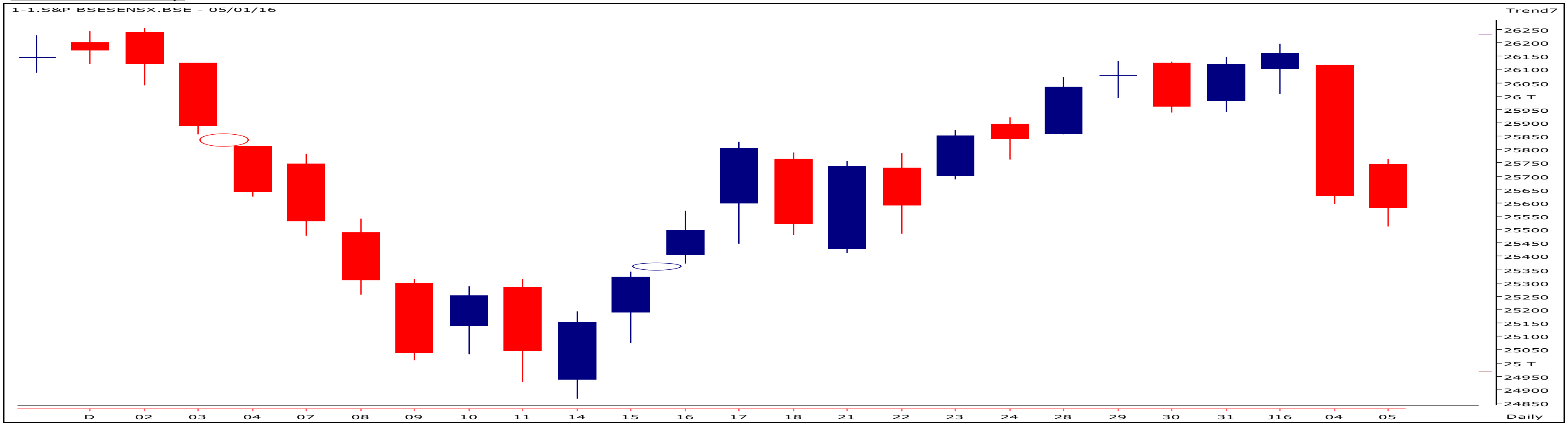
Month Gone By



In the month of December 2015, the S&P BSE Sensex and CNX Nifty posted gain of 0.1% and 0.4%, respectively. The BSE Sensex and NSE Nifty rose after touching a more than three-month low as buying at lower levels supported market ahead of the US Federal Reserve meeting on Dec 16, 2015. Investors were also somewhat comforted after data released showed industrial output grew a much stronger-than-expected 9.8 per cent in October from a year earlier, its fastest pace in five years.

Key Positives during the month

- India's industrial output grew its fastest in almost five years at 9.8% led by growth in manufacturing and electricity sectors, which grew 10.6% and 9%, respectively. In terms of industries, 17 out of the 22 industry groups in the manufacturing sector have shown positive growth during the month of October 2015 as compared to the corresponding month of the previous year. India Manufacturing grew 10.6% (October) vs 2.6% (Sept). While, mining and electricity sector grew by 4.7% and 9% respectively.
- The Indian government reported a fiscal deficit of 74% of the budget estimate at the end of October 2015. The numbers are better than 89.6% at the corresponding time last year indicating a comfortable fiscal situation.
- The Indian economy grew 7.4 percent in the second quarter ended September, showing some improvement over the 7 percent expansion in the quarter before but a notch lower than the 8.4 percent registered in the same quarter of the last fiscal.
- India's passenger vehicle industry ended on a high in 2015, with a double digit rise in December sales. Data released by manufacturers on Friday showed that 11 of the country's top makers of passenger vehicles together sold nearly 2,32,000 units last month - a 11% growth on year-earlier levels as the industry benefitted from the demand for new models and year-end discounts. For the year as a whole, the rise in sales was 8.7% to 2.75 million units, making it the fastest growth seen in the passenger vehicle segment in four years.

