

WEALTHWHISPER



Monthly Review
January 2018

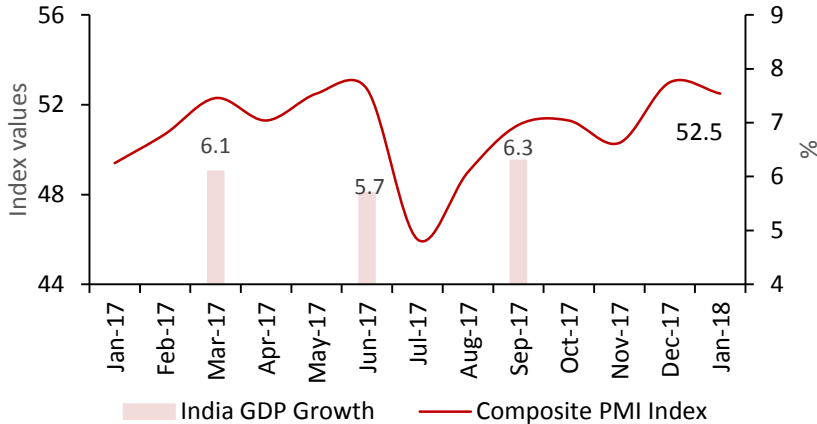
Key Domestic Market Highlights

- ✓ Indian equity markets ended the first month of CY2018 in the green with Sensex and Nifty surpassing the coveted 36,000 mark and 11,000 mark, respectively. The key factors contributing to the market rally included optimism over corporate earnings, government's initiatives to help banks deal with non-performing assets, proposal to raise the foreign direct investment (FDI) ceiling in the banking sector, lowering of additional borrowing requirement for the current fiscal by the government and International Monetary Fund's (IMF) report on the economic growth outlook of India. Banking stocks found support from Lok Sabha's approval of Rs. 80,000 crore recapitalisation of bonds for strengthening public sector banks and helping lenders deal with non-performing assets.
- ✓ Optimism ahead of the Union Budget 2018-19 and corporate earnings for the third quarter of the current fiscal helped investors shrug off concerns after the government lowered its Gross Domestic Product (GDP) forecast for FY18. Sentiment turned sour when official data showed that India's trade deficit reached \$14.88 billion in Dec 2017, up about 41% year-on-year, as crude oil and gold import bill inflated.
- ✓ Investors soon overcame the weakness after the government lowered its additional borrowing requirement for the current fiscal to Rs. 20,000 crore from Rs. 50,000 crore estimated earlier. Buying interest in banking stocks was generated by media reports stating that the government plans to increase FDI ceiling in banks.
- ✓ IMF report said India could regain the title of the world's fastest growing major economy in 2018-19. Markets extended the rally after the Economic Survey report showed that economic growth would accelerate in FY19 and would grow by 7-7.5%, compared with 6.75% growth projected for FY18.
- ✓ The upsurge was restricted towards the month-end as investors adopted a cautious stance prior to the Union Budget 2018-19.

Domestic Economic Indicators

Nikkei India Composite Output Index fell in Jan 2018 as manufacturing production growth eased from Dec's 60-month high

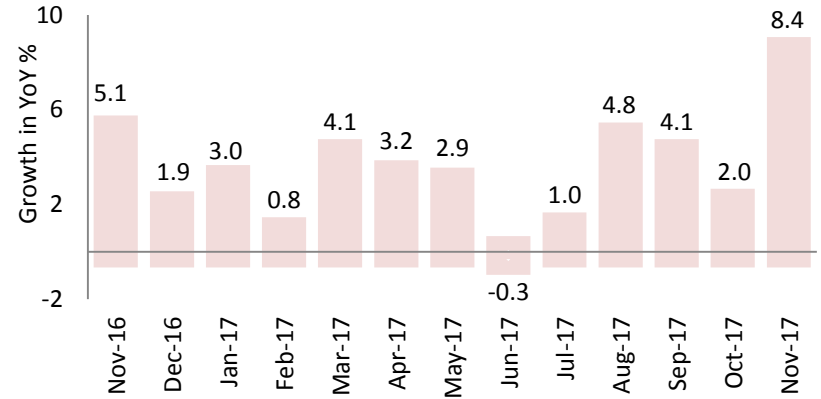
India Composite PMI & GDP Growth



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

IIP in Nov 2017 reached at the highest level since Oct 2015. The manufacturing sector surged 10.2% in Nov 2017 from 4.0% in the same period of the previous year

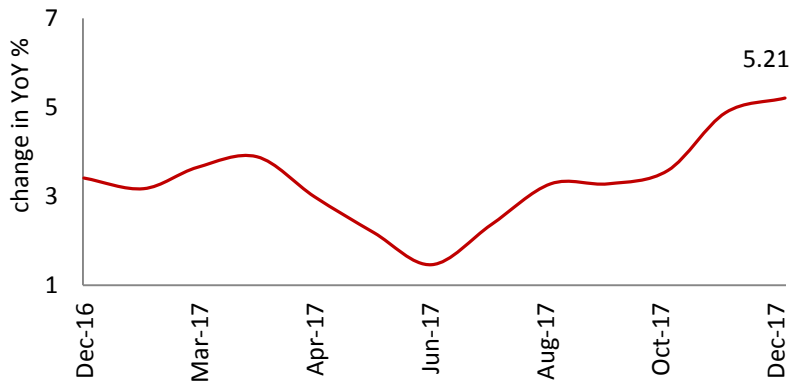
Index of Industrial production (IIP)



Source: Thomson Reuters Eikon

CPI-based inflation surged to a 17-month high of 5.21% in Dec 2017 from 4.88% in the previous month and 3.41% in the year-ago period

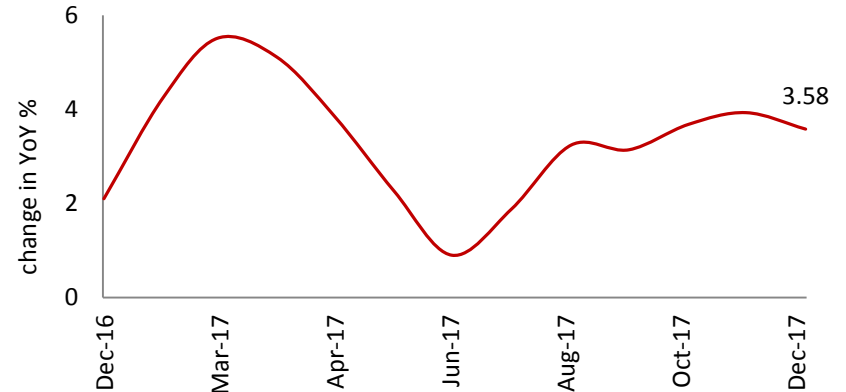
Consumer Price Index



Source: Thomson Reuters Eikon

WPI-based inflation slowed to 3.58% in Dec 2017 from 3.93% in the previous month. The WPI food price index also slowed to 2.91% in Dec from 4.10% in the previous month.

