

DEBT MARKETS

Global Update

The US GDP data for October-December quarter was released on January 28. The GDP expanded at a 5.7% annualized, much higher than the market estimated of 4.7%. In its policy meeting, US Federal Reserve decided to keep the benchmark interest rates at a record low of 0.25% for "extended period" last week. The 10 yrs benchmark paper rose for the 4th successive week and the yields fell to 3.58%. The yields have fallen by 25 basis points for January 2010, the biggest monthly drop since March 2009.

Domestic

RBI kept the benchmark rates unchanged, as was the consensus estimate. The reverse repo and repo rates were maintained at 3.25% and 4.75% respectively. It, though, surprised the market with an increase of 75 bps in CRR to 5.75%, exceeding the forecast of a 50 bps raise. The raise will be implemented in 2 steps, 50 bps hike to be effective from February 13, 2010, and 25 bps hike to be effective from February 27, 2010, which would suck nearly Rs 36,000 Cr of excess liquidity from the system. RBI increased the inflation forecast for March 31 to 8.5% (from 6.5%) and the FY 09-10 GDP growth forecast raised to 7.5% (earlier 6.00%). The credit growth projection was cut to 16% (earlier 18%). The yield of 6.35% January 2020 paper rose to 7.59% after the policy announcement.

CALL & CBLO

The money market rates did come down during the first half, only to go up after the policy announcement. The range for MIBOR was 3.30-3.31 % during the week. The Inter-bank Call and CBLO range were 3.00%-3.35% and 1.00%-3.40% respectively.

Government Securities and Treasury Bills

It was a range play yet again for the fixed income markets in India. The 10 yrs paper traded in a narrow range of 7.50% - 7.60%.

The market saw some profit booking, and the yield touched a high of 7.59% after the monetary policy was announced on Friday. This week did not have any G-Sec auction, as the borrowing program for FY 09-10 is coming to a close. On Wednesday the INR 80 bn treasury bills auction had a bid-to-cover ratio of 2.60. Both the tenders witnessed a cut-off higher than its previous level; the 3-months bill was sold 8 bpss higher at 4.01% while its 364 day counterpart was issued at 4.67% (no change).

Corporate Bonds

The corporate bond yields did not move either direction, as volumes remain tepid in the first half. The 5yrs benchmark bond traded around 8.33% while 10Y benchmark bond traded around 8.69%.

Rupee

Indian Rupee traded in a narrow range of 25 paise (46.18-46.43) last week, as traders waited for the monetary policy, to be released on 29th January. It closed the week at 46.18 compared to last week's close of 46.1550.

Fund Manager's Comment

Banks continue to raise money through CD issuances. They raised around Rs 35K Cr in January 2010. Because of the huge supply the money market rates remained firm. But now, with monetary policy uncertainty behind us, and major portion of the CD issuance likely over, we are likely to see more volumes in the secondary markets. There is ample scope of appreciation in the 10 yrs segment. The US yields have come down by 25 bps in January, where as Indian G-Sec yields have remained flat. The 10 yrs rates are likely to trade around 7.50% levels with downward bias this week.

Market Indicators as on 29th January, 2010

	29/01/2010	22/01/2010	% change
INR/USD	46.1782	46.1550	0.05
Inflation	NA	NA	NA
Oil (\$/bbl)	74.19	74.54	-0.47
Gold (\$/oz)	1081.80	1093.20	-1.04
10 years G-Sec	7.575	7.562	0.17
10 years AAA	8.6850	8.6600	0.29
Call Money	3.30	3.28	0.61

Source: Bloomberg

EQUITY MARKETS

Market continued its trend of the previous week, with both the BSE Sensex and the NSE Nifty, ending lower by 3.0% and 3.1%, respectively. The BSE Sensex and the NSE Nifty ended the week at 16358 (-502pts) and 4882 (-154pts) respectively. The BSE Mid- and Small- Cap indices also fell by 4.0% and 4.9%, respectively. On the sectoral front, all the major sectoral indices ended in the red, with the BSE Metal index losing the maximum of 7.8%, followed by the BSE Realty and the BSE Auto indices. The BSE Metal Index lost 7.8% over the previous week, underperforming the Sensex by 4.8% on concerns over credit tightening in China, the RBI hiking the CRR by 75bp and fall in metal prices on LME Tata Steel fell 8.9% due to delay of the 3.0mn tonnes, Brownfield expansion. Amongst the Non-Ferrous pack, Nalco, Hindalco and Sterlite were down by 9.7%, 8.7% and 7.9%, respectively, on the back of poor results

RBI hiked CRR by 75 bps in its January 2010 monetary policy. CRR hike was higher than expected 50 bps but given the ample liquidity will support credit off take without rise in interest rates. RBI has kept repo and reverse repo rates unchanged and increased GDP target to 7.5% and inflation target to 8.5%. Credit growth during the fortnight ended January 15 was 13.8% YoY.

After declining for three consecutive weeks, food price inflation rose to 17.40% for the week ended January 16, 2010 as compared to 16.81% in the previous week. However, fuel price inflation declined marginally to 5.7%, according to data released by the commerce ministry on Thursday.

India's CPI for Industrial Workers for December 2009 came at 14.97% against 13.51% in November 2009 and 9.70% in December 2008; up by 0.59% on monthly basis.

The sell off in the emerging market continues during the second consecutive weeks after US presidents talks of putting restriction on their bank sponsored Hedge funds and private equity players. This has seen profit booking from these investors from their emerging market portfolio. Economic data across the globe continues to confirm hypothesis of economies returning to recovery. US economy expanded 5.7% in the fourth quarter, fastest in six years. IMF has revised 2010 growth projection for world and India to 3.9% (earlier 3.1%) and 7.7% (earlier 6.4%) respectively. IT has also revised global growth forecast to 4%.

During the week FII's sold US\$ 1,301 mn in cash. For current month total investment is US\$ (1,351 mn). DII invested US\$ 900 mn in cash. For current month total investment is US\$ 2,426 mn.

The recent monetary policy has deferred interest rate hike for at least a quarter which should be taken as a positive signal by the market. The Q3FY10 results were best among the last eight quarters and were on the expected lines. The FII money remain critical for the markets as the withdrawal of money is positively correlated with the market fall. During the current week, we expect market to stabilize at current level taking further cues from the international peers.

Taurus Benchmark Indices Movement

Indices	29/01/10	22/01/10	Points change	% change
BSE Sensex	16357.96	16859.68	-501.72	-2.98
S&P CNX Nifty	4882.05	5036.00	-153.95	-3.06
BSE 100	8707.82	8989.10	-281.28	-3.13
BSE 200	2065.21	2133.28	-68.07	-3.19
CNX Midcap	7201.85	7474.95	-273.10	-3.65
S&P CNX 500 Shariah	1198.63	1237.94	-39.31	-3.18

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

22/01/10 to 28/01/10	Equity	Debt
FII's	-5449.30	913.30
MFs	937.40	4335.10

Source : SEBI site

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