DEBT MARKETS

G-SEC Market

Market started weak with bleak global sentiment and faltering domestic currency. Higher SDL auction cutoffs affirmed market concerns of deteriorating demand appetite. Also, despite auction of FPI limits, no considerable inflows were observed. On the global front, firming up of crude oil prices along with US Treasuries acted bond negative for the domestic market. As a result, market registered losses in the first half of the week. Mid-week, the US FOMC held its key rates steady whilst adopting cautious stance on global developments. The move was broadly perceived as reduced possibility of near term rate hikes. Fiscal deficit for Apr-Dec period stood at ₹4.88 Lac Cr (87.9% of BE FY16). News of monetary easing by Bank of Japan ahead of RBI's Sixth Monetary Policy rendered support to bond dynamics. By closing, positive momentum sustained as gilts recovered recuperated all the losses registered during the week to close fairly unchanged from previous week's closing.

The old 10Y benchmark 7.72% GS 2025 closed at 99.60 (7.78%) as compared to ₹99.62 (7.78%) on previous closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹18,064 Cr in this week compared to an infusion of ₹17,179 Cr in previous week. Infusions via the MSF route averaged ₹665 Cr. The Call rate ended at 7.05% compared to 6.92% from the previous week. The CBLO ended at 6.97% compared to 6.75% in the previous week.

CORPORATE BONDS

The 10 yrs AAA bond ended at 8.39% as compared to 8.40% in previous week. The 1 yr CD yield was seen trading at 7.80% as compared to 7.72% in previous week.

FUND MANAGER COMMENTS

Liquidity deficit continues to remain high, thanks to heavy government cash balance. RBI will add money into the system through OMO however its unwillingness deciphers limited size of purchases. Money market curve has moved up substantially as supply overreach demand. Duration assets continue to linger tracking weak fiscal data points. RBI is not expected to tweak its current policy rate and hence guidance will be closely contemplated.

Market Indicators as on 29th January, 2016

	29-Jan-16	22-Jan-16	change
INR/USD	67.79	67.63	-0.24%
Brent Crude Oil ($/bbl)	34.74	32.18	7.96%
Gold ($/oz)	1,118.21	1,097.95	1.85%
10 year G-Sec(GOI)	7.78	7.78	0.00
10 year AAA PSU(Ind)	8.39	8.40	-0.01
Avg. CBLO	6.99	6.89	0.10
US 10 year Gilt	1.92	2.05	-0.13

Source: Bloomberg

Sensex and Nifty went up by 435 points (1.80%) and 141 points (1.90%) to close at 24,871 and 7,564 respectively. Market pulled back after three consecutive weeks of weakness. Recovery in oil prices has provided the much needed relief for the global equity market.

The banking stocks were in action after reports stated that the finance ministry may mull raising its ₹700 bn capital infusion plan for public sector banks.

The Federal Reserve maintained status quo in its policy decision and kept the target Fed funds rate unchanged at 0.25% - 0.50%. The tone of guidance was dovish with the policy statement pointing to a lowered assessment of economic activity, citing that economic growth slowed down late last year. In terms of forward guidance, the policy statement did not starkly highlight risks from global economic and financial developments. However, the Committee stated that they will "monitor global economic and financial developments and assess their implications for the labour market and inflation".

Japan's negative interest rate policy clearly conveys that quantitative easing measures have failed to deliver the desired results and BOJ is running out of ammunition in order to combat deflation. However Bank of Japan Governor Haruhiko Kuroda has allayed concerns regarding a repeat of the 2008 global financial crisis, stating that "Even if China slows down a little bit and even if oil producers and developing countries, their growth rates slightly slow down, I don't think there is any sort of global financial crisis or global recession like the situation after the Lehman crisis."

According to Moody's, India's credit profile will be not be affected by a small slippage in fiscal deficit. Moody's expects the Government to continue with fiscal consolidation and target lower deficits every year despite headwinds from global slowdown. The global credit rating agency further added that increase in corporate profits and Government revenues is the key to India meeting 3.5% fiscal deficit target in 2016-17.

The cabinet committee on economic affairs (CCEA) on Wednesday approved a hybrid annuity model for national highways, clearing the ground for stranded road projects worth ₹25,000 crore. The model will be the fourth to be introduced in India for the execution of road projects and is intended to kickstart stalled projects and accelerate highway construction. Under this model, the government will share 40% of the project cost and would allocate funds to the developer to start work depending on the case. The remaining investment would come from the developer over the duration of the project's execution. Revenue collection would be the responsibility of the National Highways Authority of India (NHAI); developers will be paid in annual installments over a specified period of time.

Crude oil futures leapt by more than 7% following reports that Russia and the OPEC would discuss a potential output cut. Oil surrendered most of those gains after a news report said that OPEC officials had denied plans for a meeting.

Taurus Benchmark Indices Movement

Indices	29/01/16	22/01/16	Points change	% change
S&P BSE Sensex	24870.69	24435.66	435.03	1.78
Nifty 50	7563.55	7422.45	141.10	1.90
S&P BSE 100	7651.70	7515.69	136.01	1.81
S&P BSE 200	3191.12	3133.20	57.92	1.85
Nifty Midcap 100	12469.10	12221.45	247.65	2.03

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (25/01/2016 - 29/01/2016)	-1163.72	-39.92
Mfs (21/01/2016 - 27/01/2016)	1799.70	-5057.40

Source : FPI - CDSL
Source : MF - SEBI