India is emerging from the pangs of change. And some of these changes are bearing fruit.

Inside Story
- Monetary Policy
- Equity
- Commodities
- Bullion
- Investment Strategy
- Global Economy
Two major events boosts the morale of the Indian markets

In the last month, the Indian markets received a boost owing to two key events. First, India’s rank improvement in the ease of doing business index and the stimulus package of ₹7.6 Lakh Crores.

India’s rank in the World Bank’s Ease of doing business improved by 30 places. In the latest ranking, India stands in the 100th position compared to 130th a year ago. This improvement in rank can be seen as an effect of the reforms introduced by the Government over the past year and a half.

India has progressed in almost all the parameters used in the assessment:

<table>
<thead>
<tr>
<th>Category</th>
<th>Ranking This Year</th>
<th>Ranking Last Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction Permit</td>
<td>181</td>
<td>185</td>
</tr>
<tr>
<td>Getting Electricity</td>
<td>21</td>
<td>26</td>
</tr>
<tr>
<td>Registering Property</td>
<td>154</td>
<td>138</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>29</td>
<td>44</td>
</tr>
<tr>
<td>Minority Investors Protection</td>
<td>4</td>
<td>13</td>
</tr>
</tbody>
</table>

Table 1: Category wise Ranking of India improved by 30 places in ease of Doing Business
The ease of doing business is not just about the ease with which a business can be started but the ease with which businesses can exit as well. The Insolvency and Bankruptcy code introduced earlier in 2017 contributed to the improvement in India’s rank in Insolvency. Reforms were introduced in the form of Tax payments as well. The demonetization move helped in promoting Digital transactions. Payment of Taxes electronically is another push in the same direction. Administrative measures have also been introduced to improve the taxes and tax collections. Overall the transactions will become much more smoother in India and also provide the transparency to reduce corruption.

Towards contribution to the ease of starting a business, a process has been introduced to merge PAN & TAN accounts. The biggest beneficiaries of these will be the start ups, which are the largest employment generators in the country.

The ₹7.6 Lakh Crore stimulus package serves 2 purposes: to boost consumption and liquidity and to boost investment activity. Of the ₹7.6 Lakh Crore, ₹2.21 lakh crore is to be used for Recapitalisation of Banks and the remaining ₹5.35 lakh crore to be used for the investment in Infrastructure.

Banks which are currently in the process of pruning their Non Performing Assets are reluctant to lower interest rates. Despite the Reserve Bank of India lowering the interest rates, the extent to which the rate cuts were passed to borrowers was diminished due to mounting Non-Performing assets in the Banks. With the recapitalisation, Banks will have much more room to lower interest rates and thereby increase the credit offtake in the economy.

In a 2013 working Paper by Public Finance and Policy, the approximate capital expenditure multiplier was 2.45, which means that if the Government invests ₹1 Lakh crore in infrastructure, it will increase the GDP by ₹2.45 lakh crore.

Fiscal deficit of India currently was expected to end at 3.2% at the end of the financial year, but with stimulus package it is expected to rise to 3.5%. Under the current accounting practice by the International Monetary Fund, the credit India will be accruing for the stimulus package is below the line and not part of the deficit. Which means, despite the stimulus package the fiscal deficit of India will not be affected greatly which in turn implies there is lesser risk of devaluation of rupee in the future. Hence, the Rupee value strengthened after the announcement of the stimulus package.

Inflation in India hovered around the 2.5%-3.5% mark for the past two months. The CPI stood at about 3.28%, whereas Inflation as measured by WPI stood at 2.6%. Although inflation is on the lower side, RBI may not lower the interest rates further. It will instead push the banks to lower their own lending rates to pass on the benefits of the previous rate cuts.

Overall, the Economic activity as measured by the Services, Manufacturing and Composite PMIs was positive for the month of October. The Composite PMI has been positive for about two months. The services PMI for October stands at 51.7, which is the highest since June 2017. This means that the economy is slowly adapting to the new regime of the GST. Service sector is further expected to boost with the GST council reducing the tax rates for 210 items. This reduction in taxes is likely to benefit MSMEs, thereby boosting the economy. Manufacturing on the other hand remained flat. However, manufacturing activity can be expected to pick with the Government investment in infrastructure.

