MONTHLY NEWSLETTER – JANUARY 2016

I-CAN FINANCIAL SOLUTIONS

MARKET UPDATE

Sensex : Down 0.11% Nifty : Up 0.14%	
Best performing sector: Metal Index (3.93%)	Worst performing sector: Consumer Durables (-3.76%)
Best performing global index: Indonesia Jakarta Composite (3.30%)	Worst performing global index: Russia RTS Index (-10.63%)
Indian Rupee: (0.66%)	Gold price: (-0.40%)

Stock markets ended flat in the month of December 2015. FIIs invested a net amount of Rs. 4,233.6 crore in equities and Rs. 33,178.9 crore in debt markets.

The economic indicators released for the month of November signal stagnation in business activity. The eight core industries' output in November contracted 1.3 per cent. Manufacturing PMI fell to a 25-month low of 50.3 in November (from 50.7 in October) because of muted new business orders and demand. The seasonally adjusted Nikkei Services Business Activity Index was down from October's eight-month high of 53.2 to 50.1 in November. Services companies in India displayed a lack of optimism with regards to the 12-month outlook for activity. At the same time, inflation in the economy shot up to its highest level in 2015 – largely contributed by more expensive pulses and onions. WPI (Wholesale Price Index) inflation was -1.99% in November. Consumer Price Index-based (CPI) inflation for the month of November rose to 5.41% compared to 5% in October.

The winter session of the Parliament was a sentiment dampener as none of the ambitious reform bills were passed. A total of 13 bills were passed in the Lok Sabha and 9 in the Rajya Sabha (6 of which were passed in the last 3 days without any debate).

India's deficit situation is looking better. The current account deficit was down to 1.6% of GDP in July – September quarter which is lower compared to 2.2% a year ago. The Finance Minister has also shown confidence in meeting the fiscal deficit target of 3.9% for 2015-16.

Growth data published by the Central Statistics Office show that the Indian economy grew 7.4% in the second quarter up from 7% a quarter earlier. Hailed as "the bright spot" in a gloomier global economy, India outpaced China as the world's fastest growing economy in 2015.

The most watched out event globally was the Federal Reserve Policy announcement on 16th December. The US Fed hiked interest rates by 25 basis points, upping the target for short term bank lending to between 0.25 and 0.5 per cent. This is the United State's first rate lift in almost a decade. The equity markets reacted positively to the announcement.

Important Reforms:

- The finance ministry will inject Rs 5,000 crore in public sector banks (PSBs) to boost their capital subject to improvements in performance and efficiency.
- As on December 2015, the total number of Jan Dhan accounts rose to 166.1 million from 84.5 million in December 2014.
- The Union cabinet approved 20 major amendments to the Real Estate (Regulation and Development) Bill, 2015, which aims at greater accountability, investor protection, transparency and efficient working in the real estate sector. The most important change that is being made is the shorter adherence timelines.
- The Cabinet approved setting up India's first 500-km-long bullet train project, with the help of Japanese funds and technology. Connecting Mumbai to Ahmedabad, the cost will be Rs 98,000 crore.
- The ministry of communications and information technology is working on an extensive plan to promote Common Service Centres (CSCs), an ongoing project, in rural areas. Sources in the ministry say as many as 14 states would have a CSC in each gram panchayat (GP) by the end of this financial year.
- Sale of Mutual Funds on e-commerce platforms could become a reality in a month
- The government plans to allow a single foreign investor to hold as much as 15% in Indian stock exchanges and depositories. Currently, no foreign entity can hold more than 5% in a domestic bourse.
- The World Bank has approved a $1.5 billion loan for the ambitious clean India campaign to support the government in its efforts to ensure all citizens in rural areas have access to improved sanitation and end the practice of open defecation by 2019.
- Government expects to mobilise about Rs 10,000 crore revenue in a full fiscal by levying Swachh Bharat Cess (SBC). Resources generated from the cess will be utilised for financing and promoting initiatives towards Swachh Bharat.

