



## Financial Market & Economy Update

- The Reserve Bank of India, which held the repo rate steady on Thursday, said that the decision of the MPC is consistent with a neutral stance of monetary policy in consonance with the objective of achieving the medium-term target for consumer price index inflation of 4% within a band of plus/minus 2%, while supporting growth.
- As widely expected by the markets and experts, the Reserve Bank of India (RBI), in its first monetary policy of this financial year on Thursday, kept repo rate unchanged at 6.25%, while it raised the reverse repo rate to 6%.
- The central bank projects inflation to average 4.5% in the first of 2017-18 and 5% in the second half. Growth is projected to be 7.4% in the year, up from 6.7% last year.
- According to data released by Markit on Monday (April 3), India's manufacturing sector expanded at the quickest pace in five months in March, driven by stronger rises in output and new business. The seasonally adjusted Nikkei manufacturing Purchasing Managers' Index climbed to 52.5 in March from 50.7 in the previous month.
- Another report from Markit (released on Thursday, April 6) showed the Indian service sector to have moved further away from the demonetisation-related contractions seen towards the end of 2016 and beginning of 2017.
- Data released by the government on Friday showed the output of eight core industries comprising nearly 38% of the weight of items included in the Index of Industrial Production to have risen at a moderated pace of 1% in February 2017, compared with 3.4% growth recorded in January 2017.
- Keeping its extravagant electoral promise, Uttar Pradesh's Yogi Adityanath government on Tuesday approved a ₹36,359-crore farm loan waiver for 2.15 crore farmers in the state.
- World food prices were back down in March after hitting a two-year high last month, with cereal harvests expected to be robust and markets stable this year, the United Nations food agency said on Thursday.
- On Trump's orders, US warships in the Mediterranean Sea launched 50-60 Tomahawk cruise missiles at the Shayrat air base in Homs governorate, from where Syrian warplanes had carried out the chemical attacks, killing innocent people.
- Euro zone businesses enjoyed their best quarter in six years at the start of 2017 as soaring demand allowed them to raise prices at the fastest rate since mid-2011, a survey suggested on Wednesday.



## Equity Market Update

- Key Indian stock indices Sensex and the Nifty50 ended with marginal gains last week, despite recording losses in two of the four sessions. The market was closed on Tuesday (April 4) for Ram Navami. The passage of the Goods and Services Tax Bill, some buoyant economic data, a stronger rupee and fairly steady global markets aided sentiment.
- On Thursday, the Reserve Bank of India held the repo rate unchanged at 6.25% but that did not hurt sentiment any significantly, but the overall mood turned quite cautious on the final day due to geopolitical concerns.
- The BSE benchmark Sensex ended the week with a gain of 86.11 points or 0.29% at 29,706.61 after briefly moving past the magical 30,000 mark during the week. The Nifty50 of the National Stock Exchange, which hit a record all-time high last week, ended at 9198.30, gaining 24.55 points or 0.27%. The BSE Midcap and Smallcap indices gained 0.97% and 2.44%, respectively.
- The market started the week on a buoyant note with stocks rising on Monday amid optimism about economic growth. Data from Markit Economics that showed India's manufacturing sector activity expanded at the quickest pace in five months March helped lift sentiment.
- Also, investors continued to bet on GST roll out from July this year. The Sensex ended up 289.72 points, while the Nifty50 gained 69.10 points that day.
- Sensex scaled the 30,000 mark in early trades on Wednesday.
- Realty stocks saw some strong buying on Thursday following the central bank's decision to allow banks to invest in REITs (Real Estate Investment Trusts) and InvITs (Infrastructure Investment Trusts).



