

DEBT MARKETS

GLOBAL UPDATE

US treasuries rose, pushing yields to their lowest levels this year, as US job growth in May was less than a third of what economists forecast and unemployment rate increased to 9.1%. The 10 yrs note dropped by 8 basis to close at 2.99, after touching a low of 2.94 earlier during the week. The 2 yrs paper yield closed at 0.43%, 5 basis lower compared to last week. Nymex crude prices fall by 0.19% to close at 100.22. Gold prices rose and closed the week at USD 1542 per ounce.

MACRO ECONOMIC INDICATORS:

CSO estimated the GDP growth at factor cost at constant prices for FY 2010-11 at 8.5% (as against 8.6% in the Advance Estimates). Sector-wise, agriculture marked a positive growth of 6.6%, industries grew at 7.8% while the services sector grew at 9.2%. The GDP growth for FY 2009-10 has been revised to 8%. CSO estimated the GDP growth for Q4 FY 2010-11 at 7.8%. The GDP is estimated at ₹13,17,554 Cr for the quarter. The best performing sectors in Q4 were 'agriculture, forestry and fishing' at 7.5%, 'trade, hotels, transport and communication' at 9.3%, and 'financing, insurance, real estate and business services' at 9.0%. Sector-wise, agriculture marked a growth of 7.5%, industries grew at 5.3% while the services sector grew at 8.6%.

The primary articles index for the week ended May 21 declined by 0.4% taking the inflation rate to 10.87% (YoY) vis-à-vis 11.6% seen a week earlier. Both food and non-food prices declined. The fuel and power group rose 0.4% marking an inflation rate of 12.54% v/s 12.11% last week.

GOVERNMENT SECURITIES AND TREASURY BILLS

In absence of fresh cues and ahead of auction announcement, the G-Sec market started the week on a weak note. However comments from an Official who mentioned that 10 yrs yield should be in the range of 8.20% - 8.25% and that not to borrow in case yields remained high led to a swift rally on Monday evening itself. Comments with a mention that the weekly borrowing could be tweaked in case yields remained high led to robust G-Sec prices. The 10 yrs gained the most in wake of not being on sale for the week. The fall in weekly inflation also supported prices. The upbeat sentiment persisted on Friday in wake of higher auction cut-off prices. The 10 yrs benchmark security 7.80% GS 2021 ended higher at ₹96.89 (8.27%) compared to previous Friday's closing of ₹95.66 (8.46%).

The cut-off prices for the G-Sec auctions held on June 3rd were set as follows: 7.59% GS 2016 at ₹96.80 (8.40%), for 8.13% GS 2022 at ₹97.75 (8.44%) and for 8.28% GS 2032 at ₹96.90 (8.60%). RBI set the cut-off price for the 91 Days T-Bill at ₹98 (8.19%) (compared to the previous cut-off of 8.14%) and for the 364 Days T-Bill at ₹92.34 (8.32%) (compared to previous cut-off of 8.29%).

LIQUIDITY CALL

Systemic liquidity scenario improved significantly tracking the maturity of the security 10.95% GS 2011 worth ₹12,000 Cr. Lower product maintenance in wake of the Reporting week also aided sentiment. Market participants accessed funds to the tune of ₹43, 141 Cr on an average daily basis from the RBI via the LAF Repo window. The average infusion a week earlier stood at ₹74,681 Cr. Money market rates pummeled tracking the Reporting Friday. The Call rate ended at an average rate of 7.25% on Friday as against 7.40% observed the week earlier.

CORPORATE BONDS

The corporate bond market witnessed significant activity in wake of large number of primary issuances. Most players participated in these issuances. Active trading was seen specifically in the IRFC paper. Traders as well as the PF segment took positions. The week ahead is expected to witness some buying interest.

The corporate bond yields marked a mixed trend across tenors. The 1 yr bond traded at a yield of around 9.80% compared to 9.79% seen a week earlier. The 1 yr CD yield was seen trading at 10.05% compared to 10.06% seen previously. The 10 yrs AAA bond ended at a yield of around 9.70% compared to previous week's closing of 9.58%.

In the primary market, IFCI came up with the sale of its 10.50% 10 yrs and 10.75% 15 yrs securities to raise ₹200 Cr. Tata Power announced the issuance of its 11.40% perpetual paper to raise ₹1, 500 Cr. REC issued 1 yr 1 day paper at 9.70% and 3 year paper at 9.75% to raise ₹1, 500 Cr and ₹300 Cr respectively. PFC raised Rs.150 Cr via sale of 9.70% 10 yrs paper. In a bid to raise ₹1, 245 Cr, IRFC issued 9.57% 10 yrs paper. L&T Finance Ltd. issued 3 yrs bond to raise ₹100 Cr at a semi-annual yield of MIBOR + 245 bps. NABARD came up with the sale of 9.70% 5 yrs security to raise ₹500 Cr.

