Date: 22/09/2017

# Weekly Market Update

kotak Mutual Fund

## Financial Market & Economy Update

- Finance Minister Arun Jaitley stimulus assurance to revive the slowdown-hit economy as growth slipped to a three-year low of 5.7 % in the June quarter impacting the country's fiscal deficit target.
- The Prime Minister's Office has asked the finance ministry to hold discussions with key ministries and come up with a comprehensive presentation on ways to create massive jobs and stimulate economic growth.
- The Centre announced a new PPP policy to boost private investment in affordable housing that allows extending Central funds of up to Rs 2.50 lakh for each house to be built by private builders even on private land.
- Prime Minister Narendra Modi asked cooperatives to venture into new businesses like beekeeping and seaweed farming to help farmers in India double their income by 2022
- The National Democratic Alliance (NDA) government has managed to save bank loans worth Rs 300,000 crore to the road sector from turning into non-performing assets (NPAs), Union Minister for Road Transport, Highways and Shipping Nitin Gadkari said.
- India is open to 100 % foreign direct investment (FDI) in defence if firms are willing to provide full technology transfer, a top Indian defence official has said India and the US are set to enter a critical phase of co-development and co-production
- S&P rating agency on Thursday downgraded China's rating by one notch from AA- to A+ reportedly due to rising economic and financial risks after a heavy credit growth months after Moody's
- The US Federal Reserve left interest rates unchanged on Wednesday but signalled it still expects one rate hike by the end of the year despite recent weak US inflation readings.
- Fed said it will begin unwinding its huge stimulus programme. The Fed will start cutting its $4.5 trillion balance sheet in October, initially by just $10bn per month. Fed chair Janet Yellen said the normalisation process would be gradual and predictable.
- Euro zone private businesses ended the third quarter with much stronger growth than predicted, bolstered by manufacturers, who had their best month since early 2011, a survey showed

## Equity Market Update

- The benchmark Sensex registered sizable fall for the week, lossing 350.17 points to close 31,922.44, while the broader Nifty too dropped below the psychological 10,000 level at 9,964.40 fresh geopolitical tension in Korean peninsula.
- The key indices started the week on bullish note with Nifty hitting historic highs lifted by increased liquidity support and expectation of two-day US Fed policy meet would deliver status-quo in rate hike.
- Market across the globe turned cautious as geo-political issues returned following fresh barrage of barbs between US President Donald Trump and North Korean president Kim Jong-un, threatening destruction of North Korea and fresh Hyderogen bomb test in pacific by latter.
- After opening at 32,361.37, the Sensex traded in a range of 32,524.11 and 31,886.09 before closing the week at 31,922.44, showing a loss of 350.17, or 1.09 %.
- The Nifty started the week at 10,133.10 and marked new life highs at 10,178.95 and a low of 9,952.80. The index closed the week at 9,964.40, lossing 121.00 points or 1.20 %.
- Among sectoral and industry indices, realty declined by 5.39 % followed by metal 4.57 %, IPO 3.32 %, consumer durables 2.92 %, capital goods 2.27 %, power 2.16 %, bankex 2.07 %, oil&gas 1.90 %, FMCG 1.10 %, auto 0.50 %, teck 0.20 % and IT 0.06 %, while only healthcare rose by 0.74 %.
- The S&P BSE Mid-Cap index fell 362.85 points or 2.27 % to settle at 15,609.89. The S&P BSE Small-Cap index fell 394.73 points or 2.37 % to settle at 16,293.03.
- Foreign Institutional Investors (FIIs) sold shares worth Rs 4,833.77 crore during the week, as per Sebi's record including the provisional figure of September 22.

