DEBT MARKET COMMENTARY

Indiabulls MUTUAL FUND

July 2016

July	Month Opening	Intra Month High	Intra Month Low	Month Closing
Overnight Rate (NSE MIBOR)	6.40	6.59	6.25	6.59
10 year Gsec	7.42	7.43	7.16	7.16
3 month CDs	7.00	7.00	6.60	6.60
6M CDs	7.15	7.15	6.90	6.90
12 month CDs	7.40	7.40	7.22	7.22
Currency	67.32	67.46	66.91	67.00
10 Year US Treasury	1.46	1.60	1.37	1.46

Inflation

Retail inflation as measured by CPI (consumer price index) for June 2016 was flat at 5.77% as compared to that of May 2016 which was at 5.76%. Like before, continuing food inflation, especially in cereals pulses vegetables and sugar, was major cause which prevented inflation from dipping. Above average monsoon and active steps taken by government especially in removing the bottlenecks on the supply side should help rein in the food inflation in coming months. WPI (wholesale price index) rose sharply and again hit a new high by coming at 1.62% as compared to 0.79% in May.

Macros

India's Index of Industrial Production (IIP) Industrial growth, recorded 1.2% growth in May 2016, after declining 1.3% (revised from -0.8% earlier) in the previous month. Manufacturing sector, which is bulk of IIP gave a positive growth of 0.7%, after declining consecutively in the previous two months. Trade deficit came at just below 8.2 billion dollars. After a long time, exports witnessed a growth, coming in at 1.3% as compared to -0.80 % previously. Imports slipped -7.3%.

Liquidity and Rates

As compared to borrowing from RBI's to the tune of approximately 40,000 crores in previous month, July witnessed a reversal of sorts and it was lent approximately 10,000 crores. RBI's commitment to keep the liquidity in comfortable zone is working out. Regular government spending and regular liquidity infusion all these combined kept the call rates below the repo rate of 6.50%. Infact to prevent the rates from falling too low, RBI conducted reverse repo auctions. A bit of pressure due to indirect tax outflow and state loan auctions, aided to keep the rates in a narrow band. 1-2 months CD were down from 7.00 to 6.50 levels as is usually seen during the quarter crossing. Aided by sufficient liquidity rates remained lower. 1 year CDs were down from 7.40 levels to 7.20 levels. Long dated gilts and corp bonds also were riding a good rally and markets witnessed a sizeable fall in market yields. 10 year gilt, the benchmark closed the month at 7.16 levels, which was very sharp and profitable fall in yields.

Outlook

Good monsoon, downward pressure on global oil prices, uncertain global economic outlook, negative interest rates policy followed by ECB and BOJ, and reluctance on part of US FED to raise rates- all these will make sure that RBI maintains it's accommodative stance going ahead. Monsoon has been above average, and food inflation should trend down in months to come, add to that lower oil prices will control inflation as well as control the deficit. With things moving ahead on GST front, one of the biggest structural reforms taking concrete steps to finishing line-things look good going ahead. Even if rates are not cut in august, the accommodative policy along with comfortable liquidity is going to be the way forward of RBI for near future. There might be phases of temporary volatility and bouts of weakness, however yields seem to be on a downwards trend. Existing investors are recommended to stay invested in medium to long duration space. For new investors short term fund offers a wonderful vehicle to earn high constant accrual and a chance to participate in rate action led capital appreciation. Liquid and ultra short term fund, as always will be vehicles for smart utilisation of temporary surpluses.

Malay Shah
Head – Fixed Income

July 2016

Key Domestic News

- After being subject to months of debate and bargaining, Rajya Sabha finally passed the Goods & Services Tax (GST) Amendment bill, which is a first step towards final clearance of GST Bill likely to be passed in winter session. It would improve the 'ease of doing business' considerably and has potential of upping the GDP growth by 1-2%.
- After a deficient June, July saw the country receive 6.6% more rains than the normal long-period average (LPA). Rainfall as a whole is expected to be 107% of the LPA for August-September. Sowing also picked up strongly. According to the agriculture ministry, cumulative sowing as on July 29 stood at 799.51 lh, higher than the 752.29 lh last year.
- Indirect tax collections for Q1FY17 rose by 30.8% y-o-y, substantially above the 10% y-o-y full-year budget target, reflecting better growth and also higher tax rates. This should offset some of the fiscal concerns from the seventh pay commission wage hikes and the government's ambitious asset sales targets.

Key Domestic Economic Data

- India's manufacturing PMI improved to 51.8 in July from 51.7 in June. The new orders index rose to 53.2 in July from 52.9 in June, its fastest pace of expansion since March, supported by both stronger domestic as well as external demand.
- CPI inflation remained high at 5.8% y-o-y in June, running well above the RBI's target of 5% by March 2017. April-June average CPI is at 5.7% vs. 5.1% last year.
- Index of Industrial Production (IIP) for the month of May came in at 1.2% versus a contraction of -1.35% in April. FYTD, IIP growth is -0.1% vs. 2.8% last year.
- India's core sector expanded 5.2% in June compared with a 2.8% rise in May. Coal output grew the fastest at 12% followed by cement whose output rose 10.3%. Crude oil and natural gas were the only two sectors where production declined in June by 4.3% and 4.5%, respectively.

Key Global Events

- China's economy grew 6.7% Q2CY16, steady from the previous period and slightly better than forecasts as a string of government stimulus measures helped shore up demand. While fears of a hard landing have eased, mixed activity data for June released along with GDP pointed to the risk of slowing economic momentum later in the year.
- As expected, US FOMC left the policy unchanged - the Fed Funds rate remaining at 0.25-0.5%. According to Fed watchers, statement was slightly hawkish. Statement like "Near-term risks to the economic outlook have diminished." Indicate that policy action in September meeting is clearly on the table
- US GDP growth came in at 1.2% in Q2CY16 after rising by a downwardly revised 0.8% in the first quarter. Economists polled had forecast GDP growth rising at a 2.6% in the last quarter.

Outlook

- Global liquidity conditions continue to remain benign, we expect expanded QE from ECB and Bank of England. We expect US and Japan to start fiscal stimulus as well.
- India is one of the best placed among large economies in the world in terms of demographics, demand, growth etc. Indian economy is well on track to its slow & steady recovery.
- Strong domestic macros, progress on big ticket economic reforms(GST), early signs of demand recovery, huge long term opportunity and benign global liquidity environment augur well for Indian equities over medium to long term.
- We maintain our positive stance on Indian equities. Any short term volatility around global factors should be utilized by investors to build high quality portfolio in Indian equities.
- Follow-on effects of BREXIT, uncertainty around China, and a reversal in crude oil prices continue to be key risk to our outlook.

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