

WEALTHWHISPER



Monthly Review
February 2018

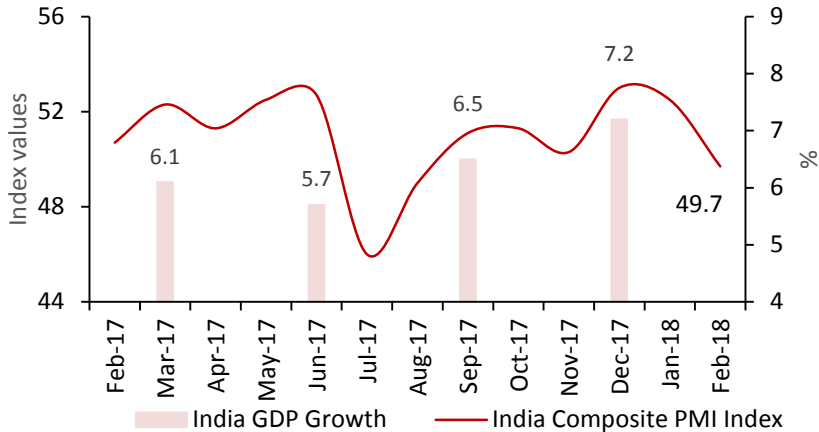
Key Domestic Market Highlights

- ✓ The Union Budget 2018-19 played a pivotal role during the month under review and domestic equity markets witnessed major fall as investors closely followed developments on the implementation of budget proposals.
- ✓ The finance minister raising the fiscal deficit target for FY19 and levying 10% long-term capital gains (LTCG) tax on gains above Rs. 1 lakh from equity had a detrimental effect on investor sentiment. Worries over probable rate hike by the Monetary Policy Committee (MPC) and a major state-owned bank's fraudulent and unauthorised transactions also set the markets back.
- ✓ Investors became wary of the long-term impact of the bank's fraudulent transaction case as some of the other public-sector banks too had exposure to the banking scam. Additionally, the state-owned bank disclosed that the amount of fraudulent transactions could be approximately Rs. 13 billion, which is higher than estimated.
- ✓ Concerns that the U.S. Fed might raise interest rates in its Mar 2018 meeting dented market sentiment. Furthermore, inflation concerns muted buying interest as retail inflation grew 5.07% in Jan 2018, down from 5.21% MoM and up from 3.17% YoY. Retail inflation growth has surpassed Reserve Bank of India's (RBI) medium-term target of 4% for the third consecutive month.
- ✓ However, upbeat economic data limited the fall. India's Index of Industrial Production (IIP) grew 7.1% in Dec 2017 as against 2.4% in the same period of the previous year. Wholesale Price Index (WPI) based inflation eased to a six-month low of 2.84% in Jan. India's Gross Domestic Product (GDP) grew 7.2% YoY in the third quarter of FY18, better than upwardly revised growth of 6.5% (6.3% originally reported) in the previous quarter.

Domestic Economic Indicators

India's GDP grew 7.2% YoY in Dec quarter of FY18, better than upwardly revised growth of 6.5% (6.3% originally reported) in the previous quarter, driven by pick up in manufacturing and government spending

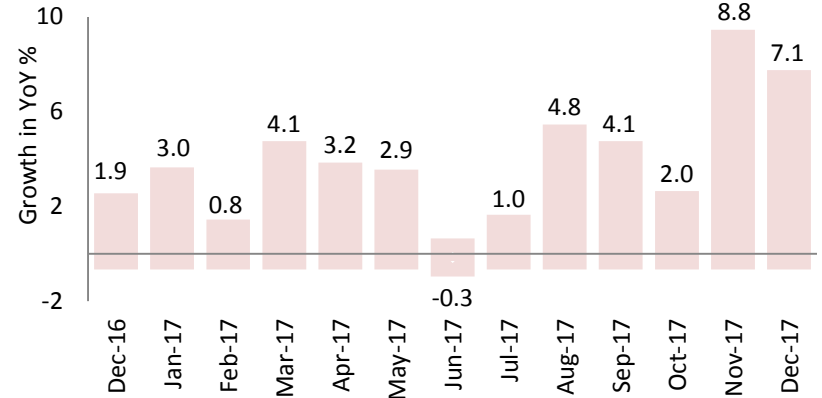
India Composite PMI & GDP Growth



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

Industrial production grew 7.1% in Dec 2017 as against 2.4% growth in the same period of the previous year. The manufacturing sector also surged 8.4% from 0.6% in the similar period

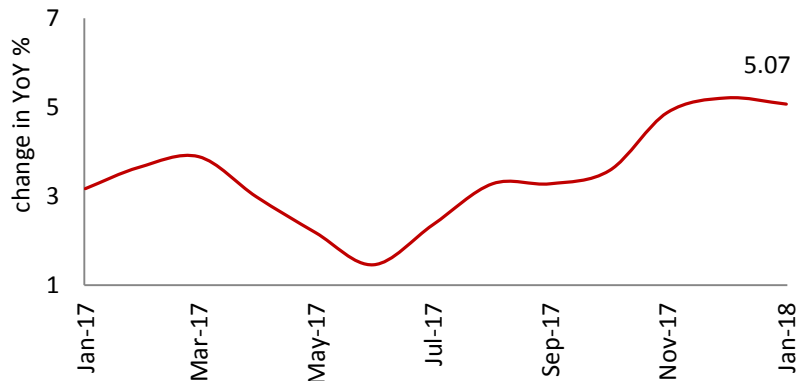
Index of Industrial production (IIP)



Source: Thomson Reuters Eikon

Consumer inflation grew 5.07% in Jan 2018, down from 5.21% in the previous month

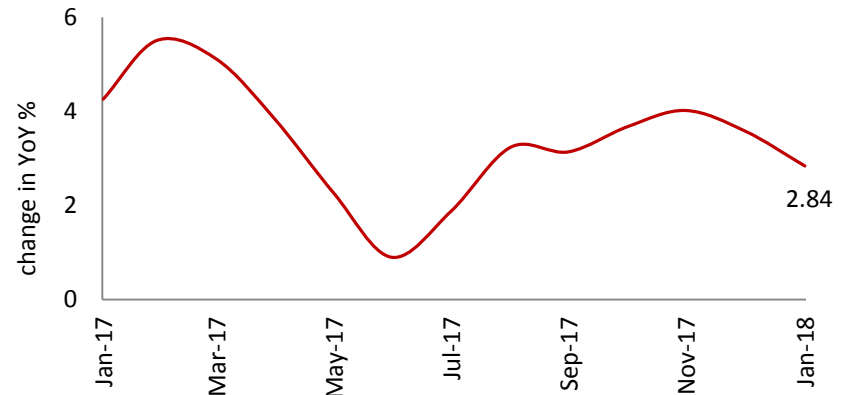
Consumer Price Index



Source: Thomson Reuters Eikon

Wholesale inflation eased to a six-month low of 2.84% in Jan 2018 from 3.58% in Dec 2017. Inflation on food articles slowed to 3.00% in Jan 2018, from 4.72% in Dec 2017

