

DEBT MARKETS

GLOBAL UPDATE

U.S. employment growth came to a stop in August, bringing back fears of another recession in the economy. This was the first time in a year that the economy has failed in this respect. The nonfarm employment in August was zero against economists' expectations for a rise of 68,000. The unemployment rate holds above 9% at 9.1%. US treasuries rose, reversing losses from last week. The 10 yrs Treasury yield closed the week at 1.99% as compared to 2.19% on previous Friday.

MACRO ECONOMIC INDICATORS:

CSO estimated the GDP growth at factor cost at constant prices for Q1 FY 2011-12 at 7.7% in comparison to 7.8% for Q4 FY 11. Sector-wise, agriculture marked a positive growth of 3.9%, industries grew at 6.7% while the services sector grew at 8.9%. The primary articles inflation for the week ended Aug 20 rose to 12.93% vis-à-vis 12.40% seen a week earlier tracking a sharp rise in the food articles' and minerals' group index. The fuel and power group index declined by 0.2% taking the inflation rate to 12.55% from 13.13% previously.

GOVERNMENT SECURITIES AND TREASURY BILLS

The short week saw G-Sec trading with a negative bias. The release of high weekly primary articles inflation on Thursday marred sentiment. The 10 yrs benchmark security 7.80% GS 2021 ended at ₹96.44 (8.34%) compared to previous closing of ₹96.70 (8.30%).

The cut-off prices for the G-Sec auctions held on Sept 2nd were set as follows: 7.99% GS 2017 at ₹98.15 (8.39%), for 8.13% GS 2022 at ₹97.66 (8.46%) and for 8.30% GS 2040 at ₹96.09 (8.67%). The security 7.99% GS 2017 devolved on the PDs to the tune of ₹725 Cr. The notified amount for the securities was ₹3,000 Cr, ₹5,000 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 8.35%) and for the 182 Days T-Bill at ₹95.98 (8.40%) (same as previous cut-off). 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.

LIQUIDITY CALL

The start of a new Reporting fortnight marked higher access of funds from the RBI for higher product maintenance. The average daily infusion of liquidity seen via RBI's LAF Repo window amounted to ₹47,720 Cr. The average daily volume of funds infused into the system by the RBI via the LAF Repo window stood at ₹37,061 Cr. a week earlier. Money market rates inched up in wake of the new Reporting week. The Call rate ended at an average of 8.05% on Friday as compared to 8.03% observed the week earlier. The CBLO levels moved to 7.70% compared to 7.57% in the previous week.

CORPORATE BONDS

The corporate bond market exhibited little trading activity. SEBI issued a circular on Aug 26th that stated that NBFCs categorized as Infrastructure Finance Companies (IFCs) by the RBI shall also now be considered eligible issuers for the purposes of FII Investment under the corporate debt long term infra category. Corporate bond yields hardened across the curve, specifically at the shorter end of the curve, that went up by 5-7 basis points.

RUPEE

The rupee appreciated by 37 paise against the US currency during the week due to sustained rally in the equity markets. The appreciation has been 0.79% in a week over the close of 46.16 last Friday.

FUND MANAGER COMMENTS

Money markets turned active with banks increasing their presence in issuing CDs. Nervousness was seen as prime bank CDs closed the week 10-15 bps higher. 3M prime CDs were issued in the 9.05-91.5% band & 1yr prime CD in 9.50-9.60% range. Primary issuances of around ₹15,000 Cr. happened this week

Next week we expect banks to increase the issuance of CDs as around ₹1.5 Lakh Cr. of CDs are maturing this month. The yields though are likely to remain constant as MF demand would nullify the issuances. 3 Months CDs may get traded in the range of 9.00%-9.15%. The broad range for 10 yrs G-Sec for the next week may remain in the range of 8.25%-8.40.

Market Indicators as on 2nd September, 2011

	02/09/2011	26/08/2011	% change
INR/USD	45.79	46.16	-0.79
Oil (\$/bbl)	86.44	85.37	1.25
Gold (\$/oz)	1,882.88	1,827.95	3.01
10 years G-Sec	8.34	8.30	0.04
10 years AAA	9.38	9.40	-0.02
NSE Mibor	8.05	8.02	0.03

Source: Bloomberg

EQUITY MARKETS

Global stock markets rallied during the week after Bernanke speech in the Wyoming. Bernanke did not give any clue whether Fed is thinking of another round of bond buying. However assuring about the long term growth prospects of the world's biggest economy; he said that Fed is prepared to employ its tools as appropriate to promote a stronger economic recovery in a context of price stability. The recent two main concerns of U.S. economy is first, high housing inventory and second, high unemployment.

