

DEBT MARKETS

GLOBAL UPDATE

US treasuries yields rose every day this week, 32 bps in all, as Greece agreed to an austerity budget and demand was weak for Treasury auction. Yields also rose because of positive economic data. The 10 yrs note closed at 3.18%. The 2 yrs paper yield closed at 0.47%, 14 basis higher compared to last week. Nymex crude prices increased by 4.15% to close at USD 94.94 per barrel. Gold prices dropped and closed the week at USD 1488 per ounce.

MACRO ECONOMIC INDICATORS:

The primary articles inflation for the week ended June 18 inched down to 11.84% vis-à-vis 12.62% seen last week tracking a decline in both food and non-food articles' prices. The fuel and power inflation rate stood at 12.98% v/s 12.84% a week earlier.

GOVERNMENT SECURITIES AND TREASURY BILLS

Post the fuel price hike announced over the previous weekend and the softening of global crude oil prices on Monday, the G-Sec market traded range-bound at the start of the trade week. The market players retained a cautious stance ahead of the auction announcement for the week. Further the market traded on a bearish note in wake of announcement of the additional CMB borrowing and the higher US Treasury yields. The rise in US treasury yield tracking concerns over the outcome of the Greece crisis led to apprehensions in the domestic bond market. The rise in crude oil price too kept the prices in check. However, the decline in the weekly inflation rate spurred buying. The quarter end investment requirements also supported G-Sec prices. The fag end of the week marked a sell-off tracking the huge auction supply. The 10 yrs benchmark security 7.80% GS 2021 ended at ₹96.35 (8.35%) compared to previous Friday's closing of ₹97.04 (8.24%).

The cut-off prices for the G-Sec auctions held on July 1st were set as follows: 7.83% GS 2018 at ₹97.14 (8.39%), for 7.80% GS 2021 at ₹96.31 (8.36%), for 8.26% GS 2027 at ₹96.75 (8.64%) and 8.30% GS 2040 at ₹96.20 (8.66%). RBI set the cut-off price for the 91 Days T-Bill at ₹98.00 (8.19%) (compared to the previous cut-off of 8.19%) and for the 364 Days T-Bill at ₹92.36 (8.29%) (compared to previous cut-off of 8.34%).

LIQUIDITY CALL

The start of the Reporting week marked easier liquidity in the system tracking lower product maintenance. The volume of funds infused into the system by the RBI witnessed a decline. The net infusion on an average daily basis stood at ₹80,956 Cr compared to an infusion of ₹1,00,445 Cr witnessed a week earlier. The money market remained closed on July 1 in wake of the annual closing of RBI's accounts. The Call rate ended at

an average rate of 7.61% on Thursday as against 7.65% observed the week earlier. The CBLO levels plummeted to 4.47% compared to 7.26% in the previous week.

CORPORATE BONDS

Despite the sell-off in the G-Sec market, the corporate bond market stood its ground. The market witnessed spread compression over the G-Secs by around 10 bps in wake of lack of huge primary supply. The PF segment exhibited interest in the 15-20 yrs papers which were available at a higher spread over the 10 yrs levels. The week ahead is expected to witness some supply from the PSU category. Yields are expected to remain range bound with a trading bias.

The corporate bond yields softened specifically at the shorter end of the curve with the 1 yr bond trading at a yield of around 9.63% compared to 9.72% seen a week earlier. The 1 yr CD yield was seen trading at 9.70% compared to 9.81% seen previously. The 10 yrs AAA bond ended at a yield of around 9.62% compared to previous week's closing of 9.61%.

In the primary market, Cholamandalam Investment and Finance company raised ₹50 Cr via sale of 12.25% 7 yrs paper and ₹15 Cr via sale of 10.45% 21 months paper. The issue of its 12.5% perpetual paper to raise ₹150 Cr remains open. Sundaram Finance raised ₹10 Cr via issuance of 10.30% 3 yrs bond. Shriram Transport Finance came up with its ₹500 Cr for all investor categories including retail. IFCI issue of 10.50% 10 yrs paper and 10.75% 15 yrs paper to raise ₹200 Cr remains open till July 15.

RUPEE

The Indian rupee snapped two-week of losing string and bounced back to settle the week higher by 42 paise at two month high of 44.58 against the dollar on bullish local stocks amid frenzied capital inflows. It traded in a range of 44.58 to 45.04 to close at 44.58 appreciating 0.92% w-o-w.

