BM Fiscal
Empowering Investors

BM Fiscal Research

Market Outlook Dec - 2017

MARKETS ACROSS THE GLOBE

	2017 MTD	2017 YTD	2016 Return (%)	P/E Yr 2017	P/E Yr 2018	P/E Yr 2019	Earnings Growth 2017 (%)	Earnings Growth 2018 (%)
Asia ex Japan (MSCI Asia ex Japan)	0.58%	35.31%	2.90%	14.7	12.5	11.4	29.40%	18.40%
Emerging Markets (MSCI EM)	0.15%	29.98%	8.60%	14.1	12.0	10.8	27.50%	18.10%
Europe (Stoxx 600)	-2.16%	6.99%	-1.20%	16.2	14.9	13.7	9.40%	8.70%
Japan (Nikkei 225)	3.24%	18.89%	0.40%	19.0	16.9	15.1	12.10%	12.40%
USA (S&P 500)	2.81%	18.26%	9.50%	19.7	17.9	16.3	12.80%	10.00%
Brazil (IBOV)	-3.15%	19.50%	38.90%	14.2	12.4	10.3	31.30%	14.10%
China (HS Mainland 100)	1.24%	35.97%	-1.30%	11.4	10.1	9.0	21.00%	12.80%
Hong Kong (HSI)	3.30%	32.62%	0.40%	13.4	12.3	11.2	22.30%	8.80%
India (SENSEX)	-0.19%	24.50%	1.90%	22.0	17.1	14.3	6.80%	28.30%
Indonesia (JCI)	-0.89%	12.37%	15.30%	17.9	15.8	14.2	12.20%	13.20%
Malaysia (KLCI)	-1.72%	4.64%	-3.00%	16.2	15.2	14.3	5.40%	6.70%
Russia (RTSI$)	1.63%	-1.80%	52.20%	7.3	6.6	6.3	4.70%	11.40%
Singapore (STI)	1.76%	19.19%	-0.10%	15.8	14.3	13.4	4.50%	10.10%
South Korea (KOSPI)	-1.86%	22.20%	3.30%	10.8	9.4	8.9	30.10%	15.30%
Taiwan (Taiwan Weighted)	-2.16%	14.12%	11.00%	14.9	13.8	12.8	16.40%	7.70%
Thailand (SET Index)	-1.39%	10.01%	19.80%	17.1	15.3	14.0	3.50%	11.80%

*All returns are in respective local currency terms and MSCI Index returns are in USD

ECONOMIC INDICATORS

Trade *(Oct'17)*

- Exports during October 2017 were valued at USD 23.09 billion as compared at USD 23.36 billion during October 2016, thus declining by 1.12% YoY.
- Imports during October 2017 were valued at USD 37.11 billion which was higher by USD 34.49 billion in October 2016 thus rising by 7.6% YoY.
- Taking merchandise and services together, overall trade deficit for April-October 2017-18 is estimated at USD 52.55 billion as compared to USD 22.13 billion during the corresponding period during 2016-17.

Industrial Production *(Sep'17)*

- The industrial output as measured by the Index of Industrial Production (IIP) grew by 3.8% YoY in September'17 as compared to 4.3% YoY growth reported in August'17.
- Eleven out of twenty three industry groups in the manufacturing sector reported positive growth in the month of September.
- On use based classification, Primary goods production reported a growth of 6.6% YoY, Capital goods output grew by 7.4% YoY and Intermediate goods production grew by 1.9% YoY in September'17. Manufacture of infrastructure/Construction goods grew by 0.5% YoY. Consumer durables production contracted by -4.8% while consumer non-durables production increased by 10% YoY in September'17.

Markets & Valuations

(As on November 30, 2017)

- The benchmark Index (Sensex) was at 33,149.35
- Estimated PE & earnings growth for BSE Sensex

	2017-18	2018-19	2019-20
Price/Earnings	22.85	18.02	14.96
Earnings Growth	7.87%	26.83%	20.45%

GDP (Q2 FY 18)

- India's GDP recovered to 6.3 percent during Q2 FY 18 after declining to 5.7 percent during the first quarter.
- Quarterly GVA at base price at constant prices for Q2 FY 18 showed a growth rate of 6.1 percent YoY.
- The economic activities which registered growth of over 6.0 percent in Q2 of 2017-18 over Q2 of 2016-17 are 'manufacturing', 'electricity, gas, water supply & other utility services and 'trade, hotels, transport & communication and services related to broadcasting'.

