DEBT MARKETS

- Fiscal deficit for the half year ended September 2019 came in at INR 5.94 trn. This is more than 95% of the yearly budgeted fiscal deficit. This means that if the government has to meet its deficit target of 3.3% of GDP, government revenues have to grow at a significantly faster pace (as compared to expenditure) in the second half of FY 2018-19.
- The week also witnessed the revelation of the rift between the RBI and the Government on major policy issues. RBI Dy Gov. Viral Acharya gave a significantly vocal speech defending RBI's autonomy and cautioning the government that interference in matters which are the principally the domain of RBI would not be taken kindly by financial markets.
- Principal areas of disagreement between the RBI top brass and the government are
  1) The Prompt Corrective Action norms that RBI has imposed on several banks and which the government wants to be relaxed so that these banks can lend again;
  2) The government's move to set up a separate regulator for the payment systems infrastructure, to which the RBI has filed a public dissent note.
  3) The need for retaining surplus income on RBI's balance sheet instead of distributing 100% of the surplus to the government.
- The week also witnessed the government swapping (with RBI) short term debt to slightly longer term debt. Total amount of such swaps were INR 61 bn.
- International oil prices continued to soften aiding bond marketsentiment.
- RBI also announced that it would conduct open market purchase of securities worth INR 400 bn in the month of November 2018 as part of its liquidity infusion measures.

Yield Movement

- The benchmark 10 year government bond closed the week trading at a yield of 7.88%, down by 4 basis points from the closing levels of the previous week.
- Yield on 10 year AAA PSU bond traded at approx. 8.75%, a fall of 2 basis points from the previous week.
- One year CDs yielded about 8.35%, down by 5 basis points from the previous week.

Fund Manager Comments

The friction between RBI and the government may have some impact on the bond and forex markets. However lower international oil prices and other favourable developments in the forex market have kept bond market sentiment on a positive note.

EQUITY MARKETS

Sensex and Nifty went down by 966 pts. (-2.80%) and 274 pts. (-2.70%) to close at 33,349 and 10,030 respectively.

Stock markets had another rocky week. The Nasdaq index recorded its biggest one-day decline in more than seven years and the Dow Jones Industrial Average fell below the level at which it started the year. A co-ordinated confidence-boosting effort by senior government officials in China pledging support for markets helped its stock markets chalk up their biggest single-day gains in almost three years. But the positive sentiment soon evaporated.

Coal stocks at coal pitheads and power plants have touched an all-time low of about 30mt as demand has increased and imports have dropped.

Capex of 16 states shows robust 21.9% growth in first 5 months of FY19.

There was slowdown in China's growth. GDP for 3rd quarter came at 6.5% (versus 6.6% in Q2 CY18) was lower than consensus expectation of 6.6%. This is slowest growth after the global financial crises (2008-09) for a country that is transitioning from investment to a consumption-led one. The figure does not yet fully reflect the trade war with America, because the largest portion of tariffs imposed on Chinese exports came into effect only in late September. More penalties are due to be implemented in January.

OPEC and non-OPEC oil producers agreed in June to relax their oil cuts, but recently said the oil market could be shifting towards oversupply in the fourth quarter of the year as oil inventories rise and demand slows, and the top oil exporter will "mirror" such changes in its production. They would raise output to 11 million barrels per day (bpd) from the current 10.7 million. Oil prices fell under extreme selling pressure as the steep selloff across stock markets fuelled fears over a possible drop in oil demand growth.

The fiscal deficit of the Indian Central government has widened in the first half of 2018-19 to 95.3% of the Budget Estimate (BE), mainly on account of slow growth in revenue collections. The deficit was at 91.3% of BE at September-end of the last financial year. The government has budgeted to cut fiscal deficit to 3.3% of GDP in 2018-19 from 3.53% in the previous financial year

Taurus Benchmark Indices Movement

Indices	26-10-18	19-10-18	Points change	% change
S&P BSE Sensex	33349.31	34315.63	-966.32	-2.82%
Nifty 50	10030.00	10303.55	-273.55	-2.65%
S&P BSE 100	10266.12	10534.93	-268.81	-2.55%
S&P BSE 200	4273.19	4382.06	-108.87	-2.48%
Nifty Midcap 100	16256.60	16514.95	-258.35	-1.56%

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

	Equity	Debt
FPIs (22/10/2018 - 26/10/2018)	-4375.41	760.25
Mfs (19/09/2018 - 24/10/2018)	4942.14	5397.73

Source : FPI - CDSL
Source : MF - SEBI