

## DEBT MARKETS

### GLOBAL UPDATE

US treasuries dropped, pushing 10-yrs note yields up the most in more than two months, after the European Central Bank coordinated with the Federal Reserve and other central banks to maintain liquidity for the euro area's financial institutions. Yields on 10-yrs notes increased 13 bps during the week to close at 2.05% on Friday. Nymex crude was up by 0.83% for the week and ended at \$87.96. Gold decreased by 2.36% and closed the week at \$ 1812/oz.

### MACRO ECONOMIC INDICATORS:

The headline WPI inflation rate for August 2011 was released at 9.78%, higher than 9.22% for July 2011. The primary articles index rose 0.9% (MoM), the fuel and power index rose 0.8% whereas the manufactured products index inched up by 0.4%. The June inflation was revised to 9.51% vis-à-vis the provisional estimate of 9.44%.

IIP for Jul-11 was at 3.3%, much lower than market expectations of 6.2%. Growth in mining, manufacturing and electricity was noted at 2.8%, 2.3% and 13.1% respectively. Growth in capital goods sector remained highly volatile and declined by 15.2% in Jul-11 compared to growth of 38.2% in Jun-11.

The weekly primary articles inflation for Sep3, 2011 stood at 13.04% vis-à-vis 13.34% last week. The index moved up 0.3%, however, the base effect aided the softening in the headline rate. Within primary articles, both food and non-food articles' indices marked a rise. The fuel and power index remained flat, the headline rate rising to 13.01% from 12.55% due to the base effect.

### GOVERNMENT SECURITIES AND TREASURY BILLS

This week was crucial for markets as there were important data releases during the week along with RBI's mid-term policy review. The markets opened on a cautious note ahead of IIP release. Yields also hardened tracking tightening of liquidity during the week on account of advance tax-flows. Post-IIP release on Monday, yields eased as the data was weak leading to expectations that RBI will pause in its forthcoming review of monetary policy. There were reported comments from Chief Economic Advisor Kaushik Basu that there is a need to balance high inflation and slowing growth which aided market sentiment. The positive sentiment was short-lived as markets feared over WPI inflation for Aug-11 which was expected to be high on account of base-effect. Inflation was noted at 9.78% higher than market estimates of 9.65% leading to a sell-off in the markets. In its mid-term review, RBI hiked the Repo rate by 25 bps to 8.25% which

was in line with market expectations. RBI reiterated that inflation remains at "uncomfortably high levels" and there is an imperative to continue with the current anti inflationary stance. This hawkish stance led to further hardening of the yields at close.

The benchmark security 7.80% GS 2021 closed at ₹96.35 (8.36%) compared to ₹96.57 (8.29%) seen previously. The total volume reported on NDS-OM was to the tune of ₹ 11,795 Cr compared to ₹ 18,135 Cr noted previously.

RBI set the cut-off price for the 91 days T-Bill at ₹97.95 (8.39%) and for the 182 days T-Bill at ₹95.98 (8.40%). The previous cut-off yields were similar at 8.39% and 8.40% respectively. RBI announced the sale of 91 days T-Bill for a notified amount of ₹7,000 Cr and 364 days T-Bill for ₹3,000 Cr via multiple price auctions to be conducted on September 21, 2011.

### LIQUIDITY CALL

The liquidity tightened significantly during the week tracking the advance tax flows from the system. RBI infused net average liquidity worth ₹70,487 Cr in this week, compared to an infusion of ₹51,165 Cr in previous week. Money market rates hardened in wake of the tight liquidity. The Call rate ended at an average of 8.13% on Friday as compared to 8% observed the week earlier. The CBLO levels moved to 8.02% compared to 6.95% in the previous week.

### CORPORATE BONDS

There was limited activity in corporate bond market during the week. The yields rose tracking sentiment in G-sec market and low trading volumes. There was lackluster involvement as investors awaited the outcome of RBI monetary policy review. It is expected that market activity will pick up next week with more players coming to the markets after the RBI policy review.

The 1 yr bond traded at a yield of around 9.40% compared to 9.35% seen a week earlier. The 1 yr CD yield was seen trading at 9.60% compared to 9.45% seen previously. The 10 yrs AAA bond ended at a yield of around 9.50% compared to previous week's closing of 9.42%.

In the primary market, PFC raised ₹1500 Cr via sale of 9.43% 10 yrs and 9.43% 5 yrs security. HDFC issued 9.65% 5 yrs paper to raise ₹1000 Cr. Sundaram Finance raised 10.10% 3 yrs security to raise ₹25 Cr. Airport Authority of India issued 5 yrs bond at 9.30% to raise ₹215 Cr. IFLS raised 6 yrs bonds worth ₹ 75 Cr at a yield of 9.80%.

## RUPEE

The Indian rupee rebounded from its nearly 2- yrs low of 48.01 logged on mid-week, still ending lower by another 70 paise at 47.27 against the Greenback during the week as demand for dollars exceeds the supply on euro-zone debt worries that prompted importers, oil refiners and banks to make a beeline for buying the US dollar. The depreciation has been 1.51% in a week over the close of 46.57 last Friday.

## FUND MANAGER COMMENTS

Money market yields closed the week higher by 15-25 bps. This was despite interbank liquidity deficit touching near

INR 1000 Bn (due to advance tax outflows) and RBI hiking rates. 3M prime bank CDs were issued in 9.08-9.25% & 1yr in 9.49-9.62% range. Markets went into the policy with a 25 bps hike expectations, especially after inflation print & fuel hike. With policy actions inline with expectations, market behavior did not portray much nervousness.

