April 2018

MONTHLY REPORT

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CONTENTS

NIFTY 50
Closing – 10,113
PE – 24.66x
PB – 3.42x
Div Yield – 1.29

NIFTY FREEFLOAT MIDCAP 100
Closing – 18,757
PE – 46.87x
PB – 2.66x
Div Yield – 1.09

10 Yr GOI Yield
7.40%

CRUDE
69.56 $/bbn

USD/INR
65.02

GOLD
1325 $/Oz

Data as on Mar 28,2018
Source: Bloomberg

Economic Factor	Current	Previous	Review and Outlook
GVA	6.9% (Q3 FY2017-18)	6.2% (Q2 FY2017-18)	The GVA for Q3 FY18 at factor cost implying a growth of 6.9% compared to 6.2% observed in Q2 FY18. This growth is mainly led by a strong momentum in industry, services as well as agricultural sectors of the economy. Mining activity, as reflected by the IIP data, was the only sub-sector that witnessed a contraction. Boost in crop production and in construction activity further aided the overall headline GDP. *Going forward, momentum is expected to pick up in the coming quarters as manufacturers realign to the new tax regime.*
WPI	2.48% (Feb 2018)	2.84% (Jan 2017)	WPI came in lower at 2.48% for Feb-18 as against 2.84% in Jan-18. With this, WPI posted yet another decline despite a lack of sequential momentum due to a favorable statistical base. On a cumulative basis, WPI stands at 2.30% for FYTD18 as compared to 4.92% in the corresponding period in the previous year. Despite disinflation observed in food-related components, upturn in services and fuel inflation offset this momentum. Consequently, core inflation saw an upward momentum rising to 3.87% as compared to 3.50% in the previous month. *Going forward, surmised on expectations of steady pace of improvement in global business sentiment, it is quite likely that Core WPI would grow at a faster rate.*
CPI	4.44% (Feb 2018)	5.07% (Jan 2017)	CPI inflation for Feb-18 at 4.44% came in significantly lower than Jan-18 print of 5.07%. Marking a 3-month low. This deceleration can largely be attributed to a deflationary bias in the CPI food basket as well as a favorable statistical base. *Inflation expectation for the following financial year, pegged at 5.1-5.6% in H1 and 4.5- 4.6% in H2 could be pulled lower. However, various uncertainties such as crude oil prices, impact of HRA implementation by state governments, farm loan waivers and monsoon expectations continue to shadow the inflation trajectory. Nonetheless, this moderation in inflation alleviates fears of a rate hiking cycle in the near term despite the pick-up in growth momentum.*
IIP	7.5% (Jan 2017)	7.1% (Dec 2017)	IIP maintained strong recovery momentum, growing at 7.5% in Jan-18 after posting 7.1% in Dec-17. Stronger growth impulses continue to emanate from manufacturing sector reflecting an encouraging picture of underlying growth fundamentals of the economy. On a cumulative basis, average IIP growth has expanded to 4.1% for FYTD18. Overall, this reading confirms the burgeoning signs of recovery in economic activity. Expansions in private investment as well as in manufacturing production are positive indicators reflecting reemerging confidence in the economy after recently facing arduous times. With concentrated efforts to ensure a pickup in investment demand as well as efforts to improve ease of doing business, expansion in the economy is set to improve.
CAD	2% of GDP (Q2 FY2017-18)	1.2% of GDP (Q1 FY2017-18)	India's CAD in the Oct-Dec quarter of FY18 widened to \$ 13.5 bn (2.0% of GDP) as compared to \$ 7.9 bn in the corresponding period previous year. On Q-o-Q basis, CAD was much lower at \$ 7.2 bn in Q2 FY18. This widening was primarily on account of rise in trade deficit offsetting the growth in services exports. Foreign investment flows, though positive, reflected of declining FDI interest in the economy. *With international trade facing significant headwinds from increased protectionism and fears of a global trade war, India cannot remain unscathed. The impact of such developments would manifest in India's trade numbers as well as a slump in exports. Nonetheless, India's war chest of foreign exchange reserves could prove valuable in managing currency volatility.*
Fiscal Deficit	120% of FY 2017-18RE (Apr-Feb 2017)	85.8% of FY 2016-17 (Apr-Nov 2016)	India's fiscal deficit at the end of November breached the target and touched 112% of the budget estimate for 2017-18 mainly due to lower GST collections and higher expenditure. In absolute terms, the fiscal deficit -- the difference between expenditure and revenue -- was Rs 6.12 lakh crore during April-November 2017-18. During the same period of 2016-17, the deficit stood at 85.8% of that years target. For 2017-18, the government aims to bring down the fiscal deficit to 3.2% of GDP. Last fiscal, it had met the target of 3.5% of GDP. *Additional borrowing of Rs50,000 crore in long-term funds through government securities may raise the fiscal deficit by 30 bps to 3.5% of GDP for 2017-18. This may also force finance minister Arun Jaitley to recalibrate his fiscal consolidation road map of achieving a fiscal deficit of 3% of GDP by 2018-19.*
USD/INR	65.02 (Mar 2018)	64.97 (Feb 2018)	INR marginally depreciated by ~ 0.51% during the fiscal year 2017-18 to close at 65.03 versus the USD in March 2018 as against 64.85 in March 2017. FII's have purchased close to US\$ 22.5 billion in Indian debt and equity markets in fiscal year 2017-18 as compared to inflow of ~US\$ 7.60 billion during fiscal year 2016-17.*Going forward, with heightened geo-political tension between US and North Korea and sporadic tension across India-Pakistan border is expected to keep the local unit under pressure.*
Brent Crude (\$/bbn)	69.56 (Mar 2018)	64.62 (Feb 2018)	March has been a month of up side for oil prices as top crude-exporting countries indicate they may extend output curbs beyond this year, adding momentum to a monthly rebound. Crude has rebounded more than 50 percent since June, with the rally regaining steam this month as geopolitical worries heat up. *Going forwad, market will largely be focusing on production and inventory data and with prices in the midst of a bull bear territory with no major directional clarity.*
Repo Rate	6% (Mar 2018)	6% (Feb 2018)	In its First Bi-monthly Monetary Policy Statement, RBI kept policy rates unchanged as per market expectations. Consequently, key policy rates remained unchanged – Repo rate at 6.00%, Reverse Repo at 5.75% and MSF at 6.25%. Inflation projection for Q4 FY19 has been revised downwards to 4.5% from 5.1% in the previous policy. In terms of future guidance, RBI reasserted monetary policy commitment to keep headline inflation close to 4% - operating within the constraints of global volatilities and domestic vulnerabilities.
10 Yr. US Treasury	2.77% (Mar 2018)	2.87% (Feb 2018)	Yields reached a new 4-year high on the FOMC Meeting Minutes. The global benchmark that has been leading the US Dollar during long periods had reached a new 4-year high at around 2.96%. The FOMC Meeting Minutes had a relatively hawkish stance, focusing on high growth and growing chances of reaching the inflation goal. Concerns of a more aggressive path of monetary tightening were further eased after the release of the Monetary Policy Report by the Federal Reserve. The semi-annual document stressed the gradual nature of rate rises, refraining from indicating a change in the plan to raise rates three times in 2018.
10 Yr. GOI Yield	7.40% (Mar 2018)	7.73% (Feb 2018)	The recent rally in the bond market is also on account of lower first half borrowing announced by the government for fiscal year 2019 coupled now with 'status quo' policy where the lower food inflation led the central bank to revised its inflation target.

