

DEBT MARKETS

- Finance Minister, Nirmala Sitharaman presented the full union budget for financial year 2019-20 in Parliament on Friday.
- The budget envisages a fiscal deficit of approx. INR 7 trn, which is estimated to translate to 3.3% of GDP. This is lower than the 3.4% deficit figure envisaged in the interim budget presented by the previous regime in February earlier this year. The government has decided to stick to its path of fiscal consolidation in spite of the signs of an economic slowdown.
- Amongst the budget announcements, was the decision by the government to partly borrow from abroad. This would mean that the government is likely to float a foreign currency denominated bond issue. This would be a first and a departure from the current policy of borrowing domestically, predominantly.
- While borrowing abroad may help the government control its interest costs in the short term, we hope that this borrowing is kept to a bare minimum. Dependence on foreign currency borrowings have led to serious economic crises in several countries and we should be wary of that.
- The domestic bond market cheered the announcement of the government's decision to borrow abroad. Benchmark 10 year govt bond yields fell to as low as 6.6% before retracing a bit.

Yield Movement

- The benchmark 10 year government bond closed the week trading at a yield of 6.69%, lower by about 17 basis points than the yield levels witnessed last week. Mid week, the yield on the benchmark bond had fallen below 6.60% too.
- Yield on 10 year AAA PSU bond traded at approx. 8.50%, unchanged from the previous week.
- One year CDs yielded about 7.20%, 5 bps lower than the closing levels of previous week.

Fund Manager Comments

Borrowing in foreign currency is a double edged sword and it would be prudent for the government to keep such borrowings to a minimum, in order to avoid sowing the seeds of a currency crisis in future. For the time being though, domestic bond markets are likely to cheer this move as it would lead to lower supply of govt bonds in the domestic market. Benchmark 10 year govt bond yields may likely move to the next psychologically important level of 6.50%.



EQUITY MARKETS

Sensex and Nifty went up by 119 pts. (0.30%) and 22 pts. (0.20%) to close at 39,513 and 11,811 respectively.

The gross tax to GDP ratio declined to 10.9 per cent in 2018-19 as indirect tax revenues fell short of budget estimates by about 16 per cent, due to shortfall in Goods and Services Tax (GST) mop up, the Economic Survey said.

Giving a major boost to the farmers' income, the Cabinet Committee on Economic Affairs chaired by Prime Minister Narendra Modi has approved the increase in the Minimum Support Prices (MSPs) for all kharif crops for 2019-20 season. The move will lead to increased investment and production through assured remunerative prices to the farmers.

Sensex and Nifty fell after Finance Minister Nirmala Sitharaman proposed increasing the minimum public shareholding in listed companies to 35% from 25%,

threatening a wave of new issuance. She said the government has asked the Securities and Exchange Board of India to consider the proposal, but did not give many other details.

India likely planning to sell sovereign bonds overseas by leveraging its relatively lower external debt exposure, likely freeing up local cash pools. At less than 5%, India's sovereign external debt to GDP is among the lowest globally.

The US and China declared a truce in their trade war with President Donald Trump saying he would hold off imposing an additional \$300 billion in tariffs. The two largest economies also agreed to resume negotiations. However, there is still uncertainty among investors if a meaningful agreement can be reached in the second half of the year.

Taurus Benchmark Indices Movement

Indices	05-07-19	28-06-19	Points change	% change
S&P BSE Sensex	39513.39	39394.64	118.75	0.30%
Nifty 50	11811.15	11788.85	22.30	0.19%
S&P BSE 100	11926.02	11909.67	16.35	0.14%
S&P BSE 200	4929.61	4926.59	3.02	0.06%
Nifty Midcap 100	17529.70	17654.10	-124.40	-0.70%

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

	Equity	Debt
FPIs (01/07/2019 - 05/07/2019)	-3710.21	3234.65
MFs (27/06/2019 - 03/07/2019)	-244.77	11959.03

Source : FPI - CDSL

Source : MF - SEBI

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