Barjeel Driven by Trust بارجيل عنوان الثقة

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MARKET DIGEST

KNOWLEDGE POWER. WEALTH ENHANCER

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SENSEX: 37,462.99 | **NIFTY:** 11,278.90 | **DOW JONES:** 25942.37 | **NASDAQ:** 7916.94 | **USD/INR:** 69.93 | **GOLD:** $1287.40 (June 2019 future Contract) | **OIL:** 61.66 (June2019 future contract)

Retirement planning is a simple science. With the proper guides and tools, a customized investment plan can be worked out to meet your retirement goals. We are there to help you always.

Stock Picks

Company Name	CPM (Rs)	Target(Rs)
LG BALAKRISHNAN & BROS	346	400
STERLITE TECHNOLOGIES LTD	185	213
FEDERAL BANK	96	111

Source: Geojit Financial Services

INR Fund Picks

Performance as on 08/05/19

Fund Name		Returns (CAGR) 3Yr	5Yr
Mirae Asset Large Cap	Largecap	16.55	17.37
Reliance Growth	Midcap	13.05	15.28
HDFC Equity Fund -	Multicap	15.63	13.65
Tata India Consumer	Thematic	18.54	-
ICICI Pru Equity & Debt-G	Balanced Hybrid	13.26	14.48
HDFC Small Cap Fund	Smallcap	17.05	18.26
Tata Equity P/E Fund	Value	16.01	17.28
IDFC Core Equity	Large & Midcap	12.83	18.26
HDFC Balanced Advtg	Balanced Dynamic	15.34	13.89

UAE Round Up

- Emirates airline reports 69% profit fall after a 'tough' year. Rising fuel and strengthening US dollar dented the airline's profitability
- Dubai motorists can now benefit from new traffic fine discounts.
- The Dubai Future Foundation (DFF) has formed the Dubai Future Council for Blockchain, to be headed by Dr Aisha Bint Butti Bin Bishr, director general of Smart Dubai.
- Dubai Aerospace Enterprise posts small Q1 profit, revenue rises. Middle East's largest aircraft leasing company says first quarter net profit rises to $99m.

Global:

The S&P 500 lost 2.2% this week on U.S.-China trade uncertainty, although a major reversal on Friday helped pare losses. The Dow Jones Industrial Average lost 2.1%, the Nasdaq Composite lost 3.0%, and the Russell 2000 lost 2.5%.

All 11 S&P 500 sectors finished lower with the trade-sensitive information technology (-3.6%), materials (-2.8%), and industrial (-2.8%) sectors leading the retreat. The Philadelphia Semiconductor Index lost 5.9%.

The stock market entered the week near all-time highs before President Trump rattled global equity markets when he said he was going to increase the tariff rate on $200 of Chinese imports to 25% from 10%, effective at the end of the week. Slow trade progress and China reneging on its prior commitments prompted the President to take a hard-lined stance

The trade angst also sent U.S. Treasuries higher in a flight for safety and boosted the CBOE Volatility Index (VIX) to 23.38 at its high from Friday's closing level of 12.87. Both cooled down, though, as equities gained traction at the end of the week. The 2-yr yield declined eight basis points to 2.24%, and the 10-yr yield declined seven basis points to 2.46%. The VIX ended the week at 16.04.

In corporate news, Uber (UBER) made its highly-anticipated public debut on Friday, opening at $42 per share. That was below its IPO price of $45,

Index	Started Week	Ended Week	Change	Change%	YTD %
DJIA	26504.95	25942.37	-562.58	-2.1	11.2
Nasdaq	8164.00	7916.94	-247.06	-3.0	19.3
S&P 500	2945.64	2881.40	-64.24	-2.2	14.9

India:

Key equity benchmarks logged modest losses in highly volatile session of trade. The Sensex settled below 37,500 level. Domestic stocks registered losses for eight straight trading session.

The barometer index, the S&P BSE Sensex, fell 95.92 points or 0.26% at 37,462.99. The Nifty 50 index fell 22.90 points or 0.2% at 11,278.90.

