Date: 16/06/2017

Weekly Market Update

kotak Mutual Fund

Financial Market & Economy Update

- The annual rate of inflation, based on monthly wholesale price index (WPI) stood at 2.17 % (provisional) for the month of May 2017 over May 2016 as compared to 3.85 % (provisional) for the previous month.
- The retail price inflation, as measured by the consumer price index (CPI), slowed to 2.18 % in May from 2.99 % in April 2017 as food prices started falling from their year-ago level.
- India's wholesale inflation slipped below 3% during May as compared to 3.85% in April, raising hopes of a rate cut by RBI in its next Monetary Policy Review Meeting. WPI for May stood at 2.17%, down 1.68% from 3.85% in April.
- The index of industrial production (IIP) rose by 3.1 % in April led by robust growth in electricity generation.
- Haryana government has notified the implementation of Pradhan Mantri Fasal Bima Yojna (PMFBY), aimed at enabling farmers to avail insurance cover against crop loss due to natural calamities for 2017-18.
- Switzerland on Friday ratified automatic exchange of financial account information with India. The implementation is planned for 2018 and the first set of data should be exchanged in 2019.
- In a significant move, the government has made Aadhaar mandatory for opening bank accounts as well as for financial transactions of Rs 50,000 and above.
- India is among the 18 countries re-elected to the United Nations' Economic and Social Council (ECOSOC) for another three-year term. India obtained 183 votes, the second highest after Japan in the Asia Pacific category. Pakistan, whose term on the Council is expiring this year, was also seeking re-election but lost as it got only one vote.
- Uttar Pradesh and Bihar are among the five states that have made it to the Niti Aayog's shortlist under a programme that aims to build three future 'role model' states for better health system.
- India has imposed anti-dumping duty of up to $118 per tonne on import of a chemical used for corrosion control and paper bleaching from Pakistan, Bangladesh, and three other countries.
- With the second round of GST enrollment set to close on Thursday, GST Network (GSTN) company, providing IT backbone for GST system, said it will re-open enrollment on June 25 to allow all taxpayers to smoothly complete the process.
- The Cabinet on Wednesday gave ex-post facto approval to an agreement signed between India and Palestine in agriculture.
- The Reserve Bank of India (RBI) said its internal advisory committee (IAC) had identified 12 accounts that covered about 25 % of the banking system's non-performing assets for immediate resolution under the Insolvency and Bankruptcy Code.
- The Bank of England has decided to keep its main interest rate at a record low of 0.25 % as the economy weakens ahead of Britain's departure from the European Union. But the decision was split, with three of the bank's eight policymakers surprisingly voting for a rate increase.
- On the global front, the Federal Reserve hiked the fed-funds rate by a quarter-point to between 1 % and 1.25 %, as expected, after its two-day policy meeting on Wednesday.
- The Bank of Japan kept monetary policy steady on Friday and upgraded its assessment of private consumption and overseas growth, signalling its confidence that an export-driven economic recovery was broadening and gaining momentum.
- Britain's unemployment rate remains at 4.6 %, the lowest level for 42 years, official data showed.

Equity Market Update

- Key indices posted modest losses tracking weakness in global stocks and after the Federal Reserve hiked the fed-funds rate by a quarter-point to between 1 % and 1.25 %.
- The S&P BSE Sensex shed 205.66 points or 0.66 % to settle at 31,056.40. The sensex has dropped by 216.89 or 0.69 % in two weeks.
- The Nifty 50 index dropped 80.20 points or 0.83 % to settle at 9,588.05.
- Trading for the week began on a dull note as the key benchmark indices registered modest losses on Monday.
- Key benchmark indices garnered modest gains after gyrating in a small range during the day on Wednesday as firmness in most global stocks and data showing wholesale price inflation easing in May, supported gains on the bourses.
- Key benchmark indices registered modest losses on Thursday weighed by weakness in global stocks as investors stepped back from risky assets following the Federal Reserve's policy decision.
- IT stocks dropped on recent slide in tech stocks in the US and after anemic economic data in the US, the biggest IT outsourcing market for Indian IT companies.
- Among the S&P BSE sectoral indices Metal fell by 2.42 % followed by IT 2.15 %, Teck 2.03 %, Auto 1.55 %, Capital Goods 1.40 % and Bankex 0.86 %. However, Realty index rose by 4.47 %.
- Small-cap index rose by 0.76 % while Mid-cap index fell by 0.46.

