

# LIQUIDITY, VALUATIONS AND EVENTS

**Apr - June  
2016**

# MOVEMENTS OF MAJOR INDICES

Index	Country	31th Mar 2015	31 <sup>st</sup> Dec 2015	31 <sup>st</sup> Mar 2016	3-Month Returns (%)	1-Year Returns (%)
S&P BSE SENSEX	India	27,957	26,118	25,342	-3%	-9%
NIFTY 50	India	8,491	7,946	7,738	-3%	-9%
Bovespa	Brazil	51,150	43,350	50,055	15%	-2%
CAC 40	France	5,034	4,637	4,385	-5%	-13%
DAX	Germany	11,966	10,743	9,966	-7%	-17%
Dow Jones	US	17,776	17,425	17,685	1%	-1%
FTSE 100	UK	6,773	6,242	6,175	-1%	-9%
Hang Seng	Hong Kong	24,901	21,914	20,777	-5%	-17%
Jakarta Composite	Indonesia	5,519	4,593	4,845	5%	-12%
KLSE Composite	Malaysia	1,831	1,693	1,718	1%	-6%
Nasdaq	US	4,901	5,007	4,870	-3%	-1%
Nikkei 225	Japan	19,207	19,034	16,759	-12%	-13%
NYSE	US	10,899	10,143	10,207	1%	-6%
RTS Index	Russia	880	757	876	<b>16%</b>	<b>0%</b>
Seoul Composite	South Korea	2,041	1,961	1,996	2%	-2%
Shanghai Composite	China	3,748	3,539	3,004	<b>-15%</b>	<b>-20%</b>

# MOVEMENT OF SECTORAL INDICES

Sectoral Index	31th Mar 2015	31 <sup>st</sup> Dec 2015	31 <sup>st</sup> Mar 2016	3-Month Returns (%)	1-Year Returns (%)
S&P BSE AUTO Index	19,259	18,519	18,002	-3%	-7%
S&P BSE BANKEX	20,865	19,329	18,392	-5%	-12%
S&P BSE Capital Goods	17,293	14,128	12,861	-9%	-26%
S&P BSE Consumer Durables	10,418	11,998	11,481	-4%	10%
S&P BSE FMCG	7,773	7,872	7,692	-2%	-1%
S&P BSE Health Care	17,285	16,905	15,149	-10%	-12%
S&P BSE METAL Index	9,466	7,398	7,541	2%	-20%
S&P BSE OIL & GAS Index	9,312	9,556	9,162	-4%	-2%
S&P BSE Power Index	2,127	1,958	1,776	-9%	-17%
S&P BSE PSU	7,608	6,814	6,107	-10%	-20%
S&P BSE Realty Index	1,665	1,344	1,228	-9%	-26%
S&P BSE TECK Index	6,257	6,053	6,105	1%	-2%
S&P BSE SENSEX	27,957	26,118	25,342	-3%	-9%

Best performing sector in the last quarter: Metal

Worst performing sector in the last quarter: Health Care & PSU



# FOREIGN INSTITUTIONAL INVESTOR (FII)

- FII Flows in Equity **FLAWS**

(in Rs. Million)	Jan - 16	Feb - 16	Mar - 16	TOTAL
Gross Purchase	707,417	731,863	1,062,543	2,501,823
Gross Sale	818,682	787,077	851,114	2,456,872
Net Investment	-111,264	-55,214	211,429	44,951

- FII Flows in Debt

(in Rs. Million)	Jan - 16	Feb - 16	Mar - 16	TOTAL
Gross Purchase	201,386	144,493	235,298	581,177
Gross Sale	178,259	226,440	250,055	654,754
Net Investment	23,127	-81,948	-14,757	-73,577

