

DEBT MARKETS

- RBI's monetary policy committee surprised markets by keeping policy interest rates unchanged. Consequently, the repo rate stays at 6.50% and the reverse repo rate at 6.25%. However, the policy stance has been changed from "neutral" to "calibrated tightening". The changed policy stance effectively takes the option of a rate cut in the near future off the table.
- Surprisingly, the RBI's projection for inflation has also been revised downwards, with excessively benign food inflation driving this. Inflation is projected to be at 4% in Q2 FY 2018-19 (4.6% estimated previously), 3.9%-4.5% in H2 FY2018-19 (4.8% estimated previously) and 4.8% in Q1 FY2019-20 (5% prev).
- India's eight-core sector output grew by 4.2% in August compared to 4.4% a year ago led by uptick in production of natural gas, steel and electricity.
- The Reserve Bank of India announced that it would conduct liquidity infusion through the means of open market purchase of securities (OMOs) to the extent of INR 36,000 crores, in the month of October.

Yield Movement

- The benchmark 10 year government bond closed the week trading at a yield of 8.02%, unchanged from the closing levels of the previous week. However, it had hit an intra week high of 8.20% as there were expectations of an interest rate hike.
- Yield on 10 year AAA PSU bond traded at approx. 8.85%, relatively unchanged from the previous week.
- One year CDs yielded about 8.50%, up by 10 basis points over the previous week.

Fund Manager Comments

The decision to keep interest rates unchanged shows that the central bank remains unperturbed by the weak Indian rupee relative to the US dollar. Inflation management remains the central tenet of monetary policy. The lack of a rate hike this time around increases the chances of a rate hike in the future, especially in view of the changed stance of calibrated tightening, and this will keep marketmen wary.



EQUITY MARKETS

Sensex and Nifty went down by 1,850 pts. (-5.10%) and 614 pts. (-5.60%) to close at 34,377 and 10,316 respectively. Markets started the holiday truncated week on an optimistic note supported by positive macroeconomic data like Mfg PMI and GST collection. However negative macro data like services PMI, core sector growth, crude and Rupee movement. Final blow came with RBI keeping repo rate unchanged against expectation. ILFS saga too played on market mood.

MPC committee has surprised by keeping Repo rate unchanged at a time when there was a clear case to hike Repo by 25 basis to raise real interest rates. While the mandate of the MPC committee is purely inflation targeting, we would have been more comfortable if RBI had taken measures to calm the currency and financial markets. B&K estimate for H2 inflation is 4.5-4.75% (around 30 basis higher than RBI's estimate) keeping in mind weak INR, rising crude and fading away of favorable base. B&K estimate for GDP is same as RBI at 7.4%. We expect RBI to hike rates by 25-50 bases in the rest of the fiscal year.

The Reserve Bank of India (RBI) said it would buy Rs 360 billion worth of bonds from the secondary market in October to meet the durable liquidity needs and the seasonal growth in currency in circulation observed in the build-up to the festive season. The auctions will be conducted during the second, third, and fourth weeks of October. This durable liquidity infusion will aid bond yields (we expect 10-15 basis reduction). Also, lower Gross borrowing in FY19 (of Rs 700bn), with

unchanged Net borrowing shows the commitment of GOI to stick to fiscal deficit (3.3%). The lower borrowing is likely to be met through higher proceeds from Small Savings and Govt buy backs.

On Friday, shares of Oil marketing companies (OMCs) including HPCL, BPCL and IOC tanked 25+%, after government announced excise duty cut on petrol and diesel by Rs 1.50, while OMC will absorb Re 1 cut. Total benefit to customers on petrol & diesel prices is Rs 2.50/litre. This is the first time in over four years that prices of either petrol or diesel are being controlled. The announcement comes after fuel prices have been consistently hitting record highs since mid-August. FM Jaitley estimates that the excise duty cut would have an impact of Rs 10,500 crore on central government's tax revenues. The Central government charges Rs 19.48 excise duty on a litre of petrol and Rs 15.33 on diesel.

The government announced the Minimum Support Price (MSP - a form of government intervention that guarantees base prices) for the major winter crops earlier this week. The timing of the announcement raised eyebrows: prices are typically set in November, and this year the announcement followed a large farmer protest in Delhi. But in the event, the government resisted the temptation to implement big hikes ahead of next year's general election. The MSP hikes for winter crops will average about 6% in 2019, roughly in line with the increases of the last few years.

Taurus Benchmark Indices Movement

Indices	5/10/18	28/9/2018	Points change	% change
S&P BSE Sensex	34376.99	36227.14	-1850.15	-5.11%
Nifty 50	10316.45	10930.45	-614.00	-5.62%
S&P BSE 100	10538.49	11140.99	-602.50	-5.41%
S&P BSE 200	4384.66	4631.60	-246.94	-5.33%
Nifty Midcap 100	16299.75	17154.35	-854.60	-4.98%

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

	Equity	Debt
FPIs (01/10/2018 - 05/10/2018)	-7094.20	-2260.78
Mfs (27/09/2018 - 03/10/2018)	5404.2	10901.71

Source : FPI - CDSL
Source : MF - SEBI

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