

DEBT MARKETS

Global Update

The US treasury continued to rise last week on risk aversion as the crisis in EU sovereign markets continues to weigh heavily and Chinese government purchase manager index fell from 52.1 from 53.9 for June. US CPI also dropped more than the estimates, taking 10 yrs treasury yield down to 2.89%, lowest level since April 2009. Towards the end of the week, some profit booking by traders and lower than expected losses in US payroll numbers. The benchmark treasury yield closed the week at 2.97%, 14 bps lower than last week, still 8 bps higher than the lows of the week.

Domestic

Though the US bond yield continued the bullish trajectory, there was no domestic factor to prop the Indian treasuries. The tight liquidity continued with LAF showing more than 50K Cr negative. The 10 yrs benchmark yield opened the week at 7.64%, went to a low of 7.50% to close at 7.54%. Though, market is worried about the immediate inflationary impact of fuel price increase, still global factors continue to provide positive sentiments for the rate traders. On Friday RBI post market hours hiked the key policy rates by 25bps in effort to arrest surging inflation. Also to address the present liquidity crunch RBI extended the liquidity measure by fortnight to July 16. Such a measure 25days prior to policy, leaves doors open to extend it hawkish stance in July 27 policy review.

CALL & CBLO

Liquidity tightness continued last week, even after inflows of around Rs 20K Cr due to the maturity of G-Sec and reduction in the auction amount. The average amount posted in LAF was -63K Cr, lower than last week's number of -68K Cr. Overnight rates like Call rate, MIBOR, and CBLO traded between 5.30% - 5.60%, 5.40%-5.73% and 2.00% - 6.10% respectively.

Government Securities and Treasury Bills

The G-Sec volumes came off towards the end of the week, even though the yield came off by nearly 10 bps during the

week, as market was wary of RBI action on the monetary policy front. RBI conducted Rs10K Cr auction. 8.20% 2022 at a cut-off of 7.92% with a bid to cover of 2.56X, while the cut-off yield for 7.46% 2017 and the new 30 yrs gilt was set at 7.51% and 8.30% with a bid to cover of 2.22X and 2.88X respectively. RBI also auctioned INR 20 bn 91 days Treasury bills at a cut-off yield of 5.28% and INR 10 bn 364 days Treasury bills at 5.65% reporting a bid to cover of 3.93X and 2.06X respectively.

Corporate Bonds

Corporate bond yields too fell following the G-Sec yields. The 5yrs bond traded lower week on week at 8.16% (8.27%) while 10Y benchmark Bond traded around 8.69% (8.75%) marginally lower on weekly basis.

Rupee

The Indian Rupee depreciated against USD week on week after huge volatility in forex market. The Rupee-Dollar traded in a range of 46.08 – 46.78 to close at 46.78, depreciating 1.07% week on week basis.

Fund Manager's Comment

The interest rates, both short term and long term, came off last week. The short tenor rates came off as Mutual funds took a sigh of relief after the most difficult quarter of recent past came to an end. They resorted to selective buying, on shorter segment, pushing the yield down. The long rate traders were more cautious, though, and the move down was mainly because of overseas factors.

The liquidity, though still negative, is likely to ease in coming days, as 3G outflow is likely to come back in the form of government spending. The rate hike by RBI, would not impact the short tenor rates in a big way, as overnight rates are already trading higher than the new repo (5.50%). This week, the 10 year benchmark paper may open up higher, but is likely to trade in a range of 7.40% - 7.60% with downward bias.

Market Indicators as on 2nd July, 2010

	2/07/2010	25/06/2010	% change
INR/USD	46.7855	46.2900	1.07
Oil (\$/bbl)	72.14	78.86	-8.52
Gold (\$/oz)	1211.60	1255.60	-3.50
10 years G-Sec	7.54	7.65	-0.11
10 years AAA	8.69	8.74	-0.05
Call Money	5.25	5.38	-0.13

Source: Bloomberg

EQUITY MARKETS

The Indian equity market remained very volatile during the week as the participants were expecting some more deregulation policies from the government. The BSE Nifty ended the week with a marginal loss 0.66% while the Nifty posted a loss of 0.48%. The performance is inline with some of the global peers. The BSE small cap and Mid sector has outperformed the market as they shot up at 1.32% and 0.61% respectively.

