

## DEBT MARKETS

- Government bond prices were marginally weak as marketmen await the monetary policy committee's decision on policy interest rates.
- The State Bank of India (SBI) reduced interest rates on savings bank deposits by 50 basis points (from 4% to 3.5%) as margin pressures begin to be felt.
- The US Federal Reserve's Federal Open Market Committee (FOMC) kept rates steady.
- The FOMC however, gave signs that the act of "shrinking the Fed's balance sheet" would begin soon.
- US treasury yields rose. 10 Year US treasuries closed the week trading at 2.33%.
- Global crude oil prices rose marginally.

### Yield Movement

- Yields on 10 year benchmark government bonds continue to trade in a narrow range of 6.41% - 6.46%.
- The benchmark 10 year government bond closed the week trading at a yield of 6.46%
- Yield on 10 year AAA PSU bond traded at approx. 7.27%, indicating a compression of spreads over gilts.
- One year CDs yielded about 6.49%.

### Fund Manager Comments

The US Fed's willingness to undertake a reduction in its balance sheet had some sobering impact on bond traders. Domestic bond traders now await the RBI monetary policy committee's decision on policy interest rates due on August 2, 2017.

With inflation (based on CPI) ruling at 1.54%, well below RBI's own lower bound target of 2%, most analysts are expecting the committee members to announce at least a 25 basis points cut in the repo rate. SBI's act of reducing savings bank interest rates and pressure from the government and industry bodies may likely sway the committee members to act before deflationary forces take over.

Of greater interest however, would be the tone and language of the accompanying statement which would give clues towards the future direction of monetary policy. A neutral or hawkish accompanying statement may not enthruse marketmen and could lead to a selloff. On the other hand a reduction in rates of more than 25 basis points could signal a subtle shift in the monetary policy stance and bonds may rally as a result.



Sensex and Nifty went up by 281 pts. (0.90%) and 99 pts. (1.00%) to close at 32,310 and 10,015 respectively.

The Federal Reserve kept interest rates unchanged on Wednesday and said it expected to start winding down its massive holdings of bonds "relatively soon" in a sign of confidence in the U.S. economy. The U.S. central bank kept its benchmark lending rate in a target range of 1.00% to 1.25% and said it was continuing the slow path of monetary tightening that has lifted rates by a percentage point since 2015.

At OPEC's meeting in St Petersburg there were tough words, but little action, directed at member states lagging in their commitment to reduce oil supply in order to boost the commodity's price. OPEC and Russia agreed to lower output last year, but Ecuador recently became the first country to renege on the pledge. Without naming any country directly, Saudi Arabia's energy minister vowed there would be no more "free rides".

IMF has lowered its economic growth forecasts for the US to 2.1% for this year and the next, down from the 2.3% for 2017

and 2.5% for 2018 that it had predicted in April. It cited the "uncertainty" over President Donald Trump's administration policies as the main reason for the downgrade. The major factor behind the growth revision, especially for 2018, is the assumption that fiscal policy will be less expansionary than previously assumed, given the uncertainty about the timing and nature of US fiscal policy changes. The IMF also listed the US economy's sluggish start to 2017 - with a first-quarter growth of just 1.4% - as another factor in its slashing of current forecasts. The IMF also cut growth forecasts for the UK; it expects other European countries including Germany, France and Italy to grow faster in 2017.

A study by the Global Infrastructure Hub, an organisation backed by the G20, found that \$97trn is needed in global infrastructure investment by 2040, but that there is an \$18trn shortfall between current investment projections and the spending that is required. China will have the greatest demand at \$28trn, but America has the biggest predicted shortfall: \$3.8trn. Poorer countries have larger proportional investment gaps. Egypt, Nigeria and South Africa, for example, are forecast to meet only 69% of their infrastructure needs.

## Taurus Benchmark Indices Movement

Indices	28/7/2017	21/7/2017	Points change	% change
S&P BSE Sensex	32309.88	32028.89	280.99	0.88%
Nifty 50	10014.50	9915.25	99.25	1.00%
S&P BSE 100	10374.33	10270.72	103.61	1.01%
S&P BSE 200	4358.07	4315.91	42.16	0.98%
Nifty Free Float Midcap 100	18468.90	18262.20	206.70	1.13%

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

	Equity	Debt
FPIs (24/07/2017 - 28/07/2017)	2195.45	5454.09
Mfs (20/07/2017 - 26/07/2017)	3406.40	3065.60

Source : FPI - CDSL  
Source : MF - SEBI

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