

DEBT MARKETS

GLOBAL UPDATE

US treasuries rose this week, pushing the yields down, as France was downgraded by S&P by one notch to AA+. The US 10 yrs benchmark yields closed 10 basis points down at 1.86%. The US equity market - S&P was up by 0.88% where as Nymex crude oil decreased by 2.82% during the week.

MACRO ECONOMIC INDICATORS

IIP for the month of Nov-11 grew by 5.9% compared to revised negative 4.7% in the previous month. However the Nov-11 IIP growth was still lower than 6.4% growth seen in the same period last year. Manufacturing growth rebounded to 6.6% in Nov-11 versus negative 5.7% in the previous month. Capital goods though recorded negative growth of 4.6% in Nov-11 however was much better than last month's growth of negative 25.5%. Consumer durables also recorded double digit growth of 11.2% in Nov versus negative -0.3% in Oct. For the week ended 31-Dec-11, Primary articles inflation rose to 0.56% compared to 0.10% in the previous week. Food articles inflation recorded negative growth for the second consecutive week at 2.85% versus 3.36% in the last reported week. The weekly increase in the index was led by rise in protein items and non food articles index. Fuel inflation eased to 14.45% compared to 14.60% in the last reported week.

GOVERNMENT SECURITIES AND TREASURY BILLS

G-sec yields opened the week at lower level reflecting the positive sentiment aided by hopes of rate cut in the upcoming monetary policy review on 24-Jan. Further expectations of buy back of G-sec via OMO also supported the market sentiment in the beginning of the week. However the sentiment turned somewhat bearish after the cues from RBI's pre policy meeting with bankers indicated that the chances of rate cut in the upcoming monetary policy review seemed remote. Sentiment also became cautious ahead of the release of the Nov industrial production data. The IIP for Nov-11 registered strong growth of 5.9% versus market expectations of 2.1% and previous month's revised growth of negative 4.7%, dampening hopes of rate cuts in Jan. PMEAC Chairman C. Rangarajan is of the view that RBI action will depend on the inflation numbers. Finance Minister Mr. Pranab Mukherjee remarked that policy focus should shift to boosting industrial recovery. However markets rallied on Friday post the announcement of the auction results as RBI bought ₹11,760 Cr worth of G-sec via OMO against the notified amount of ₹12,000 Cr. The 8.79% GS 2021 closed the week at ₹103.96 (8.19%) compared to ₹103.78 (8.22%) seen at previous week's closing.

The G-sec auction worth ₹14,000 Cr was fully subscribed and the cut off price for New 8 yrs GS 2020 set at 8.19%, 9.15% GS 2024 at ₹106.16 (8.36%), 8.97% GS 2030 set at 103.98 (8.54%).

The T-bill cut-offs for 91 days T-Bill was set at 8.56% and for 364 days T-Bill at 8.20%. The previous cut-offs for these T-Bills were 8.52% for 91 days and 8.35% for 364 days. Both the auctions were fully subscribed. RBI announced the sale of ₹6000 Cr each of 91 days T-bill and ₹4000 Cr of 182 days T-bill on 18-Jan-12.

LIQUIDITY CALL

Money markets rates remained firm as liquidity shortfall widened. RBI infused net average liquidity worth ₹ 127,319Cr in this week compared to an infusion of ₹92,370 Cr in previous week. The Call rate ended at an average of 8.80% as compared to 8.66% observed the week earlier. The CBLO average rate moved to 8.90% compared to 8.55% 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 9.65% compared to 9.50% last week. The 10 yrs AAA bond ended at a yield of around 9.29% vs. 9.31% at the end of previous week. The 1 yr CD yield was seen trading at 9.80% compared to 9.67% last week. There were some Primary issue for 3 yrs offered at 9.40 – 9.50% levels.

RUPEE

The rupee strengthened by 2.3% this week, its second successive week of gains, after adding 0.7% last week. The Indian rupee closed the week at 51.72. The RBI recently reduced the net overnight open position limit of authorized dealers in the foreign exchange market, potentially reducing capacity of market participants for taking trading positions. The rupee's recent recovery is due to RBI's intervention in foreign exchange market and also is largely been aided by continued investment into Indian debt by foreign funds, who must invest by mid-January, to utilize previously won limits.

