

DEBT MARKETS

Global Update

The series of negative events like slowing US GDP growth, lower stats of Chinese manufacturing index once again revived the debate of sustainable global growth. The market took the successful EU bank stress test with a pinch of salt. This led to sustainable buying in US bond market. The 10yrs US benchmark treasury closed lower at 2.93%, which closed earlier week at 3.03%. Rate traders were also factoring in the upcoming data like higher unemployment data, and lower ISM manufacturing data, giving further boost to the bond prices.

Domestic

Domestic yields deleveraged nearly completely from US markets last week. It hardened in the light of liquidity woes (even though LAF became positive towards the end of the week) on reiteration by RBI that the short term operative rate would be Repo rate not Reverse repo rate. Also the unexpected hike in reverse repo rate of 50 bps came as surprise in the market. Participants expects now further tightening in midterm policy on 16th September. The 10yrs benchmark yield traded at higher level at 7.85% on supply hitting the market next week with tight liquidity condition to continue.

CALL & CBLO

Liquidity eased with the maturity of around Rs. 34k of G-Sec last week. Net LAF amount turned positive for the first time in a month. Overnight rates like MIBOR, and CBLO too came down and traded between 4.86% - 5.73% and 4.50% - 4.86% respectively.

Government Securities and Treasury Bills

The G-Sec market remained bearish on tight liquidity condition, higher bond supplies, rising crude prices and hawkish stance

from RBI. The 10 yrs bond traded between 7.75%-7.85% for the most part of the week. Last week RBI conducted Rs.15000 Cr bond auction. The cut offs for 7.17% GOI 2015, 7.80% GOI 2020, 8.24% GOI 2027, and 8.30% GOI 2040. The cut-offs announced were 7.61%, 7.78%, 8.34%, and 8.32% respectively. RBI is auctioning Rs.13000 Cr of bond and 8500 Crs of T-Bills next week.

Corporate Bonds

Corporate bond yields too rose following the G-Sec yields. The 5yrs bond traded lower week on week at 8.55% while 10yrs benchmark Bond traded around 8.85%.

Rupee

The Indian Rupee appreciated against USD week on week on taking cues from the overseas global market and equity induced FII flows. The Rupee-Dollar traded in a range of 46.40 – 47.05 to close at 46.41 appreciating 1.14% week on week basis.

Fund Manager's Comment

The tightness continues in overall fixed income markets in India, be it liquidity in the banking system, and be it the selling by foreign banks both in G-Sec and Bonds or RBI stance. RBI clearly indicated that they would prefer Repo rate to be the operative rate so as to bring inflation under control. Though, LAF figures turned positive for some time but traders remained bearish to take the 10 yrs benchmark rates to higher than 7.80%.

The coming week would be very interesting for the interest rate participants. The traders at long end (10 yrs segment) would find the levels attractive and no upcoming event risk with monetary policy already over. We may see some buying interest above 7.85% levels. The likely range for benchmark 10 yrs paper would be 7.70%-7.85%.

Market Indicators as on 30th July, 2010

	30/07/2010	23/07/2010	% change
INR/USD	46.4075	46.9450	-1.14
Oil (\$/bbl)	78.95	78.98	-0.04
Gold (\$/oz)	1181.00	1189.20	-0.69
10 years G-Sec	7.82	7.68	0.14
10 years AAA	8.83	8.74	0.08
Call Money	4.86	5.75	-0.89

Source: Bloomberg

EQUITY MARKETS

Indian equity market were remain very volatile during the on the back of the mixed cues from the major corporates results and ended the week on a negative note. The sensex has lost 1.4% while nifty posted a weekly loss of 1.5%. The BSE Mid cap and Small cap also closed in red but outperformed the benchmark. The mid cap has posted loss of 0.3% while BSE small cap has posted negative gain of 1%. Factors such as the ongoing earnings season, mixed cues from European and US markets, Central Bank's decision to raise short-term interest rates and drop in food inflation to 9.7% weighed on investors' sentiment during the week.

On the sectoral front, the BSE capital goods index and BSE oil and gas index losing the maximum of 4.8% and 3.5%, respectively. On the gaining side, BSE Bankex and the BSE FMCG index gained the most by 0.4% each. A large part of this out performance was driven by strong movement in HDFC Bank, which was up on account of good 1QFY2011 results announced in the last week.

Among stocks, M&M gained 5.35% followed by HCL Tech at 5.20%, HDFC Bank 4.33%. On the loosing side, Maruti lost 11% on back of the royalty payment concern. JP Associate lost 8%, L&T lost 7.41%.

On July 27, In its first quarterly monetary policy review for 2010-11, the central bank lifted the repo rate by 25 basis points (bps) to 5.75%, in line with expectations, and also raised the reverse repo rate by 50 bps to 4.50%. The move is more seen as a measure to control inflation and also liquidity pressure. Narrowing down of the LAF corridor will reduce the volatility ion the short term interest rates.

Growth in six key infrastructure sectors, which comprise the core sector, decelerated to a 10-months low of 3.4% in June, primarily

due to a high statistical base effect of last year. The growth registered deceleration for the third month.

The core sector, with a 26.6% weight in the Index of Industrial Production (IIP), stood at 6.3% during the corresponding period in 2009. The infrastructure sector had posted a recovery in June last year and had registered a three percentage point increase from the previous month. In May this year, the growth for the six key sectors was 5%. During April-June, the core sector output rose at 4.6% from 4.3% in the year-ago period

Food price inflation dropped to single digit 9.67% for the first time this year, even as the government continues to face a concerted Opposition attack on rising food and fuel prices. Led by cheaper cereals, rice and vegetables, the annual rate of inflation in the food price index fell to 9.67% in the week ended July 17, as compared to 12.47% in the previous week, official data released on Thursday showed.

Cumulative rains in the country from June 1 – July 28 was below normal by 5%. Total rainfall was 405.5 mm compared with the normal rainfall of 428.1 mm for the period.

RIL Q2 Profit surged 32% from a year earlier to \$1 billion. Profit rose 3% from the previous quarter. RIL expects to increase output by 33% to 80 million cubic meters a day at India's largest gas field by 2012, is said to be at least two years behind schedule.

On the global news, Japan's unemployment unexpectedly rose to 5.3%, rise for a fourth straight month and industrial production fell by 1.5%, the most in more than a year, signaling the economic expansion is poised to slow.

Taurus Benchmark Indices Movement

Indices	30/07/10	23/07/10	Points Change	% Change
BSE Sensex	17868.29	18130.98	-262.69	-1.45%
S&P CNX Nifty	5367.60	5449.10	-81.50	-1.50%
BSE 100	9556.67	9668.74	-112.07	-1.16%
BSE 200	2281.63	2304.98	-23.35	-1.01%
CNX Midcap	8415.30	8423.35	-8.05	-0.10%
S&P CNX 500 Shariah	1298.75	1325.85	-27.10	-2.04%

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

23/07/2010 to 30/07/2010	Equity	Debt
FII's	6679.40	191.30
MF's	-2128.60	639.50

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