Debt Market Commentary

August 2017

31st August	Month Opening	Intra Month High	Intra Month Low	Month Closing
Overnight Rate (NSE MIBOR)	6.25	6.25	5.95	5.96
10 year Gsec	6.44	6.57	6.43	6.53
3 month CDs	6.22	6.22	6.18	6.18
6M CDs	6.40	6.40	6.34	6.38
12 month CDs	6.55	6.55	6.50	6.50
Currency	64.07	64.15	63.58	63.90
10 Year US Treasury	2.26	2.29	2.12	2.12

Inflation & Macros

Retail inflation as measured by CPI (consumer price index) for July 2017 started its upward trend because of base effects by 82 bps as compared to June 2017 which was led by falling food & cereal prices. July CPI came in at 2.36% as compared to 1.54% of June 2017. This acceleration in headline inflation is predominantly driven by a significant sequential increase in vegetable prices (especially that of tomatoes), house rent allowance adjustment as the recommendations of the 7th pay commission got implemented from 1st July and rising commodity prices. Core CPI inflation came at 3.75% from 3.8% last month. This indicates weakness in pricing power by producers. WPI (Wholesale Price Index) under the new series with 2011-12 as base year, increased by 1% to 1.9% as compared to 0.9% last month. IIP came in at -0.01% as compared to 1.70% for May 2017.

GDP growth came in at 5.7 v/s 6.10 (Q-on-Q). The lower growth number marked the expectation of markets from RBI to cut rates to spur growth. We believe that since any rate cut takes atleast couple of quarters to seep in to the economy, RBI would not go in for further cut because of dwindling growth numbers. RBI would look at more data points to prove that growth is slowing further and also look at causes of the same rather and would be more objective.

Liquidity and Rates

Excess of surplus liquidity in the system led to banks parking nearly average of 3 lakh crores with RBI for the month of August. This surplus liquidity was same in July as numbers are almost the same. Money market rates however stayed in the same range of 3 months in the band of 6.15-6.20 and entire money market curve was almost flat in month of August. However dated curve traded in a narrow range with 10 year benchmark range of 6.47 – 55. The range has gone on higher side in yield terms by 5 bps as upward inflation numbers pushed the yields higher which was checked by lower growth numbers to make sure that dated curve and corporate bond traded in a narrow range. We however expect markets to trade in a narrow range ahead of FED policy where UST yields have declined from 2.30 to 2.10 in august which aid's more FII inflow in debt and hence markets would continue to trade in a range. Aug month saw net debt inflow of 12694 crs whereas outflow in equity was to the tune of Rs12632 crs making FII inflow in capital markets to neutral.

Outlook

After RBI's cut of 25 bps we see markets to trade in narrow range. Any further substantial movement will be dependent on data and global news flow. Inflation readings below market estimates albeit on higher side would keep the market in tight range and look for further cues on rate cuts if FED policy is dovish and global liquidity not impacted. However risks especially in form of global factors like geo political risks of US – N Korea - China will keep the markets in a less than 100% optimistic mode. Basis on all of the above UST and ST to be most attractive product at current juncture followed by duration products for 6 -9 months perspective as we believe there will be one more final rate cut for this year before rate easing cycle stops, however they are suitable only for those investors who can digest volatility. On a ongoing basis, liquidity looks to be comfortable, with system being flush with funds. 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
Head – Fixed Income

Equity Market Commentary

Indiabulls MUTUAL FUND

August 2017

Key Domestic News

* India's Q1FY18 GDP growth slowed to 5.7% y-o-y, from 6.1% in Q4FY17, contrary to consensus expectations of a pick-up to 6.5%, largely due to GST related uncertainty. GST related effects are expected to be transient, a sharp bounce back is expected in next 2-3 quarters.
* Current Monsoon season is almost 75% over. Cumulative rainfall till August 28th was 5% below LPA, which is within the normal range. Northwest, Central and South India are rain deficient by 4%, 7% and 9%, respectively. East and Northeast India continued to remain normal. Overall, the current progress suggests that monsoon rains should be normal in 2017 and augurs well for rural economy.
* India and China agreed to an "expeditious disengagement" of troops in a disputed area of Doklam plateau near the borders of India, Bhutan and China where the soldiers were locked in a stand-off for more than two months.

Key Domestic Economic Data

* India's manufacturing PMI jumped to 51.2 in August from 47.9 in July, indicating that GST related disruption in July are assuaging. India's services PMI improved to 47.5 in August from 45.9 in July, although the pace of improvement was moderate, reflecting the GST related uncertainty on services sector.
* India's CPI inflation for July came in at 2.36% higher than consensus expectation of 2.05%, and up from 1.5% in June, on higher vegetable prices and a pick-up in core inflation owing to GST. Analyst expect CPI inflation to be within RBI's target range of 4%.
* India's IIP growth for June 2017 came in at -0.1% vs consensus estimate of +0.1%, de-growing first time in four years. FYTD IIP growth is at 1.8% vs. 7.3% last year, impacted by weak manufacturing growth due to GST related uncertainty. July IIP is also expected to be tepid.

Key Global Events

* Geo-politcal tensions again shot up when North Korea conducted its sixth and most powerful nuclear test which it claimed was a hydrogen bomb for an ICBM.
* The second estimate of US Q2 GDP growth came in even stronger at 3% vs consensus expectation of 2.8% and 2.6% prior estimate.
* Minutes of US FOMC meeting indicate that most participants backed starting of balance sheet winding down process at an upcoming meeting. Many FOMC members though had reservations regarding too low inflation and wouldn't mind caution on further rate hikes.
* Bank of Canada surprised the markets by raising its benchmark overnight rate 25 basis points to 1%. "Recent economic data have been stronger than expected," the Bank of Canada said. It's the 2nd rate hike in as many meetings.

Outlook

* Q1FY18 GDP came in weaker then expectation. Many high frequency economic data for the month of June & July have also registered weakness due to GST implementation issues. However, PMI data for month of August are showing definite signs of improvement. We expect significant recovery over next few months in these indicators. Q2 GDP growth is expected to be weak; we expect strong bounce back from H2FY18 onwards.
* Q1 FY18 results season ended in disappointment with nearly 2/3rd corporates coming up with below expectation financials. However, we expect Q2 to be much better, as GST related uncertainty ebbs, and early onset of festival season this year should boost demand significantly. We expect strong recovery in corporate earnings from H2FY18 and would be watching September quarter results for early indications.
* Monsoon is expected to be normal in 2017, though distribution is no longer uniform. On an overall basis, this augurs well for food inflation and rural demand.
* We continue to be positive on Indian equities over medium to long term. STPs and SIPs should be preferred route.
* Any escalation of Geo-Political risk involving North Korea is the key risk over short term.

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