Date: 24/11/2017

Weekly Market Update

kotak Mutual Fund

Financial Market & Economy Update

- In a massive boost for Highway and Shipping infrastructure in Tamil Nadu, the central government has approved Rs 1 lakh crore for an array of projects.
- Global rating agency Standard and Poor on Friday retained India's sovereign rating at BBB- with a stable outlook.
- Switzerland on Thursday said it will join hands with India for the next phase of bilateral cooperation in the field of science and technology. The Swiss government also described India as one of the "emerging global players in research and innovation".
- The Cabinet Committee on Economic Affairs on Wednesday approved wage revision for central public sector enterprises (CPSEs). Finance Minister Arun Jaitley said that every CPSE has flexibility for negotiating wage revision. The Cabinet said that CPSEs will have to ensure negotiated scales of pay don't exceed existing scales.
- The Cabinet also cleared the setting up of the 15th Finance Commission to decentralise the tax revenue between the central government, state governments and local bodies.
- The Central Cabinet on Wednesday approved an ordinance approving an amendment to the Insolvency and Bankruptcy Code to prevent wilful defaulters from bidding for stressed assets.
- According to International Monetary Fund data, which forms part of the latest World Economic Outlook report of the IMF, India has moved up one position to 126th in terms of GDP per capita of countries.
- Pakistan has refused to allow free use of the Chinese yuan on the lines of the US dollar in the country as officials from the two nations met to decide on a long-term developmental plan under the China-Pakistan Economic Corridor (CPEC)
- Britain slashed its official projections for economic growth on Wednesday and anticipates it will need to borrow sharply over the coming years. Finance Minister Philip Hammond delivered the U.K. government's official Autumn Budget at a time when the ruling Conservative party is facing challenging political and economic circumstances.
- China imported no iron ore, lead or coal from North Korea in October as sanctions against the isolated nation came into force, while the world's second-largest economy didn't export any diesel, gasoline or corn, data showed on Friday.
- Jobs are being created across the 19-country eurozone at a pace not seen since the turn of the millennium thanks to stronger economic growth, particularly in a resurgent France.
- Japanese manufacturing activity expanded at the fastest pace in more than three years in November as output, new orders, and new export orders all accelerated in a sign the economy will continue its growth streak, a preliminary survey showed on Friday.
- Singapore's industrial production rose for a fifteenth straight month in October, driven by a continued surge in electronics output, data showed on Friday.

Equity Market Update

- Weekly as on 24th November The benchmark Sensex logged good gains for the week, soaring 336.44 points to close 33,679.24, while the broader Nifty ended above the key 10,350- level to conclude at 10,389.70.
- For the week, the market witnessed largely positive momentum with quiet volumes sessions as bulls remained upper- hand.
- The Sensex started the week lower at 33,365.84 and hovered between 33,738.53 and 33,288.21 before settling the week at 33,679.24, showing a gain of 336.44, or 1.01 %.
- The Nifty started the week flat at 10,287 and traded in the range of 10,261 and 10,404.50 to end at 10,389.70, showing a rise of 106.10 points, or 1.03 %.
- Intermittent buying was witnessed in most of the sectors with Healthcare, Energy and IT stocks, while Banking showed profit-booking.
- foreign institutional investors (FIIs) bought shares worth Rs 253.79 crore during the week, as per Sebi's record including the provisional figure of November 24.
- The S&P BSE Mid-Cap index advanced 1.56 %. The S&P BSE Small-Cap index rose 2.38 %. Both the indices outperformed the Sensex.

Equity Market Outlook

Global:

- US tax cuts, the continued tightening of leverage in the Chinese economy and the potential for Chinese QE via the bond market are likely to be the dominant events in the week ahead. US markets will react to Black Friday and weekend retail sales. Online store growth continued to outpace physical stores which were expected to decline.
- Global Central Bank liquidity, as per one of the measures, hit a new record high on Friday despite the Fed starting to taper its balance sheet which is down over $50bn

Domestic Markets

Index	24-Nov-2017	17-Nov-2017	% Change
S&P BSE Sensex	33679.24	33342.8	1.01
Nifty 50	10389.7	10283.6	1.03
Nifty Midcap 100	19984.25	19642.6	1.74
Nifty 500	9246.05	9137.1	1.19
S&P BSE Smallcap	18024.55	17605.13	2.38

Global Markets

Index	24-Nov-2017	17-Nov-2017	% Change
Dow Jones	23557.99	23358.24	0.86
Nasdaq	6889.16	6782.79	1.57
S&P 500	2602.42	2578.85	0.91
FTSE 100	7409.64	7380.68	0.39
Shanghai Composite	3353.82	3382.91	-0.86
Hang Sang	29866.32	29199.04	2.29

Institutional Flows (Equity)

Description (INR Cr)	Purchases	Sales	Net
FII Flows*	30683	26046	4637
MF Flows*	0	0	0

F&O FII Trends (Rs. Crs)

Date	Index	Stocks
20-Nov-2017	-680.94	-562.16
21-Nov-2017	612.14	-1422.39
22-Nov-2017	39.89	-230.1
23-Nov-2017	-361.3	121.6
24-Nov-2017	332.6	-263.42

Policy Rates

Key Rates (%)	24-Nov-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

from its 2015 highs. Weakness in the USD and the continued provision of funds by the BoJ and the ECB keep global markets supported as the S&P closed at fresh record highs. US breakeven inflation swaps out to 4 years are back below the Fed's target of 2% after Fed Chair Yellen said that the outlook for inflation was lower than expected.

