

DEBT MARKETS

G-SEC Market

Week started with market participants building position ahead of RBI policy on expectation of a rate cut. On the policy front, market opinion remained divided over the likely rate action and stance that the new RBI Governor and the MPC members would adopt. In the policy, RBI announced a rate cut of 25 bps whilst maintaining the 'accommodative' stance upheld in the last couple of policies. Relative comfort over inflation and continued endeavor to alleviate liquidity deficit were other crucial statements outlined in the policy. Barring the knee-jerk selling, bond market improved sharply, with gilts softening by as much as 9-11 bps over the course of the session. Active market positioning on the shorter end, though indicative of declining confidence in prospects of further softening, registered sharp surge in volumes and market price action. Near the close of the week, sharp hardening of US Treasuries by 8-10 bps came to daunt domestic market. Moreover, talks of likely tapering of the massive ECB bond-buying program gained momentum. Additionally, growing uncertainty post the UK's exit from EU has sent jitters across global bond yields. In a nutshell, heightened global volatility concerns dampened domestic sentiment considerably. As a result, gilts pared up most of the gains registered post the RBI policy decision. Weekly gilt auction cut offs below market levels also resonated of declining risk appetite amongst participants.

The benchmark G-sec 7.59% 2026 closed at ₹105.01 (6.85%) vis-à-vis ₹104.25 (6.96%) on previous week closing. New 10 yrs benchmark 6.97% 2026 closed at 6.73% as compared to 6.81% yield on previous week closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹3,012 Cr in this week compared to an infusion of ₹7,485

Cr in previous week. Infusions via the MSF route averaged ₹328 Cr. The Call rate ended at 6.17% compared to 6.45% from the previous week. The CBLO ended at 6.20% compared to 6.00% in the previous week.

CORPORATE BONDS

The 10 yrs AAA bond ended at 7.35% as compared to 7.49% in previous week. The 1 yr CD yield was seen trading at 6.83% compared to 7.11% in previous week.

FUND MANAGER COMMENTS

Average system liquidity improved significantly to a surplus of ₹89,936 crore for week ending Oct 07 from a surplus of ₹22,203 crore the week prior on account of government spending. Government's cash surplus fell to zero from ₹ 29476 crore in previous week. At the mid of week system liquidity rose to surplus of 104,000 crore but again eased to 52,000 crore towards end of week on account Service Tax payout and possibly the upfront spectrum auction payment. We expect system liquidity conditions to tighten on account of currency leakages ahead of festive season and FCNR outflows. We expect new 10-yrs paper to trade in 6.65%-6.75% range while the old 10-yrs paper is expected to trade in the range of 6.75%-6.85% for this week, however IIP and Inflation data due next week will provide further direction.

Market Indicators as on 7th October, 2016

	7-Oct-16	30-Sep-16	change
INR/USD	66.69	66.61	-0.11%
Brent Crude Oil (\$/bbl)	51.93	49.06	5.85%
Gold (\$/oz)	1256.93	1315.87	-4.48%
10-year G-Sec(GOI)	6.85	6.96	-0.11
10-year AAA PSU(Ind)	7.35	7.49	-0.14
CBLO	6.20	6.00	0.20
US 10-year Gilt	1.72	1.60	0.12

Source: Bloomberg



Sensex and Nifty went up by 195 points (0.70%) and 86 points (1.00%) to close at 28,061 and 8,698 respectively, after a heavy panic selling in the last week. The encouraging auto numbers and rate cut gave support to the market to sustain gains.

The British pound had a very bad week, dropping to its lowest level since 1985. It fell to \$1.1819, hitting its lowest level since 1985. Later, the currency recovered to around \$1.2458. The reason for this fall could be computer-initiated sell orders. Pound plummeted after Theresa May's declaration that Article 50 would be triggered by the end of March 2017, breaching the previous vote level set in July. The pound is also down almost 15% since that monumental vote to leave the EU.

RBI cut the Repo rates by 25 bps to 6.25% in Urjit Patel's first policy since appointment. The Reverse Repo adjusts to 5.75% and MSF to 6.75%. All 6 members of the MPC voting for the rate cut. There was a reference to the real policy rate being seen at ~1.25% rather than 1.5-2%, giving itself more room to cut rates further.

India's largest spectrum auction closed on Thursday, with the government getting ~₹658 bn, 11.6% of its expected ₹ 5,660 bn. Around ₹990 bn had already been provided for in the budget for this year against 'other communications services' most of which was scheduled from the fee paid for spectrum. The 700 MHz spectrum, which was the largest chunk of spectrum didn't find any buyers as Telcos found it to be overpriced.

India's manufacturing PMI slowed to 52.1 in September vs. 52.6 in August, indicating that the growth has lost some momentum. India's factory activity expanded for the ninth month in September, but at a rate slower than August. India's services PMI fell to 52 in September vs. 54.7 in August, but marked its 15th month in a row above the 50 level.

Steel sector was in action during the week after the Government extended the applicability of minimum import price on 66 steel items by another two months.

Global equities were little changed on the week amid a modest rise in bond yields and firmer oil prices.

The US employment report for September (nonfarm payrolls rise 156,000, unemployment rises to 5%) was somewhat weaker than expected at the headline level, but not weak enough to dent anticipation of a quarter-point hike in the federal.

Oil prices continued to firm in the wake of an OPEC production cap agreement last week, with Global Brent crude rising to \$52.30 per barrel from \$48.90 last Friday. The yield on the US 10-year Treasury note rose to 1.73% from 1.56%.

OECD reported that inflation for the Group of 20 nations fell to 2.1% in August. That's the lowest level since October 2009. The biggest drops came in China and India.

Taurus Benchmark Indices Movement

Indices	7/10/16	30/09/2016	Points change	% change
S&P BSE Sensex	28061.14	27865.96	195.18	0.70
Nifty 50	8697.60	8611.15	86.45	1.00
S&P BSE 100	8988.92	8863.71	125.21	1.41
S&P BSE 200	3779.27	3719.56	59.71	1.61
Nifty Free Float Midcap 100	15972.30	15413.10	559.20	3.63

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (03/10/2016 - 07/10/2016)	1444.87	-3690.43
MFs (29/09/2016 - 05/10/2016)	2750.40	12422.40

Source : FPI - CDSL
Source : MF - SEBI

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