While most of the markets posted gains, Chinese market fell (2.15%) on concerns that the government would not ease its tightening stance even in case economic and earnings growth slows. India has outperformed its Asian peers during the week with a gain of 5.33% in Nifty and 5.22% in Sensex. US indices, Nasdaq grew by 2.67%, Dow Jones by 1.85%. European indices have posted handsome gains of 5.63% in FTSE 100 and 5.77% in CAC40. Amongst other Asian indices, Hang Seng was up 5.12% and Strait Times up by 4.33%.

On the sectoral front, Metal, Realty, IT and Bankex has outperformed broader market with 8.54%, 8.22%, 7.24% and 6.43% respectively. Underperformance came from FMCG, Health Care, Consumer Durable and power which grew mere 1.46%, 2.45%, 3.39% and 3.44 % respectively. Among the Nifty stocks, other than ONCG (-5.27%) and GAIL (-1.6%), all stocks ended in gain. Major gainers were Sesa Goa up by 14.84%, HCL Technology up by 13.27%, Jindal Steel up by 12.60%, JP associates up by 12.05% and DLF up by 11.73%.

India's economic growth in the first quarter of the ongoing fiscal year was in line with consensus estimates, as a better agriculture output was offset by weaker expansion in the manufacturing sector. Gross Domestic Product (GDP) for the quarter ended June 30, 2011 grew by 7.7% as against expectations of 7.6%. That was lower than the 7.8% growth clocked in Q4 FY11 and a much stronger 8.8% expansion in the same period of the last fiscal year. Agriculture growth in Q1 stood at 3.9% versus 2.4% in the first quarter of FY11. Industry growth in the quarter under review stood at 5.1% versus 9.1% in

the year-ago period. Services sector grew by 10% versus 10.4% in Q1 FY11.

India's merchandise exports rose to \$29.3 billion in July, up 82% from a year earlier, but the pace is unlikely to be sustained because of global economic problems and aggressive monetary tightening by RBI. Exports during April-July, the first four months of the current fiscal year, rose 54% to \$108.4 billion. Imports jumped 52% to \$40.4 billion in July, driven by a 58% rise in non-oil imports to \$28.9 billion. Oil imports increased 37% to \$11.4 billion. India's July trade deficit widened to \$11.1 billion from \$10.5 billion a year earlier. The government is targeting merchandise exports of \$300 billion in the current fiscal year through March 2012, compared with last year's all-time high of \$245.9 billion. |

On the global front, US Initial jobless claims are trending sideways pointing to no significant improvement in the labour market. Initial claims did fall 12,000 in the August 27 week to 409,000, but the improvement is offset in part by a 4,000 upward revision to the prior week to 421,000 which is the highest level since mid July.

US private sector employment rose by 91,000 jobs in August following a downwardly revised increase of 109,000 jobs in July. Economists had expected employment to increase by about 110,000 jobs compared to the addition of 114,000 jobs originally reported for the previous month.

U.S. factory orders rebounded in July following a decline in June, with orders rising by more than economists had anticipated. New orders for manufactured goods came in at \$453.2 billion in July, representing a 2.4% increase compared to the previous month. US construction spending in July came in at a seasonally adjusted annual rate of \$789.5 billion, 1.3% below the revised June estimate of \$799.8 billion.

In Europe, jobless rate remained unchanged at 10% in July. The rate was slightly above the expected rate of 9.9%. During the same period of 2010, the unemployment rate was 10.2%.

Taurus Benchmark Indices Movement

Indices	02/09/11	26/08/11	Points change	% change
BSE Sensex	16821.46	15848.83	972.63	6.14
S&P CNX Nifty	5040.00	4747.80	292.20	6.15
BSE 100	8799.43	8310.93	488.50	5.88
BSE 200	2077.79	1964.28	113.51	5.78
CNX Midcap	7335.85	7044.00	291.85	4.14
S&P CNX 500 Shariah	1193.51	1136.03	57.48	5.06

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

26/08/2011-01/09/2011	Equity	Debt
FIs	-1105.20	989.40
Mfs	264.50	-6123.60

Source : SEBI site

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