

## DEBT MARKETS

### GLOBAL UPDATE

US treasuries fell as weak economic data was released last week. US 10 yrs Treasury yield opened the week at 3.01% with an intraweek low of 2.81% and touched a high of 3.04%, closing at 2.96%. Gold futures rose 3.1% last week to \$1593.80, for the longest rally since Nov 2009, on mounting concern that debt woes in the U.S. will escalate. Nymex crude was flat for the week after it erased a 2.4% drop on Friday and ended at \$97.24.

### MACRO ECONOMIC INDICATORS:

The IIP for the month of May 2011 marked a growth of 5.6% (much lower than market expectations) vis-à-vis 5.8% (revised downwards from 6.3%) for April 2011. The headline WPI for June 2011 came in at 9.44% vis-à-vis 9.06% for May 2011. The April inflation was revised to 9.74% vis-à-vis the provisional estimate of 8.66%.

### GOVERNMENT SECURITIES AND TREASURY BILLS

Tracking the steep decline in US Treasury yields at the start of the week (in wake of the disappointing US employment data) the G-Sec market traded on a positive note. Various comments during the week, viz. the high yields remained unacceptable and low IIP and lower than expected WPI data led to higher G-Sec prices. The 10 yrs benchmark security 7.80% GS 2021 ended at 8.27% compared to previous Friday's closing of 8.35%.

The cut-off prices for the G-Sec auctions held on July 15th were set as follows: 7.83% GS 2018 at ₹97.69 (8.28%), for 7.80% GS 2021 at ₹97 (8.25%) and for 8.30% GS 2040 at ₹96.91 (8.59%). The three securities were fully subscribed. The notified amount for the securities was ₹3,000 Cr, ₹6,000 Cr and ₹3,000 Cr respectively.

RBI set the cut-off price for the 91 days T-Bill at ₹98.01 (8.14%) (compared to the previous cut-off of 8.19%) and for the 364 days T-Bill at ₹92.41 (8.24%) (compared to previous cut-off of 8.29%).

### LIQUIDITY CALL

The average liquidity infusion through the week on an average daily basis stood at ₹27,485 Cr. It stood higher than the average of ₹15,607 Cr observed the previous week. The money market witnessed huge volatility on the Reporting Friday. The Call rate ended at an average rate of 7.82% on Friday as against 7.50% observed the week earlier. The CBLO levels moved to 7.09% compared to 7.41% in the previous week.

### CORPORATE BONDS

The corporate bond market marked a busy trading week. The corporate bond yields witnessed massive easing as compared to the previous week. The 1 yr bond traded at a yield of around 9.45% compared to 9.65% seen a week earlier. The 10 yrs AAA bond marked a significant rally ending at a yield of around 9.38% compared to previous week's closing of 9.50%.

### RUPEE

The Indian rupee depreciated against USD as the equity markets fell. The dollar - rupee rose 0.4% this week to 44.52 per dollar.

### FUND MANAGER COMMENTS

Money markets turned bullish, as liquidity remained only benignly negative (₹20k Cr). The yields came off by 25-30 basis points across the 3m-12m tenor. The lower than expected inflation and low IIP data fuelled speculation that we might see the last hike of this cycle from RBI later in the month. 3M prime bank CD yields, closed this week at 8.65%, reacting to Govt.'s CMB issuances. 1 yr remained almost at same levels and closed the week at 9.45%. We may see some profit booking in money markets pushing up the yields by 10-15 basis points. The 10 yrs G-Sec is likely to trade in a range of 8.20%-8.35% this week.

Market Indicators as on 15th July, 2011

	15/07/2011	8/7/2011	% change
INR/USD	44.52	44.33	0.43
Oil (\$/bbl)	97.24	96.2	1.08
Gold (\$/oz)	1,593.00	1544.15	3.16
10 years G-Sec	8.26	8.35	-0.09
10 years AAA	9.38	9.50	-0.12
NSE Mibor	7.50	7.46	0.04

Source: Bloomberg

## EQUITY MARKETS

The trading week ended on 15 July has witnessed some major news, both from global markets and domestic markets. While the rising Euro-debt risk and failure of European stress test dominated the world market, the Indian market disappointed by the lackluster guidance given by the tech- giant Infosys while declaring its Q1FY12 numbers. The BSE Sensex lost 1.5% while Nifty plunged by 1.4% during the week. The BSE Small cap and Mid cap remain flat during the week and outperformed the main indices.

On the sectoral Indices, IT index lost 5.53% followed by Metal Index (-2.4%), Realty Index (-1.9%), and auto Index (-1.2%). Healthcare Index (1.26%) and Oil& Gas index (1.12%) were the major indices which remained in green during the week.

Among the Nifty fifty stocks, IDFC Gained 3.4% followed by Dr. Reddy Lab (3.2%), Sesa Goa (3%) and Reliance Industries (2.1%). On the losing side, Infosys lost 8.24% followed by Hindalco (-6%), JP Associates (-4.14%) and Sail (-4.14%).

Annual Inflation in India for June 11 came at 9.44% compared with 9.06% for the previous month. Inflation was lower than market expectations (9.70%). Inflation accelerated because of higher prices of minerals and manufactured products. Food price index rose 8.31% and the fuel price index climbed 11.89% in the year to July 2. In the previous week, annual food and fuel inflation stood at 7.61% and 12.67%, respectively. The primary articles price index was up 11.58%, compared with an annual rise of 11.56% a week earlier

IIP for May-11 stood at 5.6% well below market estimate of 8.6%. The moderating growth in capital & consumer goods industry shows the effect of rising interest rates. We think that high inflation, elevated interest rates, renewed global uncertainty will keep industrial growth at moderate levels for some time. IIP for Apr-11 was revised to 5.8% from 6.3%, due to sharp downward revision in capital goods index.

On the global news front, China's economy and industrial production expanded more than expected, indicating the nation is maintaining momentum even after interest-rate increases to cool inflation. GDP rose 9.5% in the 2Q from a year earlier. Industrial output advanced 15.1% in June, the most since May 2010.

Fed Chairman Bernanke said that Fed is prepared to take additional action, including buying more govt bonds, if the economy appears to be in danger of stalling. And also added the possibility remains that the recent economic weakness may prove more persistent than expected and that deflationary risk might reemerge.

Fitch Ratings downgraded Greece's credit ratings by three notches, sending the country deeper into junk territory. The ratings agency cited the absence of a new, fully-funded and credible EU-IMF program, coupled with heightened uncertainty surrounding the role of private creditors in any future funding as well as the country's weakening macroeconomic outlook.

### Taurus Benchmark Indices Movement

Indices	15/07/11	08/07/11	Points change	% change
BSE Sensex	18561.92	18858.04	-296.12	-1.57
S&P CNX Nifty	5581.10	5660.65	-79.55	-1.41
BSE 100	9740.64	9849.62	-108.98	-1.11
BSE 200	2307.37	2329.92	-22.55	-0.97
CNX Midcap	8175.20	8115.90	59.30	0.73
S&P CNX 500 Shariah	1295.87	1312.92	-17.05	-1.30

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

11/07/2011-15/07/2011	Equity	Debt
FII's	721.20	618.50
MFs	316.70	4741.40

Source : SEBI site

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