Date: 11/08/2017

Weekly Market Update

kotak Mutual Fund

Financial Market & Economy Update

- **Economic Survey:** India has now emerged as one of the most open economies in the world for receiving FDI. Equity inflow of $43.4 billion in 2016-17, which is not only an increase of 8% over the previous year, but also the highest ever.
- Mauritius, Singapore and Japan have been top three source countries of FDI inflows to India contributing 36.2%, 20% and 10.8%, respectively, during 2016-17, according to the survey.
- India's Economic Survey report flagged risks to fiscal policy stance citing lower tax revenue on the back of slower-than-expected nominal gross domestic product growth and muted goods and services tax rates, among others.
- Reduced telecom spectrum receipts and higher expenditure due to implementation of the 7th Pay Commission estimated at 300 billion rupees risk New Delhi missing stated fiscal discipline goals, but upside potential to revenue from GST compliance and gains from demonetisation could help mitigate those risks, the survey said.
- Industrial activity in June contracted 0.1%, the lowest reading since June 2013, driven primarily by a 6.77%contraction in capital goods.
- India's south-west monsoon rains for the annual June-September monsoon season until Aug. 9 were 3% below normal at 518.3 millimetres, according to the federal weather office. The IMD has forecast normal monsoon this year, which will likely be 98% of the long period average, with a four-%age point swing either ways.
- Direct tax collection registered a steady growth of 19.1 % in the first 4 months of the current fiscal to Rs 1.90 lakh crore. The collection for the April-July period is 19.5 % of the Rs 9.80 lakh crore target from this segment for the entire 2017-18.
- U.S. President Donald Trump once again warned North Korea to not strike Guam or U.S. allies, saying his earlier threat to unleash "fire and fury" on Pyongyang if it launched an attack may not have been tough enough
- China on Tuesday reported July exports were up 7.2 % in dollar terms, while imports were up 11.0 % in dollar terms. Both were lower than expected.

Equity Market Update

- Both the S&P BSE benchmark Sensex and NSE 50-share Nifty snapped their 5-week winning streak by tumbling 1,112 points and 356 points respectively due to profit-booking from investors in view of global tension amidst foreign capital outflows.
- The Nifty started the week at 10,074.80 and traded in the range of 9,685.55-10,088.10. The index finally closed at 9,710.80, down 3.53 % from last Friday's close.
- After opening at 32,377.80 points, the Sensex gave away 3.44 % in this week to close at 31,213.59.
- Among sectoral and industry indices, realty declined by 9.80 % followed by healthcare 7.71 %, auto 6.10 %, power 5.37 %, capital goods 4.49 %, bankex 3.48 %, FMCG 3.16 %, oil&gas 3.01 %, metal 2.57 %, teck 1.76 %, IT 0.99 % and consumer durables 0.61 %.
- Meanwhile, foreign portfolio investors (FPIs) and foreign institutional investors (FIIs) sold shares worth Rs 1,624.63 crore during the week.
- The total turnover during the week on BSE and NSE rose to Rs 23,778.08 crore and Rs 1,43,020.34 crore, respectively, as against last weekend's level of Rs 17,711.06 crore and Rs 1,33,786.99 crore.

Equity Market Outlook

Global:

- Markets are likely to remain nervous as tension between the US and North Korea continues. North Korea has threatened to fire missiles towards Guam, a move which US President Trump has vowed to retaliate with "fire and fury". Despite the increased rhetoric, weekend press reports suggested that US forces were not being mobilized and a US Pacific carrier group returning to its base in Japan. Chinese President Xi urged leaders of both sides to exercise restraint.
- Equity volatility in the Kospi rose to its highest level since the US election while Korea 5yr CDS rose to 70bps from a low of 39bps last September as markets finally started to become more nervous about increasing tensions on the Korean peninsula.
- The recent rise in volatility to its highest levels of the year has led to the start of positions being unwound. Safe havens have been bid in the past week with gold, yen and Treasury bonds all rallying. Gains in US Treasuries were helped on Friday by weaker than expected inflation figures in the US. French and German CPI remain below the ECB target indicating that Eurozone CPI will remain subdued when it is reported in the coming week. Eurozone GDP numbers will also be released and the ECB minutes from its last meeting will be scrutinized. The global figures come after US PPI and China CPI also missed expectations.
- Fed minutes this week will be watched for the future direction of US monetary policy with policymakers likely to continue on a tightening track. Markets will be looking for

Domestic Markets

Index	11-Aug-2017	04-Aug-2017	% Change
S&P BSE Sensex	31213.59	32325.41	-3.44
Nifty 50	9710.8	10066.4	-3.53
Nifty Midcap 100	17360.75	18365.25	-5.47
Nifty 500	8427.7	8776.2	-3.97
S&P BSE Smallcap	15036.33	15926.63	-5.59