RUPEE

The rupee appreciated this week as FII bought shares giving support to Indian Rupee. It traded in a range of 45.08 to 44.82 to close at 44.82 appreciating 0.77% WoW.

FUND MANAGER COMMENTS

The money market segment, the 3m prime CD levels came down by 20 basis to 9.60%, where as 1 yr remain flat at 10.00% levels. We can see more primary issuances in the coming weeks. The 10 yrs G-Sec would remain range bound. The likely range for the 10 yrs benchmark would be 8.25%-8.35%.

Market Indicators as on 3rd June, 2011

	03/06/2011	27/05/2011	% change
INR/USD	44.82	45.17	-0.77
Oil (\$/bbl)	100.22	100.59	-0.37
Gold (\$/oz)	1,541.95	1,536.40	0.36
10 years G-Sec	8.27	8.46	-0.19
10 years AAA	9.68	9.58	0.17
NSE Mibor	7.34	7.45	-0.11

Source: Bloomberg

EQUITY MARKETS

Indian equity market remained positive and outperformed the global market during the course of the week. The BSE Sensex gained 0.6% while nifty gained 0.74% during the week ended 3rd June 2011. The BSE Midcap and Small cap outperformed the market as they gained 2.4% and 1.6% respectively.

On the sectoral front, Consumer durable index gained 3.6% followed by FMCG index (2.8%), Healthcare Index (2.8%) and Cap good Index (2.6%). On the losing side, Auto index lost 1.9% followed by Oil & Gas (-0.8%) and Metal Index (-0.6%).

Among the nifty stocks, Rcom gained 9.7% followed by Rcap (7.5%), HUL (5.5%). On the negative side, Tat motor lost 6% followed by M&M (-5%) and Hindalco (-4.2%).

Indian economy witnessed the slowest expansion in the last five quarters dragged down by the slowing investment levels because of rising interest rates and input costs. Slowdown in mining and manufacturing in the fourth quarter already gave the early indications that the growth is moderating.

In the fourth quarter of last fiscal economy expanded by 7.8% supported by strong growth of 7.5% in agriculture owing to a low base in the previous year and a good harvest. Consumption and Exports were the principal drivers of the growth in the fourth quarter of last fiscal. Now with the interest rate hardening and economic indicators suggesting slowing growth in Euro zone, U.S. and China, it looks that consumption and exports may feel a pinch going ahead.

The inflation in food articles dropped to 8.06% for the week ended May 21 from 8.55% in the week before, data released on Thursday showed. Fuels and food together have a 29% weight in the wholesale price index. The inflation in these baskets suggests that the headline inflation for May is unlikely to moderate sharply from 8.66% for April.

A decline in cement output and lower growth in finished steel production slowed the growth of core sector to 5.2% annually in April. Output of six core industries, crucial for overall economic growth, had expanded 7.5% in the corresponding month a year ago, and 7.4% in March this year. Production of cement declined 1.1%, as against 8.8 per cent growth in the same month of 2010. Cement output has been declining after three months of good growth since January. Growth in finished steel production slowed to 4.3%, against 12.9% expansion a year ago. The latest numbers mark the lowest growth in production of finished steel since July 2010.

On the global news front, US initial jobless claims fell to 422,000 from the previous week's revised figure of 428,000. Economists had been expecting jobless claims to edge down to 420,000 from the 424,000 originally reported for the previous week.

US consumer confidence index fell to 60.8 in May from an upwardly revised 66.0 in April. The decrease came as a surprise to economists, who had expected the index to rise to 66.5 from the 65.4 originally reported for the previous month.

Taurus Benchmark Indices Movement

Indices	03/06/11	27/05/11	Points change	% change
BSE Sensex	18376.48	18266.10	110.38	0.60
S&P CNX Nifty	5516.75	5476.10	40.65	0.74
BSE 100	9640.93	9552.91	88.02	0.92
BSE 200	2282.42	2259.54	22.88	1.01
CNX Midcap	7992.95	7875.35	117.60	1.49
S&P CNX 500 Shariah	1299.16	1282.18	16.98	1.32

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

30/05/2011-03/06/2011	Equity	Debt
FII	2474.00	-169.80
MFs	-162.60	-401.50

Source : SEBI site

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