



Financial Market & Economy Update

- On Thursday (May 18), the Goods and Services Tax Council backed the 1 July 2017 deadline for rolling out the unified indirect tax that will help create a single national market, and ensured that items of mass consumption bear the least tax burden. On that day, the GST Council finalised rates for around 1150 items of the total of 1211. The council discussed and finalised rates for remaining goods and all services on Friday. It exempted healthcare and education from GST.
- The GST Council had finalised a four-tier rate structure of 5%, 12%, 18% and 28%, with an additional levy or cess on demerit goods, which will fall under the highest tax slab.
- Items such as cereals, taxed at 5% earlier, will now be zero-rated. Coffee, sugar, tea and edible oil will attract a lower GST rate of 5%. Capital goods will be taxed at 28%, while several daily-use items such as hair oil, toothpaste and soap have been kept in the 18% slab instead of at 28%.
- Makers of products for everyday use, popularly known as fast-moving consumer goods, such as milk, fruits, eggs, cereals, grains, meat and fish will attract zero tax, while processed food will be charged between 12 and 28 per cent.
- Cars will be taxed at 28%. According to reports, a 1%, 3% or 15% cess is likely to be levied based on current tax incidence. Motorcycles above 350cc engine capacity will face a cess of 3%.
- Last week, the weather office said that India's monsoon rains are expected to arrive on the southern Kerala coast on 30 May 2017, two days ahead of schedule. Monsoon rainfall is expected to be higher than previously forecast as concern over the El Nino weather condition has eased, the IMD said.
- On the economic front, data released by the government after trading hours on 12 May 2017 showed India's wholesale price inflation to have increased 3.9% in April, lower than the 5.3% rise in March. The new IIP series recorded a higher-than-expected growth of 2.7% in March compared to 1.9% in February.
- The base year for WPI and IIP was revised to 2011-12. Consumer Price Inflation slipped to a record low of 2.99% in April. In March, it had come in at 3.89%. With headline retail inflation staying well below the Reserve Bank of India's medium term target of 4%, the market now expects the central bank to reduce interest rates in its next monetary policy review meeting on 7 June 2017.
- India's exports grew by 19.77% to \$24.63 billion in the month of April. According to the data released by the commerce ministry, Indian imports also grew 49.07% to \$37.88 billion in April.
- The president inaugurated the country's first-of-its-kind microgrid power project at the Indian Institute of Engineering Science and Technology (IIST) at Shibpur here that uses solar, wind and biogas energy to produce electricity.
- The Income Tax Department has launched a facility allowing people to correct errors in their PAN and Aadhaar details. The links for corrections are available on incometaxindiaefiling.gov.in, the department's e-filing website. However, people wanting to update Aadhaar details are redirected to 'Aadhaar Self Service Update Portal'. Scanned documents supporting the changes have to be uploaded.
- The government has fixed at Rs 5,000 the levy on scheduled flights, being charged from the airlines flying on major routes, to fund its regional connectivity scheme, UDAN.
- The Federal Open Market Committee (FOMC) will issue minutes of its previous policy meet held early this month on May 24, 2017. The Federal Reserve had left its influential interest rate unchanged at the conclusion of its two-day meeting on 3 May 2017, citing a recent slowdown in growth that it said was likely transitory.
- Malaysia's economy grew at its fastest pace in two years during the first quarter, the central bank said today, boosted by stronger domestic demand and a pick-up in exports. Southeast Asia's third-biggest economy expanded 5.6 percent on-year in January-March period, compared with 4.1 percent in the same period last year and 4.5 percent in October-December.
- Iraq replaced Saudi Arabia as top crude supplier to India in April as refiners moved to boost their processing margins by purchasing the cheaper Basra Heavy oil grade, ship tracking and Thomson Reuters trade flow data showed. India's April imports from Iraq topped 1 million barrels per day (bpd) for the first time, up by about a third from March and 8 percent from a year ago, according to ship tracking data obtained from sources and data compiled by Thomson Reuters Oil Research & Forecasts.
- U.K. April inflation is at its highest since 2013. CPI inflation rose 0.5 percent month-on-month and 2.7 percent year-on-year.



