

WEALTHWHISPER



Monthly Review  
December 2018

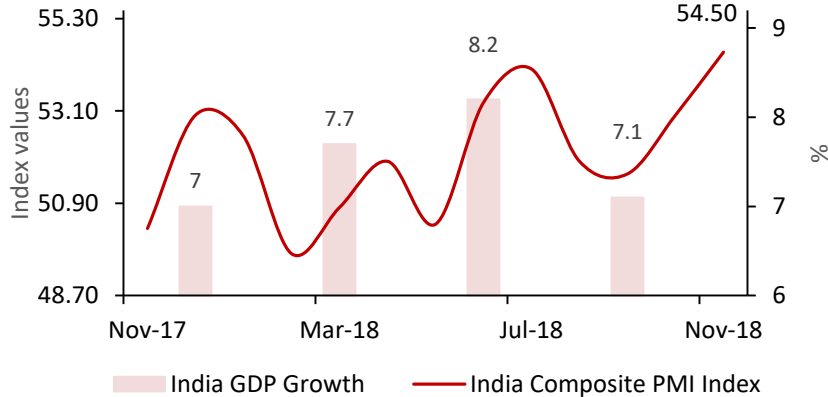
# Key Domestic Market Highlights

- ✓ Indian equity markets witnessed volatility and ended the last month of 2018 on a weak note. Key triggers which downplayed investor sentiment included weak Gross Domestic Product (GDP) data for the Sep 2018 quarter, sudden resignation of the Reserve Bank of India governor and the outcome of five state assembly elections.
- ✓ Global cues too played spoilsport following skepticism over long-term U.S.-China trade deal and concerns over U.S. government shutdown. Nonetheless, the downturn was cushioned by some encouraging domestic macro economic numbers, optimism over initiatives to be taken by the newly-appointed central bank chief and government's bank recapitalisation announcement.
- ✓ Domestic markets slumped soon after commencing the month because of weak GDP figures for Q2 FY19, fiscal deficit crossing budget estimates and increase in crude oil prices. All this overshadowed positive impact of U.S. and China deciding on a 90-day truce wherein U.S. won't increase tariffs on Chinese goods worth \$200 billion from 10% to 25%. Markets fell even though the Monetary Policy Committee kept policy rates unchanged, which was in line with expectations.
- ✓ Meanwhile, investors digested the setback of the ruling party in the five state assembly elections and remained cautious ahead of the Lok Sabha elections in 2019.
- ✓ The resignation of Reserve Bank of India (RBI) governor took the market by surprise, but the appointment of the new governor revived hopes of the banking industry.
- ✓ Inflation eased for the month of Nov 2018 and the index of industrial production increased in Oct 2018. RBI increasing the amount of liquidity infusion by Rs. 10,000 crore to Rs. 50,000 crore for Dec 2018 generated positive vibes.
- ✓ Markets succumbed to weak global cues by month-end, but were supported by government's bank recapitalisation announcement. The government is set to release Rs. 286.15 billion towards a fresh tranche of funds to recapitalise state-run banks.

# Domestic Economic Indicators

Seasonally adjusted Nikkei India Composite PMI Output Index touched its highest level since Oct 2016 due to acceleration in both manufacturing and services sectors

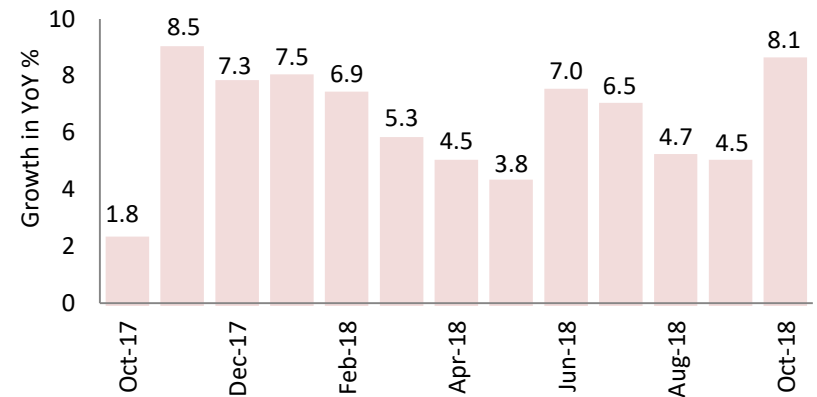
### India Composite PMI & GDP Growth



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

IIP growth accelerated to 8.1% in Oct 2018 from 4.5% in the previous month and 1.8% in the same period of the previous year due to surge in manufacturing sector

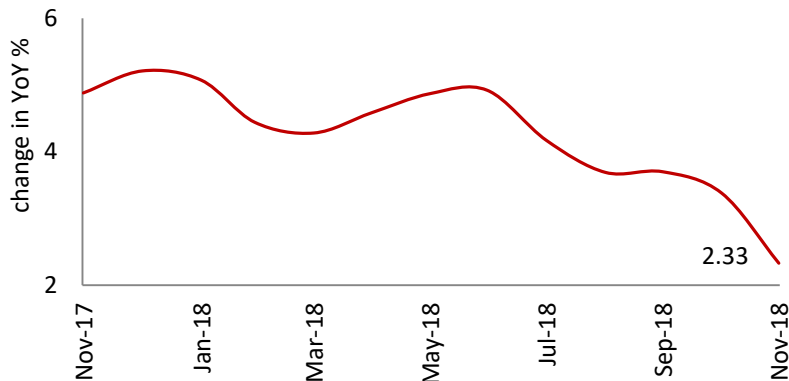
### Index of Industrial production (IIP)



Source: Thomson Reuters Eikon

Consumer inflation eased to 2.33% in Nov 2018 from 3.38% in the previous month. The major reason for decline was deflation in vegetables, pulses and products and sugar and confectionery

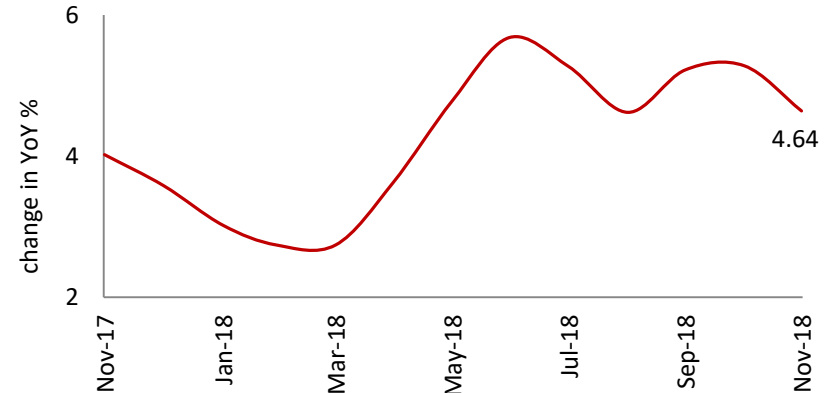
### Consumer Price Index



Source: Thomson Reuters Eikon

Wholesale inflation touched three-month low at 4.64% in Nov 2018 from 5.28% in Oct 2018 on easing prices of food articles, mainly vegetables, and petroleum products

