Date: 12/01/2018

Weekly Market Update

kotak Mutual Fund

Financial Market & Economy Update

- India has proposed to levy a 70% safeguard duty on import of solar power equipment from countries like China for 200 days to protect domestic industry from "serious injury".
- Direct tax collections soared 18.2% during the first nine months of current fiscal at Rs 6.56 lakh cr, the finance ministry said Tuesday.
- In a relief for Indian techies, US authorities on Tuesday said that the Trump administration is not considering any proposal that would force H-1B visa holders to leave the country.
- In major changes liberalising foreign direct investment in key sectors, the Union Cabinet on Wednesday approved 100% foreign investment in single brand retail trading (SBRT) and construction development and decided to open up Air India for FDI up to 49%.
- The Union Cabinet led by PM Narendra Modi on Wednesday took a number of decisions including big bang FDI reforms ahead of the Budget 2018.
- To restrict the usage of Aadhaar number Unique Identification Authority of India has introduced Virtual IDs (VID), which any Aadhaar holder will be able to generate for a temporary period and can use in place of the Aadhaar number to validate her or his identity.
- India's retail inflation rate accelerated to 5.21% in December from a year earlier, the fastest pace of annual expansion since July last year, as prices of food turned costlier, government data showed.
- Rice prices gained this week in India as Bangladesh continued to lap up the staple grain from its neighbour, while prospects of deals with the Philippines saw rates climb for the first time in three weeks in a relatively quiet Vietnamese market. Top exporter India's 5 % broken parboiled rice prices rose by about $2 per tonne this week to $423-$427.
- Rating agency Moody's has said India and China remain the fastest growth economies in Asia Pacific region.
- Four justices of the Supreme Court of India on Friday criticised its distribution of cases to judges and raised concerns about judicial appointments, in an unprecedented public airing of problems at one of the country's most respected institutions.
- India's vegetable oil imports in December fell 10 % from a year ago to 1.1 million tonnes as refiners slashed overseas soyoil purchases after supplies rose from the local crop, a trade body said on Friday.
- Factory output saw a big jump in November to 8.4% vs 2.2% in October while CPI crossed the 5% mark from 4.88% a month ago, in line with estimates.
- Europe's economic recovery is deepening, data showed on Tuesday, with Eurozone unemployment falling to its lowest level since Jan 2009. The EU's official statistics agency said that the jobless rate in the single currency area fell to 8.7% in Nov.
- German industrial orders fell in Nov for the first time since Jul, data showed on Monday, Factories registered a 0.4% drop in orders.
- China's factory inflation slowest in 13 months as war on pollution steps up. The producer price index (PPI) rose 4.9% in Dec from a year earlier, the slowest growth since Nov 2016, the National Bureau of Statistics (NBS) said on Wednesday.
- British industrial output rose by a monthly 0.4 % in November, compared with 0.2 % in October, spurring an annual rise of 2.5 %.
- The German economy grew by a less than expected 2.2 % in 2017, the strongest rate in six years and an improvement on the previous year, a preliminary estimate from the Federal Statistics Office showed on Thursday.

Equity Market Update

- Market extended its weekly winning streak for the sixth time in a row, gaining 438.54 points and registered all time new record high at 34,592.39, while the broader Nifty captured new milestone 10,600.
- Bulls stayed strong as the market saw record-making run during most trading sessions of the week, barring some profit-booking on account of slight caution over quarterly results season as well as sentimental sell-off on concerns over apex court after a virtual revolt against Chief Justice by four senior judges.
- The market also climbed on bullish global peers, while IT index climbed on account of relief on US H1B visa norms.
- The Sensex started the week higher at 34,216.33 and hovered between marking all time new highs at 34,638.42 and low of 34,216.33 before settling the week new record highs at 34,592.39, showing a gain 438.54, or 1.28 %.
- The Nifty also resumed the week up at 10,591.70 and marked above the key milestone of 10,600-level at 10,690.40 and low of 10,588.55 before ending the week at record closing at 10,681.25, showing a gain of 122.40 points, or 1.16 %.
- Among sectoral and industry indices, realty climbed by 5.51 % followed by IT 4.50 %, teck 2.88 %, IPO 2.54 %, oil&gas 1.26 %, metal 1.25 %, FMCG 0.96 %, capital goods 0.80 %, bankex 0.56 %, healthcare 0.38 % and consumer durables 0.11 %. However, power fell by 0.84 % and auto 0.24 %.
- The S&P BSE Mid-Cap index advanced rose 67 points or 0.37 % to settle at 18,137.03. The S&P BSE Small-Cap index gained rose 288.27 points or 1.46 % to settle at 19,993.19. Both these indices outperformed the Sensex.
- Foreign Institutional Investors (FIIs) sold shares worth Rs 496.47 crore during the week.

