

DEBT MARKETS

- RBI's interest rate setting monetary policy committee (MPC) decided to leave the policy repo rate unchanged at 6%. The committee also voted 5-1 to maintain the "neutral" stance on monetary policy. Only Prof Dholakia voted for a 25 basis point reduction in policy rates.

- RBI has however reduced the statutory liquidity ratio (SLR) from 20% to 19.5%. This reduces the amount of pre-emption (of bank deposits) by the government. Additionally the ceiling on government securities kept in the held to maturity (HTM) segment has also been reduced from 20.25% to 19.5% in a phased manner till March 31, 2018.

- Core-sector growth for September came in at 4.9%. This compares favourably with the 2.6% print the previous month. The central bank has however cut their forecast for gross value add (GVA) for FY 18 to 6.7% from the earlier forecast of 7.3%.

- Bond yields, however, rose on lack of any clear signals on when or whether rates will be brought down. Yield on the benchmark 10 year government security crossed the 6.75% levels in nervous trading.

- The Indian rupee strengthened to 65.09 on the back of the monetary policy decision..

Yield Movement

- The benchmark 10 year government bond closed the week trading at a yield of 6.76%, a rise of 10 basis points from the closing levels of the previous week.

- Yield on 10 year AAA PSU bond traded at approx.. 7.50%, indicating that spreads over gilts have compressed marginally.

- One year CDs yielded about 6.60%, indicating a fall of 5 basis points in yield level from last week's close.

Fund Manager Comments

No clear signs on rate reduction has not enthused the bond markets. Participants now look forward to the inflation data releases due in the middle of the month for signals to the future direction of monetary policy and thus interest rates. RBI's move to link loans to an external market driven benchmark instead of the internal MCLR/base rate would also keep bankers busy.



Indian stock markets closed the week on higher note led by support from domestic cues, however global markets also added pressure. The Sensex gained 530.50 points or 1.7% to settle at 31,814.22. The Nifty 50 index rose 191.10 points or 1.95% to settle at 9,979.70. The holiday-shortened week saw the market winning on positive vibes kindled by RBI policy outcome, positive macroeconomic data release and firmness in global stocks.

Core sector growth rebounded to a five-month high in August while manufacturing activity expanded for the second month running in September, providing some cheer for an economy that saw growth touch a three-year low in the June quarter. The core sector, comprising eight infrastructure segments, saw a 4.9% rise in output in August compared with 2.6% in July, data released by government showed. To be sure, the growth was driven largely by a sharp rise in coal and electricity output and wasn't evenly spread. Crude oil, cement and fertiliser declined. The core sector grew 3.1% in August last year.

Reserve Bank of India left the short-term lending rate, also known as repo rate, unchanged at 6%. The committee also

did not tweak the cash reserve ratio (CRR), which remained unchanged at 4% but cut statutory liquidity ratio (SLR) requirement by 50 basis points to 19.5%. The projection of real GVA growth for 2017-18 has been revised downward to 6.7% from an August 2017 projection of 7.3% with risks evenly balanced. Raises inflation range in H2 to 4.2-4.6% (3.5-4% earlier) due to firming up of crude oil prices but also express concerns on economic growth and low utilization in manufacturing sector.

The government sees the decline in growth as a hiccup and expects the economy to pick up pace in the fiscal second quarter as teething troubles with GST get resolved and the effect of demonetization wanes. The latest high-frequency indicators such as commercial vehicles sales, core sector growth and manufacturing PMI bolster this contention.

Macroeconomic data, Q2 results of India Inc., trend in global markets, investment by foreign portfolio investors (FPIs) and domestic institutional investors (DIIs), the movement of rupee against the dollar and crude oil price movement will dictate trend on the bourses in week ahead.

Taurus Benchmark Indices Movement

Indices	6/10/17	29/9/2017	Points change	% change
S&P BSE Sensex	31814.22	31283.72	530.50	1.70%
Nifty 50	9979.70	9788.60	191.10	1.95%
S&P BSE 100	10383.08	10172.64	210.44	2.07%
S&P BSE 200	4370.24	4280.88	89.36	2.09%
Nifty Free Float Midcap 100	18528.20	18107.95	420.25	2.32%

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

	Equity	Debt
FPIs (03/10/2017 - 06/10/2017)	-550.75	4885.90
MFs (28/09/2017 - 04/10/2017)	7410.96	11440.22

Source : FPI - CDSL
Source : MF - SEBI

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