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Macro-economic developments

- US non-farm payrolls slowed down significantly to 75,000 in the month of May, much below expectations of ~180,000. The unemployment rate remained at a 50-year low of 3.6%.
- The US Fed kept rates unchanged in its June 2019 meeting (as widely expected) and continued with its dovish stance—cutting inflation and Fed rate projections further. Also, the 'patient' word about future policy changes was dropped from the June policy statement. The Fed cut PCE inflation forecast for 2019 to 1.5% (vs 1.8% earlier), and for 2020 to 1.9% (vs 2.0% earlier). The Fed median target rate forecast was maintained at 2.4% for 2019, but was cut sharply to 2.1% for 2020 (vs 2.6% earlier). The US 10 year bond yield continued to trend downwards and closed the month at 2.01%--down 11 bps.
- Domestically, current account deficit (CAD) narrowed to $4.6 billion (0.7% of GDP) in Q4 FY19, from $17.8 billion (2.7% of GDP) in the previous quarter. This was primarily helped by fall in trade deficit. For FY19 CAD came in at 2.1% of GDP, compared to 1.8% of GDP in FY18. Also, the balance of payments (BoP) turned in to a surplus of $14.2 billion in Q4 FY19, compared to a BoP deficit of $4.3 billion in the previous quarter—primarily being helped by sharp pick-up in foreign portfolio inflows and external commercial borrowings.
- Latest data showed that India's trade deficit remained steady at $15.4 billion in the month of May 2019, compared to $15.3 billion in the previous month.
- The Index of Industrial Production (IIP) growth picked up to 3.4%YoY in April 2019, from 0.4%YoY in the previous month. This was primarily helped by Mining sector (+5.1%YoY) and Electricity sector (+6.0%YOY), while Manufacturing sector growth was subdued at 2.8%YoY during the month.
- Consumer Price Index (CPI) headline inflation remained steady at 3.0%YoY in May 2019, and well below the RBI target. Food inflation (biggest component of CPI, with 39% weight) rose a bit, as expected, to 1.8%YoY in May, from 1.1%YoY in the previous month. However, core inflation (ex food & fuel) continued to moderate to 4.1%YoY from 4.7%YoY in the previous month.
- Crude prices fell in the first half of the month on the back of global growth concerns and trade tensions. However, it rose in the second half of the month, on the back of geo-political tensions (further sanctions imposed by US on Iran), expectations of continuation in OPEC production cuts, and hopes of some resolution to the US-China trade tensions. Brent crude finally closed the month of June up ~3%, at $66.5/bbl.
- The rupee closed the month up ~1%, at 69.03/US dollar, on the back of global weakness in the dollar, recovery in emerging market currencies, and some foreign portfolio inflows.

Equity market developments and Outlook

- Indian markets fell marginally in June, with the benchmark Nifty 50 index closing the month down 1.1%. Domestically, the broader markets underperformed, with the Nifty Midcap 50 index and Nifty Smallcap 100 index returning -1.8% and -5.3% respectively. Sectors that outperformed during the month included consumer durables, power, and metals. The sectors that underperformed during the month were oil & gas, pharma, and auto.
- Global markets rallied during the month, with the MSCI World index, MSCI Asia ex-Japan index and MSCI Emerging Markets index returning +6.5%, +6.1% and +5.7% respectively.
- In the US, the S&P 500 index rose by 6.9% in June. Most of the major European markets also closed with healthy gains during the month. Within Asia—Singapore, Thailand and Hong Kong were the outperformers, while the bottom performers within the region were India, Malaysia and Taiwan. Other emerging markets like Russia and Brazil also closed the month with healthy gains.
- Foreign portfolio investor (FPI) flows slowed down further to ₹ 1,033 crore in June, compared to ₹ 9,826 crore in the previous month.
- Domestic Institutional Investor's (DIIs) net investment in equities also slowed down to ₹ 3,643 crore in June, compared to a net investment of ₹ 5,316 crore in the previous month.
- Factors that will primarily guide the markets in the near term include the progress on US-China trade talks, the upcoming union budget (on 5th July 2019), upcoming Q1 FY20 earnings season, and global crude oil prices.
- The sectors that we are positive on presently include capital goods, private financials, pharma and cement. We are neutral on FMCG and IT sectors. The sectors which we are underweight on are auto, metals, utilities, and telecom, and we are looking for appropriate opportunities in this segment, when/if the opportune time arises.
- We still prefer large-caps, but are also seeing selective bottom-up opportunities in mid-caps, where valuations have come down. Investors should continue to invest systematically in equities.

Fixed Income market developments and Outlook

- Bond yields continued its downward trajectory on the back of a dovish RBI policy in June, benign inflation, softer global bond yields, some foreign portfolio inflows, appreciating/stable rupee, and some improvement in the liquidity scenario. The 10 year benchmark yield closed the month at 6.88%--down 15 bps.
- In its 6th June 2019 policy review, the RBI cut the policy rate by 25 bps, and changed the policy stance to 'accommodative' from 'neutral'. The central bank also cut inflation and growth forecasts marginally for FY20. On a positive note— it said that there is scope for the central bank to support growth, by aiding aggregate demand and private investment activity, indicating possibility of further rate cut (if inflation remains within the projected trajectory).
- The RBI also said that it has set up a committee to comprehensively review the liquidity management framework by mid-July, and this will be important for transmission of the rate cuts in the system.
- Fiscal deficit for first two months of FY20 was 52% of the budgeted estimate for FY20, compared to 55% in the corresponding period in the previous fiscal year. India was able to achieve its revised fiscal deficit target of 3.4% of GDP for FY19.
- Meanwhile, GST collections for June dipped below the ₹ 1 lakh crore mark (for the first time in 4 months), to ₹ 99,939 crore.
- Foreign Portfolio Investor (FPI) net inflow in debt markets picked up to ₹ 8,265 crore in June, compared to a net inflow of ₹ 3,789 crore in the previous month.
- In the near term, the debt markets will draw cues from the upcoming union budget, especially the fiscal deficit and market borrowing figures.
- From an investment perspective, we presently prefer the shorter end of the yield curve.