Debt Market Commentary

Indiabulls MUTUAL FUND

March 2017

31st March	Month Opening	Intra Month High	Intra Month Low	Month Closing
Overnight Rate (NSE MIBOR)	6.12	7.37	6.08	7.37
10 year Gsec	6.93	6.93	6.69	6.69
3 month CDs	6.26	6.30	6.10	6.10
6M CDs	6.45	6.45	6.25	6.25
12 month CDs	6.65	6.55	6.75	6.55
Currency	66.83	66.83	64.85	64.85
10 Year US Treasury	2.46	2.62	2.38	2.40

Inflation

Led by surge in food prices, retail inflation as measured by CPI (consumer price index) for February 2017 saw a upmove as compared to January 2017. February CPI came in at 3.65% as compared to 3.17% of January 2017. According to the CPI data released today by the Central Statistics Office (CSO), the consumer food prices index (CFPI) rose by 2.01% in February from 0.61% in January. Higher food and fuel prices led to rise in WPI (Wholesale Price Index). WPI for February jumped to 6.55% from January number of 5.25%. This WPI is a 3 year high. The concerning part is the core inflation which is proving to be sticky. Core inflation is hovering around 5% and could prevent any sustainable fall in inflation.

Macros

India's trade deficit narrowed further and came at to approx $8.89 billion as compared to $9.84 billion previously. Exports saw a jump of 17.48% in February 2017 to $24.49 billion. Imports grew 21.8% to $33.38 billion in February 2017. India's fiscal deficit-difference between revenue and expenditure, for the April-February period stood at Rs 6.06 lakh crore, or more than 113% of 2016-17 Budget estimates (BE), which is at 5.34 lakh crores. The fiscal deficit stood at 107% in the corresponding period of previous year as per then 2015-16 BE. India's factory output for January 2017, as measured by the IIP, jumped sharply by 2.70%, backed mainly by good performance of capital goods segment- as compared to negative growth of -0.40% previously.

RBI Monetary Policy

In the latest policy, RBI did not change the repo rate (at 6.25%). However it has narrowed the rate corridor. This was done by increasing reverse repo rate from 5.75 to 6.00. This will help align the call rates and anchor it above 6.00 and be more towards 6.25 rate, which is the current operating rate. Monetary Policy Committee stuck to the neutral stance and stated that further policy actions would be dependent on the incoming data and evolving macroeconomic variables. Markets reacted a bit adversely with this "tightening" tilt.

Liquidity and Rates

Excess of surplus liquidity in the system led to banks parking nearly 4.5 lakh crores with RBI for the month of March. Even interbank call market rates were persistently lower than the overnight rate of 6.25%. Many a times RBI had to conduct reverse repo to prevent rates from dipping substantially. 3 month CDs rallied from a high of 6.25 and closed at 6.10%. Sovereigns had a good run especially led by FII demand and continuous buying of nationalised banks. 10 year gsec rallied more than 20 bps and from a high of 6.93, it closed at a level below 6.70%. Year end valuation led profit booking also contributed to a dip in yields.

Outlook

Sustained reduction in fiscal deficit, sustained fight on inflation and sustained policy reforms – this three things are likely to be catalyst of positive structural changes in markets. Infact FIIs have been huge buyers in markets and they were on the reasons why 10 year yield didn't breach 7.00% mark, post the "hawkish" stance of the MPC. Market will continue to be well supported and even though a structural rally doesn't seem to be around the corner, a huge sell off is not currently on cards. However, this being the first half of financial year, there is going to be continuous supply of gsecs and hence a bit of pressure on yields. Add to that, lack of rate action clarity at least till monsoon present it's face and subsequent inflation cooling effects. All said and done, rallies will be short and sharp. Additionally hikes by US Fed are omnipresent factor and hence all this makes duration products suitable only for those investors who can digest volatility. On a ongoing basis, liquidity looks to be comfortable, with bank being flush with substantial deposits post demonetisation. 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.

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Equity Market Commentary

March 2017

Key Domestic News

* In a landslide victory, BJP and its allies won nearly 80% of seats in UP state assembly elections. The state elections were perceived as a test of PM Modi's reforms and his popularity going into the national elections, especially after demonetisation. The results suggest that the popularity of PM Modi remains high and augurs well for the general election due in 2019.
* India's fiscal deficit in the April-February period of the current fiscal touched Rs6.06trn or 113.4% of Budget estimates for 2016-17 - as against 107.1% of Budget in the same period of last year.
* RBI left repo rate unchanged at 6.25% and narrowed the monetary policy rate corridor to 25bps from 50bps earlier, implying a 25bps rise in reverse repo rate to 6%. RBI has stated that liquidity will be brought to neutral over the next few months. Monetary policy stance remained neutral but tone of policy appeared hawkish.
* Private weather forecaster Skymet has predicted a 'below normal' monsoon at 95%(error margin +/- 5% of LPA in India due to El Nino effects.

Key Domestic Economic Data

* India's manufacturing PMI came in at 52.5 in March, up significantly from 50.7 in February. This is the highest level since demonetisation and clear indicator that demonetisation led economic pain easing.
* CPI for February rose to 3.7% in line with consensus expectation vs. 3.2% last month and 5.3% a year ago. The spike in CPI is largely attributed to unfavorable base, higher food and fuel inflation.
* The CII Business Confidence Index has gone up to an all-time high of 64.1 during the fourth quarter of 2016-17 as against 56.5 recorded in the previous quarter.
* IIP growth for January 2017 came in at 2.7% against consensus estimates of a 0.8%. At 2.7% IIP growth is back to pre-demonetisation levels.

Key Global Events

* US FOMC raised fed funds rate by 25bps and delivered a less hawkish statement. Fed rate hike projection for 2017 were unchanged at two more for 2017, three for 2018 and four in 2019, dispelling fears for more aggressive rate hikes.
* Euro-region manufacturing PMI jumped to 56.2, the highest since 2011, from 55.4 in February, led by strong exports.
* Geo-political risk is on a rise after US-Russia face-off in Syria & developments in North Korea. Any escalation of these events, have a potential of triggering a major global risk-off.

Outlook

* Strong political mandate in state elections augurs well for NDA's aggressive reform agenda and bolsters its prospects for the next general elections due in 2019.
* We maintain our cautiously optimistic view on equity markets. Geo-political situation in Syria & North Korea, multiple general elections in Europe over next few months and weak economic data out of China are the key risk. At home, UP government's farm loan waiver decision is a rude shock. If other states join the bandwagon, it has a potential to become a major economic overhang.
* Indian equities offer attractive investment opportunity from medium to long term perspective. SIPs are a preferred mode for investing, and risk off due to global events can provide attractive entry points for lump sum investments.

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