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June 09, 2017

The Week that was...

05th June to 09th June

Indian Economy

- The Reserve Bank of India (RBI) has projected consumer inflation in the range of 2% to 3.5% in the first half of FY18, and subsequently move up to a range of 3.5% to 4.5% in the second half of the fiscal. The increase in retail inflation could be attributed to the risks associated with announcements of loan waivers in the agriculture sector. RBI also noted that the fall in inflation in Apr 2017 after rising in the previous two months has raised several issues that have to be factored into the inflation projections.
- RBI has slightly downgraded the economic growth projection for FY18 to 7.3%. Despite slower growth forecast, RBI hoped that remonetisation would boost consumer spending, especially in the cash-intensive segments. The central bank also said that reductions in banks' lending rates post demonetisation should support both consumption and investment demand of households and stress-free corporates.
- The Nikkei India Services Purchasing Managers' Index (PMI) rose from 50.2 in Apr 2017 to 52.2 in May 2017. This is the fourth consecutive month of rise. Meanwhile, the Nikkei India Composite PMI Output Index, that combines both the manufacturing and services sector activity, touched a seven-month high of 52.5 in May from 51.3 in Apr.
- According to Society of Indian Automobile Manufacturers (SIAM), passenger vehicle sales in India surged by 8.63% on YoY basis in May 2017 to 2,51,642 units from 2,31,640 units in the year-ago period. This marked the best ever sales in May. The upside was driven by strong sales of utility vehicles and cars. Domestic passenger car sales grew 4.8% to 1,66,630 units, while utility vehicles grew by 18.80%, sales of vans increased by 9.50%.

Indian Equity Market

Domestic Equity Market Indices			
Indices	09-Jun-17	1 Week Return	YTD Return
S&P BSE Sensex	31262.06	-0.04%	17.55%
Nifty 50	9668.25	0.15%	18.20%
S&P BSE Mid-Cap	14875.36	0.50%	22.62%
S&P BSE Small-Cap	15549.17	1.55%	27.56%

Source: MFI Explorer

Ratios	S&P BSE Sensex	Nifty 50	S&P BSE Mid Cap	S&P BSE Small Cap
P/E	22.69	24.38	31.66	72.58
P/B	2.94	3.64	2.61	2.36
Dividend Yield	1.31	1.18	1.22	0.75

Source: BSE, NSE *Value as on Jun 09, 2017*

NSE Advance/Decline Ratio			
Date	Advances	Declines	Advance/Decline Ratio
05-Jun-17	934	748	1.25
06-Jun-17	501	1161	0.43
07-Jun-17	962	691	1.39
08-Jun-17	836	825	1.01
09-Jun-17	865	802	1.08

Source: NSE

- Investors remained cautious initially ahead of the RBI's policy meeting. They were also awaiting general elections results in the U.K., European Central Bank's (ECB) meeting, and U.S. Congressional testimony of former FBI director. However, downside was limited after the services PMI climbed for the fourth consecutive month in May 2017, and auto sales numbers surge.
- Sentiment got support after the MPC kept benchmark rates unchanged in its second bi-monthly monetary policy review but lowered the statutory liquidity ratio. Implementation of GST from Jul 1 and higher monsoon forecast also helped sentiment. Meanwhile, U.K. election results led to uncertainty over Brexit negotiations.

Indian Equity Market (contd.)

