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Macro-economic developments

- The results of the state elections have strengthened BJP's position, with it achieving an outright majority in Uttar Pradesh and Uttarakhand, while forming a coalition government in Manipur and Goa. The results were seen as positive for the reform agenda of the government.
- The election results added to the positive mid-term view of INR, with FPI inflows (debt and equity) increasing to Rs 56,261 crores in March versus Rs 15,862 crores in February. INR appreciated by 2.76% in March to close at INR 64.85/USD; versus INR 66.69/USD in February.
- Currency in circulation reduced by ~ Rs 4.9 trillion from Rs 17.77 trillion in October, 2016 to ~Rs 12.9 trillion on March 24, 2017 on account of government's demonetization move, however the pace of re-monetization has picked up with currency in circulation increasing by ~Rs 1.9 trillion in March.
- System Liquidity continues in surplus mode by ~Rs 4.2 trillion, though the surplus has reduced by ~Rs 1.9 trillion versus February.
- Fiscal deficit for April'16–February'17 was 6.06 lakh crore viz. 113.4% of 5.34 lakh crore of the budgeted fiscal deficit for FY17 (against 107.1% during the same period last year).
- February CPI inflation increased to 3.65% YoY as against 3.17% in January; primarily on account of increase in food inflation to 2.01% YoY in February as against 0.53% in January.
- IIP grew by 2.7% in January as against contraction by 0.1% in December, on account of growth in manufacturing sector (2.3%), mining & quarrying (5.3%) and electricity (3.9%).
- US Fed in its March FOMC meeting decided to hike Fed rate by 0.25% to 0.75%-1.00% - citing strong labor market data and steady increase in inflation towards US Fed's 2% target. Moreover, it has maintained the 3 hikes in CY 2017 in its guidance.
- Brent crude fell by 5% in March to close at USD 52.83/barrel; versus USD 55.59/barrel in February.

Equity market developments and Outlook

- The Nifty continued to post gains for the 3rd consecutive month in Mar'17; it rose by 3.3% in the month after rising by 4.6% in Jan'17 and 3.7% in Feb'17. The broader market continued to outperform the benchmark index - the NSE500 rose by 3.7% in the month. The NSE500 has rallied 14.5% during Jan-Mar'17 vis-à-vis a 12.1% rise in the benchmark index. Mid and smallcap stocks post spectacular gains in Mar'17; the NSE mid and smallcap indices rose by 4.7% and 6.5%, respectively. The NSE midcap and smallcap indices have rallied by 19.7% and 24.7%, respectively, during the first three months of the calendar year 2017.

- Most of the sectoral indices on the NSE closed in the green in Mar'17. The CNX realty, PSU bank and FMCG indices were the top performers, rising by a sharp 9%, 7.3% and 5.4%, respectively, in the month. The CNX pharma and metal indices were the worst performers, declining by 1.6% and 1%, respectively.
- FIIs pumped in money into Indian equities for the 2nd consecutive month in Mar'17. The equity purchases exceeded sales by US\$4.7bn in the month. Meanwhile, mutual funds continued to pour money into Indian equities for the 8th consecutive month in Mar'17. Their equity purchases exceeded sales by US\$0.4bn in the month.
- The broader uptrend in global equity markets continued in Mar'17. European markets posted healthy gains in the month; the Stoxx Europe 600 (index of 600 European companies) rose by a healthy 2.9% in the month. Almost all the European markets closed in the positive territory in March. Spain, Portugal, Italy and Belgium were the top performing equity markets, rising by 6-9% in the month. Most Asian markets also closed in higher in March. Indonesia, India and South Korea the top performers, followed by Malaysia and Singapore. Japan and China closed lower while the S&P500 (US) closed flat in March.

Fixed Income market developments and Outlook

- 10 year G-Sec yields closed lower at 6.68% in March v/s 6.87% in February, due to buying from FPIs and appreciating Rupee which took the markets by surprise.
- With the surge in inflow into the banking system, RBI is expected to continue with measures to absorb the surplus liquidity through SDF (Standing Deposit Facility), OMO sales etc.
- We believe that CPI inflation readings would start edging up in coming months due to uptick in commodity prices, waning favorable base effect impact, increasing rural wages & Minimum Support Price and rise in inflation globally.
- Our view is that the monetary pause shall continue for an extended period. We think the yield curve will continue to steepen. The excess liquidity in the banking system and the upward movement in yields present a good investment opportunity in the shorter end of the yield curve.
- Key factors to watch out for will be –RBI's April policy outcome, impact of demonetization on growth and inflation, pace of US Fed rate hikes, sustained uptick in commodity prices (especially crude), implementation of GST framework and progress of monsoon.
- In view of the improving macro-economic dynamics, policyholders would be well placed to benefit from the economic revival, if they continue to remain invested in the India growth story.