Debt Market Commentary

Indiabulls MUTUAL FUND

April 2017

30th April	Month Opening	Intra Month High	Intra Month Low	Month Closing
Overnight Rate (NSE MIBOR)	5.98	6.25	5.98	6.18
10 year Gsec	6.65	6.96	6.65	6.96
3 month CDs	6.25	6.35	6.25	6.34
6M CDs	6.40	6.47	6.40	6.47
12 month CDs	6.55	6.65	6.55	6.63
Currency	65.02	65.02	64.11	64.24
10 Year US Treasury	2.35	2.38	2.18	2.29

Inflation

Led by surge in fuel prices, retail inflation as measured by CPI (consumer price index) for March 2017 rose by 16 bps as compared to February 2017. March CPI came in at 3.81% as compared to 3.65% of February 2017. Fuel inflation jumped to 5.65% from previous number of 3.9%. WPI (Wholesale Price Index) saw a bit of easing for month of march. WPI for March, eased to 5.70% from February number of 6.55%. Food prices experienced a bit of hardening by coming in at 3.12% as compared to 2.69% earlier. The government is planning to release new series of WPI on 12th May along with new series for IIP (Index of Industrial Production) with base year being revised to 2011-12 from earlier 2004-05.

Macros

India's trade deficit widened little bit, and came at approx $10.43 billion as compared to $8.89 billion previously. Exports saw a jump of 27.60% in March 2017. Imports grew 45.30% in March 2017. India's fiscal deficit-difference between revenue and expenditure, for the April-February period stood at Rs 6.06 lakh crore, or more than 113% of 2016-17 Budget estimates (BE), which is at 5.34 lakh crores. The fiscal deficit stood at 107 % in the corresponding period of previous year as per then 2015-16 BE. India's factory output for February 2017, as measured by the IIP, saw a major contraction by coming in at 1.2%, as compared to (upwardly revised from 2.70%) number of 3.3% for January 2017.

RBI Monetary Policy

In the latest policy, RBI did not change the repo rate (at 6.25%). However it has narrowed the rate corridor. This was done by increasing reverse repo rate from 5.75 to 6.00. This will help align the call rates and anchor it above 6.00 and be more towards 6.25 rate, which is the current operating rate. Monetary Policy Committee stuck to the neutral stance and stated that further policy actions would be dependent on the incoming data and evolving macroeconomic variables.

Liquidity and Rates

Excess of surplus liquidity in the system led to banks parking nearly 4.2 lakh crores with RBI for the month of April. This surplus liquidity was evident in march month also, when banks had parked nearly 4.5 lakh crores with RBI. Even interbank call market rates were persistently lower than the overnight rate of 6.25%. Many a times RBI had to conduct reverse repo to prevent rates from dipping substantially. With RBI narrowing the rate corridor in its April policy, markets will witness a bit of correction at the short end of the curve. The steep fall in money market rates, which were a result of excess liquidity, will see a bit of hardening, with rates drifting more near to 6.25% levels. With RBI in its policy turning "neutral" entire interest rate curve witnessed hardening. 3 month cds moved up by 10 bps to close the month at 6.35, 1 year cds climbed up by 10 bps to 6.65. Hardest hit was the dated sovereign segment- 10 year gsec zoomed by nearly 30 bps to end the month at 6.96%. Long end of the curve bore the brunt doubly- once when the policy was announced, and secondly few days later, when the minutes of the MPC meeting were released - it became evident that, further upside risk to inflation are prevalent. Also couple of members were of such opinion, to infer that hike in rates could also be on cards. All this made the markets turn very cautious.

Outlook

More than the fundamentals, the sentiments currently are not in favour of a sustained positive movement in the markets. Comfortable macros in form of lower fiscal deficit, lower current account deficit, softer oil prices, sustained fight on inflation and unimpressive credit growth- all these indicate a supportive market. But RBI presenting a cautious picture on rate front and the shift to "neutral" stance is a point of worry for market. The awaited trigger by markets will be in form of normal monsoon and subsequent expectation of positive rate action by RBI. Till then, markets will be in cautious and watchful mode. All this makes duration products suitable only for those investors who can digest volatility. On a ongoing basis, liquidity looks to be comfortable, with system being flush with funds. Consequently money markets rates will remain stable. This will keep the short end of the curve constantly bought and hence offers a sweet spot. For new investors short term fund offers a wonderful vehicle to earn high constant accrual. Benefit in terms of constant high accrual and effective vehicle as compared to bank fixed deposit (in light of lower and lower rates of FDs in banks) make short term fund a very attractive fund. Liquid and ultra short term fund, as always will be vehicles for smart utilisation of temporary surpluses.