The S&P BSE Mid-Cap index rose 0.24%. The S&P BSE Small-Cap index rose 0.21%. Both these indices outperformed the Sensex.

The market breadth, indicating the overall health of the market, was negative. On the BSE, 1212 shares rose and 1274 shares fell. A total of 166 shares were unchanged.

Reliance Brands (RBL), and C Banner International Holdings, a Hong Kong-listed company, signed a definitive agreement for Reliance Brands to acquire 100% shares of Hamleys Global Holdings, the owner of the Hamleys brand, from C Banner International, for a cash consideration of GBP 67.96 million. The announcement was made after market hours yesterday, 9 May 2019. Founded in 1760, Hamleys has over 250 years of celebrated history of being the oldest and largest toy shop in the world. Globally, Hamleys has 167 stores across 18 countries. In India, Reliance has the master franchise for Hamleys, ...

A rally on hope of post-election scenario, Q4 results and monsoon...

The market is hoping for continuity of reforms and measures implemented during the tenure of the Modi government. There are fears of a fractured election verdict, which could be a big risk for the market impacting the premium valuation of India compared to other emerging markets. A fractured verdict can impact government's policy, decision-making ability and reform initiatives. Government spending can get delayed impacting the earnings growth expectation of the market. But market is hoping for the best outcome based on the distinct advantage to the ruling party shown by pre-poll election surveys.

FII's net-inflows in the cash segment have increased from Rs13, 500cr in February to Rs 32,000cr in March. This increased exposure to India is also motivated by the risk-on strategy adopted in emerging markets by FIIs. Global bond yields reduced while liquidity increased supported by central banks due to slowdown in world economy. This has provided an arbitrage opportunity for FIIs to play in EMs in which India is a key beneficiary being a major economy growing at the fastest pace. India is expected to turnaround its growth from FY20.

By: Mr. Vinod Nair, Geojit Financial Services

Performance of EMs in dollar

Emerging Markets Performance (in USD terms)			
MSCI Emerging Index	12%	10%	8%
Country	YTD	6m	3m
China	34%	32%	27%
Russia	16%	7%	8%
South Africa	13%	11%	5%
Mexico	12%	-8%	3%
India	9%	17%	11%
South Korea	8%	5%	5%
Indonesia	8%	22%	2%
Philippines	6%	16%	0%
Brazil	6%	4%	-5%
Turkey	-5%	-5%	-8%

Source: Bloomberg, Price% as of 16 April 2019

Recession is an important risk in the global market today. Global bond-yields, oil prices and economy data show a slowdown in the world economy. The financial market has turned cautious overviewing such data, a situation which the world market had not seen in the last ten years. IMF in its latest update, has cut the world economy's forecast further, third time in six months, to 3.3% in 2019 from 3.6% in 2018 due to trade tensions and probable chaotic Brexit. IMF expects growth to improve in 2020 to 3.6%. The forecast does not foresee a recession, only a slowdown. This is also well accepted by the leading central banks and is supported by reduction in interest rate and increase in liquidity. This is unlikely to be a dire state of affairs for emerging markets, particularly for India, which is likely to improve its economy from H2FY20. But we need to keep a close watch on the upcoming poll results, NPA issues, fiscal slippages, effect of El Niño, and crude prices. The NPA level in the domestic economy has reduced from 11.5% in March 2018 to 10.8% in September 2018, and it is expected to decline to 10.3% in March 2019. This is an ongoing process and will provide the needed push to the humongous size of projects stuck in India, which will help in restarting the private spending in the coming years. However, there can be a temporary delay in the resolution process given the recent Supreme Court order regarding February 12 RBI circular.

Better Q4 numbers led by banking sector

Net profit of Nifty50 companies is expected to grow by 20% YoY for Q4FY19. The growth would be mainly driven by the banking sector due to low base in Q4FY18. The low base in the banking sector was mainly due to losses of SBI and Axis bank and the heightened NPA issue in the economy leading to higher provisions. Today, improved asset quality, credit growth and reduction in slippages are expected to drive profit growth for banks.

