



# Monthly Market Insight

August 2019

## EQUITY UPDATE

### Equity Update

- Equity markets were volatile in August and ended marginally lower at the end of the month.
- The continued US-China trade tensions, US Fed commentary, decline in global indices weighed on investor sentiment. Global indices were under pressure – S&P 500 down 1.8%, Euro Stoxx 50 down 1.2%, and MSCI Emerging Markets index fell 5.1% in August.
- However, rollback of surcharge on FPI and a several government measures to boost the economy and RBI's surplus transfer of INR1.7t, brought some relief to the domestic markets. Nevertheless, the BSE-30 Index and Nifty-50 Index declined 0.4% and 0.9% while BSE Mid-cap and BSE Small-cap. indices fell by 1.3% and 1.2% respectively. On the sectoral front, BSE consumer durable post -14.8% decline last month's gained 4.8%; BSE IT was up 2.6%. The BSE metals and banks indices were down 12% and 5.3% respectively.

### Global Macros

- The US 10 year bond yield contracted 52 bps, quoting at 1.5 on August 30<sup>th</sup>. The dollar index was at 98.9 at the end of August, broadly flat MoM.
- Brent crude fell 7.7% in August to USD59.2/bbl on August 30<sup>th</sup>.

### Domestic Macros

**GDP Growth:** 1QFY20 real GDP growth fell to 6-year low of 5% YoY led by a sharp decline in private consumption. Nominal GDP growth at 8% YoY touched new post-GFC lows. Excluding public admin, fall in real GVA growth was lower.

**Inflation:** (a) CPI inflation remained broadly unchanged at 3.15% in July from 3.18% in June, Note, vegetable prices saw a decline in Jul, but in Aug, they could see uptick, led by the worsening flood situation in some parts of Western & Southern India (b) WPI inflation declined to 1.08% in July from 2.02% in June.

**Currency:** The Indian Rupee depreciated in August to INR71.4/USD vs INR68.8/USD on July-end.

**Growth:** IIP growth deteriorated significantly to 2% in June, as against 4.6% in May.

**Trade deficit:** Trade deficit in July was USD13.4b (versus USD15.3b in June) led by a sharp drop in petroleum bill (-22% YoY) and marginal recovery in exports (+2.3% YoY).

### Regulatory, policy and market developments

**Monetary Policy:** In an unusual move (unusual on quantum), MPC decided to cut repo rate by 35bps to 5.40% while maintained its accommodative stance.

**Policy Measures:** In response to the economic slowdown, Finance Minister announced various measures. These include upfront release of INR700b of PSU bank recap, NHB refinancing to HFCs increased by INR200b, quicker GST refunds to MSMEs; new registration charges on autos deferred to Jun 2020, additional depreciation of 15% on vehicles acquired till March 2020.

**Public Sector Banks merger:** To aid the struggling Public Sector Banks, the government announced another round of consolidation wherein 10 PSBs will be merged into 4 entities. It is expected that the merged entities will have a better lending capacity.

**Geopolitics:** In a surprise move, the Indian Govt. revoked Article 370 of the Constitution of India which accorded a special status to Jammu & Kashmir and split the state into two union territories – J&K and Ladakh.

**Monsoon:** Till August 28, the cumulative rainfall was 0.2% below long-term average. Out of the 36 subdivisions across India, till date, seven have received deficient rainfall, 22 have received normal rainfall, and seven have received excess rainfall.

**Equity trading trends:** FIIs net sold equities worth USD2.2b and DIIs bought equities worth USD2.9b during August. For calendar year 2019, FIIs have net bought equities worth USD7.2b and DIIs bought USD4.8b.

**GST:** August GST collection of INR982b implies only 4.6% YoY growth. Weak GST revenue can be partly attributed to low auto sales.

### 1QFY20 result trends so far

- The 1QFY20 corporate results, on expected lines, were weaker – Banks reported reason decent growth, while commodities and automobiles dragged the aggregate numbers. During 1QFY20, net profits of the Nifty-50 Index grew ~2% YoY, however for full year FY20, Bloomberg consensus growth is pegged at ~20% primarily led by banks.
- While the bank loan growth was decent, NPLs were stable, slippages increased marginally but provision coverage ratio also increased.
- Other key trends from the result season include (a) Consumer staples companies reported weak volume growth, (b) Auto sector volumes witnessed further slowdown, (c) Cement

companies too reported decline in volumes but most saw a strong recovery in profitability, driven by higher realizations and (d) interestingly, capital goods companies saw increase in order inflows.

