

DEBT MARKETS

GLOBAL UPDATE

US treasuries yields rose this week on the back of good US factory output and low unemployment numbers. The US equity market-S&P was up by 1.60% where as Nymex crude oil increased by 2.76% during the course of the week. The US 10 yrs benchmark yields closed 8 basis points up at 1.96%.

MACRO ECONOMIC INDICATORS

For the week ended 24-Dec-11, Primary articles inflation fell sharply on the back of a favourable base to 0.10% compared to 2.70% in the last reported week. Primary articles index after falling consistently on a weekly basis since end Oct, reported a gain of 0.05% during the week ended 24 Dec. Food articles inflation recorded negative growth of 3.36% for the first time as per 2004-05 series on the back of an exceptionally high base. Amongst food articles, fruits & vegetables index continued to trend lower however protein items maintained a firm trend. Non food articles index rose by 0.6% on a weekly basis on the back of increase witnessed in oil seeds and fibres prices. Fuel inflation inched up to 14.60% during the week ended 24-Dec- 11 compared to 14.37% in the last reported week although the index remained unchanged from the previous week.

GOVERNMENT SECURITIES, SDL AND TREASURY BILLS

Reacting to last Friday's news of additional borrowing of ₹ 40,000 Cr via dated securities in Jan-mar quarter, G-sec yields opened higher on Monday. However, as the additional borrowing was broadly on the expected lines, yields gradually eased. Apart from that, the hopes that RBI will continue to conduct buy back of G-sec via OMO, continued to provide some support to the market. Market sentiment further got boosted after reported comments from the RBI governor saying that RBI may end aggressive rate hike and shift focus to growth from inflation. RBI Governor D. Subbarao in an interview to a news channel said that, "We are mindful of growth and growth inflation balancing equation will certainly be different in 2012 from what it was in 2011". Yields continued to soften as weekly inflation numbers declined further from last week while the food articles inflation fell into the negative territory. RBI Deputy Governor's admission that RBI may consider cutting CRR rates after the rate cycle turns, while maintaining that OMO remains a tactical tool has reaffirmed the market's expectation that RBI will continue to conduct OMO's in the coming weeks. RBI deviating from its practice of conducting OMO's ahead of the sale of G-sec, this week decided to conduct the OMO on the same day as that of the sale of G-sec. On Friday, markets after trading in a range bound manner rallied sharply post the result of the G-sec auction. The auction saw a strong demand and also the cut offs set by RBI in the G-sec auction were much higher than market expectations. The 8.79% GS 2021 closed the week at ₹103.78 (8.22%) compared to ₹101.49 (8.56%) seen at previous week's closing.

RBI bought back securities worth ₹8,471 Cr via OMO

purchases. The tendered amount stood at ₹15,564 Cr as against the notified amount of ₹12,000 Cr. The result was as follows: 8.07% GS 2017 worth ₹1,346.09 Cr at ₹ 99.15 (8.28%), 7.80% GS 2021 worth ₹3,300.85 Cr at ₹96.45 (8.36%), 8.13% GS 2022 worth ₹3,824.51 Cr at ₹98.40 (8.36%). RBI did not accept any amount from 8.26% GS 2027. The auction result was as follows: Cut off price for 7.83% GS 2018 was set at ₹97.53 (8.34%), 8.79% GS 2021 was at ₹103.01 (8.33%), 8.28% GS 2032 was set at 96.40 (8.66%).

The T-bill cut-offs for 91 day T-Bill was set at 8.52% and for 182 day T-Bill at 8.42%. The previous cut-offs for these T-Bills were 8.48% for 91 days and 8.27% for 182 days. Both the auctions were fully subscribed. RBI announced the sale of ₹6000 Cr each of 91 days T-bill and ₹ 4000 Cr of 364 days T-bill on 11-Jan-12.

LIQUIDITY CALL

Money markets rates softened tracking the ease in the liquidity shortfall. RBI infused net average liquidity worth ₹ 92,370Cr in this week compared to an infusion of ₹ 118,498 Cr in previous week. The Call rate ended at an average of 8.66% as compared to 8.91% observed the week earlier. The CBLO average rate moved to 8.55% compared to 6.99% 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%, same as last week's level. The 10 yrs AAA bond ended at a yield of around 9.31% vs. 9.42% at the end of previous week. The 1 yrs CD yield was seen trading at 9.67% compared to 9.69% last week. In Primary markets, Power Finance Corporation (PFC) issued 3 yrs bonds worth ₹150 Cr with green shoe option at a coupon of 9.55%.

RUPEE

The Indian rupee appreciated this week by more than 1% and closed at 52.94 on speculation that FII's will boost purchases of Indian bonds for their relatively high yields. Capital inflows may rise as the bond-purchase window for foreign investors expires on 15th January 2012 for the additional quotas auctioned on November 30, 2011.

FUND MANAGER COMMENTS

The money market yields eased this week on account of good liquidity in the system. The CD's traded in the range of 9.35%-9.50% for March papers. The G-Sec yields fell sharply with 10 yrs benchmark trading at 8.22% at the end of the week.

