TAURUS RECAP

WEEKLY REPORT - 10th - 14th October 2011

DEBT MARKETS

GLOBAL UPDATE

US treasuries fell, with 10 yrs and 30 yrs securities poised for their longest weekly losing streaks in more than six months, as European leader's efforts to resolve the sovereign-debt crisis damped refuge demand. The 10 yrs benchmark yields went up by 17 basis points to 2.25%. Nymex crude was up by 4.60% for the week and ended at $86.80. Gold increased by 2.62% and closed the week at $ 1681/oz.

MACRO ECONOMIC INDICATORS:

WPI inflation for the month of September 2011 came at 9.72%, slightly lower than market expectations of 9.74%. The previous month inflation was at 9.78%. Inflation in primary articles, fuel products and manufactured products was noted at 11.86%, 14.13% and 7.63% respectively. IIP for Aug-11 was noted at 4.1% lower than market expectations of around 4.8%. There was a broad slowdown in all the sectors except electricity which grew at 9.5% in Aug-11 compared to 1% in Aug-10. The growth rates in mining and manufacturing were noted at -3.4% and 4.5% respectively.

The weekly primary articles inflation for 1-Oct-2011 stood at 10.60% vis-à-vis 10.84% last week. The primary articles index rose by 0.5% compared to 0.2% rise seen previous week. Within primary articles, food articles index increased by 0.9% and non-food articles index declined by 0.9%. The fuel and power index increased by 0.4% leading to inflation of 15.10% compared to 14.69% seen previous week.

GOVERNMENT SECURITIES AND TREASURY BILLS

The markets opened on a bearish note tracking concerns over auction supplies in the week. There were reported comments from Dr. Kaushik Basu that government is trying very hard to keep its fiscal deficit close to target figure of 4.6% and small slippages should not be a concern. The market sentiment improved on Tuesday tracking comments from a Finance Ministry official that spike in yields was temporary. In the middle of the week there were mixed comments from senior RBI officials. Governor Dr. Subbarao expressed that though RBI is sensitive to the slowdown in some activities like investment it is equally sensitive to persistent inflation. Deputy Governor Gokarn commented that inflation remained the priority and policy to depend on inflation trajectory. The markets closed at around 8.73% levels tracking these mixed comments. Towards the close of the week, the yields hardened substantially tracking devolvement in 2 securities. The inflation was lower than expectations but could not lift the market sentiment. The benchmark bond 7.80% GS 2021 went to an alltime low of 93.5525 during the day closing the day at ₹93.78 (8.78%) compared to ₹ 95.03 (8.57%) seen previous week closing.

The cut-offs for the G-sec auctions were as follows: 7.83% GS 2018 at 95.31 (8.79%), 7.80% GS 2021 at 93.75 (8.78%) and 8.26% GS 2027 at ₹94.21 (8.95%). There was devolvement on Primary Dealers to the tune of ₹1614 Cr in 7.83% GS 2018 and ₹2424 Cr in 7.80% GS 2021. The cut-off for the 91 days T-Bill auction came at 97.93 (8.48%) and for the 182 days T-Bill at 95.88 (8.62%). The previous cut-offs were 8.44% for the 91 days T-Bill and 8.46% for the 182 days T-Bill. Both the auctions were fully subscribed. RBI announced T-Bill auctions to be held on 19-Oct - 11. The 91days and 364 day T-Bills will be auctioned for ₹4,000 cr each. RBI announced 48 days CMB worth ₹10,000 Cr to be held on 17-Oct-11.

LIQUIDITY CALL

The systemic liquidity turned into deficit mode at the start of a new fortnight. RBI infused net average liquidity worth ₹61,521 Cr in this week compared to an infusion of ₹4,648 Cr in previous week. The Call rate ended at an average of 8.29% as compared to 8.03% observed the week earlier. The CBLO moved to 8.21% compared to 7.03% in the previous week.

CORPORATE BONDS

The market sentiment in corporate bond market remained negative tracking developments in G-sec markets. There were some primary issuances in the week but the activity in secondary market remained weak. The participants preferred to stay away from the markets amidst hardening of corporate bond yields.

The 1 yr bond traded at a yield of around 9.45% compared to 9.40% seen a week earlier. The 1 yr CD yield was seen trading at 9.60% compared to 9.55% seen previously. The 10 yr AAA bond ended at a yield of around 9.74% compared to previous week's closing of 9.65%.

In the primary market, Cholamandalam Investment and Finance raised ₹75 Cr via sale of 2 yrs bonds at 10.95%. REC raised bonds worth ₹250 Cr by placing 5 yrs bonds at 9.35%. Airport Authority of India raised 600 Cr via 8.97% 5 yrs bonds.

RUPEE

The Indian rupee rose to the highest level in more than 2 weeks on speculation foreign funds will step up purchase of the nation's shares after Group of 20 officials endorsed parts of a plan to contain Europe's crisis. The rupee is benefiting from expectations of inflows into stocks since the news from Europe has helped sentiment. It moved in the range of 48.96-49.33 during the week and closed the week at 49.02. The appreciation has been 0.27% in a week over the close of 48.16 last Friday.

