

DEBT MARKETS

The minutes of the June Monetary policy meeting were overall mildly dovish with almost all members acknowledging the recent fall in inflation and its core components and fading immediate upside risks. However, MPC members (except Dr Dholakia) seemed concerned on inflation risks owing to farm loan waiver-led fiscal slippages. The two significantly contrasting inflation views were evident in the June minutes as well. Dr Patra argued that in a forward-looking inflation targeting regime, amid limited clarity on decoupled impact of transitory and structural factors on inflation deceleration, hasty policy cuts can be costly in the medium term. On the other hand, Dr Dholakia suggested that amid the present benign conditions, the costs of waiting for further opportune moment for accommodation could be severe. He strongly argued for at least 50 bps of repo rate cut.

Yield Movement

The 10 year AAA PSU bond ended at 7.42% as compared to 7.43% in previous week. The 1 year CD yield was seen trading at 6.63% as compared to 6.65% in previous week.

Liquidity

The banking system liquidity surplus tightened to average ~₹2.75 tn for the week ending Jun 23 as against ₹2.95 tn for the week ending Jun 17. After dipping continuously into WMA for the past 8 weeks, the government has expectedly repaid to the RBI the outstanding amount of ₹247 bn. CIC for the week ending Jun 16 increased by ₹107bn to ₹15.29tn.

Fund Manager Comments

Market sentiment remained buoyant after the release of the RBI MPC minutes signaled towards a less hawkish tone of commentary, with one of the members favoring a 50bps rate cut. This fueled expectation of further policy easing by RBI at the Aug policy which pushed the 10Y bond yield as low as 6.40%. However, profit booking at higher prices and lack of fresh triggers helped prices erase most of their gains.

Market Indicators as on 23rd June, 2017

	23-Jun-17	16-Jun-17	change
USD/INR	64.52	64.43	-0.14%
Brent Crude Oil (\$/bbl)	45.54	47.37	-3.86%
Gold (\$/oz)	1256.71	1253.73	0.24%
10-year G-Sec(GOI) 6.79 2027	6.46%	6.49%	- 3 bps
10-year AAA PSU(Ind)	7.42%	7.43%	- 1 bps
US 10-year Gilt	2.14%	2.15%	- 1 bps

Source: Bloomberg

Weekly Statistical Supplement (INR Bn)

	16-Jun-17	9-Jun-17
Reserve Money (INR bn)	20205	20091
YoY Growth %	-7.17%	-7.59%
Currency in Circulation	15287	15180
Forex Reserves (USD bn)	382.0	381.2

Scheduled Commercial Banks	26-May-17	YoY Growth %
Deposits	105539	10.9%
Credit	75985	5.1%
	26-May-17	27-May-16
Incremental Credit/Deposit YTD %	117.4%	-12.4%

Source: RBI (Amount in bn)



Sensex went up by 82 pts. (0.30%) and Nifty went down by 13 pts. (-0.10%) to close at 31,138 and 9,575 respectively.

Oil dropped to the lowest in seven months amid a revival in output from Libya and rising volumes of fuel held in floating storage. Libya is pumping the most crude in four years after a deal with Wintershall AG enabled at least two fields to resume production. The amount of oil stored in tankers reached a 2017 high of 111.9 million barrels earlier this month, according to Paris-based tracking company Kpler SAS.

For Indian job seekers, Saudi Arabia has always been a popular destination. However, starting next month, things are about to change for the worse for expats. From July, Saudi will be collecting a new tax from expats and their dependents. The 'dependent fee' will be 100 Saudi riyals (approx. Rs 1,723) per month for each dependent. The amount is expected to increase gradually every year until 2020.

India's monetary policy committee (MPC), which voted 5-1 to keep interest rates unchanged at its June meeting, remains

unconvinced that inflation has taken a structural turn to the downside, show minutes of the meeting released on Wednesday. With the exception of Ravindra Dholakia, who voted for a 50-basis point cut in rates, most members cited the need for more data before they can decide if prevailing macroeconomic conditions justify more accommodative monetary policy. The minutes come against the backdrop of heightened expectations of a rate cut and may prove to be dampener for the bond markets, where yields fell to 4-month lows ahead of the release of the MPC minutes.

According to Fitch's Global Economic Outlook report India is expected to grow between 7.4% and 7.6% for the next two financial years, after a significant slowdown in growth in the January-March quarter. A gradual uptick in investment, synergies from the Goods and Services Tax (GST) implementation and public spending on infrastructure will boost the country's growth engines. The forecast comes in the back drop of the world economy set to witness its highest growth since 2010, as per the report.

Taurus Benchmark Indices Movement

Indices	23/6/2017	16/6/2017	Points change	% change
S&P BSE Sensex	31138.21	31056.40	81.81	0.26%
Nifty 50	9574.95	9588.05	-13.10	-0.14%
S&P BSE 100	9890.75	9920.24	-29.49	-0.30%
S&P BSE 200	4158.46	4177.01	-18.55	-0.44%
Nifty Free Float Midcap 100	17686.30	18002.55	-316.25	-1.76%

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

	Equity	Debt
FPIs (19/06/2017 - 23/06/2017)	-740.24	3687.33
MFs (15/06/2017 - 21/06/2017)	2582	6334.1

Source : FPI - CDSL
Source : MF - SEBI

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