

DEBT MARKETS

GLOBAL UPDATE

US treasuries yields rose as the increased risk appetite saw increased allocation to equity and commodity assets. The US equity markets rose by more than 3.5% where as Nymex crude oil jumped by 6.58% during the course of the week. The US 10 yrs benchmark yields closed 17 basis points higher at 2.02%.

MACRO ECONOMIC INDICATORS

Primary articles inflation eased for yet another week led by high base and softening vegetable prices. Primary articles inflation fell to 3.78% for the week ended 10-Dec-11 compared to 5.48% in the last reported week. Food inflation eased to as low as 1.81% during the week ended 10-Dec-11 compared to 4.35% reported last week. Primary articles index registered a fall of 0.20% during the week ended 10-Dec-11 compared to a drop of 0.60% in the last reported week. Fuel inflation was unchanged at 15.24%.

GOVERNMENT SECURITIES AND TREASURY BILLS

G-sec market opened on a positive note on Monday after RBI reiterated in its mid quarter review that the rate tightening cycle is likely to see a reversal. Further the hopes of RBI announcing further buy back via OMO during the week also supported market sentiment. However some negative remarks from the government dented the positive sentiment. Government sources confessed that it is tough to meet FY 12 direct tax mop up aim attributing foreign exchange losses to weak advance tax payments from Corporates. Market sentiment became somewhat jittery because of lack of clarity on the additional borrowing. The RBI Governor during the week remarked that fiscal stress is likely to aggravate due to high risk of slippage. He also added that RBI is struggling with growth inflation dynamics and that they expect the FY 12 growth will be below RBI's estimate of 7.6%. However the PM's panel sources said that 5.5-5.6% fiscal gap is not high in global context adding that fiscal health is manageable even with 5.5-5.6% deficit. G-sec yields ended the week marginally lower from last week's closing levels. The cut offs in Friday's auction were broadly in line with market expectations. Concerns over additional borrowing and lack of clarity on next week's OMO kept the sentiment in the market a bit cautious towards the end of the week. The 8.79% GS 2021 closed the week at ₹102.80 (8.37%) compared to ₹102.71 (8.38%) seen at previous week's closing.

RBI bought back securities worth ₹8,790 Cr via OMO purchases. The tendered amount stood at ₹32,140 Cr as

against the notified amount of ₹10,000 Cr. The result was as follows: 7.80% GS 2021 at ₹96.50 (8.35%) worth ₹4,936 Cr, 8.08% GS 2022 at ₹98.14 (8.35%) worth ₹3,384 Cr, 8.28% GS 2027 at ₹97.53 (8.57%) worth ₹470 Cr. RBI did not buy any of the tendered securities of 8.07% GS 2017. The cut off price for 7.83% GS 2018 was set at ₹97.09 (8.43%), 8.79% GS 2021 was at ₹102.60 (8.39%), 8.97% 2030 was set at ₹102.90 (8.65%). The G-sec auction worth ₹12,000 Cr was fully subscribed.

The T-bill cut off for 91 days T-bill was set at 8.39% and for 182 days T-bill at 8.27%. The previous cut offs for these T-bills were 8.48% for 91 days and 8.51% for 182 days. Both the auctions were fully subscribed. RBI announced T-Bill auctions to be held on 28-Dec- 11. The 91-days and 364 days T-Bills will be auctioned for ₹4,000 Cr each.

LIQUIDITY CALL

Money markets rates rose very sharply tracking the rise in liquidity shortfall post the payment of the third quarter advance tax. Banks took recourse to Marginal Standing Facility (MSF) during the week, borrowing an average of ₹4,807 Cr at the rate of 9.50%. RBI infused net average liquidity worth ₹166,684 Cr in this week compared to an infusion of ₹101,151 Cr in previous week. The Call rate ended at an average of 9.82% as compared to 8.92% observed the week earlier. The CBLO average rate moved to 9.11% compared to 8.46% in the previous week.

CORPORATE BONDS

The secondary market activity in corporate bond market saw some sell off ahead of the issue from Power Grid Corporation and Central Bank of India. The 1 yr bond traded at a yield of around 9.70% compared to 9.45% last week. The 10 yrs AAA bond ended at a yield of around 9.36% vs. 9.29% at the end of previous week. The 1 yr CD yield was seen trading at 9.88% compared to 9.59% last week.

Primary markets saw issuance from Power Grid Corporation (PGC) and Central Bank of India. PGC raised 16 yrs bonds worth ₹1995 Cr redeemable at par in 12 equal installments from the end of 4th yrs at a coupon of 9.25%. Central Bank of India raised 15 yrs bonds worth ₹500 Cr at a coupon of 9.33% with call option exercisable at the end of 10th yrs.

