DEBT MARKETS

G-SEC Market

In absence of any major domestic and global cues this week, G-Sec market continued to react to the previous week's 'Rexit' and 'Brexit' events. Relieved of caution post these hyped episodes, market momentum received a significant boost. While on a broader perspective, both the developments were expected to act bond negative for investors, active participation from all participants reflected in bringing the G-Sec yields southwards. Peculiarly, the fact that both these events were now a reality, the unusually high anxiety among participants was on the ease. Consequently, market momentum picked up leading to volumes surging over ₹1 Lac Cr on multiple occasions. More importantly, while securities in the 10-15 yr segment witnessed robust market interest, duration securities too, stood benefited softening by as much as 5-6 bps in a single session. Alternately, market remained abuzz with reports hinting at possible names likely to become the next RBI Governor. Also, the government accepted the recommendations of the Seventh Pay Commission which is likely to give a fillip to domestic consumption demand amid weak global environment. Market sentiment stayed bullish on expectations of likely monetary easing by central banks across the globe. Broadly, the week saw market mood remain upbeat throughout, noting sharp improvement in the market risk appetite.

The 10Y benchmark 7.59% GS 2026 closed at ₹101.15 (7.42%) as compared to ₹100.78 (7.47%) on previous closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹3,416 Cr in this week compared to an infusion of ₹7,332 Cr in previous week. Infusions via the MSF route averaged ₹564 Cr. The Call rate ended at 6.25% compared to 6.45% from the previous week. The CBLO ended at 6.27% compared to 5.90% in the previous week.

CORPORATE BONDS

The 10 yrs AAA bond ended at 8.20% as compared to 8.27% in previous week. The 1 yr CD yield was seen trading at 7.45% as compared to 7.50% in the previous week.

FUND MANAGER COMMENTS

Average system liquidity deficit for the week ending July 2 eased more than expected to ₹15,696 crore compared to ₹52,945 crore the week prior, aided by coupon and redemption flows coupled with month-end government spending. The higher-than-expected positive liquidity conditions may be attributed to RBI likely taking delivery of its long forward position. Government's cash balances decreased by ₹27,893 intra week to end the week at nil. G-secs continued to track the rally in global bonds since Brexit. The UK 10-yr paper is down over 50bps since Brexit outcome, while UST 10-yr yeild is down ~30bps. India's 10-yr benchmark also opened the previous week on a good note and the trend continued over most part of the week. Pick up in the pace of monsoons and continued appetite of FIIs for domestic bonds also helped. The benchmark 10-yr yield was down ~2.6bps WoW; ~3.2bps down since Brexit outcome and ~5.2bps down since Rexit. INR, on the other hand, has strengthened ~1.0% WoW after having weakened on knee-jerk basis post Brexit outcome. This week the bond market has started on a marginally weak note. We expect the 10-yr yield to trade in the range of 7.40%-7.45% during the week.

Market Indicators as on 1st July, 2016

	1-Jul-16	24-Jun-16	change
INR/USD	67.32	67.97	0.96%
Brent Crude Oil ($/bbl)	50.35	48.41	4.01%
Gold ($/oz)	1,341.35	1,315.75	1.95%
10 year G-Sec(GOI)	7.42	7.48	-0.06
10 year AAA PSU(Ind)	8.20	8.27	-0.07
Avg. CBLO	6.27	5.90	0.37
US 10 year Gilt	1.44	1.60	-0.16

Source: Bloomberg

Sensex and Nifty went up by 747 points (2.80%) and 240 points (3.00%) to close at 27,145 and 8,328 respectively, easily absorbing Brexit event. Fillip came from talks of stimulus by most central bankers around the globe and on the domestic side, approval to 7th Pay Commission recommendations without any big shakeout to fiscal deficit, good progress of monsoon and government initiatives to boost private sector.

Global markets also rebounded as investors may be expect Brexit to hurt global economy in the next 1-2 years or are enthused by the high liquidity infusion by countries.

The cabinet accepted the recommendations of the Seventh Pay Commission for pay and pension increases ranging from 14% to 23.5% for 4.7 million employees and 5.3 million pensioners. Entry-level basic pay will be more than doubled to ₹18,000 per month from ₹7,000 and at the level of cabinet secretary, the top-most civil servant, will rise to ₹2.5 lakh from ₹90,000. The backdated raises will have a multiplier effect on the economy growth and no impact on fiscal target of 3.5% of GDP as per Govt. Demand for housing, automobiles and consumer durables is expected to increase, providing a fillip to the economy. It will stoke inflation as per experts.

The Centre's fiscal deficit for the first two months (April and May) of the current financial year constituted 42.9% of the Budget Estimates (FY16: 37.5% of BE).

The Union Cabinet on Wednesday cleared the Model Shops and Establishments act, which proposes to allow malls, cinema halls, restaurants and other retailing establishments to remain open on all days. The Cabinet approval, however, does not mean it has become a law as the onus will be on the state governments to adopt the central government's proposed model Act for retailing.

The National Mineral Exploration Policy got Cabinet approval, paving way for auction of 100 prospective mineral blocks.

The eight core sectors of the Indian economy grew 2.8% year-on-year in May, having slowed from 8.5% in April. Petroleum refinery output growth, too, remained weak at 1.2% while cement, steel and electricity generation growth stood at 2.4%, 3.2% and 4.6%. Sectors that grew strongly were coal (up 5.5%) and fertilisers (surged 14.8%).

India became an official member of the weapons regulatory body - Missile Technology Control Regime (MTCR) - that will enable it to become a global arms exporter while granting it access to sensitive technology.

Britain suffered further blows to its economic standing as two top ratings agencies downgraded its sovereign credit score. Standard & Poor's stripped Britain of its last re-maining top-notch credit rating, dropping it by two grades from "AAA" to "AA" and warning more downgrades could follow. Fitch Ratings also downgraded its ranking by one notch, and similarly said more cuts could follow.

The South Korean Government announced that it has planned fiscal stimulus (additional KRW 20 trillion funds) as the economy is forecasted to grow less than previously projected (2.8% instead to 3.1% in 2016) amid risks from corporate restructuring and external uncertainties caused by the 'Brexit'.

Taurus Benchmark Indices Movement

Indices	01/07/16	24/06/16	Points change	% change
S&P BSE Sensex	27144.91	26397.71	747.20	2.83
Nifty 50	8328.35	8088.60	239.75	2.96
S&P BSE 100	8486.19	8204.75	281.44	3.43
S&P BSE 200	3538.66	3417.50	121.16	3.55
Nifty Free Float Midcap 100	13973.80	13289.35	684.45	5.15

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (27/06/2016 - 01/07/2016)	765.30	-568.11
MFs (23/06/2016 - 29/06/2016)	-70.30	8866.90

Source : FPI - CDSL
Source : MF - SEBI