Debt Market Commentary

June 2017

30th June	Month Opening	Intra Month High	Intra Month Low	Month Closing
Overnight Rate (NSE MIBOR)	6.25	6.30	6.17	6.25
10 year Gsec	6.62	6.65	6.43	6.51
3 month CDs	6.38	6.38	6.30	6.30
6M CDs	6.58	6.58	6.50	6.50
12 month CDs	6.80	6.80	6.65	6.65
Currency	64.47	64.63	64.21	64.58
10 Year US Treasury	6.21	2.31	2.14	2.31

Inflation & Macros

Retail inflation as measured by CPI (consumer price index) for May 2017 declined by 81 bps as compared to April 2017, led by falling food & fuel prices. May CPI came in at 2.18% as compared to 2.99% in April 2017. Core CPI inflation (adjusted for food and fuel, but correctly including petrol and diesel) eased further to 3.9% from 4.1% last month. WPI (Wholesale Price Index) under the new series with 2011-12 as base year, dropped sharply to 2.17% as compared to April number of 3.85%. Revised IIP series with 2011-12 as base was released and came in at 3.10% as compared to 2.7% for April 2017. India's fiscal deficit touched 3.73 trillion rupees ($57.69 billion) during April-May period or 68.3 percent of the budgeted target for the current fiscal year that ends in March. The fiscal deficit was 42.9 percent of the full-year target during the same period a year ago. FOMC raised rates by 0.25% to 1.25% and is giving indications of trimming its balance sheet albeit gradually.

RBI Monetary Policy

In the latest policy, as expected, there were no rate changes. RBI preferred to wait out to see the effects of fiscal slippages and core cpi inflation cooling. It however acknowledged that the upside risk to inflation no longer persists and hence lowered its trajectory of inflation to 2.0 to 3.5 in first half and 3.5 to 4.5 in second half. It chooses to remain stay put on rate cuts but suggested that more benign data on CPI headline could open room for further rate cuts.

Liquidity and Rates

Excess liquidity in the system led to banks parking nearly Rs. 3.2 lakh crores on an average with RBI for the month of June. This surplus liquidity was evident in May as numbers were almost the same. Money markets however were range bound due to issuance of CMBs for liquidity tightening and to maintain overnight rates at policy rates. However dated curve saw quite a bit of rally post CPI numbers. New 10 year saw a rally of 20 bps by moving from 6.68 to 6.48 at the end of month. Forecast of good monsoon, lower inflation estimates, good FPI flows in markets led to a bullish momentum. Aiding the rally was an outlier expectation of rate cut in the upcoming policy and markets saw a good momentum.

Outlook

Macro economic factors are not pointing to strong growth going ahead, and market is expecting inflation to undershoot RBI's inflation targets. Going ahead there is a stronger case for rate cut in august policy due to near normal monsoon, lower core and headline CPI and tepid growth. Basis all this duration products will be attractive. On a ongoing basis, liquidity looks to be comfortable, with system being flush with funds. This will keep the short end of the curve constantly bought and hence offers a sweet spot. 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.

Malay Shah
Head – Fixed Income

Equity Market Commentary

Indiabulls MUTUAL FUND

June 2017

Key Domestic News

- As the country gets ready to roll out the Goods and Services Tax (GST) from July 1, there are apprehensions about the preparedness and its smooth roll out. For a landmark change like GST, some teething pains are always expected. We believe that implementation should smoothen out in next few quarters if not months.
- India has recorded 6% above-normal rainfall in the country since June 1, according to IMD data. Monsoon is expected to cover the entire country by July 15. IMD has forecasted a normal monsoon this year with all five regions expected to get normal rains.
- The government is working on a proposal to merge the Directorate General of Foreign Trade (DGFT) with Central Board for Excise and Customs (CBEC) to promote ease of doing business for exports and imports.
- The government is finally considering disinvestment in Air India and is looking at all options including 100% disinvestment, even as it is almost certain to take over a large part of the debt burden to make the airline more attractive to buyers.

Key Domestic Economic Data

- India's manufacturing PMI declined to 50.9 in June from 51.6 in May, primarily due to slow down in production and inventory de-stocking ahead of GST implementation, which we believe is transitory. Encouragingly, despite weak June PMI reading, the average manufacturing PMI improved to 51.7 in Q2 from 51.2 in Q1 2017, indicating that slowdown due to demonetization is getting over.
- CPI inflation fell sharply to 2.2% y-o-y in May from 3.0% in April month and 5.8% last year due to muted food inflation. Current inflation trajectory opens up space for a rate cut by RBI.
- IIP growth came in at 3.1% y-o-y in April, above consensus expectations of 2.7% growth, from 3.8% in March and 6.5% a year ago. Overall, IIP data was ahead of expectation despite the unfavorable base effect.
- Core sectors output grew 3.6% in May, higher than the 2.8% growth recorded in April, led by growth in refinery products and electricity output.

Key Global Events

- As expected the US Federal Reserve increased the Fed Funds rate by 25 basis points to 1%-1.25%. Also, the US Fed expects to begin shrinking its balance sheet at some point this year. While the expectation is that the balance sheet is cut "appreciably" below the current level, it will remain above pre-crisis levels.
- The ECB left its benchmark interest rates unchanged. Refraining guidance regarding further rate cuts the bank said it expects rates to remain at present levels for an extended period of time, indicating the slightly hawkish intent. Later, in a slightly hawkish speech, the ECB President Mario Draghi stated that "the central bank could potentially adjust its policy in response to improving economic conditions".
- According to media reports, President Trump is considering possible trade actions against Beijing over its inaction on North Korea and bilateral trade issues, including imposing tariffs on Chinese imports and placing restrictions on certain Chinese companies.

Outlook

- A reform as huge as GST would certainly have some teething troubles. However, we believe that any disruption would be for a short duration and is certainly bearable considering the long term benefits it accrues to government, corporates and consumers.
- Monsoon has been above average and reasonably well distributed so far. This is hugely positive for rural economy and food inflation.
- High frequency economic data are suggesting that economy is slowly coming out of drag due to demonetization. We expect strong economic recovery from H2FY18 onwards as economy recovers from disruption due to implementation of GST.
- Indian equities continue to be an attractive asset class. SIPs should be the preferred mode.

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