- Domestic air traffic logged a robust of nearly 25% growth in November with 11 Indian carriers together flying 7.32 million passengers as compared to 5.82 million passengers in the same period last year.
- India's trade deficit for the month of November came out at below $10 bln for the second consecutive month at $9782 mln, however it was slightly higher than the last month's figure of $9767 mln.

Key Negatives during the month

- India's inflation based on the wholesale price index (WPI) came in at -1.99% in November, the highest level since January, compared with -3.81% in the preceding month, mainly on account of higher prices of pulses and onion. This is the 13th month in a row when the wholesale inflation remained in the negative territory.
- India's services activity broadly stagnated in November with the Nikkei Services Business Activity Index posting a five-month low of 50.2 compared with 52.6 in October. Weak demand across the country meant services companies had the slowest rise in incoming new work since July.
- Nikkei's Manufacturing Purchasing Managers' Index, compiled by Markit, fell to a 28-month low of 49.1 in December from November's 50.3. It was also the first reading below the 50 threshold that separates growth from contraction since October 2013.
- The Winter Session of Parliament ended on a disappointing note with both the Goods and Service Tax (GST) Constitutional Amendment Bill as well as the Bankruptcy Bill failing to clear vote.
- India's current account deficit (CAD) widened to US$ 8.2 billion (1.6% of GDP) in Q2 of 2015-16 from US$ 6.1 billion (1.2% of GDP) of the preceding quarter, but was lower than US$ 10.9 billion (2.2% of GDP) in Q2 of 2014-15.
- India's annual consumer price inflation accelerated to 5.41% in November, picking up pace for the fourth straight month. It was also higher than the previous month's 5.0%, mainly driven by food prices.

Global markets:

Indices	**Dec-15**	**Nov-15**	**% Change**
US - Dow Jones	17425	17720	-1.7
US - Nasdaq	5007	5109	-2.0
UK - FTSE	6242	6356	-1.8
Japan - Nikkei	19034	19747	-3.6
Germany - DAX	10743	11382	-5.6
Brazil - Bovespa	43350	45120	-3.9
Singapore - Strait Times	2883	2856	+0.9
Hong Kong – Hang Seng	21914	21996	-0.4
India - Sensex	26161	26146	+0.1
India - Nifty	7963	7935	+0.4
Indonesia - Jakarta Composite	4593	4508	+1.9
Chinese - Shanghai composite	3539	3445	+2.7

- World markets ended the month of December 2015 on a mixed note. Chinese - Shanghai composite was the top gainer during the month which rose 2.7%. Indonesia - Jakarta Composite, Singapore - Strait Times, India - Nifty and India - Sensex, reported gain of 1.9%, 0.9%, 0.4%, and 0.1% respectively, while Germany - DAX, Brazil - Bovespa, Japan - Nikkei, US - Nasdaq UK – FTSE, US - Dow Jones and Hong Kong – Hang Seng fell 5.6%,3.9%,3.6%,2.0%,1.8%, 1.7% and 0.4% respectively.
- Average daily volumes on BSE in December 2015 rose by 4.97% M-o-M. (NSE daily average volumes fell by 5.82% M-o-M). This reflects higher trade volumes in small and midcaps that are listed more on the BSE than the NSE. The average daily derivatives volumes on NSE fell by 13.20% to Rs. 210598.69 cr in December.

Fund Activity

Particulars	Net Buy / Sell Dec -15	Net Buy / Sell Nov -15	Open Interest Dec -15	Open Interest Nov -15	Remarks
FII Activity (Rs. in Cr)					FII Activity (Rs. in Cr)
Equities (Cash)	205.5	-7628.8			• FIIs were small net buyers in December.
Index Futures	-2797.2	-4657.5	14261.3	15075.7	• FIIs were net sellers with a fall in open interest.
Index Options	8999.1	7541.7	34855.3	54510.5	• FIIs were net buyers with a fall in open interest.
Stock Futures	-1193.5	-1902.3	48875.1	48142.8	• FIIs were net sellers with a rise in open interest.
Stock Options	-656.8	-172.2	107.9	1447.2	• FIIs were net sellers with a fall in open interest.
MF Activity (Rs. In Cr)					MF Activity (Rs. In Cr)
Equities (Cash)	4659.4	6548.1			• MFs were net buyers in the month of December.

