

DEBT MARKETS

Global Update

The US treasury yields came off last week due to the lower than expected CPI data, which fell by 0.2% in May, the biggest monthly drop in 18 months. Another positive for the rate traders was the Spanish bond sale that eased concern of European crisis. The 10 yrs benchmark paper closed the week at 3.22%, 2 basis point lower than previous week, after hitting a high of 3.31 during the week. This week the traders would keep a watchful eye on Fed Reserve meeting on 23rd June. It would like leave the benchmark rates unchanged.

Domestic

The Indian bond yields remained range bound last week, tracking the US counterpart. The inflation released last week clocked 10.16% for the month of May. The upward revision of March numbers to 11.04% gave jitters to the traders of a pre-policy action by RBI. Yield for the 10 yrs benchmark came off from highs of 7.68% in the second half on announcement of buyback of securities worth Rs. 20K Cr by RBI. The 10yrs benchmark bond closed the week at 7.61% against 7.51% last week. The money market rates remained under pressure, as Rs. 38K Cr is likely to go out of the banking system, for the payment of wireless-internet licence payment to the government.

CALL & CBLO

Liquidity tightness continued last week on the backdrop of expected outflow for wireless-internet spectrum auction as the average amount posted in LAF was -32K Cr. Overnight rates like Call rate, MIBOR, and CBLO traded between 4.0%-5.40%, 5.34%-5.38%, and 4.50%-5.40% respectively.

Government Securities and Treasury Bills

The G-sec yield did not move much WoW basis, though during the week it traded in broad range of 15 basis points. The inflation figures of 10.16% gave a scare to traders midweek, but sustained buying at above 7.65% levels saw the benchmark paper close at 7.61%. The G-Sec auctions today

saw devolvement of Rs.1,386 cr in 6.85 % GOI 2012 security. The auction of 8.20% GOI 2022 security was fully subscribed. For 6.85% GOI 2012 cut-off was set at Rs. 101.05 implying a yield of 6.21%. For 8.20% GOI 2022 cut-off was set at Rs 101.61 implying a yield of 7.98%. RBI also auctioned Rs.2000 Cr of 91 days and 1000 Cr of 364days T-bills, the cut-offs announced were 5.37% (5.24%) and 5.60% (5.22%) respectively.

Corporate Bonds

Corporate bond yields remained range bound .The 5yrs bond traded lower week on week at 8.25% (8.26%) while 10yrs benchmark Bond traded around 8.71% (8.73%) marginally higher on weekly basis

Rupee

The Indian Rupee appreciated against USD week on week tracking the global forex markets. The Rupee-Dollar traded in a range of 46.10-46.75 to close at 46.1750, 1.43% same as previous week's levels.

Fund Manager's Comment

The news of the week was China's decision to defreeze the Yuan peg. While the news is not expected to have a bearing on the domestic debt markets, other asset classes would react positively to the news. The domestic debt market will continue to witness tight liquidity, pressure on short term rates is expected to continue in the forthcoming week. Liquidity measures of buying back securities, inflows generated by T-bills maturities and government spending is likely to alleviate the tighter liquidity conditions. The higher (than market estimates) inflation number of 10.16% again raised the spectre of further tightening of policy rates by RBI. However different voices of various key authorities created an element of uncertainty in the markets and was reflected in volatile movements in the 10 yrs benchmark gilt security. However we expect the benchmark 10 yrs GOI yield to trade in a narrow range of 7.50%-7.65% and the benchmark 5 year AAA PSU bonds to trade in the range of 8.15%-8.25%.

Market Indicators as on 18th June, 2010

	18/06/2010	11/06/2010	% change
INR/USD	46.1745	46.8450	-1.43
Inflation	10.16	NA	NA
Oil (\$/bbl)	77.18	73.78	4.61
Gold (\$/oz)	1257.20	1226.70	2.49
10 years G-Sec	7.59	7.61	-0.02
10 years AAA	8.70	8.73	-0.03
Call Money	5.25	5.25	0.00

Source: Bloomberg

EQUITY MARKETS

The Indian equity markets remained positive during the four trading session of the total five session during the week. BSE sensx posted a weekly gain of 2.96% while the Nifty managed to post gain of 2.8%. The small cap and Mid cap indices underperformed during the week as they posted gain of 2.4% and 1.32% respectively.