Domestic Markets

Index	12-Jan-2018	05-Jan-2018	% Change
S&P BSE Sensex	34592.39	34153.85	1.28
Nifty 50	10681.25	10558.85	1.16
Nifty Midcap 100	21694.55	21499.85	0.91
Nifty 500	9665.2	9573.45	0.96
S&P BSE Smallcap	19993.19	19704.92	1.46

Global Markets

Index	12-Jan-2018	05-Jan-2018	% Change
Dow Jones	25803.19	25295.87	2.01
Nasdaq	7261.06	7136.56	1.74
S&P 500	2786.24	2743.15	1.57
FTSE 100	7778.6	7724.2	0.7
Shanghai Composite	3428.94	3391.75	1.1
Hang Sang	31412.54	30814.64	1.94

Institutional Flows (Equity)

Description (INR Cr)	Purchases	Sales	Net
FII Flows*	25389	24835	554
MF Flows*	20920	19463	1457

F&O FII Trends (Rs. Crs)

Date	Index	Stocks
08-Jan-2018	2932.29	-246.08
09-Jan-2018	189.89	182.84
10-Jan-2018	-151.65	319.96
11-Jan-2018	176.48	113.65
12-Jan-2018	1081.43	1037.82

Policy Rates

Key Rates (%)	12-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

Equity Market Outlook

Global:

- Investors will be deciding in the Asian Week Ahead whether to chase the current melt-up in the equity market. A new phase of the market appears to have begun with accelerated gains in the equity market as the USD reaches its lowest level since the end of the Fed's tapering in 2014. The Euro reached its highest level against the USD since 2014 while the yen broke its 200-day moving average. The pound reached its highest level against the USD since the Brexit vote and Asian currencies were at their highest level against the USD since the Chinese devaluation in 2015. Investors will be watching the USD carefully as well as seeing whether bond markets will see a further selloff in the coming week. Corporate earnings will provide another focus in a week that could get off to a relatively slow start as US markets are closed for a holiday on Monday.
- The correlation between risk and weakness in the USD has propelled equity markets to their best start to the year since 2003 with a broad based move higher in global equities. Meanwhile bonds are having their worst start to the year since 2013. Bond yields have traditionally fallen after Central Banks finish their QE programs – Central Bank purchases have fallen from an expected $109bn in December to just $62bn in January although the weaker USD will help to swell that number.
- Although it will be a relatively light week of macro data in the coming week in the US, with only industrial production and housing starts providing a focus, there will be a significant amount of macro data released in China. Q4 GDP, retail sales, fixed asset investment and industrial production are all due to be reported. Last week the trade figures showed the trade surplus had expanded again although M2 money supply growth at 8.2% was well below expectations.

Local:

- Data releases during the week suggest-a) healthy fuel consumption, b) robust domestic auto sales-PV/2W demand expanded 5%/42% respectively (partly due to a low base), c) sustained growth in net direct tax collections in Dec'17, d) appreciating real and nominal effective exchange rate in Dec'17, and e) a strengthening manufacturing sector - IIP index grew 8.4%YoY in Nov'17 (although over the Demonetization-led low base) vs. 5.1% in Nov'16. Key highlights on the policy front included the approval of 100% FDI in a) single retail brand retail (vs. 49% earlier, with residual through government approval) and b) construction development through automatic route to encourage higher FDI flows in the economy. With 6%YoY growth (vs. 1.3%YoY for the Centre) in states' net market borrowings (NMB), the ratio of states-to-centre's NMB stood at 63% (on 29Dec'17) vs. 60% during the same time last year. The external front of the economy remains broadly secure, with record high forex reserves and a stable INR.