## Equity Market Outlook

**Global:**

- Japanese PM Abe is expected to hold a press conference on Monday where he is expected to call a snap election on Oct 22, 14 months ahead of schedule. If re-elected Abe could serve until 2021, making him the country's longest serving Prime Minister. Recent tensions in Korea have led to a revival of LDP support. Cabinet approval of around 50%, up from 42% a few weeks ago, may allow the LDP to return with a super-majority of more than two-thirds which would allow it to pass controversial sales tax increases and changes to Japan's Pacifist constitution. The Government plans to convene an extraordinary Diet session on Sep 28 at which the lower house is expected to be dissolved. Official campaigning is expected to start

## Domestic Markets

| Index | 22-Sep-2017 | 15-Sep-2017 | % Change |
|---|---|---|---|
| S&P BSE Sensex | 31922.44 | 32272.61 | -1.09 |
| Nifty 50 | 9964.4 | 10085.4 | -1.2 |
| Nifty Midcap 100 | 18393.85 | 18951.95 | -2.94 |
| Nifty 500 | 8738 | 8887.6 | -1.68 |
| S&P BSE Smallcap | 16293.03 | 16687.76 | -2.37 |

## Global Markets

| Index | 22-Sep-2017 | 15-Sep-2017 | % Change |
|---|---|---|---|
| Dow Jones | 22349.59 | 22268.34 | 0.36 |
| Nasdaq | 6426.92 | 6448.47 | -0.33 |
| S&P 500 | 2502.22 | 2500.23 | 0.08 |
| FTSE 100 | 7310.64 | 7215.47 | 1.32 |
| Shanghai Composite | 3352.53 | 3353.62 | -0.03 |
| Hang Sang | 27880.53 | 27807.59 | 0.26 |

## Institutional Flows (Equity)

| Description (INR Cr) | Purchases | Sales | Net |
|---|---|---|---|
| FII Flows* | 29519 | 31926 | -2407 |
| MF Flows* | 6494 | 5017 | 1477 |

## F&O FII Trends (Rs. Crs)

| Date | Index | Stocks |
|---|---|---|
| 18-Sep-2017 | -1225.26 | 86.82 |
| 19-Sep-2017 | -679.48 | 83.19 |
| 20-Sep-2017 | 362.26 | 95.04 |
| 21-Sep-2017 | -69.73 | -104.97 |
| 22-Sep-2017 | 1053.1 | -235.67 |

## Policy Rates

| Key Rates (%) | 22-Sep-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

on Oct 10.

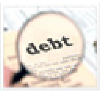
- On Friday, Indonesian policymakers surprised markets with a cut in interest rates taking the benchmark repo rate to 4.25%. This is the second successive meeting at which the Central Bank cut interest rates taking the market by surprise on both occasions. IDR forwards fell after the decision and Bank Indonesia said that any further rate cut would depend on inflation. Core inflation is running at 3.82%, within the target range of 3-5%.
- Markets remain on edge about the situation on the Korean peninsula after North Korea warning that it was considering testing a hydrogen bomb in the Pacific Ocean, the first above air nuclear test since China conducted one in 1980. The US has increased sanctions on North Korea in the past week. South Korea 5yr CDS climbed to its highest level since Feb 2016. North Korea's foreign minister is expected to address the United Nations General Assembly and at the time of writing intelligence officials were trying to ascertain whether the 3.4 magnitude earthquake in North Korea was as a result of a nuclear test.

