

DEBT MARKETS

- Inflation based on CPI for the month of August jumped sharply to 3.36% pa from 2.36% pa print seen in the previous month. Analysts have attributed this increase to the advent of the GST regime and the house rent allowance adjustment under the 7th pay commission.
- Inflation based on the wholesale price index (WPI) also registered a sharp increase to 3.24% p.a. This compares to the 1.88% print that was witnessed in July.
- The index for industrial production (IIP) saw a modest growth of 1.2% for the month of July. It had seen a fall of 0.1% in the month of June.
- Strong rupee led to buoyant imports relative to exports leading to a rise in the country's current account deficit (CAD). For Q1 in FY 2017-18 the CAD came in at \$14.3 bn. This compares with \$3.4 bn deficit witnessed in the previous quarter.
- Higher inflation numbers and geopolitical tensions due to N Korea's nuclear test and missile launch meant that bond markets displayed jittery

behaviour. Yield on the benchmark 10 year government security crossed the 7.60% levels in intra day trade.

Yield Movement

- Yields on 10 year benchmark government bonds continue to trade in the range of 6.54% - 6.61%.
- The benchmark 10 year government bond closed the week trading at a yield of 6.60%, a rise of 6 basis points from the closing levels of the previous week.
- Yield on 10 year AAA PSU bond traded at approx.. 7.42%, indicating that spreads over gilts have remained steady.
- One year CDs yielded about 6.55%, indicating a rise of 5 basis point in yield level from last week's close.

Fund Manager Comments

Higher than expected inflation prints means that the chances of a policy rate reduction in the next monetary policy committee meeting are slim. Bond markets may therefore continue to trade subdued with dampened sentiment.



Sensex and Nifty went up by 585 pts. (1.8%) and 151 pts. (1.5%) to close at 32,273 and 10,085 respectively.

Japan said North Korea launched a missile over the northeast part of the country, and that it did not attempt to shoot the projectile down. The news sparked a sell-off in risk assets and sent investors scrambling for havens. The South Korean military conducted a drill about the same time, firing a ballistic missile of its own into the sea. North Korea earlier vowed to sink Japan and turn the U.S. into "ashes and darkness" following the latest round of sanctions against Kim Jong Un's regime. U.S. Secretary of State Rex Tillerson is pressuring China to keep an oil embargo, a "very powerful tool," as a potential option. China's ability to enforce sanctions against its neighbor have been hampered by smugglers working on the ground and at sea. An improving economy has also hindered the ability of sanctions to bring Kim Jong Un to heel.

Global oil demand is set to accelerate faster than anticipated this year, according to the International Energy Agency (IEA), which has revised up its 2017 growth estimates. Strong second-quarter demand has buoyed oil markets, which have been struggling to rebalance as a supply glut has weighed heavily on prices.

Inflation in China rose to 1.8% year on year in August, a seven-month high, mostly because of more expensive

commodity prices. But the price of pork, which worried the government when it surged last year because of its effect on the many households for which the meat is a staple food, fell again, by 13.4%.

India's factory output expanded by 1.2% in July, after contracting 0.17% in June, possibly due to restocking by companies following the rollout of the goods and services tax (GST) on the 1st of July. As manufacturing continued to remain weak the IIP comparatively seemed subdued with the 4.5% clocked in the year-ago period. Consumer inflation rose in August at 3.36% compared with 2.36% in July. Higher prices of food and fuel products drove inflation based on wholesale price index (WPI) to a four-month high of 3.24% in August. WPI-based inflation had stood at 1.88% in July.

The meeting between Indian Prime Minister Narendra Modi and his Japanese counterpart Shinzo Abe on Thursday paved the way for low-cost capital worth about ₹1.1 lakh crore (\$17.4 billion) over the next five to six years. The projects backed by these investments are expected to be completed by 2023. The two-day bilateral meet saw Japan extend soft loans to six projects for 50 years at a minimal interest rate of 0.1%.

Taurus Benchmark Indices Movement

Indices	15/9/2017	8/9/17	Points change	% change
S&P BSE Sensex	32272.61	31687.52	585.09	1.85%
Nifty 50	10085.40	9934.80	150.60	1.52%
S&P BSE 100	10515.62	10351.90	163.72	1.58%
S&P BSE 200	4428.72	4355.89	72.83	1.67%
Nifty Free Float Midcap 100	18951.95	18573.95	378.00	2.04%

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

	Equity	Debt
FPIs (11/09/2017 - 15/09/2017)	-120.06	357.47
MFs (07/09/2017 - 13/09/2017)	3759.7	10476.90

Source : FPI - CDSL
Source : MF - SEBI

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