Sectoral Indices			
Indices	Last Closing	Returns (in %)	
		1-Wk	1-Mth
S&P BSE Auto	24490.8	0.82%	8.08%
S&P BSE Bankex	26820.3	1.21%	3.83%
S&P BSE CD	16086.2	2.83%	1.91%
S&P BSE CG	17703.3	-0.26%	-1.52%
S&P BSE FMCG	10145.7	-1.49%	8.53%
S&P BSE HC	14227.9	2.54%	-3.65%
S&P BSE IT	10100.6	-1.51%	1.82%
S&P BSE Metal	11391.3	2.67%	4.36%
S&P BSE Oil & Gas	13798.9	-1.19%	-3.34%

Source: Reuters Value as on Jun 09, 2017

- On the BSE sectoral front, indices witnessed a mixed trend. S&P BSE Consumer Durables (2.83%) stood as the major gainer followed by S&P BSE Metal (2.67%) and S&P BSE Healthcare (2.54%).
- Meanwhile, S&P BSE IT (-1.51%) stood as the major loser followed by S&P BSE FMCG (-1.49%) and S&P BSE Teck (-1.41%). Auto sector (0.82%) also gained after SIAM data indicated positive auto sales number in May 2017.

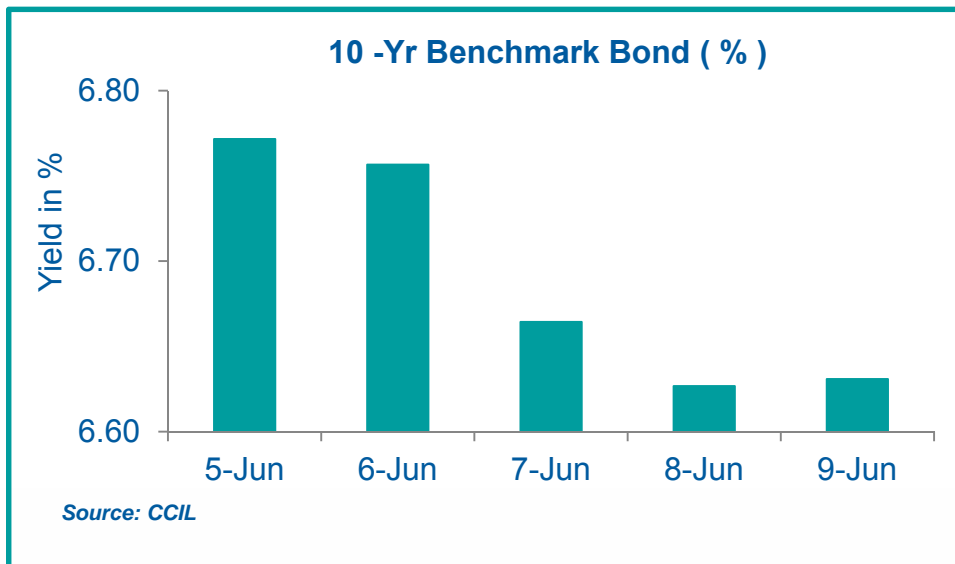
Indian Derivatives Market Review

- Nifty Jun 2017 Futures were at 9,682.90, a premium of 14.65 above the spot closing of 9,668.25. The turnover on NSE's Futures and Options segment stood at Rs. 20.30 lakh crore in the week to Jun 9, compared with Rs. 23.21 lakh crore during the preceding week.
- The Put-Call ratio stood at 1.00 compared with the previous week's close of 0.97.
- The Nifty Put-Call ratio stood at 1.21 compared with the previous week's close of 1.16.

Domestic Debt Market

Debt Indicators (%)	Current Value	1-Wk Ago	1-Mth Ago	6-Mth Ago
Call Rate	6.13	6.05	6.08	6.19
91 Day T-Bill	6.28	6.27	6.26	6.23
7.80% 2021, (5 Yr GOI)	6.59	6.71	6.92	6.40
6.97% 2026, (10 Yr GOI)	6.63	6.75	6.94	6.44

