CRYSTAL BALL

MONTHLY INVESTMENT RESEARCH

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Price Forecast

INSTRUMENT	30th Nov. 2019	1 Month	2 Month	3 Month	1 year
SENSEX	40794	39251	40901	41000	44100
NIFTY	12056	11601	12100	12151	13501
USD $ / INR	71.9	72.5	73	72.5	69
GOLD	1470	1501	1551	1601	1725
SILVER	17.1	17.75	18.28	19	21
CRUDE OIL	55.42	52.5	47.5	57.5	60

Dear Valued Reader,

We are ready with our Dec 2019 and Jan-Feb 2020 forecast.

Now, before we start a brand new-innings of trading this December 2019, let's review how the major indices listed at Dalal Street fared from Jan-November 2019 and also their performance in November 2019:

Market recap:

Instruments	LTP	2019 % Change	November 2019 % Change
Sensex	40794	+13.10%	+1.66%
Nifty	12056	+10.99%	+1.50%
BSE Auto Index	18100	-13.12%	-4.47%
BSE Bank Index	36191	+19.16%	+6.68%
BSE Capital Goods Index	17384	-7.64%	-7.64%
BSE Consumer Durables	24873	+20.18%	-7.51%
BSE FMCG	11077	-0.89%	-4.27%
BSE Healthcare	13603	-2.30%	+2.83%
BSE Metal	9779	-17.40%	+5.09%
BSE Mid-Cap	15085	-2.29%	+1.48%
BSE Small-Cap	13561	-7.79%	+0.02%

Instruments	LTP	2019 % Change	November 2019 % Change
BSE Power	1925	-3.70%	-3.12%
BSE Reality	2167	+20.52%	+5.04%
BSE Oil/gas	15156	+10.23%	-3.11%
BSE IT	14875	+5.57%	-3.36%

THE BACK STORY:

November 2019 was a record-breaking month for Dalal Street as the benchmarks Nifty & Sensex scaled fresh records highs at 12158.80 and 41164 respectively.

Well, the record milestones will go down as a welcome surprise to perma-bullish investors, especially after the bullish traders had started panicking in June-July-August months in the face of heavy selling by the big FIIs camp will be relieved so see the big FIIs returning back in the buying mode — posting a buy figure of Rs. 8,595.66 crores in October 2019 and a buy figure of 12924.93 crore in November 2019.

Interestingly, the benchmarks have risen for previous three straight months Digging deeper, much of this rally has been fueled by fundamental factors, including:

- Better-than-expected corporate earnings by index heavyweights.
- A dovish Federal Reserve, which pivoted to a more accommodative monetary policy with three quarter-point cuts in 2019.

- Crude Oil prices were seen drifting down and are most likely hit the bear-market territory, defined as a drop from a recent peak of at least 20%.

- Positive global cues on backdrop of **the U.S. economy remaining strong.** GDP growth is positive and the recession fears have largely waned after the Fed cut rates and most importantly, the yield curve returned to a positive slope.

- The US Federal Reserve solidifying its dovish u-turn policy. The Federal Reserve cut interest rates in October again and for the third time this year, reversing nearly all of 2018's rate increases.

- The European Central Bank too cut its deposit rate from negative 0.4% to negative 0.5%, while announcing it would begin open-ended purchasing of long-term government bonds at a pace of €20 billion a month in an effort to further reduce long-term interest rates, in a bid to boost the sluggish eurozone economy.

- A dovish RBI: The Reserve Bank of India's Monetary Policy Committee (MPC) has slashed key repo rate for the fifth time in the year as it aims to boost demand and private consumption amid an economic slowdown.

- Sentiments continued to be positive after PM Modi in his keynote address at Global Business Forum said that India is planning to invest $1.3 trillion in modern infrastructure. The government expects that India will become a $3 trillion economy this year, now the 6th largest in the world. Goal is to become $5 trillion economy till 2025.

- Finance Minister Nirmala Sitharaman unveiling a bonanza for Indian companies as she slashed tax rate for corporates. Corporate tax rate to be 22% without exemptions, inclusive of surcharge and cess.

- No Minimum Alternate Tax (MAT) applicable on such companies. Effective corporate tax rate after surcharge to be 25.17%, effective from FY19-20 .

- MAT has been reduced to 15% from 18.5% for companies who continue to avail exemptions and incentives.

- To stabilise flow of funds into the market the enhanced surcharge announced in Budget 2019 will not apply on capital gains arising on sale of any security, including derivatives by foreign portfolio investors (FPI).

The positive takeaway was that Dalal Street enjoyed buoyant November despite uncertainty from President Trump's trade war and slowing global growth which continue to pose risks to the United States and worlds' economy.

Long story short: Bulls' were at the top in November 2019.

LOOKING AHEAD:

Nifty 12,056:
Sensex 40,794:

We believe the bull market at Dalal Street has more room to run and should continue to push the key benchmark indexes higher in the long term. But having said that the pathway for Dalal Street in the near term is likely to become more perilous. Yes, going into the December 2019, investors have a lot to worry about.

We say so because the street is increasingly sensitive to the economic outlook.

India's GDP growth has slipped to an over six-year low of 4.5% in the September quarter of 2019-20, hit by a sharp deceleration in manufacturing output and subdued farm sector activity. marking the slowest expansion in 26 quarters.

Digging deeper, the latest revenue collections continue to remain anaemic, and the GST system continues to be plagued with weaknesses.

