Capital League outlook

Jun, 2019

Indian Economy

- BJP has come back with a clear and large mandate. A strong mandate at the centre will translate to greater policy certainty which is positive for the business environment.
- The government has approved plan to extend the PM-KISAN scheme to include all eligible farmer families, irrespective of the size of land holdings. This will lead to an estimated central government expenditure of Rs. 872 billion for FY20.
- Government has also announced a pension scheme for shopkeepers, retail traders and self-employed persons assuring a minimum monthly pension of Rs 3,000 after 60 years of age.
- GDP growth for Q4 FY19 slipped to 5.8%, mainly due to a slowdown seen in the country's key sectors like agriculture, industry and manufacturing in the past nine months. Overall FY19 GDP growth moderated to 6.8%.
- The country's fiscal deficit for FY2018-19 stood at 3.4% GDP, roughly in line with the Interim Budget estimate.
- RBI reduced the Repo rate by 25bps from 6.00% to 5.75% this month and also changed its stance from 'neutral' to 'accommodative' which suggests that it has become concerned about the growth slowdown and is also cognizant that inflation remains capped despite its ongoing easing.
- The RBI lowered its GDP growth projection for FY20 to 7.0% from earlier 7.2% and marginally raised its inflation projection.
- Retail inflation (CPI) for the month of May 2019 increased to 3.05% as compared to 2.92% in April 2019 due to increase in food and fuel prices. But it is still lower than the central bank's medium-term target for a 4.0.
- NBFCs are facing rise in cost of funds and liquidity still remains a key challenge for most players. While the companies have managed the liquidity situation, they have been curtailing disbursements. This has affected the consumption (auto, consumer durables) mainly.
- FIIs invested for the 4th consecutive month in May'19 to the tune of USD 1.1 Bn in equities and domestic institutional investors turned positive in May'19 with flow of USD 750 Mn after two months of selling. For the FIIs, India provides an added advantage of being a natural hedge against the adverse growth impact of US-China trade dispute.

Global Economy

- The trade tussle between US-China has led to an increased spotlight on the shift of manufacturing away from China. China's share in global manufacture exports has started to decrease whereas India's share has gone up in the last two years. This shift in export share from China to India is expected to benefit India in the long run.
- US markets bounced back after being down earlier as Mexico reached a deal with the US to curb migration. Thus avoiding the tariffs on Mexican imports announced by US President.
- Global equities have regained traction on hopes of an interest rate cut this year by the US Fed.
- Crude Oil prices remained steady and range bond amid uncertainty on supply cuts by Russia, OPEC countries and US-China trade tensions.

Outlook

- The government is likely to display continuity on the broader economic reform agenda with the policies aiming at spurring infrastructure activities and easing the conditions for doing business in India.
- Nifty currently trades at 19-20X one-year forward earnings, which is at a premium to its long-term average. We recommend existing clients to maintain their asset allocation.
- Since the inflation outlook remains benign and growth is moderating, RBI may remain biased towards monetary easing for remainder of the year.
- On the fixed income side, investment in short term funds and fixed deposits are recommended.