**Total Net FII Flows in  
January - March**

**Rs -28,626 million**

# DOMESTIC INSTITUTIONAL INVESTOR (DII) FLOWS

(in Rs. Million)	Jan - 16	Feb - 16	Mar - 16	TOTAL
Gross Purchase	1,147,811	717,052	315,762	2,180,624
Gross Sale	1,083,065	781,055	484,681	2,348,800
Net Investment	64,746	-64,003	-168,919	-168,176

# MF ACTIVITY

## •Equity

(in Rs. Million)	Jan - 16	Feb - 16	Mar - 16	TOTAL
Gross Purchase	263,665	242,494	191,790	697,949
Gross Sale	190,387	183,036	293,773	667,196
Net Investment	73,278	59,460	-101,981	30,757

## •Debt

(in Rs. Million)	Jan - 16	Feb - 16	Mar - 16	TOTAL
Gross Purchase	933,769	1,169,732	2,178,562	4,282,063
Gross Sale	882,093	882,877	1,355,139	3,120,109
Net Investment	51,677	286,858	823,424	1,161,959

**Total Net MF Activity in  
January - March**

**Rs. 11,92,716 Million**

# DOMESTIC EVENTS

# UNION BUDGET

- The Union Budget was a fine balancing act which was on track with regards to fiscal discipline, yet focused on the required capital expenditure to revive the economy.
- Important Highlights
  - FY17 fiscal deficit target retained at 3.5%
  - Total allocation of Rs.2.18 trillion for roads and railways this fiscal; Total outlay for infrastructure in Budget Estimates is at Rs.2.21 trillion
  - Allocation of Rs. 35,984 crore to Agriculture
  - Rs 38,500 crore for MNREGA – highest ever amount
  - New manufacturing companies incorporated on or after 1 March 2016 will be taxed at 25%
  - Banks—Rs. 25,000 crore to be provided for recapitalization of public sector banks, which are grappling with stressed assets
  - Ceiling of tax rebate at Rs 5,000 for income less than Rs 5 lakh
  - Relief to people living in rented houses—Deduction for rent paid will be raised from Rs. 20,000 to Rs. 60,000 to benefit those living in rented houses
  - Dividend Distribution Tax of 10% for Dividend above Rs. 10 lakh
  - 0.5% Krishi Kalyan surcharge cess on all taxable services from 1 June 2016, to be given to agriculture development
  - 100% rural electrification target by 1st May 2018



# RAILWAY BUDGET

- The Rail Budget was presented on 26th February.
- Important announcements:
  - No hike in passenger fares.
  - Initiatives like 17,000 biotoilets and additional toilets in 475 stations before the close of this financial year
  - Wifi at 100 stations this year
  - Increased quota for senior citizens and women travellers this year
  - Deen Dayal coaches for long distance trains for unreserved passengers
  - Enhanced capacity of e-ticketing system from 2,000 tickets/min to 7,200/min

# GROWTH

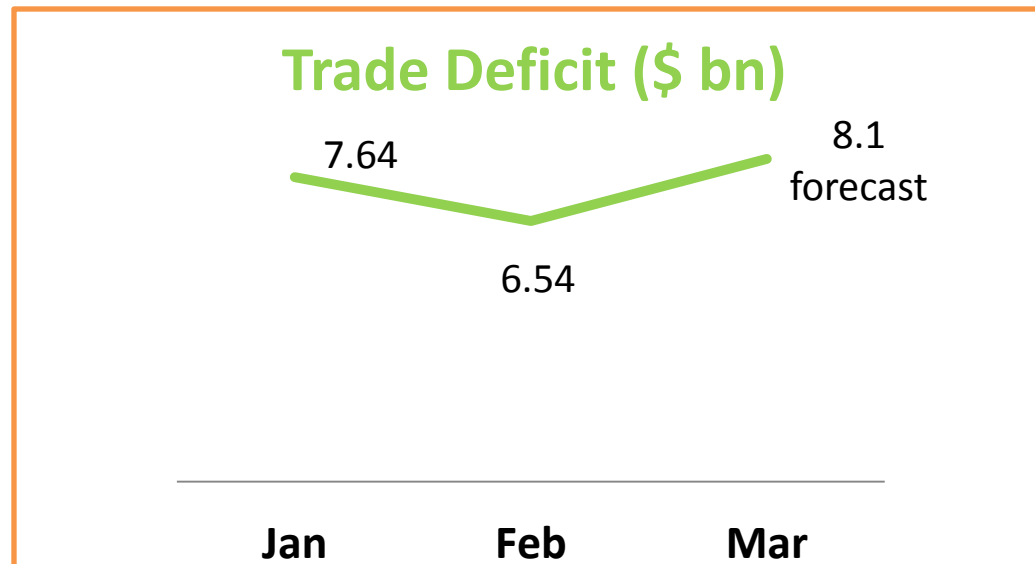
- India GDP expanded at 7.3% in the last quarter of 2015
- India's economic growth for the financial year 2016 has been estimated at 7.6% by the Central Statistics Office
- Purchasing Managers' Index:
  - There has been an improvement in the Manufacturing PMI
  - Services PMI fell in February but again bounced back to the January level in March

