

WEALTHWHISPER



Monthly Review  
December 2017

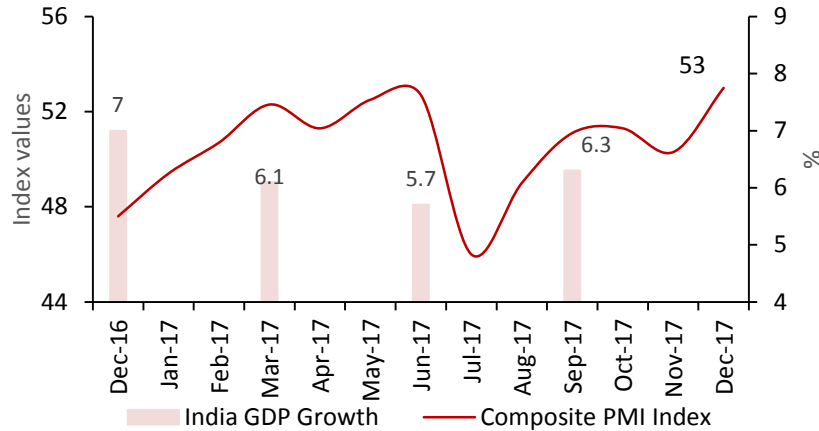
# Key Domestic Market Highlights

- ✓ Indian equity markets ended the last month of 2017 on a positive note with sentiment largely boosted by the outcome of the state assembly elections in Gujarat and Himachal Pradesh. The victory of the ruling party instilled confidence among investors on the continuity of the existing reforms aimed to boost economy. However, gains were largely restricted by concerns over government's additional borrowing programme.
- ✓ The lower than expected revenue prompted government to go for additional borrowing of Rs. 50,000 crore from the market. The borrowing is over and above the budget estimate of Rs. 5.80 lakh crore for FY18, which may lead to the government missing its fiscal deficit target of 3.2% of the Gross Domestic Product for the first time in four years.
- ✓ The Monetary Policy Committee (MPC) kept its policy rate unchanged at 6%, as was widely expected by the market, even though it projected domestic inflationary pressures to go up in the second half of FY18. RBI said inflation is estimated in the range 4.3-4.7% in Q3 and Q4 of FY18, higher than the projection made in the Oct 2017 policy.
- ✓ Buying interest was seen in metal stocks amid expectations of increased overseas demand of steel. Realty sector too rose amid expectation of improvement in housing sales. Auto sector went up as data from Society of Indian Automobile Manufacturers showed that sales of domestic passenger vehicles grew in Nov 2017 from the same month of the previous year.
- ✓ Bond yields surged for the fifth consecutive month after the government's announcement of raising its fiscal year borrowing amount raised concerns among investors over fiscal prudence. Acceleration in retail inflation in Nov 2017 also dampened sentiment. Further losses were restricted as market participants resorted to bargain hunting following the recent decline in bond prices.

# Domestic Economic Indicators

India's composite PMI in Dec 2017 rose to its highest level since Oct 2016 as both manufacturing and services sectors grew at a fast pace

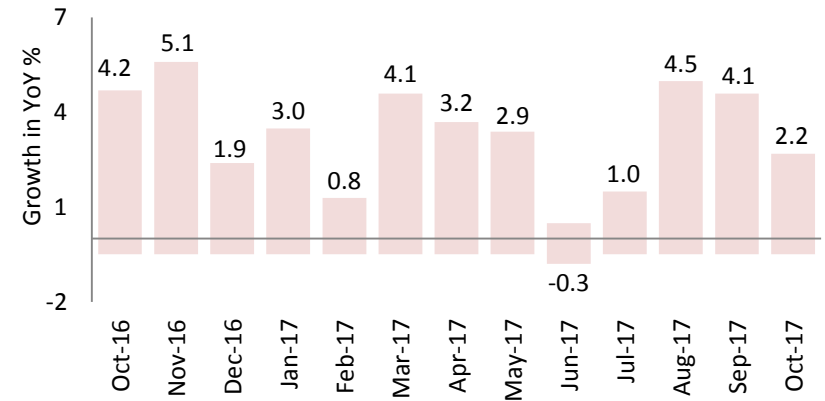
### India Composite PMI & GDP Growth



Source: Thomson Reuters Eikon; PMI >50 denotes expansion and <50 is contraction

IIP slowed to 2.2% in Oct 2017 from an upwardly revised 4.1% in Sep 2017. The manufacturing sector also slowed to 2.5% in Oct 2017

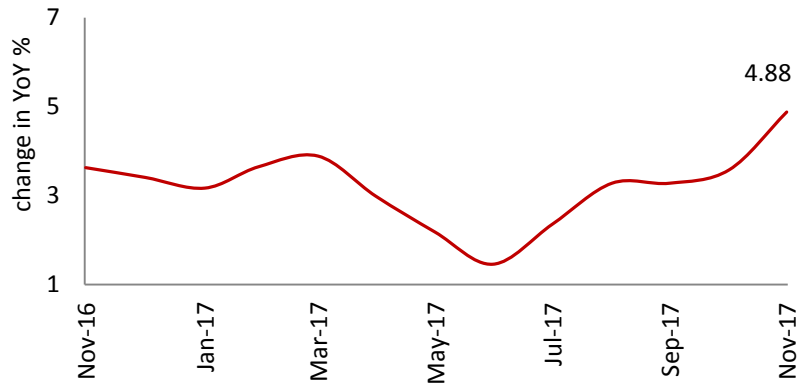
### Index of Industrial production (IIP)



Source: Thomson Reuters Eikon

Retail inflation surged to a 15-month high in Nov 2017 and surpassed the Central Bank's medium-term target of 4%

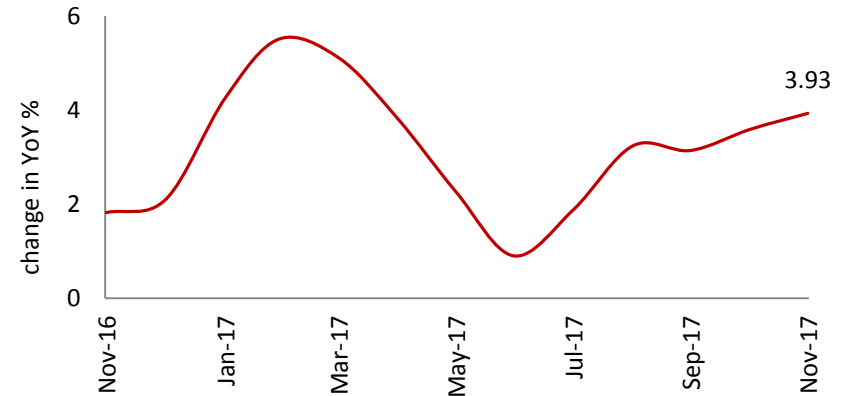
### Consumer Price Index



Source: Thomson Reuters Eikon

Wholesale inflation rose to an 8-month high in Nov 2017. The growth of food index also accelerated to 4.10% in Nov 2017

