DEBT MARKETS

G-SEC Market

Market opened on positive note as US Fed's continued cautiousness on rate moves, also dovish comments by the New RBI governor incumbent at the pre-policy analyst meet raised expectations of a near term rate cut. Amid these supportive cues market traded with renewed vigor and enthusiasm. Momentum based volatile swings in gilt prices characterized market activity for the initial half of the week. However, bonds got heavily battered as investor sentiment turned sour following news of surgical strikes by the Indian government. Yields across the curve inched higher by 7-10bps, with the new 10-yrs benchmark yield spiking by 9 bps to 6.89% on the day of the strikes. Moreover, certain categories of investors resorted to profit-booking. Consequently, gilts registered sharp correction, reversing all of the previous week's gains in a matter of few hours. Strong value-buying by banks at these elevated yields helped restrict further fall in bonds. The weekly auction cutoffs too, came in on expected line, signifying of continued buying support by some participants. Nonetheless, the mood remained somber by the end of the week, with gilts hardening by 9-10bps across the curve.

The benchmark G-sec 7.59% 2026 closed at ₹104.25 (6.96%) vis-ŕ-vis ₹104.20 (6.97%) on previous week closing. New 10 yrs benchmark 6.97% 2026 closed at 6.81% as compared to 6.80% yield on previous week closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹7,485 Cr in this week compared to an infusion of ₹5,760 Cr in previous week. Infusions via the MSF route averaged ₹328 Cr. The Call rate ended at 6.50% compared to 6.42% from the previous week. The CBLO ended at 6.00% compared to 6.44% in the previous week.

CORPORATE BONDS

The 10 yrs AAA bond ended at 7.49% as compared to 7.52% in previous week. The 1 yr CD yield was seen trading at 7.10% compared to 7.18% in previous week.

FUND MANAGER COMMENTS

Average system liquidity improved significantly to a surplus of ₹22,203 crore for week ending Sep 30 from a deficit of ₹11,015 crore the week prior. The surge was on account of month-end govt. spending towards salaries and expected payback in currency in circulation. Government's cash surplus improved to ₹29476 crore v/s ₹29201 crore in previous week. The currency in circulation (CIC) for the week ending Sep 23 decreased by ₹20,462 crore, bringing the cumulative FYTD increase to Rs 76,277 crore. We expect system liquidity conditions to tighten due to auction outflow, higher CIC on account of month-beginning and festive related & Service Tax payouts. We expect new 10-yr paper to trade in 6.75%-6.82% range while the old 10-yr paper is expected to trade in the range of 6.85%-6.95% for this week however RBI policy which is due on 4 October will provide further direction.

Market Indicators as on 30th September, 2016

	30-Sep-16	23-Sep-16	change
INR/USD	66.61	66.66	0.07%
Brent Crude Oil ($/bbl)	49.06	45.89	6.91%
Gold ($/oz)	1315.87	1337.65	-1.63%
10-year G-Sec(GOI)	6.96	6.97	-0.01
10-year AAA PSU(Ind)	7.49	7.52	-0.03
CBLO	6.00	6.44	-0.44
US 10-year Gilt	1.60	1.62	-0.02

Source: Bloomberg

Sensex and Nifty went down by 802 points (-2.80%) and 220 points (-2.50%) to close at 27,866 and 8,611 respectively. This was a sharp decline after attempt of consolidation last week. It looked more due to mainly geo-political concern, after the Indian Army announced that they have conducted surgical strikes across border on terrorist camps. However, globally the Deutsche Bank fiasco remained as a concern.

The Union Labour Ministry has hiked the exposure of EPFO's incremental corpus in the equity markets from 5% to 10% for the current financial year. This will entail total investment of ₹130 bn. Earlier this year, the Ministry of Finance had given the Union Labour Ministry permission to invest upto 15% of its corpus in equity.

Among key news flow the export sector was in action after the government announced additional incentives worth ₹15bn for exporters to help them fight the continued slowdown in global demand. Unemployment rate in India shot up to a five-year high of 5% in 2015-16, with the figure significantly higher at 8.7% for women as compared to 4.3% for men.

Global equities were little changed on the week as the markets digested a rally in oil prices and an increase in concern over the health of Germany's largest lender.

US Gross domestic product was revised to 1.4%, up from an earlier 1.1% estimate. With days to spare, US lawmakers approved a continuing resolution that will fund the government through 9 December. The US government's fiscal year draws to a close at midnight tonight.

The OPEC members decided to limit their crude output to a range of 32.5-33 mn barrels per day (bpd), the first OPEC deal in 8 years in an attempt to lift global prices. Its estimated current output is around 33.24 mn bpd, cut production by 750,000 bpd. However, it hasn't actually implemented the cuts yet and the country-wise output will be decided in a meeting in November, when an invitation to join cuts could also be extended to non-OPEC countries such as Russia. The surprise news triggered an immediate spike of more than 5% in crude prices, as markets had expected the Algiers meeting to end without agreement.

Global trade volumes are set to grow by just 1.7% this year. As per WTO, this is the first time in 15 yrs that international commerce has grown more slowly than the world economy. The forecast, much lower than the WTO's previous estimate of 2.8% in April, reflects a slowdown in China and Brazil and also decelerating imports in the United States. The WTO sees global GDP to expand by 2.2%.

Shares of Germany's Deutsche Bank were pressured this week by a looming legal settlement with the US government over mortgage-backed securities sales during the mid-2000s housing bubble. The bank's woes helped push the yield on the 10-yrs German bund to -0.15%, the lowest since July. Negative interest rates in Europe are pressuring the sector as a whole, leading two large European lenders, Commerzbank and ING Groep to announce large layoffs this week.

Year to date, as of September 29, developed equity markets, as measured by the MSCI EAFE Index, gained nearly 3%, despite all the problems ranging from negative interest rates to Brexit.

Taurus Benchmark Indices Movement

Indices	30/09/2016	23/09/2016	Points change	% change
S&P BSE Sensex	27865.96	28668.22	-802.26	-2.80
Nifty 50	8611.15	8831.55	-220.40	-2.50
S&P BSE 100	8863.71	9078.31	-214.60	-2.36
S&P BSE 200	3719.56	3800.36	-80.80	-2.13
Nifty Free Float Midcap 100	15413.10	15672.90	-259.80	-1.66

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (26/09/2016 - 30/09/2016)	4799.80	5883.83
MFs (22/09/2016 - 28/09/2016)	1174.10	7964.40

Source : FPI - CDSL
Source : MF - SEBI