

WEALTHWHISPER



Monthly Review
June 2018

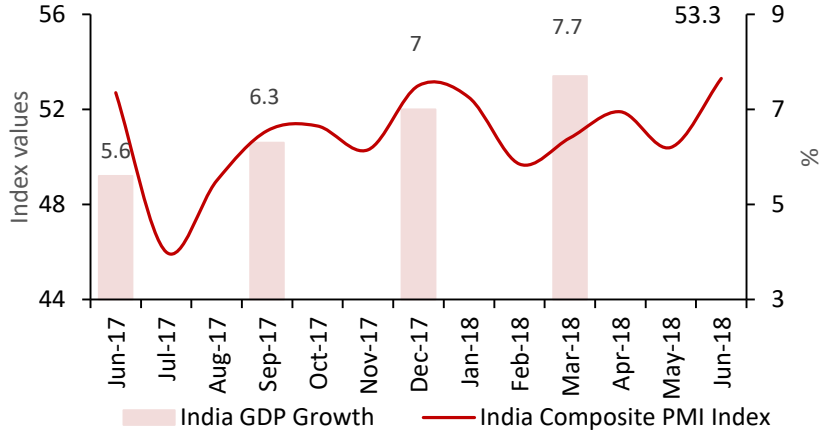
Key Domestic Market Highlights

- ✓ Indian equity markets witnessed muted growth during the month with Nifty 50 dropping marginally. Concerns over foreign fund flow in the light of recent rate hike by the U.S. Federal Reserve (Fed), the rally in global crude oil prices and the ongoing trade war between U.S. and China dented market sentiment. Retail inflation numbers fuelled worries over multiple rate hikes by the Monetary Policy Committee (MPC) in the current fiscal. Nonetheless, positive outcome of the U.S. and North Korea Summit soothed investor nerves.
- ✓ Investor sentiment soured towards the beginning of the month as positive impact of the growth of domestic Gross Domestic Product (GDP) in the fourth quarter of FY18 was overshadowed by slowdown in India's manufacturing sector activity in May 2018.
- ✓ Markets managed to recover on the back of the neutral stance adopted by the MPC in the second bi-monthly policy of FY19, held during Jun 4-6,2018. MPC hiked repo rate by 25 bps that came in line with market expectations. The highly anticipated U.S.-North Korea summit too generated buying interest.
- ✓ Concerns over foreign fund outflow reignited after U.S. Fed raised key interest rates and adopted a hawkish stance. The U.S. President directed U.S. trade representative to identify \$200 billion worth of Chinese goods for additional tariffs at 10%. Further, the U.S. President said that the tariffs will go into effect if China refuses to change its unfair trade practices and insists on going forward with recently announced tariffs. Investors found some relief after media reports suggested that China may announce policy stimulus to mitigate the negative impact of trade policies.
- ✓ Markets managed to recoup much of the losses on the last trading session of the month following media reports of a possible joint venture between an Indian steel major and a German multinational conglomerate

Domestic Economic Indicators

India's composite PMI rose to its highest level since Oct 2016 in Jun 2018 due to sharp recovery in services firms' activity

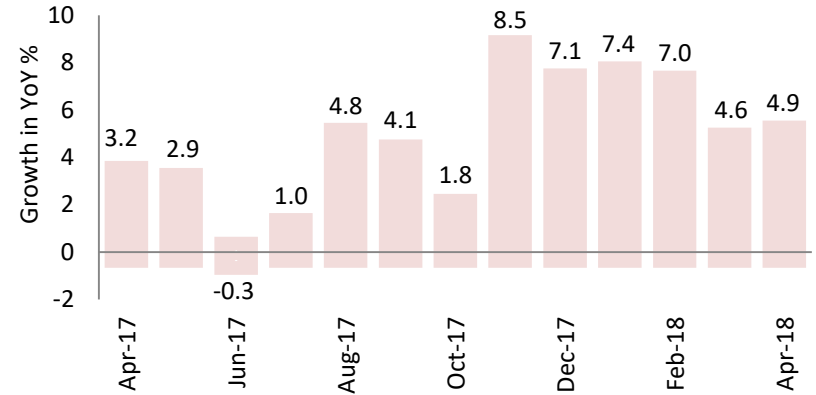
India Composite PMI & GDP Growth



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

IIP grew 4.9% in Apr 2018 as against upwardly revised growth of 4.6% in Mar 2018 and 3.2% in Apr 2017. The manufacturing sector surged 5.2% in Apr 2018

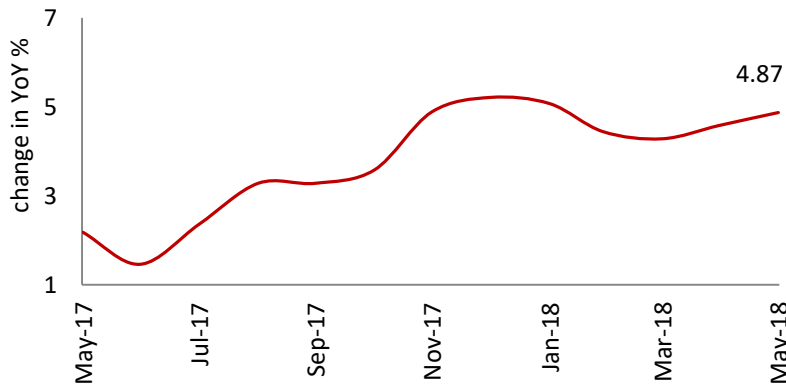
Index of Industrial production (IIP)



Source: Thomson Reuters Eikon

Consumer inflation touched fourth-month high level of 4.87% in May 2018 and remained above RBI's medium-term target of 4% for the seventh consecutive month

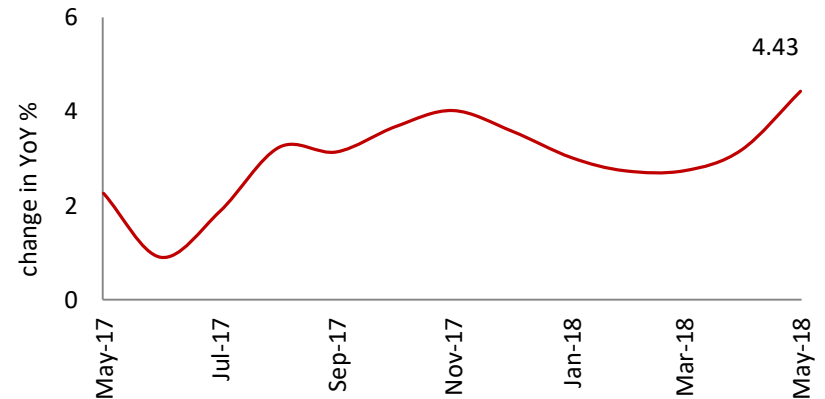
Consumer Price Index



Source: Thomson Reuters Eikon

Wholesale prices rose sharply to 4.43% in May 2018 from a provisional 3.18% in Apr 2018 and 2.26% in May 2017. This marked a 14-month high.

