MIRAE ASSET
Mutual Fund

Monthly Market Insight

January 2020

DEBT UPDATE

Global Events

Treasury yields have closely followed trade developments in recent months and first half of January 2020 proved to be no different. The markets showed some support as US China signed Phase I trade deal after prolonged discussions. However, the next deal is believed to be discussed only after US elections which takes place in November 2020. There was a slight disruption in the first half of the month following the death of Iranian General in US drone strike, however as the tensions de-escalated the sentiments improved. Thereafter the markets were supported by the set of mixed economic data releases.

The turning point came in for US treasuries and Global economy at the detection of corona virus in China (Wuhan) which rapidly spread in the Southern part of China which is believed to be the industrial hub of China. The breakout of this virus happened at peak of the festive season (Chinese New Year) which shall lead to steep drop in growth rates. Fears over corona virus eclipsed the sentiments and investors once again sought the safe haven of treasuries. Reacting to these developments US 10Y treasury dropped by 41bps over the month.

Apart from these developments FOMC (FED Open Market Committee) January meeting turned out to be no major event with almost repeat of the December FOMC statement word for word.

Economic Activity	Data
Services and Composite PMI	Slight uptick recorded at 52.8 and 52.7 respectively
CPI	In line with expectations at 2.3%
Home Sales	Healthy Growth Rate Of 3.6%.
Manufacturing PMI	Dropped to 52.4 from 52.6 in the previous month
Nonfarm payrolls	Increased by just 145,000
unemployment rate	Steady at 3.5%
Average hourly earnings	Rose by just 2.9%, below the 3.1% projection

Supported by demand for the safe-haven currency and economic data releases, dollar index closed higher at 97.65 compared to 96.05 in the previous month.

In other major economies China has been talk of the town with breakout of coronavirus, immediately after the markets re-opened PBOC (People's Bank of China) injected 1.2tn RMB through reverse repo. In addition it cut 7 days and 14 days reverse repo rates by 10bps to 2.4% and 2.55% respectively to stabilize the financial markets. The ECB kept the interest rates unchanged and expects them to remain at their present or lower levels until inflation converges to a level close to, but below, 2%. The BOJ decided to keep its policy rate unchanged and to continue to target the 10-year bond yield at around 0%. The BOJ gave a median forecast of 0.9% for Japan's GDP growth in FY2021 (higher from its October projection of 0.7%), anticipating the effects of a large-scale economic stimulus package announced by the Japanese Government. CPI growth projection was revised down to 1% from 1.1% for FY2021 and to 1.4% from 1.5% from Fy2022.

Indian Market Events

The month of January turned out to be an eventful month. The markets at the start were shaped by the global events such as US China trade talks and geopolitical tension between US and Iran which led to an upsurge in Brent crude prices. However, as the tensions de-escalated Brent crude prices dropped but domestic markets had something to more to worry about with retail inflation rising sharply to 7.35% owing to higher food inflation and RBI skipping an announcement of operation twist.

Nevertheless, as the fear of Global slowdown once again hit the market with the outbreak of coronavirus, the domestic markets also acted on the similar lines. India 10Y benchmark ended the month 5bps higher at 6.60% after reaching an intra month high of 6.67%. The corporate bonds acted on similar lines and ended the month on flat note with 3-5bps movement. Money market witnessed slight uptick of 5-7bps with continuous excess liquidity and announcement of CMB's worth 120crs.

Economic parameters	Comments
IIP	1.8% led by favorable base effects.
CPI inflation	Rose sharply to 7.35% as against 5.54% in November owing to growing momentum and adverse base effects. Core inflation rose to 3.8% (3.7% in November) owing to strong increase of 6.3% across the personal care segment and of 4.8% in the transport and communication segment.
WPI	December WPI inflation rose to 2.59% as against 0.58% in November primarily due to adverse base effects.
Food Inflation	Food inflation moved higher by 13.2% (11.1% in November) even as manufacturing inflation and fuel and power inflation continued to contract.
GST collections	GST collection for December'19 was at Rs 1.15 trn crossing the Rs 1trn mark for third month in a row.

While growth remains a concern, the domestic economic data releases have not been supportive creating a complex situation.

Source: Bloomberg and Investing.com, data as of 31st January, 2020.

