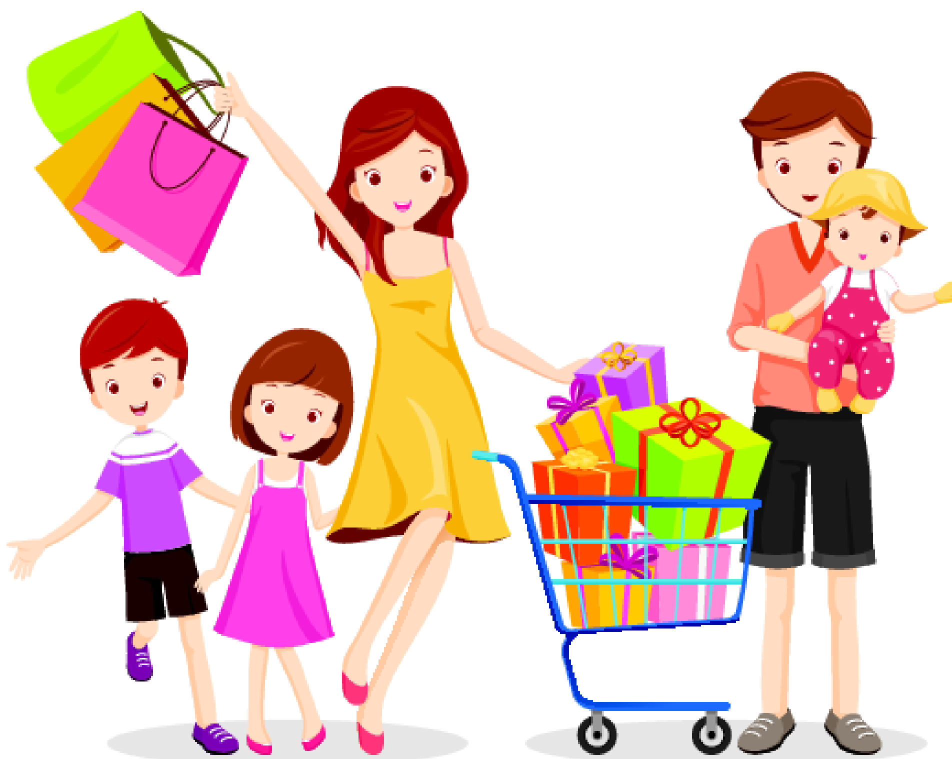
I-CAN FINANCIAL SOLUTIONS

I-CAN COMMUNIQUÉ

DECEMBER 2018



MONTHLY NEWSLETTER – DECEMBER 2018

Sensex : Up 5.1% Nifty : Up 4.7%	
Best performing sector: Realty (7.9%)	Worst performing sector: Pharma (-4.9%)
Best performing Global index: Argentinian MerVal (6.8%)	Worst performing Global index: FTSE 100 (-2.1%)
Indian Rupee: 6.3%	Gold: -4.8%

The markets took a turn for the better in the month of November. Sensex and Nifty rose by around 5%. The mid cap index was up by 3% and the small cap index rose by 1.6%. The 10-year benchmark government security yield fell by 24 basis points to 7.61% last month. Some of the concerns that had caused turbulence in the markets for a major part of 2018 showed some easing.

a. The Indian Rupee improved beyond the 70 mark for the first time in a quarter. The Indian Rupee appreciated by almost 7% from its peak of 74.4 to 69.6 against the US Dollar between 9th October and 30th November.
b. In a short span of time starting from 4th October to end of November the Brent crude oil prices fell sharply from $86 to below $60 per barrel. That's a fall of 30%. The US unexpectedly allowed imports from Iran to 8 countries including India for six months.
c. The market sentiment got a boost after the US Fed signaled a pause in the rate hike cycle.
d. There was a cordial meeting between the leaders of US and China on the issue of tariff war between the two. This boosted the market sentiment globally.
e. Foreign institutional investors (FIIs) invested a net amount of Rs. 5,980.9 crore in equity and Rs. 5,610.4 crore in debt markets.

The wholesale price inflation (WPI) in India increased to 5.28% in October from 5.13% in September. The retail price inflation measured by Consumer Price Index (CPI) stood at 3.31% in October compared to 3.7% in September. The index of industrial production (IIP) which measures factory output, fell to 4.5% in September compared to 4.67% growth in the previous month. India's manufacturing Purchasing Managers' Index (PMI) index improved from 53.1 in October to 54 in November. The Services PMI index also strengthened from 52.2 in October to 53.7 in November. A reading of more than 50 indicates expansion.

There were some concerns over the Indian GDP growth number which was lower than expected. It slowed down to 7.1% in the second quarter ending September, 2018 compared to 8.2% growth in the previous quarter. The fiscal deficit registered for the first seven months of FY19 was 104% of the budget estimate – against 96% during the same period last year.

Investors invested Rs. 7,985 crore via SIPs (Systematic Investment Plans) in October. This is 42% higher than a year ago. HSBC has upgraded its rating on the Indian equity market from 'underweight' to 'neutral' by end of November.