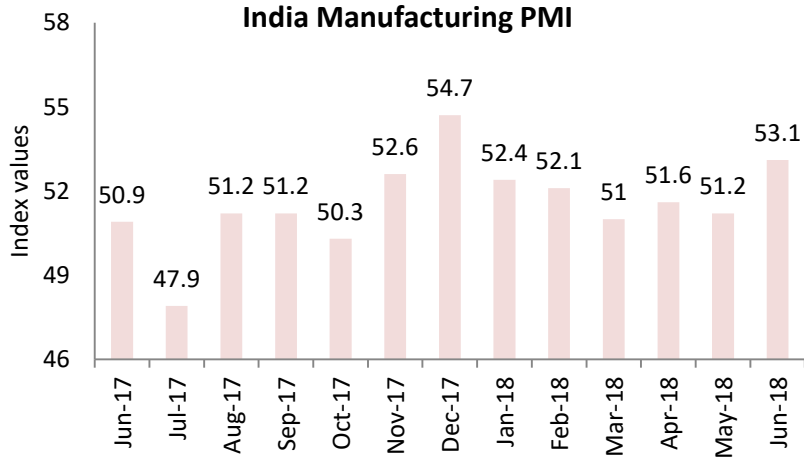
Wholesale Price Index



Source: Thomson Reuters Eikon

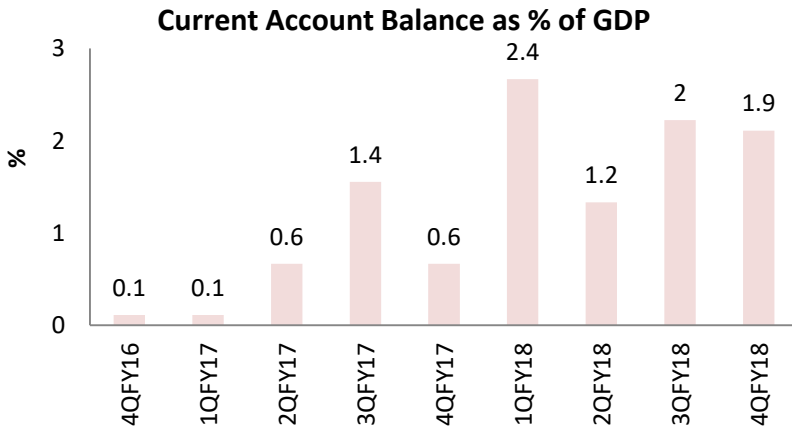
Domestic Economic Indicators

Nikkei India Manufacturing PMI rose to 53.1 in Jun 2018 – the strongest reading in 2018 so far. The hike was on the back of healthy growth in output and new orders



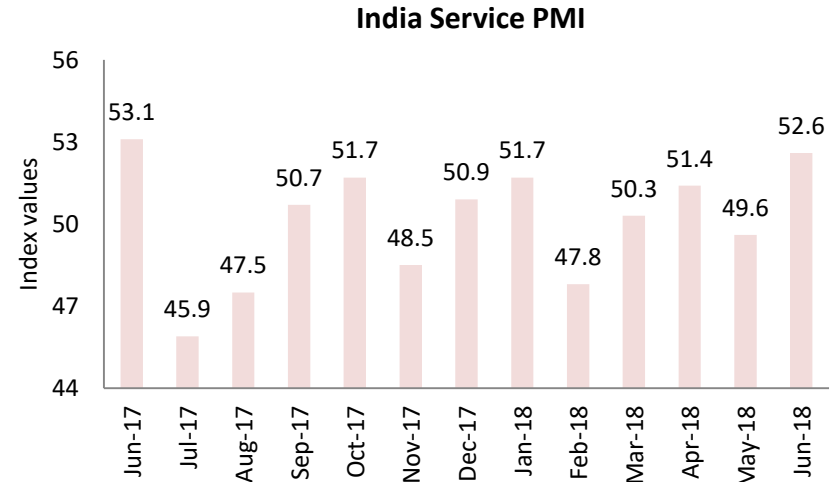
Source: Thomson Reuters Eikon; PMI >50 denotes expansion and <50 is contraction

Current Account Deficit (CAD) rose to \$13.0 billion or 1.9% of GDP in Q4FY18, up from \$2.6 billion or 0.4% of GDP in Q4FY17 due to higher trade deficit



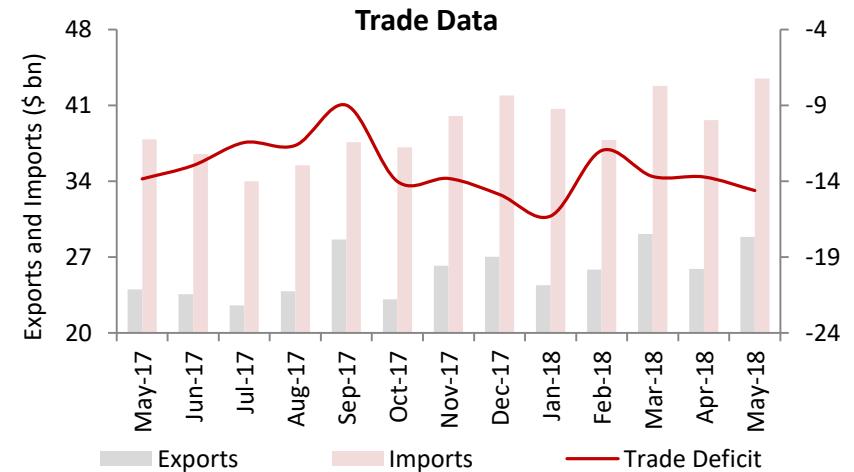
Source: Thomson Reuters Eikon

The Nikkei India Services PMI climbed to 52.6 in Jun 2018 from 49.6 in May 2018. This is the highest since Jun 2017



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

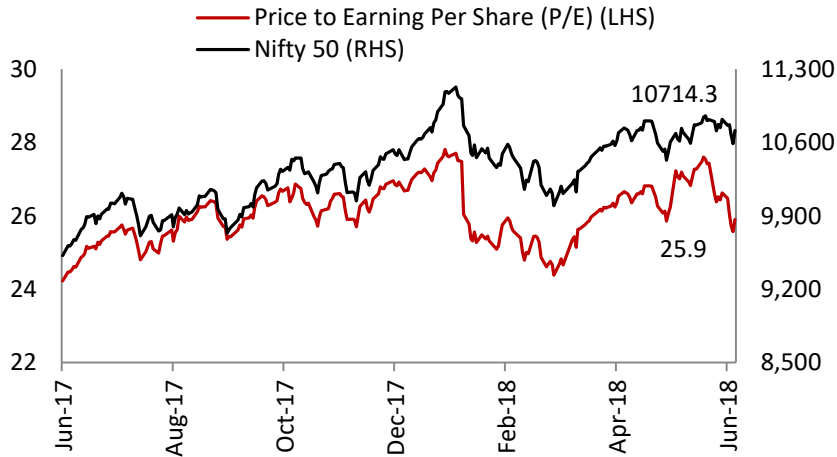
India's export grew 20.18% YoY to \$28.86 billion in May 2018 from \$24.01 billion in May 2017. Meanwhile, imports grew 14.85% to \$43.48 billion in May 2018 from \$37.86 billion in May 2017



Source: Thomson Reuters Eikon

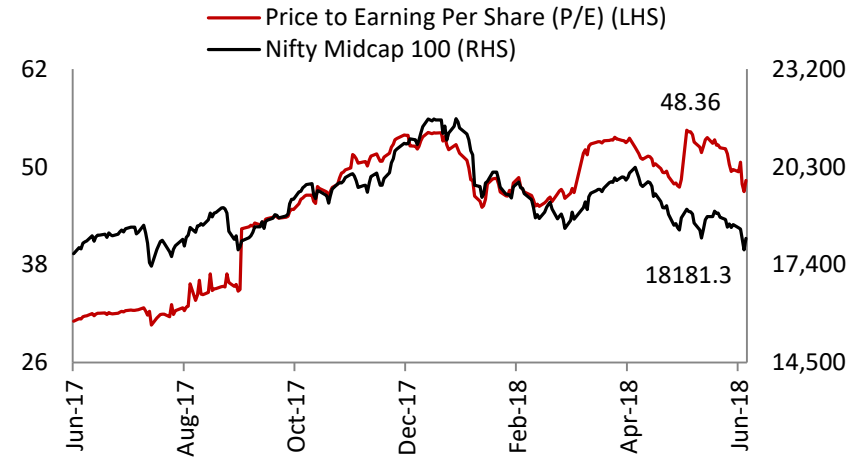
Domestic Equity Market

S&P BSE Sensex inched up 0.29% to close at 35,423.48, while Nifty 50 dipped 0.20% to close at 10,714.30



