

# News U Can Use

*December 16, 2016*

The Week that was...  
12<sup>th</sup> December to 16<sup>th</sup> December

# Indian Economy

- ❑ Government data showed that Consumer Price Index (CPI) based inflation or retail inflation plunged to a two-year low in Nov at 3.63% from 4.20% in Oct and 5.41% in the same period of the previous year. The fall in retail inflation is attributed to the effects of demonetisation, which adversely impacted buying power and demand.
- ❑ Data from Reserve Bank of India (RBI) showed that India's current account deficit (CAD) narrowed to \$3.4 billion (0.6% of GDP) in Q2 of FY17 from \$8.5 billion (1.7% of GDP) in Q2 of FY16. However, CAD was higher than \$0.3 billion (0.1% of GDP) in the preceding quarter. CAD contracted on account of a lower trade deficit, which can be attributed to a larger decline in merchandise imports than exports. India's trade deficit narrowed to \$49.5 billion in the first half of 2016-17 from \$71.3 billion in the first half of 2015-16.
- ❑ Government data showed that Wholesale Price Inflation (WPI) decelerated for the third consecutive month and fell to a five month low of 3.15% in Nov 2016 from 3.39% recorded in the previous month. Inflation for food articles declined 1.54% from 4.34% in Oct 2016 due to lower prices of fruits & vegetables.
- ❑ Government data showed that India's trade deficit widened to \$13.00 billion in Nov from a provisional \$10.34 billion in the previous month. Merchandise exports grew 2.29% on a yearly basis to \$20.01 billion in Nov, while imports expanded 10.44% on a yearly basis to \$33.02 billion.

# Indian Equity Market

Domestic Equity Market Indices			
Indices	16-Dec-16	1 Week Return	YTD Return
S&P BSE Sensex	26489.56	-0.96%	1.26%
Nifty 50	8139.45	-1.48%	2.21%
S&P BSE Mid-Cap	12236.57	-2.38%	8.81%
S&P BSE Small-Cap	12113.52	-1.68%	1.45%

Source: MFI Explorer

Ratios	S&P BSE Sensex	Nifty 50	S&P BSE Mid Cap	S&P BSE Small Cap
P/E	20.57	21.37	27.00	68.46
P/B	2.68	3.09	2.16	1.87
Dividend Yield	1.49	1.36	1.26	0.84

Source: BSE, NSE

Value as on December 16, 2016

NSE Advance/Decline Ratio			
Date	Advances	Declines	Advance/Decline Ratio
12-Dec-16	526	1061	0.50
13-Dec-16	786	824	0.95
14-Dec-16	470	1131	0.42
15-Dec-16	781	805	0.97
16-Dec-16	597	992	0.60

Source: NSE

- The U.S. Federal Reserve's (Fed) scheduled policy meeting dominated sentiment for domestic equity markets during the week. The U.S. Fed raised interest rates first time in 2016 at its latest monetary policy review.
- This, in turn, raised concerns over foreign fund outflow from the domestic market. Meanwhile, Asian Development Bank lowered its 2016 growth estimate for India to 7.0% from 7.4% on account of weak investment, agricultural slowdown, and the government's recent demonetisation move.
- An unexpected fall in industrial output for the month of Oct also triggered selling pressure.

## Indian Equity Market (contd.)

Sectoral Indices			
Indices	Last Closing	Returns (in %)	
		1-Wk	1-Mth
S&P BSE Auto	20235.31	-1.12%	2.66%
S&P BSE Bankex	20984.45	-1.99%	-3.92%
S&P BSE CD	11050.09	-1.07%	2.02%
S&P BSE CG	13771.16	-1.16%	-0.83%
S&P BSE FMCG	7880.21	-2.88%	-0.24%
S&P BSE HC	15219.55	-2.09%	1.73%
S&P BSE IT	10033.63	2.23%	6.23%
S&P BSE Metal	10429.02	-4.43%	2.73%
S&P BSE Oil & Gas	11895.87	-1.95%	3.03%

*Source: Reuters* *Value as on December 16, 2016*

- On the BSE sectoral front, barring S&P BSE IT and S&P BSE Teck, all the indices closed in the red.
- Metal sector was hit after an industry major reported slump in its consolidated profit for the Sep quarter. Pharma sector witnessed selling pressure after an industry major was named in a lawsuit by one of the U.S. District courts. Other drug makers also fell on lingering concerns about potential action from the U.S. Food and Drug Administration.