On the sectoral front, all sectoral indices ended in green, with the BSE IT index and BSE capital goods index gaining the most by 4.6% and 4.5%, respectively. The weekly momentum of the IT index adhered strength with Infosys, Wipro, HCL Tech, TCS, Mphasis and Tech Mahindra gaining by 5.6%, 5.6%, 4.9%, 3.0%, 1.4% and 1.2%, respectively. This was despite the 1.5% appreciation in average Rupee versus US Dollar over a week's time. The surge in the index can be attributed to certain positive events such as Infosys mulling over the long-awaited M&A, TCS's deal with Telenor and HCL Tech's deal with SGX.

Among the stocks, Reliance capital posted gain of 7.8%, DLF 7.7%, L&T 7.2% and Rcom which posted a weekly gain of 7%. On the loosing side, BPCL lost 3.6% followed by Grasim (-3.3%), Bharti Airtel (-3.13%) and Axis bank(-2.75%).

India's credit rating outlook on local currency debt was raised to "stable" from negative" by Fitch Ratings on optimism higher-than-estimated revenue from auction of wireless airwaves will help cut debt. The upgrade by Fitch comes after Standard & Poor's in March raised India's debt rating outlook to "stable" from "negative" on growth prospects. S&P maintained the nation's long-term local and foreign-currency rating at BBB-, its lowest investment grade.

Food price inflation for week ended June 5 was at 16.12% compared to 16.74% in the previous week. Similarly, fuel price inflation also dropped to 13.18% as against 14.23% in the previous week, as per a commerce ministry statement. Prices of fruits and vegetables fell

by 6% and tea became cheaper by 2%. However, prices of urad rose 6% and that of maize, bajra and gram rose by 1% each.

Sun TV promoter Kalanithi Maran has announced to buy 37.75% stake in SpiceJet from the company's promoter Bhupendra Kansagra (Royal Holdings Services) and investor Wilbur Ross at Rs47.3/share, which is at a 16.7% discount to the current market price.

RIL AGM concluded on Friday and the chairman has unveiled big investments and plans for foray into Power sector across the value chain and also in the broadband space. Mr. Ambani said the company has cash in excess of Rs. 210bn and plan to use this cash to fund new ventures.

On the global news arena, Production in the U.S. rose by the most since August and builders broke ground on fewer homes than projected, showing manufacturing is sustaining the recovery as the housing market retreats following the expiration of a government tax credit. Output at factories, mines and utilities increased 1.2% last month after a 0.7 % gain in April, a Fed Reserve report in Washington showed. Housing starts fell 10%, the biggest decline since March 2009. Fitch downgraded BP's credit rating by six notches to BBB, close to junk. With BP's estimates of how much it will have to fork out to clean up the oil spill and pay compensation rising steadily. Fitch reasoned that the costs facing BP could be "skewed much more heavily towards the near term" than had been thought.

The Indian equity markets are showing some strength lately on back of the positive news from the corporate side and good monsoon which is showing good strength. The concern about Euro continues which may hurt the global markets as well as Indian markets. We continue to remain positive in the near term but for the short term we expect market to be very choppy and thus remain cautious.

Taurus Benchmark Indices Movement

Indices	18/06/10	11/06/10	Points Change	% Change
BSE Sensex	17570.82	17064.95	505.87	2.96%
S&P CNX Nifty	5262.60	5119.35	143.25	2.80%
BSE 100	9318.18	9092.27	225.91	2.48%
BSE 200	2215.67	2166.32	49.35	2.28%
CNX Midcap	7991.75	7892.30	99.45	1.26%
S&P CNX 500 Shariah	1286.71	1255.51	31.20	2.49%

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

11/06/10 to 17/06/10	Equity	Debt
FII's	3216.40	-906.80
MF's	-143.60	-3610.50

Source : SEBI site

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