DEBT MARKETS

Domestic Key Event

Union Budget 2017-18

- Fiscal deficit for FY 2017-18 budgeted @ 3.2% of GDP.
- Budgeted fiscal deficit for FY 2016-17 @ 3.5% would be met.
- Revenue deficit for FY 2017-18 budgeted @ 1.9% of GDP.
- Nominal GDP has been budgeted to grow at 11.75%.
- Net borrowing pegged @ ₹3.48 lakh crore (net of buyback & repayment of bonds) compare to ₹3.47 lakh crore in current financial year.
- Mobilization of funds via small saving scheme saw a spurt which is estimated to reach at ₹90,000 crore viz s viz ₹22,000 budgeted earlier in FY 2016-17. Receipt from small saving scheme in FY 2017-18 budgeted at ₹ 1 lakh crore
- Increased spending on infrastructure sectors.
- Disinvestment revenue targeted @₹72,500 crore.

Fiscal Deficit

- April - December, 2016 @ 93.9% of Budgeted Estimate (BE) vs 87.9% in previous year.
- Widened from 85.8% of BE in first 8 months.

India's core infrastructure industries output grows by 5.6% in December compare to 4.9% growth in November on the back of higher production of steel, refinery products and electricity.

Global Data

- o US Fed kept policy rates unchanged, keeping benchmark overnight lending rate at 0.5% to 0.75%.
- o The Bank of Japan kept policy rates unchanged keeping short-term interest rates at minus 0.1% and the 10 year government bond yield to around 0%.
- o China's central bank raised short-term interest rates on 14 & 28 days reverse repurchase agreement by 10 basis points

Yield Movement

The 10-year corporate bond (PSU AAA) ended flat at 7.25% compared to last Friday. The 1-year CD traded at 6.50% level compare to 6.55% level last Friday.

Liquidity

Average surplus liquidity during the week (excluding Cash Management Bills (CMB's)) increased to ₹3.23 lakh crores compared to ₹2.51 lakh crores in the previous week. The outstanding reverse repos as on 03 February is approximately ₹4.01 lakh crores compare to ₹2.65 lakh crores last friday. CMB worth ₹95,000 crores matured during the week which were not reissued. The outstanding CMB's issued till date is approximately ₹3 lakh crores out of the 6 lakh crores limit under MSS. The weighted average CBLO rate for the week was 5.79% compared to 6.09% in the previous week.

Fund Manager Comments

Benchmark 10 Yr G-sec is trading flat to pre-budget level as the gross and net borrowing targets for FY 2017-18 kept largely flat to current year's numbers. Market would have preferred a lower borrowing burden given the trimming of fiscal deficit from 3.5% to 3.2%. On budget day, the 10 Yr G-sec yield inched lower towards 6.37% post the announcement of 3.2% fiscal deficit for FY 2017-18. However, market sentiment turned negative immediately on confusion over the gross borrowing number. Lack of clarity coupled with delay in public release of budget documents pushed up the 10-year towards 6.46%. Market participants will now watch for monetary policy due on 8th February for further direction.

Market Indicators as on 3rd February, 2017

	3-Feb-17	27-Jan-17	change
INR/USD	67.32	68.04	1.07%
Brent Crude Oil ($/bbl)	56.46	54.86	2.92%
Gold ($/oz)	1220.20	1191.30	2.43%
CBLO (Average)	5.78%	6.09%	-0.31%
10-year G-Sec(GOI)	6.41%	6.40%	0.01%
10-year AAA PSU(Ind)	7.25%	7.25%	0.00%
US 10-year Gilt	2.49%	2.49%	0.00%

Source: Bloomberg

Weekly Statistical Supplement

	27-Jan-17	20-Jan-17
Reserve Money	14971.70	14659.90
YoY Growth %	-25.30%	-26.90%
Currency in Circulation	10167.20	9874.80
Forex Reserves (USD Bn)	361.56	360.78

Scheduled Commercial Banks	20-Jan-17	YoY Growth %
Deposits	104952.80	13.9%
Credit	74177.8	5.1%
	20-Jan-17	22-Jan-16
Incremental Credit/Deposit YTD %	14.40%	75.80%

Source: RBI (Amount in bn)

- Sensex and Nifty went up by 358 points (1.30%) and 100 points (1.20%) respectively, to close at 28241 and 8741 respectively.
- Nifty consolidated 100 points in the first half of the week ahead of the Union Budget 2017. The union budget was presented on February 1 did not pack big bang reforms but was largely in line with expectations and positively biased in terms of tax cuts to lowest income slab and increased allocation to government's rural centric schemes.
- Fiscal consolidation roadmap is a huge positive of the union budget. This will keep the inflation low an may lead to cut in interest rates by the RBI. A fiscal deficit target of 3.2% if prudently followed will bring policy credibility to the present governance.
- Foreign Portfolio Investors (FPIs) continued the trend of net buying in the cash market for the consecutive week. FPIs bought US$ 41 million in the cash market. Domestic Institutional Investors (DIIs) continued their support to the cash market with net buying of US$ 192 million.
- Gold soared to 11-week high of US$ 1227.5 led by a weak US dollar.
- The US Federal Reserve decided to keep the interest rates steady seeking further clarity on the US economic outlook.
- Bank of England's (BoE's) Monetary Policy Committee has set the interest rates at 0.25%. However, the bank upgraded the GDP growth rate to 2% in the current year, up from 1.4% in November 2016.
- Crude oil prices witnessed a price hike. This was led by the news that Mr. Trump could be considering imposing fresh sanctions on Iranian entities following geopolitical tensions between the two countries over missile tests.
- In the coming week, Nifty's direction will depend upon RBI's policy and a good earning season that is expected to be marginally impacted by demonetisation.

Taurus Benchmark Indices Movement

Indices	03/02/17	27/01/2017	Points change	% change
S&P BSE Sensex	28240.52	27882.46	358.06	1.28%
Nifty 50	8740.95	8641.25	99.70	1.15%
S&P BSE 100	9037.90	8919.83	118.07	1.32%
S&P BSE 200	3790.41	3738.93	51.48	1.38%
Nifty Free Float Midcap 100	16035.20	15641.35	393.85	2.52%

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (30/01/2017 - 03/02/2017)	2208.44	2243.97
MFs (27/01/2017 - 01/02/2017)	1408.40	5329.90

Source : FPI - CDSL
Source : MF - SEBI