

DEBT MARKETS

GLOBAL UPDATE

US treasuries fell, pushing 10-year note yields up the most since July, on optimism that Europe's leaders will adopt a coordinated approach to support banks and as US employers added more jobs last month than forecast. The 10 yrs benchmark yields went up by 16 basis points to 2.08%. Nymex crude was up by 4.77% for the week and ended at \$82.98. Gold increased by 0.85% and closed the week at \$ 1637.85/oz.

MACRO ECONOMIC INDICATORS

The weekly primary articles inflation for 24-Sep-2011 stood at 10.84% vis-à-vis 11.43% last week. The primary articles index rose by 0.2%. Within primary articles, food articles index increased for eighth consecutive week and non-food articles index declined from previous week levels. The fuel and power remained unchanged implying an inflation of 14.69% same as previous week.

GOVERNMENT SECURITIES AND TREASURY BILLS

The G-Sec market opened on a highly bearish note tracking Thursday's announcement of higher than budgeted government borrowing program in H2 2011- 12. The market participants were nervous over more borrowing by government as tax receipts are expected to remain sluggish and expenditures likely to be higher on account of rising subsidies. The 10 yrs yield moved further by 10 bps to close on Monday at 8.54%. The G-sec prices found some support on Tuesday tracking rally in US Treasuries in backdrop of worsening global outlook and impending Greece default. The markets made room ahead of the auction leading to some sell-off and hardening of yields with 10 yrs closing at 8.57%.

At the end of the week, the yields hardened significantly tracking higher than expected cut-offs in G-sec auctions and devolvement in two of the four auction securities. The yields hardened by 10 bps across shorter tenors and by around 15 bps towards the longer tenors. The benchmark security 7.80% GS 2021 will be in shut period on coming Monday (10-Oct-11) and hence there was no trading on close of the week. It closed at Rs. 95.03 (8.57%) on Wednesday compared to ₹95.85 (8.44%) seen previous week closing.

There was devolvement in the two of the four securities held today. 8.28% GS 2027 and 8.40% GS 2040 saw a devolvement of ₹192.53 cr and ₹705.83 cr respectively. The cut-off price for the security 8.07% GS 2017 was at ₹97.61 (8.64%), 8.08% GS 2022 at Rs. 95.68 (8.70%), 8.28% GS 2027 at ₹95.00 (8.87%) and 8.30% GS 2040 at ₹93.59 (8.92%). The cut-offs for 91 days T-Bill was set at ₹8.44%. and for 364 days T-Bill at 8.52%. The previous cut-offs for these T-Bills were 8.44% for 91-days and 8.46% for 364-day. Both the auctions were

worth ₹4,000 cr and were fully subscribed. RBI announced T-Bill auctions to be held on 12-Oct- 11. The 91-days and 364 days T-Bills will be auctioned for ₹4,000 cr each.

LIQUIDITY CALL

The systemic liquidity improved significantly over the week. The liquidity turned positive on Monday which was last seen in mid-April 2011. RBI infused net average liquidity worth ₹4,648 Cr in this week, compared to an infusion of ₹ 74,828 Cr in previous week. The Call rate ended at an average of 8.03% as compared to 8.31% observed the week earlier. The CBLO moved to 7.24% compared to 8.08% in the previous week.

CORPORATE BONDS

The market participants were bearish tracking continued concerns on government fiscal deficit and borrowing program. The participants cut-losses and remained in a selling mode. The corporate bond yields hardened further with yields hardening by 5pbs across the curve compared to previous week.

The 1yr bond traded at a yield of around 9.40% compared to 9.38% seen a week earlier. The 1yr CD yield was seen trading at 9.55% compared to 9.55% seen previously. The 10 yrs AAA bond ended at a yield of around 9.65% compared to previous week's closing of 9.58%. In the primary market, there was just a single issue of REC. REC raised ₹250 Cr via sale of 5 yrs bonds at 9.35%.

RUPEE

The Indian rupee continued its downward march on weak equities amid sustained dollar demand from importers and some banks, setting the week lower by 19 paise at 49.16 against the greenback. However, it covered some losses on Friday as Europe takes steps to resolve its debt crisis. It moved in the range of 49.15-49.40 during the week. The depreciation has been 0.37% in a week over the close of 48.97 last Friday.

FUND MANAGER COMMENTS

Market was inactive this week in terms of CD issuances because of the start of the new quarter. Few issuances happened in 1 yr segment only. December papers got dealt at sub 9% levels whereas 3 months came down by 15-20 bps to 9.10%-9.15% levels. 1 yr CDs happened at around 9.50% in the first week of new quarter.

