DEBT MARKETS

G-SEC Market

Bonds ended marginally negative over previous week. Lack of domestic supply weighed over negative global sentiment. Bond market opened the week on a steady note as the upcoming RBI OMO Purchase and gilt Buyback auction supported market sentiment. While caution over OMO auction cut offs coupled with acceptance of duration securities prevailed, the underlying market tone stayed on a firm footing. Buoyed by OMO results indicating absorption of duration securities, market treaded with a positive bias. However, sentiment dipped yet again as higher than expected SDL auction cut offs reignited market concerns of investor demand fatigue. The next couple of sessions saw market trade on a steady note. In the middle of the week, US Fed Chairperson Yellen, in her testimony, cited ongoing global developments were likely to pose a drag on US growth. Market perceived this as a signal of lower chances of near term Fed rate hike. Concomitantly, domestic bond yields eased, emulating soft trends of US Treasuries. By the end of the week, bond yields stood relatively resilient ending 1-2 bps higher on the yield curve.

The old 10Y benchmark 7.72% GS 2025 closed at 99.29 (7.83%) as compared to ₹99.32 (7.82%) on previous closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹21,393 Cr in this week compared to an infusion of ₹6,107 Cr in previous week. Infusions via the MSF route averaged ₹1,244 Cr. The Call rate ended at 6.62% compared to 6.74% from the previous week. The CBLO ended at 6.85% compared to 6.32% in the previous week.

CORPORATE BONDS

The 10 yrs AAA bond ended at 8.51% as compared to 8.48% in previous week. The 1 yr CD yield was seen trading at 8.20% as compared to 8.17% in previous week.

FUND MANAGER COMMENTS

Core liquidity deficit eased marginally for a while previous week, however with indirect taxes flowing out, deficit again firmed up to earlier levels. Money market rates are expected to remain firm as issuers scramble to roll over their maturities. Domestic bonds may see some pressure as lagging corporate profits may hit government's kitty significantly, thereby impacting the fiscal balance.

Market Indicators as on 12th February, 2016

	12-Feb-16	5-Feb-16	change
INR/USD	68.24	67.65	-0.86%
Brent Crude Oil ($/bbl)	33.36	34.06	-2.06%
Gold ($/oz)	1,237.97	1,173.40	5.50%
10 year G-Sec(GOI)	7.72	7.82	-0.10
10 year AAA PSU(Ind)	8.51	8.48	0.03
Avg. CBLO	6.92	6.52	0.40
US 10 year Gilt	1.75	1.84	-0.09

Source: Bloomberg

Sensex and Nifty crashed sharply by 1,631 points (-6.60%) and 508 points (-6.80%) to close at 22,986 and 6,981 respectively. Recent crash can be attributed to global rout, shocking slippages by PSU banks and the margin calls triggered thereafter.

India Q3 FY2016 GDP growth of 7.3% was marginally above consensus estimates, as GVA growth was 7.1%, mainly helped by the industrial sector which recorded 9.0% growth with manufacturing growing by 12.6%. Private final consumption expenditure grew by 6.4% YoY against 5.6% in the previous quarter, despite some stress in rural economy, while government consumption grew by 4.7% against 4.3% in previous quarter. GDP is estimated to grow by 7.6% in FY16, GVA growth is likely to be 7.3%.

December IIP contracted by -1.3%, a little below our estimate of -0.5% as capital goods contracted sharply for the second consecutive month. Manufacturing contracted by -2.4%, Mining grew by 2.9%, Electricity grew by 3.2%. In use based analysis capital goods was the biggest disappointment with contraction of -19.7% YoY.

Federal Reserve Chair Janet Yellen suggested that the central bank might delay, but not abandon, planned interest-rate increases in response to recent turmoil in financial markets. In presenting the Fed's semi-annual economic report to Congress, Yellen said the turbulence had "significantly" tightened financial conditions by pushing down stock prices, pushing up the dollar and raising some borrowing costs. In spite of the big moves in the markets, Yellen said she hasn't seen a steep drop-off in economic growth, either in the U.S. or globally.

World powers agreed to reach a cease-fire in Syria in one week, allowing aid in but giving Russia and the Assad regime time to press an offensive that has expanded the Kremlin's clout in the region. The agreement came after more than five hours of talks among the U.S., Russia, Iran, Turkey, Saudi Arabia and other countries, in a meeting that aimed to halt a recent onslaught by Moscow and Damascus that has created tens of thousands of new refugees.

Asian markets dropped sharply on Friday, with the Nikkei tumbling, after a sell-off on Wall Street as oil remained volatile and concerns about how central banks' easing measures will affect banks' earnings persisted. Japan's Nikkei 225, which reopened after a public holiday dropped 5%, falling for seven of the past eight sessions, as it has been on a downward spiral as yen rapidly strengthened against the dollar, with the index closing Wednesday down 25% from its 52-week high set in June 2015.

Sweden's central bank cut its main interest rate to a target range of minus 35 to 50 basis points due to concerns over hitting its inflation target of 2%.

Deutsche Bank and other European banks encountered turmoil this week as their shares tumbled in reaction to worries over future profitability and capital availability.

Crude oil prices continued to drop and ended the week lower, while precious metal prices increased.

Taurus Benchmark Indices Movement

Indices	12/02/16	05/02/16	Points change	% change
S&P BSE Sensex	22986.12	24616.97	-1630.85	-6.62
Nifty 50	6980.95	7489.10	-508.15	-6.79
S&P BSE 100	7062.40	7580.19	-517.79	-6.83
S&P BSE 200	2945.85	3161.89	-216.04	-6.83
Nifty Midcap 100	11485.80	12382.80	-897.00	-7.24

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (08/02/2016 - 12/02/2016)	-2857.69	-1002.93
MFs (4/02/2016 - 10/02/2016)	1465.50	3558.50

Source : FPI - CDSL
Source : MF - SEBI