

Highlights

Profit Surge

India's corporate earnings are seen rising to record in dollar terms



Source: Bloomberg

India's Sensex has been on a tear YTD as it keeps making new record highs with renewed FII interest as investors position themselves for a pre-election rally. The average profit estimates for Sensex companies for next year are at a record high, both in rupee and dollar terms. However, Indian equity P/E's present rate of acceleration still pales in comparison to the 2004-2007 period or the post GFC rebound in 2009. Similarly, price to book valuations are close to the highest in the past eight years, yet well below the extremes of early 2008. (Source: Bloomberg)

India cut its trade deficit with China by the most in more than a decade as exports to China jumped 31 percent year-on-year to \$17 billion in the financial year ended March 31. The surge in exports was mainly due to items that were casualties in President Donald Trump's trade war with Beijing. This is the second straight year that India's shipments to China have grown by more than 30 percent. (Source: Bloomberg)

A decline in credit costs of Indian banks is likely to boost the capacity of lenders to extend loans and, in turn, boost growth in the world's fastest-growing major economy according to Goldman Sachs. The analysts estimate the decline in costs will raise loan growth by 140 basis points, which in turn should bolster investment growth by 200 basis points. All in all, that should translate into a 60 basis points boost to economic growth in the financial year ending March 2020.

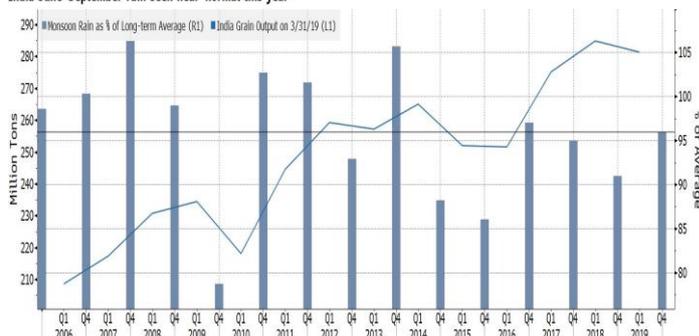
(Source: Bloomberg, Goldman Sachs Group Inc.)

Indian rupee gained the most in March since November last year on the back of combined inflows of more than USD 6.6 billion into the country's stocks and bonds. INR offers some of the highest real yields in the world, which means that juicy FX carry returns add to spot gains. Although looming general election provides some uncertainty but the appeal of Indian assets continue to attract inflows as Indian bonds offer high real yields.

(Source: Bloomberg)

Monsoon Relief

India June-September rain seen near-normal this year



Source: IMD & Ministry of Agriculture

Rainfall during the 2019 Indian monsoon is forecast to be about normal at 96% percent of the long-term average – that would be the most in three years if the rain match the projection. India relies on the June-September rainy season to replenish reservoirs and water more than half of the country's farmland, the primary source of livelihood for about 58% of the population. Normal rainfall will boost consumer confidence and keep food prices down. (Source: Bloomberg)

The Reserve Bank of India debuted currency swap as a new liquidity tool and the auction saw banks tendering three times the \$5 billion the central bank said it would accept. The measure's success paves the way for more auctions and offers an alternative cash-injection tool to yield-distorting debt purchases by the RBI. The currency swap has led to a drop in dollar/rupee forward premium and will lower hedging cost for foreigners. Interest in corporate bonds has also turned around considerably after the RBI removed a cap on how much foreigners can hold of any single issuer's bonds. The enhanced debt limits for foreigners announced Wednesday may not be immediately filled up, but a favorable election result will bring in more inflows.

(Source: Bloomberg)

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