### Key sectoral trends

**NBFCs:** To address the liquidity squeeze, RBI allowed Banks to use NBFCs for on-lending to priority sector and exposure to single NBFC was hiked to 20% of T1 capital.

**Auto:** Remained under pressure albeit with slower pace of selling as palliative measures by Govt lifted sentiments. Monthly volume numbers worsened in July.

**Metals:** Commerce Ministry rejected Indian Steel Association's plea to impose safeguard duty on steel imports.

**Utilities:** Electricity generation (including renewables) in July 2019 was up 4.2% YoY and up 7.2% YoY in YTD FY20. India's July 2019 LNG demand was up 5% YoY.

**Aviation:** Passenger traffic growth in July remained slow at 3% YoY.

### Market Outlook

**Policy measures to address weakness, looking forward to festive season:** The continued weakness in the high frequency data points has fed into the recent weak GDP print, while uncertainty on the global front continues to be a near term concern. The recent policy measures are in the right direction and should lead to improvement in sentiments. Better

than expected monsoon should also help in demand revival. We look forward to upcoming festive season for signs of demand revival.

**Structural story remains strong:** While the recent weakness has been persistent for some time now, Indian economy has witnessed such periods and time and again has bounced back. The benign interest rate regime, lower inflation, weak oil price is supportive and over the medium term expect private capex to come back as industry capacity utilization could cross threshold for new capacity generation. As mentioned earlier, 2HFY20 is expected to be better led by host of factors including likely policy initiatives, expected rate cut by the RBI, moderate inflation scenario and favourable base.

**Key things to watch out for:** Apart from usual macroeconomic parameters and corporate earnings trend, key things to watch out for includes (a) improvement of liquidity in the system, (b) improvement in the high frequency data, (c) policy initiatives of the new government and (d) developments in US-China trade war.

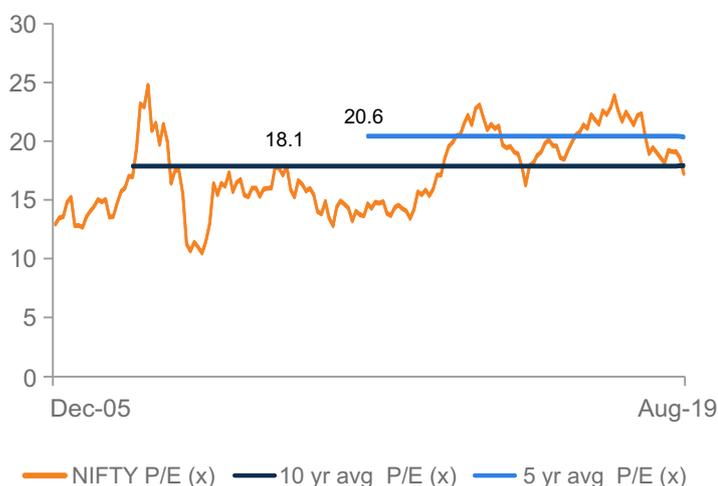
**Valuations:** The consensus estimates peg FY20/FY21 Nifty-50 earnings growth at ~20% led by financials in FY20, implying P/E of 19.4x in FY20 and 16.1x on FY21E.

We would advise to invest in a disciplined way in equities for long-term, within the earmarked asset allocation (based on individual risk profile). In the current market scenario, staggered investments through SIP or STP, would remain the best ways to invest in equities.

Source: Bloomberg, as on 31<sup>st</sup> August, 2019.

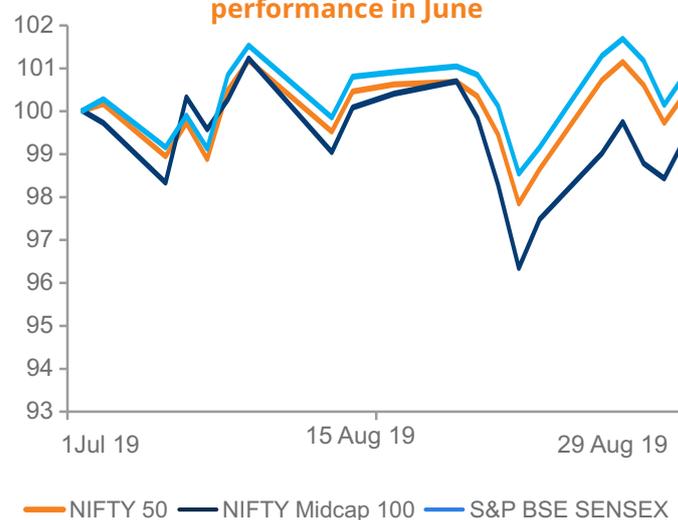
**We would advise to invest in a disciplined way in equities for long-term, within the earmarked asset allocation (based on individual risk profile). In the current market scenario, staggered investments through SIP or STP, one of the best ways to invest in equities.**

**NIFTY 50 Valuations:**



Source: Bloomberg, as on 31<sup>st</sup> August, 2019.