**Local:**

- India was the worst performing market in the region as the Nifty fell 1.2% over the week. Healthcare was the only sector in the black, up 1% while metals and realty were down 5% each. Fears of a gov't move to relax its fiscal deficit by 20-30bp dragged banks down 2% as the yield went up 7bp to its highest level in four months. The INR also depreciated by a sharp 1.1%, as FII flows (debt + equity) have turned negative in September for the first time since Jan-17.
- Many media reports suggest the govt is considering a fiscal stimulus of Rs400bn-500bn (20-30bp of GDP) in the remainder of FY18. Talk of a stimulus has gathered pace after weak 1QFY18 GDP growth. It is not yet clear if this would be funded by increasing fiscal deficit (to ~3.5% vs 3.2% budgeted) or shoring up revenues. The latter looks difficult given uncertainty on GST collection and weakness on the non-tax revenue front (lower RBI dividend and telecom proceeds). Areas of spending may include ongoing rural and housing programmes, and PSU bank recapitalisation.
- India's current account deficit increased to 2.4% of GDP in 1QFY18 from 0.1% in 1QFY17, largely because of widening of the trade deficit from US$24bn to US$41bn. While exports were up 11% YoY, imports were up 27%. Within imports, gold jumped 187% YoY from US$4bn to US$11bn. Most invisibles had a stable trend. Capital account flows were however robust on account of strong growth in FDI and portfolio flows. As a result, the balance of payments increased by U$11bn during the quarter.
- Equity issuance in Indian markets remains strong with two recent insurance IPOs getting subscribed. General insurance companies' IPOs are also widely expected to hit the market soon with the gov't planning to raise Rs150bn (US$2.2bn) through these. There has been nearly US$11bn of issuance in FY18 so far and we expect this to reach US$18bn-20bn for the full year, more than double that in FY17.

**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 bond yields rose for the third straight week, amid concerns that New Delhi may resort to additional borrowing to stimulate economic growth, risking the fiscal deficit target.
- On a weekly basis, the benchmark yield gained six basis points. The benchmark note ended lower after the Reserve Bank of India devolved 30% of the bonds maturing in 2022, and 48% of the note maturing in 2031 on primary dealers at auction.
- India will decide its October-March borrowing on Sep. 28. The market is concerned that New Delhi may announce a fiscal stimulus package to revive economic growth, which slumped to a three-year low of 5.7% on year in the fiscal first quarter.
- The federal government will likely keep the market borrowing limit through government bonds for the second half of the fiscal that ends Mar. 31 within budget estimates in the next week's meeting, a finance ministry official said separately.

## Debt Market Outlook

- During last week the yields have risen again by close to 7 bps. 10 yr g sec moved up from 6.59% to 6.67% levels
- Us yields moved up by close to 5 bps last week. Us yields closed at 2.25% levels
- We had FOMC where the FED decided to stay put with rates for now but will start the gradual unwinding of the QE
- They gave fair indication of rate hike in December however maintain that it is likely be data dependent
- The economy broadly doing fine however the inflation is surprising on the low side which may make it diff for the to go for a hike in December however as of now the Dec hike on the table
- The dot plot remains unchanged
- Crude oil prices were in the band of 55-57$ per barrel
- Domestic market concerns
    - The GDP growth is slowing down
    - The will impact govt finances adversely
    - GST tax collection is hazy lots of question mark
    - Gove talking multi-pronged approach to tackle the Slowdown

| Key Rates (%) | 22-Sep-2017 | 15-Sep-2017 | % Change |
|---|---|---|---|
| Mibor Overnight | 6.05 | 5.93 | 2.02 |
| CALL (O/N) | 5.89 | 5.83 | 1.03 |
| CBLO | 5.93 | 5.85 | 1.37 |
| T Bills Index (12M) | 6.25 | 6.24 | 0.15 |
| 10 Year GSEC | 6.66 | 6.6 | 0.91 |

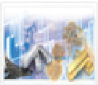
## Commodity Market

| Commodity (INR) | 22-Sep-2017 | Gain+/Loss- | % Change |
|---|---|---|---|
| Gold (10 gm) | 29576 | -349 | -1.17 |
| Silver (1 kg) | 39210 | -1150 | -2.85 |
| Crude Oil ($/barrel) | 56.86 | 1.24 | 2.23 |

## Currency Market

| Currency | 22-Sep-2017 | Gain+/Loss- | % Change |
|---|---|---|---|
| USD/INR | 64.96 | 0.88 | 1.37 |
| EURO/INR | 77.76 | 1.36 | 1.78 |
| GBP/INR | 88.31 | 2.19 | 2.54 |
| JPY/INR | 57.99 | 0.07 | 0.12 |

