

DEBT MARKETS

Global

US treasuries hardened significantly in wake of supply pressures. The 10 years benchmark went to 3.65% from 3.30% levels. However, US Treasury yields eased slightly amidst mixed economic data. New Home Sales for April 2009 was noted at 352,000 lower than market expectations of 360,000. The figure for previous month was revised lower from 356,000 to 351,000. The Durable Goods Orders for April 2009 was noted at 1.9% higher than market estimates of 0.5%. The 10 years benchmark closed at 3.61%.

Domestic

The GDP growth for fourth quarter FY 2008-2009 was at 5.8%, higher than market expectations of 5.0%. The major sectors like agriculture, manufacturing and services grew by negative 2.7%, negative 0.5% and 8.4% respectively. The growth for FY 2008-09 stands at 6.7% lower than previous forecast of 7.1%. The inflation for week ended 16 May, 2009 was at 0.61%, similar to levels noted previous week. However, the WPI index continued to increase from previous week level of 232.0 to 232.2. The index increased tracking rise in prices of Primary Articles (tea, bajra etc) and Food Products (unrefined oil, edible oil etc). The reading on inflation was lower than market expectations.

CALL & CBLO

The money market rates remained range bound tracking comfortable liquidity in the system. Overnight call range was noted at 3.10% - 3.30%. The overnight CBLO rate was in the range of 2.00% - 3.25%. The average amount absorbed under LAF Reverse Repo operation was around Rs 1.30 trillion.

Government Securities and Treasury Bills

The yields on G-Sec hardened significantly tracking the fear of over supply and the results of G-Sec auction. The yields also hardened tracking bearish sentiment in US Treasury Markets. The 10 years benchmark closed at 6.70%.

Corporate Bonds

Yields on corporate bonds hardened tracking the movement of G-Sec yields. The spike in shorter end of the curve was more due to lower demand. However, the hardening in longer tenure corporate bonds is relatively lower due to better carry and low supply.

Rupee

At the starting of the week INR depreciated and went to Rs 47.29 against USD. However, due to lower dollar demand and following the growth in capital market INR appreciated and closed at Rs 47.09 against the USD.

Fund Manager Comments

Liquidity is expected to remain comfortable with slight hardening bias. Money market rates are expected to harden in wake of lower demand. Yields on G-Sec are expected to remain range bound with pressure of hardening. The fear of oversupply in the market is still putting pressure on G-Sec. Important factors to watch out for next week will be the amount announced for G-Sec auction, auction results, inflation numbers and movement in US treasuries.

Market Indicators

	29/05/09	22/05/09	% change
INR/USD (RBI Reference Rate)	47.09	47.19	-0.21
Inflation	0.61	0.61	0.00
Oil (\$/bbl)	66.64	61.55	8.27
Gold (\$/oz)	976.00	956.35	2.05
10 years G-Sec	6.70	6.48	3.40
10 years AAA	8.74	8.65	1.04
Call Money	3.30	3.25	1.54

EQUITY MARKETS

Indian stocks continued to gain further ground on the positive perception set last week on the back of the election throwing up a stable government. The new government's approach of performance as the key barometer for giving ministerial berth went well with the market sentiment. Stability of governance, policy direction and performance are the core strengths on which the market expectations were built and sentiments were formed. Both the Sensex and Nifty added another 5% this week to the best ever gain of 15% of the previous week. Broader indices consolidated gains of previous weeks with BSE Sensex moving up by 738 points (5.3%) to close at 14,625 and Nifty notched gains of 210 points (5%) to close at 4,449.

Since March 9, 2009 when the trend reversal had set in, Sensex and Nifty had gained respectively by 79% and 73%. Since the election outcome the over all gains are over 20% for these indices. Net inflow of funds from FII is the key source of strength. With an addition of over \$500 million this week, the total net inflow from FII's this month is over \$2.7 billion in cash segment. Realty, metals and consumer durables are the three main sectoral gainers and all of them gained over 10% this

week. Improved prospects of raising resources through capital market were the main source of strength for realty sector while metals gained on the back of rising global steel prices. PSU stocks continued to be in the lime light on expectation of increased flow of stocks as this government is expected to be market friendly and raise resource for economic stimulation through disinvestment of PSU stocks, both existing and new.

The Friday surge was fuelled by India's GDP growth that expanded to 5.8% year-on-year in the March 2009 quarter. However, GDP grew slower at 6.7% for FY 2009 compared to 9% in FY 2008. A weak dollar helped global clues to tag along the positive perception of India. Strong flow of dollar liquidity is the key source of strength for all global markets. Any further weaken of the dollar with increase liquidity can continue to fuel the global bullish fervor, and India is not an exception.

Favorable economic data may help the markets to extend their twelve-week gains. With election uncertainty out of the way indices could look at global cues, foreign inflows and the progress of monsoon for further direction. Nevertheless, market could take a breather and consolidate at these levels on account of stiff valuations.

Taurus Benchmark Indices Movement

Indices	29/05/09	22/05/09	Points change	% change
BSE Sensex	14625.25	13887.15	738.10	5.31
S&P CNX Nifty	4448.95	4238.50	210.45	4.97
BSE 100	7620.13	7241.69	378.44	5.23
BSE 200	1772.82	1684.27	88.55	5.26
CNX Midcap	5353.55	5083.65	269.90	5.31
S&P CNX 500 Shariah	1024.71	973.85	50.86	5.22

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

	Equity	Debt
FII's	4835.60	-2666.00
MFs	2122.10	-438.90

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