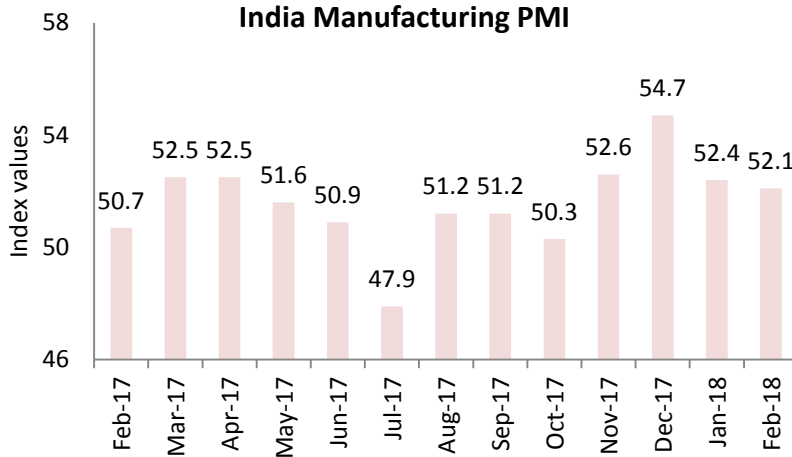
Wholesale Price Index



Source: Thomson Reuters Eikon

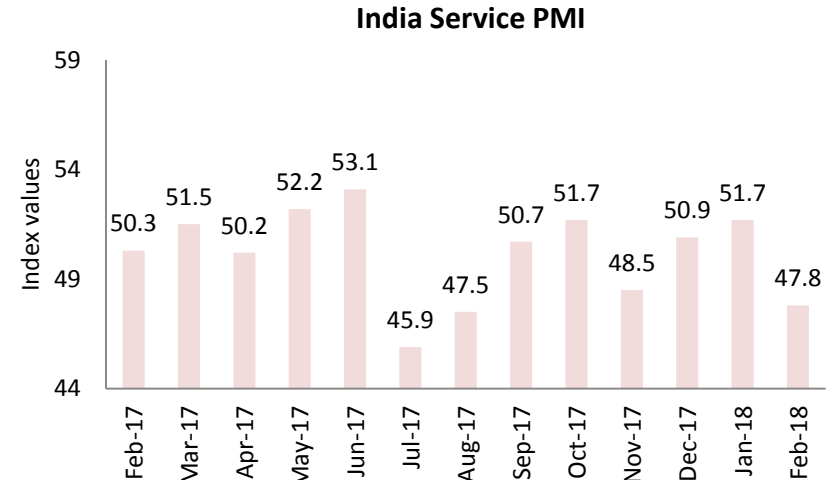
Domestic Economic Indicators

The Nikkei India Manufacturing Purchasing Managers' Index (PMI) fell from 52.4 in Jan 2018 to 52.1 in Feb 2018 due to slower rise in output and new orders



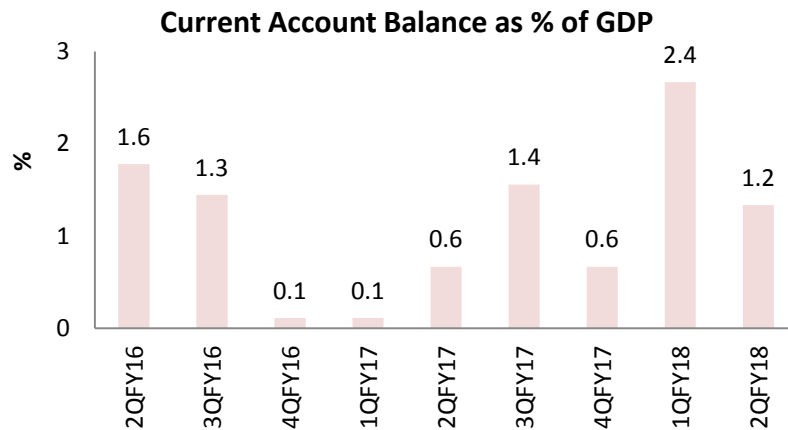
Source: Thomson Reuters Eikon; PMI >50 denotes expansion and <50 is contraction

The seasonally adjusted Nikkei India Services Business Activity Index fell from 51.7 in Jan 2018 to 47.8 in Feb 2018, its lowest level since August 2017



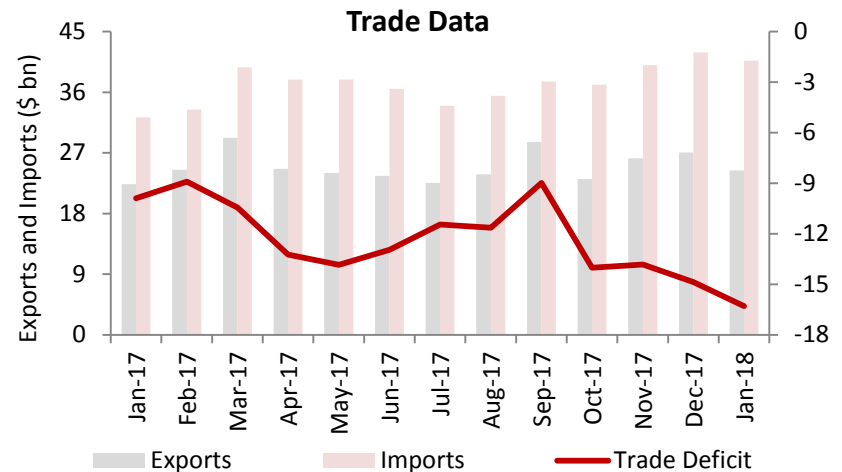
Source: Thomson Reuters Eikon; PMI >50 denotes expansion and <50 is contraction

Current Account Deficit (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 Eikon

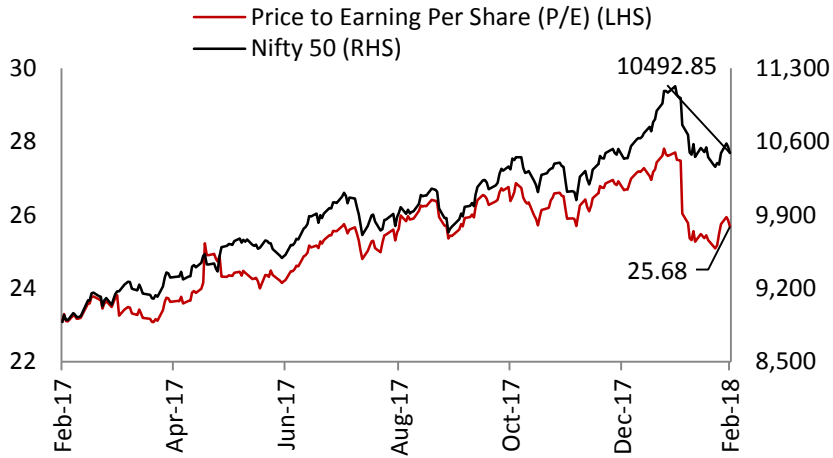
Trade deficit widened to \$16.30 billion in Jan 2018, which is the highest since Jun 2013, as against \$9.90 billion in Jan 2017



Source: Thomson Reuters Eikon

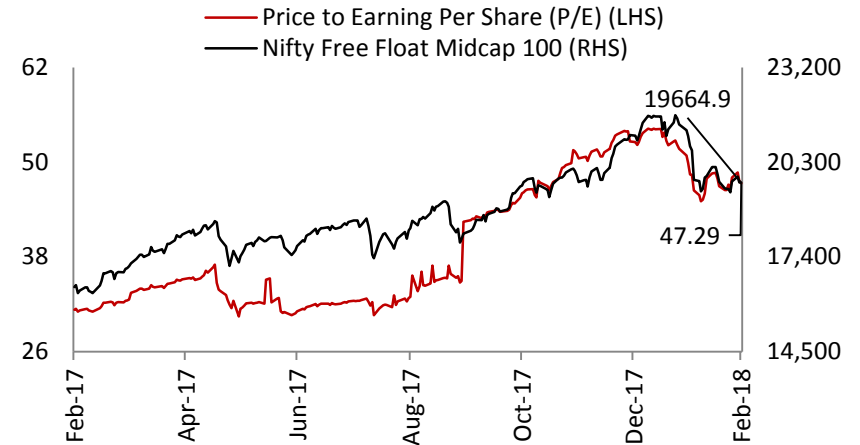
Domestic Equity Market

Key benchmark indices S&P BSE Sensex and Nifty 50 fell 4.95% and 4.85% to close at 34,184.04 and 10,492.85, respectively



