

DEBT MARKETS

GLOBAL UPDATE

US treasuries rose for a second straight week, pushing 10-yr note yields to a record low, as Germany prepared plans to shore up its banks in the event of a Greek default, bolstering demand for a refuge. The 10 yrs Treasury yield dropped seven bps to 1.92% this week. Nymex crude was up by 0.93% for the week and ended at \$87.24. Gold decreased by 1.44% and closed the week at \$ 1856/oz.

MACRO ECONOMIC INDICATORS:

The primary articles' inflation rate for the week ended August 27 rose to 13.34% vis-à-vis 12.93% seen a week earlier, tracking a sharp rise in the non-food articles index. The fuel and power index remained unchanged keeping the inflation rate flat at 12.55%.

GOVERNMENT SECURITIES AND TREASURY BILLS

The release of a weak US payrolls data on Friday led to a robust rally in the US Treasury prices. The increased concerns over Eurozone debt also strengthened G-Sec prices. The domestic bonds opened gap up on Monday. Comments from Finance Minister mentioning that further rate tightening may not be required also supported a bullish sentiment. The market lost marginally in wake of profit taking at higher levels and the improved sentiment globally. Mr. Subbarao's comments pertaining to the reduction in the SLR over the long term also dampened the sentiment. Mid-week, the second half of the trade day witnessed a sharp rally tracking probable short covering and huge offshore receiving in swaps. G-Sec prices gained strength tracking comments from Mr. Montek who mentioned that he agreed with Finance Minister's view that RBI should pause its rate hike cycle. The weekly inflation also aided sentiment as the headline food inflation declined. On Friday, the market adopted a cautious stance ahead of the fresh auction supply. The 10 yrs benchmark security 7.80% GS 2021 ended at ₹96.65 (8.31%) compared to previous closing of ₹96.44 (8.34%).

The cut-off prices for the G-Sec auctions held on Sep 9th were set as follows: 8.07% GS 2017 at ₹98.87 (8.33%), 7.80% GS 2021 at ₹96.71 (8.30%) and 8.28% GS 2027 at ₹97.49 (8.57%). The auctions witnessed no devolvement. The notified amount for the securities was ₹3,000 Cr, ₹5,000 Cr and ₹3,000 Cr respectively.

RBI set the cut-off price for the 91 days T-Bill at ₹97.95 (8.39%) and for the 364 Day T-Bill at ₹92.32 (8.34%). Both the bills were fully subscribed. The previous cut-off yields were 8.39% and 8.31% respectively. The 364 days T-bill was subscribed to the tune of ₹2,742 Cr as against the notified amount of ₹3,000 Cr.

LIQUIDITY CALL

The Reporting week marked an extremely easy liquidity, also tracking the month end Government spending coming into

the system. The first four days of the week marked an average daily infusion by RBI to the tune of ₹6,217 Cr. On Friday, the liquidity infusion however soared to ₹51,165 Cr, tracking probable adjustment for advance tax payment scheduled on Sept. 15. The week earlier had marked an infusion of ₹47,720 Cr. Money market rates softened in wake of the eased liquidity. The Call rate ended at an average of 8% on Friday as compared to 8.05% observed the week earlier. The CBLO levels moved to 6.95% compared to 7.70% in the previous week.

CORPORATE BONDS

The corporate bond market witnessed subdued trading activity in wake of expectations of huge primary issuances. Limited interest was exhibited from the PF segment as well. The week ahead would broadly be based on the sentiment in the underlying G-Sec market post release of IIP and WPI data and the mid-quarter policy review.

Corporate bond yields softened at the shorter end of the curve. The 1 yr bond traded at a yield of around 9.35% compared to 9.40% seen a week earlier. The 1 yr CD yield was seen trading at 9.45% compared to 9.52% seen previously. The 10 yrs AAA bond ended at a yield of around 9.42% compared to previous week's closing of 9.41%.

In the primary market, NABARD raised ₹500 Cr via sale of 9.40% 5 yrs security. IDFC issued 9.60% 1 yr 1 day paper to raise ₹361 Cr. SAIL sold 9.35% 15 yrs security to raise ₹450 Cr. Mahindra Finance issued 2 yrs zero coupon paper to raise ₹25 Cr. L&T Housing Finance raised ₹200 Cr via issuance of 9.96% 2 yrs bond.

RUPEE

The Indian rupee tumbled by a whopping 78 paise this week to end at a fresh one-year low of 46.57 against US currency due to a steep fall in local stocks amid a firm dollar overseas. Sustained dollar demand from importers and slow down in capital inflows too weighted on the rupee. The depreciation has been 1.69% in a week over the close of 45.79 last Friday.

FUND MANAGER COMMENTS

Quarter-end led activity continued to be brisk with INR 360-365 Bn of CD issuances this week. But the usual nervousness witnessed by banks to issue CDs was absent. 3M CDs issued in 8.95-9.15% & 1yr in 9.45-9.50% range. Institutions, NBFCs & corporates were also active in issuing Cps.