Source: Bloomberg, W2W Research

Debt Market Review

- Bond yields inched down across most of the emerging markets in the month of March.
- In domestic arena, Bond yields fell amidst indications that the Government mayborrow lesser than expected (and lower than the first half of FY18) in the first half of FY19, and borrow more through shorter tenure bonds.
- 10 year benchmark G-Sec yields fell 32 bps during Mar-18, to end the month at 7.40%. While The yield on 10-year AAA-rated Corporate Bonds ended Mar18 at 8.14% as against 7.65% at the end of Mar17. Thus, corporate bond spreads ended the year at 60 bps as against 85 bps at the beginning of the year.
- The huge surplus of liquidity built up post demonetization reduced substantially during the year 2017-18. As against ~Rs3.13 lac cr of surplus liquidity absorbed by RBI at the beginning of the fiscal year 2017-18, ~Rs.60 thousand crs of liquidity was injected by RBI at the end of fiscal year 2017-18.
- The overnight rate ended the fiscal year 2017-18 at 9.39% as against 7.37% as at end of fiscal year 2016-17.
- RBI announced Gsec issuance calendar for first half of FY19 wherein it will auction Rs 2.88 trn of Gsec in 1H FY19 (48% of the full year budgeted borrowings), which is 23% lower than Rs 3.72trn of issuance in the 1H of FY18.
- Additionally, government plans to reduce its budgeted gross market borrowings by Rs 500bn, out of which Rs250bn will come from its Small Savings Scheme and Rs250bn will be reduced from the budgeted buy backs.