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 bonds fell this week, with the benchmark bond yield posting its largest weekly rise in nearly one year, tracking a sharp spike in crude oil prices, retail inflation as well U.S. Treasury yields.
- India's retail inflation rate accelerated to 5.21% in December from a year earlier, the fastest pace of annual expansion since July last year, as prices of food turned costlier, government data showed.
- The benchmark 6.79% bond maturing in 2027 ended at 95.57 rupees in Mumbai, its lowest since its issuance on May 12. The yield ended at 7.46%, its highest since Jun. 27, 2016. The note had ended at 95.69 rupees and a 7.44% yield at the previous close. The benchmark bond yield rose by 17 basis points this week, its largest weekly rise since the week ended Feb. 10.
- Bonds have remained under pressure in the past few sessions, as U.S. Treasury yields have shot up, while crude oil prices are rising continuously which may put further upward pressure on inflation.
- U.S. Treasury yield rose after Bank of Japan said it will cut down on its government bond purchases. The 10-year yield rose to 2.60%, its highest since Mar. 15 during the week. It was last at 2.55%.
- Bond sentiment was also impacted after the Reserve Bank of India unexpectedly revised the December-quarter valuation of government bonds, with most bond yields being revised upwards.

Debt Market Outlook

1. During last week the new 10yr yield moved up by 14-15bps.
2. we saw similar movement in yield in rest of the G-Sec too.
3. Brent Crude prices moved up by 2$ during the week.
4. US yield also moved up during last week. US 10yr was up by 8-10 bps on a week on week basis.

Key Rates (%)	12-Jan-2018	05-Jan-2018	% Change
Mibor Overnight	6	5.98	0.33
CALL (O/N)	5.91	5.88	0.51
CBLO	5.87	2.14	174.3
T Bills Index (12M)	6.51	6.47	0.62
10 Year GSEC	7.28	7.29	-0.14

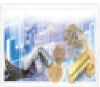
Commodity Market

Commodity (INR)	12-Jan-2018	Gain+/Loss-	% Change
Gold (10 gm)	29606	265	0.9
Silver (1 kg)	38732	89	0.23
Crude Oil ($/barrel)	69.87	2.25	3.33

Currency Market

Currency	12-Jan-2018	Gain+/Loss-	% Change
USD/INR	63.53	0.15	0.24
EURO/INR	76.53	0.03	0.04
GBP/INR	86.05	0.03	0.03
JPY/INR	57.09	1.03	1.84

5. US yield touched a high of 2.6%, given the inflation concern and news from China officials that treasuries were relatively less attractive.
6. We had the CPI release for Dec-17 due on Friday this week.
7. Market was divided with inflation expectation between 5-5.4%
8. Numbers closer to 5.5% would have been negative and would have increased the probability of rate hike.
9. CPI inflation at 5.2% according to us is neutral and confirms one long pause stance by the RBI.
10. We believe most of the negative are priced and if crude stabilizes at current level. Having said that based on our view of long pause we expect old 10yr to trade in 7.30% to 7.5% band.
11. Next important event for debt market would be budget.
12. If Fiscal deficit is maintained at 3.2-3.3% RBI would also take solace from low deficit and would like to continue with long term pause stance.
13. Liquidity is comfortable in the system, with CBLO hovering at 6%.
14. **March Maturity**:
    - CD-6.35-6.4%
    - CP-6.40-6.45%
    - NBFC CP-6.90-7%
15. **April Maturity**:
    - CD07%
    - HDFC CP-7.5%
    - NBFC CP-7.75%
16. Currently Liquid Fund for next 2 months would give return in the band of 6.5-6.6% and may inch up gaining in to march.
17. We beleive average liquid fund return over next 3months would be 6.7-6.8%
18. Currently June CD are in the band of 7-7.05%
19. Due to year end phenomenon, we can expect further 20bps upward move in short term rates.
20. We are confident UST scheme would deliver min 50bps over Liquid fund over next 3 months.
21. Kotak Low Duration(8.25%) can deliver min 75bps to 100bps over Liquid funds over next 3 years.
22. Short duration Fund 25-50bps over FMP.
23. **Accrual Fund**:
    - Portfolio Yield-8.9-9%
    - Many sub AAA opco(Operating Companies) are able to borrow cheap money from banks.
    - As we expect a long pause, we expect status quo in bank MCLR rate.
    - SBI MCLR 7.70, annaualised rate is 8.10%
    - Spread between AAA and sub AAA is compressed by capital market borrow rate has gone up, however since bank rate has not moved up, sub AAA rates have not moved up.
    - Risk reward suggest, distributors should prefer short duration & Banking and PSU funds over Accrual Fund.
    - Accrual Funds have delivered lower return over last 6 months due to MTM loss, portfolio yield has moved up from 8.4% to 8.9-9%
    - Accrual fund were sold with 7% guidance 6months before.
    - The client would end up earning 7% if he stays invested for 3 years(This needs to be communicated to distributors/investors) and allay the fear of rising yield would impact their 3years guidance.
    - If work with 6-8% Indian 10yr band, distributor should allocated 20% to duration from 3 years perspective.
    - Towards 7.75-8%(in 10yrs moves up) low probability as of now, 50% allocation to duration or higher duration accrual funds.



