

DEBT MARKETS

- The monetary policy committee (MPS) met this week and decided to reduce policy interest rates by 0.35%. The policy stance continues to remain "accommodative". 4 members of the committee voted in favour of a 0.35% reduction in rates while 2 members wanted a 0.25% reduction in rates.
- Quick estimates of the Index of Industrial Production (IIP) for the month of June 2019 came in at 2.0 percent higher than the level seen in June 2018.
- This low IIP indicator confirms that economic activity in the economy seems to have slowed down.
- Passenger Car sales continued to witness a decline for the ninth consecutive month with sales in July falling 31% YoY.
- Non farm payrolls in the US increased by 164 thousand in July 2019 following an downwardly revised figure of 193 thousand for June 2019. This was in line with market expectations.

Yield Movement

- The benchmark 10 year government bond closed the week trading at a yield of 6.49%, up by 14 basis points from the yield levels witnessed at the close of last week.
- Yield on 10 year AAA PSU bond traded at approx. 8.55%, up by about 10 basis points from the previous week.
- One year CDs yielded about 6.45%, 15 bps lower than the closing levels of previous week.

Fund Manager Comments

Inflation data due for release later this week is likely to be the next trigger for any likely movement in bond yields.



EQUITY MARKETS

- Sensex and Nifty went up by 464 pts. (1.20%) and 112 pts. (1.00%) to close at 37,582 and 11,110 respectively. Indian equity market started the week on a weak note as a flare up in U.S. China trade tensions raised fresh concerns about the outlook for the global economy.
- Domestic markets were initially affected on rising tension in Kashmir as government decided to revoke Article 370 and bifurcate the state of Jammu and Kashmir into two Union Territories. However, as everybody eventually recognized it as a step taken in a right direction, markets reacted positively.
- Highlights of RBI Monetary Policy:
 - Repo rate cut by 35 basis to 5.40%.
 - The decision of the MPC is consistent with the objective of achieving the medium term target for CPI inflation of 4.0% within a band of +/- 2%, while supporting growth.
 - GDP projection reduced to 6.9% from 7.0% for FY20 (H1 growth in the range 5.8 - 6.6 per cent and H2 at 7.3-7.5 per cent) with risks somewhat on the downside
 - MPC notes that inflation is likely to remain within the target. Private consumption and investment activity remain sluggish. The benign inflation outlook provided headroom for policy action to close the negative output gap. Addressing growth concerns by boosting aggregate demand, especially private investment, assumes the highest priority at this juncture while remaining consistent with the inflation mandate.
 - The inflation is projected at 3.1 per cent for Q2 FY20 and 3.5-3.7 per cent for H2 FY20 with risks evenly balanced. CPI inflation for Q1 FY21 is projected at 3.6 per cent.
 - 4 MPC members voted for 35 basis cut while 2 MPC members voted for 25 basis cut.
- RBI will ensure adequate systemic and durable liquidity in the inter bank market
- While markets didn't cheer RBI's policy move on rate cuts but the announcement of enhancing bank's exposure limit to a single NBFC from the existing 15% to 20% of tier-1 capital was taken by the markets very positively as this would ease liquidity pressure for NBFCs.
- As per IMD, India's monsoon rains in the week through August 7 were above average for the second straight week, easing concerns of drought, although excessive rainfall flooded some areas on the west coast. Monsoon rains are crucial for farm output and economic growth, as agriculture forms about 15% of India's \$2.5-trillion economy. For the season up to 7th August 2019, 26 out of 36 sub-divisions have received Excess/Normal rainfall, as compared to 29 sub-divisions receiving Excess/Normal rainfall in the same period last year. Area under crops affected with deficient rainfall as of 7th August is 24.5% compared with 18.2% at the same time last year
- A proposal to grandfather all income generated by FPIs till the presentation of the Union Budget on 5 July is being considered, which will reduce the impact of the new taxation by almost a third, the reports said. Besides, speculations are running amok for a reduction or removal of LTCG.
- In response China's central bank weakened its daily currency peg below \$7 level, fueling speculation that Beijing was allowing currency depreciation to counter President Donald Trump's latest tariff threat. China's offshore yuan hit a record low of 7.1397 per dollar, fuelling fresh selling in global financial markets, after the United States branded Beijing a "currency manipulator" in a rapidly escalating trade war between the world's two biggest economies. The U.S. Treasury Department stated that it had determined for the first time since 1994 that China was manipulating its currency, knocking stock markets and the U.S. dollar sharply lower and sending gold prices to a six-year high.

Taurus Benchmark Indices Movement

Indices	09-08-2019	02-08-2019	Points change	% change
S&P BSE Sensex	37581.91	37118.22	463.69	1.25%
Nifty 50	11109.65	10997.35	112.30	1.02%
S&P BSE 100	11219.80	11095.16	124.64	1.12%
S&P BSE 200	4638.86	4584.67	54.19	1.18%
Nifty Midcap 100	15947.30	15709.25	238.05	1.52%

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

	Equity	Debt
FPIs (05/08/2019 - 09/08/2019)	-8502.02	2186.06
MFs (01/08/2019 - 07/08/2019)	6512.29	15041.32

Source : FPI - CDSL
Source : MF - SEBI

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