Global Markets

Index	11-Aug-2017	04-Aug-2017	% Change
Dow Jones	21858.32	22092.81	-1.06
Nasdaq	6256.56	6351.56	-1.5
S&P 500	2441.32	2476.83	-1.43
FTSE 100	7309.96	7511.71	-2.69
Shanghai Composite	3208.54	3262.08	-1.64
Hang Sang	26883.51	27562.68	-2.46

Institutional Flows (Equity)

Description (INR Cr)	Purchases	Sales	Net
FII Flows*	22916	23466	-550
MF Flows*	10869	8022	2847

F&O FII Trends (Rs. Crs)

Date	Index	Stocks
07-Aug-2017	-663.37	-269.85
08-Aug-2017	868.47	95.56
09-Aug-2017	1919.9	34.1
10-Aug-2017	2926.28	112.48
11-Aug-2017	-878.66	-228.01

Policy Rates

Key Rates (%)	11-Aug-2017	1 Week Ago	1 Month Ago
Reverse Repo	5.75	5.75	6
Repo	6	6	6.25
CRR	4	4	4
SLR	20	20	20

Key Rates

clues about the timing of any balance sheet reductions. Fed Governor Dudley recently said that the market should not expect inflation to return to the Fed's 2% target any time soon. Rate markets have reduced the probability of future rate hikes. US industrial production, leading index and Philly Fed numbers will be reported this week as well as housing starts and retail sales.

- The USD will continue to remain a focus as it trades near 30-month lows. A rise in the USD could lead to an unwind of the carry trade but FX participants are likely to square positions ahead of the Jackson Hole symposium the following week. There was sporadic weakness amongst certain Asian currencies such as the KRW, INR and the PHP but this is yet to manifest itself more broadly. The CNY continued to strengthen against the USD.

Local:

- The Medium-term Expenditure Framework by the Government gives good insights into the thinking of the policymakers as they list out the FY19 and FY20 expenditure plans well ahead of the budget. These numbers, however, should be looked at only as a directional guidance as the final numbers would be out only in the budget. The key takeaways are: 1) Central Govt is firmly on the path of fiscal consolidation; 2) Govt expects GST to drive tax-to-GDP ratio up by 60bps over the next two years; 3) Surge in social expenditure growth; 4) Continued commitment to the housing program, and 5) Focus on capex.

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

- Indian government bonds fell this week, with the benchmark yield rising the most in four months after heavy supply of debt through an earlier OMO sale and weekly auctions on Friday.
- The benchmark 6.79% bond maturing in 2027 ended at 102.04 rupees, yielding 6.50% in Friday. The benchmark yield rose by seven basis points, its biggest weekly rise since the week ended Apr. 7. The bond had closed at 102.10 rupees on Thursday, the lowest since Jul. 7, yielding 6.49%.
- The Reserve Bank of India today sold bonds worth 150 billion rupees, including 80 billion rupees of the benchmark note. The cut-off price for the note was below market expectations, leading to further downward pressure on bond prices.
- The central bank had earlier sold bonds worth 100 billion rupees under an open market operation, its third such auction in this financial year. It had sold bonds worth 200 billion rupees in July.
- Apart from this, states raised 202 billion rupees, while the RBI also sold cash management bills worth 200 billion rupees earlier in the week.
- The RBI's board yesterday approved the transfer of 306.59 billion rupees in surplus to the government for the year ended Jun. 30, against a transfer of 658.76 billion rupees in the previous accounting year, and 658.96 billion rupees the year before that.
- A lower-than-expected dividend from the RBI would weigh on New Delhi's finances but higher direct tax revenue and proceeds from recently-launched goods and services tax may cushion the shortfall, Arvind Subramanian, the chief economic adviser to the finance ministry

