

DEBT MARKETS

Global Update

The US treasury saw the yield hardening after the continuous fall seen last month. The rise in yield may be attributed to restoration of some risk appetite among investors buttressed by healthy economic data emanating from US. Also the robust growth posted by China helped buttressed the confidence for global economic growth. EU which has been the reason of risk aversion showed some strength when conjunction to block Germany's aid programme was rejected. Also the successful Spanish government bond auction on Thursday also uplifted investor's confidence. Oil price moved higher week on week at \$74/barrel and dollar lost some ground.

Domestic

Domestic market taking cues from US treasuries also hardened on week on week basis. The ongoing liquidity problem and continuous supply of govt auction out-weighed the positives of higher than expected accrual in 3G and BWA auction which has the capacity to reduce the govt borrowing. Also higher IIP data for the month of may which posted 17.6% added pressure on yields. This also added to inflation figure due next week. Postponement of decision on proposed fuel price hike and rising fuel price pushed the yield higher. The 10yrs benchmark bond closed the week at 7.61% against 7.51% last week.

CALL & CBLO

Liquidity tightness continued 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 5.15%-5.25%, 5.32%-5.37% and 5.26%-5.33% respectively. The average of 60K has been posted on Repo window last week where participants borrowed from RBI.

Government Securities and Treasury Bills

The G-Sec yield hardened tracking US yield. The factors contributing the upward pressure were tight liquidity in the

system, better than expected IIP data, continuous supply of Govt bonds in auction, robust Chinese and US growth prospects (based on data published), expected higher inflation numbers, indecision on fuel price hike, increase in MSP by govt. and higher than expected auction cut-offs. The 10yrs benchmark bond closed at 7.61% (7.51% last week). During the week RBI auctioned Rs.11K auction. These were the new 5yrs bond for Rs.4000 Cr, the 7.80% GOI 2020 for 5000Cr, and 8.28% GOI 2032 for 2000 Cr. The cut-offs came in at 7.17%, 7.57%, and 8.22% respectively. RBI also auctioned Rs.2000 Cr of 91days and 1000 Cr of 364days T-bills, the cut-offs announced were 5.24%(5.20%) and 5.25%(4.97%) respectively.

Corporate Bonds

Corporate bond yields remained range bound. The 5yrs bond traded higher week on week at 8.26% (8.19%) while 10yrs benchmark Bond traded around 8.74% (8.67%) marginally higher on weekly basis

Rupee

The Indian Rupee remained range bound against USD week on week in absence of any clear cue from global markets. The Rupee-Dollar traded in a range of 46.70-47.40 to close at 46.8450 same as previous week's levels.

Fund Manager's Comment

The yields in Indian market remained tight last week, with the benchmark going up by 10 basis points. The liquidity in the system saw the negative going to record levels of Rs. 60K Cr. The short term money market rates went to as high as 7% for a 15days period, with CBLO rates consistently clocking above 5.25%. This week the liquidity is likely to remain tight, due to the expected advance tax outflow of Rs. 35-40K Cr. The ten year benchmark paper may remain under pressure with the likely range of 7.60%-7.80%. At these levels we may see some buying chipping in, bringing down the yield.

Market Indicators as on 11th June, 2010

	11/06/2010	05/06/2010	% change
INR/USD	46.8450	46.8450	0.00
Oil (\$/bbl)	73.78	71.51	3.17
Gold (\$/oz)	1226.70	1217.70	0.74
10 years G-Sec	7.61	7.51	0.10
10 years AAA	8.73	8.67	0.06
Call Money	5.25	5.28	-0.03

Source: Bloomberg

EQUITY MARKETS

The Indian equity market managed to post a marginal gain inspite weak starting of the week. Amidst high volatility, the SENSEX and nifty has posted a weekly gain of 0.31%. The week witnessed mixed investor sentiment with positive global cues and robust IIP data cheering investors, while concerns over the cyclone delaying the monsoon acting as a deterrent in the initial part of the week. The BSE Mid cap and small cap ended the week with marginal loss of 0.03% and 0.08% respectively.

