Capital League outlook

December, 2018

Indian Economy

- India’s GDP growth came at 7.1% in Q2 FY19. Industrial output (IIP) rose to 8.1% in Oct'18 against 4.46% in Sep'18 mainly due to low base effect and significant growth in manufacturing segment.
- India’s manufacturing sector activity improved in Nov’18 and touched an 11-month high. The Nikkei India Manufacturing Purchasing Managers' Index (PMI) strengthened to 54.0 in Nov’18 as compared to 53.1 in Oct’18, signaling the strongest improvement in the health of the sector in almost one year.
- Capacity Utilization of manufacturing companies has touched 76.1% in Q2 FY19 vis-à-vis 73.8% in Q1 FY19. Investment proposals from Steel, Textiles, Cement, Oil & Gas companies have resulted in demand for corporate credit.
- Core sector grew by 4.8% in Oct’18 as compared to 4.3% in Sep’18 mainly due to sustained rise in cement production and electricity generation.
- RBI kept the interest rate unchanged in its last monetary policy review this month. It continues to infuse liquidity into the market through Open Market Operations.
- Retail inflation (CPI) eased to 2.3% in Nov'18, a 17-month low against 3.38% in Oct’18 due to fall in food prices. Fall in crude oil price also had its impact on the inflation rate.
- India’s current account deficit (CAD) expanded to USD 19.1 Bn (2.9% of GDP) in the Q2 FY19 from USD 6.9 Bn (1.1% of GDP) in the same quarter last year. The current fall in crude price would lead to USD 10 Bn of savings in import bill in FY19 and hence reduction in CAD.
- Direct tax collections are up 16% in the first 7 months of the year.
- FIIs turned to being net buyers in Nov’18 after being net sellers for three months for year till date. They have invested INR 12826 Crs in debt and equity in Nov’18.

Global Economy

- US and China have agreed upon temporary suspension of additional trade actions. This has provided a boost to the global markets in the near term.
- European markets are facing volatility over concerns of global slowdown, political turmoil over the U.K. government's proposed Brexit deal.
- OPEC along with Russia and its allied countries has decided to cut oil production by 1.2 Mn barrel a day to rein in the sharp fall in oil prices.

Outlook

- With the outcome of state elections behind us, India's equity market movement in the near term will be driven by corporate earnings, liquidity, interest rate movements and global factors.
- The overall global narrative is tilting in favour of emerging markets with expectations of India receiving its fair share. The prospects of large supply of equity owing to government disinvestment plans would also have an impact on markets.
- For equity investments, we continue to remain cautious and recommend staggering of equity investments over the next 5-6 months as the general elections in May will remain a headwind, capping overall returns.
- The crude price fall also led to some alleviation in inflation, external and currency risks and resultant macro situation. The RBI is expected to pause on rates till more clarity emerges on the durability of the inflation decline.
- On the fixed income side we continue to focus on Accrual funds, Fixed Maturity Plans (FMPs) and Tax-free bonds to lock-in better yields.