DEBT MARKETS

G-SEC Market

Bonds ended red previous week following a tad hawkish commentary of the RBI governor. Market opened steady previous week, keenly anticipating the RBI Monetary policy review. While participants almost unanimously expected status quo on key rates, the accompanying commentary was expected to have a larger bearing on market sentiment. RBI policy commentary which seemed hawkish led to a sharp sell-off. Govt's notification of Buyback auction helped contain hardening bias in gilts. Under Buyback auction, Govt extinguished securities worth ₹16,650 Cr, essentially easing supply concerns in the over saturated market. Surprisingly, immediately after Buyback auction, RBI announced OMO Purchase auction. The move further, helped gilts recover from their week lows. With gilt prices at lows, it presented value buying opportunity for market players. Added to that, strengthening equity and currency markets rendered support to bond market dynamics. On Friday, the weekly G-Sec auction cut offs came in as expected. Improved momentum sustained till the end of the session, recuperating only a small part of the losses registered in the post policy bearishness. By closing, bond yields remained 4-5 bps higher than previous week's closing.

The old 10Y benchmark 7.72% GS 2025 closed at 99.32 (7.82%) as compared to ₹99.60 (7.78%) on previous closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹6,107 Cr in this week compared to an infusion of ₹18,064 Cr in previous week. Infusions via the MSF route averaged ₹148 Cr. The Call rate ended at 6.74% compared to 7.05% from the previous week. The CBLO ended at 6.32% compared to 6.97% in the previous week.

CORPORATE BONDS

The 10 yrs AAA bond ended at 8.39% as compared to 8.40% in previous week. The 1 yr CD yield was seen trading at 8.17% as compared to 7.85% in previous week.

FUND MANAGER COMMENTS

Government cash balance has receded due to month end spending however we expect government to stay cash heavy going ahead, primarily on the back of upcoming maturities, thereby keeping liquidity and subsequently overnight rate firm. A sudden spike in credit growth has led to a rush in issuance. Supply is expected to remain healthy as corporates and banks roll over their money market instruments. Domestic bond prices took a beating following marginal hawkish view of the governor. SDL spread over gilts continues to inch up amid supply fears. Yields are not expected to move substantially either way until FY17 budget.

Market Indicators as on 5th February, 2016

	5-Feb-16	29-Jan-16	change
INR/USD	67.65	67.79	0.21%
Brent Crude Oil ($/bbl)	34.06	34.74	-1.96%
Gold ($/oz)	1,173.40	1,118.21	4.94%
10 year G-Sec(GOI)	7.82	7.78	0.04
10 year AAA PSU(Ind)	8.48	8.39	0.09
Avg. CBLO	6.52	6.99	-0.47
US 10 year Gilt	1.84	1.92	-0.08

Source: Bloomberg

Sensex and Nifty went down by 254 points (-1.00%) and 74 points (-1.00%) to close at 24,617 and 7,489 respectively, losing the last week's momentum. Initially in the week, indices witnessed sharp decline after the RBI decided to keep repo rate unchanged. However, as the week progressed, positive cues from the US and the Asian markets and some strengthening in the Indian rupee against the US dollar lifted sentiment.

RBI has kept key policy rates unchanged in its sixth bi-monthly Monetary Policy Review, as repo rate remains at 6.75%, reverse repo rate at 5.75% and the CRR at 4% (in line with expectations). The Marginal standing facility rate and Bank Rate are at 7.7%, as monetary side will now wait for the fiscal side before it takes further steps and also says that reforms in Budget will create space for a rate cut. The Central bank sees the inflation target of 6% for January 2016 being met, and expects inflation to be around 5% in financial year 2017, if the Monsoons are normal.

Growth of eight core sectors slowed down to 0.9% in Dec-2015 from 3.2% in the same month of previous year as production of crude oil declined by 4.1%, natural gas by 6.1% and steel by 4.4%. The December production numbers are, however, better than those in November, which witnessed the worst performance in seven months with the output of eight sectors contracting by 1.3%. The cumulative growth of core sectors in April-December period of 2015-16 came in at 1.9%, lower than 5.7% in the first nine months of the last financial year.

China will cut crude steel capacity by 100 million-150 million tonnes within the next five years in a bid to tackle a crippling glut that has dragged prices down to multi-year lows and saddled firms with huge debts, the country's cabinet said. The State Council also said it would ban new steel projects and work to eliminate so-called stricken "zombie" mills, which have stopped producing steel but have not formally shut down. The China Iron and Steel Association said the country's total annual crude steel capacity now stands at 1.2 billion tonnes. Total production reached 803.8 million tonnes last year, down 2.3%, the first drop since 1981.

IMF chief Christine Lagarde said, IMF does not wish to slap "draconian measures" on hard-up Greece but wants more government progress on pension reform, as Greece was hit by a general strike that brought tens of thousands of people into the streets in protest over pension reforms, a key part of Greece's latest economic bailout by the European Union. According to Lagarde, the current pension system, which costs the equivalent of 10% of the Greek economy annually, is not sustainable and should undergo a profound overhaul. In Europe, the average pension ratio is 2.5% of GDP, she noted.

The US 10-yrs Treasury yield dipped below 1.9%, and investors now only expect a slim chance the Federal Reserve (Fed) will raise rates in March. The January ISM Non-Manufacturing Index tumbled; adding to the concern that weakness of manufacturing sectors is spreading to service sectors.

Taurus Benchmark Indices Movement

Indices	05/02/16	29/01/16	Points change	% change
S&P BSE Sensex	24616.97	24870.69	-253.72	-1.02
Nifty 50	7489.10	7563.55	-74.45	-0.98
S&P BSE 100	7580.19	7651.70	-71.51	-0.93
S&P BSE 200	3161.89	3191.12	-29.23	-0.92
Nifty Midcap 100	12382.80	12469.10	-86.30	-0.69

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (01/02/2016 - 05/02/2016)	735.58	1964.94
MFs (28/01/2016 - 03/02/2016)	152.10	3712.40

Source : FPI - CDSL
Source : MF - SEBI