

CitiChoice

Snapshot: July to September, 2019

Suitable for Investor Rating 1



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Dear Customer,

Indian equity markets continued to benefit from FII inflows of USD 3.2bn in 1QFY20, after witnessing a record surge through 4QFY19. Nifty 50 returned 1.4% in the period Apr-Jun19, supported by Banks and IT sectors, while Pharma, Auto and FMCG sectors continued to drag. Net equity inflows for domestic mutual funds grew 48% YoY in Jun19, while debt funds continued to witness net outflow on account of rating downgrades and unfavorable credit risk events. SIP flows remained stable at ~INR 81bn despite volatile equity flows indicating resilience from retail investors.

The 2019 General Elections concluded with the NDA returning to power at the Centre, and the BJP securing over 300 Lok Sabha seats on its own - strongest single-party tally since 1984. Union Budget FY2019-20 presented by the new government included measures to improve ease of doing business, digitization, manufacturing growth, while increasing FDI investment limits. The Budget also announced measures to support fledgling PSU banks and NBFC sectors. Market expectation of a significant consumption boost did not materialize as the government focused on balancing growth with an eye on fiscal discipline.

Weak agricultural and slowing investment activity dragged India's GDP growth to 5.8% year-on-year (YoY) in 4QFY19. Headline inflation continued to inch up led by rising Food CPI, partly offset by moderating Core inflation. Increasing agricultural income, along with various farm-supporting measures announced by the government may help arrest the slide in rural consumption growth.

The RBI continued to provide liquidity through OMOs, repo rate cuts and FX Swaps. Banking system liquidity surplus averaged ~INR 420bn in Jun19. Despite a late start, rainfall deficiency has improved to 12% below normal in early July form 33% in end-June. Citi analysts expect easier monetary policy and political stability, coupled with resumption of government spending, to effect a pick-up in economic activity in 2HFY20, and project a GDP growth of 7% YoY for FY20. We provide a quick snapshot of the key events that influenced markets over the previous quarter.

Quarter Update (1QFY20)

India Economic News

- 4QFY19 earnings grew by a 27% YoY (vs 41% expected), marked by lower-than-expected recovery in Banks
- Few large NBFCs defaulted and faced credit rating downgrades in 1QFY19
- The NDA returned to power at the Centre, securing 353 seats in the May 2019 Lok Sabha Elections
- RBI cut the policy repo rate twice by 25bps each during Apr and Jun19 MPC reviews, while changing the policy stance from "Neutral" to "Accommodative" in Jun19
- Union Budget FY2019-20 pegged fiscal deficit at 3.3% of GDP, lower than 3.4% estimated for FY2018-19
- Corporate tax rate reduced to 25% from 30% for companies with turnover under INR 400cr
- Tax rate of 20% imposed on share buybacks, at par with the Dividend Distribution Tax rate
- The government raised import duty on gold, electronic goods, textile, steel, etc., while lowering duty on capital goods, renewable energy products, etc.
- Merchandise trade deficit remained broadly stable in Jun19. However, both exports and imports shrunk by 9.7% and 9.1% YoY respectively
- Headline inflation rose to 3.2% YoY in Jun19, with rising Food CPI (2.4% YoY) and moderating Core (4.1% YoY)

Key Global Events

- US and China agreed to a temporary halt to further tariff hikes during the G20 summit held in Jun19
- President Mario Draghi stated the ECB's readiness to provide additional stimulus to meet its inflation target of 2% during his speech at Sintra, on 18th Jun19
- Brent Crude oil prices softened by ~3.5% between Apr-Jun19

As we head into the second quarter of FY20, Citi analysts continue to expect global growth at 2.9% YoY in CY2019 but lower their CY2020 global growth projection to 2.8% (lower by 0.1%). Developed Markets (DMs) are forecasted to grow at 1.8% and Emerging Markets (EMs) at 4.4% YoY in CY2019. Global inflation expectations were lowered to 2.4% for CY2019 and CY2020 (by -0.1ppt each). Citi analysts expect the US Fed to deliver a 25bps cut in Jul19, with a possibility of another cut in Sep19.

We are delighted to bring to you our latest issue of CitiChoice. This issue includes an update on the markets along with the list of equity and fixed-income schemes that have been shortlisted using various qualitative and quantitative parameters.

We would like to thank you for continuing to place your trust in us and look forward to your continued patronage.

Sincerely,

Sharad Mohan

Sharad Mohan,
MD & Head - Retail Bank
Global Consumer Bank, Citibank, N.A., India.