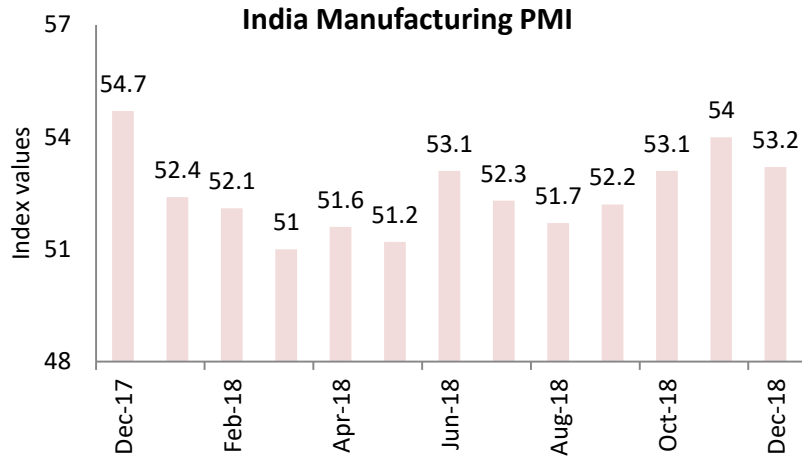
### Wholesale Price Index



Source: Thomson Reuters Eikon

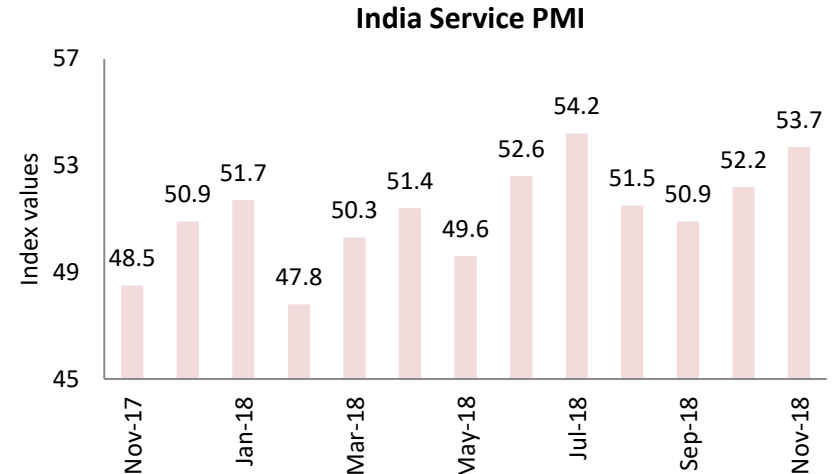
# Domestic Economic Indicators

Manufacturing PMI fell to 53.2 in Dec 2018 as against 54.0 in Nov 2018 as growth in new orders and output moderated, despite factories cutting their prices



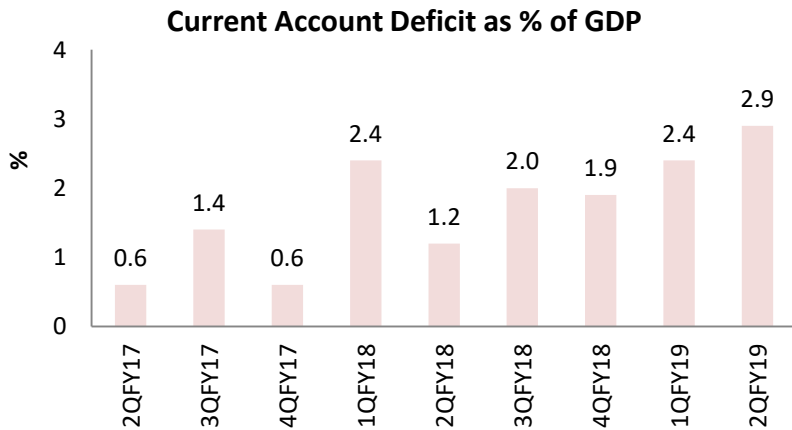
Source: Thomson Reuters Eikon; PMI >50 denotes expansion and <50 is contraction

India's services PMI grew to a four-month high in Nov 2018, driven by new work orders that led to a continued rise in jobs



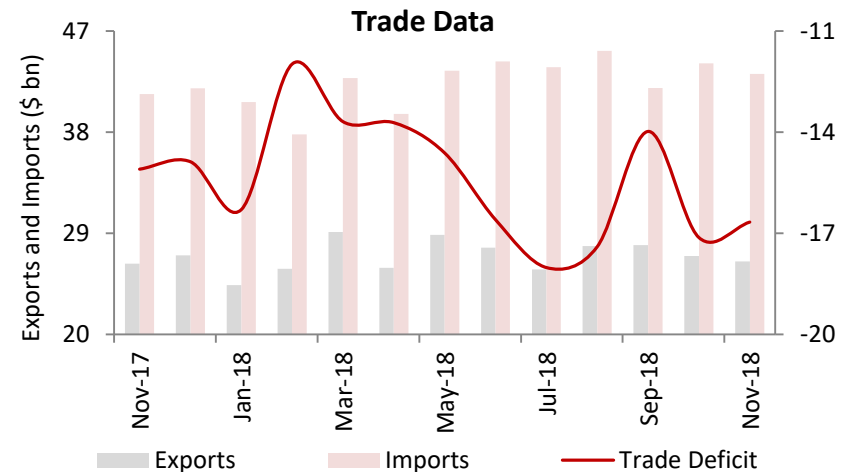
Source: Thomson Reuters Eikon; PMI >50 denotes expansion and <50 is contraction

Current account deficit rose to 2.9% of GDP in Q2 2018-19, up from 1.1% in Q2 2017-18 and 2.4% in Q1 2018-19 due to higher trade deficit



Source: Thomson Reuters Rikon

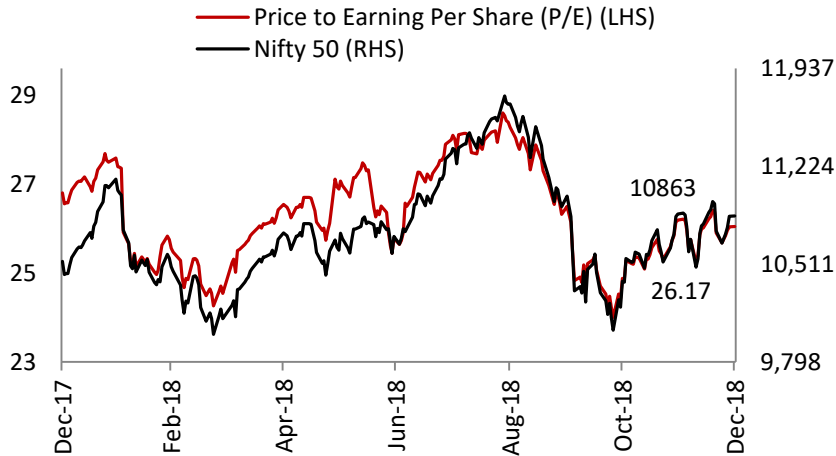
India's trade deficit increased to \$16.67 billion in Nov 2018 from \$17.13 billion in Oct 2018 as exports rose at a slower pace than imports



Source: Thomson Reuters Eikon

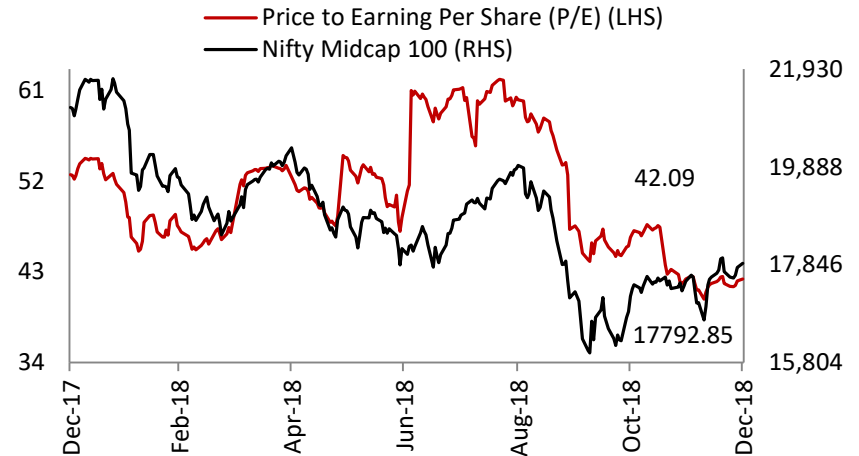
# Domestic Equity Market

During the month, S&P BSE Sensex and Nifty 50 slipped 0.35% and 0.13% to close at 36,068.33 and 10,862.55, respectively