Fueling negativity would be sharp decline in November sales of all major automobile manufacturers with passenger vehicle and two wheeler sales declining the most over the year-ago period.

Long story short: India's economic momentums have slowed to historic lows and there are no evidence yet to suggest that economic activities have bottomed out.

From here, the street will spy with one big eye if the latest tax cuts trigger a domestic revival in demand.

Agreed that India's recent competitive tax rates could help the economy grab a larger share of the global trade pie, but at the time of writing it is not yet clear whether that will happen soon, or how long it would take for that to materialize.

Global Investors will keep a close eye on the local bond markets. Simply put, if the bond yields harden further from here on then that will work as negative catalyst as will further add to the government's borrowing costs and widen the fiscal deficit further.

Keep a close eye on the USD/INR and if the dollar continues to strengthen, this could put further pressure on the current account by making imports costlier.

Also keep the street anxious and at bay would be concerns over the delayed US-China trade deal. The clock is ticking as there is hardly any time left for an agreement to be signed, while the next round of tariffs are supposed to kick in on December 15. Adding to those fears is Trump's support for legislation backing pro-democracy protesters in Hong Kong, which drew a warning from China that it would take "firm counter-measures" against the US.

The only positive takeaway at the moment is that the two countries have made a series of mini-concessions, from China buying more farm products to the U.S. delaying the implementation of threatened tariffs.

Only a full deal or phase-1 of the deal this December will bring back the bulls.

The short term technical landscape could tilt in favor of bears amidst overbought technical conditions on the short term charts. Immediate downside risk on Nifty now seen at 11500-11751 zone.

Please note, major confirmation of weakness only on any close below recent low at 11,501 mark. The key interweek hurdles to watch on Nifty are at 12151-12225 zone.

We suspect, if the benchmarks move up from here on — then the risk will too. Its safe to say frequent shocks and volatility on cards.

Any upswing from current levels could swell investors' wallets but at the same time may shrink their confidence amidst deteriorating fundamental conditions. Any rally could be taken as a chance to reduce exposure because the new government would has fewer surplus resources to kick in the investment cycle.

Net-net, staying on sidelines would still prefer to be in the bulls' camp as there could be an unanticipated "black swan" event on the horizon. One such negative catalysts is the global growth worries. At the moment, there are plenty of signs which are flashing red on recession. Keep a tab on the yield on 3-month U.S Treasuries that could rise again above the rate on 10-year Treasuries and this could be the scariest thing for investors.

A narrowing spread is typically seen as sign that long-term economic confidence is dwindling.

Data suggests that the global economy is weakening as the international trade volumes have declined sharply because of the US-China trade war, and most importantly, there are financial stability concerns in China.

Sounds scary...

Meanwhile, the market breadth still continues to be weak. As per data, Domestic institutional investors have been net sellers in November to the tune of 7970.29 cr and that's after a long long time.

With all that happening, the stage is set for return of risk.

Obviously, the street will be anxious and spy with one big eye if anything goes wrong from here on. So, investors buying aggressively from here-on should stick with higher-quality companies.

The near term bias shifts to neutral/negative, or at the most — we suspect, Sensex and Nifty likely consolidate in near term as Dalal Street finds few fresh catalysts to lift indices further into record territory.

Honestly speaking; the battle will be between overbought technical conditions, sluggish fundamentals negative sentiments vs positive global cues and a government committed to reforms and bring back the economy on track.

The other key questions vexing investors' mind are:

1. Will Dalal Street start underperforming amidst collapsing GDP numbers — or liquidity will propel Nifty above the 12,153 milestone?
2. How long it will take for the growth to rebound? Will there be any upside surprises to economic growth??
3. Will foreign funds return to exit mode at Dalal Street?
4. Will there be recovery in corporate profits?
5. Will GST implementation and recovery start improving India's outlook in 2020?
6. Will Wall Street continue to trade with wild swings?

7. Will Brexit Britain endure an economic recession?

8. The upcoming U.S presidential election that is starting to heat up.

9. Last and the most important catalyst, how will the U.S-China trade war pan out?

Amidst this backdrop, we would like to quote Charles Darwin saying, 'It is not the strongest of species that survives, nor the most intelligent, but the one most adaptable to change.'

Well, Charles Darwin may have referred the above to nature; but his adage appears most suitable to the current environment at Dalal Street. 'Be Flexible & Focus on long term' is the winning theme for 2019.

Actually, the economic reality remains far from encouraging. The Reserve Bank of India (RBI) too has lowered its GDP growth rate for current fiscal amidst uncertain global economic outlook. India is well and truly in the grip of a slow down that is threatening to get worse by the day.

In such a setting, we have toned down a bit our expectations of an outsized return from Dalal Street in the next three months, but we believe, there is no real need to change or modify your long-term investments.

We expect normalcy to return sooner from the unresolved issues between the U.S. and China on the trade disputes, global growth concerns and at home concerns like bank recapitalization, managing fiscal deficit which can be positively addressed. We also believe, the recent reforms will structurally lead to higher tax collections and system liquidity on backdrop of positive aspects of digital transactions.

Buying only on any sharp corrective declineswith long term perspectives should be the preferred strategy filled with bargain hunting, momentum play and lots of optimism on backdrop of:

- RBI & Fed turning dovish.
- Over the past few months, the government has accelerated the pace of reform announcements.

Among stocks, our preferred bets on buy side on any sizeable corrective declines with 3-5 months perspective is:

1. GRANNULES: (CMP 127. Targets 165).
2. KOTAK BANK: (CMP 1616. Targets 1751).

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