

DEBT MARKETS

- The government announced a significant recapitalization program for public sector banks to be implemented over two years. The total recapitalization is expected to be INR 2.1 tn out of which 1.35 tn would likely come from recapitalization bonds and the remaining through budgetary support.
- The move to recapitalize public sector banks has been welcomed all around as it gives the banks leeway in managing their large non performing assets (npas) while maintaining adequate capital. The RBI governor has stated that it is unlikely to create monetary or fiscal stress.
- Bond yields hardened a bit on the lack of a clear roadmap on policy rates and hawkish comments by at least one monetary policy committee member. Yield on benchmark 10 year government bonds closed the week at 6.81%.
- Yields in the US bond markets too rose with the benchmark 10 year US treasury note now trading at 2.45%.

- International oil prices too hit a two year high with the benchmark ICE Brent contract crossing the psychological USD 60 per barrel mark.
- The central bank is likely to announce yet another open market sale of government securities in order to moderate liquidity in the system.

Yield Movement

- The benchmark 10 year government bond closed the week trading at a yield of 6.81%, a rise of 5 basis points closing levels of the previous week.
- Yield on 10 year AAA PSU bond traded at approx.. 7.55%, indicating that spreads over gilts have remained stable.
- One year CDs yielded about 6.65%, indicating a stable yield levels from last week's close.

Fund Manager Comments

Bond markets appear a bit jittery at the moment. Trading continues to remain sluggish and nervous. Inflation prints in the middle of November are likely the next big trigger for a decisive move.



- Sensex and Nifty went up by 573 pts. (1.80%) and 112 pts. (1.10%) to close at 33,157 and 10,323 respectively.
- The European Central Bank took a step towards weaning the euro zone off loose money but promised years of stimulus and even left the door open to backtracking. It said it would cut its bond purchases in half from January but also extend the buying programme until the end of next September. ECB President Mario Draghi said the euro zone economy was recovering but still needed support. The ECB will now cut its bond buys in half to 30 billion euros a month from January given robust growth. It kept the option to raise or extend buys and promised to reinvest maturing funds for years to come.
- China will not set a goal of doubling its gross domestic product starting in 2021 so it can focus more on higher

quality, long-term growth, a senior Communist Party official said, in a break from past practice. Yang Weimin, vice minister of the Office of the Central Leading Group on Financial and Economic Affairs, told a news conference in Beijing that China will not solely pursue economic expansion and will emphasize the quality of its growth.

- The central government is likely to incur an annual interest cost of about Rs.80-90 billion for issuing Rs.1.35 trillion recapitalisation bonds, as per the chief economic adviser (CEA) Arvind Subramanian. He added that selective and incentive-based recapitalisation of the PSBs can encourage credit supply, private investments and growth.

Taurus Benchmark Indices Movement

Indices	27/10/2017	19/10/2017	Points change	% change
S&P BSE Sensex	33157.22	32389.96	767.26	2.37%
Nifty 50	10323.05	10146.55	176.50	1.74%
S&P BSE 100	10748.30	10552.02	196.28	1.86%
S&P BSE 200	4522.23	4443.53	78.70	1.77%
Nifty Free Float Midcap 100	19341.20	18789.90	551.30	2.93%

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

	Equity	Debt
FPIs (23/10/2017 - 27/10/2017)	6214.69	2997.13
MFs (19/10/2017 - 25/10/2017)	535.96	1320.97

Source : FPI - CDSL
Source : MF - SEBI

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