

LIQUIDITY, VALUATIONS AND EVENTS

January - March
2018



MOVEMENTS OF MAJOR INDICES

Sectoral Index	Country	31 st March 2017	31 st December 2017	31 st March 2018	3-Month Returns (%)	1-Year Returns (%)
Bovespa	Brazil	64,984	76,402	85,366	12%	31%
RTS Index	Russia	1,114	1,154	1,247	8%	12%
KLSE Composite	Malaysia	1,740	1,797	1,856	3%	7%
Nasdaq	US	5,912	6,903	7,063	2%	19%
Hang Seng	Hong Kong	24,112	29,919	30,093	1%	25%
Seoul Composite	South Korea	2,160	2,467	2,436	-1%	13%
Dow Jones	US	20,663	24,719	24,103	-2%	17%
Jakarta Composite	Indonesia	5,568	6,356	6,189	-3%	11%
CAC 40	France	5,123	5,313	5,167	-3%	1%
NYSE	US	11,493	12,809	12,452	-3%	8%
S&P BSE SENSEX	India	29,621	34,057	32,969	-3%	11%
NIFTY 50	India	9,174	10,531	10,114	-4%	10%
Shanghai Composite	China	3,223	3,307	3,161	-4%	-2%
DAX	Germany	12,313	12,918	12,097	-6%	-2%
Nikkei 225	Japan	18,909	22,765	21,159	-7%	12%
FTSE 100	UK	7,323	7,688	7,057	-8%	-4%

MOVEMENT OF SECTORAL INDICES

Sectoral Index	31 st March 2017	31 st December 2017	31 st March 2018	3-Month Returns (%)	1-Year Returns (%)
S&P BSE TECK Index	5,771	6,408	6,513	2%	13%
S&P BSE Consumer Durables	15,257	22,689	22,262	-2%	46%
S&P BSE SENSEX	29,621	34,057	32,969	-3%	11%
S&P BSE Capital Goods	16,446	19,134	18,477	-3%	12%
S&P BSE FMCG	9,270	10,695	10,290	-4%	11%
NIFTY 50	9,174	10,531	10,114	-4%	10%
S&P BSE BANKEX	24,421	28,857	27,198	-6%	11%
S&P BSE AUTO Index	22,013	26,751	24,057	-10%	9%
S&P BSE OIL & GAS Index	13,564	16,283	14,614	-10%	8%
S&P BSE Power Index	2,274	2,382	2,126	-11%	-7%
S&P BSE METAL Index	11,804	14,939	13,322	-11%	13%
S&P BSE PSU	8,597	9,173	7,861	-14%	-9%
S&P BSE Realty Index	1,600	2,608	2,230	-15%	39%

FOREIGN INSTITUTIONAL INVESTOR (FII) FLOWS

FII Flows in Equity

(in Rs. Crore)	Jan- 18	Feb- 18	Mar - 18	TOTAL
Gross Purchase	1,32,351	1,07,282	1,20,864	3,60,497
Gross Sale	1,18,570	1,18,319	1,09,209	3,46,099
Net Investment	13,781	-11,037	11,654	14,398

FII Flows in Debt

(in Rs. Crore)	Jan- 18	Feb- 18	Mar - 18	TOTAL
Gross Purchase	33,711	23,425	25,507	82,643
Gross Sale	25,188	23,678	34,551	83,417
Net Investment	8,523	-253	-9,044	-774



**Total Net FII Flows in
Jan - Mar 2018**

**Rs. 13,624
Crore**

Source: SEBI

DOMESTIC INSTITUTIONAL INVESTOR (DII) FLOWS

(in Rs. Crore)	Jan- 18	Feb- 18	Mar - 18	TOTAL
Gross Purchase	2,54,549	1,61,520	79,303	4,95,372
Gross Sale	2,29,644	1,37,013	72,609	4,39,266
Net Investment	24,906	24,507	6,694	56,106

Source: SEBI

MF ACTIVITY

Equity

(in Rs. Crore)	Jan- 18	Feb- 18	Mar - 18	TOTAL
Gross Purchase	74,886	63,285	54,936	1,93,107
Gross Sale	65,862	47,104	47,398	1,60,365
Net Investment	9,023	16,181	7,538	32,742

Debt

(in Rs. Crore)	Jan- 18	Feb- 18	Mar - 18	TOTAL
Gross Purchase	1,50,208	1,39,905	2,17,844	5,07,958
Gross Sale	1,27,968	1,06,246	1,78,254	4,12,468
Net Investment	22,240	33,659	39,590	95,490

Source: SEBI

**Total Net MF Activity
in Jan - Mar'18**

**Rs 1,28,232
Crore**

DOMESTIC EVENTS



UNION BUDGET

- Presented on 1st February, 2018
- Current financial year fiscal deficit target revised to 3.5% of GDP.