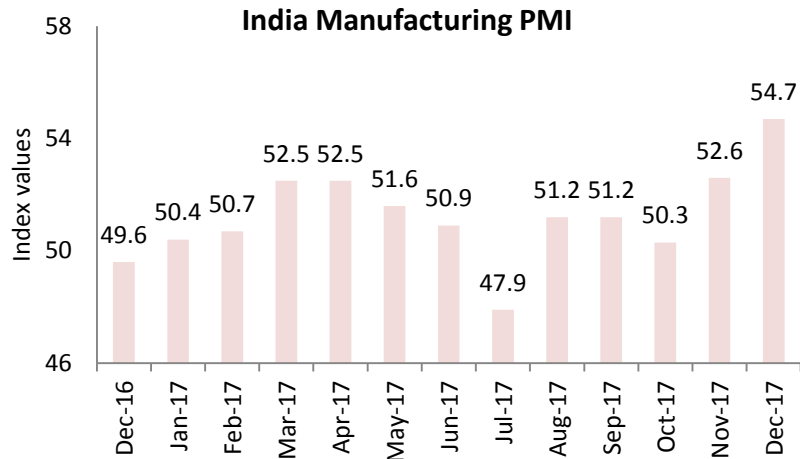
### Wholesale Price Index



Source: Thomson Reuters Eikon

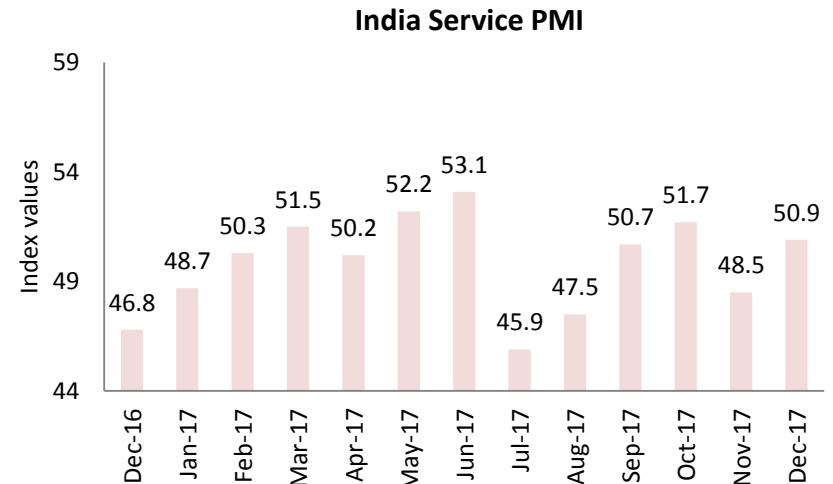
# Domestic Economic Indicators

The Nikkei India Manufacturing PMI witnessed fifth consecutive month of expansion on the back of sharpest increase in output and new orders since Dec 2012 and Oct 2016, respectively



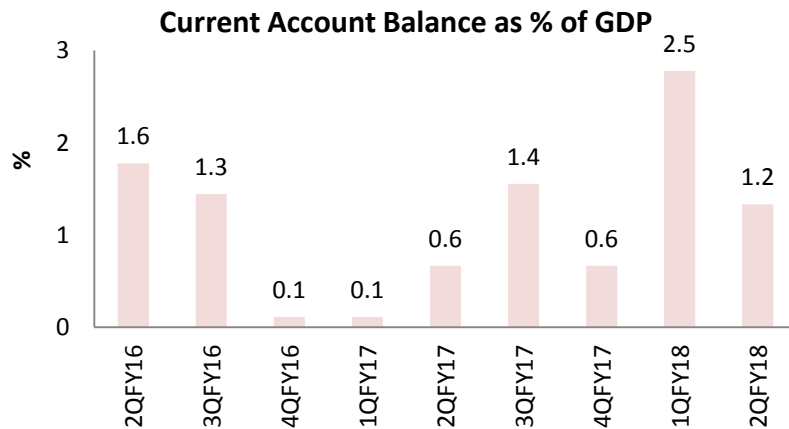
Source: Thomson Reuters Eikon; PMI >50 denotes expansion and <50 is contraction

The Nikkei India Services PMI rose to 50.9 in Dec 2017 from 48.5 in Nov 2017 on the back of stable new orders and improved output requirements



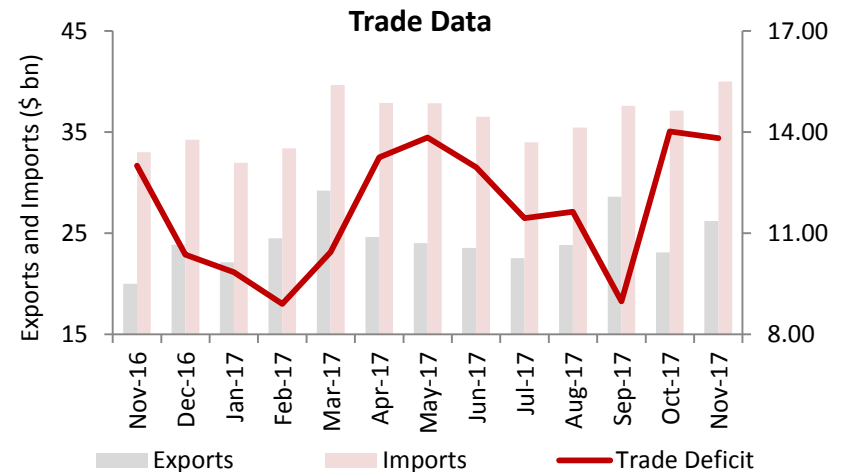
Source: Thomson Reuters Eikon; PMI >50 denotes expansion and <50 is contraction

CAD narrowed to \$7.2 billion (1.2% of GDP) in Q2 of FY18 from \$15.0 billion (2.5% of GDP) in the preceding quarter



Source: Thomson Reuters Rikon

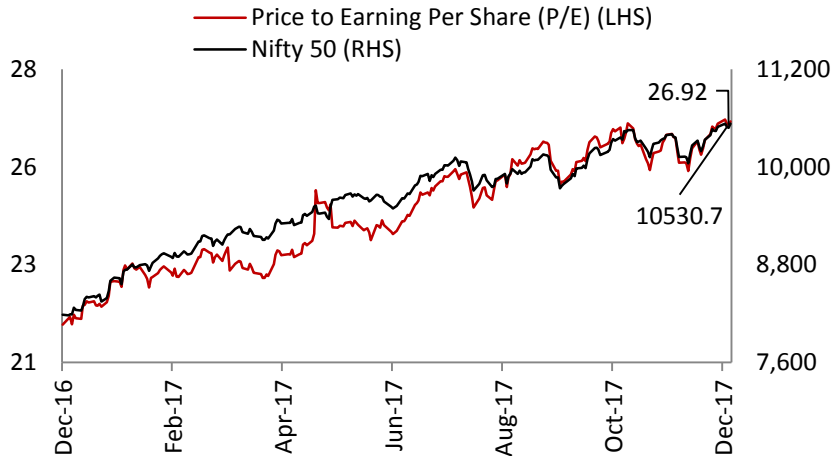
India's trade deficit expanded marginally to \$13.83 billion in Nov 2017 from \$13.40 billion in the same period of the previous year



