

News U Can Use

August 19, 2016

The Week that was...
15th August to 19th August

Indian Economy

- Government data showed that Wholesale Price Index (WPI) based inflation rose to a 23-month high of 3.55% in Jul from 1.62% in the previous month and a contraction of 4.00% in the same month of the previous year. WPI inflation surged as vegetables, pulses, and sugar turned costlier. WPI inflation in vegetables increased 28.05% in Jul from 16.91% in the previous month, while the same in pulses rose 35.76% in Jul from 26.61% in Jun. WPI inflation for potatoes remained at elevated levels even though it fell 58.78% in Jul from 64.48% in Jun. WPI inflation for sugar also grew 32.33% during the period under review from 26.09% in the previous month while that of fruits grew 17.30% in Jul from 5.97% in Jun.
- A major rating agency warned that India's oil and gas sector will not benefit from the Goods and Services Tax (GST) and will get affected due to compliance with dual taxation regimes and non-creditable tax costs. The rating agency opined that GST in the present form excludes a major portion of the oil and gas industry products which deprives the industry of most of the benefits of GST.
- The government expects tax revenues to increase following the implementation of the GST Bill. The government hopes that various policy measures, higher economic growth, and GST would increase gross tax revenues to 10.9% of Gross Domestic Product (GDP) in FY18 and 11.1% of GDP in FY19. The tax-to-GDP ratio was 10.7% in FY15.

Indian Equity Market

Domestic Equity Market Indices			
Indices	19-Aug16	1 Week Return	YTD Return
S&P BSE Sensex	28077	-0.27%	7.32%
Nifty 50	8666.9	-0.06%	8.84%
S&P BSE Mid-Cap	13035.17	2.21%	15.92%
S&P BSE Small-Cap	12459.46	2.01%	4.34%

Source: MFI Explorer

Ratios	S&P BSE Sensex	Nifty 50	S&P BSE Mid Cap	S&P BSE Small Cap
P/E	20.54	23.7	33.35	73.86
P/B	2.94	3.31	2.71	2.11
Dividend Yield	1.39	1.25	1.07	0.87

Source: BSE, NSE

Value as on August 19, 2016

NSE Advance/Decline Ratio			
Date	Advances	Declines	Advance/Decline Ratio
16-Aug-16	610	994	0.61
17-Aug-16	883	703	1.26
18-Aug-16	1077	521	2.07
19-Aug-16	898	698	1.29

Source: NSE

- Indian equity markets closed lower over the week. Initially, a Fed official hinted at a probable rate increase as early as Sep 2016.
- Later, concerns over imminent rate hike eased after minutes of Fed's latest policy meeting revealed that majority of the policymakers remained worried about near-term economic risks. However, uncertainty over the exact timing of Fed's next interest rate hike persisted and investors remained on the sidelines.
- Weak domestic cues also kept market participants wary after data showed that both retail and wholesale price inflation data soared to 23-month high in Jul.

Indian Equity Market (contd.)

Sectoral Indices			
Indices	Last Closing	Returns (in %)	
		1-Wk	1-Mth
S&P BSE Auto	21417.6	0.06%	4.15%
S&P BSE Bankex	22296.3	2.48%	2.89%
S&P BSE CD	12198.6	0.05%	0.85%
S&P BSE CG	15126.2	0.85%	-2.18%
S&P BSE FMCG	8699.29	-0.47%	1.88%
S&P BSE IT	10536.7	-3.72%	-1.30%
S&P BSE Metal	10144.3	4.01%	9.07%
S&P BSE Oil & Gas	10851.6	2.11%	6.22%
S&P BSE Power	2115.5	2.21%	4.70%

Source: Reuters *Values as on August 19, 2016*

- On the BSE sectoral front, majority of the indices closed in the green. S&P BSE Metal was the top gainer, up 4.01%, followed by S&P BSE Bankex and S&P BSE Power, which increased 2.48% and 2.21%, respectively.
- Buying interest was seen in banking stocks after a major state-owned lender approved share swap ratios for the merger of its five associate banks and another public sector bank with itself.