Source: NSE

Both Nifty Free Float Midcap 100 and Nifty Free Float Smallcap 100 plunged 8.35% and 9.48%, respectively

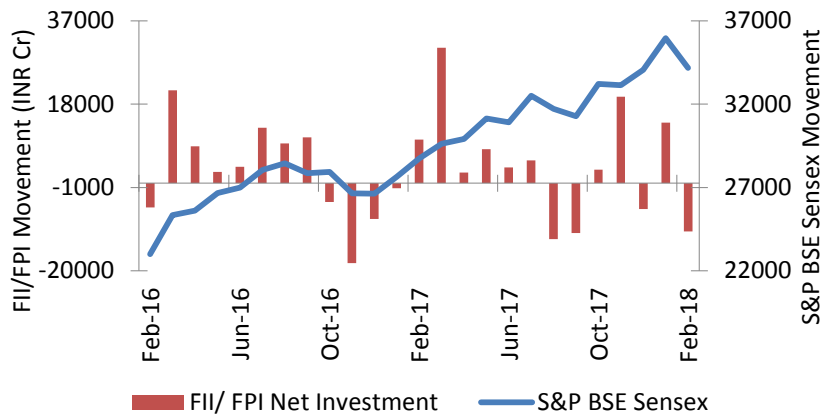


Source: NSE

Foreign portfolio investors were net sellers of domestic stocks worth Rs. 11,037.40 crore in Feb 2018 as against net buy of Rs. 13,781.46 crore in Jan 2018

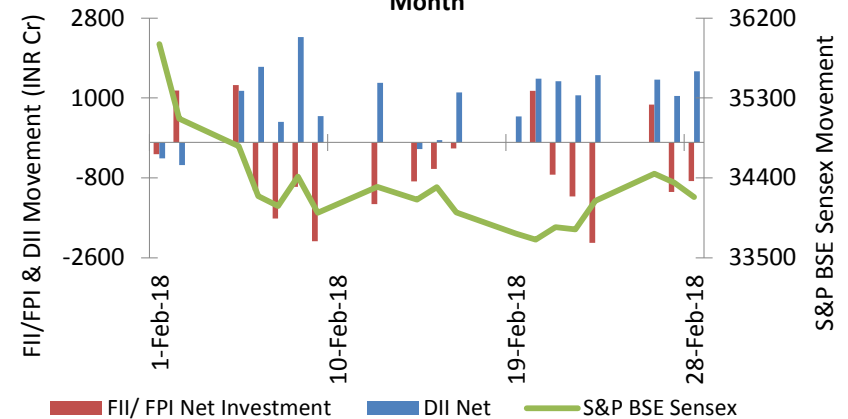
Domestic mutual funds remained net buyers in the equity segment to the tune of Rs. 16,180.88 crore in Feb 2018

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



Source : MFI Explorer

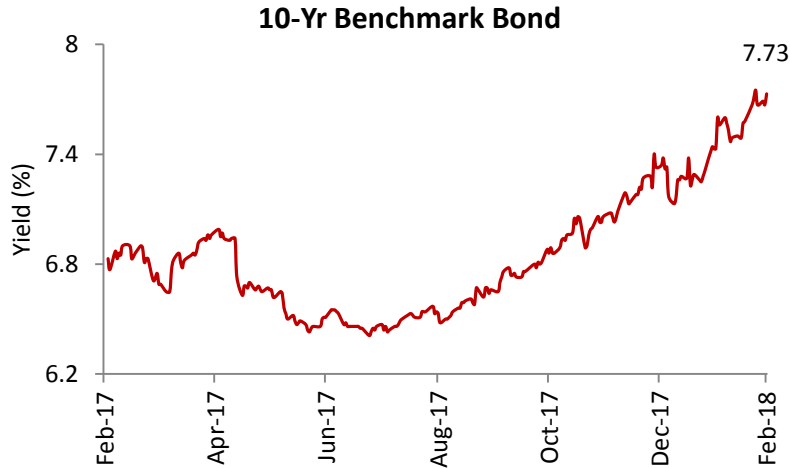
DII, FII/FPI Investment and S&P BSE Sensex - During the Month



Source : MFI Explorer

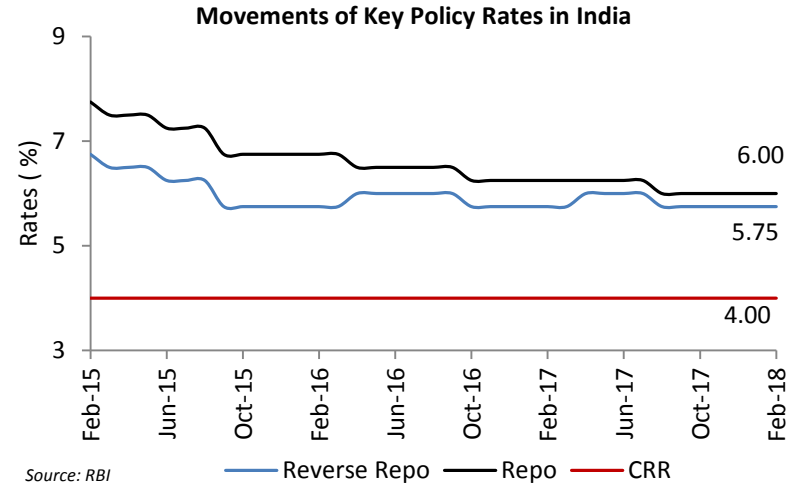
Domestic Debt Market

Bond yields surged for the seventh consecutive month after the government widened its fiscal deficit target for FY19



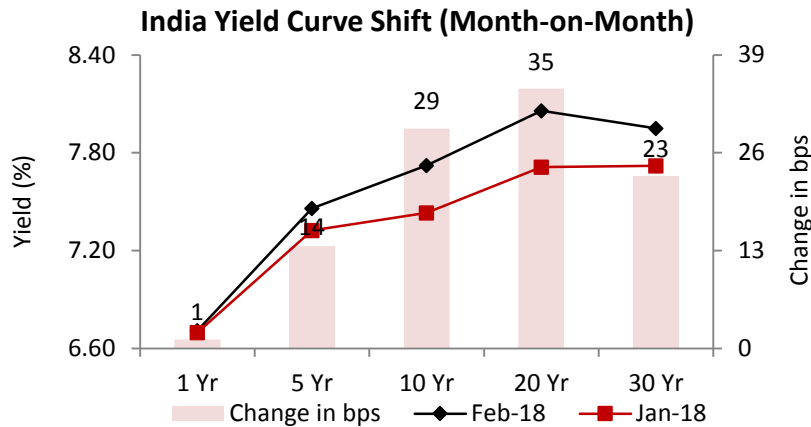
Source: Thomson Reuters Eikon

MPC in its sixth bi-monthly policy review kept key policy repo rate unchanged at 6.0% and retained its "neutral" stance. Consequently, the reverse repo rate stood unaltered at 5.75%