RUPEE

The Indian rupee traded in a range of 52.45 to 53.20 against USD and closed at 52.96 depreciating 0.41% during the week.

FUND MANAGER COMMENTS

The money market yields went up on deluge of issuances with 3m yields going up by 20-25 basis points to 9.80%. The money market curve (3m-12m) flattened with spreads coming down to 10 basis points from 25 basis points. The G-Sec market was stable with 10 yrs benchmark trading around 8.35% for most of the week.

This week we expect the yields to remain volatile as the supply of CDs is likely to continue in the last week. We may, though, see pent up demand from the bigger MFs that may look to invest at these higher yields. The likely 3m CD yield would be 9.60%-9.90%. The likely range for the 10 yrs G-Sec would be 8.45-8.60%.

Market Indicators as on 23rd December, 2011

	23/12/2011	16/12/2011	% change
INR/USD	52.96	52.75	0.41
Oil (\$/bbl)	99.68	93.53	6.58
Gold (\$/oz)	1,606.35	1,598.00	0.52
10 years G-Sec	8.36	8.39	-0.03
10 years AAA	9.38	9.35	0.03
NSE Mibor	9.85	8.98	0.87

Source: Bloomberg

EQUITY MARKETS

Barring Shanghai (-1.73%) and Nikkei (-0.08%), other major world indices closed in green. CAC 40 was up by 3.35%, NASDAQ up 1.73%, FTSE 100 up 1.29% and Hang Seng up 0.51%. Nifty was up 1.77% and Sensex was up 2.08%. Amongst domestic sectoral indices, Capital Goods fell by 3.8%, Realty fell by 1.48% and Metal fell by 1.51%. Major gainers were oil and gas up by 4.36%, FMCG up by 3.11% and Bankex up by 2.22%.

On domestic news front, India's food inflation fell sharply to 4 yrs low of 1.81% during the week ended Dec 10 compared to 4.65% in the previous week. The fall was mainly due to decline in prices of essential commodities. And also moderation in food inflation numbers, which was in double-digit in early Nov, was on account of good kharif harvest as well as a high base.

Food Security Bill 2011 tabled in parliament aims to cover 75% of rural population, including 28% below poverty line. Implementation of the scheme is expected to cost ₹3500 bn and subsidy bill is expected to be to the tune of ₹950 bn. Bill seeks to provide 7 kg of rice, wheat and coarse grains per person per month to priority households at ₹3, ₹2 and ₹1 per kg respectively.

The government to bridge the ballooning deficit gap has decided to appoint a fund manager who would pledge the shares and property that would be transferred to a new holding company from the Specified Undertaking of the Unit Trust of India (SUUTI). Around ₹50,000 crore is expected to be raised via pledging and the proceeds would be used to buy government stakes in the state owned companies. SUUTI holds stake in blue chip companies like ITC, Axis Bank, L&T, etc.

On international news front, the number of Americans filing initial claims for regular state unemployment-insurance benefits stands at the lowest level since Apr 2008, according to Labor Department data. First-time filings for claims fell 4,000 to a seasonally adjusted 364,000 in the week ended Dec. 17. The 4-week average of initial claims a smoother gauge than the weekly data fell 8,000 to 380,250, the fewest since Jun 2008.

ECB infused euro zone banks with a record €489.19 bn over a period of 3 yrs, an effort that left investors unconvinced that the Continent's debt woes have been resolved. ECB's tender gave more than 500 cash-starved financial institutions much needed breathing room. Europe's debt woes have battered many of its largest banks, who hold vast amounts of distressed sovereign debt and have had trouble obtaining lending.

German business readings improved in Dec-11, a sign that Europe's largest economy may avoid slipping into a recession early next year when it is expected to start to feel fallout from slowing global growth. Business confidence index rose in Dec-11 to 107.2 points as economic expectations improved and they assessed the current business situation as favorable.

U.S. GDP growth in the third quarter of 2011 was downwardly revised for the second time. New figures put the rate of growth for the economy in the third quarter at 1.8% in the third Commerce department estimate of GDP.

Taurus Benchmark Indices Movement

Indices	23/12/11	16/12/11	Points change	% change
BSE Sensex	15738.70	15491.35	247.35	1.60
S&P CNX Nifty	4714.00	4651.60	62.40	1.34
BSE 100	8077.30	8011.09	66.21	0.83
BSE 200	1884.73	1874.10	10.63	0.57
CNX Midcap	6187.65	6285.30	-97.65	-1.55
S&P CNX 500 Shariah	1141.60	1134.85	6.75	0.59

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

16/12/2011-22/12/2011	Equity	Debt
FIs	-1243.90	2719.00
Mfs	247.50	12052.10

Source : SEBI site

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