



Monthly Market Insight

July 2019

EQUITY UPDATE

Equity Update

- Equity markets witnessed second consecutive month of fall. The BSE-30 Index and Nifty-50 Index declined 4.9% and 5.7% while BSE Mid-cap and BSE Small-cap indices fell sharply by 7.9% and 10.9% respectively. Global markets were mixed – S&P 500 gained 1.3%, Euro Stoxx 50 ending 20 bps lower, and MSCI Emerging Markets index was down 1.7% during the month.
- Weak underlying trend in quarterly results, IMF lowering India's growth outlook and no respite on some of the adversely perceived budget proposals dented investor sentiments.
- On the sectoral front, IT was the only sector index to end the month in green with 0.5% gains. BSE consumer durable, auto, metals, capital goods and oil & gas indices fell more than 10%.

Global Macros

- The US 10 year bond yield was broadly flat, quoting at 2.01 on July 31st. The dollar index was at 98.5 at the end of July, 2.5% higher from the previous month.
- Brent crude was down marginally by 0.5% in July, quoting at USD64.1/bbl on July 31st.
- On the global front, US Fed cut rates (25bps) for the first time in a decade. UK announced its next Prime Minister, as the country struggles to close the deal with the EU.

Domestic Macros

Inflation: (a) CPI inflation inched higher to 3.18% in June from 3.05% in May on the back of rising food inflation, (b) WPI inflation declined to 2.02% in June from 2.45% in May.

Currency: The Indian Rupee ended July at INR 68.8/USD vs INR69/USD on June-end

Growth: IIP growth came in at 3.1% in May, as against 4.3% in April (revised upward from 3.4%)

Trade deficit: Trade deficit in June was USD15.3 b (v/s USD15.4b in May) saw lower imports balancing softer exports.

Regulatory, policy and market developments

Equity trading trends: FIIs net sold equities worth USD1.9b and DIIs bought equities worth USD3b during July. For calendar year 2019, FIIs bought equities worth USD9.4b and DIIs bought USD1.85b back towards the end, southwest monsoon roared back and delivered above-average rainfall, reduced the shortfall to 11% (from 35% at end of June). As of 30th July, more than 2/3rd of the country had received normal or excess rainfall.

Source: Bloomberg, as on 31st July, 2019.

GST: GST collections for the month of July were up 5.8% YoY to INR1.02tn. Cess collections were up 2% YoY to INR86b. We expect that as compliance measures get implemented in 2H (invoice matching) collections could move up.

1QFY20 result trends so far

- While we are halfway into the 1QFY20 earnings season, results so far reflect the underlying weak operating environment and commentary remains tepid. Of the 28 Nifty companies that have announced their earnings, 19 have either met or exceeded our estimates on the PAT front.
- The near term consumption demand outlook remains weak while Banks reported mixed results and cement companies reported higher realization led by price hikes of mid 4QFY19.
- Key trends from the ongoing result season (a) Consumer results in-line but outlook weak led by rural, (b) Loan growth moderates for private banks and asset quality trends are mixed, (c) NBFC's as expected showed divergent performance, (d) auto results are reflection of weak monthly numbers and (e) IT showed margin weakness reflecting cost challenges, however demand trends continue to be fair.

Key sectoral trends

Financials: Pressure on CASA continued for banks, however SBI became the first bank in this rate cycle to cut deposit rates across all tenors. The banking system liquidity turned to a surplus in June after almost a year of deficit. Union cabinet approved certain amendments to IBC in a bid to accelerate resolutions. NHB restricted subvention schemes for home loans.

Auto: Government hiked registration charges on purchase of new vehicles. July 2019, auto wholesales continued to be weak as OEMs focused on reducing excess dealer inventory.

Utilities: Ministry of Power has proposed tighter payment security mechanism as a solution for receivables problem of GENCOs.