Inflation *(Oct'17)*

- India's Consumer Price Index (CPI) was reported at 3.58% YoY for the month of October'17. The inflation data was higher than market estimates of 3.45% and 3.28% reported for the month of September'17.
- Food and Beverages which have a weightage of 45% in the CPI basket reported increase in prices by 2.26% in October'17.
- Within the food and beverages segment, prices of cereals increased 3.68%, prices of milk products increased by 4.3% and vegetable prices increased 7.47%.
- Increase in price of crude oil, farm loan waivers by state governments and HRA benefits to central government employees pose upside risks to inflation. Rise in inflation reduces the likelihood of a rate cut or change in monetary policy stance to accommodative by the RBI in the near future.

Wholesale price Index (WPI)

- WPI was reported at 3.59% YoY for the month of October'17 as compared to 2.6% YoY reported for the month of September'17.
- The index for primary articles rose by 2% in the month of October'17. The index for fuel and power rose by 3.1% and the index for manufactured products rose by 0.3% YoY in October'17. WPI Food Index increased from 1.99% reported for the month of September to 3.23% in October'17.

EQUITY MARKET

BSE Sensex - Top & bottom performers in November 2017. *(As on November 30,, 2017)*

Top Performers	MTD	Bottom Performers	MTD
Infosys Ltd	5.80%	Lupin Ltd	-20.30%
Mahindra & Mahindra Ltd	4.90%	Adani Ports & Special Economic Zone Ltd	-7.30%
State Bank of India	4.80%	Dr Reddy's Laboratories Ltd	-6.00%

Earnings growth estimates of top weighted stocks:

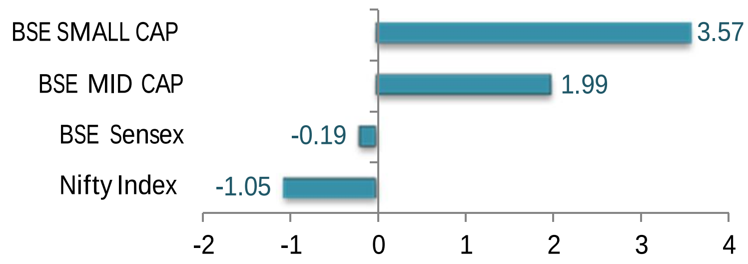
Stock	FY-18	FY-19	FY-20
HDFC Bank Ltd.	18%	22.53%	21.73%
Reliance Industries Ltd	7.15%	16.57%	10.34%

Our view

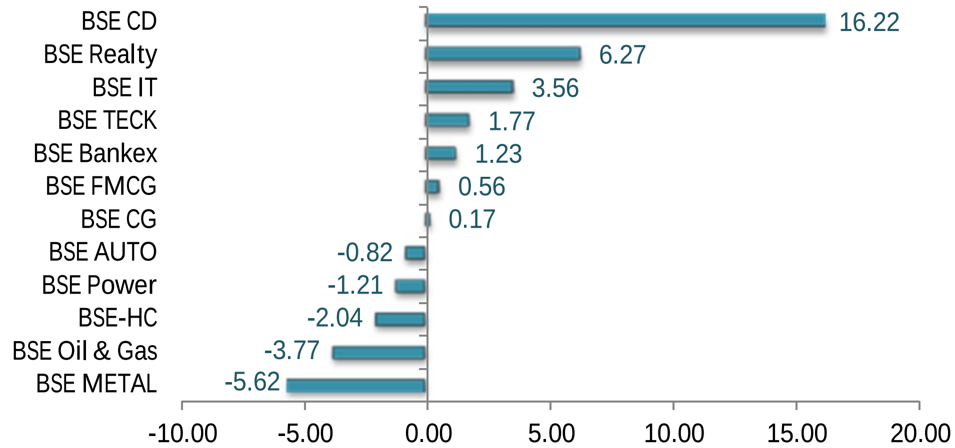
India's benchmark index, S&P BSE Sensex, decided to give up the gains of last month by ending the month on a negative note at -0.19%. The month saw some positives like improvement in India's position in the Ease of Doing Business ranking from 130 to 100, the GST council reducing the GST rate from 28 percent to 18 percent on 178 items and keeping only 50 items within the 28 percent bracket and of course the biggest boost to the market was the decision of the rating agency Moody, to upgrade India's government bond from Baa3 to Baa2. However, the market sentiments were impacted negatively on account of the rise in inflation indicators that is CPI and WPI and the rising crude prices along with the Government's announcements of recapitalization of Public Sector banks not only increased the worries on the fiscal front but also the fact that there was less possibility that the Central Bank will not go in for a rate cut soon.

