DEBT MARKETS

- The monetary policy committee (MPC) of RBI cut the benchmark policy interest rate (the "repo rate") by 0.25% to 6%. Consequently, the reverse repo rate now resets to 5.75% and the rate applicable to the marginal standing facility (MSF) is now 6.25%.

- The committee however continues to maintain a "neutral" stance on monetary policy.

- Trading activity in the government bond market remained relatively subdued with prices changing very little.

- Benchmark 10 year government bonds closed the week trading at approx. 6.43%, a fall of about 3 basis points from the closing level of the previous week.

- India's fiscal deficit for the first quarter (April - June) of the financial year stood at approx.. 4.40 lakh crores. This is about 80% of the full year fiscal deficit.

- The quarterly fiscal deficit number indicates a significant front loading of government expenditure in order to boost growth. This should reflect in healthy GDP numbers for the first quarter.

Yield Movement

- Yields on 10 year benchmark government bonds continue to trade in a narrow range of 6.43% - 6.46%.

- The benchmark 10 year government bond closed the week trading at a yield of 6.43%

- Yield on 10 year AAA PSU bond traded at approx. 7.25%, indicating that spreads over gilts remained more or less steady.

- One year CDs yielded about 6.49%, indicating no change in levels from last week's close.

Fund Manager Comments

The inflation print for June was 1.54%. This relatively low inflation in spite of the pump priming efforts by the government (as indicated in the fiscal deficit figures for the first quarter) should be a cause for concern. We can expect the government to cut back on expenditure in the remainder of the financial year in order to meet yearly fiscal deficit targets. This would require that private investment and expenditure pick up the slack, else growth will suffer.

The monetary policy committee would have to factor in these consideration while taking their interest rate decisions in the months of October and December. Unless inflation picks up substantially in the coming months, the central bank's rate setting committee may have to make bigger reductions in the policy rate to avoid stagnation.

Implementation of the Goods and Services Tax (GST) has already led to some uncertainty in corporate and private sector investments. We expect these to get sorted out by the end of the second quarter of the financial year. Growth momentum is therefore likely to pick up only in the third quarter, and this should concern the monetary policy committee members. We could see a change in the policy stance from "neutral" to "accommodative" either in the October policy statement or the December statement.

Sensex and Nifty went up by 16 pts. (0.00%) and 52 pts. (0.50%) to close at 32,325 and 10,066 respectively.

The growth in Index of Eight Core Industries dropped to a 19-month low of 0.4% in June 2017, compared with 4.1% in May. The index had grown by 3.2% in the first two months of the fiscal year. Coal production continued to fall for the third consecutive month. Moreover, the rate of fall aggravated to 6.7%. Cement too continued its downward trajectory with a 5.8% fall in output in June 2017. Natural gas (6.4%) and steel (5.8%) were the only core industries to report a healthy growth in production in June. April-June growth in core sector is 2.4% against 6.9% last year.

India's gross fiscal deficit (GFD) touched 80.8% of the annual budgeted target in the first quarter of 2017-18 itself. The government had exhausted only 61.1% of its annual deficit target at the same time last year. The sharp expansion in the deficit this year was on account of front loading of expenditure. The government spent Rs.6.5 trillion during April-June 2017, 27.1% more than what it spent last year in the first quarter. Revenue expenditure rose by 25.8% to ₹5.8 trillion, while capital spending increased by 39.5% to Rs.683 billion. In comparison, net tax revenue collections grew at a slower pace of 12.7% to ₹1.8 trillion. Non-tax revenues declined by 6.5% to ₹220 billion. Non-debt capital receipts (includes disinvestment) increased handsomely, but at ₹97 billion, the amount was too small to fund the increase in spending.

RBI in its third Bi-monthly Monetary Policy Statement for 2017-18 decided to cut the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points to 6%; Consequently, the reverse repo rate under the LAF will reduce to 5.75%. Marginal standing facility (MSF) rate and the Bank Rate will stand at 6.25%. The decision of the MPC is consistent with a neutral stance of monetary policy in consonance with the objective of achieving the medium-term target for Consumer Price Index (CPI) inflation of 4% within a band of ± 2%, while supporting growth. GVA projection for FY18 has been retained at 7.3%, with risks evenly balanced.

The Nikkei India Manufacturing Purchasing Manager's Index (PMI) stood at 47.9 in July, its lowest mark since February 2009. The index reading was 50.9 in June. Most of those surveyed, however, expect a quick rebound from GST related disruptions. The Nikkei India Services PMI Business Activity Index plunged from June's eight-month high of 53.1 to 45.9 in July, its lowest level since September 2013.

Taurus Benchmark Indices Movement

Indices	4/8/17	28/7/2017	Points change	% change
S&P BSE Sensex	32325.41	32309.88	15.53	0.05%
Nifty 50	10066.40	10014.50	51.90	0.52%
S&P BSE 100	10444.69	10374.33	70.36	0.68%
S&P BSE 200	4381.25	4358.07	23.18	0.53%
Nifty Free Float Midcap 100	18365.25	18468.90	-103.65	-0.56%

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

	Equity	Debt
FPIs (31/07/2017 - 4/08/2017)	-1525.69	6223.27
MFs (27/07/2017 - 02/08/2017)	5127.6	3193.6

Source : FPI - CDSL
Source : MF - SEBI