



Financial Market & Economy Update

- Eight core sectors expanded at a fastest pace in more than a year at 6.8 % in November 2017 on account of robust performance in segments like refinery, steel and cement.
- Retail inflation for industrial workers rose to 3.97 % in November, 2017 mainly due to surge in prices of food items, kerosene and cooking gas.
- The Maharashtra government on Monday made allocations worth Rs 14,240 crore for the farm loan waiver scheme and for repayment to farmers whose produce was purchased by the state.
- Saudi Arabia and the United Arab Emirates introduced value-added tax from Monday, a first for the Gulf which has long prided itself on its tax-free, cradle-to-grave welfare system.
- The Nikkei India Manufacturing Purchasing Managers' Index (PMI) rose to 54.7 in Dec, from 52.6 in Nov.
- Foreign Exchange Reserves, in the week to Dec 29, not only crossed the \$400 billion mark but touched a new lifetime high of \$409.366 billion aided by an increase in foreign currency assets.
- The Reserve Bank of India, on Friday, released a new Rs10 currency note image.
- Government Notifies 1% GST On Manufacturers Under Composition Scheme.
- The Indian services sector returned to marginal growth in Dec. The seasonally adjusted Business Activity Index improved to 50.9 in Dec from 48.5 in Nov.
- The government on Wednesday approved the Rs 5,369-cr Jal Vikas Marg Project (JVMP) for enhanced navigation on the Haldia-Varanasi stretch of National Waterway-1 (NW-1).
- The finance ministry has approved proposal for infusion of Rs 7,577cr in 6 weak public sector banks (PSBs) as part of the recapitalisation plan to bolster capital adequacy ratio.
- The Dec euro zone final manufacturing Purchasing Managers' Index (PMI) was 60.6% matching an earlier preliminary reading, the highest since the survey began in June 1997.
- China's Caixin/Markit Manufacturing Purchasing Manager's Index (PMI) rose to 51.5 last month, from 50.8 in Nov. Data compiler IHS Markit said its final purchasing managers' index rose to 58.8 in December from 57.7 in Nov, hitting the highest level since Sept 2000.
- Pakistan's central bank has allowed the Chinese yuan to be used for bilateral trade and investment activities, a move which could replace the US dollar for transactions in the strategic CPEC/BSE projects.
- Japan Dec final manufacturing PMI highest since Feb 2014 The Markit/Nikkei Japan Manufacturing Final Purchasing Managers Index (PMI) was a seasonally adjusted 54.0 in Dec.
- Solid U.S. job growth expected in Dec; wages seen rising. Nonfarm payrolls probably increased by 190,000 jobs last month.



Equity Market Update

- Market continued its weekly winning streak for the fifth consecutive session, to mark record closing highs, while reclaiming the psychological 34,000-mark at 34,153.85.
- The Sensex started the week higher at 34,059.99 and hovered between marking new highs at 34,188.85 and low of 33,703.37 before settling the week new record highs at 34,153.85, showing a modest gain of 97.02, or 0.28 %.
- The Nifty also resumed the week up at 10,531.70 and moved between fresh highs at 10,566.10 and low of 10,404.65 to end the week at record closing at 10,558.85, showing a gain of 28.15 points, or 0.27 %.
- The S&P BSE Mid-Cap index advanced 247.63 points or 1.39 % to settle at 18,070.03 and the S&P BSE Small-Cap index rose 474.20 points or 2.47 % to end at 19,704.92. Both these indices outperformed the Sensex.
- Among sectoral and industry indices, Metal climbed by 4.76 % followed by consumer durables 4.66 %, capital goods 3.93 %, IPO 2.89 %, Power 2.00 %, PSU 0.80 %, healthcare 0.75 %, realty 0.43 % and bankex 0.28 %. However, Oil&gas fell by 0.76 %, auto 0.75 %, IT 0.73 % and Teck 0.17 %.
- Foreign Institutional Investors (FIIs) bought shares worth Rs 1,666.84 crore during the week.



Equity Market Outlook

- With the acceleration witnessed in flows into domestic mutual funds in 2H CY17 to US\$3bn+/month, total inflows during CY17 added up to US\$32bn, equalising inflows in the previous two-and-a-half years. This was facilitated by a change in the annual household savings proportion in favour of financial assets from 40% to 58% over the past five years.
- But we are welcoming the New Year with some mixed signals on macro. INR is appreciating sharply despite fundamental (inflation differential), flow (limited FII limit in debt, elevated equity valuations, rising trade deficit) and sentiment (rising inflation, fiscal concerns, Fed rate hikes). On the positive side, PMIs show that manufacturing momentum is on an uptick led by both domestic and external order

