DEBT MARKETS

G-SEC Market

Volatile trading activity witnessed during the week with G-Sec trading in a range of 7.12%-7.20%. The week opened on an upbeat note as weak US GDP data signaled towards bleak prospects for a near term Fed rate hike. Correspondingly, consistent decline in global crude oil prices owing to supply glut concerns rendered further support to domestic market dynamics. Amidst these buoyant cues, market traded with robust momentum registering volatile swings in gilt prices. Pertinently, it is the confluence of favorable demand supply equation, easy global and domestic liquidity conditions that have had a larger bearing on the recent rally in the bonds market. On one hand, expectations are rife that major world economies would resort to quantitative easing to safeguard themselves from another recessionary phase, while on the other; appointment of a more 'dovish' RBI Governor has brightened the odds of repo rate cuts. Intermittent profit booking tendencies did weigh on market as gilts registered marginal hardening bias. As the week progressed, the recent sudden softening in G-Sec yields led to caution among participants as they weighed in possibilities for further fall in yields. Moreover, US NFP data and the RBI Monetary Policy due next week also weighed on market sentiment. Consequently, it dampened market mood, thereby limiting position building in the market. Near week close, the much-awaited structural reform, 122nd Constitutional Amendment Bill, was passed by the Upper House of the Parliament, in effect setting the process for GST Bill in motion. Significant headway on such major structural reform was definitely a sentiment booster for the market. Alternately, Bank of England too, eased policy rates while expanding the size of its quantitative easing program. Additionally, Finance Ministry officially notified the inflation target of 4% with +/-2% for a period of 5 years. Deriving cues from these developments, gilts traded with a positive bias, recovering part of its recent losses. The weekly auction cut offs came in lower than expected, which further halted the rally in bonds. Amid cautionary stance and profit taking, gilts ended slightly weaker than previous week.

The 10Y benchmark 7.59% GS 2026 closed at ₹102.89 (7.16%) as compared to ₹102.89 (7.16%) on previous closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹3,971 Cr in this week compared to an infusion of ₹7,207 Cr in previous week. Infusions via the MSF route averaged ₹414 Cr. The Call rate ended at 6.39% compared to 6.46% from the previous week. The Average CBLO was 5.73% compared to 6.28% in the previous week.

CORPORATE BONDS

The 10 yrs AAA bond ended at 7.82% as compared to 7.83% in previous week. The 1 yr CD yield was seen trading at 7.22% as compared to 7.23% in the previous week.

FUND MANAGER COMMENTS

Average system liquidity eased further for the week ending Aug 5 to a surplus of Rs 44,607 crore compared to a surplus of Rs 6,281 crore the week prior. Liquidity conditions remained in surplus mode for the entire week aided by month-end government spending and spill overs from RBI taking delivery of its forward position. 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, inching lower higher on a weekly basis with the average rates 4bps lower at 6.38% on a WoW basis. We expect system liquidity conditions to tighten marginally this week led by outflows related to excise/custom duties, G-Sec and SDL auction along with beginning of the month related CIC increase. We expect the 10-yr G-Sec yield to trade in the range of 7.15-7.25% ahead of the RBI policy next week.

Market Indicators as on 5th August, 2016

	5-Aug-16	29-Jul-16	change
INR/USD	66.78	67.00	0.33%
Brent Crude Oil ($/bbl)	44.27	42.46	4.26%
Gold ($/oz)	1,335.55	1,351.00	-1.14%
10 year G-Sec(GOI)	7.17	7.16	0.00
10 year AAA PSU(Ind)	7.82	7.83	-0.01
CBLO	5.73	6.28	-0.55
US 10 year Gilt	1.59	1.45	0.13

Source: Bloomberg

Sensex and Nifty went up by 26 points (0.10%) and 45 points (0.50%) to close at 28,078 and 8,683 respectively. Firmness in global stocks boosted sentiment on the domestic bourses.

Global credit rating agency, Moody's Investors Service's statement that Rajya Sabha's approval of the Goods and Service Tax (GST) constitutional amendment bill is a credit positive for India's sovereign and non-financial corporates also lifted sentiment.

The government on Friday formally backed the inflation strategy of the Reserve Bank of India (RBI) by notifying a retail inflation target of 4% as an anchor for monetary policy. In other big news RBI released guidelines for 'on-tap' universal banks licences, marking a historical event for the banking industry in country.

India services PMI jumps to 3-months high of 51.9 in Jul from 50.3 in Jun.

The DGAD has recommended provisional antidumping duty on imports of hot rolled steel products, as a measure to shield local producers against cheap imports from countries like China, Japan and South Korea.

Core Infrastructure sectors that contributes around 38% in India's Industrial Production jumped to 5.2% in June from 2.8% a month ago, boosted by coal, cement and electricity segments. Coal production shot up by 12% during the month from 5.5% a month ago while cement and electricity output increased by 10.3% and 8.1% from 2.4% and 4.6% of previous month respectively.

Overseas, European and Asian stocks edged higher driven by the Bank of England's aggressive stimulus measures.

The Bank of England cut its benchmark interest rate for the first time since 2009 to a historic low of 0.25%, while announcing an expanded package of stimulus measures and reducing its economic growth forecasts. It plans to pump an additional £60bn in electronic cash into the economy to buy government bonds, extending the existing quantitative easing (QE) programme to £435bn in total. Another £10bn in electronic cash will be created to buy corporate bonds from firms making a material contribution to the UK economy. As much as £100bn of new funding to banks to help them pass on the base rate cut. Under this new "term funding scheme" (TFS) the Bank will create new money to provide loans to banks at interest rates close to the base rate of 0.25%. The scheme will charge a penalty rate if banks do not lend.

Japan's cabinet approved a government stimulus package that includes ¥7.5 trillion ($73 billion) in new spending, in the latest effort by Prime Minister Shinzo Abe to jump-start the nation's sluggish economy. The government will pump money into infrastructure projects, such as upgrading ports to accommodate foreign cruise ships and building food-processing facilities to increase exports of farm products. The government will provide cash handouts of ¥15,000, or about $147, each to 22 million low-income people, bring more workers into a public-pension system by easing admission criteria, and offer more college scholarships.

Taurus Benchmark Indices Movement

Indices	05/08/16	29/07/16	Points change	% change
S&P BSE Sensex	28078.35	28051.86	26.49	0.09
Nifty 50	8683.15	8638.50	44.65	0.52
S&P BSE 100	8890.33	8856.01	34.32	0.39
S&P BSE 200	3706.02	3692.08	13.94	0.38
Nifty Free Float Midcap 100	14827.30	14772.75	54.55	0.37

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (01/08/2016 - 05/08/2016)	2290.01	-1606.85
MFs (28/07/2016 - 03/08/2016)	-622.10	-2508.50

Source : FPI - CDSL
Source : MF - SEBI