



Financial Market & Economy Update

- As broadly expected, the RBI left its key interest rates unchanged, while slashing the statutory liquidity ratio (SLR) by 50 basis points to spur banks into lending more and along with resolution of recapitalisation of Banks termed tagged the market sentiment as unoffending and easy going.
- The government is working on creating a model regulatory framework for e-commerce firms and cab aggregators for regulating the online marketplace.
- The GST Council, in its 22nd meeting Friday in New Delhi, has apparently skipped the discussion on cutting tax rates on the remaining 60 of the 100 items under review, and has instead chosen to focus on straightening out administrative and procedural issues to make the implementation of the tax reform simpler for business owners.
- On the macro front, services sector activity expanded for the first time in three months in September -- but only slightly. The Nikkei India Services PMI stood at 50.7 in September -- from 47.5 in August.
- Services sector activity in India expanded for the first time in three months in September as it rebounded from GST-related contractions, driven by a surge in new business orders that supported job creation, a monthly survey said. The Nikkei India Services PMI Business Activity Index rose to 50.7 in September — from 47.5 in August — a reading that pointed to a slight pace of expansion.
- Exports from special economic zones (SEZs) paced up 15.4 % to Rs 1.35 lakh crore during the first quarter this fiscal, showed commerce ministry data.
- Manufacturing activity in India expanded in September for the second month in a row, driven up by an increase in output and new orders, even as their growth pace remained weak in the context of a historical trend, a survey said. The Nikkei India Manufacturing Purchasing Managers' Index (PMI) came in at 51.2 in September, little changed from its August reading, pointing to an ongoing recovery in business conditions, post-GST launch.
- There were 27 % fewer job cuts by U.S. employers in September compared to last year, outplacement firm Challenger, Gray and Christmas said in a report.
- Australia's central bank left its cash rate at 1.5 % on Tuesday, a widely expected decision given policy makers have signaled a steady outlook for some time to come.
- British manufacturing growth cooled last month as cost pressures lurched higher, according to a survey that could put the Bank of England a step closer to raising interest rates, despite a murky outlook ahead of Brexit. IHS Markit/CIPS UK Manufacturing Purchasing Managers' Index (PMI) fell to 55.9 from a downwardly revised 56.7 in August, undershooting the consensus of 56.4 in a Reuters poll of economists.



Equity Market Update

- Stocks finished higher for the week, snapping its previous two consecutive losses, the benchmark Sensex rallied 530.50 to close 31,814.22, while the broader Nifty regained the crucial 9,900-level to finish at 9,979.70 as all indices regained the lost sparkle.
- The holiday-shortened week saw the market winning on positive vibes kindled by RBI policy outcome, positive macroeconomic data release and firmness in global stocks.
- After opening at 31,537.81, the Sensex traded in a range of 31,844.28 and 31,440.48 before ending the week at 31,814.22, showing a gain of 530.50, or 1.70 %.
- The Nifty started the week at 9,893.30 and hovered between 9,989.35 and 9,831.05. The index ended the week at 9,979.70, rising 191.10 points or 1.95 %.
- The Mid-Cap index gained 2.62 % to 15,840.15 and the Small-Cap index advanced 3.19 % to 16,629.23. Both these indices outperformed the Sensex.
- Among sectoral and industry indices, Metal climbed by 4.41 % followed by Oil&Gas 4.20 %, Healthcare 3.64 %, FMCG 2.90 %, Consumer Durables 2.90 %, IPO 2.82 %, PSU 2.40 %, Realty 2.01 %, Auto 1.67 %, IT 1.63 %, Power 1.38 %, Teck 1.13 %, Capital Goods 0.82 % and Bankex 0.68 %.



Equity Market Outlook

Global:

- Despite the bullishness in the developed markets especially the US, foreign investors continued to sell Asian equities with South Korea, India and Indonesia seeing the bulk of the outflows as funds appeared to rotate into Japan. The Nikkei is now close to testing its 2015 high as domestic investors sell to foreign funds, a sharp contrast to the rest of Asia where it has been local money that has been supporting the equity market in the face of selling by foreign investors in the past quarter. A move above 20950 would see the Nikkei trading at 21-year highs.
- The focus of the coming week will be on Chinese macro data with Caixin PMI, money supply, new loans, FDI and trade figures expected to be released. Chinese foreign exchange reserve data also needs to be seen. Chinese banks rallied 7%

Domestic Markets



Index	06-Oct-2017	29-Sep-2017	% Change
S&P BSE Sensex	31814.22	31405.25	1.3
Nifty 50	9979.7	9788.6	1.95
Nifty Midcap 100	18528.2	18107.95	2.32
Nifty 500	8787.4	8600	2.18
S&P BSE Smallcap	16629.23	16141.91	3.02

Global Markets



Index	06-Oct-2017	29-Sep-2017	% Change
Dow Jones	22773.67	22405.09	1.65
Nasdaq	6590.18	6495.96	1.45
S&P 500	2549.33	2519.36	1.19
FTSE 100	7522.87	7372.76	2.04
Shanghai Composite	3348.94	3348.94	0
Hang Sang	28458.04	27554.3	3.28

