

DEBT MARKETS

- Retail inflation based on CPI rose to 2.36% for July compared to 1.54% in June. This was led by an uptick in prices of food. Core CPI (ex- food and energy) also rose to 3.96% as compared to 3.85%, a month prior.
- Inflation based on wholesale prices also showed a sharp up move in July, The initial print came in at 1.88% as compared to 0.90% for the month of June.
- Trade deficit for the month of July came in at USD 11.45 bn. This compares with USD 7.76 bn trade deficit for the year ago. For the April to July period trade deficit came in at USD 51.5bn as compared to USD 27 bn for the same period a year ago.
- Analysts expect retail inflation print to go up further in the month of August, likely to be closer to 3% levels. WPI based inflation is also likely to exceed 2% for the month of August.
- The benchmark 10 year government bond closed the week trading at a yield of 6.51%, almost flat from the closing levels of the previous week.
- Yield on 10 year AAA PSU bond traded at approx.. 7.40%, indicating that spreads over gilts have widened marginally.
- One year CDs yielded about 6.47%, indicating a drop of 1 basis point in yield level from last week's close.

Fund Manager Comments

With retail inflation likely to pick up further, chances of a further rate reduction in the next monetary policy committee meeting appear slim. This might put upward pressure on bond yields. However indications of a divided house in the US Fed on the subject of rate increases in the US has supported treasury prices in the US and in turn has provided succor to bond prices around the world.

Yield Movement

- Yields on 10 year benchmark government bonds continue to trade in the range of 6.46%- 6.51%.



Sensex and Nifty went up by 311 pts. (1.00%) and 127 pts. (1.30%) to close at 31,525 and 9,837 respectively.

Industrial production in China grew by 6.4% in the year to July, falling short of expectations. Although the IMF raised its GDP-growth forecast this year from 6.2% to 6.7%, it warned that the country was shoring up growth by taking on dangerous amounts of debt. Non-financial-sector debt could reach almost 300% of GDP by 2022.

Officials from America, Mexico and Canada began renegotiating the North American Free-Trade Agreement. The 23-year-old pact, pilloried by President Donald Trump, is due for an upgrade. New rules to govern labour and environmental standards, digital trade and dispute resolution could all feature. Nonetheless, talks are expected to be difficult, particularly if the Trump administration sticks rigidly to its "America First" agenda.

India's trade deficit continued to widen as higher gold imports offset an eleventh straight month of export growth. Trade deficit stood at \$11.9 billion in July compared to \$7.7 billion in the same month last year. The gap was lower than \$12.9 billion in June. Imports in July rose 15.4% over last year

to \$33.9 billion as inbound shipments of gold, silver and oil increased. Gold imports have been on the rise since February, after a slowdown during demonetization. The value of gold imports in July nearly doubled from last year to \$2.1 billion. Silver imports went up 222% to \$175.8 million.

The Consumer Price Index (CPI) inflation came in at 2.36% for the month of July. Food price inflation came in at -0.29%, higher than -1.17% in June, as vegetable prices saw a sharp spike. Core inflation, which had fallen continuously for the last four months, stood at 3.9%, up from 3.8% a month ago. Meanwhile, the June CPI inflation rate was revised to 1.46% from 1.54% earlier. July Wholesale Price Index (WPI) rose to 1.88% from 0.90% in the previous month.

According to Association of Mutual Funds in India (AMFI), the Assets Under Management (AUM) of the Indian mutual fund industry increased 5.3% to ₹19.97 lakh crore in July 2017 from ₹18.96 lakh crore in the previous month. Positive investor sentiment and ever-growing popularity of Systematic Investment Plans (SIPs) attracted investments in both debt and equity segments. The industry AUM had touched Rs. 10 lakh crore in May 2014 and in a short span of three years, it has nearly doubled.

Taurus Benchmark Indices Movement

Indices	18/8/2017	11/8/17	Points change	% change
S&P BSE Sensex	31524.68	31213.59	311.09	1.00%
Nifty 50	9837.40	9710.80	126.60	1.30%
S&P BSE 100	10216.53	10063.16	153.37	1.52%
S&P BSE 200	4289.48	4215.23	74.25	1.76%
Nifty Free Float Midcap 100	18044.50	17360.75	683.75	3.94%

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

	Equity	Debt
FPIs (14/08/2017 - 18/08/2017)	-5280.66	-1055.73
MFs (10/08/2017 - 16/08/2017)	5177.3	12233

Source : FPI - CDSL
Source : MF - SEBI

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