

DEBT MARKETS

Global Update

The global risk aversion after Euro-region crisis, supported by benign crude prices, falling equity market and appreciating dollar led to sustained buying in the US treasury yield. Even though the economic figure published last week showed consolidation of growth the immediate risk in Euro areas was taken more seriously. The 10yrs note yield fell to 3.40% lower week on week basis while crude settled at USD 71.61 barrel on higher US inventory and uncertainty on global growth prospect.

Domestic

The domestic bond yield tracking US bond also fell last week well supported by windfall from 3G auction, better expectation of monsoon, global risk aversion, lower than expected IIP data and slowing inflationary effect. The 10yrs bond closed at 7.49% lower by 15 bps amidst higher volume week on week basis.

CALL & CBLO

Liquidity has started showing tightness in the system as shown by figure in LAF. The average has dropped from 50K to 25K on reduced deposit growth, outflow on account of Govt borrowing, SDL auction, T-Bills and CMB(Cash Management Bills) auction, and less capital inflow due to weak capital market. Overnight rates like Call rate, MIBOR, and CBLO traded between 3.75%-3.90%, 3.90%, and 3.00%-4.00% respectively.

Government Securities and Treasury Bills

The G-Sec market continued its rallying spree also in last week with 10yrs bond touching 7.49%. The auction conducted last week was fully subscribed with the cut-offs as per the market expectation. 7.38% GOI 2015, 8.28% GOI 2032 and 7.80% GOI 2020 was 7.24%, 8.22% and 7.54% respectively. Also the inflation for the month of April was 9.59 compared to

9.90% last week. Headline figure for Feb 10 was revised up at 10.06% from 9.89%. The IIP number published last week was 13.5% lower than the market expectation, also supported the bond rally. RBI conducted 91days and 182days T-Bills auction, the cut-off for the same was 4.17% and 4.55%. The 91days segment saw cut-off higher than the previous cut-off. RBI also conducted Rs.6000 Cr, 35days CMB (Cash Management Bills) auction, the cut-off was 3.87%. The RBI is expected to auction 13000 Cr of bond next week.

Corporate Bonds

Corporate bond yields softened tracking Govt bond. However the credit spread increased as the Corp bond did not see as much buying as govt bond. The 5yrs bond traded at 8.13% while 10yrs benchmark Bond traded around 8.69%.

Rupee

The Indian Rupee gained against USD week on week after the huge volatility witnessed last week on account of European Debt crisis. The Rupee-Dollar traded in a wide range of 44.85 – 45.20 to close at 45.2050, appreciating 0.60% over the week.

Fund Manager's Comment

The action continued in the G-Sec with the trading volume remaining high on NDS. The clarity was missing about the bailout package, and Bonds rallied across the nations. The shorter end of the yield curve saw some pressure, as traders are worried about the negative impact of 3G outflow later this month. This week we may see some profit booking on the 10 yrs segment. The 10yrs is likely to trade in a range of 7.45%-7.60% with upside bias. The one year segment is likely to be more active as MF would try to lighten the portfolio, putting pressure on yields. One year prime CDs are likely to trade around 6.25%-6.40% levels.

Market Indicators as on 14th May, 2010

	14/05/2010	7/05/2010	% change
INR/USD	45.2050	45.4775	-0.60
Inflation	NA	NA	NA
Oil (\$/bbl)	71.61	75.15	-4.71
Gold (\$/oz)	1233.18	1208.40	2.05
10 years G-Sec	7.49	7.63	-0.14
10 years AAA	8.69	8.75	-0.05
Call Money	3.85	3.75	0.10

Source: Bloomberg

EQUITY MARKETS

During the week the global market witnessed huge volatility on account of uncertainty over EU crisis and strengthening of dollar against Euro. Indian equity markets managed to post positive returns inspite of huge volatility. The BSE Sensex and the NSE Nifty, ended higher by 1.3% and 1.5%, respectively. The BSE Mid- and Small-cap indices too ended in the green gaining 1.6% and 1.25, respectively. The key indices recouped a portion of the previous week's losses after the EU announced a rescue package to aid Greece.