Source: Thomson Reuters Eikon

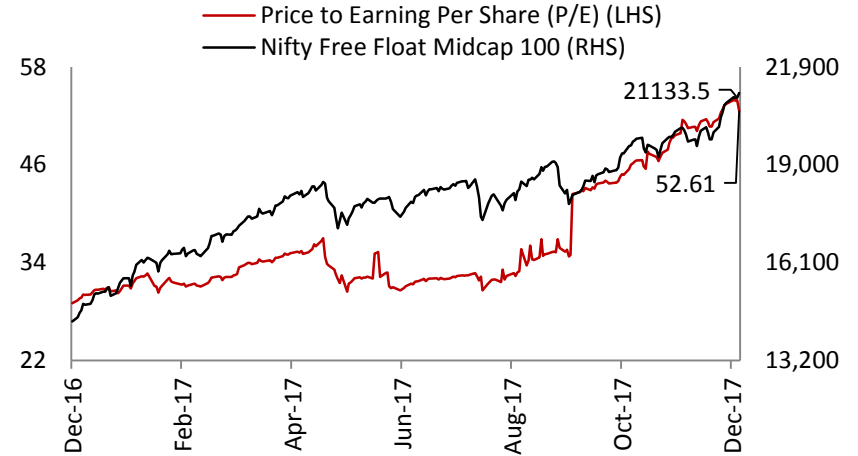
# Domestic Equity Market

Key benchmark indices S&P BSE Sensex and Nifty 50 rose 2.74% and 2.97% to close at 34,056.83 and 10,530.70, respectively



Source: NSE

Both Nifty Free Float Midcap 100 and Nifty Free Float Smallcap 100 rose 6.22% and 4.37%, respectively

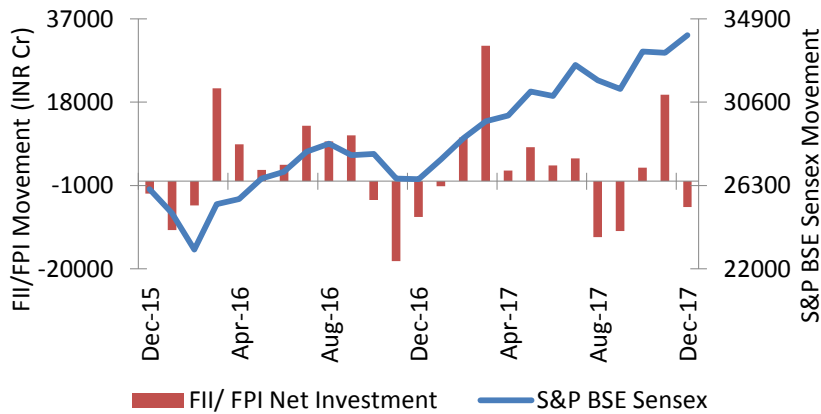


Source: NSE

Foreign portfolio investors were net sellers of domestic stocks worth Rs. 5,882.68 crore in Dec as against net purchase of Rs. 19,727.65 crore recorded in the previous month

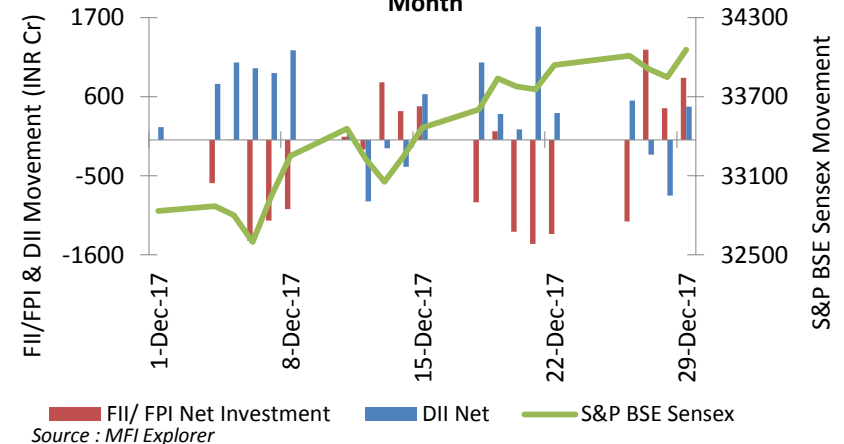
Domestic mutual funds remained net buyers in the equity segment to the tune of Rs. 8333.30 crore in Dec

FII/FPI Investment and S&P BSE Sensex - Last 24 Months



Source : MFI Explorer

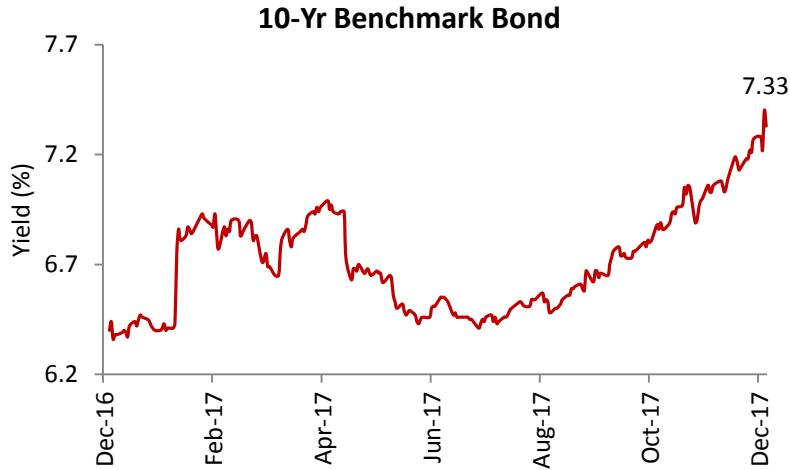
DII, FII/FPI Investment and S&P BSE Sensex - During the Month



Source : MFI Explorer

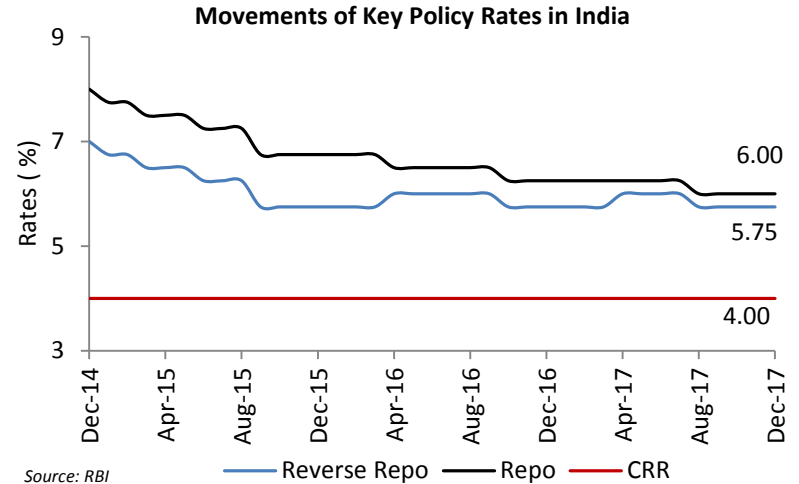
# Domestic Debt Market

Yield on the 10-year benchmark bond surged 27 bps to close at 7.33%. During the month, bond yields moved within a wide range of 7.01% to 7.41%



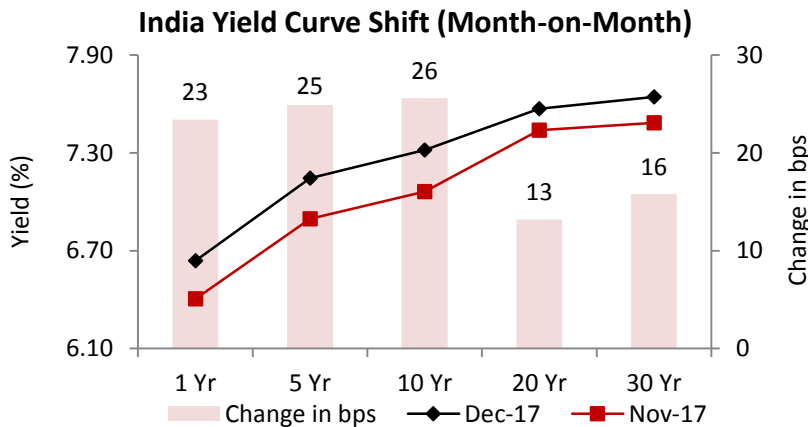
Source: Thomson Reuters Eikon

Monetary Policy Committee in its fifth bi-monthly policy review kept key policy repo rate unchanged while retaining its neutral stance



