

DEBT MARKETS

G-SEC Market

RBI actively bought gilt securities on a regular basis thereby inducing positive sentiment among participants. At the week start, buoyant global cues rendered firm opening to the domestic bond market. However, EME risk off sentiment caused significant INR depreciation, causing anxiety over translation of such weakness into gilts. In a surprise move, RBI announced OMO Purchase auction for an amount of ₹10,000 Cr. Enthused with RBI intervention in gilts, market witnessed robust volumes along with volatile price upswings. However, significant upside gains were capped as participants remained wary over OMO outcome. Recent episodes of disappointing OMO/Buyback results further added to caution. Nonetheless, positive momentum sustained in the run up to the OMO auction results. While the auction cutoffs were as expected, RBI's acceptance of longer tenor securities is what renewed confidence amongst traders. Despite the positivity, market once again signaled diminishing appetite for duration securities as RBI devolved 18-yrs paper on PDs. Despite this, the underlying tone of the market remained encouraging as gilts ended the week 4-5 bps lower on the yield curve.

The old 10Y benchmark 7.72% GS 2025 closed at 99.62 (7.78%) as compared to ₹99.42 (7.81%) on previous closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹17,179 Cr in this week compared to an

infusion of ₹18,021 Cr in previous week. Infusions via the MSF route averaged ₹171 Cr. The Call rate ended at 6.92% unchanged from the previous week. The CBLO ended at 6.75% compared to 6.92% in the previous week.

CORPORATE BONDS

The 10 yrs AAA bond ended at 8.40% as compared to 8.38% in previous week. The 1 yr CD yield was seen trading at 7.72% as compared to 7.78% in previous week.

FUND MANAGER COMMENTS

We expect liquidity to ease marginally, if not substantially. Government has been carrying heavy cash balance of more than ₹1.2tn. Spending will get the money supply back into the system. Certificate of deposit rates may ease marginally tracking easy liquidity however we foresee no relief to corporate borrowers as asset managers continue to go slow ahead of awaited SEBI circular over recent exposure guidelines. Domestic bond yields should trade with a tightening bias as traders pare duration ahead of Fed and RBI policy. Though RBI is not expected to move on rates, guidance can be hawkish in the light of recent spike in inflation and tight fiscal situation.

Market Indicators as on 22nd January, 2016

	22-Jan-16	15-Jan-16	change
INR/USD	67.63	67.55	-0.12%
Brent Crude Oil (\$/bbl)	32.18	28.94	11.20%
Gold (\$/oz)	1,097.95	1,088.88	0.83%
10 year G-Sec(GOI)	7.78	7.81	-0.03
10 year AAA PSU(Ind)	8.40	8.38	0.02
Avg. CBLO	6.89	6.89	0.00
US 10 year Gilt	2.05	2.04	0.01

Source: Bloomberg



Sensex and Nifty went down by 19 points (-0.10%) and 15 points (-0.20%) to close at 24,436 and 7,422 respectively. Apart from global slowdown led by China and geo political tensions, flight of capital outflow and depreciating Indian rupee were the other important factors which bothered investors.

India's exports contracted for the 13th consecutive month in December, falling 14.75% from a year ago, as a sharp 179% rise in gold imports in the month widened the trade deficit to a four-month high of \$11.66 bn compared with \$9.8 bn in November. Imports fell 3.88% from a year earlier to \$33.96 bn. Exports fell in 15 out of 30 segments including iron ore, gems and jewellery, and engineering goods, as poor performance of exports this year had been cushioned by services exports and low oil import bill.

The International Monetary Fund (IMF) lowered its world growth outlook to 3.4% this year, down from a projected 3.6% in October 2015. IMF is of the opinion that there are three major threats to global growth; firstly, slowdown in emerging markets, secondly, China's shift to domestic driven growth and last the Federal Reserve's gradual exit from ultra-low interest rates.

Central bank of China injected more than 1 trillion yuan in last three weeks through money market operations to fill the gap for seasonal demand for funds and surging capital outflows.

China's economy grew 6.8% in the fourth quarter from a year earlier, matching expectations and the slowest since the global financial crisis, putting pressure on Beijing to roll out more support

measures as fears of a sharper slowdown panic investors. Chinese leaders have been struggling to put a floor under cooling activity, even as a renewed plunge in the country's stock markets and the yuan currency have stoked worries that conditions in the world's second-largest economy may be rapidly deteriorating. Full-year growth was 6.9%, roughly in line with the government's target of around 7% but the slowest pace of expansion for China in a quarter of a century.

U.S. this year's budget deficit will rise to \$544 bn, an increase over prior estimates that can be attributed largely to tax cuts and spending increases passed by Congress last month. The estimate from the Congressional Budget Office also sees the economy growing at a slower pace this year than it predicted just a few months ago, as it projects the economic growth will slow to 2.7% this year; it foresaw 3.0% growth in 2016 in last summer's prediction. After dipping below 2% momentarily, the 10-yr Treasury yield climbed back above 2% and ended the week slightly higher

The European Central Bank (ECB) used the words "no limits" to express its determination to fight deflation and revive the economy, and it worked. The Euro tumbled and global equity markets, along with commodity prices, rebounded sharply from multi-year lows.

Japan's Nikkei index scored its biggest single-day gain of 6%, in 4-1/2 months on Friday, helped by a weaker yen, a bounce in oil prices and a hint of ECB stimulus. Also helping sentiment was speculation that the Bank Of Japan may announce fresh stimulus measures at its policy meeting next week.

Taurus Benchmark Indices Movement

Indices	22/01/16	15/01/16	Points change	% change
S&P BSE Sensex	24435.66	24455.04	-19.38	-0.08
Nifty 50	7422.45	7437.80	-15.35	-0.21
S&P BSE 100	7515.69	7554.78	-39.09	-0.52
S&P BSE 200	3133.20	3151.19	-17.99	-0.57
Nifty Midcap 100	12221.45	12480.60	-259.15	-2.08

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (18/01/2016 - 22/01/2016)	-6479.08	-886.43
Mfs (14/01/2016 - 20/01/2016)	2676.90	-3448.70

Source : FPI - CDSL
Source : MF - SEBI

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