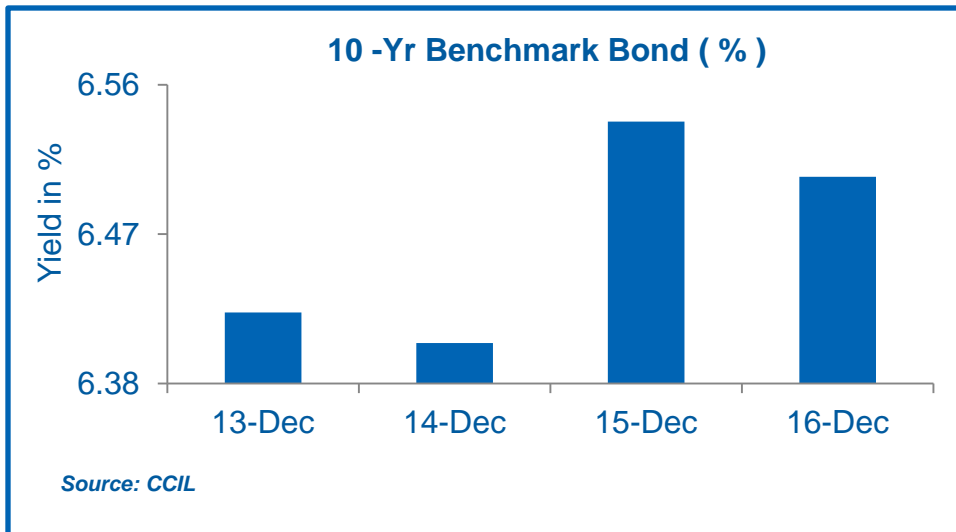
## Indian Derivatives Market Review

- Nifty Dec 2016 Futures were at 8,146.50 points, a premium of 7.05 points, over the spot closing of 8,139.45 points. The turnover on NSE's Futures and Options segment stood at Rs. 15.67 lakh crore during the week to Dec 16, compared with Rs. 14.50 lakh crore recorded in the previous week.
- The Put-Call ratio stood at 0.86, compared with the previous week's close of 0.97.
- The Nifty Put-Call ratio stood at 1.04, compared with the previous week's close of 1.10.

# Domestic Debt Market

Debt Indicators (%)	Current Value	1-Wk Ago	1-Mth Ago	6-Mth Ago
Call Rate	6.14	6.19	6.05	6.37
91 Day T-Bill	6.19	6.23	5.95	6.79
07.80% 2021, (5 Yr GOI)	6.55	6.40	6.37	--
6.97% 2026, (10 Yr GOI)	6.50	6.44	6.44	--

Source: Reuters Value as on December 16, 2016



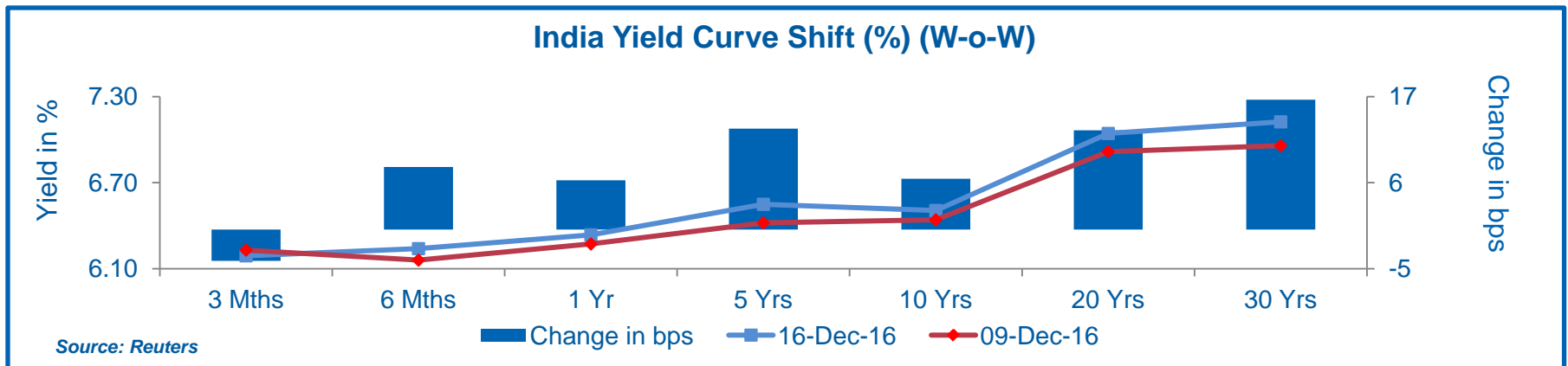
- Bond yields fell initially after retail inflation dropped to a two-year low and wholesale price index-based inflation fell to a five month low in Nov raising hopes of further monetary easing by the RBI.
- However, the trend reversed after the Fed, in its monetary policy review, raised policy interest rate for the second time in a decade and indicated a faster pace of rate increases next year. Losses were restricted to some extent as investors resorted to short covering at the end of the week.
- Yield on the 10-year benchmark bond (6.97% GS 2026) rose 6 bps to close at 6.50% from the previous close of 6.44%.

