Cr)	15804 (Jul-19) ↑	-4600 (Apr-19)	3995 (Jul-18)
FIIs (Rs. Cr)	-12419 (Jul-19) ↓	21193(Apr-19)	2264 (Jul-18)

↑↓ signifies positive movement over Q-o-Q ↓↑ signifies negative movement over Q-o-Q

Performance across Market Caps v/s Nifty

Although recent turmoil in equity market has resulted in negative returns in short term, funds across the market caps have outperformed Nifty 50 in longer time horizon of 5 years



Returns below one year absolute and more than one year CAGR. Data as on 31 July 2019; Source: ICRA MFI

Debt Markets - Review

Debt Market Roundup - Key Takeaways

- **Factors that affected the Bond Markets:** The bond markets rallied during the month of July as the **rupee remained range bound against the green back**, **inflation remained well within the RBI comfort zone**, RBI **policy stance becoming dovish** signaling room for further rate cut and the Bimal Jalan committee on RBI to transfer reserves to the government got an extension.
- The sentiments for debt market were further reinforced with the budget proposal of the **government considering to borrow from the overseas financial market** on the back of low sovereign government borrowings.
- **Liquidity** in the banking system continued to remain the **positive territory for the second consecutive month in July** due to return of currency to the banking system, open market operation (OM0) purchase actions, RBI foreign exchange market operation and drawdown of excess cash reserve ratio (CRR) balances by bank.
- **Non food credit growth** of scheduled commercial bank was reported at a **12.05%** for the fortnight ended 5th July 2019.
- **Macro Economic Overview:** India has been pushed to the **seventh place in the global GDP rankings** in 2018 with the UK and France forging ahead to the fifth and sixth spots, data compiled by the **World Bank** showed.
- The **International Monetary Fund (IMF) reduced** the annual growth prediction for India for the **current fiscal by 0.3% to 7.0%** for the current fiscal ended 31 Mar 2020 the back of lower domestic demand.
- On one side the **GST collection in July surpassed the Rs 1-lakh-crore mark** after a slump in the previous month buoyance the bond market; on the flip side the **Q1FY20 gross tax revenue reported a 10 year low growth** at 1.36% which dampened the market.
- **Performance of 10-year G-Sec Yield:** The 10-year benchmark G-Sec yield **closed at 6.37% in July 2019, down by 51 bps** from its previous close of 6.88% in June 2019.
- The RBI in August policy meeting unanimously voted for a 35 bps cut in repo rate to 5.40%. This is the fourth successive cut in the past 1 year. It **further downwardly revised the growth outlook for FY20 to 6.9%** from the earlier 7.0%.
- **Outlook:** Markets closely will track the evolving tension between US and China / Iran, how well the NBFCs and consumers would be able to reap benefit of easing lending norms announced by RBI in the recent policy meet and the government boost liquidity and at the same time meet the lowered fiscal slippage target.

Key Highlights of Second Bi-monthly Monetary Policy Statement, 2019-20

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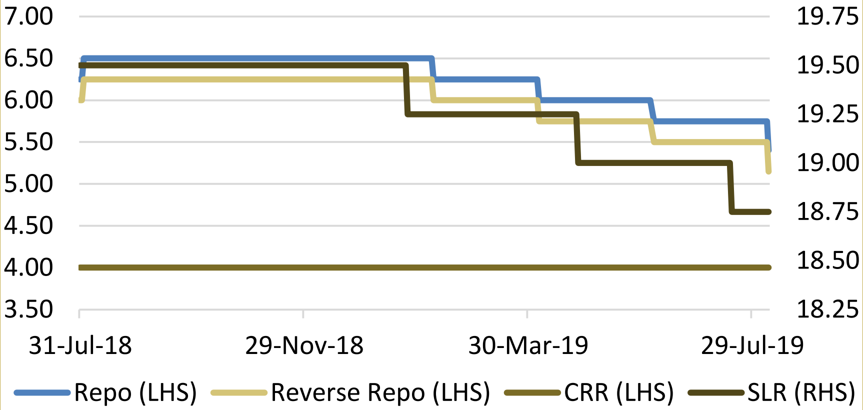
RBI's Stance → **Accommodative**