INDIA

India's Gross Domestic Product (GDP) growth slowed to a 5 year low of 5.8% YoY in 4QFY19, led by a sharp fall in investment growth, whose contribution to GDP growth fell to 1.1 percentage-point (ppt) vs 3.7ppt in the prior year. The drop may partly be explained by pre-election uncertainty delaying investment decisions and lack of government spending during the election period. However, structural headwinds from low rural and urban wage growth, stress in the shadow-banking sector and global trade tensions remain. GDP growth for FY19 was recorded at 6.8% YoY, Citi analysts expect India's GDP to grow by 7% YoY in FY20.

Union Budget FY2019-20, presented by the re-elected Government, attempted to boost the financial system through measures like a PSU bank recapitalization package of INR 70,000 cr, support for NBFCs, easing FDI investment norms and measures to promote ease of doing business. The Government also proposed to increase the minimum public ownership threshold to 35% (from 25% currently) for all listed companies and increased the effective tax rate by 3% / 7% for individuals with income above INR 2cr / INR 5cr through application of surcharge. Fiscal deficit was budgeted at 3.3% for FY20, maintaining the glide path to fiscal consolidation assuming ~25% YoY growth in revenues and ~20% YoY growth in expenses for the current fiscal.

Headline CPI continues to inch up in 2019, reaching 3.2% YoY in Jun19 (vs 2% YoY in Jan19) led by rising food prices. Food inflation recovered to 2.4% YoY in Jun19, out of the deflationary territory observed at the start of the year. Core inflation moderated to 4.1% YoY in Jun19 (from 5.7% YoY in Dec18) evidencing slowing economic activity. Citi analysts expect CPI to approach the 4% mark by 4QFY20 (30-40bps above RBI's forecast) and estimate headline inflation to average 3.6% YoY for FY20 weighed down by more than anticipated moderation in core inflation.

RBI cut the policy repo rate by another 25bps to 5.75% in its June MPC meeting. With the third consecutive reduction, the repo rate is now at its lowest since Jul10. The RBI also changed its monetary policy stance from 'neutral' to 'accommodative'. Acknowledging the softness in high frequency growth indicators the RBI revised down its FY20 GDP growth forecast further by 20bps to 7.0%. Liquidity in the banking system turned surplus in Jun19 after almost a year of deficit. Citi analysts expect the RBI to cut repo rate by 25 bps in the Aug19 policy review, however further cuts remain contingent on growth and inflation data.

Merchandise trade deficit remained stable at ~USD 15.3bn in Jun19, with a broad based fall in both exports (-9.7% YoY) and imports (-9.1% YoY). Indicating continued weakness in domestic investment, Capital goods import fell by 7.7% YoY, the most in 36 months, while Service trade surplus fell to a 12-month low weighed down by global trade uncertainties.

Earnings for 4QFY19 grew 27% YoY (vs. 41% expected) for BSE-100, marked by weaker-than-expected decline in provisioning expenses for banks. Overall FY19 Nifty earnings grew by 9.5% YoY (vs. 23.8% expected in Jun18) - bulk of the shortfall came from Financials and Auto, partially offset by currency led gains in IT. Citi analysts expect Nifty earnings to grow 6% YoY in 1QFY20. Nifty earnings for FY20 is expected to grow by 21% YoY, mainly driven by reduction in provisioning expenses for banks and recovery in autos and healthcare.

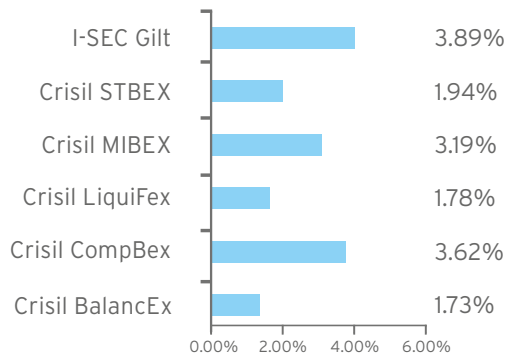
FII inflows surged in 4QFY19 to reach a 7-quarter high of USD 9.4bn. 1QFY20 saw another USD 3.2bn inflow, possibly driven by the election outcome. With market valuation on the higher side (P/E 1sd above 5yr mean and 50% premium to EMs), Citi analysts revise their Sensex target to 41,000 for Mar20, implying a P/E of 17x 1yr forward earnings.

Citi analysts expect a pick-up in economic activity in 2HFY20, contingent on continued easy monetary policy, gradual easing of NBFC stress, continued FDI flow and policy certainty. Gradual rise in food prices, aided by various farm supportive measures announced by the government may help arrest the slide in rural consumption growth.

