DEBT MARKETS

G-SEC Market

Domestic market opened on a weaker note after Fed's chairman Yellen indicated at the Jackson Hole Economic Symposium that the case for increasing rates has strengthened as the U.S. economy has improved with strong jobs data in recent months. However, market sentiment changed in next session amid speculation the government's planned issuance of a new benchmark 10-yrs security will boost demand for the nation's debt. Yields on bonds across maturities have softened by 2-3 bps on expectation that they will align with the expected pricing of the new 10-yrs gilt. Along with this, sharp fall in global crude oil prices has also boosted market sentiment. As the week progressed, momentum further supported as lower-than-expected Core infrastructure data and GDP numbers refueled talks of Oct-16 policy rate cut to support growth fundamentals. Deriving cues from resilient global market, domestic gilts witnessed horizontal consolidation. However, caution ahead of the crucial US NFP data added to jitteriness amongst participants. Position offloading remained the dominant theme during middle of the week. Even while the new 10 yr GOI auction cut offs were broadly as anticipated, it failed to have a lasting impact on market dynamics. Nonetheless, market continued to avoid building heavy positions ahead of US NFP data. Broadly, government bonds ended the week on a cautious note amid lack of clarity over impending global volatilities.

The benchmark G-sec 7.59% 2026 closed at ₹103.16 (7.12%) vis-ŕ-vis ₹103.11 (7.13%) on previous week closing.

LIQUIDITY

RBI infused average gross liquidity via Repo under LAF window worth ₹6,253 Cr in this week compared to an infusion of ₹5,630 Cr in previous week. Infusions via the MSF route averaged ₹185 Cr. The Call rate ended at 6.37% compared to 6.38% from the previous week. The CBLO ended at 5.12% compared to 6.44% in the previous week.

CORPORATE BONDS

The 10 year AAA bond ended at 7.65% as compared to 7.69% in previous week. The 1 yr CD yield was seen trading flat at 7.25% level.

FUND MANAGER COMMENTS

Average system liquidity eased further for the week ending Sep 02 to a surplus at ₹62,515 crore compared to a ₹33,121 crore the week prior, on the back of inflows related to the arrears and salaries from the 7th pay commission coupled with the usual month end spending. Government's cash balances fell by ₹4,465 crore to nil. We expect system liquidity surplus to shrink this week with the outflows related to custom and excise duties, auctions and seasonal pickup in CIC towards beginning of the month, offsetting the inflows. The new 10 yrs benchmark cut-off came at 6.97% level which we expect to trade in 6.89%-6.94% range while the old 10-yr paper is expected to trade in the range of 7.09%-7.14% for this week.

Market Indicators as on 2nd September, 2016

	2-Sep-16	26-Aug-16	change
INR/USD	66.83	67.06	0.35%
Brent Crude Oil ($/bbl)	46.83	49.92	-6.19%
Gold ($/oz)	1325.07	1321.22	0.29%
10 year G-Sec(GOI)	7.12	7.13	-0.01
10 year AAA PSU(Ind)	7.65	7.69	-0.04
CBLO	5.12	6.44	-1.32
US 10 year Gilt	1.60	1.63	-0.03

Source: Bloomberg

Sensex and Nifty went up by 750 points (2.70%) and 237 points (2.80%) to close at 28,532 and 8,810 respectively.

India's GDP rose 7.1% in the first quarter, reaffirming India's position as the world's fastest-growing major economy, but sharply lower than 7.9% in the January-March period. India's economy grew at its slowest pace in 5 quarters in the April-June period, falling below expectations amid sluggish investment and farm output. That dents the prospects of hitting the 8% mark for the full financial year but the government is hopeful that a bountiful monsoon and increased pay and pensions along with various structural reforms could still take growth closer to that figure.

Growth in the eight core sectors stood at 3.2% in July, mainly due to a sharp uptick in refinery products and a slow rise in coal production. The index had grown 5.2% in the previous month of June. Cumulative growth is 4.9% in the five months up to July in the current financial year.

Government will seek Presidential assent for the landmark Constitution amendment bill for GST as 16 states have ratified the legislation. With the Odisha assembly approving the Constitutional Amendment Bill for GST, the requirement of 50 per cent of states and UTs ratifying it has been completed, ahead of schedule. Before supporting legislations go to Parliament in November, the state finance ministers have to agree on a GST rate, tax slabs and exempted goods and services.

April to July Fiscal Deficit was ₹3.93 lakh crore i.e. 74% of the Budgeted Estimates for the FY17 vs 69.3% in the same period last year. The increase came primarily from operational and administrative spending rather than capital expenditure. The government's total expenditure during April-July was ₹6.57 lakh crore, of the total expenditure, Plan spending was ₹1.98 lakh crore and non-Plan was ₹4.59 lakh crore.

Global equities rose slightly this week (up 0.9%), while the 10-yrs US Treasury yield increased to about 1.60% from 1.45%. Other headlines included -
a) US created fewer jobs than expected in August - 151,000 jobs Vs consensus estimate of 180,000. Activity has been even more subdued than usual in US equity markets this summer. August saw the fourth-narrowest trading range since 1928, according to the Wall Street Journal.
b) Brazilian Senate removes Rousseff from office
c) Apple hit with $14.5 billion European tax bill - The European Commission ruled that the Irish government granted illegal state aid to Apple in the form of artificially low tax rates.
d) Eurozone inflation stuck well short of ECB target despite adoption of negative deposit rates just over two years ago, and quantitative easing over a year ago. With the ECB governing council set to meet on 8 September, anticipation is growing that policymakers will extend the asset purchase program for six months.
e) US manufacturing cools, UK's heats up
f) Activity in China's manufacturing sector picked up unexpectedly in August.

Hanjin Shipping, the seventh-largest firm of its type in the world, filed for court receivership this week, sending jitters through the global supply chain. Importers are scrambling to find shippers ahead of the critical holiday season at year-end.

Taurus Benchmark Indices Movement

Indices	02/09/16	26/08/16	Points change	% change
S&P BSE Sensex	28532.11	27782.25	749.86	2.70
Nifty 50	8809.65	8572.55	237.10	2.77
S&P BSE 100	9035.82	8824.28	211.54	2.40
S&P BSE 200	3774.41	3689.49	84.92	2.30
Nifty Free Float Midcap 100	15385.30	15132.90	252.40	1.67

Weekly FPI & MF net flows (₹ in crs.)

	Equity	Debt
FPIs (29/08/2016 - 02/09/2016)	1790.81	-153.18
MFs (25/08/2016 - 31/08/2016)	2078.60	-2305.80

Source : FPI - CDSL
Source : MF - SEBI