Markets are going into next week's mid policy review with mixed sentiments of a pause and a 25 bps rate hike. Inter-bank deficit at RBI's repo window is expected to be in INR 550-750 Bn range before the advance tax outflow and closer to INR 1000 Bn, post the outflow. 3M CDs may trade in the range of 9.10-9.25%. The 10 yrs G-Sec for the next week may remain in the range of 8.25%-8.40.

Market Indicators as on 9th September, 2011

	09/09/2011	02/09/2011	% change
INR/USD	46.57	45.79	
Oil (\$/bbl)	87.24	86.44	
Gold (\$/oz)	1,855.70	1,882.88	
10 years G-Sec	8.31	8.34	
10 years AAA	9.41	9.38	
NSE Mibor	8.02	8.05	

Source: Bloomberg

EQUITY MARKETS

Markets rose in the week gone by on the anticipation that the U.S. president package would stimulate economy and central banks in emerging markets at the moment are done with their policy tightening. So far policy makers in the developed nations have not been able to come up with any credible solution to tackle the crisis like situation. U.S. president suggested \$ 447 billion package which includes spending on infrastructure, tax cuts on middle class, unemployment benefits, etc. Any bold decisions as above in light of limitation from fiscal side may help in gaining the people confidence about the future prospects of the economy. In his speech Bernanke also indicated that the Fed would consider the range of tools that could be used to provide additional monetary stimulus in September meeting.

It was a mixed begs for markets during the week. Major Asian markets excluding India have reported weekly losses. Nikkei, HengSeng, Shanghai Comp was down 1.76%, 1.48%, 1.16% respectively. European markets were also mixed, with CAC40 down 1.99% and FTSE100 up 0.91%. Silver lining was US markets where all indices closed in green. Nasdaq Comp up 1.97%, Dow Jones up 0.49% and S&P 500 was up 1.02%. In domestic market, we saw a rally with Nifty and Sensex closed with weekly gains of 2.25% and 2.05% respectively. BSE Small Cap and Mid Cap has outperformed their broad market indices and closed with weekly gains of 3.16% and 2.62%.

On the sectoral front, barring FMCG index, all indices have posted gains in the range of 0.31-4.62%. Outperformers were Consumer Durable up 4.62%, Capital Goods up 4.55%, Bankex up by 3.79%, Auto up by 3.04%, Oil and Gas up by 3.37% and Realty up by 2.47%. Underperformance to Nifty came from FMCG which was down (0.72%), Healthcare up by 0.31%, IT up by 1.14% and Metal up by 2.24%. Among the Nifty stocks, Major gainers were JP Associate 14.42%, Ambuja Cement up by 8.8%, SAIL up by 8.08%, Reliance Infra up by 8.05% and Axis Bank up by 6.49%.

Major losers were, PGCIL down 3.17%, Sun Pharma down by 2.86%, Bharti Airtel down by 2.23% and ITC down by 2.02%.

Food inflation fell to a single-digit at 9.55% for the week ended August 27 after breaching the double-digit mark in the previous week, with prices of all items, barring pulses and wheat, going up on an annual basis. Food inflation, as measured on the basis of the Wholesale Price Index (WPI), stood at 10.05% in the previous week. The rate of price rise of food items was 14.76% in the corresponding week of 2010. Prices of pulses fell by 1.56% year-on-year, while wheat became cheaper by 1.04% during the week ended August 27. However, other food items became more expensive during the week under review. The fall in food inflation could be attributed to a moderation in the rate of price rise of some of the items on a week-on-week basis, even though they continued to go up.

Cement Manufacturer's Associate reported its August cement dispatches numbers. After industry-wide dispatches grew 10% YoY in July, cement majors reported a mixed performance for August. Overall, for top companies growth stood at ~11% YoY, driven by ACC and JP Associate which reported a strong volume uptick of ~20% led by the commissioning of new plants and support from a low base (ACC: -4.8% YoY in August'10). However, Ambuja Cement and Ultra Tech reported muted growth of 3% led by the transporter strike and monsoons across India.

On global front, The Bank of England left its key interest rate unchanged at a record low again as expected and maintained the size of the quantitative easing at GBP 200 billion. At the end of two-day rate setting meeting, the Monetary Policy Committee led by Governor Mervyn King decided to hold the interest rate at 0.50%.

China's rate of inflation eased in August, after hitting a three-year high in July. Consumer prices rose 6.2% from a year earlier. That is down from 6.5% in July. Food prices have been the main reason for the rising costs in the country

Taurus Benchmark Indices Movement

Indices	09/09/11	02/09/11	Points change	% change
BSE Sensex	16866.97	16821.46	45.51	0.27
S&P CNX Nifty	5059.45	5040.00	19.45	0.39
BSE 100	8836.47	8799.43	37.04	0.42
BSE 200	2089.22	2077.79	11.43	0.55
CNX Midcap	7413.50	7335.85	77.65	1.06
S&P CNX 500 Shariah	1199.00	1193.51	5.49	0.46

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

02/09/2011-08/09/2011	Equity	Debt
FII's	3011.30	1108.60
MFs	-762.50	11482.20

Source : SEBI site

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