

DEBT MARKETS

GLOBAL UPDATE

US treasuries rose, pushing yields down for a ninth week in the longest stretch of decrease since February 2008, on bets the Federal Reserve will maintain monetary stimulus to boost a stalling economy. The 10 yrs note dropped by 2 basis to close at 2.97. The 2 yrs paper yield closed at 0.40%, 3 basis lower compared to last week. Nymex crude prices fall by 0.93% to close at 99.29. Gold prices fell and closed the week at USD 1532 per ounce.

MACRO ECONOMIC INDICATORS

The CSO released the IIP data for the month of April 2011 at 6.3% based on the new 2004-05 base series. The Mining, Manufacturing and Electricity sectors grew at 2.2%, 6.9% and 6.4% respectively. As per Use-based classification, the growth rates are 7.3% in Basic goods, 14.5% in Capital goods, 3.4% in Intermediate goods and 2.9% in Consumer goods (durables at 3.8% and non-durables at 2.1%). The IIP growth according to the old series was released at 4.4%, lower than market expectations.

For the week ended May 28, the primary articles index rose 0.5% taking the YoY inflation rate to 11.52% vis-à-vis 10.87% seen a week earlier. Both food and non-food articles' indices marked a rise. The fuel and power index remained unchanged taking the inflation rate to 12.46% v/s 12.54% last week (base effect).

GOVERNMENT SECURITIES AND TREASURY BILLS

The G-Sec market witnessed a strong opening on Monday tracking comments from RBI deputy Governor Shyamala Gopinath who mentioned that liquidity was monitored and it seemed comfortable. Comments from Deputy Governor Mr. Gokarn who mentioned that inflation would remain high for a few more months dampened sentiment. However, midweek, the market indulged in a robust rally in wake of probable short covering and expectations of a decline in crude price. Comments from an Official who mentioned that 10 yrs yield seemed appropriate at 8.20% and that there would be higher issuances in the longer tenor bonds led to a sell-off in the longer tenor and buying in the liquid medium term papers. The lower than expected IIP data led to a rally in the G-Sec market. The market witnessed a marginal sell-off post auction results. The 10 yrs benchmark security 7.80% GS 2021 ended at ₹97.11 (8.23%) compared to previous Friday's closing of ₹96.89 (8.27%).

The cut-off prices for the G-Sec auctions held on June 10th were set as follows: 7.83% GS 2018 at ₹97.55 (8.30%), for 7.80% GS 2021 at ₹97 (8.25%) and for 8.26% GS 2027 at

₹97.13 (8.59%). RBI set the cut-off price for the 91 Days T-Bill at ₹97.99 (8.23%) (compared to the previous cut-off of 8.19%) and for the 182 Days T-Bill at ₹96.06 (8.23%) (compared to previous cut-off of 8.27%).

LIQUIDITY CALL

The beginning of a new reporting fortnight demanded higher product maintenance leading to widened liquidity deficit. The liquidity tightened further ahead of the advance tax outflow and the monetary policy scheduled on June 16. The RBI infused funds worth ₹74,628 Crs on an average daily basis into the system via the LAF Repo window. The average infusion a week earlier stood at ₹43,141 Crs. The Call rate ended at an average rate of 7.33% on Friday as against 7.25% observed the week earlier. The CBLO levels moved to 7.20% compared to 4.69% in the previous week.

CORPORATE BONDS

The corporate bond market remained active considering both the primary as well as the secondary market trading. The PF fraternity took long positions in papers across the yield curve and across issuer profiles. The corporate bond yields softened across the curve. The 1 yr bond traded at a yield of around 9.75% compared to 9.80% seen a week earlier. The 10 yrs AAA bond ended at a yield of around 9.60% compared to previous week's closing of 9.70%.

In the primary market, Mahindra & Mahindra Finance raised ₹200 Crs. via sale of 10.47% 2 yrs bond. HDFC issued 9.90% 5 yrs paper to raise at least ₹250 Crs. IDFC planned to raise at least ₹100 Crs via issuance of 9.95% 31 months paper. NABARD announced the sale of its 9.65% 1 yr paper to raise ₹500 Crs.

