MIRAE ASSET
Mutual Fund

Monthly Market Insight

March 2019

DEBT UPDATE

Global Events

Over the month both global and domestic macro environment has undergone dramatic shift resulting in sharp drop in yields across the universe, with return of negative yields in Germany. Global central banks have reversed gears from that of a **buoyant and robust economic outlook to one of an impending slowdown**, some analyst even predict that of a recession. From a forecast of multiple rate hikes and continued balance sheet contraction, Fed the most influential of global central bankers has in a span of a quarter is now guiding for a patient stance and has already commenced the process of bringing an end to the quantitative tightening. Not much surprisingly, to the extent that the current glare of weakening economic data first appeared on the European horizon, ECB and BOE have also already shifted back to easing stance. ECB has even commenced again the LTRO (basically long term liquidity injection).

The change in outlook turned markets cautious and before markets could absorb the change in Central banks stance German's 10Y benchmark turned negative, first time since 2016 amid fears of a recession, the move was primarily due to Brexit scare and further softening of export outlook in manufacturing PMI's which dropped to 44.7. The economic data released were also mixed set:

Economic Activity	Data
ISM Non-Manufacturing index	Rising to 59.7 from 56.7 in the previous month
New home sales	3.7% - better against expectation of fall of (-) 8.7%
Core CPI	Drop to 2.1% against previous month 2.2%
US Non-farm payroll	Adding fewer jobs than expected at 180k

US economy slowing more than estimated at 2.2% against expectation of 2.4%. Reacting to these developments the US 10Y closed the month 31bps lower at 2.40%. Gaining from the weakness in the peer currencies such as euro and pound the dollar index strengthened to 96.79 against the previous month closing of 96.45.

Indian Market Events

A confluence of positive supportive developments in domestic space, during this period, has been so strong that the global headwinds of last year are turning into strong tailwinds, reflected in strong revival in FPI flows.

Economic	Comments
FPI	Inflow of INR 608bn in last two months alone after having withdrawn nearly INR 1 tn so far in FY 19.
CPI inflation	Well below threshold of 4.0% for the last 7 months in a row, hitting a low of 2.05% in January'19 before bouncing somewhat to 2.57% in February'19
IIP	3 month low of 1.7% from 2.4% in the previous month

Supported by RBI measures of rate cut and FX swaps, domestic developments and change in view of global growth there is assurance of strong FII's flows. But the overhang of excess supply lingers the India 10Y yield closed the month 6bps lower at 7.34. The greater effect of these developments was seen on corporate bonds segment as the credit markets improved and demand rose, the spreads narrowed down across the segment and tenures leading to record high volumes in this segment. During the month money market instruments witnessed lot of volatility due to pressure of March quarter end and tight system liquidity but ended the month in narrow range as the markets stabilized.

RBI Monetary Policy

- RBI, in the first bi-monthly monetary policy of FY20 reduced the policy repo rate consecutively for the second time by 25bps from 6.25% to 6.00%.
- Consequently, the reverse repo rate under the LAF stands adjusted to 5.75%, and the marginal standing facility (MSF) rate and the Bank Rate to 6.25%.
- The monetary policy stance has been maintained at 'neutral', giving the committee room to move in either direction based on incoming data.
- These decisions are in consonance with the objective of achieving the medium-term target for

consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

- GDP growth for FY20 is projected at 7.2% with H1FY20 in the range of 6.8% - 7.1% and 7.3% - 7.4% in H2 – with risks evenly balanced
- RBI expects CPI inflation at 2.9% - 3.0% in H1FY20 and 3.5% - 3.8% in H2FY20, with risks broadly balanced

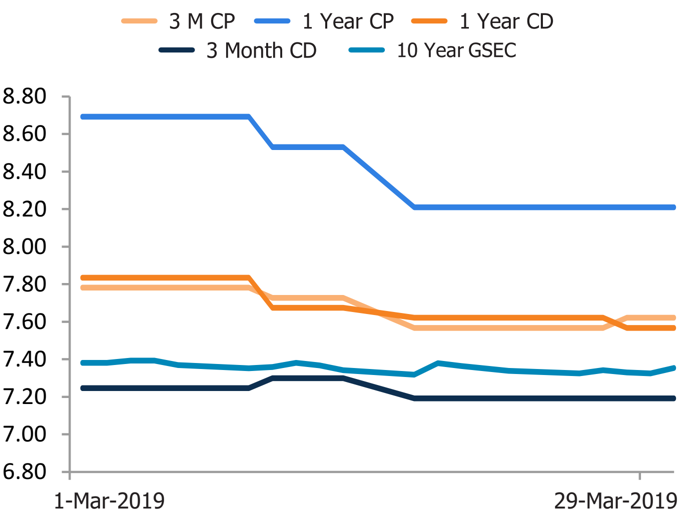
Market Outlook

March has witnessed lot of changes on fundamental and sentimental terms, the central bankers that vouched for continued strong growth have now toned down and have turned cautious considering a flexible approach, and the strong economies are seen taking desperate measures to keep growth intact, amidst all these events emerging economies like India could gain a special spot amongst the investors.

On the domestic front the biggest driving factor though remains the large supplies in the ensuing new fiscal. Though RBI is cut rate second time consecutively as expected by market even though both growth and inflation expectations have been revised further lower from last policy. The guidance is though clearly for strong intent to support growth as inflation is projected to remain under threshold of 4% in all of 2019. As such, possibility of further rate cuts in ensuing policies remain very much alive with reasonable certainty on RBI continuing to inject adequate liquidity via OMO/Swaps. While short term rates are expected to inch down in response to the rate cut, long bond yields may still be a bit circumspect yet, pending clarity on the sources for demand of large govt borrowings in current year.

Source: Bloomberg, 29th March 2019.

Debt Market Yield Curve (in%)



Source: Bloomberg, 29th March 2019.

Fixed Income - Yields

	31 Mar 19	1 Mar 19
Call Money	8.49	6.20
TREPS	6.65	6.20
3 months CD	7.20	7.25
3 months CP	7.60	7.75
1 year CD	7.55	7.80
1 year CP	8.15	8.60
G-Sec (10 yrs)	7.35	7.38

All Values are percentage (%) terms

Currency Markets

Forex	Value	MTD	YTD
$ / Re	69.15	-2.30%	-0.40%
£ / Re	90.51	-3.90%	2.50%
€ / Re	77.67	-3.90%	-2.30%
KRW / Re	0.06	-3.20%	-2.30%

Source: Bloomberg, 29th March 2019.

Macro Economic Indicators (India)

Indicators	Current Period	Value	YoY Comparison	Value
GDP (%)	Q3 2018-19	6.60%	Q3 2017-18	7.70%
IIP (%)	January 2019	1.70%	January 2018	7.50%
Inflation (CPI %)	February 2019	2.57%	February 2018	4.44%

Source: CCIL, data as of 29th March 2019.

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