

## DEBT MARKETS

### G-SEC Market

While the underlying tone remains bullish, the bond markets traded in a subdued mood in the early part of the week as global bond rally took a breather. Moreover, anticipation of easy global monetary conditions in the near term has triggered risk-on sentiment amongst investors. Throughout the week, active participation from all quarters held market volumes at elevated levels. Active position building/offloading trends led to softening in bond yields. Profit booking amidst lack of key triggers and absence of news of any announcement of the next RBI Governor kept the weakening bias intact. As the week progressed, fatigue seemed to have crept into market dynamics as absence of any firm development curbed market enthusiasm. Though the weekly auction fared well, mild profit booking tendencies post auction results edged off yields from their intraweek lows. Nonetheless, paring up some gains, gilts ended the week in the green, ending 2 bps softer on the yield curve.

The 10Y benchmark 7.59% GS 2026 closed at ₹102.30 (7.25%) as compared to ₹102.15 (7.27%) on previous closing.

### LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹6,657 Cr in this week compared to an infusion of ₹2,965 Cr in previous week. Infusions via the MSF route averaged ₹160 Cr. The Call rate ended at 6.41% compared to 6.33% from the previous week. The CBLO ended at 5.62% compared to 6.37% in the previous week.

### CORPORATE BONDS

The 10 yrs AAA bond ended at 7.93% as compared to 8.03% in previous week. The 1 yr CD yield was flat at 7.25% level.

### FUND MANAGER COMMENTS

Average system liquidity deficit eased for the week ending July 22 to ₹2,458 crore compared to ₹6,595 crore the week prior. Through the week liquidity conditions remained mostly in deficit and turned positive towards the close of the week. Absence of significant flows coupled with government continuing its WMA from the RBI may have boosted liquidity. Government's cash balances continued to remain nil. On an Average basis overnight rates continued to operate below the Repo rate. In a bid to help banks meet the liquidity coverage ratio norm, RBI has increased the Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR) to be reckoned as High Quality Liquid Assets by 1% to 9% of NDTL. With the existing 2% of NDTL under MSF, total carve-out from SLR available to banks would be 11% of their NDTL. The increase in FALLCR will provide some respite to banks given the surge in net cash outflows. We expect system liquidity conditions to remain benign this week as well with payback in CIC and partial month end government spending hitting towards end of the week. Liquidity conditions may further ease if RBI continues to take delivery of its long Dollar forward position. The 10-yr yield are expected to inch lower in the range of 7.20-7.30%, with a likely bias towards 7.15%. However, markets will remain cautious ahead of the FOMC and BoJ meeting this week. Also, domestically, developments on the passage on GST could be a trigger.

### Market Indicators as on 22nd July, 2016

	22-Jul-16	15-Jul-16	change
INR/USD	67.08	67.07	-0.01%
Brent Crude Oil (\$/bbl)	45.69	47.61	-4.03%
Gold (\$/oz)	1322.73	1337.45	-1.10%
10 year G-Sec(GOI)	7.25	7.27	-0.02
10 year AAA PSU(Ind)	7.93	8.03	-0.10
Avg. CBLO	5.62	6.37	-0.75
US 10 year Gilt	1.57	1.55	0.02

Source: Bloomberg



Sensex went down by 33 points (-0.10%) and Nifty ended flat to close at 27,803 and 8,541 respectively. After gaining ground in the previous week, the indices took a pause.

To help push Indian government's recapitalisation drive for PSUs, regulator SEBI may grant a waiver to state-run entities in case public shareholding falls below 25% and exempt them from open offer if they raise holding by more than 5% in one financial year. In a bid to boost credit growth in the economy, the Centre announced a sum of ₹22900 cr for recapitalisation of 13 public sector banks. In the Union Budget, the Centre had allocated a total of ₹25000 cr for the capitalisation of public sector banks in the current financial year 2016-17, in line with the infusion plans announced under the umbrella scheme "Indradhanush" introduced last year.

RBI governor Raghuram Rajan has all but ruled out an interest rate cut in August, when the central bank reviews its monetary policy, citing escalating inflation pressures.

The telecom stocks were in action during the week after reports stated that the department of telecommunications (DoT) has started issuing notices to six telecom operators for under-reporting revenues during 2008-09.

During the week, rainfall was above Long Period Average (LPA) by 35% over the country as a whole. Rainfall activity was above normal over all the homogenous regions except south Peninsula, where the rainfall activity was near normal during the week. This has boosted the sowing of kharif crops and gave fresh life to reservoirs and major water bodies, which were on the brink.

India is exploring the possibility of importing pulses from Afghanistan to boost domestic supply and control retail prices that have soared up to ₹200 per kg and recently signed an MoU with Mozambique to double import of tur and other pulses from the African nation to 2 lakh tonnes per annum in next five years.

The International Monetary Fund trimmed India's growth forecast for the current and next financial years by 10bps as it pared global growth by an identical amount. India is now forecast to expand 7.4% in the two years compared with the earlier forecast of 7.5% for both. China's forecast has been retained at 6.6% and 6.2% for 2016 and 2017, respectively.

Global equities edged higher this week despite geopolitical events in Turkey. The market is preparing for the potential for looser monetary policy from the Bank of Japan next week and perhaps from the European Central Bank in September. Japan is mulling a large fiscal stimulus package to boost domestic demand. Oil prices slumped on the week,

The European Central Bank (ECB) kept its interest rates and policy plans unchanged on Thursday and said the immediate stress caused to markets by Britain's shock vote to leave the European Union had been contained. ECB President Mario Draghi said it was too early to ascertain the full impact of Brexit, however, and underlined that the euro zone's central bank was prepared to take more actions to lift inflation and economic growth if necessary. The risks to the euro zone economy remain tilted to the downside.

Turkish president Recep Tayyip Erdogan declared a three-month state of emergency in the wake of a failed coup attempt last weekend.

## Taurus Benchmark Indices Movement

Indices	22/07/16	15/07/16	Points change	% change
S&P BSE Sensex	27803.24	27836.50	-33.26	-0.12
Nifty 50	8541.20	8541.40	-0.20	0.00
S&P BSE 100	8735.21	8712.30	22.91	0.26
S&P BSE 200	3640.61	3624.89	15.72	0.43
Nifty Free Float Midcap 100	14435.30	14282.20	153.10	1.07

## Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (18/07/2016 - 22/07/2016)	3622.09	1613.33
Mfs (14/07/2016 - 20/07/2016)	127.90	7324.40

Source : FPI - CDSL  
Source : MF - SEBI

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