Source: NSE

Nifty Midcap 100 and Nifty Small cap 100 grew 2.12% and 3.75%, respectively, over the month

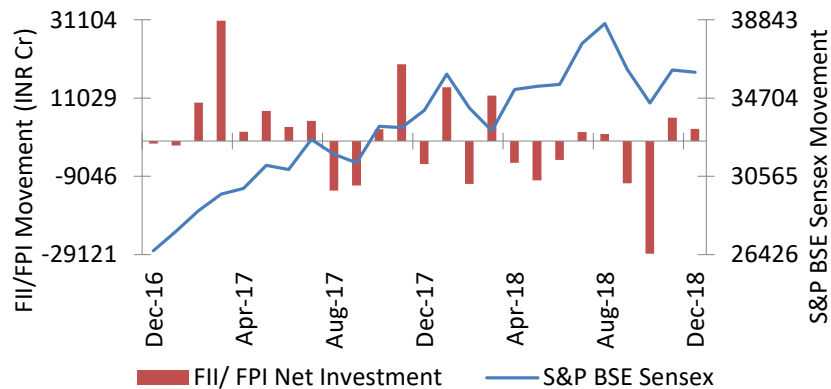


Source: NSE

FPIs were net buyers of domestic stocks worth Rs. 3,143.22 crore in Dec 2018 compared with net purchase of Rs. 5,980.89 crore in Nov 2018

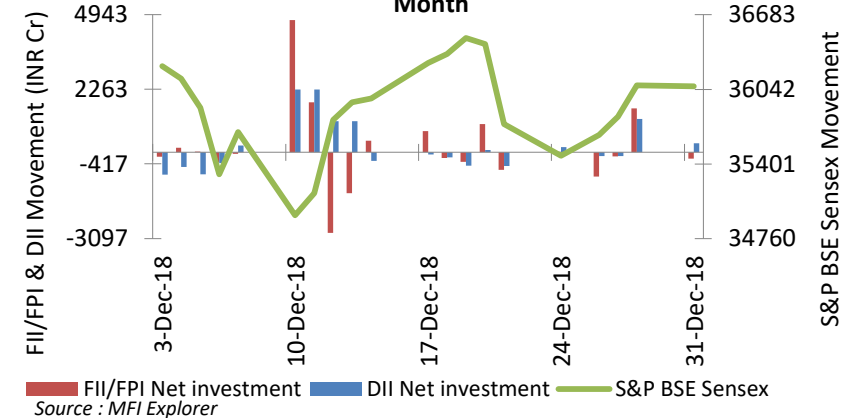
Domestic mutual funds were net buyers in the equity segment at Rs. 2,918.97 crore in Dec 2018 against Rs. 5,236.48 crore in Nov 2018

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



Source: MFI Explorer

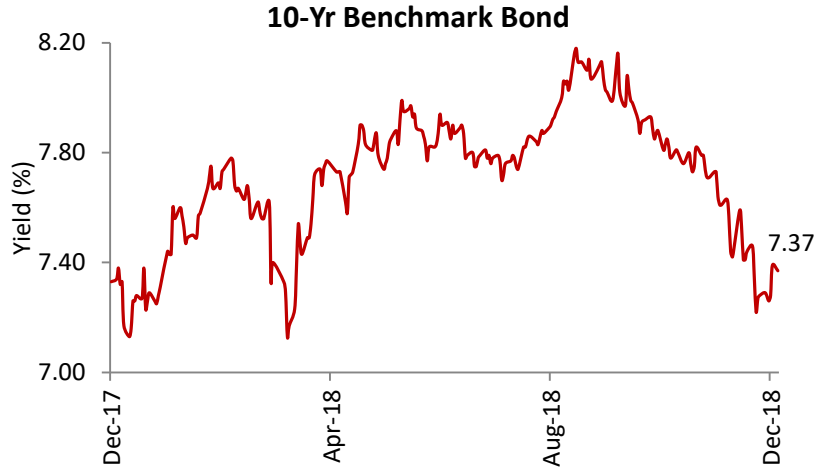
DII, FII/FPI Investment and S&P BSE Sensex - During the Month



Source: MFI Explorer

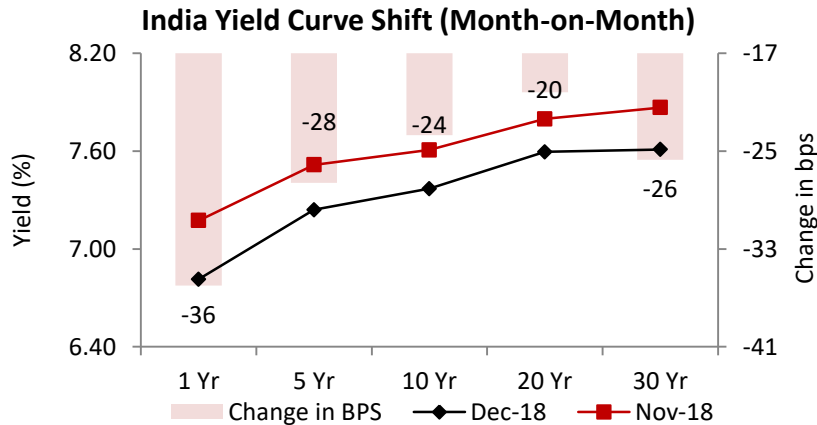
# Domestic Debt Market

Bond yield fell after MPC lowered inflation forecast for the second half of FY19 and global crude oil prices plunged, leading to hopes of a near-term monetary policy easing



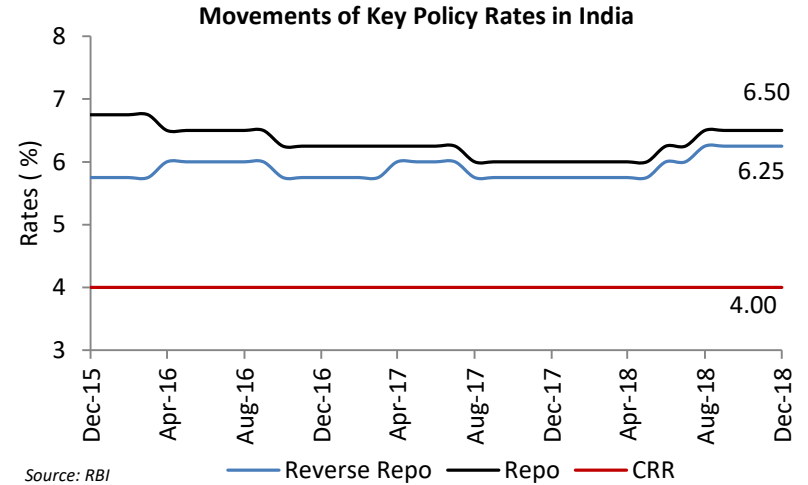
Source: Thomson Reuters Eikon

Yield on gilt securities fell across maturities in the range of 12 bps to 37 bps barring 2-year paper which increased 1 bps. The maximum fall was witnessed on 1-year paper and the minimum on 12-year paper



