

DEBT MARKETS

- RBI's monetary policy committee, in a 5-1 decision, voted to increase policy interest rates by 0.25% while reiterating the overall policy stance as "neutral".
- With this increase RBI's repo rate now stands at 6.50%. The reverse repo rate stands at 6.25% and the Marginal Standing Facility is available at 6.75%
- Inflation for the second half of FY 2018-19 has been projected at 4.8% (4.7% previous). Inflation for the first quarter of FY 2019-20 is projected at 5%.
- Growth projection for FY 2018-19 was maintained at 7.4%. Growth in Q1 of FY 2019-20 is projected at 7.5%.
- India's eight-core sector output grew by 6.7% in June compared to 4.3% a month ago led by sequential momentum in sectors including cement, refinery products and fertilizers.
- Fiscal deficit for Apr-June 2018 period came in at Rs 4.29 Lakh Cr (68.7% of Budget Estimate (BE) of FY 2018-19). Total revenues stood at Rs 2.78 Lakh Cr (15.3% of BE), while fiscal spending stood at Rs 7.07 Lac Cr (29% of BE).

- The total gross GST revenue collection in the month of July 2018 stood at a four month high of Rs 96,483 Cr, still short of the targeted Rs. 100,000 crores mark though.

Yield Movement

- The benchmark 10 year government bond closed the week trading at a yield of 7.76%, lower by 1 basis point from the closing levels of the previous week.
- Yield on 10 year AAA PSU bond traded at approx. 8.50%, a fall of 5 basis points from the previous week.
- One year CDs yielded about 7.95%, lower by 5 basis points over the week.

Fund Manager Comments

The markets have largely taken the rate hikes by RBI in their stride. However, higher inflation projections for future more or less precludes any rate reductions. Bonds may continue to trade in a range in the immediate future. Inflation prints for the month of July, due next week, may set the immediate short term trend



EQUITY MARKETS

- Sensex and Nifty went up by 219 pts. (0.60%) and 82 pts. (0.70%) to close at 37,556 and 11,361 respectively.
- The MPC of the Reserve Bank of India increased the repo rate by 25 basis points to 6.5%, as it remained concerned about rising inflation. Though the prices remained below its estimated trajectory, the RBI has forecast retail inflation at 4.6% in the Q2 FY19, 4.8% in the H2 FY19 and 5% for the Q1 of 2019-20. The early announcement of inflation projection for the next financial year indicated that there could be more risk to its the medium-term target for CPI inflation of 4% within a band of +/- 2 %, though the RBI has a Neutral stance with intention of keeping itself ahead of the curve. We think that with MPC's assessment of output gap virtually closing, any rise in inflation (beyond projected) in the coming months due to sticky crude prices, MSP hike, fiscal slippage, staggered impact of HRA revision by states etc, could push the committee into hiking rates further. At this point we factor in one more rate hike in FY19.
- The Federal Reserve kept its benchmark interest rate on hold at its policy meeting. But with the American economy growing by an annualised rate of 4.1% in the second quarter, its best performance since the middle of 2014, the Fed is widely expected to increase rates in September. The Bank of England raised its main rate for the first time since November (and only the second time since 2007) by a quarter of a percentage point, to 0.75%.
- Diverging from other central banks that have moved to unwind their stimulus programmes, the Bank of Japan said it was committed to keeping interest rates "extremely low" for the foreseeable future, and pledged to continue buying bonds. The central bank's governor said the forward guidance should "counter speculation... that the bank is heading towards an early exit or an increase in rates".
- Prime Minister Narendra Modi on Sunday launched 81 investment projects worth over Rs. 600 billion (Rs 60,000 crore) for Uttar Pradesh at a mega ground-breaking event.
- Monsoon on the other hand seems to have taken a back seat with most areas seeing below normal monsoon except for east and north-east regions.
- Meanwhile, India's fiscal deficit reached 68.7% of its Fy19 target, at USD 62.57 bn in the April-June quarter. Eight core sectors expanded to a 7-month high of 6.7% in June, as against 4.3% in May. The growth was led by strong performance in cement, coal and refinery sectors.
- GDP in the euro zone expanded by 0.3% in the second quarter compared with the previous three months. That was the slowest rate of growth by that measure in two years, raising concerns that the prospect of an escalating trade war with America might be hurting the region's exports.

Taurus Benchmark Indices Movement

Indices	3/8/18	27/7/2018	Points change	% change
S&P BSE Sensex	37556.16	37336.85	219.31	0.59%
Nifty 50	11360.80	11278.35	82.45	0.73%
S&P BSE 100	11633.83	11535.04	98.79	0.86%
S&P BSE 200	4880.15	4834.01	46.14	0.95%
Nifty Midcap 100	19112.70	18781.45	331.25	1.76%

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

	Equity	Debt
FPIs (30/07/2018 - 03/08/2018)	490.83	3383.05
MFs (26/07/2018 - 01/08/2018)	-2576.52	-18777.75

Source : FPI - CDSL
Source : MF - SEBI

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