DEBT MARKETS

G-SEC Market

Bonds ended flat previous week after a steep rally a week before. Holiday-shortened week saw market momentum receive further boost as government undertook crucial step to ensure faster monetary policy transmission. Over the weekend, the government aggressively slashed savings deposit rates by 40-130 bps across maturities with the intent to bring them in line with the prevailing policy rate. With yet another pre-requisite for monetary accommodation met with, it helped in cementing rate cut expectations. Correspondingly, market activity intensified as participants increasingly factored in a rate cut. Added to that, fresh FPI inflows rendered support to market dynamics. News source hinted that the government was likely the end the fiscal with ~₹1.5 Lac Cr of cash balance. Pertinently, the source indicated that FY17 is likely to witness government switch/ buyback operations being conducted on a quarterly basis, rather than being clubbed together near year end, as is the general trend. Against this backdrop, along with lack of position building ahead of the long weekend, gilts traded sideways witnessing horizontal consolidation across tenors. Likely profit booking too, led to some paring up of gains registered earlier in the week. Nonetheless, gilts broadly remained in the green ending 2-3 bps across the curve.

The new 10Y benchmark 7.59% GS 2026 closed at ₹100.55 (7.51%) as compared to ₹100.46 (7.52%) on previous closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹21,520 Cr in this week compared to an infusion of ₹10,635 Cr in previous week. Infusions via the MSF route averaged ₹65 Cr. The Call rate ended at 6.94% compared to 6.81% from the previous week. The CBLO ended at 7.03% compared to 5.81% in the previous week.

CORPORATE BONDS

The 10 yrs AAA bond ended at 8.34% as compared to 8.40% in previous week. The 1 yr CD yield was seen trading at 8.05% as compared to 7.92% in previous week.

FUND MANAGER COMMENTS

Tight liquidity is expected to keep the mid and long end of the curve well supplied. RBI's pro-active stance will keep the overnight rate well anchored with the longer end reacting meagerly. At current levels, bond traders seem to have already priced in a 25 basis point rate cut for April 5. We expect domestic bonds to trade in a narrow range with a tightening bias till policy.

Market Indicators as on 23rd March, 2016

	23-Mar-16	18-Mar-16	change
INR/USD	66.64	66.51	-0.20%
Brent Crude Oil ($/bbl)	40.44	41.20	-1.84%
Gold ($/oz)	1,220.11	1,255.40	-2.81%
10 year G-Sec(GOI)	7.51	7.52	-0.01
10 year AAA PSU(Ind)	8.34	8.40	-0.06
Avg. CBLO	7.00	6.63	0.37
US 10 year Gilt	1.88	1.87	0.01

Source: Bloomberg

Sensex and Nifty went up by 384.2 points (1.54%) and 112.2 points (1.47%) to close at 25,338 and 7,717 respectively in this truncated week. Infact BSE Midcap index performed better as it rose 2.2% while Smallcap index ended 1.9% higher.

Bank stocks edged higher on expectations of a bigger rate cut of 50 basis points from the Reserve Bank of India (RBI) at its monetary policy review early next month after the government announced reduction in interest rates on various small savings schemes for Q1 June 2016 based on the prevailing G-Sec (government securities) yields.

The country's current account deficit (CAD) narrowed to $7.1 billion (1.3% of gross domestic product) in the quarter ended December 2015, from $ 7.7 billion (1.5% of GDP) in the year-ago period. The CAD was also lower when compared to $8.7 bn (1.7% of GDP) recorded in the second quarter ended September 2015. Foreign Exchange Reserves increased by $2.539 billion to touch an all-time high of $355.947 billion in the week ended March 18.

The department of telecom (DoT) is looking to commence the auction for spectrum, including in the 700 megahertz (MHz) band, around mid-July, which may fetch the government ₹5.36 lakh crore. Telecom Commission is meeting on March 28.

Global equity markets broke a month-long advance this week, as another leg down in energy prices and further gyrations in emerging markets impeded risk appetite. Risk was further constrained by the twin Brussels bombings, which killed scores, wounded hundreds and showed a Europe gravely exposed to Daesh terrorism. The continuing recovery in crude prices peaked again midweek as both Brent and WTI bumped up againt $43 or so and then headed lower.

In US, the equity markets took a bit of a breather, declining slightly after five straight weeks of posting gains. Dow Jones fell to end the week at 17,516, down 0.5%. Talk of a greater desire to raise interest rates among a few Federal Reserve officials was the primary influence behind the mild selloff. The Friday US data showed that even as GDP increased at a 1.4% annual rate instead of the previously reported 1.0%, corporate profits from current production fell USD 159.6 billion in the fourth quarter.

It was a heavy week for Fedspeak, with five members of the Federal Open Market Committee (FOMC) suggesting the next hike in policy rates should come at the April meeting. In the days following these comments, oil prices slumped, the dollar strengthened and equities declined.

Taurus Benchmark Indices Movement

Indices	23/03/16	18/03/16	Points change	% change
S&P BSE Sensex	25337.56	24952.74	384.82	1.54
Nifty 50	7716.50	7604.35	112.15	1.47
S&P BSE 100	7807.85	7686.29	121.56	1.58
S&P BSE 200	3245.10	3193.01	52.09	1.63
Nifty Midcap 100	12636.75	12405.55	231.20	1.86

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (21/03/2016 - 23/03/2016)	4498.23	1842.59
MFs (17/03/2016 - 23/03/2016)	-2027.50	29829.20

Source : FPI - CDSL
Source : MF - SEBI