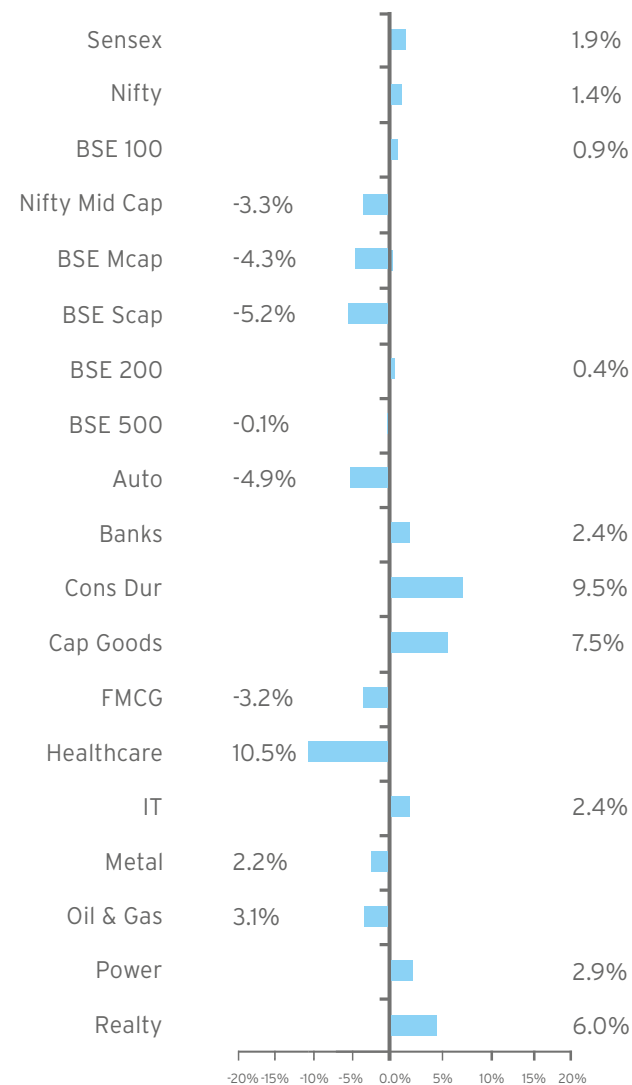
(Source: Citi Research)

Quarterly (Apr-Jun 2019)

	29-Mar-19	28-Jun-19
USD/INR Rate	69.15	69.03
10-Yr G-Sec	7.35	6.88
1-Yr Bank CD	7.48	7.18
3- Month Bank CD	7.25	6.45



MARKET RETURNS Quarter1 FY20



(Source: Bloomberg)

UNITED STATES

After growing at 2.9% in 2018, Citi analysts expect growth for the US to be restrained at 2.6% YoY in CY2019. Consumption driven domestic growth accelerated in recent months, rebounding after December-February period which experienced drags from transitory factors such as government shutdown, tighter financial conditions and delayed tax returns. Additionally, strong job growth (+224K jobs added in Jun19) and faster pace of wage growth may keep the unemployment rate trending lower.

Wage growth is expected to range between 3-3.5%, supported by the low unemployment rate. However, improvement in labor productivity and room for firms to compress profit margins may keep consumer price inflation subdued in 2019. Rising energy prices may provide some support to headline inflation in the near term. Citi analysts expect core inflation to remain subdued for majority of the year, picking up towards the 2% target around the start of 2020.

US Fed Chair Jerome Powel emphasized risks to the domestic outlook from slowing global growth and trade tensions during the June FOMC meeting, indicating a willingness to lower rates if needed. Citi analysts expect a 25bp rate cut in July, followed by a further 25bp cut in September, combined with an early end to balance-sheet reduction - contingent upon deterioration in domestic economic data and escalation in trade tensions.

EURO AREA

Citi analysts lower their forecast for Eurozone's GDP growth to 1.1% YoY for 2019 (from 1.2% earlier) to reflect more softness in economic activity in 2QCY19. Eurozone's composite Purchasing Managers' Index (PMI) for Jun19 recorded a 7-year high of 52.1 supported by services, however, manufacturing PMI continued to lag at 47.8. Consequently, Germany continues to be a persistent underperformer, as the positives from cheaper oil seems to be outweighed by Chinese slowdown, trade disputes and Brexit. On the positive side, the threat of a trade war from the US has expedited negotiations with EU's trade partners like Canada, Japan, Singapore and Mercosur. Citi analysts see the possibility of a minor US-EU trade deal by October, with potential reduction of steel tariffs, however, the threat of higher car tariffs may remain.

Citi analysts expect inflation-Harmonised Index of Consumer Prices (HICP) to average 1.2% YoY in 2019. Following President Mario Draghi's Sintra speech, the European Commercial Bank (ECB) appears to be poised to provide additional support to aggregate demand and to meet its inflation target. Citi analysts expect a slight improvement in domestic demand dynamics towards 2HCY20 as a result of fresh monetary policy stimulus by the ECB. Citi analysts believe that the ECB is more likely to combine policy instruments like a reduction in DFR (Deposit Facility Rate) and resumption of quantitative easing (QE) when it decides to apply more stimulus.