FIIs were net sellers of debt papers selling a net amount of Rs.4189.9 cr in December compared to Rs. 3639.3 cr worth debt sold in November.

Commodities

- The Thomson Reuters/CRB commodity index fell 3.43% in December.

Commodity	30-Dec-15	30-Nov-15	% Chg
Gold	1060.3	1065.8	-0.52%
Crude Oil	37.0	41.6	-11.07%
Aluminium	1513.0	1451.0	4.27%
Copper	4700.0	4588	2.44%
Zinc	1614.0	1561	3.40%
Nickel	8690.0	8800	-1.25%
Tin	14500.0	14850	-2.36%
Lead	1795.0	1621.0	10.73%

- Lead was the biggest gainer with a price increase of 10.73%. Prices rose to their strongest in nearly two months pushed higher by concerns about shortages of available inventories after one party acquired over half of them. The metal has been the best performer on the LME this year, dipping only 6 percent compared to 25 percent for copper, and has been the only one to post a rise in the fourth quarter.
- Tin and nickel prices fell due to stockists' selling amid subdued demand from alloy industries.
- Crude prices fell to their 11-year lows, on growing fears that the global oil glut would worsen in the months to come in a pricing war between key producers. Prices are down 11.07% in December and 39.7% in 2015.
- The price of gold fell to its third consecutive annual loss, declining on the back of the new U.S. interest rate cycle that is likely keep the pressure up in 2016. The bright metal was weighed by a sharp decline in oil prices, and by a stronger dollar.

Currencies

- The dollar ended 2015 with a more than 9% annual gain against a basket of currencies. The dollar has advanced this year on views that the Federal Reserve's start to its cycle of interest rate increases, combined with steadily loose monetary policy from the European Central Bank and the Bank of Japan, would continue to bolster the greenback. The U.S. currency advanced after Commodity Futures Trading Commission data for the week ended Dec. 22 showed speculators added bets on the greenback following the Federal Reserve's decision to raise interest rates. Higher Treasury yields also supported the currency by making dollar denominated investments more attractive.

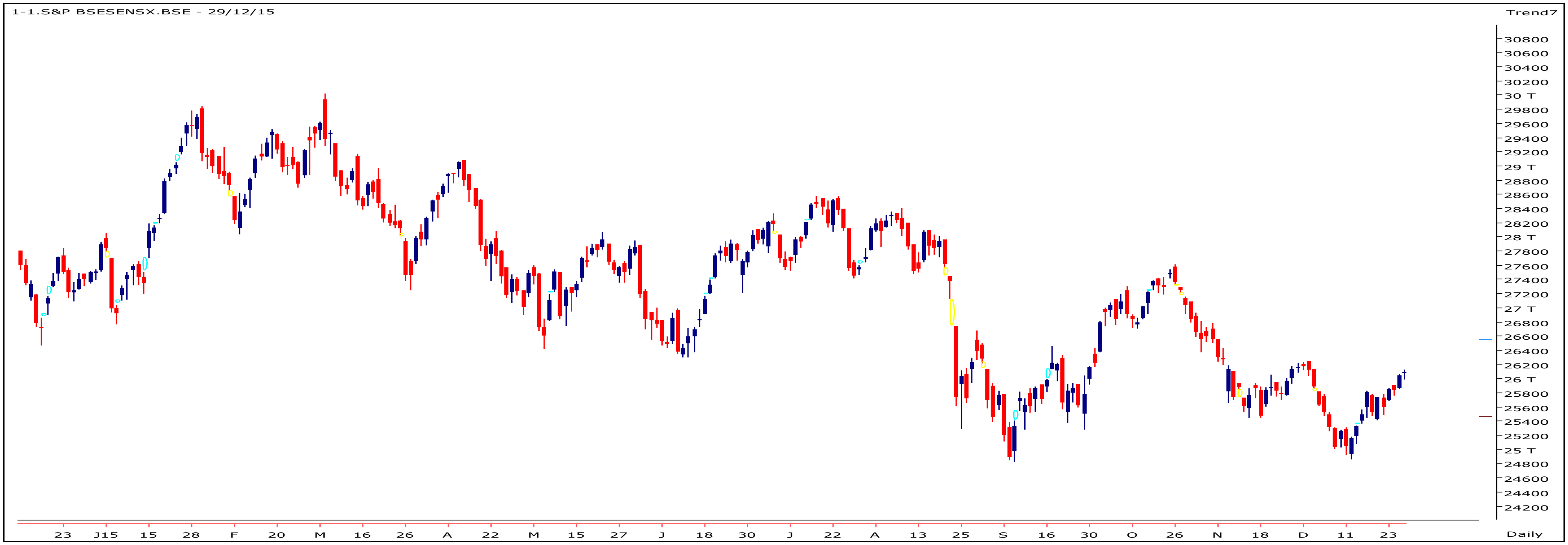
Given below is a table that shows the depreciation (-)/appreciation (+) of the dollar against various currencies for the month of December 2015:

USD to:	30-Dec-15	30-Nov-15	% Chg
Pakistani rupee	103.73	104.44	-0.68
Hong Kong dollar	7.75	7.75	0.00
Chinese yuan	6.49	6.39	+1.60
Indian rupee	66.13	66.58	-0.68
Taiwan dollar	32.84	32.51	+1.03
Singapore dollar	1.41	1.41	+0.18
Argentine peso	12.94	9.68	+33.71
Euro	0.92	0.95	-3.00
Thai baht	36.01	35.81	+0.55
Malaysian ringgit	4.30	4.25	+1.01
Indonesian rupiah	13736.30	13642.60	+0.69
Japanese yen	120.36	122.93	-2.09
Brazilian real	3.96	3.83	+3.40
Korean won	1174.67	1156.74	+1.55
Russian Rouble	73.29	66.30	+10.55
Turkish Lira	2.92	2.92	+0.04
South African Rand	15.53	14.40	+7.84

- The Argentine peso fell by as much as 34% against the dollar as the new administration lifted deeply unpopular limits on buying foreign currencies, exposing Latin America's third-largest economy to international market forces in ways not seen in over a decade.
- The Russian ruble fell to its weakest level against the dollar as oil prices continued to slide. The slide in oil prices together with Western sanctions imposed on Moscow for its role in the Ukraine crisis have caused the Russian economy to sink in recent months. The decline was the biggest among emerging-market peers tracked by Bloomberg and brought the currency's retreat this year to almost 19 percent.
- The euro rose as traders shrugged off comments by the European Central Bank's Yves Mersch on the scope for further monetary stimulus. Since the European Central Bank's decision to reduce deposit rates to 0.3%, and extend their quantitative easing programme until March 2017, the euro has risen in value against the dollar.
- The Brazilian real weakened marked by thin trading volumes and efforts by banks and brokerages to boost the value of their U.S. dollar-denominated assets. The real shed about 32.8% this year, making it the world's worst-performing major currency, as the government failed to assuage concerns over growing budget shortfalls and an escalating standoff with Congress.
- The yen rose against the dollar after the Bank of Japan unexpectedly tweaked its stimulus program damping market expectations for larger-scale monetary easing measures in the coming year.
- Rupee turned out to be one of the best performers in 2015 among all Asian and BRICS currencies, excluding yen. India's rupee rose amid speculation global funds will resume purchases of the nation's debt after a two-month selloff.

Outlook going forward for 2016

- After a dull 2015, investors can look forward to a better 2016. In 2015, investors witnessed as to how the Government overestimated its ability to quickly fix the economy and/or underestimated the complexity of the economic challenges.



- The negatives that have pulled down the performance in late 2015 have not yet disappeared. Commodity prices continue to be soft, global growth is expected to be very slow pulled down mainly by China, Japan again slipped into recession, Emerging economies face the risk of sharp cutback in growth and depreciation in currencies apart from rising trade and fiscal deficits, developed economies (except US) are still struggling under these weights. US is the bright spot currently as far as growth is concerned (though this confidence may get shaken if the other parts of the globe do not return to growth mode soon).

