TAURUS Mutual Fund

TAURUS RECAP

WEEKLY REPORT - 26th - 30th December 2011

DEBT MARKETS

GLOBAL UPDATE

US treasuries yields fell as the concern over Europe's sovereign-debt crisis increased. The US equity market–S&P fell by 0.61% where as Nymex crude oil decreased by 0.81% during the course of the week. The US 10 yrs benchmark yields closed 14 basis points lower at 1.88%.

MACRO ECONOMIC INDICATORS

Primary articles inflation further eased to 2.70% for the week ended 17-Dec-11 compared to 3.78% in the last reported week. Food articles inflation in the same period fell to 0.42% from 1.81%. The decline in inflation is attributable to both a favourable base as well as a fall in the weekly prices of fruits & vegetables. The primary articles index softened by 0.1% for the week ended compared to a fall of 0.2% in the last reported week.

GOVERNMENT SECURITIES AND TREASURY BILLS

G-sec markets opened the week on a steady note on hopes of bond buy back by via OMO though concerns over extra borrowing kept the sentiment in the market cautious. However yields shot up sharply after RBI announced an unplanned G-sec auction worth ₹15,000 Cr to be conducted on 30-Dec-11. The government sources clarified that the unscheduled auction is an advancement of the planned auction of 6-Jan-12 adding that rescheduling has been done to meet the cash needs of the government. After the initial negative reaction to the announcement of an unplanned auction, hopes of buy back via OMO lifted the market sentiment. However the rally post the announcement of OMO buy back worth ₹12,000 Cr ahead of the unplanned G-sec auction on Friday was only short lived as lack of clarity on the additional borrowing front dominated the market sentiment. Yields spiked sharply towards the end of the week reacting to the reported comments from Finance Ministry Official stating that a revised borrowing calendar for FY 12 will be issued on 2-Jan- 12. Further after the release of the fiscal deficit data for the period of Apr-Nov, yields shot up on concerns over the quantum and manner of funding the extra borrowing. The 8.79% GS 2021 closed the week at ₹101.49 (8.56%) compared to ₹102.80 (8.37%) seen at previous week's closing.

RBI bought back securities worth ₹8,109 Cr via OMO purchases. The tendered amount stood at ₹18,956 Cr as against the notified amount of ₹12,000 Cr. RBI did not buy any amount from 7.49% GS 2017 and 8.08% GS 2022. The G-sec auction worth ₹15,000 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 8.35%. The previous cut-offs for these T-Bills were 8.40% for 91-days and 8.26% for 364-days. Both the auctions were fully subscribed. RBI announced the sale of ₹6000 Cr each of 91 days T-bill and ₹4000 Cr of 182 days T-bill on 4-Jan-12.

LIQUIDITY CALL

Money markets rates softened tracking the ease in the liquidity shortfall compared to the sharp increase seen last week. Banks borrowing via Marginal Standing Facility (MSF) during the week came down sharply to Rs 350 Cr compared average borrowing of ₹3,300 Cr last week. RBI infused net average liquidity worth ₹118,498 Cr in this week compared to an infusion of ₹166,684 Cr in previous week. The Call rate ended at an average of 8.91% as compared to 9.82% observed the week earlier. The CBLO average rate moved to 6.99% compared to 9.11% in the previous week.

CORPORATE BONDS

The secondary market activity in corporate bond market was lackluster as trading was broadly range bound. The 1 yr bond traded at a yield of around 9.50% compared to 9.70% last week. The 10 yrs AAA bond ended at a yield of around 9.42% vs. 9.36% at the end of previous week. The 1 yr CD yield was seen trading at 9.69% compared to 9.88% last week.

In Primary markets, National Highway Authority of India (NHAI) issued 10 yrs and 15 yrs bonds worth ₹5,000 Cr with a green shoe option of ₹5,000 Cr. NHAI offered 10 yrs bond at a coupon of 8.20% and 15 yrs bond at a coupon of 8.30%. IL& FS Financial Services Ltd raised 10 yrs bonds worth ₹200 Cr at a coupon of 10.30%.

RUPEE

The Indian rupee traded in a range of 53.16 to 53.67 against USD and closed at 53.49 depreciating 0.33% during the week.

FUND MANAGER COMMENTS

The money market yields fell as demands for CD's by Mutual Funds increased. The CD's level fell from 9.85% to 9.30% for 3m segment. The G-Sec yields rose sharply with 10 yrs benchmark trading at 8.57% at the end of the week.