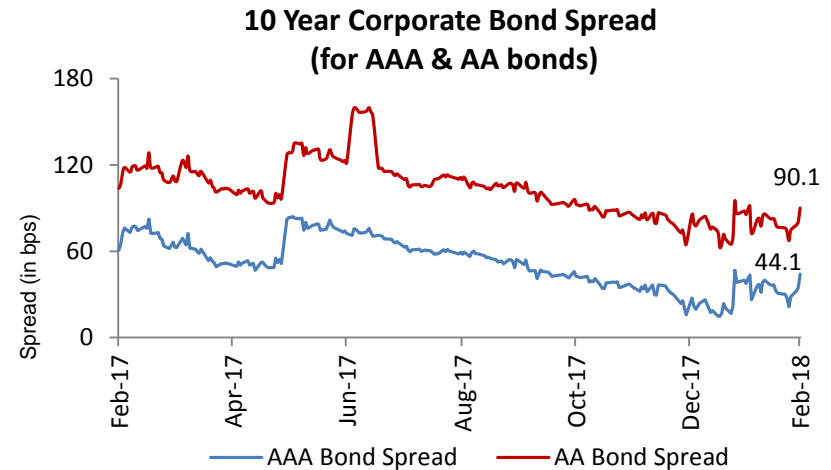
Source: RBI

Yield on gilt securities surged across maturities in the range of 4 to 36 bps. Highest rise was seen on 10-year paper while lowest increase was on 1- and 2-year papers



Source: Thomson Reuters Eikon

Yield on corporate bonds jumped across maturities in the range of 19 to 40 bps. Highest rise was seen on 15-year paper while lowest increase was on 4-year paper



Source: Thomson Reuters Eikon

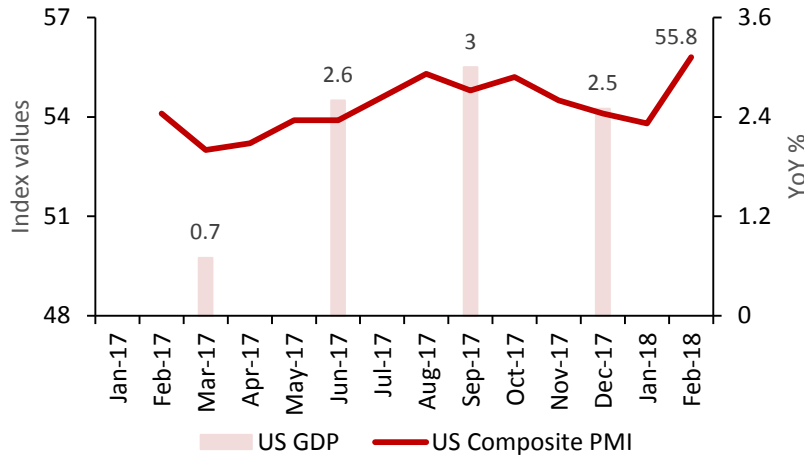
Global Market Highlights

- ✓ U.S. markets witnessed initial selling pressure amid concerns over rising inflation and speculation over imminent rate hike by the U.S. Federal Reserve (Fed) in its upcoming policy meeting in Mar 2018. Mixed economic data could not provide much support. However, the downturn was restricted as worries over political deadlock eased to some extent after the U.S. President signed a stopgap funding measure. Markets took a hit towards month-end after the new U.S. Fed chief's comment raised speculation that the central bank may raise rates more than the three times currently being anticipated.
- ✓ Weakness in Wall Street amid uncertainty over U.S. Fed's future rate hike stance weighed on European markets. Political developments in Germany had a bearing on the buying interest of investors. The second phase of Brexit talks too impacted market sentiment. Investors took positive cues from the GDP data from Germany and the eurozone, which came in line with market expectations. Gains were short lived with U.K. markets witnessed selling pressure as official data showed that the nation's economy grew lower than estimated in the fourth quarter.
- ✓ Asian markets were no different from the weak global peers. Speculation over imminent rate hike by the U.S. Fed in Mar 2018 raised concerns over foreign fund outflow from emerging markets. Better than expected growth in China's exports in Jan 2018 hardly improved sentiment.
- ✓ Weakness in global crude oil prices further weighed on sentiment. Things improved after Japanese industrial production in Dec 2017 came higher than expected. Gains were enhanced on expectations that easing monetary policy will be continued after the head of Bank of Japan was nominated for the second five-year term. However, markets gave up gains towards month-end amid renewed concerns over a faster pace of interest rate increases by the U.S. Fed.

Global Economic Indicators

U.S. Composite PMI Index rose to 55.8 in Feb 2018, from 53.8 in Jan 2018 as faster rise in services sector outweighed slightly slower growth in manufacturing sector

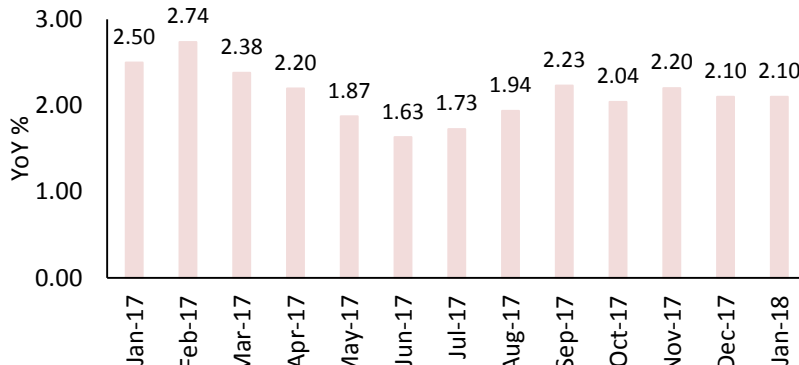
US Composite PMI & GDP Growth



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

U.S. consumer prices surpassed market expectations and grew 0.5% (MoM) in Jan compared with a revised gain of 0.2% in Dec 2017 partly due to increase in energy prices

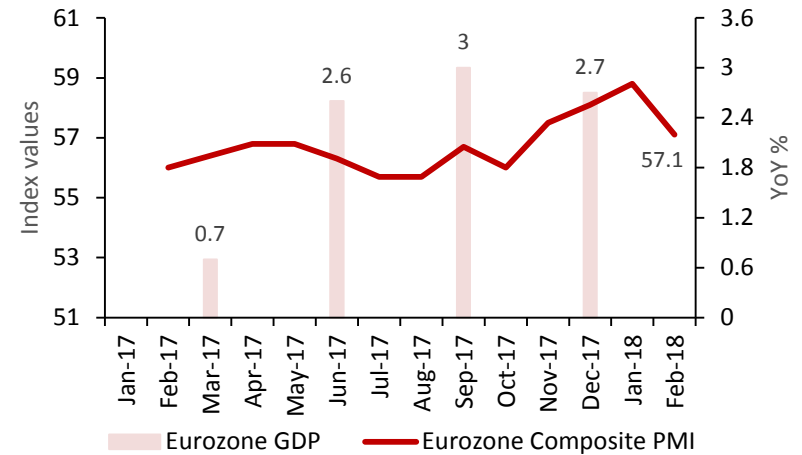
U.S. Inflation



Source: Thomson Reuters Eikon

The final IHS Markit Eurozone PMI Composite Output Index fell to 57.1 in Feb 2018, after reaching near 12-year high of 58.8 in Jan 2018

