



Financial Market & Economy Update

- Retail inflation cooled to 1.54% in June from a year earlier, the slowest pace of expansion since the formal introduction of the index in 2012, triggering expectations that India's Monetary Policy Committee will likely cut rates at its meeting on Aug. 2.
- Wholesale inflation rose 0.9% in June, its slowest pace of annual expansion since July last year, government data showed.
- Index of Industrial Production (IIP) or factory output for the month of May 2017 stood at 1.7% compared to 3.1% in April and 2.7% in the month of March 2017.
- India's rainfall during the June-September season, until Jul. 12, was 1% below normal at 268.7 millimetres, according to the IMD's statement. 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.
- The government has extended the deadline for listed PSUs to achieve the minimum 25 % public shareholding norm by a year to August 2018, a finance ministry order said.
- Railway Minister Suresh Prabhu reached out to private players for the creation of new design wagons to cater to market demands.
- India's steel consumption grew by 4.6% to nearly 21 million tonne in the first quarter of the current fiscal over the same period in 2016, while the country's steel exports jumped by nearly 66% in the April-June period, a Ministry report said
- Factory output growth slowed down to 1.7 % in May due to poor performance of manufacturing even as retail inflation dipped to historically low level of 1.54 %, raising clamour for interest rate cut by the RBI next month
- The government in Uttar Pradesh presented a Rs 3,84,660-crore budget for 2017-18 — up 10.9% from the previous year — in the state assembly with a special provision of Rs 36,000 crore to enable waiver of crop loans of small and marginal farmers.
- Government raised the import duty on sugar to 50% from 40% to discourage dumping of cheaper supplies from abroad and as local prices stabilise after a spike earlier this marketing year.
- Federal Reserve plans for gradual interest-rate increases hinge on inflation rising to its 2 % target, but it's not showing up, undermining Chair Janet Yellen's case for further policy tightening.



Equity Market Update

- The benchmark indices zoomed to capture 32,000-level, gaining 660.12 points to finish the week at 32,020.75, while the broader Nifty marked the psychological 9,900-level for brief period before settling the week at 9,886.35, garnering 220.55 points.
- The key index made strong gains on buying by funds and foreign institutional investors (FII).
- The market sentiment already enthused by trouble-free GST roll-out last week was further buoyed-up by drop in June Retail Inflation (CPI) data
- Buying was led by PSUs, Oil&Gas, Teck, IT, IPO, Power, Bankex, HealthCare, Capital Goods, Metal, Auto and FMCG sector
- The secondline midcap and smallcap shares also made substantial gains. While Realty and Consumer Durable counters ended up with losses.
- Meanwhile, foreign portfolio investors (FPIs) and foreign institutional investors (FIIs) bought shares worth Rs 1,459.86 crore during the week, as per Sebi's record including the provisional figure of Jul 14.
- The total turnover during the week on BSE rose to Rs 26,550.34 crs as against last weekend's level of Rs 17,400.21 crores, While NSE fell to 1,13,681.02 compared to Rs 1,14,537.79 crs previously.



Equity Market Outlook

Global:

- The SPX closed at a record high as dovish comments from Fed Chair Yellen helped risk assets, particularly equities rally. US inflation on Friday came in below expectations causing 10yr bonds to rally adding to a picture of slowing inflationary pressures, even in Emerging Markets. The ECB meeting will be a particular focus in the coming week with the Central Bank having to decide when it would taper the expansion of its balance sheet. Eurozone inflation figures will be out in the coming week.
- The Bank of Japan is expected to keep policy on hold and focus on its yield curve targeting strategy. At the press conference after the meeting, BoJ Governor Kuroda may come under pressure to explain the BoJ's policy and the recent slowdown in asset purchases. There are also likely to be increased concerns about Abenomics with the popularity of the Japanese Government falling below the key 30% threshold where the LDP has traditionally replaced its leaders. Japan will be releasing trade figures this week as well as retail sales figures.
- The coming week will see the release of China GDP data which is expected to

Domestic Markets



Index	14-Jul-2017	07-Jul-2017	% Change
S&P BSE Sensex	32020.75	31360.63	2.1
Nifty 50	9886.35	9665.8	2.28
Nifty Midcap 100	18278.85	18258.45	0.11
Nifty 500	8640.7	8479.45	1.9
S&P BSE Smallcap	15908.01	15830.76	0.49

