



## Financial Market & Economy Update

- The central government said the Indian automobile sector is projected to contribute 12% to the country's GDP (gross domestic product) over the next decade. This was stated by Girish Shankar, Secretary, Ministry of Heavy Industries and Public Enterprises, at the Confederation of Indian Industry's (CII) 'International Automotive Supply Chain Conclave 2017'.
- The Goods and Services Tax (GST) rate of 12 %applicable on under-construction properties is likely to bring down property prices as some developers would now decide to pass on the benefit of input tax credit to homebuyers. However, the new GST rate may increase prices of premium units due to high land costs, say tax experts.
- Prime Minister Narendra Modi will undertake a four-nation tour of Germany, Spain, Russia and France beginning May 29 with an aim to bolster counter-terrorism cooperation with these countries and invite investments in India.
- India has moved a step closer to joining an international arms trade arrangement which is expected to boost military trade, having updated its guidelines for export of dual use items that have both military and civil applications.
- The Maharashtra Assembly on Monday passed the Goods and Services Tax (GST) Bill in a session of its lower house. The Goods and Service Tax (GST) which will come in force from July 1st, will unify the country's economy into a common market and eliminate a string of central and state levies. The act is significant as the BMC gets a considerable share of its revenue through octroi, which will now be scrapped with the introduction of the GST regime.
- Prime Minister Narendra Modi's government is set to dramatically reshape Asia's third-largest economy with the biggest tax reform since independence in 1947.
- Singapore affirmed its 2017 growth forecast of between 1 and 3 %on Thursday, even as it turned slightly cautious on China's outlook a day after Moody's downgraded the rating of the world's second largest economy.
- As the government gears up to push generic medicines to bring down costs for patients, World Health Organisation (WHO) representative in India, Henk Bekedam has stated that the move, if successfully implemented, will not only reduce the cost of medicines within the country but also globally.
- Talks between U.S. President Donald Trump and other leaders of the world's rich nations at the G7 summit on Friday were expected to be "robust" and "challenging" after he had lambasted NATO allies and condemned German trade policies a day earlier. Trump's confrontational remarks in Brussels, on the eve of the two-day summit in the Mediterranean resort town of Taormina, cast a pall over a meeting at which America's partners had hoped to coax him into softening his stances on trade and climate change.



## Equity Market Update

- The Indian stock market saw some strong spells in positive territory during the week ended 26 May 2017, amid easing concerns over U.S. interest rate hikes, and on expectations about good monsoon rains and reforms.
- Stocks had a tough time during the first three sessions, however, due to rising tensions at the border that prompted the Indian army to conduct artillery raids on Pak military posts across the Line of Control.
- There were a few volatile spells with some front line counters witnessing wild swings due to expiry of May series derivatives contracts.
- The BSE benchmark Sensex hit a new all-time high of 31,074.07 on Friday and eventually ended the week with a gain of 563.29 points or 1.85% at 31,028.21. The Nifty50 of the National Stock Exchange ended up 167.20 points or 1.77% at 9595.10, after hitting a record high of 9604.90 on the final session.
- Midcap and smallcap stocks declined on profit taking. The BSE Midcap index ended the week lower by about 0.85%, while the Smallcap index declined by about 0.9%.
- The market opened the week on a firm note, with a steady trend in Asian and European markets amid easing concerns about U.S. interest rates aiding sentiment. Optimism about growth, encouraging monsoon forecast, the roll-out of GST from July, expectations of a rate cut after recent data showed a significant drop in retail inflation aided sentiment. The Sensex ended up 106.05 points and the Nifty50 gained 10.35 points.
- The Sensex and the Nifty50 scaled fresh all-time highs on Friday as stocks across the board saw some strong buying. The Sensex ended up 278.18 points and the Nifty50 gained 85.35 points.
- Buying was led by key FMCG, Auto, IT, Bankex, Metal, Teck, Capital Goods, Oil&Gas sectors, While HealthCare, Realty, Power, PSUs, Power witnessed profit-booking.