- The RBI cut repo rate in line with the market expectations for the fourth time consecutively and reduced by 35 basis points to 5.40%. This is the maximum number of consecutive rate cuts by MPC.
- All six members voted unanimously to reduce the policy repo rate and to maintain the accommodative stance of monetary policy.
- Statutory Liquidity Ratio (SLR) reduced to 18.75%.
- Factors which allowed room to retain accommodative stance were CPI inflation in June at 3.18% which remained below the central bank's medium-term target of 4% for almost a year and rate cut by US Federal Reserve for the first time since global financial crisis.



Inflation and Growth projections by the RBI:

- In the second bi-monthly monetary policy resolution of June 2019, CPI inflation was projected at 3.0-3.1 per cent for H1:2019-20 and 3.4-3.7 per cent for H2:2019-20, with risks broadly balanced. The actual headline inflation outcome for Q1:2019-20 at 3.1 per cent was in alignment with these projections.
- Real GDP growth for 2019-20 is revised downwards from 7.0 per cent in the June policy to 6.9 per cent – in the range of 5.8-6.6 per cent for H1:2019-20 and 7.3- 5 7.5 per cent for H2 – with risks somewhat tilted to the downside; GDP growth for Q1:2020-21 is projected at 7.4 per cent

Key Highlights of Second Bi-monthly Monetary Policy Statement, 2019-20

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Other Measures:

- The RBI has also cited, ‘Funding pressures on consumer facing NBFC’s’ as one of the key causes for slow transmission of rates and hence taken steps to improve the credit flow to such financial institutions.
  - RBI has **raised bank’s exposure limit to a single NBFC to 20% of Tier-I capital of the bank (from 15%)** in line with existing limit for entities in the other sectors.
  - **Funds issued to NBFC’s for priority sector on-lending** will be **classified as priority sector lending** in the books of the issuing bank.
- RBI has **reduced risk weight for consumer credit** (including personal loans but excluding credit card receivables) to 100% from 125% or higher.

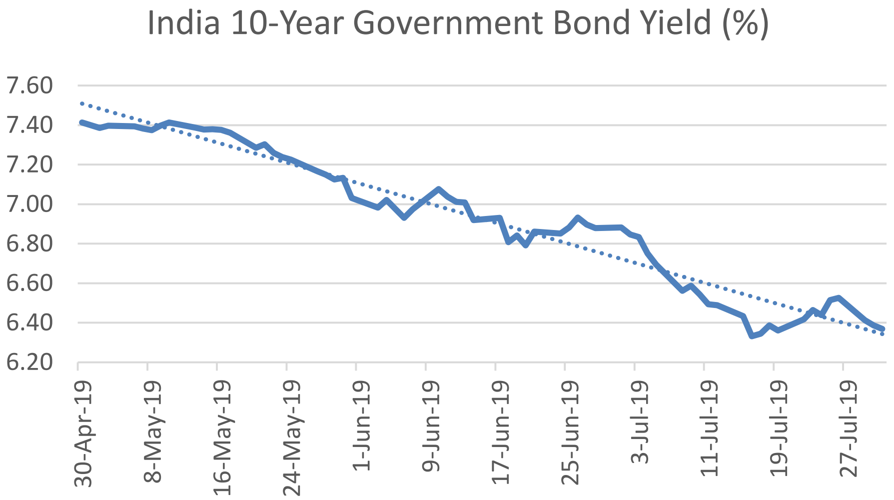
Market View of the Policy :

