

DEBT MARKETS

GLOBAL UPDATE

US treasuries fell as the talks collapsed between President Barack Obama and the republicans. The comments by S&P (rating agency) regarding the downgrading of US from AAA also pushed the yields up. The 10 yrs Treasury yield closed the week at 2.96%. Nymex crude was up by 2.7% for the week and ended at \$99.87.

MACRO ECONOMIC INDICATORS:

The primary articles rate of inflation for the week ending July 9 stood at 11.13% vis-à-vis 11.58% a week ago. The index rose 0.1%; the headline rate however declined tracking the base effect. Within primary articles, the food articles index remained flat whereas the non-food prices rose. The fuel group index remained unchanged keeping the YoY inflation rate flat at 11.89%.

GOVERNMENT SECURITIES AND TREASURY BILLS

Last week was a negative week for G-Sec because of the announcement of bringing forward the auction of September 23 to August and the huge supply lined up for the week (CMBs, SDLs, T-Bills and G-Sec). The 10 yrs benchmark security 7.80% GS 2021 ended at ₹96.60 (8.31%) compared to previous Friday's closing of ₹96.86 (8.27%).

The cut-off prices for the G-Sec auctions held on July 22 were set as follows: 8.07% GS 2017 at ₹98.87 (8.33%), for 8.08% GS 2022 at ₹97.46 (8.44%) and for 8.28% GS 2027 at ₹97.05 (8.62%). The three securities were fully subscribed. The notified amount for the securities was ₹4,000 Cr, ₹5,000 Cr and ₹3,000 Cr respectively.

The 56 days CMB auction for ₹8,000 Cr conducted on July 18 witnessed a cut-off price of ₹98.78 (8.05%). The week also marked another 56 days CMB auction on July 21st to raise ₹4,000 Cr. The bill witnessed the same cut-off of ₹98.78 (8.05%) RBI set the cut-off price for the 91 days T-Bill at ₹98.02 (8.10%) (compared to the previous cut-off of 8.14%) and for

the 182 days T-Bill at ₹96.08 (8.18%) (compared to previous cut-off of 8.27%). Both the bills were fully subscribed. RBI announced the sale of 91 days T-Bill for a notified amount of ₹7,000 Cr and 364 days T-Bill for ₹3,000 Cr via multiple price auctions to be conducted on Jul 27, 2011.

LIQUIDITY CALL

The start of a new Reporting fortnight marked a tight systemic liquidity. The RBI infused funds worth ₹56,499 Cr in to the system on an average daily basis via the LAF Repo window. The average funds accessed by the market participants stood at ₹27,485 Cr the week earlier. In the money market, the Call rate ended at an average rate of 7.63% on Friday as against 7.82% observed the week earlier. The CBLO levels moved to 7.57% compared to 7.09% in the previous week.

CORPORATE BONDS

The corporate bond market marked a busy trading week. The corporate bond yields witnessed rangebound trading with PFC papers being the most traded. The 1 yr bond traded at a yield of around 9.52% compared to 9.45% seen a week earlier. The 10 yrs AAA bond marked a significant rally ending at a yield of around 9.40% compared to previous week's closing of 9.38%.

RUPEE

The Indian rupee appreciated against USD as the equity markets rose, taking cues from the global markets. The Indian Rupee appreciated by 0.4% this week to 44.36 per dollar.

FUND MANAGER COMMENTS

Money markets remained jittery with most of the issuer being away from markets. The most active segment was December for CDs that saw yields going up by 10 basis points. In the G-Sec market the traders were on the sidelines because of the forthcoming monetary policy. We expect a hawkish policy may put upward pressure on yields. The broad range for 10 yrs G-Sec may be 8.25%-8.45%.

Market Indicators as on 22nd July, 2011

	22/07/2011	15/07/2011	% change
INR/USD	44.36	44.52	-0.37
Oil (\$/bbl)	99.87	97.24	2.70
Gold (\$/oz)	1,601.27	1,593.00	0.52
10 years G-Sec	8.31	8.26	0.05
10 years AAA	9.37	9.38	-0.01
NSE Mibor	7.64	7.50	0.14

Source: Bloomberg

EQUITY MARKETS

Indian equity market continues to trade in a narrow range on the back drop of mixed cues from the global market as the investor were unsure about how Euro debt crisis and deadlock of US Debt ceiling will be resolved by the respective countries. Amidst this scenario, The BSE Sensex and nifty, ended the week with mere negative gain of 0.7% broadly underperforming the global market which has gained anywhere in the range of 1.6% - 2.1%.

On the sectoral front, Auto index lost 3.19% followed by Healthcare index (-2.7%), Power Index (-1.9%), Bankex (-1.6%) and Consumer durable index (-1.09%). Only FMCG Index and Realty index has reported weekly gain of 1.06% and 0.54% respectively.

Among the Nifty stocks, DLF gained 3.6% followed by ITC (2.65%), Gail (2.57%) and Siemens (2.4%). On the negative side Rcom lost 5.4% followed by Tata motor (-5.4%), Sesa Goa (-4.1%) and Dr. Reddy (-3.76%).

Food prices rose at their slowest pace in more than two years in the latest reporting week, bringing some cheer to policymakers hoping for a continued trend of moderation in inflation. Food inflation fell to a 27-months low of 7.58% for the week ended July 9, down from 8.31% in the previous week. "If this declining trend continues, I do hope it will have a moderating influence on the price front," said Finance Minister Pranab Mukherjee. Overall inflation stood at 9.44% in June.

Monsoon continue to spread well in the country. Excellent weekly rains (7% above normal) got the cumulative monsoon to 99% of normal. The spatial distribution of the monsoon, also is very good with 30 out of 36 sub-divisions having excess/normal rains. Total cropped area affected by deficient rainfall is only 8.2% compared with 51.6% at the same time last year.

On the global news front, Euro-area leaders announced 159 billion euro (\$229 billion) of second bailout for Greece and empowered their 440-billion euro rescue fund to buy debt of struggling countries in order to limit the risk of contagion. According to a draft Euro-zone governments would overhaul the sovereign rescue fund European Financial Stability Facility (EFSF) that would reduce the debt burden, lower the interest rates and extend the maturities of countries namely; Greece, Portugal and Ireland.

US existing home sales fell by 0.8% to an annual rate of 4.77 million in June from a 4.81 million rate in May. US housing starts rose by 14.6% in June to a seasonally adjusted annual rate of 629,000, well above the revised May figure of 549,000.

8 European banks have failed a test of their ability to withstand a long recession and will have to raise just 2.5 bn euros of capital, a significantly lower figure than expected. 5 banks in Spain, 2 in Greece and 1 in Austria flunked the "stress test". A further 16 banks passed the 5% mark by a small margin and will also have to take action.

Taurus Benchmark Indices Movement

Indices	22/07/11	15/07/11	Points change	% change
BSE Sensex	18722.30	18561.92	160.38	0.86
S&P CNX Nifty	5633.95	5581.10	52.85	0.95
BSE 100	9811.68	9740.64	71.04	0.73
BSE 200	2321.19	2307.37	13.82	0.60
CNX Midcap	8153.90	8175.20	-21.30	-0.26
S&P CNX 500 Shariah	1303.69	1295.87	7.82	0.60

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

18/07/2011-22/07/2011	Equity	Debt
FII	306.70	-128.20
Mf	439.00	-905.60

Source : SEBI site

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