PMI (SERVICES)		PMI (MANUFACTURING)	
JANUARY	54.3	JANUARY	51.1
FEBRUARY	51.4	FEBRUARY	51.1
MARCH	54.3	MARCH	52.4

- Index of Industrial Production (IIP)
  - IIP contracted by 1.5% in January'16 compared to a contraction of 1.2% in December 2015.

# CURRENT ACCOUNT DEFICIT

- India's current account deficit (CAD) narrowed to 1.3% of the gross domestic product (GDP) in the third quarter of the fiscal from 1.5% in the year-earlier period.
- Trade Deficit
  - Merchandise exports fell for the 15th straight month by 5.7% to \$20.7 billion in February this year, against \$22 billion in February 2015.



# PROGRESS ON REFORMS

- ‘Start-Up India’
  - Launched by Prime Minister Narendra Modi to help start-ups and catalyse entrepreneurship.
  - Rs. 10,000 crore fund to back startups
  - 80 per cent waiver on patent filing fees by start-ups
  - A mobile app which allows start-ups to self-certify themselves and also acts as a single point of contact between entrepreneurs, regulators and the government.
  - 3 year tax exemption for start ups
  - ‘Start-up India Hub’ which assists start-ups by providing advisory services on financing, business structuring and improving management skills.
- Digital India
  - The Modi administration plans to make all government services available on mobile phones in the next five years so that citizens don't have to visit offices
  - Pension regulator PFRDA has launched e-NPS, a convenient online based subscriber registration and contribution facility for NPS

# PROGRESS ON REFORMS

- Smart Cities
  - On 28th January, government announced a list of 20 places that will be developed as smart cities. The shortlisted 20 cities include Bhubaneswar, Pune, Jaipur, Surat, Kochi, Ahmedabad, Jabalpur, Vishakhapatnam, Solapur, Davangere, Indore, Coimbatore, Kakinada, Belgaum, Udaipur, Guwahati, Chennai, Ludhiana Bhopal and New Delhi Municipal Corporation.
- Financial Inclusion & Welfare
  - Deposits in accounts opened under the government's flagship financial inclusion programme — Pradhan Mantri Jan-Dhan Yojana (PMJDY) — have crossed the Rs 30,000 crore mark. As many as 20.38 crore bank accounts were opened under the PMJDY.
  - The Department of Posts (DoP) plans to open 1,000 ATMs and bring all 25,000 departmental post offices under core banking system by March
- FDI in E-commerce
  - The government on 29th March allowed 100% foreign direct investment (FDI) in online retail of goods and services under the so-called “marketplace model” through the automatic route, with the aim to legitimize existing businesses of e-commerce companies operating in India.

