

Highlights

Inflation Cools

Core inflation is seen softening



Source: Bloomberg

India's headline and core inflation rates are set to converge, with slowing economic activity setting the stage for further rate cuts to support economic growth. Core inflation which had remained sticky at around 6 percent, softened to 5.4 percent in January. India's retail inflation eased to a 19-month low, justifying the RBI's decision to lower interest rates. At 2.05 percent, retail inflation is well below the RBI's medium-term target of 4 percent. With the central bank now forecasting headline inflation to remain within its medium-term target for the next 10 months, chances are the two measures may converge. (Source: Bloomberg)

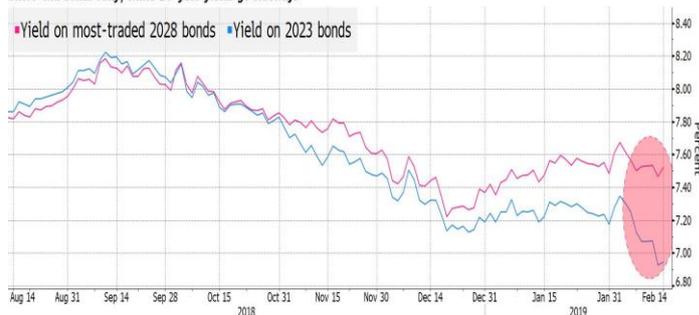
The MPC cut the repurchase rate by 25 basis points to 6.25 percent and reversed its policy stance to neutral from 'calibrated tightening' adopted in October following a sharp slowdown in inflation. The rate cut was the first since August 2017. Governor Das of the RBI told reporters that the shift in stance provides the RBI flexibility and room to address sustained growth of India's economy over the coming months as long as inflation remains benign. (Source: Bloomberg, RBI)

Changes to government tax and bad-loans policies is expected to drive the pace of earnings growth to between 10 to 15 percent annually for the next three years, according to India's largest brokerage, ICICI Securities Ltd. Structural reforms are expected to increase savings and lower the cost of capital for companies, while the recent budget stimulus will drive consumption. Earnings growth looks to be recovering as most of the Nifty companies that have reported earnings for the quarter through December have exceeded or matched earnings estimates. (Source: Bloomberg, ICICI Securities Ltd.)

Yes Bank Ltd's shares surged the most in fourteen years after an audit by the RBI found no undisclosed bad debt for the last financial year. The clean audit report will allow the bank to approach capital markets to replenish its common equity tier 1 ratio and return to its original growth model. Yes Bank Ltd. has traditionally reported one of the highest rates of loan growth among Indian banks. The clean bill of health from the RBI on asset quality provides the bank relief as it emerges from a leadership crisis that triggered a plunge in the share price last year. The new RBI approved CEO, Raveet Singh Gill who has been heading Deutsche Bank's India franchise will take over from March 1. (Source: Bloomberg)

Spread Widens

Short-end bonds rally, while 10-year yields go sideways



Source: Bloomberg

India's shorter-maturity bonds look set to outperform as traders anticipate that benign inflation will give the RBI cause to cut interest rates again as soon as its April meeting. Concerns about the government's plan to sell approximately USD 100 billion of debt and fears of a repeated cash crunch seen last year is also dampening the appeal of longer dated bonds. The demand for shorter-maturity bonds is also high due to expectations of tightening liquidity which typically takes place toward the end of the fiscal year in March. (Source: Bloomberg)

India's parliament ended its final session on 13th February as Prime Minister Modi's government prepare to go to the polls by May. The Election Commission of India will declare the schedule for the ballot in the next few weeks. India has to hold federal elections for 545 lower house seats, with as many as 875 million people expected to vote for the new government. The final session of parliament was convened to approve the interim budget for the fiscal year starting April 1. (Source: CNN)

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