The fears on the macro front have reared its head up again, however we would advise our Investors to continue with the existing asset allocation without pressing the panic button. We reiterate our view that India is a stock-picker's market and hence Investors should not get swayed by the volatile market movements.

Broader Indices (Performance % in November 2017)*



Sectoral Indices (Performance % in November 2017)*



Source: Bloomberg, iFAST Compilations. All returns are in respective local currency terms

DEBT MARKET OUTLOOK

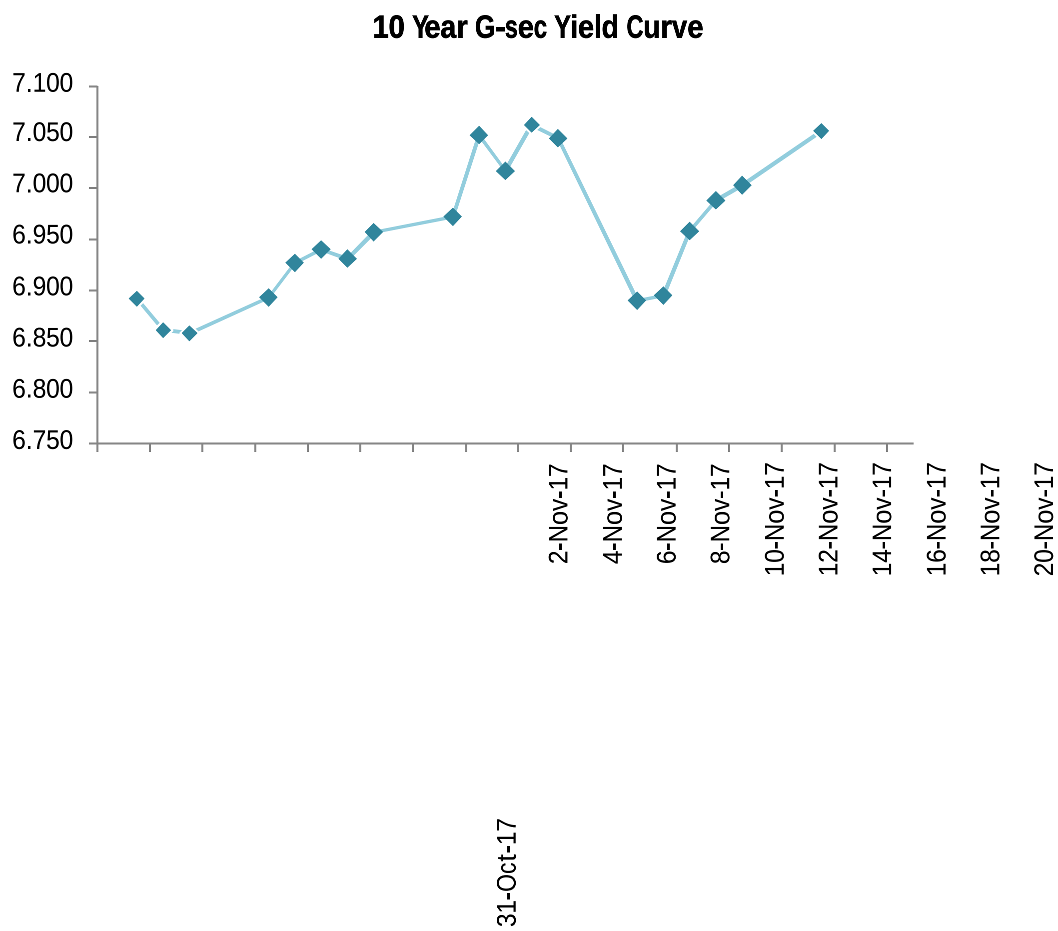
Our view

November 2017 also saw the 10 year G-Sec yields moving from 6.89 percent at the beginning of the month to 7.06 percent by the end of the month. Despite Moody upgrading India's Government bond ratings, the nervousness in the market continued as the rising crude prices along with the farm loan waivers announced by the government and the recapitalization of Public Sector Banks (PSBs) were not giving comfort to the market participants that the Government will be able to meet the fiscal deficit target of 3.2% for FY18. The rising inflation indicators also caused stress in the market as it was uncertain if RBI would go in for easing of policy rates in the coming months.

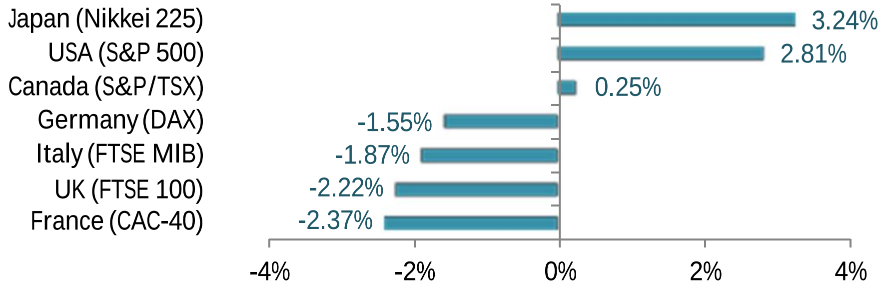
In line with this expectation, the Central Bank decided to maintain status quo on the policy rates in the fifth bi-monthly monetary policy review held on December 6, 2017. The monetary policy stance continues to be neutral with a hawkish outlook on inflation and future growth prospects.

Our advice remains on these lines:

