

DEBT MARKETS

Global Update

The rally in US bond market continued amidst same factors as seen in last week i.e. non-clarity of Euro region's bailout package, benign crude prices, falling commodity prices, weak capital market and lower economic statistic showing housing slowdown. The 10yrs US Treasury note continued its southward journey to touch at 3.22% falling sharply from last week's close of 3.40%. Crude touched USD 68.01/barrel during the week.

Domestic

The rally also continued in domestic market based on falling US yield, softening crude prices, expectation that inflation may soften thus preventing RBI from taking any hawkish policy move. Also market factored in the lower fiscal gap due to higher than expected 3G auction amount. The 10yrs benchmark bond closed at 7.38% against last week close of 7.49%.

CALL & CBLO

Liquidity remained comfortable last week as the average amount posted in LAF was 45K Cr. Overnight rates like Call rate, MIBOR, and CBLO traded between 3.75%-3.85%, 3.75%-3.85%, and 3.95%-2.60% respectively.

Government Securities and Treasury Bills

The G-Sec market continued its rallying spree also in last week with 10yrs bond touching 7.38%. The auction conducted last week was fully subscribed with the cut-offs as per the market expectation. 7.02% GOI 2016, 8.20% GOI 2022 and 8.26% GOI 2027 was 7.39%, 8.64% and 7.97% respectively. RBI conducted 91days and 364days T-Bills auction, the cut-off for the same was 4.22%(4.17%) and 4.93%(4.91%). Both

the segment saw cut-off higher than the previous cut-offs. RBI also conducted Rs.6000 Cr, 28days CMB(Cash Management Bills) auction, the cut-off was 3.92(3.87% for 35D). The RBI is expected to auction 12000 Cr of bond next week.

Corporate Bonds

Corporate bond yields also softened tracking Govt. bond. However the credit spread increased further. The 5yrs bond traded at 8.08% (8.13%) while 10yrs benchmark Bond traded around 8.59% (8.69%) lower than last week's close.

Rupee

The Indian Rupee lost ground against USD week on week after the huge volatility witnessed last week on account of European Debt crisis, FII outflow and overall dollar strengthening overseas. The Rupee-Dollar traded in a wide range of 45.63 – 46.92 to close at 46.92, depreciating steeply by 3.79% over the week.

Fund Manager's Comment

The yields have factored all the positives and softened considerably since last Monetary Policy. This also means the bond market seems to have reached overleveraged level especially when RBI has clarified its unchanged stance toward the rollback of loose monetary policy. Also there is not much room for lower supply of Govt. papers on the backdrop of looming subsidies payment. The bond market will look for cues for further direction. However profit booking after the prolonged rally may not be ruled out. The 10yrs gov. bond is likely to see some profit booking and the yield may trade in the range of 7.40%-7.55%. The money market specially 1yr segment may also see hardening of yields on reduced liquidity.

Market Indicators as on 21st May, 2010

	21/05/2010	14/05/2010	% change
INR/USD	46.9200	45.2050	3.79
Oil (\$/bbl)	68.01	71.61	-5.03
Gold (\$/oz)	1177.10	1233.18	-4.55
10 years G-Sec	7.38	7.49	-0.11
10 years AAA	8.59	8.69	-0.10
Call Money	3.80	3.85	-0.05

Source: Bloomberg

EQUITY MARKETS

The turmoil in the Euro zone continued to send tremors in the Global equities and it was panic selling all over the world. India too has seen flight of money during the week and consequently posted negative gains in the range of 3%. BSE Sensex was down by 3.2%, a deep cut of 529 points. Nifty too posted a negative gain of 3.2% for the week. The BSE Mid-and Small-cap indices were also battered, with both the indices ending in the red, losing 3.7% and 4.5%, respectively.

On the sectoral front, most of the major sectoral indices ended deep in the red, with the BSE Realty index losing the maximum of 8.8%, followed by the Metal index, down 6.5%. There were media reports that the Indian government is also proposing a windfall tax on non-fuel minerals. SAIL and Jindal Steel outperformed the BSE Metal Index by 4.0% each, but JSW Steel and Tata Steel underperformed the benchmark metal index by 2.8% and 0.6%, respectively.

Among the index stocks, L&T was outperformed the markets as it posted a gain of 5.1%. ONGC also posted positive gain on back of revised Gas pricing. The stock posted a weekly gain of 4.6%. Tata motors was on the losing side as it lost 12.9% during the week. DLF JP Associate, Sterlite Industries, and ICICI Bank were also on the losing side.

The government raised administered price mechanism (APM) gas price to \$4.20 per unit at par with Reliance Industries' KG-D6 gas price, discovered on the basis of market principles. The \$4.2 per unit price is already approved by an empowered group of ministers. APM gas is a term used for gas blocks awarded to state-run energy firms on nomination basis.

Food inflation inched up a tad to 16.49% for the week ended May 8 from 16.44% in the previous week to display a near flat movement, a trend that is expected to persist until there are clear indications of the advent of a normal monsoon. On the food front, the scorching summer appears to be adding to the cost of management of perishables. As a result, on a week-on-week basis, vegetables turned dearer by 2.41%, with onion prices going up by 5.73%, potatoes by 0.95% and fruits by 0.41%.

Global markets had another unsettled week amid continuing worries that officials in the euro area have failed to resolve the sovereign-debt crisis in the currency block. The European Central Bank's announcement that it had made an initial purchase of €16.5 billion (\$20.4 billion) in government bonds to soothe markets, left investors underwhelmed.

The U.S. Senate approved a sweeping overhaul of Wall Street regulation that would create a consumer protection agency, strengthen oversight of derivative trading and ban proprietary trading at banks.

The end of non compete agreement between Ambani brothers is expected to have positive impact on the Indian equity markets. The issues related to Eurozone is expected to be settle down soon which may result in some spark in the global equity markets. We remain cautious on the FII money which is showing a negative trend since some time. On the markets, we continue to remain cautiously bullish.

Taurus Benchmark Indices Movement

Indices	21/05/10	14/05/10	Points Change	% Change
BSE Sensex	16445.61	16994.60	-548.99	-3.23%
S&P CNX Nifty	4931.15	5093.50	-162.35	-3.19%
BSE 100	8775.22	9070.92	-295.70	-3.26%
BSE 200	2089.54	2160.45	-70.91	-3.28%
CNX Midcap	7581.90	7912.00	-330.10	-4.17%
S&P CNX 500 Shariah	1204.69	1237.06	-32.37	-2.62%

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

14/05/10 to 19/05/10	Equity	Debt
FII's	-1589.60	1114.40
MF's	-567.20	3926.40

Source : SEBI site

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