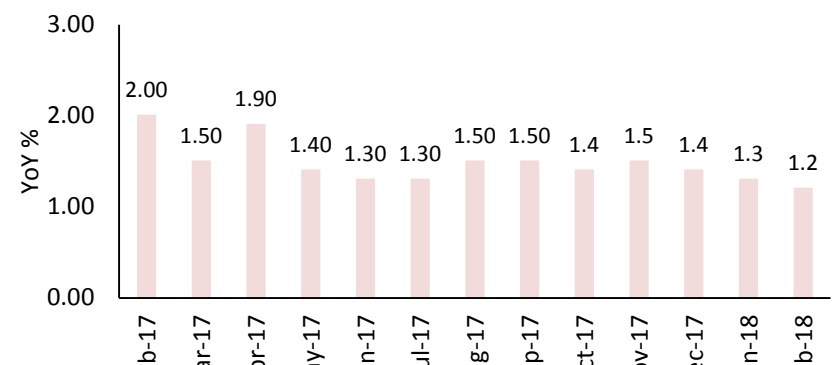
Euro zone Composite PMI & GDP Growth



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

Euro zone inflation (preliminary) slightly eased to 1.2% in Feb 2018 as against a gain of 1.3% in Jan 2017, marking the lowest level in more than a year

Eurozone Inflation

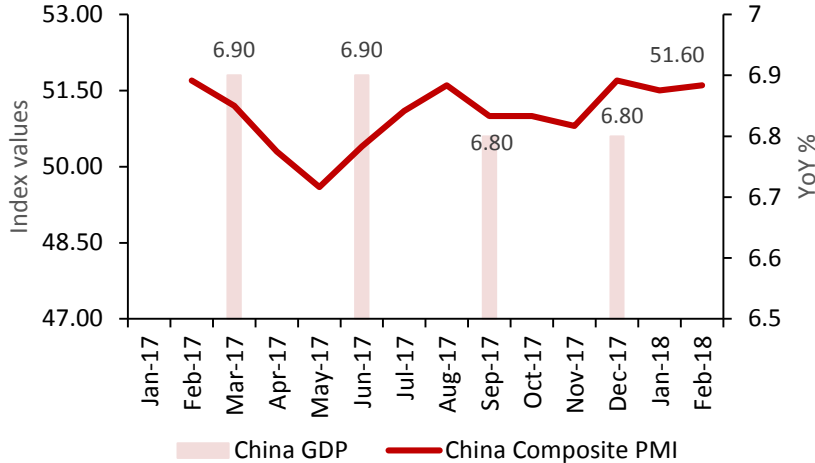


Source: Thomson Reuters Eikon

Global Economic Indicators

China's manufacturing PMI edged up to 51.6 in Feb 2018, from 51.5 in Jan 201. Although growth in production softened from that seen in Jan, total new work expanded at a slightly faster pace

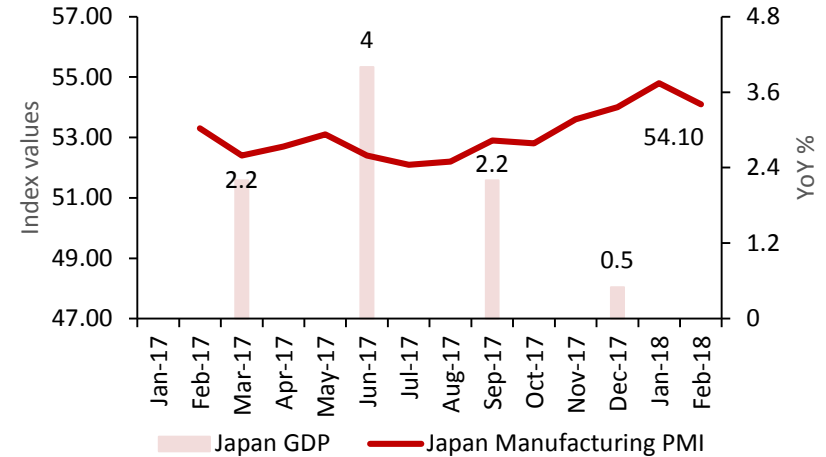
China Manufacturing PMI & GDP Growth



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

Japan Manufacturing PMI came in slightly lower to 54.1 in Feb 2018, from 54.8 in Jan 2018 as growth in output slowed to a four-month low

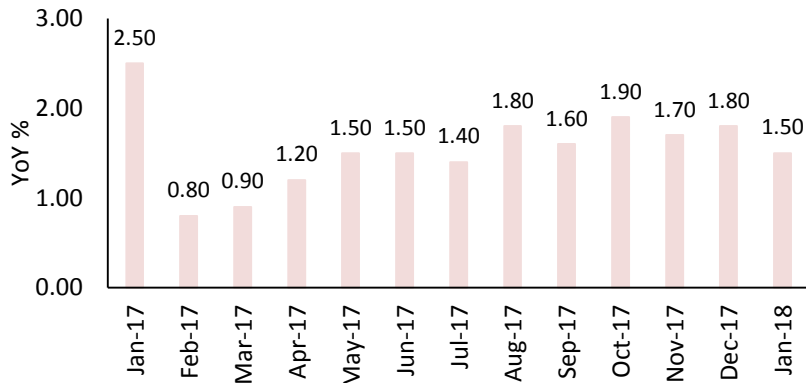
Japan Manufacturing PMI & GDP Growth



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

China's consumer prices grew at a slower pace in Jan 2018 compared with Dec 2017 due to faster fall in food prices and slower rise in non-food prices

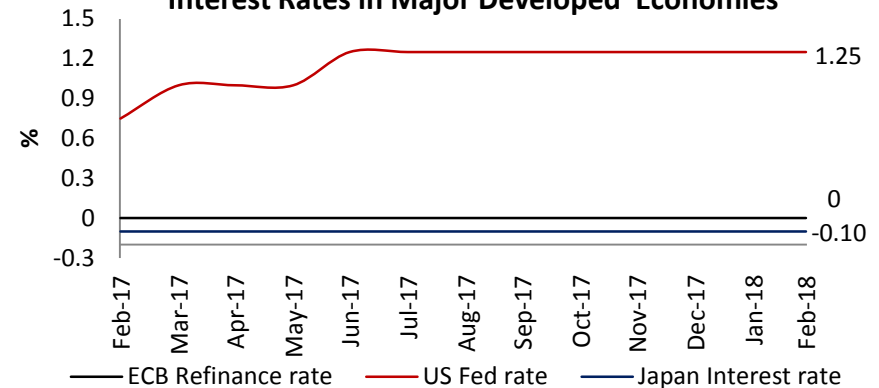
China Inflation



Source: Reuters

Interest rates among major developed economies remained unchanged in Feb 2018

Interest Rates in Major Developed Economies

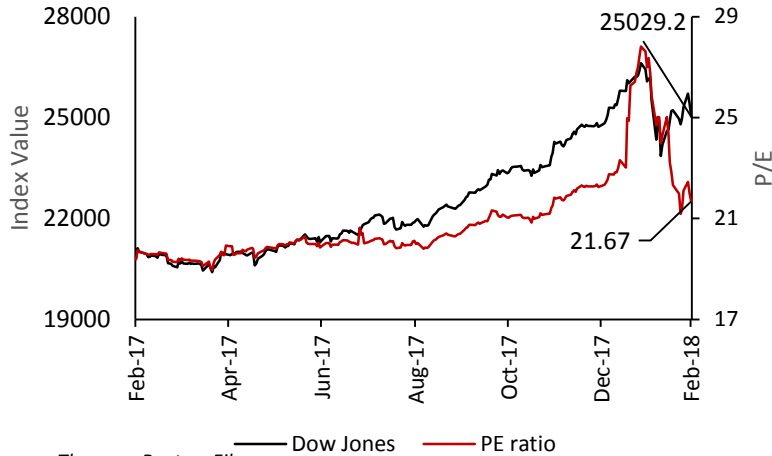


Source: Reuters

Global Equity Markets

U.S. markets fell amid concerns over rising inflation and speculation over imminent rate hike by the U.S. Fed in its Mar policy meeting

