

DEBT MARKETS

G-SEC Market

Bullish trend was witnessed during the week as demand persisted from both foreign and domestic investors. The recent Brexit outcome has crucially been a game-changer that is likely to alter the global landscape in a significant way. On one hand, while it has led to growing calls for more aggressive quantitative easing to support growth, on the other, it has considerably dented US Fed's efforts to continue hiking its interest rates. On the domestic front, rumors hinted at a possible tweaking of the Monetary Policy Framework, whereby the target inflation would be reset to a range of 2%-6%, from the current point figure targets. Shifting of the inflation goalpost to 6% is widely believed to open up further room for monetary easing. Confluence of these broad factors had a positive bearing on domestic bond market sentiment as visible in sharp softening of yields. Despite being a holiday shortened week, market activity peaked to cross the ₹1 Lac Cr mark in a single session. Momentum remained upbeat throughout the course of the week as intensified buying selling sent prices skyrocketing to new highs. Near the close of the week, the weekly G-Sec auction cut offs came in much better than expected on back of strong demand from a few select investors. This further added to market momentum as prices sustained at elevated levels. Nonetheless, yields softened by as much as 4-6 bps on a week-on-week basis.

The 10Y benchmark 7.59% GS 2026 closed at ₹101.39 (7.38%) as compared to ₹101.15 (7.42%) on previous closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth Rs 6,585 Cr in this week compared to an

infusion of ₹3,416 Cr in previous week. Infusions via the MSF route averaged ₹390 Cr. The Call rate ended at 6.44% compared to 6.25% from the previous week. The CBLO ended at 5.75% compared to 6.27% in the previous week.

CORPORATE BONDS

The 10 yrs AAA bond ended at 8.10% as compared to 8.20% in previous week. The 1 yr CD yield was seen trading at 7.38% as compared to 7.45% in the previous week.

FUND MANAGER COMMENTS

Average system liquidity conditions slipped into positive mode for the week ending July 8 to ₹37,369 crore compared to a deficit of ₹15,696 crore the week prior, aided by spill overs of government spending. The peak surplus seen during the week was ₹65,163 crore before trending lower to ₹1,331 crore by the end of the week led by excise/custom tax outflows and likely increase in currency in circulation (CIC). Government's cash balances continued to remain nil. Overnight rates continued to operate below the Repo rate for the entire week on an average basis, with the average rates 10bps lower at 6.11% on a WoW basis. We expect system liquidity conditions to slip into deficit mode again this week with outflows related to auctions more than offsetting the inflows. We expect the positive momentum in bonds to continue, however, the uptick in food prices in recent months continues to pose an upside risk to the inflation trajectory even as monsoons make progress. Markets now await the inflation and IIP data this week

Market Indicators as on 8th July, 2016

	8-Jul-16	1-Jul-16	change
INR/USD	67.37	67.32	-0.07%
Brent Crude Oil (\$/bbl)	46.76	50.35	-7.13%
Gold (\$/oz)	1366.38	1341.35	1.87%
10 year G-Sec(GOI)	7.38	7.42	-0.04
10 year AAA PSU(Ind)	8.10	8.20	-0.10
Avg. CBLO	5.75	6.27	-0.52
US 10 year Gilt	1.36	1.44	-0.09



Sensex and Nifty went down by 18 points (-0.10%) and 5 points (-0.10%) to close at 27,127 and 8,323 respectively. It was a cool-off week after a sharp 3% rally last week. Market continued to assess Brexit uncertainties and a growing crisis in Italian banks.

The government is mulling to raise the foreign direct investment limit in newspapers and periodicals to 49% from 26% at present. Currently, the FDI policy permits 26% foreign direct investment in the publishing of newspapers and periodicals dealing with news and current affairs through government approval route.

Growth in India's services firms fell to a seven-month low of 50.3 in June as compared to the previous month of May as new business grew at its slowest pace in the previous 11 months, a business survey showed.

For the first time in 15 years, the Centre has slashed prices of Diammonium Phosphate (DAP), Muriate of Potash (MOP) and Nitrogen Phosphate & Potash composition (NPK). This is expected to reduce farmers' dependence on urea and promote use of other nutrient-based fertilisers. The decision has been taken to pass on the benefits of the fall in global input prices to farmers. The price of DAP has been reduced by ₹125 per bag of 50 kg (₹2,500 per tonne), MOP by ₹250 per bag of 50 kg (₹5,000 per tonne) and NPK by an average of ₹50 per 50 kg bag (₹1,000 per tonne).

In a relief to export-focused sugar refineries, the government have clarified that export of imported raw sugar, after refining, will not attract any duty. This paves the way for movement of various

shipments that were stuck at ports, due to ambiguity on this. The government last month slapped an export duty of 20% on locally produced sugar, to ensure adequate domestic availability and curb price increase.

The Southwest monsoon rainfall has shown a marginal rise of one per cent with a good amount of precipitation in several parts of the country for the period between June 1 and July 6. Except for the east and northeast, all regions have started recording monsoon above the normal. The country as a whole received 218.2 mm of rainfall as compared to 215.3 mm, 1% more than the normal precipitation the country receives from June 1 to July 6.

Prime Minister Narendra Modi carried out a major reshuffle and expansion of the Union cabinet. Among the top ministers whose portfolios witnessed dramatic changes was human resource and development minister Smriti Irani who was replaced by Prakash Javadekar. Irani will now oversee the textile ministry.

While on the global front Fed minutes showed the dovish stance continues with no commitment on the timing of a rate hike though the intention remains intact, Crude prices stabilized after Saudi energy minister and the Opec secretary general said global oil market was heading toward a balance.

Standard & Poor's warned of a downgrade to Australia's coveted triple-A credit rang within two years, saying that 02 July elec on may have weakened the government's ability to tackle its budget deficit.

Taurus Benchmark Indices Movement

Indices	08/07/16	01/07/16	Points change	% change
S&P BSE Sensex	27126.90	27144.91	-18.01	-0.07
Nifty 50	8323.20	8328.35	-5.15	-0.06
S&P BSE 100	8488.56	8486.19	2.37	0.03
S&P BSE 200	3541.84	3538.66	3.18	0.09
Nifty Free Float Midcap 100	14077.45	13973.80	103.65	0.74

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (4/07/2016 - 8/07/2016)	-253.09	778.41
MFs (30/06/2016 - 05/07/2016)	322.40	10723.70

Source : FPI - CDSL
Source : MF - SEBI

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