

DEBT MARKETS

- The US Federal Reserve hiked policy interest rates by 0.25%. The rate setting Federal Open Market Committee also indicated that it would continue its removal of accommodation and further rate hikes could be expected.
- US President Trump and the Congress failed to reach an agreement over funding of the proposed border wall on the southern border with Mexico, leading to a funding freeze which has partially shutdown the US Government before the traditional Christmas holiday season.
- International Crude Oil prices continue to fall. Benchmark ICE Brent futures contract now trades below USD 54 per barrel. The NYMEX WTI contract trades below USD 46 per barrel.
- India's interest rate setting monetary policy committee (MPC) released the minutes of its last meeting held earlier in the month. The minutes showed that committee members were unsure of the likelihood of a change in stance, or a reduction in interest rates in the near future. Members seemed to be surprised at the surprisingly low prints on food inflation.
- Bond prices in India rallied as crude prices fell and the rupee too rallied against the US Dollar.

- RBI has also increased the liquidity infusion through open market purchases in the month of December to INR 50,000 crores up from the earlier scheduled INR 40,000 crores.

Yield Movement

- The benchmark 10 year government bond closed the week trading at a yield of 7.28%, down by 16 basis points from the closing levels of the previous week.
- Yield on 10 year AAA PSU bond traded at approx. 8.50%, down by 5 basis points from the previous week.
- One year CDs yielded about 8.10%, down by 15 basis points from the previous week.

Fund Manager Comments

Rate hikes by the US federal reserve seem to be preventing a runaway rally in Indian bonds. However, if inflation prints continue to remain low giving rise to the condition that low inflation rates are enduring and sustainable, the Indian monetary policy stance may need to change from "calibrated tightening" to neutral. It remains to be seen if the new RBI Governor changes course and resorts to a shift in the monetary policy. For the time being, bond prices may hold as we enter the lean trading activity season during the end of the calendar year.



EQUITY MARKETS

- Sensex and Nifty went up by 290 pts. (0.80%) and 112 pts. (1.00%) to close at 35,963 and 10,805 respectively. It was a highly volatile week reacting to the 5 state election results and the sudden exit of Reserve Bank of India Governor Mr. Urjit Patel.
- Urjit Patel stepped down from his position as the Governor of the RBI with immediate effect citing personal reasons. A day after, Government appointed Shaktikanta Das, member of the fifteenth finance commission, as the Governor.
- The ruling NDA government witnessed poor electoral performance. Despite this, market rallied in anticipation that the new RBI governor would take steps to ease the liquidity pain for banks and NBFCs.
- India's CPI inflation fell further, in November, to 2.33% from 3.31% in October due to further easing of food prices and easing of most other key inflation components. Overall, food inflation was negative at -1.69% from -0.14% in the previous month with vegetables at -15.6% and Pulses at -9.2%. Core inflation fell to 5.7% from 6.2% in the previous month. With overall inflation expected to remain benign, we think that the possibility of change in the policy stance to Neutral (from calibrated tightening) is extremely likely. Also, rate cut possibility has opened up with the likelihood of inflation remaining below 4.0% on a durable basis now looking very likely.
- India's IIP for Oct-18 grew by 8.1%, above the market and our estimate mainly due to low base and build up ahead of festive season. Manufacturing activity showed good numbers growing at 7.9%. On the use base analysis - Capital Goods 16.8% and Consumer Durables 17.6% contributed most to the overall Growth. We expect the growth momentum to ease out in the coming months to trend growth rate as base turns unfavorable for the next few months. However, most corporates remain fairly optimistic with regards to overall prospects in the next few quarters. Overall, we expect IIP growth to remain reasonably strong at 5.5%-6.0% in FY19.
- US and China began negotiations in the hope of reaching a trade deal before March 1st and thus avoid another round of punishing tariffs. China reportedly agreed to reduce tariffs on imports of American cars from 40% to 15%, though it was unclear when that might happen. American exports of vehicles to China have fallen sharply since the imposition of retaliatory duties.
- OPEC and Russia decided to reduce oil production by 1.2m barrels a day. The vast bulk of the cuts will be made to output from Saudi Arabia, which wants to use the revenue from the resulting higher oil prices to balance its budget. That incentive overrode pleas from Donald Trump to maintain current production levels in order to keep oil prices low.

Taurus Benchmark Indices Movement

Indices	21-12-18	14-12-18	Points change	% change
S&P BSE Sensex	35742.07	35962.93	-220.86	-0.61%
Nifty 50	10754.00	10805.45	-51.45	-0.48%
S&P BSE 100	11047.69	11077.83	-30.14	-0.27%
S&P BSE 200	4609.14	4616.35	-7.21	-0.16%
Nifty Midcap 100	17704.80	17591.60	113.20	0.64%

Weekly FPI and MF net flows (₹ in crs.)

	Equity	Debt
FPIs (17/12/2018 - 21/12/2018)	604.92	2427.89
MFs (13/12/2018 - 19/12/2018)	-636.82	19136.80

Source : FPI - CDSL

Source : MF - SEBI

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