## Equity Market Outlook

### Global:

- Markets were mixed on Friday after the US launched missile strikes on Syria in retaliation for the regime's use of chemical weapons. After an angry response from Russia, which included positioning a Russian warship in between US sea forces and Syria, markets are likely to remain alert for any increase in geopolitical risk. The US Navy said that it was sending the USS Carl Vinson aircraft carrier towards North Korea diverting it from its planned route to Singapore. US Secretary of State Tillerson said that regime change in North Korea was not a US policy objective. Gold gave back its earlier gains in the day.
- On Friday China reported that foreign exchange reserves had actually slightly

## Domestic Markets



Index	07-Apr-2017	31-Mar-2017	% Change
S&P BSE Sensex	29706.61	29620.5	0.29
Nifty 50	9198.3	9173.75	0.27
Nifty Midcap 100	17398.15	17197.15	1.17
Nifty 500	8045.35	7995.05	0.63
S&P BSE Smallcap	14681.42	14433.86	1.72

## Global Markets



Index	07-Apr-2017	31-Mar-2017	% Change
Dow Jones	20656.1	20663.22	-0.03
Nasdaq	5877.81	5911.74	-0.57
S&P 500	2355.54	2362.72	-0.3
FTSE 100	7349.37	7322.92	0.36
Shanghai Composite	3286.62	3222.51	1.99
Hang Sang	24267.3	24111.59	0.65

## Institutional Flows (Equity)



Description (INR Cr)	Purchases	Sales	Net
FII Flows*	25958	20962	4996
MF Flows*	10354	8720	1634

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



Date	Index	Stocks
03-Apr-2017	1456.67	416.11
05-Apr-2017	537.48	-243.44
06-Apr-2017	-627.64	9.66
07-Apr-2017	400.87	511.49
31-Dec-1899	0	0

## Policy Rates



Key Rates (%)	07-Apr-2017	1 Week Ago	1 Month Ago
Reverse Repo	6	5.75	5.75
Repo	6.25	6.25	6.25
CRR	4	4	4
SLR	20.75	20.75	20.75

## Key Rates



increased by \$4bn as the USD fell in March. China will be reporting inflation, PPI, money supply and trade figures in the coming week. Over the weekend, China said that the chairman of the Insurance Regulatory Commission was under investigation.

- US non-farm payroll data on Friday was only 98k, the lowest figure since May 2016. US 10yr bond yields reached a low of 2.27%, their lowest since Nov 16, before rebounding to 2.38%. The coming week will see PPI and CPI data. Retail sales are expected to stall while inflation could remain subdued. Markets will also be waiting to hear from Fed speakers about their intentions about tapering the Fed's balance sheet.

#### Local:

- The Nifty was up 0.3% over the week in-line with the region but remains the best performing market in the region YTD. Realty stocks rallied while IT/Pharma were again weak. The INR appreciated another 0.9% over the week vs the USD as FII inflows into both debt and equity remain strong in April after a very strong March. Currency strength has been the key reason behind India becoming the best performing market YTD in AxJ.
- The Uttar Pradesh state government has decided to waive farm loans totalling Rs360bn (including NPAs of Rs60bn). This is a large sum adding up to 3% of the state GDP and 10% of the overall state gov't expenditure. This will have either fiscal implications or the gov't will need to reduce expenditure elsewhere to accommodate it. The estimated number of beneficiaries is 20m. This has created a clamour for such waivers in several other states including Tamil Nadu and Maharashtra (the two biggest states by GDP). The RBI governor has said that such waivers engender moral hazard.
- At its bi-monthly meeting, the MPC maintained its neutral stance in the backdrop of concerns on inflation, keeping the repo rate unchanged at 6.25%. It however raised the reverse repo rate by 25bps to further narrow the corridor of policy rate which may be aimed at absorbing excess cash in the banking system after demonetisation. The RBI remains cautious on inflation, highlighting uncertainty around the outcome of the monsoon with rising probability of El Nino.

#### View:

- We have been reiterating that correction in Indian equity markets should be used as an opportunity to add to the equity exposure as 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.

Key Rates (%)	07-Apr-2017	31-Mar-2017	% Change
Mibor Overnight	6.16	7.37	-16.42
CALL (O/N)	5.92	6.04	-1.99
CBLO	5.8	5.47	6.03
T Bills Index (12M)	6.14	6.1	0.66
10 Year GSEC	6.82	6.68	2.1

## Commodity Market



Commodity (INR)	07-Apr-2017	Gain+/Loss-	% Change
Gold (10 gm)	28796	99	0.34
Silver (1 kg)	41896	179	0.43
Crude Oil (\$/barrel)	55.34	2.51	4.75

