Investor Insights & Outlook

02-July-2013

Monthly Newsletter

Strategy

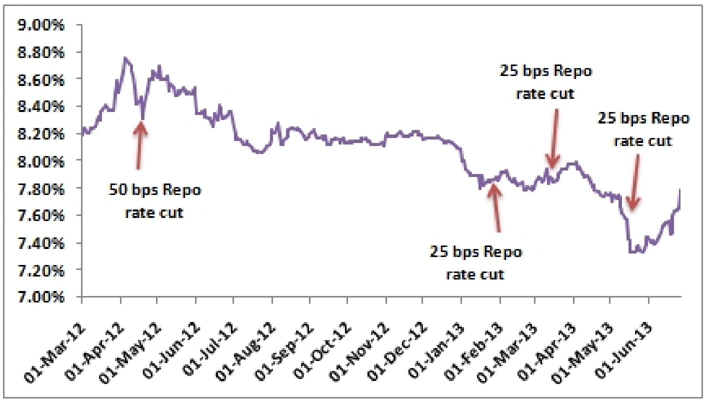
Market Update

Nifty	5858
Sensex	19464
10Y G-sec	7.46%
1Y CP	8.85%
CD	8.15%
USD	59.66
Gold	26250 (Rs/10gm)
Brent	104.00 $/bbl

Debt:

Due to the fear of QE tapering, US yields hardened as EM debt was liquidated causing our yields to rise. The 10 year G-sec rose after the Fed's statement by 30 bps. Going forward the market will take further cues from the rupee movement. The liquidity in the system is expected to ease further owing to increase in Government spending. This has given another opportunity to enter long duration bond funds.

The graph alongside confirms that the transmission of past interest rate reductions has not been fully captured after the yields strengthened. Consequently, there is an opportunity to gain from capital appreciation as interest rates begin to fall.



Debt - Product Recommendations

- **IDFC Dynamic Bond Fund**
- **SBI Dynamic Bond Fund**
- **ICICI Pru Dynamic Bond Fund**

Equity:

Although June 2013 has been savage for Indian equities, the long term outlook continues to remain positive for Indian equities (albeit with bouts of volatility) as the economic growth momentum begin to pick up with global recovery. India is quite well placed on the path of fiscal consolidation, with crude and gold prices coming down though a weakening INR has created some short term instability in the market. The Government has continued with the diesel price hike policy. Bernanke's comments spooked the markets globally, temporarily.

Currency:

The Indian Rupee has weakened significantly against the US Dollar from early May 2013 (Rs 53.82), to when it hit an all-time low of Rs 60.76 on 26-Jun-2013. This was caused by the market anticipation and eventual confirmation of the US Federal Reserve's indication that it will start tapering off QE3 since there are indications that the US economy is improving. This caused US yields to harden resulting in liquidation of EM debt causing serious pressure on currencies particularly those with large CADs. India's structural economic problems & slow pace of reforms, along with opportunistic trading of the Rupee by Hedge Funds in International markets, exasperated the pressure on the Rupee. In the medium term, we expect the Rupee will strengthen to close to Rs 57/$, on the back of Government intervention, softening commodity prices, FDI reform and realization by the markets that the tapering of QE3 is a good thing as markets settle and US yields stabilize.

Contact

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