

DEBT MARKETS

G-SEC Market

Bullish trend continued its momentum this week with yields easing more than 10 bps compare to last week. Speculation relating to possible candidates that are likely in the race to become the next RBI Governor has consequently led to a guessing game in financial markets. Again, market has been anticipating that the next central bank head is likely to give more impetus to growth than inflation. With rate cut expectations gaining ground, the resultant impact has led to a strong rally in bond market. Throughout the week, momentum remained strong, volumes surged and bond yields consistently remained on the soft side. Active participation from all categories of investors kept the market mood upbeat. The latest batch of macro prints - CPI, IIP and WPI - broadly provided comfort on the country's macro strength. Foreign investors too, showed keen interest in Indian bonds, purchasing more than ₹4,300 Cr worth of G-Secs during the week. As the week neared close, likely profit booking accentuated pressure on gilts. Also, market seemed less enthused with the weekly SLR supply. As a result, bond yields edged off their intra-week lows. However, on a week-on-week basis, bonds held onto most of its gains to end 9-11 bps lower on the curve.

The 10Y benchmark 7.59% GS 2026 closed at ₹102.15 (7.27%) as compared to ₹101.39 (7.38%) on previous closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹2,965 Cr in this week compared to an

infusion of ₹6,585 Cr in previous week. Infusions via the MSF route averaged ₹129 Cr. The Call rate ended at 6.33% compared to 6.44% from the previous week. The CBLO ended at 6.37% compared to 5.75% in the previous week.

CORPORATE BONDS

The 10 yrs AAA bond ended at 8.03% as compared to 8.10% in previous week. The 1 yr CD yield was seen trading at 7.25% as compared to 7.38% in the previous week.

FUND MANAGER COMMENTS

Average system liquidity conditions slipped into negative zone for the week ending July 16 to ₹6,595 crore compared to a surplus of ₹37,369 crore the week prior, led by auction related outflows and spill over of month beginning currency in circulation (CIC). However, towards the close of the week, the system liquidity condition turned marginally positive. Government's cash balances continued to remain nil. We expect system liquidity conditions to swing marginally between negative to positive territory this week with outflows almost offsetting the inflows. We expect the positive momentum in bonds to continue, however potential candidates for the RBI governor will be the most watched out event this week and could be a further swing factor in yields either ways. Markets will also remain watchful of GST related development as monsoon session kick starts.

Market Indicators as on 15th July, 2016

	15-Jul-16	8-Jul-16	change
INR/USD	67.07	67.37	0.45%
Brent Crude Oil (\$/bbl)	47.61	46.76	1.82%
Gold (\$/oz)	1377.45	1366.38	0.81%
10 year G-Sec(GOI)	7.27	7.38	-0.11
10 year AAA PSU(Ind)	8.03	8.10	-0.07
Avg. CBLO	6.37	5.75	0.62
US 10 year Gilt	1.55	1.36	0.19

Source: Bloomberg



Sensex and Nifty went up by 710 points (2.60%) and 218 points (2.60%) to close at 27,837 and 8,541 respectively. After taking a pause in the previous week market continued its upward journey. Satisfactory monsoon in most parts of the country and hopes GST kept the market vibrant. Global equities rallied this week on hopes for further global monetary and fiscal stimulus. Infact S&P 500 has risen 8% since the Brexit fallout, as investors have recognized that the global economy won't do a 180 degree turn based simply on the UK's decision.

In the wake of the Brexit vote, markets were hoping for the first rate cut in seven years on Thursday, but the Bank of England instead held policy steady. It did indicate that easier policy is likely in August. The pound recouped some of its recent losses to end the week near \$1.3275.

Japanese Prime Minister Shinzo Abe, after securing a victory in upper-house elections last weekend, laid out a plan to boost domestic demand with a fresh ¥10 trillion (\$100 billion) fiscal stimulus. Talk of even more aggressive plans boosted equity markets and undermined the yen. Also boosting Japanese markets this week saw a 90% jump in shares of Nintendo after its 'Pokemon Go' game became an international sensation.

Oil prices edged up on the week, with West Texas Intermediate crude rising to \$46.12 per barrel from \$45.59 a week ago. Global Brent crude rose to \$47.91 from \$46.85.

China's economy grew 6.7% in the second quarter from a year earlier as the government stepped up efforts to stabilize growth.

Second quarter GDP rose 1.8% QoQ. China's statistics bureau said that the economy still faces downward pressure, but that economic growth in the first half lays a good foundation for achieving 2016 target.

India extended its full support to Tanzania to meet its development needs and signed five agreements, including one for providing a Line of Credit of \$92 million in the water resources sector.

A sharp jump in the prices of vegetables drove up food costs and fanned consumer price inflation to its fastest pace in 22 months. The 5.77% CPI inflation reading in June was marginally higher than May's 5.76% and compared with the 5.40% in June 2015. The previous highest was 7.8% in August 2014.

Wholesale Price Index (WPI) in the month of June 2016 has increased to 1.62% compared to 0.79% in the previous month and -2.13% during June 2015.

May IIP expanded by 1.2%. Manufacturing grew by 0.7%, Capital goods contracted sharply -12.4%, consumer non-durables contracted -2.2% (7th straight month of contraction due to continued stress in rural economy) while consumer durable growth was 6.0%.

A major non-market this week was that 84 people were killed and over 200 injured in Nice on Thursday as a gunman drove a truck into a crowd watching Bastille Day fireworks along the French Riviera. The attack is the seventh in France since January 2015.

Taurus Benchmark Indices Movement

Indices	15/07/16	08/07/16	Points change	% change
S&P BSE Sensex	27836.50	27126.90	709.60	2.62
Nifty 50	8541.40	8323.20	218.20	2.62
S&P BSE 100	8712.30	8488.56	223.74	2.64
S&P BSE 200	3624.89	3541.84	83.05	2.34
Nifty Free Float Midcap 100	14282.20	14077.45	204.75	1.45

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (11/07/2016 - 15/07/2016)	3235.16	5062.24
Mfs (07/07/2016 - 13/07/2016)	-290.30	-387.30

Source : FPI - CDSL
Source : MF - SEBI

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