FUND MANAGER COMMENTS

Money market yields turned over optimistic, this week on MF scouting avenues to invest the last minute inflows. CD issuances dropped, but institutions & corporates were active in issuing CPs, as short term rates continued to below bank credit funding rates. 3M prime rated bank CDs were issued up to 8.25% & 1yr up to 9.68%, before closing the week at 8.45% & 9.70%, respectively. For next week, we expect inter-bank deficit at RBI's repo window to be in INR 40,000-70,000 crores range because of over covering by banks in the first week of fortnight. The 10 yrs G-Sec is likely to trade in a range of 8.35%-8.45% this week.

Market Indicators as on 1st July, 2011

	1/07/2011	24/06/2011	% change
INR/USD	44.58	45.00	-0.92
Oil (\$/bbl)	94.94	91.16	4.15
Gold (\$/oz)	1,487.78	1,502.65	-0.99
10 years G-Sec	8.35	8.24	0.11
10 years AAA	9.61	9.62	-0.01
NSE Mibor	7.75	7.69	0.06

Source: Bloomberg

EQUITY MARKETS

Indian market ended the week with one of the strongest gain in the recent past but failed to outperform the Global markets. This sharp positive in the global market was on the back of the crude price which continued its southward journey during the week. The BSE Sensex and Nifty ended the week with gain of 2.86% vs global market return of approx ~ 5.5%- 6%. BSE mid cap and small cap outperformed the leading indices, as the posted gain of 3.4% and 3.8% respectively.

On the sectoral front, FMCG sector was the largest gained (4.24%) followed by Realty index(4%), Cap goods (3.9%), Bankex (3.7%) and Auto Index (2.6%). Oil & Gas was the only index that ended in flat to negative return because of the underperformance by RIL.

India's exports grew by an impressive 56.9% year-on-year to \$25.9 billion in the month of May due to a rise in demand from Western markets like the US and Europe. Imports also surged by 54.08% to \$40.9 billion, leaving a trade deficit of \$14.9 billion.

India's Current Account Deficit (CAD) has narrowed at 2.6% of the GDP in FY11, much lower than the widely anticipated 3% (FY10 2.8%). In absolute terms, it increased to \$44.3 bn from \$38.4 bn in FY10. In absolute terms, on BoP basis, the trade deficit widened to US\$ 130.5 bn (7.5 % of GDP) during FY11 from US\$ 118.4 bn (8.6 % of GDP) in FY10.

Food inflation dropped to one-and-a-half month to 7.78 per cent for the week ended June 18 mainly due to falling prices of items like vegetables, fruits and potatoes. Food inflation, as measured by Wholesale Price Index (WPI), stood at 9.13 per cent during the previous week.

Post the hike in the diesel prices by the Central Government, most of the states government has reduced the VAT to curtail the impact of

the rise to general people. Maharashtra, Goa, West Bengal and Rajasthan have reduced the same resulting in lowering of diesel prices in these states.

Growth of eight key infrastructure industries slowed to 5.3% in May compared to 7.4% in the same year-ago period, highlighting the sluggishness in the industrial sector where input costs have gone up significantly. The government has added two more sectors - natural gas and fertilisers - to the existing six industry segments. The key reason for the slowdown is the fall in natural gas and cement sectors. Cement has posted a decline for the second month in a row. The core industries spanning crude oil, petroleum refinery products, natural gas, fertilisers, coal, electricity, cement and steel account for 37.9% in the overall index of industrial production, government data released on Thursday showed. In the April-May period, growth in the core industries slowed to 4.3% compared to 7.9% in the same year-ago period.

On the global news front, China's manufacturing sector expanded at a weaker pace in June, alongside a slowdown in inflation. The seasonally adjusted purchasing managers' index fell to 50.1 in June from 51.6 in May. The figure matched the flash estimate. A PMI reading above 50 indicates expansion of the sector.

Eurozone unemployment rate remained stable in May. The seasonally adjusted jobless rate came in at 9.9%, in line with expectations. Compared with April, the number of persons unemployed increased by 16,000 in the euro area. On a yearly comparison, unemployment decreased 551,000 in May.

Greek lawmakers voted Thursday to speed the enactment of the country's new austerity measures, clearing the way for foreign lenders to make available the next instalment of aid needed to meet the government's expenses through the summer.

Taurus Benchmark Indices Movement

Indices	01/07/11	24/06/11	Points change	% change
BSE Sensex	18762.80	18240.68	522.12	2.86
S&P CNX Nifty	5627.20	5471.25	155.95	2.85
BSE 100	9793.58	9522.56	271.02	2.85
BSE 200	2314.72	2249.48	65.24	2.90
CNX Midcap	8026.10	7799.10	227.00	2.91
S&P CNX 500 Shariah	1305.02	1276.10	28.92	2.27

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

27/06/2011-01/07/2011	Equity	Debt
FIs	4600.60	-422.70
MFs	134.10	1133.60

Source : SEBI site

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