

DEBT MARKETS

G-SEC Market

The week gone by was yet another washout, registering minimal market volatility. At the week start, mild position building was witnessed on back of expectations of RBI OMO Purchase announcement. While it led to slight softening of yields triggered by mild value buying, the associated volatility generally observed post RBI repurchase notice has been curbed to the bare minimum in recent times. Keeping in line with RBI's intent to gradually ease out liquidity deficit for the system, it has added an element of certainty to RBI operations. As such, repurchase operations have limited impact on market sentiment. Nonetheless, market mood remained cautious throughout the SLR supply laden week. Swift rise in crude oil prices from their historic lows coupled with various US Fed policymakers supporting the case for a June rate hike kept domestic debt market on tenterhooks. Amid such uncertainty, participants refrained from assuming any large positions in the market. Higher underwriting cut offs reflected of the diminishing risk appetite of the G-Sec market. Nonetheless, weekly G-Sec auction was fully subscribed to by market players. By week close, momentum remained subdued as gilts ended relatively unchanged from previous closing. The 10Y benchmark 7.59% GS 2026 closed at ₹100.80 (7.47%) as compared to ₹100.76 (7.48%) on previous closing.

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LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹16,418 Cr in this week compared to an infusion of ₹12,547 Cr in previous week. Infusions via the MSF route averaged ₹320 Cr. The Call rate ended at 6.39% compared to 6.38% from the previous week. The CBLO ended at 5.64% compared to 6.51% in the previous week.

CORPORATE BONDS

The 10 yrs AAA bond ended at 8.20% unchanged from previous week. The 1 yr CD yield was seen trading at 7.48% as compared to 7.45% in previous week.

FUND MANAGER COMMENTS

Bonds are expected to trade in a narrow range with a negative bias ahead of key event lined up this fortnight. OPEC is set to meet on June 02 to decide its future course of action over oil supply. RBI policy is due early next week. Market is not expecting RBI to act on rates for now however it would closely watch out for liquidity guidance given the fact that governor earlier had affirmed to bring liquidity deficit down to zero.

Market Indicators as on 27th May, 2016

	27-May-16	20-May-16	change
INR/USD	67.04	67.45	0.61%
Brent Crude Oil (\$/bbl)	49.32	48.72	1.23%
Gold (\$/oz)	1212.38	1251.98	-3.16%
10 year G-Sec(GOI)	7.47	7.48	-0.01
10 year AAA PSU(Ind)	8.21	8.21	0.00
Avg. CBLO	6.55	6.49	0.06
US 10 year Gilt	1.85	1.84	0.01

Source: Bloomberg



Sensex and Nifty went up by 1,352 points (5.30%) and 407 points (5.30%) to close at 26,654 and 8,157 respectively. The week was one with significant positive earnings surprises from top guns like L&T, BPCL, HPCL etc. SBI rallied almost 10% post result on 5x its normal volumes as it reported much lesser pressure on asset quality as compared to peers.

India's economic growth rate will slowly accelerate to 8% by fiscal year ending March 2019, driven by the gradual implementation of structural reforms, higher disposable income and improvement in economic activity, Fitch said. Fitch expects India's GDP to grow 7.5% in fiscal year ending March 2016 and improve to 7.7% in the current fiscal year and further to 7.9% in the fiscal year ending March 2018. The global agency said that the passage of the Bankruptcy Code earlier this month showed that implementation of big ticket reforms is possible in India, even though reforms related to land acquisition and a Goods and Services Tax have not passed thus far.

Global equities rallied this week as the market digested the possibility of a rate hike from the US Federal Reserve at either its June or July meeting. Firmer oil prices helped, with WTI crude prices rose to \$49.11 from \$48.30 last week.

China's central bank weakened its currency fixing to the lowest since March 2011 as the dollar strengthened. The reference rate was set 0.3% weaker at 6.5693 per dollar. A gauge of the greenback's strength rose to a two-months high Tuesday as traders boosted wagers that U.S. interest rates will rise. A resurgent greenback is shaking up a strategy that the PBOC pursued over the past three months - a steady rate against the dollar, combined with depreciation against other major currencies.

The number of Americans filing for unemployment benefits decreased by 10,000 to 268,000 in the week ended May 21st compared to unrevised 278,000 in the previous period. Claims

fell for the second time in five weeks, below market expectations of 275,000. It is the 64th consecutive week initial claims are below 300,000, the level associated with a healthy jobs market.

A vote by Britain to leave the European Union would pose a "serious threat to global growth" leaders of the G7 have warned. The remarks were contained in the final declaration of the leaders of seven major industrial nations following their summit in Japan. A no vote in the June 23 referendum was described as one of a number of "potential shocks of a non-economic origin" which could hit world growth. However the remarks by the G7 leaders will be certain to intensify the controversy over outside political figures trying to influence Britain's EU referendum which takes place next month.

Greece will avoid another debt crisis with upwards of €10 billion in financial aid from the eurozone. The money will be disbursed in time for Greece to make its next round of debt payments, which come due in July. The deal was reached between eurozone finance ministers and the International Monetary Fund. It includes limited debt relief for Greece - but not until 2018, after elections in some of the eurozone's largest member states.

Crude prices briefly surpassed the \$50 mark this week before closing out the week at just a shade over \$49. Supply disruptions in Canada and Nigeria helped underpin prices.

The leaders of the seven leading industrial nations (G7) said they will use all of the policy tools at their disposal to boost demand and reduce supply constraints.

A scheduled further increase in Japan's sales tax may be delayed three years, according to media reports. Given the weak global economic backdrop, many fear an additional tax hike could throw the Japanese economy back into recession.

Taurus Benchmark Indices Movement

Indices	27/05/16	20/05/16	Points change	% change
S&P BSE Sensex	26653.60	25301.90	1351.70	5.34
Nifty 50	8156.65	7749.70	406.95	5.25
S&P BSE 100	8266.43	7869.89	396.54	5.04
S&P BSE 200	3436.20	3283.09	153.11	4.66
Nifty Free Float Midcap 100	13270.05	12970.05	300.00	2.31

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (23/05/2016 - 27/05/2016)	-299.88	-2489.54
MFs (19/05/2016 - 25/05/2016)	3103.40	-927.40

Source : FPI - CDSL
Source : MF - SEBI

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