Excluding banking stocks, Nifty50 is expected to de-grow by 2% on a YoY basis. Apart from the banking sector, growth is expected in cement, FMCG and IT sectors. Better profitability in cement sector is due to robust growth in cement production owing to higher demand from road construction, affordable housing and some revival in real estate leading to higher cement prices. The auto, metal and telecom sectors are estimated to see negative growth this quarter. Weak prices of industrial metals like steel, copper, and aluminum and lower demand from China is expected to put pressure on metal stocks while intense competition will continue to plague the telecom sector earnings.

Auto sector is expected to post weak earnings due to inventory build-up and lower demand. In the last two quarters, auto sector is witnessing sluggish demand and we expect this trend to continue till H1 FY20. After this we expect pre-buying before shifting from BS-IV to BS-VI platform in FY21. During FY19 the Indian OEMs registered a growth of 10%, led by 5% in private vehicles, 11% in two or three wheelers and 15% in commercial vehicles, which is below our expectation. This has led to production cut by major original equipment manufacturer (OEMs) due to higher inventory and lower liquidity. This muted trend can continue in the short-term, however we remain positive over the long-term owing to lower valuation, increase in rural income and higher infra spending. Currently the Nifty Auto Index is trading at 16.5x on a one-year forward basis, which is reasonable compared to its three-year historical average at 16x.

Market was impacted when Skymet came with a subdued outlook on India monsoon relating it with El Nino effect. Agriculture is only about 15% of the GDP and a weak monsoon would impact more if it were for a consecutive period. Increased percentage of irrigation has reduced the effectiveness of weak monsoon in the economy. But it does impact the sentiment, growth of the rural economy and allied ancillaries. And given the higher weightage of primary items in the inflation index it impacts CPI, interest cycle and NPA issue in agriculture credit having a dire effect on the respective segments of the economy. These concerns dimmed as India Meteorological Department (IMD) came out with its normal monsoon forecast for 2019. The rainfall is likely to be 96 per cent of the Long Period Average (LPA) with a model error of +/- 5 per cent. A near normal rainfall range is given as 96-104 of the LPA. LPA is the average of rainfall between 1951 and 2000, which is 89 cm. IMD stated that neutral Indian Ocean Dipole (IOD) conditions are prevailing over the Indian Ocean, indicating positive IOD conditions during the monsoon season.

We expect FY20 to be better than last year

Market has been good in the last one and half months. We expect FY20 to be better than FY19 in which mid and small caps are likely to outperform supported by revamp in business and improved liquidity from FIIs and DIIs. India has been at a premium valuation for a long-time which is likely to be maintained supported by higher inflows from FIIs, reduction in cost of equity and India being the fastest growing large economy in the world. Volatility will emerge in-between the finalization of US-China trade deal and national election outcome, since this will define the final effect in FY20.

Having said that forecasting the main indexes has been a tricky business in the last two to three years. The market has not been showing the true trend of the broad market. Rather, it has been showcasing a skewed picture led by a set of blue-chip stocks as liquidity continued strong in these stocks. We had started this year with a one-year target of 11,750 for Nifty50, which has marginally increased to 12,000 today. This is in spite of downgrade in earnings growth post the mixed result of Q3FY19. The increase in target reflects the increase in PE valuation from 16.5x to 17x on FY21 EPS due to improvement in outlook. Nifty EPS for FY19 is expected at Rs523 and Rs615 for FY20. On a one year forward basis, Nifty is trading at a premium valuation of 19x; a similar trend of skewed performance may prevail.

Mid and small caps have managed well during the previous period of slowdown in business with tight liquidity and SEBI norms which impacted their valuation and growth. Post this underperformance, valuations have turned attractive being below the averages while outlook has improved. Instances like stability in domestic economy, possible gain from last reforms, post-election normalization, reduction in domestic interest rate, pick-up in credit growth and reduction in global bond yield leading to higher inflows from foreign investors are likely to deeply benefit India, in which mid and small caps will outperform.

