

DEBT MARKETS

G-SEC Market

Bonds continue trade in a narrow range in the absence of any key cue. RBI policy was more in line with expectation limiting the volume of trades. RBI stayed pat on policy rates, whilst maintaining 'accommodative' forward stance. What emerged as a key concern was the upward revision in RBI's Mar-17 CPI projections. As the week progressed, sentiment turned marginally weak as participants sought to realign to shorter tenor securities. Even T-Bills witnessed robust demand as signified via higher bid to cover ratios. G-Secs received yet another setback as mid week global crude prices surged on back of low US crude inventories data. Moreover, caution ahead of the weekly auction saw participants refrain from any significant position building. While the 13-yrs security cut off came in lower than expected, cut offs in the longer tenor securities were fairly elevated as the entire notified amount was swept off by a handful of large investors. Belying market expectations, Index of Industrial Production (IIP) came in at -0.8% as compared to revised estimate of 0.3% in Mar-16. Decline in manufacturing growth (-3.1%) primarily led to weak economic growth during the said period.

The 10Y benchmark 7.59% GS 2026 closed at ₹100.66 (7.49%) as compared to ₹100.68 (7.49%) on previous closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹7,079 Cr in this week compared to an infusion of ₹5,464 Cr in previous week. Infusions via the MSF route averaged ₹678 Cr. The Call rate ended at 6.16% compared to 6.28% from the previous week. The CBLO ended at 5.16% compared to 6.37% in the previous week.

CORPORATE BONDS

The 10 yrs AAA bond ended at 8.23% unchanged from last month. The 1 yr CD yield was seen trading at 7.45% as compared to 7.56% in previous week.

FUND MANAGER COMMENTS

RBI's policy was more or less a no event for the market given the same was more on expected lines. It was higher CPI expectation which spooked the participants however the same didn't lead to any sharp movement in rates. Liquidity remains easy as banks continue to remain cash heavy with excessive prudent lending. Bonds will take guidance from the upcoming domestic retail price number and Fed's outcome.

Market Indicators as on 10th June, 2016

	10-Jun-16	3-Jun-16	change
INR/USD	67.01	67.26	0.37%
Brent Crude Oil (\$/bbl)	50.04	49.64	0.81%
Gold (\$/oz)	1,274.56	1,244.20	2.44%
10 year G-Sec(GOI)	7.50	7.49	0.01
10 year AAA PSU(Ind)	8.23	8.23	0.00
Avg. CBLO	6.47	6.45	0.02
US 10 year Gilt	1.62	1.70	-0.08

Source: Bloomberg



Sensex and Nifty went down by 207 points (-0.80%) and 51 points (-0.60%) to close at 26,636 and 8,170 respectively. The broader markets hogged the limelight during the week under review with logistics companies gaining the most on hopes of clearance of the goods and services tax (GST) Bill in the upper house of Parliament.

RBI kept key policy rates unchanged (Repo rate at 6.50%. Rev Repo at 6.0% and MSF at 7.0%, CRR at 4.0%) due to uncertainties on the inflation front but said that it would continue an accommodative policy stance. GVA forecast for FY17 unchanged at 7.6% with risks evenly balanced. RBI continues to provide liquidity as required but progressively lower the average ex ante liquidity (forecasted liquidity) deficit in the system from one per cent of NDTL to a position closer to neutrality. Rajan said, "The RBI will monitor macroeconomic and financial developments for any further scope for policy action".

India's monsoon season kicked off with heavy showers in southern India on Wednesday, cheering farmers, markets and policymakers after two consecutive droughts that dried up fields and reservoirs, crushed rural demand and propped up prices and interest rates. The vital four-month season, which delivers 75% of India's annual supply of fresh water and impacts the livelihood of the majority of Indians, began a week late, as forecast by the IMD.

As per a leading financial daily, India is planning to introduce a 25% tax on sugar exports.

Barring US stock markets and few markets in Asia Pacific region, major global indices closed on a weak note. European stock markets also closed on a weak note. European stock markets also closed on a weak note.

China's central bank slashed its forecast for exports, predicting a second consecutive annual fall in shipments, but said the economy

would still grow 6.8% in 2016. The PBOC also warned in its mid-year work report that the government's push to reduce debt levels and overcapacity could increase bond default risks, and make it more difficult for companies to raise funds. Ahead of a meeting of the US Federal Reserve's policy-making board next week, it said that the pace of US interest rate rises would affect global capital flows and emerging market currencies, but it did not mention the yuan.

Japan's economy expanded at an annualized 1.9% in the first quarter revised up from a preliminary reading of 1.7% growth, as capital spending fell less than was first reported, but worries remain over slow consumer spending and weak exports. Compared to the previous quarter, GDP rose 0.5%, as further gains in the yen could lower export profits and discourage companies from increasing investment and wages. PM Shinzo Abe said he will announce additional economic measures this autumn, but economists worry his piecemeal approach to policy means that not enough money will be allocated to reversing population decline and speeding up growth.

Investors are likely to remain cautious ahead of key macro economic data and the outcome of the US Federal Reserve meet. Meanwhile, worries that Britain, in a referendum on June 23, may vote not to be a part of the European Union (referred to as "Brexit"), would continue to weigh on sentiment. Apart from these global events domestic macro-economic data such as the wholesale price index and consumer price index for May 2016 along with the progress of the monsoon will dictate market trend.

Both the Reserve Bank of Australia (RBA) and the Reserve Bank of New Zealand (RBNZ) announced rate decisions this week.

Taurus Benchmark Indices Movement

Indices	10/06/16	03/06/16	Points change	% change
S&P BSE Sensex	26635.75	26843.03	-207.28	-0.77
Nifty 50	8170.05	8220.80	-50.75	-0.62
S&P BSE 100	8291.57	8329.02	-37.45	-0.45
S&P BSE 200	3448.45	3460.69	-12.24	-0.35
Nifty Free Float Midcap 100	13329.95	13256.90	73.05	0.55

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (06/06/2016 - 10/06/2016)	3024.04	-522.93
MFs (02/06/2016 - 08/06/2016)	-420.40	16418.60

Source : FPI - CDSL
Source : MF - SEBI

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