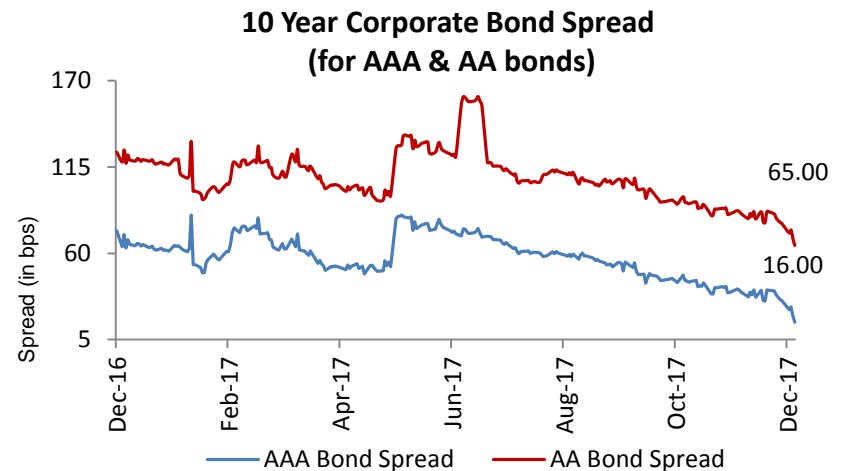
Source: RBI

Yield on gilt securities increased across maturities in the range of 14 to 32 bps. The maximum increase was witnessed on the 4-year paper and the minimum on the 19-year paper



Source: Thomson Reuters Eikon

Yield on corporate bonds increased across maturities in the range of 9 bps to 31 bps. The maximum increase was witnessed on 1- and 3-year papers and the minimum on 7-year paper



Source: Thomson Reuters Eikon

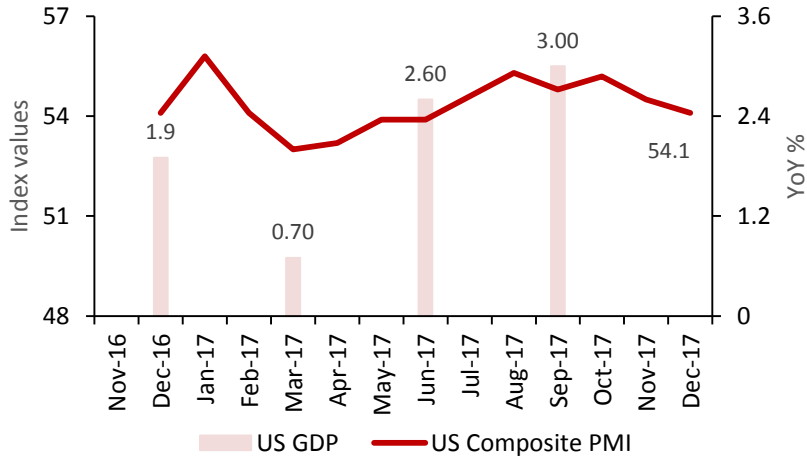
# Global Market Highlights

- ✓ U.S. markets reported modest gains, the triggers being the U.S. Federal Reserve's latest policy meeting and approval of U.S. tax reform bill by Republican lawmakers. The U.S. Fed decided to raise key interest rates, as was widely expected.
- ✓ Investors took positive cues from the outlook on rate hikes in Fed's accompanying statement as well as the outgoing Fed chief's press conference. The Fed chief indicated that the central bank is not likely to be more aggressive in 2018. Meanwhile, the U.S. Republican Tax Bill is expected to bring about widespread changes to the U.S. tax code on both the business and individual sides.
- ✓ European markets remained under pressure barring U.K. markets, which registered a MoM gain of 4.93% in Dec 2017. Investors took positive cues from rise in euro zone's consumer price inflation data for Nov 2017 and improved U.K. GDP data for the third quarter of 2017.
- ✓ However, markets came under selling pressure because of renewed political turmoil in Spain following snap election in Catalonia. Although the pro-independence parties won an absolute majority in the region's parliament, challenges remain for them to form a government.
- ✓ Asian markets witnessed a mixed trend as the positive impact of improved services sector data from China and Japan coupled with upbeat Chinese trade data in Nov 2017 was largely overshadowed by concerns over foreign fund outflows after the U.S. Federal Reserve decided to raise key interest rate in its latest policy meeting.
- ✓ Nonetheless, buying interest found some support after the World Bank raised its forecast for China's growth in 2017 on the back of rise in household incomes and a recovery in global trade and on expectations that Chinese market would maintain economic growth in the next year.

# Global Economic Indicators

U.S. Services PMI fell to its lowest level since May 2017 due to slower rise in new business received

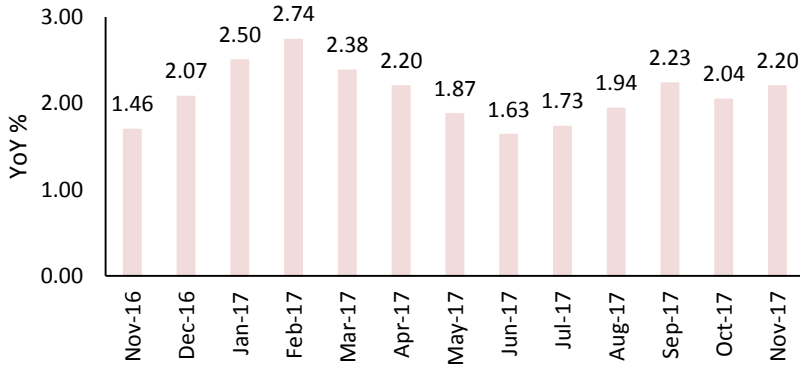
### U.S. Composite PMI & GDP Growth



Source: Thomson Reuters Eikon, fxstreet; PMI > 50 denotes expansion and < 50 is contraction

U.S. consumer prices accelerated in Nov 2017 due to rebound in gasoline prices that rose 7.3%

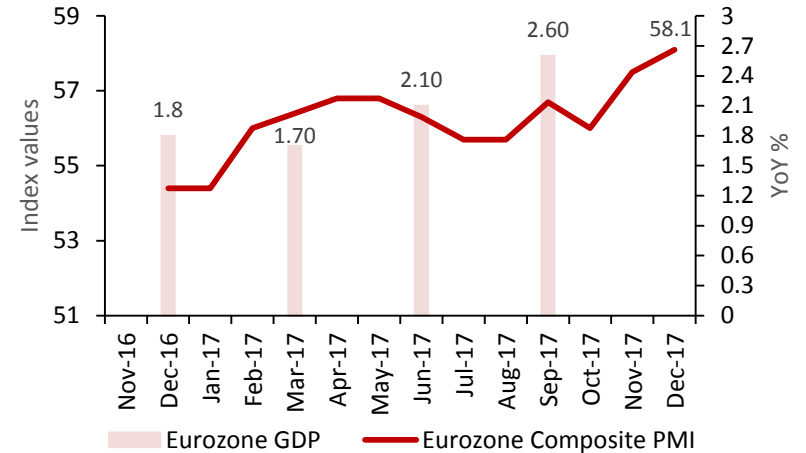
### U.S. Inflation



Source: Thomson Reuters Eikon

Eurozone PMI Composite Output Index rose to its highest level since Feb 2011 due to near-record rise in manufacturing and the steepest increase in services sector activity in over six-and-a-half years

