

DEBT MARKETS

- CPI inflation for the month of February came in at 4.44% compared to 5.07% in the previous month. WPI inflation came in at 2.48% compared to 2.84% in the previous month. Both inflation prints were relatively softer than expected and provides hope that the monetary policy committee may not raise rates in its next scheduled meeting.
- Index for industrial production (IIP) for the month of January 2018 grew at a rate of 7.5%. This number was well above expectations and reinforces the belief that the manufacturing economy is well on its way to recovery.
- India's exports jumped 6% (YoY) to \$25.83 bn while imports shrank 7.1 % (YoY) to \$37.81 bn in the month of February 2018. Trade deficit narrowed to \$11.98 bn in February as against \$16.29 bn in January.
- However, India's Current Account Deficit (CAD) for Q3 FY18 came in at USD 13.48 Bn (2.1% of GDP), higher than USD 7.96 Bn (1.4% of GDP) in Q3 of the previous year.

Yield Movement

- The benchmark 10 year government bond closed the week trading at a yield of 7.56%, a fall of 11 basis points closing levels of the previous week.
- Yield on 10 year AAA PSU bond traded at approx. 8.37%, indicating that spreads over gilts have widened a bit.
- One year CDs yielded about 7.40%, indicating a fall of about 5 basis points in yields over the week.

Fund Manager Comments

Bond prices were supported during the week due to lower than expected inflation prints. This has raised expectations that RBI's monetary policy committee may not adopt a hawkish tone in its scheduled rate setting meeting due early April. Fresh cues for the market would emanate from the US Federal Open Market Committee (FOMC) meeting later this week which will set policy interest rates in the US. It is widely expected to raise interest rates for the first time in 2018. This will also be the first FOMC meeting for new Fed Chairman, Jerome Powell.



Sensex and Nifty went down by 131 pts. (-0.40%) and 32 pts. (-0.30%) to close at 33,176 and 10,195 respectively.

The World Bank projected India's GDP growth at 7.3% for the next financial year and accelerates further to 7.5% in 2019-20. The report, however, observed that a growth of over 7% will require "continued reform and a widening of their scope" aimed at resolving issues related to credit and investment, and enhancing competitiveness of exports. Accelerating the growth rate will also require continued integration into global economy and enhancing the effectiveness of the Indian public sector.

India's retail inflation rate, the main policy target for the RBI, declined for the second month in February, to 4.44%, but remained above the central bank's 4% medium-term target. The RBI expects retail inflation to pick up to 5.1% to 5.6% in April-September before easing, assuming normal rainfall. February WPI moderated to 2.48% from 2.84% in the previous month. Core inflation, however, rose to 3.87% from 3.50% in January.

January IIP jumped by 7.5%. Consumer goods contributed 37.0% to the strong growth numbers and the major push has come from two wheelers. The growth was primarily Manufacturing driven registering a growth of 8.7% YoY. Mining grew at sluggish 0.1% whereas Electricity grew at

7.6%. Primary goods grew at 5.8% whereas Capital Goods grew at an impressive 14.6%. Intermediate goods grew at 4.9%. Infra/Construction grew at a record 6.8%. Consumer durables showed a positive surprise growing at 8% (highest since September 2016). Consumer Non-Durables continued to show momentum growing at 10.5%. YTD IIP growth is 4.1%.

Trade deficit in Feb narrowed to \$12.0 bn in Feb from \$16.3 bn In Jan. Exports rose 4.5% to \$25.8bn while imports rose 10.4% to \$37.8bn. YTD trade deficit has touched \$ 143.2bn (compared with \$97.8bn last year) which is worrying although not yet alarming. Trade deficit for FY18 is likely around \$152.0bn with CAD at around \$46.0 bn (1.8% of GDP).

U.S. President Donald Trump is seeking to impose tariffs on up to \$60 billion of Chinese imports and will target the technology and telecommunications sectors. While the tariffs would be chiefly targeted at information technology, consumer electronics and telecoms, they could be much broader and the list could eventually run to 100 products. Trump is targeting Chinese high technology companies to punish China for its investment policies that effectively force U.S. companies to give up their technology secrets in exchange for being allowed to operate in the country, as well as for other IP practices.

Taurus Benchmark Indices Movement

Indices	16/3/2018	9/3/18	Points change	% change
S&P BSE Sensex	33176.00	33307.14	-131.14	-0.39%
Nifty 50	10195.15	10226.85	-31.70	-0.31%
S&P BSE 100	10579.91	10577.79	2.12	0.02%
S&P BSE 200	4468.68	4461.56	7.12	0.16%
Nifty Free Float Midcap 100	19055.45	18773.15	282.30	1.50%

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

	Equity	Debt
FPIs (12/03/2018 - 16/03/2018)	6713.73	-5831.99
MFs (08/03/2018 - 14/03/2018)	3304.68	6286.65

Source : FPI - CDSL
Source : MF - SEBI

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