On the sectoral front, the major sectoral indices mirrored a mixed trend with the BSE Realty and Auto indices gaining the maximum of 4.1% and 3.7% respectively, while the BSE Metal and CG indices ended marginally in the red. The top gainers in the Realty Index were Sobha Developers (up 15%), HDIL (up 6.6%), Peninsula Land (up 6.3%), DLF (up 4.9%) and Ansal Properties (up 4.6%).

Among the index stocks, Axis bank gained 8.14% followed by Tata Motors 7% and M&M 6.9%. Telecom stocks were on the losing side on the back of TRAI recommendation on the spectrum sharing and fees on 2G licence. Idea lost 10.1% followed by Bharti Airtel 8% and Rcom 5.71%.

The index of Industrial production (IIP) continued to grow at a healthy pace of 13.5% y-o-y in March 2010 and 10.4% y-o-y for FY10, as per CSO release. On a sectoral basis, manufacturing sector grew at over 14% Y-o-Y and mining at 11% Y-o-Y while electricity showed more moderate growth at 7.7% Y-o-Y in March 2010. In FY10 mining, manufacturing and electricity production grew by about 10%, 11% and 6% respectively over the previous year.

India's annual headline inflation in April eased in line with expectations. Wholesale prices rose 9.59% from a year earlier, data released on Friday showed, a tad above the median forecast for a 9.5% rise and compared with March's pace of 9.9%. The data showed annual food inflation rose to 16.87% in

April from 16.65% in the prior month. Fuel inflation eased to 12.55% in the same month from 12.7% in March. Manufacturing inflation cooled to 6.70% from 7.13% in March.

Food inflation broke a two-week trend to increase marginally in late April, belying government expectations that prices would cool with a better rabi crop. The food price index rose 16.44% in the week ending May 1, a commerce ministry release on Thursday said. It is marginally higher than the 16.04% in the previous week.

Telecommunications Regulatory Authority of India issued its much-awaited recommendations on spectrum management and the licensing framework for access service provision. The regulator has also given its recommendations on mergers and acquisitions. It has recommended that incumbents should pay a one-time charge, in line with 3G prices, on spectrum held over 6.2Mhz and 900MHz spectrum should be replaced by 1,800MHz post license renewals. This is a huge negative for the existing telecom players and may severely impact their financials.

Among the global news, The Bank of Korea kept its benchmark interest rate unchanged for a 15th month to record low at 2% as policy makers faced risks from the European debt crisis alongside signs that the domestic economic recovery is strengthening. The bank reiterated that it will "maintain the accommodative policy," while dropping a reference to keeping that stance "for the time being." China's trade surplus shrank 87% in April from a year earlier as imports grew faster than exports because of stimulus-driven domestic demand. It reported surplus of \$1.68 billion compared with a deficit in March.

We expect market to remain range bound as we await cues from the global arena which are negative for the moment. Strong dollar could spark a sell rally on the metals and also can be negative for the equity markets. We continue to remain cautiously optimistic on the equity markets.

Taurus Benchmark Indices Movement

Indices	14/05/10	07/05/10	Points Change	% Change
BSE Sensex	16994.60	16769.11	225.49	1.34%
S&P CNX Nifty	5093.50	5018.05	75.45	1.50%
BSE 100	9070.92	8937.65	133.27	1.49%
BSE 200	2160.45	2127.07	33.38	1.57%
CNX Midcap	7912.00	7769.50	142.50	1.83%
S&P CNX 500 Shariah	1237.06	1227.63	9.43	0.77%

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

06/05/10 to 13/05/10	Equity	Debt
FII's	-2763.00	-715.80
MF's	-4.90	6018.00

Source : SEBI site

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