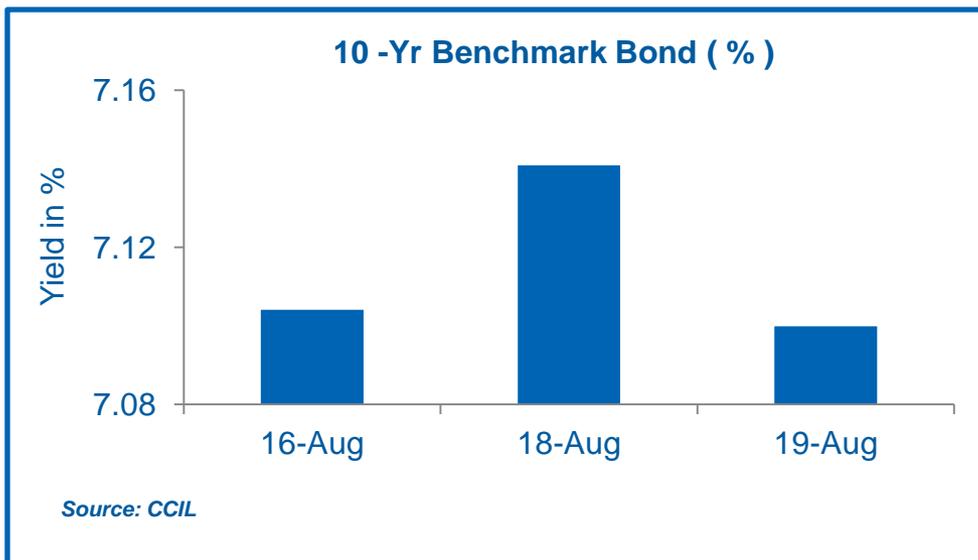
Indian Derivatives Market Review

- Nifty Aug 2016 Futures were at 8,677.25 points, a premium of 10.35 points, over the spot closing of 8,666.90 points. The turnover on NSE's Futures and Options segment stood at Rs. 14.64 lakh crore during the week to Aug 19, compared with Rs. 16.52 lakh crore recorded in the previous week.
- The Put-Call ratio stood unchanged from the previous session's close at 0.99.
- The Nifty Put-Call ratio stood at 1.06, compared with the previous session's close of 1.03.

Domestic Debt Market

Debt Indicators (%)	Current Value	1-Wk Ago	1-Mth Ago	6-Mth Ago
Call Rate	6.40	6.43	6.39	6.84
91 Day T-Bill	6.56	6.56	6.55	7.32
07.80% 2021, (5 Yr GOI)	7.02	7.04	7.13	7.84
07.59% 2026, (10 Yr GOI)	7.10	7.10	7.28	7.74

Source: Reuters Values as on August 19, 2016



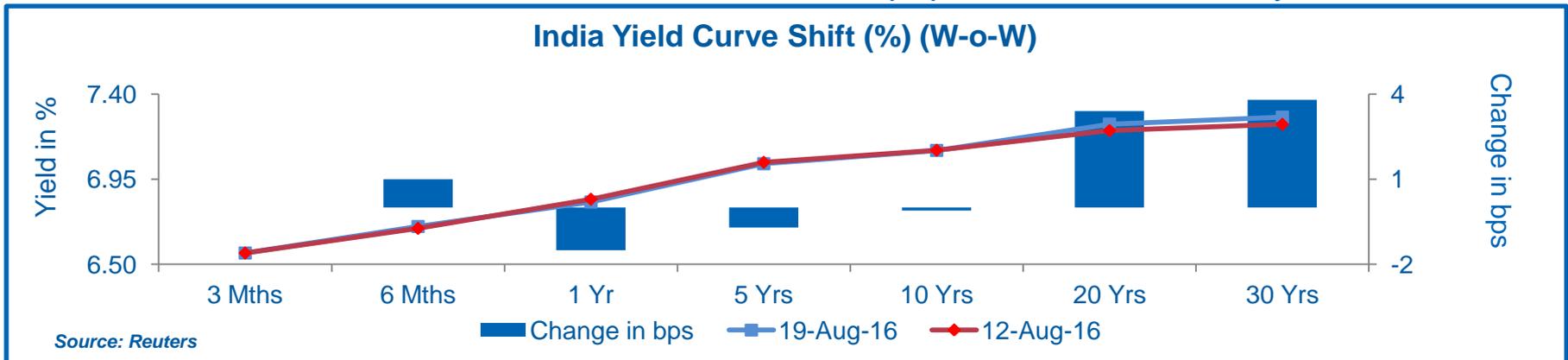
- In a holiday truncated week, bond yields increased initially after both consumer price index (CPI) based inflation and wholesale price index (WPI) based inflation rose to a 23-month high in Jul. However, most of the losses were made good following strong demand at the weekly debt auction.
- Yield on 10-year benchmark bond (7.59% GS 2026) closed steady at 7.10%. The yields moved in the range of 7.09% to 7.16% during the week.
- Banks' net weekly average lending under RBI's LAF stood at Rs. 2,770.33 crore (for Friday, only repo session considered), compared with previous week's borrowing of Rs. 3,918.40 crore.