Rural & Agri

- Rs. 2,000 crore Agri-Market Infrastructure Fund for developing agriculture marketing infrastructure
 - Institutional credit increased to Rs 11 lakh crore in 2018-19
 - Rs 16,000 crore to Pradhan Mantri Saubhagya Yojana to provide electricity
 - 51 lakh new rural houses to be constructed
- Total rural outlay: Rs 14.34 lakh crore

Infrastructure

- 99 cities under Smart City Mission
- Railway Capex for FY19 at Rs. 1.48 lakh crore
- AMRUT: Water supply in 500 cities
- 9,000 km of national highways to be completed in FY18
- Redevelopment of 600 railway stations
- Allocate Rs 11,000 crore for Mumbai and Rs 17,000 crore for Bangalore rail network
- Rs 373 crore allocated to Digital India

Taxation

- Long term capital gains tax of 10% introduced for over 1 lakh gains
- No changes in personal income tax slabs
- Deduction for senior citizens with critical illness raised to Rs 1 lakh.
- Health and education cess increased by 1% to 4%

PNB FRAUD

- A major event that rattled the financial markets
- Punjab National Bank announced, on 14th February, that it had discovered fraudulent transactions worth Rs 11,400 crore.
- The people behind this were billionaire jeweler Nirav Modi and Mehul Choksi (MD of Gitanjali Gems).
- This is the biggest ever fraud detected by an Indian bank.

WORSENING CURRENT ACCOUNT DEFICIT

- The current account deficit (CAD) for the quarter ending December'17 widened to 2% of GDP vs 1.4% last year.
- It is expected that the CAD number will triple in FY18 to \$ 45 billion and could worsen in FY19.

GROWTH

- RBI expects the GDP growth to increase to 7.4% in FY19, up from 6.6% in 2017-18.
- Purchasing Managers' Index (PMI): Manufacturing activity growth (while in the expansion mode since 8 months), has been falling in terms of growth rate. Service activity contracted in February and picked up in March

PMI (SERVICES)		PMI (MANUFACTURING)	
Jan-18	50.9	Jan-18	52.4
Feb -18	47.8	Feb -18	52.1
Mar-18	50.3	Mar-18	51

- Index of Industrial Production (IIP) rose to 7.5% in January, up from 7.1% growth in December.

	Jan-18	Feb -18	Mar-18
IIP (%)	7.5	7.1	Not released

INFLATION & RBI POLICY

- Inflation has shown a downward trend in the quarter.
- WPI fell to a 7-month low in February and CPI fell to a 4-month low in the month.

	Jan-18	Feb -18	Mar-18
Wholesale Price Index (WPI)	2.84	2.48	To be released
Consumer Price Index (CPI)	5.07	4.44	4.28

- RBI has kept the repo rate on hold since three monetary policy reviews, including the one that was presented in February. The repo rate is at 6% currently.
- The bond yields have been hardening since July'17 due to concerns on fiscal deficit, concerns on inflation, higher global bond yields, rise in commodity prices etc.

MAJOR REFORMS

SEBI has opened up the Indian capital markets to clients of global private banks, which can invest in stocks without having to go through registration or compliance requirements.

RBI has directed all the banks to link the SWIFT system to their core banking system (CBS) by April 30.

The Indian government unveiled a Rs 2.88 lakh crore market borrowing roadmap for the first half of FY19, which would be 22.6 % lesser than the amount raised during the same period last financial year.

The Reserve Bank of India (RBI) barred banks from issuing letters of undertaking (LoUs) and letters of comfort (LoCs)

SEBI will reduce the additional expenses charged by mutual funds by 15 basis points (bps) to 5 bps in order to increase the penetration of mutual funds.

Under the first of its kind massive survey, which starts in the first week of April, the government will track employment generation in micro, small and medium companies.