Equity Market Update

- Rate cut hopes on the back of data showing a significant decline in retail inflation, encouraging monsoon forecast from the weather office and some good results from India Inc drove key Indian indices Sensex and the Nifty50 to new all-time highs last week.
- News about the Goods and Services Tax Council finalising GST rates for goods and services too aided sentiment.
- The BSE benchmark Sensex ended the week with a gain of 276.77 points or 0.91% at 30,464.92, after scaling a new all-time high of . The Nifty50 of the National Stock Exchange ended up 27 points or 0.28% at 9427.50.
- Midcap and smallcap stocks declined on profit taking. The BSE Midcap index ended down 1.4% and the Smallcap index eased by about 1.9%.
- Metal stocks saw some brisk buying last week. Pharma stocks turned in a mixed performance.
- Among sectoral and industry indices, Fmcg rose by 1.62 per cent followed by Metal

Domestic Markets



Index	19-May-2017	12-May-2017	% Change
S&P BSE Sensex	30464.92	30188.15	0.92
Nifty 50	9427.9	9400.9	0.29
Nifty Midcap 100	17921.35	18240.4	-1.75
Nifty 500	8258.2	8299.2	-0.49
S&P BSE Smallcap	15227.07	15528.83	-1.94

Global Markets



Index	19-May-2017	12-May-2017	% Change
Dow Jones	20804.84	20896.61	-0.44
Nasdaq	6083.7	6121.23	-0.61
S&P 500	2381.73	2390.9	-0.38
FTSE 100	7470.71	7435.39	0.48
Shanghai Composite	3090.63	3083.51	0.23
Hang Sang	25174.87	25156.34	0.07

Institutional Flows (Equity)



Description (INR Cr)	Purchases	Sales	Net
FII Flows*	27563	23695	3868
MF Flows*	8171	8993	-822

F&O FII Trends (Rs. Crs)



Date	Index	Stocks
15-May-2017	-93.44	183.07
16-May-2017	-459.32	151.01
17-May-2017	16.09	-131.64
18-May-2017	2544.43	-1294.23
19-May-2017	1299.81	658.91

Policy Rates



Key Rates (%)	19-May-2017	1 Week Ago	1 Month Ago
Reverse Repo	6	6	6
Repo	6.25	6.25	6.25
CRR	4	4	4
SLR	20.75	20.75	20.75

Key Rates



- 1.31 per cent, IT 0.94 per cent, Teck 0.76 per cent and bankex 0.55 per cent.
- However, Consumer durables fell by 3.28 per cent, oil&gas 1.67 per cent, Capital goods 1.48 per cent, IPO 1.22 per cent, realty 1.13 per cent, Power 1.05 per cent, PSU 0.67 percent and Auto 0.45 per cent.
- Meanwhile, foreign portfolio investors (FPIs) and foreign institutional investors (FIIs) bought shares worth Rs 1,962.92 crore during the week, as per Sebi's record including the provisional figure of May 19.
- Global equities ended the week on a firmer footing as the markets appeared to put the latest bout of uncertainty over Donald Trump's presidency on the back burner — for now at least.
- Wall Street's gains helped the Stoxx 600 rise 0.6 per cent on Friday, although the pan-European index was 1 per cent lower for the week.
- Japan's Topix rose 0.3 per cent and Australia's S&P/ASX 200 was off 0.2 per cent as worries about additional taxes and a possible slowdown in the housing market weighed on the financial sector. Hong Kong's Hang Seng gained 0.2 per cent, while on the Chinese mainland the Shanghai Composite was flat.



Equity Market Outlook

Global:

- Buyers returned to the market to leave US equities within a percent of all time highs and risk measures including equity volatility partially normalized. The gains came after US Deputy Attorney General Rosenstein said that the decision to fire FBI Director Comey was the right call. The appointment of a Special Counsel by the Justice Department to look into allegations against the Trump administration appears to have stalled any downward spiral. Equity markets remain close to key derivative strikes, SPX 2400, NKY 20000, TWSE 10000 and Kospi 300, which could tested again in the coming week as Global Central Bank liquidity hits a fresh record high.
- US bond yields remain near the bottom end of their post election range as President Trump's reform and reflation agenda appears to be increasingly stalled. The USD had its worse week since April 2016 with it weaker against all G10 counterparts and losing over 2% against the Euro and the yen. The Euro managed to climb to its highest level since November.
- Markets will keep a wary eye on political developments with potential headline risk coming from the US administration. Gains in the US on Friday were led by low risk names and losses continued in value plays. However, the post election convergence is not as dramatic as it has been in Japan where low risk has now almost completely closed the gap with value.
- US 5y5y breakeven inflation rates reached their lowest level since the US election as the turmoil in Brazil caused soft commodity prices to tumble. Brazil is a major exporter of soft commodities and the downward move of the BRL puts a cap of food prices globally. Brazilian equities recovered on Friday but were still down more than 8% for the week. Brazilian President Temer filed a petition with the Supreme Court to suspend a corruption investigation against him.
- Japanese 10yr yields continue to remain well below the BoJ's 10bps cap as the country prepares to report inflation data on Friday. A number of secondary data points including trade figures, machine tool orders and Nikkei PMI will also be reported. Last week Japan reported that GDP had risen 2.2%. First quarter growth is seasonally the strongest in Japan. USDJPY is close to its 200-day average and could resume its longer term downtrend after a brief rally.