Source: Reuters *Value as on Jun 09, 2017*



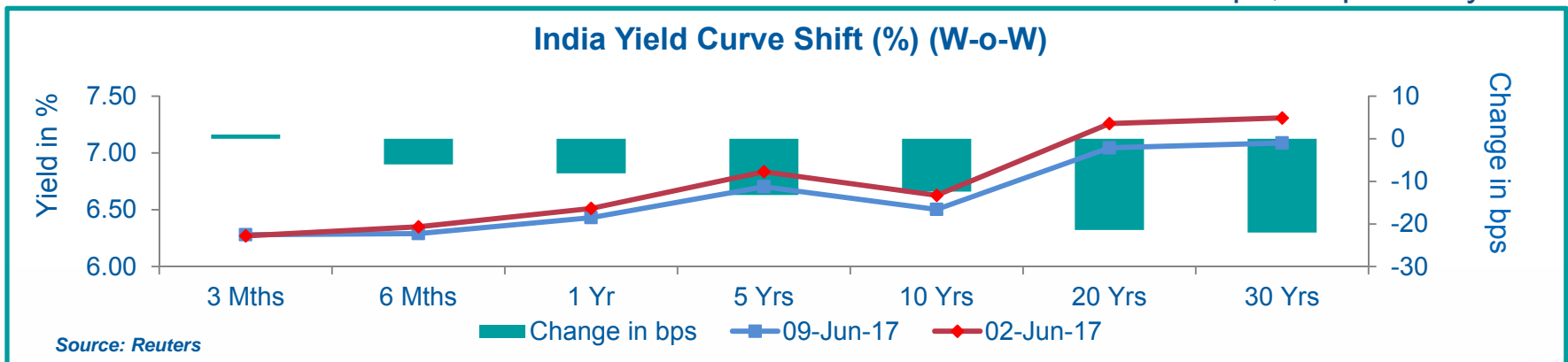
- Bond yields fell this week with the benchmark yield posting its biggest weekly fall in nine weeks as Monetary Policy Committee’s downward revision of inflation projection spurred expectations that interest rates would ease in near future. yields fell further after the outcome of the weekly debt auction came in better than market expectations.
- Yield on the 10-year benchmark bond (6.97% GS 2026) fell 12 bps to close 6.63% compared with the previous close of 6.75%. During the session, bond yields moved in the region of 6.60% to 6.78%.
- RBI conducted auction of 63-days cash management bills for a notified amount of Rs. 30,000 crore for which the whole amount was accepted. The cut-off price stood at Rs. 98.92 and the cut-off rate stood at 6.33%.

Domestic Debt Market (Spread Analysis)

Maturity	G-Sec Yield (%)	Corporate Yield (%)	Spread bps
1 Year	6.53	6.99	47
3 Year	6.57	7.17	60
5 Year	6.80	7.28	48
10 Year	6.65	7.43	78

Source: Reuters *Value as on Jun 09, 2017*

- Yields on gilt securities fell across maturities in the range of 8 to 22 bps. Highest fall was seen on 14-, 24-, and 30-year papers and lowest decline was on 1-year paper.
- Corporate bond yields dropped across curve in the range of 6 to 17 bps. Highest fall was seen on 10-paper and lowest decline was on 1- and 2-year papers.
- Spread between AAA corporate bond and gilt expanded across maturities by up to 9 bps barring 9- and 10-year papers that contracted 1 and 5 bps, respectively.



Regulatory Updates in India

- The Monetary Policy committee (MPC) in its second bi-monthly policy meeting has kept repo rate and reverse repo rate under the liquidity adjustment facility (LAF) unchanged at 6.25% and 6.00%. Six out of five members were in favour of the decision. MPC said to wait for more data to have a greater clarity on future monetary policy setting. The committee suggested that as the year progresses, underlying inflation pressures, especially input costs, wages and imported inflation, will have to be closely and continuously monitored. MPC has also reduced Statutory Liquidity Ratio (SLR) from 20.5% of Net Demand and Time Liabilities (NDTL) to 20.0% of NDTL with effect from the fortnight beginning Jun 24, 2017. The rationale behind the move is to give greater flexibility to banks to comply with the Liquidity Coverage Ratio (LCR) requirement in an efficient manner. Commercial banks have to reach the minimum LCR of 100% on Jan 1, 2019.
- The Income Tax Department has announced that Foreign Direct Investment (FDI), employee stock option, and off-market transactions that are recognised by the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), a high court or Supreme Court, and National Company Law Appellate Tribunal will not have to pay capital gains tax, even if no Securities Transaction Tax (STT) has been paid on them. This significant decision has clarified the tax rules for capital gains tax made on certain equity investments in case no STT is paid, thereby giving a pause to the ambiguity that had come up from the budget proposal relating to such transactions.

