Debt Market Commentary

Indiabulls MUTUAL FUND

December 2016

31st December	Month Opening	Intra Month High	Intra Month Low	Month Closing
Overnight Rate (NSE MIBOR)	6.28	6.48	6.17	6.25
10 year Gsec	6.21	6.59	6.20	6.51
3 month CDs	6.00	6.30	6.00	6.20
6M CDs	6.30	6.50	6.20	6.45
12 month CDs	6.35	6.50	6.30	6.50
Currency	68.34	68.34	67.35	67.92
10 Year US Treasury	2.45	2.60	2.34	2.45

Inflation

Retail inflation as measured by CPI (consumer price index) for November 2016 fell by more than 60 bps and came at 3.63% as compared to 4.20% of October. This number is two year low. Steep fall in food prices caused such a sharp fall in inflation. According to Consumer Price Index (CPI) data released by the Central Statistics Office (CSO), the fall in retail inflation was mainly due to a drop in the annual food inflation by nearly 120 bps to come in at 2.56%. Prices of vegetables fell the most, they plunged by more than 10.00%. Core CPI inflation flat at 4.9% in November 2016 indicates the stickiness of the same. Demonetisation on 8th November and resulting cash crunch has curbed demand. Wholesale Price Index (WPI)-based inflation fell to a four-month low of 3.39% in October 2016 from 3.57% in the previous month. The Wholesale Price Index (WPI)-based inflation eased for the third straight month to 3.2% in November 2016 from 3.4% in October 2016.

Macros

India's trade deficit widened to $13 billion as compared to $10.2 billion in October, led by faster growth in imports as compared to exports growth. Imports totalled $ 33 billion in October, which represented a 10.4 % increase yoy. Meanwhile, exports growth lost steam, rising by miniscule 2.3% yoy. India's export totalled $ 20 billion, which is the smallest amount Jan 2016. India's fiscal deficit-difference between revenue and expenditure for the eight month during April-November 2016 was Rs 4.58 lakh crores and touched 85.8% of the budgeted figure of Rs 5.34 lakh crore budget estimates for the entire year.

Liquidity and Rates

Extremely eventful month with RBI surprising the marked which was expecting a minimum 25 bp cut in the policy. Everything across the curve and the maturities retraced most of the gains. 10 year gsec yield spiked to 6.50 from the month open level of 6.20%. 3, 6, 12 month CDs also spiked by approximately 20-30 bps. Monetary Policy Committee stance, us fed hike and macro economic stability all combined together leading to spike in yields all over. Value buying, favourable domestic inflation data expectations and liquidly based demand for dated bonds prevented further spike in yields. Liquidity was in surplus with, money parked with RBI being more than 1.6 lakh crores. The Reserve Bank of India's (RBI) Monetary Policy Committee (MPC) kept the key repo rate unchanged at 6.25% in its meeting on December 7, 2016. The RBI believes that the upside risks remain as the impact of rising global oil prices and rupee depreciation on imported inflation and the effect of the Seventh Pay Commission payout on consumer demand are not yet visible. The RBI has now set its CPI inflation estimate for January-March 2017 at 5%, with lower upside risks than perceived earlier. It has also pulled down its 2016-17 GDP growth forecast by 50 bps to 7.1%.

Outlook

Rising yields in usa and rapidly changing macros domestically will keep the markets volatile. Markets will witness regular bouts of profit booking by those investors who entered at the earlier stages of rally. In immediate terms till rate action no rapid movement will be seen rates. Basis this, long maturity funds will be suitable for those who can withstand extreme volatility. So even though from medium term perspective we continue to expect rate cuts and resulting fall in yields, the ride is gonna be volatile and not bound by predefined timelines. Liquidity looks to be comfortable and that should support the markets. Add to that demonetisation and subsequent increase in savings in white formal economy. This boost and resultant change will drive a lot of savings to be financialized instead of being in gold and real estate. Basis all this, markets will stay supported. 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.

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Head – Fixed Income

Equity Market Commentary

December 2016

Key Domestic News

* With old currency deposit window getting closed, almost Rs. 15 lakh crore are back into the banking system. With re-monetization in full swing, Metros & Tier 1 cities are nearly back to normal and things are improving quickly in Tier 2 cities & beyond. We expect near normalcy to return within next few months and consumption should bounce back as well in next few quarters.
* In further relief to people hit by demonetization, the RBI gave borrowers another 30 days over and above 60 days for repayment of housing, car, farm and other loans worth up to INR 10mn the RBI said in a notification. So, borrowers together get 90 days breather from getting the account classified under non-performing asset (NPA) category. The above dispensation will apply to dues payable between 1 November and 31 December 2016, the notification said.
* Indian Railways is likely to have its highest plan outlay of around Rs 1.35 lakh crore for the next financial year, as per media reports. The national transporter plans to seek almost Rs 60,000 crore from the finance ministry as gross budgetary support and another Rs 25,000 crore from LIC as loan. The remaining amount will be raised by the Indian Railways Finance Corporation bonds, internal resources and public private partnerships (PPP).

Key Domestic Economic Data

* India's IIP growth for October 2016 came in at -1.9% below consensus estimate of +1%. Growth for September 2016 stood at 0.7% and 9.9% a year ago. It was a weak performance across all the three sub-segments. FYTD IIP fell -0.3% vs. 4.9% growth last year, led by lower mining and manufacturing output.
* CPI inflation moderated to 3.6% y-o-y in November, from 4.2% in October, lower than expectation of 3.9%. Except for fuel and clothing inflation, other segments recorded lower inflation owing to good monsoons and cash crunch due to demonetization.
* Reflecting the impact of demonetization, India's Manufacturing PMI fell to 49.6 in December from November's reading of 52.3, marking the first contraction since December 2015. India Services PMI came in at 46.8 in December, little-changed from November's reading of 46.7. We believe this slowdown in private sector economic activity is transitory and should improve over next few months.

Key Global Events

* The US FOMC, as expected, hiked rates by 25bps to end the year, moving the Fed Funds target to 0.5-0.75%. The vote to hike was unanimous. The Fed now expects three 25 basis point rate hikes next year vs. a previous estimate of just two.
* The ECB left the key interest rates unchanged. However, it initiated the process of tapering the QE with current pace of €80B in asset purchases per month slowing to €60B beginning April17, and will continue as necessary until the end of 2017.

Outlook

* We believe that worst of economic effects of demonetization is over and expect a gradual recovery over next few months as currency crunch eases in broader economy.
* Over short term, we are cautious on the equity markets and will be closely watching the pace of recovery from short term effects of demonetization. Also, uncertainty around US economic policies under Trump administration, spate of general elections in Europe and concerns on flight of capital out of China are an overhang. Union Budget & outcome of UP elections would be keenly watched.
* Indian macros are stable, should get stronger going forward. Government's reform agenda continues unabated. Medium to long term outlook for Indian equities remains fairly robust. Next few months can be a good time for staggered investments in Indian equities

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