

## DEBT MARKETS

- RBI's monetary policy committee (MPC) met this week to set policy interest rates. The committee opted to keep rates steady. The repo rate therefore remains 6%. The reverse repo rate stays steady at 5.75% and the rate at which funding is granted under the marginal standing facility (MSF) remains at 6.25%. No changes were made to the cash reserve ratio (CRR) too.
- Projection for inflation was however revised higher to 4.3%-4.7% compared to the 4.2%-4.6% range forecast earlier.
- Outlook for GVA growth has been retained at 6.7% for FY18. This translates to a growth of 7.0% in Q3 and 7.8% in Q4.
- Yield on government bonds rose after the policy rate announcements, having fallen briefly in the immediate aftermath. The benchmark 10 year government bond yield rose to 7.09% by the end of the week. This compares to last weeks close of 7.05% on the same bond.

### Yield Movement

- The benchmark 10 year government bond closed the week trading at a yield of 7.09%, a rise of 4 basis points closing levels of the previous week.
- Yield on 10 year AAA PSU bond traded at approx.. 7.75%, indicating that spreads over gilts have contracted a bit.
- One year CDs yielded about 6.80%, indicating a rise of 15 basis points in yields over the week.

### Fund Manager Comments

The monetary policy decisions were largely in line with expectations. However, fears of a higher than expected CPI print (expected on Tuesday) and fiscal slippage drove markets to a nervous sell off. The sell off is likely to continue into the coming week too.



Sensex and Nifty went up by 417 pts. (1.30%) and 144 pts. (1.40%) to close at 33,250 and 10,266 respectively.

The government announced additional incentives worth ₹8,450 crore a year to boost both merchandise and services exports as part of its mid-term review of the foreign trade policy (FTP) for 2015-20, with specific focus on micro, small and medium enterprises (MSMEs) and labour-intensive sectors to boost job creation. Incentives in the Merchandise Exports From India scheme have been increased by 2% to 4% for all labour-intensive sectors. The validity period for duty credit scrips too has been increased to 24 months, from 18 months earlier. The GST rate for the transfer and sale of such scrips has been reduced to zero from 12% earlier. Under Advance Authorization, Export Promotion of Capital Goods and 100% EOU Scheme, exporters have benefit of sourcing inputs / capital goods from abroad as well as domestic suppliers for export without upfront payment of GST to address issue of working capital blockage of the exporters on account of upfront payment. Issue of Gold availability for exporters resolved by allowing Specified Nominated Agency to import gold without payment of IGST.

Bank credit off take has touched a three year high in November implying some early signs of revival in loan demand. Banks loans including procurement credit and loans to individual's farmers and businesses rose 9.64% to ₹79.6 lakh crore as of November'17, compared to 6.6% growth in Nov'16.

Monetary policy highlights includes 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 decision of the MPC is consistent with a 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. GVA projection for FY18 has been maintained at 6.7% with risks evenly balanced. The MPC has raised inflation projection for H2FY18 marginally to 4.3% - 4.7% (including HRA) from 4.2% - 4.6% earlier.

## Taurus Benchmark Indices Movement

Indices	8/12/17	1/12/17	Points change	% change
S&P BSE Sensex	33250.30	32832.94	417.36	1.27%
Nifty 50	10265.65	10121.80	143.85	1.42%
S&P BSE 100	10745.63	10593.22	152.41	1.44%
S&P BSE 200	4544.71	4479.88	64.83	1.45%
Nifty Free Float Midcap 100	20014.75	19691.70	323.05	1.64%

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

	Equity	Debt
FPIs (4/12/2017 - 08/12/2017)	-4088.89	2259.69
MFs (30/11/2017 - 06/12/2017)	3629.19	11601.32

Source : FPIs - CDSL  
Source : MF - SEBI

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