DEBT MARKETS

G-SEC Market

This week remained volatile as liquidity remained the dominant theme. Rally in bond market continued from previous week on account of easy liquidity and increased prospects for a rate cut in December policy. Also, heavy demand for bonds from banks in light of weak credit off take drove the market sentiment. As the week progressed, market witnessed intermittent jitters on account of uncertainty over global variables and likely profit booking from traders. Trading week remained volatile for the domestic currency as USD continued to create pressure on the rupee, consequently rupee touched the all time low levels during the trading week. Despite weakening in domestic currency, ample liquidity factor ensured position building across securities in bond market and guarded the market fall. Last day of the trading week remained very volatile due to news which suggested that RBI may look at MSS and CRR options for absorbing surplus liquidity from the market. In order to absorb excess liquidity from the system on Saturday RBI announced that banks need to maintain an incremental CRR of 100% on the increase in NDTL between 16-Sep and 11-Nov.

The New 10 yr benchmark 6.97% 2026 closed at ₹105.35 (6.23%) as compared to ₹103.88 (6.43%) on previous week closing. Previous 10 yrs benchmark G-sec 7.59% 2026 closed at ₹108.70 (6.32%) vis-ŕ-vis ₹107.05 (6.55%) on previous week closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹2,095 Cr in this week compared to an infusion of ₹3,167 Cr in previous week. Infusions via the MSF route averaged ₹260 Cr. The Call rate ended at 5.98% compared to 5.95% from the previous week. The CBLO ended at 5.57% compared to 6.05% in the previous week.

CORPORATE BONDS

The 10-yrs corporate bond (AAA) ended at 6.97% as compared to 7.14% in previous week. The 1-yrs CD yield was seen trading at 6.35% compared to 6.63% in previous week.

FUND MANAGER COMMENTS

Surplus liquidity approximately doubled over the week with average surplus of ₹4,54,427 crore for week ending Nov 25 compare to a surplus of ₹2,32,989 crore week prior with continued deposit coming in banking system after demonetization. CIC for the week ending Nov 18 fell by 3,60,000 crores. Government's cash balance decreased to ₹2,118 crore compare to 30,753 in previous week. RBI has been absorbing liquidity by conducting term reverse repos ranging between overnight to 91 days with the reverse repo cut-offs being close to repo rate. We expect liquidity surplus to ease out as banks need maintain an incremental CRR of 100% on the increase in NDTL between 16-September and 11-November this week. We expect a pause in rally in bond market on account of liquidity implications of incremental CRR hike, also market participants will refrain from building any heavy position ahead of major events such as GDP & fiscal prints, OPEC Meet and monetary policy in coming days.

Market Indicators as on 25th November, 2016

	25-Nov-16	18-Nov-16	change
INR/USD	68.47	68.14	-0.49%
Brent Crude Oil ($/bbl)	47.24	46.86	0.81%
Gold ($/oz)	1183.90	1207.93	-1.99%
10-year G-Sec(GOI)	6.23	6.43	-0.20
10-year AAA PSU(Ind)	6.97	7.14	-0.17
CBLO	5.57	6.05	-0.47
US 10-year Gilt	2.36	2.36	0.00

Source: Bloomberg

Sensex and Nifty went up by 166 points (0.60%) and 40 points (0.50%) to close at 26,316 and 8,114 respectively as the market continued to juggle with its analysis on the impact of demonetisation. It was a volatile week. Volatile currencies kept the investors on toes throughout the week.

Most of the corporate commentary on currency crunch suggested that activity levels are recovering but slowly and it is too early to assess the full impact.

The week also saw a sharp depreciation in INR as it hit all-time lows of 68.86. Accordingly Tech/Pharma was back in flavour. For the INR it has been a double whammy. USD strength is one reason for INR weakness apart from demonetization impact, which will adversely impact consumption demand and therefore lead to lower GDP growth in the short term (which has led to FPI's sell off in Equity and Debt of approx $3.0 bn in Nov). Also, FCNR (B) redemptions are putting pressure on INR causing it to depreciate 2.9% since Nov 8th. (Even then INR has outperformed most EM currencies in this period).

As per CMIE estimate, the cost of withdrawing high-denomination currency notes to wipe out black money from the country will be about ₹1.28 lakh crore during the 50-day window till December 30. largely on account of printing new currency notes and transporting them to banks, ATMs and post offices. Businesses are expected to pay the biggest price of the demonetisation, and the immediate impact could be about ₹61,500 crore, or 48% of the total cost of the exercise.

US equities rose this week on continued reflationary hopes in the wake of the US presidential election. Strong US economic data suggest the economy is gaining strength even before any additional fiscal stimulus. USD rallied sharply against most currencies since Trump won the presidential elections. The main reasons for the same are: Mr. Trump's proposal to boost infrastructure spending, cut taxes, loosen business regulations are expected to boost growth; increase fiscal deficit, and spur inflation which is likely to bolster case for faster US rate increases. Also, Trump's protectionist trade policy is expected to narrow trade deficit. This has caused sharp appreciation of USD with investors flocking to USA and has led to sell off in Emerging Market currencies. DXY index has rallied by over 4.0% since Trump's victory.

Emerging markets took a beating in the week gone by on the back of stronger U.S. currency and that Donald trump would take more protectionist approach to trade.

JPY fell most among developed market currencies on expectations of rising monetary divergence. Japan s October inflation was at -0.4%, slightly gaining from -0.5% in September. The price trend illustrates how difficult it has been for the Bank of Japan to lift the economy out of its deflationary spiral.

The United Kingdom's economy has yet to show significant ill effects from Brexit. Its economy grew 0.5% in Q3 versus the prior quarter, boosted by net trade and business and consumer spending. The falling pound has been an important stabilizing factor for the UK economy in the wake of the June vote to leave the European Union.

Taurus Benchmark Indices Movement

Indices	25/11/2016	18/11/2016	Points change	% change
S&P BSE Sensex	26316.34	26150.24	166.10	0.64
Nifty 50	8114.30	8074.10	40.20	0.50
S&P BSE 100	8350.96	8299.01	51.95	0.63
S&P BSE 200	3499.83	3473.15	26.68	0.77
Nifty Free Float Midcap 100	14529.75	14363.00	166.75	1.16

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (21/11/2016 - 25/11/2016)	-5922.12	-6434.51
MFs (17/11/2016 - 23/11/2016)	4175.70	13782.10

Source : FPI - CDSL
Source : MF - SEBI