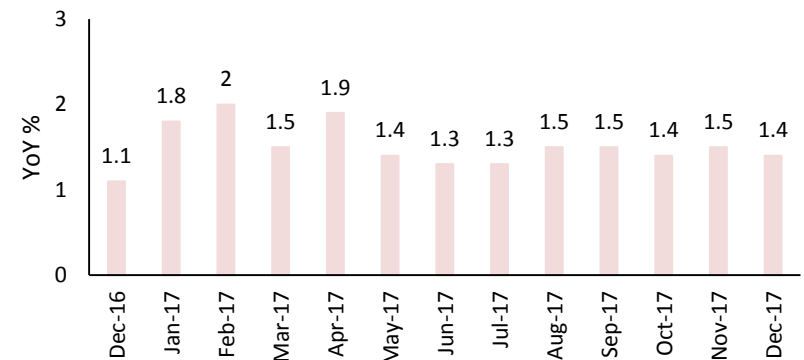
### Euro zone Composite PMI & GDP Growth



Source: Thomson Reuters Eikon, fxstreet; PMI > 50 denotes expansion and < 50 is contraction

Eurozone inflation slowed in Dec due to volatile energy, food, alcohol and tobacco prices with inflation in services remaining steady and industrial goods picking up slightly

### Eurozone Inflation



Source: Thomson Reuters Eikon



# Global Economic Indicators

China manufacturing PMI rose in Dec 2017 to its highest level in four months due to rise in output

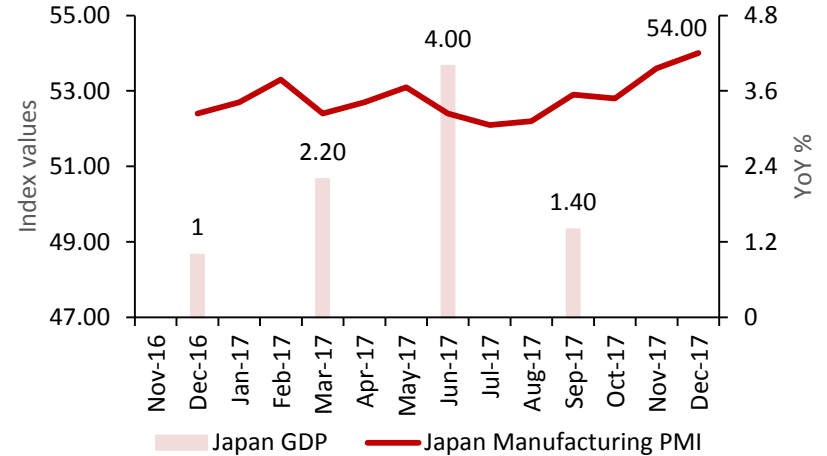
### China Manufacturing PMI & GDP Growth



Source: Reuters, fxtstreet; PMI > 50 denotes expansion and < 50 is contraction

Japan manufacturing PMI rose in Dec 2017 due to increase in new orders and output price inflation accelerating to 41-month high

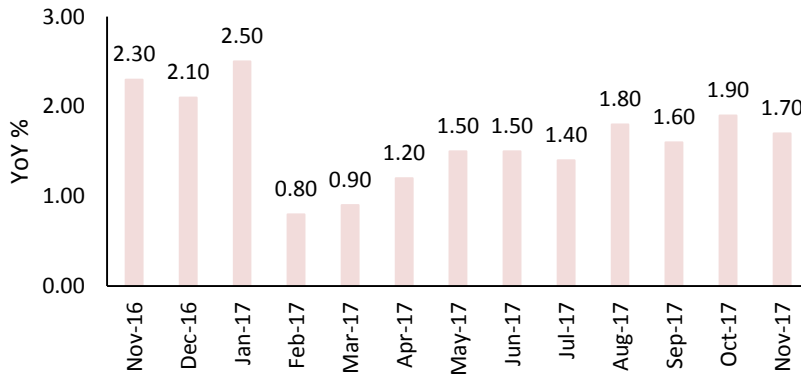
### Japan Manufacturing PMI & GDP Growth



Source: Reuters, fxtstreet; PMI > 50 denotes expansion and < 50 is contraction

China's consumer inflation slowed to 1.7% in Nov compared with the previous month driven by faster fall in food prices

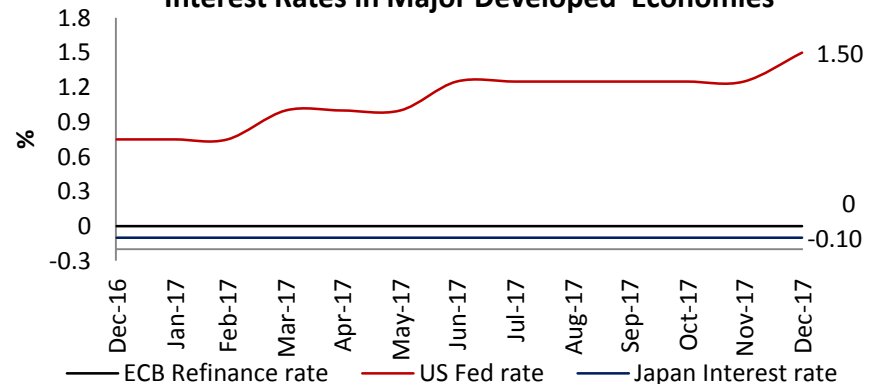
### China Inflation



Source: Reuters

U.S. raised its interest rates by 25 bps to 1.50% in Dec 2017 while Europe and Japan rates remained unchanged

### Interest Rates in Major Developed Economies

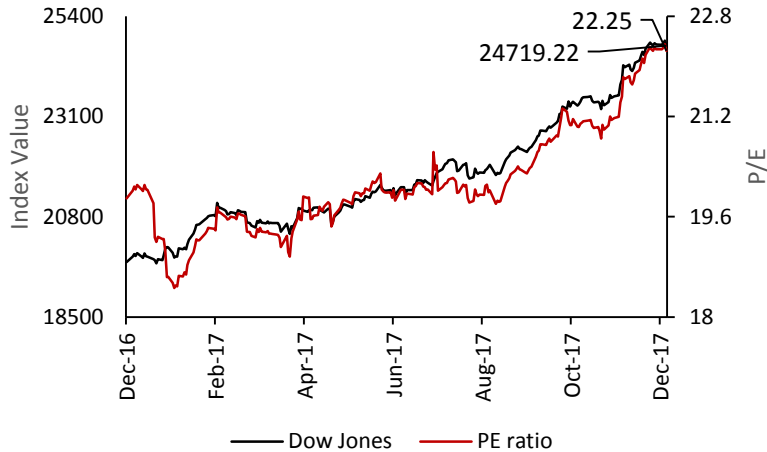


Source: Reuters

# Global Equity Markets

U.S. markets reported modest gains on the back of U.S. Fed's latest policy meeting and approval of U.S. tax reform bill

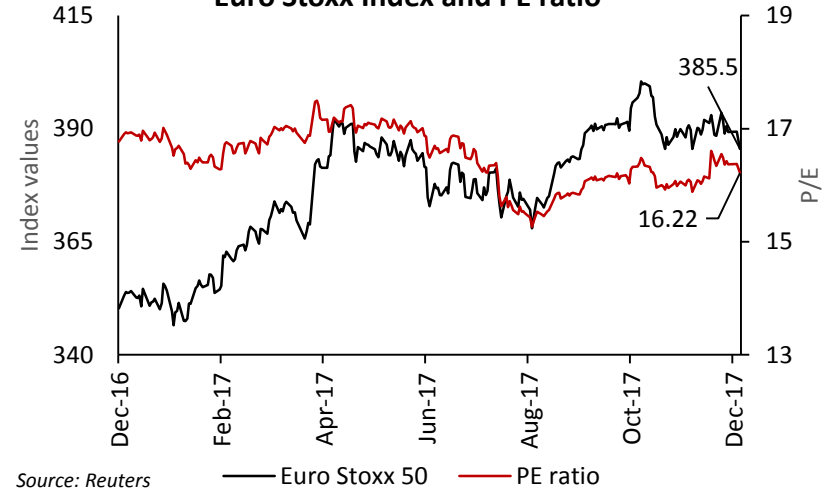
**U.S. Dow Jones Index and PE ratio**



Source: Reuters

European markets remained under pressure because of renewed political turmoil in Spain, barring U.K. market which gained.

