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Macro-economic developments

- Non-farm payrolls in the United States dropped to 134,000 in September 2018, lower than market expectations of around 185,000. However, the unemployment rate fell to a record low of 3.7% (lowest since Dec 1969), from 3.9% in the previous month.
- The IMF, in its World Economic Outlook (WEO) October 2018 report, cut the global growth forecast by 0.2% (from July forecast) for both 2018 & 2019 to 3.7%, citing the trade tensions between US and its trading partners. Growth forecast for emerging economies was also cut by 0.2% for 2018 to 4.7%, and by 0.4% for 2019 to 4.7%. However, it retained the growth forecast for India at 7.3% in FY19.
- India again performed quite well in the World Bank Ease of Doing Business 2018 rankings, with its position rising to 77 in 2018 (out of 190 countries), from 100 last year and 130 in 2016. The biggest improvements were seen in the categories of construction permits, trading across borders and starting business.
- Trade deficit data surprised positively in September, with the country's trade deficit moderating to a 5-month low of $14 billion during the month, from $17.4 billion in August. The fall in trade deficit (MoM) was helped by a sequential fall in imports from $45 billion in August 2018 to $42 billion in September 2018, while exports sequentially remained flat.
- The Index of Industrial Production (IIP) growth moderated to 4.3%YoY in August 2018 from 6.5%YoY in the previous, primarily due to higher base. IIP growth for FYTD 19 (upto August) was 5.2%YoY, versus 2.3%YoY in the year ago period.
- The Nikkei India Manufacturing Purchasing Managers Index (PMI) rose to 53.1 in October, from 52.2 in September and 51.7 in August, on the back of stronger gains in output and new orders.
- CPI headline inflation rose marginally to 3.8%YoY in September, from 3.7%YoY in the previous month. Food inflation, which has the highest weight of around 40% in CPI inflation rose a bit to 0.50%YoY in Sep 2018, from 0.3%YoY in the previous month. Fuel inflation remained elevated at 8.5%YoY in Sep 2018. However, core inflation (ex food & fuel) continued to moderate to 5.8%YoY in Sep 2018, from 6.0% in the previous month.
- Crude prices fell sharply during the month on the back of global growth concerns, and with some of the Iran sanctions concerns easing. Brent crude, which breached the $86/bbl mark in the beginning of October, finally closed the month at $75.5/bbl mark—down around 9%.
- The rupee ended the month down around 2% against the USD, on back of foreign outflows, and global strength in the dollar.

Equity market developments and Outlook

- Indian markets continued to be under pressure and registered another sharp correction in October, on the back of a correction seen in the previous month too. Correction in global markets, foreign outflows, liquidity and credit crunch in the NBFC sector, and mounting trade tensions contributed to the decline.
- The benchmark Nifty index closed the month down around 5%, while the mid/small-cap segment fared better, with the Nifty Midcap 50 index and Nifty Small-cap 100 index returning 2.3% and -1.4% respectively in October. Sectors that outperformed during the month included capital goods, power and banking. Meanwhile, the bottom performing sectors during the month were oil & gas, auto and IT.
- Global markets closed on a negative note during the month. MSCI World, MSCI Emerging Markets and MSCI Asia Ex Japan indices fell 7.4%, 8.8% and 10.9% respectively in October. The Indian market fell relatively less, amidst the global carnage.
- In the US, the S&P 500 index closed down almost 7%. Major European markets like UK, Germany and France also fell 5-7% during the month. Within Asia, Indonesia (-3%) was among the top performers during the month. Other Asian markets like South Korea, Taiwan and Hong Kong fell quite sharply in October. Meanwhile, Brazil's benchmark Bovespa index closed with a handsome gain of more than 10%, as the country elected a new President, on hopes of an economic revival.
- Foreign portfolio investors (FPIs) net outflows touched a record high of around ₹27,600 crore in the month of October.
- Domestic Institutional Investors (DIIs) helped to counter the FPI outflows, with a net investment of around ₹26,000 crore in the month of October.
- The market correction over the past couple of months started off primarily on account of 3 Cs' viz. rising Crude prices, Currency depreciation, and Credit and liquidity related issues—due to default by a large infrastructure lender. These factors have somewhat stabilized now—with crude coming off from its recent highs, rupee stabilizing, and regulatory actions being taken to ease the credit and liquidity crunch.
- Therefore, investors should not panic and continue to invest systematically. The recent correction has also made valuations more reasonable in certain pockets (compared to before), and investors can consider buying on dips.

Fixed Income market developments and Outlook

- Bond yields softened during the month due to softening crude oil prices, RBI keeping rates unchanged in its October policy and also cutting inflation forecasts, and also various liquidity supporting measures announced by the RBI—amidst the liquidity tightness and crunch. The benchmark 10 year bond yield had breached the 8.2% mark in beginning of October, but finally closed the month at 7.85%--down 17 bps for the month.
- In its 5th October monetary policy review, the RBI surprised markets by keeping rates unchanged and also changing the monetary policy stance from "neutral" earlier to "calibrated tightening". The central bank also cut the headline CPI inflation trajectory to 4% in Q2 FY19 (from 4.6% earlier), 3.9-4.5% in H2 FY19 (from 4.8% earlier), and 4.8% in Q1 FY20 (from 5% earlier). By changing the policy stance, the RBI has indicated that future policy action will continue to be data dependent.
- With liquidity being tight within the system, the RBI has been proactive on the liquidity front, by announcing liquidity infusion through OMO purchases. It conducted OMO purchases of ₹36,000 crore in October and announced further OMO purchases of ₹40,000 crore for the month of November.
- India's fiscal deficit for FYTD 19 (upto September) reached 95.3% of the budgeted full year target, compared to 91.3% in the year ago period. The fiscal deficit was a bit elevated, primarily due to lower GST collections, lower than budgeted divestment proceeds and slight increase in capital expenditure.
- However, after missing the mark for the past few months, GST collections crossed the 1 lakh crore mark in the month of October. GST collections for FYTD19 are still 13% below the budgeted run-rate.
- Foreign Portfolio Investors (FPIs) in debt markets registered a net outflow of around ₹10,000 crore in October, on the back of a net outflow ₹10,528 crore in September. CYTD in 2018, we have seen a record net FII outflow of almost ₹ 59,000 crore from the debt markets.
- We continue to prefer the shorter end of the yield curve.