

DEBT MARKETS

GLOBAL UPDATE

During the week, Treasury papers fell for the first time in five weeks as mixed economic data and a rebound in commodities cooled demand for the safety of U.S. debt. The 10 yrs benchmark paper's yield touched a level of 3.21% during the week but closed the week at 3.14% as compared to 3.15% last week. The 2 yrs note closed at 0.54%, 1 basis point lower than previous week. Nymex crude rose by 2.54%. Gold remained almost flat as compared to previous week and closed at USD 1495.02 per ounce.

MACRO ECONOMIC INDICATORS

The Index of Industrial Production for the month of March 2011 came in steeply higher than market expectations. The headline IIP rate stood at 7.3% (YoY) vis-à-vis 3.7% (revised from 3.6%) for the month of February. Mining, Manufacturing and Electricity sectors grew at 0.2%, 7.9% and 7.2% respectively. As per Use-based classification sectoral growth rates are 4.3% in Basic goods, 12.9% in Capital goods, 5.4% in Intermediate goods & 7.7% in Consumer goods (durables: 12.3% & non-durables: 5.7%). The average IIP growth for FY 2010-11 stood at 7.8%.

For the week ended April 30, the primary articles weekly index rose 0.1% taking the inflation rate to 11.96% vis-à-vis 12.11% seen the week earlier. The food as well as non-food prices marked a rise. The fuel and power index remained unchanged. However a strong base effect led to a decline in the headline inflation rate to 12.25% from 13.53% the week earlier.

GOVERNMENT SECURITIES AND TREASURY BILLS

Amidst rising crude oil prices, G-Sec market started the trade week on a cautious note. The traders avoided taking big positions ahead of the auction announcement. Tracking news with respect to the postponement of the EGoM meet to decide on fuel price hikes, the G-Sec prices found substantial support. Market participants awaited the IIP data to be released on Thursday. The higher than expected IIP data led to a negative bias. The market however indulged in a robust rally tracking the decline in crude oil price and post release of softer weekly inflation data on Thursday. The announcement of higher T-Bill borrowing marred sentiment. Comments from Mr. Rangarajan, who mentioned that substantial hikes were required in oil product prices and that RBI rate hikes are expected to continue for a few months, pushed the yields higher. However, most notably, the lower than expected cut-off price for the 10 yrs security at the auctions led to a massive sell-off. The new 10 yrs benchmark security 7.80% GS 2021 ended at ₹96.85 (8.27%) vis-à-vis the previous closing of ₹97.48 (8.17%).

The cut-off prices for the G-Sec auctions were set as 7.83% GS 2018 at ₹97.05 (8.40%), 7.80% GS 2021 at ₹96.72 (8.29%) and 8.30% GS 2040 at ₹96.39 (8.64%). Cut off for SDL auction for 5 states came at 8.65%. The cut-off price for the 91 Days T-Bill at ₹98.03 (8.06%) (compared to the previous cut-off of

7.89%) and for the 182 Days T-Bill at ₹96.07 (8.20%) (compared to previous cut-off of 7.75%).

LIQUIDITY CALL

The RBI introduced the Marginal Standing Facility with effect from May 9th. Under this scheme all SCBs having Current Account and SGL Account with RBI would be eligible to avail up to 1% of their respective NDTL outstanding at 100 basis points above the LAF repo rate. The second LAF window was discontinued.

The beginning of the new Reporting fortnight and auction payment outflows led to tight systemic liquidity. The liquidity infusion witnessed via RBI's LAF Repo window averaged at ₹65,223 Cr on a daily basis. The average infusion stood at ₹22,585 Cr a week earlier. Money market rates moved northwards with the Call ending at an average rate of 7.40% on Friday as against 6.88% observed the week earlier. The CBLO levels moved to 7.18% compared to 5.91% in the previous week.

CORPORATE BONDS

The corporate bond market remained active in wake of the various primary issuances. Traders took positions in the primary issues of IRFC as well as Tata Steel. Investor activity remained subdued with participation restricted to the primary market

The corporate bond yields marked a mixed trend across tenors. The 1 year bond traded at a yield of around 9.80% compared to 10% seen a week earlier. The 1 year CD yield was seen trading at 9.90%, same seen previously. The 10 yrs AAA bond ended at a yield of around 9.48% compared to previous week's closing of 9.35%.

In the primary market, HDFC raised ₹692 Cr via sale of 9.95% 367 Days paper. IRFC issued 9.27% 10 yrs paper, 15 yrs 9.33% paper and 9.47% 20 yrs paper to raise ₹1,640 Cr. Tata Steel issued 11.50% (annual) perpetual paper to raise ₹525 Crs.

RUPEE

The rupee saw a lacklustre movement this week. It started the week at 44.72 but failed to maintain initial gains because of dollar demand from Importers and firm dollar in the overseas market. It traded in a range of 44.72 to 45.00 to close at 44.87 depreciating 0.16% WoW.

FUND MANAGER COMMENTS

The money market rates were almost flat during the week. Primary issuances started picking up with more than ₹ 15,000 Crs. of primaries happened in the week. Other than 3 Months, July maturity and November maturity primaries were also in demand. The likely range for 3m prime CD would be 9.10-9.30 this week. The 10 yrs benchmark G-Sec is likely to trade in a range of 8.15%-8.30% in this week.

