

DEBT MARKETS

Global Update

The US treasury yield saw the steep fall last week on the back of lesser than expected non-farm payroll data (431000 against an expectation of 521000), triggering the fear of double dip recession. Also announcement by Hungary that fiscal health being grim confirms the fear of contagion effect in Europe. Euro fell to record level against dollar (1.21), and capital market reacted negatively across the globe. Investors shifted to safe-haven like US dollar and treasury pushed the yield steeply lower to 3.20% against 3.36% at the close of the week.

Domestic

Domestic market remained largely range bound last week with no major news from any quarter. The US employment data and Hungary news also could not impact the domestic market as the announcement was made late Friday. The 10yrs benchmark bond closed the week very range-bound at 7.51% against 7.53% last week. The bond market awaited cues for further direction in the face of IIP data, US non-farm payroll data, inflation and return of liquidity in the system. Also movement of monsoon is also awaited for further cues.

CALL & CBLO

Liquidity showed steep tightness last week on the backdrop of outflow for 3G auction as the average amount posted in LAF was 6K Cr. Overnight rates like Call rate, MIBOR, and CBLO traded between 4.13%-5.28%, 4.40%-5.36%, and 2.65%-5.27% respectively.

Government Securities and Treasury Bills

The G-Sec yield which had hardened a week before on profit booking remained range bound last week in the absence of any stimulus. While the series of data is awaited for further direction market remained lacklustre. Though the liquidity was deeply impacted on 3G outflow of Cr. 67K and expected

tax outflow by Cr. 35K RBI successfully conducted auction worth Rs.13K for 7.02% GOI 2016, 8.20% GOI 2022, and 8.26% GOI 2027. The cut-offs were 7.70%, 7.90%, 8.18% respectively. RBI also conducted 91days and 364days T-Bills, the cut-offs recorded were 5.20% (5.07%) and 5.22% (4.93%) respectively higher than the earlier cut-offs. During the week GDP data for 2009-2010 was released which recorded 7.4% while for Apr-June GDP growth was 8.6%. Inflation figure inched higher. The primary article inflation came higher at 16.89% (15.9% last week) while fuel inflation also inched higher marginally.

Corporate Bonds

Corporate bond yields remained range bound. The 5yrs bond traded higher week on week at 8.19% (8.13%) while 10yrs benchmark Bond traded around 8.67% (8.68%) marginally lower on weekly basis

Rupee

The Indian Rupee depreciated against USD week on week on risk aversion. The Rupee-Dollar traded in a wide range of 46.36 – 47.15 to close at 46.8450, appreciating by 1.06% over the week.

Fund Manager's Comment

The yields in Indian market remained rangebound. The market was equally balanced with the bullish sentiments in US treasuries and negative cues due to positive economic data domestically. The short end of the curve saw severe pressure due to liquidity crunch. The one month prime CD rates went up by 2%-2.5%, as mutual funds looked to generate cash to meet up redemptions. This week the liquidity is likely to remain tight, with 3-6 mths CD rates trading around 6%-6.2%. There may be some buying in the 10yrs segment, as the European crisis still not showing any signs to abate. The likely range shall be around 7.35% - 7.50%.

Market Indicators as on 4th June, 2010

	05/06/2010	28/05/2010	% change
INR/USD	46.8450	46.3550	1.06
Oil (\$/bbl)	71.51	73.97	-3.33
Gold (\$/oz)	1217.70	1214.38	0.27
10 years G-Sec	7.51	7.38	0.13
10 years AAA	8.67	8.68	-0.01
Call Money	5.28	4.13	1.15

Source: Bloomberg

EQUITY MARKETS

Amidst the global concern, Indian equity markets managed to post positive gain for the week as positive sentiment fueled by the timely arrival of the monsoon. The BSE Sensex ended the week with 1.51% gain while nifty ended the week with 1.36%. BSE mid-cap and small-cap indices were up during the week, gaining 2.0% and 1.7%, respectively, outperforming their large-cap counterparts. Positive domestic triggers, such as robust GDP data and steady progress of monsoons, lifted investor sentiment during the week.

