

DEBT MARKETS

GLOBAL UPDATE

US treasuries fell, yet again, last week. The economic data released showed the economy grew at the fastest pace in a year. US GDP growth was 2.5%YoY in Q3 (1.3% in Q2). The improvement in European sovereign debt crisis, as EU leaders reached to a deal, pushed up the risk appetite across the asset classes. The US 10 yrs treasury yields closed the week at 2.32%, 10 basis higher compared to previous week. Nymex crude was up by 6.77% for the week and ended at USD 93.32 per barrel.

MACRO ECONOMIC INDICATORS

In the Monetary Policy Review for Second Quarter 2011-12, RBI increased the repo rate by 25 bps. In its future guidance, RBI indicated lesser chances of a rate hike in the December Mid-Quarter Review of policy. The Policy document indicated that RBI expects inflation to taper off starting December and maintained its inflation projection for March 2012 at 7%. It also revised downwards the baseline projection of GDP growth for 2011-12 from 8% to 7.6%.

GOVERNMENT SECURITIES AND TREASURY BILLS

G-Sec market opened range bound on Monday as traders awaited the RBI's monetary policy on Tuesday 25th October. The RBI indication that probability of rate hike is lesser in the December policy led to a heavy rally in G-Sec prices on Tuesday and closed 10 basis points lower at 8.76%. At closing of the week, yields hardened on account of developments in Euro zone and improvement in global risk appetite. The higher weekly food inflation and concerns over G-Sec auction also dampened the market sentiment. The benchmark bond 7.80% GS 2021 closed the week at ₹93.395 (8.84%) compared to ₹93.54 (8.82%) seen previous week closing.

The cut-offs in the G-Sec auctions were as follows: 7.99% GS 2017 at 95.90 (8.92%), 8.13% GS 2022 at 94.35 (8.95%), 8.28% GS 2027 at ₹94.12 (8.98%) and 8.30% GS 2040 at ₹ 93.08 (8.98%). There was a devolvement worth Rs. 149 Cr in security 7.99% GS 2017.

The T-bill cut-offs for 91 days T-Bill was set at ₹97.89 (8.65%) and for 182 days T-Bill at 95.84 (8.71%). The previous

cut-offs for these T-Bills were 8.65% for 91-days and 8.62% for 182-days. Both the auctions were fully subscribed.

LIQUIDITY CALL

Money markets rates were tight tracking the first part of the fortnight which was a short week due to festive holidays and included RBI's monetary policy. RBI infused net average liquidity worth ₹88,595 Cr in this week compared to an infusion of ₹61,483 Cr in previous week. Call money, CBLO, Repo rates went up by about 25 bps after the policy day. The Call rate ended at an average of 8.56% as compared to 8.34% observed the week earlier. The CBLO average rate moved to 8.45% compared to 7.90% in the previous week.

CORPORATE BONDS

There were no primary market issuances in the week. The secondary market activity in corporate bond market also remained lackluster as participants stayed away from the market amidst rising yields. The 1 yr bond traded at a yield of around 9.45% compared to 9.50% seen a week earlier. The 1 yr CD yield was seen trading at 9.63% compared to 9.65% seen previously. The 10 yrs AAA bond ended at a yield of around 9.74% vs. 9.70% at the end of previous week.

RUPEE

The Indian rupee appreciated by more than 2.5% against USD last week. The buoyant equity markets, increased risk appetite and overseas weakness of USD pulled it lower against the INR and the pair closed at 48.77, reversing the trend.

FUND MANAGER COMMENTS

RBI monetary policy did not offer any negative surprise for the bond market. The indication of a pause was good enough to push the yields down by 10 basis. But the fundamentally weak bond markets did not sustain the rally and jumped on to any negative news and yields clawed back up. The money market was lackluster with lack of primary issuances and thin secondary market trades. Next week the market is likely to remain rangebound, as liquidity is likely to remain tight. The 3m CD rates are likely to trade around 9.25 and the 10 yrs G-Sec for the next week may remain in the range of 8.80%-9.00%.

