

DEBT MARKETS

Global Update

The US bond market last week gained on risk aversion, after the continued fiscal issues in Greece and mixed data coming from US economy. The US unemployment data came higher than the expected and while the housing strats gave a mixed signal. The clarification from Ben Bernanke that key rates would be near zero level for extended period and inflation to remain low, led to value buying of Government bond. The benchmark 10yrs bond closed at 3.61% on bullish note, down 18 bps over the week.

Domestic

The key event in the last week was much awaited budget. While the equity market took the budget positively, bond market witnessed sell-off even though the gross borrowing (Rs.4.6L Crs) and net borrowing (Rs. 3.5L crs) for year 2010-2011 was as per the market expectation. This was primarily due to increase in excise duty of crude prices which is seen as fuelling inflation further. Also finance ministry projection of double digit growth in medium term and healthy growth for next year led to apprehension of RBI increasing key rates in coming months. The 10yrs bond closed the week at 7.88% after touching 7.76% during intra week trading.

CALL & CBLO

The liquidity condition in market was comfortable with 60K-70K in LAF. CBLO range for the week was 2.25%-3.24%. The range for the Mibor was 3.31%-3.35%, while call ranged between 3.05%-3.40%.

Government Securities and Treasury Bills

The government securities market saw the rally on the start of the week bringing the yields down to 7.78% on

10yrs bond. However budget announcement of hike in excise duty pushing the oil prices up led to sharp sell-off on fear of spiralling inflation. The 10yrs benchmark bond closed at 7.88%. The short term rates continue to trade at higher levels which was reflected in the cut-offs for 91days and 364 days T-Bills. The cut-offs were 4.13% and 5.01% respectively, 5-7 bps higher than previous levels.

Corporate Bonds

The corporate bond yield was range-bound for the last week as the action was restricted in G-sec. The 5yrs benchmark bond traded around 8.59% while 10yrs benchmark bond traded around 8.88%.

Rupee

Indian Rupee traded in a small range of 35 paisa during the week. Opening the week at 46.08, it depreciated to 46.44 levels only to strengthen again on Friday. The Rupee closed the week at 46.08 appreciating 0.48%.

Fund Manager's Comment

The budget showed the government commitment to keep fiscal deficit under control. This is likely to help managing the long term rates stable in medium term (4-6 months). But market is worried about the short term impact of the budgetary measures on inflation. The 10yrs benchmark paper is likely to trade around 7.85%-8.00% levels. The short tenor rates are likely to remain under pressure on account of fresh issuance by banks and lack of buying interest by mutual funds.

Market Indicators as on 26th February, 2010

	26/02/2010	19/02/2010	% change
INR/USD	46.0850	46.3056	-0.48
Inflation	NA	8.56	NA
Oil (\$/bbl)	79.66	79.81	-0.19
Gold (\$/oz)	1117.60	1119.20	-0.14
10 years G-Sec	7.885	7.876	0.11
10 years AAA	8.8825	8.9200	-0.42
Call Money	3.35	3.30	1.52

Source: Bloomberg

EQUITY MARKETS

Indian equity markets remained flat during most part of the week as it was waiting for the union budget which was announced on Friday. On the budget day markets gave a thumbs up with strong gain. During the week, the Sensex gained 0.4% and ended the week at 16254 while nifty gained 1.6% and ended the week at 4922. The mid cap and small cap sector underperformed the broader market as they lost 1.98% and 2.73% respectively during the week. On the sectoral front, Metal index gained 3.77%, IT gained 3.09% and Bankex gained 2.81% while Oil & gas, Consumer durables and FMCG sector lost 0.61%, 1.89% and 3.32% respectively.

Among the stock performance, LT gained 3.87%, Infosys Tech 3.35% and Jindal steel gained 2.92%. On the losing side, Tata motors lost 4.63%, Reliance communication lost 4.48% and M&M lost 4.45%.

India's union Finance Minister Pranab Mukherjee presented in Parliament on Friday the Budget for FY11. The Budget started the process of fiscal consolidation by initiating restoration of the tax cuts that were announced following the events of September 2008. Excise duty on non-petro products has been across the board increased by 2%. The levy was cut by 6% following the global economic slowdown. The exit hence is only partial in nature. Also, the services tax has been left at the post crisis level of 10%.

In order to address the concern of rising prices, the FM embarked upon increasing the farm sector production by attracting more investment in agriculture. The budget also raised the interest subvention for farmers, thus boosting the rural incomes which will support the Indian growth story in the medium run.

Overall, it was a very well balanced budget. Personal direct tax structure has been considerably relaxed, leaving more money with households, cess on corporate taxes has been cut for the Industry, roll back of stimulus is only partial to promote growth and fiscal deficit has been brought down to 5.5% of the GDP for FY11. The net Govt borrowing for the year pegged at 3.45 lac cr. This move cheered by the markets.

India's core sector, comprising six key infrastructure industries, grew 9.4% in January 2010, compared with 6% in the previous month and 2.2% in January 2009. The growth, signifying recovery in industrial manufacturing, was primarily led by an increase in the production of crude oil, electricity and finished steel last month. The sector, which accounts for 26.7% of the Index of Industrial Production (IIP), will help in clocking double digit industrial growth for second month in a row.

India's gross domestic product (GDP) growth slowed down to 6 per cent in the third quarter of 2009-10 after notching up an impressive 7.9% in the previous quarter, mainly on account of a decline in the agricultural and services sectors. In terms of growth in different sectors, mining & quarrying grew at 9.6%, manufacturing grew at 14.3%, construction grew at 8.7%, trade, hotels, transport and communication grew at 10%, and financing, insurance, real estate and business services grew at 7.8%. There was a decline of 2.8% in agriculture, forestry & fishing and 2.2% in community, social and personal services in this period.

The union budget will continue to dominate the Indian markets during next week with focus on the specific sectors. The increased allocation to infrastructure, rural development and agriculture will spark buying interest in the stocks related to these sectors. We expect the investor interest to turn positive which may spark a strong rally for the markets.

Taurus Benchmark Indices Movement

Indices	26/02/10	19/02/10	Points change	% change
BSE Sensex	16429.55	16191.63	237.92	1.47
S&P CNX Nifty	4922.30	4844.90	77.40	1.60
BSE 100	8758.51	8635.42	123.09	1.43
BSE 200	2071.72	2048.00	23.72	1.16
CNX Midcap	7167.25	7212.25	-45.00	-0.62
S&P CNX 500 Shariah	1206.40	1191.96	14.44	1.21

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

19/02/10 to 25/02/10	Equity	Debt
FIs	1663.80	1064.30
MFs	-154.90	4372.10

Source : SEBI site

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