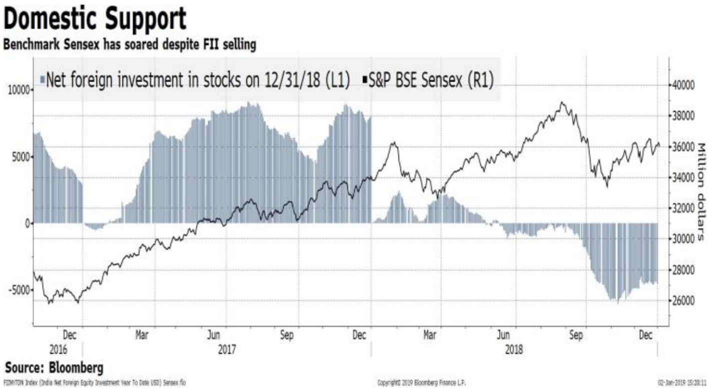
Highlights

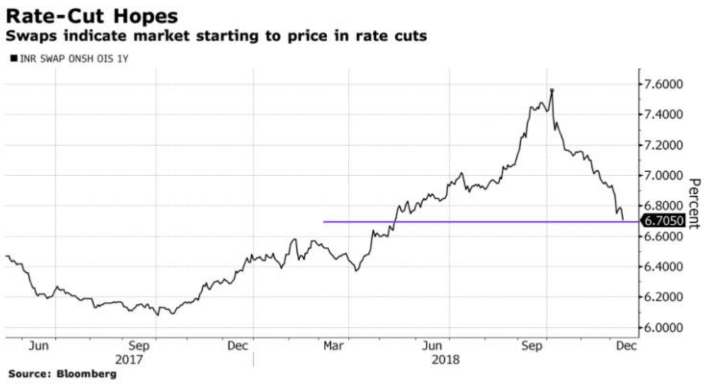


India closed 2018 as the best-performing equity market in Asia in local currency terms as strong domestic inflows countered foreign investor outflows. Equity funds took in an average of 80 bn rupees (~USD 1.14 bn) a month from savers. Local equity funds bought a record 1.2 trillion rupees (~USD 17.19 bn) of shares this year, negating sales of $4.4 bn by foreigners. Equity plans accounted for 42 percent of the 24 trillion rupee (~USD 343.87 bn) industry assets, double the level four years ago. (Source: Reference rate at 1 USD = 69.7923 IDR as on 31st December 2018 as published on www.fbil.org.in, BloombergQuint)

India's manufacturing sector activity signalled the strongest improvement in the health of the sector in almost a year as new orders flows encouraged companies to lift production amid strong demand conditions. The Nikkei India Manufacturing Purchasing Managers' Index strengthened to 54.0 in November, marking the 16th consecutive month of expansion. Improved business sentiments coupled with manufacturers drawing down their finished goods stocks to meet demand will ensure that production continues to rise into 2019.
(Source: https://asia.nikkei.com)

The hunt for higher yields looks set to return to emerging markets in 2019. Expected carry returns for the year ahead are rising following the worst rout since 2015 which has made Indian currency valuations too low to ignore. After drawing down foreign exchange to bolster their currencies, the RBI has managed to avoid any serious dent in reserve buffers. This means greater probability of returns at lower risk for investors.
(Source: Bloomberg)

Indian equity markets rallied in response to the appointment of Shaktikanta Das as the new governor of India's central bank. Governor Das's appointment is seen as an opportunity for the RBI to correct its course on monetary policy as mounting evidence shows that the hawkish bias of his predecessor – Prof Urjit Patel, was out of sync with market conditions as evidenced by slowing growth and a sharp reversal in inflation. The positive market reaction extended to the 10-year government bond yield which also eased and the rupee which reversed some of its year to date losses. Under Governor Das, the monetary policy is expected to be more balanced and data-dependent, raising the prospect of a rate cut as soon as February. (Source: Bloomberg)



Swap markets are starting to price in interest-rate cuts with receding inflation pressure and a new central bank governor who is seen to have a dovish bent. The sentiment towards local bonds has reversed dramatically after the recent slide in oil prices with yields on the benchmark 10-year debt falling. The RBI's bond purchases through its open-market operations are also supporting sentiments. On the day of Governor Das's appointment announcement on the 12th of December, the 10-year yield fell to 7.411%. (Source: Bloomberg)

Bad-loan ratio in India's banking industry is falling, giving a potential boost to Prime Minister Modi's efforts to expand credit and support economic growth as elections approach. The projected fall in bad loans could assist the government's efforts to lift lending curbs on state-run banks. The government recently announced plans to infuse 830 billion rupees (USD11.9 bn) into Indian banks by March 2019. (Source: Bloomberg)