Market Indicators as on 28th October, 2011

	28/10/2011	21/10/2011	% change
INR/USD	48.77	50.03	-2.52
Oil (\$/bbl)	93.32	87.4	6.77
Gold (\$/oz)	1,743.75	1,642.38	6.17
10 years G-Sec	8.85	8.79	0.03
10 years AAA	9.72	9.72	0.00
NSE Mibor	8.58	8.30	0.28

Source: Bloomberg

EQUITY MARKETS

News of European leader persuaded bondholders for a voluntary 50% write down on their Greek bond holdings and agreement to expand bail out fund and regions bank recapitalization has led to relief rally across the Globe. U.S. economy expanded at a 2.5% annual rate, up from 1.3% in the prior three month also boosted some confidence.

It was a massive rally across globe. Biggest gain was seen in CAC 40, which was up 9.23% and Hang Seng up 9.48%. Amongst other major indices, S&P 500 was up 5.69%, Dow Jones up 5.78%, Shanghai Comp was up 4.47% and FTSE up 6.11%. Indian markets were relatively underperformed with Sensex delivering gains of 2.08% and Nifty strengthening by 2.16%. BSE Midcap and Small cap were poor laggard with 0.46% and 0.48% gain respectively.

On Sectoral front, outperformance came from Auto which was up 4.95%, IT up 3.69%, Oil and Gas up 3.39%, FMCG up 2.65%, Healthcare up 2.31%. Underperformer were Bankex down 1.84%, Capital Goods down 0.97%, Power up 1.9% and Realty up 0.93%. Amongst Nifty stocks major gainers were Grasim up 8.86%, TATA Motors up 7.66%, Reliance Power up 7.62%, Bajaj Auto up 7.09% and ACC up 6.77%. Major losers were PNB down 4.24%, SBI down 4.19%, HDFC Bank down 3.08% and BHEL down 1.02%.

The RBI, effectively, announced the end to its rate tightening cycle, after its 25bps repo rate hike to 8.5%, going to the extent of saying that further rate hikes may not be warranted. This brings in the much needed certainty in policy trajectory, and should help improve investment climate in the economy.

Investments have slackened over the last few quarters reflecting slower clearance and execution of projects, concerns about inflation and rising interest rates. The RBI has lowered the FY12 GDP growth target to 7.6% YoY from 8.0% previously. RBI has deregulated savings rates with immediate effect aimed at improving transmission of monetary policy.

Food inflation soared to over six-month high of 11.43% for the week ending on 15 October. Wholesale Price Index was at 10.60% in the previous week. This double-digit inflation comes on top of a very high level of price rise recorded in October last year, when it stood at 14.20% already a "high-base" comparison. The last time that food inflation stood this high was on 9 April when it was recorded at 11.53%.

On Global news front, new unemployment claims in the United States ticked down slightly in the week ended October 22nd. On a seasonally adjusted basis, initial claims for unemployment insurance came in at 402,000 for the week, a slight decrease from the previous week's revised level of 404,000. US consumer confidence index dropped to 39.8 in October from a revised 46.4 in September. The decrease came as a surprise to economists, who had expected the index to edge up to 46.0 from the 45.4 originally reported for the previous month.

Sales of new homes in the U.S. came in stronger than expected in September. On a seasonally adjusted basis, new home sales in September came in at an annual rate of 313,000, a 5.7 percent increase from the

revised August rate of 296,000.

Taurus Benchmark Indices Movement

Indices	28/10/11	21/10/11	Points change	% change
BSE Sensex	17804.80	16785.64	1019.16	6.07
S&P CNX Nifty	5360.70	5049.95	310.75	6.15
BSE 100	9234.93	8743.89	491.04	5.62
BSE 200	2163.24	2054.02	109.22	5.32
CNX Midcap	7239.80	7008.05	231.75	3.31
S&P CNX 500 Shariah	1263.96	1201.68	62.28	5.18

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

21/10/2011-26/10/2011	Equity	Debt
FIIs	-462.30	257.10
MFs	-131.30	487.40

Source : SEBI site

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