FACTSHEET
MAY 2015

Indiabulls MUTUAL FUND

DEBT MARKET COMMENTARY

May	Month Opening	Intra Month High	Intra Month Low	Month Closing
Overnight Rate (NSE MIBOR)	7.71	7.75	7.43	7.59
10 year Gsec	7.85	8.00	7.82	7.82
3 month CDs	8.32	8.40	7.90	7.90
6M CDs	8.35	8.40	8.15	8.15
12 month CDs	8.40	8.48	8.25	8.25
Currency	63.44	64.24	63.44	63.82
10 Year US Treasury	2.16	2.28	2.12	2.13

Inflation

CPI for April came to 4 month low at 4.87% as compared to 5.10 % of March. Contrary to fears of unseasonal bout rains causing a spike in food prices, food inflation for the period was 5.11% as compared to 6.14 in March. Higher oil prices and weaker currency led to a uptick in fuel inflation, from 5.2% of march it came at 5.6% in April. Core inflation saw a slight upmove to 4.3% as compared to 4.2% of March. WPI for march also was a 5 month low number. At -2.65%, April WPI is a multi month low number as compared to -2.33% in April. With the most important seasonal factor ie MOnsoon being round the corner, inflation number could surprise on a higher side incase of a poor monsoon. However food inflation should be handled well by the current proactive government, so overall, inspite of an uncertain outlook, inflation outlook doesn't look to be out rightly pessimistic.

Macros

In April, the trade deficit narrowed to $10.99 billion as compared to $11.79 billion inMarch 2015. India's fiscal deficit for the month of April 2015 came in at about Rs 1.27 lakh crore as compared to a previous number of 1.00 lakh crore. This is 23% of the full year budgeted estimate of Rs 5.56 lakh crore. Industrial Production came at 2.1% versus 5.0% in the period prior. Quarterly GDP at 7.5% was same as previous number.

Liquidity / Rates

Average liquidity support by RBI by all forms for May was approximately 108000 crores, as compared to 88000 crores in April. The overnight rates were near to the operative rate of 7.5% for the most of the days of month. Post a initial spike in yields, government spending coupled with buying by mutual funds led to a rally in money market instruments. Rates came of by 25-30 bps for 2-3 months instruments, 10-15 bps as well as for March 2016 maturities, and everything in between. With markets pricing 25 bps cut, the buying momentum and future expectations are gonna keep the markets in a bullish momentum.Additionally with banks having surplus cash, they have turned buyers into money market instruments, thereby exerting a downward push to yields.The new 10 year cut off came at 7.72%, and immediately started trading at a premium.

Outlook

As per the market consensus, RBI cut the repo rates by 25 bps on 2nd June Policy meet. However 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 (referring to possibility of oil price spike and possibility of US hikes). Basis this there are no further rate cuts on the immediate horizon-the only silver lining here being that RBI has conveyed that, it will be data driven-so any favourable data, keeps the door open for further rate cuts. All this points to a period of volatility and a negative bias on the markets. However the long term story for capital appreciation remains intact and those investors who can ride out the intermittent volatility can look to make tactical allocations to long duration schemes, thereby taking advantage of currently elevated levels. Infact at these levels of 7.80 for 10 year Gsec , there is not a big downside price risk from here. A smarter and more sensible strategy for phase would be to 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 nonvolatile 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 Indian Meteorological Department (IMD), in its second estimate, lowered the forecast for rainfall during the monsoon season (June – September) to 88% of the long period average (LPA) from its earlier forecast of 93%. If correct, then this would imply that seasonal rains in 2015 will be similar to rains in 2014.
  RBI reduced the repo rate by 25bps, increased its inflation forecast (January 2016 at 6%), and lowered FY16 GVA forecast to 7.6% from 7.8%. Further monetary policy easing will depend on the monsoon, crude prices, and the government's policies in managing food inflation.

Key Domestic Economic Data

- CPI inflation eased to 4.9% y-o-y in April from 5.3% y-o-y in March, in line with expectations. Despite unseasonal rains, food price inflation moderated to 5.4% y-o-y from 6.3%. Core CPI inflation trended higher to 4.3% y-o-y from 4.2%. WPI inflation contracted 2.7% y-o-y, printing negative for the sixth consecutive month. On a sequential basis, momentum was weak with WPI inflation falling to -0.5% m-o-m, in April, primarily owing to lower fuel and commodity prices.
- Industrial production growth moderated to 2.1% y-o-y in March from a downwardly revised 4.9% (earlier: 5.0%) in February, weaker than expected (Consensus: 3.0). However, Capital goods growth remained strong for a fifth consecutive month, while consumer goods output growth moderated sharply, reflecting softer rural demand.
- India's the trade deficit narrowed to USD11 billion in April from USD11.8bn in March, better than expected. Imports (ex-oil, gold) rose 7.1% y-o-y in April owing to higher domestic demand coupled with import substitution. Imports of both capital goods and consumption goods picked up in April, reflecting rising domestic demand and a gradual recovery in investment
- India's Real GDP growth rose to 7.5% y-o-y in Q4FY15 from a downwardly revised 6.6% in Q3 FY14, marginally above expectations of 7.3% growth). However, the full-year FY15 advance estimate of growth was revised lower to 7.3% (from 7.4%), owing to a downward revision during the first three quarters.
- India's manufacturing PMI improved to 52.6 in May from 51.3 in April, due to stronger expansion in new orders and output. The upturn in the Indian manufacturing sector gathered pace in May, with levels of production and new orders rising at the fastest rates since the Jan 2015.

Key Global Events

- Greece's and its international creditors continued to play a game of brinkmanship. Greece delayed repaying a loan to the International Monetary Fund and announced that it would bundle together reimbursements to the IMF at the June end rather than meet the deadline for a single payment on June 5th.
- Market is pricing in a certain Fed rate hike later this year which coupled with ongoing worries of Grexit is leading to spike in interest rates in major economies. The U.S.10-year treasury yield hit 2.40% and German 10-year Bund yields breached 1%.

Outlook

- Over short term, we continue to expect more volatility due to poor monsoon forecast, concerns on Greece, US Fed rate hike decision, and expectation of parliament logjam on land acquisition & GST bills.
- However, we believe that economic cycle in India is slowly, steadily turning around and quality of Indian macros continues to improve 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, any hawkish stance by US Fed, 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.

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