

## DEBT MARKETS

### G-SEC Market

The Truncated week saw volatile activity with week started on a positive note with the new benchmark 10-yrs bond yield falling to an intra-day low of 6.687% but with growing uncertainty over global developments yields started moving in opposite direction. Persistent rise in US Treasuries on back of expectations of Fed rate hike, fears of a hard Brexit, muted Chinese data coupled with rising global crude oil prices bogged down domestic market sentiment. Even while the broad underlying market tone remains positive, an element of caution has prevailed. Consequently, gilts traded with gradual weakening bias throughout the week. Being a short working week, participation remained low. Also, release of Sep macro releases were keenly eyed for any emergent cues on future interest rate trajectory. Surprisingly, lower than CPI and WPI prints failed to enthuse market. Continuous selling by certain category of investors tilted demand supply balance unfavorably. The new 10-year yield ended the week 2 bp higher over the week and continues to trade with a negative bias.

The benchmark G-sec 7.59% 2026 closed at ₹104.97 (6.85%) vis-à-vis ₹105.01 (6.85%) on previous week closing. New 10 yrs benchmark 6.97% 2026 closed at 6.75% as compared to 6.73% yield on previous week closing.

### LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹13,603 Cr in this week compared to an infusion of

₹3,012 Cr in previous week. Infusions via the MSF route averaged ₹545 Cr. The Call rate ended at 6.28% compared to 6.17% from the previous week. The CBLO ended at 6.14% compared to 6.20% in the previous week.

### CORPORATE BONDS

The 10-yrs corporate bond (AAA) ended at 7.44% as compared to 7.35% in previous week. The 1-yr CD yield was seen trading at 6.82% compared to 6.83% in previous week.

### FUND MANAGER COMMENTS

Average system liquidity fell considerably and went into deficit of ₹7,482 crore for week ending Oct 14 from a surplus of ₹89,936 crore the week prior on account of increase in CIC ahead of festive season, auction outflows and also possibly due to FCNR redemption outflow. Government's cash balance have increased to ₹32,428 crore compare to nil in previous week. We expect system liquidity conditions to tighten further on account of currency leakages ahead of festive season and FCNR outflows. We expect new 10-yrs paper to trade in 6.70%-6.80% range while the old 10-yrs paper is expected to trade in the range of 6.80%-6.90% for this week.

### Market Indicators as on 14th October, 2016

	14-Oct-16	7-Oct-16	change
INR/USD	66.72	66.69	-0.04%
Brent Crude Oil (\$/bbl)	51.95	51.93	0.04%
Gold (\$/oz)	1251.43	1256.93	-0.44%
10-year G-Sec(GOI)	6.85	6.85	0.00
10-year AAA PSU(Ind)	7.44	7.35	0.09
CBLO	6.14	6.20	-0.06
US 10-year Gilt	1.80	1.72	0.08

Source: Bloomberg



Sensex and Nifty went down by 388 points (-1.40%) and 114 points (-1.30%) to close at 27,674 and 8,583 respectively. It was a volatile week.

IIP for the month of August contracted by 0.7%, once again due to Capital goods output which contracted by 22.2%. Mining contracted by 5.6% due to improved rains, Manufacturing fell 0.3%, Electricity grew by 0.1%.

CPI fell to 4.31% in September. Vegetable inflation fell to -7.2%, pulses inflation fell to 14.0% from 22.0% in August. WPI eased to 3.57% lower than our estimate of 3.93%.

Direct tax collections from April - September 2016 were at ₹3,270 bn, up 8.95% YoY. 38.65% of the Budget Estimate for FY 2017 has been achieved. In terms of gross revenue collections, the growth rate under Corporate Income Tax is 9.54% while that under Personal Income Tax is 16.85%.

The Indian government extended anti-dumping duty on import of certain Chinese products, used in garment, footwear and toy manufacturing, for another five years.

Banks Board Bureau chief Vinod Rai said that the managements of banks are reluctant to take decisions on recasting debt in spite of the concerns that rising bad loans are holding back the country's economy.

Arresting the two-month fall, exports grew by 4.62% to \$22.9 billion in September on the back of healthy growth in sectors such as engineering and gems and jewellery. However, imports

contracted by 2.54% to \$31.22 billion, leaving a trade deficit of \$8.33 billion in September 2016. The trade gap was lower than \$10.16 billion YoY.

Russia and India will sign a multi-billion dollar deal for S-400 'Triumf' long-range air defence missile systems. It has the capability to destroy incoming hostile aircraft, missiles and even drones at ranges of up to 400 km. If India signs the deal, it would be the second customer of the prized missile system after China which had struck a USD 3 billion contract last year.

Global equities slipped modestly this week, weighed down by a firmer US dollar and rising long-term interest rates.

China's exports in September fell 10.0% in dollar terms and imports fell 1.9%, with a trade surplus of \$41.99 bn. In yuan terms, exports fell 5.6% YoY and imports rose 2.2%.

Oil prices extended gains for a second straight week and hit one year high, as hopes that the OPEC will provide a supply cut supported prices. To put the OPEC deal into perspective, the OPEC members have agreed to cut output by 0.25-0.75 million bpd while allowing Libya, Nigeria and Iran to keep output higher.

U.S. retail sales rebounded in September amid a surge in motor vehicle purchases and rise in discretionary spending, pointing to solid demand that reinforces expectations of an interest rate increase from the Federal Reserve in December. The minutes of the September meeting of the FOMC, showed that several officials felt a rate hike is needed "fairly soon,"

## Taurus Benchmark Indices Movement

Indices	14/10/2016	7/10/16	Points change	% change
S&P BSE Sensex	27673.60	28061.14	-387.54	-1.38
Nifty 50	8583.40	8697.60	-114.20	-1.31
S&P BSE 100	8867.40	8988.92	-121.52	-1.35
S&P BSE 200	3734.18	3779.27	-45.09	-1.19
Nifty Free Float Midcap 100	15894.95	15972.30	-77.35	-0.48

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

	Equity	Debt
FPIs (10/10/2016 - 14/10/2016)	-189.53	-337.16
MFs (06/10/2016 - 10/10/2016)	1378.30	4943.60

Source : FPI - CDSL  
Source : MF - SEBI

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