TAURUS RECAP

WEEKLY REPORT - 13th - 17th SEPTEMBER 2010

DEBT MARKETS

Global Update

Global debt market remained range-bound in absence of cues.

Even though the US retail sales data, and other US industrial output data (ex-auto), came higher than the market expectation, the bond market remained range-bound with softening bias as the market expects another round of quantitative easing by Fed. Also crude prices softened week-on week to $73.66/barrel.

Domestic

Unexpected hike of 50 bps and core inflation still above RBI comfort zone pushed short term and long term rates higher.

Domestic market saw the yield hardening on account of higher than expected rate hike by RBI during midterm policy. RBI hiked 50Bps of Reverse repo to 5% and 25 bPs of Repo to 6.00%, against the market expectation of 25 bps each. Inflation for the month of August on new base year and new WPI composition printed 8.5% (9.5% on old WPI index).The 10yrs benchmark traded at 7.99% on the close of the week from 7.89% on earlier last week.

CALL & CBLO

Remained higher on tighter systemic liquidity.

Liquidity condition came under pressure, and hence became negative from neutral, on account of advance tax outflow. Overnight rates like MIBOR, and CBLO too showed fragile liquidity condition and traded between 5.75%-6.19% and 5.62%-5.99% respectively.

Government Securities and Treasury Bills

Uncertainties and dilemma still persists.

The domestic bond market still reels under some uncertainties as domestic factors like higher inflation and robust industrial growth contradicts global uncertainties specially in US and Europe. While RBI, based on domestically guided hiked interest rate, US Fed is contemplating monetary loosening. Domestic Fund managers even though seeks succour from RBI statement of near-end of normalisation process, the core inflation still looms higher along with deteriorating current account condition. Bond yields reflecting the RBI unexpected move and the above mentioned dilemma firmed to close at 7.99%. Market also remained on lighter position ahead of next half auction calendar. Last week saw no bond auction, however the 91 days and 182 days were 6.15% and 6.44% respectively.

Corporate Bonds

Corporate bond yields remained range-bound. The 5 yrs bond traded at 8.42% while 10 yrs benchmark Bond traded around 8.71% marginally lower than the last week on account of less supply from corporate bond market.

Rupee

Gained as the dollar depreciated globally against major currencies.

The Indian Rupee appreciated against USD week on week following the strength of Indian equity market and robust FII flows. The Rupee-Dollar traded in a range of 46.40 to 45.84 to close at 45.84 appreciating 1.36% week on week basis.

Fund Manager's Comment

The mid quarter review of the monetary policy marked an important transition: an acceptance by RBI about Monetary situation close to "Normal". With RBI indicating the future stance of the monetary policy will be based on evolving events, Inflation data will continue to be a guiding star for the conduct of monetary policy. We expect with this subtle transition in stance, coupled with an expected easing bias in inflation bodes well for Gilts in the medium term. However the short term rates may continue to remain at elevated levels because of an expected volatility of liquid.

Market Indicators as on 17th September, 2010

	17/09/2010	09/09/2010	% change
INR/USD	45.8450	46.4785	-1.36
Oil ($/bbl)	73.66	76.45	-3.65
Gold ($/oz)	1274.30	1246.25	2.25
10 years G-Sec	7.99	7.89	0.10
10 years AAA	8.71	8.74	-0.03
NSE Mibor	6.19	5.00	1.19

Source: Bloomberg

EQUITY MARKETS

The Indian equity markets had posted highest weekly gain in the recent history. The BSE Sensex has posted gain of 4.23% while the Nifty has posted gain of 4.34%. The large cap has performed well compared to mid cap and small cap as the BSE Mid cap has gained merely 0.67% and BSE small cap has lost mere 0.1% during the week.

On the sectoral front, Bankex gained 5.86% followed by Oil & Gas (5.51%), Realty (4.41%) and consumer durable (4.22%). The out performance on the bank was mainly driven by strong movement in private banks such as ICICI Bank (6.2%), Axis Bank (9.2%), HDFC Bank (7.1%), Indusind Bank (11.7%) and Kotak Mahindra Bank (9.9%). Among PSU banks, Union Bank gave the highest returns of 6.0%, followed by PNB (5.0%), BOB (4.1%) and SBI (3.7%).

