

## DEBT MARKETS

### Global Update

US yields firmed up on inflation expectation and healthy retail sales data.

The US bond yield hardened last week, snapping the bullish trend, mainly due to expectation of Fed may take measures which contain the risk of deflation and at the same time stoke inflation. Also better than expected retail sale data pushed the bond yield higher. The apprehension that Fed may target short term debt in their expected monetary stimulus programme also further pushed the yield higher. The 10yrs benchmark bond closed at 2.56% nearly 16 bps higher than the last week close.

### Domestic

Higher inflation figure along with tight liquidity and supply pressure kept the yields higher week on week.

The domestic market taking cues from US market also hardened. The main reason was higher inflation figure recorded for the month of September, thus giving rise to the speculation of RBI hiking rates further on its 2nd November policy. Also, constant supply of G-Sec and tighter liquidity spelt negativity on bond traders. The 10yrs benchmark bond closed higher at 8.06% against 7.98% last week. The inflation came at 8.62% against the market expectation of 8.55% as food prices reversed their declining trend, rising 1.3% m-o-m, while non-food manufactured prices rose a more subdued 0.2% m-o-m after a flat August, reflecting higher commodity prices. Industrial production growth in August dropped to a fifteen month low level to 5.6% against our expectation of 10.8% (market consensus: 9.5%).

### CALL & CBLO

Remained higher on tighter systemic liquidity

Liquidity condition remained very tight with LAF figures showing an average daily borrowing by SCBs of INR. 80k-90k Cr from RBI. Overnight rates like MIBOR, and CBLO too showed the tight liquidity conditions and traded between 5.92% - 6.70% and 5.00% - 6.70% respectively.

### Government Securities and Treasury Bills

A bullish borrowing calendar

The domestic G-Sec market remained bearish with 10 yrs

benchmark G-Sec trading above 8% for most of the week. The tight liquidity conditions, uncertainty about the benchmark paper and higher than expected inflation data pushed the yield higher across the yield curve. GSec Auction cut off also turned bearish on Friday. RBI set the cut off yield for the five year bond at 7.80% while cut off for the ten year bond was at 8.06%. The RBI's auction of the short term instruments exhibited the tight liquidity condition in the system, compelling participants to bid at higher levels. In a rare event, the apex bank witnessed an under subscription of INR 10bn in its 182 days T-bill with cut-offs set ~25bps higher than its previous auction of 6.82%, while INR 40bn of 91 days T-bill were successfully sold at 6.56% (14bps higher).

### Corporate Bonds

Yield action negative following the G - Sec

Corporate bond yields too rose following the Government papers. The 5yrs bond traded at 8.54% while 10yrs benchmark Bond traded around 8.73%.

### Rupee

Rally goes on riding strong equity inflows

The Indian Rupee continued its strength against USD following the global weakness of USD. The FIIL inflows continued unabated, this time on account of Coal India IPO. The Rupee-Dollar flirted with the 44 levels to close at 44.10 appreciating 0.75% week on week basis.

### Fund Manager's Comment

The market turned bearish both on the short end and the long end of the yield curve. The tight liquidity and the supply pressure kept the yield higher. The net LAF borrowing of nearly INR 80k Cr kept the overnight rates well above 6%. The higher than expected inflation numbers stoked speculations of another rate hike by RBI, pushing up the yields for the benchmark paper.

In the coming week, we see pressure on the shorter end of the curve, mainly in the 3m-6m bucket, as tight liquidity may push MFs away from the money markets. The issuances of CDs are likely to continue unabated, thereby putting pressure on the short term rates. The benchmark 10 year paper may provide opportunity of value buying around 8.10%. The 10 yrs benchmark paper is likely to trade in a range of 8.0%-8.12%.

Market Indicators as on 15th October, 2010

	15/10/2010	8/10/2010	% change
INR/USD	44.1000	44.4350	-0.75
Inflation	8.62	-	NA
Oil (\$/bbl)	81.25	82.66	-1.71
Gold (\$/oz)	1368.40	1346.74	1.61
10 years G-Sec	8.06	7.98	0.08
10 years AAA	8.13	8.70	0.03
NSE Mibor	6.46	5.92	0.54

Source: Bloomberg

## EQUITY MARKETS

The Indian equity market continued negative trend of the last week as they posted marginal loss for the week. The BSE Sensex has ended lower by 125 points, a loss of 0.6% while the nifty has lost 0.37%. BSE small cap outperformed the benchmark index as it posted a gain of 1.1% while the BSE madcap index lost 0.6%, in line with the benchmark index.