Domestic Debt Market (Spread Analysis)

Maturity	G-Sec Yield (%)	Corporate Yield (%)	Spread bps
1 Year	6.95	7.33	38
3 Year	7.01	7.48	47
5 Year	7.18	7.57	39
10 Year	7.28	7.70	42

Source: Reuters Values as on August 19, 2016

- Yields on gilt securities fell across 1 to 5-year maturities by up to 2 bps, while remained unchanged on 9- and 10-year papers.
- Corporate bond yields increased across the maturities in the range of 2 bps to 7 bps, barring 1-year paper that fell 1 bps.
- Difference in spread between AAA corporate bond and gilt securities expanded across the maturities in the range of 1 bps to 5 bps, barring 1-year paper that closed steady.



Regulatory Updates in India

- ❑ After imposing anti-dumping duty on import of hot-rolled flat products of alloy or non-alloy steel from China, Japan, Korea, Russia, Brazil, and Indonesia, the Indian government has now imposed the same on certain cold-rolled flat steel products from four countries including China and South Korea. These measures are taken to safeguard the interest of domestic industry from cheap imports.
- ❑ According to the Pension Fund Regulatory and Development Authority (PFRDA) chief, the new tax benefits provision has attracted a lot of retail investors to the National Pension schemes (NPS). The PFRDA chief informed that retail NPS has grown by over 100% over the past one year after starting with almost a zero base.
- ❑ The Reserve Bank of India (RBI) governor is in favour of reducing government's supervision of public sector banks so that state-run lenders are able to take all major governance decisions freely. The central bank Governor also expressed concerns regarding the fact that banks are aggressively targeting retail borrowers and turning away from project loans. He said banks need to tap large low-cost deposits from current account savings account (CASA) to finance infrastructure projects.
- ❑ According to the Financial Stability Board, RBI and other Indian authorities should improve public communication on macro-prudential policies in order to convey the intended messages to financial market participants.

Regulatory Updates in India (contd..)

- ❑ The ministry of finance has asked other ministries and departments to immediately open electronic Focal Point Branch (e-FPB) with RBI for receiving payments exceeding Rs. 100 crore. The e-FPB account will be used by the government for receiving non-tax payments like dividends from PSUs and banks, and to make fund transfers for plan schemes. The government has budgeted to collect more than Rs. 3.22 lakh crore in FY17 from non-tax revenues.
- ❑ RBI deputy governor has advocated for increasing the credit absorption capacity of the farm sector in order to make lending to the agriculture sector more sustainable. The deputy governor further added that land reforms, investments, insurance schemes, value chain, distribution, and supply will help in increasing the capacity of agriculture sector to absorb credit.
- ❑ A panel comprising nominees from RBI, Ministry of Finance, Securities and Exchange Board of India, Insurance Regulatory and Development Authority of India, and Pension Fund Regulatory and Development Authority suggested easing of norms for foreign investors in order to develop the corporate bond market. The panel also suggested setting up a corporate bond index on lines of Sensex or Nifty, and making it compulsory for large corporate to tap the corporate bond market for funds beyond a level. The panel also advocated for tightening of norms for credit rating agencies by making it compulsory for them to disclose defaults on a timely basis.

