

DEBT MARKETS

GLOBAL UPDATE

US treasuries yields fell to two month lows, as the European sovereign debt crisis refused to be solved, even after last week's EU meet. Fitch reduced the outlook of France from stable to negative because of its vulnerability to the region's debt crisis. The US 10 yrs benchmark yields closed 21 basis points higher at 1.85%. Nymex crude was down by 5.91% for the week and ended at USD 93.53 per barrel.

MACRO ECONOMIC INDICATORS

The Industrial Production Index (IIP) for the month of Oct contracted by 5.1% compared to the year ago levels when it recorded strong growth of 11.3%. Manufacturing, the largest contributor to the IIP also registered a fall of 6%. Mining sector continued to report disappointing numbers as it fell by 7.2% in Oct-11. Capital goods also fell for the second straight month in Oct, reporting a fall of 25.5%. Cumulative IIP growth in FY 12 (Apr-Oct) stood at 3.5% sharply lower from 8.7% in the same period last year.

The Nov WPI stood at 156.9 compared to 156.8 in the previous month. This translates into an annual inflation of 9.11%, sharply lower from previous month's inflation of 9.73%. Primary articles inflation eased to single digit growth of 8.52% in Nov against 11.40% in the previous month tracking the moderation in food articles. Fuel inflation rose to 15.5% in Nov compared to 14.79% in the previous month. Manufacturing inflation also inched up to 7.7% in Nov from 7.6% in the previous month whereas Manufacturing ex food (core inflation) also rose to 7.90% from 7.63%.

For the week ended 3-Dec-11, Primary articles inflation further softened to 5.48% compared to 6.92% in the last reported week. On a W-o-W basis, the primary articles index fell by 0.75% compared to 0.55% in the previous week. Food inflation moderated to 4.35% for the week ended 3-Dec compared to 6.60% in the last reported week, tracking the decline in pulses and fruits & vegetable prices. The recent fall in the primary articles inflation is supported by high base as well fall in the weekly numbers. Fuel inflation also eased to 15.24% for the week ended 3 Dec-11 compared to 15.53% in the previous reporting week.

GOVERNMENT SECURITIES AND TREASURY BILLS

G-sec yields opened steady on Monday ahead of the release of the Oct IIP data. However announcement of a much sharper contraction in IIP compared to market expectations, triggered a rally in the G-Sec market supported by robust volumes. The Finance Minister expressing his disappointment at the dismal IIP performance added that it would be a

challenge to confine fiscal deficit to 4.6% aim. The hopes of another buy back of securities via OMO supported the sentiment but RBI however refrained from making any such announcement. Further during the week the remarks from Finance Ministry sources saying that achieving FY 12 divestment aim seems "doubtful" raised concerns over additional borrowing in the current fiscal. Finance Minister Pranab Mukherjee also said that subsidies calculated during budget surpassed expectations, indicating that government's fiscal position remains under stress. Thereafter the higher than expected monthly inflation number led to some sell off in the market even as the Nov inflation was sharply lower Oct. Nov WPI inflation came in at 9.11% compared to market expectations of 9.02% and previous month's inflation of 9.73%. The subsequently released weekly inflation numbers though came in sharply lower which raising hopes of further downtrend in the headline inflation numbers.

The big event during the week was the mid quarter policy review, which broadly on the expected lines kept the Repo and the CRR rates unchanged. RBI policy sounded more dovish on the growth side clearly expressing that downside risk to growth has risen significantly since the last policy review tracking the global developments as well as the impact of past rate hikes by RBI. Addressing the prevalent tight liquidity situation, RBI assured that OMO would be conducted as and when appropriate but refrained from giving any concrete calendar on the same. Markets rallied post the mid quarter review as RBI gave a clear guidance that in view of the moderating growth momentum and higher downside to risk further rate hikes may not be warranted. The policy also said that monetary policy action are likely to reverse the cycle, from here on, responding to the risks to growth. The 8.79% GS 2021 closed the week at ₹102.71 (8.38%) compared to ₹100.93 (8.65%) seen at previous week's closing.

The cut off for State Development Loan of Punjab stood at 8.74%. The entire amount of ₹350 Cr was fully subscribed. The T-bill cut-offs for 91 days T-Bill was set at 8.48% and for 364 days T-Bill at 8.26%. The previous cut-offs for these T-Bills were 8.60% for 91-days and 8.45% for 364 -days. Both the auctions were fully subscribed.

LIQUIDITY CALL

Money markets rates rose tracking the rise in liquidity shortfall. RBI infused net average liquidity worth ₹101,151 Cr in this week compared to an infusion of ₹91,000 Cr in previous week. The Call rate ended at an average of 8.92% as compared to 8.59% observed the week earlier. The CBLO average rate moved to 8.46% compared to 8.49% in the previous week.

CORPORATE BONDS

The secondary market activity in corporate bond market saw active market participation. Bonds rallied tracking the rally in G-sec market. The 1 yr bond traded at a yield of around 9.45% compared to 9.50% last week. The 10 yrs AAA bond ended at a yield of around 9.29% vs. 9.40% at the end of previous week. The 1 yr CD yield was seen trading at 9.59% compared to 9.65% last week.

Primary corporate bond market saw limited activity during the week. Shriram Transport Finance Limited raised ₹350 Cr in the tenor ranging 21 months to 2 yrs at an average coupon of 10.19%.

