

DEBT MARKETS

GLOBAL UPDATE

US treasuries rallied this week, driving 10 yrs yields to the lowest levels this year, on speculations that lawmakers will break a deadlock over raising the nation's debt limit and avoid a default. The 10 yrs Treasury yield closed the week at 2.80%. Nymex crude was down by 4.0% for the week and ended at \$95.70.

MACRO ECONOMIC INDICATORS:

In its First Quarter Review of Monetary Policy FY 2011-12 the RBI raised the Repo rate by a surprisingly steep 50 bps to 8%. The Reverse Repo rate stands adjusted to 7% and the MSF rate to 9%. The policy recognizes a marginal slowdown in growth, however, highlights several upside risks to inflation and hence deems appropriate to hike the rate by 50 bps. The FY 12 GDP projection has been retained at 8%. The March 2012 WPI inflation projection has been revised upwards to 7% from 6% projected earlier. The M3 and credit growth rates have been revised downwards to 15.5% and 18% respectively. The CRR and SLR have been retained at 6% and 24% respectively.

The primary articles inflation rate for the week ended July 16 stood at 10.49% vis-à-vis 11.13% seen last week. The food articles prices rose sharply. The overall primary articles index marked a rise however the inflation rate softened tracking the base effect. The fuel and power index remained unchanged. The inflation rate stood at 12.12% v/s 11.89% last week.

GOVERNMENT SECURITIES AND TREASURY BILLS

The G-Sec market opened the trade week on a positive note in expectations of nearing the end of rate hike cycle post the policy on Tuesday. However a 50 bps hike in the Repo rate, as against market expectations of a 25 bps hike, led to a huge sell-off in the market. Most securities marked a 10-15 bps rise in yields. Comments from Governor Dr. Subbarao who mentioned that OMO purchases would be conducted in case additional borrowing was announced provided little comfort. Mid-week marked significant volatility in the G-Sec prices. Comments from Finance Minister Mr. Mukherjee who mentioned that it was not yet the end of rate hike cycle and that Government would take more steps to fight inflation and push growth led to a move in the yields. The weekly inflation data did not impact the market significantly. The fresh supply on Friday led to a dampened sentiment. Better than expected cut-off prices supported the market. The 10 yrs benchmark security 7.80% GS 2021 ended at ₹95.71 (8.45%) compared to previous Friday's closing of ₹96.60 (8.31%).

The cut-off prices for the G-Sec auctions held on July 29th were set as follows: 7.83% GS 2018 at ₹96.59 (8.50%), 7.80% GS 2021 at ₹95.60 (8.47%) and 8.30% GS 2040 at ₹95.49 (8.73%). The three securities were fully subscribed. The notified amount for the securities was ₹3,000 Cr, ₹6,000 Cr and ₹3,000 Cr respectively.

RBI set the cut-off price for the 91 days T-Bill at ₹97.95 (8.39%) (compared to the previous cut-off of 8.10%) and for the 364 days T-Bill at ₹92.19 (8.49%) (compared to previous cut-off of 8.27%). Both the bills were fully subscribed. RBI announced the sale of 91 days T-Bill for a notified amount of ₹7,000 Cr and 182 days T-Bill for ₹3,000 Cr via multiple price auctions to be conducted on Aug 3, 2011.

LIQUIDITY CALL

The money market witnessed huge volatility in wake of the monetary policy scheduled on Tuesday. The system witnessed huge infusion of funds by the RBI via the LAF Repo window ahead of the policy to take advantage of the lower borrowing rate. The volumes of funds infused declined post policy in wake of lower product maintenance. On an average market participants accessed funds to the tune of ₹51,143 Cr from the RBI via the LAF Repo window. This amount was lower than an average of ₹56,499 Cr seen the week earlier in wake of the Reporting Friday.

Money market rates aligned themselves to the revised Repo rate. The Call rate ended at an average rate of 7.99% on Friday as against 7.63% observed the week earlier. The CBLO levels moved to 6.32% compared to 7.57% in the previous week.

CORPORATE BONDS

The corporate bond market traded apprehensive tracking the policy scheduled during the week. The market activity remained limited post policy. The traders reduced their positions whereas the PF segment stayed away. The 10 yrs yield rose as high as 9.54% post which some value buying emerged and the yield retraced to around 9.5%. The market activity hovered around the REC issues towards the fag end of the week.

The corporate bond yields hardened across the curve tracking the 50 bps hike announced in the Repo rate. The 1 yr bond traded at a yield of around 9.70% compared to 9.52% seen a week earlier. The 1 yr CD yield was seen trading at 9.75% compared to 9.60% seen previously. The 10 yrs AAA bond ended at a yield of around 9.51% compared to previous week's closing of 9.39%.

In the primary market, REC came up with the sale of its 3 yrs, 5 yrs and 10 yrs bonds being offered at 9.43%, 9.45% and 9.48% respectively to raise at least ₹500 Cr. PNB Housing Finance closed the sale of its 9.50% 10 yrs bond and raised ₹200 Cr. LIC Housing Finance planned to issue 5 yrs FRBs to raise ₹200 Cr at 120 bps above the 10 yrs G-Sec yield.

