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Macro-economic developments

- In the Jan 2019 end meeting, the US Fed kept rates unchanged (as expected), but turned dovish by saying that the FOMC will be 'patient' as it determines what future adjustments to the Fed Funds rate will be appropriate. It removed the statement – "further gradual increases" in this meeting's statement, and also indicated that it is prepared to adjust the balance sheet normalization, which is being shrunk by $50 billion per month currently.
- The IMF in its January 2019 World Economic Outlook Report, expects global growth to slow down from 3.7% in 2018 to 3.5% in 2019 (cut of 0.2% from Oct 2018 projection), and come in at 3.6% in 2020 (cut of 0.1%). The growth forecast for US economy was left unchanged, and is expected to slow down from 2.9% in 2018 to 2.5% in 2019 and 1.8% in 2020. Euro Area growth projection for 2019 has been cut by 0.3% (from last forecast) to 1.6%, primarily due to slowdown expected in Germany.
- The IMF also cut growth forecast for Emerging Economies for 2019 by 0.2% (from last forecast) to 4.5%, although growth is expected to pick-up to 4.9% in 2020. Meanwhile, India's GDP growth for FY20 has been upgraded by 0.1% to 7.5%, and retained at 7.7% for FY21.
- The Interim budget FY20, announced on 1st Feb 2019, has been a pragmatic and well balanced one, benefiting various sections comprising of farmers, middle class, and the unorganized sector.
- A farm package, was announced with direct income support of ₹ 6,000 per year for those farmers owning upto 2 hectares of land. Also, interest subvention benefit was announced on loans for both the farming and animal husbandry sectors.
- Numerous benefits have been announced for the middle class. On the personal taxation front, individual tax payers having taxable income upto ₹5 lakhs, would receive full tax rebate. Also, standard deduction has been increased and TDS limits have been raised on various savings instruments. Individuals and the real estate sector is also expected to benefit from various tax advantages being provided to the sector. Overall, this will increase disposable income in the hand of individuals, and provide a boost to consumption.
- On the social security front, the government also announced a Mega Pension Scheme for the unorganized sector, under which individuals having monthly income upto ₹15,000 per month, will be provided a pension of ₹3000 per month, post retirement.
- The Index of Industrial Production (IIP) growth slowed down to 0.5%YoY in Nov 2018 (due to unfavourable base effect), from 8.4%YoY in the previous month. All sectors saw a slowdown in growth. For FYTD19 (upto November) IIP growth was stronger at 5.0%YoY, compared to just 3.2%YoY in the corresponding period, a year ago.
- Consumer Price Index (CPI) headline inflation continued to moderate to an 18-month low of 2.2%YoY in Dec 2018, from 2.3%YoY in the previous month. Food inflation (biggest component of CPI), fell 2.5%YoY in December, compared to a fall of 2.6%YoY in the previous month. Core inflation (ex food & fuel) moderated to 5.6%YoY from 5.8%YoY in the previous month.
- Crude prices, after falling in previous month, rose in January, on the back of OPEC (& Russia) production cut of 1.2 million barrels per day from beginning of 2019, and the recent US sanctions announced on Venezuela. Brent crude closed the month up around 15%, near the $62/bbl mark.
- The rupee depreciated around 2% during the month to close at 71.09/US dollar, on the back of rise in crude prices, foreign outflows and some concerns of fiscal slippage.

Equity market developments and Outlook

- Global markets saw a smart bounce-back in January, with both the emerging and developing markets moving up. The MSCI World index returned 7.7% during the month, while the MSCI Emerging Markets index moved up by 8.7%.
- In the US, the S&P 500 index rose by 7.9% in January, after a sharp decline in the previous month. Most of the European markets were also buoyant in the month. Asia also performed well, with the MSCI Asia ex Japan index returning 7.3%. Within Asia, markets like Hong Kong, and South Korea were the top performers, while markets like India and Malaysia were the laggards during the month. Among the Emerging markets, Russia and Brazil clocked strong returns in January.
- Indian markets underperformed global markets in January, although the benchmark Nifty 50 index closed the month on a flattish note (-0.3%). The broader markets underperformed, with both the Nifty Midcap 50 index and Nifty Small-cap 100 index falling around 5%. Sectors that underperformed during the month included media, auto, capital goods and metals. The sectors that outperformed during the month were IT, consumer durables and banking.
- Foreign portfolio investors (FPIs), registered a net outflow of ₹441 crore in January, after seeing an inflow of ₹2,299 crore in the previous month.
- Domestic Institutional Investor's (DIIs) net investment in equities picked up to ₹2,147 crore (mainly due to mutual fund buying), compared to ₹376 crore net investment in the previous month.
- The budget was expansionary in nature and would give an additional boost to consumption within the economy. Various tax sops for the real estate sector were also announced in the budget.

Fixed Income market developments and Outlook

- Bond yields hardened during the month on the back of rise in crude oil price, slight weakness in rupee, concerns of some fiscal slippage, and some credit events and liquidity tightness. The old 10 year benchmark bond (7.17 GOI 2028) yield closed the month up 11 bps at 7.48%. During the month, a new 10 year benchmark bond with 7.26% coupon (and maturing in 2029) was issued, and its yield closed the month at 7.28%.
- The RBI also announced that it will infuse liquidity of ₹37,500 crore through OMO purchases in the month of February.
- In the Interim Budget announced on 1st Feb 2019, the revised fiscal deficit for FY19 stood at 3.4% of GDP (vs 3.3% earlier), and for FY20 has been budgeted at 3.4% too (vs 3.1% earlier).
- As a result, the gross market borrowing for FY20 has come in slightly higher at ₹7.1 lakh crore, compared to the market expectation of ~₹6.5 lakh crore, and the net market borrowing for FY20 is ₹4.73 lakh crore. Bond yields hardened post the budget announcement.
- India's fiscal deficit for FYTD 19 (upto December) reached 112% of the budgeted full year target, compared to 114% in the corresponding year ago period.
- Foreign Portfolio Investors (FPIs) in debt markets registered a net outflow of ₹2,601 crore, compared to a net inflow of Rs. 5,805 crore in the previous month.
- Due to higher than expected market borrowing & some fiscal slippage, there has been some moderate hardening of bond yields. There could also be some more pressure on yields due to liquidity & credit crunch. We continue to prefer the shorter end of yield curve.

Ver: Jan 2019