Capital League outlook

May, 2019

Indian Economy

- GST collection in the month of April 2019 rose to INR 1.13 Lac Crs, approx. 16% higher than FY19 average monthly collection. However, collection for next few months should be crucial to ascertain the sustainability of growth.
- High frequency indicators of consumption like auto sales and air passenger traffic are indicating slowdown in growth in Q4FY19. This is likely due to weakness in wage growth, depressed farm prices and moderation in NBFC loan disbursement.
- Q4 FY19 earnings indicate that the broad Indian economy has slowed and the revival in earnings growth may be delayed further. Slowing global growth (hurting exports), tight liquidity (impacting consumer loans) and scale-back in government spending (affecting rural demand) has hurt sales and thus profits. The aggregate earnings for Q4 FY19 are given below:

Q4 Results	**% change y-o-y**	
	For 577 companies	**For 334 companies (excl. bank, financials and Tata Steel BSL)**
Net Sales	13.3%	11.67%
Net Profit	63.1%*	-18.44%

**The seemingly high figure of 63.1% is on account of low/negative base of banks & Financial companies in the previous year.*

- Retail inflation (CPI) for the month of April 2019 increased marginally to 2.92% as compared to 2.86 % in Mar'19 due to increase in food and fuel prices.
- IIP declined by 0.1% in Mar'19 which is 21-month low, due to contraction in manufacturing, capital goods and consumer durables.
- RBI is increasingly striving to supply durable liquidity & improve transmission as liquidity has been tight in April'19.
- FIIs maintained the buying trend in Apr'19, with inflows of USD 1.7 Bn into equities, taking the CYTD total to USD 9.9 Bn. DIIs remained sellers with outflows of USD 600 Mn with the CYTD total standing at net outflows of USD 2.4bn.
- With renewed concerns over the US-China trade war, FIIs have turned sellers in all major emerging markets including India in the month of May'19. India is the second biggest loser because the uncertainty on account of general election results has weighed on FIIs. Meanwhile domestic investments have been absorbing the sales by FIIs.

- With the US announcing end of waiver of sanctions against Iran and production cuts by OPEC and Russia, crude prices rose by 4-5% in Apr'19. India has already reduced its import from Iran to 5.3% during Nov-Mar'19 as compared to 11% during Apr-Oct'18 while increasing oil imports from countries such as Kuwait, Mexico, UAE and Saudi Arabia to make up for the shortfall.

Global Economy

- The United States raised tariffs to 25% on USD 200 Bn of Chinese imports and China has announced it would also impose higher tariffs on USD 60 Bn from Jun'19 in retaliation against US tariff hike. Renewed trade tensions between the US and China depressed global equities.
- Following British Parliament's rejection of PM May's Brexit agreement, EU has extended the deadline for UK's departure until Oct'19 from Mar'19.
- Global growth concerns continued to put downward pressure on prices of most of the commodities.

Outlook

- Indian markets remained volatile this month due to ongoing elections, crude prices and global geo-political developments especially US-China trade war.
- Outcome of General Election will be one of the key events to watch out for in this month. Post the election outcome, the focus of Indian markets will move back to earnings and macro data. India's macroeconomic position could come under some pressure if crude continues to remains at elevated levels, given the strong linkage of the Indian economy to crude oil prices.
- Nifty currently trades at 20-21X one-year forward earnings, which is at a premium to its long-term average. We recommend existing clients to maintain their asset allocation.
- Inflation continues to remains benign and growth projection is revised downward. This may prompt RBI to cut rates though the timing of rate cut will be contingent on the incoming data such as movement of crude, current account deficit, fiscal deficit, the collection of GST and external sector developments.
- On the fixed income side we continue to recommend high credit quality accrual and short term funds.