## Equity Market Outlook

### Global:

- US equities closed at fresh record highs on Friday. Meanwhile US10yr yields

## Domestic Markets



Index	26-May-2017	19-May-2017	% Change
S&P BSE Sensex	31028.21	30464.92	1.85
Nifty 50	9595.1	9427.9	1.77
Nifty Midcap 100	17586.45	17921.35	-1.87
Nifty 500	8331.85	8258.2	0.89
S&P BSE Smallcap	15086.26	15227.07	-0.92

## Global Markets



Index	26-May-2017	19-May-2017	% Change
Dow Jones	21080.28	20804.84	1.32
Nasdaq	6210.19	6083.7	2.08
S&P 500	2415.82	2381.73	1.43
FTSE 100	7547.63	7470.71	1.03
Shanghai Composite	3110.06	3090.63	0.63
Hang Sang	25639.27	25174.87	1.84

## Institutional Flows (Equity)



Description (INR Cr)	Purchases	Sales	Net
FII Flows*	35047	30198	4849
MF Flows*	14641	10549	4092

## F&O FII Trends (Rs. Crs)



Date	Index	Stocks
22-May-2017	-270.62	150.43
23-May-2017	2362.62	387.45
24-May-2017	600.3	1510.27
25-May-2017	2413.95	354.93
26-May-2017	3330.53	259.53

## Policy Rates



Key Rates (%)	26-May-2017	1 Week Ago	1 Month Ago
Reverse Repo	6	6	6
Repo	6.25	6.25	6.25
CRR	4	4	4
SLR	20.75	20.75	20.75

## Key Rates



remain near their year lows as the market continues to debate the outlook for reflation. Ahead of the June Fed meeting, markets are now pricing in a 95% probability of a rate hike. The USD 1m Libor and HKD 1m Hibor spread continues to widen as the HKD continues to weaken to its lowest level since Feb 2016. Tech stocks continue to lead the global charge with FANG names up more than 5% last week and large cap Asian tech names up 3.3%.

- Attention will focus in the coming week on Chinese PMI figures, both official and non-official. A decline in expected back towards neutral territory in China. PMI surveys will also be released across the region as well as in the US, the UK and the Eurozone. Other important figures released later in the week will include US non-farm payrolls, PCE inflation numbers and ISM manufacturing. Retail sales will be out in Japan, Hong Kong and Australia.
- Chinese A-shares last week shrugged off a Moody's downgrade of Chinese debt for the first time since 1989 as well as comments from MSCI that seemed to indicate that the entry of Chinese A-shares into the MSCI indices as part of the Global Classification Review expected to be announced on June 20 may prove difficult. China also said that it was planning changes to the yuan fixing formula, adding a "counter-cyclical" factor to reduce volatility. The CNY has fallen to its lowest level since Sep 2015 against a basket of currencies even though it has remained relatively stable against the USD which has been declining this year. Over the weekend China announced that outbound investment had declined by over 70% and that the growth in the pace of industrial profits had nearly halved to 14%.
- Markets could also react to the outcome of the weekend G7 leaders summit which took place in Italy with the US undecided on whether to remain in the Paris Agreement. President Trump said that a decision would be made in the coming week although press reports said that he has already decided to quit. There were disagreements over trade leaving many unresolved issues to be discussed at the Hamburg G20 summit in July.
- Politics may also resurface as President Trump returns home and there is fresh controversy over the establishment of back channels with Russia. In the UK, opinion polls indicated a surge for the Labour Party which caused the largest one-day fall since October.

Key Rates (%)	26-May-2017	19-May-2017	% Change
Mibor Overnight	6.19	6.25	-0.96
CALL (O/N)	6.01	6.06	-0.83
CBLO	5	6.12	-18.3
T Bills Index (12M)	6.47	6.47	0
10 Year GSEC	6.65	6.71	-0.89

## Commodity Market



Commodity (INR)	26-May-2017	Gain+/Loss-	% Change
Gold (10 gm)	28702	-169	-0.59
Silver (1 kg)	39635	945	2.44
Crude Oil (\$/barrel)	52.15	-1.46	-2.72

