

DEBT MARKETS

GLOBAL UPDATE

US treasuries advanced, pushing the yield on the 10 yrs note down the most since August, as European leaders struggled to agree on a coordinated approach to stem the sovereign-debt crisis, stoking demand for refuge. The US 10 yrs treasury yields closed the week at 2.03%, 29 basis lower compared to previous week. Nymex crude was up by 1.00% for the week and ended at USD 94.26 per barrel.

MACRO ECONOMIC INDICATORS

The weekly primary articles inflation for 22-Oct-2011 stood at 12.08% vis-à-vis 11.75% last reporting week. During the week, the primary articles index rose by 0.2% compared to 0.3% rise seen previous week. Within primary articles, food articles index increased by 0.7% and non-food articles index declined by 1.4%. Food inflation stood at 12.21% vs. 11.43% last week and continues to rise sharply on account of rise in prices of protein items. The fuel and power index declined by 0.2% leading to inflation of 14.50% compared to 14.70% seen previous week.

GOVERNMENT SECURITIES AND TREASURY BILLS

The markets opened the week with bearish outlook anticipating that the benchmark 10 yrs will be sold in forthcoming auction on Friday. The weak growth in core sector could not support the markets. Towards Post market hours, RBI surprised the markets by announcing issue of a new 10 yrs security to be auctioned on Friday. This led to increase in yields on Tuesday as there were apprehensions that 7.80% GS 2021 and 8.13% GS 2022 securities will become illiquid. The markets traded range bound amidst global news that oscillated between sudden optimism and pessimism. The firmness in the weekly inflation especially food inflation was disappointing. Reacting to the higher inflation, the Finance Minister Pranab Mukherjee commented that inflation remains high on festival season demand and is a matter of concern. A Finance Ministry official later on Thursday said that FII limit in G-Sec investment is likely to be increased from \$10 bn to \$15 bn. The announcement to hike petrol prices by ₹1.90 per litre by Oil Marketing Companies after market hours on Thursday, though on the expected lines, still dampened the market sentiment. Towards close of the week, sentiment remained cautious ahead of the issue of new 10 yrs security. The cut-off yield for the new ten year benchmark was set at 8.79%. The 7.80% GS 2021 closed the week at ₹92.66 (8.97%) compared to ₹93.40 (8.84%) seen previous week closing.

The cut-offs in the G-Sec auctions were as follows: 7.83% GS 2018 at 95.03 (8.86%), 8.26% GS 2027 at 93.82 (9.00%). The New 10 yrs closed at ₹100. The entire auction amount of ₹13,000 Cr was fully subscribed.

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.

The T-bill cut-off for 91 days T-Bill was set at ₹8.65% and for 364 days T-Bill at 8.74%. The previous cut-offs for these T-Bills were 8.65% for 91-days and 8.68% for 364-days. Both the auctions were fully subscribed. RBI announced T-Bill auctions to be held on 09-Nov- 11. The 91-days and 182 days T-Bills will be auctioned for ₹4,000 cr each.

LIQUIDITY CALL

Money markets rates eased significantly tracking the easy liquidity conditions in the second part of the reporting fortnight. RBI infused net average liquidity worth ₹ 42,859 Cr in this week compared to an infusion of ₹88,595 Cr in previous week. The Call rate ended at an average of 8.39% as compared to 8.56% observed the week earlier. The CBLO average rate moved to 7.15% compared to 8.45% in the previous week.

CORPORATE BONDS

The primary issuance market saw a good response for the REC bond issue. The issue also saw demand from pension funds. The secondary market activity in corporate bond market remained tepid with limited market participation. The 1 yr bond traded at a yield of around 9.50% compared to 9.45% seen a week earlier. The 10 yrs AAA bond ended at a yield of around 9.73% vs. 9.74% at the end of previous week. The 1 yr CD yield was seen trading at 9.60% compared to 9.63% seen previously.

In the primary market, REC issued 10 yrs bonds worth ₹ 3,846 Cr at a coupon of 9.75%. Power Finance Corporation issued 10 yrs tax free bonds worth ₹150 Cr at 8.09%. It also issued 15 yrs tax free bonds at 8.16%. HUDCO placed 5 yrs bonds worth ₹150 Cr at 9.75%. Andhra Pradesh Power Finance Corporation also placed ₹500 Cr via 10 and 12 yrs bonds. The 12 yrs bond is offered at 9.60% (s.a) and 10 yrs at 9.10% (s.a).

RUPEE

The Indian rupee rose, paring a weekly loss, on optimism overseas investors will increase purchase of high yielding Indian bonds after the European Central bank cut interest rates. It moved in the range of 48.70 - 49.27 and closed the week at 49.11.