- This may mean fiscal slippage however the official stance us the government is committed on the fiscal prudence
    - The slippage if any may not be meaningful
    - RBI has already done OMO worth 60k and market has absorbed the supply easily
    - While the long term things are in order near term headwinds are strong and creating volatility
    - The talks of cut in October policy is going strong however if there is a fiscal stimulus it may not go well with RBI and rate cut may not come
    - However as the government talking about stimulus to be used for capex which is good and may not be as bad as mkt is pricing in
    - Technically market is below resistance yields of 6.67% resistance
    - Bonds markets neither expecting a cut nor pricing any in the near term and therefore market is as top end of trading band.
- The auction cut off for limits was a very bullish and came at 50p this clearly shows how attractive the bond yields were
- The qota for corp bonds was also increased by 44k cr starting oct 2017which is very positive for bonds and INR
- Weather the low growth number was transient or will follow in subsequent quarters will influence monetary policy
- We expect 10 yr to trade in 6.5% to 6.65% band next week
- Liquidity is comfortable. Average cblo is 5.85% last. Would remain at similar levels next week.



## Commodity Market Update

**Brent:**

- In global commodity trade, energy markets witnessed spirited activity for a third consecutive week, as the impacts of Hurricane Harvey and Irma gradually fade away, though, the much awaited OPEC/non-OPEC meeting did not signal intention to extend the output cut deal.
- But, the market remains hopeful that the producers would eventually, probably by January 2018, agree to extend their output curbs beyond the first quarter.
- U.S. West Texas Intermediate (WTI) crude futures ended Friday's session 11 cents higher at USD50.66 per barrel, the highest settle since May 24. The contract was up about 1.5 % on the week.
- International benchmark Brent crude futures rose 38 cents to USD 56.81 a barrel after scaling a high of USD 56.87 earlier. The highest intraday level since March 1.

**Gold:**

- On the domestic front, standard gold (99.5 purity) resumed lower at Rs 29,740 per 10 grams from last Friday's closing level of Rs 29,905, it plunged to a low at Rs 29,550, before recovering to settle at Rs 29,625, revealing a loss of Rs 280, or 0.94 %.
- Pure gold (99.9 purity) also commenced lower at Rs 29,890 per 10 grams compared to preceding weekend level of Rs 30,055 and later fell to Rs 29,700 before finishing at Rs 29,775, revealing a fall of Rs 280 per 10 grams, or 0.93 %.
- Silver ready (.999 fineness) opened lower at Rs 40,155 per kilo gram from last Friday's closing level of Rs 40,455, later it drifted lower to Rs 39,265 before regaining some to finish at Rs 39,450 showing a sharp loss of Rs 1,005 per kilo, or 2.48 %.
- In worldwide trade, Gold futures eked out a small gain with heightened tension pegged to North Korea credited with providing a modicum of support to the haven.
- December gold rose USD 2.70, or 0.2 %, to close at USD 1,297.50 an ounce, a day after posting the lowest close since Aug. 24 and slipping beneath the psychologically significant level of USD 1,300 for the first time in September. For the week, gold declined more than 2 %.

## Currency Market Update

- The rupee nosedived to hit a fresh six-month low of 65.16 per dollar on Friday - its lowest intradey level since April 5 before staging a smart rebound.
- At the Interbank Foreign Exchange (Forex) market, the local unit resumed marginally higher at 64.05 against last weekend level of 64.08 and advanced further to 63.9950 on initial bouts of dollar unwinding.
- But, it witnessed a mid-week reversal on Thursday and succumbed to breakneck selloff to hit fresh multi-month low of 65.16 tracking global developments and massive rout in local equities.
- It finally ended at 64.79, revealing a sharp fall of 71 paise, or 0.11 %.
- The rupee has depreciated by 101 paise in two-stragiht week fall.
- The dollar index — a measure of the US currency against a basket of six trade-weighted major rivals rebounded marginally to 91.95 against 91.85 last week.