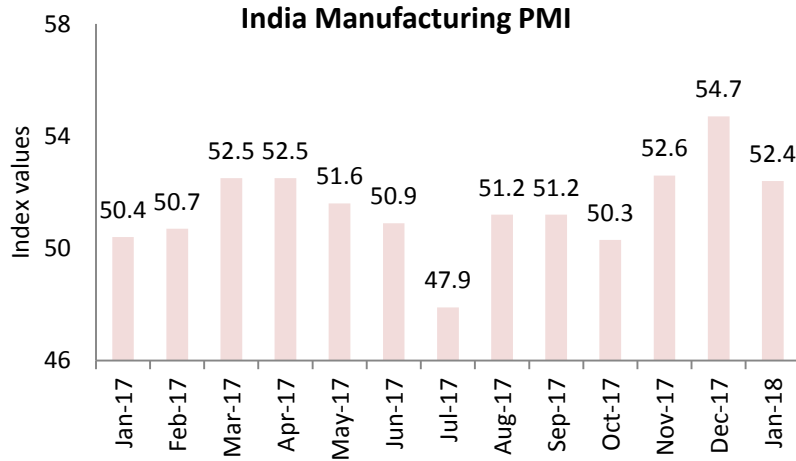
Wholesale Price Index



Source: Thomson Reuters Eikon

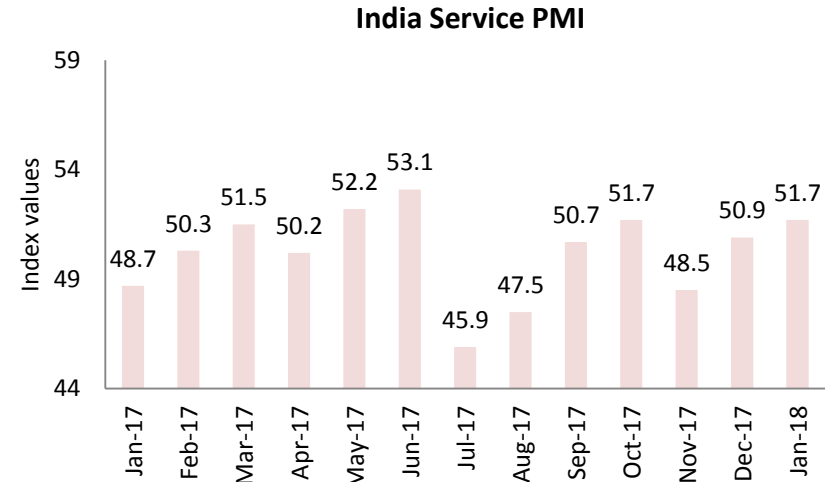
Domestic Economic Indicators

Decline in PMI reflects slower growth in output, new orders and employment. This is the sixth consecutive month during which manufacturing PMI has stayed above 50, indicating expansion.



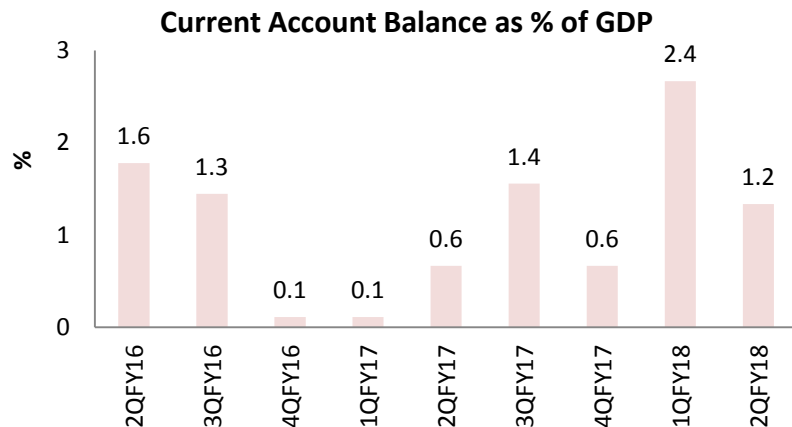
Source: Thomson Reuters Eikon; PMI >50 denotes expansion and <50 is contraction

Services PMI marked the fastest growth in a three-month period in Jan 2018. The upside was driven by renewed increase in new business



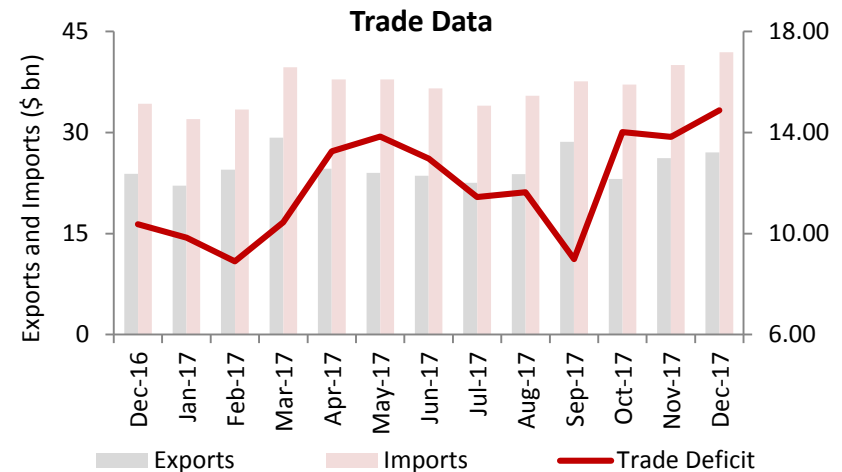
Source: Thomson Reuters Eikon; PMI >50 denotes expansion and <50 is contraction

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

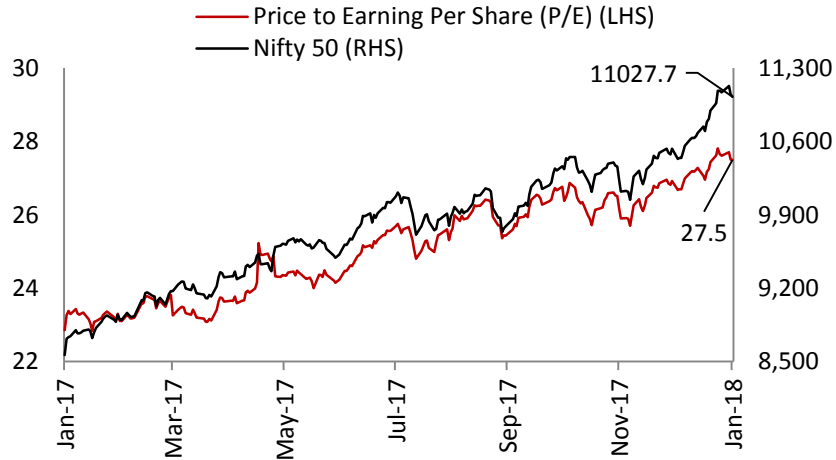
India's trade deficit expanded to \$14.88 billion in Dec 2017 from \$10.55 billion in the same period of the previous year and \$13.83 billion in the previous month



Source: Thomson Reuters Eikon

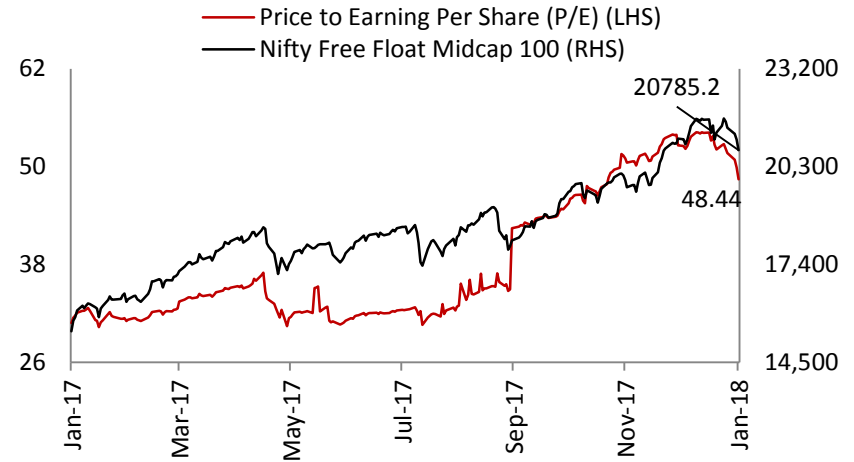
Domestic Equity Market

Key benchmark indices S&P BSE Sensex and Nifty 50 rose 5.60% and 4.72% to close at 35,965.02 and 11,027.70, respectively