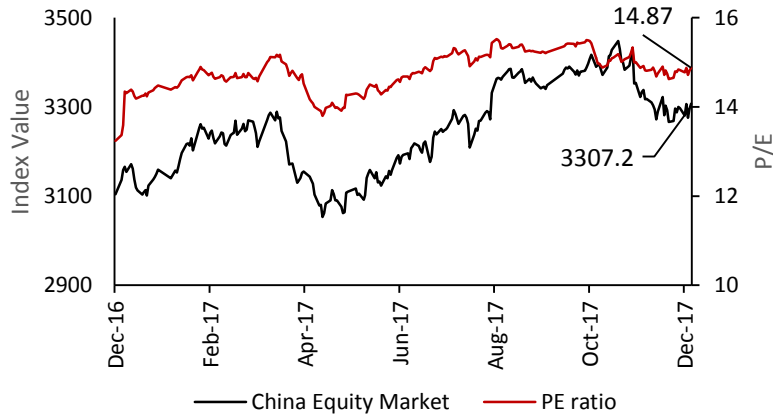
**Euro Stoxx Index and PE ratio**



Source: Reuters

World Bank raised its forecast for China's growth in 2017 on rise in household incomes and a recovery in global trade

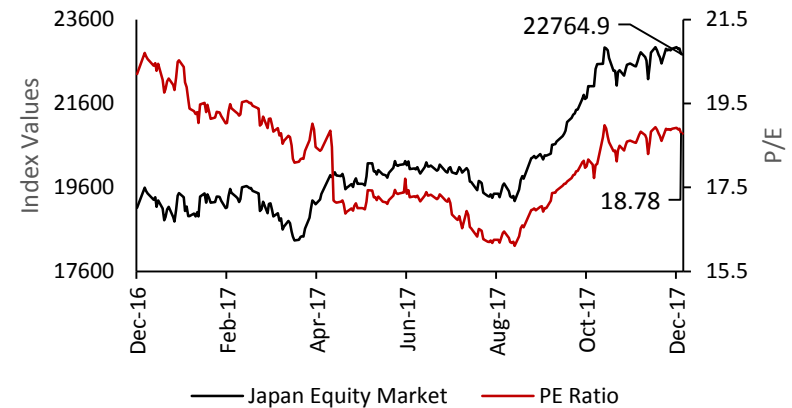
**China Shanghai Index and PE ratio**



Source: Thomson Reuters Reuters

Upward revision of Japanese GDP data for the Jul-Sep quarter and faster than expected rise in export data in Japan in Nov helped bourses

**Japan Nikkei Index and PE ratio**

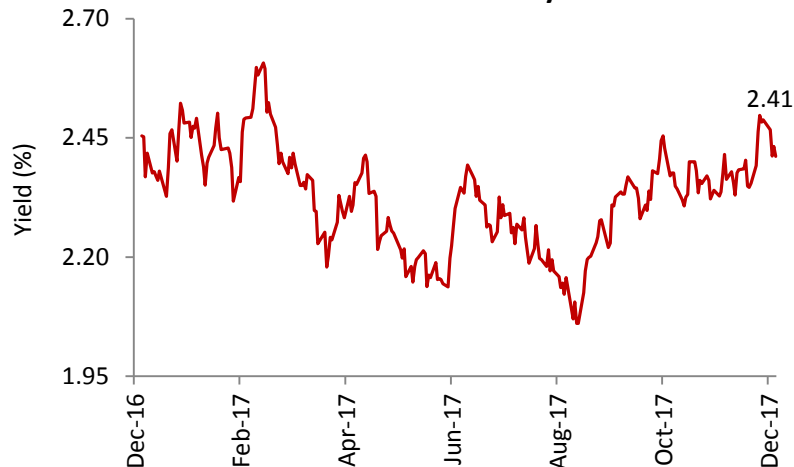


Source: Reuters

# Global Debt

Yield on the 10-year U.S. Treasury bond fell 1 bps during the month to close at 2.41% compared with the previous month's close of 2.42%

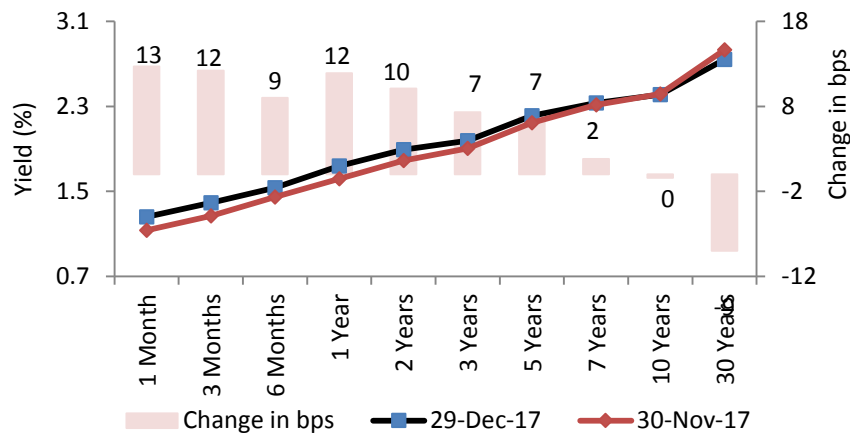
### U.S. 10 Year Treasury Yield



Source: Thomson Reuters Eikon

U.S. Treasury prices rose as a tamed inflation lessened the chances of the U.S. Fed raising interest rates at a faster pace in 2018

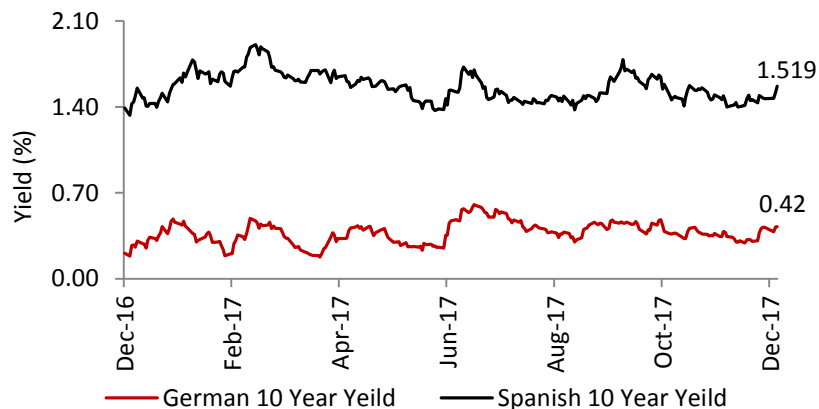
### U.S. Treasury Yield Curve Shift (Month-on-Month)