Unlike the Indian economy, the growth in most major economies is being fuelled by low interest rates maintained by the central banks. The interest rates currently maintained by the European central Bank is about 0%, which means borrowing in European Union is practically free. Inflation is a concern for the European Union. Over the last couple of quarters, the inflation has remained below the targeted 2%. The European Central Bank is therefore not entirely encouraged to change interest rates at the moment. However, the effect of lower interest rates is seen on the economy otherwise, where the manufacturing PMI is at 58.5 which implies the manufacturing activity in European union is expanding rapidly.

The Bank of England in the United Kingdom, has an opportunity now to increase the interest rates for the first time since 2012. The inflation in UK stands at 3%, this is due to the combination of factors including the weakening of Pound after Brexit, and increasing commodity prices in the world. The Bank of England prefers the inflation rate to rise slightly higher before it considers revising the interest rates. But overall the economies of EU and UK are performing well. The Unemployment rate is at 7.5% and 4.3% for both the economies, which is a multi year low since even before the Greek crisis.

Closer home, another economy dealing with low interest rates is Japan. Flash elections were conducted last month by ruling Prime Minister Shinzo Abe a move quite similar to what the Prime Minister of UK- Theresa May, did two months earlier. Abe had dissolved the parliament and called for flash elections in the hope of getting the two-thirds majority in the parliament, in order to push his aggressive monetary measures. The Japanese Prime Minister did win the two-thirds majority in the lower house. Hence aggressive financial policies may be adopted by Japan in the coming years. Prime Minister Abe will be buying more credit and looking to lower the interest rates further from the current negative interest rates. However, the Central Bank of Japan said that it will maintain the short term interest rates at -0.1% and targeted ten year returns at 0%, which basically means that Japanese yen is going to much more cheaper in the world market. And this is what precisely happened after re-election of Shinzo Abe. Due to the aggressive measures adopted by the Prime Minister, Exports are likely to grow and inflation is expected to pick up. The Bank of Japan wants to maintain inflation rate at about 2%, but currently the inflation rate is at 0.7%. Over the past year, inflation has not gone below the zero percent mark, which is a significant positive for Japan. Overall, unemployment rate is low at 2.8%, wage growth is positive at 0.7%. In the coming quarters, inflation is expected to grow with weakening of yen and increase of Commodity prices globally.

Across the Pacific, the United states President Donald Trump nominated Jerome Powell as the next chair of the Federal Reserve once current chair Janet Yellen's term expires in February 2018. Janet Yellen’s role has been marked by pulling the United States out of the great recession to a period of stable economic growth. Over the past couple of years, the Federal Reserve raised interest rates resulting in the US economy being in a much more stable position than it was two years ago.
The Federal Reserve is likely to raise interest rates in December, and twice in the next year. During these phases, we can expect rupee to weaken, but given that the Indian Government is taking initiatives to boost the economy, we can expect the downsides to rupee to be limited.

About 261000 Jobs have been added in the US for the month of October 2017, compared to 33000 jobs lost in the month before. Unemployment rate is low, wage growth is at 3.22%, and core Inflation is at 2.2%. Economic activity has measured by PMI is positive across all sectors, despite having an interest rate hike. This indicates that the US economy has finally found its ground.

The United States is the largest consumer in the world and the largest exporter in the world is China. The Chinese economy is growing with high credit offtake. In the last month, yields of Chinese Bonds were low after cash injection by the People’s Bank of China. Despite cash injection into the economy, there is reduced optimism due to the already high amount of debt added to the economy. The People’s Bank of China notes that the corporate debt levels are already high and households debt is also increasing, which means China is taking more debt than it can potentially handle. This continues to remain the biggest concern.

When the Chinese manufacturing activity grows, the demand for commodities increase, which in turn increases the price of the commodities. The Latin American economy depends primarily on Commodities. In the last month, the composite and services PMI of Brazil declined, but manufacturing activity picked up. Brazil was in recession since 2015, however its economy expanded for the first time in the quarter ending March 2017. It managed to have a marginal growth in last couple of quarters. However, more reforms are to be taken before Brazil resumes its position as one of the fastest growing economies in the world. Overall, the Latin American economy is picking up pace, and with the commodity prices rising, we expect the expansion to be much more brisk in the coming quarters.
Oil prices rallied through most of October owing to growing demand and concerns in supplies.

Oil prices rallied in mid-October due to fighting in Iraq. Kurdistan, which lies to the northern part of Iraq, declared independence from Iraq in late September. However, this wasn’t welcomed by its neighbours. The tensions that ensued in the month of October threatened to lower Global oil supplies.