(Source: Citi Research)

SNAPSHOT

America	Actualized Returns Apr - Jun 2019 (%)
Dow Jones	2.59%
S&P 500	3.79%
NASDAQ	3.58%
Brazil Bovespa	5.82%

(Source: Bloomberg)

SNAPSHOT

Europe	Actualized Returns Apr - Jun 2019 (%)
FTSE 100	2.01%
CAC 40	3.52%
DAX	7.57%

(Source: Bloomberg)

JAPAN

Citi analysts revise down their GDP growth forecast to +0.6% YoY (from +0.7% YoY earlier) for 2019, leaving the growth estimate for 2020 unchanged at +0.1% YoY. Citi analysts expect a 1.2% fall in industrial production in 2019 due to tepid manufacturing activity in China and the ongoing US-China trade tensions. Decline in profits for manufacturers may also weigh down business investment and compensation.

Core CPI inflation is expected to moderate in the near term as the positive contribution from energy prices dissipates and cuts in mobile charges by major phone carriers come into effect. Citi analysts keep their core CPI forecast unchanged at 0.6% YoY for 2019 and 2020 as the impact of free education is expected to offset the consumption tax hike.

Citi analysts believe that there is little room left for policymakers to effect direct economic stimulus and expect the Bank of Japan (BoJ) to leave monetary policy unchanged (no additional easing) throughout 2019.

EMERGING MARKETS

Citi analysts expect Emerging Markets (EMs) to grow by 4.4% YoY in in CY2019 and 4.6% in CY2020. An eventual US-China trade deal, with extended negotiations remains more likely than a complete breakdown. Citi analysts expect Chinese monetary policy to give priority to stabilizing growth and boosting market sentiment over fiscal deleveraging in the near term. Assuming status quo on punitive tariffs imposed on Chinese exports, Citi analysts expect CNY to remain under 7 per dollar.

Further recovery in Emerging Markets depends on effective resolution of challenging political climates in Latin America (Argentina and Brazil), while Mexico remains vulnerable to trade tensions with the US. In EMEA, recovery in Turkey and Russia also remains critical to the EM growth recovery. Citi analysts expect CPI inflation for Emerging Markets to average 4.0% YoY in 2019 and 3.7% YoY in 2020. For longer-term investors, Asian markets, especially China, are likely to continue to outperform in 2019.

(Source: Citi Research)

SNAPSHOT

Japan	Actualized Returns Apr - Jun 2019 (%)
Nikkei	0.33%

(Source: Bloomberg)

SNAPSHOT

Aisa Pacific	Actualized Returns Apr - Jun 2019 (%)
Hang Seng	-1.75%
Strait Times	3.88%
Shanghai Comp	-3.62%

(Source: Bloomberg)

CitiChoice Summary of Changes (QoQ)			
Category	Sub Category	Inclusions	Exclusions
Equity		No Change	
Debt		No Change	

Scheme Name/Index Name	Inception Date [^]	Suitable for Minimum Investor Rating (IR)	AUM (crs) as on June 30, 2019	NAV as on June 28, 2019 (Rs)**	29-Jun-2018-28-Jun-2019 (Absolute) ^{^^}	30-Jun-2017-29-Jun-2018 (Absolute) ^{^^^}	30-Jun-2016-30-Jun-2017 Absolute	Since Inception		Volatility Measures (1 Years)		
								CAGR	Current Value of ₹ 10,000	Std Deviation	Beta	Sharpe Ratio
Liquid Funds*												
ICICI Prudential Liquid Fund - Growth	17-Nov-05	1	64,116.55	280.27	7.44%	6.89%	6.90%	7.86%	28,027	0.05%	0.10	10.85
Kotak Liquid - Regular Plan - Growth	4-Nov-03	1	32,940.51	3,837.76	7.39%	6.87%	6.88%	7.44%	30,755	0.04%	0.10	12.58
Crisil Liquid Fund Index				3,143.48	7.61%	7.01%	6.86%			0.11%		6.78

3 yr Risk Free Rate: 6.36%

1 yr Risk Free Rate: 6.59%

[^] Regular Plan, Growth Option

*For liquid funds and respective benchmark index, holiday NAVs have been considered on accrual basis

**For liquid funds, NAV as on June 30, 2019

^{^^} June 30, 2018 to June 30, 2019 for liquid funds and respective benchmark

^{^^^} June 30, 2017 to June 30, 2018 for liquid funds and respective benchmark

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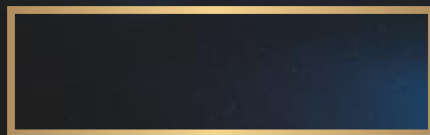
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