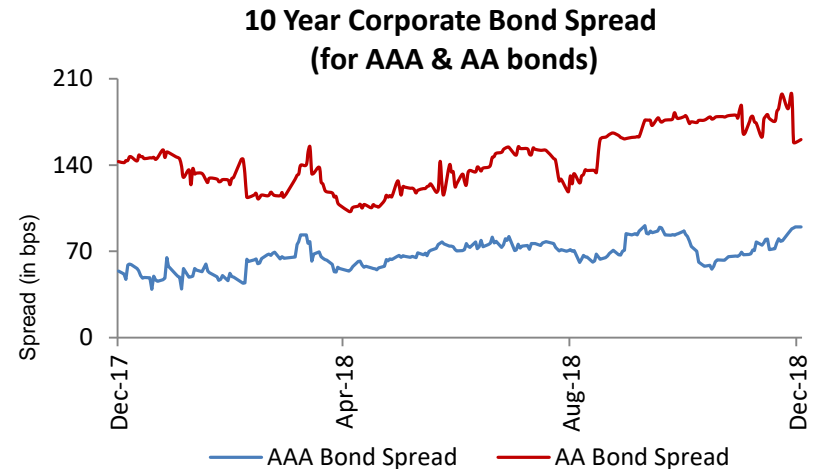
Source: Thomson Reuters Eikon

MPC in its fifth bi-monthly monetary policy review for FY19 kept key policy repo rate on hold for the second consecutive time after it increased the same by 25 bps each in Jun 2018 and Aug 2018



Source: RBI

Yield on corporate bonds fell across maturities by up to 19 bps. The minimum fall was witnessed on 10- and 15-year papers and the maximum on 6-year paper



Source: Thomson Reuters Eikon

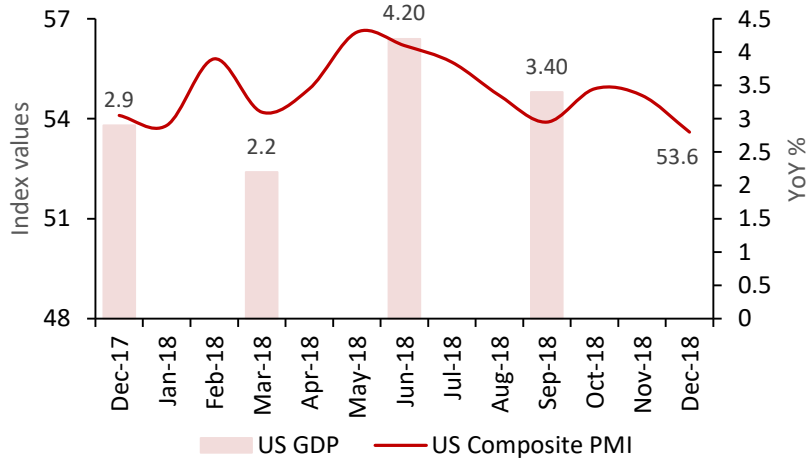
# Global Market Highlights

- ✓ U.S. markets ended the period in the red on worries over partial government shutdown, which is likely to continue well into the new year. Skepticism about the possibility of a long-term trade deal between the U.S. and China kept investors wary. A Chinese technology giant's top executive was arrested on suspicion of violating U.S. trade sanctions against Iran. Situation improved later after the executive was released on bail and China decided to temporarily lower tariffs on vehicles made in the U.S. from 40% to 15%. Towards the end, concerns renewed after the U.S. Justice Department announced the criminal indictment of two computer hackers associated with the Chinese government. Also, the U.S. Federal Reserve (Fed) indicated it plans to continue raising interest rates despite signs of slowing economic growth.
- ✓ European peers witnessed selling pressure too and market sentiment took a hit after the U.S. central bank raised interest rates by a quarter point and indicated it still expects to hike rates twice in the first half of 2019. The threat of a U.S. government shutdown also kept investors wary. Further, worries that the U.S. and China may not agree on a long-term trade deal anytime in the foreseeable future made investors offload riskier assets. Uncertainty over Brexit kept investors on the sidelines. Concerns over violent protests in France restrained investors from taking riskier bets.
- ✓ Asian markets joined global sell off as growing worries over the slowing prospects for the world economy prompted investors to offload equities and seek safe-haven assets. Markets witnessed selling pressure as Chinese President's highly anticipated speech on four decades of reforms as well as fresh monetary support measures announced by the People's Bank of China failed to ease investor concerns over slowing economic growth. The Bank of Japan maintained its ultra-loose monetary policy and reaffirmed its economic outlook. Political uncertainty in the U.S. amid partial government shutdown further dented sentiment.

# Global Economic Indicators

Flash U.S. Composite Index touched 19-month low in Dec 2018 due to slower growth in both manufacturing and services sectors

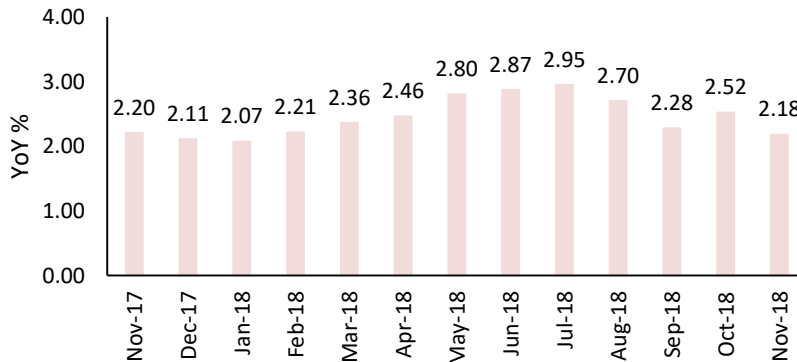
### US Composite PMI & GDP Growth



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

U.S. Consumer inflation touched its lowest level since Feb 2018 to 2.18% YoY in Nov 2018 from 2.52% rise in Oct 2018 due to sharp decline in price of gasoline

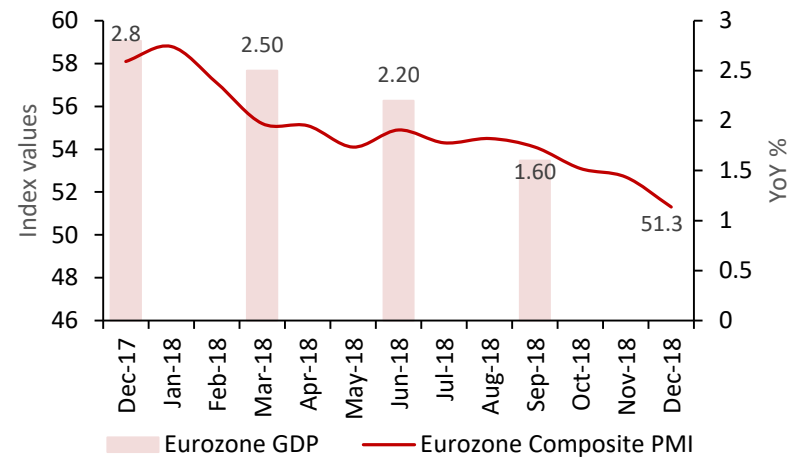
### U.S. Inflation



Source: Thomson Reuters Eikon

Flash Eurozone Composite PMI touched 49-month low in Dec 2018 following decline in services sector index that touched 49-month low

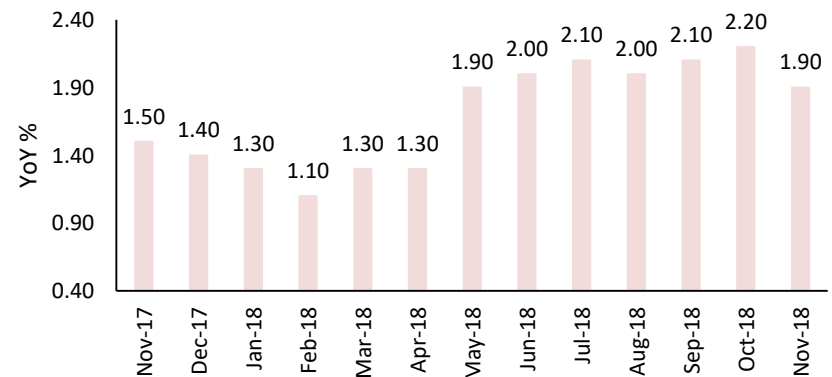
### Euro zone Composite PMI & GDP Growth