Domestic Markets



| Index | 05-Jan-2018 | 29-Dec-2017 | % Change |
|------------------|-------------|-------------|----------|
| S&P BSE Sensex | 34153.85 | 34056.83 | 0.28 |
| Nifty 50 | 10558.85 | 10530.7 | 0.27 |
| Nifty Midcap 100 | 21499.85 | 21133.5 | 1.73 |
| Nifty 500 | 9573.45 | 9490.65 | 0.87 |
| S&P BSE Smallcap | 19704.92 | 19230.72 | 2.47 |

Global Markets



| Index | 05-Jan-2018 | 29-Dec-2017 | % Change |
|--------------------|-------------|-------------|----------|
| Dow Jones | 25295.87 | 24719.22 | 2.33 |
| Nasdaq | 7136.56 | 6903.39 | 3.38 |
| S&P 500 | 2743.15 | 2673.61 | 2.6 |
| FTSE 100 | 7724.2 | 7687.77 | 0.47 |
| Shanghai Composite | 3391.75 | 3307.17 | 2.56 |
| Hang Sang | 30814.64 | 29919.15 | 2.99 |

Institutional Flows (Equity)



| Description (INR Cr) | Purchases | Sales | Net |
|----------------------|-----------|-------|------|
| FII Flows* | 16893 | 15275 | 1618 |
| MF Flows* | 17661 | 15441 | 2220 |

F&O FII Trends (Rs. Crs)



| Date | Index | Stocks |
|-------------|---------|---------|
| 29-Dec-2017 | 3187.76 | 389.76 |
| 01-Jan-2018 | 236.27 | -388.14 |
| 02-Jan-2018 | 514.68 | -397.47 |
| 03-Jan-2018 | -495.67 | 357.44 |
| 04-Jan-2018 | 548.43 | -96.62 |

Policy Rates



| Key Rates (%) | 05-Jan-2018 | 1 Week Ago | 1 Month Ago |
|---------------|-------------|------------|-------------|
| Reverse Repo | 5.75 | 5.75 | 5.75 |
| Repo | 6 | 6 | 6 |
| CRR | 4 | 4 | 4 |
| SLR | 20 | 20 | 20 |

Key Rates



flows. The Nikkei India Manufacturing Purchasing Managers' Index (PMI) rose to 54.7 in December, from 52.6 in November as growth was recorded across all three monitored categories — consumer, intermediate and investment. This is for the fifth consecutive month that the index has come in above 50-point mark. Activity in the Eight core sectors of the economy accelerated to a 13-month high of 6.7% in November with growth being propelled by the steel and cement sectors.

- President Donald Trump lashed out in his first tweet of 2018, saying Pakistan had repaid years of generous U.S. aid with "nothing but lies & deceit". On Thursday, President Trump's administration announced that it is suspending more than \$1.15 billion security assistance to the Pakistani military until it takes "decisive action" against the Afghan Taliban and Haqqani network that are targeting U.S. personnel in Afghanistan.

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. Till the time more clarity emerges on GST collections, invest systematically and use corrections to increase the exposure to equities.



Debt Market Update

- Indian government bond yields fell in the first week of 2018, the first weekly fall in six weeks, as the auction of a new 10-year paper lifted sentiment.
- The Reserve Bank of India Friday sold bonds worth 150 billion rupees instead of 180 billion rupees scheduled. The auction included the new 10-year bond, which was sold at a cutoff yield of 7.17%, largely along the expected lines. The new 10-year bond, which ended at 100.45 rupees, yielding 7.10%, will replace the existing benchmark paper soon.
- Concerns over the central bank holding or raising interest rates in the months ahead and the federal government widening its fiscal deficit targets for the current and the next financial years have weighed on bond market sentiment in recent sessions.
- The MPC had held rates in December, warning of inflation gathering pace in months ahead.
- India's inflation is expected to rise further from a 15-month high of 4.88% in November. Meanwhile, New Delhi has got an approval from the parliament to spend 800 billion rupees this fiscal year to recapitalise state-run banks.



Debt Market Outlook

- During last week 10 moved up from 7.33% to 7.40% levels and moved down to 7.28% in closing
- The week was volatile despite the new 10 yr announcement and auction bids being rejected market did not find any great comfort and yields were firming up during the week.
- The RBI again rejected the long bonds and the new 10 yr cut off came at 7.17% at the same time RBI agreed to give govt additional dividend of 13k which probably mean the 14k cr auction rejection will be permanent cancelation and will not come back to auction.
- The may lead to fresh round of fall in yields especially in 2031/2034 segments and long bonds may follow
- This may not be enough to bring down yields in meaning full way unless we get support from crude and inflation data or RBI/Govt take additional measures like OMO/ FII limits
- We believe most of the negative have been priced in the market at the current juncture but lack of clarity is keeping mkt at elevated levels
- We advise STP in duration funds from here till march 18
- Liquidity has normalised but yet to get reflected in short term yields which may not happen in a hurry due to volatility.
- We believe yield curve up to 3yr has become very steep and very attractive for investors.
- 3 months HDFC is at 7.10%, 6 month 7.65% which indicates that market is pricing in at least 50bp rate hike or spike in overnight rates in the month of march. Given liquidity outlook its unlikely to sustain even if there is temp spike in overnight rates and therefore making ultra-short category more attractive for investment horizon beyond march. Similarly short term investors also likely to benefit from the steepness of the curve should they hold the investment for 9-12m.



