# DEBT MARKETS

## Domestic Data

- April CPI came at 2.99% as against 3.81% a month ago mainly led by decline in prices of food articles
- April WPI under the new 2011-12 series stood at 3.85% as against 5.70% a month ago
- March IIP under the new 2011-12 series surged to 2.7% from a decline of 1.2% a month ago

## Yield Movement

The 10-year corporate bond (PSU AAA) yield rose to 7.71% level compared to 7.75% level seen last Friday. The 1-year CD traded at 6.70% level compare to 6.65% last week.

## Liquidity

The weekly average surplus tightened at approx. ₹3.36 tn for the week ending May 12 compared to ₹3.9 tn for the week ending May 6, amid the weekly auctions, last of the MSS auction outflow of ₹250bn and customs & excise duty payments. The CMB maturity of the ₹200bn has been replaced with another 35-day CMB of similar amount. The Ways and means advances (WMA) utilisation by the government was to the extent of ₹511 bn as on May 5, higher on a weekly basis by ₹353 bn possibly due to month end spending. Since the government has utilized 75% of its WMA limit of ₹600bn, it necessitated the issuance of CMBs. While maintaining the uptrend, the pace of weekly increase in currency in circulation (CIC) seems to be stabilising gradually. CIC for the week ending May 5 increased by ₹235 bn to ₹14.56 tn, compared to the CY2017 weekly average of ₹337bn.

## Fund Manager Comments

The G-sec market started the past week sideways, amid lack of new triggers and as markets awaited the new benchmark 10-yr paper auction and the inflation data on Friday. The new 10-yr paper cut-off came in at 6.79% largely in line with expectations. Markets further got buoyed on expectations of lower CPI inflation data. The old 10-yr paper ended the week down ~3bps at 6.91%, while the new benchmark 10-yr paper ended the week at ~6.74%. This week is expected to start on a good note helped by a lower then expected April CPI inflation at 2.99%, igniting market hopes for a softer RBI tone ahead. Softening of UST 10-yr yield due to weaker inflation and activity data further buoyed the market. Besides, sharp gains on INR due to weaker broad dollar has also helped.

**Market Indicators as on 12th May, 2017**

| | 12-May-17 | 5-May-17 | change |
|---|---|---|---|
| USD/INR | 64.31 | 64.38 | 0.11% |
| Brent Crude Oil ($/bbl) | 50.84 | 49.10 | 3.54% |
| Gold ($/oz) | 1,228.43 | 1,228.01 | 0.03% |
| CBLO (Average) | 6.03% | 5.97% | +6 bps |
| 10-year G-Sec(GOI) | 6.91% | 6.94% | - 3 bps |
| 10-year AAA PSU(Ind) | 7.71% | 7.75% | -4 bps |
| US 10-year Gilt | 2.33% | 2.35% | -2 bps |

Source: Bloomberg

**Weekly Statistical Supplement ( INR Bn)**

| | 5-May-17 | 28-Apr-17 |
|---|---|---|
| Reserve Money (INR bn) | 19473 | 19291 |
| YoY Growth % | -9.76% | -11.08% |
| Currency in Circulation (INR bn) | 14555 | 14320 |
| Forex Reserves (USD bn) | 375.7 | 372.7 |

| Scheduled Commercial Banks (INR bn) | 28-Apr-17 | YoY Growth % |
|---|---|---|
| Deposits | 105093 | 10.33% |
| Credit | 75454 | 4.33% |
| | 28-Apr-17 | 29-Apr-16 |
| Incremental Credit/Deposit YTD % | 111.6% | -8.7% |

Source: RBI (Amount in bn)

Indian equity market following a breather in the last week regained its upward journey. With the statement from IMD that projected a normal monsoon provided the required impetus to push Nifty to pierce 9450 mark for the first time ever.

CPI inflation for April 2017 came at 3.0% (3.9% in March)- a multi-year low and 6th consecutive month of sub-4% print. The sharp disinflation was primarily on food front, which eased from 2.5% YoY to 1.2% (past 6 months' average 2%). The subdued food CPI was predominantly due to deflation in pulses and vegetables, but other components too are softening; perhaps, INR appreciation was also a factor. Meanwhile, core CPI also eased 40bps to 4.5% with inflation in a few components (health, recreation, household requisites) at series low. On the flip side, weak food prices will certainly weigh on rural incomes and their debt servicing ability.

The new IIP series (2011-12), launched on May 12, is a marked improvement over the old series in terms of representativeness of the items basket as well as weights. As per the new series, IIP grew ~3.8% YoY on an average during FY13-17 versus ~1.4% in the old series, with all sub-segments clocking better growth. The consumer durables category stands out in terms of divergence-average 5% growth in past 5 years versus -2% under old series. However, capital goods growth, while better under the new series, has been languishing at 0% in the past 5 years. As regards recent trends, the overall activity picked up pace in H1FY17, although it slackened post demonetization. Going ahead, as the economy remonetises, activity levels should improve. Overall, the new series is a much improved index which correlates better with other indicators such as core sector and PMI data compared to the earlier series.

On Global front, new application for U.S. jobless benefit unexpectedly fell last week while producer prices rebounded strongly in April pointing to tightening labor market and rising inflation that could spur the Federal Reserve to raise interest rate in June.

Germany's economy grew strongly in the first three months of this year, driven by investment and consumption. First-quarter GDP growth was 0.6%, faster than the October-to December 2016 figure of 0.4%. Household and state spending were strong, while firms invested money in construction and equipment.

**Taurus Benchmark Indices Movement**

| Indices | 5/5/17 | 12/5/17 | Points change | % change |
|---|---|---|---|---|
| S&P BSE Sensex | 29858.80 | 30188.15 | -329.35 | -1.09% |
| Nifty 50 | 9285.30 | 9400.90 | -115.60 | -1.23% |
| S&P BSE 100 | 9648.50 | 9775.99 | -127.49 | -1.30% |
| S&P BSE 200 | 4071.07 | 4123.28 | -52.21 | -1.27% |
| Nifty Free Float Midcap 100 | 18048.60 | 18240.40 | -191.80 | -1.05% |

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

| | Equity | Debt |
|---|---|---|
| FPIs (08/05/2017 - 12/05/2017) | 1970.20 | 3850.64 |
| MFs (04/05/2017 - 10/05/2017) | 2419.02 | -5002.16 |

Source : FPI - CDSL
Source : MF - SEBI