Aviation: Passenger traffic growth in June remained subdued at 6% YoY hit by shutdown of Jet Airways. Load factor remained high across airlines at > 90%.

Market Outlook

Cyclically weak: The capital markets have been going through turbulent times (both, equity and debt). The economy is going through a cyclical downturn (structural building blocks strong though!) and global cues are also not supportive. Markets in general were expecting a stimulus from the government, however given the fiscal constraints government has very limited room to do much. As discussed in the previous commentary, the government needs to maintain fine balance between growth and fiscal and we still believe growth should take precedence over later.

Structurally strong: We have seen such downcycles previously as well and the resilient Indian economy has bounced back every time. Silver lining lies in the industry capacity utilization (>75% now). We believe with the (a) supportive macros (range-bound oil price, falling interest rate and stable currency), (b) strong underlying latent demand (favourable demographics, increasing per capita GDP), (c) high capacity utilization (indicating likely

comeback of private capex) and (d) long term policy initiatives; provides the right framework for investments from the medium to long term perspective. 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.

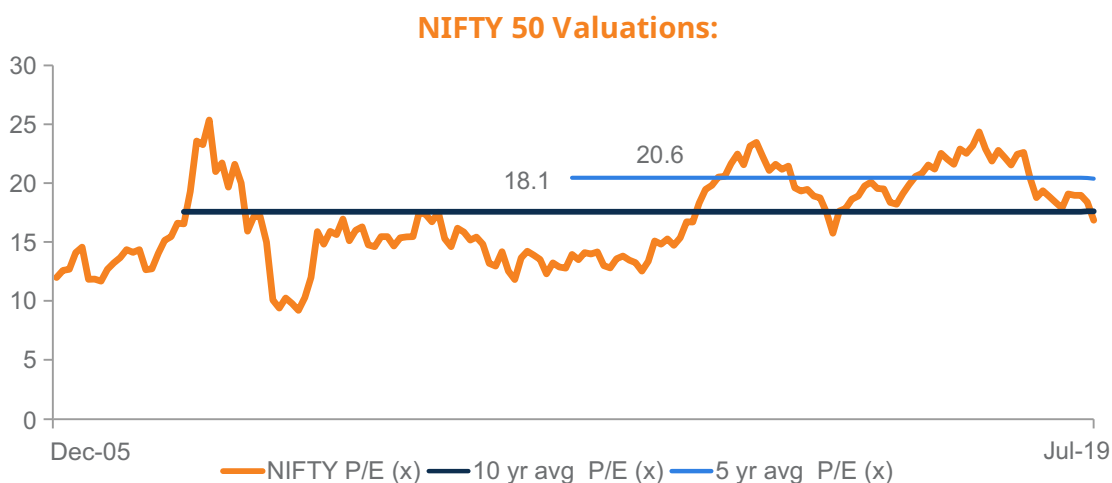
Key things to watch out for: Apart from usual macroeconomic parameters and corporate earnings trend, key things to watch out for includes (a) monsoon trends, (b) improvement of liquidity in the system, (c) improvement in the high frequency data and (d) policy initiatives of the new government.

Valuations: The consensus estimates peg FY20 Nifty-50 earnings growth at ~25% led by financials, implying 1-year forward P/E of 19.1x.