Source: NSE

Both Nifty Midcap 100 and Nifty Smallcap 100 plunged 3.82% and 8.33%, respectively

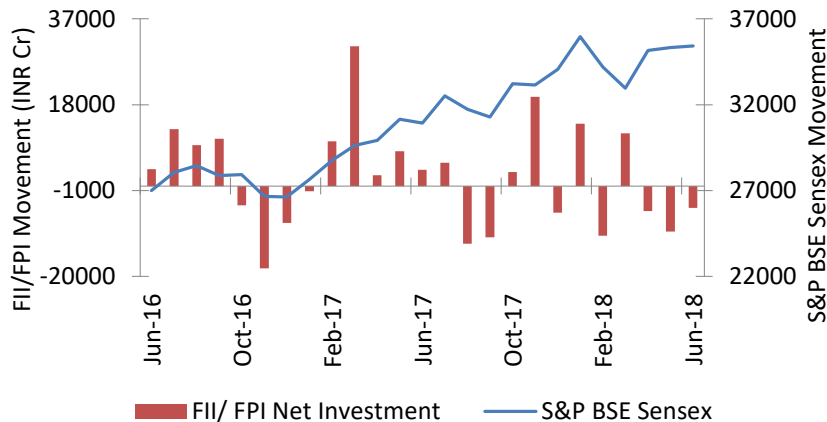


Source: NSE

Foreign portfolio investors were net seller of domestic stocks worth Rs. 4,831.23 crore in Jun as against net sale of Rs. 10,060.03 crore recorded in the previous month

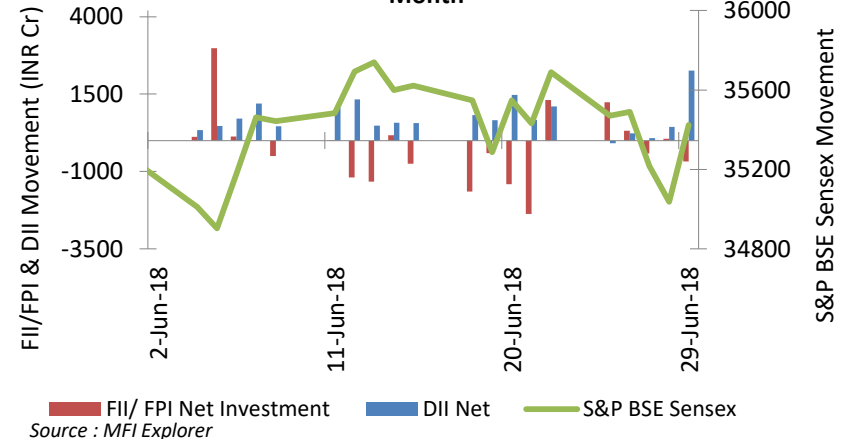
Domestic mutual funds remained net buyers in the equity segment to the tune of Rs. 9231.28 crore in Jun 2018

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



Source: MFI Explorer

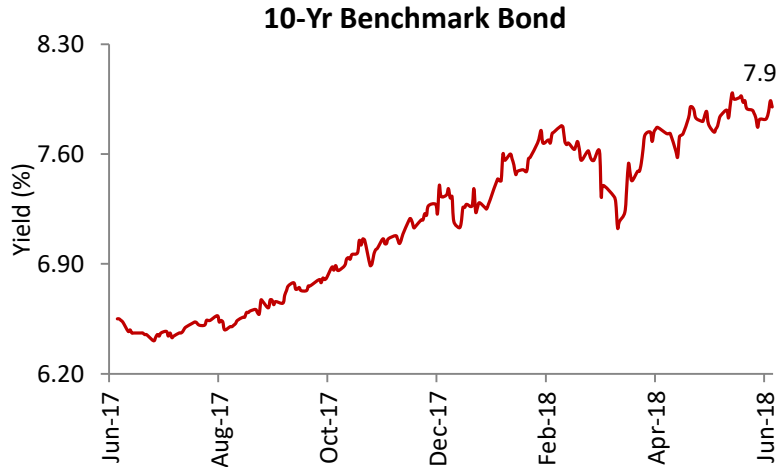
DII, FII/FPI Investment and S&P BSE Sensex - During the Month



Source: MFI Explorer

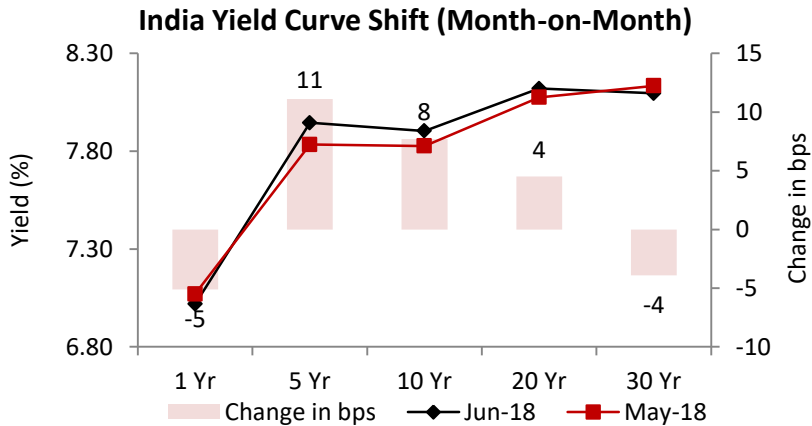
Domestic Debt Market

Bond yields rose in Jun 2018 after MPC hiked key interest rates for the first time since Jan 2014



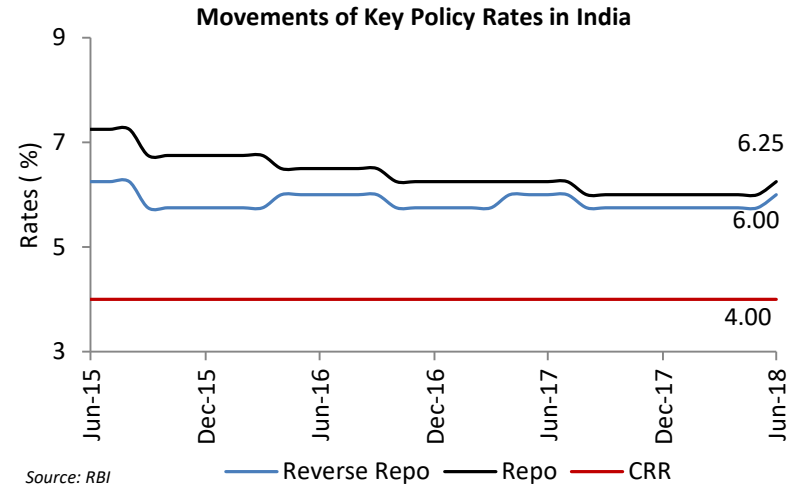
Source: Thomson Reuters Eikon

Yield on gilt securities increased across maturities by up to 26 bps barring 1- and 30-year papers, which fell 5 bps and 4 bps, respectively