Market Indicators as on 13th May, 2011

	13/05/2011	6/05/2011	% change
INR/USD	44.87	44.80	0.16
Oil (\$/bbl)	99.65	97.18	2.54
Gold (\$/oz)	1,495.02	1,495.60	-0.04
10 years G-Sec	8.27	8.17	0.10
10 years AAA	9.44	9.34	0.10
NSE Mibor	7.47	6.90	0.57

Source: Bloomberg

EQUITY MARKETS

Indian equity market ended the week on a very flat note. The BSE index lost 0.12% while the Nifty gained marginally 0.07%. BSE Mid cap and Small cap outperformed the benchmark indices as they gained 0.57% and 0.31% respectively.

On the sectoral Indices front, FMCG Sector gained 4.4% followed by Healthcare(1.4%), Realty (3.94%) & Metal (0.3%). On the losing side, Bankex lost 0.64% followed by Oil& Gas (-0.5%) and Cap goods (-0.7%).

Among the Nifty stocks, Ranbaxy gained 13.95% followed by HUL (11.15%), DLF (6.13%) and Bharti Airtel (4.8%). On the losing side, IDFC lost 4.23% followed by Maruti (-4%), M&M (-3.3%) and Sun Pharmaceuticals (-3.12%).

India's industrial production grew at a much faster pace than anticipated in March as performance of the manufacturing and electricity sub-segments improved from the previous month. The industrial output - as measured by the Index of Industrial Production (IIP) - expanded by 7.3% in Mar'11 - beating the expectations of 3.5-4% - as against 3.7% IIP growth (revised from 3.6%) in Feb'11, and 15.5% in Mar'10. The country's industrial output grew by 7.8% in FY11, as against a growth of 10.5% in FY10.

India's exports in April registered a growth of 34.4% at \$23.9 bn, while the trade deficit for the month stood at \$8.9 bn. Imports in April touched \$32.8 bn, up by 14.1% YoY. During the month, engineering exports surged by 109%, gems & jewellery by 39%, electronic goods by 48%, petroleum and its products, plastics & linoleum by 30%. Imports of petroleum products increased by 7.7%, pearls and precious stones increased 19%, gold increased by 60%. India's exports had grown 37.5% to \$245.9 bn in the last fiscal, while its trade deficit fell to \$104.8 bn.

The rate of inflation in food articles declined to 7.7% in the week ended April 30, 2011, as against 8.53% in the previous week, 21.46% in the year-ago week. The inflation in the primary articles group decreased to 11.96% in the week under review, as against 12.11% in the previous week, 20.76% in the year-ago week. The index for this major group rose by 0.1% to 192.8 from 192.6 in the previous week. The inflation in the fuel & power group fell to 12.25% in the reporting week, as against 13.53% in the previous week, and 14.79% in the year-ago week. The index for the Fuel & Power group remained unchanged at the previous week's level of 160.3.

The International Monetary Fund (IMF) has once again revised downwards India's growth outlook for FY12 to around 8%, due to high inflation and overall global economic outlook, clouded by rising commodity prices led by oil. Addressing media persons in Mumbai after presenting the latest report on the Regional Economic Outlook for Asia & Pacific, Mr. Anoop Singh, Director (Asia-Pacific Department) at IMF said that "As new downside risks have emerged across the globe, and particularly in Asia Pacific economies with many of them overheating, the IMF has revised downwards its growth for the region and also for India, where we see the growth momentum decelerating this fiscal to around 8%." The IMF earlier lowered the country's growth projection to 8.2% from the 8.4%. Separately, according to the International Monetary Fund (IMF), China's GDP will grow by 9.6% and 9.5% YoY respectively in 2011 and 2012, the fastest growth rate among all member countries of the G-20.

On the global news front, US retail sales rose by 0.5% in April following an upwardly revised 0.9% increase in March. Economists had expected sales to increase by about 0.6% compared to the 0.4% growth originally reported for the previous month.

The US trade deficit widened to \$48.2 bn in Mar'11 from \$45.4 bn (revised) in Feb'11. Both the value of imports and the value of exports increased in Mar'11, reversing decreases in both categories in Feb'11. Exports rose by 4.6% (\$7.7 bn) to \$172.7 bn, while the value of imports increased by 4.9% (\$10.4 bn) to \$220.8 bn in Mar'11. The goods deficit widened to \$62.1 bn, while the services surplus widened to \$13.9 bn, the highest level on record. Meanwhile, China's trade surplus increased in Apr'11, as export growth outpaced that of imports. The surplus rose to \$11.4 bn in Apr'11 from \$140 mn recorded in Mar'11. During the month, China's exports surged 29.9% YoY, while the imports climbed 21.8% YoY in Apr'11. On MoM basis, exports rose 2.3%, while imports fell 5.2% in Apr'11.

Eurozone industrial Production fell by a seasonally adjusted 0.2 % in March from the previous month, data released by the Eurostat showed Thursday. Economists were expecting it to rise 0.3% after recording a revised 0.6% rise for February.

Taurus Benchmark Indices Movement

Indices	13/05/11	06/05/11	Points change	% change
BSE Sensex	18531.28	18518.81	12.47	0.07
S&P CNX Nifty	5544.75	5551.45	-6.70	-0.12
BSE 100	9681.11	9653.80	27.31	0.28
BSE 200	2293.15	2285.46	7.69	0.34
CNX Midcap	8034.90	7965.40	69.50	0.87
S&P CNX 500 Shariah	1289.48	1282.15	7.33	0.57

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

09/05/2011-13/05/2011	Equity	Debt
FII	-639.20	1262.20
MFs	101.80	2077.10

Source : SEBI site

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