# Domestic Debt Market (Spread Analysis)

Maturity	G-Sec Yield (%)	Corporate Yield (%)	Spread bps
1 Year	6.44	6.75	32
3 Year	6.49	7.04	55
5 Year	6.71	7.27	56
10 Year	6.74	7.43	69

Source: Reuters Value as on December 16, 2016

- Yields on gilt securities expanded across the maturities in the range of 6 bps to 22 bps.
- Corporate bond yields increased across 3 to 15 years' maturities in the range of 2 bps to 14 bps, while fell on 1- and 2-year maturities by 6 bps and 1 bps, respectively.
- Spread between AAA corporate bond and gilt contracted across 1 to 5 years' maturities in the range of 3 bps to 13 bps, and expanded across the remaining maturities in the range of 1 bps to 5 bps.



# Regulatory Updates in India

- ❑ As per the notification by the RBI, certain restrictions have been imposed on bank accounts where more than Rs. 2 lakh has been deposited after Nov 9 and having a balance of over Rs. 5 lakh. Withdrawal and transfer of funds will not be permitted without quoting PAN or submission of Form 60 (persons who do not have PAN). This is intended to restrict the misuse of banking channels to park unaccounted money.
- ❑ The government is likely to amend the RBI Act to make old Rs. 500 and Rs. 1000 notes invalid and a reference to this effect would be made in the upcoming budget. As per the sources, the new act will be effective from Mar 31, 2017.
- ❑ As per media reports, Bombay Stock Exchange permitted 20 asset management companies to offer mutual fund (MF) units to registered investment advisors (RIAs). With a view to broaden the reach of MF platform, RIAs were recently allowed to use infrastructure of the recognised stock exchanges for buying and redeeming MF units directly from AMCs on behalf of their clients, including direct plans. The facility, on the BSE's platform for MFs, became operational from Nov 4.
- ❑ The Ministry of Finance has announced that RBI will reimburse the merchant discount rates (MDR) charges applicable to banks on payments of government dues of up to Rs. 1 lakh by debit cards through making a provision in the budget. This is being done in order to promote digital transactions.



## Regulatory Updates in India (contd..)

- ❑ Government has announced new income declaration scheme, named PM Garib Kalyan Yojana scheme, which will commence from Dec 17 and will run till Mar 31, 2017. The new scheme has stringent penalties and the declarations made under the new scheme will not be disclosed.
- ❑ Union cabinet has approved Major Port Trust Authorities Bill, 2016, which also proposes to renovate the functioning of 12 major ports in the country. The passing of the bill in the Parliament will give port boards more autonomy and flexibility. The bill proposed to provide authority to all future public-private partnership (PPP) operators to fix tariff based on market conditions. The port authority board has been delegated the power to fix rates for other port services and assets like land. The bill also proposes to empower port authorities to lease land for port-related use for up to 40 years and for non-port related use up to 20 years.
- ❑ The Union cabinet has approved the proposal to ink a revised Air Services Agreement (ASA) between India and Nigeria. This has been done in order to improve air connectivity between the two countries keeping in mind the latest developments in civil aviation sector. The previous ASA was inked in Jan 1978. The revised agreement permits both the country to operate a maximum of seven frequencies per week in each direction on the routes specified in the route schedule. Also, both countries can designate one or more airlines and can establish offices in each other's territory for promotion as well as sale of air services.

