

## DEBT MARKETS

### G-SEC Market

Bond markets continued the rally as unexpected announcement of RBI's OMO worth ₹100bn helped new 10-yrs benchmark touching lows of 6.795%. Data related to US jobs and other macros releases also helped in scaling down fears of near term Fed rate hike. Moreover, participants continued to reflect exuberance over the new 10Y security, with the new benchmark not only recording huge volumes, it softened by an astounding 10 bps in one single trading session. Consequently, other G-Sec securities witnessed spreads realignment as yields fell by about 4-5 bps for the liquid securities. RBI's gilt purchase further created space for participants to enter into the liquid segment, rendering favorable demand supply dynamics. Near the close of the week, G-Sec auction cutoffs were keenly eyed for fresh cues over market appetite. While the auction cutoffs came on expected line, market sentiment slightly turned weak as selling pressure weighed on gilt prices. Nevertheless, the underlying tone of the market remained positive with gilts ending 3-4 bps lower on the yield curve.

The benchmark G-sec 7.59% 2026 closed at ₹103.58 (7.06%) vis-à-vis ₹103.16 (7.12%) on previous week closing. New 10 yrs benchmark 6.97% 2026 closed at 6.83% as compared to 6.96 yield on previous week closing.

### LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹3,620 Cr in this week compared to an infusion of ₹6,253

Cr in previous week. Infusions via the MSF route averaged ₹525 Cr. The Call rate ended at 6.39% compared to 6.37% from the previous week. The CBLO ended at 6.43% compared to 5.12% in the previous week.

### CORPORATE BONDS

The 10 yrs AAA bond ended at 7.59% as compared to 7.65% in previous week. The 1 yr CD yield was seen trading at 7.21% compared to 7.25% in previous week.

### FUND MANAGER COMMENTS

Average system liquidity eased further for the week ending Sep 09 to a surplus of ₹86,425 crore compared to a ₹62,515 crore the week prior, on the back of inflows related to the arrears and salaries from the 7th pay awards also the OMO auction of ₹10,000 crore added to the surplus liquidity condition. We expect system liquidity surplus to shrink this week with the outflows related to advance taxes towards the end of the week, auctions and seasonal pickup in CIC, offsetting the inflows. The new 10-yrs benchmark is expected to trade in 6.80%-6.90% range while the old 10-yrs paper is expected to trade in the range of 7.05%-7.12% for this week. Data related to Inflation and IIP will provide further direction.

### Market Indicators as on 9th September, 2016

	9-Sep-16	2-Sep-16	change
INR/USD	66.68	66.83	0.22%
Brent Crude Oil (\$/bbl)	48.01	46.83	2.52%
Gold (\$/oz)	1327.93	1325.07	0.22%
10-year G-Sec(GOI)	7.06	7.12	-0.06
10-year AAA PSU(Ind)	7.59	7.65	-0.06
CBLO	6.43	5.12	1.31
US 10-year Gilt	1.67	1.60	0.07

Source: Bloomberg



Sensex and Nifty went up by 265 points (0.90%) and 57 points (0.60%) to close at 28,797 and 8,867 respectively. In its second consecutive rise this week, benchmark indices hit fresh 16 months high. This was supported by heavy global liquidity and reduced chances of rate cut in September. On the domestic side absence of negative tides helped. Monsoon too had been averaging above normal pace. Global equities fell modestly this week on growing concern that extraordinarily accommodative monetary policy has reached the limit of its effectiveness

However market showed some weakness after the recent ECB meet failed to hike its bond buying programme. The ECB held its key interest rates unchanged on Thursday, as expected. The rate on the ECB's marginal lending facility stands at 0.25%, with the rate on the deposit facility at -0.4%. The ECB last moved rates in March, when it cut the rate on the marginal lending facility by 5 basis points. Despite the ECB's monetary stimulus program the euro zone's economic growth and inflation rate remain stubbornly low.

The U.S. trade deficit fell more than expected in July as exports rose to their highest level in 10 months, offering further evidence that economic growth picked up early in the third quarter. The trade gap narrowed 11.6% to \$39.5 billion, declining after three straight months of increases.

India's Service sector growth touched the highest level in over 3.5 years, driven by new business orders amid improved market conditions. The Nikkei India Services PMI, stood at

54.7 in August, up from 51.9 in July, registering an expansion in each of the past 14 months.

In Indian sector, utility vehicle and motorcycle sales continued to register robust growth in volumes in August. The M&HCV segment, on the other hand, maintained its down cycle. The utility vehicle segment registered a volume growth of 48.23%, passenger vehicles volumes grew by 9% YoY. Volumes in the economy two-wheeler segment grew 22.19% YoY.

The Reserve Bank of Australia and the Bank of Canada left policy unchanged, though the BOC warned that economic risks are tilted to the downside, suggesting that a cut in policy rates is possible later this year.

South Korean markets fell on Friday after North Korea conducted its fifth nuclear test. The Kospi benchmark fell 1.1%. The South Korean won dropped 0.9% after the first reports of a test but recovered to close 0.3% lower versus the US dollar, at 1092.6.

Two European corporations issued bonds with negative yields this week. German consumer goods maker Henkel and French pharmaceuticals maker Sanofi were both able to issue bonds at a premium with no yield, so investors will get back less than they paid for the bonds at issue. In recent months, the ECB has been buying corporate bonds in addition to European sovereign debt, helping to drive their yields to record lows.

## Taurus Benchmark Indices Movement

Indices	09/09/16	02/09/16	Points change	% change
S&P BSE Sensex	28797.25	28532.11	265.14	0.93
Nifty 50	8866.70	8809.65	57.05	0.65
S&P BSE 100	9120.03	9035.82	84.21	0.93
S&P BSE 200	3810.84	3774.41	36.43	0.97
Nifty Free Float Midcap 100	15614.80	15385.30	229.50	1.49

## Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (06/09/2016 - 09/09/2016)	2636.81	3570.58
MFs (01/09/2016 - 07/09/2016)	-109.70	19747.30

Source : FPI - CDSL  
Source : MF - SEBI

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