

DEBT MARKETS

Global Update

The series of negative economic data released last week compressed the yields further to record level in US bond market. The higher unemployment data, low consumer confidence index, lower reported industrial data from China and US coupled with low inflation index pointed toward fragile growth of global economy. Further the risk of deflation and continued loose policy by Fed is widely being accepted by US market participants. This has led to record rally in US bond. The 10yrs benchmark traded at 2.93% lower significantly than the last week's close. The US dollar depreciated overseas as the Euro gained significantly on the backdrop of successful Greek and Spanish bond auction elevating confidence in Eurozone areas.

Domestic

The domestic market on the other hand remained lacklustre under stressed liquidity condition, higher inflation data (10.55% against 10.16% previously). Also market remained cautious ahead of RBI policy meet on 27th this month. The 10yrs benchmark bond closed at 7.63% marginally lower than the last week close. There is seen a perceptible divergence between US and Indian bond market. The closer issue of liquidity and monetary tightening and higher inflation is driving the short term and long term bonds.

CALL & CBLO

Liquidity tightness continued last week, though the system borrowed lower amount from RBI repo. Overnight rates like MIBOR, and CBLO traded between 5.60%-5.71% and 5.47% - 4.86% respectively.

Government Securities and Treasury Bills

The government security market remained subdued last week because of lack of perceptible direction. The market is struck

between the narrow range of 7.55-7.65% since mid May. Amidst this uncertainties RBI auctioned Rs. 13K. The bond auctioned were 7.46% GOI 2017,,8.20% GOI 2022,8.26% GOI 2027. The cut-offs were, 7.61%,8%,8.23% respectively. The cut-offs for 91days and 365days T-bills were, 5.41% and 5.69% respectively.

Corporate Bonds

Corporate bond yields too rose following the G-Sec yields. The 5yrs bond traded lower week on week at 8.28/% (8.21% previously) while 10yrs benchmark Bond traded around 8.75% (8.72% previously) higher on weekly basis.

Rupee

The Indian Rupee depreciated against USD week on week on higher demands of dollar from importers. The Rupee-Dollar traded in a range of 46.60 – 46.78 to close at 46.77 depreciating 0.24% week on week basis.

Fund Manager's Comment

The liquidity squeeze continued, with LAF showing a negative of around Rs. 60k Cr. Traders were surprised by lack of government spending. On Friday, RBI extended the evening LAF window to the end of the month, indicating its view of tight liquidity in coming fortnight. The bank's exposure to mutual funds came down to around Rs. 20k Cr as on 2nd July, which is one of the lowest in recent times.

The coming week would keep the long Rate Traders at bay, due to the uncertainty of the coming monetary policy and the government opening up with accelerated spending. The yield curve is likely to flatten more as short end pressure would push yields up. The 10 yrs benchmark rate, though, may remain directionless and trade in a range of 7.55% - 7.65%.

Market Indicators as on 16th July, 2010

	16/07/2010	9/07/2010	% change
INR/USD	46.7700	46.6600	0.24
Oil (\$/bbl)	76.01	76.09	-0.11
Gold (\$/oz)	1193.00	1211.60	-1.54
10 years G-Sec	7.63	7.65	-0.02
10 years AAA	8.74	8.71	0.03
Call Money	5.71	5.70	0.01

Source: Bloomberg

EQUITY MARKETS

The stock markets regained the positive trend during the week ended 10th July amidst high volatility. During the week, RBI has taken the much awaited step on the policy rates and increase the same by 25bps. The BSE sensex ended the week at 17834, posting a weekly gain of 2.1% while nifty posted gain of 2.2% and ended the week at 5352. The BSE mid cap outperformed the broader indices as it posted a weekly gain of 2.8% while Small cap index managed to post gain of 1.8%.

On the sectoral front, most of the indices ended in the green, with the BSE IT and Realty indices gaining the maximum with gains of 4.6% and 4.1%, respectively. The top gainers in the real estate space were Sobha Developers (11.3%), Mahindra Lifespace (5.9%), Omaxe (4.8%), DLF (4.8%) and Unitech (4.1%).

Among the stocks, Telecom sector posted a huge jump. IDEA ended the month with gain of 25% followed by Rcom 21%, Reliance capital 17% and IDFC 16.4%. On the losing side, SAIL lost 4.74% followed by HCL Tech (-2.80%) and PGCIL (-2.30%).

During the week, IMF has raised India GDP target to 9.5% in 2010. This has pulled positive sentiment in the market and has helped the markets to extend their gain.

The price index of Primary Articles has increased to 16.08% on a yearly basis. On a weekly basis, it went up by 1.39%. Under Primary Articles, the price index of Food Articles fell to 12.63% on a yearly basis. On a weekly basis, it went down by 10 bps. The decline in price index of Food Articles is owing to decrease in prices of vegetables, pulses and fruits. However prices of condiments & spices and eggs, meat & fish went up. The price index of Non-food Articles decreased to 18.60% (y-o-y); on a weekly basis it went up by 24 bps. The rise is attributed to increase in prices of oilseeds & other non food articles (fodder, sunflower, raw silk & raw rubber).

For the week ended 7 July 2010, monsoon was 2% above normal. Actual rainfall was 64.5 mm against 63.0 mm. Cumulative rains in the country from 1 June – 7 July were 10% below normal. Total rainfall was 204 mm compared with the normal rainfall of 226.5 mm for the period. According to the met department, The north India will see accelerated monsoon season while central India may take some time.

Sugar stocks were in limelight during the week as the food and Agricultural minister hinted towards deregulation of the sector. He also urged to put tax on the imported sugar.

Among major Global News, IMF raises 2010 world GDP forecast: The IMF upgraded its 2010 global growth forecast, citing robust expansion in Asia and renewed U.S. private demand, but warned the euro area's debt crisis posed a big risk to recovery. The fund raised its 2010 global output forecast to 4.6% from 4.2% in April's review of the global economy, but kept its 2011 view unchanged at 4.3%. The biggest upward revisions to growth were in developing economies. Brazil's 2010 growth forecast was raised by 1.6% - 7.1%. India's growth was revised upwards to 9.4% in 2010 from 8.8% earlier. The IMF also raised its 2010 forecast for China's growth to 10.5% from 10.0%. US growth was revised upward to 3.3% from 3.1% earlier.

We believe the market continue to remain in long term bullish trend. Up gradation from IMF also boost confidence about the sentiment in the economy. We expect market to trade with positive bias and the further cues are expected to be driven by the earning season.

Taurus Benchmark Indices Movement

Indices	16/07/10	09/07/10	Points Change	% Change
BSE Sensex	17955.82	17833.54	122.28	0.69%
S&P CNX Nifty	5393.30	5352.45	40.85	0.76%
BSE 100	9586.39	9508.54	77.85	0.82%
BSE 200	2287.54	2268.77	18.77	0.83%
CNX Midcap	8394.90	8301.10	93.80	1.13%
S&P CNX 500 Shariah	1316.30	1313.52	2.78	0.21%

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

09/07/10 to 16/07/10	Equity	Debt
FII's	7784.10	2294.40
MF's	-1350.20	282.20

Source : SEBI site

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