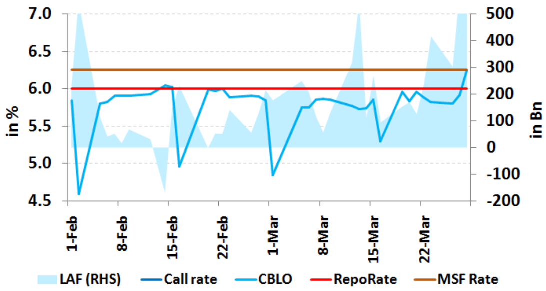
Debt Market Outlook

- The rise in global market interest rates are accelerating on bets of faster economic growth and central banks signalling tighter monetary policy.
- In its first Bi-monthly Monetary Policy Statement, RBI kept policy rates unchanged as per market expectations. However RBI has been revised Inflation forecast downwards for Q4 FY19 to 4.5% from 5.1% in the previous policy.
- In terms of future guidance, RBI reasserted monetary policy commitment to keep headline inflation close to 4% - operating within the constraints of global volatilities and domestic vulnerabilities. Going forward, we expect RBI to remain data dependent and to stay on hold for now.
- Going forward, we believe 3 factore 1) GST collection 2) Monsoon 3) Oil prices will decide the rate trajectory for the rest of the year.
- IMD indicated that moderate la Nina condition will prevails while crude prices could settle higher as OPEC stated in its report that supplies may well continue withholding and restricting output for remaining year of 2018 and possible also in 2019. Oil prices may head lower if US ups its gas production going forward in to the year.
- The announcement of MSP (likely in early May'18) for the khareef season could lead to inflationary expectation and pressure on G-Sec prices. MSP growth of ~25% could spook the bond market with inflationary pressure and effectively bottom out bond yields.

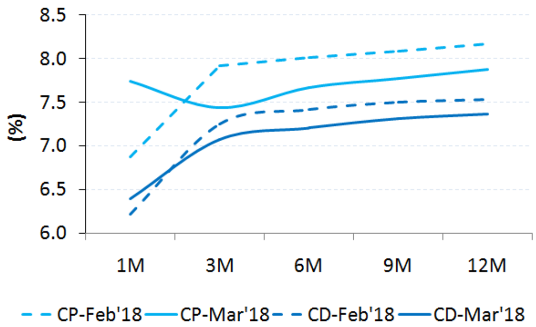
Investment Stratergy

- Ultra short term funds and short term funds with with good credit quality portfolio and with average maturity of 1-3 year can be a good start to invest in CY 2018.
- Recovery in growth and improved corporate profitability is improving the credit cycle thus making the corporate bond segment (Non AAA) attractive from a risk reward perspective. We therefore suggest that investors seeking relatively lower volatility should continue to invest at shorter to medium term segment of yield curve through selective High Yielding funds.

