

## DEBT MARKETS

### G-SEC Market

Positive momentum in the first half of previous week led to marginal softening of bond yields until the elevated CPI came in the way. Apr CPI stood at 5.39%, a surge of 56 bps from 4.83% registered in the previous month. Consequently, Core CPI surged considerably, clocking in 4.94% as compared to 4.75% in Mar-16. Market was abuzz with rumors hinting at possible increase in percentage of SLR holdings allowed to be utilized for LCR calculation purposes. Apart from SLR-HTM cuts that have hurt G-Sec demand, such move is likely to further curtail demand from the banking sector. Also, sources suggested that the government was likely to favor gilt buybacks rather than switches and the conduct of the same was likely to be staggered during the course of the year unlike previous years. As the week progressed, caution ahead of key macro releases led to some position trimming by market players. The weekly auction cut offs, though on expected line, could not lift market mood. Amid jittery market sentiment, selling pressure was witnessed as gilts registered losses in the range of 2-3 bps by closing of the week.

The 10Y benchmark 7.59% GS 2026 closed at ₹100.94 (7.45%) as compared to ₹101.04 (7.44%) on previous closing.

### LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹19,588 Cr in this week compared to an

infusion of ₹9,992 Cr in previous week. Infusions via the MSF route averaged ₹418 Cr. The Call rate ended at 6.48% compared to 6.52% from the previous week. The CBLO ended at 5.55% compared to 6.36% in the previous week.

### CORPORATE BONDS

The 10 yrs AAA bond ended unchanged at 8.17. The 1 yr CD yield was seen trading at 7.45% as compared to 7.50% in previous week.

### FUND MANAGER COMMENTS

A sudden spike in retail inflation and latest update from IMD over delayed monsoon have caused some fear among the participants. Regular monsoon updates along with anecdotal price evidence will be closely tracked. Liquidity deficit is expected to remain tight at around current levels, with the auction and currency leakage related outflows nearly matching the coupon and T-bill redemption related inflows. Given the continued liquidity tightness and RBI's objective of zero liquidity deficit, one does not rule out an OMO purchase announcement this week.

### Market Indicators as on 13th May, 2016

	13-May-16	6-May-16	change
INR/USD	66.77	66.56	-0.32%
Brent Crude Oil (\$/bbl)	47.83	45.37	5.42%
Gold (\$/oz)	1273.45	1288.99	-1.21%
10 year G-Sec(GOI)	7.45	7.44	0.01
10 year AAA PSU(Ind)	8.17	8.17	0.00
Avg. CBLO	6.58	6.35	0.23
US 10 year Gilt	1.70	1.78	-0.08

Source: Bloomberg



Sensex and Nifty went up by 261 points (1.00%) and 81 points (1.10%) to close at 25,490 and 7,815 respectively. This is despite an uneasy development of revision of a 33-yrs-old India-Mauritius treaty which is expected to have its repercussion on short-term foreign flows and later concerns over likely tightening of norms for participatory notes by Sebi. The weak domestic data raised expectation of a rate cut by RBI.

March IIP grew by 0.1%, well below our estimate of 2.5%. The biggest disappointment was again the contraction in capital goods (-15.4%) although the numbers are once again skewed on the downside by just one item in the capital index group. Manufacturing contracted by -1.2%, Mining contracted by -0.1%, Electricity grew by an impressive 11.3%. On a cumulative basis April - March IIP growth is 2.4% against 2.8% in the previous year.

April CPI Inflation jumped to 5.39% from 4.83% in the previous month, as it was higher than our estimate of 5.05%. Higher food prices was the main reason for the jump in retail inflation. Fuel and light inflation was 3.03%, Housing 5.37%, and Misc 4.34%. Core inflation also rose to 4.94% from 4.75%.

India signed the protocol amending the Double Taxation Avoidance Agreement with Mauritius, as it gives India the right to tax capital gains arising from sale or transfer of shares of an Indian company acquired by a Mauritian tax resident, while it proposes to exempt investments made until March 31, 2017, from such taxation. The government also said that shares acquired between April 1, 2017 and March 31, 2019 will attract capital gains tax at a 50% discount on the domestic tax rate - i.e., at 7.5% for listed equities and 20% for unlisted ones. The full tax impact of the

protocol will fall on investments beginning April 1, 2019, when capital gains will attract tax at the full domestic rates of 15% and 40%.

India's indirect tax collections jumped 42% in April on sharp rise in excise collections owing to increased duty on petrol and diesel. Excise collections soared 70.7% to ₹282.52 billion in April as compared to ₹165.46 billion a year ago. The collections in April are 8.3% of the budgeted target for the 2016-17 fiscal as Finance Minister Arun Jaitley has pegged indirect tax collections at Rs 7.78 trillion in 2016-17, up 9.7% from ₹7.09 trillion actual collections of the previous fiscal.

Japan is determined to prevent recent "one-sided" yen rises from accelerating, Finance Minister Taro Aso said, reiterating his resolve to intervene in the currency market if yen gains last long enough to hurt a fragile economic recovery. Aso told parliament that Japan has no plans to manipulate currency moves on a long-term basis to give its exports a competitive trade advantage, but he added that it was a shared understanding among G7 and G20 nations that excessive currency volatility was undesirable.

Brazil is in the midst of a deep economic recession. The country posted negative GDP growth for the seventh consecutive quarter in December 2015 and is expected to remain in the contractionary territory in 2016. To make matter worse, Fitch recently downgraded Brazil's credit outlook deeper into junk category.

Crude oil prices continued to rise while gold declined. The dollar rebounded after the dollar index hit a 52-week low last week.

## Taurus Benchmark Indices Movement

Indices	13/05/16	06/05/16	Points change	% change
S&P BSE Sensex	25489.57	25228.50	261.07	1.03
Nifty 50	7814.90	7733.45	81.45	1.05
S&P BSE 100	7944.50	7860.61	83.89	1.07
S&P BSE 200	3315.87	3278.71	37.16	1.13
Nifty Free Float Midcap 100	13130.80	13001.85	128.95	0.99

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

	Equity	Debt
FPIs (09/05/2016 - 13/05/2016)	595.71	-175.01
MFs (05/05/2016 - 11/05/2016)	1342.40	-9785.90

Source : FPI - CDSL  
Source : MF - SEBI

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