FACTSHEET
JUNE 2015

Indiabulls MUTUAL FUND

DEBT MARKET COMMENTARY

June	Month Opening	Intra Month High	Intra Month Low	Month Closing
Overnight Rate (NSE MIBOR)	7.70	7.70	7.09	7.28
10 year Gsec	7.64	7.89	7.64	7.86
3 month CDs	7.80	7.84	7.65	7.65
6M CDs	8.05	8.07	7.88	7.88
12 month CDs	8.20	8.20	8.05	8.05
Currency	63.70	64.24	63.52	63.65
10 Year US Treasury	2.12	2.50	2.19	2.33

Inflation

CPI for May witnessed a slight surge to 5.01 %, up from a 4 month low , while April closed at 4.87 %. Core inflation continued its upward move for the second consecutive month, rising upto 4.4% for May from 4% of April. At -2.36 % WPI for May, it was a slight spike over -2.65% of April. In current month also, food inflation provided a little bit of relief falling to 5.1 % from the previous 5.4% for May. Monsoon still continues to be a major factor, and a poor spell could cause a spike in the numbers However a proactive government can control any bottlenecks in food supply, so overall, inspite of an uncertain outlook, food inflation outlook can turn out to be better than expected.

Macros

Industrial production growth for April, 15 was a huge, albeit positive surprise; 4.1% growth as against a more conservative consensus expectation of 1.5%. March 2015 had reported a growth of 2.53%. This reflects a pickup in manufacturing, however, it needs to be seen if the momentum continues going ahead. The fiscal deficit for the first two months ie April-May touched nearly 37% of the entire fiscal year's target ;this is quite better than 45% for the same period of previous year. The trade deficit for May 2015 narrowed and came at USD10.4bn, slightly lower than USD 10.99 in April 2015.

Liquidity / Rates

Average liquidity support by RBI for all forms for June was approximately 53000 crores, as compared to 108000 crores in May. The overnight rates were near to the operative rate of 7.25% for the most of the days of month. 3 month rates fell from 7.80 to 7.60 levels. 1 year segment also saw a health dip in yields from 8.20 levels to 8.05-8.00 band. No spike in yields for money markets was seen this time, even though it was a quarter end. The system is flush with liquidity, led primarily by gilt redemptions, government spending and to an extent lower credit off take is keeping the banks with a sizeable investment surplus. RBI conducted regular reverse repos to keep the levels in a optimal band. RBI did cut repo rate by 25 bps in the policy, however the euphoria was pretty short lived as it had made it clear that further rate actions would be data dependent and lower than expected as rainfall continues to be a cause for concern. 10 year Gsec had a bad month and closed at 7.86, which is nearly 22 bps higher than the levels at the start of the month, apart from the fact that huge volatility was witnessed during the period.

Outlook

Even though RBI obliged the market by 25 bps cut in the repo on 2nd June Policy meet, it's policy statements reversed the market direction completely. It revised upwards the January 2016 inflation target to 6.00 from 5.8 earlier. Additionally RBI has expressed concern on uncertain monsoon and volatile external environment. Markets participants took this as a sign of hawkishness and a probable end of rate cut cycle. However our view is that monsoon worries seem to be overdone, because poor monsoon-high food inflation equation, can be controlled by government with effective utilization of buffer stocks. RBI has said its action will be data dependent, basis this a favourable monsoon might perk up the markets. Despite the negative bias in the markets, we think market is in extreme pessimistic mode. Weak growth will need kick starting of investments cycle and indirectly softer interest rates. Basis this, we don't see substantial upside risk to yields from here on. A range bound movement, with a positive bias is what our opinion is currently. For those investors, who can ride the volatility, long term story for capital appreciation remains intact. Making tactical allocations to duration schemes, by taking advantage of currently elevated levels, will generate smart returns over medium term. 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

- The Government announced a modest hike in minimum support prices (MSP) for agricultural commodities, which bodes well for the inflation outlook, and confirmed that the government's economic policies continue to prioritise economics over politics. On a weighted-average (CPI weights) basis, it is estimated that the aggregate MSP hike amounted to 3.5% in FY16 compared with an average of 4.0% during FY14-15 and significantly lower than 22% in FY13.
- Opposition is trying to corner Modi Government over Lalit Modi issue and scams in Maharashta & M.P. This does not augur well Monsoon session of parliament; where-in Land acquisition bill & GST are up for discussion.
- In a major relief, cumulative rainfall during this year's Monsoon has been 13% above the LPA till 30th June. However, IMD maintained its forecast of rainfall being 88% of the LPA for the entire season.

Key Domestic Economic Data

- CPI inflation came in at 5.01% YoY in May 2015 vs 4.87% YoY in April mainly owing to a rise in the 'Fuel and Light' and 'Miscellaneous' categories. WPI inflation contracted 2.36% y-o-y, printing negative for the seventh consecutive month.
- Industrial production growth surprised positively with 4.1% growth (expectation 1.5%) in April, reflecting a sharp pickup in manufacturing with strong gains in 16 of the 22 industry groups. In a signal of broad-based revival, growth in factory output ex-capital goods also doubled to 3.0% MoM.
- The trade deficit for May 2015 came in at USD10.4bn, slightly lower than April 2015. Exports and imports continued to contract by 20.2% and 16.5% respectively.
- India's manufacturing PMI slowed to 51.3 in June from 52.6 in May, as new business orders slowed down considerably.
- India's Services PMI contracted further to 47.7 in June from 49.6 in May.

Key Global Events

- Eurozone crisis returned to forefront, after 61% of Greeks voted 'No' in a referendum asking them to accept an international creditor proposal that would have included more austerity reforms. This puts GREXIT as a distinct possibility.
- China's stock markets fell nearly 30% in about a month, after concerns of slowdown in the economy resurfaced, worsening the selloff in emerging markets and commodities market.
- U.S. Fed trimmed its economic growth projections for this year, but left intact its intention to hike rates one or two times in this calendar year. However, Janet Yellen stated that far too much attention is being placed on the timing of the first rate hike when what's far more important is the pace of tightening, and at this point it's projected to be quite slow.

Outlook

- Over short term, we continue to expect more volatility due to concerns on Greece, 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. .
- GREXIT, 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 risk to our outlook.

Sumit Bhatnagar, CFA
Fund Manager - Equity