Institutional Flows (Equity)



Description (INR Cr)	Purchases	Sales	Net
FII Flows*	20676	21227	-551
MF Flows*	12362	5339	7023

F&O FII Trends (Rs. Crs)



Date	Index	Stocks
03-Oct-2017	527.02	1690.67
04-Oct-2017	613.96	1218.67
05-Oct-2017	1014.3	277.68
06-Oct-2017	1082.65	442.9
31-Dec-1899	0	0

Policy Rates



Key Rates (%)	06-Oct-2017	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



last week, their largest gains since April 2015 on hopes that a relaxation of reserve ratio lending to small companies would lead to looser policy. Chinese A-shares will re-open on Monday with the A-H premium indices at its lowest levels since the end of June. Market participants will be watching to see if mainland investors put the same bullish interpretation on the RRR move.

- Japan is expected to report trade figures, PPI and machine orders in the coming week. The election campaign officially starts in Japan as Tokyo Governor Koike says she will not be standing for Parliament, will not be Prime Minister and has not decided who will be the Opposition Party's candidate. She also said that there was no need for a major change from LDP policy but questioned excessive economic stimulus. Political parties need to announce their candidates for the election by Oct 10.
- Friday's US non-farm payroll, impacted by the recent hurricanes, came in significantly below expectations with a net loss of 33k jobs compared with the market's projection of 80k jobs being created. This is the third consecutive month that payroll data has disappointed and the negative print is the first one since 2010. Despite that US 10yr bonds failed to rally with the yield touching a high of 2.40%, the highest intra-day level since May. Fed Governor Bullard said that the recent weakness in payrolls was cause for concern and that the market reaction was "too non-chalant". The arrival of new hurricanes in the Gulf of Mexico could raise concern about a potential series of weaker payroll numbers. The hurricanes are expected to have boosted US retail sales and inflation figures. Hourly earnings rose by 2.9% beating market expectations of 2.6%. Data last week showed factory and durable goods orders, ISM and PMI numbers all above expectations.
- The latest release of the Fed minutes will be closely scrutinised for further direction on interest rates and the most recent thinking from policymakers. Fed Governor Bullard said that he was concerned that the Fed could make a policy mistake with recent Fed speakers including Dudley, Kaplan and Bullard disagreeing on the direction for inflation in recent statements. Headline US inflation is expected to rise to 2.3%, above the Fed's 2% target.
- President Trump raised geopolitical concerns again on Friday after he said that we were in the "calm before the storm". Russia said that North Korea was preparing to test a new long range missile with speculation centring around Oct 10, the anniversary of the establishment of the North Korean Communist Party.

Key Rates (%)	06-Oct-2017	29-Sep-2017	% Change
Mibor Overnight	5.96	6.05	-1.49
CALL (O/N)	5.85	5.83	0.34
CBLO	5.71	5.55	2.88
T Bills Index (12M)	6.21	6.23	-0.32
10 Year GSEC	6.76	6.65	1.65

Commodity Market



Commodity (INR)	06-Oct-2017	Gain+/Loss-	% Change
Gold (10 gm)	29405	-262	-0.88
Silver (1 kg)	38721	-636	-1.62
Crude Oil (\$/barrel)	55.62	-1.92	-3.34

Currency Market



Currency	06-Oct-2017	Gain+/Loss-	% Change
USD/INR	65.23	-0.13	-0.2
EURO/INR	76.26	-0.8	-1.04
GBP/INR	85.31	-2.4	-2.74
JPY/INR	57.72	-0.31	-0.53

Local:

- The Nifty has closed up 2% this week, performing marginally ahead of the region after two consecutive weeks of decline. All sectors are in the black this week. Bond yields have increased 10bp to close at a four-month high as the RBI cautioned on fiscal slippage after its bimonthly meeting. After a weak 1QFY18 GDP print and growing attacks by the opposition, PM Modi defended his economic policies.
- The government has cut excise duties on petrol and diesel by Rs2/litre as retail prices are near record highs after rising 11-12% since July. Earlier, between Oct-14 and Mar-16, it had taken advantage of falling crude oil prices to raise duties on petrol and diesel by Rs12/litre and Rs14/litre to Rs21/litre and Rs17/litre, respectively. The reduction in auto fuel taxes will impact central govt revenues by 16bp of the GDP on an annualised basis and highlights the government's political compulsions. This revenue reduction, in addition to uncertainties on GST collections, which appear to be running short of the targets at the moment, raises fiscal concerns.
- Core IIP for August (eight infra indicators, 40% of total IIP) grew at a five-month high of 4.9% as power generation & coal production recorded double-digit growth following a weak 1Q. Electricity generation (20% weight in core IIP) was up 10.3% and coal production (10% weight) was up 15.3%. Both benefitted partly from a low base last year. Cement production remained subdued, down 1.3% YoY, although the decline was the smallest in nine months. The base becomes better here from December onwards. Steel production was up 3.0% YoY, the weakest number in a year, but on a high base.