## Currency Market



Currency	07-Apr-2017	Gain+/Loss-	% Change
USD/INR	64.39	-0.45	-0.69
EURO/INR	68.56	-0.69	-1
GBP/INR	80.26	-0.62	-0.77
JPY/INR	59.19	1.23	2.12



## Debt Market Update

- Indian sovereign bond yields rose this week, with the yield on the benchmark paper posting its biggest gain in four weeks, after the central bank said it will use some tools to absorb excess liquidity in the banking system.
- The benchmark 6.97% bond maturing in 2026 settled at 101.03 rupees, the lowest level since Mar. 24, yielding 6.82%, against 101.38 rupees and a 6.77% yield at the previous close. On a weekly basis, the benchmark yield rose 13 basis points, the biggest weekly gain since week ended Mar. 10.
- At the conclusion of its two-day review, the Monetary Policy Committee held repo rate steady at 6.25% as expected, but hiked the reverse repo rate by 25 basis points to 6% and slashed the marginal standing facility rate by 25 basis points to 6.50%, in a bid to keep market rates anchored to policy rate.
- The Reserve Bank of India said it is committed to reverting system liquidity to a position closer to neutrality, consistent with the monetary policy stance. The RBI may include longer-term reverse repos, issuance of short and long-maturity securities under the so-called Market Stabilisation Scheme, cash management bills, as well as government bond sales to shrink surplus funds with banks, the regulator said.
- Surplus cash with lenders swelled following New Delhi's ban on high value currency notes and liquidity has been the main driver of the bond market, dealers said. The benchmark yield had touched a low of 6.11% on Nov. 25, lower than the central bank's policy rate. Dealers currently peg system wide surplus at around 4.36 trillion rupees.
- The six-member MPC also raised its inflation projection for this financial year that started Apr. 1 to 4.5%-5.0% from 4%-5% earlier.
- India fully sold 150 billion rupees of four government notes in its inaugural auction for this fiscal year against fears of devolvement.



## Debt Market Outlook

- The RBI announced bi monthly MPR last week, they raised reverse repo rate to 6% and decided to cut MSF rate to 6.50%.
- The decision was as good as a surprise this time as well as market was expecting and status quo and neutral to a dovish outlook given the recent trend in the global bond yields and crude oil prices. The RBI refrained from giving any kinds of hope to the market and maintained hawkish stance on inflation for H2 therefore we will have to wait for 6m at least irrespective of any trend emerging in the global or domestic market.
- RBI acknowledged that due to HRA revision there will be impact on the inflation which will be one time however showed concerns on farm loan waiver
- There was no clarity given on much awaited SDF which will be used post parliamentary approval
- The objective of RBI to hike reverse repo rate was to take the overnight rates higher closer to the only policy rate which is the repo rate however as the liquidity surplus is large and therefore its trading below 6% mark however probably we may see the t bill and other short term instruments will see some reset and the rates may move

- higher by 10-20 bips
- Since RBI has shown commitment to drain excess liquidity they may use MSS and CMB and a remote possibility of a CRR also can't be ruled out
- 10yr traded in the 6.84-6.77 band, closed the week @6.84%.
- We have started regular G sec auction and the first auction itself raised some suspicions as if the auctions are well bided then cut-off comes between 200-2.30 however this time around the auction was well bided and much above market levels still the cut-off came at 3. Pm which doesn't augur well for the demand supply situation and therefore one has to watch carefully before taking any decision
- Crude Oil Prices were 52-55\$ per barrel. the crude oil px rose in reaction to the air strike conducted by US in Syria however its unlikely to take the prices sharply higher from here . we expect the crude to be in the range of 45-55\$ mark which is positive for India macro
- India need strong exports and INR was already over valued at 67-68 zone post the policy INR appreciated further to 64.40 and RBI seems ok with strong INR which is even more puzzling as tight rates will help appreciation even more which will hurt exports
- RBI stance may be justified if global central banks contracting balance sheet impact india adversely in the coming year but again as our macro is good therefore its not we should excessively worry for but as a central bank rbi will have to prepare much in advance so wait and watch who has the laugh
- We saw good inflows from FII in both debt and equity market. In debt market as of now its not coming in duration but given the move in INR this can soon happen
- US 10yr was down from 2.41% to 2.38% levels.
- As of now SDL supply looks benign but it will shoot up in the second half of the year and the supply is large therefore spreads are unlikely to contract meaningfully however the carry is attractive
- We expect 10yr to trade in 6.80-6.90% band during current week however soon this will be an outgoing security therefore rising yield of this security has no meaning the rest of the curve has already discounted the same and lets wait for the new one



