MIRAE ASSET
Mutual Fund

Monthly Market Insight

February 2019

DEBT UPDATE

Global Events

Globally the month witnessed meaningful developments over ongoing issues like trade war, fed policy and geo-politics and there seems a clear sense of direction as to the way things might progress. Where on one hand Fed confirmed dovish stance and is also said to be considering ending the Balance Sheet runoff if needed, on other hand after public spats and wild confusion, US China trade talks finally showed some positive signals, indicating a deal may be concluded soon.

Between these events another hanging dagger was the fear of another US government shutdown which was taken off the table by President by signing the necessary spending bill. Though the President did declare national emergency during the month in another attempt to push border wall funding, it did not have any serious implications on the market and that bill still remains a fight to be won on another day. Also no deal between US and North Korea proved to be a minor turn off for the market. Amidst all these developments the economic data released presented a very confusing picture Based on these events the US10Y, remaining in a tight range for much of the month, settled 8bps higher at 2.71%. Also dollar index closed higher for the month aided by the optimism over US-China trade talks and uncertainty in other regions, at 96.03 against the previous month close of 95.30.

Elsewhere, as expected BOE# kept the key rate unchanged at 0.75%. The Central Bank said that Britain faced its weakest economic growth in a decade this year as uncertainty over Brexit mounts and the global economy slows and cut its growth forecast to 1.2% down from 1.7% predicted three months ago. Also PBoC^ shifted its stance to “appropriately tight or loose prudent monetary policy” along with “sufficient liquidity and improvement in transmission mechanism”, marking a divergence from its earlier stance of 'prudent monetary policy with neutral stance' and 'constricted liquidity', primarily in response to a deteriorating domestic environment and conflicts in global trade.

Economic Activity	Data	Comments
US services activity	56.7 (six month low)	Impact of partial govt shutdown
Retail sales	-1.2% (declined at fastest pace since 2009)	suggesting a sharp slowdown in economic activity
Existing home sales	1.2% (3 years low)	Suggesting a further loss of momentum in the housing market
Jobs opening data	7.3mn (highest since 2000)	Indicating the continued strength in labor market
Headline inflation	1.6%	Result of slowdown caused due to
GDP	2.6% (against the previous quarter growth of 3.4%)	government shutdown

Indian Market Events

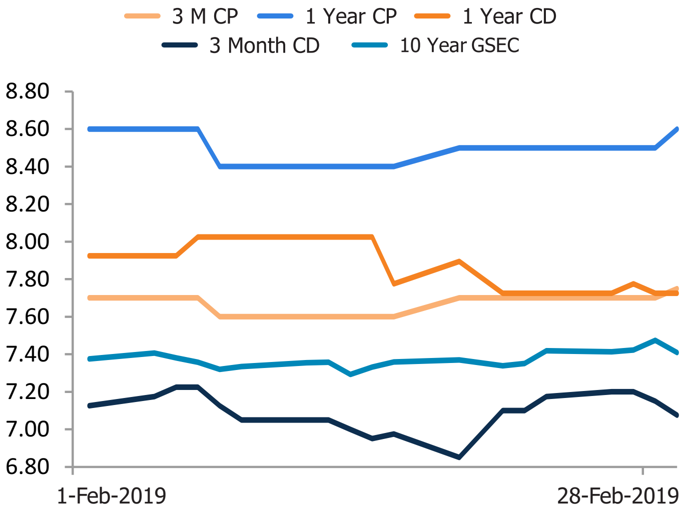
On the domestic front it has been a very eventful month with occurrence of the expected and unexpected events. The month started in jitters with overhang of larger borrowing announced in interim budget; however this was just starting to fade off with MPC@ giving a surprise cut of 25bps in the maiden policy of the 25th RBI Governor, but as we entered into the third week of the month the scenario changed again, pushed by the global and domestic factors. The two leading factors responsible for this change were Brent crude prices and geopolitical tensions with Pakistan. The Brent crude prices was first noticed when it showed an overnight uptick of over 2.6%, overall the prices shot up by 7.7% during the month making the investors cautious. While investors were still struggling with this, the terror attack in Kashmir killing 44 jawans weighed on market. Though initially no action was taken, in the next week geopolitical tension heightened with India retaliating by bombing the supposedly terrorist occupied region. Much of this created anxiety but as peacefully, the market calmed down. Based on these developments markets wiped out the gains resulting in India 10Y yield rising by 11bps to close the month at 19-months low of 2.05% led by lower food and fuel prices, IIP grew 2.4% in December 2018 against 0.5% in the previous month, mainly led by increase in manufacturing activities, also WPI cooled down to 10 months low of 2.76% on account of cheaper food and fuel prices. In other data release GDP for Q3FY19 slowed to a six quarter low at 6.6%Y-o-Y from 7.0% in Q2, GVA$ growth slowed to 6.3% Y-o-Y from 6.8% in Q2, with weaker growth in services as well as manufacturing. Also the full year FY19, GDP growth was revised-down to 7.0% from 7.2% earlier. Based on these developments the corporate bond segment remained predominantly active in 1-3-year, the 10-year segment also saw some activity due to some trading calls from MF's and buying interest from PF's and insurance. The money market instruments traded in narrow range as the demand for money market instruments has been high as there is lot of uncertainties

Market Outlook

Even as markets still struggle with the recent developments on credit markets and uncertainty over election results, a rebound in oil prices and geo-political tensions have added to the concerns. Globally situation seems to be turning favorable with Fed opting for a patient approach and considering a stop to balance sheet runoff. Domestically, sharply lower inflation and slowing growth gives optimism for a follow up rate cut by RBI in April policy review and continued large scale OMO purchases. The biggest driving factor though remains the large supplies in the ensuing new fiscal. As such, bond yields are likely to remain range bound with a slight downward bias.

Source: Bloomberg, 28th February 2019.

Debt Market Yield Curve



Source: Bloomberg, 28th February 2019.

Fixed Income - Yields

	28 Feb 19	1 Feb 19
Call Money	6.19	6.43
TREPS	6.21	6.35
3 months CD	7.08	7.13
3 months CP	7.75	7.70
1 year CD	7.73	7.93
1 year CP	8.60	8.60
G-Sec (10 yrs)	7.40	7.38

All Values are percentage (%) terms

Currency Markets

Forex	Value	MTD	YTD
$ / Re	71.08	-0.50%	1.90%
£ / Re	93.35	0.90%	6.00%
€ / Re	81.65	-1.10%	0.70%
KRW / Re	0.06	-1.60%	0.00%

Source: Bloomberg, 28th February 2019.

Macro Economic Indicators (India)

Indicators	Current Period	Value	YoY Comparison	Value
GDP (%)	Q3 2018-19	6.60%	Q3 2017-18	7.70%
IIP (%)	December 2018	2.40%	December 2017	7.30%
Inflation (CPI %)	January 2019	2.05%	January 2017	5.07%

Source: CCIL, data as of 28th February 2019.

Bank Of England ^ People's Bank of China @Monetary Policy Committee $ Gross Value Added

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