RUPEE

The rupee appreciated in this week despite weaker equity market performance as exporters sold dollars. It traded in a range of 44.68 to 44.76 to close at 44.72 appreciating 0.22% w-o-w.

FUND MANAGER COMMENTS

The money market segment, yields across the segment eased with 3m prime CD levels came down by another 20 basis to 9.40%, where as one year eased by 5-7 bps and dealt at 9.93%. The lower than expected IIP data released on Friday led to a rally in the G-Sec market. The G-Sec market will look forward to monthly WPI data to be released on 14th June. The 10 yrs G-Sec would remain range bound and likely range would be 8.25%-8.35%.

Market Indicators as on 10th June, 2011

	10/06/2011	03/06/2011	% change
INR/USD	44.72	44.82	-0.22
Oil (\$/bbl)	99.29	100.22	-0.93
Gold (\$/oz)	1,531.65	1,541.95	-0.67
10 years G-Sec	8.23	8.27	-0.04
10 years AAA	9.61	9.68	-0.07
NSE Mibor	7.39	7.34	0.05

Source: Bloomberg

EQUITY MARKETS

Indian equity market ended the week in the red but outperformed the major global markets. Both the BSE & Sensex lost approx 0.6% during the week compared to Nasdaq(-3.2%), Dow (-1.7%) and Hangsang (-2.3%) etc.

On the sector front, Consumer durable gained 3.16% followed by IT (1.5%) and Realty Index (0.7%). On the losing side, Auto index lost 2% followed by Metal (-1.3%), Bankex (-0.7%) and FMCG (-0.6%).

Among the nifty stocks, TCS gained 3.2% followed by Cipla (2.4%), Infosys (1.6%) and Rcap (1.6%). On the losing side, Hero Honda lost 7.4% followed by Ambuja Cem (-4.9%) and ONGC (-4.7%).

Based on the new series of index numbers of industrial production with 2004-05 serving as the benchmark, the growth rate of factory output has dipped to 6.3% in April 2011 from 13.1% during the corresponding month of the preceding year. Simultaneously, the same data with the erstwhile base (1993-94) has also been officially released; this too broadly confirms that the industrial economy has experienced a slowdown of sorts, with the pace of increase slackening to 4.4% during the latest month from 16.6% a year ago.

India's food price index rose 9.01% and the fuel price index climbed 12.46% in the year to May 28. In the previous week, annual food and fuel inflation stood at 8.06% and 12.54% respectively.

In RBI's 'inflation Expectations Survey of Households: March 2011', Urban households have said inflation is likely to touch a high of 12.7% within a year. "Households expect inflation to rise further by 40 and 120 basis points during next quarter (11.9%) and next year (12.7%), respectively, from the perceived current rate of 11.5%," it said. The survey, conducted from January-March, covered 4,000 households in 12 cities. This was the 23rd round of the quarterly survey to gauge inflation expectations from urban households.

RIL according to the news item seems to have agreed to revise the Work program and budget for FY12 to take into accounts the DGH's directive of drilling 2 more wells, complete them and also complete two already drilled development wells - and to put all 4 on stream by June 2011. Also, in the remaining 3 quarters, RIL will put on stream another nine wells in the remaining three quarters of 2011-12.

On the global news front, US initial jobless claims edged up by 1,000 to 427,000 from the previous week's revised figure of 426,000. The modest increase surprised economists, who had been expecting jobless claims to slip to 418,000 from the 422,000 originally reported for the previous week.

China trade balance rose to a surplus of \$13.05 billion from a surplus of \$11.4 billion in April. Economists were expecting a surplus of \$19.8 billion.

Taurus Benchmark Indices Movement

Indices	10/06/11	03/06/11	Points change	% change
BSE Sensex	18268.54	18376.48	-107.94	-0.59
S&P CNX Nifty	5485.80	5516.75	-30.95	-0.56
BSE 100	9549.48	9640.93	-91.45	-0.95
BSE 200	2272.41	2282.42	-10.01	-0.44
CNX Midcap	7992.05	7992.95	-0.90	-0.01
S&P CNX 500 Shariah	1298.38	1299.16	-0.78	-0.06

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

06/06/2011-09/06/2011	Equity	Debt
FII	325.70	822.50
Mf	268.80	7299.60

Source : SEBI site

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