

## DEBT MARKETS

- State Election results in Gujarat and Himachal Pradesh affected sentiment in the markets. Relatively good showing by the opposition Congress party in Gujarat was a notable feature.
- The minutes of the last monetary policy committee meeting was released this week. This showed that except for Mr Dholakia (who argued in favour of a reduction in policy rates), members of the committee were hawkish in their views on the future path of inflation.
- Hawkish commentary in the monetary policy committee meeting minutes had its impact on the bond markets, with prices of bonds sliding. Yields rose to an almost 18 month high.
- The benchmark 10 year government bond yield rose to 7.27% by the end of the week. This compares to last weeks close of 7.13% on the same bond.

### Yield Movement

- The benchmark 10 year government bond closed the week trading at a yield of 7.27%, a rise of 14 basis points closing levels of the previous week.
- Yield on 10 year AAA PSU bond traded at approx.. 7.83%, indicating that spreads over gilts have compressed a bit.
- One year CDs yielded about 6.97%, indicating a rise of 5 basis points in yields over the week.

### Fund Manager Comments

The weakness in the bond market is likely to continue for some time. Trading volumes would be muted with most traders likely taking a holiday during the Christmas and New Year period.



Sensex and Nifty went up by 477 pts. (1.40%) and 160 pts. (1.50%) to close at 33,940 and 10,493 respectively.

The farm debt waivers announced by the five large states together may widen the combined fiscal deficit of the states by ₹1,07,700 crore or 0.65% of GDP this financial year. The combined fiscal deficit of the states for FY18 has been budgeted at 2.7% of GDP or ₹4.48 trillion. Uttar Pradesh, Punjab, Maharashtra, Rajasthan and Karnataka have announced farm loan waivers this year after a string of farmer suicides in these states. Nine states have budgeted an increase in their fiscal deficits/gross state domestic product (GSDP) ratios this year compared to 19 states in FY17.

The US Congress passed a sweeping overhaul of the US tax code in more than 30 years, giving President Donald Trump his first major legislative victory amid criticism that the package disproportionately benefit the wealthy and corporations. The momentous occasion came when the House of Representatives passed the USD 1.5 trillion tax reform bill for the second time by 224 to 201 votes to clear the technical snag in the passage of the bill, which was passed by the Senate and House earlier. The bill now heads to the White House for President Trump to sign into law.

Saudi Arabia announced that it will spend 978 bn riyals (\$261 bn) in 2018, its largest-ever budget - as it looks to diversify its economy away from energy as part of Crown Prince Mohammed Bin Salman's bold reform agenda. This expansionary budget comes at a time of economic struggle - the country entered into recession this year, contracting 0.5% - but the government is optimistic, estimating growth to rebound to 2.7% in 2018. Redesigning the economy is a crucial component of Vision 2030, a wide-ranging plan to make Saudi Arabia less dependent on oil, reduce subsidies and increase employment.

America's shale drillers are poised to ring in the new year with strong growth in the U.S. oil patch, according to the latest forecast from the Department of Energy. Crude oil production from seven major shale regions is set to grow by 94,000 barrels a day in January, the department's U.S. Energy Information Administration projected on Monday. Total output from those regions is seen topping 6.4 million barrels a day next month. That would mark growth of more than 1 million barrels a day from this past January, when frackers produced 5.2 million barrels a day.

## Taurus Benchmark Indices Movement

Indices	22/12/2017	15/12/2017	Points change	% change
S&P BSE Sensex	33940.30	33462.97	477.33	1.43%
Nifty 50	10493.00	10333.25	159.75	1.55%
S&P BSE 100	10983.52	10797.50	186.02	1.72%
S&P BSE 200	4654.67	4563.77	90.90	1.99%
Nifty Free Float Midcap 100	20834.00	19962.30	871.70	4.37%

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

	Equity	Debt
FPIs (18/12/2017 - 22/12/2017)	-4783.23	236.56
MFs (14/12/2017 - 20/12/2017)	831.23	7577.24

Source : FPI - CDSL

Source : MF - SEBI

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