

## DEBT MARKETS

### GLOBAL UPDATE

US treasuries yields fell, as a report showed consumer confidence rose in December more than forecast and European leaders agreed to tighten budget rules and speed the start of a bailout fund. The 10 yrs benchmark yields closed 3 basis points higher at 2.06%. Nymex crude was down by 1.54% for the week and ended at USD 99.41 per barrel.

### MACRO ECONOMIC INDICATORS

For the week ended 26-Nov-11, Primary articles inflation softened to 6.92% compared to 7.74% in the last reported week. On a W-o-W basis, the primary articles index fell by 0.55% compared to 0.74% previously. Food inflation moderated to 6.60% for the week ended 26-Nov-11 lower than 8.00% in the last reported week. Within food articles, fruits & vegetables, milk and Eggs, meat and fish prices declined during the week. Fuel inflation remained unchanged at 15.53%.

### GOVERNMENT SECURITIES AND TREASURY BILLS

G-sec market opened on a positive note on hopes that the central bank may take steps to ease the liquidity shortfall. RBI Deputy Governor, Dr. Subir Gokarn over the weekend said that the central bank will continue to conduct OMO purchases so long as conditions warrant. The announcement of buy back of securities worth ₹10,000 Cr via OMO supported the market sentiment. However the positive mood in the market took some beating when Finance Minister speaking in the Parliament said that fall in economic growth will reflect in FY 12 fiscal deficit. The Finance Minister also said that subsidy bill for the current fiscal may go up by Rs 1 lakh crore on account of higher outlays towards fertilizer and petroleum subsidy. The sustained drop in weekly and annual food inflation numbers brought some cheer back to the market. The continued moderation in weekly inflation numbers inspired confidence that Nov WPI inflation could be sharply lower than last month's inflation. Meanwhile market is speculating that central bank may cut CRR to infuse liquidity into the system. RBI Governor, D. Subbarao during the week said that central bank is monitoring liquidity situation on a daily basis and will take appropriate steps to ensure ease in liquidity specifying to wait till Dec 16 for the policy review. The government on Friday presented the midyear analysis of the economy in which it revised the GDP growth forecast for FY 12 to 7.25-7.50% from an earlier estimate of 9%. The government also maintained that meeting the fiscal deficit target of 4.6% in the current year is a major challenge. The 8.79% GS 2021 closed the week at ₹101.68 (8.53%) compared to ₹100.93 (8.65%) seen at previous week's closing.

RBI bought back securities worth ₹9,092.90 Cr via OMO purchases. The tendered amount stood at ₹20,006.33 Cr as against the notified amount of ₹10,000 Cr. The result was as

follows: 8.07% GS 2017 at ₹98.70 (8.39%) worth ₹1682.88, 7.83% GS 2018 at ₹96.96 (8.46%) worth ₹4439.86 Cr, 8.13% GS 2022 at ₹97.09 (8.55%) worth ₹1860.33 Cr, 8.28% GS 2027 at ₹95.86 (8.77%) worth ₹1109.83 Cr. The cut off price for 7.99% GS 2017 was set at ₹97.97 (8.45%), FRB 2020 was at ₹92.75 (9.99%), 9.15% GS 2024 at ₹103.80 (8.65%), New 30 yrs GS 2041 was set at 8.83%. The auction was not fully subscribed as ₹400 Cr of FRB 2020 devolved on the primary dealers. The T-bill cut-offs for 91 day T-Bill was set at 8.60% and for 182 days T-Bill at 8.51%.

### LIQUIDITY CALL

Money markets rates broadly moved in a narrow range during the week. Money markets rates rose tracking the rise in liquidity shortfall. RBI infused net average liquidity worth ₹91,000 Cr in this week compared to an infusion of ₹82,582 Cr in previous week. The Call rate ended at an average of 8.59% as compared to 8.50% observed the week earlier. The CBLO average rate moved to 8.49% compared to 7.32% in the previous week.

### CORPORATE BONDS

The secondary market activity in corporate bond market saw active market participation. Bonds rallied tracking the rally in G-sec market. The 1 yr bond traded at a yield of around 9.50% unchanged from last week. The 10 yrs AAA bond ended at a yield of around 9.40% vs. 9.55% at the end of previous week. The 1 yrs CD yield was seen trading at 9.70% unchanged from last week.

Primary corporate bond market saw limited activity during the week. Mahindra & Mahindra Financial Services Ltd raised 3 yrs bonds worth ₹150 Cr at a coupon of 10% with a put option exercisable at the end of 1 yr.

### RUPEE

The Indian rupee settled lower against the USD on signs the European debt crisis is starting to slow regional economic growth. It moved in the range of Rs.51.42 to 52.04 per USD. It closed the week at 52.04 depreciating 1.6% during the week.