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

Euro zone's consumer inflation slowed to 1.9% in Nov 2018 from 2.2% in Oct 2018 due to stabilization of energy prices

### Eurozone Inflation



Source: Thomson Reuters Eikon



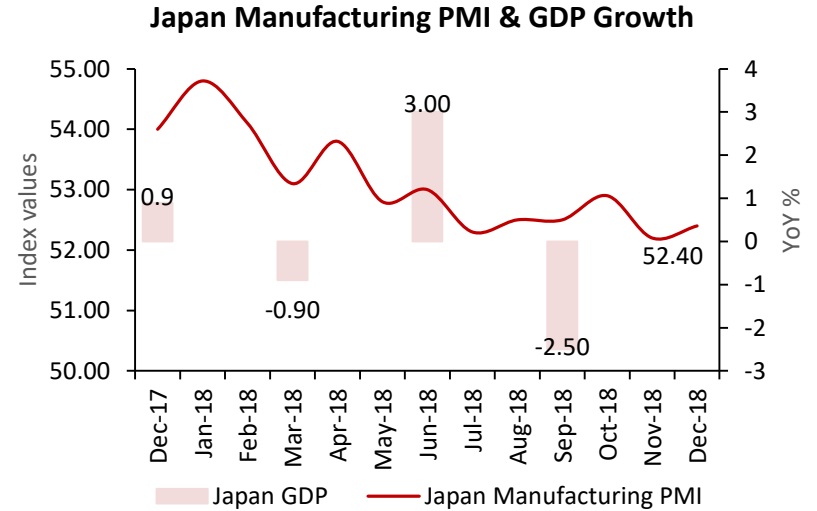
# Global Economic Indicators

China's manufacturing PMI in Nov 2018 pointed to a marginal improvement as companies saw a slightly stronger increase in total new work, despite reduced amounts of export orders



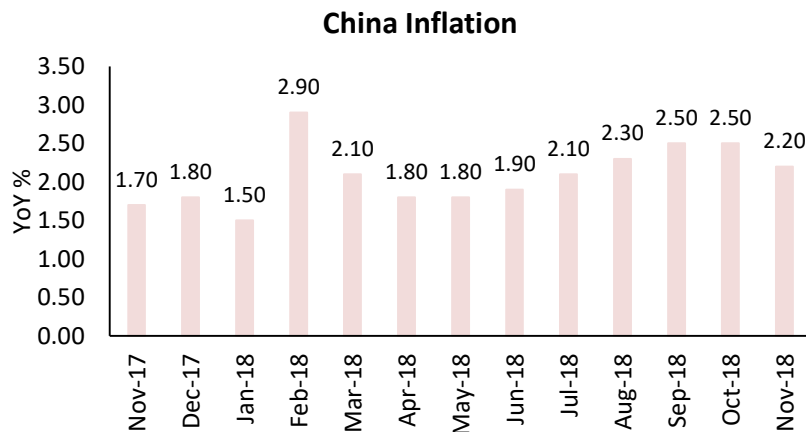
Source: Reuters, fxtstreet; PMI > 50 denotes expansion and < 50 is contraction

Flash Japan manufacturing PMI rose in Dec 2018 as new order growth accelerated despite exports declining to sharpest extent in over two years



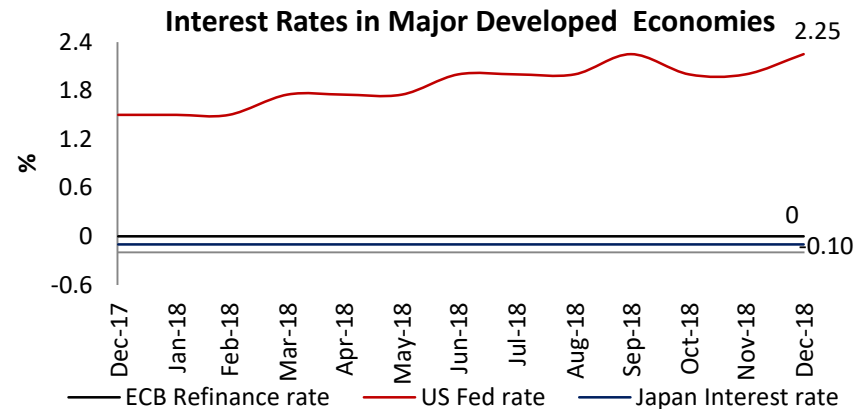
Source: Reuters, fxtstreet; PMI > 50 denotes expansion and < 50 is contraction

China's consumer inflation eased in Nov 2018 compared with the previous month as food prices rose at a slower pace



Source: Reuters

The U.S. Federal Reserve increased policy rates by 25 bps to 2.25% in Dec 2018

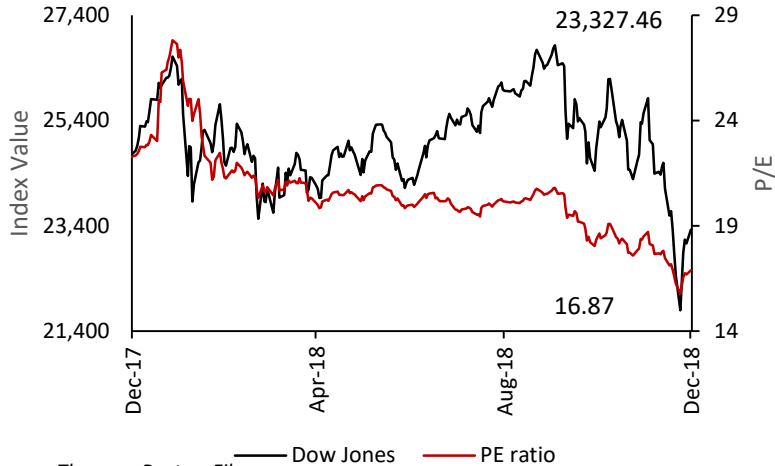


Source: Reuters

# Global Equity Markets

U.S. markets ended the period in the red on worries over partial government shutdown and scepticism regarding any long-term trade deal between the U.S. and China

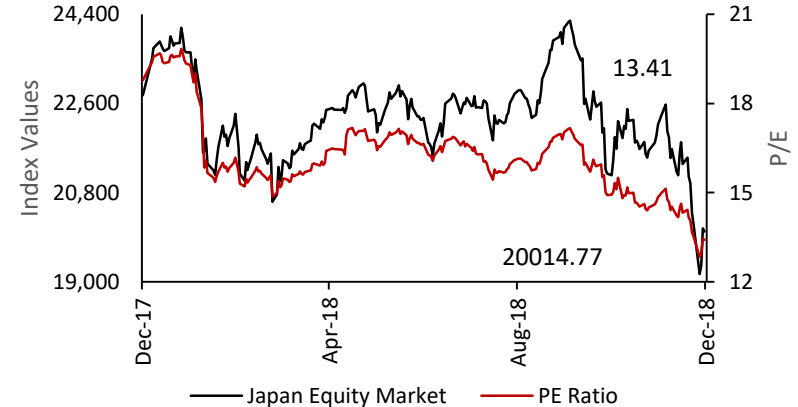
**U.S. Dow Jones Index and PE ratio**



Source: Thomson Reuters Eikon

Japanese market fell over the month and the governor of Bank of Japan told Parliament that economic risks from abroad could be severe and the central bank would respond as needed