IMF Managing Director Christine Lagarde expects the global economic growth will be "disappointing" next year. However, most forecasts regarding Indian markets are positive. Indian GDP is expected to grow at 7.4 per cent in the current financial year, according to Standard & Poor's and the Asian Development Bank (ADB). Analysts at top Indian brokerage firms expect equity benchmark Sensex to rally up to the 30,000- 35,000 level in 2016.

SOVEREIGN GOLD BONDS SCHEME & GOLD MONETISATION SCHEME

This Scheme which was announced in the Budget 2015-16. As investors will get returns that are linked to gold price, the scheme is expected to reduce the demand for physical gold. The bonds will offer same benefits as physical gold.

They can be used as collateral for loans and can be sold or traded on stock exchanges as they are available in demat form. At the same time investors need not worry about holding physical gold.

The gold bonds will be issued by the Reserve Bank of India. Since these are Government of India bonds, they are sovereign.

The bonds will be denominated in grams of gold. Investors can pay money and buy these bonds from intermediaries, who will be announced later.

- The bonds can be purchased only by resident individuals or entities. There will be a cap on bonds that can be purchased. It could be 500 gms per person per year.
- The government will decide the rate of interest. If the price of gold has fallen from the time that the investment was made, the depositor will be given an option to roll over the bond for three or more years.
- The bonds will be available both in demat and paper form. They will be issued in denominations of 5,10, 50,100 grams of gold or other denominations
- Bonds are sold through scheduled commercial banks and designated Post Offices either directly or through their agents like NBFCs, NSC agents, etc.
- The price of gold may be taken from the reference rate, as decided and the rupee equivalent amount may be converted at the RBI reference rate on issue and redemption. This rate will be used for issuance, redemption and Loan to Value purpose and disbursement of loans.
- The tenor of the bond could be for a minimum of five to seven years.
- These bonds can be used as collateral for loans. As per RBI regulations, the maximum LTV allowed for gold loans is 75 per cent.
- It will be possible to sell and trade the bonds on exchanges, in case investors want to redeem them before maturity.
- Capital gains tax will be the same as for physical gold for individual investors. This means that short-term capital gains tax will apply if you sell within three years. The profits will be added to your income and taxed at income slab. Long term capital gains tax is 20 per cent with indexation.

Gold Monetisation Scheme

By taking advantage of gold monetisation scheme, people can deposit idle gold with authorised agencies and take advantage of the price escalation of gold as well as earn interest on the deposit. The notification and date of implementation of the gold monetisation scheme would be announced very soon.

- People holding idle gold can deposit it in banks for either short, medium or long term.
- Depositors of gold will earn interest on their metal accounts
- Quantity of gold to be credited will depend on the purity of gold.
- The scheme will let individuals buy gold bonds instead of physical gold
- Gold can be in any form, bullion or jewellery individuals and institutions can deposit as low as 30 gm of gold
- Mobilised gold will be used in auctioning and replenishing RBI's gold reserves. Besides, it would be utilised in making India Gold Coin, which will have the Ashok Chakra, and even for lending to jewellers so that gold need not be imported.

Should you opt for Cancer Policy?

Cancer is a dreadful disease in which body suffers unregulated cell division and growth. There are over 200 types of cancers. The leading type of cancer among men is lung cancer and among women is breast cancer. Cancer is spreading throughout the world at an ever increasing pace. As a matter of fact, cancer stands tall as one of the leading causes of death worldwide. This figure is likely to continue rising in the coming years. India is no exception to the increasing cancer prevalence. Cancer care is quite a costly affair whether it's the diagnosis, radiation therapy, chemotherapy, or surgery. More often than not, cancer ends up financially draining out the sufferer and his/her family. So that is why buying insurance for cancer has become quintessential. Moreover in India every year over 15 Lakh cases of cancer are detected and nearly 8 lakh people succumb to it. As this number is rising along with the treatment cost, people buying health insurance for cancer is on rise.

