

## DEBT MARKETS

### G-SEC Market

The bond market started the week on a cautious note, awaiting OMO announcements and clarity on FOMC's and BoJ's stance. The associated liquidity tightening concerns with US Fed looking to hike its interest rates had substantially mellowed down domestic market mood. Moreover, dampened hopes of RBI OMO announcement dented market sentiment. Evidently, the initial couple of sessions stuck in a tight range as prudence took precedence over bullishness. Midweek, BoJ's decision to stick to its bond buying programme relieved market of discomfort over global liquidity scenario. US FOMC on the other hand, stayed pat and did not sound hawkish even though Yellen reiterated a case for a hike by year-end. However, the projections for rate hikes have been toned down, with 1 rate hike expected in 2016, 2 in 2017 and 3 each in 2018 and 2019. Intermittently, sources suggested that the government was likely to issue more short tenor securities in H2 FY17 than the longer tenors. Market reacted positively to this development triggering value buying among participants. The weekly G-Sec auction too, witnessed robust demand with three securities getting swept off in single bids. Momentum remained strong until the end of the week with yields softening by 6-7 bps across the curve.

The benchmark G-sec 7.59% 2026 closed at ₹104.20 (6.97%) vis-à-vis ₹103.62 (7.05%) on previous week closing. New 10 yrs benchmark 6.97% 2026 closed at 6.80% as compared to 6.86% yield on previous week closing.

### LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹5,760 Cr in this week compared to an

infusion of ₹7,625 Cr in previous week. Infusions via the MSF route averaged ₹584 Cr. The Call rate ended at 6.42% compared to 6.46% from the previous week. The CBLO ended at 6.44% compared to 5.62% in the previous week.

### CORPORATE BONDS

The 10 yrs AAA bond ended at 7.52% as compared to 7.55% in previous week. The 1 yr CD yield was seen trading at 7.18% compared to 7.25% in previous week.

### FUND MANAGER COMMENTS

Average system liquidity hardened to a deficit of ₹11,000 crore for week ending Sep 23 compared to a surplus of ₹25,582 crore the week prior. However, overall systemic liquidity turned marginally positive towards end of the week to a surplus of ₹7,222. Government's cash surplus improved to ₹29201 crore v/s ₹10800 crore in previous week. The currency in circulation (CIC) for the week ending Sep 16 increased marginally by ₹4,499 crore, bringing the cumulative FYTD increase to ₹96,740 crore. We expect system liquidity conditions to ease this week aided by month end government spending. The new 10-yrs paper to trade in 6.75%-6.82% range while the old 10-yrs paper is expected to trade in the range of 6.89%-6.96% for this week.

### Market Indicators as on 23rd September, 2016

	23-Sep-16	16-Sep-16	change
INR/USD	66.66	66.99	0.50%
Brent Crude Oil (\$/bbl)	45.89	45.77	0.26%
Gold (\$/oz)	1337.65	1310.25	2.09%
10-year G-Sec(GOI)	6.97	7.05	-0.09
10-year AAA PSU(Ind)	7.52	7.61	-0.09
CBLO	6.44	5.62	0.81
US 10-year Gilt	1.62	1.69	-0.07

Source: Bloomberg



Sensex and Nifty went up by 69 points (0.20%) and 52 points (0.60%) to close at 28,668 and 8,832 respectively resuming its northbound journey after one week of correction. The FOMC struggled to convince markets of its hawkish intent, while the BoJ encouraged investor interest not only in 10y+ JGBs but also in higher yielding bonds across the world.

Though not out-of-consensus, Fed's decision to leave interest rates unchanged helped the global markets and equities firmed up. But Fed strongly signalled it could still tighten monetary policy by the end of this year as the labour market improved further. It noted that US economic activity had picked up and job gains were "solid" in recent months.

The Bank of Japan took the new and unusual step of implementing so-called "yield curve control". It adopted a target for long-term interest rates in an overhaul of its massive stimulus programme. The BOJ maintained the 0.1% negative interest rate it applies to some of the excess reserves that financial institutions park with the central bank.

The Indian government on Thursday announced additional incentives worth ₹1,500 crore for exporters to help them fight the continued slowdown in global demand. The Merchandise Exports from India Scheme (MEIS) has been beefed up with the number of tariff lines or export products covered going up from 5,012 to 7,913. The rate of incentives has also been increased for certain products.

Economic Affairs Secretary Shaktikanta Das says the government would be prepared to present the Budget up to four

weeks in advance. The veteran policymaker also says that the fiscal deficit target for the year will be achieved despite the Pay Commission burden and the disinvestment and that spectrum auction targets will be met.

Infra sector was in action after the Union Minister for Road Transport and Highways announced a string of expressway projects worth about ₹660bn in Punjab.

The current account deficit (CAD) narrowed sharply to just \$300 mn, or 0.1% of GDP, in the June quarter, driven by lower trade deficit on deeper import contraction. The CAD, a key factor monitored while assessing a country's external position, had stood at a high of \$6.1 bn, or 1.2% of GDP, in the year-ago period.

India's external debt at the end of March 2016 was \$485.6 bn, up 2.2% from over its level at end March 2015, driven by the increase in long-term external debt, particularly NRI deposits. Long-term external debt was \$402.2 bn, increasing 3.3% over the level of end March 2015 accounting for 82.8% of total external debt. Short-term external debt was \$83.4 bn, declining by 2.5% over the level of end March 2015.

Oil prices got a lift from talks between Saudi Arabia and Iran ahead of next week's OPEC meeting in Algiers.

Excessive credit growth in China risks a banking crisis in the next three years, according to a report from the Bank for International Settlements.

## Taurus Benchmark Indices Movement

Indices	23/09/2016	16/09/2016	Points change	% change
S&P BSE Sensex	28668.22	28599.03	69.19	0.24
Nifty 50	8831.55	8779.85	51.70	0.59
S&P BSE 100	9078.31	9018.31	60.00	0.67
S&P BSE 200	3800.36	3768.39	31.97	0.85
Nifty Free Float Midcap 100	15672.90	15336.30	336.60	2.19

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

	Equity	Debt
FPIs (19/09/2016 - 23/09/2016)	3520.98	237.61
MFs (15/09/2016 - 21/09/2016)	1227.10	18839.40

Source : FPI - CDSL  
Source : MF - SEBI

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