FRANKLIN TEMPLETON INVESTMENTS

WEEKLY MARKET REVIEW

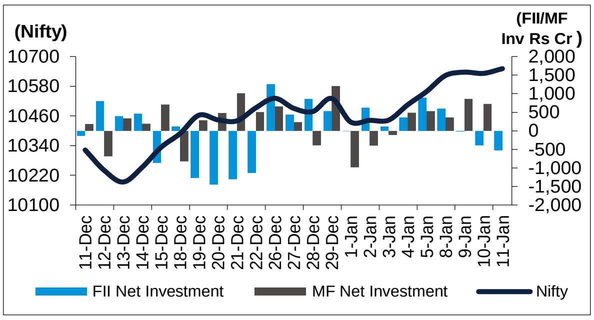
January 12, 2018

Indian equity benchmark indices' returns

Broad Indices	Jan 12	% change for week	% change for YTD
S&P BSE Smallcap	19993	1.46	3.96
S&P BSE Sensex	34592	1.28	1.57
Nifty 50	10681	1.16	1.43
S&P BSE 100	11205	1.00	1.58
Nifty 500	9665	0.96	1.84
S&P BSE Midcap	18137	0.37	1.77
Sectoral Indices	**Jan 12**	**% change for week**	**% change for YTD**
S&P BSE Realty Index	2764	5.51	5.96
S&P BSE IT	11700	4.50	3.74
S&P BSE Oil & Gas	16363	1.26	0.49
S&P BSE Metal	15846	1.25	6.07
S&P BSE FMCG	10816	0.96	1.13
S&P BSE CG	20046	0.80	4.77
S&P BSE Bankex	29098	0.56	0.83
S&P BSE Healthcare	14968	0.38	1.14
S&P BSE CD	23774	0.11	4.78
S&P BSE Auto	26486	-0.24	-0.99
S&P BSE Power	2409	-0.84	1.14

Source: *BSE, NSE*

FII and mutual fund investment vs. Nifty



Source: *SEBI, NSE*

FII and mutual fund weekly investment

Rs Cr	Jan 5 – Jan 11	
	FII Inv (Equity)	MF Inv (Equity)*
Buy	25389	11427
Sell	24835	8952
Net	554	2476
YTD	1639	1457

Source: *Data till Jan 10

Domestic macro indicators

Indicators	Current	Previous
Monthly CPI Inflation	5.21% (Dec-17)	4.88% (Nov-17)
Monthly WPI Inflation	3.93% (Nov-17)	3.59% (Oct-17)
IIP	8.40% (Nov-17)	2.00% (Oct-17)
GDP	6.30% (Jul-Sep 17)	5.70% (Apr-Jun 17)

Source: *CRISIL Centre for Economic Research*

Indian equity market summary

- Indian equity indices ended positive for the sixth consecutive week. Benchmarks S&P BSE Sensex and Nifty 50 rose about 1.2% each, closing at fresh record highs.
- The market was mainly boosted by gains in shares of some index heavyweights and on tracking sporadic positive global cues.
- A rally in shares of realty firms propelled the benchmarks higher. S&P BSE Realty was the topmost sectoral gainer – up 5.5%.
- Buying interest in information technology (IT) counter amid expectations of a mild acceleration in revenue growth and weakness in the rupee brought in more gains into the market. S&P BSE IT rose 4.5%.
- However, further rally was restricted owing to intermittent profit booking and concerns that the government may tweak tax norms for listed stocks in the upcoming budget.
- Investors also exercised caution ahead of earnings numbers from some top corporates.
- Sentiments were dented to a certain extent following a rise in global crude oil prices.

Other major domestic news

- India's index of Industrial Production (IIP) rose to a 25-month high of 8.4% in November from 2.2% the previous month.
- India's retail inflation stood at a 17-month high of 5.2% in December compared with 4.88% the previous month.
- The Ministry of Finance said net direct tax collections soared 18.2% during the first nine months of the current financial year at Rs 6.56 lakh crore, while gross direct tax collections rose 12.6% to Rs 7.68 lakh crore.
- The World Bank expects the Indian economy to grow 6.7% in the current fiscal, 7.3% in 2018 and 7.5% for the next two years. It said the country has "enormous growth potential" compared to other emerging economies with the implementation of comprehensive reforms.
- The government relaxed FDI norms in various sectors including single brand retail, construction and real estate broking, and allowed foreign airlines to invest up to 49% in Air India.
- UIDAI introduced a new concept of 'Virtual ID' which Aadhaar-card holders can generate from its website and give for various purposes, instead of sharing the actual 12-digit biometric ID.
- The government extended the deadline for linking of biometric identification Aadhaar to small savings schemes such as post office deposits and Kisan Vikas Patra by three months to March 31, 2018.
- The government raised Rs 1,200 crore by selling 2.52% of its stake in NMDC through an offer-for-sale.
- Sebi made electronic platform mandatory for all private placement issues on a debt basis having a threshold of Rs 200 crore.
- Sebi extended the deadline for brokers to comply with the requirement of keeping evidence of every instruction given by clients for equity and equity derivative trades to April 1.
- Sebi is mulling a minimum free-float market capitalisation of Rs 10 crore for companies to remain listed.
- Sebi recommended new tax rules for alternative investment funds.