Performance of India's varied sectors

We are more positive on domestic oriented businesses. In-terms of sectors we are positive on banks, cement, infra, chemicals and consumption. Banks will perform better due to normalization in NPA issue, capital infusion, start of credit growth and reduction in interest rates in the coming year. Cement and infrastructure will perform well because of capital expenditure post-election, reduction in the cost of operation and funding and attractive valuations. Chemicals will do well due to disruptions in China generating opportunity for Indian exports while consumption as a long-lasting story for India given the aspirational class of urban and rural market. Having said that valuations are not attractive across the consumption sector. Stock specific approach will be the key to making money, beating the market.

Performance of India in segment & sector wise (% Change in INR terms)

Large, Mid & Small cap segment	6m	3m	1m
Nifty 50	13	8	3
Nifty Midcap 100	8	3	1
Nifty Small cap 100	10	4	2
Sectors	**6m**	**3m**	**1m**
Nifty Realty	31%	16%	10%
S&P BSE Consumer Durables	27%	13%	3%
Nifty Bank	19%	11%	4%
Nifty Private Bank	20%	13%	4%
Nifty PSU Bank	18%	4%	6%
Nifty Infra	11%	5%	2%
Nifty Energy	11%	14%	1%
S&P BSE Capital Goods	9%	4%	1%
Nifty IT	8%	10%	3%
Nifty FMCG	8%	-1%	3%
Nifty Auto	-1%	1%	3%
Nifty Pharma	-4%	4%	2%
Nifty Metal	-8%	5%	5%

Source: Bloomberg, Price% as of 16 April 2019

Rain maker's guide to stocks

April often turns out to be a pivotal month for stock markets. The start of new FY brings in fresh reason and momentum, with the earnings of the last quarter of the previous financial year also flowing in. But, it is also when the inflation narrative takes shape and it starts with monsoon predictions coming in. April, hence, shapes investor expectations with respect to RBI rates, deficit and oil, rupee, exports etc. but often, all an investor sees is a cobweb of intricately connected events and mumbo jumbo, with few forthcoming investment signals. How do we make sense of this?

By: Mr. Anand James, Geojit Financial Services

First things first. Why is the monsoon important to us?

Seen purely from an output point of view, agriculture has become less important over the years as our services and manufacturing sectors have grown. Farm and allied sectors contributes 15.87% to Gross Added Value (GVA), which pales in comparison with the services sector which accounts for 54.4% of total India's GVA of 169.61 lakh crore Indian rupees. However, Over 60% of the population is still dependent on agriculture, making it a sector of priority. And 50 % of the farm output is contributed by the kharif crops like rice, cereals, sugar, cotton which are cultivated during the south west monsoon period (June to September). According to NITI Aayog, out of approximately 160 million Ha of cultivable land in the country, only approximately 65 million Ha (41%) is currently covered under irrigation. The area under micro irrigation is only 8.6 million. This explains the importance of monsoon rains. The monsoon replenishes over three quarters of country's major water reservoirs, which facilitates not only irrigation but also drinking as well as power generation requirements. Nearly 75% of the annual rainfall occurs during the monsoon season confined to the southwest monsoon period.

It all starts in the Pacific.

A crucial element in the south west monsoon predictions in recent years, is the surface temperature of the waters of the equatorial Pacific Ocean. El Nino, the condition of above normal temperatures in those waters, has the potential to create strong changes in wind speed and direction, bringing in unpredictability to monsoons. This April, the Pacific was found to be warm, but the weather forecasters sees lower risk of El Nino as they expect El Nino conditions to weaken after summer. Indian Meteorological department says that the southwest monsoon (June-September) is likely to be 96 percent of a long-term average. Earlier on April 3rd the private forecaster Skymet Weather Services announced below normal monsoon for 2019.

How accurate are these forecasts?