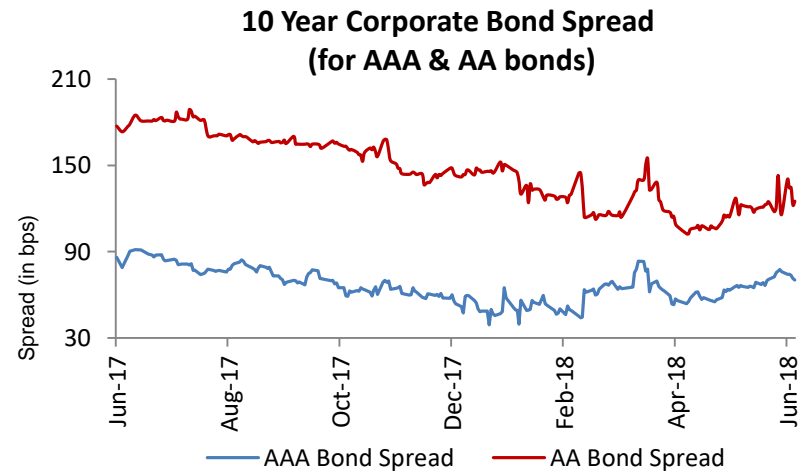
Source: Thomson Reuters Eikon

MPC increased repo rates by 25 basis points to 6.25% and cited risks that may lead to an increase in domestic inflationary pressures in the country



Source: RBI

Yield on corporate bonds increased across maturities in the range of 8 bps to 15 bps, barring 1-year paper that fell 19 bps and 2-year paper, which closed steady



Source: Thomson Reuters Eikon

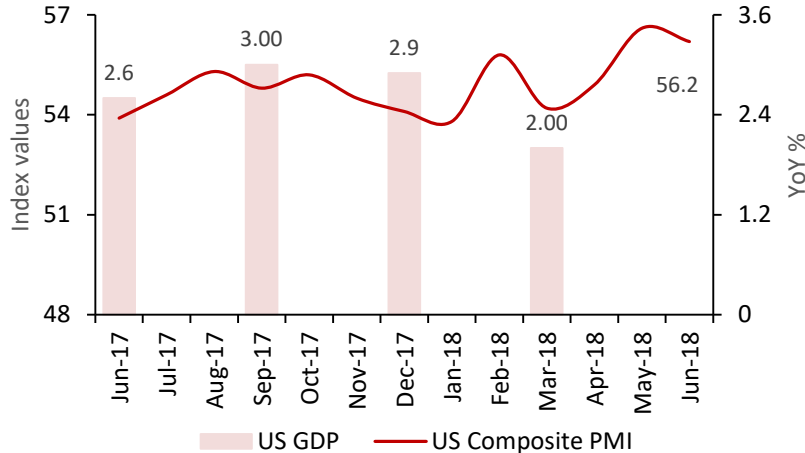
Global Market Highlights

- ✓ U.S. markets initially edged higher on the back of upbeat economic data and as one of the European Central Bank (ECB) board members indicated that the central bank is likely to discuss withdrawing its bond purchasing programme. Gains were restricted on renewed trade war concerns between the U.S. and China. Meanwhile, the U.S. government proposed a bill – Foreign Investment Risk Review Modernization Act – that would help to protect the U.S. from potential threats of foreign investment.
- ✓ The U.S. Fed's latest policy meeting too restricted gains after the bank raised interest rates, as expected, and forecasted two additional rate hikes this year.
- ✓ European markets mostly traded weak largely due to the recent instance of trade war between U.S. and China. The ECB chief also warned of growing risk from global factors such as protectionism. Some respite was seen after euro zone nations agreed on the plan to get Greece out of its eight-year bailout programme. Also, the European Union (EU) summit reached a consensus on immigration policy.
- ✓ Concerns over probable exit of Italy from euro zone eased after the Italian economy minister said that the new government has no plans to leave the euro area and is seeking to boost growth through investment and structural reforms.
- ✓ Asian markets were no exception to the global weakness resulting from trade war between U.S. and China. The Fed's decision to raise interest rates in its meeting coupled with its hawkish stance of two more rate hikes in 2018 kept the bourses under pressure. However, some respite was seen as China eased restrictions on foreign investments in various sectors.
- ✓ Also, the People's Bank of China decided to lower the reserve ratios of some banks. Meanwhile, the Bank of Japan (BoJ) decided to keep its monetary policy steady.

Global Economic Indicators

Although U.S. composite index fell in Jun 2018, the overall private sector expansion was the second fastest since Apr 2015 and signalled a strong end to the second quarter

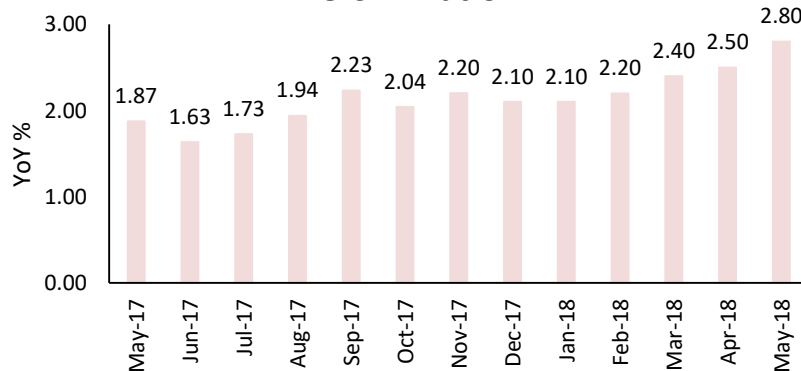
US Composite PMI & GDP Growth



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

U.S. inflation rose at its fastest rate in more than six years in May 2018 due to faster rise in gasoline and shelter

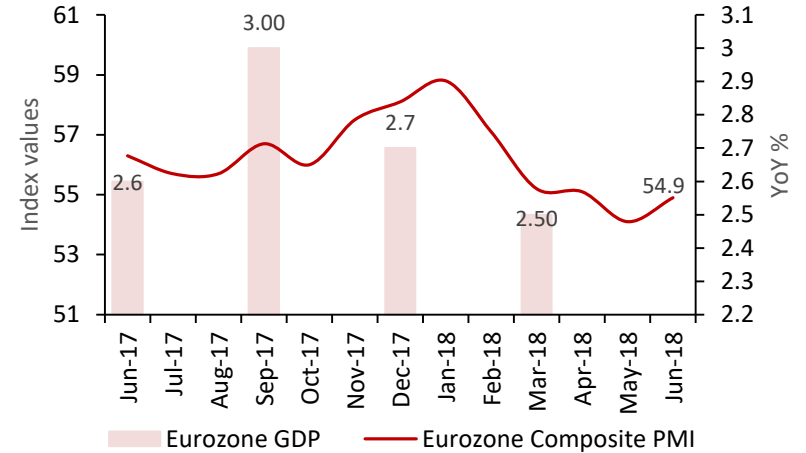
U.S. Inflation



Source: Thomson Reuters Eikon

Eurozone composite index rose in Jun 2018 but the average reading over the second quarter as a whole (54.7) was the weakest registered since the final quarter of 2016

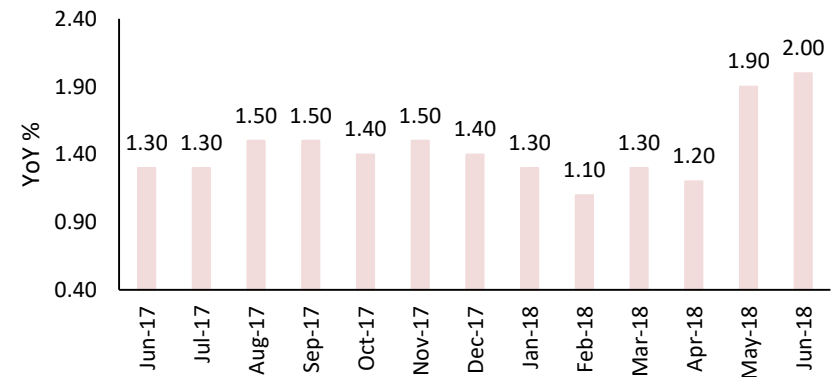
Euro zone Composite PMI & GDP Growth



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

Euro zone inflation increased 2.0% YoY in Jun 2018, in line with forecast, but higher than 1.9% in May 2018 due to rise in oil prices. Core inflation slowed marginally to 1% in Jun 2018 from 1.1% in May 2018