Regulatory Updates in India (contd..)

- The government is set to bring big education reform by scrapping the University Grants Commission and the All India Council for Technical Education and replace them with one single higher education regulator that would be named Higher Education Empowerment Regulation Agency (HEERA). Senior officials have stated that the human resource development ministry and the Niti Aayog are working on the new law and the work is on at a rapid pace to frame the HEERA legislation.
- RBI has tightened rules for masala bond issuances. The forex department of the central bank moving forward will examine proposal of companies before they can issue masala bonds, which are used to raise funds from overseas markets. RBI also modified provisions for maturity period, all-in-cost ceiling, and recognised lenders (investors) of masala bonds. Earlier, the minimum maturity period was of five years. Now, for bonds issued to collect up to \$50 million the maturity period will be three years and for bonds raising over \$50 million (equivalent in Indian rupee) per financial year, the maturity period will be five years.
- Government said seven cesses will continue to be levied under GST regime since they are related to customs or goods which are not covered by it. These include education cess on imported goods, secondary and higher education cess on imported goods, cess on crude oil, additional duty of excise on motor spirit and diesel oil (road cess), special additional duty of excise on motor spirit, and NCCD on tobacco and tobacco products and crude oil.

Global News/Economy

- The European Central Bank (ECB) left key interest rates and monetary stimulus unchanged for the tenth successive policy session. The refinance rate was held at a record low of 0% and the deposit rate at -0.40%. The marginal lending facility rate was kept at 0.25%.
- According to a report by Standard & Poor's, sovereign ratings of the U.S. were maintained at "AA+" with a "stable" outlook. However, the rating agency added that the rating of the country is constrained by high general government debt, relatively short-term-oriented policy-making, and uncertainty about policy formulation.
- According to data from the National Bureau of Statistics, China's consumer inflation accelerated to 1.5% in May from 1.2% in Apr 2017, in line with market forecast. Consumer prices rose at their fastest pace since Jan 2017. A separate report showed that producer price inflation rose 5.5% in May 2017, slower than 6.4% in Apr 2017, due to weak commodity prices.
- According to the latest survey from Caixin, services PMI continued to expand in May 2017 and grew to 52.8 from 51.5 in Apr 2017. This marked the highest score and first growth since the beginning of the year. The score above 50 reflects expansion. While business activity growth accelerated, manufacturers experienced only a slight rise in production. Meanwhile, goods producers witnessed the slowest increase in output over a period of 11 months.

Global Equity Markets

Global Indices			
Indices	09-Jun-17	1-Week Return	YTD Return
Dow Jones	21271.97	0.31%	6.99%
Nasdaq 100	5741.944	-2.37%	16.91%
FTSE 100	7527.33	-0.27%	5.38%
DAX Index	12815.72	-0.06%	10.50%
Nikkei Average	20013.26	-0.81%	4.70%
Straits Times	3254.19	0.44%	12.25%

Source: Reuters *Value as on Jun 09, 2017*

Europe

- European markets closed in the red amid uncertainties over the fate of “Brexit” negotiation after the British Prime Minister failed to win a clear majority at the end of the national elections. Tensions in the Middle East also contributed to the hurt. However, losses were restricted after the European Central Bank left its key interest rates and considerable monetary stimulus unaltered, although it made a slight change to its forward guidance.

