

DEBT MARKETS

G-SEC Market

Sentiment remains subdued in the domestic bond market ahead of a number of global and domestic events. US Fed chief Janet Yellen reiterated the hawkish stance of her other Fed counterparts, emphasizing that gradual improvement in macro fundamentals does bolster the case for a rate hike in the upcoming months. Correspondingly, on the domestic front, RBI announced an OMO Purchase auction for ₹15,000 Cr. Amidst the already fatigued domestic bond market, the impact of the two factors counteracted each other. As such, gilts traded in a tight range at the start of the week. Tracking low volatility in the market, participants too, remained on the sidelines as reflected in low volumes. Mid-week, sources suggested that RBI Governor Rajan was not likely to seek an extension for a second term as the central bank chief. As the FCNR(B) deposits are set to mature starting Sep-16, participants have been increasingly pinning hopes that the currency volatility would be effectively managed, with Rajan at the helm, as it was done during the 2013 crisis. The unsolicited news led to sell off in the market as market players exited their positioning in lieu of rising uncertainty over the likely reappointment of the Governor. Near week close, the weekly auction cut offs came in lower than expected as appetite amongst investors remained weak. With gilts prices noting range bound movements in recent times, the consequent limited profit making opportunities have led to waning market interest.

The 10Y benchmark 7.59% GS 2026 closed at ₹100.68 (7.49%) as compared to ₹100.80 (7.47%) on previous closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹5,464 Cr in this week compared to an infusion of ₹16,418 Cr in previous week. Infusions via the MSF route averaged ₹45 Cr. The Call rate ended at 6.28% compared to 6.39% from the previous week. The CBLO ended at 6.37% compared to 5.64% in the previous week.

CORPORATE BONDS

The 10 yrs AAA bond ended at 8.23% as compared to 8.21% in previous week. The 1 yr CD yield was seen trading at 7.56% as compared to 7.48% in previous week.

FUND MANAGER COMMENTS

Liquidity has eased off in the last couple of weeks following consistent low government cash balance. Weak credit growth has led the money market curve to steepen where a number of lenders park their funds at the shorter end of the curve. RBI policy remains the key for cue next week though market is least expecting a rate cut.

Market Indicators as on 3rd June, 2016

	3-Jun-16	27-May-16	change
INR/USD	67.26	67.04	-0.33%
Brent Crude Oil (\$/bbl)	49.64	49.32	0.65%
Gold (\$/oz)	1,244.20	1,212.38	2.62%
10 year G-Sec(GOI)	7.49	7.47	0.02
10 year AAA PSU(Ind)	8.23	8.21	0.02
Avg. CBLO	6.45	6.55	-0.10
US 10 year Gilt	1.70	1.85	-0.15

Source: Bloomberg



The BSE 30 Share Sensex increased by 189 points or 0.71% to settle at 26,843. The S&P Nifty increased by 64 points or 0.79%, to settle at 8,221. In the week to June 3, benchmark share indices hit 7-month highs driven by an encouraging GDP growth, better-than expected corporate earnings and above normal monsoon forecast. On global front, important OPEC meeting remained inconclusive on oil output target while ECB in its meet kept the key policy rates unchanged.

India's GDP grew 7.6% in 2015-16, up from 7.2% a year ago. Gaining momentum, economy grew by 7.9% in March quarter to consolidate India's position as the fastest growing major economy with a five-year high growth rate of 7.6% for the full fiscal on robust manufacturing growth. The growth in manufacturing and farm sectors during the fourth quarter accelerated to 9.3% and 2.3%, respectively.

The country's fiscal deficit for 2015-16 was ₹5.32 lakh crore, about 99.5% of the government's revised target of ₹5.35 lakh crore, compared with 99.6% for the same period a year before. Fiscal deficit in April came in at ₹1.37 lakh crore, which is 25.7% of the FY17 Budget estimate. For 2016-17, the government has set a fiscal deficit target of 3.5%.

Growth in the eight core sectors jumped to 8.5% in April, due to a sharp pick-up in refinery products and a commensurate rise in electricity generation. The Nikkei/Markit India Manufacturing Purchasing Managers' Index (PMI) - a composite indicator of manufacturing sector performance, stood at 50.7 in May as against 50.5 in April. Growth in India's services industry slowed sharply in May to a six-month low, due to a deceleration in new orders.

The country's foreign exchange reserves declined by \$711.6 million to \$360.193 billion in the week to May 27 due to fall in foreign currency assets

Although the OPEC meet remained inconclusive on oil output targets Saudi Arabia's stance not to dump crude oil in the market was taken as positive with global oil prices stabilizing around \$50 a barrel.

The European Central Bank decided to maintain status quo keeping key policy rates unchanged. UK manufacturing activity rose slightly in May to 50.1 from 49.4 in April, raising concerns over the economy's strength in the run-up to the 23 June European Union referendum.

Chinese PMI data pointed to a pretty steady picture in both the manufacturing and services sectors. More clues on the health of the Chinese economy are due next week with trade, inflation and lending figures all expected.

Brazil's economy continued to shrink in the first quarter of 2016, contracting by 0.3%. It was the fifth consecutive quarter in which the economy has shrunk. However, the figure was not as bad as the 0.8% contraction that had been predicted by economists.

Oil prices rose 0.4% this week after data showing a weekly drawdown in US crude stockpiles helped crude markets recover from the OPECs decision not to set a ceiling for its production.

Taurus Benchmark Indices Movement

Indices	03/06/16	27/05/16	Points change	% change
S&P BSE Sensex	26843.03	26653.60	189.43	0.71
Nifty 50	8220.80	8156.65	64.15	0.79
S&P BSE 100	8329.02	8266.43	62.59	0.76
S&P BSE 200	3460.69	3436.20	24.49	0.71
Nifty Free Float Midcap 100	13256.90	13270.05	-13.15	-0.10

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (30/05/2016 - 03/06/2016)	2013.70	204.83
MFs (26/05/2016 - 01/06/2016)	1782.90	6788.80

Source : FPI - CDSL
Source : MF - SEBI

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