Eurozone Inflation



Source: Thomson Reuters Eikon

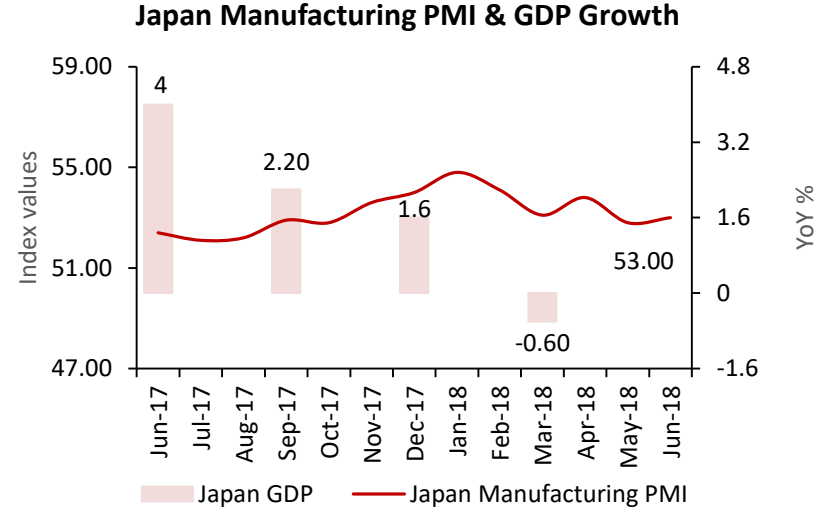
Global Economic Indicators

China's manufacturing PMI fell marginally in Jun 2018 as new export sales fell for the third consecutive month but output and new orders grew



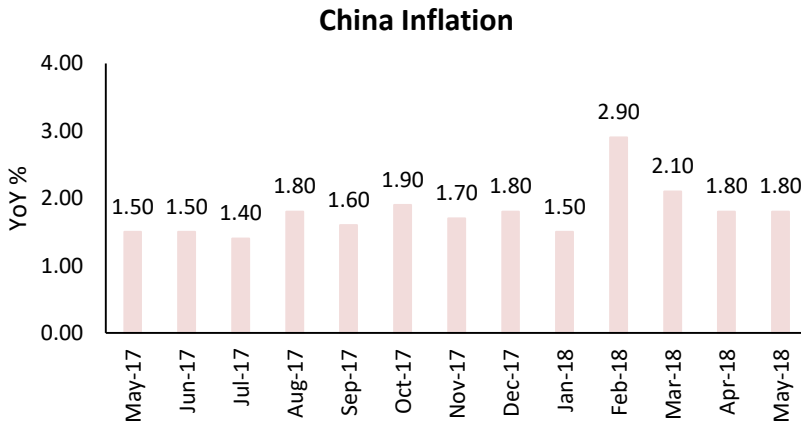
Source: Reuters, fxtstreet; PMI > 50 denotes expansion and < 50 is contraction

Japan Manufacturing PMI rose in Jun 2018 as output and employment increased at faster rates but new export orders declined for the first time since Aug 2016



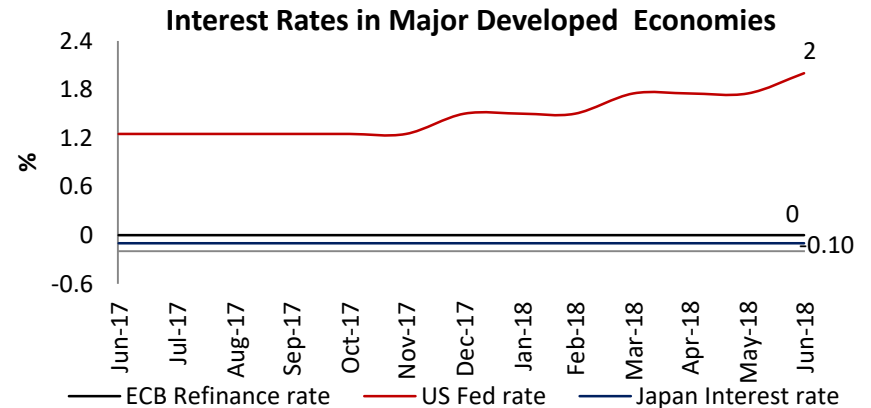
Source: Reuters, fxtstreet; PMI > 50 denotes expansion and < 50 is contraction

China's consumer inflation held steady at 1.8% in May 2018, as slower rise in food prices neutralized faster gains in nonfood items



Source: Reuters

The U.S. Fed raised its key interest rate by 25 basis points to a range of 1.75% to 2.00% while the Bank of England kept the key interest rate unchanged at 0.50%

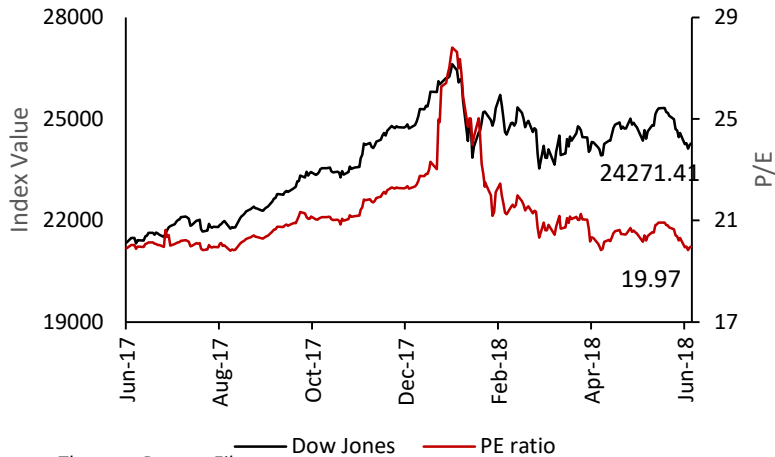


Source: Reuters

Global Equity Markets

U.S. markets initially edged higher following upbeat economic data but gains were restricted on global trade war concerns and fears of more rate hikes by the Fed

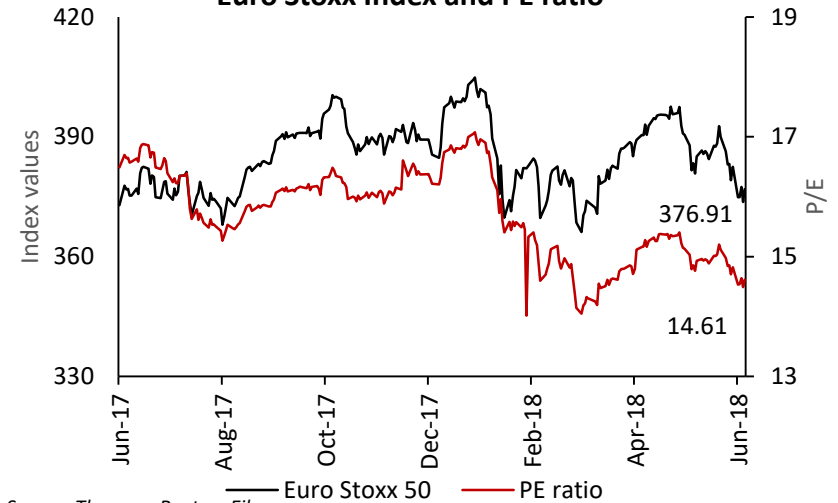
U.S. Dow Jones Index and PE ratio



Source: Thomson Reuters Eikon

European markets fell on U.S.-China trade war concerns. Also, the ECB chief warned of growing global risks. On the positive side, the EU summit reached a consensus on immigration policy

