In transition phase

The month of October provided solace to distraught markets as the US and China were seen to be closing in on 'Phase One' of the trade deal. Alongside, the scheduled increase in tariffs on China's exports into US for October 15 got shelved. The deal which would see China increase agricultural purchases from US, provide for a stable currency and open financial service markets to US firms is far from an all-inclusive long-term trade deal with the near-term risk of December 15 increase in tariffs still remaining on the cards. Nevertheless, it provided temporary respite to the markets at large.

Across the Atlantic, Britain's Prime Minister Boris Johnson suffered a major setback when the parliament refused to ratify the Brexit deal which was agreed upon with the European Union earlier during the month. After which the European Union granted a three-month extension of the Brexit deadline to January 31, after the two initial deadlines of March 31 followed by October 31. Meanwhile, Britain is now holding fresh elections on December 12 so as to secure a simple majority vote in the parliament to ratify the Brexit deal. According to political analysts, the Conservative Party led by PM Boris Johnson is well ahead in the polls.

With uncertainty on trade and geopolitics weighing on global economic growth, the US Fed cut interest rates by 25 bps in October. This marks the federal bank's third interest rate cut this year taking the fed fund rate to a range of 1.50% to 1.75%. It signaled a pause in future rate cuts by stating that it would monitor incoming data and assess the appropriate path of the target range. On the other hand, the Bank of Japan kept its monetary policy unchanged however signaled a future interest rate cut to stimulate the economy citing increased overseas risks and fragile economic recovery.

Amidst rising global protectionism and slowing global economic growth momentum, free trade pacts like the Regional Comprehensive Economic Partnership (RCEP) hold immense significance for the Indo-Pacific region. RCEP which comprises 16 member nations including 10 ASEAN economies, India, China, Japan, South Korea, Australia and New Zealand got a nod for tariff reduction on imports from all the members to promote free trade, except from India. The main point of contention for India remained its high trade deficit with most of the member countries especially China and cheaper imports from these countries would have affected domestic industries like iron and steel, electronic products, dairy, pharmaceuticals amongst others.

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Global Macro Developments

- US economic adviser Larry Kudlow said negotiations over the first phase of a trade agreement with China were coming close to the final stages.
- The BRICS nations of leading emerging economies warned that trade tensions and policy uncertainty are undermining confidence in international commerce, investment and economic growth, while urging the world to keep markets open with fair and non-discriminatory trade rules.
- Federal Reserve Chairman Jerome Powell said the central bank is unlikely to adjust interest rates as long as the economy remains on track. He also sees sustained expansion with lagged impact of recent interest rate cuts.
- Bank of England kept borrowing cost on hold at 0.75% with 2 out of 7 voters wanting to lower the benchmark by a quarter point amid threats to the economic outlook and signs that the labor market might be starting to deteriorate. Meanwhile, BoE Governor Mark Carney said that latest economic forecasts were skewed to the downside suggesting that the institution's next change in monetary policy will be an interest-rate cut.
- A Chinese official said that breakthroughs have been made in negotiations for an Asia-wide trade pact that would be the world's biggest trade deal. However, India has decided to opt out of the trade pact in order to protect service workers and farmers.
- ECB kept rates unchanged at 0.00% with the marginal lending rate and deposit rate remaining at 0.25 % and minus 0.50% respectively.

Events and Data Calendar

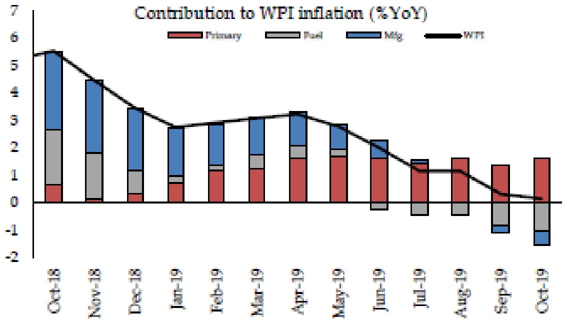
Region	Date	Event/Data	Period	Forecast	Actual	Prior	Change
US	1-Nov-2019	Unemployment Rate	Oct	3.60%	3.60%	3.50%	↑
	13-Nov-2019	CPI YoY	Oct	1.70%	1.80%	1.70%	↑
UK	11-Nov-2019	GDP YoY	3Q P	1.10%	1.00%	1.30%	↓
	11-Nov-2019	Industrial Production YoY	Sep	-1.20%	-1.40%	-1.80%	↑
	13-Nov-2019	CPI YoY	Oct	1.60%	1.50%	1.70%	↓
Japan	31-Oct-2019	Industrial Production YoY	Sep P	0.00	0.01	-0.05	↑
	15-Nov-2019	Industrial Production YoY	Sep F	--	1.30%	1.10%	↑
China	14-Nov-2019	Industrial Production YoY	Oct	5.40%	4.70%	5.80%	↓