Source: NSE

Both Nifty Free Float Midcap 100 and Nifty Free Float Smallcap 100 fell 1.65% and 3.04%, respectively

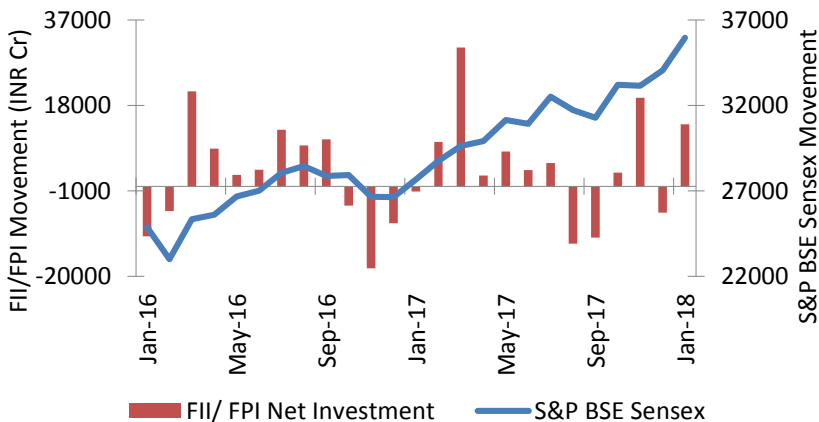


Source: NSE

Foreign portfolio investors were net buyers of domestic stocks worth Rs. 13,781.46 crore in Jan 2018 as against net sale of Rs. 5,882.68 crore in Dec 2017

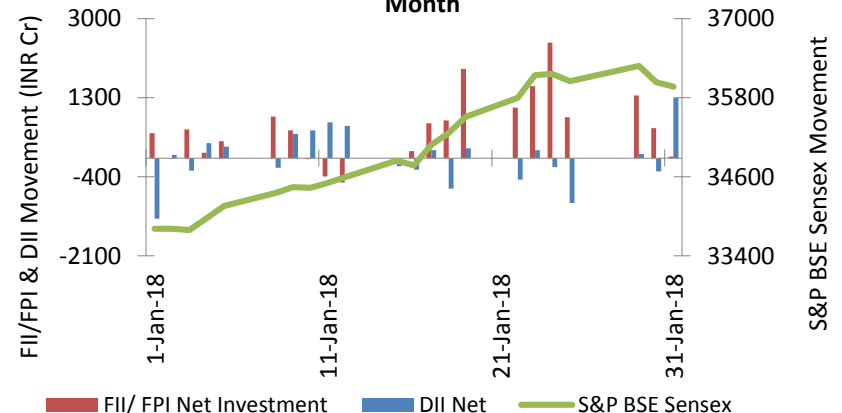
Domestic mutual funds remained net buyers in the equity segment to the tune of Rs. 9,023.16 crore in Jan 2018

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



Source: MFI Explorer

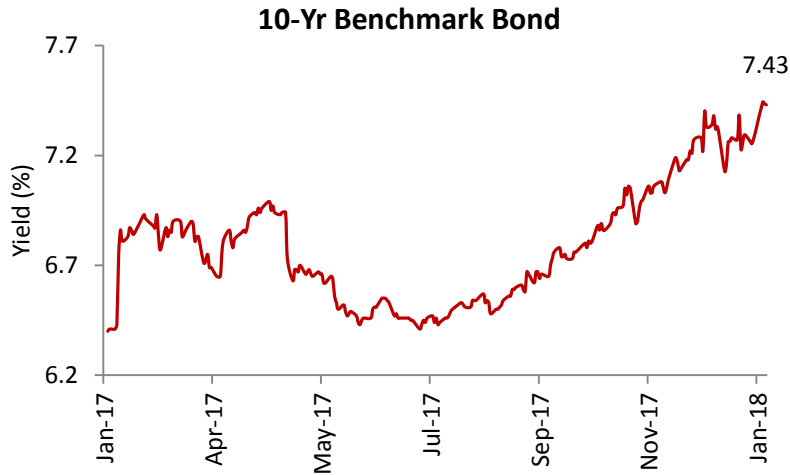
DII, FII/FPI Investment and S&P BSE Sensex - During the Month



Source: MFI Explorer

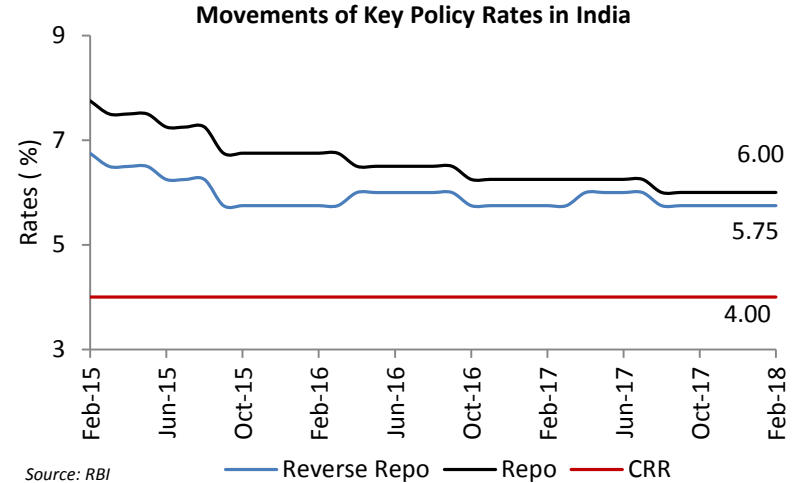
Domestic Debt Market

Yield on the 10-year benchmark bond (7.17% GS 2028) rose 11 bps to close at 7.43% from the previous month's close of 7.32%.