Brent Oil rallied further and breached the $60/barrel mark in 6th November 2017 owing to tensions in Saudi Arabia. Oil continued to rally with decline in oil rigs count in the United States. With the rising prices of oil, shale oil production is expected to resume in the US. This in turn will limit the rallying of oil prices.

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Table 2: Commodity Prices as on 13th November 2017

<table>
<thead>
<tr>
<th>Commodity (quantity)</th>
<th>Price (USD)</th>
<th>Projection (fortnight)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copper (tonne)</td>
<td>6.801</td>
<td>Ranged to Negative</td>
</tr>
<tr>
<td>Nickel (tonne)</td>
<td>12.300</td>
<td>Ranged</td>
</tr>
<tr>
<td>WTI Crude Oil 1 month futures (barrel)</td>
<td>56.76</td>
<td>Ranged to Positive</td>
</tr>
<tr>
<td>Natural Gas (MBTU)</td>
<td>3.17</td>
<td>Ranged</td>
</tr>
<tr>
<td>Zinc (tonne)</td>
<td>3.199</td>
<td>Ranged</td>
</tr>
</tbody>
</table>
Equity markets rallied through the months of October and November, due to a chain of events occurring in the Indian Economy.

One of the biggest events for the market rally was the Government’s announcement of Rs 2.11 Lakh Crore plan for recapitalisation of the public sector undertaking banks in a bid to push growth and create jobs on 25th Oct 2017. Nifty rallied to 10343.80 on 26th Oct 2017 following the announcement.

The equity markets continued to rally after the World Bank Report announced the improved India’s ease of doing business rank by 30 Places on 1st Nov, 2017. India is the only large country this year to have achieved such a significant shift. Following the news, Nifty rallied to a high of 10423.80 2nd Nov 2017.

Equity markets are expected to rally with the pickup of investment activity in the country through the stimulus package.
Gold prices for the month of October have declined since the peaks in September owing to decline in the political tensions across the world.

A pickup in inflation in the United Kingdom and other major economies implied a potential raise in interest rates by major central banks across the world. This in turn contributed to the decline in the price of gold.

Gold prices were further impacted when dollar spiked to more than three-month highs against the yen following a snap election in Japan on 20th Oct 2017. Gold has remained within the $1270- $1280 per ounce since then.
Table 3: Precious Metal Prices as on 13th November 2017

<table>
<thead>
<tr>
<th>Commodity (quantity)</th>
<th>Price (USD)</th>
<th>Projection (fortnight)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold (tr.oz.)</td>
<td>1,278.40</td>
<td>Ranged to Negative</td>
</tr>
<tr>
<td>Silver (tr. Oz.)</td>
<td>16.93</td>
<td>Ranged to Negative</td>
</tr>
<tr>
<td>Platinum (tr. Oz.)</td>
<td>934</td>
<td>Ranged to Negative</td>
</tr>
</tbody>
</table>

Investment Strategy

Rising oil prices generally have a downward effect on the markets of oil importing economies such as India. However, the measures taken by the Government to boost the economy in the form of a stimulus package will add more positive to the markets. As a result markets will rally over the long duration but volatility will persist in the shorter duration. It is beneficial to invest and hold equities for the long term. Short term volatilities can be reduced by investing through an SIP.

With the world economies rising, the price of commodities will continue to rally. This in turn will raise the inflation in India and therefore the RBI may not reduce interest rates any time soon. In such a scenario, bonds of medium duration become more attractive. It is therefore add bonds of medium duration in the portfolio.

Gold has seen stable prices in the past 2-3 weeks due to a lower perceived safe-haven sentiment. However, Geopolitical tensions rising from the middle East and European Union will add to the safe-haven sentiment of investors. With rising safe haven sentiment, gold prices will rally. It is therefore best to hold gold as a hedge in the portfolio with not more than 5-10% exposure.
Global Economy

A quick look at the economic events that are taking place across the world and the likely outcome.