Domestic Markets

Index	16-Jun-2017	09-Jun-2017	% Change
S&P BSE Sensex	31056.4	31262.06	-0.66
Nifty 50	9588.05	9668.25	-0.83
Nifty Midcap 100	18002.55	17993.9	0.05
Nifty 500	8411.45	8452.75	-0.49
S&P BSE Smallcap	15667.24	15549.17	0.76

Global Markets

Index	16-Jun-2017	09-Jun-2017	% Change
Dow Jones	21384.28	21271.97	0.53
Nasdaq	6151.76	6207.92	-0.9
S&P 500	2433.15	2431.77	0.06
FTSE 100	7463.54	7527.33	-0.85
Shanghai Composite	3123.17	3158.4	-1.12
Hang Sang	25626.49	26030.29	-1.55

Institutional Flows (Equity)

Description (INR Cr)	Purchases	Sales	Net
FII Flows*	28727	24415	4312
MF Flows*	9093	6901	2192

F&O FII Trends (Rs. Crs)

Date	Index	Stocks
12-Jun-2017	-707.67	-644.92
13-Jun-2017	-641.22	-134.54
14-Jun-2017	818.45	-317.64
15-Jun-2017	349.17	-1032.08
16-Jun-2017	-164.98	-478.06

Policy Rates

Key Rates (%)	16-Jun-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	20.5	20.5

Key Rates

Equity Market Outlook

Global:

- Although this week will be relatively quiet from a macro perspective, markets will have a number of events that will keep them occupied. MSCI is expected to announce its decision on the inclusion of China A-shares into its emerging market index as part of its annual country classification while the UK and the EU are expected to start formal discussions about Brexit. Tech shares in US will continue to be watched as they continued to underperform last week after reaching a high some ten days ago. Last week MSCI launched a consultation on a proposal to exclude non-voting shares from its indices when the company level voting power available to holders of listed shares is less than 25%.
- Meanwhile US breakeven inflation rates continued to drop falling to their lowest level since Oct 16. US 10yr yields have broken below their 200-day moving average but banks in Japan and the US are yet to follow lower. Although the Fed is planning another rate hike in 2017, rate markets are pricing a 60% probability by the end of the year. There are a number of Fed speakers this week who are expected to give some comments about the implementation of the unwind of the Fed balance sheet.
- Oil prices fell for the fourth consecutive week and seem to be heading back towards levels where OPEC agreed to cut output in December. Qatar QAR 12m forwards came back after mediators said that they expected proposals from Saudi Arabia and the UAE soon. Central Banks in Qatar, Saudi Arabia and the UAE joined other currencies pegged to the USD in raising rates.
- Last week the Bank of Japan kept policy on hold but Governor Kuroda said that equity ETF purchases were to be considered independently of bond buys and could be stopped before the 2% inflation target is reached. He reiterated his view that it was too early to taper asset purchases as the outlook for inflation remains unclear.

Local:

- The Nifty was down 0.8% this week, underperforming the region. The Metal and IT sectors lost more than 2% each, while real estate and power were in the green. SBI's Rs150bn (US$2.3bn) equity issuance partly drained flows from the secondary market. Trade data showed trade deficit hit a 30-month high in May, partly driven by a 26-month high in gold imports at US$5.4bn. However, forex reserves are near record highs as FII inflows into debt markets have been strong at US$13.4bn YTD.
- The farmers protest and political promises of farm-loan waivers continue to flare up across states. After Uttar Pradesh (UP) waived farm loans worth Rs360bn (US$6bn) in April, Maharashtra waived loans worth Rs300bn last week. Punjab, Haryana and Madhya Pradesh (MP) too have seen farmer protests demanding waivers. Our analysis of agri stress indicates that Tamil Nadu, Karnataka, Gujarat and Haryana may follow suit, taking total farm loan waivers to about US$30bn. Assuming these are staggered over five years, the annual rise in consolidated fiscal deficit works out to 25bp of GDP or development expenditure could be compromised to that level.
- Inflation indicators were below estimates this week. CPI declined to multi-year lows of 2.2%, with food inflation at a negative 0.2%. WPI also declined MoM to a 5-month low of 2.2%, with food inflation at -1.8%, 20-month lows. The weak food pricing environment is likely to sustain as indicated by the good start to the monsoon season. Monsoon season rainfall (from 1 June to date) is 10% above normal. Summer crop sowing is up 6% YoY on an area basis.
- As the deadline of the 1 July GST rollout nears, trade channels have started reacting to it. Several consumer-facing sectors viz, autos, durables, textiles, etc, are seeing off-season sales, advanced by a month, as retailers try to clear out channel inventory. Fear over loss of tax credits, differently priced new inventory and higher compliance have triggered the liquidation. This should be transitory though.

