

December, 2018

Despite fall in crude oil prices and strong currency, equity markets in India ended flat as global risk off worried investors. Nifty and Sensex ended the month of December with -0.1% and -0.3%, respectively. Broader markets outperformed the benchmark indices with BSE Midcap and Smallcap indices gaining between 2-3%

Global markets were weak as worries over growth emerged on back of increasing trade war tension and as crude oil continued its downward journey. Nikkei was the worst performer with a fall of over 10% followed by Dow Jones, Euro Stoxx, FTSE and Hang Seng, all declining between 2-10%.

Sectoral Performance

Month of December was a mixed bag as majority of the sectors traded with a positive bias and ended in green. BSE Power was the top performer with 4.5% return. S&P BSE Healthcare was the worst performing sector with around 3% fall.

Institutional Activity

FII remained buyers in month of December although marginally with inflows of \$430 million taking YTD net outflow tally to \$4.4 billion. Domestic investors continued to be net buyers although of a smaller amount in the month of December with net inflows of \$45 million taking their YTD tally to 15.9 billion.

Macro-Economic Highlights

IIP for the month of October jumped to 11 month high of 8.1% as manufacturing growth speeded up and capital goods production at 16.8% YoY saw a significant rise. Consumer Durables grew by 17.6% while Power sector witnessed 10.8% growth. Positive growth was seen in 21 out of 23 industry groups in the manufacturing sector.

CPI continued to be soft with November number coming at 17 month low of 2.3%. Decline was broad based across Food (-1.7% vs -0.1% Oct), Fuel (6.7% vs 8.1% Oct) and Core Inflation (5.7% vs 6.2% Oct). Food price deflationary trend was more pronounced despite MSP push. Trade deficit for the month of November narrowed to \$16.7 billion on the back of fall in crude oil prices and gold imports.

Imports grew by 4.3% while growth in exports slumped to 0.8%. Strong contraction was also witnessed in exports of gems & jewellery and engineering goods. MPC kept rates unchanged as per expectations while SLR saw reduction by 150 bps. Assembly poll results were announced for five states with Congress emerging victorious by a small margin in three BJP incumbent states.



House View

Nifty ended CY18 with a muted 3% return for the Indian market after a strong CY17. BSE Mid cap (-13.4%) and BSE Small cap (-23.5%) indices took the brunt of the fall. While having de-rated through CY18, Indian market was among the best performing markets globally. India Rupee also weakened against USD along with most emerging markets and developing market currencies. Equity markets will witness several critical events in CY19.

India will hold national elections in April-May 2019 and the outcome is quite uncertain post the strong performance of the main opposition party in recent state elections; these states contributed handsomely to ruling party's victory in 2014. India's macros are dependent on oil hence US sanction against Iran's oil export will be something to watch out for. The progress of US-China trade war will be one of the variables to be watched out for in the New Year.

We expect revival in earnings on back of moderation in crude oil prices, stronger currency and resolution of NPA in banking system. Capacity utilization at 76.1% (Sep 2018, RBI) and election year does make a case of capex revival in CY19. We expect the economy to recover as GST related disruption smoothens and consumption revives on back of improving farm income and implementation of pay commission. With YTD underperformance of, Mid-cap now trades at a discount to their 5 year average which does provide a good entry point. Our focus will be to remain invested in companies with strong earnings visibility.

Source: MFI, Bloomberg, MOSPI, Internal

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