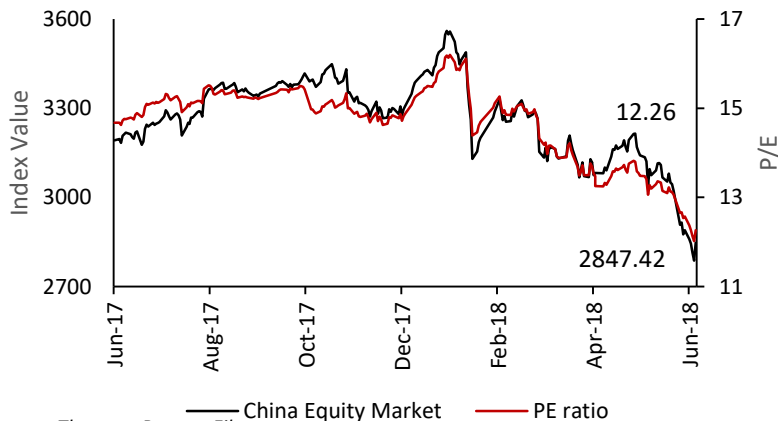
Euro Stoxx Index and PE ratio



Source: Thomson Reuters Eikon

Trade war tensions kept the bourses under pressure. Meanwhile, China eased restrictions on foreign investments and the People's Bank of China decided to lower the reserve ratios of some banks

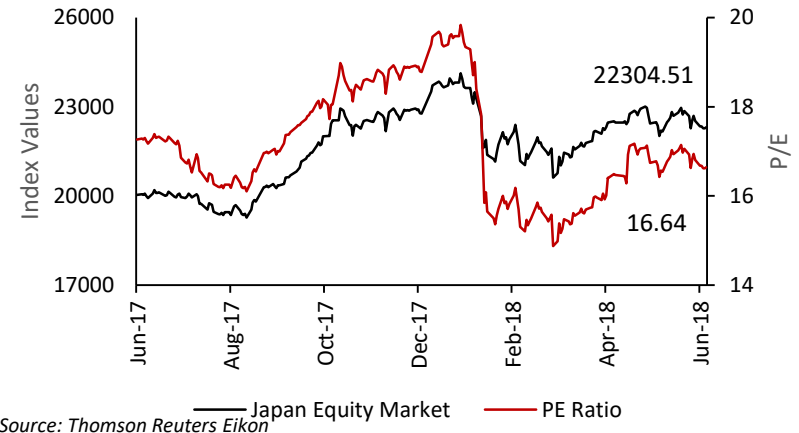
China Shanghai Index and PE



Source: Thomson Reuters Eikon

Japanese markets got some positive vibes as BoJ decided to keep its monetary policy steady, which was in line with expectations

Japan Nikkei Index and PE ratio

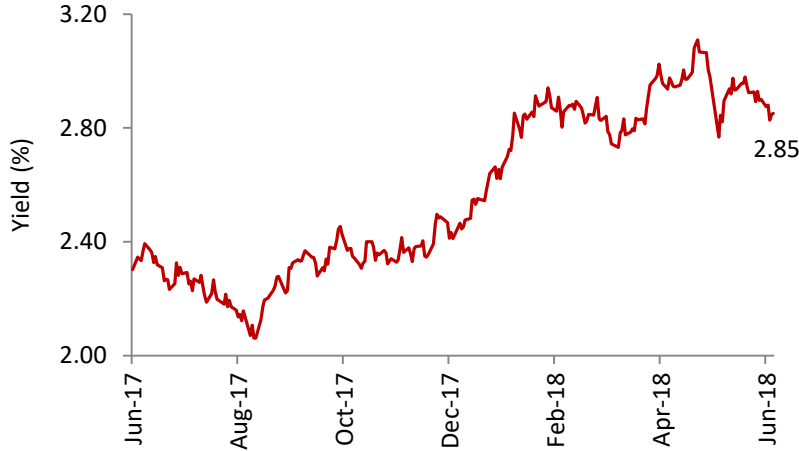


Source: Thomson Reuters Eikon

Global Debt

Yield on the 10-year U.S. Treasury bond rose 3 bps during the month to close at 2.85% compared with the previous month's close of 2.82%

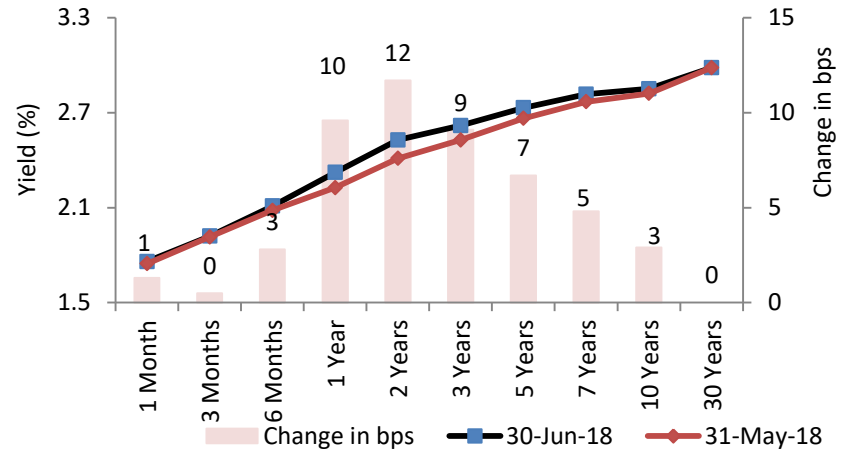
U.S. 10 Year Treasury Yield



Source: Thomson Reuters Eikon

U.S. Treasury prices fell following indications of monetary tightening by key central banks and strong data in May 2018

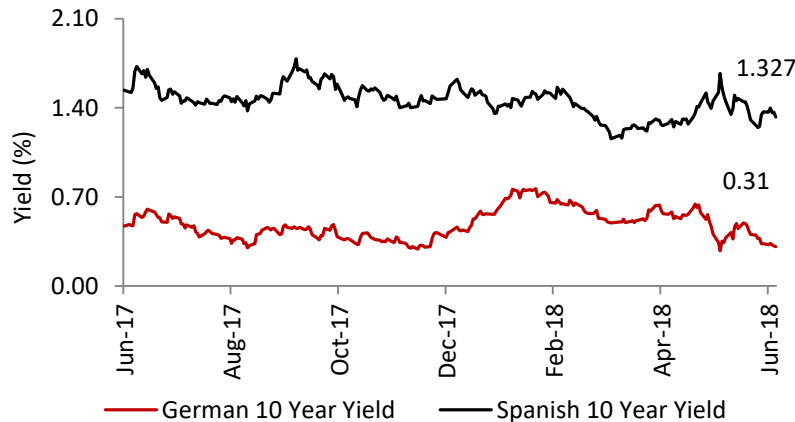
U.S. Treasury Yield Curve Shift (Month-on-Month)



Source: Thomson Reuters Eikon

Both Germany and Spanish bond yields fell after indication by ECB of no rate hike till summer of 2019