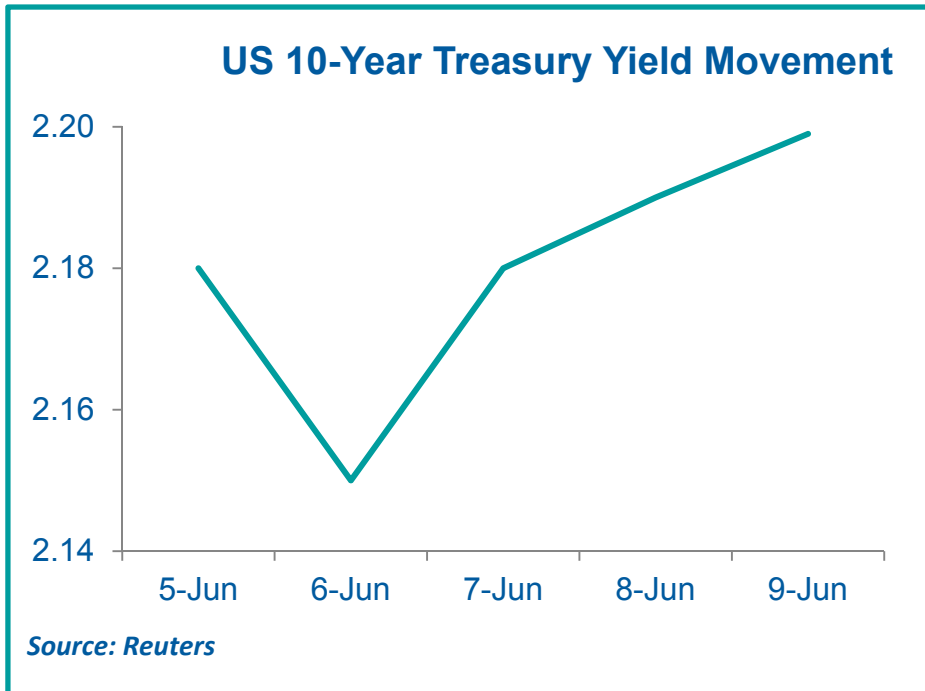
Asia

- Most of the major Asian markets went up as Chinese markets witnessed buying interest after the People's Bank of China injected liquidity into the system in order to ease liquidity strain. Further, encouraging Chinese trade data too helped the bourses. Japanese markets gained following merger and acquisition news, and a final reading of a private survey showing that Japanese service sector continued to expand in May 2017.

U.S.

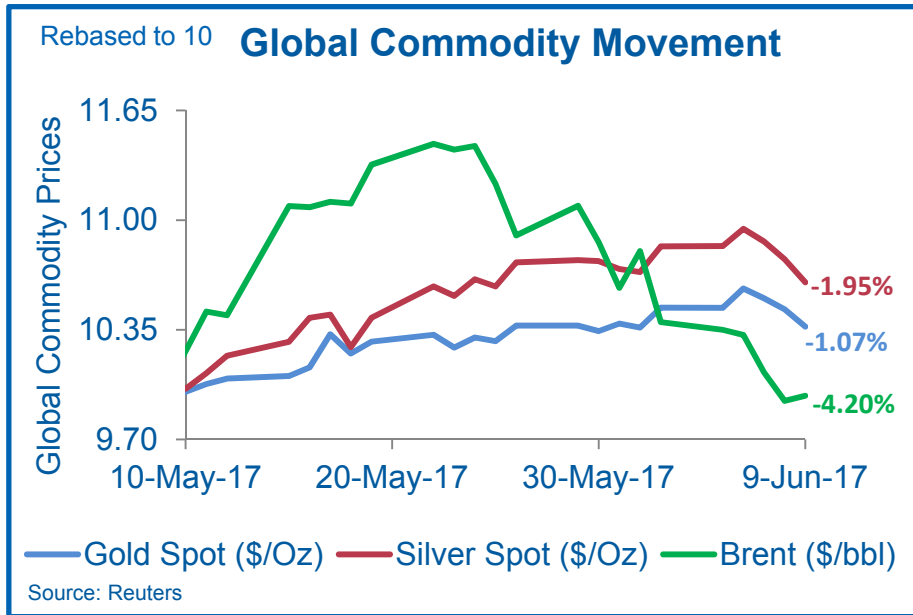
- Most of the major U.S. markets closed negatively following former FBI director’s Congressional testimony before the Senate Intelligence Committee that could prove to be damaging for the U.S. President.
- Markets were also affected by tensions in the Middle East, after Saudi Arabia, UAE, Bahrain, and Egypt cut diplomatic ties with Qatar.