The policy tone continues to be hawkish with concerns of inflation moving in the northward direction. However, RBI seems to be satisfied with the recent measures undertaken by the GOI to boost growth prospects of the economy in the near future. We continue to advise short term funds across risk profiles with a status quo on the recommendation that our aggressive and moderately aggressive investors can continue to take exposure into dynamic bond funds.



G7 Countries - Performance in November 2017*



**Source: Bloomberg, iFAST Compilations. All returns are in respective local currency terms*

Our View

- Both manufacturing and services in the US remain robust, which should continue to support growth momentum as global economic momentum continues to accelerate. In terms of employment numbers, October's nonfarm payrolls rebounded from the initially negative print in September (since revised to a positive 18,000), with the US economy adding 261,000 jobs as compared to the consensus forecast of 313,000. The largest area of job gains came from leisure and hospitality, which added 106,000 jobs, while hiring in the professional and business services sector was up by 50,000. The unemployment rate also edged down to 4.1% from September's 4.2%. Moving forward, we expect the pace of job creation in the US economy to moderate lower as the business cycle matures.**The potential upside of the US market is now the lowest among the markets that we cover, and as such, we maintain our rating of 2.0 Stars "Unattractive" for the US.**

- Europe's leading indicators have been particularly strong, with composite PMIs of the major European countries on a firm uptrend and sentiment supported by an improving outlook. Consumer confidence has also continued to improve, lending support to the outlook for domestic consumption. **We maintain a 2.5 Stars "Neutral" rating for Europe, and advocate investors to remain an underweight exposure to European equities in their portfolios.**