In India, insurance for cancer patients is available which covers you against this disease and that too at a very less premium and this has resulted in increased survival rate as patients could now afford treatment costs covered under an insurance policy.

In India many providers offers medical insurance policies for cancer patients. Some of these are:

- ICICI Cancer Care Plus
- CPAA introduced the Cancer Insurance Policy in collaboration with New India Assurance Company.
- Indian Cancer society also provides Cancer Insurance Policy with New India Insurance.
- HDFC Life Cancer Care.

- Life Insurance Corporation – Asha Deep Policy-2
- Kidwai Cancer Care Foundation Trust- Bangalore

Features and Benefits of Cancer Insurance Policy as follows:

- Insurance of cancer is only for the people with no history of cancer and the person has to submit certificate stating good health condition. No pre medical test required.
- Cancer insurance policy sufficiently offers coverage for the cost of diagnosis, hospitalization, chemotherapy, biopsy etc.
- Once the evidence of the exam has been submitted and verified, the insurance company will then provide the necessary financial support.
- The premiums paid are eligible for tax benefits under Section 80D of the Income Tax Act. However, generally there is no death, maturity or surrender benefit payable under such plans.

A wise man once said 'prevention is better than cure'. This quote very well applies to cancer and its dreads. The most viable cure to cancer is curing it before it happens. Adopting a healthy lifestyle, being proactive and getting an early detection, while the cancer is its preliminary stage, saves the patient from incurring heavy costs on its treatment.

AMC Views for 2016

Equity Market Outlook – S. Naganath (President & CIO, DSP BlackRock AMC)

2015 proved to be an eventful year for India. With economic growth surpassing that of China, India became the fastest growing developing economy in the world. We expect this growth trend to continue in 2016, driven by strong demographics, declining inflation, lower interest rates and continued focus on economic reforms. After growing at 7.3% in FY2015, we expect GDP growth to further accelerate to 7.5% in FY2016 and 7.8% in FY2017. We also believe that there is further scope for monetary easing by the RBI, despite the 125 bps cut in key policy rates (Repo rate now at 6.75%) in CY2015.

India will continue to benefit from the sharp decline in global commodity prices, especially that of crude oil (India imports ~85% of its oil requirement). Declining commodity prices, along with a stable currency, should likely keep inflation under check. While the pace of economic reforms in the past 18 months may have been slower than expected by market participants (who are often impatient), we firmly believe that the steps taken by the government are in the right direction. Various initiatives already taken by the government include the direct benefit transfer of subsidies (DBT), energy reforms, ease of doing business, attracting FDI, bank recapitalization etc.

Despite the 5% depreciation versus the USD in 2015, the INR has been one of the best performing currencies this year and since the lows of August 2013. We remain confident that the INR will exhibit stability, which should bode well for more foreign investments, both in equities and in fixed income. We see higher portfolio flows into Indian equities in 2016 versus 2015.

While there has been a significant improvement in the macro-variables (Current account deficit, fiscal deficit, IIP), this has not yet favourably impacted corporate earnings, which continue to be under pressure. This could be attributed to lower rural demand (poor monsoons), cross currency headwinds, pressure on global cyclicals and the delay in the revival of the investment cycle. We expect corporate earnings to see a pick up in the first half of CY2016, led by domestic cyclicals and interest rate sensitive sectors. Medium term risks for markets include geopolitical tensions, possible increase in crude oil prices as a result and a global growth slowdown.

Having said that, we believe that India is at an inflection point. A strong pick up in corporate earnings growth in FY2017, full transmission of lower interest rates and expanding return on equity (ROE) for corporate India makes us very optimistic about the outlook for Indian equities in the medium term.