For next week, we expect inter-bank deficit at RBI's repo window to be in INR 500-750 Bn range. Expected trading range for 3M CD yields is 9.15%-9.25%. The 10 yrs G-Sec for the next week may remain in the range of 8.55%-8.75%.

Market Indicators as on 7th October, 2011

	07/10/2011	30/09/2011	% change
INR/USD	49.16	48.97	0.37
Oil (\$/bbl)	82.98	79.2	4.77
Gold (\$/oz)	1,637.85	1,623.97	0.85
10 years G-Sec	8.58	8.43	0.15
10 years AAA	9.62	9.56	0.07
NSE Mibor	8.07	8.32	-0.25

Source: Bloomberg

EQUITY MARKETS

Moody's downgrade of standalone rating for State Bank of India from 'C-' to 'D+' led to the fall in the banking sector and overall markets. The downgrade came in as the rating agency perceived nonperforming assets would rise and uncertainty over the infusion of capital by the government. Europe and American markets reacted positively after European Central Bank announced to launch a new covered bond purchase programme starting November 2011 of EUR 40 billion for banks in order to protect them from region debt crisis.

It was mixed weekly performance in world markets. Europe and America closed in positive territory. Dow ended higher by 3.0%, FTSE 100 was up by 2.9%. Whereas Asian Indices were in red, with Nikkei and KOSPI has fallen 1.1% and 0.6% respectively. China and Hong Kong markets were closed during the week. Indian indices were down, Sensex down 1.3% and Nifty down 1.1% on weekly basis.

On the BSE sectoral all indices ended in loss. Bankex has seen biggest fall with 4.6% loss. Technology lost 1.7%, Realty lost 1.5%. Power lost 1.1%. Outperformance to Nifty came from Auto down 0.1%, Capital Goods up by 0.7%, Consumer durable down 0.2%, FMCG down 0.3%. Of other major indices, Oil and Gas was down 0.5%, Metal down 0.8%, IT down 0.6%.

On domestic new front, India's service sector has contracted for the first time in more than 2 years as new business all but dried up and expectations weakened amid concern over a flagging world economy. India's exports in August climbed 44.3% from a year earlier to \$24.3 billion, but this was about 17% lower than July, when exports shot up a staggering 80%, which many economists said was an aberration and unsustainable. India's exports are moderating as demand in traditional markets such

as the U.S. and Europe slows amid the threat of another economic crisis, although increased government support to exporters to tap new markets in Latin America and Africa is helping offset slowing demand elsewhere. Imports jumped 41.8% to \$38.4 billion in August, as the trade deficit widened to \$14.0 billion from \$10.2 billion last August.

Food inflation rose to 9.41% for the week ended September 24 on the back of costlier vegetables, fruits, milk and protein-based items. Food inflation, as measured by Wholesale Price Index (WPI), stood at 9.13% in the previous week. The rate of price rise in food items was 16.88% in the corresponding week of 2010.

On Global news front, Moody's Investors Service lowered its standalone ratings for six Portuguese banks, citing worsening asset quality, increased risk from their Portuguese sovereign debt holdings, and funding strains. The six banks affected are Caixa Geral de Depósitos, Banco Comercial Português SA, Banco Espírito Santo SA, Banco BPI SA, Banco Santander Totta and Caixa Económica Montepio Geral. The ratings outlook remains negative.

The UK economy grew by 0.1% between April and June, less than the 0.2% estimated previously. Output from the service sector grew by 0.2% in the quarter, compared with the previous estimate of 0.5%. Activity in the UK service sector grew in September. The Treasury pointed to these figures as evidence the UK economy was still growing and said it would be sticking with its deficit reduction programme.

Federal Reserve Chairman Ben Bernanke bluntly warned Congress of what most of America has sensed for some time: The economic recovery, such as it is, "is close to faltering." And that a "disorderly" default in Greece debt would have a serious impact.

Taurus Benchmark Indices Movement

Indices	07/10/11	30/09/11	Points change	% change
BSE Sensex	16232.54	16453.76	-221.22	-1.34
S&P CNX Nifty	4888.05	4943.25	-55.20	-1.12
BSE 100	8489.19	8613.22	-124.03	-1.44
BSE 200	1996.81	2028.27	-31.46	-1.55
CNX Midcap	6894.15	7094.00	-199.85	-2.82
S&P CNX 500 Shariah	1170.13	1184.71	-14.58	-1.23

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

30/09/2011-05/10/2011	Equity	Debt
FII	-2058.80	-959.00
MFs	-140.60	7880.60

Source : SEBI site

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