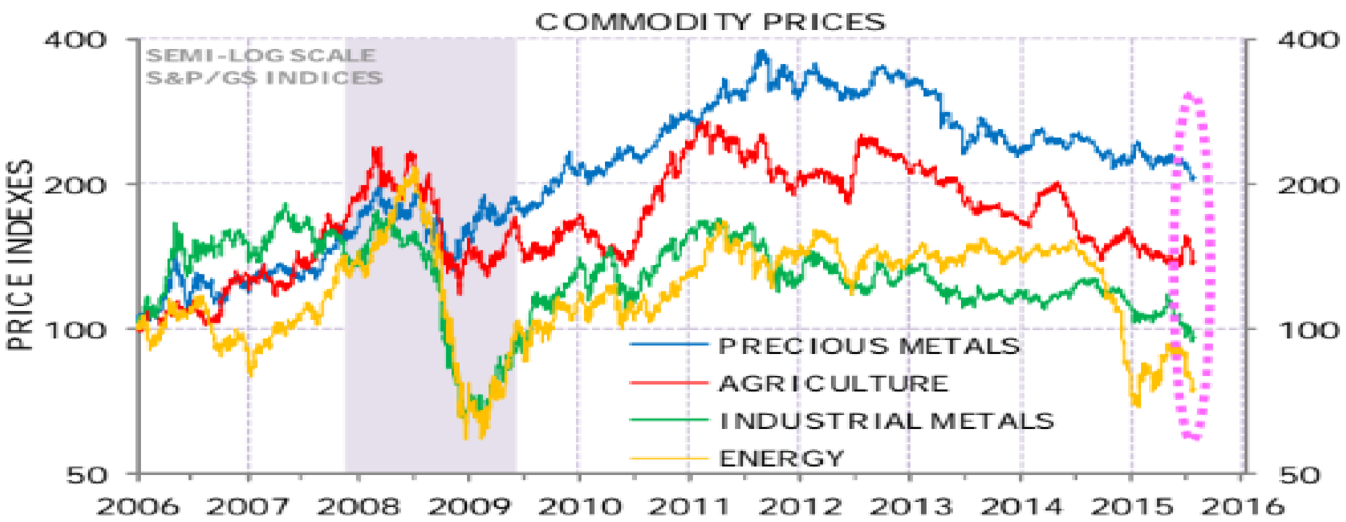
### Global developments | China, Greece, Oil, Commodities – they all fall down

After a bout of forty regulatory interventions, China's bubble continued to burst losing 14% in July following a 20% fall in June, vaporizing almost USD3.5trillion in value thus far. In fact, on the 27th of July, China witnessed its second biggest loss ever, falling 8% after all efforts at state rescue to prop up support stopped abruptly, raising doubts about the State's ability to manage the markets. As Chinese stocks made a 150% run from July 2014 through June 2015, the State urged individual investors to buy and characterized the stock boom as an affirmation of Government policies. But now, the evaporation of fortunes of more than 80 million individual investors would probably hurt them a bit, compounding to their already slowing down economy. The key take away from the event is, once sentiment has soured, policy interventions aimed at shoring up prices have only so much of an effect. Meanwhile, Greek's stock market plunged nearly 23% after it opened after a five-week shutdown; the losses were largely led by the country' banking sector that continued to fear a run. Coupled with a soft Chinese economy and Eurozone, the independent think tank National Institute of Economic and Social Research cut global growth rate for the year down to 3% vs 3.2% earlier. Over all, with a bleak outlook for world growth and weakness in China, the commodity basket continued to fall. As you can see in the chart below, most commodity prices are close to their 2008 lows.




*Source: tinyurl.com/p4fxecb*

While the fall in 2008 was driven by unwinding of derivative trades, the fall this time around is due to a genuine slowdown in demand. For India, a rampant importer of commodities, every fall bought cheer as lower input costs meant better gross margins in the days to come.