For next week, we expect inter-bank deficit at RBI's repo window to be in INR 400-600 Bn range. We expect markets to trade in the same range. Expected trading range for 3M CD yields is 9.15%-9.30%. The 10 yrs G-Sec for the next week may remain in the range of 8.25%-8.40%.

### Market Indicators as on 16th September, 2011

	16/09/2011	09/09/2011	% change
INR/USD	47.27	46.57	1.51
Oil (\$/bbl)	87.96	87.24	0.83
Gold (\$/oz)	1,811.88	1,855.70	-2.36
10 years G-Sec	8.36	8.31	0.05
10 years AAA	9.44	9.41	0.03
NSE Mibor	8.13	8.02	0.11

Source: Bloomberg

## EQUITY MARKETS

Markets rallied in the week gone by after the statement from China that it is willing to buy bond of those countries which are facing debt problems. The rally further strengthened after European central bank in coordination with the Federal Reserve, the Bank of England, the Bank of Japan and the Swiss National Bank decided to provide U.S. dollar liquidity to European banks against collateral at fixed rate of interest in order to ensure that they remain liquidated. The U.S. dollar liquidity with a maturity of approximately three months would be provided in three tranches starting from October 12, 2011. While the liquidity for the European banks now has been ensured the solvency still remains in question. The step also eased the market apprehension about the possibility of Greece going out of European Union. China in a statement showed its concern that the inflationary pressure would increase if U.S. introduces a third round of quantitative easing in order to stimulate the economic activity

It was a mixed performance for markets during the week. Major Asian markets excluding India have reported weekly losses. Nikkei, HengSeng, Shanghai Comp was down 0.79%, 3.45%, 0.75% respectively. European markets were gainers, with CAC40 up 2.39% and FTSE100 up 2.36%. Major gainers were US markets where all indices closed in green. Nasdaq Comp up 5.64%, Dow Jones up 4.01% and S&P 500 was up 4.75%. In domestic market, we saw flat closing for Nifty and Sensex, which closed with weekly gains of 0.32% and 0.06% respectively. BSE Small Cap and Mid Cap has underperformed their broad market indices and closed with weekly loss of 1.24% and 1.06%.

On the sectoral front, there was quite mix performance. IT index clearly stood winner with 3.95% weekly gain followed by Oil and Gas and FMCG which gained 1.29% and 0.55% respectively. Under performance to Nifty came from Capital goods which was down (3.46%), Consumer Durable down by (2.26%), Metal down by (0.9%) and Power down by (1.03%). Among the Nifty stocks, Major gainers were Ambuja Cement up 8.33%, Infosys up by 5.96%, Grasim Industries up by 5.4%, GAIL up by 4.84%. Major losers were, L&T down by 6.02%, Tata Power down by 4.4%, Ranbaxy down by 4.11% and Hindalco down by 3.77%.

In a move to contain persisting inflationary pressure, the Reserve Bank of India on last Friday hiked the indicative short-term policy rate (repo rate) by 25 basis points from 8 per cent to 8.25% with immediate effect. Consequently, the reverse repo rate will stand automatically adjusted to 7.25% and the marginal standing facility (MSF) rate to 9.25%. RBI mentioned, with the likelihood of inflation remaining high for the next few months, rising inflationary expectations remain a key risk. This makes it imperative to persevere with the current anti-inflationary stance, adding, "Crude oil prices remain high.

Headline year-on-year wholesale price index (WPI) inflation rose from 9.2% in July to 9.8% in August 2011. Inflation in respect of primary articles and fuel groups edged up in August. Year-on-year non-food manufactured products inflation rose from 7.5% in July to 7.7% in August 2011 suggesting as yet persistent demand pressures. "The oil marketing companies raised the price of petrol by ₹3.14 a litre with effect from September 16. This will have a direct impact of 7 basis points to WPI inflation, in addition to indirect impact with a lag.

Index of Industrial Production (IIP) expanded by 3.3% in July 2011 relative to the 9.9% growth recorded in July 2010, significantly lower than the consensus expectations of a 6.0%-6.5% expansion. IIP growth decelerated sharply to 3.3% in July 2011 from 8.8% in June 2011, primarily led by a substantial contraction in capital goods output and mild de-growth in intermediate goods output, even as growth of basic and consumer goods displayed an improvement in July 2011.

A weekend meeting of EU finance ministers in Poland failed to resolve any of the issues in the beleaguered Eurozone, instead casting more doubt over the future of Greece by delaying a decision on a much needed €8bn (£7bn) bailout payment until next month. Reports in Greece suggested the EU, IMF and European Central Bank were asking for further austerity measures, including 100,000 public sector job cuts, in an attempt to resolve Greece's budget deficit and avoid a default.

### Taurus Benchmark Indices Movement

Indices	16/09/11	09/09/11	Points change	% change
BSE Sensex	16933.83	16866.97	66.86	0.40
S&P CNX Nifty	5084.25	5059.45	24.80	0.49
BSE 100	8875.83	8836.47	39.36	0.45
BSE 200	2095.23	2089.22	6.01	0.29
CNX Midcap	7346.45	7413.50	-67.05	-0.90
S&P CNX 500 Shariah	1208.68	1199.00	9.68	0.81

### Weekly FI & MF Net Flows (₹. in crs.)

09/09/2011-15/09/2011	Equity	Debt
FIs	-1348.80	-711.40
Mfs	-225.10	2247.30

Source : SEBI site

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