

## DEBT MARKETS

- The preceding week witnessed release of the GDP figures for the first quarter of FY2018 (April-June 2017). GDP growth slipped sharply to 5.7% p.a. Expectations were for the growth to come in at 6.3%pa.
- The overhang effects of demonetization and destocking by economic agents in the wake of implementation of GST from July 2017 have been blamed for the relatively low GDP growth print. A relatively strong Indian Rupee may also have contributed by shrinking exports and boosting imports.
- North Korea conducted a nuclear test (its sixth) on Sunday, which it claimed to be a thermonuclear device capable of being loaded onto an ICBM. There were signs that the country was prepping a missile test too. This has dampened sentiment in markets across the world.
- The other significant news of the week was the long awaited cabinet reshuffle. The finance ministry now has two new ministers of state for finance after the incumbent Mr. Arjun Meghwal was moved out.
- The benchmark 10 year government bond closed the week trading at a yield of 6.49%, a drop of 5 basis points from the closing levels of the previous week.
- Yield on 10 year AAA PSU bond traded at approx.. 7.35%, indicating that spreads over gilts have remained relatively stable.
- One year CDs yielded about 6.45%, indicating a fall of 5 basis point in yield level from last week's close.

### Fund Manager Comments

GDP growth numbers were disappointing but this could be due to temporary reasons like destocking ahead of the GST implementation in June. There are signs that the strong Indian rupee is also hurting growth. Government has little fiscal headway in the rest of the year with the government already using up more than 90% of its annual target in the first four months. This places greater responsibility on the RBI and its monetary policy committee to act and aid growth. We could therefore see a reduction in policy rates in the next review meeting early in October.

### Yield Movement

- Yields on 10 year benchmark government bonds continue to trade in the range of 6.48% - 6.54%.



- Sensex and Nifty went up by 296 pts. (0.90%) and 117pts. (1.20%) to close at 31,892 and 9,974 respectively.
- India's central bank reported that 99% of the banknotes that were suddenly taken out of circulation last year under a demonetization programme had been cashed in at banks for new tender. That somewhat undermined the government's claim that the scheme would leave forgers and tax dodgers holding piles of useless rupees.
- India's real GDP growth slumped to 5.7% during the June 2017 quarter, its lowest since March 2014. The growth in consumption expenditure, measured by PFCE, slowed down to 6.7% from 8.4% in the year-ago quarter. Government continued to spend generously, recording a 17.2% growth in GFCE (Government final consumption expenditure). But, investment demand remained muted as depicted by the meagre 1.6% increase in Gross fixed capital formation (GFCF). Deterioration in external trade balance took a major toll on India's GDP in the June 2017 quarter. Trade deficit amounted to 3.2% of the GDP, as compared to 0.9% in the same quarter a year ago.
- The growth in output of eight core industries improved in July 2017 to 2.4% from 0.8% in June 2017. The growth, however, was lower than that recorded in July last year.
- India's gross fiscal deficit reached 92.4% of the budget estimates for 2017-18 in the first four months of the fiscal year itself. Deficit had amounted to 73.7% of the annual target at the same time last year.
- Russia's central bank stepped in to rescue Otkritie, the country's largest private lender, after a run on its deposits. It is the first time that one of the country's financial institutions deemed "too big to fail" has needed a bail-out.
- North Korea fired an unidentified ballistic missile over Japan on Tuesday, reigniting tensions with US. The missile landed about 1,200 km (745 miles) off Hokkaido in the Pacific Ocean, though there were no reports of damage. Japan's government said it didn't try to shoot it down. President Donald Trump dismissed any diplomatic negotiations via a tweet, saying "talking is not the answer".

## Taurus Benchmark Indices Movement

Indices	1/9/17	24/8/2017	Points change	% change
S&P BSE Sensex	31892.23	31596.06	296.17	0.94%
Nifty 50	9974.40	9857.05	117.35	1.19%
S&P BSE 100	10383.65	10237.18	146.47	1.43%
S&P BSE 200	4364.09	4294.72	69.37	1.62%
Nifty Free Float Midcap 100	18505.25	17963.95	541.30	3.01%

## Weekly FPI and MF net flows (₹ in crs.)

	Equity	Debt
FPIs (28/08/2017 - 01/09/2017)	300.12	2530.56
MFs (24/08/2017 - 30/08/2017)	4438.3	7820.50

Source : FPI - CDSL  
Source : MF - SEBI

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