

DEBT MARKETS

Global Update

The US treasuries ended flat during a volatile trading week. The first half of the week saw the yields rising to highest levels in 7 months on better than expected retail sale's data (0.8% for November 2010) and speculation of extension of tax cuts will stimulate the economy. The US 10 yrs benchmark paper touched 3.56%, the highest level since May 13, 2010. The markets recouped all the losses towards the end, mainly on account of rating agency Moody's downgrade in sovereign rating for Ireland by 5 notches. The buying interest above 3.5% levels pushed down the yields by more than 20 basis down to 3.32% on Friday, the same levels as previous week.

Government Securities and Treasury Bills

Indian G-Sec market rallied comprehensively across the curve. The GSec markets cheered the announcement of buyback of ₹12k securities on Monday, saw the benign WPI number for 7.48% on Tuesday and finally traders propped up the demand on Friday after the mid term monetary policy. RBI pencilled strong measures to infuse liquidity in the system. The announcement of OMO buyback worth INR 480 bn and reduction in SLR (1%) triggered buying spree as yields of the federal bonds witnessed a nose dive by 7-12 bps amongst the most active counters. The 10 yrs benchmark paper closed at 7.98%, a whopping 14 basis points lower compared to the previous week.

The reduction in T-bill auction size proved to be a breather for the TBill auction. The cut-off for the INR 20bn of 91 days T-bill was set 4 bps lower than its previous auction at 7.18%, however with system liquidity still surfing in the deficit mode, cut-off for INR 10bn 364 days T-bill surged by 7 bps at 7.34%.

Liquidity Call

Liquidity condition continued to remain in negative zone. LAF figures showed an average daily borrowing by SCBs of ₹112k

Cr from RBI (₹120k previous week). Overnight rates like MIBOR, and CBLO remained firm and traded between 6.69%-6.85% and 4.50% - 6.60% respectively.

Corporate Bond

Corporate bond papers traded in a small range and did not show the volatility shown by G-Secs. The 5Year AAA rated corporate bond yields went down marginally last week to close at 8.92% while 10yrs benchmark bond yields marginally went up to close at 8.98%.

Rupee

The Indian Rupee marginally depreciated last week, as USD strengthened globally on account of European debt uncertainty. It traded in a range of 44.93 to 45.62 to close at 45.35 depreciating 0.65% week on week basis.

Fund Manager's Comment

The tight liquidity condition continued, with LAF showing the highest ever borrowing by SCBs from RBI for the fortnight. The borrowing showed an average of ₹ 116k for the fortnight, with SCBs borrowing more than ₹ 100k everyday!! RBI surprised the market with its pro-liquidity stance in the policy. The OMO operation of ₹ 48k and SLR cut of 1% was cheered by traders across the yield curve, starting from 3m-10 yrs segment. The yield came off very sharply for the 3m segment, as MFs went on buying spree post policy, bringing down the yields by whopping 25 basis in a single day!!

This week the market does not have any major data to look for. The short term rates may come down by another 10-15 basis points, as supply pressure is likely to come down. Movements in longer tenor corporate bond rates would mirror the movement in gilt rates. The likely range for the benchmark 10 yrs paper would be 7.90%-8.05%.

Market Indicators as on 17th December, 2010

	17/12/2010	10/12/2010	% change
INR/USD	45.63	45.06	0.65
Inflation	7.48	NA	NA
Oil (\$/bbl)	88.02	87.79	0.26
Gold (\$/oz)	1375.45	1386.00	-0.76
10 years G-Sec	7.98	8.12	-0.14
10 years AAA	8.99	8.96	0.02
NSE Mibor	6.85	6.60	0.25

Source: Bloomberg

EQUITY MARKETS

The Indian equity market bounced back during the period as the dust settle on the issue of the 2G scam and market manipulations. The BSE Sensex posted a gain of 1.82% while nifty ended the week higher by 1.56%. BSE small cap and CNX midcap outperform the market with posting gain of 5% and 3.5% respectively.