# PROGRESS ON REFORMS

- **Infrastructure**
  - Total outlay for infrastructure in Budget Estimates is at Rs.2.21 trillion
  - The Prime Minister's Office has constituted a committee under Arvind Panagariya, vice-chairman of the NITI Aayog, to speed up the Mumbai- Ahmedabad High-Speed Rail Corridor, meant for bullet trains between the two cities.
  - RBI has allowed infrastructure companies and non-banking finance companies (NBFCs) that lend to the sector to raise external commercial borrowings (ECBs) with a minimum maturity of five years. Until now, infrastructure companies could raise only long-term external borrowings of more than 10 years.
- **Make in India**
  - In Defence Procurement Procedure (DPP) 2016, the Ministry of Defence has introduced a new category for acquisition — Indigenously Designed Developed and Manufactured (IDDM) — under which indigenously designed, developed and manufactured equipment must have at least 60% of the components locally sourced if the design is not Indian. If the design is Indian, at least 40% needs to be locally sourced.
- The Cabinet Committee on Economic Affairs (CCEA) approved a new Hydrocarbon Exploration Licensing Policy (HELP) that will replace the existing New Exploration Licensing Policy (NELP) regime with more investor-friendly provisions of revenue sharing and open acreage licensing.

# LEGISLATIVE PROGRESS

- The Budget Session of Parliament began on 23<sup>rd</sup> February'16 and will continue till 13<sup>th</sup> May, 2016
- Passage of Bills
  - Real Estate Bill: A bill seeking to regulate the real estate sector, bring in transparency and help protect consumer interests was passed by the Rajya Sabha.
  - Mines and Minerals Bill: A Bill to allow transfer of captive mines without auction was approved by the Lok Sabha, a move that will enable banks and financial institutions to sell stressed assets to recover debts.
  - Aadhaar is set to receive statutory backing after Parliament passed a bill that will make the unique identification project the central plank for delivering government subsidies and welfare benefits. Lok Sabha rejected five amendments proposed by Rajya Sabha and passed the bill in its original form.
  - Inland Waterways Bill: Rajya Sabha passed the bill which proposes conversion of 106 rivers and creeks across India into transport waterways. Once it is a law, it can potentially provide an alternative form of transporting goods.

# INTEREST RATES UNCHANGED

- RBI kept the repo rate unchanged in its Monetary Policy Review on 2<sup>nd</sup> February, 2016
  - Repo or short term lending rate unchanged at 6.75%
  - Hinted at accommodative stance based on government Budget announcement



# INFLATION WITHIN COMFORT ZONE

- WPI inched up marginally in February but fell sharply in March.
- CPI fell in February compared to January. There was a further fall in March.

	Jan	Feb	Mar
Wholesale Price Index	-0.90	-0.91	-2.33
Consumer Price Index	5.69	5.18	4.83

# GLOBAL EVENTS

# CHINA SLOWDOWN

- Stock market crash

- China's stock market was closed on January 4th after the CSI 300 index of blue-chip stocks plummeted 7%, and January 7th witnessed a tumble of similar magnitude, again causing a halt – this time, all in the space of 14 minutes making it the shortest day's trading in Chinese stock market history.

- GDP

- On January 19th, China reported its official annual GDP growth figure for 2015 at 6.9%, which is slightly lower than 2014's 7.3%.

- Purchasing Managers' Index

- February Manufacturing PMI was the lowest since 2011. January and February depicted a contraction in Manufacturing activity.
- However, both PMI readings improved in March.

	Jan-16	Feb-16	Mar-16
Manufacturing	49.4	49.0	50.2
Services	52.4	52.7	53.8

- Poor credit outlook
  - U.S. ratings agency Standard & Poor's (S&P) sliced its credit rating outlooks for China and Hong Kong from stable to negative by March end.
- Piling up Debt
  - Private debt, at 200% of GDP is well above the level in the US on the eve of the financial crisis of 2007-08.
  - The value of non-performing loans in China rose from 1.2% of GDP in December 2014 to 1.9% a year later.
  - Some big firms are earning too little to service their debts
- Plunging Chinese stock market, the global commodity collapse and downward pressure on the yuan are reasons for the concerns over China.