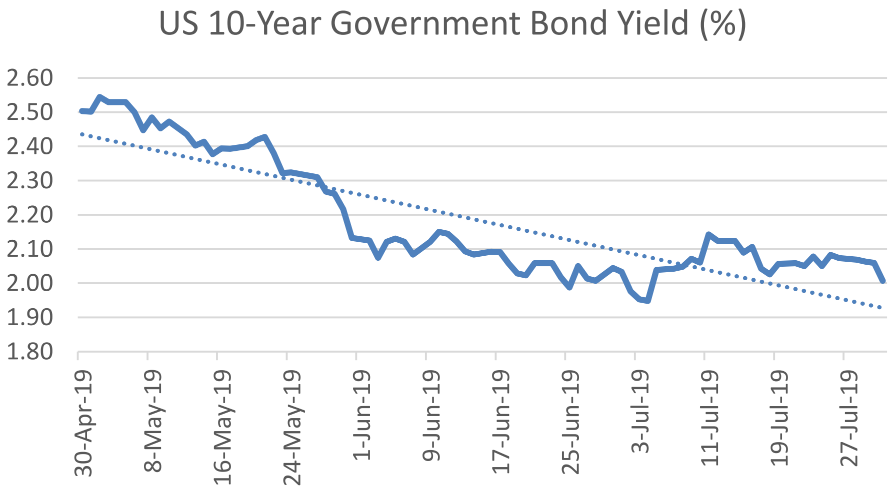
- Most of the market participants feel that with inflation forecast benign and growth projections revised downward by RBI there is further scope of rate cut in FY20. The market believes that there cut be **further easing of 25-50 bps in the current financial year**.
- The G-Sec yield are expected to remain range bound in the overall environment of ample banking liquidity, subdued inflation and recent global weakness and fall in oil prices. The money market yields should also remain stable.
- The accommodative stance, surplus liquidity and reduction in risk weights for consumer loans should **improve monetary transmission and support growth better by the second half of the fiscal year.**

Debt Roundup

	31 July'19	30 June'19	31 July'18	M-o-M Change
Interest Rates				
Repo rate	5.75%	5.75%	6.25%	0 bps
SLR	18.75%	19.00%	19.50%	-25 bps
CD Rates				
3 month	5.90%	6.35%	7.15%	-45 bps
6 month	6.35%	6.90%	7.50%	-55 bps
1 Year	6.85%	7.20%	8.05%	-35 bps
CP Rates				
3 month	6.25%	6.85%	7.80%	-60 bps
6 month	7.20%	7.75%	8.30%	-55 bps
1 Year	7.60%	7.85%	8.50%	-25 bps
T-Bill/G-sec				
91 Days	5.74%	5.98%	6.62%	-24 bps
364 Days	5.94%	6.14%	7.16%	-20 bps
7.26% GOI 2029 (10 Yr GOI) -New	6.37%	6.88%	-	-51 bps
7.17% GOI 2028 (10 Yr GOI) - Old	6.63%	7.01%	7.79%	-38 bps
Corporate Bonds (PSU)				
3 Year	7.00%	7.45%	8.38%	-45 bps
5 Year	7.12%	7.48%	8.57%	-36 bps
10 Year	7.48%	7.90%	8.52%	-42 bps
International Markets				
10 Year US Treasury Yield	2.06%	2.01%	2.95%	5 bps
3 Months LIBOR	2.26%	2.33%	2.34%	-7 bps
12 Months LIBOR	2.20%	2.18%	2.82%	2 bps