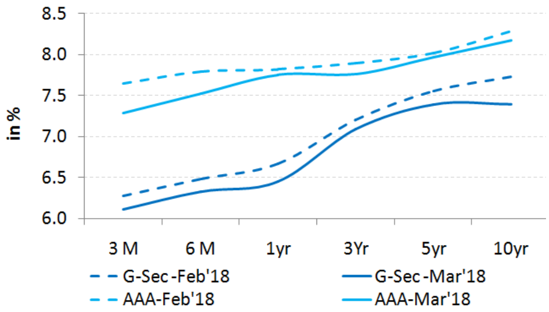
LAF and Money Market Rate Movement



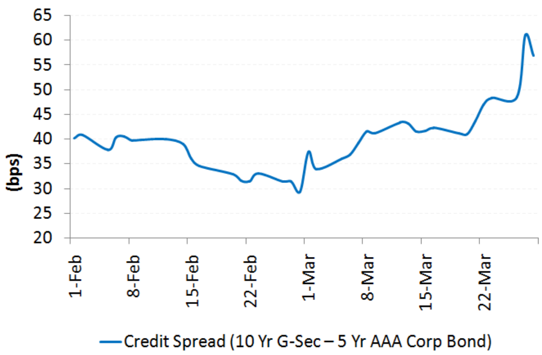
CD and CP Rate Movement



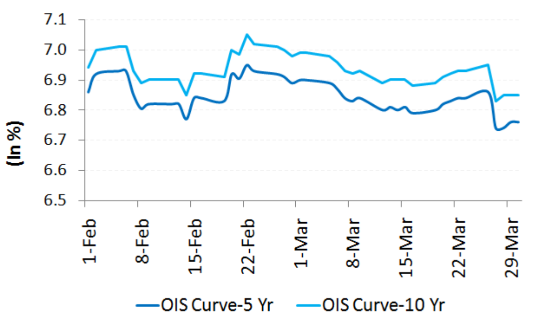
G-Sec and AAA Corp Bond Yield Movement



Credit Spread



OIS Curve



Source: Bloomberg, W2W Research

Equity Market Review

- As the financial year came to an end with volatility making and breaking the markets, we all saw the world index fall by 3.3% in the month of March whereas the emerging markets fell less by 2.7% on a monthly basis
- The world markets factored the news of a steady spike in the Fed Rate and sudden news of imposing tariff on Chinese goods imported into US which was responded by China by imposing tarrif on US thus sparking up a trade war tension in the global markets.
- The US Dow Jones, Shanghai composite and the Nikkei 225 were the ones hit worst following the sudden tariffs.
- However, the Indian markets fell by 3.6% on a monthly basis on account of bad sentiments over the PNB scam and fear of spillover of this over other banks, incresinging risk of trade wars and various macro economic hiccups like slowing down GST collection etc.
- Metals sector took a hefty toll as it corrected by 12% from the prior month due to US President Donald Trump announcing the import duties on steel and aluminium products.. The Real estate index fell by 9.7% being closely related to the same goods was affected by the news.
- The FII were net buyer for the month of March as the figure summed up to be 13,372 cr whereas the Mutual fund has shows a net buying of Rs 9,256 cr

Equity Market Outlook

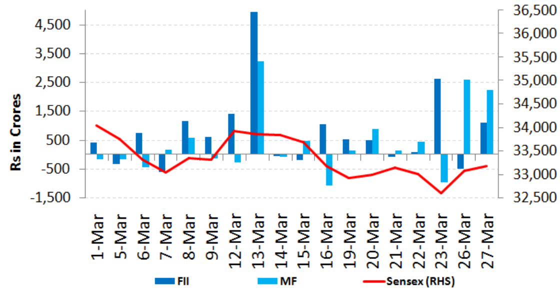
- The financial year came to an end with volatility which the markets did not see over a long time. However the markets expected this healthy correction as volatility in the markets will always remain to be the systematic risk.
- For the new financial year volatility would certainly show its grip around the market as elections and the global economic events give boost or spook up the markets in the course of time.
- There would be more to see from the Trump presidency and how the world reacts to his decisions.
- There has been some weeknig in the macroeconomics tailwinds for India, as crude prices have been ruiling firm, domestic bond yields have increased, and the ficsl deficit has rise. In this scenario, if earning growth story does not paly out wel as expected, then the market could see further fall.
- Nifty FY18 earnings estimates were cut by 1-3%. With this, FY18E is likely to see 8-10% EPS growth (vs.20%projected at start of the year)–seventh straight year of earnings downgrades. FY19E asking rate remains steep (+20%), especially given the impending provisions of banks owing to the RBI's revised resolution.
- Higher oil prices, widening of trade deficit and any shortfall in monsoon pose downward risk, while government infrastructurepush, fading away of GST disruptions, rising global growth and improved business sentiments will provide the positive support.
- Valuation across the capitalization curve has corrected in last three months, but still commands a premium when compared to the history. Sensex valuation relative to its own history corrected in last 3 months to ~19x 1 year forward earnig but remain above the longer term trends which is ~16x.
- In sum, economic growth and earnig support are crucial for the market and the revival is the good sign.

Investment Stratergy

- Diversification of the portfolio in a proper way would always give a higher risk reward tradeoff over a longer timeframe rather than timing the markets for tops and bottoms.
- Sectorally the theme for this financial year continues to be towards the Rural and infrastructural developments which is also backed by the government.
- Wealth would always be created in a longer time span when you give money the time to grow and nurture it with periodic active asset allocation and rebalancing.

