

DEBT MARKETS

- The monetary policy committee (MPC) of the Reserve Bank of India met this week to set policy interest rates.
- The committee decided to make no changes to any of the policy variables viz. the repo rate, the CRR and the SLR. All of them were kept unchanged. The decision was made through a 5-1 vote, with all members except for Mr. Michael Patra opting for the status quo.
- Inflation expectations for the second half of Fy18 were however raised marginally to 4.8% (on an average) from the earlier expected range of 4.3% 4.7%. Average Inflation inflation in Q4 of FY2018 is expected to be around 5.1%.
- The inflation forecasts are above the 4% targeted rate of inflation set by RBI as a policy target.
- Gross Value Added (GVA) is forecast to grow at 6.6% in FY18. This is lower than the 6.7% estimate that the committee had provided in its December 2017 policy statement. Economic growth for FY19 is estimated at 7.2%.

Yield Movement

- The benchmark 10 year government bond closed the week trading at a yield of 7.49%, a fall of 9 basis points closing levels of the previous week.
- Yield on 10 year AAA PSU bond traded at approx. 8.10%, indicating that spreads over gilts have remained stable.
- One year CDs yielded about 7.50%, indicating a fall of about 5 basis points in yields over the week.

Fund Manager Comments

The market seems to have now absorbed the decisions made both by the finance minister in the union budget and the RBI which kept interest rates unchanged. However, with rate cuts highly unlikely in the near future it is difficult to expect a runaway rally in bonds. Financial year end considerations may also play on the minds of bond traders and this would probably dominate trading activity in the coming weeks.



Sensex and Nifty went down by 1,061 pts. (-3.00%) and 306 pts. (-2.80%) to close at 34,006 and 10,455 respectively.

It was a turbulent week on the world's stock markets, a rude awakening after a long period of calm during which share-price indices have soared. The Dow Jones Industrial Average plunged by 1,175 points in a day, its biggest points decline to date. The FTSE 100 fell by 2.6%, the most since June 2016 when Britain voted to leave the EU. A measure of market volatility, the Vix, also known as "the fear index", soared to its highest level since China's currency crisis in 2015. Among other things, markets are worried that the improving world economy and pressures on inflation will cause central banks to ramp up interest rates. The market turmoil coincided with Jerome Powell's first day on the job as chairman of the Federal Reserve.

The U.S. trade deficit widened more than expected in December to its highest level since 2008, as robust domestic demand pushed imports to a record high, adding to the stiff headwinds faced by the Trump administration's "America First" trade policies. The trade deficit increased 5.3% to \$53.1 billion in December, the highest level since October 2008. The deficit surged 12.1% to \$566.0 billion in 2017. The politically sensitive U.S.-China trade deficit jumped 8.1% to a record \$375.2 billion last year.

The number of Americans filing for unemployment benefits unexpectedly fell last week, dropping to its lowest level in nearly 45 years as the labor market tightened further, bolstering expectations of faster wage growth this year. Initial claims for state unemployment benefits decreased 9,000 to a seasonally adjusted 221,000 for the week ended Feb. 3, the Labor Department said. Claims fell to 216,000 in mid-January, which was the lowest level since January 1973. The labor market is near full employment, with the jobless rate at a 17-year low of 4.1%.

Reserve Bank of India in its sixth bi-monthly policy kept 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 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. The RBI lowered the economic growth projection for 2017-18 to 6.6%, but said that it will accelerate to 7.2% in the next financial year as the roll-out of GST stabilises and credit offtake improves. It also said that recapitalisation of PSU banks along with resolution of stressed assets under the Insolvency and Bankruptcy Code (IBC) will create demand for fresh investments.

Taurus Benchmark Indices Movement

Indices	9/2/18	2/2/18	Points change	% change
S&P BSE Sensex	34005.76	35066.75	-1060.99	-3.03%
Nifty 50	10454.95	10760.60	-305.65	-2.84%
S&P BSE 100	10851.72	11115.45	-263.73	-2.37%
S&P BSE 200	4583.10	4676.41	-93.31	-2.00%
Nifty Free Float Midcap 100	19872.25	19760.35	111.90	0.57%

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

	Equity	Debt
FPIs (5/02/2018 - 9/02/2018)	-4738.66	2501.87
MFs (1/02/2018 - 7/02/2018)	1422.53	9575.85

Source : FPI - CDSL
Source : MF - SEBI

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