**Sensex, NIFTY 50 and NIFTY Midcap 100 performance in June**



Source: Bloomberg, as on 31<sup>st</sup> August, 2019.

## PERFORMANCE IN AUGUST OF MAJOR INDIAN INDICES

Major Indian indices	August-19	July-19	Performance (%)			
			1m	3m	6m	1Y
S & P BSE SENSEX	37,333.00	37,481.00	-0.40	-6.00	4.10	-3.40
NIFTY 50	11,118.00	11,023.00	-0.90	-7.50	2.10	-5.60
NIFTY Midcap 100	15,921.00	15,652.00	-1.70	-12.80	-6.40	-21.40

Source: Bloomberg, as on 31<sup>st</sup> August, 2019.

## PERFORMANCE OF GLOBAL AND REGIONAL INDICES

Name	Performance (%)			
	1m	3m	6m	1Y
<b>Global and regional indices</b>				
BSE (Sensex)	-0.40	-6.00	4.10	-3.40
Brazil (Bovespa)	1.30	3.60	5.20	31.10
Shanghai (SHCOMP)	-1.60	-0.40	-1.90	5.90
Germany (DAX)	-1.80	2.00	3.90	-3.20
Hong Kong - HSI	-7.40	-4.40	-10.20	-7.80
Japan (Nikkei)	-3.80	0.50	-3.20	-9.50
Korea (Kospi)	-2.80	-3.60	-10.40	-15.30
Russia (MOEX)	-4.70	0.60	9.00	18.60
UK (FTSE)	-4.80	0.80	2.00	-2.90
US (Dow Jones)	-1.90	6.20	1.70	1.50

Source: Bloomberg, as on 31<sup>st</sup> August, 2019.

## PERFORMANCE OF INDIAN SECTOR INDICES

Name	Performance (%)			
	1m	3m	6m	1Y
<b>BSE sector indices</b>				
BSE Auto	19.00	-14.50	-16.20	-36.20
BSE Bankex	-5.30	-12.20	3.10	-2.50
BSE Capital goods	-3.50	-15.00	-0.90	-10.80
BSE Consumer durables	4.80	-5.20	9.40	7.90
BSE FMCG	0.10	-3.80	-2.40	-13.30
BSE Healthcare	1.30	-3.20	-6.40	-19.30
BSE Infotech	2.60	2.30	5.90	3.90
BSE Metals	-12.00	-20.80	-20.80	-38.30
BSE Oil & Gas	-0.60	-16.30	-4.60	-12.70
BSE Power	-4.00	-6.10	3.20	-11.80
BSE Realty	-0.90	-7.00	14.00	-4.40

Source: Bloomberg, as on 31<sup>st</sup> August, 2019.

Disclaimers: The information contained in this document is compiled from third party and publically available sources and is included for general information purposes only. There can be no assurance and guarantee on the yields. Views expressed by the Fund Manager cannot be construed to be a decision to invest. The statements contained herein are based on current views and involve known and unknown risks and uncertainties. Whilst Mirae Asset Global Investments (India) Private Limited (the AMC) shall have no responsibility/liability whatsoever for the accuracy or any use or reliance thereof of such information. The AMC, its associate or sponsors or group companies, its Directors or employees accepts no liability for any loss or damage of any kind resulting out of the use of this document. The recipient(s) before acting on any information herein should make his/her/their own investigation and seek appropriate professional advice and shall alone be fully responsible / liable for any decision taken on the basis of information contained herein. Any reliance on the accuracy or use of such information shall be done only after consultation to the financial consultant to understand the specific legal, tax or financial implications.

**Mutual fund investments are subject to market risks, read all scheme related documents carefully.**

 **Email Us**  
customercare@miraeasset.com

 **Call Us**  
1800-2090-777 (Toll Free)  
Mon-Sat: 9 a.m. to 6 p.m.

 **Internet**  
www.miraeassetmf.co.in

 **Twitter**  
@MiraeAsset\_IN

 **Facebook**  
MiraeAssetIN

 **Contact your financial advisor for details**