P* - Provisional Estimates F* - Final Estimates A* - Advanced Estimates T*- Third Estimates

COMMODITY

- Gold prices decreased by 0.9% MoM in October vs. an increase of 0.3% MoM in September amid increased optimism about the US-China 'Phase One' trade deal negotiations.
- Brent prices contracted by 4.7% in October vs. an increase of 5.2% in September after a buildup in US crude inventories amidst weak oil demand and weak macroeconomic data from major economics like Eurozone and China. Mixed headlines around US-China trade negotiations further weighed on the oil prices.

Domestic Market Macro Economics



India WPI Inflation

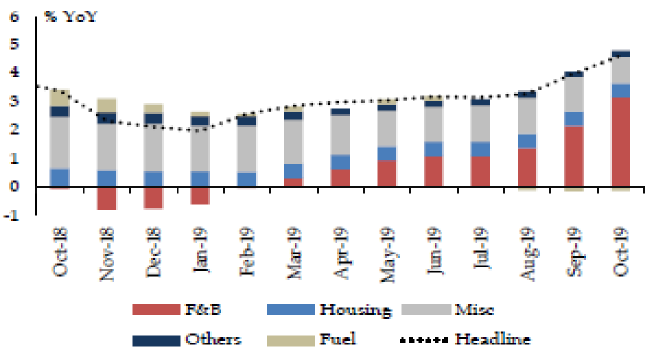
%YoY	Weights(%)	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
IIP	100	3.2	4.5	1.3	4.6	-1.4	-4.3
Sectoral Classification							
Mining	14.4	5.1	2.3	1.5	4.8	0.0	-8.5
Manufacturing	77.6	2.5	4.4	0.3	4.5	-1.6	-3.9
Electricity	8.0	6.0	7.4	8.6	4.8	-0.9	-2.6
Use Based Classification							
Primary goods	34.0	5.1	2.2	0.6	3.5	1.0	-5.1
Capital goods	8.2	-1.4	-2.1	-6.9	-7.2	-21.4	-20.7
Intermediate goods	17.2	3.0	12.5	12.1	14.7	6.9	7.0
Infrastructure/ construction goods	12.3	-0.7	3.0	-1.3	3.5	-4.8	-6.4
Consumer durables	12.8	2.2	0.2	-10.2	-2.7	-9.1	-9.9
Consumer non-durables	15.3	5.4	8.1	7.4	8.4	3.1	-0.4

Sep IIP

- Softer expansion in manufacturing sector along with contraction in services sector pushed the composite PMI to over a two-year low level of 49.6 in October from 49.8 in the previous month.
- Growth in core sector contracted by a record low of 5.2%YoY in September from -0.5% in August with seven out of eight sectors posting a decline in the output.
- Auto sales in October continued to remain under pressure on annualized basis despite the onset of festive season due to overall weak market sentiment. On sequential basis, passenger vehicles and two wheelers sales showed marginal improvement while commercial sector continued to face headwinds.
- Gross GST revenues as a % of budget estimate (BE) eased to 42.5% compared to 49.6% a year ago on account of moderation in CGST and refunds under IGST
- India's retail inflation accelerated to a 16-month high of 4.62% YoY in Oct-19 from 3.99% in Sep-19. On sequential basis, CPI inflation increased by 0.96% MoM in Oct-19, the sharpest in the last 23-months. This is the first time in 15-months that headline CPI inflation breached the 4% target. The strong upward momentum was led by food prices, in particular, Vegetables (+8.8% MoM), Egg (+2.1% MoM), Fruits (+1.0% MoM), and Spices (+0.9% MoM).
- India's industrial production contracted sharply by 4.3% YoY in September, lowest in the series, from a downwardly revised print of -1.4% YoY recorded in August. On sequential basis, the headline index contracted by 2.3% after a contraction of 4.0% last month. The print is much below the average run rate of 1.1% seen in September over the last five years.
- Non-food credit growth in September decelerated to 8.1% YoY from 9.8% in August marking the second consecutive month of single digit growth since March 2018. The decline in non-food credit growth since the beginning of FY20 is led by deceleration in credit disbursal to industries and services sector.