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

- A record low retail inflation print for the second straight month lifted bonds to record highs earlier this week, as investors raised bets on a near-term MPC rate cut. The MPC's next decision is due on Aug. 2.
- Key consumer price index-based inflation cooled to a multi-year low of 2.18% last month. The CPI stood at 2.99% in April.
- The MPC softened its 'hawkish' outlook in Jun. 7 policy, hinting at 'broader accommodation' if data so warrants.
- The MPC also lowered its inflation projection to 2.0%-3.5% for the first half of this fiscal year from the earlier 4.5%, and to 3.5%-4.5% for the second half from the previous 5.0%. Its shift in stance to 'neutral' in February had triggered a massive sell-off in bonds with investors apprehending a rate hike.
- The Fed raised rates taking its benchmark overnight rate to a 1.00% to 1.25% band. After delivering its second rate increase in three months, the regulator also indicated it was on course to lift rates once more this year, in line with its earlier projection.
- The regulator also said it will cut its holdings of treasuries and mortgage bonds by a total of $10 billion a month.
- India's current account deficit in January-March totaled $3.4 billion, or 0.6% of gross domestic product. The print sharply narrowed from $8 billion, or 1.4% of GDP, in the previous quarter, but was higher than $0.3 billion, or 0.1% of GDP, in the year-ago quarter.

Key Rates (%)	16-Jun-2017	09-Jun-2017	% Change
Mibor Overnight	6.25	6.21	0.64
CALL (O/N)	6.09	6.13	-0.65
CBLO	6.2	5.13	20.86
T Bills Index (12M)	6.38	6.38	0
10 Year GSEC	6.49	6.5	-0.15

Commodity Market

Commodity (INR)	16-Jun-2017	Gain+/Loss-	% Change
Gold (10 gm)	28703	-458	-1.57
Silver (1 kg)	38565	-984	-2.49
Crude Oil ($/barrel)	47.37	-0.78	-1.62

Currency Market

Currency	16-Jun-2017	Gain+/Loss-	% Change
USD/INR	64.59	0.33	0.51
EURO/INR	72.05	0.07	0.1
GBP/INR	82.51	0.76	0.93
JPY/INR	58.05	-0.26	-0.45

Debt Market Outlook

- This week was quite even full on account of two key events : CPI data India, US and FOMC decision
- India CPI came at 2.19% was much lower than expected by the market and market cheered the same but could not sustain gains for long
- US CPI also surprised at much lower than expected at 1.7% and it was decline on MoM basis, this was a significant development in the macro land scape of the US market, this data alone drove UST by 10 bips ahead of FOMC to 2.10 from 2.20
- FOMC went ahead with a 25 bip rate hike decision but was neutral to somewhat dovish tone despite rate hike the UST traded yield fell. The CPI data if continue with similar prints the sep rate hike will be off the table
- Technically UST is headed towards 1.90 and 1.60 if it closes below 2.14
- The RBI conducted bond switch with one of the commercial bank and gave 6.79% 2029 about 8k cr which filled the gap for the last supply for this bond and therefore lead to sell of in the particular bond
- This activity typically happen when a bond is going out of vogue and market is expecting new bond. The spread with similar maturity bonds compresses when the market is in a bull mode and widens when its in a bear phase. This time the spreads compressed as market is in a bull mode.
- This bond 6.79% GOI 2029 was best performing and our one of the highest holding however we had reduced some positions before the event
- We expect dovish MPC minutes expected to be declared next week
- The curve flattened a tad more 2029 vs 2033 and 2046 maturities
- The new 10yr was down from 6.51% to 6.49%.
- US 10yr yield fell from 2.21 to 2.17%.
- Crude Oil prices eased during last week. Crude closed the week @46.76$ per barrel.
- Monsoon is expected to be at 100% of long term average adds ti the joy but we will have to wait and watch
- Long term macro is improving day by day and is clearly seen in FII participation in bonds, we will see more than 90% limit utilised for the first time
- FII limits were auctioned and were sold cheap it was marginally undersubscribed but nothing negative to be read
- Liquidity is easy in the system. The cash withdrawals have slowed down which is very positive
- Farm loan waiver is one of the main risk
- Average CBLO rate – 6.10%
- 2/3 Month CD was trading at 6.25-35% as its qtr crossing
- 1yr CD was trading at 6.65%
- 2/3 PSU was trading at 7.00%
- 5yr PSU was trading at 7.10-15%
- 10yr PSU was trading at 7.30-40%
- 2/3 Months NBFC was trading at 6.60%
- 1yr NBFC was trading at 7.15-7.20%
- 2/3 NBFC was trading at 7.40-50%
- 5yr NBFC was trading at 7.60-70%.

