

DEBT MARKETS

Domestic Key Event

Monetary Policy Highlights:

- Status quo policy. (Repo rate unchanged @ 6.25%)
- Unanimous voting by all 6 MPC members in favour of the Monetary Policy Decision.
- Shift its policy stance to Neutral from accommodative.
- Emphasised commitment towards targeting CPI inflation @ 4% on a durable and calibrated basis.
- December headline inflation (Excluding vegetable) would have been 140 bps up.
- GVA forecast revised to 6.9% Vs 7.1% estimated earlier for FY 2017.

IIP @ -0.4% YoY (Dec) vs +5.7% YoY (Nov)

- Driven down by a contraction in consumer and capital goods production.
- Manufacturing contracted by 2%, Electricity and mining grew by 6.3% & 5.2% YoY respectively.

Yield Movement

The 10-year corporate bond (PSU AAA) rose to 7.55% level compared to 7.25% level last Friday. The 1-year CD traded at 6.62% level compare to 6.50% level last Friday.

Liquidity

Average surplus liquidity during the week (excluding Cash Management Bills (CMB's)) increased to ₹3.94 lakh crores

compared to ₹3.23 lakh crores in the previous week. The outstanding reverse repos as on 10 February is approximately ₹4.12 lakh crores compare to ₹4.01 lakh crores last Friday. CMB worth ₹1.00 lakh crores matured during the week which were not reissued. The outstanding CMB's issued till date is approximately ₹2 lakh crores out of the 6 lakh crores limit under MSS. The weighted average CBLO rate for the week was 6.11% compared to 5.79% in the previous week.

Fund Manager Comments

RBI surprised market participants with a status quo on policy rate and more importantly, shifted its stance to neutral from accommodative. RBI's forecast of inflation being at 4%-4.5% in 1HFY18 and 4.5%-5% in 2HFY18 leaves little room for further rate cuts in near term. RBI also highlighted that core inflation is sticky at 5% and the recent fall in inflation is primarily because of significantly fall in vegetables prices, which to some extent fell because of demonetization and could reverse. Market reacted sharply to this surprise move and at the end of week, 10-year benchmark yield has hardened 40 bps to 6.81% from the level of 6.41% seen pre-policy. Inflation & trade deficit data will be released this week.

Market Indicators as on 10th February, 2017

	10-Feb-17	3-Feb-17	change
INR/USD	66.88	67.32	0.65%
Brent Crude Oil (\$/bbl)	56.00	56.46	-0.81%
Gold (\$/oz)	1233.65	1220.20	1.10%
CBLO (Average)	6.11%	5.78%	0.33%
10-year G-Sec(GOI)	6.81%	6.41%	0.40%
10-year AAA PSU(Ind)	7.55%	7.25%	0.30%
US 10-year Gilt	2.41%	2.49%	-0.08%

Source: Bloomberg

Weekly Statistical Supplement

	3-Feb-17	27-Jan-17
Reserve Money	15342.80	14971.70
YoY Growth %	-24.40%	-25.30%
Currency in Circulation	10491.30	10167.20
Forex Reserves (USD Bn)	363.15	361.56

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 94 pts. (0.30%) and 53 pts. (0.60%) to close at 28,334 and 8,794 respectively.
- RBI's MPC decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.25%. Consequently, the reverse repo rate remains unchanged at 5.75%, and the marginal standing facility (MSF) rate and the Bank Rate at 6.75%. RBI's stance turned from accommodative to neutral implying no rate cut in the medium term. The decision of the MPC is consistent with the objective of achieving consumer price index (CPI) inflation at 5% by Q4 of 2016-17 and the medium-term target of 4% within a band of ± 2 per cent, while supporting growth.
- The Reserve Bank of India said it will remove the cap on cash withdrawals from saving bank accounts in two phases since it expects cash supply to improve by next month. In the first phase, the withdrawal limit will be raised to ₹50,000 from ₹24,000 a week, effective February 20. The limits on cash withdrawals from savings bank account will be withdrawn completely from March 13.
- The government is looking at raising retirement fund body EPFO's investment in exchange traded funds (ETFs) to 15% from existing 10%. The Minister further said the Employee Provident Fund Organisation (EPFO) has already invested ₹3,000 crore in the first tranche of the Central Public Sector Enterprise ETF and returns on EPFO investment into equities are coming around 8.7-8.8% annually.
- Global market had been on a pause mode amidst doubt over US President Trump's tax reform would be able to get the go-ahead this year. However it surged buoyed by Trump's statement that a phenomenal tax plan will be unveiled in the next few weeks.
- Mexico's central bank raised its benchmark interest rate on Thursday to a nearly 8-year high in a bid to curb rising inflation after a steep hike in gasoline prices and weakness in the peso sparked by Donald Trump's U.S. election win. The Banco de Mexico hiked interest rates by 50 basis points to 6.25%, the highest level since March 2009. The central bank said it raised rates to avoid consumer price contagion following a jump in gasoline prices and to anchor inflation expectations.
- China posted a US\$ 51.35 billion trade surplus in January of 2017, lower than a US\$ 56.67 billion surplus a year earlier but above consensus of a US\$ 47.90 billion surplus. It was the largest trade surplus since January 2016, mainly driven by a surge in exports. 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	10/2/17	3/2/17	Points change	% change
S&P BSE Sensex	28334.25	28240.52	93.73	0.33%
Nifty 50	8793.55	8740.95	52.60	0.60%
S&P BSE 100	9094.26	9037.90	56.36	0.62%
S&P BSE 200	3818.75	3790.41	28.34	0.75%
Nifty Free Float Midcap 100	16227.70	16035.20	192.50	1.20%

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (06/02/2017 - 10/02/2017)	842.49	2641.23
Mfs (02/02/2017 - 08/02/2017)	113.60	9463.50

Source : FPI - CDSL
Source : MF - SEBI

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