USA

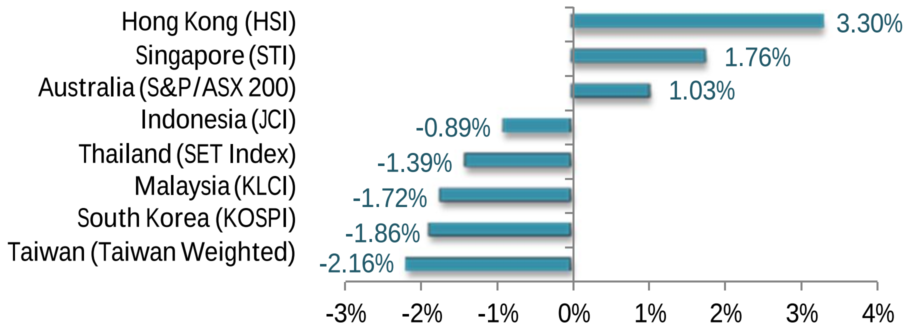
- ISM Manufacturing PMI came in at 59.5 in Oct 17, down from 60.8 in Sep 17
- ISM Non-Manufacturing came in at 59.8 in Sep 17, up from 55.3 in Aug 17
- Nonfarm payrolls rose 261,000 in Oct 17, after an upward-revised 18,000 gain in Sep 17

EUROPE

- Advance reading of Eurozone PMI composite at 57.5 in Nov 17, as compared to a finalised 56.0 in Oct 17
- Advance Consumer Confidence at 0.1 in Nov 17, up from a finalised -1.1 reading in Oct 17

GLOBAL MARKET UPDATE – ASIA PACIFIC (Ex-JAPAN)

Asia Pacific (Ex Japan) - Performance in November 2017*



**Source: Bloomberg, iFAST Compilations. All returns are in respective local currency terms*

Our View

- Singapore's GDP grew 5.2% year-on-year in 3Q 2017, its highest growth rate in more than 3 years. The final growth figure was also notably higher than advanced estimates of a 4.6% growth, and was significantly up from growth in the first and second quarter of this year which came in at 2.5% and 2.9% respectively. The manufacturing sector had driven growth with an 18.4% year-on-year expansion, which is more than double its growth rate registered in the prior two quarters of this year. Apart from the construction sector, which dipped -7.6% year-on-year, extending the prior quarter's -9.1% decline; all other sectors had expanded in the quarter with most these sectors registering higher growth rates than they did in 2Q 2017. In the month of October 2017, Singapore's electronic exports increased 4.5% year-on-year, after a -8.0% decline in the prior month. **We think that a 4.0 Stars "Very Attractive" rating on the Singapore equity market continues to be warranted in spite of its recent rally.**

- During the last monetary policy statement, Malaysia's central bank has delivered a rather hawkish message with the intention to normalise the interest rate next year. Although we have been stressing that the high inflation this year is a result of a higher petrol price – cost push inflation, we have started to see the inflationary pressure arises from the demand side where the local private consumption continue to grow at a robust growth rate of more than 6.5% for 3 consecutive quarters this year. Hence, we believe that Malaysia's central bank is likely to increase the interest next year, but it does not indicate the start of a series of rate hikes. With the expectation of a rate hike next year, we see better prospects for the Banking sector as the profit margin for banks is likely to improve. **As such, we maintained the star ratings for Malaysia at 3.0 stars "Attractive".**

- Indonesia's economic growth was a modest tad higher, driven by growing investment expenditure and higher government consumption. Double-digit exports growth was a positive contributor to growth as well. However, lower household spending and stronger imports amidst infrastructure build-up has weighed on the overall growth momentum. **Given that Indonesia's fundamentals remain sound, we maintain the star rating for Indonesia at 3.0 stars (Attractive).**

SINGAPORE

- Singapore's economy grew 5.2% y-o-y in 3Q 17 (final estimates) up from 2.9% y-o-y in 2Q 17
- Electronic exports rose 4.5% y-o-y in Oct 17, up from a -8.0% y-o-y increase in Sep 17

MALAYSIA

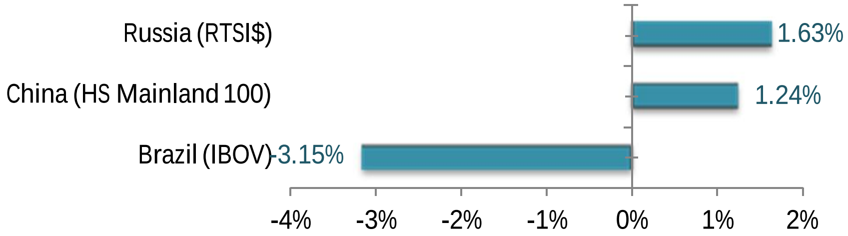
- CPI slowed to 3.7% y-o-y in October 2017 as compared to the prior 4.3% y-o-y in October

INDONESIA

- Exports surged to 18.4% y-o-y in October 17, after a downward-revised 15.6% y-o-y expansion in September 17
- Imports grew by 23.3% y-o-y in October 17, after an upward-revised 9.1% y-o-y growth in September 17
- 3Q2017 GDP growth came in at 5.06% y-o-y, improved modestly from 2Q2017's 5.01%.