<table>
<thead>
<tr>
<th>Country/Region</th>
<th>Event</th>
<th>Impact (Projected)</th>
</tr>
</thead>
</table>
| US             | US appoints Jerome Powell as successor to Janet Yellen | • Dollar strengthens  
• Gold Weakens  
• US Stock indices rally |
| EU             | European Central Bank announces easing of bond-buying  
Bank of England keeps interest rates steady | • Euro Strengthens  
• GBP weakens |
| Asia Pacific   | Japan’s PM Shinzo Abe re-elected with two-thirds majority in the parliament | • Yen weakens  
• Gold Weakens |
| India          | India announces ₹7.7 Crore stimulus package | • Rupee strengthens  
• Equity Markets Rally |
Following a recent amendment in the Prevention of Money Laundering Act (PMLA) Rules, 2017, linking the customers’ Aadhaar numbers to their respective mutual fund accounts has become mandatory for mutual fund houses. An online facility to link mutual fund investments to Aadhaar has been launched by the Registrar and transfer (R&T) agent, CAMS (Computer Age Management Services). Thus, the customers need to provide the required information to the mutual fund houses. The last date for linking Aadhaar and mutual funds is 31 December 2017.

**Steps To Link Your Mutual Fund Investments To Your Aadhaar On CAMS:**

**Step 1:** Go to the CAMS Website,

Click on ‘Investor Services’ on the top panel
Click on ‘Link your Aadhaar’ on the left panel
or visit https://www.camsonline.com/InvestorServices/COL_Aadhar.aspx

**Step 2:** Enter your registered email and PAN

The page auto-populates with the names of fund houses. If some are missing, undergo this process with the other R&T agents as well.
ICICI Prudential Mutual Fund, Birla Sun Life Mutual Fund, and HDFC Mutual Fund are all serviced by CAMS.
UTI Mutual Fund and Reliance Mutual Fund are serviced by Karvy.

**Step 3:** Click on the fund houses

Enter registered mobile number and submit
You will get an OTP/one-time password on the same number.
Step 4:
Enter OTP

Step 5: An acknowledgment will be sent

An acknowledgment of one’s email from the UDAI will also be sent.

Steps To Link Your Mutual Fund Investments To Your Aadhaar On Karvy Website:

Step 1: Visit https://www.karvymfs.com/karvy/Aadhaarlinking.aspx

Step 2: Enter your PAN to generate an OTP (will be sent to registered mobile number).

Step 4: Enter the OTP (sent to mobile) and click ‘Validate OTP’.

Step 5 – On validating, a mutual fund companies list in which accounts have been opened will be generated. By default, all the mutual fund AMCs are checked. Hence, your Aadhaar number will be linked to all the folios under the Mutual Funds selected.

Step 6 – Provide your consent to Karvy by checking the box

Step 7 – Enter your Aadhaar number in the field provided and click ‘Submit’

Other Methods To Link Aadhar With Mutual Fund Investments:

Physical Submission: One can even physically submit the form that is duly filled and signed by the investor, to the nearest Karvy / CAMS Investor Service Centre (Locate). It is essential to separate the forms for each holder.

SMS Submission: Send (ADRLNK ) to 9212993399 from your registered mobile number. On authentication, the same will be updated across all your folios at Karvy Computershare.

Post submission of your Aadhaar information through any of the modes specified below, your Aadhaar number will be linked to the respective Mutual Funds database after due verification & authentication, as per PMLA requirements. You will then get separate confirmation after linking.

This is how one can link Aadhaar, on the R&T platform, to MF investments and can authorise the agent to seed one’s Aadhaar number based on PAN or any other combination in all the accounts maintained with the asset management companies for KYC (know-your-customer) and other related due diligence purposes, as per the PMLA requirements and UIDAI guidelines.

The agent is also authorized to download and share the Aadhaar and demographic information with CKYCR (Central KYC Registry), other KYC agencies (SEBI-registered KRAs or KYC registration agents) wherever applicable and warranted by regulators or the PMLA. Thus, the linking of Aadhaar number with mutual fund investments is mandatory, for all the holders, failing which, the folios will be frozen by 31/12/2017. Follow all the mandates to avoid discrepancies. Do the right things and get your finances in order.
About ArthaYantra

ArthaYantra was founded with the mission to make high quality financial advice available to everyone irrespective of their wealth status. Our award winning platform, Arthos, uses artificial intelligence based system and complex neural networks to generate advice across Investments, Expense management, Insurance, Loans, Estate planning, and Taxes. The advice itself is explained by a certified personal advisor. We are the only fintech startup globally to have been recognised by Gartner for digital innovation. Winner of Red Herring Global Top 100 startup award; Among the top 35 Fintech company in Asia as per Finovate, and NASSCOM emerge 50 Award. Since our launch, we have helped more than 170,000 customers across 650+ cities and 30+ countries.

Visit corporate.arthayantra.com to see how ArthaYantra can help employers with financial wellness program as employee benefit.

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