FUND MANAGER COMMENTS

The new 10 yrs benchmark failed to cheer the markets. The supply pressure kept the long term yields under pressure, where as lack of Mutual fund interest kept the short end of the curve high. There were selective buying seen in 18-36 mths segment, but the volumes were low. In the coming week, there is likely to be pressure in the G-Sec markets, with old 10 yrs benchmark testing 9% levels. The likely range for new 10 yrs benchmark would be 8.75%-8.9%.

Market Indicators as on 4th November, 2011

	4/11/2011	28/10/2011	% change
INR/USD	49.11	48.77	0.71
Oil (\$/bbl)	94.26	93.32	1.01
Gold (\$/oz)	1,754.65	1,743.75	0.63
10 years G-Sec	8.79	8.85	-0.06
10 years AAA	9.72	9.72	0.00
NSE Mibor	8.36	8.58	-0.22

Source: Bloomberg

EQUITY MARKETS

After initial hiccups, Greece disagreed to hold referendum after being pressurized from the opposition party along with the Germany and France. Germany and France both warned that the next tranche of 8 billion euro would be put on hold if Greece decides to do so. This provided relief to world markets. However continued uncertainty resisted markets to post any meaningful gains.

It is gloomy scenario across globe barring China which gained 2.2%. Domestic indices also closed in red both Nifty and Sensex lost 1.4% on weekly basis. BSE midcap posted mild gain of 0.4%. On Sectoral front, Auto, Metal, Consumer Durable, Oil & Gas and IT was biggest loser with weekly loss of 3.4%, 2.5%, 1.7%, 1.7% and 1.2% respectively. Gainers were FMCG up 0.7%, Power up 0.5%, and Realty up 0.1%. Amongst Nifty stocks major gainers were HUL up 8.89%, Reliance Power up 4.38%, Reliance Com up 4.26%, TATA Power up 3.38% and PNB up 2.64%. Major loser were Sterlite, TATA Motors and SAIL down 8.9%, 8.7%, and 5.9% respectively.

On international news front, US Federal Reserve said the economy has picked up while "significant downside risks" remain, and they refrained from taking any additional steps to ease monetary policy. Fed officials also lowered their economic-growth projections from 3.3-3.7% to 2.5-2.9%. The Fed left unchanged its pledge to keep the benchmark interest rate near zero through at least mid-2013 as long as unemployment remains high and the inflation outlook stays "subdued." The central bank has kept the target federal funds rate in a range of zero to 0.25% since December 2008.

The European Central Bank (ECB) cut interest rates by a quarter point to 1.25% in a surprise move, acting boldly to support the ailing euro zone economy at President Mario Draghi's first policy meeting in charge. The decision to cut rates was unexpected and came despite inflation in the 17-country euro zone staying at 3.0% for a second month running in October, well above the ECB's target of just below 2%.

Back Home, Food inflation surged to a nine-month high despite aggressive monetary tightening by the Reserve Bank of India, prompting finance minister Pranab Mukherjee to express concern at the "dangerously" high level. Price index for food articles rose 12.21% year-on-year in the week to October 22, compared with 11.43% in the previous week, driven by soaring eggs, meat, fruit and milk prices. Overall food prices rose 0.70% over the previous week.

India's exports grew by 36.3% in September 2011, demonstrating impressive growth despite a slowdown in US and Europe. Exports came in at \$24.8 billion compared to \$18.2 billion in the year-ago period. Imports also grew by 17.2% coming in at \$34.5 billion. India's trade balance ballooned a further \$9.7 billion in September to reach \$73.5 billion for the first half of the fiscal.

Cement dispatch numbers for October came in ahead of market estimates, with large players growing at 1.8% on average versus consensus expectations of negative growth (over high base of 17% in Oct-10). There are expectations of strong dispatch numbers for the industry in H2FY12 given the low base, rural demand and pre-election demand in few states. This in conjunction with the recent price hikes is likely to support strong profitability for cement majors in the coming quarter.

The cabinet cleared the National Manufacturing Policy facilitating the creation of mega industrial zones. The policy offers a series of fiscal incentives, including tax sops, especially for SMEs. Initially, seven National Investment and Manufacturing Zone (NIMZ) will be created with the first three coming up in Maharashtra, Rajasthan and Gujarat. An effective implementation is expected to raise the contribution of manufacturing from current 15% to 25% of GDP and create additional 100 million jobs. The detailed policy is likely to be notified by the end of the next month.

Taurus Benchmark Indices Movement

Indices	04/11/11	28/10/11	Points change	% change
BSE Sensex	17562.61	17804.80	-242.19	-1.36
S&P CNX Nifty	5284.20	5360.70	-76.50	-1.43
BSE 100	9156.91	9234.93	-78.02	-0.84
BSE 200	2148.41	2163.24	-14.83	-0.69
CNX Midcap	7320.00	7239.80	80.20	1.11
S&P CNX 500 Shariah	1257.59	1263.96	-6.37	-0.50

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

28/10/2011-03/11/2011	Equity	Debt
FII	3523.90	767.90
Mf	-598.40	1292.30

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