

## DEBT MARKETS

- Bond yields remained rangebound as the market mood remained relatively subdued.
- The union cabinet gave its approval to the revised minimum support prices (MSP) for agricultural produce which guarantees farmers prices that are 150% of their cost.
- Higher MSP has led to some apprehension that this could affect the fiscal situation. However, given that the decision to hike MSP had already been factored in the union budget should, largely, allay this apprehension.
- Manufacturing purchase managers index (PMI) for May came in at 53.1 compared to 51.6 for April. This reinforces the belief that the wheels of the economy are turning at a fair clip.

### Yield Movement

- The benchmark 10 year government bond closed the week trading at a yield of 7.87%, lower by 3 basis points from the closing levels of the previous week.
- Yield on 10 year AAA PSU bond traded at approx. 8.60%, compared to the 8.65% levels witnessed in the previous week. With gilt yields also lower by 3 bps, this indicates that credit spreads remained relatively stable in this segment.
- One year CDs yielded about 8.15%, indicating a 5 basis points rise in yields over the week.

### Fund Manager Comments

Inflation data will be released in this week and that would set the immediate trend on bond prices. A higher print could lead to a mild sell off.



## EQUITY MARKETS

Sensex and Nifty went up by 234 pts. (0.70%) and 58 pts. (0.50%) to close at 35,658 and 10,773 respectively.

Core sector growth slowed to 3.6% in May from 4.6% in the previous month. Coal, refinery products, Fertilizers, Cement and Steel grew by 12.1%, 4.9%, 8.4% 5.2% and 0.5% respectively while Crude oil and Natural gas contracted 2.9% and 1.4%.

The Government announced MSP prices for Kharif season 2018-19. The hike in Paddy is 12.9% while for other grains and pulses it varies between 4.0% to 52.0%. The actual impact will depend on how much it actually results in rise in market prices. Most oilseeds are imported and if Government procures at MSP price, it will result in higher inflation. Fiscal impact of hike in Paddy MSP is likely around Rs 70mn (based on FCI purchase in FY18). Impact on fiscal of hike in Pulses and Oilseeds and Coarse cereals, will depend on the quantum actually purchased by Government and the cost sharing, if any, with the states. MSP hike is likely to raise purchasing power in Rural areas and hence will be positive for sectors with predominant sales in the area (Normal monsoon assumed)

Foreign direct investment in India slowed in FY18, recording a five-year low growth of 3% to \$44.85 billion in financial year 2017-18. Foreign inflows in the country grew 8.67% in 2016-17, 29% in 2015-16, 27% in 2014-15, and 8% in 2013-14, according to latest data released by the Department of Industrial Policy and Promotion. FDI inflows recorded a negative growth of 38% in 2012-13.

Activity in India's service industry rebounded in June from a mild contraction the prior month, expanding at its quickest pace in a year on the back of a surge in new business orders. Services PMI for June climbed to 52.6, recovering from the marginal contraction of 49.6 in May. Euro zone factory growth slowed to an 18-month low in June, slipping for the sixth month in a row amid widespread concerns about trade barriers and their impact on overall economic activity. IHS Markit's June final manufacturing Purchasing Managers' Index slipped to an 18-month low of 54.9 from May's 55.5. The output index fell to 54.2 from 54.8 in May, its lowest since November 2016. Growth in China's manufacturing sector cooled slightly in June as firms faced rising input costs and a decline in export orders amid an escalating trade dispute with the United States. The Caixin/Markit Manufacturing Purchasing Managers' index (PMI) declined to 51.0 in June from May's 51.1.

The United States and China slapped tit-for-tat duties on \$34 billion worth of the other's imports on 6th July, with Beijing accusing Washington of triggering the "largest-scale trade war" ever in a sharp escalation of their months-long conflict. President Donald Trump upped the ante, warning that the United States may ultimately target over \$500 billion worth of Chinese goods, or roughly the total amount of U.S. imports from China last year. China retaliated by imposing tariff of 25% on \$34 billion worth of imported U.S. goods including autos and agricultural products.

### Taurus Benchmark Indices Movement

Indices	6/7/18	29/6/2018	Points change	% change
S&P BSE Sensex	35657.86	35423.48	234.38	0.66%
Nifty 50	10772.65	10714.30	58.35	0.54%
S&P BSE 100	11039.34	10987.71	51.63	0.47%
S&P BSE 200	4629.45	4608.29	21.16	0.46%
Nifty Midcap 100	18222.05	18181.30	40.75	0.22%

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

	Equity	Debt
FPIs (02/07/2018 - 06/07/2018)	2234.70	892.25
MFs (28/06/2018 - 04/07/2018)	3355.54	22514.49

Source : FPI - CDSL

Source : MF - SEBI

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