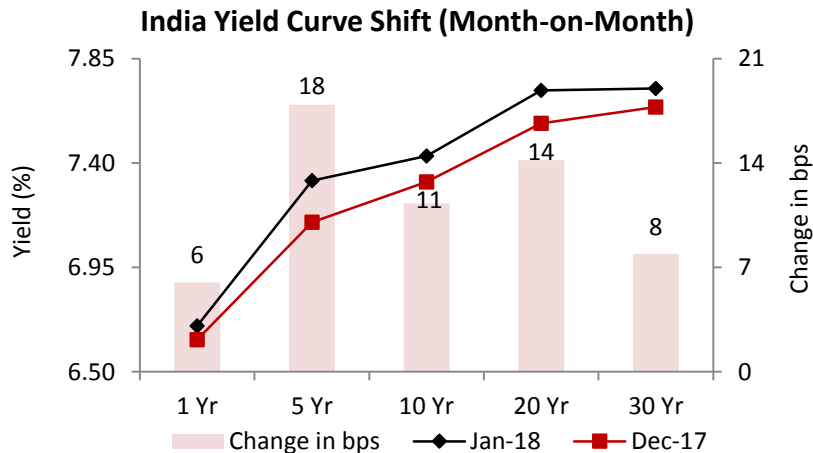
Source: Thomson Reuters Eikon

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%



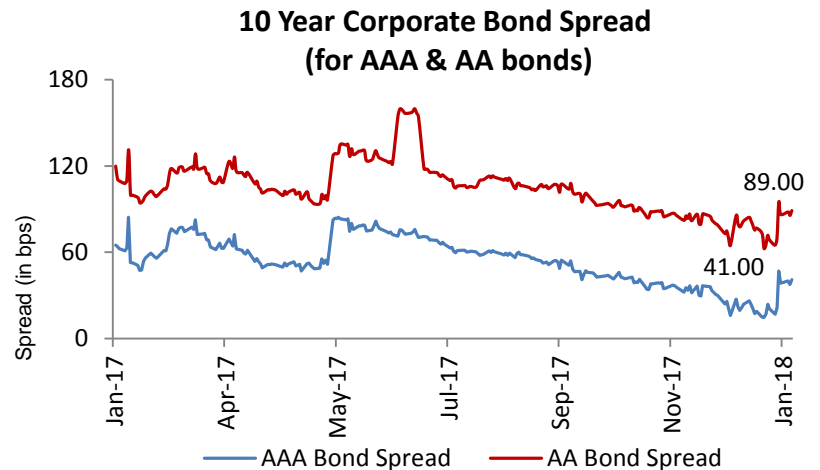
Source: RBI

Yield on gilt securities increased across maturities in the range of 2 to 32 bps. Highest rise was seen on the 12-year paper while lowest on 10-year paper.



Source: Thomson Reuters Eikon

Yield on corporate bonds rose across maturities in the range of 9 bps to 24 bps. Highest rise was seen on 1-year paper while lowest on 3-year paper.



Source: Thomson Reuters Eikon

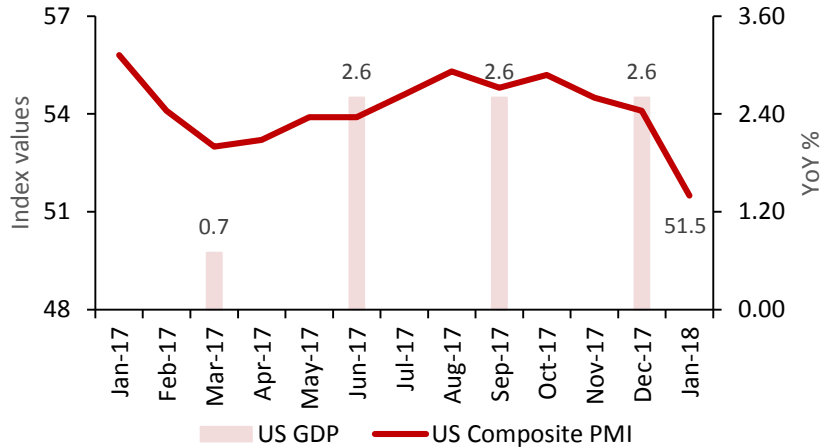
Global Market Highlights

- ✓ U.S. markets traded high during the month amid optimism around the U.S. economy despite mixed key economic data. The Federal Reserve's (Fed) Beige Book also indicated that the U.S. economy continued to expand in Dec and early Jan and industrial output expanded in the fourth quarter.
- ✓ Investors remained confident of another policy rate hike by the U.S. Fed despite mixed economic data. Market participants cheered following the end of the U.S. government shutdown. Policymakers managed to re-open the government following a brief shutdown, passing a stopgap bill funding the government until Feb 8. Towards the end, Fed kept its interest rates unchanged as was widely expected and markets expect that the bank will raise rates at its next meeting in Mar 2018.
- ✓ European markets mostly traded up following upbeat economic data as the euro area trade surplus increased in Nov. Positive corporate earnings and higher than expected Chinese GDP data also helped sentiment. Political developments in Germany added to the gains as the country's Social Democrats voted to enter coalition talks with Chancellor Angela Merkel's government.
- ✓ However, the upside was limited as the European Central Bank's (ECB) stimulus measures fell short of investor expectations of a steeper monetary policy.
- ✓ Asian markets traded up on optimism over the ongoing talks between South Korea and North Korea. China also ruled out the news of it lowering U.S. bond purchase. The Bank of Japan kept its massive monetary stimulus programme unchanged, thereby easing worries that it might shift towards a tighter policy. Also, market participants remained optimistic of economic growth in China and improved corporate earnings. However, the upside was limited on concerns that the Chinese central bank has lowered its lending amount in Dec to curb credit growth. Moreover, the Bank of Japan (BoJ) suddenly reduced its bond purchase.

Global Economic Indicators

U.S. Composite PMI Output Index fell in Jan 2018 as weaker services sector growth outweighed faster growth in the manufacturing sector

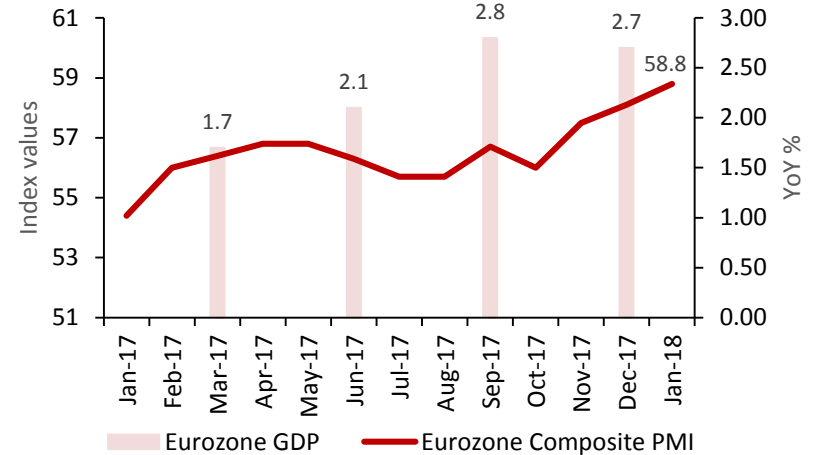
US Composite PMI & GDP Growth



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

Eurozone PMI Composite Output Index in Jan 2018 touched its highest level since Jun 2006

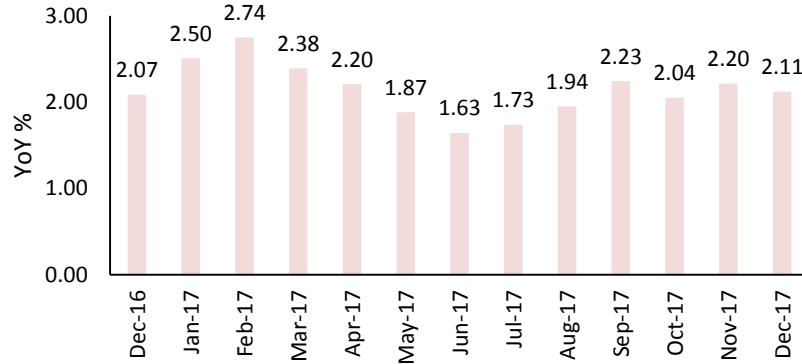
Euro zone Composite PMI & GDP Growth



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

U.S. consumer prices rose at a slower pace in Dec 2017 compared with the previous month's rise due to fall in gasoline prices