Among the Index stocks, TCS gained 9.37% followed by Reliance (8.01%), Hindalco (7.0%) and Cipla (5.64%). On the loosing side, PGCIL lost 2.25% followed by ACC (-2.81%), Suzlon (-3.37%) and Maruti Suzuki (-4.40%).

The Reserve Bank of India (RBI) has raised its key policy rates by up to 50 basis points (bps) at its mid-quarter monetary policy review as it seeks to contain inflation in a rapidly growing economy. The RBI has hiked the repurchase rate by 25 bps to 6%, while the reverse repo rate has been increased by 50 bps to 5%. The Cash Reserve Ratio has been left unchanged at 6%, while the Bank rate too has been kept steady at 6%. The central bank continues to remain concern on the growth and inflation.

The Government has launched new WPI series by shifting base year from 1993-94 to 2004-05. As per the new WPI series, fell to 8.5% in Aug'10, while the inflation was recorded at 9.8% in Jul'10. As per the old WPI series, inflation in Aug'10 works out to 9.5% as against 9.97% in Jul'10. Food Articles inflation stood at 14.64% as per the new WPI series, while the inflation for primary articles group stood at 15.8% in Aug'10. As per the new WPI series, the fuel group inflation stood at 12.5%, while inflation for the manufacturing group was at 4.8% in Aug'10. The official WPI for all commodities for Aug'10 remained unchanged at its previous month's level of 140.3

India's exports grew 22.5% YoY to $16.64 bn, while the imports also jumped 32.2% YoY to $29.7 bn in Aug'10. The country's exports posted grew 28.6% YoY to $85.27 bn, while the imports rose 33.1% YoY to $141.89 bn in Apr-Aug'10 period. The country's trade deficit widened to $13.06 bn in Aug'10, while trade deficit recorded at $56.62 bn in Apr-Aug'10 period.

The collection of indirect taxes (customs, central excise and service tax) at all India level has increased 45% YoY to ₹. 1,241.7 bn in Apr-Aug'10 period. The revenue collection from customs rose over 66.5% YoY to ₹. 518.66 bn, while the revenue collections from central excise increased 41.7% YoY to Rs. 496.72 bn, and the revenue collections from service rose 19.8% YoY to ₹. 226.32 bn in Apr-Aug'10 period.

The Indian companies have reported strong Advance tax payment for Q2FY11. Top 100 firms collectively paid ₹. 237.8bn, a growth of 13% on YoY. Among the companies whose advance tax payments surged the most during the second quarter include ONGC, Tata Steel, Reliance Industries, ICICI Bank, HDFC Bank, Infosys Tech and L&T. But, SAIL, Bharti Airtel and Tata Motors have reported lower advance tax numbers.

On the international front, Agreement was reached on Basel 3, the new international regulatory regime for banks. The rules raise the minimum amount of capital lenders are required to have as a cushion against unexpected losses. They will have until 2019 to comply fully with the 7% core Tier 1 capital-ratio requirement. Investors were relieved at the comfortable timetable; critics, however, argued that the rules were too lax.

The U.S. Senate approved legislation to cut taxes and ease credit for small businesses in a long-delayed victory for democrats eager to show voters they are working to create jobs. The legislation, passed 61-38, would create a $30 bn lending program and provide small businesses with $12 bn in tax breaks, including more generous write-offs for equipment purchases. The measure goes to the House for a final vote before being sent to President Barack Obama for his signature.

Taurus Benchmark Indices Movement

Indices	17/09/10	09/09/10	Points change	% change
BSE Sensex	19594.75	18799.66	795.09	4.23%
S&P CNX Nifty	5884.95	5640.05	244.90	4.34%
BSE 100	10446.96	10052.62	394.34	3.92%
BSE 200 `	2494.48	2409.09	85.39	3.54%
CNX Midcap	9162.10	9085.25	76.85	0.85%
S&P CNX 500 Shariah	1383.81	1344.47	39.34	2.93%

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

09/09/10 to 16/09/10	Equity	Debt
FIIs	8359.00	1165.10
MFs	-2621.80	3384.50

Source : SEBI site