

DEBT MARKET COMMENTARY

April	Opening	High	Low	Closing
Overnight Rate (NSE MIBOR)	7.47	7.77	7.41	7.52
10 year Gsec	7.74	7.86	7.72	7.86
3 month CDs	8.20	8.30	8.17	8.30
6M CDs	8.30	8.40	8.30	8.35
12 month CDs	8.20	8.38	8.20	8.38
Currency	62.19	63.56	62.19	63.42
10 Year US Treasury	1.86	2.04	1.84	2.03

Inflation

Lower food prices led to CPI for March moderating to 5.17 as compared to 5.37 % of February; incidentally this is a 3 month low number. Food inflation for the period was 6.14 as compared to 6.79 in February. In a clear reflection of lower commodity prices WPI for march also was a 5 month low number. At -2.33%, March 2015 number was substantially lower than February WPI of -2.06%. The inflation outlook is kind of uncertain from here onwards, primarily due to multitude of factors like chances of el nino, lower than normal monsoon, and possibility of flare up in oil prices from recent lows. However food inflation should be handled well by the current proactive government, so overall, inspite of an uncertain outlook, inflation outlook doesn't look to be out rightly pessimistic.

Macros

From a previous number of 2.6%, industrial growth as measured by index of industrial production (IIP) came at 5%. India's Mfg. Composite PMI came to 53.2 in Mar'15 from 53.5 in Feb'15. In March, the trade deficit was a 4 month high at 11.79 billion USD. Lower exports and sharp increase in gold imports were a factor to this. Exports crashed by more than 20%, while imports fell by nearly 13%. However falling crude prices led lower import might face risk, if there is a spike in crude oil prices from recent lows due to uncertain geopolitical situation unfolding.

Liquidity/Rates

Liquidity for month was managed by regular term repos/reverse repos as and when required. Average liquidity support by RBI by all forms for April was approximately 88000 crores, as compared to 98000 crores in March. After a initial rally in the first half of the month, rates across the segment were facing resistance and were stuck in a narrow range. Lack of rate cuts in 7th April policy added to the negativity and in the later half of the month yields across the maturity started their northward journey due to lack of clarity on further rate action, rising crude oil prices, surging dollar and a sub normal monsoon forecast. Also the overhang of US FED rate hike is playing on mind of participants. Subdued government spending led to lower than anticipated liquidity supply, leading to hardening of money market and short maturity instruments.

Outlook

RBI maintained the status quo on rates in its 7th April policy. RBI has made it clear that it is going to wait to see the transmission of lower rates, monsoon effect on the inflation. Although U.S. Fed rate hike will continue to be a factor to watch out for, RBI will primarily be focusing on domestic aspects of the economy. All this is leading to a scenario where markets are testing the patience and consolidating before resuming the next leg of its journey. Currently, the uncertain markets will lead to volatility in short to medium term and we can see further spike in yields. However the long term story for capital appreciation remains intact and those investors who can ride out the intermittent volatility can look to make tactical allocations to long duration schemes, thereby taking advantage of currently elevated levels. However this is a period to focus on accrual led constant income created by higher yields. Thus, Short term fund will be a good avenue for those looking to lock high accrual and enjoy a constant and non-volatile high carry, while simultaneously earning higher return comparative to fixed deposits.

Sources: RBI, Bloomberg, In House Data

EQUITY MARKET COMMENTARY

Key Domestic News

- Indian equity markets witnessed heavy FII selling due to combination of factors viz concerns on MAT, Poor monsoon forecast, poor Q4 earnings, parliamentary logjam on key policies & weak global cues due to concerns on Greece & Middle East issues.
- Indian Meteorological Department (IMD) has forecasted below normal rainfall during the 2015 monsoon season at 93% of the Long Period Average. This is in contrast to Skymet's prediction of a normal monsoon (102% of LPA). Skymet has a better track record at predicting monsoons.
- Moody's revised its outlook on India's credit rating to Positive from Stable, while affirming its Baa3 rating. While India's fiscal and financial strength, including its debt, has not materially changed, improving economic fundamentals and a strengthening institutional framework could improve the sovereign credit profile consistent with a higher rating in the next 12-18 months, rating agency said.
- According to the Centre for Monitoring the Indian Economy (CMIE), new investment projects announced rose to 7.9% of GDP in FY15, better than the average of 5% in FY13-FY14 but still subdued compared with the FY06-FY10 period.

Key Domestic Economic Data

- March CPI inflation, after a pick-up in Feb'15, declined to 5.2%, albeit off a high base. WPI inflation continued on the downward trajectory, falling further into the negative zone to -2.3% - the lowest in the series. Both CPI and WPI inflation surprised positively and stood lower than consensus estimates
- Industrial production (IP) growth rose to 5.0% y-o-y in February from 2.8% in January (earlier: 2.6%), above expectations, led by consumer non-durables and the mining sectors.
- India's trade deficit for Mar'15 surged to a 4-month high of \$11.8bn (Feb'15: \$6.8bn; est.: \$8.4bn) led by 1) a higher-than-expected decline in exports (-21.1% YoY) amid muted global demand and weakening commodity prices, and 2) a sharp rise in gold imports (+94% YoY).
- India's manufacturing PMI eased to 51.3 in April from 52.1 in March, due to slower expansion in new orders and output.

Key Global Events

- Crude oil rallied strongly last month on a combination of Middle Eastern geopolitical concerns and some signs that United States shale oil production & oil inventory are leveling off, lifting prices to the highest levels since December 14. However, there are serious doubts on oil sustaining at higher levels, given the supply glut and weak global economy.
- Greece's debt stand-off with international creditors continued with all three parties hardening their stance as difference emerged even between, ECB & IMF on Debt 'Haircut' and priority of reforms.

Outlook

- Over short term there can be some more volatility due to Greece, domestic result season, spike in oil prices and any parliament logjam on land acquisition bill & GST.
- However, we believe that economic cycle in India is slowly, steadily turning around and quality of Indian macros continues to improve significantly. Investment cycle is picking up gradually, is expected to pick up pace over next few months. GDP growth and corporate earnings should also see some improvement over next few quarters.
- The ongoing correction is good opportunity for investors with medium to long term horizon. .
- Sharp slowdown in China & Japan, GREXIT, central government's failure to push through big ticket reforms and a reversal in crude oil prices continue to be key risk to our outlook.

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