

## DEBT MARKETS

### G-SEC Market

Domestic bonds yields harden this week taking cues from global factors as US 10 Yr Gilt traded 11 bps higher compare to last week. Market participants are preparing themselves of the upcoming BOJ and FOMC meeting, also US Presidential elections. Tracking these cues, domestic sentiment too, turned wary on any untoward development. Moreover, huge SLR supply during the week amid slightly delayed liquidity easing measures further caused bearishness in the market. While the first half of the week remained supported on back of Buyback and OMO auctions, no significant trend emerged as a dominant theme for market activity. Neither excessive buying nor selling was witnessed at these levels. However, aggressive participation in both these auctions was witnessed, with investors tendering securities at levels far below than the current market levels. However, despite ~₹30,000 Cr infusion in the system, it did not lead to any sharp move in the market as quite a bit of the replacement was potentially sought for in the G-Sec and SDL auctions. Near the end of the week, the G-Sec auction cut offs came in slightly better than expected providing some more comfort to market dynamics. In fact, post the auction results announcement; gilts reversed most of the week's losses as participants resorted to mild value-buying. Nevertheless, sentiment remained damp as gilts ended the session 3-4 bps higher on the curve.

The benchmark G-sec 7.59% 2026 closed at ₹104.73 (6.89%) vis-à-vis ₹104.99 (6.85%) on previous week closing. New 10 yrs benchmark 6.97% 2026 closed at 6.79% as compared to 6.76% yield on previous week closing.

### LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹10,989 Cr in this week compared to an infusion of

₹8,976 Cr in previous week. Infusions via the MSF route averaged ₹206 Cr. The Call rate ended at 6.20% compared to 6.30% from the previous week. The CBLO ended at 6.20% compared to 6.26% in the previous week.

### CORPORATE BONDS

The 10-yrs corporate bond (AAA) ended at 7.51% as compared to 7.44% in previous week. The 1-yr CD yield was seen trading at 6.93% compared to 6.90% in previous week.

### FUND MANAGER COMMENTS

Liquidity condition continued to be in deficit mode with average deficit of ₹48,085 crore for week ending Oct 28 compare to a deficit of ₹27,302 crore week prior, on account of increase in CIC ahead of festive season continued to drain liquidity however liquidity conditions eased significantly towards the end of the week on OMO purchases, G-Sec buyback, month-end government spending. Government's cash balance increase to ₹42,302 crore compare to 27,030 in previous week. We expect system liquidity conditions to hover in the current range with a tightening bias this week, given the US\$2.1bn of FCNR (B) redemption until Nov 4. We expect new 10-yr paper to trade in 6.75%-6.85% range while the old 10-yr paper is expected to trade in the range of 6.85%-6.95% for this week. Market participants will take cues from BOJ & FOMC meet due next week.

### Market Indicators as on 28th October, 2016

	28-Oct-16	21-Oct-16	change
INR/USD	66.78	66.89	0.16%
Brent Crude Oil (\$/bbl)	49.71	51.78	-4.00%
Gold (\$/oz)	1,275.50	1,266.28	0.73%
10-year G-Sec(GOI)	6.89	6.85	0.04
10-year AAA PSU(Ind)	7.51	7.44	0.07
CBLO	6.20	6.26	-0.06
US 10-year Gilt	1.85	1.73	0.11

Source: Bloomberg



Sensex and Nifty went down by 136 points (-0.50%) and 55 points (-0.60%) to close at 27,942 and 8,638 respectively. This was on the back of disappointing quarterly earnings by index heavyweights like Axis Bank, Hindustan Unilever, Dabur and Idea. Sentiment was further hit after a leaked letter written by ex-Chairman Cyrus Mistry warned of \$18bn impairment across multiple Tata Group of companies.

In India, housing prices increased by an average 7.3% during April-June period of this fiscal in major cities after moderating for last four consecutive quarters, according to the Reserve Bank of India. RBI released the quarterly House Price Index (HPI) for first quarter of 2016-17. "All-India HPI (base 2010-11=100) has sequentially increased by 5.5% to 231.1 in Q1 of 2016-17 from 219.1 in Q4 of 2015-16. All cities witnessed HPI increase in Q1 of 2016-17.

The Union Cabinet approved extending the stock limit on sugar by 6 months till April 2017. This will enable the state governments to ensure sugar availability and control prices. The stock limits on sugar traders were imposed for 6 months ending October. Traders were allowed to hold sugar stock of up to 10,000 quintals in Kolkata, which is the largest trading centre for the commodity in the country, and 5,000 quintals in other parts of the country.

Indian companies' foreign borrowings were at USD 2.46 bn in September, down 5.8% from a year ago. This year's September data also included borrowings through rupee-denominated bonds (RBD) by Indian companies for the first time after the Reserve Bank allowed them to raise money from such sources.

Global equities were modestly lower this week, and interest rates generally firmed. Expectations for a December rate hike from the US Federal Reserve continue to solidify, while investors begin to anticipate the tapering of extraordinarily accommodative monetary conditions from other major central banks during 2017.

The eurozone's economic recovery strengthened over the course of October, with data released suggesting that the region is growing at its fastest pace this year. The purchasing managers' index, compiled by data company IHS Markit and used by the European Central Bank to assess the health of the region's economy, rose to 53.7 last month - up from 52.6 in September. The figure is well above the crucial 50 level that separates an expansion in activity from a contraction.

The UK economy expanded by 0.5% in the July to September period. The stronger than expected growth will further dampen expectations that the Bank of England's Monetary Policy Committee will cut interest rates next week.

## Taurus Benchmark Indices Movement

Indices	28/10/2016	21/10/2016	Points change	% change
S&P BSE Sensex	27941.51	28077.18	-135.67	-0.48
Nifty 50	8638.00	8693.05	-55.05	-0.63
S&P BSE 100	8925.39	8990.65	-65.26	-0.73
S&P BSE 200	3754.45	3781.67	-27.22	-0.72
Nifty Free Float Midcap 100	15841.35	16071.10	-229.75	-1.43

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

	Equity	Debt
FPIs (24/10/2016 - 28/10/2016)	-3740.47	928.89
MFs (20/10/2016 - 26/10/2016)	3431.40	1932.70

Source : FPI - CDSL  
Source : MF - SEBI

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