DEBT OUTLOOK – Suyash Choudhary (Head, Fixed Income - IDFC AMC)

The underlying global trends that marked 2015 seem likely to continue into 2016, although with varying intensity. Thus the world remains woefully short of growth drivers and global central banks are fast running out of policy tools. Some investors believe that commodities have fallen too far and some feel more is in store. Either way what can perhaps safely be deduced is that at least the commodity super cycle linked clearly to China's investment boom seems to be over. If the Fed rate trajectory surprises market expectation in terms of its hawkishness thereby leading the dollar and US rates further higher, then this will accentuate the squeeze on commodities and global leverage. On the other hand if, in light of the weak global environment, the Fed is more dovish then this may serve to ease the pressure valve for a bit. An added source of uncertainty is China's public policy and especially its approach to the yuan. If yuan depreciation continues then it may serve to further intensify the global squeeze.

India's status as a relative safe haven amongst emerging market peers should likely continue. This is courtesy the fact that our macro dynamics remain strong and public policy, both RBI and government, are well anchored. However, there is incremental pressure to address growth in light of the absence of global demand drivers and the fact that some policy sources of growth impetus, most notably the GST, have been largely thwarted in the near term. Fiscal management in the year ahead will need to be deft since on the one hand the government needs to keep capital spending intact while on the other there are additional asks on resources from Pay Commission as well as higher pensions. That said, the government remains committed to a broad road map of quality fiscal consolidation; a fact that has been bought into by RBI Governor Rajan and which helped provide him comfort to deliver 125 bps rate cuts through the year.

Given stable inflation and external account, a compressing fiscal deficit, an accommodative central bank, and a weak global growth environment, the outlook for interest rates remains bullish. Within this, however, we believe that the trend for curve steepening is likely to persist over 2016 as well. This means that the 'front end' rates (loosely defined as 1 – 8 year bonds) will continue to attract market attention whereas the back end rates may remain more sluggish, at least till a time that the RBI moves decisively to balance the demand supply equation. Investors must also remember that the true steepness in the curve is in these front end rates versus the overnight rate of 6.75%. This is almost 100 bps. Whereas, the spread between here and the back end is still only around 20 – 30 bps. This provides a strong opportunity for investors both to play 'roll down' as well as to benefit from outright mark to market gains in a benign interest rate environment; especially as the demand supply dynamics for front end rates is quite favorable. For instance less than 20% of government borrowing happens in this sector of the yield curve.

The other theme that we think is very important for fixed income investors in the current macro environment, is a sharp focus on ensuring superior credit quality on investments. The environment is continually pressuring debt service capabilities for a host of companies that are facing lower revenue realizations and elevated debt servicing costs. A fall in interest rates doesn't necessarily benefit many of these companies since lenders mark up the credit spread on loans given in light of deteriorating financials. It is a fact that borrowing costs have gone up for many companies in 2015 even as RBI has cut rates by 125 bps. The other problem with credit risk is that the market for it in India is almost completely illiquid. This disallows either dynamic management of the risk by buying and selling or adequate price discovery.

Did you know?

The 2016 calendar is exactly the same as the 1994 calendar with days and dates, including festivals.

Cartoon of the Month

Top Personal Finance News – December 2015

1) **Single scheme shouldn't form more than 40% of a portfolio: Mint** Click here

2) **How to buy a suitable term insurance plan: Economic Times** Click here

3) **Equity investors: Do you know your rights?: Economic Times** Click here

4) **No tax on shares received as gift but sale proceedings taxable: Mint** Click here

5) **How important is your mutual fund manager?: Economic Times** Click here

6) **Tax-saving tools to reap maximum benefits: Financial Express** Click here

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8) **Home insurance can make life less painful amid calamities: Financial Express** Click here

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10) **5 reasons lenders can withhold loan disbursement after sanctioning: Financial Express** Click here

11) **Factor in inflation when saving for future financial goals: Mint** Click here

12) **What does dividend from mutual funds really mean?: Economic Times** Click here

13) **How to rebalance one's portfolio in a falling interest rate environment: Economic Times** Click here

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