

## DEBT MARKETS

### G-SEC Market

Risk off sentiment weighed in the domestic bond market as well. Moreover, recent Chinese yuan depreciation reignited risk aversion towards EME economies. Announcement of buyback auction too, failed to enthuse market participants. With huge SLR supply - SDL, T-Bill and G-Sec - due in the week, participants remained watchful of cues over market appetite. Release of Dec CPI, which broadly stood in line with market expectations, had limited impact on market dynamics. CPI for Dec-15 came in at 5.61%, marginally higher than 5.41% in Nov-15. Correspondingly, Dec core CPI inched up to 4.73% vs. 4.62% in Nov-15. Higher than expected SDL auction cutoffs stood suggestive of deteriorating demand dynamics. Alternate spurts of value buying and short covering led to range bound trading for a large part of the week. As the week neared close, strong INR depreciation further dented market sentiment significantly. Furthermore, rejection of all offers at the buyback auction added to bearishness in the market. Concomitantly, gilts registered significant losses as yields rose significantly.

The old 10Y benchmark 7.72% GS 2025 closed at 99.42 (7.81%) as compared to ₹99.85 (7.74%) on previous closing.

### LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹18,021 Cr in this week compared to an

infusion of ₹15,809 Cr in previous week. Infusions via the MSF route averaged ₹356 Cr. The Call rate ended at 6.92% compared to 6.95% in the previous week. The CBLO ended at 6.92% compared to 6.80% in the previous week.

### CORPORATE BONDS

The 10 yrs AAA bond ended at 8.38% as compared to 8.31% in previous week. The 1 yr CD yield was seen trading at 7.78% as compared to 7.65% in previous week.

### FUND MANAGER COMMENTS

Tight liquidity and continuous lumpy government cash balance with the central bank has exacerbated the rise in yields for short term instruments. Recent regulation of the SEBI w.r.t. sectoral limit has pushed up rates for non-bank borrowers, specifically for non-bank financial companies. Domestic bonds should trade narrow with an easing bias on the back of rising wedge between the US and IN 10Y bond. Rise in CPI should not be a matter of concern if one accounts for the recent hikes in excise duty

### Market Indicators as on 15th January, 2016

|                          | 15-Jan-16 | 8-Jan-16 | change  |
|--------------------------|-----------|----------|---------|
| INR/USD                  | 67.55     | 66.64    | -1.35%  |
| Brent Crude Oil (\$/bbl) | 28.94     | 33.55    | -13.74% |
| Gold (\$/oz)             | 1,088.88  | 1,104.05 | -1.37%  |
| 10 year G-Sec(GOI)       | 7.81      | 7.74     | 0.07    |
| 10 year AAA PSU(Ind)     | 8.38      | 8.31     | 0.07    |
| Avg. CBLO                | 6.89      | 6.82     | 0.07    |
| US 10 year Gilt          | 2.04      | 2.12     | -0.08   |

Source: Bloomberg



Sensex and Nifty went down by 479 points (-1.90%) and 164 points (-2.20%) to close at 24,455 and 7,438 respectively.

November IIP contracted by 3.2% after having risen to a five year high of 9.8% in October, as it is well below consensus estimates of 2.0% growth. The main reason for the sharp fall in industrial production can be attributed to fewer working days in the month due to Diwali and other holidays, and the sharp fall in capital goods output (-24.4%). Basic goods and intermediates grew by 0.7%, consumer durables expanded by 12.5%, while consumer non-durables contracted by 4.7%. Mining grew by 2.3%, Manufacturing contracted 4.4% and Electricity grew by 0.7%.

December WPI inflation rose to -0.73% from -1.99% in November as food prices rose faster than estimated (low base), Vegetable rose by 20.5% YoY, Onions rose 26% YoY, Pulses inflation was 55.6% YoY. Fuel and power inflation was -9.15% and Manufactured inflation was -1.36%. CPI inflation inched up to 5.61% from 5.41% in the previous month, marginally higher than our estimate of 5.53%.

U.S. crude oil futures fell in Asian trade, heading lower after posting the first significant gains for 2016, as the prospect of additional Iranian supply looms over the market. WTI was down 48 cents at \$30.72 a barrel as it hit a 12-yrs low of \$29.93 earlier this week. WTI is on track to post a third consecutive weekly loss, down more than 6%. Brent crude was down 20 cents at \$30.68 a barrel. Oil ends the week at 12-yrs lows and bankruptcy fears in the oil sector continue to grow.

INR falls to as much as 67.2 to the dollar, its weakest since September 2013 but has left traders unruffled as they believe the country's sturdier economy and central bank interventions will allow the currency to navigate a difficult global environment. Traders expect the rupee to weaken further to around 67.50 in the near-term as they say the currency will remain far above the record low of 68.85 hit in August 2013. INR has performed relatively better this year than other Asian emerging market currencies, having lost about 1.6% against the dollar, compared to a fall of around 3.4% in the South Korean won and a drop of around 2.3% in the Malaysian ringgit.

Having fallen 21% since its late December high, the Shanghai Composite Index is officially in bear market territory, defined as a drop of 20% or more from its recent high. From its June peak, the index has fallen nearly 44%. Early in the week, Chinese Premier Li Keqiang said that China will not use a massive stimulus to resolve overcapacity.

The Fed's Beige Book, prepared in advance of the January 26-27 FOMC meeting, was less gloomy than many recent headlines.

The European Central Bank released an account of its December meeting that showed that there was a split over the need for further stimulus in the eurozone. Some members wanted a greater stimulus while a few saw no need for it. The ECB surprised markets by not implementing more aggressive stimulus measures at their December meeting.

## Taurus Benchmark Indices Movement

| Indices          | 15/01/16 | 08/01/16 | Points change | % change |
|------------------|----------|----------|---------------|----------|
| S&P BSE Sensex   | 24455.04 | 24934.33 | -479.29       | -1.92    |
| Nifty 50         | 7437.80  | 7601.35  | -163.55       | -2.15    |
| S&P BSE 100      | 7554.78  | 7771.71  | -216.93       | -2.79    |
| S&P BSE 200      | 3151.19  | 3254.54  | -103.35       | -3.18    |
| Nifty Midcap 100 | 12480.60 | 13288.70 | -808.10       | -6.08    |

## Weekly FPI & MF net flows (₹ in crs.)

|                                | Equity   | Debt    |
|--------------------------------|----------|---------|
| FPIs (11/01/2016 - 15/01/2016) | -2991.13 | -467.20 |
| MFs (07/01/2016 - 13/01/2016)  | 1395.70  | 1440.30 |

Source : FPI - CDSL  
Source : MF - SEBI

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