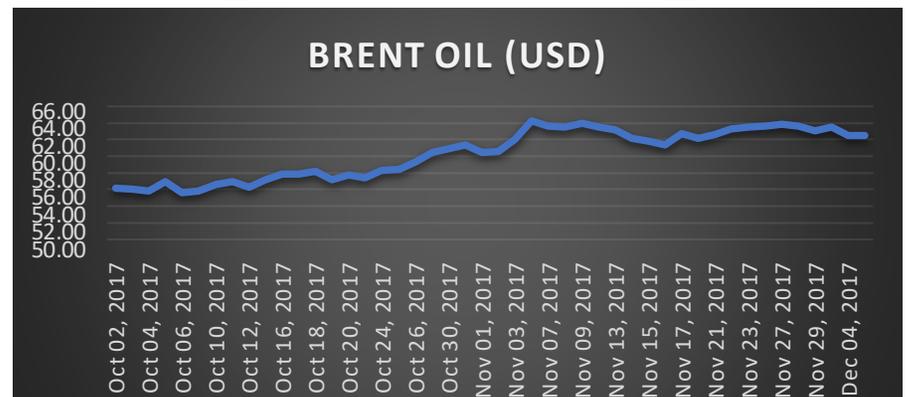
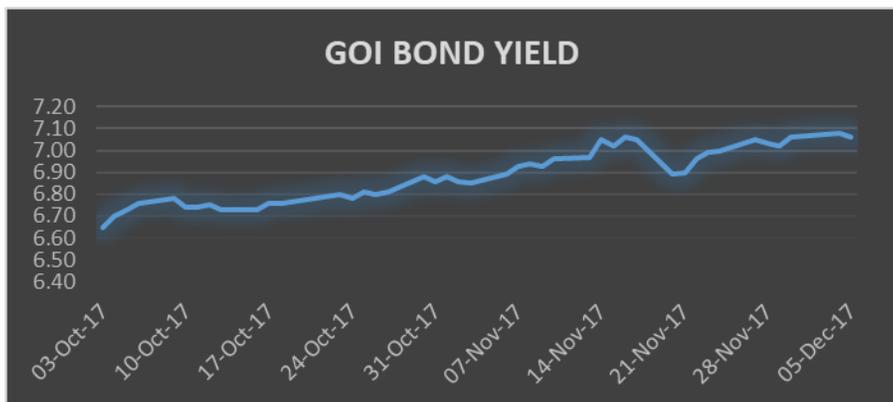




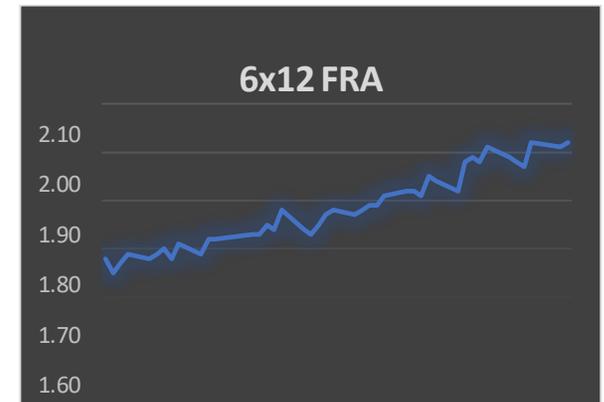
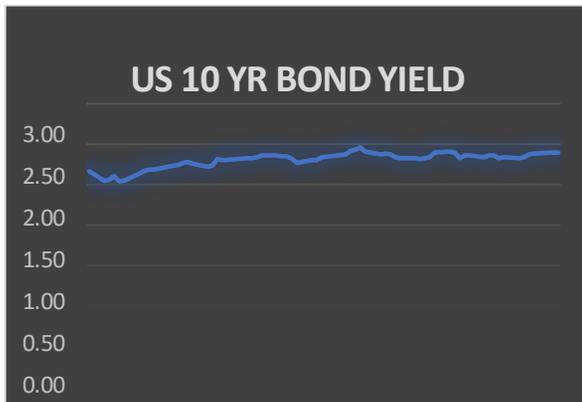
As we approach towards the end of 2017 and beginning of the New Year the potential market turbulence that can be caused in the current month is enormous. Conventionally, during Christmas and New Year time trading activities gets light and market moves in a narrow band. But, this year in December financial markets (both domestic and global) are likely to get extremely volatile and wild. We have five major data/events lined up for this month (refer below).

