FACTSHEET
OCTOBER 2014

Indiabulls MUTUAL FUND

DEBT MARKET COMMENTARY

OCTOBER	Month Opening	Intra Month High	Intra Month Low	Month Closing
Overnight Rate (NSE MIBOR)	6.19	8.95	6.19	7.39
10 year Gsec	8.48	8.49	8.28	8.28
3 month CDs	8.72	8.72	8.48	8.48
March CDs	8.90	8.90	8.70	8.70
12 month CDs	9.10	9.10	8.76	8.76
Currency	61.61	61.85	61.06	61.37
10 Year US Treasury	2.39	2.44	2.14	2.34

Liquidity

October was a month that saw bouts of relatively volatile liquidity as compared to the month of September. Holidays and festive season cash demand led to massive few spikes. However, RBI has been very actively doing liquidity management in form of regular term repos / reverse repos/OMOs and this is helping prevention of extreme volatility in rates. Overall liquidity support during the month of October via Repo and MSF was approximately to the tune of 63000 crores. Overnight rates remained firm anchored around 8%- with CALL breaching a high of 8.60 and touching a low of 7.75, similarly CBLO breached 8.60 on higher side and touched 7.00 on lower side.

Inflation

Falling food prices pulled down the September retail inflation to 6.46 per cent, lowest since the new series of Consumer Price Index was released in January 2012. The CPI for the previous month of was 7.80 per cent. Food inflation fell to 7.67 per cent as against 9.35 per cent previously. Core inflation slowed to 5.9 per cent from earlier number of 6.9 per cent. The WPI inflation for the month of September 2014 also saw a drastic fall and was reported at 2.38 per cent in September as compared to 3.74 per cent in the month of August 2014. This fall can be largely attributed to falling food and fuel prices.

Rates

2-3 month CDs ended the month at around 8.50 levels, down from 8.70 levels. 1 year CDs were around 8.80 levels, down from above 9.00 levels. The entire yield curve has shifted downwards, with rally across the maturities and across the instruments. Market is flush with liquidity, and at any point of time, there is constant demand from one or other set of investors. Led by rate cut anticipation rally 10 year sovereign ended the month at 8.30%. This is down by nearly 20 bps-markets are in an extremely positive mode, with few participants betting on rate cuts in December policy itself. All participants ie Public Sector Banks, Pvt Banks, Mutual Funds, FIIs, PDs have been continuously active across the maturities in phases. The risk reward ratio has turned extremely positive, with the point being now being just a question of when rather than if about the rate cut.

Outlook

Softening core inflation could be an indicator that maybe demand led price pressures might be easing, albeit it's too early to draw any concrete inferences. The RBI's January 2015 target of restricting CPI inflation below 8 per cent would be comfortably achieved. However, the likelihood of a repo rate cut in before the end of calendar 2014 remains low, with the risk of uptick prevailing. The real picture of inflation is likely to emerge only post November when a favorable base effect fades out and the possibility of the anticipated decline in winter vegetables prices not materialising because of poor monsoon. However the reasons for the continuing of the rally far outweigh the risks. US Fed continuing to keep the rates low for a considerable period of time, Japanese stimulus, expected continuing of support in EuroZone, all these will keep the flow of money in India. Coupled that with the positive political climate, controlling of twin deficits, divestment planned and general upliftment of business sentiment- all that is aiding to the rally and will keep on adding the steam to it. 10 year Gsec looks to trend in 8.25-8.50 band and maybe even lower primarily based on rate cut expectation. Liquidity is playing its positive role- low credit off-take, system being flush with money, general reduction in CD issuance, and increasing demand-all these will make CDs level trend downwards. 2-3 months CDs will look to range in 8.35-8.45 band, march in 8.45-8.60 band and 1 year in 8.80-9.00 band. Depending on individual risk-reward appetite, short term and income funds looks to be, best investment avenues right now. 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 to comparative fixed deposits. Income fund with relatively longer duration with a bias to a higher proportion of long maturity Gsec, will be a good avenue for those wanting to enjoy the rally and earn higher capital appreciation.

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EQUITY MARKET COMMENTARY

Key Domestic News

- Government deregulated diesel prices; this will reduce the oil subsidy burden incrementally on under-recoveries and would improve competition and efficiency in the sector.
- Government raised the price of domestic natural gas to US$ 5.61/mmbtu, to help kick start gas exploration. The gas price would be reviewed every six months.
- The CCEA raised MSPs for Rabi crops for the 2015-16 marketing season by 2-5% vs. 2-12% last year, much lower than the average annual hike of 9-12% over the last six years (FY10-FY15). This increase in MSPs is lowest in 10 years and should help in keeping inflation expectations under check.
- Government permitted 100% FDI (with no restrictions) in the construction sector to boost investment and job creation.
- Government launched a host of measures to reduce the burden of labour law compliance in India, and encourage industry participation in skill development. The government is also planning to repeal three Acts and amend a few others, and bring a comprehensive labour law for small and medium-sized enterprises to encourage manufacturing activity.
- BJP victory in the assembly polls key states of Haryana & Maharashtra is positive for the markets in terms of lending impetus to the NDA Government's reform agenda. It will strengthen NDA in Rajya Sabha going ahead.
- The World Bank has raised India's growth forecast to 5.6%/6.4%/7.0% for FY15/FY16/FY17 from the previous 5.5%/6.3%/6.6% estimated in June 14, in line with the recent upgrades by several international agencies.

Key Domestic Economic Data

- CPI inflation fell to 6.5% y-o-y in September from 7.7% y-o-y in August, lower than market expectations. Core CPI inflation eased to 5.8% y-o-y from 6.8%. We expect the inflation to continue its downward trajectory, ahead of RBI's glide path.
- After falling to a 9-month low of 51.0 in September, India's Manufacturing PMI rose to 51.6 in October led by faster growth in output and new businesses, as expansion in foreign orders gathered pace.
- August IIP disappointed at 0.4% YoY, lower than consensus expectations of 2.5% growth. We maintain expectations of a gradual revival in industrial activity in the economy

Key Global Events

- The Bank of Japan unexpectedly expanded its asset buying program to 80trn yen ($740bn) annually from 60-70trn yen earlier due to poor economic progress, increasing the global liquidity.
- The US Fed ended its QE3 program, sticking to its stance of keeping interest rates low for 'considerable period of time.
- The 127.3 trillion yen ($1.1 trillion) Japanese Government Pension Investment Fund revised its allocation targets of 25 percent each for Japanese and overseas equities, up from 12 percent each, an incremental investment of ~$140 billion in global equities over next few years.

Outlook

- We expect the global liquidity to remain benign on fresh QE from Eurozone & Japan. Rate hikes in USA are still some time away and likely to be gradual. Commodities are expected to remain under pressure owing to weak demand from China, Eurozone and Japan.
- Government biting the bullet on big ticket reforms and investor sentiment improving significantly, augurs well for Indian equity markets
- We expect the economic recovery to gather pace in H2 FY15 and strengthen in FY16 & FY17. This recovery should start getting reflected in corporate earnings in ensuing quarters.
- We believe that this is a buy on dips market. Over medium to long term, we are optimistic on Indian equities and would strongly urge the investors to take 3-5 years view and participate in the equity markets.
- Geo-political developments in Middle-East and a sharp reversal in crude oil prices are the key risk to our outlook.