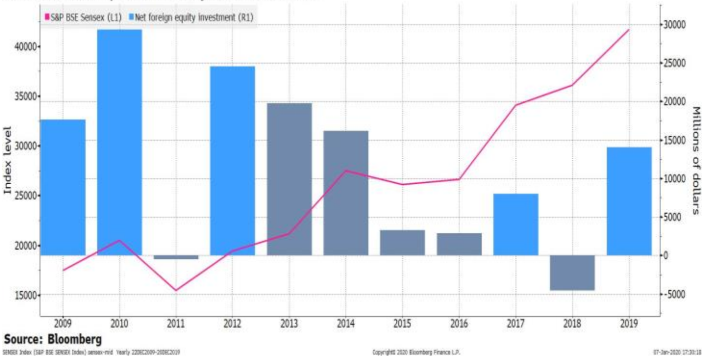
Highlights

Foreign Power
Overseas flows have pushed India's key stock index to record



Source: Bloomberg

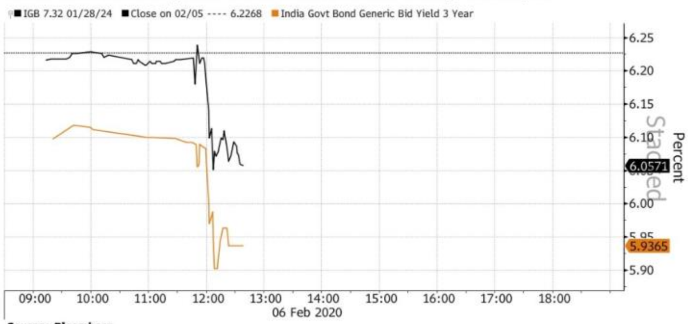
India's largest stocks are likely to be winners again in 2020, after propelling the benchmark equity index to its fourth straight annual gain. Global uncertainty is likely to continue driving investors to the safety of quality stocks which continue to steadily grow faster than the economy. A gush of cash from global funds has helped drive the record-breaking stock rally as foreigners have pumped more than Rs. 1.01 trillion (USD14.4 bn) into India's stocks in 2019, compared to a net sale of Rs. 330.1b (USD4.39 bn) in 2018. The highest inflow since 2014 suggests that investors have largely priced in a slowdown and a significant part of foreign portfolio investment holdings in India appears to be longer term in nature or benchmarked. Earnings growth for India is another factor seen supporting stocks in the new year. A possible economic recovery, lower corporate tax rate, clean-up of bad assets at banks, above average monsoon and accommodative central bank stance support the outlook. Although both the NSE Midcap 100 and Nifty Smallcap 100 Index have lagged the market rally, optimism around further government reforms and an economic recovery could help build a case for a catch-up by the broader market.
(Source: Bloomberg, Goldman Sachs, Kotak)

India's Bankex index of bank stocks rose as investors applaud the RBI's new measures to encourage banks to lend more to small businesses and home buyers to provide relief to the cash-starved real estate sector and to spur growth. Banks will be exempt from setting aside the mandatory cash reserve ratio of 4% of fresh loans for automobiles, residential housing and small businesses until July 31. A relaxation of rules was also extended on the classification of loans to help small borrowers.

(Source: Bloomberg)

India's services sector rose to its highest in 7 years, backing views that a recovery is underway in Asia's third-largest economy. The January services purchasing managers' index released by IHS Markit rose to 55.5 in January. The composite index rose to 56.3 -- its highest since January 2013 -- helped by an improved showing in both the manufacturing and services sectors. India's growth uptick was accompanied by rising inflationary pressures, with input costs rising by the steepest since February 2013 and output price inflation picking up to a near two-year high.
(Source: Bloomberg)

Short Turns Sweet
Short-end bonds rally after RBI's announcement of long-term repos



Source: Bloomberg

The Reserve Bank of India chose to keep the repo rate at 5.15% but kept the door open for further monetary policy easing by retaining its accommodative stance. Tapping into its bag of unconventional policy tools, the RBI chose instead to spur growth and cut borrowing costs by offering to inject Rs. 1 trillion (USD14 bn) cash through one and three-year funding operations; akin to the long-term repos put in place by the ECB to offer cheap loans to banks. Average yields dropped across the corporate bond yield curve after the RBI announcement, top-rated three-year notes plummeted 19 basis points to 6.51%, the lowest since 2005.

Borrowing costs for India's top-rated shadow financiers has been declining since December 2019, indicating that the nation's prolonged credit crisis may be fading. Premiums paid by investors for AAA rated five-year bonds of non-bank lenders over government notes with similar maturities narrowed to a 16-month low in January, helping a gauge measuring bond spreads to strengthen. A recovery in the health of the nation's shadow banks, which lend to everyone from small merchants to business titans, indicates that steps taken by policy makers to soothe the sector are bearing fruit.
(Source: Bloomberg, RBI)

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