FUND MANAGER COMMENTS

The money market yields remained under pressure due to liquidity shortfall. The CD's traded in the range of 9.50% - 9.70% for March papers. The G -Sec yields stabilized with 10 yrs benchmark trading at 8.19% at the end of the week.

This week we expect the money market rates to be under pressure. The G-Sec yields will hover around these levels. 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 9.75%-9.85%. The likely range for the 10 yrs G-Sec would be 8.15-8.30%.

Market Indicators as on 13th January, 2012

	13/01/2012	6/1/2012	% change
INR/USD	51.72	52.94	-2.30
Oil (\$/bbl)	98.7	101.56	-2.82
Gold (\$/oz)	1,639.00	1,617.95	1.30
10 years G-Sec	8.21	8.29	-0.08
10 years AAA	9.27	9.29	-0.02
NSE Mibor	8.72	8.67	0.05

Source: Bloomberg

EQUITY MARKETS

New Year rally continues for second week as well. Barring Nikkei (-0.06%), all major world indices closed in gain. Shanghai Comp was up 5.16%, Hang Seng up 2.7%, CAC 40 up 2%, Nasdaq Comp up 1.89%, S&P 500 up 1.38% and Dow Jones up 0.9%. Domestic indices Sensex and Nifty closed with gain of 1.19% and 1.78% respectively.

Amongst sectoral indices, outperformers were Realty index up 10.75%, Metal index up 6.43%, Power index up 6.09%, Capital Goods index up 5.48%, Bankex index up 5.62% and Auto Index up 3.56%. Underperformance came from IT Index down -6.85% and FMCG index up 0.65%

On domestic news front, IIP for Nov-11 came in at 5.9% (above market consensus 2.1%). Cumulative growth in FY12 so far (April-Nov-11) stands at 3.8% over the previous year. Manufacturing grew by 6.6%, Mining contracted by -4.4% while Electricity grew by 14.6%. The surprise within manufacturing was the sharp improvement in consumer goods which grew by 13.1% (consumer durables by 11.2% and non durables by 14.8%).

India indirect tax collection for the first 9 mths of FY12, grew by 16.1 % to ₹2.86 lakh crore to achieve 72.7% of budget estimate. During Dec-11, alone, the overall tax collection went up by 15.9% to ₹34,819 crore. Turnaround was markedly promising, as indirect tax collection had dipped by 8.7% in Sep-11 and by 6.5 % in Nov-11. The rise in indirect tax collections has been despite the ₹36,000 crore foregone as revenue owing to the cut in customs and excise duties on petroleum products earlier during FY12.

Food inflation remained in the negative territory, despite the rate of decline slowing a bit for the last week of December, as supply eased in the winter season, also partly due to the base effect. The rate was minus 2.9%, up from minus 3.36% in the previous week. Onions, vegetables, potatoes and wheat continued to see a decline in prices. Finance minister Pranab Mukherjee expressed confidence that the moderation would continue, though a softening in the rate of price rise in manufactured goods may be more gradual, despite the rapid decline in non-food primary inflation

On International news front, German economy probably contracted to 0.25% in the 4Q-11 as the sovereign debt crisis damped demand for exports. Growth slowed to 3.0 % in CY2011 from 3.7% in CY2010, which is the lowest since German reunification 2 decades ago. Domestic demand was the main contributor to the GDP growth. Budget deficit amounted to 1% of GDP.

More Americans are moving from part-time to full-time jobs, adding to evidence a strengthening labor market will bolster household confidence and spending. The number of people putting in a full week rose to 113.8 mn in Dec-11, the most since Feb-09. At the same time the jobless rate fell 0.5% point over the past 3 mths, going from 9% to 8.5%, which includes part-time employees who'd prefer a full-time job, dropped by 1.2 % points to reach 15.2 %.

Taurus Benchmark Indices Movement

Indices	13/01/12	06/01/12	Points change	% change
BSE Sensex	16154.62	15867.73	286.89	1.81
S&P CNX Nifty	4866.00	4754.10	111.90	2.35
BSE 100	8384.37	8141.59	242.78	2.98
BSE 200	1964.91	1901.81	63.10	3.32
CNX Midcap	6653.55	6245.30	408.25	6.54
S&P CNX 500 Shariah	1152.08	1145.96	6.12	0.53

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

06/01/2012-12/01/2012	Equity	Debt
FII	1489.50	5725.40
MFs	-642.10	-141.90

Source : SEBI site

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