

DEBT MARKETS

G-SEC Market

Bonds continues to end in red due to fiscal concerns. Despite announcement of buyback auction, the week opened to a weak start as concerns over huge SDL supply outweighed the impact of buyback operations. Added to that, sharp currency depreciation led to caution amongst market participants. Of late, worsening demand supply dynamics amidst looming uncertainty over UDAY issuances has taken a toll on market sentiment. The latest tranche of huge SDL supply simply added to bearishness, resultant of which gilts traded with strong hardening bias. Widening SDL spreads to about 80-100 bps over 10Y G-Sec benchmark stood suggestive of diminishing investor appetite. In anticipation of huge G-Sec borrowings next fiscal, market witnessed intense selling accentuating pressure on gilts. Concomitantly, gilts registered monumental losses to the tune of 8-10 bps in just one single session. Intermittently, the new 10Y benchmark yield reached its lifetime low of 7.88%, before retracing back to 7.83% levels. Immediately, post such yields hardening, RBI announced OMO Purchase auction of ₹12,000 Cr to be held on 03-Mar-16. However, unlike customary, the securities under OMO Purchase were not disclosed. Nonetheless, on a week on week basis, gilts remained sharply in the red, losing about 6-7 bps across the curve.

The new 10Y benchmark 7.59% GS 2026 closed at ₹98.70 (7.78%) as compared to ₹98.98 (7.74%) on previous closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹17,192 Cr in this week compared to an infusion of ₹10,673 Cr in previous week. Infusions via the MSF route averaged ₹122 Cr. The Call rate ended at 6.58% compared to 6.84% from the previous week. The CBLO ended at 6.85% compared to 6.23% in the previous week.

CORPORATE BONDS

The 10 yrs AAA bond ended at 8.67% as compared to 8.56% in previous week. The 1 yr CD yield was seen trading at 8.23% as compared to 8.12% in previous week.

FUND MANAGER COMMENTS

Liquidity deficit eased marginally as government cash balance receded due to month end spending. Money market rates are expected to taper as liquidity improves in the early days of coming month. General Budget, scheduled early next week, for financial year 2017 will be closely contemplated.

Market Indicators as on 26th February, 2016

	26-Feb-16	19-Feb-16	change
INR/USD	68.63	68.57	-0.09%
Brent Crude Oil (\$/bbl)	35.10	33.01	6.33%
Gold (\$/oz)	1,223.46	1,226.80	-0.27%
10 year G-Sec(GOI)	7.78	7.74	0.04
10 year AAA PSU(Ind)	8.67	8.56	0.11
Avg. CBLO	6.80	6.63	0.17
US 10 year Gilt	1.75	1.75	0.00

Source: Bloomberg



Sensex and Nifty went down by 555 points (-2.30%) and 181 points (-2.50%) to close at 23,154 and 7,030 respectively. Fears of increase in taxation including Long Term capital gains tax along with global volatility remain key drags. However domestically it was an eventful week with Rail Budget being presented and Economic survey released.

Ahead of the Union Budget, the Economic Survey termed external environment as challenging but projected a 7-7.5% GDP growth rate in the next fiscal which could accelerate to 8% in a couple of years. In spite of challenges and lower than projected GDP growth rates during 2015-16, the fiscal deficit target of 3.9% of GDP seems achievable. On the domestic side, two factors can boost consumption, increased spending from higher wages and allowances of government workers if the 7th Pay Commission is implemented and return of normal monsoon. At the same time, the Survey enumerated three downside risks - turmoil in global economy could worsen the outlook of exports, contrary to expectations oil price rise would increase the drag from consumption and the most serious risk is the combination of these two factors.

In his second Railway Budget Suresh Prabhu tried to balance populism with pragmatic economics as he sought innovative ways of getting the organisation on the track to recovery, keeping passenger fares unchanged but pledging cuts in freight tariffs soon. A plan size of ₹1.21 trillion in "challenging times", as he described the current situation, may appear optimistic but he was confident that he had finances under control despite added pressure from higher salaries thanks to the Seventh Central Pay

Commission award. Any gaps will be made up through joint ventures with states, extra budgetary support of ₹450 billion and increased internal resource generation.

The budget session has not begun too well with a lot of belligerence visible from both the sides.

India's total collection from direct taxes stood at ₹5.47 trillion, which is 68.7% of the budget target for the fiscal, as government anticipates a shortfall of about ₹400 billion from direct tax collection in the current fiscal. Of the ₹14.5 trillion tax revenue target, ₹7.96 trillion was estimated to come from direct taxes and another ₹6.5 trillion from indirect taxes.

According to Indian weather forecast models, the El Nino phenomenon, which was responsible for last year's drought, is expected to turn neutral during the monsoon season. So India is likely to enjoy a normal monsoon this year.

Volatility continued in the oil market, as Saudi Arabia ruled out production cuts, and the EIA Petroleum Status report revealed that US crude inventories rose to a record 507.6 million barrels.

In US economic weakness showed in both the GDP and International Trade in Goods numbers. GDP has been held down by weak exports and weak business investment, with US Q4 GDP revised to 1.0%. Furthermore, the nation's trade gap in goods widened 1.2% in January to \$62.2 billion as exports fell 2.9% to offset a 1.5% fall in imports.

Taurus Benchmark Indices Movement

Indices	26/02/16	19/02/16	Points change	% change
S&P BSE Sensex	23154.30	23709.15	-554.85	-2.34
Nifty 50	7029.75	7210.75	-181.00	-2.51
S&P BSE 100	7106.90	7281.95	-175.05	-2.40
S&P BSE 200	2958.08	3031.93	-73.85	-2.44
Nifty Midcap 100	11518.20	11823.35	-305.15	-2.58

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (22/02/2016 - 26/02/2016)	-433.99	-6329.12
MFs (18/02/2016 - 24/02/2016)	1250.50	9950.50

Source : FPI - CDSL
Source : MF - SEBI

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