# Global News/Economy

- ❑ The Fed increased interest rates by 25 bps, which was in line with market expectations. It is the first rate hike in 2016 and second in a decade. The Federal Open Market Committee (FOMC) increased the rate to 0.50% - 0.75%. The Fed said inflation expectations have increased "considerably" and jobs market continued to strengthen. It also predicted three rate hikes in 2017, two or three in 2018, and three in 2019.
- ❑ The Bank of England decided to keep interest rates unchanged at 0.25% and corporate bond purchase plan at £10 billion. Also, the government bond purchase programme was left unchanged at £435 billion. The Monetary Policy Committee expects inflation to rise to the 2% target within six months. The central bank expects the country's economy to grow at a moderate rate.
- ❑ The latest survey from Nikkei showed that Japan's manufacturing PMI stood at 51.9 (preliminary) in Dec 2016, that's more than the previous month's figure of 51.3. The increase came due to expansion in output, new orders, new export orders, employment, input prices, and increased consumption.
- ❑ As per the National Bureau of Statistics, China industrial production grew to 6.2% in Nov from 6.1% in Oct, while retail sales expanded 10.8%, compared with 10% expansion seen in Oct.

# Global Equity Markets

Global Indices			
Indices	16-Dec -16	1-Week Return	YTD Return
Dow Jones	19843.41	0.44%	15.71%
Nasdaq 100	4914.864	0.39%	9.27%
FTSE 100	7011.64	0.83%	15.07%
DAX Index	11404.01	1.79%	10.90%
Nikkei Average	19401.15	2.13%	5.15%
Straits Times	2937.86	-0.62%	3.59%

*Source: Reuters*

## U.S.

- U.S. market gained over the week after Fed decided to raise interest rates by a quarter points in its policy review and investors viewed the Fed's interest rate outlook as a sign of confidence in the economy.
- Improved U.S. producer prices data in Nov and fall in U.S. initial jobless claims for the week ended Dec 10 further buoyed sentiment.

## Europe

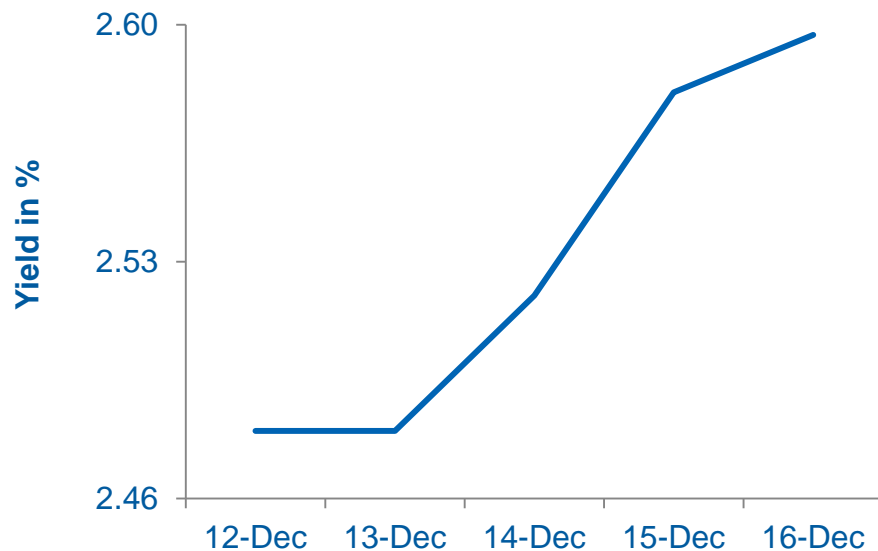
- European markets gained during the week after the U.S. Fed raised rates by 25 bps for the first time in 2016, in line with market expectations. Bank of England kept interest rates and monetary stimulus unchanged as expected. Sentiment also got support following the announcement of restructuring plan by one of the Italian banks and after the Bank of Spain raised Spanish growth forecasts for this year and next.

## Asia

- Asian bourses witnessed a mixed trend after the outcome of U.S. Fed's latest policy meeting, raised concerns over foreign fund outflow from emerging markets. Meanwhile, weakness in Japanese yen against the U.S. dollar lent some support to the markets.

