

DEBT MARKETS

G-SEC Market

At the start of the week itself, gilts opened with strong weakening bias. Intermittently, Jan WPI release came in much lower than expected at -0.90%. However, the release failed to soothe market concerns, as bond prices continued their downward trajectory. Added to that, sharp INR depreciation intensified concerns on macro outlook. Previously released retail inflation print for Jan-16 came in at 5.69%. Though the reading was well below RBI's 6% target, market expectations were largely centered around 5.40%-5.50%. As the week neared close, RBI announced Buyback auction to the tune of ₹18,991 Cr. Announcement of buyback over and above the budgeted amount helped quell market concerns of oversupply to a certain extent. As a result, market sentiment improved considerably, resulting in softening of yields. Even though gilts recovered most of their losses registered during the course of the week, bond yields were still marginally higher on a week on week basis.

The new 10Y benchmark 7.59% GS 2026 closed at 98.98 (7.74%) as compared to ₹99.08 (7.72%) on previous closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹10,673 Cr in this week compared to an

infusion of ₹21,393 Cr in previous week. Infusions via the MSF route averaged ₹1,103 Cr. The Call rate ended at 6.84% compared to 6.62% from the previous week. The CBLO ended at 6.23% compared to 6.85% in the previous week.

CORPORATE BONDS

The 10 yrs AAA bond ended at 8.56% as compared to 8.51% in previous week. The 1 yr CD yield was seen trading at 8.12% as compared to 8.14% in previous week.

FUND MANAGER COMMENTS

Liquidity deficit continues to hover above 1.6tn. Off late, RBI has successfully managed the overnight rate by announcing back to back term repo auctions. Government as well has been supporting liquidity through gilt buybacks. Money market curve hardly moved in the last fortnight. Shorter end rates generally tends to peak out at the fag end of February and given the recent rollovers substantial upwards in rate is unlikely. Duration assets continues to lag due to limited appetite from cash starved banks. Budget numbers will remain key for the market and will be closely contemplated.

Market Indicators as on 19th February, 2016

	19-Feb-16	12-Feb-16	change
INR/USD	68.57	68.24	-0.48%
Brent Crude Oil (\$/bbl)	33.01	33.36	-1.05%
Gold (\$/oz)	1,226.80	1,237.97	-0.90%
10 year G-Sec(GOI)	7.74	7.72	0.02
10 year AAA PSU(Ind)	8.56	8.51	0.05
Avg. CBLO	6.63	6.92	-0.29
US 10 year Gilt	1.75	1.75	0.00

Source: Bloomberg



Sensex and Nifty went up by 723 points (3.10%) and 230 points (3.30%) to close at 23,709 and 7,211 respectively.

The Organization for Economic Co-operation and Development (OECD) said that the global growth will expand 3.0 percent in 2016, the same pace as in 2015 and 0.3% point less than predicted in November. OECD further urged Group of 20 finance ministers and central bankers gathering in Shanghai next week to grapple with the slowdown to consider offering more fiscal stimulus to support monetary efforts already underway.

India has emerged as the sole ray of sunshine in an OECD global forecast clouded with gloom. It's the only large economy that's been upgraded which pared growth forecasts for all the others. It has raised India's growth forecast for 2016 to 7.4% and kept China's unchanged at 6.5. Moody's said India is relatively insulated from external turmoil and put growth for the country over the next two years at a stable 7.5%.

India's exports shrank in January for the 14th straight month on continued weak demand from Europe, but RBI said it would not follow countries such as China and Japan in pushing down the currency to help. Exports fell 13.6% from January a year ago, while imports contracted 11.01%, as trade deficit for January narrowed to \$7.64 billion, mainly due to soft demand for imported crude oil and falling prices of imported commodities, versus \$11.66 billion a month ago.

The rupee came exceedingly close to surpassing its previous all-time peak of ₹68.80 per US\$ which it had hit in August 2013.

January WPI inflation fell to -0.90% from -0.73% in December as food prices eased MoM (as against the rise in Retail inflation). Food article index fell 1.7% MoM while it was flat in CPI. Vegetable inflation eased to 12.5% compared with 20.5% in December (onions moderated to 5.5% from 26% in December), Pulses inflation was 44.9% YoY. Fuel and power inflation was -9.21% and manufactured inflation was -1.17%. Core inflation rose marginally to -1.98% from -2.04% in December as fall in global commodities continued unabated.

Iran stopped short of offering to restrain oil output as part of a global pact to freeze production to prop up prices, making clear it wants to recapture the market share it lost during years of sanctions. Iran's stance will complicate talks on output levels after a surprise compromise this week between two of the world's top exporters - non-OPEC Russia and the group's leader Saudi Arabia - to freeze output at January levels, near their historic highs. The first mooted global oil pact in 15 yrs has so far failed to impress the market, which had expected a production cut instead of a freeze that could even turn into an increase if Iran wins special terms from fellow OPEC members.

Taurus Benchmark Indices Movement

Indices	19/02/16	12/02/16	Points change	% change
S&P BSE Sensex	23709.15	22986.12	723.03	3.15
Nifty 50	7210.75	6980.95	229.80	3.29
S&P BSE 100	7281.95	7062.40	219.55	3.11
S&P BSE 200	3031.93	2945.85	86.08	2.92
Nifty Midcap 100	11823.35	11485.80	337.55	2.94

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (15/02/2016 - 19/02/2016)	-2249.04	-1058.43
Mfs (11/02/2016 - 17/02/2016)	2018.20	-1233.20

Source : FPI - CDSL
Source : MF - SEBI

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