

DEBT MARKETS

G-SEC Market

Last week, market remained in the tight range taking cues from the uptick in US treasury yields and weakness in INR. At the start of the week, consistent rise in US Treasuries and growing fears of the unforeseen outcomes of 'Brexit' and its associated impact on global markets led to lack of any meaningful demand from investors. Moreover, on the domestic front, continued disappointment on OMO notice dented market confidence considerably amid tight domestic liquidity. As the week progressed, 'dovish' comments by US Fed Fischer, who is considered as a centrist on FOMC policy views, helped restrict further fall in domestic markets to a great extent. Rising systemic liquidity deficit also had its untoward on T-Bills auction as the cutoffs came higher than that of the previous week. Nonetheless, the OMO notice aided in recovering almost all of the losses registered at the start of the week, with gilts in the liquid segment ending fairly unchanged than previous week's close. RBI announced OMO purchases worth ₹10,000 crore to be conducted on October 25, also G-Sec buyback of ₹20,000 crore at the shorter end of the curve.

The benchmark G-sec 7.59% 2026 closed at ₹104.99 (6.85%) vis-à-vis ₹104.97 (6.85%) on previous week closing. New 10 yrs benchmark 6.97% 2026 closed at 6.76% as compared to 6.75% yield on previous week closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹8,976 Cr in this week compared to an infusion of

₹13,603 Cr in previous week. Infusions via the MSF route averaged ₹915 Cr. The Call rate ended at 6.30% compared to 6.28% from the previous week. The CBLO ended at 6.26% compared to 6.14% in the previous week.

CORPORATE BONDS

The 10-yrs corporate bond (AAA) remained flat at 7.44% compare to previous week. The 1-yr CD yield was seen trading at 6.90% compared to 6.82% in previous week.

FUND MANAGER COMMENTS

Liquidity condition continued to be in deficit mode with average deficit of ₹27,302 crore for week ending Oct 21 compare to a deficit of ₹7,482 crore week prior, on account of increase in CIC ahead of festive season also telecom auction outflows of ~₹32,000 crore seem to have worsened the deficit. Government's cash balance decreased to ₹27,030 crore compare to 32,428 in previous week. We expect system liquidity conditions to tighten further on account of CIC drain and mismatches due to FCNR (B) redemptions. However, OMO and G-Sec buyback inflows might provide some breather. We expect new 10-yrs paper to trade in 6.70%-6.80% range while the old 10-yrs paper is expected to trade in the range of 6.80%-6.90% for this week.

Market Indicators as on 21st October, 2016

	21-Oct-16	14-Oct-16	change
INR/USD	66.89	66.72	-0.26%
Brent Crude Oil (\$/bbl)	51.78	51.95	-0.33%
Gold (\$/oz)	1266.28	1251.43	1.19%
10-year G-Sec(GOI)	6.85	6.85	0.00
10-year AAA PSU(Ind)	7.44	7.44	0.00
CBLO	6.26	6.14	0.13
US 10-year Gilt	1.73	1.80	-0.06

Source: Bloomberg



Sensex and Nifty went up by 404 points (1.50%) and 110 points (1.30%) to close at 28,077 and 8,693 respectively. Sentiment was boosted on expectations of lower GST rate in the GST council meet, but faded a bit when decision got postponed to November 3rd and 4th. Better than expected quarterly earnings by index heavyweights like Reliance Industries, HCL Tech and Yes bank lifted the sentiment on the street.

India's GST Council discussed a four-tier rate structure suggested by the Centre and agreed on compensation to loss incurring states for the first 5 years of the new tax regime. The council was apprised of the proposal of these slabs - 6, 12, 18 and 26%, with cess on the highest tariff for ultra luxury and demerit items. The proposal also includes 4% rate on gold, but the Centre said it can't be called a slab because it is specific to just one commodity. Almost 20-25% of all taxable goods, including those consumed by the middle class, could come under the peak rate.

RBI decided to allow foreign investment up to 100% under the automatic route in 'other financial services'. It, however, said foreign investment in an activity that is regulated by an Act will be restricted to foreign direct investment (FDI) limits. Hence, sectors such as insurance, which already have pre-defined FDI limit (49% in insurance), will continue to follow that.

Wholesale Price Index (WPI)-based inflation for September 2016 came in at 3.57%. This was lower than the 3.74% WPI inflation print in the previous month. On the other hand, September 2016 Imports to India slumped 2.5% yoy to US\$31.2bn while exports went up 4.6% yoy to US\$22.8bn.

Petrol price was hiked by ₹1.34/l, the fifth increase in two months, and diesel by ₹2.37/l on back of spike in global rates.

Global equities advanced modestly this week.

In US while it was early in the Q3 earnings season, reports so far suggest that the earnings recession of the past four quarters may be about to come to an end. Fed's Vice-Chair Stanley Fischer said that the central bank is very close to achieving its twin goals of full employment and inflation near 2%.

ECB kept interest rates at record lows, as was widely expected, as inflation gradually picks up in the currency bloc. The ECB shot down any talks of tapering its 1.7 trillion euro asset-buying programme and instead said it has 6 weeks left to revamp its quantitative easing package. The signal of more stimulus sent the euro tumbling to a four-month low against the US dollar.

Brazil cut interest rates for the first time in 4 yrs, opting for a modest 25 basis-point reduction to launch an easing cycle aimed at pulling Latin America's biggest economy out of its worst recession in over a century. The central bank's monetary policy committee voted unanimously to cut its benchmark Selic rate to 14%, signalling it will proceed with a "moderate and gradual" easing cycle.

China's economy remained stable in the third quarter, all but ensuring the government's full-year growth target will be hit and paving the way for a policy switch toward reining in financial risks. GDP rose 6.7% in the third quarter from a year earlier. Services industries paced the expansion in the first three quarters, with the sector growing 7.6%.

Taurus Benchmark Indices Movement

Indices	21/10/2016	14/10/2016	Points change	% change
S&P BSE Sensex	28077.18	27673.60	403.58	1.46
Nifty 50	8693.05	8583.40	109.65	1.28
S&P BSE 100	8990.65	8867.40	123.25	1.39
S&P BSE 200	3781.67	3734.18	47.49	1.27
Nifty Free Float Midcap 100	16071.10	15894.95	176.15	1.11

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (17/10/2016 - 21/10/2016)	-745.56	-983.02
MFs (13/10/2016 - 19/10/2016)	2006.50	-1263.10

Source : FPI - CDSL
Source : MF - SEBI

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