### FUND MANAGER COMMENTS

For money markets, it was a pattern similar to last week. Bank CDs continued to witness heavy issuance with a total issuance of approximately 30,000 Cr. Heavy interest in money markets decreased the yields by 5-10 bps below last week's levels. Next week, Markets will take cues from monetary policy review. There will also be IIP and WPI release next week. We expect inter-bank deficit at RBI's repo window to be in INR 750-900 Bn range, which would peak at INR 1350 Bn, post advance tax outflows. 3M CD yields may remain in the 9.30-9.40% range & 1Y CD yields in the 9.60-9.70% range. The likely range for the 10 year G-Sec would be 8.35-8.50%.

**Market Indicators as on 9th December, 2011**

	9/12/2011	2/12/2011	% change
INR/USD	52.04	51.21	1.63
Oil (\$/bbl)	99.41	100.26	-1.54
Gold (\$/oz)	1,711.60	1,746.75	-2.01
10 years G-Sec	8.53	8.67	-0.11
10 years AAA	9.41	9.70	-0.15
NSE Mibor	8.60	8.55	0.05

Source: Bloomberg

## EQUITY MARKETS

EU leaders are committed to a new "fiscal compact" for the euro zone. It agreed upon that euro zone to bring forward the launch of its permanent bailout fund, European Stability Mechanism, to July 2012. It further agreed that both the temporary bailout fund, the EFSF and the ESM, could run in parallel for a year from mid-2012. The maximum lending capacity of the ESM, set at €500 bn, would not be diminished by the amount of money already spent by the EFSF, as was the initial plan. This was most watched and eagerly waited event that unfolded on Friday. Markets have now built in hopes of some fiscal discipline in EU finally.

Weekly market performance continues in red. Barring Hang Seng (+ 0.35%) and Nikkei (+ 0.26%), all world indices were closed in negative. CAC 40 was down 2.19%, NASDAQ down 1.16%, S&P 500 down 0.80%, FTSE down 1.23% and Shanghai Comp down 1.31%. Domestic indices closed with weekly loss of 2.11% for Nifty and 2.13% for Sensex. BSE Small Cap and BSE Midcap closed with loss of 1.33% and 1.63%. On Sectoral front, Barring IT index (up 0.96%), all indices closed in red. Major loser were realty down 3.55%, capital good down 2.91%, metal down 3.79% and Bankex down 2.69%.

On international news front, S&P put 15 of the euro zone's 17 members on negative credit watch. Along with Italy and Spain, S&P threatened to downgrade its ratings for AAA countries such as France and Germany, and gave warning that it might also cut the credit rating of the EFSF. Its decision caused outrage in Brussels, with some politicians accusing S&P of retaliating against European proposals to curtail the influence of ratings agencies. S&P cited the increased systemic risk of a failure of the euro zone.

America's unemployment rate fell sharply to 8.6% in November, the lowest it has been since March 2009. Much of the decline is due to more people simply giving up looking for work and leaving the labour market, but revised data also showed that job growth

was stronger throughout the autumn than had previously been thought.

Eurozone Gross domestic product grew 0.2% sequentially, in line with the initial estimate and matched the expansion seen in the second quarter. On an annual basis, economic growth came in at 1.4% compared to 1.7% in the previous quarter. The European Central Bank cut interest rates for a second straight month and may delve even deeper into its toolbox today to stimulate bank lending

and fight off a recession. ECB policy makers meeting in Frankfurt lowered the benchmark interest rate by a quarter percentage point to 1 percent to match a record low.

On Domestic news, Food inflation fell sharply to 6.60% for the week ended November 26, reflecting a decline in prices of essential items like vegetables, onions, potatoes and wheat. Food inflation, as measured by the Wholesale Price Index (WPI), stood at 8% in the previous week ended November 19.

India's wheat stocks at government warehouses were 27.6 million tonnes, substantially higher than a

target set for the quarter of 11 million tones. Rice inventory for the same period was 27.1 million tonnes against a target of 5.2 million tonnes set for the October to December quarter. The government has allowed two million tonnes each of non-basmati rice and wheat exports by private traders, easing a ban on overseas sales clamped down since early 2007.

State run Gail has signed a 20-year deal with Sabine Pass Liquefaction to import liquefied natural gas from the US from 2017 to secure long term supplies at prices linked to the US benchmark Henry Hub. The agreement with Cheniere will help company to ensure long term gas supply for the growing demand in the Indian market.

### Taurus Benchmark Indices Movement

Indices	09/12/11	02/12/11	Points change	% change
BSE Sensex	16213.46	16846.83	-633.37	-3.76
S&P CNX Nifty	4866.70	5050.15	-183.45	-3.63
BSE 100	8393.96	8696.00	-302.04	-3.47
BSE 200	1966.26	2034.30	-68.04	-3.34
CNX Midcap	6654.25	6819.35	-165.10	-2.42
S&P CNX 500 Shariah	1169.00	1201.52	-32.52	-2.71

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

02/12/2011-08/12/2011	Equity	Debt
FII	1908.10	6817.20
MFs	98.20	10083.50

Source : SEBI site

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