- India seems an oasis in the desert of slow growth. However one need not be sanguine about India's performance. India still needs to see investment spending which could trigger off a virtuous cycle. While the government has stepped up its efforts on public spending, private sector momentum remains essential to a more robust investment recovery. The union budget in February could provide important visibility on the direction of the capex cycle.

- Deficient monsoon's impact on rural demand and its trickledown effect needs to be monitored closely. Bad loan issues need to be addressed quickly and permanently. Impact of PM Modi's drive on subsidy targeting, ending crony capitalism and curbing black money will continue to be felt for some more quarters. Hence corporate earnings are unlikely to be picking pace atleast in the first half of calendar 2016.

- FY17 Union Budget expectations could drive equity markets in the early part of calendar 2016. Given the fact that major bills like GST, Bankruptcy, land reform, labour reform etc are stuck/referred to committees, it would be futile to expect any major move in the Union Budget.

- In most sectors there are headwinds to earnings and hence expecting a positive surprise in earnings in Q3FY16 or even Q4FY16 is being a bit optimistic. However select companies who have taken pain over the last few years to deleverage and to tune in their business models with the changing times could show positive earnings surprises.

- Hence the performance of equities in first half of the calendar will be dictated by fund flows (both foreign & local). If the US Fed is not too aggressive in raising rates, then we think the withdrawal of funds by FIIs will turn country selective vs the entire emerging market as a whole (as currently). In such a scenario, India could benefit as relatively the potential of the Indian economy is superior to other emerging markets.

- Typically the beginning of the calendar year witnesses fresh allocation of monies to the emerging markets. However whether this practice will be seen in calendar 2016 will be interesting to watch especially as the US Fed has embarked on rate tightening cycle.

- We think that broader indices could remain in a broad range of 7300-8200 (Nifty) in the first half of calendar year. State elections in 5 key states in the first half of the calendar could also cap any major upside.

- There could however be upside surprise in the second half. This could also be helped by the 7th pay commission payouts as well as the impact of monsoon. This could be also be aided by a normal monsoon (after three deficient/irregular monsoons) and low base effect. Steps may be taken by the central and state governments could improve the investment climate lead to greater confidence among companies (Indian and foreign) in the second half of the calendar 2016.

- The coming year could be a stock picker's delight as a lot of mid and small caps will keep performing based on their low institutional holding, nimble footed response to emerging changes, adopting better corporate governance practices and value unlocking possibilities due to sale, demerger, merger, takeover possibilities. Although the midcap space has run up recently exhibiting froth in select counters, any significant correction could provide an attractive entry point for investors.

- Power reforms will gather momentum…Availability will improve and next step is the costs will fall (whether it will happen in 2016 or later is anybody's guess).

- Indian population (including the businessmen) has seen a gradual transformation over the last 1-1.5 years. Inflation (both CPI and WPI) is coming under control, fiscal situation is improving, interest rates are on the gradual way down, subsidies are down, expectations of subsidy/bailout have reduced, rule of law is prevailing more often than not and respect/adherence towards rules, regulations, practices is growing. All these appeal to the young, though hurting them in the short term, while the not-so-young are slowly coming to terms with it. If the current dispensation is given more time, then the medium term outlook for Indian economy and Indian equities looks extremely bright.

- In spite of some disappointing economic data, un-encouraging corporate earnings, political setback for the central government in state elections, India remains a favorite investment destination.

- A large domestic market, a government keen to undertake administrative, regulatory, and legislative reforms, improved external account developments on the back of declining energy prices, a credible central bank that is targeting low and stable inflation, and high levels of consumer confidence – all contribute to drawing substantial attention from investors. India is one of the very few Emerging Markets (EM) economies to have weathered the currency crisis well – it is now on the path of recovery.

- The case for India's outperformance is supported by policy momentum, stronger relative earnings growth, falling interest rates relative to the US Fed and potential flow of robust domestic savings into equities.

- The benefits of ongoing reforms will translate into a slow but steady economic recovery over the next 2-3 quarters.

- The encouraging development is that investors are also becoming more realistic about the outlook.

We expect the Nifty markets to trade in the range of 7450-8150 levels in the month of January.

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