Malay Shah
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Equity Market Commentary

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Key Domestic News

* Indian Meteorological Department (IMD) has forecasts normal rainfall at 96% of the long period average during the current monsoon season. The IMD also pointed that weak El Nino conditions could develop during the latter part of the monsoon season.
* In a major move to liberalize agri-markets, the Centre has come out with a draft model law that seeks to end monopoly of traditional APMC markets and allow private players and others to set up wholesale markets.
* The Union Cabinet approved the policy guidelines to allow financially sound State government entities to borrow directly from bilateral Official Development Assistance (ODA) partners for implementation of vital infrastructure projects.
* The government is planning to divest stake in seven state-owned companies that are listed on the stock exchanges. This could fetch the exchequer about Rs350bn, nearly half of the financial year 2017-18 (FY18) disinvestment target of Rs725bn.
* The goods and services tax (GST) can boost India's GDP growth by up to 4.2% — double the previous estimate -- as lower taxes on manufactured goods will bump up output and make products cheaper, a US Federal Reserve paper said.

Key Domestic Economic Data

* India Manufacturing PMI came in at 52.5 in April 2017 unchanged from March level. Slower increases in output, stocks of purchases and employment were offset by stronger growth of new orders and lengthening delivery times. The surge in order books was the strongest since October 16. However, Services PMI fell to a three-month low of 50.2 in April from March's 51.5, reflective of an uneven recovery.
* CPI inflation for March 2017 stood at 3.8% below consensus expectation of 3.9% and against. 3.7% previous month due to muted food inflation. Average CPI for FY17 declined to 4.52% from 4.91% in Fy16.
* IIP contracted 1.2% y-o-y in February from 3.3% growth in January, significantly below expectations of 1.3% growth. Both consumer and capital goods output growth contracted, reflective of uneven recovery.
* The output of India's eight infrastructure industries (which accounts for 38% of IIP) increased by 5% in March 2017, up from a 1% growth in February.

Key Global Events

* First round elections in France saw Emmanuel Macron and Marine Le Pen advance to a presidential runoff, in line with market expectations. Polls, that were largely accurate in predicting the first round outcome, suggest Macron is likely to win the next vote scheduled for May 7, with sub 5% probability for Le Pen victory.
* China's forex reserves rose for a third straight month in April, climbing $21B to $3.03T, after President Trump backed away from labeling China a currency manipulator and said the greenback was "getting too strong." Addition to Chinese forex reserves assuage concerns on its reserves running thin, however, concerns on health of broader economy still remain an overhang.
* The US Fed held interest rates steady, as expected, largely viewing the recent weakness in US GDP growth in Q1 as "transitory." According to key experts, the US Fed is "still viewing the economy as just fine, and another rate hike in June is still clearly on the table,"
* Geo-political risk remains elevated with developments in North Korea. Any escalation of tension in Korean peninsula has a potential of triggering a global risk-off.

Outlook

* Forecast for normal monsoons augurs well for rural consumption. Also, 7th pay commission implementation by states, HRA payments by Central Government, MANREGA etc. should give a strong fillip to domestic consumption.
* With expectations of strong demand recovery, stable input costs and benign interest rate environment we believe earning cycle should start getting stronger in next few quarters.
* Government's initiative for resolution of NPAs in PSU banks and steps to kick start capex cycle should also aid in economic recovery
* With world turning increasingly protectionist, we continue to prefer domestic consumption over exports related themes.
* We maintain our cautiously optimistic view on equity markets. Geo-political situation in North Korea and weak economic data out of China are the key risk.
* At current levels, SIPs are a preferred mode for investing, and risk off due to global events can provide attractive entry points for lump sum investments. Indian equities continue to offer attractive investment opportunity from medium to long term perspective.

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