MIRAE ASSET
Mutual Fund

Monthly Market Insight

August 2019

DEBT UPDATE

Global Events

Over the period we have seen Central Bankers making decision based on political developments unlike previously where economic data use to play huge role. The first glimpse of it was witnessed when in July FOMC eased rates by 25bps in anticipation of economy getting hit by the trade concerns. Stating the move as a "mid-cycle adjustment to policy" Fed cut the rate first time in a decade. As the month progressed US President Tweets and statements turned the situation grave, following which the spread between the 10Y and 2Y treasury yield inverted and US 30Y treasury fell to new historic low breaching 2.0% levels.

However, based on the data for the U.S. economy's performance, concerns about a recession in the near term seem overblown. Consumer spending constitutes about 70% of overall economic activity, and it is providing a firm foundation, fueled by accelerating wage growth and a healthy job market.

Economic Activity	Data
Nonfarm Payroll	Rose to 164K in July
Average hourly earnings	Rose to 3.2% from 3.1%
CPI	2.2% vs 2.1% last month

Economic Activity	Data
Manufacturing PMI	Contraction at 49.9 levels
Services PMI	Dropped to 50.9 from 53 in the previous month
GDP Q2	2.0% vs 2.1% previous

As the global recession fear grows the US 10Y drops by 50bps for the month to close at 1.51% after reaching low of 1.47%. Driven by the mixed economic data releases and fueled by weakness in other economies, dollar index closed higher at 98.49 against the previous month close of 98.25.

In other major economies UK and China have been in focus, Brexit took yet another chaotic turn when controversial request from Boris Johnson to suspend UK parliament from mid-September was approved by Queen Elizabeth to shorten the time available to lawmakers to block a no-deal Brexit. China's economy faces slowdown PPI fell to (-) 0.3% and industrial growth fell to 4.8% from 6.0%. It also took measures to issue more bonds for infrastructure investment to boost the economy.

Source: Bloomberg and Investing.com

Indian Market Events

Back home August turned out to be an eventful month with RBI giving a positive surprise by cutting interest rates for the fourth consecutive time by 35bps deviating from the standard rate cut levels increasing the conviction that more easing is left in this cycle.

Economic parameters	Comments
CPI inflation (July)	Registered at 3.15% lower than previous reading of 3.18%
GDP	GDP grew at 5.0% in Q1 hitting a six-year low, GVA a more realistic proxy to measure economic activity grew at 4.9% confirming the fear of slowdown
IIP	Slowing down to 2.0% in June from 4.6% in May

The sentiments changed in the second half of the month as the confusion over the issuance of overseas bonds once again raised the concerns over fiscal worries, additionally political uncertainties turned investors cautious after central government scrapped special powers of J&K creating unrest. However RBI and FM did try to improve the sentiments, FM announced slew of measures to stoke demand, including a rejig of its spending programme by front-loading it, addressing supply-side bottlenecks and easing bank credit rules, even as she promised to end "tax terrorism" that has left India Inc. jittery. The intent clearly was not only to revive economic momentum, but also address the growing sense of gloom and doom. To top it all RBI decided to transfer a whopping 1.76 trn rupees to the central exchequer, including 1.23 trn rupees of surplus for the RBI's financial year ended June, and 526.37 bn rupees of excess contingent reserve buffer, the highest ever transfer so far.

However, this surplus is expected to go towards the shortfall in tax revenues or funding of PSU banks keeping the fiscal pressure intact. Even though economic data releases and global developments makes a strong case for further rate cuts the political tension along with concerns about fiscal slippage kept the investors cautious following which the India 10Y rose by 18bps for the month to close at 6.55% levels. The corporate bond segment followed the trajectory of g-sec markets witnessing similar rise of 10-15bps across the tenures. With ample liquidity in the system the money market rates dropped by 25-30 bps across the instruments.