FUND MANAGER COMMENTS

There were few Primary issuance this week also as market was dull. Some important data released this week. IIP for the month of August came at 4.1% against expectations of 4.7%. WPI again remained close to 10% mark at 9.72% for the month of September. Inter-bank liquidity turned volatile, jumping back into negative zone during this week, averaging INR 615 Bn at RBI repo window.3 months CDs traded almost flat at 9.15% levels whereas1 yr CD yields hardened by 10 bps to close the week at 9.62% levels.

For next week, system outflows include GOI, State loans, T-Bills & CMB auction, which may keep liquidity tight in the range of ₹50,000-65,000 Cr. Expected trading range for 3M CD yields is 9.15%-9.25%. The 10 yrs G-Sec for the next week may remain in the range of 8.70%-8.90%.

Market Indicators as on 14th October, 2011

	14/10/2011	07/10/2011	% change
INR/USD	49.02	49.16	-0.27
Oil ($/bbl)	86.8	82.98	4.60
Gold ($/oz)	1,680.73	1,637.85	2.62
10 years G-Sec	8.78	8.58	0.20
10 years AAA	9.73	9.62	0.11
NSE Mibor	8.30	8.07	0.23

Source: Bloomberg

EQUITY MARKETS

German Chancellor Angela Merkel and French President Nicolas Sarkozy's assurance that they would address the Greece issue and recapitalize banks by November 3 meeting of Group of 20 leaders send strong positive signal for markets across the globe to rally. Back Home, Industrial production growth for the month of August came at 4.1% showing signs of moderation.

It was all round rally in global markets. US market indices Nasdaq was up by 5.68%, Dow Jones up by 3.38% and S&P 500 up by 4.17%. In Europe FTSE was up by 1.89% and CAC40 was up by 2.59%. Asian Indices Nikkie was up by 2.53%, Strait Times up by 3.55%, Hang Seng up by 5.93%, Shanghai Comp up by 4.01 % on W-o-W basis. Indian indices Nifty was closed 3.88% up and Sensex closed with 4.01% weekly gain.

On the BSE sectoral indices, all indices ended in gain. Outperformance came from Realty, IT, Bankex and Consumer Durable index which have seen gains of 6.67%, 5.96%, 6.09 and 5.49% respectively. Major under performer sectors were FMCG and Healthcare with gains of 1.25% and 0.54% respectively. Amongst Nifty stocks, out performers were Sesa Goa up 11.78%, Tata Motors up 10.49%, DLF up 9.35%, TATA Steel up 8.03% and SBI up 7.7%. Under performers were Maruti Suzuki down 4.94%, Ranbaxy Lab down 2.76%, BPCL down 2.2%, Coal India down 1.63% and HUL down 0.79%.

India's industrial output in August rose 4.1% compared to 4.5% in the same year-ago period. All the sub-indices, namely, basic goods, capital goods, intermediate goods and consumer goods displayed a sub-6% growth in August 2011, highlighting continuing weakness in both investment and consumption growth. The CSO revised upwards the July data to 3.8% from the previous reading of 3.3% and the May number to 6.2% from 5.9%. Industrial output in the April-August period rose 5.6% compared to 8.7% growth in the same year ago period.

India's food price index rose to 9.32% and the fuel price index climbed 15.10% in the year to Oct. 1. In the previous week, annual food and fuel inflation stood at 9.41% and 14.69%, respectively.

On Global news front, ·Standard and Poor's downgraded Spain's long-term credit rating by one notch, citing heightened risks to Spain's growth prospects and a possible further weakening of the financial profile of the Spanish banking system. The long-term rating on Spain was cut to AA- from AA with a 'negative' outlook. The short-term ratings were affirmed at A-1+.

The IMF downgraded growth outlook for Asia in its latest Regional Economic Outlook (REO) for Asia and the Pacific. The report cautions that risks for the Asia and Pacific region are decidedly tilted to the downside. The lender assessed a slowdown in Asia's growth since the second quarter of 2011. The agency expects 6.3% expansion in 2011 and 6.7 percent in 2012, slightly below April's last forecast.

New U.S. unemployment claims ticked down slightly in the week ended October 8th. On a seasonally adjusted basis, the Labor Department reported that 404,000 Americans filed new claims for unemployment insurance for the week. The number of new claims is slightly lower than the revised figures for the previous week, which showed 405,000 new claims, up from the 401,000 initially reported.

Taurus Benchmark Indices Movement				
Indices	**14/10/11**	**07/10/11**	**Points change**	**% change**
BSE Sensex	17082.69	16232.54	850.15	5.24
S&P CNX Nifty	5132.30	4888.05	244.25	5.00
BSE 100	8901.16	8489.19	411.97	4.85
BSE 200	2090.27	1996.81	93.46	4.68
CNX Midcap	7135.95	6894.15	241.80	3.51
S&P CNX 500 Shariah	1222.38	1170.13	52.25	4.47

Weekly FII & MF Net Flows (₹. in crs.)		
07/10/2011-13/10/2011	**Equity**	**Debt**
FIIs	635.50	2254.90
MFs	819.90	6007.20

Source : SEBI site