Among the sectors, the BSE IT index was the biggest gainer, gaining 5.0%, as market sentiment on the sector improved. It was followed by the BSE metal index, which rose by 3.9%. BSE FMCG index lagged the other sectors, losing 0.5%. The IT index rose 5% during the week, widely outperforming the Sensex. The top gainers were Core Projects (10.6%), Mphasis (7.5%), Patni (6.4%), TCS (6.0%) and Infosys (4.6%). The sharp movement in the index was seen despite a flat wow change of 0.6% in INR against the USD to ₹45.3 on the back of stronger-than-estimated US data on retail sales (up 0.8% in November), housing (housing starts up 3.9% in November) and manufacturing, which boosted confidence in the US economic recovery.

Among the BSE 200 stocks, Renuka Sugar gained 17.5% followed by IRB (15.6%) Pipava Shipyard (13.8%). On the losing side, United phos lost 6.4% followed by Bajaj Auto (5.1%), Voltas (4.2%) and Nestle India (4.1%).

Back in the double-digit growth after two months, India's industrial production grew at a faster pace in Oct'10 boosted by higher manufacturing sector. The country's industrial output grew 10.8% YoY in Oct'10, as against 4.4% rise in Sept'10, and 10.1% in Oct'09. Manufacturing output grew 11.3% in Oct'10, as against 10.8% growth in Oct'09, while the electricity production rose 8.8% in Oct'10, as against 4% growth in Oct'09. However, the growth rate of mining output increased 6.5% in Oct'10, as against 9.1% in Oct'09. The capital goods industry recorded a growth of 22% in Oct'10, as against 10.9% in Oct'10. In Apr-Oct'10 period, the industrial output showed an increase of 10.3%, up from 6.9% in Apr-Oct'09 period.

India's wholesale price index in November probably rose 7.48% from a year earlier, slower than an 8.58% increase in October -its lowest reading in 10 months.

Reserve Bank of India (RBI) has announced the mid-quarter review of monetary policy, holding the repo and reverse repo rate constant at 6.25% and 5.25%. Meanwhile, the cash reserve ratio (CRR) was also retained unchanged at 6.0%. However, RBI has reduced the statutory liquidity ratio (SLR) of scheduled commercial banks (SCBs) from 25% of their NDTL to 24% with effect from 18 December 2010. RBI has announced to conduct open market operation (OMO) auctions for purchase of government securities for an aggregate amount of ₹48000 crore in the next one month, the schedule for which is being issued separately.

Overcoming the impact of global economic recession, Indian economy is poised to achieve 9% growth in FY11 itself driven by robust performance of agriculture and industry sectors, the Government said in its mid-year analysis of Indian economy. The Government said that high inflation has started declining and hoped that it may fall to 6% by Mar'11 from over 8% now. However, the Government has made a case for strengthening of economic reforms to sustain high growth rate and raising it further to double digit level in the medium to long term.

On the global news front, Chinese exports boomed past forecasts in Nov'10, raising hopes of a strong recovery in global trade. Exports surged 34.9% YoY in Nov'10, as against 22.9% rise in Oct'10. China's imports also climbed sharply, rising 37.7% in Nov'10, as against 25.3% increase in Oct'10. The strong imports pulled down the trade surplus to \$22.9 bn in Nov'10, as against \$27.2 bn in Oct'10.

Taurus Benchmark Indices Movement

Indices	16/12/10	10/12/10	Points change	% change
BSE Sensex	19864.85	19508.89	355.96	1.82%
S&P CNX Nifty	5948.75	5857.35	91.40	1.56%
BSE 100	10372.26	10213.32	158.94	1.56%
BSE 200	2462.38	2423.94	38.44	1.59%
CNX Midcap	8665.10	8511.55	153.55	1.80%
S&P CNX 500 Shariah	1396.74	1368.59	28.15	2.06%

Weekly FII & MF Net Flows (₹. in crs.)

10/12/10 to 15/12/10	Equity	Debt
FII's	-2306.50	1442.20
MFs	939.20	11335.70

Source : SEBI site

Any information contained herein is for informational purpose only and does not constitute advice or offer to sell/purchase units of the schemes of Taurus Mutual Fund. Information gathered and provided in this document is believed to be from reliable sources and the Fund does not warrant the accuracy and/or completeness of any information. Taurus AMC disclaims any liability for actions taken by anyone on the basis of the opinions contained herein. The material contained herein cannot be reproduced, distributed or quoted anywhere without express written consent of Taurus AMC. Mutual Fund Investments are subject to market risks. Please read the Scheme Information Document carefully before investing