Global Markets



Index	14-Jul-2017	07-Jul-2017	% Change
Dow Jones	21637.74	21414.34	1.04
Nasdaq	6312.47	6153.08	2.59
S&P 500	2459.27	2425.18	1.41
FTSE 100	7378.39	7350.92	0.37
Shanghai Composite	3222.42	3217.96	0.14
Hang Sang	26389.23	25340.85	4.14

Institutional Flows (Equity)



Description (INR Cr)	Purchases	Sales	Net
FII Flows*	21619	21252	367
MF Flows*	7732	5591	2141

F&O FII Trends (Rs. Crs)



Date	Index	Stocks
10-Jul-2017	1287.37	2463.78
11-Jul-2017	959.85	1125.52
12-Jul-2017	-1421.81	237.12
13-Jul-2017	1743.51	1212.24
14-Jul-2017	-830.62	92.01

Policy Rates



Key Rates (%)	14-Jul-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	20	20.5

Key Rates



come in at 6.8%. Retail sales, FAI, industrial production and property price data will be reported in the coming week. Chinese banks led the markets higher this week ahead of a weekend conference on the reform of the sector. The conference is expected to result in the PBOC being given supervision over the whole banking, and perhaps the whole financial, sector. The flow into banks was driven by Southbound investors thought to be conducting dividend arbitrage. Helping the sector was the addition of liquidity by the PBOC for the first time in 13 days. The Chinese property sector also rallied on Friday.

Local:

- The Nifty was the amongst the best-performing markets in the region for the second week running, up 2.3% and scaling an all-time high during the week. Oil & gas and IT were the best-performing sectors. The INR was the best-performing currency in the region over the week, as FII debt saw over US\$1.5bn net inflows. No major disruptive impact of GST has been reported so far, but we expect weak commentary from manufacturing companies as they report numbers.
- CPI inflation for Jun-17 was 1.5% YoY, the lowest under the new series. Both food and non-food inflation saw MoM deceleration in growth. Food inflation actually declined 1.1% YoY, second month of decline. Notably, core inflation at 3.8% is also at its lowest in several years. RBI has consistently highlighted the stickiness of non-food inflation as the primary reason for not cutting rates.

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 bond yields posted its biggest weekly fall in five weeks, as retail inflation eased to a record low in June, bolstering chances of monetary easing next month.
- However, bonds ended lower on Friday, after the central bank sold four bonds worth 180 billion rupees, which includes 90 billion rupees of the benchmark note. The cutoff for the benchmark note was in line with market expectations.
- The benchmark 6.79% 2027 bond maturing ended at 102.34 rupees, yielding 6.46%. It had closed at 102.39 rupees on Thursday. On a weekly basis, the benchmark yield fell by seven basis points, its biggest weekly fall since week ended Jun. 9.
- The RBI projects inflation at 2.0%-3.5% in the first half of this fiscal year and at 3.5%-4.5% in the latter half. The MPC aims to bring headline inflation closer to a previously-announced target of 4% on a "durable basis and in a calibrated manner".
- Traders also said large inflows from foreign investors during the week also supported bond sentiment. Foreign investors have net bought government bonds worth more than 521 billion rupees in this financial year so far, the highest since 2014-15, according to data from National Securities Depository Ltd.
- These investors' net purchase of sovereign debt stood at about 74 billion rupees on Jul. 11, their largest single-day accumulation since August 2014.



