# FACTSHEET
## DECEMBER 2014

Indiabulls MUTUAL FUND

# DEBT MARKET COMMENTARY

| December | Opening | High | Low | Closing |
|---|---|---|---|---|
| Overnight Rate (NSE MIBOR) | 8.11 | 9.01 | 7.55 | 9.01 |
| 10 year Gsec | 8.06 | 8.06 | 7.83 | 7.86 |
| 3 month CDs | 8.28 | 8.50 | 8.28 | 8.48 |
| Currency | 62.02 | 63.68 | 61.79 | 63.04 |
| 10 Year US Treasury | 2.24 | 2.31 | 2.06 | 2.17 |

**Inflation**

Sharp decline in food articles pulled down the November CPI to all time low of 4.38 % as compared to 5.52% previously. We now have had 4 continuous month of falling CPI. Food beverages and tobacco group, which have 50% weightage, saw an inflation of 3.6% in November. With 0% WPI for month of November, Indian economy is seeing a WPI number which is 5 year low. The corresponding number for month of October 2014 was 1.77%. However, with strong base effect starting to reduce from now on, inflation prints will pick up. But the cause of comfort is sustained lower imported inflation ie lower crude oil prices. This will go a long way in preventing prices spiralling from out of control.

**Marcos**

GDP slowed down to 5.3% during july-september as compared to 5.7% of previous period. The (IIP) for October slipped to multi year low of -4.2 %. Manufacturing sector contributed the biggest fall, it stood at -7.6 % as against 2.5 % (month-on-month). The September IIP had come in at 2.5 p%. At $ 83.08 billion, the fiscal deficit during April-November period was 98.9 % of the 2014-15 estimate, mainly because of subdued revenue realisation. The fiscal during the same period last year was 93.9 percent of that year's target. As compared to October figure of $13.4 billion, Current account deficit at $ 10.1 billion for july-september 2014 was nearly double of $ 5.2 billion for the same period of previous year. At $ 16.9 billion, trade deficit widened to nearly 18 month high.

**Rates**

December month pressures on liquidity front were witnessed by the markets. Average liquidity support provided by RBI (Including LAF& MSF& SLF & Repos) during the month amounted to approximately 90,000 crores. Quarter end reserve requirements, advance tax payments, gilt auction payments etc kept the demand for money on higher side. However spikes in call rates were restricted due to continuous repo led cash injunctions in the system. December being a quarter ending month, 2 month CDs saw a wide range of 8.22-8.45. 1 year CDs were around 8.65 levels. 10 year sovereign ended the month at 7.86%. Although this is down by nearly 20 bps-markets witnessed volatility and 10 year during the month touched a intra day low of 7.78 and high of 8.11. RBI in its policy had indicated that its premature to change its policy stance and accordingly it had kept repo rate unchanged at 8.00%. However it did say that its open to rate action even outside the monetary policy review cycle, if inflation fall is sustained, the inflationary expectation is contained and fiscal developments are encouraging.

**Outlook**

Falling crude oil prices has made macros very positive for India, especially on inflation and deficits front. This has helped keep commodity prices in check. All this augur well for India. 2015 will witness the start of turnaround for higher GDP growth rates and lower rates. Market has rallied, but the good news is that it looks to rally further. Improving macros, controlled inflation and growth slowdown-all the 3 factors are in place and we grow more firm about our view that 2015 will see atleast 50 bps rate cut. The time is right and building duration is the sure shot way of earning good returns. Depending on individual risk-reward appetite, short term and long duration income/gilt funds looks to be best investment avenues right now. Short term fund will be a good avenue to enjoy a constant and non-volatile high carry, while simultaneously earning higher return to comparative fixed deposits. Income/ gilt fund with relatively longer duration will be a good avenue for those wanting to enjoy the rally and earn higher capital appreciation.

Sources: RBI, Bloomberg, In House Data

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## EQUITY MARKET COMMENTARY

### Key Domestic News

- The introduction of the GST bill in Parliament takes it a step closer to becoming a reality. Given that all states are on board with the draft amendment, markets expect the amendments to be passed in the budget session.
- To push reforms ahead, the government approved the ordinances on (1) Insurance Bill to raise the composite foreign investment limit in the sector from 26% to 49% (2) re-promulgation of an ordinance on Coal to facilitate e-auctions of 23 coal mines. (3) land acquisition law to make it easier for implementing a set of infrastructure projects.
- The government approved 100% FDI in medical devices under automatic route and eased FDI rules for the construction sector by permitting foreign investment in projects with a minimum built area of 20,000 square meters, down from a previous 50,000 threshold. The minimum capital investment by foreign companies has also been halved to US$5mn.
- The government notified rules for e-auction of cancelled coal blocks suggesting floor price for bidding and ceiling for power sector bidders.
- The government increased the excise duty on petrol and diesel second time by Rs. 2.25 & Re. 1, to shore up its revenues, instead of passing a full reduction in prices to consumers.

### Key Domestic Economic Data

- India's current account deficit for Q2FY15 has risen sequentially to $10.1bn or 2.1% of GDP from $7.9bn in Q1, ahead of our/consensus est. of $8.7bn/$9.4bn. This translates into H1 CAD of $17.9bn or 1.9% of GDP, which is fairly comfortable.
- India's November trade deficit widened to $16.9bn from $13.4bn in October (est. $13.9bn) led by a surge in gold and non-oil non-gold imports.
- Inflation has continued on a downward trajectory, with November WPI/CPI falling to 0.0%/4.4% (vs. 1.5% /4.8% est.) but off a high base, led by a sharp drop in food/fuel prices.
- IIP growth was a big disappointment, declining 4.2% in October led by weakness in the manufacturing sector.
- The central government's fiscal deficit reached 98.9% of the full-year target during the first eight months of FY15 (April-November) compared with 93.9% in FY14 and an average of 83% in FY12-FY13.

### Key Global Events

- The Fed kept its fund target range unchanged at 0-0.25% in the FOMC meet, with its commentary signaling no change in monetary policy. The Committee chose to be 'patient' and could maintain its current stance on monetary policy for the next couple of meetings at least. The Committee emphasized that any future course of action will be purely data dependent.
- In a bid to support its slowing economy, China's central bank announced that it would take more steps to boost banks' lending abilities, relaxing how they calculate their loan-to-deposit ratios by enabling them to add deposits from non-bank financial institutions.

### Outlook

- The collapse in oil prices augurs well for India; assuaging remaining concerns on twin deficits & Inflation. Also, the resultant fall in subsidy burden gives breathing space to Government to support nascent economic recovery.
- With global liquidity expected to remain benign, weak commodities prices strengthen the India story considerably.
- We remain optimistic on Indian equities over medium to long term.
- We would be keenly watching ECB meet on January 22nd for QE decision & election outcome in Greece on Jan 25th
- Sharp slowdown in China & Japan, central government's failure to push through big ticket reforms and a reversal in crude oil prices are the key risk to our outlook.

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