Debt Market Outlook

- Overall liquidity remained surplus in the band of 2.6-3.00 lac cr
- Overnight rates were stable at 6.00-6.05 repo rate
- Indian sovereign bond yields sold off on the back of tension emerging on the border and less dividend received to the gove from the RBI 30k vs 74k budgeted.
- The Week was also full with supply of bonds 20k SDL 10k OMO and 15K normal auction 10+15k T bill and 20k CMB probably this would have been the heaviest week in terms of bond supply.
- The under tone remain bullish as heavy supply coupled with bad news the overall move it was reasonable and good closing on the 10 ye benchmark. At 6.50%
- The curve was seen steepening sub 2025 yields came of by 2-3bip vs the 10 yr went up by 2-3 bp
- The global bonds yields were trending down the UST showed went down to 2.18 as the CPI data was benign and risk off scenario in the global markets
- India's CPI inflation is set to reverse course, as the base effect goes off and HRA impact will come into play soon and we expect the head line CPI to be aprox 2% however there is a changce of the same shooting to 2.5 as well but we do not expect the number to go beyond 3.5% bu march 2018
- RBI will give clarity on demon div by march 2018 as the counting is a physical work and will take time.
- The mid year eco survey was released and some of the points made were pro bonds markets
- RBI has over estimated inflation by 1% and headline is expected to remain under control within 4%
- Policy rates are higher by 50-75bips from neutral
- Some demon div expected by year end which will be clear in the balance sheet of the rbi as and when released
- RBI announced 10k via omo for 29 aug coinciding with the G sec maturity aprox 30k cr
- The headline CPI is expected to rise till 3.5% till march 2018 this is still a

Key Rates (%)	11-Aug-2017	04-Aug-2017	% Change
Mibor Overnight	5.99	5.95	0.67
CALL (O/N)	5.85	5.9	-0.85
CBLO	5.89	4.86	21.19
T Bills Index (12M)	6.23	6.17	0.97
10 Year GSEC	6.5	6.44	0.93

Commodity Market

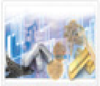
Commodity (INR)	11-Aug-2017	Gain+/Loss-	% Change
Gold (10 gm)	29002	535	1.88
Silver (1 kg)	39062	1096	2.89
Crude Oil ($/barrel)	51.75	-0.67	-1.28

Currency Market

Currency	11-Aug-2017	Gain+/Loss-	% Change
USD/INR	64.17	0.54	0.85
EURO/INR	75.46	0.07	0.09
GBP/INR	83.27	-0.89	-1.06
JPY/INR	58.76	1.23	2.14

comfortable number from policy point of view however RBI would like to wait and watch.

- The FII limits are likely to relaxed for corp bonds as the current limits utilised
- G sec 2022-2025 illiquid were the beat performs we could not capture the move
- Despite good correction in the equities the INR remained strong however breeched 64 but the trajectory remained bullish
- We remain constructive on rates and will be concentrating on 2027-2034 maturities as a core strategy for duration funds
- 6.43% is big support for yields if the market is able to break the same will be able to test the earlier lows soon.



Commodity Market Update

Brent Crude:

- Oil finished higher Friday, finding some support as data showed that the number of active U.S. oil rigs rose only slightly for the week, raising the likelihood that drilling activity has stabilized.
- Prices, however, still ended lower for the week after reports of a climb in July OPEC crude production, and as tensions tied to North Korea keep investors on edge
- The number of active U.S. rigs drilling for oil climbed by 3 to 768 rigs this week, according to data from Baker Hughes BHGE, -1.18% Friday. The modest rise follows a 1-rig tick lower a week earlier.
- Concerns about elevated OPEC production and falling compliance to the global output cap deal that is currently scheduled to last through [the first quarter of 2018] is keeping WTI prices from breaking through the $50 a barrel mark near term

Gold:

- While safe haven play was noticed in precious metals this week.
- COMEX gold and MCX gold prices both rallied by more than 2.2 % this week on account of simmering tensions between US and North Korea and exchange of threats prompted investors to move towards safe haven asset.
- Globally, on Friday, Spot gold inched down 0.1 % to $1,284.64 per ounce as of 0616 GMT, but was set for a weekly gain of over 2 %.
- Meanwhile, gold demand in India remained sluggish this week as local prices jumped to their highest level in nearly three months and a rally in global prices dampened fresh buying elsewhere in Asia.
- Silver edged down 0.3 % to $17.04 per ounce after hitting $17.24, its highest since June 14, in the previous session. It was on course for an over 5 % weekly rise, the highest such gain since July 2016.

Currency Market Update

- The Indian rupee posted its first weekly loss in five against the dollar, and its steepest in about nine months, as rising geopolitical tensions between North Korea and the United States fuelled global risk aversion.
- On a weekly basis, the currency fell 0.9%, its first since the week ended Jul.14, and the largest weekly decline since the week ended Nov. 18, 2016.
- The dollar index, which measures the greenback against six major currencies, fell 0.16% yesterday and was last trading down 0.02%.
- On the week, the euro gained 0.4% against the buck, while sterling dipped 0.3%.Other Asian currencies, however, stumbled on fears of a conflict in the region. The dollar rose 1.3% against the South Korean won, over the week.
- The country's foreign exchange reserves touched a new life-time high of USD 393.448 billion after rising by USD 581.1 million in the week to August 4 on account of increase in foreign currency assets (FCAs), the RBI data showed.