Sanctum Wealth Management

Sanctum View

June 06, 2018

Monetary Policy Update

Repo Rate Hiked to 6.25%, Though Policy Tone Maintained Neutral

The Reserve Bank of India today decided to hike the policy repo rate by +25 bps from 6% to 6.25% in a unanimous vote – the first hike since Jan-14. The MPC **maintained its neutral stance** on monetary policy and commitment to achieving a medium-term target for CPI of 4% ± 2%, while supporting growth.

Key highlights of the RBI's Monetary Policy

Global economy has expanded broadly

While the U.S. economy began the year on a weak note, there seems to have been a rebound in Q2CY18 with strong retail sales and improved employment data. The Euro area growth has decelerated in Q1CY18 with certain macro data points suggesting a loss in pace of growth. Strengthening exports and PMI in Japan point to a likely turnaround of the economy in Q2CY18. Overall, barring Brazil, emerging economies spanning China, Russia and South Africa remain resilient.

Global trade has also overall continued to strengthen. In the financial markets, most prominently, yields in the U.S. bond markets hardened on rising dollar and expectations of further rate hikes by the Fed.

Indian economy in upswing

GDP growth for Q4FY18 came in at 7.7% driven by **strong private final consumption expenditure** (PFCE) and improving rural demand on the back of a bumper harvest and the government's thrust on rural housing and infrastructure, a **sustainable pick-up in gross fixed capital formation** (GFCF) and a **narrowing of the output-gap**.

The RBI noted all-time high production of food grains and horticulture along with the IMD forecast of normal south-west monsoons augurs well for the agricultural sector. **Industrial growth also strengthened** as is evident from the acceleration in output of eight core industries and expansion of manufacturing PMI.

Inflation update

CPI increased in Apr-18 to 4.6% driven mainly by an **increase in inflation excluding food and fuel**. **Food inflation moderated for the fourth successive month**, pulled down by vegetables due to lower than usual seasonal increase in prices, and pulses and sugar continued to experience deflation. However, within the food group, inflation increased in cereals, fruits, prepared meals, meat and fish.

Fuel group inflation declined for the fifth month in a row in Apr-18 mainly on account of a fall in the inflation of liquefied petroleum gas in line with international prices, and electricity. Inflation in the transport and communication sub-group **accelerated due to the firming up of international crude oil prices**, even though the domestic pass-through to petrol and diesel was incomplete.

The May-18 round of the RBI's survey of households reported a significant rise in households' inflation expectations of 90 and 130 bps, respectively, for 3-month and 12-month ahead horizons.

Market Reactions

Ten-year yields **spiked intra-day on the RBI announcement to 7.932%** (up ~10bps) at the time of this writing. While a certain portion of the spike and prior run-up could be attributed to pricing in of a potential rate-hike expectation, debt markets likely rose further on the announcement of **the hardening view of H2FY19 CPI** and the volatility of crude oil.

Further, the RBI had earlier allowed spreading of bank's investments' MTM losses for the Q3FY17 and Q4FY18 over 4 quarters. In the current release, the MPC has now allowed spreading of the of the losses due to sustained high G-Sec yields for Q1FY18 as well over 4 quarters.

The benchmark NIFTY50 index closed the day up nearly 0.9% as equity markets **cheered the front ended growth expectations** (H1FY19 growth pegged higher than H2FY19).

Outlook

The MPC guided for a **slight hardening of headline inflation** (incl. HRA) particularly towards H2FY19:

- 4.7% for H2FY19 (vs. 4.4% as at Apr-18) and
- 4.8-4.9% for H1FY19 (vs. 4.7-5.1% earlier).

The main reason for this was the **12% surge in the price of the Indian Crude Basket** from $66/bbl to $74/bbl since early Apr-18. This, along with an increase in other global commodity prices and recent global financial market developments, has resulted in a firming up of input cost pressures. Thirdly, impact from the MSP revision for *Kharif* crops while not yet quantified by the RBI, does pose an upside risk.

While the RBI did hike the repo rate, it simultaneously also expects FY19 GDP growth to **remain robust** at 7.4% (as forecasted in Apr-18 policy as well), **with growth being more front-ended at 7.5-76% in H1FY19 and 7.3-7.4% in H2FY19**.

Sanctum Wealth Management

Investment & Advisory

Sunil Sharma
Chief Investment Officer & Executive Director
97177 19898,
sunil.sharma@sanctumwealth.com

Hemang Kapasi
Portfolio Manager
983322 7605
hemang.kapasi@sanctumwealth.com

Ashish Chaturmohta
Chief Advisor – Technical Strategies
77386 48833
ashish.chaturmohta@sanctumwealth.com

Rohit Laungani
Investment Analyst, Investment Office
93241 68860
rohit.laungani@sanctumwealth.com

Viraj Vajratkar
Investment Analyst, Investment Office
98334 95395
viraj.vajratkar@sanctumwealth.com

Anway Bhujbal
Technical & Derivative Analyst
98702 12498
anway.bhujbal@sanctumwealth.com

Offices

Mumbai

Sanctum Wealth Management Private Limited
Unit 1501, Tower 2B, One Indiabulls Centre, 841, Jupiter Mills, Off Senapati Bapat Marg, Lower Parel, Mumbai – 400013
Telephone: +91 22 61064800

Delhi

Sanctum Wealth Management Private Limited
812 – 816, 8th Floor, Narain Manzil,
23, Barakhamba Road, New Delhi – 110001
Telephone: +91 11 6612 5713

Bengaluru

Sanctum Wealth Management Private Limited
Unit 1102, 11th Floor, HMG Ambassador, 137,
Residency Road, Bengaluru – 560025
Telephone: +91 80 67427900

Chennai

Sanctum Wealth Management Private Limited
Level 4, Suite no. 503, Apeejay Business Centre,
39/12, Haddows Road, Nungambakkam, Chennai - 600006
Telephone: +91 44 28224949

Kolkata

Sanctum Wealth Management Private Limited

Regus Business Centre Office no. 131, The Legacy, 1st Floor 25-A, Shakespeare Sarani Kolkata – 700017 West Bengal

Telephone: +91 33 44000509

Disclaimer

Different types of investments involve varying degrees of risk, and past performance is not indicative of future results. Do not assume that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by us) will be profitable. Results may vary over time and from client to client. Any projections or other information illustrated in this presentation which may have been provided to you regarding the likelihood of various investment outcomes are hypothetical in nature, and do not necessarily reflect actual investment results nor should they be considered guarantees of future results. Historical performance results for investment indices and/or categories have been provided for comparison purposes and index returns may vary substantially from past performance in the future. Other investments not considered in the analysis and the recommendations resulting from this analysis may have characteristics similar or superior to those being analyzed. Please remember to contact Sanctum Wealth Management if there are any changes in your financial situation or investment objectives or if you wish to impose, add or modify any reasonable restrictions to our services.