This week we expect the money market as well as G-Sec yields to stabilize with an upward bias as the expectations of rates cut has been heavily discounted. The market now is keenly awaiting the RBI policy on January 24th to see weather the rate cut materializes. The likely 3m CD yield would be 9.40%-9.55%. The likely range for the 10 yrs G-Sec would be 8.15-8.30%.

Market Indicators as on 6th January, 2012

	6/1/2012	30/12/2011	% change
INR/USD	52.94	53.49	-1.03
Oil (\$/bbl)	101.56	98.83	2.76
Gold (\$/oz)	1,617.95	1,563.70	3.47
10 years G-Sec	8.29	8.57	-0.28
10 years AAA	9.29	9.42	-0.13
NSE Mibor	8.67	8.99	-0.32

Source: Bloomberg

EQUITY MARKETS

First week of year 2012 started with gains in majority of markets. Nasdaq Comp was up 2.48%, Dow Jones up by 1.62%, S&P 500 up by 1.87%, Strait Times up by 2.52%, Hang Sang up by 2.06%, FTSE 100 up by 0.93% and Shanghai Comp was down 2.32%.

Indian markets posted good gains across all indices except FMCG which was down 0.94%. Sensex was up 2.60% and Nifty was up 2.72%. BSE Midcap and BSE Smallcap were also in line with their main indices and posted gain of 2.51% and 2.76%. Amongst BSE Sectoral Indices, biggest gainers were Capital Goods Index up 7%, Bankex up 5.84%, Metal Index up 5.6%.

Manufacturing Index across the world has showed improvement in Dec-11, suggesting production is weathering strains from Euro sovereign debt crisis. PMI for the U.S, U.K., Switzerland, China, India and Australia rose in Dec-11, while German unemployment fell as exports of cars and machinery boomed. U.S. manufacturing growth accelerated to 53.9 in Dec-11 from 52.7 in Nov-11, the fastest pace in 6 mths. India Manufacturing PMI picked up in Dec-11 to 54.2 from 51.0 in Nov-11 on the back of a rise in new orders

On domestic news side, India Current account deficit (CAD) was US\$16.9 bn in Q2 of 2011-12. During H1 FY12, the CAD widened to US\$32.7 bn. On a BoP basis, exports recorded a growth of 47.2% Y-o-Y during Q2 of 2011-12 as against an increase of 20.1 % during corresponding quarter of 2010-11. Similarly, imports registered a growth of 35.4 % Y-o-Y during the quarter as against an increase of 21.9 % during same quarter last year. Despite higher growth in exports relative to imports, the trade deficit widened to US\$43.9 bn as compared to US\$37.0 bn during Q3 FY11.

India increased its record borrowing program for the year by 8.5%

to narrow a budget shortfall as a slowing economy damps tax collections. Govt will sell an additional 400 bn INR of bonds in the year ending F12 raising an unprecedented total of 5.1 TN INR. Indian 10-year bond yields jumped by 65 bps in CY11, as the govt sold more debt to meet its target of keeping the budget gap to 4.6 % of GDP.

India will allow FII's to directly invest in equity market, as the country seeks to boost capital inflows and reduce volatility in the stock market. The new rule from the RBI and SEBI is expected to take effect by Jan. 15. Currently, individual investors can only invest in Indian shares through so-called participatory notes.

Food inflation entered into the negative zone at (-) 3.36% for the week ended December 24, 2011 as prices of essential items like vegetables, onion, potato and wheat declined. Food inflation, as measured by Wholesale Price Index (WPI), stood at 0.42% in the previous week.

On international new front, New U.S. unemployment claims fell to a lower than expected level in the final week of December. The Labour Department reported new unemployment claims coming in at a seasonally adjusted level of 372,000, a drop of 15,000 from the previous week's revised figures.

Eurozone industrial new orders grew 1.8% month-on-month in October, following a revised 7.8% decline in September. Nonetheless, the increase was weaker than the 2.5% rise forecast by economists. Eurozone producer price index for the euro area rose 0.2% month-on-month in November, faster than the 0.1% gain expected by economists. In October, producer prices rose 0.1%.

Taurus Benchmark Indices Movement

Indices	06/01/12	30/12/11	Points change	% change
BSE Sensex	15867.73	15454.92	412.81	2.67
S&P CNX Nifty	4754.10	4624.30	129.80	2.81
BSE 100	8141.59	7927.94	213.65	2.69
BSE 200	1901.81	1850.89	50.92	2.75
CNX Midcap	6245.30	6111.85	133.45	2.18
S&P CNX 500 Shariah	1145.96	1130.46	15.50	1.37

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

30/12/2011-05/01/2012	Equity	Debt
FII	-159.80	4424.80
MF	70.10	6154.10

Source : SEBI site

Any information contained herein is for informational purpose only and does not constitute advice or offer to sell/purchase units of the schemes of Taurus Mutual Fund. Information gathered and provided in this document is believed to be from reliable sources and the Fund does not warrant the accuracy and/or completeness of any information. Taurus AMC disclaims any liability for actions taken by anyone on the basis of the opinions contained herein. The material contained herein cannot be reproduced, distributed or quoted anywhere without express written consent of Taurus AMC. Mutual Fund Investments are subject to market risks. Please read the Scheme Information Document carefully before investing