DATE	TIME (IST)	EVENT	CUR	MOST LIKELY OUTCOME	LEAST LIKELY OUTCOME
06-Dec-17	02.30 PM	Fifth Bi-monthly Monetary Policy Statement (RBI)	INR	NO RATE CUT	25 BASIS CUT
14-Dec-17	12.30 AM	Federal Funds Rate (FOMC)	USD	RATE HIKE TO 1.25 - 1.50 %	NO HIKE
14-Dec-17	05.30 PM	Official Bank Rate (BOE)	GBP	NO RATE HIKE	25 BASIS HIKE
14-Dec-17	06.15 PM	Minimum Bid Rate (ECB)	EUR	NO RATE HIKE	25 BASIS HIKE
18-Dec-17	07.00 PM	Gujarat & Himachal Pradesh Election Result	INR	BJP WINNING BOTH STATES	BJP LOOSING BOTH STATES

Today, we start with monetary policy statement by RBI. It's almost certain that there will be no rate cut. Inflationary pressures have been increasing since the last couple of months. CPI (YoY) (Oct) touched a 7-month high of 3.58% whereas WPI (YoY) (Oct) stood high at 3.59 % against a forecast of 3.01 %. There is a significant boil in the oil as well. The Indian basket of crude oil prices (an index that represents India's average buying costs) climbed about 15 % to more than \$62 a barrel in the past 6-8 weeks. Rising crude is certainly not good news for India. Concerns over potential fiscal slippage, moderation of foreign portfolio flows into debt and a possibility of further rise in crude prices is having an impact on the fiscal parameters putting pressure on government bond yields. Can see in the below chart how the GOI 10 YR yield has spiked up from 6.65 % to 7.10 %. A jump of 0.45 percentage point in the last two months. Brent has gone up from about \$55.50 to \$65 in the same time period. GST council of India on November 10th revised the tax rates on around 178 items. Reduced the GST from 28 % to 18 % on these items. These factors are going to add up to the inflationary pressures in the near term limiting any scope for a Repo rate cut.



On 14th December we have FOMC, BOE and ECB meetings, rate decisions and statements. Fed is most likely (>95%) to hike the rate to 1.25 - 1.50 % range. It's also likely to continue to unwind its record policy stimulus plan next year as growth prospects brighten for US. In a second estimate U.S. GDP expanded by 3.3% in the third quarter, compared to an initial reading of 3.0%. If we analyse closely the US bond yield, 6 Months US LIBOR and US Forward Rate Agreement (FRAs) data for the past few months it's giving a clear indication of a rate hike by Fed later this month. US 10 year yield touched a low 2.04 % on 7th September and tested a high of 2.40 % on 4th December. Six Months US LIBOR has risen from 1.50 % (on 3rd Oct) to now 1.69 % whereas 6x12 FRA has spiked from 1.75 % (4th Oct) to now 2.02 %.



Both Bank of England and ECB are expected to maintain status quo in their upcoming meeting. Bank of England raised interest rates for the first time in a decade on 2nd November, 2017. BOE's Monetary Policy Committee voted 7-2 to increase the benchmark rate to 0.50 % from 0.25 %. As of now Brexit negotiations remains difficult and uncertain. Prime Minister Theresa May failed to conclude a deal this week to open talks on post-Brexit free trade with the European Union. These factors will force BOE to hold the rates. For the ECB, although

Investment flows into European assets have picked up and growth prospects have brightened considerably in the final weeks of the year but it's highly unlikely that these factors will prompt them to raise rates in their upcoming meeting.

Back home, most likely, BJP will win both Gujarat and Himachal. But some of the latest opinion polls are suggesting a close contest in Gujarat giving anxious moments (it's not at public display but it's there) to the BJP as well as to the Indian markets. Congress's recent alliances, Hardik Patel impact, BJP's weak state leadership, anti-incumbency are going to make fight tough for BJP this time. If, BJP, finds it difficult to reach 50% mark in Gujarat or settles just at majority it can raise the panic button for the Indian markets in the short term. Indian market is highly unprepared for a BJP loss in Gujarat and can go haywire in case this turns out to be true.

There are enough ammunition to blast the markets before we start the New Year. The data and events discussed above has the potential to undo whatever market has witnessed to far this year. Any surprises can pave an altogether new direction for the markets when we begin a brand New Year three weeks from now. In the end, we strongly recommend to remain partly hedged for near term.

Kushal Asthana

<https://kushalasthana.wordpress.com/>

Disclaimer: This document has been prepared by BIDASK CAPITAL CONSULTING and is meant for the recipient for use as intended and not for circulation. The information presented in this document is not an offer/recommendation to buy or sell securities/shares/bonds/currencies. Opinions expressed in this article are the independent views of the author(s). The information/opinions and analysis contained are collected from sources believed to be reliable, but no representation, expressed or implied, is made as to its accuracy, completeness or correctness. Neither BIDASK CAPITAL CONSULTING, nor any person connected with it, accepts any liability arising from the use of this document. Investors are urged to exercise their own judgment before investment as securities/bonds/shares/currencies discussed in this report may not be suitable for all investors. Investors must make their own investment decision based on their own investment objectives, goals and financial position and based on their own analysis.