On the sectoral front, most of the major sectoral indices ended in green, with the BSE auto index gaining the maximum of 4.4%, followed by the BSE FMCG index rising 3.6%. However, BSE metals and BSE realty indices were down 2.1% and 0.7%, respectively. Robust May 2010 vehicle sales triggered BSE auto index to gain 4.4% during the quarter, outperforming the benchmark BSE Sensex. Gains in the index were largely driven by heavyweights Maruti Suzuki and M&M, having weightage of 15% and 19%, respectively. Maruti posted an increase of 8.8% during the week on the back of strong sales volumes in May. M&M gained 7.4% for the week on the back of strong 4QFY2010 results and robust sales growth in May.

Among stocks, Rcom was the biggest gainer among index stocks as it posted gain of 14%, followed by Idea Celluer (11.4%), Maruti (8.5%) and M&M (7.19%). On the losing side, Suzlon Energy lost 8.60% followed by Sterlite Indus (-4.9%), Grasim Indus (-4.1%) and Jindal Steel (-3.8%).

The total exports in April 2010 has registered a 36% yoy growth from April 2009 to touch \$16.9bn. Exports from sectors like textile (30% growth), engineering goods (up 16%), marine, petroleum products (80 % growth), gems and jewellery (36% increase) posted a rise while food grains and handicrafts are faring poorly.

Imports in April 2010 also surged to \$27.bn from \$19.1bn in April 2009. This is 43.3% increase on yoy basis in the imports of April 2010. Oil imports rose to \$8.1bn from \$4.7bn, while gems and jewellery rose 118%, chemicals rose by 47% and iron and steel by 141%. Trade deficit for April increased to \$10.4bn from \$6.7bn in the same month last year.

In FY10, India's GDP growth came in at 7.4% compared to the year before. The March quarter GDP growth came in at 8.6% compared to the same period previous year. Manufacturing output grew 16.3 % on year in the quarter as consumers bought more cars and other goods, while farm output grew an annual 0.7% helped by a good winter harvest. Among other high growth sectors during the quarter were hotels and transport services which grew by 12.4 %, while financial services including insurance grew by 7.9%.

The annual food inflation, based on the Wholesale Price Index, rose 16.55% in the year to May 22, up from previous week's annual rise of 16.23%. The fuel price index, too, surged to 14.14%, higher than the previous week's 12.08%, Government data released on Thursday showed. In case of the Primary Articles group, the annual rate of inflation, calculated on point-to-point basis, stood at 16.89% for the latest week compared with 15.90% for the previous week and 6.03% during the corresponding week of the previous year.

Maruti Suzuki crossed the 1 lakh monthly sales number for the first time, with total sales of 102,175 units, growth of 28% YoY. The company recorded its highest-ever domestic sales of 90,041 units (up 27%), while exports grew by 33% YoY. Tata Motors recorded a jump of 41% in its total sales at 56,779 units vs 40,196 units. Domestic sales stood at 52,801 units vs 38,392 units (up 38% YoY), commercial vehicles-31,475 units (up 37% YoY) and passenger vehicles-23,489 units (up 42% YoY. At Mahindra & Mahindra Ltd, which makes tractors and utility vehicles, sales rose 66% to 27,036 units.

The European Central Bank forecast that banks in the euro area could confront another €195 billion (\$240 billion) in write-downs in 2010 & 2011. Total write-downs from loans and securities between 2007 and the end of 2010 were projected to top €515 billion.

The arrival of the monsoon is expected to be fuel positive sentiment in the market. In line GDP number and strong auto sales numbers are also positive triggers. But the global turmoil continues and may have negative sentiment in the domestic markets. We continue to remain cautious on Indian equities with positive bias.

Taurus Benchmark Indices Movement

Indices	04/06/10	28/05/10	Points Change	% Change
BSE Sensex	17117.69	16863.06	254.63	1.51%
S&P CNX Nifty	5135.50	5066.55	68.95	1.36%
BSE 100	9129.09	8979.30	149.79	1.67%
BSE 200	2173.00	2135.38	37.62	1.76%
CNX Midcap	7890.25	7690.70	199.55	2.59%
S&P CNX 500 Shariah	1256.13	1234.75	21.38	1.73%

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

26/05/10 to 01/06/10	Equity	Debt
FII's	-620.70	861.80
MF's	126.20	-10966.50

Source : SEBI site

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