



Investment Insight

Friday, 18 August 2017

Eastern Rising: India is currently the fastest growing of the world's larger economies. Corporate earnings and per-capita GDP are both improving. India's current Prime Minister, Narendra Modi, appears to have solid support for his reform agenda. But how does the investment thesis shape up for India? In this week's **Inside Track** we look at the views of Columbia Threadneedle's Natasha Ebtehadj, an experienced investor in Indian stocks.

Back the greenback? Accurately forecasting currency movements is a notoriously difficult exercise that frequently defeats even the most highly regarded currency specialists. Currency traders use a plethora of technical indicators and "signals" in their efforts to predict movements. However, 2017 has unquestionably been a poor year for the US Dollar, but is it about to change? Some indicators are currently suggesting that the period of dollar weakness may be at an end for the time being. In **Pic of the Week** we take a look at whether it is time to back the greenback.

Quoted...

"The way to gain a good reputation is to endeavour to be what you desire to appear."

– Socrates

The Inside Track

Many believe that India is now at a true turning point, with PM Narendra Modi's reform agenda seeing widespread popular support. The following are some of portfolio manager Natasha Ebtehadj's views as to why the future is bright for India.

India has had a strong start to 2017. After a shaky period at the end of 2016 when the reformist government took the radical step of withdrawing 86% of the currency from circulation overnight to tackle the 'black economy', economic growth has recovered and equities have rallied.

Modi's reform programme was given a huge vote of confidence in March when it won a victory in the state of Uttar Pradesh, India's most populous state with 200 million people. Modi's BJP party had not won in the state for 15 years, yet won 80% of seats this time round. With the next national elections due in 2019, Modi appears likely to win another term in office and have the time to make real change.

We believe now is the most exciting time to be investing in the country since we launched our first India-dedicated investment strategy in 1998. India is turning a corner. Modi and his BJP party are executing big bang reforms and sweeping away the old government paralysis. As they do so their popularity is growing.

Before the BJP's 2014 election victory there was limited appetite to tackle India's extensive subsidies and endemic corruption. For example, the price of diesel at the pumps was capped, which played havoc with public finances. However, Modi deregulated the diesel price after coming to power, passing on fuel price moves to the electorate. This has helped to improve India's notorious twin deficits - its fiscal and current accounts.

These twin deficits were the main reason why international investors avoided India in previous years, yet the central government is targeting a fiscal deficit of just 3.2% for 2017-18 and the current account deficit has been falling due to a better balance of trade.

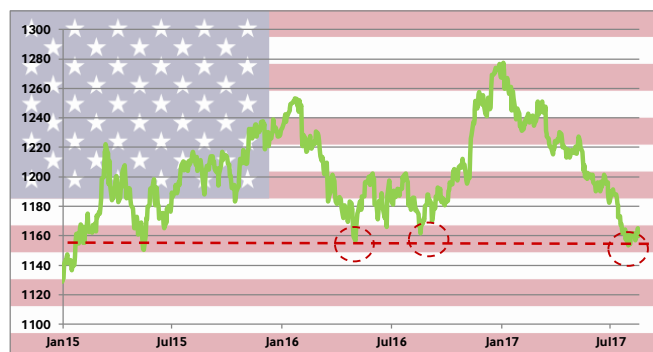
With the deficits now under control, the coming years look promising for India and its equity market. The reforms that have started to be introduced in the last three years will take some time to bear fruit. As they do so they are likely to help free this country to achieve its economic potential, with a young and growing population of 1.3 billion, or nearly a sixth of the world's population.

Another major reform was the introduction of a single goods and services tax on 1 July 2017. Different state and central taxes will be levelled to a single tax system, removing multiple layers of bureaucracy and reducing the cost of doing business. It is India's most significant tax change in recent decades.

Turning to the economy, India is growing faster than any other large country. Economists are forecasting GDP growth of 7.0% for the fiscal year ending 31 March 2017. For 2018 they are expecting a small increase to 7.3%. Economic growth is now spreading out from urban to rural areas, helped by a better monsoon. Furthermore, industrial production is improving and exports to developed markets are rising. The stronger economy is supporting companies from most sectors, which is expected to increase earnings.

Pic of the Week

In the virtual pits of the global currency exchanges, one trader's Fibonacci retracement signal is pitched against another's 200-day moving average signal, each prescribing contrary actions. The only comfort to be derived is that one of them will be correct! In the chart below, we can see that the dollar (charted against a composite of other currencies) has recently tested a level of weakness that has signalled a rebound to higher pastures any time the level has been hit over the past few years. Several other indicators (not charted) suggest a similar rebound is due. If you wish to take this as a prediction, give it precisely a 50% probability!



Market View

	Last 7 days	Last 12 mths	YTD	5Y Ann.
Global equities	+0.9%	+13.6%	+9.6%	+9.6%
US equities	+0.6%	+12.4%	+9.6%	+11.6%
European equities	+0.8%	+11.3%	+4.4%	+6.3%
EM equities	+0.4%	+16.6%	+23.0%	+1.8%
Irish equities	+2.5%	+12.3%	+4.1%	+16.2%
Commodities	-1.4%	-4.7%	-5.9%	-10.5%
Hedge funds	+0.1%	+4.2%	+2.9%	+1.8%

Economic indicators	Bond yields	Inflation	GDP YoY
Ireland	+0.7%	-0.2%	+6.1%
Germany	+0.4%	+1.7%	+2.1%
USA	+2.2%	+1.7%	+2.1%
China	+3.6%	+1.4%	+6.9%

Currencies	Current	YTD Δ
EUR:USD	1.17	+11.5%
EUR:GBP	0.91	+6.7%
EUR:CNY	7.83	+6.7%
GBP:USD	1.29	+4.4%
Bitcoin	4,463.29	+368.8%

Week ahead: Key events

18/08: Germany July PPI data
18/08: ECB Eurozone Current Account releases
18/08: ECB Construction Output
21/08: UK House Price survey
22/08: Eurozone Economic Growth survey
22/08: Ireland July PPI data
23/08: US Manufacturing/Services PMIs

Commodities	<i>Current</i>	<i>YTD Δ</i>
Gold	1,285.49	+11.6%
Copper	6,496.50	+17.6%
Oil	50.54	-14.1%
Wheat	443.25	-4.7%

Central Bank rates	<i>Current</i>
Eurozone	0.00%
USA	1.25%
UK	0.25%

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