Indian debt market indicators

Indicators	Jan 12	Previous Week	Trend
Call Rate	5.95%	5.75%	↑
3 M CP	7.50%	7.40%	↑
1 Yr CP	8.00%	7.95%	↑
3 M CD	6.87%	6.88%	↓
1 Yr CD	7.30%	7.10%	↑
3 Yr AAA	7.60%	7.49%	↑
5 Yr AAA	7.75%	7.66%	↑
1 Yr G-Sec	6.61%	6.56%	↑
3 Yr G-Sec	7.06%	6.98%	↑
5 Yr G-Sec	7.24%	7.15%	↑
10 Yr G-Sec	7.46%	7.29%	↑
Forex Reserves	$ 411.12 bn (Jan 5)	$ 409.37 bn (Dec 29)	↑

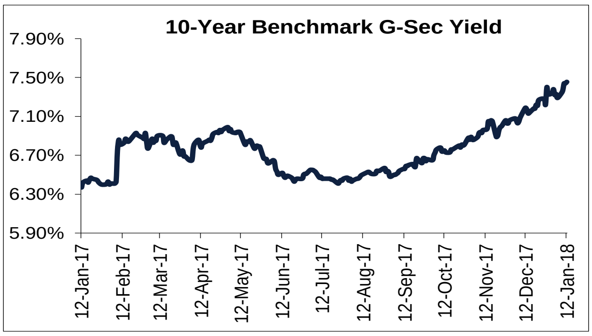
Source: *CRISIL Fixed Income Database, RBI*

Corporate bond spreads over G-Sec

Spreads		AAA	AA+	AA	AA-	A+
Jan 10th 2018	3 Yr	0.39%	0.69%	0.96%	1.28%	1.57%
	5 Yr	0.38%	0.74%	1.03%	1.36%	1.65%
	10 Yr	0.30%	0.64%	1.12%	1.52%	1.86%
Previous Week	3 Yr	0.39%	0.69%	0.96%	1.28%	1.57%
	5 Yr	0.38%	0.74%	1.03%	1.36%	1.65%
	10 Yr	0.40%	0.74%	1.22%	1.62%	1.96%

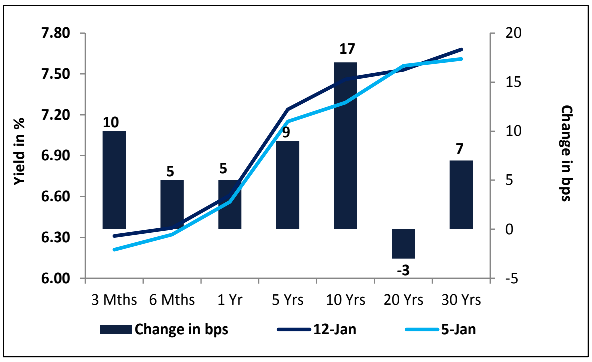
Source: *CRISIL Fixed Income Database*

10-year benchmark G-Sec movement



Source: *CRISIL Fixed Income Database*

India yield curve shift (%) (W-o-W)



Source: *CRISIL Fixed Income Database*

Indian debt market summary

- The interbank call money rate settled at 5.95% on January 12 as against 5.75% on January 5. Demand for funds was mostly below the repo rate as systemic liquidity remained in surplus.
- Eight reverse repo auctions for a total notified Rs 1,75,000 crore were held by the banking regulator to drain away excess funds.
- Two term repo auctions of 14-day and 13-day durations were also conducted, through which the central bank disbursed Rs 43,000 crore.
- Government bond prices weakened sharply during the week. Yield of the 10-year benchmark 6.79% 2027 paper settled at 7.46% on January 12 as against 7.29% on January 5.
- Prices took a hit as market players trimmed positions ahead of the release of domestic consumer inflation figures for December.
- A steady rise in global crude oil prices over the week provided bonds with negative cues.
- Crude oil prices climbed mid-week after data showed a weekly decline in US crude oil stockpiles for the eighth straight week and a drop in domestic production. The US Energy Information Administration reported that domestic crude oil supplies fell by a higher than forecast 4.9 million barrels for the week ended January 5.
- Fears of weak demand at the weekly gilt sale also put pressure on prices.
- Persistent concerns of fiscal slippages by the Centre kept investors on edge.
- Mid-week, prices fell after India's fixed income trade body FIMMDA set yields for government bonds at levels higher than the actual closing levels for the December quarter.
- The rupee weakened sharply against the US dollar owing to persistent dollar demand from importers and state-owned banks.
- Hawkish comments from various US Federal Reserve officials led to a global strengthening of the greenback early in the week, and weighed on the rupee. President of Federal Reserve Bank of Cleveland Loretta Mester said last week that she expected four interest rate hikes in 2018 if economic growth picks up and unemployment rate remains low. Also, President of Federal Reserve Bank of San Francisco John Williams said that three interest rate hikes this year "made sense" to him.
- Sporadic dollar sales by exporters and foreign banks gave the rupee some support and prevented a sharper decline.
- The greenback weakened globally towards the end of the week owing to media reports that indicated that China may slow down its purchases of US Treasury notes, thereby helping the rupee recover losses.
- Some discouraging US economic data and the release of the ECB December meeting minutes, which were perceived as hawkish, also weakened the dollar and augured well for the local unit – data indicated that US producer prices had declined 0.1% in December.

