DEBT MARKETS

G-SEC Market

Domestic bonds continue to trade sideways ahead of no key cues. Strong demand from foreign investors have keep the levels intact. At the start of the week, fresh FPI limits worth ₹7,396 Cr were successfully auctioned. In anticipation of fresh FPI purchases, market positioned itself leading to slight upward bias to gilt prices. However, moderate FPI inflows did not augur well for the overall bond market dynamics. Additionally, as the week progressed, weak Chinese PMI numbers yet again reignited concerns of global slowdown triggering sharp selloff across asset classes. Also, continued weakening of Chinese yuan triggered EMEs risk on sentiment. Its rippling effects majorly impacted domestic equity as well as currency markets. Tracking such bearish sentiment, bond market too, treaded on a weak note. As such, announcement of new 10 yrs auction had limited positive impact on underlying market dynamics. Of late, bearishness seems to have gripped market sentiment as demand for G-Secs have dropped considerably. Amidst deteriorating market fundamentals, gilts noted range bound trading for a large part of the week. By the end of the week, market keenly awaited cues from the auction cut off on new 10 yrs security. While the cut off was broadly in line, it rendered only momentary impact to the market. The upcoming US NFP data also, constrained market activity. Broadly, market ended on a low note, losing 1-2 bps across the curve.

The 10Y benchmark 7.72% GS 2025 closed at 99.85 (7.74%) as compared to ₹99.94 (7.73%) on previous closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹15,809 Cr in this week compared to an infusion of ₹12,024 Cr in previous week. Infusions via the MSF route averaged ₹755 Cr. The Call rate ended at 6.95% compared to 6.73% in the previous week. The CBLO ended at 6.80% compared to 6.82% in the previous week.

CORPORATE BONDS

The 10 yrs AAA bond ended at 8.31% as compared to 8.35% in previous week. The 1 yr CD yield was seen trading at 7.65% as compared to 7.70% in previous week.

FUND MANAGER COMMENTS

Liquidity is expected to remain tight with government spending the only recourse. RBI have been conducting term repos and is expected to continue with the same ahead amidst heavy supply of securities. Wedge between the policy rate and money market rates is expected to remain firm however the bias is expected to be on the easing side. Domestic bonds have been trading sideways for quite some time now. Currency and domestic price data will guide prices going ahead. Anecdotal data suggests that retail prices are well anchored yet.

Market Indicators as on 8th January, 2016

	8-Jan-16	1-Jan-16	change
INR/USD	6.80	66.14	872.65%
Brent Crude Oil ($/bbl)	33.55	37.28	-10.01%
Gold ($/oz)	1,104.05	1,061.10	4.05%
10 year G-Sec(GOI)	7.74	7.73	0.01
10 year AAA PSU(Ind)	8.31	8.35	-0.04
Avg. CBLO	6.82	6.88	-0.06
US 10 year Gilt	2.12	2.27	-0.15

Source: Bloomberg

Sensex and Nifty went down by 1,227 points (-4.70%) and 362 points (-4.50%) to close at 24,934 and 7,601 respectively. Flurry of global events was witnessed in the week.

The Dow Jones Industrial Average fell nearly 400 points, as steep falls in Chinese equities spilled over to global markets. Thursday's selloff came after the People's Bank of China made its largest downward adjustment to the yuan since August, as country's stock market fell more than 7% amid concerns about capital flight from the Asian giant, and China's stock markets stopped trading after only 30 minutes, ending the shortest trading day in their history after the newly installed mechanism to limit volatility was triggered for the second time this week.

Oil prices fell for a fourth day on Thursday, lurching again to 12-year lows as new financial market tumult in China brought a $30 per barrel, as Oil has fallen every day this year, losing nearly 10% in a sudden dive. Global oil benchmark Brent and U.S. crude futures fell to nearly $32 a barrel on Thursday, their lowest since at least 2004. Gold climbed above $1,100 an ounce for the first time in nine weeks as the dollar fell and investors channelled money into safer assets after worries about the Chinese economy hit global stocks.

The World Bank slashed its growth forecast for the global economy in 2016 on Wednesday, citing "disappointing" growth in major emerging-market economies like China and Brazil. The bank cut its June forecast for global economic expansion in 2016 by 0.4 percentage point to 2.9%, though that is still faster than 2015's sluggish 2.4 %.

Ending a 25-month expansion run, manufacturing activity in India fell into the contraction zone in December, as India Manufacturing PMI dipped to 49.1 in December from 50.3 in November, indicating that a festival-related surge may not be sustainable. The dismal picture of manufacturing is partly attributed to December's incessant rainfall in Chennai, which heavily affected the sector. The activity in the services sector, accelerated to a 10-month high in December from flat performance in the previous month led by strong expansion in output across the sector, as India Services for services showed an encouraging growth in December with a reading of 53.6 points against 50.1 in November.

Finance ministry source said that Govt will soon decide on revising small savings rate to remove the gap with respect to bank deposits and align with policy transmission efforts.

Taurus Benchmark Indices Movement

Indices	08/01/16	01/01/16	Points change	% change
S&P BSE Sensex	24934.33	26160.90	-1226.57	-4.69
Nifty 50	7601.35	7963.20	-361.85	-4.54
S&P BSE 100	7771.71	8123.19	-351.48	-4.33
S&P BSE 200	3254.54	3390.85	-136.31	-4.02
Nifty Midcap 100	13288.70	13540.45	-251.75	-1.86

Weekly FPI & MF net flows (₹ in crs.)

(4/1/16 - 08/01/16)	Equity	Debt
FIIs	-1597.07	2578.67
MFs (4/1/2016 - 7/1/2016)	297.40	6510.80

Source : FPI - CDSL
Source : MF - SEBI