%YoY	Jun-19	Jul-19	Aug-19	Sep-19
Overall	0.7	2.1	**-0.5**	**-5.2**
Coal	3.2	-1.3	-8.7	-20.5
Crude Oil	-6.8	-4.4	-5.5	-5.3
Natural Ga	-2.1	-0.6	-4.0	-4.9
Products	-9.3	-0.9	2.6	-6.6
Fertilizers	1.6	1.5	2.9	5.5
Steel	8.3	6.6	5.1	-0.3
Cement	-1.7	7.9	-4.9	-2.0
Electricity	8.1	4.2	-3.0	-3.7

CORE Sector -Records a sharp dip



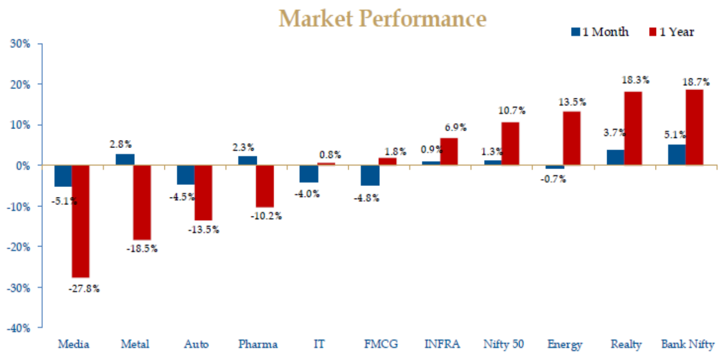
India CPI Inflation

We expect:

- We expect near term growth momentum to remain lackluster with FY20 GDP growth estimated at 6.0% with downside risks. Good monsoon, onset of festive season, impact of past policy rate cuts along with government's fiscal measures should be supportive of a growth revival in H2 FY20, aided somewhat by a favorable base.
- Inflation is expected to average at 3.9% vs. 3.4% in FY19, assuming crude oil price at USD 65-70 pb, on account of reversal of benign food inflation and moderation in core price pressures.

Equity Market Insights

- Indian Equity Markets (Nifty 50) inched higher (+1.3%) during the month outperforming its emerging market peers. New set of positive reforms by the government on domestic front and expectations of resolution of US-China trade war on the global front were the major contributing factors which lifted sentiments.
- Persistent inflows from the foreign institutional investors (FIIs) also supported the benchmarks. Betterthan expected domestic corporate earnings reports aided value buying in index heavyweights.
- Market sentiments were lifted with the announcement of a major strategic disinvestment move. The government has also announced a partial/full sale of its holdings public sector entities. In addition to the above reform, the delivery of a positive verdict by the Supreme Court clarifying several aspects of insolvency resolution interpreted variously earlier lifted market mood. These reforms in addition to recent ones (*corporate tax cuts*) have helped build investor confidence



