MIRAE ASSET
Mutual Fund

Monthly Market Insight

May 2019

DEBT UPDATE

Global Events

Even though the economic data releases continued to remain supportive the breakdown in the trade talks between US and China once again triggered the fear of recession, further US adding Mexico to the list of increased tariff intensified the matters. US accusing China of going back on trade talks and China blaming US of not treating it with enough respect led markets to believe that worst is coming and they are walking in to a recession. China took a step forward by releasing a white paper blaming US for breakdown in trade talks accusing it of making unreasonable demands, indicating that the trade standoff between US and China will be prolonged. Following these developments yield curve inversion between the 3-month Treasury bill and the 10-year note deepened to its lowest level since the financial crisis at 20bps. This is also marked as the initial sign of recession by the markets. In expectation of adverse growth effect from the ongoing developments the US 10Y dropped to 20 months low by 37bps for the month at 2.13%.

Economic Activity	Data
Non-farm payroll	263K much better than market expectations
CPI	Ticked up to 2.1%
PPI	Grew by 0.2%

Economic Activity	Data
Unemployment rate	49 years low at 3.6%
ISM Non-Manufacturing PMI	55.5 against the previous reading of 56.1
Q1GDP	Dropped marginally to 3.1% from previous quarter reading of 3.2%.

Source: Bloomberg and Investing.com

Elsewhere, in one of the major updates UK Prime Minister resigned after failing to deliver Brexit calling in for early general elections, opening up the economy to new uncertainties. In other developments the early warnings of recession were delivered with German banks asked to keep aside

delivered with German banks asked to keep aside more provisions to cover risk of slowing economy and ECB policy maker in his speech clarified that if things turn south and they face recession they are ready to use all instruments. Also China's manufacturing PMI contracted to 49.4 from 50.1 facing pressure from new orders.

Indian Market Events

Domestic markets gained from domestic as well as the global developments, the market activity in the first half of the month remained subdued awaiting election results. In the latter half supported by the global developments with some of the global yields moving into negative territory, sharp drop in the crude oil prices of around 12% to $64.5/bl from the average of $72/bl in previous month and the incumbent NDA coming back to power with an even stronger mandate cheered the markets.

Economic parameters	Comments
Core inflation	Fell to an 18 months low of 4.55%.
CPI inflation (March)	Marginally higher at 2.92%
PPI (February)	(-) 0.1%, hitting a 21 month low due to contraction in manufacturing and capital goods
GST collection	Rs 1 lac crore much higher than Rs 94k crore last year when the GDP was growing at 8.1% showing that the tax collection system is stabilizing

Source: Bloomberg and Investing.com

Further India's Q4 GDP growth slipping to 5 years low at 5.8% added to the hope of easing in the upcoming monetary policy. Reacting to the series of positive developments India 10Y yields dropped by 38bps to close the month at 7.03%

RBI in another attempt to improve system liquidity announced another OMO and revised VRR route for FPI limit. The corporate bond segment followed the suit of g-sec markets witnessing fall of 35-40bps across the tenures. With expectation of improvement in system liquidity as cash returns after recently completed elections and due to fresh RBI measures, money market rates witnessed a steep fall of a round 60-70bps across the tenures.

Market Outlook

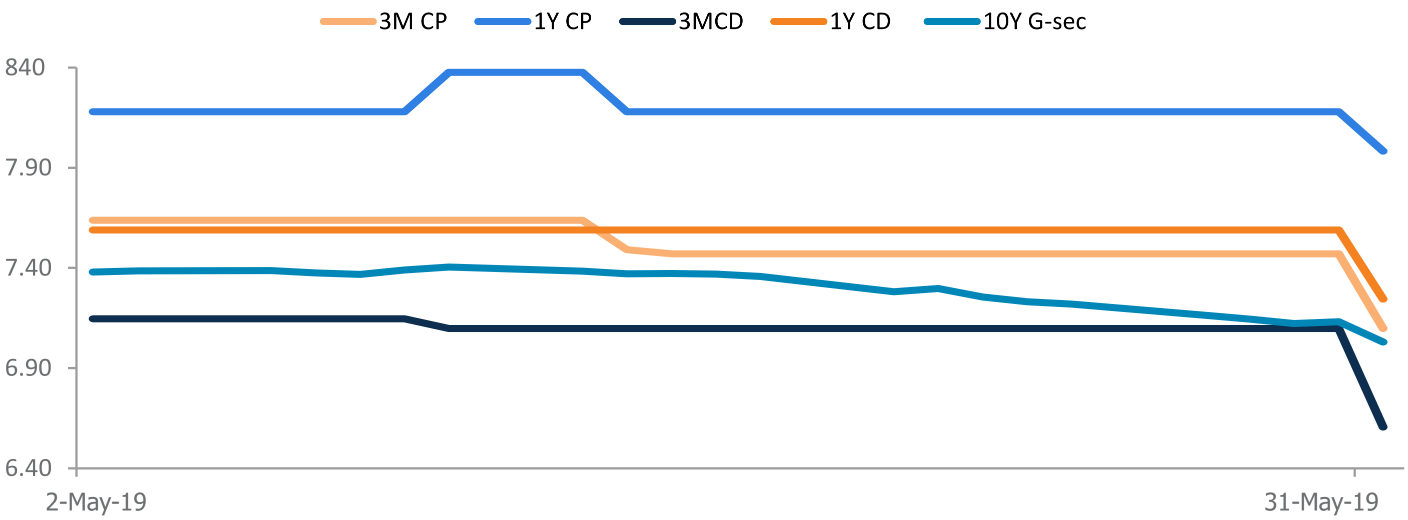
RBI in the Second bi-monthly monetary policy of FY20 reduced the policy repo rate consecutively for the Third time by 25bps from 6.00% to 5.75%. Historically we have seen the average spread between the 10Y benchmark and repo rate is usually around 100bps in normal situations. When the markets are bearish it has widened to 200bps as we have seen in the 2017 markets and it has narrowed down to as much as (-) 25bps at the peak of past bull markets. Before the rate cut India 10Y was trading at 7.0% at a normal average of 100bps and post policy it dropped by 10bps to 6.87-6.90%. Considering prospects of further rate cuts (Repo at 5.50%) and some narrowing of spreads (75bps), 10Y benchmark can potential hit 6.25% mark suggesting ample scope for further easing from current levels of 6.90%. After the recent rally though, volatility is likely to increase in the immediate run.

Fixed Income - Yields		
	31 May 19	2 May 19
Call Money	5.92	6.06
TREPS	5.94	5.90
3 months CD	6.60	7.15
3 months CP	7.10	7.65
1 year CD	7.25	7.60
1 year CP	8.00	8.20
G-Sec (10 yrs)	7.03	7.39

All Values are percentage (%) terms

Currency Markets			
Forex	Value	MTD	YTD
$ / Re	69.70	0.20%	0.40%
£ / Re	87.66	-3.60%	-0.80%
€ / Re	77.70	-0.40%	-2.30%
KRW / Re	0.06	-1.70%	-6.10%

Source: Bloomberg, 31st May 2019.



Source: Bloomberg, 31st May 2019.

Macro Economic Indicators (India)				
Indicators	Current Period	Value	YoY Comparison	Value
GDP (%)	Q4 2018-19	5.58%	Q4 2017-18	8.10%
IIP (%)	March 2019	-0.10%	March 2018	5.30%
Inflation (CPI %)	April 2019	2.92%	April 2018	4.58%

Source: CCIL, data as of 31st May 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