Commodity Market Update

Gold Update :

- Precious metal slipped during the week at the domestic bullion market here due to slackened demand from jewellers stockists and traders.
- The yellow metal showed weakness meandered round narrow ranges in the absence any major buying activity largely in tandem with a weak trend in global market.
- Lack of local buying support at existing levels and unwinding of long positions by speculative traders also added downward pressure on gold.
- On the domestic front, standard gold (99.5 purity) resumed lower at Rs 28,840 per 10 grams from last Friday's closing level of Rs 28,945 and dipped further to Rs 28,720 before ending at Rs 28,670, revealing a loss of Rs 275, or 0.95 %.
- Pure gold (99.9 purity) also commenced negative at Rs 28,990 per 10 grams compared to preceding weekend level of Rs 29,095 and dropped further to Rs 28,870 before finishing at Rs 28,820, showing a loss of Rs 275, or 0.95 %.
- Silver ready (.999 fineness) opened lower at Rs 39,700 per kilogram from last weekend's level of Rs 40,085 and fell further to Rs 39,000 before closing at Rs 38,960, revealing a sharp loss of Rs 1,125, or 2.81 %.
- In worldwide trade, Gold prices yesterday edged up from the three-week low it struck a day earlier but the down beat tone, in the wake of signals from the Federal Reserve for another increase to interest rates this year, sent the yellow metal down for a second-straight week.
- Gold gained modestly in the short term, in part as a closely watched dollar index slipped, making the metal more attractive to investors using another currency.

Crude Oil Update:

- U.S. West Texas Intermediate and internationally-favored Brent crude oil closed lower last week. Sellers were primarily driven by concerns over the global supply glut and doubts about OPEC's ability to cut production enough to trim the excess supply and stabilize prices.
- August WTI crude oil finished the week at $44.97, down $1.10 or -2.39% and September Brent crude oil settled at $47.63, down $0.90 or -1.85%.
- Prices stabilized early in the week on reports that the hedge and commodity fund managers were building large long positions, betting on the start of a rally in the wake of the sharp sell-off from May 24.
- Oil prices have fallen more than 12 % from late May when producers led by the

Organization of the Petroleum Exporting Countries extended a pledge to cut output by 1.8 million barrels per day (bpd) for six months by another nine more months.

Currency Market Update

- After tumbling to a three-week low during the mid-week crash, the home currency finally ended with a loss of 19 paise at 64.43 against the greenback.
- The rupee resumed lower at 64.30 from last Friday's closing value of 64.24 at the Interbank Foreign Exchange (forex) market due to bouts of dollar demand amid volatile currency market undertone.
- It remained under immense selling pressure most part of the trading sessions in the face of heavy dollar buying from banks and importers.
- The local unit tumbled to hit a three-week low of 64.74 on Friday before staging a dramatic and substantial reversal to end at 64.43, showing a steep fall of 19 paise, or 0.30 %.
- The RBI, meanwhile fixed the reference rate for the USD at Rs 64.5883 and Euro at Rs 72.0482, respectively.
- In the meantime, affter touching a life-time high, the country's forex reserves marginally declined by USD 11.5 million to USD 381.156 billion in the week to June 9 due to fall in foreign currency assets, the Reserve Bank said.
- Foreign funds were net buyers in equities after recent spell of selling and bought USD 679.53 mln as per provisional data from stock exchanges.
- The dollar index — a measure of the US currency, against a basket of six trade-weighted peers settled lower at 97.16 from 97.24 previously.