DEBT MARKETS

G-SEC Market

The Week opened with yields moving northwards by as much as 4-5 bps at opening session taking clue from shocking news of RBI Governor Raghuram Rajan announced his intention to resign from the post of RBI head once his term ends on 04-Sep-16. Over time, global community has invested greater confidence in the Indian economy drawing comfort from the fact that Dr Rajan was at the helm of the central bank affairs. With Rajan's exit, fears of loss of credibility and autonomy at the central bank prompted sharp foreign outflows from the financial markets. Surprisingly, consistent buying by the banking sector helped plug in the demand vacuum for gilts. Moreover, RBI OMO operations were perfectly timed to ensure minimal impact on market sentiment. As a result, gilts witnessed a sharp turnaround, in effect rendering a negligible impact on bond market. Gilts remained supported for the next couple of sessions while cautiousness ahead of the UK referendum held market sentiment on the edge. Mid-week, US Fed Yellen's testimony flagged concerns on the UK referendum and the associated global ramifications that the likely eventuality holds. Moreover, recent weakness in the US economy's macros exposed the vulnerabilities of the economy. The comments effectively worked well to soothe frayed market nerves on account of the 'Rexit' announcement. As the week came to a close, the most touted event, UK vote unfolded. Taking any by surprise, Britons chose to reject its 43-year old EU membership and break away from the Union. Amid rising uncertainty over the impending implications of such a large scale event, financial markets across EMEs suffered a huge setback. In a knee-jerk reaction, domestic gilts fell by 3-4 bps in the opening session post 'Brexit'. Surprising once again, banks and constituent holders came to the rescue for bond market, helping revive domestic appetite. In fact, gilts inched to newer highs during the course of the session. Market also drew satisfaction from balanced views coming from Governor Rajan and Finance Ministry, emphasizing that the country's macro fundamentals were stable and that they were well prepared to support financial markets. The weekly G-Sec auction cut offs too, fared well against the backdrop of this clouded visibility. Garnering support from various domestic quarters, bond yields ended 3-4 bps softer on the yield curve.

The 10Y benchmark 7.59% GS 2026 closed at ₹100.78 (7.47%)as compared to ₹100.59 (7.50%) on previous closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹7,332 Cr in this week compared to an infusion of ₹5,391 Cr in previous week. Infusions via the MSF route averaged ₹539 Cr. The Call rate ended at 6.45% compared to 6.38% from the previous week. The CBLO ended at 5.87% compared to 6.26% in the previous week.

CORPORATE BONDS

The 10 yrs AAA bond ended at 8.27% as compared to 8.28% in previous week. The 1 yr CD yield was seen trading at 7.50% unchanged from previous week.

FUND MANAGER COMMENTS

Domestic fundamentals won over the negative news of Rajan exit and Britain exit from EU as market didn't react much to that news. We expect system liquidity deficit to ease further, and slip into positive territory towards the end of the week aided by coupon and redemption flows coupled with month-end government spending. RBI has lately been taking delivery of its long forward USD position. If RBI continues to unwind then that would further aid liquidity conditions.

Market Indicators as on 24th June, 2016

	24-Jun-16	17-Jun-16	change
INR/USD	67.97	67.09	-1.30%
Brent Crude Oil ($/bbl)	48.41	49.17	-1.55%
Gold ($/oz)	1315.75	1298.65	1.32%
10 year G-Sec(GOI)	7.47	7.50	-0.03
10 year AAA PSU(Ind)	8.27	8.28	-0.01
Avg. CBLO	5.90	6.26	-0.35
US 10 year Gilt	1.60	1.61	-0.01

Source: Bloomberg

Sensex and Nifty went down by 228 points (-0.90%) and 82 points (-1.00%) to close at 26,398 and 8,089 respectively. Week witnessed historical event of BREXIT and the outcome left the entire world negatively surprised. The enormity of negative surprise could be gauged from the fact instead of staying flat, global markets rallied strongly just a day before the poll outcome. Stock markets globally saw a tumble and India was no exception. Investors now wonder which countries will be next in the queue for an EU referendum of their own.

Companies and sectors that have investments and exposure to Britain felt the worst heat. But progress of monsoon in India, latest policy announcements (relaxed FDI norms) and the possibility of GST led the Indian market to recover a decent portion of the fall.

The BREXIT outcome sets the Britain on an uncertain path as it accords a largest setback to European Union. Britain may encounter hurdle like no access to European Union's trade barrier-free single market and would have to seek new trade accords with countries around the world. Brexit is a credit negative for the UK, creating a sustained period of uncertainty. Downgrades could widen credit spreads. Prime Minister Cameron announced he will resign in October. Only after a new prime minister is in place will the UK trigger Article 50 of the Lisbon Treaty and start the two-year process of negotiating its exit from the E U.

Japanese market, the worst effected by BREXIT, suffered their biggest daily fall in more than five years on Friday after Britain voted to leave the European Union, roiling financial markets and raising fears of a shock to the already fragile global economy. The Nikkei ended down 7.9%, after falling as low as 14,864.01 at one point, its weakest since October 2014.

GBP fell to 31 year low to levels last seen in 1985 while Yen appreciated by ~20-22%. INR seems to have performed better vs other currencies.

Back home the decision by RBI Governor Raghuram Rajan not to renew his term after September 3 and move back to academia disappointed India Inc during the early part of the week. However, the government sought to douse investor concerns by liberalising foreign direct investment in several sectors. FDI norms were liberalised in aviation, pharmaceutical, defence, food trading, retail and television broadcasting, animal husbandry, broadcasting carriage services and private security agencies.

Further, the government also announced the biggest ever auction of telecom spectrum. Over 2,000 Mhz of airwaves will be available across spectrum bands from 700Mhz to 2,500Mhz is likely to fetch the government around ₹5.44 lakh crore, if sale of all spectrum is concluded at the base price.

The government also announced several measures for the textile industry with a view to generate 10 million jobs, boost exports by a cumulative $30 billion and investments by ₹74,000 crore. The Union Cabinet cleared an ₹60 bn special package for the sector. The ministry also announced labour reforms.

Retaining its position among the top ten countries globally in terms of FDI, India became the tenth largest recipient of FDI in 2015 and the fourth in developing Asia. After 2008, for the first time, India had entered the top 10 during 2014. As per the latest World Investment Report, released by the United Nations Conference on Trade and Development (UNCTAD), India's FDI inflows increased to $44 billion in 2015 as compared to $35 billion in 2014.

Taurus Benchmark Indices Movement

Indices	24/06/16	17/06/16	Points change	% change
S&P BSE Sensex	26397.71	26625.91	-228.20	-0.86
Nifty 50	8088.60	8170.20	-81.60	-1.00
S&P BSE 100	8204.75	8284.14	-79.39	-0.96
S&P BSE 200	3417.50	3447.03	-29.53	-0.86
Nifty Free Float Midcap 100	13289.35	13359.25	-69.90	-0.52

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (20/06/2016 - 24/06/2016)	143.03	-4919.46
Mfs (16/06/2016 - 22/06/2016)	340.40	5122.50

Source : FPI - CDSL
Source : MF - SEBI