# Global Debt (U.S.)

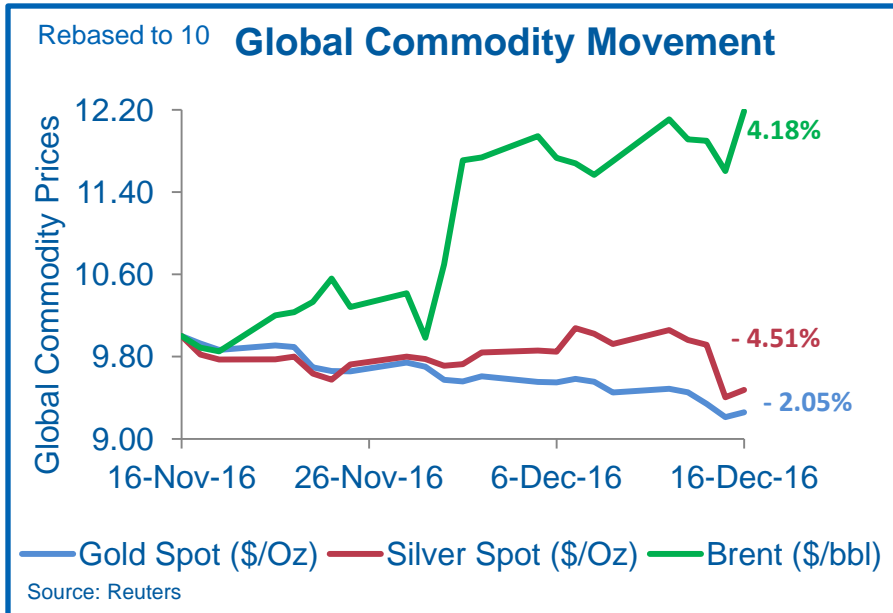
US 10-Year Treasury Yield Movement



Source: Reuters

- The 10-year U.S. Treasury yield increased 14 bps to close at 2.60%, compared with the previous week's close of 2.46%.
- U.S. Treasury prices fell initially following increase in crude oil prices and as investors awaited the monetary policy decision by the U.S. Federal Reserve.
- Prices fell further after Fed increased interest rate by 25 bps and indicated three rate hikes in 2017, which was one more than it was announced in Nov meeting. However, slowdown in U.S. consumer inflation in Nov and a sharp drop in U.S. housing starts for the same month restricted further losses.

# Commodities Market



Performance of various commodities		
Commodities	Last Closing	1-Week Ago
Brent Crude(\$/Barrel)	53.89	51.73
Gold (\$/Oz)	1133.99	1157.75
Gold (Rs/10 gm)	27305.00	28070.00
Silver (\$/Oz)	16.08	16.84
Silver (Rs/Kg)	39076.00	40926.00

Source: Reuters Value as on December 16, 2016

## Gold

- Gold prices dropped primarily owing to the U.S. Federal Reserve's decision of raising interest rates to a 0.50-0.75% range. Gold prices slipped to near-10-month lows following indications from the Fed that rates stood a chance of being raised thrice next year, surpassing an estimate of two raises at its Sep meeting.

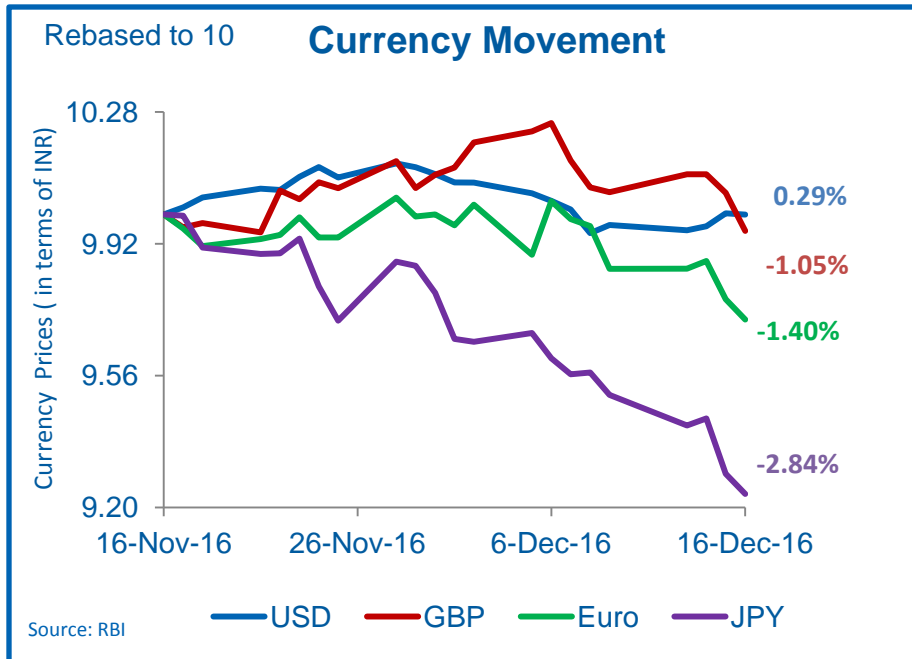
## Crude

- Brent crude prices grew as the Organization of the Petroleum Exporting Countries sealed a deal with Russia and smaller non-OPEC states to curb oil supplies of some of the world's largest producers next year.