Global Debt (U.S.)



- Yield on the 10-year U.S. Treasury bond rose 4 bps to close at 2.20% from the previous week's close of 2.16%.
- U.S. Treasury prices fell initially as market participants booked profits from the recent rally after U.S. jobs data for May 2017 came below market expectations. Losses were extended after testimony of former Federal Bureau of Investigation chief made no new revelation about the agency's Russian probe.
- U.S. Treasury prices fell further on growing possibility that the U.S. Federal Reserve (Fed) will increase interest rates in its monetary policy review scheduled next week.

Commodities Market



Performance of various commodities		
Commodities	Last Closing	1-Week Ago
Brent Crude(\$/Barrel)	46.08	48.10
Gold (\$/Oz)	1265.90	1279.58
Gold (Rs/10 gm)	28916	28757
Silver (\$/Oz)	17.16	17.50
Silver (Rs/Kg)	39549	39403

Source: Reuters Value as on Jun 09, 2017

Gold

- Gold prices initially got support amid uncertainties ahead of national elections in the U.K., testimony from the former FBI director, and ECB'S meeting. Lower than expected U.S. jobs data, which raised concerns on possibilities of the imminent interest rate hike by the Fed, and persistent geo-political tensions further raised the safe-haven appeal of the metal.

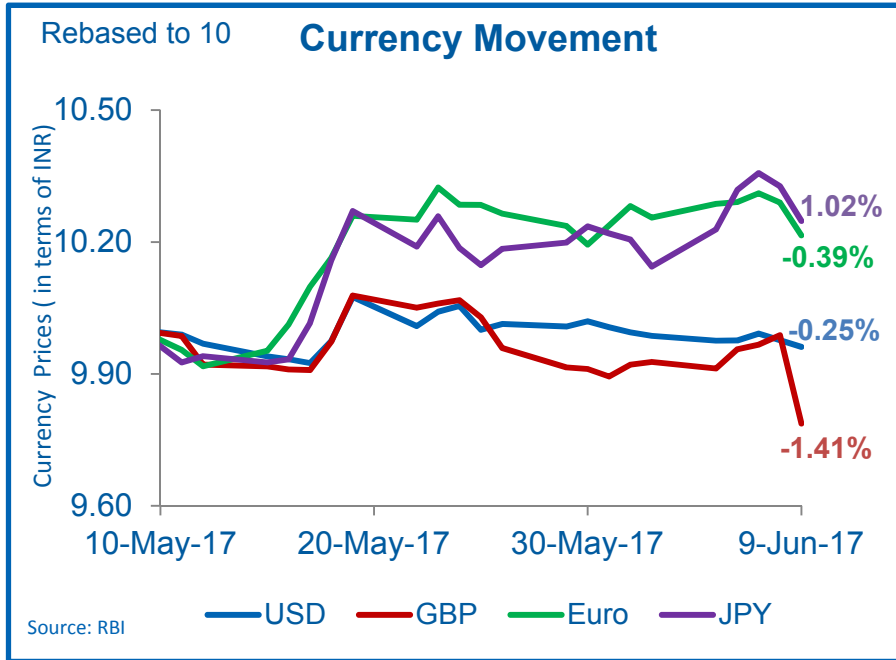
Crude

- Brent crude prices fell on worries that a global agreement to reduce oil supply could be hindered as a result of cutting of ties between Qatar and Saudi Arabia, the United Arab Emirates, Egypt, and Bahrain.