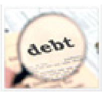
- Chinese measures to curb leverage in the system will continue to remain a focus. Measures to reduce leverage have been blamed for a selloff in the Chinese bond market. Late buying on Friday again capped the China 5y yield at 4%. It is thought that a rise in bond yields beyond that level would lead to a drop in capital at some Chinese banks. The yield on China Development Bank 10yr bonds rose to over 5% with the spread over Government bonds widening to over 1%. A form of yield curve control would imply a form of QE which could be beneficial for the banking sector at a time when the rest of the economy is deleveraging. So far, this has not been stated as an explicit policy objective but yield curve control is likely to put pressure on the CNY or Chinese FX reserves. Chinese industrial profits and PMI numbers will be closely watched this week for signs that the economy is slowing after the pre-plenum surge.
- The Senate may vote on the tax cut bill as early as Friday and if it is passed, it is likely that the significant cuts in corporate tax rates would trigger a further rally in equities going into the end of the year and into January. The voting intentions of at least six Republican senators are currently unclear (Corker, Johnson, McCain, Lankford, Collins and Flake) and if more than two senators vote against the proposals the bill will fail. There are likely to be dozens of amendments that will be voted upon. If it is unlikely that the necessary votes will not be obtained the Senate Republican leadership may not put the bill to a vote. A successful vote will then start the process of reconciling the different bills passed by the Senate and the House before it can be presented to President Trump. The impact of tax changes are most likely to be felt in the high yield credit market. The focus will then move onto the US budget to secure funding after the current money expires on Dec 8.
- As the US yield curve continues to bear flatten, market attention will focus on US GDP growth and comments from Fed Chair Yellen. GDP growth in the US is expected to remain robust at 3.2% in the third quarter. Markets will be looking forward to hearing what the provisional new Fed Chair Powell will say at his Senate confirmation hearings. US macro data being released this week will include personal spending and consumption figures as well as key PCE inflation numbers. The Fed will also release its Beige book of economic activity. US High Yield Bonds rallied on Friday back to near their highs, almost wiping out recent losses.

Local:

- The Nifty was up 1% during the week, marginally outperforming regional indices. Oil & Gas and Power were the best-performing sectors while Banks and Metals declined. After flat bond yields last week on Moody's India rating upgrade, there was a 5bp decline this week to 7%. Interestingly, the S&P maintained India's rating at BBB-, one notch below that of Moody's. FII equity inflows have, however, risen to US$2.3bn in Nov-17, the highest monthly inflow in FY18 so far.
- After the GST Council reduced rates on a host of items, the Central Board of Excise and Customs asked FMCG companies to reduce prices. This was followed by several FMCG companies including ITC, Dabur, HUL and Marico announcing price cuts.
- After introducing direct benefits transfer for fertilisers in 14 states and union territories in Oct-17, the government is expanding the DBT to the five big states of Punjab, Haryana, Chhattisgarh, Madhya Pradesh and Andhra Pradesh in Dec-17. The govt spends nearly US$11bn on fertiliser subsidy every year but the DBT mechanism here is different from DBT in other schemes. Farmers will get fertilisers at subsidised rates and the govt will pay subsidies to the manufacturing companies. The transactions will be recorded on PoS machines and the government will release the subsidies based on the data. The govt is likely to launch the DBT mechanism in 12 more states next month.

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 sovereign bonds snapped a five-week falling streak as the central bank's withdrawal of an open market sale of debt eased concerns about an excess supply of papers.
- Investor sentiment, however, stayed bearish amid inflation and fiscal concerns.
- The Reserve Bank of India withdrew an open market sale of bonds worth 100 billion rupees scheduled for this week, signaling that it may not hold any more such auctions targeted at lowering a post-demonetisation banking system liquidity surplus.
- The nation's Monetary Policy Committee will also meet early next month to decide on interest rates after retail inflation - the MPC's main price gauge - rose 3.58% in October from a year earlier, the fastest pace of price gains since March.