## Baltic Dry Index

- The Baltic Dry Index slipped during the week owing to lower capesize and panamax activities.

# Currencies Markets



Movement of Rupee vs Other Currencies		
Currency	Last Closing	1-Wk Ago
US Dollar	67.78	67.58
Pound Sterling	84.23	85.13
EURO	70.75	71.76
JPY(per 100 Yen)	57.38	59.06

Source: RBI Figures in INR , Value as on December 16, 2016

## Rupee

- The Indian rupee weakened against the greenback after the U.S. Fed raised its key interest rate and indicated faster than expected rate hikes in 2017.

## Euro

- Euro weakened against the greenback after the U.S. Fed raised interest rates and hinted three rate hikes in 2017. Growing possibility of a boost in the U.S. economic growth under the new President-elect further weakened euro.

## Pound

- Pound weakened against the U.S. dollar following Fed's decision of increasing interest rates and indication of faster than expected rate hikes in the next year.

## Yen

- ✓ Yen weakened against the U.S. dollar after Fed raised interest rates and hinted three rate hikes in 2017.

The Week that was...  
December 12 to December 16

# The Week that was (Dec 12 – Dec 16)

Date	Events	Present Value	Previous Value
Monday, December 12, 2016	Japan Tertiary Industry Index (MoM) (Oct)	0.20%	-0.30%
Tuesday, December 13, 2016	China Retail Sales (YoY) (Nov)	10.80%	10.00%
	China Industrial Production (YoY) (Nov)	6.20%	6.10%
	U.K. Consumer Price Index (YoY) (Nov)	1.20%	0.90%
Wednesday, December 14, 2016	Japan Industrial Production (YoY) (Oct)	-1.40%	-1.30%
	U.K. ILO Unemployment Rate (3M) (Oct)	4.80%	4.80%
	Euro zone Industrial Production s.a. (MoM) (Oct)	-0.10%	-0.90%
	U.S. Producer Price Index (YoY) (Nov)	1.30%	0.80%
	U.S. Industrial Production (MoM) (Nov)	-0.40%	0.10%
	U.S. Fed Interest Rate Decision	0.75%	0.75%
Thursday, December 15, 2016	Euro zone Markit PMI Composite (Dec) Preliminary	53.9	53.9
	U.K. Retail Sales (MoM) (Nov)	0.20%	1.80%
	U.S. Consumer Price Index (YoY) (Nov)	1.70%	1.60%
	Euro zone Consumer Price Index (YoY) (Nov)	0.60%	0.60%
Friday, December 16, 2016	U.S. Housing Starts Change (MoM) (Nov)	-18.70%	25.50%



The Week Ahead...  
December 19 to December 23

# The Week Ahead

Day	Event
Monday, December 19, 2016	<ul style="list-style-type: none"> <li><input type="checkbox"/> Bank of Japan Monetary Policy Review</li> <li><input type="checkbox"/> U.S. Markit PMI Composite (Dec) Preliminary</li> </ul>
Tuesday, December 20, 2016	<ul style="list-style-type: none"> <li><input type="checkbox"/> Germany Producer Price Index (YoY) (Nov)</li> <li><input type="checkbox"/> China Conference Board Leading Economic Index (Nov)</li> <li><input type="checkbox"/> Euro zone Consumer Confidence (Nov) Preliminary</li> </ul>
Wednesday, December 21, 2016	<ul style="list-style-type: none"> <li><input type="checkbox"/> Japan All Industry Activity Index (MoM) (Oct)</li> <li><input type="checkbox"/> U.S. Existing Home Sales Change (MoM) (Nov)</li> <li><input type="checkbox"/> Euro Zone Consumer Confidence (Dec) Preliminary</li> </ul>
Thursday, December 22, 2016	<ul style="list-style-type: none"> <li><input type="checkbox"/> U.S. Durable Goods Orders (Nov)</li> <li><input type="checkbox"/> U.S. Gross Domestic Product Annualized (Q3)</li> <li><input type="checkbox"/> U.K. Gfk Consumer Confidence (Dec)</li> </ul>
Friday, December 23, 2016	<ul style="list-style-type: none"> <li><input type="checkbox"/> U.S. Michigan Consumer Sentiment Index (Dec)</li> <li><input type="checkbox"/> Germany Gfk Consumer Confidence Survey (Jan)</li> <li><input type="checkbox"/> U.S. New Home Sales Change (MoM) (Nov)</li> </ul>

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