## Currency Market



Currency	26-May-2017	Gain+/Loss-	% Change
USD/INR	64.59	-0.4	-0.62
EURO/INR	72.33	0.03	0.04
GBP/INR	83.18	-1	-1.19
JPY/INR	57.95	-0.49	-0.84

### Local:

- The Nifty rose 1.8% over the week, marginally ahead of regional markets, and touched a new high in the process. FMCG and Auto were the key gainers while the Healthcare index declined a sharp 9% after a string of weak results and a challenging FY18 outlook due to high pricing pressure in the US. Notably, the Nifty Midcap 100 index has now corrected 5% over last week's high but still trades at a 3% premium to the Nifty.
- Economic indicators for April 2017 show that the March pick-up did not gain any significant traction. Several indicators like electricity generation, steel and fuel consumption were still in the tepid 3-4% YoY growth zone. Positive data trends were seen in auto sales with both cars and two-wheelers doing well. Trade data was quite strong. With the impact of demonetisation now almost fully behind us, GST rollout and monsoon rainfall are likely to provide the direction going forward. The monsoon is expected to arrive two days ahead of schedule.
- FMCG, pharma and liquor companies are expecting significant de-stocking by wholesalers and retailers ahead of GST implementation which appears set for 1 July. The uncertainty is partly over the input tax of the old regime not being reimbursed completely under GST and uncertainty on tax incidence. Several companies have highlighted that they are already seeing de-stocking but the impact should intensify by June. Some companies have also said that they will bear the losses that wholesalers would suffer. Overall, some GST related disruption is expected in 1QFY18.

### View:

- India remains one of the very few economies which have a good corporate governance structure, strong regulations, stable currency and good economic growth. Now the domestic inflows have brought in an added dimension of strong support to the equity markets. Invest systematically and use corrections to increase the exposure to equities.



## Debt Market Update

- India on Friday fully sold 150 billion rupees of four government notes. The cutoff for the 6.79% 2027 bond came below market expectations, eroding intra-day gains.
- Comments from key government officials that the proposed goods and services tax will not accelerate price gains boosted local papers earlier this week to the highest level since Apr. 6.
- The comments come amid an already benign inflation rate, as India's consumer price index based inflation, a key gauge of MPC, cooled to at least five-year low of 2.99% in April. Analysts also peg core inflation to have eased to 4.5% in April from 4.9% in March.
- Earlier last month, the MPC had raised the inflation target to 4.5%-5.0% for this fiscal from 4%-5% earlier. In MPC's April minutes, a panel member had suggested a "pre-emptive" rate hike to ward off a hardening inflation. Members cited the "one off" effects of GST as a potential inflation threat.
- The MPC will review policy on Jun. 6 and 7. The Indian Meteorological Department is also scheduled to release its next monsoon forecast in the first week of June.
- On the global front, minutes of the Federal Reserve's latest meeting dented bets of accelerating rate increases in the world's largest economy. Higher U.S. rates dent appeal for emerging market assets.
- The central bank's comments come after it had shrugged off a sluggish first quarter growth as "transitory" earlier this month. However, some investors believe a June rate hike is still on the table.



## Debt Market Outlook

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- During last week, bonds rallied
- 6.79% 2029 bond yield came down by about 4bps during last week
- New 10yr traded in the band of 6.65-6.70%
- Lower CPI & Core CPI led to rally in bonds and expectation of a normal monsoon supported the momentum in rally
- Rally in global bonds, range bound crude oil px also aided rally in domestic bonds.
- Next two CPI reading are expected in the band of 2.5%-3%
- Market will keenly await Central Banks guidance in the June month policy. A dovish guidance would be further positive for the bond market. It will be difficult for the RBI to maintain the hawkish stance given the benign data and global bond yields, however as the
- We expect new 10yr to trade in 6.60-6.70% band range here till June policy.
- Liquidity is easy. Overnight rates are expected to be in the band of 6.15-25 .
- 2/3 month CD 6.40%-4.5%
- 2/3 month NBFC 6.75%-6.8%
- 1yr CD is trading at 6.75%-6.80%
- 1yr NBFC is trading at 7.35%
- 2/3 PSU is trading at 7.30-7.35%
- 2/3 AAA NBFC is trading at 7.70-7.8%
- 5yr PSU is trading at 7.3%
- 5yr AAA corporate is trading at 7.6%
- 5yr NBFC is trading at 8%



