

DEBT MARKETS

G-SEC Market

The truncated week with only three working day saw very highly volatility with G-Sec prices registering sharp improvement post a huge dip. The week opened on a somber note as surging global crude oil prices rendered an untoward impact on domestic market dynamics. Moreover, the previously released July CPI reading which slightly exceeded above the upper bound of the mandated inflation range, further dented market confidence. July WPI at 3.55% added to the cautiousness in the market. Nonetheless, intermittent spurts of value buying supported market momentum. The US FOMC minutes provided some reason to cheer as it indicated divided opinion among US policymakers over the likely timing for the next Fed rate hike. Consequently, market improved trading in a range bound manner. However, with the current RBI Governor's term due to end in over next two weeks, speculation over the likely candidature of the next incumbent took precedence. Growing uncertainty in this regard acted as bond negative with participants staying on the sidelines. Near week close, despite SLR supply, market witnessed another bout of buying selling with gilts paring up all gains registered during the course of the week. Momentum remained strong until closing as gilts held at previous week's closing levels.

The benchmark G-sec 7.59% 2026 closed at ₹103.31 (7.10%) vis-à-vis ₹103.30 (7.10%) on previous week closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹5,299 Cr in this week compared to an infusion of ₹7,914

Cr in previous week. Infusions via the MSF route averaged ₹10 Cr. The Call rate ended at 6.36% compared to 6.43% from the previous week. The CBLO ended at 4.79% compared to 6.42% in the previous week.

CORPORATE BONDS

The 10 yrs AAA bond ended at 7.72% as compared to 7.66% in previous week. The 1 yr CD yield was seen trading flat at 7.25% level.

FUND MANAGER COMMENTS

Average system liquidity improved for the week ending Aug 19 to a surplus of ₹33,906 crore compared to a deficit of ₹14,049 crore the week prior, led by RBI dividend payment, Gsec maturity of INR 38,093crs, possibly lower CIC and a shortened week. We expect system liquidity conditions to remain mostly in positive territory this week with no major outflows except for the SDL auction of ₹14,075 crore and regular auction flows. We expect the positive momentum in bonds to continue, however market will take cues from the announcement of candidate for the post of new RBI governor.

Market Indicators as on 19th August, 2016

	19-Aug-16	12-Aug-16	change
INR/USD	67.06	66.89	-0.26%
Brent Crude Oil (\$/bbl)	50.88	46.97	8.32%
Gold (\$/oz)	1341.26	1335.85	0.40%
10 year G-Sec(GOI)	7.10	7.10	0.00
10 year AAA PSU(Ind)	7.72	7.66	0.06
CBLO	4.79	6.42	-1.64
US 10 year Gilt	1.58	1.51	0.07

Source: Bloomberg



Sensex and Nifty went down by 75 points (-0.27%) and 5 points (-0.06%) to close at 28,077 and 8,667 respectively.

Market sentiments dampened during the week after WPI inflation jumped to a near two-year high at 3.55% as against 1.62% MoM on the back of higher food inflation. Consumer Price Index inflation also affected markets with retail inflation climbing up to nearly two-year high of 6.07% in July.

Moody's Investors Service retained India's growth forecast at 7.5% for 2016 but revised upwards estimates for China to 6.6% citing strong fiscal and monetary support. In its latest assessment of the global economy, Moody's Investors Service said the outlook for emerging markets economies has stabilised but outlined the policy changes post the US presidential election in November as the most immediate downside risks to the global economic outlook.

India's exports fell 6.8% YoY to \$21.7 bn. Imports contracted 19% to \$29.5bn. Trade deficit was \$7.76bn for the month.

In order to promote less cash economy, the India government has said it will bear the transaction cost for all payments made to it through debit or credit cards and net banking. At present, customers bear the transaction cost commonly known as merchant discount rate (MDR) on payments made to the government.

Global equities edged lower this week as the US Federal Reserve kept the door slightly ajar for a rate hike as early as September. Global Brent crude rose to \$50.46 from \$43.32.

Japanese exports tumbled at their steepest pace in 7 yrs as a stronger yen weighed on international shipments. Exports slid 14% YoY. This was the 10 months in a row that exports fell from a year earlier. Imports meanwhile tanked 24.7% YoY, worse than the 20.6% decline expected and the largest drop since 2009.

OPEC crude oil production hit an 8-yr peak in July, but may fall this month amid turmoil in major member countries. OPEC output rose to 33.4mb per day last month, as Saudi Arabia pushed its production to a new high and Iraq pumped more, said International Energy Agency.

The minutes of the recent ECB meeting show that European central bankers are very concerned about headwinds to economic growth in the eurozone as a result of the UK's vote to leave the EU. Expectations are growing for the ECB to add additional monetary stimulus in the months ahead.

Sentiment indicators have turned lower in UK following BREXIT, but "hard" economic data such as the unemployment rate and retail sales have proven remarkably resilient. This week's unemployment report showed that the jobless rate held steady at a low 4.9% last month. Better still, July retail sales had their best monthly performance in 14 yrs, rising 1.4% versus expectations of a 0.2% increase.

Turkey gave the EU an ultimatum this week: Approve visa-free travel within the EU for Turks by October or Turkey will shelve the deal struck with the EU to shelter waves of refugees from the Middle East.

Taurus Benchmark Indices Movement

Indices	19/08/16	12/08/16	Points change	% change
S&P BSE Sensex	28077.00	28152.40	-75.40	-0.27
Nifty 50	8666.90	8672.15	-5.25	-0.06
S&P BSE 100	8906.00	8874.27	31.73	0.36
S&P BSE 200	3721.09	3699.58	21.51	0.58
Nifty Free Float Midcap 100	15188.15	14814.75	373.40	2.52

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (16/08/2016 - 19/08/2016)	2309.50	564.73
MFs (11/08/2016 - 17/08/2016)	-93.00	-1954.00

Source : FPI - CDSL
Source : MF - SEBI

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