# JAPAN: INTRODUCTION OF NEGATIVE INTEREST RATES

- Bank of Japan stunned the markets by setting the country's first negative interest rates in January '16
  - BOJ cut the rate on excess reserves to -0.1%, meaning institutions will have to pay the central bank for the privilege of parking reserves that exceed those required by regulators
- Why did BOJ take this step?
  - Japan faces a problem of deflation (falling prices) and weakening economy since many years
  - Falling oil prices adding to deflation problems
  - Global risks have grown due slowdown in China, other emerging markets, which has led to instability in financial markets
  - It is already buying ¥80 trillion (\$674 billion) in assets a year which puts nearly one-third of the bond markets in its hands – leaving it with few options to revive the economy

# EUROZONE: ECB CUT RATES & EXPANDED QE PROGRAM

- **Monetary Policy:**
  - The ECB cut its deposit rate on March 10 by 10 basis points to -0.4% from -0.3% but eased the impact on banks with cheaper short-term loans and longer-term liquidity at negative interest rates — essentially, paying Eurozone lenders to increase credit to households and companies.
  - The ECB raised the amount of bonds the Eurozone's central bankers buy each month under QE from €60bn to €80bn.
- **Unemployment:**
  - According to Eurostat, the EU's statistical agency, the jobless rate in the 19-country Eurozone declined to 10.3% in January from 10.4% in December. The Eurozone's jobless rate hit a high of 12.1% during the first half of 2013.
- **Inflation:**
  - Consumer prices across the region were 0.2% lower in February than a year earlier. This is a worrying sign which is one of the reasons for the aggressive monetary policy

# US

- Federal Reserve Commentary:
  - Rates were not hiked in the last Fed Policy Review. Global risks are the main reason for not hiking rates. Fed chairperson Janet Yellen also referred to global developments in her press conference.
- GDP:
  - 1.4% growth in last quarter of 2015
- Employment
  - Jobs added: 172,000 in January; 242,000 in February and 215,000 in March

# EVENTS TO WATCH OUT FOR

- DOMESTIC
  - RBI Policy
  - State Elections in May
    - Tamil Nadu, West Bengal, Kerala, Assam, Puducherry
  - Passage of Bills in the second half of the Budget Session scheduled to start on 25 April
  - Quarterly Earnings
- GLOBAL
  - US Fed Policy
  - China growth & mounting debt
  - Crude Oil Prices
  - Trend of foreign inflows into emerging markets



# OUTLOOK FOR ASSET CLASSES

Asset Class	Performance in Q1CY16	Start to End Value In Q1	Outlook for Q2CY16	Remarks
Debt	10-Year Gilt: Down 26 bps 3-M T Bill: Down 10 bps 3-M CP: Up 117 bps 3-M CD: Up 30 bps 6-M CP: Up 52 bps 6-M CD: Up 30 bps 1-Yr CP: Up 35 bps 1-Yr CD: No change 5-Yr AAA Corp Bond: Up 12 bps 10-Yr AAA Corp Bond: Down 9 bps Average Call Rate: Up 19 bps	7.72 - 7.46 7.23 - 7.13 7.43 - 8.6 7.3 - 7.6 7.98 - 8.5 7.55 - 7.85 8.15 - 8.5 7.65 - 7.65 8.23 - 8.35 8.34 - 8.25 6.75 - 6.94	Yields at both ends of the Yield curve are likely to come down. With liquidity situation improving, yields on lower term papers will come down more.	Poor monsoon or sharp rally in commodity prices may spark inflation and this may cause yields to harden
Equity	Sensex: Down 3%  Nifty : Down 3%	26,118 - 25,342  7,946 - 7,738	Markets to trend up led by domestic cyclicals	This view will be negated if monsoon is below normal or there is major event that shakes up the global financial markets

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