

## DEBT MARKETS

- The monetary policy committee of the RBI raised the benchmark policy interest rate (the repo rate) by 0.25%. This is the first increase in policy rates in more than 4 years.
- The repo rate now stands at 6.25% while the reverse repo rate and the rate gets reset to 6.00%. The rate for availing marginal standing facility is now 6.50%
- Inflation projections for 2018-19 were revised to 4.8-4.9% in H1 of 2018-19 (4.7-5.1% previously) and 4.7% in H2 of 2018-19 (4.4% previous)
- Growth projection for financial year 2018-19 was however left unchanged at 7.4%.
- Neutral stance on monetary policy also continues
- Bond prices fell sharply in the wake of the hike in policy rates, in the absence of any ameliorating signals.

### Yield Movement

- The benchmark 10 year government bond closed the week trading at a yield of 7.95%, higher by 10 basis points from the closing levels of the previous week.
- Yield on 10 year AAA PSU bond traded at approx. 8.80%, compared to the 8.60% levels witnessed in the previous week. With gilt yields higher by 10 bps, this indicates a small expansion of credit spreads in this segment.
- One year CDs yielded about 8.40%, indicating a 15 basis points rise in yields over the week.

### Fund Manager Comments

Weak sentiment continues to pervade the bond market. Marketmen may however draw solace in the continuation of the "neutral" monetary policy stance. Bond prices are likely to remain rangebound in the short term and draw fresh cues from the monthly inflation data release due later this week.



## EQUITY MARKETS

- Sensex and Nifty went up by 216 pts. (0.60%) and 71 pts. (0.70%) to close at 35,444 and 10,768 respectively.
- RBI increases interest rates after a gap of 4.5 years. Policy repo rate under the liquidity adjustment facility (LAF) hiked by 25 basis points to 6.25%. Consequently, the reverse repo rate under the LAF stands adjusted to 6.0%, and the marginal standing facility (MSF) rate and the Bank Rate to 6.50%. However, RBI maintained its neutral policy stance. Projected CPI inflation for 2018-19 is revised to 4.8-4.9% in H1 and 4.7% in H2 with risk tilted to the upside. On the basis of an overall assessment, GDP growth for 2018-19 is retained at 7.4% as in the April policy. GDP growth is projected in the range of 7.5-7.6% in H1 and 7.3-7.4% in H2, with risks evenly balanced. We think that with MPC's assessment of output gap closing, any rise in inflation in the coming months due to Crude, MSP's, Global commodities etc could push the committee into hiking rates further. At this point we factor in one more rate hike in FY19.
- Yield on the 10-year Indian government bonds rose above the 8% mark for the first time since May 2015. Foreign holders have sold a net \$4.3 billion of Indian debt so far this year as investors have grown wary of emerging economies facing twin fiscal and current account deficits and higher inflation that could pose overheating risks.
- Activity in India's dominant services sector contracted for the first time in three months in May due to broad stagnation in new business orders.

The Nikkei India Services Business Activity Index fell to 49.6 last month from 51.4 in April. Services activity in the country fell below the 50-point mark for the first time since February, when the Index reading stood at 47.8.

- China offered to buy \$70bn-worth of American goods, including oil and gas, through its state-owned companies if America ditches its plan to impose tariffs on Chinese products. It was the latest move to avert a trade war between the two countries, submitted after talks between Chinese and American negotiators led nowhere. Meanwhile, trade hostilities broke out between America and its allies, after the Trump administration pressed ahead with tariffs on steel and aluminium. The European Union drew up a list of American products targeted for retaliation. Mexico got a head start, levying penalties on imports from America, such as pork and bourbon.
- President Donald Trump may sign an accord to formally end the Korean War with North Korean leader Kim Jong Un at their June 12 summit. Trump aims to persuade the North Korean dictator to give up his country's nuclear arsenal in exchange for relief from U.S. economic sanctions. The White House wants Kim to commit to a timetable to surrender the weapons at the summit. The denuclearization of the Korean peninsula would usher in a new era of prosperity, security and peace for all Koreans, North and South and for people everywhere.

### Taurus Benchmark Indices Movement

Indices	8/6/18	1/6/18	Points change	% change
S&P BSE Sensex	35443.67	35227.26	216.41	0.61%
Nifty 50	10767.65	10696.20	71.45	0.67%
S&P BSE 100	11080.44	10995.66	84.78	0.77%
S&P BSE 200	4666.33	4629.80	36.53	0.79%
Nifty Midcap 100	18830.60	18638.40	192.20	1.03%

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

	Equity	Debt
FPIs (04/06/2018 - 08/06/2018)	2756.38	-475.85
MFs (31/05/2018 - 06/06/2018)	169.21	4209.49

Source : FPI - CDSL

Source : MF - SEBI

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