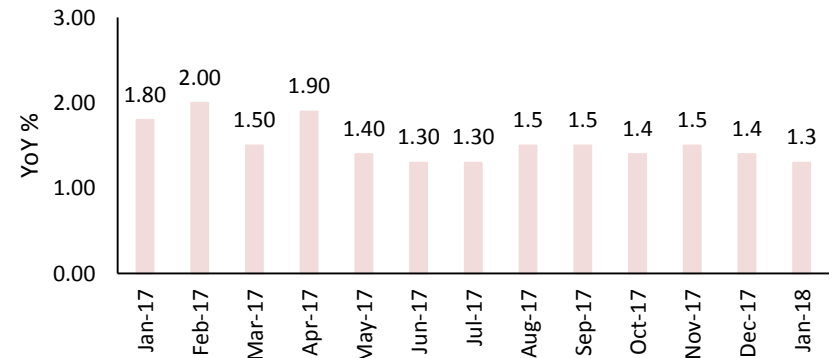
U.S. Inflation



Source: Thomson Reuters Eikon

Eurozone inflation (preliminary) rose at a slower pace in Jan 2018 but core inflation accelerated compared with the previous month's rise

Eurozone Inflation



Source: Thomson Reuters Eikon

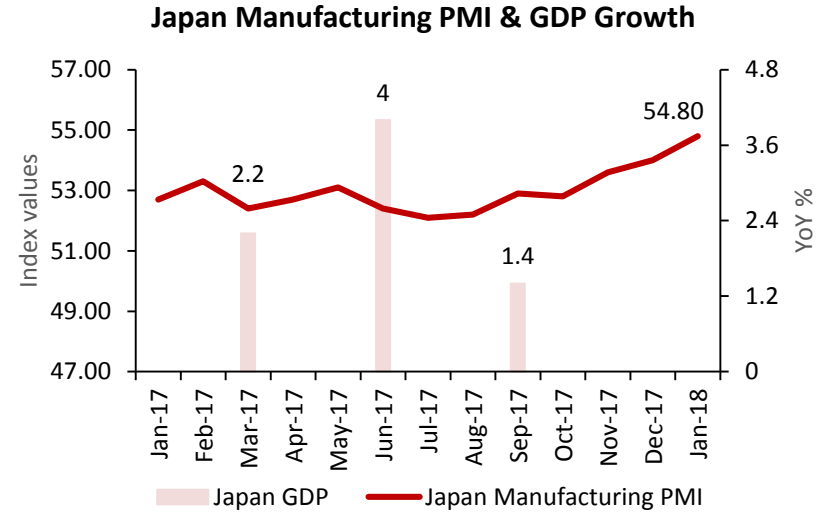
Global Economic Indicators

Caixin China Manufacturing PMI remained unchanged in Jan 2018 as higher production neutralized slower rise in total new work and new export sales



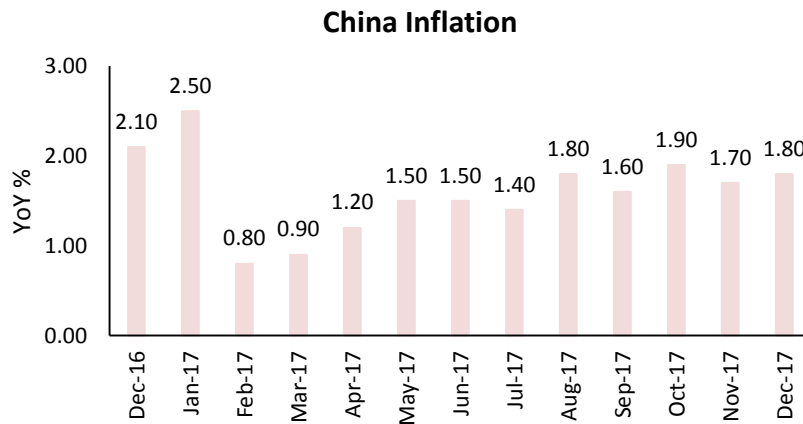
Source: Reuters, fxtstreet; PMI > 50 denotes expansion and < 50 is contraction

Japan's manufacturing sector growth accelerated further in Jan 2018 as output and new order growth rates accelerated, while businesses raised employment amid rising backlogs of work



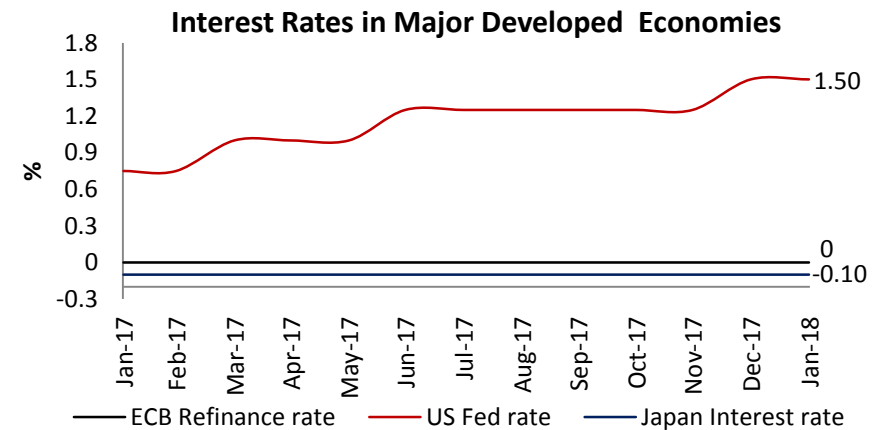
Source: Reuters, fxtstreet; PMI > 50 denotes expansion and < 50 is contraction

China's inflation rose at a faster pace in Dec 2017 but core inflation slowed down compared with the previous month



Source: Reuters

Interest rates among major developed economies remained unchanged in Jan 2018

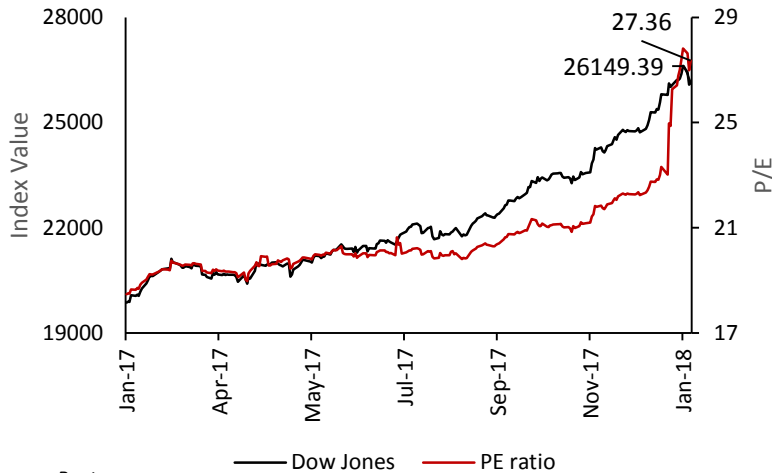


Source: Reuters

Global Equity Markets

U.S. markets traded high during the month under review amid optimism around the U.S. economy despite mixed key economic data