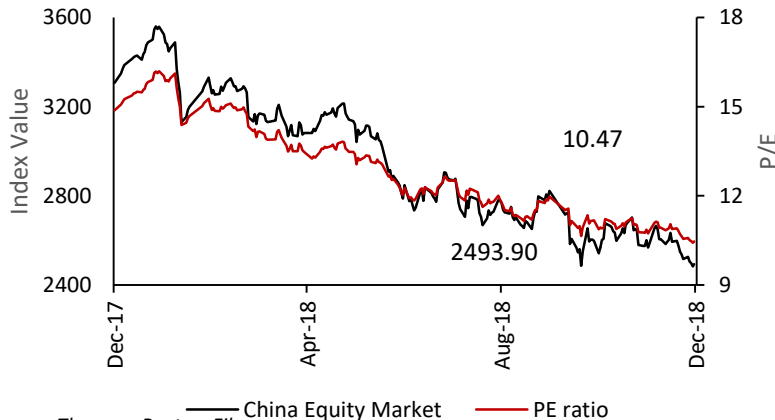
**Japan Nikkei Index and PE ratio**



Source: Thomson Reuters Eikon

Chinese market fell as Chinese President's speech on four decades of reforms as well as fresh monetary support measures announced by the People's Bank of China failed to ease investor concerns on growth

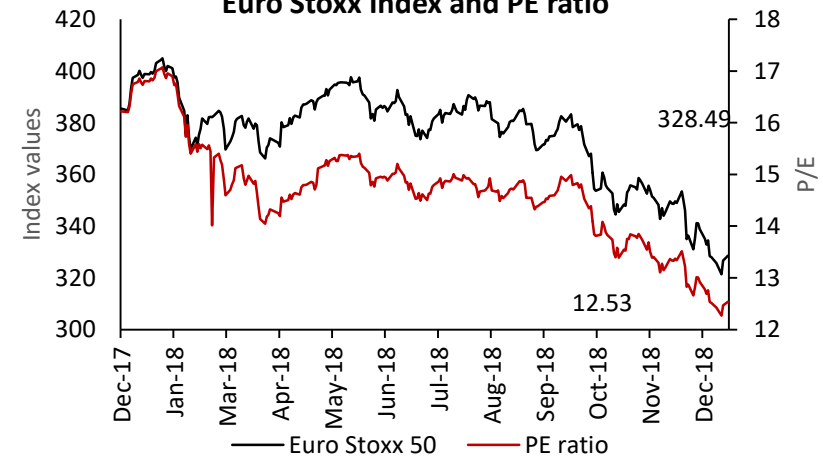
**China Shanghai Index and PE**



Source: Thomson Reuters Eikon

European peers witnessed selling pressure following the U.S. central bank's policy stance, threat of a U.S. government shutdown and uncertainty over Brexit

**Euro Stoxx Index and PE ratio**

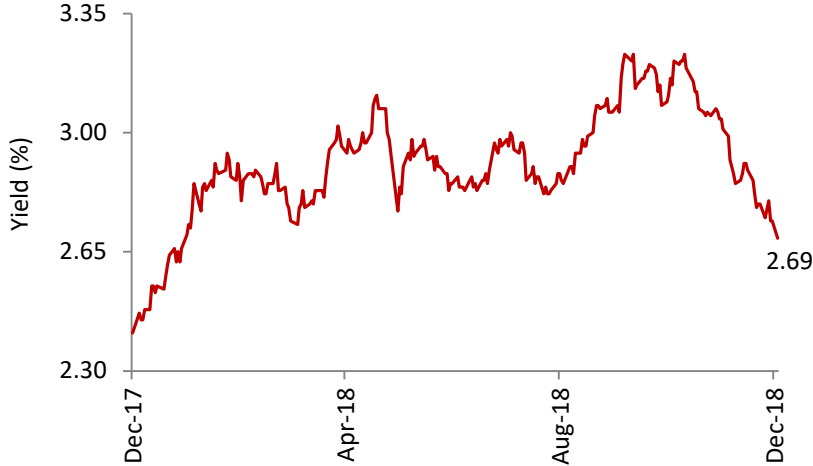


Source: Thomson Reuters Eikon

# Global Debt

Yields on the 10-year U.S. Treasury bond plunged 32 bps to close at 2.69% compared with the previous month's close of 3.01%. The paper moved in a range of 2.69% to 2.99%

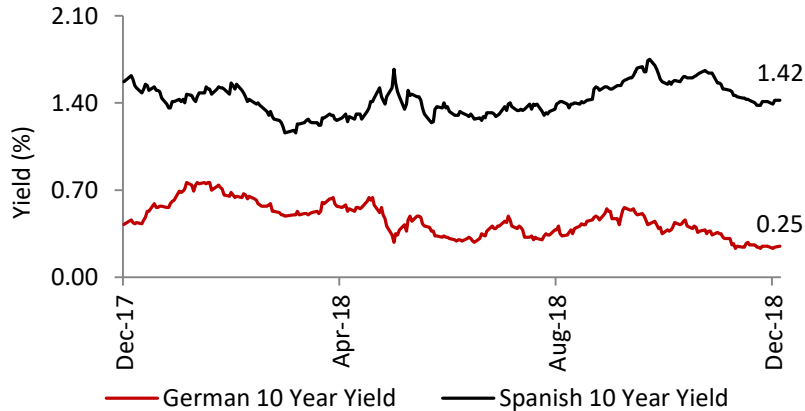
### U.S. 10 Year Treasury Yield



Source: Thomson Reuters Eikon

Bund yields fell amid concerns over eurozone's economic growth and sell-off in global equity market

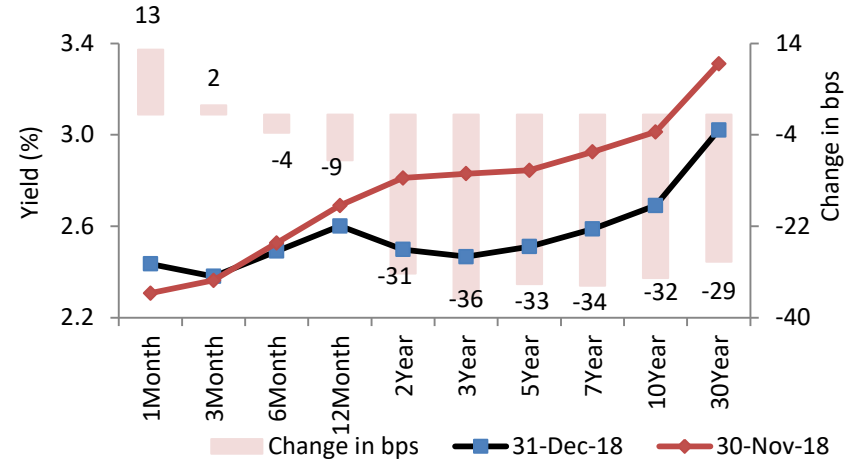
### German & Spanish 10 Yr Treasury Yield



Source: Thomson Reuters Eikon

U.S. Treasury prices rose amid concerns of U.S. government shutdown and weak economic data