## Commodity Market Update

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### Gold Update:

- In the national capital, gold of 99.9 and 99.5 %purity commenced the week higher at Rs 29,150 and Rs 29,000 per 10 grams on fresh buying support.
- However, it met with resistance at higher levels and slipped below the Rs 29,000-mark to Rs 28,915 and Rs 28,765 per ten grams, respectively.
- Thereafter, it staged a strong recovery to end the week at Rs 29,250 and Rs 29,100 per ten grams, respectively, showing a notable gain of Rs 150 each.
- Sovereign, however, moved in a narrow range during the period and settled at previous level Rs 24,400 per piece of eight gram.
- Globally, gold ended the week higher at USD 1,266.70 an ounce and silver at USD 17.31 an ounce in New York.
- Silver ready ended the week higher by Rs 1,070 to Rs 40,270 per kg and weekly-based delivery finishing higher by Rs 955 to Rs 40,090 per kg.
- Silver coins, however, settled at unchanged level of Rs 71,000 for buying and Rs 72,000 for selling of 100 pieces.

### Crude Oil Update:

- U.S. West Texas Intermediate and internationally-favored Brent crude oil finished lower last week. The net change for the week wasn't that impressive, but the plunge from high to low was amazing.
- July WTI crude oil settled the week at \$49.80, down \$0.87 and August Brent crude oil closed the week at \$52.51, down \$1.25 or -2.33%.
- It was a volatile week with WTI crude dropping from \$52.00 to \$48.18, or \$3.82 during a two day period. Brent plunged from \$54.90 to \$51.06, or \$3.84 during the same time period.
- Crude oil prices fell sharply on Thursday, May 25 after OPEC announced it would extend cuts in oil output by nine months to March 2018, after November's landmark deal failed to clear a global supply overhang.
- In other news, according to the U.S. Energy Information Administration, crude inventories fell 4.4 million barrels in the week-ended May 19, more than analysts' forecast of a 2.4 million barrel decline. Gasoline inventories fell by only 787,000 barrels, compared with expectations for a 1.2 million barrel draw.
- With the OPEC announcement out of the way, crude oil investors are going to focus on U.S. production and technical factors over the near-term. Over time, demand will begin to influence the trade.



## Currency Market Update

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- The rupee staged a striking bounce-back from a near one-month low against US currency in a volatility marked trading and ended at 64.44 on bouts of dollar selling by banks and exporters even as stocks climbed to new milestones.
- After some initial setbacks, the home currency finally settled with a good gain of 20 paise.
- The incredible bull run at the Indian equities markets that soared to life highs as the Modi government completed three years in power further supported the buoyant mood of currency traders.
- The home currency suffered a knee-jerk reaction - plunging to hit a seven-week low of 64.90 on Monday before recovering in the backdrop of escalating tensions between India and Pakistan.
- Overall forex sentiment turned positive after two-day US Federal Reserve policy meet signaled a more cautious approach to future rate hikes and also reiterated the data-dependency of such a move.
- The local unit opened firmly higher at 64.52 against last Friday's close of 64.64 at

the Interbank Foreign Exchange (forex) market.

- After touching a low of 64.96, the home unit rebounded sharply toward the tail-end trade to reclaim fresh high of 64.42 before ending at 64.44, showing a handsome gain of 20 paise, or 0.31 percent.
- In worldwide trade, the re-emergence of economic fundamentals largely helped the US Dollar find a lifeline this week after US first-quarter GDP growth revised up to 1.2 %in official figures on Friday.
- The dollar index a measure of the US currency against a basket of six trade-weighted peers bounced back from its new 2017 low of 97.00 to end at 97.33.
- Foreign exchange reserves hit a record high for the third time since April to touch \$379.3 billion as on May 19, data published by the Reserve Bank of India on Friday showed.

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