Global News/Economy

- According to the minutes of U.S. Federal Reserve's latest policy meeting, officials remained divided whether to raise interest rates. Among all the officials, two suggested rise in interest rate rise, while others were concerned over the near-term economic risks. Officials said it was appropriate to wait for additional information before deciding on the matter.
- Data from the U.S. Labour Department showed that U.S. consumer prices on a monthly basis were unchanged in Jul following two straight monthly increases of 0.2%. However, on a yearly basis, consumer prices rose 0.8% after increasing 0.1% in Jun.
- According to Eurostat, euro zone inflation rose 0.2% YoY in Jul 2016, similar to the initial estimates and was higher than 0.1% gain in Jun 2016. Inflation increased for the second consecutive month. Sequentially, consumer prices contracted 0.6% during the reported month.
- According to the Cabinet Office, Gross Domestic Product (GDP) in Japan defied forecast for a rise and remained unchanged (seasonally adjusted quarterly basis) in the Jun quarter of 2016 compared with a rise of 0.5% QoQ in the previous quarter. During the reported quarter, private consumption grew at a slower pace, while business spending contracted at slower pace.

Global Equity Markets

Global Indices			
Indices	19-Aug-16	1-Week Return	YTD Return
Dow Jones	18552.57	-0.13%	8.18%
Nasdaq 100	4806.138	-0.02%	6.85%
FTSE 100	6858.95	-0.83%	12.56%
DAX Index	10544.36	-1.58%	2.54%
Nikkei Average	16545.82	-2.21%	-10.33%
Straits Times	2844.02	-0.82%	0.28%

Source: Reuters

Europe

- European markets declined during the week as a sharp fall in mining and banks stocks added pressure to the region. Oil price was the key market mover during the week as investors considered the odds of leading producers actually capping their oil outputs in the future. An uncertain outlook for U.S. interest rates also weighed on investor sentiment.

Asia

- Major Asian bourses slipped on account of weak cues from lower than expected Gross Domestic Product of Japan for the Jun quarter and weakness in the Chinese market. Markets remained lukewarm ahead of central bankers' meeting scheduled next week, which is expected to throw light on a U.S. rate hike.

U.S.

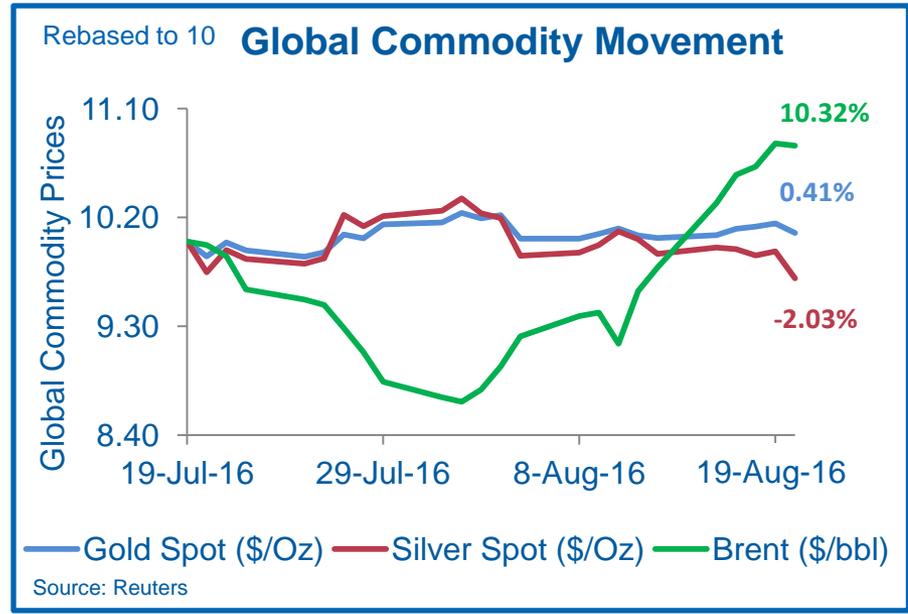
- U.S. markets ended marginally lower during the week as minutes of Fed's latest meeting suggested that Fed officials were undecided about the outlook for monetary policy.
- Prior to that release, New York and Atlanta Fed presidents had said a Sep rate hike may be on the table. Investors remained on the sidelines ahead of the release of key economic data scheduled next week.