## Commodity Market Update

### Gold Update :

- Gold demand in Asia remained soft this week, with premiums in China notching a slight uptick and those in India remaining unchanged, as higher prices kept physical buyers at bay.
- Indian demand for the yellow metal fell this week primarily due to a rally in overseas rates, though an appreciating rupee capped upside in local prices.
- In the local market, gold futures were trading around 28,900 rupees (\$449) per 10 grams on Friday, up 1.5 % from a week ago.
- The Indian rupee has risen 5.5 % against the U.S. dollar so far in 2017, partly offsetting gains in overseas gold prices.
- Dealers in India were charging a premium of up to \$1 an ounce this week over official domestic prices, unchanged from the last week. The domestic price includes a 10 % import tax.
- In top consumer China, premiums were around \$10 to \$12 per ounce against the international benchmark, up from last week's to \$8 to \$10.
- In Hong Kong, premiums were quoted in a range of 70 cents to \$1 an ounce, mostly unchanged from last week, while in Singapore, gold was being sold at premiums between around \$1.20 to \$1.50.

### Crude Oil Update :

- Crude oil prices rose sharply to one-month highs following the US airstrike on Syria, although there was selling interest at highs with markets still wary over excess US inventories.
- Oil prices maintained a firm tone during the New York session on Thursday, although WTI hit resistance on approach to the \$51.80 p/b area.
- Prices were supported by underlying optimism surrounding global demand for oil which would help soak-up bloated inventories.
- Early in the Asian session on Friday, the US launched a cruise-missile attack on a key Syrian military airbase. The attack was in response to the alleged use of chemical weapons by Syria earlier in the week. Oil prices spiked higher on the reports with concerns that any sustained increase in regional tensions could disrupt crude supplies.
- WTI immediately strengthened to the \$52.80 p/b level and peaked at \$52.90 with Brent pushing to highs just above the \$56.00 p/b level.
- Prices gradually retraced later in Asia and into the European open, although there was initial support on approach to \$52.25 p/b.
- Increased geo-political tensions could, however, also undermine attempts to extend oil-production cuts, especially if there is any deterioration in relations between Saudi Arabia and Iran and this would tend to be a negative factor for prices.



## Currency Market Update

- The Indian rupee continued its undisputed performance against the US currency and ended at a fresh 20-month high of 64.28 on the back of frantic dollar unwinding by speculative traders amid escalating geo-political jitters.
- Though, the home currency withstood a mid-week jittery it witnessed wide swings between 64.16 on the higher end and 65.17 at the lower end, finally closing with solid 57 paise gain against the dollar.
- A highly volatile dollar overseas along with uncertainties surrounding US President Donald Trump's fiscal policy helped the rupee close higher too even as speculative traders and exporters offloaded their long dollar bets.
- The overall forex market sentiment also got a leg-up after the RBI projected India's

growth at 7.4 % for the current fiscal, up from 6.7 %.

- This is the seventh-straight week surge for the rupee and appreciated by a whopping 273 paise against the dollar.
- At the Interbank Foreign Exchange market, the rupee resumed marginally higher at 64.80 from last Friday's close of 64.85 but soon lost momentum and drifted to a low of 65.17.
- But, quickly regained its solid strength, the local unit hit a fresh high of 64.16 before ending at 64.28, showing a smart gain of 57 paise, or 0.88 %.
- This is the highest for the rupee since August 11, 2015 -- when it had ended at 64.19 against the greenback.
- The dollar index a measure of the US currency against a basket of peers climbed further to settle at 101.08 from last weekend level of 100.42.
- India's forex reserves went up by \$ 2.02 billion to \$ 369.95 billion in the week to March 31 on a huge jump in currency assets, the Reserve Bank said.

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