Source: Thomson Reuters Eikon

Spanish bond yields rose in anticipation of a political crisis that may occur in the eurozone area during Mar 2018 elections

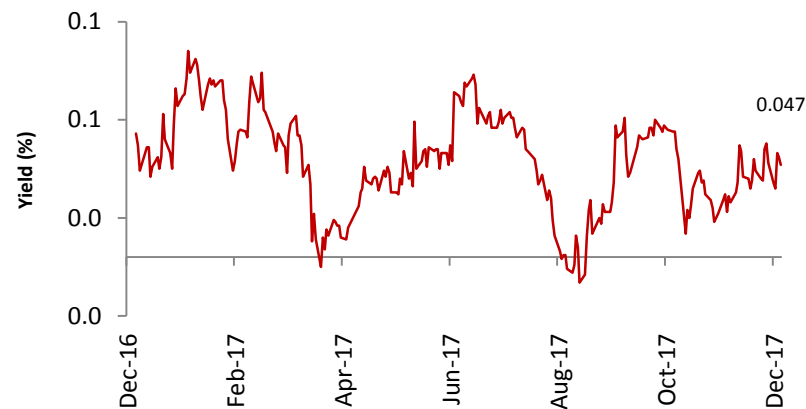
### German & Spanish 10 Yr Treasury Yield



Source: Thomson Reuters Eikon

Japanese 10-year yield rose from 0.031% in Nov 2017 to 0.047% in Dec 2017

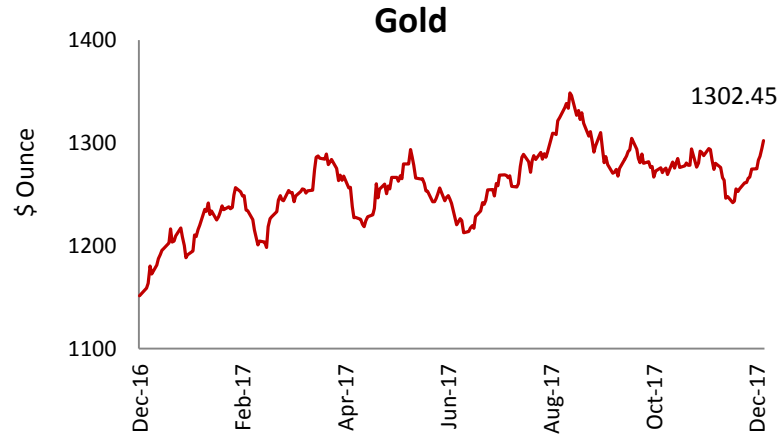
### Japan 10 Yr Benchmark Yield



Source: Thomson Reuters Eikon

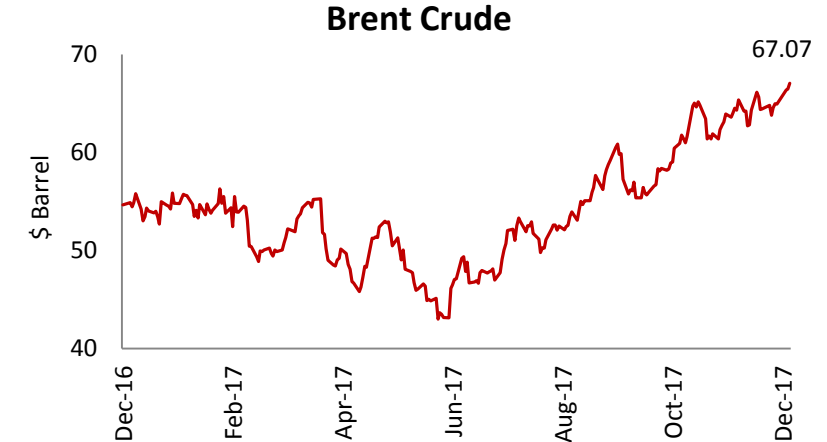
# Global Commodity Market

The precious metal got support following ongoing geo-political tensions and impact of U.S. tax reform bill on monetary policy and interest rates



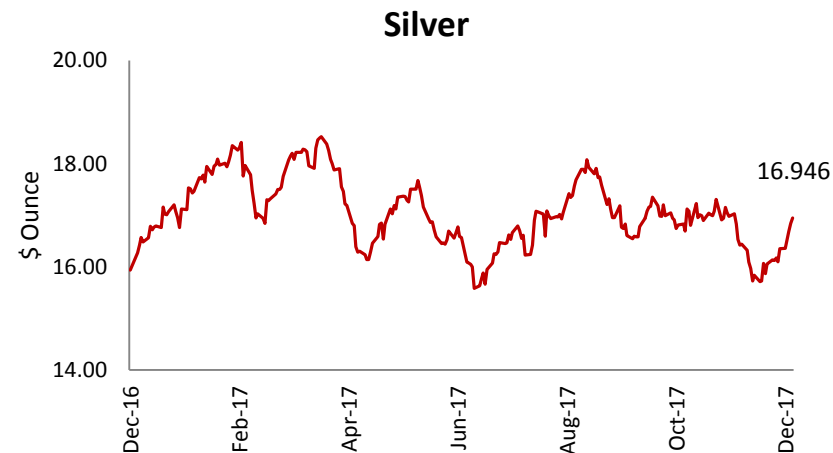
Source: Thomson Reuters Eikon

Crude prices gained due to supply disruption in Libya and the North Sea. Additionally, strong Chinese trade data and strong import quotas for 2018 buoyed sentiment for liquid gold



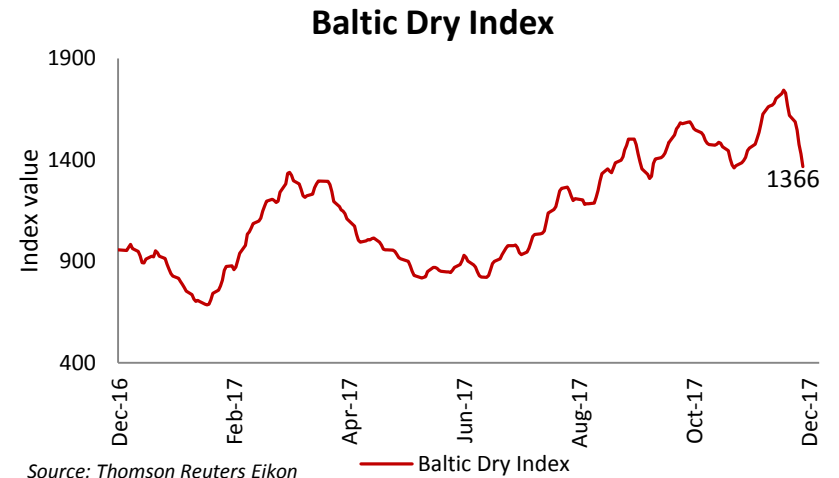
Source: Thomson Reuters Eikon

Silver price benefitted from the safe-haven appeal seen amid on-going geo political tension



Source: Thomson Reuters Eikon

The Baltic Dry Index moved down 13.43% MoM in Dec (data available till Dec 22) owing to lower capesize and panamax activities. Weaker than expected Chinese industrial production data also weighed on sentiment



