TAURUS Mutual Fund

TAURUS RECAP

WEEKLY REPORT - 2nd - 6th FEBRUARY 2009

DEBT MARKETS

Global

Bank of England reduced its benchmark rate by 50 bps to 1% tracking the expectation that UK's economy will contract the most since 1946 amongst all industrialized economies. In fact, except for the European Central Bank , Central Bank of Australia, South Africa and Czech Republic lowered their benchmark rates.

U.S non-farm payroll and unemployment data took the market by surprise as both the indicator came in higher than the market expectation. While the unemployment rate soared to 7.6% employers slashed 598,000 jobs in the month of January 2009.

Russia's debt rating was downgraded by Fitch to BBB (second-lowest investment grade), while the negative outlook was maintained on account of plummeting oil prices and subsequently dwindling foreign currency reserves as well as record capital flight.

Domestic

WPI for the week ended January 24 softened 57 bps to 5.07%. Fall in the inflation numbers was on account of downward revision in prices of food articles and manufacturing products; the fuel group moved upwards on account of rise in prices of naphtha and light diesel oil.

CALL & CBLO

Average LAF Reverse Repo volumes increased by Rs 26 bn to Rs 608 bn. Daily average of overnight CBLO volumes' increased by 9%, to Rs 410 bn. Average overnight rate was consistently below reverse repo.

Government Securities and Treasury Bills

RBI's governor statement on Friday assuring a more market-friendly borrowing program and regard for alternative liquidity options has boosted the market sentiment. The better than expected auction cut-off also helped the same. The auction cut off of 7.46 GoI 2017 was at 6.83% and for 6.30 GoI 2023 was at 7.15%. Further RBI has also announced the scheduled auction of G-Sec and T-Bill of Rs 80 bn each.

Corporate Bonds

Spreads across the curve widened tracking higher supplies of corporate bonds. Yield on the 10-year AAA bond hardened by 12 bps to week's high 9.22%.

Rupee

The INR appreciated by 0.6% last week tracking the improvement in emerging market and on expectations of higher flows to the emerging market economies. FIIs sold INR 3.4 bn over the week as over INR 6 bn in the previous week, indicating higher purchase.

Fund Manager Comments

Liquidity for the coming week is expected to remain comfortable. G-Sec market is factoring in the announcement of additional G-Sec auction, which will make the movement of yields highly volatile with slight mixed views. Factors to look out for the coming week will be the release Inflation and IIP numbers.

SPREADS OF CORPORATE BONDS AS ON 6th February 2009 OVER G-SECS

Rating			
Tenure	AAA	AA +	AA
1 year	358.70	376.70	395.70
3 years	327.20	345.20	364.20
5 years	293.30	311.30	330.30
10 years	271.70	289.70	308.70

EQUITY MARKETS

Indian stock market was reluctant and was groping in dark, like its global counterparts, trying to find a clear direction. In that process, volumes dropped drastically and price movement was very erratic. But still it managed to hold the movement within a smaller range band of 2% to 3%, after an abrupt fall of close to 4% on Monday. Despite reports of a pro-industry budget and the markets gaining in three out of five sessions, key indices ended the week in the red on institutional selling and weak global cues. While the Sensex was down 123.38 points or 1.31% to 9,300.86 for the week, the Nifty lost 31.70 points or 1.10% to 2,843.10.

There was sharp fall in net sale volume from FIIs and surprisingly they turned net buyers on the last day. Unexpectedly buying support from domestic institutions declined and so the market could not find any support to get back on feet. Volumes dropped by an average of 20% in both the cash and futures segments. While reports of tax relief and fiscal stimulus in the forthcoming budget was considered a positive by the markets, poor corporate results, a fall in direct tax collection and lower exports were the dampeners.

Week end bad result from realty major DLF was a strong negative factor for this sector and this sector index lost over 15% this week. Oil & gas and FMCG held on to their gains of 1.3% and 0.7 % respectively. Metals remained flat week on week. Among the sectoral indices, Consumer durables lost the most with a fall of 8.9%. CG lost 3.0% and Bankex lost 2.8%. Auto lost 2.1% and IT lost 1.4%.

Another round of measures to stimulate the economy is likely to keep the markets steady. The market is betting on the central bank cutting rates. It is also expecting tax breaks and sector-specific sops in the budget. Investors will keep an eye out for the Index of Industrial Production (IIP) data for December 2008 which will be released on February 11, 2009. The first speech from the new US Treasury secretary and the press conference of US President Obama to announce the stimulus package on Monday could bring in good tidings to bullish sentiment.

However, there are many blue chip stocks with strong operating cash-flows and robust business model available at attractive valuations due to the broader market fall and negative sentiments. We think its good times to pick stocks with high earnings visibility, low dependence on fresh capital, strong balance sheet & operating cash-flows, positive leverage to lower commodity prices & lower interest rates.

Long term investors should use the next few months to get invested in large-cap oriented funds through SIP route.