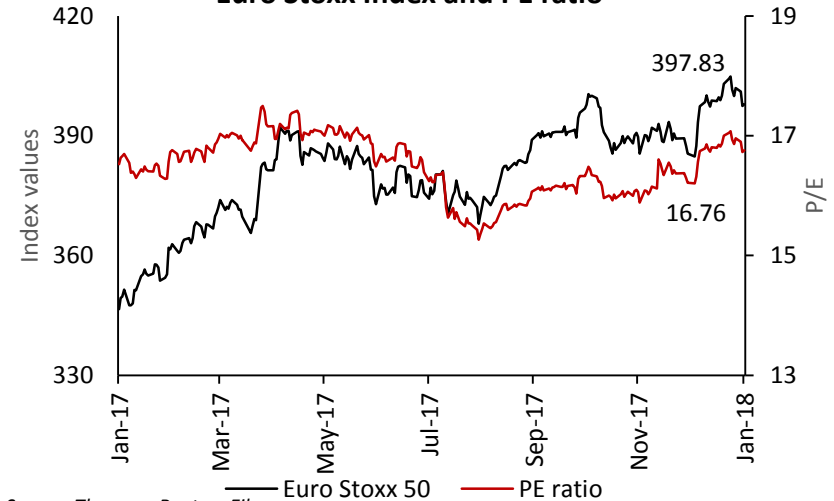
U.S. Dow Jones Index and PE ratio



Source: Reuters

European markets mostly traded up following upbeat economic data as the euro area trade surplus increased in Nov 2017

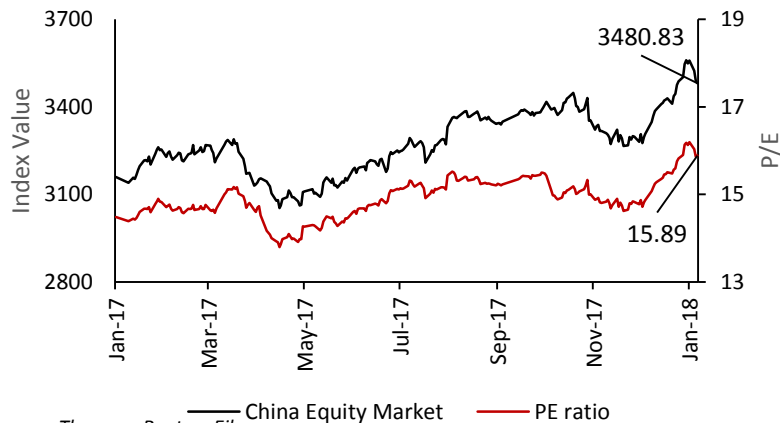
Euro Stoxx Index and PE ratio



Source: Thomson Reuters Eikon

Asian markets traded up on optimism over the ongoing talks between South Korea and North Korea. China also ruled out the news of it lowering U.S. bond purchase.

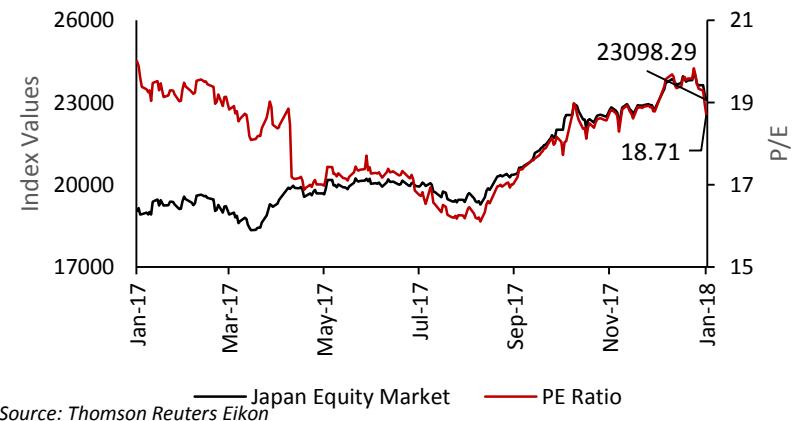
China Shanghai Index and PE



Source: Thomson Reuters Eikon

BoJ kept its massive monetary stimulus programme unchanged, thereby easing worries that it might shift towards a tighter policy.

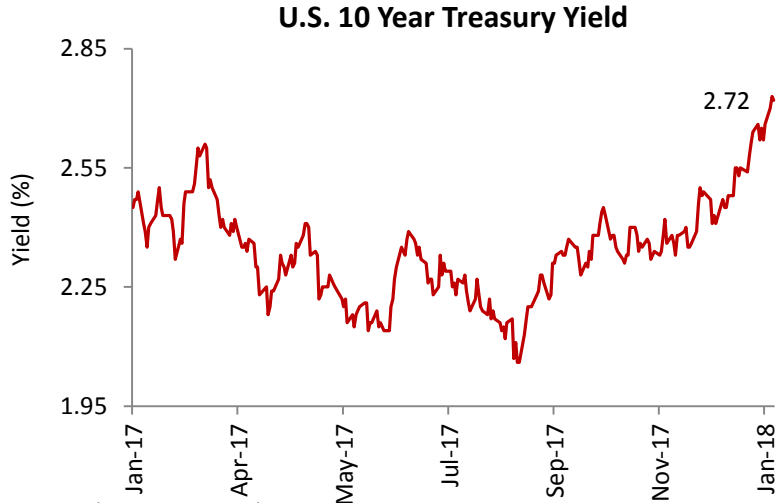
Japan Nikkei Index and PE ratio



Source: Thomson Reuters Eikon

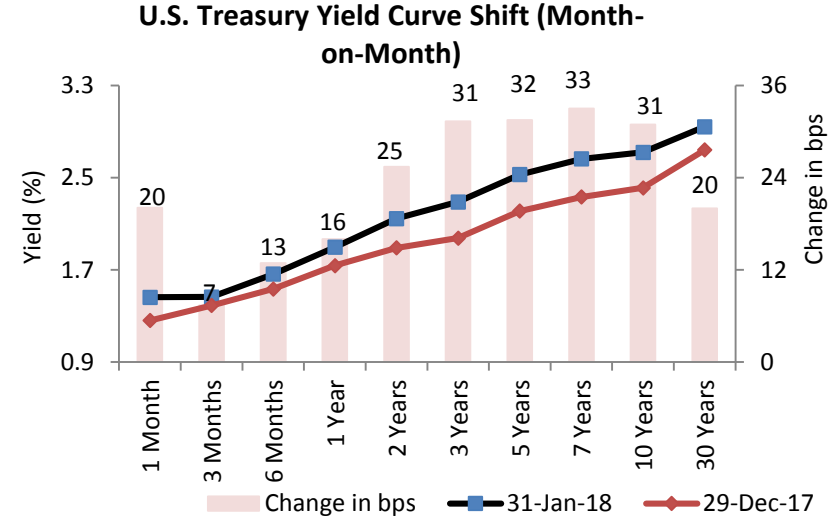
Global Debt

Yield on the 10-year U.S. Treasury bond surged 31 bps during the month to close at 2.72% compared with the previous month's close of 2.41%.