Yields Movement Across - India and US

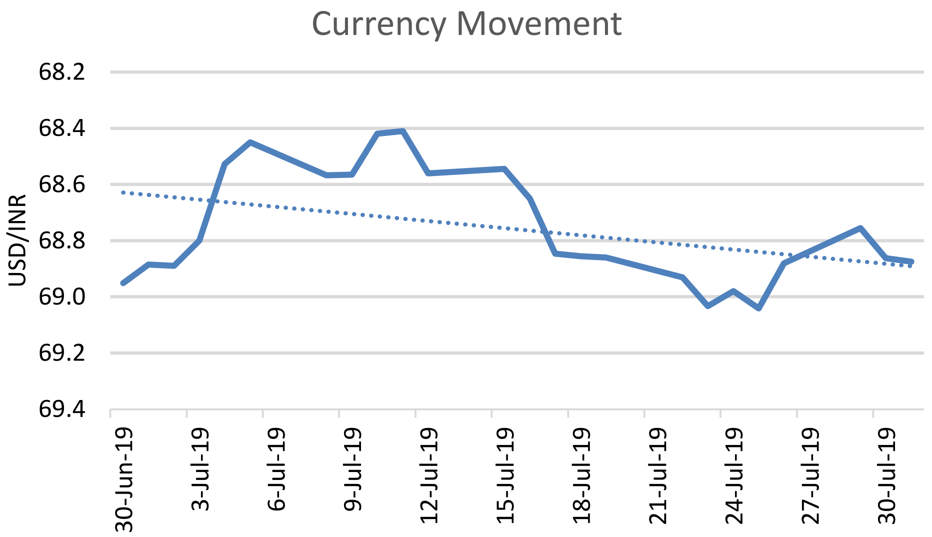


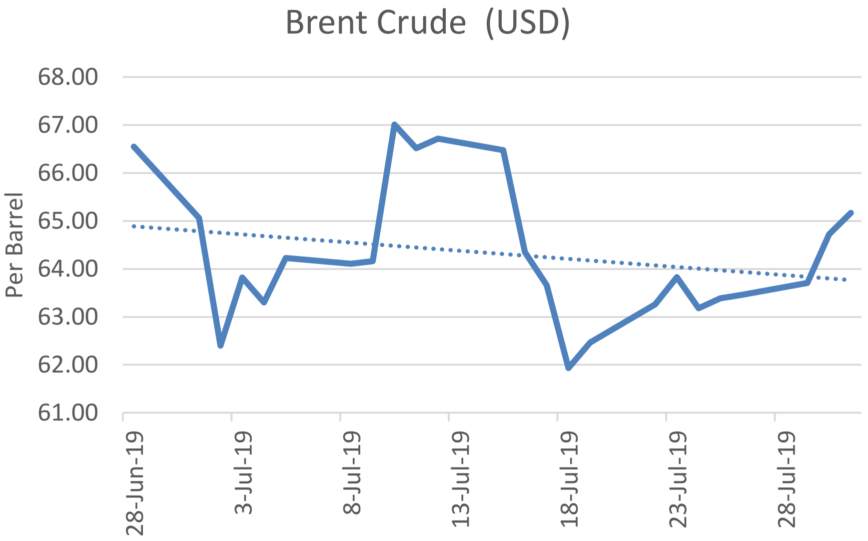


- **10-year India Government Bond Yield:** Sovereign bonds rallied in India, with the 10-year G-Sec yield falling to its lowest since 2017, after the government positively surprised markets by pruning the budget deficit target for this fiscal year from its earlier estimates during the interim budget, and shifting a part of its market borrowing overseas. The month witnessed a continued dip in the yield by 51 bps from 6.88% on 30 Jun 19 to 6.37% on 31 Jul 19.

- **U.S. Treasury Yield:** U.S. Treasury yields fell 4 bps to 2.01% on 31 July 2019 from 2.05% on 30 June 2019 after it fell below the 2.0% mark to 1.95% in the beginning of the month on expectation of Central Banks across the world to respond to slowing global economy with monetary stimulus. The difference between 3-month and 10-year Treasury yields — which has turned negative, or “inverted”, before every US recession of the last 50 years — briefly nudged back into positive territory during the month.

INR and Brent Crude Performance





- **INR Performance:** In the foreign exchange market, the rupee gained momentum against the US dollar to close the month at Rs. 68.88 per dollar on July 31 as against Rs. 68.95 per dollar on Jun 30. Selling by FPI post the budget proposal to levy additional surcharge on ultra HNI played as spoil sport, while the revised downward budget deficit number help gaining impetus.

- **Brent Crude:** Volatility in Brent crude oil prices was seen in the month of July mainly due to US Iran dispute. Iran's capture of a British oil tanker sparked worries about supply disruptions in the Strait of Hormuz, through which about a fifth of the world's oil flows. While on one side the total US oil demand in May fell by 98,000 bpd to 20.26 million bpd led to the fall, the more than expected dip in the US inventory by 11 million barrels to 449 million barrels helped the crude gain. The escalating global trade tension throughout the first half of the year had significantly impacted Brent crude oil prices.

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