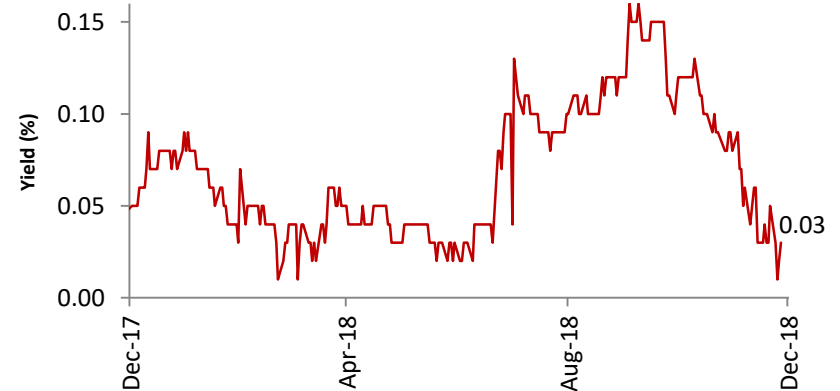
### U.S. Treasury Yield Curve Shift (Month-on-Month)



Source: Thomson Reuters Eikon

Japanese 10-year yield plunged from 0.084% in Nov 2018 to 0.03% in Dec 2018

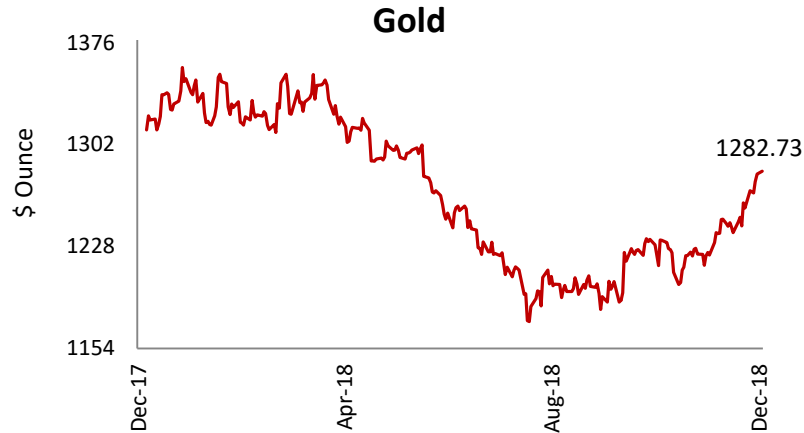
### Japan 10 Yr Benchmark Yield



Source: Thomson Reuters Eikon

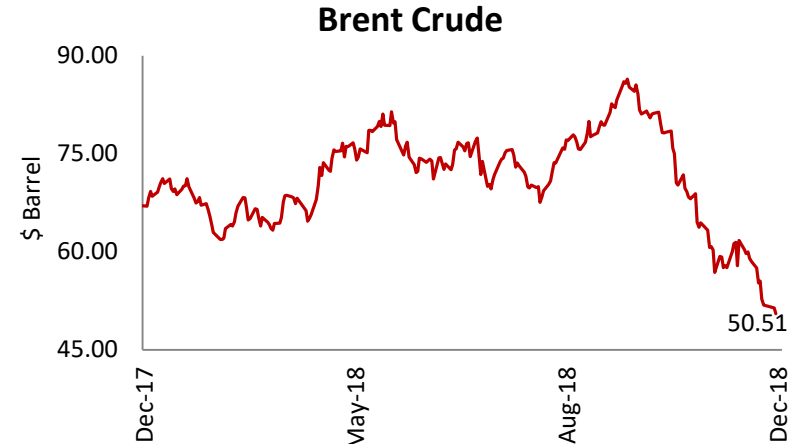
# Global Commodity Market

The precious metal moved up tracking sell-off in international equity markets on concerns over global economic growth and renewed China-U.S. tensions. The U.S. political unrest further added to the gains



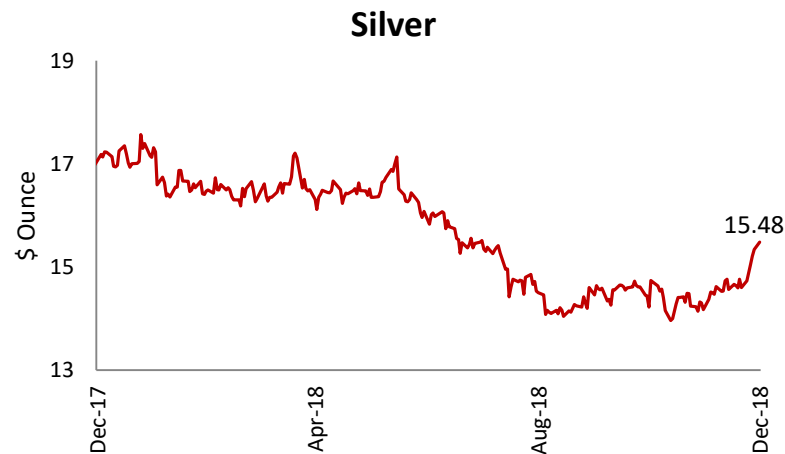
Source: Thomson Reuters Eikon

Brent crude prices slumped amid growing probability of fall in energy demand owing to global economic slowdown, consistent rise in U.S. crude stockpiles and an increase in output from Saudi Arabia



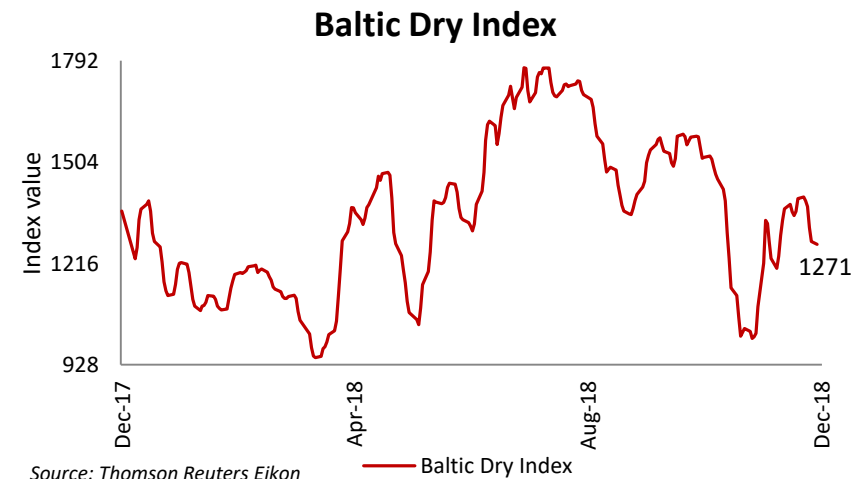
Source: Thomson Reuters Eikon

Silver prices witnessed increase on monthly basis amid fresh buying by industrial units and coin makers. Silver prices closed at \$15.48 per ounce, compared with the previous close of \$14.17 per ounce



Source: Thomson Reuters Eikon

The Baltic Dry Index witnessed trading holiday after Dec 24 and registered a rise of 3.25% on the back of improved capesize and panamax activities



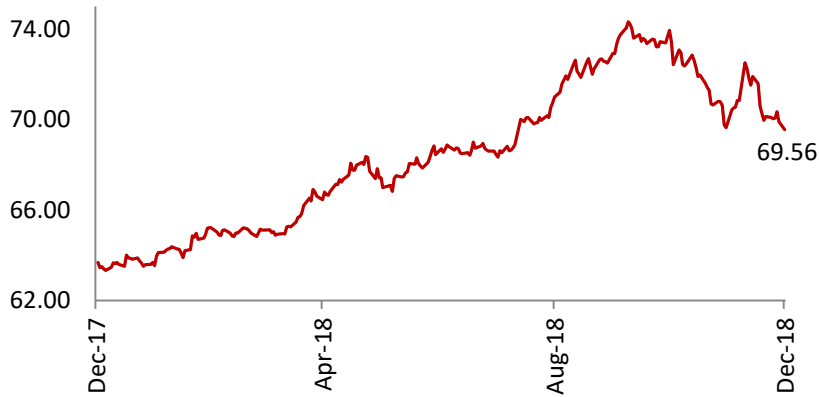
Source: Thomson Reuters Eikon

— Baltic Dry Index

# Global Currency Market

The Indian rupee plunged against the U.S. dollar in the first half of Dec 2018 but later retreated most of its losses and closed marginally lower