RUPEE

The Indian rupee settled lower against the USD on signs the European debt crisis is starting to slow regional economic

growth. It touched an all time low of 54.30 before gaining some grounds on account of INR strengthening measures taken by RBI. It closed the week at 52.75 depreciating 1.35% during the week.

FUND MANAGER COMMENTS

For money markets, the yields remained rangebound, with heavy issuance getting absorbed by mutual funds. The maturity of CDs in MF portfolio kept CDs in demand, thereby keeping the yield rise checked. The monetary policy pushed down the G-Sec yields but did not affect the money market yields at all.

This week we expect the yields to move up likely as liquidity would be under pressure after the advance tax outflows. 3M CD yields are likely to test 9.50-9.60% levels & 1Y CD yields may remain in the 9.70-9.80% range. The likely range for the 10 yrs G-Sec would be 8.35-8.50%.

Market Indicators as on 16th December, 2011

	16/12/2011	9/12/2011	% change
INR/USD	52.75	52.04	1.35
Oil (\$/bbl)	93.53	99.41	-5.91
Gold (\$/oz)	1,598.00	1,711.60	-6.64
10 years G-Sec	8.39	8.53	-0.14
10 years AAA	9.35	9.41	-0.06
NSE Mibor	8.98	8.60	0.38

Source: Bloomberg

EQUITY MARKETS

In Mid Quarter Monetary Policy Review, RBI kept repo and reverse repo rates unchanged to arrest the inflation which may lead to further slowdown in the economy. Inflation remains on its projected trajectory. CRR unchanged at 6%, despite market speculation that it might cut the rate in order to bolster market liquidity. OMOs would be conducted as and when required.

Disappointment came from the FOMC meeting outcome which stated that the economy has been expanding moderately but unemployment remains at elevated levels. Citing long term inflation expectations stable and risks to growth from the strains in global financial markets, it decided to keep federal funds rate at 0 to 1/4 percent and reiterated that it would keep rate unchanged at least through mid-2013. There were expectations that the Fed would give some kind of stimulus to propel the economic growth as it indicated about the same in the last meeting.

Global markets fell on week on week basis with all global indices closing in red. CAC 40 was down 5.47%, Shanghai Comp down 5.5%, Nasdaq Comp down 4%, FST 100 down 2.32%, Nikkei down 1.86%. Sensex closed 2.33% down and Nifty down 2.47%. Amongst BSE Sectoral indices, FMCG and IT Index were up at 0.9% and 0.64% respectively. Major losers were Consumer durable down 6.91%, Capital Goods down 6.21%, Realty down 5.06% and Metal down 4.6%.

Annual Inflation in India for Nov-11 came at 9.11% compared with 9.73% for the previous month (above market estimate of 8.9%). Core inflation rose to 7.9% from 7.63% in Oct and continues to remain well above RBI's comfort level. Although inflation has declined sharply in Nov-11, the numbers remain elevated as prices of manufactured product prices remain sticky even as primary articles declined sharply in Nov.

IIP for Oct-11 came in at -5.1% (below market estimate of -0.9%). Capital Goods showed decline in growth by a whopping (-25.5%). Manufacturing contracted by -6.0%, Mining contracted by -7.2% while electricity grew by 5.6%. Within manufacturing, all sub-segments showed contraction. M-o-M fall in all manufacturing indices (except Basic) and the slowdown in consumer growth is a sign of demand now being hurt by high interest rates and a reflection of extremely poor business and consumer sentiments.

HSBC China Manufacturing PMI rose slightly in Dec-11 but stayed in contractionary territory. The rise reflects the results of some easing measures already undertaken by the Chinese govt., but more easing is likely to come as China continues to feel the effects of the euro zone sovereign debt crisis. China PMI rose to 49.0 in Dec-11 compared with a final reading of 47.7 in Nov.

Nearly 200 countries agreed to work on extending limits on greenhouse gas emissions well into the next decade, according to the United Nations Framework Convention on Climate Change. At a conference in Durban, South Africa, governments agreed to adopt a legal agreement "as soon as possible" but no later than 2015 to curb greenhouse gas emissions to limit the rise in average global temperatures by 3.6 degrees Fahrenheit. The agreement would extend the Kyoto Protocol that was adopted in 1997 and is set to expire in 2012. The U.S. never ratified the protocol. While Russia, Canada and Japan had said earlier they would not recommit to the Kyoto Protocol, they all signed onto the new agreement, according to The Wall Street Journal. The U.S., China and India — the largest producers of greenhouse gases — have also signed on to the agreement, according to the Journal. The agreement would create a Green Climate Fund of about \$100 bn by 2020.

Taurus Benchmark Indices Movement

Indices	16/12/11	09/12/11	Points change	% change
BSE Sensex	15491.35	16213.46	-722.11	-4.45
S&P CNX Nifty	4651.60	4866.70	-215.10	-4.42
BSE 100	8011.09	8393.96	-382.87	-4.56
BSE 200	1874.10	1966.26	-92.16	-4.69
CNX Midcap	6285.30	6654.25	-368.95	-5.54
S&P CNX 500 Shariah	1134.85	1169.00	-34.15	-2.92

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

09/12/2011-15/12/2011	Equity	Debt
FII	-960.90	9211.40
MFs	-207.90	6146.00

Source : SEBI site

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