Baltic Dry Index

- The Baltic Dry Index fell during the week owing to weaker capesize and panamax activities.

Currencies Markets



Movement of Rupee vs Other Currencies		
Currency	Last Closing	1-Wk Ago
US Dollar	64.26	64.42
Pound Sterling	81.75	82.92
EURO	71.98	72.27
JPY(per 100 Yen)	58.31	57.72

Source: RBI Figures in INR, Value as on Jun 09, 2017

Rupee

- The Indian rupee rose against the greenback after the U.S. jobs data for May 2017 came below market expectations and the MPC kept interest rates on hold.

Euro

- The euro weakened against the greenback after the ECB kept interest rates on hold and ruled out the possibility of scaling back its massive bond-buying program.

Pound

- The pound fell after no party achieved a majority in the elections which increased uncertainty regarding Brexit negotiations.

Yen

- The yen initially rose against the greenback ahead of Britain's general election and ECB's policy meet. However, the trend reversed on growing possibility that the U.S. Fed will increase interest rates next week, and after ECB lowered its inflation projections for 2017.

The Week that was...

05th June to 09th June

The Week that was (June 05 – June 09)

Date	Events	Present Value	Previous Value
Monday, June 05, 2017	<ul style="list-style-type: none"> • Japan Markit Services PMI (May) • Caixin China Services PMI (YoY) (May) • U.K. Markit PMI Composite (May) • U.S. ISM Non-Manufacturing PMI (May) • U.S. Markit PMI Composite (May) • Euro zone Markit PMI Composite (May) 	53.0 52.8 56.8 53.8 56.9 53.9	52.2 51.5 56.8 55.8 57.5 53.9
Tuesday, June 06, 2017	<ul style="list-style-type: none"> • Euro zone Retail Sales (YoY) (May) • Euro zone Sentix Investor Confidence (June) 	2.5% 28.4	2.5% 27.4
Wednesday, June 07, 2017	<ul style="list-style-type: none"> • Euro zone Gross Domestic Product (YoY) (1Q F) • Japan Gross Domestic Product Annualized (1Q F) • U.S. Initial Jobless Claims (Jun 2) 	1.9% 1.0% 245K	1.7% 2.2% 255K
Thursday, June 08, 2017	<ul style="list-style-type: none"> • European Central Bank Rate Decision • China Trade Balance (May) 	0% \$40.8B	0% \$38.0B
Friday, June 09, 2017	<ul style="list-style-type: none"> • China Consumer Price Index (YoY) (May) • China Producer Price Index (YoY) (May) • U.K. Industrial Production (YoY) (Apr) 	1.5% 5.5% -0.8%	1.2% 6.4% 1.4%

The Week Ahead

12th June to 16th June

The Week Ahead

Day	Event
Monday, June 12, 2017	<ul style="list-style-type: none"> China Foreign Direct Investment (YTD) (YoY) (May)
Tuesday, June 13, 2017	<ul style="list-style-type: none"> Euro zone ZEW Survey - Economic Sentiment (June) U.S. Producer Price Index (YoY) (May) U.K. Consumer Price Index (YoY) (May)
Wednesday, June 14, 2017	<ul style="list-style-type: none"> U.K. ILO Unemployment Rate (3M) (April) China Industrial Production (YoY) (May) China Retail Sales (YoY) (May) Euro zone Industrial Production w.d.a. (YoY) (April) Japan Industrial Production w.d.a. (YoY) (April) U.S. Retail Sales (MoM) (May) U.S. Consumer Price Index (YoY) (May) U.S. Federal Reserve Interest Rate Decision
Thursday, June 15, 2017	<ul style="list-style-type: none"> Bank of England Interest Rate Decision U.S. NAHB Housing Market Index (June)
Friday, June 16, 2017	<ul style="list-style-type: none"> Euro zone Consumer Price Index (YoY) (May) Bank of Japan Interest Rate Decision U.S. Housing Starts (MoM) (May)

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