Global Debt (U.S.)



- The 10-year U.S. Treasury yield rose 6 bps to close at 1.58%, compared with the previous week's close of 1.52%.
- U.S. Treasury prices fell initially due to strong demand in the equity market and lower demand for low-yielding government debt after rumours of additional stimulus by the Bank of Japan.
- The trend reversed after the minutes of the U.S. Federal Reserve's Jul meeting lowered the possibility of interest rate hike during the year.
- Bond prices fell on Friday as traders booked profits in advance of government debt auctions in the week commencing from Aug 22 and an annual meeting of global central bankers.

Commodities Market



Performance of various commodities		
Commodities	Last Closing	1-Week Ago
Brent Crude(\$/Barrel)	49.28	44.67
Gold (\$/Oz)	1341.22	1335.71
Gold (Rs/10 gm)	31252	31018
Silver (\$/Oz)	19.29	19.69
Silver (Rs/Kg)	45577	46344

Source: Reuters Values as on August 19, 2016

Gold

- Gold prices moved up initially as lower than expected U.S. economic data faded the chances of a near-term interest rate hike by the U.S. Federal Reserve (Fed).
- Prices also got some support on uncertainty of the timing of the next rate hike in the U.S.

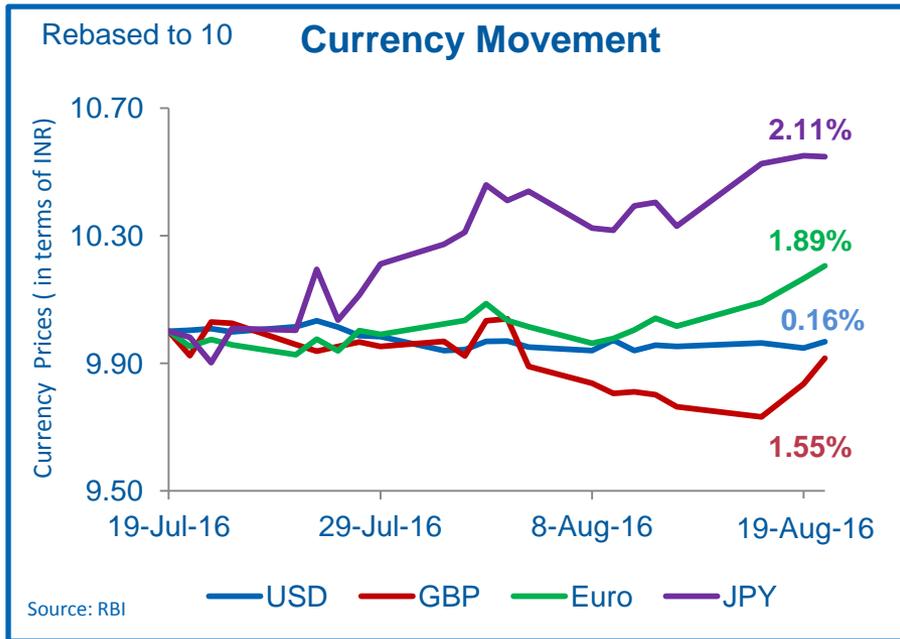
Crude

- Brent crude prices moved up over the week on news that the Organization of the Petroleum Exporting Countries (OPEC) and other key exporters are expected to initiate talks on freezing output levels in their upcoming meeting in Algeria.

Baltic Dry Index

- The Baltic Dry Index went up during the week owing to better capesize and panamax activities.