Market Outlook

Looking ahead, markets are likely to be guided by the overwhelmingly dovish narrative from major central banks, slowing global growth momentum and low inflation across the globe. Domestically markets will keep a close watch on progress of issuance of foreign bonds and government measures to revive the economic growth. Also with revival in monsoon, range bound oil prices and hopes of another rate cut by RBI, yields are likely to trend lower but with increased volatility.

Fixed Income - Yields

	31 August 19	1 August 19
Call Money	5.38	5.56
TREPS	5.30	5.59
3 months CD	5.78	5.50
3 months CP	6.00	5.95
1 year CD	6.75	6.50
1 year CP	7.40	7.40
G-Sec (10 yrs)	6.56	6.42

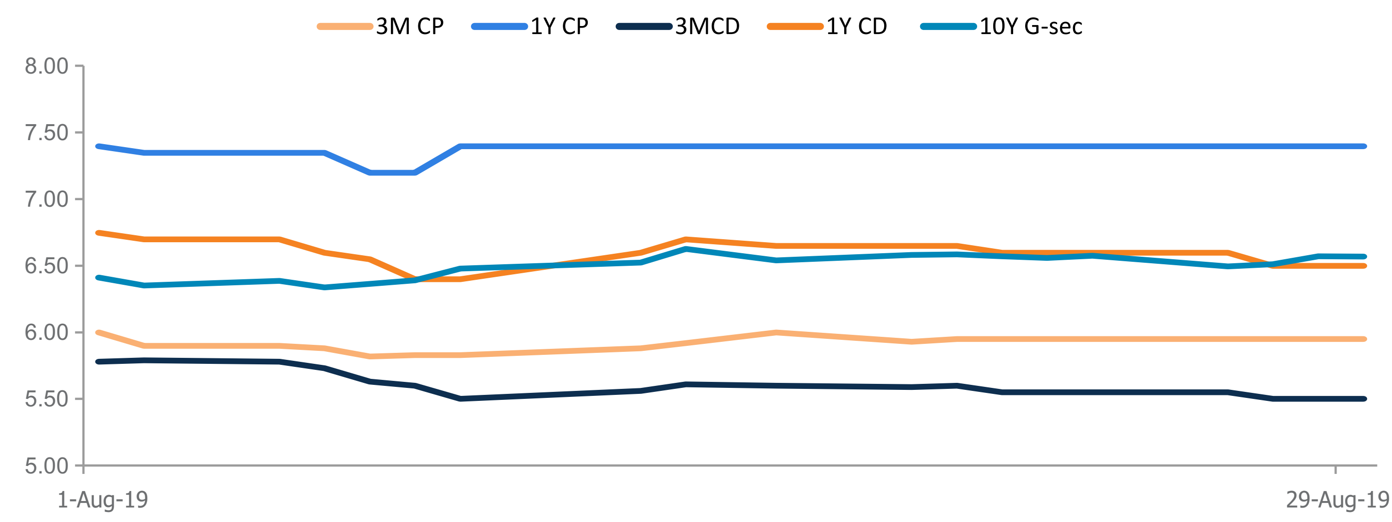
All Values are percentage (%) terms

Currency Markets

Forex	Value	MTD	YTD
$ / Re	71.41	3.40%	2.80%
£ / Re	86.93	3.90%	-1.60%
€ / Re	78.83	3.40%	-0.80%
KRW / Re	0.06	1.50%	-5.40%

Source: Bloomberg, 31[st] August 2019.

Debt Market Yield Curve (in%)



Source: Bloomberg, 31[st] August 2019.

Macro Economic Indicators (India)

Indicators	Current Period	Value	YoY Comparison	Value
GDP (%)	Q1 2019-20	5.00%	Q1 2018-19	8.00%
IIP (%)	June 2019	2.00%	June 2018	7.00%
Inflation (CPI %)	July 2019	3.15%	July 2018	4.17%

Source: CCIL, data as of 31[st] August 2019.