### Indian Market

In what was a very volatile month for most emerging markets, led by a meltdown in the commodities market and China, the benchmark BSE Sensex returned 1.2% for the month vs 1.5% of MSCI India. BSE Midcap and BSE Small cap returned, 5.5% and 6.8% respectively for the month.

| MSCI (in %) | India | Brazil | Russia | Korea | China | Japan | US | Australia | EM Index |
|---|---|---|---|---|---|---|---|---|---|
| MoM (in %) | 1.47% | -12.29% | -7.92% | -8.08% | -10.94% | 0.46% | 1.88% | -0.21% | -7.26% |
| CY - YTD (in %) | 2.37% | -21.37% | 16.62% | -7.98% | 0.32% | 13.19% | 2.57% | -5.55% | -5.71% |

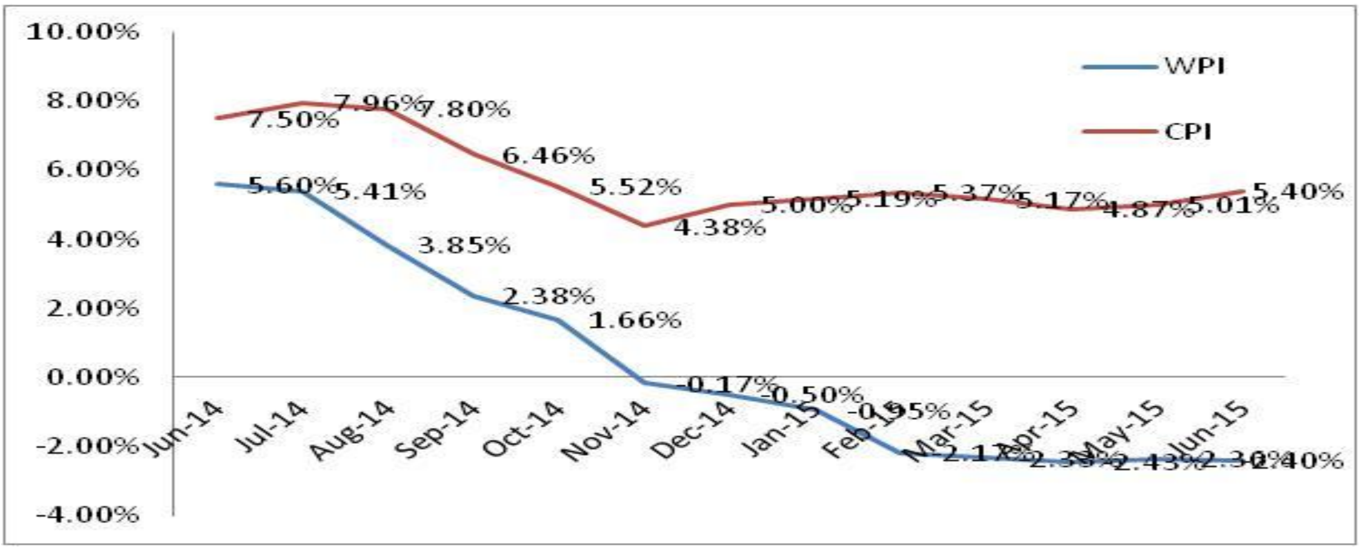
**Monthly Macro Review** | Inflation: negative and looking good | IIP on expansion mode | Interest rates held

***Inflation on a strong wicket***

India' strong disinflationary trend continued in June as well with WPI for the month coming in at -2.4%; this was the eighth consecutive month of disinflation. Core-WPI showed disinflation for the fourth successive month and recorded a 68-month low at -0.9% signifying weak demand for input commodities as well as pressure on commodity prices.

However, after being benign for a long time, CPI *for the month came in at a higher than expected 5.4% largely led by increase in agri prices.* Acceleration was largely limited to rural areas while urban CPI showed a moderate uptick.

Going forward, there is no real worry for inflation to inch up materially; the Government has resisted the temptation of a big minimum support price hike, with the average hikes this year coming in at 3-5%. Over all, support stems from the fact that monsoons have not disappointed largely and all input commodity prices are keeping low. So, going forward, inflationary movement will largely be tempered. Besides, unlike the previous regime, the Government is better equipped at managing food prices this time around. The chart below captures India's inflationary journey over the past one year.



## *Index on Industrial Production - IIP update*

IIP growth for May came in at 2.7%, on course for moderate recovery—partly on account of a higher base. Incidentally Apr-15 data was lowered to 3.4% from 4.1% estimated earlier.

