

DEBT MARKETS

G-SEC Market

Market witnessed positive sentiment towards Bond market after the RBI Governor's dovish stance on liquidity in its monetary policy. The strong US jobs data resulted in a week opening for domestic bond markets as it added some more weight to Fed rate hike expectations, but the impact was limited as all eyes were on RBI policy meeting on 9th August. Though RBI, in its monetary policy statement, maintained an accommodative policy stance, it highlighted its intention of closing the persistent liquidity deficit over time so that the system eventually moves to a position of structural balance. In a surprise move, RBI announced OMO Purchase auction for an amount of ₹10,000 Crs. Enthused with RBI announcement of OMO Purchase auction, market witnessed robust volumes along with volatile price upswings. However, significant upside gains were capped as participants remained wary over OMO outcome. Nonetheless, positive momentum sustained as cut off prices at the OMO auction were mostly in the line with market expectation. However, during closing session of the week, sentiment remained cautious as market participants were wary of building heavy positions ahead of the retail inflation print. After Market hour CPI & IIP data got released. CPI inflation rose to 6.1% in July 2016, with a broad-based and considerable rise in food inflation. June IIP growth surprised positively to register 2.1%, the highest reading in eight months.

The benchmark G-sec 7.59% 2026 closed at ₹103.30 (7.10%) vis-à-vis ₹102.89 (7.17%) on previous week closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window

worth ₹7,914 Cr in this week compared to an infusion of ₹3,971 Cr in previous week. Infusions via the MSF route averaged ₹688 Cr. The Call rate ended at 6.43% compared to 6.39% from the previous week. The Average CBLO was 6.42% compared to 5.73% in the previous week.

CORPORATE BONDS

The 10 yrs AAA bond ended at 7.66% as compared to 7.82% in previous week. The 1 yr CD yield was seen trading at 7.25% as compared to 7.23% in the previous week.

FUND MANAGER COMMENTS

Average system liquidity conditions slipped into deficit mode for the week ending Aug 12 to a negative of ₹14,049 crore compared to a surplus of ₹44,607 crore the week prior, led by tax and auction related outflows. However, towards the close of the week, the system liquidity condition turned marginally positive. We expect system liquidity conditions to remain mostly in positive territory this week as coupon and redemption flows easily offsetting the auction related outflows. We expect the 10-yr G-Sec yields trades largely in a narrow range as there is not much incentive to build on positions in the truncated week

Market Indicators as on 12th August, 2016

	12-Aug-16	5-Aug-16	change
INR/USD	66.89	66.78	-0.17%
Brent Crude Oil (\$/bbl)	46.97	44.27	6.10%
Gold (\$/oz)	1335.85	1335.55	0.02%
10 year G-Sec(GOI)	7.10	7.17	-0.06
10 year AAA PSU(Ind)	7.66	7.82	-0.16
CBLO	6.42	5.73	0.69
US 10 year Gilt	1.51	1.59	-0.08

Source: Bloomberg



Sensex went up by 74 points (0.30%) and Nifty went down by 11 points (-0.10%) to close at 28,152 and 8,672 respectively. Indices had slipped sharply after RBI maintained status quo on key policy rates and large PSU banks reported weak numbers. But with SBI results the market pepped up.

RBI, in its third bi-monthly monetary policy meeting, maintained status quo on policy rates. Thus, repo and reverse repo rate were unchanged at 6.5% and 6% but maintained its accommodative stance going forward. However, RBI said the recent rise in consumer inflation, which was higher than expected, has pushed up the estimated growth rate of inflation for the rest of the year. Nonetheless, Governor has retained its inflation target of 5% for FY17, notwithstanding unforeseen eventualities.

The Lok Sabha on Wednesday passed the Taxation Laws (Amendment) Bill, 2016, relaxing the rules for the textile sector to avail itself of the income tax benefit on additional employment created. The bill seeks to expand the definition of 'demerger' to facilitate the splitting or reconstruction of erstwhile public sector companies and increase the maximum import duty on marbles and granites to 40% from 10%.

SEBI allowed debt mutual funds to invest an additional 10% of their corpus in debt papers issued by housing finance companies (HFCs), over and above the sectoral cap of 25%. The move is aimed at channelising more funds into the affordable housing space, one of the focus areas for the government. Till now, debt funds were allowed to invest an additional 5% in debt papers issued by HFCs.

On the other hand, The Department of Telecom 'suspended' spectrum sharing, trading and liberalisation activities till the

provisional results of the upcoming spectrum auction are declared.

According to the data released by the finance ministry, India's net direct taxes collections increased 24% YoY to ₹1.59 lakh crore during the first four months of FY17. Also, the direct tax collections stood at 18.82% of the budget estimates for FY17. Under direct tax, personal tax collections (31.47%) grew almost three times faster than corporate tax collections (11.65%) on a yearly basis.

Global equities rose this week, underpinned in part by a rebound in prices for crude oil. US retail sales were unchanged in July, a worrisome sign for an economy being held aloft solely by consumer consumption.

The Bank of England relaunched its quantitative easing program this week and ran into an immediate liquidity problem. On the program's second day, the BOE was unable to secure the entire amount of long-dated gilts it sought to purchase in a reverse auction. Separately, a BOE business conditions survey showed that firms expect weaker investment, hiring and turnover in the coming months.

For the 674th time since Lehman collapsed, top 50 central banks cut interest rates, according to a Financial Times tally. The latest came from the Reserve Bank of New Zealand, which trimmed its official cash rate 25 basis points to 2.0%.

Industrial production, fixed asset investment and retail sales data from China all failed to meet market expectations. Credit growth has slowed as well, the Chinese government reported.

Taurus Benchmark Indices Movement

Indices	12/08/16	05/08/16	Points change	% change
S&P BSE Sensex	28152.40	28078.35	74.05	0.26
Nifty 50	8672.15	8683.15	-11.00	-0.13
S&P BSE 100	8874.27	8890.33	-16.06	-0.18
S&P BSE 200	3699.58	3706.02	-6.44	-0.17
Nifty Free Float Midcap 100	14814.75	14827.30	-12.55	-0.08

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (08/08/2016 - 12/08/2016)	3123.32	-657.18
MFs (04/08/2016 - 10/08/2016)	-3.60	1519.20

Source : FPI - CDSL
Source : MF - SEBI

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