Currencies Markets



Movement of Rupee vs Other Currencies		
Currency	Last Closing	1-Wk Ago
US Dollar	66.93	66.83
Pound Sterling	87.97	86.63
EURO	75.87	74.46
JPY(per 100 Yen)	66.82	65.44

Source: RBI Figures in INR , Values as on August 19, 2016

Rupee

- The rupee fell against the U.S. dollar due to high demand for greenback from importers. Also, comments from the U.S. Fed’s officials supporting interest rate hike in coming months led to further decline.

Euro

- Euro strengthened against the U.S. dollar after a key Fed Official advocated for raising the inflation target.

Pound

- Sterling strengthened against the greenback after U.K.’s consumer inflation increased to a 20-month high in Jul and U.K. retail sales came better than expected during the same period.

Yen

- Yen strengthened against the greenback after weak U.S. economic data lowered the chances of any imminent rate hike in U.S.

The Week that was...
August 15 to August 19

The Week that was (Aug 15 – Aug 19)

Date	Events	Present Value	Previous Value
Monday, August 15, 2016	Japan Gross Domestic Product Annualized (2Q) (P)	0.20%	2.00%
	Japan Industrial Production (YoY) (Jun) (F)	-1.50%	-1.90%
	U.S. NAHB Housing Market Index (Aug)	60.00	0.58
Tuesday, August 16, 2016	U.K. Consumer Price Index (YoY) (Jul)	0.60%	0.50%
	German ZEW Survey (Economic Sentiment) (Aug)	0.50	-6.80
	U.S. Housing Starts (MoM) (Jul)	2.10%	5.10%
	U.S. Consumer Price Index (YoY) (Jul)	0.80%	1.00%
	U.S. Industrial Production (Jul)	0.70%	0.40%
Wednesday, August 17, 2016	Euro zone ZEW Survey (Economic Sentiment) (Aug)	0.05	-0.15
	U.S. DOE U.S. Crude Oil Inventories (Aug 12)	-2508K	1055k
	U.K. ILO Unemployment Rate (3M) (Jun)	4.90%	4.90%
Thursday, August 18, 2016	U.K. Retail Sales (YoY) (Jul)	5.40%	3.90%
	U.S. Leading Indicators (Jul)	0.40%	0.30%
	Euro zone Consumer Price Index (YoY) (Jul) (F)	0.20%	0.20%
	U.S. Philadelphia Fed Index (Aug)	2.00	-2.90
	U.S. Initial Jobless Claims (Aug 13)	262k	266k
	Japan Merchandise Trade Balance Total (Yen) (Jul)	¥513.5b	¥693.1b
Friday, August 19, 2016	U.K. Public Sector Net Borrowing (Pounds) (Jul)	-1.5b	7.5b
	Japan All Industry Activity Index (MoM) (Jun)	1.00%	-1.30%

The Week Ahead...
August 22 to August 26

The Week Ahead

Day	Event
Monday, August 22	<ul style="list-style-type: none"> <input type="checkbox"/> Japan Supermarket Sales (YoY) (Jul)
Tuesday, August 23	<ul style="list-style-type: none"> <input type="checkbox"/> Japan Nikkei Japan PMI Mfg (Aug) (P) <input type="checkbox"/> Markit Eurozone Manufacturing PMI (Aug) (P) <input type="checkbox"/> Markit Eurozone Services PMI (Aug) (P) <input type="checkbox"/> U.S. Markit US Manufacturing PMI (Aug) (P)
Wednesday, August 24	<ul style="list-style-type: none"> <input type="checkbox"/> German Gross Domestic Product n.s.a. (YoY) (2Q) (F) <input type="checkbox"/> U.S. Existing Home Sales (MoM) (Jul)
Thursday, August 25	<ul style="list-style-type: none"> <input type="checkbox"/> U.S. Durable Goods Orders (Jul) (P) <input type="checkbox"/> German IFO - Business Climate (Aug) <input type="checkbox"/> U.S. Markit US Services PMI (Aug) (P)
Friday, August 26	<ul style="list-style-type: none"> <input type="checkbox"/> Japan National Consumer Price Index (YoY) (Jul) <input type="checkbox"/> U.S. Gross Domestic Product (Annualized) (2Q) (S) <input type="checkbox"/> U.S. Personal Consumption (2Q) (S)

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