



DEBT MARKETS

G-SEC Market

The trading activity remained volatile throughout the week as market started with a surprise news over weekend as RBI announced incremental CRR of 100% for banks on the increased in NDTL between 16-September and 11-November in order to absorb the surplus liquidity. Also news of possible hike in MSS ceiling limit and government may advance its borrowing programme affected the sentiment negatively. However, RBI continued to fill the liquidity gap in the system by way of variable repo auctions which provided some relief to the market. Bond market rallied again on expectation of rate cut from RBI in the upcoming monetary policy review on 7th December. Crude prices surge from \$ 47.24 per barrel to \$ 54.46 per barrel over the week after OPEC and Russia agreed to restrict output in order to reduce the global supply. India's Gross Domestic Product in July-September, picked up to 7.3% from 7.1% in previous quarter, Gross Value Added for the same period registered at 7.1%. Eight core industries growth for the month of October came at 6.6% against 5% in September. April-October fiscal deficit reaches 79.3% of full-year target.

On Friday RBI hiked the MSS limit to 6 lakh crores from 30,000 crores in order to absorb the excess liquidity aroused due to demonetization. Also, RBI announced Cash management bill of 28 days of 20,000 crores which was fully absorbed by market at a cut off of 6.16%. The 10-Year G-Sec benchmark 6.97% 2026 closed at ₹105.25 (6.24%) as compared to ₹105.35 (6.23%) on previous week closing. Previous 10-yrs G-Sec benchmark 7.59% 2026 closed at ₹108.30 (6.37%) vis-à-vis ₹108.70 (6.32%) on previous week closing.

The 10-yrs corporate bond (AAA) ended at 7.05% as compared to 6.97% in previous week. The 1-yr CD yield was seen trading flat at 6.35% level.

Liquidity

Average gross liquidity infusion by RBI via Repo under LAF window was ₹8,648 Crore in this week compared to an infusion of ₹2,095 Crore in previous week. Infusions via the MSF route averaged ₹1,215 Crore. The weighted average CBLO rate for the week was 6.16% compared to 5.82% in the previous week.

Fund Manager Comments

Surplus liquidity declined over the week as banks were asked to maintain CRR of 100% on the incremental NDTL between 16-September and 11-November with average surplus of ₹73,830 crore for week ending Dec 02 compare to a surplus of ₹4,54,427 crore week prior. CIC for the week ending Nov 25 fell by 2,39,000 crores to 11,64.237 crores. Government's cash balance increased to ₹7,793 crore compare to closing balance of ₹2,118 crore in previous week touching the intra week highs of 1,43,261 crores. We expect liquidity surplus to ease out as government increased the ceiling of special bonds under Market Stabilisation Scheme that can be issued to mop up excess liquidity in the system to ₹6 lakh crore, from the earlier ₹30,000 crore. This exercise can result in some upward movement in short term rates. We expect Gsec market to trade in a narrow range till the policy on 7th December and a rate cut of 25bps. The current yield curve has already factored in a rate cut of at least 25bps.

Market Indicators as on 2nd December, 2016

	2-Dec-16	25-Nov-16	change
INR/USD	68.23	68.47	0.36%
Brent Crude Oil (\$/bbl)	54.46	47.24	15.28%
Gold (\$/oz)	1177.25	1183.90	-0.56%
CBLO (Average)	6.16%	5.82%	0.34%
10-year G-Sec(GOI)	6.24%	6.23%	0.01%
10-year AAA PSU(Ind)	7.05%	6.97%	0.08%
US 10-year Gilt	2.40%	2.36%	0.04%

Source: Bloomberg



Sensex and Nifty went down by 86 points (-0.3%) and 28 points (-0.3%) to close at 26,231 and 8,087 respectively. Uncertainty relating to upcoming global events as well as demonetisation-led near term pressure, led the market to give away last week's gains. This is despite the increasing expectations of rate cut by RBI in its upcoming meeting.

A long-debated OPEC production cut was announced on Wednesday, helping push the price of West Texas Intermediate crude up to \$51 a barrel from \$47.50 a week ago. OPEC has agreed for its first production cuts in 8 years. OPEC will reduce output by about 1.2 million barrels a day by January to 32.5 million barrels. The agreement exempted Nigeria and Libya, but gave Iraq its first quotas since the 1990s.

India GVA/GDP grew by 7.1% / 7.3%, a little below our estimates. GVA growth was driven by services 8.9% (9.6% in Q1), Industry growth slowed to 5.2% (6.0% Q1) while Agriculture grew by 3.3% (1.8% Q1). On the expenditure side, GDP was driven by Government Final consumption expenditure which grew by 15.2% (18.8% Q1), which could be partly due to OROP and pay commission implementation. Investments continued to be extremely poor and contracted 5.6%.

RBI has revised the ceiling on issuance of securities under the MSS to ₹6 trillion, from the previous limit of ₹300 billion for financial year 2016-17. With the hike in MSS limit, the 100% CRR imposed on incremental deposits could be reversed on 9 Dec 2016. This will increase supply of T-bills and Gsecs in the market. Short term yields might rise marginally.

The Lok Sabha passed the Taxation Laws (2nd) Amendment Bill, which provides another chance for people with unaccounted cash

to come clean. The amended law provides those with unaccounted cash or deposits of cancelled ₹500 and ₹1,000 notes to pay 50% tax and come clean, or else, if caught, face a much harsher penalty and possible prosecution.

Global equities consolidated recent gains this week, while US interest rates and oil prices both rose. Even Asian shares were broadly lower on Friday, tracking losses on Wall Street, as equity markets indicate the Trump trade could be overdone. Also investors seem cautious about the Italy's constitutional referendum which could determine whether or not the country will remain in the euro zone.

Prime Minister Matteo Renzi has vowed to resign if the referendum goes down to defeat. Polling ahead of the vote suggests the referendum won't pass, though there are still a large number of undecided voters. A defeat would add momentum to the anti-establishment mood among voters in both the US and Europe. The stability of the European Union could be called into question if anti-establishment momentum continues to build ahead of key federal elections in the Netherlands, France and Germany in 2017.

Economic growth in Europe looks to be gathering momentum as unemployment in the eurozone fell below 10% this week for the first time in seven years this week, to 9.8%. In addition to a firm PMI, Germany reported the largest jump in retail sales in five years. Sales rose 2.4% in October compared with September.

The dollar churned versus most major rivals, although clawed back against the euro, ahead of a U.S. monthly jobs report that most economists expect to confirm expectations for a U.S. interest rate hike this month.

Taurus Benchmark Indices Movement

Indices	2/12/16	25/11/2016	Points change	% change
S&P BSE Sensex	26230.66	26316.34	-85.68	-0.33
Nifty 50	8086.80	8114.30	-27.50	-0.34
S&P BSE 100	8327.01	8350.96	-23.95	-0.29
S&P BSE 200	3491.73	3499.83	-8.10	-0.23
Nifty Free Float Midcap 100	14514.85	14529.75	-14.90	-0.10

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (28/11/2016 - 02/12/2016)	-3242.32	-5564.77
MFs (24/11/2016 - 01/12/2016)	3710.40	7112.80

Source : FPI - CDSL
Source : MF - SEBI

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