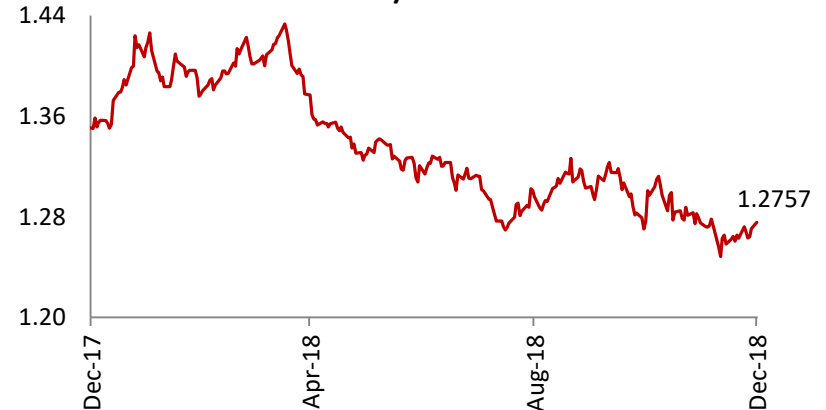
### USD/INR



Source: Thomson Reuters Eikon

Pound fell initially on deepening political uncertainty in Britain but losses reversed as U.K. Prime Minister survived a no-confidence vote

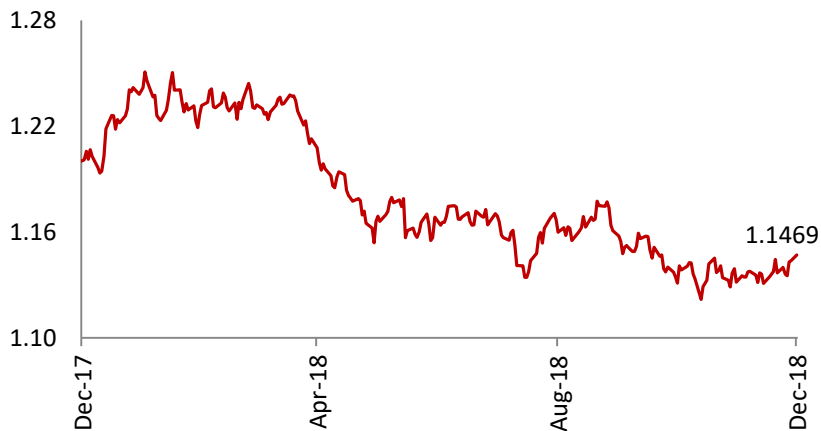
### GBP/USD



Source: Thomson Reuters Eikon

Euro rose against the U.S. dollar after the U.S. Fed signalled fewer interest rate hikes over the next two years and expressed caution about the U.S. economic outlook

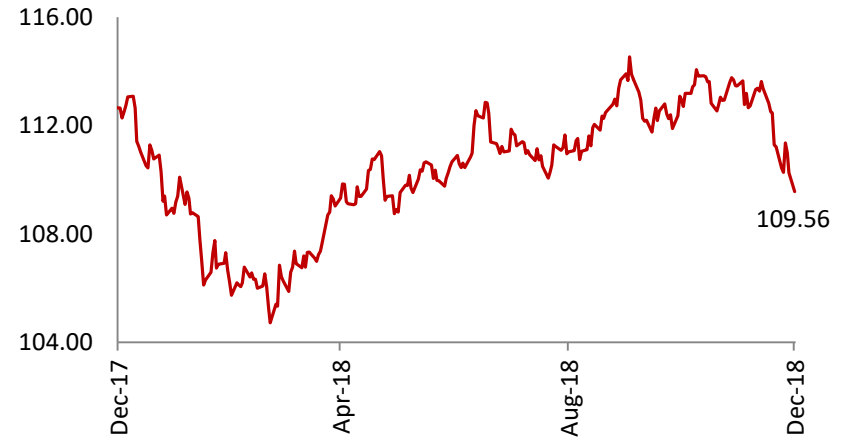
### EUR/USD



Source: Thomson Reuters Eikon

Yen surged against the U.S. dollar after the U.S. Fed signalled fewer interest rate hikes over the next two years and on concerns about the possibility of a prolonged U.S. government shutdown

### USD/YEN



Source: Thomson Reuters Eikon

# Mutual Fund News

- ✓ The Securities & Exchange Board of India (SEBI), in a circular dated Dec 28, 2018 has allowed mutual fund houses to create segregated portfolios in debt funds in case of credit events to deal with the liquidity risk. However, SEBI has kept it optional for fund houses. The segregated portfolio may be created, in case of downgrade in credit rating at issuer level by a SEBI registered Credit Rating Agency (CRA). In case of difference in rating by multiple CRAs, the most conservative rating shall be considered. The circular has also stated the process for creation of segregated portfolio, valuation and processing of subscriptions and redemptions and necessary disclosure requirement.
- ✓ According to media reports, Association of Mutual Funds in India is preparing to launch a new campaign “FD Jaisa Lagta Hai” to promote investment in debt funds. The campaign is planned to run across various media channels including television, radio, print, online platforms and hoarding in different languages.
- ✓ According to media reports, SEBI believes that distributors are going to play an integral role in expanding the penetration of mutual funds in India. The market regulator aims mutual funds to achieve geographical diversification. Distributors have been instrumental in B30 penetration of mutual funds.
- ✓ According to media reports, Securities and Exchange Board of India is working to conduct offsite supervision of mutual funds to track the operations of the fund houses and check data to curb mis-selling of schemes. The market regulator will be accumulating data from agents, the fund houses and AMFI.
- ✓ SEBI has amended the mutual fund regulations wherein the market regulator has clarified that the fresh TER slabs will be implemented from April 1, 2019.

# Real Estate and Private Equity News

- ✓ The Goods and Services Tax (GST) Council is planning to bring down GST rate on under-construction flats and houses to 5% in its meeting scheduled in Jan 2019. Presently, GST rates on payments for under-construction property or ready-to-move-in flats where completion certificate has not been issued at the time of sale is taxed at 12%. No GST is levied on purchases of properties having completion certificate at the time of sale. Earlier, buyers had to pay 4.5% service tax and a value added tax (VAT) of 1-5% (depending on the state) for under-construction housing projects.
- ✓ Bengaluru-based real estate firm Shriram Properties Ltd announced it has filed the draft red herring prospectus (DRHP) with the Securities and Exchange Board of India, for an initial public offering (IPO). The company, part of the Shriram Group, plans to raise up to Rs. 250 crore in fresh capital through the IPO, which will be used to repay debt.
- ✓ Sapphire Foods, which manages two leading quick service restaurant chain brands KFC and Pizza Hut, has raised Rs. 225 crore in a fresh round of funding led by Edelweiss Private Equity and Goldman Sachs, according to media reports. The freshly raised fund will be used to expand operations and in due course for public listing. The Edelweiss fund invested around Rs. 180 crore while the remaining funding came from Goldman.
- ✓ Online education start-up Byju's has raised \$540 million from Naspers, a South Africa-based multinational internet and media group, the Canada Pension Plan Investment Board and globally acclaimed private equity giant General Atlantic. The latest round of funding pushed up Byju's valuation to \$3.6 billion, which was mainly on account of robust investor demand. With this fundraising, Byju's became India's fourth most-valuable start-up, just after Paytm (One97 Communications Ltd), Ola and web-based hotel booking firm Oyo Rooms.

*Source: Livemint*

Thank You



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