Local:

- The Nifty was up 0.3% over the week, performing in-line with regional markets and touching a new all-time high. FMCG and metals were the best-performing sectors during the week. Notably, IT, healthcare and metals are the only sectors in red over the last three months. IMD over the week announced that the monsoon would reach the southern coast of India two days in advance and is expected to be a normal monsoon.
- The GST Council has approved rates on most of the goods, covering over 1,200 items. This along with state governments' rapidly passing respective SGST bills raises hopes that the 1-July deadline for GST implementation will be met. The initial reading on rates suggests that bias of tax rates is on the flat to marginally lower side. Essentially, greater compliance is being counted upon for tax buoyancy. This is important as the Central govt has guaranteed 14% Cagr in GST-affected tax revenues to states for next 5 years. On services side, telecom and financial services will be taxed at 18% rate. The Council will meet again on 3 June to resolve few remaining issues.
- Indian oil consumption rose 3.3% YoY in April, with demand for petrol/diesel rising 4.5%/2.8% YoY. After three continuous monthly declines and worst quarterly print in over a decade, this is an improvement. Domestic air passenger remains strong and saw a strong 15% YoY growth in Apr-17.

View:

- We have been reiterating that correction in Indian equity markets should be used as an opportunity to add to the equity exposure as 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.



Debt Market Update

- India on Friday sold 150 billion rupees of four government notes, including 70 billion rupees of the 6.79% 2029 bond that has been the most liquid note in the recent

Key Rates (%)	19-May-2017	12-May-2017	% Change
Mibor Overnight	6.25	6.2	0.81
CALL (O/N)	6.06	6.11	-0.82
CBLO	6.12	5.64	8.51
T Bills Index (12M)	6.47	6.46	0.15
10 Year GSEC	6.71	6.91	-2.89

Commodity Market



Commodity (INR)	19-May-2017	Gain+/Loss-	% Change
Gold (10 gm)	28871	901	3.22
Silver (1 kg)	38690	631	1.66
Crude Oil (\$/barrel)	53.61	2.77	5.45

Currency Market



Currency	19-May-2017	Gain+/Loss-	% Change
USD/INR	64.99	0.69	1.07
EURO/INR	72.3	2.41	3.45
GBP/INR	84.18	1.31	1.58
JPY/INR	58.44	1.88	3.32

sessions, at cutoff prices which were largely along expected lines.

- The Indian currency ended at 64.64 to a dollar, against 64.84 at the previous close. Intraday, it fell to 65.02, its lowest since Apr. 6, as shares reversed gains, raising concerns about capital outflows. Lingering worries over the future of Donald Trump's presidency and his economic agenda for the U.S. have triggered a global risk-aversion.
- India's Monetary Policy Committee will meet on Jun. 6-7 to review policy. Dealers said they expect the rate-setting panel to acknowledge the soft retail inflation print and tone down its hawkish outlook.
- Retail inflation, the Reserve Bank of India's key price gauge, eased to 2.99% in April. Analysts peg core inflation to have cooled to 4.5% in April, from 4.9% in March.
- The MPC had shifted to a 'neutral' policy stance earlier this year amid 'sticky' core retail inflation. The April meeting minutes showed one of the panel members had suggested a "pre-emptive" rate hike.
- MPC members were cautious about the inflation trajectory in the fiscal second half owing to the likely implementations of the goods and services tax and higher housing rent allowance as per the seventh pay commission recommendations. The panel raised its inflation projection for this fiscal year to 4.5%-5.0%, from 4%-5% earlier.
- India Meteorological Department's next forecast for monsoon is due in the first week of June. Earlier in April, IMD had forecast normal monsoon rains this year.
- Monsoon rain levels in India and their distribution largely determine the crop output and are among the most important factors in guiding retail food inflation.