Debt Market Outlook

- Week on week basis the 10 yr paper was down 1 bip to 6.45 and the 12 year paper was up by 3 bps to 6.78
- Liquidity situation comfortable despite 10k omo and 10k more announced
- We believe 20k more OMO can come however liquidity will remain in the band of 2-3 lac cr
- We had CPI, WPI, IIP and Trade data released last week
- The head line CPI fell sharply to 1.54% while the core came down to 3.7% both data points were better than market exp
- This time something different is happening as highlighted by Dr Somyokanti Ghosh Economist(excerpts of our discussion on report released by him) :
 - Digitalisation as a result of demon will shave off head line inflation of about 1%
 - Digital transaction are increasing again which is good trend
 - Currency in circulation is not increasing the same way as it use to be prior to nov 2016, which shows efficiency of INR is increasing
 - Tax compliance is increasing which augurs well for govt finances
- Over all this will lead to lower than anticipated inflation over march 17 less than 3.5% and next year 4.-4.5% both numbers good from rates perspective
- Market is not discounting any positive and will wait for the data therefore this leads to an opportunity on the table
- If the data as indicated above is correct and government finances show improvement as per trend then our 10 yr will be closer to 6% by end of year 2017 if not more
- Global market continue to be source of volatility in INR bonds, however it appears now to have stabilised. Us 10 yr at 2.40 and German Bund at .60%
- CPI data in the US was below exp and the lead to the 10 yr yield fall to 2.28, however they closed at 2.33 for the week.
- Crude oil prices traded in the band of 47-49\$ per barrel
- As of now market is pricing in a 25 bps rate cut in Aug 17 and we think 10 yr at 6.40-6.45 band price in 25 bps rate cut
- From here till policy we expect 10 yr to trade in the 6.40-6.55% band
- Short term rates up to 2 yr would trend lower by 10-15 bps from here till August

Key Rates (%)	14-Jul-2017	07-Jul-2017	% Change
Mibor Overnight	6.25	6.17	1.3
CALL (O/N)	6.08	6.02	1
CBLO	6.08	4.95	22.83
T Bills Index (12M)	6.3	6.33	-0.47
10 Year GSEC	6.46	6.53	-1.07

Commodity Market



Commodity (INR)	14-Jul-2017	Gain+/Loss-	% Change
Gold (10 gm)	27841	-294	-1.04
Silver (1 kg)	36460	-400	-1.09
Crude Oil (\$/barrel)	48.91	2.2	4.71

Currency Market



Currency	14-Jul-2017	Gain+/Loss-	% Change
USD/INR	64.45	-0.28	-0.43
EURO/INR	73.57	-0.31	-0.42
GBP/INR	83.55	-0.33	-0.39
JPY/INR	56.9	-0.04	-0.07



Commodity Market Update

Brent Crude:

- U.S. crude rose more than 5.2 % for the week while Brent rose more than 4.7 %.
- Oil rose 1 % on Friday, boosted as U.S. crude producers added only two rigs in the latest week and on signs of increased Chinese demand, but trading was volatile as global supply remained strong.
- U.S. crude inventories fell 7.6 million barrels last week, its biggest weekly plunge in 10 months, the U.S. Energy Information Administration (EIA) said on Wednesday.
- And while U.S. energy firms added oil rigs for a second week in a row according to Friday data from Baker Hughes, the pace of additions has slowed to its lowest this year
- Brent and WTI prices were roughly 5% above the week's lows, aided by reports of accelerating demand growth from the IEA, crude oil import growth in China and falling crude stocks in the US.

Gold Prices:

- Gold prices held steady on Friday amid little change in the dollar ahead of key US economic data, but the metal remained on course for its first weekly gain in three
- Spot gold rose 0.1 % to \$1,218.18 per ounce at 0646 GMT. It was up 0.4 % for the week so far, which would be its biggest weekly gain since early June.
- Among other precious metals, silver prices remained unchanged at \$15.66 per ounce.
- Gold demand fell in India this week, with dealers offering a discount for the first time in one month despite a correction in local prices as consumers advanced purchases in June before the rollout of a new nationwide sales tax.



Currency Market Update

- The rupee ended flat at 64.45 against the US currency in an otherwise quiet and range-bound trade amid weaker dollar sentiment overseas
- Sustained capital inflows into the Indian markets backed by strong macro environment largely supported the home currency to stay afloat of late.
- The rupee resumed a tad higher at 64.44 as compared to Thursday's closing value of 64.45 at the Interbank Foreign Exchange (forex) market.
- On the contrary for the week, the local unit recovered by 15 paise against the dollar, snapping a four-week downtrend.
- Asian and emerging market currencies breathed a sigh of relief overnight after Fed Chair Janet Yellen indicated monetary policy tightening policy will be gradual.
- The dollar index, which tracks the US currency against a basket of six major rivals, was down at 95.41.
- India's foreign exchange reserves rose \$4billion to reach a record high of \$386.5 billion for the week ended June 30, said the Reserve Bank of India on Friday.

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