Debt Market Outlook

- During last week, 10 yr Gilt Yield was volatile. It traded in the band of 6.88%-7.03%.
- First 3 days of the week, 10 yr Gilt yield was trading a 6.88%-7.03% band. We saw selloff in the bonds on Thursday and finally on Friday the 10 yr closed at 7%, after seeing a low of 7.03%

Key Rates (%)	24-Nov-2017	17-Nov-2017	% Change
Mibor Overnight	5.97	6	-0.5
CALL (O/N)	5.91	5.88	0.51
CBLO	5.18	5.91	-12.35
T Bills Index (12M)	6.25	6.26	-0.16
10 Year GSEC	7	7.05	-0.71

Commodity Market

Commodity (INR)	24-Nov-2017	Gain+/Loss-	% Change
Gold (10 gm)	29499	73	0.25
Silver (1 kg)	39338	-140	-0.35
Crude Oil ($/barrel)	63.86	1.85	2.98

Currency Market

Currency	24-Nov-2017	Gain+/Loss-	% Change
USD/INR	64.73	-0.12	-0.19
EURO/INR	76.72	0.16	0.21
GBP/INR	86.04	0.26	0.3
JPY/INR	58.07	0.48	0.83

- Rupee appreciated during the week.
- US 10 yr was trading in the band of 2.3%-2.4%
- Brent crude oil prices inched up $1.5-2 a barrel on week on week basis.
- India's GDP data will be announced next week. We expect the GDP data to be at 5.9%-6.7% band. GDP at 5.9% will be good for the bond market.
- We expect the 10 yr to be in the range of 6.90% to 7.10% band till the next RBI policy which is on Dec17.
- Market will take cues from the RBI's policy and trade further.
- Fiscal deficit concerns for FY18is overdone and looks like govt wont breach 3.2% target for current year.
- Indirect target collection are in line or higher than projected.
- Disinvestment proceeds may end up higher than projected.
- Liquidity in the system is close to 80 thousand crores(including govt balance).
- Liquidity may become negative during mid Dec due to advance tax.
- However we believe O/N rate would continue to be at 6%.
- The yield curve is steep & provide protection to investors.
    - 3 months HDFC - 6.4%
    - 1 year HDFC - 7.1%
    - 2 years HDFC - 7.4%

Commodity Market Update

Oil Update:

- It was another strong week for crude oil as OPEC combined political pressure in the Middle East as well as pipeline shutdown catapulted prices to another fresh two-year high amid hopes for output cuts extension.
- Brent crude, the international benchmark is trading higher at USD 63.89 a barrel in early Asian trade.
- In global commodity trade, crude prices surged to a two-year high on Friday as North American markets tightened on the partial closure of the Keystone pipeline connecting Canadian oilfields with the United States.
- U.S. Light crude hit highs not seen since July 1, 2015, on Friday, settling up 1.6 % at USD 58.95 per barrel.

Gold Update:

- The yellow-metal lost a whopping 0.26 % in its two-week downslide.
- Elsewhere, silver too slipped for the week owing to lacklustre industrial demand and is poised for its first weekly decline in three.
- In worldwide trade, Gold futures finished modestly lower as investors booked some of the yellow metal's strong pre-Thanksgiving gain.
- December gold fell USD 4.90, or 0.4 %, to settle at USD 1,287.30 an ounce. After an up-and-down week, gold logged a roughly 0.7 % weekly decline and its first weekly fall of the past three.
- On the domestic front, standard gold (99.5 purity) resumed higher at Rs 29,640 per 10 grams from last Friday's closing level of Rs 29,460 and hovered in a range of Rs 29,520 and Rs 29,340 before settling at Rs 29,440, revealing a loss of Rs 20 per 10 grams, or 0.06 %.
- Pure gold (99.9 purity) also commenced higher at Rs 29,790 per 10 grams compared to preceding weekend's level of Rs 29,610 and moved in a range of Rs 29,670 and Rs 29,490 before ending at 29,590, revealing a fall of Rs 20 per 10 grams, or 0.06 %
- Silver ready (.999 fineness) opened positive at Rs 39,830 per kilogram from last Friday's closing level of Rs 39,590 and hovered between Rs 39,500 and Rs 39,250 before finish at Rs 39,335, showing a loss of Rs 255 per kilo, or 0.64 %.

Currency Market Update

- Rupee surged ahead by a whopping 31 paise to end at 64.70 against the US dollar cashing in on positive sentiments post Moody's upgrade of India's credit rating.
- Frantic unwinding in the greenback largely helped the home currency to stay positive despite initial wobble.
- Currency traders and exporters rushed to sell their receivables expecting a surge in dollar inflows from global investors in the face of Moody's decision to upgrade India's sovereign rating after a gap of 14 years.
- The Indian unit climbed a fresh 3-week high of 64.54 before giving back some gains.
- At the Interbank Foreign Exchange (forex) market, the rupee opened modestly higher at 64.97 against Friday's close of 65.01.
- After hitting a low of 65.13 briefly, the local unit staged a spirited recovery towards the fag-end trade to revist its 3-week high of 64.54 before concluding at 64.70, showing a solid rise of 31 paise, or 0.48 %.
- In the meantime, country's foreign exchange reserves rose by USD 240.4 million to USD 399.533 billion in the week to November 17, the weekly data from the Reserve Rank showed on Friday.
- The dollar index, which tracks the greenback against six major currencies, was sharply down by 0.94 % at 92.79 from 93.67.

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