Debt Market Commentary

Indiabulls MUTUAL FUND

August 2016

August	Month Opening	Intra Month High	Intra Month Low	Month Closing
Overnight Rate (NSE MIBOR)	6.50	6.65	6.48	6.54
10 year Gsec	7.14	7.20	7.08	7.11
3 month CDs	6.60	6.62	6.60	6.60
6M CDs	6.90	6.90	6.90	6.90
12 month CDs	7.22	7.22	7.20	7.20
Currency	66.74	67.19	66.72	66.96
10 Year US Treasury	1.51	1.62	1.50	1.58

Inflation

Retail inflation as measured by CPI (consumer price index) for July 2016 witnessed a spike and came at 6.07 as compared to June number of 5.77%. Soaring food prices in July kept India's headline inflation above the Reserve Bank of India's (RBI) near-term target. It is the fourth straight reading above the RBI's target of 5% by March 2017. While food inflation increased to 8.4% (+60 bps), core inflation was sticky and was at 5.1%. Above average monsoon and active steps taken by government especially in removing the bottlenecks on the supply side should help rein in the food inflation in coming months, and consequently cool of cpi, however one of the major risk to this could be any unexpected uptick in oil prices. Wholesale price index (WPI)-based inflation doubled to a two-year high of 3.55 per cent in July, compared with 1.62 per cent in June, on the back of rise in vegetable and pulses prices.

Macros

India's Index of Industrial Production (IIP) was seen expanding at 2.1 % in July as compared to 1.2% in June. The rise was primarily led by expansion in electricity and mining production. Trade deficit came at 8.5 billion dollars as compared to earlier number which was just below 8.2 billion dollars. Exports again had a reversal and displayed de-growth as compared to a positive number previously and came at -7.3% versus 1.3% previously. Imports slipped and was at -19% as compared to June number of -7.3%. Within non-oil imports, gold saw the steepest fall, at 63.7% compared with 38.5% in June.

Liquidity and Rates

Continuing with the July month, which witnessed RBI being lent approximately 10,000 crores, august also saw the same and infact amount increased to approximately 27000 crores. RBI's commitment to keep the liquidity in comfortable zone is working out. Comfortable liquidity in the system and periodic fund infusion by RBI through repo kept call money rates near to the repo rate of 6.50 . However a bit of pressure was observed when, RBI conducted reverse repo auctions to drain excess. Money market and extreme short end of the curve was trading flat. 2-3 months CDs were near 6.60 region and 1 year CDs were also near 7.20 region. In august policy RBI kept the repo rate unchanged at 6.5%. While mentioning that good monsoon would curb rising food inflation, it emphasised that sticky core inflation and the challenges ahead at time of implementation of the Seventh Pay Commission's recommendations. It has retained its March 2017 inflation target of 5% with upside risks. Markets extended the rally in bonds when RBI decided to hold omo purchases during the month. Long dated gilts and corp bonds also were riding a good rally and markets witnessed a sizeable fall in market yields, albeit at a slower pace as compared to previous months. 10 year gilt, the benchmark rallied to close the month at 7.11 levels, down about 3 bps from 7.14 close of previous month.

Outlook

Monsoon has been above average, and food inflation could come down sharply in months to come-infact we might see a sharp fall in august number itself. Infact expectation is that august cpi number will be below 5.50%, and could be as low at 5-5.10 %. So clearly the current phase of spike is over and we can look forward to cooler inflation. RBI has committed to maintain the accommodative policy stance and along with it comfortable liquidity going forward. The risks to continuing positivity in markets could emerge from global macros. Infact this month three major central banks will decide on stimulus and interest rates thats US FEB, Uk BOE and Japan's BOJ. Globally markets seem to be pretty confused and sitting on fence, with stage being set for any eventual surprise. Consequently, there might be phases of temporary volatility and bouts of weakness, however inherent strength of domestic economy should help us stabilize us in case of any temporary episodes of volatility. Existing investors are recommended to stay invested in medium duration space. For new investors short term fund offers a wonderful vehicle to earn high constant accrual and a chance to participate in rate action led capital appreciation. Liquid and ultra short term fund, as always will be vehicles for smart utilisation of temporary surpluses.

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Equity Market Commentary

Indiabulls MUTUAL FUND

August 2016

Key Domestic News

* Indian economy grew 7.1% y-o-y in Q1FY17; moderating sharply from 7.9% in Q4FY16, well below expectations. Gross Value Added (GVA) growth edged down to 7.3% y-o-y from 7.4% in Q1 2016, in line with expectation. We expect growth to pick up in H2FY17 on the back on strong monsoon, 7th pay commission & OROP spendings
* Dr Urjit Patel has been appointed the next RBI governor to succeed Dr Rajan, whose term ends on 4th September 2016. Dr. Patel's appointment strongly indicates government's preference for policy continuity and commitment to inflation targeting. This should be seen as structural positive as it suggests government's priority of macro stability over growth.
* Railways is setting up a ₹ 300 bn fund, for funding its various infrastructure projects across the country. Government is likely to 20% of the corpus balance would come from multilateral agencies, pension funds and SWFs
* In a bid to give fillip to construction industry, government issued the new arbitration guidelines wherein it will release 75% of arbitration award amounts against bank guarantee in situations where awards have been given but have been contested by the concerned government authorities. Also, all the arbitration cases will be resolved within a year. The total amount under arbitration for the construction industry currently stands at ₹ 30,000 crore.

Key Domestic Economic Data

* India's manufacturing PMI rose to 52.7 in August, a 13-month high from a reading of 51.8 in July led by strong domestic & export order inflows.
* India's services PMI too jumped to a 42 month high of 54.7 in August, up from 51.9 in July. The headline index has now signaled expansion in each of the past 14 months.
* CPI inflation came in higher than expected at 6.07% last month from a year ago, up from 5.77% in June mainly on higher food prices like pulses and vegetables. It is the fourth straight reading above the RBI's target of 5% by March 2017.
* India's industrial production expanded by 2.1% in June from a year earlier, faster than a revised 1.1% growth in May. The rise was primarily led by expansion in electricity and mining production. Capital goods remained in contraction at -17% (vs. -12% last month).

Key Global Events

* At the central bankers' symposium at Jackson Hole, US Fed Chairperson Janet Yellen said the case for higher interest rates has increased in recent months, a sentiment amplified by Fed Vice Chairman Fischer, who indicated that more than one rate hike could occur before the end of the year.
* Japan's economy nearly stalled in Q2 amid falling exports and weak corporate investment, adding pressure on Shinzo Abe to ramp up efforts to revive growth. The economy expanded at an annualized rate of 0.2% during the period, weaker than a 2% expansion in the first three months of the year.

Outlook

* In the backdrop of improving macros, improving earnings visibility, strong global liquidity and no major global headwinds, we remain positive on the equity markets in short term. The current Sensex valuations at 18.5 x FY17 earnings may appear a bit rich, but given the economic environment, should continue to command a premium to historical averages.
* Medium to long term outlooks seems fairly robust for Indian economy and equities market. We expect FDI & FII inflows to remain robust; India can be a disproportionate beneficiary of global liquidity.
* Global markets would continue to throw occasional bouts of volatility, which can provide attractive entry point for lump-sum investments. SIPs and STPs should be a preferred medium for retail investors.
* Faster than expected US fed rate hikes and reversal in commodity prices are the key risks to the outlook.

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