Last year, India received 91 percent rains, as against the forecast of 97 percent of the long period average (LPA). There were extremes too. The north eastern region received 78 percent of the LPA as against the predicted 93 percent, while regions like Kerala received unprecedented rainfall, leading to floods. A Mint report identifies "three areas which needs significant investments, without which India's weather prediction capabilities will remain poor. These are frequent supercomputing upgrades, increase in weather observation data, and a significant boost in scientific manpower. And these are the three verticals that most foreign nations are working on since long-range weather prediction has now acquired strategic value." In other words, weather or climate forecasts are not just a means of knowing whether to take your umbrella on your way out, but is a matter of national security, food security, triggers for trade agreements, ideas of investment for big corporations, etc. or even for ICC to decide when and where to conduct a global cricket tournament like the World Cup, so that its investments do not get washed out by excessive rains or heat.

How does stock market react?

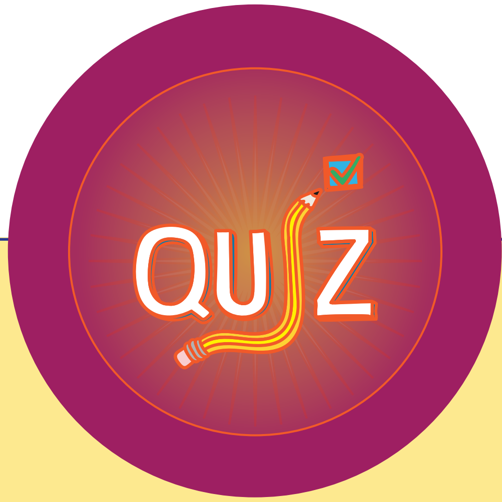
When the forecast is for a poor monsoon that stock markets will correct, attempting to price in the crushing blow to economy and growth. But this is not often as straight forward as one would think.

Firstly the quantum of rainfall as projected by the forecast which is a percentage of a historical average, is not as much important as the distribution of rainfall. This means, that even with a below normal forecast, it is possible that the cultivated areas could still receive ample rainfall. This would mean that stocks market which might have fallen anticipating the worst will climb even faster as soon as it gets the wind of such data. And any government spending which might have happened anticipating weak farm output, could add momentum to such pull back. Let us now see where the expectations are, because that is where the money is. Expectations of two rate cuts were being priced in prior to April, riding on the declining inflation. But yields of India's most traded 2028 bonds started advancing after RBI announced on April 4 that it would be retaining a neutral policy stance. With uncertainty still surrounding monsoon, the rate cut visibility stands reduced, especially with oil continuing to be firm. But it is worthwhile to note that oil's rally has persisted for the last 4 months and has scaled over 64% from the 2018 lows, suggesting that the odds are more in favour for a pullback in oil.

The usual understanding is that a poor monsoon weakens demand for two wheelers, FMCG, tractors etc. and also banks to some extent on account of pressures on loan waivers. Let us take the example of FMCG sector. Recently several of the FMCG companies have indicated that the demand is already weak. Price wise, it has been laggard, registering a measly gain of 0.6% as against a 8% gain for the benchmark Nifty index during last 60 days. In other words, even if monsoon pans out to be poor dragging Nifty lower, FMCG may not yield much. Additionally, since inflation has been benign in the last quarter, input costs have been largely softer. In other words, margins are under no specific pressure, and are poised to expand, if rains do not disappoint. Or Let us assume that rains do disappoint and oil continues to climb. Even then there is a winning scenario, some of the FMCG names which have exposure in the Middle East and North Africa region stands to benefit from oil-led rise in demand in those regions.

In short, all these inflation themes are saddled with investment opportunities. Move over elections, let me enjoy my rains.

May the spirit of Ramadan illuminate the world and
show us the way to peace and harmony!



Q:Unscramble the word?

elevregae

Answer to the last quiz:
Q: The relationship between price and yield is that? is a) If price goes up, yeild goes down

Thank you for the quick responses.The early right answer of the quiz was given by:

Mr. Ali Pareed
Mr. A.K. Prakashan

Share the answer at ***reply@barjeel.ae***

The answer to the question along with the ***Winners Name*** *will be published in the next issue of Market Digest. All the best!*

Dubai: Tel: +971 4 3060900 | Abu Dhabi: Tel: +971 2 4125000 | Sharjah: Tel: +971 6 5932000 | Al Ain: Tel: +971 3 7648100