

## DEBT MARKETS

### Domestic data:

- FY 2017 real GDP growth at 7.1% y-y against 8.0% in FY 2016; FY 2017 GVA growth at 6.6% against 7.9%
- Nominal GDP growth rises to 11.0% y-y from 9.9%, indicating that the slowdown in real GDP is primarily due to statistical impact of a higher deflator which would have been impacted by higher WPI inflation
- PFCE growth at 8.7% (6.1% in FY16), GFCE growth at 20.8% (3.3%), GFCF growth at 2.4% (6.5%) agriculture growth at 4.9% (0.7%), manufacturing growth at 7.9% (10.8%)
- Q4 FY2017 GDP growth eases to 6.1% y-y from 7.0% in Q3, GVA growth eases to 5.6% from 6.7%
- FY2017 fiscal deficit at INR 5.35tn (3.51% of GDP) against revised target of INR5.34tn (3.5%)

### Yield Movement

The 10 year AAA bond ended at 7.55% as compared to 7.65% in previous week. The 1 year CD yield was seen trading at 6.84% as compared to 6.73% in previous week.

### Liquidity

The weekly average surplus improved at ~₹3.6 tn for the week ending Jun 3 compared to ₹3.3 tn for the week

ending May 26. Meanwhile, the government continued to utilize the WMA to the tune of ₹349bn as on May 26, similar levels as last week. The continuation of cash shortfall has been prompting RBI to issue more CMBs. After a 77-day CMB issuance last week, RBI has again conducted a 63-day CMB issuance to the tune of ₹300bn today. The government seems to be frontloading expenditure and spending aggressively to send the fiscal impulse rolling through rest of the year. Meanwhile, the average overnight funding rates for the week inched higher by about 20bps to 6.07%. While maintaining the uptrend, the pace of weekly increase in currency in circulation (CIC) seems to be settling at a significantly lower pace. CIC for the week ending May 26 increased by mere ₹59 bn to ₹14.88 tn.

### Fund Manager Comments

The market sentiments improved significantly post the weaker-than expected GDP report, which reinstated weaker growth outlook. The softening bias of UST 10-yr yield and weak crude prices helped further at the margin. The benchmark 10-yr paper yield eased 2.5bps WoW. There is hope that RBI policy tone will soften owing to weaker inflation and growth prints. We have key global events this week that markets will keep a watch on: the ECB policy, UK elections, James Comey's testimony about Trump's confrontation.

### Market Indicators as on 2nd June, 2017

	2-Jun-17	26-May-17	change
USD/INR	64.44	64.45	0.02%
Brent Crude Oil (\$/bbl)	49.95	52.15	-4.22%
Gold (\$/oz)	1,279.17	1,266.76	0.98%
CBLO (Average)	6.09%	5.85%	+ 24 bps
10-year G-Sec(GOI) 6.97 2026	6.75%	6.79%	- 4 bps
10-year AAA PSU(Ind)	7.62%	7.65%	- 3 bps
US 10-year Gilt	2.16%	2.25%	- 9 bps

Source: Bloomberg

### Weekly Statistical Supplement ( INR Bn)

	26-May-17	19-May-17
Reserve Money (INR bn)	19694	19826
YoY Growth %	-8.67%	-9.35%
Currency in Circulation	14878	14819
Forex Reserves (USD bn)	378.8	379.3

Scheduled Commercial Banks	12-May-17	YoY Growth %
Deposits	106417	12.1%
Credit	76286	5.6%
	12-May-17	13-May-16
Incremental Credit/Deposit YTD %	183.9%	-15.2%

Source: RBI (Amount in bn)



The BSE 30 Share Sensex increased by 245.08 points or 0.79% to settle at 31,273.29 in the week ended Friday, 02nd June 2017. The S&P Nifty increased by 58.40 points or 0.61%, to settle at 9,653.50 in the week. Market posted fourth consecutive weekly gain, with BSE Sensex ending new closing highs at 31,273.29 and the broader Nifty settling at record closing peak at 9,653.50.

Early onset of monsoon hitting Kerala and North East led the investor optimism during the week session, in the absence of major triggers as overseas markets largely closed for public holidays. Sentiments underpinned by optimism on growth and sustained domestic liquidity inflows lifted the key indices record breaking spree.

India's GDP slowed sharply to 6.1% in Q4, led by slowdown in construction and manufacturing. Financial services and real estate sector also slowed sharply to 2.2%. Growth was led by Agriculture and Government spending. The positive impact of higher IIP growth and lower WPI in the base revision of these indicators are clearly missing in the released numbers. The numbers clearly shows the adverse impact of demonetization (apparent in manufacturing, construction and finance and real estate). For FY17, GVA/GDP came in at 6.6%/7.1% compared with 7.9%/8.0% in the previous year. Construction, Finance and real estate have been the major reason for slower growth in GDP.

Eight Core sector growth slowed to 2.5% from 5.3% in the previous month. Coal, Crude, Cement contracted -3.8%, -0.6% and -3.7% respectively. Steel production grew 9.3%, Fertilizer 6.2% and Electricity 4.7%. In the new base core sector has 40.3% weight in the Industrial production index.

Manufacturing sector activity cooled to a three-month low in May despite an upturn in factory orders, according to a monthly survey. The Nikkei Market India Manufacturing Purchasing Managers' Index (PMI) fallen to 51.6 in May from 52.5 in April. Despite being above the no-change mark of 50, the PMI was the lowest in three months, but indicated expansion for the fifth straight month. A reading above 50 on the index denotes expansion, while that below indicates contraction.

The U.S. Commerce Department said that the U.S. trade gap in goods and services climbed 5.2% to \$47.6 billion in April from March. Exports dropped 0.3% to \$191 billion, pulled down by a drop in automotive exports. Imports rose 0.8% to \$238.6 billion as Americans bought more foreign-made cellphones and other consumer goods. The US trade deficit is running 13.4% higher through the first four months of 2017 compared to the same period a year earlier. The trade gaps with China and Mexico have risen while the gap with Germany has only fallen slightly.

## Taurus Benchmark Indices Movement

Indices	2/6/17	26/5/2017	Points change	% change
S&P BSE Sensex	31273.29	31028.21	245.08	0.79%
Nifty 50	9653.50	9595.10	58.40	0.61%
S&P BSE 100	9971.63	9903.68	67.95	0.69%
S&P BSE 200	4190.49	4153.07	37.42	0.90%
Nifty Free Float Midcap 100	17769.65	17586.45	183.20	1.04%

## Weekly FPI net flows (₹ in crs.)

	Equity	Debt
FPIs (29/05/2017 - 02/06/2017)	-614.44	5305.49

Source : FPI - CDSL

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