

DEBT MARKETS

- RBI's monetary policy committee (MPC) met this week to decide on policy interest rates and other measures. The committee voted 5-1 to make no changes to the policy interest rate, the repo rate. Additionally, other policy tools like CRR and SLR were also kept unchanged. The repo rate remains unchanged at 6% while the reverse repo rate stands at 5.75%
- The MPC also moderated its inflation projection for the first half of financial year 2018-19 to 4.7%-5.1% from the earlier projected 5.1% - 5.6%. The projection for the second half of the financial year has also been lowered to 4.4% from the earlier 4.5%-4.6%.
- GDP projection for FY19 has been put at 7.4% while the GDP for FY18 is estimated at 6.6%.
- The limits for foreign portfolio investors (FPIs) has also been increased by approx.. 1 lakh crores to 6.45 lakh crores for the new financial year. This increase has been split half and half between the first and second half of the financial year.

Yield Movement

- The benchmark 10 year government bond closed the week trading at a yield of 7.17%, closing 23 basis points lower over closing levels of the previous week.
- Yield on 10 year AAA PSU bond traded at approx. 7.84%, indicating that spreads over gilts have widened by about 7 basis points.
- One year CDs yielded about 7.15%, indicating a 20 basis points fall in yields over the week.

Fund Manager Comments

The relatively dovish outlook on inflation put out by RBI's MPC gave a fillip to bond prices and yields fell sharply. At one stage the benchmark 10 year government bond traded at a yield close to 7.10%. However it gave up some gains towards the close of the week. The immediate outlook for bonds is that it is likely to trade in a range after having digested the relatively good news of lower government borrowing in the first half and lower inflation projections by RBI.



Sensex and Nifty went up by 658 pts. (2.00%) and 218 pts. (2.20%) to close at 33,627 and 10332 respectively.

In response to proposed American duties on its high-tech goods, China responded to US President Donald Trump by levying an additional 25 percent tariff on imports of 106 US products (\$50 billion of US imports) including soybeans, automobiles, chemicals and aircraft. The step ratchets up tension in a brewing trade war between the world's two largest trading nations, with the Trump administration's latest offensive based on alleged infringements of intellectual property in China.

The Reserve Bank of India (RBI) adopted a remarkably dovish tone. In the monetary policy for 2018-19, Repo rate unchanged at 6.0%, Reverse Repo unchanged at 5.75%, MSF and Bank Rate at 6.25%, CRR unchanged at 4.0%, SLR at 19.5%. The central bank lowered its inflation projection for Q4 FY18 to 4.5% from 5.1%. For FY19, inflation projection is lowered to 4.4%-4.7% in H1 and 4.4% in H2 (earlier 5.1-5.6% in H1 and 4.5%-4.6% in H2), but flagged risks on the upside on the revised numbers. The decision of the MPC is consistent with neutral stance of monetary policy in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4% within a

band of +/- 2%, while supporting growth. GDP is projected to grow at 7.4% in FY19 from 6.6% in FY18 (The range is 7.3%-7.4% in H1 and 7.3%-7.6% in H2) with risks evenly balanced.

Eight core infrastructure sectors expanded by 5.3% in Feb. Sectors which led growth were Cement, Steel, Electricity, Fertilizers, Refinery Products with growth of 22.9%, 5.0%, 4.0%, 5.3%, 7.8% respectively. Coal output was 1.4% while Crude oil contracted 2.4% and Natural gas contracted 1.5%. YTD growth in core sector is 4.3%.

Direct tax collection has grown by 18% to cross Rs 10.02 trillion in the financial year ended on March 31, 2018. The number of income tax returns filed rose to 68.4 million during 2017-18, compared to 54.3 million filed in 2016-17. This represents a 26% growth in filing of ITRs.

Manufacturing activity remained in the positive for the eighth consecutive month in March but fell to a five-month low. The Nikkei India Manufacturing Purchasing Managers' Index (PMI) fell from 52.1 in February to 51.0 in March. This, coupled with a weak outlook ahead to scale down its growth projection from 7.4% to 7.3% for 2018-19.

Taurus Benchmark Indices Movement

Indices	6/4/18	28/3/2018	Points change	% change
S&P BSE Sensex	33626.97	32968.68	658.29	2.00%
Nifty 50	10331.60	10113.70	217.90	2.15%
S&P BSE 100	10755.18	10502.61	252.57	2.40%
S&P BSE 200	4550.84	4432.62	118.22	2.67%
Nifty Midcap 100	19519.25	18757.00	762.25	4.06%

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

	Equity	Debt
FPIs (03/04/2018 - 06/04/2018)	94.48	3706.46
MFs (02/04/2018 - 04/04/2018)	900.54	20666.90

Source : FPI - CDSL
Source : MF - SEBI

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