

## DEBT MARKETS

### G-SEC Market

The global bond rally along with continuing FPI interest has been aiding sentiments resulted in yields moving southwards. The week opened on a positive note on account of lower than indicated state loan supply. Also, supply glut concerns continued to weigh on international oil prices. Deriving cues from these events, bond market sustained in the positive territory. Surprisingly, SDLs auction was swept off across all states at the same cut off level irrespective of the issuing state. Buoyed by such huge demand appetite, market sentiment further found support. However, caution ahead of the US Fed outcome curtailed aggressive position building in the market. At its policy meeting, US FOMC stayed pat on its interest rates, while flagging lower risks to its future economic outlook. Even while it maintained that Sep was a 'live' policy, affirmation of market expectations of no Fed rate hike acted as a huge sentiment changer for domestic market. With its broad expectations a reality, market sentiment was greatly uplifted. What followed next was yet another round of rally as yields softened by as much as 10-12 bps in a single session. More importantly, activity in duration securities picked up sharply. As the week neared close, market sentiment became increasingly watchful of any untoward development. As a result, though the weekly auction cut offs came in at market levels, gilts registered an intermittent bout of weakening. Nonetheless, gilts broadly held onto most of its gains to end the week 9-10 bps lower on the curve.

The 10Y benchmark 7.59% GS 2026 closed at ₹102.89 (7.16%) as compared to ₹102.30 (7.25%) on previous closing.

### LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹7,207 Cr. in this week compared to an infusion of ₹6,657 Cr. in previous week. Infusions via the MSF route averaged ₹26 Cr. The Call rate ended at 6.46% compared to 6.41% from the previous week. The CBLO ended at 6.28% compared to 5.62% in the previous week.

### CORPORATE BONDS

The 10 yrs AAA bond ended at 7.82% as compared to 7.93% in previous week. The 1 yr CD yield was seen trading at 7.23% as compared to 7.25% in the previous week.

### FUND MANAGER COMMENTS

Average system liquidity eased for the week to a surplus of ₹6,281 crore compared to a deficit of ₹2,458 crore the week prior. The higher-than-expected positive liquidity conditions may be attributed to payback in currency in circulation (CIC) and partial month end government spending. Additionally, liquidity conditions may have eased further with RBI likely to have taken delivery of the month-end long USD forwards. Government's cash balances continued to remain nil. On an Average basis overnight rates continued to operate below the Repo rate. We expect system liquidity conditions to remain mostly in positive territory this week as well with the spill overs from government spending and coupon flows easily offsetting the auction related outflows. We expect the 10-yrs G-Sec yield to trade in the range of 7.10-7.20% with a tilt towards caution ahead of the RBI policy next week.

### Market Indicators as on 29th July, 2016

	29-Jul-16	22-Jul-16	change
INR/USD	67.00	67.08	0.13%
Brent Crude Oil (\$/bbl)	42.46	45.69	-7.07%
Gold (\$/oz)	1351.00	1322.73	2.14%
10 year G-Sec(GOI)	7.16	7.25	-0.09
10 year AAA PSU(Ind)	7.83	7.93	-0.10
Avg. CBLO	6.00	5.62	0.38
US 10 year Gilt	1.45	1.57	-0.11

Source: Bloomberg



Sensex and Nifty went up by 249 points (0.90%) and 97 points (1.10%) to close at 28,052 and 8,639 respectively as indexes resumed their north bound journey amid hopes of the GST, good monsoon and healthy money inflow.

Index heavyweight Dr Reddy's Labs announced disappointing quarterly earnings along with PNB and Dabur. On the other hand, Asian Paints, Yes Bank, Bharti Airtel and JSW Steel came out with better quarterly numbers.

There was a broad consensus on the GST with the Centre and state agreeing on broad principles to fix the tax rate. The consensus could see the bill's passage in the Rajya Sabha as early as next week. The Broad agreement was arrived after 1) Government dropped 1 % additional tax over GST on interstate goods movement, 2) The Cap on GST rate was kept out of Constitution amendment Bill, 3) Categorical wording on compensating to states for five years in the Bill. There was some disagreement over the administrative control over assessment, scrutiny and adjudication of tax cases. But this is a step that will need to be taken after the Bill is passed.

The Union Cabinet on approved raising of the foreign shareholding limit to 15% from the existing 5% in Indian stock exchanges. A depository, a banking or insurance entity or a commodity derivative exchange will be among those allowed to raise stake. The Cabinet has also approved the proposal to allow foreign portfolio investors to acquire shares through initial allotment, besides the secondary market, in stock exchanges.

The S&P 500 was flat and noticeably less volatile in a week where earnings reports, the Federal Reserve and the second-quarter's GDP report took their turn capturing headlines.

The US Fed left the benchmark policy rates unchanged at 0.2 %, but maintained that the "near-term risks" to the economy have diminished. This is the fifth consecutive meeting in which the Federal Open Market Committee (FOMC) has left the rates unchanged in the light of the global economic concerns after raising them by 25 basis points for the first time in a decade in December, 2015.

With populism on the rise, G20 leaders made efforts to emphasize "inclusive" growth as a core goal at their meeting last weekend in Chengdu, China. In the past, the group had stressed the desire for strong, sustainable and balanced growth, but changed its tone amid rising protectionist tendencies and growing frustration over inequality.

Michel Barnier, a former French finance minister, has been appointed the European Union's chief Brexit negotiator. The appointment is seen as somewhat provocative by members of the UK financial community, given Barnier's past tussles with London while he was finance minister and during his time as the EU's single market commissioner. He will begin work in October.

The Bank of Japan surprised markets on Friday by leaving interest rates and its bond-buying program unchanged after its policy-setting meeting on Friday. The only action from the BOJ was a modest expansion of its stock ETF buying program. Investors had hoped that the central bank and the Ministry of Finance would coordinate significant expansions of both monetary and fiscal policy. The yen exchange rate and the 10-yrs Japanese government bond yield surged after the decision.

## Taurus Benchmark Indices Movement

Indices	29/07/16	22/07/16	Points change	% change
S&P BSE Sensex	28051.86	27803.24	248.62	0.89
Nifty 50	8638.50	8541.20	97.30	1.14
S&P BSE 100	8856.01	8735.21	120.80	1.38
S&P BSE 200	3692.08	3640.61	51.47	1.41
Nifty Free Float Midcap 100	14772.75	14435.30	337.45	2.34

## Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (25/07/2016 - 29/07/2016)	4526.08	-71.73
MFs (21/07/2016 - 27/07/2016)	-263.20	-1093.20

Source : FPI - CDSL  
Source : MF - SEBI

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