- ✓ Mining and electricity sectors registered a sharp turnaround. However, manufacturing faltered to low single digit as only 12 out of the 22 industry group's registered positive growth.
- ✓ Use-based classification shows a sharp upturn in basic goods. However, capital and intermediate goods slowed down.
- ✓ The consumer sector remained negative, with non-durables slipping back to red along with durables.

| Year on Year in % | Weight | May 2015 | FYTD 2016 | FYTD 2015 | FY 2015 |
|---|---|---|---|---|---|
| ***Classification by Economic activity*** | | | | | |
| Over all | **100** | **2.7%** | **3.0%** | **4.7%** | **2.8** |
| Mining | 14 | 2.8% | 1.5% | 2.1% | 1.4 |
| Manufacturing | 76 | 2.2% | 3.2% | 4.4% | 2.3 |
| Electricity | 10 | 6.0% | 2.8% | 9.2% | 8.4 |
| ***Classification by use*** | | | | | |
| Basic Goods | 46 | 6.4% | 4.6% | 8.0% | 6.9 |
| Capital Goods | 9 | 1.8% | 4.4% | 8.7% | 6.2 |
| Intermediate Goods | 16 | 1.8% | 1.9% | 3.3% | 1.6 |
| Consumer Goods | 30 | -1.6% | 0.7% | -0.3% | -3.4 |

Over all for YTD-FY 2016, IIP growth came in at 3%, indicating a continued but moderate recovery on a relatively neutral base. While FY14 was a no growth year and FY15 witnessed a moderate recovery at 2.8%, it is broadly expected that IIP will recover well this year supported by decent monsoons and policy aid— supported by both in the form of further easing of interest rates as and attempts to ease supply bottlenecks by the government.

## *Interest Rates Held*

After having front loaded repo rate cuts (75 bps) and indicating a pause for a further rate cut in the near term, the Reserve Bank of India stuck to commentary (and consensus) and paused on key policy rate at 7.25%.

Clarity has now emerged on what the future entails in terms of further monetary accommodation. The forward guidance is relatively bereft of a marked hawkish stance, although risks to inflation have been enumerated. In a weak recovery cycle that India's economy finds itself in, the growth inflation trade-off would generate inflation bias if growth pickup happens in the absence of adequate supply-side elasticity and it is in this context that the RBI is doing a good job of not going out of its way to manufacture growth.

While the easing cycle is not over by any means, it is fair to expect a reasonable pause if inflation settles at around 5% in 2016. The room of 50-75bp from current levels is therefore visible but that is a story for the latter half of 2015 and early 2016.

## Unifi Strategy

Like we mentioned in our opening remarks, global volatility rubbed onto Indian markets as well, keeping them subdued for the month. Besides, largely average results for Q1FY16 and a slowdown in monsoons did their bit to dampen sentiments. The sharp decline in oil and commodity prices has been the main source of support for the month. This really has been a big deal for India as the volumes miss for several firms have been neutralized by expanding margins due to lower input costs. Going forward, distribution of monsoons, progress on legislative reforms in ongoing parliament session and outlook for the coming quarter's numbers will remain the focus areas and will impact sentiments in the short term.

The single biggest trigger will be the passage of the Constitutional Amendment Bill for GST, followed by further progress on Land Acquisition Bill. However in the absence of any development in this front, markets may witness a time bound bearish sentiment. Also, should the monsoons worsen; it would negatively impact the earnings in the following quarters, almost surely stunting the market's upsides for the year. The Government's efforts on boosting investment cycle are sincere but are yet to play out on the ground. A pulse on China and Fed's action on policy will continue to have its share of anxiety in the markets.

But interestingly in July, the midcap and small cap stocks outperformed their large cap peers handsomely. Normal monsoons, limited sign of increase in inflation and excellent domestic inflows may support the overall market. With most quality names trading at expensive valuations, it is natural to expect the liquidity to move down the curve. Like we have been maintaining, the next leg up for the markets will necessarily be supported by the strength of corporate earnings.

**Risk:** Indian markets as well as the INR continue to remains vulnerable to global events, however unrelated to India. Sudden rises in global commodity prices may have a detrimental effect on the domestic macro. Interest rate hikes in U.S may be a huge event risk and affect liquidity conditions domestically. Market may turn volatile in parts due to challenges in passing reform bill in upper house (due to minority of the ruling Government), possible increase NPA in banking system and geo political issues. New IPO's may also hamper liquidity in the market.

Please do let us know if you'd like any clarifications regarding your Portfolio account with us. Thank you for placing your trust in Unifi

Yours truly
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