

DEBT MARKETS

FED policy

- As expected, FOMC raised the Fed funds rate by 25 bps
- Median projection raised to three 25 bps hikes in 2017, up from two hike previously stated
- Expects to take policy rate to 3% by increasing rates three times in both 2018 and 2019

Domestic Macro Data

- Consumer Price Index (CPI) for the month of November eased to 3.63% YoY compared to 4.20% YoY in October
- Wholesale price index (WPI) for the month of November eased to 3.15% YoY compared to 3.39% YoY in October
- Trade deficit widens in November to \$13 bn from \$10.16 bn in the previous month. India's exports grew for third consecutive month by 2.3% YoY to \$20 billion. However, Imports grew at faster pace of 10.4% YoY to \$33 bn
- Current account deficit for 2QFY17 registered at US\$3.4 bn (0.6% of GDP), higher than US\$0.3 bn (0.1% of GDP) in 1QFY17

Global Data

- Oil prices surged as Russia, Kazakhstan and a few other Non OPEC countries agreed to voluntarily cut their oil output next year
- China added new restrictions on pulling yuan out of the country as authorities seek to prevent a flood of capital outflows from destabilizing the financial system

Yield Movement

The domestic bond yields rose post the Fed policy due to hawkish forward guidance. The benchmark 10- yrs yield ended the week

at 6.50% compared to 6.44% last Friday. The 10-yrs corporate bond (PSU AAA) ended at 7.37% compared to 7.27% last Friday. The 1-yr CD ended at 6.65% compared to 6.53% last Friday.

Liquidity

Average surplus liquidity during the week (excluding Cash Management Bills (CMB's)) improved to INR 2.12 lakh crores compared to INR 1.27 lakh crores in the previous week. One lakh crores of Cash Management bills (CMB) were issued during the week. The outstanding CMB's issued till date is approximately INR 4.65 lakh crores out of the 6 lakh crores limit under MSS. The weighted average CBLO rate for the week was 5.98% compared to 6.06% in the previous week.

Fund Manager Comments

We expect liquidity situation to remain benign and hence money market rates to be well supported. The emerging market sovereign yields have been under pressure post the US election result as the expectation of aggressive rate hikes in US increased. Now, since the uncertainty of the Fed policy outcome is out, market will keenly wait for Trump policies announcement. At this juncture, with the commodity prices moving up, sharp appreciation in USD, market awaiting US fiscal policies, FI's outflow from emerging markets, shrinking spreads between US and India treasury yields, unclear durability of Demonetisation impact on Growth, we expect long term rates to be range bound with an upward bias.

Market Indicators as on 16th December, 2016

	16-Dec-16	9-Dec-16	change
INR/USD	67.77	67.42	-0.52%
Brent Crude Oil (\$/bbl)	55.21	54.33	1.62%
Gold (\$/oz)	1134.84	1160.01	-2.17%
CBLO (Average)	5.98%	6.06%	-0.08%
10-year G-Sec(GOI)	6.50%	6.44%	0.07%
10-year AAA PSU(Ind)	7.37%	7.27%	0.10%
US 10-year Gilt	2.60%	2.47%	0.13%

Source: Bloomberg

WSS Update		
	9-Dec	2-Dec
Reserve Money	18383.11	19865.25
YoY Growth %	-7.53%	0.50%
Currency in Circulation	9809.48	10540.55
Forex Reserves (USD)	362.99	363.87

Scheduled Commercial Banks	Source: Bloomberg	
	25-Nov	YoY Growth %
Deposit	105177.90	15.9%
Credit	72922.88	6.6%
	25-Nov-16	27-Nov-15
Incremental Credit/Deposit YTD %	3.6%	56.12%

Source: RBI (Amount in bn)



- The market began the week on negative bias with dismal IIP data, US president-elect Trumps policy on visas and surging crude oil affecting the stocks.
- Markets started with a negative mood amid GST issues and rising uncertainty over FII flows into domestic equity market after the US Federal Reserve raised interest rates by 25 bps with a hawkish outlook, signalling 3 more rate hikes in 2017.
- FPI outflows continued during the week at USD359mn. However, the pace of outflows has reduced significantly from the earlier weeks. The decline is attributable to much lower outflows in the debt segment.
- Sensex and Nifty went down by 257 points (0.96%) and 122 points (1.48%) to close at 26,490 and 8,139 respectively.
- India's WPI slowed for the third consecutive month in November. Wholesale prices climbed 3.15% YoY in November, slower than the 3.39 % increase seen in October. The expected rate was 3.1%.
- India's CPI slowed further in November. Consumer prices climbed 3.63 % YoY in November, slower than the 4.2 % increase seen in October.
- RBI continues to absorb the surplus liquidity being generated by the difference between cash deposits and cash withdrawals through its reverse repo window. The average liquidity surplus that the commercial banks have been parking with the central bank is more than ₹2 lakh crore. RBI has also issued additional MSS securities worth ₹1 lakh crore in the week to absorb the excess liquidity of the banking system. The overall issuance of MSS securities is now ₹4.65 lakh crore.
- The Bank of England kept its record low interest rate and unconventional measures unchanged at its meeting on Thursday, as widely expected, in the final session for the year that set the stage for the U.K. exit from the European Union. The Monetary Policy Committee, headed by Governor Mark Carney, unanimously decided to hold the key bank rate at 0.25 % and the corporate bond purchase plan at GBP 10 billion.
- USD continued to appreciate in the week with DXY index hitting the highs seen in 2003. US yields increased as the US FOMC indicated that it was looking to raise rates at a faster pace than earlier. However, economic data from the US was not that supportive as retail sales surprised negatively.
- The decline in Yen is largely attributable to higher global yields which are likely to accentuate outflows from Japan as investors look for higher yields elsewhere. In addition to this, the weaker economic data from Japan is likely to push a case for another stimulus from BoJ and the government.
- Going forward, global macroeconomic data, trend in global markets, investment by FPIs and DIIs, the movement of rupee against the dollar and crude oil price movement will dictate trend of the market.

Taurus Benchmark Indices Movement

Indices	16/12/2016	9/12/16	Points change	% change
S&P BSE Sensex	26489.56	26747.18	-257.62	-0.96
Nifty 50	8139.45	8261.75	-122.30	-1.48
S&P BSE 100	8368.86	8512.42	-143.56	-1.69
S&P BSE 200	3507.20	3569.62	-62.42	-1.75
Nifty Free Float Midcap 100	14620.20	14931.40	-311.20	-2.08

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (13/12/2016 - 16/12/2016)	-1280.56	-1060.44
MFs (08/12/2016 - 14/12/2016)	-305.20	468.80

Source : FPI - CDSL
Source : MF - SEBI

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