

Highlights

Bonds Rally

10-year yield falls 7 bps after RBI kept stance neutral



The Reserve Bank of India raised rates by 25 bps, taking the key policy repo rate to 6.50% while maintaining a neutral stance on liquidity during its third bi-monthly monetary policy in August. RBI governor defended the rate hike which brought rates to a two-year high. The decision to raise rates came ahead of expectations for stronger inflationary pressures when the government starts procuring farmers' crops at the higher prices it announced recently. The MPC hopes to achieve the medium-term target for consumer price index (CPI) inflation of 4% within a band of +/-2 percent, while supporting growth. Inflation projection for Q2 FY19 was revised downwards at 4.6% and inched up by 0.1% to 4.8% for the second half of 2018-19. The MPC has also hinted at possibly more tightening in order to maintain economic stability amid growing risks from global trade and currency tensions.

(Source: Bloomberg, www.moneycontrol.com)

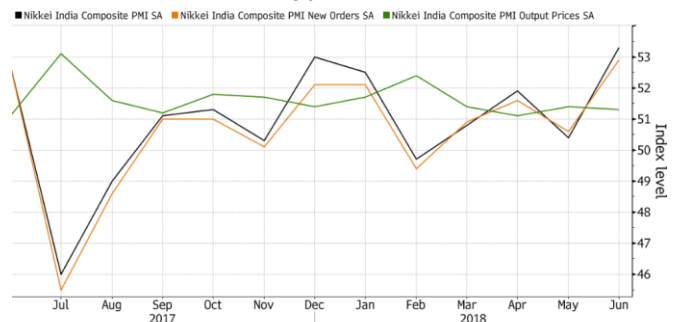
Bank loan disbursements are growing as credit rose 12.3% year-on-year as of July 2018, as various sectors including agriculture and auto sales expanded. Data from the Society of Indian Automobile Manufacturers show that the industry produced nearly 17% more vehicles in the April-June period than a year ago. Passenger vehicle sales grew close to 20% during that period, while commercial vehicles sales rose more than 50% and two-wheelers increased more than 15%. (Source: Bloomberg)

The Sensex Index has advanced 10.4% this year, holding its place as Asia Pacific's best performing market as of 1st July. So far, of the 29 NSE Nifty 50 companies that have announced results, 19 have either met or exceeded average analyst estimates. (Source: Bloomberg)

After three months of selloff, foreign investors turned net buyers of Indian equities in July. Overseas inflows into stocks stood at more than USD 72.91 million (RBI Reference Rate where USD 1 = INR 68.5753). Passive investments into exchange-traded funds favoured India compared to other emerging markets as India saw an inflow of nearly USD 400 million in the last one month, while Brazil saw an outflow of over USD 500 million followed by Taiwan at more than USD 300 million. The NSE Nifty 50 Index has risen 6% in the last one month compared with 1.7% rise in the MSCI Emerging Market index. (Source: Bloomberg)

Business Uptick

Nikkei indices show India on recovery path



The Nikkei India Composite Index rose to its highest level, since October 2016, at 54.1 in July, as the service industry expanded at the quickest pace in a year. New orders in June also surged to the highest level since October 2016, encouraging businesses to produce more and draw-down inventory to close the output gap. The seasonally adjusted Nikkei India Services Index rose to 54.2 in July from 52.6 in June as it continued to expand in what is seen as a strong second quarter. (Source: Bloomberg)

The India Meteorological Department (IMD) expects India's monsoon to be normal in the second half of the rainy season following deficient showers in the June-July period. It maintained its May forecast for the June-September expectation of cumulative rainfall at 97% of a 50-year average; although August and September is forecast to be 95% of a 50-year average. Rain between 94% and 106% of the average is defined as normal for the two-month period, according to the weather office. The forecast has a margin of error of 8%.

(Source: Bloomberg, India Meteorological Department)

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