Debt Market Outlook

- During last week, bonds rallied
- 6.79% 2029 bond yield came down by 15bps during last week.
- New 10yr traded in the band of 6.65-6.70%.
- Lower CPI & Core CPI led to rally in bonds.
- Rally in global bonds, also aided rally in domestic bonds.
- Next two CPI reading are expected in the the band of 2.5%-3% .
- Market will keenly await Central Banks guidance in the June month policy. A dovish guidance would be further positive for the bond market.
- We expect new 10yr to trade in 6.60-6.70% band range here till June policy.
- Liquidity is easy.
- 2/3 month CD 6.40%-4.5%
- 2/3 month NBFC 6.75%-6.8%
- 1yr CD is trading at 6.75%-6.80%
- 1yr NBFC is trading at 7.35%
- 2/3 PSU is trading at 7.30-7.35%
- 2/3 AAA NBFC is trading at 7.70-7.8%
- 5yr PSU is trading at 7.4%
- 5yr AAA corporate is trading at 7.6%
- 5yr NBFC is trading at 8%



Commodity Market Update

Gold Update:

- In India, the second-largest consumer of the metal, gold demand this week remained tepid.
- Local market gold futures were trading around 28,600 rupees per 10 grams on Friday, up nearly 2 percent from last week.
- Dealers in India were charging a premium of up to \$1 an ounce this week over official domestic prices, unchanged from last week. The domestic price includes a 10 percent import tax.
- India's gold imports in April jumped 211 percent from a year ago on strong demand during the festival Akshaya Tritiya that prompts purchases.
- Gold demand in Asia was mostly subdued this week as buyers stayed on the sidelines due to a rebound in bullion prices.
- The international benchmark spot gold gained nearly 2 percent this week, on track for its biggest weekly gain since mid-April as political turbulence in the United States triggered safe-haven demand.
- In China, the world's top consumer of gold, demand for the metal fell after improving in the previous three weeks. Premiums in China fell by about \$5 an ounce to \$10, traders said.
- Premiums in Hong Kong were priced at about 60 cents to \$1 an ounce, almost unchanged from the week before.

Crude Update:

- In global commodity trade, crude prices extended their gains to a second straight week on growing expectations that OPEC and other producing countries will agree at a meeting next week to extend crude output cuts.
- The U.S. Benchmark crude oil ended Friday's session 98 cents, or 2 percent, higher at USD 50.33 a barrel, the first time it has settled above USD 50 in more than four weeks. Brent crude was up USD 1.10, or 2.1 percent, at USD 53.61 per barrel.
- Oil futures settled at a four-week high on Friday, with prices scoring a weekly gain of more than 5% amid optimism that key producers will extend output cuts beyond an agreed-on June deadline when they meet later this month.
- The U.S. West Texas Intermediate crude June contract tacked on 98 cents, or around 2%, to end at \$50.33 a barrel by close of trade Friday, the first time it has settled above \$50 in more than four weeks. It touched the highest since April 21 at \$50.53 earlier in the session.
- The U.S. benchmark rose \$2.49, or about 5%, on the week, the second straight weekly advance.



Currency Market Update

- During the week as the home currency crumbled under heightened US political instability fears and plunged to end at a fresh one-month low of 64.64 against the greenback.
- After regaining some lost ground, the home currency finally settled with a loss of 33 paise.
- Strong momentum of buying in domestic equities by foreign institutional investors in the midst of country's strong economic fundamentals along with abundant foreign exchange reserves predominately helped the rupee to withstand the mid-week rout, a forex trader commented.
- At the Interbank Foreign Exchange (Forex) market, the domestic currency resumed firmly higher at 64.12 a dollar from last weekend level of 64.31 and strengthened further to 63.95 on steady dollar unwinding from exporters and banks.
- It took a knock after US political instability fears which took centre stage on Thursday's session and nosedived to hit a fresh low of 65.02 in a nervous trade amid heavy dollar demand.
- However, the local unit staged a spectacular rebound towards the tailend trade to cut short losses and finished at 64.64, a fall of 33 paise, or 0.51 per cent.
- Foreign funds bought local shares worth USD 460.52 million, according to provisional figures by stock exchanges.
- The RBI fixed the reference rate for the USD at Rs 64.9906 and Euro at Rs 72.2955 against preceding week's level of Rs 64.3043 and Rs 69.8859 respectively.
- In worldwide trade, the US dollar endured its worst week in more than a year, wiping out all its gains since Donald Trump was elected US president as investors fretted that a growing White House scandal might derail Republican initiatives to boost the economy.
- The dollar index — a measure of the US currency against a basket of six trade-weighted peers tumbled sharply to end at a new 2017 low of 97.00 - the level not seen since October against last weekend level of 99.05.

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