

## DEBT MARKETS

### GLOBAL UPDATE

US treasuries continuously gained for seventh week, the longest streak in more than 2 yrs because of worsening debt crisis in Europe. The 10 yrs note dropped by 8 basis to close at 3.07, after touching a 2011 low of 3.06 earlier during the week. The 2 yrs paper yield closed at 0.48%, 3 basis lower compared to last week. Nymex crude prices increased by 1.11% to close at 100.59. Gold prices rose and closed the week at USD 1536 per ounce.

### MACRO ECONOMIC INDICATORS:

The weekly inflation data, on May 14th, saw the primary articles index rose by 0.4% taking the YoY inflation rate to 11.30% compared to 10.94% seen previous week. There was a sharp rise in food articles and decline in non-food articles' and minerals. The fuel and power index remained unchanged marking inflation at 12.11%, similar to previous week.

### GOVERNMENT SECURITIES AND TREASURY BILLS

The yields in the G-Sec market started on a positive note tracking lower crude oil prices. However, the sentiment was short-lived as crude oil prices generally rose during the week reversing the market sentiment. The weekly inflation number showed higher food inflation leading to further concerns over inflation outlook. Liquidity situation tightened further aggravating the market sentiment. There were comments from a government official in the middle of the week that target of 4.6% fiscal deficit remained a challenge and that extra borrowing if any would be considered in Oct-Dec quarter. He also mentioned that there is little choice but to raise fuel prices. Towards the end of the week, yield cut-offs in G-sec auctions were higher than market expectations leading to a jump in the 10 yrs yield. The yield of the 10 yrs benchmark security 7.80% GS 2021 hardened by nearly 11 bps over the week and closed at ₹95.66 (8.46%) compared to previous closing of ₹96.34 (8.35%).

The cut-off prices for the G-Sec auctions held on May 27th were set as follows: 7.83% GS 2018 at ₹96.35 (8.54%), for 7.80% GS 2021 at ₹95.81 (8.43%) and for 8.30% GS 2040 at ₹96.20 (8.66%). RBI set the cut-off price for the 91 Days T-Bill at ₹98.01 (8.14%) (compared to the previous cut-off of 8.10%) and for the 182 Days T-Bill at ₹96.04 (8.27%) (compared to previous cut-off of 8.20%). Both the bills were fully subscribed

### LIQUIDITY CALL

The liquidity situation tightened further during the week. The liquidity infusion witnessed via RBI's LAF Repo window averaged at ₹74,681 Cr on a daily basis. The average infusion stood at ₹65,223 Cr a week earlier. Money market rates tightened sharply compared to previous week closing. Call rate ended at an average rate of 7.40% on Friday as against 7.33% observed the week earlier. The CBLO levels moved to 7.26% compared to 6.21% in the previous week.

### CORPORATE BONDS

The secondary market activity in corporate bond market was subdued tracking PGCIL issue. PGCIL bond was a large issue worth ₹1,800 Cr. The market participants were busy raising resources and bidding for the same and kept away from secondary markets.

The corporate bond yields hardened across tenors in wake of bearish market sentiment. The 1 yr bond traded at a yield of around 9.79% compared to 9.75% seen a week earlier. The 1 yr CD yield was seen trading at 10.06% compared to 9.98% seen previously. The 10 yrs AAA bond ended at a yield of around 9.58% compared to previous week's closing of 9.49%.

In the primary market, Power Grid Corporation of India Ltd. issued 9.64% (annual) 16 yrs paper to raise ₹1800 Cr. IDFC came up with the issuance of 9.93% (annual) 1 yr 1 day bond to raise ₹250 Cr. Tata Sons issued 3 yrs bonds at 10.20% at 10.20%. MRF issued 8yrs, 9yrs and 10yrs bonds worth ₹160 cr, ₹160 cr, ₹180 cr respectively. The bonds were issued at a yield of 10.09%. LIC Housing Finance issued 2yrs and 3 yrs bonds at 10.15% raising ₹305 Cr in the process.

### RUPEE

The rupee saw a lacklustre movement this week. It traded in a range of 45.17 to 45.33 to close at 45.17 depreciating 0.34% WoW.

### FUND MANAGER COMMENTS

The money market curve flattened further on issuance pressure in the 3m segment. The 3m prime CD levels went up by 40 basis to 9.75%, where as one year went up by 15 basis to 10.10% levels. The pressure is likely to continue in the 3m segment and we expect the yield to go up by another 15-20 basis points. The 10 yrs segment would remain range bound. The likely range for the 10 yrs benchmark would be 8.35%-8.55%.

