

## DEBT MARKETS

### Global Update

The US treasury fell last week as the concerns of US economy going back into recession eased. The initial jobless claims dropped by 454,000 for the week ending July 3. The yields for 10 yrs benchmark paper went up by 8 basis points to 3.06%, the highest level in a month. The S&P index, the measure of equity markets, rose by 5.4% showing investor preference for riskier assets. IMF raised the forecast for economic growth of the world to 4.6%, upward revision from 4.2%, for the year 2010.

### Domestic

Domestic yields too followed their global counterparts and yields firmed up. The liquidity continued to remain tight, though the amount borrowed by Banks from RBI under repo arrangement came down. The LAF showed a negative of Rs. 52K compared to 62K previous week. The benchmark yields were raised by 25 bps the previous week by RBI, putting a negative bias for the G-Sec traders. The 10yrs G-Sec Yields rose by 9 bps to 7.65%, as the cutoff yields for auction came at higher than market expectations. IMF raised its forecast for the GDP growth rate for current fiscal to 9.4%, from previous 8.8%.

### CALL & CBLO

Liquidity tightness continued last week, though the system borrowed lower amount from RBI repo. Overnight rates like Call rate, MIBOR, and CBLO traded between 5.30% - 5.60%, 5.69%-6.00% and 5.00% - 6.00% respectively.

### Government Securities and Treasury Bills

The G-Sec volumes came off last week, as yields went up. The average daily volume fell from Rs. 13k Cr to Rs. 6.9k Cr. The RBI successfully sold INR 120 bn gilts as scheduled. The demand for the INR 40bn newly issued 5 yrs bond was buoyant

with bid-to-cover ratio of 3.19X and cut-off of 7.40% (same as previous auction). While 5 yrs stole all the limelight, the cut-off for INR 50 bn 7.80% 2020 and INR 30bn of 22 yrs maturity security were set at 7.67% and 8.33% respectively. RBI also auctioned INR 20 bn 91 days Treasury bills at a cut-off yield of 5.27% (9 bps higher) and INR 15 bn 182 days Treasury bills at 5.78% (41 bps higher).

### Corporate Bonds

Corporate bond yields too rose following the G-Sec yields. The 5yrs bond traded lower week on week at 8.21% (8.16%) while 10yrs benchmark bond traded around 8.72% (8.69%) marginally higher on weekly basis.

### Rupee

The Indian Rupee appreciated against USD week on week. The Rupee-Dollar traded in a range of 46.60 – 47.15 to close at 46.66 appreciating 0.27% week on week basis.

### Fund Manager's Comment

The liquidity squeeze of June showed signs of easing a bit, though LAF figures remained negative in the tune of Rs. 42k negative. The quarter end of June a passé, for MFs, there was some buying seen in the short end of the curve. The rates though remained firm on the 1 yr-10 yrs segment, as traders remained cautious.

The liquidity, though still negative, is likely to ease in coming days with government spending. The interest rate traders will keep a keen eye on the IIP and Inflation data to be released this week. We may see buying interest coming back into the long end of the curve, with 10 yrs benchmark yield likely to trade in a range of 7.50%-7.65% with downward bias.

### Market Indicators as on 9th July, 2010

	9/07/2010	2/07/2010	% change
INR/USD	46.6600	46.7855	-0.27
Oil (\$/bbl)	76.09	72.14	5.48
Gold (\$/oz)	1211.60	1211.60	0.00
10 years G-Sec	7.65	7.54	0.11
10 years AAA	8.71	8.69	0.03
Call Money	5.70	5.25	0.45

Source: Bloomberg

## EQUITY MARKETS

The Indian equity market remained very volatile during the week as the participants were expecting some more deregulation policies from the government. The BSE nifty ended the week with a marginal loss 0.66% while the Nifty posted a loss of 0.48%. The performance is inline with some of the global peers. The BSE small cap and Mid sector has outperformed the market as they shot up at 1.32% and 0.61% respectively.

On the sectoral front, Consumer durable posted a gain of 2.7% followed by Oil&Gas 1.3% and Power 1%. On the losing side, Metal Lost 3.37% followed by IT 1.67% and Bankex 0.7%.

Among the index stocks, Rcom posted a gain of 19.8% followed by Rpower (18.4%), ITC (17.9%) and BPCL (17.1%). The upsurge in the oil & Gas continued during this week on back of the increase earning growth and re rating of the valuation aligned with global peers. On the losing side most of the metal sector has underperformed the market.

RBI finally acted and raised the Repo and Reverse Repo rate by 25bps each. CRR was left untouched as there was liquidity tightness in the market. The rate hike was expected since the past two weeks. This rate hike was a calibrated move as one can expect further interest rate hike of 25bps in credit policy meet in the last week of July. RBI has shifted focus on controlling inflation without hurting growth as the inflation was reaching very high levels.

The stubborn food price inflation finally showed some signs of easing, providing a breather to the government that came under attack for raising fuel prices last week despite high food prices. The year-on-year inflation for food items dropped sharply to 12.92% for the week ended June 19 from nearly 16.9% for the previous week, largely due to a statistical phenomenon called the base effect, which reflects high food prices prevailed last year.

The boards of R-Power and RNRL on Sunday approved the merger proposal as well as the share swap ratio based on the valuation by

consultancy firm KPMG. RNRL was created five years ago to buy natural gas from RIL at a cheap rate and transmit it to R-Power. But the government policy now in place, envisages no role for such a company.

Monsoon is still in its very early days and showing some sign of revival. For the week ended 30 June 2010, monsoon was below normal by 25%. Actual rainfall was 40.3 mm against 54.0 mm.

SBI set its minimum loan rate at 7.5%, beating a July 1 deadline by the regulator for lenders to shift to using the so-called base rate system for pricing loans. The new regime bars State Bank and its rivals from offering most loans at below the base rate as the RBI seeks to increase transparency in borrowing costs and push lending rates to more closely reflect changes in monetary policy. Most of the bank has also set the base rates in the same range with deviation of 25bps to 100bps.

Group of 20 leaders responded to the European debt crisis with deficit-reduction targets and agreed to pursue higher capital requirements for banks once economic recoveries take hold. Advanced G-20 economies will aim to halve deficits by 2013 and start to stabilize their debt-to-output ratios by 2016.

New claims for U.S. jobless benefits unexpectedly rose last week, while manufacturing activity slowed in June, heightening fears the country's economic recovery was stalling. Initial claims for state unemployment benefits increased by 13,000 to 472,000, the U.S. Labor Department said. The market had expected claims to decline to 452,000.

We continue to maintain our cautious view on the market and believe to pick stocks with long term growth potential. We also believe that current turmoil may provide good opportunity for investment in good companies.

### Taurus Benchmark Indices Movement

Indices	09/07/10	02/07/10	Points Change	% Change
BSE Sensex	17833.54	17460.95	372.59	2.13%
S&P CNX Nifty	5352.45	5237.10	115.35	2.20%
BSE 100	9508.54	9329.87	178.67	1.92%
BSE 200	2268.77	2223.59	45.18	2.03%
CNX Midcap	8301.10	8091.15	209.95	2.59%
S&P CNX 500 Shariah	1313.52	1292.36	21.16	1.64%

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

01/07/10 to 08/07/10	Equity	Debt
FII's	499.40	5492.60
MF's	-85.90	4573.20

Source : SEBI site

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