Commodity Market Update

Oil Update:

- In the international commodity front, global crude prices rallied for the fourth straight week with the Brent topping the key USD 70 a barrel for the first time in more than three years fuelled by a surprise drop in U.S. Production and lower inventories.
- Brent crude futures settled at USD 69.80 a barrel.
- For the week, Brent enjoyed a gain of about 3.3%, notching a four-week win streak.
- Oil prices have added around 13% since early December, benefiting from production cut efforts led by the Organization of the Petroleum Exporting Countries and Russia. The producers agreed in December to extend current oil output cuts until the end of 2018.

Gold Update:

- On a weekly basis, yellow-metal gained 3.52 % or Rs 1,335, while, white-metal too gained 5.98 % or Rs 2,230 in five-weeks.
- Elsewhere, silver too followed suit on increased offtake by industrial units and coin makers.
- In worldwide trade, Gold prices marked a fresh four-month high to tally a fifth week of gains in a row, finding support as the dollar extended its earlier decline despite a slightly higher-than-expected climb in core US inflation.
- February gold rose USD 12.40, or 0.9 %, to settle at USD 1,334.90 an ounce. Prices finished at the highest for a most-active contract since Sept 11.
- On the domestic front, standard gold (99.5 purity) resumed higher at Rs 29,465 per 10 grams from last Friday's closing level of Rs 29,425, it rose to Rs 29,715 before settling at Rs 29,830, revealing a gain of Rs 405, or 1.37 %.
- Pure gold (99.9 purity) also commenced higher at Rs 29,615 per 10 grams compared to preceding weekend level of Rs 29,575, it regained to climbed at Rs 29,865 before closing at Rs 29,980, showing a rise of Rs 405, or 1.37 %.
- Silver ready (.999 fineness) opened negative at Rs 38,655 per kilogram from last Friday's closing level of Rs 38,725, it also moved between Rs 38,885 and Rs 38,475 before finishing at Rs 38,850, registering a gain of Rs 125 per kilo, or 0.32 %

Currency Market Update

- The Indian rupee suffered a major setback and endured a sharp reversal in fortunes against the US currency on fresh bouts of dollar demand amid fears of a flare-up in global crude price
- Breaking an extreme bullish uptrend, the home currency retreated sharply from a fresh three-year high and ended lower by 26 paise at 63.63, capping a spectacular two-week upsurge.
- The home currency had strengthened by a whopping 68 paise.
- The Indian rupee hit a fresh 3-year high of 63.37 against the US dollar last Friday.
- In the meantime, country's foreign exchange reserves surged by USD 1.758 billion to mount a new record high of USD 411.124 billion in the week to January 5, the RBI said.
- At the Interbank Foreign Exchange (forex) market, the home currency opened the week with a strong footing at 63.33 from last weekend close of 63.37 on steady dollar selling from exporters and banks.
- The Indian currency, later plummeted to hit a fresh 2018 low of 63.85 in early breakneck selloff before similarly climbing back to regain some lot ground to end at 63.63, showing a loss of 26 paise, or 0.41 %.
- The dollar index, which measures the greenback's value against a basket of six major currencies, was down at 91.10 in early trade.