Market Indicators as on 27th May, 2011

	27/05/2011	20/05/2011	% change
INR/USD	45.17	45.02	0.34
Oil (\$/bbl)	100.59	99.49	1.11
Gold (\$/oz)	1,536.40	1,512.30	1.59
10 years G-Sec	8.46	8.35	0.11
10 years AAA	9.58	9.49	0.02
NSE Mibor	7.45	7.42	0.03

Source: Bloomberg

## EQUITY MARKETS

Indian equity market remained range-bound during the week and ended with a marginal loss. The BSE Sensex lost 0.33% while the nifty lost 0.19%. The BSE small cap and mid cap underperformed the broader market as they lost 0.4% and 1% respectively.

On the sectoral front, Oil & Gas gained 2.4% followed by Consumer durable index (1%) and Bankex (0.5%). On the losing side, Power index lost 2.2% IT (-1.9%), Cap goods (1.8%) and Auto Index (-1.5%).

Among the stocks, kotak bank gained 5.7% followed by PNB (4.1%), Ambuja Cem (3.8%), ONGC (3.3%). On the negative side Tata motor lost 6.8% followed by BHEL (-6.8%), Rcap (-4.2%) and Sesa Goa (-4%).

India's food inflation rate rose to 8.55% for the week ended May 14 from 7.47 for the previous week, an official statement said here today, quoting provisional data. The statement also said that the inflation rate for fuel and power remained unchanged at its previous week's level of 12.11%. According to the data, the prices of onions were up 8.32% from a year ago, fruits by 32.37%, milk by 5.53%, eggs, meat and fish by 8.26%, cereals by 5.03%, rice by 2.63% and potatoes by 0.17%.

Worried over the mounting under-recoveries of oil marketing companies (OMCs), the Empowered Group of Ministers (EGoM), headed by Finance Minister Pranab Mukherjee, is likely to meet on June 9 to consider a hike in the prices of diesel, kerosene and domestic LPG. The government on May 14 hiked the price of petrol by ₹5 a litre in view of the heavy losses being incurred by OMCs due to the sharp rise in crude oil prices in the international markets.

The Union Coal Minister, Mr. Jaiswal, has ruled out the possibility of diversion to the power sector of the coal being sold by Coal India Ltd (CIL) through the e-auction route. In a petition to the Power Ministry last week, private power producers had sought discontinuation of e-auction sales, accounting for a little over 10% of CIL's 430mn tonne annual production, to mitigate the demand of the power sector.

The Organisation for Economic Cooperation & Development (OECD) has said that India's growth will pick up this fiscal, underpinned by buoyant corporate sentiment and demand for infrastructure spending. In its semi-annual outlook released in Paris, the inter-governmental think-tank of rich countries said India's growth slowed to a more sustainable pace towards the end of 2010, following a strong post-crisis rebound, driven by a surge in private investment. It said tighter monetary policy and a modest reduction in the deficit would help cool demand.

On the global news front, US new home sales came in at 323,000 in April, a 7.3% increase from the revised March rate of 301,000. The sales figures are higher than most economists had predicted, as economists had generally expected a rate of 300,000, matching the initial estimate for March.

Mounting sovereign-debt concern in Greece continues to put pressure on the European markets. Another worry cropped up when the head euro-area finance ministers said that IMF may withhold its 3.3 billion-euro (\$4.7 billion) Contribution to the Greece as it can only take action when the refinancing guarantee is given over 12 months.

### Taurus Benchmark Indices Movement

Indices	27/05/11	20/05/11	Points change	% change
BSE Sensex	18266.10	18326.09	-59.99	-0.33
S&P CNX Nifty	5476.10	5486.35	-10.25	-0.19
BSE 100	9552.91	9557.05	-4.14	-0.04
BSE 200	2259.54	2260.30	-0.76	-0.03
CNX Midcap	7875.35	7873.15	2.20	0.03
S&P CNX 500 Shariah	1282.18	1283.40	-1.22	-0.10

### Weekly FII & MF Net Flows (₹. in crs.)

23/05/2011-27/05/2011	Equity	Debt
FII	626.00	-2032.10
Mfs	334.90	1853.80

Source : SEBI site

Any information contained herein is for informational purpose only and does not constitute advice or offer to sell/purchase units of the schemes of Taurus Mutual Fund. Information gathered and provided in this document is believed to be from reliable sources and the Fund does not warrant the accuracy and/or completeness of any information. Taurus AMC disclaims any liability for actions taken by anyone on the basis of the opinions contained herein. The material contained herein cannot be reproduced, distributed or quoted anywhere without express written consent of Taurus AMC. Mutual Fund Investments are subject to market risks. Please read the Scheme Information Document carefully before investing