

DEBT MARKETS

Global Update

US yields tracks uncertainties ahead of FOMC meet.

The US bond witnessed a choppy last week where 10 yrs benchmark bond traded between 2.56% to 2.72% to close at 2.62%. The main concern for the market were the ambiguity over Fed's action, quantum of buyback and basket of securities which may figure in the Fed's buyback. Also globally the positive economic data from Britain, rates hike by Sweden, and possible rate hike by Canada also added to choppiness of US bond. The key factor which may drive the bond market is FOMC meet next week.

Domestic

Tight liquidity and mid term RBI policy kept the market guessing.

The market was range bound last week ahead of RBI policy and tight liquidity. The 10 yrs benchmark bond moved higher to 8.18% but positive comment from officials that current benchmark may continue its status coupled with positive economic data on fiscal deficit led to some value buying in the market. 10 yrs benchmark bond closed at 7.13% flat week on week. On liquidity front RBI announced LAF twice a day to meet the liquidity concern.

CALL & CBLO

Remained higher on payouts of Coal India IPO.

Liquidity condition remained very tight with LAF figures showing an average daily borrowing by SCBs of INR. 84 K Cr from RBI. Overnight rates like MIBOR, and CBLO too showed the tight liquidity conditions and traded between 6.85%-7.66% and 5.99% - 6.80% respectively.

Government Securities and Treasury Bills

Remained lacklustre for the week.

Last week was the non event with no important economic data last week. The domestic bond market remained range bound ahead of RBI policy announcement. 7.80% GOI 2020 yield touched 7.18% to close at 7.13%. Bond market remained cautious amidst tighter liquidity, RBI policy meet next week. RBI to meet the tighter liquidity announced double LAF. RBI last week gave the cut-off of 6.85% for 91 days and 7.05% for 182 days T-Bills higher than earlier auction.

Corporate Bonds

Corporate Bond Yield remained flat ahead of Monetary Policy.

Corporate bond yields also remained flat. The 5yrs bond traded at 8.6225% while 10yrs benchmark Bond traded around 8.79%.

Rupee

Remained flat week on week

The Indian Rupee appreciated marginally on likely injection of liquidity. The Rupee-Dollar traded between 44.35 to 44.52 to close at 44.4325 appreciating 0.36 % week on week basis.

Fund Manager's Comment

Debt market and money market is reacting on 2 basic reasons. A) Liquidity B) Inflation. While liquidity condition may ease on account of RBI proactive steps, short term money market rates may look for cues from RBI policy next week. On the other hand debt market will also keenly await the policy announcement for yield movement. The expectation is that RBI may hike both the policy rates by 25 bps and it is likely to lead buying in bond market. The expected range for 7.80% GOI 2020 are 7.91% to 8.01%.

Market Indicators as on 29th October, 2010

	29/10/2010	22/10/2010	% change
INR/USD	44.4325	44.5950	-0.36
Oil (\$/bbl)	81.43	81.69	-0.32
Gold (\$/oz)	1359.40	1328.45	2.33
10 years G-Sec	8.13	8.13	0.00
10 years AAA	8.79	8.80	-0.01
NSE Mibor	7.66	6.59	1.07

Source: Bloomberg

EQUITY MARKETS

During the week, the Indian equity markets remained very volatile and ended with a marginal weekly gain. The sensex has gained 0.66% while Nifty ended the week at 0.80%. The cnx madcap has posted a gain of 0.94% during the week.

On the sectoral front, only auto (1.9%) and Consumer durable index (3.7%) managed to end with positive gains. On the losing side, Realty index lost 4.3% followed by power (-3.5%), IT (-2.3%), Metal (-2.0%).

Among the BSE 200, Shriram transport gained 16.1% followed by Titan industries (10.1%), Thermax (9.7%), Dena bank (9.6%). On the losing side, FT lost 14.3% followed by Petronet LNG (-12.5%), SAIL (-11.5%).

The Food Price index increased 13.75% in the week ended October 16, sharply lower than the previous week's annual rise of 15.53%, mainly as vegetables continued to exert downward pressure on account of a base effect. Cereals and pulses also contributed to the downward trend. The fuel price index for the latest week surged 11.25% against an annual rise of 11.14% in the previous week, according to data issued by the Ministry of Commerce and Industry on Thursday.

The index of six core industries having a combined weight of 26.7% in the Index of Industrial Production (IIP) stood at 253.7 in Sep'10 and registered a growth of 2.5% compared to 4.3% registered in Sep'09. The production of crude oil grew 12.5% in Sep'10, as against -0.5% growth in Sep'09. The output of petroleum refinery grew -10.2% in Sep'10, as against 3.4% growth in Sep'09. The coal production grew -2% in Sep'10, as against 6.5% growth in Sep'09. The electricity generation grew 1.3% in Sep'10, as against 7.4% growth in Sep'09. The cement production registered 5.2% in

Sep'10, as against 6.5% in Sep'09. Finished (carbon) steel production grew 5.8% in Sep'10, as against 0.8% in Sep'09. Meanwhile, the six core industries registered a growth of 4% in Apr-Sep'10 period, as against 4.5% in Apr-Sep'09 period

India's exports have registered a growth of 23.2% to US\$18.02 bn, while the country's imports increased 26.1% YoY to US\$27.14 bn in Sep'10. Thus, India's trade deficit sharply narrowed to \$9.12 bn in Sep'10, as against \$13.06 bn in Aug'10, on the back of rising demand for iron ore, gems and jewelry, automobiles and pharmaceuticals. The country's exports grew 27.6% YoY to US\$103.3 bn in Apr-Sep'10 period, while the imports grew 29.9% YoY to US\$166.5 bn, with a trade deficit of US\$63.2 bn.

According to CRISIL, India's Gross Domestic Product (GDP) would grow by 8.2% in FY11 – as there is a lot of demand, plus the rains have also been good this year, which will help the agricultural sector grow by 5.5%. The country would continue with the same momentum for the next decade, of the inherent demand coming out of a young and working population, the Indian economy will continue to grow in the next decade, said Roopa Kudva, MD & Chief Executive of CRISIL.

On the global news front, China's manufacturing expanded at the fastest pace in six months in October, indicating the economy can bear more gains in the yuan and interest-rate increases to cool price pressures. A purchasing managers' index released by the logistics federation rose to 54.7 from 53.8 in September, with input prices climbing the most in six months. A second PMI, from HSBC Holdings Plc and Markit Economics, jumped to 54.8 from 52.9.

Taurus Benchmark Indices Movement

Indices	29/10/10	22/10/10	Points change	% change
BSE Sensex	20032.34	20165.86	-133.52	-0.66%
S&P CNX Nifty	6017.70	6066.05	-48.35	-0.80%
BSE 100	10639.96	10744.28	-104.32	-0.97%
BSE 200	2541.85	2568.74	-26.89	-1.05%
CNX Midcap	9360.70	9450.35	-89.65	-0.95%
S&P CNX 500 Shariah	1408.93	1423.11	-14.18	-1.00%

Weekly FII & MF net flows (₹. in crs.)

22/10/10 to 28/10/10	Equity	Debt
FII	4290.10	-135.00
MFs	-391.20	3393.90

Source : SEBI site

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