On 1st February 2020 India's Finance Minister (FM) announced Union Budget for FY2020-21, it was much on the expected lines. FM invoked the Fiscal Deficit escape clause under 4(2) of the FRBM (Fiscal Responsibility and Budget Management). She has projected the maximum allowed deficit slippage of 0.5% of GDP for FY20 and FY21 out to 3.8% and 3.5% of GDP respectively. Nominal GDP growth has been pegged at 10% for FY21 which sounds reasonable. The divestment target is set at an ambitious Rs.2.1tn for FY21 relying largely on an LIC IPO and spillover over this years' divestment target. Non-tax revenues meanwhile hinge on telecom receipts. In addition, expenditure growth in most schemes is very modest. The budget was presented amidst a very challenging atmosphere. Not surprisingly then, it did not enough excite the market, where expectations were running very high.

Fixed Income - Yields		
	31 January 2020	**1 January 2020**
Call Money	4.97	5.12
TREPS	4.92	4.60
3 months CD	5.40	5.10
3 months CP	5.85	5.45
1 year CD	6.00	6.00
1 year CP	6.85	6.75
3 months CP	6.21	6.23
3 months CP	6.59	6.41
G-Sec (10 yrs)	6.60	6.51

All Values are percentage (%) terms

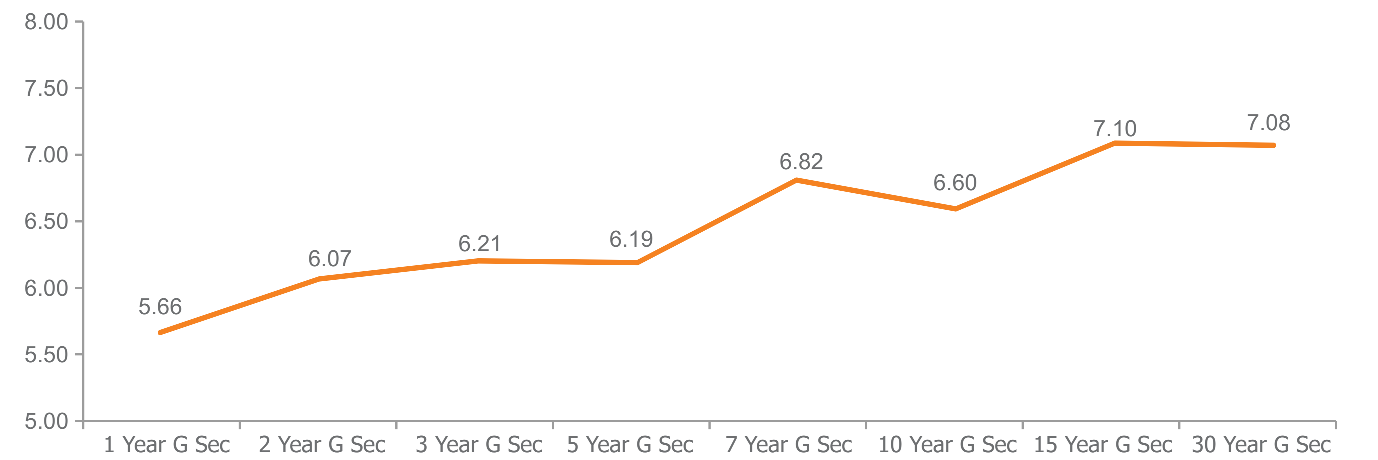
Market Outlook

While globally the effect of coronavirus will be closely watched, domestically the situation remains same with the divergence between growth and inflation. In line with the market expectations MPC kept the rates unchanged at 5.15% sighting the inflation concerns, however in the post policy conference MPC emphasis on various tools available to support growth was taken positively by markets. The investors will now look out for the tools used rather than just focusing on key interest rates. Overall it turned out to be a balanced policy addressing inflation and growth concerns.

Currency Markets			
Forex	**Value**	**MTD**	**YTD**
$ / Re	71.35	0.18%	0.18%
£ / Re	93.58	-0.93%	-0.93%
€ / Re	78.74	-1.40%	-1.40%
KRW / Re	0.06	-2.93%	-2.93%

Source: Bloomberg, 31st January, 2020.

G Sec Yield Curve (in%)



Source: Bloomberg, 31st January, 2020.

Macro Economic Indicators (India)				
Indicators	**Current Period**	**Value**	**YoY Comparison**	**Value**
GDP (%)	Q2 2019-20	4.50%	Q2 2018-19	7.00%
IIP (%)	November 2019	1.80%	November 2018	0.20%
Inflation (CPI %)	December 2019	7.35%	December 2018	2.11%

Source: CCIL, data as of 31st January, 2020.