This week we expect the money market as well as G-Sec yields to remain volatile due to the increased borrowings as well as expectations of CRR cut increases. The likely 3m CD yield would be 9.50%-9.65%. The likely range for the 10 yrs G-Sec would be 8.30-8.45%.

Market Indicators as on 30 December, 2011			
	30/12/2011	23/12/2011	% change
INR/USD	53.49	52.96	0.33
Oil ($/bbl)	98.83	99.68	-0.85
Gold ($/oz)	1,563.70	1,606.35	-2.66
10 years G-Sec	8.57	8.36	0.21
10 years AAA	9.42	9.38	0.04
NSE Mibor	8.99	9.85	-0.86

Source: Bloomberg

EQUITY MARKETS

World market's performances were mix with CAC up 1.7%, Nikkei up 1.6%, Shanghai Comp up 1.5%. Loosing markets were Bovespa down 1.5%, Hong Kong down 0.3%. Dow Jones and S&P 500 have closed on flattish note on weekly basis. Indian indices Nifty and Sensex both have lost 3.2%. Amongst sectoral performance, biggest looser were Oil and gas with 3.8% weekly loss. Outperformance came from Healthcare up 0.2%, IT down 1% and Power down 1.9%.

On Domestic news front, India's key infra sector rebounded in Nov-11 with growth of 6.8% compare to 0.1% in Oct-11 and 3.7% in the year ago, led by a revival in cement, steel and electricity production. But more importantly, within the core sector coal has grown by 4.9% in Nov-11. Cement was a super performer with 16.6% growth versus 0% growth in Oct-11. Since the core sector forms 38% of the IIP, there are chances that the Nov-11 IIP may come positive.

India and Japan signed a dollar swap agreement of $15 bn whose immediate effect would to strengthen in handling the tumbling rupee, as Europe's deepening debt crisis threatens to curtail developing Asia's access to dollar funding. Currency swap would take place between the RBI and BOJ and 2 central banks would give each other dollars to stabilize their currencies, in case of need.

The government has raised its borrowing target for FY12 by another ₹400bn over the previously announced (Sep 2011) additional borrowing of ₹528.7bn for the fiscal. This was on account of lower cash balance and dip in collections from small saving schemes due to better interest rates by the banks to the depositors. In this regard, the government has issued a revised borrowing calendar for Jan-Mar'12 which would lead to a rise in yields in the coming months which have bottomed out for now. Overall (planned) government borrowing for the year has now reached ₹5.1trn (₹4.7trn+₹400bn), implying an increase of 22% from the FY12 budgeted amount of ₹4.17trn. And there's room for more: While there is no official announcement yet, media reports have quoted the Finmin pegging the fiscal deficit at 5.5-5.8% of GDP for FY12.

Total FII investment in India for CY11 stood at US$ (5,514) mn and for December month is US$ (406) mn. On the contrary, domestic institutional investors have invested US$ 5,892 mn in CY11.

On international news front, Italian PM Mario Monti sought reinforcement for the euro zone's bailout fund and pledged new efforts to boost the economy after a disappointing bond auction underlined the threat to the country's shaky public finances. Investors demanded a yield of nearly 7% on 10 yrs paper at the auction of medium- and long-term bonds, down from the record highs seen last month but still unsustainable given the $580 bn that Italy needs to raise through debt issuance in 2012.

ECB's balance sheet soared to a record € 2.73 Tn after it lent financial institutions more money last week to keep credit flowing to the economy during the debt crisis. Lending to euro-area banks jumped € 214 bn to € 879 bn in the week ended Dec. 23. ECB's balance sheet is now € 553 bn higher than it was 3 mths ago. ECB is now clearly opposed to the policy of buying more govt bonds and is now more focused on providing the financial system with unlimited cheap loans.

Taurus Benchmark Indices Movement

Indices	30/12/11	23/12/11	Points change	% change
BSE Sensex	15454.92	15738.70	-283.78	-1.80
S&P CNX Nifty	4624.30	4714.00	-89.70	-1.90
BSE 100	7927.94	8077.30	-149.36	-1.85
BSE 200	1850.89	1884.73	-33.84	-1.80
CNX Midcap	6111.85	6187.65	-75.80	-1.23
S&P CNX 500 Shariah	1130.46	1141.60	-11.14	-0.98

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

23/12/2011-29/12/2011	Equity	Debt
FIIs	1131.20	2422.40
MFs	304.60	17437.90

Source : SEBI site