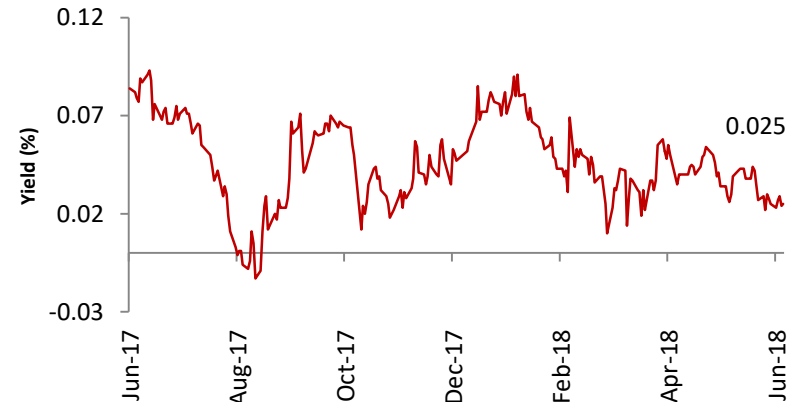
German & Spanish 10 Yr Treasury Yield



Source: Thomson Reuters Eikon

Japanese 10-year yield fell from 0.03% in May 2018 to 0.025% in Jun 2018

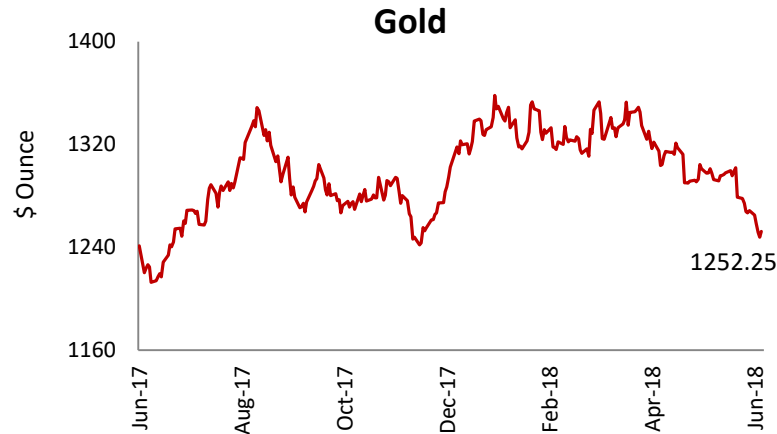
Japan 10 Yr Benchmark Yield



Source: Thomson Reuters Eikon

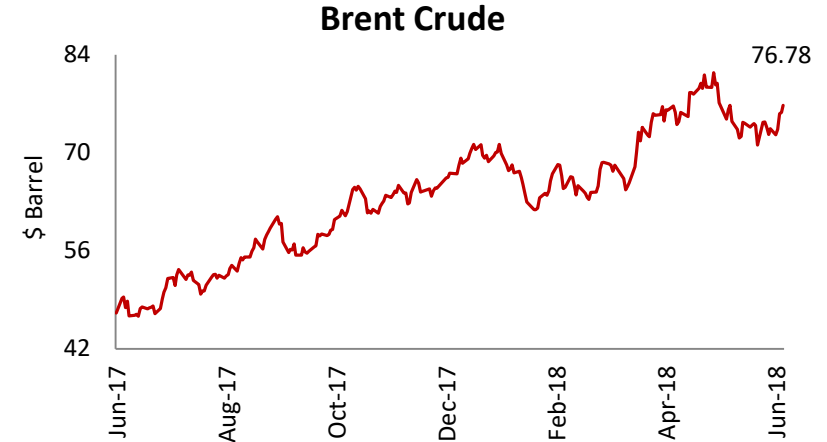
Global Commodity Market

Gold prices moved down as the U.S. Fed chairman hinted to raise the interest rates further in 2018. Persisting global trade tensions restricted the downside



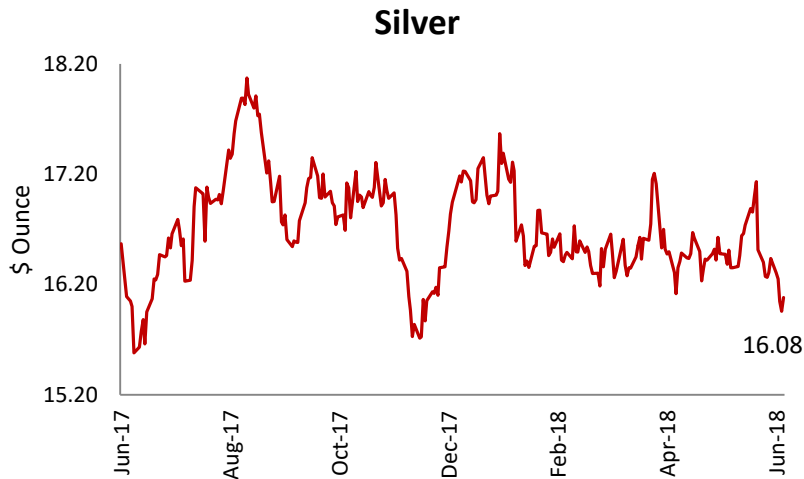
Source: Thomson Reuters Eikon

Brent crude prices gained marginally following OPEC's decision to hike production only modestly. Also, investors expected member countries to take time to raise production



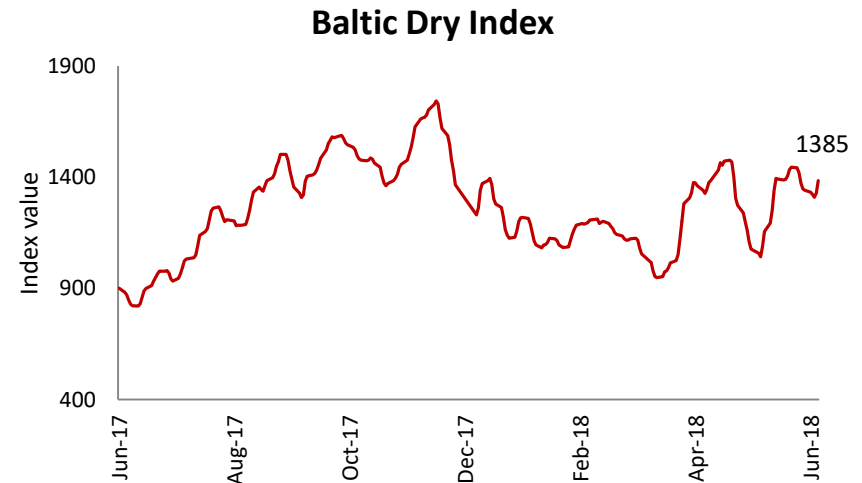
Source: Thomson Reuters Eikon

Over the month, silver prices moved down in line with gold prices on concerns over rise in interest rates by the U.S. Fed



Source: Thomson Reuters Eikon

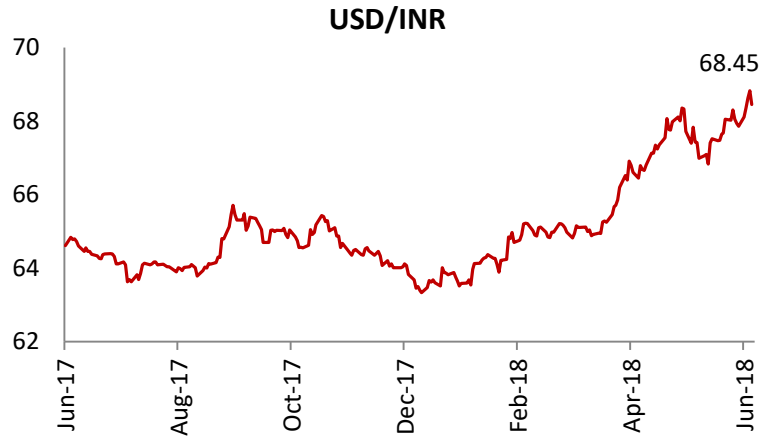
The Baltic Dry Index moved up over the month in Jun 2018 owing to improved capesize and panamax activities



