

DEBT MARKETS

G-SEC Market

The week marked yet another round of rally for the bond market as improving certainty on domestic and global fronts buoyed market sentiment. Ahead of the week start, government's adherence to fiscal discipline garnered praise from the RBI Governor, who commended the government's efforts to stick to fiscal prudence. He stated that the step was broadly in the direction of boosting growth in the economy and indicated 'comfort' on the fiscal arithmetic. Such optimistic comments from the RBI raised the odds for a near term rate cut. Concomitantly, bond market opened on a positive note. Adding to the enthusiasm, Feb WPI numbers came in much lower than market expectation as food prices eased significantly during the month. A significant downside surprise on CPI coupled with RBI's announcement of OMO Purchase auction boosted market sentiment considerably. In its policy meeting, US FOMC held its key rates steady, whilst suggesting that growing external weakness is likely to hurt US economic recovery. In lieu of this, the Fed policymakers lowered their inflation and growth projections. The positive momentum sustained until the end of the week, wherein gilts softened by 9-10 bps across the curve.

The new 10Y benchmark 7.59% GS 2026 closed at ₹100.46 (7.52%) as compared to ₹99.73 (7.63%) on previous closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹10,635 Cr in this week compared to an infusion of ₹12,909 Cr in previous week. Infusions via the MSF route averaged ₹2,164 Cr. The Call rate ended at 6.81% compared to 6.53% from the previous week. The CBLO ended at 5.81% compared to 6.69% in the previous week.

CORPORATE BONDS

The 10 yrs AAA bond ended at 8.40% as compared to 8.57% in previous week. The 1 yr CD yield was seen trading at 7.92% as compared to 8.18% in previous week.

FUND MANAGER COMMENTS

Bond yield continues to rally on the back of benign inflation expectation and government's willingness for lower rates. Spread assets outperformed as asset managers scramble to build up their crossing bond portfolio. Liquidity is expected to remain tight due to seasonal factors and spread over policy rate for shorter tenor asset should continue at the current inflated level.

Market Indicators as on 18th March, 2016

| | 18-Mar-16 | 11-Mar-16 | change |
|--------------------------|-----------|-----------|--------|
| INR/USD | 66.51 | 67.05 | 0.82% |
| Brent Crude Oil (\$/bbl) | 41.20 | 40.39 | 2.01% |
| Gold (\$/oz) | 1,255.40 | 1,249.45 | 0.48% |
| 10 year G-Sec(GOI) | 7.52 | 7.63 | -0.11 |
| 10 year AAA PSU(Ind) | 8.40 | 8.57 | -0.17 |
| Avg. CBLO | 6.63 | 6.81 | -0.18 |
| US 10 year Gilt | 1.87 | 1.98 | -0.11 |

Source: Bloomberg



Sensex and Nifty went up by 235 points (0.90%) and 94 points (1.30%) to close at 24,953 and 7,604 respectively. Markets seemed to track the winning streak of other emerging markets and spurt in crude oil prices which rose above US\$40 per barrel for the first time since Dec. 3 also brought some cheer.

India's exports contracted for the 15th months in a row in to \$20.74bn (down 5.6% YoY) in February amid tepid global demand and a volatile global currency market, as imports contracted 5.0% YoY to \$27.3bn, leaving a trade deficit to \$6.54 bn. In April-February, exports contracted 16.7% to \$238.4 bn and imports shrank 14.7% to \$351.8 bn, leaving a trade deficit of \$113.4 bn. Weak demand in struggling overseas markets has hurt India's exports, as India's overall exports are projected by the commerce ministry to decline 13% to \$270 bn in 2015-16, with a trade deficit of \$120-125 bn.

February WPI was almost flat at -0.91% from -0.90% in Jan as food prices eased considerably MoM. Food article index fell 3.2% MoM with Vegetable inflation easing to -3.34% compared with 12.5% in Jan. Pulses inflation was 38.9% YoY. Fuel and power inflation was -6.40% and manufactured inflation was -0.58%. Core inflation rose to -1.60% from -1.98% in January as manufactured products index rose MoM.

Retail inflation fell to 5.18% from 5.69% in the previous month. Inflation was a little below our estimate of 5.35% and market estimate of 5.53%. The surprise was mainly due to lower food inflation (with sharp fall in vegetable inflation to 0.7% from 6.4% in Jan). Fuel inflation fell to 4.59% from 5.32%, Housing inflation rose to 5.33% from 5.20% while clothing inflation fell to 5.52% from 5.71%. Misc inflation rose to 4.38% from 3.95%.

The oil marketing companies increased the price of petrol by ₹3.07 per litre and diesel by ₹1.90. INR continued to strengthen, registering its best reading since start of the year at 66.6.

Citing increased risks with global economic and financial developments, the Federal Open Market Committee (FOMC) kept its benchmark Federal Funds Rate at a target range between 0.25% and 0.50%. Nevertheless, the Fed slashed its forecasts for future interest rate hikes from four to two for the remainder of 2016. In addition, the FOMC cut 50 basis points from its forecasts for next year. Since the FOMC last met in January, the U.S. central bank said the economy has expanded at a moderate pace while it has noticed additional strength in the labor market. While the Fed noted that inflation has picked up in recent months, the FOMC emphasized that it still remains below its long-term 2% objective. U.S. bond yields dropped, with the two-year note logging the biggest one-day decline in six months.

The Bank of Japan kept policy settings unchanged at a subsequent meeting in March but offered a bleaker view on the economy, signaling its readiness to roll out further stimulus if needed to hit its ambitious 2% inflation target. It made two proposals, one to expand the bank's massive asset-buying programme and another to add negative interest rates to asset purchases, at the January rate review, minutes of the meeting showed. The BOJ eventually decided to adopt the negative interest rate policy after several members argued the move would help forestall the risk of external factors delaying the eradication of Japan's "deflationary mindset," the minutes showed.

Taurus Benchmark Indices Movement

| Indices | 18/03/16 | 11/03/16 | Points change | % change |
|------------------|----------|----------|---------------|----------|
| S&P BSE Sensex | 24952.74 | 24717.99 | 234.75 | 0.95 |
| Nifty 50 | 7604.35 | 7510.20 | 94.15 | 1.25 |
| S&P BSE 100 | 7686.29 | 7604.43 | 81.86 | 1.08 |
| S&P BSE 200 | 3193.01 | 3160.19 | 32.82 | 1.04 |
| Nifty Midcap 100 | 12405.55 | 12300.35 | 105.20 | 0.86 |

Weekly FPI & MF net flows (₹ in crs.)

| | Equity | Debt |
|--------------------------------|----------|----------|
| FPIs (14/03/2016 - 18/03/2016) | 3306.33 | 1475.29 |
| Mfs (10/03/2016 - 16/03/2016) | -1801.20 | 23847.80 |

Source : FPI - CDSL
Source : MF - SEBI

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