On the sectoral front, most of the major sectoral indices ended in red, with the BSE realty index losing the maximum of 4% followed by the BSE IT index losing 2.5%. However, BSE auto index gained the maximum of 1.6%, followed by the BSE healthcare index rising 1.5%. Robust May 2010 vehicle sales triggered BSE auto index to outshine consecutively in the second week of June with a gain of 1.6%, outperforming the BSE Sensex that declined 0.3%. Growth was largely driven by heavyweights M&M and Bajaj Auto M&M increased 3.3% during the week on the back of prediction of normal monsoon by the Meteorological Department. Bajaj Auto gained 5% on account of robust sales growth in May 2010.

Among the index stocks, Bharti Airtel gained 6.3% followed by Cipla (4.2%), R Infra (3.6%) and Sterlite Industries (3.3%). On the loosing side, DLF lost 6.9% followed by Hindalco, Infy and Tata Steel which posted lost in the range of 2.4% - 5%.

Much awaited decision on deregulation of fuel prices was postponed as no resolution was out in the meeting of the empowered group of ministers (EGoM) scheduled on Monday. This has acted as dampener for the market as it was expecting a firm step towards de regulation by the GOI.

Shares of Indian units of multinational companies (MNCs) surged on expectations that their foreign parents would opt to de-list them after the government made it mandatory for all listed companies to have minimum 25% public holding. However this government's decision to enforce a minimum 25% public holding in all listed companies may be put on hold for another three months.

India's industrial output, measured by index of industrial production, rose 17.6% in April from a year earlier, sharply higher than 13.5% growth recorded in the previous month, underscoring a strong pick up in the economy. The strong surge in capital goods sector can be explained by a lower base in the correspondent period of the last year and a pick-up in investment activity in the economy as seen from the strong fourth quarter GDP data of FY10. The April manufacturing growth was at 19.4% while the mining sector grew at 11.4%.

The Government started the bidding auctions for the BWA (Broadband Wireless Access) spectrum on 24th May with 11 players in the fray for the spectrum. The auction is for 2 pan-India slots of 20 MHz each in the 2.3 GHz band with 1 slot been reserved for BSNL/MTNL for which the PSUs will pay as per the final bid price of the license. The auctions ended on the 16th day of bidding after 117 rounds with the final price of a pan-India license touching Rs.12847.7cr. The final price is 7.3 times the base price of Rs.1750cr. The Govt. will get Rs.38500cr from the 3 slots of BWA.

Among the major global news, Hungary's new government blundered badly on June 4th by casually comparing the country's economic woes to Greece's, and saying that it was "no exaggeration" to talk of a default on its debts. Hungary's cost of borrowing shot up and the forint plunged. International markets shuddered at the prospect of another European crisis. Chinese exports rose by 48.5% in May from a year earlier, when trade was at a low ebb. Imports grew by 48.3%. Real-estate prices rose 12.45 across 70 cities, the statistics bureau said separately.

We expect Indian market to remain in a choppy trend for the near term and the positive trigger can be expected from the monsoon and lower inflation. The present liquidity crisis has inch up the short term interest rates and could pressure RBI to take some action during its next policy meeting. Overall we continue to remain cautious on the markets and we continue to invest in the companies which are getting benefitted by domestic consumption story.

Taurus Benchmark Indices Movement

Indices	11/06/10	04/06/10	Points Change	% Change
BSE Sensex	17064.95	17117.69	-52.74	-0.31%
S&P CNX Nifty	5119.35	5135.50	-16.15	-0.31%
BSE 100	9092.27	9129.09	-36.82	-0.40%
BSE 200	2166.32	2173.00	-6.68	-0.31%
CNX Midcap	7892.30	7890.25	2.05	0.03%
S&P CNX 500 Shariah	1255.51	1256.13	-0.62	-0.05%

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

02/06/10 to 10/06/10	Equity	Debt
FII's	386.80	4448.50
MF's	670.70	-14658.70

Source : SEBI site

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