



## Equity Market Update - April 2017

### For March 2017

Headline CPI	3.80%
Core CPI	4.90%

### FII Inflows/(Outflows) in April 2017

Equity	\$0.4bn
Debt	\$3.11bn

Indian equity markets started on a positive note in FY18 and were up ~1% in April.

Global equity markets barring UK and China also fared well. The table below gives the details of performance of key domestic and global indices.

% Change in Indices	CY2016	1M	CY2017 YTD
S&P BSE India Bankex	7.3	3.7	22.1
S&P BSE India Capital Goods	(3.3)	8.6	30.7
S&P BSE India FMCG	3.3	1.5	15.8
S&P BSE India Healthcare	(12.9)	(1.9)	2.0
S&P BSE India Metal	36.7	(4.2)	11.8
S&P BSE India Oil & Gas	27.2	6.6	19.0
S&P BSE India IT	(8.0)	(7.2)	(5.5)
<b>S&amp;P BSE Sensex</b>	<b>1.9</b>	<b>1.0</b>	<b>12.4</b>
<b>NIFTY 50</b>	<b>3.0</b>	<b>1.4</b>	<b>13.7</b>
<b>NIFTY Free Float Midcap 100</b>	<b>7.1</b>	<b>5.2</b>	<b>26.0</b>

% Change in Indices	CY2016	1M	CY2017 YTD
Dow Jones Industrial Average	13.4	1.3	6.0
NASDAQ	7.5	2.3	12.3
FTSE	14.4	(1.6)	0.9
DAX	6.9	1.0	8.3
CAC	4.9	2.8	8.3
Nikkei	0.4	1.5	0.4
Hang Seng	0.4	2.1	11.9
KOSPI	3.3	2.1	8.8
Shanghai	(12.3)	(2.1)	1.6
MSCI Emerging Market Index	8.6	2.0	13.4

During the month performance of key commodities was weak. Steel prices were down 9%.

INR has appreciated ~7% vs US\$ from bottom of 68.8 in November 2016 to 64.2 in April 2017. This has been a result of higher FDI (Foreign Direct Investment) than CAD (Current Account Deficit).

	FY12	FY13	FY14	FY15	FY16	FY17E
Net FDI - CAD (% to GDP)	(3.1)	(3.7)	(0.6)	0.2	0.7	1.1

FII's bought Indian equities worth \$0.4bn in April after an inflow of \$4.7bn during March. Among DIIs, Mutual Funds led the buying with ~\$1.5bn of net buying in April. Inflows in domestic Equity mutual funds in FY17 were ~Rs 60,000 crores.

Amongst the results declared so far FMCG and IT earnings were below expectations, while banks delivered results upto or better than expectations.

Equity market have lagged nominal GDP growth for several years now. With a sharp fall in interest rates, improving growth outlook and signs of improving corporate profitability the outlook for equity market is positive. Any volatility in Indian equities induced by global events at a time when the Indian economy is improving on nearly all parameters will be a good opportunity for the discerning investor.

In our opinion therefore, there is merit in increasing allocation to equities (for those with a medium to long term view) and to stay invested.

## Debt Market Update - April 2017

The yield on the 10-year benchmark (6.97% GoI 2026) ended the month of April at 6.96% up by 27 bps over the previous month end. The yield on 10-year AAA Corporate Bond ended the month at 7.77% as against 7.65% at the end of March 2017. Thus, corporate bond spreads during the month decreased to 69 bps as against 85 bps in the previous month.

Liquidity conditions continued to remain positive during the month of April 2017. As against ~Rs. 445,834 crs of average liquidity absorbed by RBI during the month of March 2017 through various sources (Liquidity Adjustment Facility, export refinance, marginal standing facility and term repos/reverse repos), ~Rs.413,236 crs of liquidity was absorbed by RBI during the month of April 2017. RBI announced issuance of T-bills under MSS of Rs.100,000 crs, of which Rs.50,000 crs was issued in April and remaining Rs.50,000 crs is scheduled to be issued in May. 15 days CMB was also issued during April to the tune of Rs.20,000 crs. The overnight rate ended lower at 6.17% as against 7.73% as at end of March 2017.



## Debt Market Update - April 2017 (contd...)

### 10 Year AAA Corporate Bond

Mar '17	7.65%
Apr '17	7.77%

INR closed at 64.2462 versus the USD in April as against 64.85 in March 2017. The net FII investment in equities & debt was an inflow of ~US\$ 3.51 billion in Apr 2017. FII's purchased close to US\$ 4.16 billion in Indian debt and equity markets between Nov'16 to Apr'17 while were net buyers of ~USD 7.6 bn during FY17.

### 10 Yr G Sec (6.97% Gol 2026)

Mar '17	6.69%
Apr '17	6.96%

The annual rate of retail inflation, CPI increased to 3.8% YoY in March 2017, marginally up from 3.7% in February 2017. The rise was largely on account of food inflation, which also increased marginally to 2.5% in March 2017 from 2.4% in February 2017. Core CPI also increased up to 4.9% in March 2017 from 4.8% in February 2017. Core inflation has been in the range of 4.5 -5.0 % over the last one year now.

### Outlook

During the month RBI published minutes of its 6<sup>th</sup> April policy meeting wherein members expressed concern about the stickiness of core inflation and were also of the view that the recent disinflationary effects due to demonetization will be transient.

Given the uncertainty driven by outcome of monsoon, roll out of GST and global factors such as US interest rates, RBI is likely to remain in a prolonged pause mode in our opinion. In such a scenario yields are likely to remain range bound.

*Source for various data points: RBI Website, Bloomberg, Reuters and HDFC AMC Research.*

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