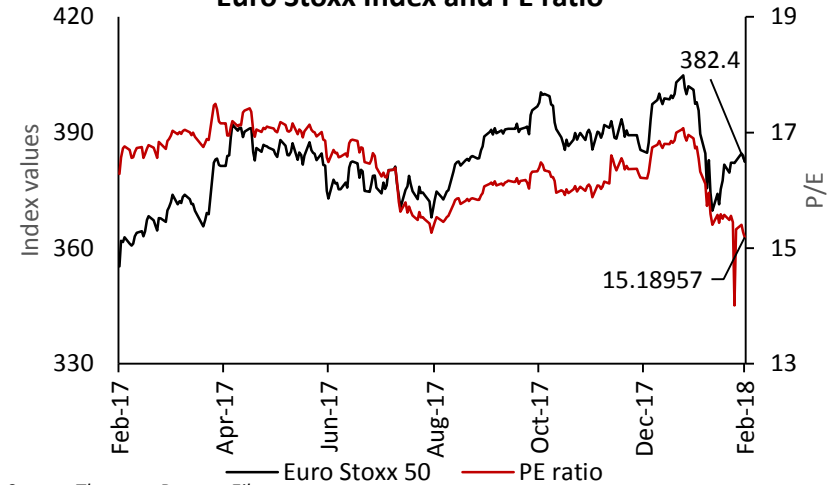
U.S. Dow Jones Index and PE ratio



Source: Thomson Reuters Eikon

Weakness in Wall Street and second phase of Brexit talks weighed on European markets. Sentiment dampened further after the nation's economy grew lower than estimated in the fourth quarter

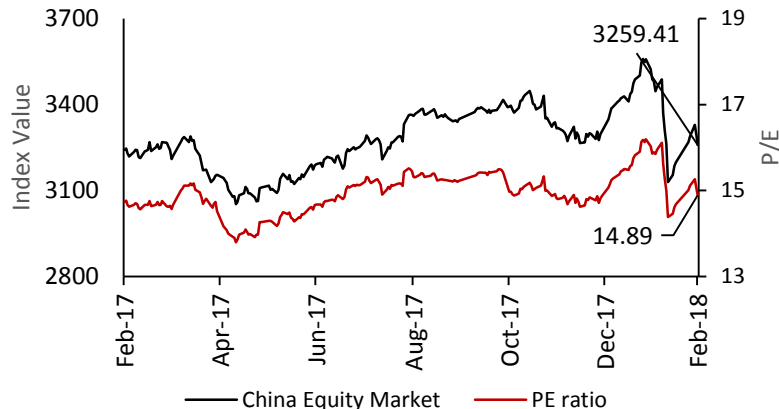
Euro Stoxx Index and PE ratio



Source: Thomson Reuters Eikon

Asian markets took cues from weak global peers and falling crude oil prices. Speculation over imminent rate hike by the U.S. Fed raised concerns of foreign fund outflow from emerging markets

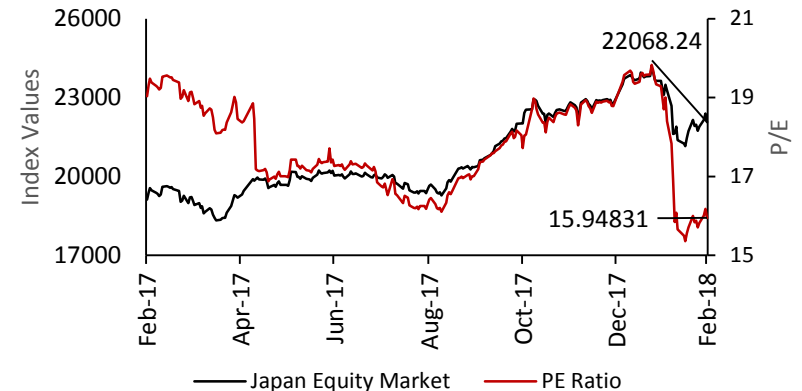
China Shanghai Index and PE ratio



Source: Thomson Reuters Eikon

Japanese market fell amid renewed concerns over a faster pace of interest rate increases by Fed

Japan Nikkei Index and PE ratio

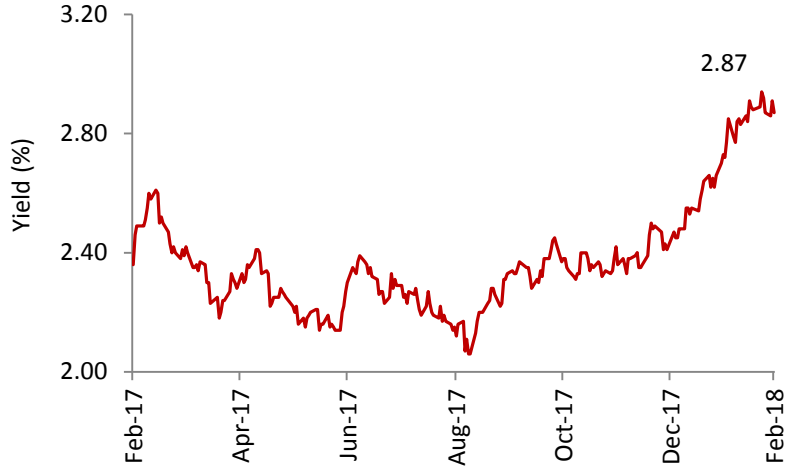


Source: Thomson Reuters Eikon

Global Debt

Yield on the 10-year U.S. Treasury bond surged 15 bps in Feb 2018 to close at 2.87% compared with the previous month's close of 2.72%.

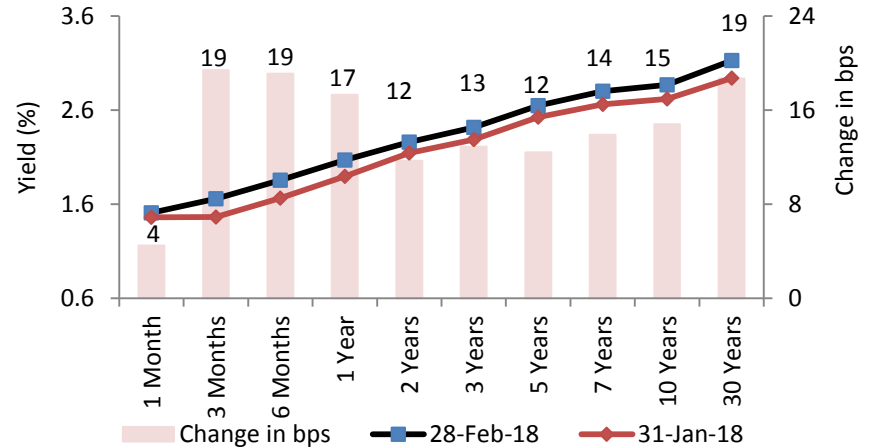
U.S. 10 Year Treasury Yield



Source: Thomson Reuters Eikon

U.S. Treasury prices fell due to stronger economic data that raised the possibility of faster pace of rate hikes.