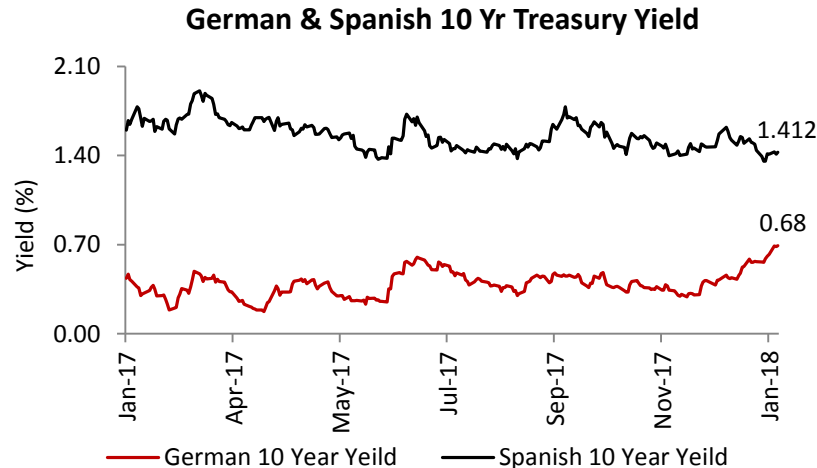
Source: Thomson Reuters Eikon

U.S. Treasury prices fell on expectations that central banks globally will reduce stimulus as the economic outlook improves



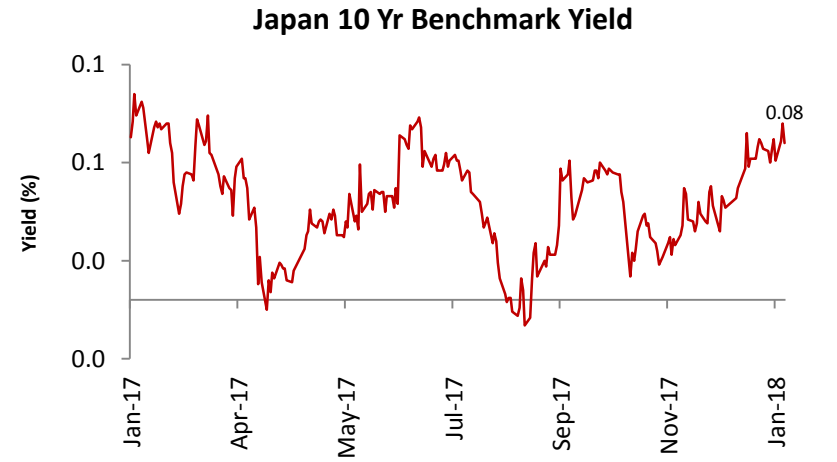
Source: Thomson Reuters Eikon

Expectations of monetary tightening by ECB weighed on both Germany and Spanish bonds



Source: Thomson Reuters Eikon

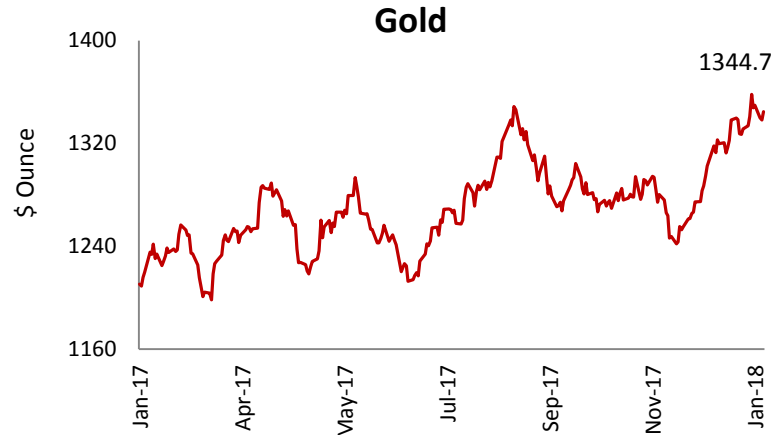
Japanese 10-year yield surged from 0.047% in Dec 2017 to 0.08% in Jan 2018



Source: Thomson Reuters Eikon

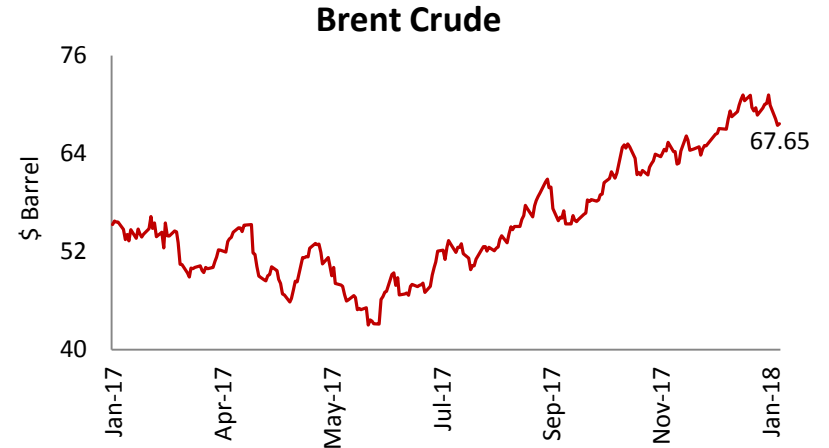
Global Commodity Market

U.S. Senate's approval of short-term funding to keep the U.S. government running for about three weeks reduced gold's safe-haven appeal.



Source: Thomson Reuters Eikon

Oil prices touched multi-year high amid unrest in Iran, but supply glut limited the upside



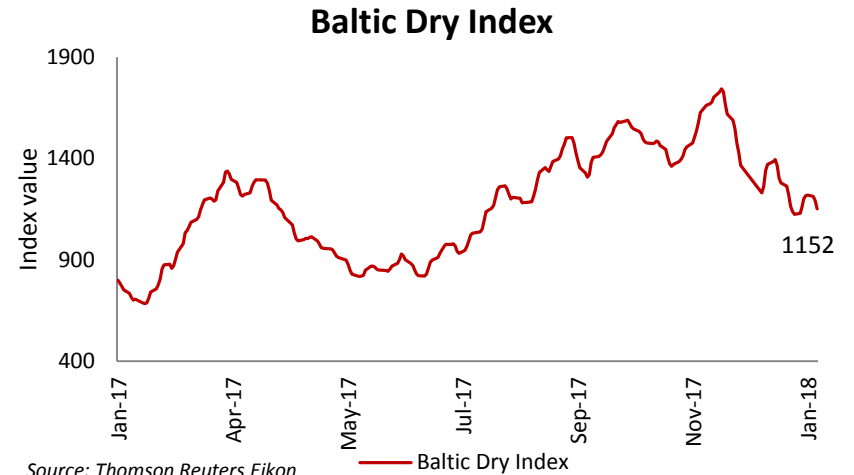
Source: Thomson Reuters Eikon

Silver prices rose amid weakness in the U.S. dollar against the euro



Source: Thomson Reuters Eikon

The Baltic Dry Index moved down 12.81% MoM in Jan (compared with Dec 22, 2017) owing to lower capesize and panamax activities



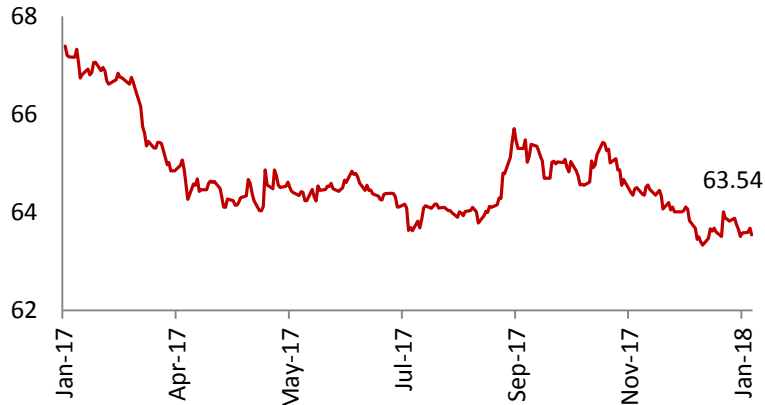
Source: Thomson Reuters Eikon

— Baltic Dry Index

Global Currency Market

The Indian rupee went up against the U.S dollar following selling of the greenback by banks and strong IIP data for Nov 2017