The government has decided to double the limit of tax-free gratuity to Rs 20 lakh for employees.

2017-18 was the best year ever for disinvestment with Rs 98,965 crore being raised by the government.

RISING RETAIL PARTICIPATION IN FINANCIAL MARKETS

- Mutual funds
- The total AUM of the mutual fund industry increased by Rs 4.75 lakh crore or 26% to Rs 23.05 lakh crore at the end of financial year 2017-18
- The SIP accounts grew by 70 lakh to 2.05 crore.
- Smaller town participation continues to be on a rising trend

BUOYANT CAPITAL MARKETS

- According to a study by Prime Database, Indian companies raised Rs 1,77,116 crore through equity markets in 2017-18. This was a three times rise from the previous fiscal.
- 45 mainboard IPOs and 155 SME IPOs
- 2017-18 best ever year for IPOs.
- Very good response from retail participants

POLITICAL STABILITY

- State elections
 - BJP had a thumping victory in the assembly elections held in Tripura by defeating the Left
 - Meghalaya now has a non-Congress government. The new Meghalaya Democratic Alliance government include the United Democratic Party (UDP), Peoples' Democratic Front (PDF), the Hill State People's Democratic Party (HSPDP) and the BJP
 - In Nagaland, the BJP formed a coalition with the Nationalist Democratic Progressive Party (NDPP), and the incumbent Naga People's Front (NPF) lost in the elections.
- By Polls
 - The BJP lost bypolls to all three Lok Sabha seats it contested – Gorakhpur (UP), Phulpur (UP) and Araria (Bihar).
- In a blow to BJP, Telugu Desam Party (TDP) exited NDA on the issue of Andhra Pradesh not being granted special status

GLOBAL EVENTS



CHINA

- China has set a GDP growth target of 6.6% for 2018.
 - The growth is fuelled by service sector growth
 - Rising domestic demand will also help the growth rate
- The constitutional amendment removing the presidential and vice-presidential two-term limit at the recently held 13th National People's Congress (NPC) of China will allow Xi to hold office for at least another term after his second term ends in 2023. There is speculation that Xi might continue to hold power beyond 2023.

US ECONOMY

- Employment

- There was a slip in the monthly job increase in March, after a huge spike in February.
- This data is closely monitored by the US Federal Reserve

	Jan-18	Feb-18	Mar-18
Jobs added	176,000	326,000	103,000

- Growth

- US GDP Growth stood at annualised 2.9% in in the last quarter of 2017.
- This number higher than expected.

- Monetary Policy

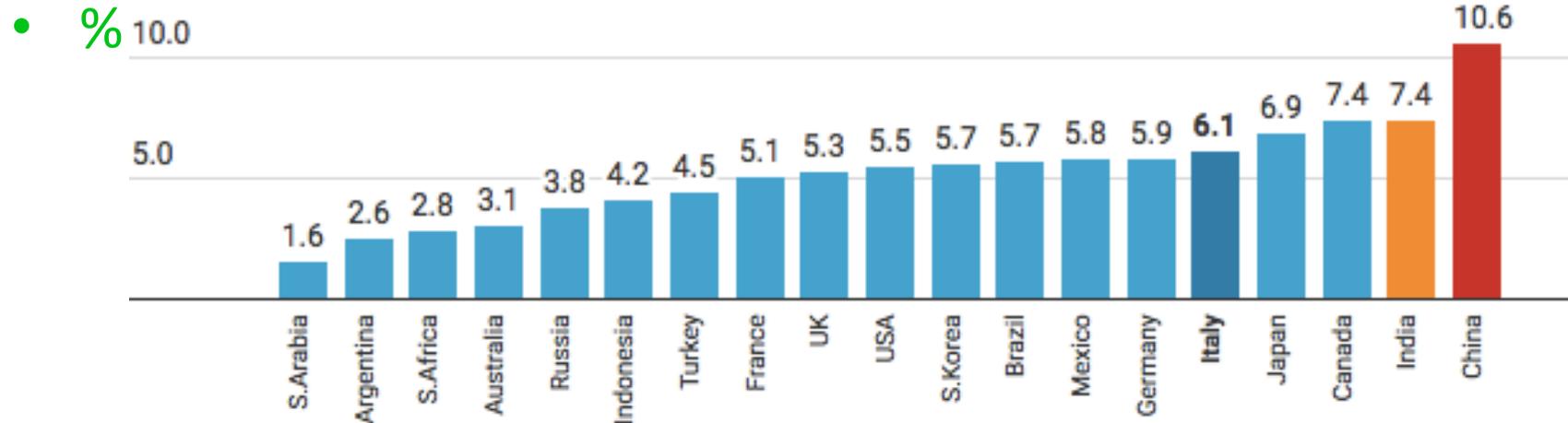
- In the March meeting, the first one under Fed Chairman Jerome Powell the US Fed increased the key interest rate by 25 basis points. The Fed will have to find a balance between hiking rates too quickly and seeing the inflation go out of control by hiking rates too fast, which would hurt growth.