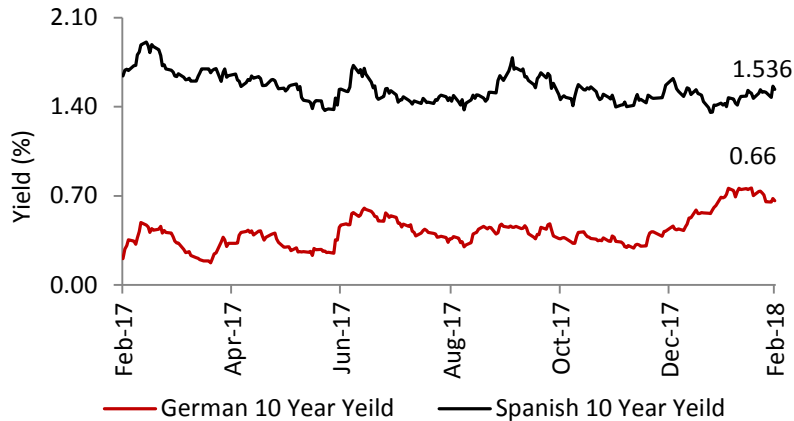
U.S. Treasury Yield Curve Shift (Month-on-Month)



Source: Thomson Reuters Eikon

Expectations of monetary tightening by key central banks across the globe weighed on both Germany and Spanish bonds

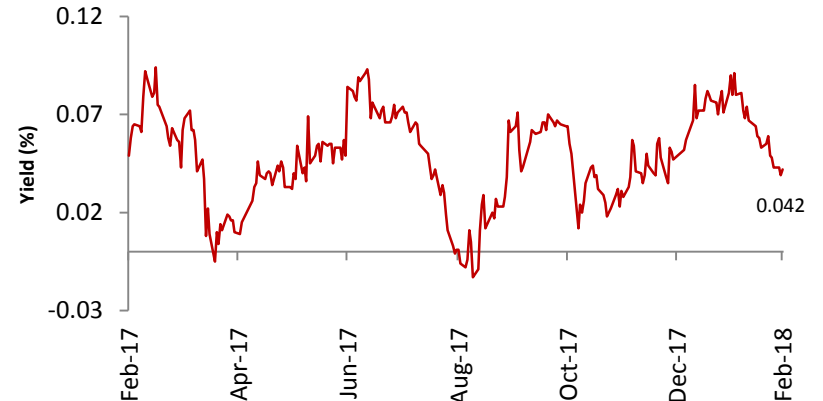
German & Spanish 10 Yr Treasury Yield



Source: Thomson Reuters Eikon

Japanese 10-year yield fell from 0.08% in Jan 2018 to 0.04% in Feb 2018

Japan 10 Yr Benchmark Yield



Source: Thomson Reuters Eikon

Global Commodity Market

Gold prices fell as new U.S. Fed chief's first testimony raised speculations that the central bank may raise rates more than the three times currently being anticipated

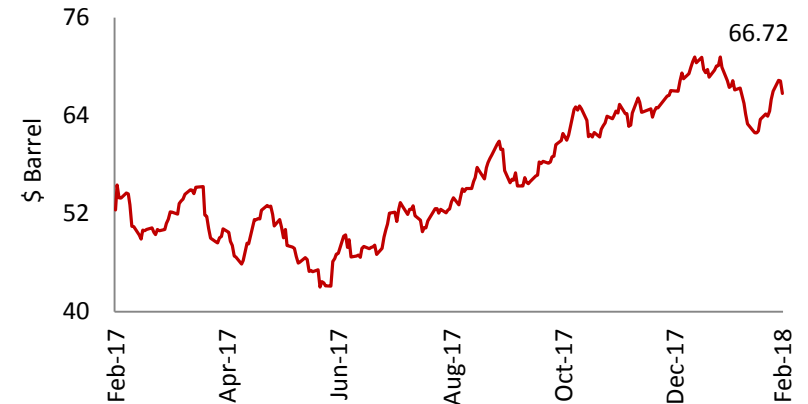
Gold



Source: Thomson Reuters Eikon

Brent crude prices dropped amid persisting worries over global supply glut. OPEC member Iran announced plans to raise its production within the next four years by at least 700,000 barrels a day

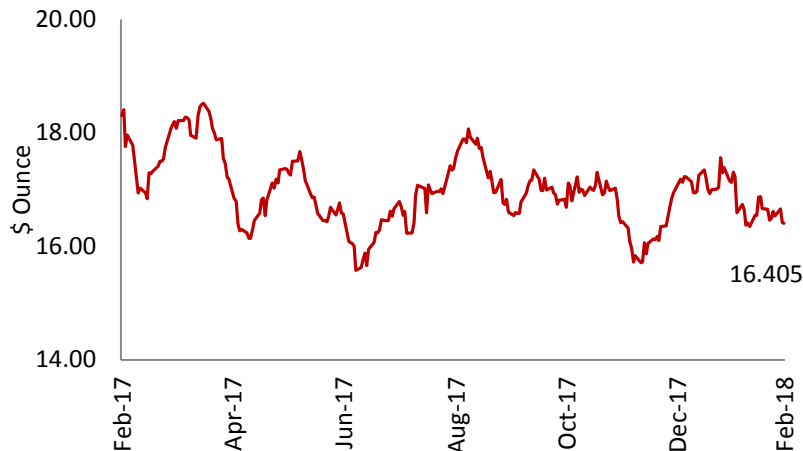
Brent Crude



Source: Thomson Reuters Eikon

Silver prices fell amid strength in the U.S. dollar against the euro

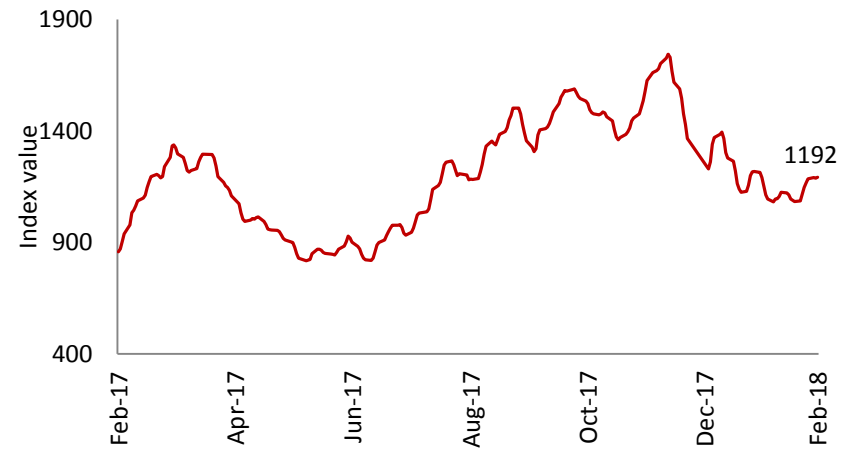
Silver



Source: Thomson Reuters Eikon

The Baltic Dry Index gained on the back of higher capesize and panamax activities

Baltic Dry Index



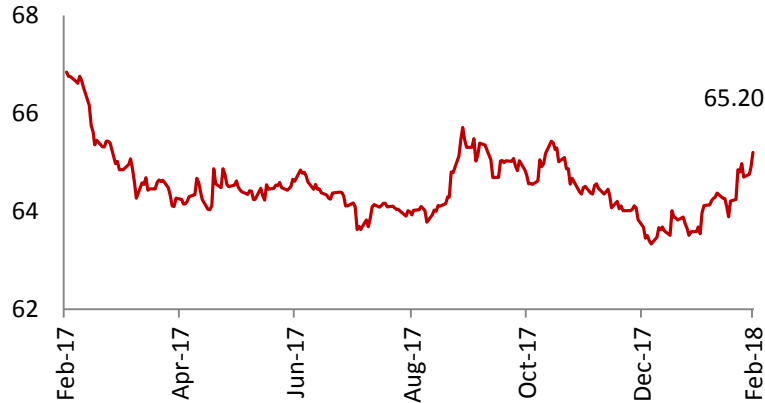
Source: Thomson Reuters Eikon

— Baltic Dry Index

Global Currency Market

The rupee fell against the greenback following losses in the domestic equity market and on indication of a rate hike by the Fed in the near term

