FACTSHEET
JULY 2015

Indiabulls MUTUAL FUND

DEBT MARKET COMMENTARY

July	Month Opening	Intra Month High	Intra Month Low	Month Closing
Overnight Rate (NSE MIBOR)	7.89	7.89	7.55	7.60
10 year Gsec	7.82	7.87	7.75	7.81
3 month CDs	7.75	7.75	7.50	7.50
6M CDs	7.97	7.97	7.72	7.72
12 month CDs	8.05	8.05	7.90	7.90
Currency	63.61	64.16	63.38	64.14
10 Year US Treasury	2.35	2.44	2.23	2.28

Inflation

June CPI surged to 5.4% as compared to May 2015 number of 5.01%. This number was substantially higher than market expectations of 5.10%. Food inflation was the cause here, with it coming at higher than expected levels-at 5.73% as compared to 5.13% of May. WPI for June 2015 came in at -2.36 %, being negative for the eighth straight month in June 2015. As per the revised data, the inflation figure for April 2015 was scaled up to (-) 2.43% from (-) 2.65% reported provisionally. The focus now shifts to August rains after a relatively dry July. July and August are the critical sowing months. July has disappointed at 85% of normal rainfall, and any deficit in august rainfall will further exacerbate the agri-inflation scenario. Additionally hike in inflation due to enhanced services tax rates is still to play out and we may witness it displaying hardening tendencies. However, we believe CPI inflation is largely on track to average 6% in Q4 FY16, with a temporary dip near 4% in August.

Macros

Industrial growth for May 2015 was very weak at 2.7%. The market consensus was at 4.0% as compared to 3.4% last month. In fact, April industrial growth itself has been revised down to 3.4% from 4.1% earlier. Manufacturing slipped to 2.2% in May from 4.2% in April. Capital goods production fell to 1.8% from 6.8% in April. Intermediate goods production declined to 1.2% in May from 2.5% in April. Consumer goods production also declined to -1.6% in May from 3% in April. Basic goods production however witnessed a pickup at 6.4% in May from 2.8% in April.

Liquidity / Rates

Temporarily awash in liquidity-that's the single line that conveys the market for the month. The overnight rates were softer and below the operative rate of 7.25% for the most of the days of month. 3 month CD rates fell from 7.75 to 7.50 levels. 1 year segment also saw a dip in yields from 8.05 levels to 7.90 levels. RBI conducted regular repos/reverse repos to keep the levels in an optimal band and maintain smooth liquidity. Substantial government spending, low credit offtake is keeping the system in a very comfortable zone as far as liquidity is concerned. The RBI thought process here might be to make money available to borrowers at cheaper rates by keep the money in system at comfortable levels. Thus by without cutting rates, easy liquidity is resulting into cheaper money being made available. 10 year sovereign fluctuated in a very narrow 10 basis range and at month end was at virtually same level where it opened.

Outlook

We need to understand and appreciate that this government is different and is proactive. We do not foresee government using the RBI to fight inflation from a rain shock if any. It will deploy supply side measures effectively (with huge buffer stock available) in case of any agrarian crisis. Basis this poor monsoon (if any), would not result in a painful food inflation. Additionally softening commodity prices and Iran deal, these two global factors will go a long way in creating a more favourable economic environment on domestic front. Greek issue has also been resolved and even though the pain has been postponed, for the time being there is a closure. Lastly, US FED hike, it is nearly discounted in the markets, and any reactions at the time of exact lift off-will be more of knee jerk temporary reactions rather than a lasting painful pattern being set. This brings our focus to the domestic factors, which suggest that even though markets are witnessing bouts of enhanced volatility, things might be getting interesting from duration perspective. So, even a absence of rate cut in august policy but with a mildly dovish statement will set the stage for returning of positive sentiment to the markets. Intermittently elevated levels should be utilized to take a tactical albeit part exposure to duration-they will generate smart returns over medium term. But its only for those investors, who can ride the volatility. Risk and volatility averse investors should focus on accrual led constant income created by higher yields. Thus, 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 as compared to fixed deposits.

Malay Shah
Head – Fixed Income

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EQUITY MARKET COMMENTARY

Key Domestic News

- After Swachh Bharat and Make in India, Prime Minister Narendra Modi unveiled his two fresh initiatives, Digital India and Skill India. Digital India aims at creating an information superhighway and making government and public services available at fingertips for any ordinary mortal of the country. Skill India aims at upgrading technical skills of masses and make them employable globally.
- Much of the monsoon session of parliament was washed out as opposition continued with its demand for resignation of Union Minister Sushma Swaraj & Chief Ministers of MP & Rajasthan
- India's monsoon rainfall disappointed in July after a promising start in June. Cumulative rainfall is currently 3% below LPA, with July rains 15% below normal.

Key Domestic Economic Data

- CPI inflation rose to 5.4% y-o-y in June from 5.01% y-o-y in May, significantly above expectations of a 5.1% reading. Core inflation rose to 5% y-o-y from 4.7%, owing to the service tax hike and higher fuel costs. Food price inflation jumped to 5.73% from 5.13%, owing to higher protein food price inflation and a sharp rise in vegetable prices. WPI deflation continued for the eighth consecutive month in June at -2.36% y-o-y, unchanged from May.
- May 2015 IIP growth remained weak and below expectations at 2.7% reflecting persisting economic weakness despite positive support from mining and electricity in that month. April IIP growth was revised lower to 3.4%.
- The trade deficit widened marginally to USD10.8bn in June from USD10.4bn in May, below expectations. Export growth contracted by 15.8% y-o-y in June versus 20.2% in May, while import growth fell 13.4% versus -16.5%. A large part of the weakness in both exports and imports is price driven. Global demand remains subdued, but rising import volumes suggest that domestic demand is recovering.
- Indian manufacturing activity expanded at its fastest pace in six months in July as new export orders accelerated. The Nikkei Manufacturing Purchasing Managers' Index (PMI), compiled by Markit, rose to 52.7 in July from June's 51.3, bucking weakness seen across much of the rest of Asia.

Key Global Events

- CRB Commodity Index (CRY) a key benchmark of global commodity prices fell below the 2009 crisis low of 200.17. While it is positive for commodity importer like India, it also reflects weakness in global economy.
- World markets breathed a sigh of relief as euro zone leaders clinched a deal with Greece to negotiate a third bailout to keep the near-bankrupt country in the euro zone after all-night talks at an emergency summit.
- US FOMC continue to see an improving economy and labor situation, suggesting the possibility of a hike at the next meeting (mid-September) is on the table.

Outlook

- Over short term, we continue to expect volatility due to concerns on China, US Fed rate hike decision, expectation of parliament logjam on land acquisition & GST bills and expectation of weak corporate earnings.
- However, we believe that economic cycle in India is slowly, steadily turning around and quality of Indian macros has improved significantly. Investment cycle is picking up gradually, is expected to pick up pace over next few months. GDP growth and corporate earnings should also see some improvement over next few quarters.
- The ongoing correction is good opportunity for investors with medium to long term horizon. .
- Hard landing in China, weak monsoons, central government's failure to push through big ticket reforms and a reversal in crude oil prices continue to be key risks to our outlook.

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