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Macro-economic developments

- Moody's upgraded India's local and foreign currency issuer rating after 14 years to Baa2 (Stable) from Baa3 (Positive). The change was on account of expectations that the continued progress on structural reforms like implementation of GST, demonetization, bankruptcy reforms,

bank recapitalization etc. will improve India's growth outlook in the long term.

- Q2FY18 growth picked up as against previous quarter, with GDP growth at 6.3% (5.7% in Q1FY18) while GVA growth came at 6.1% (5.6% in Q1FY18), primarily due to pickup in manufacturing sector which grew at 7.0% (1.2% in Q1FY18). Agricultural, industry and services sectors grew at 1.7%, 5.8% and 7.1% respectively in Q2FY18 on y-o-y basis.
- System Liquidity surplus reduced to ~₹ 1.4 trillion (including MSS issuances) from ~₹ 2 trillion in October, which prompted RBI to stop further Open Market Operations (OMO) sales. RBI has done Open Market Operations (OMO) sale of ₹ 90,000 crore in FY18 till date. RBI is not expected to take further measures to reduce system liquidity in this financial year.
- October CPI inflation rose to 3.58% YoY as against 3.28% in September; driven by higher food (1.9% YoY vs. 1.2% in September) and fuel (6.4% YoY vs. 5.6% in September) inflation.
- IIP grew at 3.8% in September as against 4.3% in August. Manufacturing sector grew at 3.4% primarily due to growth in pharmaceuticals, electronic products and motor vehicles; while Mining growth was at 7.9% (vs. 9.2% in August) and Electricity growth was at 3.4% (vs. 8.3% in August).
- Fiscal deficit for April - October 2017 was 5.25 lakh crore viz. 96.1% of 5.46 lakh crore of the budgeted fiscal deficit for FY18 (against 79.3% during the same period last year) due to front loaded expenditure by government on account of advancement of budget, reduction in RBI's surplus transferred to government and lower indirect tax collections due to GST implementation.
- Brent crude price rose by 3.6% in November to close at USD 63.57/barrel; versus USD 61.37/barrel in October.
- INR appreciated by 0.4% in November to close at INR 64.46/USD; versus INR 64.75/USD in October.

Equity market developments and Outlook

- NIFTY fell 2.09% in November, despite a sovereign ratings upgrade by Moody's (a first since 2004); but the broader markets fared better with NIFTY Midcap and Small cap indices actually rallying 1.2% and 1.3% resp.. 2Q earnings season ended on a positive note, with MSCI India earnings revisions stabilizing for the first time in 6 quarters.

- The decline was broad-based across sectors barring IT Services and Realty – on the latter, while IT benefitted from jump in the heavy weights, Realty stocks benefitted from an update to the PMAY (Affordable Housing) scheme that increased the area of eligible houses from 1200 to 1600sqft; effectively increasing the potential supply. Pharma was one of the worst performers with NSE Pharma down 5.12% while Metals and Energy stocks also saw major pullbacks (NIFTY Metal: -7.29% and NIFTY Energy: -3.26%)
- Foreign flow turned supportive in November, with FIIs as a group pouring in \$2.8bn in the market – this seems largely on the back of some large reported blocks (BHARTI and INFRATEL – among the bigger ones). Domestic Mutual Funds continued their buying spree, adding \$1.6bn in November – while insurance was a marginal seller – taking ~\$200mn out of the market.
- Global markets were mixed with US the best-performer (S&P: +2.58% in November) as investors started building in expectations of the tax plan passage through the Senate. Europe was weaker with FTSE 100 falling 2.20% on concerns around political stability with the Theresa May government and the Sx5E (Euro Stoxx) closing 2.83% lower. In Asia, the Nikkei – that has lagged the region for most of the year ended 1.34% higher, while the Shanghai Composite fell 2.37% on a combination of rising yields and profit taking in China.

Fixed Income market developments and Outlook

- 10 year G-Sec yields closed higher at 7.06% in November v/s 6.86% in October, due to concerns regarding fiscal slippage, hawkish RBI, uptick in CPI inflation and excess supply concerns due to higher government borrowings, OMO sales etc.
- We believe that CPI inflation readings would start edging up in H2FY18 due to waning favorable base effect impact & increasing rural wages and rise in inflation globally.
- Our view is that the interest rate easing cycle has broadly come to an end; however the evolving growth and inflation trajectory over the coming months needs to be closely tracked.
- The upward movement in yields presents a good investment opportunity in the shorter end of the yield curve.
- Key factors to watch out for will be – trajectory of growth and inflation going forward, RBI and US Fed policy decisions, fiscal situation of the government, indirect tax collections and Gujarat election outcome.
- In view of the improving macro-economic dynamics, policyholders would be well placed to benefit from the economic revival, if they continue to remain invested in the India growth story.