GLOBAL MARKET UPDATE – BRIC (Ex-India)

BRIC (Ex-India) - Performance in November 2017*



Source: Bloomberg, iFAST Compilations. All returns are in respective local currency terms

Our View

- Brazil's industrial production expanded a smaller 2.6% year-on-year in September compared to the 3.9% growth the month before. Nonetheless, manufacturing PMI has been at or above the 50.0 reading since April this year, signalling resilience in the sector. On the other hand, Brazil's services PMI dipped back into contraction (48.8 reading) after having registered a 50.7 reading in September. Over the coming quarters, it remains likely that the Brazilian economy would continue to see improvements in its manufacturing and services sectors at large, although political uncertainties may temporarily weigh on business sentiment and thus, the pace of expansion in the said sectors. **In mid-October, we lowered Brazil's star rating a notch from 3.5 Stars "Attractive" to 3.0 Stars "Attractive", and continue to think the latter is warranted for the market, given its reduced upside potential due to its recent strong rally in valuations but flattish earnings revisions.**

- Russia's economy grew 1.8% year-on-year in 3Q 2017 (based on advance estimates), down from a prior 2.5% growth and missing market expectations for a 2.0% growth. Russia's falling consumer price inflation had also lent support to the country's growth in domestic consumption. For the month of October, Russia's CPI had come in at 2.7% year-on-year, extending its downward trend and coming in lower than consensus expectations of a 2.8% rate. While the central bank has guided that the recent decline in CPI was driven by temporary factors such as a larger supply of farm produce (which weighed on food inflation) as well as exchange rate movements, market expectations are for the country's CPI, at this juncture, is to come in similarly to the central bank's inflation target of 4.0% for the whole of 2017, 2018 and 2019 respectively. **At this juncture, we believe that a star rating of 3.5 Stars "Attractive" remains warranted for the market.**

- China's economic data continued to soften in October. Particularly, the industrial production growth came down to 6.2% in October from 6.6% year-on-year in September. Sector-wise, those heavy industries continued to be depressed by stricter environmental protection measures, such as mining, cement, steel and non-ferrous metal, however, production growth of machinery and new energy cars continued to be outperformed. CPI inflation came at 1.9% in October, while PPI remained high at 6.9% as a result of supply contraction caused by capacity reduction and environmental protection initiative as well as rising oil prices. The PBOC launched 2-month reverse repo operation in late October, which further enriched its OMO (Open Market Operations) choices. Overall, the implementation of the monetary policies aimed at economic restructuring and improvement of the policy transmission quality, thus we expect the monetary policy will remain prudent to neutral. **We continue to prefer H-shares to the onshore market. We maintain our 4.5 Stars "Very Attractive" rating for the offshore Chinese equity market.**

BRAZIL

- Manufacturing PMI stood at 51.2 in Oct 17, up from 50.9 Sep 17
- Services PMI came in at 48.8 in Oct 17, down from 50.7 in Sep 17
- Industrial production rose 2.6% y-o-y in Sep 17 down from a 3.9% y-o-y increase in Aug 17

RUSSIA

- Based on advanced estimates, Russia's economy grew 1.8% y-o-y in 3Q 17, down from 2.5% y-o-y in 2Q 17
- CPI came in at 2.7% y-o-y in Oct 17, down from 3.0% y-o-y in Sep 17

CHINA

- CPI came at 1.9% y-o-y in Oct 17, higher than 1.6% in Sep 17
- PPI rose 6.9% y-o-y in Oct 17, flat with that in Sep 17
- Industrial production growth decelerated to 6.2% y-o-y in Oct 17, down from 6.6% in Sep 17