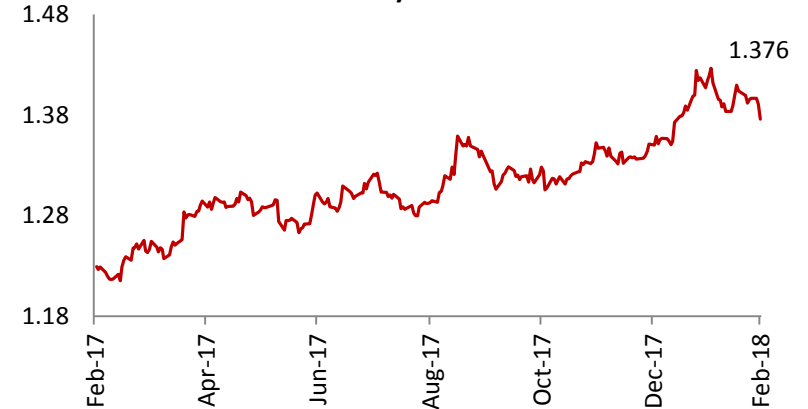
USD/INR



Source: Thomson Reuters Eikon

Pound fell against the U.S. dollar because of Britain's weak construction data and on negative news around Brexit negotiations

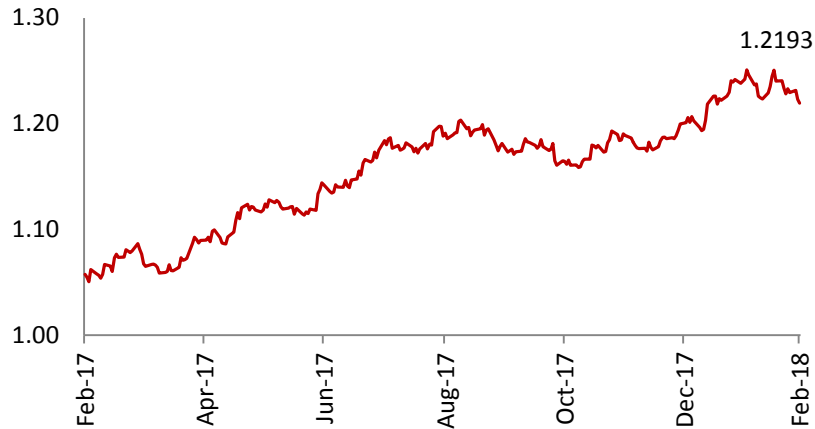
GBP/USD



Source: Thomson Reuters Eikon

The euro fell against the greenback after the new U.S. Fed chief hinted at a faster pace of rate hikes in 2018

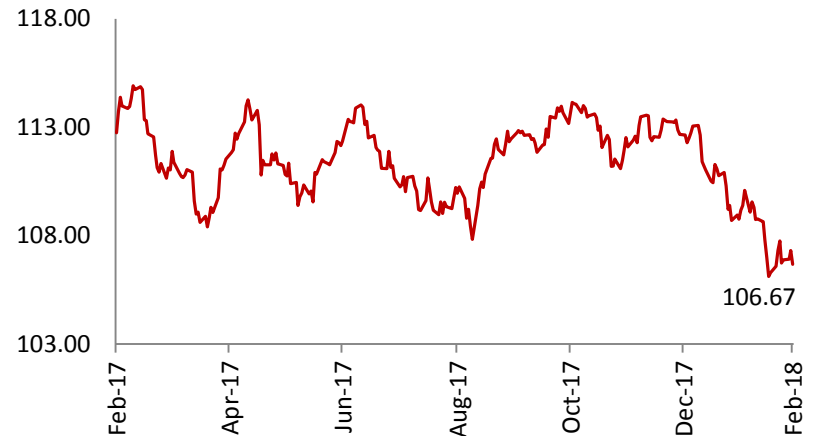
EUR/USD



Source: Thomson Reuters Eikon

Yen surged against the U.S. dollar following improved safe haven appeal amid weak global equity market

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 stood at Rs. 22.20 lakh crore in Feb 2018 compared with Rs. 22.41 lakh crore in Jan 2018. Overall, net inflow in mutual fund schemes stood at Rs. 12,092 crore in Feb compared with an net inflow of Rs. 1,06,159 crore in the preceding month. Equity funds (excluding ELSS) saw net inflow of Rs. 14,683 crore during the month. Meanwhile, income funds saw net outflow of Rs. 9,799 crore during the period.
- ✓ According to data from the Securities and Exchange Board of India, the total folio count of the mutual fund industry stood at 6.83 crore as on Jan 31, 2018. During the month of Jan, the industry witnessed an overall addition of 18.45 lakh folios. The folio count of equity-oriented schemes (excluding exchange traded fund) increased by 15.96 lakh during the month to 5.09 crore.
- ✓ With a view to reduce confusion among investors and expedite scheme consolidation, the Securities and Exchange Board of India (SEBI) reportedly asked mutual fund houses not to use the word 'opportunities' in their large-cap and multi-cap funds. However, the sales head of a large fund house reported that SEBI will not have issue with the use of 'opportunities' in mid-cap and small-cap funds. Earlier, the capital market regulator asked fund houses to do away with the word 'prudence' from their balanced fund, following which 3 of 5 fund houses changed the name of their prudence fund to aggressive hybrid fund.
- ✓ According to media reports, the majority of the mutual fund investors are happy with the mutual fund distributors. The latest Final Mile study, commissioned by Foundation of Independent Financial Advisors (FIFA), claims that that 8 out of 10 mutual fund investors are satisfied with the distributors even if their funds underperform. Of the investors who witnessed underperformance of their mutual fund schemes, 78% are satisfied with the services of the mutual fund distributors.

Real Estate and Private Equity News

- ✓ According to research firm India Ratings and Research (Ind-Ra), prospects for residential real estate market in India could remain negative in FY19, attributable to delayed demand revival due to the absence of a meaningful price reduction. Contrarily, the firm projects a stable outlook for commercial real estate depending on continued demand, restricted supply and low refinancing risk. The agency states that continued slump in residential unit sales could lead to cash outflows leading to higher debt and inventory levels in the sector.
- ✓ Tata Sons Ltd, the holding company of the Tata group, propose to reorganise its real estate and infrastructure businesses to simplify structures and fast-track growth. The company stated that its commercial and residential businesses will now come under one roof led by a new chief but did not mention about a merger. The company has appointed Sanjay Dutt as the new chief of the restructured unit, who will also supervise operations at Tata Housing Development Co. Ltd that focuses solely on residential projects.
- ✓ Japanese conglomerate Sumitomo Corporation partnered with Gurgaon-based Krishna Group to step into the Indian real estate space. A 50:50 joint venture named Krisumi Corporation was formed to develop real estate projects across the country. The first project to be undertaken by the joint venture will be Krisumi City, which will involve total build-up area of over 18 million square feet and is expected to be developed in various phases over 4-5 years.
- ✓ Enterprise software company Capillary Technologies Pvt. Ltd. raised \$20 million in a new round of funding from private equity firm Warburg Pincus, venture capital firm Sequoia Capital and existing investors. Capillary, which offers cloud Software as a Solution (SaaS) to retail and consumer goods companies in India and abroad, plans to use the fresh round of funding to strengthen product development capabilities.

Source: Livemint; Moneycontrol

Thank You

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