US PROTECTIONISM

- US President Donald Trump has taken several protectionist measures which have evoked reactions globally. His actions include
 - Withdrawal from the Trans-Pacific Partnership (TPP)
 - Renegotiating the North Atlantic Free Trade Agreement (NAFTA)
 - Investigating foreign countries trade practices
 - Increasing tariffs on aluminum and steel
- One of the most significant measures was to impose \$ 60 billion worth of tariffs on Chinese imports and to restrict the country's investment in the US as a retaliation to years of intellectual property theft, forced technology transfers and restrictions on foreign ownership in China
- China has retaliated by beginning investigation on US imports
- Europe may also revisit its trade policy with the US
- According to many experts, including IMF Chief Christine Lagarde that a trade war and protectionist policies could be highly detrimental to global economy.

PROTECTIONISM: IMPACT ON INDIA

- Protectionist and nationalistic policies have impacted China and India to a large extent in 2017
- According to data by Global Trade Alerts (GTA), China was the receiving end of the highest number of protectionist interventions by advanced G20 nations in 2017 (403), followed by India (236).



Higher trade restrictions may affect India's services trade surplus

RISING CRUDE OIL PRICES

- Saudi Arabia, the world's top oil exporter, indicated that the production cuts in oil output which have been in place since 2017 might continue till 2019.
 - Plans to keep production below 10 million barrels per day (bpd) and exports under 7 million bpd in April to boost prices
 - The country has also reduced shipments, especially to the US
 - Other OPEC and non-OPEC members have also agreed to maintain cuts in output to restore 'normal' inventory levels
- The appointment of John Bolton as National Security Adviser and Mike Pompeo as Secretary of State by US President Donald Trump led the oil prices to rise. This is because both are known to be in opposition to the Iran nuclear agreement sealed in 2015 at the time of Barack Obama's administration. Hence, the markets expect further sanctions on Iran.
- Both Saudi Arabia and the US are critical of the deal signed between Iran and world powers.
- Another reason for rising crude oil prices is the drastic fall in output from Venezuela (the output has almost halved from 2005 levels), because of the country being engulfed in an economic crisis.
- One factor that can counter this trend is the rising supply by the US



EVENTS TO LOOK OUT FOR

- DOMESTIC
 - Corporate earnings data
 - Monsoons
 - Inflation numbers
 - GDP growth numbers
 - Karnataka elections
- INTERNATIONAL
 - Global Trade War
 - US Fed Policy
 - Tensions in Middle East
 - Crude Oil Prices

OUTLOOK FOR ASSET CLASSES

Asset Class	Performance in Q1CY18	Start to End Value In Q1	Outlook for Q2CY18	Remarks
Debt	10-Year Gilt: Up 7 bps 3-M T Bill: Down 9 bps 6-M T Bill: Up 1 bps 3-M CP: Up 38 bps 6-M CP: Up 34 bps 1-Yr CP: Up 35 bps 10-Yr AAA Corp: Up 9 bps Call Rate: Up 14 bps	7.33 – 7.4 6.2 – 6.11 6.33 – 6.33 7.06 – 7.44 7.33 – 7.67 7.53 – 7.88 7.77 – 7.86 5.9 – 6.04	Long term Bond yields will remain flat to elevated. Yield on short term papers will move up.	Assumptions: a. Crude prices will remain high b. Economic activity will be on the uptick
Equity	Sensex: Down 3% Nifty : Down 4%	34,057 – 32,969 10,531 – 10,114	Positive	Assumption are: a. Q4FY18 results will meet or exceed expectations b. Normal monsoon c. No large outflows by FIIs d. NDA win in the Karnataka elections

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