

DEBT MARKETS

G-SEC Market

Dr. Urjit Patel has been appointed as the new RBI Governor to replace the current incumbent at the central bank. Market participants expect with appointment of Dr Patel continuity in policy would be big thumbs up from the macro-stability point of view, but relative reluctance of Dr Patel on conduct of OMOs seemed to be the sticking point for many. With FCNR redemptions on the anvil, episodes of tight liquidity are feared to push bond yields higher, as seen in H2 FY16. Broadly, the announcement set the theme for this week's activity. Opening to sharp negative reactions, market remained in the red for a large part of the week. Over the end of week yield improved marginally as RBI announced several measures to develop the Fixed Income and Currency Markets. US Fed policymakers hinted that the time was ripe for a rate hike, with the Vice Chair even calling the Sep Fed policy a 'live' one. Also, crude oil prices sustaining at elevated levels remained a concern. Crucially, even while the recent rally in domestic bond market has largely been a domestic-driven one, confidence in prospects of further softening in yields remained lacking. Demand for the SLR supply remained robust throughout the week. However, anxiety over the likely cues that market would derive from US Fed Yellen's speech due at the Jackson Hole Symposium gripped market sentiment. As a result, gilt prices registered losses on a week-on-week basis.

The benchmark G-sec 7.59% 2026 closed at ₹103.11 (7.13%) vis-à-vis ₹103.31 (7.10%) on previous week closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹5,630 Cr in this week compared to an infusion of ₹5,299 Cr in previous week. Infusions via the MSF route averaged ₹403 Cr. The Call rate ended at 6.38% compared to 6.36% from the previous week. The CBLO ended at 6.44% compared to 4.79% in the previous week.

CORPORATE BONDS

The 10 year AAA bond ended at 7.69% as compared to 7.72% in previous week. The 1 yr CD yield was seen trading flat at 7.25% level.

FUND MANAGER COMMENTS

Average system liquidity for the week ending Aug 26 was in surplus at ₹33,121 crore compared to a similar figure of ₹33,906 crore the week prior, as there were no major outflows. We expect system liquidity conditions to remain mostly in positive territory this week as well with the spill overs from government spending and coupon flows easily offsetting the auction related outflows. We expect the 10-yrs G-Sec yield to trade in the range of 7.10-7.20%, however market will also take cues on possibility of US rate hike from upcoming NFP data. There is also a probability of new ten-year G-Sec benchmark being announced.

Market Indicators as on 26th August, 2016

	26-Aug-16	19-Aug-16	change
INR/USD	67.06	67.06	0.00%
Brent Crude Oil (\$/bbl)	49.92	50.88	-1.89%
Gold (\$/oz)	1321.22	1341.26	-1.49%
10 year G-Sec(GOI)	7.13	7.10	0.03
10 year AAA PSU(Ind)	7.69	7.72	-0.03
CBLO	6.44	4.79	1.66
US 10 year Gilt	1.63	1.58	0.05

Source: Bloomberg



Sensex and Nifty went down by 295 points (-1.00%) and 94 points (-1.10%) to close at 27,782 and 8,573 respectively.

Urjit Patel was named this week to succeed Raghuram Rajan as the new governor of the Reserve Bank of India. Patel was deputy governor in charge of monetary policy prior to his appointment to the top spot, and his appointment is being looked as healthy sign of policy continuity.

RBI gave a boost to the Currency and Bond markets after accepting many of the recommendations of the Khan Committee. Few of the major decisions included: 1) Banks can now provide partial credit enhancement of up to 50% of the bond issue size vs the previous 20%. 2) Proposal to permit banks to issue Masala Bonds (rupee-denominated bonds overseas). Currently, masala bonds can be issued only by Corporates and NBFCs. 3) RBI is actively considering accepting corporate bonds as eligible collateral in its Liquidity Adjustment Facility window. 4) It has allowed companies with exchange rate risk to undertake hedge transactions with simplified procedures up to a limit of \$30 million at any given time. This is an attempt to divert companies away from the non-deliverable forwards market.

The unified payment interface (UPI) is set to go live with 21 participating banks. UPI is a common platform through which a person can transfer money from his or her bank account to any other bank account in the country instantly using his/her UPI ID. UPI will be based on the IMPS platform and can be availed by customers of banks agreeing to provide the service.

Even rating companies stock prices got a boost after RBI approved panel proposal for key reforms in corporate bond market.

Among key news flow big capex in railways got announced, railway hiked freight rates.

Global equities were little changed on the week, with many market participants sidelined in advance of US Federal Reserve Chair Janet Yellen's remarks from Jackson Hole on Friday morning

Sales of new homes surged 12.4% in July to the highest level since October 2007, and 31% compared with a year ago. However, sales of existing homes, which outnumber new home sales by a factor of eight, fell 3.2% in July, muddying the outlook for the overall housing sector. Q2 US GDP was revised modestly lower, to an annual rate of 1.1% from an initial 1.2% reading.

UK Consumer sentiment rebounded strongly in August, more than reversing the post-Brexit shock from July, jumping to 109.8 from 106.6.

As per Governor Haruhiko Kuroda, The Bank of Japan will not rule out deepening a cut to negative rates it introduced in February. He believes that, the degree of negative rates introduced by European central banks is bigger than Japan. Technically there definitely is room for a further cut.

A week ago, the oil market rallied on hopes for an OPEC production cap. This week, OPEC member Iraq said it will boost production by 150,000 barrels per day, or roughly 5% of output.

Taurus Benchmark Indices Movement

Indices	26/08/16	19/08/16	Points change	% change
S&P BSE Sensex	27782.25	28077.00	-294.75	-1.05
Nifty 50	8572.55	8666.90	-94.35	-1.09
S&P BSE 100	8824.28	8906.00	-81.72	-0.92
S&P BSE 200	3689.49	3721.09	-31.60	-0.85
Nifty Free Float Midcap 100	15132.90	15188.15	-55.25	-0.36

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (22/08/2016 - 26/08/2016)	98.76	-725.39
MFs (18/08/2016 - 24/08/2016)	940.50	6204.60

Source : FPI - CDSL
Source : MF - SEBI

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