

DEBT MARKETS

G-SEC Market

Sentiment turned negative previous week post higher than expected rise in consumer and wholesale prices. While broad consensus suggested that most participants did not expect monetary easing in the upcoming June policy, the shocking rise in price levels further clouded certainty over the likely pace and extent of RBI policy rate cuts. As a result, the initial couple of sessions saw market trade in a tight range with limited price movements. Intermittently, hopes of RBI OMO purchase announcement amid rising systemic deficit rendered some support. Mid-week, strong US macroeconomic data prints indicated that growth in the economy was gathering momentum. The release of US FOMC minutes came in just at the opportune time with policymakers staying hopeful of a June Fed rate hike. Of late, FPI interest in Indian debt market has been on the wane, with the recent under-subscription at the gilt investment limits auction standing reflective of this observation. With expectations of June rate hike now a greater possibility, participants remained wary of assuming positioning in the market. Absence of RBI OMO notice further added to bearishness. By week close, market remained under stress as gilts ended the week 2-3 bps higher on the yield curve.

The 10Y benchmark 7.59% GS 2026 closed at ₹100.76 (7.48%) as compared to ₹100.94 (7.45%) on previous closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹12,547 Cr in this week compared to an infusion of ₹19,588 Cr in previous week. Infusions via the MSF route averaged ₹242 Cr. The Call rate ended at 6.38% compared to 6.48% from the previous week. The CBLO ended at 6.51% compared to 5.55% in the previous week.

CORPORATE BONDS

The 10 yrs AAA bond ended at 8.21% as compared to 8.17% in previous week. The 1 yr CD yield was seen trading at 7.45% unchanged from previous week.

FUND MANAGER COMMENTS

Bonds are expected to trade narrow with a negative bias where traders would closely track monsoon updates. Recent heat wave has not only pushed vegetable prices up but have escalated reservoir depletion rate as well. Liquidity is expected to remain firm with an easing bias as government shed its account balance in the form of month end spending. Global macro events and oil prices will guide the domestic markets ahead.

Market Indicators as on 20th May, 2016

	20-May-16	13-May-16	change
INR/USD	67.45	66.77	-1.00%
Brent Crude Oil (\$/bbl)	48.72	47.83	1.86%
Gold (\$/oz)	1,251.98	1,273.45	-1.69%
10 year G-Sec(GOI)	7.48	7.45	0.03
10 year AAA PSU(Ind)	8.21	8.17	0.04
Avg. CBLO	6.49	6.58	-0.09
US 10 year Gilt	1.84	1.70	0.14

Source: Bloomberg



Sensex and Nifty went down by 188 points (-0.70%) and 65 points (-0.80%) to close at 25,302 and 7,750 respectively.

In a proposal to tighten rules for participatory notes (P-Notes) SEBI proposed an increase in disclosure requirements and restricted transfer of P-Notes.

IMD said the monsoon has made its much-awaited entry into the Andaman & Nicobar Islands, but may get delayed a bit due to an ongoing cyclonic activity in the Bay of Bengal. IMD had earlier reported a delay in the arrival of monsoon over mainland India by 6 days.

For the first time in 9 yrs, India's consumer confidence index has soared to levels of 134 for the March 2016 quarter, pointing to optimism that people here feel about job prospects, personal finance and spending. It was in the first half of 2007 that India had achieved a consumer confidence index of 135 ahead of Norway, which was then ranked second globally. While Nielsen, the market research agency that measures global consumer confidence, has moved to a quarterly reporting structure since 2009, India's 134-point index comes after three successive quarters of a score of 131 for it.

April WPI accelerated to 0.34% compared with -0.85% in the previous month. The overall index jumped 1.4% MoM on rising primary and manufactured articles. Manufactured index rose 0.8% MoM with manufactured food jumping 3.2% MoM. On a YoY basis; food prices rose to 4.23% from 3.73%, pulses inflation rose 36.4% against 34.4%. Fuel index rose to -4.8% YoY compared with -8.3% in March while manufacturing index jumped to 0.71%

against -0.13% in March. Core inflation rose to -0.77% from -1.07% in March.

In four states which went in for Assembly Elections last week, the BJP emerged as a clear victor in Assam. Mamata continued to reign in West Bengal, J Jayalalithaa too won another term as the Chief Minister while Left returned to power in Kerala.

Union Labour Minister Bandaru Dattatreya said the Employees Provident Fund Organisation (EPFO) may invest more than ~\$1bn in equity market during the current financial year. The final decision will be taken by the Central Board of Trustees at the next meeting.

Japan, surprised markets on Wednesday by reporting its fastest pace of annualized quarterly growth in a year. Real GDP for the Jan-March period expanded an annualized 1.7% against expectations in a Reuters poll for a 0.2% rise. On a quarterly basis, GDP grew 0.4% against a poll forecast of a 0.1% quarterly gain.

Mario Draghi is discovering that the ECB's purchasing power isn't as strong as he had hoped. Less than two years since the ECB president said he would boost the institution's balance sheet to 3 trillion euros (\$3.4 trillion) to revive inflation, he has reached that way-point and is on the verge of setting a new record. Unfortunately, inflation has only worsened. The disappointing outcome so far - partly the result of an unforeseen plunge in oil prices and a China-led slowdown in the global economy - suggests the central bank's asset base will rise further before consumer-price growth is back in the comfort zone.

Taurus Benchmark Indices Movement

Indices	20/05/16	13/05/16	Points change	% change
S&P BSE Sensex	25301.90	25489.57	-187.67	-0.74
Nifty 50	7749.70	7814.90	-65.20	-0.83
S&P BSE 100	7869.89	7944.50	-74.61	-0.94
S&P BSE 200	3283.09	3315.87	-32.78	-0.99
Nifty Free Float Midcap 100	12970.05	13130.80	-160.75	-1.22

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (16/05/2016 - 20/05/2016)	1973.12	-4090.91
MFs (12/05/2016 - 18/05/2016)	716.00	6892.90

Source : FPI - CDSL
Source : MF - SEBI

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