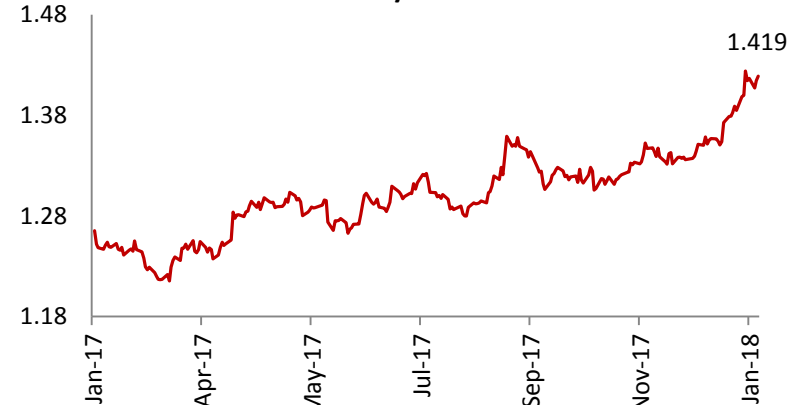
USD/INR



Source: Thomson Reuters Eikon

Pound rose against the U.S. dollar on optimism of a favourable Brexit deal with the European Union and strong British employment data

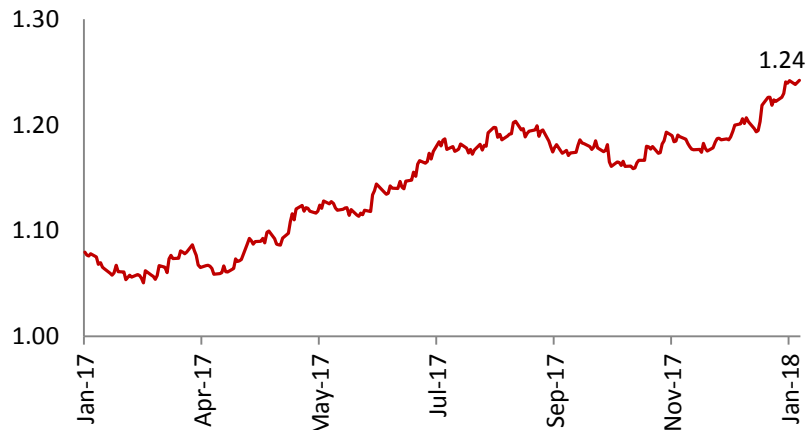
GBP/USD



Source: Thomson Reuters Eikon

Euro strengthened against the greenback on perception that ECB could end its bond purchase programme

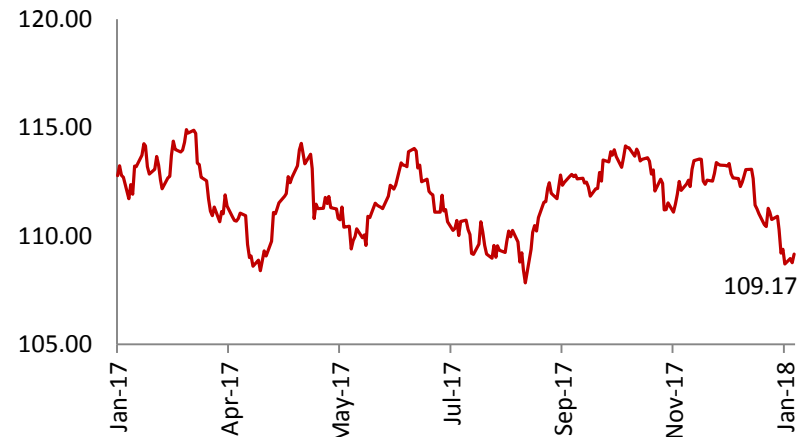
EUR/USD



Source: Thomson Reuters Eikon

Yen gained against the U.S dollar on speculation that Bank of Japan could start reducing its huge stimulus policy in 2018

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 rose to Rs. 22.41 lakh crore in Jan 2018 from Rs. 21.38 lakh crore in Dec 2017. Overall, net inflow in mutual fund schemes stood at Rs. 1,06,159 crore in Jan as against net outflow of Rs. 1,75,023 crore in the preceding month. Liquid funds saw maximum net inflow of Rs. 96,552 crore during the month. Equity and equity-Linked Saving Scheme (ELSS) saw net infusion of Rs. 15,390 crore. Meanwhile, income funds saw net outflow of Rs. 9,871 crore during the period.
- ✓ The Securities and Exchange Board of India (SEBI), in a circular, reviewed the additional expense of up to 0.30% towards inflows from beyond top 15 (B15). Presently, as per the SEBI circular dated Sep 13, 2012, additional Total Expense Ratio (TER) can be charged up to 30 basis points on daily net assets of the scheme in case the new inflows from beyond top 15 cities are at least (a) 30% of gross new inflows in the scheme or (b) 15% of the average AUM (year to date) of the scheme, whichever is higher. The additional TER for inflows from beyond top 15 cities (B15 cities) was allowed with an objective to increase penetration of mutual funds in B15 cities. As more than five years have elapsed, the capital market regulator has decided that the additional TER of up to 30 basis points would be allowed for inflows from beyond top 30 cities instead of beyond top 15 cities. Accordingly, the terms T 15 cities and B 15 cities would be substituted by T30 and B 30 cities respectively. The circular is effective from Apr 1, 2018.
- ✓ The capital market regulator clarified in a circular that mutual fund schemes, including close-ended ones, where in exit load is not levied or not applicable, the mutual fund houses shall not be eligible to charge an additional 20 bps TER in lieu of exit loads for such schemes. Further, existing mutual fund schemes including close-ended schemes, wherein exit load is not levied or not applicable, shall discontinue, with immediate effect, the levy of above mentioned additional expenses, if any.

Real Estate and Private Equity News

- ✓ Bharti Realty, the real estate unit of Bharti Enterprises, plans to invest about Rs. 3,500 crore to develop one commercial and a housing project in Delhi-NCR, according to reports. The company has also received a project from Delhi International Airport Ltd., to develop a commercial property having a leasable area of around 2.5 million square feet, the project cost of which is expected to be Rs. 1,500 crore.
- ✓ According to latest data from the capex-tracking database of the Centre for Monitoring Indian Economy (CMIE), the real estate sector is yet to show signs of recovery. Project announcements in the Dec quarter of 2017 plunged to lowest level since 2005, marking a fall of 91% from the Dec quarter of 2016. A report from property consultant Knight Frank India also showed that home sales and launches in 2017 continued to lag due to weak consumer sentiment, regulatory changes and high levels of unsold inventories.
- ✓ According to property consultant JLL, Private Equity (PE) inflow in the real estate sector could grow at a CAGR of 10% to \$100 billion by 2026, with tier-1 and tier-2 cities being the prime beneficiaries. PE inflows between 2014 and 2017 have risen by 150% in office and IT/ITeS space, with a strong bias towards the office sector. Although the residential sector continued to remain the highest invested sector, the rise in the same period was just 5% of total investment flows in pure equity.
- ✓ IIFL Asset Management Ltd will start raising its first offshore affordable housing fund of up to \$500 million in the upcoming financial year, according to reports. The fund raising will happen after the company closes its domestic fund by the end of the financial year. The fund will be raised mostly from offshore investors and will be focused on affordable housing segment like the existing one.

Source: Livemint

Thank You

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