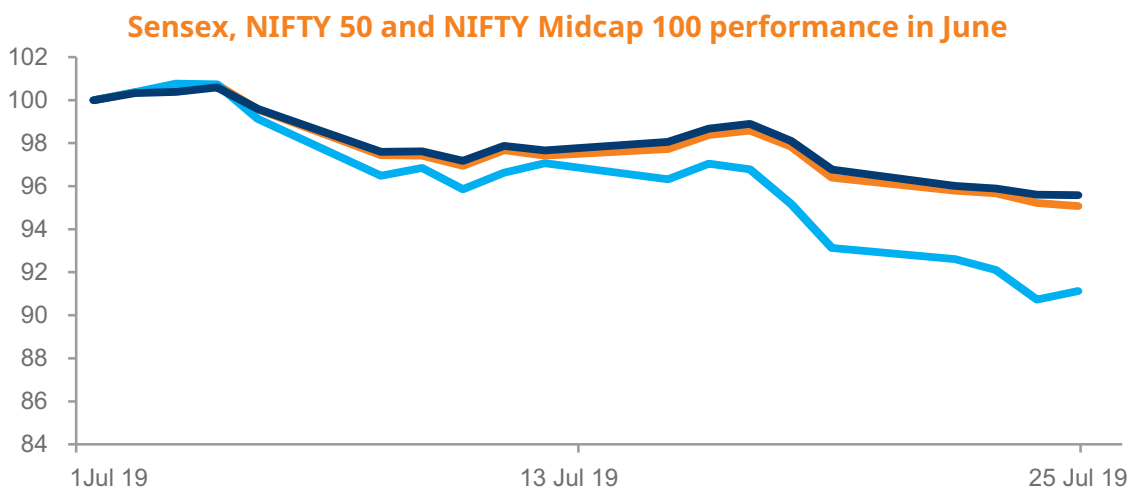
We would advise to invest in a disciplined way in equities for long-term, within the earmarked asset allocation (based on individual risk profile). In the current market scenario, staggered investments through SIP or STP, would remain the best ways to invest in equities.

Source: Bloomberg, as on 31st July, 2019.

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PERFORMANCE IN JULY OF MAJOR INDIAN INDICES

Major Indian indices	July-19	Jun-19	Performance (%)			
			1m	3m	6m	1Y
S & P BSE SENSEX	37,481.00	39,395.00	-4.90	-4.00	3.40	-0.30
NIFTY 50	11,118.00	11,789.00	-5.70	-5.40	2.70	-2.10
NIFTY Midcap 100	15,921.00	17,654.00	-9.80	-9.40	-5.80	-15.70

Source: Bloomberg, as on 31st July, 2019.

PERFORMANCE OF GLOBAL AND REGIONAL INDICES

Name	Performance (%)			
	1m	3m	6m	1Y
Global and regional indices				
BSE (Sensex)	-4.90	-4.00	3.40	-0.30
Brazil (Bovespa)	1.90	6.80	5.70	29.90
Shanghai (SHCOMP)	-1.60	-4.70	13.50	2.00
Germany (DAX)	-1.90	-1.50	8.90	-5.00
Hong Kong - HSI	-2.70	-6.50	-0.60	-2.80
Japan (Nikkei)	1.20	-3.30	3.60	-4.60
Korea (Kospi)	-5.00	-8.10	-8.20	-11.80
Russia (MOEX)	-1.70	8.70	11.80	15.70
UK (FTSE)	2.40	2.50	9.10	-1.90
US (Dow Jones)	2.20	2.30	8.80	7.00

Source: Bloomberg, as on 31st July, 2019.

PERFORMANCE OF INDIAN SECTOR INDICES


Name	Performance (%)			
	1m	3m	6m	1Y
BSE sector indices				
BSE Auto	-13.60	-17.90	-16.30	-36.80
BSE Bankex	-6.50	-1.90	6.40	5.40
BSE Capital goods	-11.60	-2.60	1.40	-4.00
BSE Consumer durables	-14.5	-6.40	5.10	6.90
BSE FMCG	-2.60	-6.00	-4.80	-7.90
BSE Healthcare	-1.40	-11.60	-8.50	-10.60
BSE Infotech	0.50	-3.30	3.10	8.30
BSE Metals	-12.80	-15.90	-11.60	-23.50
BSE Oil & Gas	-10.60	-13.80	-2.80	-11.90
BSE Power	-6.10	-0.20	4.50	-0.50
BSE Realty	-6.10	2.90	16.50	-1.30

Source: Bloomberg, as on 31st July, 2019.

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