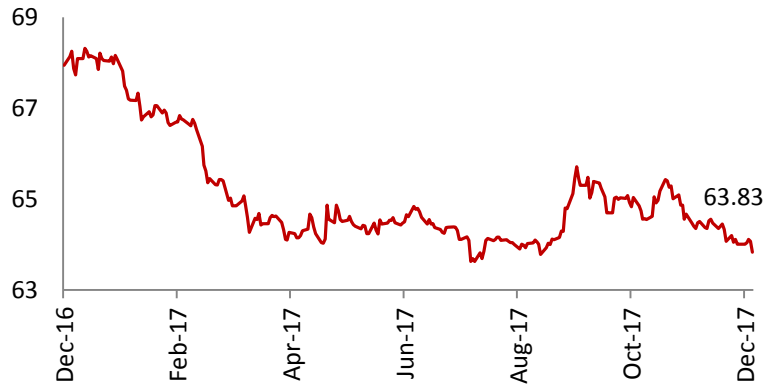
Source: Thomson Reuters Eikon

— Baltic Dry Index

# Global Currency Market

The rupee rose against the greenback following gains in the domestic equity market

### USD/INR



Source: Thomson Reuters Eikon

Pound remained almost steady against the U.S. dollar after a range-bound movement

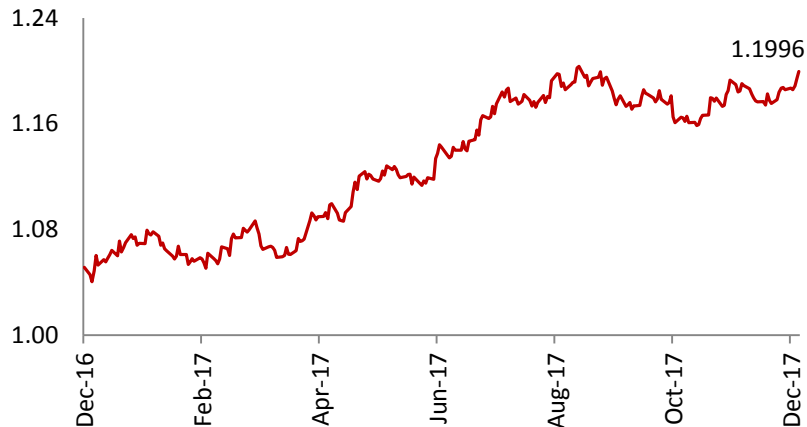
### GBP/USD



Source: Thomson Reuters Eikon

The euro rose against the greenback on growing possibility of gradual rate hikes by the U.S. Fed

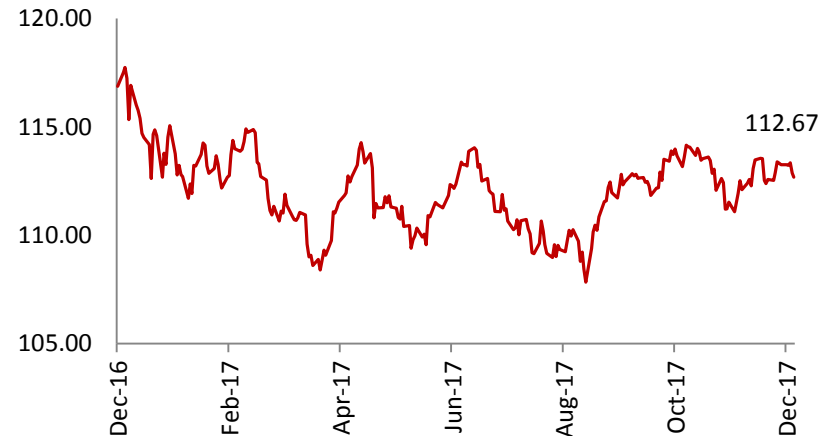
### EUR/USD



Source: Thomson Reuters Eikon

Yen weakened slightly as investors were optimistic about lawmakers' progress on U.S. tax reform bill

### USD/YEN



Source: Thomson Reuters Eikon

# Mutual Fund News

- ✓ As per data from the Association of Mutual Funds in India (AMFI), the Assets Under Management (AUM) of mutual fund industry fell to Rs. 21.38 lakh crore in Dec 2017 from Rs. 22.79 lakh crore in Nov 2017. Overall, outflow in mutual fund schemes stood at Rs. 1,64,096 crore in Dec compared with an inflow of Rs. 1,26,172 crore in the preceding month. Liquid funds saw maximum outflow of Rs. 1,27,597 crore whereas equity and Equity-Linked Saving Scheme (ELSS) saw an infusion of Rs. 16,087 crore. Meanwhile, income funds saw net outflow of Rs. 60,151 crore during the period.
- ✓ The Securities and Exchange Board of India (SEBI) has issued a circular on benchmarking mutual fund schemes' performance to Total Return Index. With an objective to enable investors to compare the performance of a scheme vis-à-vis an appropriate benchmark, it has been decided that selection of a benchmark for the scheme of a mutual fund shall be in alignment with the investment objective, asset allocation pattern and investment strategy of the scheme.
- ✓ SEBI has partially modified its circular on categorization and rationalization of mutual fund schemes, based on the representation received from AMFI. The first modification is the addition of the fourth clause, which states that AMFI will have to take average full market capitalization of the previous six month of the stocks. The new circular also clarifies that Macaulay duration shall be at portfolio level.
- ✓ According to media reports, the Union Minister of Finance and Corporate Affairs met representatives from banks and financial institutions in the pre-budget consultation meeting held in Delhi. The industry body has requested the Ministry of Finance to introduce mutual fund linked retirement plans under Section 80 CCD. AMFI believes that long term product like mutual fund retirement plans with tax incentive can play a significant role in channelizing household savings to capital markets. Secondly, AMFI has asked the government to consider extending the tax benefits provided under 80CCD of the Income Tax Act (for eg. National Pension Scheme) to mutual fund retirement plans.

# Real Estate and Private Equity News

- ✓ The Ministry of Housing and Urban Affairs approved the construction of over 5.4 lakh additional affordable houses for urban poor under the Pradhan Mantri Awas Yojana (Urban). The construction of houses would cost nearly Rs. 31,003 crore while financial assistance from the centre would be around Rs. 8,107 crore.
- ✓ K. Raheja Corp, a commercial property developing company, plans to invest roughly Rs. 1,200 crore to construct around 3 million square feet of commercial space in Chennai, in an effort to expand business in the southern part of the country, according to internal sources. The company is expanding its commercial real estate portfolio with an aim to get listed under the Real Estate Investment Trust (REIT) during 2018.
- ✓ Piramal Finance Ltd, the non-banking financial arm of Piramal Enterprises Ltd (PEL), is planning to invest in the hospitality sector for the first time and has started talking to a few hotel companies, according to internal sources. The Ajay Piramal group firm primarily deals in funding residential and commercial real estate projects and aims to diversify its portfolio venturing into the hospitality sector. Piramal Finance plans to take a minority equity stake or offer structured debt to hotel companies and owners.
- ✓ Non-banking financial company Altico Capital India Ltd has invested Rs. 430 crore in two residential projects that are being developed by Noida-based Supertech Ltd in the National Capital Region. The bulk of the funds would be used to finance Supertech's two ongoing projects while a part of it would be utilized for debt refinancing. This will be Altico's first investment with the group.
- ✓ Prestige Group is looking to acquire 66.66% stake from private equity partner Red Fort Capital and land owners in group company Prestige Projects Pvt. Ltd for Rs. 324 crore. The group already owns 33.34% in Prestige Projects, which has a 180-acre land plot near Sarjapur Road, Bengaluru.

Source: Livemint

Thank You



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