SEBI met the top four credit rating agencies to understand the liquidity situation of Non-banking finance companies (NBFCs) that have borrowed aggressively in the last few years and the possible consequences in case they fail to roll over borrowings.

Reforms

- RBI has relaxed rules to help housing finance companies ride through the liquidity crunch. NBFCs with loans over five year maturities are now allowed to sell their loan pools or securitise them on easier terms for the next six months.
- In order to reduce costs, SEBI introduced a framework for interoperability among clearing corporations (CCPs), which will be in operation from 1 June, 2019.
- RBI reduced the mandatory hedge coverage ratio to 70% from 100% for external commercial borrowings (ECB) raised by Indian companies.
- SEBI has announced new rules for re-classification of a promoter as a public investor. An outgoing promoter will have to give up special rights as well as control over the affairs of the listed firm and not be allowed to hold more than 10% stake.
- The government has reiterated that every household in India will have an electricity connection by December end, three months ahead of the deadline under the Saubhagya scheme. Power Minister R K Singh said that if the process is fastened, the government will be able to cover the last 50 lakh households and meet the deadline.
- SEBI has asked all listed companies to disclose their commodity risk and hedging in the Corporate Governance section of their annual reports.
- SEBI has laid out stricter norms for credit rating agencies, on the back of concerns after they failed to raise timely red flags in the IL&FS default case. The agencies are supposed to analyse deterioration in liquidity conditions of an issuer, while monitoring its repayment schedules and taking into consideration asset-liability mismatches.
- The government will infuse Rs 42,000 crore in public sector banks by March 2019 and the next tranche will be released as early as December.

- The government has authorised chief executive officers of public sectors banks to request for lookout circulars against wilful defaulters.

New Lending Rules - What does it mean for you?

From 1st April, 2019 banks will have to switch to a new method to calculate lending rates for retail investors (like home and auto loans) and for loans to small and medium enterprises. Until now banks were using their own cost of funds to arrive at the interest rate to be levied from borrowers. Each bank will have to decide on an external benchmark on which the rates will be determined. There are four options to choose from:

a. RBI's repo rate
b. The 91-day Treasury Bill rate
c. The 182-day Treasury Bill rate
d. Any other benchmark market interest rate produced by the FBIL (Financial Benchmarks India Pvt. Ltd)

Once the benchmark it decided, the bank can add a margin to it and calculate the final lending rate. Banks are free to choose the spread but they have to keep it fixed for the period of the loan unless the credit score of the borrower changes.

How does this impact you?

1. Transparency: There is greater transparency for borrowers under the new system. This will lead to more awareness of what is affecting the lending rates and EMIs. It will also be difficult for banks to impose hidden charges.

2. Credit score management: A change in your credit score is likely to change your EMI. If the credit score deteriorates, the EMI amount will increase and vice versa. Hence, it is in your interest to maintain a healthy credit history.

3. Easy Comparison: It is possible to make more informed choices since banks will disclose their benchmarks to calculate the floating rate.

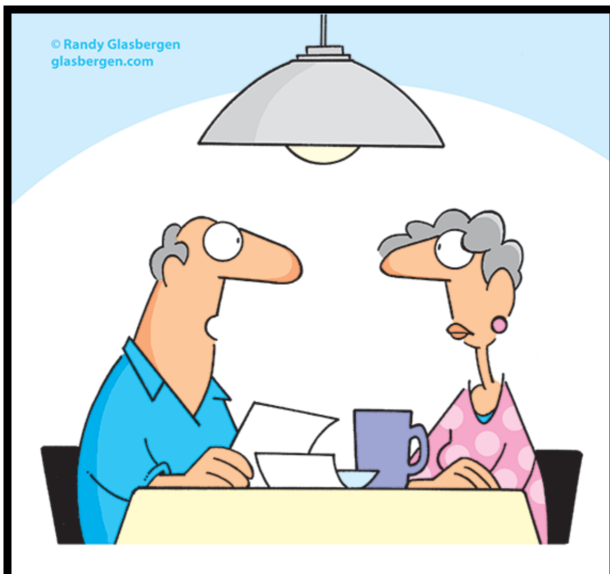
4. More volatility: Since the interest rate is linked to a variable benchmark, the interest rate will be more volatile. There will be a direct impact of changing bond yields on EMIs.

5. <u>Effective transmission of monetary policy</u>: The earlier system led to arbitrariness in calculating the base rate on the part of banks. Often RBI's policy action was not effectively transmitted to the consumers. With the new system in place the lending rates will move in tandem with the broader interest rate movements.

Did you know?

There are more than 100,000 flights globally per day.

Cartoon of the Month



"I finally put something aside for my retirement. I put aside my plans to retire."

Top Personal Finance News – November 2018

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2) Which mutual funds are ideal to park my FD money? : Click here
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19) Post Office MIS: When and how to opt for monthly income in this scheme and 10 little known facts about it: Click here

20) Invest in tax-saving instruments that are in sync with your financial goals: Click here