RUPEE

The Indian rupee appreciated during the week but ended on a weak note snapping three days gains against the US currency on heavy dollar demand amid a firm American unit overseas and weak equities. The Indian Rupee appreciated by 0.4% this week to 44.19 per dollar.

FUND MANAGER COMMENTS

RBI hiked repo by an unexpected 50 basis in the monetary policy. With the latest round of 50 bps hike in policy rate, RBI has increased policy rates for the 11th time, since March 2010, by a cumulative 325 basis. Initial reaction was that of bond yields & swap rates reacting sharply higher (13-27 bps, across markets). Some banks also hiked base rates by 50-75 bps, further, this week. Money markets rates were the most to take the beating, 3M prime bank CDs closed the week at 9.10-9.15%, 38 bps higher than previous week. G-sec yield rose by around 15 bps post policy.

In the following week, liquidity may remain in the range of ₹50,000 Cr to 70,000 Cr because of product maintenance by banks as this would be the first week for reporting fortnight. The broad

Market Indicators as on 29th July, 2011

	29/07/2011	22/07/2011	% change
INR/USD	44.19	44.36	-0.38
Oil (\$/bbl)	95.7	99.87	-4.18
Gold (\$/oz)	1,627.88	1,601.27	1.66
10 years G-Sec	8.45	8.31	0.14
10 years AAA	9.42	9.37	0.05
NSE Mibor	8.04	7.64	0.40

Source: Bloomberg

EQUITY MARKETS

Indian market continued to trade in the negative territory during the week on the back of negative domestic cues and uncertain global markets. The BSE Sensex lost 1.2% and Nifty lost 1% during the week and outperformed the major global market which has posted negative return in the range of -3.8% to -2.4%.

On the sectoral front, capital goods (-2.9%) and Power Index (-2.5%) continued to trade weak on the back of the poor results by its constituents. Other sectors in red include Oil & Gas (-1.7%), Metal Index (-2%) & Bankex (-2%). On the positive side, Healthcare index stood still at 1.7% weekly gain and auto index (-0.39%).

Among the Nifty stocks Rcom gained by 11.2% followed by Bharti Airtel (9.04%), Ambuja Cem (-5.4%), Axis Bank (5%) and Sesa Goa (4.5%). On the losing side, JP Associate lost 6.9% followed by IDFC (-6%), R-Infra(-5.08%) and Hindalco Industries (-5.03%).

The Reserve Bank of India raised repo rate by 50 basis points to 8 per cent and reverse repo to 7% in its policy meet to arrest rising inflation economy while the MSF rate stands at 9%. The central bank also raised inflation forecast to 7% from 6% earlier. To make sure there is not much of liquidity crunch the bank left CRR and savings banks rates unchanged. The central bank also cuts FY12 bank credit growth projection to 18% from 19% earlier.

Food inflation eased to its lowest since February 2009 on the back of a softening in prices of pulses, milk, eggs, meat and fish, but risks still persist that will maintain the pressure on prices. Food inflation stood at 7.33% in the week to July 16, easing from the previous week's reading of 7.58%. Food inflation, which shot

up to double digits last December, has been softening as supplies have picked up. Pulses prices declined 8% in the week to July 16 from a year ago but prices of onions, fruit and vegetables rose.

The Index of Eight core industries having a combined weight of 37.90 per cent in the Index of Industrial Production (IIP) with base 2004-05 stood at 138.98 in June 2011 and registered a growth of 5.2% compared to 4.4% registered in June 2010. During April-June 2011-12, eight core industries registered a growth of 5.0% as against 6.8% during the corresponding period of the previous year 2010-11. Monsoon continues to spread well in the country. Excellent weekly rains (7% above normal) got the cumulative monsoon to 99% of normal. The spatial distribution of the monsoon, also is very good with 30 out of 36 sub-divisions having excess/normal rains. Total cropped area affected by deficient rainfall is only 8.2% compared with 51.6% at the same time last year.

On global side, Industrial output in Japan was up a seasonally adjusted 3.9% in June compared to the previous month. While output rose for the third straight month, the June figure missed expectations for a 4.5% increase following the 6.2% gain in May.

New unemployment claims in the U.S. showed a significant decrease in the week ended July 23rd, with claims falling below the key 400,000 level. The seasonally adjusted number of new claims came in at 398,000, a significant drop of 24,000 from the previous week's revised average of 422,000.

Taurus Benchmark Indices Movement

Indices	29/07/11	22/07/11	Points change	% change
BSE Sensex	18197.20	18722.30	-525.10	-2.80
S&P CNX Nifty	5482.00	5633.95	-151.95	-2.70
BSE 100	9537.41	9811.68	-274.27	-2.80
BSE 200	2256.48	2321.19	-64.71	-2.79
CNX Midcap	8017.35	8153.90	-136.55	-1.67
S&P CNX 500 Shariah	1275.35	1303.69	-28.34	-2.17

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

25/07/2011-29/07/2011	Equity	Debt
FIs	1248.30	1426.60
Mfs	-106.70	-3889.30

Source : SEBI site

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