Outlook & Expectations

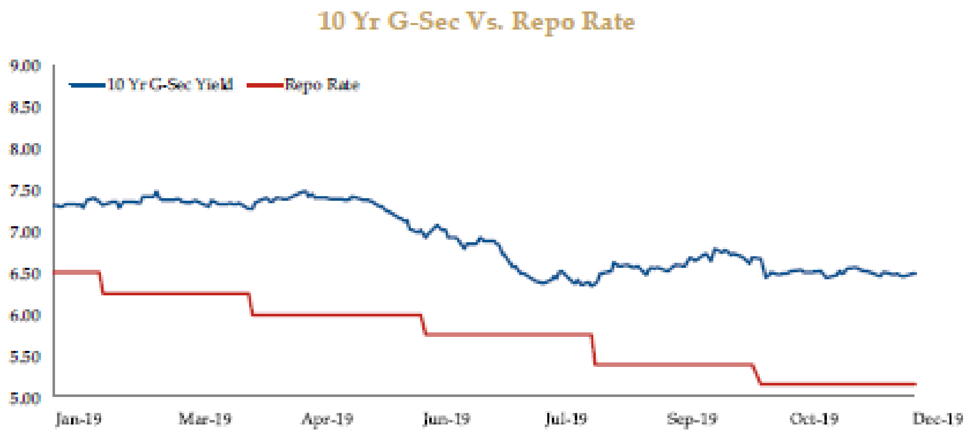
- protracted corporate slump, including the GDP growth dip, severe liquidity squeeze, sluggish urban and rural consumption across states & product segments, and the ensuing impact on sentiments. The fall (read consolidation) that began in 2018 is likely to travel deep into the year 2020.
- The earnings yield of equities is attractive and supportive of high valuations. A bearish outlook on oil and commodities in general also upholds India's case. The fag-end monsoon onslaught, which fetched an excess to the tune of 110% of long-term averages, augurs well for the next Rabi crop.
- To offset the expenditure burden, GOI seems intent on fast disinvestment of the likes of BPCL which augers well for the markets.
- As the key index inches upwards, allocation to large caps makes sense at this juncture. But we also note that consumption is in a cyclical downtrend now, the economy has slowed, liquidity issues remain and the Budget didn't particularly excite either. Therefore, we believe that a systematic withdrawal (SWP) approach is equally warranted. A staggered approach to investing would be a better one, given the present state of equit

Debt Market Insights

- The average systemic liquidity maintained a surplus of INR 1,271 bn in September vs. a surplus of INR 1,408 bn in August

- The average 10yr G-sec bond yield widened to 6.67% in September from 6.50% in July with risks to fiscal emerging as the Finance Minister announced a quantum reset in India's corporate tax structure

- For FY20, we continue to expect inflation trajectory to remain benign with average annual inflation at 3.5%, marking the third consecutive year of undershooting vis-à-vis RBI's 4% target. With the current state of negative gap in both inflation and GDP, we continue to expect the MPC to opt for incremental monetary accommodation with another 25-40 bps scope for rate cuts in the remaining part of FY20, as the RBI remains watchful of incoming data along with the degree of anticipated revival in domestic growth momentum, global trade outlook, and movements in currency and commodity markets



Outlook and Expectations

- We see money market liquidity to be in surplus mode in the near term.
- Basis revision to our FY20 BoP outlook, we expect the RBI to conduct ~900 bn OMO purchases in rest of FY20 vs. the earlier estimate of INR 1,200 bn. Liquidity infusion till now has come about via USD 5 bn FX swap and INR 525 bn OMO purchases.
- Despite expectation of easy monetary and liquidity policies coupled with a supportive global rates backdrop, we expect 10Y G-sec to trade in the 6.3-6.8% range in the rest of FY20. Fiscal slippage concerns could potentially lead to ~Rs 500 bn additional borrowings in FY20

Glossary

- **Consumer Price Index (CPI):** A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care.
- **Wholesale Price Index (WPI):** An index that measures and tracks the changes in price of goods in the stages before the retail level.
- **Open Market Operations (OMO's):** is the buying and selling of government securities in the open market in order to expand or contract the amount of money in the banking system. Purchases inject money into the banking system and stimulate growth while sales of securities do the opposite.
- **Cash Management Bills (CMB):** A short-term security sold by RBI to meet any temporary shortfalls.
- **Purchasing Managers Index (PMI**) is based on surveys on private sector service /manufacturing companies. An index level of 50 denotes no change since the previous month, while a level above 50 signals an increase or improvement and below 50 indicates a decrease or deterioration.
- **Net Demand and Time Liabilities (NDTL):** It is the sum of demand and time liabilities (deposits) of banks with public and other banks wherein assets with other banks is subtracted to get net liability of other banks.
- **Current Account Deficit (CAD):** A measurement of a country's trade in which the value of goods and services it imports exceeds the value of goods and services it exports. A current account deficit represents negative net sales abroad. A country can reduce its current account deficit by increasing the value of its exports relative to the value of imports.
- **West Texas Intermediate (WTI)**: also known as **Texas light sweet**, is a grade of crude oil used as a benchmark in oil pricing. This grade is described as light because of its relatively low density, and sweet because of its low sulfur content.

For Further Information on Model Portfolios, Kindly contact your Relationship Manager.

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