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 sharply this week, as investors sold notes after the country's rate-setting Monetary Policy Committee's latest meeting suggested little chance of near-term rate cuts.
- The benchmark 6.79% bond maturing in 2027 ended at 100.22 rupees, the lowest since its issuance on May 12, yielding 6.76%. The note had closed at 100.42 rupees, yielding 6.73%, yesterday. On a weekly basis, the yield rose nine basis points this week, the most since week ended Apr. 21.
- The next interest rate move in India is likely in the January-March quarter, when there is more clarity about the inflation and fiscal situations, Niyogi said. Yields may rise more but will be capped at 6.80%-6.85% levels for the benchmark bond, he added.
- The six-member MPC is mandated to keep retail inflation at 4% with a band of two percentage points on either side. Only one external member on the panel, academic Ravindra Dholakia, had voted for a rate cut at the meeting.
- Bonds also fell amid concerns of fresh supply after the RBI said state governments may auction bonds on a weekly basis going ahead, against the fortnightly auctions as of now. Moreover, there has been some market speculation that India's federal government may borrow more later in the year to support growth.



Debt Market Outlook

- During last week US 10yr traded in 2.30-2.40% band & closed at 2.36%.
- Brent Crude traded in 55-57\$ per barrel.
- We had RBI policy last week.
- Market expected status quo on rates with dovish commentary.
- RBI commentary was procured neutral to hawkish.
- RBI revised growth target down from 7.3% to 6.7%.
- RBI revised inflation target upwards to 4.2%-4.7% vs 3.5%-4.5% earlier.
- Immediately post policy we saw 10yr spiked from 6.62% to 6.69%.
- By end of week, 10yr moved up to 6.75%.
- For month of Oct-17, we expect 10yr to trade in 6.70-6.80% band.
- Short end upto 3 – 6 months did not react post policy.
- Short term rates beyond 6m-3yrs moved up by 5bps post policy.
- Before next policy we have 2 inflation print and GDP print. If number are lower than market expectation is stable.
- We can have a Dec rate cut.



Commodity Market Update

Brent Crude Update:

- In global commodity trade, energy market took a big hit with Tropical Storm Nate brewing in the Gulf of Mexico, the potential for deeper losses remains.
- Oil prices fell witnessed profit-taking and the return of oversupply concerns, snapping a multi-week bull run that was Brent's longest in 16 months.
- Benchmark Brent crude futures LCOc1 were down 26 cents at USD 56.74 a barrel, set for a 1.5 % loss on the week and snapping a five-week winning streak that was the longest since June 2016.
- U.S. West Texas Intermediate (WTI) crude CLc1 was at USD 50.27, down 52 cents. It was set to close the week down nearly 3 %, the biggest weekly loss in three months.

Gold Update:

- In worldwide trade, Gold prices ended higher yesterday, reversing from earlier gains as investors offered a mixed reaction to monthly US jobs data and looked to comments from Federal Reserve officials for clues on the central bank's plan for interest rates.
- Gold traders have been on the defensive as the dollar hit "its highest level on a trade-weighted basis since mid- August. This development has been driven by the very robust US economic data released in recent days.
- Elsewhere in Asia, gold markets were quiet because of the Golden Week holidays in China.
- On the domestic front, standard gold (99.5 purity) opened lower at Rs 29,460 per 10 grams from last Friday's closing level of Rs 29,695 and drifted further to Rs 29,300 before finishing at Rs 29,360, revealing a fall of Rs 335, or 1.13 %.
- Pure gold (99.9 purity) also resumed lower at Rs 29,610 per 10 grams compared to preceding weekend's level of Rs 29,845 and declined further to Rs 29,450 before ending at Rs 29,510, showing a loss of Rs 335, or 1.12 %.



Currency Market Update

- After enduring a roller-coaster ride, it ultimately settled down at 65.38, revealing a nominal loss of 10 paise.
- The home currency briefly scaled back the significant 64-mark before retreating.
- The local forex trading sentiment remained little shaky in the midst of continued capital outflow concerns amid uncertainty over the Fed decision to start unwinding of its monetary stimulus and gradually raise U.S. Interest rates.
- At the Interbank Foreign Exchange (Forex) market, the local currency resumed with a big gap down at 65.65 against last weekend close of 65.28 on heavy bouts of dollar demand and traded with intense volatility.
- But, reversing its weakening trend, rupee made a strong comeback during the mid-week trade to hit a high of 64.95 before drifting back to end at 65.38, showing a modest loss of 10 paise, or 0.15 %.
- The rupee has depreciated by a steep 160 paise, or 2.51 % in four-straight weeks.
- In the forward market, premium for dollar edged up on fresh paying pressure from corporates. The benchmark six-month forward dollar premium payable for March moved up to 129.75-131.75 paise from 130-132 paise and the far-forward contract maturing in September 2018 also advanced to 268.50-270.50 from 266.50-268.50 paise.

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