Source: Bloomberg, W2W Research

Sensex, FII & MF Movement



Indices Performance

Index	Mar 2018	Month Ago	Chg	% Chg
		India		
Sensex	32,969	34,184	-1215.4	-3.6%
Nifty	10,114	10,493	-379.2	-3.6%
		US		
Dow Jones	23,848	25,029	-1180.8	-4.7%
Nasdaq	6,949	7,273	-323.8	-4.5%
		EC		
FTSE 100	7,045	7,232	-187.2	-2.6%
		Asia		
Nikkei 225	21,031	22,068	-1036.9	-4.7%
Hang Seng	30,023	30,845	-822.2	-2.7%
Shanghai Comp	3,122	3,259	-137.1	-4.2%
Bovespa	83,874	85,354	-1479.5	-1.7%
RTS	1,741	1,818	-77.0	-4.2%
		Other		
MSCI WORLD	2,048	2,118	-70.2	-3.3%
MSCI EM	1,163	1,195	-32.5	-2.7%
MSCI EM Asia	587	599	-12.3	-2.1%

Sector Performance

Index	Mar 2018	Month Ago	Chg	% Chg
BSE Auto	24,057	24,832	-775.2	-3.1%
Bankex	27,198	28,314	-1116.0	-3.9%
BSE CD	22,262	21,187	1074.7	5.1%
BSE CG	18,477	19,076	-599.1	-3.1%
BSE FMCG	10,290	10,506	-216.2	-2.1%
BSE HC	13,158	14,113	-955.4	-6.8%
BSE IT	12,101	12,506	-405.2	-3.2%
BSE Metal	13,322	5,174	-1851.8	-12.2%
BSE Oil	14,614	15,506	-891.3	-5.7%
BSE Power	2,126	2,223	-97.3	-4.4%
BSE PSU	7,861	8,336	-474.8	-5.7%
BSE Real	2,230	2,468	-238.4	-9.7%
BSE TECk	6,513	6,742	-229.2	-3.4%

Gold Review

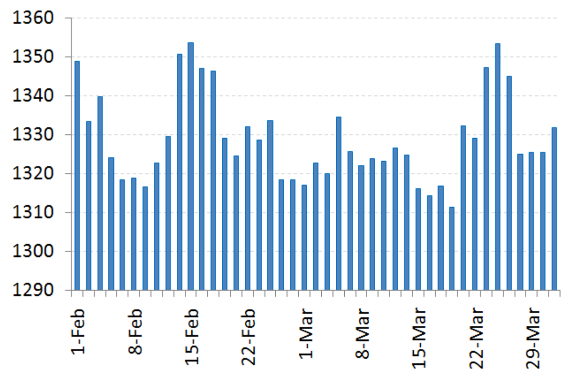
- 2017 seems to be a dull period for the gold, as it was traded within a narrow range of $1,200-$1,300 for most of the year.
- Gold delivered `12% return in 2017 despite Fed's tightening cycle, subdued inflation, tightening labor markets, the stock market boom and accelerating global growth.
- Hence, gold's performance is actually quite impressive given the unfavorable macroeconomic environment.

Gold Outlook

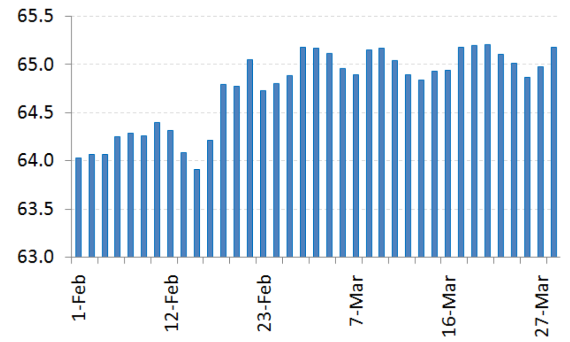
- Geopolitical uncertainty and the revival of the Eurozone (and, thus, the euro against the greenback) may support gold prices. On the other hand, strong economic momentum could make gold struggle in 2018.
- In the short run, gold price may be under downward pressure because of the impact of tax reform and improved sentiment towards the Trump administration and the U.S. economy, while in the long-run the capital spending should lead to rising wages and inflation expectations, pushing gold prices up.

Source: Bloomberg, W2W Research

International Gold Movement



USD/INR Movement



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