DEBT MARKETS

G-SEC Market

Bond Market saw lackluster trading last week on account of lack of any fresh triggers. Market stated jittery on back of fears of a high May CPI number, thereby rendering hardening bias to yields, which turned true as May CPI came at 5.76 compare to 5.47 in April. Even though G-sec yields were on the higher end of the curve post inflation releases, lapping up of SDL auction by select few institutional buyers provided firm support to the market. Moreover, as the system embraced for June advance tax outflows, hopes of likely RBI OMO announcement simmered among participants. However, gains were capped as the market continued to remain wary ahead of two global events - US FOMC meeting and the 'Brexit' referendum in the coming week. At its scheduled policy meet, the US FOMC maintained status quo on policy rates. Furthermore, the specific mention of the Brexit referendum in its forward statement and the likely ramifications that the event could have provided some respite to domestic sentiment. In response to these developments the Indian bond market gained positive momentum, easing from their intra-week lows. Towards the fag end of the week, the unexpected announcement by the RBI to conduct OMO purchases worth ₹10,000 Crs gave the required buoyancy to the bond market. Nonetheless, market continued to avoid building heavy positions ahead of the 23 June referendum. Broadly, government bonds ended the week on a cautious note amid lack of clarity over impending global volatilities.

The 10Y benchmark 7.59% GS 2026 closed at ₹100.59 (7.50%)as compared to ₹100.66 (7.49%) on previous closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹5,391 Cr in this week compared to an infusion of ₹7,079 Cr in previous week. Infusions via the MSF route averaged ₹10 Cr. The Call rate ended at 6.38% compared to 6.16% from the previous week. The CBLO ended at 6.26% compared to 5.16% in the previous week.

CORPORATE BONDS

The 10 yrs AAA bond ended at 8.25% as compared to 8.23% in previous week. The 1 yr CD yield was seen trading at 7.50% as compared to 7.45% in previous week.

FUND MANAGER COMMENTS

Fed still maintained a cautious stance in its monetary policy. Higher than expected CPI data kept market worried. The letter from RBI governor over the weekend stating his interest of resigning from the post was initial taken a bit negative in the initial trades but the market came over that news and are looking forward for clarity on the new candidate for the post and the announcement of Monetary Policy Committee members. Liquidity remains easy as banks continue to remain cash heavy with excessive prudent lending. Bonds market will be taking cues from the outcome of Brexit referendum, Monsoon progress as well as the quantum of UDAY bonds supply, though RBI has been proactively infusing liquidity through regular OMO purchase announcement.

Market Indicators as on 17th June, 2016

	17-Jun-16	10-Jun-16	change
INR/USD	67.09	66.76	-0.48%
Brent Crude Oil ($/bbl)	49.17	50.54	-2.71%
Gold ($/oz)	1298.65	1274.24	1.92%
10 year G-Sec(GOI)	7.50	7.50	0.00
10 year AAA PSU(Ind)	8.28	8.23	0.05
Avg. CBLO	6.51	6.47	0.04
US 10 year Gilt	1.61	1.62	-0.01

Source: Bloomberg

Sensex went down by 10 points and Nifty remains flat to close at 26,626 and 8,170 respectively. A rebound in oil prices, status quo by a string of central banks (US Federal Reserve, Bank of Japan and Bank of England) and easing of worries over upcoming vote on "Brexit" (Britain's exit from EU) helped markets take a breather.

India's CAD tanked 49.1% YoY in Q4FY16, but underperformed expectations (of a surplus) as a sharp drop in invisible earnings partly offset gains from a lower merchandise trade deficit. Capital inflows slid to a seven-year low, but were sufficient to fund the CAD. The FY16 CAD-to-GDP ratio stood at a nine-year low of 1.1%. India's merchandise exports fell for an 18th continuous month in May. Exports contracted 0.79% to $22.17 billion in May.

Consumer Price Index (CPI) inflation increased at the fastest pace of 5.8% (market consensus 5.6%) in last seventeen months in May 2016 on the back of higher food prices. Core inflation eased from 4.9% in the previous month to 4.7% in May 2016. WPI inflation increased at 0.8% higher than market consensus of +0.5% YoY, on the back of sharp increase in food articles (+7.9%).

RBI allowed banks to conduct deep restructuring of large accounts to revive projects that can be saved, effectively throwing a lifeline to promoters who risked losing their companies. Banks are anyway struggling to dispose of many stressed assets they have already acquired and have no clue what to do next. Accounts that are worth Rs 500 crore or more and have already started commercial operations will be eligible for the new recast scheme, titled 'Scheme for Sustainable Structuring of Stressed Assets.'

Of the total FDI received by India in 2015-16, the three top sectors, services (including finance, banking and insurance), computer hardware and software and the trading segment, accounted for inflows worth $16.6 billion, or over a third of the total inflows received.

Indian Government imposed 20% customs duty on sugar exports to boost domestic supply and check prices which are ruling high at Rs 40/kg. The move comes at a time when prices have surged sharply in various commodities including tomato, wheat and pulses.

MSCI decided not to include a group of mainland Chinese stocks for a third time, delivering a blow to China's efforts to join international markets. China's inclusion in the MSCI Emerging Markets Index would have marked the single biggest development in emerging markets in 20 years.

Amid global growth concerns and jitters over the U.K.'s upcoming referendum on its European Union membership, 10 year benchmark German bond fell into negative as investors continued to move to safe haven assets. British 10 year Treasury Yield was ~1.61%, the lowest since February 2011. 10 Year Japanese Government bond yield plunged to ~(0.21%).

U.S. Fed kept the Interest rates unchanged, could still raise the rates twice in 2016. It said that slower economic growth would crimp the pace of the monetary policy tightening in the future years. Yellen also acknowledged that Britian's possible exit from the EU was one of the factors in the rate decision.

On the Asian front, BOJ too maintained status-quo.

Taurus Benchmark Indices Movement

Indices	17/06/16	10/06/16	Points change	% change
S&P BSE Sensex	26625.91	26635.75	-9.84	-0.04
Nifty 50	8170.20	8170.05	0.15	0.00
S&P BSE 100	8284.14	8291.57	-7.43	-0.09
S&P BSE 200	3447.03	3448.45	-1.42	-0.04
Nifty Free Float Midcap 100	13359.25	13329.95	29.30	0.22

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (13/06/2016 - 17/06/2016)	295.95	625.74
MFs (09/06/2016 - 15/06/2016)	400.10	14446.70

Source : FPI - CDSL
Source : MF - SEBI