DEBT MARKETS

- The union budget for financial year 2018-19 was presented in Parliament on Feb 1, 2018. Fiscal deficit for 2018-19 was pegged at 3.3% of GDP while the deficit figure for 2017-18 came in at 3.5% of GDP (against a budgeted figure of 3.2%). This was a clear evidence of fiscal slippage and the government missing its deficit targets.

- Gross market borrowing in the next financial year has been pegged at more than INR 6 trn. The government also announced that the minimum support price (MSP) of all eligible agri products would now be set at 1.5 times the cost of production.

- The fiscal slippage and relatively higher than expected borrowing in the coming financial year added to the already gloomy sentiment pervading in the bond markets. Yields on benchmark bonds rose sharply and only retraced a bit after RBI rejected all bids in the government securities auction.

- The RBI effectively cancelled an auction for securities worth INR 11,000 crores as it did not accept any of the bids that were received, and also did not allow the issue to devolve on primary dealers.

- The monetary policy committee (MPC) of RBI meets this week with their policy interest rate decision expected on Wednesday. The consensus view is that the committee may adopt a hawkish tone in the policy statement in view of the fiscal slippages and expectations of higher inflation due to higher MSP on agri products.

- Bond yields were volatile with the new benchmark 10 year bond yield moving up by about 25 basis points to 7.56%.

Yield Movement

- The benchmark 10 year government bond closed the week trading at a yield of 7.56%, a rise of 25 basis points closing levels of the previous week.
- Yield on 10 year AAA PSU bond traded at approx. 8.15%, indicating that spreads over gilts have remained stable.
- One year CDs yielded about 7.55%, indicating a rise of about 15 basis points in yields over the week.

Fund Manager Comments

The market now awaits the monetary policy statement due on Feb 7, 2018. Till then sentiment is likely to remain subdued.

Sensex and Nifty went down by 984 pts. (-2.70%) and 309 pts. (-2.80%) to close at 35,067 and 10,761 respectively.

India's 2018-19 budget saw increase in the fiscal deficit for FY18 to 3.5% (from 3.2% earlier) and to a 3.3% projection for FY19 was acknowledged. The Government remains committed to a virtuous but eventual 3.0% target.

The cut in Corporate Income Tax rates for companies with revenues below ₹250 cr (~USD 40 million) from 30% to 25%, compared with ₹50cr earlier, was a positive for the majority of Indian businesses.

The re-imposition of Long-term Capital Gains Tax at 10% of gains from 1 February 2018 onwards was less severe than rumoured as gains achieved up to 31 January 2018 will not be taxed. A 10% tax on distributed income by equity oriented mutual fund could affect the flows in this segment going forward. No additional tax has been levied on Insurance Companies.

The government remains committed to doubling farm incomes by 2022. Steps toward this include increasing MSPs to be at least 1.5 times the Cost of Production and devising institutional mechanisms to ensure that MSP is actually transmitted to APMCs. The institutional credit to Agriculture has been increased further for FY19 and irrigation schemes have been boosted.

Government says, a series of structural reforms will propel India among the fastest growing economies of the world. Country firmly on course to achieve over 8% growth as manufacturing, services and exports back on good growth path.

Global stock markets saw selling as investors were cautious on the back of possibility of hike in interest rates by U.S. Federal Reserve and inching up of bond yields in world's major markets. In U.S., 10 year and 30 year yield rose to 2.8 percent and 3 percent respectively a level seen after many months. Japanese markets saw pressure on the back of continuous strength in the yen against the dollar. The Bank of Japan increased the bond purchases in response to rising yield that reached 0.1% against the target of around zero percent. Economic data out of China was mixed a manufacturing sector growth below street expectations while service sector growth topped estimates.

Back at home, The monetary policy committee meeting is scheduled on 6th and 7th February. In view of the rising inflation, crude prices and higher fiscal deficit number, the undertone of the committee policy stance may turn hawkish from current neutral stance. The outcome of the Reserve Bank of India's (RBI) monetary policy meeting, Q3 December 2017 corporate earnings, macroeconomic data, trend in global markets, investment by foreign portfolio investors (FPIs) and domestic institutional investors (DIIs), the movement of rupee against the dollar and crude oil price movement will dictate trend of the market next week.

Taurus Benchmark Indices Movement

Indices	2/2/18	25/1/2018	Points change	% change
S&P BSE Sensex	35066.75	36050.44	-983.69	-2.73%
Nifty 50	10760.60	11069.65	-309.05	-2.79%
S&P BSE 100	11115.45	11493.10	-377.65	-3.29%
S&P BSE 200	4676.41	4852.15	-175.74	-3.62%
Nifty Free Float Midcap 100	19760.35	21455.75	-1695.40	-7.90%

Weekly FPI and MF net flows (₹ in crs.)

	Equity	Debt
FPIs (29/01/2018 - 02/02/2018)	2923.18	4465.70
MFs (25/01/2018 - 31/01/2018)	3979.29	8378.41

Source : FPI - CDSL
Source : MF - SEBI