

DEBT MARKETS

Domestic data:

- May CPI came at 2.18% compared to 2.99% in April. The decline was led by a slowdown in prices of food articles including vegetables & pulses.
- May WPI came at 2.18% compared to 3.85% in April.
- April IIP rose 3.1% as against 2.7% in March.
- India's Balance of Payment position in fiscal year ending March 2017 stood at a surplus of \$21.5 bn compared to \$ 17.9 bn in FY 16.
- Current Account Deficit (CAD) narrowed to \$3.4 bn in Jan-Mar period from \$ 7.9 bn in the previous quarter.

Global data:

- FOMC raised rates by 25 bps and also planned to shrink its balance sheet this year.
- FOMC believes that inflation will fall short of its 2% target this year.

Yield Movement

The 10 year AAA PSU bond ended at 7.43% as compared to 7.42% in previous week. The 1 year CD yield was seen trading at 6.65% as compared to 6.68% in previous week.

Liquidity

The banking system liquidity surplus tightened to average ~₹2.95 tn for the week ending Jun 17 as against ₹3.36 tn

for the week ending Jun 9. The reduction in surplus liquidity last week was, expectedly, led by ~₹45,000 cr of advance tax outflows along with regular Gsec and SDL auction flows even as the CMB maturity of ₹20,000 cr on Friday provided the cushion in maintaining the surplus liquidity. The WMA utilization by the government after surging to highs of ₹88,031 cr as on Jun 2 dipped to ₹24,662 cr as on Jun 9. The decline in the utilization is clearly reflected in the tightening liquidity conditions during the week as the government would have chosen to pay back to RBI. CIC for the week ending Jun 9 increased by ₹230 bn to ₹15.2 tn.

Fund Manager Comments

The downward surprise on CPI inflation print at 2.18% helped bond market find further comfort as it strengthened a near-term rate cut case. The Fed policy delivered the expected rate hike and laid out a balance sheet normalization plan. But global markets focused more on the weak inflation and activity data prints in the US, leading to limited movements in major global and Indian asset classes. June CPI is expected to be around or sub 2% and hence we see domestic rates supported as the rate cut expectations remains strong and system liquidity in excess.

Market Indicators as on 16th June, 2017

| | 16-Jun-17 | 9-Jun-17 | change |
|------------------------------|-----------|----------|---------|
| USD/INR | 64.43 | 64.25 | -0.28% |
| Brent Crude Oil (\$/bbl) | 47.37 | 48.15 | -1.62% |
| Gold (\$/oz) | 1,253.73 | 1,266.76 | -1.03% |
| 10-year G-Sec(GOI) 6.79 2027 | 6.49% | 6.50% | - 1 bps |
| 10-year AAA PSU(Ind) | 7.43% | 7.42% | + 1 bps |
| US 10-year Gilt | 2.15% | 2.20% | - 5 bps |

Source: Bloomberg

Weekly Statistical Supplement (INR Bn)

| | 9-Jun-17 | 2-Jun-17 |
|-------------------------|----------|----------|
| Reserve Money (INR bn) | 20091 | 19824 |
| YoY Growth % | -7.59% | -8.52% |
| Currency in Circulation | 15180 | 14950 |
| Forex Reserves (USD bn) | 381.2 | 381.2 |

| Scheduled Commercial Banks | 26-May-17 | YoY Growth % |
|----------------------------------|-----------|--------------|
| Deposits | 105512 | 10.9% |
| Credit | 75936 | 5.1% |
| | 26-May-17 | 27-May-16 |
| Incremental Credit/Deposit YTD % | 121.3% | -12.4% |

Source: RBI (Amount in bn)



Sensex and Nifty went down by 206 pts. (-0.70%) and 80 pts. (-0.80%) to close at 31,056 and 9,588 respectively.

The US Federal Reserve has raised its key interest rate for the third time in six months, providing its latest vote of confidence in a slow-growing but durable economy. The Fed also announced plans to start gradually paring its bond holdings later this year, which could cause long-term rates to rise. The increase in the short-term rate by a quarter-point to a still-low range of 1% to 1.25% could lead to higher borrowing costs for consumers and businesses and slightly better returns for savers.

In India, slower growth in exports and sharper rise in imports led by gold and silver made trade deficit balloon to a 30-month high in May. Exports for the month of May went up 8.3% YoY, a ninth straight month of growth. However, the rate of rise was still lower than April, when exports grew 19.4%, while Imports for May grew 33%. Total imports rose mainly on the back of petroleum products, gold and electronic goods, pearls, precious and semi-precious stones, and machinery. Gold imports for May grew 237%. Trade deficit for the month widened to USD 13.8 bn from USD 6.2 bn in May 2016.

India's current account deficit (CAD) shrunk to 0.7% of GDP in 2016-17 from 1.1% a year ago. In absolute terms too, at USD 15.2 bn, CAD was lower than the last year's level of USD 22.1 bn.

The wholesale price index (WPI) inflation eased to 2.17% in May this year, refuting the market expectation of 3% inflation. The WPI-based inflation stood at 3.85% in April 2017. The lowering inflation continues to put pressure on the RBI for rate revisions in this fiscal.

Retail price inflation, measured by the Consumer Price Index (CPI), fell to a record low of 2.18% in May 2017 from 2.99% in April 2017. Retail price inflation fell for the second consecutive month. Inflation in both rural and urban India witnessed a decrease. The fall was mainly due to favourable base and further easing of some food product prices (mainly vegetables and pulses). Food index contracted YoY in May. Vegetable and pulses inflation fell to -13.4% and -19.5% respectively.

Index of Industrial Production (IIP) rose by 3.1% in April led by robust growth in electricity generation. The CSO also revised upwards the IIP growth figure for March to 3.75% from its provisional estimate of 2.7%. While electricity generation grew by 5.4%, mining expanded by 4.2%. However, manufacturing output grew by a laggard 2.6% in April this year. In terms of industries, 14 out of the 23 industry groups in the manufacturing sector have shown positive growth in April 2017.

Taurus Benchmark Indices Movement

| Indices | 16/6/2017 | 9/6/17 | Points change | % change |
|-----------------------------|-----------|----------|---------------|----------|
| S&P BSE Sensex | 31056.40 | 31262.06 | -205.66 | -0.66% |
| Nifty 50 | 9588.05 | 9668.25 | -80.20 | -0.83% |
| S&P BSE 100 | 9920.24 | 9990.61 | -70.37 | -0.70% |
| S&P BSE 200 | 4177.01 | 4204.08 | -27.07 | -0.64% |
| Nifty Free Float Midcap 100 | 18002.55 | 17993.90 | 8.65 | 0.05% |

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

| | Equity | Debt |
|--------------------------------|---------|---------|
| FPIs (12/06/2017 - 16/06/2017) | 4311.57 | 7087.36 |
| MFs (08/06/2017 - 14/06/2017) | 2284.8 | 6701.3 |

Source : FPI - CDSL
Source : MF - SEBI

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