Currencies vs the rupee

Currency	Jan 12	Week ago	3 months ago	1 year ago
USD	63.63	63.37	65.08	68.09
GBP	86.05	86.02	86.23	83.19
Euro	76.53	76.50	77.27	72.23
100 Yen	57.09	56.06	57.98	59.45

Source: *RBI, Financial websites*

Global equity benchmark indices' returns

Country / Region	Indices	Jan 12	% change for week	% change for YTD
The US	DJIA*	25574.73	1.10	3.46
	Nasdaq Composite*	7211.78	1.05	4.47
	Russell 3000 Growth*	1145.34	0.95	4.17
The UK	FTSE 100*	7762.94	0.50	0.98
France	CAC 40*	5488.55	0.33	3.31
Germany	XetraDax*	13202.90	-0.88	2.21
Japan	Nikkei 225	23653.82	-0.26	3.90
Singapore	Straits Times	3520.56	0.89	3.46
Hong Kong	Hang Seng	31412.54	1.94	4.99
China	Shanghai Comp	3428.94	1.10	3.68

Source: *Websites of respective stock exchanges *As on Jan 11*

Macro indicators

Indicators	Current	Previous
US Import Prices	0.1% (Dec 2017)	0.8% (Nov 2017)
Eurozone Retail Sales	1.5% (Nov 2017)	-1.1% (Oct 2017)
UK Industrial Production	0.4% (Nov 2017)	0.2% (Oct 2017)
UK NIESR GDP Estimate	0.6% (Oct - Dec 2017)	0.5% (Sep - Nov 2017)
Japan Leading Index	108.6 (Nov 2017)	106.5 (Oct 2017)

Source: *Financial Websites*

Major global bond yields

Indicators	Jan 12	Jan 5
US 10-Year*	2.53	2.48
UK 10-Year*	1.31	1.24
German 10-Year*	0.58	0.44
Japan10-Year	0.07	0.06

Source: *Financial Websites * As on Jan 11*

Commodity prices

Currency	Jan 11	% change for week	% change for YTD
NYMEX Crude Oil ($ per barrel)	63.80	3.84	5.59
Brent Crude Oil ($ per barrel)	69.26	2.43	3.57
Gold ($ per ounce)	1323.05	0.45	2.05
Silver ($ per ounce)	17.01	-0.85	0.86

Source: *Respective commodity exchanges, LBMA*

Global market summary

- Most global equities ended in the green amid region-specific cues. US treasury prices ended lower owing to gains in equities and reports that China might halt or reduce its purchases of US bonds. Crude oil prices advanced following an eighth-straight weekly drop in US crude oil inventories.
- US benchmarks ended at record highs in the week supported by gains in industrial, technology, financial and healthcare firms.
- Sentiments strengthened further owing to optimism about domestic economic prospects.
- Some gains were, however, trimmed owing to stock-specific selling and worries over the possibility of China halting its US sovereign bond purchases and the US pulling out of the North American Free Trade Agreement (NAFTA).
    - US non-farm payrolls came in at 148,000 jobs in December compared to 252,000 in November; the unemployment rate was steady at 4.1% in December.
    - US factory goods orders rose 1.3% in November compared with a revised 0.4% growth in October.
- UK stocks rose 0.5%, closing at a fresh record high, aided by stock-specific buying and tracking gains in US markets.
- Gains were, however, cut short as a result of selling in shares of home builders.
    - UK industrial production rose at a monthly rate of 0.4% in November, up from October's 0.2%.
- Other European benchmarks ended mixed amid stock-specific action. France's CAC 40 rose 0.3%, while Germany's Xetra DAX lost around 1%.
- Asian equity benchmarks posted mixed performance. Hong Kong's Hang Seng (best performer) jumped nearly 2% buoyed by persistent inflows from China, a rebound in shares of index heavyweight Tencent Holdings, hopes of global economic recovery and on tracking strength in US markets.
- China's Shanghai Composite rose about 1% following gains in shares of real estate, financial consumer and healthcare firms.
    - China's exports rose 10.9% from a year earlier in December compared with a 12.3% gain in November, while imports rose 4.5% in December as against the 17.7% rise in November, leaving the country with a trade surplus of $54.69 billion for the month compared with November's $40.21 billion.
    - China's Consumer Price Index rose 1.8% in December from a year earlier compared with a 1.7% gain in November.
- Japan's Nikkei fell 0.3% owing to profit booking in recent outperformers and as a strong yen weighed on exporters' shares.
- Losses were, however, reduced owing to sharp gains in index major Fast Retailing.

FRANKLIN TEMPLETON INVESTMENTS

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