Source: Thomson Reuters Eikon

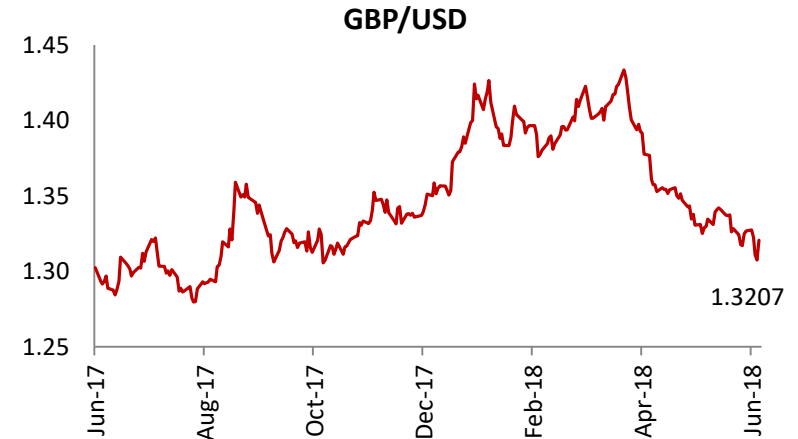
Global Currency Market

The Indian rupee weakened against the greenback on concerns over further rate hike by the U.S. Fed and month end dollar demand from importers



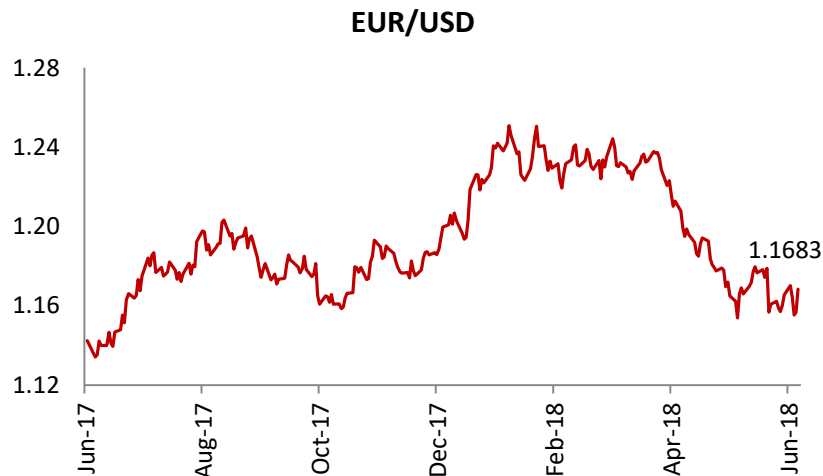
Source: Thomson Reuters Eikon

Pound fell against the U.S. dollar as imminent Brexit talks and doubts whether the Bank of England will raise interest rates in 2018 darkened the outlook for the pound



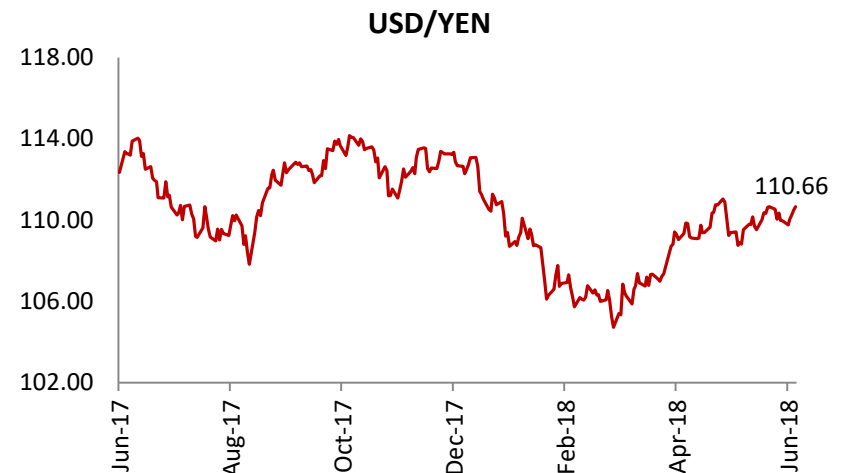
Source: Thomson Reuters Eikon

Euro fell against the greenback on escalating trade tensions between U.S. and China but losses were limited on upbeat German and French business activity data (preliminary) for Jun 2018



Source: Thomson Reuters Eikon

Yen fell against the greenback on better-than-expected U.S. employment and retail sales data in May 2018



Source: Thomson Reuters Eikon

Mutual Fund News

- ✓ According to data from the Association of Mutual Funds in India (AMFI), the Assets Under Management (AUM) of mutual fund industry stood at Rs. 22.86 lakh crore in Jun 2018 from Rs. 22.60 lakh crore in May 2018, registering a growth of 1.15%. Overall, net inflow in mutual fund schemes stood at Rs. 46,475 crore in Jun 2018 while there was a net outflow of Rs. 50,000 crore in the preceding month. Liquid funds saw maximum net inflow of Rs. 52,104 crore during the month followed by equity schemes (excluding arbitrage funds) that witnessed net inflow of Rs. 8,794 crore. Meanwhile, income schemes saw net outflow of Rs. 23,119 crore in the month under review followed by arbitrage fund, which saw net outflow of Rs. 1.423 crore.
- ✓ According to data from the Securities and Exchange Board of India (SEBI), total folio count of mutual fund industry stood at 7.35 crore as on May 2018, reflecting a 28.43% YoY growth from 5.72 crore in the same period last year. During the month of May 2018, the industry saw an addition of 12.65 lakh folios. Equity-oriented scheme category witnessed an increase of 2.03% or 11.03 lakh folios to 5.54 crore folios as on May 2018.
- ✓ The Foundation of Independent Financial Advisors (FIFA) and Financial Intermediaries Association of India (FIAI) plan to meet AMFI on reduction of trail commission, according to media reports. They plan to discuss that the industry should share the impact of reduced cost equally among fund houses and distributors. After the rationalisation of Total Expense Ratio (TER) by SEBI, many fund houses slashed trail commission by up to 15 to 20 bps.
- ✓ According to media reports, Karvy Computershare introduced a new feature, “distributor-initiated transaction”, on their transaction portal KorpConnect aimed towards the mutual fund distributors. KorpConnect is a transaction portal for non-individuals with features such as single sign-in to invest across Karvy serviced fund houses, multi-level access, authorization and approval workflow and portfolio management. By this facility, distributors can initiate transaction on behalf of their non-individual clients.

Real Estate and Private Equity News

- ✓ A report from global property consultant Knight Frank showed that capital inflow into the Indian real estate market reported a growth of 31% to \$2.6 billion in 2017, mainly driven by the government's reform initiatives and new regulations. The robust growth has pulled India up to the 19th spot among 73 countries, which attracted cross-border capital into their property markets. The top three spots were held by the U.S., the U.K. and Germany.
- ✓ Private equity (PE) firm Blackstone Group Lp and Indiabulls Real Estate Ltd (IBREL), after signing a joint venture agreement few months ago, plan to develop six office spaces within the coming 3-6 months. Of the properties, three will be jointly acquired and the remaining would comprise projects already being developed by IBREL.
- ✓ Piramal Capital and Housing Finance, a subsidiary of Piramal Enterprises, announced to have sanctioned Rs. 200 crore in structured equity to Chennai-based Appaswamy Group to fund its land purchase plans. Appaswamy Group plans to use the fund to acquire 3.34 acres at Kotturpuram, Chennai, from the TVH Group to build a residential project with potential sales revenue over Rs. 1,000 crore.
- ✓ South Korea-based Mirae Asset Global Investments Co. Ltd plans to launch a \$100 million alternate investment fund (AIF) in India primarily to invest in residential projects, according to internal sources. Last year, Mirae announced plans to enter the Indian real estate market and had subsequently received approval from the Securities and Exchange Board of India to launch the Mirae Asset Credit Opportunities fund.
- ✓ According to media reports, PE firms Bain Capital Credit and Piramal Enterprises, through its jointly-managed India Resurgent Fund (IRF), has invested about Rs. 800 crore in Chennai-based Archean Chemical Industries Ltd in a structured credit transaction. According to the terms of the deal, IRF will infuse both debt and equity into the chemical company to help it restructure its cash flows.

Source: Livemint

Thank You

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