

DEBT MARKETS

- The second volume of the Economic Survey was unveiled by the Chief Economic Adviser last week. It has come out with a pessimistic view on growth forecast. It has indicated a downward risk to the estimated growth range of 6.75%-7.5% for 2017-18.
- The survey also noted that the Reserve Bank of India (RBI) had overestimated the Consumer Price Index (CPI) based inflation by more than 1% in six of the last fourteen quarters. The survey expects CPI based inflation to be below 4% by March this fiscal.
- The survey lists appreciation of rupee, farm loan waivers, rising financial stress in the power and telecom sector and transition issues arising from the implementation of the Goods and Service Tax (GST) as challenges.
- Growth in the index of industrial production (IIP) came in at -0.1% (negative 0.1%) for the month of June. This reduction comes at the back of the large scale de-stocking exercise witnessed across industries due to the impending implementation of GST.
- The Indian Rupee depreciated marginally to 64.14 to the US Dollar on the back of weakness witnessed in the equity markets.

Yield Movement

- Yields on 10 year benchmark government bonds continue to trade in the range of 6.43% - 6.50%.
- The benchmark 10 year government bond closed the week trading at a yield of 6.50%, a rise of about 7 basis points from the closing levels of the previous week.
- Yield on 10 year AAA PSU bond traded at approx. 7.34%, indicating that spreads over gilts remained more or less steady.
- One year CDs yielded about 6.48%, indicating a drop of 1 basis point in yield level from last week's close.

Fund Manager Comments

The weakness in equity markets and the relatively cautious predictions on growth from the economic survey are likely to play on the minds of the traders this coming week. The trading week is short with two banking holidays and this may limit trading volumes to an extent.

Marginal weakness in both the rupee and government bonds is likely to continue, in the absence of any fresh cues.



Sensex and Nifty went down by 1,112 pts. (-3.40%) and 356 pts. (-3.50%) to close at 31,214 and 9,711 respectively.

The tension between North Korea & United States have heightened as North Korea said it was completing plans to fire four intermediate-range missiles over Japan to land near the U.S. Pacific island territory of Guam. In response, U.S. President Donald Trump warned North Korea that it would face "fire and fury" if it threatened the United States. Amid aggressive talk between the United States and North Korea, stocks around the world fell sharply during the week and investors moved into the yen, gold and other safe-haven assets. MSCI's gauge of stocks across the globe shed 0.77% on Thursday, on track for its third straight day of declines as it pulled further back from all-time highs.

China's exports and imports grew much less than expected in July, raising concerns over whether global demand is starting to cool even as major Western central banks consider scaling back years of massive stimulus support. But while China's overall trade continued to grow at a healthy clip in July, at 8.8% it was the slowest rate this year. China's export growth slowed to 7.2% in July from a year earlier, the weakest pace since February and cooling from an 11.3% rise in June. China's imports rose 11.0%, the slowest growth since December and down from a 17.2% rise in the previous month.

For the first time, the government presented a second or a mid-year Economic survey for the year 2016-17, highlighting the

new factors that the economy faces since the last such exercise in February. The economic survey said that achieving upper end of 6.75% to 7.5% real GDP growth predicted previously will be difficult due to appreciation of the Rupee, farm loan waivers and transitional challenges from implementing GST. It also said that the scope for monetary easing was considerable and this-coupled with reform to address the twin balance sheet challenge-will help the economy achieve its full potential quicker.

The Reserve Bank of India will pay ₹30,659 crore as a dividend to the government for the year ended June 2017, less than half the ₹65,876 crore it paid the previous year. The sharp decline will likely leave the government with a fairly significant hole in its annual budget. The government had expected a combined amount of ₹74,901 crore to come in from the central bank and dividend payments from state-run banks and other financial institutions.

According to the Medium-Term Expenditure Framework (MTEF), India's tax-GDP ratio will see an increase of 30 basis points (bps) each in 2018-19 and 2019-20 due to the impact of demonetisation and the roll-out of the Goods and Services Tax (GST). The tax-GDP ratios are projected to be 11.6% of GDP in 2018-19 and 11.9% of GDP in 2019-20. However, in the current fiscal, the tax-GDP ratio is expected to see no increase over that of 2016-17 and remain at 11.3%, the report noted.

Taurus Benchmark Indices Movement

Indices	11/8/17	4/8/17	Points change	% change
S&P BSE Sensex	31213.59	32325.41	-1111.82	-3.44%
Nifty 50	9710.80	10066.40	-355.60	-3.53%
S&P BSE 100	10063.16	10444.69	-381.53	-3.65%
S&P BSE 200	4215.23	4381.25	-166.02	-3.79%
Nifty Free Float Midcap 100	17360.75	18365.25	-1004.50	-5.47%

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

	Equity	Debt
FPIs (07/08/2017 - 11/08/2017)	-549.47	5237.93

Source : FPI - CDSL

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