On the sectoral front, Healthcare posted gain of 1.91% followed by Metal (+0.59%), Auto (+0.53%) and IT(+0.37%). On the losing side, Power index lost 2.18% followed by Capital Goods (-2.12%), Consumer Durable (-1.82%) and Oil & Gas (-1.05%).

Among the Index stocks, Tata motor gained 4.7%, followed by Sterlite Industries, Wipro, Tat Steel and HDFC which gained in the range of 1.3% -2.7%. On the Losing side, NTPC lost 5.1% followed by Bharti Airtel, Rcom, L&T and SBI with losses falling between 4.9% - 2.5%.

Industrial growth slowed down to 5.6% in Aug'10, as against 10.6% in Aug'09, on the back of a 2.6% contraction in the capital goods production. Among the main industry segments, manufacturing activity declined to 5.9% in Aug'10, as against 10.6% in Aug'09. The mining sector grew 7% in Aug'10, as against 11% in Aug'09. Electricity generation grew 1% in Aug'10, as against 10.6% in Aug'09. Capital goods sector contracted 2.6% in Aug'10, as against 9.2% growth in Aug'09. Consumer non-durables recorded a negative growth of 1.2% in Aug'10, as against 6.1% expansion in Aug'09. Consumer durables sector expanded 26.5% in Aug'10, as against 24.7% in Aug'09.

Indirect tax – consisting of Customs, Central Excise and Service Tax – collection climbed 44.4% YoY to ₹ 1,506.86 bn in Apr-Sept'10. The indirect tax collections of ₹ 1,506.86 bn is 48.1% of the Budget Estimates of FY11. The revenue collections from customs increased

66.8% YoY to ₹ 632.29 bn, while the collections of Central Excise rose 40.7% YoY to ₹ 608.34 bn, and the revenue collections from Service Tax rose 14.8% YoY to ₹ 266.23 bn in the first half of the current fiscal.

Annual Inflation for September rose to 8.62% compared with 8.51% for the previous month. Build up inflation in the financial year so far is 3.90% compared to a build up of 5.44% in the corresponding period of the previous year. Primary articles (YoY growth 17.45%) was the main contributor to inflation at 48%, whereas manufacturing (YoY growth 4.59%) contributed 32.49%.

IT major Infosys reported strong Q2 September 2010 results. Consolidated net profit as per International Financial Reporting Standards (IFRS) jumped 16.7% to Rs.1737 crore on 12.1% growth in revenue to ₹ 6947 crore in Q2 September 2010 over Q1 June 2010. The core operating profit margin (OPM) surged to 30.2% in Q2 September 2010 from 28.31% in Q1 June 2010.

On the global news front, Unemployment in America grew faster than expected as lay-offs in the public sector began to bite. Around 159,000 public-sector jobs were lost in September, compared with the creation of just 64,000 private-sector ones. The news increased the likelihood of further quantitative easing by the Federal Reserve.

Talk of a currency war escalated as an IMF meeting of finance ministers and central bankers, partly aimed at soothing currency tensions, failed to deliver a resolution. The gap between the two main protagonists in the dispute, America and China, appeared as intractable as ever, with China accusing America of destabilising developing countries' economies by running a lax monetary policy and America complaining of an artificially cheap Yuan.

### Taurus Benchmark Indices Movement

Indices	15/10/10	08/10/10	Points change	% change
BSE Sensex	20125.05	20250.26	-125.21	-0.62
S&P CNX Nifty	6062.65	6103.45	-40.80	-0.67
BSE 100	10726.32	10802.03	-75.71	-0.70
BSE 200	2558.95	2578.42	-19.47	-0.76
CNX Midcap	9346.60	9403.85	-57.25	-0.61
S&P CNX 500 Shariah	1413.19	1428.37	-15.18	-1.06

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

08/10/10 to 14/10/10	Equity	Debt
FII	7420.00	-218.00
MFs	-1901.90	5471.30

Source : SEBI site

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