Investor Insights & Outlook

09-Sep-2013

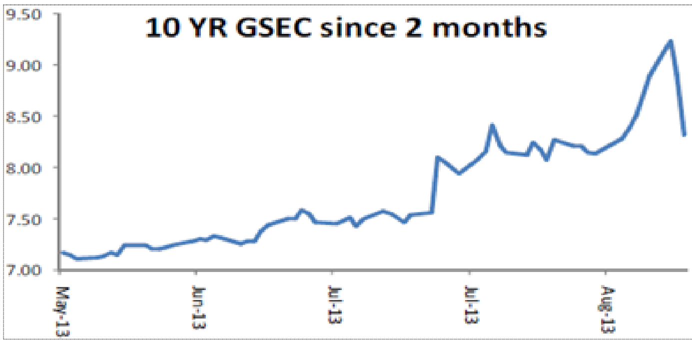
Monthly Newsletter

Strategy

Debt:

Fear of tapering of quantitative easing has led to local currency depreciation versus USD and rise in bond yields for most emerging markets. RBI may be able to reduce or eventually even eliminate issuances of cash management bills (CMBs) to the market and still be able to keep overnight rates anchored to the MSF rate of 10.25%, so long as it keeps selling spot dollars.

Assuming that at some point the RBI reverts to its normal liquidity framework this should imply large OMO purchases over second half of the financial year. As seen over past few years, this leads to strong performance in government bonds even without policy rate cut expectations in the market.



Equity:

The long-held belief is that while there may be short-term deviations, financial markets eventually tend towards equilibrium, thus reflecting underlying fundamentals. While we recognise the complexity of the current situation and are loathe to get onto the policy prescription bandwagon, we feel that, in the midst of a carnage, policymakers may consider adopting a more Structural reforms.

A silver lining has been a normal monsoon, which has till date been at 15% above normal. While valuation are reasonable and at a discount to long term averages, the earning outlook is challenging , making the market outlook for near term challenging. Companies with businesses having reasonable growth prospects and in healthy financial position, which can ride out the challenging environment and benefit from an improvement would be preferred. We are also open to making selective investments in areas where valuation already reflect a high degree of stress.

Currency:

INR defense already mounted via hiking cost of carry, the other desperate need was to enhance dollar supply to the market. The forex swap addresses this problem to a significant extent since OMCs have the largest and most consistent demand for dollars.

This should make the demand - supply dynamics for USD/INR much more favorable. Admittedly though, this is not immediately showing in prices given the much larger overhang with respect to India specifically and emerging markets generally.

Market Update

Nifty	5680
Sensex	19270
10Y G-sec	8.63%
1Y CP	10.55%
CD	10.00%
USD	65.96
Gold	31860 (Rs/10gm)
Brent	115.35 $/bbl

Product Recommendations

- **IDFC Dynamic Bond Fund**
- **SBI Dynamic Bond Fund**
- **Birla Sunlife ST Fund**
- **FMPs (100% Bank CD)**
- **ICICI Pru Banking & Financial Services Fund**
- **UTI Banking Sector Fund**

Contact

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