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Macro-economic developments

- On the global front, non-farm payrolls in the United States increased by a robust 313,000 in February 2018, higher than market expectations of around 200,000. The unemployment rate stayed steady at 4.1%.
- As expected, the US Fed hiked rates by 25 bps in its March 2018 meeting, but maintained the median forecast of 3 rate hikes for 2018 and a rate of 2.1%, compared to some sections of the market who were expecting the possibility of 4 rate hikes in 2018. However, it revised upwards the median forecast of fed rate for 2019 to 2.9% (from Dec 2018 projection of 2.7%), and for 2020 to 3.4% (from Dec 2018 projection of 3.1%). GDP forecast has also been revised upwards to 2.7% for 2018 (up 20 bps), and to 2.4% for 2019 (up 30 bps).
- India's trade deficit narrowed to $12 billion in the month of Feb 2018, after touching a 56-month high of $16.3 billion in month of Jan 2018. Exports grew 4.5%YoY in the month of Feb 2018, while imports grew at more moderate pace of 10.4%YoY, due to contraction in imports of gold and transport equipment. Imports had grown at rapid pace of 26.1%YoY during the month of Jan 2018, which had led to the widening of trade deficit in that month.
- Index of Industrial Production (IIP) growth came in at 7.5%YoY in Jan 2018 compared to 7.1%YoY in the previous month—led by Manufacturing sector (78% weight in index), where growth was 8.7%YoY in Jan 2018. IIP for FYTD 18 (April – Jan 2018) improved to 4.1%YoY, compared to 5.0% in the year ago period.
- CPI headline inflation fell below estimates to 4.4%YoY in Feb 2018 from 5.1% in Jan 2018—primarily due to fall in food prices. Fuel & light inflation also fell to 6.8%YoY in Feb 2018, from 7.7%YoY in the previous month. Core inflation (ex food & fuel) also fell marginally to 4.9%YoY in Feb 2018 from 5%YoY in Jan 2018.
- Brent crude price breached the $70 mark and closed the month of March up 6.8%, at USD 70.27/barrel.
- INR closed absolutely flat for the month at INR65.18/USD.

Equity market developments and Outlook

- Equity markets witnessed a correction during the month of March, in line with correction in global markets as well. The benchmark Nifty 50 index fell 3.6%, while NSE Smallcap 100 index and Nifty Midcap 50 index fell 6.8% and 4.2% respectively during the month.
- On the sectoral front, metals, realty and healthcare stocks were the most hurt during the month, with the BSE Metal and BSE Realty and BSE Healthcare indices falling by 12.2%, 9.7%, and 6.8% respectively. Metal stocks were impacted due to the ongoing trade-tariff war concerns. Meanwhile, the BSE Consumer Durables index actually gained 5.1% during the month, and the defensive BSE FMCG index also fell by a relatively less 2.1% during March.
- Foreign portfolio investors (FPIs) registered a robust net inflow of ₹ 13,372 crore in the month of March after seeing a substantial net outflow of ₹ 12,492 crore in the previous month.
- Domestic Institutional Investors (DIIs) registered a relatively lower net inflow of ₹ 6,694 crore for the month of March, which was primarily contributed by Mutual Funds, as Life Insurance Funds registered net outflows during the month.
- Most global markets also witnessed a correction during the month. In the US, the S&P 500 index closed with a loss of 2.6%, while the Dow Jones Industrials Average index lost 3.5% during the month. Within Europe, the CAC 40 index (France) lost 2.8%, followed by the Dax index (Germany) which lost 2.7%. Within Asia, the Indonesian markets was among the biggest losers during the month, with its benchmark JSX Composite index falling 6.2% in March. However, benchmark indices for markets in Asia like South Korea, Taiwan and Malaysia managed to close in the green.
- We expect corporate earnings to recover in FY19 meaningfully, and that should drive growth in markets going forward.
- Credit growth is also showing signs of pick-up as the economy recovers. Economic growth is recovering, and we feel that it will be led by consumption demand, as investment demand still seems to be a while away—to recover meaningfully. In a nutshell, GDP growth seems poised to recover to 7% plus in FY19, and that should make India as among the fastest growing major economies in the world.
- However, there are macro challenges like rising crude oil prices, and inflation, and their impact will be data driven.
- On the global front, there is the emerging challenge of trade tariff wars, which may impact global trade and global growth also to some extent, if it spirals out of control. We have already seen come correction in metal prices as a result of this. Also, this may lead to volatility in global markets in the interim.

Fixed Income market developments and Outlook

- Bond yields softened considerably during the month primarily on the back of lower than expected inflation data for the month of Feb 2018, fall in global and esp. US bond yields (as Fed maintained its forecast of 3 rates in 2018, against market expectations of a possibility of four rate hikes), and lower than expected government borrowing calendar for H1 FY19 along with a favourable composition of issuance of more short to medium-term dated securities. The 10 year G-Sec benchmark yield closed the month at 7.40% - down 33 bps. The US 10 year benchmark treasury yield closed the month at 2.74% - down 12 bps.
- Towards the end of the month, the RBI announced the government's borrowing calendar for H1 FY19 at ₹ 2.88 trillion (gross market borrowings), which was 47.6% of the full year target. This was considerably lower than the usually front-loaded government borrowing calendar of 60-65% of full year target over the past 5-6 fiscal years. Also, the composition of the government borrowing was changed and made more favourable. After a very long time, the government planned to issue securities in the 1-4 year maturity bucket, and almost one-third of all issuances in H1 FY19 would be for securities with up to 9 year maturity, as against less than 20% in the past 3 years. Post this announcement, bond yields fell sharply with the benchmark 10 year G-Sec yield falling by almost 30 bps in a single day.
- Foreign Portfolio Investors (FPIs) saw the pace of outflows picking up in March in the debt segment and registered a net outflow of ₹ 7,298 crore during the month compared to a net outflow of ₹ 2,771 crore in the previous month.
- Data released by the government showed that fiscal deficit for the first 11 months of FY18 (April to February) touched 120% of the new revised estimate, compared to 113% in the year ago period. The fiscal deficit for full FY18 is still not officially out, but there have been some statements from government officials that the fiscal deficit for FY18 is likely to be lower than the revised estimate.
- We have been saying for a while that the market had priced in most of the risks, and that yields were elevated. With the recent fall in bond yields, we feel that yields will be range-bound in the near term. We prefer the shorter to medium term end of the yield curve presently.