Commodity Market Update

Brent crude Oil update:

- Benchmark oil futures opened the year 2018 with levels above \$60, which was the first time in three years.
- Both benchmarks gained almost 1.5% in the week when compared to the last week of 2017, as the oil market was seen still tightening and the bullish mood was fuelled by new factors.
- The main bullish factors were: the Opec+ output cut deal extension throughout 2018, a strong Opec compliance to the cut deal in December 2017, strong economic and financial data starting the year 2018, US crude oil stocks continuous drawdown, a cold weather in North America boosting demand for heating oil, and

| Key Rates (%) | 05-Jan-2018 | 29-Dec-2017 | % Change |
|---------------------|-------------|-------------|----------|
| Mibor Overnight | 5.98 | 6.2 | -3.55 |
| CALL (O/N) | 5.88 | 6.1 | -3.61 |
| CBLO | 2.14 | 5.95 | -64.03 |
| T Bills Index (12M) | 6.47 | 6.4 | 1.09 |
| 10 Year GSEC | 7.29 | 7.33 | -0.55 |

Commodity Market



| Commodity (INR) | 05-Jan-2018 | Gain+/Loss- | % Change |
|-----------------------|-------------|-------------|----------|
| Gold (10 gm) | 29341 | 91 | 0.31 |
| Silver (1 kg) | 38643 | 293 | 0.76 |
| Crude Oil (\$/barrel) | 67.62 | 0.75 | 1.12 |

Currency Market



| Currency | 05-Jan-2018 | Gain+/Loss- | % Change |
|----------|-------------|-------------|----------|
| USD/INR | 63.38 | -0.55 | -0.86 |
| EURO/INR | 76.5 | 0.11 | 0.14 |
| GBP/INR | 86.02 | -0.05 | -0.06 |
| JPY/INR | 56.06 | -0.66 | -1.16 |

socio-economic protests in Iran.

- The bearish factors were mainly: the US crude oil production growth threat, the rise in US gasoline and distillate stocks, the pipeline disruptions in the North Sea and Libya being resolved, the end of the holiday demand surge combined with the cold snap in the US hampering transportation fuels demand, and the US oil rig count remained strong.
- US crude oil inventories continued to fall in the week to December 29, with a new decline of 7.4mn barrels (mbs) to reach 424.5 mbs, which is very close to the five year average of 420 mbs.
- Brent crude futures fell 45 cents to USD 67.62 a barrel after briefly scaling to USD 68.27 - its highest level since May 2015.

Gold Update:

- For the week, gold rose roughly 1 % climb after three weeks of gains. February gold rose 70 cents, to settle at USD 1,322.30 an ounce. Futures prices again logged their highest settlement since Sept. 15 On the domestic front, standard gold (99.5 purity) resumed higher at Rs 29,375 per 10 grams from last Friday's closing level of Rs 29,240, it rose further to Rs 29,475 before settling at Rs 29,425, revealing a smart rise of Rs 185, or 0.63 %.
- On the domestic front, standard gold (99.5 purity) resumed higher at Rs 29,375 per 10 grams from last Friday's closing level of Rs 29,240, it rose further to Rs 29,475 before settling at Rs 29,425, revealing a smart rise of Rs 185, or 0.63 %.
- Pure gold (99.9 purity) also commenced higher at Rs 29,5250 per 10 grams compared to preceding weekend's level of Rs 29,390, it later surged to Rs 29,625 before ending at Rs 29,575, showing a gain of Rs 185, or 0.63 %.
- Silver ready (.999 fineness) too opened positive at Rs 38,725 per kilogram from last Friday's closing level of Rs 38,425, and later climbed to Rs 38,760 before finishing at Rs 38,725, showing a rise of Rs 300 per kilo, or 0.78 %.



Currency Market Update

- The rupee started the new year on a highly bullish note and stormed to end at a near three-year high of 63.37 against the beleaguered dollar on growing optimism over a brightening economic picture.
- Stamping its second-straight weekly surge, the home currency garnered a solid 50 paise gain.
- Overall forex sentiment got a boost after a monthly survey showed the Indian services sector returned to growth in December as new orders broadly stabilised.
- The rupee had risen almost 6 % against the US dollar in 2017 driven by strong inflows into capital markets.
- In the meantime, country's foreign exchange reserves scaled new peaks, surging by a whopping USD 4.444 billion to touch a new life-time high of USD 409.366 billion in the week to December 29 At the Interbank Foreign Exchange (forex) market, the rupee opened a tad higher at 63.85 compared to last Friday's close of 63.87.
- The dollar index, which tracks the greenback against six major currencies ended modestly up at 91.75.

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