On the sectoral front, Consumer durable posted a gain of 2.7% followed by Oil&Gas 1.3% and Power 1%. On the losing side, Metal Lost 3.37% followed by IT 1.67% and Bankex 0.7%.

Among the index stocks, Rcom posted a gain of 19.8% followed by Rpower (18.4%), ITC (17.9%) and BPCL (17.1%). The upsurge in the oil & Gas continued during this week on back of the increase earning growth and re rating of the valuation aligned with global peers. On the losing side most of the metal sector has underperformed the market.

RBI finally acted and raised the Repo and Reverse Repo rate by 25bps each. CRR was left untouched as there was liquidity tightness in the market. The rate hike was expected since the past two weeks. This rate hike was a calibrated move as one can expect further interest rate hike of 25bps in credit policy meet in the last week of July. RBI has shifted focus on controlling inflation without hurting growth as the inflation was reaching very high levels.

The stubborn food price inflation finally showed some signs of easing, providing a breather to the government that came under attack for raising fuel prices last week despite high food prices. The year-on-year inflation for food items dropped sharply to 12.92% for the week ended June 19 from nearly 16.9% for the previous week, largely due to a statistical phenomenon called the base effect, which reflects high food prices prevailed last year.

The boards of R-Power and RNRL on Sunday approved the merger proposal as well as the share swap ratio based on the valuation by

consultancy firm KPMG. RNRL was created five years ago to buy natural gas from RIL at a cheap rate and transmit it to R-Power. But the government policy now in place, envisages no role for such a company.

Monsoon is still in its very early days and showing some sign of revival. For the week ended 30 June 2010, monsoon was below normal by 25%. Actual rainfall was 40.3 mm against 54.0 mm.

SBI set its minimum loan rate at 7.5%, beating a July 1 deadline by the regulator for lenders to shift to using the so-called base rate system for pricing loans. The new regime bars State Bank and its rivals from offering most loans at below the base rate as the RBI seeks to increase transparency in borrowing costs and push lending rates to more closely reflect changes in monetary policy. Most of the bank has also set the base rates in the same range with deviation of 25bps to 100bps.

Group of 20 leaders responded to the European debt crisis with deficit-reduction targets and agreed to pursue higher capital requirements for banks once economic recoveries take hold. Advanced G-20 economies will aim to halve deficits by 2013 and start to stabilize their debt-to-output ratios by 2016.

New claims for U.S. jobless benefits unexpectedly rose last week, while manufacturing activity slowed in June, heightening fears the country's economic recovery was stalling. Initial claims for state unemployment benefits increased by 13,000 to 472,000, the U.S. Labor Department said. The market had expected claims to decline to 452,000.

We continue to maintain our cautious view on the market and believe to pick stocks with long term growth potential. We also believe that current turmoil may provide good opportunity for investment in good companies.

Taurus Benchmark Indices Movement

Indices	02/07/10	25/06/10	Points Change	% Change
BSE Sensex	17460.95	17574.53	-113.58	-0.65%
S&P CNX Nifty	5237.10	5269.05	-31.95	-0.61%
BSE 100	9329.87	9369.97	-40.10	-0.43%
BSE 200	2223.59	2229.41	-5.82	-0.26%
CNX Midcap	8091.15	8061.70	29.45	0.37%
S&P CNX 500 Shariah	1292.36	1295.32	-2.96	-0.23%

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

25/06/10 to 30/06/10	Equity	Debt
FII's	1238.40	103.80
MF's	-272.00	1494.30

Source : SEBI site

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