Indiabulls MUTUAL FUND

DEBT MARKET COMMENTARY

December	Opening	High	Low	Closing
Overnight Rate (NSE MIBOR)	8.30	8.35	7.53	7.53
10 year Gsec	7.88	7.90	7.69	7.69
3 month CDs	8.48	8.50	8.37	8.52
6 month CDs	8.70	8.70	8.50	8.55
12 month CDs	8.60	8.60	8.60	8.58
Currency	63.36	63.57	61.41	61.87
10 Year US Treasury	2.11	2.11	1.64	1.64

Inflation

Rise in food prices pushed up the December 2014 CPI to 5.00%, up from 4.4% of November, which was lowest since the new series of Consumer Price Index was released in January 2012. Reversing 6 months falls, WPI came at 0.11 % as compared to 0.00% in the month of November 2014. Increase in price of food items were a factor for these. Food inflation was at a 5 month high of 5.2%.

Macros

After contracting 4.2% in October, industrial production increased at a five-month high of 3.8% in November. Mining, manufacturing and electricity productions all rose in November-it was only the consumer durables sector output that fell. Subdued revenue collection was one of the factors for rise in fiscal deficit. Fiscal deficit was Rs. 5.32 trillion during April-December 2014. Highlighting tight financial position of the government, fiscal deficit was 100.02% of budgetary estimate as compared to 95% for the comparable period of previous fiscal. Trade deficit for Apr-Dec 2014, primarily caused by falling exports shot up to an estimate $110.05 billion as compared to $107.08 billion of Apr-Dec 2013. For month of december, it was at a multi month low of $ 9.43 billion as compared to $16.86 billion of November 2014.

Liquidity / Rates

With RBI following a systematic process to handle liquidity in markets, any extremes on either side of the spectrum have become a rare occurrence. Liquidity for month was managed by regular term repos as and when required. Average liquidity support by RBI for January was approximately 92000 crores. Intra quarter money markets instruments have seen lower rates and having been trading in a narrow range. Gilts traded in a narrow range and post the rate cut there was action on that front.

Outlook

In an anticipated albeit surprising move RBI did 25 bps rate cut ion repo on 14th January-taking it to 7.75 from 8.00. With this we have entered the rate cut cycle. Although it's going to be data dependent, primarily driven by inflation trajectory and fiscal consolidation steps the next trigger for rate cut is the budget of February. With inflation for FY 15-16 looking to be well below 6.00%, and other macros looking positive, we expect a minimum of 50 bps rate cut for FY 15-16. Quarter crossing CD issuances will start now and we might see a spike in rates over there. Historically the last quarter of the financial year sees higher than normal liquidity tightness and subsequently short term money market instrument rates also tend to be on a higher side. 2-3 months CDs can cross 8.75 and possibly touch 9.00 if liquidity gets substantially tighter, and no corresponding support comes from rbi. With rate cuts having started, its only the question of now what intervals that they will happen. Resultantly, long bond rates will gradually shift downwards due to absence of any immediate negatives. Short term fund will be a good avenue for those looking to lock high accrual and enjoy a constant and non-volatile high carry, while simultaneously earning higher return to comparative fixed deposits. Income/ gilt fund with relatively longer duration and overweight to a higher proportion of long maturity bonds/gsecs, will be a good avenue for those wanting to enjoy the rally and earn higher capital appreciation.

Sources: RBI, Bloomberg, In House Data

Malay Shah
Head-Fixed Income

Indiabulls MUTUAL FUND

EQUITY MARKET COMMENTARY

Key Domestic News

- In a surprising move, the RBI lowered repo rates by 25bps, way ahead of market expectations of rate cuts post the budget. Comfort on inflation, thanks to falling commodity prices, and the Government's commitment to fiscal deficit targets underpinned this preemptive measure.
- In a landmark visit, US President Barack Obama and PM Narendra Modi managed to put the civil nuclear deal to work, took defense cooperation up another notch, besides US endorsing India for a permanent seat on the UN Security Council.
- In a major decision, Government decided not to appeal against the Bombay High Court decision in the Vodafone tax dispute. The High Court had in October ruled that Vodafone was not liable to be taxed in India in a transfer pricing dispute with the tax department. This is a big step in re-assuring foreign investors about the stability of tax regime in the country.

Key Domestic Economic Data

- Following a sharp contraction in Oct'14 (-4.2%), IIP growth in Nov'14 recovered sharply to 3.8% and stood better than consensus estimates of +2.5%.
- CPI inflation for Dec'14 rose to 5.0% but stood better than consensus estimates of 5.3%. The pick-up was purely led by food inflation. WPI inflation for Dec'14 also came in at 0.1%, lower than consensus estimates of 0.5%. This was a marginal inch-up from zero inflation reported in Nov'14.
- India's trade deficit for Dec'14 came in at a 10-month low of $9.4bn (Nov'14: $16.9bn) on a sharp decline in crude and gold imports. This brought down overall imports by 4.8% YoY, even as exports failed to pick up (-3.8% YoY) amid weak global demand and falling commodity prices.
- The OECD growth momentum indicator for India has improved for the eleventh consecutive month to 99.5 in Nov'14 from 99.3 in Oct'14. The OECD report suggests that India is the only country in the BRIC bloc to witness a pick-up in growth momentum.
- India's manufacturing PMI eased to 52.9 in Jan'15 from a two-year high of 54.5 in Dec'14 This is more of a consolidation after the strong pick up in Q4 2014, and we expect the positive momentum to carry into 2015.

Key Global Events

- In Greece elections, the left-wing, anti-austerity Syriza party took power after an unexpected strong mandate. This brings 'GREXIT' on the table again. This win also has a possibility of cascading effect on other countries like Spain & Italy, where anti-euro parties are gaining traction.
- The US Fed reiterated it would be "patient" in raising interest rates but that rate hikes were "likely to occur sooner than currently anticipated" in the event of faster progress toward the FOMC's employment and inflation objectives. It was an indication that the Fed is ready to be more hawkish than expected if necessary.
- The ECB unleashed 1.1 trillion euros of quantitative easing (QE). Its expanded asset purchase program will be worth €60B per month and will stay in place until at least September 2016, but will remain as long as is necessary to bring inflation up to the 2% target.

Outlook

- We remain optimistic on Indian equities over medium to long term. However, over short term there can be volatility around negotiations between Greece and its official creditors over the terms of Greece's support program. We believe that any fall in the markets over Greece is an opportunity to buy.
- The collapse in oil prices augurs well for India; assuaging remaining concerns on twin deficits & Inflation. Also, Government's resolve to push through serious economic reforms, determined focus on quality fiscal consolidation and RBI's change in monetary stance, augur well for the economy over medium to long term.
- With global liquidity expected to remain benign, weak commodities prices strengthen the India story considerably.
- We would be keenly watching developments in Eurozone over Greece, and Indian railway budget and union budget.
- Sharp slowdown in China & Japan, any accident in Eurozone, central government's failure to push through big ticket reforms and a reversal in crude oil prices are the key risk to our outlook.

Sumit Bhatnagar, CFA
Fund Manager - Equity